BRE BANK SA

THE BEST FINANCIAL INSTITUTION FOR DEMANDING CUSTOMERS

FINANCIAL MARKETS DEPARTMENT

PAGES: 8

WARSAW, APRIL 10, 2008

POLAND WEEKLY REVIEW

MACROECONOMICS AND FINANCIAL MARKETS

PREVIEW: The week of April 11th to April 17th

Indicator	Date of release	Period	BRE fore-cast	Consen-sus	Last	Comment
M3 Supply y/y	**Apr 14**	Mar	**14.2%**	13.9%	13.8%	Solid growth of deposits resulting from larger outflows from investment funds. Growing tendency of deposits as a whole is limited by larger withdrawals made by enterprises.
CPI Inflation y/y	**Apr 15**	Mar	**4.1%**	4.2%	4.2%	Slowing inflation is temporary phenomenon resulting from slowly rising food prices (0.9% m/m) and speeding fuel costs (2.1% m/m). The risk is tilted slightly towards higher reading. Core inflation at 2.6% y/y. Return to upward trend likely in April along with continued deregulation.
C/A Balance y/y	**Apr 15**	Feb	**-600 mln EUR**	-1100 mln EUR	-1200 mln EUR	Record high business activity in February (industrial output and retail sales) speaks for substantial growth rates of exports and imports (both above 22%) and sharp nar-

						rowing of the trade gap (130 mln EUR). February saw an improvement of transfers account owing to larger inflow of EU funds.
Employment y/y	**Apr 15**	Mar	**5.8%**	5.9%	5.9%	Slightly deteriorated leading indicators concerning employment perspectives (larger drops recorded in transport and financial intermediation).
Wages y/y	**Apr 15**	Mar	**11.6%**	11.1%	12.8%	Last month's data (especially in manufacturing, unlikely to be distorted by payment of bonuses) confirm elevated wage growth this month as well. Risk asymmetric towards higher reading. We expect this year's average wage growth to be double-digit.

In Focus / Macroeconomics

Overly pessimistic inflation forecast by OECD a cause for confusion on the markets

The piece below emerged as a reaction to the overly pessimistic inflation forecast that was released this week by OECD and caused some confusion on the financial markets. It should be noted, however, that the OECD inflation forecast (repeated so many times in the Polish media and news agencies) is in fact a raw output from econometric model included in „Estimating a supply block for Poland" by Kierzenkowski et al. released as early as on April 1.

The aforementioned study raises concerns as to the balance between supply and demand and thus the capacity of the Polish economy to expand without inflationary pressures in the short and medium term. Moreover, the authors thoroughly review the existing empirical works on the estimation of the Polish potential output and unemployment gap to put forward a new framework for analyzing and forecasting inflation. Finally, they present out-of-sample projections derived from the Phillips-curve type model that includes the aforementioned new estimates of unemployment gap. The forecasts clearly reveal that inflation should continue to trend upward in 2008 and 2009 breaching 4.4% and 6.3% in 2008 and 2009 respectively. 8.4% y/y, the number echoed in the media proves to be the upper band of the 2009 model based projection. Though the OECD model, apparently, at least qualitatively reflects the dependence of the Polish inflation on the labor market developments, it fails to account for the deregulation as well as for all the effects stemming from globalization, including agflation and higher prices of commodities. We are a bit skeptical as to whether inflation really reaches an upper band of OECD forecast, but clearly see asymmetric upward inflation risks for 2009 originating from the second round of the deregulation, planed for January 2009, as well as various spillover effects it may induce.

Turning to the alternative forecasts for the Polish economy, the April's release of the IMF's World Economic Outlook draws an elevated inflation path for this and coming year as well. Amid the downgraded growth forecasts the average inflation rate in Poland may, according to the report, reach 4.1% and 3.8% in 2008 and 2009 respectively, far below the OECD projections. The tendency we have noted recently is, however, for the steepening of the forecasted inflation path and prolonged period of higher inflation. This tendency is not reflected in the shape of the yield curve yet but, in our opinion, it is a matter of time for this to happen.

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	>**6.0**

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

Fixed Income

And the band plays on...

The longer we observe the market, the more amazed we are. It seems that everything that is happening totally opposite that someone would expect. First the FRA market - Wibor fixings seem to be climbing up day by day. And the move isn't only because of rate hikes expectations, looking at depo market, it seems that there is a new factor - liquidity premium, that affects the rates. If we look at Wibors from that perspective, it is hard to say there is possibility of further tightening beyond 6% actually priced in. Yet 6 month gaps tend to trade below spot rates. Another thing that surprised as recently were the comments from one of the Civic Platform leaders, Chlebowski, quite clearly calling for more actions from the MPC to contain inflation expectation. Usually, policymakers are criticized by government that they either hike too much or don't cut enough, here they call for tightening. Apparently inflation risks are a reason to worry for everyone, except for the market that keeps pricing in rate cuts next year. Definitely all those things are odd, but what happened on 10Y auction is simply unbelievable. The supply was 2.3 billion and out of 1.6 billion bids only 1.2 were accepted. Clearly that shows there are no real interest to buy bonds at current levels. Under normal circumstances, one would expect some sell-off that should last until we reached new level of equilibrium, where yields would become attractive again. We're wondering, for how long market can ignore all the risk factors - we've seen that once - ship was sinking, but the band played on…

RECOMMENDATION:

Stay pay. Increase position on dips.

AUCTIONS

	next auc.	offer	avg yield last	last auction date
13 Week T-bills	-	-	4,208%	2006-01-16
26 Week T-bills	-	-	3,943%	2006-04-24
52 Week T-bills	2008-04-14	-	6,230%	2008-03-10
2Y T-bond OK0709	2008-07-02	-	6,193%	2008-04-02
5Y T-bond PS0413	2008-05-07	-	6,167%	2008-03-05
10Y T-bond DS1017	2008-07-09	-	6,054%	2008-04-09
20Y T-bond WS0922	2008-05-14	-	5,794%	2008-01-09

Money Market

Quite new environment for liquidity risk management

Not too exciting week. Cost of carry relatively high due to rising liquidity premium. Two scenarios for short term rates: either line problems will keep the rates high no matter how huge the cash surplus will be, or we will have really cheap end of the reserve since substantial surplus is now being used to build up the reserve requirements. Situation is quite new to polish market so no ex post analysis would do any good.

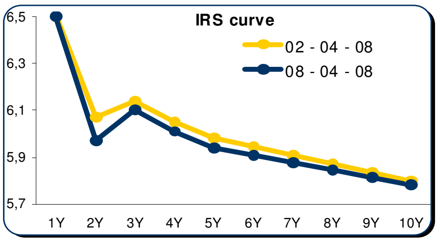
Next weeks figures will probably answer a few questions

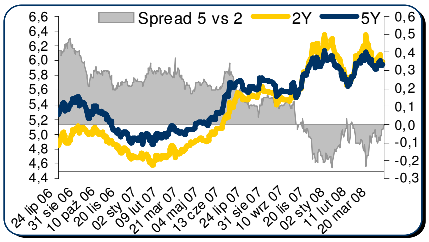
As for trading waiting for figures and moving in the range. Next weeks figures will probably give the answer for the coming MPC meeting bets and maybe even to the further monetary policy bias.

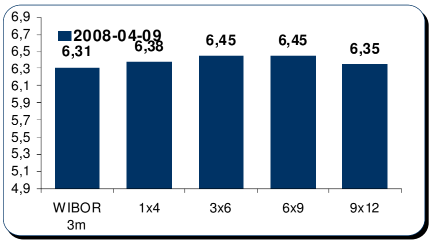
RECOMMENDATION:

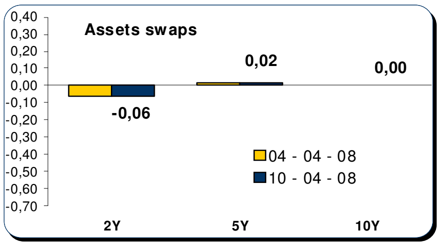
Stay pay.

FIXED INCOME & MONEY MARKET CHARTS









Foreign Exchange

Zloty stronger

Since Friday the zloty was traded between 3.4400 and 3.4720. Good global sentiment plus well seized option barriers pushed EURPLN lower.

Volatility curve flattened/lower

Strengthening of zloty made curve more flattened with small shift down, with 1M traded at 6.2 and 1Y at 6.0.

RECOMMENDATION:

Spot:
Main supports / resistances:
EUR/PLN: 3.4300 / 3.5100
USD/PLN: 2.1500 / 2.2400

Stay aside/look for correction signs

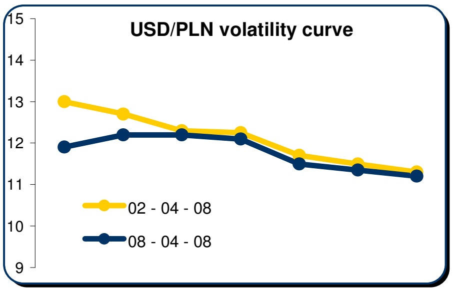
Because of depth of move, raising likelihood of correction and 3.43 providing well support for EURPLN we suggest stay aside or look for correction to 3.51 to entry next EURPLN shorts.

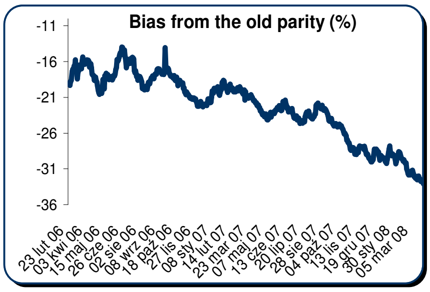
Options:

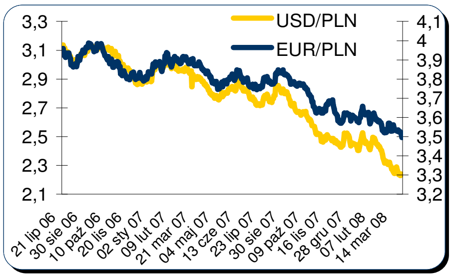
Stay aside/Short EURPLN gamma

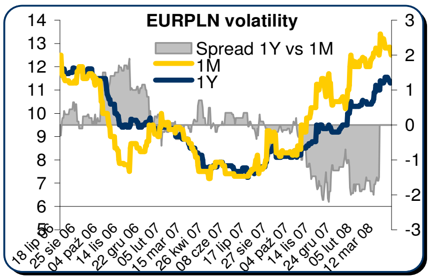
We advice to stay aside EURPLN market as present volatility levels do not offer much room to continue move, although present market sentiment still decline to keep short EURPLN gamma position to maintain theta gains.

FX CHARTS


USD/PLN volatility curve
02 - 04 - 08
08 - 04 - 08


Bias from the old parity (%)


USD/PLN
EUR/PLN


EURPLN volatility
Spread 1Y vs 1M
1M
1Y

MARKET PRICES UPDATE

MONEY MARKET RATES

Money market rates (Closing mid-market levels)						
date	3M		6M		1Y	
	FXSW	WIBOR	FXSW	WIBOR	FXSW	WIBOR
03-04-08	6,18%	6,13%	6,39%	6,36%	6,60%	6,52%
04-04-08	6,22%	6,17%	6,40%	6,36%	6,59%	6,53%
07-04-08	6,21%	6,17%	6,39%	6,36%	6,58%	6,53%
08-04-08	6,22%	6,19%	6,40%	6,38%	6,59%	6,53%
09-04-08	6,23%	6,21%	6,42%	6,39%	6,60%	6,55%

FRA MARKET RATES

FRA Market Rates (Closing mid-market levels)					
date	1X4	3X6	6X9	9X12	6X12
03-04-08	6,33%	6,46%	6,46%	6,36%	6,46%
04-04-08	6,34%	6,43%	6,43%	6,33%	6,43%
07-04-08	6,34%	6,41%	6,41%	6,30%	6,40%
08-04-08	6,35%	6,41%	6,41%	6,30%	6,46%
09-04-08	6,38%	6,45%	6,45%	6,35%	6,45%

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
03-04-08	6,52%	5,08%	5,57%	5,29%	5,72%	5,69%	5,73%	5,76%
04-04-08	6,53%	5,05%	5,57%	5,29%	5,71%	5,68%	5,72%	5,76%
07-04-08	6,53%	5,05%	5,57%	5,34%	5,71%	5,67%	5,71%	5,76%
08-04-08	6,53%	5,05%	5,56%	5,30%	5,71%	5,65%	5,72%	5,75%
09-04-08	6,55%	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	08-03-10	09-03-10	94,074	6,23%	1000	296132	10000
OK0710	08-01-02	09-07-25	85,730	6,19%	1800	2047	1654
PS0413	08-03-05	13-04-25	95,950	6,17%	1500	2019	1500
DS1017	08-02-13	17-10-25	96,048	5,79%	2000	2785	2000

FX VOLATILITY

	USD/PLN 0-delta stradle				25-delta RR		25-delta FLY	
date	1M	3M	6M	1Y	1M	1Y	1M	1Y
03-04-08	12,85	12,25	11,70	11,40	0,65	0,70	0,30	0,35
04-04-08	12,70	12,25	11,70	11,30	0,65	0,70	0,30	0,35
07-04-08	12,50	12,20	11,70	11,30	0,65	0,70	0,30	0,35
08-04-08	12,50	12,20	11,50	11,30	0,65	0,70	0,30	0,35
09-04-08	12,30	12,10	11,50	11,20	0,65	0,70	0,30	0,35

PLN SPOT PERFORMANCE

PLN spot performance			
date	USD/PLN	EUR/PLN	bias
03-04-08	2,2175	3,4828	-33,42%
04-04-08	2,2084	3,4639	-33,75%
07-04-08	2,2018	3,4689	-33,76%
08-04-08	2,1997	3,4580	-33,92%
09-04-08	2,1755	3,4520	-34,26%

Note: parity on 11/04/00 – USD= 4.3806, EUR=4.2196, basket share 50:50

Mid-market volatility of vanilla option strategies

Contact Details

BRE BANK SA

Ul. Senatorska 18
00-950 Warszawa
P.O. Box 728
Poland

Reuters Pages: BREX, BREY, and BRET

Bloomberg: BRE

SWIFT: BREXPLPW

www.brebank.pl

Forex (BREX) - FX Spot &Options
Marcin Turkiewicz (+48 22 829 01 84) Marcin.turkiewicz@brebank.pl
Jakub Wiraszka (+48 22 829 01 73)
Tomasz Chmielarski (+48 22 829 01 78)

Fixed Income (BREP) - FRA, IRS, T-Bonds, T-Bills
Łukasz Barwicki (+48 22 829 01 93) Lukasz.barwicki@brebank.pl
Paweł Białczyński (+48 22 829 01 86)

MM (BREP) - MM, FX Swaps
Bartłomiej Małocha (+48 22 829 01 77) Bartlomiej.malocha@brebank.pl
Tomasz Wołosz (+48 22 829 01 74)

Structured Products (BREX)
Jaroslaw Stolarczyk (+48 22 829 01 67) Jaroslaw.stolarczyk@brebank.pl
Jacek Derezinski (+48 22 829 01 69)

Institutional Sales (BRES)
Inga Gaszkowska-Gębska (+48 22 829 12 05)

Research
Ernest Pytlarczyk (+48 22 829 01 66) Research@brebank.pl
Marcin Mazurek (+48 22 829 0183)
Radosław Cholewiński (+48 22 829 12 07)

Financial Markets Department
Phone (+48 22 829 02 03)
Fax (+48 22 829 02 45)

Treasury Department
Phone (+48 22 829 02 02)
Fax (+48 22 829 02 01)

Financial Institutions Department
Phone (+48 22 829 01 20)
Fax (+48 22 829 01 21)

Back Office
Phone (+48 22 829 04 02)
Fax (+48 22 829 04 03)

Custody Services
Phone (+48 22 829 13 50)
Fax

Disclaimer

Distribution and use of this publication