Bank Zachodni WBK

Eyeopener – Data neutral for the market

19 November 2008

- **Zloty weaker again; local bonds stable in the short end, weaker in the long end of the curve; further drop in FRA in IRS rates**
- **Data from domestic labour market roughly in line with market expectations, without impact on market**
- **Today, new data from the US and FOMC minutes**

The zloty lost again yesterday and already before noon approached 3.87 versus the euro. However, there was some recovery of the domestic currency in the afternoon and at the end of the Polish session EURPLN was at 3.83 versus 3.804 at the opening. The zloty lost also versus the dollar, to a similar extent as to the single currency with EURUSD relatively stable yesterday in a range of 1.258-1.268. At the end of the Polish session USDPLN was 3.028 against 3.014 at the opening. The zloty was negatively affected yesterday by increased risk aversion in the global markets and continued falls in the stock markets after disappointment with outcome of the G20 summit held over the weekend. Without rebound in stock markets (which will depend on next macro data from the US and news from major companies) the zloty may be traded above the upper limit of expected range for this week indicated in our weekly report. The scale of zloty volatility is increased by low turnover in the market.

Yields of Polish bonds increased yesterday at the long end of the curve by some 10bps due to rise in risk aversion in the global markets. At the same time, along with gradual strengthening of market expectations of rate cuts, the short end of the bond curve was stable and there was fall in FRA and IRS rates.

Domestic labour market data released yesterday were broadly in line with expectations and had no impact on the market and expectations regarding MPC policy. Please see more details on the data in our *Instant comment* published yesterday. MPC member Dariusz Filar said after the data release that the numbers confirm that interest rates should stay on hold for some time. Halina Wasilewska-Trenkner also said there is no room for cuts until the end of 1Q09. Already before the data release, moderate rate-setter Andrzej Sławiński said that weakening economic growth will require gradual easing of monetary policy, but he did not mention when cuts could begin. In turn, Andrzej Wojtyna said for him a key issue for interest rate decisions is final verdict about euro zone entry. He is afraid of further zloty depreciation that would be negative for inflation. According to Stanisław Owsiak rate cuts should begin at the next MPC meetings. Also in opinion of Mirosław Pietrewicz the MPC should lower rates as soon as possible. In our view the Council will decide to change policy bias to easing already in November, but rate cuts are likely to follow in 1Q09.

Yesterday deputy finance minister Ludwik Kotecki said that the MinFin may trim GDP forecast for 2009 after release of industrial output data this week. Deputy minister Elżbieta Chojna-Duch said that the ministry may "lean towards" European Commission's forecast at 3.8% (current forecast is 4.8%). According to chief of PO caucus Zbigniew Chlebowski, the PM may decide about revision on Thursday and the government may officially approve it on Tuesday, so that the government would submit self-amendment to the budget bill in the second reading, scheduled at the beginning of December.

The latest public opinion poll (made by TNS OBOP) showed that 37% of Poles believes that Poland should enter the euro zone only several years after 2012, and 34% said it is better not to adopt euro at all. Only 20% of surveyed want to have euro in Poland as soon as possible, i.e. in 2012. 9% had no opinion on this matter. Little public support for fast euro introduction increases likelihood of delay in government's plans. Meanwhile, Moody's said yesterday that a delay in euro zone accession schedule would not have significant impact on Poland's rating, although a fact of joining the single currency area would be positive for country's rating. Moreover, the Moody's said that Poland should weather the global crisis relatively well.

Core bond markets saw a strengthening yesterday, which was favoured by elevated risk aversion, lower than predicted US PPI data and higher capital inflows to US. At the end of Polish session, yields of 10Y Treasuries and Bunds were at 3.62% and 3.67% respectively, versus 3.74% and 3.67% at the start of the session.

US PPI fell in October 2.8%MoM versus 0.4%MoM decline in September. Market predicted 2% drop. Core PPI increased 0.4%MoM, which was the same as in September. In this case 0.1% rise was predicted by the market. Long-term capital inflow to the US reached $66.2bn in September, versus revised $21bn in August. Pre-revision figure was at $14bn.

Today there are no domestic events scheduled and the key focus of attention will be next US data for October – CPI, house starts and permits – due for release at 13:30 GMT. As regards the CPI markets expect a fall of 0.8%MoM after no change in September. Data on house starts and permits (expectations point to fall to 0.8m from 0.817m and a fall to 0.78m from 0.805m, respectively) will be important hint when one should expect a bottom of the housing market crisis. Besides, the global markets will be affected today, but after close of the Polish market, by publication of the minutes of the FOMC meeting in October.

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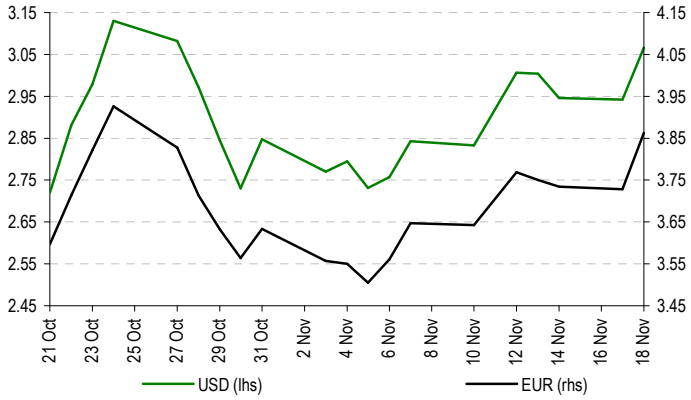
F/X rates (today's opening)

EURUSD	1.2638	CADPLN	2.4555
USDPLN	3.0338	DKKPLN	0.5148
EURPLN	3.8340	NOKPLN	0.4301
CHFPLN	2.5126	SEKPLN	0.3783
JPYPLN*	3.1348	CZKPLN	0.1487
GBPPLN	4.5423	HUFPLN	1.4203

Zloty exchange rate (fixing)



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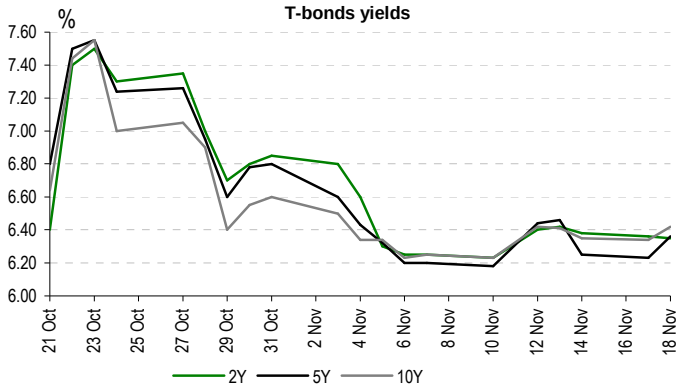
The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.8037	3.8667	3.8037	3.8155	3.8623
USDPLN	3.0135	3.0683	3.0135	3.0200	3.0665
EURUSD	1.2583	1.2672	1.2626	1.2630	-

T-bonds

TERM	BOND	Yield (%)	Change (bp)	Last auction	Average yield
2Y	OK0710	**6.35**	**-1**	6.08	6.471
5Y	PS0413	**6.36**	**13**	1.10	5.926
10Y	DS1017	**6.42**	**8**	8.10	5.859

T-bonds yields



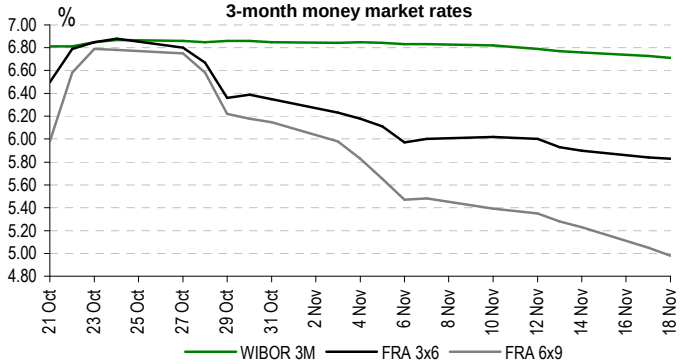
IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1Y	5.64	-11	2.04	-4	3.56	-1
2Y	**5.48**	**-7**	2.21	-5	3.31	-2
3Y	5.41	-6	2.58	-7	3.55	0
4Y	5.39	-7	2.95	-7	3.58	-1
5Y	**5.38**	**-8**	3.22	-11	3.56	-15
8Y	5.34	-6	3.72	-11	4.03	1
10Y	**5.31**	**-3**	3.82	-15	4.20	1

WIBOR rates

TERM	%	Daily change (bp)
O/N	5.26	-14
T/N	5.43	-29
SW	6.16	-1
2W	6.23	0
1M	6.46	-1
3M	6.71	-2
6M	6.80	-1
9M	6.83	0
1Y	6.84	0

3-month money market rates



FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	6.48	0
3X6	5.83	-1
6X9	4.98	-7
9X12	4.93	-2
3X9	5.62	0
6X12	4.99	-15

* for 100 JPY

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