Bank Zachodni WBK

Eyeopener – Return to normal activity

4 September 2007

- **Activity in the international markets was limited yesterday due to market holiday in the US**
- **The zloty slightly strengthened versus major currencies and bonds were stable at levels seen on Friday's close**
- **Today the markets will return to normal activity; the key focus of attention will be on ISM manufacturing in the US**

At the opening of yesterday's session the zloty was stronger as compared to Friday's close. During the session the appreciation of domestic currency against the euro and the dollar was continued to 3.818 and 2.806, respectively. Strengthening took place also at the Warsaw Stock Exchange. The fixed income market experienced no significant changes against the Friday's close. The market was stable amid low activity in the international markets due to market holiday in the United States.

Yesterday, as usual at the start of a month, the Ministry of Finance released its inflation estimate for August. According to the ministry, CPI inflation in August dropped to 1.9%YoY from 2.3%YoY in July with consumer prices stable on a monthly basis. Our forecast is slightly lower and points to inflation deceleration to 1.8%YoY amid 0.2%MoM drop in prices. The forecast of the ministry is in line with market consensus.

Yesterday the Poland's PMI index for the manufacturing sector for August was released and it reached 53.6 pts against 54.5 pts the previous month. The index above 50 pts points to continuation of expansion of Polish economy, though its decline versus the previous month suggests that the expansion decelerates.

PAP agency released yesterday an interview with an MPC member Dariusz Filar. The member, who is perceived by the market as a "hawk", stated that it is worth waiting with the next interest rate for the inflation projection due for release in October, which will take into consideration GDP data and LFS results for Q2. Referring to the GDP data Filar said that strong investment growth may herald catching up of real GDP by the potential GDP in perspective of about a year (till the end of 2008) and in this horizon the inflation pressure may ease, which may allow for more neutral bias of monetary policy. The MPC member confirmed our interpretation of data for Q2, emphasizing that the more favourable structure of the GDP growth, i.e. stronger investment growth and weaker consumption, is more important than the fact that overall GDP growth was stronger than predicted. Filar added that July projection suggested a need for an interest rate hike and the MPC was convinced of such move, however in the opinion of some part of the Council a verificatio0n of this view was necessary by in data due for release in August. The Council member suggested that similar scenario may be expected in October-November. Such statement confirm our view that the Council is going to wait for the projection (this rules out interest rate hike in September) as well as confirmation of its results in the data for Q3 (due for release after the October meeting), which means that next interest rate hike may be delivered in November. In the opinion of Dariusz Filar there were no reasons that would suggest that the crisis in the international financial markets would influence the Polish economy. In an interview for Reuters agency, which was released after the release of the FinMin's inflation estimate Filar said that after inflation stabilisation at low level in September it should accelerate near to the target level of the Council and that the MPC would act if the data point to such a need.

Yesterday the Ministry of Finance sold 52-wee T-bills worth PLN900m with investors' demand at PLN1.3bn. The average yield amounted to 5.08%. The ministry informed that offer at Wednesday's auction of 2-year bonds OK0709 will amount to PLN1.8bn.

International markets were calm yesterday amid holiday in the United States. In the euro zone the PMI manufacturing index for August was published and it showed a decrease to 54.3 pct from 54.9 in July, while the market consensus expected the level of 54.2. Yields of 10-year Treasuries were stable at the level of 4.53%, while yield of 10-year Bunds rose moderately to 4.27% from 4.25% at the opening. At the beginning of today's session yields on the core markets were the same as at the beginning of the week, while the EURUSD rate amounted to 1.362. The Polish zloty is moderately weaker today in the morning than at close of the yesterday's session.

Today international markets will return to normal activity after day-off in the US. The key focus of attention will be on publication of the US ISM manufacturing for August. Wall Street analysts expect the index to have fallen to 53.0 from 53.8 in the previous month. Earlier during the day we will get revised data on GDP for the second quarter in the euro zone. The market consensus points to a reduction in the rate of economic growth to 2.5%YoY from 3.1% in the first quarter, the same as the earlier reading.

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F/X rates (today's opening)

EURUSD	1.3617	CADPLN	2.6648
USDPLN	2.8062	DKKPLN	0.5130
EURPLN	3.8219	NOKPLN	0.4813
CHFPLN	2.3214	SEKPLN	0.4071
JPYPLN*	2.4226	CZKPLN	0.1382
GBPPLN	5.6633	HUFPLN	1.4968

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.8155	3.8251	3.8242	3.8195	3.8209
USDPLN	2.7963	2.8018	2.8018	2.8018	2.7995
EURUSD	1.3609	1.3654	1.3645	1.3609	-

T-bonds

TERM	BOND	Yield (%)	Change (bp)	Last auction	Average yield
2Y	OK0709	**5.26**	**2**	1.08	5.185
5Y	PS0412	**5.69**	**0**	20.06	5.48
10Y	DS1017	**5.76**	**0**	11.07	5.658

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1Y	5.41	1	5.07	1	4.71	0
2Y	**5.57**	**-1**	4.88	2	4.56	0
3Y	5.66	0	4.87	-3	4.54	0
4Y	5.69	-2	4.89	-2	4.54	0
5Y	**5.71**	**-2**	4.95	-2	4.55	0
8Y	5.73	0	5.13	0	4.60	0
10Y	**5.73**	**0**	5.21	0	4.66	1

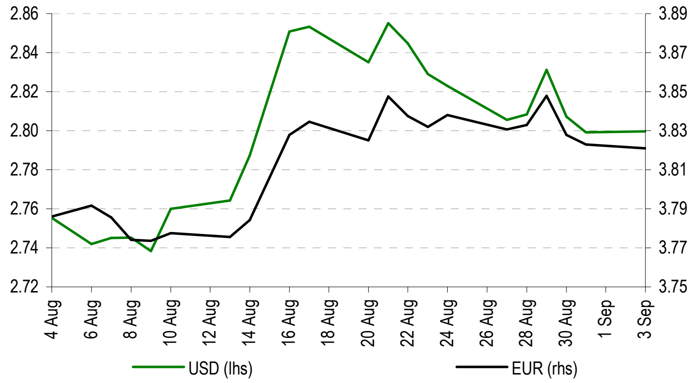
WIBOR rates

TERM	%	Daily change (bp)
O/N	4.89	0
T/N	4.89	0
SW	4.90	0
2W	4.90	0
1M	4.93	2
3M	5.06	3
6M	5.19	0
9M	5.33	1
1Y	5.48	1

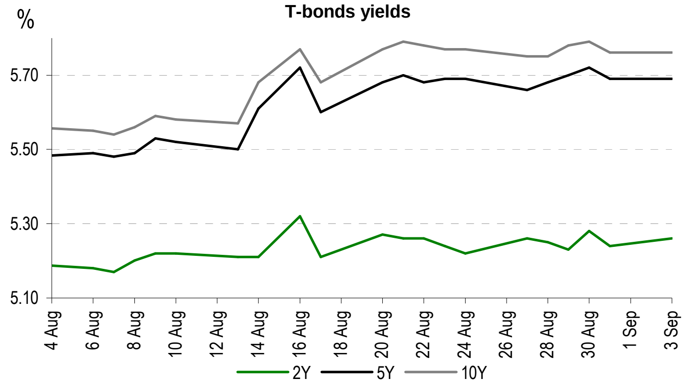
FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	4.94	1
3X6	5.23	1
6X9	5.40	1
9X12	5.55	-2
3X9	5.35	0
6X12	5.50	-1

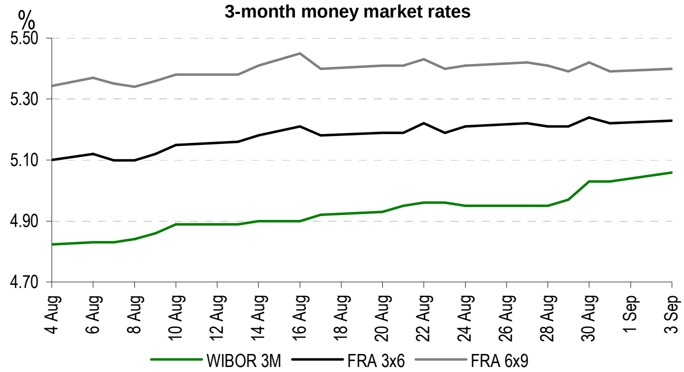
Zloty exchange rate (fixing)



T-bonds yields



3-month money market rates



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