Bank Zachodni WBK

Eyeopener – Gloomy remarks from Bernanke

3 April 2008

- **Zloty versus the euro the strongest in 6 years, EURPLN broke 3.50, but a correction possible**
- **Rise in yields of local bonds, poor results of 2Y bonds auction**
- **Comments from Fed's Bernanke disappointed the markets and cooled expectations for further rate cuts in the US**
- **Today next important data from abroad**

Yesterday the zloty was appreciating. Already at the beginning of the session the domestic currency strengthened below 3.50 against the euro and afterwards it headed towards 3.49. For the better part of the session EURPLN fluctuated slightly above this level and at the end of the session it fell below 3.49. The zloty gained against the dollar to 2.237 with a slight rise of EURUSD. The zloty appreciation was initially accompanied by stock indices rise at the Warsaw Stock Exchange. However, after release of weaker than expected data from the US, quite gloomy comments from the Fed Chairman Ben Bernanke as well as poor opening in the US stock market a profit taking took place and Polish stock market weakened. As regards currencies in the region, the Slovak and Czech crown weakened, while Hungarian forint was relatively stable. In our view the zloty appreciation against the euro below the lower end of the range given by us in the last weekly report should be rather temporary and EURPLN rate should return above 3.50. Although after close of yesterday's session the zloty continued to appreciate and EURPLN was close to 3.48, afterwards there was a correction and today in the morning the zloty exchange rate versus the euro was close to 3.49. USDPLN was slightly below yesterday's close due to lower EURUSD.

The domestic debt market significantly weakened yesterday. The results of the 2Y bonds auction were not too good, which contributed to deterioration of market moods and fall of bond prices. The Ministry of Finance placed PLN2.7bn of 2Y bonds OK0710 at average yield of 6.193%, i.e. above market levels. Investors demand was PLN4.924bn. At the end of the day bond yields rose against Tuesday's levels by a few or even a dozen or so basis points depending on the segment of the yield curve.

In an interview released in today's *Gazeta Prawna,* MPC member Marian Noga repeated again his opinion that "one more interest rate hike is needed, the best soon, already in April". Afterwards the Council could decide to "watch the economy, at least until the next inflation projection release in June". In Noga's opinion "perhaps one more rate hike after April will be needed". In our view one more interest rate hike will be enough for the majority of the Council and taking into consideration our forecasts of data to be released in April, the MPC may decide to pause monetary policy tightening this month.

After significant dollar appreciation on Tuesday, yesterday the greenback was falling against the euro. In the afternoon, there was a slight rebound after better than expected data from the US labour market and rumours that the group of euro zone's finance ministers and the ECB will signal their concern about euro strength at the nearest G7 meeting. However, later during the day there was a further decline in the dollar in reaction to weaker factory orders data and comments from Fed governor. The data about euro zone's PPI was higher than predicted and increased 5.3%YoY in February against 5.0%YoY in January and expectations at 5.2%YoY, which supported a view that interest rate cuts in the EMU may be delayed. The ADP report showed an increase in the number of jobs in the private sector in March by 8000, while the market was expecting a decline by 48,000. The data from the US labour market slightly improved investors' sentiment, however only until the speech of Fed president and publication of next data from the US economy. Factory orders declined in February by 1.3% against predicted fall by 0.8%. In turn, Ben Bernanke said that the American economy may face a recession in H1 2008. He added that he expected a recovery in H2 and acceleration of GDP growth in 2009 to trend or even above. Fed governor noticed that there are still risks for economic growth although the monetary and fiscal policies should support the economy. In Bernanke's opinion, inflation will slow down, although uncertainty regarding its prospects has increased. Comments of the Fed governor weakened expectations for continuation of interest rate cuts. As a result, there was a weakening on the core debt markets, particularly in the short end of the US yield curve. Yields of 10Y Treasuries and Bunds increased during the day correspondingly from 3.572% and 3.98% to 3.60% and 4.01%. Today in the morning they were at similar levels.

Today another set macroeconomic indicators in international markets will be released. At 08:00 GMT the PMI for the euro zone's services sector will be published and is expected to fall in March to 51.7 pct from 52.3 in the previous month. At 12:30 GMT data from the US labour market will be published. The initial jobless claims is forecasted to rise to 370 thousands from 366 thousands in the previous week. Also, towards the end of the European session, at 14:00 GMT, the US ISM services sector figure will be released with market consensus pointing to the level of 48.5 against 49.3 in February.

On the domestic market the press conference of Prime Minister Donald Tusk and Finance Minister Jacek Rostowski is planned for 12:00 local time.

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F/X rates (today's opening)

EURUSD	1.5626	CADPLN	2.2002
USDPLN	2.2330	DKKPLN	0.4678
EURPLN	3.4893	NOKPLN	0.4341
CHFPLN	2.2023	SEKPLN	0.3727
JPYPLN*	2.1735	CZKPLN	0.1389
GBPPLN	4.4353	HUFPLN	1.3540

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.4888	3.5036	3.5032	3.4913	3.4949
USDPLN	2.2295	2.2520	2.2519	2.2369	2.235
EURUSD	1.5553	1.5666	1.5557	1.5610	-

T-bonds

TERM	BOND	Yield (%)	Change (bp)	Last auction	Average yield
2Y	OK0709	**6.23**	**10**	2.04	6.193
5Y	PS0412	**6.20**	**12**	5.03	6.167
10Y	DS1017	**5.99**	**5**	13.02	5.785

IRS rates (Mid)

TERM	PL %	PL Change (bp)	US %	US Change (bp)	EA %	EA Change (bp)
1Y	6.52	5	2.43	2	4.61	4
2Y	**6.33**	**3**	2.69	28	4.34	5
3Y	6.16	6	3.04	14	4.26	4
4Y	6.07	6	3.33	13	4.22	2
5Y	**6.00**	**6**	3.58	30	4.22	6
8Y	5.86	7	4.03	7	4.33	-1
10Y	**5.81**	**8**	4.23	4	4.43	-2

WIBOR rates

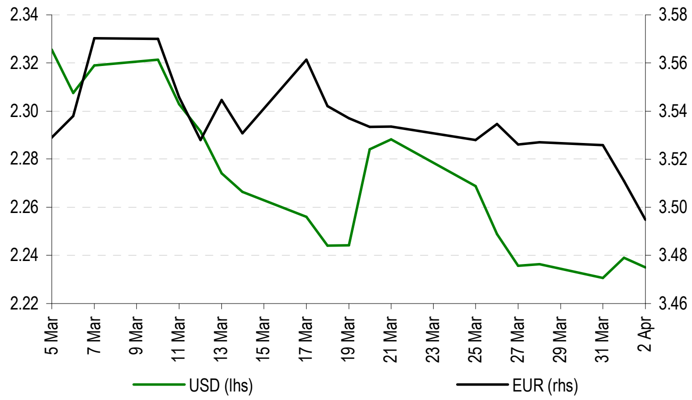
TERM	%	Daily change (bp)
O/N	5.96	-1
T/N	5.96	0
SW	5.98	0
2W	5.98	0
1M	6.03	1
3M	6.20	2
6M	6.44	1
9M	6.53	1
1Y	6.61	0

FRA rates (Mid)

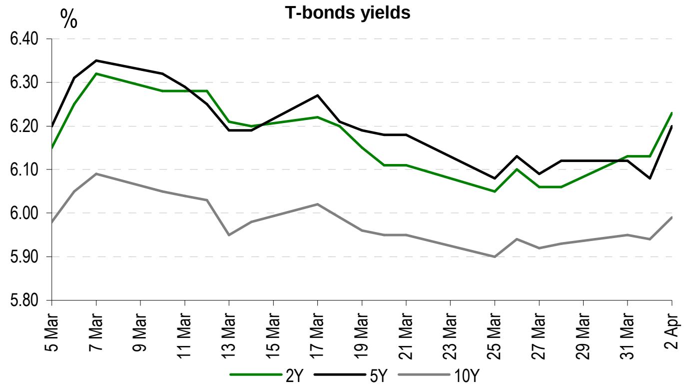
TERM	%	Daily change (bp)
1X2	6.07	1
3X6	6.45	8
6X9	6.45	7
9X12	6.35	7
3X9	6.53	8
6X12	6.48	10

* for 100 JPY

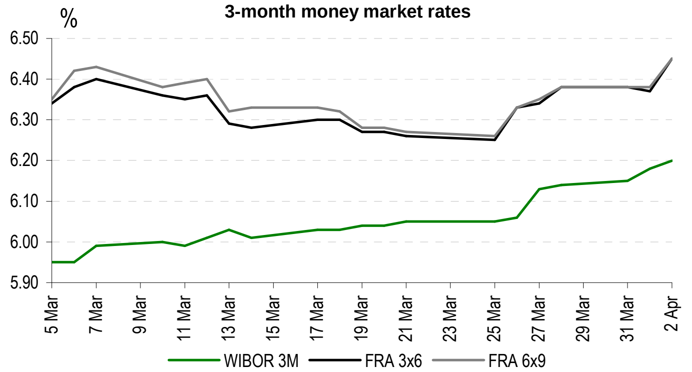
Zloty exchange rate (fixing)



T-bonds yields



3-month money market rates



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