Bank Zachodni WBK

Eyeopener – daily update

NBP Act changes against EU law

7 February 2006

The European Central Bank said that the Self-Defence's proposal to change the NBP Act is against the European legislation. Self-Defence does not seem to be concerned about this opinion as one of its experts said: "So what they said this? Will they send armed forces? We stick to our view". Well, it would be interesting to see the government's opinion. Let's reiterate that a possible attack on NBP independence (the bill was included in the pact between PiS, Self-defence and LPR) is one of the major risks for financial markets, in our opinion.

Yesterday MPC member Halina Wasilewska-Trenkner presented hawkish view on monetary policy, which should not be surprising given her voting pattern (in minority a couple of times in recent months). She said one cannot exclude rate hikes could be needed, if many risk factors coincided. However, we believe that majority of MPC think of inflation prospects much more in terms of the most likely scenario, not the most pessimistic one.

According to official communiqué from the Ministry of Labour and Social Policy, the registered unemployment rate jumped to 18.1% in January from 17.6% at the end of 2005. The increase is a typical seasonal phenomenon while the trend (reflected in the annual pace of unemployment reduction) would be maintained.

What's hot today

MPC hawk against further cuts, mentions hikes

"Another cut would not be noticeable for investors and consumers"

... but if this is the case, this could create inflation risks only via foreign exchange depreciation

... and the new optimistic inflation projection assumed already weaker zloty

MPC member Halina Wasilewska-Trenkner said yesterday in an interview with PAP that further rate cuts would be very risky and one cannot exclude rate hikes could be needed, if many risk factors coincided. In her opinion, another cut would not be noticeable for investors and borrowers, while it could increase inflation. Well, if she assumes that another cut would not affect investment and consumption decisions, the only way a rate cut could increase inflation is zloty depreciation due to lower interest rate differential between Poland and major economies. However, in the new inflation projection of the NBP, which was an argument for renewed rate cut, the zloty exchange rate was assumed at weaker level than the current one. Thus, some depreciation of the zloty should not fundamentally change conclusions from the projection. Wasilewska-Trenkner would like to wait for more information (including the new projection based on the final GDP data for 2005), also the news concerning further developments on the political scene and condition of public finance. Among all economic indicators, MPC member put a special emphasis on labour market statistics, especially that in her opinion the labour market was not taken appropriately into account in the macroeconometric model underlying the new inflation projection. She said that they key factor determining a pace at which inflation would return to the target was labour productivity growth. According to her, other key issues include oil prices, food prices and the zloty exchange rate. While Wasilewska-Trenkner's conservatism is justified to some extent, we believe that majority of MPC members think of inflation prospects much more in

Maciej Reluga Chief Economist 022 586 8363

Piotr Bielski 022 586 8333
Piotr Bujak 022 586 8341
Cezary Chrapek 022 586 8342 Email: ekonomia@bzwbk.pl

The zloty trading ranges (06.02.2006)

	Min	Max	Fixing
EUR	3.8100	3.8320	3.8175
USD	3.1750	3.1910	3.1838

F/X rates (today's opening)

EURUSD	1.1974	CADPLN	2.7907
USDPLN	3.1920	DKKPLN	0.5133
EURPLN	3.8217	NOKPLN	0.4768
CHFPLN	2.4640	SEKPLN	0.4131
JPYPLN*	2.6915	CZKPLN	0.1347
GBPPLN	5.6087	HUFPLN*	1.5292

*per 100 units

Treasury yield curve (06.02.2006)

T-bills	Yield	Change (bp)
3M	4.05	-5
6M	4.05	-5
9M	4.05	-5
12M	4.05	-5
Bonds	**Yield**	**Change (bp)**
2Y	4.33	1
3Y	4.52	-8
4Y	4.68	-9
5Y	4.76	-10
8Y	4.84	-6
10Y	4.92	-7

3Y - DS0509, 4Y - PS0310, 5Y - DS1110

WIBOR rates (06.02.2006)

Term	Rates	Change (bp)
O/N	4.35	-1
T/N	4.35	0
SW	4.35	0
2W	4.35	0
1M	4.34	-1
3M	4.34	0
6M	4.34	0
9M	4.34	0
1Y	4.34	0

terms of the most likely scenario, not the most pessimistic one. Therefore, we think the so-called hawkish faction within the MPC may be again outvoted in the nearest months, possibly already in February, depending on upcoming data releases.

Bottom line: ***Hawkish comments from MPC's Wasilewska-Trenkner are not likely to represent view of the majority within the rate-setting panel.***

Market monitor

Yesterday Polish currency appreciated against the euro and weakened versus the dollar. EURPLN rate fell from 3.832 to 3.8210 to bottom at 3.81 in the meantime, while USDPLN increased from 3.182 to 3.191. Activity on the market was moderate and zloty traded in a narrow range. The dollar appreciated to the strongest levels against the single currency since 4 weeks 1.1964 due to strengthened expectations on more rate hikes in U.S. after Friday's strong data from the labour market as well as attempts to break important technical levels. However later on EURUSD eased to 1.198.

Polish debt strengthened and yields fell significantly on the longer end of the curve and in the result yield curve flattened. This was mainly a result of core bond markets strengthening from Friday's late afternoon to Monday's opening levels. U.S. Treasuries weakened on Monday amid heavy supply of bonds to be offered at this weeks tenders however 10Y yields were trading close to the opening level 4.53%. Yields of 10Y Bunds remained unchanged at 3.47%.

At yesterday's tender the Ministry of Finance sold PLN1.0bn of 52-week Treasury bills at average yields of 4.111% as compared to 4.221% on a previous auction and with demand of PLN4.12bn. MF announced as well it will offer PLN500m of 12Y CPI inflation linked bonds IZ0816 as well as PLN1.0bn of 7Y floating rate notes.

***Bottom line**: Zloty slightly appreciated versus the euro. Bonds strengthened on yields drop on the core bond markets. Zloty should trade in narrow range and bonds will stay under influence of U.S. Treasures and Bunds.*

International update

There were no essential data released yesterday as well as no important figures are scheduled for today.

ECB's president Jean-Claude Trichet reiterated the view presented in the latest communiqué that the ECB is ready to hike rates to keep inflationary pressure under control if new information influence the assessment of price stability perspective. This reinforced market's expectations for rate hike in March.

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