

Eyeopener – daily update

ECB meeting today

2 November 2006

On Tuesday, the NBP published a survey among senior loan officers and the CSO released a survey on consumer sentiment. The results of the surveys suggested further expansion of investment and consumption demand and supported optimistic forecasts of GDP growth for the nearest quarters.

MPC member Dariusz Filar suggested on Tuesday that before January there will not be enough new information on the economy so that convince majority of rate-setters that rates should be raised. This supports our view that rate hikes this year are very unlikely while the central bank's action in 2007 will depend on the forthcoming data, especially labour market statistics and core inflation.

Today, key event for the Polish debt market will be an auction of 2-year bonds while the zloty will react to changes in the EURUSD rate which may be affected by the outcome of the ECB meeting and crucial data in the US.

What's hot today

Demand for credit still on the rise

The NBP report "Senior loan officer opinion survey" released on Tuesday confirmed a continuation of rise in demand for loans in the third quarter of this year. As regards loans for enterprises, an increase took place mostly in the segment of big companies (third consecutive quarter of strong upsurge in demand for loans), while in the case of small and medium-sized firms the demand was broadly unchanged as compared to Q2. Banks declared relaxation of credit policies for enterprises and accordingly expected that the demand will continue to grow in the next quarters (as regards both big firms and SMEs). The biggest sources of corporate credit rise in Q3 were growing needs for financing new investment, stock and turnover capital, as well as mergers and acquisitions. As regards households, the demand for loans kept growing despite tightening of credit policies in the third quarter (after implementation of directive regarding practices in foreign-currency mortgage lending). What is interesting, banks recorded further increase in demand for mortgage loans (although weaker than in previous quarter) as well as consumption loans, and expected this tendency should be maintained in future.

Bottom line: NBP survey suggested continuation of strong expansion in fixed investment and private consumption.

Consumer confidence getting better

The consumer sentiment survey released by the CSO showed continuation of improvement in October, heralding further increase in private consumption in the last quarter of the year. Households reported better financial situation and improvement in climate for big shopping (relevant index reached its record-

Results of NBP survey among senior loan officers bodes well for investment and consumption demand

Households feel like shopping

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high level). Only the assessment of current and prospective situation in the economy deteriorated, however this could have been affected by the events on the political front and changes in the government, and so could be temporary.

Bottom line: Another optimistic hint on private consumption prospects.

No rate hike before the year-end?

MPC member Dariusz Filar said on Tuesday that there were opinions among the Council members that interest rates should be raised in October. This confirms our hypothesis that the Council might have voted on the motion to tighten policy at the last meeting. Nevertheless, apparently the motion did not win the majority and we maintain the view that it is highly unlikely it will be successful until the end of this year. Filar indirectly confirmed it himself, saying that in November the MPC will have not much more information than currently and in December there will be only one month left until publication of the next inflation projection. It seems that the decisions of the Council at the start of the new year will depend a lot on the picture of situation drawn by next data from the labour market and inflation indicators at the turn of the year.

Bottom line: A rate hike this year is very unlikely. MPC decisions at the beginning of 2007 will depend on the upcoming data.

MCP hawk suggested there will be not enough arguments before January to convince majority of rate-setters that rates should be raised

Market monitor

On Tuesday, just before All Saints' day, the Polish market saw a similar situation to what was observed on Monday. While the beginning of the session brought some weakening of the zloty, the losses were regained during the day to the very strong level of below 3.87. This was, at least partly, connected with positive market reaction to the release of details of Hungarian budget for 2007. Of course, low liquidity on the market ahead of Wednesday's holiday also supported higher market volatility. It was the case also for the fixed income market as well, which strengthened moderately during the day with some support from lower-than-expected inflation in the euro zone. After U.S. data releases Polish bonds saw further yields decrease amid positive sentiment towards debt market abroad. Amid thin trade abroad on Wednesday, the EURPLN rate dropped below 3.86, but today opened above 3.86, i.e. close to Tuesday's close.

Higher volatility on the Polish FX at Tuesday's session was connected with large movements in the EURUSD rate, which after opening below the level of 1.27 saw quite substantial increase during the day, especially after the release of weaker-than-expected economic activity indicators. U.S. Treasuries strengthened by a couple of basis points on Tuesday and the next day the strengthening was continued. As a result yield of 10-year Treasuries fell to 4.56% and yield of 10-year Bund dropped to 4.70. The EURUSD rate was quite stable on Wednesday, ranging between 1.2745 and 1.12790.

Today the key event on the market will be the auction of two-year bonds with the supply of PLN1.4bn. Also, the statement of the European Central Bank after the very likely decision on keeping rates on hold, may be important for

currencies in the region, including the zloty. The same applies to a number of U.S. data, which may give direction for EURUSD dollar rate, though tomorrow's non-farm payroll will be the key.

Daiwa Securities SMBC said today that Poland has launched a total of ¥85bn of samurai bonds in two tranches. Poland is selling ¥25bn yen of 10-year bonds with a 2.06% coupon and ¥60bn yen of 20-year bonds with a 2.62% coupon, Daiwa Securities SMBC said. The bonds will be priced at par and will be issued on November 14.

Bottom line: After day-off the market will concentrate on bond auction and on events abroad again.

International update

Flash HICP data for the euro zone indicated a decrease in inflation rate to 1.6% in October from 1.7% in the previous month, while market analysts expected no change.

U.S. activity indicators released on Tuesday were weaker than expected. Chicago PMI index amounted to 53.5 (against 62.1 in September and expectations at 58.0), while consumer confidence indicator fell to 105.4 from the revised 105.9 in September (market consensus at 108). On Wednesday the manufacturing ISM index was released. It also proved weaker than expected, falling to 51.2 in October (the lowest since June 2003) from 52.9 in September. However, according to the ISM, "the past relationship between the PMI and the overall economy indicates that the average PMI for January through October (54.6%) corresponds to a 4.3% increase in GDP. In addition, if the PMI for October is annualized, it corresponds to a 3.1% increase in real GDP annually." All in all, the Fed is unlikely to judge the data as unwelcome as the Fed hopes to see reduced inflation pressures from a moderately higher degree of slack than currently prevails in the economy.

Today the European Central Bank will announce decision on interest rates. Rates are widely expected to be left unchanged at 3.25%, but ECB President is likely to signal a rate hike is on the cards for December, with the use of the term "strong vigilance". The market will also be most interested to see if he has anything to say about the setting of monetary policy in 2007, especially after hints from some ECB board members that rates may have to go higher next year. As regards data releases, manufacturing PMI for October should provide some insights into Q4 GDP growth, suggesting probably continuation of strong growth. In the United States we will see labour market data (unit labour costs and productivity) for the third quarter as well as factory orders for September. Overall, if the data prove weak, especially payrolls, it could add to the downward pressure on the dollar. Table below presents details.

TIME GMT	REGION	INDICATOR	PERIOD	UNIT	MARKET	LAST VALUE
09:00	EMU	Manufacturing PMI	Oct	pct	56.7	56.6
13:30	USA	Unit labour cost	Q3	%	3.9	4.9
13:30	USA	Productivity	Q3	%	1.5	1.6
15:00	USA	Factory orders	Sep	%MoM	1.0	0.0

Source: Reuters

The zloty trading ranges (31.10.2006)

	Min	Max	Open*	Close**	Fixing
EUR	3.8675	3.8935	3.889	3.875	3.8871
USD	3.03	3.065	3.065	3.035	3.0631

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

The EUR/USD trading range (31.10.2006)

	Min	Max	Open*	Close**
EUR/USD	1.2685	1.2775	1.2688	1.277

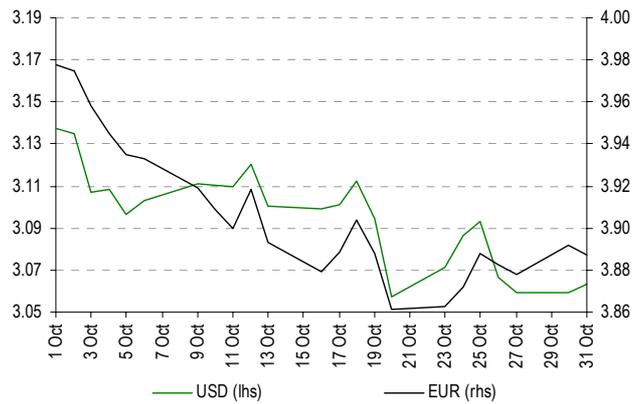
* 6:30 GMT. ** 15:00 GMT

F/X rates (today's opening)

EURUSD	1.2744	CADPLN	2.6936
USDPLN	3.0329	DKKPLN	0.5163
EURPLN	3.8642	NOKPLN	0.4619
CHFPLN	2.4225	SEKPLN	0.4173
JPYPLN*	2.5769	CZKPLN	0.1362
GBPPLN	5.7589	HUFPLN*	1.4681

*per 100 units

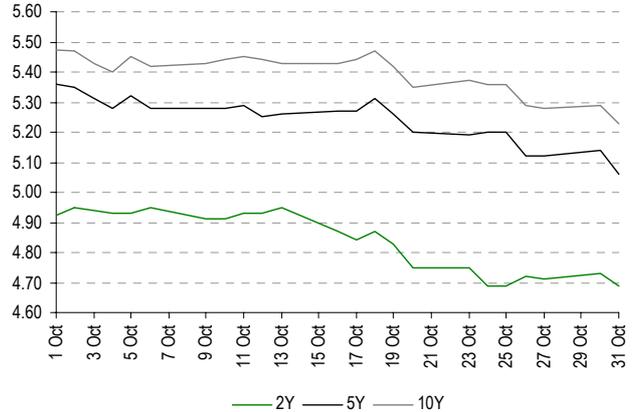
Zloty exchange rate



Fixed income markets (31.10.2006)

Term	PL			US		DE	
	Yield	Change (bp)	Yield	Change (bp)	Yield	Change (bp)	
2Y	4.69	-4	4.65	-5	3.63	-4	
3Y	4.77	-5	4.57	-5	3.58	-9	
4Y	5.02	-9			3.60	-8	
5Y	5.06	-8	4.52	-4	3.64	-4	
8Y	5.16	-7			3.69	0	
10Y	5.23	-6	4.56	-4	3.70	-5	

T-bonds yields



T-bond auction

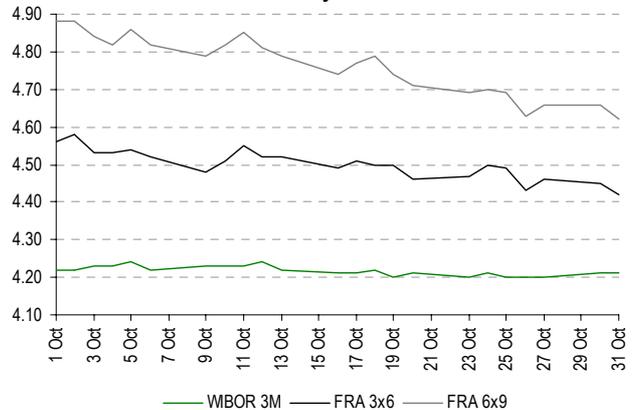
Date	Offer	Bid	Sale	Avg. Yield	Prev. Avg. Yield	Change	
	PLN m			%		bp	
04.10	2Y	1 200	6 430	1 200	4.970	4.991	-2
18.10	5Y	2 000	4 251	2 000	5.328	5.233	11
11.10	10Y	2 400	5 520	2 400	5.483	5.595	-11

* with a supplementary auction

WIBOR rates (31.10.2006)

Term	Rates	Change (bp)
O/N	4.10	-21
T/N	4.11	-2
SW	4.11	-1
2W	4.11	-1
1M	4.13	0
3M	4.21	0
6M	4.36	0
9M	4.51	0
1Y	4.61	-1

3-month money market rates



Forward Rate Agreements (31.10.2006)

Term	Mid	Change (bp)
1x2	4.12	-1
3x6	4.40	-3
6x9	4.60	-4
9x12	4.79	-3
3x9	4.54	-2
6x12	4.73	-2

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