Bank Zachodni WBK
Grupa Santander

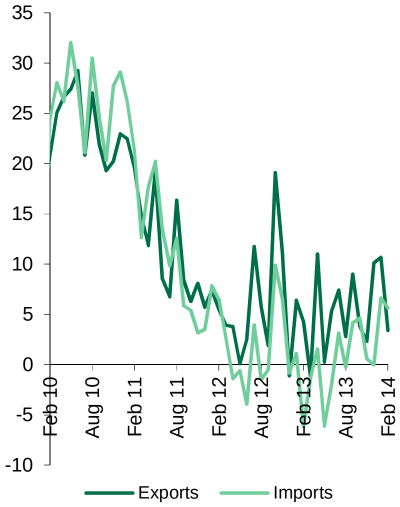
INSTANT COMMENT

11 April 2014

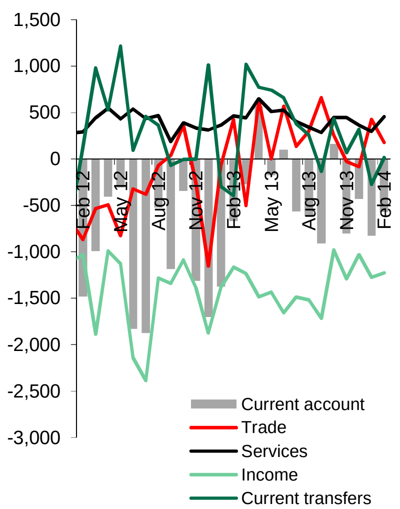
Foreign trade data surprised on the negative side

In February current account deficit amounted to €572mn and was higher than our and market expectations. It came from a negative surprise from foreign trade data. Despite the positive February industrial output data, exports were substantially lower than we predicted as well as imports. It might have partly resulted from deteriorating situation on the East, but we should wait with going much too far with conclusions (data covers the period before annexation of Crimea). In our opinion in the next part of this year both exports and imports growth should return to upward trend, while strengthening of demand from the West Europe and domestic side may largely offset the negative effect of Russia-Ukraine conflict. We uphold our baseline scenario of further narrowing current account deficit, which will decrease below 1% of GDP at the end of this year (after February it was only 1.1%).

Foreign trade turnover, % YoY



Current account, EURm



Current account deficit slightly higher than expected

February's current account deficit reached €572mn, clearly exceeding our forecast (-€398mn) and to smaller extent market consensus (-€533mn according to Parkiet daily). To us, the biggest disappointment came from the trade data, while remaining balance of payments categories were roughly in line with our forecasts. The surplus in goods and services account was lower than we anticipated, mainly due to weaker exports (though, both exports and imports volumes came up well below expectations). February's exports amounted to €12773mn (+3.4%YoY) while imports reached €12595mn (+6.4%YoY). Thus, the NBP data confirmed the picture shown by the CSO data earlier this week.

In our opinion, the correction in trade volumes (-5.5%MoM in case of exports and -3.8%MoM for imports) seems to be too big to be fully explained by the situation in Ukraine. It is also worth to notice a divergence between pace of growth of exports and annual change of the industrial output. It may suggest that February's weakening is only a one-off phenomenon rather than a signal of more persistent deterioration in foreign trade. It is also worth to notice, that the NBP has revised the January's data – the current account deficit occurred to be lower than initially released (-€825mn vs. -€1135mn). Consequently, the 12-month rolling total current account deficit reached only -1.1% of GDP in January and February.

Foreign portfolio capital recorded an inflow in February. Purchases of non-residents focused on equities (€130mn), while in case of bonds foreign investors were on the supply side (-€13mn vs. +€149mn in January). Nevertheless, current account deficit is comfortably covered by the long-term capital thanks to EU funds – inflow of the long-term capital (net FDI +EU funds in the capital account) constituted nearly 250% of annual current account deficit (record high coverage since the comparable data is available).

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