

# Eyeopener – No change in MPC bias soon?

20 October 2009

- **Zloty appreciated, market interest rates down amid higher risk appetite, rising stock prices and forint strengthening**
- **Today, housing market data in the US, financial results of Bank of New York, Coca Cola, Yahoo**

The start of this week was favourable for the domestic currency amid rise in the European stock markets, strengthening of the euro versus the dollar and appreciation of other currencies in the region after interest rate cut in Hungary. Emerging markets currencies were supported by rising commodities prices and also by agreement of the ruling coalition in Latvia on budget spending cuts (ca. €1bn). The zloty gained already at the opening in reaction to rise in EURUSD from 1.487 to 1.494 in the early stage of the Monday's session. Then the zloty exchange rate to the euro stabilized around 4.20. During the European session there were increases in the stock markets amid no major data releases, due to optimistic expectations (for instance in the Nomura report) regarding next earning reports. After decision of the Hungarian central bank (rate cut of 50bps to 7%, as expected) there was appreciation of the forint, which was followed by the zloty. The Hungarian central bank said that there was increase in probability that inflation will be much below the target in the medium-term. The market expects further rate cuts in Hungary and the next one may take place already in November. Towards the end of the session the EURPLN rate broke the lower end of the range of 4.18-4.28 indicated in our weekly report and today at the opening it was at 4.16 with EURUSD at 1.498. Next important level for EURPLN will be 4.10.

Output figures for September were mixed (industrial output -1.3%YoY versus consensus of -2.4%YoY, construction output 5.6%YoY versus consensus of 9.2%YoY) and are consistent with a scenario of gradual, slow recovery of the Polish economy. Thus, the data did not change our expectations regarding interest rate changes. However, the much lower than expected PPI figures released yesterday together with earlier data on deeper than predicted CPI inflation drop may discourage MPC members from changing informal policy bias to neutral in October. Recent comments from MPC members indicate clearly that there may be no majority for the change in bias. According to MPC's Stanisław Owsiak (interview with today's *Dziennik Gazeta Prawna* daily), the recent data confirm assessment of the Council that inflation running below the target in the medium-term is more likely than inflation above the target and the change of this assessment should be left for the new Council. Owsiak believes that there will be no fundamental reasons for rate hikes in the next 6-7 quarters.

Yesterday's data had slightly positive impact on interest rate market – FRA rates fell by several points. Strengthening of debt market could have been also triggered by decision of the Hungarian central bank and zloty appreciation. Bond yields fell by several basis points, similarly to IRS rates.

In the core debt markets there was a fall in appetite for safe haven assets amid increases in the equity markets. This trimmed the strengthening, which followed the communiqué of the New York Fed that the reverse repo operation tested by the bank are not preparation before the start of exit strategy from monetary policy easing. In spite of this at the end of the day yields of 10Y Treasuries and Bunds were slightly below levels from the opening, i.e. 3.40% and 3.28% respectively.

At the yesterday auction the Ministry of Finance placed PLN400m of 52 week T-Bills against offer of PLN400-600m, which is in line with the policy of the Finance Ministry of limiting T-Bills issue. Investors' demand was quite high and was above PLN1.8bn, while the average yield was at 4.26% and was slightly below than at the previous week's tender (4.296%). BGK informed yesterday that at the Wednesday tender it will offer IDS1018 bonds worth PLN1-1.5bn.

The NBP business climate survey among in the corporate sector showed that in Q3 the signals of improvement in the assessment of economic situation in the corporate sector outlined in Q2 strengthened and the assessment for Q4 shows improvement of forecasts regarding orders, production, exports, employment and wage growth. Plans regarding the employment improved, though they still show that the number of firms planning limiting employment is higher than of enterprises expecting to increase jobs. At the same time there was a fall of percentage of companies planning decrease in wages and increase of percentage of enterprises rising employees compensation. Moreover according to the document the enterprises are planning to start more and to stop less investment projects. In the third quarter the demand barrier lowered for the second consecutive time, though it is still an important factor limiting business activity.

There are no domestic data releases due today. As regards data abroad, at 14:30 CET the data from the US real estate market will be released. The market expects a slight increase in the number of new house starts in September to 0.61 million units from 0.598 million in August, and the number of building permits at 0.6 million units. At the same time also US PPI data for September will be released. The market expects that producer prices remained stable on a monthly basis after an increase of 1.7%MoM in the previous month. Investors will also expect publication of the financial results of companies (Bank of New York Mellon, Coca-Cola, Yahoo). The financial results of companies released yesterday evening, including Apple, were much better than forecast, which have contributed to an increase in optimism on the stock markets in the US and Asia.

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

EURUSD	1.4973	CADPLN	2.7002
USDPLN	2.7792	DKKPLN	0.5590
EURPLN	4.1610	NOKPLN	0.5006
CHFPLN	2.7499	SEKPLN	0.4017
JPYPLN*	3.0802	CZKPLN	0.1617
GBPPLN	4.5639	HUFPLN	1.5746

**Financial market review - 19 Oct 09**

**The zloty trading ranges**

	min	max	open	close	fixing
EURPLN	4.1686	4.2099	4.2052	4.1732	4.1988
USDPLN	2.7872	2.8320	2.8219	2.7938	2.8113
EURUSD	1.4875	1.4953	1.4902	1.4948	-

**T-bonds**

TERM	Yield (%)	Change (bp)	Last auction	Average yield
2Y	4.90	-5	7.10	5.115
5Y	5.51	-9	9.09	5.736
10Y	6.07	-4	20.05	6.335

**IRS rates (Mid)**

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1Y	4.31	-4	0.31	1	1.30	6
2Y	4.81	-5	0.66	-1	1.85	1
3Y	5.15	-4	0.95	-1	2.26	-7
4Y	5.32	-4	1.18	-1	2.56	0
5Y	5.40	-4	1.35	-1	2.79	-1
8Y	5.45	-4	1.66	-1	3.31	0
10Y	5.45	-6	1.77	-2	3.52	1

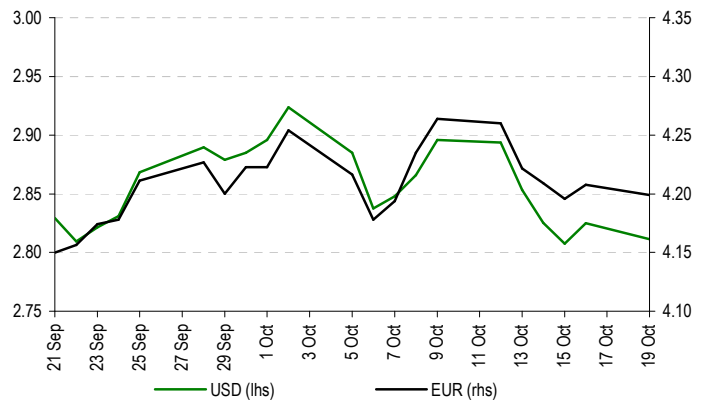
**WIBOR rates**

TERM	%	Daily change (bp)
O/N	2.84	-42
T/N	2.91	-38
SW	3.33	-1
2W	3.41	-1
1M	3.53	0
3M	4.18	-1
6M	4.32	-1
9M	4.44	0
1Y	4.48	-1

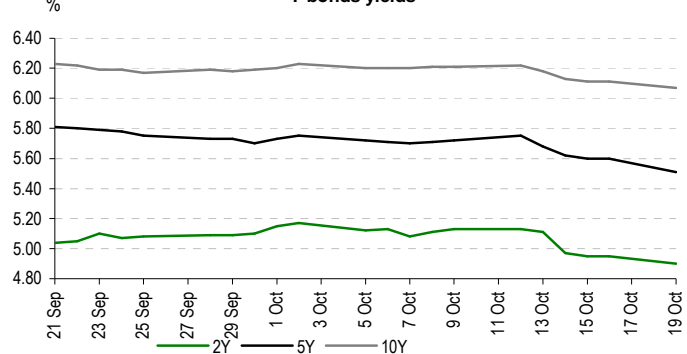
**FRA rates (Mid)**

TERM	%	Daily change (bp)
1X2	3.54	-1
3X6	4.20	0
6X9	4.26	-2
9X12	4.45	-3
3X9	4.37	0
6X12	4.50	-1

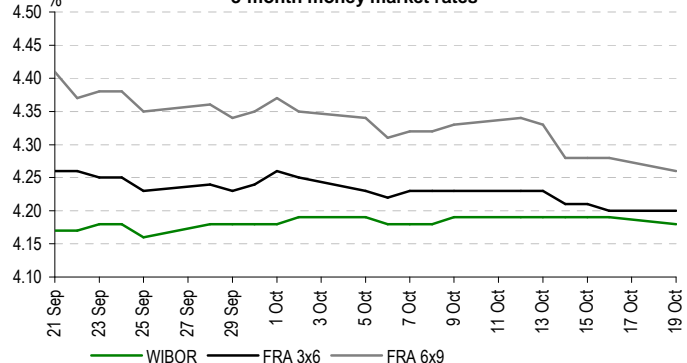
**Zloty exchange rate (fixing)**



**T-bonds yields**



**3-month money market rates**



\* for 100 JPY

Source: Reuters

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