

Eyeopener – EURPLN close to important level

9 August 2011

- **High risk aversion persists after S&P's decision, US stock markets sharply down, sell-off continued in Asia**
- **Zloty and local debt market weaker, CHFPLN at all-time high, euro weaker versus dollar**
- **Today, market will be awaiting Fed's statement**

In the previous week the markets were predominated by a wave of negative moods and at the beginning of Monday's session the risk aversion was still prevailing. The S&P's decision to downgrade USA, even though it was pre-announced and anticipated by the markets up to some extent, caused a further sell-off on the global bourses due to continuing rising risk aversion. The initial reaction of the markets was presumably limited by the weekend's statements of the G7 and ECB representatives, suggesting a possibility of intervention on the FX and FI markets, which diminished the risk of even more rapid sell-offs. It should be noted that the lack of trust in politicians' ability to solve the debt problems not necessarily quickly but at least sufficiently, both in the euro zone and in the USA, was the main factor causing a major uncertainty in the last days. This attributes to row over debt ceiling in the USA and lack of ability to make quick and accurate decisions in the euro zone. It seems quite interesting that on Thursday the ECB was ready to buy bonds of the euro zone countries, but only these, which have already been bailed out, while the S&P's decision about the US rating was sufficient to encourage the ECB to purchase the Italian and Spanish securities from Monday on, which led to a substantial drop of their yields. The paradox is that the S&P's decision provoked the reaction of the politicians, which has been anticipated by the market for a long time. That does not change the fact that the important decisions about the fiscal policy are still ahead, both in the euro zone and in the USA. Maybe the S&P's move will not only be a reason for higher activity of decision-makers when speaking about short-term stabilization of markets, but also for a development of facility aiming at solving the long-term and fundamental problems. Nevertheless, it is hardly imaginable in the near term, so we have to be prepared for elevated market volatility, and the "tense summer season" (as we entitled out July-August issue of MACROscope) will continue.

Overnight the sell-off on the stock markets continued and there were little signs of stabilisation, even if the magnitude of the losses of main indices in the Asia shrank at the end of the session to 3% from earlier 7% drop.

The markets are highly volatile right now and it is hard to say, where the current zloty weakening is likely to stop. The technical analysis suggests that if the rate does not break the resistance at 4.065-4.0717, then a drop to 4.00 over the upcoming weeks is possible. Nevertheless, we are in a very interesting moment, as this range is currently being tested due to sour global sentiment and the highest level witnessed overnight is almost 4.09. Hence, if the global sell-off will gather pace, the signals suggested by the technical analysis may not materialize. Today's session may be crucial and can set the direction of the trade for the upcoming weeks.

Interestingly, the greenback appreciated versus the euro after S&P downgraded US debt. Apparently, higher risk aversion was more important and triggered plunge of the EURUSD. Information on ECB buying Italian and Spanish bonds did not support the euro. At the end of the day the exchange rate was at 1.417. Demand for safe haven assets dragged EURCHF overnight to all time low at ca. 1.06. That momentum pushed CHFPLN to the highest level ever at ca. 3.85. After the overnight stabilization in the range of 1.416-1.425 today in the morning EURUSD is at 1.423. Fed's comment issued in the evening will be important for the market.

On the domestic debt market the short end was stable, but a distinct increase in risk aversion in global markets caused a significant growth in profitability in the middle and at the long end of the curve. Already at the start of the session it seemed unlikely that the words of Deputy Finance Minister Dominik Radziwiłł ("Reduction of US credit rating can have a positive impact on the perception of Poland by foreign investors") would be reflected in market reality. Also the statement of the Director of the Public Debt Department at the Ministry of Finance, Piotr Marczak, who said that "it is likely that by the end of the year sales at auctions we will not have to sell not only T-bills, but also 2-year bonds", had no effect on market. Marczak said that a new series of 2-year bonds, OK0114, which will be offered on Wednesday is supposed to "increase the flexibility in establishing the supply of Treasury securities this year in an uncertain external environment."

On core debt markets yields started the session above Friday's close, but in subsequent hours they were falling due to increased demand for safe assets, amid persisting concerns about the condition of the global economy. At the end of the day yields on 10-year Bunds and Treasuries amounted to respectively 2.36% and 2.44%.

ECONOMIC ANALYSIS

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F/X rates (today's opening)

EURUSD	14232	CADPLN	2.8827
USDPLN	2.8668	DKKPLN	0.5477
EURPLN	4.0812	NOKPLN	0.5242
CHFPLN	3.7961	SEKPLN	0.4433
JPYPLN*	3.7063	CZKPLN	0.1689
GBPPLN	4.6792	HUFPLN*	14804

*for 100JPY/100HUF

Financial market review - 08.08.2011

The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.0317	4.0650	4.0513	4.0595	4.0546
USDPLN	2.7966	2.8695	2.8212	2.8617	2.8287
EURUSD	14148	14401	14363	14187	-

T-bonds

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
OK0713 (2Y)	4.51	0	9.06	4.848
PS0416 (5Y)	5.28	6	18.05	5.614
DS1020 (10Y)	5.78	6	12.01	6.215

IRS rates (Mid)

TERM	PL	US	EA
	%	%	%
	Change (bp)	Change (bp)	Change (bp)
1L	4.89	0.39	1.68
2L	4.90	0.52	1.68
3L	4.96	0.79	1.90
4L	5.01	1.14	2.23
5L	5.07	1.51	2.50
8L	5.14	2.37	2.97
10L	5.15	2.70	3.18

WIBOR rates

TERM	%	Daily change (bp)
O/N	4.51	1
T/N	4.52	0
SW	4.55	-1
2W	4.57	0
1M	4.61	-1
3M	4.71	0
6M	4.82	0
9M	4.85	0
1Y	4.87	0

FRA rates (Mid)

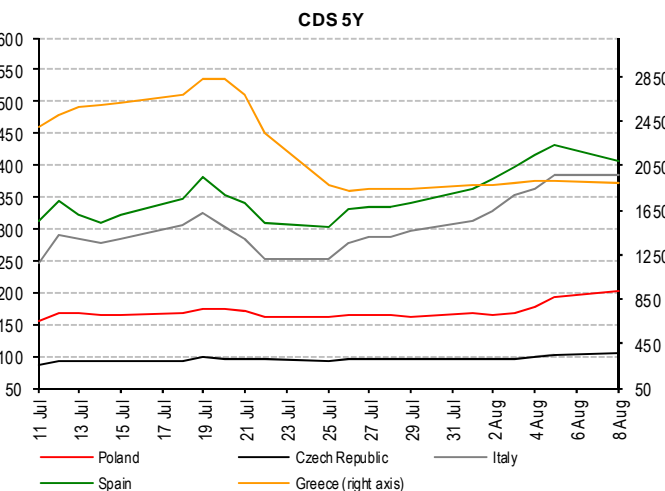
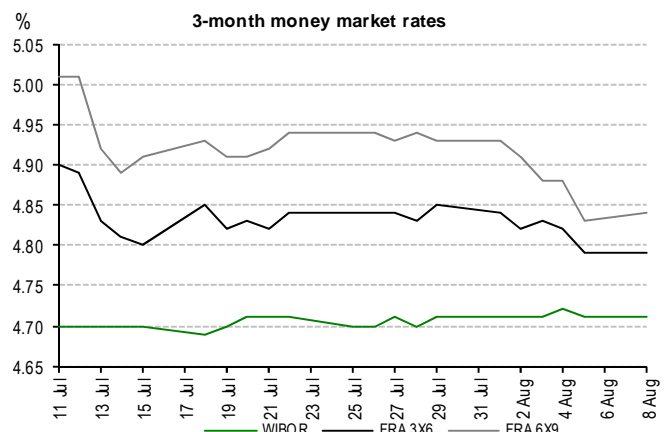
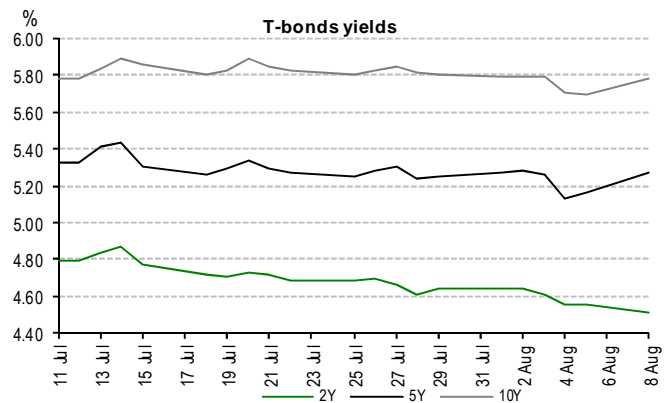
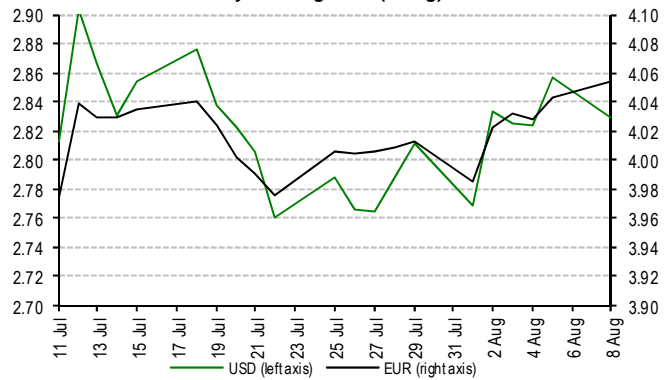
TERM	%	Daily change (bp)
1x2	4.63	-1
1x4	4.74	2
3x6	4.79	0
6x9	4.84	1
9x12	4.85	1
3x9	4.83	-2
6x12	4.87	-4

Measures of fiscal risk

Country	CDS 5Y	Spread 10Y*
	Value	Value
	Change (bp)	Change (bp)
Poland	2018	3.39
Czech Republic	106.1	1.07
Hungary	391.0	5.77
Greece	1891.7	12.91
Spain	408.1	2.83
Italy	385.7	2.92
Portugal	987.0	8.65
Ireland	832.5	7.87
Germany	71.6	-

* 10Y treasury bonds over 10Y Bunds

Zloty exchange rate (fixing)



Source: Reuters

Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE	
				MARKET	BZWBK			
		MONDAY (8 August)						
10:30	EZ	Sentix index	Aug	pts	1.9	-	-13.5	5.3
		TUESDAY (9 August)						
3:30	CN	CPI	Jul	%YoY	6.3	-	6.5	6.4
8:00	DE	Exports	Jun	%MoM	-1.5	-	-1.2	4.4
14:30	US	Preliminary labor productivity	Q2	%QoQ	-0.8	-		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 / OK0114 / PS0476 bonds auction worth PLN2-5bn						
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

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