BRE BANK SA

THE BEST FINANCIAL INSTITUTION FOR DEMANDING CUSTOMERS

FINANCIAL MARKETS DEPARTMENT

PAGES: 8

WARSAW, FEBRUARY 4, 2011

POLAND WEEKLY REVIEW

MACROECONOMICS AND FINANCIAL MARKETS

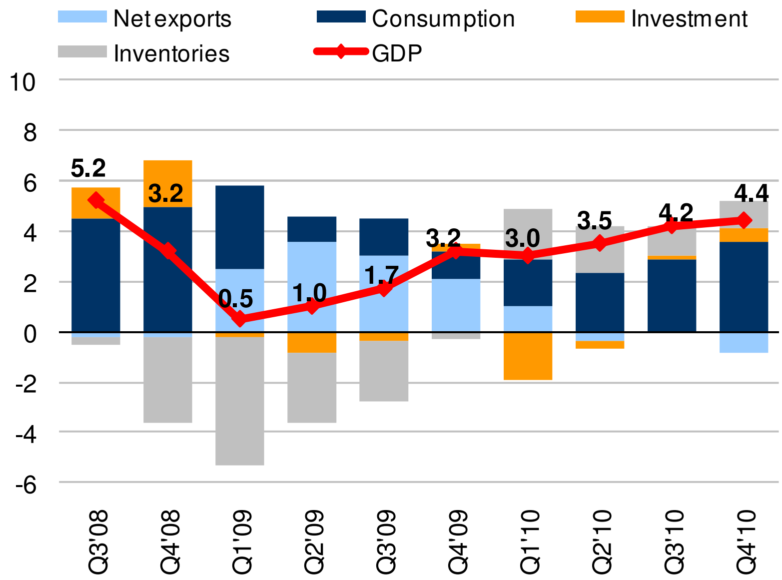
PREVIEW: The week of February 4th 2011 to February 10th 2011

Indicator	Date of release	Period	BRE forecast	Consensus	Last	Comment
NO SIGNIFICANT RELEASES						

In Focus / Macroeconomics

GDP rose by 3.8% in 2010

GDP growth in 2010 recorded 3.8% versus 1.7% reported for 2009. The reading speaks for a V-shaped recovery the Polish economy is enjoying. Private consumption accelerated to 3.2% from 2.1% a year ago, fixed business investment went down by 2.0% y/y, deepening the fall recorded year earlier (-1.1%). As usual, the data for the whole 2010 allow us to calculate Q4 alone. We estimate the Q4 GDP growth at 4.2-4.5% with bias at the upper side of the range, private consumption at +4.0-4.2% and fixed business investment at +1.6-1.7%. GDP growth seems still decent, then.



However, as the story of substitution effects in Q4, weighing on Q1 2011 develops, MPC will be more inclined to wait until the fresh data are published to assess the scale of deceleration of private consumption. Although we think the substitution effects are going to leave a visible mark on Q1 GDP growth (slower consumption will be partially offset by strong investment growth, led by huge base effect and the ongoing recovery), it is unlikely to herald a looming slowdown. PMI index released this week for Poland (55.6 vs. 56.3p recorded a month ago) seems to confirm that economic activity stabilized at high levels. We expect then the Q2 GDP growth to be much more decent and recovery to continue. However, as written above, MPC may be much too careful to assume a positive scenario for the latter part of 2011. Therefore we think they may try to postpone the next hike beyond March. The market however, seems to play a strongly cyclical story, as partially confirmed by rising input and output prices sub index of the PMI, and bet on the opposite scenario which leads to continuously pricing in the MPC falling behind curve and putting pressure on the zloty.

MID-TERM FORECATS

Indicator	2007	2008	2009	2010	2011
GDP y/y (%)	6.5	4.8	1.7	3.8	4.2
Inflation rate (%, average)	2.4	4.3	3.5	2.8	3.5
Current account (% of GDP, average)	-4.5	-5.3	-1.6	-3.1	-3.8
Unemployment rate (end-of-year)	11.4	9.5	11.9	12.3	10.9
NBP repo rate (end-of-year)	5.00	5.00	3.50	3.50	4.25

Indicator		2010			2011	
	Q1	Q2	Q3	Q4	Q1	Q2
GDP y/y (%)	3.0	3.5	4.2	4.5	4.2	3.8
Inflation rate (%, average)	3.0	2.1	2.6	2.9	3.4	3.4
NBP repo rate (end-of-quarter)	3.50	3.5	3.5	3.50	3.75	4.00

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

Fixed Income

Will FinMin stop the madness?

It's been an interesting week on the fixed income market. We started with continuation of previous week's weakening, the curve reached fresh year highs again, with 2Y and 5Y trading at 5.22% and 5.75% respectively. As it keeps happening recently, every time rates hit local tops, receiving interest appears, and curve pulls back. This time the pullback move was strongly accelerated by the Finance Ministry, who inquired banks about possible trade in long end swaps to hedge some of the bonds exposure. Possibility of such flow triggered some stoplosses and therefore rally continued. From the top level IRS pulled back by some 12bp in 2Y and 25-28bp in 5Y and 10Y.

After this stop-loss driven euphoria market calmed down and rates pushed up slightly again. What's interesting in our opinion is the market's perception of the whole idea. Most comments we heard were in the tone that this is negative news as such 'manipulation' and 'Greek-style management' is only a try to cover some real issues. We totally disagree with such view. It seems quite normal that FinMin is trying to use the market to realize it's debt strategy more effectively. Current yields are significantly higher than average for the past two years, also asset swap levels allow to convert part of the outstanding debt into floaters at levels definitely more attractive than these at which actual floaters can be issued. So such action can be economically justified, but it's perceived as 'wrong' because it's against market's view of more risk premium and higher rates? Hmm...

In terms of rates we don't change our view, we still stick to our receive tops strategy. We still cannot really imagine rate cycle such aggressive, that levels implied by FRAs and 1Y1Y could actually materialize. However, there are of course risks of further overshooting. This game of finding an absolute top is sometimes tricky, but we're struggling to find good reasons to pay. 9x12 implies another 100bp tightening, which is probably worst case scenario. Making profit from that trade? It is possible but with curve steepness can happen only if another sharp move happens soon and there aren't much factors that could cause such a move (rates in EUR moving down, MPC not so hawkish, CPI risks on the downside). Treating it a hedge? With 100bp priced in and current bond yields doesn't sum up either. So, conclusion is stay receive and add on tops.

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	2/28/2011	-	4.056%	10/25/2010
2Y T-bond OK1013	2/9/2011	-	4.984%	1/5/2011
5Y T-bond PS0416	2/9/2011	-	5.642%	1/5/2011
10Y T-bond DS1020	2/16/2011	-	6.210%	1/12/2011
20Y T-bond WS0429	2/16/2011	-	6.246%	1/12/2011

Money Market

Cheap end of the reserve

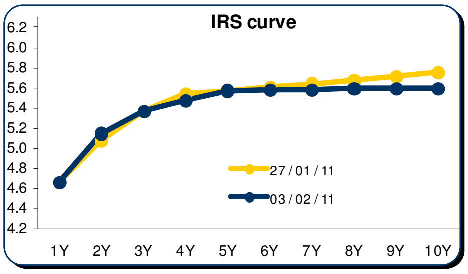
Benchmark t-bills at 4.35%

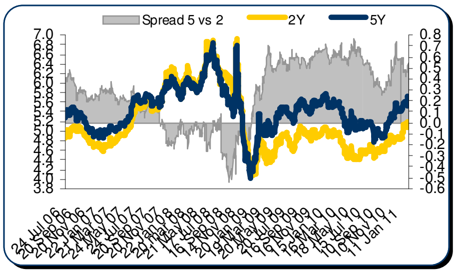
Cheap end of the reserve with the deposit in the central bank of 9 billion pln followed by the relatively expensive beginning of the new settlement period. Carry going up by 70 some bps and almost pln 87 billion of on the run money bills. Tomorrow the demand for those papers can be smaller and the cost of carry should alleviate bit.

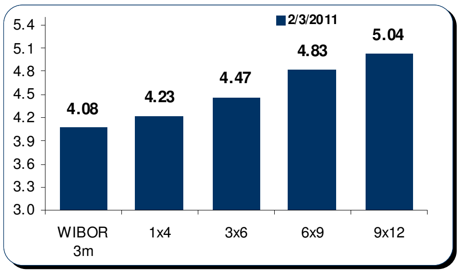
Longer terms still overpriced in our opinion and still looking good to be received if one believes in our scenario (hikes spread in time plus cost of carry much cheaper then assumed in the curve right now). Therefore we still see much value especially in longer ois contracts.

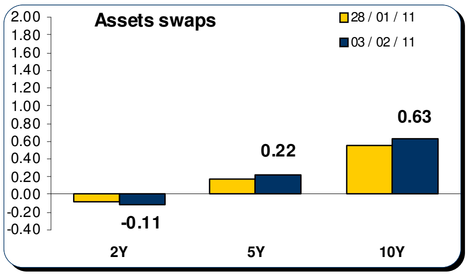
First issue this year of the 52 week t-bill benchmark came up quite cheap with an average yield of 4.35%. We expect this papers to be touch more expensive during the next auction. Just to remind, starting this year, the Ministry of Finance will issue same papers during 3/4 consecutive auction, hence decreasing the amount of on the run issues but significantly increasing the liquidity of the papers.

FIXED INCOME & MONEY MARKET CHARTS









Foreign Exchange

Zloty weaker

Well, trading 3.90 area in previous week was something more than looking for upper bound. Without new positive signals from local side, threaten by worsen global and weighted by long PLN positioning EURPLN cross has easily broken 3.92 resistance and on wave of stop-losses headed up to 3.96 top. While positioning has been cleared out and global woes has calmed down Zloty has caught up some of its losses and we ended week about 3.90 again.

Implied curve flatter

Reaction of implied volatilities for weaker underlying spot was limited to short tenors: 1W has been traded about 8.7% before PLN selling, about 10% while 3.96 was paid and has collapsed back to 8.7 with strengthening PLN. Remaining tenors were traded in narrow ranges: 1M 9.2-9.4, 3M 10.2-10.4. More significant is 1Y performance, lack of reaction for higher spot and new low, 11.5 (11.7 last week), while Zloty has come back.

Smile and EURPLN vs USDPLN currency spread responses were hardly noticed ones – we have finished week at similar week-to-week levels: respectively for 3M benchmarks 2.4 and 6.25%.

Short-term forecasts:

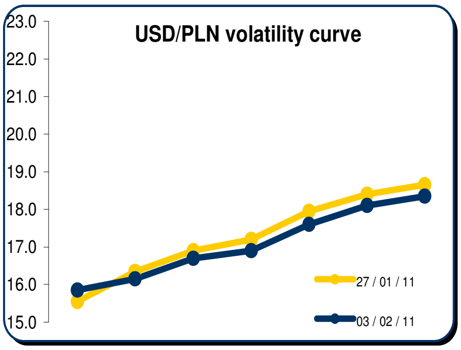
SPOT

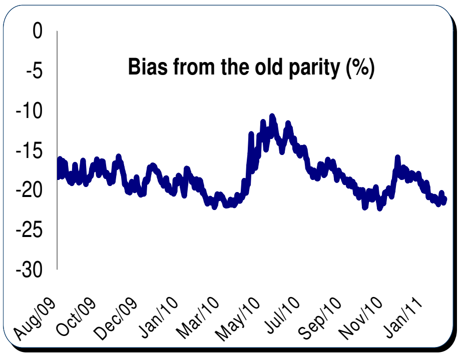
Main supports / resistances:
EUR/PLN: 3.8900 / 3.9600
USD/PLN: 2.8000 / 2.9000

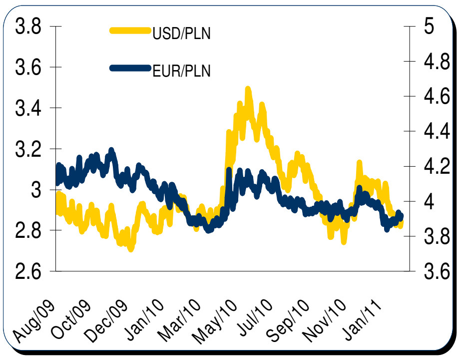
We are short at 3.96, S/L 4.01 and P/T at 3.86. Good level to add is 3.94 but with short 3.97 S/L and same 3.86 P/T. Positioning is light, dark clouds are somewhere else.

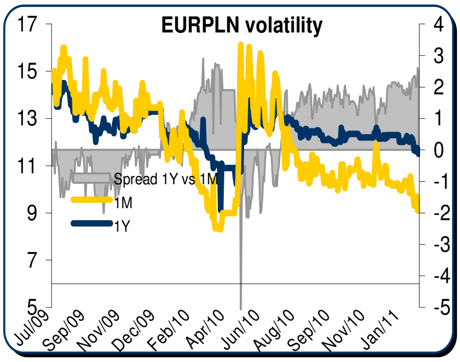
OPTIONS
Vega is priced lower (1Y tenor 12.3 to 11.5 since 1st of Jan!) and it is hard to convince us to catch running train. On the other hand gamma looks bit underpriced – 1W implied 8.75 as against to 10% realized, fair overall. Stay away.

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
28/01/11	4.00%	4.07%	4.21%	4.21%	4.37%	4.39%
31/01/11	4.01%	4.07%	4.22%	4.22%	4.40%	6.59%
01/02/11	4.00%	4.07%	4.25%	6.49%	4.40%	4.40%
02/02/11	3.99%	4.08%	4.21%	4.22%	4.41%	4.40%
03/02/11	4.03%	4.08%	4.23%	4.22%	4.30%	4.40%

FRA MARKET RATES

FRA Market Rates (Closing mid-market levels)

date	1X4	3X6	6X9	9X12	6X12
28/01/11	4.14%	4.44%	4.74%	4.93%	4.92%
31/01/11	4.15%	4.45%	4.76%	4.95%	4.94%
01/02/11	4.15%	4.46%	4.79%	4.98%	4.95%
02/02/11	4.16%	4.51%	4.82%	5.03%	4.98%
03/02/11	4.17%	4.48%	4.82%	5.03%	5.01%

FIXED INCOME MARKET RATES

Fixed Income Market Rates (Closing mid-market levels)

date	1Y		2Y		5Y		
	WIBOR	TB	IRS	OK0112	IRS	PS0511	IF
28/01/11	4.39%	4.15%	5.20%	5.11%	5.72%	5.89%	5.8
31/01/11	6.59%	4.15%	5.15%	5.02%	5.69%	5.91%	5.7
01/02/11	4.40%	4.15%	5.13%	5.00%	5.64%	5.88%	5.7
02/02/11	4.40%	4.15%	5.15%	5.00%	5.58%	5.79%	5.6
03/02/11	4.40%	4.34%	5.15%	5.04%	5.58%	5.79%	5.6

PRIMARY MARKET RATES

Last Primary Market Rates

	au. date	maturity	avg price	avg yield	supply	demand	sc
52W TB	10/09/27	11/09/27	96.189	3.92%	600	1150	58
OK0113	10/12/01	13/01/26	90.550	4.80%	4000	9322	40
PS0416	10/10/13	16/04/25	99.300	5.14%	3000	3414	24
DS1020	11/01/12	19/04/25	93.022	6.21%	2250	4252	22

FX VOLATILITY

	USD/PLN 0-delta stradle				25-delta RR		2
date	1M	3M	6M	1Y	1M	1Y	1
28/01/11	16.75	17.40	18.05	18.75	2.20	4.35	0.
31/01/11	16.60	17.25	17.90	18.60	2.50	4.50	0.
01/02/11	16.00	17.00	17.75	18.55	2.50	4.50	0.
02/02/11	16.00	17.00	17.65	18.35	2.50	4.50	0.
03/02/11	16.15	16.90	17.60	18.35	2.50	4.50	0.

PLN SPOT PERFORMANCE

PLN spot performance

date	USD/PLN	EUR/PLN	bias
28/01/11	2.8501	3.9111	-21.1%
31/01/11	2.8845	3.9345	-20.5%
01/02/11	2.8468	3.9129	-21.1%
02/02/11	2.8230	3.9019	-21.5%
03/02/11	2.8424	3.9173	-21.1%

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) jakub.wiraszka@brebank.pl
Tomasz Chmielarski (+48 22 829 01 78) tomasz.chmielarski@brebank.pl

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) pawel.bialczynski@brebank.pl

MM (BREP) - MM

Bartłomiej Małocha, CFA (+48 22 829 01 77) bartłomiej.malocha@brebank.pl
Bogumił Modzelewski bogumil.modzelewski@brebank.pl

Structured Products (BREX)

Jaroslaw Stolarczyk (+48 22 829 01 67) jaroslaw.stolarczyk@brebank.pl
Jacek Derezinski (+48 22 829 01 69) jacek.derezinski@brebank.pl

Institutional Sales (BRES)

Inga Gaszkowska-Gębska (+48 22 829 12 05) inga.gaszkowska-gebska@brebank.pl

Research

Ernest Pytlarczyk, PhD, CFA (+48 22 829 01 66) ernest.pytlarczyk@brebank.pl
Marcin Mazurek (+48 22 829 0183) marcin.mazurek@brebank.pl
Paulina Ziembińska (+48 22 829 02 56) paulina.ziembinska@brebank.pl

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. Copyright protection exists in this publication and it may not be, even partially, reproduced of distributed without the prior written agreement with BRE Bank SA.