

Eyeopener – Next wave of optimism

18 March 2009

- **Correction of the zloty causes weakening in the local interest rate market**
- **Weak domestic labour market statistics in line with expectations, no impact on the market**
- **Today the focal point for markets is outcome of the Fed meeting, earlier in the day local output data and the US CPI figures**

At yesterday session the zloty depreciated amid some decrease in global risk appetite and correction in the equity markets during the European session. In the first part of the day the domestic currency was very stable, but later in the afternoon there was a clear rise in EURPLN from ca. 4.47 to 4.55 and in USDPLN to 3.51 from 3.43, which was accompanied by dollar recovery vs. the euro from ca. 1.30 at the opening to 1.294. After close of the domestic session the zloty slightly recovered to 4.52 against the euro with EURUSD rate decline to 1.297. The scale of the zloty weakening yesterday was similar to forint's loss. The euro was not supported significantly by the German ZEW index, which unexpectedly rose again to -3.5 pts from -5.8 pts against expected decline to -8 pts. On the other, hand the dollar was supported by better-than-expected data from the US. The house starts surprisingly rose in February to 583k from 477k against expected decline to 450k, while the building permits rose to 547k from 531k against expected drop to 500k. The numbers improved sentiment in global markets. Consequently, the US and Asian stock market indices performance was positive. Asian equity markets were also supported by the news that the Bank of Japan may increase purchases of government securities from banks and increase loans to them in order to revive lending activity. Official interest rates of the BoJ remained unchanged (0.1%). After next wave of optimism in the global markets, the zloty was stronger at today's opening as compared to yesterday's close.

The local interest rate market followed performance of the FX market. At yesterday's session there was significant weakening of the debt market especially at the long end of the yield curve. The IRS curve and FRA rates increased by ca. 5-14 bp. In the core debt markets, after strengthening in the first part of the day, later in the day prices of US and German bonds fell on higher stock prices. At the end of the Polish session yields of 10Y Treasuries and 10Y Bunds rose to 2.99% and 3.21% after initial fall from 2.98% and 3.19% at the opening to 2.94% and 3.13% during the day. Today in the morning they were at 3.0% and 3.21%, respectively.

MPC member Andrzej Wojtyna said yesterday in an interview with PAP agency that interest rates should remain stable until the zloty stabilises. He repeated the opinion that update of the roadmap of euro zone entry by Poland and political agreement regarding the

constitution change are the key factors for the zloty. In his opinion the interest rates disparity is not important element influencing the foreign exchange market, but rather perception of the country and its prospects, as well as government's determination to join the euro zone are influential. In today's interview with *Rzeczpospolita* daily Wojtyna said that "until the zloty strengthening is more significant" (which would improve inflation prospects), the scope of possible MPC moves is between keeping rates unchanged or cutting by 25 bp.

In turn, MPC member who was key for voting results in the past, Jan Czekaj, said yesterday that one cannot exclude a scenario in which the Polish economy will shrink this year, and all will be dependent on situation in world economy. In his opinion, due to developments in the real economy it is reasonable to remain in monetary easing mode, although it is not determined that interest rates must be trimmed one month after another. Czekaj said that this year is good for entering ERM2 due to weaker zloty.

PM Donald Tusk said yesterday that according to his knowledge there are experts' opinions that base on experience of other countries, and they say that changes in the constitution are not necessary for adopting the euro. PM added that personally he would prefer to make changes in the constitution before adopting the euro.

Data from the labour market released yesterday were in line with expectations and confirmed continuation of negative trends. Wage growth reached 5.1%YoY against median expectations at 5.2% (our forecast 5.7%). In turn, employment data showed 0.2% annual decline, which was consistent with market consensus and our forecast. The data had no impact on the market.

Today, the main event in global markets is the Fed meeting in the evening (decision announcement and release of the official statement at 18:15 GMT). Interest rates are likely to remain unchanged, while market attention will focus on statements concerning quantitative monetary easing. Markets expect for announcement that the Fed will be purchasing government bonds, which may weaken the dollar. Earlier, at 12:30 GMT there will be CPI data release in the US (according to market forecast, it rose 0.3%MoM in February).

Today at 13:00 GMT we will learn next important local data. The CSO will release data about industrial production, which were pointed as important for interest rate decision by Jan Czekaj. We predict a drop in production by 15.7%YoY in February versus -14.9%YoY in January. We are slightly more optimistic than market consensus (-16.6%), but even a bit better result than our forecast (yet double-digit fall in production) would be a confirmation of downturn in economic activity and would be a strong argument in favour of continuation of rate cuts, together with labour market data released yesterday.

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F/X rates (today's opening)

EURUSD	1.3031	CADPLN	2.7246
USDPLN	3.4562	DKKPLN	0.6041
EURPLN	4.4981	NOKPLN	0.5143
CHFPLN	2.9277	SEKPLN	0.4119
JPYPLN*	3.5072	CZKPLN	0.1689
GBPPLN	4.8531	HUFPLN	1.5096

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.4500	4.5540	4.4580	4.5540	4.4653
USDPLN	3.4236	3.5135	3.4345	3.5110	3.4373
EURUSD	1.2939	1.3019	1.2988	1.2973	-

T-bonds

TERM	BOND	Yield (%)	Change (bp)	Last auction	Average yield
2Y	OK1110	5.64	9	4.03	5.804
5Y	PS0413	6.00	8	4.03	6.053
10Y	DS1017	6.19	13	17.12	5.724

IRS rates (Mid)

TERM	PL	US	EA
	%	%	%
	Change (bp)	Change (bp)	Change (bp)
1Y	4.13	1.43	1.79
2Y	4.54	1.71	2.00
3Y	4.76	2.04	2.51
4Y	4.90	2.32	2.58
5Y	5.00	2.56	2.80
8Y	5.13	3.05	3.29
10Y	5.21	3.21	3.52

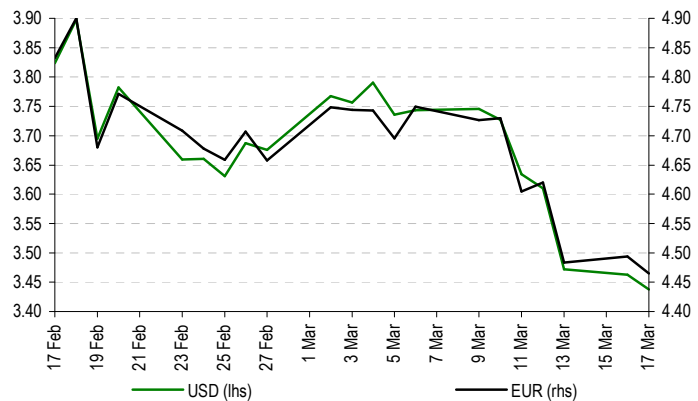
WIBOR rates

TERM	%	Daily change (bp)
O/N	2.88	-13
T/N	2.98	-9
SW	3.66	-3
2W	3.86	-2
1M	4.00	0
3M	4.28	-2
6M	4.35	-1
9M	4.37	0
1Y	4.37	0

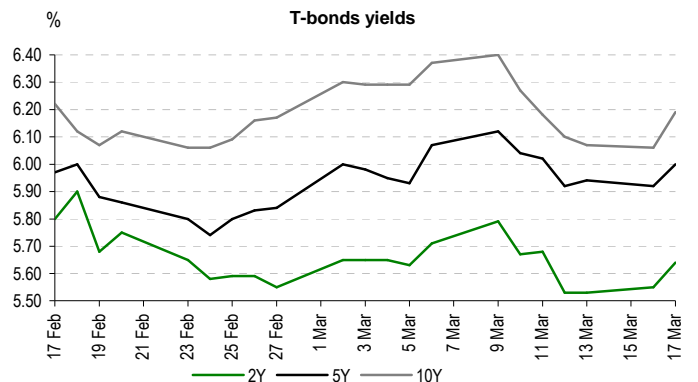
FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	3.84	5
3X6	3.84	5
6X9	3.91	7
9X12	4.18	14
3X9	3.94	6
6X12	4.08	11

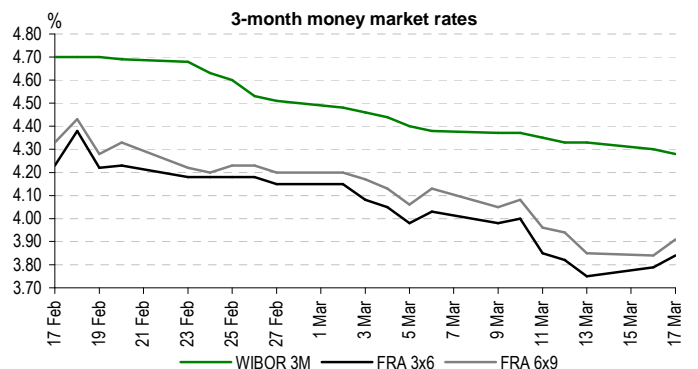
Zloty exchange rate (fixing)



T-bonds yields



3-month money market rates



* for 100 JPY

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