Bank Zachodni WBK

Eyeopener – FinMin's CPI forecast today

1 July 2008

- **Zloty stronger after stabilisation of moods on global financial markets**
- **Local bonds weaker ahead of FinMin's inflation forecast and due to higher Bund yields**
- **Today, apart from FinMin's forecast, new data abroad will be important (PMI and ISM in manufacturing)**

The zloty strengthened against the euro (after temporary drop below 3.35, at the end of the day EURPLN reached 3.351) and USDPLN was under influence of EURUSD movements in the international markets. At the end of domestic session USDPLN was at 2.1265, although during the day it fell to 2.12, reaching the lowest level since 1993. The Polish currency was supported by some stabilisation of moods in the global stock markets. However, the pace of the zloty appreciation has been loosing momentum recently and it seems that test of the all time low in EURPLN (3.3407 in June 2001) is unlikely to be successful this week, although much will depend on today's publication of the FinMin's inflation forecast for June (due at 08:00 GMT). According to survey by Parkiet daily, the median of market forecasts for the June CPI inflation is 4.5%YoY. Our forecast stands at 4.6%YoY. Later in the week the key factor for the zloty will be the ECB announcement.

Balance of payments data for Q1 released yesterday by the NBP had no impact on the zloty. The numbers showed slightly higher current account deficit than seen earlier in monthly figures for the same period. 12-month cumulated C/A gap is at 4.1% of GDP. Exports and imports were slightly revised down, but their annual growth rates remained at high level of 21.3%YoY and 21.1%YoY, respectively.

Activity in the domestic debt market was limited yesterday ahead of today's publication of the FinMin's inflation forecast. The market expects rather high number, as bond yields increased by a few basis points across the curve. Situation in the core debt markets had mixed, but overall rather negative impact on the Polish market. In the first part of the day there was significant rise in Bunds yields due to release of higher than expected data on HICP inflation for June. Treasuries weakened after publication of the higher than predicted Chicago PMI. However, towards the end of the domestic session there was a rebound in the core debt markets amid increase in risk aversion, among other due to rise in crude oil prices to fresh high of ca. $144 per barrel. At the end of the Polish session yields of 10Y Treasuries and Bunds reached 3.96% and 4.62% against 3.95% and 4.52%, respectively.

The debt market was little influenced by yesterday's information from the FinMin about supply of treasury papers in Q3. The ministry said that offer at tomorrow's auction of 2Y bonds OK0710 will be PLN1bn and on July 9 at auction of 10Y bonds DS1017 it will be PLN0.5-1.5bn. The ministry also said that depending on the market situation a switch tender may be held on July 23. The ministry would repurchase OK0808 bonds. Structure of the supply of bonds sold in exchange for OK0808 would depend on market situation and would reach up to PLN2.5bn. The ministry said that there will be higher frequency of treasury bills in Q3. In July, there will be 4 tenders of 13-week papers worth up to PLN2bn, 2 tenders of 26-week bills worth up to PLN2bn and 2 tenders of 52-week papers worth up to PLN3bn. However, the ministry stipulated that exact number and supply of bonds will depend on borrowing needs of the budget, results of bond auctions and external financing. The ministry did not exclude issue of bonds in the foreign markets, depending on situation in the global markets and conditions of financing in the Polish market. All in all, it seems that the ministry decided to offer more short-term papers than bonds, as situation in the markets is not supportive for the longer dated papers.

HICP inflation in the euro zone accelerated in June to 4% from 3.7% in May, while the market predicted a rise in inflation to 3.9%. Chicago PMI activity index unexpectedly rose to 49.6 in June from 49.1 in the previous month. The market expected a drop to 48.

As regards events abroad planned for today, at 8:00 GMT the PMI manufacturing index in the euro zone for June will be released (market consensus 49.1 after 50.6 in May); at 9:00 GMT the euro zone's unemployment data for May will be published (consensus 7.1%, unchanged since April), and at 14:00 GMT we will see the US ISM manufacturing index (market consensus 48.6 versus 49.6 in May).

Yesterday the Parkiet daily released the ranking of accuracy of macroeconomic forecasts for Q2. We are pleased to announce that we were ranked at 2nd place in this competition versus 6th position in Q1. In two categories (prices and current account balance) our forecasts were the most accurate among all in Q2. In rank of accuracy in the entire first half of the year, we took 2nd place among 18 financial institutions taking part in the competition.

In today's Parkiet daily, the NBP governor Sławomir Skrzypek argued that a rise in inflation in Poland results mostly from external factors, and not from MPC's delayed action, as suggested by finance minister Rostowski. In Skrzypek's view if the Council would tighten monetary policy sooner and stronger, there would be a risk of stagflation scenario in Poland. At the same time, Skrzypek mentioned a risk of second round effects that may lift inflation and admitted the central bank is determined to bring inflation back to the target in the medium run. The NBP governor ruled out the possibility of changing the inflation target. He also repeated appeal to tighten cooperation with the government in preparations to the euro zone accession.

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	1.5762	CADPLN	2.0886
USDPLN	2.1274	DKKPLN	0.4496
EURPLN	3.3544	NOKPLN	0.4184
CHFPLN	2.0859	SEKPLN	0.3540
JPYPLN*	2.0101	CZKPLN	0.1402
GBPPLN	4.2429	HUFPLN	1.4232

Financial market review - 30 Jun 08

The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.3496	3.3540	3.3540	3.3510	3.3542
USDPLN	2.1188	2.1290	2.1252	2.1265	2.1194
EURUSD	1.5749	1.5832	1.5784	1.5752	-

T-bonds

TERM	BOND	Yield (%)	Change (bp)	Last auction	Average yield
2Y	OK0710	**6.84**	**6**	2.04	6.193
5Y	PS0413	**6.75**	**6**	7.05	6.155
10Y	DS1017	**6.58**	**4**	9.04	6.054

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1Y	6.94	3	3.11	-1	5.34	3
2Y	**6.87**	**4**	3.54	-1	5.29	7
3Y	6.80	5	3.89	1	5.22	8
4Y	6.74	6	4.11	1	5.15	7
5Y	**6.67**	**5**	4.25	1	5.08	8
8Y	6.51	6	4.54	0	5.01	6
10Y	**6.38**	**6**	4.67	1	5.03	5

WIBOR rates

TERM	%	Daily change (bp)
O/N	6.18	4
T/N	6.18	-2
SW	6.20	-1
2W	6.22	1
1M	6.29	1
3M	6.65	1
6M	6.81	1
9M	6.86	1
1Y	6.91	1

FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	6.42	1
3X6	6.81	2
6X9	6.83	2
9X12	6.80	2
3X9	6.90	1
6X12	6.90	3

* for 100 JPY

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