Bank Zachodni WBK

Eyeopener – daily update

Disappointing C/A figures

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While it had been widely expected that current account balance was in surplus in July, the actual data published yesterday by the NBP proved worse than expected and showed €302m deficit. However, C/A balance in July was better than a year ago and 12-month cumulative C/A balance turned positive to 0.1% of GDP. The main reasons for weaker than predicted situation on the current account in July was smaller net transfers from the EU and wider than expected trade gap of €355m. Still, the situation in Poland's foreign trade, despite relatively strong domestic currency, was better than a year ago. While we predicted faster pace of growth in both exports and imports, the actual numbers, standing at 14.8%YoY and 11.3%YoY, were not bad and they suggest solid growth in both external and domestic demand.

In an article in today's *Rzeczpospolita* daily MPC member Andrzej Sławiński confirmed his earlier view on what basic rules of monetary policy should be. He believes the MPC should aim at stabilisation of inflation in the medium term and at the same time at stabilising economic growth close to its potential level. In Sławiński's opinion, Polish central bank should base its policy on inflation and GDP projection, but it should also pay much attention to FX developments and other factors that affect balance of risks for future inflation.

What's hot today

Current account data worse than expected

July saw monthly C/A deficit instead of an expected surplus

Current account balance in July turned into red again, showing €302m deficit, after a €222m surplus in June. This was much below market consensus forecasts and our prediction suggesting surpluses €20m and €58m, correspondingly. Trade balance showed €355m gap, amid exports growing 14.8%YoY and imports up 11.3%YoY. Although we predicted stronger rise in both exports (21%) and imports (15%), the results reported by the NBP were not bad indeed, showing that growth rate in foreign trade turnover was still gaining pace, yet a bit slower than we had assumed. The data were by no means a signal about slowdown in economic activity, but rather they represented healthy expansion in both external and domestic demand. In line with expectations, income deficit was quite high at ca. €500m, due to continuously high payments of dividends from Polish companies to their foreign owners, while services account was in slight surplus (€223m). Much lower than we expected was surplus on current transfers account reaching €334m against €765m in June. This was caused by very low transfers from the EU in July (merely €102m, the lowest level this year), and was – together with larger trade gap – a major reason of difference between forecasted and actual C/A deficit this time. While in deficit, current account data was much better than in corresponding period of last year when it reached -€734m. In effect, a cumulative 12-month current account balance improved again and – as we expected – turned positive for the first time in last 10 years, reaching 0.1% of GDP. It is likely that this cumulative ratio will remain in surplus until the rest of this year, going up to over 2% of GDP by December.

Still, external position of the Polish economy is much better than a year ago and cumulative 12-month C/A balance turned into positive

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***Bottom line*: Current account data was worse than forecasted, due to wider trade gap and lower transfers from EU. Nevertheless, export and import growth were not too bad and represented healthy expansion in both external and domestic demand. The data had no direct negative impact on the zloty which had depreciated already before the publication.**

Market monitor

Yesterday some weakening of the zloty took place. As liquidity on the market is relatively low ahead of tomorrow's CPI inflation release, a few transactions could have moved the zloty rate. Current account showed a deficit, but the data are preliminary and did not affect the market significantly. Actually, the weakening of the zloty was observed before the data release, as market participants may be afraid to stay long zloty ahead of elections and with a possibility of a correction on the debt market. As the dollar strengthened on the international market (to below 1.23), the zloty depreciated more against the greenback. The dollar appreciation was connected with the fact that Japan's PM Koizumi won a landslide victory in general election and the yen has hit a two-week high versus the euro. As the euro has been subject to a bout of jitters, with increasing uncertainty about the outcome of the German elections, the slide in the euro helped to lift the dollar, leaving it little changed against the yen. Market activity should be limited as market participants will await tomorrow's data.

Limited activity of market participants is visible especially on the fixed income market, for which CPI inflation data are much more important. Despite of the fact that negative mood for interest rate market was observed internationally, with 10-year Bunds reaching 3.11% and 10-year Treasuries traded above 4.18% overnight, the Polish curve adjusted upward only slightly. We reiterate that our CPI inflation forecast is higher than market consensus and thus we would expect some yields increase as result of data publication. Especially, as industrial production (to be released next week) should be quite strong.

***Bottom line*: Market waiting for CPI release. Rise in yields possible, especially as negative sentiment towards interest rate market appeared on the international markets.**

The zloty trading ranges (12.09.2005)

	Min	Max	Fixing
EUR	3.925	3.950	3.9363
USD	3.18	3.214	3.1911

F/X rates (today's opening)

EURUSD	1.2293	CADPLN	2.7033
USDPLN	3.2049	DKKPLN	0.5284
EURPLN	3.9403	NOKPLN	0.5081
CHFPLN	2.5500	SEKPLN	0.4255
JPYPLN*	2.9230	CZKPLN	0.1349
GBPPLN	5.8356	HUFPLN*	1.6096

*per 100 units

Treasury yield curve (12.09.2005)

T-bills	Yield	Change (bp)
3M	4.30	0
6M	4.20	0
9M	4.20	0
12M	4.20	0
Bonds	**Yield**	**Change (bp)**
2Y	4.26	1
3Y	4.34	2
4Y	4.52	3
5Y	4.56	2
8Y	4.61	2
10Y	4.62	2

WIBOR rates (12.09.2005)

Term	Rates	Change (pb)
O/N	4.61	1
T/N	4.61	0
SW	4.60	-1
2W	4.60	-1
1M	4.60	0
3M	4.55	2
6M	4.48	2
9M	4.44	1
1Y	4.43	1

International update

Today, a few data releases abroad are scheduled. They will be particularly important for EURUSD rate – see table below.

TIME GMT	COUNTRY	INDICATOR	PERIOD		FORECASTS	LAST VALUE
12:30	US	Foreign trade	Jul	$bn	-59.5	-58,8
12:30	US	PPI inflation	Aug	%MoM	0.7	1.0

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