

# EYEOPENER

29 January 2015

## Fed's interest rate hikes in 2015 still possible

- **Weak moods ahead of FOMC meeting, Fed still "patient" as regards rate hikes**
- **Zloty stable versus euro and weaker versus dollar due to decline of EURUSD**
- **Polish bond yields and IRS rates strongly up**
- **Today US data**

The rather weak Tuesday's sentiment was present also on Wednesday. Investors were worried about further development of situation in the euro zone, after the new Greek PM Alexis Tsipras announced a radical change in government policies. The market assessed that this generated a considerable risk as regards talks with Troika on help conditions. In due course, the Greek stock market continued declines, while yields of Greek bonds climbed significantly, with 10Y yield surging above 10%. Rise in risk aversion due to situation in Greece again shifted the investors' demand to assets perceived safe – yield of 10Y German bond declined by 3bps. Yesterday the EU warned that it may impose further sanctions on Russia. This is a response to escalation of conflict in Ukraine.

In line with expectations, the Fed kept interest rates unchanged, while the statement did not change much. The document reiterated that the FOMC may afford being "patient" about monetary policy normalisation, but dropped the declaration that rates will remain low for an extended period. The FOMC noted solid economic growth and strong rise of employment. On the other hand, the authority sees downward risk for inflation (yet return towards 2% is possible in the medium term) and rise in global risk, which will be taken into account while making decision on rates. The decision triggered a sell-off in the US stock market, but also a strengthening of the US currency. US bonds gained (10Y bond yield fell by c10bps).

On Wednesday's session EURUSD was mostly stable near 1.135 waiting for FOMC outcome. However, the US dollar gained slightly at the end of the domestic session, with EURUSD falling to 1.132. The FOMC communiqué was less dovish than the previous one, which strengthened the US dollar during American and Asian sessions. However, the scope of move was rather limited and today in the morning EURUSD was trading near 1.13. The US data, which will be released later during the day will be in the focus – positive surprises might support the US currency.

Yesterday, EURPLN was more or less stable close to 4.23, while USDPLN increased quite visibly (to 3.75 from 3.72). Domestic session was relatively calm ahead of FOMC decision, but at the end the zloty lost slightly against the euro (and a bit more against the US dollar). FOMC statement did not postpone the first rate hike expectations, which negatively affected risky assets, including the zloty. Today morning EURPLN is near 4.25. The beginning of session in the European equity market will be rather negative, which could limit zloty's appreciation. Market volatility might be low as investors will wait for more signals from the US economy – releases of data from labour and real estate markets.

In the domestic interest rate market bond yields did not move much but IRS increased quite noticeably – by 4-6bp. 3M, 6M and 12M WIBOR rates dropped by 1bp. The rising risk aversion due to uncertainty regarding further developments in Greece (currently the Greek curve is reversed suggesting that market sees rising risk that this country could default) may encourage to take profit in the Polish bond market despite the continued strengthening in the core markets.

MPC member, Jerzy Hausner, wrote in his report that in the case of temporary deflation – both demand and cost types that do not reflect the actual equilibrium in GDP/labour market/price developments – a higher interest rate is a better approach given the risk for a reversal of the global price trends. This is the first such suggestion of this member. In our opinion, this scenario is rather unlikely and prolonging deflation in Poland will convince the MPC to cut rates by 25bp probably in March.

According to the report released yesterday by the NBP, in 4Q companies perceived the economic conditions as positive and expected a further improvement in 1Q15. The optimistic assessment was supported by, among others, falling commodity prices and compensated for low demand and non-rising prices of the final goods. Positive outlook for 1Q15 is the result of acquiring new markets or higher sales in the Polish market where consumption is supported by falling unemployment rate and rising wages. In contrast to past years, when first three months of the year were characterized by falling employment, this year companies that plan to employ outnumber those that intend to reduce staff. Results of this report support our scenario assuming positive contribution from the private consumption into the GDP on the back of improvement in the labour market and rising disposable incomes of households.

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## FX market

## Today's opening

EURUSD	1.1293	CADPLN	3.0038
USDPLN	3.7615	DKKPLN	0.5706
EURPLN	4.2470	NOKPLN	0.4806
CHFPLN	4.1356	SEKPLN	0.4541
JPYPLN*	3.1943	CZKPLN	0.1531
GBPPLN	5.6981	HUFPLN*	1.3578

\*for 100JPY/100HUF

## Last session

28.01.2015

	min	max	open	close	fixing
EURPLN	4.2230	4.2405	4.2345	4.2396	4.2348
USDPLN	3.7120	3.7496	3.7246	3.7391	3.7276
EURUSD	1.1305	1.1382	1.1368	1.1339	-

## Interest rate market 28.01.2015

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

Bond (term)	Yield (%)	Change (bp)	Last auction	Offered paper	Avg yield
PS1016 (2Y)	1.54	4	22.01.2015	OK0717	1.734
DS1019 (5Y)	1.67	-1	22.01.2015	PS0420	1.978
DS0725 (10Y)	2.00	0	15.01.2015	DS0725	2.295

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

Table 1 (On the medium market)						
TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	1.60	1	0.40	1	0.12	0
2L	1.57	4	0.76	3	0.12	0
3L	1.55	4	1.07	4	0.16	0
4L	1.56	4	1.30	5	0.22	0
5L	1.59	4	1.47	4	0.30	0
8L	1.72	4	1.80	5	0.56	0
10L	1.82	5	1.93	4	0.72	0

## WIBOR rates

TERM	%	Daily change (bp)
O/N	2.01	18
T/N	2.02	13
SW	2.02	1
2W	2.02	-1
1M	2.02	0
3M	2.00	-1
6M	1.99	-1
9M	1.99	0
1Y	1.98	-1

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

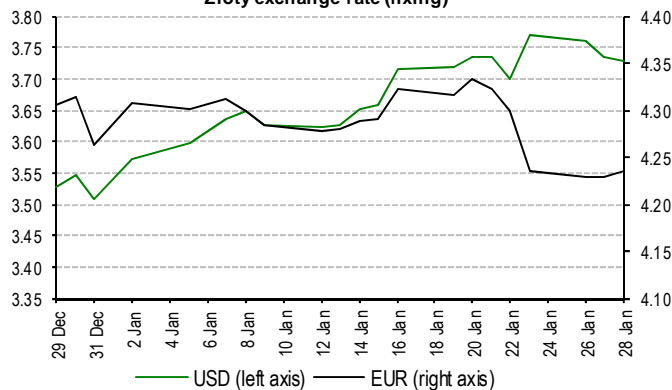
TERM	%	Daily change (bp)
1x2	1.90	1
1x4	1.88	3
3x6	1.61	4
6x9	1.39	3
9x12	1.37	3
3x9	1.59	2
6x12	1.40	4

## Measures of fiscal risk

Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	68.2	0	163	3
Czech Republic	50.3	0	0.04	2
Hungary	164.4	-2	2.45	-6
Greece	37030.5	0	10.32	103
Spain	73.8	5	1.07	5
Italy	94.1	4	1.26	6
Portugal	158.2	6	1.98	18
Ireland	45.5	0	0.79	4
Germany	16.3	0	--	--

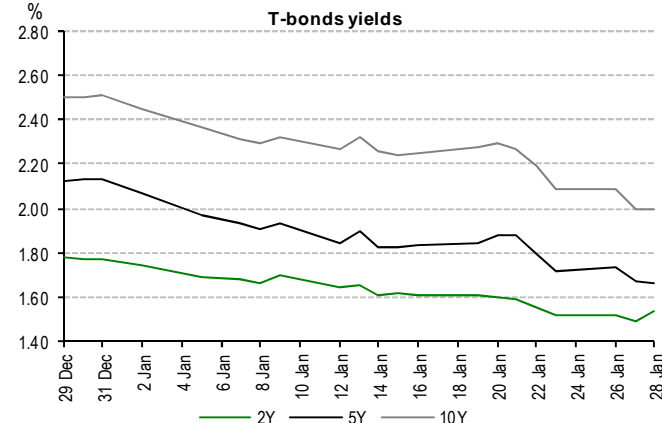
\* 10Y treasury bonds over 10Y Bunds

## Zloty exchange rate (fixing)



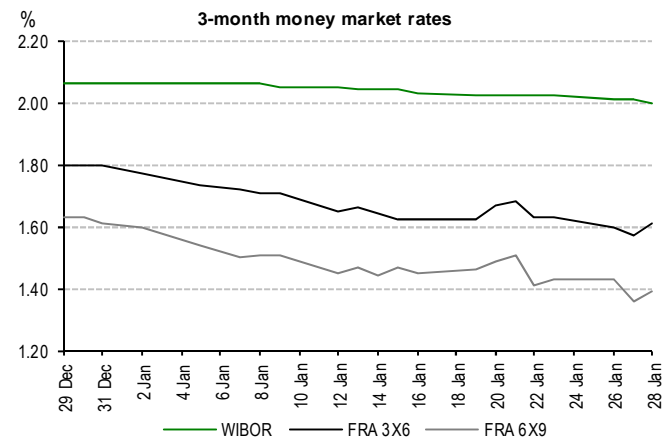
— USD (left axis) — EUR (right axis)

## T-bonds yields



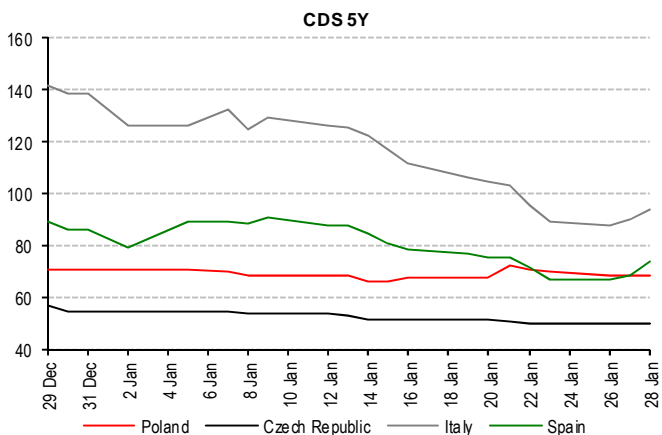
— 2Y — 5Y — 10Y

## 3-month money market rates



— WIBOR — FRA 3x6 — FRA 6x9

## CDS 5Y



— Poland — Czech Republic — Italy — Spain

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

Source: Reuters

## Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	BZWBK			
FRIDAY (23 January)								
2:45	CN	Flash PMI – manufacturing	Jan	pts	49.5	-	49.8	49.6
9:30	DE	Flash PMI – manufacturing	Jan	pts	51.6	-	51.0	51.2
10:00	EZ	Flash PMI – manufacturing	Jan	pts	51.0	-	51.0	50.6
16:00	US	Home sales	Dec	%MoM	2.4	-	2.4	-6.3
MONDAY (26 January)								
10:00	DE	Ifo index	Jan	pts	106.2	-	106.7	105.5
TUESDAY (27 January)								
10:00	PL	GDP	2014	%YoY	3.3	3.3	3.3	1.7
10:00	PL	Retail sales	Dec	%YoY	2.2	1.2	1.8	-0.2
10:00	PL	Unemployment rate	Dec	%	11.6	11.5	11.5	11.4
14:00	HU	Central bank decision		%	2.1	-	2.1	2.1
14:30	US	Durable goods orders	Dec	%MoM	0.4	-	-3.4	-2.1
16:00	US	New home sales	Dec	k	450	-	481	431
16:00	US	Consumer confidence index	Jan	pts	95.5	-	102.9	93.1
WEDNESDAY (28 January)								
20:00	US	FOMC decision						
THURSDAY (29 January)								
14:30	US	Initial jobless claims	week	k	300	-		307
16:00	US	Pending home sales	Dec	%MoM	0.5	-		0.8
FRIDAY (30 January)								
11:00	EZ	Flash HICP	Jan	%YoY	-0.5	-		-0.2
14:00	PL	Inflation expectations	Jan	%YoY	-	-		0.2
14:30	US	Advance GDP	Q4	%QoQ	3.3	-		5.0
16:00	US	Michigan index	Jan	pts	98.2	-		98.2

Source: BZ WBK, Reuters, Bloomberg

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

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