Eyeopener – daily update

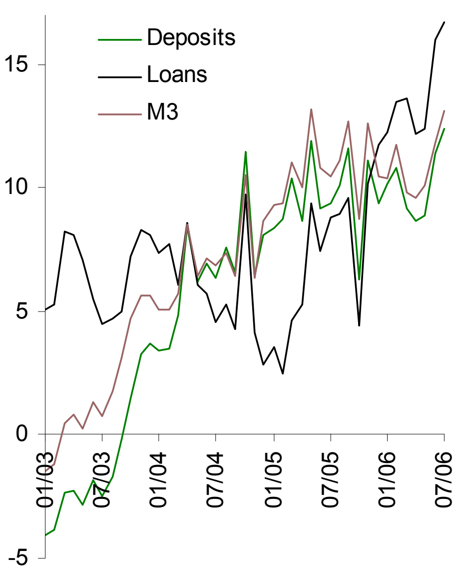
Money goes round

16 August 2006

After having relaxed during the long weekend, the market will focus today on the fist part of this week's crucial data releases. Data on inflation rate, wages and employment will be very important for assessment of monetary policy prospects, and thus they significantly affect the bond market. In balance, the figures should be rather neutral for the market sentiment, as low CPI would counterbalance further significant acceleration in corporate wage bill growth. Apart from domestic data, investors will also pay attention to publications abroad, especially CPI report and housing starts in the US.

July saw acceleration in money supply growth consistent with further strengthening in economic expansion. The data were positive for GDP forecasts, and quite neutral for monetary policy perspectives.

%YoY **M3, loans and deposits**



What's hot today

Key data releases today

Today at 14:00 local time, the CSO will reveal CPI data and labour market statistics for July – critical data from the Monetary Policy Council's point of view. We forecast that inflation rate remained at June's level of 0.8%YoY (our prediction is consistent with market consensus and FinMin's forecast), showing that inflationary pressure is still subdued, and confirming scenario assuming constrained inflation acceleration. From the point of view of inflation prospects, corporate wages and employment figures will be also important. We expect that average pay rise in enterprises sector accelerated to 5.8%YoY from 4.5%YoY in May, however this scale of acceleration is still not excessive from inflation prospects' point of view (e.g. given the pace of labour productivity growth). Median of market forecasts points to 5.2%YoY rise in average wage in the enterprise sector. Employment growth should reach 3.2%YoY – our prediction is consistent with market consensus.

Bottom line*: *Data on CPI and wage growth will be very important for the market and for monetary policy prospects. In balance, they should be neutral for the market, as low inflation would counterbalance acceleration in wage bill growth.

Money and credit growth gathering pace

Broad money M3 advanced 13.1%YoY in July, which was one of the highest growth rates during the last five years, above market expectations of ca. 12.5%. Total deposits growth accelerated to 12.4% from 12.1% in June, mostly due to strong inflow of corporate deposits (26.3%YoY, i.e. the fastest pace since mid-2004). Nevertheless, the enterprises increased their activity not only in terms of new savings but also as regards demand for credit. Loans to companies picked up 7.3%YoY in July, against 5.2%YoY in June, and average 3%YoY in the last twelve months. In July alone, the companies'

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outstanding credit increased by more than PLN2.3bn, and if this trend continues in subsequent months, it would herald even more vigorous upsurge in firms' economic activity than observed recently. Households' credit maintained its fast growth of more than 28%YoY, probably still being fuelled mainly by new mortgage loans.

***Bottom line*: Acceleration in money supply growth consistent with further strengthening in economic expansion. Positive for GDP forecasts, and quite neutral for monetary policy perspectives.**

Market monitor

The zloty was systematically weakening throughout Monday, amid thin pre-holiday trade, awaiting for key data releases in the second part of the week. The EURPLN rate went from 3.86 at the opening to over 3.87 at the end of the day, while USDPLN increased from 3.0200 to ca. 3.04 in the afternoon.

Bond market remained idle as well, as many market players were absent and others did not want to open new positions before Tuesday's holiday when important US PPI data were scheduled. The long end of the curve weakened a little in very illiquid trade in reaction to earlier move in core debt markets. Today, after Tuesday's strengthening of the US bonds, some decrease in yields is possible as well, although the market will be waiting for the new data before setting the new trend.

Much lower than expected PPI data released on Tuesday significantly affected international market. US Treasuries strengthened, and EURUSD rate increased from 1.272 to ca. 1.279, as weak data reduced expectations for another rate hike in the US.

Today, investors will eye data releases in Poland and in the US, seeking further guidance on monetary policy perspectives.

***Bottom line*: Polish market remained idle during the long weekend, and the zloty weakened slightly amid thin trade. Today the market will focus on data releases in Poland and in the US.**

International update

According to Eurostat's flash estimate, Gross Domestic Product in the euro zone grew 0.9% during the second quarter of 2006, compared to the previous quarter, after 0.6% rise in the first quarter. Compared to the same quarter of the previous year, GDP growth accelerated to 2.4% from 2.0%YoY in the first quarter, and was the highest pace of economic growth for five years. The result was slightly above market consensus forecast, assuming 0.7%QoQ and 2.3%YoY increase in GDP. The European Commission announced on Monday that it predicted GDP growth to reach 0.7% in Q3 and Q4 2006.

US PPI increased in July by a mere 0.1%, i.e. much less than 0.4% expected by the market. Core PPI declined 0.3% while analysts had forecasted 0.2% increase. The data weakened expectations for soon monetary tightening in the US, resulting in significant strengthening in US bond market.

Today, a couple of important data will be released in the US that could have significant impact on the EURUSD direction.

TIME GMT	REGION	INDICATOR	PERIOD		MARKET	LAST VALUE
12:30	USA	CPI	Jul	%MoM	0.4	0.2
12:30	USA	Core CPI	Jul	%MoM	0.3	0.3
12:30	USA	Housing starts	Jul	m	1.81	1.85
13:15	USA	Capacity utilisation	Jul	%	82.6	82.4
13:15	USA	Industrial production	Jul	%MoM	0.5	0.8

Source: Reuters

The zloty trading ranges (14.08.2006)

	Min	Max	Open*	Close**	Fixing
EUR	3.8550	3.8825	3.8600	3.8746	3.8667
USD	3.0200	3.0500	3.0330	3.0399	3.0358

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

The EUR/USD trading range (14.08.2006)

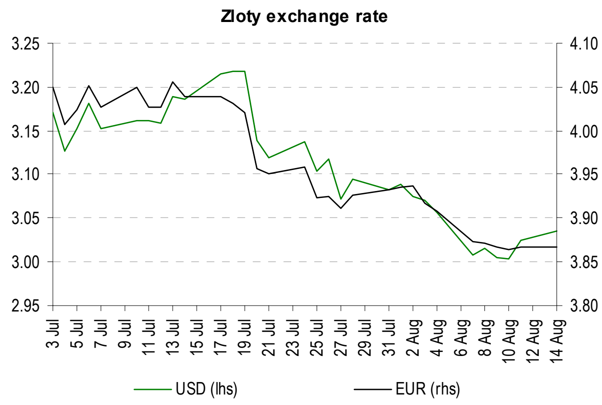
	Min	Max	Open*	Close**
EUR/USD	1.2708	1.2762	1.2746	1.2736

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

F/X rates (today's opening)

EURUSD	1.2789	CADPLN	2.6871
USDPLN	3.0327	DKKPLN	0.5137
EURPLN	3.8784	NOKPLN	0.4852
CHFPLN	2.4574	SEKPLN	0.4156
JPYPLN*	2.6060	CZKPLN	0.1346
GBPPLN	5.5711	HUFPLN*	1.3595

*per 100 units



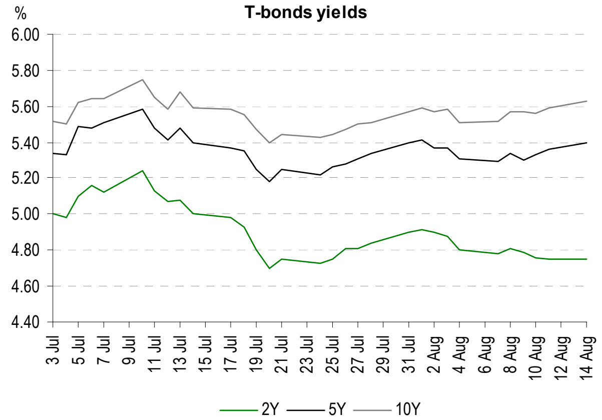
Fixed income markets (14.08.2006)

	PL		US		DE	
Term	Yield	Change (bp)	Yield	Change (bp)	Yield	Change (bp)
2Y	4.75	0	4.95	-6	3.62	-1
3Y	5.01	1	4.91	-7	3.72	-1
4Y	5.27	5			3.76	-4
5Y	5.40	4	4.88	-7	3.79	-2
8Y	5.53	4			3.93	-2
10Y	5.63	4	4.94	-6	3.98	-3

T-bond auction

Date		Offer	Bid	Sale	Avg. Yield	Prev. Avg. Yield	Change
			PLN m			%	bp
02.08	2Y	1 800	5 288	1 800	4.943	5.025	-8
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

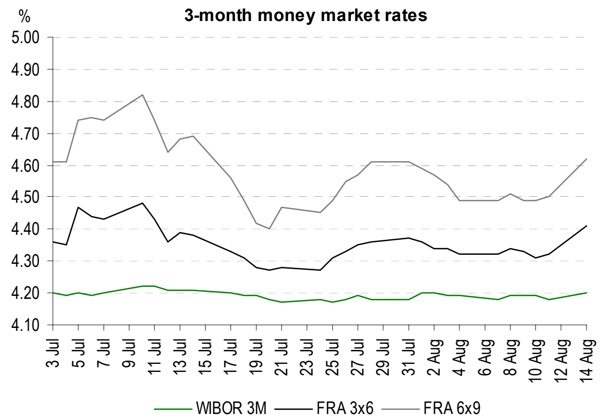


WIBOR rates (14.08.2006)

Term	Rates	Change (bp)
O/N	4.09	-2
T/N	4.10	-1
SW	4.11	1
2W	4.11	0
1M	4.12	0
3M	4.20	2
6M	4.26	1
9M	4.40	0
1Y	4.49	-1

Forward Rate Agreements (14.08.2006)

Term	Mid	Change (bp)
1x2	4.13	-1
3x6	4.39	9
6x9	4.60	12
9x12	4.99	26
3x9	4.52	11
6x12	4.90	26



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