



## TOP NEWS FROM THE POLISH MARKET

### MACROECONOMICS

- MPC didn't change the rates
  - The statement was more dovish than the market expected
  - NBP chairman: inflation path in the next projection may be lower
  - H. Wasilewska-Trenkner: inflation to remain low in the coming months
  - M. Noga: economic growth must be followed by inflationary pressure
  - M. Pietrewicz: no significant inflationary pressure
  - The GDP figure for the fourth quarter of 2006 will not have any impact on the MPC's stance on monetary policy
  - MF: CPI rose to 1.9% in February
  - MF: 14-15% of budget deficit after February, seasonal spending boosted the deficit
- pages 2-3

### FIXED INCOME

- MPC still not hawkish
  - Pay dips. Pay 9x12FRA
- page 3

### FI RECOMMENDATION

### MONEY MARKET

- Busy end of the reserve
  - Poor sentiment for emerging markets vs dovish MPC statement
- page 3

### MM RECOMMENDATION

- Sell 1Y Polonia on hikes

### FOREIGN EXCHANGE

- Zloty weaker
  - Volatility higher
- page 4

### FX RECOMMENDATION

- Zloty stable
- Long Vega

### MARKET PRICES CHARTS CALENDAR CONTACT LIST

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

## MACROECONOMICS

***MPC didn't change the rates***

***The statement was more dovish than the market expected***

***NBP chairman: inflation path in the next projection may be lower***

***H. Wasilewska-Trenkner: inflation to remain low in the coming months***

***M. Noga: economic growth must be followed by inflationary pressure***

***M. Pietrewicz: no significant inflationary pressure***

***The GDP figure for the fourth quarter of 2006 will not have any impact on the MPC's stance on monetary policy***

During the last meeting the MPC didn't change interest rates, which was in line with market expectations. The risk balance for inflation was similar to the balance presented in the January statement. The MPC maintained the view "that the current level of NBP interest rates makes it possible for inflation to be kept close to the target of 2.5% in the medium term". Thus they kept their options open to increase the rates in future by the statement "maintaining inflation close to target and thus creating conditions for sustainable long-term economic growth may require monetary policy tightening".

As compared with the January meeting the MPC raised the estimates of GDP growth, which has been clearly expressed in the statement (as well in the risk balance). In contrast to the previous statement the MPC emphasized that "future decisions of the Council will depend, to a large extent, on whether rising economic activity proves more permanent". We think that the MPC wanted to shift the risk balance from the labour market (cost push inflation) to the pace of economic growth and demand pressure (demand pull inflation).

This relatively dovish statement has been strengthened by the comments of some MPC members. NBP chairman S. Skrzypek suggested that as regards current data the future inflation path in the next projection may be lowered. Another MPC member, S. Nieckarz, reiterated that the growth of unit labour costs in Q4 was lower than assumed in the projection (and in Q3 as well).

H. Wasilewska-Trenkner stated that the information available at the moment shows that inflation should stay low in the coming months. As a result there is no need to tighten the monetary policy. She did not exclude such moves being made in the future, but for now it seems that the scale of the hikes should be limited. She suggested that the MPC is still divided on the time of the first hike and pointed to the preliminary character of the January CPI data.

M. Noga reckons the rapid economic growth will have to be followed by a rise in inflation, and therefore monetary tightening should already be taking place. He thinks the Q1 growth rate may hit 7%, but it may be the peak of the economic cycle.

M. Pietrewicz stated that preliminary Q4 GDP data were already taken into account during the recent MPC meeting. Despite an apparent pickup in GDP growth rates, he sees no significant inflationary pressure. Potential output is still rising at a high rate.

### Our comment:

Both the statement and the MPC members comments indicate that the data published in February (January monthly figures and GDP estimates for 2006) didn't significantly change the balance of risks for inflation. We maintain our view that the MPC will not change the rates this year.

According to the Central Statistical Office, Polish GDP was up by 6.4% y/y in the fourth quarter of 2006 compared to 5.8% recorded in the third quarter of the same year. The data did not come as a surprise because the CSO revealed its preliminary estimates for the whole of 2006 a few weeks ago. Hence, the fourth quarter figures could be deduced from those estimates.

Quarterly, seasonally adjusted growth rates of GDP amounted to 1.9% in the fourth quarter compared to 1.8% and 1.4% in the third and second quarters respectively. This clearly indicates that the economic growth path has steepened in Poland.

The gross value added in the whole economy and in industry was up by 6.6% and 7.8% y/y respectively. However, the record high GDP dynamics should be primarily contributed to construction output (19.3% y/y), on the supply side, and investment (19.3% y/y) on the demand side. Private consumption was a notch lower compared to the third quarter and amounted to 5.2%. The economic growth breakdown is favorable in terms of increasing the potential output and offsetting the inflationary pressure. In our opinion, those, in fact, historical data, would not

**MF: CPI rose to 1.9% in February**

**MF: 14-15% of deficit after February**

**Seasonal spending boosted the deficit in February**

have any impact on the MPC's assessment of the Polish economy.

The Ministry of Finance forecasts that the CPI in February will have risen by 1.9% y/y. In March a further rise to 2.0% is expected. Both figures are fully in line with our forecasts. The MF also expects the CPI not to exceed 2.5% at any point this year (also in line with our expectations).

E. Suchocka-Roguska of the MF stated that preliminary MF estimates show a deficit execution of 14-15% of the annual limit (30 b PLN) after February. This would mean a deficit of ca. 7.5 b PLN in February, which is in line with last year's result. The high budget spending in February is traditionally related to one-off factors (higher EU contribution and educational subsidy), accounting for these factors, the deficit execution is still excellent. We see no real threat of deficit overshoot this year, even if the government pursues its plans to lower social insurance rates (which should be balanced due to higher tax income).

## FIXED INCOME

**MPC still not hawkish**

**RECOMMENDATION:**

For the first half of the week the market was very stable, as everyone was waiting for the MPC decision and comment. Rates were at relatively high levels, as recent statements made by few members suggested that the Council might be leaning more to a hawkish stance. However the wording hadn't changed at all since previous month, therefore market rallied by some 7-10bp. With no economic data releases scheduled for this week, we don't expect any significant changes across the curve, rather some range trading. Current levels appear to us as lower band of that range, so we recommend paying dips, rather than receiving tops. We still think that 9x12 FRA trades too low and sustain our paying recommendation.

Pay dips. Pay 9x12FRA.

## MONEY MARKET

**Busy end of the reserve**

**Poor sentiment for emerging markets vs dovish MPC statement**

**CPI projection in line with expectations**

**RECOMMENDATION:**

Volatile end of the reserve. It started with levels below 3%, to shoot up to the Lombard rate of 5.5%, and then again to drop to 3%. It was all caused by nervous local players, and nothing more. There was the surplus of the cash, and it was all about timing of cash flows. So without any specific reason we had a busy day. After all carry is stable now, nearby the main market rate and it will stay this way for the coming week. Open market operation 1 billion pln bigger than last week (21,6 billion pln).

Also very volatile week for longer terms. Bearish before the MPC meeting, some were playing for hawkish comments and faster rates hike. Weak stock exchanges and poor sentiment for emerging markets (Hungary and Turkey) were supporting this upward movement in yields. However, after the MPC did nothing just as expected, and after statement that was rather dovish than hawkish, we got back to the levels we got used to before the whole movement was done. CPI projection by MinFin just as expected, which was 1.9%.

Sell 1Y Polonia on hikes.

## FOREIGN EXCHANGE

**Zloty weaker**

Last week, the EUR/PLN weakened. On Tuesday we saw a maximum of 3.9350, however most of the week the cross traded around the 3.9200, a significant technical level.

**Volatility higher**

As a result of abrupt spot movements, the front-end volatilities have significantly risen. The 1m EURPLN traded at 7.7, whereas 1m USD/PLN at 9.2. What is interesting, there was an opposite (that is: selling) interest, at the long end of the curve – we saw 7.1 and 7.0 bids (EUR/PLN) given in decent amounts.

**RECOMMENDATION:**

RECOMMENDATION:

**Zloty stable**

Spot:  
Main supports / resistances:  
EUR/USD: 1.3070 / 1.3250  
EUR/PLN: 3.8900 / 3.9250  
USD/PLN: 2.9650 / 2.9950

In the following week we may see Zloty trade within a range. That is why we do not recommend any directional positions.

Options:

**Square Vega**

Given the increased selling interest of longer term volatilities, we do no longer recommend long Vega positions. We recommend square the Vega and wait for the spot to trade outside the range.

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

Money market rates (Closing mid-market levels)						
date	3M		6M		1Y	
	FXSW	WIBOR	FXSW	WIBOR	FXSW	WIBOR
26-02-07	4.15%	4.20%	4.25%	4.31%	4.52%	4.51%
27-02-07	4.14%	4.21%	4.27%	4.35%	4.53%	4.57%
28-02-07	4.14%	4.22%	4.26%	4.35%	4.50%	4.57%
01-03-07	4.13%	4.21%	4.26%	4.35%	4.51%	4.56%
02-03-07	4.13%	4.21%	4.26%	4.35%	4.51%	4.56%

**FRA MARKET RATES**

FRA Market Rates (Closing mid-market levels)					
date	1X4	3X6	6X9	9X12	6X12
	26-02-07	4.27%	4.41%	4.63%	4.80%
27-02-07	4.27%	4.42%	4.65%	4.82%	4.70%
28-02-07	4.29%	4.40%	4.62%	4.78%	4.73%
01-03-07	4.26%	4.36%	4.57%	4.73%	4.70%
02-03-07	4.25%	4.34%	4.54%	4.70%	4.68%

**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
26-02-07	4.51%	4.20%	4.85%	4.57%	5.12%	5.06%	5.18%	5.24%
27-02-07	4.57%	4.20%	4.85%	4.59%	5.11%	5.07%	5.17%	5.25%
28-02-07	4.57%	4.20%	4.81%	4.56%	5.10%	5.03%	5.14%	5.22%
01-03-07	4.56%	4.20%	4.80%	4.52%	5.06%	5.01%	5.13%	5.22%
02-03-07	4.56%	4.20%	4.68%	4.50%	5.05%	5.00%	5.12%	5.20%

**PRIMARY MARKET RATES**

Last Primary Market Rates							
	au. date	maturity	avg price	avg yield	supply	demand	sold
52W TB	07-02-19	08-02-20	96.020	4.10%	900	2216	900
OK0709	07-02-07	09-07-25	89.759	4.49%	1000	6581	1000
PS0412	07-02-21	12-04-25	98.899	4.99%	1500	5205	1500
DS1017	07-01-10	17-10-25	100.070	5.24%	1800	4148	1800

**FX VOLATILITY**

date	USD/PLN 0-delta stradle				25-delta RR		25-delta FLY	
	1M	3M	6M	1Y	1M	1Y	1M	1Y
26-02-07	8.90	8.90	9.00	9.00	1.30	1.35	0.40	0.65
27-02-07	8.90	8.90	9.00	9.00	1.30	1.35	0.40	0.65
28-02-07	8.90	8.90	9.00	9.00	1.30	1.35	0.40	0.65
01-03-07	8.90	8.90	9.00	9.00	1.30	1.35	0.40	0.65
02-03-07	8.90	8.90	9.00	9.00	1.30	1.35	0.40	0.65

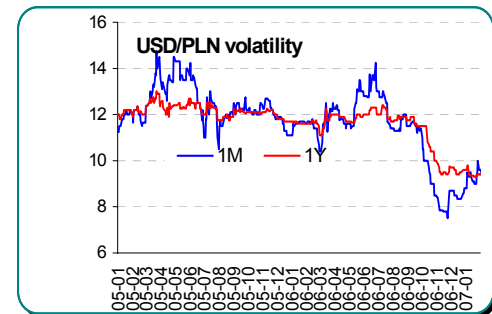
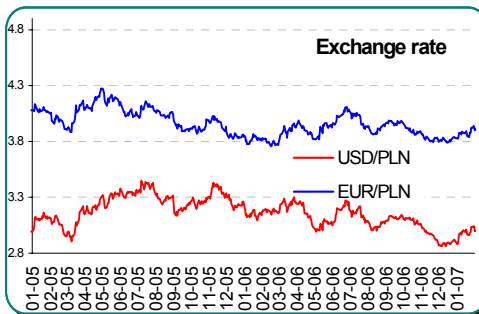
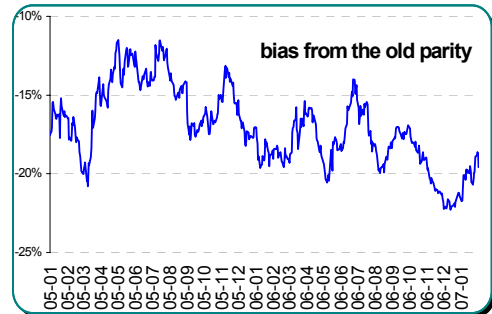
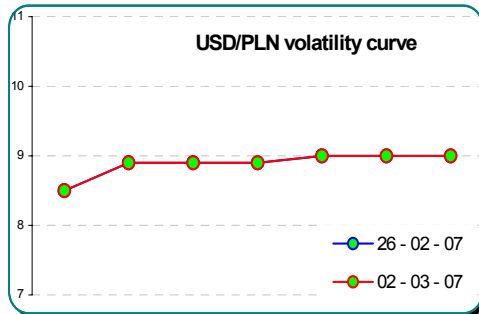
**PLN SPOT PERFORMANCE**

PLN spot performance			
date	USD/PLN	EUR/PLN	bias
26-02-07	2.9573	3.8945	-20.10%
27-02-07	2.9620	3.9139	-19.81%
28-02-07	2.9699	3.9175	-19.68%
01-03-07	2.9525	3.9026	-20.06%
02-03-07	2.9650	3.8995	-19.95%

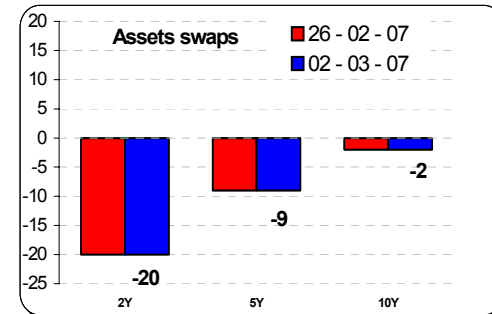
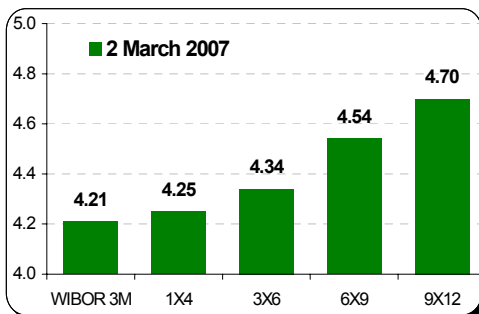
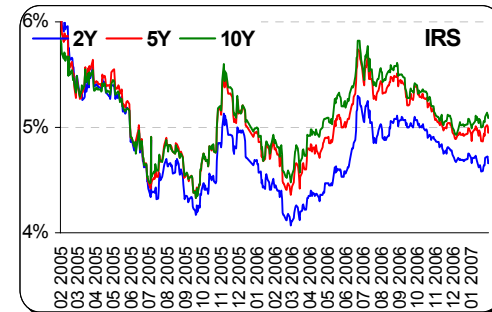
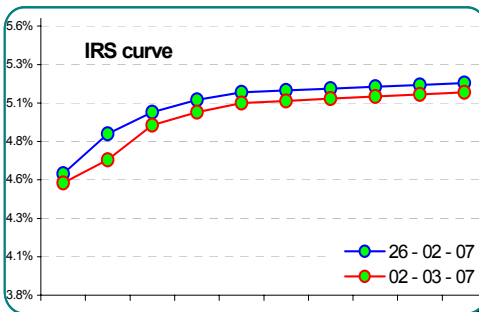
Note: parity on 11/04/00 – USD= 4.3806, EUR=4.2196, basket share 50:50  
Mid-market volatility of vanilla option strategies

**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

	December	January	February	Data Release	BRE Bank forecast
CPI m/m	-0.2%	0.5%		14-03-07	0.2%
CPI y/y	1.4%	1.7%		14-03-07	1.9%
PPI m/m	-0.5%	0.5%		19-03-07	0.2%
PPI y/y	2.6%	2.9%		19-03-07	3.4%
Industrial production growth m/m	-6.7%	0.4%		19-03-07	-0.3%
Industrial production growth y/y	5.9%	15.6%		19-03-07	13.9%
Average wages in enterprise sector [PLN]	3027.5	2663.6		15-03-07	2648.3
Average wages in enterprise sector y/y	8.5%	7.8%		15-03-07	4.8%
Unemployment	14.9%	15.1%		23-03-07	15.1%
Budget realisation (%)	82.3%	-10.3%		15-03-07	14.0%
Current account [EUR mn]	-915			14-03-07	-281
Balance of foreign trade in goods (transaction basis) [EUR mn]	-1080			14-03-07	-191
Exports growth y/y (transaction basis)	8.3%			14-03-07	20.5%
Imports growth y/y (transaction basis)	17.0%			14-03-07	21.2%
Current account [% of GDP]	2.2%			14-03-07	2.1%
Money supply (M3)	477.0	485.5		14-03-07	496.6
Money supply growth y/y	15.7%	19.3%		14-03-07	19.3%
Total PLN loans [PLN bn]	367.3	376.5		14-03-07	
Households PLN loans	188.5	193.9		14-03-07	
Corporate PLN loans	143.3	144.6		14-03-07	
Total PLN deposits [PLN bn]	397.2	404.8		14-03-07	
Households PLN deposits	223.1	226.6		14-03-07	
Corporate PLN deposits	125.2	123.8		14-03-07	
NBP intervention rate	4.00%	4.00%	4.00%	28-03-07	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	05-03-07	1000	4.100%	19-02-07
2Y T-bond OK1208	07-03-07	-	4.494%	07-02-07
5Y T-bond PS0412	21-03-07	-	4.988%	21-02-07
10Y T-bond DS1017	11-04-07	-	5.240%	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](http://www.brebank.com.pl)**

### **Forex (BREX) - FX Spot & Options**

*Marcin Turkiewicz (+48 22 829 01 84) [Marcin.turkiewicz@brebank.com.pl](mailto: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](mailto: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](mailto: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](mailto: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](mailto: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)