

Eyeopener – Core inflation and business climate

22 April 2009

- After weak opening, zloty was erasing losses, interest rate market quite stable
- Today, data about core inflation and business climate

On Tuesday most stock markets in Europe were weakening in the first part of the day due to concerns over poor financial results of companies (among others negative news from DuPont and Bank of New York). However, at the end of the day the opinions of the US Treasury Secretary T. Geithner included in the report for the committee supervising the TARP market resulted in stock market recovery. In his opinion most of the banks have enough capital, credit markets are easing and the confidence is returning. Geithner wrote that the TARP programme has enough funds to save banks even in conservative scenario. Consequently the financials stocks pushed US indices up. Also, most Asian markets were on the rise.

Similar as on Monday the zloty weakened significantly already at the opening. However, later during the day it was gradually regaining strength against major currencies amid strengthening euro vs. the dollar. After increase on Tuesday in the morning to 4.45 the EURPLN rate fell at the end of the day to 4.395 (in reaction to increase in global risk appetite and stock market increases near the close of the domestic session), while the USDPLN rate fell to 3.39. The zloty strengthened the most in the region.

The EURUSD rate rose in the course of the domestic session to 1.295. Euro was supported by much higher than expected ZEW index, which was more important than initial falls in the equity markets. ZEW index reflecting assessment of economic conditions in Germany rose in April much more than the market expected to 13 pts from -3.5 pts in March against expected 1.5 pts. It rose above zero for the first time since July 2007. Such spike of the index resulted from improvement of global moods, increases in the stock markets and hopes that actions of governments and central bank will contribute to economic recovery. The expectations for economic recovery in H209 also increased. On the other hand the current conditions index fell more than expected to -91.6 pts from -89.4 pts.

In the domestic interest rate market there were no significant changes. The IRS and FRA rates as well as bond yields stayed close to levels from Monday close.

Andrzej Wojtyna said yesterday that the end of monetary easing cycle is near, and the MPC may refrain from cutting rates in April. At the same time, he did not rule out that reference rate may be trimmed to 3%. In his opinion, it would be reasonable for the Council to have some bullets left, in case it is necessary to support moods later on. In Wojtyna's view the most likely scenario is positive GDP growth, at ca. 1%. Stanisław Owsiak said yesterday that a pause in monetary policy easing in April is not determined. In his opinion, GDP growth in Q1 was at 1%-1.5%, although GDP growth above 1% in the entire year would be a positive surprise. Moreover, Owsiak believes that budget amendment is almost a deal done. In turn, Sławomir Skrzypek said that the MPC is still in monetary easing mode and higher than predicted inflation did not change the MPC's assessment.

According to Fitch Ratings, Poland will enter the euro zone in 2013 while the Czech Republic and Hungary in 2014 and Bulgaria and Romania in 2015. At the same time, the agency stressed that the expected dates may be changed. In our view, the Fitch's expectations are too optimistic and we expect Poland to adopt the euro in 2014 at the earliest.

In the core debt markets there was initially a weakening due to weak results of bond auction in Ireland (€1bn worth of 5Y and 10Y bonds) and higher-than-expected ZEW index. However, core bond markets recovered in the afternoon thanks to drop in stock markets. Yields of 10Y Treasuries and Bunds fell during the day to 2.79% and 3.09%. At the end of the session core debt markets weakened again as stock markets rebounded. Today in the morning, yields of 10Y Treasuries and Bunds were at 2.89% and 3.16%.

Today at 14:00 CET the NBP will publish core inflation measures for March. Our estimate for CPI less food and energy prices increased after the CPI data from 2.2%YoY to 2.4%YoY, while the market consensus formulated before CPI data was 2.3%YoY. Besides, also at 14:00 the stats office will release business climate indicators for April, which will be interesting with respect to assessment of any indications of any improvement in economic situation.

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F/X rates (today's opening)

EURUSD	1.2940	CADPLN	2.7447
USDPLN	3.3941	DKKPLN	0.5896
EURPLN	4.3913	NOKPLN	0.5012
CHFPLN	2.9040	SEKPLN	0.3977
JPYPLN*	3.4517	CZKPLN	0.1633
GBPPLN	4.9726	HUFPLN	1.4738

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.3984	4.4340	4.4105	4.4053	4.4289
USDPLN	3.3936	3.4484	3.4117	3.3987	3.4196
EURUSD	1.2904	1.2988	1.2927	1.2954	-

T-bonds

TERM	BOND	Yield (%)	Change (bp)	Last auction	Average yield
2Y	OK1110	5.45	-3	1.04	5.615
5Y	PS0413	5.83	-2	1.04	6.039
10Y	DS1017	6.15	-3	08.04	6.224

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1Y	4.10	1	1.23	2	1.69	1
2Y	4.47	1	1.59	9	1.95	2
3Y	4.70	1	1.93	7	2.34	3
4Y	4.86	0	2.22	8	2.55	2
5Y	4.96	-1	2.47	10	2.81	7
8Y	5.07	0	2.88	6	3.25	1
10Y	5.12	1	3.04	7	3.45	0

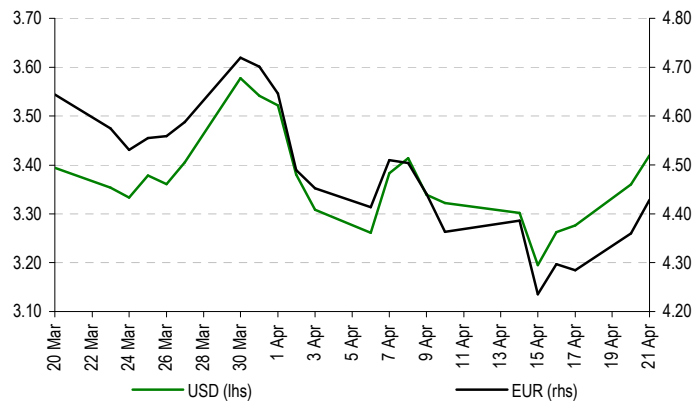
WIBOR rates

TERM	%	Daily change (bp)
O/N	2.85	0
T/N	2.99	-3
SW	3.35	-1
2W	3.49	0
1M	3.64	0
3M	4.23	1
6M	4.35	0
9M	4.41	3
1Y	4.45	4

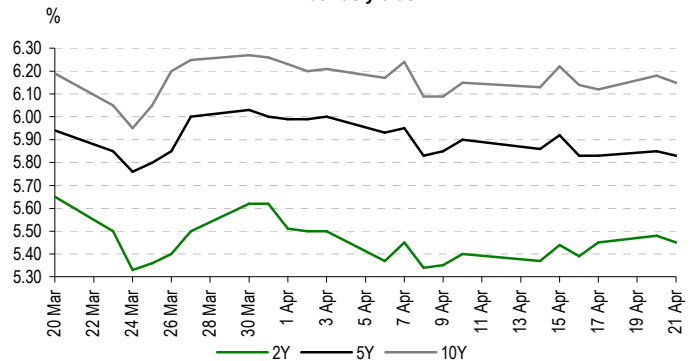
FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	3.58	0
3X6	3.94	4
6X9	3.98	6
9X12	4.09	4
3X9	4.08	5
6X12	4.09	6

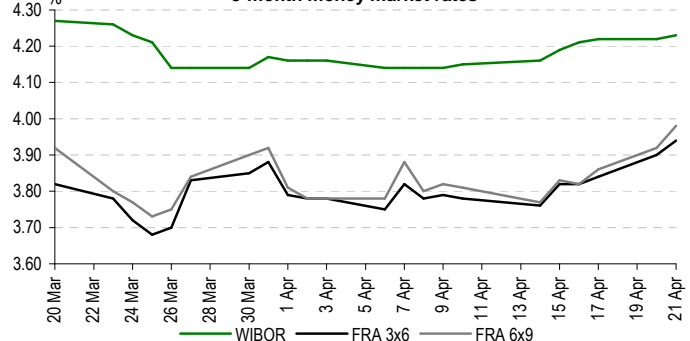
Zloty exchange rate (fixing)



T-bonds yields



3-month money market rates



* for 100 JPY

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