

The franc at 4.00 PLN. Should we be worried? [CINKCIARZ.PL ANALYST COMMENTARY]

The fear of the Greek bankruptcy weakened the zloty. The unexpected presidential election outcome additionally weighed on the zloty. As a result, the franc was at 4.00 PLN this week. Is there anything to be worried about? Piotr Lonczak, Cinkciarz.pl's currency analyst, explained this issue.

This Thursday (June 5) Greece has to repay 300 million euro to the International Monetary Fund. Today nobody seems to be eager to answer the question: does Athens have the money to pay this debt? It is just the beginning. This month Greece has to pay as much as 1.6 billion euro to the organisation from Washington.

The signals from Athens are very ambiguous. Nikos Voutsis, the Greek Minister of Internal Affairs recently warned that if Greece does not reach an agreement regarding the help programme, it will not be able to settle the first instalment. The minister has no influence on the key financial decisions, and this is why his words didn't gain much attention. Especially given that Yanis Varoufakis, the minister of finance keeps assuring that Athens will pay its liabilities towards the international creditors. Moreover, he thinks that the agreement with Troika (experts from the European Central Bank, European Commission and the International Monetary Fund) is near.

The Greek optimism and the American calmness

During the G7 meetings the optimism of Varoufakis was addressed by the German minister of finance, Wolfgang Schaeuble. He expressed his concern about the lack of progress in the negotiations between Greece and its creditors. As a result, he is surprised every time the Greeks assure that the „agreement is near”.

Therefore, the probability of Greece declaring bankruptcy is very high, so it needs to be included in the pricing on the financial markets. It is inevitable, even if the European politicians do everything they can to avoid it from happening, as all the parties would experience substantial losses. The result of this hard situation is the raising franc exchange rate. The Swiss currency has not been so expensive since the end of February. Until the break in the Greek deadlock, the fear of Athens' insolvency will be disadvantageous for the owners of credit denominated in francs.

Uncertainty related to the future of Greece discourages towards risk. Investors are getting rid of bonds from the countries considered as relatively hazardous, for example Poland or Hungary. Instead, they are buying them in financially stable countries, like Switzerland or Germany.

The zloty is also a victim of this situation. In the past few weeks it has been overvalued in relation to all of the most important currency pairs. The dollar cost 3.80 PLN. The last time it was valued

this high, was in the middle of March. The situation was similar with the pound and the euro. The Swiss franc costs over 4 PLN for the first time since February.

The nervous situation is also caused by the speculations regarding the possibility of raising interest rates in the United States. Just a few weeks ago it was thought that quite bad reports from the American economy, will force the Federal Reserve to make this decision at the end of the year. However, it has appeared that the Fed did not mind the weak data too much, and is most likely to perform this plan in autumn. Despite this, the value of the dollar is already increasing on the wave of these assumptions.

Pre-election promises to weaken the zloty

The difficult political and economic situation in Greece has caused the zloty value to drop. Additionally, Poland is also experiencing some local problems which have recently grown to be quite substantial in size. For example, the surprisingly weak data from April are significant. Industrial production, as well as retail sales were clearly worse than the prognoses. The data from the labour market did not help the whole situation. Although the unemployment rate and the salaries appeared to be quite satisfying, the increase of employment is still average at the most.

The unexpected result of the presidential elections, also did not help the zloty. From the perspective of foreign investors, surprising changes on the peaks of authority, are causing the apprehension regarding the political status quo. Also, fulfilling Andrzej Duda's pre-election promises will be very expensive. The announcement of withdrawing the reform of the pension system seems especially dangerous.

This is not all. In the autumn there will be parliamentary elections. The surveys do not give any bigger chances for re-election to the current government. At the same time, there is a big probability that the elections will not allow any of the parties to rule independently. The necessity of building a coalition, and a lot of expensive promises, exhibits a real danger of deterioration of the public's financial condition. All of this can cause the continuation of the zloty decrease.

The weak zloty, more expensive installments and vacations abroad

The Greek festival of extending negotiations has lasted since January. Today, nobody can say when the final understanding will be achieved. The closer to the next terms of settling the debt we get, the higher the anxiety.

We can expect, that until the Greek stalemate will be broken, the sentiments on the market will be bad. We cannot count on the zloty beginning to work off the losses. We need to prepare for a period of weakness of the Polish currency, and an expensive franc. In the forthcoming months, the Swiss currency can cause more than 4 PLN.

There is also one more negative side of this whole situation. The weak zloty means a more expensive euro. This means that vacations abroad will be more expensive than assumed.

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The company is also amongst Bloomberg data and analysis suppliers. Cinkciarz.pl EUR/PLN forecasts have been awarded first place in the world for four consecutive quarters in Bloomberg's rank Best EMEA Currency Forecasters Q3 2013 and the first place for the CZK/EUR and ZAR/USD forecasts for the first three quarters of 2014. The forecasts of Cinkciarz.pl's analysts for the currency pair CZK/EUR have also been awarded the first place in the world for 2015 Q1.

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