

Eyeopener – daily update

Rates likely to stay unchanged

22 March 2006

Yesterday in late afternoon, PAP agency published an interview with MPC member Andrzej Wojtyna, who is seen by the market as a moderate on the rate-setting panel. His comments are yet another voice from the MPC that interest rate cuts are undesired in the near term, following similar suggestions from some of MPC's doves that appeared last week. This confirms our view that official interest rates will most likely stay flat until year-end.

Political battles continues and one cannot exclude that PiS's motion to dissolve parliament will be voted already this week (the Sejm session begins today and will last until Friday). Persisting uncertainty regarding domestic politics is not supportive for the zloty and bonds.

What's hot today

Moderate MPC member suggests one should not expect further rate cuts as they are close to neutral level

Another signal cooling down hopes for soon rate cuts

MPC member Andrzej Wojtyna said yesterday that there were no strong arguments now for changing interest rates, as they were currently at a level close to natural. He predicted that accelerating domestic demand growth would push prices up in the coming periods, but not excessively, so that inflation rate would gradually return towards 2.5% target. In his opinion, new inflation projection to be released in April would not show dramatic changes in predicted inflation path as compared to the previous report, although it would be crucial to see long-term relation between pay rise and labour productivity. He believed that stabilisation of economic growth at ca. 4.5% would not give raise to excessive pressure on inflation, unless unjustified wage surge takes place. Wojtyna also expressed hope that political jitters will continue to not affect the market significantly, although said that long-lasting instability could negatively affect investment and consumption growth. In his opinion, an important test for the government would be 2007 budget, and it could have significant effect on market sentiment and MPC's field for manoeuvre.

Bottom line: Yet another voice from the MPC that interest rate cuts are undesired in the near term confirms our view on monetary policy outlook.

PiS's motion to dissolve parliament may be voted already this week, but the next Sejm's session seems more likely

Watch out for turmoil in politics

Today, the Sejm begins the next meeting that will last until Friday. The course of this three days-long session could be important for further scenario in Polish politics, and thus also for the financial market sentiment. It is possible that at the end of the session the deputies will vote on two major motions submitted by the Law and Justice – on setting up investigation committee for surveying banking sector and bank supervision's activity, and on establishing special anti-corruption office. However, much more important will be a debate on parliament's dissolution. The relevant motion will be

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

probably submitted by PiS already this week, but the vote is likely to take place on the next session, between 5 and 7 April (although Sejm's speaker did not exclude it may take place already this week). While a scenario of snap election in May seems unlikely given that such option is backed only by PiS and SLD (while it requires a support of 2/3 of deputies), the question is what could happen after the Sejm rejects a motion to dissolve itself. On Monday PM Marcinkiewicz declared he was not going to step down in any case, and yesterday PiS leader Jarosław Kaczyński ensured he had no intention to replace current Prime Minister.

Bottom line: Market sentiment likely to suffer from permanent political battles and lasting uncertainty regarding scenario for the coming months.

Market monitor

Yesterday the situation on the FX market was similar to that on Monday as the zloty depreciated against the euro as well as to the dollar amid the situation in politics as early election case remains under question and along weakening in the region. EURPLN rate rose straight at the opening from 3.886 to 3.906 and eased to the end of the session to 3.895, while USDPLN rate increased from 3.2 to 3.212. The greenback slightly appreciated against the single currency from 1.213 to 1.21 in reaction to higher than expected core PPI index in U.S. Today at the opening zloty weakened again to 3.915 against the euro and 3.229 versus the dollar.

The situation on the fixed income market was quite stable throughout the most part of the session and moderately weakened at the end in effect of yields rise on the core bonds markets. Although the headline PPI figure was dropped to higher extent than the analysts expected Treasuries weakened amid Ben Bernanke's statement on optimism toward U.S. economy and high core PPI, as the core inflation figures are the driving factors on the U.S. markets. US 10Y yields jumped from 4.65% to 4.70% (4.71% overnight), while 10Y Bunds followed the U.S. market and soared from 3.64% to 3.67%.

Today the Ministry of Finance is going to offer new 5Y benchmark bonds PS0511 in exchange for papers maturing this years OK0406, PS0506, OK0806.

Bottom line: Zloty continued to weaken as well as bonds amid uncertain political situation and along situation in the region. Today the market will focus on the news from politics and the switch auction which may show interest toward Polish assets amid current uncertain situation.

International update

The PPI index fell in February in United States by 1.4%MoM, which was a much deeper drop than forecasted -0.2%MoM. This was a biggest slump since April 2003. In annual terms producer prices rose by 3.7%YoY as compared to 5.7%YoY in January. This was a result of decline of energy priced by 4.7%MoM and gasoline by 11.0%MoM. However core figure excluding food and energy rose by 0.3%MoM and 1.7%YoY with 0.4%MoM rise in the previous month and was higher than the markets consensus.

The zloty trading ranges (21.03.2006)

	Min	Max	Fixing
EUR	3.8755	3.9110	3.8967
USD	3.2000	3.2300	3.2110

F/X rates (today's opening)

EURUSD	1.2089	CADPLN	2.8026
USDPLN	3.2378	DKKPLN	0.5217
EURPLN	3.9140	NOKPLN	0.4881
CHFPLN	2.4852	SEKPLN	0.4153
JPYPLN*	2.7537	CZKPLN	0.1357
GBPPLN	5.6514	HUFPLN*	1.4845

*per 100 units

Polish Treasuries (21.03.2006)

Term	Yield	Change (bp)
2Y	4.15	3
3Y	4.34	5
4Y	4.58	8
5Y	4.67	7
8Y	4.80	6
10Y	4.84	6

WIBOR rates (21.03.2006)

Term	Rates	Change (bp)
O/N	4.12	1
T/N	4.12	0
SW	4.13	0
2W	4.13	0
1M	4.13	0
3M	4.13	0
6M	4.13	1
9M	4.12	1
1Y	4.12	1

Forward Rate Agreements (21.03.2006)

Term	Mid	Change (bp)
1x2	4.09	0
3x6	4.04	1
6x9	4.05	2
9x12	4.07	2
3x9	4.07	2
6x12	4.08	3

No crucial data are scheduled for today.

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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>



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