BRE BANK SA

THE BEST FINANCIAL INSTITUTION FOR DEMANDING CUSTOMERS

FINANCIAL MARKETS DEPARTMENT

PAGES: 8 WARSAW, JANUARY 28, 2010

POLAND WEEKLY REVIEW

MACROECONOMICS AND FINANCIAL MARKETS

IN FOCUS / MACROECONOMICS	• *Polish 2009 GDP beats forecasts* • *Rates unchanged. Informal neutral monetary policy bias sustained.* • *Tusk staying as PM makes fiscal consolidation plan more credible. Risk factor to watch Is the junior coalition partner support for the plan.*	• *pages 1-2*
FIXED INCOME	• *Lack of inspiration.*	• *page 3*
MONEY MARKET	• *Carry still supports long positions* • *Bullish sentiment for local market*	• *pages 3-4*
FOREIGN EXCHANGE	• *Zloty in narrow range* • *Implied volatility slightly higher*	• *pages 4-5*
MARKET PRICES ***CONTACT LIST*** ***DISCLAIMER***		• *page 6* • *page 7* • *page 8*

PREVIEW: The week of January 28th 2010 to February 4th 2010

Indicator	Date of release	Period	BRE forecast	Consensus	Last	Comment
FinMin's inflation forecast	Feb 1	Jan	**3.5%**	-	3.5%	Food prices close to seasonal pattern (+1.0%). Moderate growth of fuel prices. Core inflation at 2.4% y/y.
PMI	Feb 1	Jan	**53.6pts**	-	52.4pts	Decent growth of business tendency indicators (domestic and foreign).

In Focus / Macroeconomics

Polish 2009 GDP beats forecasts

2009 GDP grew by 1.7% vs. 4.8% recorded in 2008, beating the forecasters consensus of 1.5-1.6%. Turning to the breakdown, 2009 saw 2.3% private consumption growth, and very moderate slide of fixed capital formation (-0.3% y/y). The domestic demand shrunk by 0.9%. Polish outstanding GDP results are to be attributed to the zloty depreciation and increased substitution of imports by domestic production. In addition, we estimate that more than 0.5pp. of GDP growth rate was generated by EU sponsored investments (mainly in infrastructure).

As usual, we used the whole year data to extract even more important information on Q4 GDP dynamics. We estimate Q4 GDP growth at 3.0%, up from 1.7% recorded in Q3. Private consumption grew by 2.1% vs. 2.2% seen in Q3. The most surprising, however, is a positive dynamics of investments, which rose by about 1.9% y/y vs. -1.5% recorded in Q3.

Turning to the near term perspectives, we see the positive tendencies from Q4 2009 to be extended for the coming quarters. In particular, the 2010 GDP is to growth by more than 3% y/y. Growth rate of fixed capital formation is to be continuously supported by infrastructure projects. Private consumption is to grow by 2.5-3.3% on the back of stabilizing labor market and spillovers from booming infrastructure investments. Declining contribution of net exports will be well offset by further restocking.

Rates unchanged. Informal neutral monetary policy bias sustained.

Although the MPC deliberated with 5 new members (Chojna-Duch, Bratkowski, Winiecki, Rzonca and Hausner), the decision and the statement as well did not surprise the market. Turning to details, rate-setters confirmed the more optimistic picture of the Polish economy, mainly the situation in the labor market which, by the way, was a bit overlooked so far (we used to point in that direction for several months). As for inflation perspectives, the MPC underlined the influence of base effects and low demand pressures which are likely to hold inflation in reigns in coming months. Rate-setters once again committed themselves to informal neutral monetary policy bias quoting that the probabilities of inflation staying below and above the target are more or less equal. The new ingredient enclosed in the statement was a risk factor concerning the fiscal and monetary stimulation abroad (whether it will allow the ongoing recovery to continue by itself, endogenously).

Taking into account the explicitly pointed risks and uncertainty regarding the Polish growth outlook we do not expect the MPC to speed up the process of monetary tightening. It is possible though, that the MPC will start ahead of other central banks (mainly euro zone) but no sooner than 1) uncertainties regarding global economy are resolved, 2) domestic inflationary pressures start to mount again. We thus expect the MPC to hike in H2 2010 but the process of exact tightening will be even substantially preceded by the change of monetary policy bias toward restrictive.

Tusk staying as PM makes fiscal consolidation plan more credible. Risk factor to watch is the junior coalition partner support for the plan.

Apart form better GDP, recently there pop up even more factors supporting Polish assets and the zloty. In particular, we see the already initiated process of risk premium compression to continue on the back of improving fiscal outlook and, most recently, the news that PM Tusk will not run for president. This information makes the government reformative approach more and more credible, as the political risk and the risk of succession conflicts in the ruling party are now clearly very low. There is, however, another risk factor which we suggest to watch carefully; recently deputy PM and a leader of junior coalition party (probably motivated by falling support in the opinion polls) openly contested government's fiscal package (the issue has been covered by leading newspapers Today). This may create some risk of coalition collapse. We do not see it yet as an ultimate outcome but PM Tusk may be forced to change part of the consolidation strategy affecting the generous peasant social security system.

MID-TERM FORECASTS

Indicator	2007	2008	2009	2010	2011
GDP y/y (%)	6.5	4.8	1.7	3+	4.5
Inflation rate (%, average)	2.4	4.3	3.5	2.3	2.9
Current account (% of GDP, average)	-4.5	-5.3	-1.3	-2.3	-3.7
Unemployment rate (end-of-year)	11.4	9.5	11.9	11.7	10.5
NBP repo rate (end-of-year)	5.00	5.00	3.50	4.00	5.50

Indicator	2009				2010	
	Q1	Q2	Q3	Q4	Q1	Q2
GDP y/y (%)	0.8	1.1	1.7	3.0	3.8↑	3.3↑
Inflation rate (%, average)	3.2	3.7	3.5	3.5	3.3	2.1
NBP repo rate (end-of-quarter)	3.75	3.50	3.50	3.50	3.50	3.50

Bold denotes chages from the last release with arrows showing the direction of chages

Fixed Income

Lack of inspiration.

Last week we saw some nice volatility on the market. Local news had been generally positive, but market focus was generally on the international factors, such as Greece fiscal situation and possible spillovers to the rest of the credit, especially EM. MPC with partly new squad delivered expected decision and monetary policy is expected to be a minor factor in coming months. Coming back to market, liquidity is still very good despite sharp moves we tend to see good interest both ways. Generally market still struggles to find an inspiration, direction…What is also interesting is the fact that the close-to-close volatility is much smaller than intra day moves, which suggests that most of the positions are rather trader positions, than real prop bets. Next week event to follow will be details of the fiscal consolidation plan, switch auction and development on the credit markets (Greece related) as well; our guess is that we will still stay in deadlock. The economic releases should not have big impact on the market. To sum up, for the time being, it looks we are boxed in a range of 4.85/5.05 in 2y and 5.45/5.65 in 5y. We still see 20y bonds to fall in yield and stick to the idea of 2y2y rates decline, but see clearly more risk for such a scenario.

AUCTIONS

	next auc.	offer	avg yield last	last auction date
13 Week T-bills	-	-	6.142%	12/9/2008
26 Week T-bills	-	-	4.456%	5/4/2009
52 Week T-bills	2/1/2010	-	3.892%	1/20/2010
2Y T-bond OK0712	2/10/2010	-	5.052%	1/13/2010
5Y T-bond PS0415	2/10/2010	-	5.736%	12/2/2009
10Y T-bond DS1019	2/19/2010	-	6.046%	5/20/2009
20Y T-bond WS0429	2/19/2010	-	6.170%	9/23/2009

Money Market

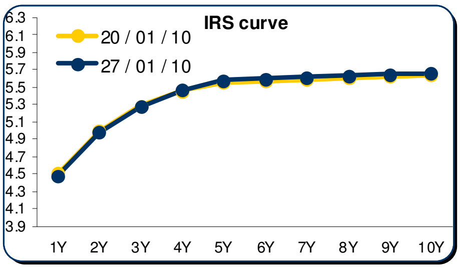
Carry still supports long positions

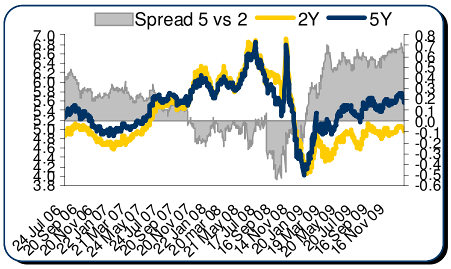
Bullish sentiment for local market

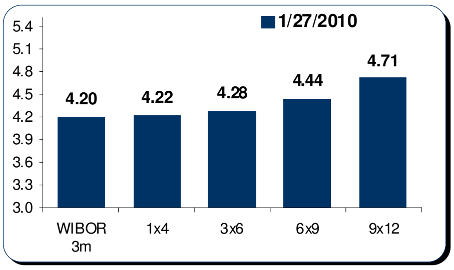
Last week of the reserve quite cheap despite of the fact that the system is squared. Everyone believes that tomorrow is enough to fine tune the reserve with the last OMO. We think that demand will be cautious and not meeting the supply, which in turn should depress the carry down, to the deposit level (2%). On Monday the new reserve starts and we should be back to the 3% ON.

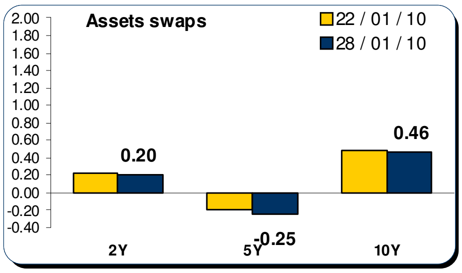
Quite bullish as far as trading sentiment is concerned. Stronger currency, good real economy data, no signals from core markets as far as ceasing of the quantitative easing in monetary policy is concerned, still unofficial neutral bias of the MPC. All this supports good feeling about the local market and drives excellent demand during T-bills (last average yield down to 3.89%) and T-bond auctions.

FIXED INCOME & MONEY MARKET CHARTS









Foreign Exchange

Zloty in the narrow range

Implied volatility slightly higher

The well defined range has dominated the market again. Few things to write about, false break of 4.1000, the high for EUR/PLN was market at 4.1150 and then back below 4.1000 on the post FOMC sentiment improvement. The new factor for Zloty is a large number of huge option strikes (i. e. during this week, on Tuesday and Thursday there were 4.1000 expiries in at least EUR 100 mio each) placed close to the market. With local exporters still sidelined, with EUR/PLN above 4.0000 level and lack of bigger foreign flow it for sure, influence the market.

The bounce from 4.00 has provoked some demand for volatility – 1M was traded at 12.5, 1Y 12.2. Failure of spot 4.10 break-through succeeded by narrow range trading has pressured curve downward, short end especially, – traded 1month 11.75 %, 1year 11.9%.

Short-term outlook

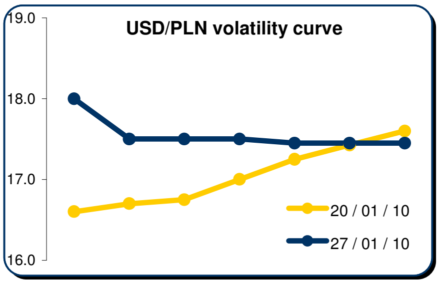
SPOT

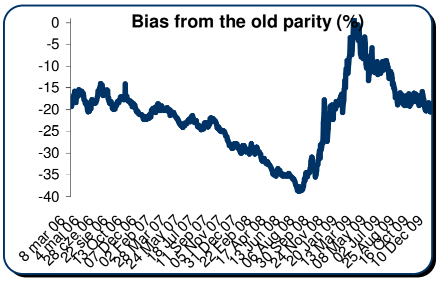
Main supports / resistances:
EUR/PLN: 4.0000 / 4.1800
USD/PLN: 2.7700 / 2.9500

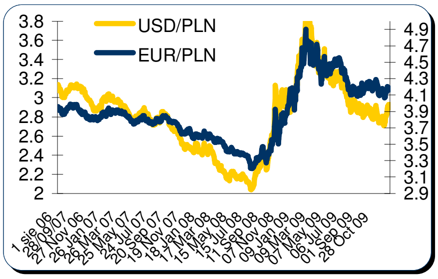
(Unchanged from last week)
The Zloty is still in the well defined range 4.0000/4.2000 and the market gives plenty of opportunities to ride on volatility. We have to remember though, that only 4.2000 is the real resistance level, everything bellow are just the minor ones. Falling EUR/PLN is consistent with macro foundations of the Polish economy.

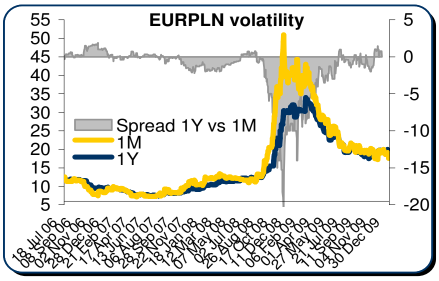
OPTIONS
(Unchanged from last week)
The falling historical volatility is a dominant factor behind the implied volatility curves slide in both, EUR/PLN and USD/PLN. But that is a case as long as 4.00/4.20 range holds, in other words it may change dramatically especially if the upper side of the range will be broken.

FX CHARTS


USD/PLN volatility curve
19.0
18.0
17.0
16.0
20 / 01 / 10
27 / 01 / 10


Bias from the old parity (%)
0
-5
-10
-15
-20
-25
-30
-35
-40


USD/PLN
EUR/PLN
3.8
3.6
3.4
3.2
3
2.8
2.6
2.4
2.2
2
4.9
4.7
4.5
4.3
4.1
3.9
3.7
3.5
3.3
3.1
2.9


EURPLN volatility
Spread 1Y vs 1M
1M
1Y
55
50
45
40
35
30
25
20
15
10
5
5
0
-5
-10
-15
-20

MARKET PRICES UPDATE

MONEY MARKET RATES

Money market rates (Closing mid-market levels)

date	3M		6M		1Y	
	FXSW	WIBOR	FXSW	WIBOR	FXSW	WIBOR
21/01/10	4.10%	4.22%	4.25%	4.26%	4.41%	4.41%
22/01/10	4.13%	4.22%	4.25%	4.25%	4.38%	6.59%
25/01/10	4.18%	4.22%	4.22%	6.49%	4.41%	4.41%
26/01/10	4.11%	4.22%	4.33%	4.24%	4.50%	4.41%
27/01/10	4.15%	4.20%	4.23%	4.23%	4.41%	4.41%

FRA MARKET RATES

FRA Market Rates (Closing mid-market levels)

date	1X4	3X6	6X9	9X12	6X12
21/01/10	4.24%	4.29%	4.41%	4.65%	4.60%
22/01/10	4.23%	4.31%	4.45%	4.68%	4.61%
25/01/10	4.21%	4.30%	4.46%	4.71%	4.63%
26/01/10	4.21%	4.30%	4.41%	4.65%	4.65%
27/01/10	4.26%	4.30%	4.44%	4.71%	4.66%

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
21/01/10	4.41%	3.76%	5.00%	4.72%	5.54%	5.35%	5.61%	6.06%
22/01/10	6.59%	3.76%	4.99%	4.73%	5.54%	5.35%	5.62%	6.11%
25/01/10	4.41%	3.76%	5.00%	4.70%	5.55%	5.35%	5.64%	6.10%
26/01/10	4.41%	3.76%	4.99%	4.70%	5.58%	5.34%	5.66%	6.10%
27/01/10	4.41%	3.76%	4.98%	4.67%	5.58%	5.33%	5.66%	6.11%

PRIMARY MARKET RATES

Last Primary Market Rates

	au. date	maturity	avg price	avg yield	supply	demand	sold
52W TB	10/01/25	11/01/25	96.213	3.89%	1300	4550	1300
OK0712	10/01/13	12/07/25	88.260	5.05%	6600	23000	6600
PS0415	09/12/02	15/04/25	98.691	5.78%	5000	5614	3629
DS1019	10/01/20	19/04/25	96.009	6.05%	2000	6596	2409

FX VOLATILITY

	USD/PLN 0-delta stradle				25-delta RR		25-delta FLY	
date	1M	3M	6M	1Y	1M	1Y	1M	1Y
21/01/10	17.50	17.50	17.50	17.75	1.75	3.25	0.80	0.85
22/01/10	17.50	17.50	17.50	17.25	2.00	3.25	0.80	0.85
25/01/10	17.75	17.50	17.50	17.45	2.25	3.25	0.80	0.85
26/01/10	17.75	17.50	17.50	17.45	2.25	3.25	0.80	0.85
27/01/10	17.50	17.50	17.45	17.45	2.00	3.25	0.80	0.85

PLN SPOT PERFORMANCE

PLN spot performance

date	USD/PLN	EUR/PLN	bias
21/01/10	2.8928	4.0661	-18.58%
22/01/10	2.8785	4.0742	-19.96%
25/01/10	2.8688	4.0609	-19.49%
26/01/10	2.9068	4.0969	-19.90%
27/01/10	2.9082	4.0878	-20.09%

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, PhD, CFA (+48 22 829 01 66) Research@brebank.pl
Marcin Mazurek (+48 22 829 0183)

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

The review note is based on the information available to the public. This review creates exclusively a marketing information as defined in Paragraph 9 Section 1 of the Decree of Minister of Finance dated November 20, 2009 on procedures and conditions to be followed by investment firms and banks mentioned in Article 70 Section 2 of Law on Trading in Financial Instruments dated July 29, 2005 as well as by custody banks. This review note is provided to you for information purposes only and is not intended as advice on any particular matter or as recommendation, offer or solicitation for purchase of sale of any financial instrument and should not be taken as such. BRE Bank SA, its directors, officers, executives, managers, servants or agents expressly disclaim all liability to any person in respect of any-thing, and in respect of the consequences of anything, done or omitted to be done, wholly or partly, in reliance upon the whole or any part of the contents of this review note. The opinions and estimates contained herein reflect the current judgment of the author(s) on the date of this document and are subject to change without notice. The opinions pointed in review do not necessarily correspond to the opinions of BRE Bank SA. The past performance of financial instruments is not indicative of future results. No assurance can be given that any financial instrument or issuer described herein would yield favourable investment results. BRE Bank and/or its principals or employees may have a long or short position or may transact in the financial instrument(s) and/or securities referred to herein or may trade in such financial instruments with other customers on a principal basis. No client or other reader should act or refrain from acting on the basis on any matter contained in it without taking specific independent professional advice on the particular facts and circumstances in issue.