Bank Zachodni WBK

Eyeopener – daily update

Waiting for key data

15 February 2006

Today the financial market will wait for crucial figures to be released in the afternoon – CPI inflation as well as labour and employment in corporate sector – as the data will be crucial for assessing monetary policy perspectives. We expect to see still very low inflation (0.9%YoY), and moderate rise in both salaries and jobs number, which would allow the MPC to trim interest rates again this month. Meanwhile, money supply data published yesterday did not bring any important revelations, showing continuing surge in households' loans and firms' deposits and shy improvement in corporate credit and households' deposits.

PM Kazimierz Marcinkiewicz said yesterday that PiS deputy Wojciech Jasiński is the main candidate for the post of treasury minister, while today private TVN24 informed that Jasiński will receive the nomination today.

What's hot today

CPI, wages and employment figures due today

Today the statistical office will release crucial data for financial markets – labour market figures and CPI inflation for January. We expect the same rise in CPI inflation as market participants (0.3%MoM and 0.9%YoY, up from 0.7% in December 2005), however we are below market consensus as regards labour market data. We forecast the annual rate of growth of corporate wage and employment in the enterprise sector at 3.4% and 1.8%YoY, respectively (against market consensus of 4.0% and 1.9%). Although there is indeed a chance for higher employment growth (especially that statistical office will probably revise big firms' database as every year), we maintain our opinion that there is high chance for another rate cut already this month. It is worth to remind that the situation on the labour market was mentioned as crucial by the so-called hawkish faction, being in the minority in the MPC.

***Bottom line*: If figures appear to be in line with our forecasts, than provided the stability in politics holds, the expectations on a rate cut yet in February (which is our view) may rise, and bond yields may fall further.**

Faster growth in credit

Yesterday the National Bank of Poland published data on money supply for January. Broad money M3 rose by 10.2%YoY, which was slightly below our forecast of 10.4% and market consensus of 10.7%. As usual at the beginning of the year deposits fell seasonally as compared to the level recorded at the end of last year. On annual basis, deposits of households decelerated growth to 2.5% (from 3.6%YoY in December) and deposits of enterprises accelerated again to 21.4% (from 16.8%). This shows that at the beginning of 2006 the trend of outflow of households' money from banking deposits to investment funds was continued, while firms still keep a large amount of their financial resources (above PLN95bn) on the banking accounts. As regards

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credit market, trends observed in previous months were maintained with loans acceleration – to 23.2%YoY from 22.8% as regards households, and to 3.4%YoY from 2.8% for firms.

***Bottom line**: Data neutral for the market, especially given that the most important figures will be released only today.*

Market monitor

FX market positively reacted to the news that president Lech Kaczyński decided not to dissolve the parliament, which calmed down investors and encouraged to buy Polish currency. In effect, zloty opened stronger against the euro and fluctuated around 3.79. USDPLN rate initially rose to from the 3.1852 at the opening to 3.1996 and closed lower at 3.1827. The greenback appreciated versus the euro from 1.1914 to 1.1865 after much stronger retail sales data in U.S. though later on it eased back to 1.191.

On Tuesday Polish bond prices soared and yields declined by 7-12 bps, as market recovered almost all losses from previous day. Polish market stayed under little influence of the core markets yesterday. US Treasuries weakened after very good retail sales data for January and 10Y yields rose from 4.58% to 4.61% reaching 4.63% in the meantime. 10Y Bunds yields were slightly higher than on Monday's closing at 3.50%.

At today's tender Ministry of Finance will offer PLN2.4bn of 5Y DS1110 bonds.

Investors will concentrate on the results of the auction as well as on key macroeconomic figures i.e. CPI inflation and data from the labour market. Today Fed's chairman Ben Bernanke is due to speak in US House of Senate.

***Bottom line**: Zloty and bonds recovered most of the losses incurred yesterday. Today the market will focus on important CPI inflation, labour market data and bond auction, which may be positive for the fixed income market.*

The zloty trading ranges (14.02.2006)

	Min	Max	Fixing
EUR	3.7890	3.8030	3.7972
USD	3.1800	3.2040	3.1868

F/X rates (today's opening)

EURUSD	1.1909	CADPLN	2.7813
USDPLN	3.1886	DKKPLN	0.5134
EURPLN	3.7960	NOKPLN	0.4744
CHFPLN	2.4656	SEKPLN	0.4139
JPYPLN*	2.7272	CZKPLN	0.1356
GBPPLN	5.6030	HUFPLN*	1.5272

*per 100 units

Treasury yield curve (14.02.2006)

T-bills	Yield	Change (bp)
3M	4.03	-4
6M	4.01	-6
9M	4.01	-5
12M	4.01	-3
Bonds	**Yield**	**Change (bp)**
2Y	4.3	-7
3Y	4.45	-11
4Y	4.59	-9
5Y	4.68	-12
8Y	4.76	-9
10Y	4.84	-11

3Y - DS0509, 4Y - PS0310, 5Y - DS1110

WIBOR rates (14.02.2006)

Term	Rates	Change (bp)
O/N	4.33	-1
T/N	4.33	-1
SW	4.34	0
2W	4.34	0
1M	4.33	-1
3M	4.30	-2
6M	4.27	-2
9M	4.25	-3
1Y	4.25	-3

International update

ZEW institute index reflecting business sentiment in Germany, the biggest economy in the euro zone amounted to 69.8 pts as compared to market consensus and previous month reading at 71.0 pts. ZEW index is a second most important economic indicator of German economy.

Preliminary Q4 GDP in the euro zone rose by 0.3%QoQ and 1.7%YoY from 0.6%QoQ and 1.8%YoY in the Q3 and was in line with expectations. However the market expects that the GDP slowdown will not change the ECB's decision on a rate hike yet in March.

In January U.S. retail sales rose by 2.3%MoM, which was much higher than the market consensus at 0.8%MoM, which boosted inflation fears. The December figure was revised downwards to 0.4%MoM. Retail sales excluding demand for automobiles soared by 2.2%MoM as compared with 0.7%MoM market forecast, which was the highest increase in more than 6 years.

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