



## POLAND WEEKLY REVIEW

### MACROECONOMICS AND FINANCIAL MARKETS

**IN FOCUS /  
MACROECONOMICS**

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**FIXED INCOME**

- Yields moving lower • pages 2-3

**FI  
RECOMMENDATION**

- Stay receive

**MONEY MARKET**

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- Trading only within small range • page 3

**MM  
RECOMMENDATION**

- Sell synthetic 6\*9 in ois

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**FX  
RECOMMENDATION**

- Neutral/buy PLN
- Sell/ hold short vega

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#### PREVIEW: The week of September 5<sup>th</sup> to September 11<sup>th</sup>

Indicator	Date of release	Period	BRE fore-cast	Consen-sus	Last	Comment
No relevant data releases						

## In Focus / Macroeconomics

### MPC on hold: restrictive bias remains but risks of economic slow-down clearly admitted

GDP surged by 5.8% y/y in Q2 beating market expectations situated at 5.5%. As for the break-down, consumption dynamics reached 4.0% y/y, compared with 4.1% in Q1 (the individual consumption growth stabilized at 5.6%, public consumption growth remained in the negative territory due to very low absorption of EU funds). Gross private investment growth reached 14.7% after 17.3% recorded in Q1; fixed capital formation decelerated only slightly to 15.2% y/y from 15.7% y/y seen in Q1. Note, however, that high dynamics of investment is to be attributed to a strong growth in construction output. The ongoing price correction seen in housing as well as a significant decrease in the housing loans momentum may revert this tendency soon. Moreover data for the entire H1 2008 indicates a substantial part of investment was due to completing running projects, not launching new ones. That may lead to a negative contribution of investment over the coming quarters.

Second quarter saw a negative contribution of inventories of -0.2 pp. The biggest surprise came, however, from international trade which subtracted 0.6 pp. from GDP dynamics - taking into consideration the available data on exports and imports, we initially estimated the net exports contribution at -0.8 -0.9 pp.

Not surprisingly, hawkish MPC members used the strong private consumption data as the argument for further hikes. Note, however, that the GDP data convey purely historical message given the fast changing economic environment in EU. Our sense is that Polish economy will slow markedly in the second half of this year. The hawkish claws may be, thus, blunted as soon as the negative industrial output data see the light.

#### MEDIUM-TERM FORECATS

Indicator	2006	2007	2008	2009
GDP y/y (%)	6.1	6.5	5.1	4.0
Inflation rate (% average)	1.0	2.4	4.5	3.7
Current account (% of GDP, average)	-2.1	-4.5	-4.6	-5.3
Unemployment rate (end-of-year)	14.9	11.4	9.8	9.6
NBP repo rate (end-of-year)	4.00	5.00	6.00	5.25

Indicator	2008			2009	
	Q2	Q3	Q4	Q1	Q2
GDP y/y (%)	5.8	4.7	4.0	3.8	3.8
Inflation rate (% average)	4.3	4.7	4.0	3.9	3.7
NBP repo rate (end-of-quarter)	6.00	6.00	6.00	6.00	5.75

*Bold denotes changes from the last release with arrows showing the direction of changes*

## Fixed Income

*Yields moving lower*

Good demand that we observed on the 5y bond auction on Wednesday (bid/cover ratio over 4) supports our view that current yield levels are attractive to receive. We think that MPC's hawks will have serious problems with finding enough support to hike rates again this year, especially if following data releases will confirm slowing economy and fading inflationary pressures. Even if the hike actually happens, it shouldn't affect rates much, as it's almost fully priced in in Wibors and short FRA rates. Moreover additional 25bp of policy tightening would be most likely last one in the cycle and it's potential impact on growth perspective would increase expectations for rate cuts next year. We still see best value in 9x12 and 2Y and recommend adding to receive position on upticks.

#### **RECOMMENDATION:**

Stay receive

**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	9/8/2008	-	6.490%	8/18/2008
2Y T-bond OK0710	12/3/2008	-	6.471%	8/6/2008
5Y T-bond PS0413	10/1/2008	-	6.114%	9/3/2008
10Y T-bond DS1017	10/8/2008	-	6.054%	4/9/2008
20Y T-bond WS0922	9/12/2008	-	6.080%	5/14/2008

**Money Market**

*Cheap end of the reserve*

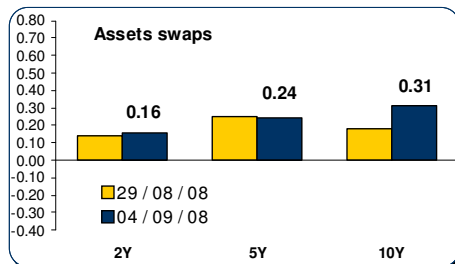
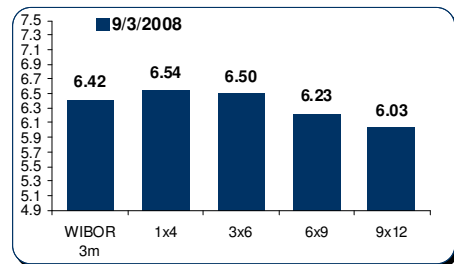
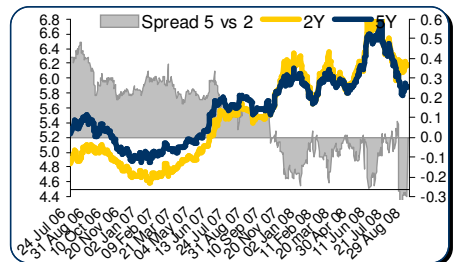
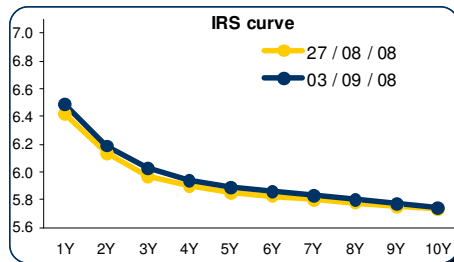
*Trading only within small range.*

**RECOMMENDATION:**

Very cheap end of the reserve, since the market bought only 7.5 billion pln worth of money bills against 14.8 billion pln offer. Real cost of money (polonia index) dropped to 5.16% from 6.07%, and the deposit in the central bank reached to 6 billion pln. New reserve started easily with quite a substantial surplus of the money in the system (around 5 billion pln). Next week should be more or less squared after tomorrow's open market operation. No figures so only trading within a very small range, mainly waiting for some figures or any event. CPI and industrial output will be crucial this month so watch them carefully.

Sell synthetic 6\*9 in ois.

**FIXED INCOME & MONEY MARKET CHARTS**



**Foreign Exchange**

*Zloty weaker*

Since beginning of the week Zloty has continued to weaken to Euro. Zloty moved from support at 3.3250 to new high at 3.3909. We believe that EUR/PLN is close to reaching the higher band of the range (3.4250) and market already anticipates that move. We feel PLN shorts are quite crowded at the time being, and that is why we expect the above resistance to be touched but not breach significantly. After that move, in the medium term we expect consolidation between 3.30 and 3.40.

*Volatility curve higher*

This week volatility curves have traded higher: EUR/PLN moved from 6,85 to 7,5 1m and 1 year respectively moved to 6,75 from 6,45 . USDPLN curve has accumulated not only the rise of EUR/PLN volatility but also higher EUR/USD. That said the 1month USD/PLN has jumped from 12,75 to 14,25, and 1y has reached 13,40 from 12,25 lat week .

**FX CHARTS**

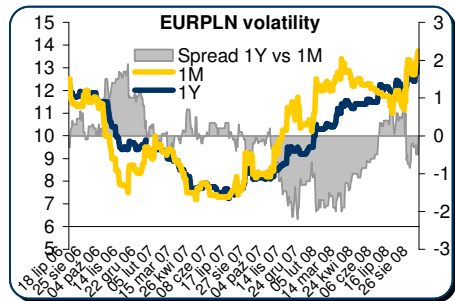
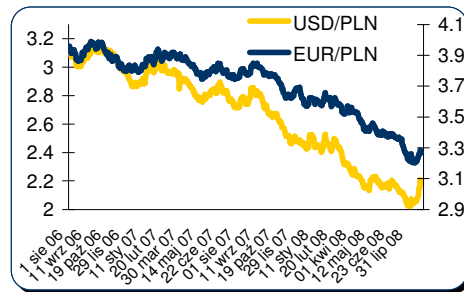
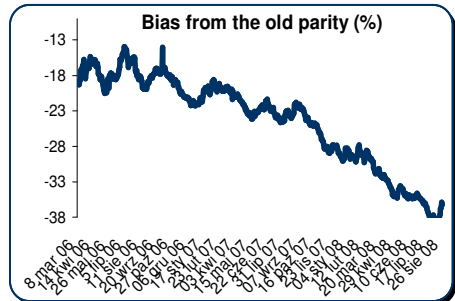
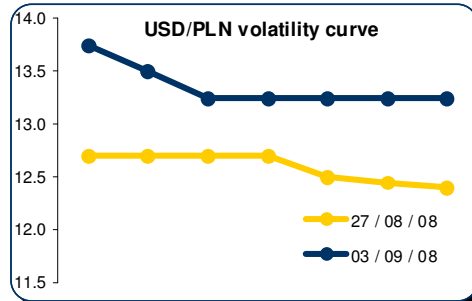
**RECOMMENDATION:**

Neutral/buy PLN

Sell/ hold short vega

SPOT

Main supports / resistances:



EUR/PLN: 3.34 / 3.4250  
 USD/PLN: 2.3150/ 2.400

Our ideal trade is to buy PLN in 3,4250/3,4350 area with stop loss above 3,4500 and hopes for 3,3500.

OPTIONS

Against our view EUR/PLN volatility has jumped on the back of the weaker PLN. We add to our position at current levels 3m 7,25 6m 6,85 and 1y 6,7.

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

Money market rates (Closing mid-market levels)						
date	3M		6M		1Y	
	FXSW	WIBOR	FXSW	WIBOR	FXSW	WIBOR
28/08/08	6.39%	6.36%	6.46%	6.49%	6.51%	6.59%
29/08/08	6.35%	6.39%	6.45%	6.48%	6.55%	6.53%
01/09/08	6.35%	6.41%	6.46%	6.49%	6.50%	6.55%
02/09/08	6.35%	6.42%	6.45%	6.49%	6.37%	6.55%
03/09/08	6.39%	6.40%	6.47%	6.48%	6.53%	6.54%

**FRA MARKET RATES**

FRA Market Rates (Closing mid-market levels)					
date	1X4	3X6	6X9	9X12	6X12
28/08/08	6.53%	6.52%	6.32%	6.12%	6.27%
29/08/08	6.54%	6.51%	6.28%	6.08%	6.23%
01/09/08	6.54%	6.51%	6.29%	6.05%	6.23%
02/09/08	6.55%	6.53%	6.30%	6.07%	6.25%
03/09/08	6.54%	6.50%	6.23%	6.03%	6.18%

**FIXED INCOME MARKET RATES**

Fixed Income Market Rates (Closing mid-market levels)								
date	1Y		2Y		5Y		10Y	
	WIBOR	TB	IRS	OK0709	IRS	PS0511	IRS	DS1017
28/08/08	6.59%	5.08%	5.57%	5.29%	5.72%	5.69%	5.73%	5.76%
29/08/08	6.53%	5.05%	5.57%	5.29%	5.71%	5.68%	5.72%	5.76%
01/09/08	6.55%	5.05%	5.57%	5.34%	5.71%	5.67%	5.71%	5.76%
02/09/08	6.55%	5.05%	5.56%	5.30%	5.71%	5.65%	5.72%	5.75%
03/09/08	6.54%	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	08/08/18	08/08/18	93.842	6.49%	500	2330	500
OK0710	08/08/06	10/07/25	88.390	6.47%	1800	3724	1830
PS0413	08/09/03	13/04/25	96.459	6.11%	2200	8986	2200
DS1017	08/07/09	17/10/25	91.480	6.50%	700	2461	705

**FX VOLATILITY**

date	USD/PLN 0-delta stradle				25-delta RR		25-delta FLY	
	1M	3M	6M	1Y	1M	1Y	1M	1Y
28/08/08	12.70	12.70	12.50	12.40	1.00	1.00	0.30	0.35
29/08/08	13.00	12.85	12.85	12.75	0.00	0.00	0.00	0.00
01/09/08	13.25	13.00	13.00	12.75	0.00	0.00	0.00	0.00
02/09/08	13.25	13.00	13.00	12.75	0.00	0.00	0.00	0.00
03/09/08	13.50	13.25	13.25	13.25	0.00	0.00	0.00	0.00

**PLN SPOT PERFORMANCE**

PLN spot performance			
date	USD/PLN	EUR/PLN	bias
28/08/08	2.1915	3.2690	-36.25%
29/08/08	2.1915	3.2690	-36.25%
01/09/08	2.1915	3.2690	-36.25%
02/09/08	2.1915	3.2690	-36.25%
03/09/08	2.1915	3.2690	-36.25%

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

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