



POLAND WEEKLY REVIEW

MACROECONOMICS AND FINANCIAL MARKETS

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**FI
RECOMMENDATION**

- Stay positioned for steeper curve

MONEY MARKET

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**MM
RECOMMENDATION**

- Sell 3m ois polonia at 5.45%

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**FX
RECOMMENDATION**

- Sell on upticks
- Short EURPLN gamma/Short USDPLN vega

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PREVIEW: The week of February 15th to February 21st

Indicator	Date of release	Period	BRE forecast	Consensus	Last	Comment
CPI inflation	Feb 15	Jan	4.1% y/y	4.1%	4.0%	Higher food prices (1.8% m/m). Drop in fuel prices. Hikes in controlled prices postponed for February.
Corporate wages	Feb 15	Jan	9.8% y/y	10.0%	7.2%	In line with the underlying trend. December and November data have been distorted by the bonuses.
Industrial output	Feb 19	Jan	4.5% y/y	6.8%	6.2%	No working days effects. The annual rate damped by 2007 high base effect.
PPI	Feb 19	Jan	2.6% y/y	2.1%	2.5%	Higher prices in mining industry. Possible cost push price increase in manufacturing.

In Focus / Macroeconomics

Substantial widening of the C/A deficit exaggerated by overly pessimistic trade gap assessment

The C/A deficit widened to 1944 mn EUR as the trade gap worsened and net transfers came back to recent trend. The former culprit seems to be a bit exaggerated as the provider of the data (National Bank of Poland) was forced to estimate the export and import figures instead of simply using the data accounts prepared by the Statistical Office. We see the C/A debit to be slightly revised, allowing the 2007 final reading to reach no more than 3.8% of GDP.

The drop in C/A balance was triggered mainly by net current transfers that reached only 272 mn EUR versus 1303 mn EUR recorded a month ago. It is then no surprise that the factors driving the C/A deficit down in November were one-off. Current transfers have now merely come back to their trend. As for the other items, much confusion arose among the growth rates of exports and imports that posted extraordinary surges to above 20% each. We see this burst as widely inconsistent with dampened retail figures and seasonally lower dynamics of industrial output. The comment given to the numbers explicitly admits they were estimated because the Central Statistical Office did not release the data on foreign trade for December. The trade balance figures (and the C/A as well) are then subject to (most likely) upward revision. The other C/A components – the balance of services and income account – remained relatively stable closing the month with a surplus of 237 mn EUR and the deficit of 1159 mn EUR accordingly. The income account was additionally perturbed by the payment of Fiat dividend, amounting to 100 mn EUR.

The C/A deficit is still safely financed by direct foreign investment. It is then highly implausible to expect a hard correction of a crawling appreciation trend. Actually it is not a matter of concern for the MPC as well. Comments of some swing-voters suggest something quite different – the threat of accelerating appreciation in case when the spread between Poland and EMU widens. The problems faced by most central banks in the region point to rather tightening scenarios (and still, foreign investors would rather pool Poland with other European emerging markets). In this case, prolonged waiting of the MPC may trigger the zloty to pare gains. Elevated inflation and drowning currency is definitely not a scenario the MPC would like to be materialized.

MEDIUM-TERM FORECATS

Indicator	2006	2007	2008
GDP y/y (%)	6.1	6.5	5.6
Inflation rate (%)	1.0	2.4	4.0
Current account (% of GDP)	-2.1	-4.5	-5.3
Unemployment rate (end-of-year)	14.9	11.4	9.8
NBP repo rate (end-of-year)	4.00	5.00	6.00

Source: GUS, NBP, BRE Bank, **bold** change on last week

Fixed Income

Following higher yields in the region

Activity on the FI market last week was dominated by the external factors. Surprisingly high CPI in Czech Republic as well as developments on the Hungarian market made sentiment on the PLN bonds quite fragile. We still see market as rather shallow and still looking for direction. Our best guess is that curve can still go steeper. Recent announcements from Ministry of Finance and NBP show that fast ERM entry is not on the table. We recommend paying 5y10y still. Short term we advice taking receive position for Industrial production, we see MPC being more concerned about growth rather than CPI, our forecast shows lowest estimate among all poll banks.

RECOMMENDATION:

Stay positioned for steeper curve.

AUCTIONS

	next auc.	offer	avg yield last	last auction date
13 Week T-bills	-	-	4.208%	1/16/2006
26 Week T-bills	-	-	3.943%	4/24/2006
52 Week T-bills	3/10/2008	-	5.652%	2/11/2008
2Y T-bond OK0709	4/4/2008	-	6.189%	1/2/2008
5Y T-bond PS0413	3/5/2008	-	5.729%	2/6/2008
10Y T-bond DS1017	4/9/2008	-	5.785%	2/13/2008
20Y T-bond WS0922	5/14/2008	-	5.794%	1/9/2008

Money Market

Falling over liquidity of the local cash system

Waiting for figures was the main activity

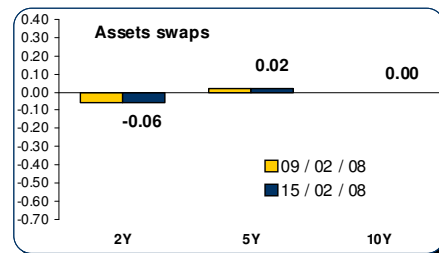
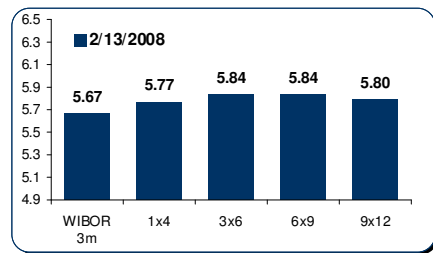
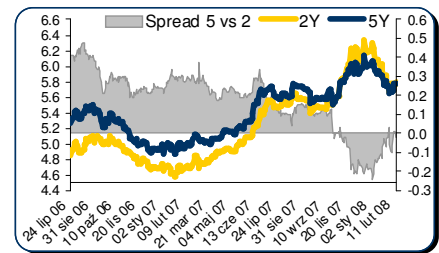
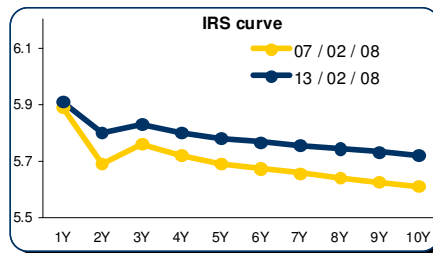
Carry still stable nearby the main market rate. Nothing suggests that it would change the coming week. Sizes of the open market operations dropped significantly if compared to last years average. This is however the consequence of the falling over liquidity, which was forecasted by the central bank, and should be expected to deteriorate further.

Practically no trading at all. Tomorrow's figures (CPI and wages) are worth waiting for. Next week PPI and IO will be the highlights. We are quite bullish for those figures.

RECOMMENDATION:

Sell 3m ois polonia at 5.45%

FIXED INCOME & MONEY MARKET CHARTS



Foreign Exchange

Zloty stronger

This week the zloty was traded between 3.6300 and 3.5800. As global sentiment warmed up (esp. EURJPY gaining 2.5%) Polish zloty was buying more willingly with prop traders selling EURPLN longs. Because local data (C/A deficit above expectations) seems have no influence on market such correlation with global markets is likely to last.

Volatility slightly flattened

Volatility market tracks and prices in both, spot level and market observed volatility. With EURPLN below 3.6000 1M was traded 0.5 vol lower with long end staying at same level.

RECOMMENDATION:

Spot:
 Main supports / resistances:
 EUR/PLN: 3.5700 / 3.6300
 USD/PLN: 2.4000 / 2.5000

Sell on upticks

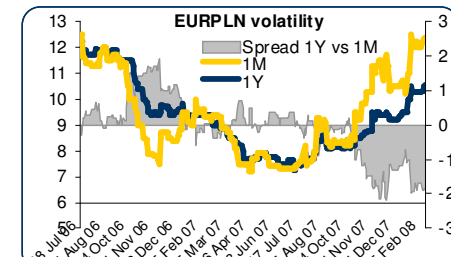
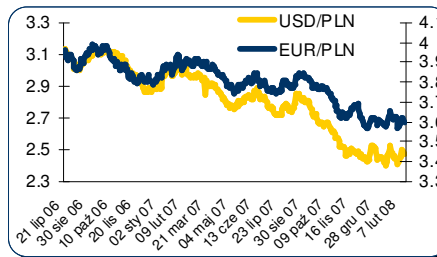
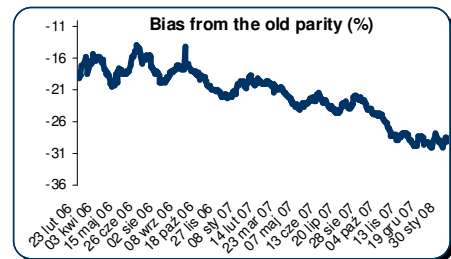
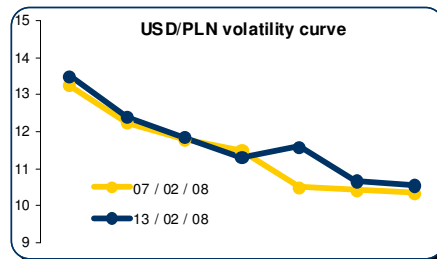
Despite of zloty tracking core markets we see risks balance more on stronger side and advice to sell EURPLN on upticks.

Options:

Short EURPLN
 gamma/Short USDPLN vega

We advice to trade small amounts of short EURPLN gamma. We see 11.0 for 6M and 10.80 for 1Y as good entry level in short USDPLN vega position.

FX CHARTS



MARKET PRICES UPDATE**MONEY MARKET RATES**

Money market rates (Closing mid-market levels)						
date	3M		6M		1Y	
	FXSW	WIBOR	FXSW	WIBOR	FXSW	WIBOR
07/02/08	5.55%	5.56%	5.68%	5.75%	5.86%	5.94%
08/02/08	5.53%	5.56%	5.74%	5.76%	5.90%	5.94%
11/02/08	5.53%	5.57%	5.69%	5.75%	5.87%	5.96%
12/02/08	5.57%	5.58%	5.76%	5.75%	5.94%	5.98%
13/02/08	5.55%	5.57%	5.73%	5.76%	5.89%	5.99%

FRA MARKET RATES

FRA Market Rates (Closing mid-market levels)					
date	1X4	3X6	6X9	9X12	6X12
07/02/08	5.74%	5.81%	5.81%	5.77%	5.83%
08/02/08	5.76%	5.85%	5.84%	5.81%	5.88%
11/02/08	5.78%	5.84%	5.84%	5.80%	5.86%
12/02/08	5.78%	5.85%	5.85%	5.81%	5.90%
13/02/08	5.77%	5.84%	5.84%	5.80%	5.86%

FIXED INCOME MARKET RATES

Fixed Income Market Rates (Closing mid-market levels)								
date	1Y		2Y		5Y		10Y	
	WIBOR	TB	IRS	OK0709	IRS	PS0511	IRS	DS1017
07/02/08	5.94%	5.08%	5.57%	5.29%	5.72%	5.69%	5.73%	5.76%
08/02/08	5.94%	5.05%	5.57%	5.29%	5.71%	5.68%	5.72%	5.76%
11/02/08	5.96%	5.05%	5.57%	5.34%	5.71%	5.67%	5.71%	5.76%
12/02/08	5.98%	5.05%	5.56%	5.30%	5.71%	5.65%	5.72%	5.75%
13/02/08	5.99%	5.03%	5.56%	5.34%	5.70%	5.68%	5.70%	5.75%

PRIMARY MARKET RATES

Last Primary Market Rates							
	au. date	maturity	avg price	avg yield	supply	demand	sold
52W TB	07/12/03	08/12/03	95.415	5.74%	2000	33116	2000
OK0710	08/01/02	09/07/25	85.730	6.19%	1800	2047	1654
PS0413	08/02/06	13/04/25	97.852	5.73%	2500	4206	2500
DS1017	07/10/10	17/10/25	96.607	5.70%	1800	5061	1800

FX VOLATILITY

date	USD/PLN 0-delta stradle				25-delta RR		25-delta FLY	
	1M	3M	6M	1Y	1M	1Y	1M	1Y
07/02/08	12.25	11.50	10.50	10.35	0.75	0.85	0.30	0.35
08/02/08	12.25	11.50	10.50	10.35	0.75	0.85	0.30	0.35
11/02/08	12.25	11.40	10.60	10.35	0.75	0.85	0.30	0.35
12/02/08	12.35	11.30	10.60	10.50	0.75	0.85	0.30	0.35
13/02/08	12.40	11.30	10.80	10.55	0.75	0.85	0.30	0.35

PLN SPOT PERFORMANCE

PLN spot performance			
date	USD/PLN	EUR/PLN	bias
07/02/08	2.4568	3.5979	-29.32%
08/02/08	2.4971	3.6185	-28.62%
11/02/08	2.4700	3.5987	-29.16%
12/02/08	2.4700	3.5987	-29.16%
13/02/08	2.4700	3.5987	-29.16%

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

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