

Eyeopener – Today focus on US data

25 August 2008

- **Zloty weaker against majors, further rise in yields of local bonds**
- **This week the key focus of attention in the local market is the MPC meeting; today markets will focus on the US existing home sales data**

On Friday the zloty experienced a correction against the euro, following gradual strengthening earlier during the week. At the opening the zloty was slightly stronger as compared to Thursday's close, but the remaining part of the session was marked by weakening of the local currency versus the euro and the dollar. At the end of the day, the EURPLN increased to 3.304 z 3.294 at the opening. USDPLN increased to 2.231 from 2.214. Today in the morning zloty was even weaker, particularly against the dollar, which appreciated on international markets after significant drop in oil price and increase in optimism on the US stock market on Friday.

After Thursday's correction, dollar was gaining against the euro on Friday. EURUSD declined during the day to 1.482 from 1.488 (today in the morning it was 1.472). There were no important data releases abroad and one of the factors that contributed to dollar rebound and gains in stock markets was comment of Warren Buffet that he has no open bets against dollar and the US stocks are now much more attractive than one year ago. Negative for the euro could also have been data from the UK economy (zero economic growth in Q2 on quarterly basis). The dollar's appreciation decelerated after comments from Ben Bernanke who said that dollar strengthening and fall in commodities prices are encouraging and added that inflation will slow down this year and next year. His comments were supportive for stock markets.

According to CSO data released on Friday, business climate assessment in August in manufacturing, construction and retail trade was still optimistic (indices in the positive territory), but worse than in corresponding period of last two years. The data was another sign of moderate economic slowdown in Poland.

In the local bond market, after significant strengthening during a dozen of sessions in the previous weeks, a correction initiated on Thursday was continued on Friday. Yields increased by 5-6 bp across the curve. The weakening in the local market took place amid rise in yields in the core debt markets after increase in risk appetite and stock market rebound. At the end of the Friday's session yields of 10Y Treasuries and Bunds rose to 3.90% from 3.83% and to

4.20% from 4.16%. Today in the morning they were at 3.85% and 4.19%, respectively.

The main event of this week in the Polish market will be the MPC meeting. We think it will conclude with no change in interest rates. The statement after the meeting may include references to the exchange rate (substantial weakening since the last meeting) and to a scale of economic slowdown. An important issue for the MPC may be a change in expectations concerning monetary policy prospects in the euro zone, as well as a drop in oil prices. However, in our view the MPC statement will not be less hawkish than the previous one.

Also, we will get next set of domestic macroeconomic data this week. We expect that retail sales data will show higher growth than predicted by the market (our forecast is 15.6%YoY versus market consensus of 14.6%), which should prevent the local interest rate market from further strengthening. At the end of the week, the CSO will release GDP data for Q2 which are likely to show further moderate economic slowdown as compared to Q1. The figure will be important for the MPC decisions in the next months.

In our view, a slight depreciation of the zloty against the euro is possible with 3.34 as a resistance level. This might be connected with strengthening of the dollar against the euro, however the pace of dollar appreciation may be limited by a possible rebound of prices in commodities market. Overall, we maintain the expected range for EURPLN at 3.26-3.36 and for USDPLN at 2.17-2.27.

As data from abroad are concerned, the key focus investors' attention will be data from the US housing market and data on consumers' situation (consumer confidence index and PCE price index). On Wednesday, the minutes from the previous Fed meeting will be published, which should give a signal to core interest rate markets. German ZEW index (Tuesday), HICP index (Friday) and economic sentiment index (Thursday) will be important for the markets in the euro zone. Further drops in activity and economic sentiments indexes and slight slowdown of inflation are expected in the euro zone. In the US, also preliminary GDP for the second quarter will be announced.

Today, the only data publication, but very important for the markets, will be data from the US housing market. Existing home sales for July are expected to show increase to 4.92m from 4.86m in June.

ECONOMIC ANALYSIS UNIT

ul. Marszałkowska 142, 00-061
email: ekonomia@bzwbk.pl

Maciej Reluga (Chief Economist)
Piotr Bielski
Piotr Bujak
Cezary Chrapek

fax +48 022 586 83 40
Web site: <http://www.bzwbk.pl>
+48 (0) 22 586 83 63
+48 (0) 22 586 83 33
+48 (0) 22 586 83 41
+48 (0) 22 586 83 42

New business queries:

Treasury - Frank O'Connor

Corporate Banking – Rashid Khan

Branch/ Mortgages - Carl Coates

+48 (0) 22 586 8402
frank.o'connor@bzwbk.pl
+48 (0) 22 586 8050
rashid.khan@bzwbk.pl
+48 (0) 22 586 8059
carl.coates@bzwbk.pl

F/X rates (today's opening)

EURUSD	1.4721	CADPLN	2.1404
USDPLN	2.2481	DKKPLN	0.4437
EURPLN	3.3095	NOKPLN	0.4168
CHFPLN	2.0421	SEKPLN	0.3537
JPYPLN*	2.0426	CZKPLN	0.1356
GBPPLN	4.1445	HUFPLN	1.4156

Financial market review - 22 Aug 08

The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.2907	3.3059	3.2942	3.3045	3.3022
USDPLN	2.2105	2.2318	2.2138	2.2308	2.224
EURUSD	1.4800	1.4891	1.4888	1.4816	-

T-bonds

TERM	BOND	Yield (%)	Change (bp)	Last auction	Average yield
2Y	OK0710	6.25	5	6.08	6.471
5Y	PS0413	6.05	5	7.05	6.155
10Y	DS1017	6.05	6	9.07	6.5

IRS rates (Mid)

TERM	PL	US	EA
	%	%	%
	Change (bp)	Change (bp)	Change (bp)
1Y	6.44	3.04	5.13
2Y	6.14	3.40	4.86
3Y	6.00	3.74	4.77
4Y	5.93	3.96	4.73
5Y	5.88	4.12	4.71
8Y	5.80	4.44	4.70
10Y	5.77	4.57	4.75

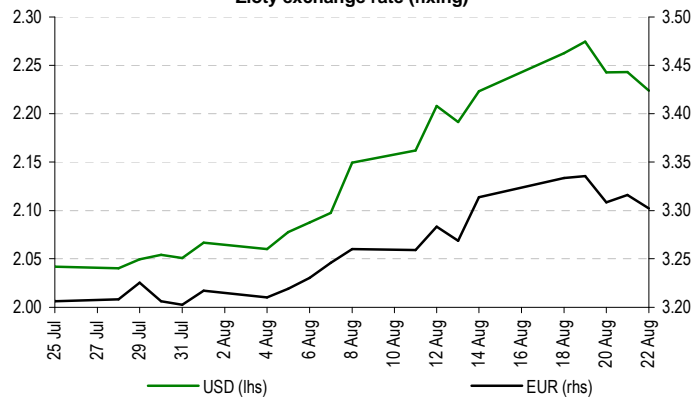
WIBOR rates

TERM	%	Daily change (bp)
O/N	6.19	-9
T/N	6.19	-10
SW	6.23	0
2W	6.24	0
1M	6.25	-1
3M	6.49	-1
6M	6.57	-2
9M	6.61	-3
1Y	6.65	-3

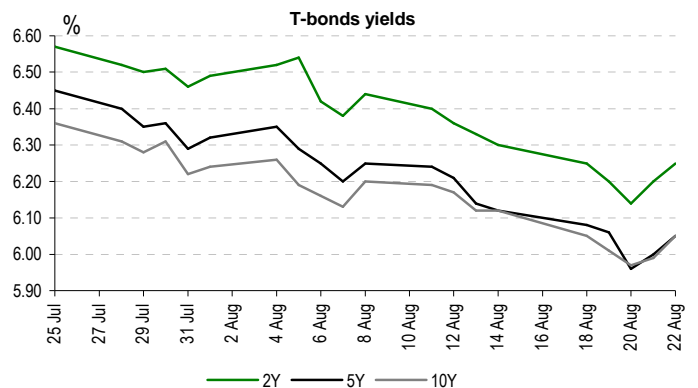
FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	6.26	-3
3X6	6.37	0
6X9	6.25	2
9X12	6.03	0
3X9	6.35	0
6X12	6.22	5

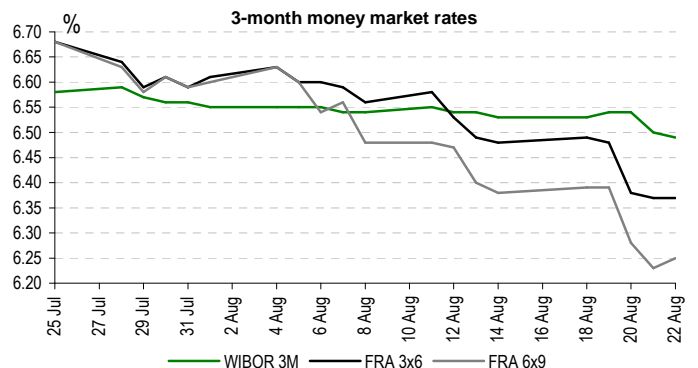
Zloty exchange rate (fixing)



T-bonds yields



3-month money market rates



* 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