Bank Zachodni WBK

Eyeopener – Another strong data?

23 February 2007

- **The zloty slightly strengthened yesterday, approaching important technical levels against the euro; domestic debt market weakened following rise in yields on core markets.**
- **Today participants of the domestic market will focus on retail sales data. A two-digit growth would confirm very good start of the year in the Polish economy.**
- **The key event abroad will be the Germany's Ifo index which should remain at high level, confirming good shape the euro zone's largest economy.**

Yesterday, there were quite upbeat moods in the Polish FX and equity markets, while the fixed income market weakened. The zloty strengthened against major currencies. The EURPLN rate fell from 3.884 to 3.973, but depreciation of currencies in the region (mainly forint) negatively affected the zloty and in the result the EURPLN rate roe to 3.878. The USDPLN rate was near 2.959, i.e. the level recorded near the session's opening. Today at the opening the EURPLN rate was at 3.883 and the USDPLN rate at 2.958.

The domestic debt market weakened yesterday, mainly due to rise in yields on the core markets. Bond yields rose by a few basis points across the curve. The US bond prices were falling in reaction to cumulated effect of higher than expected US CPI data and minutes of the most recent FOMC meeting in January, which signalled some uncertainty of US central bankers as regards the expected fall in inflation. This influenced the European investors and they were selling US bonds throughout the yesterday's session. The US initial jobless claims fell in the previous week to 332k from 359k previously against the expected drop from 357k to 325k. The US investors expected 5Y bonds auction, which did not support the US debt market. In the result yields of 10Y Treasuries rose from 4.71% at Wednesday's closing to 4.74%. Today in the morning the yield of 10Y Treasuries remained at the same level, while yields of 10Y German Bunds are at 4.1% against 4.05% at yesterday's opening. Today the release of Ifo index at 9:00 GMT will be crucial for Bunds.

MPC member Dariusz Filar suggested yesterday at the NBP's seminar that the Samuelson-Balassa effect is taking place in Poland much more strongly than before, which may result in the necessity to tighten the monetary policy. This was not the only "hawkish" signal form the central bank. The deputy NBP governor Jerzy Pruski said that the inflation projection as well as macroeconomic data point to a risk that inflation reaches 4% in 2009 and taking into consideration the experience of Lithuania perhaps it should have been even below 2.5%, so that Poland could be confident of joining the euro zone. The comments of Dariusz Filar and Jerzy Pruski do not bring much new to the assessment what views are dominating in the Monetary Policy Council. In our opinion the "hawkish" comments of prof. Filar still do not represent opinion of the majority in the Council, while comments of Pruski not only do not represent the opinions dominating in the MPC but we think his views also differ from the opinion of the new NBP's governor and the MPC chairman Sławomir Skrzypek.

Business climate indicators published yesterday by the Central Statistical Office confirmed positive picture of the Polish economy. Economic climate improved in February as compared to the previous month in the manufacturing and retail trade sectors, as well as in financial intermediation. Most of enterprises in the services sector also expressed positive opinions on business environment. The similar situation was observed in construction, though a seasonal deterioration, as compared to January, took place. The data confirmed that very good economic situation maintains at the beginning of 2007.

Today the focus of attention in the Polish market will be on retail sales data, which will be published at 10:00 local time. The market expects sales to increase by 14%YoY against 13.3% in December. Our forecast is slightly lower, at the level of 13%. If two-digit growth level maintains, this will be well another evidence of strong economic growth in 1Q07. Also, the CSO will publish the unemployment rate figure for January. Market expectations point to seasonal increase to 15.1% from 14.9% in the previous month.

It is worth to notice that monthly bulletin of the stat office will be published and this will include Q4 data on employment in the economy as a whole. Thus, calculation of unit labour costs figure will be possible. Also, the detailed data on wages will show to what extent sharp rise in January was affected by low statistical base effect in mining.

At the same time as domestic data, German index Ifo will be published. The market expects that the key indicator as regards German entrepreneurs' moods, fell in February to 107.5 from 107.9 in January.

ECONOMIC ANALYSIS UNIT

ul. Marszałkowska 142, 00-061
email: ekonomia@bzwbk.pl
fax +48 022 586 83 40
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

F/X rates (today's opening)

EURUSD	1.3129	CADPLN	2.5497
USDPLN	2.9590	DKKPLN	0.5215
EURPLN	3.8833	NOKPLN	0.4823
CHFPLN	2.3889	SEKPLN	0.4176
JPYPLN*	2.4462	CZKPLN	0.1377
GBPPLN	5.7773	HUFPLN	1.5422

Financial market review - 22 Feb 07

The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.8735	3.8843	3.8843	3.8783	3.88
USDPLN	2.9563	2.9664	2.9592	2.9593	2.9637
EURUSD	1.3082	1.3124	1.3124	1.3108	-

T-bonds

TERM	BOND	Yield (%)	Change (bp)	Last auction	Average yield
2Y	OK1208	**4.51**	**2**	7.02	4.494
5Y	PS0412	**5.04**	**2**	21.02	4.988
10Y	DS1017	**5.22**	**1**	10.01	5.234

IRS rates (Mid)

TERM	PL		US		EU	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1Y	4.56	2	5.41	2	4.15	2
2Y	**4.82**	**4**	5.32	4	4.20	3
3Y	4.95	2	5.27	5	4.20	4
4Y	5.04	2	5.26	4	4.22	4
5Y	**5.09**	**2**	5.27	4	4.22	5
8Y	5.16	2	5.33	4	4.28	5
10Y	**5.17**	**2**	5.36	4	4.33	5

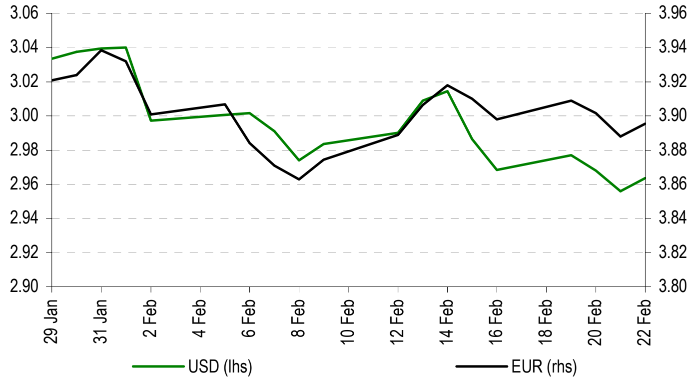
WIBOR rates

TERM	%	Daily change (bp)
O/N	4.00	-9
T/N	4.07	-3
SW	4.09	-2
2W	4.10	-1
1M	4.11	-1
3M	4.20	0
6M	4.30	2
9M	4.39	2
1Y	4.48	3

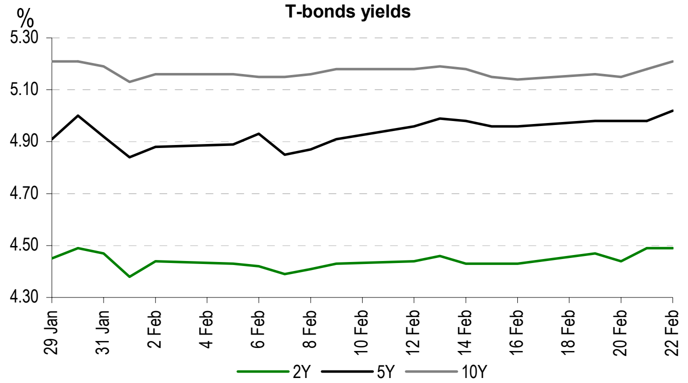
FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	4.16	-2
3X6	4.28	1
6X9	4.40	1
9X12	4.50	1
3X9	4.61	0
6X12	4.68	1

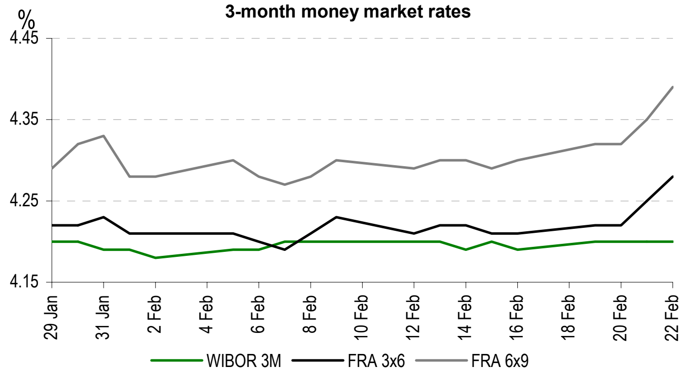
Zloty exchange rate



T-bonds yields



3-month money market rates



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