



### TOP NEWS FROM THE POLISH MARKET

#### MACROECONOMICS

- A. Wojtyna, A. Sławiński, J. Żyżykiewicz are not on the NBP candidate list • page 2
- MF: CPI in December 1.5% y/y

#### FIXED INCOME

- Quiet week on the FI market • page 2
- Pay 9x12

#### FI RECOMMENDATION

#### MONEY MARKET

- Volatile last week of the year for liquidity • page 2
- Holiday mood for the rest

#### MM RECOMMENDATION

- Pay short, sell long

#### FOREIGN EXCHANGE

- Zloty stable • page 3
- Volatility stable

#### FX RECOMMENDATION

- Zloty stronger
- Long Vega

#### MARKET PRICES

#### CHARTS

#### CALENDAR

#### CONTACT LIST

- page 4
- page 5
- page 6
- page 7

## MACROECONOMICS

**A. Sławiński, A. Wojtyna and J. Żyżyński are not on the NBP list**

Aleksander Szczygło, President Lech Kaczyński's chief aide, stated that neither Andrzej Wojtyna, nor Andrzej Sławiński, nor Jerzy Żyżyński are among candidates considered for the NBP President position. Prof. Żyżyński in a recent article declared himself as eurosceptic and opposed to the role of international financial institutions, but after his apparent exclusion from the the worries as to his opinions have disappeared. The new NBP candidate is to be announced within several days.

**MF: CPI reached 1.5% in December**

MinFin forecasts inflation rate in December at 1.5%. As the analysts of the Ministry have access to the CSO's data on food prices for the first half of December, the actual figure should not deviate by more than 0.1 pct. point from their forecast. Such a low inflation figure might restrain the MPC from interest rate hikes in the upcoming months. We uphold our view that inflation pressure in the Polish economy will remain subdued in the mid term and the interest rate hike will take place not earlier than in April 2007.

## FIXED INCOME

**Quiet week on the FI market**

Last week was very quiet on the market. We saw better sellers of bonds, and there was some significant paying interest in the 2y IRS. Curve moved some 4-6 bps as market was very illiquid. We still maintain our view that 9x12 are the cheapest to the curve and offer value on the pay side.

**RECOMMENDATION:**

Pay 9x12

## MONEY MARKET

**Volatile last week of the year for liquidity**

Very short and extremely volatile week for liquidity. More than cheap on Wednesday and Thursday and then huge squeeze on Friday, which was both end of the reserve and end of the year day. Open market operation was too high (18,4 vs 16,3 billion pln) and some settlement problems lifted shortest rates to the Lombard rate of 5,5%. Finally it turned out that some of banks took Lombard in 3,2 yard and some located cash in the CB in 2.6 yard. 3 figures of spread between those two reflect huge settlement traffic in the system. Next week new reserve and quite balanced market so back nearby 4%.

**Holiday mood for the rest**

As for longer terms holiday mood was all over.

**RECOMMENDATION:**

Pay short sell long

## FOREIGN EXCHANGE

### Zloty stable

Last week the Zloty remained stable due to post-Christmas and pre-New Year's Eve mood on most of the markets. EUR/PLN traded close to 3.8200, USD/PLN around 2.8800 and the EUR/USD around 1.3250.

### Volatility lower

The EUR/PLN volatilities have been at their supports for a long time. Even the seasonal period (Christmas and New Year's Eve) of quite markets did not move volatilities down. 1M traded at 6.8, 1Y at 7.2. The USD/PLN volatilities remained stable: 1M at 8.7; 1Y at 9.7.

### RECOMMENDATION:

RECOMMENDATION:

### Zloty stronger

Spot:  
Main supports / resistances:  
EUR/USD: 1.3180 / 1.3350  
EUR/PLN: 3.7950 / 3.8350  
USD/PLN: 2.8500 / 2.9200

We still recommend long Zloty positions the following week and see EUR/PLN declining towards 3.7500 in the mid-term.

Options:

### Long Vega

We still recommend long Vega positions at current levels, especially as the post-holiday period (e.g. first weeks of January) historically saw increase in Spot volatilities.

**MARKET PRICES UPDATE****MONEY MARKET RATES**

Money market rates (Closing mid-market levels)						
date	3M		6M		1Y	
	FXSW	WIBOR	FXSW	WIBOR	FXSW	WIBOR
25-12-06	4.10%	4.20%	4.23%	4.30%	4.48%	4.52%
26-12-06	4.10%	4.20%	4.23%	4.30%	4.48%	4.52%
27-12-06	4.12%	4.20%	4.23%	4.30%	4.48%	4.52%
28-12-06	4.12%	4.20%	4.23%	4.30%	4.48%	4.52%
29-12-06	4.12%	4.20%	4.23%	4.30%	4.48%	4.52%

**FRA MARKET RATES**

FRA Market Rates (Closing mid-market levels)					
date	1X4	3X6	6X9	9X12	6X12
	25-12-06	4.24%	4.36%	4.53%	4.64%
26-12-06	4.24%	4.36%	4.53%	4.64%	4.63%
27-12-06	4.24%	4.38%	4.57%	4.68%	4.65%
28-12-06	4.24%	4.38%	4.57%	4.68%	4.65%
29-12-06	4.24%	4.38%	4.57%	4.68%	4.65%

**FIXED INCOME MARKET RATES**

Fixed Income Market Rates (Closing mid-market levels)								
date	1Y		2Y		5Y		10Y	
	WIBOR	TB	IRS	OK1208	IRS	PS0511	IRS	DS1017
25-12-06	4.52%	4.19%	4.69%	4.29%	4.93%	4.80%	5.02%	5.10%
26-12-06	4.52%	4.19%	4.69%	4.29%	4.93%	4.80%	5.02%	5.10%
27-12-06	4.52%	4.19%	4.70%	4.33%	4.94%	4.83%	5.03%	5.10%
28-12-06	4.52%	4.18%	4.75%	4.33%	4.99%	4.84%	5.08%	5.10%
29-12-06	4.52%	4.18%	4.75%	4.33%	4.99%	4.84%	5.08%	5.10%

**PRIMARY MARKET RATES**

Last Primary Market Rates							
	au. date	maturity	avg price	avg yield	supply	demand	sold
52W TB	06-12-18	07-12-19	95.915	4.21%	1000	2838	1000
OK1208	06-12-06	08-12-12	91.311	4.62%	3800	10428	3800
PS0511	06-11-15	11-05-24	97.047	4.99%	2000	4852	2000
DS1017	06-10-11	17-10-25	98.072	5.48%	2000	4861	2000

**FX VOLATILITY**

date	USD/PLN 0-delta stradle				25-delta RR		25-delta FLY	
	1M	3M	6M	1Y	1M	1Y	1M	1Y
25-12-06	8.35	8.70	9.30	9.50	0.90	1.25	0.40	0.45
26-12-06	8.35	8.70	9.30	9.50	0.90	1.25	0.40	0.45
27-12-06	8.60	8.85	9.30	9.60	0.90	1.25	0.40	0.45
28-12-06	8.60	8.85	9.30	9.60	0.90	1.25	0.40	0.45
29-12-06	8.80	9.00	9.40	9.60	0.90	1.25	0.40	0.45

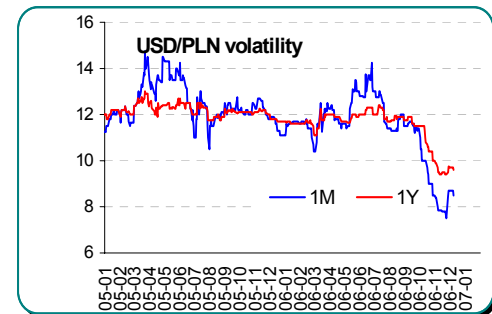
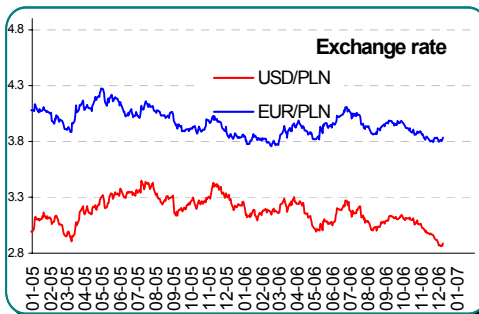
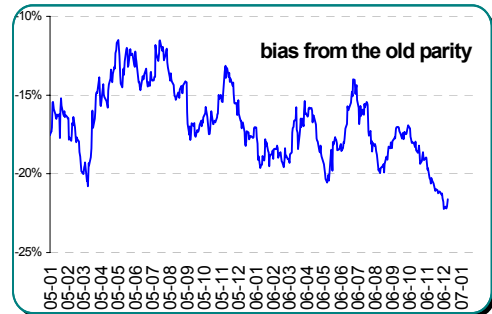
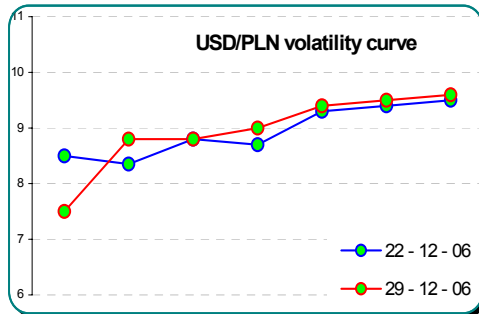
**PLN SPOT PERFORMANCE**

PLN spot performance			
date	USD/PLN	EUR/PLN	bias
25-12-06	2.8908	3.8163	-21.78%
26-12-06	2.8908	3.8163	-21.78%
27-12-06	2.9183	3.8383	-21.21%
28-12-06	2.9194	3.8368	-21.21%
29-12-06	2.9105	3.8312	-21.38%

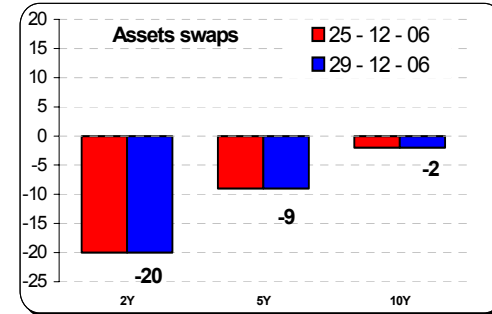
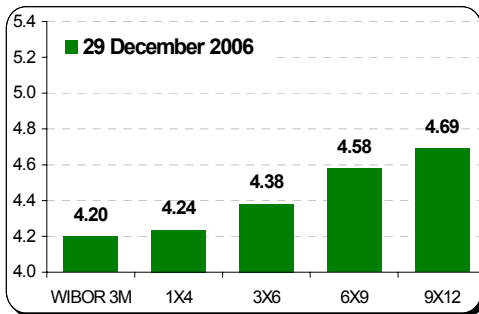
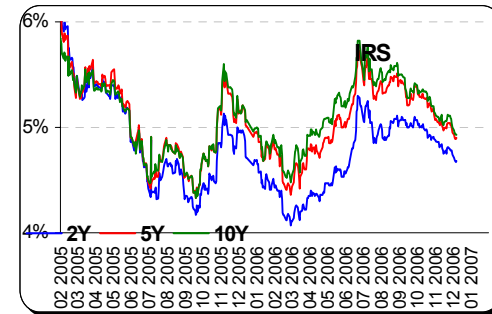
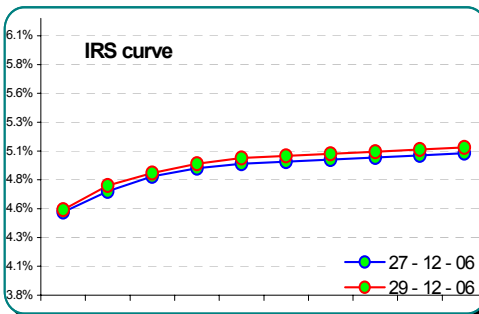
Note: parity on 11/04/00 – USD= 4.3806, EUR=4.2196, basket share 50:50  
Mid-market volatility of vanilla option strategies

**CHARTS**

**Foreign Exchange**



**Fixed Income**



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## CALENDAR

### Macro

	October	November	December	Data Release	BRE Bank forecast
CPI m/m	0.1%	0.0%		15-01-07	
CPI y/y	1.2%	1.4%		15-01-07	
PPI m/m	-0.5%	-0.5%		19-01-07	
PPI y/y	3.2%	2.6%		19-01-07	
Industrial production growth m/m	4.3%	-2.9%		19-01-07	
Industrial production growth y/y	14.8%	11.7%		19-01-07	
Average wages in enterprise sector [PLN]	2658.0	2759.7		16-01-07	
Average wages in enterprise sector y/y	4.7%	3.1%		16-01-07	
Unemployment	14.9%	14.8%		23-01-07	
Budget realisation (%)	54.4%	60.7%		15-01-07	
Current account [EUR mn]	-482			16-01-07	
Balance of foreign trade in goods (transaction basis) [EUR mn]	-269			16-01-07	
Exports growth y/y (transaction basis)	24.0%			16-01-07	
Imports growth y/y (transaction basis)	27.7%			16-01-07	
Current account [% of GDP]	-1.9%			16-01-07	
Money supply (M3)	458.6	465.6		12-01-07	
Money supply growth y/y	12.3%	14.4%		12-01-07	
Total PLN loans [PLN bn]	353.0	361.6		12-01-07	
Households PLN loans	183.0	183.4		12-01-07	
Corporate PLN loans	139.6	141.4		12-01-07	
Total PLN deposits [PLN bn]	378.4	385.3		12-01-07	
Households PLN deposits	214.3	214.8		12-01-07	
Corporate PLN deposits	113.8	117.0		12-01-07	
NBP intervention rate	4.00%	4.00%	4.00%	31-01-07	4.00%

### Auctions

	next auc.	offer	avg yield last	last auction date
13 Week T-bills	-	-	4.208%	16-01-06
26 Week T-bills	-	-	3.943%	24-04-06
52 Week T-bills	08-01-07	-	4.212%	18-12-06
2Y T-bond OK1208	07-02-07	-	4.617%	06-12-06
5Y T-bond PS0511	17-01-07	-	4.987%	15-11-06
10Y T-bond DS1017	10-01-07	-	5.483%	11-10-06
20Y T-bond WS0922	14-03-07	-	5.707%	13-09-06

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