

WEEKLY ECONOMIC UPDATE

2 – 8 December 2013

Data from Polish economy are consequently confirming materialisation of scenario of gradual recovery, in which domestic demand is playing increasingly important role. We are probably entering a period of upward revisions of macroeconomic forecasts for Poland (our updated estimates will be released in the nearest monthly report). The latest data were surely not good enough to make the MPC withdraw from its pledge to keep interest rates stable until mid-2014. Thus, the nearest MPC meeting, like the several next ones, will be overshadowed by events abroad.

This is even more so, as the agenda of key data releases abroad is very thick – we will see a lot of new hints about pace of economic recovery in Europe and in the USA. The latter will be particularly important for expectations regarding timing of Fed's QE3 tapering. ECB's rhetoric may be significant as well, in the context of recent comments about possibility of further monetary stimulus in the euro area.

Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		LAST VALUE	
				MARKET	BZWBK		
MONDAY (2 December)							
2:45	CN	PMI – manufacturing	Nov	pts	50.5	-	50.9
9:00	PL	PMI – manufacturing	Nov	pts	53.6	53.5	53.4
9:53	DE	PMI – manufacturing	Nov	pts	52.5	-	51.7
9:58	EZ	PMI – manufacturing	Nov	pts	51.5	-	51.3
16:00	US	ISM – manufacturing	Nov	pts	55.0	-	56.4
WEDNESDAY (4 December)							
	PL	MPC decision			2.50	2.50	2.50
9:00	HU	GDP	Q3	%YoY	1.7	-	0.5
9:00	CZ	PKB	Q3	%YoY	-1.6	-	-1.3
9:53	DE	PMI – services	Nov	pts	54.5	-	52.9
9:58	EZ	PMI – services	Nov	pts	50.9	-	51.6
14:15	US	ADP report	Nov	k	173	-	130
16:00	US	New home sales	Oct	k	430	-	-
16:00	US	ISM – services	Nov	pts	55.1	-	55.4
20:00	US	Fed Beige Book					
THURSDAY (5 December)							
11:00	PL	Bond switch auction					
13:45	EZ	ECB decision		%	0.25	-	0.25
14:30	US	Initial jobless claims	week	k	-	-	316
14:30	US	Preliminary GDP	Q3	%QoQ	3.1	-	2.5
FRIDAY (6 December)							
14:30	US	Non-farm payrolls	Nov	k	183	-	204
14:30	US	Unemployment rate	Nov	%	7.2	-	7.3

Source: BZ WBK, Reuters, Bloomberg, Parkiet

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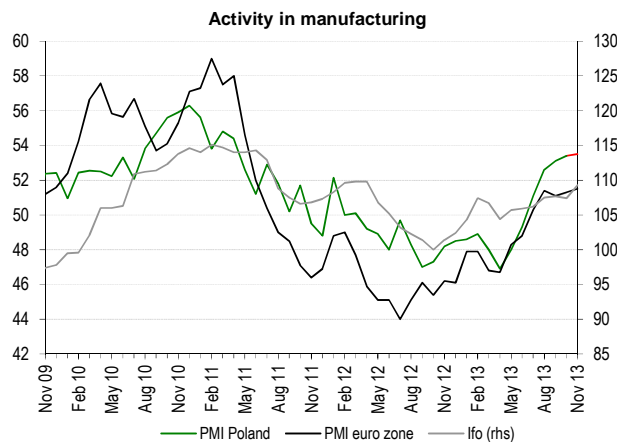
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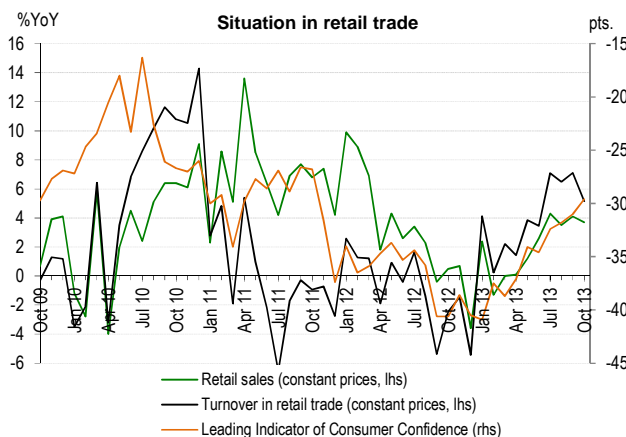
What's hot this week – Manufacturing PMI and the last MPC meeting in 2013



■ We are expecting a further slight increase of PMI indicator in Polish manufacturing sector in November, which is in line with our scenario that the economic growth is gradually shifting up gears. Similar tendencies are shown, among others, by CSO economic climate indicators and activity surveys abroad (Ifo, PMI for Germany and the euro zone), which are positive signals for domestic exporters. We are expecting a further improvement of PMI subindices for employment and new orders (including domestic ones).

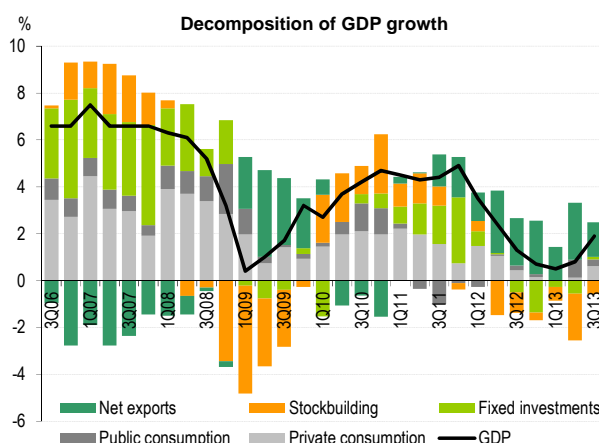
■ The last MPC meeting in 2013 is scheduled for this week. In our view, interest rates will remain flat and there will be no breakthrough at the meeting. Recent macroeconomic data were quite in line with expectations, so “everything is clear” in Polish monetary policy so far. And it will be so at least until mid-2014, when rates are to remain flat.

Last week in the economy – Recovering consumer demand, further improvement of labour market



■ October's retail sales data were in line with our baseline scenario, assuming a gradual revival in private consumption supported by, among other factors, improvement in the labour market and real growth of households' disposable income. In coming months we expect retail sales growth to accelerate. First signals of improvement in consumer demand were observed in 3Q 2013, and this was confirmed by final 3Q GDP (details below). We expect 4Q 2013 to bring a further continuation of positive tendencies.

■ The registered unemployment rate stayed at 13.0% in October, level seen in previous two months. Data clearly show a continuation of positive tendencies – number of newly registered unemployed declined (by 6.9%YoY) amid substantial increase of those who have found a job (+18.1%YoY). These data confirm strengthening of positive tendencies developing in the labour market.



■ GDP growth accelerated to 1.9%YoY in 3Q 2013 and this development was due to higher growth rate of individual consumption (1.0%YoY) and rise in fixed investments (0.6%YoY), which expanded for the first time after four quarters of declines. Revival of domestic demand (0.5%YoY) is still modest, but we are expecting that it will be gaining steam and will become an important contributor to the economic growth in 2014. At the same time, exports are advancing at a high rate, which may rise even more in the upcoming quarters thanks to continuation of economic recovery worldwide. GDP figures confirmed that Polish economy is strengthening: not only accelerating but also showing a more balanced growth. We are forecasting that GDP growth can accelerate from ca. 1.5% in 2013 to ca. 3% in 2014. We will present our detailed and revised GDP forecasts in our next monthly reports.

Quote of the week – Rates will go up once

Anna Zielińska-Grębocka, MPC member, 29.11, Reuters

It cannot be ruled out that III Q (2014) will be period, when rates can remain stable.

Marek Belka, NBP president, 28.11, Reuters

Recent data were quite good, economy is back on track (...) We do not have to apply non-conventional measures.

Andrzej Bratkowski, MPC member, 25.11, Reuters

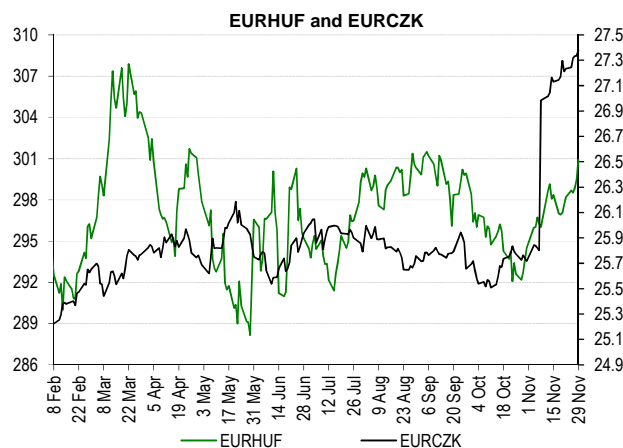
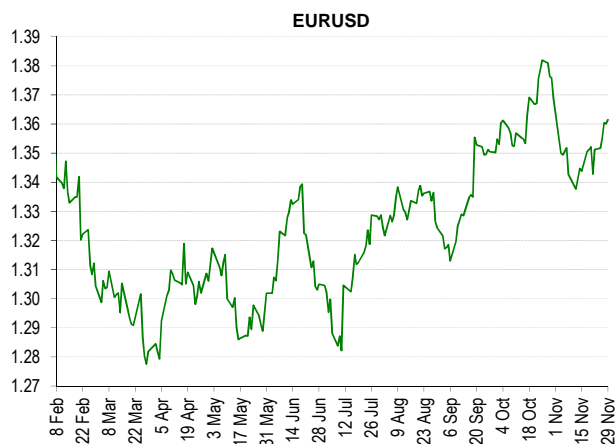
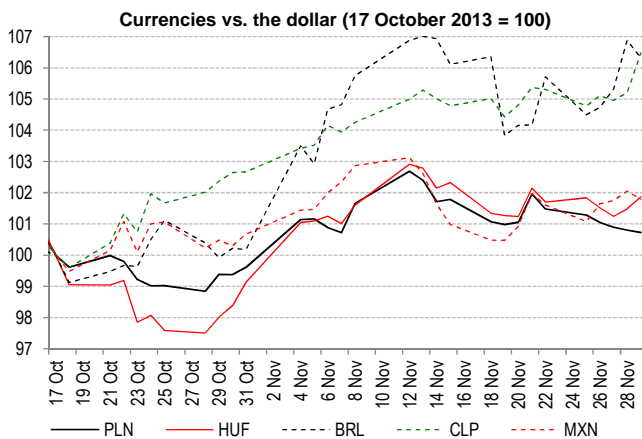
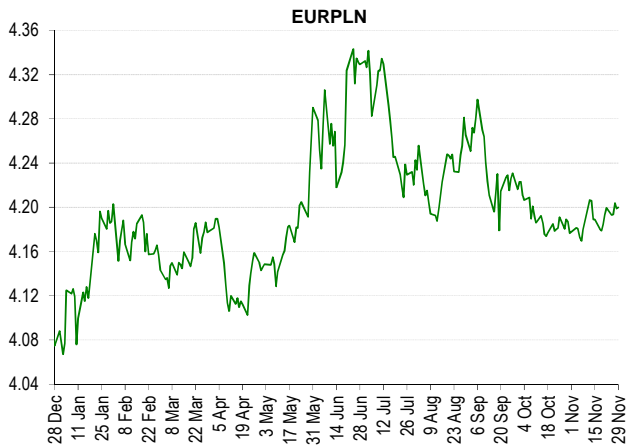
Taking into account what I currently think about the economy, I would vote for the first rate hike in Q4 2014.

Jerzy Hausner, MPC member, 25.11, Reuters

We see no reasons to change interest rates, but if we will change them once, it will be a move up, not down.

Comments of MPC members are still quite consistent in saying that interest rates will remain stable until mid-2014. MPC members are rather not eager to speak about hikes and they are suggesting that the period of stable rates may be even extended. Acceleration of GDP growth to 3% and pickup of inflation above 2% in 2014, which are expected by us, may encourage some MPC members to consider hikes shortly after the end of “forward guidance” period, i.e. in Q3. On the other hand, shape of monetary policy may be strongly influenced by changes in MPC composition, provided that the parliament quickly enacts the NBP bill revision suggested by the Ministry of Finance. If these changes cause that MPC will grow by three additional members in 2014, then it can become more difficult to gather majority supporting rate hikes.

Foreign exchange market – Data from the USA will set a direction



Zloty still under pressure

▪ Zloty's depreciation initiated in the previous week has continued during the following days. Domestic currency was still lagging behind rising stock prices in Europe and in the US, EURPLN was hovering around 4.20. Only thanks to higher EURUSD the zloty gained slightly vs. the greenback (USDPLN declined from 3.11 to 3.08).

▪ The domestic currency is losing gradually in value vs. the euro, dollar and Swiss franc since mid-October when (temporary) agreement on the budget and debt ceiling was reached in the US. It is worth to notice that since mid-October also other emerging market currencies weakened – Brazilian real, Chilean and Mexican peso. Additionally, since late October we observe an upward move of Polish bond yields and this may suggest that those assets – including the zloty – are under negative pressure of expectations for upcoming QE3 tapering.

▪ Those expectations may be significantly influenced this week by the US data. Market expects even faster pace of GDP growth in Q3 but somewhat less impressive – when compared to surprisingly strong reading in October – positive change of nonfarm payrolls. The importance of those releases makes it likely, that after a narrowing of EURPLN range trading observed since mid-September, some higher volatility may be recorded in coming days. Vital levels are still at 4.14 (support) and 4.24 (resistance).

Euro slightly stronger vs. the dollar

▪ EURUSD increased during the past week from ca. 1.35 to 1.362, slightly below vital resistance at 1.363. Upward move was fuelled, among others, higher inflation data in Germany and the euro zone. At the same time, US macro releases showed rather mixed picture and liquidity declined in the second part of the week due to Thursday's Thanksgiving day.

▪ This week US nonfarm payrolls data is due to be released. October's data clearly surprised to the upside and in market's view we got closer the moment of QE3 tapering. In November it was the ECB that surprised when it cut rate to 0.25%. Since then, many (un)official comments emerged on what else can be done towards more monetary policy easing in the euro area. Thus, the ECB rhetoric may also influence the market.

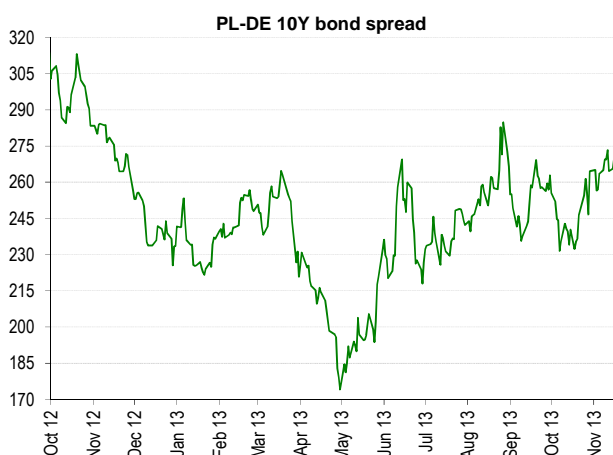
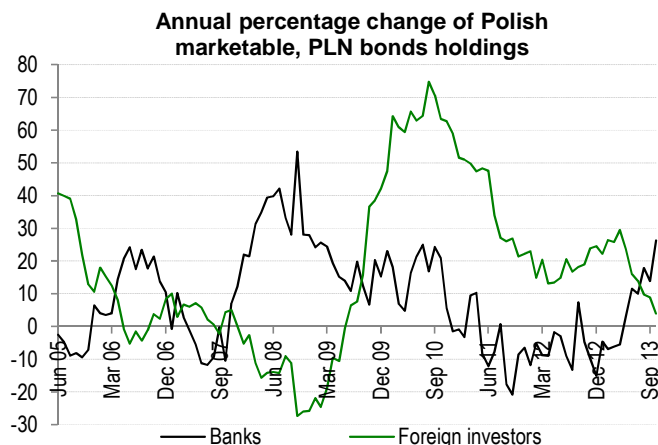
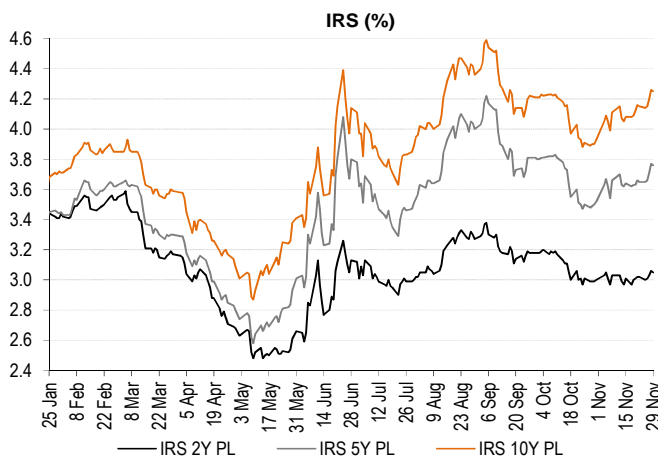
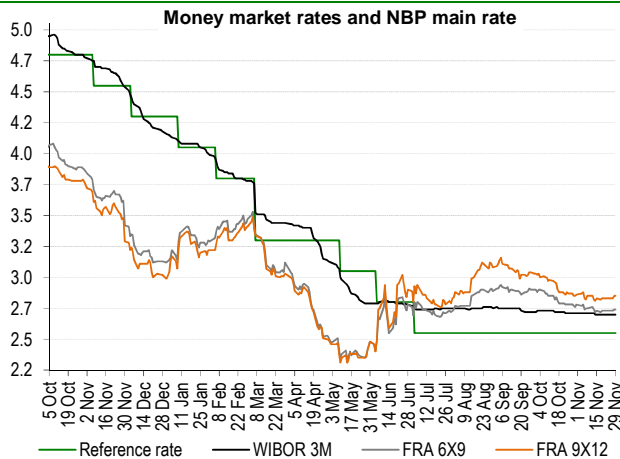
▪ First support is at 1.34 (next one at 1.33), resistance at 1.366 (next one at 1.372).

Forint under pressure from global and local factors

▪ Since mid-October, situation on the EURHUF market is similar to developments seen in case of EURPLN. Hungarian forint is losing gradually. Next to global factors (outlook for QE3 tapering), we also have some local events. Hungarian government is still waiting to present its proposals of relief for those who have FX loans and the central bank (after having cut interest rate this week by 0.2pp to 3.20%) sees more room for monetary policy easing. Consequently, EURHUF broke through the level 301 and forint was weakest since mid-September.

▪ This week final Q3 GDP data for Czech Rep. and Hungary are due to be released. First estimate for Czech Republic disappointed while for Hungary we saw a positive surprise. We think that even weaker data for Czech. Rep. may not have much impact on the koruna (that has already lost much after recent FX intervention). GDP release may prove vital for the forint as it may alter expectations for further decisions of the Hungarian central bank regarding the interest rates.

Interest rate market – MPC overshadowed by global events



MPC rhetoric rather did not affect WIBOR

▪ WIBOR1-12M did not change in the course of last week. The longest rate has run at 2.75% for 47 sessions, 9M rate at 2.73% for 48 sessions, 6M rate at 2.70% for 29 sessions. Despite dynamic changes on IRS and bond markets, FRA rates remained relatively stable.

▪ MPC meeting is scheduled for this week, but we think that it will bring no crucial changes as regards monetary policy outlook in the upcoming months. In our view, this week will show no important changes on the money market. Some increases of WIBOR1M are possible at the beginning of the month, due to approaching year-end, but scale of the move should be limited by prospect that NBP rates will remain stable at least until mid-2014.

Increases at middle and longer end make curves steeper

▪ Bond yields and IRS rates resumed the upward trend observed since May – especially at the middle and longer end of curve. 5Y IRS climbed by 12bp over the last days, receding from the local minimum established in mid-October (3.77%). Scale of increase for 10Y amounted to ca. 10bp, this rate is almost 40bp above local minimum established in late October and at the highest level since mid-September (4.26%). Shorter end of the IRS curve posted a less considerable increase (by 4bp for 2Y over the week), which caused a quite significant steepening of the IRS curve – 2-10Y spread climbed to ca. 120bp (the highest level since early September).

▪ Quite considerable volatility was observed also on bond market, but weekly increase of yields at the middle and the longer end of the curve was less considerable than in case of IRS (move by 7-8bp for 5 and 10Y). On the other hand, yield of Polish 2Y climbed by 8bp. Polish debt was doing rather weak, compared with stable 10Y Bunds and small changes on the euro zone peripheries (despite Berlusconi's dismissal from the parliament).

▪ Data from the Ministry of Finance show that at the end of October foreign investors held debt worth PLN193.6bn, which is the lowest level since December 2012. This is a continuation of trend present since May, i.e. a gradual decline of non-residents' engagement – October's outflow (-PLN6.9bn) was the second biggest (after -PLN7.3bn in October 2008) since comparable data are available (June 2004). Share of foreigners in total zloty-denominated marketable debt declined to 33.7%, i.e. to the lowest level since June 2012. Domestic banks also reduced their exposure markedly (by PLN5.4bn). Pension funds were net buyers (PLN3.8bn, the most considerable increase in a year, seventh month in a row of rising engagement).

US data crucial for investors' moods

▪ We are not expecting the decision and rhetoric of MPC to have significant impact on the domestic interest rate market this week. US data will be more important, as they can affect outlook of the QE3. Receding worries that asset purchases will be limited can cause a renewed interest of foreign investors in our papers. Any ECB's suggestions that there is room for further monetary easing would be acting in the same direction.

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