

# Eyeopener – Bernanke disappointed

15 February 2008

- **The zloty still strong**
- **Local bonds clearly weaker**
- **Fed's Bernanke's testimony disappointed markets**
- **Today key domestic data (CPI and wages) and next figures from the US**

Yesterday, the zloty appreciated for the third consecutive day amid positive moods and high risk appetite. Significant strengthening of the zloty took place at the start of the session to 3.58 against the euro and 2.448 versus the dollar. This was accompanied by strengthening of the Czech crown (due to high inflation) and the Slovak crown (high GDP growth). During the day the zloty fluctuated in range of 3.58-3.39 versus the euro and near 2.45 against the dollar. At the end of the session there was a slight correction of the majority of the currencies in the region, including the zloty. It resulted from deterioration in global moods after comments from the Fed's Ben Bernanke. At the end of the session EURPLN reached 3.59 and USDPLN was 2.454. Today in the morning the zloty was slightly stronger against the major currencies. In the debt market there was quite significant weakening yesterday, among others due to falling prices in the core debt markets. Yields rose by 3-6 bp against the Wednesday close.

The monetary statistics for January showed money supply growth of 13.1%YoY after 13.0%YoY rise in December. As expected there was an acceleration in growth of households deposits (due to a wave of selling of investment funds units), to 14.6%YoY from 10.7%YoY in December. At the same time there was a significant decline of corporate deposits to 11.3%YoY from 14.4%YoY. This suggests that investments activity of firms remain strong, especially that growth in corporate borrowing accelerated to 26.2%YoY, the highest level since late 1999. The total credit growth rate was 30.1%YoY, with growth in households borrowing at 37.9%YoY, the same as in December.

Deputy finance minister Stanisław Gomułka, quoted in today's *Rzeczpospolita*, said that Poland wants to cut the public finance deficit measured as a ratio of GDP by half a percentage point annually from 2.5% expected this year to 1% in 2011. Earlier, Gomułka had said the ratio of general government deficit would reach 2.6%-2.7% in 2008, 2.0-2.5% in 2009, 1.5% in 2010 and 1% in 2011. The deputy finance minister also added that he expected that the European Commission would cancel the excessive deficit procedure against Poland before September. In our the presented path of the deficit reduction is realistic, though in order to achieve this goal the government should undertake actions aimed at reduction of spending growth. Moreover, GDP growth will have to remain at high level, which was admitted by the minister himself. The Poland's public finances are still vulnerable to the economic slowdown.

On international markets, after dollar weakening above 1.46, EURUSD stabilised. In the afternoon, after some dollar rebound,

among others after slightly better US data, there was another rise in EURUSD to 1.462 at the end of session, due to comments of Fed's president. During a speech before the Senate's Banking Committee, Ben Bernanke said that prospects for US economy deteriorated, which negatively affected sentiment on international markets, even though central bank chief announced further action supporting economic growth (i.e. rate cuts).

GDP growth in the euro zone in Q4 reached 0.4%QoQ against predicted 0.3% and after 0.8%QoQ in Q3. Annual GDP growth decelerated to 2.3% from 2.7%YoY in Q3. A slowdown of economic growth resulted mainly from weakening of business climate in Germany and France. The data had limited impact on the market. In turn, US trade deficit fell significantly in December to \$58.8bn from \$63.1bn in November against expectations at \$61.5bn. Moreover, the number of new jobless claims in the US fell last week to 348,000 from 356,000 in the week before, against predicted decline to 347,000.

On core bond markets, after slight strengthening at the start of the session in Europe, there was a further drop in prices, among others due to US foreign trade data that may contribute to slight upward revision of GDP figures for Q4. In effect, yields of 10Y Treasuries and Bunds increased to 3.77% and 4.01% against 3.73% and 4.00% at the opening. Today in the morning, the yields were at 3.83% and 4.03%, respectively.

Today, we will see key data releases in the local market, with potentially large impact on the monetary policy prospects. At 13:00 we will see data from the labour market and inflation rate for January. In our view CPI increased 0.5%MoM and 4.0%YoY. According to the Ministry of Finance inflation rate reached 4.0%YoY although with monthly increase of 0.4%MoM. Market consensus, based on surveys carried out before the MinFin's forecast publication, is at 4.1%YoY. We think that inflation was not higher than 4.0% among others due to a delay in some controlled prices hike. We also predict an acceleration in wage growth in enterprises sector to 9.6%YoY after a slowdown to 7.2%YoY in December. We also expect employment growth to remain at very high level 4.9%YoY in January.

There will be also several data releases abroad. At 13:30 GMT the US import prices will be released. Market consensus predicts a 0.4% increase in January after no change in December. At the same time, Empire State index of activity in manufacturing will be released for February (predicted decline to 6.0 from 9.03). At 14:00 GMT there will be a release of capital flows data for December. Slightly later, we will see industrial output data (predicted 0.1%MoM) and capacity use (expected fall to 81.3%). At the end of domestic session, at 15:00 there will be a release of preliminary Michigan index for February, expected to fall to 76.3 from 78.4 in January.

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

EURUSD	1.4652	CADPLN	2.4538
USDPLN	2.4485	DKKPLN	0.4812
EURPLN	3.5872	NOKPLN	0.4530
CHFPLN	2.2315	SEKPLN	0.3846
JPYPLN*	2.2668	CZKPLN	0.1420
GBPPLN	4.8242	HUFPLN	1.3692

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**The zloty trading ranges**

	min	max	open	close	fixing
EURPLN	3.5806	3.5937	3.5917	3.5885	3.5870
USDPLN	2.4482	2.4663	2.4643	2.4541	2.4543
EURUSD	1.4571	1.4631	1.4575	1.4622	-

**T-bonds**

TERM	BOND	Yield (%)	Change (bp)	Last auction	Average yield
2Y	OK0709	5.82	6	2.01	6.189
5Y	PS0412	5.87	4	06.02	5.729
10Y	DS1017	5.81	3	14.02	5.785

**IRS rates (Mid)**

TERM	PL %	Change (bp)	US %	Change (bp)	EA %	Change (bp)
1Y	5.96	5	2.61	1	4.12	3
2Y	5.89	2	2.71	1	3.87	4
3Y	5.85	2	3.04	6	3.89	9
4Y	5.83	3	3.37	8	3.96	2
5Y	5.81	3	3.65	10	4.05	3
8Y	5.78	4	4.26	12	4.30	1
10Y	5.75	3	4.53	12	4.45	0

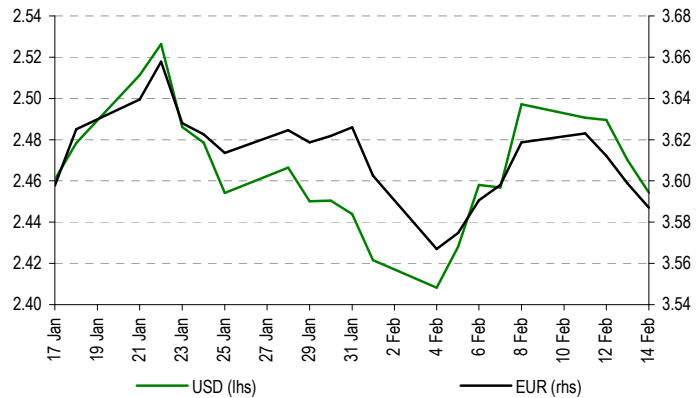
**WIBOR rates**

TERM	%	Daily change (bp)
O/N	5.42	1
T/N	5.41	0
SW	5.44	0
2W	5.45	0
1M	5.49	0
3M	5.67	0
6M	5.86	0
9M	5.96	1
1Y	6.08	-1

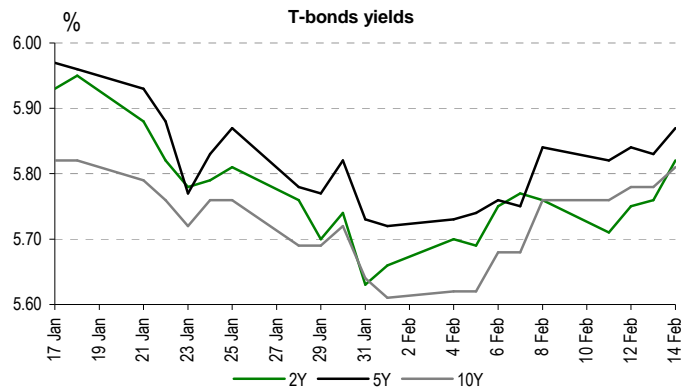
**FRA rates (Mid)**

TERM	%	Daily change (bp)
1X2	5.66	11
3X6	5.87	3
6X9	5.89	4
9X12	5.84	3
3X9	5.91	3
6X12	5.94	7

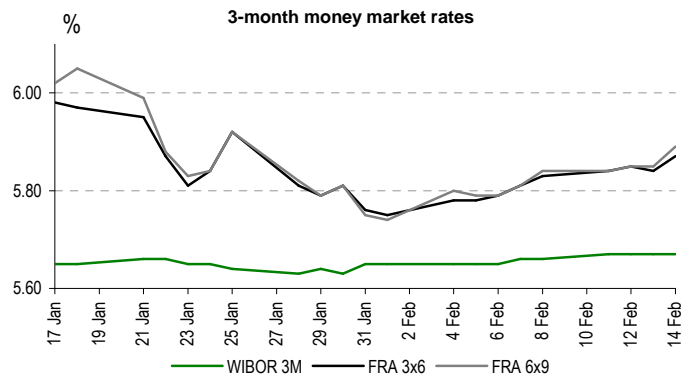
**Zloty exchange rate (fixing)**



**T-bonds yields**



**3-month money market rates**



\* for 100 JPY

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