

Eyeopener – daily update

NBP upbeat on business climate

8 August 2005

Results of the NBP survey, published on Friday, suggest that business climate remains good and the economy is set to accelerate in 2H05 as compared to the first part of the year. This week will bring economic data for June (balance of payments figures) and July (monetary statistics), which may shed more light on economic activity in mid-year, but the market will probably wait with formulation of its expectations regarding monetary policy for more important data to be released the next week after the long weekend (August 15 is public holiday in Poland). Abroad, the feature of this week will be FOMC decision due on Tuesday. The event will surely have some impact also on the Polish market, indirectly through the reaction of the EURUSD and core debt markets.

PM Marek Belka said on Friday he had asked the president to veto some of the bills passed by the parliament recently that would put additional burden on public finances in future (e.g. regarding special pension rights). The president has to decide on the fate of the bills by August 19. Chief economic advisor to the president Witold Orłowski earlier said he would recommend the rejection of the bills.

Results of the latest public opinion poll carried out by PBS and published in today's *Gazeta Wyborcza* daily showed there are chances for realisation of the positive scenario (from the market's point of view) in upcoming general elections. Namely, the Civic Platform leads the poll, as it gained 4pp of support from the previous survey and now could count on 25% of votes (143 seats in the Sejm) while the Law and Justice lost 3pp of support, but still can count on a decent 22% (125 seats), which would give the both parties a safe majority in 460-seats lower house of parliament.

A few data releases are scheduled this week, but the market will wait for numbers to be published after the long weekend

Data on wage growth in the whole economy in 2Q05 due on Tuesday

Balance of payments figures due on Thursday

What's hot this week

This week, likewise the previous one, will be quite peaceful in terms of domestic events. Even though there will be a few economic data releases during the week, the market will be in fact awaiting publication of much more important statistics regarding inflation rate, output and sales, that will appear the next week, after a long weekend (Monday, August 15 is a public holiday in Poland). Thus, reaction to this week's numbers should not be too strong.

On Tuesday, the CSO will announce the level of average monthly salaries in the second quarter of this year in the entire economy. This number will be an important supplement to the picture of situation on the labour market arising from monthly data for enterprises sector. In the first quarter of 2005, average total wages rose 3.6%YoY while pay in enterprises increased merely 2%YoY. As the latter accelerated in 2Q05 to 3%YoY, one could expect that there has been a pickup in total wages as well, however the most interesting will be a scale of this upturn. It could impact the MPC's assessment of the perspectives of wage pressure on prices, being important premise for subsequent interest rate decisions.

Balance of payments figures will be released by the NBP on Thursday. We predict that current account was in deficit again in June, reaching €153m, after €724m gap recorded in May. This resulted mainly from deficit in trade balance of over €500m – the highest this year – being a consequence of

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Release of monetary statistics scheduled on Friday

slowdown in export growth to ca. 4%YoY and strong rise in imports by ca. 9%YoY. Lower growth in exports was to a large extent a result of high base effect in June 2004 and thus should not be a matter of major concern.

Money supply figures will appear on Friday's afternoon. According to our forecasts, broad money M3 saw acceleration in annual growth rate to 11.5% from 10.7%YoY in June. This was probably achieved thanks to strengthening revival on credit market with total loans growing 8.6%YoY mostly due to demand for mortgages from households. Continuation of pickup in loans for enterprises is also expected, although at a moderate pace (in June 0.8%YoY rise was recorded). The figures traditionally have little impact on the financial market and this is likely to be the case also this time, especially that they will be released just before the start of the long weekend.

Bottom line: This week's few data releases will have little direct impact on the financial market, awaiting for more important data scheduled for next week. However, they could give important hint about economic activity in the second half of the year, which will be important for the MPC.

What's hot today

NBP says business climate is warm

Results of the NBP survey suggests the business climate remains good

On Friday, the National Bank of Poland published a preliminary information on condition of enterprise sector with a focus on business climate in 3Q05. The survey saw quite an optimistic picture of economic situation, although not free from flaws. The latter concerned mainly these elements of the situation's assessment, which were affected by relatively poor results of the economy in 1H05. However, the NBP stressed the even though current moods of enterprises and their investment plans deteriorated slightly, they remain upbeat and the respective indices are close to record high levels, which bodes well for the future. For instance, the NBP pointed out there is no weakening in enterprises' investment activity. As regards disappointing investment activity in 1H05, the NBP survey showed it was caused mainly by revision of investment plans in the smallest enterprises, most frequently from the construction sector. According to the NBP, a macroeconomic effect of the revisions should not be too much. Among the most important positive signals, the NBP mentioned the record high value of the index illustrating enterprises' intentions regarding taking bank loans. Very high values (almost the highest in the survey's history) was also reached by measures representing prospects for employment. With respect to foreign trade, the NBP noted some deterioration in forecasts of exports, but stressed they are still dominated by optimism. The central bank pointed out that towards the end of 2Q05 assessment of export activity improved slightly, which could result from weakening of the zloty against the dollar (the NBP said that contrary to previous quarters, the USDPLN rate exceeded the level which guarantees profitability of exports). All in all, the general conclusion from the survey may be illustrated by a comment of deputy head of the NBP's macroeconomic and structural research department Piotr Boguszewski. He said after the survey's publication that the general business climate was good the bank did not see threats to the overall economic situation or investments. If results of the

business climate survey are interpreted in the same way at the nearest MPC meeting, they will be argument for keeping caution in monetary policy.

Bottom line: The NBP survey suggests that business climate remain good and the economy is set to accelerate in 2H05 as compared to the first part of the year.

Market monitor

Both FX and debt markets in Poland were staying relatively calm on Friday, likewise core markets awaiting publication of crucial labour market report in the US. After the figures proved to be stronger than expected, the euro slipped moderately against the dollar to 1.232, although the trend was not very clear-cut. The zloty reacted to this development with moderate appreciation against the euro. Consequently, the day closed with USDPLN rate similar to opening levels, and EURPLN slightly lower than in the morning.

After strong payrolls data, yields on American treasuries rose substantially amid reinforced expectations for Fed's rate hikes. Polish debt market weakened as well after relatively steady trade in the morning.

At today's tender the Ministry of Finance will offer 52-week T-bills worth PLN500m.

Bottom line: Despite strong labour market data, US dollar failed to erase losses and could remain under pressure also this week. Polish market is likely to remain quite stable in the coming days, preparing for long weekend and awaiting publication of crucial economic data next week.

International update

US non-farm payrolls rose 207,000 in July, stronger than 183,000 predicted by market consensus. Additionally, figures for May and June have been revised up by 42,000. Unemployment rate remained unchanged in July at 5%, the lowest level since late 2001. The numbers, following strong jobless claims figures released on Thursday, confirmed that July saw strong job creation in the American economy, being an argument for further Fed's interest rate hikes.

Today, no major data releases to watch are scheduled abroad.

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The zloty trading ranges (05.08.2005)

	Min	Max	Fixing
EUR	4.0565	4.0800	4.0768
USD	3.2800	3.3100	3.2920

FX rates (today's opening)

EURUSD	1.2372	CADPLN	2.7116
USDPLN	3.2972	DKKPLN	0.5467
EURPLN	4.0643	NOKPLN	0.5181
CHFPLN	2.6185	SEKPLN	0.4370
JPYPLN*	2.9512	CZKPLN	0.1368
GBPPLN	5.8576	HUFPLN*	1.6701

*per 100 units

Treasury yield curve (05.08.2005)

T-bills	Yield	Change (bp)
3M		
6M		
9M		
12M		
Bonds	Yield	Change (bp)
2Y		
3Y		
4Y		
5Y		
8Y		
10Y		

WIBOR rates (05.08.2005)

Term	Rates	Change (pb)
O/N	4.90	12
T/N	4.90	10
SW	4.81	1
2W	4.81	1
1M	4.80	1
3M	4.69	2
6M	4.64	-1
9M	4.60	0
1Y	4.60	0