

Eyeopener – Deterioration of global sentiment

25 January 2010

- **The zloty correction continued, weakening in the debt market due to deterioration of global moods on plans to limit banks investment policy in the US and expectations of monetary policy tightening in China**
- **Today auction of T-Bills, US home sales data**
- **This week decision of the MPC, 2009 GDP data, public finance consolidation plan**

On Friday, the correction of the zloty against major currencies was continued due to continued negative sentiment around the world. In the international stock markets during the European session there was further weakening due to fears that plans by US President Barack Obama to constrain investment activity of banks may harm the sector's future financial performance. Negative impact on the appetite for risk was also connected with continuing concerns about monetary tightening in China. On the other hand, moods in the global markets were positively influenced by earnings reports for Q4 from General Electric, thanks to tax allowances and cost reductions (including through layoffs) and a rise in new orders. Earnings report from McDonalds was also positive for the market. After a slight strengthening of the zloty at the beginning of day, in the second part of the session EURPLN rate temporarily rose above 4.10 and USDPLN to 2.897, with a fairly stable exchange rate EURUSD near 1.413.

In the domestic debt market there was a weakening along with depreciation of the zloty and the negative information regarding debt markets abroad.

In the core debt markets, after a slight strengthening at the beginning of the day, in the later part of the session there was a correction amid profit-taking following earlier gains. As a result, at the end of yields of 10Y Treasuries and Bunds were at levels seen at the opening, i.e. 3.20% and 3.61%, respectively. Spread between yields of the 10Y Greek and German bonds rose to its highest level in 11 years (approximately 311bps) due to fears that the Greek government will have difficulty in selling bonds. The CDS rates for Greek debt rose to a record level of approximately 360bps.

The CSO business climate indicators for January were quite good (especially for industry) and recorded a slight increase on a monthly basis: in industry from -2 to 0, in construction to -15 from -16) and in trade to -5 from -6). The annual growth rates improved for industry (up 13) and in construction (up 3 to -13) and remained unchanged for services (-1).

The Energy Regulatory Office approved on Friday a 5% rise in prices of energy for distributing companies.

Friday's decline in stock markets was also continued today in Asia. This morning the zloty was close to Friday's close amid stable EURUSD rate. German consumer sentiment index GfK for January

published this morning fell fourth consecutive month to 3.2 due to fears about further rise in unemployment. At the end of the day, at 16:00 the data about US home sales in December will be published. The market expects a drop to 6.03 million units from 6.54 million in November. Today, financial results for Q4 will be published by Apple, Texas Instruments. The Ministry of Finance will offer at today's tender 52-week Treasury bills worth PLN1-1.3bn.

This week's key events in Poland will include the publication of GDP data for 2009 and the MPC meeting, while abroad the Fed meeting will be in focus. In the MPC meeting beginning today, some members of the new term will participate for the first time. There will be no changes in monetary policy this month, but comments of the new Council members after the meeting can be valuable guidance to the market on their views. This week, President Kaczynski should announce his three appointments to the MPC, which will give us a full picture of the new decision-making body. On Friday, the government will present the long-awaited plan for the development and fiscal consolidation. Most elements of the plan were pre-announced, so they should not surprise the market.

Crucial for assessment of Polish economy prospects will be GDP data for 2009 due on Thursday. Our forecast of 1.7% growth in the entire year draws on the assumption of over 3%YoY rise in the fourth quarter. Not only the level but also the structure of economic growth will be important. Data about retail sales and unemployment will remain overshadowed by GDP figures. We predict maintaining robust sales growth in December and a seasonal rise in registered unemployment rate. During the week a large number of data will be released abroad. Investors' attention will focus mainly on GDP and housing market data in the US. Also, financial reports of large American companies will have impact on market sentiment. By the end of the week the US Senate will vote on the nomination of Ben Bernanke for a second term as Fed governor.

It seems that the correction, which is triggered among others by concerns about the collapse of the economic recovery in the world can still take some time. Support for the zloty may be a good GDP data for 2009, but the key will be information from the US (macro data, companies' financial results, Fed statement), which will determine the changes in risk aversion. Negative for sentiment in the region are still fiscal problems of Greece. An important level of support for the zloty is 4.15.

Continuation of zloty depreciation increases changes for profit taking in the domestic bond market. Good GDP data should also support the rise in yields. Government's plan of development and fiscal consolidation should not affect the market. First of all, some solutions were already announced, secondly, the market realises that the road from plans to realisation may be long and bumpy.

ECONOMIC ANALYSIS

ul. Marszałkowska 142, 00-061
email: ekonomia@bzwbk.pl

Maciej Reluga (Chief Economist)
Piotr Bielski
Piotr Bujak
Cezary Chrapek

fax +48 022 586 83 40

Web site: <http://www.bzwbk.pl>

+48 (0) 22 586 83 63
+48 (0) 22 586 83 33
+48 (0) 22 586 83 41
+48 (0) 22 586 83 42

TREASURY SERVICES

Gdańsk
Kraków
Poznań
Warszawa
Wrocław

+48 (0) 58 326 2630-32
+48 (0) 12 424 9501-02
+48 (0) 61 856 5814/25
+48 (0) 22 586 8320
+48 (0) 71 370 2587

F/X rates (today's opening)

EURUSD	1.4148	CADPLN	2.7334
USDPLN	2.8857	DKKPLN	0.5483
EURPLN	4.0825	NOKPLN	0.4973
CHFPLN	2.7719	SEKPLN	0.3990
JPYPLN*	3.1962	CZKPLN	0.1565
GBPPLN	4.6559	HUFPLN	1.5041

Financial market review - 22 Jan 10
The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.0689	4.1076	4.0788	4.0904	4.0742
USDPLN	2.8745	2.9113	2.8855	2.8965	2.8785
EURUSD	1.4103	1.4161	1.4136	1.4128	-

T-bonds

TERM	Yield (%)	Change (bp)	Last auction	Average yield
2Y	5.00	1	13.01	5.052
5Y	5.62	3	2.12	5.778
10Y	6.11	4	20.01	6.046

IRS rates (Mid)

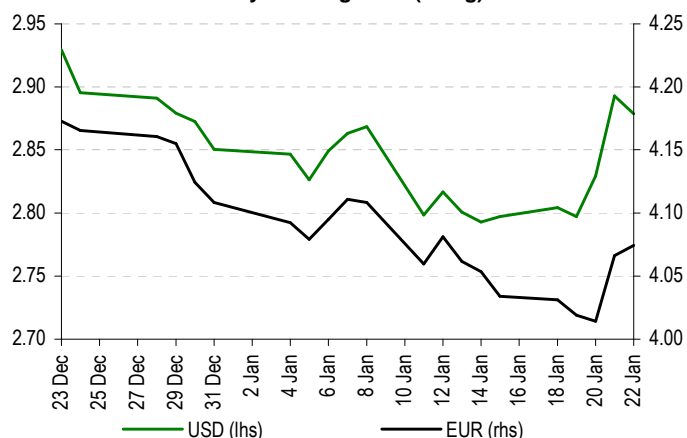
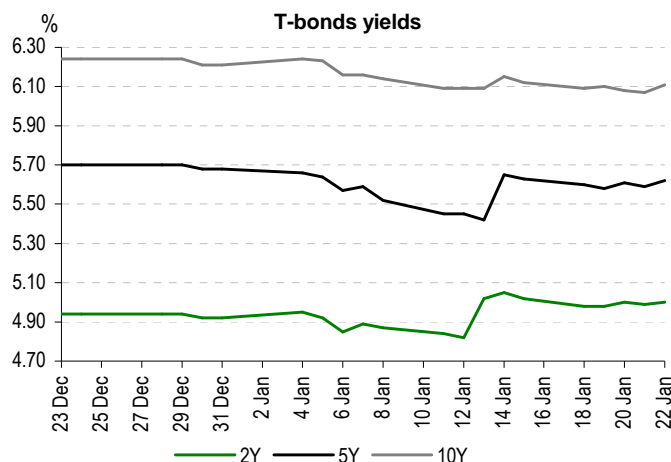
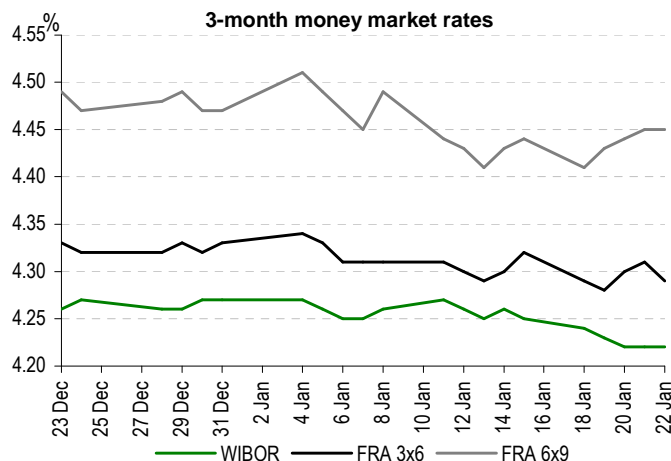
TERM	PL %	Change (bp)	US %	Change (bp)	EA %	Change (bp)
1Y	4.48	1	0.49	1	1.18	-1
2Y	5.00	3	1.11	0	1.65	1
3Y	5.28	3	1.72	1	2.04	2
4Y	5.45	2	2.23	0	2.35	2
5Y	5.55	2	2.65	1	2.61	2
8Y	5.62	2	3.41	1	3.20	2
10Y	5.63	4	3.71	2	3.44	2

WIBOR rates

TERM	%	Daily change (bp)
O/N	2.96	7
T/N	3.01	8
SW	3.26	2
2W	3.36	0
1M	3.62	0
3M	4.22	0
6M	4.34	0
9M	4.44	-1
1Y	4.51	0

FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	3.63	0
3X6	4.29	-2
6X9	4.45	0
9X12	4.71	3
3X9	4.44	0
6X12	4.66	1

Zloty exchange rate (fixing)

T-bonds yields

3-month money market rates


* for 100 JPY

Source: Reuters

This publication has been prepared by Bank Zachodni WBK S.A. (a member of AIB Group) 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 or an AIB Group 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>



Bank Zachodni WBK is a member of Allied Irish Banks Group