

# Eyeopener – Calm beginning of the week

29 May 2007

- Monday was calm on the Polish market due to holiday in major markets abroad; the zloty little changed, domestic bonds slightly stronger.
- Today the Polish market should remain calm, waiting for a MPC decision tomorrow.

Monday's session was rather calm on the foreign exchange and fixed income market, which was connected with the fact that no important data releases were scheduled and public holiday in the US, UK and most of Europe. The number of transactions on the Polish market was limited and quotations were rather of informative character.

The zloty started with some strengthening driven by better sentiment towards emerging markets, after positive moods were observed on Asian equity markets and optimistic close in the US on Friday. During the day some zloty depreciation was visible (the EURPLN rose to 3.81 in the early afternoon from 3.804 in the morning), but the session ended at 3.802. The fluctuations in the USDPLN rate were quite similar - a rise to 2.83 from 2.825 and then a recovery to 2.827. The dollar was very stable against the euro yesterday with the rate close to 1.345 for the most of the day.

Yields of Polish bonds decreased moderately, but the activity on the market was moderate amid holiday in core markets (stable yields of Bunds and Treasuries). Additionally investors are awaiting the outcome of the MPC meeting on Wednesday. While there is no single market analyst expecting a change in rates this week, which was confirmed in yesterday's Reuters opinion poll, the statement of the Council may be important as regards future moves in monetary policy.

The results of consumers' sentiment survey released yesterday by the Central Statistical Office showed the highest levels of the indices in the history of the survey, suggesting a continuation of very upbeat moods among households. This will surely keep supporting rapid expansion of consumption demand in the remainder of the year.

Slightly less optimistic were conclusions from BIEC survey that showed a second straight decline in leading indicators in May. According to the authors of the survey it could herald some deterioration in economic activity, although it is still too early to say the tendency will be persistent. The report showed, among others, rising problems of enterprises with shortage of labour force, building wage pressure, deepening problems with rising costs and fall in labour productivity.

Information from the political scene suggests some possibility of building new tensions in the ruling coalition. This is connected, among others, with approaching vote in the parliament on the government's motion assuming reduction in tax wedge, that is being objected by the minor coalition parties, and rising calls from the LPR and Samoobrona about a need to use fruits of fast economic growth to support social policy. At some point of time, it could introduce additional uncertainty on the financial market, although one should remember that thus far market reactions to political turmoil that used to happen quite often in the last dozen of months, were relatively soft and short-lived.

Today there will be no important events on the domestic market and trading should be calm, as investors will be awaiting for the result of the MPC meeting that we will learn tomorrow.

Today, major international markets will be returning to normal activity. However, there are not many major events scheduled abroad today. The only data publication today will be consumer confidence data for May in the US, due at 14:00 GMT. The market consensus points to slight increase in the index to 104.5 from 104.0 the previous month.

Today in the morning the EURUSD rate was at 1.344. Yields of 10-year Treasuries and Bunds were at 4.87% and 4.39%, respectively. The zloty was traded at 3.81 versus the euro and 2.835 against the dollar.

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

|         |        |        |        |
|---------|--------|--------|--------|
| EURUSD  | 1.3439 | CADPLN | 2.6236 |
| USDPLN  | 2.8346 | DKKPLN | 0.5119 |
| EURPLN  | 3.8097 | NOKPLN | 0.4715 |
| CHFPLN  | 2.3087 | SEKPLN | 0.4144 |
| JPYPLN* | 2.3299 | CZKPLN | 0.1346 |
| GBPPLN  | 5.6223 | HUFPLN | 1.5247 |

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**The zloty trading ranges**

|        | min    | max    | open   | close  | fixing |
|--------|--------|--------|--------|--------|--------|
| EURPLN | 3.8006 | 3.811  | 3.8075 | 3.8025 | 3.804  |
| USDPLN | 2.8247 | 2.83   | 2.825  | 2.827  | 2.827  |
| EURUSD | 1.3413 | 1.3473 | 1.3433 | 1.3457 | -      |

**T-bonds**

| TERM | BOND   | Yield (%) | Change (bp) | Last auction | Average yield |
|------|--------|-----------|-------------|--------------|---------------|
| 2Y   | OK0709 | 4.73      | -6          | 4.04         | 4.694         |
| 5Y   | PS0412 | 5.13      | -3          | 16.05        | 5.127         |
| 10Y  | DS1017 | 5.29      | -2          | 11.04        | 5.244         |

**IRS rates (Mid)**

| TERM | PL   |             | US   |             | EA   |             |
|------|------|-------------|------|-------------|------|-------------|
|      | %    | Change (bp) | %    | Change (bp) | %    | Change (bp) |
| 1Y   | 4.82 | -1          | 5.39 | 1           | 4.52 | 1           |
| 2Y   | 5.10 | -1          | 5.28 | 2           | 4.60 | 1           |
| 3Y   | 5.21 | 0           | 5.25 | 2           | 4.60 | 2           |
| 4Y   | 5.26 | -1          | 5.26 | 2           | 4.61 | 0           |
| 5Y   | 5.29 | -1          | 5.28 | 1           | 4.61 | 2           |
| 8Y   | 5.32 | -1          | 5.36 | 0           | 4.63 | 1           |
| 10Y  | 5.33 | -1          | 5.41 | 0           | 4.66 | 1           |

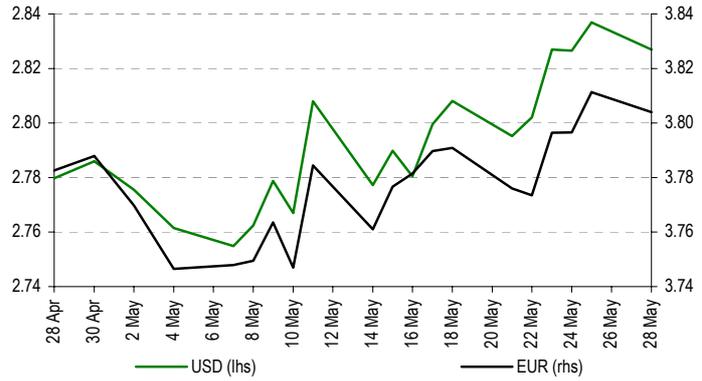
**WIBOR rates**

| TERM | %    | Daily change (bp) |
|------|------|-------------------|
| O/N  | 4.39 | 3                 |
| T/N  | 4.41 | 5                 |
| SW   | 4.38 | 1                 |
| 2W   | 4.39 | 1                 |
| 1M   | 4.41 | 1                 |
| 3M   | 4.45 | 0                 |
| 6M   | 4.62 | 1                 |
| 9M   | 4.71 | 0                 |
| 1Y   | 4.81 | 1                 |

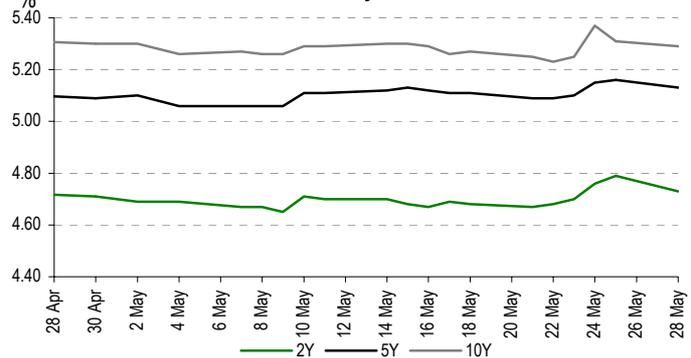
**FRA rates (Mid)**

| TERM | %    | Daily change (bp) |
|------|------|-------------------|
| 1X2  | 4.43 | -1                |
| 3X6  | 4.63 | 0                 |
| 6X9  | 4.84 | 2                 |
| 9X12 | 5.01 | -3                |
| 3X9  | 4.76 | 0                 |
| 6X12 | 4.96 | 0                 |

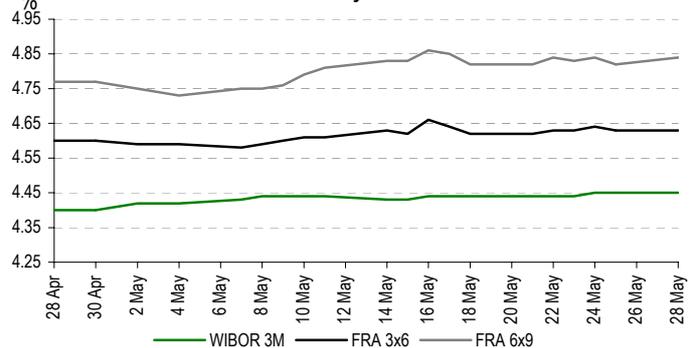
**Zloty exchange rate (fixing)**



**T-bonds yields**



**3-month money market rates**



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