

# Weekly economic update

11 – 17 December 2006

After rather dull week, on Friday slight correction took place on the market in reaction to growing tensions in the ruling coalition, rumours (soon denied) about finance minister's dismissal and speculations about premature election. Uncertainty could persist a few days more, as it is still uncertain what will be the impact of recent political scandals on the relations between three coalition parties. Still, the perspective of premature election seems to be quite distant at the moment (Civic Platform's proposal to hold elections in the spring has been rejected by ruling Law and Justice). Therefore, in the short run the zloty could be slightly weaker if the conflict in the coalition gets prolonged, however in the end strong economic fundamentals and good sentiment toward emerging markets should prevail.

This week the next series of data publications will start, out of which the November's inflation will be the most important. CPI moderate rise to 1.5% is expected, driven mostly by a low base effect, which should not rise concerns about soon interest rate hikes. Also the data on corporate wages should be positive for the debt market, showing moderate slowdown in pay rise. Among numerous data on international markets, the FOMC meeting on Tuesday will be the most important, as the bank's statement could impact the expectations regarding future interest rates in the US. The labour market report released on Friday confirmed that American economy is in better shape than expected.

## Economic calendar

Time GMT	COUNTRY	INDICATOR (importance level*)	PERIOD	UNIT	FORECAST		LAST VALUE
					MARKET	BZWBK	
<b>MONDAY (11 December)</b>							
15:00	US	Wholesale inventories (H)	Oct	%	0.5	-	0.9
<b>TUESDAY (12 December)</b>							
10:00	GER	ZEW index (H)	Dec		-2.5	-	-28.5
13:30	US	Trade balance (H)	Oct	\$ bn	-63.5	-	-64.3
19:00	US	Federal budget (M)	Nov	\$ bn	-72.2	-	-83.07
19:15	US	Fed meeting (H)		%	5.25	-	5.25
<b>WEDNESDAY (13 December)</b>							
13:00	POL	Current account (M)	Oct	€ m	-279	-300	195
13:00	POL	Trade balance (M)	Oct	€ m	-165	-200	-299
13:30	US	Retail sales (H)	Nov	%MoM	0.3	-	-0.4
<b>THURSDAY (14 December)</b>							
13:00	POL	CPI (H)	Nov	%YoY	1.5	1.5	1.2
13:00	POL	Money supply (M)	Nov	%YOY	12.6	12.1	12.3
13:30	UA	Foreign trade prices (import) (H)	Nov	%	0.0	-	-2.0
<b>FRIDAY (15 December)</b>							
13:00	POL	Wages (H)	Nov	%YoY	3.9	4.2	4.7
13:00	POL	Employment (H)	Nov	%YoY	3.7	3.5	3.6
10:00	EMU	Final HICP (H)	Nov	%YoY	1.8	-	1.6
10:00	EMU	Industrial production (M)	Oct	%YoY	4.5	-	3.3
13:30	US	CPI (H)	Nov	%MoM	0.2	-	-0.5
14:00	US	Net capital flows (h)	Oct	\$ bn		-	65.1
14:15	US	Capacity use (H)	Nov	%	82.2	-	82.2
14:15	US	Industrial production (H)	Nov	%MoM	0.1	-	0.2

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

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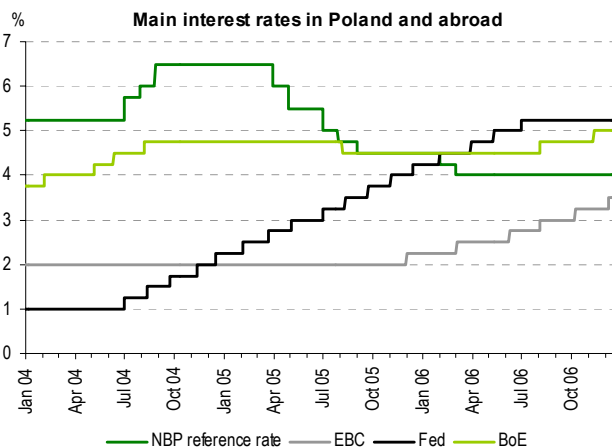
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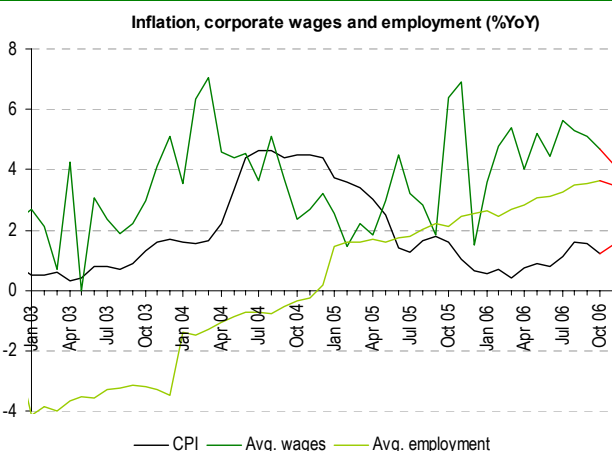
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## What's hot this week – Fed, politics, and new economic data

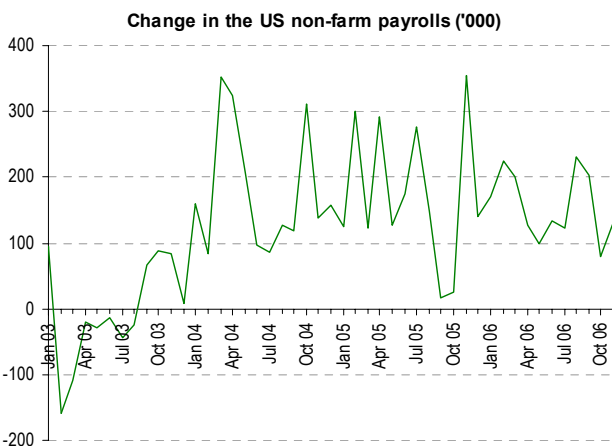


- This week will see a host of events and data releases abroad with the Fed meeting being the most important. Interest rate change is not expected this time, but the statement of the bank will be crucial as usual as it may impact expectations regarding future policy actions.
- Domestic political scene may deliver new excitement, as the fate of the ruling coalition may be decided. This will not be conducive to market stabilisation. On Tuesday, the Sejm meeting starts that could ignite new political fights, especially that debates on important motions are in the agenda, e.g. 2007 budget bill.
- This will be the last Sejm session planned before the year-end. The next meeting is scheduled for 10 January i.e. the day when NBP president's tenure expires. It's still not known when the Sejm will approve the appointment of the new NBP chief (especially that the candidate is still unknown).



- The key data release in Poland will be November's inflation. CPI rise to 1.5% is expected, driven by low base effect, showing lack of strong pressure on prices.
- Data on wages and employment will be another hint on future MPC decisions, but they are likely to show moderate pressure on pay rise despite strong labour demand, without building risk for the inflation target.
- Fast increase should be maintained in money supply and loans, but likewise in previous months it should not imply significant risk for the MPC's inflation target.
- Balance of payments data are expected to show current account deficit of €300m. Export and import growth, although slightly lower due to high base effect, should remain in double digits.

## Economy last week – Peaceful week with nervous ending



- News from Polish economy keep surprising - Labour Ministry's estimates suggest that registered unemployment rate fell to 14.8% in November and could come down to 14.7% in December, showing exceptionally strong improvement of the labour market situation.
- The result of ECB meeting (25 bp rate hike to 3.5%) introduced no surprise, but comments from the central bank suggested that the next rate hike may be later than market had expected (February).
- The US non-farm payrolls number rose 132,000 in November exceeding market forecast of 110,000. October's figure was slightly revised down, and September's data corrected up significantly, so on balance the data were more positive than expected for the assessment of American economy.

## Quote of the week – MPC still divided in opinions

**Mirosław Pietrewicz, MPC member, PAP, 8 December**

*There seem to be no clear inflation threats. There is no inflationary pressure visible till the end of next year. Thus it seems that there will be no need to adjust monetary policy in the near future.*

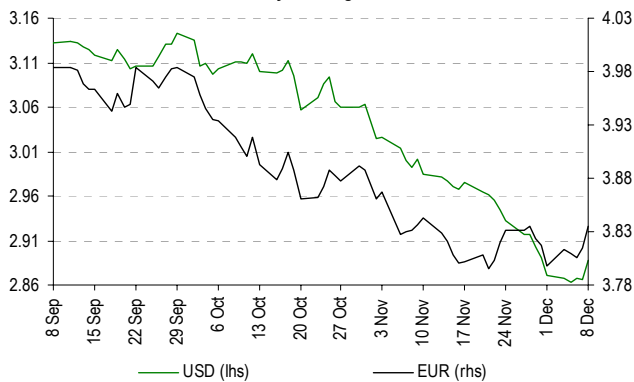
**Dariusz Filar, MPC member, Reuters, 5 December**

*Taking into consideration that the horizon of our influence is 5-7 quarters, not we are in a moment when some policy adjustment is needed. Current good price stabilisation allows to move with 25-bp steps.*

As can be seen in the quoted comments, one could hardly talk about unanimity among the MPC members. Obviously, the most important issue for the market is which group of opinions have majority and it seems that not much has changed in this matter since the last MPC meeting (which ended with no rate change). We expect that the data releases due this week will reinforce this state of affairs, showing moderate rise in prices and wages. However, opinions of MPC's Andrzej Wojtyna and Andrzej Sławiński would help to better assess the balance of views in the Council.

## Market monitor

Zloty exchange rate

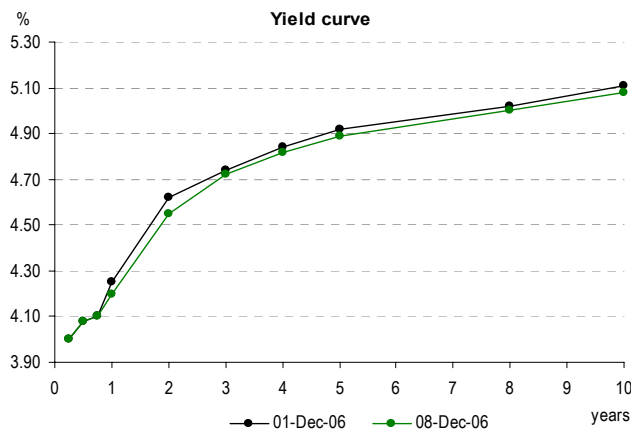


## Zloty in narrow range

▪ Last week Polish currency was relatively stable and fluctuated in a quite narrow range. Zloty tested 3.81 level against the euro, though it was not broken. At the end of the week there were some jitters in the political stage, what resulted in a slight correction. During the week the EURPLN rate rose by 0.4%, while USDPLN rate increased by 0.3%.

▪ In our view the return of the scenario presuming the perspective of early elections or changes in the government may increase the uncertainty in the Polish financial market, however only in the short term. Sentiment of foreign investors to the region, which will be influenced by the US data will be of key importance for the zloty. The EURPLN rate is going to trade in range of 3.75-3.85, while USDPLN rate of 2.78-2.88

Yield curve

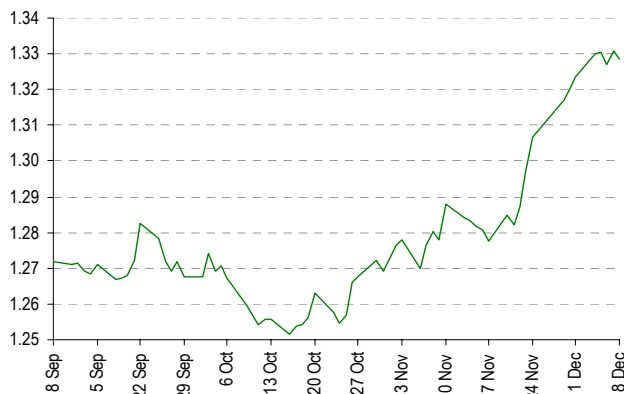


## Bonds still strong

▪ Moods in the debt market remained positive last week. Yields fell by a few basis points and the yield curve flattened, as the market was supported by the very good results of the 2Y bonds auction. At the end of the week there was a slight correction.

▪ Next week several data important for the Polish market are going to be released. If consumer prices are in line with market consensus and Ministry of Finance's forecast the sentiment should stay positive. Labour market data should also weigh on the market. The Polish market will be also under influence of the situation in the international core markets, especially taking into consideration the data from United States, and Federal Reserve's decision and communiqué.

EURUSD rate

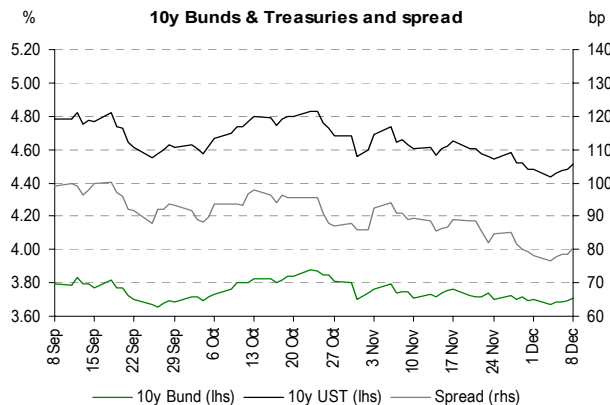


## EURUSD rate stays on high levels

▪ After early heavy dollar's weakening last week there was a correction of the EURUSD rate. Lower than expected US unit labour costs worked against the greenback, though high services ISM and ADP employment report supported the dollar. The ECB's communiqué was not explicit. Despite better than expected non-farm payrolls the dollar weakened to the level from the start of the week.

▪ We assume that the weakening in the housing market and manufacturing sector in US will negatively influence other sectors of the economy, which may further negatively affect the greenback. In the coming days Fed may hold tightening bias in its communiqué given its concerns about inflation. Other US figures will be also very important for the EURUSD rate. In the euro zone investors will focus on the ZEW (recently very low values).

10y Bunds &amp; Treasuries and spread



## Core bond markets are slightly weaker

▪ After significant strengthening in the core bond markets in recent weeks there was a slight correction. Yields of 10Y US Treasuries and German Bunds rose by a few basis points to ca. 4.5% and 3.7%. The weakening appeared among others after the higher than expected non-manufacturing ISM, ADP, employment report and non-farm payrolls (mixed influence).

▪ In the nearest days several important figures are going to be released, and the most essential will be key US statistics on CPI, retail sales and industrial production. Fed's communiqué may suggest when potential rate hikes may arise. ZEW index may influence German and European bonds markets. We hold the view the rate in the EMU may rise by 25 bp in Q1 2007.

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