

# Eyeopener – Spanish rating goes lower

11 October 2012

- **Stabilization of global sentiment only temporary, S&P slashes the Spanish rating**
- **Hausner sees chances for a cut in November**
- **Zloty slightly weaker against the euro and the dollar, EURUSD lightly up**
- **Domestic debt market strengthens, thanks to expectations for interest rate cuts**
- **Today G7 summit and data from the USA**

Worries about the performance of global economy in coming quarters have maintained since the beginning of the session. Still, the downward momentum was clearly weaker than during the two first days of the week. Additionally, the situation on the market started to improve gradually. This development did not last too long as the S&P agency downgraded Spanish rating to “BBB-” and maintained negative outlook, thus further rating cuts are likely in the medium term. Currently the Spanish rating is only one notch above “junk” level. The S&P justified its decision by deepening recession in this country which clearly constrains the government’s ability to reduce debt. The single currency depreciated versus the dollar due to this information and at today’s opening the yield of Spanish 10Y bond is at ca. 5.90% (11bps above yesterday’s close). The release of Fed’s Beige Book did not have much impact on the market. The report stated that US economy grows at moderate pace while the labour market remains depressed. Stagnation of demand, uncertainty regarding presidential elections, US fiscal policy and European debt crisis were mentioned as main reasons that constrain hiring.

The EURUSD increased slightly during the yesterday’s session, only at the beginning of the day it was close to local low at 1.283. Recent plunge was apparently used by investors to open long positions and that pushed the exchange rate to 1.29 at the end of the day. Decision of the S&P had a visible negative impact on the single currency, today in the morning the EURUSD is close to 1.285, at night it touched nearly 1.282. It is worth to notice that Spanish yields did not increase much and a possibility that Spain asks the ECB for help constrains room for weakening of Spanish debt and limits the potential for much lower EURUSD. Later in the day US data will be important. Vital support for today is at 1.28.

The EURPLN and USDPLN increased yesterday. The zloty was under pressure of poor market sentiment and comments of Polish PM (in his view the EURPLN at 4.50 would be safe and would provide good fundamentals for the

domestic economy) and strengthened expectations for NBP rate cuts in November. At the end of the day the EURPLN was testing short-term resistance at 4.09 (it reached 4.098), but due to increase of the EURUSD the EURPLN declined slightly. During the night the EURPLN touched just above 4.10 due to S&P decision and today in the morning it is close to 4.09. If the exchange rate stays above this level for longer, then it may head towards crucial resistance at 4.12. Poor market sentiment at the beginning of the session and recently strengthened expectations for rate cuts constrain the potential for zloty’s appreciation.

Yesterday two MPC members, Andrzej Bratkowski and Jerzy Hausner, commented on monetary policy outlook. As regards the November’s meeting, the latter comment was surely more important. Hausner said that he is expecting the inflation and NBP projection, which will be presented to the MPC at the upcoming meeting, to show CPI approaching the target and thus to make it possible to cut interest rates. Andrzej Bratkowski (who is supporting cuts since July’s MPC meeting) said that rates should be cut by 75bps in 2012 and even by 125bps in the whole cycle (which may end in 1Q2013). Bratkowski stressed that he is considering whether to file a motion for 75bps cut at the upcoming meeting. Recent comments of the MPC members are indicating that a majority to support cuts in November is gathering. Despite Bratkowski’s suggestion about a substantial reduction of rates at the upcoming meeting, we think that the Council will cut rates only gradually. We maintain our forecast that rates will be cut by 25bps in November and by 75bps in the whole cycle to end in 1Q2013.

Domestic debt market strengthened significantly supported by words of the MPC members. 5Y benchmark benefited by most with yields declining to 4.15% (the lowest level in history), while yield of 10Y has reached the lowest level since March 2006. The MPC members’ statements also underpinned the front end of the curve with yield declining below 4%. Trade volumes were relatively high. IRS market strengthening was rather muted. As a consequence, asset swap spread for 10Y sector narrowed to 24bps (down from 30bps), reaching the lowest level since April 2010. Intensification of interest rate cuts expectations (with the first move in November) has caused a decline of FRA rates, especially in case of FRA3x6 (currently market is pricing-in cuts by more than 50bps in 3M horizon).

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F/X rates (today's opening)

EURUSD	12854	CADPLN	3.2482
USDPLN	3.1855	DKKPLN	0.5490
EURPLN	4.0948	NOKPLN	0.5557
CHFPLN	3.3886	SEKPLN	0.4756
JPYPLN*	4.0840	CZKPLN	0.1639
GBPPLN	5.0993	HUFPLN*	14491

\*for 100JPY/100HUF

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.0694	4.0981	4.0773	4.0956	4.0788
USDPLN	3.1595	3.1841	3.1733	3.1743	3.1695
EURUSD	1.2844	1.2913	1.2850	1.2902	-

T-bonds

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
OK0714 (2Y)	3.97	-5	19.07	4.361
PS0417 (5Y)	4.15	-4	4.10	4.224
DS1021 (10Y)	4.61	-6	19.09	4.944

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	4.33	-3	0.34	-1	0.40	0
2L	4.23	-2	0.38	0	0.45	0
3L	4.19	-3	0.47	1	0.56	0
4L	4.20	-2	0.60	0	0.73	-1
5L	4.23	-2	0.80	0	0.92	-1
8L	4.35	-1	1.43	1	1.48	-1
10L	4.37	0	1.77	1	1.76	-1

WIBOR rates

TERM	%	Daily change (bp)
O/N	4.89	-1
T/N	4.89	0
SW	4.83	-1
2W	4.84	0
1M	4.87	-1
3M	4.90	-1
6M	4.90	-2
9M	4.91	-1
1Y	4.91	-2

FRA rates (Mid)

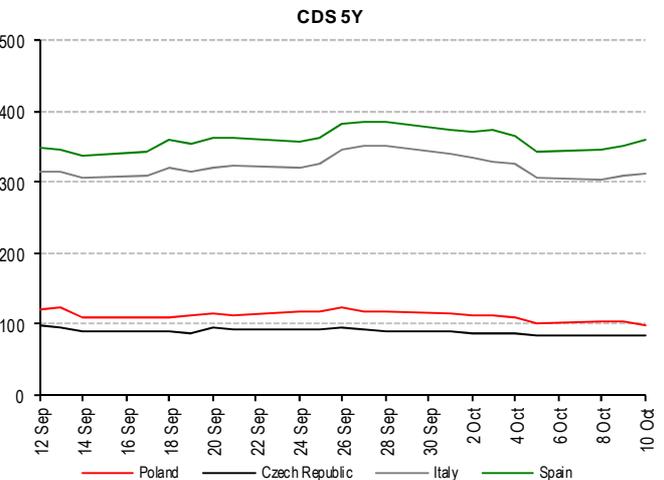
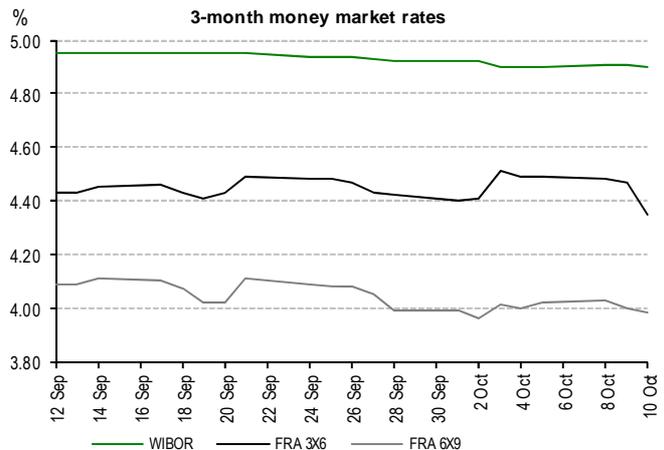
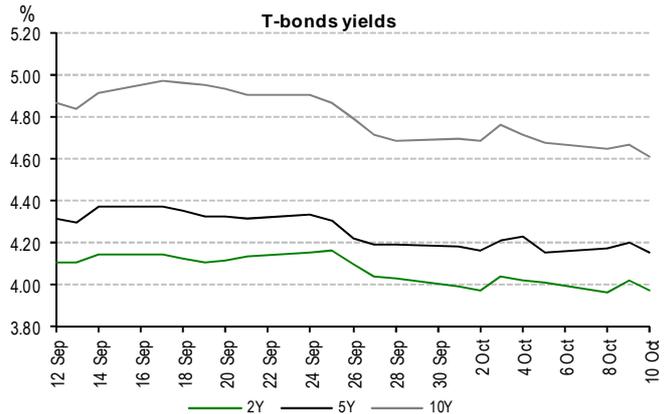
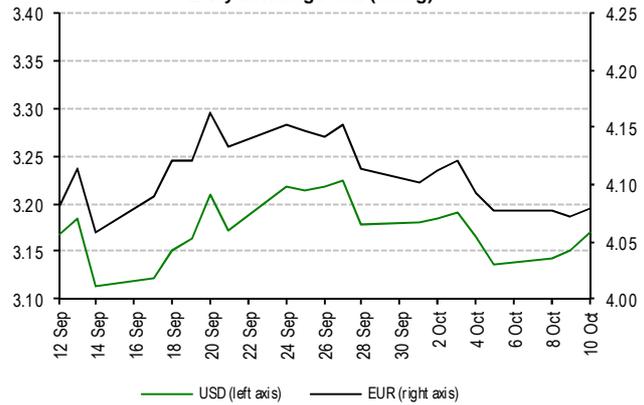
TERM	%	Daily change (bp)
1x2	4.70	4
1x4	4.68	-1
3x6	4.35	-12
6x9	3.98	-2
9x12	3.84	-1
3x9	4.37	-12
6x12	3.99	-1

Measures of fiscal risk

Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	97.1	-6	3.13	-4
Czech Republic	84.8	0	0.83	-4
Hungary	327.2	-17	5.78	-2
Greece	37030.5	0	16.87	4
Spain	360.7	9	4.30	-5
Italy	313.3	5	3.60	-1
Portugal	469.8	9	6.87	-14
Ireland	287.4	-2	3.53	-2
Germany	49.9	0	--	--

\* 10Y treasury bonds over 10Y Bunds

Zloty exchange rate (fixing)



Source: Reuters

## Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	BZWBK			
<b>FRIDAY (5 October)</b>								
12:00	DE	Industrial orders	Aug	%MoM	-0.6	-	-1.3	0.3
14:30	US	Non-farm payrolls	Sep	k	120	-	114	142
14:30	US	Unemployment rate	Sep	%	8.2	-	7.8	8.1
<b>MONDAY (8 October)</b>								
	US	Market holiday						
	EZ	Meeting of the Eurogroup						
8:00	DE	Exports	Aug	%MoM	-0.7	-	2.4	0.5
10:30	EZ	Sentix index	Oct	pts	-20.4	-	-22.2	-23.2
12:00	DE	Industrial output	Aug	%MoM	-0.8	-	-0.5	1.2
<b>TUESDAY (9 October)</b>								
		Meeting of the ECOFIN						
10:30	IT	GDP	Q2	%YoY	-2.5	-	-2.6	1.0
<b>WEDNESDAY (10 October)</b>								
16:00	US	Wholesale inventories	Aug	%MoM	0.5	-	0.5	0.6
20:00	US	Fed Beige Book						
<b>THURSDAY (11 October)</b>								
		Meeting of members of G7 group						
14:30	US	Trade balance	Aug	\$bn	-44.0	-		-42.0
14:30	US	Initial jobless claims	week	k	370	-		367
14:30	US	Import prices	Sep	%MoM	0.7	-		0.7
<b>FRIDAY (12 October)</b>								
11:00	EZ	Industrial output	Aug	%YoY	-4.3	-		-2.3
<b>14:00</b>	<b>PL</b>	<b>Money supply</b>	<b>Sep</b>	<b>%YoY</b>	<b>8.5</b>	<b>7.9</b>		<b>9.5</b>
15:55	US	Flash Michigan	Oct	pts	-	-		78.3

Source: BZ WBK, Reuters, Parkiet

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

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