What is happening to currencies? The markets calculate losses, the zloty remains strong

Recent days brought some serious changes to the market. The most significant alterations occurred on the markets of the countries exporting crude oil and selling big amounts of goods to China. Why? Marcin Lipka, Cinkciarz.pl analyst, commented on the matter.

It happens ever so often that an event of relatively low significance results in very strong changes. A similar situation occurred almost two weeks ago when the People's Bank of China (PBOC) decided on devaluating the yuan (CNY) by 3% in relation to the American dollar.

Over the past few years the Chinese currency only gained in value. This was caused by a surplus in the current account, investments abroad and an inflow of the portfolio capital to China. The most efficient way to assess the true value of currency is the real effective rate (REER). It includes the changes in value of the yuan in relation to other currencies on the basis of its percent share in the trade exchange and the difference in inflation between the examined economies. Just a glance at this index is enough to see that according to the Australian bank Westpack the CNY has strengthened by 50 percent over the last decade.

Provided the strengthening of the local currency has been this, its small weakening in relation to the dollar should not cause much anxiety. There are, however, some reasons which have caused investors to be more nervous than usual. Firstly, the devaluation occurred right after the weak export data from China were published. Theoretically, this could be the beginning of Beijing's falling price competitiveness. It would be clearly visible if the prices of the imported raw materials rebounded.

It also cannot be excluded that this small devaluation was triggered by the outflow of the capital from China. Over the last year the amount of currency reserves fell by 350 billion dollars and even though it is still 3.65 trillion dollars, providing the surplus on the current account their going down shows that China might lose importance in the eyes of the investors.

Some received the devaluation as a weakness of Beijing. For many quarters China stimulated the economy either by increasing the public spendings or easing the monetary policy. However, after those factors lose strength, the authorities used quite a simple method of weakening the local currency in order to raise China's international competitiveness.

The last element to bring concern regarding the situation in this country is the economic statistics. Many economists claim against the official data that the economy grows slower than at a pace of 7 percent per year. Additionally, this concern was reiterated by some private economic surveys.

The PMI index for the industry published last Friday fell to the level of 47.8 points. According to Markit and Caixin, who carry out these polls, this is the weakest reading in 77 months.

Sell out of currencies from emerging markets

The fall of the yuan value and its consequences caused some real panic on the emerging markets. The economies that were particularly hurt were those of large export to China and additionally produce raw materials. Just two weeks were enough for the Russian rouble to lose 13 percent in relation to the euro and the dollar. At the same time the Malaysian ringgit fell against the dollar by 7 percent.

Concerns regarding the shape of the Chinese economy triggered a devaluation of the currencies of Kazakhstan and Vietnam. The pressure of the sell out was also impossible to withstand for the Mexican peso, South African rand and Chilean peso, which are on all time lows against the main currencies.

Also, the situation of the lira seems to be difficult. Even though Turkey is an importer of raw materials, the maintaining deficit on the current account and unstable political situation resulted in the local currency being at the lowest level ever.

Is the zloty a safe haven?

In the context of the global commotion on the currency market, the zloty seems to be relatively well. According to the Bloomberg rank, amongst 33 currencies from the developed and emerging markets, the zloty is the 6th most stable currency in the world. The data refer to the period from August 10, that is from the day before the devaluation of the yuan started.

Such relative strength of the Polish currency comes from both the economic shape and the geographical location. For the first time since the political transformation in 1989 there is no need to import the capital to the economy. Its current account is well balanced thanks to raising competitiveness of Polish exporters and a fall in energy resources' prices. It seems to be a paradox as Poland hardly ships any goods to China, which is good news given the worsening situation in the Asian country.

Additionally, it is important to remember about the stable and relatively fast economic growth and positive real interest rates. Even if the monetary policy over the ocean is tightened, it should cause the debt instruments market to remain attractive for foreign investors.

It draws out an assumption that the zloty will maintain its relatively good position on the market in relation to the currencies from other emerging countries. Of course this will not mean its strengthening if the stock exchanges abroad bring strong falls – a so-called increase of the risk aversion. However, the zloty should remain relatively strong in case of large commotion on the markets. After the situation on the global markets calms down, the zloty should return to a stabilization scenario. Then the euro should cost less than 4.20 PLN.

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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 ForecastersQ3 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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