



TOP NEWS FROM THE POLISH MARKET

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MACROECONOMICS

FinMin expects a dip in the CPI to 2.3% y/y in April

There were no important data releases last week.

The only relevant event, given the FinMin's historical track record and their superior access to the data, was the announcement of the inflation forecast. The FinMin expects a dip in the CPI to 2.3% y/y in April, reflecting improved base effects. Going into the details, Deputy Finance Minister K. Zajdel-Kurowska explained that the April inflation figure had been affected by higher food and fuel prices, 0.8% m/m and 6% m/m, respectively, while the prices in the remaining categories remained stable. In contrast, we expect that some signs of inflationary pressure in services, visible in the March inflation reading, will be confirmed in April's figure. Notwithstanding this, the core inflation will ease to 1.4-1.5% due to improved base effects.

K. Zajdel-Kurowska also stated that she expected inflation to ease in the summer months to below 2.0%. In our opinion these estimates pretty well reflect all statistical effects that might affect the annual inflation figure but ignore the rising wages and an ongoing consumption boom (cost-push and demand-pull inflation).

We uphold our view that the inflation overshoot in the upcoming months will prompt the MPC to hike the rates more aggressively.

FIXED INCOME

Calm week behind, similar to follow

With all the holidays last week the market activity was very limited, however yields went down by few bps on back of strong currency and generally positive sentiment on emerging markets. This week starts fairly quiet as well, due to holiday in London. Lack of economic data releases and auction of FRN's and CPI linkers won't probably change the outlook, therefore we expect yields to fluctuate around current levels. As we do not change our bearish mid-term view, we recommend using strenghtenings to add to pay positions.

RECOMMENDATION:

Pay dips

MONEY MARKET

Increased volatility of the carry

CPI forecast by MinFin in line with expectations

Only 3 working days last week, so majority of the market was off for the long weekend. Liquidity stable, open market operation too high to square the market but this time the system did not buy the total (22 billion pln offer, 20.5 billion pln bids). It seems that the CB is slightly loosing control and this is the derivative of their last change in the OMO policy. Willing to fight over overbidding they got uncertainty of the market, hence unexpected volatility in market perception of the liquidity which is not quite consistent with the perception of the CB. Get prepared for increased volatility of the carry. Next week will be cheap.

No action for longer terms, next week quite – waiting for figures. CPI forecast by MinFin in line with expectations (2.3%).

RECOMMENDATION:

Sell short Polonia

FOREIGN EXCHANGE

Zloty stronger

Last week the Zloty traded stable at a narrow range of 3.7350-3.7700. As EUR/USD traded at around 1.3610, the USD/PLN traded between 2.7450-2.7650 most of the time.

Volatility stable

The implied volatilities seem to have reached their supports: EUR/PLN traded flat at 5.9-6.0 despite the fact that 1M realized volatility still remains below 4.0. USD/PLN remained almost flat at 7.6

RECOMMENDATION:

Zloty stable

Spot:
Main supports / resistances:
EUR/USD: 1.3550 / 1.3650
EUR/PLN: 3.7300 / 3.7600
USD/PLN: 2.7400 / 2.7600

In the following week we still may see Zloty trade within a range. We recommend selling EUR/PLN on tops this week.

Short Gamma

Options:
Given that EUR/PLN still remains within a range and realized volatility is very low by historical comparison, we still recommend being short Gamma.

MARKET PRICES UPDATE**MONEY MARKET RATES**

Money market rates (Closing mid-market levels)						
date	3M		6M		1Y	
	FXSW	WIBOR	FXSW	WIBOR	FXSW	WIBOR
30-04-07	4.36%	4.40%	4.49%	4.55%	4.70%	4.75%
01-05-07	4.36%	4.40%	4.49%	4.55%	4.70%	4.75%
02-05-07	4.38%	4.42%	4.49%	4.56%	4.69%	4.75%
03-05-07	4.38%	4.42%	4.49%	4.56%	4.69%	4.75%
04-05-07	4.38%	4.42%	4.50%	4.56%	4.70%	4.75%

FRA MARKET RATES

FRA Market Rates (Closing mid-market levels)					
date	1X4	3X6	6X9	9X12	6X12
	30-04-07	4.45%	4.59%	4.75%	4.84%
01-05-07	4.45%	4.59%	4.75%	4.84%	4.84%
02-05-07	4.46%	4.58%	4.74%	4.84%	4.82%
03-05-07	4.46%	4.58%	4.74%	4.84%	4.82%
04-05-07	4.46%	4.58%	4.74%	4.85%	4.83%

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
30-04-07	4.75%	4.44%	4.91%	4.61%	5.15%	5.10%	5.24%	5.31%
01-05-07	4.75%	4.44%	4.91%	4.61%	5.15%	5.10%	5.24%	5.31%
02-05-07	4.75%	4.45%	4.91%	4.60%	5.15%	5.10%	5.24%	5.31%
03-05-07	4.75%	4.45%	4.91%	4.60%	5.15%	5.10%	5.24%	5.31%
04-05-07	4.75%	4.45%	4.90%	4.59%	5.13%	5.07%	5.21%	5.28%

PRIMARY MARKET RATES

Last Primary Market Rates							
	au. date	maturity	avg price	avg yield	supply	demand	sold
52W TB	07-04-02	08-04-02	95.766	4.37%	900	1543	900
OK0709	07-04-04	09-07-25	89.970	4.69%	1000	2463	1000
PS0412	07-04-18	12-04-25	98.416	5.11%	1800	8876	1800
DS1017	07-04-11	17-10-25	99.976	5.24%	1800	3473	1800

FX VOLATILITY

date	USD/PLN 0-delta stradle				25-delta RR		25-delta FLY	
	1M	3M	6M	1Y	1M	1Y	1M	1Y
30-04-07	7.20	7.45	7.55	7.70	1.20	1.30	0.35	0.60
01-05-07	7.20	7.45	7.55	7.70	1.20	1.30	0.35	0.60
02-05-07	7.70	7.70	7.65	7.60	1.20	1.30	0.35	0.60
03-05-07	7.70	7.70	7.65	7.60	1.20	1.30	0.35	0.60
04-05-07	7.70	7.70	7.65	7.65	1.20	1.30	0.35	0.60

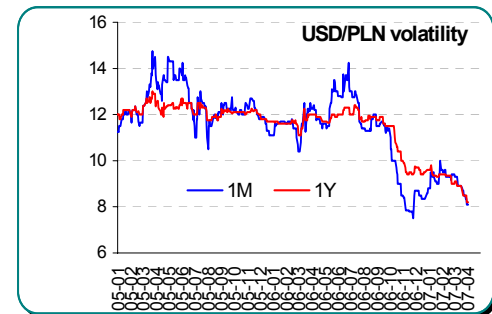
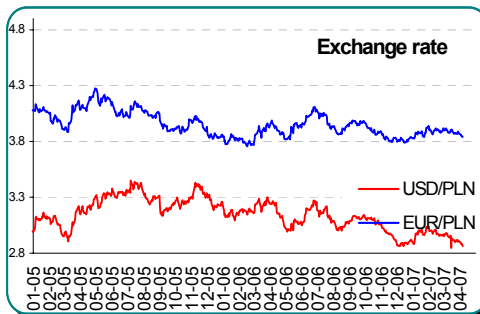
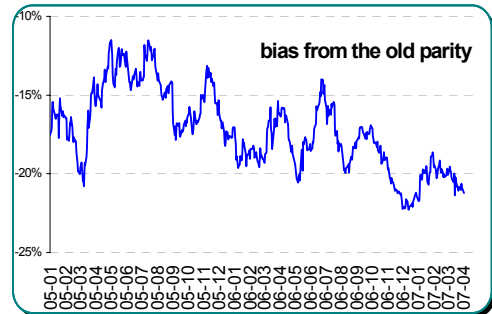
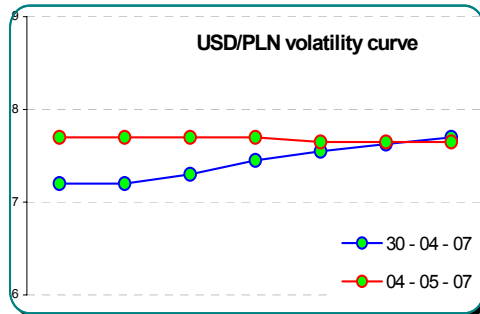
PLN SPOT PERFORMANCE

PLN spot performance			
date	USD/PLN	EUR/PLN	bias
30-04-07	3.7879	2.7859	-23.75%
01-05-07	3.7879	2.7859	-23.75%
02-05-07	3.7698	2.7755	-24.08%
03-05-07	3.7698	2.7755	-24.08%
04-05-07	3.7465	2.7615	-24.52%

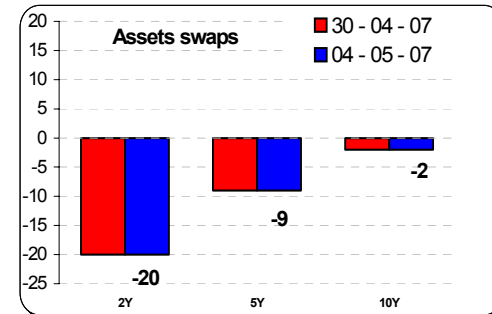
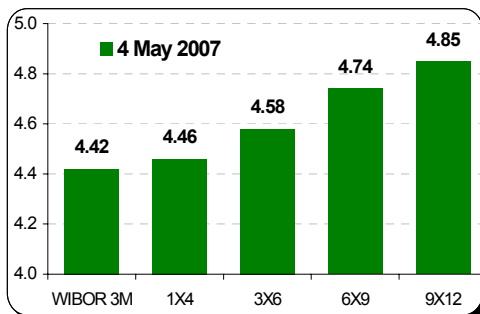
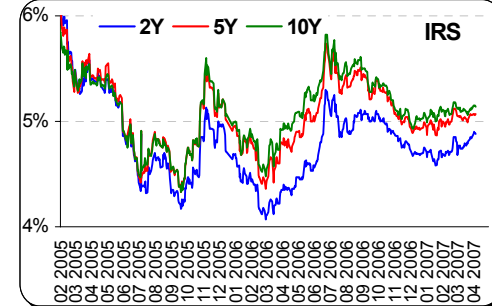
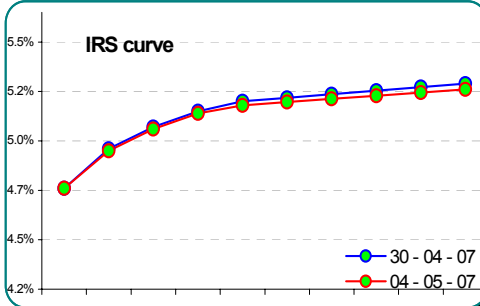
Note: parity on 11/04/00 – USD= 4.3806, EUR=4.2196, basket share 50:50
Mid-market volatility of vanilla option strategies

CHARTS

Foreign Exchange



Fixed Income



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CALENDAR

Macro

	January	February	March	Data Release	BRE Bank forecast
CPI m/m	0.4%	0.3%	0.5%	15-05-07	0.5%
CPI y/y	1.6%	1.9%	2.5%	15-05-07	2.3%
PPI m/m	0.6%	0.3%	0.5%	21-05-07	0.4%
PPI y/y	3.1%	3.5%	3.3%	21-05-07	2.1%
Industrial production growth m/m	0.2%	-2.1%	14.7%	21-05-07	-7.1%
Industrial production growth y/y	15.4%	13.0%	11.3%	21-05-07	14.3%
Average wages in enterprise sector [PLN]	2663.6	2687.5	2852.7	17-05-07	2829.0
Average wages in enterprise sector y/y	7.8%	6.5%	9.1%	17-05-07	10.1%
Unemployment	15.1%	14.9%	14.4%	25-05-07	13.7%
Budget realisation (%)	-10.3%	10.1%	16.1%	15-05-07	17.0%
Current account [EUR mn]	-733	-424		18-05-07	
Balance of foreign trade in goods (transaction basis) [EUR mn]	-398	-60		18-05-07	
Exports growth y/y (transaction basis)	15.5%	16.3%		18-05-07	
Imports growth y/y (transaction basis)	21.5%	13.4%		18-05-07	
Current account [% of GDP]	-2.1%	-2.2%		18-05-07	
Money supply (M3)	485.3	490.6	492.7	14-05-07	497.0
Money supply growth y/y	19.3%	17.9%	18.1%	14-05-07	17.4%
Total PLN loans [PLN bn]	376.6	383.6	392.4	14-05-07	
Households PLN loans	194.2	197.1	203.6	14-05-07	
Corporate PLN loans	144.4	148.2	151.4	14-05-07	
Total PLN deposits [PLN bn]	404.7	410.7	410.9	14-05-07	
Households PLN deposits	226.3	228.6	227.1	14-05-07	
Corporate PLN deposits	124.1	126.1	125.5	14-05-07	
NBP intervention rate	4.00%	4.00%	4.25%	30-05-07	4.25%

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	07-05-07	900	4.419%	23-04-07
2Y T-bond OK1208	06-06-07	-	4.694%	04-04-07
5Y T-bond PS0412	16-05-07	-	5.111%	18-04-07
10Y T-bond DS1017	09-05-07	-	5.244%	11-04-07
20Y T-bond WS0922	12-09-07	-	5.309%	14-03-07

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