Bank Zachodni WBK

Eyeopener – daily update

Zloty close to new highs

23 February 2005

Today at 10:00 local time, the CSO will reveal data on retail sales and registered unemployment. While higher than expected growth in retail sales (we forecast growth of 7.4%YoY versus market consensus of 4.4%YoY) should be slightly negative for the fixed income market, the reaction should be limited as investors are awaiting Friday's MPC decision. Quite optimistic results of consumer confidence survey, published yesterday by *Rzeczpospolita*, had no impact on the market.

Yesterday NBP president, Leszek Balcerowicz said his candidature for the World Bank chief was "not practical", as Americans usually get this position. He also said there were 100-150 bigger problems than deflation in Poland (asked for comment on one of market researches). We agree and we think that talks on deflation in Poland are currently unjustified, like in 2003.

The Ministry of Finance said yesterday in a communiqué, that it was working on a new strategy to cut its budget deficit by more than planned in the convergence program, viewed as inadequate by the EU institutions. We expect details of the strategy to be given within the nearest weeks.

Today's Rzeczpospolita daily quoted deputy finance minister Wiesław Szczuka as saying that Poland has received a final confirmation from the Secretary of the Paris Club that the member states agree on the early payment of the debt. However, it is still not known whether the whole debt may be repaid (ca. €12.3bn) According to Szczuka, the first part of the debt will be repaid in March.

What's hot today

Retail sales and unemployment rate today

Retail sales and unemployment figures due at 10:00 local time

Today at 10:00 local time, the CSO press conference will be held, during which data on retail sales and registered unemployment will be revealed. In our opinion, data on output in industry and construction released last week did not signal that the Polish economy could slow down deeper than implied by a high statistical base effect. We think retail sales figures should confirm that slowdown in economic growth to below 4% in 1Q05 would result only from high base effect, which is going to act even strongly in months to come. We expect retail sales growth (in nominal terms) reached 7.4%YoY in January, which is above the market consensus of 4.4%YoY (with very wide range of forecast from 1.6% to 11.7%). This would be the first increase in real terms for several months. We expect the unemployment rate seasonally increased to 19.5% in January, but confirmed strengthening downward trend in annual terms (down from 20.6% in January 2004). The level of 19.5% would be consistent with deputy PM Jerzy Hausner's recent hint, but above market consensus of 19.4%. Again, as in the case of other macroeconomic indicators for January, market expectations are very diversified – from 19.2% to 19.7%.

We expect 7.4%YoY rise in retail sales, above market consensus of 4.4%YoY

The registered unemployment rate to seasonally jump to 19.5%

***Bottom line*: Higher than expected growth in retail sales may be slightly negative for the fixed income, but the market reaction should be limited as market is awaiting Friday's MPC decision.**

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Consumers still quite optimistic

According to the results of Ipsos' consumer confidence survey, presented in yesterday's *Rzeczpospolita* daily, February saw a deterioration in consumers' moods as compared to January, but it is worth noticing that a significant improvement was observed on annual basis. The main index of consumer's optimism (WOK) fell by 5.5 points, from a record-high level in January. However, on annual basis the two-digit growth was reached for the fifth consecutive time (this time by 11.7%). The same applies to two supplementary indices (propensity to consume and general assessment of economic situation), which fell MoM, but rose sharply YoY (especially the latter index) – please see margin chart.

***Bottom line*: Neutral for the market.**

NBP head delivers support for the zloty

NBP governor is not going to head the World Bank

…and tries to cool market expectations for rate cuts

Yesterday NBP president, Leszek Balcerowicz said his candidature for the World Bank chief was "not practical", as Americans usually get this position. This should calm down those investors who could have been afraid Balcerowicz might abandon the Polish central bank, which would add to already high uncertainty connected with parliamentary and presidential elections this year.

Besides, Balcerowicz tried to cool expectations for rate cuts and weaken appreciation pressure on the zloty, reiterating that the strengthening of the domestic currency is not guaranteed. He also said that although export was significant driver of the economic growth, it was not the most important one and stressed importance of acceleration in investment. While such statement was clearly aimed at cooling market expectations for rate cuts, it indicated the NBP governor is not likely to support any actions against the zloty appreciation in case of exports' weakening. Thus, Balcerowicz's comments were probably one of factors behind yesterday's zloty gains.

NBP governor also said yesterday there were 100-150 bigger problems than deflation in Poland (asked for comment on one of market researches). We agree and we think that talks on deflation in Poland are currently unjustified, like in 2003.

***Bottom line:* NBP governor's statements were supportive for the zloty. His comments were probably aimed at cooling market expectations for rate cuts, but the market still price-in rate cuts very aggressively.**

The zloty trading ranges (22.02.2005)

	Min	Max	Fixing
USD	2.9900	3.0500	3.0110
EUR	3.9550	3.9850	3.9688

F/X rates (today's opening)

EURUSD	1.3245	**CADPLN**	2.4323
USDPLN	2.9887	**DKKPLN**	0.5319
EURPLN	3.9534	**NOKPLN**	0.4790
CHFPLN	2.5744	**SEKPLN**	0.4351
JPYPLN*	2.8549	**CZKPLN**	0.1324
GBPPLN	5.7044	**HUFPLN***	1.6328

*per 100 units

Treasury yield curve (22.02.2005)

T-bills	Yield	Change (bp)
3M	6.15	0
6M	6.05	0
9M	5.95	0
12M	5.85	0
Bonds		
2Y	5.68	0
3Y	5.65	-5
4Y	5.66	-5
5Y	5.68	-2
8Y	5.67	-3
10Y	5.66	-2

WIBOR rates (22.02.2005)

Term	Rates	Change (pb)
O/N	5.53	-4
T/N	5.80	3
SW	6.40	-1
2W	6.46	-5
1M	6.50	-2
3M	6.49	0
6M	6.37	2
9M	6.20	0
1Y	6.10	0

Market monitor

The zloty surged by above 1.2% to the dollar, as American currency lost during Asian session 1 cent against the euro. Polish currency also advanced to the euro by 0.5%, as market players treated again correlation trade as a driving force in FX market. EURPLN rate reached 3.9660 and USDPLN hit levels below 3.01. At close, on the back of further euro growth, the zloty reached 3.9550 to the euro and 2.99 to the dollar.

Apart from positive sentiment coming from buoyant zloty, bonds drew support from stronger Bunds. Additional support might be lent from conducive comments of minister Gronicki on 2006 budget. However prospects of

today's switching auction made papers' gains moderate. PS0310 yield fell to 5.67%. Afternoon's Bunds' weakening to previous closing moved 5y yield to 5.69%.

Yesterday, the zloty did not achieve its highs against the euro and dollar yet (though it is very close to reaching them), but judging its power against the basket of currencies, it set a new record. The main reason behind that event was surely dollar's weakening in international markets and, as a consequence, return of strong correlation between the euro and zloty as a main force in foreign exchange market. Additionally sudden surge in the euro may be explained by the fact that it took place amid low market liquidity. If the US CPI proves to be high (likewise Friday's PPI), it may bring about a correction of current levels including erasing the whole yesterday's gain.

Polish bonds market did not show increased activity despite meaningful Bunds' prices fluctuations. Switching auction effectively refrains price gains at the long end of the curve. Even if it turns out to be successful, the market will enter suspension mode before MPC statement. Moreover, still low German bonds prices do not lend support for Polish bonds.

***Bottom line**: The zloty got closer to highs both to the euro and the dollar mainly on the back of dollar weakness. Bonds recorded only slight increase restrained by switching auction and still low Bunds' prices. Today's retail sales data are not expected to have a great impact on the market. International markets will eye IFO release, US CPI and Fed Minutes.*

International update

Germany Federal Statistics Office on Tuesday confirmed the GDP shrank 0.2% in 4Q04 as compared with the previous quarter. From a year earlier, GDP grew by 1.5% in the final three months of last year. A breakdown showed the decline was mainly due to weaker public spending and a steep deterioration in corporate investment.

According to ECB, euro zone current account surplus grew to €6.6bn in December from €4.4bn in November. Net portfolio and direct investment inflow was €44.4bn against outflow of €11.7bn in November.

US consumer confidence eased to 104.0 in February from a revised 105.1 in January, but remained above year-ago levels. The index was above economists' forecast for a February reading of 102.9.

The most important foreign figures are concentrated today. Details are presented in the table below.

TIME GMT	COUNTRY	INDICATOR	PERIOD		FORECASTS	LAST VALUE
09:00	GER	IFO index (H)	Feb	-	96.75	96.40
13:30	USA	CPI (H)	Jan	%MoM	0.2	-0.1
19:00	USA	Fed Minutes (H)	2 Feb 05	-		

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