Bank Zachodni WBK

Eyeopener – Markets nervous after S&P decision

8 August 2011

- **S&P downgraded US Treasury debt, which caused higher risk aversion with sell-off in equities, moderate weakening of the US dollar and higher EURPLN**
- **Market reaction may be limited by weekend statements of the ECB and G7 on possibility of interventions in foreign exchange and bond markets**
- **Positive data on US non-farm payrolls brought positive sentiment only for a while**
- **Polish long-term bonds weakened on Friday**

The situation on the financial markets was nervous before the weekend and Monday's trade started under impact of S&P's decision to downgrade the US rating. In Asia the stock indices recorded considerable losses and the same is probably going to happen in other parts of the world. Additionally, the yields of US Treasuries are higher, the dollar is weaker and the risk aversion is increasing, which affects the zloty. The weekend's statements of the ECB and G7, regarding the possibility of intervention on the FX and bond markets, can cap the scale of market's reaction.

The Friday's session, after panic-struck sell-off on bourses and rise in risk aversion, also started in nervous moods. The market was awaiting the important data on US labour market in July. The drops of equities' prices on most stock markets continued, although with time they have lost momentum. A slight rebound was visible on the FX markets and on the core debt markets. The data on US non-farm payrolls proved to be much better than expected, which improved the market sentiment. However, it turned out that this was only a temporary wave of optimism and the sentiment deteriorated before the close of the European session. The yields of Italian bonds rose above the Spanish yields' for the first time in over a year, due to growing fears that Italy may not be able to avoid insolvency. The main stock indices, which began the day in black, soon entered the negative territory again.

The EURUSD rate climbed for the better part of Friday's session, initially supported by the overnight intervention of Bank of Japan, the announcement of the Swiss National Bank that it is going to intervene and later in the day by the better-than-expected US labour market figures. The rise in risk aversion at the end of the day failed to revert this tendency. At the end of Friday, EURUSD was slightly above 1.42 as compared to 1.41 in the morning. This morning we see a further increase of EURUSD rate, to 1.434 (the rate was even above 1.44 during Asian trade hours). In our view the current support lays at 1.428, support is 1.445.

The zloty was depreciating in the first part of the session amid expectations for US data, the EURPLN broke 4.05 early in the afternoon. Improvement of market sentiment after payrolls data dragged the exchange rate temporarily below 4.03, but as risk aversion returned on the market the domestic currency depreciated again. The EURPLN ended the day at ca. 4.04 while CHFPLN surged to all time high at 3.76. At today's opening EURPLN again increased above 4.05. All in all, despite obvious signs of panic persisting on the global market the last week's depreciation of the zloty was rather moderate. In the weekly report sent on Friday we wrote that until market sentiment stabilises, the EURPLN may stay in the range of 4.00-4.04. While the upper end of this range was already broken today and as a consequence of S&P decision and EURPLN approached to 4.07, it moved back then to below 4.04. Volatility if likely to stay high not only today, but probably for the whole week. From the technical point of view, we see next support for EURPLN at 4.00-4.02. The level of 4.07 is currently the first resistance, and the next one is at 4.10.

On the domestic fixed income market we saw some correction in the 5-10Y segment as Polish bonds followed changes of Bunds. Short end gained slightly. In coming days investors will surely focus on results of Wednesday's bond auction and Friday's data on CPI.

On the core fixed income markets, after Thursday's overnight strengthening, there was some profit taking observed as investors awaited payrolls data. The publication triggered further weakening. Yields of the 10Y Bunds and Treasuries advanced from morning lows at 2.24% and 2.34% to 2.37% and 2.47% respectively at the end of the day. The decision of S&P on US debt rating strengthened upward trend of yields of 10Y US bonds and they were at 2.53% today in the morning.

In face of serious turmoil on the financial markets, the investors' attention this week will be focused on the actions of central banks. If risk aversion rises again to very high levels, it seems likely that the major central banks may undertake coordinated actions in order to scale down the panic and to stabilise the situation. Crucial will be the Fed meeting, which ends on Tuesday, as market players will seek any suggestions about another round of quantitative easing in the USA. The market will take under scrutiny the ECB actions about the euro zone bonds purchase programme – information about buying Italian or Spanish bonds could contribute to stabilisation of moods considerably. A bunch of data from China and the USA will also deliver hints, if the concerns about severe slowdown of global economy were justified. In face of panic in the global markets, the events and data from abroad will be the key market movers this week and Polish data may have limited impact. Nevertheless, we expect a considerable (larger than the market) C/A deficit in June, which in higher risk aversion environment can have an adverse impact on the zloty. Inflation data should be neutral, unless the figure surprises considerably.

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
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	1.4363	CADPLN	2.8739
USDPLN	2.8212	DKKPLN	0.5440
EURPLN	4.0513	NOKPLN	0.5155
CHFPLN	3.7350	SEKPLN	0.4372
JPYPLN*	3.6255	CZKPLN	0.1672
GBPPLN	4.6385	HUFPLN*	1.4744

*for 100JPY/100HUF

Financial market review - 05.08.2011

The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.0230	4.0517	4.0427	4.0415	4.0423
USDPLN	2.8260	2.8725	2.8718	2.8480	2.8572
EURUSD	1.4071	1.4231	1.4078	1.4193	-

T-bonds

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
OK0713 (2Y)	4.52	-3	9.06	4.848
PS0416 (5Y)	5.21	5	18.05	5.614
DS1020 (10Y	5.72	3	12.01	6.215

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	4.89	-2	0.40	-18	1.67	-5
2L	4.91	-2	0.51	-20	1.62	-7
3L	4.97	-1	0.72	-25	1.76	-7
4L	5.02	-1	1.03	-16	2.07	-12
5L	5.08	1	1.37	-17	2.28	-13
8L	5.14	1	2.18	-15	2.75	-19
10L	5.16	3	2.54	-13	2.97	-19

WIBOR rates

TERM	%	Daily change (bp)
O/N	4.50	6
T/N	4.52	2
SW	4.56	1
2W	4.57	1
1M	4.62	0
3M	4.71	-1
6M	4.82	0
9M	4.85	0
1Y	4.87	0

FRA rates (Mid)

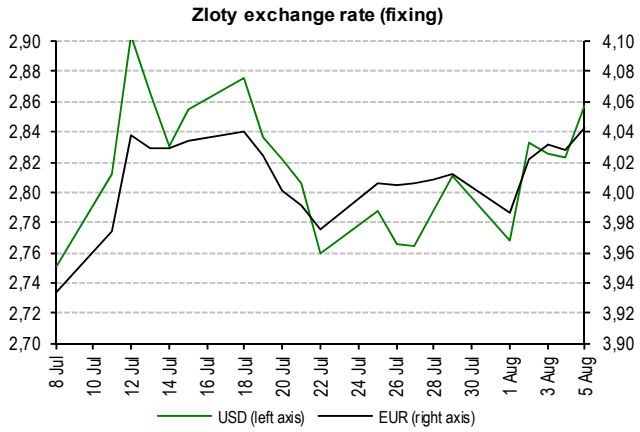
TERM	%	Daily change (bp)
1x2	4.64	-3
1x4	4.72	-3
3x6	4.79	-3
6x9	4.83	-5
9x12	4.84	-5
3x9	4.85	-3
6X12	4.91	-1

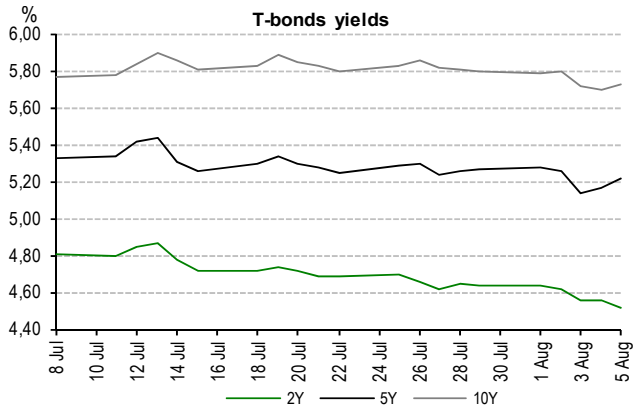
Measures of fiscal risk

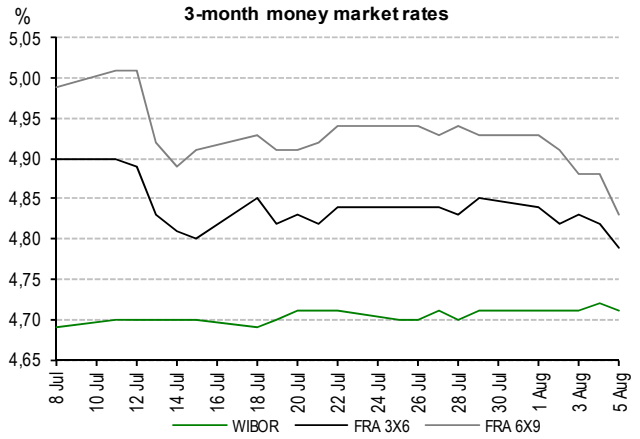
Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	192.5	16	3.33	-2
Czech Republic	102.4	4	1.09	-8
Hungary	370.9	39	5.79	32
Greece	1916.6	11	13.04	-4
Spain	430.6	14	3.69	-20
Italy	383.8	20	3.78	-6
Portugal	1025.4	-20	8.70	-48
Ireland	896.0	-6	7.98	-32
Germany	69.5	3	--	--

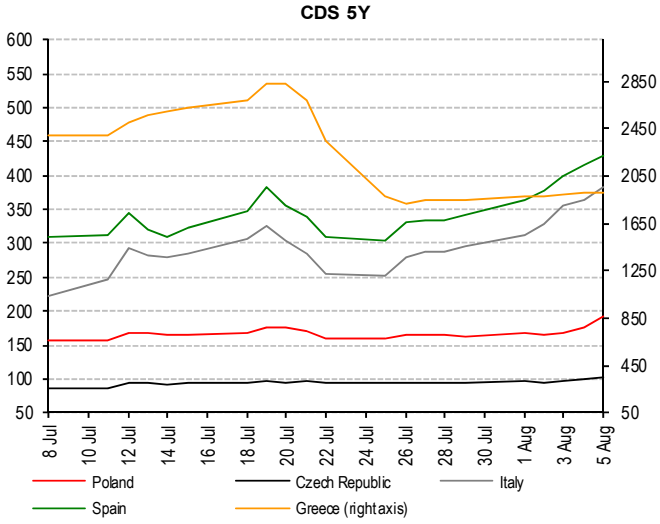
* 10Y treasury bonds over 10Y Bunds

Source: Reuters









Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST BZWBK	ACTUAL VALUE	LAST VALUE
		FRIDAY (5 August)						
12:00	DE	Industrial output	Jun	%MoM	0.1	-	-1.1	0.9
14:30	US	Non-farm payrolls	Jun	k	85	-	117	46
14:30	US	Unemployment rate	Jun	%	9.2	-	9.1	9.2
		MONDAY (8 August)						
10:30	EZ	Sentix index	Aug	pts	1.9	-		5.3
		TUESDAY (9 August)						
3:30	CN	CPI	Jul	%YoY	6.3	-		6.4
3:30	CN	Industrial output	Jul	%YoY	14.6	-		15.1
8:00	DE	Exports	Jun	%MoM	-1.5	-		4.3
14:30	US	Preliminary labor productivity	Q2	%QoQ	-0.9	-		1.8
20:15	US	Fed decision		%	0-0.25	-		0-0.25
		WEDNESDAY (10 August)						
4:00	CN	Trade balance	Jul	$bn	27.5	-		22.3
11:00	**PL**	**OK0713 / PS0476 bonds auction**						
16:00	US	Wholesale inventories	Jun	%MoM	1.0	-		1.8
		THURSDAY (11 August)						
14:00	**PL**	**Current account**	**Jun**	**€m**	**-1456**	**-1775**		**0.0**
14:00	**PL**	**Exports**	**Jun**	**€m**	**12036**	**11564**		**12157**
14:00	**PL**	**Imports**	**Jun**	**€m**	**12934**	**12480**		**13137**
14:30	US	Initial jobless claims	week	k	403	-		400
14:30	US	Trade balance	Jun	$bn	-48.0	-		-50.2
		FRIDAY (12 August)						
11:00	EZ	Industrial output	Jun	%YoY	4.4	-		4.0
14:00	**PL**	**CPI**	**Jul**	**%YoY**	**4.3**	**4.3**		**4.2**
14:00	**PL**	**Money supply**	**Jul**	**%YoY**	**7.5**	**7.2**		**7.1**
14:30	US	Retail sales excluding autos	Jul	%MoM	0.2	-		0.0
15:55	US	Flash Michigan index	Aug	pts	63.0	-		63.7

Source: BZ WBK, Parkiet, Reuters

* in case of the revision, the data is updated

This publication has been prepared by Bank Zachodni WBK S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Bank Zachodni WBK S.A.. its affiliates and any of its or their officers may be interested in any transactions. securities or commodities referred to herein. Bank Zachodni WBK S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Bank Zachodni WBK S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

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