Bank Zachodni WBK

Eyeopener – daily update

Starting with faux pas

4 November 2005

Yesterday the National Council of the Civic Platform (PO) decided (with overwhelming majority) to be an opposition party to PiS minority government. Although the resolution did not rule out a possibility of forming coalition government in future (if PiS breaks informal coalition with Samoobrona, but PiS officials are strongly against it), PO's deputies will be against the vote of confidence in the cabinet, planned for November 10. SLD will be also against, while other parties (LPR, PSL, Samoobrona) are still waiting with making a final decision. Therefore, Marcinkiewicz's cabinet has a chance to be formed only if populist parties support it. It is hardly good news for the market.

In the meantime, we saw interesting (quite unfortunate) comments of new finance minister, which brought bonds' yields higher. She would like to increase budget deficit to above PLN30bn anchor presented by PM. Let's remind that a couple of days ago she said also "there will be absolutely no spending cuts". One can only hope that she would avoid such statement in future, as this may be very costly for taxpayers (and her credibility).

What's hot today

Absolute beginners

Surprising FinMin comments, which were against PM's view, sent the yields higher

Newly-appointed finance minister Teresa Lubińska said yesterday that she would like to… increase budget deficit in 2006 to PLN31-32bn as compared to the PLN30bn planned by Prime Minister Kazimierz Marcinkiewicz and allocate additional spending on education and high tech. Although the intended allocation of additional spending might seem rational, we find it exceptionally surprising that a finance minister wants higher budget deficit than PM (Lubińska admitted Mr Marcinkiewicz still insisted on the level of PLN30bn despite her request). This is particularly surprising, as Lubińska's desire to increase budget gap in 2006 stands at odds with the concept of "budget anchor" promoted by PiS. Does it mean that new finance minister has no orientation in economic plans of the new government? Well, maybe Lubińska's statement was just an expression of her personal views. Anyway, she should try to avoid similar statement in future, as this may be very costly for taxpayers (and her credibility as a finance minister). This is enough to note that her yesterday's comments led to a rise in bond yields by few basis points.

Budget amendment will be prepared within one month

As regards further proceeding with the 2006 budget draft, finance minister said yesterday that work on the amendment to the already presented document will take approximately one month. New philosophy of making a budget (preparations at PM chancellery rather than at FinMin will be implemented starting from the 2007 budget). Apart from amendment to the 2006 budget draft, other priorities indicated by new finance minister is development of four-year economic program delivered by PM and update of Poland's convergence program. Let us hope that contrary to yesterday's comments from Lubińska, the new version of convergence program will be an

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What about convergence programme?

indication that public finance will be managed in a reliable manner in the nearest years. Deputy NBP governor Jerzy Pruski stated yesterday that the new cabinet should respect the main aims of the previous version of the convergence program.

What about public debt management strategy?

Another surprising comment of Lubińska was connected with the strategy of public debt management. While a couple of weeks ago, PiS' expert Cezary Mech said that the new administration will show the U-turn policy in the strategy, Lubińska said yesterday that there would be no major changes. Is there one, consistent economic programme of the new government?

***Bottom line:* New finance minister made another unfortunate statement yesterday. Let us hope she will start to communicate with the market in a similar manner as the previous minister and will prove soon that public finances are in good hands.**

Market monitor

Zloty remained stable on Thursday awaiting the PO's National Council meeting, on which the Civic Platform decided on the party strategy towards Marcinkiewicz (PiS) minority government and motion of confidence voting. Polish currency fluctuated around 3.96 against euro and finally slightly appreciated, where USDPLN fluctuated above 3.28 and rose to above 3.30 as dollar appreciated against euro. EURUSD remained stable before ECB decision on rate change around 1.206. However on unexpected tone of Trichet's comments euro lost to dollar to below 1.199.

Fixed income market weakened on Thursday session. Yields rose on finance minister statement Teresa Lubińska on willingness of budget deficit widening. Although government has been appointed, its future is not certain and markets are sensitive to the kind of partner, which will support the new government, whether it is populist Samoobrona or market favourite PO. US Treasuries rose on Thursday as data from labor market appeared better than expected. However much higher from expectations ISM figure, which bounced back on hurricanes fall effected in yields rise (to above 4.65%). Today, the focus is on the non-farm payrolls.

Bottom line*: *Zloty weaker and yields higher. Marcinkiewicz's cabinet has a chance to be formed only if populist parties support it. It is hardly good news for the market.

The zloty trading ranges (3.11.2005)

	Min	Max	Fixing
EUR	3.9555	3.9715	3.9685
USD	3.2820	3.3080	3.2893

F/X rates (today's opening)

EURUSD	1.1936	**CADPLN**	2.8262
USDPLN	3.3237	**DKKPLN**	0.5353
EURPLN	3.9679	**NOKPLN**	0.5118
CHFPLN	2.5833	**SEKPLN**	0.4186
JPYPLN*	2.8628	**CZKPLN**	0.1350
GBPPLN	5.8984	**HUFPLN***	1.5969

*per 100 units

Treasury yield curve (3.11.2005)

T-bills	Yield	Change (bp)
3M	4.25	0
6M	4.25	0
9M	4.28	0
12M	4.28	0
Bonds		
2Y	4.67	0
3Y	4.74	0
4Y	5.06	2
5Y	5.21	4
8Y	5.32	3
10Y	5.33	4

WIBOR rates (3.11.2005)

Term	Rates	Change (pb)
O/N	4.65	-4
T/N	4.66	-4
SW	4.64	0
2W	4.64	0
1M	4.63	0
3M	4.64	0
6M	4.65	-1
9M	4.67	0
1Y	4.67	-1

International update

Non-manufacturing PMI in EMU rose to 54.9 in October as compared to 54.7 in September and was close to market forecast at 55.0.

ECB on its Thursday meeting left the main interest rate unchanged at 2.0%, though positive economic data and recent hawkish comments suggest rate hikes are in near perspective. During the press conference EBC chairman Jean Claude-Trichet said that the monetary policy in euro zone is still adequate, which was rather dovish statement and was surprise for the markets, which expected speedier rates raise, and resulted in euro depreciation.

According to preliminary estimates of the Department of Labour, productivity in USA was stronger far beyond market expectations. Non-farm productivity grew at 4.1% in 3Q05 as compared to revised 2.1% in 2Q and forecast at 2.5%. Unit labour cost, one of the component measures of job market inflation declined in third quarter 2005 by 0.5% with revised 1.8% rise in 2Q, which was much below forecast as market expected 2% rise. Rising productivity and unit costs drop may help in opposing higher energy prices and curbing inflation.

Non manufacturing ISM index showing condition of services sector in the American economy rose in October to 60pts against 53.3pts. last month. The analysts expected the figure at 57pts., which contributed to yields rise to 7 month high.

Factory orders fell 1.7% in September, which was more than market expected at –1%.

Yesterday Alan Greenspan stated that US inflation is contained and stayed consistent with price stability, the main condition of sustainable economic growth.

Today several data will be issued with focus on US non-farm payrolls.

TIME GMT	REGION	INDICATOR	PERIOD		MARKET	LAST VALUE
10:00	EMU	Unemployment rate (H)	Sep	%	8.6	8.6
10:00	EMU	PPI (H)	Sep	%YoY	4.3	4.0
13:30	USA	Unemployment rate (H)	Oct	%	5.1	5.1
13:30	USA	Non-farm payrolls (H)	Oct	‘000	100	-35

* Importance level: (H)igh, (M)oderate; Source: Parkiet Reuters, BZ WBK

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