Bank Zachodni WBK

Eyeopener – Belka candidate for the NBP head

28 May 2010

- **Zloty and bonds recover losses**
- **Marek Belka candidate for the NBP president post, vote in Sejm at the next meeting**
- **Today a few data from the US: core PCE, consumer income and spending, Chicago PMI**

After a brief deterioration of sentiment in financial markets overnight, on Thursday morning there was a return of optimism, as China denied FT's information that it considers reducing its holding of euro zone debt. EURUSD bottomed out, rising in the morning to ca. 1.233. In the second part of the day, the euro weakened again to ca. 1.227, even though US economic data were weaker than expected and did not support the dollar.

US GDP growth in the first quarter of this year reached 3.0%, while earlier estimates showed an increase of 3.2%, and analysts expected upward revision to 3.4%. In turn, the number of new jobless claims in the US fell last week by ca. 14,000 and amounted to 460k, while the market predicted 455k.

The zloty, after strong opening (4.08 per euro), temporarily weakened in the morning and regained value in the second half of the day, along with growing optimism in global markets. At the close the EURPLN was at 4.079 and USDPLN at 3.324. The zloty appreciated more than other currencies in the region, which could have been caused by market positive reaction to the proposed candidature for the NBP head.

Yields of domestic bonds fell a few points amid demand from abroad and a further widening in asset swap spreads (faster decline in IRS). On the core debt markets falling risk aversion led to weakening and at the end of the session yields of 10Y Treasuries and Bunds rose to 3.34% and 2.70%.

The Spanish parliament ratified on Thursday a plan of budget cuts, assuming savings of €15bn. Optimism on stock markets was maintained at sessions in the US and Asia. After the euro rebound against the dollar yesterday in the evening in Asia there has been another decline in EURUSD after Japan's finance minister said the G20 meeting next week will address the issue of the European crisis and tighter regulation of financial sector. This morning the EURUSD is rising again and the zloty appreciated at the opening to ca. 4.05 versus euro.

The Sejm speaker and acting President Bronisław Komorowski informed that his candidate for the post of the NBP Governor would be Marek Belka and that he wanted the Sejm to vote on the nomination at the nearest meeting (9-11 June). In our view this candidate meets most of the attributes of a top central banker. Marek Belka has vast academic experience (papers mainly on monetary policy), broad understanding of financial markets and economic knowledge as well as a lot of experience in government, advisory and scientific institutions. Belka has also managerial abilities necessary to head large institution and he is a known figure in the international stage. Belka was till yesterday a Director of IMF's European Department, earlier he was Executive Secretary of the United Nations Economic Commission for Europe, he was responsible for economic policy in the interim coalition administration of Iraq. He served twice as Deputy Prime Minister and Minister of Finance, and was also the Prime Minister of Poland. As regards views regarding monetary policy, we assume that Marek Belka will present a pragmatic approach and would be positioned somewhere in the middle of the MPC members' "restrictiveness" ranking, though perhaps with a slight shift toward "dovish" side. The last IMF report on Poland released in April, which was approved by Belka, suggested that one should not be in hurry with monetary policy tightening and in case of zloty appreciation, interest rate cuts could be considered. Report also recommended a more active exchange rate policy. Marek Belka is not politically connected with currently ruling party, nor with presidential side, which gives some hope for moderation of conflicts and divisions within the MPC, which intensified in recent months, and increased focus on merits in the Council.

Most MPC members reacted positively to the nomination, however Adam Glapiński (nominated by the President) said that a way of NBP Governor election is "outrageous" and the decision should be made only after the presidential election. Similar view was presented by PiS and PSL officials. Although it would be politically less controversial to nominate the NBP head only after the presidential election, Marek Belka's candidature is good enough so that there should be no significant doubts. The chances of his appointment by the Sejm seem to be quite high, because in addition to the PO support he could count on the votes of the Left deputies, which provides the majority.

Today the investors' attention in the world will be focused on data releases in the US. At 14:30 CET the PCE price index will be released, the Fed's favourite inflation measure, which according to market forecasts rose in April by 0.1%MoM, the same as a month earlier. At the same time we will see the data on income and expenditure of US consumers. Analysts predict that personal income rose in April by 0.5%MoM, and consumer spending by 0.3%, after 0.3% and 0.6% in March. At 15:45 CET there will be publication of the Chicago PMI index (expected drop in May to 61.8 pts. from 63.8 in April), and ten minutes later, the final Michigan consumer optimism index (expected to increase to 73.3 from 72.2). In the second part of the day investors may limit activity and take profits before the long weekend in the US and Great Britain (market holidays on Monday).

ECONOMIC ANALYSIS

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

TREASURY SERVICES

Gdańsk	+48 (0) 58 326 2630-32
Kraków	+48 (0) 12 424 9501-02
Poznań	+48 (0) 61 856 5814/25
Warszawa	+48 (0) 22 586 8320
Wrocław	+48 (0) 71 370 2587

F/X rates (today's opening)

EURUSD	1.2344	CADPLN	3.1325
USDPLN	3.2841	DKKPLN	0.5451
EURPLN	4.0565	NOKPLN	0.5098
CHFPLN	2.8479	SEKPLN	0.4183
JPYPLN*	3.6010	CZKPLN	0.1587
GBPPLN	4.7859	HUFPLN	1.4792

Financial market review - 27 May 10

The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.0730	4.1018	4.0871	4.0791	4.1004
USDPLN	3.3092	3.3517	3.3266	3.3244	3.344
EURUSD	1.2207	1.2342	1.2284	1.2269	-

T-bonds

TERM	Yield (%)	Change (bp)	Last auction	Average yield
2Y	**4.57**	**0**	5.05	4.802
5Y	**5.28**	**-9**	12.05	5.144
10Y	**5.81**	**-8**	14.04	5.586

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1Y	3.98	-3	0.85	3	1.12	-1
2Y	**4.40**	**-4**	1.25	0	1.31	-2
3Y	4.68	-7	1.68	0	1.57	5
4Y	4.89	-8	2.08	3	1.85	0
5Y	**5.04**	**-9**	2.43	2	2.12	1
8Y	5.29	-10	3.13	0	2.71	1
10Y	**5.35**	**-12**	3.40	1	2.96	1

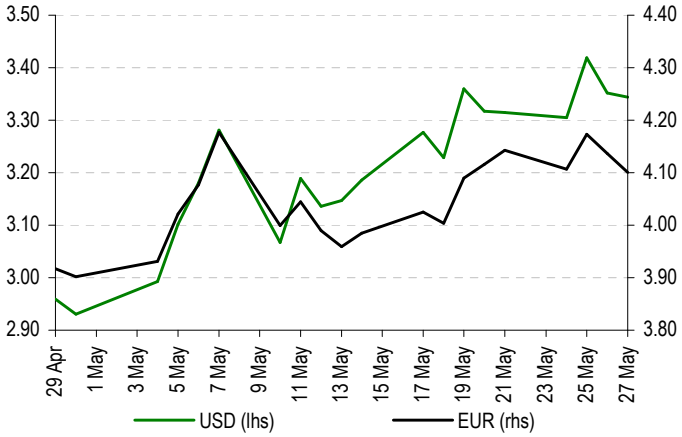
WIBOR rates

TERM	%	Daily change (bp)
O/N	2.53	-6
T/N	2.89	14
SW	3.37	2
2W	3.43	2
1M	3.62	0
3M	3.85	0
6M	4.00	0
9M	4.18	0
1Y	4.25	0

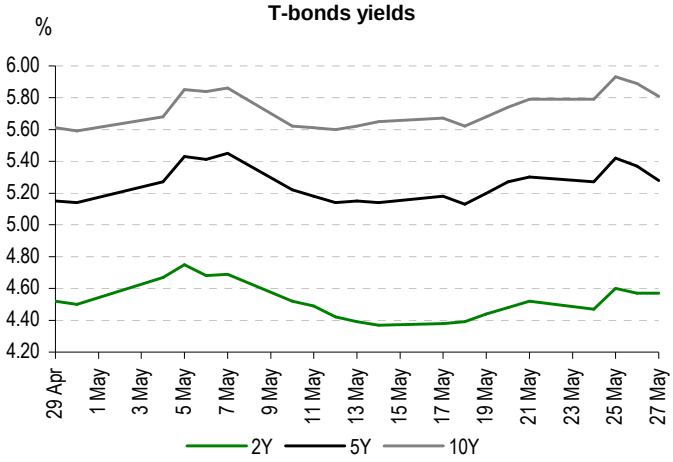
FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	3.61	-1
3X6	3.89	1
6X9	4.00	0
9X12	4.16	-4
3X9	4.04	1
6X12	4.17	-1

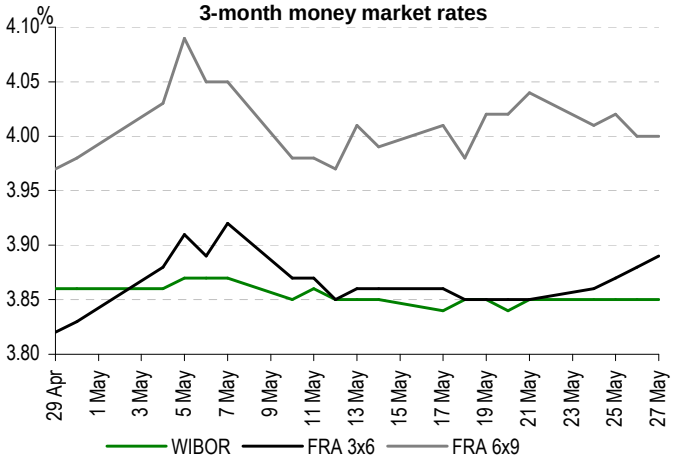
Zloty exchange rate (fixing)



T-bonds yields



3-month money market rates



* for 100 JPY

Source: Reuters

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