Bank Zachodni WBK

Eyeopener – Another dose of domestic data

23 March 2007

- **After the zloty strengthening in reaction to FOMC meeting, yesterday we saw slight correction, although higher appetite for risk may lead to another wave of strengthening.**
- **Today's data on retail sales, unemployment and core inflation are expected to confirm robust economic activity with weak current inflationary pressure.**

On Wednesday evening, after Fed statement, moods on international markets improved substantially, which triggered gains on stock markets and strengthening on emerging markets. Fed statement was interpreted as a change in monetary policy bias from restrictive to neutral, which led to increase in risk appetite and this was reflected e.g. in weakening of low yielding currencies, like Japanese yen and Swiss franc. The EURPLN rate rebounded from the support level of 3.86 and increased to ca. 3.87, while USDPLN rose from 2.886 to 2.896.

After the American central bank has abandoned a phrase about additional firming of monetary policy, the dollar significantly lost in value against the euro. But yesterday the dollar erased a part of earlier losses and during European session the EURUSD rate fell from 1.339 to 1.336. Data from American labour market gave additional slight support for the dollar. The number of initial jobless claims fell from 320,000 to 316,000 last week against expected rise to 324,000 from 318,000.

The domestic bond market slightly strengthened at the start of the session, in the later phase of the day was quite stable and at the end of the day it marginally depreciated in reaction to weakening in the foreign debt markets.

After significant strengthening in the core markets on Fed's statement yesterday came a correction. Investors bought stocks against bonds. In the result yields of 10Y Treasuries rose from 4.55% to 4.57%, and of 10Y Bunds from 3.9% to 3.92%.

At night during sessions in the United States and Asia the weakening in the core bond markets was continued. Today in the morning yield of 10Y Treasuries amounts to 4.59% and of Bunds to 3.96%. After Fed's communiqué there was some repositioning in portfolios in favour of short term bonds at the cost of longer tem bonds. Thus, US yield curve steepened.

The president of US Federal Reserve Ben Bernanke did not mention anything on monetary policy nor US economic data during yesterday's conference on credit risk.

Today the zloty opened at levels that were close to yesterday's closing. The EURPLN rate amounted to 3.867 and the USDPLN rate to 2.903.

Yesterday the Central Statistics Office released business climate indices for March, which confirmed positive moods in Polish economy. Figures for manufacturing, construction and trade sectors all rose as compared to prevision month and in annual terms. We maintain our view that the GDP growth in Q1 2007 most probably exceeded 7%.

Today, publication of another set of domestic economic data is in the agenda, which should confirm high economic activity. Fast rise in retail sales in February is predicted and a fall in unemployment rate, while core inflation measures should remain at low levels. According to our prediction, retail sales (publication at 9:00 GMT) rose 15.9%YoY in February, while market consensus is at 16.2%YoY, after 16.5% increase in January. Unemployment rate (also 9:00 GMT) is expected to come down to 15.0% from 15.1% in January. As regards net inflation (publication at 13:00 GMT) we forecast it fell to 1.5% in the first two months of the year from 1.6% in December 2006. Market predicts a rise in core inflation to 1.7%.

As regards foreign data publications, at 14:00 GMT the number of existing home sales will be released in the US, which are predicted to fall to 6.31m in February from 6.46m in January.

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F/X rates (today's opening)

EURUSD	1.3334	CADPLN	2.5060
USDPLN	2.9023	DKKPLN	0.5193
EURPLN	3.8699	NOKPLN	0.4763
CHFPLN	2.3892	SEKPLN	0.4161
JPYPLN*	2.4581	CZKPLN	0.1384
GBPPLN	5.7037	HUFPLN	1.5755

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.8653	3.873	3.8658	3.8678	3.87
USDPLN	2.8853	2.8974	2.8991	2.8963	2.8977
EURUSD	1.335	1.3387	1.3382	1.3359	-

T-bonds

TERM	BOND	Yield (%)	Change (bp)	Last auction	Average yield
2Y	OK0709	**4.56**	**-1**	7.03	4.562
5Y	PS0412	**4.95**	**-2**	22.03	4.967
10Y	DS1017	**5.15**	**0**	10.01	5.234

IRS rates (Mid)

TERM	PL		US		EU	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1Y	4.63	0	5.21	2	4.20	2
2Y	**4.79**	**-3**	4.97	5	4.17	4
3Y	4.89	-1	4.90	5	4.15	4
4Y	4.95	-3	4.90	5	4.14	5
5Y	**4.98**	**-3**	4.93	5	4.15	5
8Y	5.04	-3	5.03	5	4.18	6
10Y	**5.06**	**-2**	5.10	5	4.23	6

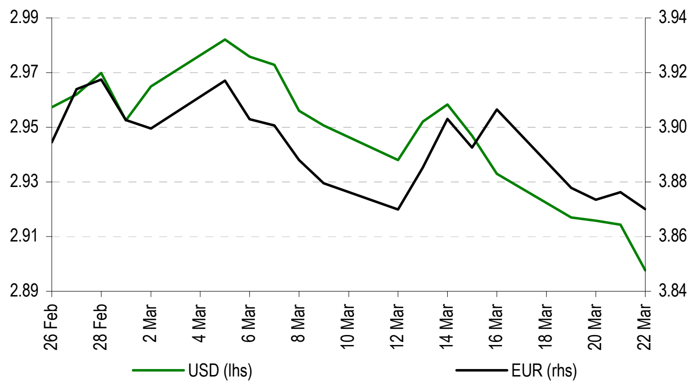
WIBOR rates

TERM	%	Daily change (bp)
O/N	4.09	-1
T/N	4.10	-1
SW	4.11	-1
2W	4.12	-1
1M	4.13	0
3M	4.23	0
6M	4.40	0
9M	4.50	0
1Y	4.60	0

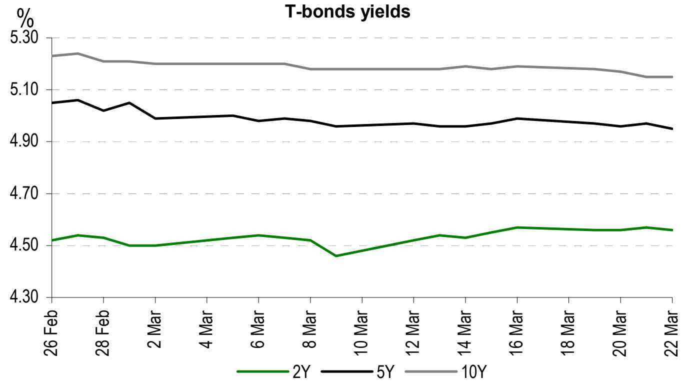
FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	4.19	5
3X6	4.51	3
6X9	4.71	2
9X12	4.81	3
3X9	4.64	3
6X12	4.78	1

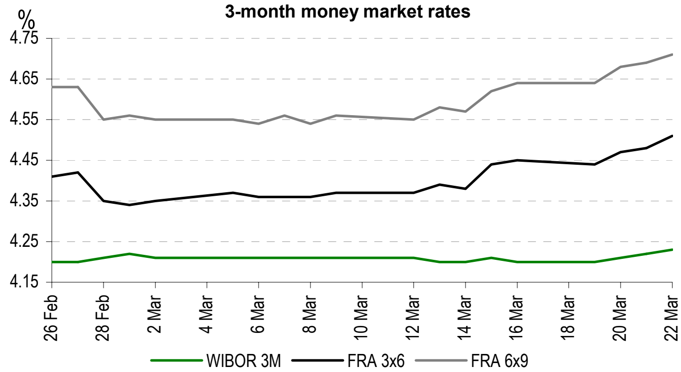
Zloty exchange rate (fixing)



T-bonds yields



3-month money market rates



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