

# EYEOPENER

7 November 2013

## Interest rates stable until mid-2014

- MPC extended declared rates' stability until mid-2014
- Good data from the euro zone and Czech Republic supported the zloty, EURUSD slightly higher
- MPC's rhetoric supports slightly Polish bonds and IRS rates
- Today, decisions of central banks in euro area, UK, Czech Republic, bond auction in Poland

Data released yesterday in Europe were better than expected. Final PMI for services in Germany and the euro zone in October declined less considerably than suggested by flash estimates. Moreover, industrial orders in Germany advanced more than expected in September (the highest annual growth since July 2011). A positive surprise was delivered also by Czech industrial output – September's YoY growth was the highest since June 2011. This reading has scaled back worries that the central banks will decide to intervene on the FX market. According to unofficial sources from the ECB, considerable fall in inflation is not the only factor affecting the ECB monetary policy. Moreover, next long-term liquidity operations (LTRO) are not considered by the ECB as a main tool.

In line with a broad consensus and its own declaration, the Polish MPC kept interest rates unchanged in November. Main refinancing rate is still at record low level 2.50%. What is important, the Council decided to extend the declared period of stable interest rates „at least until the end of the first half of 2014”. It would be good to stick to this pledge, so the first interest rate hike should be expected in July 2014 at the earliest. New projection of the central bank is more optimistic in terms of economic growth (GDP at ca. 3% in 2014 and above 3% in 2015), but the forecast of inflation remained low (below 2%). In our opinion, CPI next year will be higher and the MPC will start hiking rates in the third quarter of 2014. We wrote more on this issue in yesterday's [Post-MPC Comment](#). Chief economist of the Ministry of Finance Ludwik Kotecki assessed that yesterday's MPC decision comes as no surprise and rates may remain flat even longer.

EURUSD increased somewhat yesterday. Data from Europe were better than expected, but did not cause any major changes. Only in the afternoon the euro began to gain against the dollar after rumours about possible ECB actions – the rate reached almost 1.355. At the end of the day this move was corrected to 1.352 and the rate is hovering close to this level

this morning. Today we can see a more pronounced move of EURUSD – market will be analysing the ECB rhetoric (recent flash data on inflation have amplified expectations for a dovish message) and US GDP data (important as regards expectations about timing of QE3 tapering).

EURPLN and USDPLN declined yesterday by ca. PLN0.02, the zloty benefited from quite good market sentiment persisting on the market after the European data. Also data from Czech Republic was not meaningless. Reading of the industrial output surprised to the upside and led to koruna's appreciation vs. the euro – this had positive impact on the zloty. MPC decision on keeping interest rates unchanged did not trigger any visible changes, just before the beginning of the press conference EURPLN was close to 4.16 and USDPLN around 3.085. The statement and press conference did not have much impact on the zloty. Today in the morning EURPLN is close to 4.17, that is not far above short-term support at 4.16. The outcome of the ECB meeting and US data may initiate some higher volatility of the zloty, particularly vs. the dollar.

On the domestic interest rate market yet before the release of the MPC statement and the press conference some recovery after recent increase was recorded. The extension of the declared period when interest rates will remain stable had a positive impact on IRS and bonds. However, the scale of move was limited, it reached 2-3bp on the short end and in the middle of the curve. All in all, IRS declined by 4-5bp on daily basis while bond yields by 2-5bp. Visible changes were also recorded on the FRA market. Longer rates (6x9 and 9x12) declined in response to MPC's rhetoric by 4-5bp. 1-12M WIBOR rates remained stable again.

Today the Ministry of Finance will offer 2Y bond OK0116 and 5Y bond PS0718 of total value PLN4-7bn. Data of the Ministry show, that at the end of September foreign investors held 62% (PLN11.3bn) to total issue of OK0116. The nominal value of their holdings of this bond increased quite visibly compared to August (by PLN1.5bn), OK0116 was offered at the auction also in September. Polish banks were second biggest holder of this 2Y debt with 19% share. These ratios for 5Y bond are quite opposite – foreigners held 23% of the total PS0718 outstanding while domestic investors 77% (including banks with 16% share). Deputy finance minister, Wojciech Kowalczyk said he expects decent demand at the today's auction. He added, that the Ministry does not exclude issuing dollar bonds later this year, but this may also happen in January 2014.

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**FX market**

**Today's opening**

EURUSD	1.3520	CADPLN	2.9609
USDPLN	3.0853	DKKPLN	0.5592
EURPLN	4.712	NOKPLN	0.5181
CHFPLN	3.3850	SEKPLN	0.4748
JPYPLN*	3.1282	CZKPLN	0.1619
GBPPLN	4.9629	HUFPLN*	14051

\*for 100JPY/100HUF

**Last session**

**06.11.2013**

	min	max	open	close	fixing
EURPLN	4.1630	4.1859	4.1852	4.1717	4.1728
USDPLN	3.0730	3.1022	3.1021	3.0841	3.0896
EURUSD	1.3486	1.3547	1.3495	1.3527	-

**Interest rate market 06.11.2013**

**T-bonds\*\***

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
OK0715 (2Y)	2.83	-2	23.04.13	2.748
PS0718 (5Y)	3.58	-5	7.10.13	3.819
DS1023 (10Y)	4.29	-3	22.10.13	4.302

**IRS rates\*\***

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	2.74	-1	0.29	0	0.39	-1
2L	3.01	-4	0.41	-2	0.50	-1
3L	3.25	-6	0.67	-4	0.68	-1
4L	3.46	-6	1.05	-4	0.91	-1
5L	3.62	-5	1.46	-5	1.14	0
8L	3.94	-3	2.37	-3	1.73	1
10L	4.05	-4	2.76	-1	2.03	1

**WIBOR rates**

TERM	%	Daily change (bp)
O/N	2.58	0
T/N	2.58	0
SW	2.55	0
2W	2.57	0
1M	2.60	0
3M	2.66	0
6M	2.70	0
9M	2.73	0
1Y	2.75	0

**FRA rates\*\***

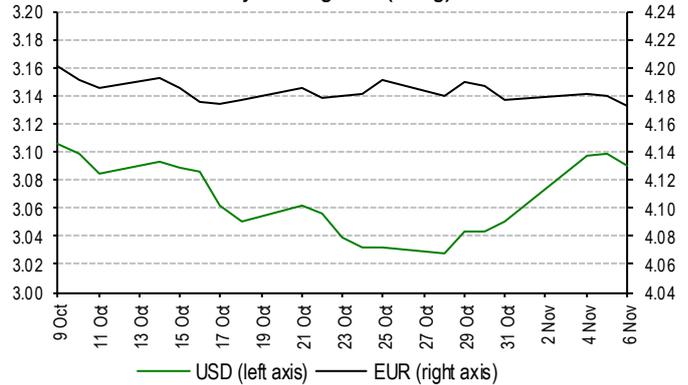
TERM	%	Daily change (bp)
1x2	2.60	0
1x4	2.66	-1
3x6	2.66	-3
6x9	2.69	-4
9x12	2.78	-5
3x9	2.71	-2
6X12	2.77	0

**Measures of fiscal risk**

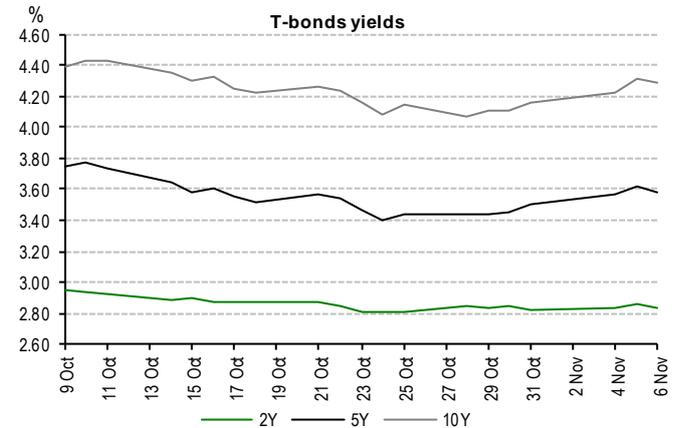
Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	84.8	0	2.54	-2
Czech Republic	58.8	0	0.66	0
Hungary	268.1	0	4.00	9
Greece	37030.5	0	6.67	-2
Spain	168.5	-1	2.37	1
Italy	197.6	-1	2.43	-1
Portugal	343.6	-12	4.19	-21
Ireland	122.3	-2	1.87	7
Germany	22.5	0	--	--

\* 10Y treasury bonds over 10Y Bunds

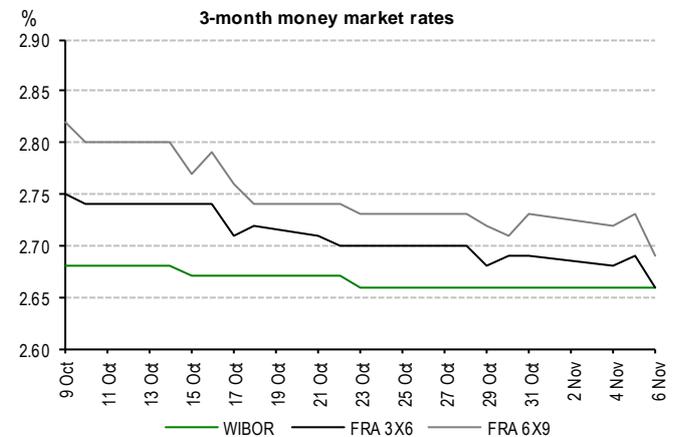
**Zloty exchange rate (fixing)**



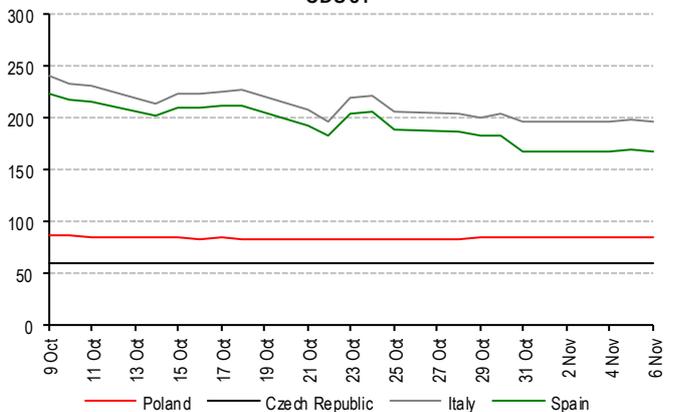
**T-bonds yields**



**3-month money market rates**



**CDS 5Y**



\*\*Information shows mid levels on the interbank market

Source: Reuters

**Economic calendar**

CZAS W-WA	COUNTRY	INDICATOR	PERIOD	FORECAST		REALIZACJA	LAST VALUE*
				MARKET	BZWBK		
<b>THURSDAY (31 October)</b>							
11:00	EZ	Flash HICP	Oct	%YoY	1.1	-	1.1
13:30	US	Initial jobless claims	week	k	338	-	340
<b>FRIDAY (1 November)</b>							
	<b>PL</b>	<b>Market holiday</b>					
2:45	CN	PMI – manufacturing	Oct	pts	50.6	-	50.9
15:00	US	ISM – manufacturing	Oct	pts	55.0	-	56.4
<b>MONDAY (4 November)</b>							
<b>9:00</b>	<b>PL</b>	<b>PMI – manufacturing</b>	<b>Oct</b>	<b>pts</b>	<b>52.8</b>	<b>53.3</b>	<b>53.4</b>
9:53	DE	PMI – manufacturing	Oct	pts	51.5	-	51.7
9:58	EZ	PMI – manufacturing	Oct	pts	51.3	-	51.3
16:00	US	Industrial orders	Sep	%MoM	1.8	-	1.7
<b>TUESDAY (5 November)</b>							
15:00	US	ISM-services	Oct	pts	54.0	-	55.4
<b>WEDNESDAY (6 November)</b>							
	<b>PL</b>	<b>MPC decision</b>		<b>%</b>	<b>2.50</b>	<b>2.50</b>	<b>2.50</b>
9:00	CZ	Industrial output	Sep	%YoY	6.0	-	7.1
9:53	DE	PMI – services	Oct	pts	52.3	-	52.9
9:58	EZ	PMI – services	Oct	pts	50.9	-	51.6
12:00	DE	Industrial orders	Sep	%MoM	0.5	-	3.3
<b>THURSDAY (7 November)</b>							
<b>11:00</b>	<b>PL</b>	<b>Bond auction</b>					
12:00	DE	Industrial output	IX	%MoM	0.0	-	1.4
13:00	CZ	Central bank decision		%	0.05	-	0.05
13:45	EZ	ECB decision		%	0.50	-	0.50
14:30	US	Initial jobless claims	week	k	335	-	340
14:30	US	Advance GDP	Q3	%QoQ	2.0	-	2.5
<b>FRIDAY (8 November)</b>							
14:30	US	Non-farm payrolls	Oct	k	163	-	148
14:30	US	Unemployment rate	Oct	%	7.2	-	7.2

Source: BZ WBK, Reuters, Bloomberg

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

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