

# Eyeopener – Strong zloty at the start of New Year

2 January 2008

- **Calm market sessions in the holiday period**
- **Zloty strengthening, bond prices stable**
- **Finance Ministry's inflation forecast for December likely to be released today**
- **Auction of 2Y bonds in the agenda**

The Christmas holiday week in the domestic financial markets was quite calm. The zloty fluctuated above 3.60 against the euro. During the New Year's Eve session there was a quite significant zloty appreciation and the EURPLN rate fell to ca. 3.58 though afterwards it bounced back to 3.596 (and it started today's session at similar level). On the other hand the USDPLN rate was gradually declining ahead of the year-end, which went in line with dollar depreciation in the international markets. At Monday's close the USDPLN rate was traded at 2.452. In the fixed income market the activity of market players was limited and bond yields did not significantly change as compared to levels before the Holiday period.

In the last days of the previous year there were some comments in the media of the two members of the Monetary Policy Council, Dariusz Filar and Marian Noga. According to Filar the decisions of next interest rate hikes will be determined by the core inflation data and its prospects. In his opinion the core net inflation is in moderate though constant rising trend, which amid durable effect of the rising food prices, worked in favour of fast interest rate hikes. Dariusz Filar stated that the view that the reference rate may reach 6% is justified. It is worth to remember, that he is one of the most "hawkish" MPC members. On the other hand Marian Noga said that in 2008 three more interest rate hikes will be needed, the first one should already in January (which is in line with our baseline scenario) and the second in the first half of the year (which means not so fast). Overall, the comments of the central bankers did not bring much new to the assessment of the monetary policy prospects and are quite in line with the tone of earlier comments of their authors.

The Ministry of Finance released the agenda of the government securities auctions in Q1 2008, which comprise PLN2-3bn 2Y bonds at one auction, PLN4-6bn of 5Y bonds at two auctions, PLN1.5-3bn of 10Y bonds at one auction, PLN1-2bn of 30Y bonds at one auction as well as 4-7bn of 52-week T-Bills at three tenders. The Ministry of Finance will offer PLN1.5-2.5bn T-Bills, 2Y and 20Y bonds in January. The ministry also informed that according to the preliminary estimates the budget deficit in 2007 is going to amount to PLN19-20bn against planned PLN30bn.

The last few days of 2007 saw a weakening of the dollar, which reached the level of 1.47 against the euro, as compared to 1.44 before Christmas. Although, the Monday's session brought some greenback's recovery to 1.463. Core bond markets recorded a moderate weakening in the first part of the holiday period, which was accompanied by low liquidity on the market and poor results of auction of US Treasuries. However, already on Thursday prices of long-term bonds started to rise amid lower-than-expected data from the US economy, which led to higher perceived risk of low economic activity, as well as amid higher risk aversion. On Thursday the figure of durable goods orders for November was released and it was below market consensus, which together with information from Pakistan on assassination of Benazir Bhutto led to the strengthening in the bond market. On the other hand, consumer confidence index was better than expected, which limited decrease in yields. On Friday, despite the Chicago PMI index was above forecasts, this did not support the American currency and did not have big effect on the fixed income market, as new home sales figure for November disappointed the markets. As regards Monday's session data on home sales on the secondary market was slightly above expectations, but it did not affect the markets amid low liquidity on New Year's Eve. As a result, yields of ten-year Treasuries fell to ca. 4.05% against 4.29% last Thursday and against 4.14% before Christmas. As regards ten-year Bunds' yields it fell to 4.32% at the end of the last week, after a temporary rise to 4.37% from 4.33%.

This week and probably already today the Ministry of Finance will release its inflation forecast for December. As usual, the figure may have the impact on the Polish interest rate market, as well as short-term inflation expectations of market analysts. Also, today the first auction of the Ministry of Finance in the new year will take place with PLN1.8bn of two-year OK0710 offered. In the international markets we will see data releases for December on manufacturing PMI in the euro zone (11:00 GMT) manufacturing ISM in the US (15:00 GMT). According to the market consensus the former fell to 52.5 pct from 52.8 pct in the previous month, while the latter rose moderately from 50.8 pct to 51.0 pct. Also, today after the European session close, FOMC minutes will be published and we will know the Fed's discussion during the December's meeting, on which the decision to cut interest rate by 25 bp took place.

In the remaining part of the week, we will also see PMI and ISM indices for services sectors, as well as US factory orders for November. However, the main publication of the week will be non-farm payrolls report in the US due on Friday. On Thursday, the ADP labour market report will be released.

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

EURUSD	1.4658	CADPLN	2.4746
USDPLN	2.4539	DKKPLN	0.4823
EURPLN	3.5970	NOKPLN	0.4528
CHFPLN	2.1740	SEKPLN	0.3815
JPYPLN*	2.1993	CZKPLN	0.1354
GBPPLN	4.8738	HUFPLN	1.4210

## Financial market review - 31 Dec 07

### The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.5824	3.6070	3.6072	3.5957	3.5820
USDPLN	2.4350	2.4592	2.4461	2.4592	2.435
EURUSD	1.4619	1.4746	1.4746	1.4619	-

### T-bonds

TERM	BOND	Yield (%)	Change (bp)	Last auction	Average yield
2Y	OK0709	6.06	-3	5.12	6.168
5Y	PS0412	6.11	1	21.11	5.943
10Y	DS1017	5.91	1	10.10	5.699

### IRS rates (Mid)

TERM	PL %	Change (bp)	US %	Change (bp)	EA %	Change (bp)
1Y	6.21	621	4.22	3	4.75	-1
2Y	6.20	620	3.99	10	4.60	2
3Y	6.12	612	4.08	12	4.56	3
4Y	6.04	604	4.21	13	4.55	4
5Y	6.01	601	4.35	14	4.57	5
8Y	5.86	586	4.66	14	4.66	6
10Y	5.77	577	4.81	13	4.73	6

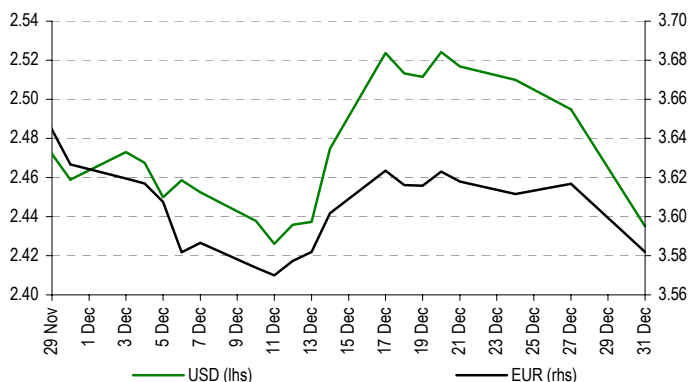
### WIBOR rates

TERM	%	Daily change (bp)
O/N	6.63	268
T/N	5.30	92
SW	5.32	-11
2W	5.37	-12
1M	5.52	-13
3M	5.68	-5
6M	5.99	-1
9M	6.09	-1
1Y	6.19	-1

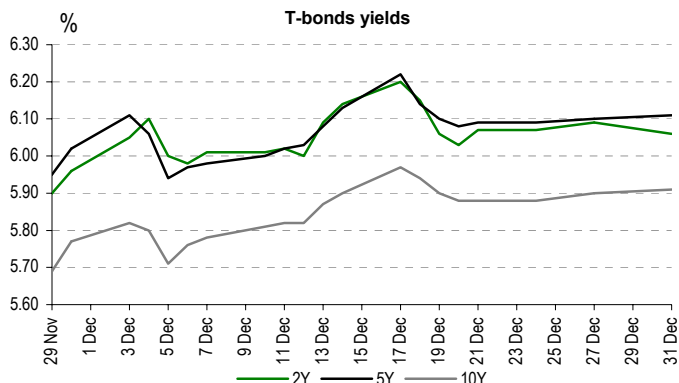
### FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	5.58	-3
3X6	6.11	1
6X9	6.20	0
9X12	6.20	1
3X9	6.21	1
6X12	6.27	1

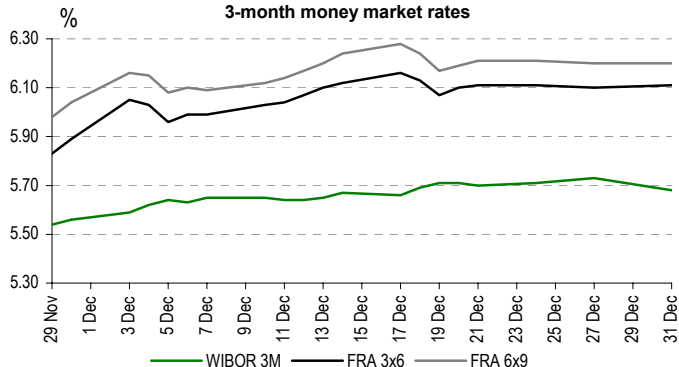
## Zloty exchange rate (fixing)



## T-bonds yields



## 3-month money market rates



\* for 100 JPY

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