Bank Zachodni WBK

Eyeopener – MPC meeting starts today

18 December 2007

- **The zloty weakened against majors amid increase risk aversion in the global markets; local bonds hurt by stronger than expected labour market data**
- **Today the MPC starts its two-day meeting**
- **The key focus of attention in the international markets today will be the US house starts data**

At Monday's session the zloty slightly weakened amid increased risk aversion in the global markets. Other emerging market currencies depreciated as well. At the same time low-yielding currencies appreciated and stock indices fell in Europe and in the United States. After initial rise the EURPLN rate stabilised slightly below 3.624. Then, after stronger than expected data from the labour market, there was a slight recovery to 3.617. At the close of the session the zloty again reached 3.624 against the euro. The similar situation was in case of the USDPLN rate. The zloty initially weakened against the dollar to 2.529 and at the end of the domestic session the USDPLN rate reached 2.522. Today in the morning, after stabilisation of moods during the Asian session, the zloty was traded at similar levels as at close of yesterday's session.

In the fixed income market bond prices were falling in the first part of the session ahead of the release of the labour market data. The CSO data on wages in the corporate sector were stronger than expected and this led to further weakening in the fixed income market. After the data release FRA rates rose by 3bps, and bond yields increased by 2bps. Over the whole day, bonds yields rose by 6-8bps against the Friday close.

Average wage in the corporate sector in November grew by 12%YoY against market consensus of 11.2%YoY and our forecast of 10.1%YoY. The employment growth stayed at record high level of 5%YoY, which was in line with market expectations. The data were covered in detail in our yesterday *Instant comment*. In our view the data has not significantly changed the assessment of the economic situation in Poland and has not affected our expectations regarding monetary policy actions. We still expect that the next rate hike will take place in January.

At yesterday's tender the Ministry of Finance sold 6-week T-Bills worth PLN5.16bn, 13-week T-Bills worth PLN1.34bn and 39-week T-Bills worth 0.59bn against the offer of PLN4.5bn, PLN3.0bn and PLN2.0bn, respectively. The average yields reached 5.427%, 5.461% and 5.882%, respectively.

Yesterday, the deputy finance minister Katarzyna Zajdel-Kurowska said that the update of the convergence program will be sent to Brussels in February at the earliest, after signing the 2008 budget bill by the President. She added that the value of foreign currency debt issues in 2008 will amount to €3.0-3.5bn and the first issue will probably take place in Q1 2008 and it will be euro-denominated bonds.

Yesterday the Polish energy market watchdog informed that due to procedural issues it rejected the new gas tariffs, which implies that there will be no rise in gas prices since January. It implies that inflation rate in January will be slightly lower than could have been expected earlier; however, it does not change medium-term inflation forecasts at all.

On international financial markets the dollar kept strengthening against the euro yesterday. The EURUSD fell to ca. 1.43, among others after weaker than predicted data from the euro zone. According to tentative estimates, PMI manufacturing index declined in December to 53.3, the lowest level for 28 months, from 54.1 in November. Services PMI fell to the lowest level since June 2005, i.e. to 53.2 from 54.1 in November. Before the midday there was some rebound in the euro rate to 1.44. However, better than expected data about capital inflow to the USA stopped the dollar's decline. In October, the US received ca. $114bn inflow against $15.4bn after revision in September, which was more than enough to cover trade deficit. Today in the morning the EURUSD was below 1.44.

Core bond markets were fluctuating yesterday, but in quite narrow range. After slight strengthening at the opening there was a rebound. Then, after the release of lower than predicted New York Empire State index there was a strengthening. The index reached 10.31 in December, against expected 21 and 27.37 in the previous month, and the sub-index of new orders was particularly low. In effect, at the end of European session the yields of 10Y Treasuries and Bunds were close to opening levels and reached 4.21% and 4.32% correspondingly. After the close of local session, there was a strengthening on core debt markets, among others after the release of NAHB index that remained in December at record-low level of 19.0. Today in the morning, yields of 10Y Treasuries and Bunds were at 4.14% and 4.29%.

The release of the US data from the housing market is going to be the main event of the day in the international market. At 13:30 GMT we will know the November data on the housing starts in the United States. The market consensus points to further from by PLN1.18m in November from 1.23m in October. The domestic market participants will await the Wednesday decision and the communiqué of the MPC after the meeting, which starts today. Yesterday the NBP informed that the start of the conference was scheduled for one hour earlier than usually, i.e. at 14:00 GMT (15:00 CET).

ECONOMIC ANALYSIS UNIT

ul. Marszałkowska 142. 00-061
email: ekonomia@bzwbk.pl
fax +48 022 586 83 40
Web site: http://www.bzwbk.pl

Maciej Reluga (Chief Economist)	+48 (0) 22 586 83 63
Piotr Bielski	+48 (0) 22 586 83 33
Piotr Bujak	+48 (0) 22 586 83 41
Cezary Chrapek	+48 (0) 22 586 83 42

New business queries:

Treasury - Frank O'Connor	+48 (0) 22 586 8402 frank.o'connor@bzwbk.pl
Corporate Banking – Rashid Khan	+48 (0) 22 586 8050 rashid.khan@bzwbk.pl
Branch/ Mortgages - Carl Coates	+48 (0) 22 586 8059 carl.coates@bzwbk.pl

F/X rates (today's opening)

EURUSD	1.4387	CADPLN	2.5074
USDPLN	2.5156	DKKPLN	0.4850
EURPLN	3.6181	NOKPLN	0.4522
CHFPLN	2.1850	SEKPLN	0.3829
JPYPLN*	2.2229	CZKPLN	0.1371
GBPPLN	5.0776	HUFPLN	1.4205

Financial market review - 17 Dec 07

The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.6090	3.6274	3.6175	3.6243	3.6235
USDPLN	2.5001	2.5291	2.5076	2.5223	2.5237
EURUSD	1.4335	1.4445	1.4427	1.4377	-

T-bonds

TERM	BOND	Yield (%)	Change (bp)	Last auction	Average yield
2Y	OK0709	**6.20**	**6**	5.12	6.168
5Y	PS0412	**6.22**	**9**	21.11	5.943
10Y	DS1017	**5.97**	**7**	10.10	5.699

IRS rates (Mid)

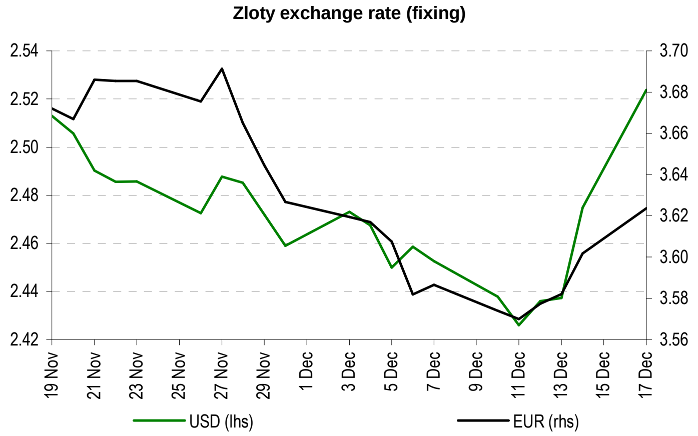
TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1Y	6.23	1	4.35	-7	4.85	-2
2Y	**6.30**	**7**	4.07	-10	4.61	-4
3Y	6.24	7	4.12	-11	4.57	1
4Y	6.19	9	4.24	-10	4.56	-3
5Y	**6.14**	**9**	4.37	-11	4.56	-2
8Y	6.00	9	4.67	-10	4.63	-4
10Y	**5.89**	**8**	4.81	-10	4.69	-4

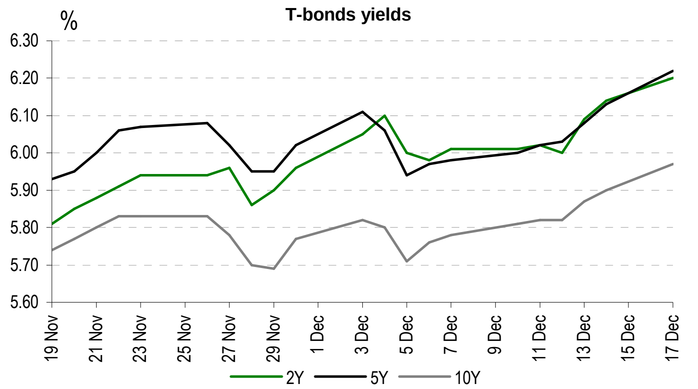
WIBOR rates

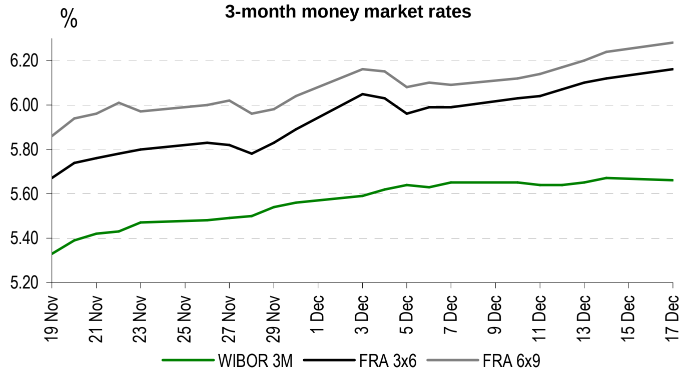
TERM	%	Daily change (bp)
O/N	3.86	-93
T/N	4.01	-94
SW	5.14	0
2W	5.41	17
1M	5.64	0
3M	5.66	-1
6M	5.91	0
9M	6.01	0
1Y	6.11	0

FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	5.71	2
3X6	6.16	4
6X9	6.28	4
9X12	6.28	6
3X9	6.27	4
6X12	6.33	5







* for 100 JPY

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