

**Bureau of Economic Analysis**  
(research)

Ernest Pytlarczyk, PhD, CFA  
*chief economist*  
tel. +48 22 829 01 66  
[ernest.pytlarczyk@brebank.pl](mailto:ernest.pytlarczyk@brebank.pl)

Marcin Mazurek, PhD  
*senior analyst*  
tel. +48 22 829 01 83  
[marcin.mazurek@brebank.pl](mailto:marcin.mazurek@brebank.pl)

Paulina Ziembinska  
*analyst*  
tel. +48 22 829 02 56  
[paulina.ziembinska@brebank.pl](mailto:paulina.ziembinska@brebank.pl)

**Financial Markets Department**  
(business contacts)

Lukasz Barwicki  
*head of trading*  
tel. +48 22 829 01 93  
[lukasz.barwicki@brebank.pl](mailto:lukasz.barwicki@brebank.pl)

Inga Gaszkowska-Gebska  
*institutional sales*  
tel. +48 22 829 01 67  
[inga.gaszkowska-gebska@brebank.pl](mailto:inga.gaszkowska-gebska@brebank.pl)

Bartłomiej Malocha, CFA  
*money market*  
tel. +48 22 829 01 77  
[bartlomiej.malocha@brebank.pl](mailto:bartlomiej.malocha@brebank.pl)

Jaroslav Stolarczyk  
*structured products*  
tel. +48 22 829 01 67  
[jaroslav.stolarczyk@brebank.pl](mailto:jaroslav.stolarczyk@brebank.pl)

Marcin Turkiewicz  
*fx market*  
tel. +48 22 829 01 67  
[marcin.turkiewicz@brebank.pl](mailto:marcin.turkiewicz@brebank.pl)

Reuters pages:  
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**BRE Bank S.A.**  
18 Senatorska St.  
00-950 Warszawa  
P. O. BOX 728  
tel. +48 22 829 00 00  
fax. +48 22 829 00 33  
<http://www.brebank.pl>

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**Comment on the upcoming data and forecasts**

This week will finally bring some additional, quantitative insight into the balance of payments data. As NBP announced earlier there was a problem with properly accounting for used car imports and direct (private) transfers from abroad. According to earlier NBP comments the overall revision will be set at -1-2pp. of GDP (C/A as a percentage of GDP), i.e ca EUR 1bn per quarter. Although some of the info is already discounted in EURPLN rate, the message is likely to be still negative.

**Polish data to watch, June 27 to June 30**

Publication	Date	Period	BRE	Consensus	Prior
C/A balance (EUR bn)	Jun-29	Q1	-4.5	-	-5.26

**Treasury bonds and bills auctions**

Paper	Next auction	Offer	Last yield	prev auction
52-week T-Bills	6/27/2011	600	4.578	5/30/2011
2Y T-bond OK1013	7/13/2011	3000	4.840	6/9/2011
5Y T-bond PS0416	7/13/2011	3000	5.614	18/5/2011
10Y T-bond DS1020	7/20/2011	2250	6.210	1/12/2011
20Y T-bond WS0429	7/20/2011	250	6.246	1/12/2011

**Macroeconomic forecasts**

Wskaźnik	2007	2008	2009	2010	2011F
GDP y/y	6.5	4.8	1.7	3.8	4.4
CPI Inflation (average), y/y	2.4	4.3	3.5	2.8	4.5
Current account (%GDP)	-4.5	-5.3	-1.6	-3.1	-4.9
Unemployment rate (end of period)	11.4	9.5	11.9	12.3	11.9
Repo rate (end of period)	5.0	5.0	3.5	3.5	4.75

	2010			2011		
	Q2	Q3	Q4	Q1F	Q2F	Q3F
GDP y/y	3.5	4.2	4.5	4.4	4.3	4.4
CPI Inflation (average), y/y	2.1	2.6	2.9	3.7	4.9	4.6
Repo rate (end of period)	3.5	3.5	3.5	4	4.5	4.5

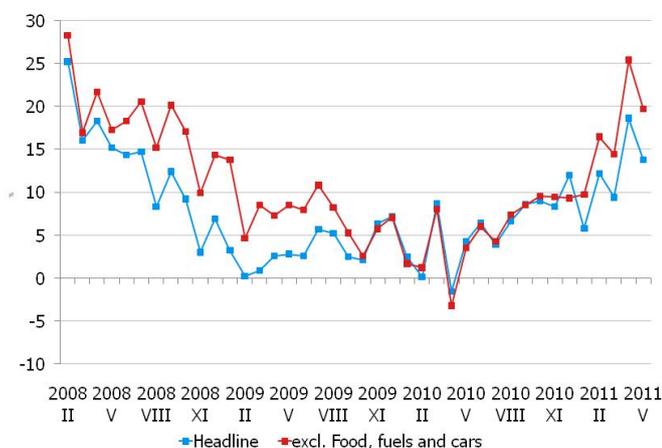
F - forecast

## Economics

### Strong retail sales. Core inflation on the rise.

Retail sales increased by 13.8% y/y in May - as we expected - beating market consensus (13.1%). Lower growth rate stems from the lack of previously observed one-offs (and one working day less), which in fact means that growth returned to "normal" levels - more consistent with economic fundamentals. Turning to details, we observe ongoing positive trend in auto sales (10% compared to 11% in April), seasonal deterioration of food and non-specialized stores sales (5.9% and 33% respectively). Due to early spring and growing prices (which made consumers more cautious) we treat decrease of clothing sales as a temporary shift in seasonal pattern. The only inexplicable change was in furniture, radio, TV and household appliances category (drop from 3.8% y/y to 17.9% y/y in May), where it is hard to assess whether it is a one-off or trend flattening (which could impose negative consequences for private consumption, as durable goods sales may be treated as an important leading indicator in this matter). Traditionally we calculated core retail sales growth rate (excluding food and energy sales or auto sales), which confirms upward trend. We expect 10-14% level of retail sales growth in forthcoming months, however growing prices are risk factor for the forecast.

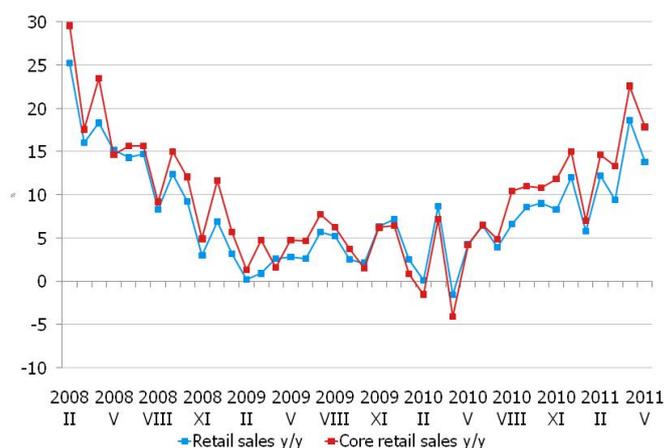
Retail sales YoY



Core inflation rate excluding food and energy prices reached in May 2.4% y/y after 2.1% y/y in previous month. However, this core inflation measure was the lowest of all presented: the strongest increase was achieved by core inflation excluding administered prices (from 4.2% to 4.8%), 15% trimmed mean reached 4% (after 3.6% previously) and core inflation excluding most volatile items grew to 3.2% (2.9% in April). Still, it is not annual growth which should be taken into consideration but an increase on monthly basis: from 0.6% in core inflation excluding administered prices (same as headline) to 0.4% in other core inflation indices. Besides possibly distorting methodological changes (in clothing and footwear price calculations - upward shift was also noticed in other countries after the new HICP methodology introduction), part of this growth is a reflection of exogenous price increases spreading on other categories. However, the scenario of methodology changes does not survive the confrontation with deflators calculated on the basis of retail sales (headline deflator at 5.2% y/y, core at 2.8%y/y), where there was no methodological shift. Therefore, factors propelling core infla-

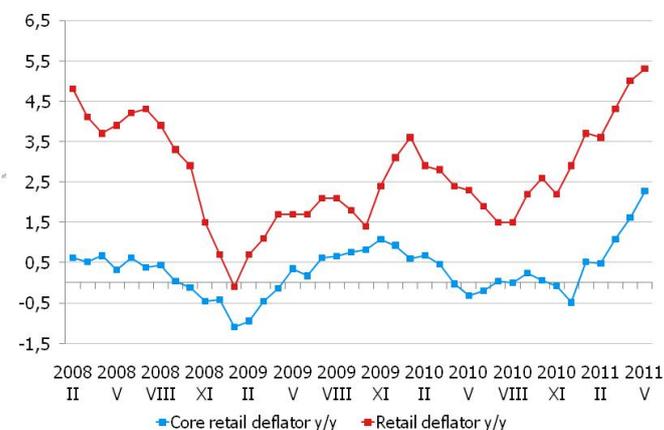
tion are mostly of endogenous nature: higher GDP and stable labor market. Should those no change, it also implies stabilization of core inflation on present, elevated levels. Additional support may come from increasing administered prices (tickets) and corporates transferring higher costs (due to higher energy prices - we would rather experience a structural shift, than an temporary "hump") on almost all consumer goods.

Retail sales



Market did not react on the data due to low liquidity and clear (by this time) MPC statements. Coming to real data, retail sales data suggest stronger private consumption increase (higher than 4%), which combined with stronger increase in investment (especially after high construction growth) may imply that GDP growth in Q2 will only slightly differ from the one recorded in Q1. We do not expect interest rate hike in July, as MPC seems to have adopted "wait-and-see" approach for now (lower both inflation and growth projections which will be presented in July and will be supportive for such a scenario). However, we think that persistent high core inflation may be the trigger for MPC to return to monetary tightening in the Autumn.

Core retail sales deflator (excl food and fuels), and headline sales deflator



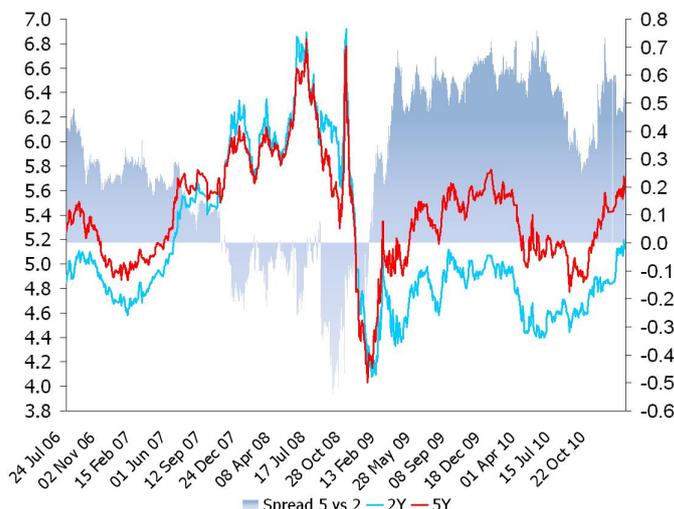
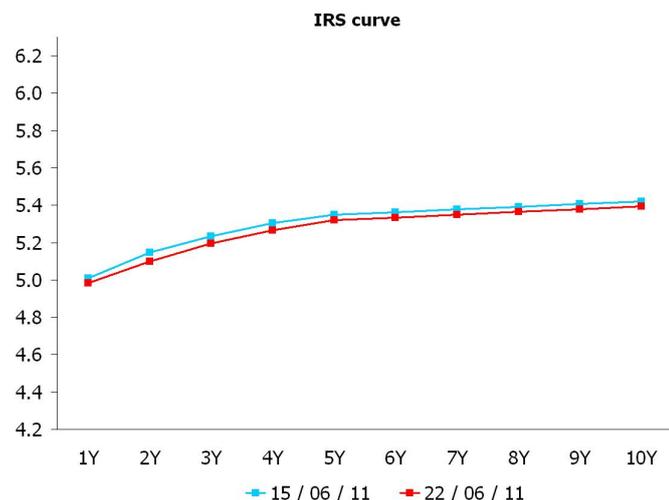
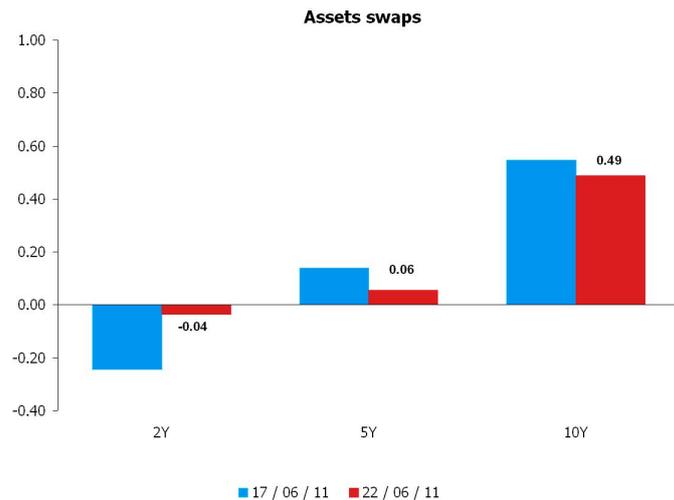
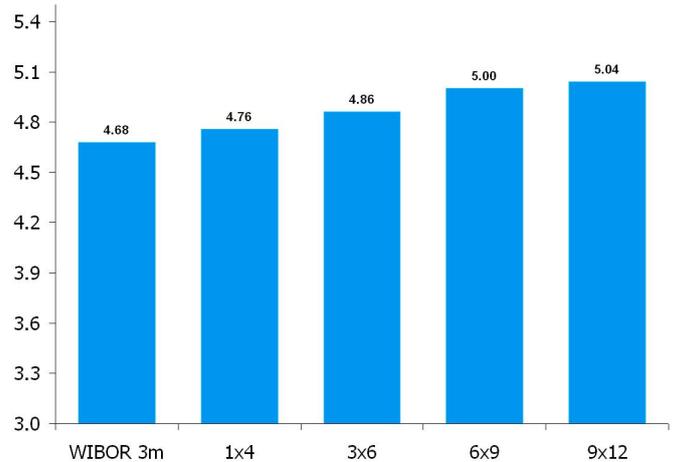


### Fixed income

#### Long weekend

The market remained quite unchanged last week. Without any important economic data (retail sales data slightly above market consensus) and spectacular events it traded within a narrow range with a limited turnover. The expected longer Corpus Christi holiday weekend in Poland did not help towards more activity either.

It seems quite unlikely we could see more busy market ahead of MPC meeting especially when the front end of a curve looks like well priced and its around 50-50 chance we could see the further tightening in July. Anyway, though we cannot believe the MPC might decide to raise interest rate for the 4th consecutive we cannot exclude some paying interest in 1x4s and 3x6s FRA contracts on a chance. Moreover, after the last profit taking action on a flatteners in 2y5y (traded from 16 points lows to 24 points highs) we could expect further flattening to around +10 points target.



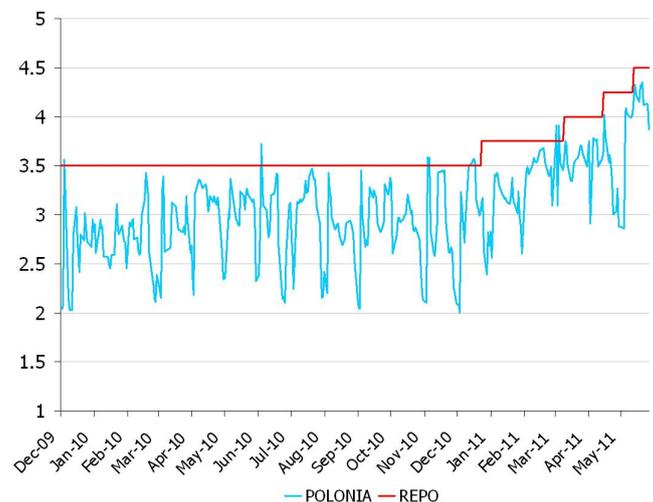
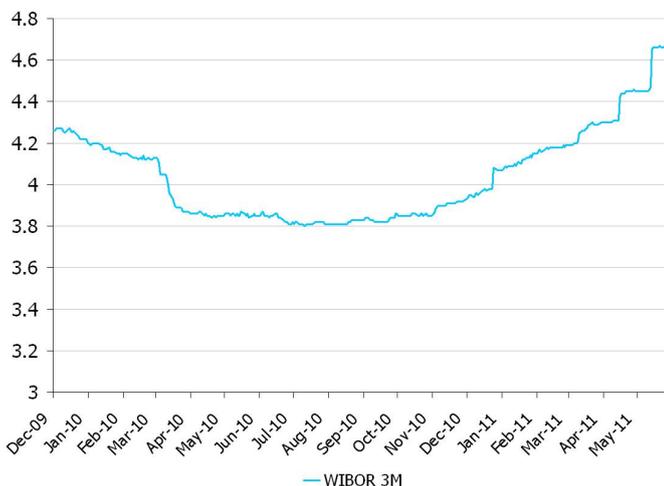
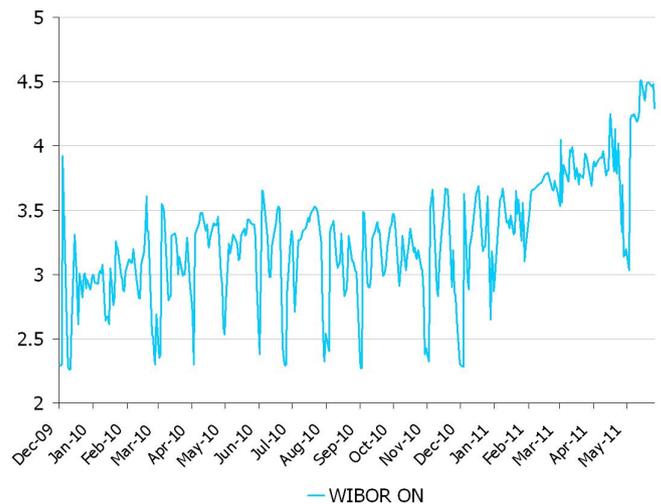
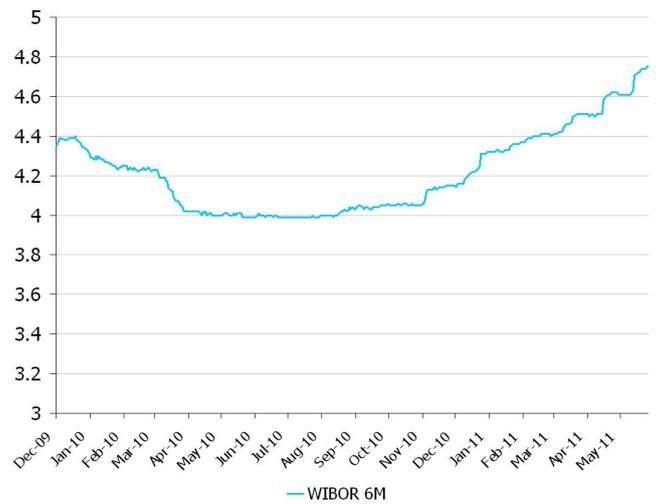


### Money market

#### Record OMO. Lower supply of Treasury papers in coming weeks

New record during the OMO auction. The market bought pln 104.7 billion of money bills, and still was left with a surplus of nearly 5 billion. Therefore, the shortest rates went down and ON deposits were traded much below the main rate. We think that the end of the reserve will be cheap despite the additional OMO which is planned for Wednesday.

T-bills very expensive supported by announced lack of auctions coming weeks or(and) highly decreased supply of any Treasury papers. Right now T-bills are not much better then money bills in a yield terms.





### Forex

**Zloty weaker.** PLN remains a hostage of the global sentiment. Peripheral countries crisis, Greece headlines are dragging and pushing EUR/PLN, but without the real conviction of the direction. The only noticeable thing is the absence of the Ministry's of Finance selling hard currencies on the market. Technically the EUR/PLN is now closer to the resistance area, namely 4,02 (4,0189 this week high) and more important 4,05. 3,95/3,90 area forms the strong support, and we think one should play this range with selling the tops in bigger amounts then buying the lows as the problems (so far, the C/A revision is due to be published next Wednesday)) are not of a Polish origin, and should not have a lasting effect on our currency.

**Vols slightly higher.** The volatility curves on xxx/PLN were slightly better bid this week due to global turmoil and higher levels on majors currency pairs. The USD/PLN Vega and/ risk reversals were especially in demand as markets mimics the move on EUR/USD vols. Generally we still have a historically low levels of Vols , but on the other hand the realized volatility is "at its best" on the breakeven with the implied.

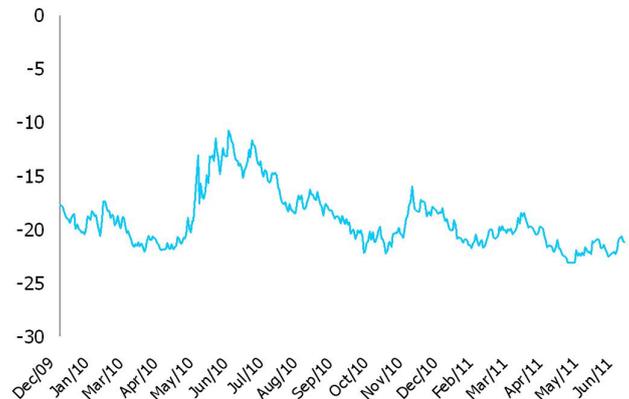
### Short-term forecasts

Main supports and resistances  
 EUR/PLN: 3.9500 / 4.0500  
 USD/PLN: 2.7000 / 2.8500

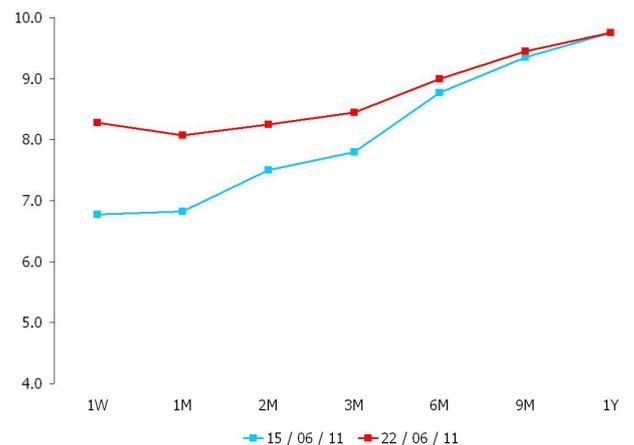
**Spot.** We would like to buy PLN on the picks which are generated by general "risk off" sentiment, ideally 4,0450 sell with 4,0750 s/l and 3,97 p/t. We would sell PLN if the reason would be based in Poland, like potentially bad C/A publication etc.

**Derivatives.** We still like our mid/longer term long Vega in EUR/PLN , and we still square gamma. We would have to see realized volatility numbers really above the implied ones to make us buy gamma and double the current Vega position. And we doubt it will happen anywhere soon . . . .

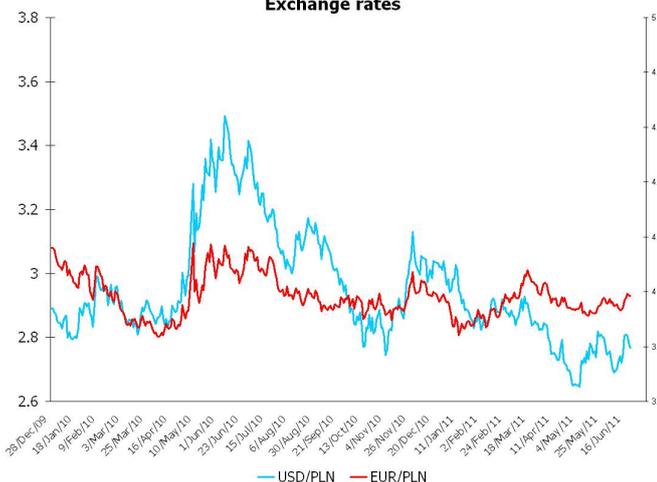
Bias from the old parity (%)



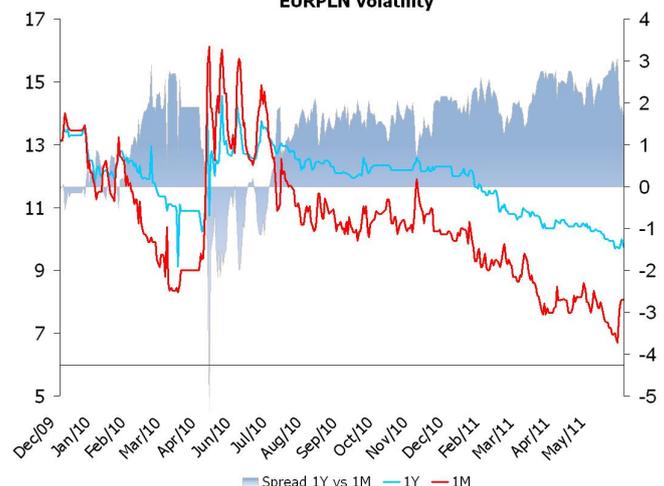
EUR/PLN volatility curve



Exchange rates



EURPLN volatility





## Market prices update

Money market rates (mid close)							FRA rates (mid close)					
Date	FXSW 3M	WIBOR 3M	FXSW 6M	WIBOR 6M	FXSW 1Y	WIBOR 1Y	1x4	3x6	6x9	9x12	12x15	6x12
6/16/2011	4.55	4.66	4.50	4.62	4.64	4.74	4.72	4.83	5.00	5.04	5.10	5.06
6/17/2011	4.59	4.67	4.65	4.63	4.75	6.59	4.73	4.88	5.04	5.09	5.14	5.10
6/20/2011	4.55	4.66	4.69	6.49	4.75	4.75	4.77	4.88	5.05	5.12	5.16	5.11
6/21/2011	4.58	4.66	4.65	4.64	4.52	4.75	4.73	4.87	5.01	5.06	5.10	5.11
6/22/2011	4.58	4.67	4.65	4.64	4.54	4.76	4.77	4.88	5.05	5.08	5.16	5.11

Last primary market rates							
Paper	Au. date	Maturity	Avg. price	Avg. yield	Supply	Demand	Sold
52W TB	1/31/2011	1/31/2012	95.84	4.350	2000	2968	1961
OK0113	4/13/2011	1/26/2013	89.16	5.163	5500	7385	4758
PS0416	1/5/2011	4/25/2016	97.08	5.642	6500	2795	1140
DS1020	1/12/2011	4/25/2019	93.02	6.210	2250	4252	2250

Fixed income market rates (closing mid-market levels)								
Date	1Y WIBOR	1Y T-bill	2Y IRS	OK0113	5Y IRS	PS0416	10Y IRS	DS1019
6/16/2011	4.740	4.620	5.155	4.928	5.365	5.501	5.435	5.917
6/17/2011	6.590	4.620	5.122	4.879	5.361	5.501	5.426	5.973
6/20/2011	4.750	4.620	5.101	4.941	5.340	5.492	5.405	5.917
6/21/2011	4.760	4.630	5.090	4.890	5.305	5.380	5.371	5.867
6/22/2011	4.760	4.650	5.100	5.064	5.320	5.376	5.395	5.883

EUR/PLN 0-delta stradle					25-delta RR		25-delta FLY	
Date	1M	3M	6M	1Y	1M	1Y	1M	1Y
6/16/2011	6.70	7.75	8.75	9.75	9.75	2.12	0.35	0.58
6/17/2011	7.70	8.40	9.13	9.70	9.70	2.32	0.45	1.03
6/20/2011	8.00	8.60	9.15	9.80	9.80	3.10	0.55	1.00
6/21/2011	8.08	8.55	9.13	10.00	10.00	2.37	0.28	0.38
6/22/2011	8.08	8.45	9.00	9.75	9.75	2.37	0.36	0.58

PLN Spot performance						
Date	EURPLN	USDPLN	CHFPLN	JPYPLN	HUFPLN	CZKPLN
6/16/2011	3.9678	2.8069	3.2969	3.4795	1.4807	0.1632
6/17/2011	3.9788	2.8077	3.3081	3.4912	1.4819	0.1646
6/20/2011	3.9930	2.8058	3.3149	3.4973	1.4832	0.1655
6/21/2011	3.9848	2.7776	3.2908	3.4658	1.4919	0.1653
6/22/2011	3.9846	2.7661	3.2883	3.4500	1.4918	0.1643

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