

# Weekly economic update

13 June – 19 June 2005

Contrary to last week, this week will be full of events important for the domestic financial market. We will see the majority of crucial macroeconomic indicators for May: CPI, PPI, corporate wages and employment, output in industry and construction, monetary statistics. All of them are key in the context of upcoming MPC meeting later this month. Especially that for the moment the Council seems disorientated in the economic situation after the release of weaker than expected GDP figures (especially with respect to investment) for the first quarter of this year. Difficulties with interpretation of the GDP data, with simultaneous emphasis on the importance of economic growth for monetary policy, was reflected in several comments from central bankers. The uncertainty was stressed mainly by hawks while doves talked of a need for stimulating the economy with another rate cut. The market expects the MPC to reduce borrowing costs by 50pb in June, but we predict more cautious cut of 25pb.

On Tuesday, finance minister will present assumptions for 2006 budget (consultations on the issue with opposition has just started). So far, minister Gronicki declared the budget deficit in 2006 should reach PLN30bn. While budget parameters are important for the market, it may turn out that investors will pay more attention to no-confidence vote in finance minister the initially planned for Friday.

## Economic calendar

Time GMT	COUNTRY	INDICATOR (importance level*)	PERIOD	FORECAST		LAST VALUE	
				MARKET	BZWBK		
<b>MONDAY (13 June)</b>							
09:00	POL	Auction for 52-weeks treasury bills – PLN600m (M)					
<b>TUESDAY (14 June)</b>							
12:30	USA	PPI (H)	May	%MoM	0.2	-	0.3
12:30	USA	Retail sales (H)	May	%MoM	0.0	-	1.4
14:00	POL	CPI (H)	May	%YoY	2.4	2.4	3.0
14:00	POL	Money supply (M)	May	%YoY	12.0	11.5	10.0
<b>WEDNESDAY (15 June)</b>							
09:00	POL	Auction for 5y bonds (PS0310) – PLN2.5-3.0bn (H)					
12:30	USA	CPI (H)	May	%MoM	0.0	-	0.5
12:30	USA	Business inventories (M)	Apr	%	0.3	-	0.4
13:00	USA	Net capital flow (H)	Apr	\$bn	-	-	45.7
13:15	USA	Industrial production (H)	May	%MoM	0.2	-	-0.2
14:00	POL	Corporate wages (H)	May	%YoY	2.6	2.7	1.8
14:00	POL	Corporate employment (M)	May	%YoY	1.8	1.9	1.7
18:00	USA	Beige book (H)	-				
<b>FRIDAY (17 June)</b>							
09:00	EMU	Industrial production (M)	Apr	%MoM	-	-	-0.2
12:30	USA	C/A (H)	1Q	\$bn	-190.5	-	-187.7
13:45	USA	Preliminary Michigan index (H)	Jun	-	88.5	-	86.9
14:00	POL	Industrial production (H)	May	%YoY	2.9	1.7	-1.0
14:00	POL	PPI (H)	May	%YoY	-0.2	-0.2	0.8

\* Importance level: (H)igh, (M)oderate; Source: Reuters, BZ WBK, Parkiet

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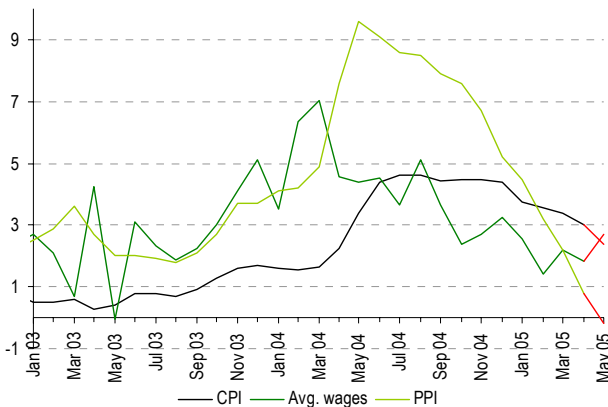
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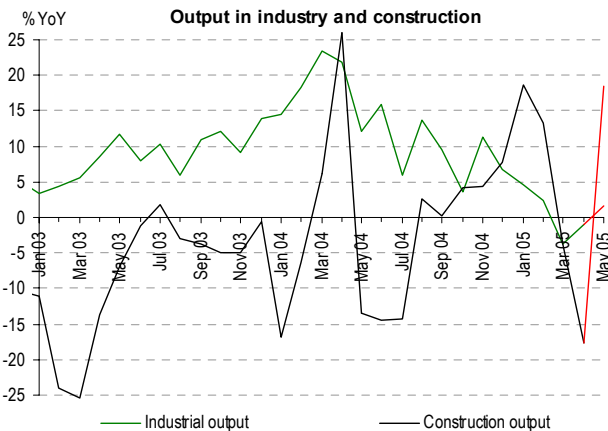
## What's hot this week – Important data and crucial vote in the Sejm

CPI, PPI and corporate wages (%YoY)



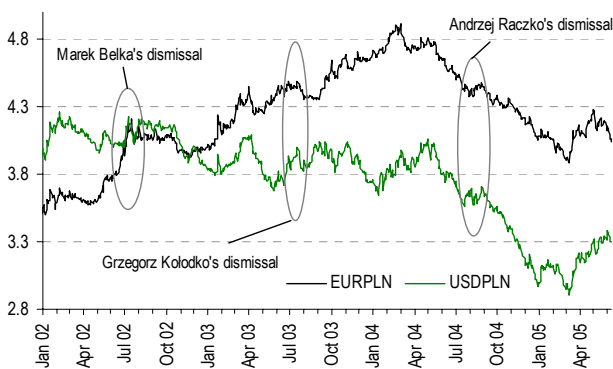
- CPI and PPI figures should confirm fast inflation decline.
- Given that the MPC takes into account not only inflation projection, but also current data, drop in consumer and producer prices will most likely strengthen expectations for next interest rate cut already in June.
- Especially, that favourable inflation perspectives in the medium run should be confirmed by the data about wages and employment.
- While employment rise has been accelerating for some time already, increase in average salaries remains moderate, which transfers into only very timid improvement in wage bill in enterprise sector.
- In general, the data appearing in the coming week should confirm positive inflation outlook.

Output in industry and construction



- Data about industrial production could shed some more light on the issue of strength of Polish economy after uncertainty caused by much weaker than expected GDP data for 1Q05.
- As the biggest question mark concerns investment, the biggest attention will surely attract data on output in sectors producing investment goods and data on construction output. We believe that those areas will show optimistic signals.
- Monetary statistics should confirm trends observed in previous months, i.e. gradual acceleration in deposit rise (amid much faster growth in deposits from firms than households) and improvement in total loans growth. Corporate loans' growth will probably remain in the red, however, which could rise pessimism regarding investment activity.

Zloty rate and changes on the post of finance minister



- It was preliminary advised that no-confidence vote in finance minister Miroslaw Gronicki will take place on Friday, June 17.
- Contrary to earlier comments from some SLD politicians, head of the party Wojciech Olejniczak declared they will defend finance minister. This is not certain, however, whether SLD deputies will be disciplined.
- LPR (author of the motion), Samoobrona and PO has already announced they will vote against minister. One may expect that PiS will join them.
- However, as Gronicki became more flexible on the controversial issue of excise tax hike, it is possible that apart from SLD deputies there will be around 80 MPs more (mostly from other left-wing parties) in favour of him. This would yield a sufficient majority to save current finance minister.

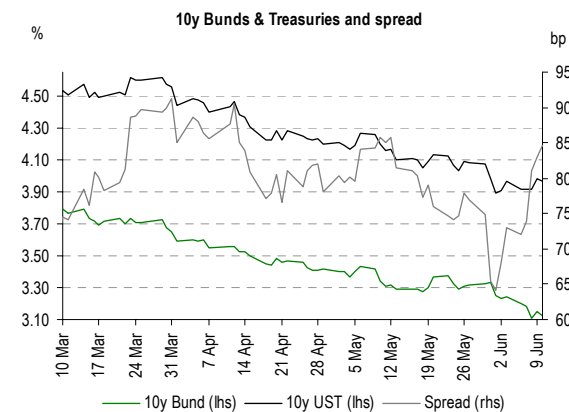
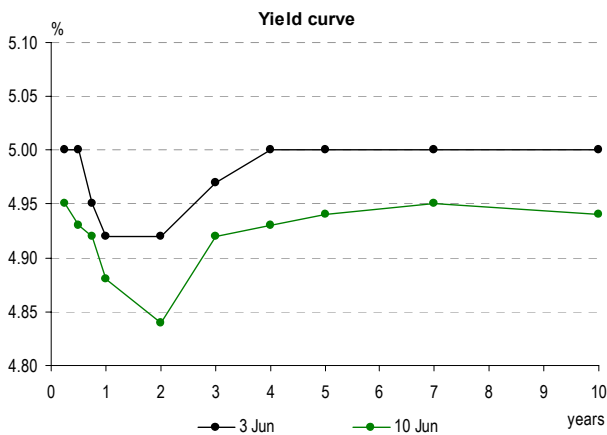
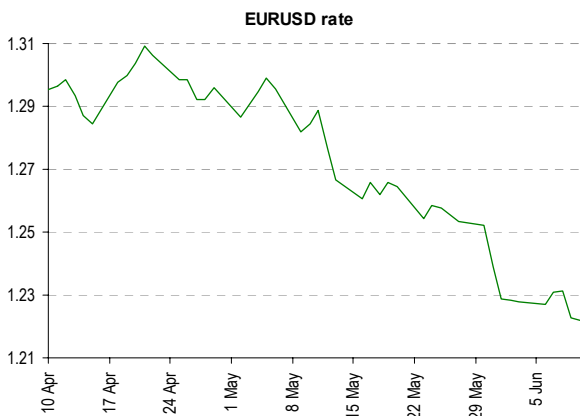
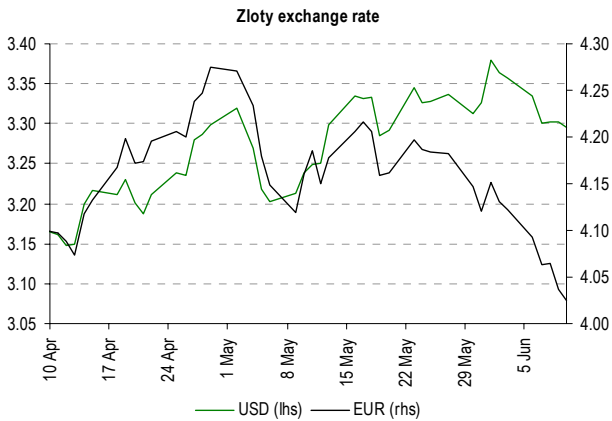
## Quote of the week – Reluctant to fast euro adoption

**Kazimierz Marcinkiewicz, PiS economic expert**  
PAP, 7 June

*We would like to fulfil Maastricht criteria in four years. As regards entry to the euro zone, we work on some conditions [under which it will be favourable for Poland] and we will enter when it will be the most favourable. We want to show what conditions, what real criteria has to be met so that it was favourable. It is not that fast entry is favourable for Poland.*

Results of public opinion polls published last week showed that PO-PiS coalition may count on majority of seats in the new Sejm, but there are different indications as regards the relative strength of these two parties. Comments of PiS expert indicates that from financial market's perspective this is very important issue. Dominant role of the PiS in the coalition would probably mean delay in Poland's entry to the euro zone. A few months left until elections and much may change in Poles' political preferences. These changes will surely be closely watched by market participants.

Market monitor



A week full of data

- Last week amid the lack of domestic releases, the zloty benefited with stabilisation in EURUSD market and capital flow into the Polish bond market. The Polish currency breached a strong technical level of 4.1 to the euro and reached another psychological barrier 4.04, around which the rate stabilised. During a week the zloty advanced the euro by 2.3% and against the dollar by 1.8%.
- The next week as opposed to the last one will be full of data releases, from which again industrial production may prove to be the most significant. That's why an impact of the cross will be rather limited. As a threat from finance minister dismissal faded, EURPLN rate should lower to 4.0 mark. Thus we expect the zloty to fluctuate in range 4.0-4.1 to the euro and 3.25-3.35 against the dollar.

The euro is unlikely to rise

- The beginning of the week heralded reasonably good condition of the euro, however yet the first, though less important technical level 1.234, proved to be difficult to break by the single currency that pushed the euro back to 1.22. Greenspan's statements did not alter the picture of EURUSD market. US trade balance data caused a fall of EURUSD rate to 1.213
- Owing to the data from US affecting mainly bond markets EURUSD rate will be likely to continue recent downward tendency. Only Friday's data on 2Q05 C/A balance from US may change the situation in the market, as they will show the full picture of US external imbalance.

Close to low

- Amid lack of domestic impulses fluctuations of the Polish bonds prices were determined by interest rate markets abroad, but they were more sensitive to Bunds' yield declines than their increases. The threat of finance minister dismissal only slightly affected the market and finally the curve ended the week 5-7 bp lower. FRA curve did not record major changes.
- 5y bond auction will probably sanction yield levels close to historical lows, supported by still falling inflation. As output data will be released only on Friday, the Polish interest rate market may be affected by moves of foreign bonds. Level of 5% in 5y sector seems to be strong resistance for the market, but strengthening is possible only to 4.8%.

Greenspan set the market

- Bonds in core markets fluctuated under influence of Fed chief's comments, who from the one hand said that he would not "fight" with low long-term market rates, and from the other pointed to further hikes in US. At the end of the week 10y bonds in US breached above 4.0% and in Germany – above 3.15%. Spread 5/5y between the polish and the euro curve retained its level of 80 bp.
- Foreign markets will focus probably on inflation releases, both PPI and CPI in US and production and sales. Recent comments from Fed chief render price indices less important due to suggestions of further rate hikes in US caused by good perspectives for real economy.

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