

# Eyeopener – Zloty weaker despite better data

2 September 2009

- **Zloty weaker after substantial fluctuations, slight rebound in the local debt market**
- **Fall in risk appetite despite better than predicted data from the US and the euro zone**
- **FinMin's inflation forecast slightly higher than market consensus and better than expected PMI without impact on the market**
- **Today, 2Y bond auction and data releases abroad**

The domestic currency weakened yesterday. Although at the start of the session the zloty strengthened against the majors, later on it was gradually weakening along with deterioration of moods in the global markets. At the end of the session this negative tendency was reversed, yet only for a while, after the release of better than expected data from the US. The US ISM activity index for the manufacturing sector rose in August to 52.9 pts from 48.9 pts in July, while an increase to 50.5 pts was predicted. The number of pending home sales in July rose by 3.2%MoM, against expected 1.5%MoM. The PMI index released for the euro zone manufacturing was at 48.2 in August against 46.3 in July, while according to flash estimate the index was supposed to rise to 47.9 pts and the market expected confirmation of flash figure in the final data. The increase in the equity markets and the appreciation of the zloty after the US data appeared to be temporary and at the end of the day the zloty was weaker than the day before. The EURPLN was above 4.11, and the USDPLN rate was at 2.856. Quite weak zloty performance, despite good data abroad, confirms our view that the domestic currency is currently more sensitive to potential disappointing news, which may result in a serious correction of the zloty exchange rate. This is confirmed by zloty performance overnight, as at today's opening the EURPLN was at ca. 4.16 after an increase of risk aversion and falls in the equity markets in the US and Asia.

In the international markets the dollar gained against the euro. This was supported by the sell-off in the main world stock markets, reflecting some increase of risk aversion, despite good macroeconomic data, and at the same time improvement of the assessment of the condition of the US economy as compared to the euro zone after much better than expected US figures. Yesterday in the core debt markets there were no significant changes. At the end of the polish session the yields of 10Y Treasuries and Bunds were close to levels from the day before and were at 3.41% and 3.26% respectively. Overnight they declined to ca. 3.37% and 3.23% respectively.

In the domestic debt market there was a strengthening yesterday, which may be treated as a correction of the earlier rise in yields. However, the yesterday's fall in yields did not concern the segment of 2Y, as investors probably prepare for today's auction of papers with such maturity. The IRS curve lowered by 2-6bps, stronger at the long end. FRA rates did not change much. Publication of the FinMin's inflation forecast and the domestic PMI had no visible impact on the market.

MinFin said yesterday in a statement that according to its estimates, the CPI inflation rose to 3.7%YoY in August (with monthly price drop of 0.3%) from 3.6%YoY in the previous month, while the market consensus and our forecast points to stabilisation of inflation at the July level of 3.6%YoY.

Poland's PMI manufacturing rose to 48.2 in August from 46.5 in July, while our forecast and the market consensus were at 47.9. Better than expected result is another sign that improvement in the economic situation is somewhat stronger than expected. Improving news from the real economy are reflected in changes of market forecasts for Poland's GDP growth in 2009-2010. Reuters said yesterday that in its most recent survey market consensus for GDP growth in 2009 is at 1.0% and for 2010 at 1.9% while a month earlier it was 0.6% and 1.8%, respectively.

MPC's Jan Czekaj, whose vote was often crucial for the Council's decisions on rates, said yesterday in an interview with PAP that influence of data indicating stronger than expected economic growth and inflation remaining at relatively high level "is obvious" with respect to next decisions of the MPC. However, Czekaj said that "we have signals in both directions - with positive news prevailing, but the signals are mixed". All in all, comments from Czekaj clearly suggests that according to majority of MPC members the monetary easing cycle has ended. Without negative surprises in macro data, the Council may soon change policy bias from easing to neutral. The question mark is whether central bankers will wait with this decision until the new NBP projection of inflation and GDP due for release in October.

Today in Poland there will be no data releases but an important test for the debt market will be auction of 2Y bonds OK0112 with FinMin's offer in range PLN2.5-3.5bn. Investors' demand should be quite big, but pressure on yields increase will come from strengthening expectations about a change in direction of next MPC moves in interest rates. Local debt market and the zloty will be mainly influenced by important data releases in the euro zone and US. At 11:00 CET there will be revised data about euro zone's GDP in Q2. Market consensus predicts confirmation of flash estimate at -4.6%YoY. At the same time, PPI in the euro zone will be released, predicted to fall by 8.4%YoY in July after 6.6% drop in June. In the remainder of the day we will see US data. At 14:15 CET the ADP report will be released, being an important hint before publication of government's non-farm payrolls report. Market consensus shows a fall in employment by 250,000. At 14:30 CET the data about labour productivity and unit labour costs in Q2 will be released (expected 6.4% and -5.8% correspondingly), and at 16:00 CET we will see data about factory orders (consensus 2.2%). Moreover, in the evening the minutes of the Fed's last meeting will be published.

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F/X rates (today's opening)

EURUSD	1.4225	CADPLN	2.6518
USDPLN	2.9230	DKKPLN	0.5586
EURPLN	4.1575	NOKPLN	0.4807
CHFPLN	2.7410	SEKPLN	0.4031
JPYPLN*	3.1454	CZKPLN	0.1621
GBPPLN	4.7263	HUFPLN	1.5083

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.0765	4.1165	4.0874	4.1110	4.1025
USDPLN	2.8365	2.8826	2.8452	2.8557	2.8598
EURUSD	1.4370	1.4300	1.4363	1.4300	-

T-bonds

TERM	Yield (%)	Change (bp)	Last auction	Average yield
2Y	5.08	0	13.05	5.669
5Y	5.59	-9	3.06	5.783
10Y	6.05	-3	20.05	6.335

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1Y	4.47	-3	0.62	0	1.22	-1
2Y	5.10	-2	1.28	-8	1.70	-5
3Y	5.40	-3	1.88	-12	2.13	-5
4Y	5.53	-5	2.32	-13	2.46	-5
5Y	5.60	-5	2.67	-7	2.71	-4
8Y	5.57	-6	3.34	-3	3.22	-3
10Y	5.53	-4	3.58	-8	3.43	-2

WIBOR rates

TERM	%	Daily change (bp)
O/N	3.25	-5
T/N	3.30	-6
SW	3.40	0
2W	3.45	0
1M	3.52	0
3M	4.18	0
6M	4.33	0
9M	4.45	1
1Y	4.49	0

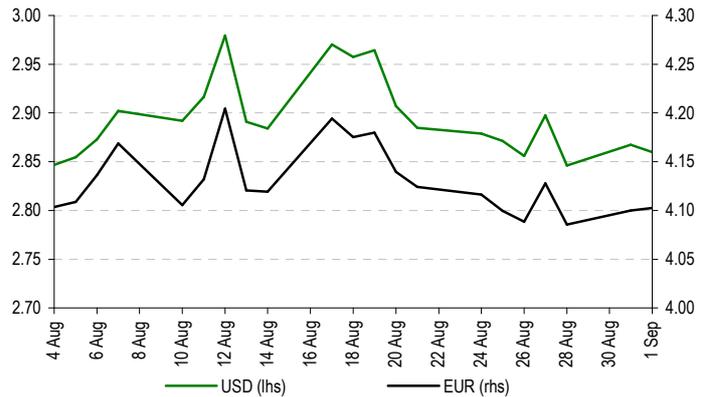
FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	3.55	-10
3X6	4.34	2
6X9	4.47	0
9X12	4.70	1
3X9	4.48	-3
6X12	4.68	0

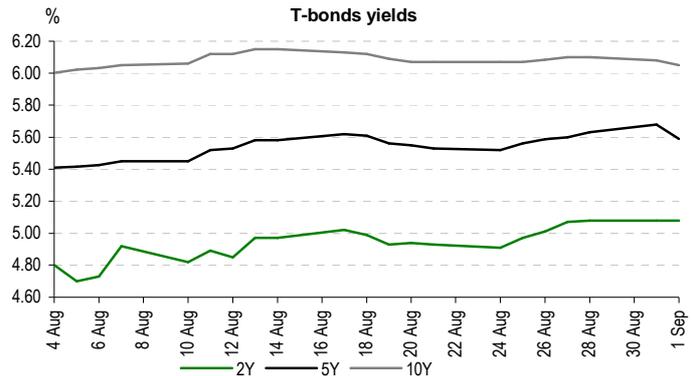
\* for 100 JPY

Source: Reuters

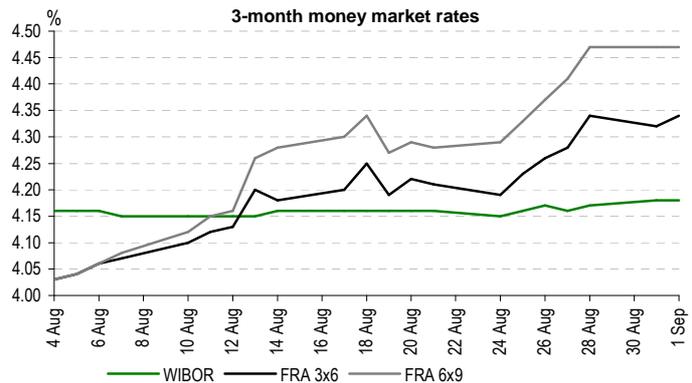
Zloty exchange rate (fixing)



T-bonds yields



3-month money market rates



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