Bank Zachodni WBK

Eyeopener – Market rates up after MPC meeting

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- **Zloty weakened versus majors, local bonds also weaker after the MPC meeting**
- **Today data releases abroad (monetary statistics and economic sentiment indices in the euro zone as well as GDP figures in the US)**

Zloty weakening observed on Tuesday was continued yesterday. EURPLN increased during the day to almost 3.34, in line with our predictions, and USDPLN rose to 2.276. In the second part of the day, there was a slight rebound to 3.334 and 2.267. Other currencies in the region weakened as well. This time, relation between zloty movements and EURUSD behaviour was weaker. Today in the morning, the zloty was traded close to yesterday's closing level against the euro, while it strengthened against dollar after a rise in EURUSD to 1.478.

At the start of yesterday's session, the dollar was weakening against the euro, even to 1.477, among others due to comments of ECB official Alex Weber who said that it is too early to talk about interest rate cuts in the euro zone. Moreover, amid weakening dollar there was a rise in oil price to $114 p/b in the face of persisting geo-political tensions (Russia-Georgia conflict) and information about Gustav hurricane that may threaten drilling rigs near the US coast. Nevertheless, better than expected data from the US economy helped the dollar to rebound to 1.471 at the end of the session. Durable goods orders increased in July by 1.3%MoM, while analysts predicted no change versus June. Capital goods orders excluding national defense and aircrafts, that are a gauge of investment expenditures, increased as much as 2.6%.

The level of 3.34 is an important resistance for the EURPLN rate and 3.36 is the next one. In our view the zloty is not going to weaken above the latter level at the next sessions. After a slight weakening we expect the zloty to recover amid possible upward correction in EURUSD.

In the local interest rate market, there was quite significant weakening yesterday. This resulted partly from the market interpretation of the Monetary Policy Council statement and central bankers' comments. The core debt markets' behaviour additionally harmed Polish bonds.

The Polish MPC left interest rates unchanged at 6% at its meeting yesterday, as expected. Although the MPC statement and comments of the Council members led to interest rate market weakening, in our view the Council's opinions have not changed much since the previous meeting. The inflation risk remains considerable in the MPC's view and this should require further monetary tightening. However, on the other hand, deeper economic slowdown abroad will persuade the Council to be cautious. Overall, we expect that the next rate hike of 25bp will be delivered only in October when the new projection of inflation and GDP will confirm that economic slowdown will be moderate and return of inflation to the target quite slow. Please find more details on the MPC meeting in our *Instant comment* published yesterday.

In the interviews after the MPC meeting, representatives of the hawkish faction of the MPC, Dariusz Filar and Marian Noga confirmed their opinion on the necessity of further monetary policy tightening, though they did not clearly state that more than one interest rate hike would be needed. On the other hand, moderate rate-setter Jan Czekaj said yesterday in the evening in an interview with TVN CNBC that GDP growth next year may decelerate to 4-4.5% and this will probably weaken the pressure on prices growth. He emphasized that according to the official communiqué of the MPC the monetary policy tightening has not ended. However, he does not see a possibility of interest rate cut this year, though he did not rule out this next year.

On the core debt markets, yesterday's price drop was connected with expectation for auction of 2Y bonds ($32bn) and better than predicted data on durable goods orders in the US. The data supported stock markets. Yields of 10Y Treasuries and Bunds increased significantly during the day to 3.84% and 4.21%, respectively, from 3.80% and 4.12% at the opening, although at the end of the session there was a rebound to 3.82% and 4.20% correspondingly. After close of the Polish session there was a recovery in prices, which brought yields of 10Y Treasuries and Bunds to 3.78% and 4.14%, respectively, today in the morning.

Today, publication of important data will only take place abroad. Monetary statistics published by ECB at 8:00 GMT should show further slowdown of M3 money supply growth in the euro zone in August, according to market expectations to 9.1%YoY from 9.5%YoY in July. At 9:00 GMT, EURUSD rate may be influenced by release of sentiment indices for the euro zone. Median of market forecasts points to a drop in the economic sentiment index to 89.1pts from 89.5pts. Preliminary GDP for the second quarter for the US will be announced at 12:30 GMT. Estimates point at acceleration of the GDP growth to 2.7% from 1.9% according to the previous estimates. Moreover, it is worth to watch core price index PCE (consensus at 2.1%, unchanged since the 2Q). At the same time, we will get data from the US labour market. Wall Street analysts predict a slight drop in new jobless claims to 428'000 from 430'000.

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F/X rates (today's opening)

EURUSD	1.4778	CADPLN	2.1617
USDPLN	2.2579	DKKPLN	0.4474
EURPLN	3.3360	NOKPLN	0.4220
CHFPLN	2.0651	SEKPLN	0.3545
JPYPLN*	2.0731	CZKPLN	0.1354
GBPPLN	4.1436	HUFPLN	1.4132

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.3229	3.3390	3.3240	3.3345	3.3275
USDPLN	2.2534	2.2763	2.2595	2.2673	2.2605
EURUSD	1.4682	1.4772	1.4712	1.4708	-

T-bonds

TERM	BOND	Yield (%)	Change (bp)	Last auction	Average yield
2Y	OK0710	**6.23**	**7**	6.08	6.471
5Y	PS0413	**6.13**	**11**	7.05	6.155
10Y	DS1017	**6.06**	**7**	9.07	6.5

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1Y	6.46	7	2.98	-1	5.11	4
2Y	**6.17**	**7**	3.29	-2	4.82	7
3Y	6.01	6	3.59	-8	4.72	7
4Y	5.93	5	3.82	-4	4.67	6
5Y	**5.88**	**6**	4.01	-4	4.64	5
8Y	5.80	6	4.32	-5	4.64	5
10Y	**5.76**	**4**	4.46	-4	4.69	4

WIBOR rates

TERM	%	Daily change (bp)
O/N	6.18	2
T/N	6.18	1
SW	6.20	0
2W	6.21	0
1M	6.25	1
3M	6.46	-1
6M	6.57	1
9M	6.59	1
1Y	6.62	-1

FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	6.26	1
3X6	6.39	5
6X9	6.23	6
9X12	6.01	6
3X9	6.40	10
6X12	6.17	6

* for 100 JPY

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