

Press release

Dollar more expensive than euro? Even up to 4.50 PLN

It should be today that the American authority announce the end to over a six-year-long period of zero per cent interest rates. This would be the biggest decision in years. How will this affect the dollar's value? Most of the investment banks say its value should get to the same level as the euro. Or even higher - explained Marcin Lipka, Cinkciarz.pl analysis.

The zloty is a slave to global movements. Additionally, the Polish currency is to a great extent connected to the euro. If the euro loses significantly against the dollar, there's practically no chance for the zloty to gain against the dollar at the same time. Thus, it's easiest to predict the zloty quotations by estimating the movements of EUR/USD in the forthcoming months.

The strengthening of the American currency against the euro by over 10 per cent since January has made many international institutions revise the greenback quotations. Most of the investment banks predict that this year the dollar is going to be of the same value as the euro. Transferring the international quotations to a domestic situation, it can be assumed that in the near future the dollar will reach a level of about 4.10. However, because this trend is so strong, there is a big chance for the corporate sector and the wallet capital (e.g. speculators) to start financing in low-per cent and losing value of the euro on a great scale. It should not be ruled out, then, that the dollar will reach a level of 1.1 euro in the next few quarters. This will make Poles pay 4.50 PLN for the dollar.

Strong economy will force the raise

Let us get back to the beginning. The era of cheap money is coming to an end over the ocean. Since 2009 the interest rates in the USA were kept on the zero per cent level. During this period there were three operations of quantitative easing which were supposed to lower the cost of debt, speed up inflation, increase consumption, reduce unemployment and help the economy in getting back on the track of growth.

Today, when looking at the US readings, it is fair to admit that innovatory monetary policy started by the former chief of the Fed brings expected results. The unemployment fell from

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over 10 per cent to 5.5 per cent, the USA is developing at a pace of 2 per cent y/y and recent forecasts assume this pace to speed up to the level of about 3.0 per cent y/y.

Nearly full employment and the perspective of inflation coming back to the goal mean it is time to exit the monetary stimulation. Currently, the financial markets tend to react nervously, so the operation is gradual and gentle.

Keywords and patience

One of the elements of running the monetary policy over the ocean is 'keywords'. During the recent treasury bonds purchase, which ended in October, the Fed reiterated that it will take 'some time' before the interest rates are raised. What it meant was that the change of the money cost should not be expected for at least six months from the end of monetary stimulation.

Moreover, in December 2014 the word 'patience' occurred in one of the Fed's statements. It suggested that the most probable scenario is the interest rates remaining at the current level for at least two more meetings. Currently, the majority of economists predict that the word 'patience' is going to be deleted, which should allow announcing the first raise as soon as June.

Thus, the March decision is going to be one of the most important in recent years. It should not only cause a clear forecast for the end of the zero per cent interest rates but also give a signal to start the monetary tightening. It has a crucial impact on the movements of the American dollar.

Higher rates mean stronger currency

Theoretically speaking, the raise of the debt cause is nothing special. Central banks all over the world change the interest rates all the time. This time, however, the situation is slightly different. The monetary authorities are eager to loosen the monetary policy, as are the likes of ECB or the Bank of Japan. The Fed plans to tighten it. It is visible already, e.g. in the profitability of the American and European debt.

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The five-year treasury bonds from the US should bring an income of about 1.5 per cent. Lending money to Germany for five years means no interest. The capital flow on the debt instruments market is one-way only and will probably not stop, especially given the fall of the euro.

Historical Wednesday

The results of the March meeting of the Fed will be announced at 19:00 (UTC+1) as the monetary authority statement. At the same time the economical forecasts will be announced. Moreover, half an hour later the press conference of Janet Yellen will take place, during which she will explain the Fed decision and answer the questions from the press.

This will be an extremely important evening, not only for the currency or capital market participants. It will probably affect the mid-term condition of the dollar. Because the greenback is an international currency, in which prices of raw materials are provided, sooner or later it will have an influence on everybody.

INFORMATION ABOUT THE BRAND

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