

Eyeopener – Stronger risk aversion

4 December 2007

- **Slight correction in the FX market due to increase in risk aversion**
- **Local bonds weakened in reaction to publication of high inflation forecast for November by the FinMin**
- **Today no major events are scheduled in the domestic and international markets**

At Monday's session there was a slight correction in the Polish FX market after significant appreciation in the last week. In the first part of the session the zloty substantially weakened and the EURPLN rate broke 3.62, though later on the domestic currency started recovering. At the end of the session the euro was traded at 3.616 and a similar level was recorded today in the morning. On the other hand the USDPLN rate rose at the start of the Monday session to 2.468 and stayed at stable level for the better part of day. At the end of the session the dollar was traded at 2.463 and today at the opening it was near that level.

The fixed income market wakened after the Ministry of Finance released its inflation estimate for November. According to the ministry, consumer prices last month rose 0.6%MoM and 3.5% in annual terms. Such forecast was close to the upper band of the market expectations, which negatively affected the debt market. On Monday morning there were a few comments of the central bankers. A part of them was covered in our yesterday daily report. Before noon, after the release of the FinMin's inflation forecast, Stanisław Nieckarz took the floor and said that such forecast is not a surprise and is a result of supply factors. Apart from that, the MPC member said that the central bank had already reacted to the rise in inflation in October and November. However, it should be remembered that Nieckarz belongs to the "dovish" camp of the Council and his view is not representative for the majority of the MPC.

At yesterday auction the finance ministry placed PLN2.0bn worth of 52-week Treasury Bills. Investors' demand amounted to PLN3.32bn and the average yield was at 5.74% against PLN1.56bn and 5.31%, respectively, at the previous auction when bills worth PLN1.0bn were sold. The Ministry of Finance announced yesterday that it is going to place PLN2.2bn worth of 2Y OK0709 bonds at the Wednesday's tender.

PMI index for Polish manufacturing sector rose to 51.9 in November from 51.6 in October. A drop in index of new

orders was observed, which may stem from the strength of the zloty. Additionally, enterprises reduced stockpiles of finished goods. Besides, even though index of production costs went down, the index of finished goods prices increased.

After slight weakening against euro at the start of the day, the dollar recovered and the EURUSD rate returned to levels recorded at the start of the session, i.e. around 1.466. Similar level was seen today at the opening.

PMI index reflecting activity in manufacturing sector in the euro zone in November was revised up from 52.6 to 52.8, against 51.5 in October, i.e. the lowest level for 26 months.

Core bond markets saw a continuation of strengthening trend. This was connected with expectations on weak ISM manufacturing, which led to decrease in risk appetite and a negative sentiment on the equity market. Additionally, concerns of investors as regards credit market persist. November's ISM index in the US was slightly higher than market expectations and reached 50.8 pts against 50.9 pts in October. It is worth to mention rising sub-index of paid prices, which shows higher inflationary pressure, as well as improvement in trade balance (sub-index of exports close to 60 pts, while sub-index of imports below 50 pts), which shows how global economy affects the US growth in the environment of weak dollar. At the end of the day, yield of 10-year Treasuries was at 3.90% and Bunds were at 4.07%. The proposal presented by US Treasury Secretary Henry Paulson as regards government's aid for those affected by the housing market crisis, stimulated mixed feelings of investors and did not improve sentiment in the financial markets. Especially that during the day another information on consequences of the credit market crisis appeared - the German bank WestLB informed about high financial losses. Today in the morning yields were little changed - 1 bp down for Treasuries and 1 bp up for Bunds.

Today, no important data releases are scheduled, neither on local market nor abroad. One should only pay attention to the publication of PPI index in the euro zone for October. Market consensus indicates an increase in producer prices by 3.0%YoY.

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F/X rates (today's opening)

EURUSD	1.4667	CADPLN	2.4573
USDPLN	2.4654	DKKPLN	0.4849
EURPLN	3.6153	NOKPLN	0.4455
CHFPLN	2.1865	SEKPLN	0.3841
JPYPLN*	2.2364	CZKPLN	0.1378
GBPPLN	5.0867	HUFPLN	1.4284

Financial market review - 3 Dec 07

The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.6066	3.6229	3.6110	3.6103	3.6195
USDPLN	2.4556	2.4704	2.4604	2.4631	2.473
EURUSD	1.4631	1.4706	1.4678	1.4660	-

T-bonds

TERM	BOND	Yield (%)	Change (bp)	Last auction	Average yield
2Y	OK0709	6.01	5	7.11	5.676
5Y	PS0412	6.11	9	17.10	5.718
10Y	DS1017	5.82	5	10.10	5.699

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1Y	6.13	8	4.23	1	4.65	2
2Y	6.18	7	3.88	-1	4.40	-1
3Y	6.15	7	3.87	-7	4.35	0
4Y	6.10	8	3.97	-6	4.33	-7
5Y	6.05	9	4.08	-7	4.35	-8
8Y	5.85	4	4.38	-7	4.45	-8
10Y	5.76	5	4.53	-5	4.53	-8

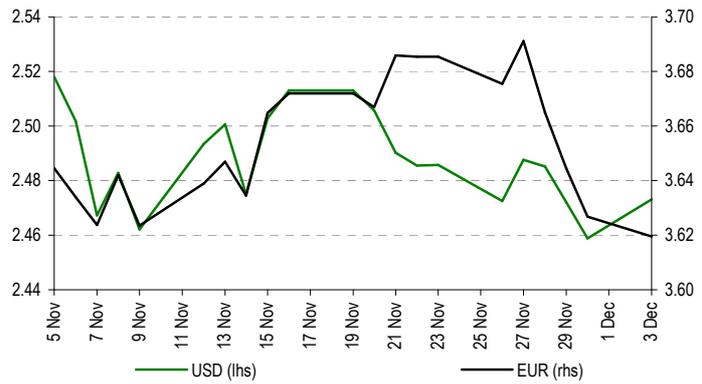
WIBOR rates

TERM	%	Daily change (bp)
O/N	4.86	-44
T/N	4.93	-38
SW	5.18	-11
2W	5.22	-8
1M	5.54	6
3M	5.59	3
6M	5.86	2
9M	5.95	2
1Y	6.05	2

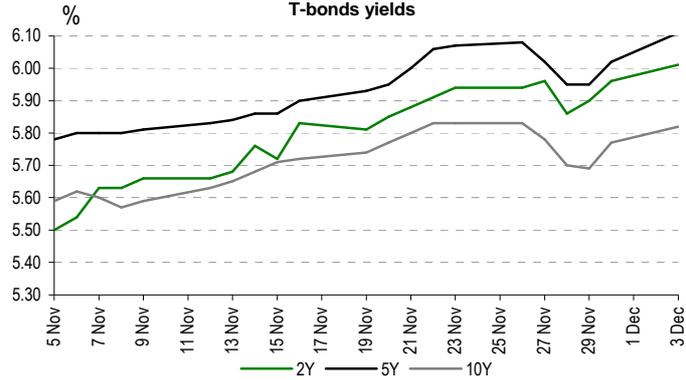
FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	5.58	6
3X6	6.05	16
6X9	6.16	12
9X12	6.19	10
3X9	6.15	14
6X12	6.24	14

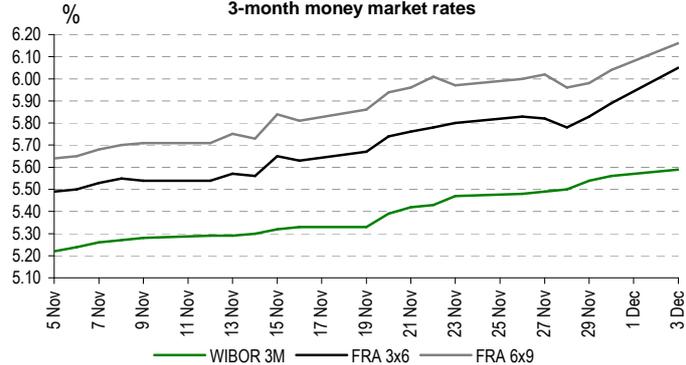
Zloty exchange rate (fixing)



T-bonds yields



3-month money market rates



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