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Comment on the upcoming data and forecasts

On Tuesday data from the labor market will be published. We expect still lowering employment on the monthly basis, which corresponds to about zero annual growth rate. Declines are visible in construction and sales, in manufacturing there is still space for further deterioration - according to recent economic indicators. However, nothing proves that labor market weakening would be as abrupt as in 2009. Wages also point to the downtrend, but in August there were bonuses paid in the mining sector. On Wednesday Statistical Office will publish industrial data. Our forecast point to slightly negative annual growth rate of industrial production, which reflects both high statistical base effect and deteriorating activity (seen in recent SAMAR data - vehicles production dropped by 41% m/m in August, economic indicators - PMI reading surprised negatively and weak German manufacturing data). We treat higher growth rate in July as an outlier driven by inventories sales (and therefore not connected with higher demand). The reading about 0% should pull the MPC’s trigger and result in the rate cut in October. On Thursday NBP will publish core CPI (calculations point to lower 2.1% y/y growth rate) and Minutes from the August MPC meeting (yet a bit historical).

Polish data to watch: September 17th to September 21st

Publication	Date	Period	BRE	Consensus	Prior
Employment y/y (%)	18.09.	Aug	0.0	0.0	0.0
Wages y/y (%)	18.09.	Aug	3.1	3.1	2.4
Industrial production y/y (%)	19.09.	Aug	-0.7	1.9	5.2
PPI y/y (%)	19.09.	Aug	2.9	3.0	3.7
Core CPI y/y (%)	20.09.	Aug	2.1	2.1	2.3
MPC Minutes	20.09.	Aug			

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	19-09-12	4000	4.361	8/1/2012
10Y T-bond DS1021	19-09-12	4000	5.349	5/10/2012
20Y T-bond WS0429	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	2.2	1.5
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 %)	3.50	3.50	4.50	4.25	3.25

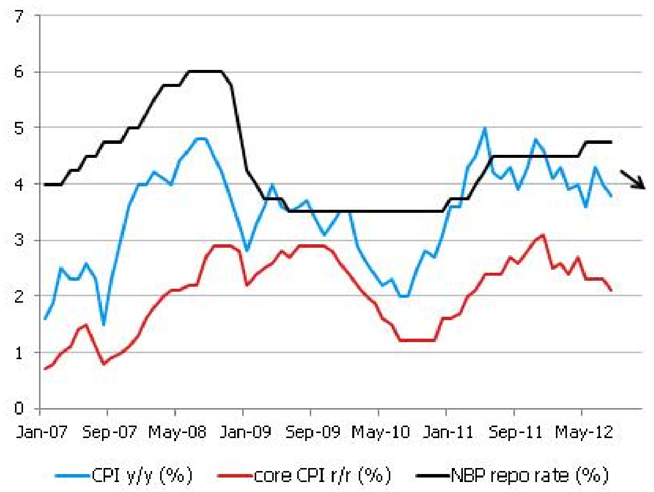
	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3 F	2012 Q4 F
GDP y/y (%)	4.2	4.3	3.5	2.4	2.0	1.3
CPI Inflation y/y (average %)	4.1	4.6	3.9	4.0	3.9	3.2
Repo rate (end of period %)	4.50	4.50	4.50	4.75	4.75	4.25

F - forecast

Economics

Lower inflation in August - downtrend more and more visible

Annual inflation rate decreased by 0.2pp. to 3.8% in August, which was in line with market expectations. On monthly basis CPI dropped by 0.3%. The main driver of the deceleration were food prices that leveled off by 1.1% on monthly basis (similarly as in Czech Republic led by seasonal reductions of fruit and vegetables prices: -9% m/m) and wearing apparel that decreased by 2.8% (stronger than in our region). Fuel prices increased by 0.9% m/m. Among core categories inflation on monthly basis remained limited to 0-0.2% (instead of before mentioned apparel) and our calculations show that core inflation decreased in August by 0.2pp to 2.1%. The downtrend on core inflation becomes then more and more visible.



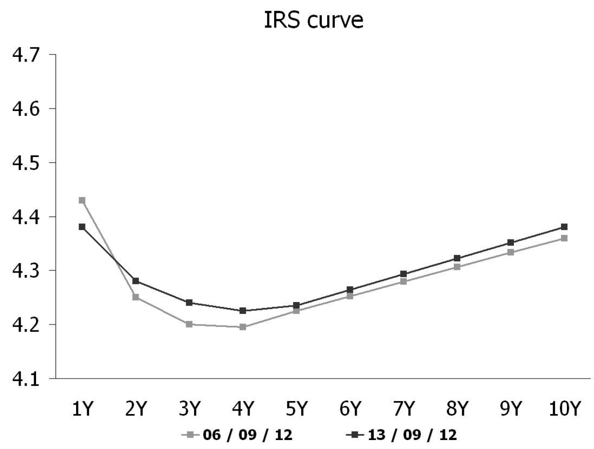
Next month is likely to bring a slight increase of inflation towards 4.0% on the back of higher fuel prices growth. Downtrend on the headline CPI will become more visible in October, when the statistical base effects start to act. Then we expect it to fall towards 3% in the end of the year.

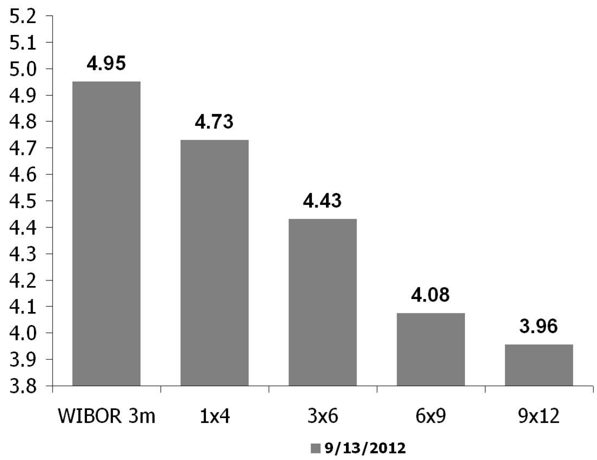
The data had no significant market impact, but we believe they add some probability to the scenario of 25bp. cut in October (in the sense that unlike higher reading it is not an obstacle to monetary policy easing). Bratkowski's dovish statement just after the publication with the significant change in MPC's rhetoric during September meeting confirm this scenario or even the appetite for more significant move (50bp?) - especially if (as we predict) industrial production annual growth rate appears negative. We expect the relatively deep slowdown of Polish economy and therefore the whole loosening cycle of monetary policy (125bp).

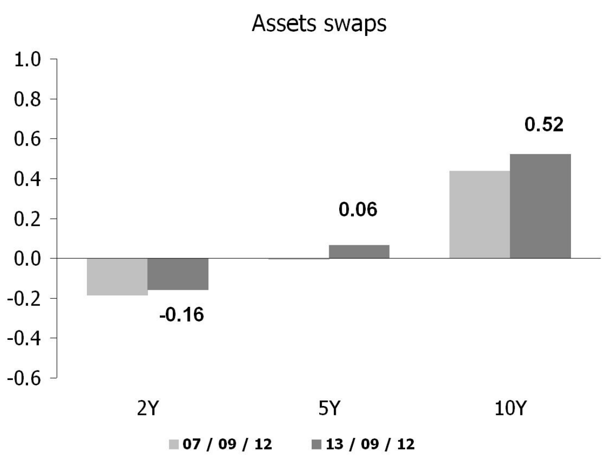
Fixed income

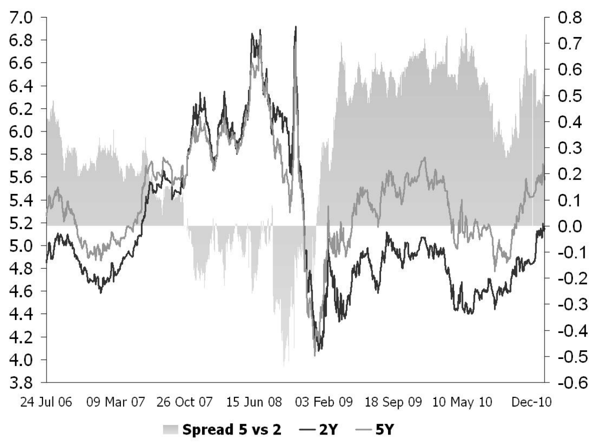
Steeper and steeper

Last week the FI market remained relatively quiet, as markets were awaiting Thursday's FOMC decision and local CPI data. There's been some selling pressure in longer end of the curve, pushing yields higher by some 5-7bp. Nevertheless improved global sentiment and no surprise from inflation let the market rebound. In the meantime some MPC members commented in quite dovish tone about current economic situation and rates perspectives. We think that inflation was that last thing that could have caused some noise here. Next data this month should rather be supportive for the curve (negative IP reading maybe) and therefore rate cuts expectations can still grow. We still think that curve should steepen, especially bond curve in 5y-10y sector. Even though FinMin has already financed over 90% of this year borrowing needs, there will still likely be reasonable supply, as current levels are quite attractive and oportunity to prefinance for next year will be used. We think it will be interesting to watch further developments of dovish stance within the MPC. They've already made the first step, we think they will go further after data will point to more serious slowdown. We maintain our views for steeper curve, wider asset-swap spreads and still lower rates in the front end.





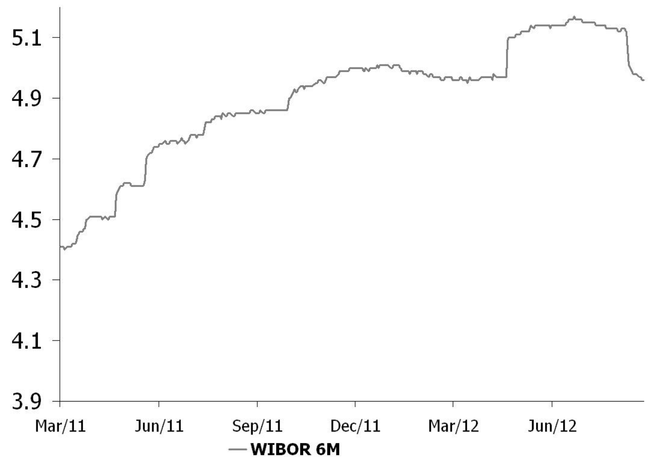


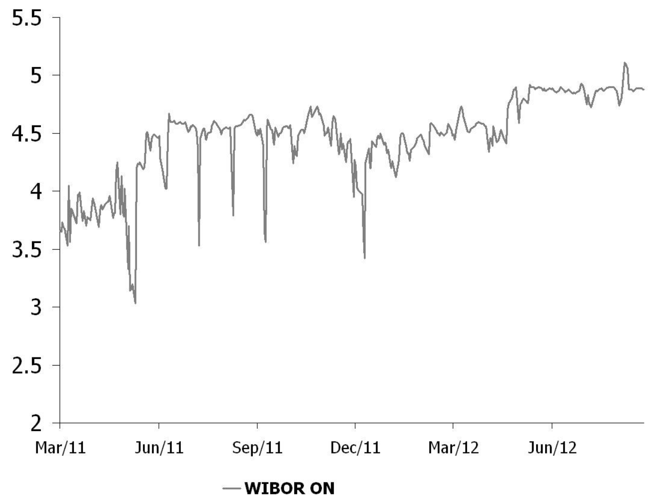


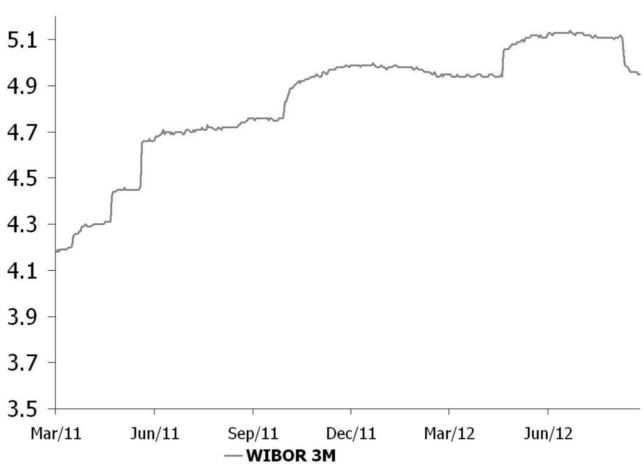
Money market

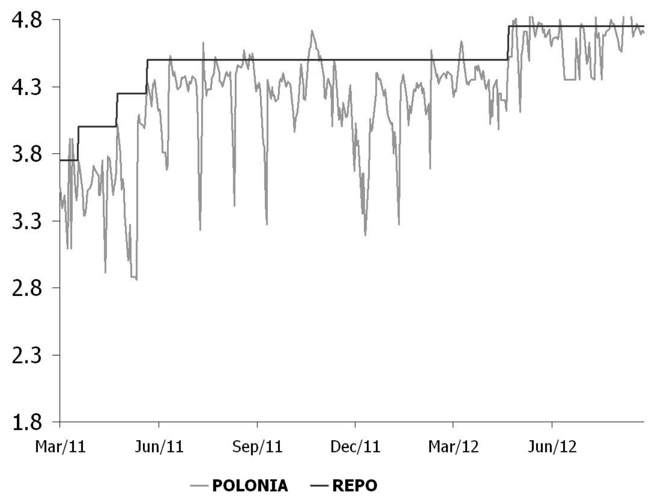
Tedious week with square liquidity and figures in line
All in all quite tedious week behind.

Liquidity with a slight surplus and shortest rates at 4.7% level. Nothing will change next week since after today's OMO the situation has not changed much.
CPI figure came at 3,8% which was exactly in line with expectations. Some dovish comments from the MPC members indicate growing probability of the cut in October. In our opinion it still strongly relies on the industrial output figure, and some on the retail sales. Therefore, as of now, we bet on 25 bps cuts in October and then in November. If the MPC does not deliver cut in October, we see a chance of 50 bps cut in November. To sum up, we see 50-75 bps easing till the end of this year, and then 50-75 bps more in 1q 2013.









Forex

PLN rises on FED fuel The Fed has finally delivered, what was expected from him. We have QE 3 in full swing, and door open for future QE4. EUR/PLN has dropped to 4.0490 low from 4.1200 the day before. We think we will enter a consolidation phase in the 4.03/4.08 range

Lower with stronger PLN The correlation: stronger PLN translates into lower Vols, worked one more time. The most impressive drop was again in the front end: 1m atm mid is 8.6% against 9.5% a week ago. The backend slipped by roughly 0.5% to current 9.8% mid 6m (versus 10.3 week ago) and 10.3% mid 1 year versus10.6%. The skew and currency spread (deference between USD/PLN and EUR/PLN), are also lower. 3M 25RR has decreased from 3.0% to 2.3%, 1Y has decreased from 3.8% to 3.5%, the C/S is lower roughly by 0,5 % .

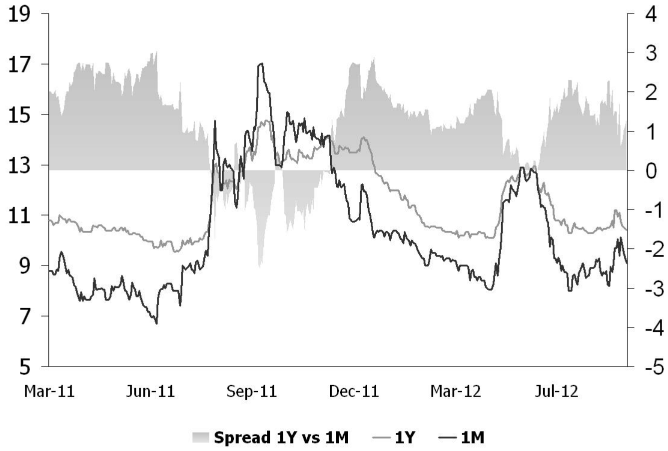
Short-term forecasts.

Main supports and resisances
EUR/PLN: 4.0250 / 4.1250
USD/PLN: 3.0000 / 3.2500

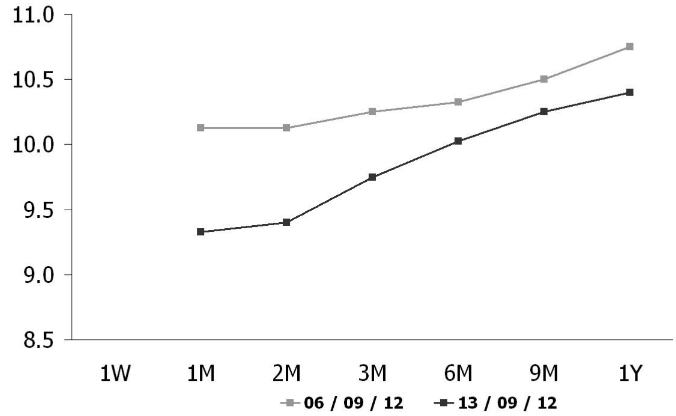
Spot. Longs in EUR/PLN stopped at 4.10. Technically, we probably should sell 4.0650/4.0750 region with stop above 4.10 and eyes on 4.000. But we are not mentally prepared to do that, this euphoria is simply to beautiful to be true. Sidelined at the moment.

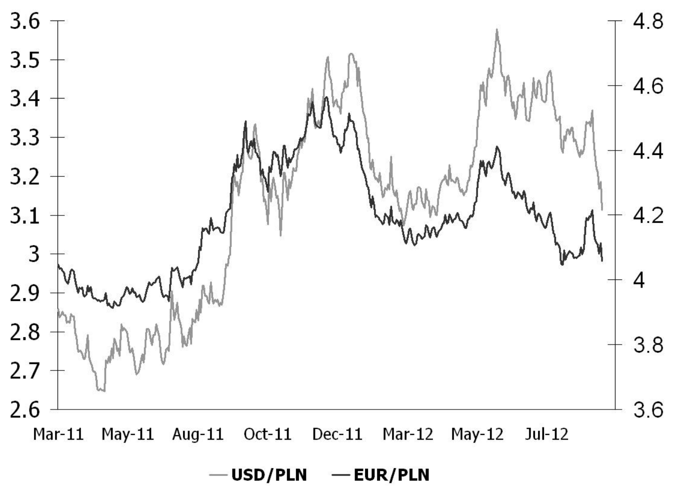
Derivatives. The strong floor for EUR/PLN vols (1m ATM 8% , 1y mid 10.0%),has already has proven itself several times in last 3 years. The Vols are still at levels which are attractive for buyers. We are keeping the core long in the backend Vega in EURPLN.

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
9/6/2012	4.63	4.96	4.70	4.88	4.58	4.90	4.76	4.45	4.10	3.94	3.88	4.08
9/7/2012	4.65	4.96	4.70	6.49	4.60	6.59	4.76	4.44	4.09	3.92	3.85	4.09
9/10/2012	4.65	4.96	4.75	4.87	4.65	4.89	4.71	4.42	4.12	3.95	3.89	4.09
9/11/2012	4.65	4.96	4.70	4.87	4.60	4.89	4.75	4.41	4.08	3.94	3.92	4.10
9/13/2012	4.62	4.95	4.70	4.86	4.63	4.88	4.73	4.43	4.08	3.96	3.95	4.08

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
9/6/2012	4.900	4.813	4.250	4.059	4.225	4.215	4.360	4.814
9/7/2012	6.590	4.813	4.253	4.068	4.233	4.227	4.370	4.809
9/10/2012	4.890	4.813	4.265	4.095	4.238	4.265	4.390	4.890
9/11/2012	4.890	4.813	4.267	4.092	4.236	4.253	4.401	4.869
9/13/2012	4.880	4.813	4.280	4.123	4.235	4.300	4.380	4.902

EUR/PLN 0-delta stradle					25-delta RR		25-delta FLY
Date	1M	3M	6M	1Y	1M	1Y	1Y
9/6/2012	10.13	10.25	10.33	10.75	10.75	3.64	0.78
9/7/2012	9.78	9.90	10.18	10.55	10.55	3.64	0.78
9/10/2012	9.50	9.95	10.05	10.53	10.53	3.64	0.78
9/11/2012	9.35	9.80	10.13	10.48	10.48	3.63	0.78
9/13/2012	9.33	9.75	10.03	10.40	10.40	3.62	0.77

PLN Spot performance						
Date	EURPLN	USDPLN	CHFPLN	JPYPLN	HUFPLN	CZKPLN
9/6/2012	4.1580	3.2955	3.4508	4.2019	1.4630	0.1681
9/7/2012	4.1275	3.2578	3.4071	4.1277	1.4342	0.1678
9/10/2012	4.1141	3.2189	3.3971	4.1086	1.4434	0.1678
9/11/2012	4.1085	3.2098	3.4023	4.1091	1.4438	0.1674
9/13/2012	4.1146	3.1852	3.3963	4.0990	1.4487	0.1681

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