

# Eyeopener – How fast economic growth?

30 November 2007

- **The zloty weakened temporarily, but shortly recovered; rising prices on bond market stopped**
- **MPC members' comments herald more rate hikes**
- **GDP data for Q3 due for release today**

On Thursday after two days of strong appreciation, the zloty was weakening. The EURPLN rate rose to 3.6460 at the end of the domestic session and during the day it exceeded even 3.6520. The USDPLN rate amounted to 2.468 at the end of the day against 2.458 at the opening. However, the period of depreciation was rather short and just after the close of the domestic session the zloty clearly appreciated. The EURPLN dropped at night to 3.627, and today at the opening amounted to 3.632, while against the USDPLN appreciated slightly below 2.46, and today in the morning amounted to 2.467.

Yesterday the S&P's rating agency informed it may upgrade the outlook of Poland's rating next year, though the precise moment of this move may depend on how fast the new government is going to introduce the planned reforms. This is another positive signal for the domestic assets from the rating agencies after Fitch and Moody's released similar statements on Tuesday.

Yesterday, new comments from central bankers appeared. Apart from interview with MPC's Dariusz Filar, published in the morning and described by us in yesterday's Eyeopener, Marian Noga and Jan Czekaj also took the floor. Noga said in an interview with PAP agency that until February interest rates should be raised once more and timing of further hikes would depend on the new inflation projection due for release in February. However, the peak of the reference rate in 12 months should be 5.75%. One should remember that Noga represents the hawkish faction in the Council, so the scale of needed interest rate hikes predicted by him does not seem dramatic (we predict the reference rate will reach 5.5% in 12 months). What is more, it is note worthy that Noga excluded a possibility of 50bps rate hikes, saying that the Council cannot harm the economic growth. Jan Czekaj said in an interview with Gazeta Prawna that data for October showed, contrary o data for the previous month, that the economy remains very strong. He also said that he did not know whether the rate hike delivered at the last MPC meeting will be sufficient to keep inflation below 3.5% and there was a risk that inflation will increase above that level sooner than indicated by the last inflation projection. Czekaj added that it is not sure that the MPC could not increase rates in December, although such a scenario would be possible only if the new data proved "a big surprise". In an interview with Reuters, published later, Czekaj said that although core inflation better reflected inflationary pressure, the headline inflation rate

affected inflationary expectations. Thus, even if inflation forecasts are optimistic, but the current inflation is relatively high, there may be a need for rate hikes. Czekaj, who is moderate rate-setter and the key swing voter, added that one should remember about signals of growing imbalances in the economy and the central bank should act in advance to contain it. The comments from Czekaj are quite hawkish and confirm our view that we will see continuation of monetary tightening in the next months. In our opinion there will be two rate hikes of 25bps in January and March.

At yesterday auction the Ministry of Finance sold PLN357m of 5Y PS0413 bonds and PLN509m of 20Y WS0922 bonds. In return the finance ministry bought back PLN876m of OK1207 bonds maturing in December.

The dollar appreciated against the single currency to 1.477 as compared to 1.481 at the opening on expectations the interest rate cut in will support the US economy. The dollar strengthened despite weaker data from the US in the recent period. The US GDP growth in Q3 was upwardly revised to 4.9%, above the forecasts. The core PCE index was also higher than expected. However these data as more historical had little impact on the markets. On the other hand data from the US housing market showed a slight increase in October by 1.7% to 0.78m after a strong downward revision for the previous month and were lower than expected. Moreover the new jobless claims for the previous week rose to the highest level since February. These data influenced the core debt markets. After a significant rise of yields on Tuesday and Wednesday yesterday there was a recovery. Yields of 10Y treasuries and Bunds fell to 4.01% and 4.10% respectively against 4.03% and 4.13% on Wednesday at the close of the Polish session. Overnight, the yields declined further, among others in reaction to speech of Ben Bernanke who strengthened expectations for Fed's monetary policy easing.

Today, several important data releases are in the agenda. On the domestic front, the most important will be GDP data for Q3, due for release at 9:00 GMT (10:00 local time). We predict a slowdown in economic growth in Q3 to 5.8%, and the market consensus is the same. We also expect to see acceleration in private consumption growth to 5.5% (also in line with market view), while investment growth should decelerate to 16.8%YoY (median market forecast is at 18.2%YoY). As regards data abroad, at 10:00 GMT there will be a release of euro zone's GDP data for Q3, HICP index for October, and sentiment index for November. At 13:30 GMT the US core PCE index will be released, while at 14:45 GMT we will see Chicago PMI index.

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

EURUSD	1.4758	CADPLN	2.4702
USDPLN	2.4616	DKKPLN	0.4872
EURPLN	3.6327	NOKPLN	0.4477
CHFPLN	2.2007	SEKPLN	0.3868
JPYPLN*	2.2314	CZKPLN	0.1382
GBPPLN	5.0839	HUFPLN	1.4295

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## The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.6382	3.6520	3.6385	3.6460	3.6445
USDPLN	2.4547	2.4741	2.4578	2.4683	2.472
EURUSD	1.4726	1.4828	1.4809	1.4771	-

## T-bonds

TERM	BOND	Yield (%)	Change (bp)	Last auction	Average yield
2Y	OK0709	5.90	4	7.11	5.676
5Y	PS0412	5.95	0	17.10	5.718
10Y	DS1017	5.69	-1	10.10	5.699

## IRS rates (Mid)

TERM	PL %	Change (bp)	US %	Change (bp)	EA %	Change (bp)
1Y	5.98	4	4.25	-7	4.60	0
2Y	6.03	0	3.96	-6	4.39	-2
3Y	6.00	1	3.97	-9	4.35	-4
4Y	5.95	-1	4.08	-9	4.35	-5
5Y	5.90	-1	4.18	-11	4.37	-5
8Y	5.74	0	4.47	-10	4.46	-5
10Y	5.64	1	4.60	-9	4.54	-5

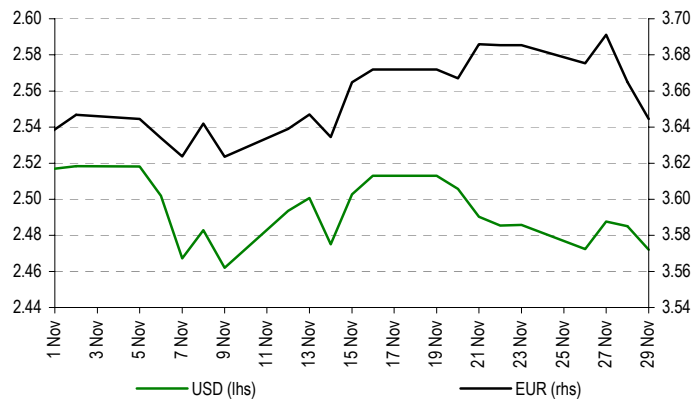
## WIBOR rates

TERM	%	Daily change (bp)
O/N	5.78	67
T/N	5.27	15
SW	5.25	5
2W	5.25	5
1M	5.41	16
3M	5.54	4
6M	5.81	6
9M	5.90	4
1Y	6.00	3

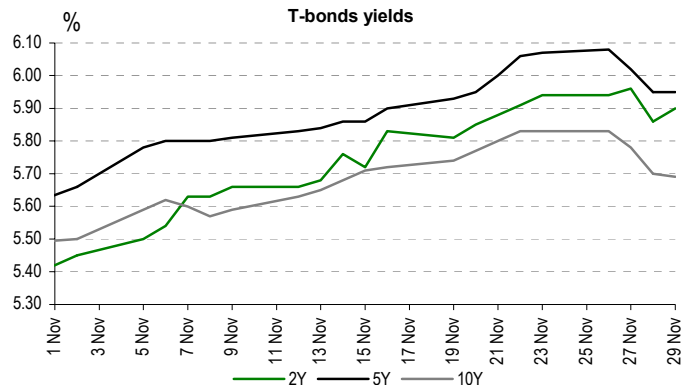
## FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	5.47	11
3X6	5.83	5
6X9	5.98	2
9X12	6.02	0
3X9	5.97	6
6X12	6.07	6

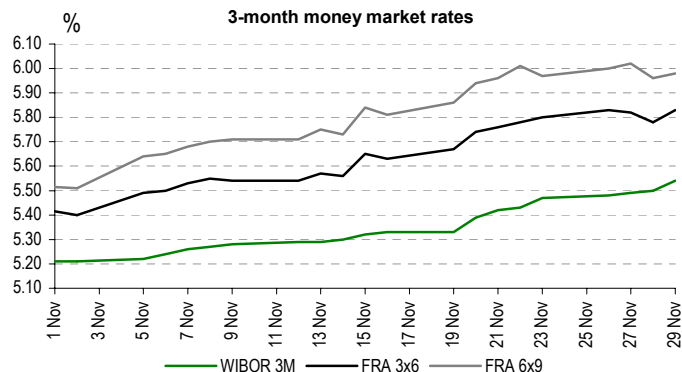
## Zloty exchange rate (fixing)



## T-bonds yields



## 3-month money market rates



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