

Eyeopener – daily update

Better short-term inflation outlook

2 December 2005

Finance Ministry showed very optimistic inflation forecasts, assuming CPI fall to 1.2% in November. While we previously predicted a smaller drop in inflation, we find rationale behind this forecast, as indeed domestic food prices could have been depressed by Russia's ban on Polish exports in November. This situation improves short-term inflation prospects, which should be positive for bond market.

Prime Minister Kazimierz Marcinkiewicz said yesterday "we don't want to change the National Bank of Poland's charter", which was perceived positively by the market, after yesterdays' morning information on Samoobrona's plans to limit the independence of the central bank. At the same time, PM reiterated he saw a chance for further monetary easing and he wanted to hold talks with the central bank about it.

What's hot today

Optimistic FinMin's inflation forecasts

Yesterday the Ministry of Finance presented new, more optimistic forecasts of inflation for the following months. They expected CPI inflation at 1.2%YoY in November amid very small increase in food prices (of only 0.1%MoM) and a fall in fuel prices by above 3.1%MoM. Indeed, if such forecasts of food and fuel prices were to materialise, inflation could fall to the level of 1.2% and remain below 1.5% also in December. While we previously expected a fall to 1.5% in November, this was based on an assumption of much higher food prices. A substantial risk on the downside in this area arose after Russia had blocked exports of Polish food products, which created excess supply on the domestic food market and could have led to reductions in prices of some products. As Finance Ministry's estimation is based on some survey information on prices collected across Poland, it is hard to argue about their assumptions. It is not surprising that market reaction was positive yesterday, as majority of market participants will most likely change their inflation forecasts as well. This will also change the inflation path for the beginning of 2006 and even if the famous statistical base effect will lead to inflation increase in Q1 2006 (MPC's Filar reiterated it again yesterday), it seems CPI would not breach 2%, as we have predicted before.

Bottom line: Better inflation prospects in the short-run, positive for bonds.

Market monitor

Zloty strengthened on Thursday's session against the dollar and especially the euro. Initially Polish currency depreciated from 3.9125 to 3.9318 on bonds selling after Wednesday's MPC statement and lost hopes on rates cuts, and especially after information on Samoobrona's motion to curb central bank's independence. Later on, Finance Ministry announced its improved

FinMin predicts inflation fall to 1.2%YoY in November

Food prices being depressed by Russia's ban on Polish exports

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The zloty trading ranges (1.12.2005)

	Min	Max	Fixing
EUR	3.8940	3.9345	3.9318
USD	3.3200	3.3400	3.3366

F/X rates (today's opening)

EURUSD	1.1713	CADPLN	2.8390
USDPLN	3.3118	DKKPLN	0.5235
EURPLN	3.8795	NOKPLN	0.4908
CHFPLN	2.5201	SEKPLN	0.4101
JPYPLN*	2.7628	CZKPLN	0.1350
GBPPLN	5.7241	HUFPLN*	1.5400

*per 100 units

Treasury yield curve (1.12.2005)

T-bills	Yield	Change (bp)
3M	4.35	5
6M	4.35	5
9M	4.35	2
12M	4.40	7
Bonds	Yield	Change (bp)
2Y	4.80	5
3Y	4.89	2
4Y	5.09	-1
5Y	5.20	-4
8Y	5.22	-6
10Y	5.24	-8

WIBOR rates (1.12.2005)

Term	Rates	Change (pb)
O/N	4.58	3
T/N	4.60	2
SW	4.61	1
2W	4.61	1
1M	4.62	2
3M	4.65	2
6M	4.72	3
9M	4.81	6
1Y	4.88	9

inflation forecasts and PM Marcinkiewicz rejected Samoobrona's proposals on changing NBP bill and in the result EURPLN fell to 3.8935 and USDPLN declined slightly to 3.32. EURUSD was stable before EBC's rate decision just below 1.18 and on the decision and especially on Trichet's less hawkish comments euro lost against the dollar to 1.17.

Fixed income market strengthened yesterday as compared to Wednesday closing. Bonds prices dropped initially on MPC communiqué and Samoobrona's proposals (5Y yield reached 5.33) and strengthened on MF inflation estimate and PM announcement as well as on European core bond markets strengthening after Trichet's statement. Yields soared 2-5 bps at the short end of the curve and dropped by 1-8 bps at the longer end of the curve in comparison to Wednesday's closing. 10-year U.S. Treasuries were stable around 4.48 and rose to 4.50 on quite strong ISM figures. 10-year Bunds traded down to 3.40 hitting 3.38 on Trichet's comments.

Bottom line: Zloty strengthened on PM's rejection of controversial ideas change NBP charter and MF's low November inflation forecast. Yields dropped as well with regards to the mentioned factors and European core bond markets strengthening.

International update

The Eurozone Purchasing Managers' Index (PMI) rose in October from 52.7 to the expected 52.8, which is the 14-month high, and was mainly a consequence of strong demand from U.S. According to Eurostat unemployment was stable and remained on revised September's level 8.3%, whereas market expected unchanged figure at previous reading of 8.4%.

Yesterday EBC increased main interest rate in euro zone for the first time in 5 years from 2.0% to 2.25%. The decision was consistent with market expectations. However EBC's chairman Jean Claude Trichet suggested that the rate rise does not imply the start of series of rate hikes.

New jobless claims fell from revised 337,000 last week to 320,000 with forecasted drop to 318,000 from 335,000. Core PCE inflation rose by 0.1%MoM in October and was twice lower from market consensus. U.S. manufacturing ISM fell in November to 58.1 from 59.1 in October, which was much higher than market forecast at 57.5. %. Employment subindex showed positive situation on the labour market and prices paid component was lower and much more positive in contrast to Chicago PMI. Personal income rose in October by 0.4% slightly less than them market consensus at 0.5 and personal spending were in line with expectations and rose by 0.2%.

Today's publications are listed below.

TIME GMT	REGION	INDICATOR	PERIOD		MARKET	LAST VALUE
10:00	EMU	PPI (H)	Oct	%YoY	4.0	4.4
13:30	USA	Hourly average earnings (M)	Nov	%	0.2	0.5
13:30	USA	Non-farm payrolls (H)	Nov	'000	210	56
13:30	USA	Unemployment (M)	Nov	%	5.0	5.0

Source: Parkiet Reuters, BZ WBK

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