Bank Zachodni WBK

Eyeopener – Recession woes return

30 January 2009

- **After a fall in risk appetite zloty weaker again, rise in interest rates, fall in stock markets overseas**
- **GDP growth in 2008 at 4.8% after 6.7% in 2007**
- **Today, inflation in the euro zone, Q4 GDP in US, Chicago PMI and Michigan index**

At yesterday's session, investors' optimism evaporated. A rise in risk aversion was caused among others by publication of weak financial results of companies and a fall in optimism concerning effectiveness of monetary and fiscal stimulus in the US, which pushed down futures for US stock indices. A negative impact on investors' moods had also US macro data. In effect, there was a return of worries that US recession is still deepening and will be more severe than expected. The number of new jobless claims in the US rose last week to 588,000 from 585,000, versus expected fall to 580,000. Durable goods orders fell by 2.6%MoM versus predicted 2% fall. New home sales declined in December 14.7%, to 331,000 from 338,000 versus expected drop to 400,000 from 407,000. There were also falls in stock markets in Europe. A fall in risk appetite strengthened yen and weakened currencies in emerging markets. Overnight, a set of negative news for markets was augmented by terrible data from Japan (fall in production, rise in unemployment) suggesting deepening of recession.

In our region, the zloty was depreciating since start of the day, similar to the Hungarian forint. On the other hand, in the first half of the day the Czech crown gained. At the end of the day EURPLN increased to 4.391 while USDPLN rose to 3.36. The euro lost versus the dollar from Wednesday to Thursday with EURUSD down to 1.308. although in the first part of the yesterday's session there was a correction to 1.317. The euro was supported by slightly better than expected index of economic sentiment for the euro zone, which fell less than expected, but reached record low level of 68.9pts anyway, against 70.4pts in December. In the afternoon the dollar strengthened again, to 1.308 at the end of the session and today in the morning was at around 1.29. At today's opening there was further weakening of the zloty, to 4.45 to the euro and 3.45 versus the dollar. The Hungarian forint lost even stronger, reaching the weakest level in history against the euro.

In the local interest rate market there was a weakening yesterday. The short end of the yield curve experienced a correction after strengthening that was observed in reaction to the MPC decision. Bond yields increased by a few basis points and IRS rates increased on a slightly smaller scale. Upward move was also seen in case of FRA rates.

MPC member Halina Wasilewska-Trenkner said yesterday that next decisions of the MPC would depend on February inflation projection and the level under which the reference rate would rather not fall is 2%. The fact the radical hawk mentioned such a low level of rates seems to suggest that overall willingness of rate-setters to reduce borrowing costs significantly is increasing.

Finance minister Jacek Rostowski said yesterday that details regarding spending cuts in particular ministries of the total amount of PLN17bn will be revealed next week. According to *Gazeta Prawna* daily, one of the government's proposals is a hike in healthcare contribution by 1pp in 2010.

Investors in the US debt market felt disappointed by little firm statement form Fed of possibility of purchases of long-term Treasuries by the Federal Reserve, which resulted in a correction of 10Y Treasuries at the opening of the session and during the day yields were relatively stable. Yesterday the ECB president J.C. Trichet repeated in Davos that the next important meeting of the ECB would be in March suggesting again that interest rates in the euro zone rather do not change at the next week meeting. The ECB president did not rule out the reduction of reference rate below 2%. Yields of 10Y Bunds fell during the day to 3.23% from 3.29% yesterday at the opening of European session. Today in the morning yields of 10Y Treasuries and Bunds are at 2.84% and 3.30% respectively after overnight weakening on weak demand at 5Y auction in the US and concerns over large debt supply.

Preliminary data on GDP in 2008 showed growth of 4.8% (this implies GDP growth by nearly 3%YoY in 4Q08), though after releases of data for December we indicated a downward risk for this forecast. Growth rates for fixed investments and private consumption were higher than our forecasts, while contribution of next exports and stockbuilding was more negative. However, one should remember that the data for the whole year are tentative while the stats office will publish official data for Q4 alone only at the beginning of March. Monthly data for the last couple of months suggested that our growth forecast of 2% for 2009 was too optimistic and we will present new forecast in the upcoming monthly report. From the point of view of monetary policy, GDP data are rather neutral and do not change our view regarding next MPC decisions.

Today at 10:00 CET the HICP inflation in the euro zone for January, which according to forecasts to 1.4%YoY from 1.6% in December. At 14:30 CET we will know the data on economic growth in the US. According to market consensus the US GDP fell in Q4 by 5.4% after a decrease of 0.5% in Q3. The core PCE inQ4 accelerated in the market's view to 1/9% fro 1.4%. At 15:45 CET the Chicago PMI activity index will be released for January, which according to market forecast fell to 34.0 from 35.1 pts in December. Meanwhile, the Michigan consumer sentiment index is forecasted to show an increase to 61.9 pts from 60.1 pts in December.

ECONOMIC ANALYSIS UNIT

ul. Marszałkowska 142. 00-061
email: ekonomia@bzwbk.pl
fax +48 022 586 83 40
Web site: http://www.bzwbk.pl

Maciej Reluga (Chief Economist) +48 (0) 22 586 83 63
Piotr Bielski +48 (0) 22 586 83 33
Piotr Bujak +48 (0) 22 586 83 41
Cezary Chrapek +48 (0) 22 586 83 42

New business queries:

Treasury - Frank O'Connor +48 (0) 22 586 8402 frank.o'connor@bzwbk.pl

Corporate Banking – Rashid Khan +48 (0) 22 586 8050 rashid.khan@bzwbk.pl

Branch/ Mortgages - Carl Coates +48 (0) 22 586 8059 carl.coates@bzwbk.pl

F/X rates (today's opening)

EURUSD	1.2878	CADPLN	2.8141
USDPLN	3.4563	DKKPLN	0.5972
EURPLN	4.4505	NOKPLN	0.4992
CHFPLN	2.9871	SEKPLN	0.4183
JPYPLN*	3.8635	CZKPLN	0.1594
GBPPLN	4.9189	HUFPLN	1.5125

Financial market review - 29 Jan 09

The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.3260	4.4005	4.3623	4.3903	4.3916
USDPLN	3.3219	3.3676	3.3366	3.3570	3.3653
EURUSD	1.3027	1.3167	1.3071	1.3082	-

T-bonds

TERM	BOND	Yield (%)	Change (bp)	Last auction	Average yield
2Y	OK1110	**4.75**	**13**	7.01	5.054
5Y	PS0413	**5.06**	**7**	01.10	5.926
10Y	DS1017	**5.75**	**11**	17.12	5.724

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1Y	3.93	6	1.21	6	2.12	-3
2Y	**4.15**	**5**	1.57	13	2.31	-3
3Y	4.27	5	1.95	14	2.60	-4
4Y	4.38	6	2.22	12	2.85	0
5Y	**4.48**	**8**	2.44	15	3.05	1
8Y	4.70	7	2.87	19	3.49	-1
10Y	**4.89**	**5**	3.08	24	3.69	-1

WIBOR rates

TERM	%	Daily change (bp)
O/N	3.97	1
T/N	4.18	14
SW	4.43	-3
2W	4.49	-3
1M	4.59	-3
3M	4.88	-5
6M	4.94	-5
9M	4.96	-6
1Y	4.97	-5

FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	4.18	-5
3X6	3.58	-5
6X9	3.41	8
9X12	3.48	3
3X9	3.78	3
6X12	3.54	10

Zloty exchange rate (fixing)

T-bonds yields

3-month money market rates

* for 100 JPY

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Additional information is available on request. Please contact Bank Zachodni WBK S.A. Treasury Division. Economic Analysis Unit. ul. Marszałkowska 142. 00-061 Warsaw. Poland. phone (+48 22) 586 83 63. email ekonomia@bzwbk.pl. http://www.bzwbk.pl

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