

Eyeopener – Weak data from the US

7 January 2008

- The zloty little changes on Friday, drop in bond yields
- Weak data from the US labour market negatively affected moods in the global markets
- This week auction of 20-year bonds and meetings of the ECB and the Bank of England are the highlights
- Today we will get comments from the ECB head and data from the euro zone

At the Friday's session, the zloty slightly weakened against euro, while against dollar, after initial weakening, it gained in reaction to significant rise in the EURUSD rate following release of weaker than expected labour market data from the US. At the end of session, the EURPLN rate was at 3.61 against 3.601 at the opening, while the USDPLN rate was at 2.443 against 2.45 at the start of the session. Today in the morning, the zloty is not very far from Friday's close, even though after the end of local session negative sentiment on global markets persisted (strong decrease in stock indices in the US and Asia).

The domestic debt market experienced a strengthening on Friday amid significant rise in bond prices on core markets. Yields declined by 5-7 bp against Thursday's close.

Today in the morning, some comments of MPC members appeared. Andrzej Wojtyła wrote in article in *Rzeczpospolita* daily that supply shocks are persistent and thus informative value of core inflation is reduced, as it may not reflect true inflation. Moreover, Wojtyła said that if the government does not set the target data of meeting fiscal convergence criterion, the MPC must adopt a strategy of constant readiness for euro zone entry. Meanwhile, finance minister Jacek Rostowski said in an interview for *Newsweek* weekly that Poland should not hurry too much with euro adoption. Another MPC member Jan Czekaj, whose vote several times tipped the balance during the Council's meetings last year, said in an interview with PAP that the inflation projection shows that inflation will be rising at the end of this year, therefore action today would be justified. "Therefore I do not rule out a rate hike in January" said Czekaj, adding that the MPC must act rationally – not to strangle the GDP growth and at the same time restrain the demand pressure. In Czekaj's opinion, current inflation is caused mainly by shocks of supply nature and the Council cannot influence that. The comments seemed to be consistent with our previous predictions assuming two interest rate hikes by 25 bp in Q1 2008.

In the first part of the session, the EURUSD rate was stable close to opening level 1.472. Services PMI index released in the euro zone declined in December to 53.1 from 54.1, against

predicted 53.2. In turn, flash HICP estimate in the euro zone reached 3.1% in December, similarly as in the previous month. The data did not affect the financial market. Significant depreciation of the dollar to 1.4815 took place after the release of US labour market data. According to US Labour Department, the number of non-farm payrolls increased in December by only 18,000 against 115,000 rise in November (revised from 94,000) and was below market expectations at 70,000. Unemployment rate increased to 5.0% from 4.7% in November, against predicted 4.8%. At the end of the session, there was some rebound and EURUSD declined to 1.478. Non-manufacturing ISM was higher than expected, falling to 53.9 from 54.1 in November, while the market predicted a decline to 53.5. Today in the morning the EURUSD was slightly above 1.47.

Yields of 10Y Treasuries fell during the day to 3.87% versus 3.92% at the opening. Yields of 10Y Bunds declined to 4.13% from 4.19%. At the end of the day the yields declines were limited due to information of additional auctions of short term notes, which would be aimed at supporting the liquidity at the interbank market. Today the yields of 10Y Treasury and Bunds amounted to 3.89% and 4.14%.

Stanisław Gomułka, which is going to take post of deputy finance minister informed that his main aim will be lowering the fixed spending share to 50% from the current ca. 70% in the next 4 years. Apart from this, Gomułka wants to focus on the labour activation of people above 50 years old.

No important data are scheduled for this week in Poland and few essential data are going to be released abroad. Taking into consideration domestic events it is only worth to watch the auction of 20Y bond due on Wednesday. Today we will have some data releases in the euro zone. At 10:00 GMT (11:00 CET) the sentiment indices will be released. According to the consensus, the economic sentiment index in December fell to 104.3 pts from 104.8 pts in November. At the same time we will get the euro zone's PPI for November. The market forecast is at 4.0% against 3.3% in October.

On Tuesday further data from the US housing market will be released, while revised the euro zone's GDP for Q3 figures are scheduled for Wednesday. On Thursday the Bank of England and the ECB will announce decisions on interest rates.

Amid lack of important data releases the zloty will stay under influence of the sentiment in the global markets. We expect the EURPLN rate to fluctuate in range of 3.56-3.66. The USDPLN rate should be traded in range of 2.40-2.50. The interest rate market will be under influence of comments of central bankers and situation in the core debt markets.

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F/X rates (today's opening)

EURUSD	1.4709	CADPLN	2.4397
USDPLN	2.4504	DKKPLN	0.4838
EURPLN	3.6046	NOKPLN	0.4582
CHFPLN	2.2043	SEKPLN	0.3845
JPYPLN*	2.2473	CZKPLN	0.1379
GBPPLN	4.8249	HUFPLN	1.4157

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.5981	3.6111	3.6013	3.6100	3.6075
USDPLN	2.4328	2.4539	2.4455	2.4433	2.4529
EURUSD	1.4699	1.4816	1.4724	1.4776	-

T-bonds

TERM	BOND	Yield (%)	Change (bp)	Last auction	Average yield
2Y	OK0709	6.05	-7	2.01	6.189
5Y	PS0412	6.07	-7	21.11	5.943
10Y	DS1017	5.89	-5	10.10	5.699

IRS rates (Mid)

TERM	PL	US	EA
	%	%	%
	Change (bp)	Change (bp)	Change (bp)
1Y	6.20	3.83	4.60
2Y	6.24	3.50	4.36
3Y	6.17	3.60	4.31
4Y	6.09	3.75	4.31
5Y	6.05	3.91	4.33
8Y	5.91	4.31	4.44
10Y	5.84	4.48	4.52

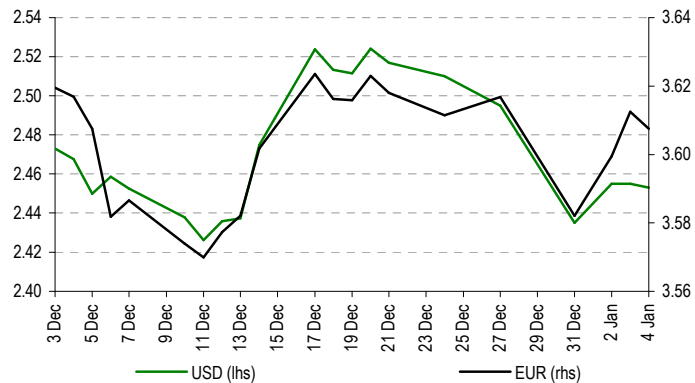
WIBOR rates

TERM	%	Daily change (bp)
O/N	5.21	1
T/N	5.23	0
SW	5.28	0
2W	5.30	0
1M	5.42	0
3M	5.62	0
6M	5.99	-1
9M	6.10	0
1Y	6.20	0

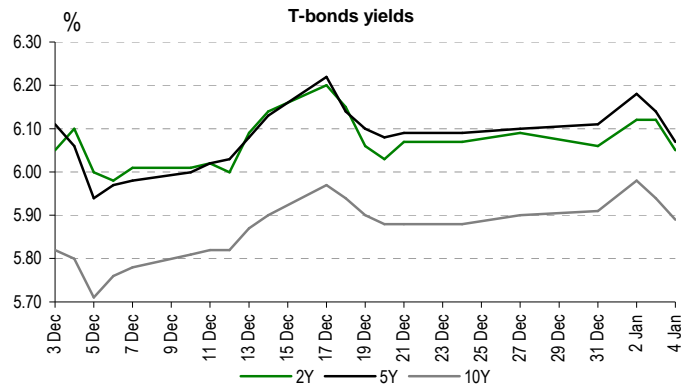
FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	5.56	-2
3X6	6.12	0
6X9	6.25	0
9X12	6.25	0
3X9	6.23	1
6X12	6.30	0

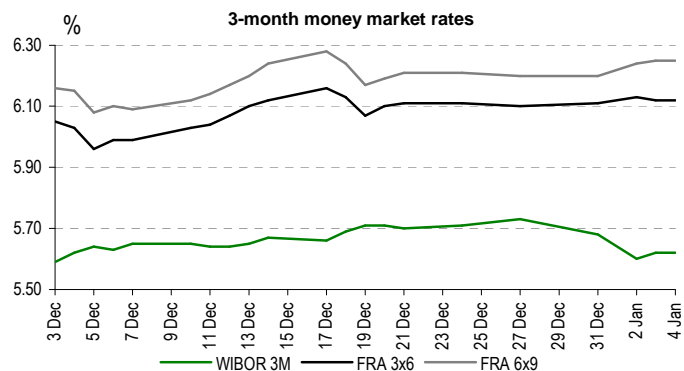
Zloty exchange rate (fixing)



T-bonds yields



3-month money market rates



* for 100 JPY

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