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Comment on the upcoming data and forecasts

On Monday M3 supply data will be released. Rise of money supply stems from overall momentum. We expect lower household deposits caused by outflow to higher risk forms of saving after the end of anti-Belka deposits. Corporate deposits growth path is still down after KGHM financial operation in March. On Tuesday Statistical Office will publish CPI data. We forecast CPI at 4.1% against 3.9% in March. The rebound arises from significant rise of food prices, still growing fuel prices and a one-off gas price hike. Core inflation is to stay at steady level. On Wednesday current account will be announced. Lower C/A results mainly from high UE transfers to Poland. The trade deficit is to be maintained at February's level. On Friday wages and employment will be published. We expect lower employment growth against last month's reading, stemming mainly from downside turn in employment growth path in construction sector. As for wages a minor spike in growth rate is generated by statistical base effect on the one side and decelerating growth path in construction sector on the other.

Polish data to watch: May 14 to May 18

Publication	Date	Period	BRE	Consensus	Prior
M3 y/y (%)	14.05	Apr	10.9	10.8	9.2
CPI y/y (%)	15.05	Apr	4.1	3.9	3.9
C/A (EUR mn)	16.05	Mar	-987	-1004	-1585
Wages y/y (%)	18.05	Apr	4.3	3.9	3.8
Employment y/y (%)	18.05	Apr	0.4	0.5	0.5

Treasury bonds and bills auctions

Paper	Next auction	Last Offer	Last yield (%)	Prev auction
52 Week T-bills	-	3000	4.470	3/26/2012
2Y T-bond OK0114	6/20/2012	7500	4.759	4/19/2012
5Y T-bond PS1016	5/16/2012	7500	5.004	4/19/2012
10Y T-bond DS1021	7/11/2012	4000	5.349	5/10/2012
20Y T-bond WS0429	7/11/2012	4000		5/10/2012

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	4.2	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	4.75

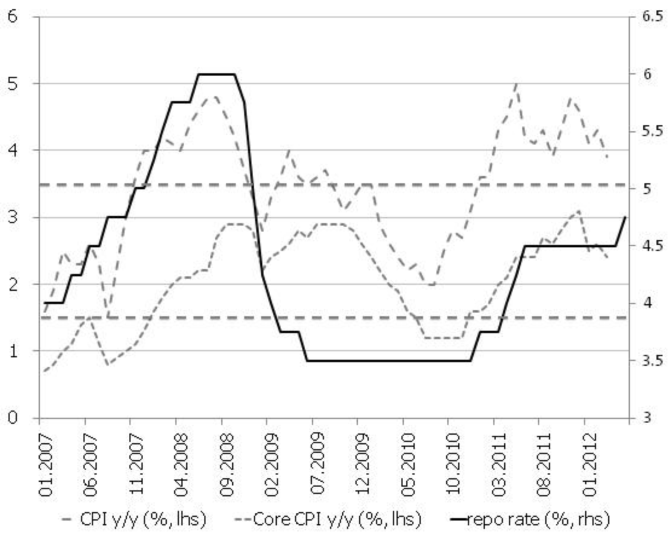
	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2 F
GDP y/y (%)	4.5	4.3	4.2	4.3	3.6(F)	2.8
CPI Inflation y/y (average %)	3.7	4.2	4.1	4.6	3.9	4.2
Repo rate (end of period %)	4.0	4.5	4.5	4.5	4.5	4.75

F - forecast

Economics

NBP rates up. The statement and the subsequent Belka's comments softer.

MPC decided to lift interest rates by 25bp. The rationale for the decision, apart from fighting „stubbornly" high inflation and the pursue for inflation target, was based upon strengthening MPC's credibility after a series of unfortunate slips in rhetoric. Just as we had expected, MPC tried to explain its decision more thoroughly (the Governor took his time and prolonged the conference beyond usual 30-40 minutes bar) and put out expectations for further tightening. At the same time Belka promised to execute some kind of restraint on the scope of other rate-setters comments occurring in the inter-meeting period in order to avoid the kind of ambiguity we had observed lately.



The decision was not - contrary to the media buzz - such a surprising move. Although there were some frenetic changes in analysts' expectations, the market had been finally stuck to betting on a tightening with a 50% probability.

The statement, given the recent flow of negative signals from the local economy and a surge of uncertainty in the monetary union, can be regarded as overall optimistic with regard to the real sphere. Not surprisingly, the assessment of inflation was little changed. The MPC still stresses the short-term upside risks to inflation. In the mid-term, though, rate-setters expect falling inflation due to slowing economy, but still does not want to remove the risk factor of elevated inflation expectations. Overall, in its growth part the statement seems even a little bit more upbeat (what surprises us is the stubbornness of sticking to positive scenario despite acknowledging softer data) and on inflation front the message was somehow softened (possibly as an aftermath of a hike, aimed at balancing the risks for inflation).

As for the new issues, the indication of future policy movements has changed. Contrary to the April's statement, the MPC does not communicate a coming hike in June (it was also stressed by Belka during the conference). Rather it states that the upcoming data will be decisive for future decisions. Therefore the door for tightening is left ajar but we enter once again the period of wait-and-see. The more so since Belka talked about normalization of rates and seemingly avoided the term „cycle" in his replies to questions. In our opinion, such a rhetoric almost completely excludes a hike in June.

Our assessment of the real sphere differs from the one offered by the MPC and the governor. In our view, GDP growth may soon fall below 3.0% y/y what de facto closes the door for further tightening. Also the constantly accommodative ECB policy is unlikely to support the MPC's enthusiasm for rate hikes. However, market expectations may stay elevated for some time, supported by high inflation readings (in May possibly again above 4% mark) that investors may link with the recent shift of rate-setters reaction function which is more skewed towards inflation targeting. Autumn should bring a final relief also to expectations, though, with falling inflation and GDP growth settling below 3%.

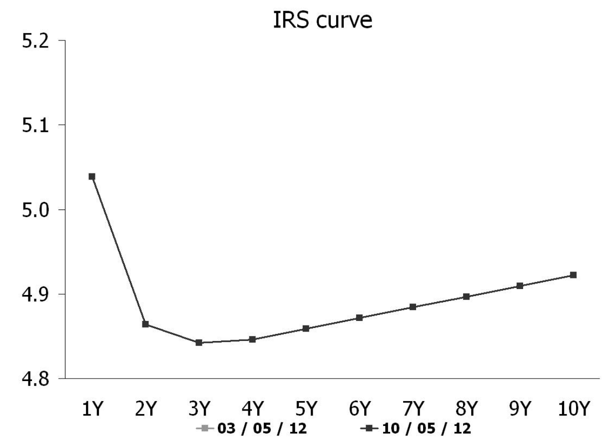
The decision does not change our constructive view for Polish debt. Polish bonds are still heading for lower yields in an environment of lower rates globally, still viable prospects for fiscal tightening and perception of lower credit risk that should stay with us also in times of moderately lower GDP growth.

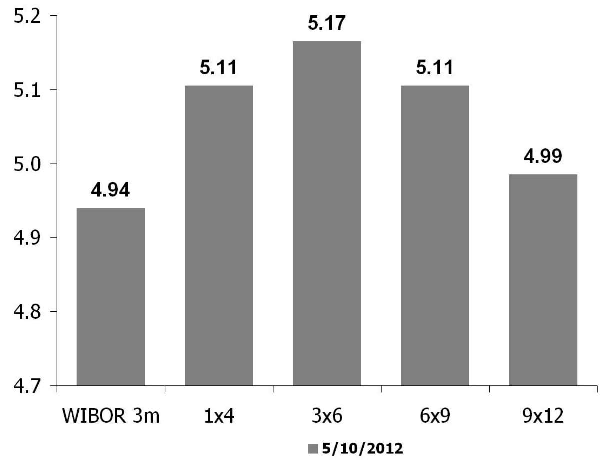
Fixed income

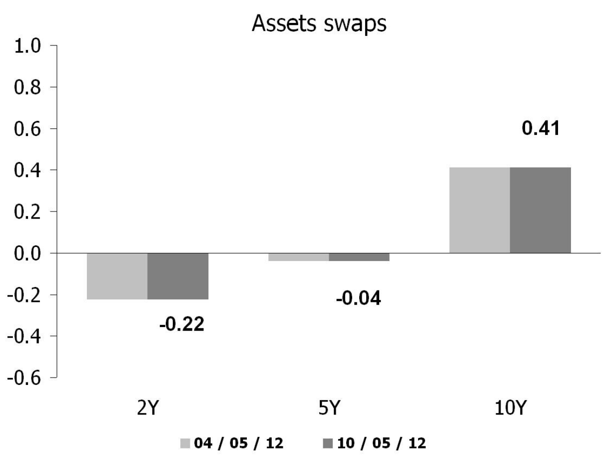
Rate hike

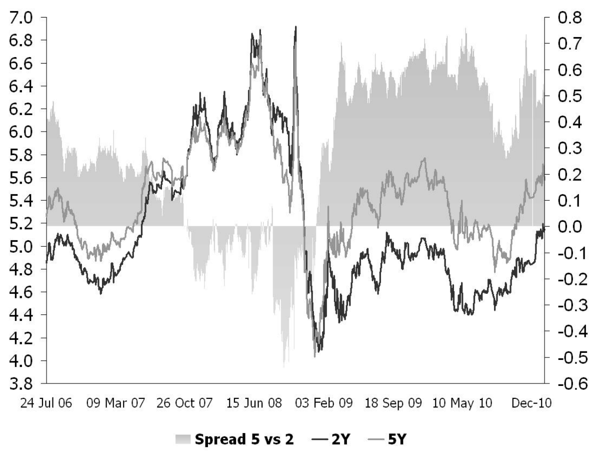
As it seemed to be quite obvious, the MPC meeting turned out to be the main market driver this week. For the last couple of weeks the market players have received so much quite contrary comments from the MPC members that regardless of the final decision it must have had an impact on the market. The Council decided to rise main interest rate by 25bp to 4.75% on the permanent higher CPI readings as a main explanation. The rates went up by around 10bp along the curve that triggered the good opportunity to receive the long end on tops. As a result 2y5y spread went negative to -5 together with a quite strong demand in 5y bonds sector. Surprisingly the MPC press conference turned out to be quite dovish one suggesting the current tightening might have been a one-off event.

We still maintain our previous thought regarding the trading strategy. As the yield curve has been repriced a little bit on a front-end there would be still opportunity to receive the FRA contracts around 10bp over a Wibor rate this year. Moreover we think it's about time to think of the good timing the MPC decides to ease the policy as it looks like an inevitable event. We would still be eager to receive the curve on tops especially in 5y sector by buying bonds.









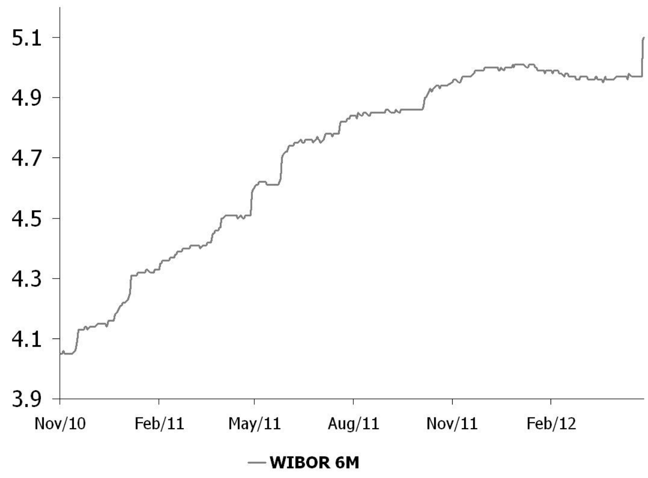
Money market

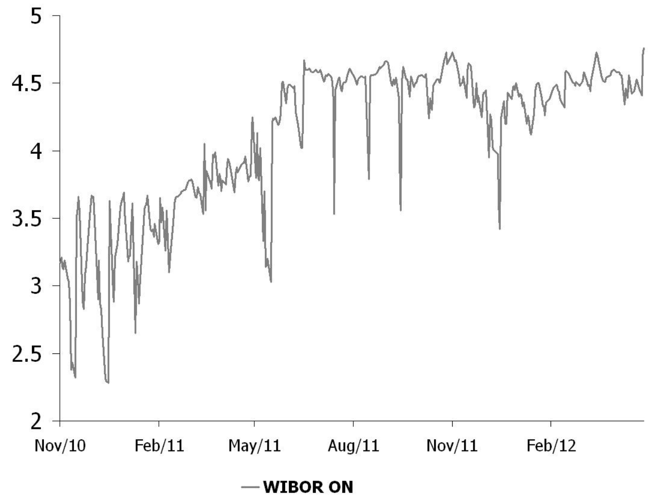
Cost of carry to go up next week. The MPC hiked all the rates by 25 bps.

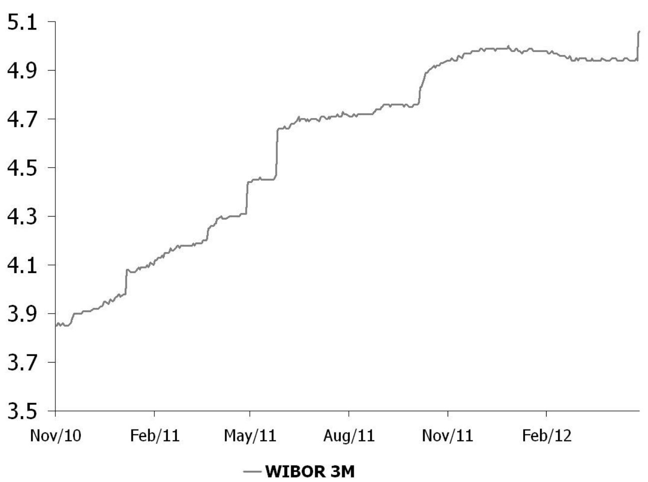
Liquidity on standard path for the beginning of the reserve period, which means that shortest rates stay close to the main market rate. Polonia rate had a deviation to the main rate around 25 bps for the last week. It can narrow next week since almost 93 billion pln of money bills were bought during Today's OMO (95 was the amount on the offer side). It is around 1 billion more then amount needed to square the market, and it has lately been the case that square means relatively expensive time.

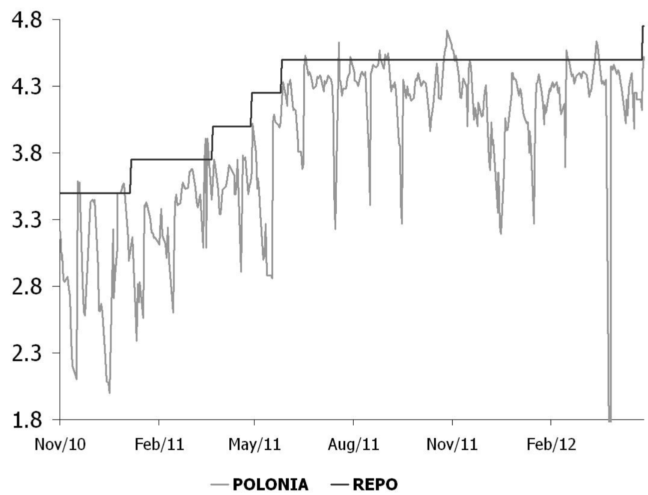
The MPC hiked all the rates by 25 bps, which might occur a surprise to some market participants, however was the event against which we were warning long before. It looks that further tightening is possible, however we can exclude the June meeting with substantial probability after reading the statement. July stays likely though. Next week we have CPI reading that may be again above 4%, therefore we tend to stick to our payers for a while now. This is also a view supported by the global factors or more precisely by the European periphery factors.

Stay pay.





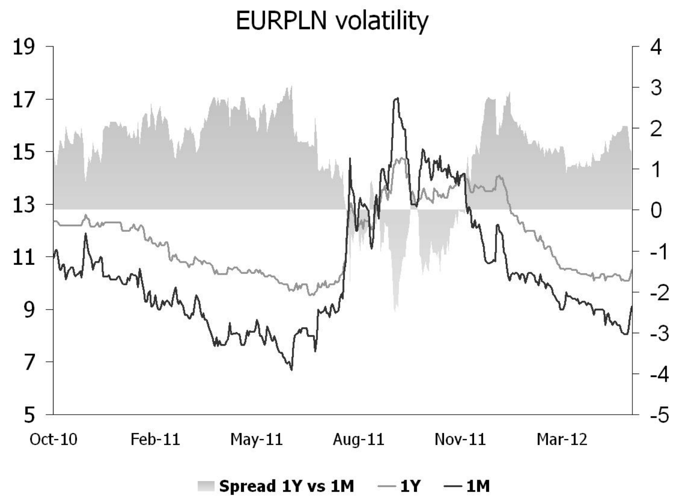




Forex

Higher in range Situation in Greece was the catalyst for pushing the EUR/PLN to the fresh highs close to 4.2500. The overall global outlook becomes more gloomy, with peripheral crisis rising it's ugly head one more time, the 25bp hike delivered by MPC passed almost without the notice. The momentum is still weak and for the time being we are higher, but still in the range. Currently 4.1700/4.2600.

Spiked higher Losses of Zloty, plus the hefty rebounds in vols in major currency pairs (i.e. EUR/USD), have managed to lift the EUR/PLN and USD/PLN implied curves off lows. The short squeeze buying moved up the front end by 1.5% (1 month EURPLN jumped from 7.9% to 8.4% mid). The change on the 1 year was much smaller, roughly 0.5% (1 year is now 10.7% mid from 10.2% last week). The skew also was bid the risk reversals jumped around 0.35% around, and currency spread (the difference between EUR/PLN and USD/PLN) surged by 0.75% - 1%.

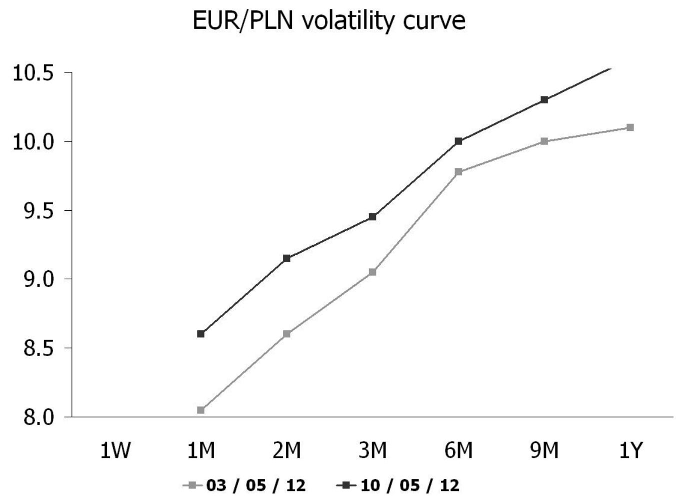


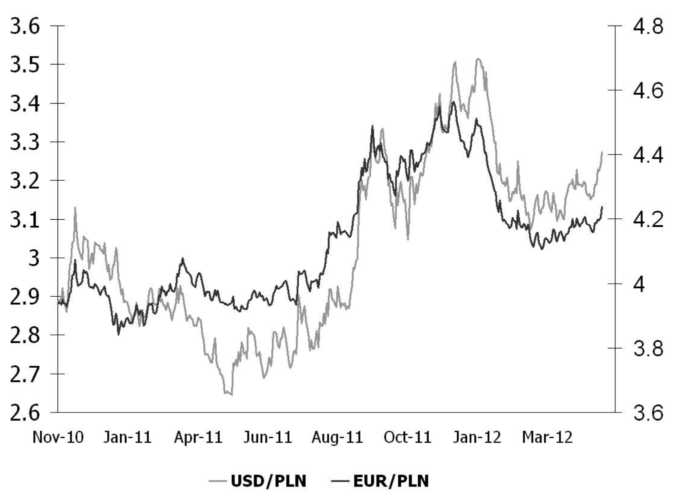
Short-term forecasts.

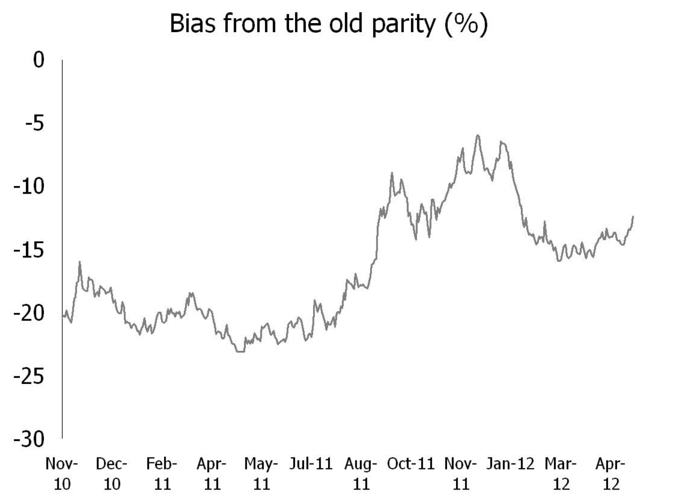
Main supports and resisances
EUR/PLN: 4.1700 / 4.2700
USD/PLN: 3.2000 / 3.3000

Spot. We don't really understand why markets is surprised by the situation development in Greece. The chances of default of Greece are as high as roughly 75%, according to the world leading banks. So what is the thrill...? Anyway the price action speaks for itself, and we turned slightly bearish for PLN. Ideally we would like to buy EUR/PLN at 4.2150/4.2200 with a stop below 4.1950 and p/t at 4.2750/4.2800.

Derivatives Is it a change of the trend, or a dead cat bounce? The Vols are at levels which are attractive for buyers. We have bounced from here, already several times in last 3 years. But timing is every thing, and the Gamma/Theta performance is so weak, it gives little reason to buy outright Vols. We are sq in Vega, but will have the finger on the trigger, just in case...







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
5/4/2012	4.57	4.94	4.61	6.49	4.61	6.59	5.00	5.05	4.98	4.88	4.65	5.00
5/7/2012	4.64	4.94	4.82	4.87	4.89	4.88	5.01	5.02	5.02	4.90	4.64	5.04
5/8/2012	4.75	4.95	4.94	4.87	4.79	4.87	5.03	5.05	5.03	4.90	4.77	5.05
5/9/2012	4.65	4.94	4.95	4.87	4.96	4.88	5.12	5.18	5.14	5.00	4.79	5.14
5/10/2012	4.79	5.05	5.00	4.99	5.09	5.00	5.11	5.17	5.11	4.99	4.78	5.08

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
5/4/2012	6.590	96.016	4.864	4.641	4.859	4.822	4.922	5.333
5/7/2012	4.880	96.016	4.864	4.641	4.859	4.822	4.922	5.333
5/8/2012	4.870	96.016	4.864	4.641	4.859	4.822	4.922	5.333
5/9/2012	4.880	96.016	4.864	4.641	4.859	4.822	4.922	5.333
5/10/2012	5.000	96.016	4.864	4.641	4.859	4.822	4.922	5.333

EUR/PLN 0-delta stradle					25-delta RR		25-delta FLY
Date	1M	3M	6M	1Y	1M	1Y	1Y
5/4/2012	8.05	9.05	9.78	10.10	10.10	3.48	0.63
5/7/2012	8.30	9.15	9.78	10.10	10.10	3.48	0.63
5/8/2012	8.70	9.25	9.83	10.20	10.20	3.66	0.53
5/9/2012	9.10	9.45	10.00	10.50	10.50	3.65	0.63
5/10/2012	8.60	9.45	10.00	10.60	10.60	3.65	0.62

PLN Spot performance						
Date	EURPLN	USDPLN	CHFPLN	JPYPLN	HUFPLN	CZKPLN
5/4/2012	4.1880	3.1891	3.4861	3.9800	1.4698	0.1676
5/7/2012	4.1991	3.2279	3.4959	4.0467	1.4649	0.1675
5/8/2012	4.1949	3.2238	3.4930	4.0357	1.4606	0.1673
5/9/2012	4.2047	3.2412	3.5014	4.0686	1.4584	0.1671
5/10/2012	4.2379	3.2735	3.5286	4.1087	1.4634	0.1679

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