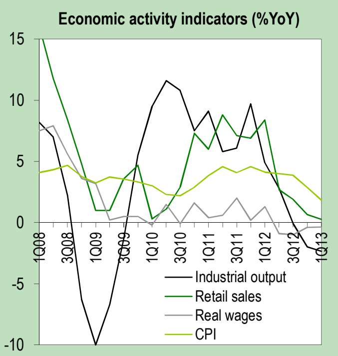
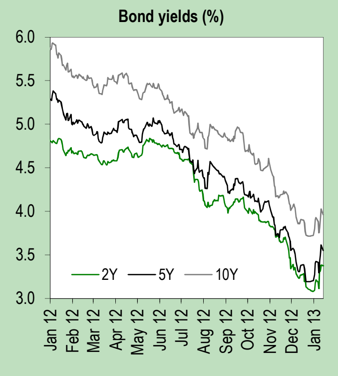
Bank Zachodni WBK

MACROscope

Polish Economy and Financial Markets

January 2013





In this issue:

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Weak start of the year

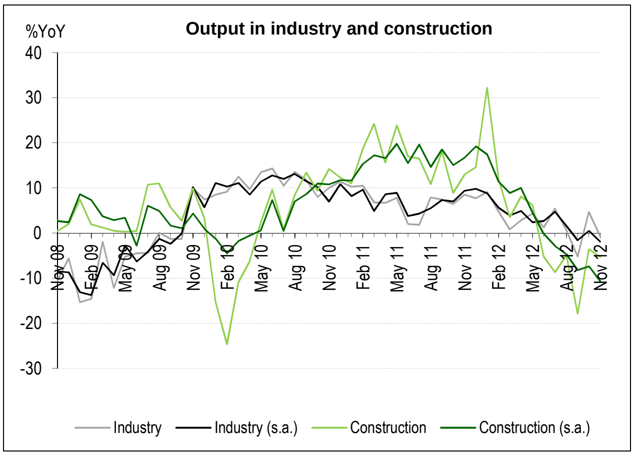
- **Recent macroeconomic data confirmed our forecasted scenario of decelerating economy at the end of 2012 and the start of 2013.** In November the number of business days was still higher than a year before (although the difference was smaller than in October), and yet most of the indicators were disappointing. The December figures will certainly look much worse, because the calendar effect was much to their disadvantage. Although the head of Central Statistical Office assured at the December press conference that the pace of GDP growth in the last quarter of 2012 might be similar as in the third quarter, in our view the pace slackened visibly in the wake of faltering domestic demand (stagnant consumption amid shrinking real disposable income, declining investment). We will find it out towards the end of January, when the CSO will release preliminary GDP figures for 2012, and on that basis it will be possible to assess the situation in the last quarter.
- **As expected, not only the economic activity indicators are falling, but also the inflation rate is.** CPI growth in November was below 3% for the first time for a long time. We forecast it to fall below 2.5% in December, and below 2% at the start of 2013. The NBP Governor Marek Belka rightly pointed out at the December MPC's conference that "inflation is in the descending phase, cost drivers are disappearing, and demand pressure has not been felt for quite a while". This leaves no doubt about the direction in which the monetary policy should head.
- **The MPC have again decided to lower the interest rate in January, this being the third cut in a row, but their moves are still (too) cautious.** Moreover, the Council's communique and comments during the conference implied that the monetary easing cycle is coming to a hold. Concurrently, it is visible that the Council remains under strong influence of the current macroeconomic data. If that is the case, a break in the cycle may not be so soon. The expected inflation fall in the coming months coupled with sluggish economic growth may prove to be strong enough that despite the suggested pause, the Council may conclude that – as Marek Belka said in November – "there is no time for a pause in cutting interest rates".
- **The decision to cut rates only by 25bps in January was disappointing to some of the market players, which in combination with a suggestion about the end of the easing cycle caused the interest rate market to weaken significantly.** Even though the upward trend in yields is in line with our scenario for this year, it appears that subsequent data releases will trigger a further decline. A low dynamics of industrial output and retail sales as well as a visibly lower inflation may again add to the market speculation of how deep the next interest rate cuts should be. The FX market did not experience a breakthrough, and after PLN depreciation at the year start, we can now see consolidation between 4.04 and 4.14. We are forecasting EURPLN rate at 4.10 in January, noting the risk of a possible upward adjustment. It is worth mentioning about opinions recently voiced by the government and NBP, which indicate that excessive zloty appreciation may harm the economy (a possible intervention if PLN appreciates too much).

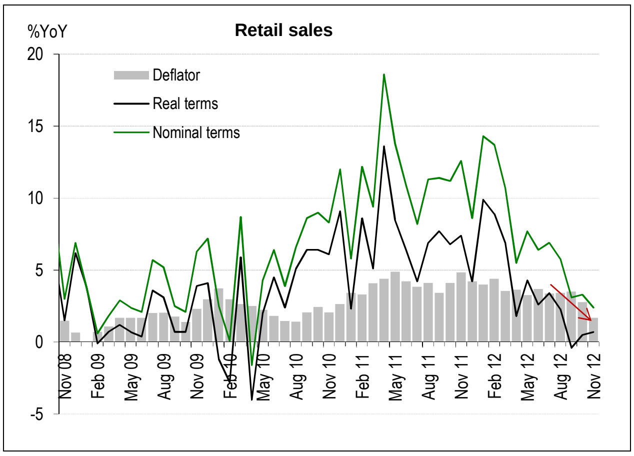
Financial market on 14 January 2013:

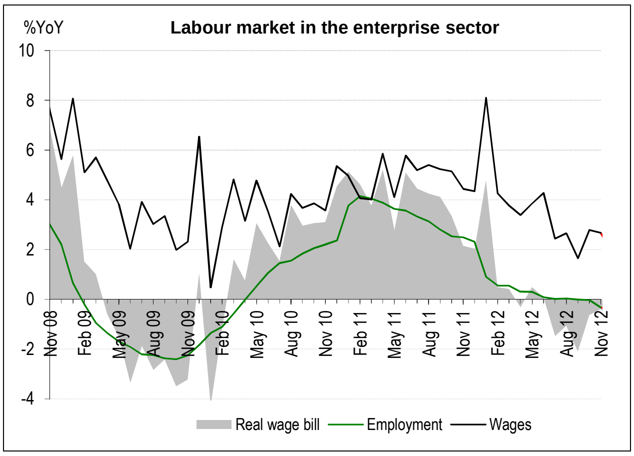
NBP deposit rate	2.50	WIBOR 3M	4.03	EURPLN	4.1231
NBP reference rate	4.00	Yield on 2-year T-bond	3.37	USDPLN	3.0828
NBP lombard rate	5.50	Yield on 5-year T-bond	3.55	CHFPLN	3.3674

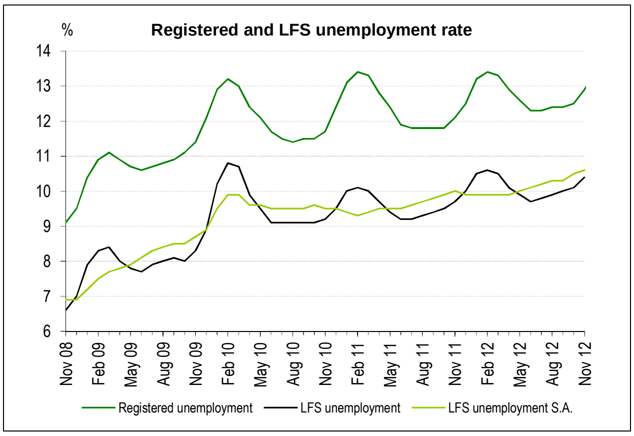
This report is based on information available until 14.01.2013

Economic update









Source: CSO, Eurostat, BZ WBK

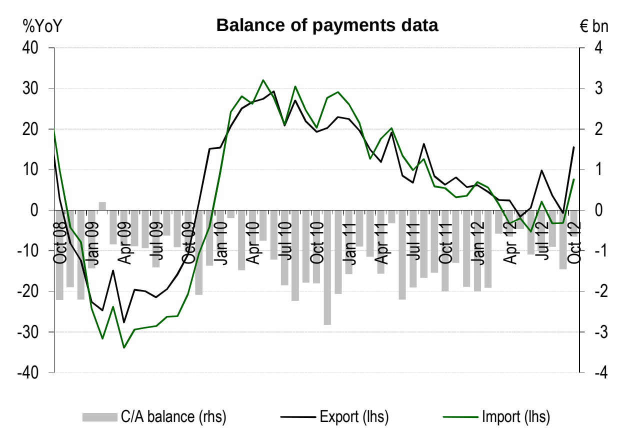
Manufacturing, construction and retail sales decelerate

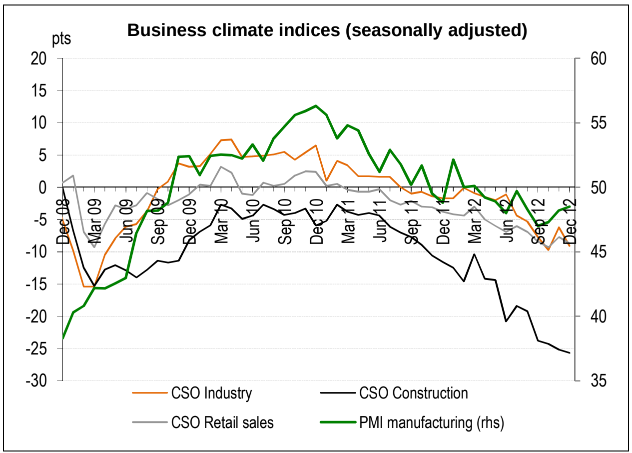
- November's data from manufacturing and construction confirmed the situation in these sectors was deteriorating quickly in the last quarter of 2012. The industrial output contracted by 0.8%YoY and construction by 5.3%YoY. After seasonal adjustment, the scale of decline reached 1.9%YoY in case of the industrial output (weakest performance since October 2009) and 10.7%YoY for construction (deepest contraction since April 2005). Such sectors as metals, auto construction, furniture (that is those focused on exports) are underperforming significantly. We expect that situation in these sectors may remain weak in coming months but soon shall rebound due to some improvement of economic situation abroad. In our opinion, December's data will look very bad, mainly due to number of working days effect and reduction of daily work time in car plants. We do not see much room for improvement in construction sector in 2013. Some support will be provided by the activity of state-owned company "Inwestycje Polskie" that is likely to focus on construction and assembly projects.
- Retail sales growth slowed in November to 2.4%YoY from 3.3%YoY in October. Retail sales growth accelerated slightly as compared to last two months (0.7%YoY), but this is still growth close to zero, indicating that consumer demand is stagnating. It is interesting that retail sales' deflator declined considerably stronger than CPI inflation (to 1.7%YoY from 2.8%YoY in October), which is indicating a quickly weakening price pressure in trade, probably due to weak demand. Slowing price growth will be a support for real retail sales in the upcoming months. Still, the nominal growth will remain weak, we are expecting some rebound in the second half of the year.

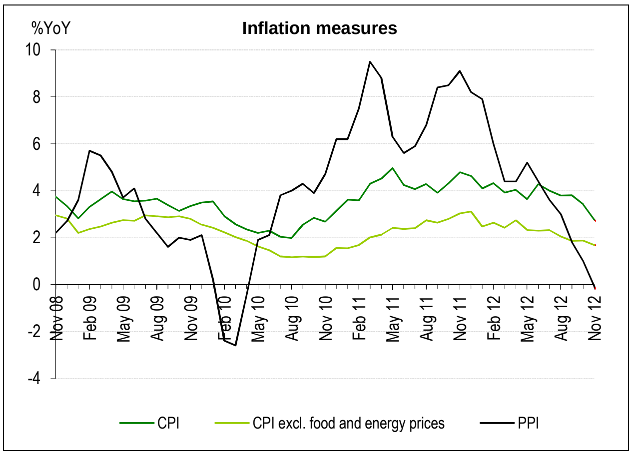
… which still undermines the labour market

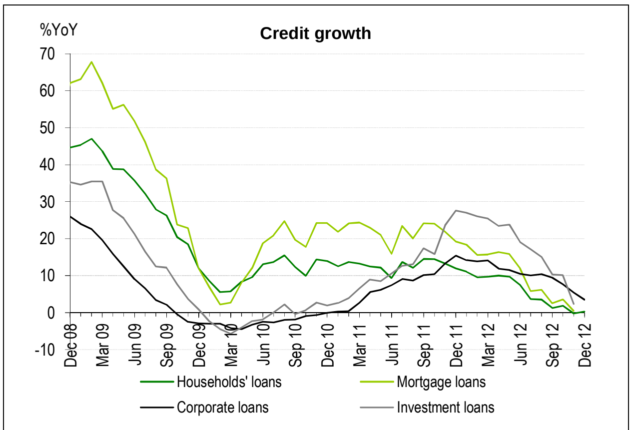
- The weak situation in industry and construction is weighing on the labour market. Average employment in corporate sector fell by 0.3%YoY in November. Monthly reduction of jobs amounted to 13k, which is the most considerable decline since May 2009. Since the beginning of 2012 already 54k workplaces were shed. November saw a substantial decline of employment in retail trade, which had been quite immune to slowdown so far. This may be an effect of weakening purchases of households. We are expecting further declines of employment in the upcoming months, some potential for improvement can appear in H2.
- Wage bill in corporate sector rose by 2.3%YoY in nominal terms and fell by 0.4%YoY in real terms. The subdued wage growth is putting a negative pressure on private consumption. We are predicting that real growth of disposable incomes can rebound thanks to a marked decline of inflation and high indexation of social benefits (based on high inflation from 2012) and later in the year with help of improved results of exporters. Still, there is a risk that consumers will limit their spending in order to rebuild savings that were undermined in earlier quarters.
- Registered unemployment rate advanced in November to 12.9% from 12.5% in October. Number of jobseekers amounted to 2058k and was by 7.5% higher than one year ago, while the unemployment rate itself was by 0.8pp higher than in November 2011. Seasonally adjusted LFS unemployment rate amounted to 10.6%, i.e. by 0.6pp higher than one year ago. It is worth noting that this considerable rise took place despite enhanced intervention of the Labour and Social Policy Ministry, which offered subsidised jobs and trainings in September-November for almost 70k people more than one year ago. In our view, was it not for this mean, the unemployment would be close to 13.5% already in November. We are predicting that unemployment rate may exceed 14% at the beginning of the year.

Economic update









Source: CSO, NBP, BZ WBK

Exports and imports at all-time high

- In October Polish foreign trade volumes reached the highest levels in history – exports reached €14.2bn and imports €13.9bn. It is worth noting that such good results were possible mainly due to a favourable working days effect and we will observe some decline of foreign trade volumes in the upcoming months, which is also suggested by CSO data on foreign trade in November.
- Trade balance amounted in October to €225m and this was the highest surplus since comparable data is available (i.e. since 2000).

When bottoming-out?

- Recent data and CSO business climate indicators (construction at all-time lows, all sectors going down) do not give many reasons for optimism about GDP growth in 4Q2012. Some support may be provided by improvement in net exports, but in our view it will fail to fully offset the slowdown in consumption and investments. We are estimating that economic growth posted a mere 0.5%YoY in the last quarter of 2012 and below 2% in whole 2012. Data for the whole 2012 (without breakdown by quarters) will be released by the CSO at the end of January and they will help to estimate the scale of economic slowdown in Q4.
- We are expecting the economy to bottom out in Q1, after which the economic growth will accelerate gradually to ca. 2%YoY at the end of the year. Some support for our forecast in provided by the PMI economic activity indices in manufacturing. In December this gauge advanced to 48.5 and this was a fourth increase in a row, which is suggesting that the pace of deceleration of growth is weakening. Still, on average PMI was in Q4 lower than in Q3 (48.0 vs 48.3), which in turn is underpinning our forecast of a strong deceleration of domestic economy at the end of 2012.

Declining inflationary pressure

- CPI inflation amounted to 2.8% in November (lowest in two years). We expect that already in December the CPI will be below 2.5%, close to 2.0% in January and clearly below the NBP target (2.5%) for the whole 2013. Decline of inflation is due both to demand factors (weak consumption) and supply factors (slowing increase of commodity prices, cuts of gas prices).
- Weakness of inflationary pressure is also visible in core inflation figures (inflation excluding food and energy prices amounted to 1.7%YoY, the lowest since February 2011) and in PPI inflation (-0.1%YoY, the lowest since April 2010). We are expecting that also these measures will run on low levels for the whole year.

As we noted earlier, decline of inflation will positively affect real measures, e.g. disposable incomes of households.

Further slowdown on the credit market

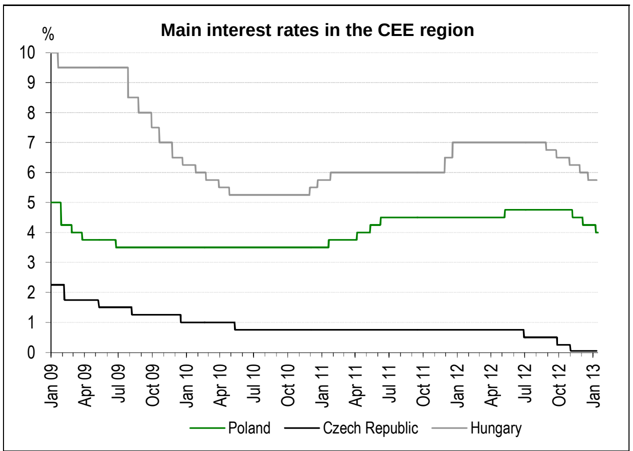
- In the last months of 2012 the pace of growth of loans continued to decelerate. In November the loans for households (after eliminating effect of FX fluctuation) increased by 3.2%YoY (new all-time low). Significant effect on this weakening was put by slowdown of mortgage loans (to 5.6%YoY after FX adjustment), despite strong demand due to expiration of family support program, as well as by further decline of consumption loans (-4.6%YoY). Pace of growth of loans for companies decelerated to 5.4%YoY (after FX adjustment), mainly due to poor performance of investment loans.
- Preliminary data on December's money supply showed further deceleration of pace of growth of loans in both sectors. The past year was the first in nearly 20 years (since when comparable data is available) when the value of loans for household remained roughly unchanged versus the previous year.

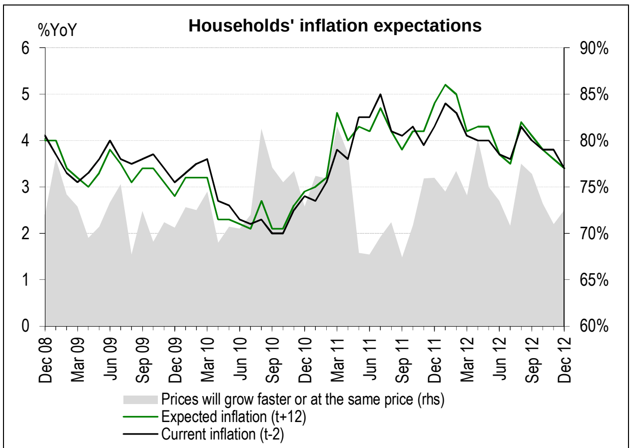
Monetary policy watch

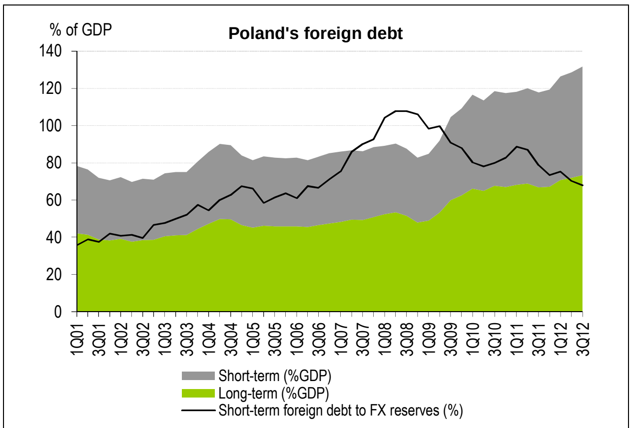
Fragments of MPC communiqué in January (indication of changes as compared to December statement):

In the opinion of the Council, incoming data confirm a considerable economic slowdown in Poland, which results in limited wage and inflationary pressures. At the same time, the Council assesses that GDP growth will remain moderate in the coming ~~years~~ **quarters**, which poses a risk of inflation ~~declining~~ **running** below the NBP's inflation target in the medium term. Therefore, the Council decided to lower the NBP interest rates **further**. The decrease in the interest rates should support economic activity and thus reduces the risk of inflation falling below the target in the medium term.

The Council does not rule out further monetary policy easing should the incoming information confirm a protracted economic slowdown, and should the risk of increase in inflationary pressure remain limited, ~~the Council will further ease monetary policy.~~







Source: CBs, Reuters, BZ WBK

Pause? Not so soon

- The Monetary Policy Council cut main interest rates by 25bps at the first meeting in 2013. This was the third consecutive rate cut, bringing the main reference rate to the level of 4.0%.
- Slight change in the last sentence of the MPC communique, and comments of MPC members at the post-meeting press conference, suggested a looming pause in monetary easing cycle. At the same time, those comments suggested that the key factor for MPC's next decisions will be incoming macroeconomic data. The latter will be – according to our forecasts – strongly dovish.
- Interestingly, neither the MPC statement nor the comments mentioned the incoming update of the NBP projections (which will be available at the start of March). Their results should be supportive for continuation of monetary easing, showing lower paths of inflation and GDP than before. But perhaps the projection will not be as significant for the MPC members as current indicators of economic activity and inflation.
- A fall of inflation in the nearest months and weakening of economic growth will be so strong, according to our predictions, that – contrary to suggestions about looming break in easing cycle – the Council may decide to continue the cycle of interest rate reductions in February and in March, still moving in small steps by 25bps. Therefore, the NBP reference rate will return to 3.5%, the record low level, to which it was previously trimmed due to crisis in world economy in 2009.
- Signals of approaching break in interest rate cuts cycle caused a significant limitation of expectations regarding possible scale of total rate cuts – currently the market is pricing-in cuts by 75bps in the horizon of next nine months.

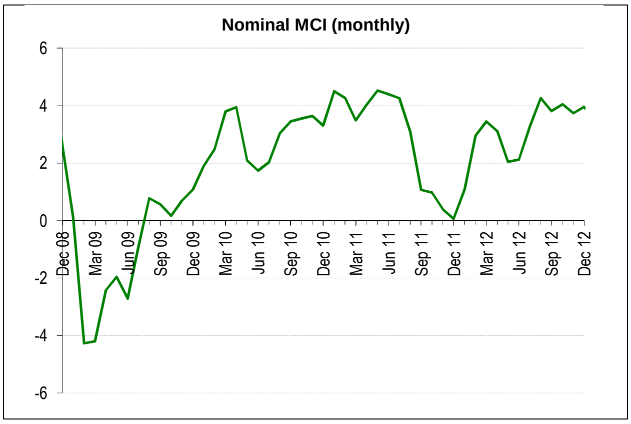
Inflation expectations falling

- In December the measure of households' inflation expectations decreased for the fourth month in a row, reaching 3.4%. The drop was possible largely due to fall in current inflation indicator, being a basis for calculation (CPI growth known at the moment of conducting a survey fell from 3.8% to 3.4%). The structure of answers in the poll deteriorated slightly as compared to November, however remained much better than on average in the third quarter.
- The predicted quick drop in CPI inflation in next months will contribute to a marked decline in measure of households' inflation expectations.

Foreign debt growing

- At the end of Q3-2012 Poland's gross foreign debt increased to a record-high level of €272bn, i.e. 73.4% of GDP. The fastest pace of growth was recorded in external debt of government sector (it surged by ca. €20bn over one year, i.e. 22%YoY), which is the result of growing foreign demand for Polish government bonds. This situation surely facilitates financing budget borrowing needs for the Finance Ministry, however it also implies a rise in country's macroeconomic risk. Luckily, the better part of growth concerns long-term foreign debt, while short-term debt has decreased slightly in the recent quarters.
- Poland's official reserve assets reached €82.6bn at the end of December 2012 and were higher by almost €7bn than at the end of previous year.

Restrictiveness of the Monetary Policy (Council)



Monetary policy still restrictive

- Nominal index of monetary policy restrictiveness (MCI) increased slightly again in December. Although WIBOR rates have declined quite substantially in that month (on average by 36bps) under influence of main NBP interest rates' reduction and market expectations for further monetary policy easing, this move has been offset by appreciation of the zloty versus euro by ca. 1%, which caused that the current exchange rate departed from the long-term trend. As a result, the synthetic indicator of monetary policy conditions remained at elevated level for the fifth month in a row, after its sharp increase in the summer 2012.
- In January a slight drop of MCI index is likely due to further decrease in WIBOR rate and stabilisation (or even some weakening) of the zloty exchange rate.

Gilowska (1.36)

Kaźmierczak (1.24)

Glapiński (1.23)

Rzońca (1.06)

Winiecki (1.05)

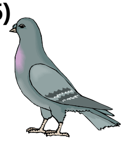
Hausner (1.04)

Zielińska-Głębocka (0.73)

Belka (0.69)

Bratkowski (0.38)

Chojna-Duch (0.35)



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. Value of the index for a given MPC member is a weighted average of points for all votes. Recent votes have higher weights, more distant – lower.

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.

NBP Governor in minority supporting rate cut by 25

According to detailed results of MPC votes in November released by the NBP, three members voted against interest rate cut by 25bps: Gilowska, Glapiński and Kaźmierczak. On the other hand, cut by 50bps was supported by as many as four members: Belka, Bratkowski, Chojna-Duch and Zielińska-Głębocka, so there was only one vote missing to implement this decision. The NBP President was in minority for the second time in a row, which shows that he does not have a strong influence on majority within the MPC. At the same time, however, it seems that the group supporting more decisive decisions has recently increased. This does not change the fact that not only in November, but also in December and January the rate cuts had the scale of 25bps only. Interestingly, in December not only 50bps motion was proposed, but also 150bps.

According to minutes of December's MPC meeting, majority of the Council was against a deeper rate cut given "the persistence of inflation and the risks related to price growth within the horizon of the strongest monetary policy impact". We wonder whether the inflation drop to ca. 2% in January and even below in the next months will change the opinion of MPC members concerning inflation's persistence. We think this may be the case at least for some members, those for whom current data matter the most e.g. Kaźmierczak. On the other hand, we think that some other members (Winiecki and Rzońca) may soon recall their support for further monetary policy easing. Overall, as the MPC did not decide to cut rates more aggressively until now, one should not expect this to happen in the following months. Actually, the longer the process of gradual rate cuts, the lower the chances for a cut deeper than 25bps.

Next cut in February... and what next?

During the press conference after the January meeting, NBP Governor Marek Belka signalled a possibility of a pause in monetary easing cycle, but at the same time he noted that a rate cut in February is "possible or even likely". It seems he is not the only one of this opinion within the MPC, as both usually dovish E. Chojna-Duch and hawkish until recently A. Glapiński did not exclude their support for another move next month. As usual, a more significant discrepancy in opinions within the MPC can be seen as regards monetary policy prospects in the following months. While Glapiński said that "one should stop at this level of interest rates", according to Chojna-Duch more easing could come after a pause. Similar view was presented by Zielińska-Głębocka during the press conference.

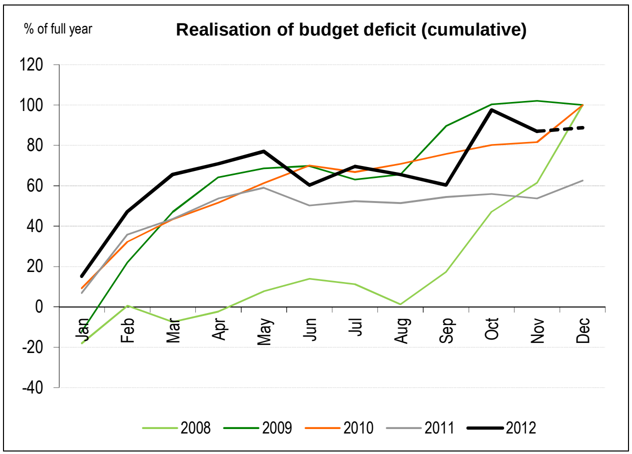
Marek Belka said that fall in inflation "will certainly allow for more decisive moves of interest rates", though he indicated the importance of core inflation development in following months. Our forecasts show that core inflation may slightly increase at the beginning of the year, but it should stay below 2%, which is a safe level from the point of view of monetary policy.

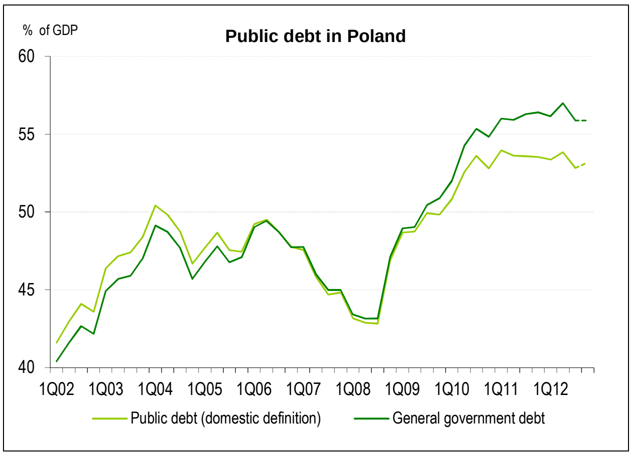
Possible FX interventions if zloty appreciates too much

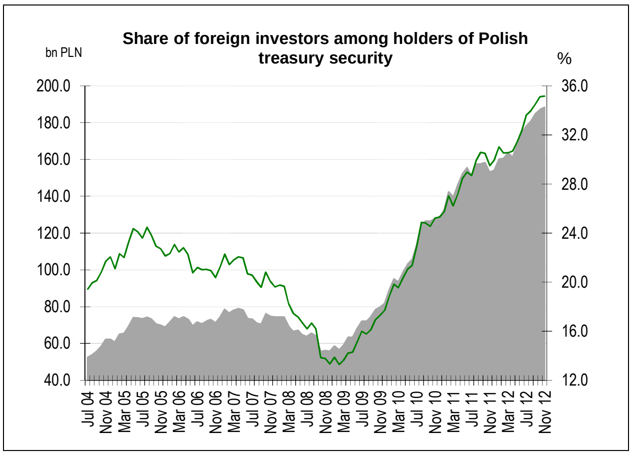
In recent weeks representatives of the government and the central bank quite actively commented the situation on the foreign exchange market, emphasising that excessive zloty strengthening might be unfavourable for the economy. The Ministry of Finance announced they would exchange FX means raised from currency-denominated bond placement in the central bank (in order not to increase appreciative pressure on the zloty). Deputy NBP Governor, Witold Koziński said that "instability and too fast zloty strengthening might meet reaction of the central bank". In our opinion, a possibility of FX intervention may indeed be an effective way to avoid excessive appreciation of the domestic currency and a fall of the EURPLN rate below 3.90-4.00 in case of capital inflow.

Source: NBP, BZ WBK

Fiscal policy watch







	Spread vs Bunds (10Y) in bps			CDS (5Y USD)		
	14.01	change since 14.12.12	change since 31.12.12	14.01	change since 14.12.12	change since 31.12.12
Poland	241	-15	1	79	-2	-1
Czech	49	-17	-5	60	-7	-3
Hungary	475	-41	-16	271	-17	2
Greece	1016	-143	-36	0	0	0
Spain	348	-55	-52	243	-49	-46
Ireland	275	-60	-44	186	-30	-32
Portugal	480	-99	-88	372	-70	-65
Italy	265	-57	-57	222	-51	-53
Germany	-	-	-	41	6	2

Source: Finance Ministry, CSO, Reuters, BZ WBK

Budget deficit lower than planned

- At the end of November 2012 budget deficit accounted for 87.1% of annual plan. In comparison with previous months revenues from VAT increased by 2.9%YoY, after decline by ca. 2%YoY in previous month. What is more, in November we noted more significant cuts on the spending side (in which lack of subsidies for social securities fund).
- According to preliminary calculation budget deficit at the end of 2012 reached the level of ca. PLN31bn vs PLN35bn assumed in the 2012 budget bill. Budget revenues were completed in 97.9% of annual plan, while spending in 96.9%. It means the value of income at PLN287.6bn, i.e. by ca. PLN6bn less than planned, mainly due to lower realisation of VAT inflows (by almost PLN12bn).
- The deputy minister of finance Hanna Majszczyk commented on the annual budget completion that saving level in the 2012 central budget was more or less similar to the previous years. It came from not only from lower investment, but also from lower current spending.
- The risk of this year central budget amendment has remained high. Officials from the Ministry of Finance said that this year budget deficit is realistic, but they do not exclude an amendment if necessary.

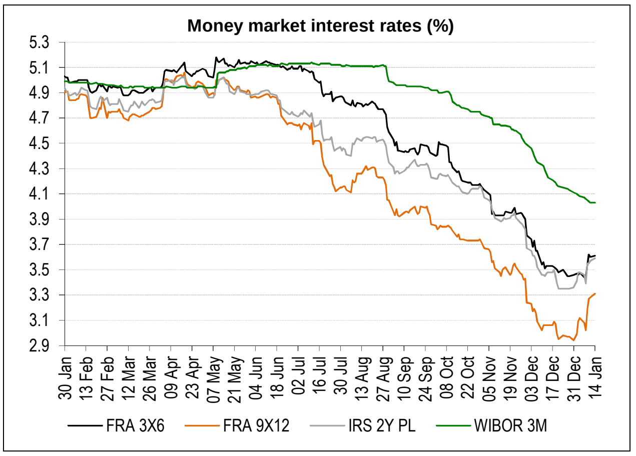
The fiscal deficit lowered in 2012

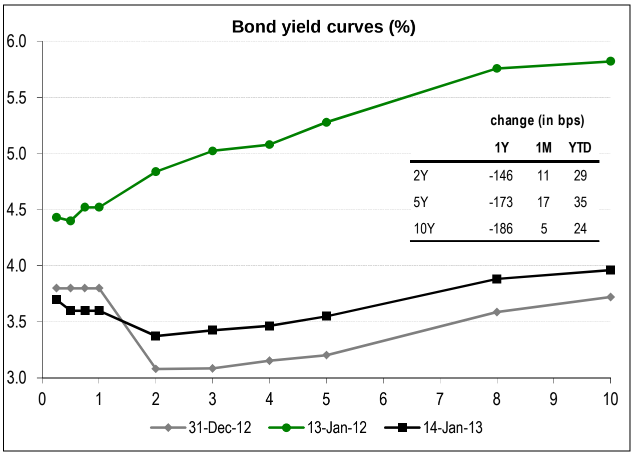
- Poland's Ministry of Finance released data of public fiscal deficit at the end of Q3 2012. According to preliminary estimation at the end of September, the public fiscal deficit reached the level of ca PLN835.5bn and accounted for 52.8% of GDP, which means decline by ca. 1pp in comparison with the previous quarter. In the same time ratio of the general government debt (ESA95) to GDP fell to 55.9% from ca. 57% at the end of June 2012.
- We believe that also 4Q 2012 brought some stabilisation in public finance debt. The Ministry of Finance predicts that in whole 2012 the public fiscal debt reached the level below 53% of GP vs 53.5% at the end of 2011, while the general government debt was lower than 56% (vs 56.4% in 2011). This year we foresee the ratio to stabilise near the level observed at the end of 2012.
- Market conditions were favourable to pre-finance the 2013 borrowing needs. At the beginning of 2013 the Ministry of Finance has financed 27% of this year target (vs 18% at the beginning of 2012). After the January's issue of 6Y eurobonds the Ministry has means covering practically fully this year's FX needs. In Q1 2013 the Ministry plans to tap Treasury Securities worth PLN25-35bn and finance ca 50% of borrowing requirements. We think it is realistic, in particular, as liquidity situation will support relatively high offers (at the end of January a PLN10bn from redemptions and PLN2.5bn from coupon payment from WZ series will inflow on the market).

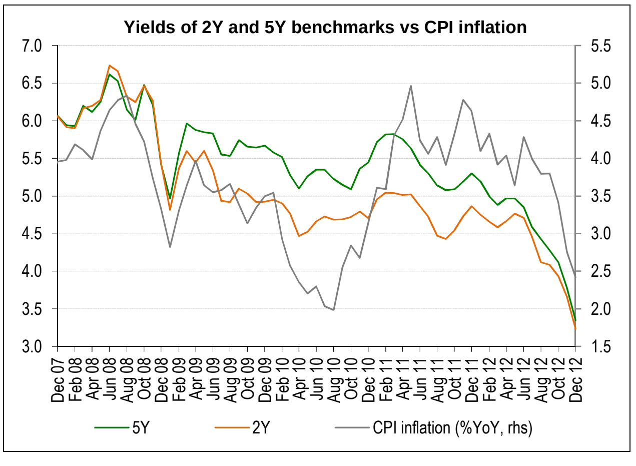
Peripheral debt is well priced

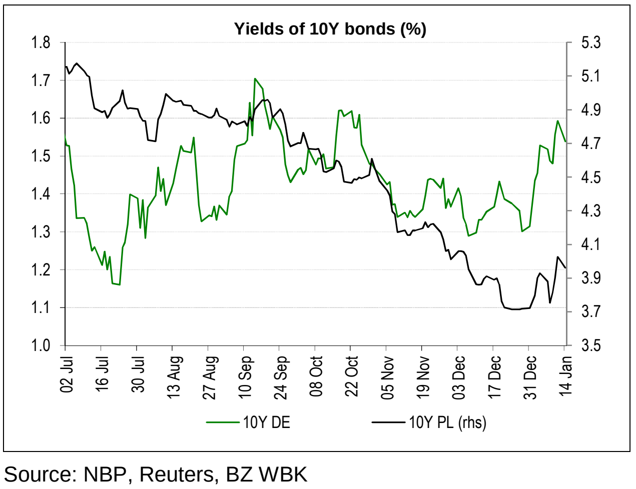
- The last month of 2012 brought significant strengthening of peripherals' bonds. Yields of 10Y Spanish and Italian bonds declined to the level observed in Q1 2012. However, one should notice that the H2 2012 brought double digit rate of return from investment in these papers despite some increase in yields at the end of 2012 due to prolonged negotiations on the fiscal cliff in the US. What is more risk premium also decreased as spread over Bunds narrowed and CDS declined. This tendency was valid in the first half of January.
- Relatively stable situation on core markets should support further decline in yields of Spanish and Italian bonds. However, the scope of decline might be muter In comparison with previous weeks. The main risk factor, in particular, for Italian debt will be results of parliamentary elections, which will take place in February. It can result in higher volatility on the market.

Interest rate market









Source: NBP, Reuters, BZ WBK

WIBOR rates lower and lower

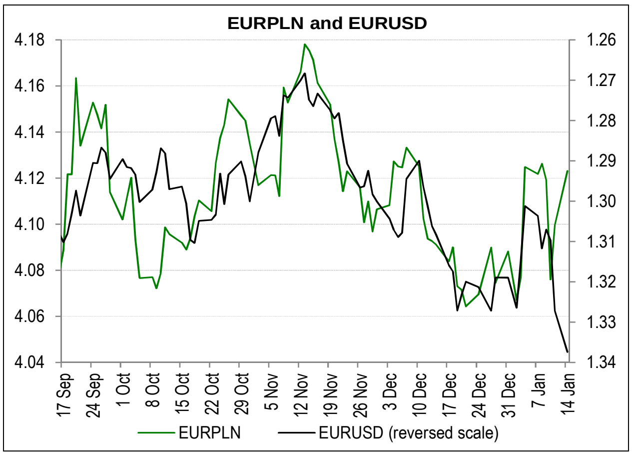
- During the last months of 2012 WIBOR rates continued to fall, in line with expectations. Still, the pace of decline was slightly higher than we anticipated and at the end of 2012 all money rates were below main NBP refinancing rate, including 12M rate running below 4%. The downward trend was maintained in the first decade of January while market reaction to January's rate cut by the MPC was limited. This might have been due to the fact, that since the end of August (when data on 2Q GDP was released) until January 11th the WIBOR rates declined by 78-124bps, including 3M rate by 108bps (NBP rates were cut by only 75bps).
- On the FRA market clearly higher volatility was recorded in December and in first decade of January. Market reaction to last two rate cuts was similar – investors had been pricing-in more aggressive rate cuts, but the continuation of cautious moves triggered the upward correction. The suggestion of pause after the January's cut initiated some more visible surge of FRA and trimming market expectations regarding the scale of further rate cuts. Currently, the market is anticipating the main refinancing rate will be cut to 3.25% in coming 9 months.

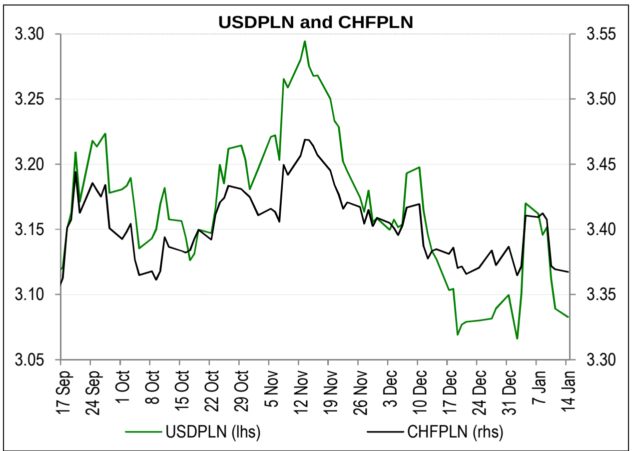
We expect that December's data (particularly CPI and industrial output) will confirm the necessity of further rate cuts and will prevent the MPC from making a pause in February. This may generate a downward impulse on the FRA market and sustain the downward trend of WIBOR rates (towards 3.8% at the end of the month).

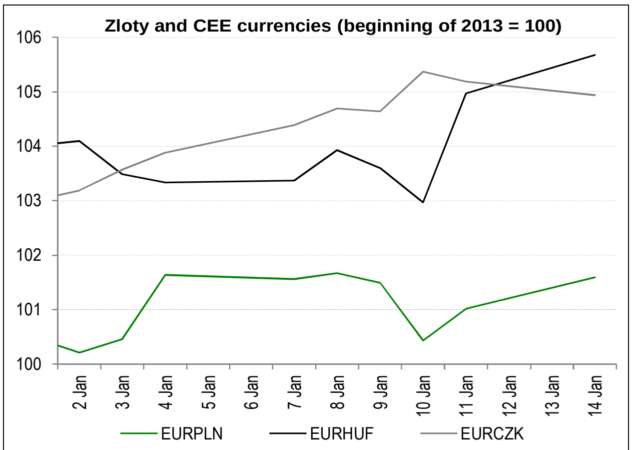
Correction of bonds after reaching fresh records in late 2012

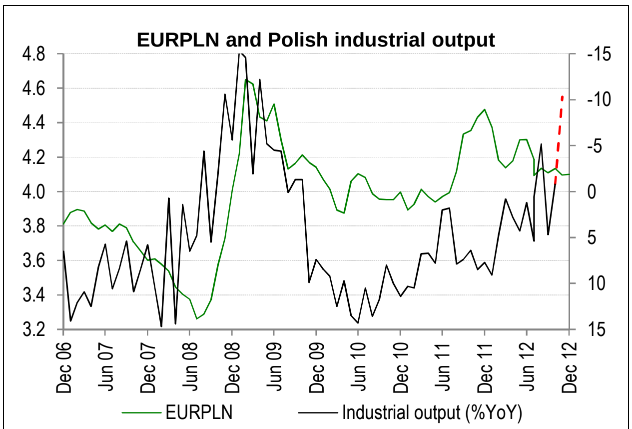
- In December Polish debt continued to strengthen amid still high demand from foreign investors. This helped the Ministry of Finance to cover 27% of 2013 gross borrowing needs and dragged the yields of bonds and IRS down to fresh record low levels.
- The beginning of new year brought correction, which came from external (Bund weakening) as well as internal factors (disappointing results of the first auction this year). However, just before the MPC meeting bond and IRS markets rebounded (trimming part of earlier losses) due to expectations the MPC might more sharply cut rates. Decision to trim rates by 25bps and suggestion of a pause in the cycle caused a significant sell-off, mainly on the debt market (yield of 10Y benchmark increased above 4%). In comparison with the end of 2012 bond yield curve went up by 24-35bps (mainly in 5Y sector), while IRS curve increased by 17-25bps.
- We expect that readings of macro data for December will confirm disinflation trend and weak economic activity. As a consequence expectations for fast rates cuts will renew, supporting bond and IRS markets, in particular on the front end. Therefore, we predict that yields/rates on the short end should decline towards lows reached at the end of 2012.
- The long end of the curve will be more dependent on situation on core markets. There is a strong link between Polish 10Y bonds and 10Y Bunds. We think that further increase in Bunds yields might limit potential of domestic 10Y sector strengthening or even cause yield increase.
- The offer of the new 2Y bond (OK0715) and the 5Y benchmark (PS0418) should attract decent demand. Liquidity conditions shall be supportive for the results of the auction (PLN12.5bn will flow on the market from maturity of bonds and coupon payments).

Foreign exchange market









Source: CSO, NBP, Reuters, BZ WBK

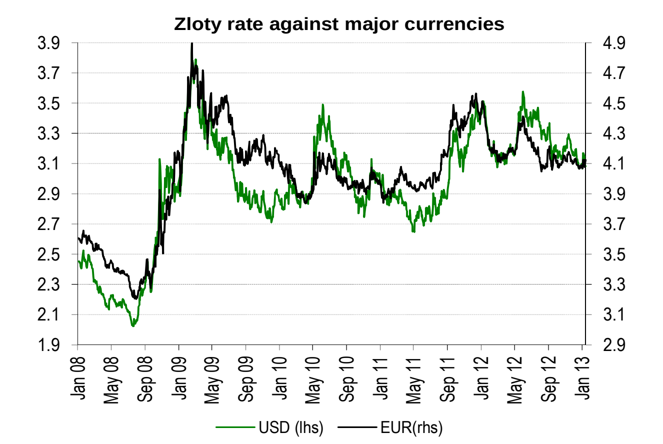
Still no breaking changes on the EURPLN market

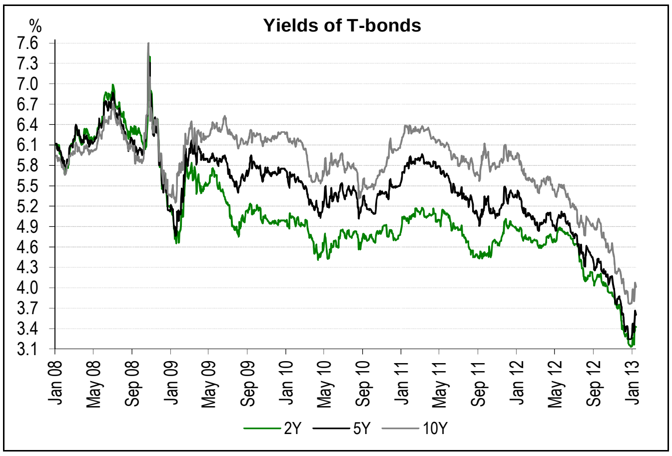
- Cautious move of the MPC (a rate cut by only 25bps in early December) supported slightly the zloty. Furthermore, investors were pricing-in that at the last meeting of the year the Fed will replace the expiring "Operation Twist" with more bond purchases and this also backed the domestic currency. Consequently, in the first part of the month the EURPLN dropped to 4.05, lowest level since mid-September. On average the EURPLN was at 4.10 in the last month of the year versus our forecast at 4.13.
- In 2012 Polish zloty appreciated by 8.4% versus the euro, 10% versus the dollar, 7.6% vs. Swiss franc, 6.3% vs. British pound. Domestic currency performed vs. the euro better than Hungarian forint (it gained 7.2%) and Czech koruna (stronger by 1.6%).

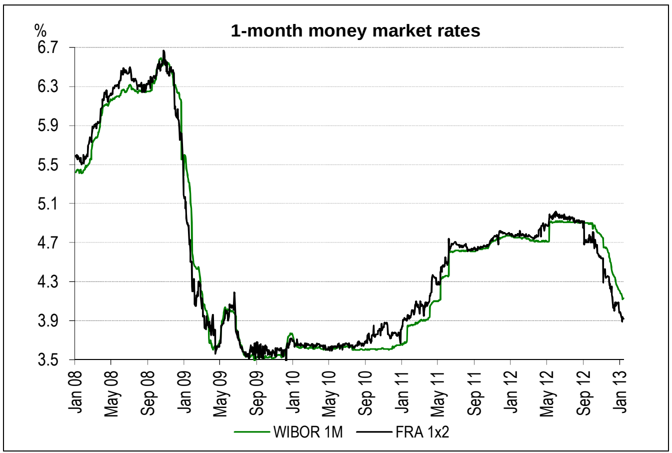
Zloty under pressure from domestic and regional factors

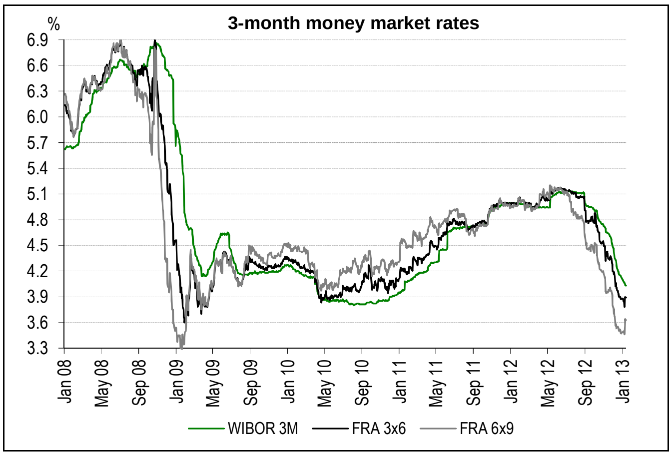
- The optimism fuelled by provisional agreement on the US budget proved only temporary and in the first days of 2013 the zloty lost on value. The increase of the EURPLN to ca. 4.13 and the USDPLN to 3.17 at the beginning of 2013 means the zloty has so far lost 1.3% vs. the euro and 2.9% vs. the dollar. It is worth to remind that during first days of the past year the zloty was underperforming only slightly more visibly – it lost 1.4% vs. the single currency and 3.1% vs. the greenback. At the beginning of 2012 the global market sentiment was very poor but a few positive surprises from macro data releases and successful auctions on the peripheries of the euro zone improved investors' moods. Currently the uncertainty (related to depth of economic slowdown of global and Polish economy and the US budget) is also present on the market, though it is clearly lower than at the beginning of 2012. Latest US data proved better than expected and the fact that yields on the euro zone's peripheral debt market are in the downward trend (in case of Spanish 10Y bonds yields were below 5% for the first time since March 2012) suggest that soon the risk appetite will dominate on the market again.
- Contrary to situation from past 12 months, this time the zloty may not benefit from possible return of optimism. Though the tone of the January's statement of the MPC was supportive for the zloty (due to the suggestion of possible pause in rate cuts) and the EURPLN plunged from 4.11 from 4.07 we still expect that internal factors will put negative pressure on the domestic currency. Macro data for December (particularly CPI and industrial output) and first estimate GDP for whole 2012 (release in late January) will be so "dovish" that the market will have very few reasons to expect a break in easing of monetary policy in February.
- It is also worth to mention comments that emerged recently from the government and the NBP pointing that further appreciation of the zloty may be inconvenient for Polish economy. So far, these remarks did not have a direct impact on the zloty, but since deputy finance minister, Wojciech Kowalczyk, gave such comment in early January the domestic currency lost ca. 2% vs. the euro, while the EURUSD surged roughly at the same scale.
- Another factor that may have some impact on the zloty in the nearest future is the situation in Czech Republic and in Hungary. The pace of depreciation of Czech koruna accelerated recently due to the political destabilization (motion of non-confidence for the government will be voted in the parliament) and central bank suggested again it may work towards weakening of the currency. Hungarian forint depreciated as PM Orban said there is a need for closer cooperation of the new central bank governor with the government (this was interpreted as a possible limitation of independence of the central bank).
- We expect the EURPLN to be at 4.10 on average in January. However, if until data on industrial output the exchange rate stay close to upper band of the range 4.04-4.14 and if expectation for rate cuts strengthen just like we expect then the EURPLN may break the resistance at 4.14 and end the month above our forecast.

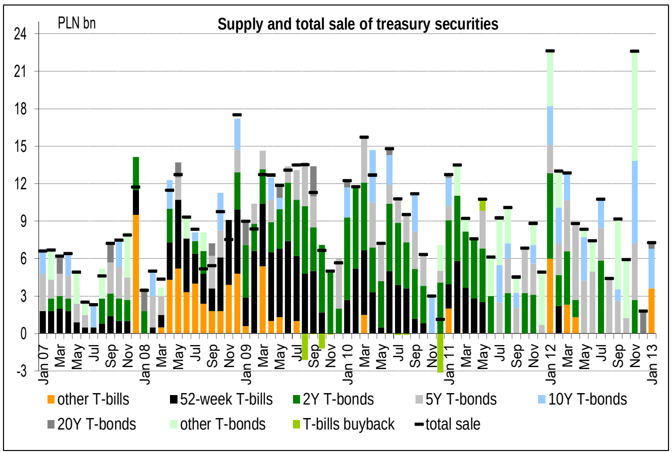
Market monitor











Treasury bill auctions in 2012/2013 (PLNm)

Auction date	OFFER	DEMAND/SALE
09.01.2012	*49-week: 1000-2000*	5402/2223
30.01.2012	*30-week: 1000-2000*	3249/1997
30.01.2012	51-week: 1000-2000	4225/1592
27.02.2012	*52-week: 1000-2000*	6711/2190
26.03.2012	*52-week: 1000-3000*	5402/2223
23.04.2012	*31-week*	3116,5/1332,1
07.01.2013	20-week.: 2000-3000	10967/3602

* based on data of the Ministry of Finance

Treasury bond auctions in 2011/2012 (PLNm)

month	First auction				Second auction				Switch auction		
	date	T-bonds	offer		date	T-bonds	offer		date	T-bonds	offer
January '12	12.01	IZ/PS/WS	1000-4000	4067	19.01	OK0114	3000-6000	6753	04.01	OK/PS/OK	WZ/WZ/DS
February	09.02	OK0114/PS1016	3500-5500	5049	16.02	WZ0117	1000-3000	3518	01.02	DS1021: 1000-3000	2937
March	14.03	OK0114	1500-3500		21.03	DS1021/WS0429	1000-2500		08.03	PS1016: 1500-3000	4080
April	19.04	OK0714/PS1016	5000-9000		-	-	-	-	05.04	PS/OK	WZ
May	10.05	DS1021/WS0429	2000-4000	4092.3	16.05	PS0417	2000-4000	-			
June	20.06	PS0417	2000-4000						14.06	OK0712/OK1012	WZ/IZ
July	19.07	OK0714	2000-5000						05.07	OK0712/OK1012	PS0417/DS1021
August	01.08	PS0417	2000-4000								
September	19.09	WZ /DS /IZ	2000-4000	3458.8					05.09	OK1012/OK0113	WZ0117/PS0417
October	4.10	WZ /PS	3000-5000	5900.9	23.10	OK0714/DS1023	5000-9000	7840.5			
November	8.11	PS0418	2000-4000	4526.3					21.11	OK0113/PS0413	DS/WZ
December									6.12	OK0113/PS0413	WS
January '13	3.01	DS1023/WS0429	3000-5000	3664.3	23.01	OK0715/PS0418	5000-10000				

** with supplementary auction, ** primary auction, *** demand/sale, **** in February and March 2012 the MF refrained from switch tenders*

Source: MF, Reuters, BZ WBK

Economic calendar

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
14 January ***PL: Money supply (Dec)*** EZ: Industrial output (Nov)	**15** ***PL: CPI (Dec)*** US: Retail sales (Dec)	**16** ***PL: Core inflation (Dec)*** EZ: HICP (Dec) US: CPI (Dec) US: Industrial output (Dec)	**17** US: House starts (Dec) US: Building permits (Dec) US: Philly Fed index (Jan)	**18** ***PL: Industrial output (Dec)*** ***PL: PPI (Dec)*** ***PL: Wages and employment (Nov)*** ***PL: Balance of payments (Nov)*** US: Flash Michigan (Jan)
21	**22** DE: ZEW index (Jan) US: Home sales (Dec)	**23** EZ: Consumer confidence index (Jan)	**24** ***PL: MPC minutes*** DE: Flash PMI – manufacturing (Jan) EZ: Flash PMI – manufacturing (Jan) CN: Flash PMI – manufacturing (Jan)	**25** DE: Ifo index (Jan) GB: Flash GDP (Q4) US: New home sales (Dec)
28 US: Durable goods orders (Dec) US: Pending home sales (Dec)	**29** ***PL: Retail sales and unemployment rate (Jan)*** ***PL: GDP (2012)*** US: S&P/Case-Shiller home price index (Nov) US: Consumer confidence index (Jan)	**30** US: ADP report (Jan) US: Advance GDP (Q4) US: Fed decision	**31** ***PL: Inflation expectations (Jan)*** US: Personal income (Dec) US: Consumer spending (Dec) US: Core PCE (Dec)	**1 February** ***PL: PMI – manufacturing (Jan)*** DE: PMI – manufacturing (Jan) EZ: PMI – manufacturing (Jan) CN: PMI – manufacturing (Jan) EZ: Flash HICP (Jan) US: Non-farm payrolls (Jan) US: Unemployment rate (Jan) US: Michigan index (Jan) US: ISM – manufacturing (Jan)
4 EZ: Sentix index (Jan) US: Industrial orders (Dec)	**5** DE: PMI – services (Jan) EZ: PMI – services (Jan) EZ: Retail sales (Dec) US: ISM – services (Jan)	**6** ***PL: MPC decision*** DE: Industrial orders (Dec)	**7** DE: Industrial output (Dec) GB: BoE decision	**8** DE: Exports (Dec) US: Trade balance (Dec)
11	**12** ***PL: Balance of payments (Dec)***	**13** EZ: Industrial output (Dec) US: Retail sales (Jan)	**14** DE: Flash GDP (Q4) EZ: Flash GDP (Q4)	**15** ***PL: CPI (Jan)*** ***PL: Money supply (Jan)*** US: Industrial output (Jan)

MPC meetings and data release calendar for 2013

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

* quarterly data. [a] preliminary data for January. [b] January and February
Source: CSO, NBP, Ministry of Finance, Reuters, Bloomberg

Economic data and forecasts

Monthly economic indicators

		Dec 11	Jan 12	Feb 12	Mar 12	Apr 12	May 12	Jun 12	Jul 12	Aug 12	Sep 12	Oct 12	Nov 12	Dec 12	Jan 13
PMI	pts	48.8	52.2	50.0	50.1	49.2	48.9	48.0	49.7	48.3	47.0	47.3	48.2	48.5	48.6
Industrial production	%YoY	7.7	9.1	4.8	0.8	2.8	4.3	1.2	5.4	0.6	-5.2	4.7	-0.8	-10.3	-3.0
Construction production	%YoY	14.6	32.2	12.0	3.5	8.1	6.2	-5.2	-8.7	-5.0	-17.9	-3.6	-5.3	-12.4	-6.2
Retail sales [a]	%YoY	8.6	14.3	13.7	10.7	5.5	7.7	6.4	6.9	5.8	3.1	3.3	2.4	2.2	2.0
Unemployment rate	%	12.5	13.2	13.4	13.3	12.9	12.6	12.3	12.3	12.4	12.4	12.5	12.9	13.4	14.9
Gross wages in enterprises sector [a]	%YoY	4.4	8.1	4.3	3.8	3.4	3.8	4.3	2.4	2.7	1.6	2.8	2.7	1.9	-0.7
Employment in enterprises sector	%YoY	2.3	0.9	0.6	0.6	0.3	0.3	0.1	0.0	0.0	0.0	0.0	-0.3	-0.4	-0.7
Export (€)	%YoY	5.7	6.2	4.4	2.5	2.4	-1.6	0.6	9.8	3.7	-0.8	15.5	9.7	-0.6	-1.9
Import (€)	%YoY	3.5	6.9	5.6	1.5	-3.3	-2.0	-5.3	2.1	-3.2	-3.2	7.6	2.0	-7.9	-7.9
Trade balance	EURm	-1 139	-687	-883	-544	-420	-846	-372	-367	-98	44	225	150	-273	40
Current account balance	EURm	-1 890	-1 994	-1 909	-585	-655	-454	-1 092	-1 005	-901	-1 457	-650	-816	-974	-1 184
Current account balance	% GDP	-4.9	-5.0	-5.3	-5.1	-4.9	-4.9	-4.6	-4.4	-4.1	-4.1	-3.7	-3.5	-3.3	-3.1
Budget deficit (cumulative)	PLNbn	-25.1	-5.3	-16.5	-23.0	-24.8	-27.0	-21.1	-24.3	-22.9	-21.1	-34.1	-30.4	-30.9	-5.5
Budget deficit (cumulative)	% of FY plan	62.5	15.1	47.2	65.6	70.9	77.1	60.2	69.6	65.5	60.4	97.5	86.9	88.2	15.5
CPI	%YoY	4.6	4.1	4.3	3.9	4.0	3.6	4.3	4.0	3.8	3.8	3.4	2.8	2.4	2.0
CPI excluding prices of food and energy	%YoY	3.1	2.5	2.6	2.4	2.7	2.3	2.3	2.3	2.1	1.9	1.9	1.7	1.6	2.1
PPI	%YoY	8.2	7.9	6.0	4.4	4.4	5.2	4.4	3.6	3.0	1.8	1.0	-0.1	-0.6	-1.0
Broad money (M3)	%YoY	12.5	13.7	12.4	9.1	10.2	11.1	11.0	11.0	9.8	7.6	8.0	5.7	4.6	4.3
Deposits	%YoY	11.7	12.8	12.5	8.5	10.0	10.8	10.4	10.9	9.5	7.9	8.1	5.8	4.7	4.4
Loans	%YoY	14.4	14.5	13.0	12.8	13.4	13.1	10.7	7.5	7.1	5.4	5.4	2.3	2.3	2.6
EUR/PLN	PLN	4.48	4.37	4.18	4.14	4.18	4.30	4.30	4.19	4.09	4.14	4.11	4.13	4.10	4.10
USD/PLN	PLN	3.40	3.39	3.16	3.13	3.17	3.36	3.43	3.41	3.30	3.22	3.17	3.22	3.12	3.11
CHF/PLN	PLN	3.65	3.61	3.47	3.43	3.47	3.58	3.58	3.49	3.41	3.42	3.40	3.43	3.39	3.40
Reference rate [b]	%	4.50	4.50	4.50	4.50	4.50	4.75	4.75	4.75	4.75	4.75	4.75	4.50	4.25	4.00
WIBOR 3M	%	4.98	4.99	4.97	4.95	4.94	5.05	5.12	5.13	5.10	4.95	4.82	4.62	4.26	3.94
Yield on 52-week T-bills	%	4.55	4.51	4.50	4.48	4.58	4.75	4.75	4.64	4.58	4.53	4.42	4.14	3.94	3.24
Yield on 2-year T-bonds	%	4.86	4.75	4.66	4.58	4.67	4.77	4.71	4.46	4.12	4.09	3.94	3.66	3.23	3.04
Yield on 5-year T-bonds	%	5.30	5.20	5.00	4.88	4.97	4.97	4.85	4.58	4.43	4.28	4.12	3.78	3.35	3.15
Yield on 10-year T-bonds	%	5.88	5.74	5.53	5.45	5.50	5.41	5.24	4.99	4.88	4.85	4.59	4.21	3.87	3.66

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

Quarterly and annual economic indicators

		2010	2011	2012	2013	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
GDP	PLNbn	1 416.6	1 523.2	1 594.7	1 636.4	370.7	388.3	392.1	443.6	377.6	396.5	401.1	461.2
GDP	%YoY	3.9	4.3	1.8	1.2	3.6	2.3	1.4	0.5	0.2	0.9	1.1	2.2
Domestic demand	%YoY	4.6	3.4	-0.4	0.0	2.5	-0.4	-0.7	-2.5	-1.6	-0.4	0.4	1.4
Private consumption	%YoY	3.2	2.5	0.9	1.4	1.7	1.2	0.1	0.4	1.1	1.3	1.6	1.8
Fixed investments	%YoY	-0.4	9.0	-1.0	-2.5	6.0	1.3	-1.5	-4.4	-5.0	-4.0	-2.0	-1.0
Industrial production	%YoY	9.0	7.7	1.3	0.5	4.9	2.8	-0.1	-2.0	-2.4	0.3	0.1	3.8
Construction production	%YoY	4.6	16.3	-3.4	-5.8	13.8	2.2	-11.0	-7.6	-8.6	-5.2	-3.2	-7.0
Retail sales [a]	%YoY	6.1	11.2	6.5	1.9	12.6	6.5	5.3	2.6	1.3	0.4	2.4	3.3
Unemployment rate [b]	%	12.4	12.5	13.4	13.9	13.3	12.3	12.4	13.4	14.7	13.1	13.4	13.9
Gross wages in enterprise sector [a]	%YoY	3.9	5.2	3.7	2.3	5.2	3.9	2.8	2.9	2.1	2.9	2.9	3.5
Employment in enterprise sector	%YoY	-0.2	1.9	0.0	-0.7	0.2	0.2	-0.1	-0.3	-0.6	-0.6	-0.5	-0.3
Export (€)	%YoY	22.8	12.1	4.2	4.3	4.1	0.4	3.7	8.7	2.0	4.0	5.0	6.0
Import (€)	%YoY	24.9	12.2	-0.1	2.1	4.3	-3.5	-1.6	0.9	-1.2	1.1	4.5	4.0
Trade balance	EURm	-8 893	-10 059	-4 078	-962	-2 115	-1 640	-425	102	-945	-622	-261	866
Current account balance	EURm	-18 129	-17 977	-12 525	-5 019	-4 515	-2 203	-3 367	-2 440	-2 123	-850	-1 538	-508
Current account balance	% GDP	-5.1	-4.9	-3.3	-1.3	-5.1	-4.6	-4.1	-3.3	-2.6	-2.3	-1.8	-1.3
General government balance	% GDP	-7.9	-5.0	-3.5	-3.5	-	-	-	-	-	-	-	-
CPI	%YoY	2.6	4.3	3.7	1.8	4.1	4.0	3.9	2.9	1.8	1.4	1.8	2.2
CPI [b]	%YoY	3.1	4.6	2.4	2.3	3.9	4.3	3.8	2.4	1.7	1.3	2.0	2.3
CPI excluding food and energy prices	%YoY	1.6	2.4	2.2	2.1	2.5	2.5	2.1	1.7	2.0	1.8	2.1	2.3
PPI	%YoY	2.1	7.6	3.4	0.4	6.1	4.7	2.8	0.1	-0.5	-0.4	0.7	1.9
Broad money (M3) [b]	%YoY	8.8	12.5	4.9	2.8	9.1	11.0	7.6	4.6	5.2	4.3	4.0	3.1
Deposits [b]	%YoY	9.1	11.7	4.8	3.0	8.5	10.4	7.9	4.7	4.7	4.4	4.2	3.1
Loans [b]	%YoY	9.2	14.4	2.4	3.7	12.8	10.7	5.4	2.3	3.5	4.4	5.4	2.4
EUR/PLN	PLN	3.99	4.12	4.19	4.14	4.23	4.26	4.14	4.11	4.12	4.17	4.16	4.10
USD/PLN	PLN	3.02	2.96	3.26	3.17	3.23	3.32	3.31	3.17	3.16	3.26	3.17	3.08
CHF/PLN	PLN	2.90	3.34	3.47	3.45	3.50	3.55	3.44	3.40	3.42	3.48	3.46	3.42
Reference rate [b]	%	3.50	4.50	4.25	3.50	4.50	4.75	4.75	4.25	3.50	3.50	3.50	3.50
WIBOR 3M	%	3.94	4.54	4.91	3.62	4.97	5.04	5.06	4.57	3.71	3.51	3.58	3.65
Yield on 52-week T-bills	%	3.96	4.51	4.48	3.63	4.50	4.69	4.58	4.16	3.24	3.44	3.82	4.04
Yield on 2-year T-bonds	%	4.72	4.81	4.30	3.43	4.66	4.71	4.22	3.61	3.04	3.24	3.62	3.84
Yield on 5-year T-bonds	%	5.31	5.44	4.53	3.60	5.02	4.93	4.43	3.75	3.14	3.37	3.81	4.08
Yield on 10-year T-bonds	%	5.74	5.98	5.02	4.10	5.58	5.38	4.91	4.22	3.65	3.87	4.31	4.58

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

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