

**Bureau of Economic Analysis**
(research)

Ernest Pytlarczyk, PhD, CFA
chief economist
tel. +48 22 829 01 66
ernest.pytlarczyk@brebank.pl

Marcin Mazurek, PhD
senior analyst
tel. +48 22 829 01 83
marcin.mazurek@brebank.pl

Paulina Ziembinska
analyst
tel. +48 22 829 02 56
paulina.ziembinska@brebank.pl

Artur Pluska
analyst
tel. +48 22 526 70 34
artur.pluska@brebank.pl

Financial Markets Department
(business contacts)

Lukasz Barwicki
head of trading
tel. +48 22 829 01 93
lukasz.barwicki@brebank.pl

Inga Gaszkowska-Gebska
institutional sales
tel. +48 22 829 01 67
inga.gaszkowska-gebska@brebank.pl

Bartłomiej Malocha, CFA
money market
tel. +48 22 829 01 77
bartlomiej.malocha@brebank.pl

Jaroslav Stolarczyk
structured products
tel. +48 22 829 01 67
jaroslav.stolarczyk@brebank.pl

Marcin Turkiewicz
fx market
tel. +48 22 829 01 67
marcin.turkiewicz@brebank.pl

Reuters pages:
BREX, BREY, BRET

Bloomberg:
BRE

SWIFT:
BREXPLPW

BRE Bank S.A.
18 Senatorska St.
00-950 Warszawa
P. O. BOX 728
tel. +48 22 829 00 03
fax. +48 22 829 00 33
http://www.brebank.pl

Table of contents

Economics	page 2
• Inflation up in February	
Fixed income	page 3
• Just a correction	
Money market	page 4
• High Overnight	
FX market	page 5
• Zloty consolidating	
• Volatility unchanged	

Comment on the upcoming data and forecasts

On Monday industrial data will be published. We expect annual rate of industrial production to remain unchanged with downward risk resulting from the lower PMI reading and recently published lower level of motor vehicles production. What is more data will reflect low temperatures in February and high statistical base from the previous year. Positive signals on the other hand were sent from economic indicators and still high annual growth of construction production (ca. 30% y/y). Higher reading is also supported by expected lower PPI (as annual growth rate of production published by Statistical Office is counted as the difference between nominal production and annual PPI rate) resulting from huge statistical base from 2011. Taking PPI into account in February we also observed commodities prices growth, which was however reduced by Zloty appreciation (ca. 20gr). On Tuesday NBP will publish core CPI reading for January and February. Our calculations from already published CPI data point to 2.5% and 2.7% annual growth respectively. February rise results mainly from growth of excise duty on tobacco. In the coming months stronger Zloty should also result in deteriorating core CPI level.

Polish data to watch: March 19 to March 23

Publication	Date	Period	BRE	Consensus	Prior
Industrial production y/y (%)	19.03.	Feb	9.0	8.8	9.0
PPI y/y (%)	19.03.	Feb	6.2	6.5	8.0
Core CPI y/y (%)	20.03.	Feb	2.7	2.7	2.5

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	4/19/2012	4000	4.535	3/16/2012
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

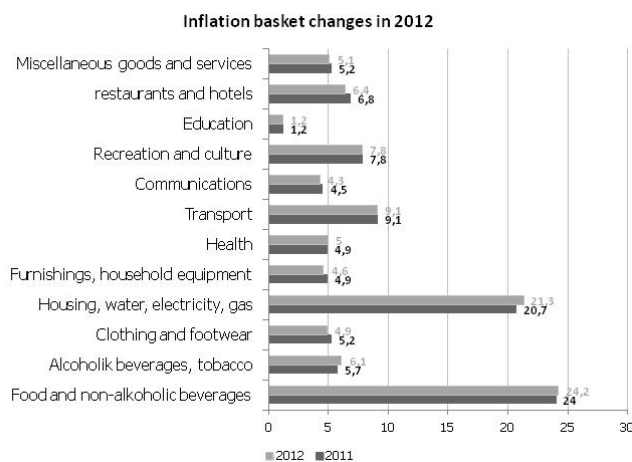
	2011	2011	2011	2011	2012	2012
	Q1	Q2	Q3	Q4	Q1 F	Q2 F
GDP y/y (%)	4.5	4.3	4.2	4.3	3.8	3.5
CPI Inflation y/y (average %)	3.7	4.2	4.1	4.6	4.1	3.9
Repo rate (end of period %)	4.0	4.5	4.5	4.5	4.5	4.5

F - forecast

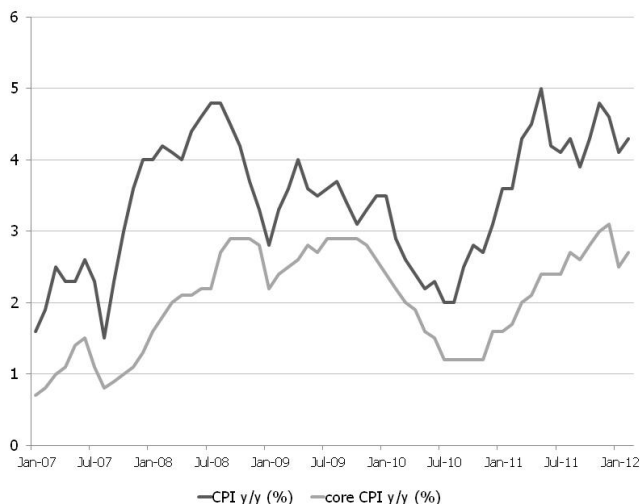
Economics

Inflation up in February

Inflation in February rose to 4.3% from 4.1% in January. What is important, there was no downward revision of inflation in January (to which many market participants had got used to). It stems from the fact that contrary to usual developments, disposable incomes stagnated in 2011. Thus, items which make for a large part of expenses gained on weight (food, housing, health) relative to income. Or in other way, disposable income did not make up for the loses of purchasing power generated by price rises of items constituting a large part of consumer outlays - hence, those items' weights rose.



Turing to monthly growth alone, +0.4% owes primarily to food prices (+0.8%), recreation and culture and tobacco products. Core inflation (mainly on tobacco products) may have risen to 2.7% from 2.5% in January. However, we have to stress that this growth may be misleading as in other categories sequential monthly growth is negligible, indicating inflation processes are benign. Next months should bring inflation under 4%; more pronounced zloty appreciation should be visible in faster drops in core inflation.





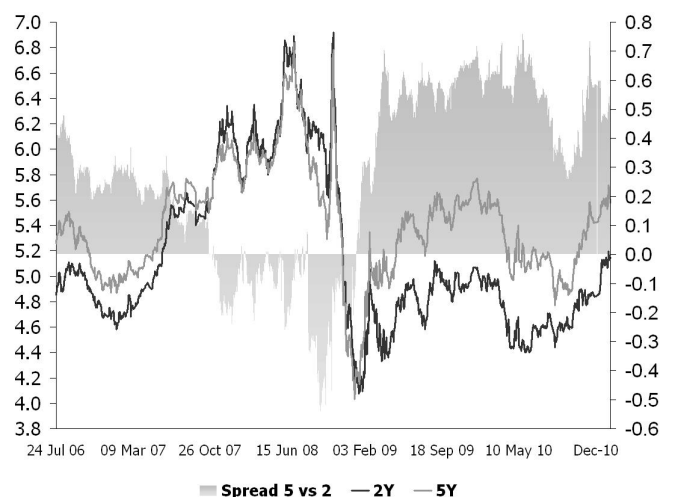
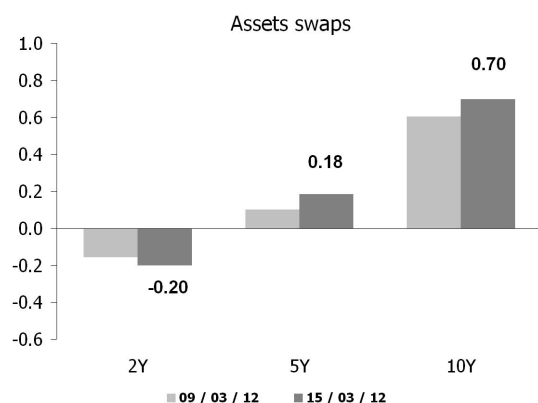
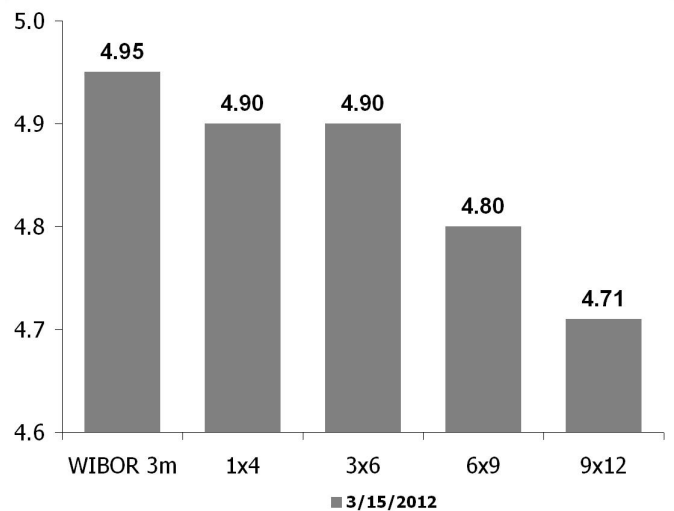
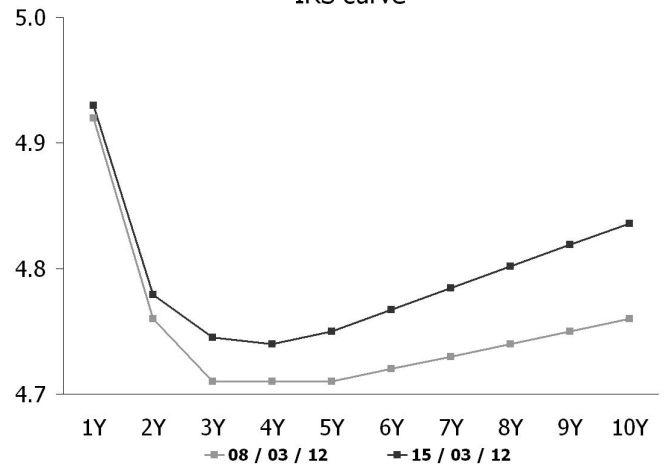
Fixed income

Just a correction

Market started last week with quite w positive sentiment and bullish moves continued. Bond prices reached fresh year-high levels on Monday and again on Tuesday. IRS levels were also pushed down to lowest levels. Situation reversed on Wednesday though, as correction on core markets has started, it has impacted PLN curve as well. Finanace Ministry managed to place over 4bio of 2Y benchmark OK0114, yet demand hasn't been spectacular, neither were price levels. From then on fresh waves of bond supply have been hitting the market, pushing prices lower and lower. 5Y bonds lost 70ticks/17bp, 10Y were down over 1 big figure (so more than 15bp as well).

We don't think what has happened can be considered as a start of a new trend, it's still more of a correction, which could have been expected after quite a strong rally. The fact that core market yields start to rebound from artificially low levels doesn't mean Polish curve should follow the move. On the contrary - 5y5y forward at 180bp over Euro is wide and has a lot of room to tighten. MPC is changing they rethorics (slowly, but still), so bets for a rate hikes have hardly any chances to win. Next economic data releases will also likely support rates - CPI will continue to fall, economic activity will slow down a bit. All in all, we still like POLGBs, with preference for 5Y sector. We'd like to buy on dips.

IRS curve



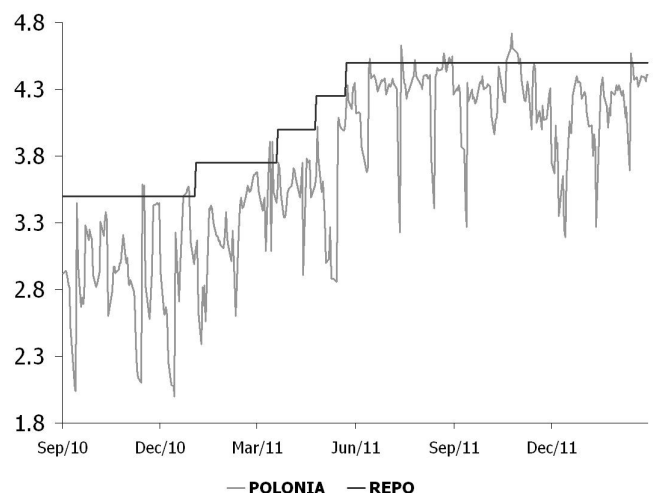
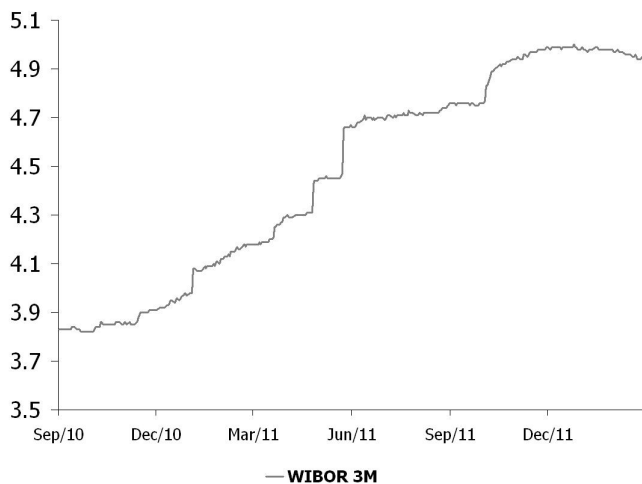
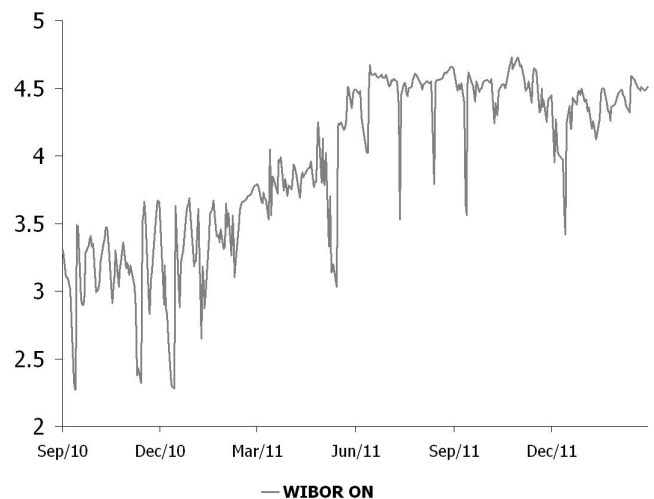
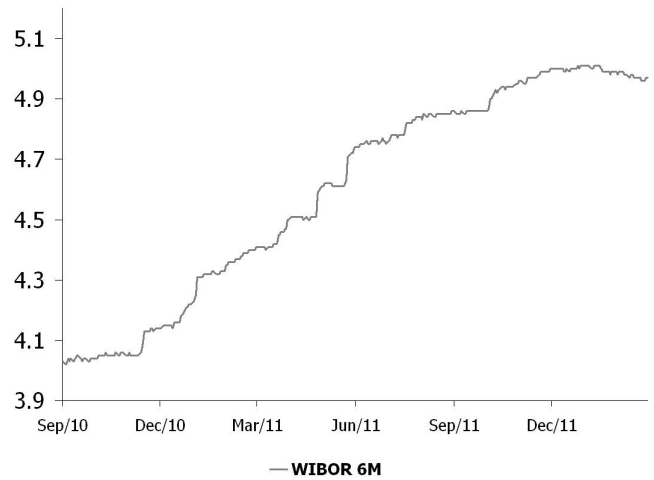


Money market

High Overnight

We saw very good buying in 1-2 year bonds sector following dovish statements from MPC members and rally on long end last week. OK0713, DS1013 and even OK0114 yields came below reference rate. For some time there was sale of the shortest 0412, 0712 and 1012, so it looks like people were switching to longer bonds with expectations of rate cuts to come next year. The rally stopped after Tuesday CPI release, which came out 4.3% - a bit higher than market expectation. Then we had OK0114 auction which came slightly lower than on the secondary market and the mood worsen a bit.

Nothing new on the cash market, it is still very high, 30 day average ON now is 4.31 and this is pushing OIS market higher. 1 month 4.24 bid, 3-6 months we see 24 bids, 1 year also came 2 pips higher. Interesting thing is that big local banks (which should have loads of cash) are taking cash for 1-2 weeks.





Forex

Zloty consolidating Last week NFP added fuel to PLN gains, and we broke 4.10 support touching briefly 4.0850 low for EUR//PLN. The move was reversed later, and we touched 4.1625 week high. The position was probably the key factor, too many fresh longs on the market. Now, after that mini short squeeze in EUR/PLN, the positioning is probably much lither which increasing chances for the decisive break lower to 4.05.

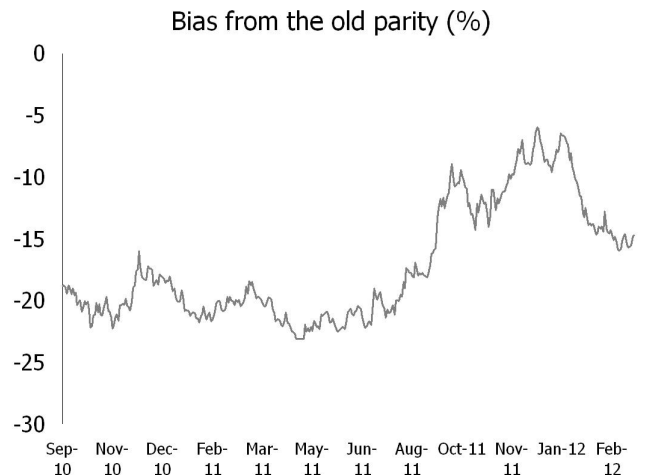
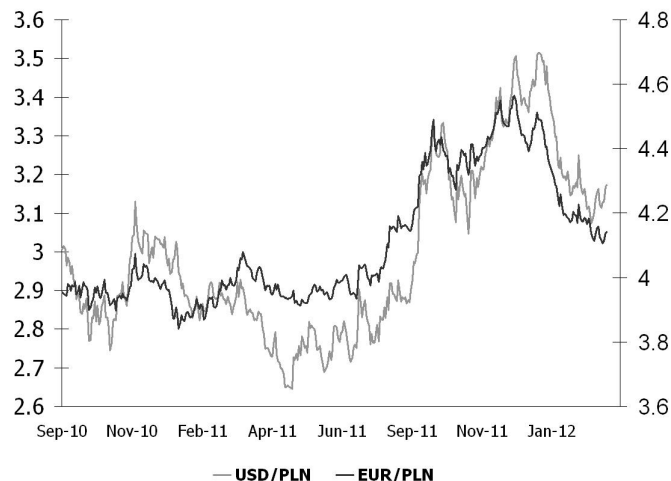
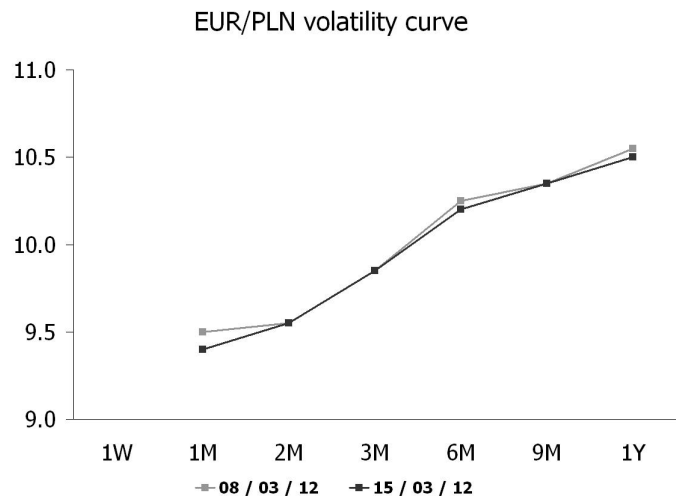
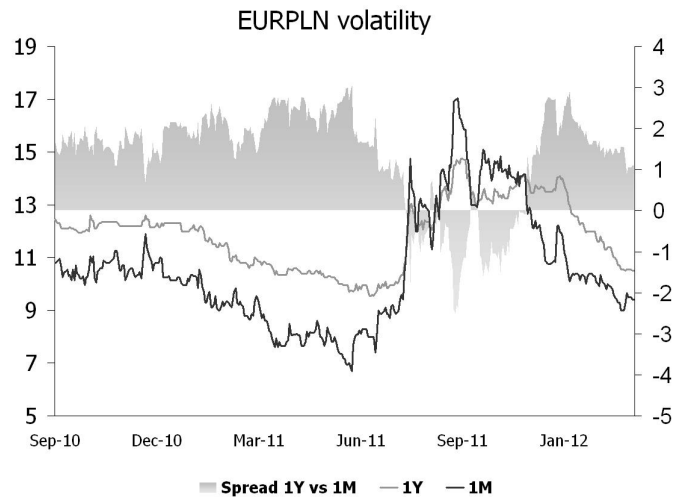
Volatility unchanged Volatility curve on EUR/PLN was mimicking the EUR/PLN moves. We have been lower bellow 4.10 , then higher above 4.15 only to settle at more less the same levels like last week with spot hovering above 4.12 (1month mid 9.25%, 1 year mid 10.50%). The 25 delta risk reversals were touch higher roughly 0.25%, with even higher change for 10 delta. We expect that to melt if neutral/positive PLN persists. The currency spread (USD/PLN - EUR/PLN) is a little lower 7.15% , even lower for the front end.

Short-term forecasts.

Main supports and resisances
EUR/PLN: 4.0500 / 4.1800
USD/PLN: 3.0000 / 3.2500

Spot. The combination of lower lows and lower highs is reassuring for our core long PLN position (short EUR/PLN). We have a stop at 4,1850 with hopes for 4,0500.

Derivatives The bigger picture is getting more and more constructive for the short Vega holders. The correlations are changing, the EUR/USD is less negatively correlated to EUR/PLN. If the idea of EUR as a founding currency will materialize, that correlation will fall even further. If that would be a case, the USD/PLN vols would be hit hard, and currency spread will lower significantly. We hope so as we hold short USD/PLN Vega, as we prefer it to EUR/PLN short Vega where the move down has run out of steam.





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
3/9/2012	4.60	4.94	4.92	4.86	5.00	4.86	4.92	4.88	4.79	4.69	4.58	4.81
3/12/2012	4.75	4.94	4.79	4.86	4.84	4.86	4.91	4.87	4.75	4.68	4.54	4.79
3/13/2012	4.58	4.95	4.92	4.87	4.63	4.87	4.92	4.90	4.80	4.70	4.57	4.82
3/14/2012	4.56	4.95	4.61	4.87	4.61	4.87	4.92	4.91	4.81	4.71	4.61	4.82
3/15/2012	4.73	4.94	4.75	4.87	4.98	4.87	4.90	4.90	4.80	4.71	4.61	4.81

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
3/9/2012	4.860	4.510	4.760	4.605	4.710	4.810	4.760	5.364
3/12/2012	4.860	95.787	4.728	4.557	4.698	4.783	4.748	5.359
3/13/2012	4.870	4.450	4.735	4.546	4.700	4.800	4.750	5.349
3/14/2012	4.870	4.450	4.779	4.602	4.750	4.867	4.836	5.431
3/15/2012	4.870	4.450	4.779	4.579	4.750	4.934	4.836	5.535

EUR/PLN 0-delta stradle					25-delta RR		25-delta FLY
Date	1M	3M	6M	1Y	1M	1Y	1Y
3/9/2012	9.50	9.85	10.25	10.55	10.55	3.50	0.71
3/12/2012	9.50	9.85	10.25	10.55	10.55	3.50	0.71
3/13/2012	9.40	9.70	10.15	10.50	10.50	3.50	0.69
3/14/2012	9.40	9.70	10.15	10.50	10.50	3.55	0.69
3/15/2012	9.40	9.85	10.20	10.50	10.50	3.55	0.69

PLN Spot performance						
Date	EURPLN	USDPLN	CHFPLN	JPYPLN	HUFPLN	CZKPLN
3/9/2012	4.1143	3.1126	3.4125	3.8083	1.3998	0.1661
3/12/2012	4.1062	3.1285	3.4055	3.8050	1.4037	0.1669
3/13/2012	4.1132	3.1288	3.4103	3.7910	1.4002	0.1675
3/14/2012	4.1395	3.1699	3.4195	3.8008	1.4196	0.1682
3/15/2012	4.1420	3.1723	3.4210	3.7884	1.4213	0.1681

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 or distributed without the prior written agreement with BRE Bank SA.

©BRE Bank 2011. All rights reserved.