

# Eyeopener – Interest rate cut and end of cycle

3 July 2013

- **Situation in the euro zone's peripheries and data from China worsened investors' moods**
- **MPC cut rates, in line with expectations, and announced the end of easing cycle**
- **Eurodollar close to 1.30, zloty stronger after MPC**
- **Short end of bond and IRS yield curves weaker after MPC decision**
- **Today, ECB and BoE's decisions, auction of Spanish debt, US market closed**

On Wednesday market moods deteriorated further under impact of worries about euro zone's peripheries (especially Greece and Portugal) and data from China, which weakened expectations for economic revound in this country. Tight situation in Egypt also was unsupportive for risk appetite. Dismissal of two Portuguese ministers caused a rise in risk of collapse of the government and questioned implementation of further economic reforms. This triggered a rise in country's borrowing costs (yields of 10Y Portugal's bonds surged by 130bps to 7.88%, highest level since November 2012). This pushed up yields of other euro area's peripheral countries. Final readings of PMI non-manufacturing indices in the euro zone and Germany were lower than expected, which exerted additional pressure on the euro. In turn, US employment data (ADP report) was better than forecast, which boosted expectations for QE3 tapering.

Negative news from the euro area weakened the euro versus other major currencies. EURUSD was hovering below 1.30 throughout the day, reaching a daily low of 1.2921, i.e. at the lowest level since end of May. At the end of the day the euro rebounded slightly, however the rate remained below 1.30. During the Asian session the euro continued upward move, reaching a local maximum at 1.3025. Today investors' attention will focus on central banks' meetings: ECB and BoE (the latter for the first time with new governor). As the US market is closed today, investors' activity will be muted before tomorrow's release of June's non-farm payrolls data.

At the start of the day the zloty was depreciating amid weak global investment climate. EURPLN approached 4.35 and USDPLN rose slightly above 3.36. However, MPC's decision to cut main reference rate by 25bps supported Polish currency, which started trimming losses. This trend was reinforced during the MPC's press conference, when the NBP President said the easing cycle has been ended. PLN ended the day at 4.313 versus euro and 3.320 against

dollar. Strengthening euro supported Polish currency. At the opening the EURPLN is hovering near 4.30 and USDPLN at 3.31. Zloty will remain under impact of MPC decision and ECB statement.

On Wednesday the Polish interest rate market was strengthening in expectation for MPC decision, and after its announcement. The MPC statement and press conference introduced some more volatility. Overall, yields at the short end of the curve slightly increased, while and the middle and long-end of the curve they went down a little. FRA rates and short-term IRS (1-2Y) increased by ca. 10bps. Today, market moods still remain under impact of yesterday's MPC decision. The ECB meeting and Spanish bond auction also will remain in focus.

The MPC cut interest rates by 25bps and declared that it has ended the monetary policy easing cycle. The Council assessed that "the significant reduction of NBP interest rates implemented since November 2012 supports economic recovery and limits the risk of inflation running below the NBP target in the medium term". Even though we were expecting July's cut to be the last in the cycle, we thought that the Council will keep the door ajar for further adjustment in autumn, acknowledging the scale of economic uncertainty. In our view such a stance would be supported by new projection of inflation and GDP (lower than in March). Apparently, most MPC members decided that the total scale of rate cuts brought the official rates to adequate level, given current and expected economic situation. We hope that it will not turn out, like after March decision, that the cycle has to be reopened, if the upcoming data confirm the scenario from the NBP projection or even worse. However, this is not our baseline scenario, so we are expecting that we will see no more rate cuts this year. Next move will be a rate hike... at some point in future.

According to Samar, the number of new car registrations in June was 8.8% higher than in the same period of last year. However, according to representatives of Samar, it not necessarily must mean a rebound in domestic demand for cars - part of cars may be temporarily registered in Poland, and then re-exported abroad. It is also possible that the part of registrations was delayed from May to June (last month number of registration fell by 5.4%YoY). These data confirm our forecast of slight acceleration in retail sales growth to 1.5%YoY in June.

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**FX market**

**Today's opening**

EURUSD	12998	CADPLN	3.1464
USDPLN	3.3081	DKKPLN	0.5763
EURPLN	4.2994	NOKPLN	0.5413
CHFPLN	3.4897	SEKPLN	0.4945
JPYPLN*	3.3139	CZKPLN	0.1650
GBPPLN	5.0434	HUFPLN*	14610

\*for 100JPY/100HUF

**Last session 03.07.2013**

	min	max	open	close	fixing
EURPLN	4.3110	4.3490	4.3490	4.3132	4.3416
USDPLN	3.3199	3.3627	3.3531	3.3251	3.3516
EURUSD	12921	12989	12971	12972	-

**Interest rate market 03.07.2013**

**T-bonds\*\***

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
OK0715 (2Y)	2.97	4	23.04.13	2.748
PS0418 (5Y)	3.55	-1	23.04.13	2.889
DS1023 (10Y)	4.05	-5	11.04.13	3.515

**IRS rates\*\***

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	2.78	7	0.37	1	0.45	2
2L	3.09	8	0.52	1	0.61	2
3L	3.33	5	0.81	1	0.78	1
4L	3.50	3	1.18	0	0.99	0
5L	3.64	2	1.54	-1	1.20	0
8L	3.88	1	2.33	0	1.71	-2
10L	3.97	0	2.67	-1	1.97	-2

**WIBOR rates**

TERM	%	Daily change (bp)
O/N	2.57	-5
T/N	2.60	-4
SW	2.71	-3
2W	2.71	-3
1M	2.71	-3
3M	2.71	-1
6M	2.71	0
9M	2.71	0
1Y	2.71	0

**FRA rates\*\***

TERM	%	Daily change (bp)
1x2	2.66	5
1x4	2.66	2
3x6	2.68	7
6x9	2.75	11
9x12	2.88	13
3x9	2.73	7
6X12	2.85	12

**Measures of fiscal risk**

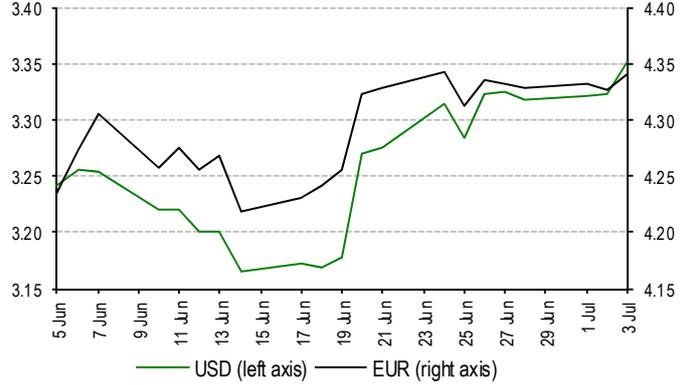
Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	98.0	-4	2.39	0
Czech Republic	70.3	5	0.72	8
Hungary	309.9	0	4.07	10
Greece	37030.5	0	10.06	56
Spain	287.4	25	3.10	20
Italy	288.2	20	2.84	14
Portugal	476.6	89	5.66	80
Ireland	163.5	3	2.39	13
Germany	33.2	0	-	-

\* 10Y treasury bonds over 10Y Bunds

\*Information shows mid levels on the interbank market

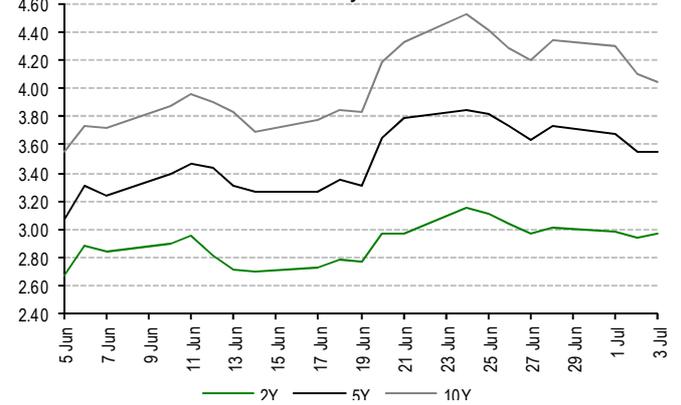
Source: Reuters

**Zloty exchange rate (fixing)**



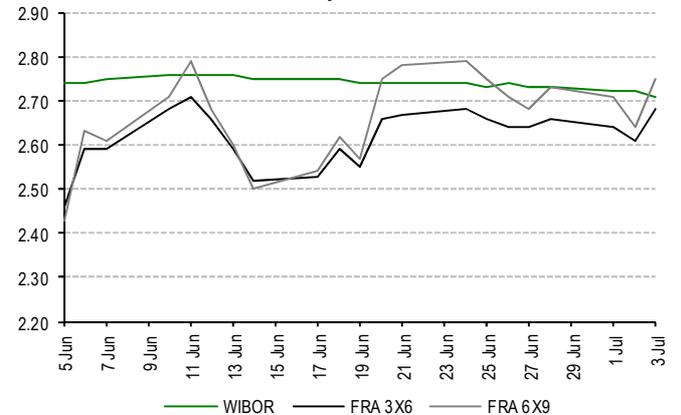
— USD (left axis) — EUR (right axis)

**T-bonds yields**



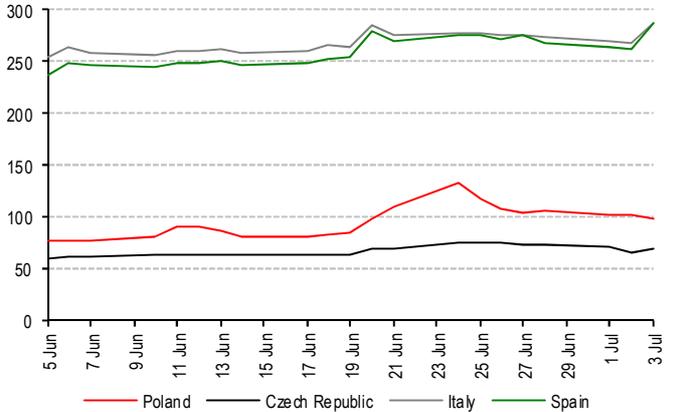
— 2Y — 5Y — 10Y

**3-month money market rates**



— WIBOR — FRA 3X6 — FRA 6X9

**CDS 5Y**



— Poland — Czech Republic — Italy — Spain

## Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	BZWBK		
<b>FRIDAY (28 June)</b>								
14:00	PL	Inflation expectations	Jun	%YoY	-	-	0.4	0.9
15:55	US	Michigan index	Jun	pts	83.0	-	84.1	82.7
<b>MONDAY (1 July)</b>								
3:45	CN	PMI – manufacturing	Jun	pts	48.3	-	48.2	49.2
9:00	PL	PMI – manufacturing	Jun	pts	<b>48.3</b>	<b>48.8</b>	<b>49.3</b>	<b>48.0</b>
9:53	DE	PMI – manufacturing	Jun	pts	48.7	-	48.6	49.4
9:58	EZ	PMI – manufacturing	Jun	pts	48.7	-	48.8	48.3
11:00	EZ	Flash HICP	Jun	%YoY	1.6	-	1.6	1.4
16:00	US	ISM – manufacturing	Jun	pts	50.5	-	50.9	49.0
<b>TUESDAY (2 July)</b>								
16:00	US	Industrial orders	May	%MoM	2.0	-	2.1	1.0
<b>WEDNESDAY (3 July)</b>								
	PL	MPC decision		%	<b>2.50</b>	<b>2.50</b>	<b>2.50</b>	<b>2.75</b>
9:53	DE	PMI – services	Jun	pts	51.3	-	50.4	49.7
9:58	EZ	PMI – services	Jun	pts	48.6	-	48.3	47.2
14:15	US	ADP report	Jun	k	153	-	188	135
14:30	US	Initial jobless claims	Week	k	346	-	343	346
16:00	US	ISM – services	Jun	pts	54.0	-	52.2	53.7
<b>THURSDAY (4 July)</b>								
13:45	EZ	ECB decision		%	0.50	-		0.50
<b>FRIDAY (5 July)</b>								
12:00	DE	Industrial orders	May	%MoM	1.2	-		-2.3
14:30	US	Non-farm payrolls	Jun	k	167	-		175
14:30	US	Unemployment rate	Jun	%	7.5	-		7.6

Source: BZ WBK, Reuters, Bloomberg

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

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