Bank Zachodni WBK

Eyeopener – Calm week?

30 April 2007

- **Zloty slightly gained versus the dollar on Friday after weaker-than-expected GDP figures from the US; bond yields remained unchanged.**
- **Today, and in the whole week, we will get many important data from abroad.**

During Friday's session the domestic FX market was quite stable. The EURPLN rate fluctuated near 3.78, while the USDPLN rate declined to 2.768 amid rising EURUSD rate.

The bond market was relatively calm in the first part of the day as investors awaited data from the US. After the numbers were released the longer end of the domestic yields curve went up slightly. Meanwhile, shorter date bonds strengthened. Thus, at the end of the Friday's session bonds yields were moderately below the Thursday's closing level at the shorter end of the curve and slightly higher than a day earlier at the longer end. The market did not react to appointment of Ludwik Dorn on the post of the Sejm's speaker.

After a dollar's firming on Thursday, which resulted from profit taking of some investors following the market's failure to break an important technical level of 1.367, on Friday the US currency started to weaken again. The market awaited data from the United States. The released data were mixed. The GDP growth amounted to 1.3%, which was significantly below the market expectations of 1.8% after 2.5% rise in 4Q06. Such weak data were mostly a result of the weakening in exports and construction. They contributed to a steep rise of the EURUSD rate to 1.367 level. Meanwhile, the Michigan index for April that was released in the afternoon amounted to 87.1 vs. 88.4 in March, while market expectations were at 85.4. Better than expected data supported the dollar and in the result the EURUSD rate fell to 1.362.

The core bond markets slightly strengthened on Friday ahead of GDP data. After the GDP numbers appeared worse than expected, the US bonds slightly strengthened. However, in second reaction to the data the debt market investors focused on other elements of GDP statistics and the market weakened. The GDP deflator amounted to 4.0% against the market consensus of 3.0% and 1.6% in Q4. The core PCE index was also higher than forecasted, as it rose by 2.2% while Wall Street analysts expected a slightly lower growth of 2.1% against 1.8% in the previous quarter. As a result, yields of 10Y Treasuries returned at the end of the domestic session to 4.69% that was traded at the opening. The German government bond market followed the US market. After an increase of yields of 10Y Bunds to 4.23% they returned to morning level of 4.19%.

As far as the domestic financial market is concerned, this week activity of investors should be limited due to market holidays on Tuesday and Thursday. In the FX market the zloty rate should be relatively stable against major currencies. On the other hand in the fixed income market the longer end of the curve may be quite volatile amid quite low liquidity and ample data releases abroad. There are no crucial data releases scheduled for this week in the domestic market.

Today in the morning the EURUSD rate was 1.3614. Yields of 10-year Treasuries were 4.68% and Bunds 4.20%. The zloty was traded at 3.783 against the euro and at 2.7725 versus the dollar.

Today at 10:00 local time the euro zone's money supply data for March will be published. The market expects 9.5%YoY rise, down from 10%YoY in February. An hour later, the euro zone's economic sentiment index will be released. The market consensus points to an increase to 111.5 in April from 111.2 in March. At the same time we will get preliminary HICP for April (market consensus at 1.8%YoY, last value 1.9%YoY). Later during the day, at 14:30 fresh inflation data from the US will be published, i.e. core PCE index for March. Wall Street analysts predict that it rose 0.1% versus 0.3%Yoy rise in February. Towards the end of the domestic session Chicago PMI for April will be published, which surprised strongly on the upside a month ago showing a rise to 61.7 in March from 54.5 in February. Unexpectedly high level of the index in March was not reflected in the ISM index, although usually they are correlated.

Tomorrow, there will be market holiday not only in Poland, but also in Germany. Meanwhile, in the US we will see publication of the ISM manufacturing. On Wednesday, PMI for Poland and the euro zone will be released. They should remain at high level and thus confirm good condition of the industrial sector. On Wednesday we will also get ADP report, a hint before a release of non-farm payrolls numbers. On Thursday, a series of data releases from the US market is expected: weekly data on initial jobless claims and statistics on labour productivity and unit labour costs in 1Q07. We will also get ISM non-manufacturing. On Friday, a key data release of the week will took place, i.e. non-farm payrolls for April will be revealed.

In our opinion, amid positive sentiment toward the zloty, its current levels against majors may be stable for some time. However, we maintain our view that after some stabilisation there might be a correction later on. The nearest week should be stable amid lack of domestic data releases and market holidays. We keep the expected ranges of 3.75-3.85 for the EURPLN rate and 2.75-2.85 for the USDPLN rate. Amid lack of data releases in the domestic market and two market holidays during one week, activity in the Polish market will be very limited in the forthcoming days. The debt market may be more sensitive, especially at the longer end of the curve, to the moves in the core bond markets, especially taking into consideration ample data releases abroad.

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F/X rates (today's opening)

EURUSD	1.3606	CADPLN	2.4534
USDPLN	2.7742	DKKPLN	0.5053
EURPLN	2.7709	NOKPLN	0.4648
CHFPLN	2.3074	SEKPLN	0.4086
JPYPLN*	2.3578	CZKPLN	0.1345
GBPPLN	5.5497	HUFPLN	1.5184

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.7745	3.7846	3.7764	3.7756	3.78
USDPLN	2.7626	2.7816	2.7791	2.7643	2.7767
EURUSD	1.3587	1.3676	1.3658	1.3593	-

T-bonds

TERM	BOND	Yield (%)	Change (bp)	Last auction	Average yield
2Y	OK0709	**4.72**	**-2**	4.04	4.694
5Y	PS0412	**5.10**	**0**	18.04	5.11
10Y	DS1017	**5.31**	**1**	11.04	5.244

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1Y	4.74	-1	5.30	1	4.36	-1
2Y	**4.94**	**2**	5.06	-1	4.39	0
3Y	5.05	2	5.00	-2	4.39	0
4Y	5.12	1	5.01	-1	4.39	-1
5Y	**5.17**	**1**	5.05	1	4.39	-1
8Y	5.24	1	5.16	2	4.43	-1
10Y	**5.26**	**1**	5.22	0	4.47	-1

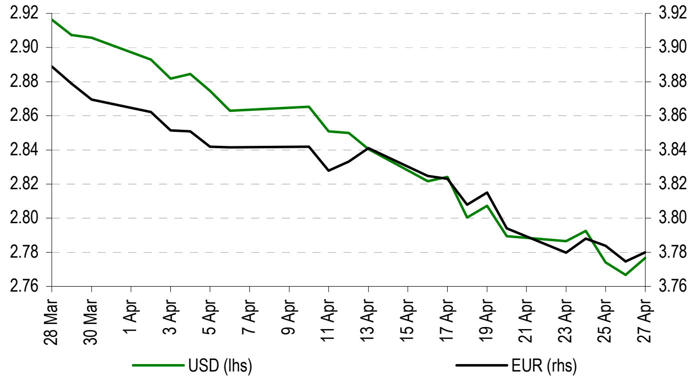
WIBOR rates

TERM	%	Daily change (bp)
O/N	3.90	82
T/N	4.32	13
SW	4.33	1
2W	4.34	1
1M	4.35	1
3M	4.40	2
6M	4.55	0
9M	4.65	-1
1Y	4.75	0

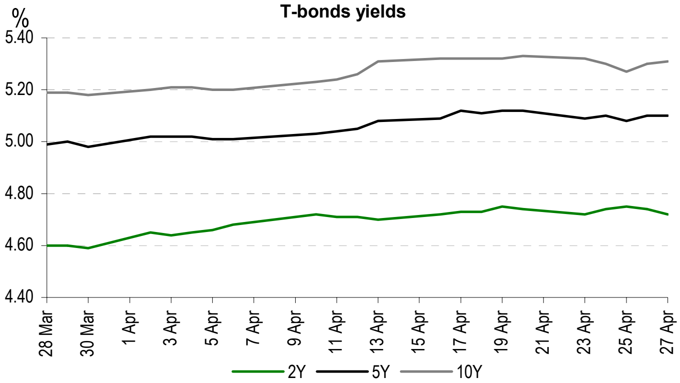
FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	4.41	3
3X6	4.60	0
6X9	4.77	-1
9X12	4.87	3
3X9	4.71	1
6X12	4.84	1

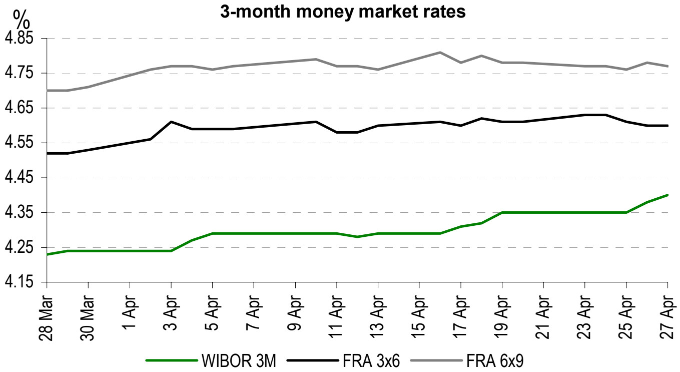
Zloty exchange rate (fixing)



T-bonds yields



3-month money market rates



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