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Comment on the upcoming data and forecasts

On Wednesday last package of March data will be published. We expect retail sales to grow by 10.3% y/y. Despite expected consumption slowdown, sales data is still supported by occasional wage growth (e.g. bonuses) and Easter effect. In line with wholesale which deteriorated lately we expect retail sales to slowdown in the months. On Thursday Minutes from April MPC's meeting will be published, but in the context of recent volatile comments from MPC members the publication is rather historical.

Polish data to watch: April 16 to April 20

Publication	Date	Period	BRE	Consensus	Prior
Retail sales y/y (%)	25.04.	Mar	10.3	10.3	13.7
Unemployment rate (%)	25.04.	Mar	13.4	13.4	13.5
MPC Minutes	26.04.				

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	6/20/2012	7500	4.759	4/19/2012
5Y T-bond PS1016	6/20/2012	7500	5.004	4/19/2012
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

	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	2011	2011	2011	2012	2012
	Q1	Q2	Q3	Q4	Q1	Q2 F
GDP y/y (%)	4.5	4.3	4.2	4.3	3.6F	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	4.75

F - forecast



Economics

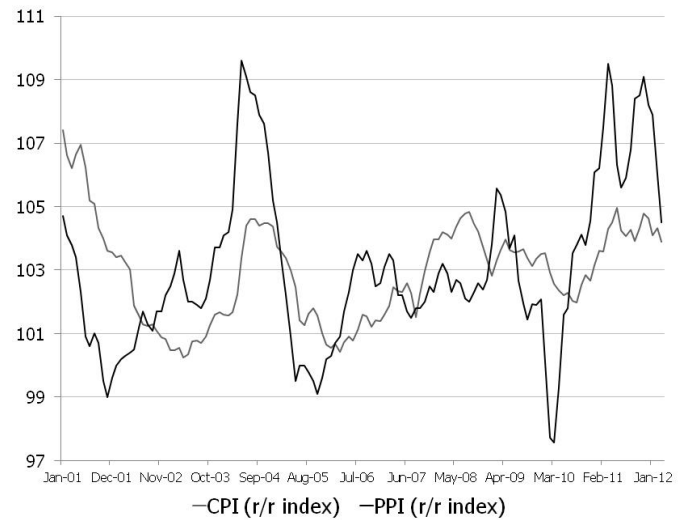
Poor industrial output data obscures the outlook for the MPC behavior in May

Industrial output growth amounted to 0.7% y/y in March, down from 4.6% in February. In seasonally adjusted terms output advanced by 3.9% y/y after 6.0% in the previous month. This way - contrary to expectations of the majority of analysts and in line with the data on automotive industries' performance - a rebound after weak February did not occur. Thereby it is most likely that industrial output has passed its peak, but - at the same time - we would not bet the figure is going to come down below zero in the coming months; rather a stabilization in 0-4% interval is likely.

Growth was recorded in 22 out of 34 sections (therefore growth has been losing broad base), mainly in export sections such as machinery and equipment, electronics etc. Solid contraction was recorded in computer and in automotive industry (some of it stems from the fact that one of the factories permanently went out of the market). Output starts also to lack support from construction which grew only by 3.5%, reflecting statistical deceleration in infrastructure investment after it passed its peak in the last months. We think that the data is consistent with 3.2-3.6% GDP growth in Q1 (an anchor for expectations was already given by the GUS officials at 3.6%).

As for the output prices they decelerated further, this time to 4.5% y/y, off from 6.0% in the last months (6.3% before revision, which in fact seems symptomatic given its rather unusual scale). On monthly basis producer prices went up by 0.1%. It is worth to note that the underlying growth in core manufacturing prices (stripping energy related sections) is 0.1% (lower than 0.2% recorded for the headline manufacturing), and 3mma is negative at close to -0.3%. Therefore we do not see any signs in price pressures on producer's side. The coincidence of this benign momentum, stable or falling energy prices and the base still relatively high statistical base are likely to bring producer prices in the vicinity of 4% in the coming month. As such, this growth rate will be close (or even below) the growth of consumer prices, we decided to revive our favorite chart depicting PPI against CPI. As intersection of both measures (especially when PPI fall from high levels) often mark a downward movement in CPI (see the graph), there seems to be really nothing in Polish current inflation that the MPC should be worried about. We would once again give a remainder of this relation as soon as both measures of inflation cross.

Weaker industrial output data supported Polish debt market. Price of bonds rose primarily after solid auction, then after repricing of rate hike expectations. All this pushed yields down by ca 7bp. Chojna-Duch speaks openly against the hike, Belka seems to be little more soft speaking only about the certainty of a motion for a hike, Hausner tries to revert some of his earlier comments. All in all we are closer and closer to a flip-of-a-coin scenario. Is MPC going to really fetch for a hike in May? We can only say that it would be hard for MPC to retreat from what it did actually announce. However, the fact of outpricing the cut by the market gives more leeway for MPC communication games.





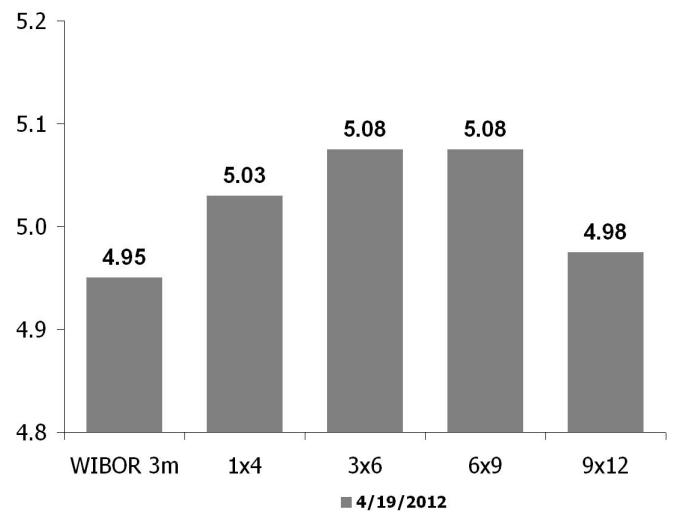
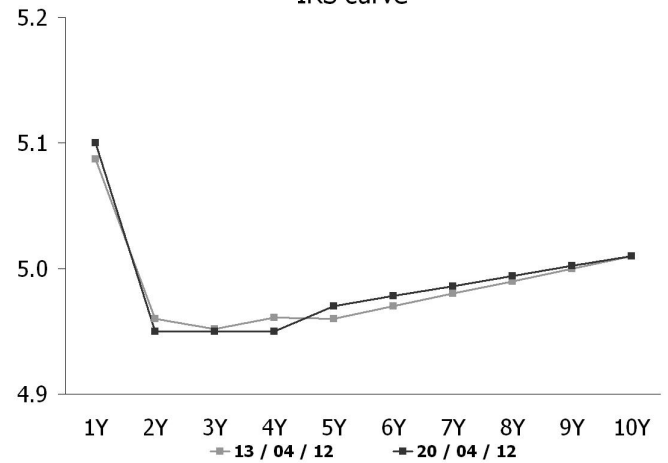
Fixed income

Whatever happens, bonds look like a buy

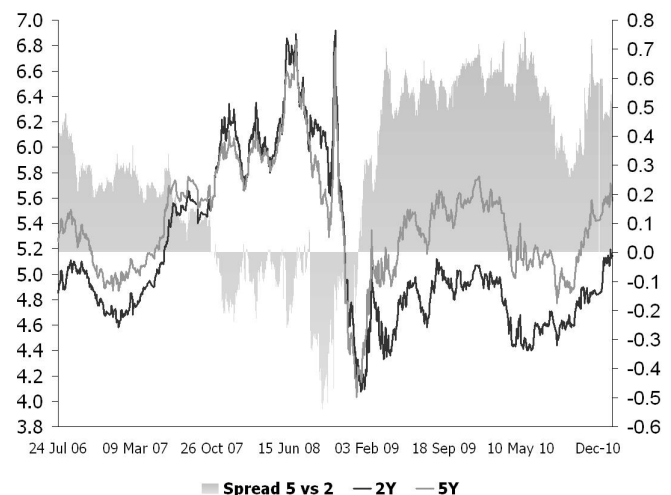
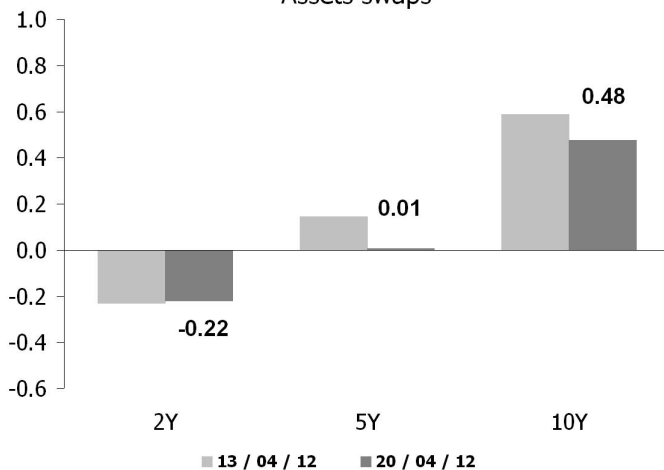
Negative sentiment from previous week prevailed in the first half of the week and swap rates reached fresh highs, still suffering from recent very hawkish comments from MPC and rate hike expectations. As tightening has been almost clearly announced by the rate setters, market has priced in a 25bp move already in May with some risks for further moves. Market sentiment improved after Thursday's bond auction, which attracted 15bio of bids (bid/cover 2) and the FinMin managed to sell 9bio of 2y and 5y bonds (including top-up auction). Later on industrial output and PPI data both surprised on the downside pushing rates even lower - from week's highest levels by some 8-10bp.

Now the rate hike isn't fully priced in rates any longer, which isn't really surprising. Hiking rates now would be perceived by the market as a mistake as higher inflation is already a history and will fall anyway as the economic cycle turns. Tightening will be considered from growth- and not inflation-related perspective and therefore any weaker macro data will strongly enforce rate cuts expectations. On the other hand it would be extremely difficult if not impossible for the MPC to explain to the markets reasonably a no-hike case. That makes outright bets for a decision more difficult than ever. However, regardless of the outcome - no hike will give good reason for a rally, as May seems like a last moment for tightening, hike should push rates much higher, as it is somehow expected and any further weakness would be considered a receiving opportunity. So whatever happens, bonds look like a buy here.

IRS curve



Assets swaps





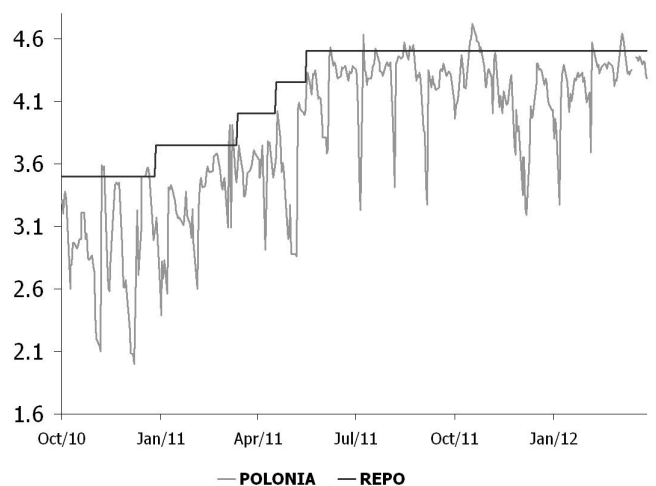
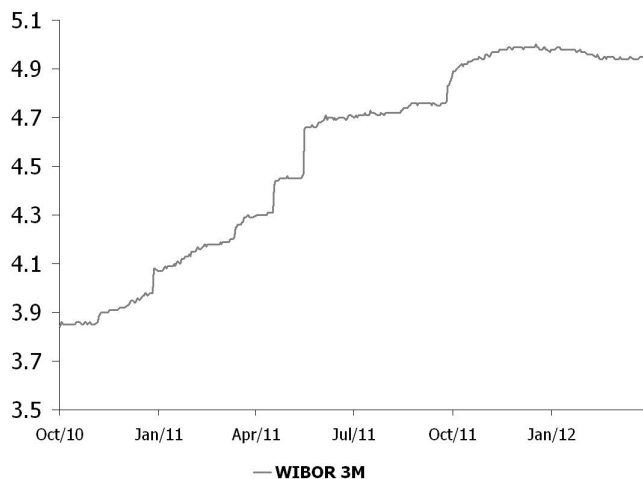
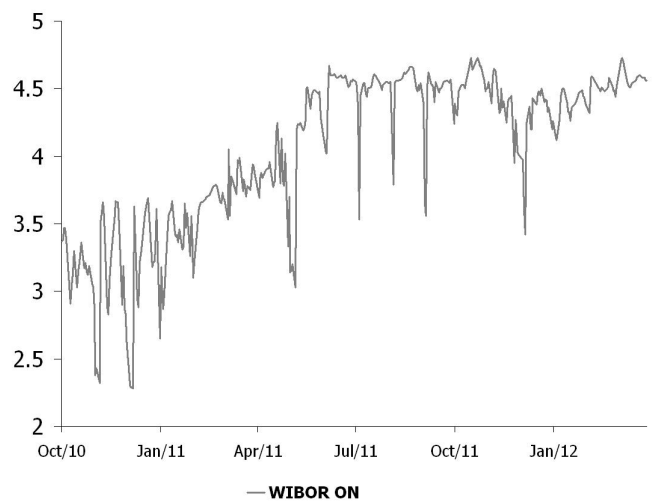
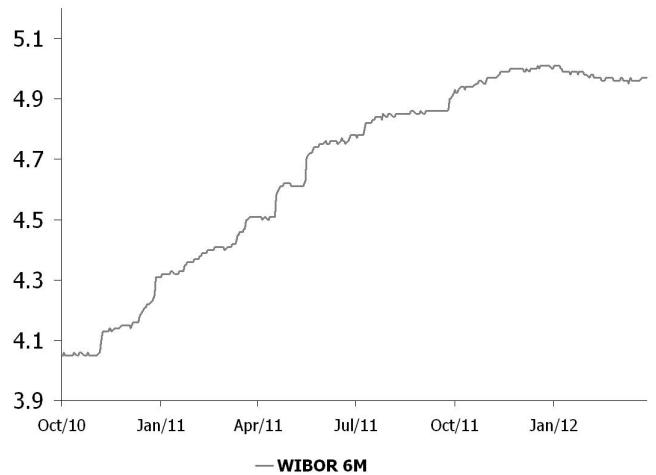
Money market

Cheap end of the reserve ahead? Week industrial output changed the landscape substantially

Last week of the reserve ahead, and it looks good for the low cost of carry lovers. Market bought 85.8 out of 91 billion pln of money bills, needed to keep the market squared. Plus we have a huge net cash inflow on Wednesday (maturity of PS0412+coupons from other PS and WS bond series - payment for yesterday auction bonds = around 20 billion pln). Certainly some of it will be sterilized by the BSB trades on behalf of the MinFin, however we do not think they are able to clean the whole amount. Therefore we expect the shortest rates to go south.

Huge change for trading environment after much weaker than expected industrial output data (0.7 vs 5%). As we were forecasting this caused a price off in the May rate hike expectations and the curve moved 5-10 bps down. Second wave of the bullish explosion we can see if the retail sales figure is also week next Wednesday. And then it might be a good idea to close any receivers and enter into the payers, since the rate hikes will be in game again soon (cpi pressure from the gas prices increase and euro 2012).

Keep receivers for the retail sales and then close it before the MPC meeting.





Forex

Stable The euro zone's debt crisis story is still in the driving seat. Additionally the poor Polish output figures confirmed that the economy is losing steam. Nevertheless the Zloty managed quite well. EURPLN was traded in very tight range 4.1650 - 4.2050 shrugging off all bad news. In fact we were oscillating around 4.1850 during all week and the moves towards upper and lower levels of range were sporadic.

Consolidating at lows Deterioration of global sentiment connected with the worries about Spain and other peripheral countries had almost no impact on EURPLN volatility curve. Only on longer end of the curve we noticed mild support: 1y bid was at 10.15%, but later in the week the 6m was bid and given at 10.0%. Theta bills forced some Gamma selling: 1M was sold at 8.5 and 1W was traded even below 8.0. USDPLN 1M mid was at 13.4, 1Y mid at 16.75.

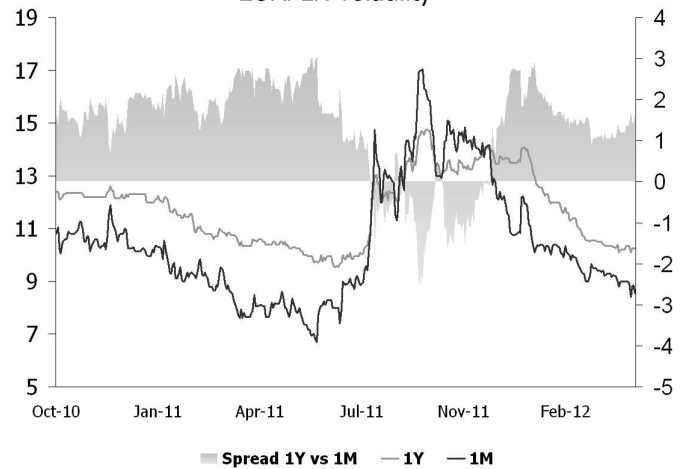
Short-term forecasts.

Main supports and resistances
EUR/PLN: 4.1600 / 4.2500
USD/PLN: 3.1000 / 3.2500

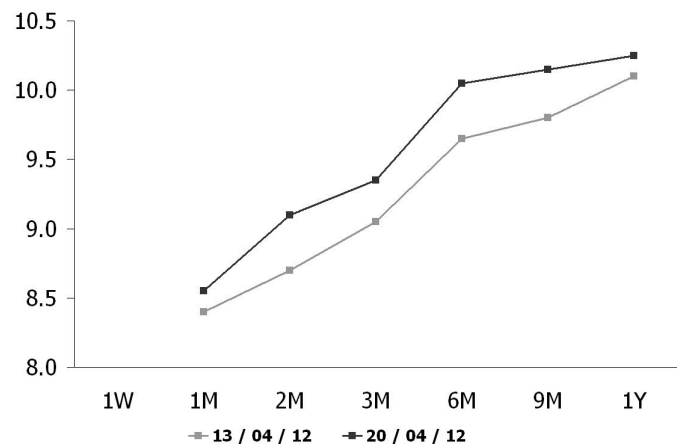
Spot. View unchanged from the last week. Play a range, with a skew to the upside (Zloty downside), as Polish fundamentals have started to deteriorate. The technical picture shows that while 4.1700/4.210 support zone holds we are prone to test the upper side namely 4.23 on the road to 4.25/4.28 stronger resistance zone.

Derivatives Although we do not exclude some correction in the Zloty uptrend, that should not have a big impact on volatility curve. We still suggest to be square in EUR/PLN Vega/Gamma as 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.

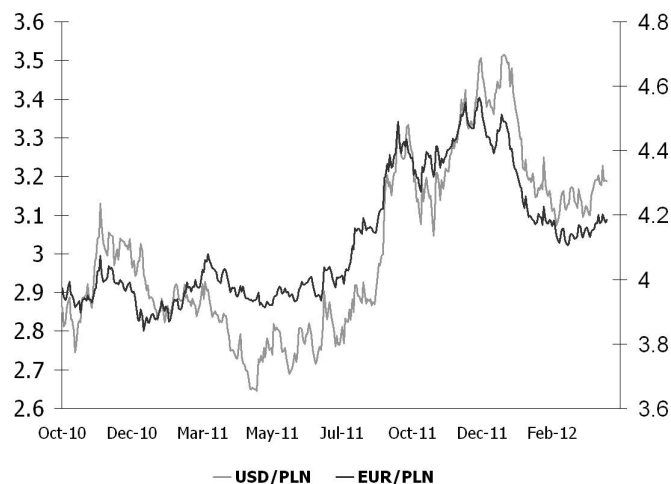
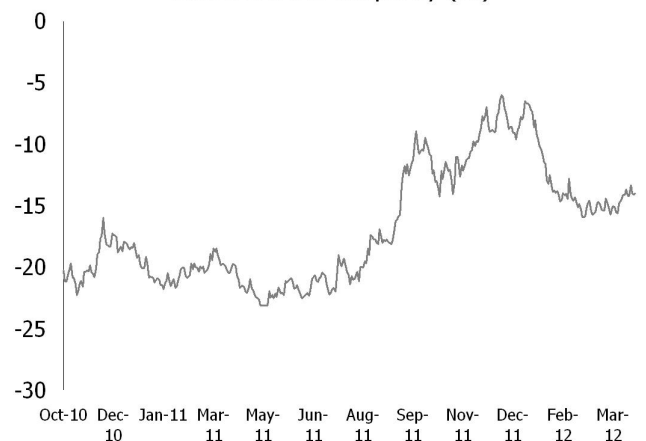
EURPLN volatility



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
4/14/2012	4.58	4.94	4.60	6.49	4.60	6.59	5.05	5.09	5.10	5.02	4.86	5.10
4/17/2012	4.58	4.95	4.62	4.87	4.64	4.87	5.05	5.12	5.11	5.02	4.90	5.13
4/18/2012	4.75	4.95	4.76	4.87	4.76	4.88	5.08	5.14	5.15	5.05	4.89	5.14
4/19/2012	4.60	4.95	4.63	4.87	4.63	4.87	5.03	5.08	5.08	4.98	4.84	5.10
4/20/2012	4.60	4.94	4.63	4.87	4.63	4.87	5.03	5.08	5.08	4.98	4.84	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
4/14/2012	6.590	95.821	4.960	4.731	4.960	5.105	5.010	5.599
4/17/2012	4.870	4.560	4.990	4.753	4.990	5.095	5.035	5.564
4/18/2012	4.880	4.570	5.005	4.754	4.995	5.077	5.040	5.573
4/19/2012	4.870	4.610	4.950	4.731	4.970	4.976	5.010	5.487
4/20/2012	4.870	4.610	4.950	4.731	4.970	4.976	5.010	5.487

EUR/PLN 0-delta stradle					25-delta RR		25-delta FLY
Date	1M	3M	6M	1Y	1M	1Y	1Y
4/14/2012	8.40	9.05	9.65	10.10	10.10	3.75	0.64
4/17/2012	8.85	9.45	10.05	10.25	10.25	3.75	0.64
4/18/2012	8.55	9.35	10.05	10.25	10.25	3.65	0.65
4/19/2012	8.55	9.35	10.05	10.25	10.25	3.65	0.65
4/20/2012	8.55	9.35	10.05	10.25	10.25	3.65	0.65

PLN Spot performance						
Date	EURPLN	USDPLN	CHFPLN	JPYPLN	HUFPLN	CZKPLN
4/14/2012	4.1779	3.1765	3.4765	3.9248	1.4053	0.1689
4/17/2012	4.1900	3.1872	3.4872	3.9487	1.4056	0.1689
4/18/2012	4.1760	3.1902	3.4738	3.9151	1.4056	0.1686
4/19/2012	4.1865	3.1879	3.4837	3.9113	1.4063	0.1685
4/20/2012	4.1865	3.1879	3.4837	3.9113	1.4063	0.1685

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