Bank Zachodni WBK

Eyeopener – Important data from the US

29 August 2011

- **Fed statement disappointed, but negative market reaction was only temporary**
- **Large volatility in EURPLN and EURUSD, domestic debt market stable**
- **Today, important US data**

The beginning of Friday's session on the global market was predominated by expectations for Ben Bernanke's speech. The stock indices hovered around Thursday's close, the exchange rates also moved in horizontal trends. However, the sentiment deteriorated quickly, as an uncertainty about Fed president's speech emerged, and both stock markets and the euro corrected their earlier gains. The zloty, which stayed under pressure throughout the week, began weakening as well. Moreover, the Fins have confirmed that they will demand other euro zone countries' acceptance of the collateral negotiated with Greece. Also an unofficial information emerged that Greece may not reach its fiscal target for 2011. Today starts a review of situation in this country, led by the European Commission and the IMF. The results of this review will determine if Greece will disburse the sixth tranche of the first bailout. The Friday's US data on GDP growth in Q2 have shown a greater downward revision than the market had expected. The positive contributions of inventories and net exports were revised down, while the consumption was revised upwards. The reading did not affect the market, which was focused on the Jackson Hole conference.

Ben Bernanke said that the Fed is prepared to employ its tools as appropriate to promote a stronger economic activity. Bernanke highlighted that the recovery from the crisis has been much less robust than the Fed had hoped. He stated that the September FOMC meeting has been scheduled for two days instead of one, to allow a fuller discussion about the range of tools which can be used the support the GDP growth. As we had written in our Friday's daily report, it was hard to expect that Bernanke will declare concrete tools aiming at stimulating the US economy, but the investors were initially disappointed about lack of clear declarations about launch of quantitative easing. The stock indices and EURUSD plummeted in the first reaction to Fed president's speech, but later managed to pare their losses and ended the day with moderate gains, similarly as this morning the bourses in Asia. After initial disappointment, some analysts pointed that an announcement of two-day Fed meeting in September and a declaration that the bank will do all it can to support the economy, imply chances for more monetary easing in the foreseeable future. Other analysts have highlighted the Bernanke's suggestion that the US economic situation will improve in H2, which invigorated the investors to buy discounted stocks.

EURUSD was hovering in the range 1.442-1.445. The situation was stable as market participants were awaiting for the speech of Fed's president. The closer it was to the Bernanke's speech, the more fluctuations occurred. Initially, the rate has dropped to 1.439, then it grew to 1.444 just before the beginning of the speech. Shortly after the release of the Bernanke's statement, currency declined to 1.439 and then rebounded above 1.44. Then, EURUSD reached daily minimum of 1.4327. At the end of the session the rate grew back to 1.44. After the rise during the session in Asia today in the morning the EURUSD amounts to 1.454. We suppose that it could reach the resistance at around 1.46 thanks to hopes for nearing QE3. The data from the US may have significant impact on FX market.

EURPLN was stable at the beginning of the session. However, it was gradually declining along with worsening of the market sentiment. After the disappointment about the Bernanke's speech, EURPLN grew to 4.1795 from 4.17. Though, at the end of the domestic session currency decreased to 4.165 thanks to clear rebound of EURUSD. After the closing of the session EURPLN deepened the drop to around 4.15, but today early in the morning it was slightly above 4.16. The lack of the strengthening of the domestic currency despite improvement in market sentiment seems to confirm that for the market participants more important is the perspective of the slowdown in the global economy than short-term fluctuations in market moods. The EURPLN's support and the resistance for today may are 4.15 and 4.18, respectively.

On the domestic debt market yields did not change much, there was no reaction to Bernanke's comment.

On the core fixed income market yields were falling amid deteriorating market sentiment. After Bernanke's words higher volatility was observed, but without any specific direction. At the end of the day yields of the 10Y Bunds and Treasuries reached 2.13% and 2.16%, respectively.

This week also seems to be very interesting, especially in context of market's reaction to Bernanke's speech. We will see plenty of data releases, for a start very important data on situation of US consumers and later PMI, ISM for manufacturing as well as monthly data from the US labour market. These readings will determine market expectations as regards the scale of economic slowdown. At the same time, it cannot be excluded that the market will focus again on the euro zone debt problems, which would be a headwind for the zloty. We expect the EURPLN will remain above 4.14-4.15, expectations for slower growth in domestic and global economy will continue to put negative pressure on the domestic currency. The domestic GDP figures will only have a historic meaning, PMI release is of greater importance as it will deliver hints about the Q3 in the domestic economy.

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F/X rates (today's opening)

EURUSD	1.4538	CADPLN	2.9238
USDPLN	2.8620	DKKPLN	0.5584
EURPLN	4.1607	NOKPLN	0.5350
CHFPLN	3.5328	SEKPLN	0.4562
JPYPLN*	3.7301	CZKPLN	0.1729
GBPPLN	4.6883	HUFPLN*	1.5337

*for 100JPY/100HUF

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.1559	4.1795	4.1590	4.1715	4.1629
USDPLN	2.8762	2.9087	2.8834	2.9083	2.8836
EURUSD	1.4350	1.4455	1.4427	1.4360	-

T-bonds

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
OK0713 (2Y)	4.45	2	10.08	4.469
PS0416 (5Y)	5.09	1	10.08	5.256
DS1020 (10Y)	5.62	-2	12.01	6.215

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	4.64	-3	0.47	-7	1.58	0
2L	4.56	-1	0.51	-5	1.52	-1
3L	4.55	-1	0.68	-5	1.73	-1
4L	4.62	-2	0.97	-5	1.93	-2
5L	4.68	-3	1.30	-4	2.16	-1
8L	4.82	-3	2.07	-2	2.63	-4
10L	4.86	-4	2.40	-1	2.84	-4

WIBOR rates

TERM	%	Daily change (bp)
O/N	4.55	1
T/N	4.55	1
SW	4.55	0
2W	4.56	0
1M	4.61	0
3M	4.72	0
6M	4.85	0
9M	4.86	0
1Y	4.88	0

FRA rates (Mid)

TERM	%	Daily change (bp)
1x2	4.60	-1
1x4	4.70	1
3x6	4.67	0
6x9	4.52	-3
9x12	4.39	-4
3x9	4.79	1
6X12	4.63	2

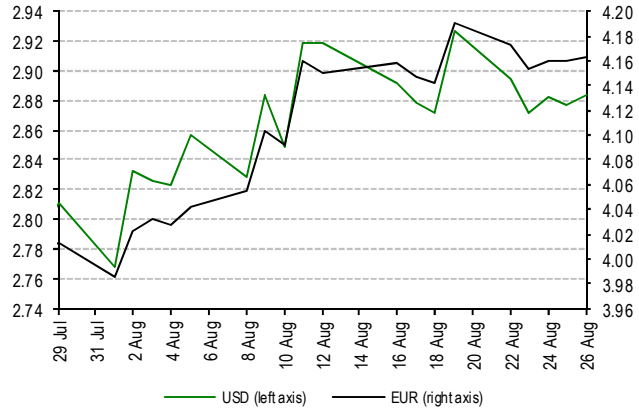
Measures of fiscal risk

Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	231.9	9	3.52	5
Czech Republic	114.8	-2	0.93	5
Hungary	432.5	2	5.42	11
Greece	2717.9	140	16.14	-1
Spain	372.1	-4	2.88	4
Italy	371.8	-2	2.93	6
Portugal	1096.9	15	9.10	2
Ireland	892.5	-1	6.74	-15
Germany	83.7	0	--	--

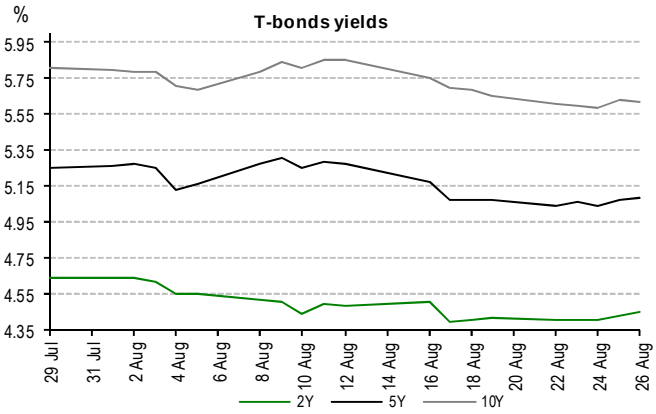
* 10Y treasury bonds over 10Y Bunds

Source: Reuters

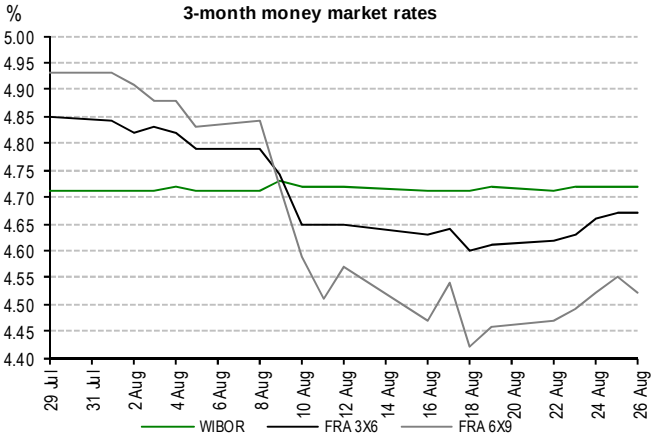
Zloty exchange rate (fixing)



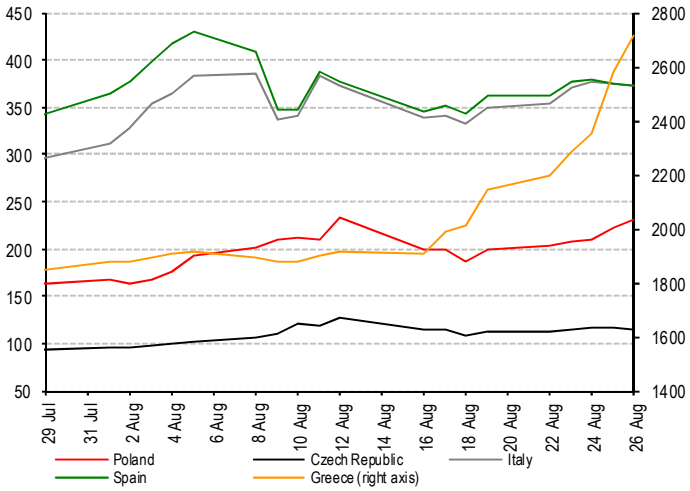
T-bonds yields



3-month money market rates



CDS 5Y



Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	BZWBK		
		FRIDAY (26 August)						
10:00	EZ	Money supply	Jul	%YoY	2.2	-	2.0	1.9
10:30	GB	GDP revision	Q2	%QoQ	0.2	-	0.2	0.5
14:30	US	Preliminary GDP	Q2	%QoQ	1.1	-	1.0	0.4
15:55	US	Michigan index	Aug	pts	56.0	-		63.7
		MONDAY (29 August)						
14:30	US	Consumer spending	Jul	%MoM		-		-0.2
14:30	US	Personal income	Jul	%MoM		-		0.1
14:30	US	Core PCE	Jul	%MoM		-		0.1
16:00	US	Pending home sales	Jul	k		-		90.9
		TUESDAY (30 August)						
11:00	EZ	Economic sentiment index	Aug	pts		-		103.2
14:00	**PL**	**GDP**	**Q2**	**%YoY**	**4.2**	**4.2**		**4.4**
15:00	US	S&P/Case-Shiller home price index	Jun	%MoM		-		0.0
16:00	US	Consumer confidence index	Aug	pts		-		59.5
20:00	US	Minutes Fed						
		WEDNESDAY (31 August)						
11:00	EZ	Flash HICP	Aug	%YoY		-		2.5
14:00	**PL**	**Inflation expectations**	**Aug**	**%YoY**	**-**	**-**		**4.7**
14:15	US	ADP raport	Aug	k		-		114
16:00	US	Industrial orders	Jul	%MoM		-		-0.8
		THURSDAY (1 September)						
3:00	CN	PMI – manufacturing	Aug	pts		-		49.3
9:00	**PL**	**PMI – manufacturing**	**Aug**	pts				**52.9**
9:53	DE	PMI – manufacturing	Aug	pts		-		52.0
9:58	EZ	PMI – manufacturing	Aug	pts		-		50.4
14:30	US	Initial jobless claims	week	k		-		417
16:00	US	ISM - manufacturing	Aug	pts		-		50.9
		FRIDAY (2 September)						
11:00	EZ	PPI	Jul	%YoY		-		5.9
14:30	US	Non-farm payrolls	Aug	K		-		117
14:30	US	Unemployment rate	Aug	%		-		9.1

Source: BZ WBK, Reuters

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

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