

# Eyeopener – PMI and FinMin's CPI forecast

4 May 2010

- Further recovery of bonds, slight zloty weakening
- €110bn package for Greece calmed moods, though uncertainties remained, euro weaker vs. the dollar
- Today PMI index, FinMin's CPI forecast for April, US data on factory orders and housing market

The zloty slightly weakened on Friday before the long weekend in Poland. EURPLN rate rose from 3.90 to ca. 3.92. In the European stock markets there was a slight weakening (in Poland major indices rose). Deterioration in market sentiment was driven by legal charges against Goldman Sachs (and related to that negative recommendation from Bank of America). The euro rebounded to the dollar during the day to 1.334 due to expected decision on the aid package for Greece, but towards the end of the day EURUSD lowered again, to 1.327. In the domestic debt rate market there was initially a rebound, but later in the session the debt price growth was stopped. At the end of the day yields of bonds were below the Thursday's close.

The Ministry of Finance said that after April 47% of this year's borrowing needs was already financed. Due to still high volatility in the global markets the ministry is going to be flexible when planning next debt issues, leaving some unsatisfied demand. The ministry announced that at auctions in May it will offer bonds worth PLN4-7.5bn and T-bills worth PLN2.1-4.2bn. Additionally, the BGK will offer bonds worth PLN1.5-3bn.

Preliminary data on the euro zone's inflation for April (rise of 1.5%YoY) published on Friday had no major impact on the market. Macro figures from the US were quite optimistic, positively affecting market sentiment. GDP data for Q1 were close to expectations showing 3.2%QoQ rise in annualised terms with acceleration in growth of consumption demand (the strongest rise in more than 3 years), which bodes well for prospects of further economic recovery given expected improvement in labour market conditions. The Michigan index of consumer confidence fell to 72.2pts in April from 73.6 in March against expected deeper drop to 71.0. In the core debt markets there was clear strengthening on Friday, despite strong macro figures from the US. However, the core debt market weakened on Monday along with lower demand for safe assets.

According to information from PAP and Reuters, at the preliminary stage of preparation of the 2011 budget, the FinMin assumed GDP growth of 3.5% and average inflation of 2.3%. The assumptions are very close to our forecasts.

On Sunday the eurogroup and the IMF reached an agreement on the aid package for Greece worth €110bn (€30bn from the IMF and €80bn from the eurogroup) for the next 3 years. Greece will have to introduce savings worth €30bn. The aid package has to be approved by all countries of the euro zone. Some countries will have to amend their budgets, which may take some time, although

according to tentative announcements the final approval for the package by all countries is possible already this week. The ECB decided to accept all the Greek bonds, regardless of their rating, as a collateral used by Greek banks. The announcement of the package over the weekend did not produce much optimism in the markets on Monday, as its shape was presented in the media in the late part of the previous week, leading to stabilisation in the markets. However, markets are still concerned about the process of transferring help to Greece and risk that next countries of the euro zone's might ask for help. The euro lost to the dollar to ca. 1.315 on Monday. The US currency was additionally supported by stronger than expected rise in the ISM manufacturing for April to 60.4pts, the highest level in nearly 6 years (against expected 60.0pts). The euro zone's PMI was a bit larger than expected and reached 57.6pts in April. Yesterday there was clear strengthening of the US stock market. The Asian markets were negatively affected today by disappointing drop in the Chinese PMI manufacturing for April.

In an interview with PAP, MPC's Zyta Gilowska said that currently there is no room neither for a rate hike nor a rate cut, but she added that we have ending of the loose fiscal and monetary policies in Poland. Gilowska also said that FX interventions of the NBP are aimed at limiting volatility in the zloty exchange rate. In turn, MPC's Adam Glapiński said that towards the end of the year, due to lags in the monetary transmission mechanism the MPC should consider one or two rate hikes. Glapiński would prefer one move of 50bps.

Poland's PMI manufacturing for April released today remained flat at 52.5 posted in March against expectations for a rise to 53.5. Although the result is disappointing, the index still remains well above the 50.0 threshold and thus confirm continuation of recovery in the manufacturing sector.

Today the Ministry of Finance will publish its inflation forecast for April. In our view it fell to 2.3%YoY. Median of market forecasts shows drop to 2.2%. Abroad at 11:00 CET PPI index will be released for the euro zone for March (expected increase by 0.9%YoY). At 16:00 CET we will know data on US factory orders in for March (expected increase by 0.3%MoM) and US pending home sales for March (expected increase by 3.3%MoM).

This week important data releases from the US (non-farm payrolls) and euro zone as well as the ECB meeting. The conference will most probably be dominated by questions regarding Greece. After the agreed support package for Greece from the EU and the IMF, the market moods should slightly improve, though it is hard to say how long it will last. We expect a recovery of the zloty below 3.90 vs. the euro, though the uncertainty regarding Greece may limit the scale of appreciation.

## 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	1.3172	CADPLN	2.9440
USDPLN	2.9841	DKKPLN	0.5281
EURPLN	3.9300	NOKPLN	0.5022
CHFPLN	2.7434	SEKPLN	0.4096
JPYPLN*	3.1451	CZKPLN	0.1538
GBPPLN	4.5435	HUFPLN	1.4549

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.8976	3.9179	3.8985	3.9292	3.9020
USDPLN	2.9303	2.9581	2.9400	2.9470	2.9305
EURUSD	1.3243	1.3339	1.3265	1.3295	-

T-bonds

TERM	Yield (%)	Change (bp)	Last auction	Average yield
2Y	4.50	-2	7.04	4.541
5Y	5.14	-1	21.04	4.987
10Y	5.59	-2	14.04	5.586

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1Y	4.01	0	0.68	1	1.17	2
2Y	4.52	3	1.22	-3	1.44	-1
3Y	4.80	1	1.77	-2	1.81	6
4Y	5.00	2	2.25	-3	2.07	1
5Y	5.13	2	2.65	-5	2.35	2
8Y	5.33	2	3.40	-3	2.95	3
10Y	5.38	1	3.68	-5	3.21	4

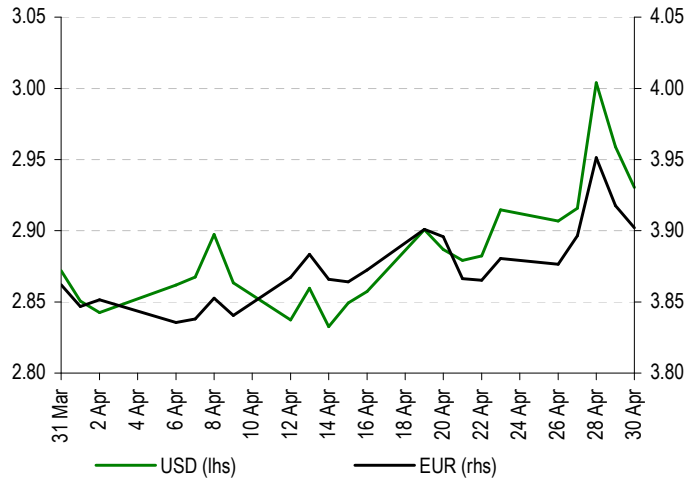
WIBOR rates

TERM	%	Daily change (bp)
O/N	3.31	101
T/N	3.33	15
SW	3.35	2
2W	3.41	0
1M	3.61	0
3M	3.86	0
6M	4.02	0
9M	4.18	0
1Y	4.26	0

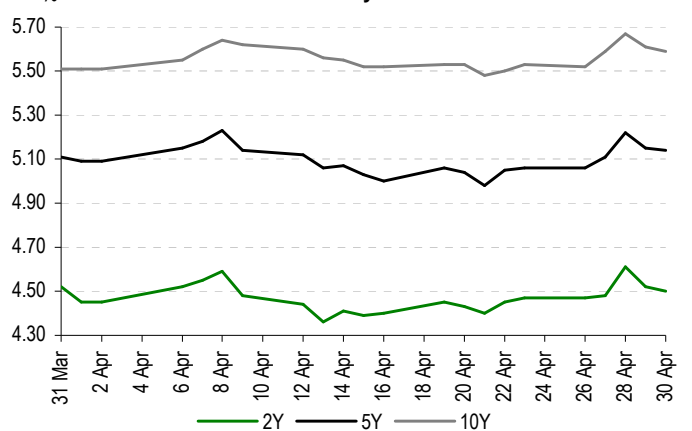
FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	3.61	3
3X6	3.83	1
6X9	3.98	1
9X12	4.21	-1
3X9	4.03	0
6X12	4.19	0

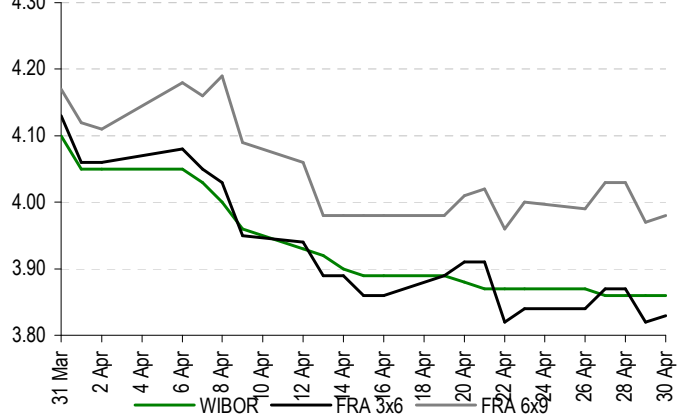
Zloty exchange rate (fixing)



T-bonds yields



3-month money market rates



\* for 100 JPY  
Source: Reuters

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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>

