

Eyeopener – Central banks to the rescue

16 September 2011

- **Major central banks supplying liquidity in USD, which supported market moods**
- **EURUSD rising, zloty and domestic bonds erasing earlier losses**
- **Today, domestic data on wages and employment and flash Michigan index**

The optimism, which emerged in Asia and in the USA after statement of German chancellor and French president about the Greece, was still present during Thursday's session in Europe. The assurance that Greece will not exit the euro zone and will fulfil its commitments concerning the reforms and austerity has weakened the fears of debt crisis spread to other countries. In due course, the stock markets gained and the euro strengthened against the dollar. The single currency was not undermined by Angela Merkel, who sustained her lukewarm attitude towards Eurobonds. The results of Spanish bonds auction also did not affect the market, while the figures released in the USA had a mixed impact on the trading. The weekly initial jobless claims proved to be higher than expected, but this was overshadowed by an upward surprise delivered by the industrial output. The main culprit of yesterday's market events and improvement of market sentiment was the information from the main central banks (ECB, Fed, BoJ, SNB), which agreed to revive the dollar liquidity operations in Q4. Recently, some news emerged saying that European banks have problems with financing in dollars due to their involvement in Greek bonds and the cost of market dollar financing has risen considerably. In reaction to the above-mentioned statement, the risk aversion declined and EURUSD accelerated its increase. The optimism persisted also during US and Asian trading hours. The central banks' decision can indeed calm the market fears about the stability of the European banking system for some time, as it diminishes one major cause of concern. However, we should bear it in mind that other important sources of the current problems are still there.

EURUSD rose steadily through most of the day, and this trend strengthened after the announcement of the decision of central banks. Finally, at the end of European session, it was at a level of 1.39. This morning, after a slight bounce back during the session in Asia, the rate is close to 1.385. With yesterday's decision of central banks, the rate may remain at elevated level, at the end of trading session the reading of flash Michigan index might have a major impact. The support level is at 1.38 and the resistance at 1.40.

After the EURPLN rate reached the level of 4.40 on Wednesday/Thursday night, since the beginning of yesterday's session it was weakening gradually. Thanks to improved mood, more distinct increases on the EURUSD and the announcement

of central banks, strengthening of the zloty accelerated. The negative scenario of a further increase to 4.50, which we wrote about yesterday, didn't materialise. At the end of the day EURPLN was slightly above 4.32. It seems to us however, that it is too early to treat yesterday's rebound as a persistent one and still the zloty can weaken further. However, we still maintain the forecast about a decline to 4.15 EURPLN at the end of the year, assuming a positive market reaction to the results of the general election and increased BGK activity in the currency market in the fourth quarter. During the session in Asia, the EURPLN was stable and this morning it was near the support level 4.32.

On the domestic fixed income market bonds were recovering since the beginning of the session after visible weakening suffered on Wednesday. Yields were falling due to pretty good market sentiment persisting on the global market that supported also the zloty. Just before the end of the domestic session some profit taking occurred and bonds pared ca. half of daily gains. Today's data on wages and employment shall not have impact on the market as investors await next information on Greece. Yesterday's improvement on the currency market may be temporary and Polish bonds may soon again be under pressure.

On the core fixed income market yields were rising all day long due to better risk appetite in the global market and decision of the central banks. At the end of the day yields of the 10Y Bunds and Treasuries reached 1.98% and 2.10%, respectively.

The Ministry of Finance announced that after August the state budget deficit reached PLN20.7bn, which represents 51.6% of the annual plan. The Ministry informed that at the end of August it held funds in foreign currencies worth €6.06bn, versus €6.43bn at the end of July. Taking into account our forecast of further budget performance, borrowing needs, and debt outside central budget, we do not think that the risk of breaching the debt threshold of 55% of GDP this year is particularly high. This would require much more significant zloty depreciation than to 4.50, mentioned above.

Yesterday another MPC member signalled that there is no need to cut interest rates this year. Interestingly, this was the most dovish of them all Elżbieta Chojna-Duch. We suspect that she will change her mind once it shows up that the predicted economic slowdown is becoming a fact. Meanwhile, she predicts GDP growth in 2012 at 3.5%-4.0%, while our forecast (2.7%) and last NBP's projection (3.2%) are both well below. At the same time, we do not think that the majority of MPC members will lean towards rate cuts in few months horizon.

ECONOMIC ANALYSIS

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F/X rates (today's opening)

EURUSD	1.3865	CADPLN	3.1732
USDPLN	3.1210	DKKPLN	0.5809
EURPLN	4.3278	NOKPLN	0.5606
CHFPLN	3.5832	SEKPLN	0.4744
JPYPLN*	4.0635	CZKPLN	0.1765
GBPPLN	4.9332	HUFPLN*	15.180

*for 100JPY/100HUF

Financial market review - 15.09.2011

The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.3040	4.3946	4.3871	4.3393	4.3871
USDPLN	3.0917	3.2062	3.1929	3.1333	3.1858
EURUSD	1.3705	1.3936	1.3739	1.3849	-

T-bonds

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
OK0713 (2Y)	4.38	-7	10.08	4.469
PS0416 (5Y)	5.04	-7	10.08	5.256
DS1020 (10Y)	5.82	-7	12.01	6.215

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	4.65	1	0.51	5	1.65	0
2L	4.59	-2	0.52	5	1.52	-1
3L	4.63	-3	0.64	7	1.66	-2
4L	4.68	-6	0.88	11	1.85	-1
5L	4.74	-7	1.17	9	2.03	-2
8L	4.87	-8	1.87	8	2.40	-1
10L	4.90	-9	2.18	8	2.58	-1

WIBOR rates

TERM	%	Daily change (bp)
O/N	4.66	0
T/N	4.66	0
SW	4.59	0
2W	4.60	0
1M	4.64	0
3M	4.75	0
6M	4.86	0
9M	4.87	0
1Y	4.88	-1

FRA rates (Mid)

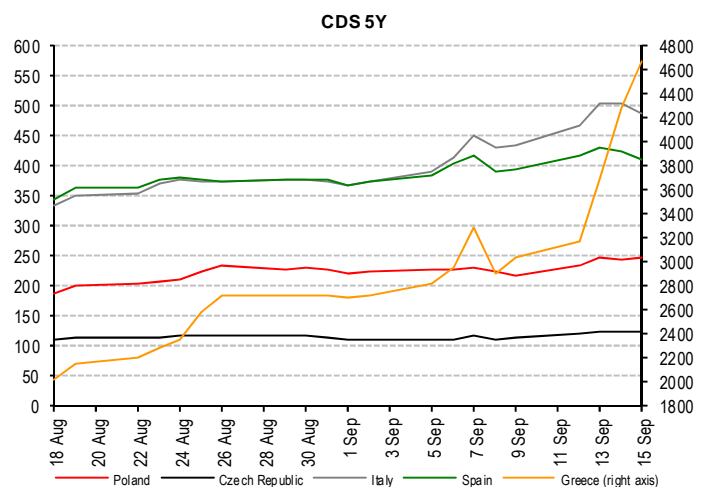
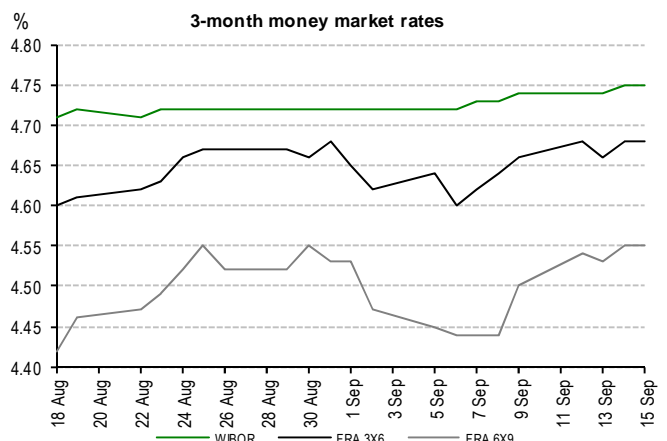
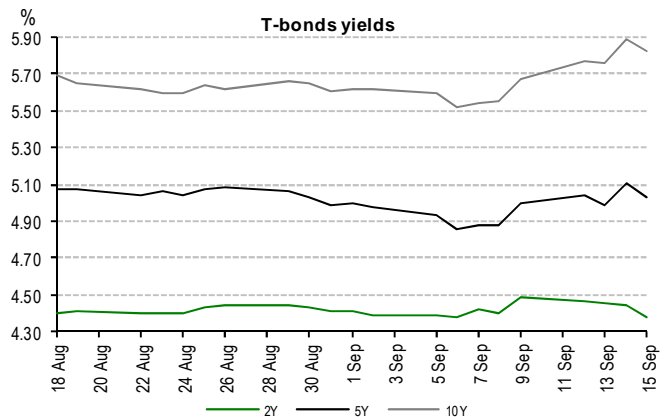
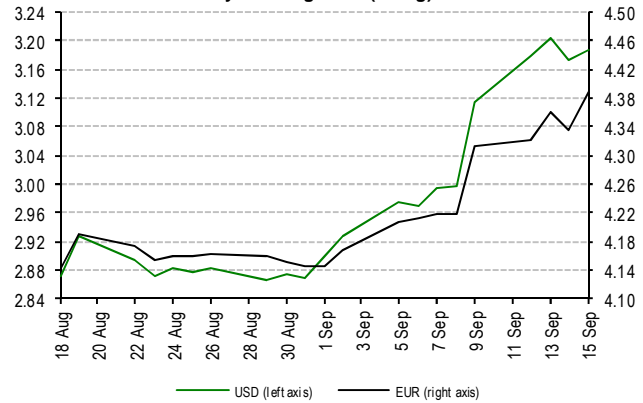
TERM	%	Daily change (bp)
1x2	4.62	-2
1x4	4.73	1
3x6	4.68	0
6x9	4.55	0
9x12	4.41	-1
3x9	4.77	1
6x12	4.60	-1

Measures of fiscal risk

Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	246.1	2	3.85	-18
Czech Republic	124.6	1	1.03	-3
Hungary	4614	9	5.81	-17
Greece	46518	378	22.02	-141
Spain	407.9	-15	3.43	-10
Italy	485.4	-17	3.60	-18
Portugal	1245.6	-26	9.30	-25
Ireland	919.3	-26	6.87	-15
Germany	84.5	0	--	--

* 10Y treasury bonds over 10Y Bunds

Zloty exchange rate (fixing)



Source: Reuters

Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	BZWBK			
		FRIDAY (9 September)						
4:30	CN	CPI	Aug	%YoY	6.2	-	6.2	6.5
4:30	CN	Industrial output	Aug	%YoY	13.6	-	13.5	14.0
16:00	US	Wholesale inventories	Jul	%MoM	0.7	-	0.8	0.6
		MONDAY (12 September)						
14:00	PL	Exports	Jul	€m	11246	11219	10 721	11888
14:00	PL	Imports	Jul	€m	12338	12254	11 921	12953
14:00	PL	Current account	Jul	€m	-1488	-1478	-1611	-1596
		TUESDAY (13 September)						
14:00	PL	CPI	Aug	%YoY	4.1	4.2	4.3	4.1
14:30	US	Import prices	Aug	%MoM	-0.8	-	-0.4	0.3
		WEDNESDAY (14 September)						
11:00	EZ	Industrial output	Jul	%YoY	4.6	-	4.2	2.6
14:00	PL	M3 Money supply	Aug	%YoY	7.3	7.9	8.5	7.3
14:30	US	PPI	Aug	%MoM	-0.1	-	0.0	0.2
14:30	US	Retail sales excluding autos	Aug	%MoM	0.3	-	0.1	0.3
		THURSDAY (15 September)						
11:00	EZ	HICP	Aug	%YoY	2.5	-	2.5	2.5
14:30	US	Core CPI	Aug	%MoM	0.2	-	0.2	0.2
14:30	US	NY Fed index	Sep	pts	-4.0	-	-8.82	-7.72
14:30	US	Initial jobless claims	week	k	410	-	428	417
15:15	US	Capacity utilization	Aug	%	77.5	-	77.4	77.3
15:15	US	Industrial output	Aug	%MoM	0.1	-	0.2	0.9
15:15	US	Indeks Philly Fed	Sep	pts	-15.0	-	-17.5	-30.7
		FRIDAY (16 September)						
11:00	EZ	Trade balance	Jul	€bn	2.0	-		0.9
14:00	PL	Wages in corporate sector	Aug	%YoY	4.9	4.9		5.2
14:00	PL	Employment in corporate sector	Aug	%YoY	3.3	3.3		3.3
15:55	US	Preliminary Michigan	Sep	pts	56.5	-		55.7

Source: BZ WBK, Reuters, Parkiet

* in case of the revision, the data is updated

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