Bank Zachodni WBK

Eyeopener – daily update

Waiting for investment

31 January 2005

Today at 10:00 local time we will get to know GDP data for 2004, which will allow for assessment of Poland's economic performance in the fourth quarter. The figures, and in particular investment growth, would hint on monetary policy perspectives, as MPC member said recently weak results might induce faster change of policy bias. Also, at 16:00 the NBP will release balance of payments figures for November, which should not impact the financial market anyway. Moreover, the SLD is expected to decide on Monday about date of parliamentary election. As we expect rise in risk premium before the election, its delay until autumn could allow financial market to take some breather. On Wednesday, the government meets the central bank to discuss exchange rate policy in the coming years. The cabinet might insist on fast interest rate cuts aimed at weakening of the zloty, however we do not believe the MPC would lean to such pressure. Thus, in the case of reappearing strong zloty appreciation, it is still possible the government would buy foreign currencies on the market.

On Friday, MPC member Dariusz Filar reiterated that change in policy bias should be expected between February and March and that such decision does not mean a beginning of rate cuts cycle.

According to *Rzeczpospolita* daily, leading indicator of economic climate recorded third successive rise. However, the results of business climate survey were mixed and suggested the improvement in the coming months might be weaker than last year.

What's hot this week

GDP data release today at 10:00

We expect to see 5.6% GDP growth and 5% rise in investment

This week will see many important events, both in Poland and abroad. In Poland, most of them are due for today. At 10:00 local time, the CSO will publish tentative GDP figures for the entire 2004. We maintain our expectations that despite some deceleration in the second half of the year, GDP growth in 2004 was quite robust, reaching 5.6%. It was stimulated by almost 5% growth in domestic demand, fuelled in turn by 5% growth in investment outlays and 3.7% rise in private consumption. Market consensus is consistent with our forecasts, except for investment, for which median market prediction is 4.6%. Basing on GDP data for the entire year it will be possible to estimate results for 4Q04 alone (a slowdown is widely anticipated after weaker than expected data for December).

Current account figures for November should have smaller importance for the market

Also today, but at 16:00 local time, the NBP will release balance of payments data for November. They should not affect the market significantly, unless the actual results extremely differ from the market consensus, which is -€150m for the current account and -€350 for trade balance. We predict the deficits to reach €324m and €524m, respectively. 12-month cumulative C/A gap should remain below 2% of GDP, pointing to no risk as regards external balance of the economy. According to our forecasts, exports and imports growth rates remained at high levels of close to 20%YoY in euro terms.

SLD to decide about election date today

Apart from the data, this week will also see some important meetings. Today, the SLD is expected to decide on a date of parliamentary election. As we expect a rise in risk premium before the election, its delay until autumn could

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allow financial market to take some breather in the nearest months. Nevertheless, it is possible that voting over Sejm's self-dismissal will be held anyway, creating additional uncertainty.

Government meets the central bank on Wednesday

... to discuss official strategy of euro adoption

No important decisions are expected at this meeting

Another important meeting this week will be talks between the central bank and the government, which are scheduled for Wednesday. The talks are aimed at working out an official strategy for euro adoption. Although government's officials stressed no specific measures regarding current exchange rate will be discussed during the meeting, we think the cabinet might insist on central bankers to cut rates soon in order to weaken the zloty. However, we do not believe the MPC would lean to such pressure. We expect the product of the meeting will be a general joint statement, stressing Poland wants to enter the euro zone as soon as possible and pointing out the main problems to be solved on the way to euro area. Meanwhile, if strong zloty appreciation reappears in the nearest time, it is possible the government would buy foreign currencies on the market amid maintained hands-off policy of the NBP.

Fed and ECB meetings scheduled for this week

Also on Wednesday, the auction of 2-year bonds will be held. The results of the auction may be an indication for the market, in which direction it should go in the nearest time. Market players will also closely watch the core markets, in which many important data releases as well as FOMC and ECB decisions on interest rates are scheduled.

Bottom line: ***Many important data releases and events are due for this week. The market may be very volatile.***

What's hot today

Weak data could hasten MPC decision

If GDP data are weak and inflation projection shows low CPI, neutral bias could be adopted in February

... but it does not mean a beginning of rate cuts cycle

Potential wage pressure and zloty fluctuations are risk factors

On Friday, MPC member Dariusz Filar was interviewed by Reuters news agency. Most of his comments replicated what he had said about monetary policy two days earlier in local Radio PiN. In his opinion, if data on investment in 2004 disappoint, and new inflation projection shows faster CPI drop than expected, there will be arguments for change in monetary policy bias into neutral already in February. Otherwise, he declared that one should expect such decision between February and June. Nevertheless, Filar strongly emphasised again that adoption of neutral bias does not mean a beginning of rate cuts cycle. He added that in theory rate cuts and rate hikes are equally possible under neutral bias. Nevertheless, such moves would be possible only if the MPC receives strong signals from the economy; otherwise rates would remain stable. If the MPC decides to change policy bias to neutral already in February, then Filar could not exclude that the next decision about easing bias could be adopted before end-2005. However, he said there are still several risks that the central bank would watch closely, and among the most important he listed potential wage pressure in the economy (that could arise in 1Q05), and exchange rate fluctuations (possible ahead of election).

Well, it seems that the central bankers are more reserved as regards changing policy bias than the government members. Deputy PM Jerzy Hausner said on Friday that monetary policy bias should be already changed to neutral, the sooner the better.

***Bottom line**: Filar's comments probably aimed at straightening market overly optimistic expectations regarding perspectives of interest rate cuts. They support our view that a reduction in rates this year seems unlikely.*

The zloty trading ranges (28.01.2005)

	Min	Max	Fixing
USD	3.0950	3.1180	3.1163
EUR	4.0420	4.0670	4.0643

F/X rates (today's opening)

EURUSD	1.3025	CADPLN	2.5150
USDPLN	3.1171	DKKPLN	0.5455
EURPLN	4.0428	NOKPLN	0.4917
CHFPLN	2.6215	SEKPLN	0.4459
JPYPLN*	3.0115	CZKPLN	0.1344
GBPPLN	5.8773	HUFPLN*	1.6575

*per 100 units

Treasury yield curve (28.01.2005)

T-bills	Yield	Change (bp)
3M	6.28	-2
6M	6.28	-2
9M	6.28	-2
12M	6.23	-2
Bonds		
2Y	6.23	-3
3Y	6.23	1
4Y	6.24	0
5Y	6.21	-2
8Y	6.04	-1
10Y	5.97	-2
20Y	5.81	-2

WIBOR rates (28.01.2005)

Term	Rates	Change (pb)
O/N	5.83	-138
T/N	6.50	-18
SW	6.57	-7
2W	6.60	-4
1M	6.61	-3
3M	6.61	-2
6M	6.60	0
9M	6.55	0
1Y	6.50	-1

Market monitor

Polish currency opened steady on Friday, as EURUSD hovered around recent levels and investors awaited portion of US data in the afternoon. Yet before the figures were released, MPC Filar's comments had made zloty advance by 0.3%. Because disappointing US data did not trigger any pronounced change in EURUSD performance, the unit closed respectively at 3.11 to the dollar and 4.0480 to the euro.

Bonds' yields declined at opening, as market players covered short positions following Thursday's afternoon advancement. Additionally, finance minister Gronicki boosted positive sentiment by his favourable inflation comments. DS0509 moved downwards to 6.21%. In spite of significant strengthening of Bunds after weaker-than-expected US GDP data Polish papers managed only to increase briefly closing session in 5y sector at 6.21%.

On Monday's auction Ministry of Finance will offer 1y bills worth PLN600m.

Zloty strengthening on Friday, resulting from MPC member's comments, showed pronouncedly that main conclusions from the latest Council's statement are being reflected in domestic currency performance. But the zloty, similarly to the other currencies in the world, won't deviate substantially from recent levels in the absence of EURUSD distinct tendency, which eye Fed and ECB's statements and summary of G7 meeting. Polish bonds however have been gaining, suffering only slight corrections that are used to renew entering into long or covering of short positions. To such meaningful advancement has contributed the supply shortfall of new 5y benchmark on switching auction. Today Polish bonds will watch closely GDP data for the whole 2004 which in our opinion will show pronounced investment increase and SLD's decision on parliamentary election date. As expectations are concentrated on autumn's term, a shift to the spring will render both f/x and interest rate markets vulnerable to decline. It is hard to ignore last week's price increases, however the market loses momentum entering into overbought barrier.

***Bottom line**: The zloty gained on MPC member's comments. Bonds went up owing to short covering among players. Monday will see investment data and SLD' s decision.*

International update

Euro zone money supply dynamics grew in December by 6,4%YoY from 6,0%YoY in November. Analysts forecasted that annual growth would reach 6,1%YoY.

The U.S. economy grew at a weaker-than-expected 3.1%YoY in the final quarter last year, its slowest since the beginning of 2003 as trade performance deteriorated and inflation picked up. It was below economists' forecasts of 3.5%. A favoured gauge of Fed Chairman Alan Greenspan – PCE excluding food and energy costs - climbed at a 1.6%YoY in 4Q against

0.9% advance posted in the 3Q. Despite the softer fourth quarter, GDP in 2004 advanced 4.4%, up from 3% in 2003.

On Monday Chicago PMI index may attract investors' attention. As last reading disappointed at 61.2 analysts moved its expectations down to 59.0.

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