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Comment on the upcoming data and forecasts

On Tuesday and Wednesday MPC rate meeting will take place. We expect that interest rates will be left at the current level. Recent Q2 GDP data showed surprisingly quite robust growth and in the front of global slowdown perspective rate setters will probably change balance of risks towards more neutral attitude. However, aprart from minor adjustments, we do not expect and breathtaking changes in policy communication until full data set for Q3 is published.

Polish data to watch: September 5 to September 9

Publication	Date	Period	BRE	Consensus	Prior
MPC decision	Sep 7	Sep	4.5	4.5	4.5

Treasury bonds and bills auctions

Paper	Next auction	Last Offer	Last yield (%)	Prev auction
52-week T-Bills	10/3/2011	600	4.578	5/30/2011
2Y T-bond OK0114	10/12/2011	3000	4.469	8/10/2011
5Y T-bond PS0416	10/19/2011	3000	5.256	8/10/2011
10Y T-bond DS1021	10/19/2011	3000	5.803	7/21/2011
20Y T-bond WS0429	9/22/2011	250	6.246	1/12/2011

Macroeconomic forecasts

Wskaźnik	2008	2009	2010	2011 F	2012 F
GDP y/y (%)	4.8	1.7	3.8	3.8	3.2
CPI Inflation y/y (average %)	4.3	3.5	2.8	4.3	3.1
Current account (%GDP)	-5.3	-1.6	-4.5	-4.9	-4.3
Unemployment rate (end of period %)	9.5	11.9	12.3	11.9	11.5
Repo rate (end of period %)	5.00	3.5	3.5	4.5	4

	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3 F	2011 Q4 F
GDP y/y (%)	4.2	4.5	4.4	4.3	3.7	3.7
CPI Inflation y/y (average %)	2.6	2.9	3.7	4.2	4.2	4.2
Repo rate (end of period %)	3.5	3.5	4	4.5	4.5	4.5

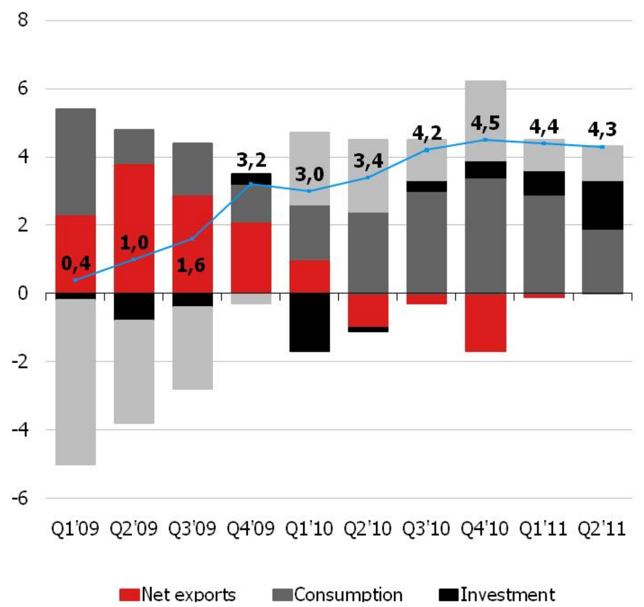
F - forecast

Economics

Positive surprise in Q2 GDP data

Q2 GDP growth rate amounted to 4.3% against 4.4% in first quarter. Forecast consensus was at the level of 4.2% YoY.

From demand side perspective, high growth rate mainly resulted from acceleration of fixed capital formation. Investment activity grew by 7.8% YoY against 6.0% YoY in Q1. The growth stems mainly from infrastructure projects (drawing from very high correlation with construction activity) and only marginally on slowly rebounding investment in machinery and equipment. Individual consumption expenditures were slightly disappointing. Under influence of price shocks, consumption growth decreased from 3.9% to 3.5% YoY (it seems strange given the record high real retail sales and further acceleration of market services but whatever - not once it happened before, though). The falling tendency will be more pronounced in the coming quarters. Q2 saw neutral contribution of net exports, inventories added 1 pp. to growth, public consumption expenditure decreased (growth pace at -2,3% YoY). The latter confirms that consolidation measures are being implemented sharply (all year target at +2.6 is likely to be undershoot).



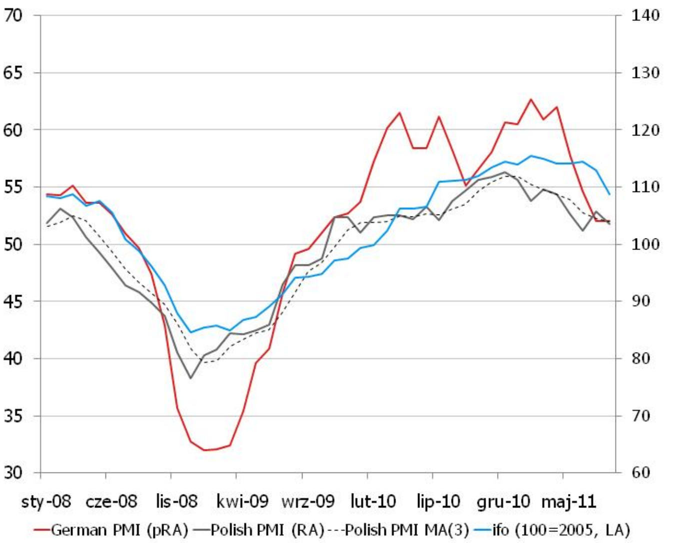
On the supply side, we saw explicitly slower growth in industry (deceleration from 7.8% to 4.1% YoY) next to stable pace of market services and growing, again linked with infrastructure projects, construction growth (17%).

We expect that GDP growth to decrease below 4% in the second half this year. The main reason behind this will be price shocks (influencing consumption) and negative influence of global slowdown on added value of industry and net exports contribution.

GDP data supported polish currency and, regardless of its historical value, influenced FRA contracts and triggered reduction of expectations for monetary easing. These expectations, however, can return - at least to some extent - with macroeconomic data for August (low industrial production growth, worsening situation on the labour market). We do not rather expect early breakthrough in discussion over eventual monetary easing by MPC. Rate setters will probably change balance of risks towards more neutral (global slowdown and lower inflation pressure in the future will be added to the set of risks). However, their current judgement will be - as usual - closely tied with optimistic, recent inflation projection and solid Q2 GDP data (please always remember the MPC can pick data in order to mainly support the dovish stance). Therefore we do not expect and breathtaking changes in policy communication until the full data set for Q3 is published.

Downward adjustment on Polish PMI, slowdown in euro zone

Polish PMI manufacturing index declined in line with our expectations to 51.8p. Production and new orders volume remained in growing trend, although in both cases they below this year's average. Third month in a row export orders deteriorated (even though PLN weakened) so that new orders growth was mainly driven by domestic bidders, which would support the thesis of relatively strong domestic growth component (infrastructure). Production growth rate declined to the lowest level since October 2009, similarly weaker appeared employment growth rate, which remained only slightly above critical level of 50p. Inflation assessments indicate weakening cost pressures to the lowest level since March 2010, but still inflation index is in line with its historical average. Simultaneously, final goods prices increased after low value in July.

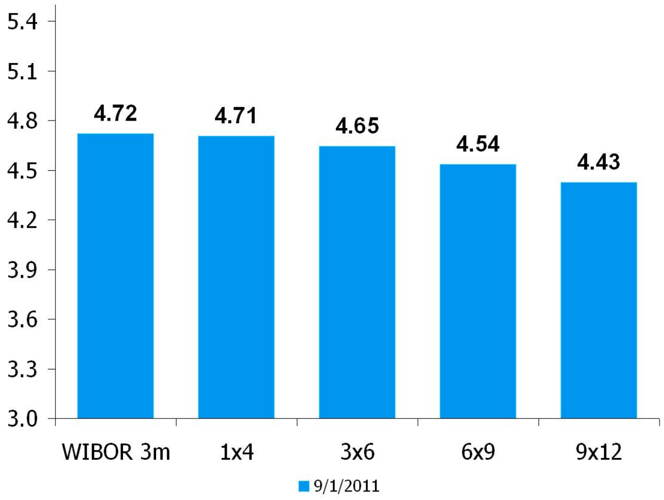


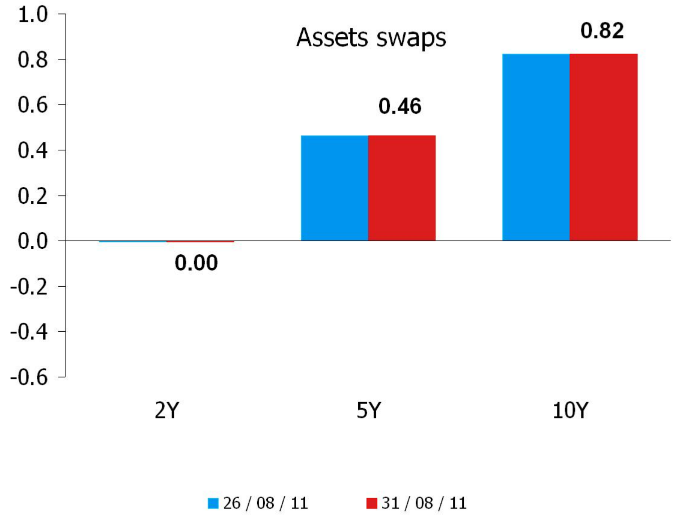
Undeniably Polish reading is in line with European PMI indexes - euro zone manufacturing PMI decreased in August to 49.0p. (below flash estimate). Regional indices imply significant deceleration of growth in countries that has not seen yet slow-down (eg. Germany). Many investment banks have significantly lowered next year GDP growth forecasts for Germany (e.g. Commerzbank lowered it by 0.5pp. to 1.5% y/y). Although Polish environment seems was quite strong in the second quarter (see the Polish GDP data) a looming slowdown in Germany will surely be reflected in Polish data in the quarters to come.

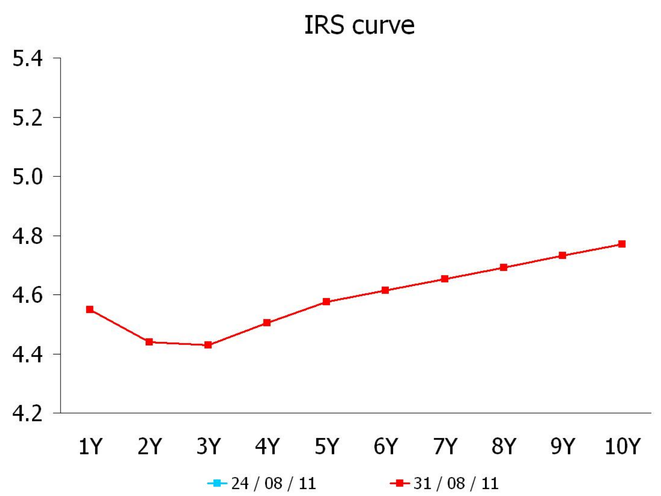
Fixed income

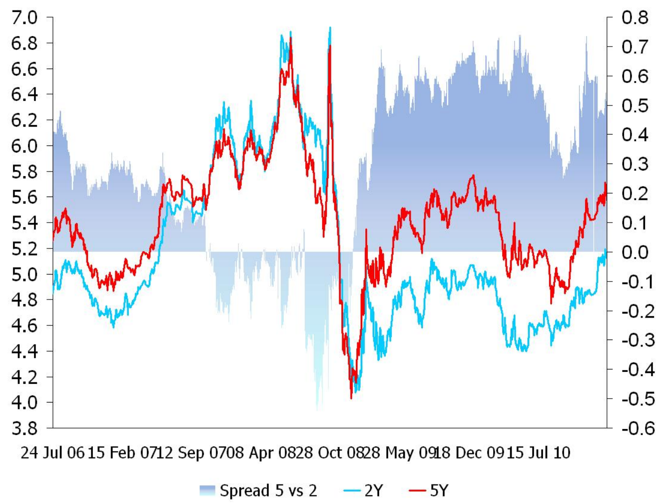
Consolidation

Following the recent period of increased volatility, the FI marekt has quieted down significantly. For most of the time rates fluctuated within a narrow, 5bp range amid low turnover. Overall it looked as a natural consolidation after recent moves, from where next move could begin. This week's set of news was definitely positive for rates. Inflation expectations fell to 4.2% from 4.7% previous month. Moreover, head of statistical office mentioned in an interview, that this month CPI could come out below 4%. That would mean inflation would be on a downside path from now on. If other data releases would show furhter signs of economic slowdown, rate cut expectations will get definitely reinforced, also MPC's rhetorics would turn to more dovish. We don't expect any spectacular outcome from next week's policy meeting though, as that is probably to early to fully analyse current situation and to draw serious conclusions, nevertheless chances for news that could push rates higher again seem close to zero. We're still positive on the rates up to 5y sector. We also still see value in 5y bonds, as these are still quite cheap in asset-swap terms, and have potential to outperform rest of the curve.







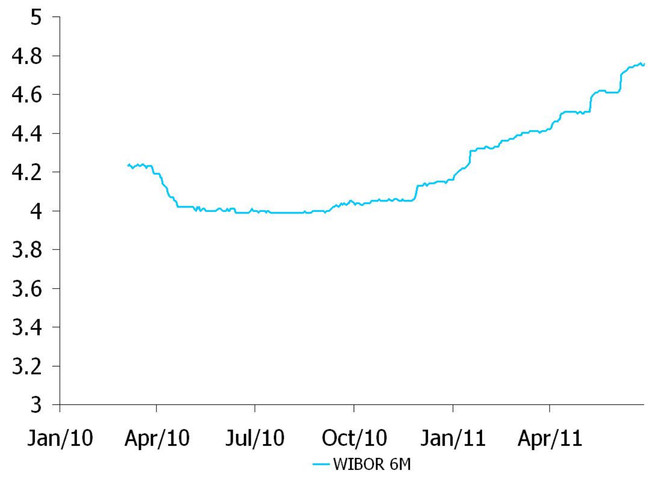


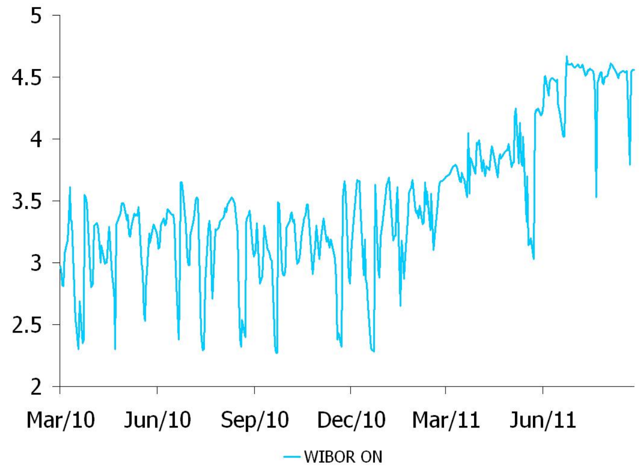
Money market

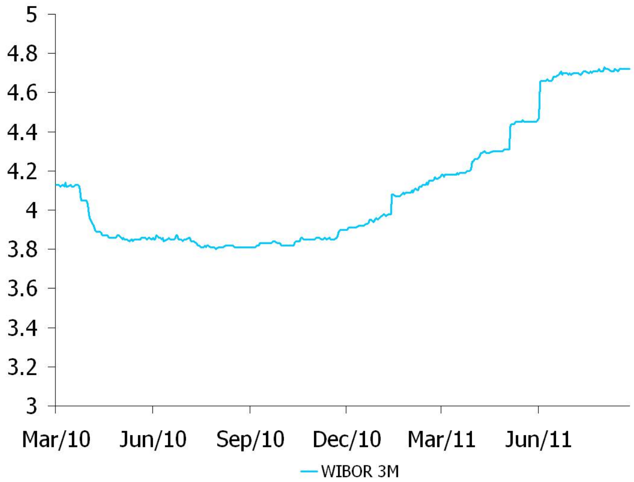
Cost of carry back up

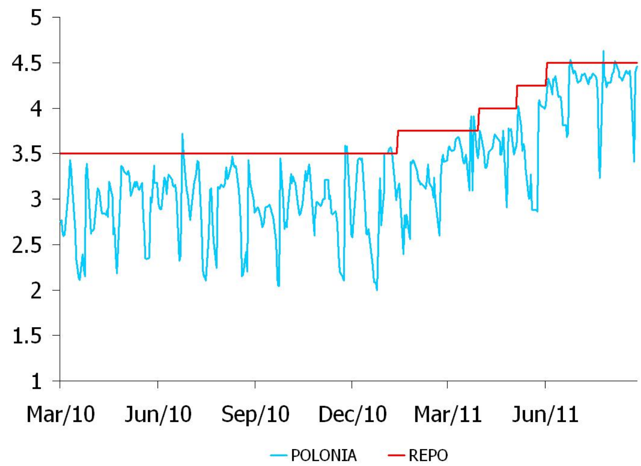
Cost of carry back to the levels nearby the main market rate on the last day of the reserve. It will stay this way for the coming week and probably for the majority of this month. Market got used to this situation and in August no additional OMO was necessary to stabilise the polonia index, except of the one on the last day of reserve. In September however, the central bank may be forced to sterilise the market not only on Fridays.

Better than expected GDP figure (4.3 vs 4.2 expected) put off a bit fast monetary easing expectations and the curve made up a few bps up. Nonetheless, global factors came into play again affecting the Polish yield curves and getting them back lower. We still think that the easing is most probable at the beginning of the next year.





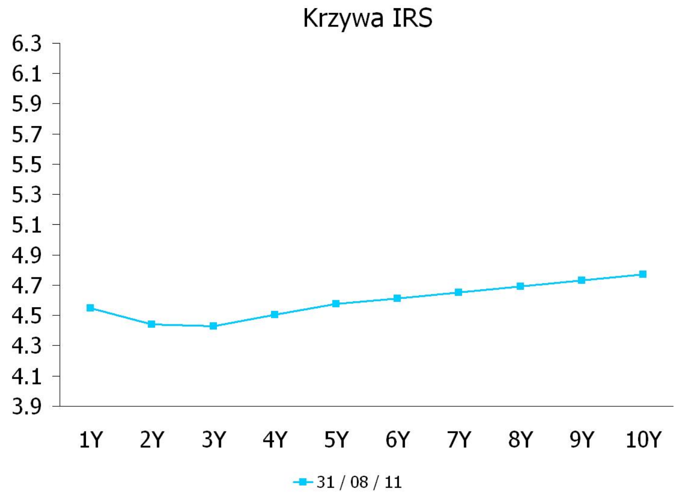




Forex

Zloty still in the range, consolidating The downside support at 4.1250 was tested only to provoke the run to 4.1750 resistance. We are still a hostages to the global sentiment, and this provides to be really tricky. Once we are reading the very convincing reports how good or bad it is, the next day provides the opposite! The bigger picture indicates that while we are above the 4.10/4.1250 support zone and we still cannot exclude next attempt to break 4.23/4.25 resistance zone.

Theta bills forced same Vega After a few calmer days, the Theta bills forced same Vega selling, the 3m were sold 12.1, and 1 month given at 11.60. But it was half hearted, and with the first signs of climate deterioration the bids are now creeping back to the market. The selloff was also visible in risk reversals and currency spread (the 3m rr 25d was given at 4.3 and 1m at 3.5) the currency spread was lower to around 7.25%. It is also now being reversed again...

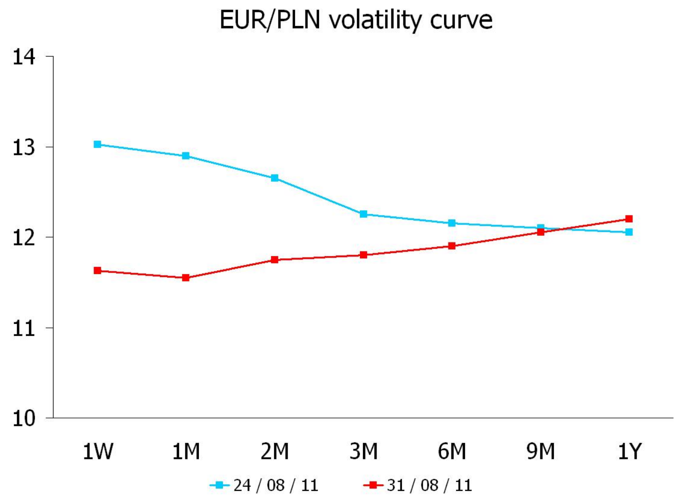


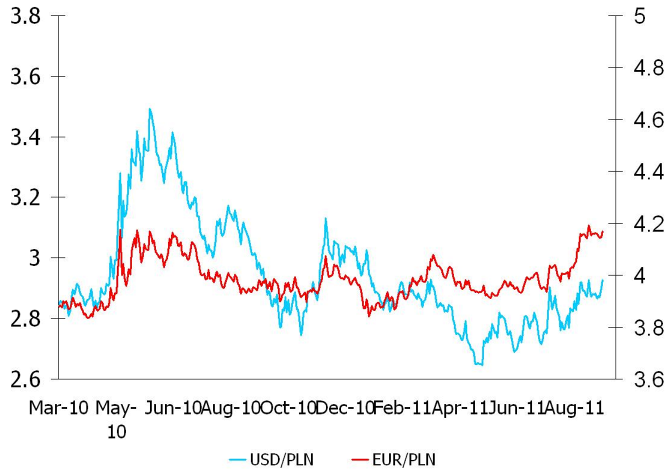
Short-term forecasts

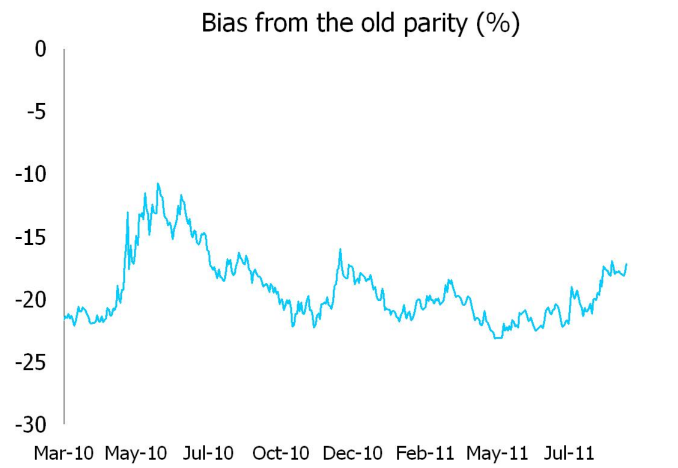
Main supports and resisances
EUR/PLN: 4.1300 / 4.2500
USD/PLN: 2.8500 / 3.0000

Spot. View unchanged from the last week. Play a range, with a skew to the upside (złoty downside). The technical picture shows that while 4.10/4.1250 support zone holds we are prone to test the upper side namely 4.20 on the road to 4.23/4.25 stronger resistance zone.

Derivatives. Unchanged from the last weeks. We have bought back some of the long Vega position at around 12.50 %. And to be honest we have a deya vu of the 2008 (one may call it experience, others the old uncured trauma). Whatever it is, being Long Vega and Gamma, you at least know what is your possible Loss (Theta, even if it may be very high). Being short Vega, Gamma, Vanna or Volga is a big unknown. Overall we have better bids for the above mentioned greeks...







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
8/25/2011	4.61	4.72	4.75	4.75	4.78	4.78	4.67	4.62	4.46	4.34	4.16	4.58
8/26/2011	4.60	4.72	4.75	4.75	4.78	6.59	4.67	4.67	4.53	4.38	4.24	4.62
8/29/2011	4.60	4.72	4.74	6.49	4.78	4.77	4.69	4.68	4.56	4.44	4.32	4.61
8/30/2011	4.60	4.72	4.72	4.74	4.76	4.78	4.69	4.66	4.52	4.39	4.31	4.63
8/31/2011	4.61	4.72	4.75	4.74	4.78	4.78	4.71	4.67	4.52	4.39	4.32	4.65

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	4.35	2000	2968	1961
OK0113	4/13/2011	1/26/2013	89.16	5.16	5500	7385	4758
PS0416	1/5/2011	4/25/2016	97.08	5.64	6500	2795	1140
DS1020	1/12/2011	4/25/2019	93.02	6.21	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
8/25/2011	4.780	4.570	4.585	4.523	4.715	5.176	4.905	5.595
8/26/2011	6.590	4.530	4.527	4.500	4.647	5.089	4.837	5.753
8/29/2011	4.770	4.530	4.527	4.500	4.647	5.089	4.837	5.753
8/30/2011	4.780	4.570	4.527	4.500	4.647	5.089	4.837	5.753
8/31/2011	4.780	4.570	4.527	4.500	4.647	5.089	4.837	5.753

EUR/PLN 0-delta stradle					25-delta RR		25-delta FLY	
Date	1M	3M	6M	1Y	1M	1Y	1M	1Y
8/25/2011	12.90	12.50	12.35	12.35	12.35	4.48	0.59	0.75
8/26/2011	12.90	12.50	12.35	12.35	12.35	4.48	0.59	0.75
8/29/2011	12.80	12.50	12.35	12.35	12.35	4.45	0.61	0.76
8/30/2011	12.75	12.50	12.40	12.35	12.35	4.38	0.59	0.76
8/31/2011	11.55	11.80	11.90	12.20	12.20	4.20	0.60	0.79

PLN Spot performance						
Date	EURPLN	USDPLN	CHFPLN	JPYPLN	HUFPLN	CZKPLN
8/25/2011	4.1592	2.8773	3.6350	3.7364	1.5312	0.1716
8/26/2011	4.1629	2.8836	3.6426	3.7468	1.5270	0.1718
8/29/2011	4.1607	2.8658	3.5265	3.7408	1.5265	0.1727
8/30/2011	4.1498	2.8755	3.5298	3.7482	1.5268	0.1723
8/31/2011	4.1445	2.8695	3.5373	3.7447	1.5279	0.1719

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