

# Eyeopener – daily update

## Should I stay or should I go?

4 April 2006

Today, the Sejm starts a four-days meeting, at which a motion on parliament dissolution will be discussed. The vote will take place on Friday, April 7. It is unlikely to be successful and this will mean a start of talks about new government coalition.

Meanwhile, a perspective of sharing power with populist Samoobrona does not seem to be appealing for finance minister Zyta Gilowska. Yesterday in evening interview with TVN24 she said she was “seriously considering” whether to stay in the government if Andrzej Lepper becomes a deputy Prime Minister. Her doubts could even strengthen after political parties express their attitude towards FinMin’s tax proposals presented last Friday. According to today’s *Rzeczpospolita* daily, a potential government ally Samoobrona is very critical as regards at least several parts of the proposed package.

Inflation forecasts for the nearest months are improving, in contrast to medium-term inflation prospects. We do not think that very low inflation in the short term will encourage the MPC to reduce interest rates again.

## What’s hot today

### MPs to vote parliament’s dissolution on April 7

Today, the four-day session of the Sejm begins, during which deputies will vote whether to dissolve the parliament and hold snap election in May. Head of the Law and Justice (PiS) parliamentary caucus Przemysław Gosiewski said yesterday that the vote would most likely take place on Friday, April 7. As we have written earlier, the motion is unlikely to get the required two-thirds majority (307 votes) to pass, as it is supported only by PiS (156 deputies) and leftist SLD (55 votes). Gosiewski himself admitted that chances to pass the motion look slim. If the motion actually fails, the PiS will start talks with other political parties to build a new government coalition. Gosiewski said that in case of motion’s failure, further scenarios would be considered by the PiS’s political committee on April 8. He admitted that a possible option was a government coalition of PiS with two parties out of Samoobrona, PSL or LPR. In fact, the choice is rather limited, as the latter (or at least its leader Roman Giertych) has already declared that entering a coalition with PiS is definitely out of option.

***Bottom line:*** *The vote over parliament’s dissolution is likely to take place on April 7. It is unlikely to be successful and this will mean start of talks about new government coalition.*

### FinMin predicts inflation fall in March

Head of FinMin’s research department said yesterday CPI inflation might fall further in March to 0.4-0.5%YoY thanks to declining food prices (mostly meat prices) and should remain around 0.5%YoY in the nearest months. We

*Sejm starts a debate on self-dissolution*

*... but vote will take place on Friday*

*After likely failure of the motion, talks on coalition with Samoobrona will begin*

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estimate that inflation remained at 0.7%YoY in March (the same as earlier FinMin's prediction indicated) and predict that it will fluctuate within a range of 0.4-0.8% until October. At the same time, we do not think that current low inflation may change central bankers' view on inflation outlook in the medium run. On the contrary, medium-term inflation prospects are likely to deteriorate gradually. MPC member Dariusz Filar said yesterday inflation was likely to return to its 2.5% target more quickly than previously forecast. "The cut of 50 bp we made (this year) should allow us to expect a return to the inflation target of 2.5% percent in 2007," Filar stated, while the NBP had previously indicated inflation was not likely to return to target until 2008. Of course, one has to remember that in comparison to other rate-setters Filar is seen as a supporter of a more restrictive policy stance. However, we think that majority of central bankers share an opinion that with medium-term inflation outlook in mind, low inflation in the nearest months will not be sufficient argument for another monetary easing.

***Bottom line: Inflation forecasts for the nearest months are improving, but medium-term inflation prospects do not look that rosy. We do not think that very low inflation in the nearest months encourage the MPC to reduce interest rates again.***

## Market monitor

After initial strengthening against the main currencies zloty went back to the opening level against the euro and closed stronger versus the dollar. EURPLN rate fell from 3.92 to 3.904 and returned at the end of the session to 3.923, while the USDPLN rate after a drop from 3.254 to 3.235 closed near 3.244. The dollar lost against the single currency from 1.205 to 1.21, which was a double effect of a strong manufacturing PMI and weaker than expected ISM figure.

At the opening bonds weakened after the MPC member Andrzej Sławiński's statement that rates are near the neutral level and after a release of information on the large issue size at the nearest bond auction. However eventually fixed income market strengthened on yesterday's session as compared to Friday closing, which was an effect of MF's lowered inflation forecast in March and was additionally supported by yields drop on the core bond markets near the end of the session. 10Y Bund yields rose after the release of PMI index from 3.77% to 3.83% and 10Y U.S. Treasuries followed the German government bonds and rose from 4.85% to 4.90%. Later on the situation stabilized, however as the ISM figure appeared to be lower than the market consensus yields of 10Y Treasuries declined back to 4.87% and Bunds dropped to 3.82%.

The Ministry of Finance sold PLN0.7bn of 26-week T-bills and PLN1.0bn of 52-week T-bills at yesterday's tender with demand at PLN1.64bn and PLN2.39bn as well as average yields at 3.994 and 3.943 respectively. MF announced yesterday as will it will offer PLN3.6bn of 2Y OK0408 bonds to be offered at Wednesday's tender.

***Bottom line: Zloty remained flat against the euro, while bonds strengthened in reaction to lowered MF's inflation forecast and drop of yields on the core***

### The zloty trading ranges (03.04.2006)

	Min	Max	Fixing
EUR	3.9050	3.9300	3.9250
USD	3.2360	3.2570	3.2538

### F/X rates (today's opening)

EURUSD	1.2137	CADPLN	2.7637
USDPLN	3.2421	DKKPLN	0.5274
EURPLN	3.9353	NOKPLN	0.4996
CHFPLN	2.4845	SEKPLN	0.4189
JPYPLN*	2.7554	CZKPLN	0.1382
GBPPLN	5.6382	HUFPLN*	1.4944

\*per 100 units

### Polish Treasuries (03.04.2006)

Term	Yield	Change (bp)
2Y	4.23	-1
3Y	4.47	-1
4Y	4.68	-3
5Y	4.77	-3
8Y	4.90	-2
10Y	4.95	0

### WIBOR rates (03.04.2006)

Term	Rates	Change (bp)
O/N	4.14	125
T/N	4.14	-1
SW	4.15	0
2W	4.16	0
1M	4.16	1
3M	4.18	2
6M	4.17	0
9M	4.17	1
1Y	4.18	1

### Forward Rate Agreements (03.04.2006)

Term	Mid	Change (bp)
1x2	4.12	-2
3x6	4.12	-1
6x9	4.12	-3
9x12	4.15	-2
3x9	4.14	-1
6x12	4.16	-1

***bond markets. Investors await the ECB's rate decision and voting on parliaments dissolving due on Thursday and Friday.***

## International update

Eurozone PMI index reflecting the situation of manufacturing sector rocketed in March to a 5.5 year high of 56.1pts from 54.5pts and was higher than the forecast at 55.0pts. The output and new orders indices reached the highest levels since the middle of 2000 and amounted to 59.0pts and 58.9pts respectively, while the employment index was the highest since April 2001.

The Institute of Supply Management index reflecting the situation in the manufacturing sector inched down in March to 55.2pts from 56.7pts, while the market forecasted rise to 57.9pts. Manufacturing prices paid index rose to 66.5 from 62.5 in February, employment index fell to 52.5 from 55 and new orders component dropped to 58.4 from 61.9.

Today some data are going to be published in the euro zone though their impact as well for the core markets as for domestic market should be limited.

TIME GMT	REGION	INDICATOR	PERIOD		MARKET	LAST VALUE
9:00	EMU	PPI (M)	Feb	%YoY	5.4	5.3
9:00	EMU	Unemployment (M)	Feb	%	8.3	8.3

Source: Reuters

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