Bureau of Economic Analysis
(research)

Ernest Pytlarczyk, PhD, CFA
chief economist
tel. +48 22 829 01 66
ernest.pytlarczyk@brebank.pl

Marcin Mazurek, PhD
senior analyst
tel. +48 22 829 01 83
marcin.mazurek@brebank.pl

Paulina Ziembinska
analyst
tel. +48 22 829 02 56
paulina.ziembinska@brebank.pl

Andrzej Torój, PhD
analyst
tel. +48 22 526 70 34
andrzej.toroj@brebank.pl

Financial Markets Department
(business contacts)

Lukasz Barwicki
head of trading
tel. +48 22 829 01 93
lukasz.barwicki@brebank.pl

Bartlomiej Malocha, CFA
money market
tel. +48 22 829 01 77
bartlomiej.malocha@brebank.pl

Marcin Turkiewicz
fx market
tel. +48 22 829 01 67
marcin.turkiewicz@brebank.pl

Financial Markets Sales Department
(business contacts)

Inga Gaszkowska-Gebska
institutional sales
tel. +48 22 829 01 67
inga.gaszkowska-gebska@brebank.pl

Jacek Jurczyński
structured products
tel. +48 22 829 15 16
jaroslaw.stolarczyk@brebank.pl
Reuters pages:

BREX, BREY, BRET

Bloomberg:
BRE

SWIFT:
BREXPLPW

BRE Bank S.A.
18 Senatorska St.
00-950 Warszawa
P. O. BOX 728
tel. +48 22 829 00 00
fax. +48 22 829 00 33
http://www.brebank.pl

Table of contents

Comment on the upcoming data and forecasts

A whole bunch of macro data to be published, including CPI and labour market figures for July (see Section Economics). We expect relatively high current account deficit based on negative net EU transfer, 300-400 Mio EUR dividends from the stock market companies (income account), as well as negative trade effect of hosting Euro 2012 as historically confirmed by Austria in 2008. M3 dynamics boosted by low base on deposits of non-monetary financial institutions and enterprises (by about 1 p.p.). High dynamics of households' deposits (ca. 12%) should be accompanied by a seasonal decrease in deposits of enterprises (by about 2-3 bn PLN).

Polish data to watch: August 13th to August 17th

Publication	Date	Period	BRE	Consensus	Prior
Current account balance (Mio EUR)	13.08.	June	-2082.0	-1462.0	-815.0
Exports (Mio EUR)	13.08.	June	11840.0	11700.0	12088.0
Imports (Mio EUR)	13.08.	June	13000.0	12550.0	13021.0
CPI (% y/y)	14.08.	July	4.1	4.2	4.3
M3 (% y/y)	14.08.	July	10.9	11.0	11.1
Budget performance (% ytd)	16.08.	July			60.2
Employment (% y/y)	17.08.	July	0.0	0.0	0.1
Average Gross Wages (% y/y)	17.08.	July	4.1	4.1	4.3

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 Q3	2011 Q4	2012 Q1	2012 Q2 F	2012 Q3 F	2012 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

Upcoming data unlikely to exert sudden pressure on MPC

As the calendar of last week's releases is empty, we decided to dig more into the future and introduce to you – dear readers – our view concerning the forecasts of most relevant macro variables.

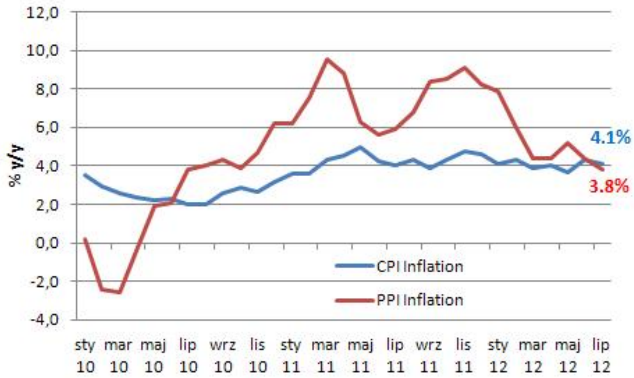
If you want to skip the details, the data are unlikely to provide significant pressure on faster and deeper monetary easing. Real sphere is likely to be portrayed a little bit better in July, supported by positive difference in working days and better PMI reading. Inflation is likely to ease compared to the latest reading but this is not a magnitude that had not been already expected (or priced in as you wish) – this applies both to producer and consumer prices. The only stir can be made by the „Minutes" from the latest MPC meeting but it would be rather a reflection of the fact that the latest statement was too hermetic and therefore now it will be supplemented by the fresh narration. Overall we think the moods in the MPC are not so optimistic on monetary easing. Therefore a better bout of data can be a trigger for trimming rate cut expectations; the more so since the fully fledged cycle has been priced in.

We believe that the aforementioned step back in rate cut expectations has implications for Polish bonds which may cease to be so attractive anymore. Of course the countermovement in yields (up) does not stem from poorer prospects for fiscal policy (yet) but is rather globally induced as investors realized that yields may have been suppressed too much. This perfectly fits to our model for Polish yields based on comparison of fundamentals of Poland and other emerging markets. Since the model was run yields drifted down by about 50bp. – hence the divergence between the reality and fitted value has been brought to zero and current level seems to be fair (and maybe ready to correct higher).

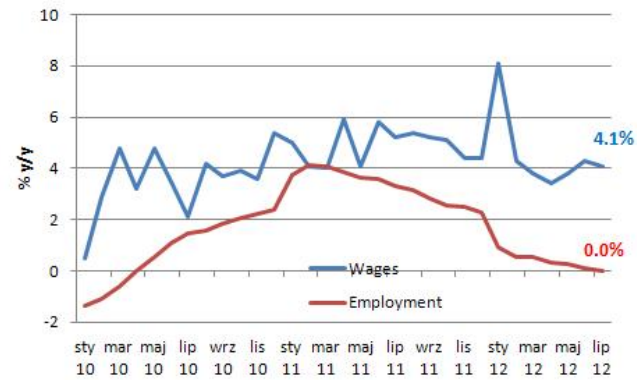
And now to the details.

CPI Inflation. We expect consumer price inflation to come down in July to 4.1% from 4.3% in the prior month. Downward pressure is exerted by food prices (recently confirmed by the reading of inflation in the Czech Republic), fuels and wearing apparel. Those categories are to some extent counterbalanced by the rises in package holidays (recreation and culture). The risk is slightly skewed towards reading closer to 4.0% but it is so minor that we rather stick to our original forecast. In such a configuration core inflation is likely to come down to 2.2-2.3%.

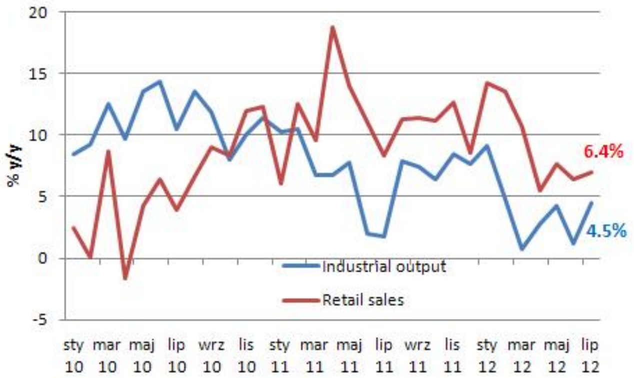
PPI Inflation. We expect producer price inflation to ease towards 3.8% from 4.4% recorded last month. Although crude prices went up, zloty appreciation offset those rises and possibly allows other (non-crude processing manufacturers) to face lower import prices overall. Looming period of slower growth also trims prices due to competitive pressure.



Labor market. This month we expect no more than a stabilization of employment growth on annual basis (0% y/y). So far we do not observe any significant firings in manufacturing that herald and abrupt change in trend. Therefore labor market stays in limbo with zero-minus monthly growth (concentrated mainly outside manufacturing) and is expected to slowly dive below 0 on annual basis. But so far no panic. As for wage growth, last month was somehow overstated by wages in mining. This time we expect a comeback to trend (albeit lower and lower) with some support from a positive difference in working days (our forecast 4.1% versus 4.3% recorded in the prior month).



Real sphere, output and sales. After the surprisingly high PMI reading and rather soothing data on car production we feel comfortable with our above-consensus forecast of industrial output at 4.5% (market 3.8%, prior 1.2%). As higher industrial output should also (statistically speaking) entail higher retail sales, we also feel comfortable with 7.0% forecast which is also placed above the consensus forecast (6.5%). We would like to remind the readers that retail sales encompasses the trade in goods and any acceleration in this category does not necessarily entail higher consumption, as measured by complete NIPA data. On the latter we still expect a downward trajectory to continue at least in the forthcoming 2-3 quarters.

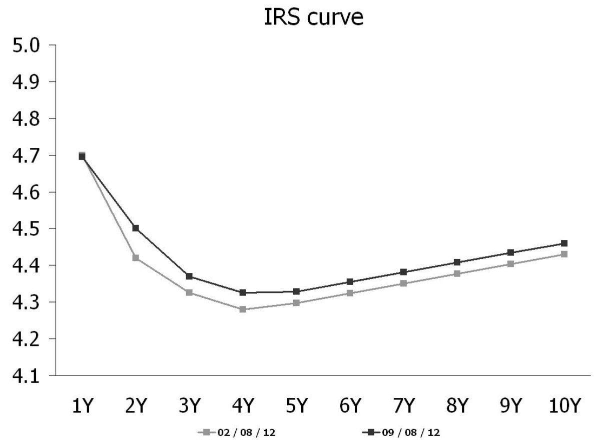


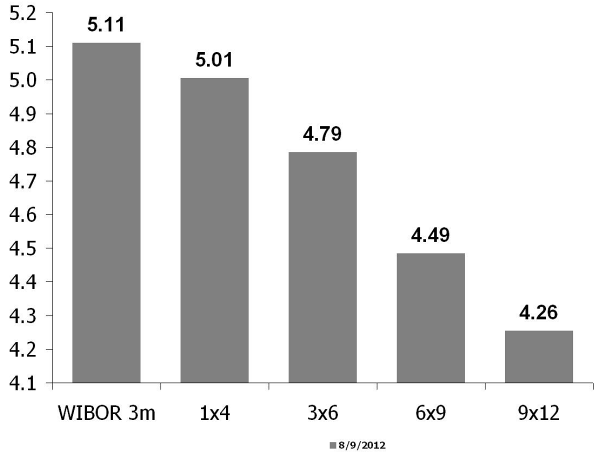
GDP. At the end of the month, the most complete data set on GDP will be published. However, the publication has mostly historical value as it encompasses Q2 2012. We forecast that GDP growth had amounted to 2.7% after it had hit 3.5% in Q1. The reason for further deceleration lies in further drops in consumer demand (from 2.1% to 1.5%) and investment activity (from 6.7% in Q1 to below 5%) – both find confirmation in significantly lower VAT revenues. We do not think that this figure has a potential to shake the markets. First of all the figure could be pretty accurately drawn from monthly publications. Secondly, expectations are set for a reading below 3%. Therefore there should be a huge surprise downwards, the one we do not expect though due to balancing items of net export and inventories formation.

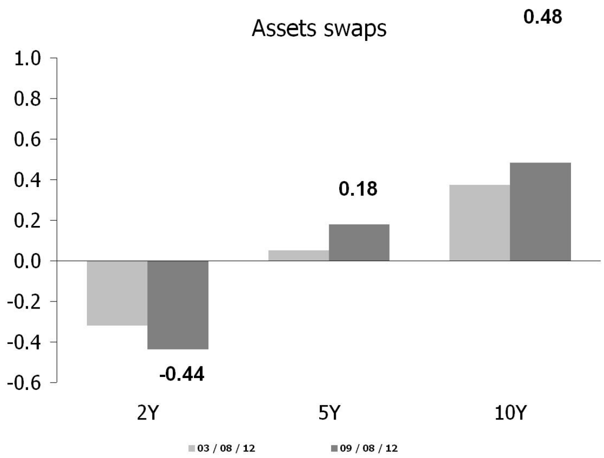
Fixed income

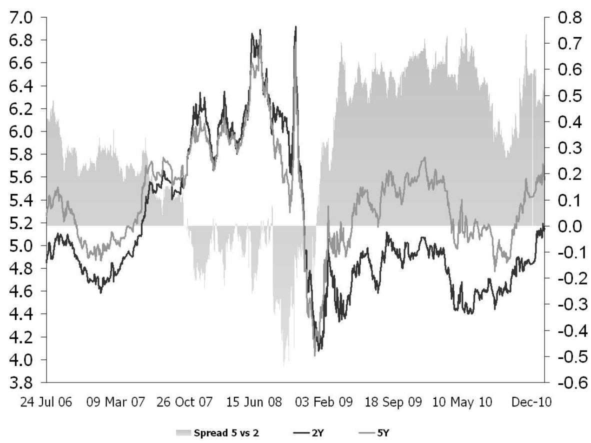
Retreat

The PLN market has found its resistance level last week. Though the very beginning of the week remained still quite positive for the fixed income assets, some visible tension to take profits had emerged. As some market players found it as a good opportunity to buy bonds, the overall supply coming from the foreign investors had exceeded the potential local demand and finally broke the 3-month downward trend in yields. Taking into consideration the fact that the front end of the curve has priced over 100bp interest rate easing and the yield curve has been surprisingly inverted by around 20 points negative 2y5y, the profit taking seemed to be a question of time. Moreover, historically the PLN market remained still too shallow to absorb the substantial government bonds supply in the secondary market, so every time when the bull trend was taking sizes of government securities on the MinFin auctions, we could face twice a rapid bear market while taking profits thereafter. As a result, we might face a deeper correction on the yield curve than we previously expected, especially if the global long term yield rise continued. We would also try to find any higher rates to reenter the receivers as we still believe in the substantial monetary easing starting this autumn.







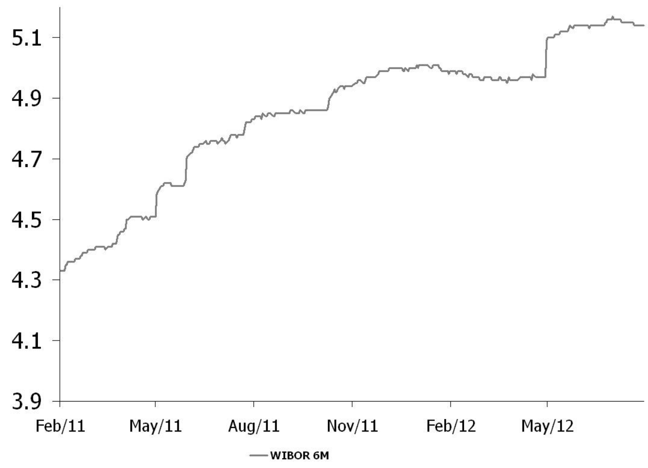


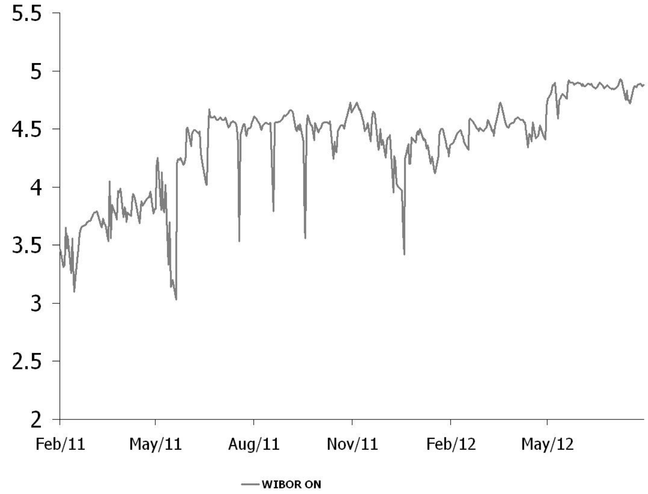
Money market

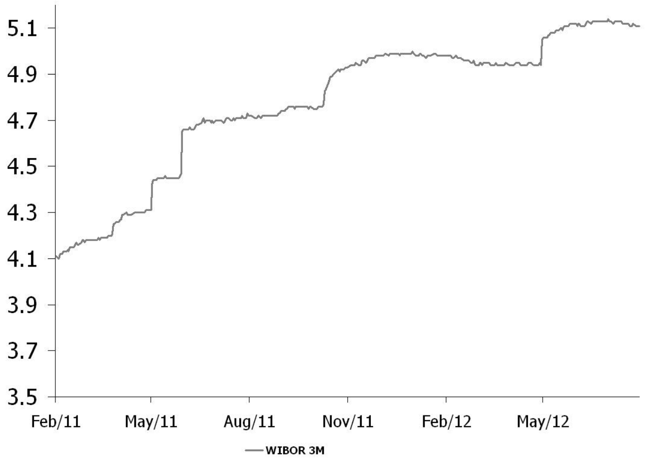
Money bills yields almost like 10Y bonds. Cost of carry nearby the main market rate, and this time without the intervention of the central bank. The appetite for the bills is justified since only 10Y bonds have better yields now. This makes us think that bonds, especially from the front end, are really expensive from the cost of carry perspective.

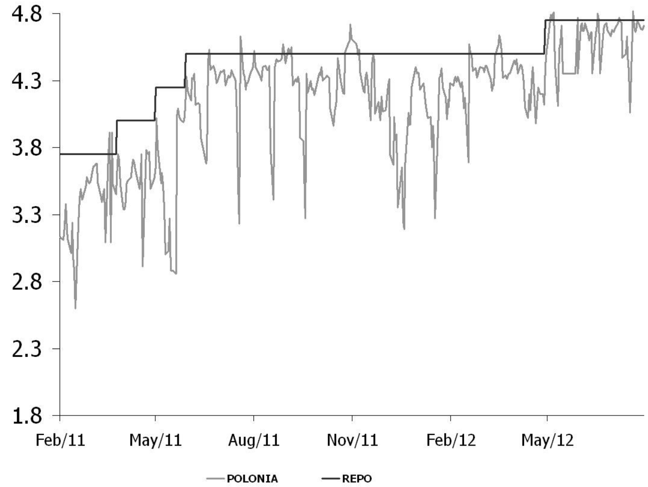
Volatility is there. No data this week, however volatility was quite nice. We had both: the sharp correction in yields (upward) at the beginning of the week and then bouncing back (downward). As of now we are again in a risk off mode, which is justified if we take into consideration the fact that there is already a lot in the curve and in a very aggressive pace, and more and more analyses show not only shorter easing cycle (75 bps rather then 100-125 priced by the market) and significantly less aggressive (25 bps this year rather then 75 bps). We disagree with the first bet and somewhat agree with the latter.

Close OIS payers from the long end.





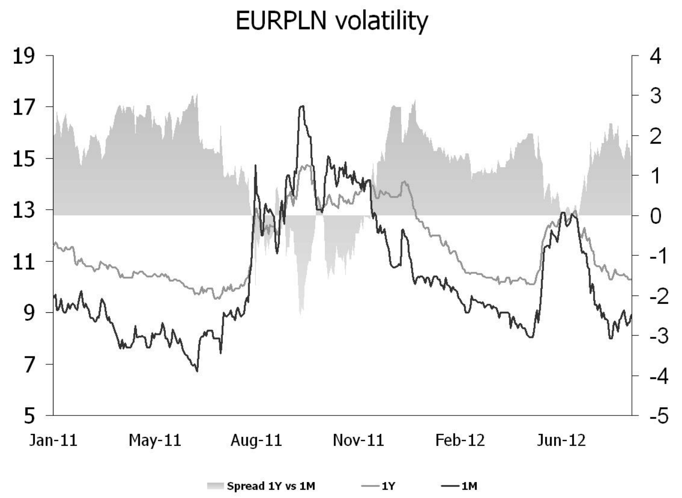




Forex

PLN at highs. The zloty was very volatile this week. The Polish bonds inflows / outflows were the main force behind the PLN moves. At the beginning of the week the inflows into bonds caused the EUR/PLN to hit this year's low at 4.0285. Then the healthy correction on bonds dragged the EUR/PLN briefly above 4.10. We think that such waltz may continue as the most likely consolidate in 4.03/4.10 range unless we will have a fresh decisive impulse from the global environment.

Stable. The Vols curves of EUR/PLN and USD/PLN hardly moved this week. The correlation Vol vs PLN is still in place, the Vols were offered slightly better with stronger PLN, but the change was insignificant. 3m EUR/PLN ATM vol mid is at 9.4, 1Y is at 10.4. Currency spread (difference between USD/PLN and EUR/PLN) is around 7.35.

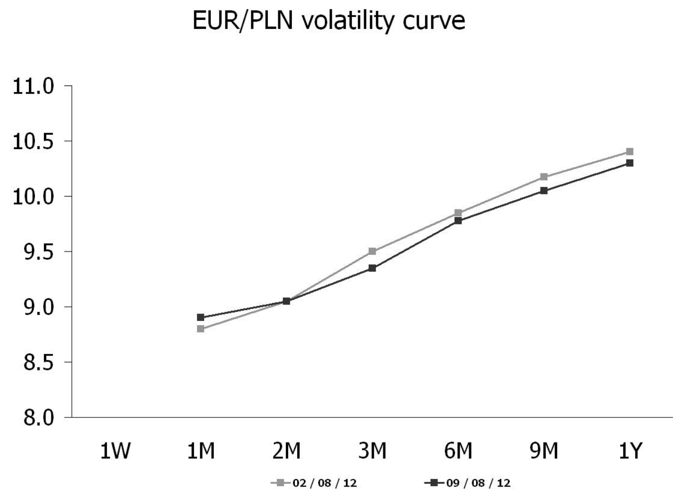


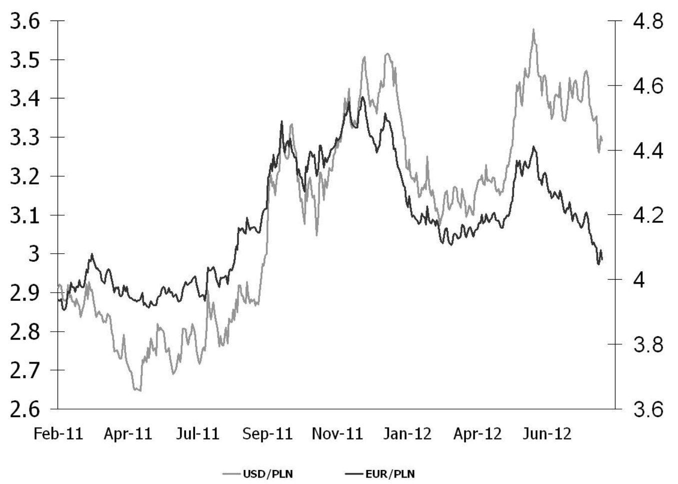
Short-term forecasts.

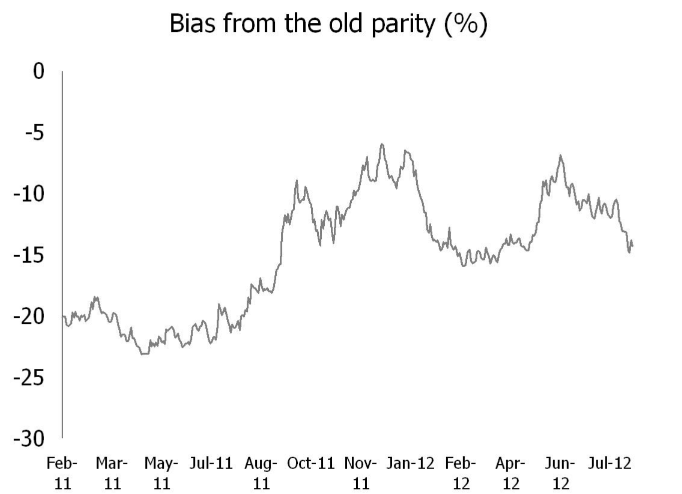
Main supports and resisances
EUR/PLN: 4.0250 / 4.1400
USD/PLN: 3.2400 / 3.4000

Spot. EURPLN is on its course for the 4.00 psychological support but we think it should see some decent bids on the way down. We will try small long EURPLN 4.02/4.03 with a stop loss below 4.00 and proft taking 4.10/4.14.

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 (around 1%). We still believe in the mean reverting nature of the vols, and hoping to see an upticks in vols in the weeks to come.







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
8/3/2012	4.84	5.12	4.92	5.04	4.87	5.05	5.08	4.87	4.44	4.14	3.94	4.42
8/6/2012	4.85	5.11	4.87	5.04	4.90	5.05	5.05	4.83	4.43	4.13	3.94	4.45
8/7/2012	4.83	5.11	4.92	5.04	4.87	5.04	5.05	4.85	4.49	4.23	4.07	4.52
8/8/2012	4.83	5.11	4.93	5.04	4.88	5.05	5.01	4.79	4.46	4.21	4.06	4.48
8/9/2012	4.98	5.11	4.99	5.04	5.02	5.04	5.01	4.79	4.49	4.26	4.12	4.51

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
8/3/2012	5.050	4.813	4.400	4.083	4.230	4.282	4.360	4.733
8/6/2012	5.050	4.813	4.370	4.077	4.170	4.291	4.325	4.725
8/7/2012	5.040	4.813	4.485	4.141	4.290	4.495	4.420	4.881
8/8/2012	5.050	4.813	4.450	4.054	4.305	4.404	4.430	4.868
8/9/2012	5.040	4.813	4.501	4.066	4.329	4.509	4.460	4.943

EUR/PLN 0-delta stradle					25-delta RR		25-delta FLY
Date	1M	3M	6M	1Y	1M	1Y	1Y
8/3/2012	8.50	9.20	9.70	10.40	10.40	3.57	0.77
8/6/2012	8.60	9.30	9.70	10.30	10.30	3.57	0.77
8/7/2012	8.60	9.30	9.70	10.30	10.30	3.56	0.77
8/8/2012	8.90	9.35	9.75	10.30	10.30	3.56	0.77
8/9/2012	8.90	9.35	9.78	10.30	10.30	3.57	0.77

PLN Spot performance						
Date	EURPLN	USDPLN	CHFPLN	JPYPLN	HUFPLN	CZKPLN
8/3/2012	4.0967	3.3548	3.4108	4.2891	1.4699	0.1620
8/6/2012	4.0486	3.2752	3.3709	4.1786	1.4631	0.1605
8/7/2012	4.0465	3.2606	3.3675	4.1581	1.4605	0.1612
8/8/2012	4.0918	3.3040	3.4074	4.2186	1.4725	0.1627
8/9/2012	4.0615	3.2915	3.3816	4.1925	1.4652	0.1616

Disclaimer