



### TOP NEWS FROM THE POLISH MARKET

#### MACROECONOMICS

- MPC raised interest rates by 25 bps, against market expectations • page 2
- A. Wojtyna: central banks must be more conservative due to globalization
- Retail sales grew by 14.8% y/y, below market expectations

#### FIXED INCOME

- So now we play a hiking cycle? • page 3

#### FI RECOMMENDATION

- Watch for overreacted levels and try to receive them

#### MONEY MARKET

- Squeeze at the end of the reserve • page 3
- Rates up 25 bps in June

#### MM RECOMMENDATION

- Sell 6m Polonia at 4.9%

#### FOREIGN EXCHANGE

- Zloty stronger • pages 3- 4
- Volatility lower

#### FX RECOMMENDATION

- Zloty stronger
- Short Gamma

#### MARKET PRICES CHARTS CALENDAR CONTACT LIST

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

## MACROECONOMICS

**MPC raised interest rates by 25 bps, against market expectations**

The MPC decided to hike interest rates by 25 bps last week, much against analyst expectations. The statement after the decision was rather hawkish. Traditionally the MPC list the factors that would increase and decrease inflationary pressure, but in this case the MPC clearly stated that the impact of anti-inflationary factors would be insufficient to keep inflation at the target level over the monetary policy transmission horizon. In the interview the key MPC member, Czekaj, added that he is convinced that rates hikes are necessary. We believe that the MPC will hike the rates by 100 bps in the next 12 months with the next hikes coming in July and October by 25 bps. The arguments for the hike in July are: a new inflation projection showing the rise of the future inflation path, high wages growth in June (BRE forecast: 9.5% y/y) and growing current inflation (2.7% in June).

Later MPC member comments also seem to confirm our view. H. Wasilewska-Trenkner admitted that the June hike may prove sufficient, if several conditions are met (e.g. the relation of wages and productivity remains favourable, there are no oil or food prices shocks, PLN continues to appreciate). We, however, think that easing on the labour market is unlikely in the coming months, therefore the statement made by Wasilewska-Trenkner should not be considered a call for the end of the hiking cycle.

**A. Wojtyna: central banks must be more conservative due to globalization**

A. Wojtyna added to that hawkish tone in an article on the impact of globalization on monetary policy. He thinks recent developments should lead to higher conservatism carried out by the central banks. This is particularly important in Poland as it would be more difficult for the inflation rate to drop once it started running above target (due to labour market shortages, highly adaptive inflation expectations and lack of exact knowledge on relations between corporate profits, wages, employment and inflation on the micro level).

**Retail sales grew by 14.8% y/y, below market expectations**

Retail sales in May proved somewhat weaker than market expectations (14.8% y/y). In most categories the annual growth rates were similar to those in previous months, only in the "others" category (over 20% of the basket) was the growth significantly lower. The data is another indication that the GDP growth rate dropped in Q2, to ca. 6%. This however remains above the potential growth rate, which should continue to generate inflationary pressure.

	y/y	
	May	Jun
total retail sale	15.1%	14.8%
motor vehicles	29.7%	33.3%
fuels	13.9%	13.3%
food, beverages, tobacco	6.4%	7.4%
pharmaceuticals, cosmetics	19.3%	16.0%
textiles, clothing, footwear	22.5%	30.3%
furniture, radio, TV and household appliances	23.9%	23.7%
books & newspapers	27.0%	27.7%
others	12.1%	7.3%

source: GUS

**Budget execution dropped to 12.5-13% in June**

Meanwhile, the budget continues its excellent performance. In June a surplus was noted yet again, as an MF official stated. The preliminary estimates show a deficit execution of 12.5-13% of the limit after June (14.2% after May). This may be followed by likely surpluses in July and August (due to dividend payments), certainly leading to a yearend deficit significantly below the limit.

**FIXED INCOME**

**So now we play a hiking cycle?**

25bp hike, that the MPC delivered last week surprised the market a lot. As a result short end of the curve moved up by 10-15bp. Moreover, now the market is close to pricing in another hike already in July and another one in October. We start thinking that this a bit of overreaction. Since everybody expected hike in July, and everyone agreed it would have been justified, than waiting for July would be just waste of valuable time for the MPC, therefore we think that next hike doesn't necessarily have to happen this month. The pressure on the short end and heavy interest to pay FRAs would probably last for a while, which should create some opportunity to receive. After all, when a hike would have become fully priced in, the only way to make money is that when it doesn't happen.

**RECOMMENDATION:**

Watch for overreacted levels and try to receive them.

**MONEY MARKET**

**Squeeze at the end of the reserve**

**Rates up 25 bps in June**

**Another 25 bps up likely in July**

Stable carry except of the rates hike (25 bps up) and the last day of the reserve (another 25 bps up). Squeeze was settlement driven and after all 1.5 billion pln was located in the CB and also some Lombard credit was granted. However, we should all get use to the similar situations a long time ago. There is 20.2 billion pln of money bills in circulation (the CB offered 21.6 billion pln but the market was reluctant to buy them). Slight surplus of the money in the system next week will not affect the carry much, since it is a beginning of the new reserve.

For longer terms the MPC clarified the situation. 25 bps rates hike in June shows determination to fight arising inflation as soon as possible. To be consistent with this view July is very likely to bring us another 25 bps hike.

Just to remind the polish rates are now: the main market rate is 4.5%, rarely used rediscount rate 4.75%, Lombard rescue rate 6% and deposit rate 3%.

**RECOMMENDATION:**

Sell 6m Polonia at 4.9%.

**FOREIGN EXCHANGE**

**Zloty stable**

Last week the Zloty traded range-bound between 3.7600 and 3.7800, lower comparing to a week before. EUR/USD gained on the US figures indicating that the US economy may not be in as good state as previously expected. On the basis of this news, the USD/PLN significantly declined and traded at around 2.7700-2.7900

**Volatility lower**

With EUR/PLN still declining (to 3.7600 at the moment of writing) the volatilities traded lower than a week before: the 1M EUR/PLN traded at 6.05, whereas 1Y at 6.15, both mids. The USD/PLN volatility curve traded also a touch lower at 7.25 (1M) and 7.5 (1Y).

**RECOMMENDATION:****Zloty stronger****Short Gamma**

Spot:

Main supports / resistances:

EUR/USD: 1.3500 / 1.3620

EUR/PLN: 3.7500 / 3.7750

USD/PLN: 2.7500 / 2.7900

In the following week we may see EUR/PLN test the 3.7500 level, that is why we recommend selling EUR/PLN on tops in the following week.

Options:

With realized volatility so low, and well below the implied ones we recommend selling Gamma and earning the decay the following week.

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

Money market rates (Closing mid-market levels)						
date	3M		6M		1Y	
	FXSW	WIBOR	FXSW	WIBOR	FXSW	WIBOR
25-06-07	4.57%	4.56%	4.74%	4.75%	5.05%	5.03%
26-06-07	4.58%	4.56%	4.77%	4.75%	5.07%	5.05%
27-06-07	4.58%	4.56%	4.77%	4.75%	5.07%	5.05%
28-06-07	4.58%	4.56%	4.77%	4.75%	5.08%	5.05%
29-06-07	4.66%	4.71%	4.86%	4.84%	5.17%	4.79%

**FRA MARKET RATES**

FRA Market Rates (Closing mid-market levels)					
date	1X4	3X6	6X9	9X12	6X12
25-06-07	4.68%	4.90%	5.15%	5.34%	5.32%
26-06-07	4.71%	4.91%	5.16%	5.34%	5.32%
27-06-07	4.71%	4.91%	5.16%	5.34%	5.32%
28-06-07	4.79%	5.02%	5.28%	5.43%	5.39%
29-06-07	4.84%	5.01%	5.30%	5.47%	5.41%

**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
25-06-07	5.03%	5.35%	5.37%	4.78%	5.64%	5.49%	5.68%	5.62%
26-06-07	5.05%	6.35%	5.37%	4.81%	5.63%	5.49%	5.67%	5.61%
27-06-07	5.05%	7.35%	5.44%	4.93%	5.67%	5.55%	5.70%	5.64%
28-06-07	5.05%	8.35%	5.44%	4.94%	5.65%	5.52%	5.68%	5.62%
29-06-07	4.79%	9.35%	5.46%	4.96%	5.68%	5.52%	5.70%	5.62%

**PRIMARY MARKET RATES**

Last Primary Market Rates							
	au. date	maturity	avg price	avg yield	supply	demand	sold
52W TB	07-06-04	08-06-04	95.759	4.38%	500	1931	500
OK0709	07-04-04	09-07-25	89.970	4.69%	1000	2463	1000
PS0412	07-06-22	12-04-25	96.925	5.48%	1000	2673	1000
DS1017	07-04-11	17-10-25	99.976	5.24%	1800	3473	1800

**FX VOLATILITY**

date	USD/PLN 0-delta stradle				25-delta RR		25-delta FLY	
	1M	3M	6M	1Y	1M	1Y	1M	1Y
25-06-07	7.30	7.50	7.50	7.50	0.90	1.15	0.30	0.45
26-06-07	7.30	7.50	7.50	7.50	0.90	1.15	0.30	0.45
27-06-07	7.30	7.50	7.50	7.50	0.90	1.15	0.30	0.45
28-06-07	7.30	7.50	7.50	7.50	0.90	1.15	0.30	0.45
29-06-07	7.30	7.50	7.50	7.50	0.90	1.15	0.30	0.45

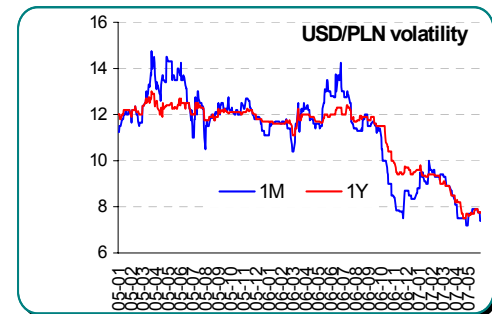
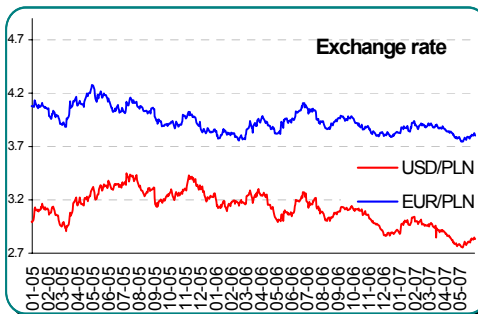
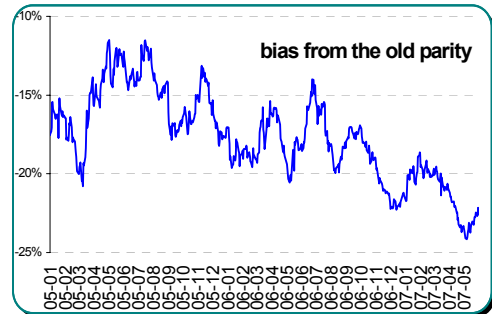
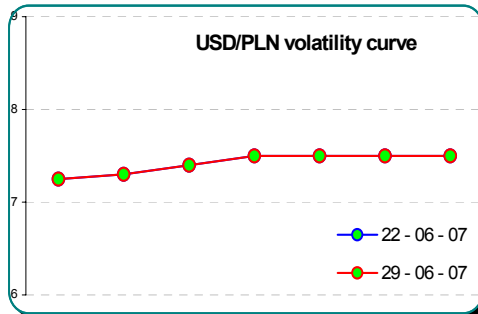
**PLN SPOT PERFORMANCE**

PLN spot performance			
date	USD/PLN	EUR/PLN	bias
25-06-07	2.8160	3.7883	-22.97%
26-06-07	2.8200	3.7939	-22.86%
27-06-07	2.8343	3.8060	-22.55%
28-06-07	2.8074	3.7770	-23.20%
29-06-07	2.7989	3.7658	-23.43%

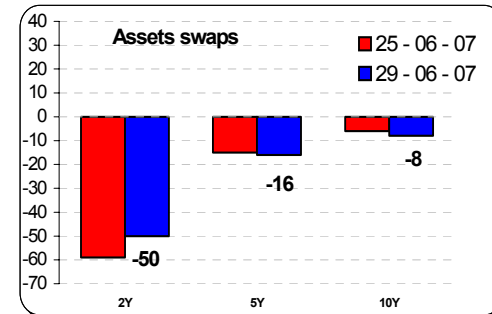
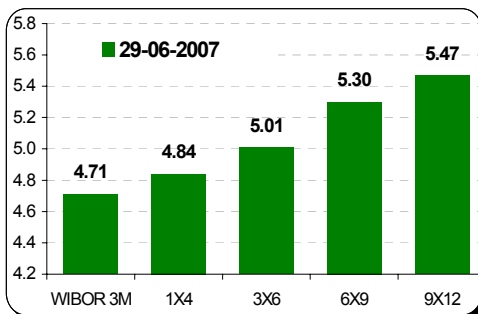
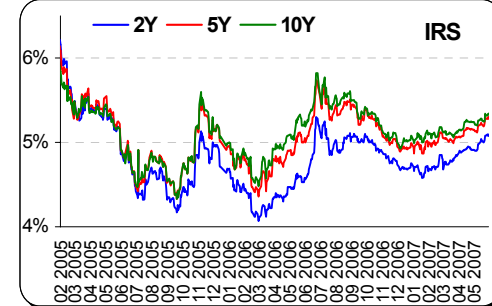
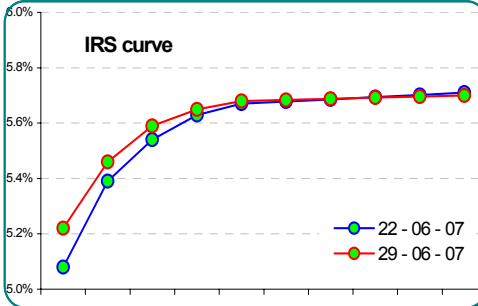
Note: parity on 11/04/00 – USD= 4.3806, EUR=4.2196, basket share 50:50  
Mid-market volatility of vanilla option strategies

**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

	April	May	June	Data Release	BRE Bank forecast
CPI m/m	0.5%	0.5%		13-07-07	0.0%
CPI y/y	2.3%	2.3%		13-07-07	2.7%
PPI m/m	0.5%	0.4%		19-07-07	0.5%
PPI y/y	2.3%	2.2%		19-07-07	1.6%
Industrial production growth m/m	-8.6%	3.0%		19-07-07	1.8%
Industrial production growth y/y	12.6%	8.1%		19-07-07	7.3%
Average wages in enterprise sector [PLN]	2786.3	2776.9		16-07-07	2871.3
Average wages in enterprise sector y/y	8.4%	8.9%		16-07-07	9.4%
Unemployment	13.7%	13.0%		24-07-07	12.5%
Budget realisation (%)	6.9%	14.2%		13-07-07	12.9%
Current account [EUR mn]	-678			13-07-07	-715
Balance of foreign trade in goods (transaction basis) [EUR mn]	-779			13-07-07	-885
Exports growth y/y (transaction basis)	15.7%			13-07-07	12.0%
Imports growth y/y (transaction basis)	24.9%			13-07-07	15.8%
Current account [% of GDP]	-2.2%			13-07-07	-2.2%
Money supply (M3)	498.4	502.9		13-07-07	507.9
Money supply growth y/y	17.8%	16.1%		13-07-07	16.0%
Total PLN loans [PLN bn]	402.6	412.5		13-07-07	
Households PLN loans	209.4	216.9		13-07-07	
Corporate PLN loans	155.3	156.9		13-07-07	
Total PLN deposits [PLN bn]	414.0	417.2		13-07-07	
Households PLN deposits	225.0	222.7		13-07-07	
Corporate PLN deposits	126.7	129.1		13-07-07	
NBP intervention rate	4.25%	4.25%	4.50%	25-07-07	4.75%

### 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	09-07-07	-	4.380%	04-06-07
2Y T-bond OK1208	04-07-07	-	4.694%	04-04-07
5Y T-bond PS0412	19-09-07	-	5.480%	20-06-07
10Y T-bond DS1017	11-07-07	-	5.244%	11-04-07
20Y T-bond WS0922	12-09-07	-	5.309%	14-03-07

## 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)

### **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)