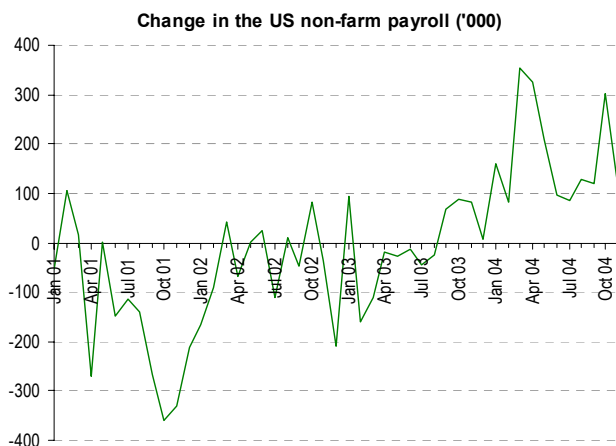


Weekly economic update

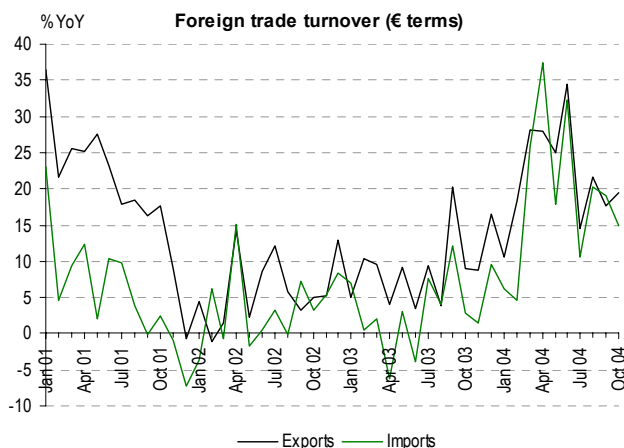
3 January – 9 January 2005

What's hot this week – US labour market data the most important



- No important data releases in Poland this week.
- On the first bond auction this year the Ministry of Finance will offer PLN2bn worth of OK0407, which is a new two-year benchmark on the market. We expect the offer to be absorbed without major problems.
- Publication of US Labour Report on Friday will be the most important event to watch abroad. Market players will focus on non-farm payrolls number in December, which might affect the euro/dollar exchange rate. Market consensus points to 175,000 rise, which would confirm that the American economy is on a path of strong expansion. However, after last week's data from Chicago district showed downturn in job number in December, a risk to payrolls figure is probably on the downside.
- Before that, quite important ISM Manufacturing index for December will be published in the US today and it could determine the range of EUR/USD fluctuations until Labour Report on Friday. The market consensus points to similar reading as showed in November, that is 58.1.

Economy last week – Higher inflation at the end of the year



- Current account reached €234m surplus in October while figures for April-September have been revised down. In relation to GDP, C/A deficit rose to 1.9% in Oct from 1.8% in Sep. Export and import growth was double-digit, confirming expansion of external and domestic demand.
- Food prices rose 0.8%MoM in H1 Dec, twice as high as expected. It implies that 2004 will end up with 4.6% CPI inflation, and in 1Q05 inflation could reach 5%YoY.
- Inflation expectations rose to 4.3% in December from 4.0% in previous month. Inflation pick-up in early 2005 could keep expectations high in nearest months.
- Retail sales rose 4.4%YoY in November, while in real terms it fell 0.4%YoY. Figure was dragged down by continuing downturn in new car sales (over -10%YoY), while sales in other areas rose strong in double-digits. Thus, weak sales figures did not necessarily represent a weakening in consumption demand.
- Registered unemployment rate remained at 18.7% in Nov, as expected. LFS unemployment went down to 18.2% in 3Q04 – the lowest level in three years.

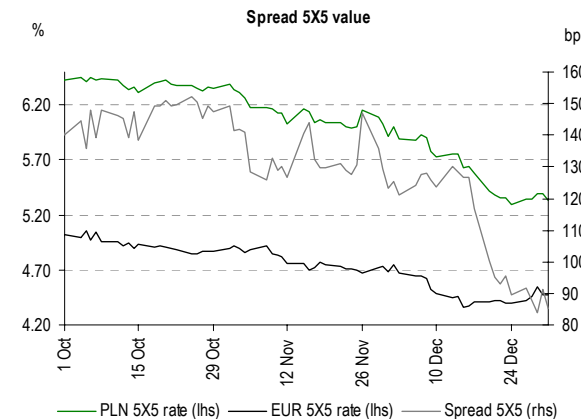
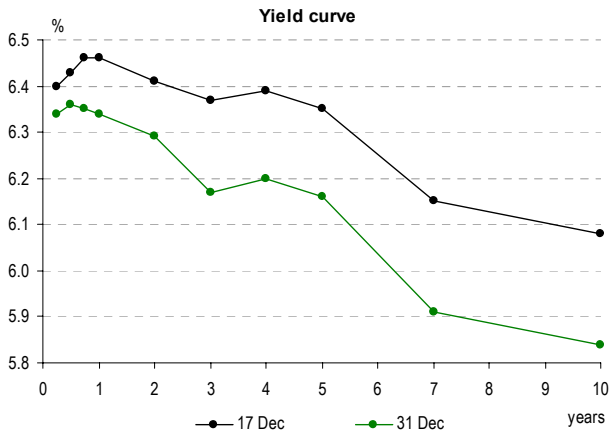
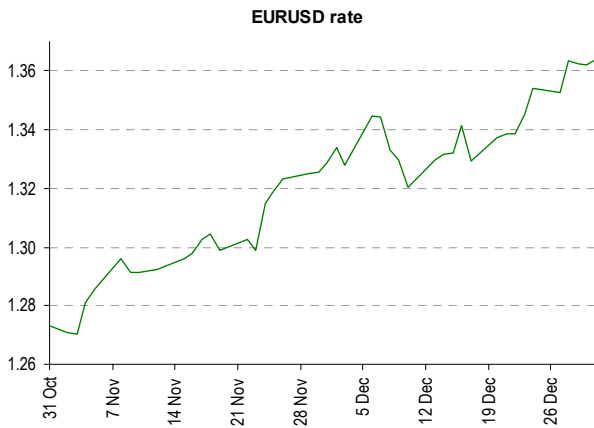
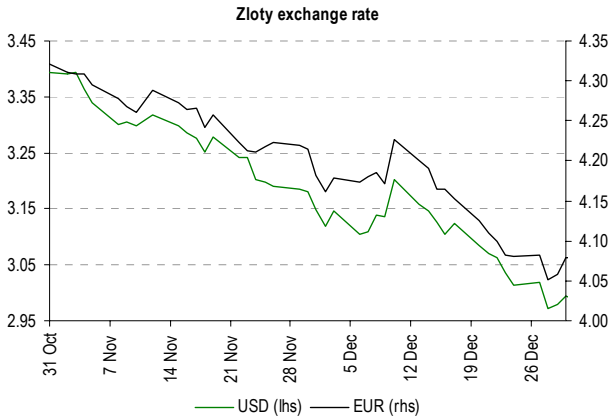
Quote of the week – Inflation target within reach... for now

Krzysztof Rybiński, NBP deputy governor (Radio PiN, 27 Dec.)
"The bank's inflation target of 2.5 percent seems now within reach in 2006."

Halina Wasilewska-Trenkner, MPC member (PAP, 22 Dec.)
"In future it might turn out that [Maastricht] inflation criterion will be lower than 2.5%."

Statement of the NBP deputy governor suggested that no more monetary tightening could be needed to bring CPI back to 2.5%. Meanwhile, one of the MPC members rightly pointed out that it is not certain yet whether achieving 2.5% inflation would be enough to guarantee getting the right to enter the euro zone. In that case, monetary policy would face much stronger challenge in the years to come.

Market monitor



In the wake of the euro

- Within last two weeks the zloty gained 4.28% to the dollar and 1.79% to the euro. It was prompted by systematic climb of the euro abroad and large investors orders in illiquid market before the year-end. The difference in change of the zloty against specific currencies reflects change of EUR/USD rate.
- Low turnover in the market in pre-Christmas period suggest that actual zloty level to the currency basket will be seen within that week when all investors are back to the active trading.
- We expect 2y bonds auction that will be held on Wednesday will attract foreign interest, which will provide support to the zloty performance.

Data did not support the dollar

- Despite series of positive indicators regarding consumers and investors sentiment in the US within last two weeks the euro went up to the dollar by another 2.61% hitting 1.365.
- Last highs 1.345 breaching was possible mainly due to stop-loss orders amid limited liquidity before Christmas and New Year.
- When turnover reverts to normal levels, EUR/USD rate is not expected to change substantially. Fundamentals point to a continuation of upward tendency, but range of potential loss is limited to previous highs. On Monday ISM Manufacturing will be released in the US that will determine the range of fluctuations for the whole week until Labour Report on Friday.

January effect took place in December

- Under low liquidity bonds advanced substantially amid steeper inversion of the curve. Investors directed their demand to longer dated papers.
- FRA contracts 3x6 and 6x9 discounts cut of 19 and 46 bp as compared to 7 and 22 bp a fortnight ago respectively. Expectations are enhanced by strong zloty appreciation that may lower inflation to the NBP target.
- In our opinion, current levels reached amid low turnover are excessively optimistic. Higher than expected bond supply for 1Q05 will probably induce investors to make yields more realistic that should gradually revert to two weeks old levels particularly in 5 and 10y sectors.

Pre-Christmas convergence play

- Correction triggered by US CPI data release proved to be deeper that pushed yields of 10y Bunds and Treasuries by 10 bp to 3.67% and 4.26%.
- As a result of meaningful yields decline on Polish curve and their rise on euro curve visibly narrowed the difference between 5y forward rates after 5y. At the end of December it amounted to 87 bp comparing to 117 a fortnight ago.
- We think within last two weeks no important change occurred that would bring us closer to euro zone entry. That's why we assess that the spread will widen to ca. 100-110 bp mainly due to backup of Polish curve.
- 10y German bonds ought not to weaken as they got back to trend after rebound from 3.50%.

Economic calendar

TIME GMT	COUNTRY	INDICATOR (importance level*)	PERIOD		FORECASTS		LAST VALUE
					MARKET	BZWBK	
MONDAY (3 January)							
10:00	POL	Auction 52- and 13-weeks Treasury Bills – PLN700m and PLN100m (M)					
15:00	USA	ISM Manufacturing (H)	Dec	-	57.8	-	57.8
TUESDAY (4 January)							
07:45	FRA	GDP (M)	Q3	%QoQ	0.1	-	0.6
08:55	GER	Unemployment rate (M)	Dec	%	10.8	-	10.8
15:00	US	Factory orders (H)	Nov	%	0.8	-	0.5
15:00	US	Durable goods orders – revised (M)	Nov	%	-	-	1.6
WEDNESDAY (5 January)							
10:00	POL	Auction for OK0407 (new 2y benchmark) – PLN2bn (H)					
THURSDAY (6 January)							
07:45	FRA	Consumer confidence (M)	Dec	-	-22.0	-	-23.0
10:00	EMU	PPI (H)	Nov	%YoY	3.6	-	4.0
10:00	EMU	Business climate (M)	Dec	-	0.4	-	0.39
FRIDAY (7 January)							
15:00	POL	Official reserve assets (M)	Dec	€ bn	-	-	-
10:00	EMU	Unemployment rate (M)	Nov	%	8.9	-	8.9
10:00	EMU	Retail sales (M)	Nov	%MoM	-	-	0.7
11:00	GER	Industrial orders (M)	Nov	%MoM	-0.5	-	1.1
13:30	US	Change in non-farm payrolls (H)	Dec	k	175	-	112
13:30	USA	Unemployment rate (M)	Dec	%	5.4	-	5.4

* Importance level: (H)igh, (M)oderate; Source: Reuters, BZ WBK

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