

# Eyeopener –Bond auction and foreign data

4 April 2007

- **The zloty stabilised near important technical level of 3.85 against the euro. Situation on the debt market calmed after weakening on Monday.**
- **Today there will be auction of 2-year bonds with relatively low supply.**
- **A bunch of important data abroad: PMI in the euro zone, ISM and ADP report in the US.**

Yesterday, situation on the Polish financial market was rather stable amid no data publication (also abroad). The zloty fluctuated around the levels of 3.85 against the euro and 2.88 versus the dollar.

Emerging markets' currencies were supported by positive moods on equity markets and lowering tensions between London and Teheran after Iranian authorities announced they would consider solving the problem of British soldiers in a diplomatic way.

During the day the Ministry of Finance informed that according to preliminary results the budget deficit realisation for the first three months of the year amounted to 14-15% of the annual plan against the previous estimation of 18%. If such figure is confirmed this would mean very good situation of the Polish budget after the first quarter. This would be helpful (if not necessary) to realise the announced changes in public finance sector (lowering disability pension contribution, higher pensions etc.). Positive data on budget performance may also support the zloty.

After significant weakening in the fixed income market on Monday the situation calmed down yesterday. In the afternoon in an interview with PAP agency MPC member Andrzej Sławiński stated that in spite of the fact that high economic growth is accompanied by inflation which is below the target, the data give no doubt that the economic growth is higher than potential. With regards to this fact, in Sławiński's view the central bank should raise interest rates in order to avoid the risk of rising inflation. According to MPC member, the scale of tightening will depend on further development of situation in the economy. In his opinion the factor that is conducive to inflation is the fact that low inflation is a global phenomenon, which leads to a statement that the risk of relatively permanent moderate rise of inflation above the target is the real problem instead of risk of sudden rise of inflation.. MPC member added that relation between labour productivity and wages growth, which according to the recent comments of central bankers is one of the most important factor influencing the decisions on rates, may deteriorate in the future.

Yesterday the National Bank of Poland informed that it will be publishing minutes from the MPC meetings each month, on the last Thursday before the next MPC meeting. The minutes from April meeting will be released on 24 May.

At the end of the day the Ministry of Labour and Social Policy announced that tentative estimates showed a decline in unemployment rate to 14.7% in March, which is consistent with our calculations. This is another positive information about condition of the Polish economy.

The dollar fluctuated yesterday in a narrow range against the euro, between 1.336 and 1.338. At the end of the session the EURUSD rate was close to opening level, i.e. 1.337. The rate was not affected by US data on pending home sales, which showed an increase to 109.3 from revised 108.5, while analysts predicted a decline from 108.7 to 107.0.

Core bond markets did not show major changes. Yields of Treasuries and Bunds remained unchanged at the levels of 4.66% and 4.06%, respectively. Data from the US housing market moderately weakened the fixed income market.

Today in the morning the EURUSD rate is traded at 1.334. Yields of Treasuries and Bunds increased overnight by one and three basis points, respectively. The zloty levels against major currencies amount to 3.85 and 2.88, respectively. The zloty was even below these levels, but it was negatively affected by the FX interventions by the Slovak central bank. In order to weaken the crown.

Today a number of economic events is planned. On the domestic market the auction of two-year bonds will take place and the Ministry of Finance will offer PLN1.0bn of OK0709 bonds. Earlier in the morning, March's PMI services index for the euro zone will be published. The market expects a rise to 57.6 from 57.4 in February. In the United States we will see ADP report, which will show the number of people employed in the private sector in March. Market consensus points to increase by 122 thousands against 57 thousands in the previous month. The report will be important for the market, especially as the methodology of calculating the figure has recently changed, and now it includes information from more regions than previously. Thus, the figure will be the key hint ahead of non-farm payrolls data for the whole economy, to be released on Friday. At the end of the European session, the ISM indicator for the services sector will be released with expectations for a rise to 55.0 from 54.3 in February. Also, the factory orders will be published and the market expects growth by 1.8% in February as compared to the decrease by 5.6% in January.

## ECONOMIC ANALYSIS UNIT

ul. Marszałkowska 142, 00-061  
email: [ekonomia@bzwbk.pl](mailto: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](mailto:frank.o'connor@bzwbk.pl)  
+48 (0) 22 586 8050  
[rashid.khan@bzwbk.pl](mailto:rashid.khan@bzwbk.pl)  
+48 (0) 22 586 8059  
[carl.coates@bzwbk.pl](mailto:carl.coates@bzwbk.pl)

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

EURUSD	1.3335	CADPLN	2.5041
USDPLN	2.8886	DKKPLN	0.5159
EURPLN	3.8528	NOKPLN	0.4732
CHFPLN	2.3650	SEKPLN	0.4113
JPYPLN*	2.4441	CZKPLN	0.1373
GBPPLN	5.6544	HUFPLN	1.5556

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## The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.845	3.8607	3.8565	3.8474	3.8515
USDPLN	2.8755	2.8878	2.8878	2.877	2.8817
EURUSD	1.335	1.338	1.3356	1.3373	-

## T-bonds

TERM	BOND	Yield (%)	Change (bp)	Last auction	Average yield
2Y	OK0709	4.64	-1	7.03	4.562
5Y	PS0412	5.02	0	22.03	4.967
10Y	DS1017	5.21	1	10.01	5.234

## IRS rates (Mid)

TERM	PL	US	EU
	%	%	%
	Change (bp)	Change (bp)	Change (bp)
1Y	4.71	5.24	4.28
2Y	4.90	5.03	4.27
3Y	4.99	4.98	4.25
4Y	5.04	4.99	4.26
5Y	5.08	5.02	4.27
8Y	5.12	5.13	4.31
10Y	5.15	5.20	4.36

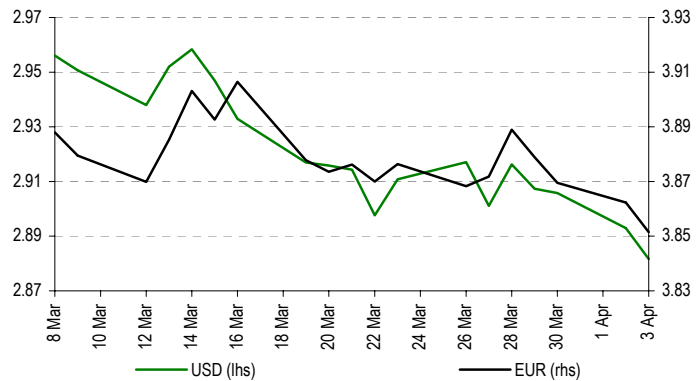
## WIBOR rates

TERM	%	Daily change (bp)
O/N	4.10	0
T/N	4.10	-1
SW	4.11	-1
2W	4.12	0
1M	4.15	0
3M	4.24	0
6M	4.44	1
9M	4.54	0
1Y	4.64	1

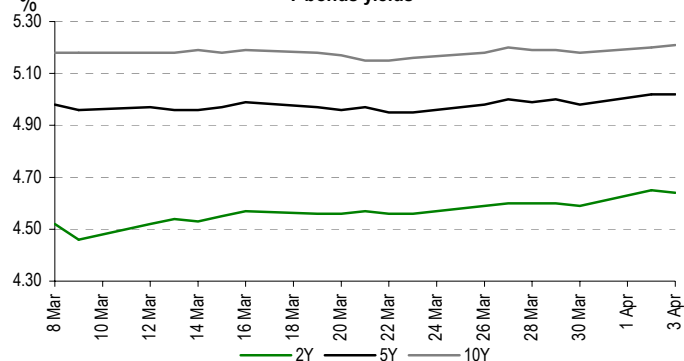
## FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	4.30	0
3X6	4.61	5
6X9	4.77	1
9X12	4.87	2
3X9	4.71	2
6X12	4.84	1

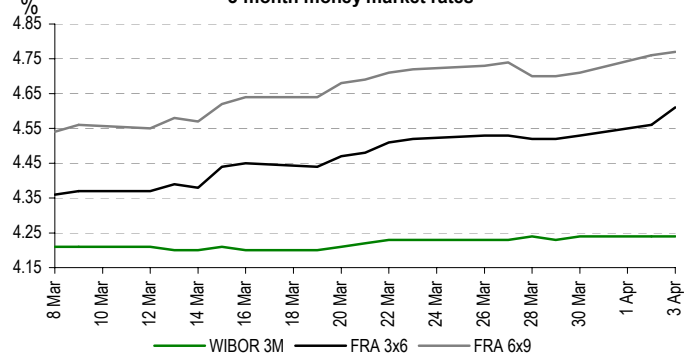
## Zloty exchange rate (fixing)



## 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](mailto:ekonomia@bzwbk.pl), <http://www.bzwbk.pl>



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