

Eyeopener – Trichet takes the floor today

20 July 2007

- **The zloty and local bonds were stable yesterday.**
- **Minutes of MPC meeting in June did not bring clear hints regarding next rate hike, weaker than expected output data did not affect the market significantly.**
- **Minutes of FOMC meeting in June did not change perception of monetary policy prospects in the US.**

Yesterday's session saw no major movements in the domestic foreign exchange market. After moderate strengthening observed overnight before Thursday's local session, the zloty depreciated during the day to 3.754 against the euro and appreciated to 2.72 against the dollar. The fixed income market was quite stable in the first part of the session as investors had been awaiting fresh portion of economic data for June.

Industrial output grew 0.2%MoM and 5.6%YoY in June. This result was much weaker than market consensus of ca. 8%YoY and slightly below our forecast of 6.2%YoY. On the other hand, PPI inflation figure was in line with median of market forecasts of 1.8%YoY (above our prediction at 1.7%), which represented a decrease as compared to the May's level of 2.1%. Please see the Instant comment, which we released yesterday for detailed description of the data, as well as our comment to the minutes of the June meeting of the Monetary Policy Council. All in all, we think that data for June are not likely to induce the Council to deliver another rate hike this month. While the minutes of the MPC meeting in June shed more light on reasons for a quite unexpected decision made last month, the document lacked clear suggestions as regards monetary prospects for the forthcoming months. We keep our view that next rate hike will take place in August.

Despite the fact that output data were below market expectations, the bond market slightly weakened. Such performance was connected with the fact that core markets saw rise in yields. On the FRA market, the first reaction was decrease in market rates, but later in the afternoon the rates moved back to the levels observed at the opening.

During yesterday's speech the Prime Minister Jarosław Kaczyński announced the plan to increase the minimum wage to ca. 35-40% of the average salary next year. Such a move would lead to higher labour costs for enterprises. Given quite difficult situation on the labour market anyway amid higher wage pressure, such a decision could increase the risk of price increases, which would be negative factor from the point of view of monetary policy. Also, a possible result would be a shift to the shadow economy.

Yesterday the Prime Minister also presented the conditions under which the coalition of PiS with Samoobrona and LPR is going to be continued. The leader of Samoobrona Andrzej Lepper stated that they are unacceptable, which increases the probability of early election.

Once again, the dollar depreciated against the euro yesterday and the EURUSD rate rose to 1.382. After publication of better than expected data from American labour market that showed a decline in number of new jobless claims to 301,000 from 309,000 (market consensus 311,000) there was a weakening on the US debt market that affected German market as well. Yields of 10Y Treasuries increased to 5.07% from 5.04% and German Bunds increased to 4.56%. At the end of the session, there was some rebound. In the afternoon Ben Bernanke had a speech before Senate's Banking Committee, but it was the same as on Wednesday and did not affect the market.

After close of domestic session, the dollar lost in value against the euro and trimmed gains against the yen after publication of Philadelphia Fed index that declined more than expected to 9.2 from 18 in June, while the market predicted 13.3 level. The data resulted in strengthening on core debt markets.

The FOMC minutes from the June's Fed meeting that was released later included statements that the "risks to growth were more balanced than at the time of May meeting, despite ongoing adjustment in the housing sector and the significant increases of longer-term interest rates". The document simultaneously suggests that the Committee members do not notice reasons to think that recent moderation of core inflation was permanent. "Participants generally accepted that the risk for inflation would fail to moderate as expected remained their predominant concern" - it was written in the statement.

Today in the morning yields of 10Y US Treasuries and German Bunds were at 5.03% and 4.53% respectively. The EURUSD rate was at 1.38 level.

No essential macroeconomic data were scheduled for today neither in Poland nor abroad, though the market may be under influence of yesterday's data from the United States, i.e. Philly Fed index and the minutes of the Federal Open Market Committee. Amid lack of data releases the whole market's attention will be focused on comments of the European Central Bank president Jean Claude Trichet's comments.

ECONOMIC ANALYSIS UNIT

ul. Marszałkowska 142, 00-061
email: ekonomia@bzwbk.pl

Maciej Reluga (Chief Economist)
Piotr Bielski
Piotr Bujak
Cezary Chrapek

fax +48 022 586 83 40
Web site: <http://www.bzwbk.pl>
+48 (0) 22 586 83 63
+48 (0) 22 586 83 33
+48 (0) 22 586 83 41
+48 (0) 22 586 83 42

New business queries:

Treasury - Frank O'Connor

Corporate Banking – Rashid Khan

Branch/ Mortgages - Carl Coates

+48 (0) 22 586 8402
frank.o'connor@bzwbk.pl
+48 (0) 22 586 8050
rashid.khan@bzwbk.pl
+48 (0) 22 586 8059
carl.coates@bzwbk.pl

F/X rates (today's opening)

EURUSD	1.3802	CADPLN	2.6057
USDPLN	2.7200	DKKPLN	0.5045
EURPLN	3.7535	NOKPLN	0.4748
CHFPLN	2.2596	SEKPLN	0.4097
JPYPLN*	2.2257	CZKPLN	0.1328
GBPPLN	5.5752	HUFPLN	1.5297

Financial market review - 19 Jul 07
The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.7472	3.7583	3.7572	3.7535	3.7508
USDPLN	2.7124	2.7248	2.7248	2.7155	2.7146
EURUSD	1.3786	1.3828	1.3791	1.3821	-

T-bonds

TERM	BOND	Yield (%)	Change (bp)	Last auction	Average yield
2Y	OK0709	5.12	1	4.04	4.694
5Y	PS0412	5.48	2	20.06	5.48
10Y	DS1017	5.60	1	11.07	5.658

IRS rates (Mid)

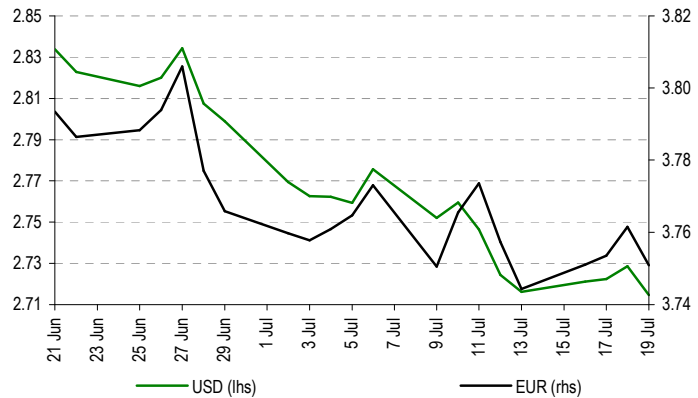
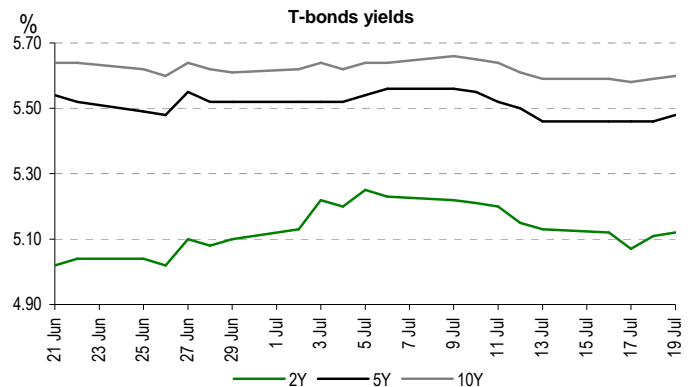
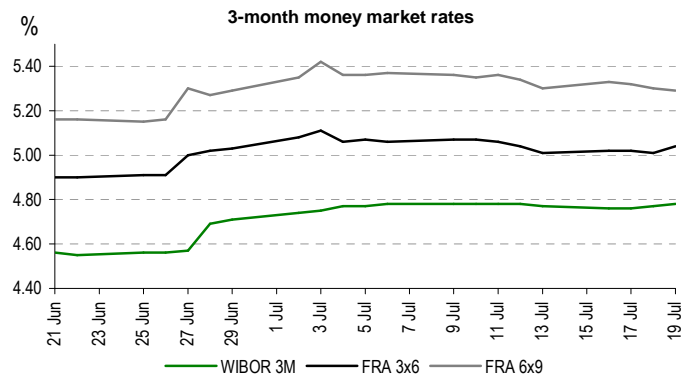
TERM	PL	US	EA
	%	%	%
	Change (bp)	Change (bp)	Change (bp)
1Y	5.25	5.40	4.66
2Y	5.51	5.35	4.77
3Y	5.57	5.38	4.80
4Y	5.61	5.46	4.81
5Y	5.65	5.51	4.82
8Y	5.66	5.63	4.85
10Y	5.66	5.70	4.88

WIBOR rates

TERM	%	Daily change (bp)
O/N	4.65	2
T/N	4.65	1
SW	4.66	1
2W	4.67	1
1M	4.69	0
3M	4.78	1
6M	4.93	0
9M	5.13	0
1Y	5.25	1

FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	4.77	2
3X6	5.04	3
6X9	5.29	-1
9X12	5.45	-2
3X9	5.19	0
6X12	5.41	-1

Zloty exchange rate (fixing)

T-bonds yields

3-month money market rates


This publication has been prepared by Bank Zachodni WBK S.A. (a member of AIB Group) for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Bank Zachodni WBK S.A., its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Bank Zachodni WBK S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Bank Zachodni WBK S.A. entity or an AIB Group entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

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>



Bank Zachodni WBK is a member of Allied Irish Banks Group