

# Eyeopener – Zloty resilient to global turmoil

5 August 2011

- **Deep correction in equity markets, risk aversion surges due to concerns about return of recession and spread of debt crisis**
- **ECB president declared continuation of bonds' purchase and higher liquidity, but did not calm markets**
- **Euro sharply weakening, frank appreciating, zloty relatively resilient to global turmoil**
- **Today, industrial output data in Germany, crucial non-farm payrolls report in the US**

The market sentiment was quite good at the beginning of Thursday's session, as it was supported by the decisions of Swiss and Japanese central banks to intervene on the FX market. The intervention of Bank of Japan has caused a major strengthening of the dollar and a weakening of yen, which however began to trim its losses in the later part of the day. The European stocks markets started the day with gains, as the investors were purchasing stocks at discount prices after previous drops. The sentiment was also supported by good data from Germany on the industrial orders. However, soon the market was prevailed by the concerns about euro zone peripheries and deteriorating outlook for global economy. The reception of Spanish bonds auction proved to be mixed. Even though Spain has sold securities worth €3.3bn (which some viewed as a limited success), the yields were higher and the demand-to-supply ration was lower than previously. The stock indices in the USA gained at the start of the session, supported by good companies' results (Kraft Foods and General Motors), but later on the panic accrued with every hour and all the major bourses recorded substantial losses – the main indices in Europe, in the USA and this morning in Asia, ended the sessions in negative territory with ca. 3-5% losses.

In line with expectations, the European Central Bank has kept the interest rates on hold. During the post-meeting press conference Jean-Claude Trichet reiterated the wording from the previous month, saying that the monetary policy is accommodative and the ECB will monitor very closely the developing risks. This leaves door open for further monetary tightening, but the market expectations about the interest rates hikes in the euro zone have decreased substantially due to deteriorating assessment of outlook for global growth. Trichet stated during the conference that a government bond purchase programme is ongoing, however he did not comment if the ECB will buy Italian bonds, which was disappointing for some market participants. According to unofficial information, the bank purchased on Thursday Portuguese and Irish securities. The ECB Governor declared that he will provide the banks with as much liquidity as they will need, in order to stop the spread of the crisis in the euro zone. Nevertheless, those news did not manage to halt the quickly spreading panic on the market.

The euro was weakening throughout the day after earlier rebound due to interventions of central banks of Switzerland and Japan.

EURUSD slid all the day, to the daily minimum at 1.4115 and overnight deepened this drop to 1.406. The Swiss franc strengthened again (EURCHF 1.074). Today, early in the morning, after news about renewed interventions of Bank of Japan, and statements of SNB's Governor about readiness to act in the market, a slight and temporary rebound occurred. At the start of domestic session the EURUSD rate amounted to 1.41, EURCHF to ca. 1.08. Nevertheless, the risk aversion is still predominating and puts a pressure on the rates. Until the release of non-farm payrolls in the USA, the EURUSD rate can stay close to 1.41. Another negative surprise from the data can bolster the panic and the sell-off, but otherwise it can calm the concerns as fears of recession in the USA will abate.

The Polish zloty has been quite immune to rising global risk aversion globally, as after the initial rise of the EURPLN rate to 4.043, it went back to 4.026 in the afternoon. Another wave of global pessimism overnight brought the zloty to higher levels at ca. 4.04, but in our opinion this should not be treated as significant weakening given the scale of sell-off in equities and the move in VIX. We expect the EURPLN to stay in range 4.02-4.045.

Bond prices did not change much, only bonds in five-year segment slightly weakened. The Polish Treasury papers has not been so far affected by global risk aversion due to still observed imbalance between demand and supply of papers on the market and relatively good fundamentals of the Polish economy as compared to other countries.

Core bond markets showed moderate rise in yields at the beginning of the session due to some improvement in moods, which was driven by interventions of central banks. However, late during the day yields were in stable downward trend due to surge in risk aversion. At the end of the day yields of ten-year Bunds and Treasuries were at 2.31% at 2.51% and after further panic in markets overnight they reached new lows of 2.28% and 2.35%.

According to data from Samar, the number of cars registered in July dropped by 5.3%MoM. This is a slightly smaller drop than we expected, which invigorated us to raise out forecast of retail sales to 9.8% from 9.6%YoY. Additionally, under influence of better-than-expected PMI reading, we have revised our forecast of industrial output from 0.8% to 2.2%YoY.

The Ministry of Economy lowered its GDP growth forecast for 2011 from 4.2% to 4.0%. The decline of yearly pace of GDP growth has been attributed by the Ministry analysts to the weaker growth of individual consumption (correction to 3.3 from 3.8%YoY), while the expected growth in investment and contribution of net exports improved.

According to Labour Ministry, the registered unemployment rate fell in July to 11.7%, from 11.8% in June. Our forecast is much lower, at 11.5%.

## ECONOMIC ANALYSIS

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F/X rates (today's opening)

EURUSD	1.4078	CADPLN	2.9253
USDPLN	2.8718	DKKPLN	0.5427
EURPLN	4.0427	NOKPLN	0.5189
CHFPLN	3.7529	SEKPLN	0.4382
JPYPLN*	3.6543	CZKPLN	0.1665
GBPPLN	4.6689	HUFPLN*	1.4763

\*for 100JPY/100HUF

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.0173	4.0420	4.0239	4.0273	4.0278
USDPLN	2.8030	2.8562	2.8105	2.8448	2.8237
EURUSD	1.4110	1.4331	1.4311	1.4160	-

T-bonds

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
OK0713 (2Y)	4.55	0	9.06	4.848
PS0416 (5Y)	5.17	3	18.05	5.614
DS1020 (10Y)	5.69	-2	12.01	6.215

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	4.91	-1	0.45	1	1.85	0
2L	4.93	-2	0.58	1	1.82	1
3L	4.98	-2	0.79	0	2.01	0
4L	5.03	-2	1.15	5	2.23	3
5L	5.07	-3	1.50	5	2.45	1
8L	5.13	-3	2.37	5	2.90	2
10L	5.13	-2	2.73	5	3.11	2

WIBOR rates

TERM	%	Daily change (bp)
O/N	4.44	-2
T/N	4.50	-2
SW	4.55	-1
2W	4.56	-1
1M	4.62	1
3M	4.72	1
6M	4.82	0
9M	4.85	1
1Y	4.87	0

FRA rates (Mid)

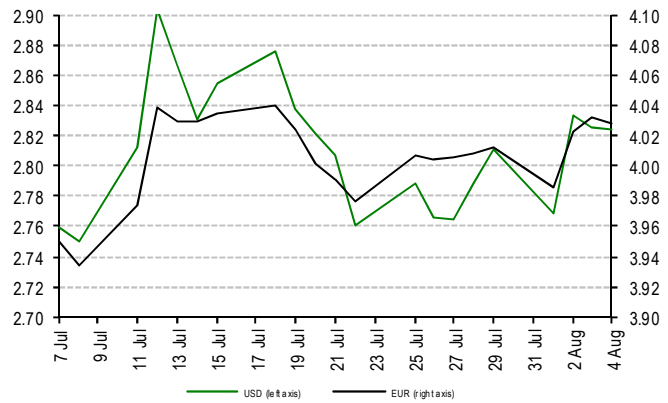
TERM	%	Daily change (bp)
1x2	4.67	1
1x4	4.75	0
3x6	4.82	-1
6x9	4.88	0
9x12	4.89	-1
3x9	4.88	-1
6X12	4.92	-2

Measures of fiscal risk

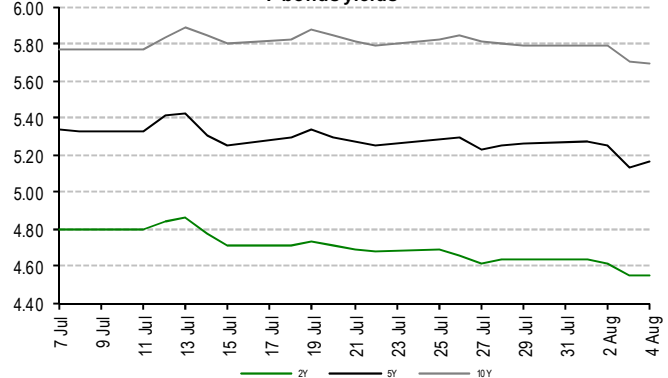
Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	176.4	9	3.36	7
Czech Republic	98.8	2	1.17	0
Hungary	332.1	17	5.47	8
Greece	1905.9	15	13.08	33
Spain	416.7	18	3.89	8
Italy	364.0	10	3.84	20
Portugal	1045.8	4	9.18	7
Ireland	902.0	11	8.30	-2
Germany	66.1	1	--	--

\* 10Y treasury bonds over 10Y Bunds

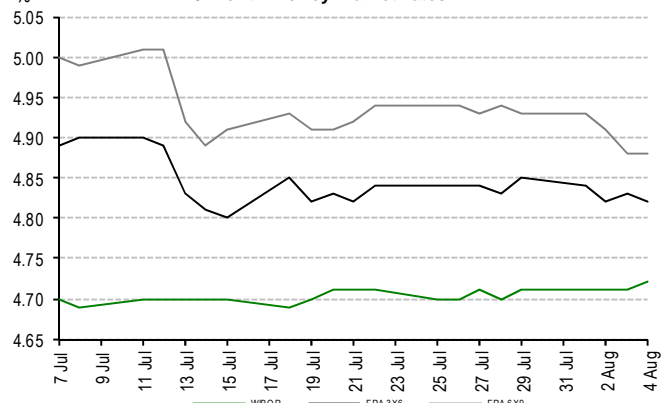
Zloty exchange rate (fixing)



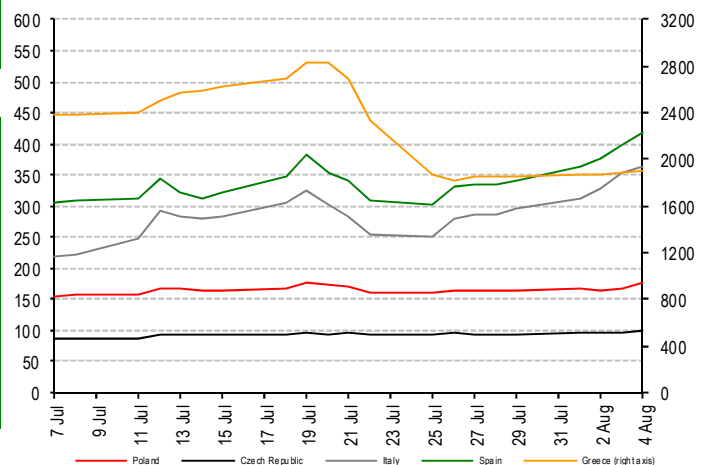
T-bonds yields



3-month money market rates



CDS 5Y



Source: Reuters

## Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD	FORECAST			LAST VALUE	
				MARKET	BZWBK			
		MONDAY (1 August)						
4:30	CN	PMI – manufacturing	Jul	pts	-	-	49.3	50.1
9:00	PL	PMI – manufacturing	Jul	pts	50.5	50.5	52.9	51.2
9:53	DE	PMI – manufacturing	Jul	pts	52.1	-	52.0	54.6
9:58	EZ	PMI – manufacturing	Jul	pts	50.4	-	50.4	52.0
16:00	US	ISM – manufacturing	Jul	pts	55.5	-	50.9	55.3
		TUESDAY (2 August)						
11:00	EZ	PPI	Jun	%YoY	5.9	-	5.9	6.2
14:30	US	Consumer spending	Jun	%MoM	0.2	-	-0.2	0.1
14:30	US	Personal income	Jun	%MoM	0.2	-	0.1	0.2
14:30	US	Core PCE	Jun	%MoM	0.2	-	0.1	0.2
		WEDNESDAY (3 August)						
9:58	EZ	PMI – services	Jul	pts	51.4	-	51.6	53.7
11:00	PL	Bond switching auction						
11:00	EZ	Retail sales	Jun	%YoY	-1.0	-	-0.4	-2.3
14:15	US	ADP Report	Jul	k	100	-	114	145
16:00	US	Industrial orders	Jun	%MoM	-0.7	-	-0.8	0.6
16:00	US	ISM – services	Jul	pts	53.6	-	52.7	53.3
		THURSDAY (4 August)						
12:00	DE	Industrial orders	Jun	%MoM	-0.5	-	1.8	1.5
13:00	GB	BoE decision		%	0.50	-	0.50	0.50
13:45	EZ	EBC decision		%	1.50	-	1.50	1.50
14:30	US	Initial jobless claims	week	k	405	-	400	401
		FRIDAY (5 August)						
12:00	DE	Industrial output	Jun	%MoM	0.1	-		1.2
14:30	US	Non-farm payrolls	Jun	k	85	-		18
14:30	US	Unemployment rate	Jun	%	9.2	-		9.2

Source: BZ WBK, Parkiet, Reuters

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

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