



TOP NEWS FROM THE POLISH MARKET

MACROECONOMICS

- *S. Skrzypek, the President's nominee for the governor of the Central Bank will not change the balance of power in the MPC* • page 2
- *Skrzypek assured to guard the stability of the Zloty and the credibility of monetary policy*
- *L. Kaczyński: no need for revolution in monetary policy*
- *M. Noga: new NBP President will not change balance of power in the MPC*
- *Budget deficit in 2007 at PLN 25-26 bn*

FIXED INCOME

- *Quite active start of the year* • page 3

FI RECOMMENDATION

- *Pay 9x12FRA. Buy DS1017*

MONEY MARKET

- *Liquidity back to normal* • page 3
- *MM likely to follow bonds and currency in short term*

MM RECOMMENDATION

- *Stay neutral this week, be receive for the next week's figures*

FOREIGN EXCHANGE

- *Zloty weaker* • pages 3-4
- *Volatility higher*

FX RECOMMENDATION

- *Zloty weaker*
- *Long Vega*

MARKET PRICES CHARTS CALENDAR CONTACT LIST

- page 5
- page 6
- page 7
- page 8

MACROECONOMICS

S. Skrzypek, the President's nominee for the governor of the Central Bank will not change the balance of power in the MPC

Polish President Lech Kaczyński named Sławomir Skrzypek, an acting BKO BP CEO and his long-time political ally, as his nominee for the post of the Central Bank's governor. As Mr Skrzypek has dealt mainly with financial institutions in the past and his experience regarding the monetary policy or macroeconomics in general is rather limited, we think that he will base his decisions, to a greater extent compared to Mr Balcerowicz, on the opinions of advisers. We also think that because the candidate's views on economic matters are not widely known, the weight in the MPC will be shifted towards the so-called median-voters (Sławiński, Wojtyła). Although, judging by the outcomes of the latest voting, median voters decided on the direction of the monetary policy, we cannot rule out such a scenario in which the MPC decides to tighten its stance on monetary policy. This could be then read off as a sign that the Council is fighting for its credibility confronted with a more dovish governor.

Turning to the question of the NBP's research and preparation of the inflation projection in particular, we think that Mr Skrzypek will entrust the respective departments to his deputies (Dr Rybiński and Dr Pruski).

Skrzypek assured to guard the stability of the Złoty and the credibility of monetary policy

Sławomir Skrzypek has made only a short statement, almost quoting the Polish constitution, that he would ensure the stability of the Złoty and guard the credibility of the monetary policy. He added however that if the prospects for inflation proved to be favourable, he would also take into account the economic growth while deciding on the interest rates. We think that this might be the only statement of Mr Skrzypek by the date of his official appointment.

In response to this nomination, several MPC members have noted that Mr Skrzypek will not affect the balance of power in the Council.

L. Kaczyński: no need for revolution in monetary policy

President L. Kaczyński assured the candidate is independent enough. He pointed to his interest in banking and highly respected CV. The President added that he is not a supporter of any revolution in the monetary policy, but also pointed to the fact that the current spending boom may be exaggerated.

R. Giertych: LPR would not support S. Skrzypek at the moment

Coalition parties however are more sceptical in evaluating S. Skrzypek's abilities. R. Giertych of the LPR stated that at the moment his party would probably not support Skrzypek in the Sejm vote. A 50%+1 of the voting MP majority is required for Skrzypek to be approved, and without LPR's support such a majority is unlikely. In our opinion however Giertych's statement is aimed at boosting his negotiating position within the coalition and eventually his party will vote in support of Skrzypek. We think Skrzypek will receive a majority of the votes during the vote (January 10).

M. Noga: new NBP President will not change balance of power in the MPC

M. Noga of the MPC stated that Skrzypek's candidature should be evaluated positively. He thinks that the balance of power in the MPC should remain unchanged and the doves will still be in majority. We think the new NBP President will refrain from presenting too strong a view in the first months of his tenure and will simply support the majority in any close votes. We are sticking to our view that the MPC will not hike rates in Q1 as the inflation outlook remains comfortable.

Budget deficit in 2007 at PLN 25-26 bn

The Ministry of Finance announced that the budget deficit in the previous year amounted to PLN 25-26 bn, which is significantly lower than the PLN 30.5 bn set in the budget act. We think the true budget deficit was lower than the quote revealed by the MoF, but a part of the savings was postponed until 2007. We expect that the final deficit for 2006 may be slightly changed but it will have no impact on the market. We believe that in spite of the slight overestimation of VAT revenues in 2007, the budget deficit in this year will be not higher than the PLN 30 bn set in the budget act.

FIXED INCOME

Quite active start of the year

The market started this year with bullish sentiment, recovering from the previous, end-of-year weakening. The good sentiment had only lasted two days though - nomination of Slawomir Skrzypek as candidate to NBP governor post, along with correction on all EM pushed the curve some 8-12bp higher, with longer end suffering the most. This week most important issue is the 10Y bond auction on Wednesday. Regarding current situation on the market we expect the supply to be close to the lower band of proposed range (1.5 - 2.5bio). With yield close to 5.20% we expect reasonable demand there, followed by some curve flattening. We still consider short part of the curve as cheap - risk priced in 9x12FRA, currently at 4.65% seems to be asymmetrical.

RECOMMENDATION:

Pay 9x12FRA. Buy DS1017.

MONEY MARKET

Liquidity back to normal

Easy first week of the year. Liquidity back to normal, which means the carry, is around the main market rate. Next week should be quite similar, even though the open market seemed to be a bit too large (20,3 vs 18.4 billion pln). However, the liquidity forecast by the CB looks OK.

MM likely to follow bonds and currency in short term

As for longer terms MM was the only quite market with low volatility. Neither low December CPI forecast by MinFin (1.5%), nor new political candidate for the CB's presidency, impressed the players. Nevertheless bond and currency took the latter news bearish so we can not exclude correction for the short end.

RECOMMENDATION:

Stay neutral this week, be receive for the next week's figures.

FOREIGN EXCHANGE

Zloty weaker

Last week the Zloty weakened due to following reasons. Globally, we saw a retracement in the emerging markets' currencies (especially towards USD) due to higher than expected US pay-rolls data. Locally, we saw profit taking activity on the Zloty after the appointment of Slawomir Skrzypek for the NBP's chief position. As Mr. Skrzypek possesses no relevant experience (neither in banking nor in academia), the appointment is regarded as a political one. Consequently, the EUR/PLN rose from 3.8200 to 3.9000, whereas USD/PLN from 2.8800 to 2.9800.

Volatility higher

As a result of significant and swift spot move, both volatility curves significantly rose, bringing profits to those holding long Vega positions. EUR/PLN 1M rose from 6.8 to 8.1, 1Y from 7.2 to 7.5. USD/PLN 1M rose from 8.7 to 9.5, whereas 1Y remained flat at 9.5. Also we saw Risk Reversals very well bid – an increase by 0.5 p.p to 1.5 on EUR/PLN and to 1.4 on USD/PLN on average.

RECOMMENDATION:**Zloty weaker****Long Vega**

Spot:

Main supports / resistances:

EUR/USD: 1.2960 / 1.3150

EUR/PLN: 3.8500 / 3.9000

USD/PLN: 2.9000 / 3.0000

After last week's moves it is probable that further weakening, probably toward 3.9500 will follow in the short term. In the mid term however, we still are bullish on the Zloty.

Options:

Despite the increase of the volatilities to their 6-month median, we still believe that there is more potential for a move up. That is why we still recommend long Vega positions.

MARKET PRICES UPDATE

MONEY MARKET RATES

Money market rates (Closing mid-market levels)						
date	3M		6M		1Y	
	FXSW	WIBOR	FXSW	WIBOR	FXSW	WIBOR
01-01-07	4.10%	4.20%	4.23%	4.30%	4.45%	4.50%
02-01-07	4.10%	4.20%	4.23%	4.30%	4.45%	4.50%
03-01-07	4.10%	4.20%	4.24%	4.31%	4.45%	4.50%
04-01-07	4.11%	4.20%	4.23%	4.31%	4.44%	4.52%
05-01-07	4.11%	4.20%	4.23%	4.31%	4.44%	4.52%

FRA MARKET RATES

FRA Market Rates (Closing mid-market levels)					
date	1X4	3X6	6X9	9X12	6X12
01-01-07	4.24%	4.39%	4.59%	4.70%	4.66%
02-01-07	4.23%	4.36%	4.55%	4.67%	4.64%
03-01-07	4.23%	4.33%	4.51%	4.61%	4.62%
04-01-07	4.24%	4.35%	4.53%	4.63%	4.63%
05-01-07	4.24%	4.34%	4.54%	4.64%	4.64%

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
01-01-07	4.50%	4.18%	4.75%	4.33%	4.99%	4.84%	5.08%	5.10%
02-01-07	4.50%	4.18%	4.71%	4.34%	4.94%	4.82%	5.02%	5.11%
03-01-07	4.50%	4.15%	4.66%	4.29%	4.87%	4.76%	4.99%	5.03%
04-01-07	4.52%	4.17%	4.70%	4.35%	4.94%	4.83%	5.02%	5.11%
05-01-07	4.52%	4.17%	4.71%	4.33%	4.96%	4.84%	5.03%	5.14%

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
01-01-07	8.80	9.00	9.40	9.60	0.90	1.25	0.40	0.45
02-01-07	8.80	9.00	9.40	9.60	0.90	1.25	0.40	0.45
03-01-07	8.80	9.00	9.40	9.60	0.90	1.25	0.40	0.45
04-01-07	9.50	9.30	9.50	9.70	0.90	1.25	0.40	0.45
05-01-07	9.40	9.40	9.60	9.80	0.90	1.25	0.40	0.45

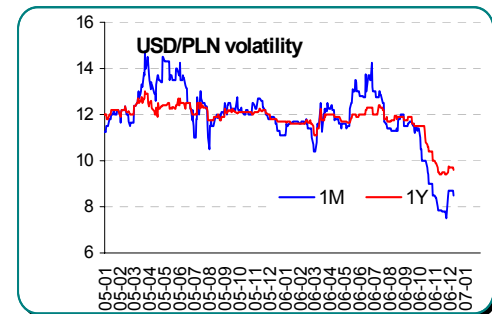
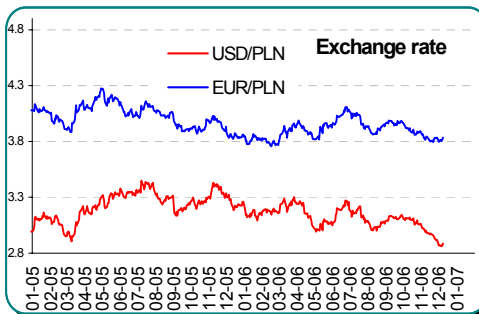
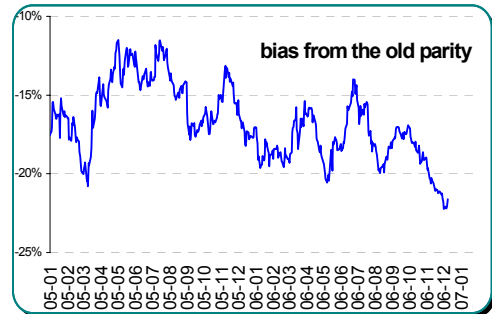
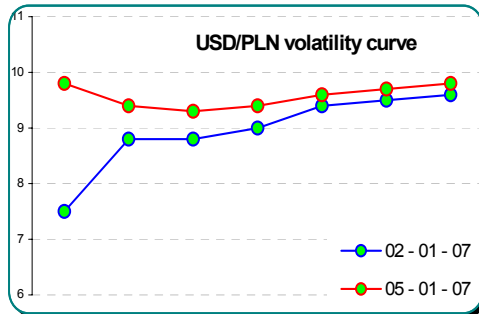
PLN SPOT PERFORMANCE

PLN spot performance			
date	USD/PLN	EUR/PLN	bias
01-01-07	2.9105	3.8312	-21.38%
02-01-07	2.8830	3.8279	-21.73%
03-01-07	2.8870	3.8270	-21.70%
04-01-07	2.9325	3.8455	-20.96%
05-01-07	2.9733	3.8791	-20.10%

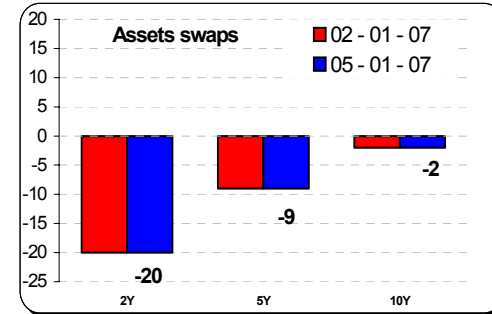
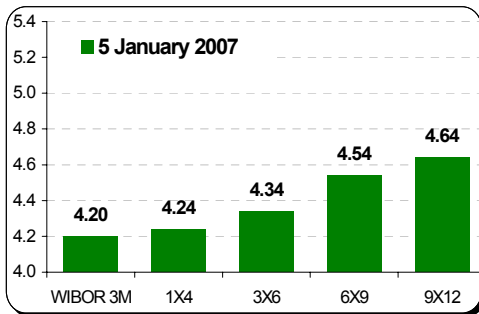
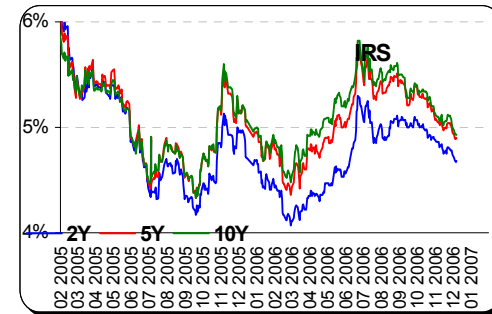
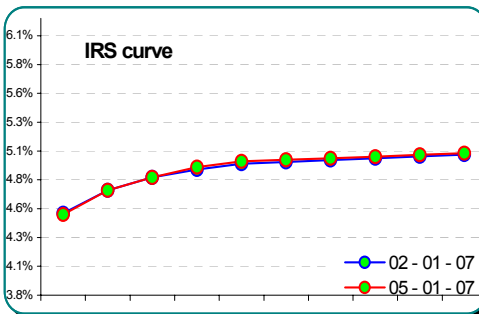
Note: parity on 11/04/00 – USD= 4.3806, EUR=4.2196, basket share 50:50
Mid-market volatility of vanilla option strategies

CHARTS

Foreign Exchange



Fixed Income



THE REVIEW NOTE IS BASED ON THE INFORMATION AVAILABLE TO THE PUBLIC. THIS REVIEW NOTE IS PROVIDED TO YOU FOR INFORMATION PURPOSES AND IS NOT INTENDED AS ADVICE ON ANY PARTICULAR MATTER OR AS OFFER OR SOLICITATION FOR PURCHASE OR SALE OF ANY FINANCIAL INSTRUMENT AND SHOULD NOT BE TAKEN AS SUCH. BRE BANK SA, ITS DIRECTORS, OFFICERS, EXECUTIVES, MANAGERS, SERVANTS OR AGENTS EXPRESSLY DISCLAIM ALL LIABILITY TO ANY PERSON IN RESPECT OF ANYTHING, AND IN RESPECT OF THE CONSEQUENCES OF ANYTHING, DONE OR OMITTED TO BE DONE, WHOLLY OR PARTLY, IN RELIANCE UPON THE WHOLE OR ANY PART OF THE CONTENTS OF THIS REVIEW NOTE. NO CLIENT OR OTHER READER SHOULD ACT OR REFRAIN FROM ACTING ON THE BASIS ON ANY MATTER CONTAINED IN IT WITHOUT TAKING SPECIFIC PROFESSIONAL ADVICE ON THE PARTICULAR FACTS AND CIRCUMSTANCES IN ISSUE. COPYRIGHT PROTECTION EXISTS IN THIS PUBLICATION AND IT MAY NOT BE, EVEN PARTIALLY, REPRODUCED OR DISTRIBUTED WITHOUT THE PRIOR WRITTEN AGREEMENT WITH BRE BANK SA

CALENDAR

Macro

	October	November	December	Data Release	BRE Bank forecast
CPI m/m	0.1%	0.0%		15-01-07	0.0%
CPI y/y	1.2%	1.4%		15-01-07	1.6%
PPI m/m	-0.5%	-0.5%		19-01-07	-0.2%
PPI y/y	3.2%	2.6%		19-01-07	3.0%
Industrial production growth m/m	4.3%	-2.9%		19-01-07	-6.1%
Industrial production growth y/y	14.8%	11.7%		19-01-07	6.3%
Average wages in enterprise sector [PLN]	2658.0	2759.7		16-01-07	2976.0
Average wages in enterprise sector y/y	4.7%	3.1%		16-01-07	6.7%
Unemployment	14.9%	14.8%		23-01-07	14.9%
Budget realisation (%)	54.4%	60.7%		15-01-07	82.0%
Current account [EUR mn]	-482			16-01-07	-653
Balance of foreign trade in goods (transaction basis) [EUR mn]	-269			16-01-07	-526
Exports growth y/y (transaction basis)	24.0%			16-01-07	20.5%
Imports growth y/y (transaction basis)	27.7%			16-01-07	22.3%
Current account [% of GDP]	-1.9%			16-01-07	-1.8%
Money supply (M3)	458.6	465.6		12-01-07	474.0
Money supply growth y/y	12.3%	14.4%		12-01-07	14.9%
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

CONTACT DETAILS

BRE BANK SA

**ul. Senatorska 18
00-950 Warszawa
P.O. Box 728
Poland**

**Reuters Pages:
BREX, BREY, and
BRET**

Bloomberg: BRE

SWIFT: BREXPLPW

www.brebank.com.pl

Forex (BREX) - FX Spot & Options

*Marcin Turkiewicz (+48 22 829 01 84) Marcin.turkiewicz@brebank.com.pl
Jakub Wiraszka (+48 22 829 01 73)
Tomasz Chmielarski (+48 22 829 01 78)*

Fixed Income (BREP) - FRA, IRS, T-Bonds, T-Bills

*Łukasz Barwicki (+48 22 829 01 93) Lukasz.barwicki@brebank.com.pl
Paweł Białczyński (+48 22 829 01 86)*

MM (BREP) - MM, FX Swaps

*Tomasz Wołosz (+48 22 829 01 74) Tomasz.wolosz@brebank.com.pl
Bartłomiej Małocha (+48 22 829 01 77)*

Structured Products (BREP)

*Jarosław Stolarczyk (+48 22 829 01 67) Jaroslaw.stolarczyk@brebank.com.pl
Jacek Dereziński (+48 22 829 01 69)*

Institutional Sales (BRES)

Inga Gaszkowska-Gębska (+48 22 829 12 05)

Research

*Jacek Kołowski (+48 22 829 01 83) Research@brebank.com.pl
Ernest Pytlarczyk (+48 22 829 01 66)
Artur Ulbrich (+48 22 829 12 07)*

Financial Markets Department

Phone (+48 22 829 02 03)
Fax (+48 22 829 02 45)

Treasury Department

Phone (+48 22 829 02 02)
Fax (+48 22 829 02 01)

Financial Institutions Department

Phone (+48 22 829 01 20)
Fax (+48 22 829 01 21)

Back Office

Phone (+48 22 829 04 02)
Fax (+48 22 829 04 03)

Custody Services

Phone (+48 22 829 13 50)
Fax (+48 22 829 13 49)