

Eyeopener – The zloty breaks next levels

4 February 2009

- **EURPLN above 4.60, slight increase in market interest rates**
- **Today locally auction of bonds while abroad PMI and ISM for services sector**

At yesterday session the zloty slightly strengthened only in the morning while later in the day the domestic currency was gradually weakening. In the afternoon the zloty broke 4.50 versus the euro and the depreciation was continued. At the end of the day the EURPLN rate broke 4.60 and after the close of the domestic session it reached over 4.65. According to market speculation such sudden move might have been connected with increased demand for euro from foreign investors and closing positions in FX options. The USDPLN rate behaved similar, though the scale of the zloty weakening against the dollar was smaller – to 3.54 at the end of the day – due to EURUSD increase. The euro appreciated against the US dollar throughout the day, to 1.297 at the end of the session. Later on the level of 1.30 was reached. Other currencies in the region behaved in a similar pattern and Hungarian forint broke key psychological level of 300 vs. the euro. Today in the morning, amid moods improvement in the international markets (significant increases of stock indices in the US and in Asia), the zloty opened at slightly stronger levels as compared to yesterday in the evening. However, we see risk that amid negative sentiment towards the region the domestic currency may weaken further today.

Behaviour of the domestic debt market was calmer yesterday. In the first part of the day the local bonds strengthened, though in the afternoon the sell-off dominated and at the end of the day yields were above levels from Monday close. The IRS curve also increased by a few basis points. In the core debt markets yields increased yesterday (today yields of 10Y Treasuries and Bunds were at 2.87% and 3.37% versus 2.75% and 3.27% at yesterday's opening) due to intensification of concerns about large supply of debt and after better than expected data from the US. Data on pending home sales in the US for December unexpectedly showed an increase by 6.3%MoM against forecasted no change. The euro zone PPI figure for December showed a decline of the producer prices by 1.3%MoM (increase by 1.8%YoY) as compared to expectations at -1.2%MoM (2.1%YoY). The data increased expectations for interest rate cuts by the ECB at the March meeting.

Finance minister Jacek Rostowski said at a press conference yesterday that the government approved savings plan totalling PLN19.7bn. PLN10bn were saved by the government in ministries (among others PLN2bn in Defence Ministry, PLN1.2bn in Internal Affairs Ministry, PLN0.9bn in Education Ministry), in budgets of voivodships (almost PLN1.9bn) and in Social Security Office (PLN0.5bn cuts in administration spending). Moreover, the

government wants to change financing scheme of infrastructure spending, which is supposed to give PLN9.7bn savings this year. The Domestic Road Fund will become a source of financing for all road investments using European funds. Change in Domestic Road Fund bill will allow the state-owned BGK bank to take loans on behalf of Road Fund in international financial institutions, like EBI or EBRD, and to issue bonds by the Road Fund. Such solution seems to be good, yet under condition that only a small part of Road Fund's financing will come from domestic sources, so the effect of crowding-out private entities from capital market will be limited. According to Rostowski, the plan of savings will allow keeping budget deficit unchanged, assuming economic growth at 1.7% and inflation at 1.9%. Minister said that potential budget amendment (implementing spending cuts without change in deficit) may be expected in the middle of the year. However, if the situation is less severe than the government assumed while seeking savings, then the saved spending will be realised in the second half of the year.

According to IRG SGH, business climate in Poland's manufacturing deteriorated again in January, although predictions for near future were slightly better than in December. A decline in orders portfolio was smaller than last month. According to the report, the biggest obstacle for companies is constrained domestic and foreign demand.

According to NBP survey about situation in credit markets, there was a dramatic constraint in loans supply in all segments of the market, amid very high uncertainty concerning future economic climate, which complicates assessment of credit risk by banks. Moreover, senior credit officers from the banking sector expect further tightening in credit policy.

According to Paweł Wojciechowski, president of the Polish Information and Foreign Investment Agency (PALIZ), inflow of foreign direct investment may reach €7-10bn this year.

Today the domestic market moods will be influenced by results of the bonds auction at which the Ministry of Finance will offer PLN1.7-2.2bn worth of OK0711 and PLN1.1-1.6bn worth of PS0414. Abroad the PMI index for services sector in the euro zone is going to be released at 9:58 CET and the market expects its increase to 42.5 pts from 42.1 pts. The euro zone retail sales figure for December is going to be released at 11:00 CET and they should show a decline by 1.5%YoY. At 14:15 CET we will know the ADP report for January, which will give some idea on crucial data from the US labour market to be released on Friday. According to the market consensus the employment in the private sector outside farming fell by 525k against a drop by 693k previously. At the end of the day the ISM for US services will be published and the market expects a drop to 39 pts from 40.1 pts in the previous month.

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	1.2998	CADPLN	2.8740
USDPLN	3.5585	DKKPLN	0.6206
EURPLN	4.6245	NOKPLN	0.5146
CHFPLN	3.1056	SEKPLN	0.4325
JPYPLN*	3.9988	CZKPLN	0.1619
GBPPLN	5.1047	HUFPLN	1.5339

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.4605	4.6055	4.4815	4.6000	4.5147
USDPLN	3.4815	3.5489	3.4880	3.5440	3.523
EURUSD	1.2804	1.2993	1.2851	1.2969	-

T-bonds

TERM	BOND	Yield (%)	Change (bp)	Last auction	Average yield
2Y	OK1110	4.86	5	7.01	5.054
5Y	PS0413	5.09	6	01.10	5.926
10Y	DS1017	5.66	2	17.12	5.724

IRS rates (Mid)

TERM	PL	US	EA
	%	%	%
	Change (bp)	Change (bp)	Change (bp)
1Y	3.94	1.32	2.07
2Y	4.29	1.64	2.25
3Y	4.44	2.00	2.54
4Y	4.55	2.29	2.83
5Y	4.63	2.51	3.00
8Y	4.83	2.92	3.54
10Y	4.96	3.07	3.76

WIBOR rates

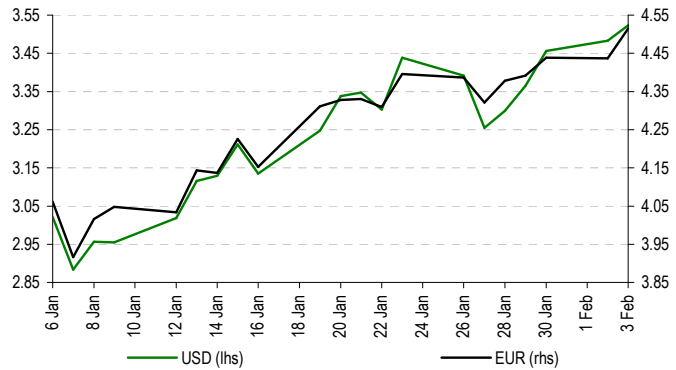
TERM	%	Daily change (bp)
O/N	4.24	-6
T/N	4.28	-2
SW	4.34	0
2W	4.39	-1
1M	4.48	-1
3M	4.78	-2
6M	4.86	-1
9M	4.88	-2
1Y	4.88	-2

FRA rates (Mid)

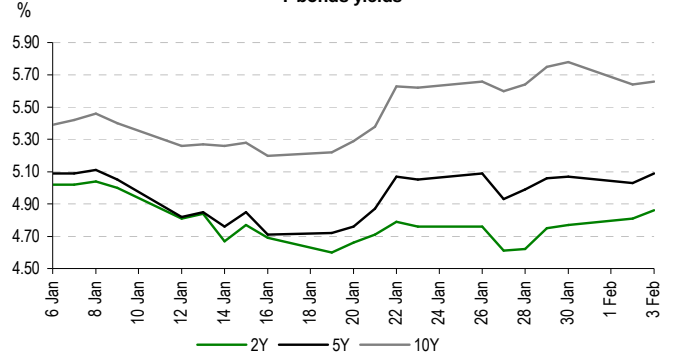
TERM	%	Daily change (bp)
1X2	4.30	12
3X6	3.70	8
6X9	3.54	6
9X12	3.68	5
3X9	3.76	3
6X12	3.64	6

* for 100 JPY

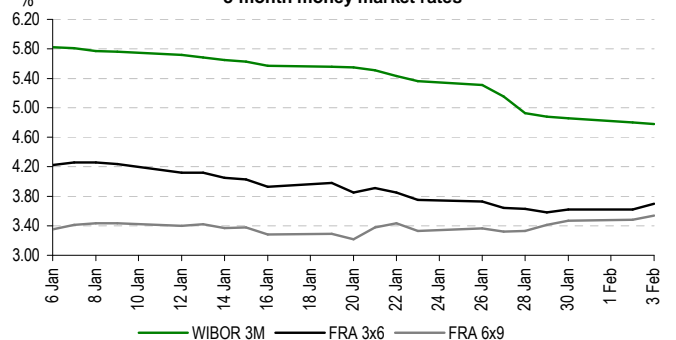
Zloty exchange rate (fixing)



T-bonds yields



3-month money market rates



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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>



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