Bank Zachodni WBK

Eyeopener – Focus on ECB

7 July 2011

- **MPC decision in line with expectations, no surprises in the statement**
- **Higher risk aversion after Portugal's rating cut and interest rate hike in China**
- **Zloty slightly weaker, euro under pressure against the dollar**
- **Today, domestic bond switch auction, abroad the ECB decision and US labour market data**

The Wednesday's session passed in sour sentiment. The European stock indices and US stock futures dropped, the euro lost against the dollar and the Swiss franc, the yields of Bunds and Treasuries edged down. The reasons of substantial rise in risk aversion were: the decision of Moody's agency to downgrade Portugal's debt, which bolstered concerns about the situation of euro zone peripheries and the hike of interest rates in China for third time this year, which raised concerns about global economic growth. The better than expected German figures did not affect the trading. A negative, but only temporary impact on the mood was exerted by the US data, where the ISM index for services dropped more than expected.

During the US and Asian sessions the sentiment improved slightly. This was supported, among others, by the investors' speculation that the yesterday's rate hike in China could have been the last one in cycle.

The EURUSD rate dropped considerably throughout the yesterday's session. The euro stayed under pressure due to Moody's decision and deterioration of market sentiment. The drops halted only by 1.428. Overnight the euro pared some losses thanks to improved mood during the US and – to a lesser extent – Asian session. This morning the EURUSD is hovering around 1.433. The main market event will be the press conference after ECB meeting. The decision to hike rates to 1.50% will not come as a surprise and its announcement will not affect the market. The investors will be awaiting the communiqué and words of the ECB governor during the conference, which can shed some light on the outlook for further steps in monetary policy. Much attention will be paid to words about the situation in Greece and further acceptance of Greek bonds as a collateral. We expect that the euro can gain while awaiting the press conference. Support is at 1.42, resistance is at 1.44.

EURPLN and USDPLN were rising since the very beginning of yesterday's session and this tendency was stronger in case of USDPLN. The MPC decision has not affected the zloty while a brief rise in EURPLN to above 3.96 was a result of a drop in EURUSD, which took place towards the end of the European session. Overnight EURPLN was stable around 3.95 and today in the morning it was a bit below this level. This week volatility of EURPLN is lower than earlier, but possibly outcome of today's ECB meeting will increase volatility of EURUSD, which in turn will lead to larger fluctuations of the zloty. We do not expect the zloty appreciation today. EURPLN is unlikely to approach the support at 3.93 from which it rebounded on Monday. The resistance is at 3.97.

On the domestic fixed income market yields were slightly rising before the publication of MPC communiqué, the decision on leaving interest rates unchanged had no impact. All in all, at the short end of the curve we observed slight appreciation while on the long end bonds lost marginally amid higher risk aversion.

On the core fixed income markets yields were falling, mainly in case of Bunds, amid clearly higher risk aversion on the global market. At the end of the day yields of 10Y Bunds and Treasuries reached 2.92% and 3.08% respectively.

Just as it was expected the MPC left interest rates unchanged. Still, it did not exclude that further monetary policy tightening is possible if outlook for inflation's return to the target deteriorates. According to the MPC, monetary policy tightening that had already been applied should enable to lower inflation, what in Council's view is confirmed by new inflation and GDP projections. Still, we expect that a predicted scenario of upcoming developments regarding inflation, situation on the labour market and economic activity in coming months, support forecasts for a one more interest rate hike before the end of the year. The new *Inflation Report*, including details of the new projections of inflation and GDP, will be released on the NBP's website on Monday at 9:00 CET. Please see more in our yesterday's *Post-MPC comment*.

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F/X rates (today's opening)

EURUSD	1.4340	CADPLN	2.8509
USDPLN	2.7550	DKKPLN	0.5296
EURPLN	3.9508	NOKPLN	0.5095
CHFPLN	3.2800	SEKPLN	0.4345
JPYPLN*	3.4021	CZKPLN	0.1628
GBPPLN	4.4007	HUFPLN*	1.4942

*for 100JPY/100HUF

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.9415	3.9617	3.9475	3.9556	3.9531
USDPLN	2.7243	2.7727	2.7329	2.7654	2.7531
EURUSD	1.4283	1.4460	1.4450	1.4304	-

T-bonds

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
OK0713 (2Y)	4.80	-1	9.06	4.848
PS0416 (5Y)	5.34	2	18.05	5.614
DS1020 (10Y)	5.77	2	12.01	6.215

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	4.98	0	0.21	0	2.05	0
2L	5.06	-2	0.34	0	2.23	-2
3L	5.14	-3	0.56	3	2.48	-2
4L	5.20	-3	0.76	0	2.66	-5
5L	5.24	-3	0.98	1	2.86	-5
8L	5.31	-3	1.43	-4	3.19	-4
10L	5.32	-3	1.62	-3	3.37	-3

WIBOR rates

TERM	%	Daily change (bp)
O/N	4.59	-2
T/N	4.61	-2
SW	4.56	0
2W	4.57	-1
1M	4.62	0
3M	4.69	-1
6M	4.76	0
9M	4.80	0
1Y	4.85	-1

FRA rates (Mid)

TERM	%	Daily change (bp)
1x2	4.66	0
1x4	4.74	-3
3x6	4.90	1
6x9	5.01	1
9x12	5.06	0
3x9	4.98	1
6X12	5.07	1

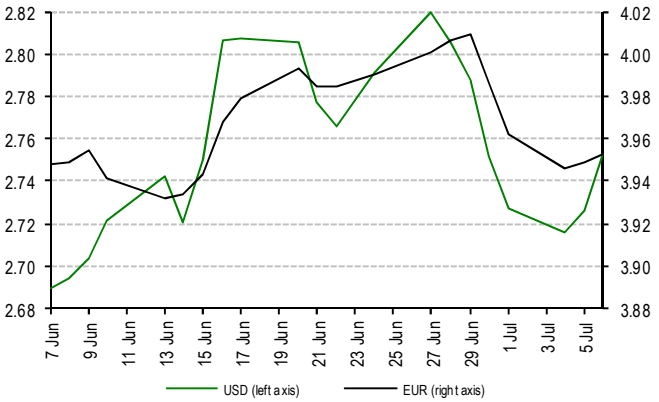
Measures of fiscal risk

Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	151.1	1	2.86	13
Czech Republic	86.0	-1	0.88	10
Hungary	266.3	0	4.51	10
Greece	2108.8	94	13.82	31
Spain	271.4	10	2.67	23
Italy	192.8	13	2.18	23
Portugal	806.5	16	9.79	163
Ireland	776.2	10	9.89	117
Germany	39.3	1	--	--

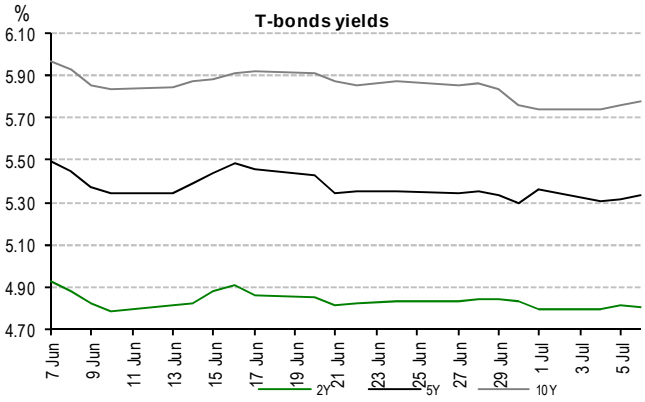
* 10Y treasury bonds over 10Y Bunds

Source: Reuters

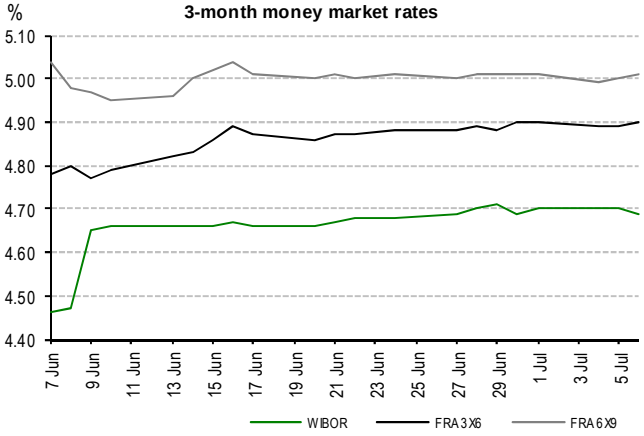
Zloty exchange rate (fixing)



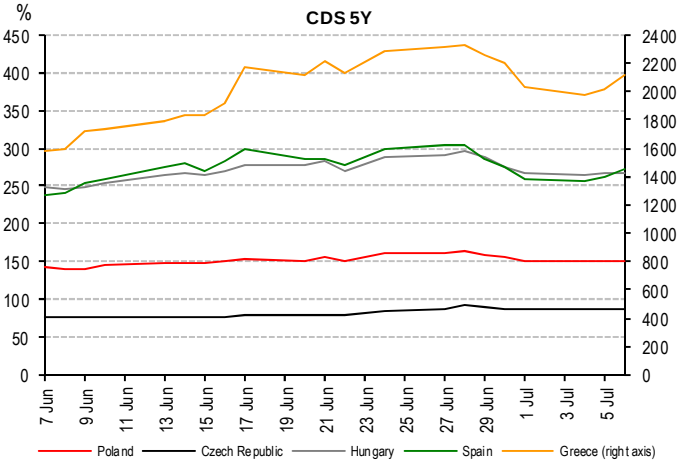
T-bonds yields



3-month money market rates



CDS 5Y



Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	BZWBK		
		MONDAY (4 July)						
EZ	10:30	Sentix index	Jul	pts	1.2	-	5.3	3.5
EZ	11:00	PPI	May	% YoY	6.3	-	6.2	6.7
US		Banking holiday						
		TUESDAY (5 July)						
EZ	9:58	PMI – services	Jun	pts	54.2	-	53.7	56.0
EZ	11:00	Retail sales	May	% YoY	-0.5	-	-1.1	0.7
US	16:00	Industrial orders	May	% MoM	1.0	-	0.8	-0.9
		WEDNESDAY (6 July)						
PL		**MPC decision**		**%**	**4.50**	**4.50**	**4.50**	**4.50**
DE	12:00	Industrial orders	May	% MoM	-0.5	-	1.8	2.9
US	16:00	ISM – services	Jun	pts	54.0	-	53.3	54.6
		THURSDAY (7 July)						
PL	**11:00**	**Bonds switching auction**						
DE	12:00	Industrial output	May	% MoM	0.6			-0.6
GB	13:00	BoE decision		%	0.50	-		0.50
EZ	13:45	EBC decision		%	1.50	-		1.25
US	14:15	ADP report	Jun	k	68	-		38
US	14:30	Initial jobless claims	week	k	420	-		428
		FRIDAY (8 July)						
DE	8:00	Exports	May	% MoM	1.5	-		-5.5
US	14:30	Non-farm payrolls	Jun	k	90	-		54
US	14:30	Unemployment rate	Jun	%	9.0	-		9.1

Source: BZ WBK, Parkiet, Reuters

* in case of the revision, the data is updated

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