Eyeopener – daily update

CPI figures due today

14 December 2006

The Sejm's speaker Marek Jurek suggested yesterday that a vote on the appointment of Jan Sulmicki for NBP governor could take place before Christmas at a special Sejm's sitting. This means that we will probably get some comments from the candidate then, as he is going to present an expose. As we expected, initial reaction of the market to the nomination was quite neutral. In fact, the zloty strengthened yesterday, but this was rather related to improved sentiment in the region. Domestic bond prices fell due to weak results of switching auction and rise in yields on the core markets after strong US figures.

Balance of payments statistics for October, released yesterday by the NBP, showed higher than expected C/A deficit. However, the data were positive for economic prospects, as they confirmed very high growth in foreign trade turnover and strong inflow of foreign direct investment.

Today, the key focus of attention on the domestic financial markets will be a release of CPI inflation data.

What's hot today

CPI and monetary statistics due today

We forecast CPI inflation increased to 1.5%YoY in November, which is consistent with market consensus and FinMin's estimates

Today at 14:00 local time, the CSO will release CPI data for November. After a decline in October to 1.2%, this time a moderate rise in inflation back to 1.5%YoY is commonly expected (this level is predicted by market consensus, our forecast as well as FinMin's estimate). The increase will be driven mostly by a low base effect, with consumer prices staying generally quite stable on a monthly basis (only 0.1%MoM rise is predicted), so the result will not be a sign of mounting inflationary pressure and thus should be neutral for the fixed income market. Also, monetary statistics will be released today by the central bank. They are expected to show a continuation of rapid growth in broad money (12.1%YoY) and total loans (19.2%YoY), nevertheless likewise in previous months it should not be perceived by central bankers as a significant risk for the inflation target, because the relation between money and inflation is quite loose. At the same time, the data should be seen as an optimistic hint on economic activity in the fourth quarter.

***Bottom line*: Slight inflation rise should be neutral for the market. Monetary statistics should not have any impact on the market.**

Excellent export performance continues

In October, the current account deficit of €482m was recorded, which was bigger than expected by the market and came after €195m surplus recorded in September. Interestingly, both trade and services accounts improved in comparison with the previous month: trade deficit reached €269m against €299m in September, while services surplus grew to record-high €340m from €151m. Thus, deterioration in current account balance was a consequence of slump in income balance and current transfers. The former was in deficit of

Maciej Reluga Chief Economist 022 586 8363

Piotr Bielski 022 586 8333
Piotr Bujak 022 586 8341
Cezary Chrapek 022 586 8342 Email: ekonomia@bzwbk.pl

€931m against September's €638m gap (high dividend payments to foreign owners amid record-high companies' profits), while the transfers surplus shrank to €378m from elevated €981m in the previous month (very slow inflow of EU support funds in October). An important feature was outstanding performance of Polish exports that soared 24%YoY to €9.3bn, even despite relatively high base effect. This confirms that foreign trade remains a vital element of currently observed economic expansion. At the same time, import growth was even higher than that and reached almost 28%YoY (the second best reading this year), which was probably driven largely by strong domestic demand. It seems likely that export-oriented production will continue to serve as an important driver of economic growth in Poland in future. Especially that the data confirmed strong inflow of foreign direct investment (the second straight months above €1bn). At the same time, imports will also expand rapidly in the coming quarters due to strengthening consumption and investment demand, additionally supported by strong zloty. Nevertheless, it seems that a pace of trade deficit deterioration should be rather moderate and should not raise significant concerns about external stability of the economy. After October, cumulated 12-month current account deficit amounted to only 1.9% of GDP, which was still low, and in the next year it could increase only by ca. 0.5 pct. points of the GDP, which does not seem to be worrying.

Bottom line: ***Despite higher than expected current account gap, the balance of payments data were positive for economic prospects, as they confirmed very high growth in foreign trade turnover and strong inflow of foreign direct investment.***

Market monitor

Moods in the region remained positive also during yesterday's session. This was accompanied by the appreciation of Hungarian forint and Slovak crown, which contributed to zloty strengthening. The Czech crown this time weakened due to very high current account. At the opening, the Polish currency was slightly below 3.81 vs. euro and later on appreciated below 3.80. The USDPLN rate initially declined to 2.86, though this move was limited given the dollar appreciation. Later on it rose to 2.875. This was a result of better than expected US retail sales data for November. As the data were published, the euro gave back all gains it experienced after the release of Tuesday's Fed communiqué. The EURUSD rate dipped to 1.32. Retails sales figure contributed also to significant weakening in the core bond markets. 10Y US bond yields jumped to 4.54% from 4.49%, while 10Y Bunds yields rose to 3.74% from 3.69%. This influenced the Polish market and yields increased by a few basis points. Domestic debt was additionally negatively affected by quite poor results of the switch auction, as the finance ministry accepted prices below the market. The Ministry of Finance placed PLN2.45bn of 5Y PS0511 bonds, PLN1.14bn of DS1017, PLN1.85bn of WS0922 bonds, buying back PLN1.37bn of WZ0307, PLN3.78bn of OK0407, PLN172m of PS0507 and PLN289m of OK0807.

***Bottom line*: Zloty strengthened again and the EURPLN rate broke 3.80. Today the Polish market is going to focus on domestic inflation data, while US data may also have some importance.**

International update

The market expected a rise in US November retails sales by 0.2%MoM after a decline by 0.4%MoM in the previous month. However the released data were much stronger than forecasted as retail sales rose by 1.0%. Non-auto retail sales increased by 1.1% and autos sales by 0.9%. What is more, the October figure was upwardly revised to -0.1%. The released report was at odds with expectations of further slowdown of growth.

Today, data on US foreign trade prices will be released.

TIME GMT	REGION	INDICATOR	PERIOD	UNIT	MARKET	LAST VALUE
13:30	UA	Foreign trade prices (import)	Nov	%	0.0	-2.0

Source: Reuters

The zloty trading ranges (13.12.2006)

	Min	Max	Open*	Close**	Fixing
EUR	3.7919	3.8082	3.8082	3.7933	3.8000
USD	2.8598	2.8771	2.8685	2.8692	2.8639

*** 7:30 GMT. ** 16:00 GMT**

The EUR/USD trading range (13.12.2006)

	Min	Max	Open*	Close**
EUR/USD	1.3201	1.3281	1.3272	1.3223

*** 7:30 GMT. ** 16:00 GMT**

F/X rates (today's opening)

EURUSD	1.3271	CADPLN	2.5343
USDPLN	2.8705	DKKPLN	0.5081
EURPLN	3.8091	NOKPLN	0.4569
CHFPLN	2.3847	SEKPLN	0.4174
JPYPLN*	2.4801	CZKPLN	0.1354
GBPPLN	5.6058	HUFPLN*	1.4671

*per 100 units

Fixed income markets (13.12.2006)

	PL		US		DE	
Term	Yield	Change (bp)	Yield	Change (bp)	Yield	Change (bp)
2Y	4.56	1	4.71	9	3.73	-2
3Y	4.69	0	4.61	10	3.72	1
4Y	4.84	2			3.75	4
5Y	4.94	3	4.56	10	3.73	1
8Y	5.03	3			3.76	0
10Y	5.14	5	4.59	9	3.75	2

T-bond auction

Date		Offer	Bid	Sale	Avg. Yield	Prev. Avg. Yield	Change
		PLN m			%		bp
06.12	2Y	4 560	13 728	4 560	4.617	4.723	-11
15.11	5Y	2 000	4 852	2 000	4.987	5.328	-34
11.10*	10Y	2 400	5 520	2 400	5.483	5.595	-11

* with a supplementary auction

WIBOR rates (13.12.2006)

Term	Rates	Change (bp)
O/N	4.09	-1
T/N	4.10	0
SW	4.10	-1
2W	4.10	-1
1M	4.12	-1
3M	4.19	0
6M	4.29	-1
9M	4.40	0
1Y	4.50	0

Forward Rate Agreements (13.12.2006)

Term	Mid	Change (bp)
1x2	4.14	0
3x6	4.36	1
6x9	4.51	0
9x12	4.64	1
3x9	4.47	3
6x12	4.61	1

ECONOMIC ANALYSIS UNIT

ul. Marszałkowska 142. 00-061 Warszawa. fax +48 022 586 83 40
email: ekonomia@bzwbk.pl Web site: http://www.bzwbk.pl

Maciej Reluga (Chief Economist) +48 (0) 22 586 83 63
Piotr Bielski +48 (0) 22 586 83 33
Piotr Bujak +48 (0) 22 586 83 41
Cezary Chrapek +48 (0) 22 586 83 42

New business queries:

Treasury - Frank O'Connor +48 (0) 22 586 8402
frank.o'connor@bzwbk.pl

Corporate Banking - Rashid Khan +48 (0) 22 586 8050
rashid.khan@bzwbk.pl

Branch/ Mortgages - Carl Coates +48 (0) 22 586 8059
carl.coates@bzwbk.pl

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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. http://www.bzwbk.pl

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