

## Eyeopener – daily update

### Bernanke warns on inflation

6 June 2006

Today, the government will discuss tax reforms plans prepared by finance minister Zyta Gilowska. As we wrote yesterday, consultations within the government only brought minor changes to the initial plans. Prime Minister Kazimierz Marcinkiewicz said that the reform plan will be finally accepted already at today's meeting of the cabinet. However, the proposed changes in the tax system will have to be accepted by the parliament, which may be problematic. Anyway, Marcinkiewicz reiterated yesterday that budget gap in 2007 and each of subsequent years would not exceed PLN30bn.

While domestic fiscal policy issues has returned on the agenda recently, the Polish financial market is still influenced mainly by developments on international markets. The situation on these markets was quite calm yesterday, but only until speech from Federal Reserve Chairman Ben Bernanke (that took place after close of the Polish market). Speaking at an international monetary conference in Washington, Bernanke said he was concerned about core inflation, which has reached levels that, if sustained, would be at or above the upper end of the range he views as consistent with price stability. The comments, suggesting a 17th consecutive rate increase from the FOMC in June, weakened US Treasuries and supported the dollar.

### Market monitor

At Monday's session Polish currency depreciated against the main currencies following the situation on other emerging markets. The EURPLN rate gradually rose from 3.9365 to 3.9644 while the USDPLN rate increased from 3.0382 to 3.0634. The Polish currency was still negatively affected by the fall of Turkish lira, while results of Czech parliamentary elections did not help the region. On the international market the EURUSD fluctuated in a quite tight range above 1.29 and finally the dollar appreciated versus the euro from 1.2954 to 1.2939. Bernanke's statement on inflation was rather supportive for the view that Fed will raise the main U.S. interest rate by further 25bp, which strengthened the dollar to below 1.29 against the euro.

Polish bonds weakened on Monday in a reaction to yields rise on the emerging markets after exceptionally high inflation in Turkey. Yields rose by 3-5 bp as compared to Friday closing levels. 10Y yields of U.S. Treasuries and Bunds were almost unchanged as compared to Monday's opening at 5.0% and 3.95% respectively and rose to 5.03% and 3.97% after Bernanke's comments.

At Monday's tender the Ministry of Finance sold PLN1.0bn worth of 52-week Treasury bills with average yield of 4.083% and demand of PLN1.72bn. The Ministry of Finance also informed that it is going to offer PLN2.1bn worth of 2Y bonds at Wednesday's tender.

**Bottom line: Zloty depreciated against the euro, while bonds weakened following other emerging markets (Turkish lira depreciation, stalemate results of elections in Czech Republic).**

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

## International update

ISM index reflecting business activity in the services sector in United States fell from 63.0 in April to 60.1, while the analyst expected a drop to 58.5. The employment component increased from 56.5 to 58.0, while new orders declined from 64.6 to 59.6.

Yesterday in evening Fed Chairman Ben Bernanke said that despite some weakening of economic growth Fed should stay vigilant against inflation. He also emphasized that if the rate of core inflation is sustained it may reach or exceed the maximum accepted level consistent with price stability.

TIME GMT	REGION	INDICATOR	PERIOD		MARKET	LAST VALUE
8:00	EMU	Non-manufacturing PMI (H)	May	pts	58.5	58.3

Source: Reuters

**The zloty trading ranges (5.06.2006)**

	Min	Max	Open*	Close**	Fixing
EUR	3.9370	3.9710	3.9365	3.9644	3.9536
USD	3.0405	3.0650	3.0382	3.0634	3.0482

\* 6:30 GMT. \*\* 15:00 GMT

**The EUR/USD trading range (5.06.2006)**

	Min	Max	Open*	Close**
EUR/USD	1.2925	1.2980	1.2954	1.2939

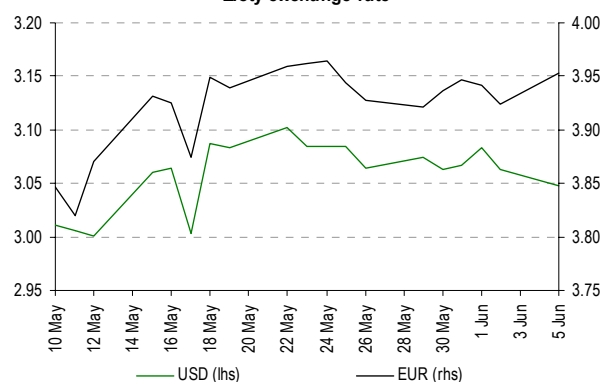
\* 6:30 GMT. \*\* 15:00 GMT

**F/X rates (today's opening)**

EURUSD	1.2913	CADPLN	2.7884
USDPLN	3.0737	DKKPLN	0.5316
EURPLN	3.9693	NOKPLN	0.5105
CHFPLN	2.5529	SEKPLN	0.4232
JPYPLN*	2.8019	CZKPLN	0.1404
GBPPLN	5.8144	HUFPLN*	1.4995

\*per 100 units

**Zloty exchange rate**



**Fixed income markets (5.06.2006)**

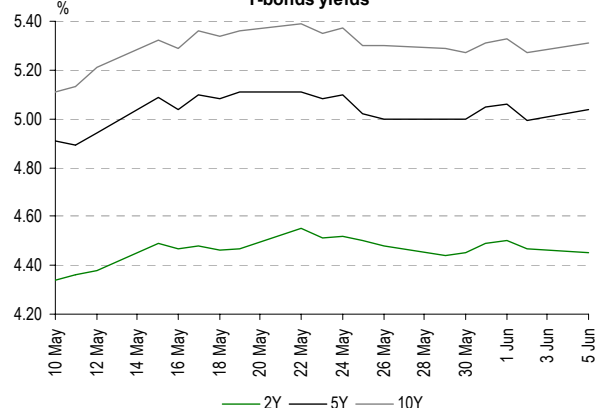
Term	PL		US		DE	
	Yield	Change (bp)	Yield	Change (bp)	Yield	Change (bp)
2Y	4.45	-2	4.98	7	3.38	3
3Y	4.69	5	4.96	6	3.52	2
4Y	4.89	6			3.64	7
5Y	5.04	5	4.96	5	3.68	1
8Y	5.21	3			3.87	0
10Y	5.31	4	5.03	3	3.96	0

**T-bond auction**

Bond auction							
Date		Offer	Bid	Sale	Avg. Yield	Prev. Avg. Yield	Change
			PLN m			%	bp
04.05	2Y*	2 160	9 174	2 160	4.447	4.370	8
17.05	5Y	2 000	5 150	2 000	5.031	4.708	32
12.04	10Y*	2 160	5 685	2 160	4.978	4.936	4

\* with a supplementary auction

**T-bonds yields**



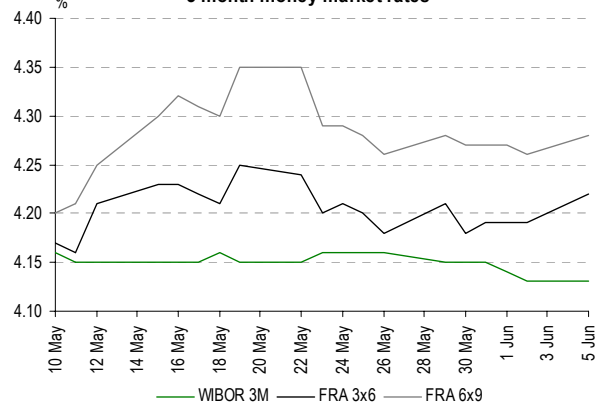
**WIBOR rates (5.06.2006)**

Term	Rates	Change (bp)
O/N	4.10	0
T/N	4.11	0
SW	4.11	0
2W	4.11	0
1M	4.11	0
3M	4.13	0
6M	4.19	0
9M	4.25	0
1Y	4.28	1

**Forward Rate Agreements (5.06.2006)**

Term	Mid	Change (bp)
1x2	4.14	1
3x6	4.19	3
6x9	4.26	2
9x12	4.44	4
3x9	4.23	0
6x12	4.35	1

**3-month money market rates**



**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

This publication has been prepared by Bank Zachodni WBK S.A. (a member of AIB Group) for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Bank Zachodni WBK S.A., its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Bank Zachodni WBK S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Bank Zachodni WBK S.A. entity or an AIB Group entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

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



Bank Zachodni WBK is a member of Allied Irish Banks Group