

# Eyeopener – daily update

## US payrolls data in focus

1 September 2006

NBP president Leszek Balcerowicz said yesterday that in his own view inflation rate could breach inflation target for a prolonged time if the Monetary Policy Council does not act timely to prevent this process. He also repeated that according to the latest inflation projection, inflation could go up to 2.3-2.4% i.e. very close to the target already in the first quarter of 2007, and in 2008 it could reach 3%. Such statements of the central bank chief are not surprising given that he is perceived as one of the most hawkish members of the rate-setting panel, and his inclination to tighten monetary policy is probably higher than average in the MPC. Our central scenario assumes that interest rates in Poland will remain unchanged for the next 12 months because CPI inflation rate will stabilise around the target level or slightly below instead of growing higher and core inflation will stay even lower signalling lack of fundamental inflationary pressure in the economy.

Today, international markets will be looking to US data releases, especially the August employment report, that would give further guidance on Fed's policy prospects. Polish market will remain under influence of foreign trends amid lack of domestic events.

## Market monitor

On Thursday session after early strengthening zloty depreciated against the euro from 3.937 at the opening to 3.945 and against the dollar from 3.068 to 3.082. Zloty weakening was mainly a consequence of more negative sentiment of foreign investors to the emerging markets as yesterday also Hungarian forint and South African rand significantly depreciated. The weakening of forint might have been influenced by the statement of the Hungarian central bank that the new convergence programme includes underestimated inflation, while lack of entry data to the euro zone may increase instability. Earlier a member of the Hungarian MPC Bela Kadar said that higher risk of large budget cuts being need after 2010 election may be a consequence of the current little ambitious convergence plan, though the plan itself may be acceptable by the Brussels.

Yesterday after initial weakening from 1.283 to 1.288 partly with regards to ECB' chairman statement on strong vigilance against inflation, the US currency appreciated against the euro and the EURPLN rate fell below 1.28 ahead of today's payrolls data.

Yields slightly rose in reaction to NBP's chairman comment on inflation though throughout the day fixed income market strengthened and yields fell by 3-8 bp mainly in a second reaction to the MPC's communiqué and continued rally in the core markets especially in US. Treasuries yields fell again with regards to the data confirming slowing growth and moderating inflation pressure. The core PCE pricess index and prices paid component of Chicago PMI were below expectations and contributed to positive moods in the US debt market. 10Y yields fell further from 4.76% to 4.75%, while German Bunds followed the US market with 10Y yields falling from 3.79 to

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3.77%. Long term US bonds strengthened further (10Y yields down to 4.74%) after Ben Bernanke's comments on productivity, which in his opinion should continue to increase and help to limit inflation.

Today another portion of essential data are going to be released with US non-farm payrolls and manufacturing PMI and ISM indices at the top of the agenda.

***Bottom line: Yesterday zloty depreciated against the main currencies on weakening in the emerging markets, while bonds strengthened again in second reaction to MPC communiqué supported by falling yields in the core markets. Today investors will focus on the US jobs data and activity indices.***

## International update

According to the Eurostat, the euro zone's inflation measured by the HICP index rose by 2.3%YoY in August, which was in line with market consensus and lower than 2.4% in July.

Economic sentiment index for the euro zone amounted in August to 106.7 down from upwardly revised 107.7 in the previous month and was below analysts' forecasts at 107.3. Industry sentiment index fell to 2 from 4, consumer sentiment index stayed at -8, while services component at 19. Consumer inflation expectations increased to 28 from 26.

The European Central Bank decided not to change the monetary policy parameters, which was expected and left the main rate unchanged at 3.0% after a 25 bp rise at the beginning of August. At the conference after the decision ECB's governor Jean Claude Trichet emphasized the bank have to stay vigilant against inflation and his statement was rather hawkish. The ECB also increased the HICP inflation expectations from the 2006 and 2007.

At yesterday's meeting the Czech central bank left rate unchanged at 2.25%.

The US core PCE (Personal Consumer Expenditures) rose in July by 0.1%MoM, which lower than the market forecast of 0.2% increase.

Last week the new US jobless claims fell to 318k from 316k in the prior week, while the 4-week average rose to 317.5k from 316.5k.

Factory orders fell in July by 0.6% though the drop was lower than expected as analysts forecasted a 1.0% decline.

Chicago PMI index dropped in August to 57.1 from 57.9 in July, which was slightly above expected 57. The employment index rose to 55.1 from 50.5, new orders component declined to 59.6 from 60.0, while the prices paid index plummeted to 75.2 from 86.8.

Today another portion of important data will be released (table below)

TIME GMT	REGION	INDICATOR	PERIOD	UNIT	MARKET	LAST VALUE
8:00	EMU	Manufacturing PMI (H)	Aug		57.0	57.4
9:00	EMU	GDP revised (H)	Q2	%YoY	2.4	2.0
12:30	EMU	Non-farm payrolls (H)	Aug	'000	120	113
12:30	US	Unemployment (H)	Aug	%	4.7	4.8
13:45	US	Final Michigan index (H)	Aug		79.5	84.7
14:00	US	Manufacturing ISM (H)	Aug		55.0	54.7

Source: Reuters

**The zloty trading ranges (31.08.2006)**

	Min	Max	Open*	Close**	Fixing
EUR	3.9321	3.9472	3.9368	3.9450	3.9369
USD	3.0544	3.0820	3.0681	3.0820	3.0651

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

**The EUR/USD trading range (31.08.2006)**

	Min	Max	Open*	Close**
EUR/USD	1.2798	1.2876	1.2830	1.2798

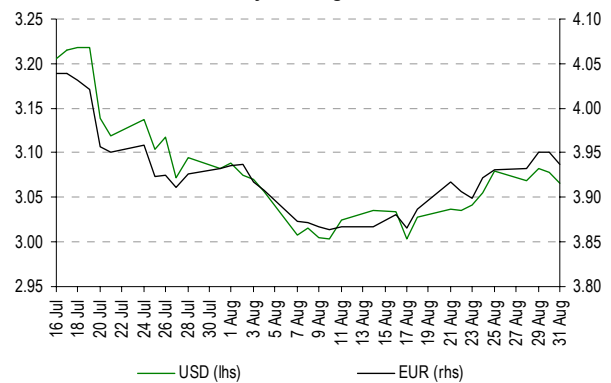
\* 6:30 GMT. \*\* 15:00 GMT

**F/X rates (today's opening)**

EURUSD	1.2808	CADPLN	2.7858
USDPOLN	3.0839	DKKPLN	0.5287
EURPLN	3.9500	NOKPLN	0.4907
CHFPLN	2.4943	SEKPLN	0.4264
JPYPLN*	2.6325	CZKPLN	0.1401
GBPPLN	5.8324	HUFPLN*	1.4166

\*per 100 units

**Zloty exchange rate**



**Fixed income markets (31.08.2006)**

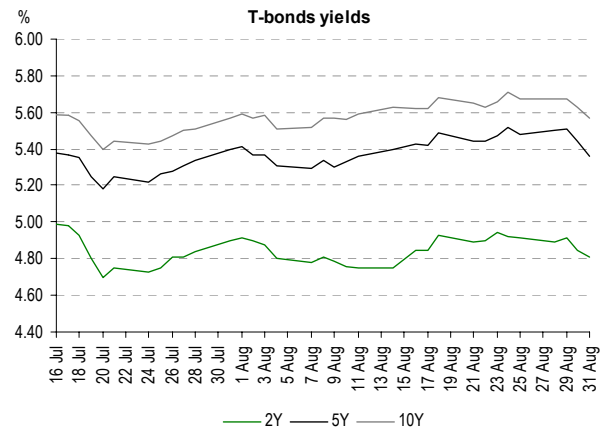
PL		US		DE		
Term	Yield	Change (bp)	Yield	Change (bp)	Yield	Change (bp)
2Y	4.81	-4	4.79	-5	3.51	-1
3Y	5.03	-3	4.71	-4	3.55	-2
4Y	5.29	-4			3.57	-4
5Y	5.36	-8	4.70	-3	3.59	-3
8Y	5.49	-6			3.72	-3
10Y	5.57	-6	4.73	-3	3.76	-5

**T-bond auction**

Date	Offer	Bid	Sale	Avg. Yield	Prev. Avg. Yield	Change	
		PLN m		%		bp	
02.08	2Y	1 800	5 288	1 800	4.943	5.025	-8
21.06	5Y	2 000	3 530	2 000	5.525	5.031	49
12.07	10Y	800	4 905	800	5.595	4.978	62

\* with a supplementary auction

**T-bonds yields**



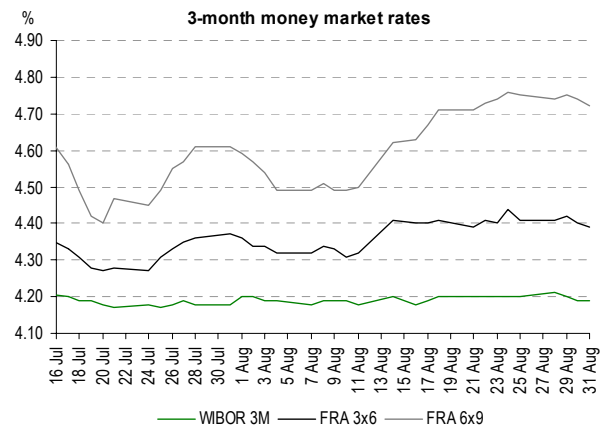
**WIBOR rates (31.08.2006)**

Term	Rates	Change (bp)
O/N	4.09	128
T/N	4.10	0
SW	4.11	0
2W	4.11	0
1M	4.12	-1
3M	4.19	0
6M	4.30	0
9M	4.50	1
1Y	4.60	0

**Forward Rate Agreements (31.08.2006)**

Term	Mid	Change (bp)
1x2	4.18	0
3x6	4.37	0
6x9	4.70	-1
9x12	4.91	-1
3x9	4.57	-1
6x12	4.84	0

**3-month money market rates**



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