

Eyeopener – daily update

Waiting for ECB

5 June 2006

This week, there will be completely no economic data releases in Poland. Also, no important events that could drive market sentiment are in the agenda. In the second half of the week the Sejm will debate on the opposition's motion to dismiss Sejm speaker Marek Jurek. However, given ruling coalition's majority support in the parliament there should be no problem with rejecting this motion, so its impact on market moods should be scarce. In such situation, Polish market will remain vulnerable to news and trends abroad. In the euro zone and United States some more economic figures will be released, e.g. non-manufacturing activity indices and trade balance data. Key event of the week will be the ECB meeting. The question raised by international market players is not whether the bank will hike interest rates or not, but rather whether it will be 25 or 50 bp. The scale of the ECB move and a tone of statement issued after the meeting could have significant impact on EURUSD rate performance and sentiment on core debt market at the end of the week.

What's hot this week

No major events in Poland this week

In the coming week, there will be completely no economic data releases in Poland. Also, no important events that could drive market sentiment are in the agenda. In the second half of the week the Sejm will debate on the opposition's motion to dismiss Sejm speaker Marek Jurek. However, given ruling coalition's majority support in the parliament, there should be no problem with rejecting this motion, so its impact on market moods should be scarce.

Polish bonds and zloty will remain vulnerable to performance of international markets where the key focus of attention this week will be ECB meeting

In such situation, Polish market will remain vulnerable to news and trends abroad. The big talking point of the week should be the ECB policy meeting and press conference on Thursday. An increase in rates has been well flagged at this stage with a move of 0.25% fully priced in, though several references to the need for "strong vigilance" have left some speculating about a 0.50% move. We see this as unlikely but will be looking to see if Trichet provides any clues on Monday. Meanwhile, the tone of Thursday's press conference will be very important in determining the future pace of rate hikes. The latest ECB staff macroeconomic projections are also scheduled for release. Disappointment at a modest 0.25% hike could be a potential negative for the euro. In terms of economic data releases, eurozone PMI (on Tuesday) and American non-manufacturing ISM index (on Monday) should provide some direction on the pace of activity in the services sectors in those economies. Also, Friday's US foreign trade data will be important, particularly for forex markets.

Bottom line: Polish market will keep following international trend amid lack of domestic drivers. ECB meeting result will be key for sentiment on core markets.

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What's hot today

The government is going to accept finance minister's proposals by the end of June

Tax reform to be approved in June

According to *Rzeczpospolita* daily, the reform prepared by finance minister Zyta Gilowska has undergone consultations within the government and only minor changes were submitted. Prime Minister Kazimierz Marcinkiewicz said at the ruling party's congress on Saturday that all details of the reform plan would be officially approved by the government by the end of June. However, it is still uncertain whether MPs (not only PiS deputies but also their allies from Self-defence and LPR) will accept all the proposed measures, including the unpopular ones such as hikes in indirect taxes. Therefore, one may expect that political debate on the reform will not be easy. Given earlier declarations of Gilowska, if she fails to convince politicians to her proposals, one could expect her resignation from the post of finance minister.

Bottom line: Tax reform plan again on the agenda. The nearest weeks and months in Poland will be a period of important debates on fiscal policy (tax reform and the 2007 budget).

Market monitor

At Friday session zloty depreciated against the single currency and strengthened versus the greenback. The EURPLN rate rose from 3.9180 to 3.928 at the closing of the domestic market, though later on depreciated further to 3.95. Early after release of labour market data zloty slightly strengthened, but after the release of high inflation figure in Turkey and Turkish lira depreciation there was substantial weakening of the emerging markets currencies. Polish currency appreciated against the dollar, which resulted from the EURUSD rate rise. The dollar heavily depreciated against the single currency after much softer than expected U.S. non-farm payrolls were released. The EURUSD rate soared from ca. 1.28 at the opening to ca. 1.293, near one year peak.

Fixed income market significantly strengthened on Friday following the reaction of core bond markets to the labour market data in U.S. At the end of the session yields of Polish government papers were 3-7 bp lower than at Thursday's closing. After the non-farm payrolls data the U.S. Treasuries substantially strengthened as a result of lower expectations of further monetary policy tightening in U.S. In the result 10Y yields declined from 5.10% to 5.02%, while yields of 10Y Bunds dropped from 3.99% to 3.94%.

Today the Ministry of Finance is going to offer PLN1.0bn of 52-week Treasury bills which is the lower band of the previously given range PLN1.0-1.3bn.

Bottom line: Zloty fell against the euro and appreciated versus the dollar, while bonds significantly strengthened on softer than expected U.S. non-farm payrolls. Investors will focus on activity indices and ECB meeting this week.

International update

In United States in May the non-farm payrolls amounted to 75k and were much below expectations of 175k. What is more the figure for the previous month was downwardly revised from 138k to 126k. The unemployment rate fell from 4.7% to 4.6%, which is the lowest level since July 2001.

Factory orders fell in April by 1.8%, weaker than market expected (-2.2%) as compared to downwardly revised 4.0% rise in the previous month.

Producer prices in the euro zone rose by 0.8%MoM and by 5.4%YoY in April.

Today activity index in the U.S. services sector is going to be released and may be quite important.

TIME GMT	REGION	INDICATOR	PERIOD		MARKET	LAST VALUE
14:00	US	Non-manufacturing ISM (H)	May	pts	58.5	63.0

Source: Reuters

The zloty trading ranges (2.06.2006)

	Min	Max	Open*	Close**	Fixing
EUR	3.9125	3.9280	3.9180	3.9280	3.9236
USD	3.0280	3.0640	3.0580	3.0352	3.0627

* 6:30 GMT. ** 15:00 GMT

The EUR/USD trading range (2.06.2006)

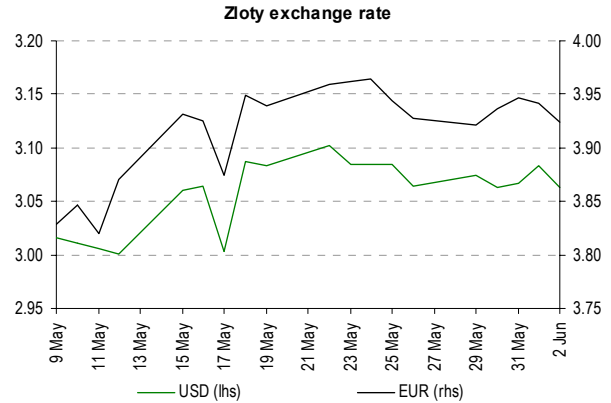
	Min	Max	Open*	Close**
EUR/USD	1.2797	1.2940	1.2805	1.2928

* 6:30 GMT. ** 15:00 GMT

F/X rates (today's opening)

EURUSD	1.2957	CADPLN	2.7585
USDPLN	3.0407	DKKPLN	0.5259
EURPLN	3.9413	NOKPLN	0.5050
CHFPLN	2.5255	SEKPLN	0.4186
JPYPLN*	2.7718	CZKPLN	0.1389
GBPPLN	5.7519	HUFPLN*	1.4834

*per 100 units



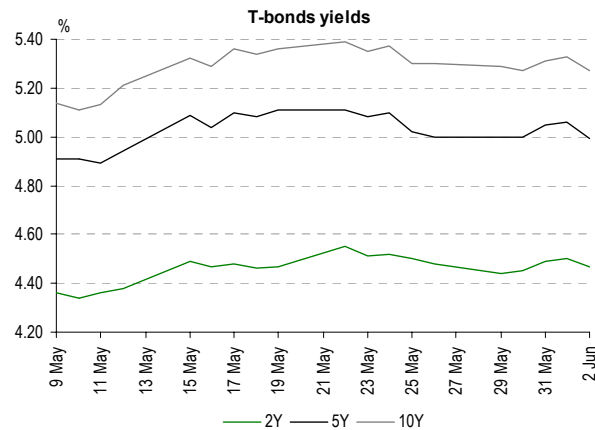
Fixed income markets (2.06.2006)

Term	PL		US		DE	
	Yield	Change (bp)	Yield	Change (bp)	Yield	Change (bp)
2Y	4.47	-3	4.92	-11	3.35	-2
3Y	4.64	-4	4.90	-13	3.49	-3
4Y	4.83	-5			3.57	-7
5Y	4.99	-7	4.902	-12	3.67	-4
8Y	5.18	-5			3.87	-4
10Y	5.27	-6	4.996	-11	3.96	-4

T-bond auction

Date	Offer	Bid	Sale	Avg. Yield	Prev. Avg. Yield	Change	
		PLN m			%	bp	
04.05	2Y*	2 160	9 174	2 160	4.447	4.370	8
17.05	5Y	2 000	5 150	2 000	5.031	4.708	32
12.04	10Y*	2 160	5 685	2 160	4.978	4.936	4

* with a supplementary auction

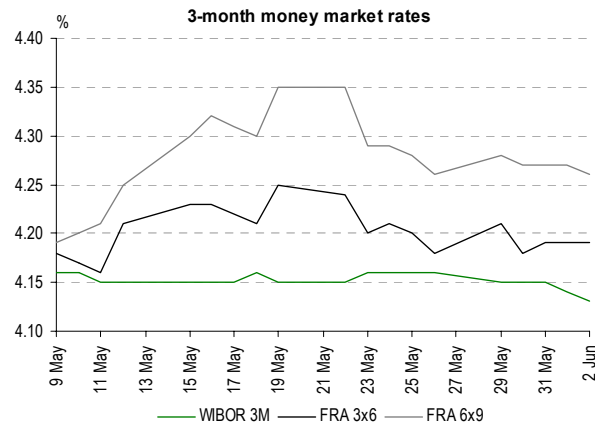


WIBOR rates (2.06.2006)

Term	Rates	Change (bp)
O/N	4.10	1
T/N	4.11	1
SW	4.11	0
2W	4.11	0
1M	4.11	-1
3M	4.13	-1
6M	4.19	-3
9M	4.25	-1
1Y	4.27	-1

Forward Rate Agreements (2.06.2006)

Term	Mid	Change (bp)
1x2	4.13	0
3x6	4.16	0
6x9	4.24	-1
9x12	4.40	-2
3x9	4.22	-2
6x12	4.34	-2



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