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**Comment on the upcoming data and forecasts**

On Monday industrial production and PPI data will be published. We expect weak industrial production data caused by weak car production. The tendency stay unchanged. In case of PPI we expect rise mainly caused by weaker polish zloty. On the other side in favour of lower PPI lower copper and oil prices affect. On Tuesday NBP will announce net inflation, which we forecasted to stay at steady level. But according to last CPI publication net inflation should rise to 2.7%, mainly caused by surge in communication prices. On Friday retail sales and unemployment rate will be published. We expect decrease in retail sales because of coming slowdown in polish economy. Also base effect negatively influence on retail sales (motor sales). According to our forecasts unemployment rate will slightly fall against previous month.

**Polish data to watch: September 12 to September 16**

Publication	Date	Period	BRE	Consensus	Prior
Industrial production YoY (%)	19.02	Aug	2.0	3.8	1.8
PPI YoY (%)	19.02	Aug	6.9	6.4	6.9
Net inflation YoY (%)	20.02	Aug	2.4	2.4	2.4
Retail sales YoY (%)	23.09	Aug	6.1	8.9	8.2
Unemployment rate (%)	23.09	Aug	11.6	11.6	11.7

**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

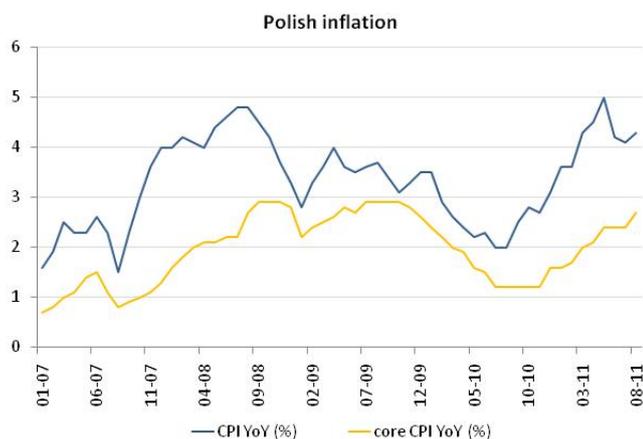
	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3 F	2011 Q4 F
GDP y/y (%)	4.2	4.5	4.4	4.3	3.7	3.7
CPI Inflation y/y (average %)	2.6	2.9	3.7	4.2	4.2	4.2
Repo rate (end of period %)	3.5	3.5	4	4.5	4.5	4.5

F - forecast

## Economics

### CPI inflation surprised to the upside

CPI annual inflation rose in August to 4.3% from 4.1% in previous month. High level of inflation primarily results from a surprising surge in prices of communication (+4.8% MoM) connected with expiring promotions earlier introduced to the market by mobile operators. Thereby high headline was accompanied by strong rise in core inflation from 2.4% in July to 2.7% in August. In line with our expectations we observe further decrease in food prices (-1.6% MoM) and clothes as well as footwear (correspondingly -2.4% and -3.9%) in connection with after-season sales. Fuel prices increased by 1.3% MoM (correction of surprising falls within recent months). Higher prices were sustained in housing categories (0.4% because of further introducing gas uplifts); slight growth also observed in other basic categories: health (0.2%), restaurants and hotels (0.1%).



We expect that during forthcoming months high inflation levels will remain unchanged in regard of lack of deflation factors, zloty depreciation, which influence imported goods prices and further uplifts of controlled prices (energy, communications). So far there is no signs of decreasing inflation pressure in wider range of categories. Thereby we consider that the beginning of betting on interest rates cuts is too early. Risk of higher volatility of Polish zloty is up to date all the time (especially in front of stressed outer situation) and is perceived as tight constraint for MPC. We support our view, that up to the end of this year the interest rates will remain at steady level. MPC will watch balance of risks for growth on the one side - slowdown in economy will be proved by significantly lagged hard data and balance of risks for inflation on the other side - key core inflation, new NBP projection (which will be published on November) and EBC stance (see dovish conference and lower forecasts of growth pace for euro area). But worse real data against watched inflation levels will not suffice to ease monetary policy. Breakeven point at the end of the year, when weaker growth pace and decreasing inflation (however mainly favored by statistical base effect) will open the window for MPC in to cut interest rates (comfortable situation for MPC, previously heightened interest rates create now space for future interventions).

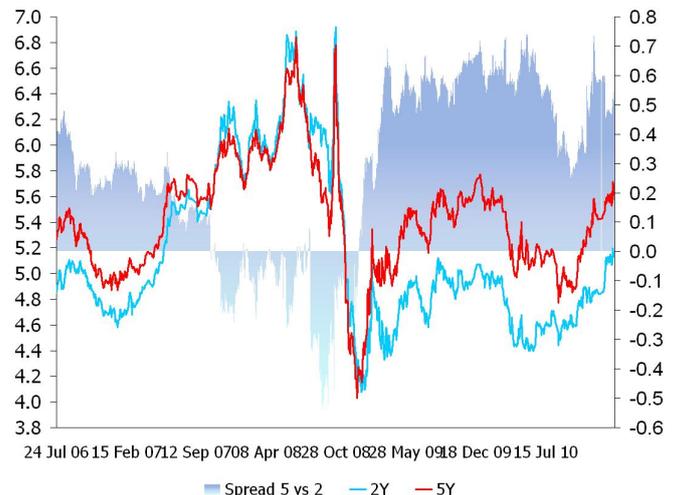
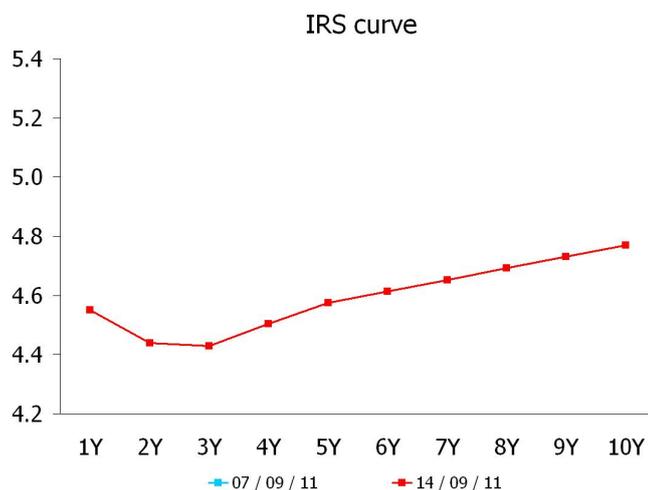
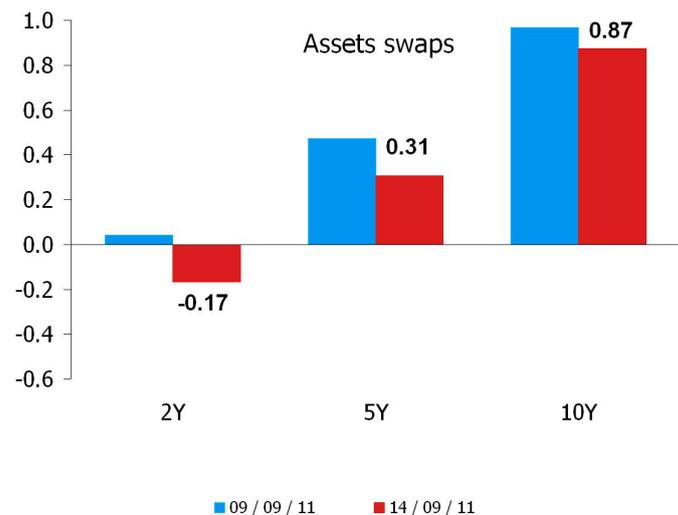
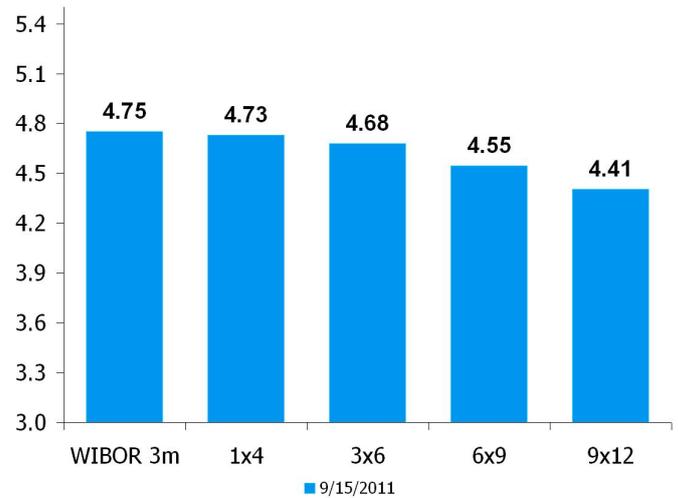


### Fixed income

#### Going steeper...

The massive sell-off of October- maturing 10Y treasury bonds pushed the yield curve up by another 40bp topping at 5.06 in 10Y swap and 4.87 in 5Y respectively. As we expected, the yield curve went steeper reaching 40 points in 2y10y spread Thursday morning.

The August CPI figure at 4.3% seemed to come slightly above the market consensus that might have limit the speculations of possible interest rate cuts by the end of this year. Though the market still trades November and December FRA contracts few points below the current Wibor rate, the latest comments from MPC members might reassure the market should not expect any monetary policy action till the end of the year. On the other hand we believe the global crisis would adversely affect the pol- ish GDP sooner or later and the CPI would be finally heading the MPC target from the very beginning of 2012 that might very likely result in monetary policy easing in the first half of the next year. Taking into consideration the general global mood combined with the coming general election in Poland the further yield curve steepening should be expected especially if the global risk aversion persisted.

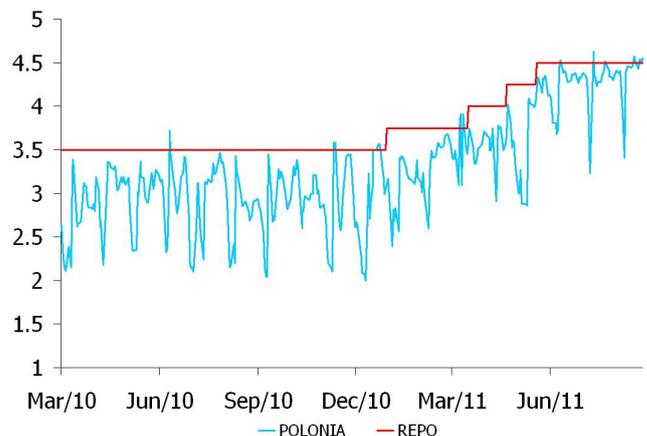
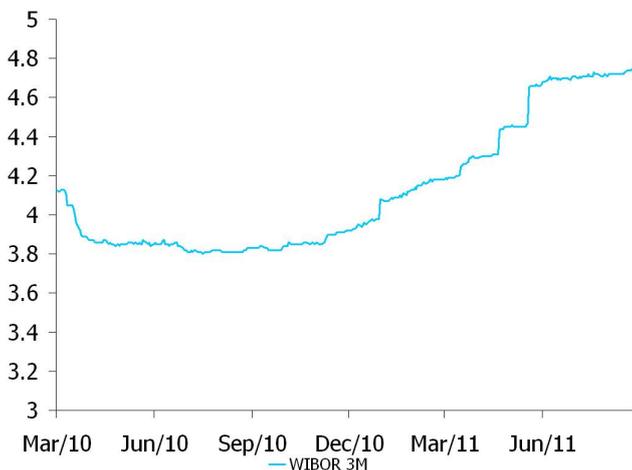
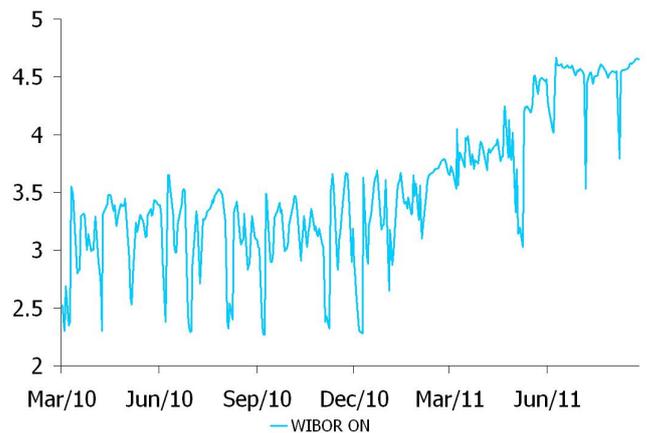
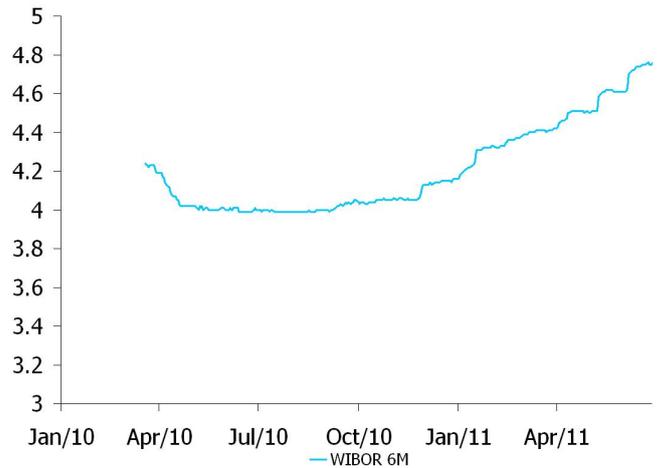




### Money market

#### Carry should release next week

High cost of carry for the whole week and the release after today's OMO operation. The market bought 90 out of 95 billion pln money bills, and the shortest rates dropper 30-40 bps. The carry should remain nearby 4% for the next week, unless additional OMO will be held. Higher then expected CPI figure (4.3vs4.1%) plus weakening PLN made the longer rates go up, however better global sentiment after ECB and FED's willingness to provide extra USD liquidity announcement, stopped this movement. Ahead we should have a few probably bullish figures that should be positive for the rates, but only short term. Political risk can come to play as we are approaching election day.





### Forex

**Zloty weaker** Although Poland has been Central Europe's most robust economy, but the zloty is more exposed to bad news about euro zone debt than other regional units, being the most liquid currency in the European Union's east wing. Last week the Polish zloty extended losses (over 3,5% loss during last week), hitting a 26-month low 4,4080 on Wednesday afternoon as investors fled from our markets and speculators played on weakness the Zloty. On late Thursday we have ECB/FED action has brought some relief causing risk rally and PLN in particular - 4.31 was traded (4.28 this week opening).

**Volatility higher** At the beginning of last week volatilities shot aggressively up (1M vol EURPLN jumped from 12,6% to 14,5%, 1Y vol from 12,7% to 13,75%) and remained at high levels. Generally vega and risk reversals from all tenors were in demand. Due to the euro's losses against the U.S. dollar the currency spread ( USD/PLN vs EUR/PLN) moved up to aprox, 9.50%.

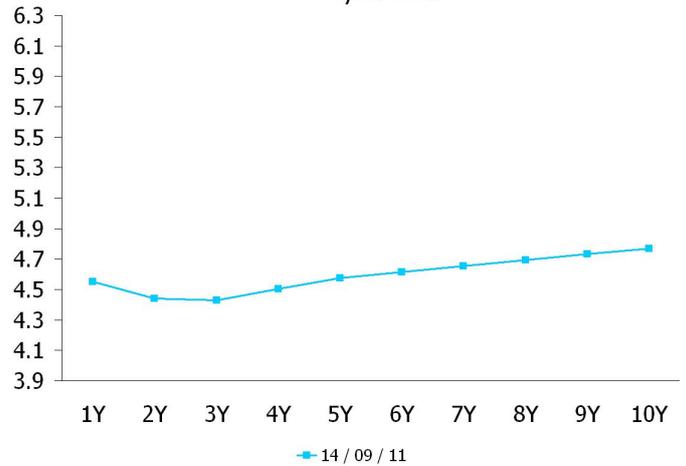
### Short-term forecasts

Main supports and resistances  
 EUR/PLN: 4.2000 / 4.4100  
 USD/PLN: 3.0700 / 3.2500

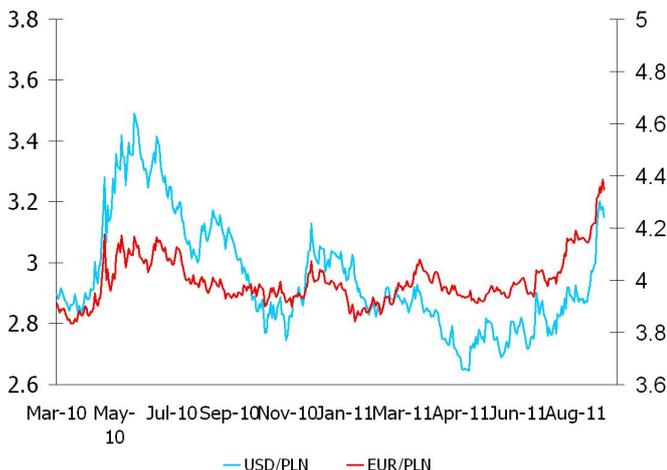
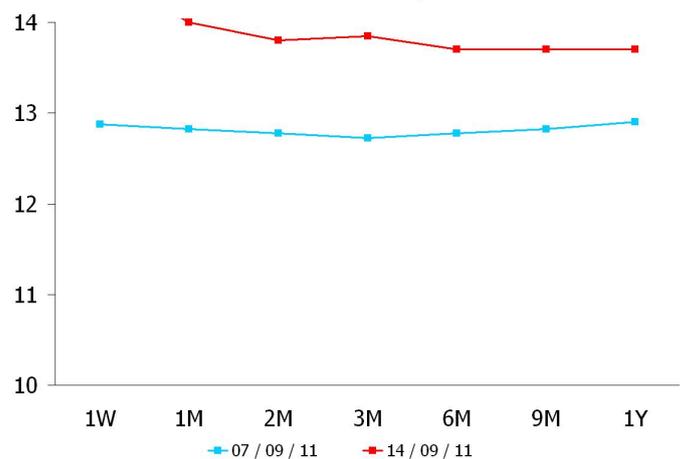
**Spot.** Main drivers/threats remain same scary as before but... but huge short PLN positioning combined with „liquidity action” have provoked P/T rally on PLN. Sell 4,.36 with 4.42 S/L and 4.20 P/T.

**Derivatives.** In such uncertain and volatile environment it might be sensible to have positive position in gamma(almost every intra day between the highest spot level and the lowest spot level is over 1,5% change). Last week the EUR/PLN and USD/PLN implied volatilities remained at very high levels. Looking at these levels it seems that the volatility curve has found its resistance. So we recommend selling some vega - but not for long, we suggest to rebuild long position when market calm down and the volatility be lower.

Krzywa IRS



EUR/PLN volatility curve



Bias from the old parity (%)





## 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
9/8/2011	4.63	4.73	4.73	4.75	4.77	4.78	4.70	4.64	4.45	4.29	4.13	4.49
9/9/2011	4.65	4.74	4.75	4.75	4.78	6.59	4.72	4.66	4.51	4.39	4.16	4.55
9/12/2011	4.63	4.74	4.38	6.49	4.80	4.78	4.69	4.63	4.46	4.32	4.13	4.53
9/13/2011	4.66	4.74	4.73	4.75	4.77	4.78	4.73	4.66	4.51	4.38	4.26	4.58
9/14/2011	4.70	4.75	4.74	4.75	4.78	4.79	4.70	4.66	4.53	4.39	4.34	4.59

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
9/8/2011	4.780	4.570	4.435	4.436	4.450	4.911	4.570	5.580
9/9/2011	6.590	4.530	4.530	4.573	4.595	5.067	4.720	5.688
9/12/2011	4.780	4.530	4.556	4.500	4.636	5.057	4.776	5.788
9/13/2011	4.780	4.570	4.600	4.511	4.690	5.017	4.850	5.779
9/14/2011	4.790	4.570	4.631	4.463	4.836	5.142	5.026	5.899

EUR/PLN 0-delta stradle					25-delta RR		25-delta FLY	
Date	1M	3M	6M	1Y	1M	1Y	1M	1Y
9/8/2011	14.13	13.53	13.33	13.10	13.10	4.58	0.60	0.75
9/9/2011	14.13	13.53	13.33	13.10	13.10	4.58	0.60	0.75
9/12/2011	14.35	14.00	13.75	13.55	13.55	4.58	0.60	0.75
9/13/2011	14.35	14.00	13.75	13.55	13.55	4.58	0.60	0.74
9/14/2011	14.00	13.85	13.70	13.70	13.70	4.58	0.60	0.75

PLN Spot performance						
Date	EURPLN	USDPLN	CHFPLN	JPYPLN	HUFPLN	CZKPLN
9/8/2011	4.2187	2.9984	3.4699	3.8759	1.5299	0.1725
9/9/2011	4.3139	3.1148	3.5539	4.0142	1.5458	0.1764
9/12/2011	4.3212	3.1781	3.5846	4.1353	1.5301	0.1767
9/13/2011	4.3595	3.2035	3.6221	4.1592	1.5314	0.1775
9/14/2011	4.3346	3.1737	3.6005	4.1280	1.5114	0.1764

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