

Eyeopener – Markets still in uncertainty

26 September 2008

- **Zloty depreciated versus main currencies amid slight strengthening of the dollar against the euro; little changes on bond market**
- **Today, publication of US data on Q2 GDP and Michigan sentiment index**

Amid persisting uncertainty in the financial markets, yesterday there were increased problems with liquidity and further rise in the short term money market rates was recorded (among others for the euro and the dollar). The atmosphere of uncertainty, which concerns not only the United States, was reflected in the bank run in Hong Kong (fortunately prevented), the first one since the Asian crisis in 1997.

There was a slight zloty depreciation seen against major currencies. The EURPLN rate rose to 3.339, while the USDPLN rate declined to 2.276. At the same time, a strengthening of currencies in the region versus the euro was recorded. Today at the opening the zloty continued the weakening trend, breaking 3.34 versus the euro and 2.279 versus the dollar. Investors activity in the local debt market was limited and bond yields did not change significantly as compared to Thursday's close.

Ahead of domestic session opening and at the start of the European session the dollar depreciated against the euro among others due to speculation the Federal Reserve may lower interest rates. Moreover, comments from the US president George Bush that the US economy may experience a painful recession could have negative impact on the dollar. However, before noon the dollar started to recover and the EURUSD rate fell to 1.464. After weaker than expected data from the US, slight dollar depreciation was seen, to 1.467.

The monetary statistics for the euro zone for August showed a deceleration in money supply growth to 8.8%YoY against expectation at 9%. The US data showed deeper than expected decline of durable goods orders by 4.5%MoM. At the same time the US labour market data were worse than expected. The new jobless claims rose to 493k in the reported week against 461k the previous week, while the market expected a fall to 448k from 455k. The US housing market data were disappointing as well, as the new home sales fell to 460k from 520k in July, against expected fall to 510k from 515k before revision. The median of market forecasts was the lowest since September 2004.

In the European equity markets a rise of indices took place. Despite significant moves in the core debt markets, trend for the weakening dominated, which was a result of slight improvement in sentiment. It happened due to the rising hope for approval of the rescue plan for the US financial sector. Although after weaker data from the US a recovery took place, it did not last long and before the closing of the

Polish session, prices dropped again. Yields of 10Y Treasuries in the US and Germany rose intraday to 3.84% and 4.22% against 3.82% and 4.18% at Thursday's opening.

The outset of the political talks in the US on rescue plan for the financial sector caused optimism in the financial market and resulted among others in rises in the stock market in the US. However, in the evening the talks broke and risk aversion returned to the market.

According to PiS official Przemysław Gosiewski, his party is of the opinion that a referendum regarding Poland's euro zone entry should be held before introducing necessary changes to the Constitution and going into ERM2. In turn, head of the PiS party, Jarosław Kaczyński said again explicitly that his party is against the euro adoption in Poland within the next dozen or so years (earlier he had mentioned years of 2020-2025 as a possible date of euro zone entry). In our view, lack of support in the parliament for the changes in the Constitution may be important problem on the road to the euro zone. Introduction of the changes in the next months, with or without referendum, seems unlikely. The problem is that delay in legislative changes and an attempt to carry out them already in the ERM2 is a risky solution, as it could lead to increased volatility in the FX market, pose a threat to fulfilment of the exchange rate criterion and lengthen the process of euro adoption.

MPC's Jan Czekaj said yesterday in an interview with TVN CNBC that one cannot exclude another rate hike, as inflation is still elevated. The next MPC meeting in October will be especially important in this context central bankers will then have the new inflation and GDP projection. In Czekaj's view, GDP growth may fall to 4.5-4.6% in Q3 and be even lower in Q4. He added that if it is declared that there was determination to get positive assessment of the euro zone's entry criteria in 2011, Poland should join the ERM2 in by Q2 of the next year at latest. According to Czekaj, the declared path of euro zone entry will have influence on the monetary policy. In turn, MPC's Halina Wasilewska-Trenkner said that one more rate hike is necessary and one should not exclude even more hikes. In her opinion, interest rates were not changed in September due to data for the recent months, which showed weakening in economic activity, and situation in the global markets.

Today we will get the next data from the US. At 12:30 GMT, we will get final data on GDP for the second quarter. According to market consensus, it reached 3.3%, in line with earlier estimate. Later in the day, data on consumers' sentiment will be published. According to market consensus, Michigan index rose to 71pts in September from 63pts in August.

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F/X rates (today's opening)

EURUSD	1.4632	CADPLN	2.2071
USDPLN	2.2845	DKKPLN	0.4480
EURPLN	3.3423	NOKPLN	0.4038
CHFPLN	2.1003	SEKPLN	0.3461
JPYPLN*	2.1573	CZKPLN	0.1368
GBPPLN	4.1987	HUFPLN	1.3935

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.3268	3.3390	3.3322	3.3387	3.3340
USDPLN	2.2560	2.2840	2.2618	2.2762	2.2663
EURUSD	1.4641	1.4764	1.4734	1.4667	-

T-bonds

TERM	BOND	Yield (%)	Change (bp)	Last auction	Average yield
2Y	OK0710	6.23	-4	6.08	6.471
5Y	PS0413	5.98	0	3.09	6.138
10Y	DS1017	5.80	-1	9.07	6.5

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1Y	6.46	-2	3.47	0	5.19	-2
2Y	6.08	-2	3.55	-4	4.91	-2
3Y	5.84	-2	3.91	10	4.83	1
4Y	5.70	-2	4.04	-1	4.81	-2
5Y	5.61	-2	4.17	0	4.80	-2
8Y	5.48	-1	4.48	5	4.82	0
10Y	5.42	-1	4.58	8	4.86	0

WIBOR rates

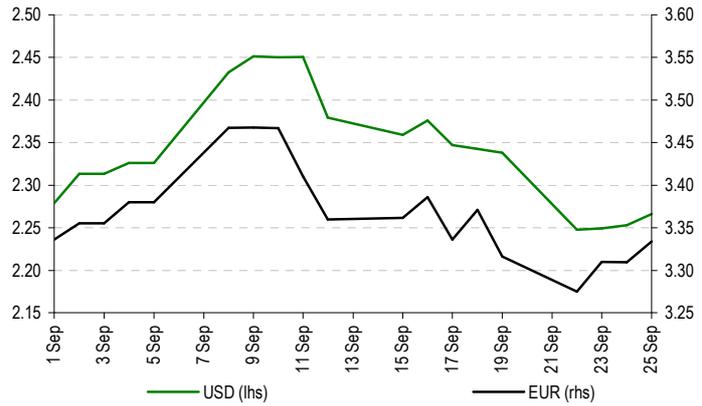
TERM	%	Daily change (bp)
O/N	4.76	-3
T/N	5.82	101
SW	6.15	5
2W	6.21	1
1M	6.35	1
3M	6.59	0
6M	6.62	0
9M	6.65	0
1Y	6.65	0

FRA rates (Mid)

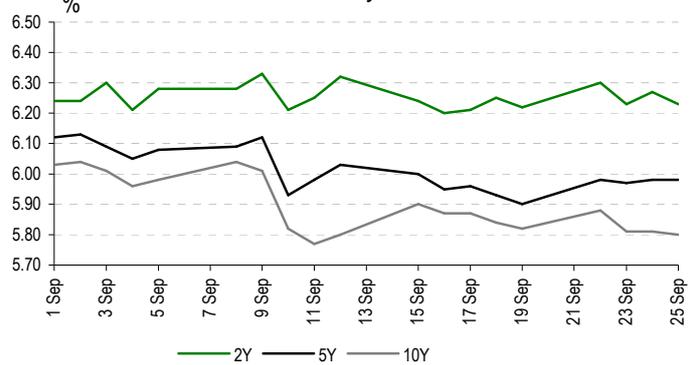
TERM	%	Daily change (bp)
1X2	6.37	-1
3X6	6.53	-2
6X9	6.22	-2
9X12	5.90	-2
3X9	6.43	-2
6X12	6.11	-2

* for 100 JPY

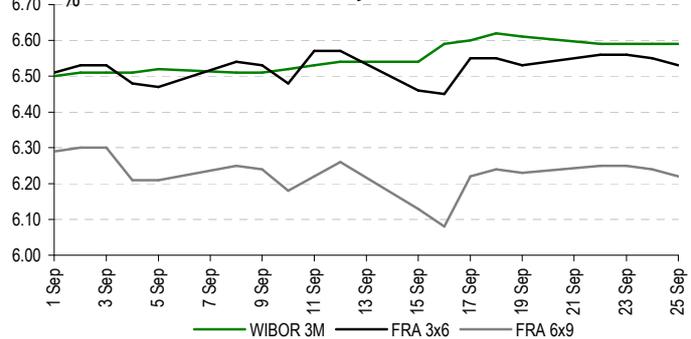
Zloty exchange rate (fixing)



T-bonds yields



3-month money market rates



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