

# Weekly economic update

2 – 8 September 2013

Last week of summer holidays was rather nervous on the financial markets. Worries over military intervention in Syria together with expectations for the end of the QE3 triggered a massive weakening of risky assets, mainly currencies of developing countries. Currencies in CEE region were also under pressure, but suffered less than in other parts of the world (currencies of India and Indonesia lost ca. 10% and 7% since the beginning of the month, respectively). Domestic data confirmed materialisation of a scenario of gradual economic revival and this should be continued in the following quarters. Furthermore, MPC members seemed to have returned from holidays as plenty of comments on the monetary policy emerged. They expressed similar opinions which gave a clear message that interest rates shall remain unchanged at least until the end of the year.

As MPC members sounded quite convincing when saying no changes in monetary policy should be expected in the nearest future, the September's meeting of the Council shall not bring any breaking information. Thus, decisions of foreign central banks is likely to be more important, mainly the Fed's one, and any data that may influence market expectations regarding the time and pace of tapering of the QE3. Among the latter, change of monthly non-farm payrolls should attract biggest attention. Developments in Syria will surely influence market sentiment in the short term.

## Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		LAST VALUE
					MARKET	BZWBK	
<b>MONDAY (2 September)</b>							
	US	Market holiday					
3:45	CN	PMI – manufacturing	Aug	pts	50.2	-	47.7
<b>9:00</b>	<b>PL</b>	<b>PMI – manufacturing</b>	<b>Aug</b>	<b>pts</b>	<b>51.7</b>	<b>51.6</b>	<b>51.1</b>
9:53	DE	PMI – manufacturing	Aug	pts	52.0	-	50.7
9:58	EZ	PMI – manufacturing	Aug	pts	51.3	-	50.3
<b>TUESDAY (3 September)</b>							
9:00	CZ	Flash GDP	2Q	%YoY	-	-	-2.4
16:00	US	ISM – manufacturing	Aug	pts	54.0	-	55.4
<b>WEDNESDAY (4 September)</b>							
	<b>PL</b>	<b>MPC decision</b>		<b>%</b>	<b>2.50</b>	<b>2.50</b>	<b>2.50</b>
9:00	HU	Flash GDP	2Q	%YoY	-	-	-0.9
9:53	DE	PMI – services	Aug	pts	52.4	-	51.3
9:58	EZ	PMI – services	Aug	pts	51.0	-	49.8
11:00	EZ	Preliminary GDP	Q2	%YoY	-0.7	-	-1.1
20:00	US	Fed Beige Book					
<b>THURSDAY (5 September)</b>							
<b>11:00</b>	<b>PL</b>	<b>Auction of OK0116/PS0718 bonds worth PLN4-8bn</b>					
12:00	DE	Industrial orders	Jul	%MoM	-1.0	-	3.8
13:45	EZ	ECB decision		%	0.50	-	0.50
13:00	GB	BoE decision		%	0.50	-	0.50
14:15	US	ADP report	Aug	k	180	-	200
14:30	US	Initial jobless claims	week	k	330	-	331
16:00	US	Industrial orders	Jul	%MoM	-3.5	-	1.5
<b>FRIDAY (6 September)</b>							
8:00	DE	Exports	Jul	%MoM	1.0	-	0.6
9:00	CZ	Industrial output	Jul	%YoY	-	-	-5.3
12:00	DE	Industrial output	Jul	%MoM	-0.5	-	2.4
14:30	US	Non-farm payrolls	Aug	k	180	-	162
14:30	US	Unemployment rate	Aug	%	7.4	-	7.4

Source: BZ WBK, Bloomberg, Reuters, Parkiet

**Maciej Reluga** Chief economist +48 22 586 8363

**Piotr Bielski** +48 22 586 8333

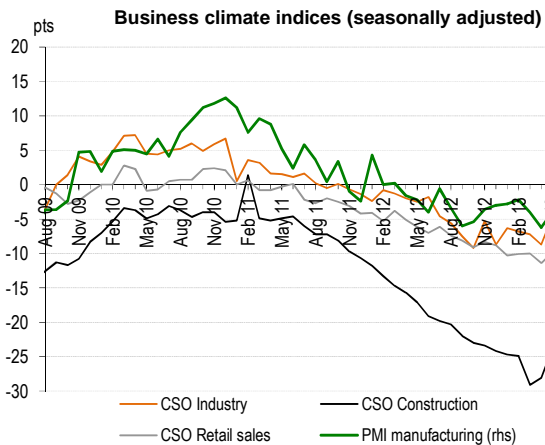
**Agnieszka Decewicz** +48 22 586 8341

e-mail: ekonomia@bzwbk.pl

**Marcin Sulewski** +48 22 586 8342

**Marcin Luziński** +48 22 586 8362

## What's hot this week – PMI more important than MPC

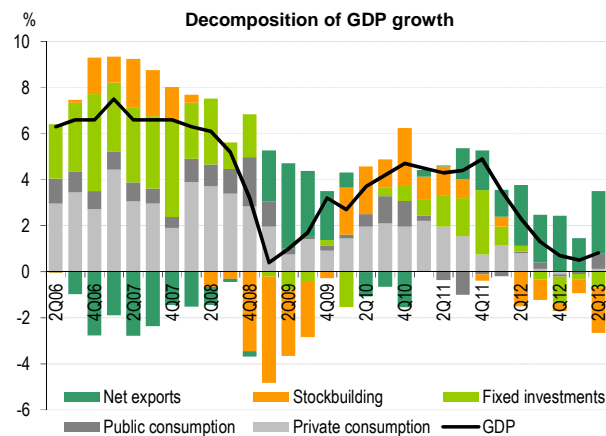


- August's PMI index for the Polish industry will be important hint whether the economic recovery signalled by recent macro data is continuing and at what pace. After strong surge of PMI above 50 pts in July, we expect to see further moderate rise of activity index, being the result of growing production and orders (mainly external ones). Such forecasts are supported by the fact that August saw another increase of flash PMIs in the euro zone and higher indices of business climate computed by the CSO.
- The MPC meeting is unlikely to raise much emotion. After numerous comments of MPC members about no reasons to consider changes in interest rates (in the last days of holidays, half of the Council members were present in the media!) it is hard to imagine a different scenario than leaving main interest rates on hold at least until the end of this year.

## Last week in the economy – The economy has bottomed out



- Retail sales growth accelerated in July to 4.3%YoY from 1.8%YoY one month earlier, and was the highest since August 2012. Signals of revival in consumer demand were also confirmed by data about retail trade turnover – its growth accelerates to 4.5%YoY, the most since April 2011.
- The registered unemployment rate decreased in July to 13.1%. The number of unemployed was 7.2%YoY higher than last year, which is the slowest growth this year. There were 111.8k people wrote off from unemployment rolls due to undertaking new job, which represents 22.3%YoY growth.
- The data suggested that at the start of Q3 consumers were more willing to spend. It could have been connected with slight improvement of situation in the labour market. If this trend persists, then domestic demand will join the net exports as one of drivers of economic growth.



- GDP growth amounted to 0.8%YoY in Q2.
- Breakdown of economic growth showed a continued weakness of domestic demand – decline by 1.9%YoY, i.e. deeper than in last four quarters. This was due to stronger decline of investments (-3.8%) and drop in inventories (negative contribution to GDP of 2pp.) Individual consumption posted a paltry recovery (increase by 0.2%YoY). Similarly as in previous quarters, net export was the main driver of growth (contribution to growth +2.5pp).
- In general, data on 2Q GDP fitted our scenario, presented already some time ago, assuming a gradual rebound of the economy, driven mainly by exports. After series of positive first releases from Q3, we see upward risk for our estimates of economic growth in the upcoming quarters – in 3Q economy may expand significantly above 1% and in 4Q pace of growth may even be above 2%.

## Quote of the week – No reasons for changes

**Elżbieta Chojna-Duch, MPC member, 28.08, Reuters**

Real interest rate, i.e. difference between inflation and our rate, should amount to ca. 1 percentage point.

**Jan Wlwiecki, MPC member, 28.08, PAP**

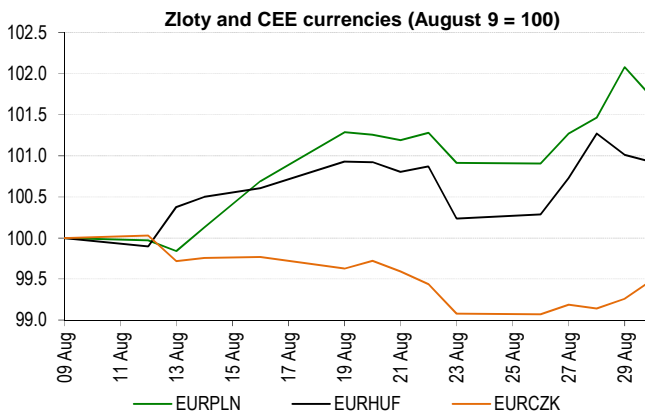
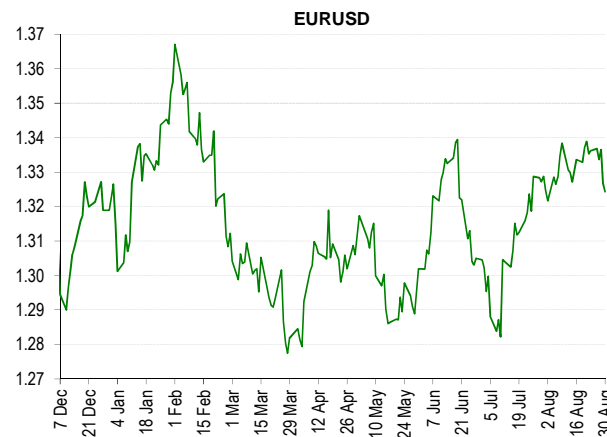
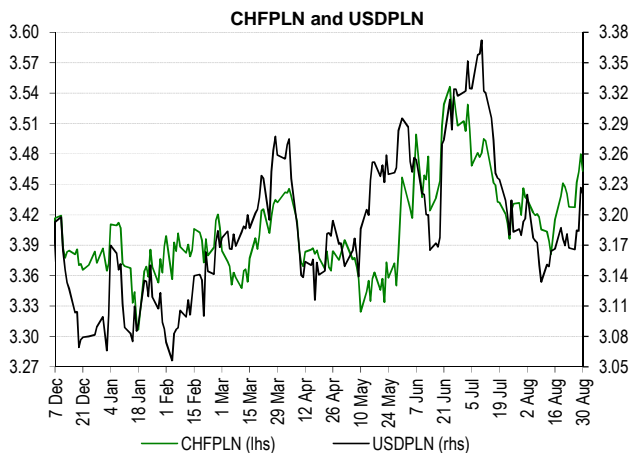
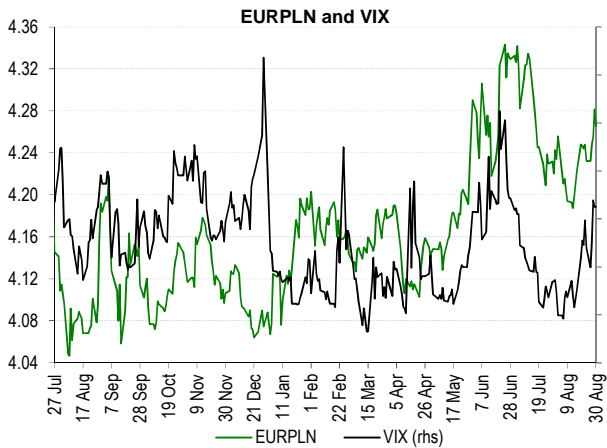
In the short-term I see no reasons to change interest rates.

**Zyta Gilowska, MPC member, 29.08, Reuters**

Currently Polish interest rates are at all-time lows. We should wait for their positive influence on the economy. We should not 'fan ourselves with interest rates', monetary policy needs a lot of reason.

Last week was quite rich in MPC members' comments. It seems rather strange, given that there is an informal blackout on comments about monetary policy prospects, one week ahead of the MPC meeting. Message of these comments does not bring much new, as regards assessment of future MPC policy – rates will remain unchanged in the upcoming time, probably until the year-end. Elżbieta Chojna-Duch referred to the real interest rate issue – in her view the spread between inflation and nominal interest rate should be equal to ca. 1pp. If CPI rises in line with our expectations, then – provided that Chojna-Duch's comment sets a rule for the monetary policy, room for hikes will appear at the beginning of 2014.

## Foreign exchange market – MPC overshadowed by news from US and Syria



### Zloty the weakest since mid-July amid risks in Syria

▪ Elevated risk aversion persisting on the global market at the beginning of the week put clearly negative pressure on the zloty. EURPLN broke resistance at 4.26 tested already twice in the previous week and the upward momentum halted just below 4.30 (highest level since mid-July). At the end of the week a recovery to ca. 4.26 was recorded as worries over military intervention in Syria faded.

▪ The domestic currency was also weakest since mid-July vs. the dollar, the Swiss franc and the British pound.

▪ Global events remain crucial factor driving the Polish foreign exchange market. The outcome of the MPC meeting should not shed any new light on the monetary policy outlook, data from the US and news on Syria seem to be crucial. In the next paragraph we highlight that in case of any positive surprises from the US releases there is quite significant room for fall in EURUSD rate and this may have a negative impact on the domestic currency.

▪ The level reached last week (nearly 4.30) is now the first serious resistance for EURPLN. Breaking this level would open the door for an increase towards 4.34. Support is at 4.25 (next one at 4.22).

### EURUSD plunges, investors turn towards the dollar

▪ Worries over tensions in Syria encouraged investors to buy the dollar rather the euro. Inflow of capital to safe assets triggered quite sudden plunge of EURUSD. The dollar was also supported by better than expected data on 2Q US GDP data. This dragged the exchange rate to nearly 1.32, vital support at daily chart and lowest level since mid-April.

▪ Coming week, although may begin in a quiet atmosphere due to closed market in the US, may be quite volatile. At the beginning of the month when the Fed may decide to start trimming the size of monetary policy stimulus, data on activity in manufacturing and the crucial numbers from the labour market will be released. July's ISM index surprised to the upside while the change in non-farm payrolls was slightly smaller than expected.

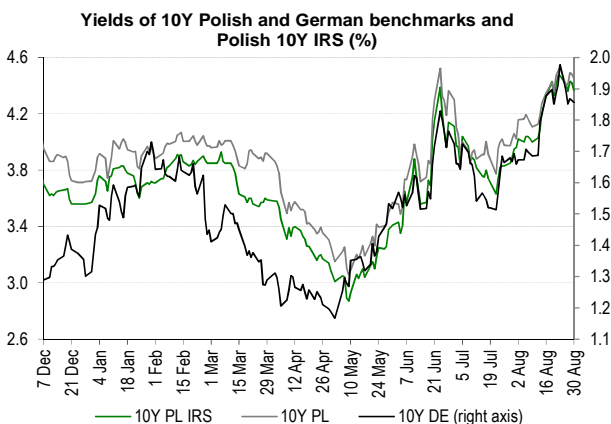
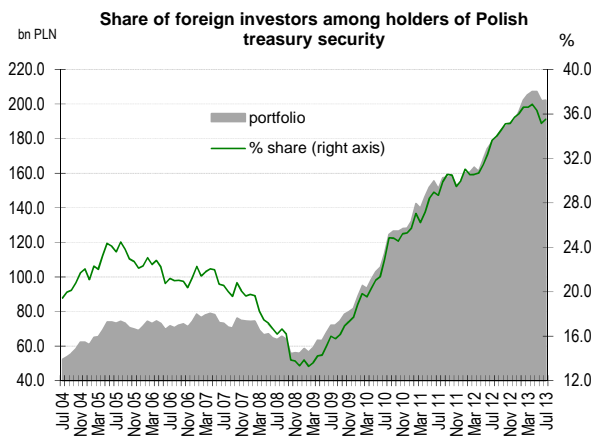
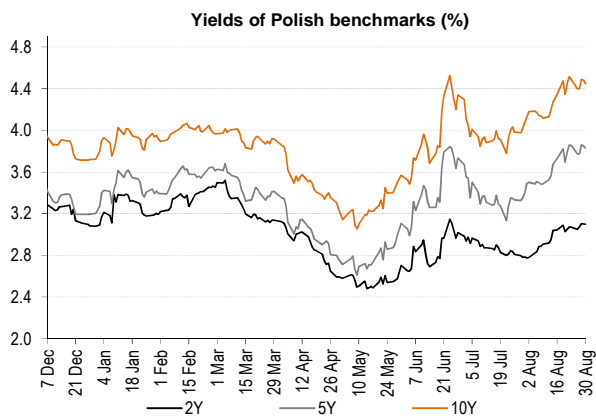
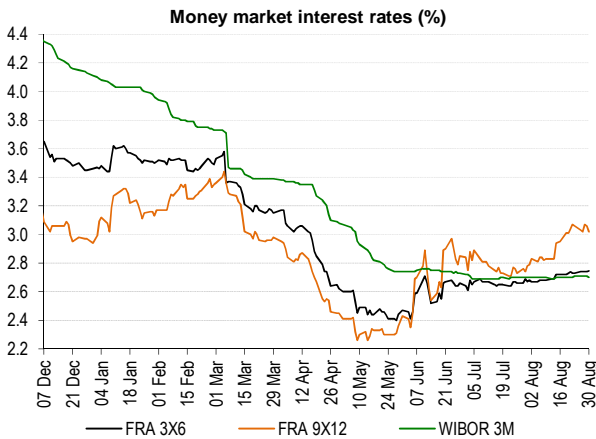
▪ Thanks to data released during the past two months in Germany, the euro trimmed losses suffered versus the dollar after the first remark of Bernanke that QE3 may be tapered this year (EURUSD surged from 1.275 to 1.34). If the coming US data beat expectations, there may be quite significant potential for the market to start again aggressively price in QE3 tapering in late September. Support for EURUSD is at 1.32 (next one at 1.31), resistance at 1.34.

### Forint lost, koruna gained amid risk aversion

▪ Just like in the past periods of elevated risk aversion, also this time the Czech koruna performed vs. the euro clearly better than the zloty and the forint. The Hungarian currency was at some point losing even ca. 2% versus the euro (EURHUF reached 303.3 temporarily – highest level since early April – vs. 297.2 at the beginning of the week) and the zloty 1.8%. EURCZK declined to 25.57 at the beginning of the week and then rebounded to 25.72 when markets stabilised. On weekly basis zloty lost ca. 1%, forint ca. 1.2% and koruna 0.2% vs. the euro.

▪ Next to global factors (Syria, US data), revision of Czech and Hungarian GDP data will be important for koruna and forint. The first estimate for Czech Republic proved slightly better than expected (-1.2%YoY vs. -1.4%YoY). We still see room for higher EURHUF (towards 307), while EURCZK is still in the range of 25.45-26.1.

## Interest rate market – Under influence of future Fed's action

**Money market relatively stable ...**

- Situation on the money market did not change significantly last week. WIBOR rates were more or less stable; in weekly terms 1M WIBOR decreased by 1bp, while both 6M and 12M inched up by 1bp.

- As in previous weeks, FRA market was a bit more volatile. Fears about military intervention in Syria caused rates increase, in particular for longer tenors, in which FRA9x12 climbed towards 3.10%, but without testing this level. We would like to highlight that FRA9x12 has stabilised slightly above 3% since mid-August. It suggests anchoring of expectations that the first hike may take place in 9 months horizon.

**... higher volatility on T-bonds and IRS markets**

- Last week investors' mood on the domestic T-bonds and IRS markets were under influence situation in Syria. The continuation of uncertainty with regard to the conflict in Syria (increased risk of military intervention) resulted in sell-off of domestic debt, but also other risky assets. Consequently, yield of 10Y benchmark climbed towards 4.50% (weekly maximum was at 4.49%), while 10Y IRS went up to 4.45%.

- 5Y sector (both T-bonds and IRS) underperformed the front-end of curves. As a result spread 2-5Y widened, which translated into curves steepening. End of the week brought some rebound as the probability of immediate international military action in Syria receded after the UK's declaration.

- As expected, in July foreign investors slightly increased their holding in Poland's treasury papers (slightly above PLN202bn). However, in monthly terms non-residents' portfolio went up by only PLN0.35bn. Taking into account results of regular auction of 2Y T-bonds, we expect foreign investors' holding to climb more visibly. In September the Ministry of Finance will offer on regular auction (05.09) OK0116/PS0718 worth PLN4-8bn. This month the Ministry will also organize switch tender (25.09), on which it would like to buy back DS1013 and OK0114.

**Macro data crucial for markets**

- This week investors' attention will be concentrated on macroeconomic data. As regards domestic information, manufacturing PMI is the only release. The expected increase of the index may give another impulse for higher market rates in longer tenors in FRA market, as well as bonds and IRS (mostly at the short-end).

- As Syria strikes fears eased (at least temporary), the market may start to focus again on expectations regarding the Fed action ahead of the meeting scheduled for 18-19 September. In this context, data from the US labour market for August to be released next Friday are vital. A significant improvement in (un)employment statistics could reinforce forecasts that tapering would be announced in two weeks time. If such a scenario materialises, this would probably lead to further weakening in long-term bonds.

- Meetings of the central banks scheduled for this week will be in the background: on Wednesday the Polish MPC, on Thursday the ECB and BoE. It is quite obvious that monetary policy parameters will not change. The statement of the Polish Council will be important to assess the medium-term path of official rates, especially given recent sharp rebound of 12M CPI and clear signs of economic recovery. We do not expect any clear signals from the MPC this month. As regards foreign central banks, the relatively dovish stance of the Bank of England and the ECB (new CPI and GDP projections will be published) may slightly improve market moods.

---

This publication has been prepared by Bank Zachodni WBK S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Bank Zachodni WBK S.A., its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Bank Zachodni WBK S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Bank Zachodni WBK S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication. Additional information is available on request. Please contact Bank Zachodni WBK S.A. Rates Area, Economic Analysis Department, ul. Marszałkowska 142, 00-061 Warsaw, Poland, phone +48 22 586 83 63, email ekonomia@bzwbk.pl, <http://www.bzwbk.pl>