

Eyeopener – Further improvement in market moods

15 December 2010

- **Further improvement in market sentiment thanks to strong data from Germany and the US, but optimism constrained by decisions of rating agencies**
- **Surprising drop in domestic CPI inflation in November**
- **Zloty strong with large moves in EURUSD**
- **Today locally switch auction of bonds while globally focus on important data from the US**

Market sentiment during Tuesday's session was quite positive. Major stock indices in Europe rose, EURUSD advanced during the European session and the zloty appreciated slightly. The positive market sentiment was fuelled among others by better than expected data on German ZEW expectations index, which increased in December to the highest level since August 2010. Smaller than expected rise of the current situation index and lower than expected growth of industrial output in the euro zone did not manage to deteriorate market sentiment. Later in the day the S&P agency announced that the Belgian rating remains unchanged, but its outlook is changed to "negative" from "stable" due to uncertain political situation in that country. That information also did not influence the market. In the afternoon better than expected data emerged in the US, where retail sales excluding autos increased in November by 1.2%MoM, the most since March 2010. The positive market sentiment persisted until the end of the day and investors awaited Fed's decision.

In the statement after the last meeting this year, the Fed said that the economic rebound is still too slow to reduce unemployment, and repeated that until the end of the first half of 2011 it plans buying bonds worth \$600bn. Interest rates remained unchanged, as widely expected. In response to the outcome of the Fed meeting, the US bond yields rose and the stock market began erasing earlier gains. Some investors felt a bit disappointed that the Fed's assessment of the US economic situation is not as favourable as recent market participants' view, after a series of good economic data. The major equity indexes in the US closed the day slightly above zero. Today in Asia, moderate declines were prevailing. This morning at the start of the European session, sentiment may be negatively affected by a decision by Moody's to place Spain on the watch list with possible rating downgrade. Moody's pointed out, however, that in its opinion the situation of Spain is much better than that of other euro zone countries with debt problems and therefore a potential rating downgrade would not be significant.

The EURPLN declined in the first part of the yesterday's session, but gradually and not fast. After reaching 3.98 the downward trend was reversed and the exchange rate returned to ca. 3.99. Though the depreciation of the domestic currency occurred after publication of CPI data, it is hard to assess the impact of that event as the EURUSD downward move was initiated at the same time. Similar situation was seen on the USDPLN, which after drop to 2.95

returned to 2.98 at the end of the day. Today in the morning the EURPLN was at ca. 3.975 and we expect that concerns about debt problems of euro zone countries may start to play more important role. We expect the EURPLN will rise above 3.98.

The EURUSD continued the upward trend in the first part of the yesterday's session, but did not manage to reach 1.35. Already before start of the US session the dollar started to appreciate and at the end of the European trading hours declined below 1.34. Today in the morning, after overnight drop, the EURUSD was just above 1.33 and we see only slight potential for euro's appreciation.

On the domestic debt market trading began with the decline in yields, but already before the CPI data release there was a correction of this move. After the publication of CPI data, FRA and IRS rates declined and then stabilised until the end of the day. In case of bonds, a slight decline in yields that occurred after the CPI data, was erased later in the day. The scale of changes was small.

At the core debt markets yields were increasing amid persisting good sentiment in the global markets, although the volatility was low. At the end of the day yields on 10-year Bunds and Treasuries were 2.99% and 3.35%, respectively. This morning they were at 3.04% and 3.43%.

CPI inflation for November proved clearly surprising, falling to 2.7% from 2.8% in October while market consensus and our forecast pointed to a rise to 2.9%. Lower than expected level of current inflation may weaken central bankers' concerns about possible occurrence of the second round effects and thus decrease their willingness to deliver swift rate hikes. This confirms our prediction that the first interest rate hike will not take place before the end of this year. Please see more details on the data in our *Instant comment* released yesterday.

MPC member, Elżbieta Chojna-Duch, commenting the CPI data said that the interest rates will have to be increased if the core inflation accelerates (and presently is low), in 2011 the high pace of economic growth is maintained and there is no „surprise” from the peripheral euro zone countries. In her opinion, for the time being the risks for inflation are balanced.

Finance Minister Jacek Rostowski, said yesterday during the parliamentary debate that the 2011 budget is the first of three that are designed to consolidate public finances. He announced that next year the government deficit will fall by at least 1pp, similarly as in 2012 and 2013. He also noted that for “quite a few years” Poland will not join the euro zone.

According to data published yesterday by Samar, last month's production of cars in Poland fell by 20.4%YoY, while there was a monthly increase of 3.6%.

ECONOMIC ANALYSIS

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F/X rates (today's opening)

EURUSD	1.3317	CADPLN	2.9641
USDPLN	2.9865	DKKPLN	0.5337
EURPLN	3.9775	NOKPLN	0.5049
CHFPLN	3.0992	SEKPLN	0.4375
JPYPLN*	3.5617	CZKPLN	0.1582
GBPPLN	4.6994	HUFPLN*	1.4467

*for 100JPY/100HUF

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.9770	3.9987	3.9981	3.9916	3.9911
USDPLN	2.9505	2.9895	2.9815	2.9826	2.9708
EURUSD	1.3360	1.3498	1.3412	1.3385	-

T-bonds

TERM	Yield (%)	Change (bp)	Last auction	Average yield
2L	4.65	-2	1/12	4.595
5L	5.42	-2	13/10	5.137
10L	5.98	-1	17/11	5.456

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	4.41	-4	0.48	-1	1.41	-3
2L	4.84	-4	0.81	-2	1.71	-5
3L	5.12	-3	1.22	-4	2.01	-8
4L	5.29	-4	1.66	-5	2.29	-9
5L	5.42	-3	2.09	-5	2.55	-9
8L	5.58	-2	3.01	-3	3.08	6
10L	5.55	-5	3.37	-2	3.30	-5

WIBOR rates

TERM	%	Daily change (bp)
O/N	3.67	10
T/N	3.68	10
SW	3.52	3
2W	3.53	1
1M	3.65	1
3M	3.91	0
6M	4.14	0
9M	4.31	0
1Y	4.34	-1

FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	3.73	-2
3X6	4.25	-3
6X9	4.54	-3
9X12	4.74	-4
3X9	4.47	0
6X12	4.77	3

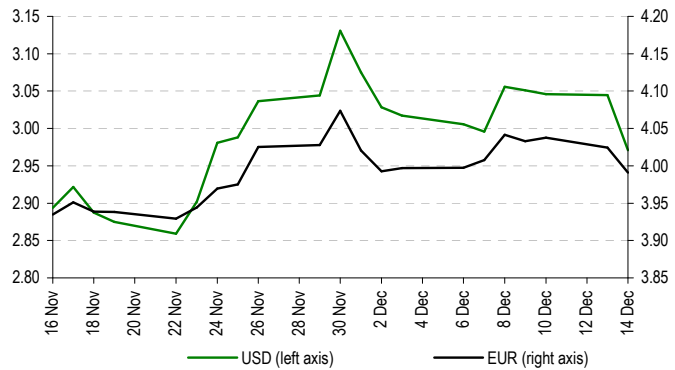
Measures of fiscal risk

Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	141.2	-3	2.99	-4
Czech Republic	89.8	1	0.94	-6
Hungary	382.5	-11	5.05	-8
Greece	952.7	-2	8.89	1
Spain	335.9	-5	2.55	3
Italy	210.7	-8	1.61	-2
Portugal	481.1	-21	3.48	3
Germany	53.8	0	--	--

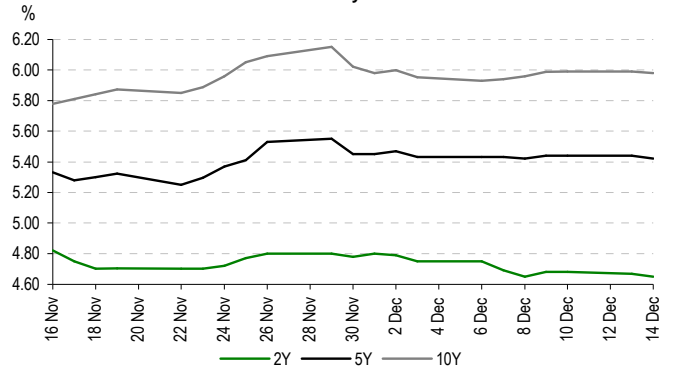
* 10Y treasury bonds over 10Y Bunds

Source: Reuters

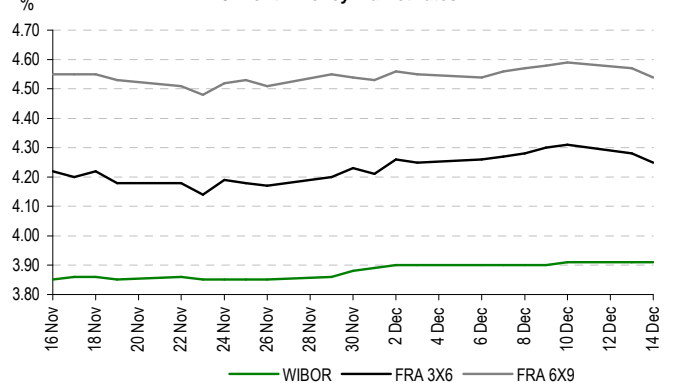
Zloty exchange rate (fixing)



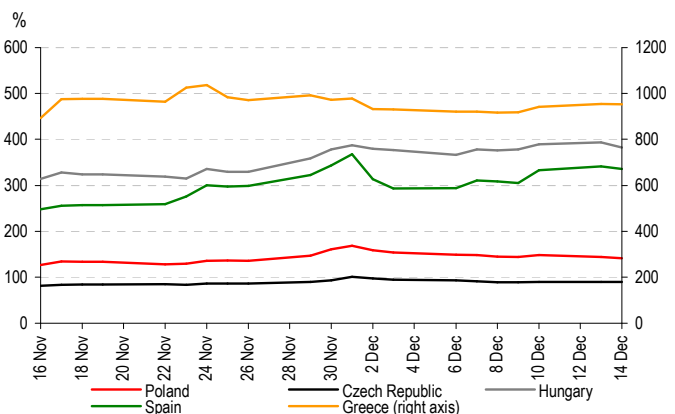
T-bonds yields



3-month money market rates



CDS 5Y



Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE *
					MARKET	BZWBK		
		MONDAY (13 December)						
14:00	PL	Current account	Oct	m€	-1153	-1055	-1155	-1417
14:00	PL	Exports	Oct	m€	11171	11170	11236	11258
14:00	PL	Imports	Oct	m€	11896	11975	11938	11790
		TUESDAY (14 December)						
11:00	DE	ZEW index	Dec	pts	4.0	-	4.3	1.8
11:00	EZ	Industrial output	Oct	%YoY	7.8	-	6.9	5.4
14:00	PL	CPI	Nov	%YoY	2.9	2.9	2.7	2.8
14:00	PL	Money supply	Nov	%YoY	8.8	8.7	9.0	6,3
14:30	US	Retail sales excluding autos	Nov	%MoM	0.6	-	1.2	0.8
20:15	US	Fed decision		%	0.25	-	0.25	0.25
WEDNESDAY (15 December)								
11:00	PL	Bond switching auction						
14:30	US	Core CPI	Nov	%MoM	0.1	-		0.0
14:30	US	NY Fed index	Dec	pts	5.0	-		-11.14
15:15	US	Industrial output	Nov	%MoM	0.3	-		0.0
15:15	US	Capacity utilization rate	Nov	%	75.0	-		74.8
THURSDAY (16 December)								
9:28	DE	Flash PMI – manufacturing	Dec	pts	58.1	-		58.1
9:58	EZ	Flash PMI – manufacturing	Dec	pts	55.3	-		55.3
14:00	PL	MPC minutes	Nov					
14:00	PL	Wages	Nov	%YoY	4.3	3.9		3.9
14:00	PL	Employment	Nov	%YoY	2.2	2.2		2.1
14:30	US	Initial jobless claims	week	k	425	-		421
14:30	US	Building permits	Nov	k	560	-		550
14:30	US	House starts	Nov	k	552	-		519
16:00	US	Philly Fed index	Dec	pts	15.0	-		22.5
FRIDAY (17 December)								
10:00	DE	Ifo index	Dec	pts	109.1	-		109.3
14:00	PL	Industrial output	Nov	%YoY	9.6	10.7		8.0
14:00	PL	Construction output	Nov	%YoY	10.2	12.6		9.4
14:00	PL	PPI	Nov	%YoY	4.4	4.5		4.0
16:00	US	Leading indicators	Nov	%MoM	1.0	-		0.5

Source: BZ WBK, Parkiet, Reuters

* in case of the revision, the data is updated

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