

Weekly economic update

30 September – 6 October 2013

After strong fluctuations recorded after the surprising FOMC decision on keeping the QE3 unchanged, markets stabilized somewhat during the past week. Despite there are still some important risk factors alive – when Germany will have new government, will Berlusconi be expelled from the parliament and will this shake the Italian government, when the Fed will start to reduce the scale of monetary stimulus, will US politicians reach an agreement on lifting the debt ceiling – no visible movements were present recently on the market. Perhaps investors needed a few days to take a deeper breath after a few weeks of waiting for Fed's decision and subsequent short-term, but quite high volatility observed last week.

In the coming days we may see solutions to some of the uncertainty factors mentioned above. The US politicians should reach agreement on the next year's budget before October 1. The outcome of these talks may provide a hint on the pace at which talks on lifting the debt ceiling will be carried (according to estimates, the limit may be reached in mid-October). Just like in the past week, also this time five voting FOMC members will give public speeches, including Fed's governor, Ben Bernanke. Those speeches will take place before and after data on US nonfarm monthly payrolls. Stabilization observed recently on the market may be also terminated by information from Italy. Voting on expelling Silvio Berlusconi from the parliament after he was found guilty of tax fraud will take place on Friday, that is the day when crucial US data will be released. Last week members of his party warned that if the former PM is expelled, they will withdraw their support for coalition government of Enrico Letta. Outcome of ECB meeting may be also interesting. Recently Mario Draghi suggested possibility of launching next LTROs, if needed. Domestic events should have no significant impact on the market. The MPC will leave interest rates on hold. More interesting will be September's PMI index, which will give a hint on condition of Polish industry at the end of Q3.

Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		LAST VALUE
					MARKET	BZWBK	
MONDAY (30 September)							
3:45	CN	PMI – manufacturing	Sep	pts	51.2	-	50.1
11:00	EZ	Flash HICP	Sep	%YoY	1.2	-	1.3
14:00	PL	Current account	Q2	€m	1453	1453	-2055
14:00	PL	Inflation expectations	Sep	%YoY	-	-	0.2
TUESDAY (1 October)							
9:00	PL	PMI – manufacturing	Sep	pts	52.3	52.5	52.6
9:53	DE	PMI – manufacturing	Sep	pts	51.3	-	51.8
9:58	EZ	PMI – manufacturing	Sep	pts	51.1	-	51.4
16:00	US	ISM – manufacturing	Sep	pts	55.2	-	55.7
WEDNESDAY 2 October)							
	PL	MPC decision		%	2.50	2.50	2.50
13:45	EZ	ECB decision		%	0.50	-	0.50
14:15	US	ADP report	Sep	k	175	-	176
THURSDAY (3 October)							
9:53	DE	PMI – services	Sep	pts	54.4	-	52.8
9:58	EZ	PMI – services	Sep	pts	52.1	-	50.7
11:00	PL	Bond auction					
14:30	US	Initial jobless claims	week	k	315	-	305
16:00	US	Industrial orders	Aug	%MoM	0.2	-	-2.4
16:00	US	ISM – services	Sep	pts	57.0	-	58.6
FRIDAY (4 October)							
14:30	US	Non-farm payrolls	Sep	k	180	-	169
14:30	US	Unemployment rate	Sep	%	7.3	-	7.3

Source: BZ WBK, Bloomberg, Reuters, Parkiet

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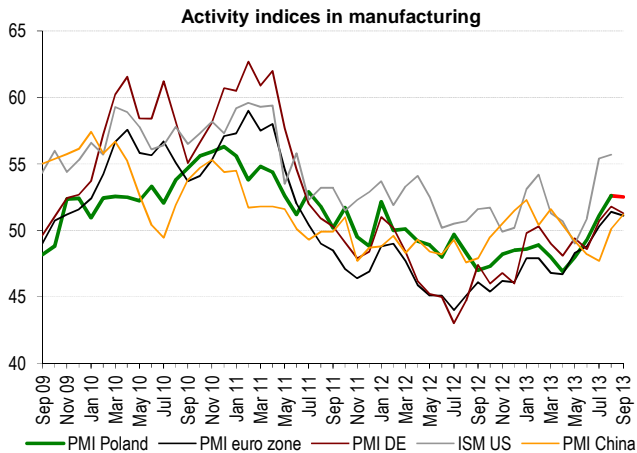
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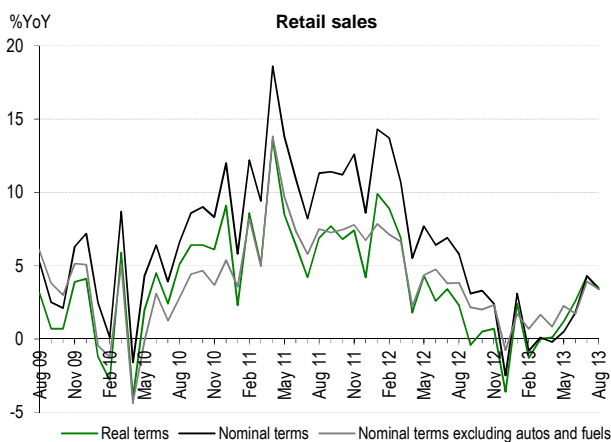
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What's hot this week – PMI and balance of payments data, unexciting MPC meeting



- Comments of the MPC members (see details below) show that Wednesday's meeting will bring no important changes and basic monetary policy parameters will stay on hold. However, signals about interest rates path in 2014 may be important for the market.
- Data on balance of payments for Q2 are due for release on Monday. Monthly numbers suggest that this was the first quarter with positive current account balance in modern history.
- This week we will also see PMI index for Polish manufacturing in September. In recent months the indicator used to deliver positive surprises (since April it has been advancing by 1.4pts per month on average). Flash PMI indices for the euro zone and for Germany in September have shown some correction and we are expecting a similar situation for Poland.

Last week in the economy – Another positive surprise



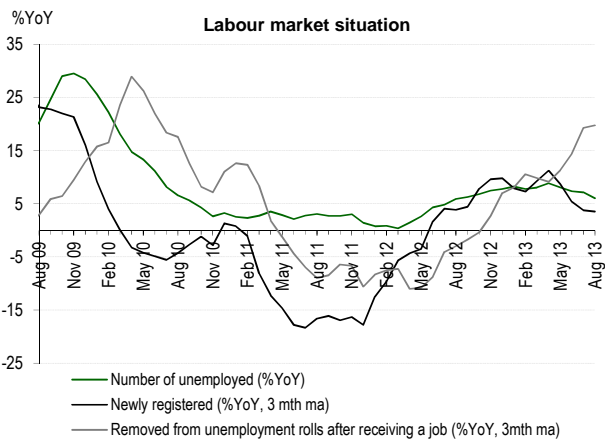
- Retail sales in current prices increased in August by 3.4%YoY, below July's figure (4.3%) but above our forecasts and market consensus (2.5% and 2.8%, respectively). In real terms, total retail sales increased by 3.5%YoY (vs. 4.3%YoY).

- It is worth to notice that while in 2Q retail sales increased by 1.5%YoY in real terms and by 0.8%YoY in whole first half of this year, first two months of 3Q brought an average rebound by ca. 4%YoY. The strength of the improvement is also well reflected in data on retail trade turnover (which include also small shops, in contrast with retail sales). There was some slowdown recorded as well, but only to 4.3%YoY from 4.5%YoY in July.

- These data confirm the scenario expected by us assuming that domestic demand will finally join exports, which have been solely driving the recovery in 1H. This will be supported by further improvement of situation on the labour market, confirmed again by data released by the CSO.

- Unemployment rate declined in August to 13.0% from 13.1%, in line with suggestion of the Ministry of Labour, and contrary to our forecast and market consensus (13.1%). As compared to July, the number of unemployed declined by nearly 10k and this was already sixth month when this tendency is observed. The annual pace of increase of number of unemployed reached 6%, the lowest level since August 2012. The number of newly registered unemployed declined by over 30k on monthly basis and was lower than a year ago.

- Situation on the labour market is improving, but still at a sluggish pace. In the upcoming months unemployment rate is likely to increase in line with the seasonal pattern, to ca. 13.7% at the year-end.



Quote of the week – We surely will not change rates until the year-end

Marek Belka, NBP governor, 26.09, PAP

(...) we surely will not change rates until the year-end. And then we will see and probably apply some form of «forward guidance».

Jerzy Hausner, MPC member, 23.09, PAP

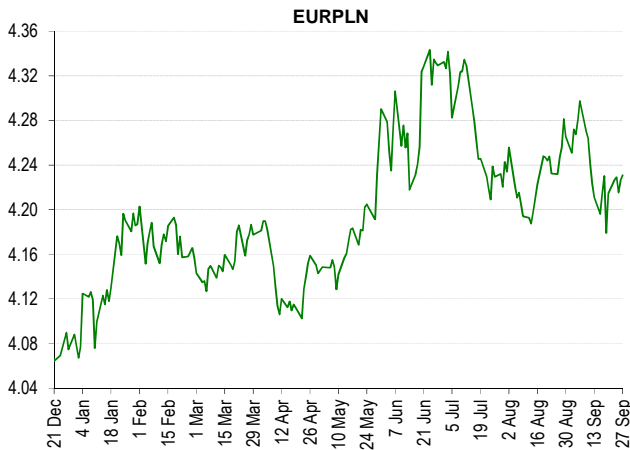
Expectations that current level of interest rates will be maintained also for some part of 2014 are justified. How long will this part be – this will be dependent on strength of economic revival.

Andrzej Sławiński, head of NBP Economic Institute, 25.09, PAP

Currently I see no factors which can boost inflation. We should be expecting inflation to stay at relatively low level and then to return to inflation target.

Recent comments of central bank representatives, especially of governor Belka, confirm that interest rates will remain unchanged at least until the year-end. It seems that in the MPC there is a camp building up, eager to extend the flat-rate period through 2014. In our view this group may consist of the same members, who were crucial in bringing interest rates to current all-time low (Belka, Bratkowski, Chojna-Duch, Hausner, Zielińska-Głębocka). Still, in the upcoming months the signals of economic recovery will be gaining strength, while inflation will be slowly approaching towards the target. We think that this should encourage the Council to hike rates in mid-2014.

Foreign exchange market – Slight changes in expectation for next impulse



EURPLN stable, zloty awaiting impulse

▪ Last week in the PLN market was characterised by much lower volatility than the previous one. Next sessions after the FOMC decision brought stabilisation of EURPLN exchange rate in the range 4.20-4.23. The upper end of this range has been tested several times, yet without a success. The exchange rate finished the week close to, yet below 4.23.

▪ There were no breakthrough changes in USDPLN, CHFPLN and GBPPLN (although in the latter case, the range of weekly fluctuations was wider than for the others).

▪ It seems that, similarly as the global market, the EURPLN is awaiting the next impulse, which could trigger strong and persistent trend. This week several important issues may be resolved (US budget, Berlusconi's fate), which together with US data and comments of Fed officials may, after a week-long break, initiate more significant fluctuations in the currency market. At the very start of the week the market may be affected by the fact that the EURPLN exchange rate in the last day of September determines the level of direct subsidies for farmers. In the recent years appreciation of the zloty was observed in this particular moment. Important levels for EURPLN are 4.20 (next support 4.14) and 4.23 (next resistance 4.25).

EURUSD without major change

▪ After reaching 1.357 in reaction to surprising Fed decision, in the next days EURUSD was gradually decreasing. The data released last week did not increase the volatility. In the first part of the week the rate reached the support at 1.346 and in the following days it was fluctuating between this level and peak reached after FOMC decision. Bloomberg's data suggest that weekly range of fluctuations was the lowest since July 2007.

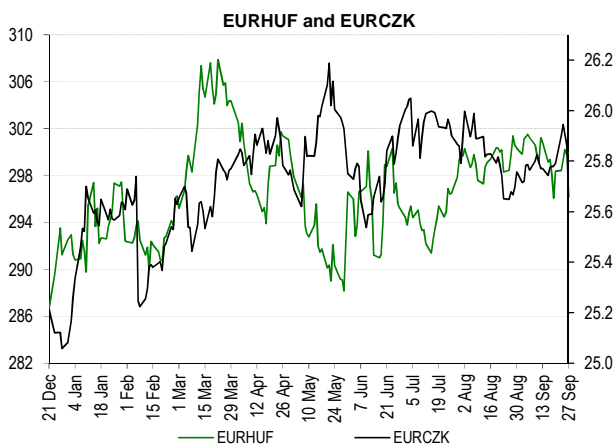
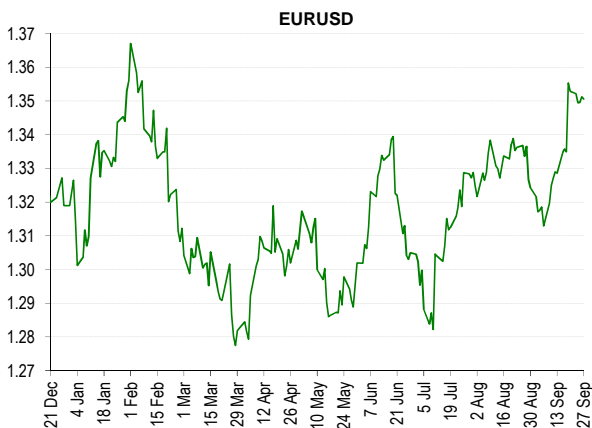
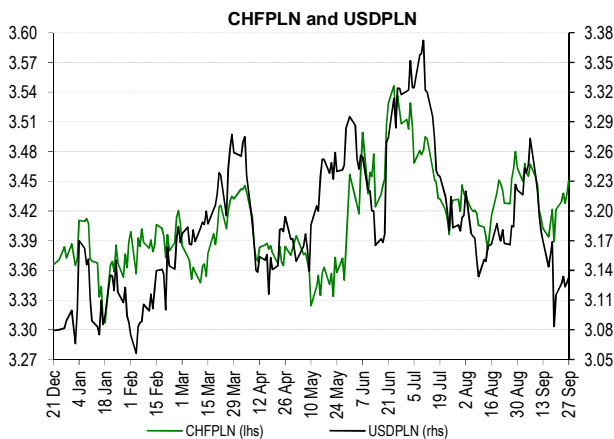
▪ We expect that the nearest days will see the change of the situation. Friday looks particularly interesting, when in Italy there will be voting on whether Berlusconi will be expelled from the Senate, while in the USA the monthly data on non-farm payrolls will be released. After their release, dome FOMC members will have opportunity to make some comments. Thus, it is very likely that the stabilisation seen last week will end up pretty quickly.

▪ The short-term support is at 1.346, next one at 1.34. Resistance is at 1.36.

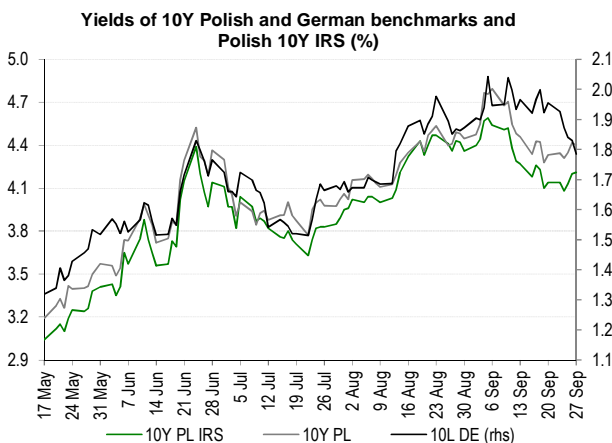
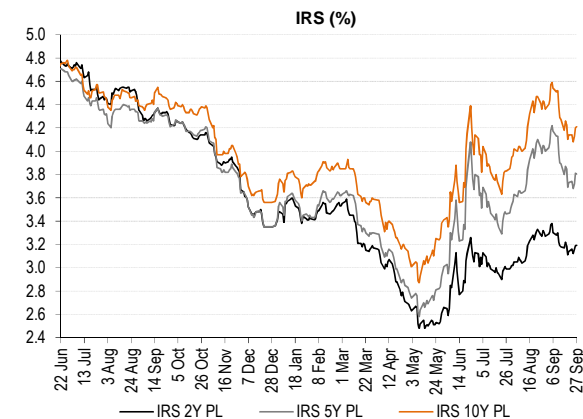
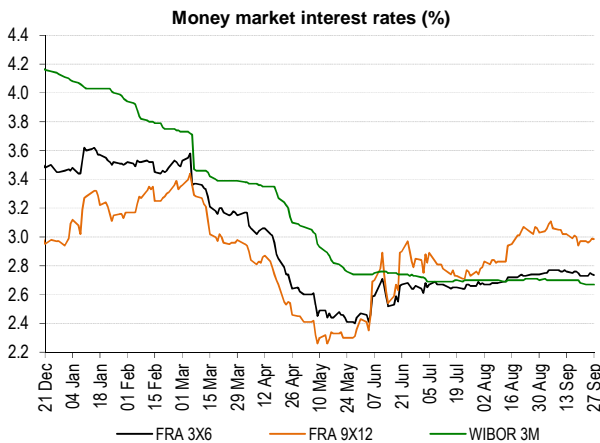
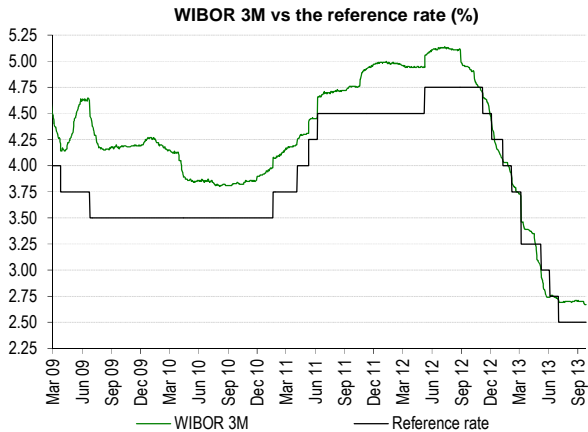
Koruna appreciating, forint quite stable

▪ In the last week the biggest changes took place in the EURCZK market. Czech central bank, in line with expectations, kept main interest rates on hold at 0.05%. However, the lack of suggestion of possible FX intervention in the statement surprised investors and contributed to strengthening of koruna versus euro. Even though the CNB president underscored at the press conference that the risk of entering the market by the central bank is still high, the currency has maintained gains. As a result, EURCZK temporarily reached 25.54, lowest level since last decade of June. Due to stabilisation of EURPLN and clear drop of EURCZK, last week the zloty was weakest versus koruna since first decade of September.

▪ EURHUF, similarly as EURPLN, did not change significantly during the last week. Forint only slightly lost against euro due to concerns that the Hungarian central bank may cut interest rates stronger than expected. However, this time the MNB did not surprise the market and trimmed rates from 3.80% to 3.60%, in line with market consensus.



Interest rate market – Another auction, focus on events abroad



WIBORs slightly down, FRA with no major changes

■ Last week brought some declines of WIBOR 3-12M rates. The downward move was supported by Fed's decision to leave the quantitative easing programme unchanged, and by suggestions of MPC members that period of flat rates in Poland can be extended beyond the end of 2013. We are not expecting further declines of WIBORs in the upcoming weeks or months. In our view, coming weeks will show light increases of these rates due to incoming data showing gradual improvement of economic situation in Europe and in Poland. No important changes took place on the FRA market last week.

■ There is a broad consensus on the market that MPC will keep interest rates unchanged in October. In our view the statement and the press conference will not change monetary policy outlook and will not affect the market.

Auction results set the market direction

■ Results of switch auction were negatively perceived by the investors and have markedly affected IRS and debt market last week. Finance Ministry placed bonds worth PLN3.8bn. Sales of 10Y benchmark DS1023 raised PLN2bn (at yield of 4.31%, ca. 100bp more than at the last auction of this paper in May) while WZ0119 PLN1.8bn. Demand was rather slim, while deputy finance minister Wojciech Kowalczyk was expecting a strong demand one day before. After the auction Kowalczyk said the demand was satisfactory given the current market conditions. However, the market reacted negatively to relatively low bond sales.

■ Over the week 2Y and 10Y IRS climbed by ca. 5bp, 5Y by 8bp. Shape of the curve did not change much, while the bond curve reshaped quite visibly. Short-term bonds concluded the week close to levels from last Friday, while middle and the long end of the curve jumped by 7bp.

■ Apart from 2-5Y and 2-10Y spreads, last week brought a widening of spread between Polish 10Y and its German counterpart, which increased to ca. 260bp from 240bp.

■ Deputy finance minister, Wojciech Kowalczyk said that at the beginning of Q4 the ministry is planning to begin prefinancing the 2014 borrowing needs. Kowalczyk added that planned changes in OFE will lower next week's needs by ca. PLN35bn. However, demand will be also lower. Kowalczyk also said that in Q4 the ministry will show bond offer also for the foreign market (euro and dollar-denominated papers).

Another auction, important global events

■ Another auction is scheduled for this week. In October a sum of PLN33bn will inflow on the market (PLN23bn due to redemption of maturing bonds and PLN10bn due to coupon payments), so Finance Ministry will probably try to take advantage of such favourable liquidity conditions. Next such solid inflow will take place in January (PLN24bn).

■ Apart from results of the auction, IRS and bond markets will be also affected by news from the USA and from Europe. The week will probably be rich in high volatility, so Polish interest rate market can be affected by both Bunds and peripheral papers, like Spanish and Italian.

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