

WEEKLY ECONOMIC UPDATE

29 June – 5 July 2015

Greece remains at the top of headlines, as the last-minute talks with creditors have not brought any break-through yet. The next “last-chance” Eurogroup meeting is scheduled on Saturday but of course one cannot be sure if it brings any progress. Regardless the outcome of talks, it seems increasingly likely that Greece will miss the payment to the IMF due on 30 June, as there may be simply not enough time for bailout extension to go through parliaments before the deadline. If the agreement with creditors is reached, a delayed payment to the IMF should not be a big problem though, and should not prevent a significant improvement of market sentiment. The latter may be even magnified by “windows dressing” pattern at the end of the quarter. Manufacturing PMI for June is the most important domestic data release this week. We expect a slight rise of the index after four straight months of declines, as the corresponding measures for Germany and euro zone also improved, according to flash estimates. The likely revisions in quarterly balance of payments data for 1Q15 should be of minor importance for the financial market, which will focus instead on news about Greece and data releases abroad. The key publication abroad will be the U.S. non-farm payrolls report, which may shape expectations regarding Fed’s first interest rate hike. Strong reading will be negative for zloty and bonds. A bulk of confidence surveys from the euro zone should confirm, in our view, that economic recovery is under way.

Economic calendar

| CZAS W-WA | COUNTRY | INDICATOR | PERIOD | FORECAST | | LAST VALUE | |
|---------------------------|---------|--------------------------------|-------------|--------------|-------------|---------------|-------------|
| | | | | MARKET | BZWBK | | |
| MONDAY (29 June) | | | | | | | |
| 16:00 | US | Pending home sales | May | %MoM | 1.0 | - | 3.4 |
| TUESDAY (30 June) | | | | | | | |
| 9:00 | CZ | GDP | 1Q | %YoY | - | - | 4,2 |
| 11:00 | EZ | Flash HICP | June | %YoY | 0,2 | - | 0,3 |
| 14:00 | PL | Current account balance | 1Q | mln € | 2200 | 2200 | 1971 |
| 14:00 | PL | Inflation expectations | June | %YoY | 0.2 | - | 0.2 |
| 16:00 | US | Conference Board | June | pts | 96.8 | - | 95.4 |
| WEDNESDAY (1 July) | | | | | | | |
| 3:45 | CN | PMI – manufacturing | VI | pts | 49.9 | - | 50.9 |
| 9:00 | PL | PMI – manufacturing | VI | pts | 52.4 | - | 52.4 |
| 9:55 | DE | PMI – manufacturing | VI | pts | 51.9 | - | 51.1 |
| 10:00 | EZ | PMI – manufacturing | VI | pts | 52.5 | - | 52.2 |
| 14:15 | US | ADP report | VI | k | 210 | - | 201 |
| 16:00 | US | ISM - manufacturing | VI | pts | 53.0 | - | 52.8 |
| THURSDAY (2 July) | | | | | | | |
| 13:30 | EZ | ECB decision | | % | 0.05 | - | 0.05 |
| 14:30 | US | Non-farm payrolls | June | k | 227 | - | 280 |
| 14:30 | US | Unemployment rate | June | % | 5.4 | - | 5.5 |
| 14:30 | US | Initial jobless claims | weekly | k | - | - | - |
| 16:00 | US | Factory orders | May | %MoM | -0.5 | - | -0.4 |
| FRIDAY (3 July) | | | | | | | |
| 9:55 | DE | PMI – services | June | pts | 54.2 | - | 53 |
| 10:00 | EZ | PMI – services | June | pts | 54.4 | - | 53.8 |

Source: BZ WBK, Reuters, Bloomberg

ECONOMIC ANALYSIS DEPARTMENT:

al. Jana Pawła II 17, 00-854 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

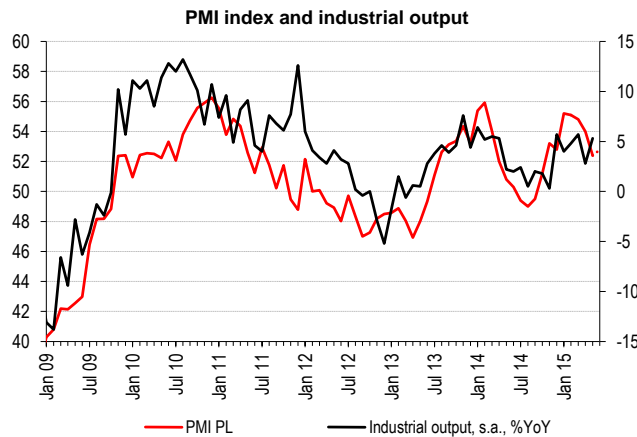
TREASURY SERVICES:

Poznań +48 61 856 5814/30

Warszawa +48 22 586 8320/38

Wrocław +48 71 369 9400

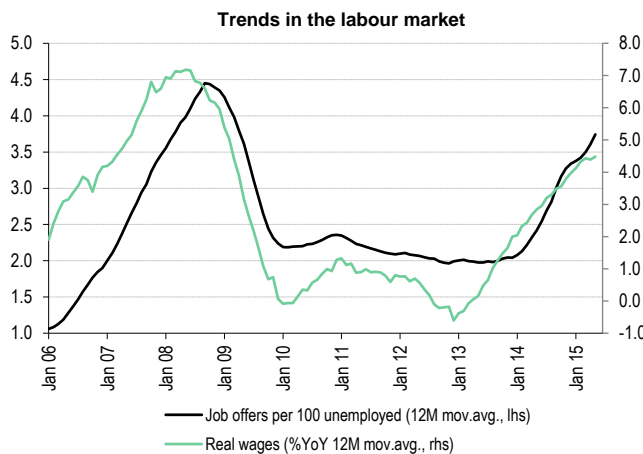
What's hot this week – End of downward trend in PMI?



■ We expect slight increase of Polish manufacturing PMI index in June, following an improvement of corresponding indicators in Germany and the euro zone. However, we think the pickup may be modest, given persisting uncertainty about situation in Greece, with seems to be weighing on companies' moods. The CSO indicator of business climate in manufacturing decreased in June to the nine-months low, in a sign of limited optimism among Polish entrepreneurs. The index in construction remained unchanged, while in retail trade picked up, suggesting continuation of expansion in this sector.

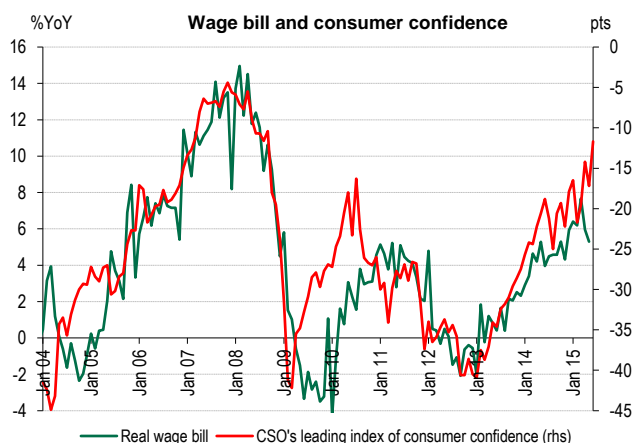
■ The likely revisions in quarterly balance of payments data for 1Q15 should be of minor importance for the financial market, which will focus instead of data releases abroad and (again) on news about Greece.

Last week in the economy – Consumers most optimistic since 2008 thanks to booming labour market



■ The registered unemployment rate fell in May to 10.8%, in line with our forecast. Our estimate of the seasonally adjusted jobless rate is 10.9% (the lowest since May 2009). The pace of unemployment drop is gradually slowing, but the number of new job offers is surging and in May it was at the highest level since 2007. It seems to confirm our hypothesis that the slower growth in employment and slower drop of unemployment in recent months resulted from the growing shortage of suitably skilled workers, rather than from limited firms' demand for labour. We think it could result in growing wage pressure in coming months. We expect that at the end of this year the registered unemployment rate will reach c10.2%, which corresponds to seasonally-adjusted LFS jobless rate of around 7% (near its all-time low).

■ Improving labour market situation is clearly positive for consumer sentiment. In June the indices of consumer optimism compiled by the stat office surged to the highest levels since late 2008. Almost all components of confidence indicators improved, with particularly strong rise in assessment of future economic situation. Growing consumer confidence, rising labour income and falling unemployment bode well for private consumption outlook. We continue predicting acceleration of consumption growth in the coming quarters.



Quote of the week – Everyone wants lower taxes

Ewa Kopacz, Prime Minister, Rzeczpospolita, 26.06.2015

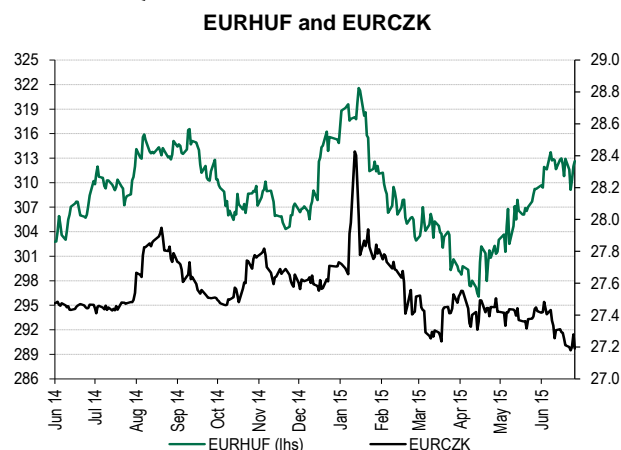
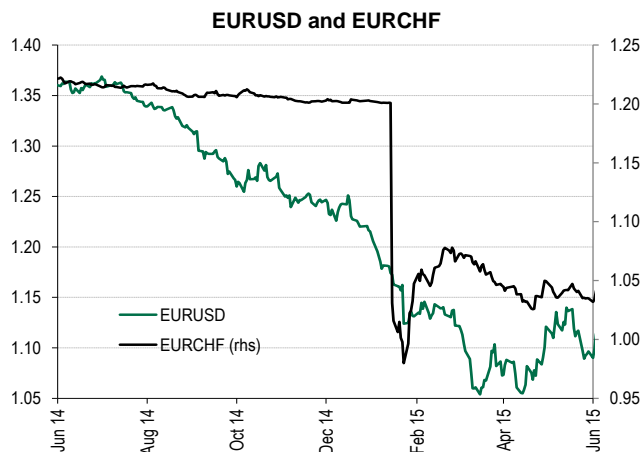
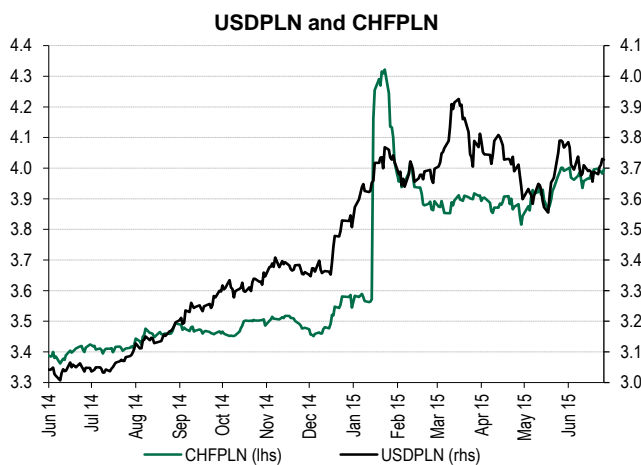
I want to lower taxes, especially personal taxes. Draft bill will be presented in the autumn, together with the programme.

Beata Szydło, main PiS candidate for Prime Minister, Rzeczpospolita, 25.06.2015

We must trigger consumption rise. (...) President Andrzej Duda is already preparing draft bills, which we support. It's about lowering retirement age, raising tax-free income and PLN500 per child for low income families, and for those with middle income PLN500 for second and next child. (...) We propose lower taxes, like 15% CIT for small companies to give them opportunities to invest.

Election is coming and you can easily see it in speeches of officials from the two main parties. Lower taxes, support for CHF-indebted households and changes in the pension system are topics which are repeatedly mentioned in two main political camps. Main opposition party (PiS) is clearly more generous, offering also lower retirement age, benefits for poorer families with children and higher tax-free income. It seems that PiS is sticking to the proposals put forward earlier by Andrzej Duda. And now also the ruling PO is presenting plans to ease fiscal policy. It seems the pressure on looser fiscal policy is building up, although some of the proposals may be financed (at least partly) by higher taxed on banks and supermarkets. However, fiscal room is limited by the spending rule and the Maastricht fiscal criterion. As we wrote before, this room is not greater than 0.3-0.5% of GDP.

Foreign exchange market – Greece and data from the US determine the market direction



Zloty follows information from Greece

▪ Zloty as well as other emerging market currencies remained under the influence of news flow from Greece. Initially optimism about quick agreement between Greece and its creditors helped Poland's FX market to rebound, pushing EURPLN towards 4.15 (down from c4.18 at the beginning of the week). However, a new deadlock in negotiations with Greece caused the exchange rate to increase above 4.17. Significant volatility was also observed on USDPLN due to movements on EURUSD. The rate reached nearly 3.75 in the first two days of the week, and then fell to nearly 3.70. At the end of the week both EURPLN and USDPLN moved sideways, oscillating around 4.17 and above 3.72, respectively.

▪ This week global factors will still play the main role on the Poland's FX market. If Greece and its creditors reach agreement during weekend's talks, it should support the emerging market currencies, including the Polish zloty (EURPLN could test 4.15). Some rebound in Poland's PMI manufacturing should be also positive for the zloty. On the other hand strong US macro data (in which monthly non-farm payrolls) might limit zloty's appreciation. Situation on the EURPLN chart did not change over the past week. We expect that breaking support at 4.15 will open the door to further decline towards June's minimum at c4.10. The resistance level is at 4.18.

EURUSD moved sideways

▪ The US dollar gained visibly at the beginning of last week due to another deadlock in negotiations between Greece and its creditors. EURUSD fell to 1.111, down from 1.138 at the start of the week. The rate has moved sideways in the range of 1.111-1.124, waiting for some solution of the Greek case. What is more, macro data from Europe and the USA anchored EURUSD near 1.12. On the other hand EURCHF temporarily increased to 1.054 in reaction to the statement of Thomas Jordan, the SNB governor, who stated that further FX intervention to weaken CHF are possible.

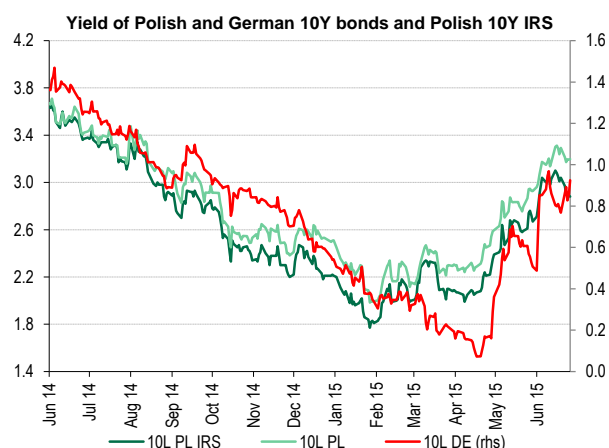
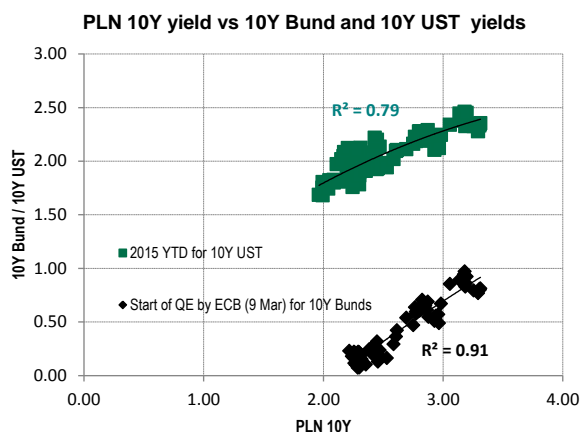
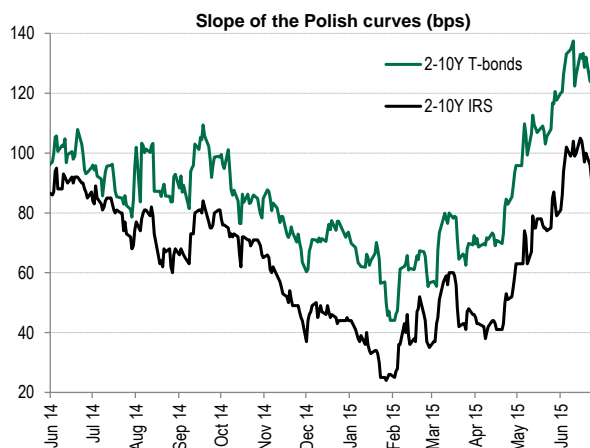
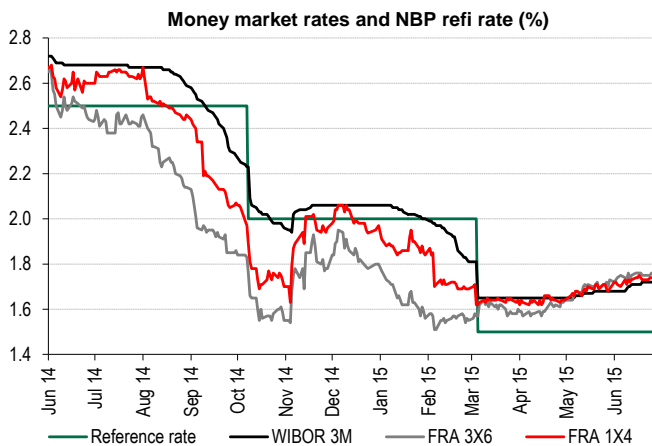
▪ Greece and macro data releases from Europe and the USA will be key drivers of investors' mood. The agreement about Greece during the weekend and further improvement in the euro zone economy (suggesting by PMI indices and flash HICP) could push EURUSD towards local maximum near 1.14. However, upward move could be limited by strong data from the US economy – further improvement on the labour market will strengthen expectations for this year's monetary tightening by Fed. In our view recent range of 1.111 – 1.138 for EURUSD is still intact.

Forint under pressure, CZK slightly stronger

▪ The Hungarian forint remained under pressure of unsolved aid package for Greece, while the Czech koruna slightly gained as the CNB pointed out that risk of the change of the EURCZK floor at 27.00 to weaker level decreased. EURHUF was traded above 312 after temporary decline to c310. At the same time, EURCZK has stayed around 27.20.

▪ This week HUF and CZK will remain under influence of global factors. The agreement with Greece should help both currencies as well the Polish zloty to rebound, in particular the Hungarian forint. Further improvement in PMI manufacturing indexes for Hungary and the Czech Republic should be additional supportive factor. On the other hand strengthening could be limited by the strong non-farm payrolls from the USA.

Interest rate market – Further strengthening depends on external factors



Quite stable market

- WIBOR remained unchanged last week. Short-term FRA rates (up to one year) were quite stable, while longer decreased by 4-10bp due to optimism concerning possible agreement on Greek aid. Investors' expectations about future interest rate path in Poland did not change – they still expect a start of monetary tightening in about a year.

- IRS and bond markets saw some rebound. The biggest move took place at the start of last week, when hopes for quick agreement with Greece have increased after the country submitted new proposals of a deal. The stalemate in talks in the following days increased market uncertainty, however at the end of the week bond yields and IRS rates were still lower (by 2-12bp and 5-15bp, correspondingly) than at the end of previous week. The long end of the curve gained the most, and the 2-10Y spread narrowed, mainly in 2-5Y segment.

- The results of bond switching auction were supportive for the market. The Ministry of Finance sold bonds PS0420 and DS0725 worth PLN2.1bn (out of which PS0420 represented PLN1.5bn). Yields reached 2.688% for PS0420 and 3.20% for DS0725. After the auction the Ministry has covered nearly 75% of this year's borrowing plans.

Greece, macro data and issuance plan in the spotlight

- This week global factors will again play the main role on the domestic interest rate market. The agreement between Greece and its creditors should intensify decline in yields/rates, which started in previous week. On the other hand domestic debt has remains sensitive to changes in expectations about Fed's monetary policy. If the US labour data confirm further improvement, expectations for monetary tightening by Fed would strengthen, limiting rebound on the Polish debt market, in particular on the long end of the curve, which is more vulnerable to changes in investors' mood in both core and peripheral debt markets. As regards money market, we expect rates to stabilise near current levels.

- From the domestic side, the key event will be release the issuance plan for 3Q15, with more detailed information about July's offer. In our view, in July – September period the offer of T-bonds at regular auctions will not exceed PLN15bn in total. The majority of the supply could concentrate in July due to high liquidity on the market - next month there are a quite significant inflows of cPLN7.7bn from the OK0715 redemption and cPLN3.2bn from interest rate payments of WZ and PS series. Given current completions of the 2015 gross borrowing requirements, it is likely that the Ministry of Finance will abandon from offering T-bonds in August.

- The end of 2Q15 and 1H15 could favour „window dressing” effect on the Polish debt market. In the event of agreeing deal between Greece and creditors, it could result in quite significant strengthening of Poland's assets in the short run.

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, Al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 88, email ekonomia@bzwbk.pl, <http://www.bzwbk.pl>.