

Eyeopener – US non-farm payrolls data today

4 June 2010

- **Zloty fairly stable, good results of bond auction**
- **Expectation for good US payrolls data weakened euro**
- **Mounting concerns about fiscal situation in CEE region**
- **Today, revised GDP data in the euro zone, non-farm payrolls data in the US**

On Wednesday, global markets were still under influence of negative sentiment and uncertainty, and in most European stock markets indices went down. Japan Finance Minister's resignation caused weakening of Japanese yen, while negative factor for the euro was a statement of the ECB Council member Christian Noyer that the single currency is not particularly weak against the dollar. Support for the EURUSD exchange rate, however, was the official statement that the central banks of Brazil, India, Japan and South Korea do not intend to withdraw from investments in euros. On the other hand, a little later there was information that the Iranian central bank plans selling €45bn from its reserves to buy dollars and gold. In total, the EURUSD exchange rate decreased slightly during the day, reaching ca. 1.22 at the end of the session, which was also affected by better-than-forecast data from the US.

US pending home sales increased in April by 6.0%MoM against expectations of 5%, partly due to expiring tax credit. At the same time, the latest MBA index on the number of new mortgage applications showed a clear slowdown in the last week, suggesting that in the coming months, demand for housing may be reduced. According to the report of Challenger, Gray & Christmas, the number of announced redundancies in the US fell in May by 65.1%YoY. Earlier released PPI data in the euro area have seen a rise in April by 0.9%MoM and 2.8%YoY, against forecasts of 0.7%MoM and 2.6%YoY.

Activity on the Polish market was limited on Wednesday before the long weekend. The zloty was fluctuating under the influence of changing global sentiment, but in total at the end of the day was almost unchanged against Tuesday's close (ca. 4.1 versus euro). On the debt market, yields were fairly stable. Ministry of Finance sold at auction two-year bonds OK1012 for PLN4.5bn, amid demand PLN9.1bn and average yield of 4.675%, which did not differ from the secondary market level. At the supplementary tender the Ministry sold bonds worth PLN900m amid demand PLN2.7bn. At the end of the day there was slight strengthening of bonds by ca. 2 bp, similarly as in the IRS market.

On the core debt markets after the initial strengthening under influence of risk aversion, there has been a slight correction. At the end of the day on Wednesday, yields of 10Y Treasuries and Bunds were at levels 3.28% and 2.65%, correspondingly.

Deputy finance minister Ludwik Kotecki said on Wednesday that GDP growth in the second quarter should be roughly the same as

in the first three months of the year as consumption and investments will rebound. In our opinion, it is possible that the Polish economy will slow down to below 3% in 2Q10 as consumers activity may be under negative influence of some temporary negative effects (early Easter, national mourning, flood).

Thursday was national holiday in the Polish market, but globally the euro weakened against the dollar, which was connected with investors' expectations for strong US non-farm payroll figure, to be released today. Data published yesterday were also quite positive, though slightly below expectations. The initial jobless claims in the US fell last week to 453 thousands (450k expected) from 463 thousands a week before. According to the ADP report, in May the US private sector recorded 55 thousands more workers (60 thousands forecasted by the market). Industrial orders rose in April by 1.2% (consensus at 1.8%) as compared to 1.7% growth in the previous month. ISM services index remained unchanged in May at the level of 55.4, which was slightly below consensus of 55.6. As regards euro zone data, retail sales fell in April by 1.2%MoM (0.5% in March and 0.1% expected by the market). PMI index for services sector in the euro zone rose in May to 56.2 from 55.6 in the previous month, and was higher than market consensus of 56.

EURUSD fell yesterday evening to 1.215 and after some rebound observed overnight today in the morning it was at .218. Currencies in the CEE region weakened yesterday, which was connected with failure of bond auction in Romania and some comments from Hungarian officials on risk connected with fiscal situation of the country. These two elements increased uncertainty among investors as regards contagion effect of euro zone's fiscal problems into the CEE region. The Polish market was rather illiquid yesterday and in the evening the zloty fell against the euro to 4.12. However, after some moderate gains in US equity market overnight and a bit negative session in Asia (worries on China's lower demand for commodities), today's opening showed stronger zloty at ca. 4.10 against the euro.

Today the activity on the Polish market will be still limited amid long-weekend. In the intentional markets the key event will be the publication of US labour market data (14:30 CET). Analysts forecast non-farm payrolls at 513 thousands in May as compared to 290 thousand sin the previous month. However, one should remember that the figure will be under positive influence of temporary employment increase due to national census. The unemployment rate is expected to fall to 9.8% from 9.9%. Earlier during the day revised 1Q09 GDP growth data will be released for the euro zone. Market consensus is at 0.5%YoY. Additionally, market will focus on G20 meeting, during which European fiscal crisis will be discussed and financial market regulations.

ECONOMIC ANALYSIS

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F/X rates (today's opening)

EURUSD	1.2181	CADPLN	3.2419
USDPLN	3.3718	DKKPLN	0.5519
EURPLN	4.1059	NOKPLN	0.5229
CHFPLN	2.9219	SEKPLN	0.4316
JPYPLN*	3.6384	CZKPLN	0.1586
GBPPLN	4.9356	HUFPLN	1.4634

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.0886	4.1194	4.1125	4.1035	4.1056
USDPLN	3.3355	3.3766	3.3716	3.3615	3.3601
EURUSD	1.2177	1.2271	1.2207	1.2206	-

T-bonds

TERM	Yield (%)	Change (bp)	Last auction	Average yield
2Y	4.64	7	5.05	4.802
5Y	5.27	-2	12.05	5.144
10Y	5.78	-2	14.04	5.586

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1Y	4.00	-3	0.82	0	1.16	1
2Y	4.41	-2	1.24	0	1.35	1
3Y	4.68	-4	1.68	-3	1.62	4
4Y	4.90	-2	2.11	-2	1.90	4
5Y	5.05	-2	2.47	-3	2.16	2
8Y	5.27	-4	3.18	-3	2.72	0
10Y	5.35	-2	3.44	-2	2.97	0

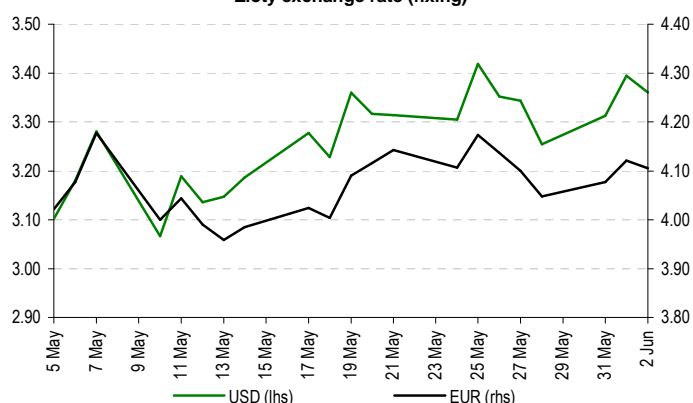
WIBOR rates

TERM	%	Daily change (bp)
O/N	3.21	5
T/N	3.30	5
SW	3.41	0
2W	3.45	1
1M	3.63	0
3M	3.85	-1
6M	4.01	0
9M	4.18	1
1Y	4.25	0

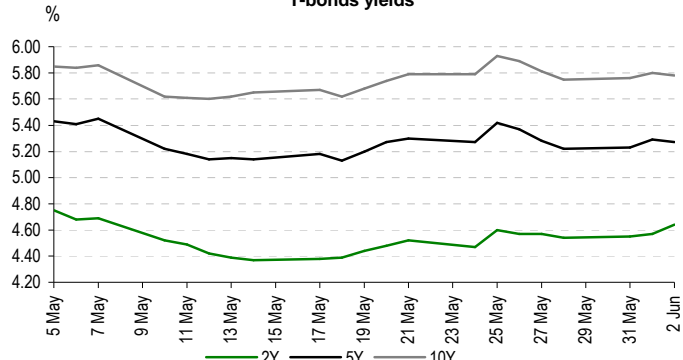
FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	3.62	-1
3X6	3.88	0
6X9	3.99	1
9X12	4.18	2
3X9	4.03	0
6X12	4.18	1

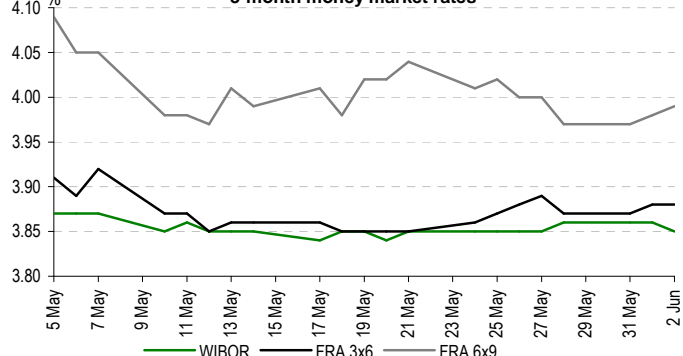
Zloty exchange rate (fixing)



T-bonds yields



3-month money market rates



* for 100 JPY
Source: Reuters

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