

Eyeopener – EBC and BoE take the floor

10 May 2007

- **Slight correction on FX market, peaceful situation on bond market**
- **Fed did not surprise the market, concerns over inflation maintained**
- **EBC to leave rates on hold, Bank of England expected to deliver 25 bp rate hike**

Yesterday the market players awaited the results of US central bank meeting scheduled for the evening. Zloty initially depreciated which was in line with the weakening of Hungarian forint and strengthening of low yielding currencies: Japanese yen and Swiss franc. The EURPLN rate rose temporarily above 3.76, while the USDPLN rate above 2.78. However in the second part of the day there was another weakening of the dollar in the international markets, which contributed to appreciation of emerging currencies. Zloty gained at the end of the session to 3.75 vs. the euro and 2.77 vs. the dollar.

The fixed income market remained stable awaiting more significant moves in the core markets amid incoming Fed decision.

The Ministry of Finance sold PLN2.0bn of 10Y floating rate bonds amid demand of PLN5.1bn and PLN498m of 12Y CPI linked bonds amid PLN3.7bn demand and PLN500m supply.

After significant strengthening of the dollar on the Tuesday session with regards to limiting of short positions in the dollar ahead of key event for the international financial markets, the Fed meeting, there was a correction and the dollar weakened again against the euro to 1.356.

The government bond prices in the core markets fluctuated in a very narrow range. Yields of 10Y US Treasuries slightly rose to 4.64% from 4.63% and of 10Y bunds traded around 4.20%.

Fed decision did not surprise the financial markets. The US central bank left the main interest rate unchanged at 5.25% and made hardly any changes in the official statement after the decision. The communiqué confirmed that inflation remained the most important concern for the central bank, while perspectives of economic growth were not too bad. In

the result US stock exchange recorded some gains, the dollar appreciated in the evening to 1,352 against the euro and 10Y yields of Treasuries rose to 4.67%. Bunds' yields followed the US market and rose to 4.23%. The change in the debt markets was a result among others of the fact that despite signals of inflation pressures' easing that was reflected in the recent US data, Fed did not decide to soften its statement, which might have been expected by some analysts and investors.

A number of important events are scheduled today on international markets. The key will be decisions of central banks in Europe. At 11:00 GMT the Bank of England is expected to raise main interest rate by 25 bp, to 5.5%, which will be the effect of recently released, surprisingly high inflation in the UK that forced the bank to write a special letter with explanation to the government. At 11:45 GMT the European Central Bank will make its decision on interest rates. The market does not expect a change in rates this time, so the main rate should remain at 3.75%. Much more important will be the statement following the meeting and comments by ECB president Jean Claude-Trichet. Analysts will be seeking any phrases about increased "vigilance" towards inflation that could validate expectations about possible next monetary tightening already in June.

Slightly later, at 12:30 GMT data about US import prices for April will be released. Market consensus shows a rise in prices by 1.0% against 1.7% in March. At the same time, US foreign trade data will be published. Analysts predict that trade deficit reached \$60bn in March after \$58.44bn in the previous month. In turn, the weekly number of new jobless claims due for release at the same time, is expected to rise by 315,000 from 305,000 in the previous week.

Today in the morning, zloty positively reacted to Fed's decision, strengthening to 3.741 against euro and 2,763 against dollar. The EURUSD returned to 1.355 after last night's dollar strengthening. In the first part of the day market activity may be reduced in awaiting of European central banks' decisions, but in general the sentiment to emerging markets should be good after yesterday's Fed statement.

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F/X rates (today's opening)

EURUSD	1.3560	CADPLN	2.4660
USDPLN	2.7595	DKKPLN	0.5042
EURPLN	3.7418	NOKPLN	0.4620
CHFPLN	2.2851	SEKPLN	0.4103
JPYPLN*	2.3084	CZKPLN	0.1334
GBPPLN	5.5075	HUFPLN	1.5232

Financial market review - 9 May 07

The zloty trading ranges

	min	max	open	close	fixing
EURPLN	3.7474	3.7638	3.751	3.7482	3.7636
USDPLN	2.7641	2.7796	2.7702	2.7658	2.7787
EURUSD	1.3532	1.3564	1.3547	1.3551	-

T-bonds

TERM	BOND	Yield (%)	Change (bp)	Last auction	Average yield
2Y	OK0709	4.65	-2	4.04	4.694
5Y	PS0412	5.06	0	18.04	5.11
10Y	DS1017	5.26	0	11.04	5.244

IRS rates (Mid)

TERM	PL	US	EA
	%	%	%
	Change (bp)	Change (bp)	Change (bp)
1Y	4.75	5.33	4.39
2Y	4.95	5.12	4.42
3Y	5.03	5.05	4.41
4Y	5.10	5.04	4.41
5Y	5.15	5.06	4.41
8Y	5.20	5.14	4.45
10Y	5.22	5.20	4.49

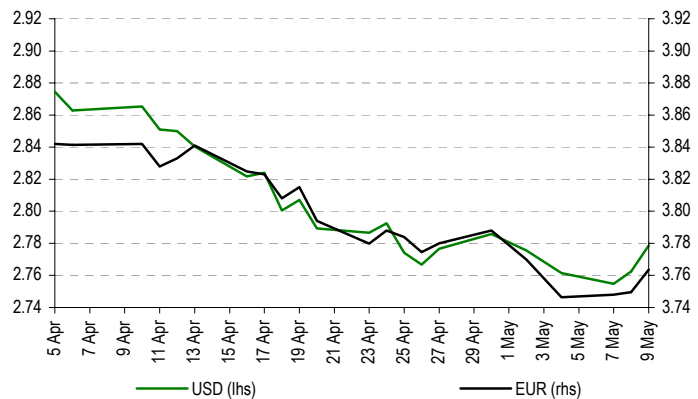
WIBOR rates

TERM	%	Daily change (bp)
O/N	4.36	0
T/N	4.36	-1
SW	4.39	-1
2W	4.39	-1
1M	4.40	0
3M	4.44	0
6M	4.55	0
9M	4.65	0
1Y	4.75	0

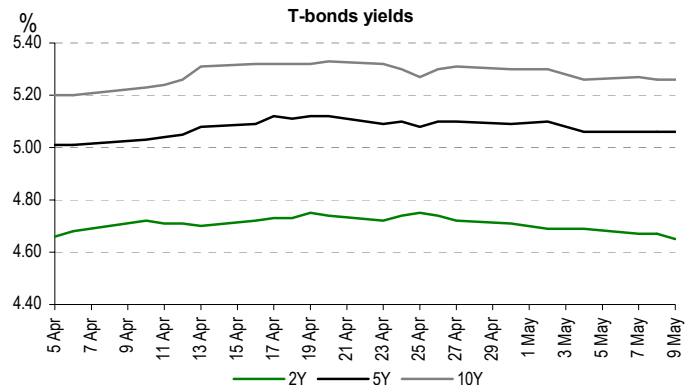
FRA rates (Mid)

TERM	%	Daily change (bp)
1X2	4.40	-4
3X6	4.60	1
6X9	4.76	1
9X12	4.84	1
3X9	4.69	1
6X12	4.84	0

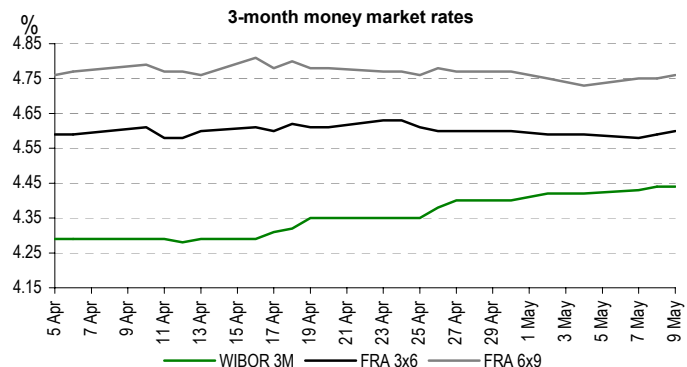
Zloty exchange rate (fixing)



T-bonds yields



3-month money market rates



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