Bank Zachodni WBK

Eyeopener – New important data abroad

20 February 2008

- **Morning zloty correction after yesterday's appreciation**
- **Higher growth in industrial output and PPI triggered further weakening in bond market**
- **Today switch auction, data releases abroad (US CPI and housing market data) and Fed's minutes**

At the beginning of yesterday's session, currencies in the region experienced slight weakening against the euro. EURPLN increased to 3.581. However, in the afternoon after domestic data release the zloty rebounded to below 3.57 against the euro. At the end of the day, after some correction, EURPLN reached 3.575. Amid weakening of the dollar against the euro, the zloty gained versus the greenback yesterday. At the end of the day USDPLN reached 2.424 against 2.429 at the opening. Today at the opening a correction took place, among others due to falls in the Asian stock markets and increase in the oil prices to above $100. In the morning EURPLN was at 3.583 and USDPLN was 2.435.

In the debt market, after slight rebound at the beginning of the day, further fall in prices took place following higher than forecast data on industrial output and producer prices growth, which was 10.8%YoY (10.6%YoY in seasonally adjusted terms) and 2.8%YoY, respectively, against the market consensus of 6.8%YoY and 2.1%YoY. Please see our *Instant comment* note published yesterday for more details.

The data strengthened market expectations that the MPC may deliver a rate hike already at the meeting this month and consider a larger scale of monetary tightening than expected so far. However, we still assume that the MPC will raise rates once more by 25bps in March, although the already published data for January increase probability of more decisive actions of the Council.

Yesterday (before he release of the PPI and output data) there were two interviews with two MPC members, who did not comment after the release of inflation data. Andrzej Sławiński said that the prices growth in the last months was a result of factors, which do not depend on MPC actions (food, controlled prices), while the rising wages are a result of tightening conditions in the labour market. He said that that the scale of rate hikes will depend on the size of the economic slowdown in the euro zone. On the other hand Andrzej Wojtyna said that there is a room for at least one more rate hike and there is no reason to wait for the next data. In his view the MPC should act as soon as possible due to rising risk of second round effects, though he is not an advocate of moves by 50 bp and he did not declare that the rates will be raised in February. On the other hand the MPC member said that the influence of the inflation shocks is of different nature as compared to past years and it would be a tactical mistake to push inflation to the target too early. Andrzej Wojtyna added that in normal conditions banks avoid frequent interest rate changes so as not to come from the tightening process to the easing mode. However in case the economic slowdown in the developed countries is deeper and results in deeper than forecast slowdown in Poland, than in further perspective interest rate cuts may be considered. In our view the overall tone of Andrzej Sławiński's comments was not too "hawkish", which is why we assume he will differ from voting in favour of interest rate hike till March. On the other hand Andrzej Wojtyna will most probably vote for a rate hike next week, though it does not mean that the his preferred scale of the tightening is equal or higher as compared to the most hawkish MPC members. Jan Czekaj has not commented yet and he will be as usual very important member for determining the majority in the Council and for results of voting over interest rate hike motion this month. Meanwhile, Stanisław Owsiak who was usually considered as a moderate dove, said in interview released today that he cannot exclude a rate hike already in February. One may assume the motion will be also supported by Filar, Noga, Wasilewska-Trenkner and Wojtyna.

In the international markets, amid no major data releases, the dollar weakened against the euro to 1.475 from 1.471 at the opening. In turn, in the core debt markets, after strengthening in the first part of the day, yields increase to levels observed after the opening, i.e. 3.84% and 4.01%, along with improved moods in the stock markets.

At today's auction the Ministry of Finance will offer IZ0816 and WZ0118 bonds in exchange for OK0408 (PLN6.44bn) and PS0608 (PLN20.24bn).

Today, several important data publications are scheduled abroad. At 13:30 GMT the US CPI data will be released, predicted to rise 0.2%MoM. Housing market data released at the same time are expected to show a decline in new house starts to 1 million from 1.006m in December. The number of building permits is expected to fall to 1.03m from 1.08m in the previous month. In the evening, at 19:00 GMT the Fed will release minutes of January meeting when the interest rates were trimmed by 50 bp. In the context of recent Bernanke's speech, the report could be slightly less important.

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F/X rates (today's opening)

EURUSD	1.4719	CADPLN	2.4006
USDPLN	2.4346	DKKPLN	0.4807
EURPLN	3.5830	NOKPLN	0.4546
CHFPLN	2.2241	SEKPLN	0.3840
JPYPLN*	2.2622	CZKPLN	0.1413
GBPPLN	4.7449	HUFPLN	1.3491

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.5681	3.5813	3.5703	3.5751	3.5759
USDPLN	2.4206	2.4319	2.4249	2.4247	2.429
EURUSD	1.4703	1.4755	1.4723	1.4745	-

T-bonds

TERM	BOND	Yield (%)	Change (bp)	Last auction	Average yield
2Y	OK0709	**6.04**	**4**	2.01	6.189
5Y	PS0412	**6.05**	**0**	06.02	5.729
10Y	DS1017	**5.88**	**-1**	14.02	5.785

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1Y	6.17	3	2.76	7	4.15	-1
2Y	**6.08**	**-1**	2.94	15	3.93	3
3Y	6.02	-2	3.27	20	3.91	-1
4Y	5.97	-3	3.58	22	4.00	2
5Y	**5.93**	**-4**	3.86	22	4.08	2
8Y	5.86	-1	4.41	18	4.32	1
10Y	**5.82**	**-3**	4.65	16	4.46	1

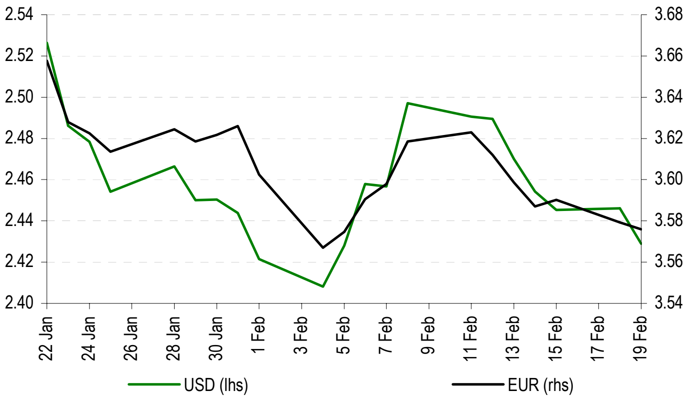
WIBOR rates

TERM	%	Daily change (bp)
O/N	5.42	1
T/N	5.42	1
SW	5.45	1
2W	5.46	1
1M	5.52	1
3M	5.77	6
6M	5.96	4
9M	6.05	2
1Y	6.17	1

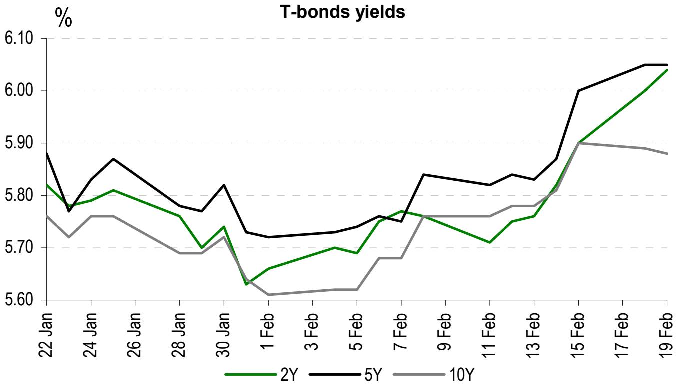
FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	5.73	3
3X6	6.09	0
6X9	6.13	3
9X12	6.10	0
3X9	6.15	1
6X12	6.15	1

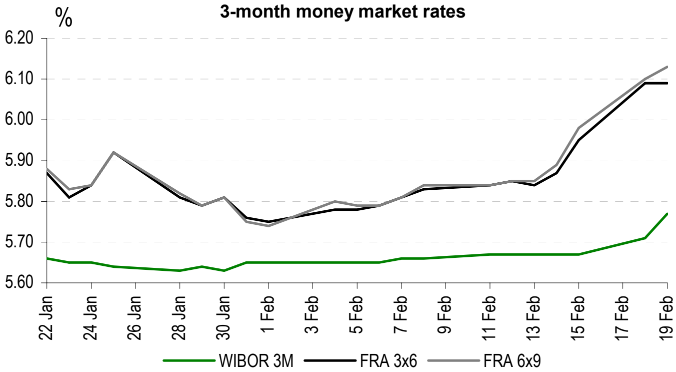
Zloty exchange rate (fixing)



T-bonds yields



3-month money market rates



* for 100 JPY

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