

# Eyeopener – Inflation figures due today

15 May 2007

- Zloty traded in narrow ranges; bonds prices also little changed.
- Today, releases of key inflation data are scheduled in the domestic market and in the US.

Monday's session was quite calm in the domestic FX and interest rate market. Zloty fluctuated in narrow ranges against major currencies throughout the session. The EURPLN rate was traded around 3.763, while the USDPLN rate around 2.776. Sentiment in the emerging markets improved and the risk appetite increased. The Minister of Economy Piotr Woźniak stated on Monday that he was not concerned about the zloty's strength given strong exports growth in the first quarter of this year, despite the high base in the previous one. Moreover, MPC member Stanisław Nieckarz stated in an interview with *Gazeta Prawna* daily that in the medium term the domestic currency was going to appreciate due to capital inflow to Poland.

The domestic debt market was relatively calm yesterday. Amid low activity of investors there was a slight weakening of the market. Market participants expected today's data on inflation. Despite the weakening in the German government bond market yields did not rise significantly with regards to positive effect of the released information on the size of the offer at Wednesday's auction at PLN1.5bn against previously given range of PLN1.5-2.5bn. Such amount was coherent with preliminary estimates on budget performance and yesterday's comments of the deputy finance minister Katarzyna Zajdel-Kurowska on lower borrowing needs than initially was expected. Moreover, the Ministry of Finance informed that it cancels the Treasury bills auction scheduled for 21 May. Earlier the ministry had planned to offer PLN0.9-1.1bn worth of 52-week Treasury bills.

Yesterday the money supply data were released and showed a money supply growth of 1.2%MoM and 17.8%YoY, which was slightly above our forecast of 17.1% and market consensus of 17.5%YoY. The data showed still strong growth of loans to households and

firms, confirming robust expansion of the Polish economy.

Prices of US Treasuries remained stable yesterday. In turn, significant weakening took place on the European market as investors decided to sell bonds and buy stocks. Yields of 10Y German Bunds increased from 4.23% to 4.25% against 4.21% at closing of Friday's session.

Today at 12:00 GMT publication of key data for the MPC and the market is in the agenda, i.e. CPI inflation figures for April. We predict 2.3%YoY rise in consumer prices against 2.5%YoY increase in March, which is in line with market consensus. Inflation slowdown is partly an effect of high base. But small scale of this effect results from the fact that prices of food and fuels remain at elevated levels. If the data do not differ much from the consensus, they should not affect the market significantly. More important for the MPC and for market players will be data from the labour market that are due for release on Thursday.

On international markets at 09:00 GMT euro zone's data about GDP growth in Q1 will be released. Market consensus shows an increase by 2.9%YoY against 3.3%YoY in 4Q06. Among data to be released abroad today, the most important will be US inflation rate. If the figure confirms downward trend, they may spur dollar weakening and rise in expectations for interest rate cut in the US. According to Wall Street analysts the data due for release at 12:30 GMT should show a rise in CPI by 0.5%MoM in April after 0.6% in March. Slightly later, at 13:00 GMT we will get data about capital inflow to the US in March that will be particularly important in the face of significant rise in trade deficit this month.

Today at the opening the EURUSD reached 1.3547. Yields of 10Y Treasuries were at 4.69% and Bunds at 4.27%. Zloty exchange rate was at 3.768 against the euro and 2.774 versus the dollar.

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

EURUSD	1.3547	CADPLN	2.4857
USDPLN	2.7815	DKKPLN	0.5082
EURPLN	3.7680	NOKPLN	0.4656
CHFPLN	2.3033	SEKPLN	0.4136
JPYPLN*	2.3268	CZKPLN	0.1345
GBPPLN	5.5515	HUFPLN	1.5354

**Financial market review - 14 May 07**

**The zloty trading ranges**

	min	max	open	close	fixing
EURPLN	3.7576	3.7688	3.7622	3.761	3.761
USDPLN	2.7739	2.7839	2.7776	2.7776	2.7773
EURUSD	1.3528	1.3558	1.3544	1.3539	-

**T-bonds**

TERM	BOND	Yield (%)	Change (bp)	Last auction	Average yield
2Y	OK0709	4.70	0	4.04	4.694
5Y	PS0412	5.12	1	18.04	5.11
10Y	DS1017	5.30	1	11.04	5.244

**IRS rates (Mid)**

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1Y	4.79	1	5.32	2	4.40	2
2Y	4.99	1	5.12	2	4.44	3
3Y	5.12	4	5.06	3	4.43	2
4Y	5.18	3	5.06	3	4.44	3
5Y	5.22	2	5.08	3	4.45	4
8Y	5.28	3	5.17	2	4.49	4
10Y	5.30	4	5.22	2	4.53	4

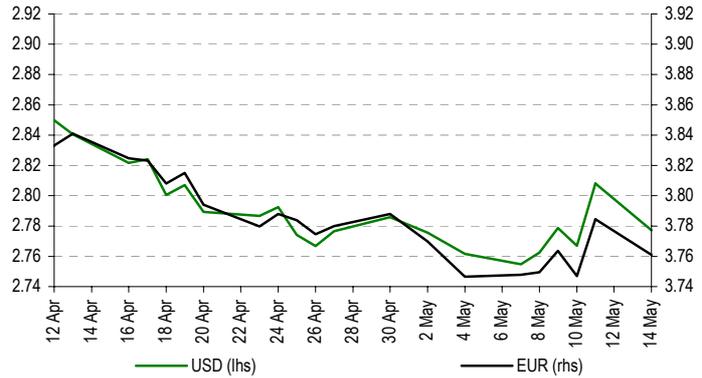
**WIBOR rates**

TERM	%	Daily change (bp)
O/N	4.34	-3
T/N	4.35	-3
SW	4.37	-2
2W	4.39	-1
1M	4.39	-1
3M	4.43	-1
6M	4.55	0
9M	4.66	0
1Y	4.75	0

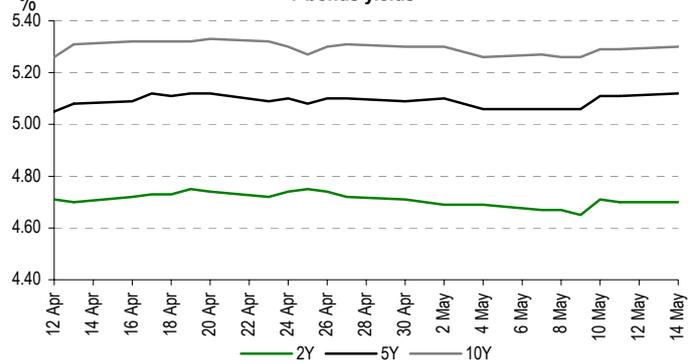
**FRA rates (Mid)**

TERM	%	Daily change (bp)
1X2	4.41	-1
3X6	4.63	2
6X9	4.83	2
9X12	4.94	1
3X9	4.76	1
6X12	4.91	1

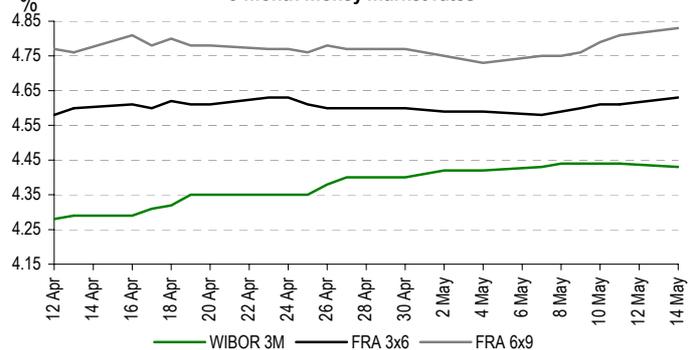
**Zloty exchange rate (fixing)**



**T-bonds yields**



**3-month money market rates**



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