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**Comment on the upcoming data and forecasts**

On Tuesday Statistical Office will publish CPI data. We forecast CPI at 4.3%. February is the month of discrepancies between food prices derived from models and implied from statistical bulletin data. Because of anecdotal evidence we set CPI at higher level than model output. Fuel prices rose at 0.8% MoM. There is high uncertainty about the inflation revision. Historically higher food and energy prices influenced revision to the downside. But recent Statistical Office research suggests that the change in the structure of inflation basket for 2012 will lift weights for energy and food categories and lower for others. Thus this change should influence on the upward revision of January inflation from 4.1 to 4.1-4.3% YoY. This revision also elevate starting point for February inflation. NBP will publish current account deficit. We estimate a slight improvement of current account deficit. The main factor influencing on are high payments due to debt servicing costs and negative EU funds transfer. Also mild durable goods production does not speak in favor of strong exports. On Wednesday NBP M3 data will be released. Rise of money supply is continued which stems from strong momentum in household and corporate deposits. On Friday employment and wages data will be published. We expect lower employment growth against last month's reading stemming from one-off factor. Economic activity indicators are still declining. As for wages the change of growth pace is affected by the difference in working days and stable growth of wages in manufacturing sector.

**Polish data to watch: March 12 to March 16**

Publication	Date	Period	BRE	Consensus	Prior
CPI y/y (%)	13.03	Feb	4.3	4.1	4.1
C/A (EUR mn)	13.03	Jan	-1029	-1024	-1337
M3 y/y (%)	14.03	Feb	14.0	13.5	13.7
Employment y/y (%)	16.03	Feb	0.5	0.7	0.9
Wages y/y (%)	16.03	Feb	5.3	5.6	8.1

**Treasury bonds and bills auctions**

Paper	Next auction	Last Offer	Last yield (%)	Prev auction
52 Week T-bills	3/26/2012	2000	4.480	2/29/2012
2Y T-bond OK0114	3/14/2012	5500	4.688	2/9/2012
5Y T-bond PS1016	4/19/2012	3000	4.837	3/8/2012
10Y T-bond DS1021	3/21/2012	3000	5.511	2/1/2012
20Y T-bond WS0429	3/21/2012	3000		2/16/2011

**Macroeconomic forecasts**

Wskaźnik	2008	2009	2010	2011	2012 F
GDP y/y (%)	5.1	1.6	3.9	4.3	2.8
CPI Inflation y/y (average %)	4.3	3.5	2.8	4.3	3.6
Current account (%GDP)	-5.3	-1.6	-4.5	-4.9	-3.6
Unemployment rate (end of period %)	9.5	12.1	12.4	12.5	13.6
Repo rate (end of period %)	5.0	3.5	3.5	4.5	4.0

	2011	2011	2011	2011	2012	2012
	Q1	Q2	Q3	Q4	Q1 F	Q2 F
GDP y/y (%)	4.5	4.3	4.2	4.3	3.8	3.5
CPI Inflation y/y (average %)	3.7	4.2	4.1	4.6	4.1	3.9
Repo rate (end of period %)	4.0	4.5	4.5	4.5	4.5	4.5

F - forecast



## Economics

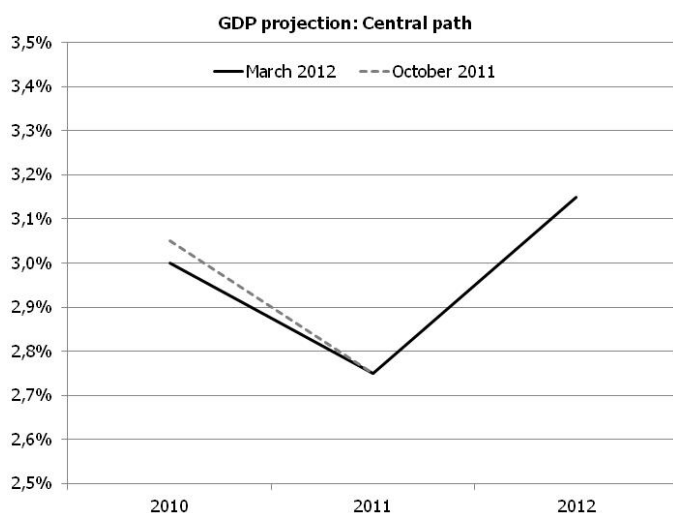
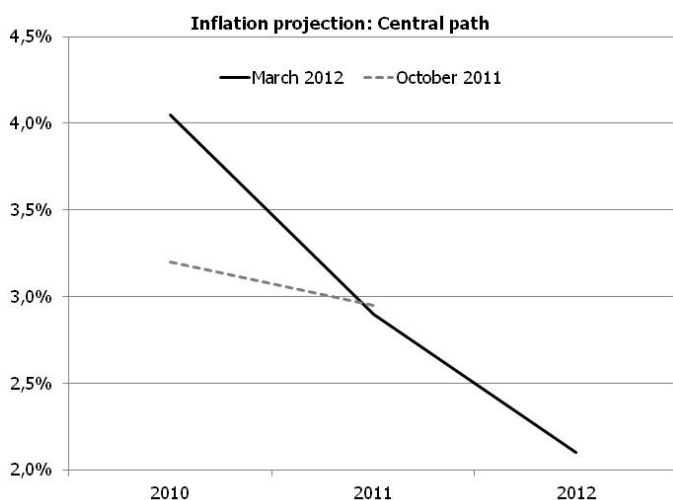
### Interest rates unchanged. Slightly milder MPC rhetoric.

In line with market expectations MPC left interest rates unchanged. The reference rate stays at 4.5%. The most important part of the statement concerning possible future policy actions stood as it was: the Council does not rule out the possibility of further monetary policy adjustments in the future, should the positive signs of economic activity in Poland continue and the outlook for inflation returning to the target fail to improve. In comparison to the previous MPC statement the prerequisite eligible to further monetary policy adjustments have been changed. In February MPC statement the sole prerequisite was the deterioration of the outlook for inflation returning to the target. This change we perceive as a higher bar for tightening monetary policy.

Released NBP's inflation and GDP growth projection have turn out to be in line with our expectations. The inflation projection in 2012 have been raised due to PLN depreciation at the end of 2011 and inflation returning to the target have been postponed to the end of 2013. The GDP growth projection stayed flat, ca 3%. The GDP growth will decelerate in the second half of 2012 and will start to gain momentum in 2013.

The MPC statement also referred to shortcomings concerning the NBP's projection preparation process. The cut-off date for the projection now count ca 40 days and March projection have been prepared on the data available only up to 24 January. Thus subsequent PLN appreciation and publication of lower inflation than expected for January implies that inflation in 2012 and 2013 will be lower than indicated in March projection. During the MPC conference Mr. Belka also underlined maintained downturn in inflation that was the main difference to the previous conference.

We maintain our assessment that MPC will left interest rate unchanged throughout forthcoming quarters simultaneously keeping an eye on the market consensus. As of lack of clear MPC's signals concerning future changes in interest rates market participants will rather react on the release of macroeconomic data alongside pricing distant changes in the monetary policy direction on the one side and on global factors on the other side.





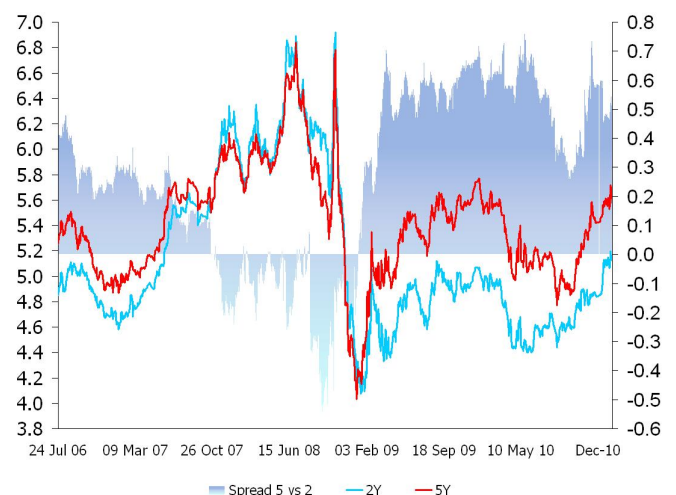
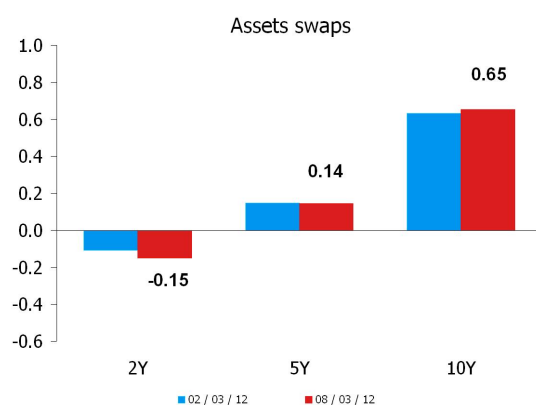
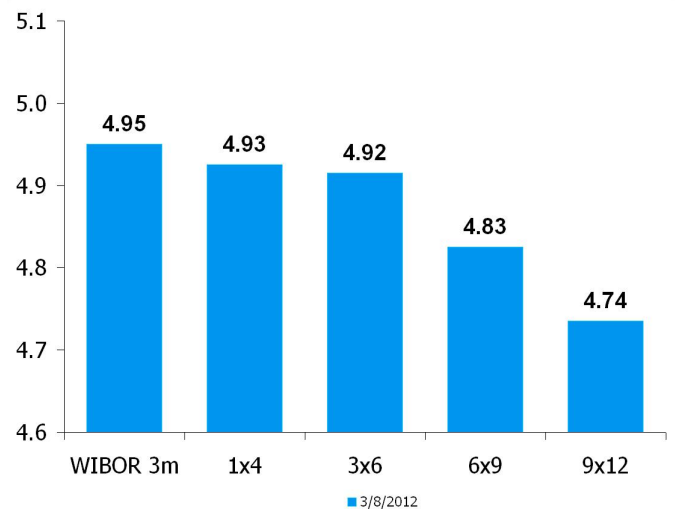
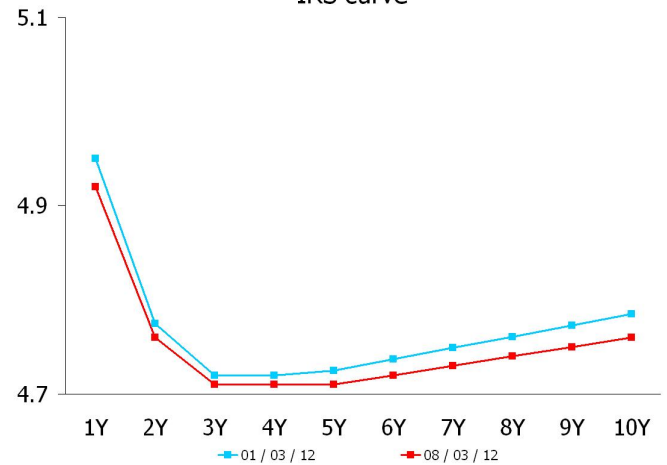
### Fixed income

#### Buy bonds. Order valid till cancelled.

Two events had impact on the FI market last week. First, the monthly MPC meeting held on Wednesday turned out to be rather moderate. Though the new CPI projection showed the higher path that was broadly expected by the markets, the statement stressed the downside correction mainly due to the last inflation readings and favorably stronger domestic currency outlook. The second driver of the week was the 5Y treasury bonds auction that finally attracted bids amounted to over 8 PLN bn. The Ministry of Finance decided to extend the amount accepted to over 4 PLN bn for such oversubscribed and much lower yielding offer. The constant drainage of the local bond market by the foreign investors would finally lead to substantial shortage of cash instruments paving the way to the rapid blow-out in prices.

As we recommended for the last couple of weeks receiving the front end of a curve on tops, especially 1y1y fwd sector and buying longer dated bonds turned out to be the good strategy especially when the external credit risk turmoil has locally vanished and the domestic CPI has started its downside plunge. Moreover, the next CPI reading that will be published on Tuesday 13th looks quite irrelevant. The market expects it to come a little bit higher and drop down rapidly in coming months. The risk in projecting this number caused by the annual change of the basket might emerge in unexpected reading but regardless if it comes slightly higher or lower of the market consensus the downside direction in rates looks inevitable. Moreover, the higher figure might likely be the last opportunity to receive rates for the next couple of months.

IRS curve



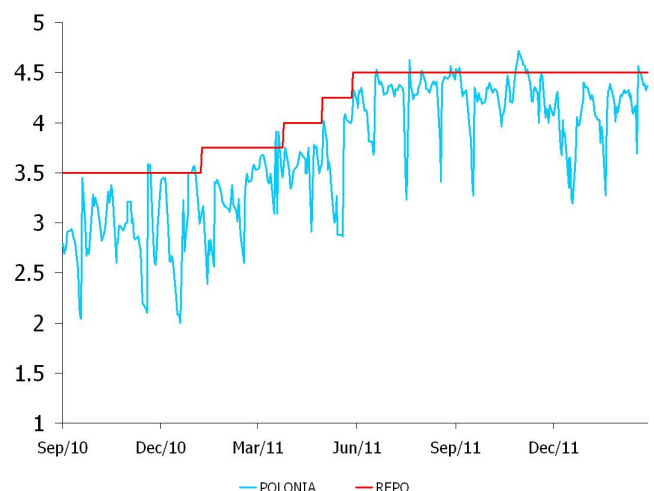
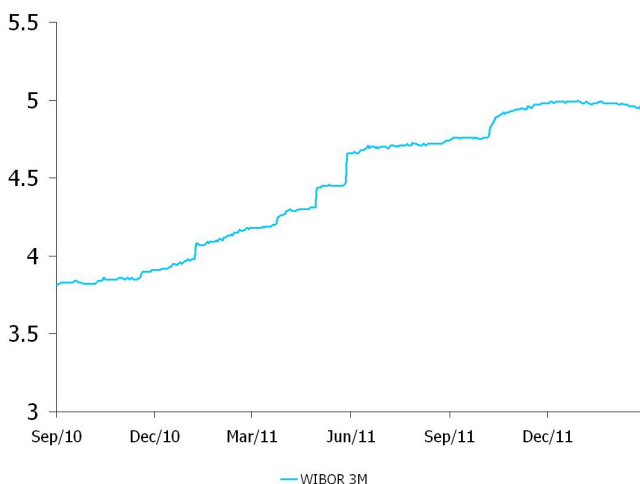
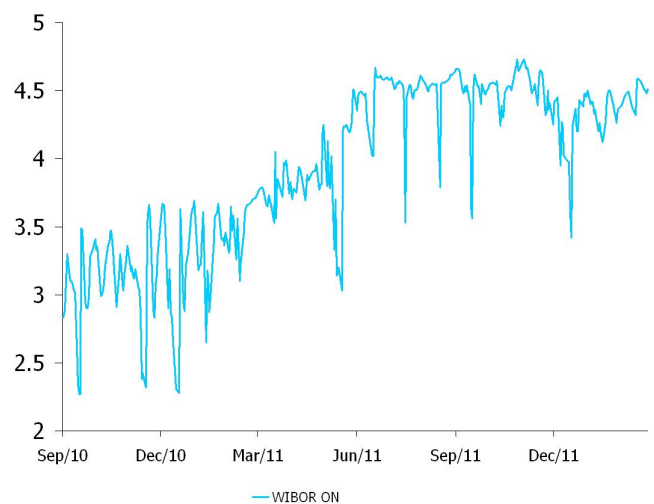
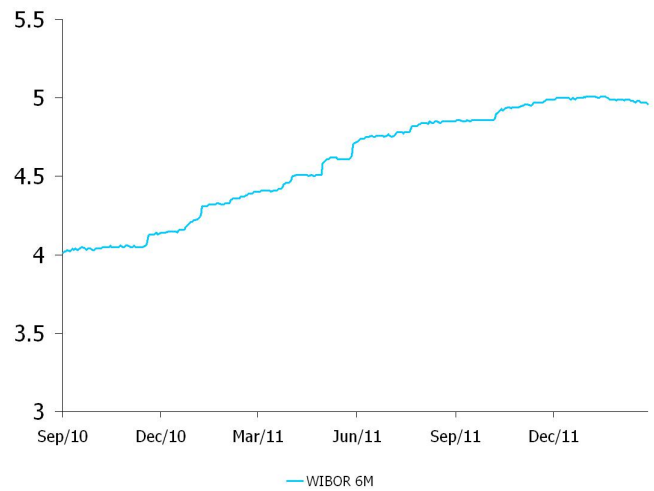


### Money market

#### MPC meeting. High cash again.

As market expected MPC left rates unchanged last week. What made the market rates to move lower was slightly less hawkish comments from MPC and still very good performance of polish currency and bonds. As we are heading into quarter end the risk of hike is disappearing and the market players are taking receive position more aggressive through bonds and IRS. The last obstacle is CPI in next week.

Cash stayed on heightened level last week, but no panic, rather stable beginning of the month. We recognized some change in NBP's estimation of bids for 7-day bills. The change is to the better in our opinion, the offer on last two OMO's was exactly what we calculated to square the market. Earlier the offer was always few yards more.





### Forex

**Zloty wobbly** The Greek story, still in the driving seat. Fears of the success of Greek debt swap caused the Zloty losses by almost 2% (from 4.10 last Friday' closing), EUR/PLN jumped to 4.1790 on Wednesday afternoon. On the very same evening situation has turn on a dime. Rumor has appeared that Greece will pull off a bond swap with private creditors, and will avoid an unruly default. It boosted investor appetite globally for riskier emerging market assets, and on Thursday the Zloty has recovered from losses, to finally settle just above 4.10 .

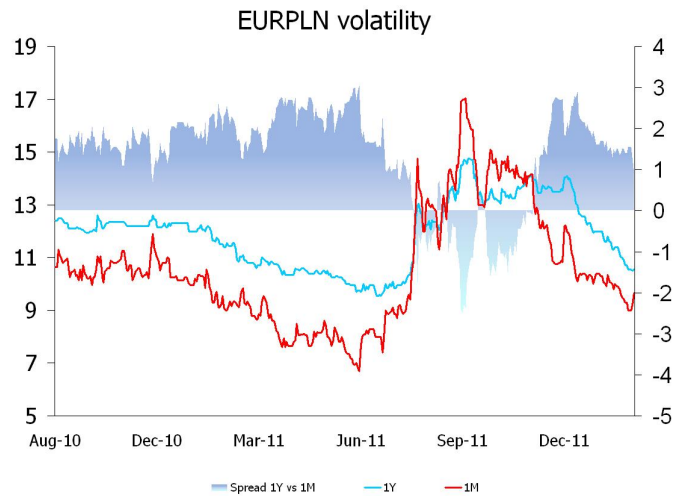
**Volatility little higher** The beginning of the week, was very nervous as fears about Greek's default has reappeared again. Short term volatility was well bid on as gamma was performing very well. Bid /offer spread was much higher, as offers escaped higher. The mid of the atms was higher by around 0.25%. In comparison to last week. 1 month EUR/PLN atm is 9.25% vs 9.0% last week, 6m atm is at 10.2% (0.2% higher) and 1Y atm is at 10.5 (as week before). The risk reversals are 0.2% higher and currency spread (difference between USD/PLN vs EUR/PLN) is at 7.5%.

### Short-term forecasts.

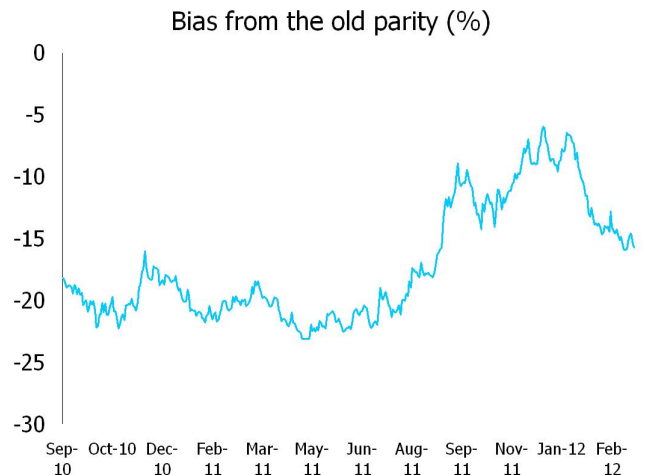
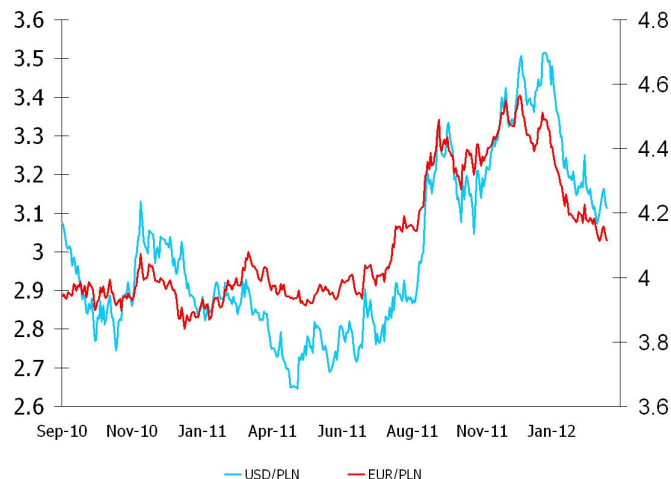
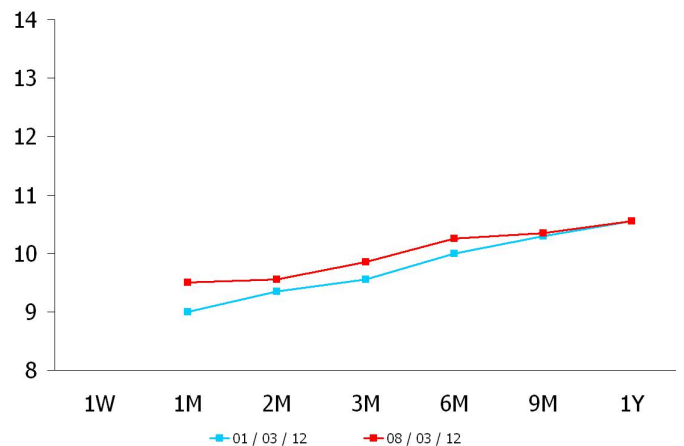
Main supports and resistances  
EUR/PLN: 4.0100 / 4.1800  
USD/PLN: 3.0000 / 3.2500

**Spot.** EURPLN hold the 4.10 - 4.18 range. We would need some fresh impetus to break the lower band - maybe it will be the NFPs. 4.1800 has proved to be a very strong resistance. So we are still short with 4.1800 stop loss and with target 4.02/4.04.

**Derivatives** The bigger picture is getting more and more constructive for the short Vega holders. Risk appetite is on the agenda again, as the market pricing in positive solutions in Greece. The historic volatilities are falling, the realized skew is also well bellow implied. The last year range for 1 year EURPLN atm was 9.25% - 14.0%, so we still have same potential...



EUR/PLN volatility curve





## 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
3/2/2012	4.57	4.96	4.61	6.49	4.61	6.59	4.95	4.94	4.84	4.74	4.63	4.86
3/5/2012	4.77	4.95	4.80	4.87	4.79	4.88	4.95	4.95	4.85	4.74	4.62	4.88
3/6/2012	4.57	4.95	4.75	4.87	4.62	4.87	4.95	4.95	4.87	4.78	4.68	4.89
3/7/2012	4.60	4.96	4.64	4.87	4.64	4.87	4.96	4.93	4.84	4.74	4.64	4.85
3/8/2012	4.76	4.95	4.79	4.87	4.94	4.87	4.93	4.92	4.83	4.74	4.57	4.84

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
OK0114	8/10/2011	1/25/2013	89.58	4.58	5000	4934	1889
PS1016	10/19/2011	10/25/2016	98.44	5.11	3600	11200	3638
DS1021	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
3/2/2012	6.590	4.500	4.785	4.678	4.735	4.884	4.795	5.427
3/5/2012	4.880	95.716	4.795	4.685	4.750	4.906	4.800	5.443
3/6/2012	4.870	4.510	4.830	4.680	4.800	4.953	4.840	5.493
3/7/2012	4.870	95.730	4.790	4.644	4.765	4.919	4.815	5.472
3/8/2012	4.870	95.730	4.760	4.611	4.710	4.854	4.760	5.414

EUR/PLN 0-delta stradle					25-delta RR		25-delta FLY
Date	1M	3M	6M	1Y	1M	1Y	1Y
3/2/2012	9.00	9.55	10.00	10.55	10.55	3.50	0.71
3/5/2012	9.00	9.55	10.00	10.55	10.55	3.50	0.71
3/6/2012	9.20	9.65	10.10	10.50	10.50	3.50	0.76
3/7/2012	9.65	9.95	10.30	10.55	10.55	3.50	0.71
3/8/2012	9.50	9.85	10.25	10.55	10.55	3.50	0.81

PLN Spot performance						
Date	EURPLN	USDPLN	CHFPLN	JPYPLN	HUFPLN	CZKPLN
3/2/2012	4.1125	3.1023	3.4119	3.8049	1.4295	0.1662
3/5/2012	4.1345	3.1355	3.4290	3.8595	1.4179	0.1666
3/6/2012	4.1570	3.1557	3.4472	3.8960	1.4134	0.1670
3/7/2012	4.1578	3.1631	3.4492	3.9164	1.4128	0.1672
3/8/2012	4.1255	3.1220	3.4224	3.8346	1.4073	0.1666

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