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**Comment on the upcoming data and forecasts**

On Monday retail sales and unemployment rate data will be published. In the area of retail sales we expect annual rate of retail sales to decrease to 9% with downward risk resulting from shift effect in additional bonus payment from February to January. This shift effect is caused by introduction in February higher disability contribution. What is more data will reflect low temperatures in February. We forecast that unemployment rate will be higher against January data. Higher unemployment rate is the effect of low temperatures in February, ca. 0.1-0.2pp. Seasonally adjusted unemployment is quite stable and inflow of new seasonally adjusted unemployed decelerate in yearly basis. On Friday NBP will publish inflation expectations and quarterly current account. Taking into account the usual correlation with past inflation data we expect 4.6%. As for current account we expect weakening of short term trend as posted monthly data.

**Polish data to watch: March 26 to March 30**

Publication	Date	Period	BRE	Consensus	Prior
Retail sales y/y (%)	26.03.	Feb	9.0	9.8	14.3
Unemployment rate (%)	26.03.	Feb	13.6	13.5	13.2
NBP inflation expectations (%)	30.03.	Mar	4.6		4.6
C/A balance (EUR bn)	30.03.	Q4 '11			-4.7

**Treasury bonds and bills auctions**

Paper	Next auction	Last Offer	Last yield (%)	Prev auction
52 Week T-bills	3/26/2012	2000	4.480	2/27/2012
2Y T-bond OK0114	4/19/2012	4000	4.535	3/16/2012
5Y T-bond PS1016	4/19/2012	3000	4.837	3/8/2012
10Y T-bond DS1021	4/11/2012	2500	5.478	3/21/2012
20Y T-bond WS0429	4/11/2012	3000		2/16/2011

**Macroeconomic forecasts**

Wskaźnik	2008	2009	2010	2011	2012 F
GDP y/y (%)	5.1	1.6	3.9	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 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1 F	2012 Q2 F
GDP y/y (%)	4.5	4.3	4.2	4.3	3.6	3.2
CPI Inflation y/y (average %)	3.7	4.2	4.1	4.6	4.1	3.9
Repo rate (end of period %)	4.0	4.5	4.5	4.5	4.5	4.5

F - forecast



## Economics

### Real sphere set to go under, but MPC stays hawkish and unpredictable

Real sphere set to go under, but MPC stays hawkish and unpredictable. Industrial output rose by 4.6% y/y in February vs 9.0% last month. One working day more was of little help, the same applies to sharply lower growth of producer prices (6.3% vs 8.0% last month) which were expected to generate at least statistical boost. The big unknown is temperature effect (extremely cold February) as it is impossible to assess its impact statistically due to very short sample. Intuition tells it may have depressed industrial output, but the extent will be revealed along with the next publication.

Leaving aside temperature effect, growth becomes slightly less broad based (26 out of 34 recorded increases on annual basis). As for the growth leaders, export sections are at the fore stimulated by relatively weak zloty (yes, 4.10-4.20 is a way above the threshold of 3.50-3.60 regarded by NBP research as harmful for exports competitiveness). However, there are first scratches visible with furniture production in negative territory. Turning more to perspectives, we think that already the picture got cloudier and we may expect on average lower growth of industrial output as exports may be unable to make up losses generated by the deficiencies of infrastructure demand (possibility of huge capacity build-up, the problem of H2), and output is set to reflect further drops in consumer demand (the problem for now). Even foreign trade component has recently stepped to shaky territory with huge drop of eurozone PMIs recorded in March. The bottom line is the following: real sphere is retreating slowly and we feel comfortable with our (unrevised) 3% growth forecast for this year.

Regardless of recent Belka comments that the worse data are one-off and temporary, recent MPC „Minutes” offer quite an accurate picture of the condition of the Polish economy, at least basing on decelerating consumption (investment outlook is somehow dissembled). Nevertheless, the negative diagnosis does not entail adequate policy considerations. Quite the contrary, in contrast to previous „Minutes” the fresh ones clearly state that the majority of MPC members does not exclude monetary tightening. We think the body is clearly concerned that it failed to deliver price stability for so long and feels some kind of unconditional need to act. Such a view is fairly reflected by recent Hausner statements, who used to be rather a swing voter than a person of well-established hawkishness. He clearly says there may be a need for monetary tightening in April since inflation is high (and even may be higher due to EURO2012 and EU climate package), MPC has to hurry with hikes because growth is set to decelerate. Regardless of how strange this line of reasoning sounds (we would rather bet that during the slowdown and softening in the labor market price hikes can be another demand-dampening factor, not the truly pro-inflationary one), and regardless of the current inflow of data (slowing inflation and slowing real sphere) which should be cut-supportive in the mid-term, MPC has become quite unpredictable and can move chaotically, staying under severe influence of high-frequency data. We advise readers to follow more thoroughly than usual the rate-setters' comments.

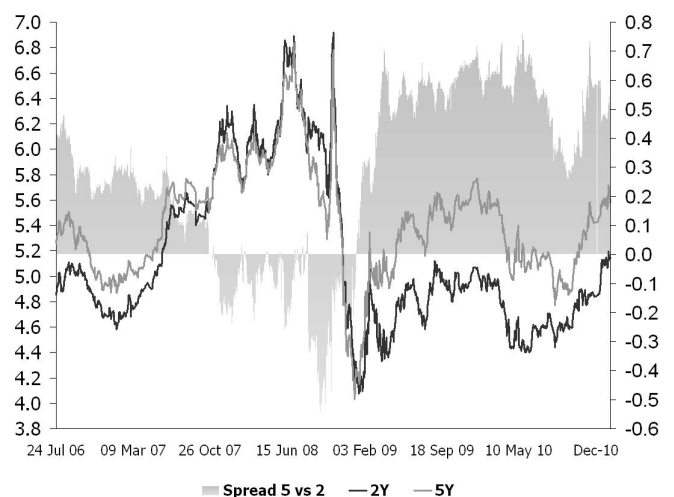
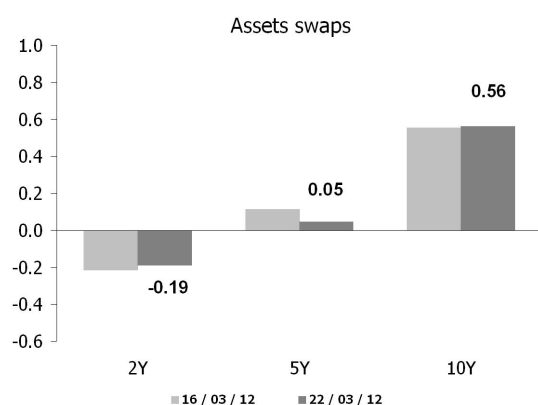
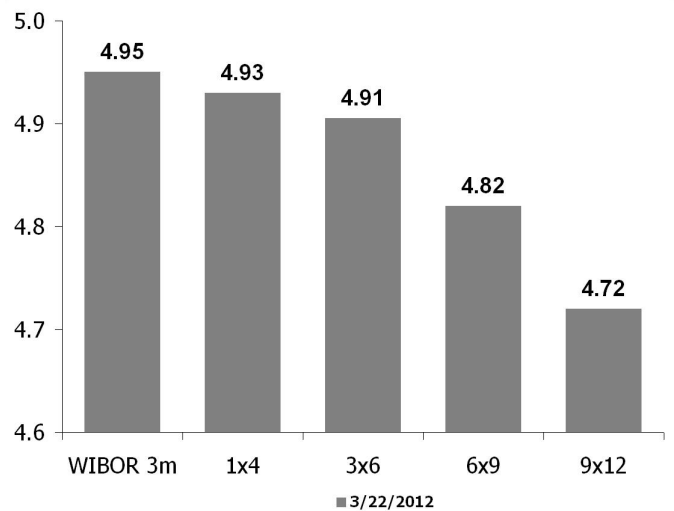
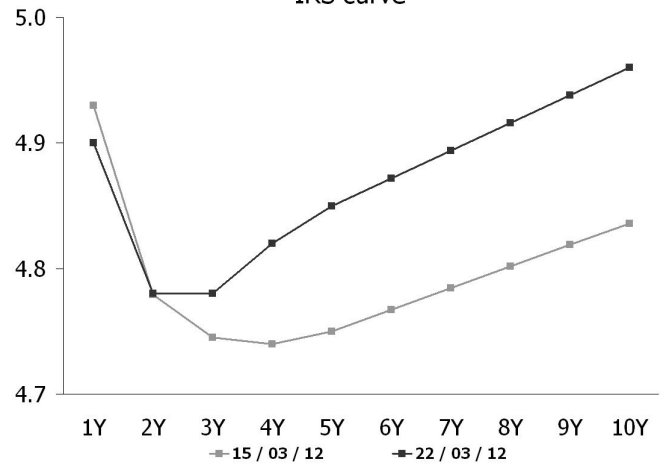


### Fixed income

#### Convergence or divergence?

After the Greek problem had been temporarily solved the market players seemed to get confused what direction the market should take then in a new reality. It seemed obvious that the reallocation of the assets from the safe core markets to the more risky high yielded regions was inevitable. On the other hand more fundamental attitude to the global economy was likely to be restored. The last Fed meeting resulted in more hawkish statement as the US economy proved to find its way to recovery. The core markets yields soared by 20-25bp up along the curve that triggered the profit taking on PLN treasuries. Regardless quite low readings of domestic wages and March industrial output the long end of a curve suffered the strong sell-off. The yield curve resteeptened rapidly trading 2y10y from -1 to nearly +20 points. Surprisingly the 5y5y fwd PLN over EUR, the most indicative long term convergence factor reached over 200bp, a level at which Polish economy used to trade in deep internal crisis. As we find it a short lived event, we would tend to trade towards 100bp down again preferring to buy 10y bonds as a receiver.

IRS curve



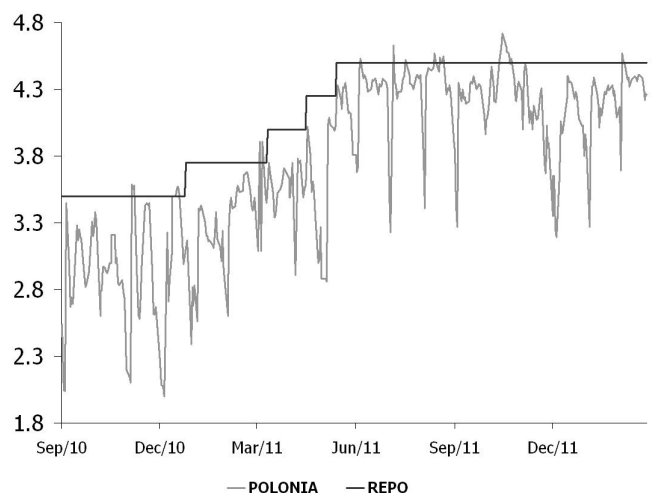
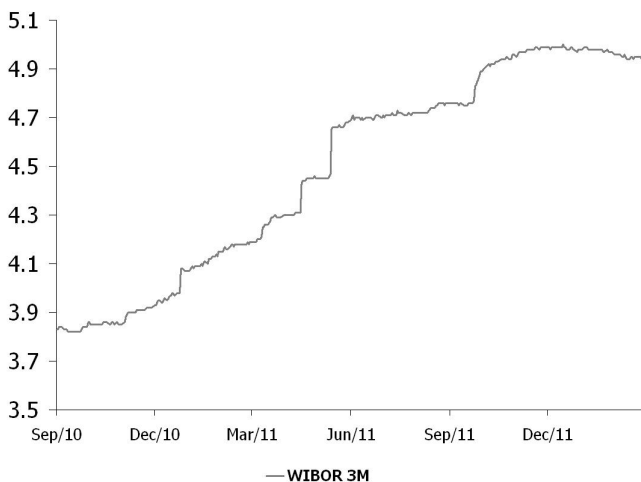
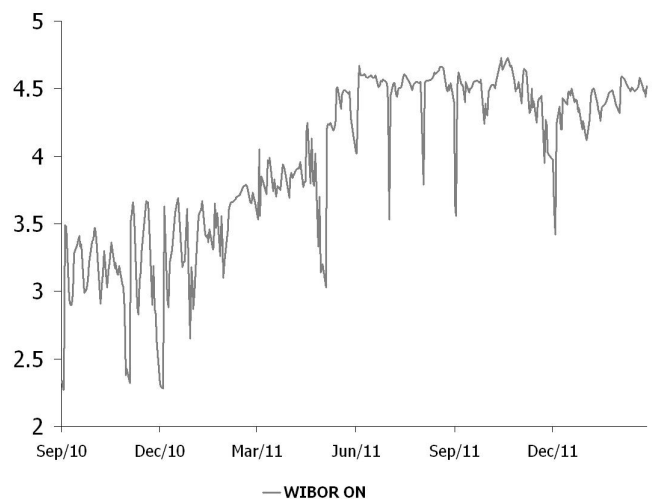
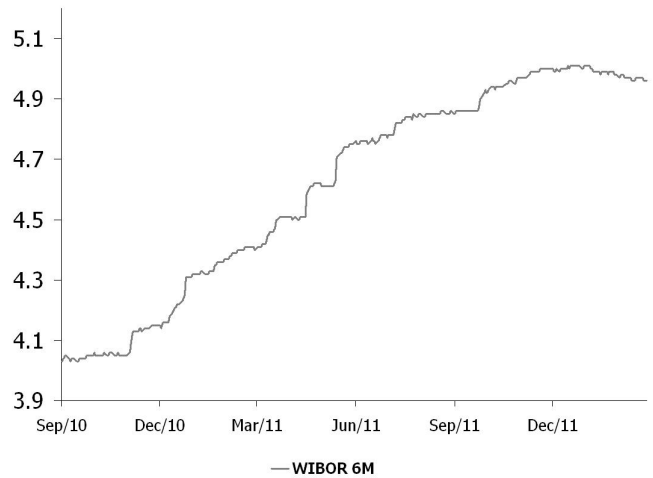


### Money market

#### Relatively expensive end of the reserve. T-bills auction should be well bid.

Surprisingly high demand during today's OMO (95 PLN bn ag 91.5 PLN bn offer) makes this end of the reserve quite expensive. This view is also supported by the fact, that on the last day of the reserve requirement settlement period (next Friday) we will have two OMOs. Therefore, March is going to be relatively expensive month, which is quite unusual for Polish, over-liquid market.

T-bills auction on Monday can be one of the last auctions this year (very good financing performance by the MinFin). The papers are going to be expensive, the demand high (kind of substitution for money bills weekly roll-overs plus customers like them), but still probably better than 1 year bonds, at least as of now.





### Forex

**Zloty weaker** The good mood from last week has eroded because of many reasons: poor Polish output figures for February, poor January C/A, rising tension within the Polish coalition because of the lack of agreement over the pension reform. All these factors were behind the zloty losses, especially as the releases of PMI data from France and Germany, pointed once again to recession in the euro zone. As the result EUR/PLN jumped to 4.1750 on Thursday.

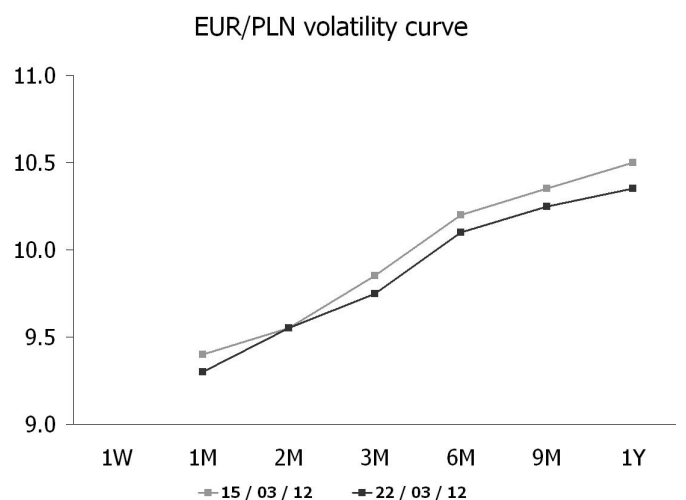
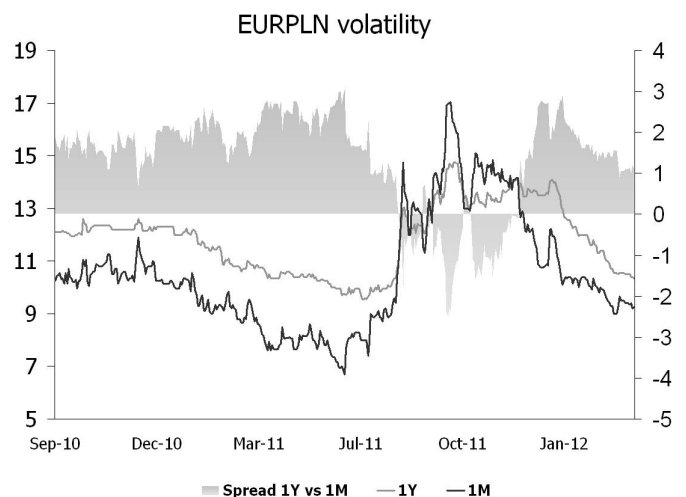
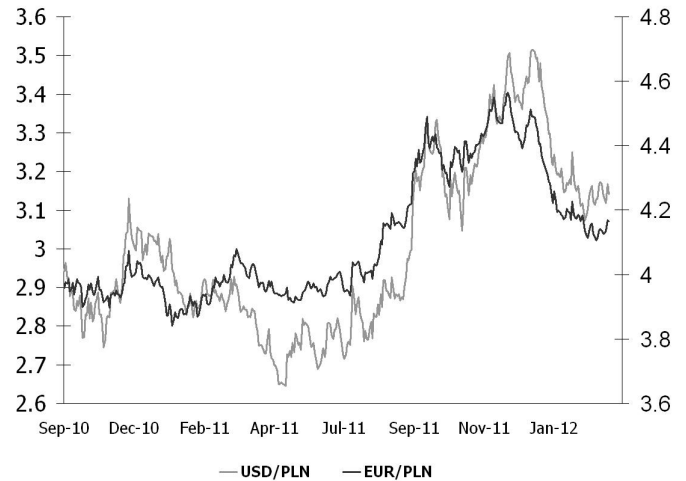
**Volatility unchanged** Not much changed on volatility market. When the climate got more sour on the stream of poor data and various worries (concerns) the beginning of the curve was pushed higher about 0.25%. But at the end of the week, the implied vol curve was at the levels as week before or even lower. (1 month mid 9.0%, 3 month mid 9.5%, 1 year mid 10.40%). The currency spread (USD/PLN - EUR/PLN) is much lower: 1y fell from 7.15% to 6.5%, 1m fell from 6.5% to 6.0%. It is consistent with our view that negative correlation with between EUR/USD and XXX/PLN is about to weaken.

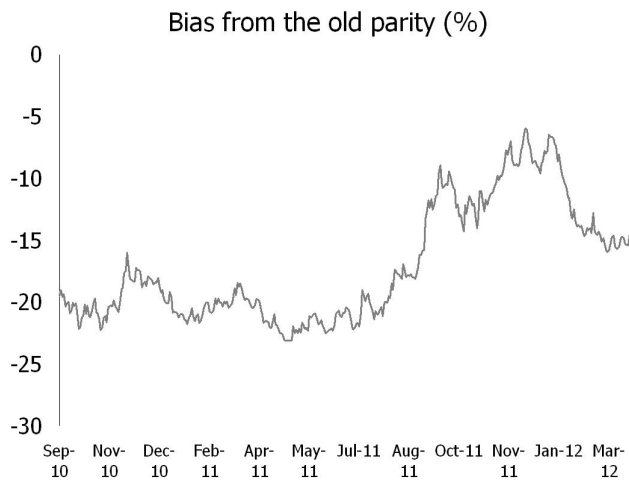
### Short-term forecasts.

Main supports and resistances  
EUR/PLN: 4.1000 / 4.2500  
USD/PLN: 3.0000 / 3.2500

**Spot.** EURPLN holds the 4.10 - 4.18 range for fourth straight week, and 4.1800 has again proved to be a very strong resistance. However the zloty's favorable performance could be constrained, because of the already described macroeconomic figures and inability of EUR/PLN to break below and hold gains under 4.1000. We closed our EUR/PLN shorts, and we are sidelined at the moment. Above 4.18, the next resistance zone looms at 4.23/4.25.

**Derivatives** Although we do not exclude some correction in the Zloty uptrend, that should not have a big impact on volatility curve. The bigger picture is still more constructive for the short Vega holders. Possible higher volatility levels may offer opportunity to sell Vega. The correlations are changing, the EUR/USD is less negatively correlated to EUR/PLN. If the idea of EUR as a funding currency will materialize, that correlation will fall even further. If that would be a case, the USD/PLN vols would be hit hard, and currency spread will lower significantly. We hope so as we hold short USD/PLN Vega, as we prefer it to EUR/PLN short Vega where the move down has run out of steam.







## 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
3/16/2012	4.63	4.95	4.78	6.49	4.86	6.59	4.93	4.91	4.81	4.73	4.71	4.84
3/19/2012	4.75	4.95	4.75	4.87	4.82	4.87	4.92	4.91	4.81	4.71	4.63	4.81
3/20/2012	4.42	4.95	4.75	4.86	4.47	4.86	4.92	4.90	4.81	4.70	4.63	4.81
3/21/2012	4.42	4.95	4.85	4.86	4.67	4.86	4.92	4.91	4.83	4.74	4.66	4.85
3/22/2012	4.74	4.95	4.85	4.86	4.85	4.86	4.93	4.91	4.82	4.72	4.65	4.83

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
3/16/2012	6.590	4.450	4.800	4.586	4.820	4.934	4.910	5.464
3/19/2012	4.870	4.450	4.770	4.550	4.800	4.902	4.880	5.451
3/20/2012	4.860	4.450	4.775	4.551	4.810	4.915	4.905	5.482
3/21/2012	4.860	4.450	4.820	4.589	4.870	4.917	4.960	5.553
3/22/2012	4.860	4.450	4.780	4.591	4.850	4.897	4.960	5.521

EUR/PLN 0-delta stradle					25-delta RR		25-delta FLY
Date	1M	3M	6M	1Y	1M	1Y	1Y
3/16/2012	9.35	9.80	10.20	10.50	10.50	3.65	0.69
3/19/2012	9.40	9.60	10.00	10.40	10.40	3.65	0.69
3/20/2012	9.20	9.70	10.15	10.40	10.40	3.65	0.69
3/21/2012	9.25	9.70	10.10	10.35	10.35	3.65	0.67
3/22/2012	9.30	9.75	10.10	10.35	10.35	3.65	0.68

PLN Spot performance						
Date	EURPLN	USDPLN	CHFPLN	JPYPLN	HUFPLN	CZKPLN
3/16/2012	4.1367	3.1688	3.4260	3.7849	1.4138	0.1685
3/19/2012	4.1270	3.1361	3.4205	3.7760	1.4221	0.1685
3/20/2012	4.1282	3.1288	3.4221	3.7368	1.4220	0.1686
3/21/2012	4.1364	3.1173	3.4306	3.7186	1.4250	0.1688
3/22/2012	4.1694	3.1680	3.4588	3.8265	1.4196	0.1684

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