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Comment on the upcoming data and forecasts

On Wednesday wage and employment data will be published. We expect weaker wage growth against last reading. Decline in growth rate results mostly from statistical base. In the area of employment, we expect a bit stronger growth than market consensus (recently corroborated by the Ministry's data on jobless claims). On Thursday industrial production and PPI data will be announced. We expect a decline in annual growth rate of output. Our current assessment results from the last report on March car production, which shows ca. 26% decrease. On the other hand, latest new orders reading speak for still solid manufacturing momentum and points to the fact that recent meager growth rate in February may have resulted from adverse temperature effect (therefore some payback may be expected). Purely statically we would expect 2% print (correction owing to weak car output) but our official forecast takes into account the fact that weaker automotive industry may also serve as a proxy for the whole manufacturing. Expected lower PPI results from statistical base effect, stable price expectations and PLN appreciation which balance the effect of higher oil prices. Also slightly lower copper and gold prices affect PPI to the downside. On Friday NBP will publish core CPI reading from March. Our calculations from already published CPI data point to 2.4% annual growth.

Polish data to watch: April 16 to April 20

Publication	Date	Period	BRE	Consensus	Prior
Wages y/y (%)	18.04	Mar	2.9	4.0	4.3
Employment y/y (%)	18.04	Mar	0.6	0.5	0.6
PPI y/y (%)	19.04	Mar	4.8	4.8	6.2
Industrial production y/y (%)	19.04	Mar	-0.5	4.5	4.6
Core CPI y/y (%)	20.04	Mar	2.4		2.6

Treasury bonds and bills auctions

Paper	Next auction	Last Offer	Last yield (%)	Prev auction
52 Week T-bills	-	3000	4.470	3/26/2012
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	5/23/2012	2500	5.478	3/21/2012
20Y T-bond WS0429	5/23/2012	3600		1/12/2011

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	4.75

	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1 F	2012 Q2 F
GDP y/y (%)	4.5	4.3	4.2	4.3	3.6	2.8
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	4.50

F - forecast



Economics

March inflation below 4.0% threshold

CPI inflation decelerated in March to 3.9% y/y from 4.3% in February. On monthly basis prices increased by 0.5%. This growth can be attributed in almost 30% to food prices (+1.2% m/m), another good 30% goes to transport (+0.8% m/m) and wearing apparel (0.5% m/m), and the rest can be credited to the other, pure core categories. As for the annual reading, inflation softening stems mainly from statistical base effect. We estimate that core inflation fell to 2.4/2.5% (much depends on rounding, again...) from 2.6% recorded in February.

Next 2-3 months are likely to bring stabilization in inflation (close to but probably below 4%). However, summer months will be marked with another round of exogenous price rises, connected with EURO2012 effects. Only in the autumn and winter months inflation is set to fall and settle within inflation target.

The release triggered immediately some softer comments from MPC members. Governor Belka indicated that MPC may consider monetary tightening in May but industrial output and retail sales data will be of utmost importance to MPC's decision). 4% proved to be also a decisive inflation level for Chojna-Duch: it was enough - in her opinion - to soften the MPC's stance. Therefore, and along with the upcoming publications (probably lower wages, lower growth of output), the enthusiasm for rate hikes may melt, at least for some MPC members. Yet, even if not justified by the data, the rate hike may be pushed forward, as it was almost announced during the last meeting. There will be a lot of discussion in order to assess which situation is less destructive: fetching for what has been announced (and hike) or going along with the current of data (and wait). One is certain, the latter will entail some further loss of MPC's credibility, and the need for Belka to once again make use of his extraordinary ability to reinterpret what was actually said. We think the market may follow the rule that crunching the data does on average better in forecasting MPCs moves. Therefore, along with the stream of softer data, the rate-implied probability of a hike is set to fade.

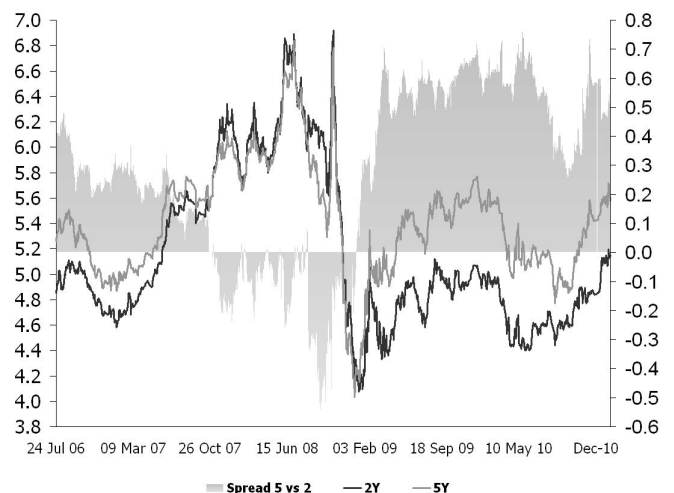
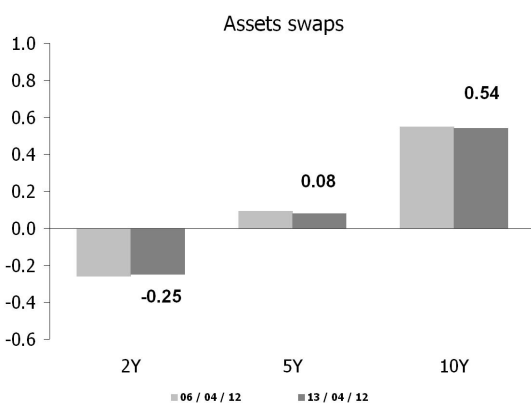
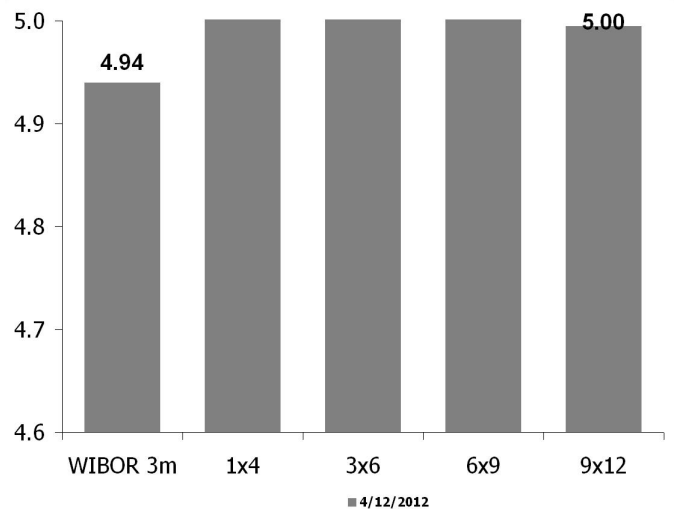
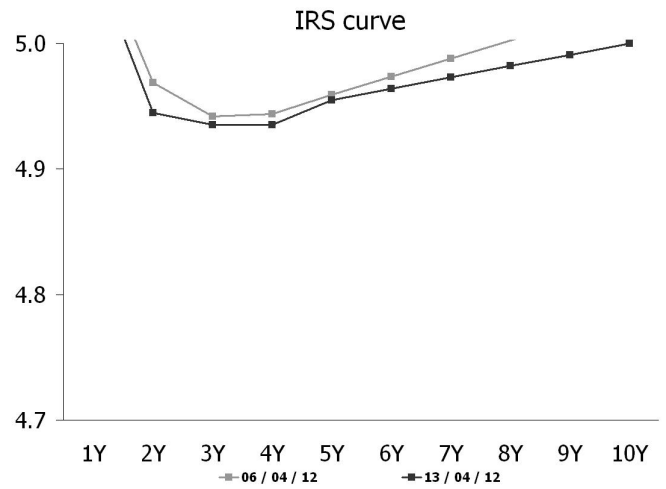


Fixed income

Waiting for worse data

After the quite nasty turmoil during the Easter Holidays, the markets have found their new equilibrium after a heavy trading from Tuesday morning to Wednesday evening. The PLN market has become more sensitive to the core markets sentiment and followed strictly the short term global trends. Although the short end of the yield curve stayed quite elevated after the MPC had suggested they might have been eager to rise interest rates on the next meeting, the longer end of a curve recovered by a few basis points especially in 10Y sector.

The major uncertainty this week proved to be the March CPI release that seemed to be crucial point for the further market development. Unfortunately the figure at 3.9% that was very close to the market consensus did not have any significant influence on a current yield curve levels. It might be clear that the market would be very likely to wait for both the industrial output and retail sales data just to justify the possible monetary policy tightening expected in May. Anyway, taking into consideration the MPC's rhetoric and still existing pressure in the short end of a curve, we would still trade in favor of flattening the curve and buy longer dated bonds.





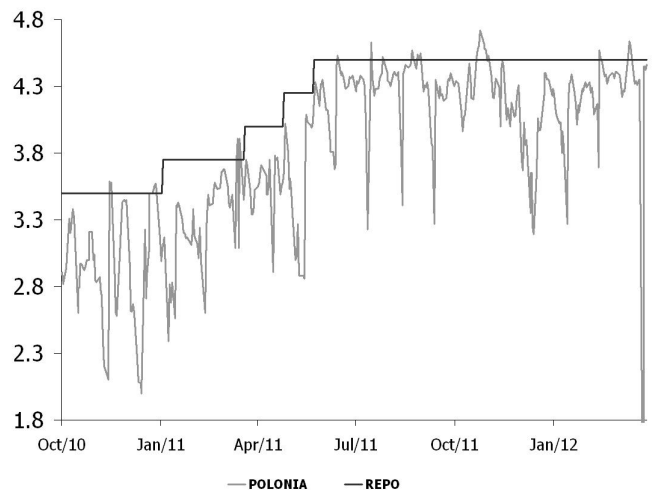
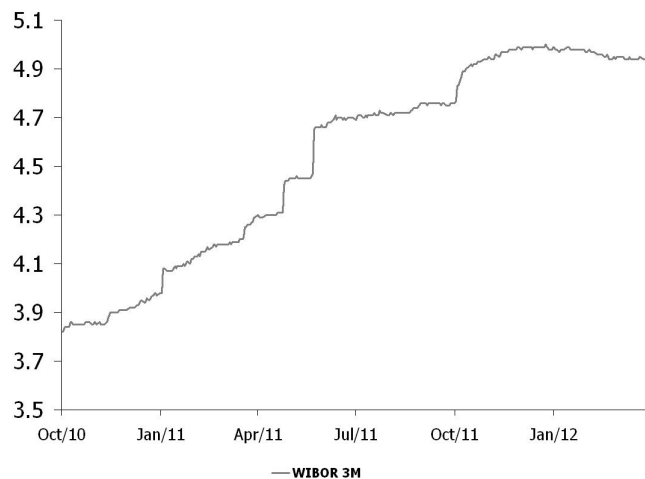
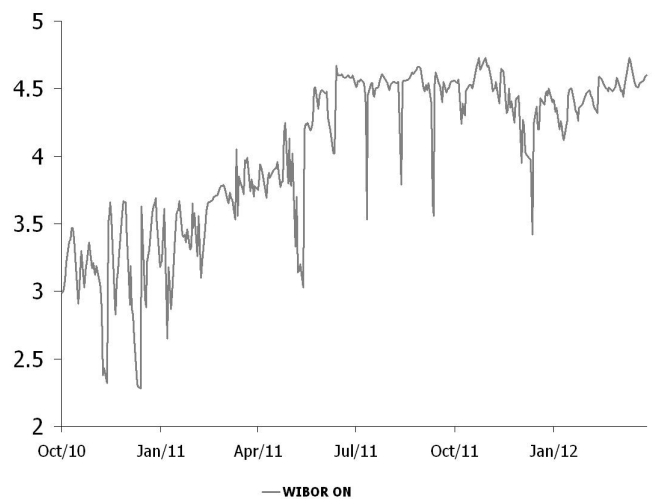
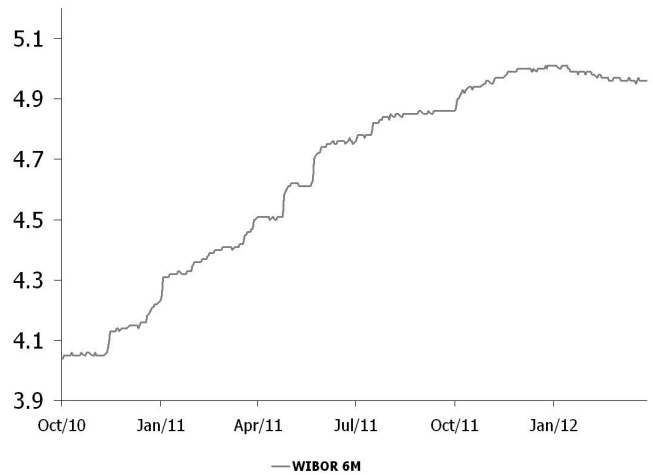
Money market

Carry still high. CPI broke 4% stopping the bears. Eyes on IO figure next week.

Cost of carry still high and we identify huge PGB positions abroad as the main factor driving local liquidity now. Today the OMO was underbid in 4 billion pln (81.3 vs 85.5 bln pln on the offer), and this should bring at least a slight relief for the shortest rates. We still believe that the end of this reserve period is going to be cheap due to the huge bond inflows (maturing PS0412 plus coupons from the other PS and WS series).

Bearish sentiment stopped by today's CPI figure (3.9% in line with expectations), which broke the psychological 4% barrier. Until today the market was pricing 4/5 probability of hike in May. Now there is a chance to price off a bit to 50/50 level. We think that poor industrial output figure, which is likely after surprising deterioration of the SAMAR index, can push the rates much lower from the current levels. It is hard to imagine that the MPC will hike the rates after falling CPI and IO, however we cannot exclude it. Therefore, if the hike is mostly priced off from the curve, we will treat it as an opportunity to buy, just to hedge off any rates hike risk.

Sell 1Y polonia at current levels.





Forex

Touched 4.2100 Worries about Spain and other peripheral countries pushed EUR/PLN above the 4.20 resistance. The spike was short lived and reached unimpressive 4.2100 high. The low on the pull back was 4.1580, and we are back in the range, only at a little higher levels. The 3.9 CPI print makes a rate hike a little less likely, but it is a global sentiment which is a major driver for PLN at the moment.

Consolidating at lows Mild risk off mood from the last week, supported the EUR/PLN and USD/PLN curves, but only for a few days. After a few calm sessions, both curves are back at their this year's lows, which translates into EUR/PLN ATM 1m 8.8% mid and ATM 1y 10.25% mid, for USD/PLN its respectively 1m 13.75% mid and 1 y 16.5% mid. The only trade of notice was 1y ATM EUR/PLN given at 10.4%, and the avalanche of offers in the short dates...

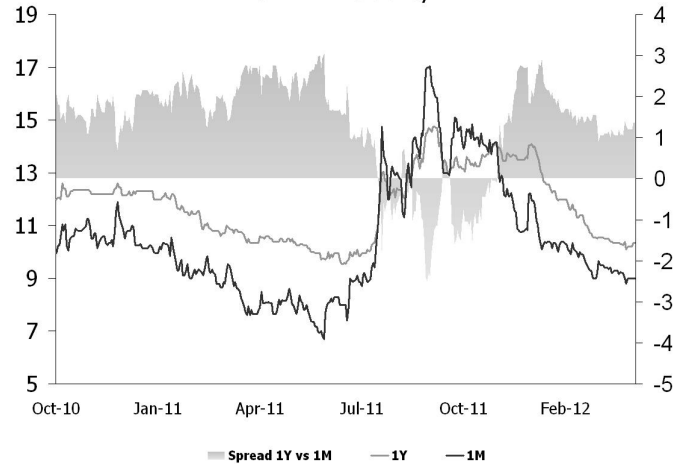
Short-term forecasts.

Main supports and resistances
EUR/PLN: 4.1300 / 4.2300
USD/PLN: 3.1000 / 3.2500

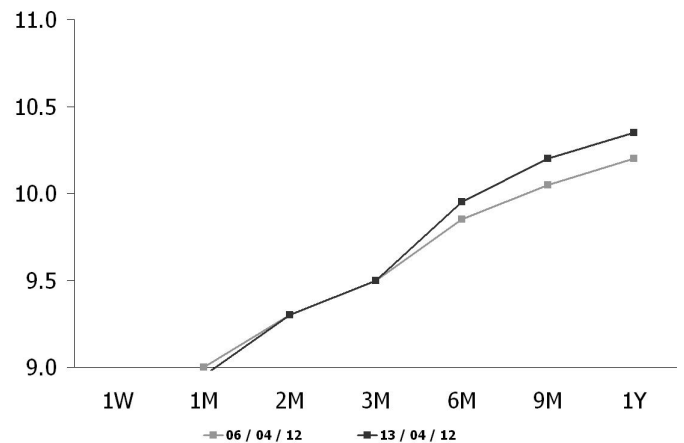
Spot. T/P at 4.2050 achieved. We would like to buy back EUR/PLN at 4.1600, add 4.1400 with a stop 4.1250 and profit taking above 4.20. We think that the hopes for rate hike are futile, and the market will realize it at same point, plus the global sentiment is a little more wobbly at the moment.

Derivatives We are square in EUR/PLN Vega/Gamma. The theta/gamma ratio was not that attractive any more with such a low implied volatilities. On USD/PLN, we still believe it's a good value to be short long end, and eventually install the hedge for short gamma by purchase a mid curve strike. It's makes even more sense, as the curve is really steep, and being long mid curve and short backend, gamma neutral, is still Theta positive.

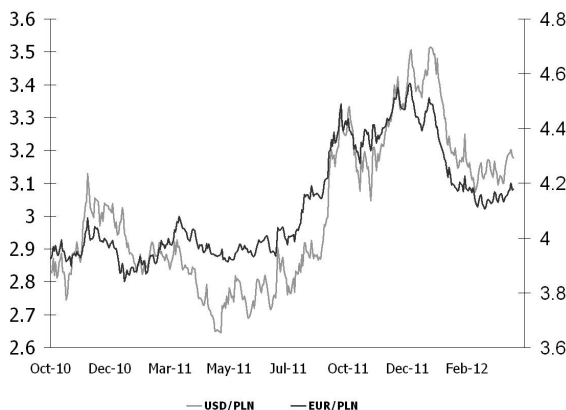
EURPLN volatility



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
4/7/2012	4.59	4.95	4.62	6.49	4.62	6.59	4.99	5.08	5.08	5.01	4.88	5.11
4/10/2012	4.46	4.94	4.83	4.86	4.93	4.86	5.02	5.07	5.07	5.00	4.88	5.10
4/11/2012	4.45	4.94	4.50	4.86	4.50	4.86	5.04	5.09	5.07	4.98	4.84	5.10
4/12/2012	4.57	4.94	4.60	4.86	4.60	4.86	5.03	5.09	5.08	5.00	4.86	5.10
4/13/2012	4.57	4.94	4.60	4.86	4.60	4.87	5.03	5.09	5.08	5.00	4.86	5.10

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
4/7/2012	6.590	95.752	4.969	4.711	4.959	5.053	5.031	5.581
4/10/2012	4.860	4.550	4.990	4.745	4.990	5.076	5.040	5.604
4/11/2012	4.860	4.550	4.945	4.708	4.955	5.025	5.000	5.538
4/12/2012	4.860	4.550	4.945	4.698	4.955	5.036	5.000	5.542
4/13/2012	4.870	4.550	4.945	4.698	4.955	5.036	5.000	5.542

EUR/PLN 0-delta stradle					25-delta RR		25-delta FLY
Date	1M	3M	6M	1Y	1M	1Y	1Y
4/7/2012	9.00	9.50	9.85	10.20	10.20	3.61	0.65
4/10/2012	9.00	9.50	9.95	10.35	10.35	3.61	0.65
4/11/2012	9.00	9.50	9.95	10.35	10.35	3.76	0.64
4/12/2012	8.95	9.50	9.95	10.35	10.35	3.75	0.54
4/13/2012	8.95	9.50	9.95	10.35	10.35	3.75	0.54

PLN Spot performance						
Date	EURPLN	USDPLN	CHFPLN	JPYPLN	HUFPLN	CZKPLN
4/7/2012	4.1565	3.1814	3.4584	3.8588	1.4067	0.1689
4/10/2012	4.1756	3.1904	3.4732	3.9272	1.4102	0.1684
4/11/2012	4.2008	3.2034	3.4966	3.9739	1.4038	0.1690
4/12/2012	4.1740	3.1818	3.4728	3.9246	1.4037	0.1683
4/13/2012	4.1779	3.1765	3.4765	3.9248	1.4053	0.1689

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