

# Eyeopener – daily update

Deal done

10 November 2005

Today in the morning PM Marcinkiewicz delivers an exposé in the Sejm, and a vote of confidence in the government will take place late in the evening. PiS minority cabinet will most likely win the test, being supported by populist parties, which shows rather gloomy prospects for fiscal policy. Economic programme included in the exposé will be also important for the market.

New deputy finance minister, Cezary Mech, said there would be no major changes in public debt management strategy. This is in line with a view of his boss, but against his own earlier statements about a U-turn in policy.

NBP's business climate survey showed some improvement in economic situation observed in Q4, yet without significant risk of inflationary pressure.

Meanwhile, according to recent opinion polls made by PAP and Reuters, most of bank analysts do not expect a rate cut during the next meeting of the Monetary Policy Council in November. We share this opinion.

Our next daily economic update will be send on Monday, as tomorrow is public holiday in Poland (Independence Day).

## What's hot today

*Today's vote of confidence in the government late in the evening*

*The government will most likely win a vote, backed by populists*

*Details of government's programme important for the market*

### D-day, or rather D-evening

Today the parliament will hold a vote of confidence in the minority cabinet of Law and Justice (PiS). Unfortunately, a vote is scheduled for very late evening after the market closes (19:30 local time), i.e. it will take place just before the long weekend in Poland (public holiday on November 11 – Independence Day). Therefore, market reaction will be visible only on Friday, on illiquid market without domestic players. Everything suggests that PiS government will reach support of populist parties Samoobrona and LPR, and possibly also PSL. Leaders of two former parties informed yesterday they would recommend giving the cabinet “a credit of trust”, as its programme is quite close to their own ideas. This would mean that uncertainty period is almost over. However, one should remember that a support of populist parties means rather gloomy prospects for fiscal reforms. It will be interesting to see Prime Minister's exposé (will be delivered in the morning, at 9:00 local time), which may include some hints on costs of the support from the above-mentioned parties, as well as key indicators as regards the next year's budget, as the government's economic programme has not been published yet. According to yesterday's comments of the Prime Minister, “social policy will generate some costs” and additional spending will appear already in 2006, however at the same time “budget anchor assuming PLN30bn deficit in the next four years, including 2006, will be maintained”. It remains to wait and see details of government's programme to assess credibility of those declarations.

**Maciej Reluga Chief Economist** (22) 586 8363

**Piotr Bielski** (22) 586 8333

**Piotr Bujak** (22) 586 8341

**Cezary Chrapek** (22) 586 8342

Email: ekonomia@bzwbk.pl

***Bottom line: PiS minority cabinet likely to be supported by populist parties, which shows rather gloomy prospects for fiscal policy. Economic programme included in the exposé will be important for the market.***

### **Better economic climate in Q4, but no inflation risk**

The National Bank of Poland published a preliminary information on condition of enterprise sector with a focus on business climate in 4Q05. At the end of Q3 enterprises showed more optimism as regards economic situation and some improvement is possible in Q4. However, it is worth to have a look at different components of firms' expectations. First of all, while expectation for higher demand was mentioned as one positive element, this was mostly driven by seasonal factors and there was no strong permanent trend. Permanent improvement was visible only in construction and transport, but assessment of situation in the former sector was quite negative. Firms indicated higher new orders, also in category of investments goods (improvement on annual basis), higher production was expected among exporters and firms selling their products only domestically. Seasonally adjusted employment indicator was at the highest level since the beginning of the survey (2000), although forecast for Q4 was slightly down seasonally. Many positive signals were observed in exporters' sector, as despite stronger zloty exchange rate, orders and production were expected to rise, although of course with lower profitability. As regards domestic demand, there were some negative indicators, especially concerning investments. Lower investment activity was observed, which was partly seasonal, but more significant downward trend was visible in new investments. What is interesting, the most important barrier for investments was connected with availability of EU funds. Other barriers concerned financing facilities, while political and economic uncertainty, as well as low demand were not mentioned as important. As regards private consumption prospects, expected wage growth may be important. There was no risk of excessive wage growth, as only 9% of employees planned to increase payroll with an average growth of 5.7% (this represented a mere 0.5% growth in full sample). At the same time, there was moderate rise in inflation expectations. However, while enterprises saw higher costs as a barrier of their activity, in spite of much higher prices of materials and commodities, there were no planned hikes in retail consumer prices. This shows that higher competition limits inflationary pressure in the Polish economy. This competition is also on the import side, as not only exporters see stronger zloty as a risk, but also cheaper import started to crowd out domestic production.

***Bottom line: Some improvement in economic situation observed in Q4, but some negative signals as regards domestic demand – no risk of excessive wage growth and new investments in downward trend. Therefore, business climate indicators suggested growth acceleration, but not high risk of inflationary pressure.***

***More optimism in Polish enterprises in Q3 and Q4***

***... however improvement in demand was mostly seasonal***

***Improving employment indices***

***Negative signals about investment***

***Risk of excessive wage growth quite small***

## Market monitor

### The zloty trading ranges (9.11.2005)

	Min	Max	Fixing
EUR	3.9820	4.0325	3.3955
USD	3.3900	3.4330	3.9944

### F/X rates (today's opening)

EURUSD	1.1771	CADPLN	2.8924
USDPLN	3.4343	DKKPLN	0.5400
EURPLN	4.0425	NOKPLN	0.5198
CHFPLN	2.6112	SEKPLN	0.4209
JPYPLN*	2.9255	CZKPLN	0.1375
GBPPLN	5.9772	HUFPLN*	1.6166

\*per 100 units

### Treasury yield curve (9.11.2005)

T-bills	Yield	Change (bp)
3M	4.29	4
6M	4.32	1
9M	4.35	-5
12M	4.39	0
Bonds		
2Y	4.94	8
3Y	5.00	6
4Y	5.32	9
5Y	5.48	11
8Y	5.61	10
10Y	5.61	10

### WIBOR rates (9.11.2005)

Term	Rates	Change (pb)
O/N	4.50	0
T/N	4.59	6
SW	4.62	1
2W	4.62	0
1M	4.62	0
3M	4.65	0
6M	4.71	-1
9M	4.79	-1
1Y	4.83	-2

Yesterday zloty depreciated against dollar as well as single currency. At the opening zloty weakened from 3.395 to 3.42 against the greenback and from 4.00 to above 4.02 against euro. However on Marcinkiewicz statement that Poland may meet the criteria for entering the euro zone in 2009 and than could start discussing joining EMU Polish currency strengthened to 3.9820 against euro and 3.39 against the dollar. On Wednesday, PM discussed with parliament parties to gain their support in today's confidence vote, however cabinet's programme has not been published yet. In the second part of the day, zloty depreciated to 4.0325 against euro and 3.433 against dollar as Marcinkiewicz's cabinet gained support from populist parties, which could postpone fiscal consolidation. The declaration of deputy finance minister Cezary Mech that Poland will not change its current debt management strategy did not significantly help the markets. EURUSD dropped from 1.176 to 1.172 hitting 1,179 in the meantime and stays near two year high as negative climate around single currency remained. Even Axel Weber's comments that inflation was influenced by FX movements and money supply strengthened inflation risks was not enough hawkish to support euro. Euro is handicapped among others by riots in France which are rumoured to spread to Germany.

Fixed income market weakened yesterday after strengthening on Tuesday. Yields rose 8-10bp on political uncertainty, gaining support from populist Samoobrona and LPR in confidence voting perspective. Markets fear what ideas will the government programme include and what will be the actual budget deficit plan. Investors may have closed as well positions before long weekend. U.S. treasuries weakened and yields rose to over 4.60 on poor 5-year bonds auction. Bunds fell on hawkish EBC's Weber's comments.

Ministry of Finance sold PLN491.5m of inflation indexed IZ0816 bonds at yesterday tender with offer at PLN500m and demand at almost PLN820m.

**Bottom line: Zloty and bonds weaker as political situation remains uncertain in the face of populist support in confidence voting, and yields rise on core markets.**

## International update

Yesterday wholesale inventories in U.S. rose 0.6% in September, which was twice the expectations, as compared to 0.5% rise in August. However relationship of stockpiles to sales, which measures how fast stocks are depleted at the present sales pace, dropped from 1.17 to 1.15 months in September and was at the lowest level for almost a year.

Today several important data will be issued.

TIME GMT	REGION	INDICATOR	PERIOD	MARKET	LAST VALUE
13:30	USA	International trade	Sep	USD bn	-61.0
13:30	USA	Import prices	Oct	%	0
14:45	USA	Preliminary Michigan index	Nov		93.3
19:00	USA	Fed budget	Oct	USD bn	-55
					-69.55

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

---

This publication has been prepared by Bank Zachodni WBK S.A. (a member of AIB Group) for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Bank Zachodni WBK S.A., its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Bank Zachodni WBK S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Bank Zachodni WBK S.A. entity or an AIB Group entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

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](mailto:ekonomia@bzwbk.pl), <http://www.bzwbk.pl>



Bank Zachodni WBK is a member of Allied Irish Banks Group