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Comment on the upcoming data and forecasts

On Monday NBP will publish current account data. We estimate a slight deterioration of current account deficit. Quite good durable goods production speaks in favor of exports (at least with relation to seasonal pattern), whereas weak retail sales rather prove weaker imports. On Tuesday NBP M3 data will be released. Rise of money supply is continued which stems from strong momentum in household and corporate deposits. On Wednesday CPI will be published. We forecast lower CPI against December's reading. CPI is influenced mainly by consecutive increases of food prices (1.2% MoM) and fuel prices (1.7% MoM). At the same time core inflation is set to decrease from 3.3% to 3.1%. On Thursday employment and wages data will be published. We expect lower employment growth against last month's reading stemming from statistical and one-off factors. As for wages the change of growth pace is affected by the difference in working days (one day more on a month) and stable growth of wages in manufacturing sector. On Friday industrial output and PPI data will be published. Among the reasons for higher I/O growth there are better economic indicators, one working day more and additional 4-day holidays affect from last year. The reading of PPI is under influence of growing commodities prices, energy prices and rising producers' price expectations.

Polish data to watch: February 13 to February 17

Publication	Date	Period	BRE	Consensus	Prior
C/A (EUR mn)	13.02	Dec	-1027.0	-1192.0	-1034.0
M3 y/y (%)	14.02	Jan	13.7	12.9	12.4
CPI y/y (%)	15.02	Jan	4.4	4.3	4.6
Employment y/y (%)	16.02	Jan	0.9	1.2	2.3
Wages y/y (%)	16.02	Jan	5.3	4.9	4.4
Industrial output y/y (%)	17.02	Jan	10.5	9.2	7.7
PPI y/y (%)	17.02	Jan	8.5	8.1	8.1

Treasury bonds and bills auctions

Paper	Next auction	Last Offer	Last yield (%)	Prev auction
52 Week T-bills	2/27/2012	2000	4.510	1/30/2012
2Y T-bond OK0114	3/14/2012	5500	4.688	2/9/2012
5Y T-bond PS1016	3/14/2012	5500	5.020	2/9/2012
10Y T-bond DS1021	3/21/2012	3000	5.511	2/1/2012
20Y T-bond WS0429	2/16/2012	3600	5.931	1/12/2011

Macroeconomic forecasts

Wskaźnik	2008	2009	2010	2011	2012 F
GDP y/y (%)	5.1	1.6	3.8	4.3	2.8
CPI Inflation y/y (average %)	4.3	3.5	2.8	4.3	3.6
Current account (%GDP)	-5.3	-1.6	-4.5	-4.9	-3.6
Unemployment rate (end of period %)	9.5	12.1	12.4	12.5	13.6
Repo rate (end of period %)	5.0	3.5	3.5	4.5	4.0

	2011	2011	2011	2011	2012	2012
	Q1	Q2	Q3	Q4	Q1 F	Q2 F
GDP y/y (%)	4.5	4.3	4.2	4.2	3.6	3.1
CPI Inflation y/y (average %)	3.7	4.2	4.1	4.6	4.1	3.7
Repo rate (end of period %)	4.0	4.5	4.5	4.5	4.5	4.5

F - forecast

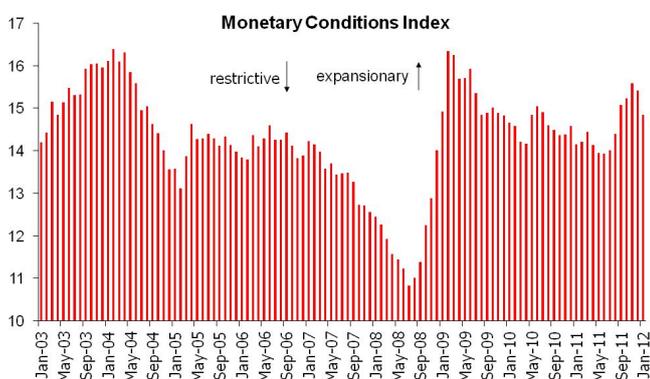


Economics

Interest rates unchanged. MPC's rhetoric a little bit more cautious.

In line with market expectations MPC left interest rates unchanged. The reference rate stays at 4.5%. The most important part of the statement concerning possible future policy actions stood as it was: the Council does not rule out the possibility of further monetary policy adjustments in the future, should the outlook for inflation returning to the target deteriorate. However, during the conference MPC members (Gilowska) stressed that the probability of hikes is greater than cuts. Alike in January, the statement indicates that the deterioration in business activity is lesser than expected and at the same time inflation stays high. As for the innovations in the MPC statement, zloty appreciation and importance of the upcoming inflation projection are mentioned. The latter is - in our opinion - expected to help to quantify the influence of recent zloty strengthening on inflation. As for the minor changes, the statement offers a little bit more optimistic diagnosis of the global economy against last month, mentions lower domestic consumption and growing administrated prices.

Although there is no accord about persistence of PLN appreciation among MPC members, this factor is gaining more and more importance in interest rate decision process. We think that willingness to monetary tightening somehow eased, and by conditioning the tightening on Q1 GDP data the MPC simply seeks excuses to stay on hold. The upcoming inflation projection is going to show moderately faster GDP growth (at least no negative surprise), but not higher inflation path as PLN appreciation is set to lower inflation by about 0.6-0.8 pp. The most probably scenario for interest rates is their stabilization at current levels for 2-3 forthcoming quarters. On the one hand publications from the real economy will not allow for significant rate cut expectations, strong exchange rate on the other mitigates the risk of interest rate hike. The situation may change on March or April, when CPI inflation data (influenced by strong zloty) will be released.





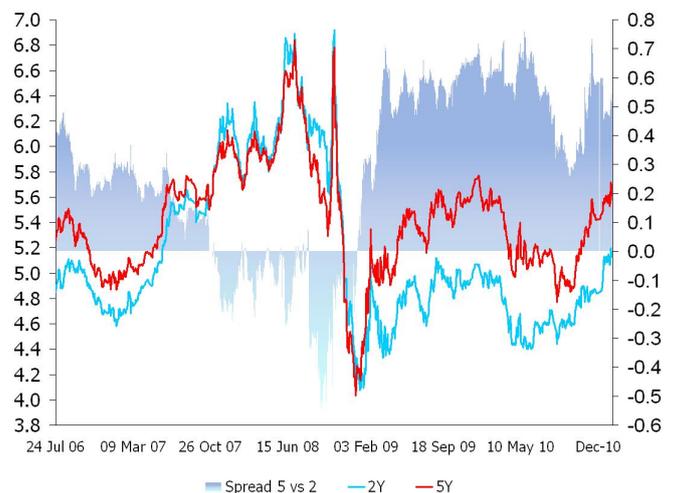
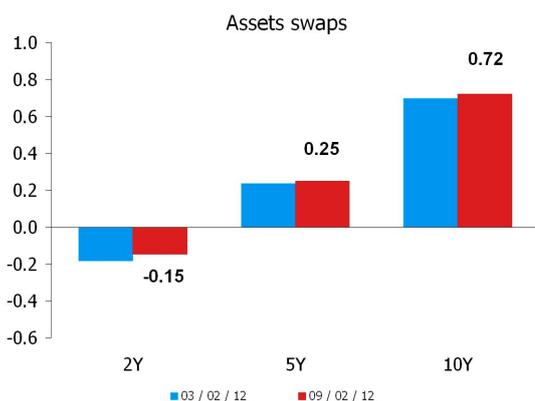
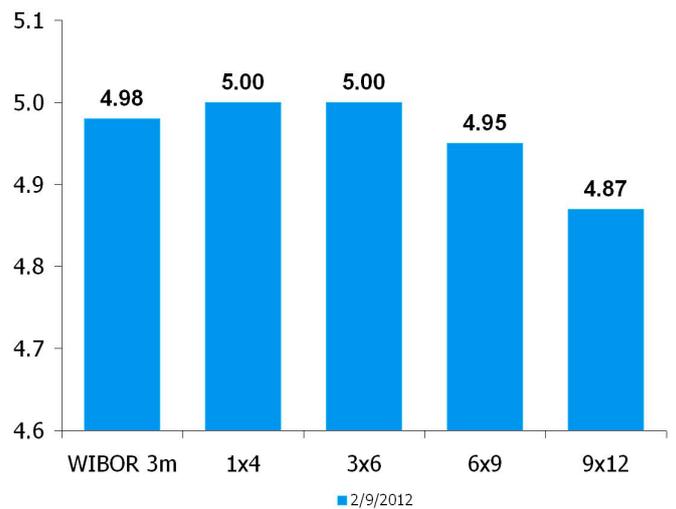
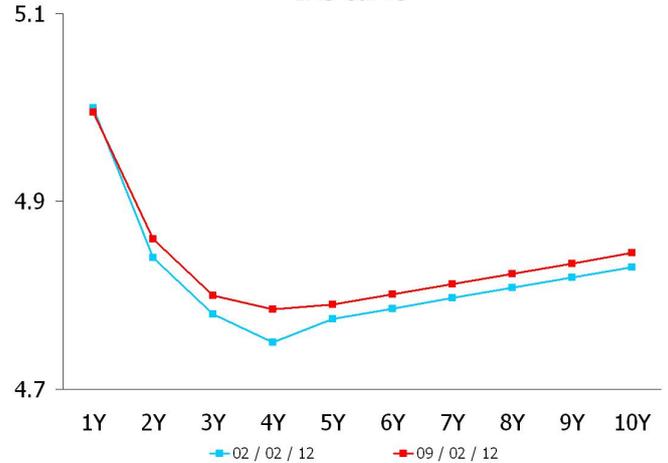
Fixed income

Time to buy

Consolidation is the name of the bond's game. Unwind of global sentiment has stopped further gains and we have seen some profit taking at these levels. Better supply side, strengthened by Thursdays 2y and 5y's bond auction, set resistance levels at 5.0% and 5.5% for respectively 5Y and 10Y bond benchmarks. Is it just temporary stop before next rally? We believe so and suggest buying here.

From the short end point of view, MPC Wednesday's press conference was key event for this week. Same hawkish tone and highlighted uncertainty of sustainability of PLN gains has made front curve well bid and 2Y IRS benchmark has been lifted up from 4.89 to 4.95 level. We see it as opportunity to build receive position as stonger Zloty will translate into lower CPI in coming readings. We also believe that there is some value in paying dips on 10Y rates as likely global recovery should bring some upside pressure on low rates.

IRS curve



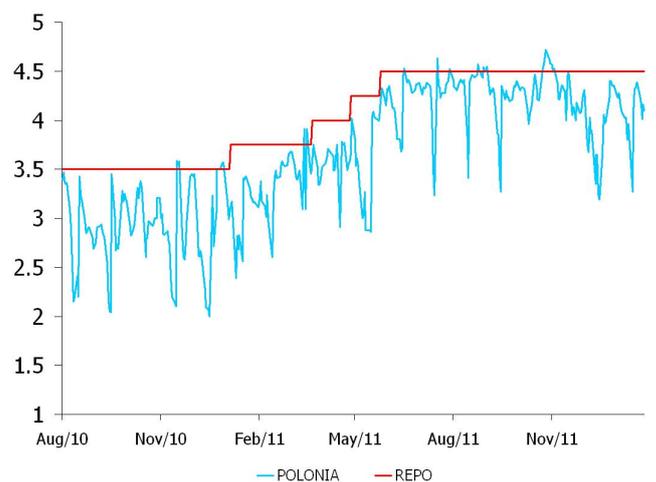
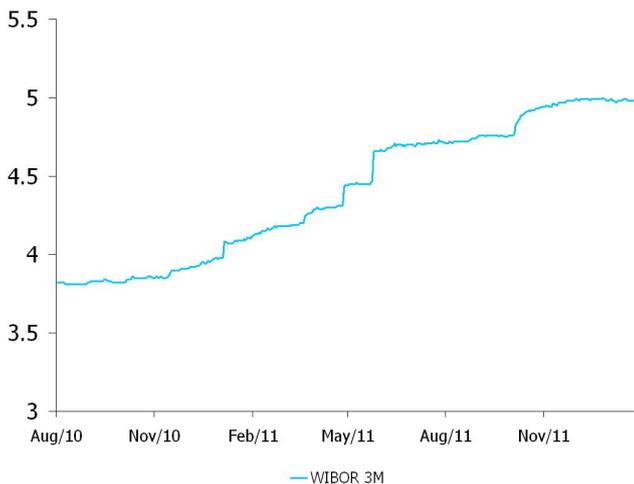
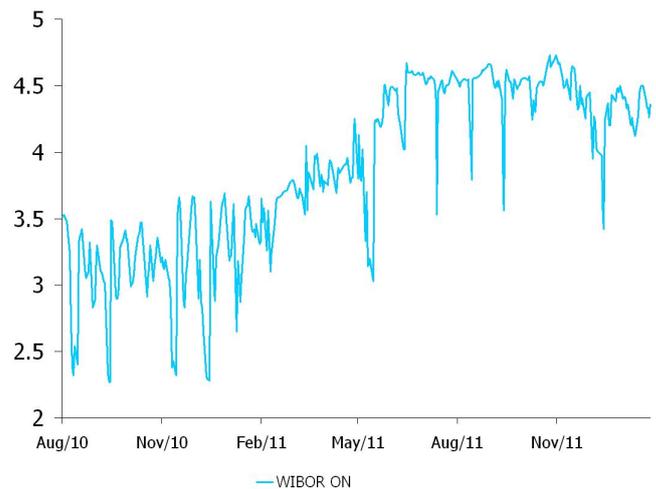
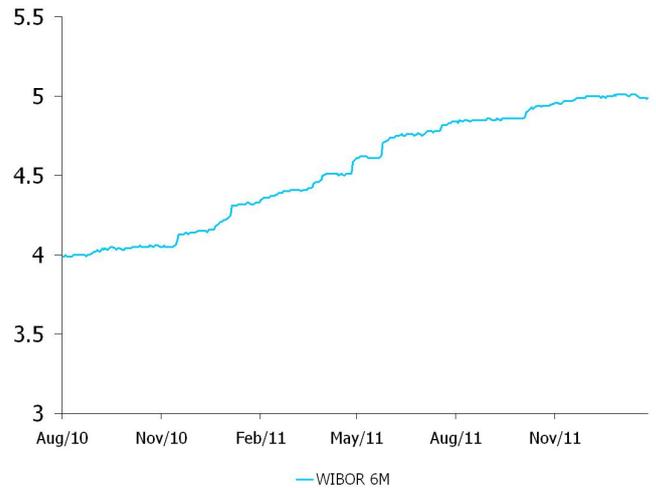


Money market

Two OMOs finally sterilized the market. Weaker zloty plus unsolved Greek problem supported bears.

Cost of carry up on two supporting OMOs. One additional on Wednesday (7 billion pln sold) and one regular, today (89 billion sold and long unseen reduction on the much higher demand of 93 billion pln). Since appetite for money bills is back it may mean an end of the prolonged periods of the structural cheapness, however we need couple more observations to draw valid conclusions.

No figures in the passing week and trading on the currency movement and the global outlook. Both bearish since zloty started to loose momentum and the Greek turmoil is still unsolved. The front end went up by 5 bps, and if it is not a short term correction, we can move higher by another 5-10 bps. We think that current sentiment may be sustained by the relatively high CPI and industrial production figures next week. Therefore our recommendation is: stay pay.





Forex

Zloty weaker Last week most of the market participants were aching for correction. Finally, they were at least partially satisfied. At the beginning of the week the PLN had benefited from risk-on sentiment, hitting on Wednesday a fresh five-month high 4.1495 vs EUR. Later in the week, mood got sourer as fresh Greek woes worked against „risk”. The test of EUR/PLN 4.15 proved to be short lived, market reversed and several times tried to breach important resistance at 4.2150.

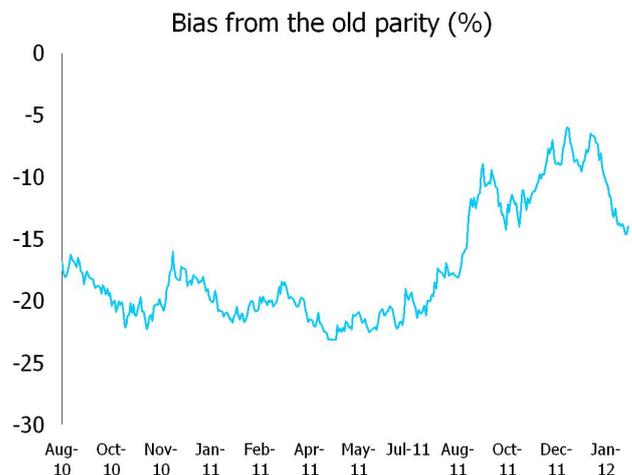
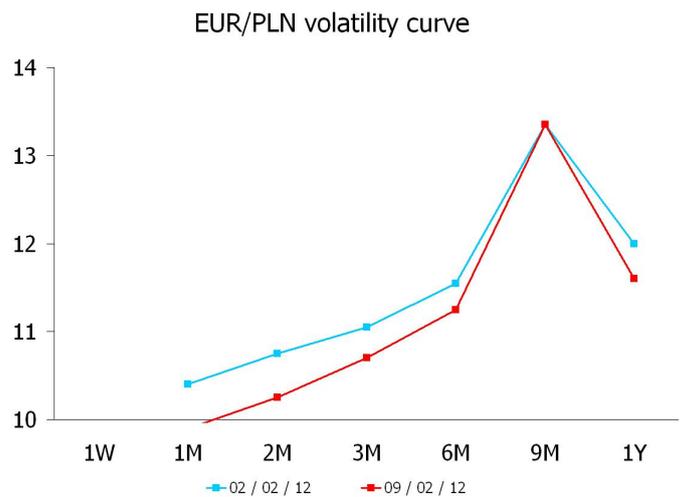
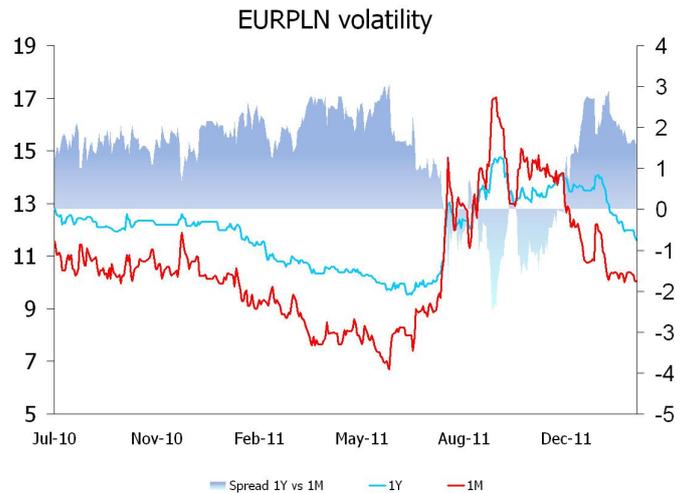
Vols unchanged Although the Zloty lost it's value, the implied volatility curve was stable / unchanged from last week. We even observed the selling pressure in the backend of the curve: the 6month were given 11.25%, the mid 1y is now 11.5% versus last week 11.9%. Because of probability of correction looming on the horizon, the short term risk reversal were bid on. 1M 25RR is now 1.25 versus 1.0 last week, 2M 25RR is now 2.4 versus 1.8 last week. The currency spread (difference between USD/PLN and EUR/PLN) consolidated around 8.0%.

Short-term forecasts.

Main supports and resistances
 EUR/PLN: 4.1400 / 4.2800
 USD/PLN: 3.0800 / 3.3000

Spot. In the short term till 4.2150 holds we still can hope for revisit of 4.1500 on the way to much stronger support at 4.12 /4.10 (with a 4.24 stop loss). On the bigger picture, the real resistance lies at 4.28/4.30 zone, and the breakout there, can be a trend changer.

Derivatives The volatility market is still consolidating after the huge sell off that took place this year. We have chosen to wait till the dust settles, with any fresh investment decision. Worth mentioning is the fact, that implied volatilities are still above the historic ones.





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
2/3/2012	4.61	4.98	4.64	6.49	4.81	6.59	4.98	4.98	4.92	4.85	4.73	4.96
2/6/2012	4.61	4.98	4.55	4.89	4.60	4.89	4.99	4.99	4.91	4.85	4.76	4.96
2/7/2012	4.58	4.98	4.98	4.89	4.63	4.89	4.99	4.98	4.92	4.87	4.70	4.95
2/8/2012	4.40	4.98	4.80	4.89	4.43	4.89	4.99	5.00	4.94	4.87	4.72	4.98
2/9/2012	4.77	4.98	4.78	4.88	4.77	4.89	5.00	5.00	4.95	4.87	4.76	4.98

Last primary market rates							
Paper	Au. date	Maturity	Avg. price	Avg. yield	Supply	Demand	Sold
52W TB	5/30/2011	5/30/2012	95.57	4.58	600	2667	505
OK0114	8/10/2011	1/25/2013	89.58	4.58	5000	4934	1889
PS1016	10/19/2011	10/25/2016	98.44	5.11	3600	11200	3638
DS1021	7/21/2011	10/25/2021	99.53	5.80	3000	5608	3000

Fixed income market rates (closing mid-market levels)								
Date	1Y WIBOR	1Y T-bill	2Y IRS	OK0113	5Y IRS	PS0416	10Y IRS	DS1019
2/3/2012	6.590	4.530	4.860	4.678	4.790	5.027	4.860	5.557
2/6/2012	4.890	4.520	4.860	4.667	4.790	5.054	4.870	5.589
2/7/2012	4.890	4.510	4.875	4.668	4.780	5.042	4.870	5.563
2/8/2012	4.890	4.510	4.860	4.704	4.790	5.024	4.845	5.542
2/9/2012	4.890	4.520	4.860	4.713	4.790	5.040	4.845	5.567

EUR/PLN 0-delta stradle					25-delta RR		25-delta FLY
Date	1M	3M	6M	1Y	1M	1Y	1Y
2/3/2012	10.30	11.05	11.55	12.00	12.00	3.40	0.74
2/6/2012	10.30	11.05	11.55	12.00	12.00	3.40	0.74
2/7/2012	10.05	10.70	11.30	11.75	11.75	3.40	0.79
2/8/2012	10.05	10.80	11.30	11.60	11.60	3.40	0.74
2/9/2012	9.90	10.70	11.25	11.60	11.60	3.40	0.84

PLN Spot performance						
Date	EURPLN	USDPLN	CHFPLN	JPYPLN	HUFPLN	CZKPLN
2/3/2012	4.1932	3.1848	3.4784	4.1792	1.4399	0.1674
2/6/2012	4.1837	3.2084	3.4695	4.1831	1.4276	0.1671
2/7/2012	4.1818	3.1806	3.4633	4.1439	1.4337	0.1677
2/8/2012	4.1710	3.1461	3.4431	4.0816	1.4419	0.1679
2/9/2012	4.1769	3.1487	3.4507	4.0792	1.4354	0.1683

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