

# Eyeopener – daily update

## Key US employment report

4 August 2006

The European Central Bank raised main interest rate by 25 bp yesterday, as expected. The tone of the press conference after the meeting, was hawkish enough to suggest that monetary tightening in the euro area is not going to end soon. Polish market reaction to the decision was quite limited. Zloty slightly appreciated against the main currencies, while bonds weakened as compared to yesterday's opening following bunds though stayed little changed in comparison to Wednesday's closing.

Today, international markets will be waiting for very important employment report from the US. Non-farm payrolls are expected to show an increase of 150,000, which is below the average for the past six months. Relatively weak result could boost hopes for Fed's pause in policy tightening, which would be supportive for emerging markets currencies. On the opposite, stronger than expected figure would harm sentiment in our region.

### Market monitor

In a continuation of narrow range trading, zloty slightly strengthened yesterday against the euro and the dollar. Polish currency gained from 3.926 to 3.91 versus the single currency and from 3.076 to 3.058 versus the dollar. The ECB's decision and statement hardly influenced the Polish FX market, which may be more sensitive to today's data on US payrolls.

The EURUSD rate fluctuated in a quite tight range till the meeting of the European Central Bank. After the expected rise in the main rate, statements of the president Jean Claude Trichet at the press conference sounded rather hawkish, which pushed the EURUSD rate up to 1.283. At the end of the session there was a slight correction and the dollar slightly recovered against the euro to 1.279.

On Thursday fixed income market was little changed as compared with the previous day's closing. After bonds opened stronger they fluctuated in narrow range and moderately weakened along rising yields of bunds. In the international markets the Treasuries prices did not change much and 10Y yields fell by 1 bp to 4.97%. The Bunds reaction to ECB's quite hawkish statement and comments was much stronger as the yields of 10Y bunds soared fro 3.93% at Wednesday's closing to 3.97%.

***Bottom line: Zloty slightly appreciated against the main currencies, while bonds weakened as compared to yesterday's opening following bunds though stayed little changed in comparison to Wednesday's closing. Today the market is going to focus on the US non-farm payrolls data.***

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

The PMI (Purchasing Managers Index) non-manufacturing index fell from 60.7 in June to 57.9 in July and was much below forecasts at 60.0. The new business index fell from 59.6 to 57.5, the jobs index declined from 56.6 to 54.0, while the input prices component inched up from 60.1 to 60.2.

The Bank of England raised the main rate by 25 bp to 4.75%, and though the market consensus assumed no rate change, the market was strongly divided in their expectations as many analysts anticipated this move.

The European Central Bank increased the main rate in the euro zone by 25 bp to 3%, which was in line with market expectations. The ECB signalled in its statement increased risks to prices and firm growth, while the monetary policy in the EU-12 remained accommodative. EBC’s Governing Council member Klaus Liebsher commented that after the rate hike, which was “a necessary adjustment” the interest rates remained low and did not pose threat to growth.

According to Department of Labour the number of new jobless claims in the United States rose in the previous week to 315k from revised 301k in the prior period. The economist forecasted the number to rise from 298k to 308k.

In reference to the data of Department of Commerce factory orders in US increased in June by 1.2%MoM with upwardly revised 1.0%MoM rise in the previous month. This was slightly below market expectations at 1.8%MoM from 0.7%MoM in May.

American ISM index (based on a survey among more than 370 purchasing executives in over 62 service industries) reflecting business activity level in the services sector fell from 57.0 to 54.8 in July. New orders index was at 55.6 as compared with 56.6 in the previous month, whereas the employment component rose from 52.0 in June to 54.5.

| TIME GMT | REGION | INDICATOR             | PERIOD |      | MARKET | LAST VALUE |
|----------|--------|-----------------------|--------|------|--------|------------|
| 12:00    | USA    | Non-farm payrolls (H) | Jul    | '000 | 142    | 121        |
| 12:00    | USA    | Unemployment (H)      | Jul    | %    | 4.6    | 4.6        |

Source: Reuters

**The zloty trading ranges (3.08.2006)**

|     | Min    | Max    | Open*  | Close** | Fixing |
|-----|--------|--------|--------|---------|--------|
| EUR | 3.9080 | 3.9105 | 3.9261 | 3.9105  | 3.9365 |
| USD | 3.0520 | 3.0760 | 3.0760 | 3.0580  | 3.0748 |

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

**The EUR/USD trading range (3.08.2006)**

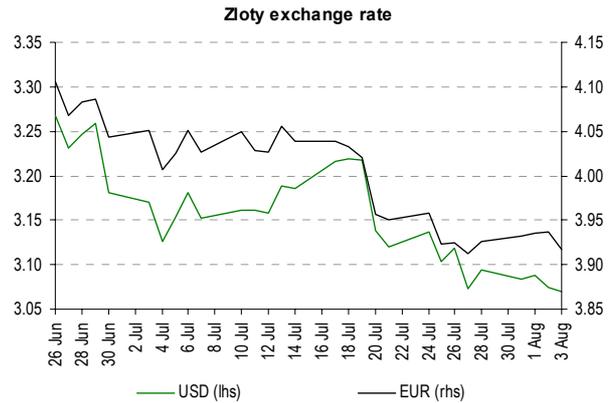
|         | Min    | Max    | Open*  | Close** |
|---------|--------|--------|--------|---------|
| EUR/USD | 1.2750 | 1.2830 | 1.2757 | 1.2789  |

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

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

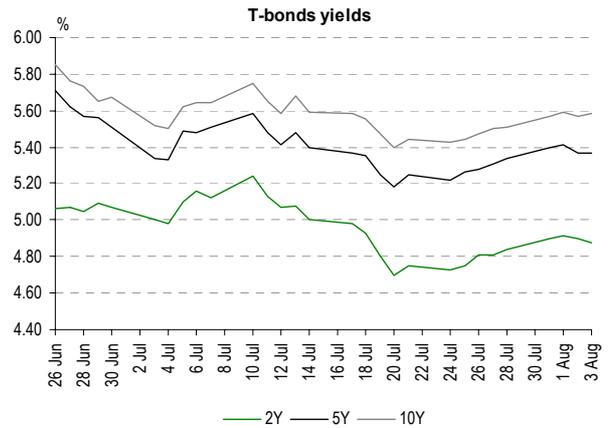
|         |        |         |        |
|---------|--------|---------|--------|
| EURUSD  | 1.2795 | CADPLN  | 2.7057 |
| USDPLN  | 3.0537 | DKKPLN  | 0.5172 |
| EURPLN  | 3.9080 | NOKPLN  | 0.4886 |
| CHFPLN  | 2.4744 | SEKPLN  | 0.4185 |
| JPYPLN* | 2.6240 | CZKPLN  | 0.1355 |
| GBPPLN  | 5.6096 | HUFPLN* | 1.3689 |

\*per 100 units



**Fixed income markets (3.08.2006)**

| Term | PL    |             | US    |             | DE    |             |
|------|-------|-------------|-------|-------------|-------|-------------|
|      | Yield | Change (bp) | Yield | Change (bp) | Yield | Change (bp) |
| 2Y   | 4.88  | -2          | 4.99  | 3           | 3.55  | 5           |
| 3Y   | 5.09  | 0           | 4.94  | 3           | 3.67  | 5           |
| 4Y   | 5.27  | -3          |       |             | 3.74  | 7           |
| 5Y   | 5.37  | 0           | 4.91  | 2           | 3.75  | 5           |
| 8Y   | 5.49  | 0           |       |             | 3.92  | 5           |
| 10Y  | 5.58  | 1           | 4.96  | 0           | 3.97  | 4           |



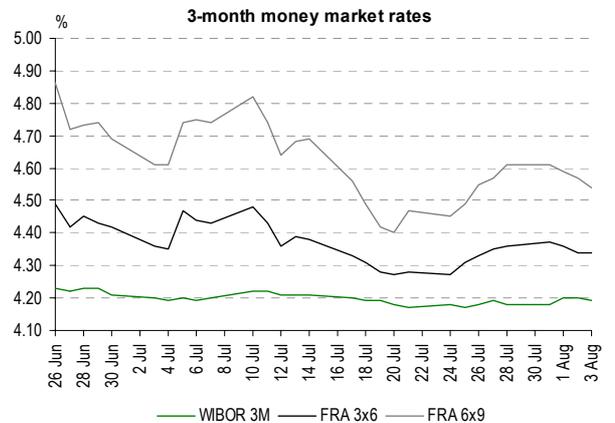
**T-bond auction**

| Date  | Offer | Bid   | Sale  | Avg. Yield | Prev. Avg. Yield | Change |    |
|-------|-------|-------|-------|------------|------------------|--------|----|
|       | PLN m |       |       | %          |                  | bp     |    |
| 02.08 | 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 |
| 12.07 | 10Y   | 800   | 4 905 | 800        | 5.595            | 4.978  | 62 |

\* with a supplementary auction

**WIBOR rates (3.08.2006)**

| Term | Rates | Change (bp) |
|------|-------|-------------|
| O/N  | 4.14  | -2          |
| T/N  | 4.14  | -2          |
| SW   | 4.14  | -1          |
| 2W   | 4.14  | -1          |
| 1M   | 4.14  | -1          |
| 3M   | 4.19  | -1          |
| 6M   | 4.26  | -1          |
| 9M   | 4.44  | -1          |
| 1Y   | 4.57  | 0           |



**Forward Rate Agreements (3.08.2006)**

| Term | Mid  | Change (bp) |
|------|------|-------------|
| 1x2  | 4.15 | 0           |
| 3x6  | 4.31 | 0           |
| 6x9  | 4.51 | -4          |
| 9x12 | 4.81 | -4          |
| 3x9  | 4.43 | -3          |
| 6x12 | 4.69 | -3          |

**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

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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



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