Bank Zachodni WBK

Eyeopener – daily update

ECB meeting in the spotlight

6 July 2006

Yesterday, new finance minister declared that Poland would ask the EU for delaying the deadline for lowering country's excessive fiscal deficit. The statement in not a surprise, given that Poland's convergence programme assumed explicitly that 3% fiscal deficit goal would not be met by 2007, as advised by the European Commission, and PM Marcinkiewicz's said earlier that Maastricht criteria will be met only in 2009.

Today, the European Central Bank holds its monthly meeting with the decision to be announced at 11:45 GMT. The market expects that interest rates will remain unchanged at 2.75% this time, however more rate hikes are in the pipeline, with possible tightening to even 3.25-3.50% by the year-end. Press conference after today's meeting could deliver more indications about possible pace of looming rate hikes in the euro zone.

What's hot today

New finance minister takes the floor

Poland to ask Brussels for delaying fiscal deficit reduction

Newly-appointed finance minister Paweł Wojciechowski said yesterday during his visit in Brussels that Poland might ask the European Commission to move beyond 2007 the deadline for lowering the country's budget deficit below the 3% ceiling that binds every EU member state. The declaration is nothing new, given that earlier Prime Minister Kazimierz Marcinkiewicz announced that Poland would aim at meeting Maastricht criteria, including the one on fiscal deficit, only in 2009. According to Wojciechowski, whether Poland will ask about a postponing the deadline will depend on arrangements with the European Commission and the work on the 2007 budget. New finance minister added that his first meeting with EU Monetary Affairs Commissioner Joaquin Almunia was of "introductory" nature and did not concern any details. Wojciechowski said he had reassured Almunia that Poland would carry out responsible fiscal policies aimed at lowering the deficit. "I have declared the continuation of policies oriented towards sustainable growth and ... lowering the deficit in the coming years," he said. The EU Commission is worried that Poland may miss the country's deficit goal due to pressure for more social spending and is considering to state in a report on Poland's financial policies that the country is failing to do enough to curb fiscal deficit. The report is likely to be published in September, a Commission official said. Polish government will most likely try to delay the release of the report for as long as possible. Let us recall that since Poland is not a member of the euro zone, the EU cannot fine the country for exceeding the deficit ceiling. The Commission may only freeze a part of its aid funding for Poland, although even this measure is not a matter of short time due to procedural and political reasons.

New finmin declares continuation of market-oriented policies

Bottom line: ***Confirmation of earlier declarations that Poland is not going to fulfil its obligations and will not reduce fiscal deficit below the EU ceiling of 3% in 2007, yet in subsequent years.***

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Market monitor

After several days of gradual strengthening zloty depreciated against the main currencies, which went in line with the weakening in other emerging markets. This was partly an effect of stronger than expected data in the United States that contributed to strengthening of U.S. dollar against other currencies. Missile tests of North Korea also had some negative effect on the markets. EURPLN did not manage to firmly break the 4.0 level and on the worsening moods rebounded on Wednesday, rising to near 4.05. Zloty lost against the dollar as well to above 3.15. U.S. investors returned to the market after the Independence Day and faced much higher than expected report on the labour market as well as factory orders data. In the result the greenback regained some ground as these appeared to be the first important data after the Fed' s less hawkish communiqué that affected investors' moods. The dollar appreciated from 1.28 to near 1.272.

Negative sentiment in the emerging markets affected bonds as well and after recent slide and heavy strengthening yields jumped by 12-18 bp, which was fuelled by the yields rise in the core markets. New finance minister's statement that Poland may ask EU to postpone the deadline of lowering the budget deficit beyond the 2007 also added to negative moods, as well as his comment that Polish central bank must take into account rising interest rates abroad.

Treasuries as well as Bunds significantly weakened during Wednesday trading session, which effected after stronger than expected U.S. jobs report that influenced the expectations on the Friday's non-farm payrolls data and factory orders figure. 10Y yields soared from 5.15% to 5.24% while 10Y Bunds' yields increased from 4.08% to 4.14%.

At the yesterday's tender the Ministry of Finance sold the whole offered amount i.e. PLN1.8bn of 2Y OK0808 bonds. The average yield amounted to 5.025%, while demand was at PLN4.089bn.

***Bottom line**: Zloty rebounded from 4.0 against the euro and weakened significantly on the emerging markets' slide and the dollar's recovery after strong data in U.S. and missile test in Korea. Bond yields surged fuelled by the core yields rise. Today the market is going to focus on the ECB's statement.*

International update

PMI index for manufacturing sector in the euro zone rose from 58.7 to 60.7 in Jun. It was higher than the market consensus at 59 and showed the biggest rise in business activity since June 2000 and increased price pressures. Prices charged index soared from 54.5 to 54.7, the highest level since November 2000. Jobs index increased from 55.0 to 56.6.

Retail sales on the euro zone surprisingly declined in May by 0.6%MoM and rose 0.8%YoY from downwardly revised 1.0%MoM and 2.4%YoY; the figures were lower than the analysts' expectations of 0.1%MoM rise and 1.8%YoY.

Factory orders increased by 0.7%MoM and were much stronger than market expectations at 0.1%MoM. Nondurable goods orders rose by 1.6% and excluding transportation factory orders increased by 1.2%.

Today some important data abroad are going to be released in U.S. though the main focus is going to be on the ECB's communiqué.

TIME GMT	REGION	INDICATOR	PERIOD		MARKET	LAST VALUE
11:00	GB	BoE meeting – decision (M)	Jul	%	4.5	4.5
11:45	EMU	ECB meeting – decision (H)	Jul	%	2.75	2.75
12:30	USA	ISM services (H)	Jun	pts	59.0	60.1

Source: Reuters

The zloty trading ranges (05.07.2006)

	Min	Max	Open*	Close**	Fixing
EUR	4.0040	4.0525	4.0075	4.0450	4.0248
USD	3.1235	3.1590	3.1289	3.1802	3.1530

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

The EUR/USD trading range (05.07.2006)

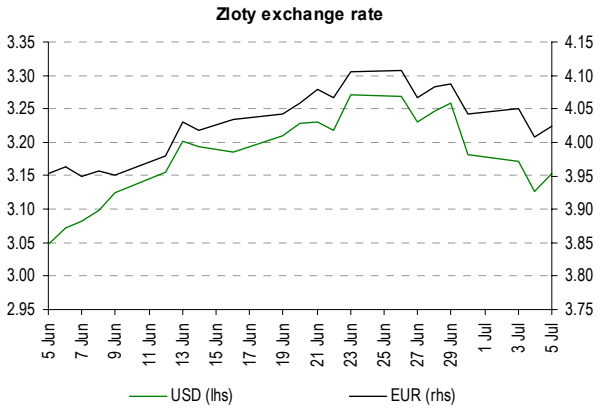
	Min	Max	Open*	Close**
EUR/USD	1.2708	1.2838	1.2805	1.2718

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

F/X rates (today's opening)

EURUSD	1.2740	CADPLN	2.8781
USDPLN	3.1816	DKKPLN	0.5462
EURPLN	4.0533	NOKPLN	0.5122
CHFPLN	2.6005	SEKPLN	0.4445
JPYPLN*	2.7729	CZKPLN	0.1433
GBPPLN	5.8737	HUFPLN*	1.4594

*per 100 units



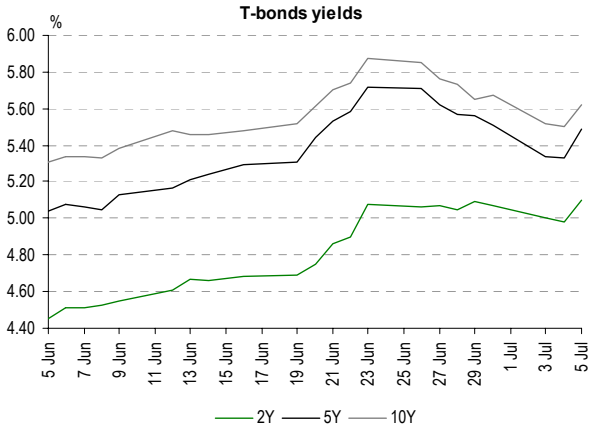
Fixed income markets (05.07.2006)

	PL		US		DE	
Term	Yield	Change (bp)	Yield	Change (bp)	Yield	Change (bp)
2Y	5.10	12	5.24	6	3.60	4
3Y	5.28	12	5.22	7	3.71	4
4Y	5.42	15			3.82	4
5Y	5.49	16	5.19	8	3.89	5
8Y	5.57	18			4.06	5
10Y	5.62	12	5.23	7	4.13	6

T-bond auction

Date		Offer	Bid	Sale	Avg. Yield	Prev. Avg. Yield	Change
		PLN m			%		bp
06.07	2Y*	1 800	4 089	1 800	5.025	4.517	51
21.06	5Y	2 000	3 530	2 000	5.525	5.031	49
12.04	10Y*	2 160	5 685	2 160	4.978	4.936	4

* with a supplementary auction

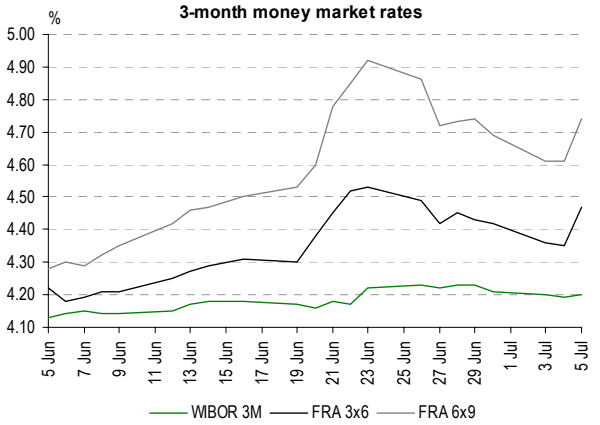


WIBOR rates (05.07.2006)

Term	Rates	Change (bp)
O/N	4.10	0
T/N	4.10	0
SW	4.11	0
2W	4.12	1
1M	4.12	0
3M	4.20	1
6M	4.31	-1
9M	4.48	0
1Y	4.62	0

Forward Rate Agreements (05.07.2006)

Term	Mid	Change (bp)
1x2	4.16	3
3x6	4.45	13
6x9	4.72	14
9x12	5.02	15
3x9	4.62	15
6x12	4.91	15



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