

# Eyeopener – MPC may wait with rate hikes

25 January 2011

- **Start of the week under sign of changes in Ireland and declarations of increasing EFSF's powers**
- **Next comments signalling rising determination in fighting debt problems pushed the EURUSD higher, EURPLN slightly lower**
- **MPC comments signal no hurry with rate hikes**
- **GfK index above forecasts, in the afternoon US data and quarterly financial results of companies**

Though at the beginning of the European session stock indices advanced, indicating that the collapse of government coalition in Ireland did not deteriorate market sentiment, following hours were carried in a slightly more pessimistic mood. The potential for higher risk aversion was constrained by the comment of German finance minister, Wolfgang Schauble, who said that the government will support any actions towards increasing the EFSF's power. The ECB member, Juergen Stark, said that the EFSF could be buying bonds issued by the euro zone peripheral countries, and the Eurogroup chief, Jean-Claude Juncker, supported that idea. Those comments backed slightly market sentiment and limited the potential of the euro's depreciation as well as the upward trend of yields on the European debt market. Flash estimates of PMI indices for manufacturing and services in the euro zone and Germany (improvement in services, slight deterioration in manufacturing) were not seen as optimistic by the stock market. There was no visible reaction on the currency market. During the US and Asian sessions very positive sentiment persisted, fuelled by expectations for good quarterly financial results of companies and strengthening hopes for further fast recovery of the global economy in 2011. The GfK index, reflecting German consumers confidence, released today in the morning, climbed to 5.7pts, highest since October 2007, beating expectations at 5.4pts. The Bank of Japan left the interest rates unchanged, just as it was expected.

The EURUSD declined in the first part of the session. After reaching 1.353 the trend was reversed and following hours saw a considerable euro's appreciation. The single currency was supported by comments of European officials. It seems that during the yesterday's session the breaking of the resistance area at just below 1.36 was confirmed and in coming days the EURUSD may head towards next resistance area at ca. 1.375.

The EURPLN declined soon after the opening of the session to nearly 3.86, but later in the day the upward trend dominated. The depreciation versus the euro and falling EURUSD pushed the USDPLN to just over 2.87. As the EURUSD started to rise, the zloty appreciated versus the dollar and the USDPLN reached 2.84 at the end of the day. The scenario for the EURPLN remains unchanged – horizontal trend in the range of 3.84-3.92.

In the domestic debt market yields fell after dovish comments of MPC members. Additionally, long-term bonds were positively affected by presentation of detailed plans of changes in investment limits of open pension funds, which decreased investors' uncertainty. At yesterday's tender the Ministry of Finance sold 27-week T-bills worth PLN1bn with average yield 4.08%.

In the core debt market yields dropped due to increased risk aversion at the beginning of this week. At the end of the European session yields of 10Y Bunds and Treasuries stood at 3.16% and 3.40%, respectively. Today the European debt markets will be influenced by the first issuance of bonds by the EFSF (planned offer €5bn).

MPC member, Zyta Gilowska, said yesterday that the pace of economic growth in Poland is currently too low to lift interest rates and "risk any cooling". In her opinion the factors, which are constraining inflation, include rising labour productivity, high unemployment and appreciation potential of the zloty. Does it mean that inevitable monetary tightening, which Gilowska talked about in December, has been accomplished (at least for some time) with just one move by 25bps? Earlier yesterday, in an interview released in the morning, which we discussed in yesterday's Eyeopener, Elzbieta Chojna-Duch said that interest rates might remain unchanged for some time. In turn, in an interview published today in the morning by PAP, Andrzej Bratkowski gave comments in a similar tone. Namely, he stated that an interest rate hike in March is not very likely and it may take place only in May-June. In his view, the timing of the next rate hike will be determined by data on wages and the zloty performance. A hike in March could take place only if it proves that acceleration in average wage growth seen in December was not a one-off and the zloty does not appreciate. These three comments, including the one from Bratkowski, considered to be one of the most radical hawks, clearly support our view that the MPC will rather not hurry to deliver the next hike, unless new macro data surprise clearly on the hawkish side.

Another MPC member, Jerzy Hausner, said yesterday that the latest decision on the interest rate hike by 25bps was in his view only the beginning of the tightening cycle. He revealed, that for some time the Council did not discuss whether to raise the rates but when to do it. Still, Hausner did not give any clues indicating when he may support the interest rate hike again.

Minister Michał Boni presented yesterday the first concrete plans for changes in the investment limits for the open pension funds (OFE). In 2011 the limit for equities will rise to 42.5%, and will be gradually rising to 62% in 2020. A share contributions transferred to OFE will be also rising and since 2017, 3.8% of contributions will go to Social Security Office (ZUS), and 3.5% to OFE. According to Boni, in 2011-2020 period the borrowing needs will fall by PLN234bn due to these changes.

## ECONOMIC ANALYSIS

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F/X rates (today's opening)

EURUSD	1.3668	CADPLN	2.8496
USDPLN	2.8266	DKKPLN	0.5183
EURPLN	3.8634	NOKPLN	0.4897
CHFPLN	2.9788	SEKPLN	0.4315
JPYPLN*	3.4278	CZKPLN	0.1598
GBPPLN	4.5105	HUFPLN*	1.4088

\*for 100JPY/100HUF

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.8616	3.8896	3.8706	3.8792	3.8765
USDPLN	2.8378	2.8712	2.8468	2.8369	2.8561
EURUSD	1.3536	1.3659	1.3592	1.3676	-

T-bonds

TERM	Yield (%)	Change (bp)	Last auction	Average yield
2L	4.94	-4	5/01	4.984
5L	5.73	-6	5/01	5.642
10L	6.26	-7	12/01	6.215

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	4.68	-3	0.45	2	1.53	-1
2L	5.11	-4	0.83	4	1.94	-1
3L	5.33	-4	1.31	3	2.28	-1
4L	5.48	-5	1.78	2	2.54	-2
5L	5.58	-4	2.21	1	2.76	-2
8L	5.67	-5	3.10	0	3.21	-3
10L	5.64	-6	3.46	0	3.41	-3

WIBOR rates

TERM	%	Daily change (bp)
O/N	2.65	-96
T/N	2.78	-89
SW	3.68	-6
2W	3.77	0
1M	3.84	-1
3M	4.07	-1
6M	4.31	0
9M	4.44	0
1Y	4.49	0

FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	3.93	0
3X6	4.49	-3
6X9	4.81	-4
9X12	5.00	-5
3X9	4.73	3
6X12	5.05	4

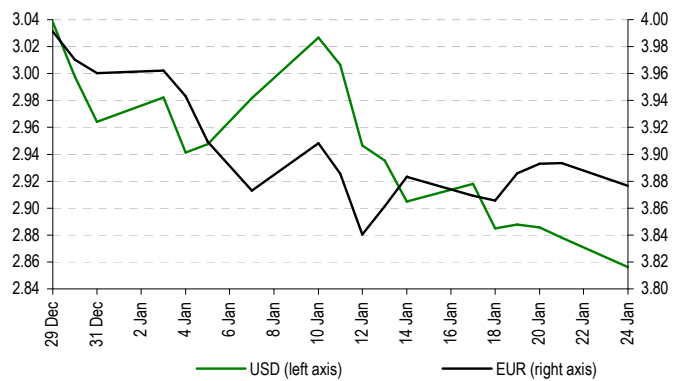
Measures of fiscal risk

Measures of fiscal risk				
Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	158.2	-5	3.10	-3
Czech Republic	90.8	0	0.87	4
Hungary	379.3	-16	4.58	2
Greece	872.4	-33	8.12	-7
Spain	260.6	-16	1.98	-2
Italy	185.0	-8	1.52	2
Portugal	431.2	-25	3.67	4
Germany	57.7	-2	--	--

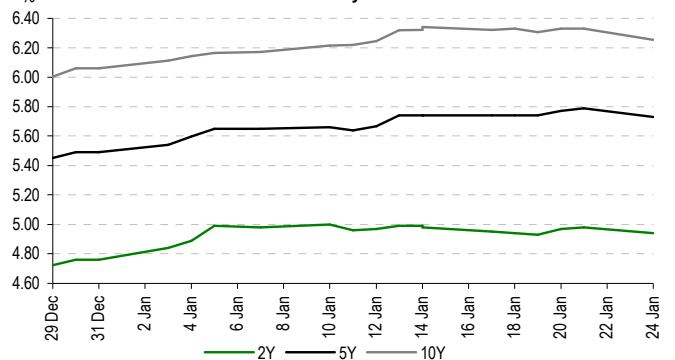
\* 10Y treasury bonds over 10Y Bunds

Source: Reuters

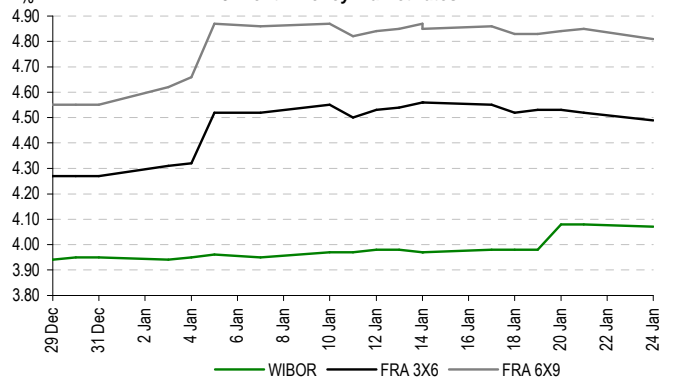
Zloty exchange rate (fixing)



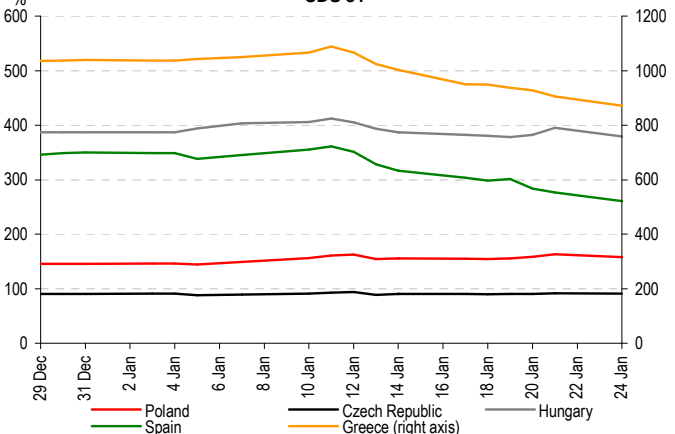
T-bonds yields



3-month money market rates



CDS 5Y



## Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE *
					MARKET	BZWBK		
		MONDAY (24 January)						
9:28	DE	Flash PMI – manufacturing	Jan	pts	60.8	-	60.2	60.7
9:28	DE	Flash PMI – services	Jan	pts	59.1	-	60.0	59.2
9:58	EZ	Flash PMI – manufacturing	Jan	pts	57.0	-	56.9	57.1
9:58	EZ	Flash PMI – services	Jan	pts	54.2	-	55.2	54.2
11:00	EZ	Industrial orders	Nov	%YoY	16.7	-	19.9	14.8
		TUESDAY (25 January)						
8:00	DE	GfK index	Feb	pts	5.4	-	5.7	5.4
15:00	US	S&P/Case-Shiller home price index	Nov	%MoM	-0.9	-		-1.3
16:00	US	Consumer confidence	Jan	pts	54.3	-		52.5
		WEDNESDAY (26 January)						
16:00	US	New home sales	Dec	k	300	-		290
20:15	US	FED decision		%	0.0-0.25	-		0.0-0.25
		THURSDAY (27 January)						
11:00	EZ	Consumer confidence	Jan	pts	-11	-		-11
14:30	US	Flash durable goods orders	Dec	%MoM	0.9	-		-0.3
14:30	US	Initial jobless claims	week	k	409	-		404
16:00	US	Pending home sales	Dec	%MoM	1.5	-		3.5
		FRIDAY (28 January)						
10:00	PL	GDP	2010	%	3.7	3.7		1.7
10:00	PL	Individual consumption	2010	%	3.2	3.0		2.1
10:00	PL	Fixed investments	2010	%	-1.2	-1.0		-1.1
10:00	PL	Retail sales	Dec	%YoY	9.7	9.0		8.3
10:00	PL	Unemployment rate	Dec	%	12.0	12.0		11.7
10:00	EZ	Money supply	Dec	%YoY	2.0	-		1.9
14:30	US	Advance GDP	Q4	%QoQ	3.5	-		2.6
14:30	US	Core PCE	Q4	%QoQ	0.5	-		0.5
15:55	US	Final Michigan index	Jan	pts	75.4	-		74.5

Source: BZ WBK, Parkiet, Reuters

\* in case of the revision, the data is updated

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