EYEOPENER

29 January 2014

Yesterday CBRT, today FOMC

- **Turkey surprised doubling interest rates overnight, strengthening emerging markets' currencies and equities**
- **Zloty stronger versus euro and dollar, EURUSD under influence of US data**
- **Calming down of situation in global market supported Polish debt and lowered IRS rates**
- **FOMC decision today in the evening**

After a quite volatile last week and high risk aversion persisting on Monday, Tuesday saw some stabilization of situation on the global market. Decision of Turkish central bank to hold an emergency meeting was positively received by investors as they hoped that brave steps will be taken. Additionally, an interest rate hike in India was interpreted as a step aimed at supporting the currency and also contributed to stabilization, or even slight strengthening of assets from developing markets. Furthermore, December's US industrial orders clearly disappointed as they showed weakest performance since July 2013. This release slightly tamed worries that the FOMC will taper QE3 by $10bn (to $65bn) as soon as today in the evening. On the other hand, the tone of this data was neutralized by better than expected publication of consumer confidence index – in January it reached highest level since August 2013.

At midnight local time the Central Bank of the Republic of Turkey (CBRT) indeed took brave steps towards supporting the currency as it doubled the main interest rates: one-week repo from 4.5% to 10%, overnight deposit rate from 3.5% to 8% and overnight lending rate from 7.75% to 12%. This decision was taken despite strong government's pressure to keep them unchanged. Also, the central bank of Argentina decided to increase interest rates. Those decisions triggered a wave of optimism on the EM markets – strengthening of currencies and triggering rise of stock prices on Asian stock exchanges.

EURUSD exchange rate declined to 1.363 in the morning trade due to persisting fears that FOMC will decide to continue QE3 tapering. The strength of this factor was reduced to some extent by data about industrial orders in the US, however the scale of rebound have been limited by slightly better than forecast reading of US consumer confidence. Eventually, EURUSD ended the day near 1.366 and at night there were no significant changes. It seems that currently market players' mood ahead of FOMC's decision is different from situation last month. Then investors expected Fed to keep QE3 programme unchanged, but they did not exclude some gradual changes. Now, it is widely expected that FOMC will continue tapering by another $10bn, but last turmoil on the global FX market (and weak December's non-farm payrolls) renewed hopes that the FOMC will leave QE3 unchanged. In our opinion Fed will continue tapering and will decide to reduce program by $10bn, but more crucial will be details about perspectives for coming months and this factor will set direction for EURUSD.

Yesterday the EURPLN and USDPLN fell temporarily thanks to a rebound after recent deterioration of moods in the global market. EURPLN slid even to 4.18 (from 4.22-4.23 on Monday), but failed to break this support. Despite weak data from the USA and rebound of EURUSD, at the end of the day the euro again was worth ca. 4.20 PLN, while USDPLN was close to 3.075. The surprising decision of the Turkish central bank affected the EURPLN exchange rate considerably – overnight the rate fell and this morning it is back at 4.18. We are not expecting the FOMC decision to reduce QE3 by $10bn to affect the domestic currency negatively – the market has already been pricing-in such a possibility recently. Market's assessment of future QE3 reductions is more important, but also the further development of investors' sentiments towards emerging markets. Further support after 4.18 is at 4.14, further resistance after 4.22 is at 4.25.

On the domestic interest rate market the new week is marked by a quite considerable volatility. Yesterday, contrary to changes on Monday, IRS rate fell slightly – by ca. 2bp for 5 and 10Y, the shorter end remained stable. More significant move was observed in case of bonds – yields of medium- and long-term bonds fell by 5bp. What is interesting, the short end moved up by 4bp, so the bond curve flattened visibly (2-10Y spread fell to the lowest level since end of 2013). However, trade volumes were noticeably lower than on Monday.

Deputy finance minister Wojciech Kowalczyk said in an interview with PAP that the ministry is going to conduct two T-bond auctions per month, even though already 50% of this year's borrowing needs have been covered. He did not rule out an earlier realization of the whole needs, should demand for bonds stay high. Earlier the deputy minister was estimating that this can happen in July. He added that weakening of the zloty, observed recently, is due to the global situation, not domestic fundaments. In his view "the volatility was not especially high or worrying".

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FX market

Today's opening

EURUSD	1.3666	CADPLN	2.7474
USDPLN	3.0640	DKKPLN	0.5612
EURPLN	4.1870	NOKPLN	0.5007
CHFPLN	3.4067	SEKPLN	0.4780
JPYPLN*	2.9662	CZKPLN	0.1523
GBPPLN	5.0806	HUFPLN*	1.3817

*for 100JPY/100HUF

Last session 28.01.2014

	min	max	open	close	fixing
EURPLN	4.1791	4.2065	4.1970	4.2012	4.1827
USDPLN	0.0000	3.0748	3.0713	3.0748	3.0635
EURUSD	0.0000	1.3668	1.3668	1.3664	-

Interest rate market 28.01.2014

T-bonds (on the interbank market)**

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
OK0116 (2Y)	3.06	4	23.04.13	2.748
PS0718 (5Y)	3.68	-5	07.11.13	3.589
DS1023 (10Y)	4.42	-6	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	0.42	-1
2L	3.10	1	0.49	0	0.50	0
3L	3.34	-1	0.86	-1	0.66	-1
4L	3.56	-2	1.28	0	0.88	-1
5L	3.74	-2	1.68	0	1.11	0
8L	4.07	-2	2.53	1	1.69	0
10L	4.20	-2	2.87	3	1.98	0

WIBOR rates

TERM	%	Daily change (bp)
O/N	2.54	0
T/N	2.56	-1
SW	2.58	0
2W	2.59	0
1M	2.60	0
3M	2.70	0
6M	2.72	0
9M	2.73	0
1Y	2.75	0

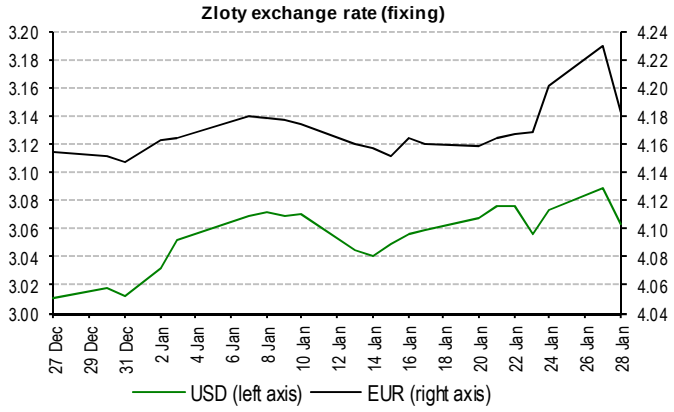
FRA rates (on the interbank market)**

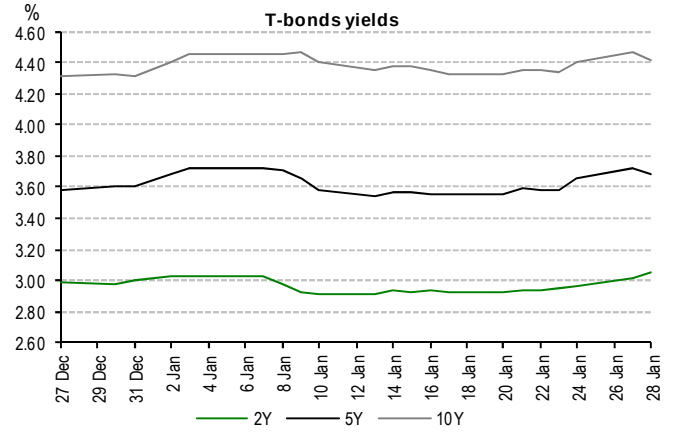
TERM	%	Daily change (bp)
1x2	2.61	0
1x4	2.70	-1
3x6	2.71	0
6x9	2.75	-1
9x12	2.89	-2
3x9	2.76	-1
6X12	2.83	-1

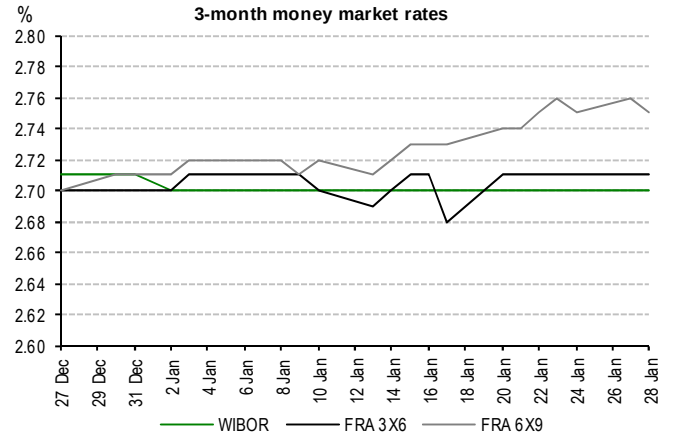
Measures of fiscal risk

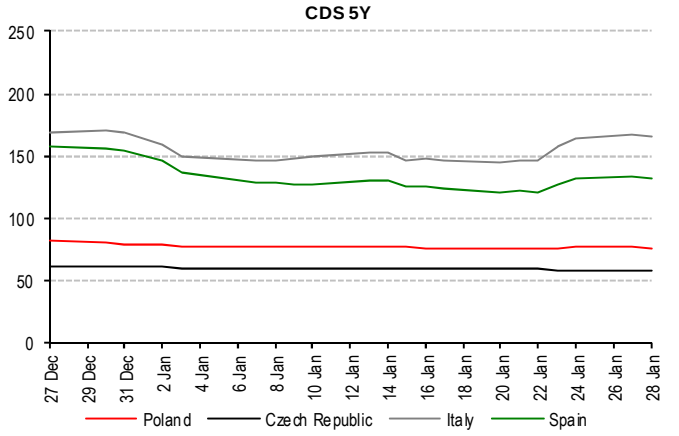
Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	76.0	-1	2.74	-4
Czech Republic	57.3	0	0.64	0
Hungary	246.7	0	4.10	-2
Greece	37030.5	0	6.98	-10
Spain	132.5	0	2.01	-8
Italy	165.0	-2	2.17	-6
Portugal	293.8	3	3.26	-10
Ireland	103.4	-2	1.64	-2
Germany	23.5	0	--	--

* 10Y treasury bonds over 10Y Bunds









**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 MARKET	FORECAST BZWBK	ACTUAL VALUE	LAST VALUE*
		FRIDAY (24 January)						
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**
		MONDAY (27 January)						
10:00	DE	Ifo index	Jan	pts	110	-	110.6	109.5
16:00	US	New home sales	Dec	k	458	-	414	445
		TUESDAY (28 January)						
14:30	US	Durable goods orders	Dec	%MoM	1.8	-	-4.3	2.6
15:00	US	S&P/Case-Shiller home price index	Nov	%MoM	0.8	-	0.88	1.05
16:00	US	Indeks nastroju konsumentów	Jan	pts	78.0	-	80.7	77.5
		WEDNESDAY (29 January)						
20:00	US	Outcome of the FOMC meeting						
		THURSDAY (30 January)						
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
		FRIDAY (31 January)						
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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