Bank Zachodni WBK

Eyeopener – Slovak "no" to the EFSF

12 October 2011

- **The Slovak parliament voted no to the EFSF, the government collapsed, another vote to the EFSF later this week**
- **Zloty slightly weaker, T-bond yields increased, the EURUSD slightly fell, core FI markets stable**
- **Today switch auction in Poland, industrial production in euro zone**

Uncertainty whether the Slovak parliament, voting as the last one in the euro zone, will support the extension of the EFSF, has been limiting the appetite for risk since the start of Tuesday's session in Europe. One of four coalition parties has officially declared that it will not back the motion, which triggered investors' concerns about the result of vote. Eventually, the Slovak parliament voted down approval for enhancing the EFSF rescue fund, and the government lost a confidence vote. The next vote on the EFSF is planned later this week. Moreover, ECB president Jean-Claude Trichet was quite pessimistic about situation in the euro zone, saying that the conditions in the interbank market are very unsatisfactory and the number of transactions between banks is falling. Cooling down of moods was reflected in decline of European stock market indices. Also, euro trimmed part of gains versus dollar. Experts from EC, ECB and IMF, who were investigating the Greece's progress in implementing reforms and fiscal savings, issued a note that probably at the start of November the sixth tranche of aid worth €8bn will be disbursed. It is conditioned on approval by the IMF and the Eurogroup of motions with conclusions from investigation in Greece. It was underscored that a success of Greece's efforts will depend of adequate financial engagement of the private and public sectors. The news did not influence the market.

The rating agencies Standard & Poor's and Fitch have decided to downgrade 10 Spanish banks. This decision does not come as a surprise as it was motivated by a pessimistic assessment of Spanish economy (a major slowdown of GDP growth) and dire situation of the housing market.

The EURUSD was falling throughout the session yesterday amid concerns of voting result in Slovakia. The rate diverged from the resistance level 1.37 and at the end of the day it was close to 1.36. During the session in the US the rate soared to nearly 1.37, but after government's collapse in Slovakia and news from rating agencies, it fell again to 1.36. The key levels for today are 1.356 and 1.37.

The EURPLN and USDPLN exchange rates climbed at the beginning of yesterday's session due to dropping global demand for risk. EURPLN broke through resistance at 4.32 and reached 4.34. In the following hours, the rate hovered around 4.33. After close of domestic session EURPLN tested 4.30 and is trying to break this level again this morning. If this support is broken, the rate may approach an important (in daily scale) level at 4.28. Resistance is at 4.34.

On the domestic debt market bonds pared most of Monday's gains, on the long end of the curve pretty high turnover was recorded. Polish bonds weakened due to deterioration of global market sentiment. Today on the bond switch auction the FinMin will offer new 2Y bond (OK0114) while it will repurchase DZ1111, OK0112, PS0412. We expect that despite short term bonds did not suffer much from latest sell off of Polish securities, current market situation (uncertainty regarding economic outlook and expectations for rate cuts) shall support demand for new 2Y bond.

On the core fixed income market yields were stable during the whole session. In case of US bonds, yields started the day above Friday's closing as Treasuries were "catching up" Monday's weakening of German bonds. At the end of the day yields of the 10Y Bunds and Treasuries reached 2.07% and 2.15% respectively.

The Economy Ministry has presented its forecast, indicating that in September the annual inflation rate slowed to 4.1% from 4.3%, which mirrors our prediction. Additionally, the resort expects that the industrial output advanced by ca. 5%, while our estimate (updated after disappointing September PMI for Polish manufacturing and data on car production) shows 3.8%YoY.

Prime Minister Donald Tusk said in an interview for "Polityka" weekly magazine that he would like not to change the government until the end of the year and a "deep reconstruction" is possible only at the beginning of 2012. What is important, PM Tusk stressed that "during the crisis (…) Poland cannot afford to undertake too costly reforms that only bear fruit in a distant future". As we already wrote in our yesterday's report, in our view this is the right time for major changes in the public finance, as nearest election (to European Parliament) takes place in three years' time. The government's propensity to reform may shrink over time. The expectations of rating agencies, which call for deep fiscal reforms amid favourable political environment, indicate that a negative pressure on Polish debt credibility can soon appear.

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F/X rates (today's opening)

EURUSD	1,3644	CADPLN	3,0767
USDPLN	3,1595	DKKPLN	0,5790
EURPLN	4,3107	NOKPLN	0,5547
CHFPLN	3,4756	SEKPLN	0,4732
JPYPLN*	4,1193	CZKPLN	0,1738
GBPPLN	4,9268	HUFPLN*	1,4615

*for 100JPY/100HUF

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4,3057	4,3415	4,3110	4,3257	4,3410
USDPLN	3,1554	3,1959	3,1636	3,1725	3,1936
EURUSD	1,3564	1,3672	1,3626	1,3636	-

T-bonds

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
OK0713 (2Y)	4,44	0	10.08	4,469
PS0416 (5Y)	5,12	7	10.08	5,256
DS1020 (10Y)	5,72	6	12.01	6,215

IRS rates (Mid)

TERM	PL %	PL Change (bp)	US %	US Change (bp)	EA %	EA Change (bp)
1L	4,70	-1	0,59	-1	1,66	0
2L	4,59	3	0,67	5	1,58	2
3L	4,59	4	0,87	0	1,68	1
4L	4,63	3	1,13	3	1,87	2
5L	4,69	4	1,41	7	2,08	1
8L	4,82	5	2,02	7	2,49	1
10L	4,84	5	2,25	7	2,66	0

WIBOR rates

TERM	%	Daily change (bp)
O/N	4,50	3
T/N	4,53	2
SW	4,57	0
2W	4,59	0
1M	4,64	0
3M	4,75	0
6M	4,86	0
9M	4,88	1
1Y	4,89	0

FRA rates (Mid)

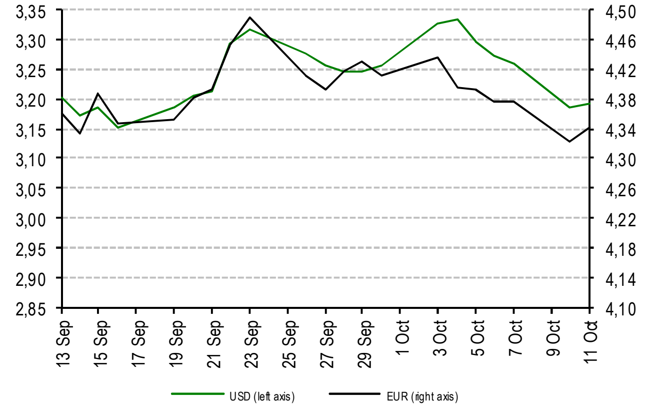
TERM	%	Daily change (bp)
1x2	4,65	1
1x4	4,74	1
3x6	4,71	1
6x9	4,58	3
9x12	4,43	2
3x9	4,78	3
6X12	4,64	1

Measures of fiscal risk

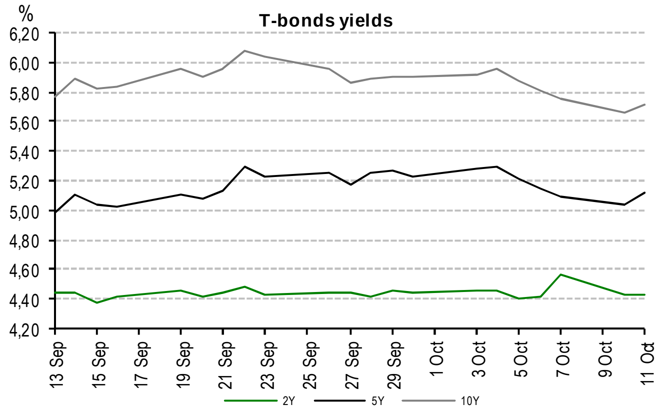
Country	CDS 5Y Value	CDS 5Y Change (bp)	Spread 10Y* Value	Spread 10Y* Change (bp)
Poland	281,6	-4	3,66	4
Czech Republic	138,1	-2	1,07	-5
Hungary	548,4	-7	5,91	0
Greece	5274,3	31	22,18	0
Spain	358,8	-8	2,95	0
Italy	420,3	-29	3,55	5
Portugal	1192,7	-27	9,59	23
Ireland	712,5	-21	6,44	67
Germany	94,4	-3	--	--

* 10Y treasury bonds over 10Y Bunds

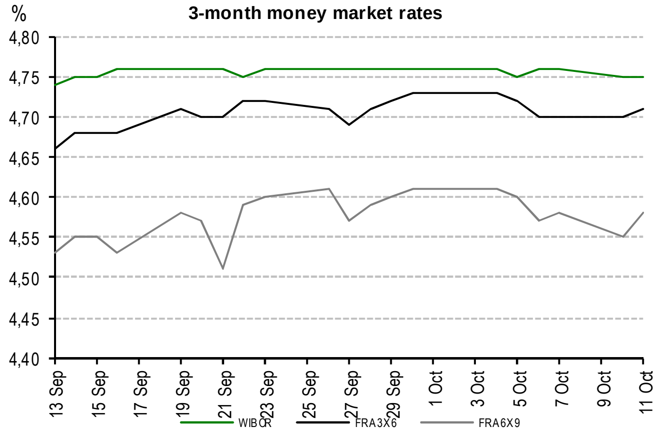
Zloty exchange rate (fixing)



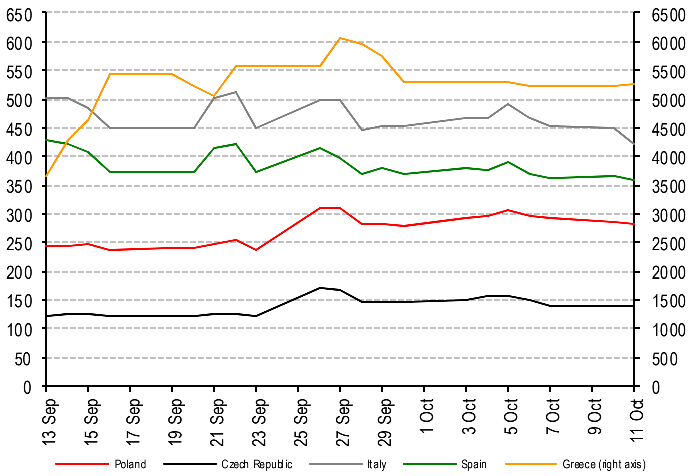
T-bonds yields



3-month money market rates



CDS 5Y



Source: Reuters

Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST BZWBK	ACTUAL VALUE	LAST VALUE*
		MONDAY (10 October)						
8:00	DE	Exports	Aug	%MoM	0.5	-	3.5	-1.2
10:30	EZ	Sentix index	Oct	pts	-18.3	-	-18.5	-15.4
		TUESDAY (11 October)						
		WEDNESDAY (12 October)						
11:00	**PL**	**Bonds switching auction**						
11:00	EZ	Industrial output	Aug	%MoM	-0.7	-		1.0
20:00	US	Fed Minutes						
		THURSDAY (13 October)						
3:00	CN	Trade balance	Sep	$bn	16.0	-		17.76
14:00	**PL**	**CPI**	**Sep**	**%YoY**	**4.1**	**4.1**		**4.3**
14:00	**PL**	**Current account balance**	**Aug**	**€m**	**-1273**	**-1376**		**-1611**
14:00	**PL**	**Exports**	**Aug**	**€m**	**10 832**	**11 106**		**10 721**
14:00	**PL**	**Imports**	**Aug**	**€m**	**11 805**	**12 168**		**11 921**
14:30	US	Trade balance	Aug	$bn	-46.0	-		-44.8
14:30	US	Initial jobless claims	week	k	405	-		401
		FRIDAY (14 October)						
3:30	CN	CPI	Sep	%YoY	6.0	-		6.2
11:00	EZ	HICP	Sep	%YoY	3.0	-		2.5
14:00	**PL**	**Money supply**	**Sep**	**%YoY**	**9.2**	**9.4**		**8.5**
14:30	US	Import prices	Sep	%MoM	-0.3	-		-0.4
14:30	US	Retail sales excluding autos	Sep	%MoM	0.2	-		0.1
15:55	US	Flash Michigan index	Oct	pts	60.2	-		54.9

Source: BZ WBK, Reuters, Parkiet

** in case of the revision, the data is updated*

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