

# Eyeopener – Clear rise in risk aversion

11 July 2011

- **Much weaker than expected data from the US labour market and increased concerns about debt problems in Europe deteriorate market sentiment**
- **Zloty weaker, EURUSD lower after temporary rise following disappointing US non-farm payrolls**
- **Domestic debt market little changed, core debt markets stronger amid stronger demand for safe assets**
- **Today focus on Eurogroup meeting, beginning of earnings reports season and locally release of the Inflation Report**

The positive mood, which appeared on Thursday after macro figures from the US and ECB's decision concerning the Portuguese bonds, was visible also at the start of Friday's session. Investors were awaiting the US non-farm payrolls report for June. A plunge of EURUSD rate at the beginning of the session was caused by a release of a draft of the document suggesting that the banks, which do not pass the stress-tests and will not be able to raise necessary capital in 6 months, will have to be given help from governments. Due to this release concerns emerged that the euro zone countries, already burdened by austerity packages, will be forced to further cuts. However, the US figures were the main culprit of sentiment's deterioration. In June non-farming sector added only 18k new payrolls against expected 90k and May figure at 73k after revision. Unexpectedly, the unemployment rate picked up to 9.2% from 9.1%. After these news the stocks lost, while core debt markets gained, reflecting clear rise in risk aversion.

Over the weekend the market sentiment continued to deteriorate. Amid rising concerns about condition of the global economy, caused by disappointing US labour market data, the market participants began to worry even more about debt problems in Europe. The risk appetite was adversely affected by news about growing support of the EU leaders for Greek debt restructuring as well as by the suggestions that Italy may need international help (this was stated by German newspaper Die Welt, citing an anonymous source from the ECB). The Reuters stated that according to two sources the today's extraordinary meeting of the President of the European Council, Herman Van Rompuy, with figures responsible for fighting the debt crisis in Europe (ECB governor, head of the Eurogroup, President of the European Commission, Economic and Monetary Affairs Commissioner) will be devoted to, among others, situation in Italy, after a sell-off of Italian assets on Friday raised fears of crisis spilling over into that country. However, the Rompuy's spokesperson stated that the problems of Italy are not on agenda and he refused to reveal the subject of the talks. Both Friday's session in the US and today's in Asia brought considerable drop in major stock indices.

The EURUSD rate dropped substantially at the beginning of the Friday's session soon after release of the document on European banks and reached 1.422. The rate stabilised slightly above this

level, while awaiting the US figures. After the payrolls report was released, the rate slumped to 1.420 but a rebound to 1.433 occurred quite quickly. This morning, after rise in risk aversion over the weekend, the EURUSD rate slid below 1.42, but we think that during the day the euro will return above this important support. Much will depend on the new information about the euro zone debt crisis.

At the beginning of Friday's session the zloty depreciated against both major currencies and EURPLN and USDPLN reached 3.946 and 2.772, respectively. This was accompanied by fall in EURUSD. The trend of the zloty weakening was reinforced after the weaker-than-expected data from the US labour market and EURPLN rose to 3.955. Despite further deterioration in global moods during the weekend, today in the morning EURPLN was below Friday's close. However, it is hard to expect the Polish currency to strengthen given deteriorating sentiment in the global market.

The domestic debt market showed limited activity on Friday and yields did not change. The similar situation may be observed today amid no new data publications. Last week, the publication of inflation projection did not have an impact on the market, so the release of the Inflation Report should not increase volatility either.

On the core debt markets the yields dropped at the start of the session after release of information about the European banks. The strengthening was clearly visible in case of German bonds. The yields' downward trend accelerated after US labour market figures. At the end of the day the yields of 10Y Bunds and Treasuries reached 2.87% and 3.05%, respectively. Today in the morning, following rise in demand for safe assets, they were at 2.83% and 3.02%.

From the information released by the source in government results that in Q2 the GDP grew by ca. 4.2-4.4% and in the whole 2011 by ca. 4.2%.

The market remains sensitive to any information regarding euro zone's debt crisis and condition of the European banking system. These issues will be in focus of attention in coming days, particularly as today the Eurogroup will debate on second bailout package for Greece, including participation of private investors. During the week also the results of European banks' stress tests will be released. Today the season of quarterly financial results publications starts in the US and that may influence market's expectations regarding developments in economy in second half of the year. At the end of the week, some positive impact on the domestic currency may have current account deficit figure, which we expect to be narrower than the market anticipates. CPI data should not affect the zloty. The EURPLN range for this week is 3.93-3.97. This week the EURUSD rate is under influence of news from Europe and the elevated volatility may sustain. Support is at 1.42, resistance at 1.455.

## ECONOMIC ANALYSIS

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## F/X rates (today's opening)

EURUSD	1,4192	CADPLN	2,8879
USDPLN	2,7842	DKKPLN	0,5297
EURPLN	3,9505	NOKPLN	0,5120
CHFPLN	3,3216	SEKPLN	0,4336
JPYPLN*	3,4473	CZKPLN	0,1639
GBPPLN	4,4524	HUFPLN*	1,4960

\*for 100JPY/100HUF

## Financial market review - 08.07.2011

## The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3,9241	3,9603	3,9313	3,9572	3,9345
USDPLN	2,7318	2,7810	2,7392	2,7751	2,7505
EURUSD	1,4204	1,4362	1,4352	1,4257	-

## T-bonds

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
OK0713 (2Y)	4,80	0	9.06	4,848
PS0416 (5Y)	5,33	0	18.05	5,614
DS1020 (10Y)	5,78	1	12.01	6,215

## IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	4,99	-1	0,41	2	2,05	0
2L	5,08	-1	0,70	2	2,19	3
3L	5,16	-1	1,12	-5	2,38	5
4L	5,22	-1	1,57	2	2,61	5
5L	5,25	-2	1,99	6	2,81	5
8L	5,34	0	2,89	4	3,20	4
10L	5,38	3	3,26	5	3,39	3

## WIBOR rates

TERM	%	Daily change (bp)
O/N	4,58	0
T/N	4,60	0
SW	4,56	0
2W	4,57	0
1M	4,62	0
3M	4,69	-1
6M	4,75	-1
9M	4,80	0
1Y	4,85	0

## FRA rates (Mid)

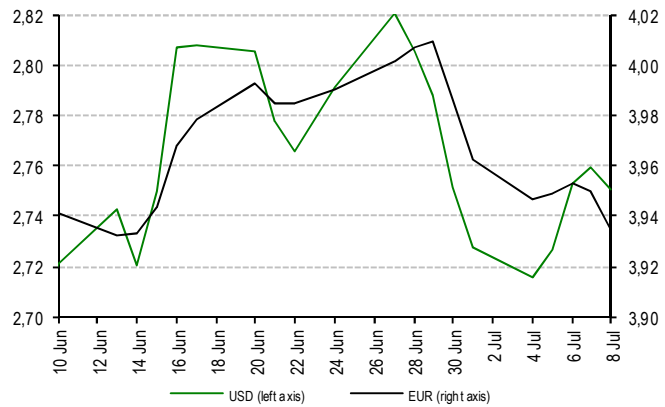
TERM	%	Daily change (bp)
1x2	4,66	0
1x4	4,73	-1
3x6	4,90	1
6x9	4,99	-1
9x12	5,05	0
3x9	4,98	0
6X12	5,06	-2

## Measures of fiscal risk

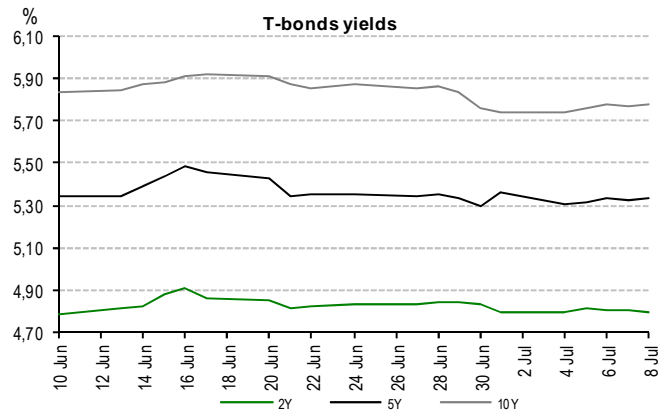
Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	158,7	3	2,85	6
Czech Republic	90,1	2	0,85	2
Hungary	282,5	6	4,54	9
Greece	2431,4	48	14,16	28
Spain	310,9	6	2,71	5
Italy	221,9	4	2,21	4
Portugal	1001,9	20	10,33	20
Ireland	895,7	18	10,44	20
Germany	43,7	1	--	--

\* 10Y treasury bonds over 10Y Bunds

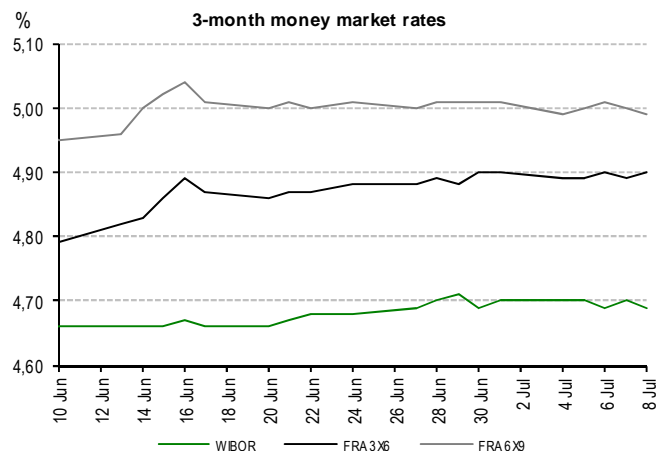
## Zloty exchange rate (fixing)



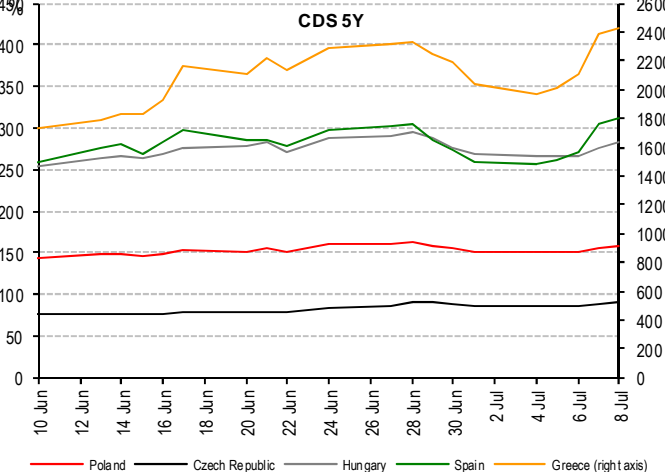
## T-bonds yields



## 3-month money market rates



## CDS 5Y



Source: Reuters

## Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*
				MARKET	BZWBK		
MONDAY (11 July)							
-	-	Meeting of the eurogroup	-	-	-	-	-
9:00	PL	Publication of Inflation Raport					
TUESDAY (12 July)							
14:30	US	Trade balance	May	\$bn	-44.0	-	-43.7
20:00	US	Minutes Fed					
WEDNESDAY (13 July)							
11:00	EZ	Industrial output	May	%MoM	0.5	-	0.2
14:00	PL	CPI	Jun	%YoY	4.8	4.7	5.0
14:30	US	Import prices	Jun	%MoM	-0.5	-	0.2
THURSDAY (14 July)							
11:00	EZ	HICP	Jun	%YoY	2.7	-	2.7
14:00	PL	Money supply	Jun	%YoY	7.9	8.0	7.8
14:30	US	Initial jobless claims	week	k	415	-	418
14:30	US	Retail sales excluding autos	Jun	%MoM	0.2	-	0.3
FRIDAY (15 July)							
4:00	CN	Industrial output	Jun	%YoY	13.4	-	13.3
14:00	PL	Current account	May	€m	-690	-287	-1 173
14:00	PL	Exports	May	€m	11 500	11 684	11 275
14:00	PL	Imports	May	€m	12 425	12 585	12 208
14:30	US	Core CPI	Jun	%MoM	0.2	-	0.3
14:30	US	NY Fed index	Jul	pts	4.9	-	-7.79
15:15	US	Industrial output	Jun	%MoM	0.4	-	0.1
15:15	US	Capacity utilisation	Jun	%	76.9	-	76.7
15:55	US	Flash Michigan index	Jul	pts	72.5	-	71.5

Source: BZ WBK, Parkiet, Reuters

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

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