Bank Zachodni WBK

Eyeopener – US data and awaiting for the MPC

27 May 2008

- **Zloty erased a part of last week's losses amid low activity in the market, EURPLN below 3.40 again**
- **The local debt market waits for the MPC**
- **Low activity abroad due to market holidays in the US and the UK**
- **Today beginning of the MPC meeting and next data from the US (Case/Shiller index, new home sales and consumer confidence)**

Yesterday the zloty appreciated against the major currencies. In contrast to the zloty move, currencies in the region were stable or with a slight weakening trend (despite the interest rate hike by 25 bp in Hungary). The EURPLN rate was gradually declining during the day, to 3.392 at the end of the session from 3.409 at the opening. Initially a decline of the USDPLN rate was smaller due to dollar's appreciation versus the euro. However, in the afternoon the single currency recovered against the dollar, which pushed the USDPLN rate down to 2.151 against 2.162 at the opening. Today in the morning the zloty was traded against majors at similar levels as at yesterday's close.

In the fixed income market amid small activity of investors there was no significant prices moves. Yields stayed at elevated levels near the Friday's close.

Finance minister Jacek Rostowski said yesterday that he was optimistic on the meeting the inflation criterion by Poland and stated that in his view this will happen in 2009. Mr Rostowski added that the government is determined to enter the ERM2, but only when Poland is "super" ready for this.

At yesterday auction the Ministry of Finance sold PLN1.2bn worth of 13-week, PLN0.96bn worth of 26-week and PLN3.3bn worth of 52-week Treasury bills against the offer of PLN1.5bn, PLN1.5bn and PLN3.0bn, respectively. Investors' demand was PLN1.2bn, PLN1.3bn and PLN4.3bn. Average yields of T-bills were at 6.283%, 6.357% and 6.504%.

The director of Asset and Liabilities Department in the Ministry of Finance Piotr Marczak said yesterday in an interview with PAP that the current market situation is not favourable for issues of bonds denominated in euro and yen and the finance ministry does not have to organise them due to good situation of the budget. According to Marczak, the budget situation also means the FinMin is considering a reduction in the supply of 5Y bonds at June's auction.

Amid lack of important events abroad and bank holiday in the UK and US, activity in the foreign markets was very little. In the morning, the dollar slightly gained versus the euro to 1.574. However, later in the day the EURUSD rate returned to 1.578, remaining close to a few week highs. Oil prices stabilised around record highs at $130 per barrel. Today in the morning, EURUSD was nearly 1.58.

There were no significant price movements in the core debt markets due to bank holiday in the UK and the US. Yields of 10Y Bunds, after slight decline to 4.27% in the afternoon from 4.29% at the opening, again rose to 4.28% at the end of the day. In turn, the market of US Treasuries was inactive. Yesterday in the morning, yield of 10Y Treasuries was at 3.85%. Today in the morning, yields of 10Y Treasuries and Bunds were 3.87% and 4.30% correspondingly. A weakening took place amid a rise in investors' interest in stocks during the Asian session.

Today, no domestic data releases are in the agenda. The Monetary Policy Council starts its two-day meeting on interest rates. Local investors will be awaiting the MPC decision and the statement that will be revealed tomorrow. Thus, despite a return of foreign investors the activity on the local market may be again limited.

Today, several publications are planned in the US. At 13:00 GMT the Case/Shiller index of home prices will be released. The market consensus predicts the index fell by 14%YoY in March, after 12.7% decline in February. At 14:00 GMT the consumer confidence index for May will be released. According to market expectations, it fell to 60pts from 62.3pts. The new home sales data released at the same time are expected to show a decline to 0.52m units in April from 0.526m in the previous month. In the further part of the week, investors' attention will focus on inflation data from the euro zone and the US.

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F/X rates (today's opening)

EURUSD	1.5754	CADPLN	2.1748
USDPLN	2.1570	DKKPLN	0.4554
EURPLN	3.3965	NOKPLN	0.4298
CHFPLN	2.0985	SEKPLN	0.3649
JPYPLN*	2.0751	CZKPLN	0.1354
GBPPLN	4.2637	HUFPLN	1.3945

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.3898	3.4092	3.4110	3.3920	3.4095
USDPLN	2.1497	2.1624	2.1636	2.1509	2.1675
EURUSD	1.5743	1.5783	1.5761	1.5777	-

T-bonds

TERM	BOND	Yield (%)	Change (bp)	Last auction	Average yield
2Y	OK0710	**6.37**	**1**	2.04	6.193
5Y	PS0413	**6.34**	**-2**	7.05	6.155
10Y	DS1017	**6.18**	**-2**	9.04	6.054

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1Y	6.62	-2	2.88	1	5.03	0
2Y	**6.41**	**-1**	3.25	2	4.88	1
3Y	6.28	0	3.55	1	4.74	4
4Y	6.20	-1	3.80	1	4.65	3
5Y	**6.14**	**-1**	3.97	1	4.61	2
8Y	5.97	-1	4.29	1	4.64	3
10Y	**5.90**	**0**	4.45	0	4.72	3

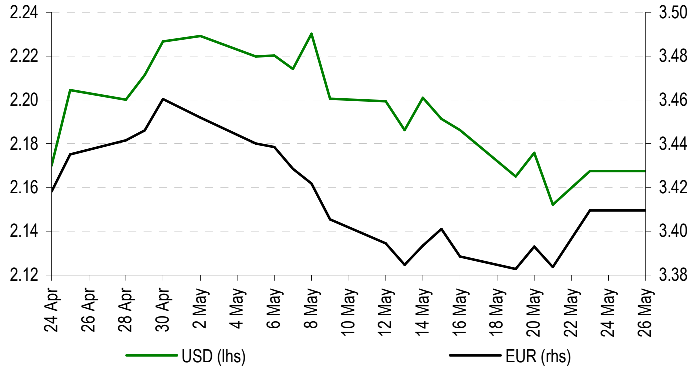
WIBOR rates

TERM	%	Daily change (bp)
O/N	5.95	0
T/N	5.95	0
SW	6.02	0
2W	6.04	0
1M	6.20	0
3M	6.45	0
6M	6.59	0
9M	6.63	0
1Y	6.69	0

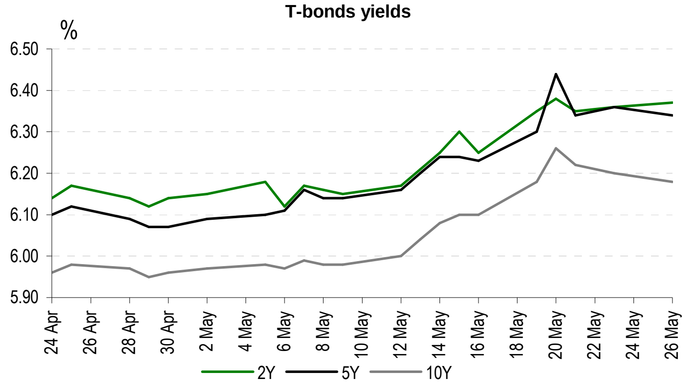
FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	6.29	0
3X6	6.55	1
6X9	6.49	0
9X12	6.36	0
3X9	6.57	1
6X12	6.47	0

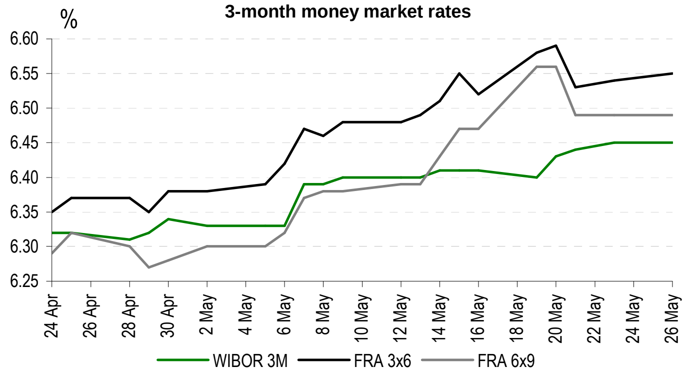
Zloty exchange rate (fixing)



T-bonds yields



3-month money market rates



* for 100 JPY

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