

# Eyeopener – Skrzypek appointed, ECB in focus

11 January 2007

- **EURPLN temporarily jumped above 3.91 and yield curve got steeper**
- **Polish market will remain under influence of international investors to emerging markets**
- **ECB press conference crucial today**

On Wednesday morning zloty was rather stable against the main currencies while the debt market weakened. Later on Polish currency started to depreciate following other emerging market currencies and after some time 3.9 was broken against the euro. The EURPLN rate reached even 3.914, while the USDPLN rate broke through 3.0 level. However in the second part of the day there was a slight recovery, what positively influenced the zloty. At the end of the domestic session the EURPLN rate was at 3.882 and the USDPLN rate near 3.0. Bond yields rose and the yield curve steepened with regards to the investors' sentiment toward the emerging markets ahead of the bond auction and voting on approval of NBP president. At the yesterday's auction the Ministry of Finance sold PLN1.8bn of 10Y DS1017 bonds. The investors' demand was quite high and amounted to PLN4.15bn, while the average yield was at 5.23 as compared to against 5.48% at the auction in October and 5.18% at Tuesday's closing in the secondary market.

Among the factors that influenced the moods in the emerging markets could have been the news from Venezuela and Thailand. Venezuelan president Hugo Chavez revealed plans to take control of the central bank and nationalisation of some companies. Thailand's authorities also have nationalisation plans as on Tuesday the government approved new rules that aim to limit control of foreign investors over Thai companies within next two years.

The EURUSD fell yesterday to 1.295 after narrower than expected US trade balance data. The trade deficit in the United States fell in November to the lowest level since July 2005 and amounted to USD58.23bn, below the market expectations at USD59.9bn and USD58.87bn in the previous month. The data was interpreted as positive for the US GDP. This, as well as the weekly data from US the housing market, contributed to the weakening of US government bonds, and their 10Y yields rose to 4.7%. This influenced also on the German market as yields of 10Y Bunds rose to 4.02%. The statement of Chicago Fed president Michael Moskowitz about his concern on inflation being still the key issue did not result in any significant moves, though helped the dollar and Treasuries to stay at their levels.

On Wednesday evening the Sejm approved Sławomir Skrzypek's candidature for the NBP governor's post. The decision came as no

surprise so it should have no impact on the financial market. However, investors will be following with caution the first decisions and the first comments of Skrzypek in the new position. The comments made so far were quite general and cautious and we expect that it will not change in the near future, at least until Skrzypek familiarizes a little bit with the new environment, new tasks and new responsibilities. However, today's *Rzeczpospolita* daily wrote that before the yesterday's vote the new NBP chief had promised Samoobrona caucus to think about using a part of FX reserves for economic growth promotion and had ensured the LPR caucus that the euro zone entry was not beneficial for Poland at the moment. This may cast some shade on expectations regarding his future actions in the central bank.

Earlier, Sejm speaker Marek Jurek decided that the parliamentary legislative committee should investigate until the end of this week whether the draft amendment to the central bank charter submitted earlier by Samoobrona was consistent with the constitution. The draft assumes e.g. that the care for economic growth would be equally important goal of the central bank as inflation stabilisation, and that NBP chief and MPC members could be dismissed before the end of their term of office. If the draft receives positive recommendation from the committee and gets under the debate in the parliament, it could increase the market uncertainty. However, it seems that it should be regarded as inconsistent with the constitution and EU regulations.

Today, international market players will focus on the ECB press conference (the decision at 12:45 GMT) and comments of the governor Jean Claude Trichet. ECB president could suggest the scale and timing of the next interest rate hikes in the euro zone. At the previous conference Trichet had stated that hikes could take place later than in February. The market will be looking for a term "strong vigilance", which could help the common currency.

Before the ECB decision announcement, final data on GDP in the euro zone for 3Q06 are going to be released at 10:00 GMT (expectations at 2.7%YoY, previous reading: 2.8%) and they may support the single currency. At 12:00 GMT we will know the decision of the Bank of England (rates expected to remain unchanged at 5.0%). At 13:30 there will be another data release on the US labour market - initial jobless claims (expectations: 324k). Foreign investors may also take positions ahead of Friday retail sales data in the United States.

Today at the opening the currencies in the region were a bit stronger. The zloty will remain first of all under the influence of global investors' attitude towards the emerging markets.

## ECONOMIC ANALYSIS UNIT

ul. Marszałkowska 142, 00-061  
email: [ekonomia@bzwbk.pl](mailto:ekonomia@bzwbk.pl)

Maciej Reluga (Chief Economist)  
Piotr Bielski  
Piotr Bujak  
Cezary Chrapek

fax +48 022 586 83 40  
Web site: <http://www.bzwbk.pl>  
+48 (0) 22 586 83 63  
+48 (0) 22 586 83 33  
+48 (0) 22 586 83 41  
+48 (0) 22 586 83 42

## New business queries:

**Treasury - Frank O'Connor**

+48 (0) 22 586 8402  
[frank.o'connor@bzwbk.pl](mailto:frank.o'connor@bzwbk.pl)

**Corporate Banking – Rashid Khan**

+48 (0) 22 586 8050  
[rashid.khan@bzwbk.pl](mailto:rashid.khan@bzwbk.pl)

**Branch/ Mortgages - Carl Coates**

+48 (0) 22 586 8059  
[carl.coates@bzwbk.pl](mailto:carl.coates@bzwbk.pl)

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

EURUSD	1.2993	CADPLN	2.5763
USDPLN	2.9960	DKKPLN	0.5326
EURPLN	3.8929	NOKPLN	0.4846
CHFPLN	2.4689	SEKPLN	0.4402
JPYPLN*	2.5261	CZKPLN	0.1446
GBPPLN	5.9011	HUFPLN	1.5788

## Financial market review (09.01.2007)

## The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.855	3.8785	3.8555	3.8755	3.8635
USDPLN	2.9549	2.9832	2.9573	2.9818	2.9647
EURUSD	1.2993	1.3049	1.3038	1.3003	-

## T-bonds

TERM	BOND	Yield (%)	Change (bp)	Last auction	Average yield
2Y	OK1208	4.46	1	06.12	4.617
5Y	PS0511	4.96	0	15.11	4.987
10Y	DS1017	5.18	1	11.10	5.483

## IRS rates (Mid)

TERM	PL	US	EU
	%	%	%
	Change (bp)	Change (bp)	Change (bp)
1Y	4.52	5.33	4.11
2Y	4.73	5.14	4.16
3Y	4.84	5.05	4.15
4Y	4.93	5.04	4.16
5Y	4.99	5.04	4.16
8Y	5.05	5.08	4.20
10Y	5.09	5.11	4.24

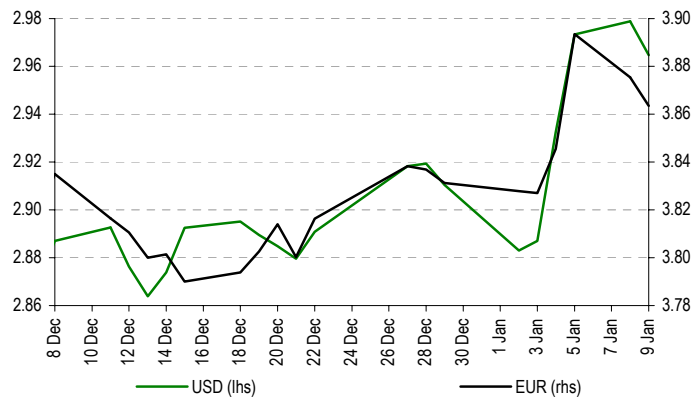
## WIBOR rates

TERM	%	Daily change (bp)
O/N	4.11	-1
T/N	4.12	0
SW	4.12	0
2W	4.12	0
1M	4.12	0
3M	4.20	0
6M	4.30	0
9M	4.41	0
1Y	4.51	0

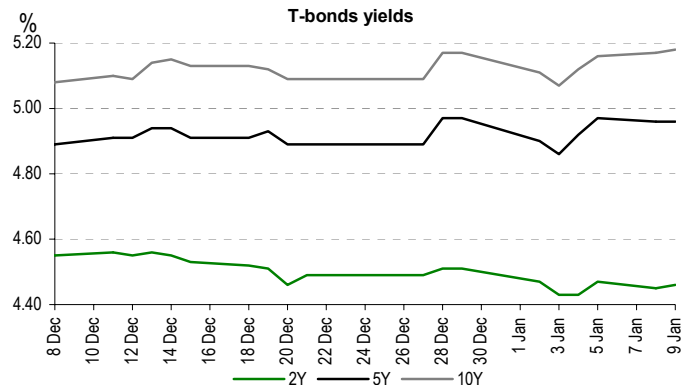
## FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	4.12	-1
3X6	4.23	1
6X9	4.35	1
9X12	4.44	1
3X9	4.54	0
6X12	4.59	1

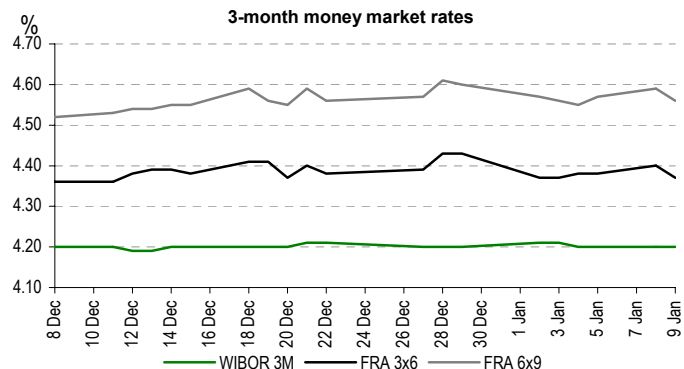
## Zloty exchange rate



## T-bonds yields



## 3-month money market rates



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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](mailto:ekonomia@bzwbk.pl). <http://www.bzwbk.pl>



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