Bank Zachodni WBK

Eyeopener – Good labour market data?

16 January 2007

- **Zloty remained stable and bonds strengthened in reaction to lower than forecasted CPI in December**
- **Today, data on wages and employment will show pressure on the labour market, at least equally important for the MPC as inflation rate**
- **Foreign market will focus on ZEW index in Germany**

Similar to Friday also the Monday session saw zloty fluctuation in a quite tight range against the main currencies amid lower activity in the international markets. In the United States investors were on market holiday with regards to the Martin Luther King's Day. The EURPLN rate traded in range of 3.86-3.88, while the USDPLN rate stayed between 2.98 and 3.00. The stabilization of Polish currency might have been supported by a slight recovery in the Warsaw Stock Exchange, after US equities rise on Friday's retail sales data. At the end of the session zloty was marginally weaker than at the opening against the main currencies. The main event of the day was the publication of the December inflation. The CPI index rose by 1.4%YoY the same as in November, which was below our forecast 1.7%, the market consensus at 1,6% and the estimates of the Ministry of Finance at 1.5%. This strengthened the debt market along the entire yield curve. The inflation data did not change significantly the perspectives of core inflation development, as the lower CPI was an effect of drop in food and fuel prices. Net inflation should gradually increase reflecting some pressure on prices, however it may not reach the MPC target throughout most part of this year. The Ministry of Finance informed it was going to offer PLN2.5bn of the 5Y PS0412 bonds on Wednesday, what was close to the upper band of the previously announced range of PLN1.8-2.8bn. It seems that the quite high offer should not deter investors and the demand may be high as at the previous week's auction.

Due to the holiday in the US, movements of the EURUSD rate were limited and the dollar slightly weakened against the euro after strengthening in the last two weeks to 1.293. Movements of US bond prices were also limited and yields of 10-year Treasuries remained at 4.77%. Yields of 10-year Bunds were at 4.06% at the end of the session.

Today activity of investors should be somewhat higher which may bring about stronger moves in the market, especially that we will get another important data, i.e. labour market statistics from the enterprise sector (13:00 GMT). We estimate that average wage growth in December amounted to 5.9%YoY although there is risk on the upside to this forecast given very strong rise in households' deposits and cash in circulation. Market consensus points to acceleration in wage growth in December to 6.2%YoY from 3.1%YoY in November. As regards employment, we forecast growth of 3.8%YoY, and median of market forecasts points to 3.9%YoY versus 3.8%YoY in November. Also at 13:00 GMT we will get balance of payments statistics for November. We predict that C/A balance improved in November as compared to October and stood at -€380m. Market consensus points to deficit of €475m. The figures should confirm positive tendencies in foreign trade (low C/A deficit of 1.9% of GDP with high growth rates in exports and imports) and should support the zloty.

In the euro zone, a key publication today will be the ZEW index for January, due for release at 10:00 GMT, measuring expectations of 350 German analysts about the future of their economy in the six months horizon. The index could show a scale of impact of VAT tax hike on the economic sentiment. The market forecasts the index to rise to –10.0 from –19.0 in December. Investors will be also awaiting other important events due this week, mostly Bank of Japan's decision (Thursday morning), inflation figures, data from the housing market and manufacturing sector in the US, and data about industrial output in Poland.

Today in the morning, further dollar weakening against the euro took place, to ca. 1.297. During the Asian session US Treasuries strengthened to ca. 4.76, which influenced also yields of German Bunds today in the morning. Polish market opened quite steady today.

The technical analysis still gives some signals for a possible slight zloty weakening, though at least until the release of the key US data and the decision of the Bank of Japan, the zloty rate may fluctuate in range of 3.85-3.90 against the euro and 2.96-3.01 versus the dollar. If the labour market data are better than expected they may negatively affect the moods in the debt market, though the first part of the day may be still positive after Monday's low CPI and early morning comment of MPC member Jan Czekaj, who suggested no need to raise rates.

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F/X rates (today's opening)

EURUSD	1.2953	CADPLN	2.5601
USDPLN	2.9878	DKKPLN	0.5187
EURPLN	3.8701	NOKPLN	0.4640
CHFPLN	2.3953	SEKPLN	0.4257
JPYPLN*	2.4800	CZKPLN	0.1392
GBPPLN	5.8686	HUFPLN	1.5329

Financial market review (15.01.2007)

The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.866	3.8763	3.8685	3.8725	3.8728
USDPLN	2.9873	2.9968	2.99	2.9939	2.9918
EURUSD	1.293	1.2953	1.2934	1.2934	-

T-bonds

TERM	BOND	Yield (%)	Change (bp)	Last auction	Average yield
2Y	OK1208	**4.44**	**-1**	06.12	4.617
5Y	PS0511	**4.89**	**-6**	15.11	4.987
10Y	DS1017	**5.16**	**-6**	10.01	5.234

IRS rates (Mid)

TERM	PL		US		EU	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1Y	4.44	-6	5.38	2	4.12	0
2Y	**4.65**	**-3**	5.25	4	4.16	1
3Y	4.77	-7	5.17	3	4.17	2
4Y	4.87	-4	5.16	4	4.18	2
5Y	**4.91**	**-7**	5.18	4	4.19	2
8Y	5.00	-7	5.22	5	4.25	3
10Y	**5.05**	**-5**	5.26	4	4.30	4

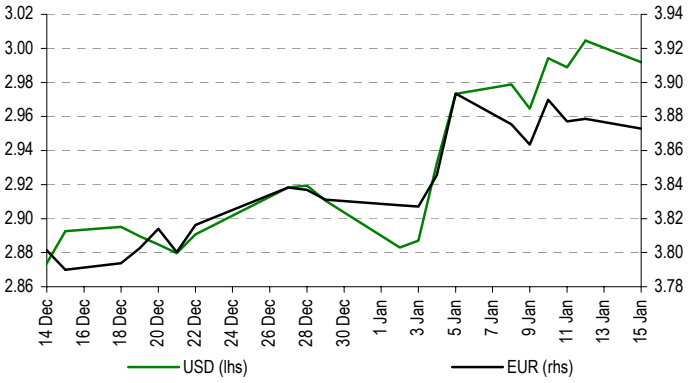
WIBOR rates

TERM	%	Daily change (bp)
O/N	4.10	-2
T/N	4.12	0
SW	4.12	0
2W	4.12	0
1M	4.12	-1
3M	4.19	-1
6M	4.31	0
9M	4.41	-1
1Y	4.51	-1

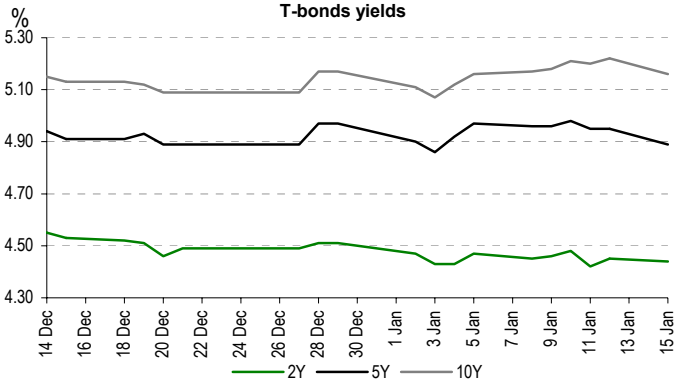
FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	4.12	-1
3X6	4.21	1
6X9	4.32	1
9X12	4.42	1
3X9	4.52	0
6X12	4.56	1

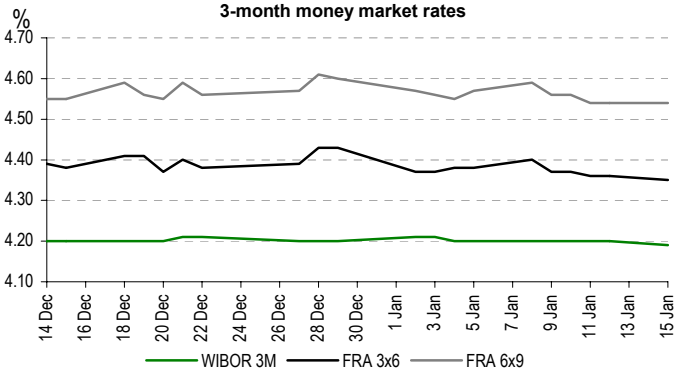
Zloty exchange rate



T-bonds yields



3-month money market rates



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