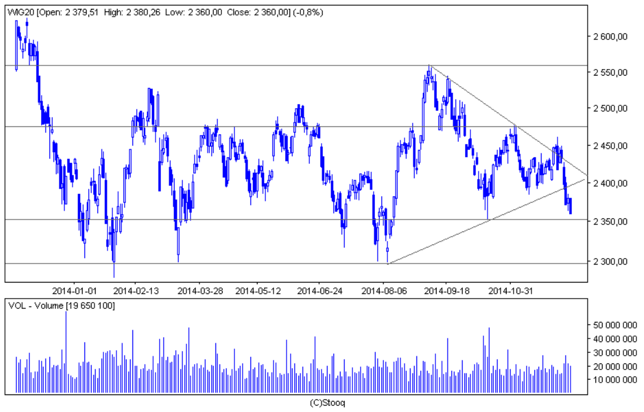
Summary

Last week was quite scary for investors across almost all global markets, losses were significant. In developed markets, especially Western Europe declines were almost violent. The DAX lost nearly 5%, and the CAC40 went down by as much as 7%. Investors in US lost less than this, however the S&P500 adjustment of 3.5% was also impressive. The downward move stopped at the support level of 2000 points and while it is unbroken, we can still talk only about the technical correction and the profit taking. In this group WSE looks quite good with losses of 2.6% noted by main WIG index. Blue chips lost as much as 3.2%, the WIG50 1.8%, and the WIG250 only 0.9%. Distribution of losses with the dominance of large companies confirms the global nature of the discounts. Unfortunately, it is confirmed that the WSE does not correlate with increases in the West, but it is not able to resist the falls.

You may also wonder what are the reason of the bearish attitude in the last week and it's hard to find a direct cause of declines. Yes, the impulse arrived from Chinese market, where correction was quite natural after a spectacular series of gains since November. Friday's data on industrial production and retail sales were already quite neutral, and earlier lower CPI is an argument for the advocates of further interest rate cuts by the PBOC. Perhaps investors started to play for the results of the Wednesday meeting of the FOMC. Rates would be kept unchanged, but the Fed's latest economic projections would be released. They can be good, and this, along with historical data, will justify tightening of Fed's tone. It is possible that a 'considerable time' sentence would be removed from Fed's rhetoric, but a specify time of first rate increases is still not certain. What is quite real are further declines in oil prices, especially if you look at the strong sell-off of mining companies and stock exchanges directly related to oil, as Dubai and Qatar. The Norwegian krone and Norway are another examples as they are big oil exporters. Airlines stocks were among biggest gainers as they favors the oil drop. On the Warsaw Stock Exchange prices of PGNiG dropped more than 6%. Despite the lack of decline in copper prices, KGHM noted further declines (-4.5%). It looks as fear of further deterioration on commodity market won with low valuation rational.

This week the main point would be the FOMC meeting on Wednesday. Investors should also pay attention to a number of important data - US industrial production, real estate market, Germany and France preliminary PMI index for the services industry, and Polish important data on industrial production and CPI for November. Perhaps they pour some optimism into the hearts of investors.

Technical Analysis



Graph 1. WIG20 daily. *Source: Stooq*

Upside breakout from the triangle formation was not confirmed in subsequent increases. Strong declines have not only moved again the index to the triangle formation, but also forced the downward move from it. The weekly decrease of WIG20 was 3.2%, and the turnover slightly increased. The nearest support is the level of 2350 points, and if it is broken, we should expect the test of 2300. Scale of the decline and increasing volumes appear quite disturbing. If this week the WIG20 is to note a positive return, the defense of above cited support is crucial. Breaking upward from 2400 level would significantly improve technical situation.

Graph 2. LPP daily. *Source: Stooq*

LPP was chosen *the company of the week* due to poor results noted last week. This opened the way for further declines. Discount by more than 8% and breaking support around 8500 PLN is quite significant sell signal. The nearest support is close to PLN 7500, and subsequent at 7000 PLN. Declines were not supported with high turnover, but the same was in the previous series of declines. This might preclude further slide of the clothing company. The situation would improve trading above 8500 PLN. So far it is possible to move back to that level, but at the moment the dominant is a sale signal.

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