Bank Zachodni WBK

Eyeopener – Rebound based on hopes

27 September 2011

- **Slightly better moods, but improvement based on fragile foundations**
- **Zloty stable, euro trimming some losses versus dollar**
- **Domestic debt market stable thanks to rebound in global market, core debt markets weaker**
- **Today, important data on the US housing market and consumer sentiment, bond auctions in Italy and Netherlands**

The start of yesterday's session was still predominated by weak sentiment, prevailing for a couple of days. In the following hours the risk aversion decreased as the investors hoped that the wave of criticism, which fell on the EU leaders after the IMF summit, will invigorate them to take serious actions. In Greece, which is still in focus, the government will try to gather parliament's support for more austerity and tax hikes, necessary to convince the IMF, EC and ECB to disburse the sixth tranche of bailout package. Meanwhile, the moods were improved also by hopes for ECB actions, which are to support the European debt market and the banking system. According to European Commission and ECB representatives, it is possible that the intervention capacity of European Financial Stability Facility will be enhanced, among others through the use of funds available under the EFSF as a collateral for ECB loans, so that the size of the facility will be increased considerably. Also, some opinions appeared that ECB is to consider interest rates cuts in order to lower the financing costs in the euro zone. The better-than-expected reading of Ifo index, which dropped in September less than feared, has also positively affected the markets. Still, it does not change the fact that this was the third consecutive drop and the index has reached the lowest level since June 2010.

During the session in the USA and this morning in Asia, the market sentiment was supported by hopes for progress in surmounting the European crisis. However, it has to be reminded that the market sentiment improved only due to comments of politicians and hopes for some concrete measures, while the actual actions are still lagging far behind (about a half of euro zone members has not yet ratified the plan agreed on 21 July). It is probable that, similarly as in the previous days, the sentiment improvement based on hopes and expectations can prove to be short-lived.

The EURUSD rose significantly to 1.336 after the morning drop. Improved market sentiment acted in favour of the euro. The exchange rate reached 1.354 and then at the end of the European session there was a significant decrease to 1.342 because of cooler sentiment in the global market. However, in subsequent hours the rate moved on an upward trend as a result of a hope for more decisive actions by leaders of euro zone countries. Today morning it was close to 1.356 and the potential for further growth is in our opinion limited by the fact that the last strengthening of the euro is not based on solid foundations, but only on hopes.

USDPLN and EURPLN were quite stable in a wide range. The former ranged from 4.38 to 4.43 and the latter between 3.23 and 3.32 (amplitude of fluctuations was greater as a result of significant changes in EURUSD). After closing at 4.405, the EURPLN rose to ca. 4.43. Later during the session in the US and Asia it was declining due to good mood in the markets. This morning it is at 4.39. If at the beginning of the session the good sentiment will persist, which is suggested by a growing stock-index futures in Europe, the rate will get close to an important daily support level of 4.36. In the next hours the data from the US and EURUSD fluctuations will be of key importance.

On the domestic debt market yields from the middle and long end of the curve continued the downward trend initiated on Friday by the BGK. The market was additionally supported by better market sentiment.

On the core debt market yields were rising for the better part of the day amid lower demand for risky assets. Later in the day yields of Bunds slightly declined. At the end of the day yields of the 10Y Bunds and Treasuries reached 1.78% and 1.85%, respectively. Today the market will focus on bonds auctions in Italy and the Netherlands.

According to PAP, the draft of budget sent by the Finance Ministry for today's government meeting assumes budget deficit at PLN35bn in 2012, GDP growth at 4% and average annual inflation at 2.8%. According to Minister of Finance, Jacek Rostowski, currently there are no reasons for changing forecast of GDP growth. Still, in our opinion the outlook for economic growth in 2012 has clearly deteriorated (according to poll conducted by Reuters in early September, only 3 out of 17 institutions expect GDP growth at or above 4%). The draft of the budget shows that in 2011 debt ratio to GDP will reach 53.8% versus 52.8% in 2010. In 2012 it shall decline to 51.7%.

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F/X rates (today's opening)

EURUSD	1.3537	CADPLN	3.1681
USDPLN	3.2433	DKKPLN	0.5901
EURPLN	4.3900	NOKPLN	0.5639
CHFPLN	3.5979	SEKPLN	0.4767
JPYPLN*	4.2471	CZKPLN	0.1787
GBPPLN	5.0566	HUFPLN*	1.5192

*for 100JPY/100HUF

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.3769	4.4330	4.4165	4.4055	4.4113
USDPLN	3.2317	3.3165	3.2982	3.2777	3.2766
EURUSD	1.3361	1.3541	1.3391	1.3471	-

T-bonds

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
OK0713 (2Y)	4.45	2	10.08	4.469
PS0416 (5Y)	5.25	2	10.08	5.256
DS1020 (10Y)	5.96	-7	12.01	6.215

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	4.73	2	0.48	-1	1.55	-2
2L	4.72	1	0.51	-1	1.41	0
3L	4.77	1	0.66	-6	1.52	4
4L	4.85	3	0.89	2	1.73	7
5L	4.93	2	1.14	3	1.92	7
8L	5.08	3	1.74	6	2.30	7
10L	5.12	3	2.00	7	2.47	9

WIBOR rates

TERM	%	Daily change (bp)
O/N	4.39	-15
T/N	4.43	-12
SW	4.56	-1
2W	4.59	0
1M	4.63	-1
3M	4.76	0
6M	4.85	-1
9M	4.87	0
1Y	4.89	0

FRA rates (Mid)

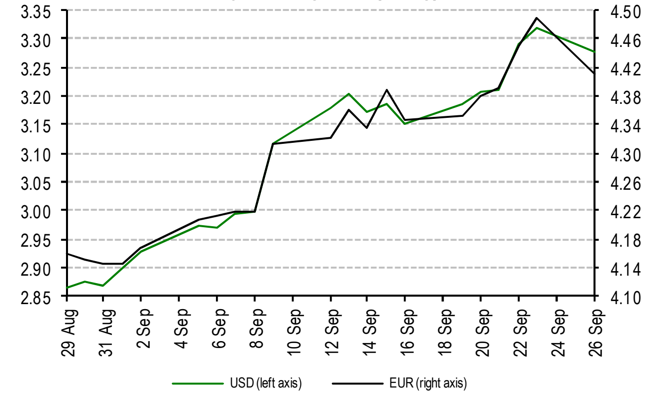
TERM	%	Daily change (bp)
1x2	4.63	-1
1x4	4.74	-1
3x6	4.71	-1
6x9	4.61	1
9x12	4.51	-4
3x9	4.78	0
6X12	4.70	0

Measures of fiscal risk

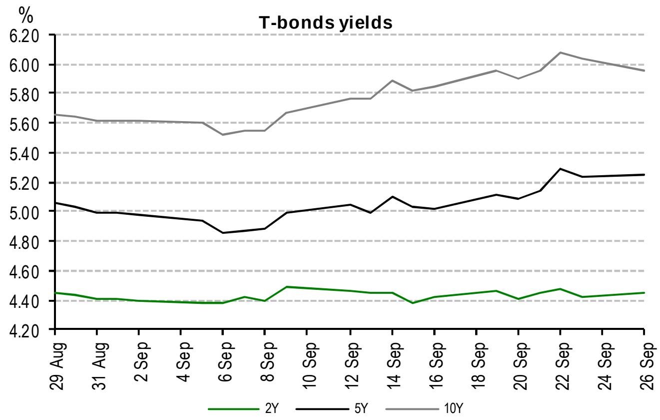
Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	309.5	71	4.19	-11
Czech Republic	169.5	48	1.26	-3
Hungary	496.3	41	6.58	-21
Greece	5574.8	6	21.60	82
Spain	413.4	42	3.39	-16
Italy	497.7	49	3.85	-12
Portugal	1225.7	113	10.26	13
Ireland	854.6	13	6.78	-29
Germany	107.4	26	--	--

* 10Y treasury bonds over 10Y Bunds

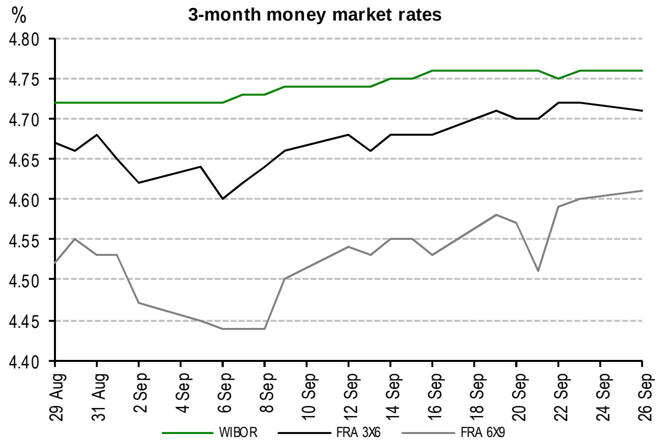
Zloty exchange rate (fixing)



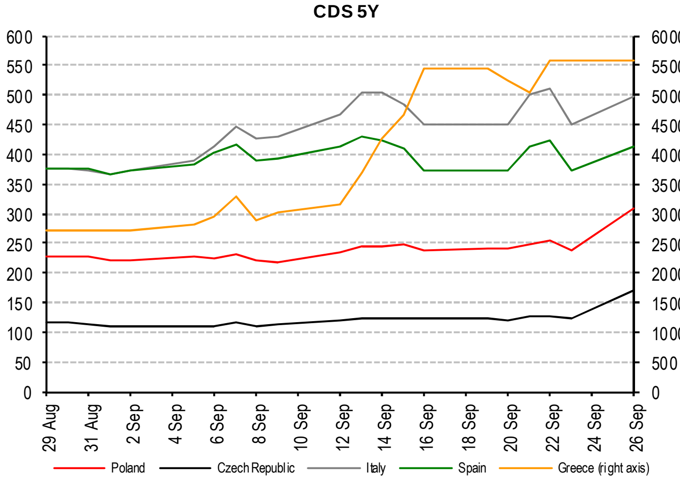
T-bonds yields



3-month money market rates



CDS 5Y



Source: Reuters

Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST BZWBK	ACTUAL VALUE	LAST VALUE*
		FRIDAY (23 September)						
10:00	**PL**	**Retail sales**	**Aug**	**%YoY**	**8.9**	**9.4**	**11.3**	**8.2**
10:00	**PL**	**Unemployment rate**	**Aug**	**%YoY**	**11.6**	**11.6**	**11.6**	**11.7**
		MONDAY (26 September)						
10:00	DE	Ifo index	Sep	pts	106.5	-	107.5	108.7
16:00	US	New home sales	Aug	%YoY	295	-	295	302
		TUESDAY (27 September)						
08:00	DE	Gfk Index	Oct	pts	5.0	-	5.2	5.2
10:00	EZ	Money supply	Aug	%YoY	1.9	-		2.0
15:00	US	S&P/Case-Shiller index	Jul	%MoM	0.1	-		-0.1
16:00	US	Consumer confidence	Sep	pts	46.0	-		44.5
		WEDNESDAY (28 September)						
14:30	US	Durable goods	Aug	%MoM	0.0	-		4.1
		THURSDAY (29 September)						
11:00	EZ	Consumer confidence	Sep	pts	96.0	-		98.3
14:00	**PL**	**Balance of payments**	**Q2**	**€m**	**-**	**-2552**		**-3364**
14:30	US	GDP - third estimate	Q2	%QoQ	1.2	-		0.4
14:30	US	Initial jobless claims	week	k	420	-		423
16:00	US	Pending home sales	Aug	%MoM	-1.3	-		-1.3
		FRIDAY (30 September)						
4:30	CN	PMI - manufacturing	Sep	pts	-	-		49.9
11:00	EZ	Flash HICP	Sep	% YoY	2.5	-		2.5
14:00	**PL**	**Inflation expectations**	**Sep**	**%YoY**	**-**	**-**		**4.2**
14:30	US	Consumer spending	Aug	%MoM	-	-		0.5
14:30	US	Personal income	Aug	%MoM	0.1	-		0.3
14:30	US	Core PCE	Aug	%MoM	0.2	-		0.2
15:45	US	Chicago PMI	Sep	pts	55.3	-		56.5
15:55	US	Michigan index	Sep	pts	58.0	-		57.8

Source: BZ WBK, Reuters, Parkiet

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

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