BRE BANK SA

THE BEST FINANCIAL INSTITUTION FOR DEMANDING CUSTOMERS

FINANCIAL MARKETS DEPARTMENT

PAGES: 8

WARSAW, JULY 22, 2010

POLAND WEEKLY REVIEW

MACROECONOMICS AND FINANCIAL MARKETS

IN FOCUS / MACROECONOMICS	• *Industrial output gains tirelessly, so are the prices in manufacturing…*	• *pages 2-3*
FIXED INCOME	• *Summer lull*	• *pages 3-4*
MONEY MARKET	• *10 billion less money bills bought then offered* • *FED wins with Hungary the market mood*	• *page 4*
FOREIGN EXCHANGE	• *Zloty still in range* • *Implied volatility consolidating*	• *pages 4-5*
MARKET PRICES		• *page 6*
CONTACT LIST		• *page 7*
DISCLAIMER		• *page 8*

PREVIEW: The week of July 23rd 2010 to July 29th 2010

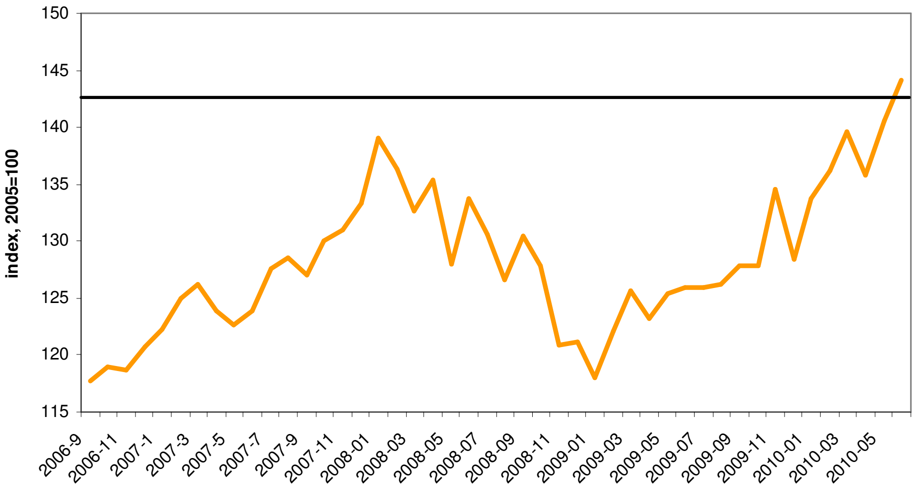
Indicator	Date of release	Period	BRE forecast	Consensus	Last	Comment
Retail sales	Jul 23	Jun	**2.7%**	4.0%	4.3%	Business tendency indicators pointing downwards, together with consumer pessimism. We expect heterogeneous result, with home appliances and durable goods at the top (wealth restoration) and food sales at the bottom.

In Focus / Macroeconomics

Industrial output gains tirelessly, so are the prices in manufacturing…

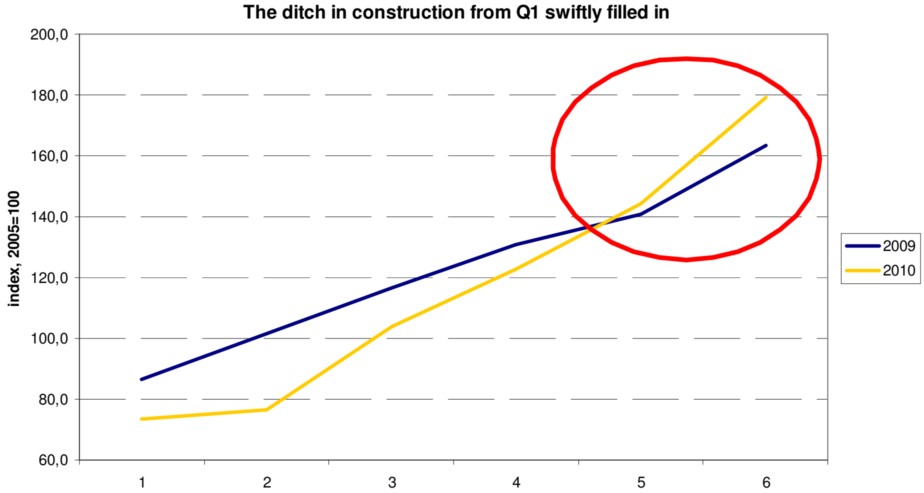
June saw industrial production rising by 14.5% y/y vs. 13.5% recorded in May. Manufacturing expanded by almost 16% y/y. In seasonally adjusted terms industrial ouput rose by 11.7% vs. 10.7% recorded in May. Industrial output enjoys positive momentum which is unlikely to fade out sharply in the coming months as re-stocking has just started to go in full throttle, German exports thrive and internal demand is slowly gaining strength. Current level of industrial output has passed its 2008 peak.

Industrial output has already passed its 2008 peak in volume terms



Positive annual dynamics have been registered in 27 out of total 34 sections. Record high growth rates in electronics and computers, which rose by 98.1% y/y, and those in chemical and automotive industry indicate that industrial output is continuously supported by rising exports and recovery in Germany. The relatively weak PLN seems to reinforce this tendency. One should note, however, that the domestic component of the industrial production is expanding as well (we presented the corresponding graph and highlights of our analysis in the previous weekly report), which has a potential to make Polish industry growth self-reinforcing.

The ditch in construction from Q1 swiftly filled in



Turning to Q2 GDP growth rate, it may well surpass that seen in Q1, i.e. 3.0% y/y (based on our econometric model we estimate Q2 GDP growth rate at 3.8% y/y). June was the second consecutive month which saw a rebound in construction (+9.6% y/y) connected to rising infrastructure investment. The ditch from Q1 is being swiftly filled up by foregone investment projects (see the graph, previous page). Based on the Q2 data it seems more and more likely that the drop of investment in Q1 2010 (-12.4%) may proved only short-lived and not affect the recovery course.

Turning to nominal side, producer prices accelerated in June to 1.9% y/y. The monthly growth of producer prices resembles the hum-shaped response to an exchange rate shock (accompanied by higher prices of base metals) which occurred three months ago. However, contrary to usual developments after the shock (temporary exuberance then mean reversion) the aftermath effects have potential to be strong. Firs of all, the shock lifted price expectations higher (level effect) which along with surging industrial output (in volume terms it already surpassed the peak reached just before the slowdown; it is a fair proxy for capacity utilization, see the graph above) may lead producer prices higher in coming months. We think the moment when producer prices are passed through to consumers is coming closer, especially given the stronger labor market (surge in employment translating into a substantial rise in labor costs). We stick to our view that rising inflation, expansionary fiscal policy and possible abrupt reaction of financial markets may persuade the MPC to tighten the monetary policy already this year

MID-TERM FORECATS

Indicator	2007	2008	2009	2010	2011
GDP y/y (%)	6,5	4,8	1,7	3.6↑	4,2
Inflation rate (%, average)	2,4	4,3	3,5	2,6	2,9
Current account (% of GDP, average)	-4,5	-5,3	-1.6	-1.8	-2.9
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	3,75	5,00

Indicator	2009		2010			
	Q3	Q4	Q1	Q2	Q3	Q4
GDP y/y (%)	1.7	3,1	3.0	3.8↑	4.0↑	4.1↑
Inflation rate (%, average)	3,5	3,3	3,0	2,1	2.2	2.8
NBP repo rate (end-of-quarter)	3,50	3,50	3,50	3,5	3.5	3,75

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

Fixed Income

Summer lull

Summer this year is really hot in Poland. Warsaw is enjoying temperatures up to 35 centigrade's. Even the storms are not so often as they used to be, especially given the weather. This year summer on FI marker is also exceptional. It is very hard to say anything about this market. Curve is glued to what used to be 20 bp range to right now 10 bp range. Poor auctions, surprising readings of economic indicators, turmoil in Hungary, PLN weakening, nothing. No impact. Moves are shallow, volumes are increasing on the low volatility so liquidity is rather good, but it is very hard to say what market is really doing. Only winners in this game are probably spread takes and carry players. We see risk of another uneventful risk. There is no economic data, there is no usual RPP meeting, there is really very little to have a grip on. For us the risk of spike in yields still exist, and economy is constantly confirming its strength. We also see fiscal debate to take central stage very soon, and outcome we view as neutral to negative. Though one have to admit that low volatility compared with generally low yield environment is not supporting our view. We still prefer to play Polish yields from negative perspective. Days of falling inflation are over. Somehow we feel it will be up to RPP to manage both the fiscal and monetary sphere, both moving in uncomfortable territories. But for now carry persists over vacation period, for now…

AUCTIONS

	next auc.	offer	avg yield last	last auction date
13 Week T-bills	-	-	6,142%	2008-12-09
26 Week T-bills	-	-	4,456%	2009-05-04
52 Week T-bills	2010-07-26	-	4,025%	2010-07-12
2Y T-bond OK0712	2010-08-04	-	4,740%	2010-07-07
5Y T-bond PS0415	2010-08-11	-	5,373%	2010-07-14
10Y T-bond DS1020	2010-09-15	-	5,790%	2010-06-16
20Y T-bond WS0429	2010-09-15	-	6,170%	2009-09-23

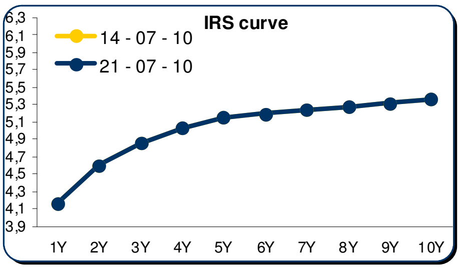
Money Market

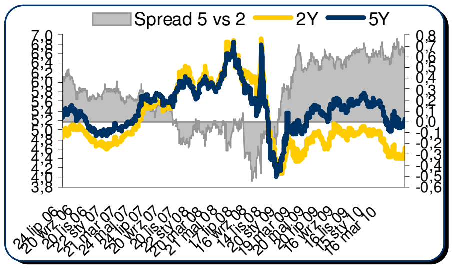
10 billion less money bills bought then offered

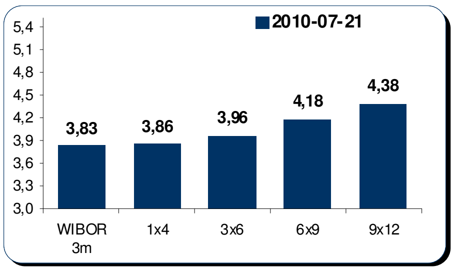
FED wins with Hungary the market mood

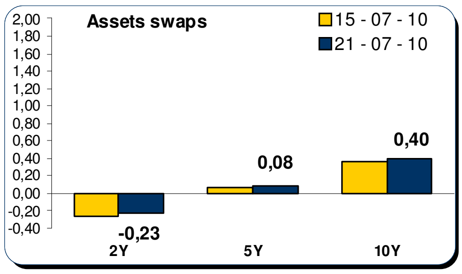
Extremely cheap week after the market bought 10 billion pln less money bills then was offered. Surplus at the moment reaches 15 billion pln comparing to the reserve requirements for the current period, therefore it is very unlikely that the shortest rates could go much up before August. We should also try to diagnose why the demand side was such an inefficient one during the last auction. Well, in our opinion, offering more money bills then necessary to square the market, and showing the shortage in the liquidity forecasts for 3 weeks in a row, was a strong incentive directly provoking such a behaviour. To cut the long story short, the central bank is responsible for what happened and making not the optimal decision significantly increased the volatility of the carry. Again and again managing the average value instead of managing the real liquidity of the system, and moreover the ability of the system to redistribute it among the particular participants, gives the results opposite to those wanted by the regulator (stabilization of the polonia rate nearby the main market rate). But we know this story so well, don't we?
Rest of the MM curve was driven mainly by two events: Hungarian break in negotiations with the IMF (bearish) and FED stressing out the high unemployment and possibility of the second recession wave (bullish). Right now the latter one wins strengthening the currency and the bond prices.

FIXED INCOME & MONEY MARKET CHARTS









Foreign Exchange

Zloty still in range

The support of 4,054,06 (EUR/PLN) has held well, and we have seen quick , corrective move to 4,1560 . Where the move run out off steam, and the gradual slide to 4,0900 began. Technically we are still, in the wider range 4,00/4,20, but the lower bottoms are suggesting the possible breakout of 4,20 resistance. Albeit , the market is lacking energy , and the price action is rally disappointed due to holiday season, low liquidity period.

Implied volatility consolidating

The implied volatility curve has jumped higher on the move to 4,15 (especially the front end 1mth has jumped from 10,75% last week mid to 12,50 % mid on Monday, the back end volatility jumped modestly by 0,3%) . Later in the week , the volatility curve gradually gave away most of it s gains .

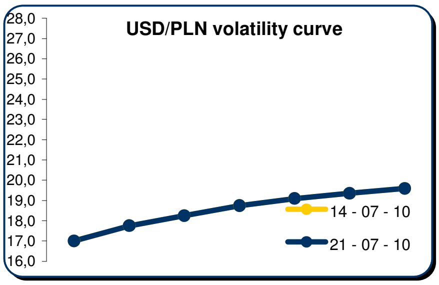
Short-term forecasts:

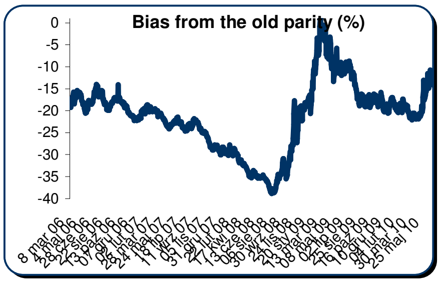
SPOT
Main supports / resistances:
EUR/PLN: 4,0000 / 4.2000
USD/PLN: 3.1000 / 3.2500

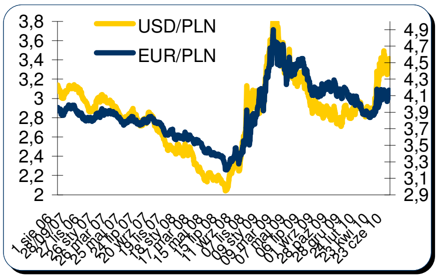
The market is trading water at the moment, so one could purely technically buy dips 4,0850 add 4,0700 with the stop loss below 4,0550 for a possible move to 4,1550 and eventually 4,1950 .

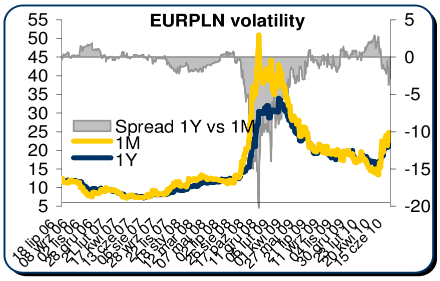
OPTIONS
In our opinion we are approaching interesting levels from which the implied volatility (mid curve) may start to rise. We are fully aware, of the low historic volatility performance, so one has to to install our long Vega, Vanna position using Gamma neutral spreads.

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
15-07-10	3,72%	3,86%	3,91%	3,90%	4,14%	4,14%
16-07-10	3,76%	3,86%	3,92%	3,90%	4,12%	6,59%
19-07-10	3,70%	3,84%	3,88%	6,49%	4,12%	4,14%
20-07-10	3,73%	3,82%	3,90%	3,90%	4,14%	4,15%
21-07-10	3,75%	3,82%	3,88%	3,89%	4,14%	4,15%

FRA MARKET RATES

FRA Market Rates (Closing mid-market levels)

date	1X4	3X6	6X9	9X12	6X12
15-07-10	3,90%	3,96%	4,16%	4,36%	4,34%
16-07-10	3,91%	3,98%	4,19%	4,40%	4,38%
19-07-10	3,88%	3,99%	4,20%	4,41%	4,37%
20-07-10	3,88%	3,97%	4,19%	4,40%	4,38%
21-07-10	3,87%	3,97%	4,19%	4,38%	4,36%

FIXED INCOME MARKET RATES

Fixed Income Market Rates (Closing mid-market levels)

date	1Y		2Y		5Y		10Y	
	WIBOR	TB	IRS	OK0112	IRS	PS0511	IRS	DS1017
15-07-10	4,14%	3,98%	4,61%	4,35%	5,16%	5,22%	5,36%	5,72%
16-07-10	6,59%	3,98%	4,60%	4,37%	5,15%	5,21%	5,36%	5,72%
19-07-10	4,14%	3,98%	4,62%	4,37%	5,18%	5,27%	5,39%	5,77%
20-07-10	4,15%	3,95%	4,61%	4,37%	5,18%	5,25%	5,39%	5,77%
21-07-10	4,15%	3,95%	4,60%	4,37%	5,17%	5,25%	5,37%	5,77%

PRIMARY MARKET RATES

Last Primary Market Rates

	au. date	maturity	avg price	avg yield	supply	demand	sold
52W TB	10-07-12	11-07-12	96,089	4,03%	1000	4116	1000
OK0712	10-04-07	12-07-25	89,301	4,54%	3000	6726	2999
PS0415	09-07-14	15-04-25	100,483	5,37%	3000	2807	2027
DS1019	10-06-16	19-04-25	95,807	5,79%	3000	2965	2430

FX VOLATILITY

	USD/PLN 0-delta stradle				25-delta RR		25-delta FLY	
date	1M	3M	6M	1Y	1M	1Y	1M	1Y
15-07-10	17,75	18,75	19,10	19,60	4,00	5,00	0,75	0,95
16-07-10	17,75	18,75	19,10	19,60	4,00	5,00	0,75	0,95
19-07-10	17,75	18,75	19,10	19,60	4,00	5,00	0,75	0,95
20-07-10	17,75	18,75	19,10	19,60	4,00	5,00	0,75	0,95
21-07-10	17,75	18,75	19,10	19,60	4,00	5,00	0,75	0,95

PLN SPOT PERFORMANCE

PLN spot performance

date	USD/PLN	EUR/PLN	bias
15-07-10	3,1750	4,0600	-13,05%
16-07-10	3,1750	4,0600	-13,05%
19-07-10	3,1750	4,0600	-13,05%
20-07-10	3,1750	4,0600	-13,05%
21-07-10	3,1750	4,0600	-13,05%

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, PhD, CFA (+48 22 829 01 66) Research@brebank.pl
Marcin Mazurek (+48 22 829 0183)

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

The review note is based on the information available to the public. This review creates exclusively a marketing information as defined in Paragraph 9 Section 1 of the Decree of Minister of Finance dated November 20, 2009 on procedures and conditions to be followed by investment firms and banks mentioned in Article 70 Section 2 of Law on Trading in Financial Instruments dated July 29, 2005 as well as by custody banks. This review note is provided to you for information purposes only and is not intended as advice on any particular matter or as recommendation, offer or solicitation for purchase of 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 any-thing, 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. The opinions and estimates contained herein reflect the current judgment of the author(s) on the date of this document and are subject to change without notice. The opinions pointed in review do not necessarily correspond to the opinions of BRE Bank SA. The past performance of financial instruments is not indicative of future results. No assurance can be given that any financial instrument or issuer described herein would yield favourable investment results. BRE Bank and/or its principals or employees may have a long or short position or may transact in the financial instrument(s) and/or securities referred to herein or may trade in such financial instruments with other customers on a principal basis. No client or other reader should act or refrain from acting on the basis on any matter contained in it without taking specific independent professional advice on the particular facts and circumstances in issue. Copyright protection exists in this publication and it may not be, even partially, reproduced of distributed without the prior written agreement with BRE Bank SA.