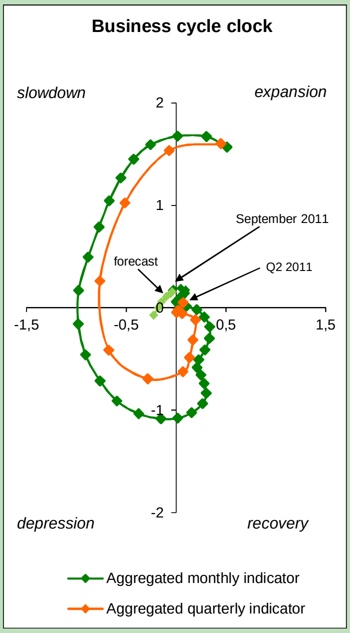
Bank Zachodni WBK

MACROscope

Polish Economy and Financial Markets

November 2011



Note: construction of business cycle clock, including concepts and methodology used for its creation was presented in MACROscope in November 2009
http://english.bzwbk.pl/_items/english/doc/m_eng_2009_11.pdf

In this issue:

Maciej Reluga
Chief economist
+48 22 586 8363

Piotr Bielski
+48 22 586 8333

Agnieszka Decewicz
+48 22 586 8341

Marcin Luziński
+48 22 586 8362

Marcin Sulewski
+48 22 586 8342

Email: ekonomia@bzwbk.pl

No end in sight

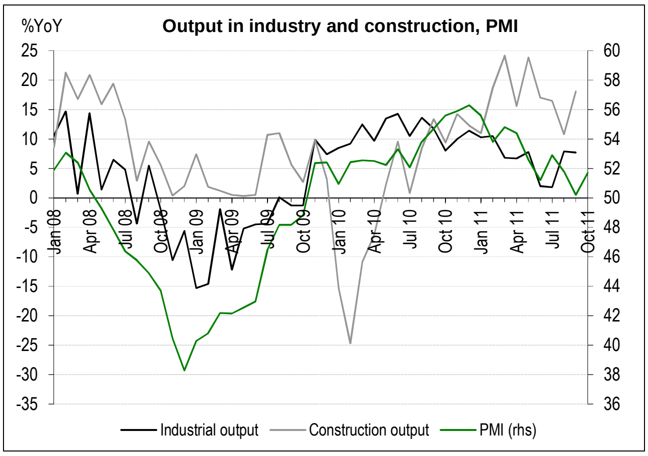
- **The EU summit was not ground-breaking (similarly as the previous ones) as regards solutions of the euro zone debt crisis.** Still, it can be said that the discussion during consecutive meeting (EU summit, G20, Ecofin, etc.) was heading in the right direction – greater reduction of Greek debt, EFSF enhancement etc. However, both scale of these actions and lack of details proving their effectiveness failed to reduce the market uncertainty. On the contrary, as it could have been expected, the sentiment improved only for a while. The spread between bond yields of euro zone peripheries and Germany has reached new peaks. The yields of Italian bonds have markedly exceeded 7% in spite of market activity of the ECB. There is no end of euro zone troubles in sight and it seems that the ECB would have to change its approach substantially in order to stabilise the market situation. The new ECB governor, Mario Draghi, reiterated during his first press conference that the program of purchasing euro zone bonds is temporary and is limited in scale, while the ECB will not act as a lender of last resort for the governments. The ECB delivered also some positive surprise – the main refinancing rate was cut by 25bp to 1.25%. We expected a cut by 50bp in December instead, but we will probably see another 25bp cut in the coming month. This means that the two hikes implemented recently will be reversed.
- **Another set of global economic data do not give any reason to be optimistic – PMI in Germany and in the euro zone below 50pts, downward revision of OECD and European Commission projections.** On the other hand, the macroeconomic data from Poland are still surprisingly robust (rise of PMI, industrial output and retail sales considerably above expectations). The pace of GDP growth in Q3 will probably sit above 4%, i.e. close to figures seen in the first half of the year. However, in our view this is a local peak of economic activity ahead of slowdown in 2012. Our GDP growth forecast for 2012 is pessimistic and although still below market consensus, we stick to our view that there is some asymmetric downward risk to this projection, especially when taking into account events in the euro zone.
- **The peak of inflation is behind us, after the CPI inflation rate reached 5%YoY in May. However, the upcoming figure is likely to deliver a negative surprise.** We forecast a rise of inflation in October (probably even to 4.3%), mainly due to higher food and fuels prices. As the market expectations indicate a stabilisation near 3.9% seen in September, and a couple of institutions forecast even a decline, a realisation of our forecast can cause some weakening on the domestic interest rate market. However, the nearest reading changes neither the scenario of inflation decline in 2012 nor our forecast of interest rates cuts. A change of MPC bias is possible should the economy slow down, inflation decline considerably, and the ECB conducts more expansive policy. The new NBP projection forecasts a slightly higher inflation rate and slightly lower GDP growth in 2012-13 as compared to July's estimates. As regards risk factors for the CPI, the MPC balances the effect of zloty weakening with economic slowdown.

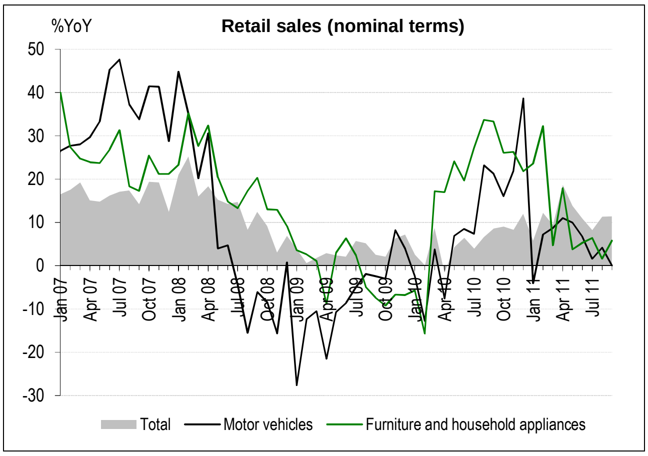
Financial market on 9 November 2011:

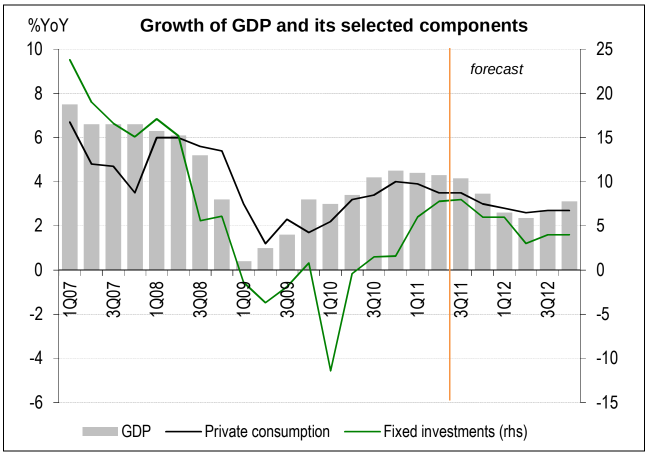
NBP deposit rate	3.00	WIBOR 3M	4.93	USDPLN	3.1925
NBP reference rate	4.50	Yield on 2-year T-bonds	4.61	EURPLN	4.3757
NBP lombard rate	6.00	Yield on 5-year T-bonds	5.09	EURUSD	1.3706

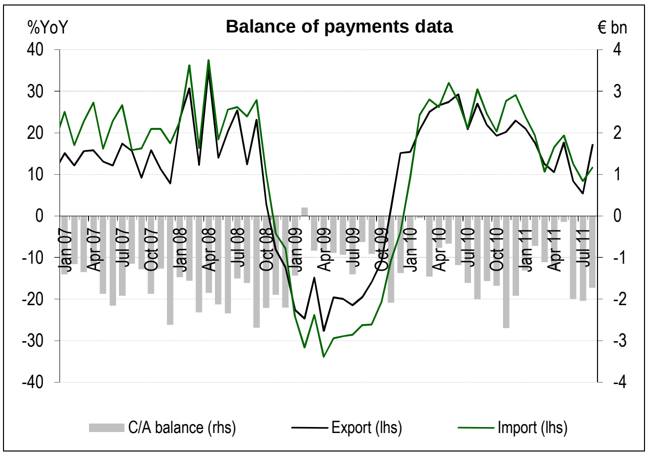
This report is based on information available until 09.11.2011

Economic update









Source: CSO, NBP, Reuters, own calculations

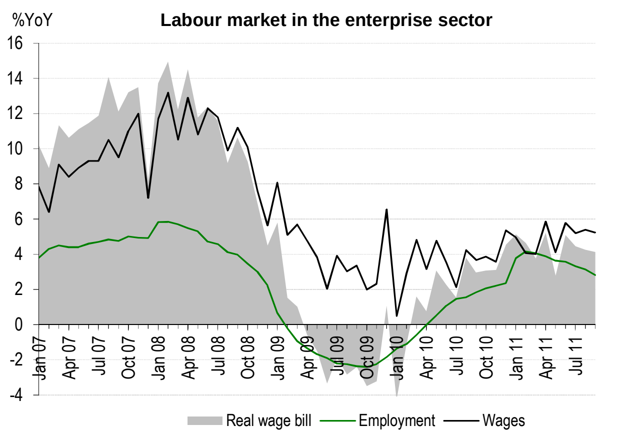
Robust results of Polish economy in Q3

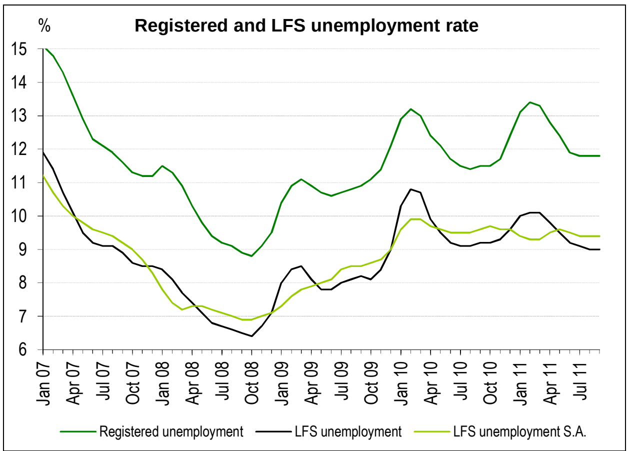
- The annual pace of growth of industrial output accelerated in September to 7.7%. After seasonal adjustment, the industrial output advanced by 7.1%YoY. The fastest growth was recorded in export-oriented sectors (furniture, metals, autos), but not in all of them – e.g. production of machinery and equipment showed a substantial drop by ca. 11%YoY. Probably the high momentum of output in some branches is an effect of continuing realisation of contracts agreed before recent wave of weaker business climate abroad. However, one should expect that this effect will be dying off over time and a waning foreign demand will translate into slowdown of Polish industry in the upcoming quarters.
- In October PMI manufacturing for Poland increased to 51.7 pts from 50.2 in September. The PMI growth resulted from higher production (fastest rise within last three months) and new orders (mostly connected with export). For the first time since August the subindex of employment recorded a rise. At the same time, the cost pressure was the highest in 5 months, which was driven by weaker zloty. Overall, the data showed that the Polish manufacturing sector has been surprisingly immune to signs of slowdown abroad, especially in the euro zone. However, it should be noted that during the last months the signals from the economic activity survey did not mirror the actual data from Polish industry very closely.
- Construction and assembly output rose in September by 18.1%YoY. The seasonally adjusted growth amounted to 17.8%YoY. What is interesting, a considerable acceleration was visible in construction of buildings sector (9.5%YoY), which was rather lacklustre in the previous months of 2011, with average growth at ca. 4%YoY. This can be a sign of reviving private investment.
- The pace of growth of retail sales reached 11.4%YoY in September. The acceleration as compared to previous month took place in most of categories, the biggest gain was recorded in fuels (20.9%YoY versus 17.1%YoY a month earlier) and furniture and household appliance (5.8%YoY versus 1.6%YoY). In line with our expectations, in September the annual pace of growth of auto sales decelerated (to 0.0% from 4.2% in August). Still, that was smaller decline that the Samar's data had suggested. In real terms the retail sales increased by 7.7%YoY versus 6.9%YoY a month earlier. In 2011Q4 we expect a slowdown of momentum of retail sales, among others due to high base.
- The better than we expected results of industry (6.2%YoY), construction (15.2%YoY) and retail sales (10.3%YoY) in Q3 have led us to raise GDP growth forecast for this period from 3.9%YoY to 4.2%YoY. We expect that the GDP growth in whole 2011 will also slightly exceed 4%YoY.

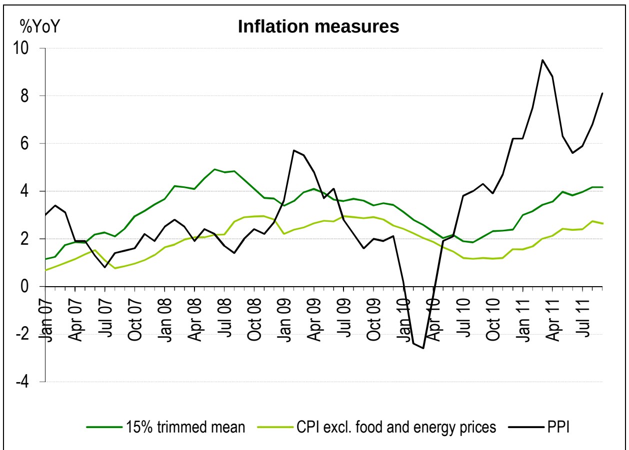
Exports prove to be better than expected

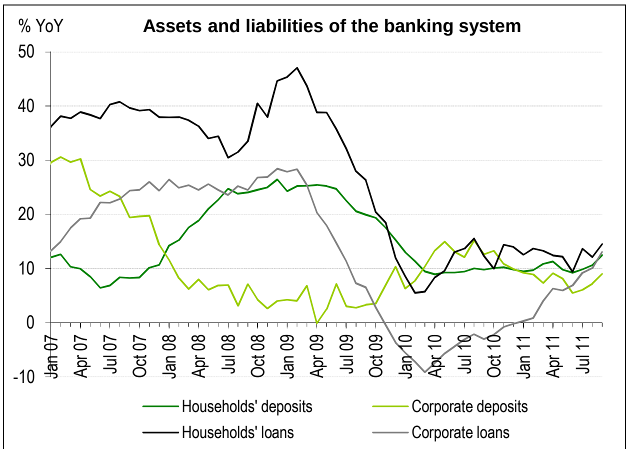
- Current account deficit amounted to €1.73bn in August and was slightly narrower as compared to July (€2.04bn). The trade deficit reached level of €750m (vs deficit of €1178m in previous month), mainly due to exports acceleration. Exports grew to €11.6bn, (by 17.1%YoY). At the same time imports increased to €12.4bn, which translates into annual growth of 11.7%.
- In August the inflow of FDI amounted to €1.0bn and was positive for the first time after three months of outflow. In due course, the coverage of 12M C/A deficit by inflow of long-term capital increased to 10%, and when taking into account the inflow of EU funds, the C/A was covered in 53%.
- The negative effect of waning foreign demand is offset by the weak Polish currency, which enhances the competitiveness of Polish goods.

Economic update









Source: CSO, NBP, own calculations

Labour market is getting weaker

- September employment data in enterprise sector surprised on the negative side, with growth slowing to 2.8%YoY, down from 3.1%YoY in August . The number of jobs decreased by 5k compared to the previous month, while since July the number of employment dropped by 13k in total vs. an increase by 14k in the same period of 2010. We would like to point out that employment fall is still relatively modest, however, it confirms that enterprises have started to limit their demand for workers, preparing for the economic slowdown ahead. The decrease in employment was most significant in trade and car repairs as well as in export-oriented manufacturing sector.
- Average wage in enterprise sector advanced in September by 5.2%YoY (as compared to 5.4%YoY in August), The rate of salaries' growth remains moderate so far, but the impact of economic slowdown will probably constrain their upward momentum in the upcoming months. Consequently, the pace of wage growth may keep decelerating.
- The pace of growth of wage bill in corporate sector declined to 8.2%YoY from 8.7%YoY in August, though it is still expanding at a decent pace. In real terms, the slowdown was only slight, from 4.2% to 4.1%YoY. That supports our forecast of robust private consumption growth in Q3 2011, which can be however limited by the negative real growth of social benefits (-1.1%YoY).
- Registered unemployment rate reached 11.8% in September (flat compared with August reading – data after revision). Compared to August, the number of unemployed people increased by 6.4k (increase by 2.7%YoY). We expect further gradual growth of unemployment rate in coming months, above 12% at year-end. The seasonally adjusted LFS unemployment rate stated flat at 9.4%.

Inflation close to 4% until the year-end

- In CPI inflation decreased in September to 3.9%YoY from 4.3% in August, after an increase in consumer prices by 0.1%MoM. The main culprit behind the drop in CPI inflation was the food prices (they contribute most to the CPI basket), as the typical increase of food prices after summer vacations did not take place this time. Core inflation excluding food and energy prices lowered in September to 2.6% from 2.7%YoY.
- Our estimates show that in October a considerable rebound of prices will occur, so the inflation rate will return above 4%. The annual inflation rate will remain above this level until year-end and more considerable decrease will begin in January.
- The PPI growth accelerated in September to 8.1%YoY. This surge was – to a large extent – due to a sharp depreciation of the zloty, that pushed up costs of production and export prices.

Strong growth of credit for firms continues

- The M3 money supply accelerated in September to 10.1%YoY from 8.8%YoY in August. A strong acceleration was visible both in deposits of households (to 12.5% from 10.6%) and of enterprises (to 9.0% from 7.2%). It is probable, that in case of households this development was due to decreasing attractiveness of alternative ways of saving, e.g. mutual funds.
- A robust growth was also visible in data on loans. The households' loans accelerated from 12.1%YoY to 14.5%YoY, and the corporate loans to 13.1% from 10.1%. Still, a large part of this growths was due to exchange rate effects (weaker zloty). After adjusting for this effect, the pace of growth of households' loans is slightly lower as compared to August, while corporate loans record an increase from 9.2% to 10.5%YoY, i.e. the strongest rise since May 2009.

Monetary policy watch

Fragments of the MPC statement in November

In 2011 Q3 economic sentiment deteriorated considerably in the global economy, including, in particular, in the euro area and the United States. (…) At the same time, however, economic growth forecasts for 2012 were further revised downwards and inflation remained elevated. There persists heightened uncertainty about global economic developments in the coming quarters and about the scale of economic slowdown in countries being Poland's main trading partners.

According to incoming information on the Polish economy (…) GDP growth in 2011 Q3 continued to be relatively high and presumably close to the one recorded in 2011 Q2. At the same time, majority of business sentiment indicators suggest that economic activity may weaken somewhat in the coming quarters, which is largely connected to the anticipated economic slowdown in countries being Poland's major trading partners.

In the coming months, annual CPI inflation will continue to run at an elevated level, primarily due to the previous sharp rise in global commodity prices and the zloty depreciation of recent months. Waning impact of VAT rate increases and considerable rises in food and energy prices observed in the first half of 2011 will be conductive to lowering inflation at the beginning of 2012.

In the opinion of the Council, in the medium term inflation will be curbed by somewhat lower domestic economic growth amidst fiscal tightening, including reduced public investment spending, and interest rate increases implemented in the first half of 2011, as well as the expected global economic slowdown. Such an assessment is also supported by the November projection of inflation and GDP. The impact of the situation in the global financial markets on zloty exchange rate continues to be an upside risk to domestic price developments.

In the opinion of the Council, the significant monetary policy tightening implemented in the first half of 2011 should enable inflation to return to the target in the medium term. Given the above, the Council decided to keep the NBP interest rates unchanged. The Council does not rule out the possibility of further monetary policy adjustments in the future, should the outlook for inflation returning to the target deteriorate.

MPC restrictive, but with eyes wide open

- In line with broad expectations, the MPC has kept the interest rates on hold, main reference rate still amounts to 4.50%. The tone and description of global situation, but also in Poland, did not change considerably.
- The MPC has stressed the persisting uncertainty about global economic activity in coming quarters and tensions of the financial markets worldwide. When assessing the domestic economic activity, the MPC underlined that Q3 is likely to show a relatively high GDP growth, close to that seen in Q2. Still, leading indicators herald a possibility of some slowdown in the upcoming quarters.
- The MPC is still expecting the consumer prices to stay at elevated levels in the upcoming months, mainly due to earlier surge of commodity prices and zloty depreciation. At the beginning of 2012, the Council expects decline of inflation due to waning effect of VAT hike, which took place in early 2011. To sum up, in Council's assessment the balance of risks for the inflation is balanced – pro-inflationary depreciation of the zloty is offset by economic slowdown and interest rates hikes, implemented in H1. The MPC reiterated that they do not "rule out the possibility of further monetary policy adjustments in the future, should the outlook for inflation returning to the target deteriorate".
- We maintain our expectations that the economic slowdown and substantial decline of inflation will invigorate the MPC to cut the interest rates by 50bp in 1H 2012. The first cut is possible in March at the earliest.

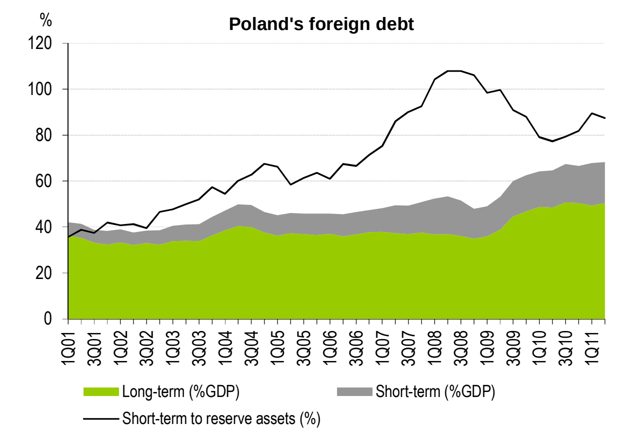
NBP's projections in subsequent *Inflation Reports*

	Oct 10	Mar 11	Jul 11	Oct 11
GDP growth				
2011	3.3-5.5	3.3-5.1	3.0-4.9	3.7-4.3
2012	2.8-5.5	2.3-4.8	1.9-4.5	2.0-4.1
2013	-	1.7-4.4	1.5-4.3	1.5-4.0
CPI inflation				
2011	2.5-3.5	2.8-3.7	3.7-4.4	3.9-4.2
2012	2.4-3.7	2.2-3.4	2.1-3.4	2.5-3.9
2013	-	2.1-3.7	1.8-3.4	2.2-3.7

According to the NBP projections, the GDP and CPI growth will fall in the ranges given above with probability of 50%.

Slightly lower GDP growth, higher inflation

- New NBP projection shows a higher central path of inflation in 2012-2013 as compared to July (middle of the range moved from 2.75% to 3.2% and from 2.6% to 2.95%, respectively), mainly due to zloty weakening. The central path for 2011 remains unchanged.
- GDP forecast for 2011 has been slightly elevated (central projection rose from 3.95% to 4.0%), while 2012-13 were slightly lowered (from 3.20% to 3.05% and from 2.90% to 2.75%, respectively).
- Details regarding projections will be released in the new Inflation Report, to be published on 15 November.

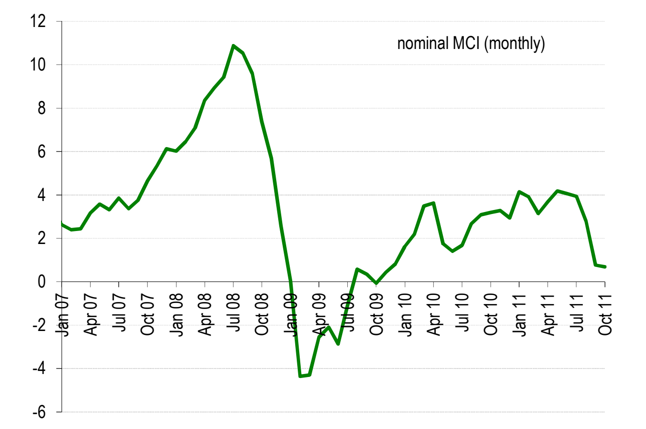


Source: NBP, Reuters, own calculations

Reserves quite high, but external debt is on the rise

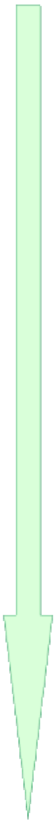
- The official reserve assets of Poland amounted to €73.3bn at the end of October, which is slightly lower than in September (decline is mainly due to changes of EURUSD).
- Polish external debt rose at the end of Q2 to €252bn, i.e. 68.3% of GDP, which is an all-time high. Most considerable increase of debt as compared to Q1 took place in banking sector (€5.6bn) as well as in government and local-government sectors (€4.4bn).
- Short-term debt still accounts for relatively small part of the total outstanding external debt (ca. 26%), but its relation to the official reserve assets remains at quite high level (almost 90%). On the other hand, if we take into account the IMF's flexible credit line ($30bn), the ratio would be lower by ca. 10 pct. points.

Restrictiveness of the Monetary Policy (Council)



Restrictiveness of monetary policy slightly lower

- The nominal index of monetary restrictiveness has continued its downward trend visible since June, although pace of slowdown is lower as compared to two previous months. A factor, which has limited the monetary restrictiveness, was the zloty weakening against the euro. At the same time, a considerable rise of WIBOR rates was working in opposite direction.
- The money market rates may remain at elevated levels until the year-end, due to banks' unwillingness to lend money on the interbank market. At the same time the zloty will stay under pressure, but can appreciate slightly in December. In due course, a stabilisation of the index in November and an increase in December is possible.



Rzońca (1.58)

Winiecki (1.45)

Hausner (1.45)

Bratkowski (1.42)

Zielińska-Głębocka (1.42)

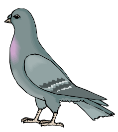
Kaźmierczak (1.08)

Gilowska (1.08)

Glapiński (1.00)

Belka (1.00)

Chojna-Duch (0.75)



Index is between 0 and 2. A vote for the majority view is given a score of 1. A vote for a more hawkish (less dovish) decision than the majority view has a score of 2 and a vote for a less hawkish (more dovish) decision than the majority view has a score of 0. Average of points for all votes is the value of the index for a given MPC member.

Numbers directly by the name are values of the index for period since the beginning of current term of office of the current MPC and NBP governor.

Direction of the restrictiveness axis reflects our expectations regarding direction of interest rate changes in the nearest 12 months.

High inflation and pressure on the zloty worry MPC

Over last few weeks, the MPC members were not overly generous in commenting macroeconomic situation. Nevertheless, the comments, which emerged recently, revealed some distress about the persisting pressure on the zloty and about potential inflationary effects of the depreciation of domestic currency. The relatively hawkish tone of the most recent statements is probably maintained in order to support the zloty under circumstances of elevated inflation and high volatility on the financial markets. This has been confirmed by the words of the NBP governor Marek Belka, who said during the press conference after November MPC meeting, that "inflation is still elevated in Poland (…) zloty is a highly volatile currency and the current situation due to zloty weakening does not support in curbing the inflation".

When making a reference to the rate cut by the ECB, the NBP Governor, Marek Belka stressed the incomparability of the economic situation in the euro zone and in Poland. This refers to the scale of expected slowdown and PLN exchange rate – turbulences on the financial markets may trigger zloty's depreciation and that would be a pro-inflationary factor. This means that the MPC is implementing an autonomous policy and does not take the cue from the ECB. At the same time, Belka stated that the Council is vigilant about upcoming signals from the global economy and financial markets (with the eyes "wide open"). This supports our view that in order to cut interest rates, the MPC will need some "concrete arguments", like data indicating a considerable decline of inflation and substantial economic slowdown. In our opinion, such information can appear in March at the earliest.

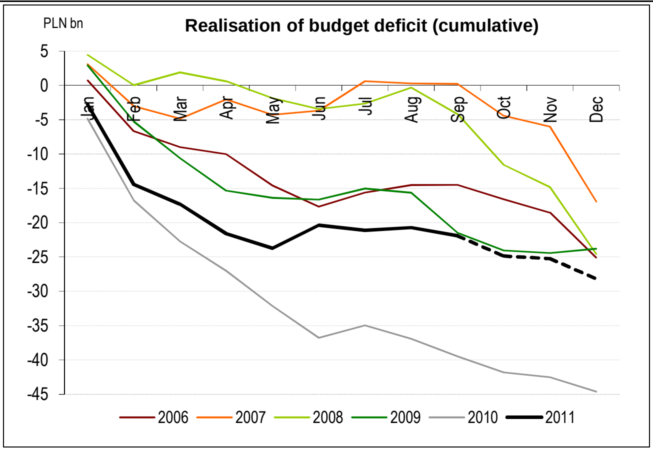
Domestic banks perfectly capitalised, but there is some risk

When asked about the risk that foreign banks will draw capital from their Polish subsidiaries due to the euro zone crisis, Marek Belka said that even though such risk exists as three quarters of Polish banking system is in hands of foreign entities, domestic banks are perfectly capitalised and free from "toxic assets". Belka said that the central bank does not see any negative signals of that kind. However, as compared to 2008, when we had to deal with a liquidity difficulties, now we have a problem with banking sector's capital in the euro zone and it can turn out that the Polish banks will be in more dire straits than at that time. According to the NBP Governor the fact that Polish banks are in hands of foreign capital does not add any value at the moment and that his attitude towards comments about "domestication" of banks (i.e. acquisition of domestic capital, if there is such an opportunity) is positive, as it will be safer for the Polish financial system.

According to Belka, the central bank does not see a tendency to limit the scale of credit activity form the banking sector. Corporate loan is– in central bank's assessment – capped rather by the demand than by the supply. And despite this, it is rising at decent pace, similarly as mortgage loans.

Source: CSO, Eurostat, NBP, own calculations

Fiscal policy watch



	Spread vs Bunds (10Y) in bps			CDS (5Y, USD)		
	9.11	change since 10.10.11	change since 31.12.10	9.11	change since 10.10.11	change since 31.12.10
Poland	406	44	94	244	-42	98
Czech	174	61	76	116	-24	26
Hangary	665	74	152	541	-15	154
Grece	3061	843	2102	4919	-325	3882
Spain	413	119	164	392	25	43
Ireland	660	83	34	750	17	141
Portugal	1009	73	637	1134	-86	634
Italy	560	210	369	514	65	281
Germany	-	-	-	88	-10	30

Lower budget deficit and gross borrowing requirements

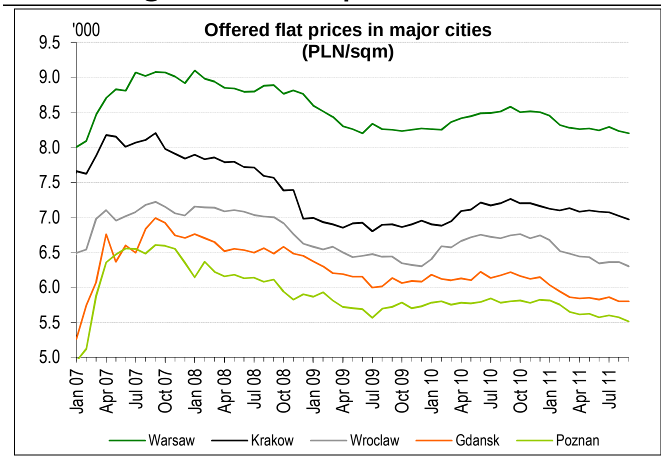
- This year budget deficit realisation is proceeding better than assumed in the 2011 schedule. At the end of September budget deficit reached the level of PLN21.9bn (or 54.5% of annual plan). Commenting these data deputy minister of finance Ludwik Kotecki said that this year budget gap probably will not exceed PLN28bn, slightly lower than our forecasts at PLN30bn and assumed in the 2012 budget draft.
- As expected, this year's gross borrowing requirements were revised downward to PLN144.9bn, due to diminished by PLN10bn budget deficit. At the end of October the borrowing needs were financed in 101%. Therefore sources from bond issuance on the domestic market in last two months of this year will fund the 2012 borrowing requirements. We expect that the 2011 financial sources will be higher that in 2010

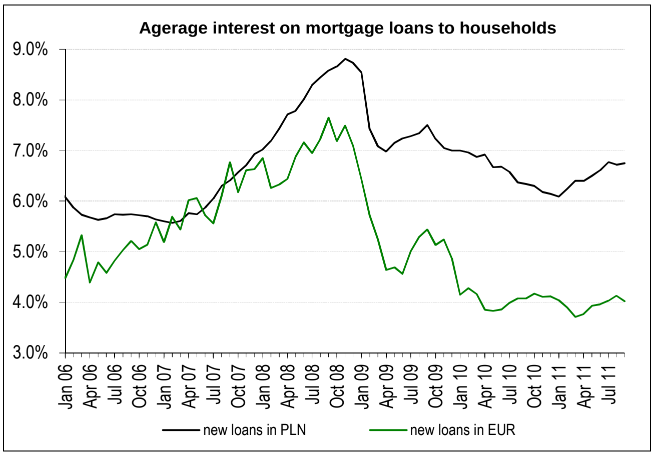
-

The focus still on Greece and Italy

- Markets remain dominated by the deepening euro zone debt crisis. The October's EU summit results helped to improve investors' sentiment only temporarily, but the Greek idea to call a confidence vote and a referendum on its participation in the euro shocked the market participants, which, together with turmoil in Italy, has taken most countries' spreads vs. Germany to all-time high at the beginning of November.
- Uncertainly on the global financial market is still high. News flow from Greece and Italy will be in the centre of attention, especially taking into account political turbulence. We believe that new governments in these countries, which would guarantee reforms, could limit further increase of fiscal risk measures.

Housing market update



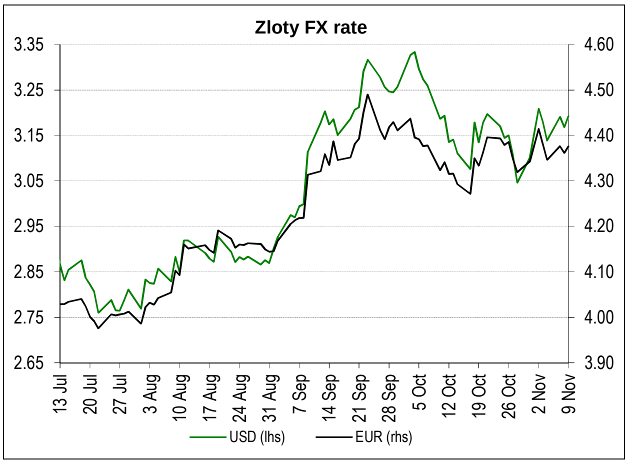


Source: Ministry of Finance, NBP, Reuters, szybko.pl, own calculations

House prices gradually decrease

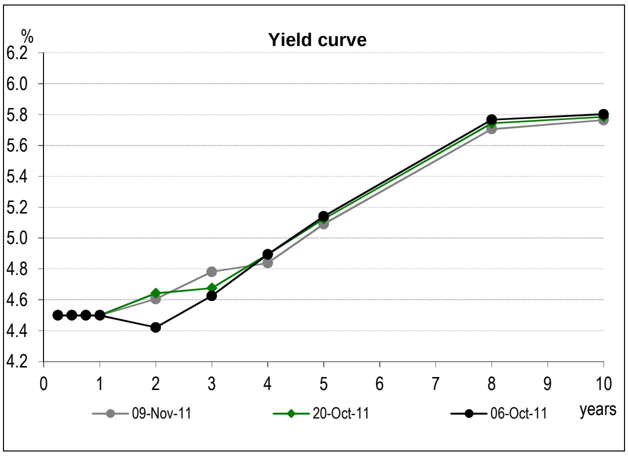
- Recent months (August, September) brought the decrease in house prices of the Poland's larger cities, after a slight growth in July. It is worth noticing that house prices in many cities are more or less at the similar level observed in 2009. In annual terms house prices fall has gradually deepened and we think that this tendency will be continued in the coming months.
- Since September a new regulations of the program supporting families' home ownership are in force. Changes contain: (1) lowering maximum price of the real estate purchased on both the secondary and primary markets, (2) lowering the age of persons which can apply for credit to 35 years (in case of marriages, one of the person must meet the criterion), (3) extensions of the program against singles. Implemented new price limits could constitute a new indicator for the price level of house, in particular on the secondary market.
- Mortgage loans growth has remained above 20%YoY despite tightening of credit conditions. The pace of growth in recent months partly came from the zloty depreciation. However, the house lending to households after the FX adjustment increased in September by ca. 12%YoY
- In our view, the limitation of loan offers in foreign currencies and a gradual rise of interest rates on new PLN loans is an additional factor undermining the demand for houses in 2011. This can support the downward trend of house prices. On the other hand the opposite impact might by exerted by a continuation of reduction of credit margin by the commercial banks.

Market monitor



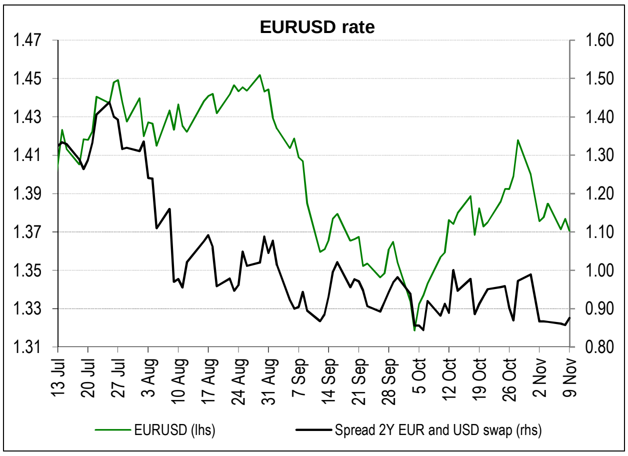
The EURPLN in a broad horizontal trend

- During October we saw numerous sudden swings of market mood which was clearly reflected in changes of the EURPLN. Positive interpretation of Polish parliamentary elections helped the exchange rate to break the support area at 4.36-4.40, and the EURPLN declined temporarily even below 4.30. The uncertainty regarding situation in the euro zone constrained further zloty's appreciation. As the idea of Greek referendum was announced, the EURPLN tested (during closed Polish market) the resistance at 4.485.
- In the euro zone we still face many unsolved cases and another problems continue to emerge. That limits the potential for zloty's visible and permanent appreciation. On the other hand, room for currency's depreciation is limited by possible NBP's intervention. We expect in November the average EURPLN will remain stable. Main factor influencing the currency will be euro zone debt crisis. Supports are at 4.32 and 4.28, resistance at 4.44 and 4.485.



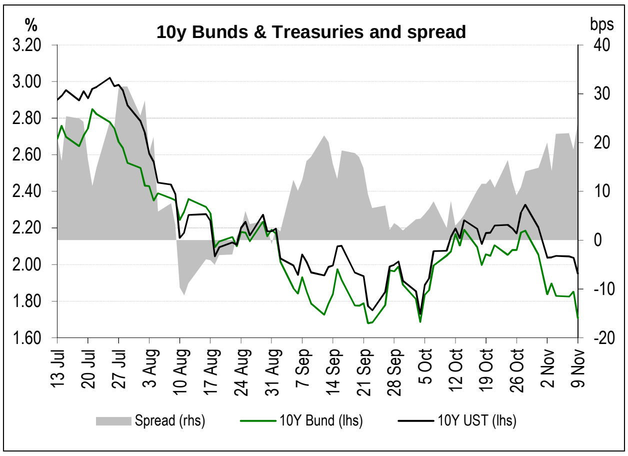
Domestic bonds to remain stable

- After some gain in early October due to lower worries over the European banking system, in the following days Polish bonds were quite stable. The average monthly yield for 5Y and 10Y securities was close to the one recorded in September. Higher yield of 2Y bonds is due to change of benchmark. The biggest impact on the market was again from external factors, such as euro zone's debt crisis. Still, investors only at limited scale reacted to what was happening abroad. FinMin data showed that in September foreign investors held Polish securities worth PLN157.7bn, the highest figure ever.
- We expect that November average yields will again not change much. Main role will be played by the euro zone's debt crisis. The auction of 5Y bonds, scheduled for mid-November, can be an important gauge of sentiment on the domestic market.



Crisis in the euro zone still in the spotlight

- Expectations for substantial decisions of the EU leaders towards solving the crisis were pushing the EURUSD up for the better part of the last month. Though the EU summit did not bring any answers to many questions, market reaction was positive and the EURUSD surged from 1.385 to 1.425, highest level since September. In early November the dollar was backed by the idea of Greek referendum on accepting the bailout, ECB rate cut and rapid surge of Italian bond yields. This has dragged the EURUSD exchange rate towards 1.35.
- High FX volatility will probably maintain in November due to comments regarding way to solve the euro zone crisis. We expect that at the end of November the rate will be close to 1.37 and slightly higher at the year-end.

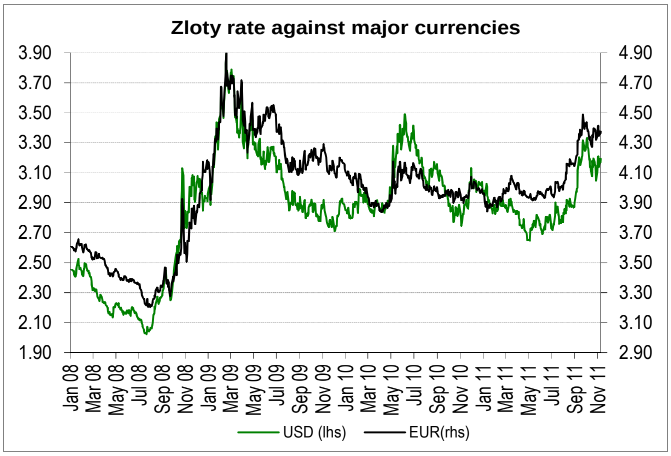


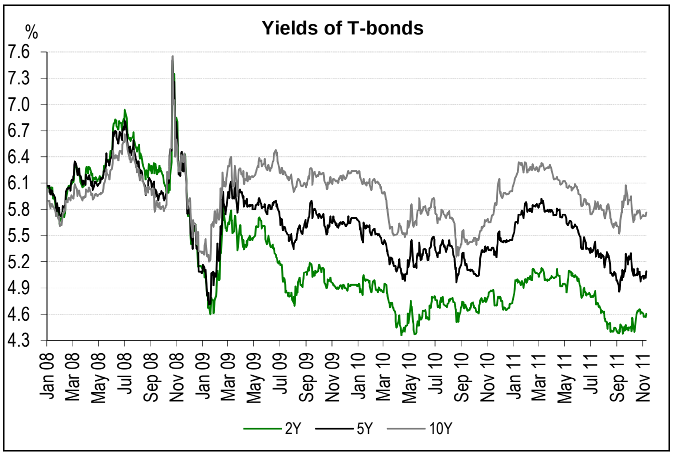
Little room for yields' increase

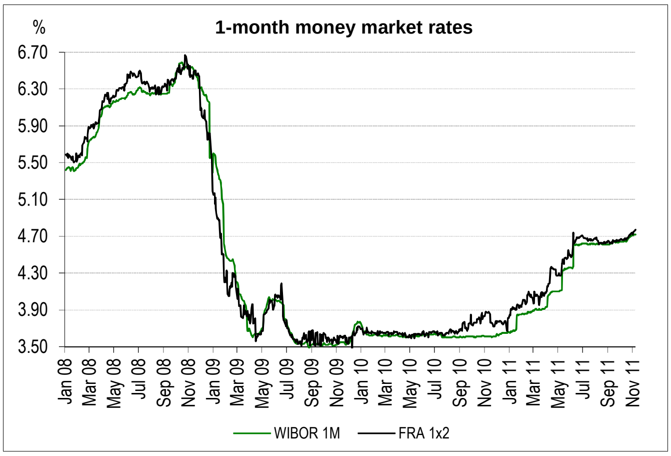
- On the core fixed income markets yields were rising in the first part of the month amid hopes for decisive steps towards solving the euro zone's debt crisis. When German and US bonds were the weakest since August, the trend was reversed, among others, due to idea of Greek referendum.
- As it is still not known how to expand EFSF and/or IMF (if the situation requires more aggressive engagement of the latter) and the situation in Italy and Greece is unstable, the potential for upward move is clearly limited. Additionally, the ECB rate cut shall not be the last one and expectations for further loosening of monetary policy will also support long end of the German curve. Furthermore, next macro data from Europe will probably not bring many reasons for buying risky assets.

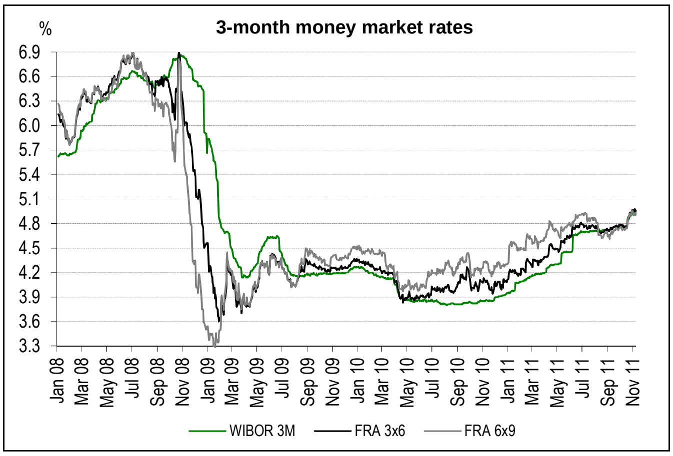
Source: Reuters, BZ WBK

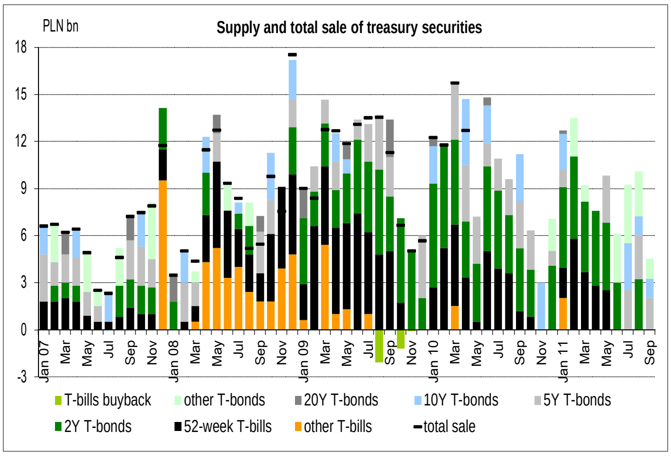
Market monitor











Treasury bills auctions (PLN m)

Auction date	OFFER	DEMAND/SALE
11.04.2011	*50 week*: 300-600	1536/444
18.04.2011	*49 week*: 500-1000	1646/771
21.04.2011	*48 week*: 700-1200	3408/1027
9.05.2011	*46 week*: 400-600	3560/600
16.05.2011	*45 week*: 500-1000	2737/709
23.05.2011	*44 week*: 500-1000	3002/698
30.05.2011	*52 week*: 500-600	2667/505
13.06.2011	*50 week*	*cancelled*
20.06.2011	*Repurchase tender*	356/256
27.06.2011	*52 week*	*cancelled*
11.07.2011	*Repurchase tender*	1498/724

** based on data of the Ministry of Finance*

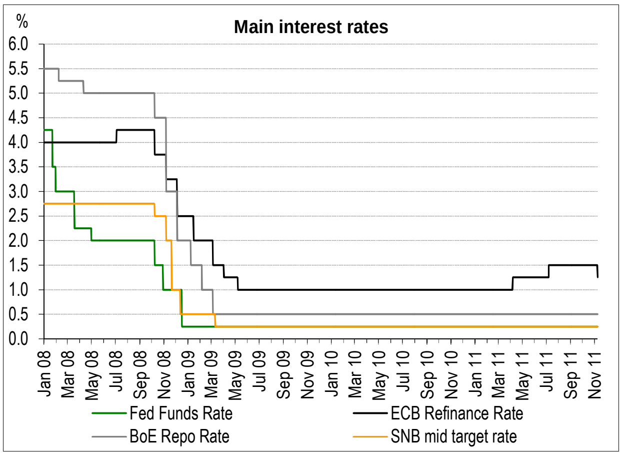
Treasury bond auctions in 2010/2011 (PLNm)

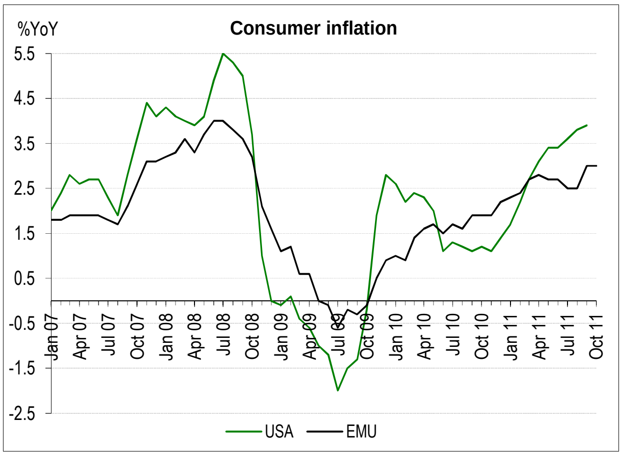
month	First auction				Second auction				Switch auction		
	date	T-bonds	offer	sale	date	T-bonds	Offer	sale	date	T-bonds	sale
December	1.12	OK0113	2000-4000	4076*	8.12	WZ0121/IZ0823	1000-2000	2050	15.12	PS0511	PS0416
January	5.01	OK0113/PS0416	4000-6500	6250	12.01	DS1020/WS0429	1000-2500	2500	20.01	OK0711/PS0511	IZ0823
February	9.02	OK0113	2500-5500	5240	16.02	WZ/IZ	1000-3000	2450	02.02	OK0711/PS0511	PS0416
March	9.03	OK0113	3000-4500	4500	16.03	WZ/IZ	1000-2500	1030	3.03	OK0711/PS0511	PS0416/WZ0115
April	13.04	OK0113	3000-5500	4759	-	-	-	-	20.04	OK0711/PS0511/WZ0911	PS0416/WZ0115
May	12.05	OK0713	3000-4500	4306	18.05	PS0416	1500-3000	3000	-	-	-
June	9.06	OK0713	2000-3000	3000	15.06	WZ0121/IZ0823	1000-5000	3125	1.06	OK0711/WZ0911	PS/DS/WZ
July	21.07	DS1021	1000-3000	3000	-	-	-	-	-	-	-
August	10.08	OK0713/PS0416	2000-5000	5009	-	-	-	-	3.08	WZ/DZ	WZ/DS
September	22.09	WS/WZ/IZ	1000-3000	1273.5	-	-	-	-	8.09	WZ/DZ/OK	PS0416/DS1021
October	19.10	PS1016	1000-3500	3638	-	-	-	-	12.10	OK/PS/DZ	OK0114
November	16.11	PS1016	1000-3500						10.11	DZ/OK/PS	OK0114/WZ0115/ DS1021/WS0429

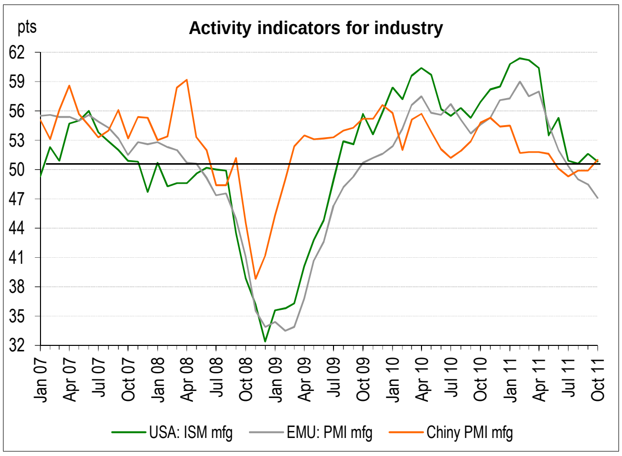
* with supplementary auction, ** primary auction, *** demand/sale

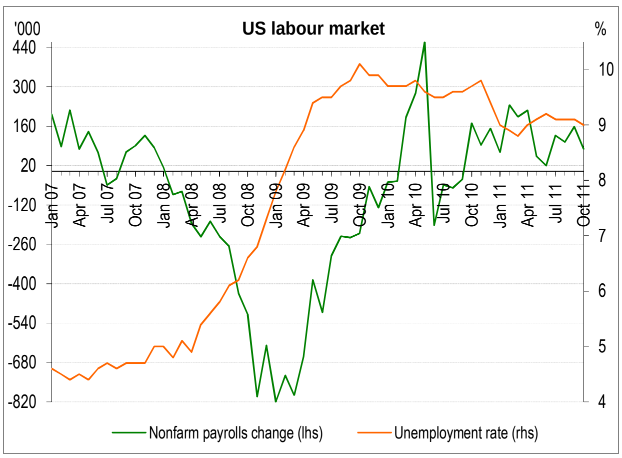
Source: Ministry of Finance, Reuters, BZ WBK

International review









Source: Reuters, ECB, Federal Reserve

Unexpected ECB rate cut, not the last one

- The ECB unexpectedly cut the interest rate to 1.25%. The press conference after the ECB's meeting for the first time was led by the new Governor, Mario Draghi. The statement highlighted that some risk factors in case of GDP growth could materialise. Moreover, further intensification of the tensions in financial markets in the euro area and at the global level have put pressures to further spill over into the euro area real economy. It was pointed out that economic forecasts for the EU and the euro zone to be published in December could be revised downward. However, in 2012 inflation rate will decrease to the ECB's target, which will be mainly result of statistical effects and lower inflationary pressure due to weak economy. Just as in previous statements, the necessity of implementing structural reforms was highlighted. On the press conference there were some questions about the situation in Greece and debt crisis. Mario Draghi said that the program of government bonds' purchase is temporarily and its scale is limited, and added that the ECB will not be a lender of last resort for the euro zone's governments. The ECB Governor did not give any clear hints on further steps in monetary policy, but it seems that another rate cut by 25bps is likely in December.
- The US Fed kept the interest rates unchanged, in line with expectations; at the same time the bank cut its economic growth forecasts and raised the unemployment rate predictions for 2012 and 2013. Fed President Ben Bernanke said during the press conference that the US economy will grow in moderate pace in the upcoming quarters and he signalled Fed's readiness to promote the growth should the economic situation in the USA deteriorate.

Continuation of trends in macro data

- Data on October's manufacturing activity indexes confirmed the downward trend in the euro zone and stabilization in China. In case of the US, the structure of changes gives hope for further rise of the ISM in coming months. Latest releases confirmed that the economic slowdown will be most pronounced in Europe.
- PMI for the euro zone's manufacturing plunged in October to 47.1pts from 48.5pts. Sixth in a row month of decline dragged the index to the lowest level since July 2009. Last time series of at least 6 consecutive declines was observed in 2000 – then the momentum was initiated in April and lasted for next 15 months. Meanwhile, in October, for the first time since September 2009 the PMI for German manufacturing declined below neutral level of 50pts (49.1pts) and only in case of Ireland the index was above 50pts (50.1pts versus 47.3pts in September). In case of Italy, the PMI recorded biggest monthly decline in history and reached 43.3pts.
- The ISM index for US manufacturing declined to 50.8pts from 51.6pts but changes of individual components suggest that in coming months the situation in world biggest economy may improve. Robust increase was recorded in new orders.
- The PMI for Chinese manufacturing increased to 51.0pts from 49.9pts and for the first time since June 2011 advanced above 50pts. The rebound was driven mainly by new (exports) orders and output (the momentum of the latter reached higher level since May 2011).
- In October there were 80k of payrolls added into the nonfarm sector, less than expected. Still, the September's data was revised up, from 103k to 158k. The unemployment rate declined moderately to 9.0% from 9.1%.

Economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
14 November ***PL: Money supply (Oct)*** EZ: Industrial output (Sep)	**15** ***PL: Balance of payments (Sep)*** ***PL: CPI (Oct)*** DE: Flash GDP (Q3) DE: ZEW index (Nov) EZ: Flash GDP (Q3) US: NY Fed index (Nov) US: Retail sales (Oct)	**16** EZ: HICP (Oct) US: Core CPI (Oct) US: Industrial output (Oct) US: Capacity utilization (Oct)	**17** ***PL: MPC minutes*** US: House starts (Oct) US: Building permits (Oct) US: Philly Fed (Nov)	**18** ***PL: Wages and employment (Oct)*** US: Leading indicators (Oct)
21 ***PL: Industrial and construction output (Oct)*** ***PL: PPI (Oct)*** US: Home sales (Oct)	**22** ***PL: Core CPI (Oct)*** EZ: Consumer confidence (Nov) US: Preliminary GDP (Q3) US: Fed minutes	**23** CN: Flash PMI – mfg (Nov) DE: Flash PMI – mfg (Nov) EZ: Flash PMI – mfg (Nov) EZ: New industrial orders (Sep) US: Consumer spending (Oct) US: Personal income (Oct) US: Core PCE (Oct) US: Durable goods orders (Oct) US: Michigan index (Nov)	**24** DE: GfK index (Dec) DE: Ifo index (Nov) GB: GDP (Q3)	**25**
28 EZ: Money supply (Oct) US: New home sales (Oct)	**29** EZ: Economic sentiment (Nov) US: S&P/Case-Shiller home prices index (Sep) US: Consumer confidence (Nov)	**30** ***PL: GDP (Q3)*** ***PL: Retail sales (Oct)*** ***PL: Unemployment rate (Oct)*** ***PL: Inflation expectations*** EZ: Flash HICP (Nov) US: ADP report (Nov) US: Pending home sales (Oct) US: Fed Beige Book	**1 December** ***PL: PMI – mfg (Nov)*** DE: PMI – mfg (Nov) EZ: PMI – mfg (Nov) CN: PMI – mfg (Nov) US: ISM – mfg (Nov)	**2** US: Non-farm payrolls (Nov) US: Unemployment rate (Nov)
5 DE: PMI – services (Nov) EZ: PMI – services (Nov) EZ: Sentix index (Dec) EZ: Retail sales (Oct)	**6** US: industrial orders (Oct) US: ISM – services (Nov) CN: PMI – mfg (Oct)	**7** ***PL: MPC decision*** DE: Industrial output (Oct) EZ: GDP revision (Q3)	**8** EZ: ECB decision GB: BoE decision US: Wholesale inventories (Oct)	**9** DE: Exports (Oct) US: Trade balance (Oct) US: Flash Michigan (Dec)
12 CN: Trade balance (Nov)	**13** ***PL: Balance of payments (Oct)*** ***PL: CPI (Nov)*** DE: Indeks ZEW (Dec) US: Retail sales (Nov) US: Fed decision	**14** ***PL: M3 money supply (Nov)*** EZ: Industrial orders (Oct) US: Import prices (Oct)	**15** CN: Flash PMI – mfg (Dec) DE: Flash PMI – mfg (Dec) EZ: Flash PMI – mfg (Dec) EZ: HICP (Nov) US: Industrial output (Oct) US: Capacity utilization (Oct)	**16** ***PL: Wages and employment (Nov)*** US: Core CPI (Nov)

Source: CSO, NBP, Ministry of Finance, Reuters, Bloomberg.

MPC meetings and data release calendar for 2011

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
ECB meeting	13	3	3	8	5	9	7	4	8	6	3	8
MPC meeting	18-19	15	1-2	4-5	10-11	7-8	5-6	23	6-7	4-5	8-9	6-7
MPC minutes	20	17	17	21	19	16	-	25	22	20	17	22
GDP*	-	-	2	-	31	-	-	30	-	-	30	-
CPI	13	15[a]	15[b]	13	13	15	13	12	13	13	15	13
Core inflation	20	-	22	20	20	22	20	19	20	20	22	20
PPI	20	18	17	19	20	17	19	18	19	19	21	19
Industrial output	20	18	17	19	20	17	19	18	19	19	21	19
Retail sales	28	23	23	27	25	22	26	24	23	25	-	-
Gross wages, employment	19	16	16	18	18	16	18	17	16	18	18	16
Foreign trade	about 50 working days after reported period											
Balance of payments*	-	-	31	-	-	29	-	-	29	-	-	30
Balance of payments	13	11	14	13	16	14	15	11	12	13	15	13
Money supply	14	14	14	14	13	14	14	12	14	14	14	14
Business climate indices	21	21	22	21	20	22	22	22	22	21	22	21

* quarterly data, [a] preliminary data for January, [b] January and February
Source: CSO, NBP

Economic data and forecasts

Monthly economic indicators

		Oct 10	Nov 10	Dec 10	Jan 11	Feb 11	Mar 11	Apr 11	May 11	Jun 11	Jul 11	Aug 11	Sep 11	Oct 11	Nov 11
PMI	pts	55.6	55.9	56.3	55.6	53.8	54.8	54.4	52.6	51.2	52.9	51.8	50.2	51.7	50.4
Industrial production	%YoY	8.0	10.0	11.4	10.3	10.5	6.8	6.7	7.8	2.0	1.8	7.9	7.7	6.2	2.3
Construction production	%YoY	9.4	14.2	12.3	11.0	18.7	24.2	15.6	23.9	17.0	16.5	10.8	18.1	18.5	15.6
Retail sales [a]	%YoY	9.0	8.3	12.0	5.8	12.2	9.4	18.6	13.8	10.9	8.2	11.3	11.4	10.9	9.3
Unemployment rate	%	11.5	11.7	12.4	13.1	13.4	13.3	12.8	12.4	11.9	11.8	11.8	11.8	11.9	12.1
Gross wages in enterprises sector [a]	%YoY	3.9	3.6	5.4	5.0	4.1	4.0	5.9	4.1	5.8	5.2	5.4	5.2	5.1	5.2
Employment in enterprises sector	%YoY	2.1	2.2	2.4	3.8	4.1	4.1	3.9	3.6	3.6	3.3	3.1	2.8	2.5	2.5
Export (€)	%YoY	19.3	20.2	23.0	21.0	17.6	12.5	10.5	17.6	8.3	5.4	17.1	12.8	7.8	5.7
Import (€)	%YoY	20.3	27.7	29.1	23.9	19.4	10.6	16.5	19.4	12.5	8.4	11.7	10.9	6.2	4.4
Trade balance	EURm	-754	-1 280	-1 313	-504	-702	-687	-1 126	-975	-1 046	-1 178	-750	-371	-608	-1192
Current account balance	EURm	-1 678	-2 697	-1 922	-1 313	-714	-1 107	-1 285	-141	-1 994	-2 044	-1 730	-1673	-1523	-2693
Current account balance	% GDP	-4.4	-4.5	-4.7	-4.7	-4.9	-4.8	-5.0	-4.7	-4.9	-5.0	-4.9	-4.9	-4.9	-4.9
Budget deficit (cumulative)	PLNbn	-41.8	-42.5	-44.6	-2.8	-14.4	-17.3	-21.6	-23.7	-20.4	-21.1	-20.7	-21.9	-24.9	-25.2
Budget deficit (cumulative)	% of FY plan	80.1	81.4	100.0	6.9	35.9	43.1	53.8	59.0	50.7	52.5	51.6	54.5	61.9	62.8
CPI	%YoY	2.8	2.7	3.1	3.6	3.6	4.3	4.5	5.0	4.2	4.1	4.3	3.9	4.3	4.4
CPI excluding prices of food and energy	%YoY	1.2	1.2	1.6	1.6	1.7	2.0	2.1	2.4	2.4	2.4	2.7	2.6	2.7	2.8
PPI	%YoY	3.9	4.7	6.2	6.2	7.5	9.5	8.8	6.3	5.6	5.9	6.8	8.1	8.2	7.4
Broad money (M3)	%YoY	6.4	9.1	8.8	8.2	8.3	10.9	9.4	7.7	7.2	7.4	8.8	10.1	10.6	9.6
Deposits	%YoY	7.7	9.3	9.1	8.6	8.7	12.2	9.9	8.1	7.7	7.7	8.8	9.6	10.1	9.3
Loans	%YoY	6.3	9.5	9.2	9.2	10.1	11.4	12.0	11.7	9.9	13.9	13.2	14.8	15.7	13.0
USD/PLN	PLN	2.85	2.90	3.02	2.91	2.88	2.87	2.75	2.75	2.76	2.80	2.87	3.15	3.18	3.12
EUR/PLN	PLN	3.95	3.95	4.00	3.89	3.93	4.01	3.97	3.94	3.97	3.99	4.12	4.33	4.35	4.37
Reference rate [b]	%	3.50	3.50	3.50	3.75	3.75	3.75	4.00	4.25	4.50	4.50	4.50	4.50	4.50	4.50
Lombard rate [b]	%	5.00	5.00	5.00	5.25	5.25	5.25	5.50	5.75	6.00	6.00	6.00	6.00	6.00	6.00
WIBOR 3M	%	3.83	3.86	3.92	4.01	4.11	4.18	4.27	4.40	4.61	4.70	4.72	4.75	4.80	4.93
Yield on 52-week T-bills	%	4.04	4.10	4.04	4.15	4.41	4.54	4.61	4.61	4.63	4.61	4.53	4.48	4.48	4.55
Yield on 2-year T-bonds	%	4.72	4.79	4.70	4.96	5.04	5.04	5.01	5.02	4.87	4.72	4.47	4.43	4.54	4.60
Yield on 5-year T-bonds	%	5.09	5.36	5.45	5.72	5.82	5.82	5.76	5.64	5.42	5.30	5.14	5.08	5.09	5.05
Yield on 10-year T-bonds	%	5.36	5.82	5.99	6.26	6.27	6.28	6.14	6.06	5.90	5.81	5.71	5.80	5.76	5.75

Source: CSO, NBP, Finance Ministry, BZ WBK own estimates; [a] in nominal terms, [b] at the end of period

Quarterly and annual economic indicators

		2009	2010	2011	2012	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12
GDP	PLNbn	1 343.4	1 415.4	1 526.8	1 608.6	349.0	368.9	378.7	430.2	369.0	385.9	399.4	454.3
GDP	%YoY	1.6	3.9	4.1	2.7	4.4	4.3	4.2	3.5	2.6	2.4	2.7	3.1
Domestic demand	%YoY	-1.1	4.4	3.6	1.8	4.5	4.3	3.5	2.5	2.5	0.8	1.8	2.2
Private consumption	%YoY	2.1	3.2	3.5	2.7	3.9	3.5	3.5	3.0	2.8	2.6	2.7	2.7
Fixed investments	%YoY	-1.2	-1.0	6.9	4.1	6.0	7.8	8.0	6.0	6.0	3.0	4.0	4.0
Industrial production	%YoY	-4.5	11.1	5.6	2.0	9.1	5.8	6.2	2.6	1.6	0.4	1.3	4.7
Construction production	%YoY	5.1	3.8	16.5	8.7	18.7	18.8	15.2	15.3	13.3	3.9	6.7	11.8
Retail sales [a]	%YoY	3.5	6.1	10.5	5.6	9.4	14.5	10.3	8.1	9.4	5.8	5.0	2.8
Unemployment rate [b]	%	12.1	12.4	12.2	12.3	13.3	11.9	11.8	12.2	13.4	12.4	11.7	12.3
Gross wages in enterprise sector [a]	%YoY	4.4	3.6	4.8	3.5	4.1	5.0	6.1	4.4	3.4	3.2	3.2	4.1
Employment in enterprise sector	%YoY	-1.2	0.9	3.3	0.9	4.1	3.5	3.2	2.4	0.9	0.8	0.9	1.1
Export (€)	%YoY	-15.8	22.8	11.7	5.5	17.0	12.0	11.8	6.6	5.0	4.0	5.0	8.0
Import (€)	%YoY	-24.4	24.9	12.1	4.7	17.7	16.0	10.4	5.3	6.0	2.0	4.0	7.0
Trade balance	EURm	-5 427	-8 893	-10 442	-9 854	-1894.0	-3148.0	-2 299	-3 100	-2 346	-2 506	-2 035	-2 968
Current account balance	EURm	-12 152	-16 493	-17 979	-12 071	-3135.0	-3427.0	-5 447	-5 970	-3 525	-2 458	-2 532	-3 556
Current account balance	% GDP	-3.9	-4.7	-4.8	-3.1	-4.8	-4.9	-4.9	-4.8	-5.0	-4.7	-3.9	-3.1
General government balance	% GDP	-7.3	-7.9	-5.0	-4.3	-	-	-	-	-	-	-	-
CPI	%YoY	3.5	2.6	4.2	3.0	3.8	4.6	4.1	4.3	3.3	2.7	3.1	2.8
CPI [b]	%YoY	3.5	3.1	4.1	2.7	4.3	4.2	3.9	4.1	2.8	3.0	3.3	2.7
CPI excluding food and energy prices	%YoY	2.7	1.6	2.4	2.8	1.7	2.3	2.6	2.8	3.0	2.7	2.7	2.8
PPI	%YoY	3.3	2.1	7.2	3.0	7.7	6.9	6.9	7.2	4.7	3.1	2.3	1.8
Broad money (M3) [b]	%YoY	8.1	8.8	8.1	6.3	10.9	7.2	10.1	8.1	-	-	-	6.3
Deposits [b]	%YoY	9.8	9.1	7.9	6.3	12.2	7.7	9.6	7.9	-	-	-	6.3
Loans [b]	%YoY	8.6	9.2	11.7	5.0	11.4	9.9	14.8	11.7	-	-	-	5.0
USD/PLN	PLN	3.11	3.02	2.92	3.14	2.88	2.75	2.94	3.12	3.15	3.16	3.15	3.12
EUR/PLN	PLN	4.33	3.99	4.10	4.17	3.94	3.96	4.15	4.33	4.30	4.21	4.12	4.05
Reference rate [b]	%	3.50	3.50	4.50	4.00	3.75	4.50	4.50	4.50	4.25	4.00	4.00	4.00
Lombard rate [b]	%	5.00	5.00	6.00	5.50	5.25	6.00	6.00	6.00	5.75	5.50	5.50	5.50
WIBOR 3M	%	4.42	3.94	4.53	4.42	4.10	4.43	4.72	4.89	4.75	4.37	4.27	4.27
Yield on 52-week T-bills	%	4.54	3.96	4.51	4.11	4.37	4.62	4.54	4.53	4.49	4.10	3.95	3.92
Yield on 2-year T-bonds	%	5.17	4.72	4.77	4.40	5.01	4.97	4.54	4.55	4.44	4.37	4.35	4.45
Yield on 5-year T-bonds	%	5.65	5.31	5.41	5.06	5.79	5.60	5.17	5.06	5.01	4.98	5.06	5.20
Yield on 10-year T-bonds	%	6.11	5.74	5.96	5.66	6.27	6.03	5.77	5.75	5.71	5.60	5.62	5.72

Source: CSO, NBP, Finance Ministry, BZ WBK own estimates; [a] in nominal terms, [b] at the end of period

Bank Zachodni WBK

This analysis is based on information available until 09.11.2011 has been prepared by:

ECONOMIC ANALYSIS UNIT

TREASURY DIVISION

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

Email: ekonomia@bzwbk.pl   Web site (including Economic Service page): http://www.bzwbk.pl

Maciej Reluga – Chief Economist

tel. +48 022 586 83 63. Email: maciej.reluga@bzwbk.pl

Piotr Bielski	+48 22 586 83 33
Agnieszka Decewicz	+48 22 586 83 41
Marcin Luziński	+48 22 586 83 62
Marcin Sulewski	+48 22 586 83 42

TREASURY SERVICES DEPARTMENT

Poznań	Warszawa	Wrocław
pl. Gen. W. Andersa 5	**ul. Marszałkowska 142**	**ul. Rynek 9/11**
61-894 Poznań	**00-061 Warszawa**	**50-950 Wrocław**
tel. +48 061 856 58 14	**tel. +48 022 586 83 20**	**tel. +48 071 370 25 87**
fax +48 061 856 55 65	**fax +48 022 586 83 40**	**fax +48 071 370 26 22**