

Duda or Komorowski? What will be the zloty's reaction to the election's results? [CINKCIARZ.PL ANALYST'S COMMENTARY]

If the Wednesday's presidential election is won by the president in power, Bronislaw Komorowski, the Polish currency will probably strengthen for some time. Andrzej Duda winning might, on the other hand, weaken it a little. What exactly are the possible scenarios and how do we know this? Marcin Lipka, Cinkciarz.pl analyst, explained the influence of the election on the domestic currency.

The way in which the presidential election results influence the currency rates is usually a subject of wide interest on the market. Obviously the more surprising result - the stronger reaction. A good example of it is a situation from 2005.

Political changes and economic effects

Ten years ago the parliament election preceded the presidential one. However, the prolonging negotiations between the political parties PO and PiS caused that story to be a good clue for foreseeing a possible zloty reaction to the political changes in the days and months to come.

In the beginning it is worth going back to mid-June 2005. A vast majority of the polls proved that both the presidential and parliament elections will be won by the PO representatives. The market took it as a factor strengthening the zloty. Even if Platforma Obywatelska doesn't have the advantage in the parliament or the senate, then the PiS government would be as advantageous for the Polish economy. It could be possible due to both parties announcing lowering the taxes, decreasing administrative costs, tax relief for the entrepreneurs and corruption counteraction.

The pro-market changes promised by the main parties caused the zloty to gain PLN 0.15 before the election. And regardless of the zloty's movement being traditionally in line with the movements of the Czech krona and the Hungarian forint, PLN strengthened faster than other currencies from the region.

Surprising PiS triumph

The reality turned out to be even more complex. The parliament election which took place on September 25 was won by PiS by almost 5 percent advantage over PO. Immediately after the market opened the next days, the zloty lost 1.5 percent of its value. During the next sessions, the trade was much more calm.

The stabilization of the quotations is not only a result of taking the election result in the currency's rate, but also due to Kaczynski promising the will to reach an understanding with PO regarding

the economy. Jan Rokita, then-vice chief of PO was similarly optimistic about the future coalition with PiS.

Two weeks after the parliament election, the presidential election took place. The first encounter was won by Donald Tusk, who got 36 percent, and Lech Kaczynski came second with 33 percent. Despite the fact that the advantage of the PO's candidate, who was preferred by the market, was not very big, the zloty strengthened by about PLN 0.05 in two days. At one point it even got back to the levels from before the elections to the parliament and senate.

However, the second ballot of the election (October 23) ended in a surprise for the market. Practically no survey favoured Lech Kaczynski. This time there was no reaction on the zloty as the investors still assumed that the PO-PiS coalition will be created. It wasn't until the first suggestions of Kazimierz Marcinkiewicz about forming a minority government that the zloty weakened by PLN 0.10.

Investors tired of the politics

The zloty was weak until about mid-November 2005. At the climax the euro was PLN 0.17 more expensive than before the September parliament election. However, it is worth emphasising that the most unfavourable scenario came to life according to the currency market participants. The government which was formed was a minority one and less concentrated on the reforms. These are hardly positive news for the foreign capital, engaged in the assets of the emerging economies.

What is interesting, throughout the weeks to come the investors got tired with the politics and the positive sentiment returned on the zloty. As early as in the beginning of December the euro's value fell to the level from before the election. The zloty again started behaving like other currencies from the emerging countries.

What will happen to the currencies?

The market participants right now expect very similar things they did 10 years ago. A victory in the Sunday's election of the president in power, Bronislaw Komorowski, will probably strengthen the Polish currency and the victory of Andrzej Duda could slightly weaken it. However, it appears that this effect would be temporary.

Before the autumn's parliament election there can be significantly more events. The dominant part of the market will try and start building an adequate narration few weeks before the election. It should convince the rest of the investors that the success of one or the other political party could significantly disturb the zloty's rate even in long-term. However, much alike 10 years ago, the influence of the election on the currency rate should not last for more than couple of weeks. The victory of either of the political parties probably will not distort the euro's rate by more than several groszy in a short term.

Additionally, there isn't one political party on the scene which could put an end to positive phenomena observed in the domestic economy. Regardless of the Poles' election preferences, the zloty still could strengthen against the euro even taking under consideration the environment and the attitude of the domestic monetary authority.

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