

Eyeopener – Today key data from the US

4 April 2008

- **Zloty slightly stronger again**
- **Local bonds weakened further**
- **Today the key focus of attention will be the US non-farm payrolls report**

After the zloty strengthening on Wednesday and slight correction before opening of the yesterday's session, Thursday saw a strengthening of the local currency versus the euro. Shortly after opening, EURPLN fell from 3.49 to 3.483. Although afterwards there was a rebound to 3.487, later in the day, the zloty was gradually gaining strength, reaching 3.483 at the end of the session. USDPLN, after some rise in the first part of the day, at the end of the session fell to 2.226 from 2.36 at the opening. At the same time, the Slovak and Czech crowns depreciated and the Hungarian forint remained fairly stable. The South-African rand and Turkish lira weakened, after the S&P cut the ratings' outlook for Turkey and inflation in that country appeared lower than expected. Moreover, there was moderate weakening at the Warsaw Stock Exchange, that followed the other European markets and US stock futures. After close of the local session, the zloty broke through the level of 3.48 versus the euro and today in the morning EURPLN was at 3.477. USDPLN was slightly above 2.22.

There were quite pessimistic moods and low activity in the local debt market yesterday. Yields increased by a few basis points against the previous close. It was brought about, among others, by next hawkish comments from MPC members that appeared during the day.

We have already written about morning comments from Marian Noga in yesterday's report. In turn, Dariusz Filar said later during the day that "it is rational and safe to keep real interest rate at 2%". In his opinion, taking into account inflation forecasts, it is still some way to go to reach this level. Nevertheless, taking into account our inflation forecasts, it should be sufficient to hike the reference rate to 6%-6.25% to keep real rate at 2%. Moreover, assuming that majority of MPC members allow for maintaining slightly lower real interest rates, we keep our view that the reference rate will not rise above 6% this year.

Finance minister Jacek Rostowski said yesterday that inflation rate will stabilise at high level, which is worrying, however he hopes it will be falling in the second half of the year. The Ministry of Finance counts that Poland will be fulfilling the inflation convergence criterion next year.

In the first part of the day the dollar strengthened against the euro to 1.551 level after weaker than expected data from the euro zone and due to falling expectations of deeper interest rate cuts in the

US. However in the afternoon after worse than expected data on new jobless claims and dovish comments from Fed's Geithner there was a correction to the levels recorded at the opening of yesterday's session, i.e. ca. 1.562. Today in the morning EURUSD was at 1.565.

The PMI index for the services sector in the euro zone in March fell to 51.6pts from 52.3 pts in February against a preliminary estimate at 51.7 pts. The March index of business expectations was at the lowest level since November 2002. On the other hand, the input prices index was at the highest level since July 2006, while output prices index was the highest since April 2007. Moreover the retail sales data for the euro zone for February were better than expected. The sales fell by 0.5%MoM and 0.2%YoY against forecasted fall by 0.2%MoM and no change in annual basis.

In the afternoon the ECB president Jean Claude Trichet said that all citizens want prices stability, which in is a necessary condition for solid economic growth in the medium and long term. On the other hand, Klaus Liebscher from the ECB said yesterday that inflation in the euro zone remains worryingly elevated in the near future. Another ECB representative, Nout Wellink, also expressed his view on risks connected with inflation. The comments have supported the euro.

On the other hand, the data released yesterday from the US labour market appeared much weaker than expected, in contrast to Wednesday's ADP report which was better than forecasted. The number of initial jobless claims rose to 407k last week from 369k previously against expected increase to 370k from 366k. The ISM services index for the US slightly rose to 49.6pts in March from 49.3pts in February, while the market expectations had pointed to a decline to 48.5pts. The employment index remained unchanged at low level of 46.9pts while the new orders index rose slightly above 50pts.

There was a strengthening in the core debt markets yesterday due to weaker data from the US and the euro zone. Yields of 10Y Treasuries and Bunds declined to 3.55% and 3.97%, respectively, from 3.60 and 4.01% yesterday in the morning. Today in the morning they were 2bp higher than at yesterday's close.

Today we will get the key data scheduled for this week. Namely, at 12:30 GMT (14:30 CET) the US non-farm payrolls report will be published. According to the market consensus, the non-farm payrolls in March fell by 60k after a decline by 63k in February. At the same time Wall Street analysts expect an increase of the unemployment rate to 5.0% from 4.8%.

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F/X rates (today's opening)

EURUSD	1.5657	CADPLN	2.2099
USDPLN	2.2211	DKKPLN	0.4663
EURPLN	3.4777	NOKPLN	0.4340
CHFPLN	2.1938	SEKPLN	0.3717
JPYPLN*	2.1659	CZKPLN	0.1396
GBPPLN	4.4299	HUFPLN	1.3510

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.4800	3.4906	3.4893	3.4805	3.4815
USDPLN	2.2263	2.2464	2.2330	2.2263	2.2315
EURUSD	1.5515	1.5656	1.5626	1.5626	-

T-bonds

TERM	BOND	Yield (%)	Change (bp)	Last auction	Average yield
2Y	OK0709	6.27	4	2.04	6.193
5Y	PS0412	6.19	-1	5.03	6.167
10Y	DS1017	6.03	4	13.02	5.785

IRS rates (Mid)

TERM	PL	US	EA
	%	%	%
	Change (bp)	Change (bp)	Change (bp)
1Y	6.53	2.52	4.61
2Y	6.33	2.72	4.32
3Y	6.15	3.07	4.26
4Y	6.06	3.36	4.22
5Y	5.99	3.60	4.22
8Y	5.84	4.06	4.35
10Y	5.79	4.25	4.46

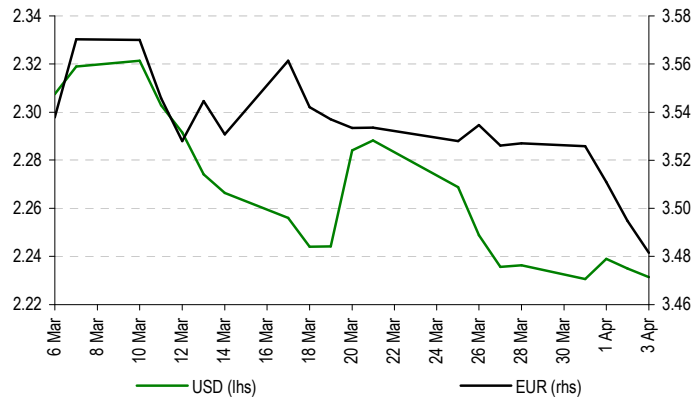
WIBOR rates

TERM	%	Daily change (bp)
O/N	5.98	2
T/N	5.97	1
SW	5.99	1
2W	5.99	1
1M	6.07	4
3M	6.23	3
6M	6.46	2
9M	6.54	1
1Y	6.62	1

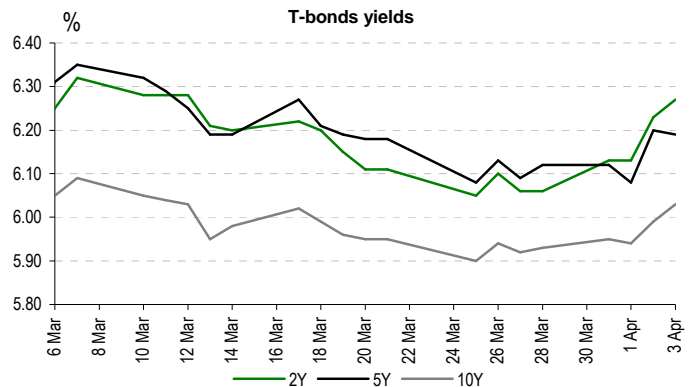
FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	6.14	7
3X6	6.46	1
6X9	6.46	1
9X12	6.36	1
3X9	6.54	1
6X12	6.46	-2

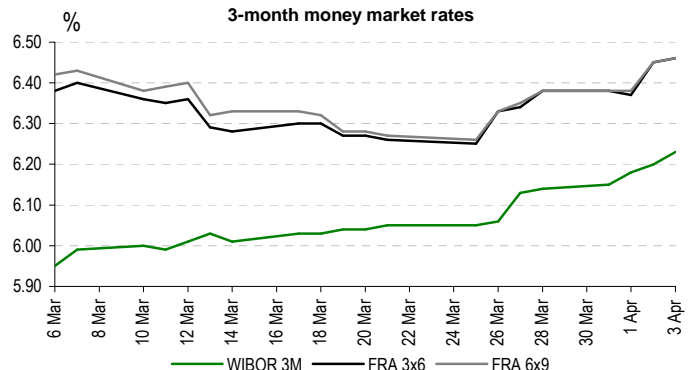
Zloty exchange rate (fixing)



T-bonds yields



3-month money market rates



* for 100 JPY

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