Bank Zachodni WBK

Eyeopener – The Greek week

27 June 2011

- **Following a temporary improvement in moods, uncertainty over Greece deteriorates market sentiment**
- **Zloty and other currencies in the region pared a part of losses after the Thursday's sell-off**
- **Domestic debt market little unchanged, Bunds stronger on safe-haven bids amid situation in Greece**
- **Today focus on data from the US (consumer income and spending, core PCE) and awaiting for vote in Greece later in the week**

Despite considerable improvement of market sentiment on Thursday overnight, after information about agreement between the Greek government and the EU concerning the five-year austerity plan, the increase of risk appetite proved to be only temporary. The uncertainty if the Greek parliament will agree on the austerity measures, which are to provide Greece with another tranche of aid package, returned to the market after comments of MP from ruling PASOK party, who pledged to vote against the plan, which assumes tax hikes and privatisation of state enterprises. As the ruling coalition has only a slight majority in the parliament, every such statement raises concern about the outcome of the vote, which is to take place under immense social pressure (a general strike is scheduled on Tuesday and Wednesday). The sentiment in Europe was also undermined by suspension of trading of Italian banks stocks, which had lost due to concerns about influence of the debt crisis on their capital. The better than expected reading of the Ifo index, reflecting the economic mood in Germany, has underpinned the sentiment and the single currency in the morning, while positive US data on durable goods orders had little impact on the market, similarly as the final GDP figures for the US in Q1, as they were in line with expectations. Over the weekend the global market sentiment did not change substantially. The uncertainty regarding the vote in the Greek parliament is persisting. Moreover, regardless of the debt crisis, the concerns about durability of the global economic recovery are still valid. That is why stock markets weakened in the US on Friday and in Asia today.

EURUSD climbed in the morning, thus rebounding after a slump from the day before and broke the 1.43 level. However, the second part of the day brought a depreciation of the euro as concerns about future of Greek austerity plan have taken its toll on the single currency. At the end of Friday's session the euro dropped under the technical support at 1.419, i.e. its 100-day moving average. Over the weekend, EURUSD continued to drop and has reached another important daily support at 1.41 this morning. The fears about situation in Greece will still weigh on the euro and will hinder the rebound. On the other hand, the technical analysis indicates that the potential for further falls is capped. We anticipate a stabilisation in 1.41-1.416 range while awaiting the vote in Greece.

MPC member, Jerzy Hausner, said an interview with today's *Gazeta Wyborcza* daily that the inflation should stop rising further and in one year's time it should come back to target level of 2.5%, but he has underlined that it should not be announced that "the hikes have come to an end, as it can turn out that we have to continue to do our job". The comments from Hausner support our expectations of continuation of tightening cycle, although not at the upcoming meeting in July.

The zloty, similar as other CEE currencies, was recovering during the Friday's session after Thursday's clear depreciation. What is interesting, despite higher risk aversion on the global market in the afternoon, the zloty managed to maintain its appreciation trend. At the end of the day EURPLN was close to 3.987 and today in the morning was close to that level. The worries over Greece still dominate on the global market and additionally this week the revised data on domestic current account will be released. This may constrain zloty's appreciation trend. We expect EURPLN to remain today in the range of 3.98-4.0.

Activity on the domestic debt market was marginal due to long weekend. Yields did not change versus Wednesday's levels. On the core debt markets, after Thursday's yields' plunge, at the beginning of Friday's session there was some slight rebound seen amid news about an agreement on Greek austerity measures and better than expected data from Germany and the US. In the afternoon, growing worries over Greek solvency dragged yields of 10Y Bunds to the lowest level since January 2011. At the end of the day yields of the 10Y Bunds and Treasuries reached 2.84% and 2.90%, respectively.

This week we will see a number of data from abroad (flash HICP in the euro zone, consumer confidence, home price index in the US, among others), but still in terms of international events influencing the Polish market, the voting on reform package in Greece will come to the fore. Assuming that the parliament accepts the proposed solutions, which is necessary for another financial aid from the EU and IMF, the appetite for riskier assets should increase. At the same time, however, on the domestic market we will see the publication of long-awaited revision of balance of payments statistics. A few months ago, worries regarding significant revision of current account deficit as a result of reclassifying large "errors and omissions" balance into higher imports, led to weakening of the Polish currency. Therefore, the Wednesday's release may have impact on the zloty. Also, this week data on inflation expectations will be published (another increase) as well as PMI index for June (another fall). We maintain the range of 3.94-4.00 against the euro for this week, assuming approval for reforms in Greek parliament (if no, EURPLN will rise again above 4.0). Materialization of our basic scenario (Greek parliament approves austerity measures) shall support long end of domestic yield curve.

ECONOMIC ANALYSIS

ul. Marszałkowska 142. 00-061
email: ekonomia@bzwbk.pl
fax +48 022 586 83 40
Web site: http://www.bzwbk.pl

Maciej Reluga (Chief Economist)	+48 (0) 22 586 83 63
Piotr Bielski	+48 (0) 22 586 83 33
Piotr Bujak	+48 (0) 22 586 83 41
Marcin Sulewski	+48 (0) 22 586 83 42
Marcin Luziński	+48 (0) 22 586 83 62

TREASURY SERVICES

Poznań	+48 (0) 61 856 5814/25
Warszawa	+48 (0) 22 586 8320
Wrocław	+48 (0) 71 370 2587

F/X rates (today's opening)

EURUSD	1,4134	CADPLN	2,8557
USDPLN	2,8264	DKKPLN	0,5356
EURPLN	3,9945	NOKPLN	0,5120
CHFPLN	3,3790	SEKPLN	0,4328
JPYPLN*	3,5021	CZKPLN	0,1634
GBPPLN	4,5046	HUFPLN*	1,4842

*for 100JPY/100HUF

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3,9820	4,0036	3,9928	3,9887	3,9905
USDPLN	2,7835	2,8172	2,7994	2,8164	2,7914
EURUSD	1,4161	1,4309	1,4259	1,4167	-

T-bonds

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
OK0713 (2Y)	4,83	1	9.06	4,848
PS0416 (5Y)	5,36	0	18.05	5,614
DS1020 (10Y)	5,87	2	12.01	6,215

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	5,00	1	0,41	1	1,93	2
2L	5,11	1	0,61	-6	2,02	-2
3L	5,21	0	0,94	-7	2,25	-5
4L	5,28	0	1,37	-8	2,45	-4
5L	5,32	0	1,76	-9	2,65	-6
8L	5,39	0	2,65	-5	3,10	-6
10L	5,38	0	3,01	-5	3,30	-5

WIBOR rates

TERM	%	Daily change (bp)
O/N	4,19	-10
T/N	4,28	-11
SW	4,54	0
2W	4,55	0
1M	4,61	1
3M	4,68	0
6M	4,75	0
9M	4,79	0
1Y	4,85	0

FRA rates (Mid)

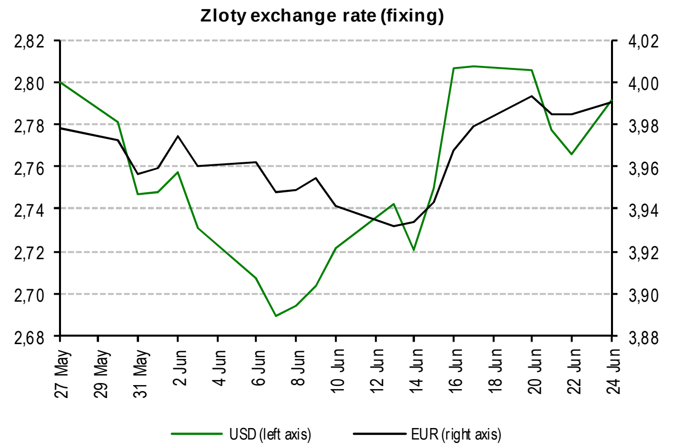
TERM	%	Daily change (bp)
1x2	4,67	1
1x4	4,73	-1
3x6	4,88	1
6x9	5,01	1
9x12	5,06	0
3x9	4,97	2
6X12	5,10	2

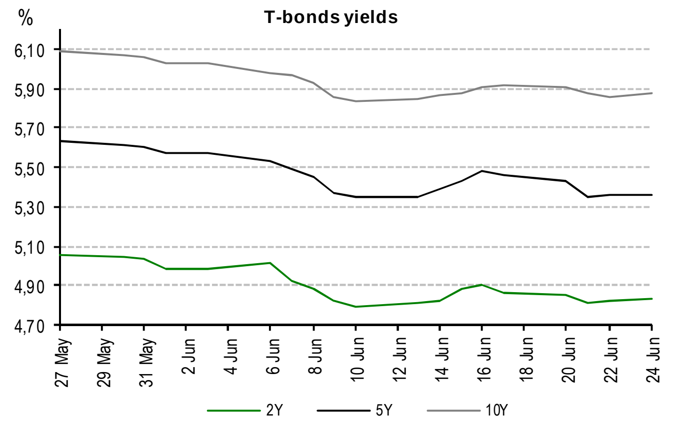
Measures of fiscal risk

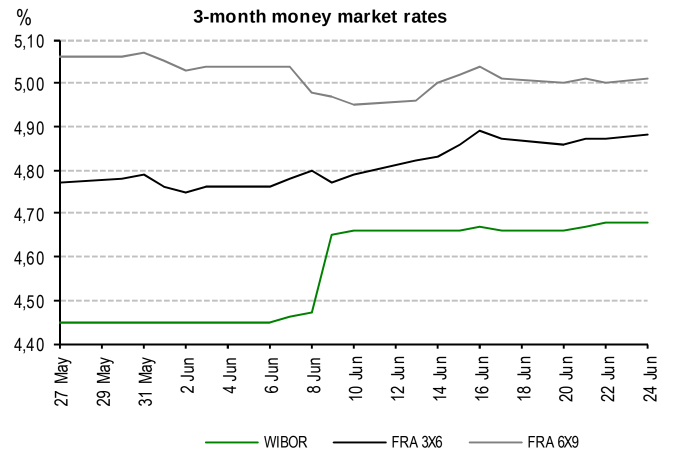
Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	160,4	8	3,02	2
Czech Republic	84,7	5	0,94	3
Hungary	289,0	13	4,70	-4
Greece	2289,1	130	14,09	-12
Spain	297,9	20	2,82	8
Italy	192,1	15	2,12	8
Portugal	857,8	42	8,71	6
Ireland	828,0	31	9,17	10
Germany	44,1	3	--	--

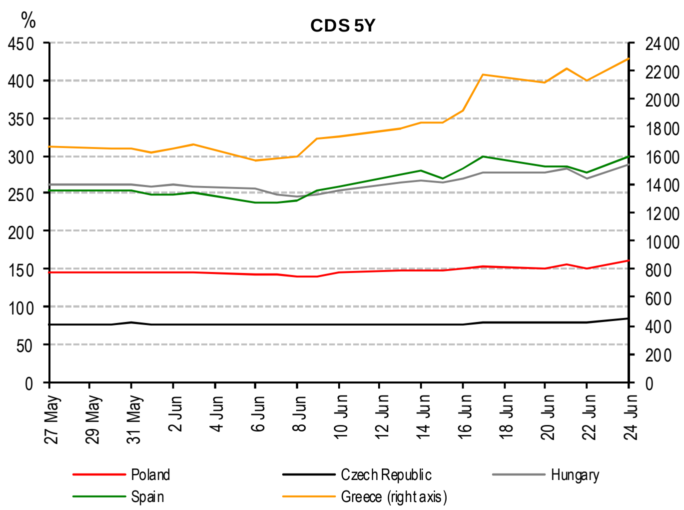
* 10Y treasury bonds over 10Y Bunds

Source: Reuters









Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST BZWBK	ACTUAL VALUE	LAST VALUE**
		MONDAY (27 June)						
14:30	US	Consumer spending	May	%MoM	0.1	-		0.4
14:30	US	Personal income	May	%MoM	0.4	-		0.4
14:30	US	Core PCE	May	%MoM	0.2	-		0.2
		TUESDAY (28 June)						
8:00	DE	GfK index	Jul	pts	5.3	-		5.5
10:30	GB	Final GDP	Q1	%QoQ	0.5	-		0.5
15:00	US	S&P/Case-Shiller home price index	Apr	%MoM	-0.2	-		-0.2
16:00	US	Consumer confidence	Jun	pts	60.5	-		60.8
		WEDNESDAY (29 June)						
11:00	EZ	Economic sentiment	Jun	pts	105.0	-		105.5
14:00	**PL**	**Current account***	**Q1**	**€m**	**-**	**-**		**-5.28**
16:00	US	Pending home sales	May	%MoM	2.9	-		-11.6
		THURSDAY (30 June)						
11:00	EZ	Flash HICP	Jun	%YoY	2.8	-		2.7
14:00	**PL**	**Inflation expectations**	**Jun**	**%YoY**	**-**	**-**		**4.3**
14:30	US	Initial jobless claims	week	k	420	-		429
15:45	US	Chicago PMI index	Jun	pts	54.0	-		56.6
		FRIDAY (1 July)						
4:30	CN	PMI – manufacturing	Jun	pts	-	-		51.6
9:00	**PL**	**PMI – manufacturing**	**Jun**	pts	-	**51.8**		**52.6**
9:58	EZ	PMI – manufacturing	Jun	pts	52.0	-		54.6
15:55	US	Michigan index	Jun	pts	71.8	-		71.8
16:00	US	PMI – manufacturing	Jun	pts	51.5	-		53.5

Source: BZ WBK, Parkiet, Reuters *revision of historical data will be also released

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

Additional information is available on request. Please contact Bank Zachodni WBK S.A. Treasury Division. Economic Analysis Unit. ul. Marszałkowska 142. 00-061 Warsaw. Poland. phone (+48 22) 586 83 63. email ekonomia@bzwbk.pl. http://www.bzwbk.pl