Bank Zachodni WBK

Eyeopener – Market awaiting new data

11 July 2008

- **Zloty stable versus euro, stronger against dollar**
- **Good sentiment on bond market remains**
- **Today, several data releases in the US, including import prices and Michigan index**

After a significant zloty appreciation in the first two days of the week, yesterday the Polish currency remained stable against the euro, close to record-high levels. During the day the EURPLN rate fell again below 3.27, but at the end of the session it was at 3.271, as compared to 3.275 at the opening. On the other hand, sharp dollar weakening in the international markets led to zloty appreciation against the dollar. Market close saw the USDPLN rate at ca. 2.07, which was more then 0.01 lower than at the beginning of the day. Similarly as in previous days, positive moods towards other currencies in the region were maintained.

The fixed income market saw some strengthening at the long end of the curve, though a consolidation was observed at the short-end, as investors are awaiting important data to be released next week. CPI inflation release on Tuesday will be the key for market sentiment. As for now, activity on the market is rather limited.

Yesterday Prime Minister Donald Tusk joined the group of people commenting situation on the foreign exchange market. He said that strong zloty is favourable for millions of Poles as it is a effective shield against inflated prices. There is no doubt that strong zloty will help to bring inflation down in the coming quarters, but the PM's enthusiasm may not be shared by employers in the Polish export sector, as those companies are facing increasingly difficult conditions in their activity.

In line with expectations, the Bank of England kept interest rates on hold with the main repo rate at 5.0%.

On Thursday the US dollar weakened again. The EURUSD rate rose to almost 1.58, though it did manage to break this level. Before the noon the rate was slightly below 1.57 as some information appeared, which helped the American currency. US State Secretary Henry Paulson said that the government wants strong dollar. Weekly data from the labour market were also supportive as the initial jobless claims fell last week by 58'000 to 346'000. The market expected 395'000. The four-week average decreased to 380'500 against 390'500 a week earlier. However, in the afternoon bad news for the greenback prevailed. These included fears as regards situation on the credit market in the context of financial problems of Fannie Mae and Freddie Mac. Trend of dollar weakening was additionally boosted by possible conflict in the Middle East – next Iran's missile tests and *Financial Times* information that French company Total May withdraw form investments planned in Iran.

Yields on core debt markets remained low yesterday, which was supported by persisting worries about financial sector perspectives and geo-political uncertainty, boosting demand for less risky assets. Yields of 10Y Treasuries were at the end of European session near opening level, i.e. 3.82%. Yields of 10Y Bunds increased slightly to 4.41%, slightly above 4.40% in the morning. Today at the opening, yields of 10Y Treasuries and Bunds were higher, at 3.87% and 4.43% correspondingly, which was caused, among others by strong oil price rise at the end of session in the US and gains in American stock markets.

In the evening, markets were tranquilized by statements of Fed president Ben Bernanke and Treasury Secretary Henry Paulson before the House Financial Services Committee of the Congress. Bernanke said, among others that the Fed will intensify efforts to stabilise situation in the financial markets. He added also that the Fed should be equipped with additional tools for to maintain financial stability, i.e. enhanced power to set standard for capital, liquidity and risk management for investment banks. Also, information that the US government is mulling a takeover of ailing Fannie Mae and Freddie Mac to prevent their failure additionally improved sentiment on the US stock market.

Today, we will see several data releases in the US, including the first hints about inflation in June from the import prices data (due at 12:30 GMT). Wall Street analysts predict a rise in prices by 2%MoM, versus 2.3% gain in May. International trade data for May, to be released at the same time, are expected to show an increase in trade deficit to $62.3bn from $60.9bn in April. Markets will also pay close attention to Michigan index of consumer confidence, due for release at 13:55. Forecasts assume a decline in July to 55.5 from, 56.4 in the previous month.

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	1.5775	CADPLN	2.0538
USDPLN	2.0743	DKKPLN	0.4386
EURPLN	3.2706	NOKPLN	0.4063
CHFPLN	2.0154	SEKPLN	0.3459
JPYPLN*	1.9339	CZKPLN	0.1393
GBPPLN	4.0998	HUFPLN	1.4156

Financial market review - 10 Jul 08

The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.2675	3.2795	3.2750	3.2711	3.2736
USDPLN	2.0711	2.0863	2.0806	2.0711	2.0843
EURUSD	1.5693	1.5797	1.5739	1.5797	-

T-bonds

TERM	BOND	Yield (%)	Change (bp)	Last auction	Average yield
2Y	OK0710	**6.66**	**1**	2.07	6.917
5Y	PS0413	**6.52**	**-4**	7.05	6.155
10Y	DS1017	**6.46**	**-3**	9.07	6.5

IRS rates (Mid)

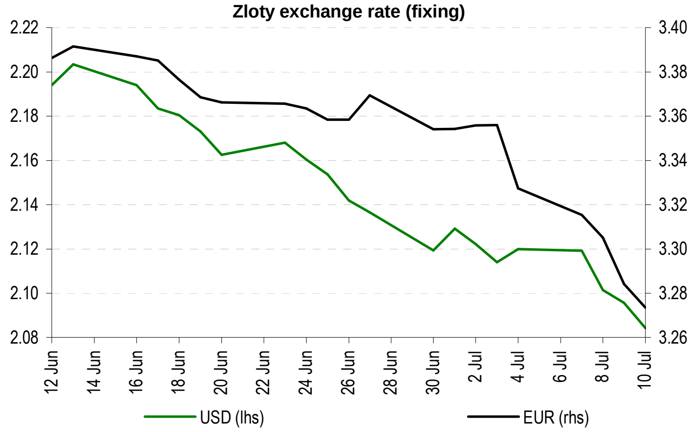
TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1Y	6.83	-3	3.01	-21	5.27	2
2Y	**6.66**	**-4**	3.34	2	5.18	4
3Y	6.57	-4	3.65	0	5.10	8
4Y	6.50	-4	3.86	0	5.04	1
5Y	**6.44**	**-4**	4.00	-2	4.98	4
8Y	6.30	-3	4.35	-2	4.90	2
10Y	**6.18**	**-2**	4.50	-2	4.92	2

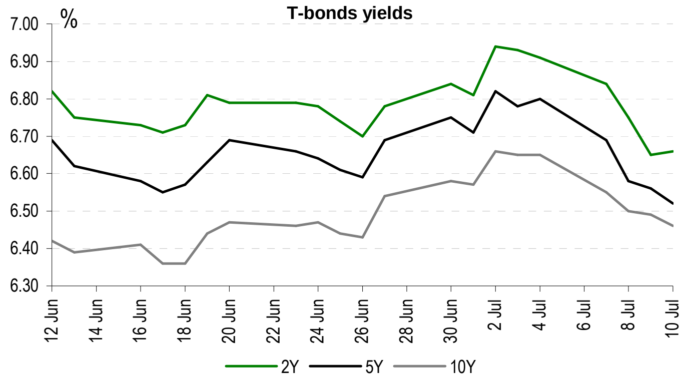
WIBOR rates

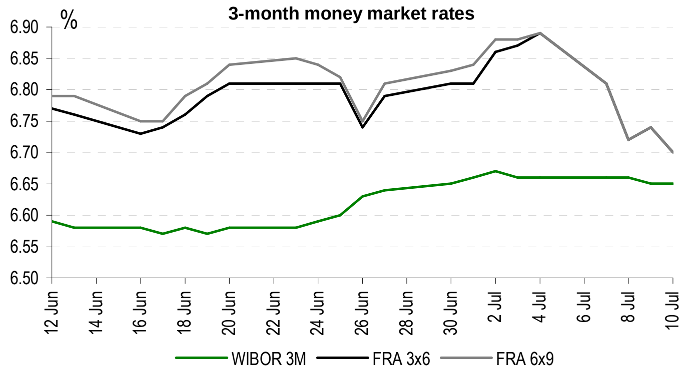
TERM	%	Daily change (bp)
O/N	5.71	17
T/N	6.09	41
SW	6.16	1
2W	6.19	0
1M	6.27	0
3M	6.65	0
6M	6.78	0
9M	6.85	0
1Y	6.89	-1

FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	6.34	-1
3X6	6.70	-4
6X9	6.70	-4
9X12	6.65	-3
3X9	6.79	-1
6X12	6.77	0







* 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