

# Eyeopener – The zloty much weaker again

12 November 2008

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- **The zloty weakens again, local debt market illiquid, fall in FRA and IRS rates**
- **Next rating agency downgrades Hungary, while Poland's rating affirmed**
- **Today local balance of payments figures and switch bond auction as well as the euro zone's industrial output data**

On Monday, during the long weekend before the Independence Day in Poland and Veteran's Day in the US, there was a significant zloty weakening amid limited liquidity. EURPLN increased during the domestic session above 3.70 from 3.63 at the opening, while USDPLN soared to almost 2.90; the main weakening move took place in the afternoon after deterioration in moods in global markets. EURUSD rate increased in the first part of the day to over 1.29 in reaction to growing risk appetite after news from China about the government's plan to support the economy with a rescue package worth nearly \$600bn. However, in the afternoon the dollar rebounded to opening levels, i.e. ca. 1.28, amid deterioration in moods in international markets. Worsening of market sentiment and fall in EURUSD was continued on Tuesday (today in the morning 1.26), which translated into weakening of the zloty (amid little market liquidity due to market holiday in Poland) together with other currencies in the region. Among Central and Eastern European countries the worst moods were observed in Russia yesterday (dramatic fall in stock market and the weakest ruble exchange rate for two months), which was caused among others by sharp decline in oil prices (below \$60 p/b).

On Monday, Fitch downgraded Hungary's rating to BBB from BBB+ and justified the decision by a scale of recession and risk for public finances. In turn, rating's outlook remained stable thanks to international financial support for Hungary that reduced risk connected with external financing. Fitch's decision came after earlier Hungary's downgrade by Moody's and S&P. At the same time, Fitch trimmed ratings for Bulgaria, Kazakhstan and Romania, while rating for Poland was confirmed at A- with stable outlook.

In the local bond market there was a slight decrease in yields amid lack of liquidity. At the same time there was a significant drop in IRS and FRA rates.

MPC member Andrzej Sławiński said on Monday that Polish central bank will sooner or later adjust rates to deteriorating growth

prospects but at the same time it will take into account a necessity of meeting inflation convergence criterion related to prospects of euro zone entry. MPC member agreed with the results of the new NBP projection, saying that 2.8% GDP growth in 2009 seems to be the most likely scenario.

At Monday's session, yields of 10Y Treasuries, after a slight increase in the first part of the day, fell to 3.78% in the afternoon against 3.82% at the opening following good results of 3Y notes auction. Yields of 10Y Bunds declined to 3.68% from 3.73% in the morning. On Tuesday, the US debt market was closed. Today in the morning, amid higher risk aversion in the markets, yields of 10Y Treasuries and Bunds were at 3.74% and 3.70%, respectively.

EBC Council member Ewald Novotny said on Monday – confirming view of the ECB president - that the ECB would have some room for interest rate cuts, if inflation fell further. Other ECB Council members, Yves Mersch and Guy Quaden, also suggested a possibility of further rate cuts. In Quaden's opinion, in December the ECB will probably significantly revise downwards its forecasts of GDP growth and inflation, which will have influence on the monetary policy. In our view the EBC refinance rate will fall from current 3.25% to 2% until mid-2009.

The German ZEW index, reflecting expectations of analysts and institutional investors, released yesterday proved higher than expected and rose to -53.5 pts in November from -63 pts against expected no change.

Today at 12:00 the NBP will release the balance of payments figures for September. We predict a rise in current account deficit to €2024m against market expectations of €1950m. We see rise in the 12M cumulated C/A gap in relation to 5.2% of GDP after September. At the same time, we expect a small decline in trade deficit to €1.4bn amid rebound in export and import growth rates to ca. 25%YoY. Besides, we assume a slight decrease in services surplus and significant drop in transfers surplus (to ca. €100m due to lower transfers from the EU). Also today, the finance ministry will organise a switch auction, at which it will offer OK0710 and PS0414 bonds and will buy OK1208 and DZ0109 bonds in exchange.

Abroad at 10:00 we will get industrial output data from the euro zone for September. The market expects output fall by 0.9%YoY against 0.7%YoY drop in August.

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**F/X rates (today's opening)**

EURUSD	1.2625	CADPLN	2.4763
USDPLN	2.9679	DKKPLN	0.5035
EURPLN	3.7481	NOKPLN	0.4291
CHFPLN	2.5096	SEKPLN	0.3728
JPYPLN*	3.0280	CZKPLN	0.1479
GBPPLN	4.5919	HUFPLN	1.4021

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**The zloty trading ranges**

	min	max	open	close	fixing
EURPLN	3.6116	3.7125	3.6342	3.7125	3.6427
USDPLN	2.7950	2.8990	2.8350	2.8990	2.8332
EURUSD	1.2800	1.2924	1.2817	1.2810	-

**T-bonds**

TERM	BOND	Yield (%)	Change (bp)	Last auction	Average yield
2Y	OK0710	6.23	-2	6.08	6.471
5Y	PS0413	6.18	-2	1.10	5.926
10Y	DS1017	6.23	-2	8.10	5.859

**IRS rates (Mid)**

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1Y	6.00	-6	1.94	-5	3.67	-7
2Y	5.62	-14	2.23	-9	3.44	-1
3Y	5.53	-16	2.72	-8	3.66	1
4Y	5.50	-16	3.15	-7	3.67	0
5Y	5.48	-16	3.47	-1	3.63	1
8Y	5.39	-16	3.97	-3	4.04	1
10Y	5.33	-14	4.12	-3	4.20	1

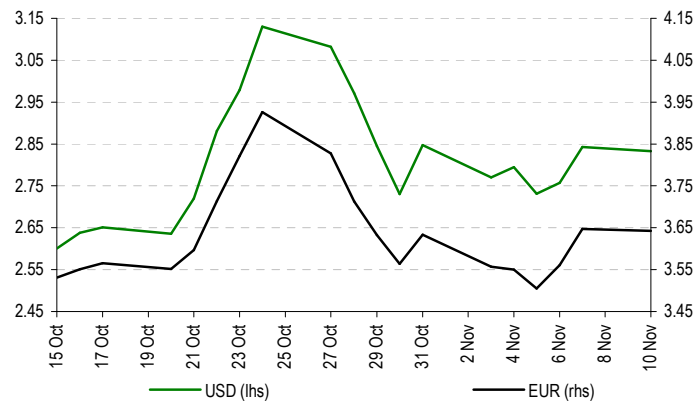
**WIBOR rates**

TERM	%	Daily change (bp)
O/N	6.62	66
T/N	6.56	49
SW	6.35	10
2W	6.38	3
1M	6.54	1
3M	6.82	-1
6M	6.84	0
9M	6.87	-1
1Y	6.88	0

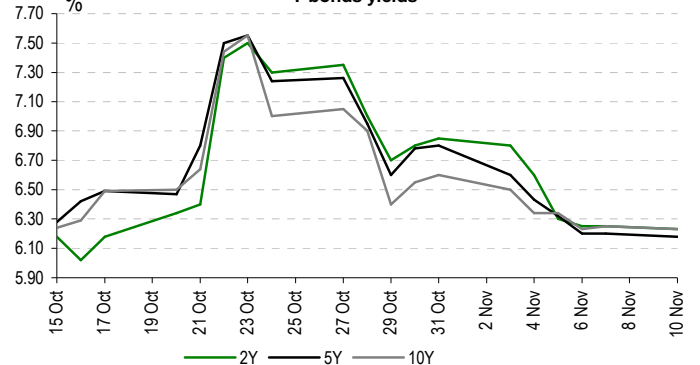
**FRA rates (Mid)**

TERM	%	Daily change (bp)
1X2	6.43	0
3X6	6.02	2
6X9	5.39	-9
9X12	5.27	-3
3X9	5.76	-2
6X12	5.40	-9

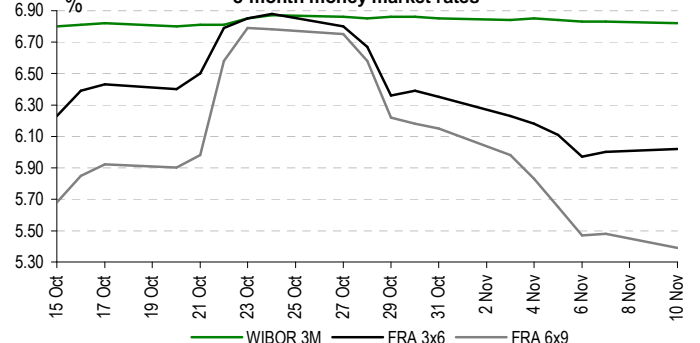
**Zloty exchange rate (fixing)**



**T-bonds yields**



**3-month money market rates**



\* for 100 JPY

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