

# EYEOPENER

28 January 2014

## Rebound in currency markets

- **Another good data from Germany and weak from USA; expectations for a rate hike in Turkey supported emerging market's currencies; India raised interest rates**
- **EURPLN and USDPLN testing important resistance levels again, no big change in EURUSD**
- **Bonds weaker, IRS up due to investors' retreat from emerging markets**
- **Today important data in the USA, central bank meeting in Turkey**

After significant deterioration of global market sentiment observed at the end of the past week, yesterday's session was also under visible impact of worries over QE3 tapering consequences for emerging markets and possible economic slowdown in China. However, the pressure on emerging market currencies eased when the Turkish central bank called an extraordinary meeting for today. This is the reaction to substantial weakening of lira observed recently. Last week the central bank left interest rates unchanged while some investors anticipated a hike aimed to support the currency. Expectations that decisive actions will be taken today backed Turkish lira and other EM currencies that have lost much in last couple of days. Today, the Reserve Bank of India unexpectedly raised interest rates by 25bp, to 8%. Meanwhile, next positive data was released in Germany – January's Ifo index increased more than expected and reached highest level since July 2011. Data from the US real estate market disappointed but did not have much impact on the market.

EURUSD was hovering around 1.368 for the nearly entire day. The single currency gained temporarily after the German data (the exchange rate reached nearly 1.372), but the correction occurred in the following hours (to 1.365). At the end of the day EURUSD was close to opening level. During the night no major changes occurred and today in the morning the exchange rate is close to 1.368. Important US data is due to be released in the afternoon, particularly on the consumer confidence, that may trigger some higher volatility one day before the FOMC decision. Vital levels are still at 1.365 and 1.374.

Both EURPLN and USDPLN tested crucial resistance levels again on Monday at 4.22 and ca. 3.08, respectively. Information from Turkish central bank about today's special meeting helped the zloty to pare around half of losses suffered earlier in the day vs. the euro

and the dollar, at the end of the domestic session EURPLN was close to 4.21. Step taken by Turkish bank supported also the ruble, forint, and lira of course. At today's opening EURPLN is close to 4.20 and we expect the exchange rate to stay in the 4.18-4.22 range at least until US data releases (and perhaps even until tomorrow's FOMC decision).

On the domestic interest rate market the start of the week was marked by a continued rise of IRS and bond yields. IRS were pushed upwards by investors' worries about reduction of QE3 and weakening of the zloty. As a result, 10Y IRS broke 4.20% yesterday (and amounted to 4.22% after rising by 3bp), 5Y reached 3.76% (as compared to 3.74% at the end of Friday's session), while 2Y was stable. Since the beginning of the last week the middle and the longer end of IRS curve moved up by more than 10bp and the curve is steepest since mid-January. Considerable rises were also observed in case of bond yields – 5 and 10Y sectors climbed by 7bp, the shorter end also lost substantially (5bp – most considerable weakening since mid-December). Debt market trade volumes were decent. WIBOR1-12M did not change.

Head of Debt Department in the Finance Ministry, Piotr Marczak, said yesterday that the ministry is not bothered with dynamic changes on emerging markets, which affected Polish bonds considerably. He stressed that the ministry has already covered 50% of borrowing needs for this year and is calmly observing the market situation.

The MPC's Jerzy Hausner said yesterday in an interview for TVP Info that GDP growth will reach 4% in the second half of 2014 and 3% in the entire year. Our forecasts are slightly less optimistic, we do expect acceleration of growth, but not staying below 4%. The same member reiterated in today's *Rzeczpospolita* daily that the Council in March may send a signal on the direction of monetary policy. He confirmed that interest rate hikes are possible in the second half of the year, assuming that new NBP projection proves that the recovery will be much stronger. "If projection does not show a threat of inflationary pressure, then there are no reasons to change interest rates".

Finance minister Mateusz Szczurek said in an interview for PAP that Poland should make sure that the final shape of the euro zone is safe, before it takes a decision to join the monetary union. He added that public finances should be consolidated and public debt reduced. Szczurek said also that Poland should not rush with entering the banking union and wait until it is completely ready.

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**FX market**

**Today's opening**

EURUSD	1.3668	CADPLN	2.7717
USDPLN	3.0713	DKKPLN	0.5626
EURPLN	4.1970	NOKPLN	0.4992
CHFPLN	3.4242	SEKPLN	0.4782
JPYPLN*	2.9910	CZKPLN	0.1524
GBPPLN	5.0999	HUFPLN*	1.3736

\*for 100JPY/100HUF

**Last session**

**27.01.2014**

	min	max	open	close	fixing
EURPLN	4.1890	4.2337	4.2017	4.2077	4.2291
USDPLN	3.0593	3.0907	3.0705	3.0777	3.0884
EURUSD	1.3652	1.3716	1.3687	1.3675	-

**Interest rate market 27.01.2014**

**T-bonds (on the interbank market)\*\***

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
OK0116 (2Y)	3.02	5	23.04.13	2.748
PS0718 (5Y)	3.73	6	07.11.13	3.589
DS1023 (10Y)	4.47	7	22.10.13	4.302

**IRS rates (on the interbank market)\*\***

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	2.80	0	0.30	0	0.43	1
2L	3.09	-1	0.49	1	0.50	2
3L	3.35	1	0.86	3	0.67	2
4L	3.58	2	1.28	3	0.89	1
5L	3.76	2	1.68	2	1.11	1
8L	4.09	3	2.52	2	1.69	1
10L	4.22	3	2.84	0	1.98	0

**WIBOR rates**

TERM	%	Daily change (bp)
O/N	2.54	-4
T/N	2.57	-1
SW	2.58	-1
2W	2.59	0
1M	2.60	0
3M	2.70	0
6M	2.72	0
9M	2.73	0
1Y	2.75	0

**FRA rates (on the interbank market)\*\***

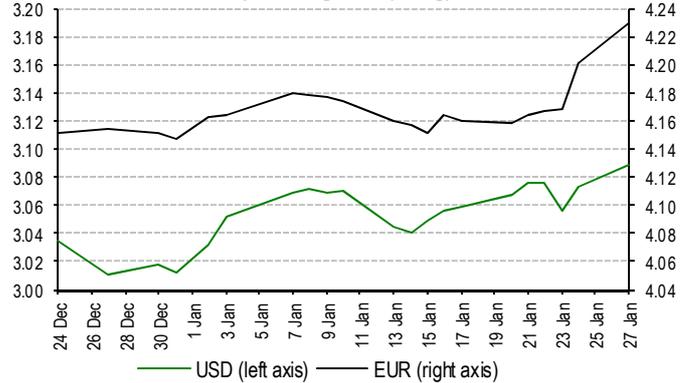
TERM	%	Daily change (bp)
1x2	2.61	-3
1x4	2.71	0
3x6	2.71	0
6x9	2.76	1
9x12	2.91	0
3x9	2.77	3
6x12	2.84	1

**Measures of fiscal risk**

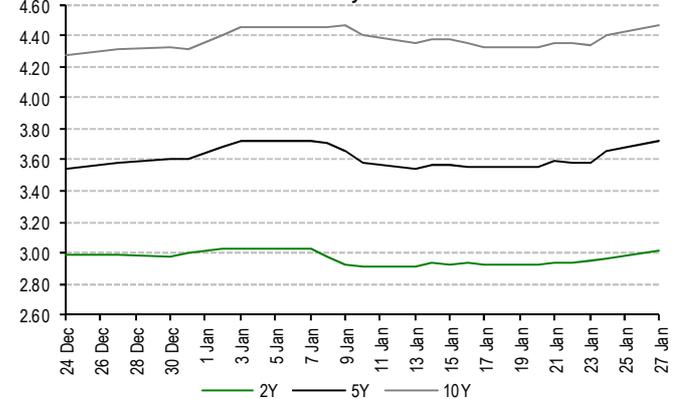
Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	76.8	0	2.78	6
Czech Republic	57.3	0	0.65	-1
Hungary	246.7	1	4.13	3
Greece	37030.5	0	7.08	11
Spain	132.7	1	2.09	-1
Italy	167.4	3	2.23	0
Portugal	291.1	0	3.36	-9
Ireland	105.9	4	1.66	1
Germany	23.5	0	--	--

\* 10Y treasury bonds over 10Y Bunds

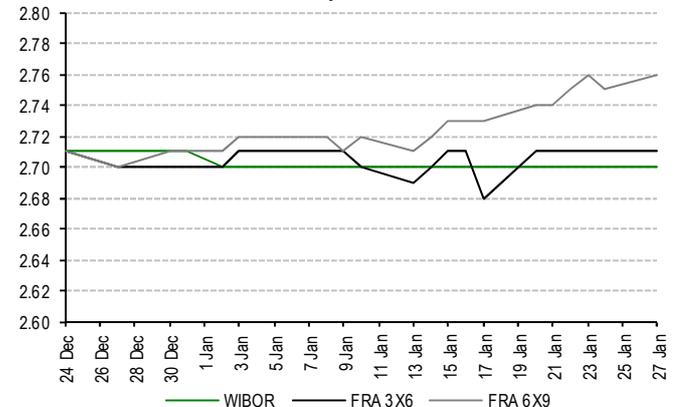
**Zloty exchange rate (fixing)**



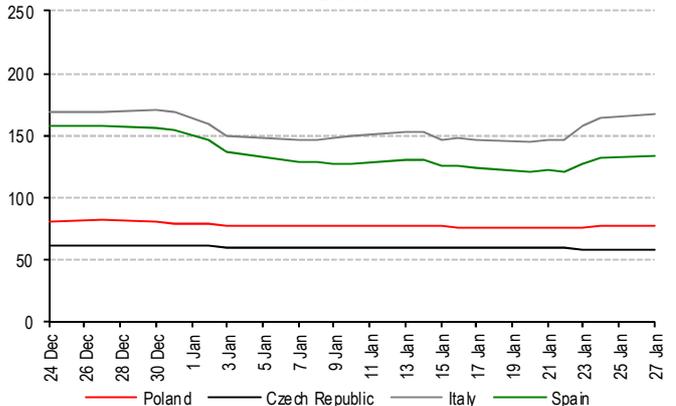
**T-bonds yields**



**3-month money market rates**



**CDS 5Y**



\*\*Information shows mid levels on the interbank market at the end of the trading day

Source: Reuters

## Economic calendar

CET TIME	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	BZWBK		
<b>FRIDAY (24 January)</b>								
10:00	PL	Retail sales	Dec	%YoY	13.6	13.5	13.4	13.2
10:00	PL	Unemployment rate	Dec	%	6.8	7.3	5.8	3.8
<b>MONDAY (27 January)</b>								
10:00	DE	Ifo index	Jan	pts	110	-	110.6	109.5
16:00	US	New home sales	Dec	k	458	-	414	445
<b>TUESDAY (28 January)</b>								
14:30	US	Durable goods orders	Dec	%MoM	1.8	-		3.5
15:00	US	S&P/Case-Shiller home price index	Nov	%MoM	0.8	-		1.05
16:00	US	Indeks nastroju konsumentów	Jan	pts	78.0	-		78.1
<b>WEDNESDAY (29 January)</b>								
20:00	US	Outcome of the FOMC meeting						
<b>THURSDAY (30 January)</b>								
2:45	CN	PMI – manufacturing	Jan	pts	49.6	-		50.5
10:00	PL	GDP	2013	%YoY	1.5	1.5		1.9
14:30	US	Advance GDP	Q4	%QoQ	3.2	-		4.1
14:30	US	Initial jobless claims	week	k	330	-		326
16:00	US	Pending home sales	Dec	%MoM	0.2	-		0.2
<b>FRIDAY (31 January)</b>								
14:00	PL	Inflation expectations	Jan	%YoY	-	-		0.7
14:30	US	Personal income	Dec	%MoM	0.2	-		0.2
14:30	US	Consumer spending	Dec	%MoM	0.2	-		0.5
15:55	US	Michigan index	Jan	pts	81.0	-		82.5

Source: BZ WBK, Reuters, Bloomberg

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

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