Bank Zachodni WBK

Eyeopener – Fed positively affects the markets

19 March 2009

- **After the Fed decision, which positively affected the markets, the zloty recovered**
- **Domestic output and PPI figures had no impact on the market**
- **Today next data from abroad, locally *minutes* of the MPC meeting in February**

Yesterday's session brought further weakening of currencies in the region amid higher risk aversion visible also in the European equity markets. It is worth to notice that the Polish zloty and the Hungarian forint lost less than the Czech crown. During the day EURPLN rose to 4.576 from 4.497 at the opening, while USDPLN moved from 3.453 to 3.488. Worsening in sentiment in equity markets ahead of the Fed's decision, was accompanied by the dollar weakening against the euro to 1.311 at the end of the European session from 1.302 in the morning. The US CPI data for February showed rise of 0.4%MoM, which was above market expectations at 0.3%MoM. Core inflation was in line with consensus at 0.2%MoM and the inflation data did not have influence on the market.

Together with the zloty depreciation the local interest rate market also saw weakening yesterday. Bonds, IRS and FRA curves moved up by 8-12pb, with a bit more significant rise was observed at the long end (especially for bonds). The American debt market strengthened amid some decrease in equity futures and awaiting Fed's decision on buying Treasuries. However, the German market saw some fall in Bunds' prices. At the end of the European session yields of 10Y Treasuries and Bunds were at 2.97% and 3.23% (against 2.99% and 3.20% at the opening), respectively.

A key factor for markets yesterday was announcement of Fed decision. In line with expectations, the US central bank did not change interest rates, keeping main rate at 0-0.25%. Key issue was FOMC statement concerning quantitative monetary easing. The Fed said that within 6 months it will purchase long-term state Treasuries worth $300bn, and it will increase purchases of debt related to mortgage market by $850bn (to $1.45 trillion) in order to support housing market revival and speed up economic recovery. In sum, currently Fed wants to buy assets worth $1.75 trillion, while until recently the plan was $600bn. Scale of declared activities was a positive surprise for markets. After decision announcement yields of 10Y Treasuries fell the most since 1962 (from almost 3% to 2.49% yesterday and stood at 2.54% today in the morning), EURUSD rose from just above 1.31 to over 1.35 (today in the morning 1.345), stock markets rebounded, and currencies in emerging markets appreciated. After Fed decision the zloty regained all losses seen at yesterday's session, although today in the morning it slightly lost again.

According to yesterday's CSO data industrial production in February rose by 2.7%MoM and fell by 14.3%YoY (-12.4%YoY seasonally adjusted), as compared to a fall by 15.3% in January and market consensus of 16.6% drop (our forecast was -15.7%). Also, construction output rose by 17.2%MoM or 1.2%YoY (2.3%YoY seasonally adjusted) as compared to a rise by 7.4%YoY in January. Market expectations were for flat construction output as compared to February 2008. The most surprising was PPI inflation reading, as 12M index rose by as much as 5.4% against the market consensus at 3.4%. This was probably influenced by several factors: higher commodities prices in zloty terms, higher fuel prices, higher manufacturing prices amid weaker zloty (to a large extent as an effect of higher export prices). The detailed description of yesterday's data was presented in our *Instant comment* note.

Yesterday the Ministry of Economy released the statement showing expectations for industrial output at -6%YoY in March. At the same time, the ministry expect positive GDP growth figure in Q1 amid good results in construction and services. Our forecast for March's production is even higher than presented by the ministry, though it has to be stressed that improvement will take place only because higher number of working days.

Head of Energy Regulatory Office (URE) said yesterday that new gas tariffs of gas operator PGNiG and gas distributors may be approved at the start of next week. He also confirmed that there is no way that final gas prices to consumers could be higher than currently.

Head of PSL caucus Stanisław Żelichowski said yesterday that conditions for changing constitution in order to allow euro adoption may appear only after parliamentary election in 2011, if there is adequate majority. Then, in his opinion, a realistic date of euro adoption would be 2013.

Chinese PM Wen Jilbao said yesterday that China should actively fight economic crisis. Meanwhile, the World Bank trimmed GDP forecast for China to 6.5% from previous 7.5%. Lower forecasts for world economy in 2009 were also announced by the IMF. Global GDP growth is now expected to reach –0.6% versus previous –0.5%. US GDP growth is predicted at –2.6% (earlier –1.6%) and GDP growth in the euro zone is forecast at –3.2% (earlier –2%).

Today at 12:30 we will get data from the US labour market. According to market consensus the number of jobless claims fell to 650,000 from 654,000 last week. In further part of the day (14:00 GMT) we will learn leading indicators for US economy, expected to show monthly fall of 0.6% in February. At the same time, Philadelphia Fed index will be released, predicted to increase slightly to –38 from –41.3.

In Poland, the NBP will publish minutes of February MPC meeting (13:00 GMT). The document may show opinions in the Council concerning relations between interest rate moves and exchange rate, and at the same time between exchange rate and inflation. The MPC meeting in February took place just after a sudden depreciation of the zloty.

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F/X rates (today's opening)

EURUSD	1,3454	CADPLN	2,7073
USDPLN	3,3704	DKKPLN	0,6085
EURPLN	4,5340	NOKPLN	0,5164
CHFPLN	2,9478	SEKPLN	0,4151
JPYPLN*	3,5249	CZKPLN	0,1682
GBPPLN	4,7938	HUFPLN	1,5125

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4,5050	4,5820	4,4981	4,5760	4,5313
USDPLN	3,4584	3,4925	3,4562	3,4857	3,4774
EURUSD	1,3007	1,3131	1,3031	1,3102	-

T-bonds

TERM	BOND	Yield (%)	Change (bp)	Last auction	Average yield
2Y	OK1110	**5,73**	**9**	4.03	5,804
5Y	PS0413	**6,10**	**10**	4.03	6,053
10Y	DS1017	**6,30**	**11**	17.12	5,724

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1Y	0,00	-423	1,25	-18	1,80	1
2Y	**0,00**	**-463**	1,47	-24	1,88	-12
3Y	0,00	-486	1,77	-26	2,27	-24
4Y	0,00	-502	2,03	-29	2,41	-16
5Y	**0,00**	**-512**	2,19	-37	2,64	-16
8Y	0,00	-525	2,66	-39	3,10	-19
10Y	**0,00**	**-534**	2,76	-45	3,32	-20

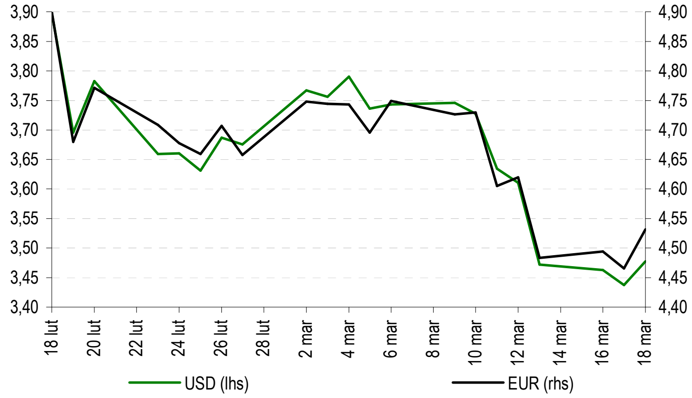
WIBOR rates

TERM	%	Daily change (bp)
O/N	2,82	-6
T/N	2,90	-8
SW	3,63	-3
2W	3,84	-2
1M	4,00	0
3M	4,27	-1
6M	4,36	1
9M	4,37	0
1Y	4,37	0

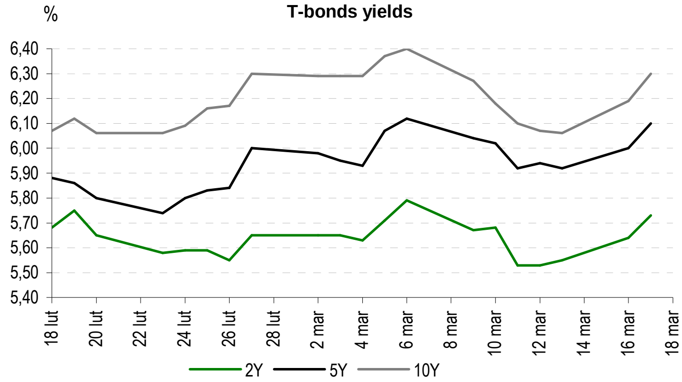
FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	3,92	8
3X6	3,95	11
6X9	4,05	14
9X12	4,30	12
3X9	4,05	11
6X12	4,20	12

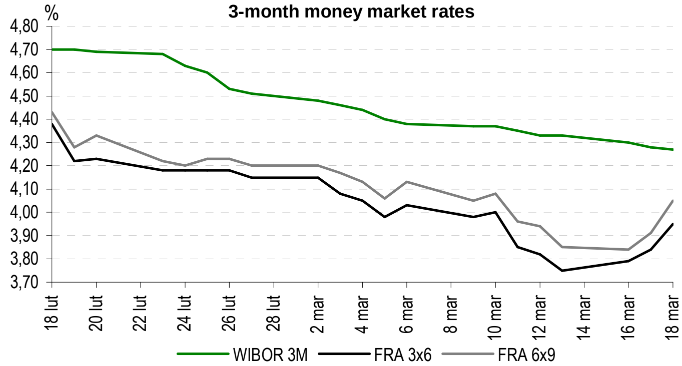
Zloty exchange rate (fixing)



T-bonds yields



3-month money market rates



* for 100 JPY

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