

# Eyeopener – Zloty weakens on region

9 October 2009

- **Further weakening of currencies in the region, positive moods in the debt market**
- **ECB and BOE leave rates unchanged**
- **Today US trade balance**

Despite the return of risk appetite to global markets and rises on world stock markets on Thursday, exchange rates in the CEE region continued a correction yesterday, as investors' sentiment was negatively affected by concerns about macroeconomic situation of the Baltic States (return of speculation about a possible devaluation of the Latvian lat) as well as political turmoil in Romania and Poland, and interest rate cut expectations in the Czech Republic. The EURPLN rose in the afternoon above 4.25 against the euro, and then after a slight rebound ended the session at 4.24, weakening by 0.4% against the previous close. The Czech koruna and Hungarian forint weakened by 0.6-0.7%. At the same time, zloty was slightly stronger against the dollar, after the latter depreciated on world markets, and at the end of the day USDPLN rate was 2.87.

EURUSD rose yesterday under the influence of improved sentiment in the markets and a higher appetite for risk. Additional impulse to the weakening of the dollar, after which the rate went up to 1.48, was the remark of the ECB President, which mentioned at the press conference that US support for a strong currency is a crucial factor, giving investors an excuse to speculate about prospects for the US currency. Before the end of the session the EURUSD bounced back to 1.476 and this morning the rate was slightly above the 1.47 level due to Bernanke's comments suggesting tightening of monetary policy along with economic recovery.

Despite the depreciation of the currencies, the moods in the debt markets in the region were quite good, affected by good bond auction results in Poland and Hungary. Yields of domestic bonds have not changed significantly to the previous day, neither did the IRS rate and money market rates (with the exception of the shortest terms).

In the core debt markets yields initially rose under the influence of increasing interest in assets with higher risk, as well as in response to better-than-expected weekly data from the US labour market. However, the afternoon there was surprisingly quick rebound, as the optimistic expectations for the results of long-term bond auction in the USA prevailed. At the end of the European session yields of the 10Y Treasuries and Bunds were at 3.17% and 3.12% respectively. After comments by Ben Bernanke that interest rates will be increased when the economic recovery comes, yields of Treasuries and Bunds jumped to 3.27% and 3.16% this morning.

As expected, the ECB Council decided yesterday to leave interest rates unchanged fifth month in a row, and the main interest rate in the euro area remained at a historically low 1.0%. ECB President J.C. Trichet said at the news conference that the economy is showing signs of improvement, but the recovery would be "uneven", and stated once again that the ECB interest rates are currently at an appropriate level, which suggests that one should not expect their rapid changes. There were also no signs of a possible bank considering an exit strategy from quantitative policy easing. The Bank of England also left rates unchanged (at 0.5%), while maintaining the program of asset purchases and not suggesting a rapid policy tightening.

The US initial jobless claims fell 33k to 521k while the market expected a smaller drop to 540k from 551k before correction. The data strengthened upward tendency in the stock markets. The earlier released data on wholesale inventories in the US showed fall of 1.3%MoM in August after a drop of 1.6%MoM the previous month and expected decrease of 1.0%. The German industrial production in August fell 1.7%MoM after a drop of 1.1%MoM the previous month. The market had expected slightly larger rise of 1.8%.

Finance minister Jacek Rostowski said yesterday that until the end of this year the government will present a two-year "plan of development and consolidation", which will initiate the process of curing Polish public finances. He also stressed that the public debt will not exceed 55% of GDP in 2010. As not much time left until the end of the year, we will soon get to know whether planned changes in public finance will be a deep reform. Possibly a chaos connected with "the gambling scandal" will become an impulse motivating the government to more active actions in area of economic reforms.

During the US session, after initial strengthening driven by earnings report by Alcoa, the labour market figures and positive monthly reports from retailers, there was a stabilisation in the evening and major indices ended the day in the positive territory. In Asia there was quite significant rise in major stock indices. With lower EURUSD, emerging markets' currencies began the session with a weakening. Today's performance of the Polish market will depend on changes in sentiment on the global markets. Investors in the US will be preparing for a long weekend (market holiday on Monday), which may result in some profit-taking and decreasing exposure to risky assets.

Today not much events are scheduled. The only major data release will the US trade balance for August due at 14:30 CET. The market consensus points to a deficit of \$32bn, similar as in July.

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

EURUSD	1.4724	CADPLN	2.7355
USDPLN	2.8839	DKKPLN	0.5704
EURPLN	4.2466	NOKPLN	0.5083
CHFPLN	2.7968	SEKPLN	0.4119
JPYPLN*	3.2333	CZKPLN	0.1642
GBPPLN	4.6186	HUFPLN	1.5676

**Financial market review - 8 Oct 09**
**The zloty trading ranges**

	min	max	open	close	fixing
EURPLN	4.2080	4.2565	4.2115	4.2390	4.2351
USDPLN	2.8465	2.8895	2.8545	2.8708	2.8659
EURUSD	1.4726	1.4801	1.4755	1.4763	-

**T-bonds**

TERM	Yield (%)	Change (bp)	Last auction	Average yield
2Y	5.11	3	7.10	5.115
5Y	5.71	1	9.09	5.736
10Y	6.21	1	20.05	6.335

**IRS rates (Mid)**

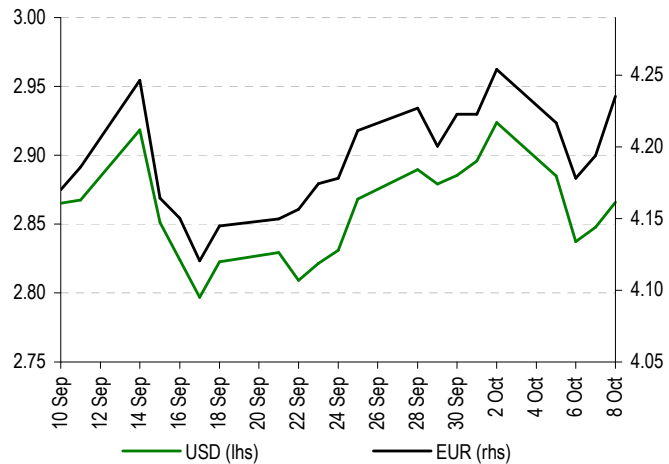
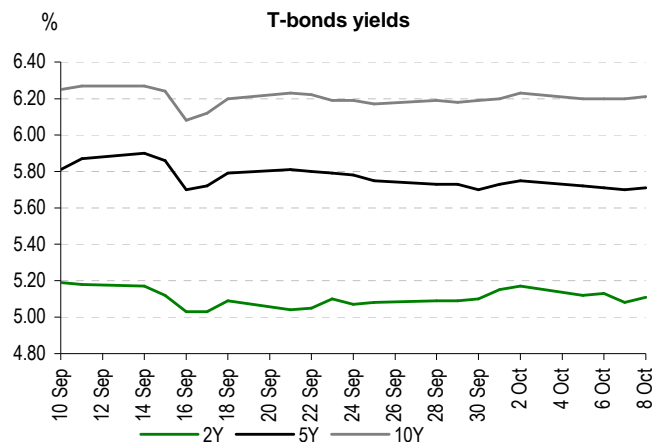
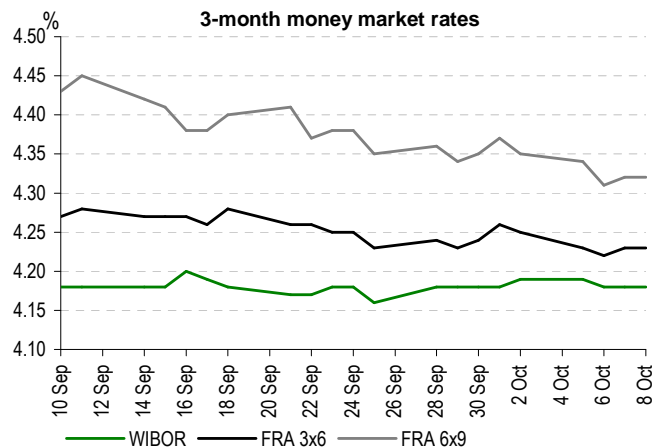
TERM	PL %	Change (bp)	US %	Change (bp)	EA %	Change (bp)
1Y	4.37	-2	0.59	-1	1.23	2
2Y	4.91	1	1.21	2	1.70	4
3Y	5.22	1	1.79	2	2.16	3
4Y	5.37	3	2.22	3	2.43	3
5Y	5.44	0	2.54	2	2.67	3
8Y	5.47	0	3.16	5	3.18	2
10Y	5.48	1	3.40	5	3.40	2

**WIBOR rates**

TERM	%	Daily change (bp)
O/N	2.64	-9
T/N	3.06	13
SW	3.35	-1
2W	3.41	-1
1M	3.52	0
3M	4.18	0
6M	4.33	0
9M	4.44	0
1Y	4.49	0

**FRA rates (Mid)**

TERM	%	Daily change (bp)
1X2	3.58	0
3X6	4.23	0
6X9	4.32	0
9X12	4.51	-1
3X9	4.40	0
6X12	4.55	-2

**Zloty exchange rate (fixing)**

**T-bonds yields**

**3-month money market rates**


\* for 100 JPY

Source: Reuters

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