

# Eyeopener – Zloty regaining strength

12 March 2009

- **Zloty clearly stronger, market interest rates down**
- **Today, SNB decision on rates and data from the US (labour market, retail sales)**

On Wednesday, there was still higher risk appetite in the international financial markets. After strong rises in the stock markets in the US and Asia, there was also increase in the European stock indices. Positive moods were slightly weakened by data on the Chinese exports and weaker-than-expected results of some European companies (among others UBS). However, positive factor for market moods were comments from T. Geithner, who said that the US government may recapitalize lenders in order to encourage them to sell bad assets and private investors will get loans for purchase of these bad assets and thus credit activity would revive. Besides, the US Congress approved a bill assuming spending of \$410bn to support the domestic demand, loosening embargo on Cuba and financing of additional projects.

The zloty was strengthening gradually during the yesterday's session and in the afternoon reached 4.57 to the euro (close to technical support level) and 3.57 to the dollar. Towards the end of the session there was correction to above 4.60 versus the euro. USDPLN increased at the end of the domestic session to 3.604. Along with improvement in moods on the global markets, the euro gained against the dollar in the first part of the day from around 1.264 to ca. 1.277 and stabilised near this level also in the afternoon. Data on industrial orders in Germany, which clearly disappointed again, had no negative impact on the euro. They fell by as much as 8%MoM and 37.9%YoY (mostly due to fall in exports orders by 11.6%MoM with drop in domestic orders by 4.6%MoM) against expectations at -2%MoM and -28.3%YoY.

In the domestic interest rate market there was a significant rebound in market interest rates. After switching auction there was a slight correction of prices, however in the afternoon the market strengthened again. Eventually, during the day yields of bonds fell mainly in the long end of the yield curve, which could have resulted from supply of 2Y and 5Y bonds at the switching auction. IRS curve moved down by 6-12 bp. Larger fall in FRA rates could have been contributed among others by rise in zloty liquidity in interbank market and play for decrease in liquidity premium in WIBOR rates. The Ministry of Finance bought back at auction bonds PS0509 worth PLN3.5bn (there is still ca. PLN16-17bn left for buy-back in May) and bonds OK0709 worth PLN0.6bn. In exchange, the ministry sold PLN2.8bn of 2Y bonds OK0711 and PLN1.8bn of PS0414.

In core debt markets, there was a continuation of downward move in bond prices, due to concerns about high bond supply. Yields of 10Y Treasuries and Bunds increased slightly to 3.02% and 3.07% from 3.0% and 3.04% in the morning.

According to estimate of Labour Ministry released today, the registered unemployment rate increased in February to 10.9%, which is close to our estimates.

The Ministry of Finance gave its forecasts of some macroeconomic figures. According to the Ministry inflation will rise in February to 3.4% and later on it is going to decline to 2% at the year-end, while industrial output will be falling for a few months due to base effect and the GDP growth in Q1 will reach 2%. We are less optimistic regarding the GDP growth and we estimate it may not exceed 0.5%YoY. According to the Finance Ministry the European Commission and the ECB do not see possibility of easing the criteria of euro zone accession. Ludwik Kotecki did not want to confirm whether there are any talks running with European institutions regarding the ERM2. The finance minister Jacek Rostowski said that he is an optimist on the issue of the euro adoption and he hopes it will be easier to reach agreement after the elections to European Parliament. His assessment of the budget deficit realisation is also optimistic and in his opinion the savings made in February will be enough.

KNF (Financial Supervisory Commission) released a document yesterday, which said the negative valuation of the derivatives held by domestic companies is at ca. PLN18bn, comprising ca. PLN9bn from FX options, PLN7bn from forwards and PLN2bn from CIRS. However according to the report, as much as 80-85% of the transactions were made in order to hedge respective export revenues, which gives only 15-20% of the negative result that may be assigned to speculative deals. This shows that the scale of the so called "FX options" problem may be smaller than expected.

Today at 10:00 GMT the PPI data for the euro zone will be released. According to market expectations, producer prices rose 0.6%YoY in January. At 13:00 GMT the Swiss National Bank will make decision about interest rate policy. Market consensus points to a cut in interest rates determining a band for target LIBOR interest rates by 25 bp (mean of the band from 5% to 2.5%). At 13:30 there will be a release of weekly US unemployment data. Market consensus points to increase in the initial jobless claims to 645.000 from 639.000 in the previous week. At the same time there will be publication of the US retail sales data for February. Market expects 0.5%MoM fall.

## ECONOMIC ANALYSIS UNIT

ul. Marszałkowska 142, 00-061  
email: ekonomia@bzwbk.pl

Maciej Reluga (Chief Economist)  
Piotr Bielski  
Piotr Bujak  
Cezary Chrapek

fax +48 022 586 83 40  
Web site: <http://www.bzwbk.pl>  
+48 (0) 22 586 83 63  
+48 (0) 22 586 83 33  
+48 (0) 22 586 83 41  
+48 (0) 22 586 83 42

## New business queries:

**Treasury - Frank O'Connor**

+48 (0) 22 586 8402  
frank.o'connor@bzwbk.pl

**Corporate Banking – Rashid Khan**

+48 (0) 22 586 8050  
rashid.khan@bzwbk.pl

**Branch/ Mortgages - Carl Coates**

+48 (0) 22 586 8059  
carl.coates@bzwbk.pl

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

EURUSD	1.2764	CADPLN	2.8056
USDPLN	3.6236	DKKPLN	0.6208
EURPLN	4.6250	NOKPLN	0.5213
CHFPLN	3.1277	SEKPLN	0.4097
JPYPLN*	3.7697	CZKPLN	0.1702
GBPPLN	5.0201	HUFPLN	1.5258

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### The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.5690	4.6730	4.6668	4.6030	4.6050
USDPLN	3.5730	3.6470	3.6923	3.6041	3.6342
EURUSD	1.2638	1.2799	1.2641	1.2772	-

### T-bonds

TERM	BOND	Yield (%)	Change (bp)	Last auction	Average yield
2Y	OK1110	5.68	1	4.03	5.804
5Y	PS0413	6.02	-2	4.03	6.053
10Y	DS1017	6.18	-9	17.12	5.724

### IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1Y	4.16	-6	1.49	-2	1.85	0
2Y	4.55	-13	1.70	-7	2.02	2
3Y	4.74	-11	2.01	-9	2.43	15
4Y	4.87	-11	2.30	-11	2.57	3
5Y	4.96	-10	2.53	-12	2.77	3
8Y	5.07	-9	2.94	-13	3.20	5
10Y	5.14	-7	3.08	-13	3.40	5

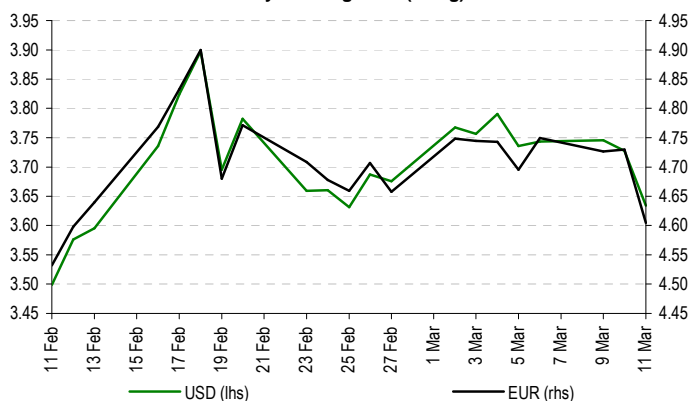
### WIBOR rates

TERM	%	Daily change (bp)
O/N	3.04	0
T/N	3.11	0
SW	3.70	-1
2W	3.92	-1
1M	4.05	-2
3M	4.35	-2
6M	4.39	-2
9M	4.40	-2
1Y	4.40	-2

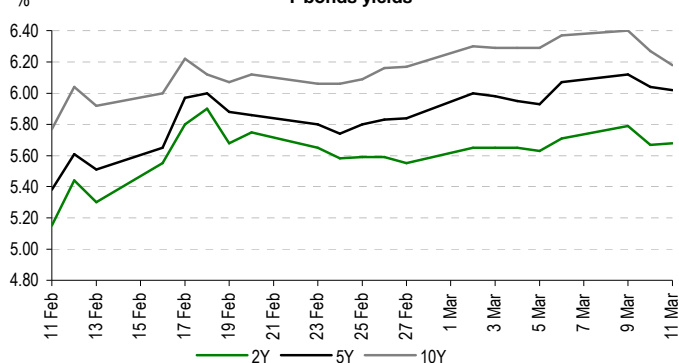
### FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	3.81	-11
3X6	3.85	-15
6X9	3.96	-12
9X12	4.17	-16
3X9	3.94	-14
6X12	4.07	-17

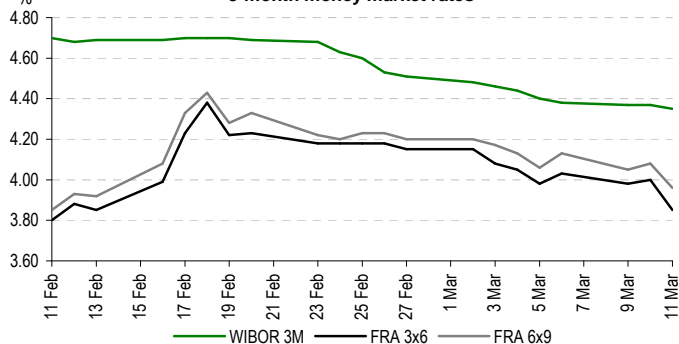
### Zloty exchange rate (fixing)



### T-bonds yields



### 3-month money market rates



\* for 100 JPY

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Additional information is available on request. Please contact Bank Zachodni WBK S.A. Treasury Division, Economic Analysis Unit, ul. Marszałkowska 142, 00-061 Warsaw, Poland, phone (+48 22) 586 83 63, email [ekonomia@bzwbk.pl](mailto:ekonomia@bzwbk.pl), <http://www.bzwbk.pl>



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