

## Eyeopener – daily update

Hawkish MPC statement?

27 September 2006

The MPC meeting ends today and while no rate hike is expected, the statement may be hawkish given Monday's LFS data, which may increase central bankers' concerns about medium-term inflation prospects.

Uncertainty in Polish politics continues. Today in the morning PSL chief said that talks with PiS about forming the majority coalition in the parliament would be suspended. The reason was TVN show yesterday evening, which presented secretly filmed negotiations of senior PiS official with Samoobrona deputy. Opposition's politicians called it a "political corruption", demanded immediate resignation of PM and asked for urgent parliament's meeting. As talks with PSL are postponed, there is a rising risk of early election. In the short-term this may lead to a weakening on the Polish market, but as we have written a couple of times, this would not be necessarily bad news from foreign investors point of view. According to the latest opinion poll published today by *Rzeczpospolita* daily, the Civic Platform (PO) is the leader with 31% support and 223 seats. Two other parties in the Sejm would be PiS (25%, 181 seats) and Samoobrona (8%, 54 seats).

### What's hot today

#### MPC decision today

*Will labour market data for Q2 affect significantly the statement?*

In our latest weekly report we wrote that the nearest MPC meeting will not bring clear clues regarding future monetary policy actions. This was based on the fact that data published since the previous meeting were broadly in line with expectations and that they did not fundamentally change picture of economic situation and inflation outlook. However, Monday's LFS data for 2Q06 (details in our yesterday's daily report) showed much stronger than expected firming of labour market conditions. This will probably affect central bankers' perception of inflation prospects and will be reflected in today's statement, which will probably include some hawkish phrases. As LFS data did not appear as headlines in newswires, some market participants may be astonished with any references to them by the Council. This could weaken the fixed income market, especially that it has been relatively strong recently and deserves a correction (politics may be another reason).

*If this is the case, market may react negatively to the communiqué*

*Monetary Policy Guidelines should be released this week*

Apart from usual deliberations concerning current policy, at this week's meeting the MPC is to adopt *Monetary Policy Guidelines for 2007*. Unfortunately, it is not certain whether the document will be released this week. In our view, it should not show major changes as compared to the previous version, although it will be interesting to read the chapter *Conditions for monetary policy implementation*, as this will include an assessment of current economic situation.

***Bottom line:*** *Recently published data may increase central bankers' concerns about medium-term inflation prospects. If this is reflected in the MPC statement, it could negatively affect the fixed income market.*

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## Market monitor

On yesterday session the FX market was rather stable similar to Monday though the zloty recovered against the single currency supported by the strengthening in the region and slightly weakened versus the dollar. The EURPLN rate fell from 3.9605 to 3.9547 while the USDPLN rate rose from 3.108 to 3.12. The fixed income market opened stronger with regards to the lower yields in the core markets especially the rally in US. However throughout the session the bond prices slightly fell with yields rising by 1-3 bp as compared to Monday's closing.

The EURUSD rate fell on Monday from 1.275 to 1.267. The initial factor influencing the euro weakness was the softer than expected Ifo expectations index, which influenced the market view that the rate hikes in the euro zone may end yet in 2006. Stronger than expected US consumer confidence data added to the dollar's strengthening. In the core bonds markets German Bunds strengthened with regards to the mentioned drop of Ifo component, however the yields of 10Y Treasuries slightly rose to 4.57%.

***Bottom line: Yesterday the zloty slightly gained against the euro on the strengthening in the region, while bonds marginally weakened on the rising yields in the US market. Today investors will focus on the MPC communiqué.***

## International update

German Ifo business climate index for September eased less than expected to 104.9, while the economist forecasted a drop to 104.4. The business current conditions index rose to 111.3 from 108.7, while the business expectations index declined to 98.9 from 101.4 in August and was significantly below expected 100.5.

US consumer confidence amounted in September to 104.5 from 100.2 in the previous after revision from 99.6. This was much above expectations at 102.3. Present situation component increased to 127.7 from 123.9 while the expectations index rose to 89.0 from 84.4.

Similar to National Bank of Hungary the National Bank of Slovakia unexpectedly raised the interest rates. The main rate increased by 25 bp to 4.75%.

Today also the Czech central bank is going to take decision on interest rates.

TIME GMT	REGION	INDICATOR	PERIOD	UNIT	MARKET	LAST VALUE
08:00	EMU	M3 money supply	Aug	%YoY	7.5	7.8
12:30	US	Durable goods orders	Aug	%	0.5	-2.5
14:00	US	New home sales	Aug	m	1.04	1.072

Source: Reuters

**The zloty trading ranges (26.09.2006)**

	Min	Max	Open*	Close**	Fixing
EUR	3.9532	3.9665	3.9605	3.9547	3.9650
USD	3.1055	3.1158	3.1081	3.1206	3.1172

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

**The EUR/USD trading range (26.09.2006)**

	Min	Max	Open*	Close**
EUR/USD	1.2660	1.2757	1.2752	1.2672

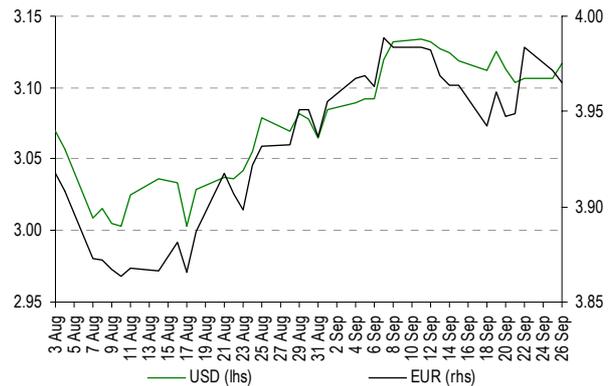
\* 6:30 GMT. \*\* 15:00 GMT

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

EURUSD	1.2678	CADPLN	2.7775
USDPLN	3.1323	DKKPLN	0.5322
EURPLN	3.9690	NOKPLN	0.4796
CHFPLN	2.5008	SEKPLN	0.4308
JPYPLN*	2.6706	CZKPLN	0.1396
GBPPLN	5.8986	HUFPLN*	1.4524

\*per 100 units

**Zloty exchange rate**



**Fixed income markets (26.09.2006)**

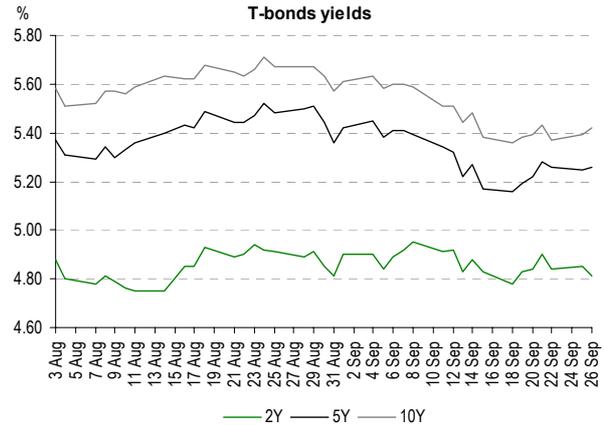
Term	PL		US		DE	
	Yield	Change (bp)	Yield	Change (bp)	Yield	Change (bp)
2Y	4.81	-4	4.70	5	3.52	3
3Y	4.98	1	4.59	4	3.52	2
4Y	5.18	3			3.54	2
5Y	5.26	1	4.56	5	3.55	2
8Y	5.33	2			3.62	0
10Y	5.42	3	4.59	4	3.65	-1

**T-bond auction**

Date	Offer	Bid	Sale	Avg. Yield	Prev. Avg. Yield	Change	
	PLN m			%		bp	
06.09	2Y	1 800	4 240	1 800	4.991	4.943	5
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**



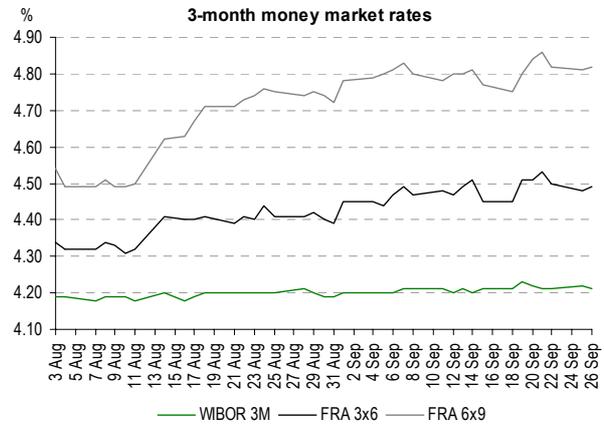
**WIBOR rates (26.09.2006)**

Term	Rates	Change (bp)
O/N	3.83	-23
T/N	3.88	-19
SW	4.08	-2
2W	4.11	0
1M	4.13	0
3M	4.21	-1
6M	4.41	-1
9M	4.61	-1
1Y	4.72	0

**Forward Rate Agreements (26.09.2006)**

Term	Mid	Change (bp)
1x2	4.15	-3
3x6	4.47	2
6x9	4.80	2
9x12	5.02	1
3x9	4.66	0
6x12	4.95	1

**3-month money market rates**



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