



POLAND WEEKLY REVIEW

MACROECONOMICS AND FINANCIAL MARKETS

IN FOCUS / MACROECONOMICS	<ul style="list-style-type: none"> • <i>NBP rates on hold. Bias still neutral.</i> 	• page 2
FIXED INCOME	<ul style="list-style-type: none"> • <i>Better to be lucky...</i> 	• page 3
MONEY MARKET	<ul style="list-style-type: none"> • <i>Last week of the reserve quite surprising</i> • <i>The new MPC without pressure</i> • <i>Sell 1W POLONIA</i> 	• pages 3-4
FOREIGN EXCHANGE	<ul style="list-style-type: none"> • <i>Zloty mixed</i> • <i>Implied volatility untouched</i> 	• pages 4-5
MARKET PRICES CONTACT LIST DISCLAIMER		<ul style="list-style-type: none"> • page 6 • page 7 • page 8

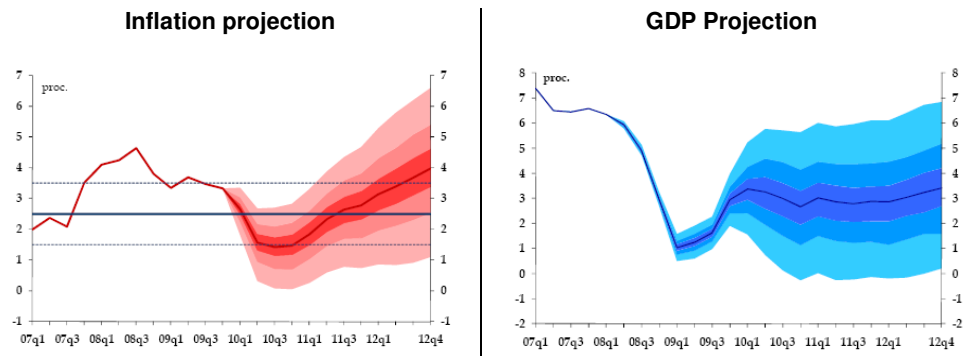
PREVIEW: The week of February 26th 2010 to March 4th 2010

Indicator	Date of release	Pe-riod	BRE forecast	Consensus	Last	Comment
MinFin inflation forecast y/y	Mar 1	Feb	2.9%	-	3.6%(p)	Revision of consumer basket (it also translates into January reading). Moderate growth of food prices, slight fall of fuel prices.
PMI	Mar 1	Feb	50.7pkt.	-	51.0pkt.	Mixed evidence with regard to business tendency indicators (slowly falling foreign indicators, improvement in domestic ones). We expect the foreign view to take the upper hand.

In Focus / Macroeconomics

NBP rates on hold. Bias still neutral.

As expected Polish MPC did not change the rates at the February meeting. Repo rate was kept at 3.5%. The statement proved to be very similar to that of January and elaborates more optimistically on growth perspectives (both globally and locally). Along with narrative depiction, the MPC provided the results of the newest central bank's inflation projection which presents higher growth path and higher inflation path with the latter very likely topping the upper band of NBP target in 2012. Higher inflation path should then automatically translate into MPC's (unofficial) bias change. It did not happen, though. One may speculate that MPC differently define the mid-term perspective (as only 6-8 quarters ahead) so it concentrates on less distant inflation perspectives. Indeed, Zielinska-Glebocka mentioned that MPC may change the bias not earlier than after the new inflation projection is released, i.e. in June.



Comments delivered just after the MPC meeting suggest the rate-setters would rather focus on the exchange rate and real sphere than offer any perspective on future path of interest rates, which may – by strengthening the zloty – weigh negatively on fragile economic recovery. This reaffirms our view, that the risk of changing the monetary policy bias was limited to the February meeting alone. Along with falling CPI inflation, the risk diminishes in coming months. The ruling uncertainty surrounding growth forecasts makes expectations towards the actual monetary tightening drift away as well.

As far as bond market perspectives are concerned, the environment of low interest rates (Poland, euro zone, USA) is inevitable (and may last a bit longer than markets are currently anticipating). As we add also technical factors (PLN 80bn over liquidity in the system) it still supports carry-oriented strategies (additional boost may be given by falling inflation). Longer papers may gain along with firming growth perspectives and better fiscal indicators (on this field lower inflation will also be helpful).

MID-TERM FORECATS

Indicator	2007	2008	2009	2010	2011
GDP y/y (%)	6.5	4.8	1.7	3+	4.5
Inflation rate (% , average)	2.4	4.3	3.5	2.3	2.9
Current account (% of GDP, average)	-4.5	-5.3	-1.5	-2.3	-3.7
Unemployment rate (end-of-year)	11.4	9.5	11.9	12.1	10.9
NBP repo rate (end-of-year)	5.00	5.00	3.50	4.00	5.50

Indicator	2009			2010		
	Q1	Q2	Q3	Q4	Q1	Q2
GDP y/y (%)	0.8	1.1	1.7	3.0	3.8	3.3
Inflation rate (% , average)	3.2	3.7	3.5	3.5	3.3	2.1
NBP repo rate (end-of-quarter)	3.75	3.50	3.50	3.50	3.50	3.50

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

Fixed Income

Better to be lucky

Last week activity on the FI market was rather low. The turnover dropped significantly compared to January and first weeks of February. Realized volatility also went down significantly, as the range on the IRS has tightened to 12-13 points. The economic releases brought little change to the market sentiment. Some market events worth mentioning is 5y5y PLN over EUR trading above 150bp for a moment (sub 140 currently), significant flattening in the 5y10y area from 17bp to 9bp currently. As far as the MPC and our call for the change in stance from neutral to restrictive, well it did not happen, but the one should pay attention to the fact that CPI comes above the NBP target in the monetary policy horizon ... well. The comments from RPP members just after the decision were rather in the dovish tone, which suggest our call was premature. Some interesting comments from the fiscal side suggest that the public sector deficit to GDP can be less than 7.2% expected by Ministry of Finance due to better performance of local communities (deficit came close to 12 bio PLN versus 22 expected). Second thing is comment from MinFin Ko-tecki suggesting borrowing needs to come lower than assumed in the budget draft. All in all our view is still unchanged and we are positive for local assets, especially in the 10y sector. We also think that risk of rising rates in mid-term is not correctly priced in the curve, plus positioning in the front end of the seems to be rather heavy.

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	3/1/2010	-	3.856%	2/22/2010
2Y T-bond OK0712	3/10/2010	-	4.972%	2/10/2010
5Y T-bond PS0415	3/10/2010	-	5.736%	12/2/2009
10Y T-bond DS1019	3/17/2010	-	6.103%	2/19/2010
20Y T-bond WS0429	3/17/2010	-	6.170%	9/23/2009

Money Market

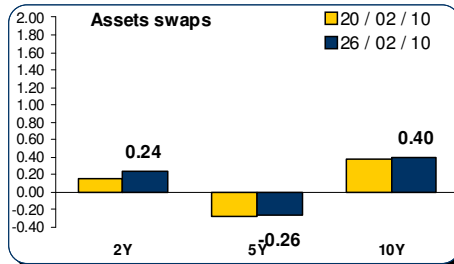
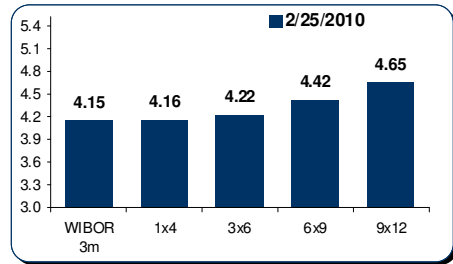
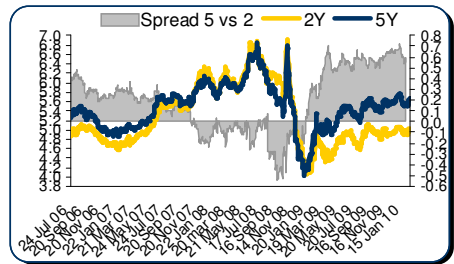
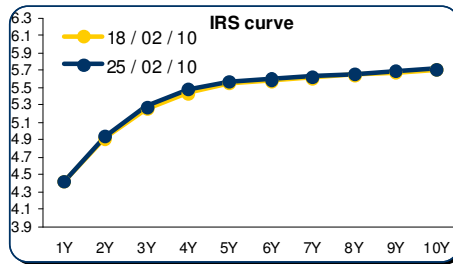
Last week of the reserve quite surprising

Last week of the reserve was quite cheap, however not as cheap as would be indicated by the surplus (as of today PLN 5 billion). On Monday the new reserve starts and we should be back to the 3% ON or even above, if the disruption of the liquidity redistribution (inverse spread for ON deposits) will be sustained.

The new MPC without pressure

The new MPC did not change the rates nor the bias, which was anticipated by some analysts. It looks like the new Council is quite balanced and will look on both the inflation and the economy stimulation. Therefore, any rates hikes can occur no sooner then in autumn.

FIXED INCOME & MONEY MARKET CHARTS



Foreign Exchange

Zloty mixed

Calmness on global markets has spread out to zloty. New low, 3.9440, was reached but market still lacks of new inflows. With better sentiment, correlation EURPLN vs. EURUSD decreased to -0.3 from -0.6. While EURUSD was traded around 1.35 zloty was stuck around/below 4.00. Range for this week was 3.9440-4.0110.

Implied volatility untouched

Quiet sessions pressured a bit the short end, whilst long end stays untouched. Present EURPLN levels are 11.25 for 1M and 12.3 for 1Y, similar as week ago. USDPLN curve driven by combination of higher spot and lower, as mentioned, correlation faces same situation 1M17.0 and 1Y 18.3. Last week numbers are 17.5 and 18.3 respectively.

Short-term forecasts

SPOT

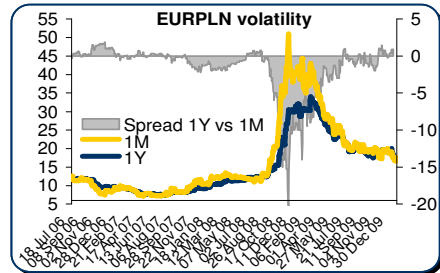
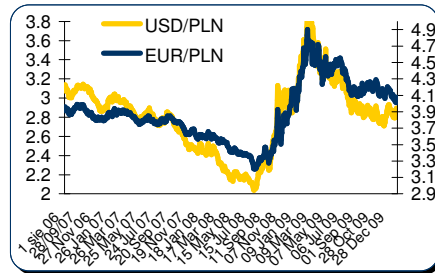
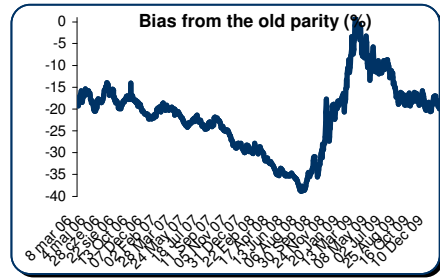
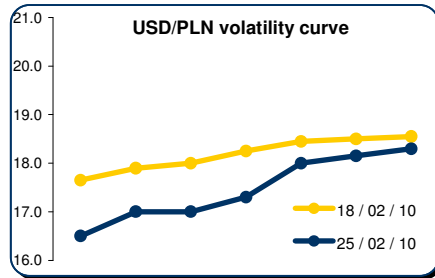
Main supports / resistances:
 EUR/PLN: 3.9500 / 4.1100
 USD/PLN: 2.8700 / 3.0000

EURPLN rallies are likely to loose steam at 4.06 – that is why this level serves as short-term resistance. Fundamentally zloty is still undervalued.

OPTIONS

EURPLN spot market strengthen slowly, we still like playing vols range by long vanna. The most liquid and transparent tenors are 3M-6M. Despite lower spot, long end remains well bid.

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
19/02/10	4.04%	4.16%	4.18%	4.16%	4.36%	4.36%
22/02/10	4.08%	4.16%	4.12%	4.15%	4.34%	6.59%
23/02/10	4.10%	4.15%	4.13%	6.49%	4.34%	4.35%
24/02/10	4.00%	4.15%	4.15%	4.15%	4.35%	4.35%
25/02/10	4.01%	4.15%	4.10%	4.13%	4.32%	4.34%

FRA MARKET RATES

FRA Market Rates (Closing mid-market levels)					
date	1X4	3X6	6X9	9X12	6X12
19/02/10	4.17%	4.22%	4.41%	4.65%	4.60%
22/02/10	4.19%	4.20%	4.39%	4.63%	4.58%
23/02/10	4.19%	4.22%	4.41%	4.65%	4.58%
24/02/10	4.19%	4.21%	4.42%	4.66%	4.60%
25/02/10	4.16%	4.22%	4.41%	4.65%	4.58%

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
19/02/10	4.36%	3.62%	4.95%	4.60%	5.57%	5.29%	5.72%	6.10%
22/02/10	6.59%	3.62%	4.92%	4.60%	5.55%	5.27%	5.71%	6.08%
23/02/10	4.35%	3.62%	4.95%	4.60%	5.57%	5.24%	5.70%	6.06%
24/02/10	4.35%	3.62%	4.98%	4.64%	5.58%	5.24%	5.68%	6.05%
25/02/10	4.34%	3.62%	4.94%	4.66%	5.57%	5.31%	5.72%	6.12%

PRIMARY MARKET RATES

Last Primary Market Rates							
	au. date	maturity	avg price	avg yield	supply	demand	sold
52W TB	10/02/22	11/02/22	96.238	3.86%	1800	3920	1800
OK0712	10/02/10	12/07/25	88.795	4.97%	5500	12417	5500
PS0415	09/12/02	15/04/25	98.691	5.78%	5000	5614	3629
DS1019	10/02/19	19/04/25	95.629	6.10%	2000	5570	2000

FX VOLATILITY

date	USD/PLN 0-delta straddle				25-delta RR		25-delta FLY	
	1M	3M	6M	1Y	1M	1Y	1M	1Y
19/02/10	17.65	18.00	18.20	18.30	2.00	3.60	0.60	0.90
22/02/10	17.65	18.00	18.20	18.30	2.00	3.60	0.60	0.90
23/02/10	17.00	17.30	18.00	18.30	2.00	3.65	0.60	0.90
24/02/10	17.35	17.65	18.15	18.35	2.50	3.65	0.60	0.90
25/02/10	17.35	17.65	18.15	18.35	2.50	3.65	0.60	0.90

PLN SPOT PERFORMANCE

PLN spot performance			
date	USD/PLN	EUR/PLN	bias
19/02/10	2.9658	4.0031	-17.39%
22/02/10	2.9166	3.9711	-17.81%
23/02/10	2.9040	3.9630	-18.27%
24/02/10	2.9570	4.0015	-18.28%
25/02/10	2.9601	3.9933	-18.97%

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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