

# Eyeopener – MPC clearly divided

21 September 2012

- **Market moods still weak, flash PMI strengthened worries about global economic growth**
- **Zloty even weaker, EURUSD keeps falling**
- **Quiet day in the debt market**
- **No important data releases today**

Worries over global economic growth put negative pressure on global moods during the Thursday's session. Flash PMI for German manufacturing surprised to the upside but the picture for whole euro zone that emerged from the release of the index was less encouraging. Positive news from Germany did not manage to offset also rather weak data from China and thus European stock indexes were falling and the euro was depreciating versus the dollar amid persisting risk aversion. Even successful auction of Spanish bonds (lower yields and higher bid/cover ratio than on the previous auction) did not manage to reverse the trend prevailing on the risky assets market.

The EURUSD continued to decline and is getting further and further away from the local peak established after the Fed's decision (ca. 1.317). During the yesterday's session the single currency was under pressure of poor PMI data and consequently, the EURUSD reached ca. 1.295. Still, today in the morning the exchange rate is only just below 1.30. The upward move was initiated by improvement of situation on stock market during the Asian session. The euro has a potential to pare some of losses incurred earlier this week. Positive market sentiment may help push the EURUSD higher, but first the resistance at 1.30 has to be broken.

The EURPLN and USDPLN were on the rise since the beginning of the day amid risk aversion persisting on the market. The EURPLN broke resistance at 4.16 and reached nearly 4.18. Still, at the end of the day there was a recovery to 4.15. The USDPLN was temporary just below resistance at 3.24, it reached nearly 3.23. As the demand for risky assets increased over the night, the zloty pared yesterday's losses. Today in the morning the EURPLN is close to 4.14 and as the zloty may continue to benefit from good market mood still present on the market, the exchange rate may decline slightly to short term support at 4.13. Potential for more pronounced appreciation of the domestic currency is limited by the outlook of a rate cuts in Poland and CEE region.

On the domestic debt market the range trading narrowed amid lower activity of investors. Slightly bigger move occurred on the long end of the curve where bonds recovered after weakening recorded at the end of the past week. IRS and FRA remained stable.

Minutes of the September's MPC meeting confirmed some easing of the Council's stance on interest rates policy. This had been signalled earlier by the NBP President. As we expected, two motions to cut rates – by 25 bp and by 50 bp – have been voted again, probably submitted by the same two members as in July (Bratkowski, Chojna-Duch). The majority of MPC members present at the meeting agreed that NBP rates should be kept stable in the face of uncertainty concerning the scale and persistence of economic slowdown. Minutes revealed there are currently three groups of members within the MPC: First one opting for rate cuts since July. The second consists of people who no longer push for rate hikes, but think rate cuts are not needed. Third group may be leaning towards rate reductions, but much higher than targeted CPI prevents them from supporting policy easing. One should keep in mind that according to unofficial Reuters' news at the September meeting two members were absent – those from the most hawkish camp (Gilowska, Winiecki). This implies that the minutes may not be fully representative for the distribution of power within the Council. As regards the uncertainty that the MPC copes with, one should notice that economic data released recently suggested that NBP projections and market forecasts regarding economic slowdown and inflation outlook were quite right. We think this is reducing uncertainty about how the situation may evolve in the coming months.

MPC member, Anna Zielińska-Głębocka, said yesterday that a rate cut is possible this year. This comment shows slight change of attitude versus previous opinions. In August – before disappointing data on GDP growth – she was saying that rate cuts should not be excluded, but they are not certain. Her yesterday's comment suggested that a rate cut may take place in October (this is our forecast) or in November. In her opinion only two cuts by 25bps each are an option. Another MPC member, Andrzej Bratkowski, said that cutting interest rate to 3.5% would be justified if there is no improvement of situation in the EU. In his opinion, the probability of shallow recession has increased and a pace of economic growth at 1% is very likely. Bratkowski added he does not think intervention on the FX market is currently required.

In August all four measures of core inflation declined. CPI excluding food and energy prices reached 2.1%YoY (versus 2.3%YoY in two previous months). Yesterday's release confirms that price pressure is very weak and is clearly losing strength (in April CPI after excluding food and energy prices reached 2.7%YoY).

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F/X rates (today's opening)

EURUSD	12986	CADPLN	3.2745
USDPLN	3.1900	DKKPLN	0.5556
EURPLN	4.1402	NOKPLN	0.5575
CHFPLN	3.4222	SEKPLN	0.4885
JPYPLN*	4.0814	CZKPLN	0.1665
GBPPLN	5.1839	HUFPLN*	14678

\*for 100JPY/100HUF

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.1492	4.1791	4.1614	4.1492	4.1635
USDPLN	3.1900	3.2298	3.2058	3.2053	3.2092
EURUSD	12919	13000	12983	12952	-

T-bonds

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
OK0714 (2Y)	4.12	1	19.07	4.361
PS0417 (5Y)	4.32	-1	1.08	4.361
DS1021 (10Y)	4.93	-3	19.09	4.944

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	4.40	0	0.36	0	0.41	-2
2L	4.32	0	0.38	0	0.44	-3
3L	4.28	-1	0.45	0	0.56	-4
4L	4.28	-1	0.59	0	0.73	-5
5L	4.31	0	0.79	-2	0.94	-5
8L	4.42	-2	1.41	-4	1.52	-4
10L	4.45	-1	1.73	-5	1.79	-4

WIBOR rates

TERM	%	Daily change (bp)
O/N	4.88	0
T/N	4.88	0
SW	4.84	0
2W	4.85	1
1M	4.89	0
3M	4.95	0
6M	4.95	-1
9M	4.97	0
1Y	4.97	0

FRA rates (Mid)

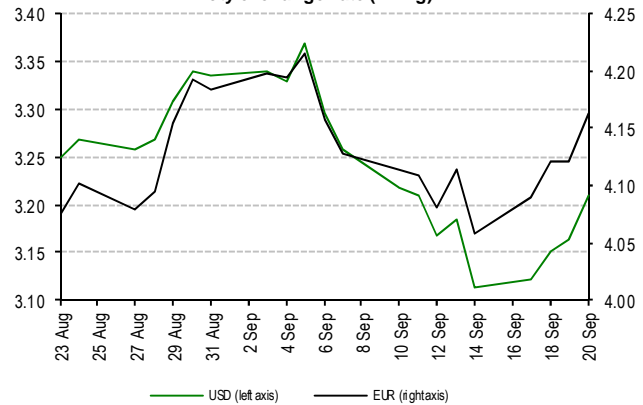
TERM	%	Daily change (bp)
1x2	4.70	2
1x4	4.76	-1
3x6	4.43	2
6x9	4.02	0
9x12	3.95	1
3x9	4.40	-2
6x12	4.05	-1

Measures of fiscal risk

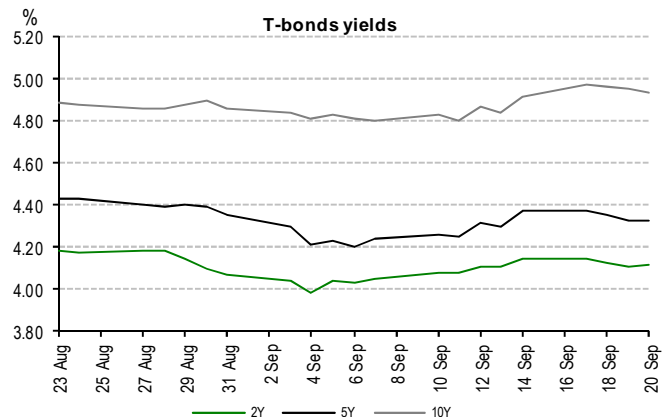
Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	114.3	3	3.37	1
Czech Republic	94.4	6	0.90	-1
Hungary	368.1	2	5.84	5
Greece	37030.5	0	18.92	30
Spain	3618	7	4.26	7
Italy	3212	5	3.52	8
Portugal	4618	8	7.00	-8
Ireland	2818	-1	3.50	-10
Germany	45.9	0	--	--

\* 10Y treasury bonds over 10Y Bunds

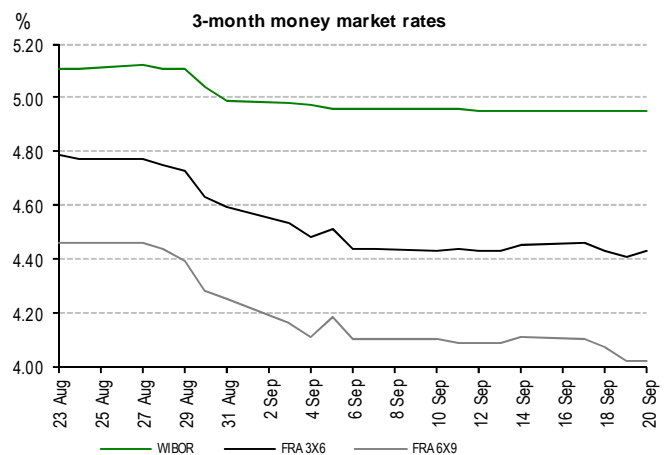
Zloty exchange rate (fixing)



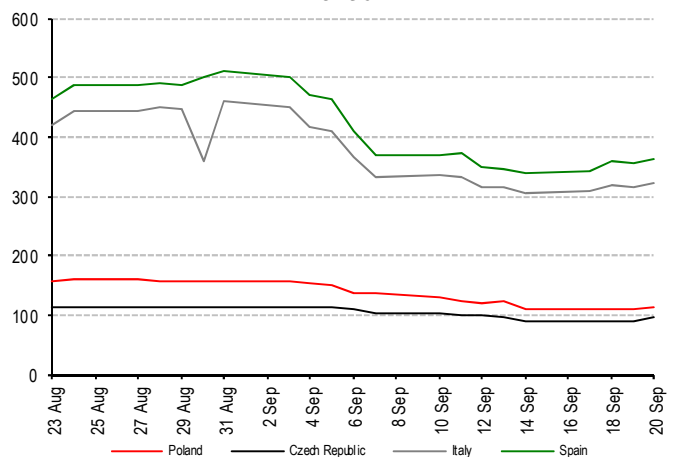
T-bonds yields



3-month money market rates



CDS 5Y



Source: Reuters

**Economic calendar**

Time CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	BZWBK			
		FRIDAY (14 September)						
11:00	EZ	HICP	Aug	%YoY	2.6	-	2.6	2.4
14:00	PL	Money supply	Aug	%YoY	9.8	9.9	9.5	11.1
14:30	US	Core CPI	Aug	%MoM	0.2	-	0.1	0.1
14:30	US	Retail sales ex autos	Aug	%MoM	0.6	-	0.8	0.8
15:15	US	Industrial output	Aug	%MoM	0.0	-	-1.2	0.5
15:55	US	Flash Michigan	Sep	pts	74.0		79.2	74.3
		MONDAY (17 September)						
		No important data releases						
		TUESDAY (18 September)						
11:00	DE	ZEW index	Sep	pts	-19.0	-	-18.2	-25.5
14:00	PL	Wages in corporate sector	Aug	%YoY	3.1	2.9	2.7	2.4
14:00	PL	Employment in corporate sector	Aug	%YoY	0.0	0.0	0.0	0.0
		WEDNESDAY (19 September)						
11:00	PL	Bond auction						
14:00	PL	Industrial output	Aug	%YoY	1.9	1.9	0.5	5.2
14:00	PL	Construction and assembly output	Aug	%YoY	-8.2	-5.6	-5.0	-8.8
14:00	PL	PPI	Aug	%YoY	3.0	3.0	3.1	3.6
14:30	US	House starts	Aug	k	765	-	750	733
14:30	US	Building permits	Aug	k	796	-	803	811
16:00	US	Home sales	Aug	m	4.55	-	4.82	4.47
		THURSDAY (20 September)						
4:30	CN	Flash PMI – manufacturing	Sep	pts	-	-	47.8	47.6
9:28	DE	Flash PMI – manufacturing	Sep	pts	45.3	-	47.3	44.7
9:58	EZ	Flash PMI – manufacturing	Sep	pts	45.5	-	46.0	45.1
14:00	PL	Core inflation	Aug	%YoY	2.0	2.0	2.1	2.3
14:00	PL	MPC minutes						
14:30	US	Initial jobless claims	week	k	375	-	382	385
16:00	US	Leading indicators	Aug	%MoM	-0.1	-	-0.1	0.5
		FRIDAY (21 September)						
		No important data releases						

Source: BZ WBK, Reuters, Parkiet

\* in case of the revision, the data is updated

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