

Eyeopener – Output and PPI data today

21 May 2007

- **Stable zloty, bonds slightly stronger before the weekend**
- **Next important data releases due today: industrial output and PPI data; no publications abroad**

On Friday, the Polish FX market was quite calm. The zloty exchange rate against the euro was fluctuating for the whole day around 3.79. The USDPLN rate closed at 2.81, slightly up from 2.809 at the opening. However, sentiment in the region has remained quite poor, which was reflected in Friday's depreciation of the Hungarian forint. What is interesting, the zloty reacted to the forint's weakening only in the beginning of the day and later on the zloty was stable.

In the domestic debt market, some improvement in moods was observed, with yields of 2-year bonds at the end of the session lower by 1bp against the Thursday's close. Possibly, this was a delayed reaction to weaker than expected data on wages and employment in enterprises, but the market was also positively affected by an interview of MPC's Jan Czekaj published by PAP news agency. Czekaj suggested that a threat of excessive inflation acceleration is not significant, so the Council does not have to rush with next rate hikes and central bankers have at least a few months to analyse the situation.

Comments of another MPC member, Stanisław Owsiak, published in an interview with PAP today in the morning, were of similar tone. Owsiak stated that there were no strong reasons for inflation increase and rate hikes, and a slight monetary tightening of 25bp could take place only towards the end of the year, if inflation actually exceeds 2.5%. In his opinion, the highest risk for inflation is currently related to labour market conditions, although it should not be exaggerated. One should remember that opinions of Czekaj and Owsiak are currently the key ones for results of votes at MPC meetings, as without support of at least one of them – given that NBP governor Sławomir Skrzypek will not vote for rate hikes – any monetary tightening in the forthcoming months will not be possible.

On Friday the zloty did not react to the release of balance of payments data for March. The data showed current account deficit of €539m against €561m in February and market expectations of €453m. Exports accelerated again with a rise by 15.8%YoY, which suggests that foreign demand for Polish goods and services maintaining at very high level. At the same time, imports accelerated significantly with the

annual rate of growth of 21.7%. Nevertheless, the National Bank of Poland informed that imports in March was affected by a one-off transaction and thus trade balance should not keep deteriorating at the same pace as recorded in March, though strong domestic demand is very likely to maintain imports at high level. As for now, the external situation of the Polish economy seems quite comfortable with 12M C/A deficit at the very low level of 2.5% of GDP.

Next data from the American economy confirmed on Friday that economic activity in 2Q07 starts picking up. University of Michigan's index of consumer sentiment unexpectedly increased in May to 88.7 from 87.1 at the end of April. The result was much better than market expectations that predicted a decline to 86.5. The publication initially resulted in slight increase in yields of US Treasuries, yet it was quickly erased as the price component of the Michigan index showed easing of inflation expectations. Yields of 10Y American Treasuries were at 4.76% on Friday afternoon, and later on, during American session they climbed further so that today in the morning they were at 4.80%. Yields of 10Y Bunds were today at 4.32%.

The dollar slightly appreciated on Friday against euro during European session, going from 1.353 in the morning to 1.349 in the afternoon. After close of the Polish market the EURUSD rate jumped up to 1.352 and today in the morning it was at 1.3514.

Unexpectedly, China's central bank decided on Friday to hike interest rates and widen trading band for yuan. However, the decision failed to disturb global markets. The Japanese yen initially jumped higher against the euro and dollar on the news of the regime change but has since retreated.

Today the focus of markets attention will be on domestic data publication of industrial production and PPI, which will take place at 12:00 GMT. Production figure will probably confirm that the Polish economy started the second quarter strongly. The market consensus points to a rise by 15.3%YoY, while we are even more optimistic forecasting 16%YoY growth. Construction output will probably rise even faster. On the other hand, PPI inflation data should confirm no significant pressure on price growth and 12M inflation is expected to decrease to 2.4-2.5% in April from 3.3% in the previous month. International markets will see no data publication today. Today in the morning the zloty was traded at 3.784 against the euro and 2.81 against the dollar.

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F/X rates (today's opening)

EURUSD	1.3508	CADPLN	2.5472
USDPLN	2.8014	DKKPLN	0.5071
EURPLN	3.7848	NOKPLN	0.4619
CHFPLN	2.2835	SEKPLN	0.4098
JPYPLN*	2.3102	CZKPLN	0.1343
GBPPLN	5.5325	HUFPLN	1.5108

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.785	3.7943	3.7885	3.791	3.7909
USDPLN	2.7998	2.817	2.809	2.81	2.8081
EURUSD	1.3477	1.3534	1.353	1.349	-

T-bonds

TERM	BOND	Yield (%)	Change (bp)	Last auction	Average yield
2Y	OK0709	4.68	-1	4.04	4.694
5Y	PS0412	5.11	0	16.05	5.127
10Y	DS1017	5.27	1	11.04	5.244

IRS rates (Mid)

TERM	PL	US	EA
	%	%	%
	Change (bp)	Change (bp)	Change (bp)
1Y	4.81	5.36	4.47
2Y	5.05	5.22	4.51
3Y	5.13	5.15	4.52
4Y	5.19	5.15	4.51
5Y	5.22	5.19	4.52
8Y	5.26	5.30	4.54
10Y	5.27	5.35	4.57

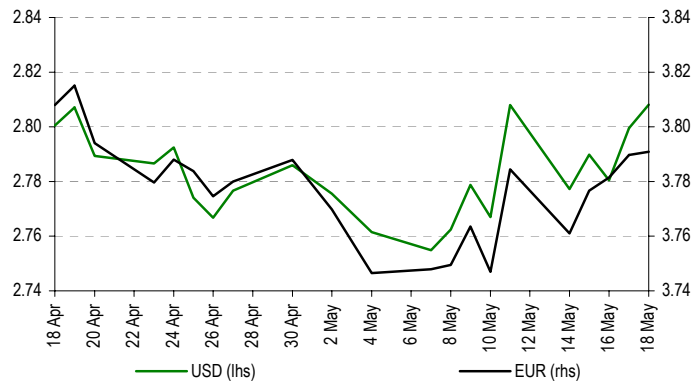
WIBOR rates

TERM	%	Daily change (bp)
O/N	4.39	0
T/N	4.39	0
SW	4.39	0
2W	4.40	0
1M	4.40	0
3M	4.44	0
6M	4.58	0
9M	4.69	1
1Y	4.77	0

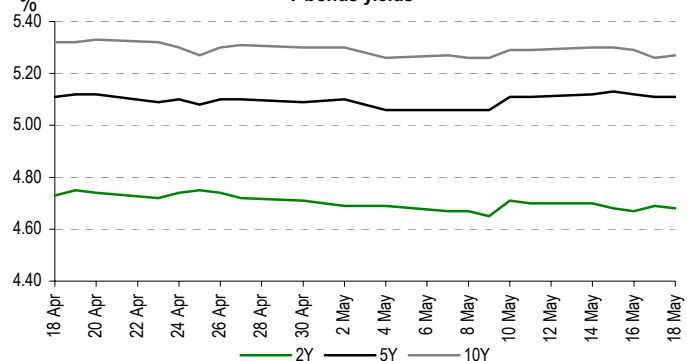
FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	4.41	-1
3X6	4.62	-2
6X9	4.82	-3
9X12	4.95	-1
3X9	4.76	-2
6X12	4.91	-3

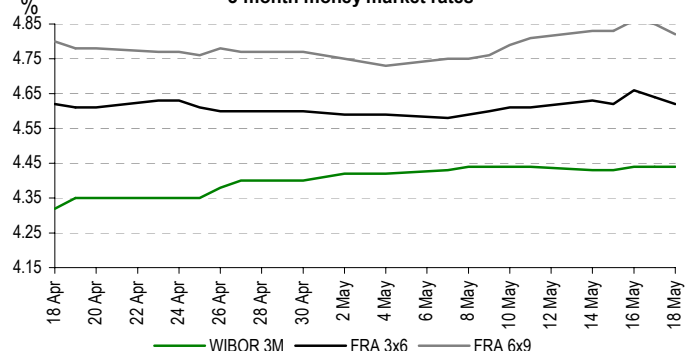
Zloty exchange rate (fixing)



T-bonds yields



3-month money market rates



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