

## Eyeopener – daily update

### Zloty strengthened further

7 November 2006

Yesterday the Polish market saw further strengthening with EURPLN rate temporarily falling below 3.82 and the USDPLN below 3.0. This was connected with capital inflow into emerging markets after U.S. non-farm payrolls data on Friday, which increased global risk appetite. The Czech crown broke the psychological barrier of 28 against euro after strong balance of payments data and the Slovak crown also appreciated to record strong levels. Polish bonds also strengthened by a few basis points.

## What's hot today

**High GDP growth forecasted by the Commission**

### European Commission presented economic forecasts

Yesterday, the European Commission revealed its economic forecasts. The euro zone's economy is expected to grow at 2.6, 2.1 and 2.2% respectively in 2006, 2007 and 2008. As regards Poland, the Commission expects to see economic expansion faster than previously predicted, with the country's GDP growing by 5.2% this year and 4.7 in 2007. In 2008, for which the forecast was made for the first time, Poland is expected to grow 4.8%. The forecasts are roughly in line with our estimations, though we expect slightly higher economic growth in 2007 and slightly lower in 2008.

**... and narrowing fiscal imbalance slower than predicted by the Ministry of Finance**

Poland's budget deficit is forecast to fall to 1.8% of GDP in 2008 from 2.2% this year. But under EU rules, the Polish government will no longer be allowed to exclude the cost of pension reforms from the country's budget deficit from April next year, adding about 2.0 percentage points to the gap. EU Economic and Monetary Affairs Commissioner Joaquin Almunia said that if one excluded the pension system, the "real budget deficit" in Poland would be 4.2% in 2006, 4.0% next year and 3.9% in 2008. The forecasts concerning fiscal gap are less optimistic than predictions presented recently by the Ministry of Finance (general government deficit at 3.5% of GDP in 2007), but in comparison with some other countries of the region, especially Hungary (fiscal gap predicted to top 10% of GDP this year), Poland goes quite well.

**Bottom line: Forecasts of the European Commission are broadly in line with market expectations, pointing to fast economic expansion in the nearest years with only slight, not sufficient in our opinion, narrowing of fiscal imbalance.**

## Market monitor

**Currencies in the region much stronger**

Zloty appreciated on Monday with regards to the improved sentiment toward the region. The recent appreciation of emerging market currencies was fuelled by positive data from the U.S. labour market released on Friday. This led to gain of Slovak and Czech crowns gains to the record strong levels

**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

against the single currency. This also helped the Polish currency, which strengthened versus the euro to 3.827, breaking during the day 3.82. The USDPLN rate declined from 3.021 to below 3.0. Fixed income market was also influenced by better moods in the region and strengthened, while bonds yields dipped by a few basis points. The Ministry of Finance placed PLN800m of 52-week Treasury bills at average yield of 4.328% and demand of PLN1.98bn.

The dollar was relatively stable and quite firm on Monday ahead of US mid-term elections scheduled for today and at the closing of the Polish session was near the morning level at 1.271. However, dollar weakened overnight to some 1.276. At the end of the Polish session 10Y yields of core bonds were at 4.73% and 3.79% and they are ca. 2 bp lower today in the morning. Yesterday's weakening of the euro zone bonds was slightly limited with regards to the lower than expected PMI figure.

***Bottom line: Zloty strengthened on improved sentiment toward the region among others in further reaction to last week's US "soft landing" data. Bonds continued to gain as well.***

## International update

In the euro zone the growth in the services sector eased to the weakest level for 11 months as the PMI index declined to 56.5 from 56.7, below the forecasted 57.0.

TIME GMT	REGION	INDICATOR	PERIOD	UNIT	MARKET	LAST VALUE
10:00	EMU	Retail sales	Sep	% YoY	1.9	2.4

Source: Reuters

**The zloty trading ranges (06.11.2006)**

	Min	Max	Open*	Close**	Fixing
EUR	3.8148	3.8420	3.8420	3.8260	3.8270
USD	3.0031	3.0235	3.0214	3.0093	3.0135

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

**The EUR/USD trading range (06.11.2006)**

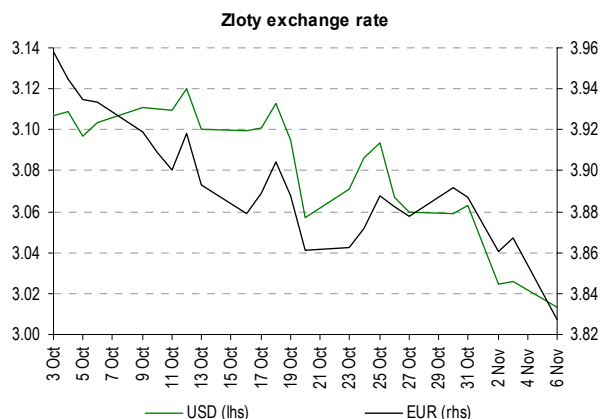
	Min	Max	Open*	Close**
EUR/USD	1.2692	1.2715	1.2713	1.2712

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

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

EURUSD	1.2760	CADPLN	2.6448
USDPLN	2.9960	DKKPLN	0.5130
EURPLN	3.8230	NOKPLN	0.4629
CHFPLN	2.4053	SEKPLN	0.4163
JPYPLN*	2.5644	CZKPLN	0.1363
GBPPLN	5.7172	HUFPLN*	1.4741

\*per 100 units

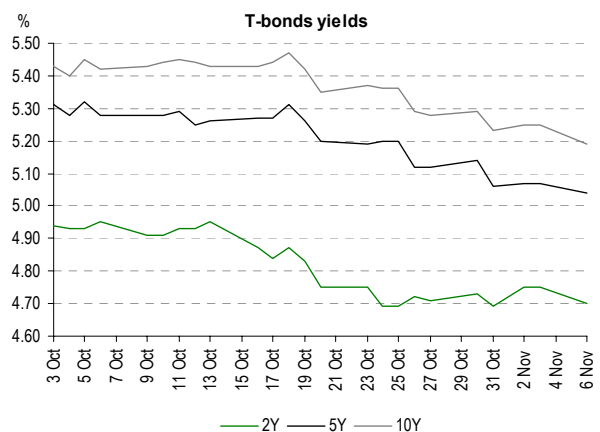

**Fixed income markets (06.11.2006)**

Fixed Income Markets (Oct 4, 2009)						
Term	PL		US		DE	
	Yield	Change (bp)	Yield	Change (bp)	Yield	Change (bp)
2Y	4.70	-5	4.82	-1	3.73	2
3Y	4.80	0	4.75	-1	3.71	3
4Y	5.01	-4			3.72	1
5Y	5.04	-3	4.68	-2	3.74	2
8Y	5.12	-10			3.77	0
10Y	5.19	-6	4.70	-2	3.78	3

**T-bond auction**

Date		Offer	Bid	Sale	Avg. Yield	Prev. Avg. Yield	Change
			PLN m		%		bp
02.11	2Y	1 400	4 150	1 400	4.723	4.970	-25
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

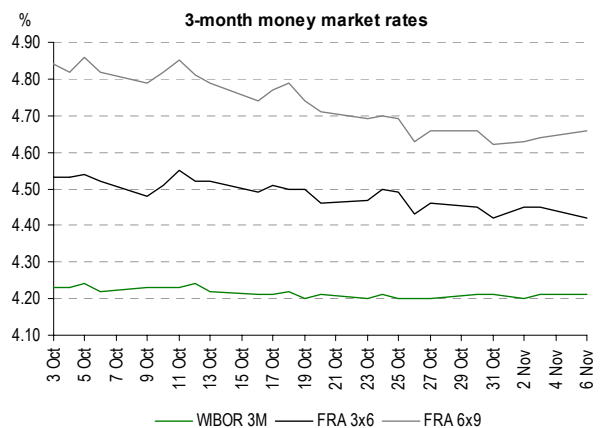
\* with a supplementary auction


**WIBOR rates (06.11.2006)**

Term	Rates	Change (bp)
O/N	4.09	-1
T/N	4.09	-2
SW	4.11	0
2W	4.12	0
1M	4.13	0
3M	4.21	0
6M	4.35	0
9M	4.51	0
1Y	4.61	0

**Forward Rate Agreements (06.11.2006)**

Term	Mid	Change (bp)
1x2	4.13	1
3x6	4.43	0
6x9	4.62	1
9x12	4.82	1
3x9	4.56	2
6x12	4.74	2


**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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