

# EYEOPENER

24 November 2014

## ECB and PBOC supported market moods

- **Dovish Mario Draghi and interest rate cut in China supported moods at the end of the week**
- **Hopes for further policy easing by the ECB strengthened zloty versus euro and weakened against dollar due to sharp drop of EURUSD**
- **IRS and bond yields much lower thanks to ECB and China**
- **Official election results very much different from exit polls**
- **Today, German Ifo index**

End of the week in the global market was quite dynamic, despite lack of important data releases. Friday's dovish speech of the ECB governor and information from China caused a rapid strengthening of the dollar, strong gains in the European stock markets and appreciation of CEE currencies. Mario Draghi said that the central bank is ready to accelerate pace of asset purchases and to change the structure of purchases, if necessary. This comment was especially important given Thursday's weak data about the euro zone's flash PMI. The global moods were also supported by the decision of Chinese central bank to cut interest rates for the first time in two years in order to support the economy. Moreover, in the afternoon the ECB announced it began purchases of asset-backed securities (decision to do it was taken in September). Information from the ECB and actions of the Chinese central banks supported stock markets in the US and in Asia.

EURUSD plunged significantly on Friday in response to the ECB governor's comments. Consequently, the exchange rate reached nearly 1.24 and was close to this weekly low at the end of the Polish session. During the Friday's US trading hours and today during the Asian session the dollar continued to appreciate and EURUSD reached 1.236 temporarily. Today in the morning the exchange rate is back to 1.24, however. German Ifo index is due today. Flash November manufacturing PMIs disappointed and if Ifo proves weak as well, then EURUSD could drop further. First support for today is at 1.236.

EURPLN tested 4.20 at the end of the week. Just like we had suggested, the sole factor that could push the exchange rate noticeably down on Friday was the speech of Mario Draghi. And indeed, this was the case as EURPLN reached 4.19 temporarily, lowest level since mid-October. However, the zloty lost vs. the dollar due to sharp plunge of EURUSD – USDPLN surged to 3.38 from 3.35. Today in the morning EURPLN is close to 4.20. Hopes for more central bank actions should continue to support the zloty. Also, the Russian ruble gains significantly today in the morning (USDRUB is below 45) and this is also a good sign for the CEE

currencies. If EURPLN breaks 4.19, then it has the door open to further drop to 4.16-4.17.

In the domestic interest rate market IRS and bond yields plunged by c10bp due to the very dovish comments of the ECB governor and a rate cut in China. The trade volume in the Polish market on Friday was the highest in the past week. 1-12M WIBOR rates stayed unchanged on Friday.

The stat office released on Friday survey data indicating some deterioration in the consumer confidence in November. The current situation assessment index dropped mainly due to weaker outlook for the future economic situation in Poland and future financial situation of the household. However, the capabilities of bigger purchases improved. Also the survey results for companies were released. Sentiment in the manufacturing sector improved this month vs. October and this is the best November for three years.

Results of the Polish local government elections were finally announced. They showed that Civic Platform won most seats in the voivodeship councils (179) while Law and Justice won 171, Polish Peasant Party 157 seats. Law and Justice was supported by 26.85% of voters, Civic Platform by 26.36%, Polish Peasant Party by 23.68% and Democratic Left Alliance by 8.78%.

MPC's Jerzy Osiatyński reiterated in an interview for Krytyka Polityczna his three arguments in favour of interest rate cuts. First, inflation will not return to the target for a long time so the central bank should focus on supporting the government's policy. Second, interest rates in Poland are higher than abroad and this poses a risk of short-term capital inflow, which can excessively strengthen the Polish currency. Third, if savings yield more than investment, then firms will be discouraged from investing. In his view, even if the reference rate is cut by 50bp to 1.50%, the MPC would still have "enough manoeuvre" to conduct conventional monetary policy. It is interesting that the MPC member who we perceived as the most dovish mentioned the possibility to cut rates "even by 50bp", while the MPC voted in November whether to cut rates by 100bp. Apparently, there is someone in the Council who is currently even more dovish than Osiatyński.

This week will bring the last set of macro data that may determine the central bank's next decision. Despite the fact that the calendar is filled with US data, investors will focus on the European flash HICP reading, the most important from the perspective of the ECB's QE launch. When it comes to Poland, investors will get to see retail sales and the 3Q GDP breakdown. These two releases could be an impulse that changes the balance of votes on the MPC already in December. However, if there is a rate cut, it will probably not be bigger than 25bp, in our view.

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**FX market**

**Today's opening**

EURUSD	1.2401	CADPLN	3.0149
USDPLN	3.3871	DKKPLN	0.5646
EURPLN	4.1991	NOKPLN	0.4986
CHFPLN	3.4929	SEKPLN	0.4537
JPYPLN*	2.8721	CZKPLN	0.1519
GBPPLN	5.3068	HUFPLN*	1.3797

\*for 100JPY/100HUF

**Last session**

**21.11.2014**

	min	max	open	close	fixing
EURPLN	4.1915	4.2125	4.2115	4.1957	4.2088
USDPLN	3.3501	3.3874	3.3579	3.3803	3.3827
EURUSD	1.2404	1.2554	1.2543	1.2413	-

**Interest rate market 21.11.2014**

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

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
PS1016 (2Y)	1.75	-15	23.10.2014	1.653
DS1019 (5Y)	2.03	-13	23.10.2014	2.007
DS1023 (10Y)	2.48	-15	03.04.2014	4.261

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

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	1.82	-6	0.34	-1	0.18	-1
2L	1.81	-11	0.71	-3	0.21	-2
3L	1.84	-11	1.13	-2	0.26	-3
4L	1.88	-13	1.48	-2	0.33	-4
5L	1.95	-14	1.74	-2	0.41	-5
8L	2.16	-16	2.23	-2	0.75	-7
10L	2.30	-16	2.43	-1	0.98	-7

**WIBOR rates**

TERM	%	Daily change (bp)
O/N	2.11	0
T/N	2.11	0
SW	2.08	0
2W	2.08	0
1M	2.08	0
3M	2.06	0
6M	2.05	0
9M	2.04	0
1Y	2.03	0

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

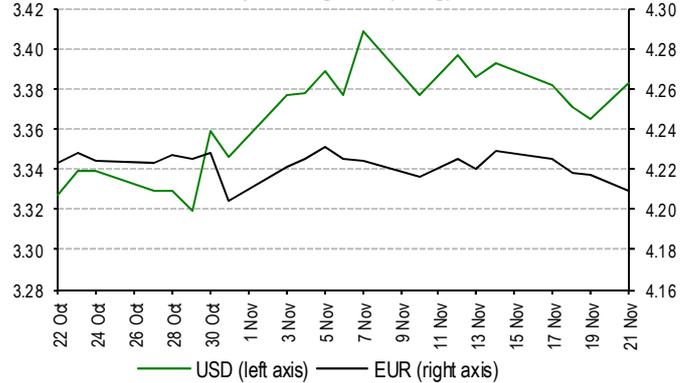
TERM	%	Daily change (bp)
1x2	1.95	-6
1x4	1.95	-7
3x6	1.81	-12
6x9	1.69	-11
9x12	1.70	-11
3x9	1.80	-12
6x12	1.69	-11

**Measures of fiscal risk**

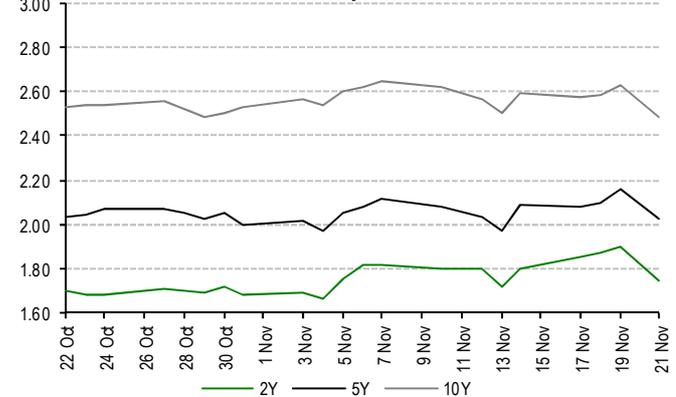
Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	65.7	0	172	-8
Czech Republic	46.9	0	0.02	3
Hungary	172.3	0	2.94	3
Greece	37030.5	0	7.15	-24
Spain	91.1	-1	127	-3
Italy	116.3	-1	146	-2
Portugal	188.0	-2	2.24	-6
Ireland	52.0	-1	0.72	-1
Germany	16.9	0	--	--

\* 10Y treasury bonds over 10Y Bunds

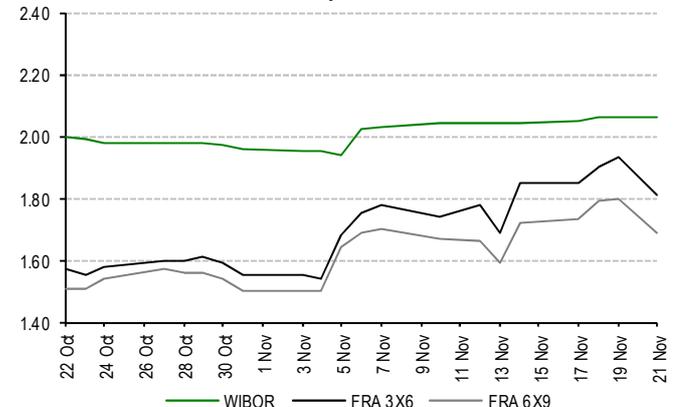
**Zloty exchange rate (fixing)**



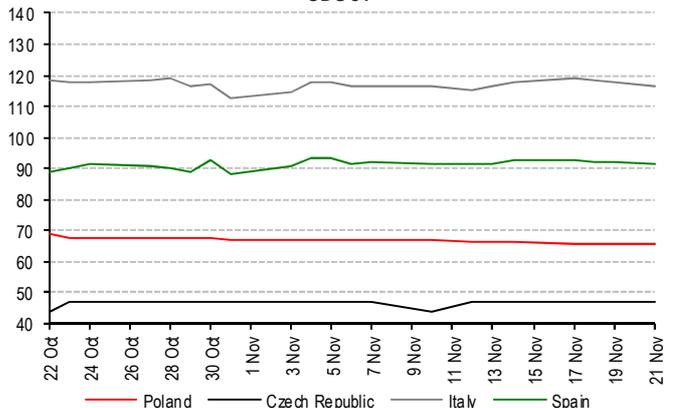
**T-bonds yields**



**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 (21 November)</b>							
No important data releases							
<b>MONDAY (24 November)</b>							
10:00	DE	Ifo index	Nov	pts	103.3	-	103.2
<b>TUESDAY (25 November)</b>							
8:00	DE	GDP	Q3	%YoY	1.2	-	1.4
<b>10:00</b>	<b>PL</b>	<b>Retail sales</b>	<b>Nov</b>	<b>%YoY</b>	<b>2.2</b>	<b>3.1</b>	<b>1.6</b>
<b>10:00</b>	<b>PL</b>	<b>Unemployment rate</b>	<b>Nov</b>	<b>%YoY</b>	<b>11.4</b>	<b>11.3</b>	<b>11.5</b>
14:00	HU	Central bank decision		%	2.1	-	2.1
14:30	US	Preliminary GDP	Q3	%YoY	3.3	-	4.6
16:00	US	Consumer confidence index	Nov	pts	95.8	-	94.5
<b>WEDNESDAY (26 November)</b>							
14:30	US	Durable goods orders	Oct	%MoM	-0.6	-	-1.3
14:30	US	Personal income	Oct	%MoM	0.4	-	0.2
14:30	US	Consumer spending	oct	%MoM	0.3	-	-0.2
14:30	US	Initial jobless claims	week	k		-	291
15:55	US	Michigan sentiment index	Nov	pts	90.0	-	89.4
16:00	US	Pending home sales	Oct	%MoM	0.8	-	0.3
16:00	US	New home sales	Oct	k	470	-	467
<b>THURSDAY (27 November)</b>							
	US	Market holiday					
<b>FRIDAY (28 November)</b>							
9:00	CZ	GDP	Q3	%YoY	2.3	-	2.5
<b>10:00</b>	<b>PL</b>	<b>GDP</b>	<b>Q3</b>	<b>%YoY</b>	<b>3.3</b>	<b>3.3</b>	<b>3.5</b>
11:00	EZ	Flash HICP	Nov	%YoY	0.3	-	0.4
<b>14:00</b>	<b>PL</b>	<b>Inflation expectations</b>	<b>Nov</b>	<b>%YoY</b>	<b>-</b>	<b>-</b>	<b>0.2</b>

Source: BZ WBK, Reuters, Bloomberg

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

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