BRE BANK SA

THE BEST FINANCIAL INSTITUTION FOR DEMANDING CUSTOMERS

FINANCIAL MARKETS DEPARTMENT

PAGES: 8 — *WARSAW, APRIL 17, 2008*

POLAND WEEKLY REVIEW

MACROECONOMICS AND FINANCIAL MARKETS

PREVIEW: The week of April 18th to April 24th

Indicator	Date of release	Period	BRE forecast	Consensus	Last	Comment
Industrial Output	**Apr 18**	Mar	**8.3% y/y**	8.3%	14.9%	Two working days less as compared to march 2007. Slightly depressed business indicators
PPI	**Apr 18**	Mar	**3.5% y/y**	3.2%	3.2%	Another round of electricity hikes. Elevated price expectations in enterprise sector backed additionally by rising prices of copper and oil.
Retail sales	**Apr 24**	Mar	**22.6% y/y**	21.0%	23.8%	Favorable business indicators in retail and additional boost from calendar effects and earlier Easter. Revaluation of pensions starting in March likely to additionally boost current spending.

In Focus / Macroeconomics

Lower headline inflation in March not a sign of easing of price pressure

Annual inflation rate dropped a notch to 4.1% in March, fully in line with market expectations. The price pressures haven't eased at all, though. In monthly terms CPI went up by 0.4% fueled mainly by price increases in core items such as housing (0.3% m/m), health (0.4% m/m), restaurants and hotels (0.6% m/m) and clothing (1% m/m) as well. These increases have been at least partially induced by higher energy, food and gasoline prices realized in the previous months. According to our estimates, annual rate of 'net' core inflation may be lifted to 2.7-2.8% up from 2.5% recorded in February. We expect this tendency (overproportional increases in core inflation) to be even more pronounced in the coming months due to already determined increases of state-controlled prices; gas and electricity prices are to be increased by 14.3% and about 2% effective in May respectively.

March corporate wage data has not affected our assessment of the nominal side of the economy as well. Even though the growth rate of wages decelerated to 10.2% y/y, it still exceeds the 6.5% mark regarded by some MPC members as the safe one with respect to future inflation. For the months to come we still expect the wage expansion to hover above 10% which poses significant risk for cost pressures (some symptoms, e. g. deterioration of corporate profits, are already visible in shrinking deposit base). We will be able to elaborate fully on the figure as soon as the Statistical Office releases the detailed breakdown late this month.

Putting the puzzles together, we expect 'net' core inflation to rise on the back of the deregulation process and booming services prices and top 4% in late summer.

Turning to the real sphere of the economy, despite fast rising wages firms may still expand employment as a response to fast growing domestic and foreign demand (the data on current account, foreign trade and Polish PMI as well as do not reveal any signs of slowing exports so far). Employment in enterprise sector rose in March by 5.8% meeting market expectations. The business indicators and relatively high capacity reserves prove that the growth of employment is not going to ease in coming months.

March data (higher 'net' core inflation, double-digit wage growth rate and booming imports) are so far supportive for investors' anticipation of a prompt monetary policy tightening. However, given recently articulated worries of some MPC members about the condition of the real sphere of the economy, the industrial output data, to be released on Friday, will eventually determine the outcome of the April MPC meeting.

An unexpected back up for the polish monetary policy came from the high reading of the HICP inflation for euro zone which jumped to 17-year high reaching 3.6% y/y. The release suddenly changed market perception regarding ECB cuts – the front end of the curve inverted to a 25 hike instead of a long-awaited monetary easing. The reading influences ECB stance as it shapes inflation expectations and may feed through wages. Nevertheless, we expect the ECB to cut but no sooner than at the turn of the year. It gives green light for faster hikes in Poland as it wipes recently commonly voiced worries of rising disparity.

All in all, we expect the MPC to hike rates at its April meeting and then switch to 'wait and see' mode. In the coming months the check points for our scenario (the tightening cycle is set to last longer than the market anticipates) are the release of the new inflationary projection of the Central Bank in June and inflation spike seen in August. We also expect the inflation to stay markedly above 4% level at the end of the year and in the first half of 2009, for which the second round of the electricity prices deregulation, and elevated inflationary expectations of households are to be blamed.

Resignation of the Deputy Finance Minister to affect the convergence process

The resignation of an internationally recognized Deputy Finance Minister professor Gomulka, though his undisputable key role as a coordinator of fiscal reform and convergence process, has been fully ignored by the financial markets (the minor effects has been recorded only on the FX market with debt market practically unaffected).

Looking more into the details, Gomulka stated that the professional (tensions between FinMin and PM) not personal reasons stood behind his resignation and that he was increasingly skeptical about the euro convergence process. In our opinion, the reshuffling in the Finance Ministry will prove to have more pronounced and long lasting effects on the fiscal and monetary policy than currently anticipated. Gomulka, seen as the one opting for more restrictive monetary policy and thriving towards meeting of all convergence criteria, was the one supporting the Finance Minister Vincent-Rostowski in his efforts of a quick adoption of the common currency. His resignation may be regarded as a first step towards gradually deteriorating confidence in government's fiscal agenda. This scenario is even more likely to realize as Gomulka, known of his critical comments, will probably use his observer's right to express his critique of the government policy, convergence programme and meeting Maastricht criteria in particular.

MEDIUM-TERM FORECATS

Indicator	2006	2007	2008
GDP y/y (%)	6.1	6.5	5.5
Inflation rate (%)	1.0	2.4	4.5
Current account (% of GDP)	-2.1	-4.5	-4.6
Unemployment rate (end-of-year)	14.9	11.4	9.8
NBP repo rate (end-of-year)	4.00	5.00	>6.25

*Source: GUS, NBP, BRE Bank, **bold** change on last week*

Fixed Income

Euro zone lesson

Last week main event on the FI market was publication of CPI and wages figure for month of March. As surprising as it sounds after CPI came as expected and wages still showing double digit dynamics all 3M FRA traded at Wibor and all 6M FRA traded below Wibor. We see little explanation for such market behavior. In our opinion it is almost risk free option to buy 6M gap fixing after three MPC meetings 7 bp below current spot rate. We see no better strategy than paying curve at this levels. Bond market is pricing end of hikes and is concentrating now on how much MPC should cut rates. It is in line with MPC members comments suggesting that Council is willing to ease monetary policy sometime in 2009. We have seen what has happened on the EUR curve where after initial pricing of cuts by ECB at the end of 2008 curve 9x12 made 90 bp up in 2 months time. We think we will see same in PLN rates. Our macro picture is unchanged, and current econ releases confirm that inflation pressures are here and will stay for long. We recommend paying 1y and 2y IRS at current levels.

RECOMMENDATION:

pay 1y3s pay 2y6s IRS

AUCTIONS

	next auc.	offer	avg yield last	last auction date
13 Week T-bills	-	-	6.061%	4/14/2008
26 Week T-bills	-	-	6.220%	4/14/2008
52 Week T-bills	4/14/2008	-	6.380%	4/14/2008
2Y T-bond OK0709	7/2/2008	-	6.193%	4/2/2008
5Y T-bond PS0413	5/7/2008	-	6.167%	3/5/2008
10Y T-bond DS1017	7/9/2008	-	6.054%	4/9/2008
20Y T-bond WS0922	5/14/2008	-	5.794%	1/9/2008

Money Market

Carry still relatively high

Cost of carry still relatively high. Demand for money bills only slightly lower then the amount on the offer (14.6 vs 15 billion pln). It is obvious that liquidity premium is and will be growing, hence either less money bills will be circulating in the system or the carry will go up further.

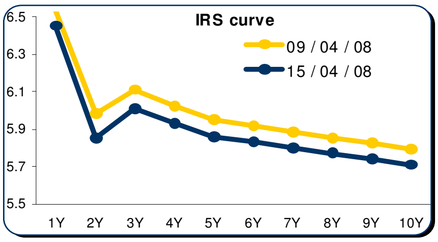
CPI and wages proved necessity for further rates hike

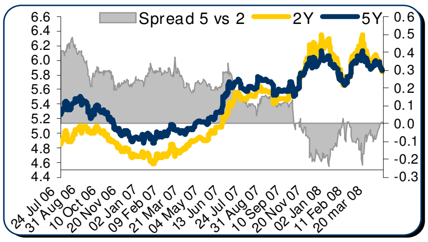
CPI and wages figures (4.1 and 10.2%) proved that another hike is very likely in April. However, it is not fully priced in yet, because some players still bet on a break. Although the figures were slightly lower then expected, bear in mind that still they are much above the levels allowing the core inflation to go down. Hence, we consider it as a great opportunity to pay some more at current levels.

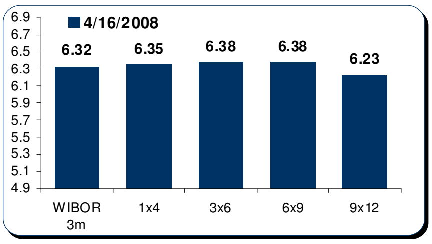
RECOMMENDATION:

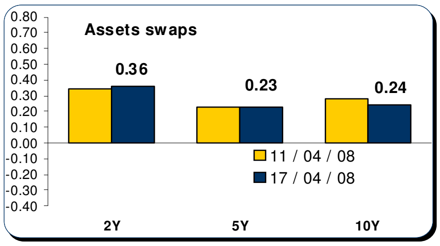
Pay 1,2M Polonia.

FIXED INCOME & MONEY MARKET CHARTS









Foreign Exchange

Zloty stronger

Since Friday złoty was traded between 3.4007 and 3.4335. Polish currency strengthened on early week with improving global sentiment and weakened on worsening of this. Still biggest turnover appears where options barriers a are placed.

Volatility curve slightly steepened

Though strong PLN levels, present low turnover and volatile trading made curve slightly steep-ened with 1M traded at 6.6 and 1Y still traded around 6.1.

RECOMMENDATION:

Spot:
Main supports / resistances:
EUR/PLN: 3.4000 / 3.4700
USD/PLN: 2.1200 / 2.1900

Buy on dips

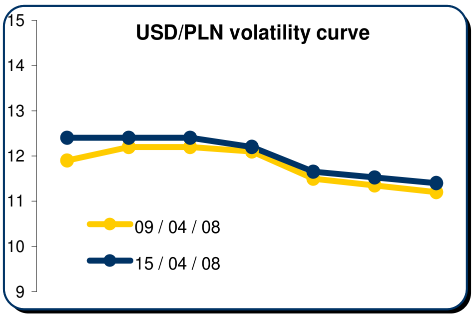
Although strengthening trend hasn't been broken we see 4.30 providing good support, so our idea is to buy at 3.4000 with s/l at 3.3850 and p/t at 3.4700.

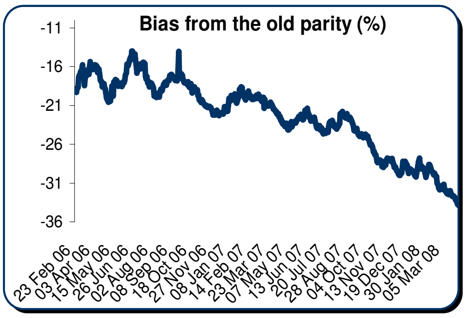
Options:

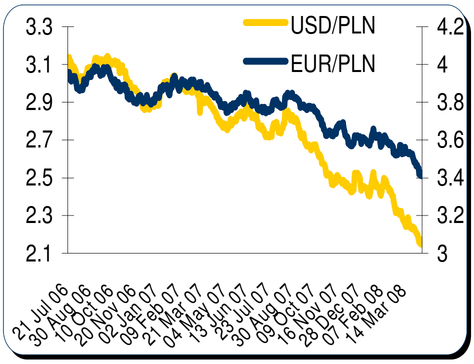
Stay aside/Short EURPLN gamma

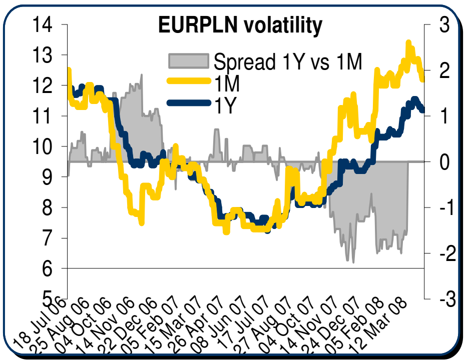
We advice to stay aside EURPLN market as present volatility levels do not offer much room to move but our second best thought is to sell EURPLN gamma on curve steepening as spot market still offers low volatility even on those more nervous days.

FX CHARTS









MARKET PRICES UPDATE

MONEY MARKET RATES

Money market rates (Closing mid-market levels)

date	3M FXSW	3M WIBOR	6M FXSW	6M WIBOR	1Y FXSW	1Y WIBOR
10/04/08	6.18%	6.21%	6.46%	6.39%	6.64%	6.56%
11/04/08	6.20%	6.21%	6.50%	6.39%	6.73%	6.57%
14/04/08	6.19%	6.21%	6.45%	6.39%	6.68%	6.57%
15/04/08	6.17%	6.21%	6.43%	6.39%	6.69%	6.57%
16/04/08	6.11%	6.19%	6.40%	6.40%	6.67%	6.57%

FRA MARKET RATES

FRA Market Rates (Closing mid-market levels)

date	1X4	3X6	6X9	9X12	6X12
10/04/08	6.40%	6.47%	6.46%	6.32%	6.45%
11/04/08	6.39%	6.43%	6.42%	6.30%	6.41%
14/04/08	6.36%	6.39%	6.37%	6.24%	6.38%
15/04/08	6.34%	6.37%	6.36%	6.21%	6.35%
16/04/08	6.35%	6.38%	6.38%	6.23%	6.37%

FIXED INCOME MARKET RATES

Fixed Income Market Rates (Closing mid-market levels)

date	1Y WIBOR	1Y TB	2Y IRS	2Y OK0709	5Y IRS	5Y PS0511	10Y IRS	10Y DS1017
10/04/08	6.56%	5.08%	5.57%	5.29%	5.72%	5.69%	5.73%	5.76%
11/04/08	6.57%	5.05%	5.57%	5.29%	5.71%	5.68%	5.72%	5.76%
14/04/08	6.57%	5.05%	5.57%	5.34%	5.71%	5.67%	5.71%	5.76%
15/04/08	6.57%	5.05%	5.56%	5.30%	5.71%	5.65%	5.72%	5.75%
16/04/08	6.57%	5.03%	5.56%	5.34%	5.70%	5.68%	5.70%	5.75%

PRIMARY MARKET RATES

Last Primary Market Rates

	au. date	maturity	avg price	avg yield	supply	demand	sold
52W TB	08/04/14	08/04/14	93.909	6.38%	3000	6053	3134
OK0710	08/01/02	09/07/25	85.730	6.19%	1800	2047	1654
PS0413	08/03/05	13/04/25	95.950	6.17%	1500	2019	1500
DS1017	08/02/13	17/10/25	96.048	5.79%	2000	2785	2000

FX VOLATILITY

date	USD/PLN 0-delta stradle 1M	3M	6M	1Y	25-delta RR 1M	1Y	25-delta FLY 1M	1Y
10/04/08	12.20	12.10	11.50	11.20	0.65	0.70	0.30	0.35
11/04/08	12.20	12.10	11.50	11.20	0.65	0.70	0.30	0.35
14/04/08	12.20	12.10	11.50	11.20	0.65	0.70	0.30	0.35
15/04/08	12.30	12.20	11.60	11.30	0.65	0.70	0.30	0.35
16/04/08	12.40	12.20	11.65	11.40	0.65	0.70	0.30	0.35

PLN SPOT PERFORMANCE

PLN spot performance

date	USD/PLN	EUR/PLN	bias
10/04/08	2.1600	3.4200	-34.82%
11/04/08	2.1730	3.4295	-34.56%
14/04/08	2.1500	3.4118	-35.03%
15/04/08	2.1510	3.4095	-35.05%
16/04/08	2.1502	3.4305	-34.81%

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

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.pl

Forex (BREX) - FX Spot &Options
Marcin Turkiewicz (+48 22 829 01 84) Marcin.turkiewicz@brebank.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.pl
Paweł Białczyński (+48 22 829 01 86)

MM (BREP) - MM, FX Swaps
Bartłomiej Małocha (+48 22 829 01 77) Bartlomiej.malocha@brebank.pl
Tomasz Wołosz (+48 22 829 01 74)

Structured Products (BREX)
Jaroslaw Stolarczyk (+48 22 829 01 67) Jaroslaw.stolarczyk@brebank.pl
Jacek Derezinski (+48 22 829 01 69)

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

Research
Ernest Pytlarczyk (+48 22 829 01 66) Research@brebank.pl
Marcin Mazurek (+48 22 829 0183)
Radosław Cholewiński (+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

Disclaimer

Distribution and use of this publication