Bank Zachodni WBK

Eyeopener – daily update

Labour market statistics due today

17 November 2005

Today, the CSO will release data on average wage and employment in the enterprise sector in October. Market consensus points to 2.7-2.9%YoY increase in average wage and 2.1%YoY growth in employment. We are a bit more sceptical than the market on wage growth – our forecast is 2.5%YoY – and slightly more optimistic as regards labour demand predicting it grew by 2.2%YoY. Realisation of either market predictions or our forecasts would imply decent rise in real wage bill at the beginning of 4Q05, heralding acceleration in private consumption growth, yet not impressive. The more wage bill growth will result from higher employment with rather sluggish wage rise, the less pro-inflationary conclusions the market will draw from the data. Weaker than expected average wage growth could to some extent renew expectations for another rate cut, although one has to remember that this month the key numbers to watch by the market will be GDP data for 3Q05.

MPC member Andrzej Sławiński said in today's interview with Radio PiN that easing bias which is currently in place is still appropriate to the economic situation, but stressed there was no automatism between easing bias and rate cuts, which was proved by MPC decisions in the last two months. He declined to make other comments on current monetary policy.

What's hot today

Labour market data today

We predict October saw 2.5%YoY rise in average wage and 2.2%YoY in employment

Today, the Central Statistical Office will publish information on average wage and employment in the enterprises sector in October. We forecast average pay growth picked up to 2.5%YoY after a temporary slowdown to 1.8%YoY in September, caused by a high base effect in telecommunication sector. Meanwhile, employment should grow by 2.2%YoY, similarly as a month earlier. Market consensus is more optimistic on wage rise (2.7-2.9%YoY) and a bit more sceptical about employment (2.1%YoY). Realisation of our forecasts would confirm that a situation on labour market has been continuously improving, although at a pace that is not especially dangerous for inflation prospects. Our forecast points to 3.2%YoY rise in real wage bill in corporate sector in October (the same as in August, and almost the same as on average in 3Q05), which suggests that acceleration in private consumption growth in 4Q05 in comparison to 3Q05 would be only gentle.

Bottom line: ***Today's data on wages and employment expected to show gradual improvement of labour market conditions.***

Market monitor

Yesterday zloty strengthened to the euro and weakened to the greenback. Initially Polish currency was gaining from 3.99 to 3.9725 against single currency and from 3.393 to 3.3890 against the dollar against main currencies as political situation is more stable since successful government confidence

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The zloty trading ranges (16.11.2005)

	Min	Max	Fixing
EUR	3.9725	3.9910	3.9776
USD	3.3890	3.4100	3.3915

F/X rates (today's opening)

EURUSD	1.1678	CADPLN	2.8718
USDPLN	3.4098	DKKPLN	0.5379
EURPLN	3.9814	NOKPLN	0.5182
CHFPLN	2.6069	SEKPLN	0.4176
JPYPLN*	2.8970	CZKPLN	0.1365
GBPPLN	5.9620	HUFPLN*	1.5968

*per 100 units

T-bond auction (16.11.2005)

	Offer	Bid PLN m	Sale	Average Yield
5Y*	1 200	1 843	1 200	5.235

* with supplementary auction

Treasury yield curve (16.11.2005)

T-bills	Yield	Change (bp)
3M	4.31	2
6M	4.34	2
9M	4.34	-1
12M	4.34	-5
Bonds	**Yield**	**Change (bp)**
2Y	4.68	-10
3Y	4.76	-6
4Y	4.99	-9
5Y	5.14	-10
8Y	5.30	-9
10Y	5.30	-7

WIBOR rates (16.11.2005)

Term	Rates	Change (pb)
O/N	4.62	2
T/N	4.63	-1
SW	4.63	0
2W	4.63	0
1M	4.64	1
3M	4.65	0
6M	4.69	-1
9M	4.74	-1
1Y	4.77	-2

voting and as finance ministry declared to keep more conservative budget draft economic assumptions. However on poor bonds auction and low interest of foreign investors zloty depreciated and EURPLN rose to 3.984 and USDPLN soared to 3.41. The dollar strengthened to single currency on Tuesday's Ben Bernanke statement of keeping high interest towards curbing inflation. As low CPI and very high capital flow figures were released in U.S. EURUSD kept on falling down to 1.164, close to recent record low, though bounced back later on to 1.168.

Yesterday bond markets continued to strengthen. After initial morning gains, bonds weakened before the auction, as market was negatively surprised by very low demand on tender. However, later on bonds yields dropped following strengthening on core markets and at the end of the session were 7-10bps lower as compared to Tuesday closing. Poland sold PLN1bn 5Y DS1110 bonds at average yield 5.235% with demand of only PLN1.63bn. Ministry of Finance placed another PLN200m at supplementary tender. U.S. Treasuries yields dropped below 4.50 and Bunds to 3.42 on low CPI inflation figure in the US.

<u>Bottom line</u>: Zloty and bonds remain sensitive tough are getting stronger as political situation stabilized and core bonds yields dropped down on U.S. figures.

International update

According to Eurostat HICP inflation in the euro zone amounted to 2.5%YoY in October as compared to 2.6%YoY in the previous month and market expectations at 2.4%YoY. Core inflation which excludes food and energy prices rose to 1.5%YoY from 1.3%YoY in September.

According to US Department of Labor, CPI as well as core inflation rose 0.2%MoM (4.3%YoY and 2.1%YoY, respectively), whereas market expected both inflation measures respectively at 0.0%MoM and 0.2%MoM. These figures showed inflation has been contained and this could lower the pace of Fed's rate hikes. Net capital flows to US amounted to USD101.9bn in September against revised USD89bn in August and was much higher than market forecast at USD72.5bn. In the context of record high trade deficit it was positive news for the dollar.

Today a few important figures will be published abroad.

TIME GMT	REGION	INDICATOR	PERIOD		MARKET	LAST VALUE
10:00	EMU	Industrial output	Sep	%MoM	0.5	0.8
14:15	USA	Capacity utilization	Oct	%	79.4	79.0
14:15	USA	Industrial output	Oct	%MoM	0.9	-1.5

Source: Parkiet Reuters, BZ WBK

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