



TOP NEWS FROM THE POLISH MARKET

MACROECONOMICS

- Budget execution after November at 61% • page 2
- (Hawkish) MPC member Dariusz Filar for a stepwise adjustment of the interest rates
- Part of Brady bonds redeemed in November, remaining bonds to be redeemed within 3-4 months

FIXED INCOME

- Politics hit market sentiment • page 2

FI RECOMMENDATION

- Pay 9x12s

MONEY MARKET

- Shortage of the money at the beginning of the reserve • page 3
- T-bills down at the tender

MM RECOMMENDATION

- Offer shortest OISs below 4 figure

FOREIGN EXCHANGE

- Zloty weaker • page 3
- Volatility stable

FX RECOMMENDATION

- Zloty stronger
- Long Vega

MARKET PRICES CHARTS CALENDAR CONTACT LIST

- page 4
- page 5
- page 6
- page 7

MACROECONOMICS

Budget execution after November at 61%

The Deputy Minister of Finance announced that the budget deficit execution after November amounted to 61% (18.6 bn PLN out of 30.5 bn). The only slight growth of deficit in November results from outstanding execution of revenues. The minister confirmed the execution of deficit at the end of the year at 27 bn PLN. It means that the deficit in December will be equal to 8 bn PLN, which may be caused by an increase of non-expiring expenditures or the postponing of VAT refunds from January to December. The outstanding budget revenues at the end of the year are a very good predictor of the budget execution in 2007. We believe that the high pace of domestic demand growth would guarantee 2007 budget credibility.

(Hawkish) MPC member Dariusz Filar for a stepwise adjustment of the interest rates

According to MPC member Filar the GDP data for the third quarter of 2006 clearly indicate growing inflation pressure which he immediately translated into the necessity to hike interest rates. In his opinion by adjusting the rates stepwise by 25 bps the MPC would avoid massive hikes in the future. Strikingly, Professor Filar links the record expansion of GDP to investment in the infrastructure and argues that it will have a stimulating effect on domestic demand, and reduce unemployment, which would undoubtedly result in higher inflationary pressure. He also upholds his view that the official inflation projection that clearly shows the upside risks for inflation remains in force. At that point he also suggested that the change in the interest rates should immediately follow the release of the new inflation projection, i.e. in January. This view, however, contrasts with the view of the majority of the MPC. Therefore, we are upholding our opinion that the interest rate hike is not expected until April 2007 at the earliest.

Part of Brady bonds redeemed in November, remaining bonds to be redeemed within 3-4 months

In November the MF redeemed part of Brady bonds for the total sum of 588.2 m USD. Moreover the MF stated that it planned to redeem remaining bonds (ca. 600 m USD) within 3-4 months. The redemption of the bonds is connected to collateral sale, which aids the budget with additional income and deficit financing sources (though it is not certain whether this operation will be made this year or next). The operation certainly improves Poland's outlook among foreign investors. It must, however, be noted that the redemption itself is not the pivotal factor in Poland's ratings. With the lack of the government's dedication to reform public finance and euro adoption delay, we see Polish ratings kept steady in the coming months.

FIXED INCOME

Politics hit market sentiment

Last week we seen curve going lower some 3-5 bp. Sentiment was generally very positive, as PLN got stronger both to EUR and USD. Some bits of volatility we had Thursday afternoon and Friday morning, as rumour about possible Gilowska leaving government hit the market. On the opening prices went lower some 20-25 points on PS0511. The US economic releases helped a little, and we saw some recovery in the prices, day was ending on almost unchanged levels from the Thursday close. This week we will have CPI, wages and switch auction. We think that curve is still in range, and we don't see any dramatic changes in the shape of the curve till the end of the year. We still support our view that pay position is right, especially at these levels.

RECOMMENDATION:

Pay 9x12s FRA

MONEY MARKET

Shortage of the money at the beginning of the reserve
Very good 2Y bond auction
T-bills down at the tender

Shortage of the money in the system lifted the shortest rates. If it was not the beginning of the reserve it would be really expensive. However, the central bank saved it through substantially lower open market operation. Only 17.1 billion pln worth of money bills was offered (20.8 maturing) and we should see the carry nearby the main market rate.

As for longer terms very boring week. Very good 2Y bond auction was the only event, but market had already been very bullish. Figures next week should not surprise anyone so positive sentiment seems not to be threatened in any way.

The average yield on Polish benchmark 52-week T-bill fell to 4.212% from 4.259% at previous tender. The Ministry sold all 1 billion pln of 52-week papers. Bids totaled to 1,56 billion pln giving a bid-to-cover ratio of 1.6, down from 2,4.

RECOMMENDATION:

Offer shortest OISs below 4 figure.

FOREIGN EXCHANGE

Zloty weaker

Last week the Zloty weakened on the news about alleged sexual-harassment in Samoobrona's structures. Consequently on EUR/PLN we saw a high at 3.8380. After US Payrolls the EUR/USD declined back to 1.3200 (Monday open). As a result the USD/PLN gained almost 3 figures and trades at 2.8930. EUR/PLN declined moderately and trades within a well established range at 3.8200.

Volatility stable

The EUR/PLN volatilities have been stable through the week: on Friday close the 1M EUR/PLN traded at 6.8, while 1Y stayed flat at 7.4. The USD/PLN volatilities also stayed flat: 1M at 8.7; 1Y at 9.7.

RECOMMENDATION :

RECOMMENDATION:

Zloty stronger

Spot:
 Main supports / resistances:
 EUR/USD: 1.3100 / 1.3380
 EUR/PLN: 3.8000 / 3.8500
 USD/PLN: 2.8500 / 2.9200

We recommend long Zloty positions the following week.

Options:

Long Vega

We still recommend long Vega positions at current levels and see breaking the 3.8000 (EUR/PLN) before the year-end.

MARKET PRICES UPDATE**MONEY MARKET RATES**

Money market rates (Closing mid-market levels)						
date	3M		6M		1Y	
	FXSW	WIBOR	FXSW	WIBOR	FXSW	WIBOR
04-12-06	4.12%	4.20%	4.23%	4.34%	4.43%	4.53%
05-12-06	4.12%	4.20%	4.23%	4.34%	4.43%	4.53%
06-12-06	4.12%	4.20%	4.23%	4.34%	4.43%	4.53%
07-12-06	4.12%	4.20%	4.23%	4.34%	4.43%	4.53%
08-12-06	4.12%	4.20%	4.23%	4.34%	4.43%	4.53%

FRA MARKET RATES

FRA Market Rates (Closing mid-market levels)					
date	1X4	3X6	6X9	9X12	6X12
	04-12-06	4.23%	4.35%	4.52%	4.64%
05-12-06	4.23%	4.35%	4.52%	4.64%	4.62%
06-12-06	4.23%	4.35%	4.52%	4.64%	4.62%
07-12-06	4.23%	4.35%	4.52%	4.64%	4.62%
08-12-06	4.23%	4.35%	4.52%	4.64%	4.62%

FIXED INCOME MARKET RATES

Fixed Income Market Rates (Closing mid-market levels)								
date	1Y		2Y		5Y		10Y	
	WIBOR	TB	IRS	OK1208	IRS	PS0511	IRS	DS1017
04-12-06	4.53%	4.22%	4.71%	4.49%	4.93%	4.83%	4.97%	5.06%
05-12-06	4.53%	4.20%	4.69%	4.47%	4.90%	4.78%	4.94%	5.03%
06-12-06	4.53%	4.20%	4.68%	4.45%	4.89%	4.79%	4.94%	5.03%
07-12-06	4.53%	4.21%	4.67%	4.44%	4.89%	4.79%	4.93%	5.03%
08-12-06	4.53%	4.22%	4.68%	4.45%	4.90%	4.83%	4.93%	5.07%

PRIMARY MARKET RATES

Last Primary Market Rates							
	au. date	maturity	avg price	avg yield	supply	demand	sold
52W TB	06-12-04	07-12-05	95.915	4.21%	1000	1556	1000
OK1208	06-12-06	08-12-12	91.311	4.62%	3800	10428	3800
PS0511	06-11-15	11-05-24	97.047	4.99%	2000	4852	2000
DS1017	06-10-11	17-10-25	98.072	5.48%	2000	4861	2000

FX VOLATILITY

date	USD/PLN 0-delta stradle				25-delta RR		25-delta FLY	
	1M	3M	6M	1Y	1M	1Y	1M	1Y
04-12-06	8.70	9.10	9.50	9.70	0.90	1.30	0.40	0.45
05-12-06	8.70	9.10	9.50	9.70	0.90	1.25	0.40	0.45
06-12-06	8.70	9.10	9.50	9.70	0.90	1.25	0.40	0.45
07-12-06	8.70	9.10	9.50	9.70	0.90	1.25	0.40	0.45
08-12-06	8.70	9.10	9.50	9.70	0.90	1.25	0.40	0.45

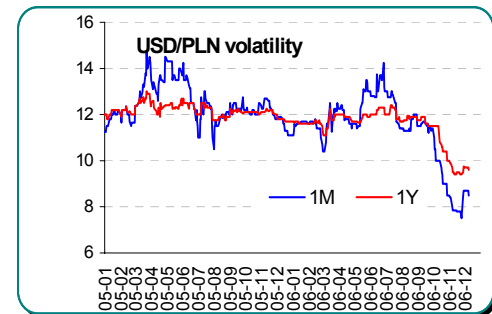
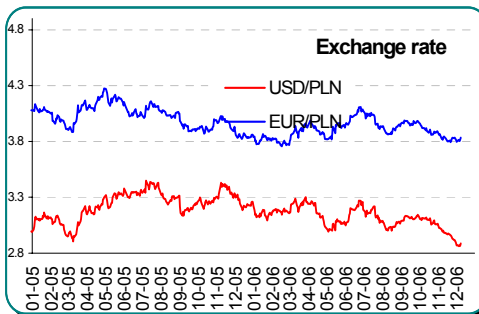
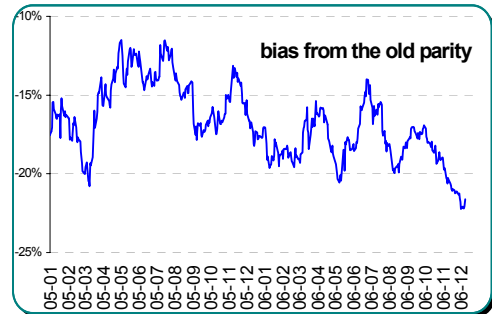
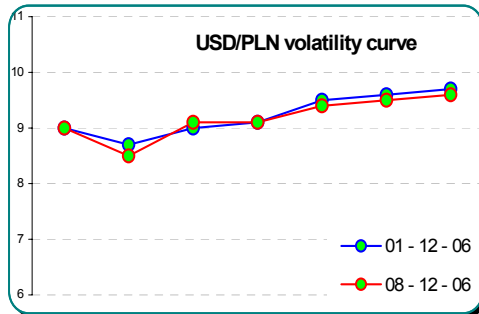
PLN SPOT PERFORMANCE

PLN spot performance			
date	USD/PLN	EUR/PLN	bias
04-12-06	2.8672	3.8138	-22.08%
05-12-06	2.8628	3.8092	-22.19%
06-12-06	2.8678	3.8050	-22.18%
07-12-06	2.8669	3.8150	-22.07%
08-12-06	2.8870	3.8350	-21.61%

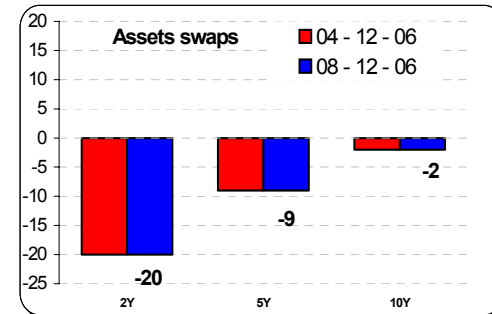
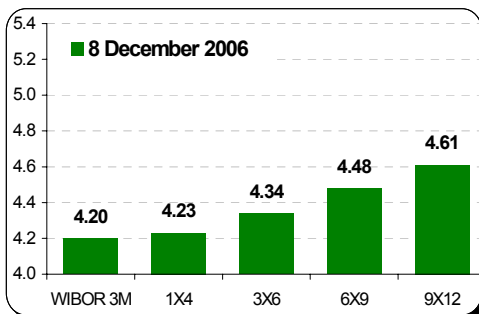
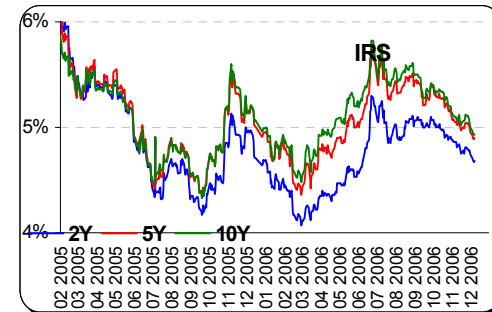
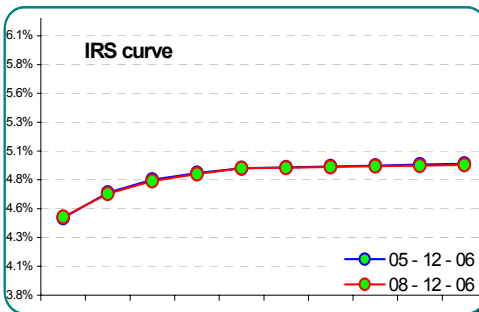
Note: parity on 11/04/00 – USD= 4.3806, EUR=4.2196, basket share 50:50
Mid-market volatility of vanilla option strategies

CHARTS

Foreign Exchange



Fixed Income



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CALENDAR

Macro

	August	September	October	Data Release	BRE Bank forecast
CPI m/m	0.3%	0.2%	0.1%	14-12-06	0.1%
CPI y/y	1.6%	1.6%	1.2%	14-12-06	1.5%
PPI m/m	-0.1%	0.0%	-0.3%	19-12-06	-0.4%
PPI y/y	3.3%	3.6%	3.4%	19-12-06	3.0%
Industrial production growth m/m	2.4%	9.3%	4.1%	19-12-06	2.5%
Industrial production growth y/y	12.6%	11.7%	14.6%	19-12-06	15.8%
Average wages in enterprise sector [PLN]	2611.9	2611.2	2658.0	15-12-06	2768.7
Average wages in enterprise sector y/y	5.3%	5.1%	4.7%	15-12-06	3.4%
Unemployment	15.5%	15.2%	14.9%	22-12-06	14.7%
Budget realisation (%)	47.5%	47.4%	54.4%	15-12-06	60.7%
Current account [EUR mn]	-584	195		13-12-06	-610
Balance of foreign trade in goods (transaction basis) [EUR mn]	-438	-299		13-12-06	-220
Exports growth y/y (transaction basis)	23.1%	17.3%		13-12-06	19.0%
Imports growth y/y (transaction basis)	23.7%	19.1%		13-12-06	22.1%
Current account [% of GDP]	-2.1%	-1.9%		13-12-06	-2.0%
Money supply (M3)	447.2	453.1	458.8	14-12-06	461.1
Money supply growth y/y	12.9%	13.0%	12.3%	14-12-06	13.2%
Total PLN loans [PLN bn]	339.1	346.2	353.0	14-12-06	
Households PLN loans	170.1	175.3	178.9	14-12-06	
Corporate PLN loans	136.4	138.1	137.8	14-12-06	
Total PLN deposits [PLN bn]	370.6	374.1	378.5	14-12-06	
Households PLN deposits	213.2	214.4	214.3	14-12-06	
Corporate PLN deposits	108.7	111.0	113.8	14-12-06	
NBP intervention rate	4.00%	4.00%	4.00%	20-12-06	4.00%

Auctions

	next auc.	offer	avg yield last	last auction date
13 Week T-bills	-	-	4.208%	16-01-06
26 Week T-bills	-	-	3.943%	24-04-06
52 Week T-bills	18-12-06	-	4.212%	04-12-06
2Y T-bond OK1208	-	-	4.617%	06-12-06
5Y T-bond PS0511	-	-	4.987%	15-11-06
10Y T-bond DS1017	-	-	5.483%	11-10-06
20Y T-bond WS0922	-	-	5.707%	13-09-06

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