Bank Zachodni WBK

Eyeopener – Waiting for the MPC

27 May 2009

- **Rebound in global moods after rise in Conference Board consumer confidence strengthened the zloty and bonds**
- **Retail sales data slightly above expectations**
- **Today, MPC decision, US home sales data**

Throughout most of the session yesterday there were pessimistic moods holding in the European markets and there were equity indices drops recorded. Due to increased risk aversion the dollar strengthened against the European single currency to ca. 1.39 from ca. 1.40 on Tuesday morning. Together with decline in risk appetite the currencies in the region weakened. The zloty lost clearly already at the opening to ca. 4.43 and was depreciating gradually to ca. ok. 4,44. The zloty weakened by almost 0.6% against Monday close, forint lost ca. 0,9%, while Czech crown ca. 0.2%. However, at the end of the domestic session the US Conference Board index of consumer confidence was released, which soared in May to 54.9 pts (the highest level in 8 months) from 40.8 pts in April against expected increase from 39.2 pts to 42 pts. The current conditions index increased to 28.9 pts from 25.5 pts, while the expectations index increased to 72.3 pts from 51 pts in April. The assessment regarding the labour market also improved. After the release of the index there was a sudden improvement of global market sentiment, the stock price indices jumped, while the EURUSD rate rose to ca. 1.40. Meanwhile, the zloty strengthened to ca. 4.415 and the USDPLN rate declined to ca. 3.157.

The domestic interest rate market was driven by the zloty performance and changes in risk appetite. In the first part of the day, there was increase in market rates, but later in the day there was rebound following release of much stronger-than-expected data on consumer confidence in the US. At the end of the day yields of Polish bonds were near levels seen at Monday's close. In the core debt markets there was a slight strengthening initially, but after the US data release bond prices fell below levels recorded at the opening. At the end of the day yields of 10Y Treasuries and Bunds reached 3.45% and 3.61%, respectively, (today in the morning they were even higher, at 3.53% and 3.66%). Data from the US housing market did not affect the markets significantly. The Case/Shiller index fell 18.7%YoY in March against expected drop of 18.4%YoY.

According to CSO data released yesterday in April retail sales rose by 1%YoY after a decrease by 0.8% in the previous month. The result was above market expectations and our forecast, which showed the figure around zero. After taking into account the price dynamics, the retail sales growth in real terms was negative for the second consecutive month and amounted to -0.7%YoY in April. The rate of registered unemployment was at 11.0% in April, as expected, due to seasonal improvement. More important is accelerating unemployment growth in annual terms. LFS unemployment increased in Q1 to 8.3% (the number of unemployed rose for the first time in annual terms since 2002). We expect that further deterioration in the labour market will influence negatively both sales and private consumption dynamics in the remainder of the year. On the other hand, CSO survey on consumer confidence showed another month of moderate rebound (current consumer confidence increase by ca. 0.6 pts. to –24.3 pts., the leading consumer confidence rose by 0.7 pts. to –34.8). However, indices are still at the very low levels, much below those recorded a year ago.

Today the key of focus of attention in the local market is the MPC decision, publication of the official statement of the Council and comments of rate-setters during the press conference and afterwards. As we have already written in our reports, we think the MPC will keep rates on hold again, mainly due to temporarily elevated inflation. Other macro data published over the past weeks have not been disappointing enough so that encourage the Council to trim rates already in May. However, there are speculations in the market that the MPC may decide to lower rates this month due to very poor data from the EU, especially from Germany.

The only important publication abroad today is the release of US home sales data at 14:00 GMT. Market predicts a rise in April to 4.65m units.

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F/X rates (today's opening)

EURUSD	1.3942	CADPLN	2.8402
USDPLN	3.1725	DKKPLN	0.5941
EURPLN	4.4217	NOKPLN	0.4957
CHFPLN	2.9163	SEKPLN	0.4188
JPYPLN*	3.3295	CZKPLN	0.1658
GBPPLN	5.0606	HUFPLN	1.5727

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.4030	4.4470	4.4070	4.4155	4.4386
USDPLN	3.1492	3.2092	3.1549	3.1572	3.1948
EURUSD	1.3860	1.3995	1.3969	1.3989	-

T-bonds

TERM	Yield (%)	Change (bp)	Last auction	Average yield
2Y	**5.61**	**0**	13.05	5.669
5Y	**5.83**	**0**	1.04	6.039
10Y	**6.33**	**1**	141.05	6.335

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1Y	4.51	5	0.85	-4	1.50	-3
2Y	**4.86**	**5**	1.35	9	1.79	1
3Y	5.14	6	1.92	11	2.26	-2
4Y	5.36	10	2.35	8	2.56	1
5Y	**5.46**	**10**	2.79	15	2.84	1
8Y	5.61	11	3.44	15	3.45	3
10Y	**5.67**	**12**	3.69	15	3.71	5

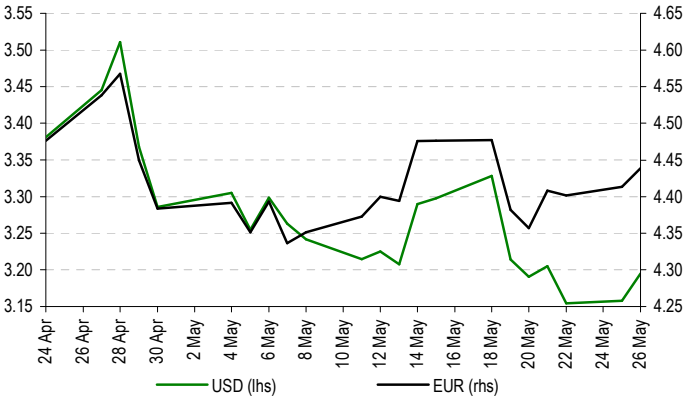
WIBOR rates

TERM	%	Daily change (bp)
O/N	2.52	-3
T/N	2.55	-8
SW	3.33	0
2W	3.71	0
1M	4.00	1
3M	4.61	2
6M	4.71	1
9M	4.87	1
1Y	5.02	2

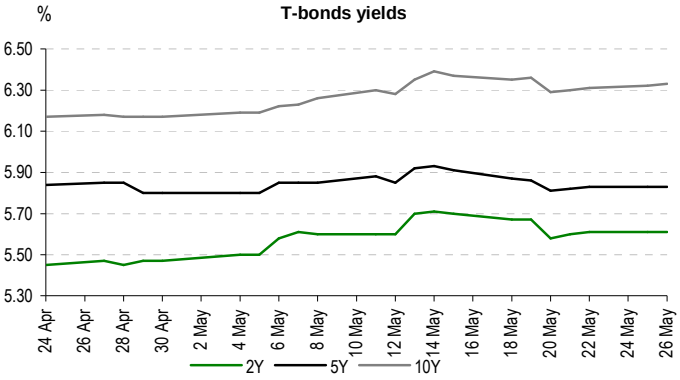
FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	3.97	0
3X6	4.32	3
6X9	4.32	4
9X12	4.46	4
3X9	4.46	4
6X12	4.49	4

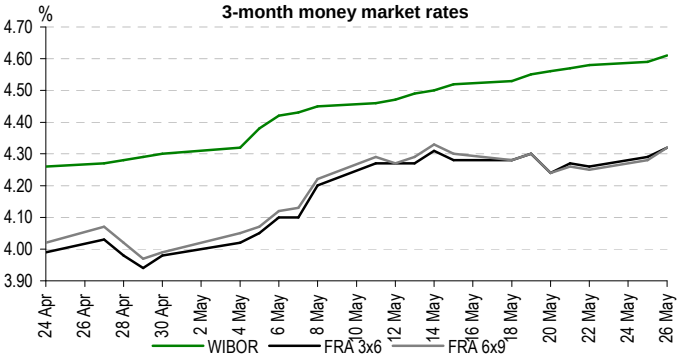
Zloty exchange rate (fixing)



T-bonds yields



3-month money market rates



* for 100 JPY *Source: Reuters*

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