

**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 new CPI and C/A data. Inflation should slightly decrease in June due to lower food and commodities prices, although still remaining on high levels (also core). There is high risk with C/A deficit due to lack of monthly data. Exports and imports spoils seasonal tendencies, better data supported also by huge EU transfer (1.5 bn EURO).

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

Publication	Date	Period	BRE	Consensus	Prior
CPI r/r	Jul-13	Jun	4.7	4.8	5.0
C/A (mln EUR)	Jul-15	May	-401	-755	-1,173

**Treasury bonds and bills auctions**

Paper	Next auction	Last Offer	Last yield	Prev auction
52-week T-Bills	10/3/2011	600	4.578	5/30/2011
2Y T-bond OK1013	7/13/2011	3000	4.840	6/9/2011
5Y T-bond PS0416	7/13/2011	3000	5.614	18/5/2011
10Y T-bond DS1020	7/20/2011	2250	6.210	1/12/2011
20Y T-bond WS0429	7/20/2011	250	6.246	1/12/2011

**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



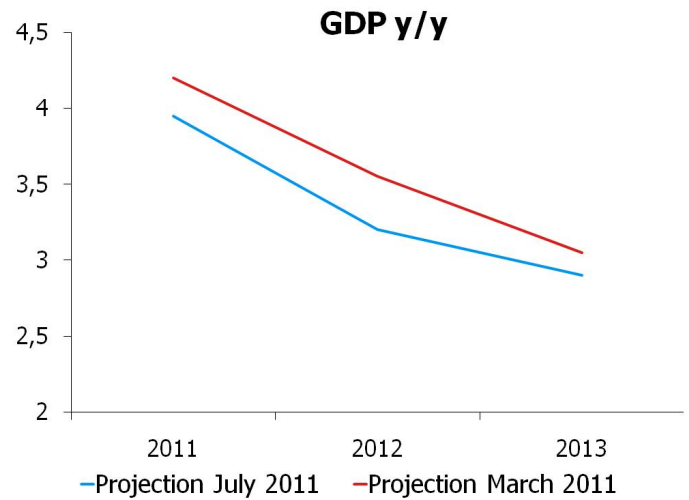
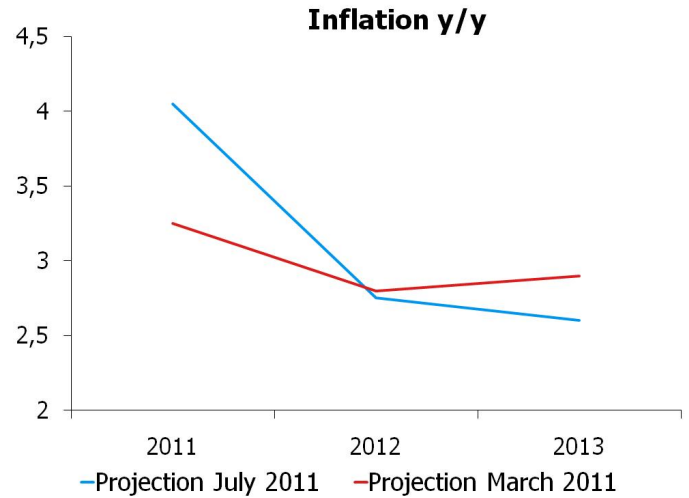
## Economics

### Interest rates unchanged. Lower inflation projection.

MPC in line with analysts' and investors expectations kept interest rates unchanged in July. Main reference rate equals currently 4.5%. Statement after MPC meeting was relatively dovish as it pointed to a deterioration of global growth perspectives and lower commodities inflation. Increase in consumer inflation to 5% y/y in May was partially explained by changes in methodology and external effects (as Glapinski pointed out during the conference). MPC stuck to its assessment of effects and perspectives of already implemented monetary tightening, which should bring inflation to its target in the mid-term. Despite the MPC's commitment that in case of unexpectedly growing inflation it will adjust monetary policy appropriately, more relaxed atmosphere during the conference indicates that it is not the base scenario for MPC members.

The dovish statement was supported by new inflation projection showing noticeably lower GDP and inflation growth path in the coming years (see chart).

Turning to monetary policy perspectives in the months to come, we expect MPC to hike rates late autumn if economic recovery continues and inflation (as well as core inflation) remains at relatively high levels. During the summer we do not expect hike expectations to intensify as inflation is to decrease from its newest peak level and economic confidence is to slightly deteriorate (with industrial production and PPI growth rates decreases). All this may also stimulate more dovish comments from the MPC members.

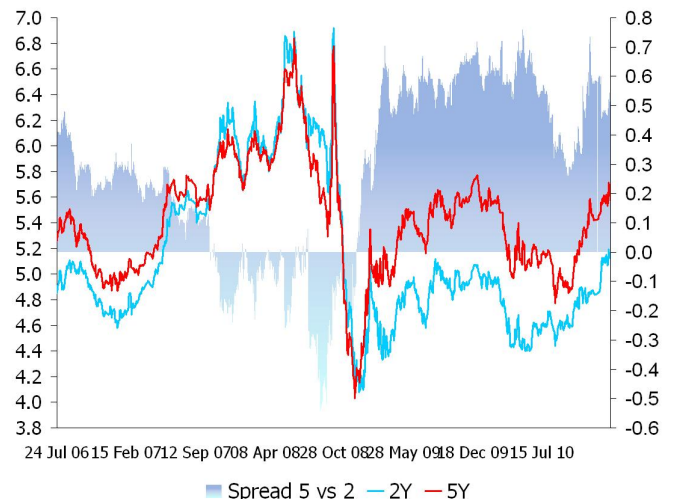
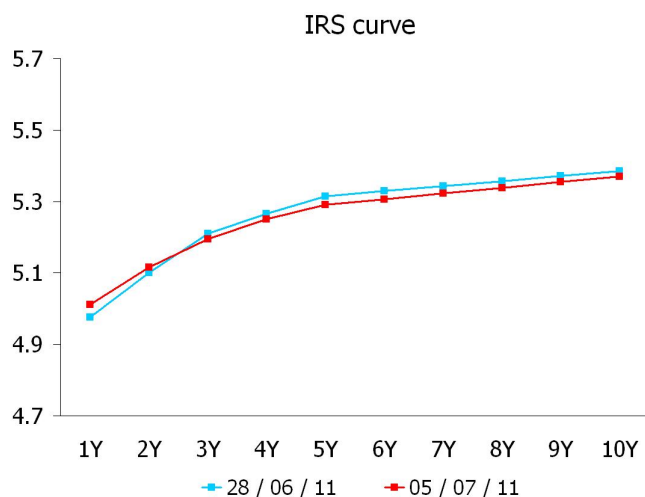
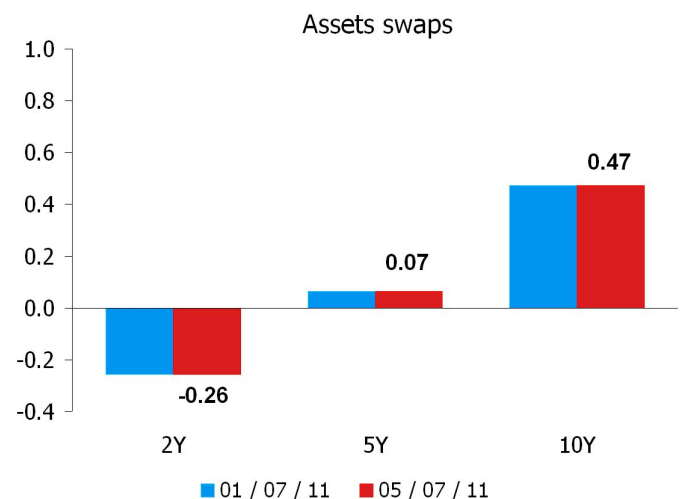
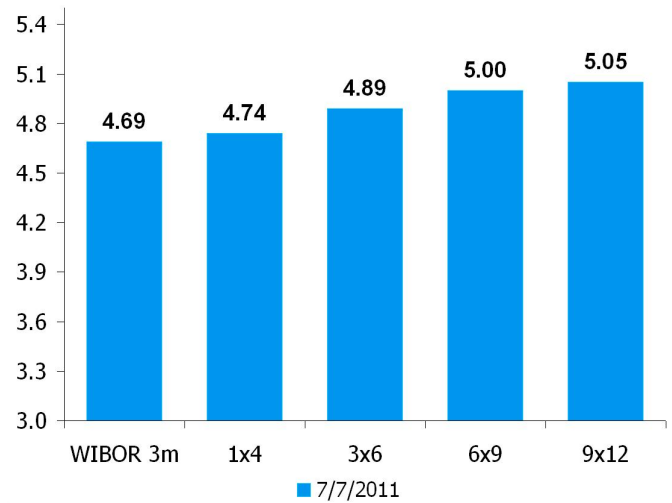




### Fixed income

#### Nothing new, part II.

Considering the MPC meeting this week, it was one of the most boring ones for some time. Market remained stable ahead of decision, the outcome was exactly as expected - rates remained unchanged. Also comments during the press conference didn't really bring anything spectacular - Council members reiterated that previous tightening should be enough to contain inflation, but there is still some possibility that further actions can be required later this year, so scenario currently priced in the curve. Reaction to that was very limited, curve moved down by 1-2bp if even that much. It seems that we're entering a summer period of limited activity and range trading. There isn't currently any obvious trade in PLN rates, for that we would have to see further development of macro data in terms of CPI and growth. We think we might see another bullish wave if July's inflation data surprises on the downside. Selling into that rally seems a reasonable strategy for now.

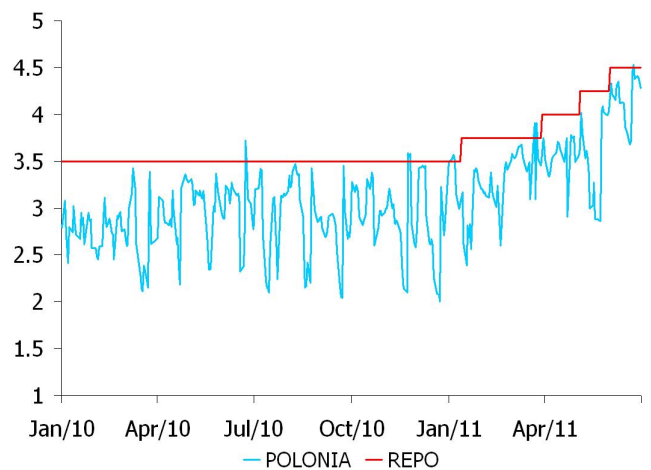
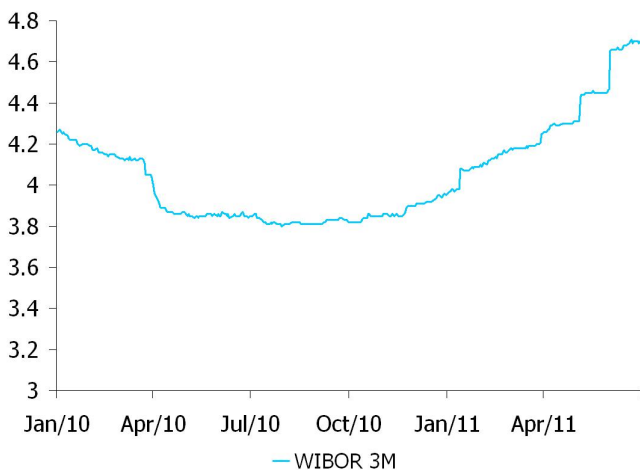
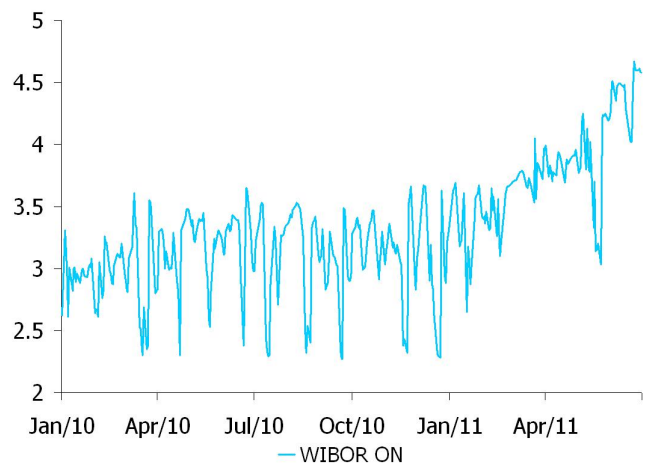
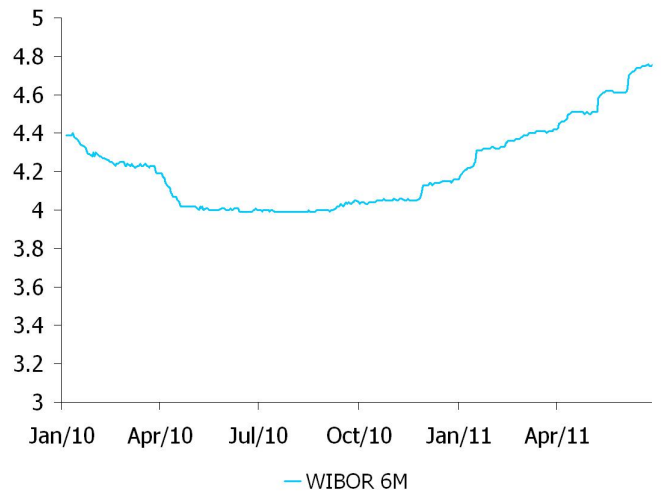




### Money market

#### Stable cost of carry.

Cost of carry stable and nearby the main market rate, therefore no additional OMO this week. In general we can feel the holiday mood on the market with a very negligible turnover all over the market sectors. Biggest question for the MM players is what the implied spread between polonia index and the repo rate should be expected in coming months. The MPC did not change any of the monetary policy parameters just in line with expectations. Falling GDP and CPI in the new mid-term projection, proved that the tightening cycle is coming to an end. The market discounts one more hike late autumn this year and it seems to be a reasonable scenario.





### Forex

**Zloty stable.** After Moody's slashed Portugal's credit rating to junk the euro has executed a steep fall against the Swiss franc and the dollar. Although very nerves situation on the market at the beginning of the week, the zloty behaved quite well, declining less than 0,5 percent to 3,9610 on Wednesday. There were also almost no reaction after the decision of central bank. On Thursday the zloty gained 0.5 percent to 3,9275 against the euro after improving global sentiment on the market.

**Slightly higher.** It appears that the sovereign debt crisis disease is spreading, so uncertainty comes back and the volatility curves on xxx/PLN were slightly better bid. The curve remains very steep with the 1mth/1yr at 2,55 vol. Last week the 2m, 3m and 6m EURPLN Vega and/ risk reversals were especially in demand. The current levels 1 month - 7,2 % mid , 6m - 8,8% mid, 1year 9,75 % mid and the currency spread ( USD/PLN vs EUR/PLN) is aprox, 7,50% in the mid of the curve.

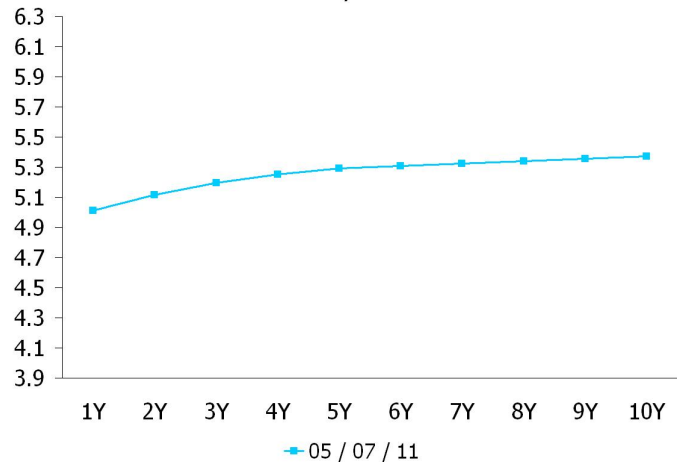
### Short-term forecasts

Main supports and resistances  
EUR/PLN: 3.9230 / 4.0272  
USD/PLN: 2.6800 / 2.8200

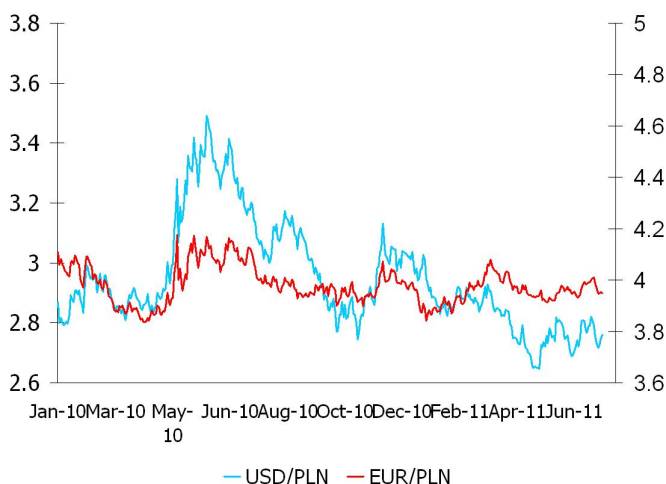
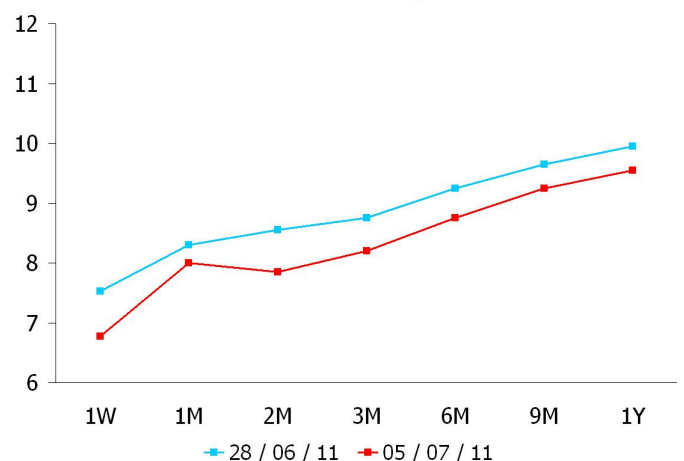
**Spot.** The polish zloty may advance in the next week, although it still reminds a hostage to the global sentiment. Sticking our view, we are short at 3.96,with 3.98 S/L and 3.90 P/T.

**Derivatives.** Albeit historic volatility is still below the implied ones, we think that current market situation will support long volatility positions. In our opinion it is tempting to be selectively long Vega/Gamma, not in the high low delta currency calls but in plain ATMS with much healthier gamma/theta ratio.

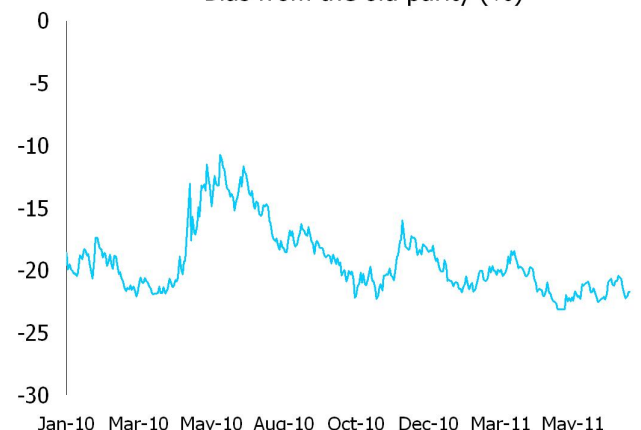
Krzywa IRS



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
6/27/2011	4.605	4.71	4.64	4.65	4.53	4.76	4.77	4.90	5.01	5.06	5.10	5.08
6/28/2011	4.6	4.69	4.67	4.65	4.54	6.59	4.78	4.90	5.02	5.07	5.11	5.08
7/3/2011	4.58	4.7	4.65	4.69	4.75	4.76	4.78	4.90	5.02	5.08	5.10	5.07
7/4/2011	4.58	4.7	4.63	4.66	4.76	4.75	4.78	4.90	5.02	5.07	5.11	5.08
7/5/2011	4.62	4.7	4.67	4.66	4.52	4.76	4.77	4.89	4.99	5.06	5.09	5.07

Last primary market rates							
Paper	Au. date	Maturity	Avg. price	Avg. yield	Supply	Demand	Sold
52W TB	1/31/2011	1/31/2012	95.84	4.350	2000	2968	1961
OK0113	4/13/2011	1/26/2013	89.16	5.163	5500	7385	4758
PS0416	1/5/2011	4/25/2016	97.08	5.642	6500	2795	1140
DS1020	1/12/2011	4/25/2019	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
6/27/2011	4.760	4.630	5.110	4.846	5.315	5.380	5.385	5.908
6/28/2011	6.590	4.650	5.101	4.894	5.315	5.371	5.385	5.872
7/3/2011	4.760	4.650	5.115	4.859	5.291	5.356	5.371	5.843
7/4/2011	4.760	4.650	5.115	4.859	5.291	5.356	5.371	5.843
7/5/2011	4.760	4.650	5.115	4.859	5.291	5.356	5.371	5.843

EUR/PLN 0-delta stradle					25-delta RR		25-delta FLY	
Date	1M	3M	6M	1Y	1M	1Y	1M	1Y
6/27/2011	8.30	8.75	9.25	9.95	9.95	2.43	0.34	0.56
6/28/2011	8.30	8.75	9.25	9.95	9.95	2.43	0.34	0.56
7/3/2011	8.00	8.50	8.78	9.70	9.70	2.35	0.34	0.42
7/4/2011	8.00	8.30	8.80	9.55	9.55	2.58	0.34	0.66
7/5/2011	8.00	8.20	8.75	9.55	9.55	2.35	0.34	0.58

PLN Spot performance						
Date	EURPLN	USDPLN	CHFPLN	JPYPLN	HUFPLN	CZKPLN
6/27/2011	4.0012	2.8201	3.3693	3.4919	1.4872	0.1637
6/28/2011	4.0067	2.8055	3.364	3.4717	1.4921	0.1642
7/3/2011	3.9626	2.7273	3.2231	3.3806	1.4987	0.1629
7/4/2011	3.9463	2.7156	3.2002	3.3705	1.4937	0.1629
7/5/2011	3.9487	2.7266	3.2288	3.3627	1.4918	0.1626

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