Bank Zachodni WBK

Eyeopener – MPC decision today

25 July 2007

- **Weakening of the zloty and bonds**
- **MPC decision today; we expect rates to remain on hold; market players will focus on the communiqué including conclusions from new inflation projection and on the MPC members' comments**
- **Important existing home sales data in the US**

During Tuesday session after a slight strengthening in the FX market, which was experienced in the first half of the day, in the afternoon there was a correction and zloty depreciated. In the afternoon the EURPLN rate traded at 3.775, while the USDPLN rate amounted to ca. 2.726. However this was not the end of the depreciation of the of the domestic currency and after the session closed in the local market this tendency was continued amid the wave of global retreat in the international markets from the risky assets. In the result in the evening the EURPLN and USDPLN rates topped 3.79 and 2.74 respectively.

During the day the fixed income market was quite stable and there was hardly any reaction to released domestic data. At the end of the session, when the domestic FX market depreciated, prices fell also in the bond market. Yields moderately increased against the Monday closing.

The data on retail sales that were released yesterday were better than expected both as compared to our forecast and market consensus. Retail sales rose in June by 16.2%YoY, which confirmed that the higher personal income growth contributed to consumption demand growth. On the other hand the rate of unemployment fell in June to 12.4%. Taking into consideration the monthly data for the second quarter we estimate that the GDP growth amounted to 6% and was below our previous forecast of 6.5%. We recommend familiarize with our product *Instant comment*, which covers yesterday released data in detail.

On Tuesday, there were no major data releases abroad. In such situation, persisting concerns about negative effect of problems in the housing market on other sectors of the US economy translated into further depreciation of the dollar. The EURUSD rate increase during the day to 1.385, although in the afternoon the better part of the losses were erased and the greenback returned to 1.382 at end of the European session. After initial transitory weakening in the core debt markets, there was another strengthening of Treasuries and Bunds yesterday. At the end of the day 10-year Treasuries remained at levels seen at the opening, i.e. 4.94% and 4.43%, respectively. Further gains were observed during the Asian session, as yields of 10-year Treasuries and Bunds fell to 4.92% and 4.41%, respectively, amid rising concerns about possible deepening of crisis in the US housing market. The Japanese yen appreciated against the dollar to the strongest level in over two months, while the EURUSD rate dropped to 1.381. Today in morning the EURPLN was at 3.7865 and the USDPLN at 2.745.

Today, the Monetary Policy Council will make decision about interest rates. We predict the Council will leave rates on hold at 4.50%. From the point of the view of the Monetary Policy Council, the recently released set of data did not give explicit arguments in favour of speeding up monetary policy tightening cycle. On one hand, stronger labour market and retail sales data may arouse concern over demand pressure growth and the deterioration of the relation between wages and productivity growth keeps the question of future pricing decisions of companies up to date. On the other hand, the GDP growth does not exceed the potential growth as much as in Q1 and the inflation pressure is still moderate. For market players, the MPC communiqué will be essential and it will be accompanied by the key conclusions from the new inflation projection. The full Inflation report will be released by the central bank later on, probably on Thursday.

The activity in the international financial markets should rise with regards to first important data releases abroad. At 14:00 GMT (16:00 local time) we will know the housing market data from the United States and they should confirm the weakening in this sector of the economy. The market consensus point to a fall of existing home sales in June to 5.92m units from 5.99m in May. In the evening at 18:00 GMT (20:00 local time) we will information from the Beige Book, which should be consistent with the tone of Ben Bernanke comments.

Next important data releases from abroad were scheduled for next part of the week.

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F/X rates (today's opening)

EURUSD	1.3807	CADPLN	2.6494
USDPLN	2.7436	DKKPLN	0.5091
EURPLN	3.7875	NOKPLN	0.4768
CHFPLN	2.2769	SEKPLN	0.4108
JPYPLN*	2.2854	CZKPLN	0.1345
GBPPLN	5.6487	HUFPLN	1.5367

Financial market review - 24 Jul 07

The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.7574	3.7789	3.7617	3.7748	3.7586
USDPLN	2.7166	2.7315	2.7206	2.7315	2.7202
EURUSD	1.3806	1.3847	1.3824	1.3825	-

T-bonds

TERM	BOND	Yield (%)	Change (bp)	Last auction	Average yield
2Y	OK0709	**5.08**	**2**	4.04	4.694
5Y	PS0412	**5.47**	**4**	20.06	5.48
10Y	DS1017	**5.56**	**3**	11.07	5.658

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1Y	5.26	2	5.37	-1	4.63	-1
2Y	**5.49**	**3**	5.27	-5	4.69	-2
3Y	5.56	1	5.30	-5	4.71	-1
4Y	5.60	4	5.36	-5	4.72	-1
5Y	**5.61**	**3**	5.41	-4	4.72	-1
8Y	5.62	4	5.57	-1	4.75	-1
10Y	**5.62**	**4**	5.62	-3	4.78	-1

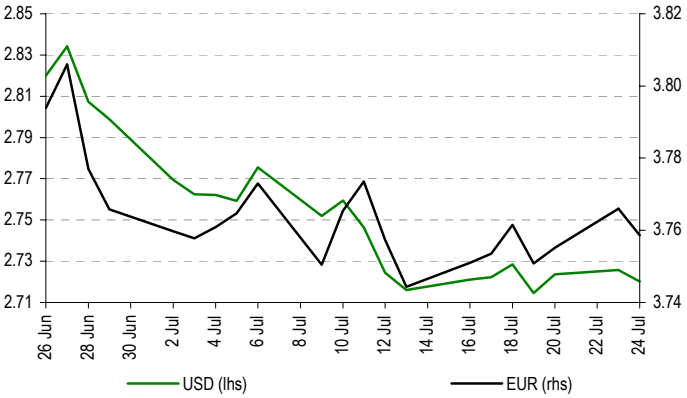
WIBOR rates

TERM	%	Daily change (bp)
O/N	4.66	1
T/N	4.66	1
SW	4.67	1
2W	4.68	0
1M	4.71	1
3M	4.80	1
6M	4.94	1
9M	5.14	1
1Y	5.25	0

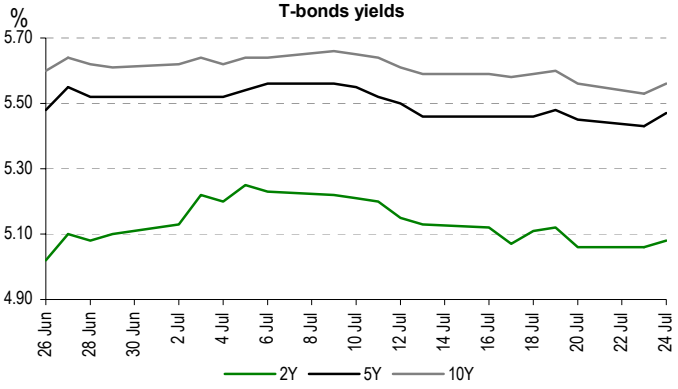
FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	4.81	4
3X6	5.05	1
6X9	5.30	2
9X12	5.47	4
3X9	5.21	3
6X12	5.43	1

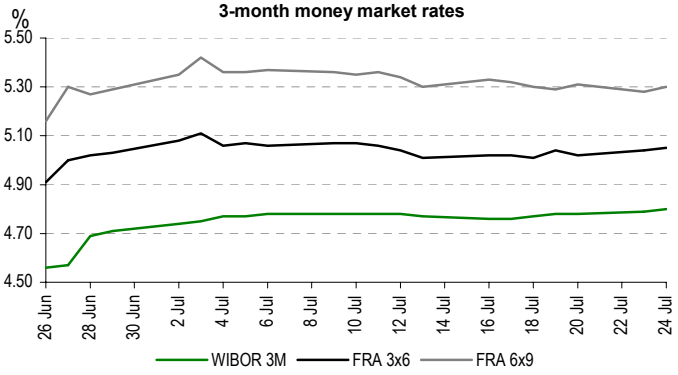
Zloty exchange rate (fixing)



T-bonds yields



3-month money market rates



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