

**Bureau of Economic Analysis**  
(research)

Ernest Pytlarczyk, PhD, CFA  
*chief economist*  
 tel. +48 22 829 01 66  
[ernest.pytlarczyk@brebank.pl](mailto:ernest.pytlarczyk@brebank.pl)

Marcin Mazurek, PhD  
*senior analyst*  
 tel. +48 22 829 01 83  
[marcin.mazurek@brebank.pl](mailto:marcin.mazurek@brebank.pl)

Paulina Ziembinska  
*analyst*  
 tel. +48 22 829 02 56  
[paulina.ziembinska@brebank.pl](mailto:paulina.ziembinska@brebank.pl)

**Financial Markets Department**  
(business contacts)

Lukasz Barwicki  
*head of trading*  
 tel. +48 22 829 01 93  
[lukasz.barwicki@brebank.pl](mailto:lukasz.barwicki@brebank.pl)

Inga Gaszkowska-Gebska  
*institutional sales*  
 tel. +48 22 829 01 67  
[inga.gaszkowska-gebska@brebank.pl](mailto:inga.gaszkowska-gebska@brebank.pl)

Bartlomiej Malocha, CFA  
*money market*  
 tel. +48 22 829 01 77  
[bartlomiej.malocha@brebank.pl](mailto:bartlomiej.malocha@brebank.pl)

Jaroslaw Stolarczyk  
*structured products*  
 tel. +48 22 829 01 67  
[jaroslaw.stolarczyk@brebank.pl](mailto:jaroslaw.stolarczyk@brebank.pl)

Marcin Turkiewicz  
*fx market*  
 tel. +48 22 829 01 67  
[marcin.turkiewicz@brebank.pl](mailto:marcin.turkiewicz@brebank.pl)

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**BRE Bank S.A.**  
 18 Senatorska St.  
 00-950 Warszawa  
 P. O. BOX 728  
 tel. +48 22 829 00 00  
 fax. +48 22 829 00 33  
<http://www.brebank.pl>

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**Comment on the upcoming data and forecasts**

This week will bring MPC decision, along with the new inflation projection. As the "soft patch" in the global economy has left a trace also in Poland, we expect the MPC to stay on hold. Also inflation projection (lower inflation, slower GDP growth) is likely to support the wait-and-see approach the MPC has just embarked on.

**Polish data to watch, June 27 to June 30**

Publication	Date	Period	BRE	Consensus	Prior
MPC Decision	Jul 6	Jul	4,5	4,5	4,5

**Treasury bonds and bills auctions**

Paper	Next auction	Last Offer	Last yield	Prev auction
52-week T-Bills	03-10-11	600	4,578	30-05-11
2Y T-bond OK1013	13-07-11	3000	4,840	09-06-11
5Y T-bond PS0416	13-07-11	3000	5,614	18/5/2011
10Y T-bond DS1020	20-07-11	2250	6,210	12-01-11
20Y T-bond WS0429	20-07-11	250	6,246	12-01-11

**Macroeconomic forecasts**

Wskaźnik	2007	2008	2009	2010	2011F
GDP y/y	6.5	4.8	1.7	3.8	4.4
CPI Inflation (average), y/y	2.4	4.3	3.5	2.8	4.5
Current account (%GDP)	-4.5	-5.3	-1.6	-4.5	-4.9
Unemployment rate (end of period)	11.4	9.5	11.9	12.3	11.9
Repo rate (end of period)	5.0	5.0	3.5	3.50	4.75

	2010			2011		
	Q2	Q3	Q4	Q1F	Q2F	Q3F
GDP y/y	3.5	4.2	4.5	4.4	4.3	4.4
CPI Inflation (average), y/y	2.1	2.6	2.9	3.7	4.7	4.7
Repo rate (end of period)	3.5	3.5	3.5	4	4.50	4.50

F - forecast

## Economics

### Balance of payments data revision - positive surprise.

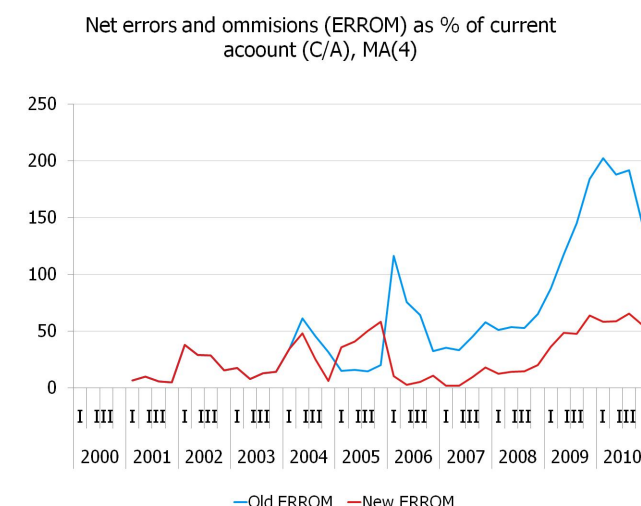
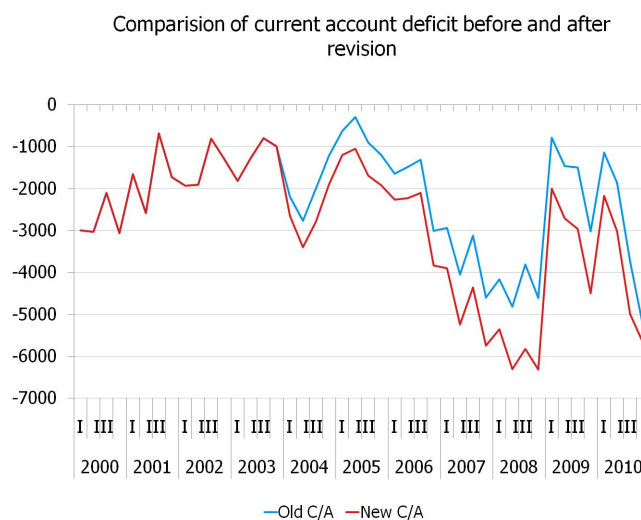
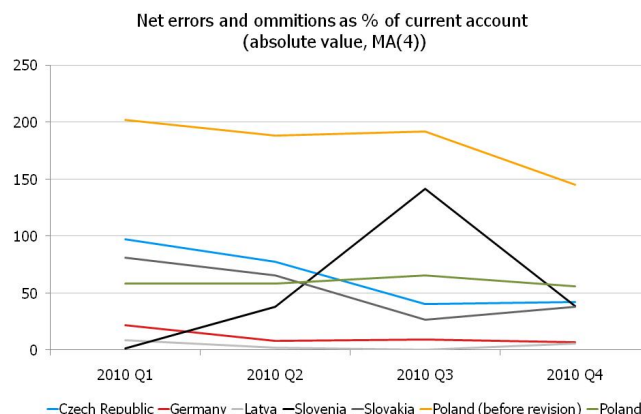
Balance of payments data revision was a positive surprise. Instead of expected 5% current account deficit in 2010 the final result was only 4.5% (comparison between "old" and "new" current account balances is presented on the chart below). There was a substantial (positive) correction of net errors and omissions from peak 4.4% of GDP in 2009 to 2.3% in 2010.

Areas of revision were in line with expectations. Current account was revised (downside) by 0.1-0.9% of GDP due to used cars imports and by 0.5-1.0% of GDP due to private transfers. Revisions in other accounts were less significant. Financial account was adjusted for repo transactions (they were excluded from statistics because such a transaction "does not entail economically viable transfer of ownership"), which resulted in revision of PLN 2.3 bn (we quote the maximum revision in a single year). Marginal correction was noted also in some non-financial foreign investments - transactions previously omitted are now included in the statistics (revision up to PLN 5 bn).

Although net errors and omissions are still high, revision brought Polish statistics closer to European standards (see chart) - from errors equaling 150% of current account deficit Poland now is closer to Czech and Slovak levels of about 50% (but still far away from German precision). That is definitely a wake up call for those willing to send Polish currency to the dump owing to huge data-quality risk.

Revision was positively assessed by the market (EURPLN decreased from 4.0050 to 3.9950 and extended gains after the Greece woes were partially solved on Wednesday and Thursday). Additionally it was also praised by MFW (see: <http://www.imf.org/external/np/sec/pr/2011/pr11263.htm>).

Although the data suggest that current account deficit may reach 5% in 2011, conviction of safe financing dominates (comments from the IMF and NBP side). On top of that, there should be no pressure on PLN depreciation. However, what we observe now may be simply a relief rally, proceeding after the major uncertainty was resolved and the market was continuously shortened in the zloty (mind the EUR flow from MoF). In the medium-term the adjustment process necessary for narrower C/A deficit should entail weaker currency. However, it is not that C/A deteriorated abruptly and currency should react. Rather it was that data were more accurately tailored to reality - that is why the adjustment process has been ongoing for quarters (it is only statistics, what matters are real flows). That is why we may have already reached equilibrium in EURPLN (around 4PLN per EUR) - mind that zloty rather underperformed, taking into account the fast rate hikes, QE - after the correction in BoP there is no doubt why it did underperform.

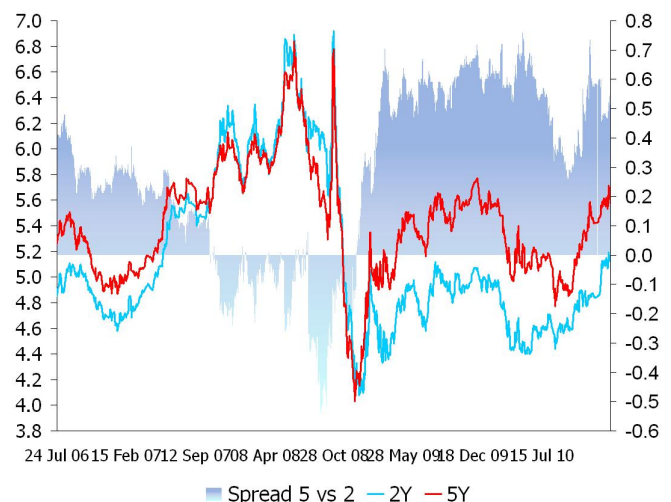
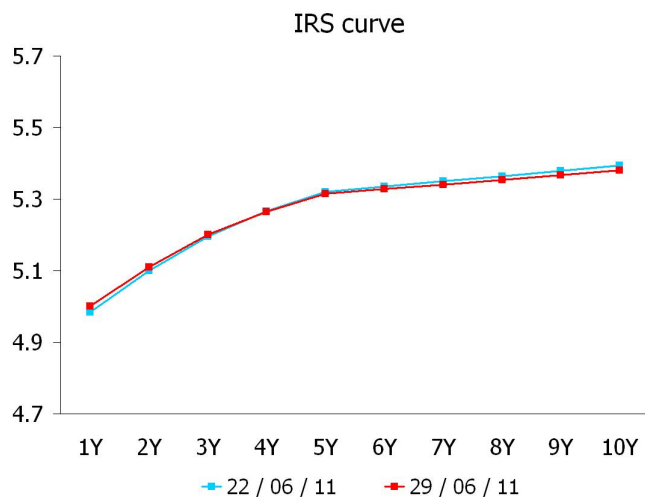
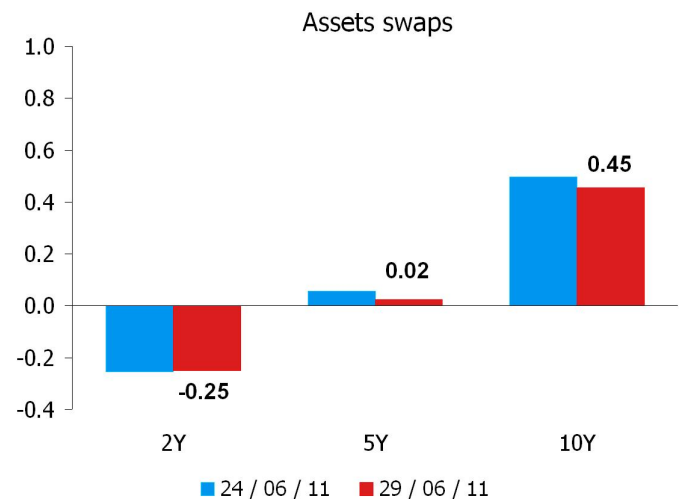
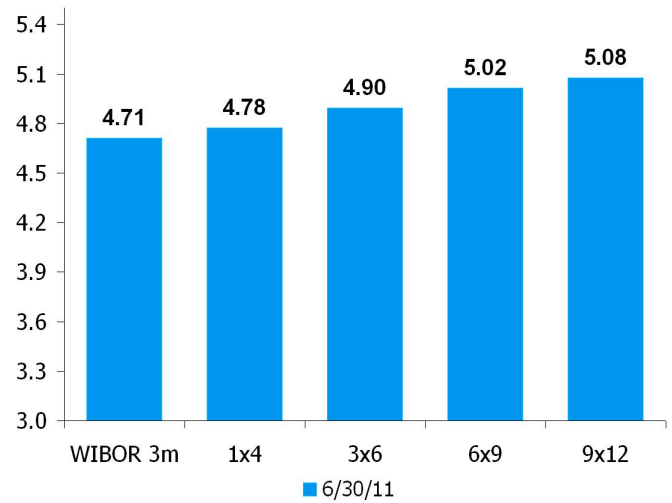




### Fixed income

#### Nothing new.

Sentiment on the fixed income market was quite positive last week. Demand for bonds in 5y-10y sector was constant, curve flatten by few bp, also asset-swaps narrowed, especially in 10y sector. Another two comments from MPC members confirmed the Council's view, that recent hikes should be enough for the CPI trend to start reversing soon, and that rates are likely to stay unchanged for the next few months. As previously suggested, FinMin reduced bonds offering for the next quarter quite significantly. Even though that was already known for some time, the news created another wave of rally and further narrowing of asset swap spreads. Inflation expectations fell by 0.1% this month, which is another factor that will prevent MPC from hiking rates in July. It seems that most of the factors point to continuation of recent rally and further flattening of the curve towards +10bp in 2y-5y. Some correction is however possible from current levels, especially ahead of rates decision. Nevertheless any move higher in rates should be considered as receiving opportunity. No hike next week and possibly lower CPI reading will likely push curve lower again.



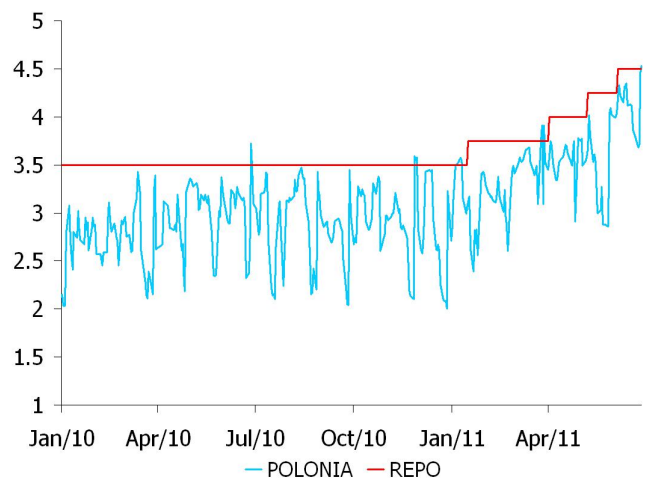
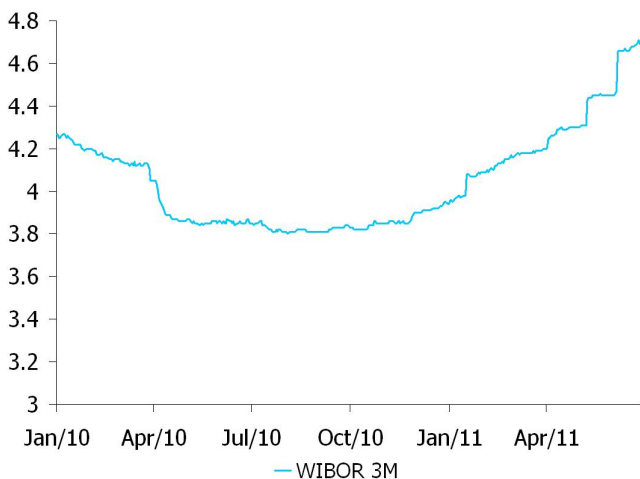
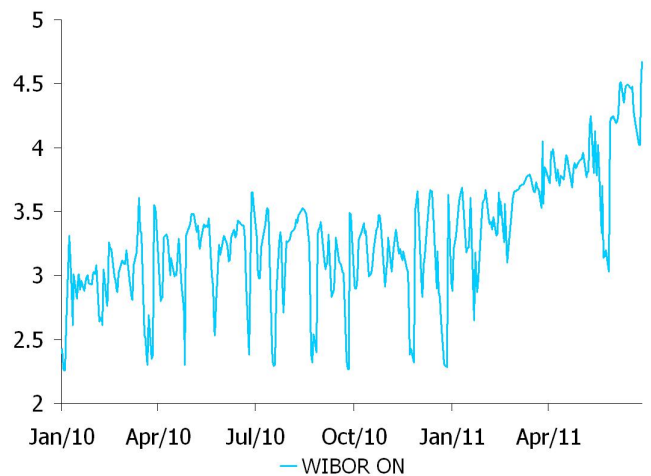
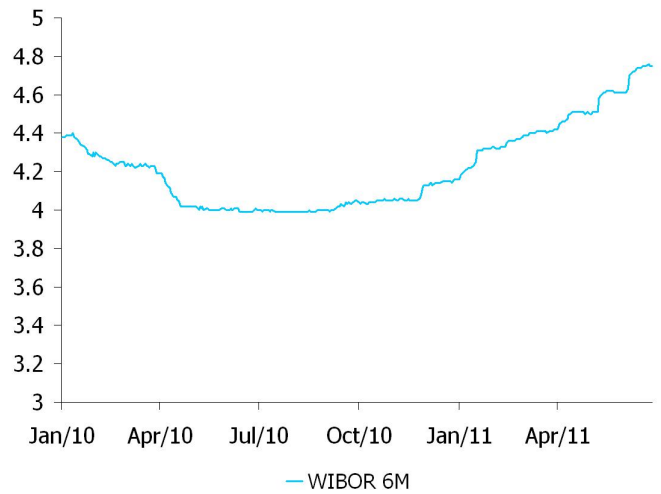


### Money market

#### Bullish sentiment has chances to say with us for longer.

Cheap end of the reserve settlement period except the last day, when precedent OMO took place. The Central Bank decided to sterilise the market on the very last day of the reserve to stabilise the polonia rate. The result was: highly illiquid interbank market, polonia rate at 4.44% with the turnover of 2 billion pln and the deposit in the central bank at 3% for 5 billion pln. If this result is satisfactory from the central's bank point of view, well done. However, in our opinion this intervention and the result are far away from the market efficiency point of view.

Bullish sentiment has dominated the last days of trading. Greek parliament voting for the necessary changes was the main global factor and the further decrease of the inflationary expectations was supportive from the local perspective. If the MPC leaves the rates unchanged next week, we have pretty good chances for a longer period of this bullish wave. We see probability of hike at 10%.





### Forex

**Zloty stronger.** Well, its all about the vote. While waiting for Greece austerity plan's vote results EURPLN once again was trading 4.0170 high and supported by global and local (C/A revision) fears had stayed above 4.00. Since both threats has faded away and have seen some global risk rally PLN started to trade stronger side. As a result EURPLN's rate has headed down to 3,9600 support.

**Vols lower.** As both drivers have brought some relief we have faced selloff on implied curve. Short end has come back to low realized readings - 1W about 7.5% while other tenors slipped to this year's low and even slightly below - 1M 7.7 (8.1 week ago), 3M 8.3 (8.6), 1Y 9.7 (10.0). Smile and USDPLN vs EURPLN currency spread curve were also sold with benchmarks being traded at: 3M 25D RR 2.1 (2.5 week ago) and 3M spread at 7.5 (8.0).

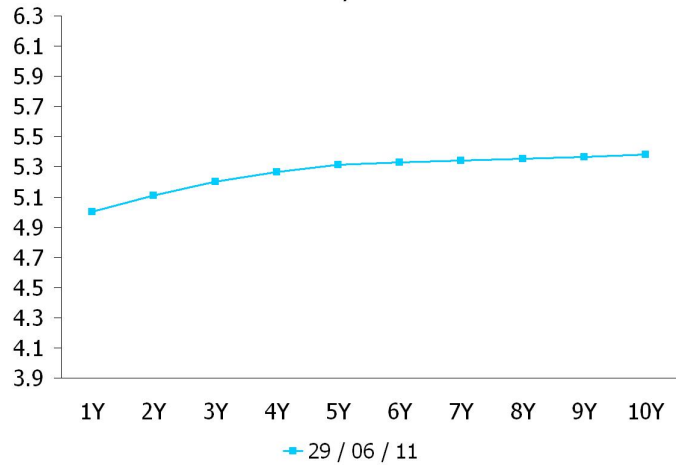
### Short-term forecasts

Main supports and resistances  
EUR/PLN: 3.9100 / 4.0000  
USD/PLN: 2.6800 / 2.8000

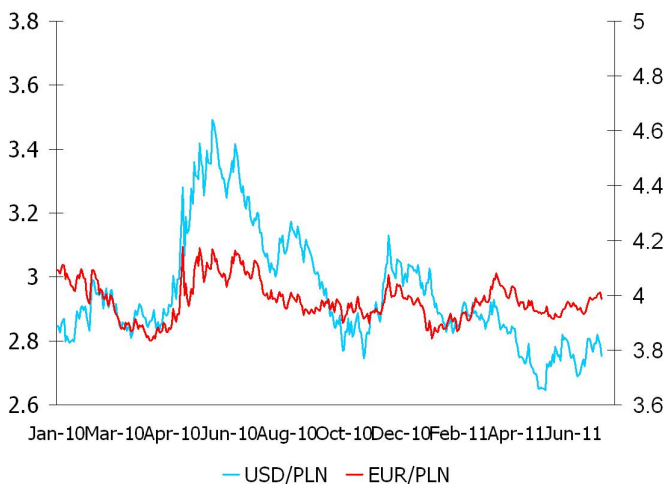
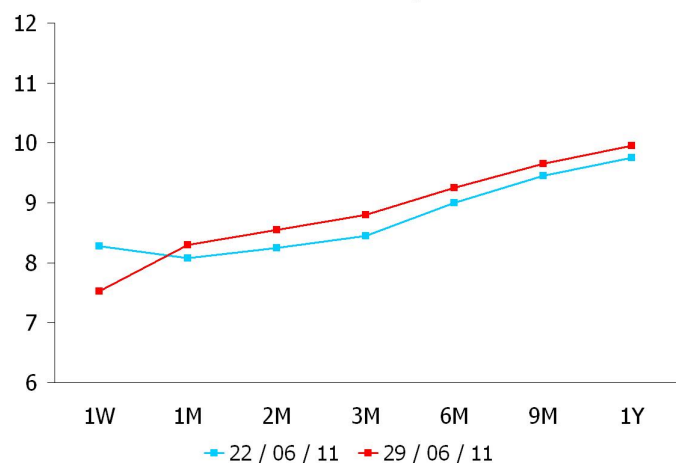
**Spot.** It seems the market has some warmer feelings about Zloty now but PLN still occupies low position on top trades list. Summer trading is coming with 3.90-4.00 range.

**Derivatives.** We still like our mid/longer term long Vega in EUR/PLN , and we still square gamma. We would have to see realized volatility numbers really above the implied ones to make us buy gamma and double the current Vega position. And we doubt it will happen anywhere soon...

Krzywa IRS



EUR/PLN volatility curve



Bias from the old parity (%)





## Market prices update

Money market rates (mid close)							FRA rates (mid close)					
Date	FXSW 3M	WIBOR 3M	FXSW 6M	WIBOR 6M	FXSW 1Y	WIBOR 1Y	1x4	3x6	6x9	9x12	12x15	6x12
6/21/11	4.56	4.68	4.65	4.65	4.54	4.75	4.74	4.87	5.01	5.05	5.10	5.07
6/22/11	4.6	4.68	4.65	4.65	4.51	6.59	4.74	4.87	5.00	5.06	5.09	5.08
6/27/11	4.6	4.68	4.65	6.49	4.75	4.75	4.76	4.86	5.00	5.04	5.09	5.06
6/28/11	4.615	4.69	4.65	4.65	4.75	4.76	4.73	4.88	5.01	5.06	5.10	5.10
6/29/11	4.6	4.7	4.66	4.66	4.48	4.76	4.77	4.89	5.00	5.06	5.09	5.07

Last primary market rates							
Paper	Au. date	Maturity	Avg. price	Avg. yield	Supply	Demand	Sold
52W TB	1/31/11	1/31/12	95.84	4.350	2000	2968	1961
OK0113	4/13/11	1/26/13	89.16	5.163	5500	7385	4758
PS0416	1/5/11	4/25/16	97.08	5.642	6500	2795	1140
DS1020	1/12/11	4/25/19	93.02	6.210	2250	4252	2250

Fixed income market rates (closing mid-market levels)								
Date	1Y WIBOR	1Y T-bill	2Y IRS	OK0113	5Y IRS	PS0416	10Y IRS	DS1019
6/21/11	4.750	4.630	5.090	4.890	5.305	5.380	5.371	5.867
6/22/11	6.590	4.650	5.100	5.064	5.320	5.376	5.395	5.883
6/27/11	4.750	4.630	5.110	4.846	5.315	5.380	5.385	5.908
6/28/11	4.760	4.650	5.101	4.894	5.315	5.371	5.385	5.872
6/29/11	4.760	4.650	5.111	4.861	5.315	5.338	5.380	5.835

EUR/PLN 0-delta stradle					25-delta RR		25-delta FLY	
Date	1M	3M	6M	1Y	1M	1Y	1M	1Y
6/21/11	8.08	8.55	9.13	10.00	10.00	2.37	0.28	0.38
6/22/11	8.08	8.45	9.00	9.75	9.75	2.37	0.36	0.58
6/27/11	8.30	8.70	9.25	9.95	9.95	2.44	0.35	0.57
6/28/11	8.30	8.75	9.25	9.95	9.95	2.43	0.34	0.56
6/29/11	8.30	8.80	9.25	9.95	9.95	2.48	0.34	0.56

PLN Spot performance						
Date	EURPLN	USDPLN	CHFPLN	JPYPLN	HUFPLN	CZKPLN
6/21/11	3.9848	2.7776	3.2908	3.4658	1.4919	0.1653
6/22/11	3.9846	2.7661	3.2883	3.45	1.4918	0.1643
6/27/11	4.0012	2.8201	3.3693	3.4919	1.4872	0.1637
6/28/11	4.0067	2.8055	3.364	3.4717	1.4921	0.1642
6/29/11	4.0095	2.7877	3.352	3.4347	1.4957	0.1644

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