



The Cinkciarz.pl Zloty Index November 2015 report

We ExChange the World



Introduction

October was a month of wide weakening of the zloty. The Polish currency lost to every currency which is observed by Cinkciarz.pl. The biggest depreciation in the zloty was observed in relation to the emerging markets (the EME Index).

In October the zloty finished its three-month-long series of increases, which had been observed since July. The PLN wore off to every currency observed by Cinkciarz.pl. The wide MAJ-33 Index lost 2.8% in comparison to the past month.

The parliamentary elections on October 25th were a crucial factor working towards the Polish currency's disadvantage. Approximately two weeks before the voting, the zloty found itself under political risk pressure, which became weaker in the last few days of October. At that time, the PLN was the third weakest currency in the emerging markets.

The negative reaction of the financial markets was a result of the fact that the promises made by the politicians during the election campaign could have been a significant burden for the national budget. This caused the risk of crossing a 3% GDP deficit to significantly increase. The most expensive plans regarded a decrease in retirement age and the introduction of benefits for having at least two children.

An additional problem was the fact that next year the current parliament and the president connected with the winning party could practically change the entire personnel of the Monetary Policy Council. Politicians of the winning party expect more activity from the central bank in reviving the economic increase and have announced a selection of the MPC members from this angle. The perspective of a definitively milder approach of the monetary authorities is a disadvantageous factor for the zloty in the long term.

The increase in American interest rates, planned for December, is another burden for the zloty. In the FOMC's October announcement, it was directly pointed out that the last meeting of this year will be the time for considering the first hike for over a decade. This solution would have a negative impact not only on the zloty, but also on the rest of the emerging markets' currencies.

A positive side of the wide wear off, is an improvement in the price competitiveness of Polish export. Considering this factor, October was a very successful month. However, this phenomena is a result of increased political risk. In the following months, this factor may lose its significance. At the same time, looking at the determination of some central banks in wearing off their currencies, it is possible that other currencies will depreciate to the dollar and the euro even more. This month, Riksbank increased the scale of assets purchase in order to wear off the krona.

In this month's report, we also write about the topic of competitiveness with China. Recently, an improvement in price competitiveness of Polish export in relation to Chinese export can be seen.

Summary: Cinkciarz.pl Indexes and the changes to indexes

The nominal index

Period / Index	CEE	CEE_NO_CR	MAJ_33	MAJ_16	MAJ_7	SCAN	EME	EME_NO_CR
2015-08-01	152.0	98.1	106.4	105.0	102.8	100.8	145.4	97.7
2015-09-01	153.3	97.8	106.5	105.1	103.0	100.1	147.3	98.5
2015-10-01	149.0	97.0	105.0	103.6	101.3	99.1	142.8	97.2

Chart: Value of the nominal index. Source: Cinkciarz.pl

Period / Index	CEE	CEE_NO_CR	MAJ_33	MAJ_16	MAJ_7	SCAN	EME	EME_NO_CR
2015-08-01	19.9	-1.3	2.9	3.0	3.7	4.3	16.7	-4.9
2015-09-01	20.6	-1.4	3.3	3.3	4.0	3.7	18.6	-2.7
2015-10-01	15.6	-1.5	2.0	1.9	2.1	2.7	14.0	-2.6

Chart: Changes to the nominal index year on year (in percent). Source: Cinkciarz.pl

Period / Index	CEE	CEE_NO_CR	MAJ_33	MAJ_16	MAJ_7	SCAN	EME	EME_NO_CR
2015-08-01	4.6	-1.1	1.0	1.0	1.5	0.3	5.6	1.2
2015-09-01	0.2	-0.4	0.2	0.0	0.2	-0.7	1.3	0.9
2015-10-01	-2.8	-0.8	-1.4	-1.4	-1.6	-1.0	-3.0	-1.4

Chart: Changes to the nominal index month to month (in percent). Source: Cinkciarz.pl

The real index

Period / Index	CEE	CEE_NO_CR	MAJ_33	MAJ_16	MAJ_7	SCAN	EME	EME_NO_CR
2015-08-01	100.1	92.9	98.7	98.4	97.3	106.9	92.4	81.7
2015-09-01	100.2	92.4	98.4	98.1	97.1	105.3	92.9	82.1
2015-10-01	97.4	91.7	97.0	96.7	95.6	104.2	90.1	81.0

Chart: Value of the real index. Source: Cinkciarz.pl

Period / Index	CEE	CEE_NO_CR	MAJ_33	MAJ_16	MAJ_7	SCAN	EME	EME_NO_CR
2015-08-01	9.2	-1.6	-0.1	-0.3	0.8	3.1	5.5	-6.1
2015-09-01	9.8	-1.8	0.2	-0.1	1.0	2.2	7.1	-4.1
2015-10-01	5.7	-1.9	-1.0	-1.4	-0.8	1.2	3.6	-3.8

Chart: Changes to the real index year on year (in percent). Source: Cinkciarz.pl

Period / Index	CEE	CEE_NO_CR	MAJ_33	MAJ_16	MAJ_7	SCAN	EME	EME_NO_CR
2015-08-01	4.6	-1.0	0.7	0.7	1.1	0.2	5.3	0.9
2015-09-01	0.2	-0.5	-0.3	-0.4	-0.2	-1.5	0.5	0.5
2015-10-01	-2.8	-0.8	-1.4	-1.4	-1.6	-1.0	-3.0	-1.3

Chart: Changes to the real index month to month (in percent). Source: Cinkciarz.pl

Summary: export and contribution in export divided on the baskets

Period / Index	CEE	CEE_NO_CR	MAJ_33	MAJ_16	MAJ_7	SCAN	EME	EME_NO_CR
2015-06-01	0.2	1.0	1.0	1.1	1.2	1.1	-0.1	0.7
2015-07-01	-0.2	0.4	0.2	0.1	0.1	0.1	-0.3	0.6
2015-08-01	0.1	0.9	1.1	1.2	1.4	0.9	-0.5	0.3

Chart: Changes to export month to month (in percent). Source: GUS; Analysis: Cinkciarz.pl

Period / Index	CEE	CEE_NO_CR	MAJ_33	MAJ_16	MAJ_7	SCAN	EME	EME_NO_CR
2015-06-01	-2.8	8.0	5.0	5.7	6.0	-3.7	-3.8	10.3
2015-07-01	-2.7	8.0	5.1	5.6	5.8	-3.3	-3.5	10.6
2015-08-01	-1.4	9.2	6.6	7.2	7.5	-2.1	-3.0	10.5

Chart: Changes to export year to year (in percent). Source: GUS; Analysis: Cinkciarz.pl

Period / Index	CEE	CEE_NO_CR	MAJ_33	MAJ_16	MAJ_7	SCAN	EME	EME_NO_CR
2015-06-01	22.4	16.3	91.0	76.1	54.5	6.5	15.5	10.2
2015-07-01	22.3	16.3	90.9	75.9	54.3	6.5	15.4	10.2
2015-08-01	22.0	16.3	90.9	76.0	54.5	6.5	15.1	10.1

Tab.: Udział koszyka w eksporcie ogółem (w proc.). Dane: GUS; Opracowanie: Cinkciarz.pl

Content of the currency baskets

Country	Currency	MAJ_33	MAJ_16	MAJ_7	CEE	CEE (no RU, UA, BY)	SCAN	EME	EME (no RU, UA)
Austria	EURPLN	yes							
Belgium	EURPLN	yes	yes						
Belarus	PLNBYR	yes			yes				
China	CNYPLN	yes	yes	yes				yes	yes
Czech Republic	CZKPLN	yes	yes	yes	yes		yes		
Denmark	DKKPLN	yes					yes		
Estonia	EURPLN	yes			yes		yes	yes	yes
Finland	EURPLN	yes					yes		
Francja	EURPLN	yes	yes	yes					
Spain	EURPLN	yes	yes						
Holland	EURPLN	yes	yes						
India	INRPLN	yes						yes	yes
Ireland	EURPLN	yes							
Japan	JPYPLN	yes							
Canada	CADPLN	yes							
South Korea	KRWPLN	yes	yes						
Lithuania	EURPLN	yes			yes		yes	yes	yes
Latvia	EURPLN	yes			yes		yes	yes	yes
Germany	EURPLN	yes	yes	yes					
Norway	NOKPLN	yes					yes		
Russia	RUBPLN	yes	yes	yes	yes			yes	
Romania	RONPLN	yes			yes		yes	yes	yes
Slovakia	EURPLN	yes	yes		yes		yes		
USA	USDPLN	yes	yes						
Switzerland	CHFPLN	yes							
Sweden	SEKPLN	yes	yes				yes		
Taiwan	TWDPLN	yes							
Turkey	TRYPLN	yes						yes	yes
Ukraine	PLNUAH	yes	yes		yes			yes	
Hungary	HUFPLN	yes	yes		yes		yes	yes	yes
Great Britain	GBPPLN	yes	yes	yes					
Vietnam	VNDPLN	yes							
Italy	EURPLN	yes	yes	yes					

Chart: Content of the country's baskets. Source: Cinkciarz.pl

Detailed description of indexes

Most important trading partners (wide index): The Cinkciarz.pl MAJ_33 index

In October the price competitiveness of Polish export improved significantly. The nominal Cinkciarz.pl MAJ_33 index was by 2% higher compared to last year. The situation deteriorated in relation to the past month, in which it was 3.3%. In month to month relation the depreciation was 2.8%.

The real index showed a clear improvement in price competitiveness. In October the index, which included a difference in inflation, was by 1% lower to the past year, and against 0.2% the month before.



Diagram: The MAJ_33 index

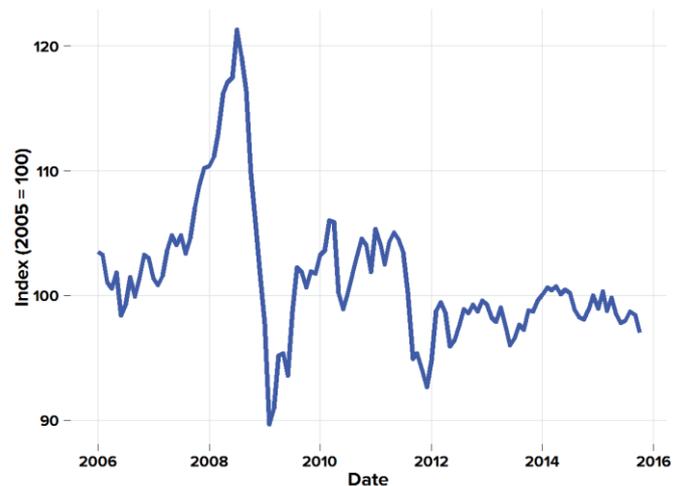


Diagram: The real MAJ_33 index

The weakening of the PLN is good information. Since 2012, Poland has remained in an increase trend to the currencies of its most important trading partners. October's depreciation in the zloty decreases a negative tendency.

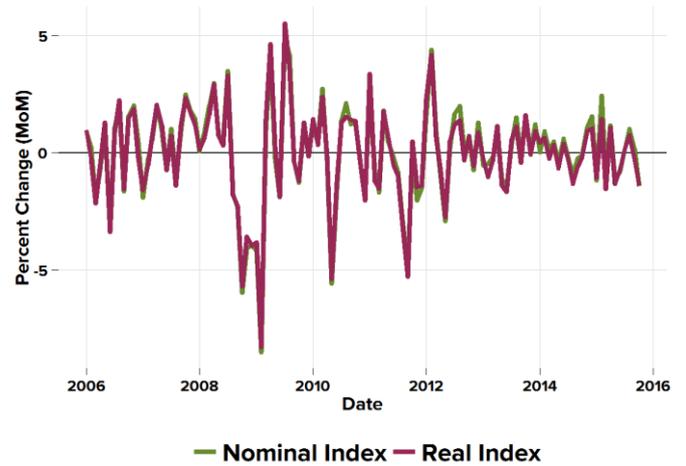
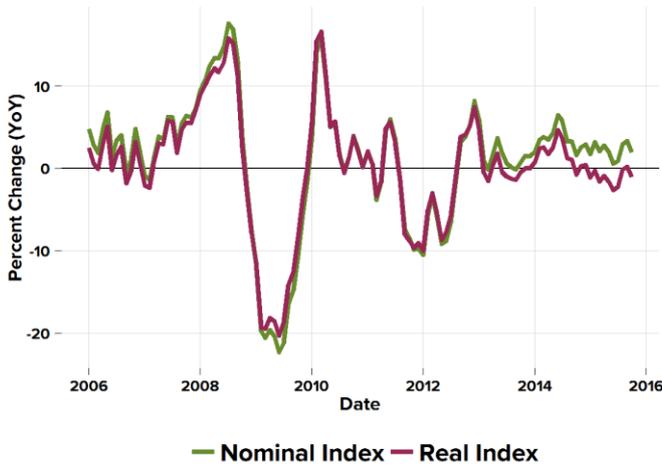


Chart: Changes to indexes (year on year)

Chart: Changes to indexes (month to month)

The real MAJ_33 index went down to the lowest level since mid-2013. Even though it remains close to the high levels from 2014, the current tendency will support Polish export in the following quarters.

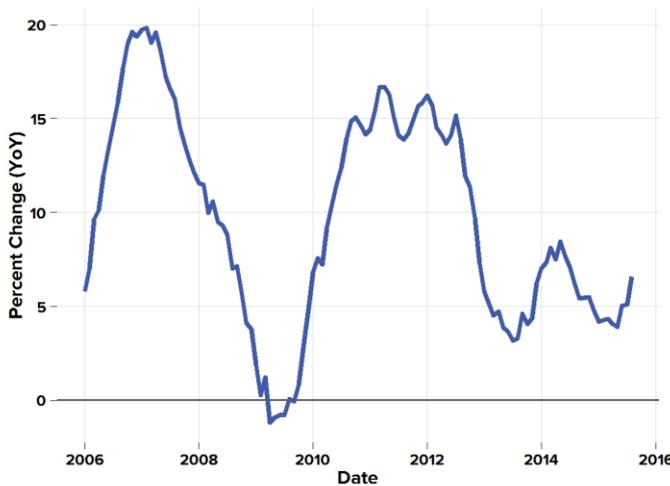


Chart: Export to the MAJ_33 countries year on year (in percent); Source: GUS; Analysis: Cinkciarz.pl

Chart: Share of the MAJ_33 countries in the export (in percent); Source: GUS; Analysis: Cinkciarz.pl

In the 12-month-long period, which finished in August 2015, the export on the markets of the 33 most important trading partners increased by 6.6% in relation to the past year. The contribution of the most important trading partners in general export was 90.9%.

Most important trading partners (narrow index): The Cinkciarz.pl MAJ_16 index

In October the nominal Cinkciarz.pl MAJ_16 index was by 1.9% higher than the year before. The situation improved in relation to the past month. At that time it was plus 3.3%.

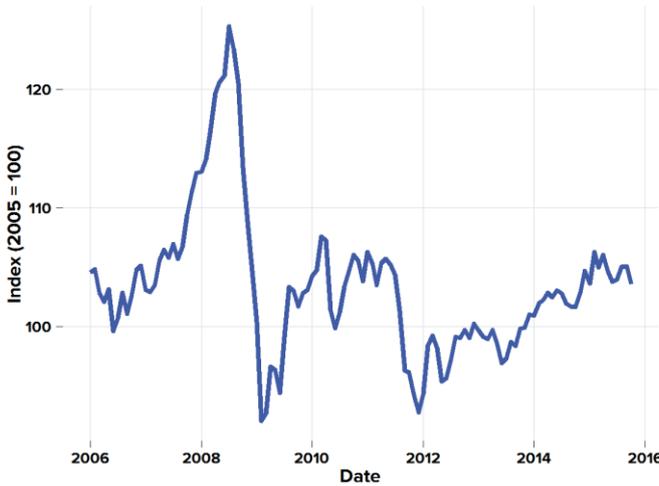


Chart: the MAJ_16 index

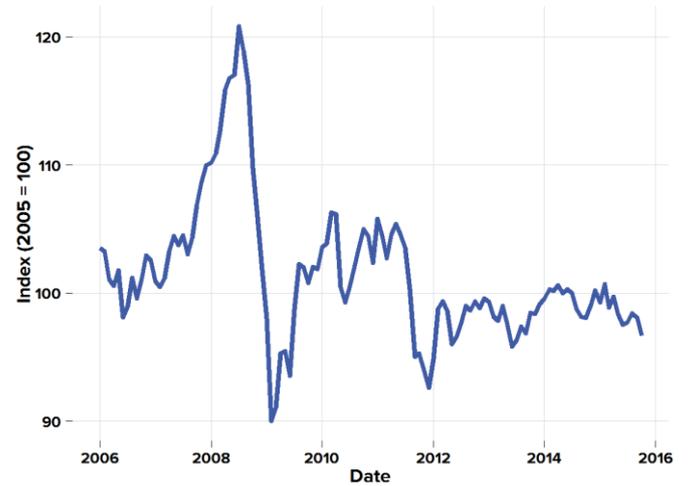


Chart: the real MAJ_16 index

The real index shows that we are dealing with a period of improvement in the price competitiveness of Polish export. In October, the index which includes the difference in inflation was by 1.4% lower to the year before.

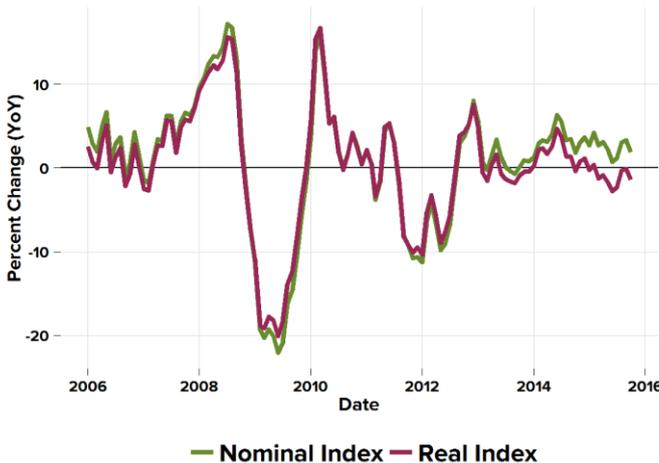


Chart: Changes to the indexes (year on year)

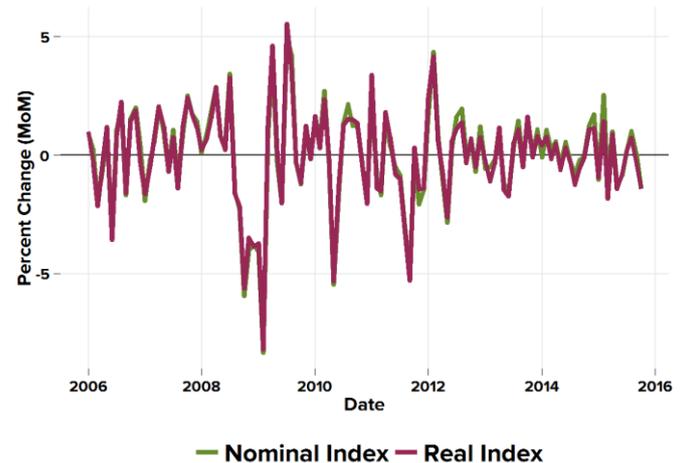


Chart: Changes to indexes (month to month)

Just like in the case of the real MAJ_33 index, the real MAJ_16 index is at the lowest level since 2013. This tendency should support an increase in export in the following quarters.

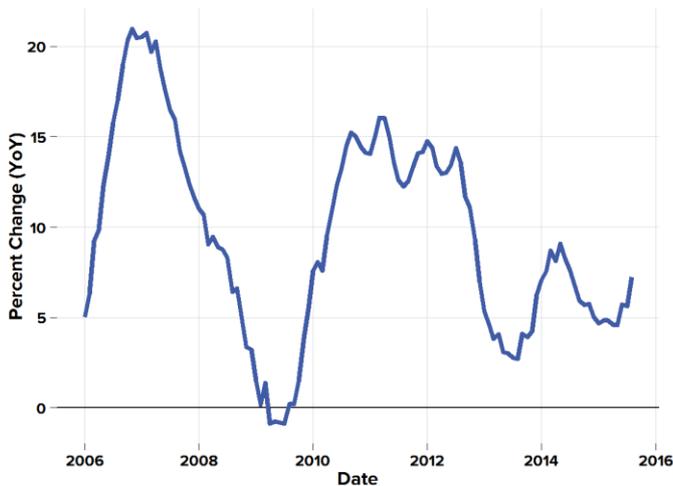


Chart: Export to the MAJ_16 countries year on year (in percent); Source: GUS; Analysis: Cinkciarz.pl



Chart: Participation of the MAJ_16 countries in export (in percent); Source: GUS; Analysis: Cinkciarz.pl

In the 12-month-long period, which finished in August 2015, the export to the markets of the 16 most important trading partners increased by 7.2% to the past year. The participation of the most important trading partners included in the tight index was 76% in general export.

Crucial trading partners: The Cinkciarz.pl MAJ_7 Index

In October the nominal Cinkciarz.pl MAJ_7 index was by 2.1% higher in relation to the past year. This is an improvement to the past month in which the dynamics were 4%.



Chart: Index MAJ_7

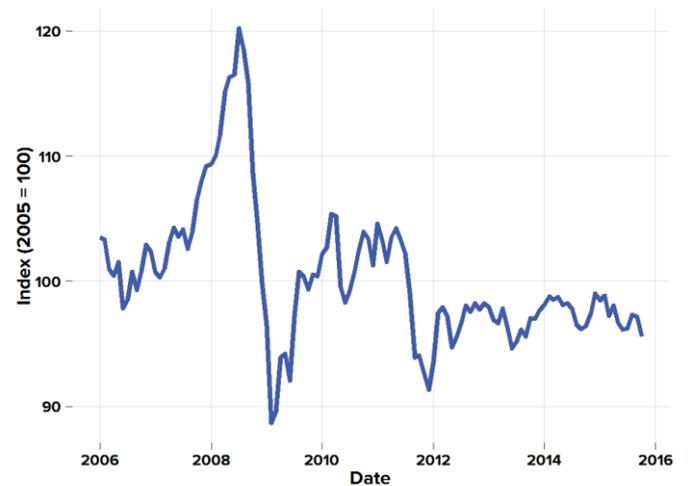


Chart: Index MAJ_7 Real

The real index also showed an improvement in the competitiveness of Polish export. In October the index including a difference in inflation was by 1.6% lower than the previous year.

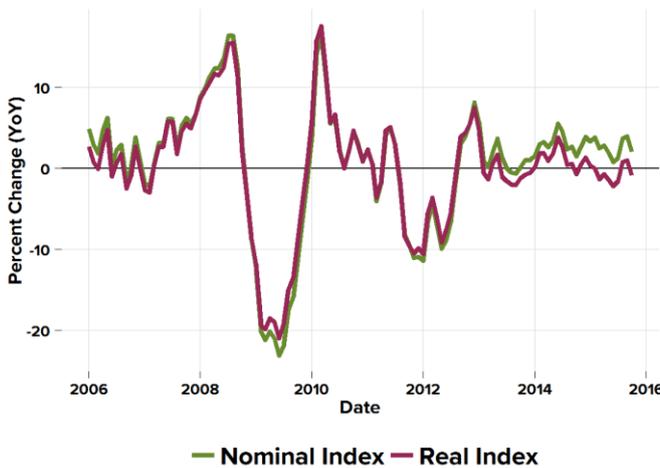


Chart: Change of indexes (year on year)

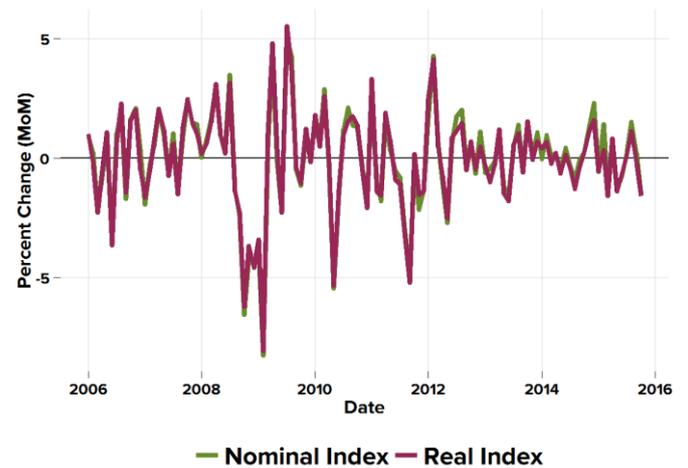


Chart: Change of indexes (month to month)

In the case of MAJ_7 index, we have been dealing with relatively stable price competitiveness since the beginning of 2015. It concerns the nominal, as well as the real index.

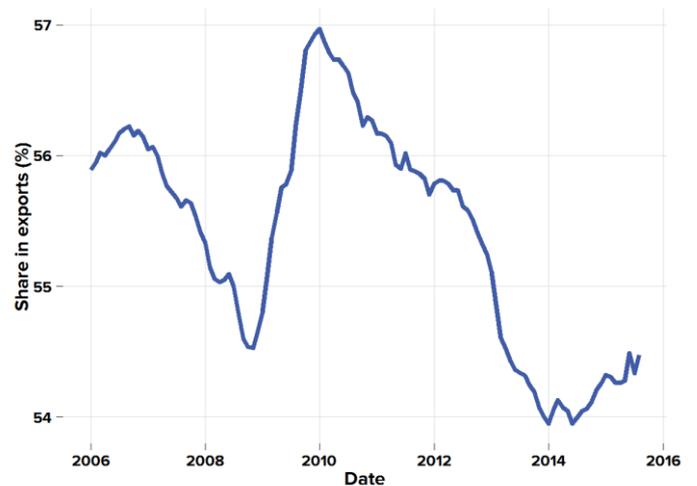
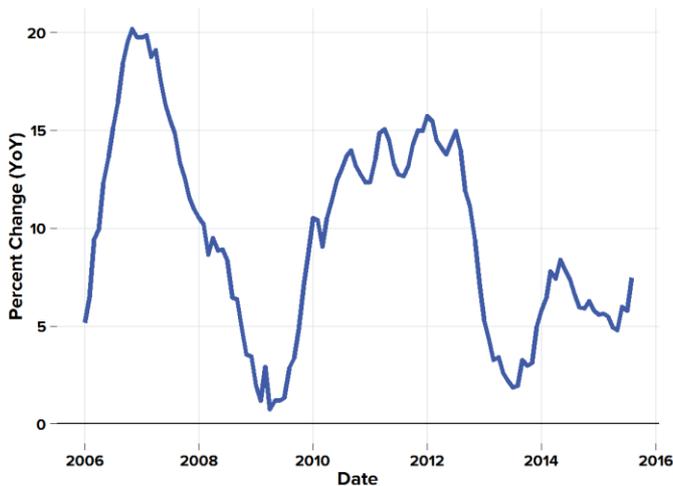


Chart: Export to the MAJ_7 countries (year on year (in percent)); Chart: Participation of the MAJ_7 countries in export (in percent); Source: GUS; Analysis: Cinkciarz.pl

In the 12-month-long period, which finished in August 2015, export to the markets of the 7 most important trading partners increased by 7.5% to the past year. The contribution of crucial trading partners included in the index was 54.5% in general export.

Countries of the central-eastern Europe: the Cinkciarz.pl CEE Index

In October the nominal Cinkciarz.pl CEE Index was by 15.6% higher in relation to the past year. This means that the situation clearly improved in comparison to the past month when it was 20.6%.

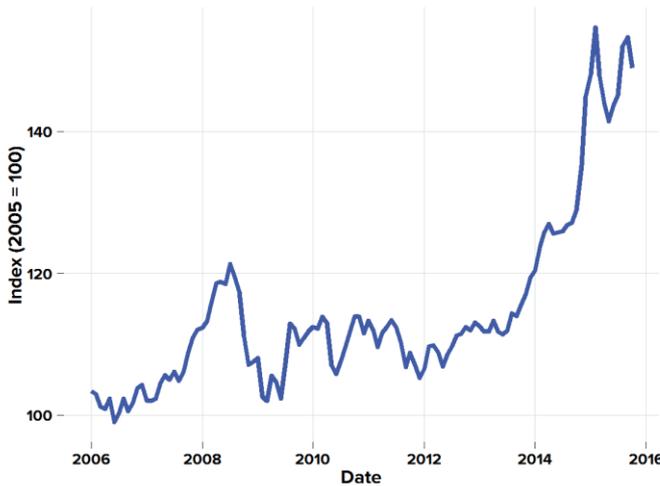


Chart: The CEE Index

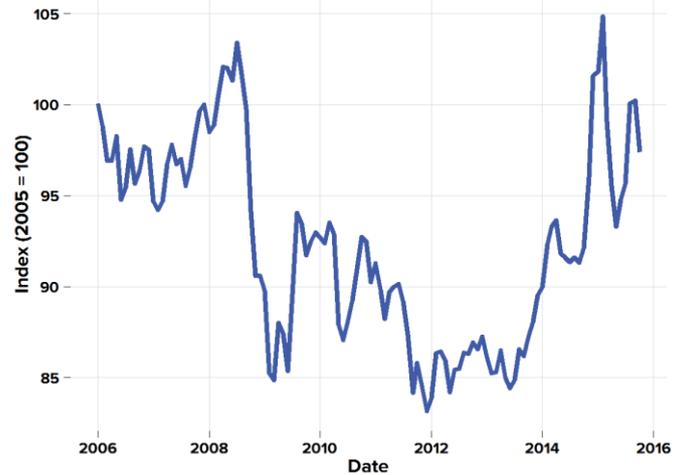


Chart: The real CEE Index

Also in the case of the real index, we are dealing with a strong improvement in price competitiveness. The index which includes a difference in inflation was by 5.7% higher to the past year, and against 9.8% the month before. Nevertheless, the situation on the Central European market is still unfavorable for exporters.

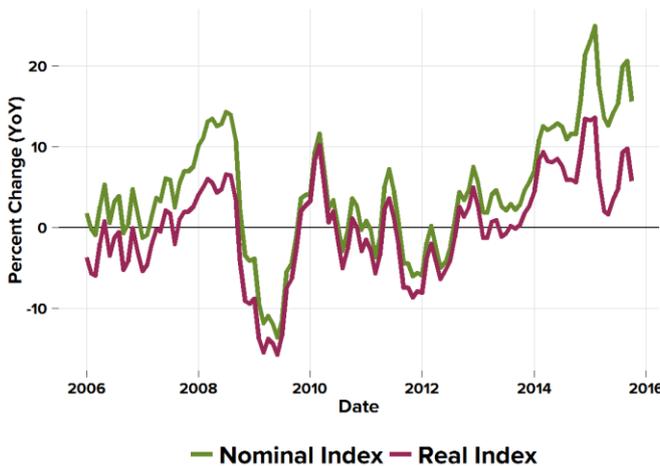


Chart: Changes to indexes (year on year)

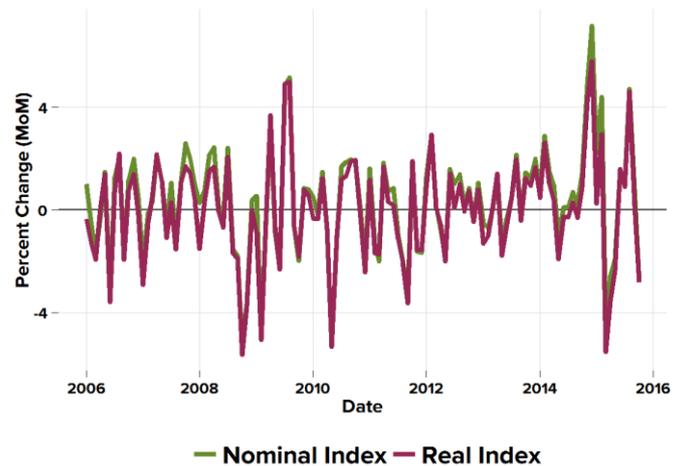


Chart: Changes to indexes (month to month)

After three months of increase in a row and a return to record high levels, the zloty had a serious decrease to the currencies of the CEE countries.

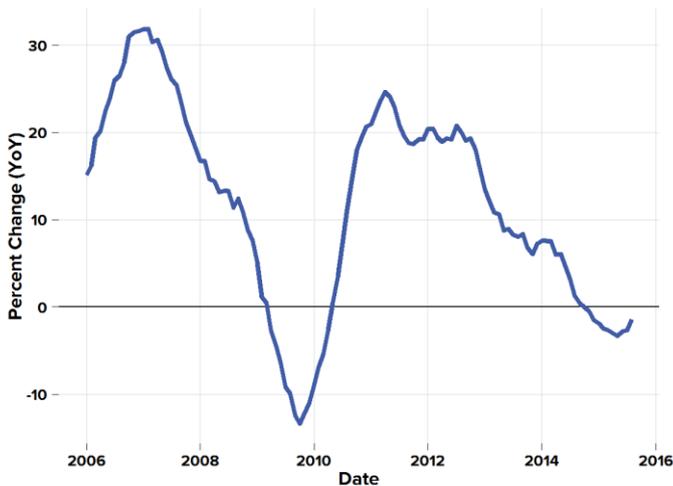


Chart: Export to the CEE countries year on year (in percent);
Source: GUS; Analysis: Cinkciarz.pl

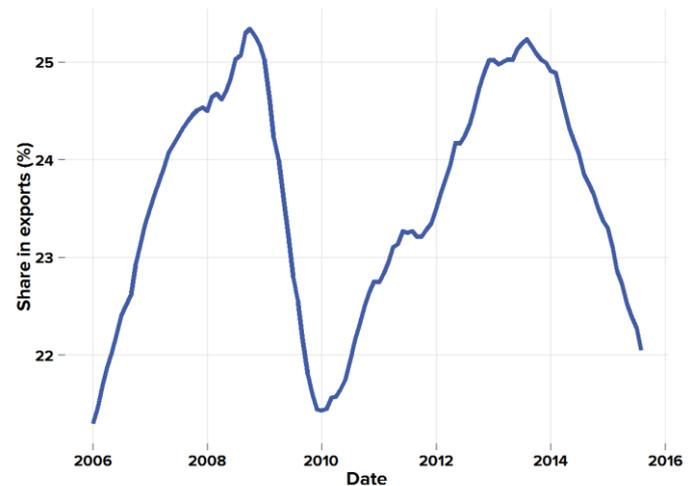


Chart: Participation of the CEE countries in export (in percent);
Source: GUS; Analysis: Cinkciarz.pl

For nine months the export to the markets of central-eastern Europe shows negative dynamics. In the 12-month-long period, which finished in August, the decrease was 1.4% to the same period the year before. This means that the depreciation scale decreased in the past month. The contribution of central-eastern Europe countries decreased to 22%, against 23% the month before.

Countries of central-eastern Europe (with the exclusion of countries in crisis): the Cinkciarz.pl CEE_NO_CR Index

In October the nominal Cinkciarz.pl CEE_NO_CR Index was by 1.5% lower to the past year. This index does not include the countries experiencing currency crisis – Russia, Ukraine and Belarus. Thus, the situation improved in relation to the past month. In July the dynamics were minus 1.4%.



Chart: the CEE_NO_CR Index

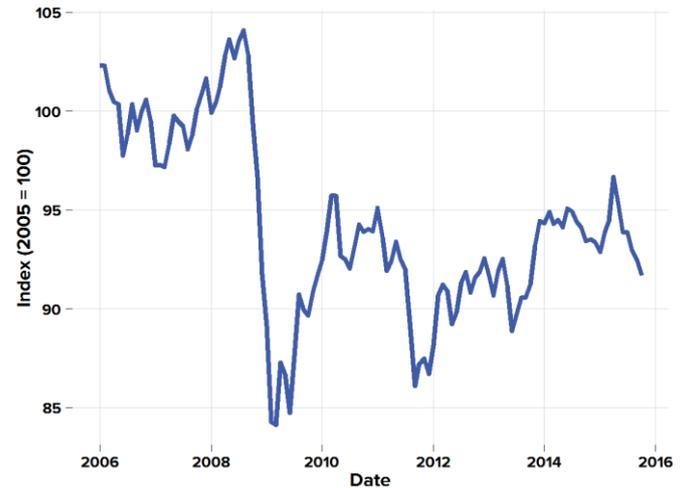
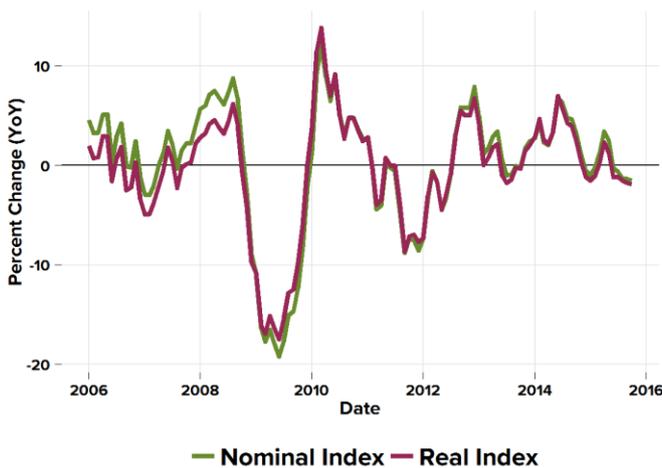
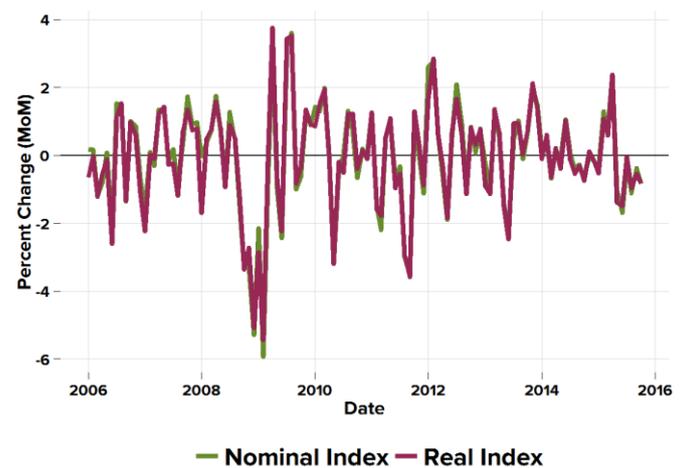


Chart: the real CEE_NO_CR Index

In 2015 the CEE_NO_CR index experienced a clear depreciation. Nevertheless, a look at this index from a long perspective shows that the zloty remains very strong to the currencies in the region. A wear off in competitiveness of Polish export in the region is still a significant problem for the companies functioning in this market.



Changes to indexes (year on year)



Changes to indexes (month to month)

Similar tendencies are indicated by the CEE_NO_CR index. After including the difference in inflation, the index shows that in the past few years the zloty has remained on an increase trend.

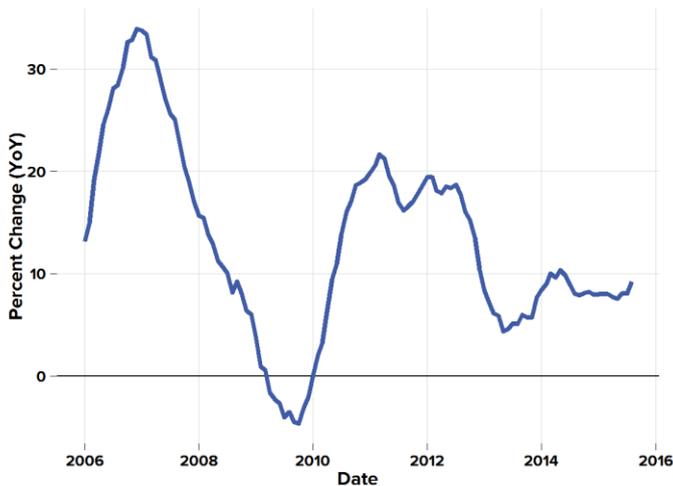


Chart: Export to the CEE_NO_CR countries year on year (in percent); Source: GUS; Analysis: Cinkciarz.pl

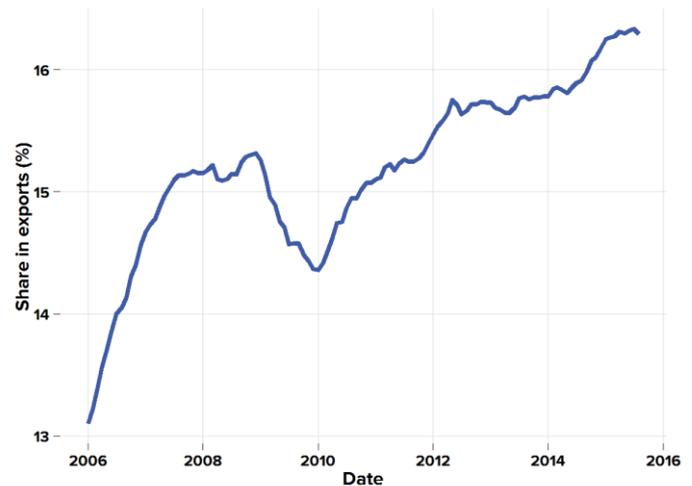


Chart: Participation of the CEE_NO_CR countries in export (in percent); Source: GUS; Analysis: Cinkciarz.pl

In the 12-month-long period, which finished in August, export to the markets of central-eastern Europe (with the exclusion of Russia, Ukraine and Belarus) increased by 9.2% in relation to the past year. The contribution of these countries in general export was 16.3% - without changes in relation to the past few months. Even though the pace of export to the central-eastern European countries is relatively high, the dynamics, however, still remain humble in comparison to the past years.

Scandinavian countries: The Cinkciarz.pl SCAN Index

In October the nominal Cinkciarz.pl SCAN Index was by 2.7% higher in relation to the past year. The situation improved to the past month, when the dynamics were 3.7%.



Chart: SCAN Index

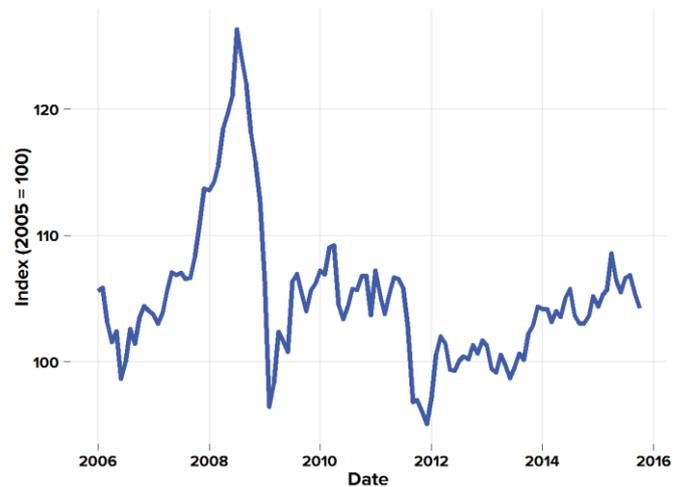


Chart: the real SCAN Index

The SCAN index shows that the zloty is currently very strong to the Scandinavian currencies. The PLN is closest to the highest level of this region's currencies since 2011. The situation on the oil market still has a negative impact on the Scandinavian currencies. Additionally, the Scandinavian central banks wear off their currencies.

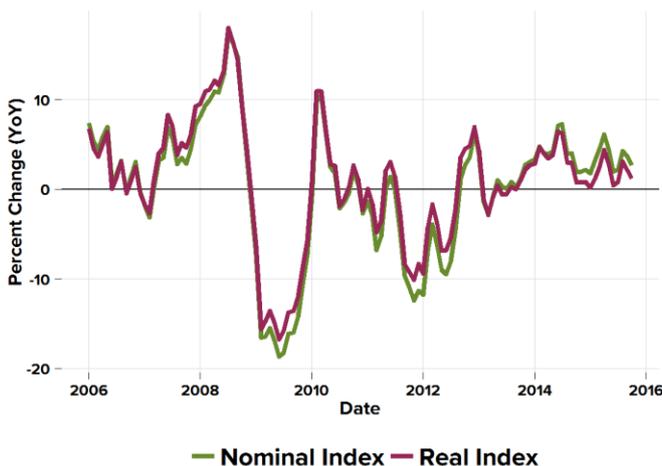


Chart: Changes to indexes (year on year)

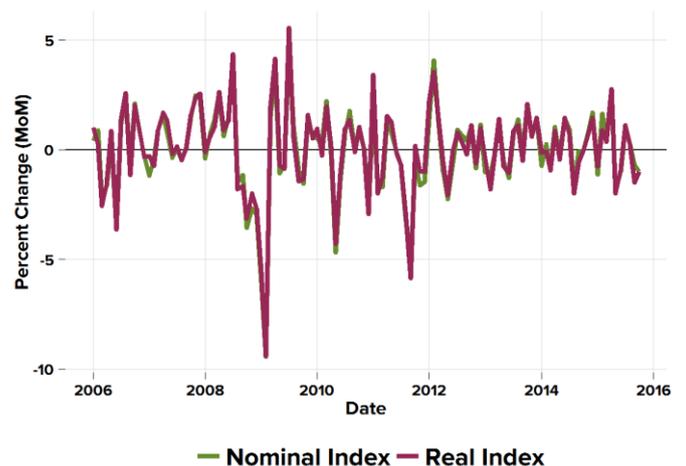


Chart: Changes to indexes (month to month)

Almost identical tendencies are shown by the real SCAN index. The competitiveness of Polish export in Scandinavian markets deteriorated, even though this tendency withheld within the past few quarters.

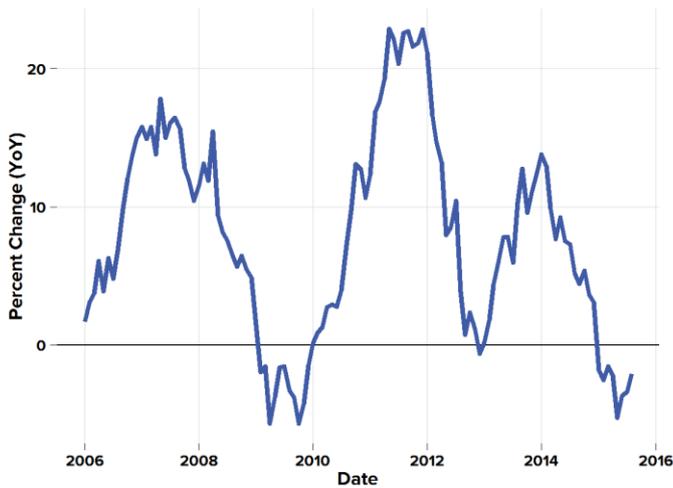


Chart: Export to the SCAN countries year on year (in percent);
Source: GUS; Analysis: Cinkciarz.pl

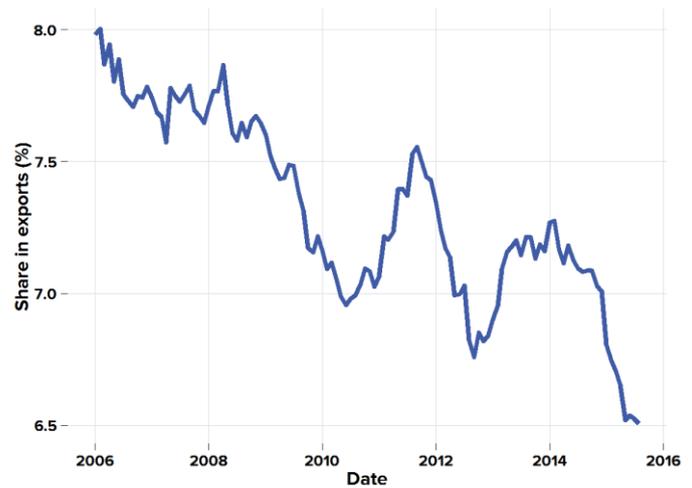


Chart: Participation of the SCAN countries in export (in percent); Source: GUS; Analysis: Cinkciarz.pl

In the 12-month-long period, which finished in August, export to the Scandinavian markets decreased by 2.1%, after a decrease of 3.3% the month before. The contribution of the Scandinavian countries in general export was 6.5%.

The Emerging Markets: Cinkciarz.pl EME_NO_CR Index

In October the nominal Cinkciarz.pl EME_NO_CR Index was by 2.6% in relation to the past year. The situation slightly deteriorated to the past month, when the dynamics were minus 2.7%. This index includes the countries considered as emerging markets with the exclusion of Russia and Ukraine.

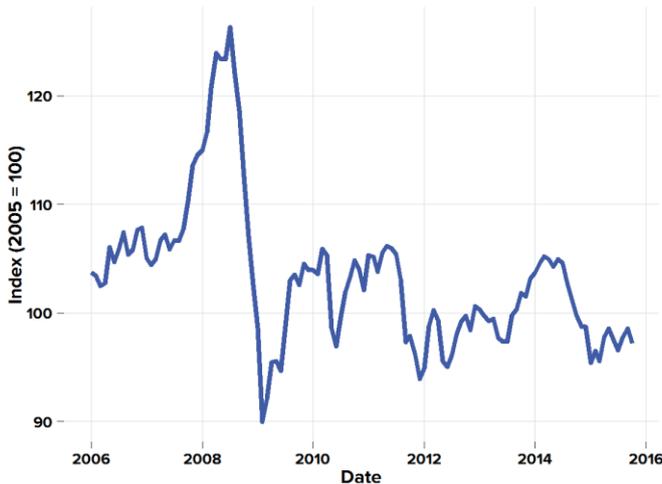


Chart: the EME_NO_CR index

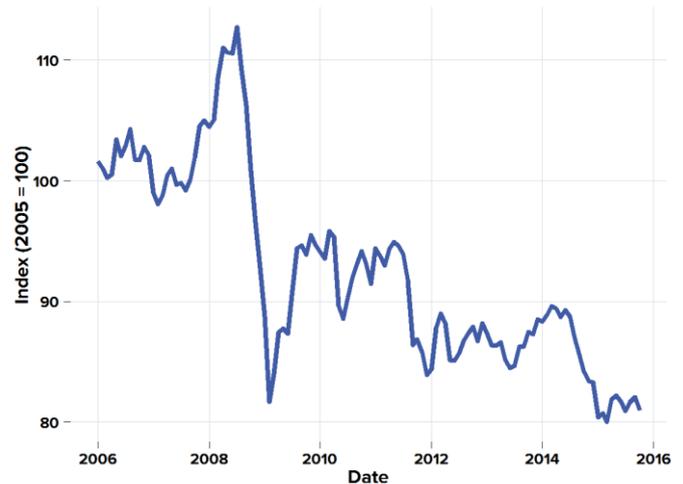


Chart: the real EME_NO_CR index

The EME_NO_CR index shows that the zloty is currently very weak to the currencies of the emerging markets. Nevertheless, the stabilization of the Polish currency on a low level could be recently observed.

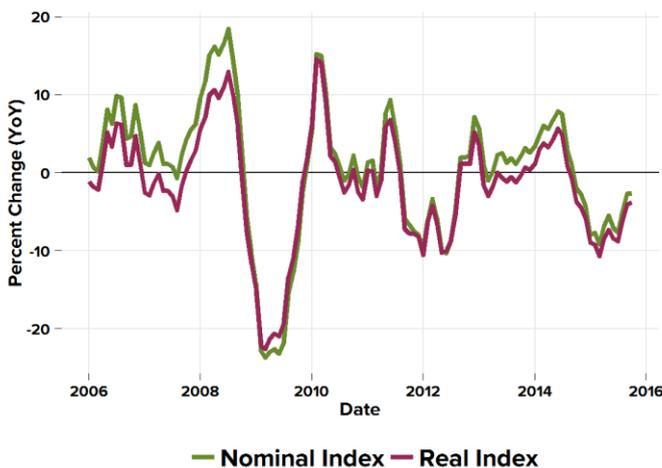


Chart: Changes to indexes (year on year)

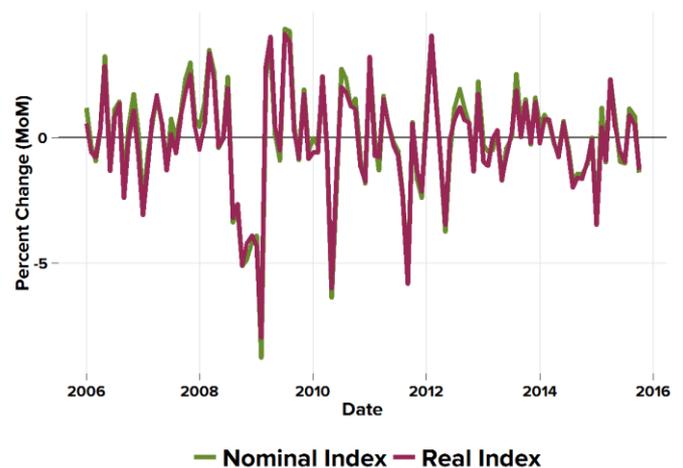


Chart: Changes to indexes (month to month)

Similar tendencies are shown by the real EME_NO_CR index. However, the scale of improvement in competitiveness is clearly bigger.

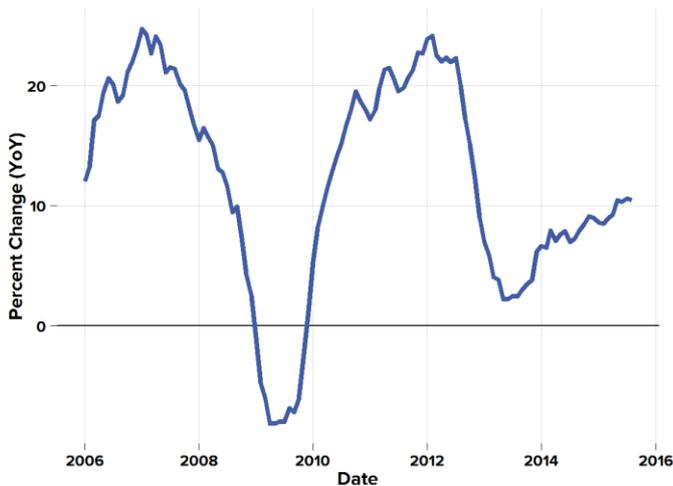


Chart: Export to the EME_NO_CR countries year on year (in percent); Source: GUS; Analysis: Cinkciarz.pl

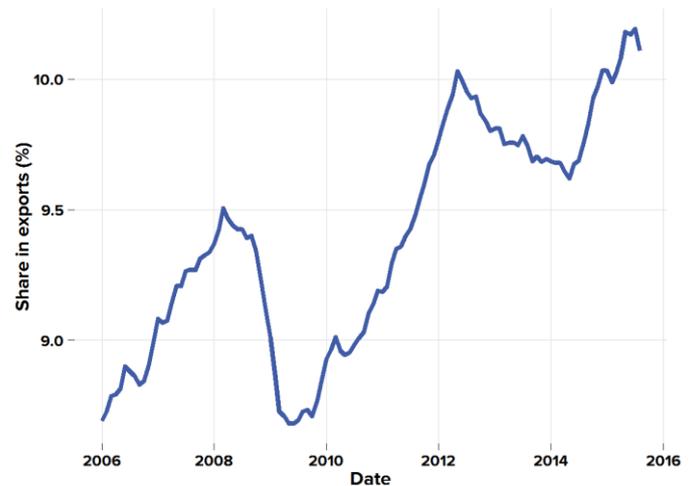


Chart: Share of the EME_NO_CR countries in the export (in percent); Source: GUS; Analysis: Cinkciarz.pl

In the 12-month-long period, which finished in August, export to the emerging markets increased by 10.5%. The contribution of these countries in general export was 10.1%.

According to the International Monetary Fund classification, the emerging markets also includes Russia and Ukraine. These countries are not included in our analysis because of their economic difficulties that could severely disturb the final shape of the EME index. Calculations which include these countries are presented in the summary.

Poland is more competitive than China

Appreciation of the renminbi observed within the past five years wore off the price competitiveness of China. On the other hand, the price competitiveness of the Polish economy increased in this period. This fact supports Poland's model of development as an export economy.

China is currently changing its economic model. The country is abandoning development based on industry and export. Significant factors of this model were low labour costs and price competitiveness of production.

Low labour costs were a result of a huge labour force. On the other hand, price competitiveness was to a large degree assured by the central bank, which limited the possibilities of appreciation on the Chinese currency. In 2005, the People's Bank of China resigned from the solid rate of the renminbi to the dollar. Since then, appreciation of the Chinese currency was observed, but the scale of it was smaller than the foundations (trade surplus and the biggest global currency reserves) indicated.

In the past few years the government in Beijing decided that the potential of the previous increase model has been exhausted. After reaching the position of a crucial global exporter, China moves to an increase model used in developed countries. It is based on national consumption.

The less significant role of export in the new model means that the country can afford to appreciate its currency, even if such tendencies occur on the currency market. A parallel goal is to achieve the status of the reserve currency by the renminbi. This will be possible if the rate of the Chinese currency is to a bigger degree determined by the market. Thus, the People's Bank of China is very active in this field, which has been especially visible in the past six months.

Part of this process was the devaluation of the renminbi. Its aim was to adjust the rate of the Chinese currency to the tendencies occurring in the markets within the past few quarters. Most of all the appreciation of the dollar, which was not much visible on the USD/CNY pair. Afterwards the People's Bank of China had to stabilize the rate of renminbi, after a big variability occurred on the currency market.

In November, the International Monetary Fund will make the decision regarding the renminbi. Excluding it from the currencies of Special Drawing Rights would be a crucial step towards building the position of Beijing on global finance.

Long-term tendencies regarding the Chinese currency allow to expect further appreciation. A huge trade surplus and record currency reserves will support the currency rate, irrespective of the recently observed slowdown. This will not be changed even by going to lower levels of increase (previously this goal was 7%, but it was depreciated to 6.5%), and by weaker results in



foreign trade.

Since 2010, the renminbi enforced itself to the currencies of the developed countries (the eurozone, USA, Australia, United Kingdom and Japan) by approximately 30%. At that time, the zloty lost approximately 9% to these currencies. This situation means the price competitiveness of the Polish economy in relation to China, significantly improved within the past five years.

Poland's strategical aim is to build a model of export economy. It is supported by the tendencies occurring on the currency market.

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Clarification

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Clarification regarding the data:

Calculations of the Cinkciarz.pl indexes are based on the changes in the currency rates of Poland's most important trading partners, in relation to the zloty. The significance of these particular currencies is estimated with the use of the GUS data regarding foreign trade. The significance is calculated on the level of the countries' baskets consisting of the 33 biggest trading partners in Poland. The real indexes include a difference in inflation between Poland and its most important trading partners.

The list of the 33 most important trading partners in Poland consists of those countries, whose contribution in export and import has been higher than 0.5 percent within the last 10 years. Those countries create the widest of Cinkciarz.pl indexes. Export to the countries from the MAJ_33 basket, crosses 90 percent of general export.

Data regarding the currency rates is supplied by Bloomberg. Data regarding the foreign trade is provided by the Central Statistical Office (GUS). Data about inflation is supplied by Eurostat for countries, which are part of the European Union. Data about inflation regarding other countries is provided by the national statistics offices.

For more detailed information regarding the methodology and selection of the countries to particular currency baskets, please contact Piotr Lonczak, Cinkciarz.pl Analyst.

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