Bank Zachodni WBK

# Eyeopener – World interest rates going down

## 5 December 2008

- **Zloty after initial weakening to 3.90 versus euro, was regaining strength; market interest rates down along the yield curve**
- **ECB cut rates by 75 bp, BoE cut by 100 bp, Riksbank by 175 bp**
- **Today, US non-farm payrolls report**

On Thursday the zloty weakened at the opening (EURPLN rate above 3.90), though in the afternoon it started to recover against the major currencies amid dollar depreciation against the euro. The EURPLN rate fell at the end of the day to 3.851 from 3.871 at the opening, while the USDPLN rate declined to 3.025 from 3.055. The EURUSD rate rose during the day to 1.274 from 1.267.

Data on economic growth in the euro zone confirmed a drop in GDP by 0.2%QoQ and rise by 0.6%YoY against market expectations of -0.2%MoM and 0.7%YoY. However, these data did not have significant influence on the EURUSD rate. The euro was supported by the ECB move, which cut interest rates by 75 bp trying to support ailing economy. Bank of England decreased interest rates by 100 bp, which was in line with expectations, and the Riksbank lowered rates by 175 bp, much above expectations. The ECB president Jean Claude Trichet said during press conference that the fall in inflation pressure intensified since the previous EBC meeting. He added that the world and European demand will be limited for a long time. In his view the uncertainty in the financial markets is going to stay at elevated levels. ECB also released its new quarterly forecasts. They signal the ECB expectations on economic activity substantially deteriorated. Their GDP forecast for GDP in 2009 fell to –0.5%YoY from 1.2% against to forecasts from September. The inflation forecasts also significantly decreased. According to the ECB the annual average of HICP is going to decrease to 1.4% against expected 2.6% in September. Therefore, the ECB expects inflation returns to target sooner. In our view amid very poor recessionary data form the euro zone (euro zone economy is likely even to contract by 1%YoY), falling inflation (we do not rule out it will fall to zero in the middle of next year) and money market interest rates at elevated levels, the room for monetary policy easing is still large. We expect further interest rate reductions in the euro zone in 50 bp steps in the nearest months and the reference rate to go down to 1.5%. Such large scale of rate cuts by the ECB poses downside risks to our domestic interest rate forecast (we see reference rate going down to 4.5% in 2009). The nearest interest rate cut by the MPC will most probably be applied in December.

Amid falling interest rates abroad the domestic debt market strengthened IRS rates continued to fall by next several basis points. The FRA rates also significantly declined (FRA 9x12 to 3.88%).

The move could be connected with comments from MPC members. Apart from Mirosław Pietrewicz (who opted for larger cuts than 25bps) and Sławomir Skrzypek (we described his comments in yesterday's *Eyeopener*), also hawkish Marian Noga took the floor yesterday. He said that we are in the cycle of monetary easing and there will be a few rate cuts. What is important, Noga did not exclude either rate cut in December or the next cut in January. On the other hand, he also said that the MPC should not cut rates in moves of 50bps as it could be interpreted as admitting to mistake of too late reaction. At the same time, however, Noga added that the NBP should be ready for the euro zone entry in 2012, regardless of political decisions. In case of adopting the single currency in 2012, the reference rate towards the end of 2011 should be around 2.5%. Stanisław Nieckarz also talked yesterday about a need for a rate cut in December and necessity to support the economy.

According to estimates of the Ministry of Labour and Social Policy, the registered unemployment rate increased 0.2pp in November to 9% and will rise to 9.5-9.6% in December. The ministry said that among people registering in labour offices there were people affected by group layoffs, fixed-term contract workers whose contracts were not prolonged and emigrants returning to Poland. There was also significant fall in the number of job offers.

The S&P agency said yesterday that it improved assessment of banking sectors in three CEE countries: Poland, Slovakia and Slovenia. The decision reflects improvement in risk profile of the banking sectors in these countries, which is a result of strong support from foreign strategic investors and increased integration with parent institutions, which are mainly Western European banks.

There was a large strengthening in core debt markets in the first part of the day, in reaction to interest rate cuts in Europe. Number of new jobless claims in the US fell by 21,000 to 509,000 from 530,000, while market expected a rise to 540,000 from 529,000. In the second part of the day, there was a clear sell-off. In the end, yields of 10Y US Treasuries increased during the day to 2.65% from 2.62% in the morning, while Bunds rose to 3.10% from 2.97% at the opening. Overnight, core debt markets strengthened again (10Y Treasuries 2.59%, Bunds 3.03%) in reaction to falling stock markets and in expectation for today's weak payrolls data.

Today, the focus is clearly on the US with the all important non-farm payrolls report for November due for release at 13:30 GMT. Markets are expecting a drop of -340,000 (which would be the largest drop so far in this downturn), with the risks to the downside following the weak ADP employment report earlier in the week. The unemployment rate meanwhile, is forecast to rise to 6.7%. The reaction of stock markets to the employment numbers should set the tone for currencies going into the weekend, with a weak report hitting risk appetite.


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

| | | | |
|---|---|---|---|
| EURUSD | 1.2787 | CADPLN | 2.3731 |
| USDPLN | 3.0285 | DKKPLN | 0.5199 |
| EURPLN | 3.8726 | NOKPLN | 0.4240 |
| CHFPLN | 2.5284 | SEKPLN | 0.3662 |
| JPYPLN* | 3.2813 | CZKPLN | 0.1502 |
| GBPPLN | 4.4442 | HUFPLN | 1.4809 |

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### The zloty trading ranges

| | min | max | open | close | fixing |
|---|---|---|---|---|---|
| EURPLN | 3.8511 | 3.9039 | 3.8805 | 3.8511 | 3.8824 |
| USDPLN | 3.0250 | 3.0896 | 3.0642 | 3.0250 | 3.0805 |
| EURUSD | 1.2577 | 1.2738 | 1.2665 | 1.2738 | - |

### T-bonds

| TERM | BOND | Yield (%) | Change (bp) | Last auction | Average yield |
|---|---|---|---|---|---|
| **2Y** | OK1110 | **5.50** | **-20** | 6.08 | 6.471 |
| **5Y** | PS0413 | **5.53** | **-24** | 1.10 | 5.926 |
| **10Y** | DS1017 | **5.77** | **-13** | 8.10 | 5.859 |

### IRS rates (Mid)

| TERM | PL % | PL Change (bp) | US % | US Change (bp) | EA % | EA Change (bp) |
|---|---|---|---|---|---|---|
| **1Y** | 4.95 | -18 | 1.91 | 3 | 3.21 | 5 |
| **2Y** | **4.60** | **-22** | 2.00 | 7 | 3.07 | 13 |
| **3Y** | 4.46 | -25 | 2.18 | 4 | 3.16 | 16 |
| **4Y** | 4.39 | -28 | 2.29 | -14 | 3.26 | 18 |
| **5Y** | **4.39** | **-28** | 2.51 | 6 | 3.34 | 19 |
| **8Y** | 4.36 | -30 | 2.79 | -5 | 3.49 | 22 |
| **10Y** | **4.37** | **-32** | 2.92 | -9 | 3.58 | 25 |

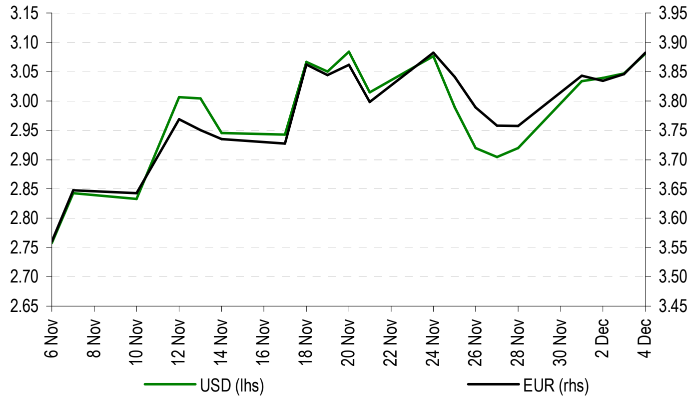
### WIBOR rates

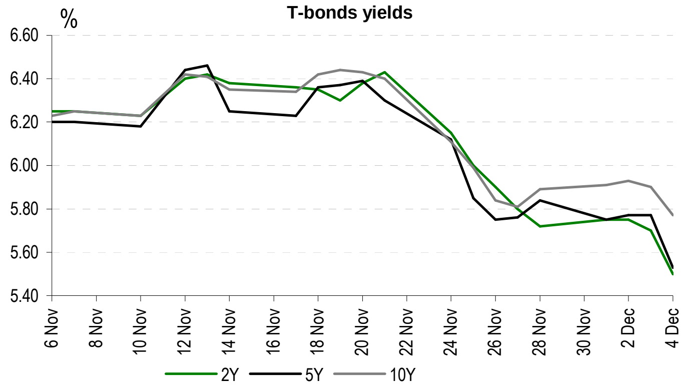
| TERM | % | Daily change (bp) |
|---|---|---|
| O/N | 5.76 | 3 |
| T/N | 5.90 | 7 |
| SW | 6.01 | -1 |
| 2W | 6.05 | 0 |
| 1M | 6.30 | -2 |
| 3M | 6.54 | -1 |
| 6M | 6.60 | -2 |
| 9M | 6.61 | -3 |
| 1Y | 6.62 | -2 |

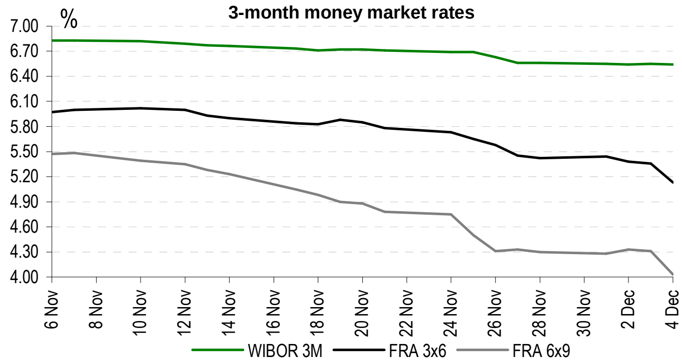
### FRA rates (Mid)

| TERM | % | Daily change (bp) |
|---|---|---|
| 1X2 | 5.98 | -9 |
| 3X6 | 5.13 | -23 |
| 6X9 | 4.03 | -28 |
| 9X12 | 3.88 | -27 |
| 3X9 | 5.18 | -5 |
| 6X12 | 4.17 | -26 |

**Zloty exchange rate (fixing)**




* for 100 JPY



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