



TOP NEWS FROM THE POLISH MARKET

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MACROECONOMICS

MF revised budget execution after April to only 7-8% of the annual limit, significant budget surplus in April due to high tax income

The MF revised its preliminary estimates of the budget deficit execution after April to only 7-8% of the annual limit (30 b PLN) vs. 16.5-19% announced earlier. This implies a budget surplus of at least 2.5 b PLN in April, significantly better than in previous years. Budget income in April has been elevated due to 2 one-off factors. Firstly, annual CIT payments had been delayed until April 2nd this year (which gave additional income of ca. 1 b PLN). Secondly, capital gains tax, payable in April as well, was exceptionally high – exceeding preliminary assumptions by some 3 b PLN.

Nevertheless, the overall budget performance this year is excellent. Even after costs of social insurance rates cuts are considered, the budget deficit will surely remain well below the annual limit. This should allow low supply of bonds in the coming months.

The headline unemployment rate heads towards the rate of structural unemployment

According to the official estimates of the Ministry of Labour the unemployment rate in Poland dropped to 13.7% in April vs. 13.9% expected by the analysts. It should be noted that this decline was also much stronger than the seasonal effect and can be primarily attributed to economic recovery. In our opinion the effect related to the migration of young Poles to the EU countries was, this time, negligible. We expect the situation on the labour market to improve in the upcoming months. Hence, in May the unemployment rate may drop to below 13%. Moreover, the Ministry of Labour forecast the unemployment rate to fall below 11% at the end of the year. The level of 11% is, in our opinion, very close to the level of structural unemployment. Thus, a further decline of unemployment will be accompanied by a higher pressure on wages which will eventually translate into higher PPI and CPI inflation.

S.Nieckarz: Rates should remain stable in the nearest future

MPC member S.Nieckarz said that the inflation would decrease in the coming months and stronger zloty would limit the inflationary pressure. That is why he doesn't see a need for a change of interest rates in the nearest future. We think the room for further appreciation of zloty is rather limited (our forecast is 3.66 at the end of 2007) and the stronger currency will be not able to stop the increase of inflationary pressure. We expect that due to strong wages and inflation data in face of new inflation projection MPC will be forced to hike the rates by 25 bps in July. Nieckarz himself may however vote against this decision.

FIXED INCOME

Rates up. Just an aberration or start of a trend?

After quiet and relatively strong start of the week, yields started crawling up in a relatively fast pace, reaching levels some 7-10bp higher. That is consistent with our view, that rates at current levels are too low. This week economic releases - CPI tomorrow, our forecast 2.4% y/y and wages on Thursday (we see it at +10.1% y/y), should have further negative impact on the market. Also the 5y bond auction, even if MinFin decides to offer only 1.5bio of PS0412, shouldn't come out as a very successful one. With no perspective for bonds to rally in the short to mid term, we stick to our "stay pay" and "pay on dips" strategies.

RECOMMENDATION:

Stay pay.

MONEY MARKET**Boring week, waiting for figures****T-bills yields up during the tender****RECOMMENDATION:**

Boring last week with quite stable carry. Open market operation 22 billion pln and volatile week ahead (maturity of PS0507 + 5 billion pln and pension fund installment payment – 2 billion pln). If nothing unexpected happens there is much higher probability of the cheaper carry then not. Next weeks figures should prove the sentiment which is quite poor right now. T-bills average yield up during the tender – 4,48% vs 4,42%. Bid-to cover ratio 1.5 up from 1.3. The Ministry of Finance sold 900 mio pln in the 52-week benchmark paper.

1Y OIS bids start to look attractive.

FOREIGN EXCHANGE**Zloty weaker****Volatility higher****RECOMMENDATION:****Zloty stable****Long Gamma**

Last week the Zloty weakened toward 3.7850 what was seen as a correction of the appreciating trend. At these levels some Hedge Funds decided to long the PLN. As a consequence, the cross declined to 3.7500. The EUR/USD traded at around 1.3550, hence the USD/PLN traded between 2.7650-2.7950 most of the time.

Weaker Zloty drove the implied volatilities higher. The 1M EUR/PLN jumped to 6.9, whereas the rest of the curve up to 6.5. With spot declining, the volatilities retarded towards their pre-jump level. USD/PLN gained about 0.2 and traded at 7.7-7.8 the curve.

Spot:
Main supports / resistances:
EUR/USD: 1.3500 / 1.3600
EUR/PLN: 3.7400 / 3.7800
USD/PLN: 2.7600 / 2.7800

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

Options:

Given the correction EUR/PLN, the spot may remain volatile for a while, that is why we recommend long Gamma positions this week. Also, for those with long-term view on options we suggest to sell Vega at around 6.5 vols.

MARKET PRICES UPDATE**MONEY MARKET RATES**

Money market rates (Closing mid-market levels)						
date	3M		6M		1Y	
	FXSW	WIBOR	FXSW	WIBOR	FXSW	WIBOR
07-05-07	4.38%	4.43%	4.50%	4.55%	4.69%	4.75%
08-05-07	4.39%	4.44%	4.50%	4.55%	4.70%	4.75%
09-05-07	4.40%	4.44%	4.51%	4.55%	4.71%	4.75%
10-05-07	4.40%	4.44%	4.51%	4.55%	4.71%	4.75%
11-05-07	4.40%	4.44%	4.51%	4.55%	4.71%	4.75%

FRA MARKET RATES

FRA Market Rates (Closing mid-market levels)					
date	1X4	3X6	6X9	9X12	6X12
	07-05-07	4.46%	4.58%	4.74%	4.85%
08-05-07	4.46%	4.59%	4.74%	4.85%	4.82%
09-05-07	4.46%	4.59%	4.76%	4.88%	4.86%
10-05-07	4.46%	4.59%	4.75%	4.89%	4.86%
11-05-07	4.46%	4.61%	4.81%	4.92%	4.87%

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
07-05-07	4.75%	4.48%	4.90%	4.58%	5.13%	5.07%	5.21%	5.27%
08-05-07	4.75%	4.46%	4.91%	4.57%	5.12%	5.06%	5.20%	5.26%
09-05-07	4.75%	4.46%	4.92%	4.59%	5.14%	5.07%	5.21%	5.25%
10-05-07	4.75%	4.46%	4.98%	4.61%	5.20%	5.12%	5.26%	5.31%
11-05-07	4.75%	4.47%	4.98%	4.61%	5.20%	5.13%	5.26%	5.31%

PRIMARY MARKET RATES

Last Primary Market Rates							
	au. date	maturity	avg price	avg yield	supply	demand	sold
52W TB	07-05-07	08-05-07	95.665	4.48%	900	1342	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
07-05-07	7.70	7.70	7.65	7.65	1.20	1.30	0.35	0.60
08-05-07	7.70	7.75	7.75	7.75	1.20	1.30	0.35	0.60
09-05-07	7.70	7.70	7.70	7.70	1.20	1.30	0.35	0.60
10-05-07	7.70	7.70	7.70	7.70	1.20	1.30	0.35	0.60
11-05-07	7.90	7.80	7.75	7.70	1.20	1.30	0.35	0.60

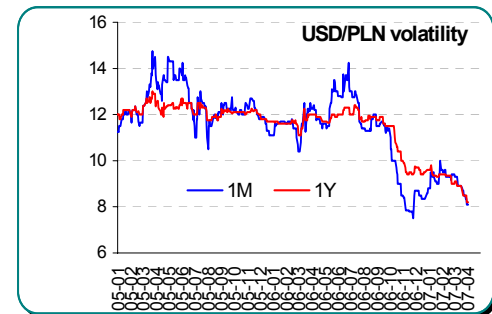
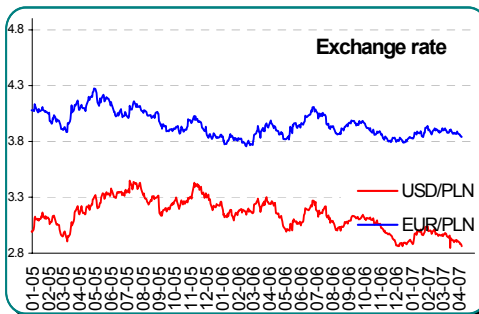
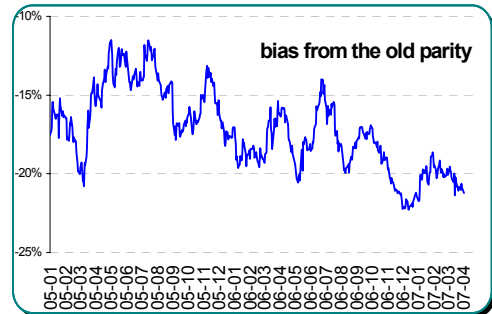
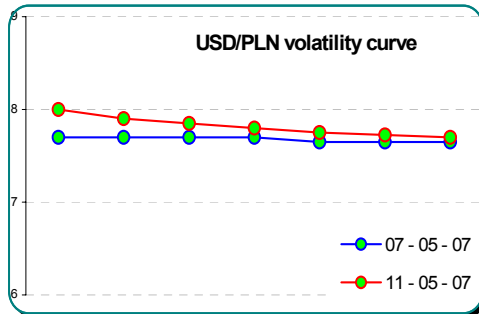
PLN SPOT PERFORMANCE

PLN spot performance			
date	USD/PLN	EUR/PLN	bias
07-05-07	2.7549	3.7479	-24.15%
08-05-07	2.7624	3.7495	-24.04%
09-05-07	2.7787	3.7636	-23.69%
10-05-07	2.7887	3.7680	-23.52%
11-05-07	2.8080	3.7844	-23.11%

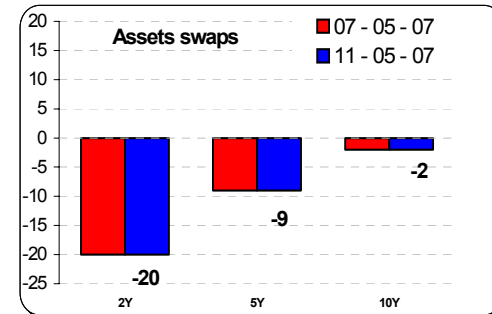
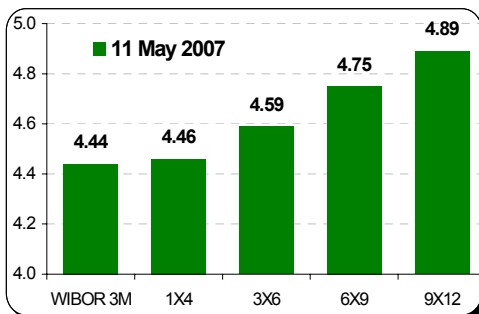
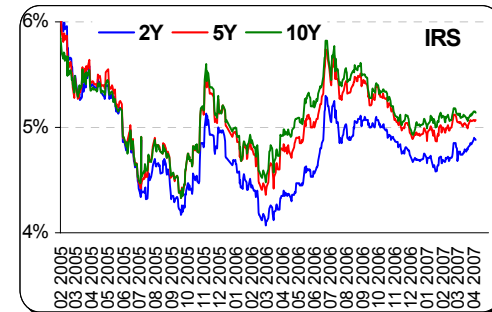
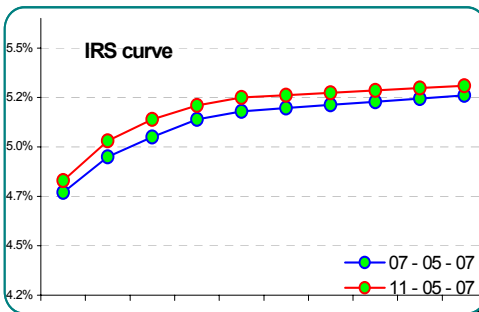
Note: parity on 11/04/00 – USD= 4.3806, EUR=4.2196, basket share 50:50
Mid-market volatility of vanilla option strategies

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	0.6%
CPI y/y	1.6%	1.9%	2.5%	15-05-07	2.4%
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	-6.3%
Industrial production growth y/y	15.4%	13.0%	11.3%	21-05-07	15.1%
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	8.0%
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	21-05-07	-	4.481%	07-05-07
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	11-07-07	-	5.244%	11-04-07
20Y T-bond WS0922	12-09-07	-	5.309%	14-03-07

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