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Comment on the upcoming data and forecasts

Next week's economic releases of May data concentrate on Tuesday and Wednesday. On Tuesday, employment and average gross wages will be published. As for employment, we expect further softening. One may expect some follow up of declines in manufacturing and business cycle indicators are (still) downward-sloping. Labour market is clearly in a slowdown phase but – so far – much more moderate than in 2009. As regards wages, no difference in the number of working days on annual basis, low base from the previous year coupled with a minor trend shift from 4-5% to 3-4% speak for (temporarily) higher reading. On Wednesday, industrial output data comes into spotlight. We expect -0.2%, clearly below the market consensus and the previous reading. This stems from falling business-cycle indices, downward trend and about 1pp. downward contribution from last year's base effect. As regards PPI, even in the slowdown phase we are currently in (and even with slowly falling firms' inflation expectations) the link between growth of producer prices and PLN strength takes the upperhand in the short-term. Therefore we expect acceleration of producer prices on annual basis.

Polish data to watch: June 18th to June 22nd

Publication	Date	Period	BRE	Consensus	Prior
Employment y/y (%)	19.06.	May	0.2	0.3	0.3
Average gross wages y/y (%)	19.06.	May	4.2	3.9	3.4
Sold industrial output y/y (%)	20.06.	May	-0.2	2.7	2.9
PPI y/y (%)	20.06.	May	4.9	5.0	4.3
Core inflation y/y (%)	20.06.	May	2.3	2.4	2.7

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 OK0714	6/20/2012	7500	4.759	4/19/2012
5Y T-bond PS0417	6/20/2012	4200	5.047	5/18/2012
10Y T-bond DS1021	7/11/2012	4000	5.349	5/10/2012
20Y T-bond WS0429	7/11/2012	4000	5.563	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 (%)	4.6	4.2	4.2	4.3	3.5	2.8
CPI Inflation y/y (average %)	3.7	4.2	4.1	4.6	3.9	4.2
Repo rate (end of period %)	4.00	4.50	4.50	4.50	4.50	4.75

F - forecast



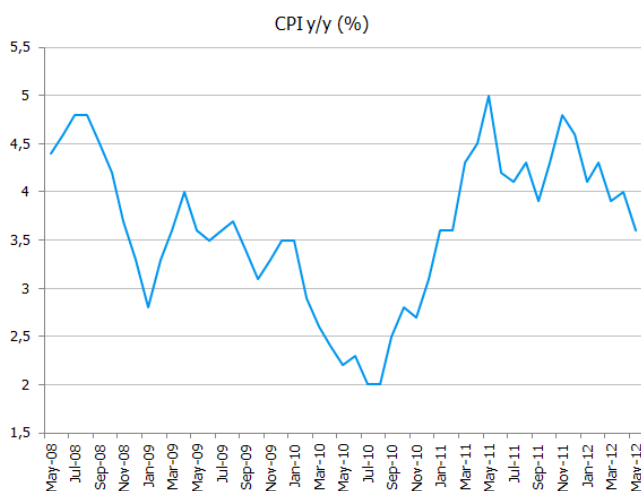
Economics

MPC to stay on hold in July

Inflation rate decreased in May from 4.0% to 3.6% in y/y terms, against expected 3.9%. This fall is primarily attributable to lower prices in the basket of culture and entertainment (-1.0% m/m following a promotions in the digital and cable TV market), as well as fuels and energy (-0.1% m/m). There were some insignificant price increases in the other categories. In consequence, the annual core inflation rate fell from 2.7% to 2.3% in May. In line with the seasonal pattern, food prices grew by 0.8% m/m.

Inflation can rise again in June as a result of price hikes in restaurants and hotels and jump to around 4% level. Inflationary pressure should be gradually subsiding afterwards, however, and recent decreases in oil prices (also in PLN) herald an inflation rate below 4% in the summer months. Starting in October, base effects should reduce the annual inflation rate in a significant way (as they contribute in total over 1 p.p. so far). At the end of the year, inflation rate should decrease to around 3% y/y.

After CPI data release, market interest rates decreased by 2-3 bp. This publication matters, however, for the MPC rhetoric. We maintain our previous view that Governor Belka announced no hike in July (as for central bankers' language - very unequivocally) and hence we place less weight on the public communication by A. Glapiński (sending the same message as in March, by the way, the month he proved to be unreliable "indicator"). We also don't expect a hike announcement to appear in July: there is no decision meeting scheduled for August and pre-announcing anything for September could be risky in terms of credibility.



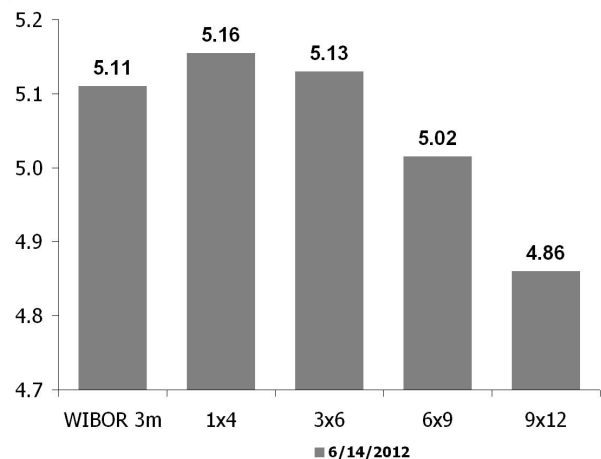
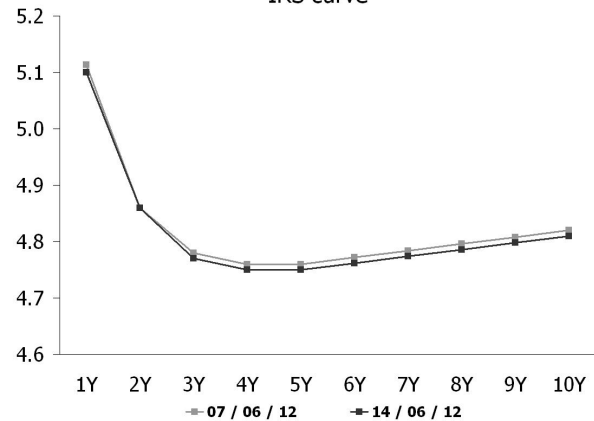


Fixed income

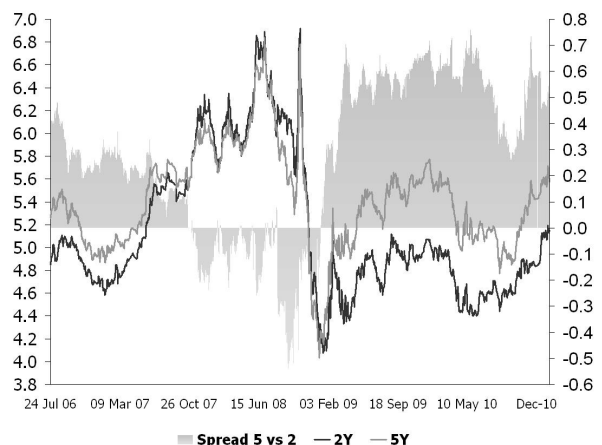
The sigh of relief

Following the global risk-off mood the moderate bullish sentiment prevailed on domestic FI market. Though the shape of a yield curve remained pretty unchanged the market tried to find an opportunity to buy longer dated bonds at local lows. The May CPI release at 3.6% (slightly lower than the market consensus at 3.8%) did not bring any significant change to the front end of a curve. The inflation data rollercoaster for the last couple of months and still existing hawkish MPC stance proved not give any value to receive rates in the front end of the curve especially when the FRA curve had been heavily inverted with even 6x9 FRA December's contract 10bp below 3M Wibor rate. As the July rate hike seemed to be less likely now than few weeks ago, there were still risk on CPI projection that may trigger an unexpected MPC move. Moreover, the higher financing costs of the long domestic bonds position might create some tensions on Wibor rates and push them few points higher again that could further adversely affect received rates in the front and make some value to pay rates at least to the end of the year's fixings. We would still trade in favor of bonds hoping the general election in Greece would not spark any new fire in the global markets.

IRS curve



Assets swaps





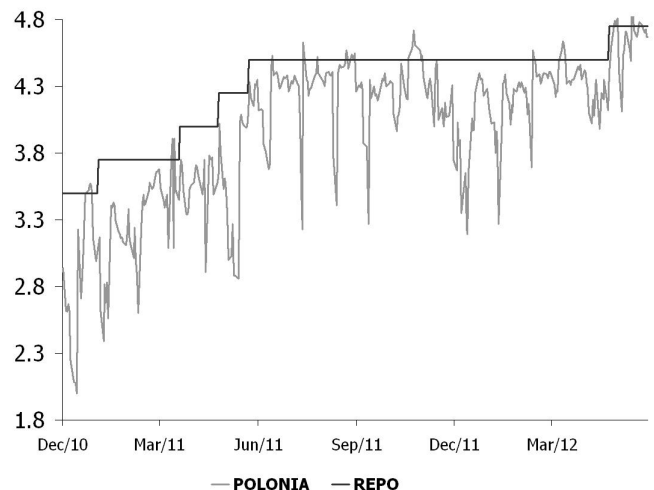
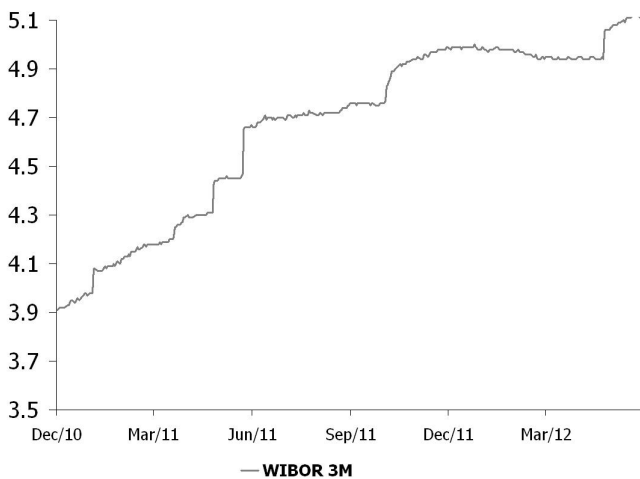
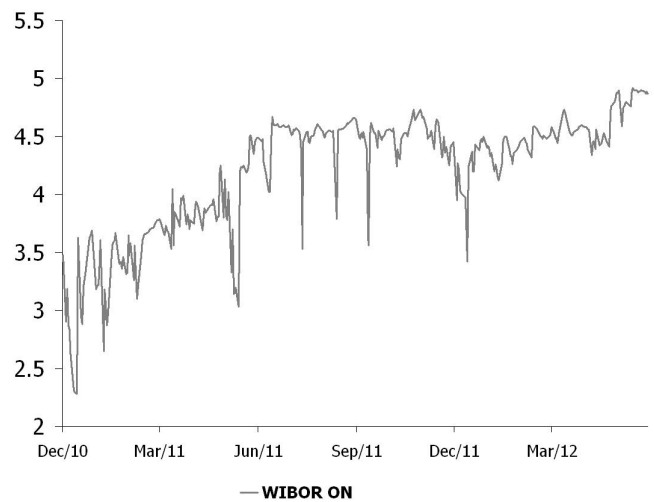
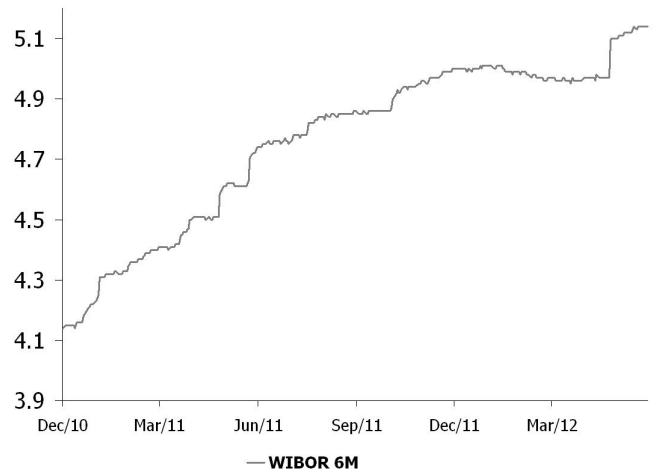
Money market

High cost of carry

Last week came out to be quite calm in PLN rates. We saw a swing in sentiment from paying rates after hawkish statements from MPC members to receiving after softer CPI reading. Although volatility was very limited, curve moved around 3 bp. What's more interesting is extremely high cost of carry. We observe polonia rate vs reference rate spread narrowing to 8 bp!!!. This can offset the expression of lower rates in the curve.

Last week we had a switch auction. After completing 70% of borrowing needs MinFin is getting closer to the point where they will only supply market with bonds in exchange for short ones. Therefore we expect short dated bonds to become hard to get.

As a trade opportunity we see relatively high 1y vs 6m OIS. It holds around flat and comparing to FRA it should be negative.





Forex

The rollercoaster continues. EUR/PLN started the week marking the low at 4.2530 only to reach 4.36 during next 24 hours. The rest of the week the cross was consolidating after wild swings with 4.30 acting as a magnet. PLN is a hostage of the global sentiment, and that has improved during this week. The big question mark is if this improvement was a real thing or risk off positions were too stretched to hold. We are suspecting the latter... And we still have a Greek event in front of us.

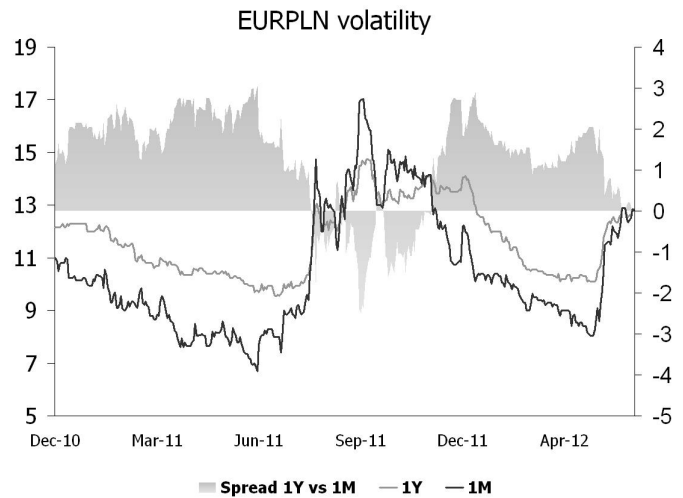
Vols unchanged, short term gamma strongly bid. The implied volatility for EUR/PLN and USD/PLN was almost unchanged this week. The both curves were virtually unchanged till Friday when the mild selling mood appeared on the market. USD/PLN 6 month was given at 20.50 and better offers resurfaced on both currency pairs. The short term gamma was keeping the bid tone as the market was getting ready for the Greek elections, FED etc. The currency spread was lower roughly 0.35%, a usual result of EUR/USD climbing higher.

Short-term forecasts.

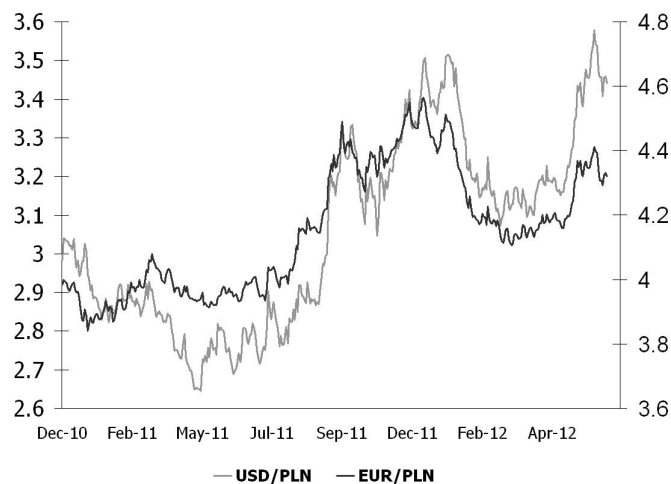
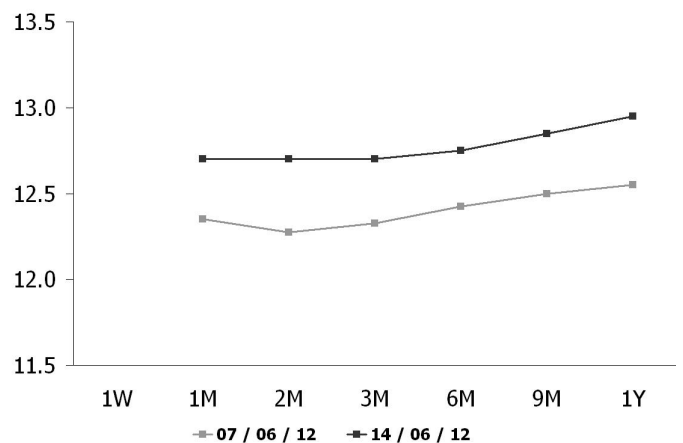
Main supports and resistances
EUR/PLN: 4.2300 / 4.4300
USD/PLN: 3.3500 / 3.6000

Spot. We cannot see a possible positive development for risk in the short term. The Greeks will the most probably disappoint again, and even they won't, the "relief rally" would be short lived. We would like to buy EUR/PLN 4.26/4.28 zone with stop at 4.24 and target 4.35.

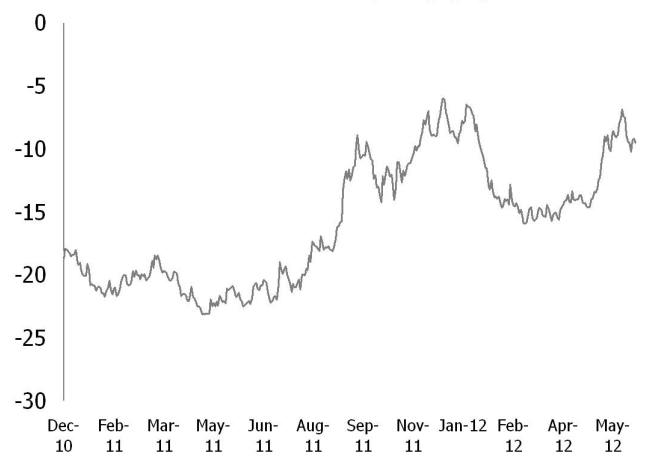
Derivatives. The level of uncertainty is higher and higher. So in current environment we are strongly exposed to higher levels, the last year highs 15% at 1 month and 14% at 1 year are strongly in sight. Even a relief rally will not change much as the move will keep the gamma being valuable, or in other words - still bid.



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
6/8/2012	4.99	5.12	5.12	6.49	5.07	6.59	5.15	5.12	5.02	4.86	4.65	5.02
6/11/2012	4.95	5.12	4.97	5.04	4.96	5.04	5.15	5.15	5.04	4.89	4.72	5.04
6/12/2012	5.03	5.11	5.15	5.04	5.18	5.04	5.11	5.15	5.10	4.89	4.80	5.07
6/13/2012	4.78	5.12	4.95	5.04	4.90	5.04	5.16	5.14	5.04	4.87	4.70	5.02
6/14/2012	4.76	5.12	4.80	5.04	4.81	5.04	5.16	5.13	5.02	4.86	4.70	5.01

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
6/8/2012	6.590	4.813	4.898	4.762	4.780	4.900	4.820	5.290
6/11/2012	5.040	4.813	4.880	4.805	4.773	4.912	4.820	5.310
6/12/2012	5.040	4.813	4.905	4.982	4.785	4.948	4.826	5.410
6/13/2012	5.040	4.813	4.900	4.786	4.770	4.915	4.815	5.316
6/14/2012	5.040	4.813	4.860	4.755	4.750	4.903	4.810	5.288

EUR/PLN 0-delta stradle					25-delta RR		25-delta FLY
Date	1M	3M	6M	1Y	1M	1Y	1Y
6/8/2012	12.45	12.43	12.53	12.65	12.65	3.96	0.66
6/11/2012	12.50	12.38	12.48	12.60	12.60	3.96	0.66
6/12/2012	12.85	12.73	12.78	12.85	12.85	3.96	0.66
6/13/2012	12.80	12.68	12.73	12.85	12.85	3.96	0.66
6/14/2012	12.70	12.70	12.75	12.95	12.95	5.00	1.03

PLN Spot performance						
Date	EURPLN	USDPLN	CHFPLN	JPYPLN	HUFPLN	CZKPLN
6/8/2012	4.3078	3.4566	3.5870	4.3643	1.4463	0.1686
6/11/2012	4.2922	3.4072	3.5734	4.2841	1.4555	0.1690
6/12/2012	4.3222	3.4552	3.5987	4.3398	1.4558	0.1690
6/13/2012	4.3310	3.4591	3.6057	4.3451	1.4575	0.1691
6/14/2012	4.3207	3.4420	3.5977	4.3394	1.4533	0.1692

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