Bank Zachodni WBK

Eyeopener – Improvement in sentiment

25 January 2008

- **Zloty slightly stronger again, slight correction on the debt market**
- **Improvement in moods on global markets**
- **No major events planned for today, investors will be awaiting key events next week**

Yesterday's session brought further recovery of the zloty. At the beginning of the day the domestic currency was traded close to Wednesday's close, but already before noon a significant strengthening took place and during the session EURPLN fell below 3.61 and USDPLN to slightly above 2.45. At the end of the Polish session the zloty was traded at somewhat weaker levels, but today at the opening EURPLN was at 3.608 and USDPLN at 2.445. In the interest rate market positive moods were maintained. FRA rates and bond yields moved down in reaction to weaker than expected retail sales data. However, the strengthening was short-lived as investors started to take profits, which suggests that at least for some time there is not more potential for further drop in market interest rates. The long end of the yield performed relatively the worst yesterday, being negatively affected both by profit-taking and by a weakening in the core debt markets.

Retail sales data for December proved weaker than expected, similarly to majority of other macroeconomic indicators published recently. Nominal rise in retail sales was a mere 12.4%YoY and was much lower not only from the market consensus of 20%YoY, but even below our forecast of 18.5%YoY which was the least optimistic on the market. The numbers strengthened market expectations that there will be no more than two rate hikes of 25bps this year. The registered unemployment rate at the end of 2007 reached 11.4%, as expected, and this news had no impact on the market.

Minutes of the MPC meeting in December have not changed assessment of the domestic monetary policy prospects and had no impact on the interest rate market. According to the document, a motion to hike rate by 25bps was submitted in December, but this was not a surprise for the market. At the moment the market is more focused on comments from rate-setters on recently published data and developments abroad. For instance, comments from MPC's Andrzej Wojtyna in an interview with Dow Jones published this week showed that assessment of the situation by the Council has changed as compared to the December meeting. While he suggested that further monetary policy tightening is still needed, now Wojtyna believes that the minimum scale of further tightening may be just one move by 25bps, although he did not exclude two or three moves of the same scale. Wojtyna is afraid that turmoil in the financial markets may negatively affect domestic fixed investments and on top of the that there is a threat that widening interest rate disparity (rate cuts abroad and hikes in Poland) may cause appreciation of the zloty. On the other hand, Wojtyna take into account a weakening of the zloty due to increase in risk aversion. Moreover, he still sees a risk connected with current inflation increase and its possible second-round effects. According to Wojtyna, it would likely take months before the bank had a clearer view as to what degree European and emerging market economies are insulated from US trends. In the article in today's *Rzeczpospolita* daily Wojtyna presented slightly different view on exchange rate issue and wrote that the weakening of the zloty and falls in the stock market may reflect not only risk aversion, but also herald an economic downturn in Poland. In his opinion, if the zloty and the stock market does not see a recover soon, this might suggest stronger recession tendencies in the domestic economy, which would complicate conduct of the domestic monetary policy (i.e. would make it more difficult to further hike rates). Wojtyna believes that the best impulse that could reinforce upward tendencies in the economy is a public finance reform.

After clear improvement in moods on global markets the dollar experienced a hard day. It was gradually loosing value since the start of the day and at the end of session, the EURUSD topped 1.47 against slightly above 1.46 at the opening. Higher demand for riskier assets and rise in stock markets in Europe had negative impact on core debt markets. Yields of 10Y Treasuries and Bunds increased during the day from 3.52% and 3.93% at the opening to 3.62% and 4.00% at close of Polish session, and 3.69% and 4.04% today in the morning. Despite waning risk aversion, the Japanese yen strengthened yesterday against the dollar and euro, as investors' fears about global economic growth outweighed optimistic news from gaining stock markets. Uncertainty was also fuelled by information from Societe Generale about dealer's fraud amounting to €4.9bn. Moreover, the French bank was forced to make additional provision of €2.05bn for covering losses on global credit market. In general, markets are still predominated by uncertainty.

Ifo index recorded an increase to 103.4 from 103 in December, while analysts predicted a decline to 102.2. The number of US new jobless claims fell last week by 1000 to 301,000. Wall Street economists expected a rise to 320,000. Four week moving average decreased to 314,750 deom previous 328,750. In sum, the data did not change market situation significantly. Home sales in the US declined to 4.89m units in December deom 5m in November, which was a deeper fall than predicted by the market (4.95m).

Today, no important events of data releases are planned in Poland or abroad.

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F/X rates (today's opening)

EURUSD	1.4765	CADPLN	2.4304
USDPLN	2.4438	DKKPLN	0.4842
EURPLN	3.6080	NOKPLN	0.4515
CHFPLN	2.2391	SEKPLN	0.3824
JPYPLN*	2.2716	CZKPLN	0.1396
GBPPLN	4.8491	HUFPLN	1.4055

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.6085	3.6275	3.6228	3.6160	3.6225
USDPLN	2.4735	2.4780	2.4796	2.4570	2.4784
EURUSD	1.4593	1.4735	1.4615	1.4725	-

T-bonds

TERM	BOND	Yield (%)	Change (bp)	Last auction	Average yield
2Y	OK0709	**5.79**	**1**	2.01	6.189
5Y	PS0412	**5.83**	**6**	21.11	5.943
10Y	DS1017	**5.76**	**4**	10.10	5.699

IRS rates (Mid)

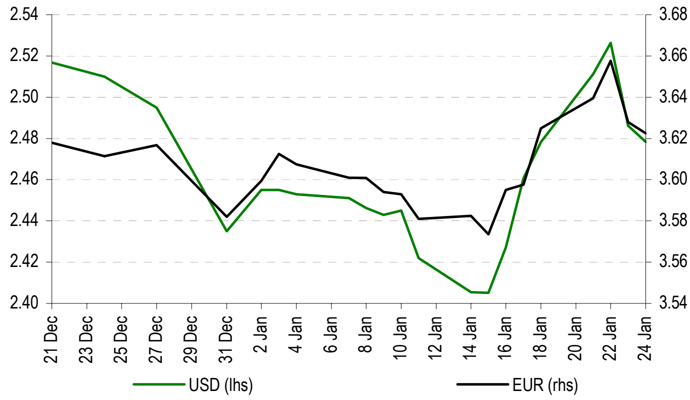
TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1Y	5.95	4	2.94	14	4.22	9
2Y	**5.92**	**3**	2.95	20	4.02	12
3Y	5.85	4	3.15	22	4.02	10
4Y	5.81	4	3.37	22	4.08	15
5Y	**5.79**	**5**	3.59	20	4.14	9
8Y	5.74	5	4.11	20	4.32	5
10Y	**5.71**	**5**	4.31	26	4.45	6

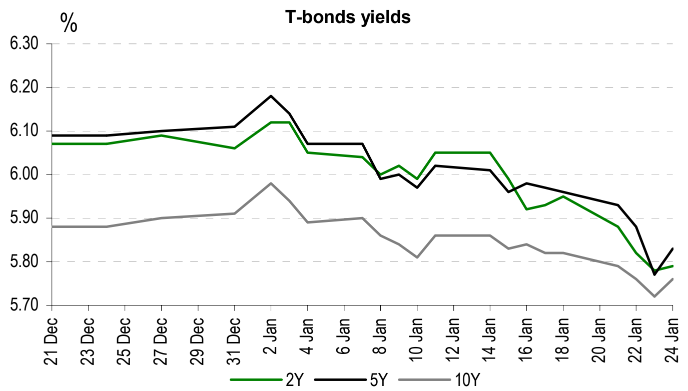
WIBOR rates

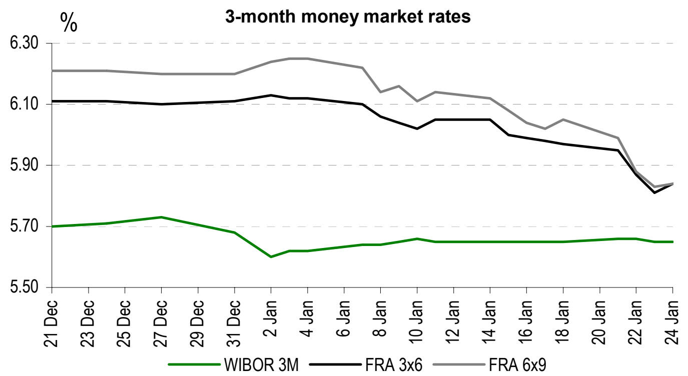
TERM	%	Daily change (bp)
O/N	5.18	-1
T/N	5.20	0
SW	5.25	0
2W	5.29	0
1M	5.41	0
3M	5.65	0
6M	5.84	-4
9M	5.94	-6
1Y	6.04	-3

FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	5.47	-1
3X6	5.84	3
6X9	5.84	1
9X12	5.84	1
3X9	5.88	2
6X12	5.88	1







* for 100 JPY

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