

# Eyeopener – Market sentiment improved

5 November 2008

- Increased risk appetite led to zloty appreciation and fall in domestic bond yields as well as in FRA and IRS rates
- Poland's main opposition party still make its support for swift euro adoption plans dependent on outcome of a referendum that will be binding (turnout above 50%)
- Obama's win in US presidential election improved sentiment in global markets, but also supported the dollar, which is negative for EM currencies
- Today major data releases in the euro zone and in the US

After a slight weakening yet before the opening of yesterday's session, later in the day the zloty was strengthening against major currencies. At the end of the day EURPLN was at 3.51 and USDPLN was at ca. 2.72. The recovery of the currencies in the region was supported by weakening of the dollar against the euro to 1.289, which resulted from increase in risk appetite. PPI data from the euro zone for September (7.9%YoY against expected 8.0%YoY) has not influenced the markets, while data from the US surprised the markets on the negative side and were negative for the dollar. Factory orders fell by 2.5%MoM in September against expected no change. The lower risk aversion, which might have resulted from larger than expected monetary policy easing by the Bank of Australia and expectations of interest rate cuts by the ECB and the Bank of England later this week, contributed to stock prices rise at the European markets and further decline of rates in the money markets. Despite increased risk appetite there was a strengthening recorded in the core debt markets, the largest in case of US Treasuries, which yield fell after the close of Polish session to 3.73% from 3.90% at the opening. Bunds strengthened slightly to 3.81% from 3.84% at the opening.

After news on Barack Obama's victory in the US presidential election, sentiment in the global markets improved on expectations that he is going to be more willing to run more expansionary fiscal policy, which would speed up recovery of the US economy. During the Asian session the stock prices rose and 10Y Treasuries lost to 3.79%. At the same time, EURUSD fell, which contributed to slight weakening of zloty at today's opening as compared to yesterday's close.

In the domestic debt market there was further slight decline in yields yesterday, though the liquidity of the market has not significantly improved. FRA rates fell again with deeper drop at longer end (6x9 and 9x12). The IRS curve lowered as well.

The „hawkish” MPC member Dariusz Filar said yesterday that taking into consideration the inflation path indicated in the last NBP projection, interest rates should remain stable for a longer period. In his view, the next projection to be released in February will be important for next moves in the domestic monetary policy. According to Filar's, the next *Inflation Report* will be prepared when the turmoil in the financial markets calms down. In his opinion, the next moment, which will be essential from the point of the view of possible changes in local monetary policy parameters will be revision of CPI inflation basket in March. In Filar's view, the core inflation will continue to rise, which may pose a threat for fulfilling the inflation criteria by Poland. The “hawkish” Council member also said the interest rates may stay at the higher level and as meeting the criteria and joining the euro zone will become more likely than the MPC may decide to lower interest rates fast. Although Dariusz Filar's comments were quite “hawkish”, the earlier comments from other MPC members, who to a greater extent may determine decisions of the whole Council, were pointing to possibility of earlier monetary policy easing. Yesterday, also “hawkish” Halina Wasilewska-Trenkner took the floor. In her view Poland's GDP growth in 2009 will be in range of 3.5-4%.

Yesterday, the National Bank of Poland for the first time carried out the repo operation with maturity of 3 months, in the amount of PLN4.75 with average rate of 6.25%. The regular refinancing operations of the NBP should lead to fall in WIBOR rates (WIBOR3M was 6.85% yesterday versus the reference rate of 6%).

After yesterday's meeting of PM Donald Tusk with all parliamentary caucuses, the head of the opposition Law and Justice maintained his earlier stance that the party will support the necessary changes in the constitution only after positive outcome of a binding referendum on this issue (with turnout above 50%).

Today next important data are scheduled abroad. At 9:00 GMT we will get the euro zone's PMI services for October. The market expects a decline to 46.9pts from 48.4pts in September. At 10:00 GMT the euro zone's retail sales figure will be published (expected drop of 2.3%YoY). At 13:15 GMT, the US ADP report is expected to show drop in jobs in the private sector outside farming by 95k against 8k fall in September. At 15:00 GMT the ISM index for October will be released. It is expected to fall to 47.2 pts from 50.2 pts.

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

EURUSD	1.2836	CADPLN	2.3683
USDPLN	2.7440	DKKPLN	0.4732
EURPLN	3.5237	NOKPLN	0.4106
CHFPLN	2.3429	SEKPLN	0.3559
JPYPLN*	2.7617	CZKPLN	0.1464
GBPPLN	4.3405	HUFPLN	1.3682

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**The zloty trading ranges**

	min	max	open	close	fixing
EURPLN	3.5033	3.5580	3.5406	3.5087	3.5498
USDPLN	2.7008	2.8151	2.7997	2.7030	2.7946
EURUSD	1.2596	1.2968	1.2645	1.2968	-

**T-bonds**

TERM	BOND	Yield (%)	Change (bp)	Last auction	Average yield
2Y	OK0710	6.60	-20	6.08	6.471
5Y	PS0413	6.43	-17	1.10	5.926
10Y	DS1017	6.34	-16	8.10	5.859

**IRS rates (Mid)**

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1Y	6.15	-20	2.28	-15	4.02	2
2Y	5.96	-14	2.58	-13	3.66	0
3Y	5.91	-15	2.95	-25	3.85	0
4Y	5.87	-14	3.31	-26	3.87	0
5Y	5.83	-13	3.60	-25	3.84	-12
8Y	5.70	-9	4.07	-21	4.22	-1
10Y	5.58	-6	4.23	-20	4.37	-2

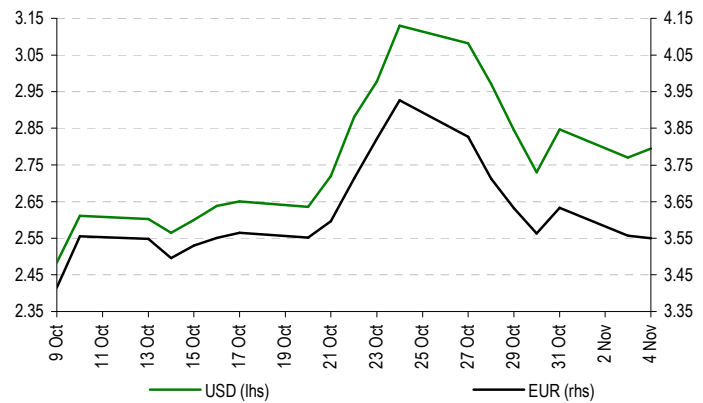
**WIBOR rates**

TERM	%	Daily change (bp)
O/N	5.87	-24
T/N	6.10	-11
SW	6.27	-2
2W	6.37	-2
1M	6.55	0
3M	6.85	1
6M	6.86	-1
9M	6.90	0
1Y	6.90	0

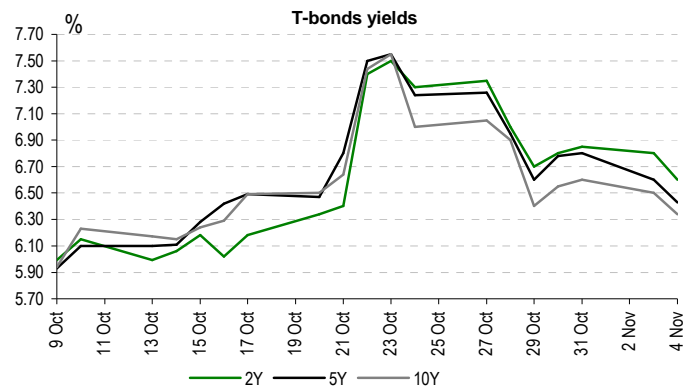
**FRA rates (Mid)**

TERM	%	Daily change (bp)
1X2	6.43	-5
3X6	6.18	-5
6X9	5.83	-15
9X12	5.63	-15
3X9	6.10	-8
6X12	5.77	-15

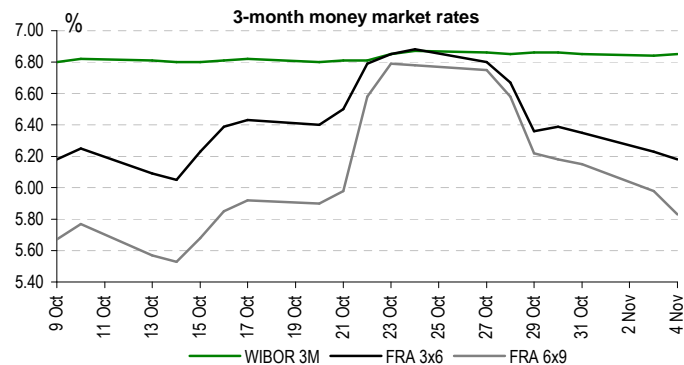
**Zloty exchange rate (fixing)**



**T-bonds yields**



**3-month money market rates**



\* for 100 JPY

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