



## POLAND WEEKLY REVIEW

### MACROECONOMICS AND FINANCIAL MARKETS

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#### PREVIEW: The week of July 31<sup>st</sup> to August 6<sup>th</sup>

Indicator	Date of release	Pe-riod	BRE forecast	Consen-sus	Last	Comment
MinFin's inflation forecast	Aug 3	Jul	3.4%	3.4%	3.5%	Food prices behaving close to the seasonal pattern. Moderate growth of fuels continued. Core inflation relatively elevated at 2.7-2.8% y/y.
PMI	Aug 3	Jul	44.3pts	-	43.0pts	Swift march of business activity indicators (domestic and foreign) forwards, accompanied by a series of better real sphere data.

## In Focus / Macroeconomics

### NBP rates on hold

No surprise this time. Polish MPC kept the rates unchanged with the REPO rate at 3.5% and announced no additional measures to flood the market with liquidity. The statement proved to be very similar to the previous one; the Committee did not change its informal bias and continuously sees inflation edging lower as a more likely scenario.

The MPC's assessments of the economic conditions seem, however, to be a bit more optimistic this month. The statement lists signs of gradual recovery and improving business survey indicators for both Polish and global economy. Turning to inflation perspectives, the MPC stuck to its view that inflation might remain elevated for a while due to higher state-controlled prices. The Committee also pointed to some unwelcome effects related to the inflation inertia phenomenon reflected in higher core inflation in particular. Interestingly, as it has been echoed by other central banks, Polish MPC included higher oil prices as a risk factor pushing inflation higher in the mid-term. On balance, inflation is still seen to decelerate in the mid-term on the back of lessening domestic demand and appreciating zloty. The latter factor appeared in the statement as a disinflationary one for the first time since Autumn 2008. If permanent, zloty's appreciation may clearly induce some expectations for further rate cuts.

We think July's MPC decision is a prelude to a longer period of stable official rates in Poland (we do not see MPC members comments on possible corrective rate cut in Autumn as particularly credible). No more cuts scenario gets more and more likely as an evolutionary mood change in the Committee can be observed. Some members indicate the rates should remain at safely high levels till the new Committee takes the office in Q12010; the green shoots theory and falling market rates (Wibor fall by more than 30 bps since the June meeting) are taking their toll as well. In addition the Committee clearly dislikes the idea of desynchronizing its policy with the ECB. Additionally, we do not think the new inflation projection – to be released in October – will really offer support for rate cut expectations. The projection is to confirm lower inflation outlook for 2010, but it will probably point to accelerating inflation in 2011 – the pattern seen in June projection as well. Taking into account the fact that economic slowdown affected Polish labor market only to a limited extent, the expected period of non-inflationary recovery may prove to be only a temporary phenomenon and another monetary tightening cycle may follow suit.

### MID-TERM FORECATS

Indicator	2006	2007	2008	2009	2010
GDP y/y (%)	6.1	6.5	4.8	1.1	2.0
Inflation rate (% , average)	1.0	2.4	4.3	3.4	1.8
Current account (% of GDP, average)	-2.1	-4.5	-5.3	0.2	-2.9
Unemployment rate (end-of-year)	14.9	11.4	9.5	12.8	13.5
NBP repo rate (end-of-year)	4.00	5.00	5.00	3.50	3.75

Indicator	2008		2009			
	Q3	Q4	Q1	Q2	Q3	Q4
GDP y/y (%)	4.7	2.9	0.8	1.2	0.8	1.6
Inflation rate (% , average)	4.7	3.8	3.2	3.7	3.4	3.5
NBP repo rate (end-of-quarter)	6.00	5.00	3.75	3.50	3.50	3.50

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

## Fixed Income

### Another dull week

Last week wasn't exciting at all on the FI market. Rates fluctuated within relatively narrow range. MPC's decision/comments didn't bring anything new to the overall picture. Actually we do not really expect much of a change in the nearest future. Strengthening tendency that we've observed recently in the front end is losing momentum, especially that Wibor's move down seems to have stopped as well. Next week the Ministry of Finance will publish their CPI estimate. Our forecast is 3.4-3.5% y/y, which should be neutral for the market. After closing our asset-swap holdings and cutting pay positions in the front end, we still prefer to stay risk neutral and wait for

opportunities and possibly some clearer signals from the economy.

**RECOMMENDATION:**

Enjoy the summer.

**AUCTIONS**

	next auc.	offer	avg yield last	last auction date
13 Week T-bills	-	-	6.142%	12/9/2008
26 Week T-bills	-	-	4.456%	5/4/2009
52 Week T-bills	8/3/2009	-	4.282%	7/27/2009
2Y T-bond OK0112	8/5/2009	-	5.410%	6/3/2009
5Y T-bond PS0414	9/2/2009	-	5.549%	7/15/2009
10Y T-bond DS1019	9/9/2009	-	6.340%	5/20/2009
20Y T-bond WS0429	9/9/2009	-	6.340%	5/20/2009

**Money Market**

*Extremely cheap end of the reserve*

Last week of the reserve was extremely cheap, with the shortest rates slightly above 2% and growing deposit in the central bank. The start of the new reserve will be determined by tomorrow's open market operation. The supply will be 40 billion pln or more. The question is whether the market buys it or not.

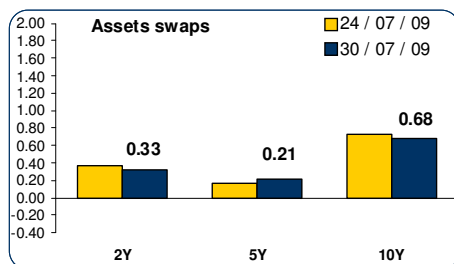
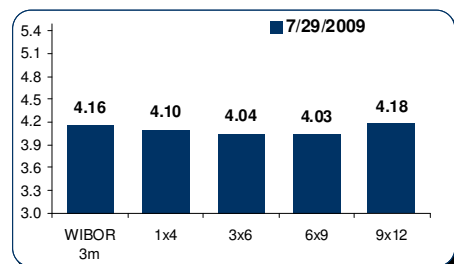
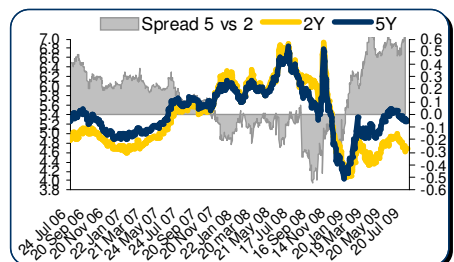
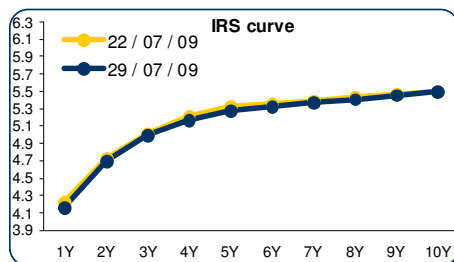
*The MPC left all the rates unchanged*

The MPC left all the rates unchanged. Real economy figures increase the probability of leaving the rates where they are at least for couple of months. Because of that and if the over liquidity is gone (market buys all the money bills on weekly basis plus falling demand for repo with the central bank) wibor rates may go up again. However, the movement will be definitely less impressive than last time the MPC paused.

**RECOMMENDATION:**

Pay 3M polonia ois.

**FIXED INCOME & MONEY MARKET CHARTS**



## Foreign Exchange

*Zloty in side trend*

This week zloty has opened at 4.1900 and has been traded in 4.1550/4.2100 range. Global sentiment had worsen a bit so zloty lost its steam.

*Implied volatility untouched*

Trading zloty in narrow range left volatility curve untouched, especially as realized volatility stays close implied current levels.

**RECOMMENDATION:**

SPOT

Main supports / resistances:  
 EUR/PLN: 4.0650 / 4.2700  
 USD/PLN: 2.8600 / 3.0600

*Sell upticks*

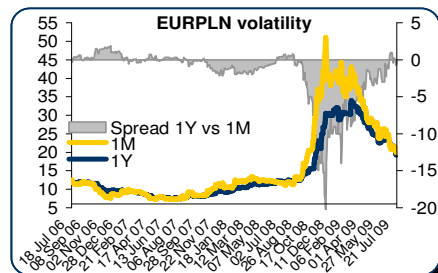
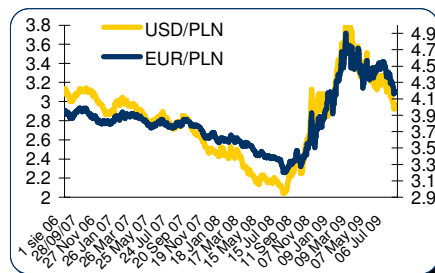
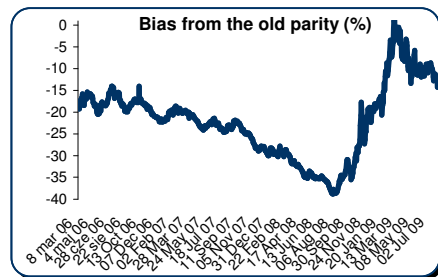
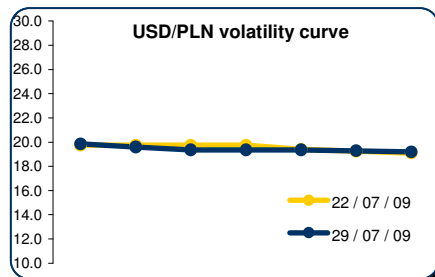
Sentiment worsen a bit, zloty market looks long PLN that's make good environment for correction with target 4.25/4.27. Without spectacular news we would sell there with market consensus target 4.0600.

*Sell gamma*

OPTIONS

Curve is much lower but we still see chance for short gamma trade to be profitable  
 For hedging we suggest buying KO options as it is cheaper due to barrier pricing on high volatility market.

**FX CHARTS**



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

## Money market rates (Closing mid-market levels)

date	3M		6M		1Y	
	FXSW	WIBOR	FXSW	WIBOR	FXSW	WIBOR
23/07/09	4.05%	4.18%	4.30%	4.30%	4.45%	4.46%
24/07/09	4.08%	4.17%	4.25%	4.28%	4.45%	6.59%
27/07/09	4.06%	4.17%	4.27%	6.49%	4.44%	4.43%
28/07/09	4.03%	4.17%	4.23%	4.27%	4.41%	4.43%
29/07/09	4.05%	4.16%	4.23%	4.26%	4.41%	4.42%

**FRA MARKET RATES**

## FRA Market Rates (Closing mid-market levels)

date	1X4	3X6	6X9	9X12	6X12
23/07/09	4.15%	4.08%	4.07%	4.21%	4.30%
24/07/09	4.14%	4.08%	4.07%	4.22%	4.31%
27/07/09	4.15%	4.11%	4.10%	4.24%	4.32%
28/07/09	4.11%	4.05%	4.04%	4.17%	4.26%
29/07/09	4.11%	4.01%	4.01%	4.14%	4.23%

**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
23/07/09	4.46%	4.26%	4.64%	4.95%	5.30%	5.47%	5.43%	6.15%
24/07/09	6.59%	4.33%	4.61%	4.98%	5.28%	5.44%	5.43%	6.16%
27/07/09	4.43%	4.33%	4.64%	5.00%	5.25%	5.47%	5.49%	6.16%
28/07/09	4.43%	4.35%	4.69%	5.04%	5.27%	5.53%	5.50%	6.19%
29/07/09	4.42%	4.30%	4.69%	5.02%	5.28%	5.49%	5.50%	6.18%

**PRIMARY MARKET RATES**

## Last Primary Market Rates

	au. date	maturity	avg price	avg yield	supply	demand	sold
52W TB	09/07/27	10/07/27	95.850	4.28%	1500	2311	1454
OK0112	09/07/01	12/01/25	87.362	5.41%	4500	4431	4006
PS0414	09/07/15	14/04/26	100.782	5.55%	2000	6347	2011
DS1017	09/04/08	19/10/25	94.460	6.22%	2500	4846	1820

**FX VOLATILITY**

date	USD/PLN 0-delta stradle				25-delta RR		25-delta FLY	
	1M	3M	6M	1Y	1M	1Y	1M	1Y
23/07/09	19.75	19.75	19.50	19.40	2.25	4.25	1.25	1.25
24/07/09	19.85	19.85	19.60	19.50	2.25	4.25	1.25	1.25
27/07/09	19.85	19.85	19.60	19.50	2.25	4.25	1.25	1.25
28/07/09	19.60	19.35	19.35	19.20	2.50	4.25	1.25	1.25
29/07/09	19.60	19.35	19.35	19.20	2.50	4.25	1.05	1.15

**PLN SPOT PERFORMANCE**

## PLN spot performance

date	USD/PLN	EUR/PLN	bias
23/07/09	2.9830	4.2443	-12.34%
24/07/09	2.9663	4.2139	-11.74%
27/07/09	2.9230	4.1625	-12.76%
28/07/09	2.9237	4.1726	-14.28%
29/07/09	2.9632	4.1949	-14.21%

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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