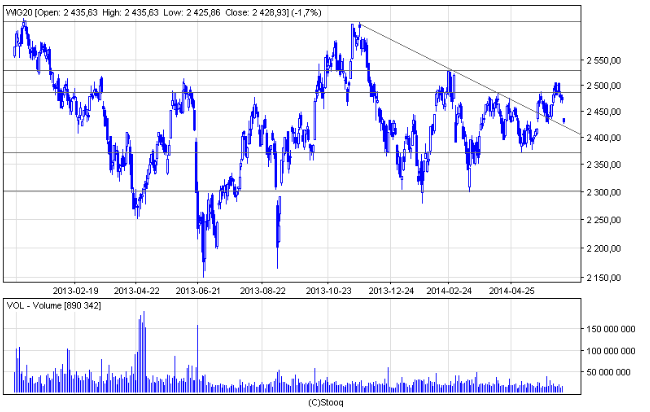
Summary

A week following the publication of data from the U.S. labor market and ECB meeting is usually a quiet week due to lack of macro data. This scenario came true also last week when volatility levels remained at lowest points in 7 years. Currency market was also less volatile with Eurodollar slowly declining towards the level of 1.35 that was established as minimum during the press conference after the ECB meeting on 5 June. Better industrial production in the euro zone and lower retail sales in the USA did not impact markets significantly. The most important and expected data - industrial production and retail sales in China were very close to expectations and did not increase volatility across markets.

In the U.S., drops in valuation were comparable to declines noted by major European indexes. The DJIA fell by 1%, and the S&P 500 by 0.7%. The DAX declined by as much as the S&P500. Slightly better Paris CAC40 dropped only by 0.3%. The largest sell-off on developed markets hit London, the FTSE250 fell by 2.6% despite good UK industrial production and reduction of unemployment rate. The reason for the FTSE250 drop is the statement of Mark Carney - Governor of the BoE - who signaled that interest rate hikes in UK could come sooner than expected by the market. Declines noticed last week across most of the stock markets were purely symbolic and do not negate the growth potential for indices this week. Especially since there are some important figures to be released: NY Empire State index, ZEW index of German CPI from the U.S. Fed index Philadelphia and the most important - decision FOMC regarding interest rate projections along with the Fed press conference.

Unfortunately polish stock exchange underperformed European and U.S. markets last week. The WIG20 recorded a 1.1% decline, the WIG250 dropped by 1.35% and the WIG50 slipped by 0.81%. While last week's WIG20 behavior did not negate the chance of re-entry 2500 points levels, weekend affair associated with secretly taped conversations between the President of National Bank of Poland Marek Belka and Interior Minister Bartlomiej Sienkiewicz limits the prospect of growth on the WSE. In terms of immediate impact on the markets, we think that ‘tape scandal’ will have negative impact for polish stock, bond and currency market but not in a major or sustained way. The companies that we consider as worth looking into are: Kernel and PGE. First one due to the positive sentiment for Ukrainian companies. Second stock, PGE, which is a defensive stock, performs better than market when positive sentiment fades.

Technical Analysis



Graph 1. WIG20 daily. *Source: stooq.pl*

Last week WIG20 failed to settle above 2,500 points and finished at 2,472 at cob Friday. Despite this drop, absence of further downward pressure accompanied with lower turnover looked promising to market. This enthusiasm faded over the weekend due to tape scandal involving the President of National Bank of Poland and Interior Minister. The WIG20 retreated 1.6% at Monday’s open. Before Monday’s midday WIG20 was testing the downtrend line at 2,420-25 points. Further declines would result in testing support at 2,371 points.

Graph 2. Kernel daily. *Source: stooq.pl*

We have picked Kernel as our ‘stock of the week’. Ukrainian leading diversified agribusiness company confirmed its strength after returning more than 8% last week. Kernel broke the resistance level at 32.5 PLN, reaching up to 35 PLN. Due to ‘tape scandal’ and bad sentiment on Polish Stock Exchange the stock is testing key support level at 32.5 PLN today. Further support for this uptrend line is at 29 PLN. The nearest resistance is at last week's high at 35 PLN, next one is at 40 PLN.

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