Bank Zachodni WBK

Eyeopener – daily update

Consumers still optimistic

24 May 2005

Core inflation measures for April, to be released today, should confirm inflationary pressures remain under control at the moment. The data should be supportive for the fixed income market, which awaits for the outcome of the MPC meeting that starts today. Decision on interest rates will be known tomorrow in the middle of the day, and we expect the MPC to keep rates on hold this time.

The survey made by Ipsos institute showed that consumers' confidence is still on the rise, however it sharply decelerated after record-fast growth observed in April. The results are still quite favourable for prospects of private consumption in the remainder of the year.

Today the government will discuss a report about progress in realisation of the Hausner plan of public finance reform. According to *Rzeczpospolita* daily, the report says the plan was accomplished in 56.2%, which would yield PLN28.1bn savings until 2007, instead of planned PLN50bn. NBP's estimates showed that realisation of the plan was much less advanced.

What's hot today

Core inflation data and start of the MPC meeting today

Core inflation measures today

Today at 16:00, the NBP will publish core inflation measures for April. We predict net inflation inched down a little bit last month, reaching 2.3%YoY against 2.4% in March (market consensus is the same as our forecast). Net inflation has been oscillating around 2.3% since June 2004, which shows that significant rise in CPI growth in 2H05 followed by its sharp decrease in recent months was caused chiefly by changing trends on markets of food and fuels. Other measures of core inflation should slightly decline in comparison with previous month, thus confirming quite favourable inflation outlook. The data should be slightly positive for the fixed income market, supporting expectations of those who predict interest rate cut already at the MPC meeting, which starts today.

... should confirm positive inflation outlook

MPC meeting starts today

According to the results of the latest Reuters survey among market economists, the Polish MPC is widely expected to leave rates on hold this week, but most of analysts see a possibility of at least 25bp cut later during this year. Only 2 out of 18 surveyed economists predict the Council to deliver another cut in rates at this week's meeting. Of the remaining 16 analysts, 14 expect the MPC to trim borrowing costs by 25-50bp between June and October this year, while 2 economists see the central bank's next move as a 25bp rate hike in 2006.

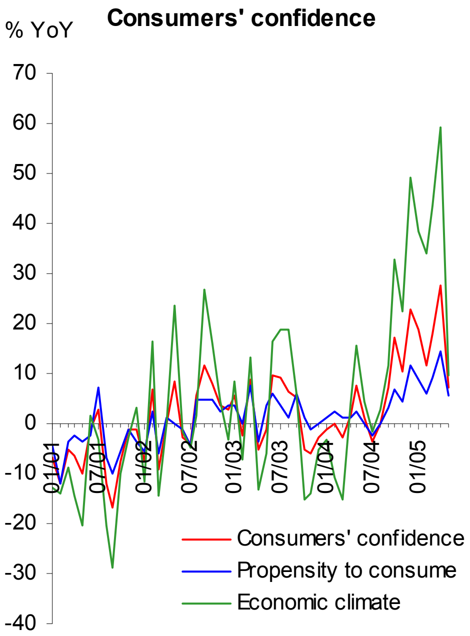
... but rates are expected to remain on hold

<u>Bottom line:</u> Core inflation measures for April should confirm inflationary pressures remain under control at the moment. The data should be supportive for the fixed income market, which awaits for the outcome of the MPC meeting that starts today.

Maciej Reluga Chief Economist (22) 586 8363

Piotr Bielski (22) 586 8333
Piotr Bujak (22) 586 8341
Tomasz Terelak (22) 586 8342

Email: ekonomia@bzwbk.pl



The zloty trading ranges (23.05.2005)

	Min	Max	Fixing
USD	3.3080	3.3550	3.3459
EUR	4.1550	4.2130	4.1967

F/X rates (today's opening)

EURUSD	1.2566	CADPLN	2.6407
USDPLN	3.3256	DKKPLN	0.5610
EURPLN	4.1788	NOKPLN	0.5147
CHFPLN	2.7001	SEKPLN	0.4558
JPYPLN*	3.0904	CZKPLN	0.1378
GBPPLN	6.0837	HUFPLN*	1.6507

*per 100 units

T-bills auction (16.05.2005)

T-bills	Bid	Sale	Average Yields	Change (bp)
	PLN m			
52-week	1 170	400	5.09	-5

Treasury yield curve (23.05.2005)

T-bills	Yield	Change (bp)
3M	5.20	-2
6M	5.15	-3
9M	5.12	-3
12M	5.08	-4
Bonds		
2Y	5.20	-2
3Y	5.28	-1
4Y	5.28	-4
5Y	5.29	-3
8Y	5.27	-3
10Y	5.27	-3

WIBOR rates (23.05.2005)

Term	Rates	Change (pb)
O/N	5.51	-7
T/N	5.54	-9
SW	5.55	-2
2W	5.55	0
1M	5.52	1
3M	5.45	2
6M	5.37	0
9M	5.35	3
1Y	5.31	1

Consumers' confidence growing, yet slower

Today's *Rzeczpospolita* daily published results of the latest survey on consumers' confidence in Poland, made by Ipsos institute in May. The survey showed slight deterioration in consumers' moods as compared to April. In relation to corresponding period of last year, growth in all three confidence indices was maintained, however it sharply lost momentum, after extraordinarily strong hike observed in April and a couple of previous months. Index of consumers' optimism was 7.2% higher than last year against almost 28%YoY rise in April; propensity to consume increased 5.6%YoY against 14.3%YoY last month, while index of economic climate rose 9.5%YoY after almost 60%YoY surge in April. Even though record-fast surge in consumers' confidence observed in April was not maintained (Ipsos analysts suggest it could have been affected temporarily by pope's death), one should notice that indices are still rising in annual terms, which seems to confirm that upcoming quarters should be quite positive for private consumption.

***Bottom line*: Consumers' confidence decelerated its pace of growth, however it is still high. It bodes well for private consumption prospects.**

Market monitor

Due to maintaining concerns about the outcome of French referendum and cooled down rate cut expectations after higher than expected production figures, the zloty fell at opening to 4.213 to the euro and 3.353 against the dollar. Later during the session the Polish currency recovered erasing the losses incurred earlier, as market reached last highs perceived as technical support. EURPLN rate went down to below 4.18, and USDPLN to below 3.33. In the last part of the session the zloty extended its gains to 4.164 and 3.316 respectively, as the euro gained to close to 1.26.

Bonds opened weaker on poor Bunds' performance and decreasing zloty. PS0310 reached 5.35% during morning trade. In the early afternoon, when conditions in FX market improved 5y benchmark gained with yield falling to 5.29%. Bunds sharp advancement on Trichet's comments helped to retain those levels till end of the day.

Ministry of Finance sold its entire offer of 1y bills at Monday's auction. Average yield amounted to 5.09%, while investors submitted a total of bids PLN1.17bn.

Subsequent sessions in FX market this week may have similar course to yesterday's one. Levels around 4.16-4.17 will be probably used by players to sell the zloty ahead the referendum in France, but when EURPLN rate approaches the 4.22 level or exceeds it, demand for the Polish currency will appear, as at this rate the zloty discounts unfavourable result of voting.

Ahead of MPC decision bond market rather has no chance for lasting price gains, as majority of factors counteracts them. Core bond markets do not perform satisfactorily, because capital flows currently to stock exchanges. Volatile zloty this week does not form conducive conditions for interest rate market either, as declines in FX market are quite dramatic. It is supplemented by cooled down expectations for interest rate cuts at Wednesday's meeting.

***Bottom line*: FX market fluctuated significantly due to investors' concerns about French referendum outcome from the one hand and attractive entry levels from the other hand. Today the event of the day will be FOMC Minutes release, though ZEW index in Germany also may provide some impulses to the market.**

International update

Hungarian central bank lowered its main interest rates by 25 bp to 7,2c5%. Larger share of analysts expected the NBH to keep rates unchanged.

Today FOMC Minutes will probably overshadow other releases, as it cast light on reasoning behind last dovish statement from the Fed. Details regarding remaining releases are included in the table below.

TIME GMT	COUNTRY	INDICATOR	PERIOD		FORECASTS	LAST VALUE
09:00	GER	ZEW index (H)	May	-	22.0	20.1
09:00	EMU	Trade balance (M)	Mar	€bn	4.5	3.0
18:00	USA	FOMC Minutes (H)				

Additional information is available on request. Please contact Bank Zachodni WBK S.A. Treasury Division, Economic Analysis Unit, ul. Marszałkowska 142, 00-061 Warsaw, Poland, phone (+48 22) 586 83 63, email ekonomia@bzwbk.pl, http://www.bzwbk.pl