Bank Zachodni WBK

Eyeopener – Risk aversion building again

5 September 2011

- **Disappointing data from US at the end of week**
- **Zloty weaker due to rising risk aversion, dollar strengthened versus euro after employment data, while yields in core debt markets declined**
- **Returning fears about situation in Greece and Italy**
- **Today, market holiday in the US, retail sales in the euro zone and Sentix index**

Since the beginning of the Friday's session risk aversion persisted. Negative pressure on investors' moods was put by worries over situation in the euro area (case of Greek package and falling PMI indexes) and lowering forecast of economic growth by the US government. Additionally, market was worried about possible outcome of US payrolls data. The elevated risk aversion dragged down the stock indices, while the zloty and other CEE currencies were depreciating. Demand for safe haven assets supported German and US bonds as well at Swiss Franc. The EURCHF plunged from 1.13 to 1.111 before US data was released. That trend was strengthened when data showed that in August the number of payrolls remained unchanged and July's data was revised downward. After that publication downward trend of stock prices was strengthened, yields of Bunds and Treasuries plunged. Also the zloty was hit by rising risk aversion.

Negative market sentiment persisted also during the US session and today in Asia, as disappointment after payrolls data fuelled worries over global economic slowdown. Risk aversion was fuelled also by the information that quarterly check in Greece conducted by the IMF, ECB and EU before decision on paying next tranche of bailout package was suspended. According to unofficial information the decision was due to strong disappointment regarding progress in implementing fiscal and structural reforms by Greek government. Worries over countries from euro zone's peripheries was further fuelled by discussion on Italian fiscal saving plan and warning of the ECB president that the bank may stop buying Italian bonds on the secondary market if the austerity plan is scaled back. During the weekend the official of the S&P agency said that if euro zone countries start to issue euro bonds, securities will be rated as bonds of the country with the lowest rating.

The EURUSD exchange rate was quite stable in 1.420-1.426 range while awaiting the US figures. After the release, the volatility increased but the reading did not set a clear direction of trade. Only after close of domestic session the dollar began to strengthen considerably due to rising risk aversion. At the beginning of the week EURUSD broke the support at 1.420 and this morning it is close to 1.414. The sentiment at the beginning of the week is poor and we expect the downward trend to linger on. Resistance is at 1.420, support at 1.405.

The EURPLN exchange rate climbed dynamically from 4.140 to 4.175 ahead of release of US data. A negative pressure on the zloty was exerted by high risk aversion. The disappointing released has pushed EURPLN further upwards and the rate has reached almost 4.20. At the end of the session a slight rebound took place and the rate ended the day close to 4.185. In the following hours EURPLN slid to 4.14, but this morning is testing 4.20, due to elevated risk aversion. In our view the zloty will remain under pressure today. First resistance for EURPLN is at 4.22.

On the domestic debt market the yields rose slightly amid low turnover ahead to US labour market data. The bonds have lost similarly as the zloty. After the data from overseas the investors' concerns about the global growth and expectations for interest rates hikes prevailed. Considerable drops were recorded by IRS, FRA6x9 and FRA 9x12 rates.

On the core debt market the yields dropped markedly due to deteriorating global market sentiment. This trend strengthened after US data. At the end of the day the yields of 10Y Bunds and Treasuries amounted to 2.02% and 2.03%, respectively.

Despite banking holiday in the USA, the beginning of the week may be quite nervous again, as the market attention focused again on debt problems in the euro zone's peripheral countries. In the following days the market will focus on the condition German economy. On Tuesday the leaders of Germany, Finland and Netherlands will meet to discuss the euro zone crisis and the market will surely be awaiting the outcome of these talks. This week the MPC, ECB and BoE are to make decisions on interest rates. The last ECB communique has indicated a possibility of interest rates hikes, but the recent developments in global economy have rendered this scenario unlikely. We expect the domestic MPC to keep the interests rates on hold. More interesting than the decision itself is its justification and the MPC's assessment of risk balance which may suggest a change of Council's informal bias to neutral. We predict a limited reaction of the debt and interest rate markets to the communique, as the trading rallies to the tune of global events. Similarly in case of zloty exchange rate, changes sentiment abroad will be crucial. After monthly data from the US labour market the concerns about global economic outlook may strengthen, which will limit potential for zloty strengthening.

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F/X rates (today's opening)

EURUSD	1.4147	CADPLN	3.0079
USDPLN	2.9684	DKKPLN	0.5637
EURPLN	4.1999	NOKPLN	0.5480
CHFPLN	3.7744	SEKPLN	0.4615
JPYPLN*	3.8683	CZKPLN	0.1720
GBPPLN	4.8004	HUFPLN*	1.5176

*for 100JPY/100HUF

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.1380	4.1983	4.1509	4.1900	4.1687
USDPLN	2.8976	2.9530	2.9135	2.9489	2.9277
EURUSD	1.4207	1.4288	1.4247	1.4209	-

T-bonds

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
OK0713 (2Y)	4.39	-1	10.08	4.469
PS0416 (5Y)	4.98	-1	10.08	5.256
DS1020 (10Y)	5.61	0	12.01	6.215

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	4.59	-6	0.46	-8	1.57	0
2L	4.47	-10	0.48	-8	1.49	-1
3L	4.45	-11	0.61	-9	1.68	-4
4L	4.49	-11	0.88	-9	1.89	-5
5L	4.53	-12	1.19	-9	2.11	-5
8L	4.64	-14	1.96	-9	2.58	-8
10L	4.68	-14	2.30	-8	2.79	-8

WIBOR rates

TERM	%	Daily change (bp)
O/N	4.56	0
T/N	4.56	-1
SW	4.55	0
2W	4.56	0
1M	4.61	0
3M	4.72	0
6M	4.85	0
9M	4.86	0
1Y	4.88	0

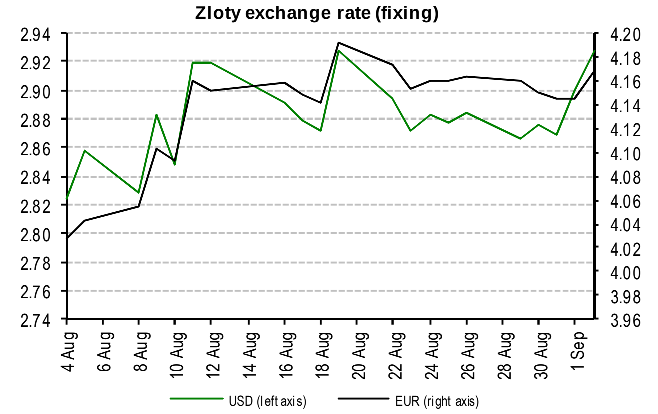
FRA rates (Mid)

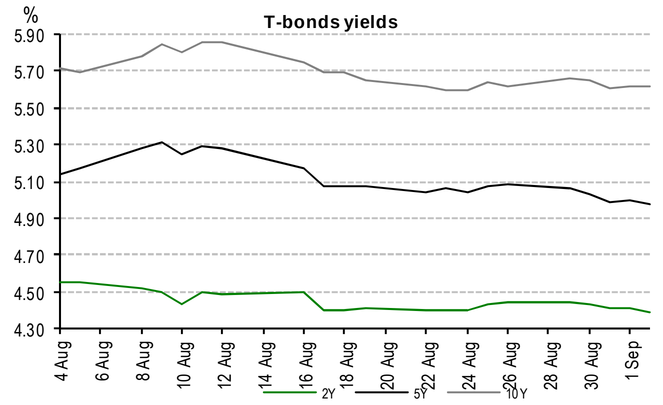
TERM	%	Daily change (bp)
1x2	4.63	0
1x4	4.70	-1
3x6	4.62	-3
6x9	4.47	-6
9x12	4.33	-9
3x9	4.68	-4
6X12	4.53	-7

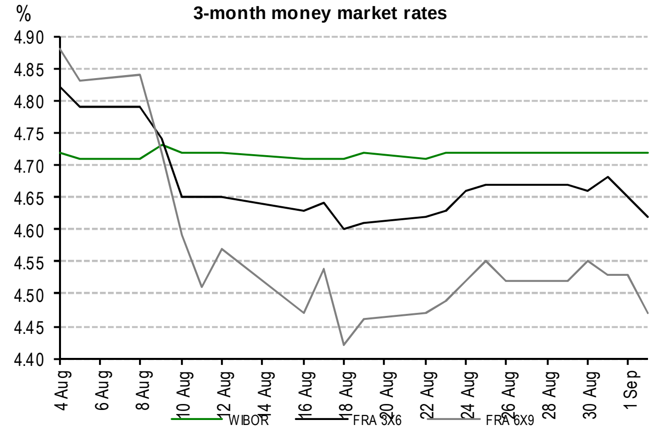
Measures of fiscal risk

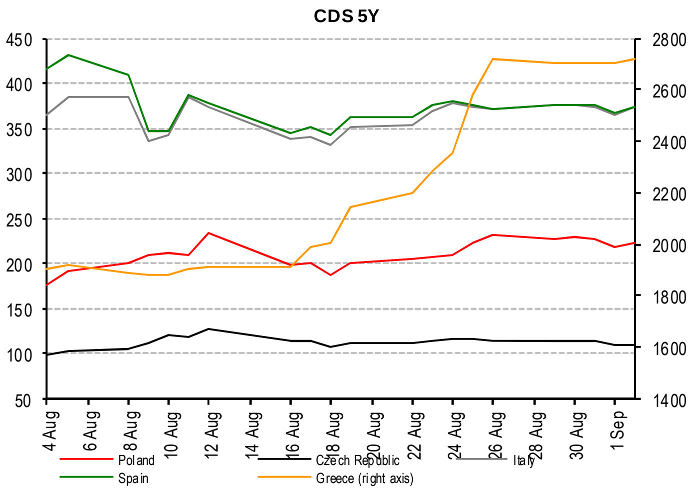
Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	222.3	3	3.61	16
Czech Republic	110.0	1	100	15
Hungary	420.1	5	5.47	16
Greece	2720.0	14	16.67	70
Spain	372.8	6	3.09	18
Italy	372.8	8	3.22	25
Portugal	1040.9	6	8.67	44
Ireland	863.3	-19	6.68	25
Germany	79.8	1	--	--

* 10Y treasury bonds over 10Y Bunds









Source: Reuters

Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST BZWBK	ACTUAL VALUE	LAST VALUE*
		FRIDAY (2 September)						
11:00	EZ	PPI	Jul	%YoY	6.1	-	6.1	5.9
14:30	US	Non-farm payrolls	Aug	K	75	-		117
14:30	US	Unemployment rate	Aug	%	9.1	-		9.1
		MONDAY (5 September)						
9:58	EZ	PMI – services	Aug	pts	51.5	-		51.6
10:30	EZ	Sentix index	Sep	pts	-18.0	-		-13.5
11:00	EZ	Retail sales	Jul	%YoY	-1.0	-		-0.4
	US	Market holiday						
		TUESDAY (6 September)						
11:00	EZ	GDP revision	Q2	%QoQ	0.2	-		0.8
12:00	DE	Industrial orders	Jul	%MoM	-1.5	-		1.8
16:00	US	ISM – services	Aug	pts	51.0	-		52.7
		WEDNESDAY (7 September)						
	PL	**MPC decision**		**%**	**4.50**	**4.50**		**4.50**
12:00	DE	Industrial output	Jul	%MoM	0.5	-		-1.1
20:00	US	Fed's Beige Book						
		THURSDAY (8 September)						
8:00	DE	Exports	Jul	%MoM	-0.1	-		-1.2
11:00	**PL**	**Bond swithing auction**						
13:00	GB	BoE decision		%	0.50	-		0.50
13:45	EZ	ECB decision		%	1.50	-		1.50
14:30	US	Trade balance	Jul	$bn	-50.8	-		-53.1
14:30	US	Initial jobless claims	week	k	410	-		409
		FRIDAY (9 September)						
4:30	CN	CPI	Aug	%YoY	6.2	-		6.5
4:30	CN	Industrial output	Aug	%YoY	13.6	-		14.0
16:00	US	Wholesale inventories	Jul	%MoM	0.8	-		0.6

Source: BZ WBK, Reuters, Parkiet

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

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