

Eyeopener – Calm start of important week

18 July 2011

- **Weak data from the US, successful vote on austerity plan in Italy and publication of European stress tests has not changed market sentiment**
- **On Friday the zloty and EURUSD in narrow ranges, today EURUSD amid low liquidity during Asian session and concerns about deadlock in negotiations on debt limit**
- **Domestic debt market slightly weaker, core debt markets a bit stronger**
- **Today domestic labour market, abroad focus on earnings reports with lack of major macro figures**

The Friday's session was very calm in spite of high market volatility in the previous days. The markets were awaiting the US figures, due for release in the afternoon, the vote over Italian austerity plan and results of stress tests of the European banks. Prior to these releases EURUSD hovered in narrow range between 1.409 and 1.417 and the range of zloty trading against the main currencies proved to be relatively narrow as well (especially under conditions of the volatile previous week). The volatility on the debt market was also limited.

A large raft of US macro data released on Friday clearly disappointed (due to substantially lower than expected consumer confidence), but this did not change the situation on the markets. Also news from Italy and about the European banks did not affect the trading. EURUSD and zloty hovered until the end of the day in the same ranges as earlier. The domestic bonds lost slightly at the longer end on Friday (2-3bps). On the core debt markets the yields of 10Y Bunds and Treasuries ended the day a few bps below their opening levels and amounted to 2.70% and 2.94%, respectively.

The Italian Chamber of Deputies endorsed on Friday an austerity plan worth ca. €50bn. The plan aims at balancing the Italian public finance until 2014. In 15 minutes' time after passing the law, the plan was signed by the President, Giorgio Napolitano, which finalised the record pace of work over this bill.

The released at 18:00 CET results of stress tests of the European banks (90 banks in 21 countries) proved that condition of 8 among them is too weak to withstand a prolonged recession. These banks have to shore up €2.5bn of capital. The stress tests were failed by 5 banks in Spain, 2 in Greece and 1 in Austria.

On Friday evening the President of the USA warned the congressmen that the time for raising the debt ceiling is running out and we expressed his hope that he will receive Congress' plans concerning this issue within a couple of days.

Friday's session on Wall Street was rather quiet, and stock indices were hovering around the previous day's close levels. Investors welcomed the results of stress tests of European banks, but demand for shares was constrained by clearly weaker than expected data on consumer confidence in the US. Support for the market was better than expected financial report of the Citigroup.

Reduced volatility in the markets during the Friday session could have been related to the anticipation by investors of the Eurogroup meeting, initially informally scheduled for Friday. Later, the meeting has been postponed to an unspecified day in the next week, and on Friday evening, there was information that the President of the European Council, Herman Van Rompuy, called a meeting of Eurogroup on Thursday, July 21.

Today's session in Asia saw deterioration in mood. Amid small market liquidity (due to market holiday in Japan) declines in share prices were dominating, and there was a drop in EURUSD. The reason for the sentiment deterioration was an ongoing deadlock in the negotiations of US congressmen regarding debt limit increase, and a skepticism that Thursday's meeting of the Eurogroup will finally bring concrete decisions. In the absence of relevant data publications and in anticipation of important events later this week, today the markets should be relatively stable in our opinion.

Apart from the extraordinary meeting of Eurogroup, this week many other important events abroad are in the agenda. Important news to watch will be the financial results of companies and macroeconomic data (in particular, indicators of industrial activity in China, euro zone and the US), which will help in assessment of the condition of the global economy at the beginning of the third quarter. The publication of earning reports for the second quarter is gaining momentum. Today, we will see the results of IBM, on Tuesday BoA, Coca-Cola, Goldman Sachs, Wells Fargo, Apple and Yahoo, on Wednesday Intel and eBay, on Thursday AT&T, Morgan Stanley, PepsiCo, Microsoft, AMD, SanDisk, and on Friday, Caterpillar, GE and McDonald's.

Today 14:00 CET domestic labour market data are due for release. We expect a slowdown in positive tendencies on the labour market, which is suggested, among other, by a drop in employment subindex of Polish PMI. In our view the pace of employment will decline to 3.5%, but it will remain above 3% in the upcoming months. We see June to bring a considerable acceleration of wages, to 6.5% YoY from 4.1% in May, which resulted mostly from wage rises (and compensation for previous months) as well as bonuses in the mining sector. In the later part of the week we will see industrial output and PPI figures (tomorrow) and core inflation (Wednesday). For the domestic debt market an interesting test will be provided by Thursday's auction of 10Y bonds.

This week EURUSD will be still under influence of conflicting impact of sovereign debt problems in the euro zone and the US, which is likely to keep pressure on risky assets and on the zloty. We expect EURUSD to trade in 1.40-1.445 range and with higher risk aversion EURPLN will maintain above 4.0. We see the key resistance level and the upper limit of trading range for this week at 4.06. On the domestic debt market this week we expect a correction of recent drop of yields, which will be supported by persisting uncertainty of the global markets and by the domestic wages figures.

ECONOMIC ANALYSIS

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F/X rates (today's opening)

EURUSD	1,4146	CADPLN	2,9673
USDPLN	2,8516	DKKPLN	0,5409
EURPLN	4,0322	NOKPLN	0,5138
CHFPLN	3,4920	SEKPLN	0,4376
JPYPLN*	3,6026	CZKPLN	0,1648
GBPPLN	4,6043	HUFPLN*	1,4921

*for 100JPY/100HUF

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4,0165	4,0427	4,0322	4,0245	4,0343
USDPLN	2,8385	2,8664	2,8516	2,8500	2,8545
EURUSD	1,4090	1,4179	1,4146	1,4124	-

T-bonds

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
OK0713 (2Y)	4,71	0	9.06	4,848
PS0416 (5Y)	5,29	3	18.05	5,614
DS1020 (10Y)	5,82	2	12.01	6,215

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	4,93	2	0,43	1	1,91	0
2L	4,98	1	0,63	0	1,96	0
3L	5,06	2	0,98	1	2,21	1
4L	5,13	3	1,40	0	2,39	2
5L	5,18	4	1,81	0	2,60	3
8L	5,27	4	2,70	2	3,02	3
10L	5,29	5	3,07	2	3,22	4

WIBOR rates

TERM	%	Daily change (bp)
O/N	4,60	2
T/N	4,60	0
SW	4,55	0
2W	4,57	0
1M	4,61	0
3M	4,70	0
6M	4,75	-1
9M	4,80	0
1Y	4,85	0

FRA rates (Mid)

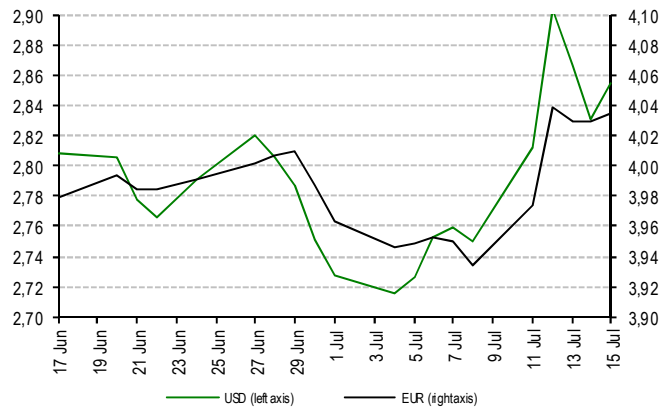
TERM	%	Daily change (bp)
1x2	4,63	0
1x4	4,71	1
3x6	4,80	-1
6x9	4,91	2
9x12	4,95	3
3x9	4,88	0
6X12	4,97	1

Measures of fiscal risk

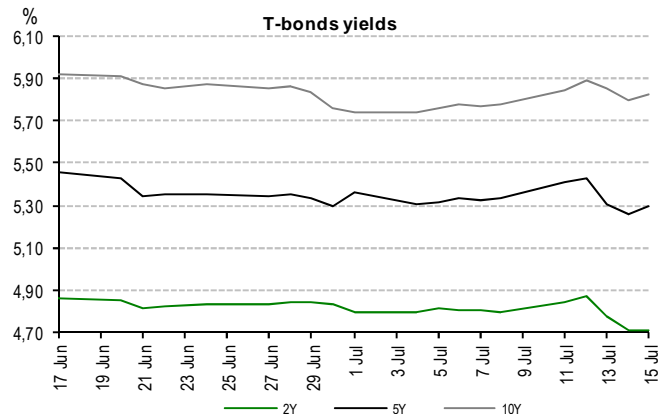
Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	165,4	1	3,13	9
Czech Republic	93,1	1	1,10	11
Hungary	302,2	-5	4,83	8
Greece	2623,4	25	14,98	58
Spain	322,4	12	3,31	20
Italy	284,4	6	3,02	17
Portugal	1152,3	13	10,19	4
Ireland	1139,8	16	11,60	11
Germany	54,4	0	--	--

* 10Y treasury bonds over 10Y Bunds

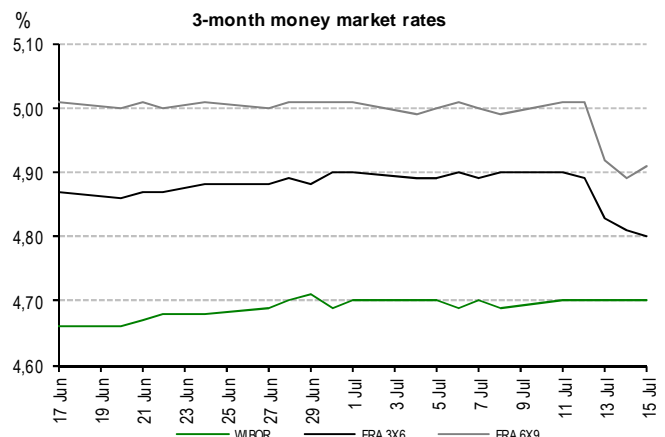
Zloty exchange rate (fixing)



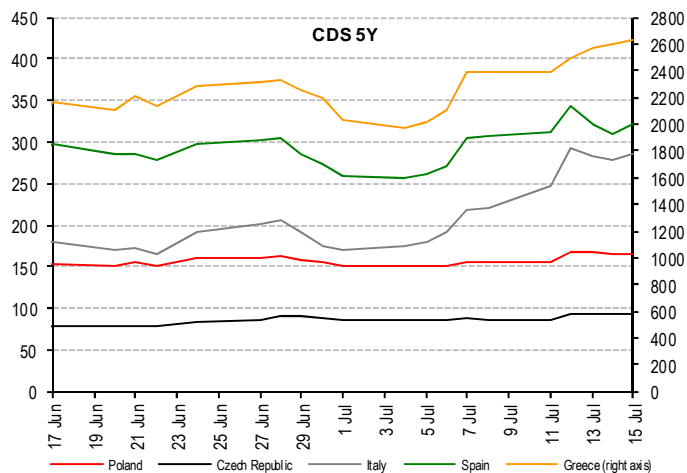
T-bonds yields



3-month money market rates



CDS 5Y



Source: Reuters

Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD	FORECAST			LAST VALUE	
					MARKET	BZWBK		
FRIDAY (15 July)								
14:00	PL	Current account	May	€m	-690	-287	0	-988
14:00	PL	Exports	May	€m	11 500	11 684	12 157	11 334
14:00	PL	Imports	May	€m	12 425	12 585	13 137	12 338
14:30	US	Core CPI	Jun	%MoM	0.2	-	0.3	0.3
14:30	US	NY Fed index	Jul	pts	4.9	-	-3.76	-7.79
15:15	US	Industrial output	Jun	%MoM	0.4	-	0.2	-0.1
15:15	US	Capacity utilisation	Jun	%	76.9	-	76.7	76.7
15:55	US	Flash Michigan index	Jul	pts	72.5	-	63.8	71.5
MONDAY (18 July)								
	JP	Market holiday						
14:00	PL	Wages in corporate sector	Jun	% YoY	5.0	6.5		4.1
14:00	PL	Employment in corporate sector	Jun	% YoY	3.5	3.5		3.6
TUESDAY (19 July)								
11:00	DE	ZEW index	Jul	pts	-12.4	-		-9.0
14:00	PL	Industrial output	Jun	% YoY	5.8	4.9		7.7
14:00	PL	Construction and assembly output	Jun	% YoY	18.4	18.4		23.9
14:00	PL	PPI	Jun	% YoY	5.6	6.0		6.5
14:30	US	House starts	Jun	k	573	-		560
14:30	US	Building permits	Jun	k	590	-		609
WEDNESDAY (20 July)								
14:00	PL	Core inflation	Jun	% YoY	2.5	2.6		2.4
16:00	US	Home sales	Jun	m	4.90	-		4.81
THURSDAY (21 July)								
	PL	Auction of DS1021 bonds worth PLN1.0-3.0bn						
4:30	CN	Flash PMI – manufacturing	Jul		-	-		50.1
9:28	DE	Flash PMI – manufacturing	Jul	pts	54.0	-		54.6
9:58	EZ	Flash PMI – manufacturing	Jul	pts	51.5	-		52.0
14:30	US	Initial jobless claims	week	k	415	-		
16:00	US	Leading indicators	Jun	%	0.2	-		0.8
16:00	US	Philly Fed index	Jul	pts	5.0	-		-7.7
FRIDAY (22 July)								
10:00	DE	Ifo index	Jul	pts	113.8	-		114.5
11:00	EZ	New industrial orders	May	% MoM	0.6	-		0.7

Source: BZ WBK, Parkiet, Reuters

* in case of the revision, the data is updated

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