Bank Zachodni WBK

Eyeopener – No announcement of rate cuts

11 April 2013

- **MPC did not promise next rate cuts**
- **Zloty gaining after MPC statement, EURUSD stable**
- **MPC's press conference favourable for IRS and bonds**
- **Today bond auction in Poland, weekly labour market data in the US**

Wednesday was the next day when the impact of Bank of Japan's decision and US nonfarm payrolls data was visible on the global market. This was mostly reflected in rising stock prices and yields of 10Y German bonds, while the pace of euro's appreciation versus the dollar clearly abated. Minutes of the March FOMC meeting – that was released not in the evening as planned by soon after the beginning of the US session – showed that in Fed members' opinion the benefits of QE3 outweigh potential costs. On the other hand, quite numerous Committee's members – even 7-8 out of 12 – considered constraining the scale of purchases (even in mid-year) and terminating the QE3 at the end of 2013. The pace of revival of the US economy observed in the coming months will determine what will happen to the bond buying program. The release of minutes did not have much impact on the market, and did not prevent S&P500 from reaching all-time high.

After five consecutive MPC meetings delivering rate cuts (cumulatively by 150 bp), the Council decided to keep monetary policy parameters unchanged in April. The statement and press conference sent similar message as in March. The NBP President Marek Belka said that medium-term growth path expected by the MPC did not change, monthly data on output and sales did not surprise, while 4Q12 GDP figure was better than forecast. During the conference it was emphasised that in decision-making process the medium-term inflation prospects will be more important than the very low CPI readings in the following months. Overall, we don't think that after this meeting we are getting closer to a rate cut. What is important, Marek Belka said that ultra-low interest rates lead to significant economic imbalances, which the NBP would like to avoid. Therefore, it seems that aggressive monetary easing priced-in by the market is not fully justified.

The EURSUD managed to break the resistance indicated by us (1.311) at the beginning of the session, but in the following hours the correction of this move was recorded. Until the end of the session the exchange rate stayed below daily peak, at the end of the day it was close to 1.308. During the night the dollar gained slightly versus the euro, supported by Fed's minutes showing possible termination of QE3 in 2013. Today in the morning the EURUSD is close to 1.307. The pace of the increase of the exchange rate is clearly lower than in the first week of March. Until the end of the week there will be some US data (today's weekly jobless claims, tomorrow's retail sales) that may determine whether resistance at just above 1.31 (vital on daily chart) will be tested again or profit taking from recent surge will occur.

The EURPLN exchange rate climbed to 4.124 at the beginning of the session, due to a considerable weakening of other CEE currencies – the Hungarian forint (EURHUF climbed to 298 from 296) and the Czech koruna (EURCZK increased to 25.9 from 25.67). The zloty remained relatively resilient to these events and strengthened to ca. 4.105 per euro after the MPC decision. During the day USDPLN was hovering below 3.145. The MPC message with no clear suggestion of cuts was supportive for the zloty. During the press conference EURPLN continued falling and slid slightly below 4.09 at the end of the session. This morning the rate is close to 4.10. Sentiment at the beginning of the session is slightly weaker than yesterday, stock market futures in Europe are declining. A possible correction on the stock market (after considerable gains from recent days) may initiate a rebound also on the zloty market (in the last six days the zloty gained ca. 0.10PLN against the euro and 0.15PLN against the dollar). Important levels for EURPLN for today are 4.086 and 4.12.

On the domestic interest rate market the MPC decision pushed short-term yields slightly upward. Debt market investors interpreted the statement and the MPC press conference differently than the FX investors. Bond and IRS yields declined – short end of the curve trimmed earlier losses, while yields on the middle and the longer end of the curve fell by ca. 3-6bps. As a result, 2-10 spread for bonds fell to 50bps, the lowest level since first week of March. FRA climbed slightly (by 3 bps at most). It seems that it was more important for investors that the MPC is in „wait-and-see" mode than that no further cuts were suggested. WIBORs in 1-12M segment remain stable at 3.36%.

On the first auction in April, the Finance Ministry will offer long papers with fixed (DS1023) and floating rate (WZ0124), worth PLN3-5bn in total. Current market situation is favourable for the auction, so we are expecting that the Ministry will have no major problems with tapping the market. It is probable 10Y paper will be placed with the lowest yields ever.

Deputy minister of finance, Wojciech Kowalczyk said in the interview with "Puls Biznesu" that the Ministry expects the MPC to continue the easing cycle and that the market is pricing-in more rates to come. Kowalczyk stressed that Poland belongs to the group of countries with highest real interest rates in Europe. Making a remark on further bond auctions, he said that in the second half of 2013 the Ministry may start to pre-finance foreign currency borrowing needs for 2014. The Ministry plans auctions of dollar, euro, yen and Swiss franc denominated bonds.

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FX market

Today's opening

EURUSD	1.3074	CADPLN	3.0900
USDPLN	3.1346	DKKPLN	0.5496
EURPLN	4.0977	NOKPLN	0.5458
CHFPLN	3.3626	SEKPLN	0.4903
JPYPLN*	3.1421	CZKPLN	0.1582
GBPPLN	4.8057	HUFPLN*	1.3806

*for 100JPY/100HUF

Last session

10.04.2013

	min	max	open	close	fixing
EURPLN	4.1005	4.1235	4.1170	4.1005	4.1135
USDPLN	3.1325	3.1508	3.1486	3.1329	3.1405
EURUSD	1.3064	1.3121	1.3078	1.3086	-

Interest rate market

10.04.2013

T-bonds**

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
OK0715 (2Y)	3.01	0	20.03.13	3.17
PS0418 (5Y)	3.06	-2	20.03.13	3.432
DS1023 (10Y)	3.51	-5	3.01.13	3.847

IRS rates**

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	3.08	-47	0.32	0	0.38	1
2L	3.01	-2	0.37	1	0.47	1
3L	3.03	-2	0.49	1	0.57	1
4L	3.06	-3	0.67	2	0.71	2
5L	3.10	-3	0.89	2	0.88	2
8L	3.24	-5	1.59	4	1.36	2
10L	3.33	-6	1.93	4	1.63	2

WIBOR rates

TERM	%	Daily change (bp)
O/N	3.42	1
T/N	3.42	1
SW	3.36	0
2W	3.36	0
1M	3.36	0
3M	3.36	0
6M	3.36	0
9M	3.36	0
1Y	3.36	0

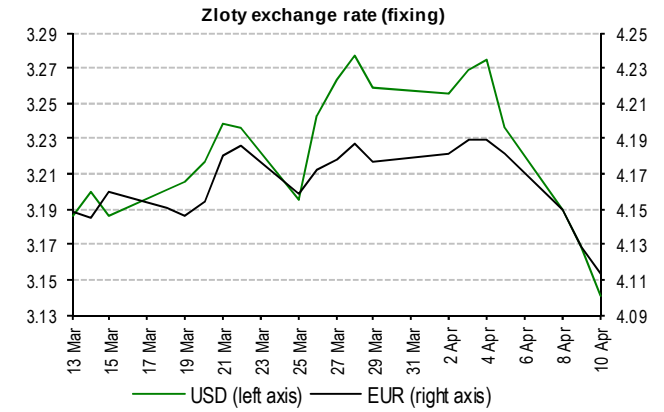
FRA rates**

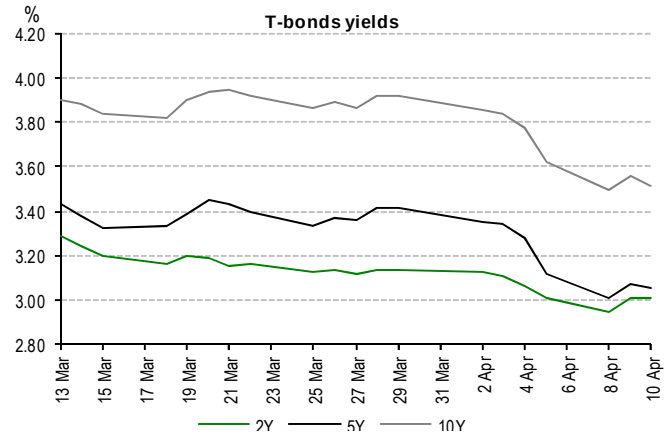
TERM	%	Daily change (bp)
1x2	3.23	4
1x4	3.21	3
3x6	3.05	1
6x9	2.85	-3
9x12	2.82	-1
3x9	3.05	1
6X12	2.88	-2

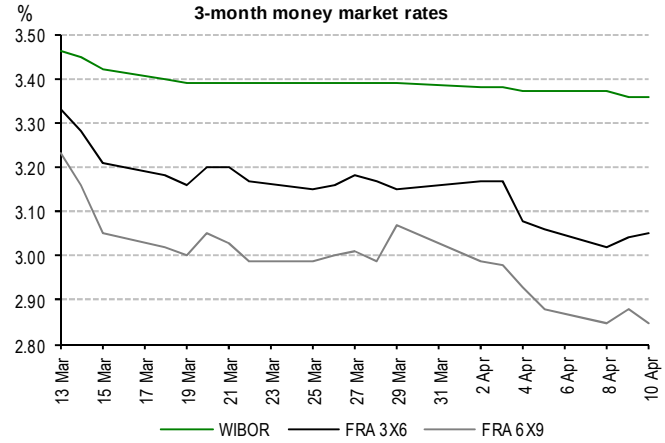
Measures of fiscal risk

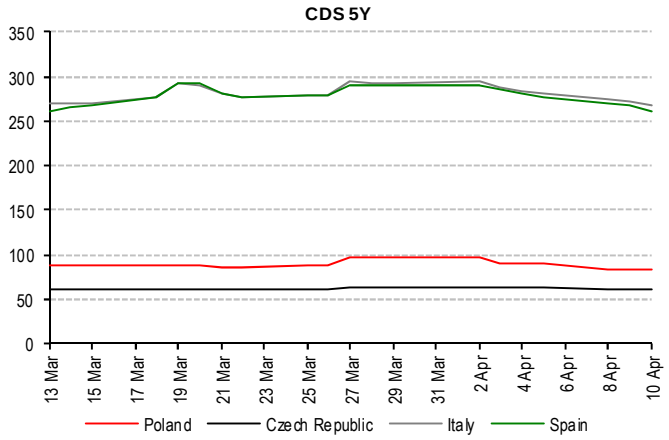
Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	83.1	-1	2.21	-10
Czech Republic	60.4	0	0.51	-3
Hungary	313.1	-15	4.61	-6
Greece	37030.5	0	9.99	-15
Spain	261.8	-6	3.33	-15
Italy	267.0	-5	3.01	-10
Portugal	411.2	-8	5.11	-14
Ireland	176.9	-1	2.63	-9
Germany	33.2	0	--	--

* 10Y treasury bonds over 10Y Bunds









*Information shows mid levels on the interbank market

Source: Reuters

Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST BZWBK	ACTUAL VALUE	LAST VALUE*
		FRIDAY (5 April)						
12:00	DE	Industrial orders	Feb	%MoM	1.1	-	0.0	-2.1
14:30	US	Non-farm payrolls	Mar	k	195	-	88	268
14:30	US	Unemployment rate	Mar	%	7.7	-	7.6	7.7
		MONDAY (8 April)						
9:00	CZ	Industrial output	Feb	%YoY	-5.0	-	-5.7	-4.4
10:30	EZ	Sentix index	Apr	pts	-14.1	-	-17.3	-10.6
12:00	DE	Industrial output	Feb	%MoM	0.1	-	0.5	-0.6
		TUESDAY (9 April)						
8:00	DE	Exports	Feb	%MoM	-0.3	-	-1.5	1.3
		WEDNESDAY (10 April)						
	PL	**MPC decision**		**%**	**3.25**	**3.25**	**3.25**	**3.25**
15:00	US	Minutes Fed						
		THURSDAY (11 April)						
11:00	**PL**	**Bond auction**						
14:30	US	Initial jobless claims	week	k	360	-		385
		FRIDAY (12 April)						
		Meeting of euro zone ministers of finance						
11:00	EZ	Industrial output	Feb	%MoM	0.1	-		-0.4
14:00	**PL**	**Money supply**	**Mar**	**%YoY**	**5.8**	**5.7**		**5.6**
14:30	US	Retail sales ex autos	Mar	%MoM	0.1	-		1.0
15:55	US	Flash Michigan	Apr	pts	78.3	-		78.6

Source: BZ WBK, Reuters, Bloomberg

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

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