

Eyeopener – Upbeat moods after payrolls

8 October 2007

- **Better than expected data from the US labour market**
- **The zloty strengthened; local bonds little changed**
- **This week the market's attention will be again focused on events abroad**
- **Today markets should be calm due to holiday in the US**

At the Friday's session the zloty strengthened against major currencies. The EURPLN rate fell below an important technical level of 3.76. The zloty's appreciation was a response to better data from the US labor market, that decreased concern about the recession in the world's largest economy and increased the risk appetite in the global markets. At the end of the domestic session the zloty was traded at 3.759 against the euro and at 2.658 to the dollar. At today's opening the zloty was still below 3.76 against the euro and slightly above 2.66 versus the dollar.

The same as earlier during the week, on Friday there were no significant changes in the domestic bonds market. Yields didn't change substantially as compared to Thursday's closing. Since previous Friday the yield curve slightly steepened.

Deputy finance minister Elżbieta Suchocka-Rogulska said on Friday that according to the tentative estimates the budget was in a surplus of PLN160m at the end of September and such a good performance is partly a result of delay in spending realisation. These are another positive data about the budget situation. As this year's budget performance creates no threatens, more of the market's attention is focused on the next year budget.

Dollar oscillated in a quite narrow range against euro ahead of the crucial data release last week. Non-farm payrolls data showed an increase of 110,000 in September against predicted 100,000, while data for earlier months have been revised up substantially (August's number from -4,000 to 89,000). Unemployment rate reached 4.7% against 4.6% in August, which was in line with expectations. In reaction to the data publication, market expectations for next interest rate cut at the nearest Fed's meeting had weakened. The EURUSD rate fell to 1.4033, the lowest level during the day. However, at the end of the session it went up again, breaking through 1.41. Investors decided that one piece of data is not enough and the problem of the housing and mortgage markets still remains unsolved. Core bond markets saw significant weakening, mostly in reaction to stronger data from the US. Yields of 10Y Treasuries and Bunds increased to 4.60% and 4.34% during the day,

against 4.52% and 4.28% in the morning. After close of the local session, weakening was continued. Today in the morning yields of 10Y Treasuries and Bunds were at 4.63% and 4.35% correspondingly.

Today the Ministry of Finance will hold an auction offering PLN500m worth 52-week Treasury bills. There are no important data releases scheduled abroad. Moreover, amid market holiday (Columbus Day) in the United States, activity in the international markets should be limited. The stock markets will be open, though the fixed income markets are closed.

This week no major events are scheduled in Poland. Apart from the today's auction of T-Bills investors will focus on the results of 10Y bond auction, which will be held on Wednesday. However, on Friday we will get first domestic piece of data for September, i.e. monetary statistics, though they will have limited influence in the Polish market.

Abroad investors will focus most of all on the Tuesday release of FOMC minutes from the September meeting, at which Fed cut rates by 50bp, noting risks for economic growth. This release may shed some light on the way of reasoning and argumentation of rate-setters at the Federal Reserve. On Wednesday we will get the US data on wholesale inventories and on Thursday the euro zone's final data on GDP growth in Q2, import prices in the US (important in the context of inflation fears) as well as US trade balance figures. Friday's set of data, i.e. US retail sales data and the Michigan index will show the influence of the slowdown in the US housing market and of the situation in the financial markets on the moods and behaviour of US consumers. These events may have influence on the development of the situation in the Polish market.

We do not expect this week to bring any breaking news, which would substantially affect the zloty and bonds. In the forthcoming days Polish FX market should be quite stable. The zloty will stay under the influence of the sentiment in the international markets, though they shouldn't experience any sudden changes as well. We keep the expected range for the EURPLN rate at 3.73-3.83 and for the USDPLN rate at 2.62-2.72.

Like on the exchange rate market lack of crucial releases on the domestic stage will cause that the situation on the international markets will be more important for the Polish market. Long-term-bonds auction will show the market moods. Market players will await inflation data and labour market statistics, which are going to be published at the beginning of the next week.

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F/X rates (today's opening)

EURUSD	1.4118	CADPLN	2.7102
USDPLN	2.6641	DKKPLN	0.5048
EURPLN	3.7613	NOKPLN	0.4929
CHFPLN	2.2591	SEKPLN	0.4112
JPYPLN*	2.2746	CZKPLN	0.1365
GBPPLN	5.4370	HUFPLN	1.5008

Financial market review - 5 Oct 07
The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.7581	3.7683	3.7657	3.7592	3.7650
USDPLN	2.6567	2.6676	2.6666	2.6585	2.6681
EURUSD	1.4051	1.4155	1.4128	1.4143	-

T-bonds

TERM	BOND	Yield (%)	Change (bp)	Last auction	Average yield
2Y	OK0709	5.27	0	6.09	5.28
5Y	PS0412	5.57	0	19.09	5.482
10Y	DS1017	5.71	0	11.07	5.658

IRS rates (Mid)

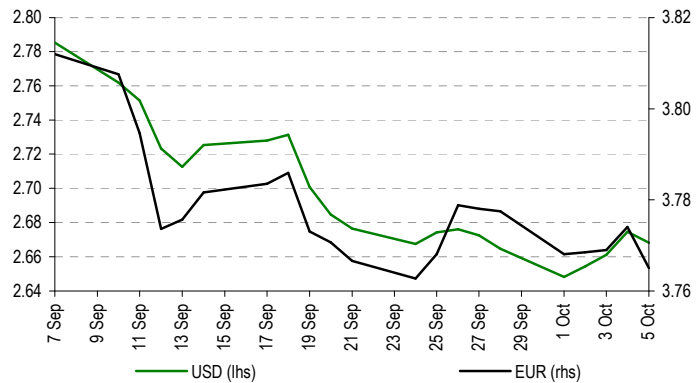
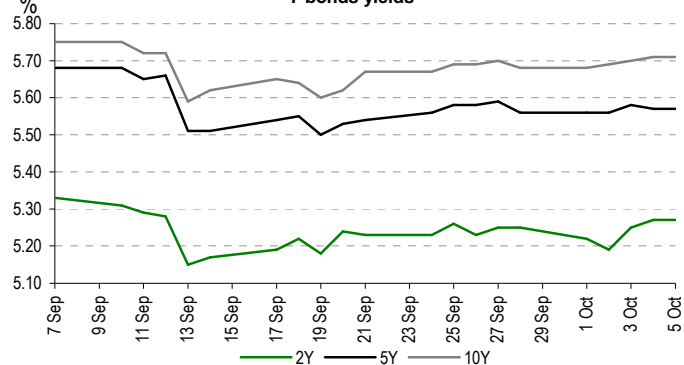
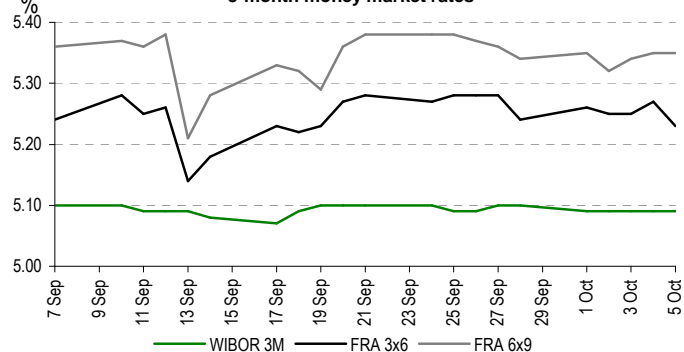
TERM	PL	US	EA
	%	%	%
	Change (bp)	Change (bp)	Change (bp)
1Y	5.38	4.95	4.67
2Y	5.48	4.78	4.52
3Y	5.53	4.82	4.51
4Y	5.57	4.91	4.50
5Y	5.59	4.99	4.54
8Y	5.62	5.18	4.62
10Y	5.64	5.26	4.69

WIBOR rates

TERM	%	Daily change (bp)
O/N	4.89	1
T/N	4.89	0
SW	4.91	0
2W	4.91	0
1M	4.95	0
3M	5.09	0
6M	5.24	0
9M	5.34	-1
1Y	5.45	0

FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	5.06	7
3X6	5.23	-4
6X9	5.35	0
9X12	5.38	-1
3X9	5.33	0
6X12	5.40	0

Zloty exchange rate (fixing)

T-bonds yields

3-month money market rates


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