Bank Zachodni WBK

Eyeopener – Zloty little changed after MPC

26 March 2009

- **Zloty little changed yesterday, profit-taking in the local debt market**
- **The MPC cut rates by 25bps, as expected, with dovish statement; no impact on the market**
- **Today next data from abroad**

At the beginning of yesterday's session the zloty lost quite significant due to political jitters in the Czech Republic (Prime Minister ousted by parliament), but later in the day strengthened along with strong performance of global stock markers and after positive news from the region – improved lending facility for emerging markets from the IMF and an aid package worth $20bn for Romania from the IMF, EU, World Bank and EBRD. While shortly after the market's opening EURPLN went up to nearly 4.60, at the end of the Polish trading hours it fell to 4.53, i.e. below levels seen at opening. USDPLN moved in a similar way and after rise to almost 3.39 after the opening it fell to 3.345 at the end of the session. Towards the end of the Polish session, increase in risk appetite and the zloty gains were driven by unexpectedly good data from the US on durable goods for February (the highest in more than a year rise of 3.4% versus expected fall of 2.5%) and on new home sales for February (to 337k against expected 300k). Despite the strong US data, the dollar weakened versus the euro, due to rise in risk appetite and weak results of bond auction. The dollar was also negatively affected by comments from US Treasury Secretary Timothy Geithner, who said yesterday that he was "quite open" to China's suggestion that the world should consider using a currency system linked to the IMF's Special Drawing Rights (a basket of dollars, euros, sterling and yen) as a super-sovereign reserve currency rather than the current reliance on the USD. Giethner later went onto say that "the dollar remains the world's dominant reserve currency (and) I think that's likely to continue for a long period of time". However, confusion over his comments weighed on the dollar. The German Ifo index (fall to 82.1 in March from 82.6 in Ferbuary versus expected 82.2) had no impact on the market. At the end of the day EURUSD was 1.354. Yesterday's session in the stock markets in the US was positive. Major indices in the Asian market today also increased. However, today at the opening the zloty was slightly weaker than at yesterday's close, with slightly higher EURUSD.

The domestic debt market weakened yesterday, which was related to profit-taking after earlier significant strengthening. The outcome of the MPC meeting (dovish statement confirming expectations for next cuts) was supportive for the short end of the curve, which weakened to a lesser extent than the longer dated bonds. IRS curve did not change much (short end stronger by 2-4bps while long end weaker by 1-2bps) and FRA rates dropped by 2-4bps.

Similarly as in February the MPC cut interest rates by 25 bp, the reference rate to 3.75% - the lowest level in history. This was in line with expectations. When assessing influence of the decision on the foreign exchange market, it is worth to notice that the zloty is quite stable, especially if we take into account the unstable political situation in Hungary and the Czech Republic. The MPC maintained easing bias in monetary policy and in our opinion will continue interest rates cuts by 25 bp in the following months. We maintain our forecast that the reference rate will fall to 3% this year. More detailed comment on the MPC decision was presented yesterday in our *Instant comment*. Our expectations regarding continuation of easing cycle were confirmed by comments of MPC members. Already yesterday during the press conference the NBP President emphasised that the decision did not signal the end of easing cycle and the MPC is still in easing mood. Today, also the hawkish members of the Council did not exclude a possibility of further cuts. First, Dariusz Filar said in interviews with *Dziennik* and *Rzeczpospolita* dailies that though currently available information did not indicate a recession in Poland (prof. Filar expects GDP growth of ca. 1% this year), until there are no clear signs of stabilisation in economic situation globally, there is no reason for the MPC to finish the easing cycle. Second, Marian Noga said in interviews with PAP and TVN CNBC that he sees a possibility of rates reductions, though in his opinion there should be a pause in April/May.

Yesterday the Ministry of Finance presented the schedule of budget realisation this year. According to this information deficit would reach PLN12.3bn in the first quarter and PLN16.9bn in the middle of the year. However, the ministry does not consider to increase the planned whole-year target (PLN18.2bn), as in the remainder of the year spending growth is forecasted at much lower level. Indeed this may be the case, as substantial part of expenditures connected with contributions to the EU budget are planned for the first half of the year. However, there are still doubts regarding the ministry's ambitious plans on the revenue side of the budget and thus there is still risk of higher deficit this year. Worries regarding the shape of fiscal policy this year are negative factor for the fixed income market.

Weak results of 5Y bond auction in the US put the pressure on Treasuries. The government offered US$24bn, but this met limited demand of investors, as bid-cover ratio fell to 2.02 from 2.21. Earlier during the day negative results of 30-year bond auction in the UK was announced. On the other hand, buying Treasuries by Fed may have positive influence on the market. Overall, at the end of the Polish session yields of 10Y Treasuries rose to 2.73% (2.80% today in the morning) from 2.70% at the opening. 10Y Bunds were rather stable at 3.15% yesterday and today in the morning at 3.17%. Today the market will watch another auction in the US (7Y bonds).

No domestic events are planned today, but one may expect next interviews with MPC members, which may shed more light on monetary policy prospects in the following months. As regards data releases abroad, we will get data on money supply in the euro zone (expectations at -6.3%YoY), final US GDP for Q4 (consensus at -6.5%YoY) and initial job claims in the US (consensus 650k).

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F/X rates (today's opening)

EURUSD	1.3589	CADPLN	2.7342
USDPLN	3.3581	DKKPLN	0.6125
EURPLN	4.5543	NOKPLN	0.5162
CHFPLN	2.9925	SEKPLN	0.4174
JPYPLN*	3.4215	CZKPLN	0.1667
GBPPLN	4.9117	HUFPLN	1.5198

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.5302	4.5963	4.5651	4.5302	4.5555
USDPLN	3.3433	3.4192	3.3859	3.3455	3.3784
EURUSD	1.3422	1.3617	1.3470	1.3543	-

T-bonds

TERM	BOND	Yield (%)	Change (bp)	Last auction	Average yield
2Y	OK1110	**5.36**	**3**	4.03	5.804
5Y	PS0413	**5.80**	**4**	4.03	6.053
10Y	DS1017	**6.05**	**10**	17.12	5.724

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1Y	3.94	-4	1.28	0	1.74	0
2Y	**4.34**	**0**	1.52	1	1.97	2
3Y	4.60	-2	1.83	1	2.55	18
4Y	4.80	0	2.14	5	2.61	2
5Y	**4.92**	**0**	2.40	9	2.85	3
8Y	5.11	2	2.81	6	3.34	1
10Y	**5.19**	**1**	2.93	-5	3.55	0

WIBOR rates

TERM	%	Daily change (bp)
O/N	2.76	-4
T/N	2.76	-6
SW	3.42	-5
2W	3.68	-3
1M	3.87	-4
3M	4.21	-2
6M	4.32	-1
9M	4.35	-1
1Y	4.36	-1

FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	3.81	-3
3X6	3.68	-4
6X9	3.73	-4
9X12	3.93	-4
3X9	3.79	-2
6X12	3.86	-4

Zloty exchange rate (fixing)

T-bonds yields

3-month money market rates

* for 100 JPY

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