

WEEKLY ECONOMIC UPDATE

25 November – 1 December 2013

Government reshuffle, announced already a couple of weeks ago, was the main domestic event this week. Resignation of minister Jacek Rostowski was suggested some time ago already, but name of his successor took the markets and analysts by surprise. This is Mateusz Szczurek, the current chief economist of ING Group for CEE region. His name was neutrally interpreted by the FI market, probably due to his declarations that he will continue the current fiscal policy. Market interest rates increased last week mainly due to global developments. EURPLN exchange rate ended the week close to 4.20.

Global market was significantly affected by rumours that the ECB may cut deposit rate to -0.1% and later denial of these by Mario Draghi. As regards FOMC, signals from this authority appearing over last two months were rather mixed. On one hand, future Fed governor Janet Yellen said before the US Senate banking commission that the FOMC should not hurry with QE3 tapering. But on the other, minutes of the last FOMC meeting included a suggestion that scale of monetary stimulus may be decreased soon. This week we will see a row of important US figures, which may affect market's expectations about QE3. In Poland we will see the GDP growth breakdown in Q3, which however is not expected to affect the trade significantly.

Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		LAST VALUE	
				MARKET	BZWBK		
MONDAY (25 November)							
16:00	US	Pending home sales	Oct	%MoM	2.0	-	-5.6
TUESDAY (26 November)							
10:00	PL	Retail sales	Oct	%YoY	4.3	3.2	3.9
10:00	PL	Unemployment rate	Oct	%	13.0	13.0	13.0
14:00	HU	Central bank decision		%	3.2	-	3.40
14:30	US	Building permits	Oct	k	923	-	925
14:30	US	House starts	Oct	k	935	-	935
15:00	US	S&P/Case-Shiller home price index	Sep	%MoM	0.9	-	0.9
16:00	US	Indeks nastroju konsumentów	Nov	pts	72.1	-	71.2
WEDNESDAY (27 November)							
14:30	US	Initial jobless claims	week	k	330	-	323
14:30	US	Durable goods orders	Oct	%MoM	-1.7	-	3.8
15:55	US	Michigan index	Nov	pts	73.0	-	72.0
THURSDAY (28 November)							
	US	Market holiday					
FRIDAY (29 November)							
10:00	PL	GDP	Q3	%YoY	1.9	1.9	0.8
10:00	PL	Private consumption	Q3	%YoY	1.0	1.2	0.2
10:00	PL	Fixed investments	Q3	%YoY	-2.0	-2.0	-3.2
11:00	EZ	Flash HICP	Nov	%YoY	0.9	-	0.7
14:00	PL	Inflation expectations	Nov	%YoY	-	-	0.9

Source: BZ WBK, Reuters, Bloomberg, Parkiet

ECONOMIC ANALYSIS DEPARTMENT:

ul. Marszałkowska 142. 00-061 Warszawa fax +48 22 586 83 40

email: ekonomia@bzwbk.pl Web site: <http://www.bzwbk.pl>

Maciej Reluga (Chief Economist) +48 22 534 18 88

Piotr Bielski +48 22 534 18 87

Agnieszka Decewicz +48 22 534 18 86

Marcin Luziński +48 22 534 18 85

Marcin Sulewski +48 22 534 18 84

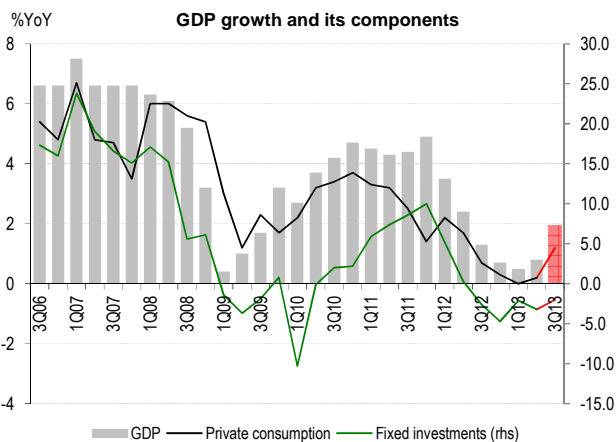
TREASURY SERVICES:

Poznań +48 61 856 5814/30

Warszawa +48 22 586 8320/38

Wrocław +48 71 369 9400

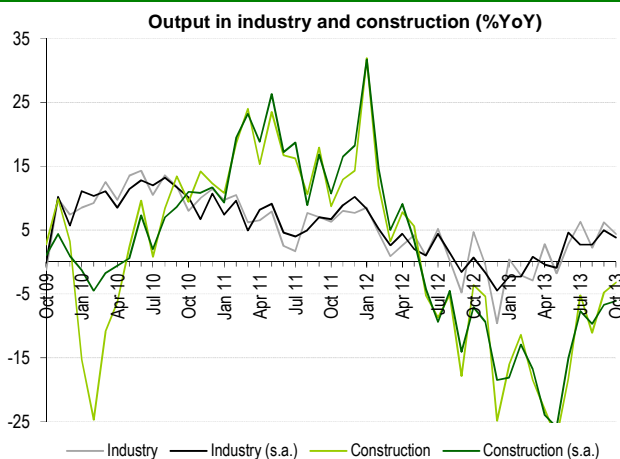
What's hot this week – GDP, sales and unemployment



■ This week the CSO will release detailed data on GDP growth in Q3. We are expecting a revival in individual consumption (to 1.2%YoY from 0.2%YoY) accompanied by still negative (but improving) growth rate of investment. The latest CSO data on companies' financial results are suggesting that a positive surprise is possible in this area, as firms' investment outlays improved considerably in Q3. In general, figures should confirm that recovery is appearing in an increasing number of economic areas and that accelerating GDP growth is not only due to exports, but also due to domestic demand.

■ Registered unemployment rate probably remained unchanged in October at 13.0% (estimate of Ministry of Labour is at the same level), while growth rate of retail sales remained above 3%YoY, clearly above pace of growth in the first half of the year (we see some upward risk for our forecast).

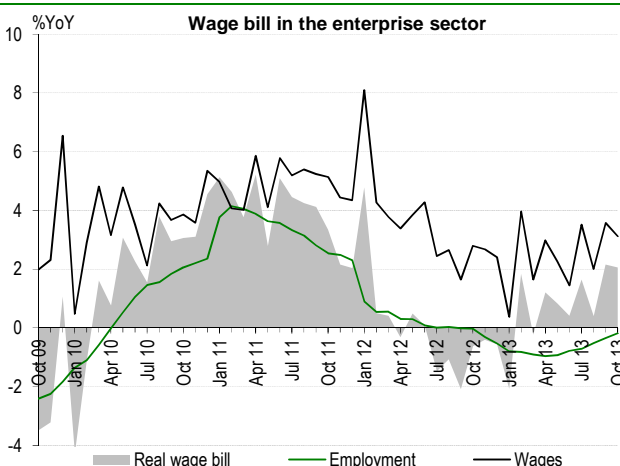
Last week in the economy – First good data for Q4



■ Industrial output increased in October 4.4%YoY. Number of working days was the same as a year ago and this was one of factors that dragged the annual pace of growth below September's result, which was supported by a positive working days effect. Just like in previous months, best performance was recorded in sectors traditionally focused on foreign markets. This indicates that export is still a very important engine driving the ongoing recovery.

■ Construction and assembly output surprised to the upside – annual pace of growth improved to -3.2%YoY. This result was probably partly due to relatively convenient weather conditions in October. Nevertheless, this was yet another month of recovery of this sector after a deep contraction seen in H1 and it seems to confirm gradual rebound in investments.

■ PPI increased in October to -1.3%YoY from -1.4%YoY in September. Industrial sector continues to face no cost pressure.



■ Annual change of employment in the corporate sector inched up in October to -0.2% from -0.3%YoY in September after a monthly increase of employed by 5k. Such a good result was probably partially due to favourable weather conditions in October, which sustained seasonal jobs (for example in construction). On the other hand, employment has increased for already 6th month in a row, so we may say that this is not a temporary phenomenon but rather a firm trend. Additionally, companies are reporting rising demand for labour amid inflow of new domestic and foreign orders. Thus, these positive trends are expected to strengthen in coming quarters.

■ Average wages in the corporate sector increased by 3.1%YoY in October. Real growth of wages stays at a moderate level (2.3%YoY), which is supporting private consumption growth, but is not generating excessive increase of labour costs for companies.

Quote of the week – Not harming growth and caring about public finance

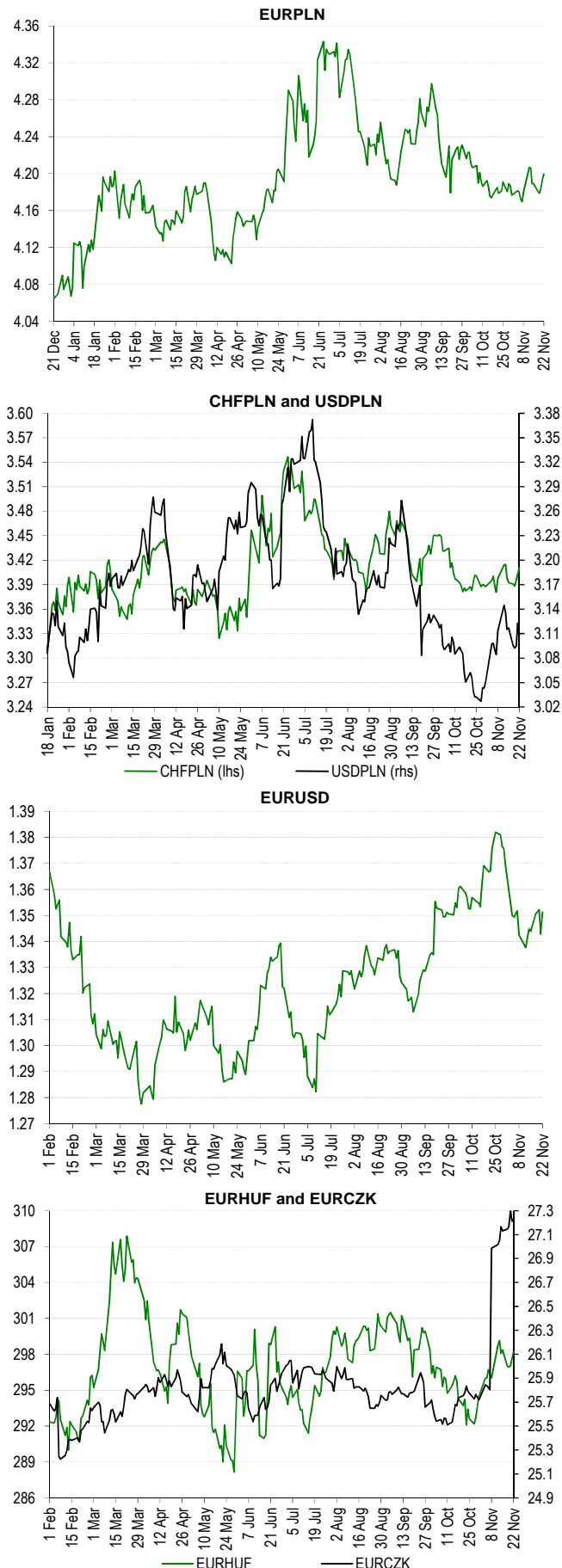
Mateusz Szczurek, candidate for finance minister, 20.11

Aims? Not harming growth and caring about public finance. My objective is to make Poland's huge leap forward possible. Making sure this leap it is not short-lived or directed into the abyss.

Bloomberg 22.11: The time to spend is when growth is disappointing and not when growth and employment recover. This was the principle of the policy run by the current finance minister, and I strongly believe it was the right policy. (...) Perhaps the biggest challenge will come in 2015, when the new EU budget-financed projects will need to be weighed against the state of the economy. I believe that if the latter proves good, the public outlays should be counterbalanced by lower non-investment spending.

New finance minister is a current chief economist of ING Group for CEE region, a person, who has dealt with analysis of Polish economy and financial markets for several years. His first comments are suggesting that current Finance Ministry policy will be continued. Draft of budget for 2014 and OFE bill will not be changed considerably. Szczurek declared that he will try to combine anti-cyclical fiscal policy with care about safety of public finance and obeying the fiscal rules. He also announced his willingness to implement actions aimed at making lives of domestic entrepreneurs easier. We hope that he will deal with this matter better than his predecessors.

Foreign exchange market – Vital US data in the spotlight



Worries over further FOMC decisions drive the zloty

▪ Only at the beginning of the week the domestic currency continued the appreciation trend vs. the euro. Expectations for that QE3 tapering will be postponed, fuelled after Yellen speech were overshadowed by correction on the stock exchanges (after FOMC minutes release), next wave of Czech koruna depreciation and surprising candidate for new Polish minister of finance (rather unknown by foreign investors). Mainly due to global events, EURPLN declined temporarily below 4.175 (it reached 4.165) and then rebounded to 4.20. Data on industrial output were in line with market consensus and contrary to our expectations did not support the zloty.

▪ The price of the US dollar did not change much on weekly basis, but due to high volatility of EURUSD one cannot say that nothing happened during the last week on the market. After reaching 3.075 at the beginning of the week, USDPLN rebounded to 3.13 in the following days. Finally, the zloty pared losses and USDPLN ended the week close to 3.10.

▪ Despite the fact that downward move on stock exchanges halted very fast and the euro started to recover vs. the dollar, the zloty remained under pressure. Uncertainty and sudden changes of market expectations regarding future FOMC decisions (in reaction to next macro data) may have the biggest impact on the market. Thus, US data due to be released this week may prove important. Vital levels for EURPLN are still at 4.14 and 4.24.

Rumours about ECB actions fuel EURUSD volatility

▪ Speculations about possible next decisions of the ECB and German data had biggest impact on the euro vs. the US dollar during the past week. In the middle of the week some rumours emerged saying that the central bank may cut deposit rate to -0.1% if further easing of the monetary policy is needed. This put pressure on the single currency (EURUSD reached nearly 1.34). One day later Mario Draghi denied that such discussions have recently taken place and this comment – together with better than expected German Ifo data – pushed the exchange rate above 1.35.

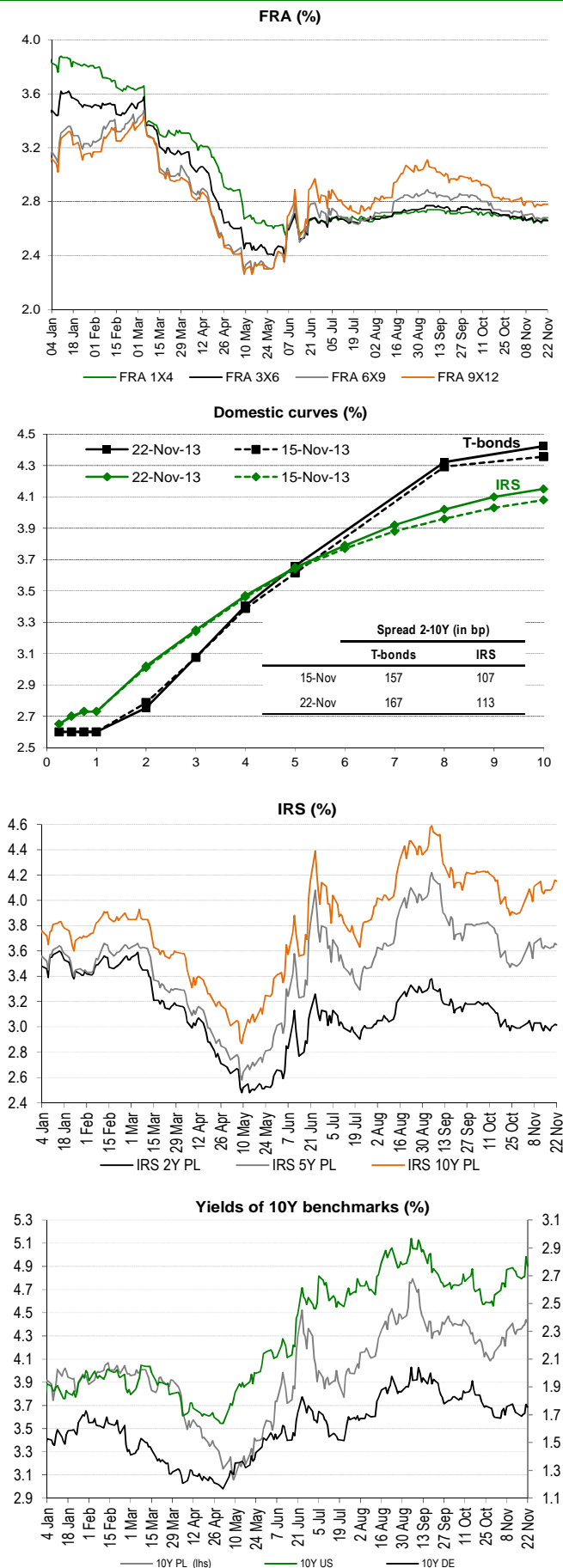
▪ As regards FOMC, signals from this authority, appearing over last two months were rather mixed. On one hand, future Fed governor said before the US Senate banking commission that the FOMC should not hurry with QE3 tapering. But on the other, minutes of the last FOMC meeting included a suggestion that scale of monetary stimulus may be decreased soon. This week we will see a row of important US figures, which may affect market's expectations about QE3. Support and resistance are at 1.34 and 1.356, respectively.

Koruna even weaker, forint awaits MNB decision

▪ Czech koruna depreciated further during the past week. Lubomir Lízal from the Czech central bank said that lifting the floor for EURCZK from 27.0 to 28.0 is not unrealistic unless a sudden change in economic conditions takes place. After this comment EURCZK reached weekly peak at 27.39. CNB governor, Miroslav Singer, said that currently the central bank does not intend to change target level and this helped the Czech koruna to pare some losses.

▪ EURHUF increased slightly (from 296 to 298.4), just like EURPLN. This week Hungarian central bank will make a decision on interest rates. Its head, Gyorgy Matolcsy said recently that he sees room for further rate cuts. During last two months main interest rate was trimmed by 40bp to 3.40% (the lowest level in history) and hint on more easing to come had negative impact on the forint. Thus, rhetoric of the MNB may prove crucial for the Hungarian forint also this time.

Interest rate market – Under pressure of core markets



Waiting for an impulse

▪ Last week's macroeconomic data and the presented details of the government reshuffle, with announcement of a new minister of finance did not influence the money market. In weekly terms both WIBOR and FRA (up to 9 months) rates were more or less stable (only 1M WIBOR increased by 1bp). FRA rates for longer tenors (one year or more) increased, which suggest a strengthening of expectations that Poland's MPC will start tightening cycle in monetary policy in 12 month period.

▪ This week the last set of macroeconomic data for October (retail sales and unemployment rate) and final reading of 3Q GDP, together with its breakdown will be published. These data should confirm revival in private consumption. However, influence on WIBOR and FRA rates (up to 1Y) might be only limited as the MPC declared that it will keep official interest rates unchanged (at least) till mid-2014. Upcoming macro data might affect FRA rates for longer tenors, and suggest that perspectives of Polish economy are becoming stronger and stronger.

Curves more steep due to weakening of long-term papers

▪ Last week, yields of bonds and IRS rates, mainly on the mid and long-end of curves increased quite considerably. This development was due to deterioration of investors' moods on the global market (increase of yields of Bunds and of the US Treasuries due to hawkish FOMC's minutes) and market expectations on switch tender. The far-going cabinet reshuffle, including the change of finance minister, did not affect yields of Polish bonds.

▪ Front-ends of curves have remained relatively resistant to changes in investors' mood on global market. Taking into account weakening of long-end ends, curves became more steep – 2-10Y spread widened to 113bp for IRS and to 167bp for T-bonds, mainly due to spread widening in 2-5Y sector. What is more, last week spread vs Bunds also widened (in 10Y sector it increased towards 270bp).

▪ Poland's Ministry of Finance is successfully implementing its 2014 pre-financing program. Last week the Ministry launched T-bonds of series DS1023, WZ0119 and WZ0124 worth PLN5.64bn, with sales of 10Y benchmark amounting to PLN3.24bn. T-bonds were sold with prices more or less close to levels on the secondary market. In November as a whole, the Ministry sold T-bonds worth PLN13.6bn, which accounts for around 10% of the next year's borrowing requirements assumed at PLN13.6bn.

Global factors still crucial for investors

▪ Short ends of curves still remain rather under influence of domestic data releases than under impact of global events. Retail sales, due for release this week, should confirm the gradual improvement of private consumption, which may translate into stabilization of rates / yields with maturities up to 2Y.

▪ Middles and longer ends will remain under pressure of global events. Thus, investors will focus on figures from the US economy. Readings better than expected may generate an impulse for a further sell-off on core markets and, as a result, negatively affect the domestic debt.

▪ This week the Finance Ministry will release details of Treasury bills in December. According to a general plan for Q4, one switch auction was planned for that month (05.12), conditionally on market situation. A more pronounced sell-off on the longer end may encourage the ministry to issue papers from the shorter end and from the middle of the curve.

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 22 534 18 88, email ekonomia@bzwbk.pl, <http://www.bzwbk.pl>.