Bank Zachodni WBK

# Eyeopener – daily update

## Hawkish central banks

29 March 2006

**FOMC raised the fed funds rate to 4.75% and the statement indicated another 25bp hike at the May 10 meeting ("some further policy firming may be needed"). As one could have expected, US Treasuries yields rose and the dollar strengthened following the statement. This does not bode well for the Polish market, as outflow of capital from emerging markets may be continued. The Polish MPC will announce decision on interest rates today. None of surveyed economists expect a rate change in March. We expect comments from MPC to confirm our view official interest rate should be left unchanged also in subsequent months, while majority of market analysts expect a cut in April (although the market does not price-in a cut).**

**Yesterday Sejm's speaker said a vote over the parliament's self-dissolution will take place on 4 April, i.e. on the first day of the nearest Sejm's session. PM Kazimierz Marcinkiewicz said that if the motion was not passed, he would consider asking the Sejm for a vote of confidence. If the government fails to win the vote, early election would become a plausible option. However, it is unlikely that the government would lose the vote, as minor parties (such as Self-defence or PSL) are not likely to do anything that could lead to premature election.**

## What's hot today

### MPC decision today

*Market unanimous in expecting no rate change this week*

Today, although it is unpredictable at what time, the MPC will announce its decision on interest rates. This is the highlight of the week on the domestic financial market, excepting yesterday's Fed decision, which was crucial for worldwide markets. However, this MPC meeting is not likely to be so exciting as the one a month ago when the MPC surprised many market participants with a decision to trim rates that was made after record long discussion. Market analysts are unanimous in their expectations regarding today's decision. No one expect a change in rates. What is important, as we have already written in our reports, recent comments from rate setters suggest that they actually do not have an intention to change monetary policy parameters. Therefore, today's decision seem to be determined. Nevertheless, it will be very interesting to see official communiqué and hear comments of MPC members at press conference. They may give some hints on future monetary policy, e.g. confirm recent relatively hawkish signals from doves. This would confirm our expectations that official interest rates should stay unchanged also in subsequent months. On the other hand, the central bank may want to avoid sending strong signal already this month, before it get to know the new inflation projection to be published in April. Thus, some of market participants may still believe in continuation of rate cuts. All in all, the market is likely to remain stable in reaction to today's MPC meeting.

*The statement will be the key to assess chances for further changes. We expect flat rates till year-end*

***Bottom line:* The MPC is widely expected to leave rates on hold. The market will eye comments from the central bank in search for hint on future monetary policy decisions.**

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The zloty trading ranges (28.03.2006)

| | Min | Max | Fixing |
|---|---|---|---|
| EUR | | | 3.9435 |
| USD | | | 3.2680 |

F/X rates (today's opening)

| | | | |
|---|---|---|---|
| EURUSD | 1.2001 | CADPLN | 2.8534 |
| USDPLN | 3.2965 | DKKPLN | 0.5312 |
| EURPLN | 3.9545 | NOKPLN | 0.4969 |
| CHFPLN | 2.5302 | SEKPLN | 0.4229 |
| JPYPLN* | 2.8036 | CZKPLN | 0.1381 |
| GBPPLN | 5.7539 | HUFPLN* | 1.5114 |

*per 100 units

Polish Treasuries (28.03.2006)

| Term | Yield | Change (bp) |
|---|---|---|
| 2Y | 4.18 | 6 |
| 3Y | 4.38 | 8 |
| 4Y | 4.63 | 12 |
| 5Y | 4.72 | 14 |
| 8Y | 4.84 | 10 |
| 10Y | 4.87 | 10 |

WIBOR rates (28.03.2006)

| Term | Rates | Change (bp) |
|---|---|---|
| O/N | 4.74 | 59 |
| T/N | 4.76 | 61 |
| SW | 4.22 | 7 |
| 2W | 4.16 | 1 |
| 1M | 4.15 | 0 |
| 3M | 4.15 | 0 |
| 6M | 4.15 | 1 |
| 9M | 4.15 | 1 |
| 1Y | 4.15 | 1 |

Forward Rate Agreements (28.03.2006)

| Term | Mid | Change (bp) |
|---|---|---|
| 1x2 | 4.12 | 2 |
| 3x6 | 4.09 | 3 |
| 6x9 | 4.09 | 3 |
| 9x12 | 4.09 | 3 |
| 3x9 | 4.10 | 4 |
| 6x12 | 4.11 | 4 |

# Market monitor

On Tuesday zloty depreciated against the main currencies along the fall of the currencies in the region. This was partly driven by interest rates expectations on core bond markets, which caused capital slight outflow from most of emerging markets before the Fed meeting and after the release of 15 year high Ifo index. EURPLN rate rose from 3.9245 to 3.945 and eased at the end of the day to 3.935, while USDPLN initially rose to 3.276 and fell later on to 3.2535. The EURUSD rate soared from 1.20 to 1.21 after stronger than expected German business sentiment Ifo index and statement of Jean Claude Trichet, though it eased later to 1.207 amid Fed's communiqué.

Situation on the fixed income market was mainly under influence of core bonds markets. Polish debt weakened quite significantly and yields rose by 6-14 pts and the yield curve slightly steepened. 10Y US Treasuries weakened again and yields rose from 4.69% at Monday's closing to 4.73% (and to 4.78% after Fed's decision), while 10Y Bunds yields jumped from 3.64% to 3.71% (to 3.74% in overnight trade) in reaction to Ifo index much stronger than was forecasted by analysts. This was additionally boosted by ECB president Trichet's statement that interest rates in the euro zone were at very low levels and the monetary policy was still accommodative, while increased investment may boost world GDP. This increased rate hikes expectations already at May's ECB meeting. U.S. yields rose additionally after strong consumer confidence data and wording Fed's statement, which strengthened expectations on more rate hikes.

***Bottom line*: Zloty depreciated against the euro and bonds substantially weakened following the core bonds markets after strong economic data in the euro zone, ECB president statement and Fed's statement. Today the market will focus on MPC decision and most of all the communiqué although we think it should not bring any breaking news. Polish bonds may react to weakening on core bond markets as well.**

# International update

Federal Open Market Committee raised the main interest rate in United States by 25 bp for the 15th consecutive time to 4.75%. At the first meeting with Ben Bernanke as the Fed's chairman U.S. central bank hinted in its statement that some more monetary policy tightening "may be needed".

Ifo Institute announced that its business climate index showed a strength of the biggest euro zone economy as it rose from 103.4 pts in February to 105.4 pts in March, which was higher than the market consensus of 102.8 pts and reached the highest level since 1991.

In February M3 money supply in the euro zone rose by 8.0%YoY as compared to the market consensus at 7.6%YoY. Loans to the private sector appeared to be higher than expected (7.7%YoY) as well as it increased by 10.3%YoY.

Consumer confidence index in U.S. jumped in March to a near four year high to 107.2 pts from revised 102.7 pts and was much higher than the market forecast at 102.0 from 101.7 in the previous month.

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