Bank Zachodni WBK

Eyeopener – Inflation soared to 4.3%

14 April 2011

- **CPI above 4% supported the zloty and pushed domestic yields higher, rising hopes for rate hike in May, even by 50 bp**
- **Improvement of moods after JPMorgan results and US retail sales. Dollar slightly stronger versus euro thanks to US data**
- **Today, domestic money supply data for March, US weekly jobless claims, Google's financial report**

On Wednesday the market sentiment improved and stock indices pared loses. The risk appetite was fuelled by better than expected quarterly profit of JPMorgan. The member of ECB Board only for a moment supported the euro. Luc Coene, governor of Belgian central bank, said that last interest rate hike by 25bps should not be seen as "isolated decision". The market concluded already last week from the ECB communiqué that further hikes are in the pipeline. The market sentiment was also backed by data on US retail sales excluding autos that supported the dollar versus euro.

The inflation rate in Poland surged in March to 4.3%YoY, well above expectations. Our forecast and market consensus was at 3.9% and the highest forecast in Parkiet's poll was at 4.0%. One of the main sources of that surprise was stronger than we anticipated increase in prices of food and beverages, in particular nearly 40% surge of sugar prices (we mentioned that risk factor in our latest weekly report). Still, prices of many other food products accelerated as well. In our monthly report released before the CPI data we pointed factors pushing up the expected path of this year's CPI and the March data additionally fuelled worries regarding inflation outlook. The effect of spreading inflationary impulse will be visible and passing though rising prices of other goods and services. Concerns about the appearance of the so-called second round effects are also justified, which we also have shown in our latest monthly report.

The March surprise will surely have pretty visible impact on MPC's assessment. Andrzej Kaźmierczak, perceived until lately as one of most dovish member, suggested few days ago that if CPI rises above 4.0%, more aggressive rate hikes may be considered. Still, after yesterday's data he added that „it does not prejudge of the automatic interest rate hike in May". Anna Zielińska-Głębocka said that taking into account CPI data interest rate hike in May is justified. Andrzej Bratkowski claimed that data do not change his opinion and he is in favour of prompt 50bps interest rate hike and than leaving rates on hold for some time. Still, he did not exclude, that the MPC will rather decide on 25bps hike in May. Elżbieta Chojna-Duch said that a rate hike in May would be "definitely premature" as growth in prices has external sources and inflationary pressure in Poland will be limited by weak economic activity, high unemployment and tightening of fiscal policy. In our opinion it is hard to be certain at this moment that there will be majority in the MPC to vote for braver decision than 25bps hike. Some of MPC members may refrain from such step due to their worries over GDP growth outlook. From that point of view the data on labour market and economic activity in March will be the key. For market expectations about scale and pace of monetary policy tightening the comments of Marek Belka will surely be very important.

The current account deficit in February was slightly higher than we expected. The data on trade volume showed that both imports and exports both decelerated (but data on imports for January was visibly revised up). More on data in yesterday's *Instant comment*.

In the Fed's Beige Book released in the evening it was underlined than in February and March the US expanded at moderate pace. The situation improved in many sectors, particularly in manufacturing and on the labour market. The impact of growing prices of commodities on wages was assessed as small. In Fed's opinion the situation of the real estate market is still weak. The publication did not influence the market.

The EURUSD made an attempt at the beginning of the session to break the last peaks (ca. 1.452), but this was unsuccessful. Later on, the dollar was strengthening against euro, which was triggered, among others, by data on retail sales in the US. Overnight the rate has increased amid expectation that tomorrow's data will confirm the price rise in the euro area. In our view, however, the rate is unlikely to exceed resistance at 1.452.

EURPLN and USDPLN rates were falling since the start of the session amid good market sentiment in anticipation of the domestic data. Shortly after CPI publication the zloty strengthened by ca. PLN0.01 against the euro and the dollar. In subsequent hours, there was a slight rebound of this movement and stabilisation until the end of the session. We expect that today, the zloty may further strengthen against the euro. First support is 3,94-3,942. Resistance is 3.966.

On the domestic debt market yields have remained stable until the publication of data on inflation. Auction of 2-year bond had no effect on the market. After the release of higher than expected data yields increased, with the largest move in short-term FRAs, later in the day also increases hit 2-year bonds. The rise in other segments of the curve was the result of the latter movement.

On the core debt markets yields were rising since the beginning of the session due to the risk appetite. At the end of the day there was a slight correction. At the end of the day yields on 10-year Bunds and Treasuries were 3.46% and 3.52%, respectively.

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F/X rates (today's opening)

EURUSD	1.4513	CADPLN	2.8345
USDPLN	2.7223	DKKPLN	0.5297
EURPLN	3.9508	NOKPLN	0.5023
CHFPLN	3.0557	SEKPLN	0.4373
JPYPLN*	3.2593	CZKPLN	0.1624
GBPPLN	4.4535	HUFPLN*	1.4842

*for 100JPY/100HUF

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.9482	3.9790	3.9782	3.9615	3.9756
USDPLN	2.7213	2.7476	2.7467	2.7323	2.7421
EURUSD	1.4462	1.4520	1.4486	1.4503	-

T-bonds

TERM	Yield (%)	Change (bp)	Last auction	Average yield
2L	5.12	9	13.04	5.16
5L	5.81	7	5.01	5.642
10L	6.17	2	12.01	6.215

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	4.95	6	0.40	-2	1.96	-2
2L	5.36	8	0.90	-5	2.41	-9
3L	5.57	6	1.47	-6	2.72	-12
4L	5.68	5	1.96	-6	2.97	-13
5L	5.72	4	2.38	-7	3.16	-12
8L	5.73	4	3.23	-6	3.55	-12
10L	5.70	4	3.56	-5	3.73	-11

WIBOR rates

TERM	%	Daily change (bp)
O/N	3.78	-5
T/N	3.85	-2
SW	4.02	0
2W	4.05	0
1M	4.08	0
3M	4.27	0
6M	4.47	0
9M	4.56	0
1Y	4.64	1

FRA rates (Mid)

TERM	%	Daily change (bp)
1X4	4.52	6
3X6	4.80	8
6X9	5.10	6
9X12	5.32	8
3X9	4.99	6
6X12	5.27	8

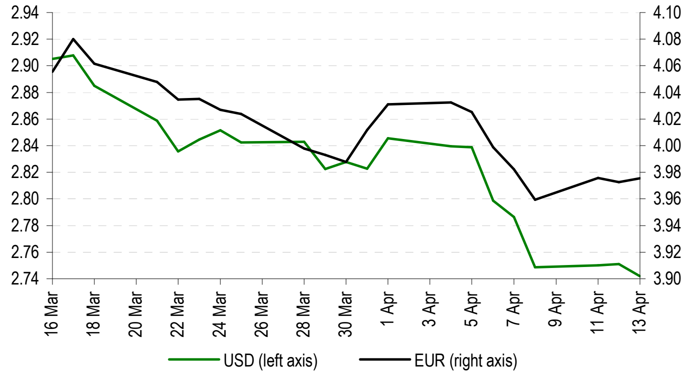
Measures of fiscal risk

Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	140.0	2	2.70	-1
Czech Republic	76.7	1	0.61	-1
Hungary	243.5	5	3.75	0
Greece	1079.5	29	9.41	1
Spain	206.8	10	1.77	5
Italy	128.0	3	1.23	2
Portugal	554.9	15	5.34	8
Ireland	536.4	13	5.71	-5
Germany	39.7	3	--	--

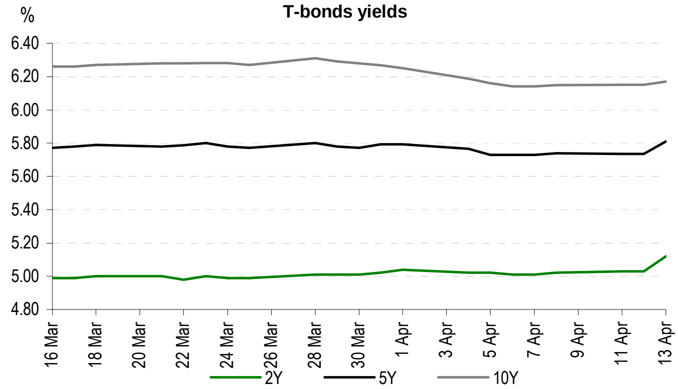
* 10Y treasury bonds over 10Y Bunds

Source: Reuters

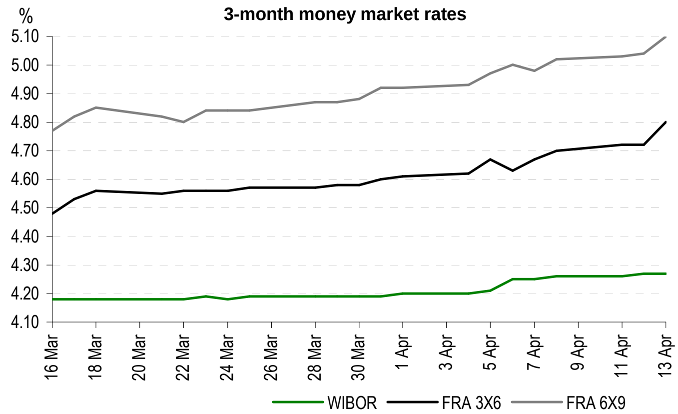
Zloty exchange rate (fixing)



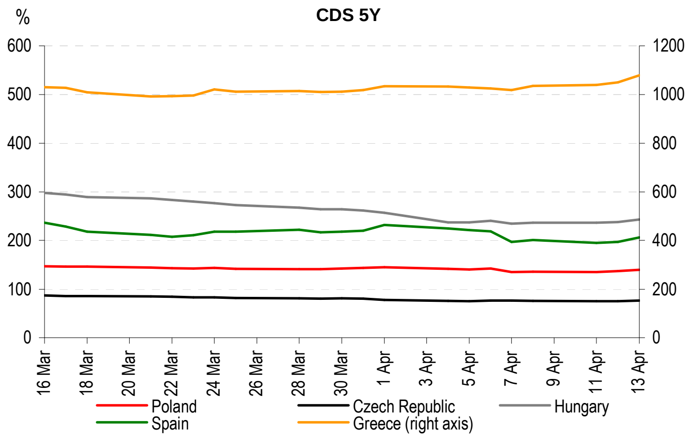
T-bonds yields



3-month money market rates



CDS 5Y



Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST BZWBK	ACTUAL VALUE	LAST VALUE*
		MONDAY (11 April)						
11:00	**PL**	**Tender of 50-week T-bills worth PLN0.3-0.6bn**						
		TUESDAY (12 April)						
11:00	DE	ZEW index	Apr	pts	12.0	-	7.6	14.1
14:30	US	Import prices	Mar	%MoM	1.7	-	2.7	1.4
14:30	US	Trade balance	Feb	$bn	-45.0	-	-45.76	-46.97
		WEDNESDAY (13 April)						
11:00	**PL**	**Auction of bonds OK0713 worth PLN3.5-5.5bn**						
11:00	EZ	Industrial output	Feb	%MoM	0.7	-	0.4	0.2
14:00	**PL**	**CPI**	**Mar**	**%YoY**	**3.9**	**3.9**	**4.3**	**3.6**
14:00	**PL**	**Exports**	**Feb**	**€m**	**10 775**	**10 711**	**10 309**	**10 279**
14:00	**PL**	**Imports**	**Feb**	**€m**	**11 008**	**11 572**	**10 472**	**10 346**
14:00	**PL**	**Current account**	**Feb**	**€m**	**-468**	**-571**	**-685**	**-1 334**
14:30	US	Retail sales excluding autos	Mar	%MoM	0.7	-	0.8	1.1
20:00	US	Fed's Beige Book						
		THURSDAY (14 April)						
14:00	**PL**	**Money supply**	**Mar**	**%YoY**	**8.4**	**8.4**		**8.3**
14:30	US	Initial jobless claims	week	k	380	-		382
		FRIDAY (15 April)						
4:00	CN	CPI	Mar	%YoY	5.2	-		4.9
4:00	CN	GDP	Q1	%YoY	9.5	-		9.8
11:00	EZ	Final HICP	Mar	%YoY	2.6	-		2.4
11:00	EZ	Trade balance	Feb	€bn	-4.6	-		-14.8
14:30	US	Core CPI	Mar	%MoM	0.2	-		0.2
14:30	US	NY Fed index	Apr	pts	17.5	-		17.5
15:15	US	Industrial output	Mar	%MoM	0.5	-		0.0
15:15	US	Capacity utilization rate	Mar	%	77.1	-		77.0
15:55	US	Flash Michigan	Apr	pts	68.3	-		67.5

Source: BZ WBK, Parkiet, Reuters

* in case of the revision. the data is updated

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