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Table of contents**Economics**

- Surprising growth of Polish PMI

page 2

Fixed income

- Not much of a change

page 3

Money market

- Stable cost of carry
- Bullish run by flows

page 4

FX market

- PLN at highs
- Sell off

page 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 OK0714	18/25-10-12	5000	4.361	7/19/2012
5Y T-bond PS0417	12/19-09-12	4000	4.361	8/1/2012
10Y T-bond DS1021	12/19-09-12	4000	5.349	5/10/2012
20Y T-bond WS0429	12/19-09-12	4000	5.563	5/10/2012

Macroeconomic forecasts

Wskaźnik	2009	2010	2011	2012 F	2013 F
GDP y/y (%)	1.7	3.8	4.3	2.5	2.1
CPI Inflation y/y (average %)	3.5	2.8	4.2	3.6	2.8
Current account (%GDP)	-1.6	-4.5	-4.9	-2.5	-1.5
Unemployment rate (end of period %)	12.1	12.4	12.5	13.5	14.4
Repo rate (end of period %)	3.5	3.5	4.5	4.3	3.50

	2011	2011	2012	2012	2012	2012
	Q3	Q4	Q1	Q2 F	Q3 F	Q4 F
GDP y/y (%)	4.2	4.3	3.5	2.7	2.2	1.4
CPI Inflation y/y (average %)	4.1	4.6	3.9	4.0	3.9	3.2
Repo rate (end of period %)	4.50	4.50	4.50	4.75	4.75	4.25

F - forecast



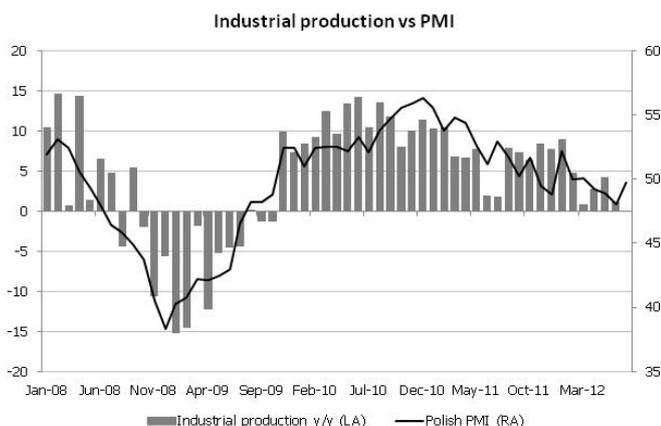
Economics

Surprising growth of Polish PMI

PMI indicator of manufacturing sector performance increased in July by 1.7 pts to 49.7 pts - only slightly below the 50 pts threshold. That signaled a fourth successive overall deterioration in the business climate, but at only a marginal pace. That is quite surprising when compared to the observed slowdown in Polish economic activity and still worsening PMI indicators in the euro zone and in particular in Germany, where PMI in manufacturing sector declined in July to only 43 pts. (the only country in the euro zone with PMI still above 50 pts is Ireland).

The PMI upside correction is broad based. The sub-index concerning level of output increased to 49.4 pts, which means that the rate of contraction eased to a marginal pace, but is still there. The backlogs of orders declined at the second-fastest rate in over 3 years, as the production was supported by the completion of outstanding contracts. The survey showed also a faster rise in employment - job creation rate accelerated to the fastest since February 2011. For the first time in 3 years survey data indicated a fall in input prices (falling prices for oil-related inputs) and for the first time since March 2012 a fall in prices charged (competitive pressure remained an additional factor).

Although the reading was quite surprising (not only market consensus, but also all our econometric models pointed to declines), PMI still remains in contraction territory. Deterioration in business conditions is only limited, especially when compared to other European countries. The main positive surprise comes from employment, which is in contrast not only with official data, but also with NBP's surveys among entrepreneurs. Therefore July PMI reading should be taken with cautious optimism and interpreted as correction of declines from the previous months. Worsening PMI indicators in the euro zone in July still point to downside and we do not see negative correlation with European indices as a high probability scenario even in medium-term. Still, better PMI reading supports our higher industrial production forecast (4.5% y/y growth).





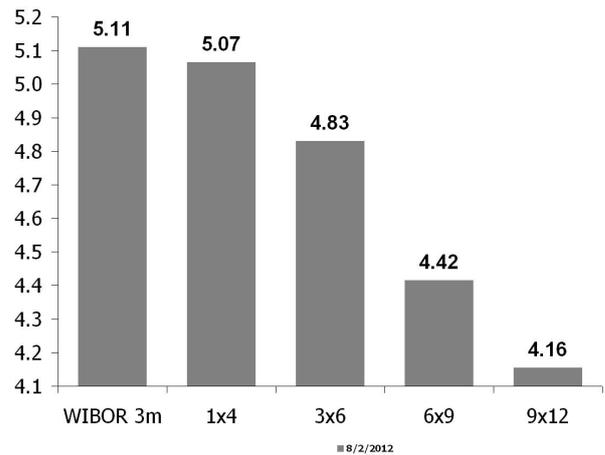
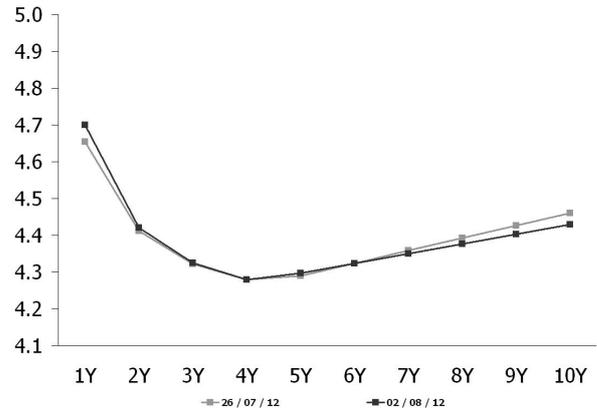
Fixed income

Not much of a change

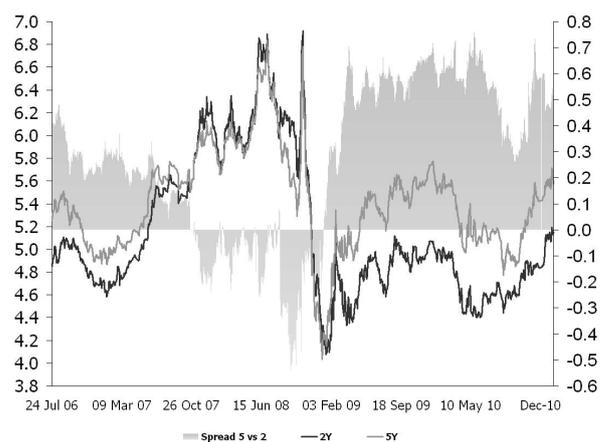
Last week didn't bring any new developments on the FI market. Sentiment remained good, demand for POLGBs remains intact. Corrections, if any, are very shallow and short lived. As front end of the curve have already priced in over 100bp of policy easing, and on the other hand Wibor constantly stays unchanged, 1Y and 2Y rates seem to be bottoming out around 4.70 and 4.40-45% levels. Further on curve flattened by some 5-7bp. The Finance Ministry again successfully placed over 4bio of 5y benchmark PS0417 at 4.36%.

We somehow start to struggle trying to figure further direction for this market. On one hand the scale and pace of recent moves makes a technical correction more and more likely, on the other hand it's difficult to find any fundamental reason for one. Macro data will likely come out softer and softer, MPC can only drift further towards dovishness, there aren't any significant risk factors likely to materialise in the near future. Yet the picture seems a little too bright and we would rather sell into this rally than accumulate receive positions further.

IRS curve



Assets swaps



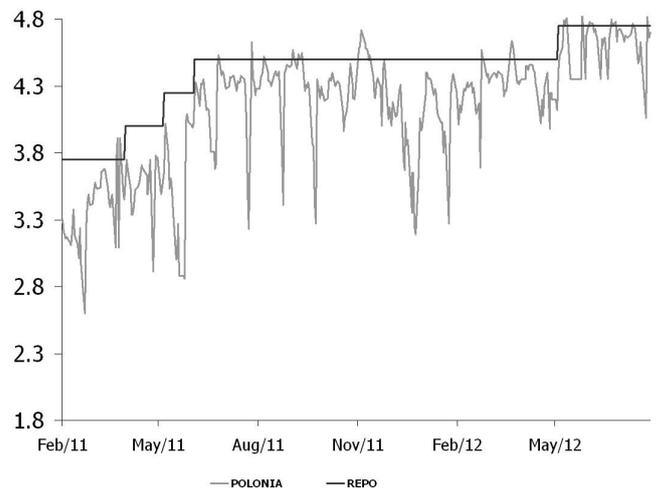
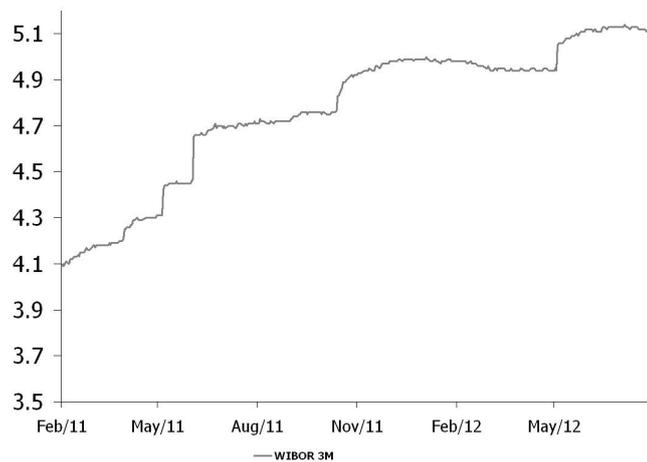
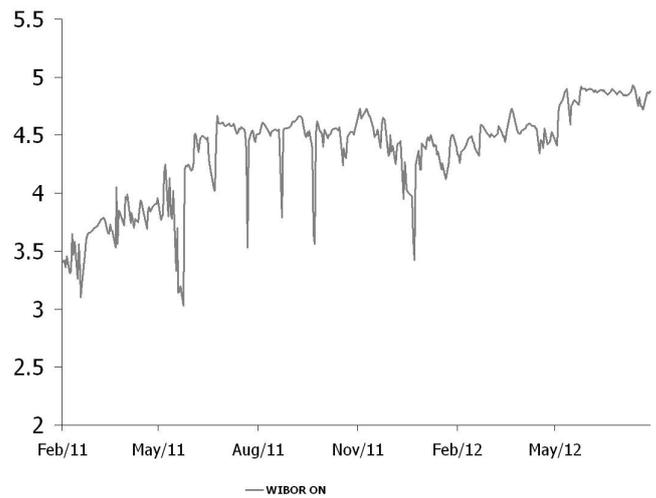
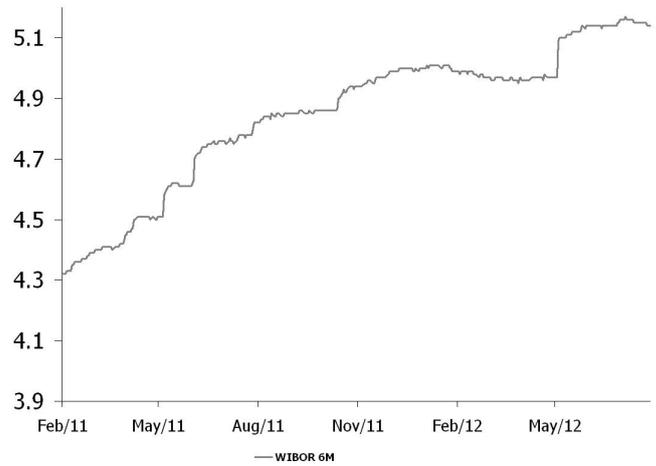


Money market

Stable cost of carry Cost of carry is staying nearby the main market rate, since we have just started the new reserve requirement settlement period. Today's OMO does not change much, however leaves the market with more or less 2 billion pln shortage.

Bullish run by flows Still bullish despite the much better PMI figure and a bit disappointing actions from both the Fed and ECB. Short debt looks really overdone with yields slightly above 4%. On the one hand running long positions is devastating from the cost of carry point of view, on the other hand London players flooded with euro have no better idea then to buy Polish govies.

Open payers before the CPI and IO figures.





Forex

PLN at highs After a week of consolidation in very narrow 4.1000/ 4.1500 range, today (Friday) EUR/PLN broke the 4.1000 support with a splash. The EUR/PLN plunged to 4.0830 revisiting this years 9th of April PLN high. The strong appetite for Polish bonds was most likely the most important factor behind the Zloty strength. The problems of peripheral Europe are simply swept aside.

Sell off The vols were higher for a most of a week as the markets participants were preparing themselves for the big events. After the announcements, the vols especially in the front end started to melt down quite aggressively. The EUR/PLN 1m lost about 1% (1m EUR/PLN given at 8.7%), the losses for USDPLN 1m were even bigger arr. 1.5% (1m USD/PLN given at 16.00%). The backend in both main PLN volatility curves were more modest and oscillated arr. 0.5%. The skew and currency spread were also better offered.

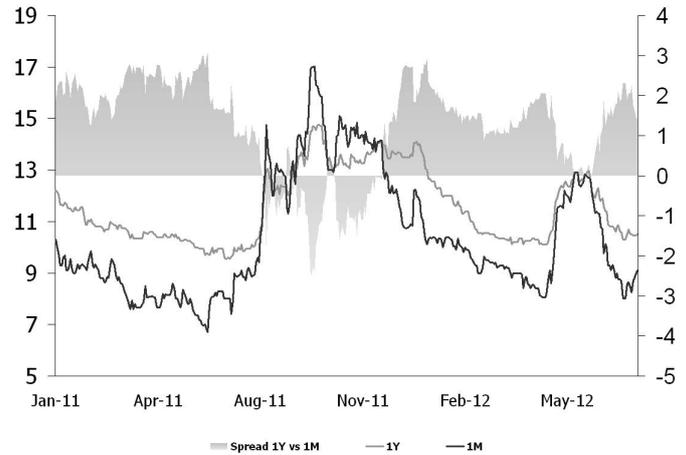
Short-term forecasts.

Main supports and resistances
EUR/PLN: 4.0000 / 4.1500
USD/PLN: 3.2500 / 3.4200

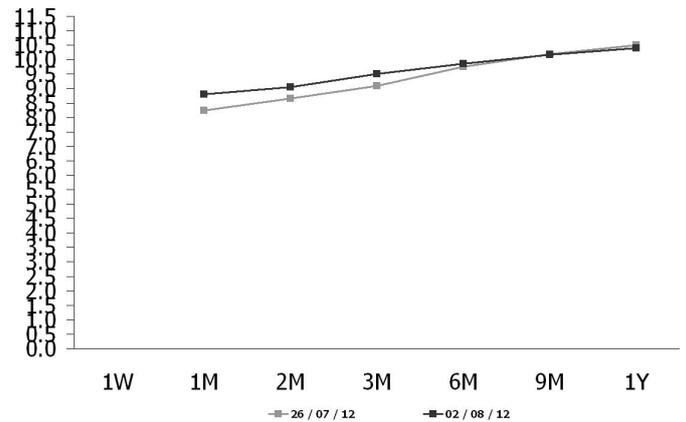
Spot. Longs on EUR/PLN stopped. Sidelined at mom.

Derivatives. We are holding our core long in the backend of EURPLN curve. We are eager to add to the position if we see a substantially lower levels (arr. 1%). We still believe in the mean reverting nature of the vols, and hope to see a upticks in vols in the weeks to come.

EURPLN volatility



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
7/27/2012	4.75	5.12	5.13	6.49	5.05	6.59	5.08	4.82	4.41	4.14	4.00	4.40
7/30/2012	4.95	5.12	4.97	5.05	4.99	5.05	5.09	4.83	4.42	4.14	4.01	4.43
7/31/2012	4.78	5.11	4.88	5.04	4.83	5.05	5.08	4.83	4.43	4.14	4.00	4.45
8/1/2012	4.93	5.11	5.01	5.04	4.96	5.05	5.07	4.85	4.47	4.17	4.03	4.49
8/2/2012	4.90	5.11	5.02	5.04	4.93	5.04	5.07	4.83	4.42	4.16	4.02	4.47

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
7/27/2012	6.590	4.813	4.420	4.253	4.333	4.487	4.483	4.922
7/30/2012	5.050	4.813	4.448	4.253	4.338	4.482	4.490	4.902
7/31/2012	5.050	4.813	4.430	4.202	4.300	4.423	4.450	5.002
8/1/2012	5.050	4.813	4.443	4.143	4.308	4.387	4.425	4.836
8/2/2012	5.040	4.813	4.420	4.143	4.298	4.374	4.430	4.829

EUR/PLN 0-delta stradle					25-delta RR		25-delta FLY
Date	1M	3M	6M	1Y	1M	1Y	1Y
7/27/2012	8.70	9.55	9.85	10.45	10.45	3.76	0.78
7/30/2012	8.80	9.55	9.85	10.45	10.45	3.76	0.78
7/31/2012	8.95	9.60	9.95	10.45	10.45	3.63	0.78
8/1/2012	9.10	9.60	9.95	10.50	10.50	3.63	0.78
8/2/2012	8.80	9.50	9.85	10.40	10.40	3.63	0.78

PLN Spot performance						
Date	EURPLN	USDPLN	CHFPLN	JPYPLN	HUFPLN	CZKPLN
7/27/2012	4.1459	3.3843	3.4523	4.3315	1.4575	0.1632
7/30/2012	4.1411	3.3780	3.4475	4.3188	1.4700	0.1634
7/31/2012	4.1086	3.3508	3.4206	4.2836	1.4743	0.1623
8/1/2012	4.1147	3.3420	3.4253	4.2779	1.4672	0.1624
8/2/2012	4.1063	3.3462	3.4161	4.2696	1.4626	0.1625

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