

# Eyeopener – daily update

## No snap election, coalition ahead

7 April 2006

As it was widely expected, the parliament found no majority to support the motion on self-dissolution yesterday. Starting today markets will try to assess probabilities of different scenarios, out of which a formal coalition of Law and Justice (PiS) with Self-Defence still seems the most likely outcome. Yesterday the Polish market saw a strengthening, which we interpret as a temporary phenomenon and profit taking after recent sell-off (which brought EURPLN up to close to 4.0). It shows, however, that a situation on global financial markets (reaction to less hawkish than expected ECB's statement) is crucial for sentiment on the Polish market. Also, some positive impact of politics was visible after information about possible talks between Civic Platform (PO) and PiS, but we would treat it more as an "excuse" for profit taking rather than a real trigger of zloty appreciation, as likelihood of coalition between PiS and PO is unfortunately very low. Today, non-farm payroll figure in the U.S. and ECB's Trichet speech will be crucial for the markets.

Today, Ministry of Finance will present a draft reform of public finances, aimed at sorting out public spending and increasing transparency of public finances. According to Zyta Gilowska, the bill could produce savings in expenditure of PLN8-9bn in 2007-2008 period, helping in reaching Maastricht convergence criteria. Also today, a dismissal of deputy finance minister Cezary Mech is possible, as the Prime Minister has already received relevant motion. It will not be a bad news for the market, especially that one could treat it as a sign of strengthening position of Gilowska.

## What's hot today

### Another hawkish comment with no impact

MPC member, Halina Wasilewska-Trenkner said yesterday that a couple of risk factors for inflation appeared, including food prices, fuel prices, the weak zloty and a rise in excise tax for oil. She said this suggested that inflation will return to the bank's inflation target (2.5%) slightly faster than it was previously expected. While Wasilewska-Trenkner used to be treated as a hawkish member of the Monetary Policy Council, one should remember that she voted in favour of rate cut in January. Nevertheless, fixed income market did not react to this statement, as yields were influenced by other factors (especially ECB communiqué). Additionally, this was well another quote of central banker in recent weeks and all previous statements suggested the same – official interest rates are 4%, which should be perceived as neutral level (or close to)

***Bottom line:*** *Wasilewska-Trenkner's comments neutral for the market, as they did not change expectations for no rate cut in April. However, it seems Polish yields may fall further given ECB wording and the fact that (low or very low) CPI inflation will be released next week.*

***MPC member sees building risks for inflation***

***... but this does not change interest rate outlook***

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## Market monitor

At yesterday session zloty appreciated against the main currencies as investors took advantage of events in the parliament and abroad to take profit after recent weakening. At the opening EURPLN and USDPLN rates slightly rose though later on zloty appreciated from 3.98 to 3.944 against the euro and from 3.24 to 3.2195 as the market discounted information on possible cooperation between the ruling PiS and the pro-market Civic Platform. However later on polish currency eased to 3.968 and 3.246 respectively. The euro was quite stable against the greenback till the the ECB conference, however after ECB's president statement (look below) EURPLN plummeted from 1.229 to 1.223.

Polish fixed income market was quite stable at Thursday's session and yields closed a few basis points lower than at Wednesday's closing. This was partly a result of increased probability for stabilization in politics and calming down the argument between Law and Justice and the main opposition party as well as less hawkish ECB's statement. The lower house of the parliament rejected the motion for selfdissolving of the parliament. The statement of MPC member Halina Wasilewska Trenkner was rather neutral for the market. U.S Treasuries and Bunds weakened before the ECB meeting with 10Y yields up from 4.83% and 3.84% to 4.88% and 3.88%. After less hawkish Trichet's statement core bonds trimmed losses and 10Y yields fell respectively to 4.86% and 3.83%. However this strengthening was only temporary and 10Y U.S. as well as German government bonds eased back to 4.90% and 3.88%.

***Bottom line: Zloty strengthened after political atmosphere appeared to get warmer which was used to take profit after recent weakening, however after ECB's statement zloty slightly weakened again. Today the market will focus on the non-farm payrolls data.***

## International update

The European Central Bank left the main interest rate unchanged at 4.5% at yesterday's meeting, which was expected. What was surprising was the tone of the ECB's communiqué. In its statement ECB president Jean Claude Trichet indicated that the markets view on the rate hike in May is different from the one of the Governing Council. This influenced the market expectations to price in the rate raise in June.

Bank of England left the main interest rate at 4.5% level, which was in line with analysts forecasts.

According to Department of Labour last week the number of new jobless in U.S. fell from revised 304k to 299k, while the market expected a drop from 305k to 302k. The 4-week average fell from 311,250 to 308,500.

### The zloty trading ranges (06.04.2006)

	Min	Max	Fixing
EUR	3.9960	3.9420	3.9870
USD	3.2225	3.2460	3.2389

### FX rates (today's opening)

EURUSD	1.2206	CADPLN	2.7793
USDPLN	3.2604	DKKPLN	0.5304
EURPLN	3.9775	NOKPLN	0.5024
CHFPLN	2.4985	SEKPLN	0.4212
JPYPLN*	2.7709	CZKPLN	0.1390
GBPPLN	5.6700	HUFPLN*	1.5028

\*per 100 units

### Polish Treasuries (06.04.2006)

Term	Yield	Change (bp)
2Y	4.30	-3
3Y	4.49	-4
4Y	4.65	-9
5Y	4.76	-5
8Y	4.91	-7
10Y	4.95	-5

### WIBOR rates (06.04.2006)

Term	Rates	Change (bp)
O/N	4.13	-2
T/N	4.13	-2
SW	4.14	0
2W	4.14	0
1M	4.14	-1
3M	4.15	0
6M	4.17	1
9M	4.18	1
1Y	4.18	1

### Forward Rate Agreements (06.04.2006)

Term	Mid	Change (bp)
1x2	4.16	4
3x6	4.14	4
6x9	4.14	-1
9x12	4.17	0
3x9	4.16	0
6x12	4.18	-1

TIME GMT	REGION	INDICATOR	PERIOD	MARKET	LAST VALUE
12:30	USA	Non-farm payrolls (H)	Mar	'000	190.0 243.0
12:30	USA	Unemployment (H)	Mar	%	4.8 4.8
14:00	USA	Wholesale inventories (H)	Feb	%	0.5 0.1

Source: Reuters

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