Bank Zachodni WBK

Eyeopener – daily update

Will deputies spend more?

21 April 2005

According to *Rzeczpospolita* daily a pre-election spree started, as deputies from both coalition and opposition parties (excluding the Civic Platform PO) proposed bills (connected mostly with social spending), which may increase next year's budget deficit by some PLN10bn. The same case was observed before election four years ago, but most of the bills were not accepted (or were rejected by presidential veto) at the end of the day. We still expect the finance minister to present budget deficit of some PLN30bn for 2006, which may be perceived positively by the market given high political risk ahead of parliamentary and presidential election scheduled for this year.

US inflation was higher than expected, but this caused only temporary dollar strengthening and later on EURUSD moved as high as 1.31, which was supportive for the zloty. Also, situation in core fixed income markets did not worsen after data release, which should be helpful for retaining current levels on the Polish curve until the MPC meeting next week. We saw another interview with MPC member yesterday. Jan Czekaj said there was some room for interest rate cuts, as there are no threats for inflation from fundamental factors, though there were some risk on the supply side (food and fuel prices) and on the FX market. We still expect 25 bps cut next week.

What's hot today

Czekaj supports cautious rate cuts

Some room for interest rate cuts, as "there are no threats for inflation from fundamental factors"

MPC member Jan Czekaj said yesterday there was still some room for interest rate cuts in Poland, as there were no threats for inflation from fundamental factors in the economy. However, ha also warned that uncertainty regarding further developments on food and oil markets, as well as risk of potential zloty fluctuations speak for caution in monetary easing. MPC member predicted that GDP growth should reach ca. 3% in 1Q05, amid relatively weak private consumption and strong rise in investment and net exports. In his opinion, reaching 4.0-4.5% GDP growth in 2005 is still realistic, while even 5-6% growth should not cause significant risk for inflation. Czekaj also predicted CPI growth should decelerate in the months to come, reaching its bottom in the summer period and stabilising at slightly below 2.5% in the second half of the year (we expect CPI inflation to be even lower, at 1.5%). He said that there were no fundamental reasons for zloty depreciation, and that the MPC will keep watching FX developments as an important factor impacting future inflation.

… though there are some risk on the supply side and on the FX market

***Bottom line*: In our opinion, Czekaj's interview supports expectations for cautious interest rate cut of 25 bps next week.**

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The zloty trading ranges (20.04.2005)

	Min	Max	Fixing
USD	3.1775	3.2070	3.2005
EUR	4.1520	4.1810	4.1725

F/X rates (today's opening)

EURUSD	1.3094	CADPLN	2.5700
USDPLN	3.1823	DKKPLN	0.5592
EURPLN	4.1658	NOKPLN	0.5101
CHFPLN	2.7026	SEKPLN	0.4537
JPYPLN*	2.9781	CZKPLN	0.1382
GBPPLN	6.1065	HUFPLN*	1.6794

*per 100 units

T-bond auction (20.04.2005)

	Offer	Bid PLN m	Sale	Average Yield
5Y*	2 750	4 560	2 750	5.481%

*** with supplementary auction**

Treasury yield curve (20.04.2005)

T-bills	Yield	Change (bp)
3M	5.40	0
6M	5.35	0
9M	5.32	0
12M	5.30	0
Bonds		
2Y	5.33	-3
3Y	5.41	0
4Y	5.44	0
5Y	5.49	3
8Y	5.48	1
10Y	5.48	0

WIBOR rates (20.04.2005)

Term	Rates	Change (pb)
O/N	6.35	-52
T/N	6.34	-54
SW	6.10	-11
2W	6.03	-9
1M	5.90	-6
3M	5.70	-7
6M	5.61	-4
9M	5.52	-3
1Y	5.45	-5

Market monitor

As key resistance level at 4.20 in relation to the euro was not broken, the zloty bounced back sharply and stabilised only around 4.17 to the euro and 3.19 to the dollar before 5y bonds auction. Ahead of US CPI figure release, zloty advanced by another figure to the euro reaching 4.16. Higher net inflation in US strengthened the dollar what translated into zloty decline in relation to that currency to above 3.20. However at the end of the session, when EURUSD returned to the morning strong performance, the zloty advanced to the dollar to 3.18.

Polish bonds opened a bit stronger comparing with Tuesday's closing. PS0310 yield eased to 5.45%, but before the deadline for submitting bids it rose to 5.47%. Results of the auction, a bit weaker than secondary market levels, backed up yield to 5.49%, where 5y benchmark found support. Though Bunds, following US bonds move, sharply retraced, Polish bonds remained actually intact.

Ministry of Finance successfully placed its entire PLN2.5bn offer of 5y bond on Wednesday. The average yield amounted to 5.481%. Bids totaled PLN3.96bn, giving a bid-to-cover ratio of 1.6. The issuer offered PLN250m at supplementary tender, which was fully absorbed.

The auction for 5y bond actually did not provide new signals for the market. Average yield slightly above secondary market levels points that holders of "fresh" short positions after Tuesday's increased demand with no difficulties bought back their positions and will probably not generate additional interest. Despite decisively higher net inflation in US, situation in core markets did not worsen what will surely be helpful for retaining current market levels till MPC meeting next week.

A course of today's session in FX market showed that the zloty is still vulnerable to dollar supportive news. Moreover the auction did not constitute sufficient support for the zloty, as vast majority of its participants were domestic players. However, it seems that after external factors influence subsided, the zloty may for some time stay above technical level of 4.20. Natural resistance for Polish currency will be the upper limit of consolidation range 4.14.

***Bottom line**: At the auction mainly domestic customers prevailed, but it was enough for papers to be sold easily. The zloty rebounded strongly from technical level and it seems that it will stay there till new piece of relevant information. Today amid empty calendar turnover will be a bit lower, though, as usual, Greenspan's testimony will attract investor's attention.*

International update

US CPI was up 0.6% last month, the biggest monthly gain since last October following a 0.4% rise in February. Core measure that strips out volatile food and energy costs accelerated to a 0.4% increase in March from 0.3% in February. That was the biggest monthly increase in core inflation since August 2002 and reflected a broad pickup in the pace of prices for many types of products. In annual term headline inflation rose by 3.1% and core measure – 2.3%. EURUSD as a consequence fell to 1.30 mark but stayed above that level. 10y US Treasuries lost 6 bp to 4.28%. But at the end of the day the cross managed to set new daily high close to 1.31. Following initial intuitive selling in the aftermath of higher inflation number 10y US Treasury reverted to opening level of 4.21%.

On Wednesday also Fed's Beige book was revealed. American central bank signaled economic activity expanded and price pressure systematically grew in strength in each reported region. Tone of that report contradicts latest economic releases suggesting soft patch in US already in March.

TIME GMT	COUNTRY	INDICATOR	PERIOD		FORECASTS	LAST VALUE
14:00	USA	Leading indicators (M)	Mar	-	-0.2	0.1
14:00	USA	Greenspan's testimony to Senate Budget Committee				

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