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**Comment on the upcoming data and forecasts**

On Wednesday MPC will announce its interest rate decision. Nothing points to change in wait-and-see neutral stance - inflation remains on heightened levels, macro data still surprise positively (output, retail sales, PMI) and interventions on FX market postpones monetary loosening as NBP must act consistently. Space for cuts will widen just in the beginning of 2012.

**Polish data to watch: November 7 to November 11**

Publication	Date	Period	BRE	Consensus	Prior
MPC interest rate decision	9.11.	Nov	4.5	4.5	4.5

**Treasury bonds and bills auctions**

Paper	Next auction	Last Offer	Last yield (%)	Prev auction
52-week T-Bills	-	600	4.578	5/30/2011
2Y T-bond OK0114	-	3000	4.469	8/10/2011
5Y T-bond PS0416	-	3600	5.105	10/19/2011
10Y T-bond DS1021	-	3000	5.803	7/21/2011
20Y T-bond WS0429	-	250	6.246	1/12/2011

**Macroeconomic forecasts**

Wskaźnik	2008	2009	2010	2011 F	2012 F
GDP y/y (%)	4.8	1.7	3.8	3.5	3.2
CPI Inflation y/y (average %)	4.3	3.5	2.8	4	3.4
Current account (%GDP)	-5.3	-1.6	-4.5	-4.9	-3.6
Unemployment rate (end of period %)	9.5	11.9	12.3	12.6	12.8
Repo rate (end of period %)	5.00	3.5	3.5	4.5	4.0

	2010	2010	2011	2011	2011	2011
	Q3	Q4	Q1	Q2	Q3 F	Q4 F
GDP y/y (%)	4.2	4.5	4.4	4.3	3.6	3.4
CPI Inflation y/y (average %)	2.6	2.9	3.7	4.2	4.1	3.8
Repo rate (end of period %)	3.5	3.5	4.0	4.5	4.5	4.5

F - forecast



## Economics

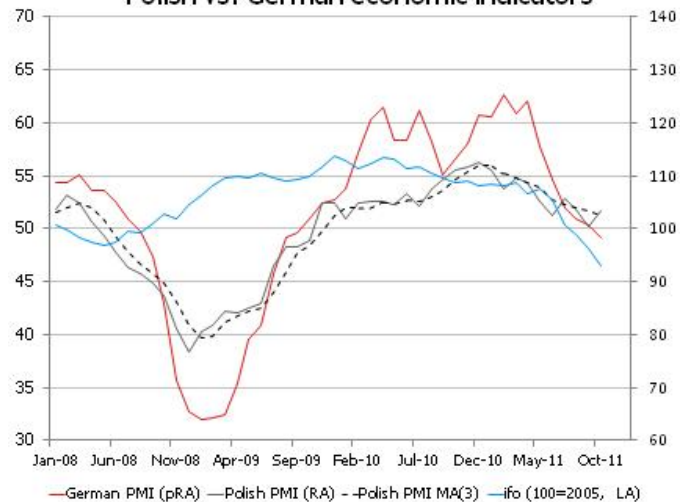
### Surprisingly high PMI in manufacturing

PMI in manufacturing grew in October by 1.5 pts to 51.7 pts, remaining 24th month in a row above critical 50 pts level (theoretical border line between growth and contraction), while market consensus pointed to decrease slightly below 50 pts. On top of that it is truly a positive surprise. However, three month moving average of PMI still fits into the falling trend.

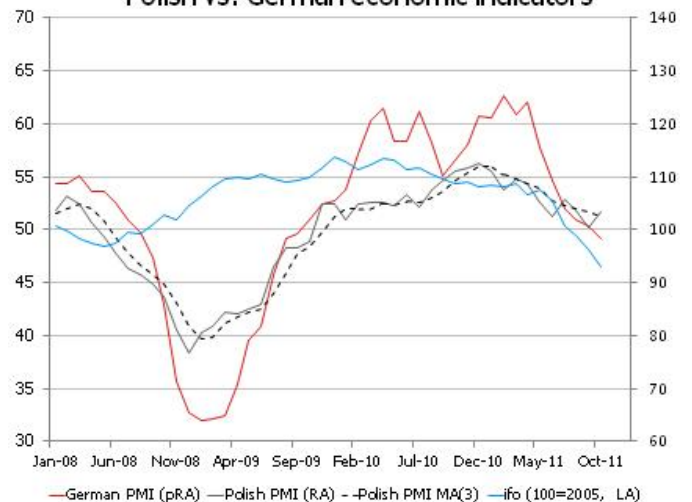
Turning to details, output increased in the strongest pace from July. The economy is driven by domestic demand as new orders gauge gained (after a drop in September) while new contracts from export markets fell for the fifth successive month (albeit at a slower rate). Anyhow, the pace of production expansion was stronger than the increase in new business what is reflected in the fact that the volume of outstanding work fell at the fastest rate since September 2009. What is most surprising, the workforce expanded for the fifteenth month in a row and employment index itself (treated as future tendencies indicator) grew for the first time in half a year. In October both input and output prices grew at a faster pace than in the previous month. Many firms highlighted recent Zloty weakness as having led to higher import costs.

October was clearly a month in which European and Polish PMI indices went astray. However a question remains whether current PMI change is only upward adjustment after previous two-month drop (longer negative sequences appear only in recessionary environment, which is for sure not a scenario for now - mind that GDP growth may have topped 4% in Q3) or is it a trend reversal (heralding longer divergence from European data). For sure, one element of the puzzle can be found in Polish growth composition, relying strongly on domestic demand. At least to that extent PMIs may seem to be resilient; is is highly impossible though that global exchange component will be able to escape current tendencies. Therefore one can expect at least modest growth on the horizon. Let's jump to conclusions. Short-term the release support our optimistic call for industrial output (above 8%), retail sales (above 10%) and construction (above 20%). It does not change the status-quo for MPC either. The Committee is set to stick to its wait-and-see stance, justified by still high readings of inflation and resilient real sphere. Medium-term wise, slow-falling PMI confirms that 3% of GDP growth in 2012 is within reach, especially when we take account of balancing role of PLN weakness which has just started and usually was followed by narrowing trade gap. Also medium-term wise, 3% GDP growth is unlikely to trigger any attempts of aggressive monetary easing, especially when inflation stays above target.

Polish vs. German economic indicators



Polish vs. German economic indicators



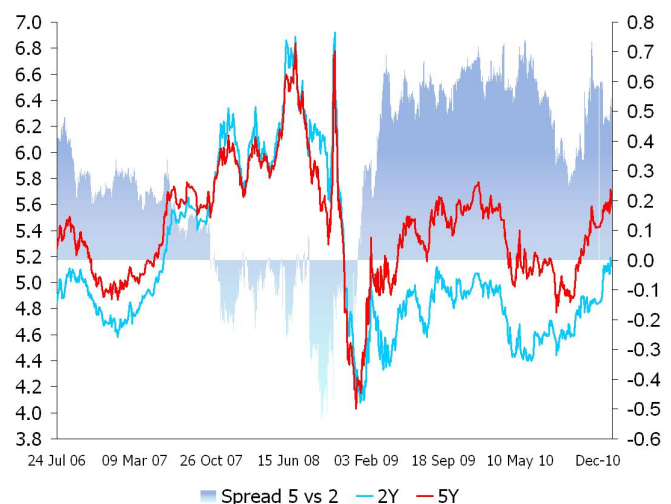
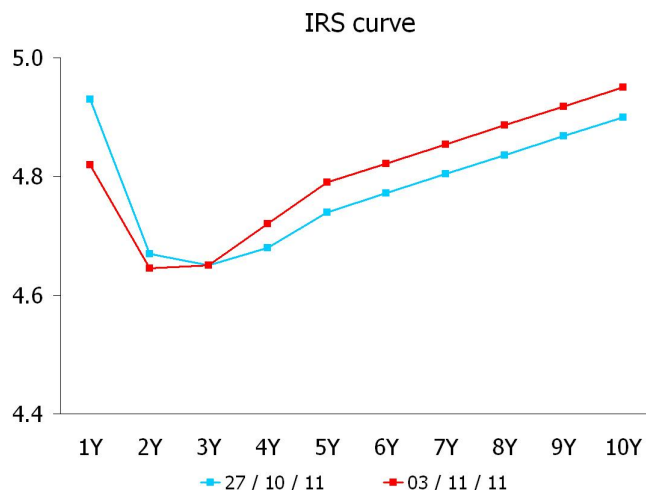
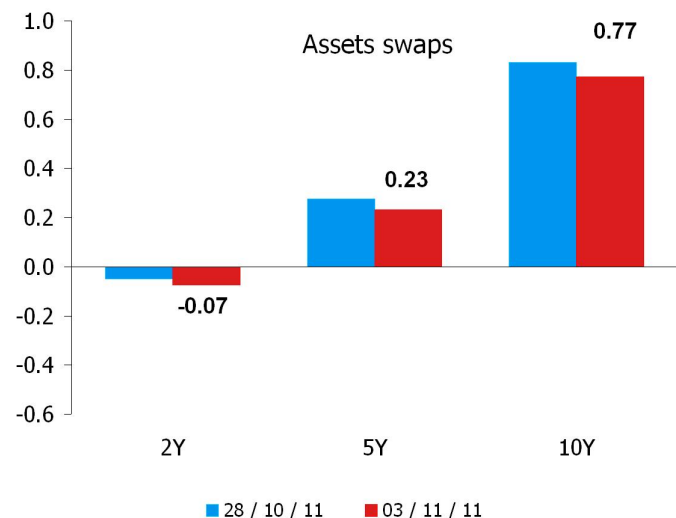
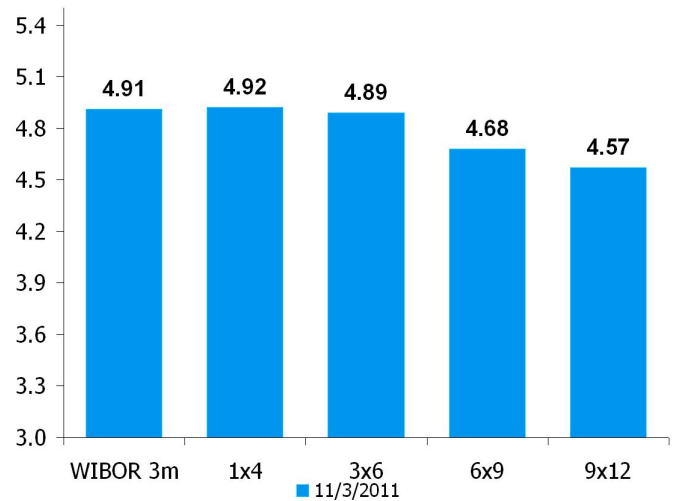


### Fixed income

#### Short week with some volatility

Very short trading week on Polish fixed income. Due to public holiday on Tuesday, market was practically closed on Monday as well. Therefore turmoil caused by the news from Greece had quite limited impact on the market, however rates pushed higher and curve steepened in 2y-5y sector. Later on, sentiment started to improve and rates drifted lower. That move escalated after ECB's decision, which caused 2y and 5y to drop by 10 and 8bp respectively from previous highs. Bonds remain well bid across the curve. Situation on cash market is stabilizing, Wibors seem to have reached some equilibrium levels here, which also helps front end of the curve.

Next week's most important event will be the MPC meeting. Rates decision will be published on Wednesday, we do not expect any change there, the newest inflation projection would be the main issue however. As we're quite cautious about CPI in the nearest perspective and expect some unpleasant surprise there, we think using current rally to close receivers in the front end could turn to be a smart move. We remain positive on bonds in the 5y-10y sector and still see flattening from current levels.



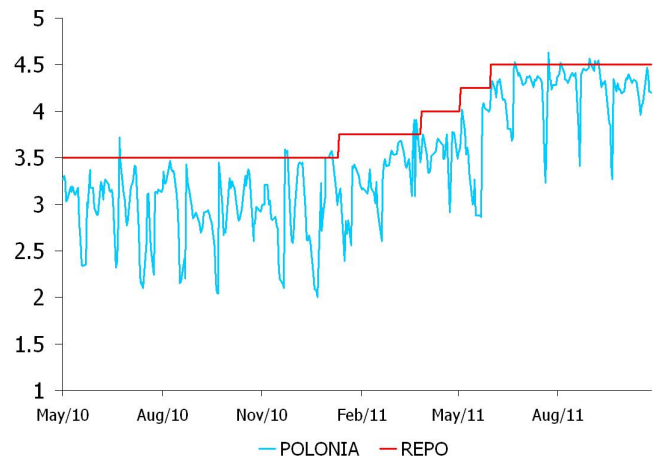
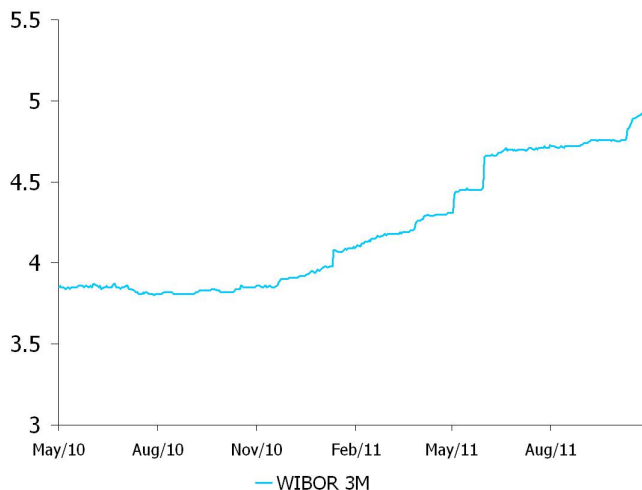
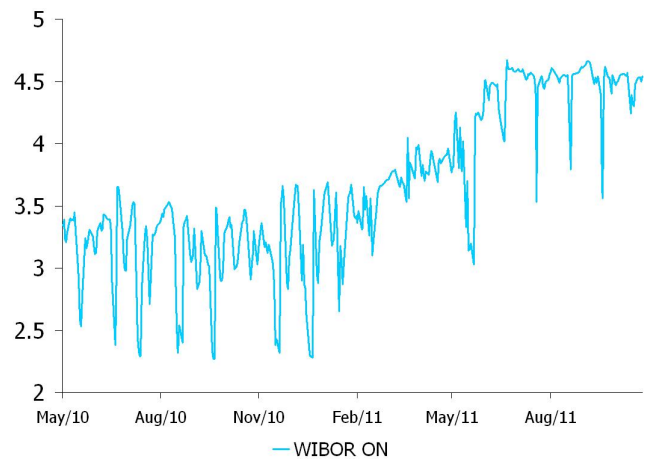
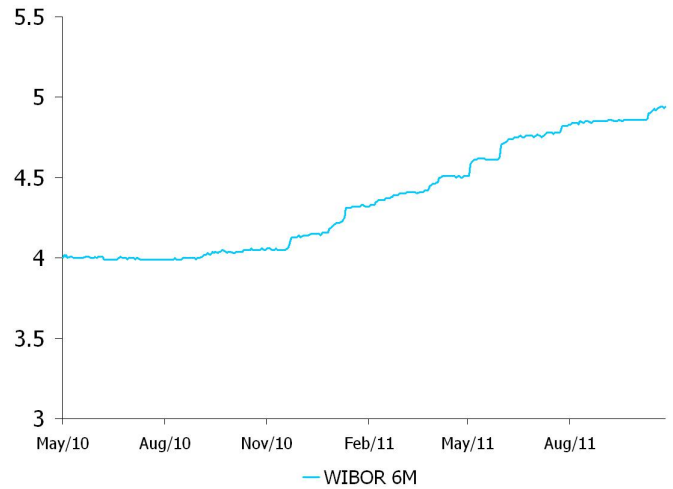


### Money market

#### Cost of carry up next week. Some volatility but within the range.

Cost of carry will go up next week due to take-up of the money bills amounting to 98 bln pln today. The forecasted shortage will be around 3 billion pln but only for 4 days, since the Friday is a Polish national holiday. We can bet that during next auction the market will be more resistant to stay short or square, therefore rates should go down again.

Some volatility for longer terms after the ECB cut the rates, however nothing more than range. We do not expect any change in the local monetary policy during the MPC meeting next week. More action after long weekend when figures start to flow.





### Forex

**Zloty volatile** It was very volatile week for our currency. After the strong deterioration in global sentiment, because of the surprising news that Greece was to set a referendum on the bailout process, the Zloty had sank and had hit 4,4888 level against the euro. Anyway, efforts taken to resolve mentioned issue have been successful and with an improvement of sentiment the zloty has pared some of its heavy losses - EURPLN's rate is trading at around 4.35 now.

**Volatility changeable** Uncertainty over Greek vote has stalled the fall of the EURPLN volatility. After such violent drop of the Zloty value on Tuesday, it was no surprise that the front-end implied vols jumped up. 1W EURPLN volatility moved higher from 14% to 16,5%, 1M jumped up from 13,75% to 14,8%. In the end of the week the whole EURPLN curve was lower as risk sentiment showed a much greater improvement to restore confidence. Finally on Friday 1m EURPLN vol was traded at 14,5%, 3m mid vol was at 13,8%, 1Y mid vol was at 13,4%.

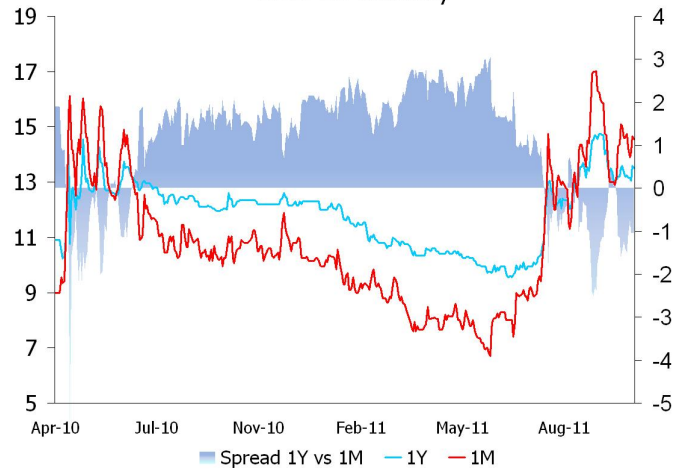
### Short-term forecasts

Main supports and resistances  
EUR/PLN: 4.2600 / 4.4000  
USD/PLN: 3.0500 / 3.2500

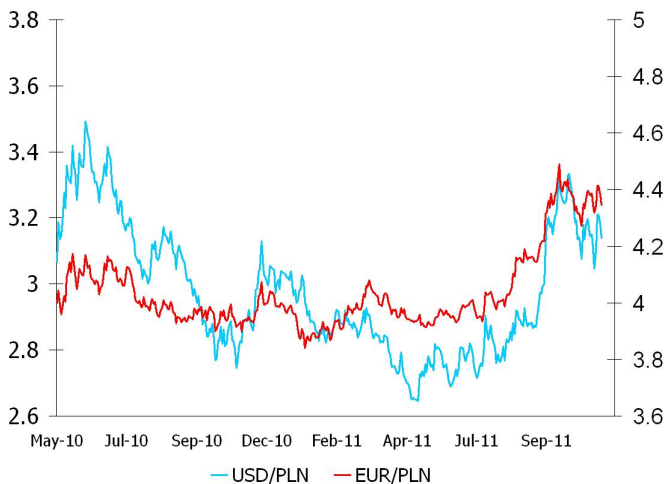
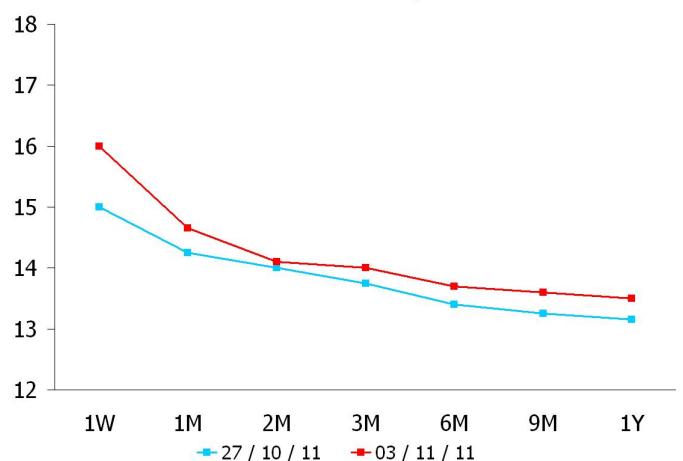
**Spot.** Nothing is certain these days and bad news may come out as rabbits out of hat. . . If there is no negative information from Greece and today's key U.S. jobs data does not surprise to the downside, then the zloty might test the 4.26 level on the road to 4,20 stronger support zone.

**Derivatives.** View unchanged. With mounting worries over Greece's fiscal and political problems weighing on investor appetite for risky assets, the Zloty is expected to remain volatile. The ideal position to have is to be long Vega in 3m-6m and short out of the money call for December . The net effect is the long Vega and long Gamma and only tiny theta. EUR/PLN should be protected from rising to high too fast as our CB and Ministry of Finance are the potential sellers till the year end.

EURPLN volatility



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
10/27/2011	4.69	4.89	4.83	4.82	4.79	4.83	4.92	4.91	4.69	4.56	4.49	4.82
10/28/2011	4.68	4.90	4.83	6.49	4.78	6.59	4.92	4.90	4.72	4.59	4.50	4.76
10/31/2011	4.72	4.91	4.74	4.84	4.74	4.84	4.93	4.92	4.74	4.62	4.47	4.83
11/2/2011	4.69	4.92	4.85	4.84	4.80	4.84	4.92	4.91	4.73	4.62	4.53	4.78
11/3/2011	4.69	4.91	4.84	4.83	4.79	4.84	4.92	4.89	4.68	4.57	4.43	4.74

Last primary market rates							
Paper	Au. date	Maturity	Avg. price	Avg. yield	Supply	Demand	Sold
52W TB	5/30/2011	5/30/2012	95.57	4.58	600	2667	505
OK0113	8/10/2011	1/25/2013	89.58	4.58	5000	4934	1889
PS0416	10/19/2011	4/25/2016	98.44	5.11	3600	11200	3638
DS1020	7/21/2011	10/25/2021	99.53	5.80	3000	5608	3000

Fixed income market rates (closing mid-market levels)								
Date	1Y WIBOR	1Y T-bill	2Y IRS	OK0113	5Y IRS	PS0416	10Y IRS	DS1019
10/27/2011	4.830	4.425	4.670	4.633	4.740	5.043	4.900	5.695
10/28/2011	6.590	4.425	4.705	4.655	4.755	5.032	4.885	5.717
10/31/2011	4.840	4.425	4.710	4.651	4.765	5.063	4.910	5.743
11/2/2011	4.840	4.425	4.745	4.646	4.840	5.056	4.960	5.748
11/3/2011	4.840	4.425	4.645	4.570	4.790	5.023	4.950	5.722

EUR/PLN 0-delta stradle					25-delta RR		25-delta FLY	
Date	1M	3M	6M	1Y	1M	1Y	1M	1Y
10/27/2011	14.25	13.75	13.40	13.15	13.15	4.52	0.56	0.62
10/28/2011	13.90	13.55	13.25	13.15	13.15	4.52	0.56	0.62
10/31/2011	14.10	13.40	13.20	13.05	13.05	4.52	0.46	0.77
11/2/2011	14.55	13.80	13.65	13.50	13.50	4.53	0.46	0.77
11/3/2011	14.65	14.00	13.70	13.50	13.50	4.53	0.46	0.77

PLN Spot performance						
Date	EURPLN	USDPLN	CHFPLN	JPYPLN	HUFPLN	CZKPLN
10/27/2011	4.3488	3.1083	3.5482	4.0963	1.4415	0.1748
10/28/2011	4.3190	3.0461	3.5319	4.0160	1.4352	0.1749
10/31/2011	4.3433	3.1024	3.5612	3.9785	1.4262	0.1751
11/2/2011	4.4146	3.2093	3.6295	4.1125	1.4384	0.1758
11/3/2011	4.3809	3.1800	3.6082	4.0758	1.4317	0.1741

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