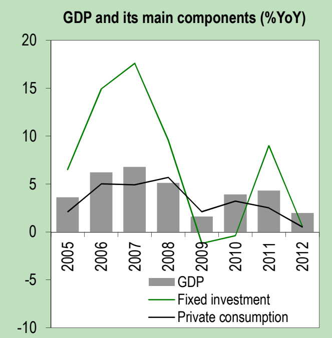
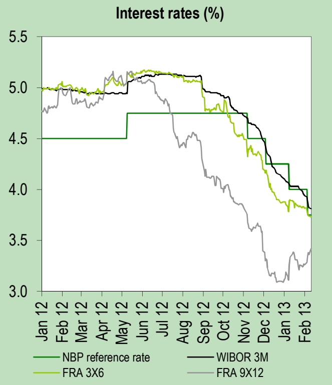
Bank Zachodni WBK

MACROscope

Polish Economy and Financial Markets

February 2013





In this issue:

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Still easing

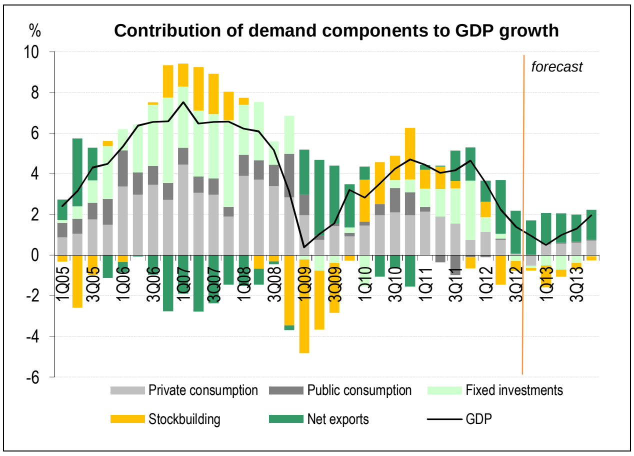
- **GDP data for 2012 has shown that the economic growth was still easing in the final quarter of the year, but somehow more gently than we had feared. Growth rate of private consumption proved to be a major disappointment, but on the other hand investments were better than expected.** According to our estimates, private consumption posted a negative growth for the first time since mid-90. Even though this development may have been due to one-off factors (postponed payment of direct subsidies for farmers, worth a couple billion zlotys), this decline is suggesting that households are rebuilding their savings. This is why the acceleration of households' disposable income growth, expected by us, does not have to fully translate into acceleration of spending. We revised our forecasts of private consumption in 2013 down to 1.0% from 1.4%. We still think that exports will be the main driver of GDP growth in 2013, supported by recovery in the euro zone, and especially in Germany (suggested by rebounding economic activity indicators) and continued geographical diversification of markets for Polish products. We maintain our predictions that the economic cycle will bottom out in Q1-2013 with growth at ca. 0.5%YoY.
- **Downward trend of inflation is continued. All main measures of inflationary pressure have fallen to the lowest level in several months, while CPI inflation slid below the official target.** Easing of price growth was underpinned by both demand and supply factors. In our view this tendency will be continued in the upcoming months. The acceleration of economic growth in the second half of 2013 should not bring any significant rise of inflationary pressure (consumption will be weak), but core inflation may rebound above 2%.
- **The economic slowdown and decline of inflation have encouraged the MPC to cut interest rates again by 25bps in February.** In total, rates have fallen by 100bps since the beginning of the cycle and the reference rate is only 25bps above all-time low (3.50%). Although the MPC amended the last sentence of the statement, replacing it with a neutral phrase, Marek Belka denied that this move means a change in monetary policy bias, as it still remains dovish. Statement and comments of the MPC members have underlined the importance of March inflation and GDP projection as well as core inflation for the monetary policy prospects. We are happy to hear that, as we noted earlier that we had an impression that the Council tends to forget about these factors when making decisions. We are expecting that the MPC will continue to ease monetary policy and will cut interest rates by 25bps after seeing the new projection in March, and then it may decide to adopt "wait-and-see" mode. In our view it cannot be ruled out that the MPC will cut rate one more time in Q2 due to its (delayed) reaction to a substantial decline of inflation (even below 1.5%).
- **Change of tone of the MPC communiqué scaled back market's expectations for further cuts.** As a result, Polish bond yields increased while the zloty strengthened temporarily. We expect that the incoming data from economy will amplify market's certainty that next cut will be delivered in March, thus supporting short ends of curves and negatively affecting the zloty (EURPLN to rise toward 4.20).

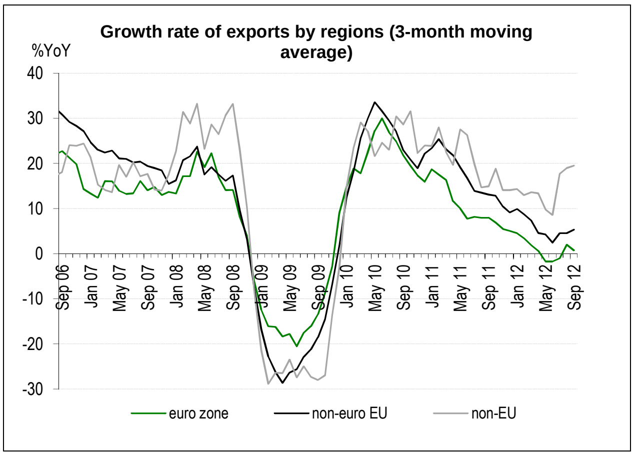
Financial market on 11 February 2013:

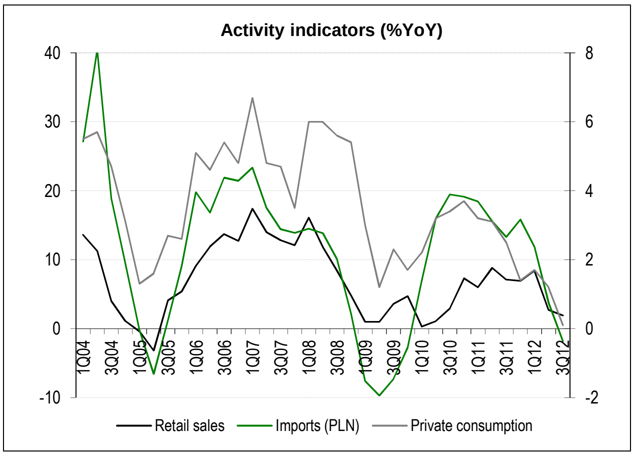
NBP deposit rate	2.25	WIBOR 3M	3.81	EURPLN	4.1519
NBP reference rate	3.75	Yield on 2-year T-bond	3.39	USDPLN	3.0991
NBP lombard rate	5.25	Yield on 5-year T-bond	3.63	CHFPLN	3.3823

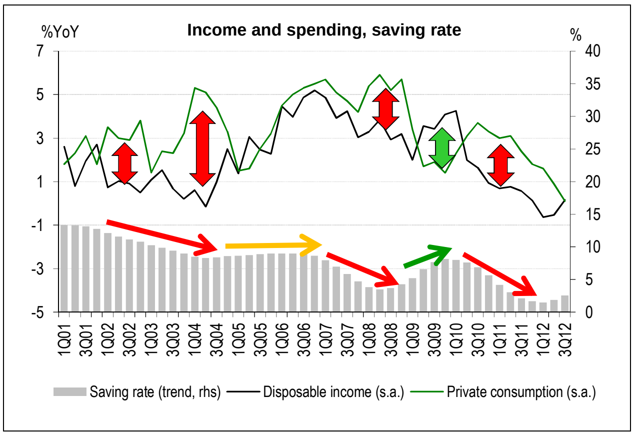
This report is based on information available until 11.02.2013

Economic update









Source: CSO, Eurostat, BZ WBK

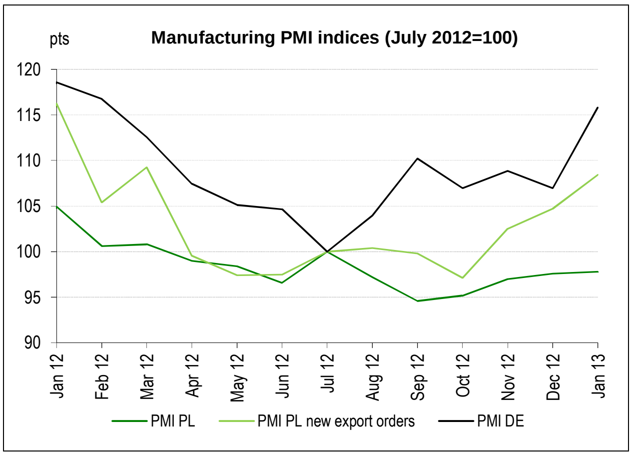
GDP growth slowing down. Exports will help in 2013…

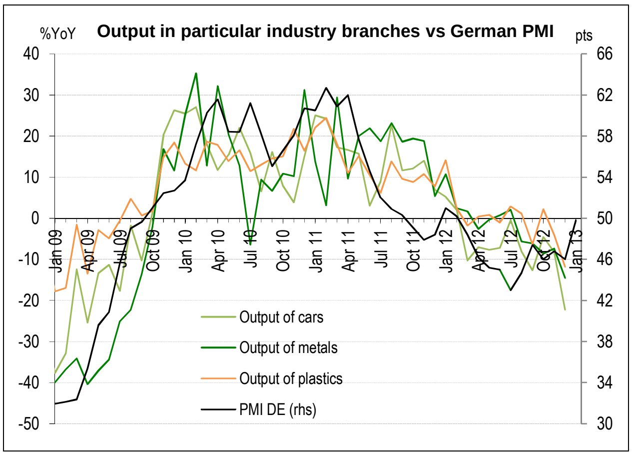
- According to flash CSO estimates, GDP growth in 2012 amounted to 2.0% with domestic demand rising by a mere 0.1% private consumption by 0.5% and investments by 0.6%.
- Based on data for the entire year, we estimate that GDP growth in Q4 decelerated to ca. 1%YoY (from 1.4%YoY in Q3). According to our calculations, individual consumption plunged by ca. 1%YoY in Q4 and this was the first quarter since mid-nineties (i.e. since quarterly GDP data are available), when annual pace of consumption growth slid below zero. On the other hand, investments surprised on the upside, as they contracted by only ca. -0.5%YoY (versus -1.5%YoY in Q3), even despite high base effect from 2011. Contribution of net exports to GDP growth in Q4 was, according to our estimates, still positive, but slightly lower than in the previous quarter.
- NBP survey shows that share of firms planning new investments is the lowest for eight years (34.1%), while over 60% of companies are postponing necessary investments and amount of investment outlays planned for 2013 is lower than in 2012. This is supporting our forecast of a decline of investments in 2013 (yet not so deep). A recovery cannot be expected before 2014.
- We maintain our forecast that exports will be the main driver of economic revival in 2013, supported by recovery in the euro zone and presence of Polish companies on new markets. NBP surveys show that share of firms declaring they entered or will enter new markets rose from 21.8% in 2010-11 to 43.7% in 2012-2013. This trend is reflected in data on foreign trade (see graph beside). As imports will be undermined by weak domestic demand, then the contribution of net exports will remain highly positive.

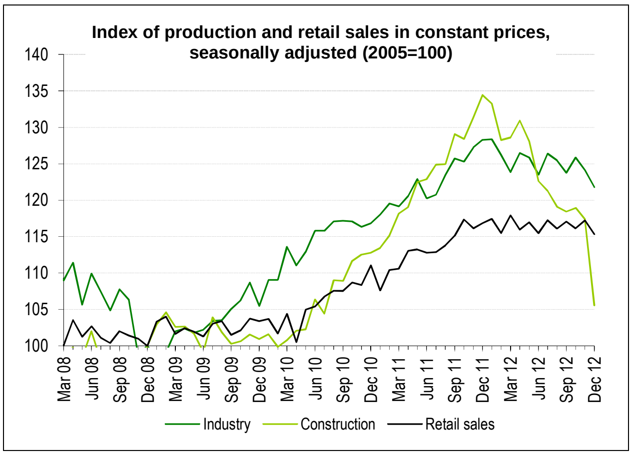
… but consumption will remain weak

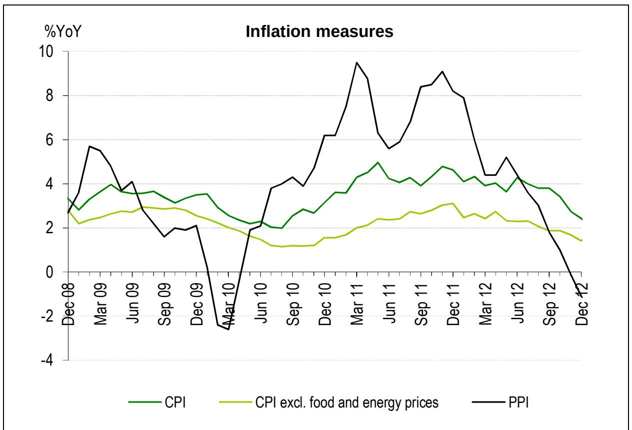
- We think that data on private consumption in the last quarter of 2012 do not fully reflect the underlying trends. In our view the decline of consumption on annual basis was due to postponed payment of a major part of direct subsidies for farmers, which was shifted from December to January (PLN3-4bn, which makes ca. 1.5% of quarterly consumption). The strong deceleration of retail sales in December could have also been due to this event, so we think that the upcoming data on sales will be very interesting (we are expecting a rebound).
- We are forecasting that companies will still limit employment, while wage growth will remain moderate. That is why the nominal growth of wage bill will probably be weaker than in 2012. Still, thanks to a marked decline of inflation, real growth of wage bill will be higher than one year ago. Real incomes will also be underpinned by relatively high indexation of social benefits.
- Still, rising incomes do not have to fully translate into higher consumption. Between 2010 and mid-2012 Polish households' spending was rising faster than their incomes, thus deteriorating their savings. It is probable that due to worse economic outlook consumers will limit their spending in order to rebuild their savings, so rising incomes may not translate proportionally into rising consumption. We have seen such a situation back in 2009, while slowing consumption in the last two quarters of 2012 and data on non-financial national accounts suggest that this can be the case this time, thus we decided to revise our consumption forecasts downwards.
- We think that the economic cycle will bottom out in Q1-2013, with GDP growth at 0.5%YoY. In the following quarters we will see some revival, supported by rising exports, accompanied by weak growth of consumption and declines of fixed investments. In the whole year we are expecting GDP growth at 1.2%.

Economic update









Source: CSO, NBP, BZ WBK

Industry and construction still in dire straits

- In January Polish PMI index for manufacturing posted a slight increase, to 48.6pts. Index has been running below neutral level of 50pts for 10 months in a row, suggesting further declines of industrial activity. It is worth noting that index climbed for the fourth time in a row, while sub-index for new export orders approached 50pts.
- German PMI index for manufacturing rose in January to 49.8pts, beating the consensus. This suggests economic recovery at our biggest trade partner. It is possible that our trade partners from Germany contributed to an improvement of domestic index for export orders. We are expecting that the improving business climate in Germany will be translating into situation in Poland increasingly stronger.
- Behaviour of the domestic PMI index reflects the Polish manufacturing situation. In December industrial output posted a spectacular decline by 10.6%YoY, with a whole-year increase by 1%. This means that 2012 was a stagnation period for the industry. 2013 will probably also be weak, but some recovery abroad should be supportive for Polish export-oriented sectors (e.g. production of cars, metals, plastics).
- Situation in Polish economy will be probably still undermined by situation in construction sector, which recorded a dramatic slump in December: -24.8%YoY. As for the whole 2012, construction output dropped only by 1%, but it is worth noting that it was on decline for the entire year and erased almost whole growth from 2010-2011. We are expecting that 2013 will also be difficult for construction.

Inflationary pressure will be low

- In December CPI inflation rate declined to 2.4%YoY, i.e. below the official NBP target, for the first time since August 2010. Still, this is not the end of inflation's downward trend. We are expecting that pace of price growth decelerated even to 1.9%YoY in January, and that it will reach its minimum below lower end of tolerance band (1.5%). We are expecting CPI inflation to reach 1.7% on average in 2013 (as compared to 3.7% in 2012). Still, it is worth noting that January saw occurrence of many factors, which are difficult to be precisely estimated and which can change the expected inflation path for the whole year (e.g. cuts of gas and electricity prices, hikes of administered prices, public transport, press prices). This means that the January CPI reading will be crucial for this year's forecasts. Another risk factor is the annual reweighing of inflationary basket (in February), but we do not expect this factor to exert crucial influence on our forecasts.
- Core inflation excluding food and energy prices fell in December to 1.4%YoY. i.e. to the lowest level for two years. Average core inflation amounted to 2.2%YoY in 2012. We are expecting this measure to rebound in January towards 2%, but it should remain moderate throughout the year – we are expecting annual average close to 2.0%. We think that it is possible that temporarily net inflation will be higher than the headline CPI figure.
- PPI inflation amounted to -1.1%YoY in December, which means that this gauge posted a spectacular decline in the course of 2012 (January's reading was at 7.9%, annual average at 3.3%). This is reflecting the weakness of cost pressure.
- In 2013 all the gauges of inflationary pressure will anchor at low levels, we see no major upward risks. Slower growth of prices will be supportive for real measure (wages, consumption).

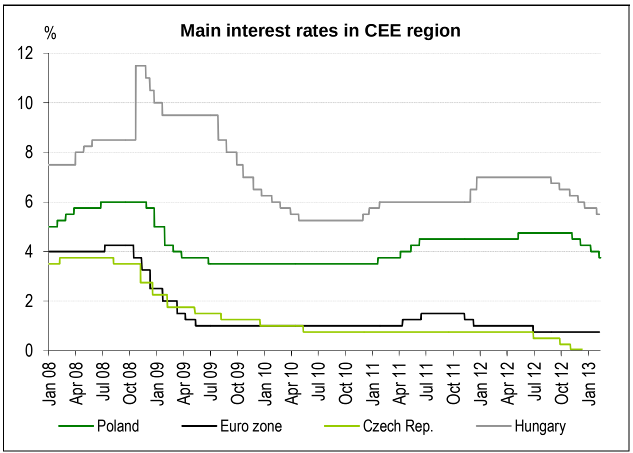
Monetary policy watch

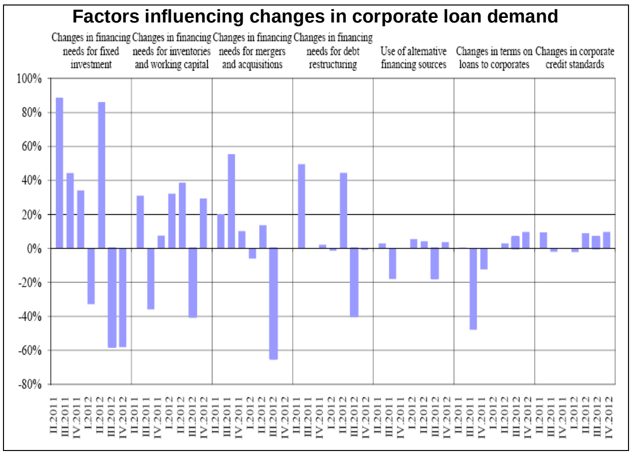
Fragments of MPC communiqués (comparison of the last sentences from December, January and February)

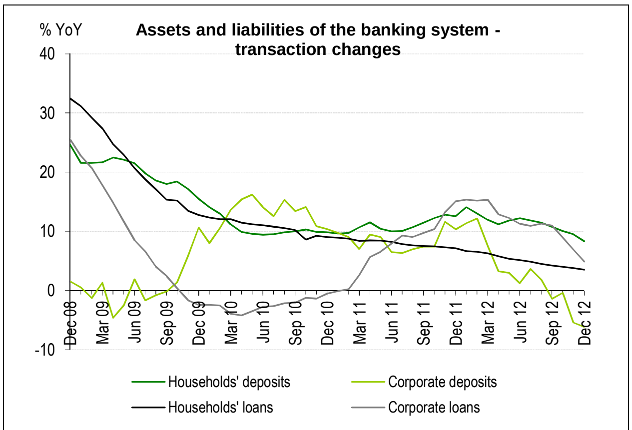
December: Should the incoming information confirm a protracted economic slowdown, and should the risk of increase in inflationary pressure remain limited, the Council **will further ease monetary policy**.

January: The Council **does not rule out further monetary policy easing** should the incoming data confirm a protracted economic slowdown and should the risk of increase in inflationary pressure remain limited.

February: Decisions of the Council in the following months will depend on the assessment of the incoming data on economic developments and inflationary pressure, including the results of the March NBP macroeconomic projection.







Source: CBs, Reuters, BZ WBK

MPC closer to neutral bias?

- At February's meeting the Monetary Policy Council cut the main interest rates by 25bps, with reference rate falling to 3.75%. This was a fourth rate cut in a row – since the beginning of the cycle (which started in November 2012) the rates have fallen by 100bps.
- In the communiqué the Council acknowledged the low activity in global economy and in Poland. Still, during the press conference the NBP governor Marek Belka stressed that there was no major deterioration of business climate in Q4-2012. He added that in the assessment of the Council "the GDP growth will remain moderate in the coming quarters, and therefore risk of inflation running below the NBP's inflation target in the medium term persists".
- The Council decided to change its communication about interest rate prospects in the upcoming months. The last sentence of the statement was changed into a completely neutral one. However, the NBP governor Marek Belka said during the press conference that this amendment does not mean a change in monetary policy bias, which remains dovish. He added that it is not a suggestion that "there will be no cut in March. This means that all options are possible". Thus, the March CPI projection will be crucial for further Council decisions and it can even make them adopt a "wait-and-see" mode.
- In our view, a rate cut in March is quite likely. Weak data from real economy, continuation of downward trend of inflation (CPI below 2%YoY in January) together with new projection of CPI and GDP that will be presented to the Council next month will justify further easing of monetary policy. After a rate reduction in March (the main NBP rate will reach 3.50%, the level to which the MPC cut rates in response to crisis in 2009) we expect the Council may adopt "wait-and-see" mode (this was suggested by the NBP governor at the press conference) in order to monitor the inflowing data and have some time to think what to do next.

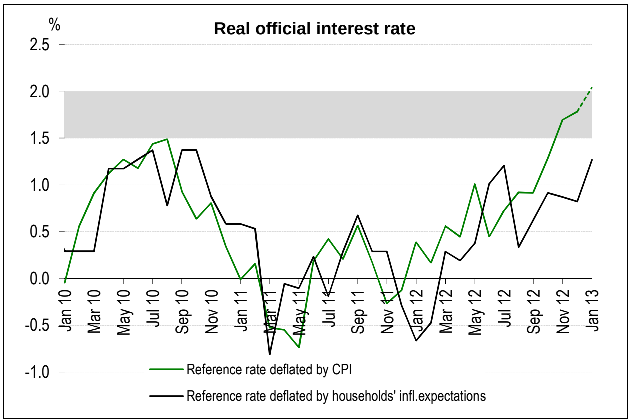
Tightening of credit criteria in Q4-2012

- Banks have tightened criteria in all segments of credit market in Q4-2012 and are expecting further tightening in Q1-2013.
- As regards loans for corporates, non-interest costs were raised and criteria regarding necessary collaterals were tightened, mainly because of higher macroeconomic risk and risk of particular branches. Banks have also recorded lower companies' demand for loans, primarily because of lower investment needs.
- As regards loans for households, credit margins were raised. In general, tightening of criteria was due to actualization of creditworthiness assessment models. A decline of demand for consumer loans was recorded, while demand for housing loans did not change significantly as compared with previous quarter.

Slower growth of deposits and loans

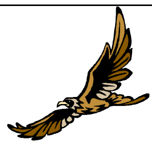
- In December growth rate of M3 money supply in transactional approach decelerated to 5.3%YoY, i.e. to the lowest level since comparable data is available (2005). M3 growth has slowed down since beginning of 2012, deposit and loan markets are following the same tendency. We are expecting these trends to continue in the upcoming quarters.
- Growth rate of households' deposits in transactional approach slowed down to 8.3%YoY (the lowest since 2007), while corporate deposits plunged by 6.1%YoY (worst result since comparable data is available).
- Growth of credit also decelerated: households' loans rose by 3.5%YoY (weakest since 2005), companies' loans by 4.9%YoY (weakest since January 2011). The most considerable slowdown was posted by investment loans (from 27% in Jan to -2.5%YoY).

Restrictiveness of the Monetary Policy (Council)



Real interest rate highest in the MPC's tenure

- MPC members often refer to the level of real interest rates as an important factor influencing monetary policy decisions. From their comments we deduce that they are thinking about difference between the NBP reference rate and current inflation rate (although it is not a very good measure of real interest rates in our opinion). The chart on the left shows behaviour of real interest rates in recent years. It shows that recent cuts were not very effective – real rates have increased since November by more than 30bps.
- MPC members rarely reveal what level of real interest rate they see as adequate. The exception is Adam Glapiński, for whom real interest rates should be in range 1.5%-2.0%. The expected further declines of CPI may push the real NBP rate above 2%, even assuming next cut in March.



Kaźmierczak (1.11)

Rzońca (1.04)

Winiecki (1.03)

Hausner (1.03)

Glapiński (0.94)

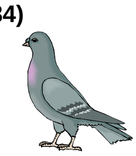
Gilowska (0.93)

Zielińska-Głębocka (0.90)

Belka (0.87)

Bratkowski (0.37)

Chojna-Duch (0.34)



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.

Change in support for deeper rate cuts

According to detailed results of voting at the December's MPC meeting, Zyta Gilowska and Adam Glapiński supported a rate cut by 50bps (together with A. Bratkowski and E. Chojna-Duch). Interestingly, this was the first time they decided to back monetary easing (in previous months they were against) and at once they wanted to switch to mode decisive actions. We suspect it might have been caused by release of data about weak GDP growth in Q3 (released at the end of November) and drop of inflation (to 3.4% in October). Still, we think it was more about acceleration of interest rate reduction rather than an increase in total scale of policy easing. This was suggested by Adam Glapiński's comments in January that the room for interest rate cuts ends at 3.75%-4.0%. December's voting results also have shown that Marek Belka and Anna Zielińska-Głębocka have withdrawn their support for 50bps rate cuts (while they both supported such motion in November). We think that in this case it was also not about a change in the preferred scale of total easing, but a will to continue pace of rate cuts established in the previous month (not to interrupt the cycle). On the basis of later comments of Elżbieta Chojna-Duch we infer that for similar reasons she could have also withdrawn her support for bolder rate cuts in subsequent months. So, we think that after December Andrzej Bratkowski was the only MPC member who backed deeper interest rate cuts.

It is worth to notice that the 25bps interest rate cut in December was the second change in the official rates in this MPC's tenure, which was unanimous. Previous such situation took place in January 2011.

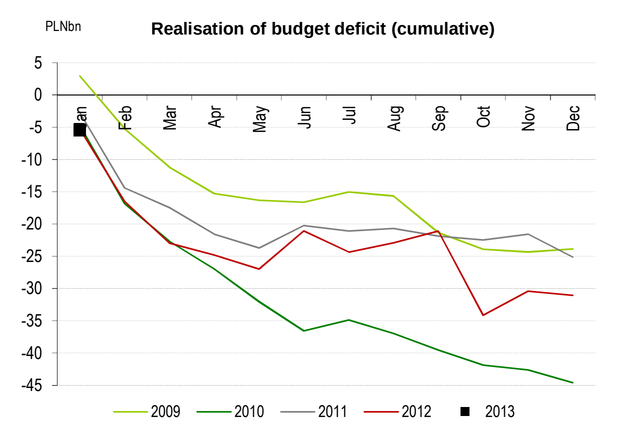
Nearing end of the cycle?

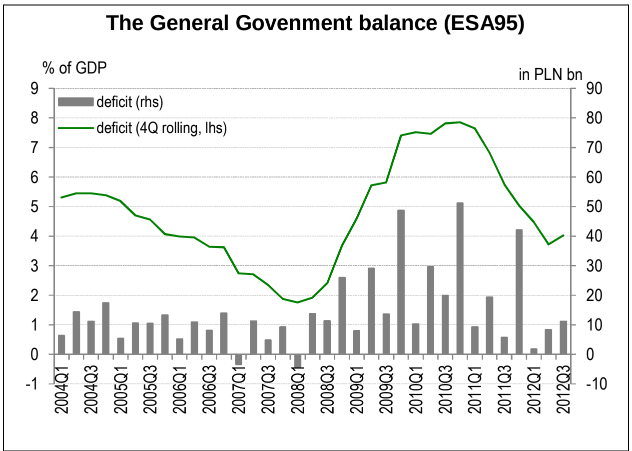
After MPC meeting in February the NBP reference rate fell to 3.75%. This level was earlier described by some MPC members (e.g. Glapiński) as a threshold. Possibly, this was the reason of replacement of the last sentence in the MPC statement with the neutral phrase. However, we believe that strong drop of inflation (below 2% in January) may in perception of some Council members (Glapiński, Gilowska, Kaźmierczak, Hausner) extend a room for monetary easing – thus far despite MPC's reductions the real interest rates have been mounting rather than falling. Jerzy Hausner said in open text that a drop in inflation below 1.5% would convince him to continue monetary easing cycle. We think that inflation may reach such levels already in Q2 2013. Thus, we see a risk that this may trigger one more interest rate cut, to 3.25%.

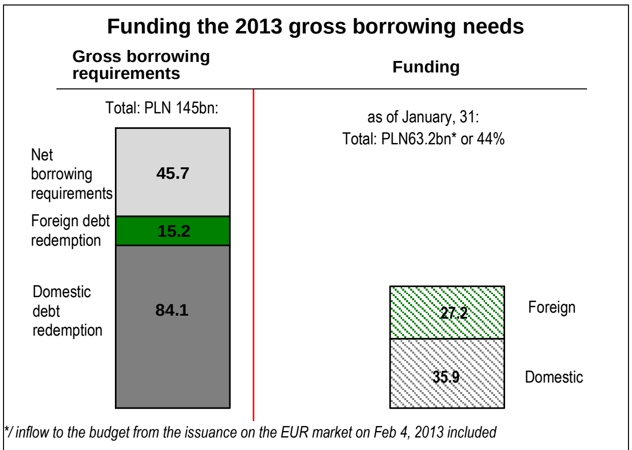
On the other hand, we are expecting some rise of core inflation (towards 2%). Minutes for the January's meeting showed that some MPC members can treat this development as an argument against cuts. Marek Belka said during his testimony before Senate, that the MPC is consciously pursing policy of stable interest rates in 3.50-4.75% range. Market interpreted these words as an attempt to indicate that the cycle will end at 3.50%. During the press conference after February's meeting governor Belka explained that he meant only historical volatility of rates, not a cap for future level of rates. Still, we think that 3.50% may be an important psychological barrier for some MPC members. Interest rates were cut to this level during financial crisis in 2009. If currently rates decline below this level, then it may be interpreted as a confirmation that the situation is worse than at that time, while some MPC members were very optimistic about economic outlook for 2013. And we all know that the Council does not like to admit that it makes mistakes.

Source: NBP, BZ WBK

Fiscal policy watch







	Spread vs Bunds (10Y) in bps			CDS (5Y USD)		
	11.02	change since 11.01.13	change since 31.12.12	11.02	change since 11.01.13	change since 31.12.12
Poland	240	-2	-1	91	12	12
Czech	44	2	-10	59	-2	-4
Hungary	489	14	-3	292	21	22
Greece	945	-71	-108	-	-	-
Spain	383	56	-17	281	39	-6
Ireland	225	-43	-94	179	-7	-37
Portugal	500	36	-68	391	19	-46
Italy	300	48	-22	262	40	-12
Germany	-	-	-	44	3	5

Source: Finance Ministry, CSO, Reuters, BZ WBK

General government deficit at 3.5% of GDP

- According to the preliminary estimates of the Ministry of Finance, Poland's state budget deficit at the end of January amounted to ca PLN8.4bn or 23% of annual plan for 2013 at PLN35.6bn. Deputy minister of finance Hanna Majszczyk announced that budget revenues were in line with expectations, with as expected VAT income and PIT income higher than predicted earlier.
- High budget deficit realisation after the first month of the year is not a surprise. Typically, in January budget spending is much higher in comparison with the next months of the year due to subsidies for social funds, debt redemptions and payments to the UE budget.
- Poland's Ministry of Finance informed that general government deficit (ESA95) reached the level of PLN11.2bn in Q3 2012 (up from deficit at PLN8.4bn in Q2 2012 and PLN5.8bn in Q3 2011), which accounted for 2.9% of GDP.
- We think that the last quarter of 2012 brought further increase in the general government sector gap. It came from further deterioration in social funds (FUS) and labour funds (FP). We uphold our opinion that in whole 2012 the general government deficit reached the level of ca. 3.5% of GDP.

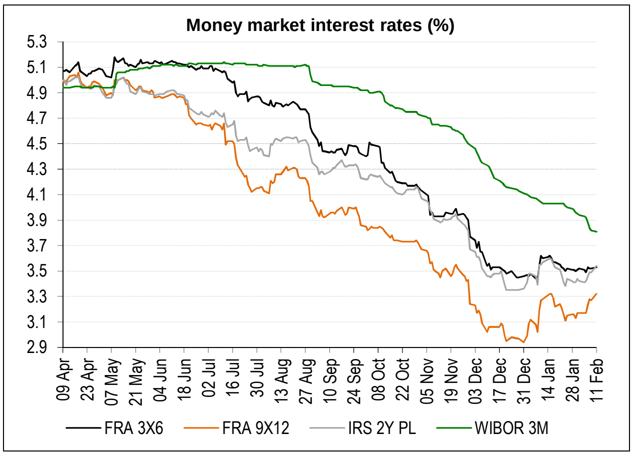
Will the 2013 borrowing needs complete in 50% in February?

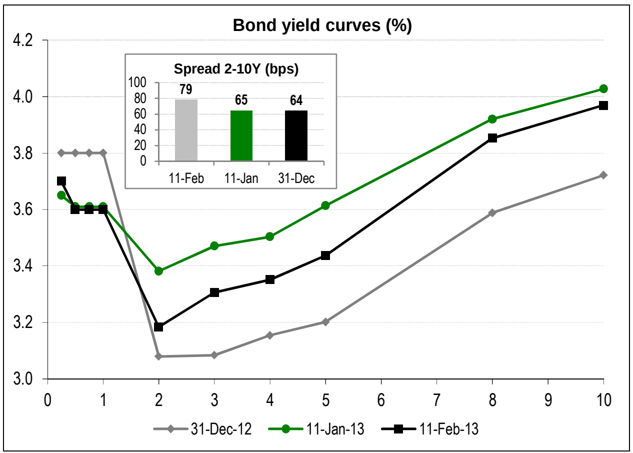
- Poland's Ministry of Finance was very active on the primary market in January. After unsuccessful the first auction in this year, the Ministry successfully launched bonds on the second one. At the tender investors' demand reached the record high (PLN16.6bn at standard auction), and auction's yield of 5Y benchmark PS0418 was at record low (3.437%). Consequently, the Ministry sold in January bonds worth PLN17.4bn in total.
- The Ministry also successfully launched debt denominated in foreign currency. We would like to highlight that central banks bought 26% of total issue of 6Y eurobonds (offered at the beginning of January). On the other hand registered bonds were allocated to long-term investors from Germany.
- Summing up, the budgetary borrowing needs were completed in 44% at the end of January. After the first auction in February it was nearly 47% of this year target, while at the end of February it seems that it will be 50%. It means the Ministry will reach its short-term goal. Very high completion rate in so short time period means that the ministry will be in very comfortable situation in coming months. We think that even if the borrowing requirements increase this year (due to possible the 2013 budget amendment) the Ministry would not have a problem to finance additional needs.

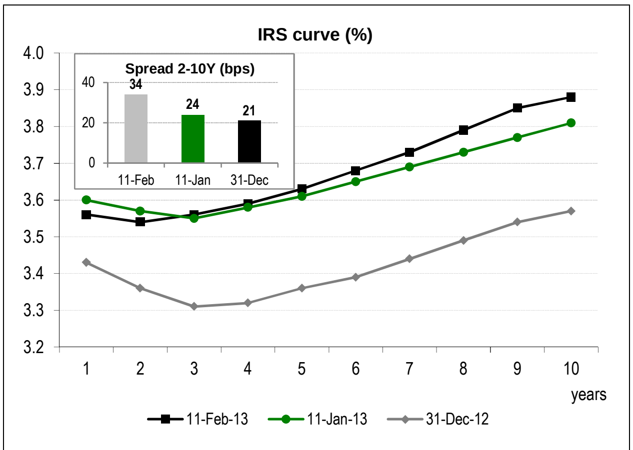
Political risk limits demand on the peripheral debt

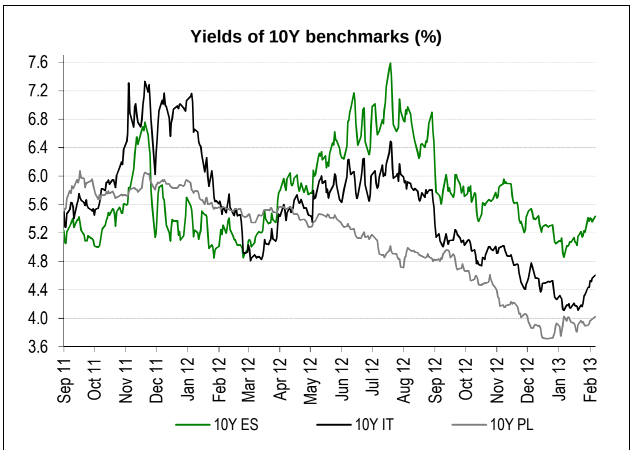
- The beginning of a new year brought further strengthening of peripheral countries' debt. It was supported by favourable auction results, which have allowed both Italy and Spain to build liquidity caution (the higher completion ratios in comparison with the same period of previous years). However, political risks resulted in strong sell-off of both Italian and Spanish debt in the second part of January and at the beginning of February.
- Situation on core markets visibly shows gradual shifting capital from safe haven assets to more risky ones. Notwithstanding, uncertain perspectives for economic growth together with political risk in peripheries countries of euro zone (worries over parliamentary election in Italy in the second half of February) should stabilize demand for Bunds and the US Treasuries.

Interest rate market









Source: NBP, Reuters, BZ WBK

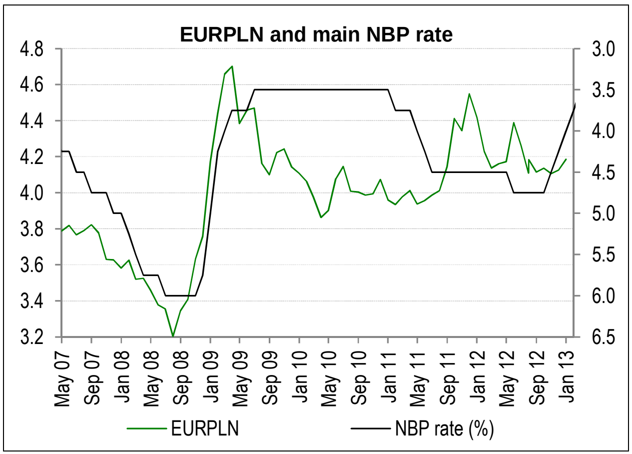
WIBOR rates lower and lower. Downward trend will continue

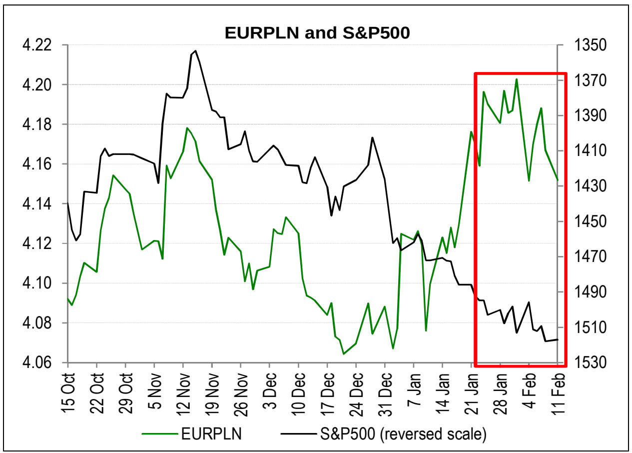
- January has brought a continuation of downward trend of WIBORs. In monthly scale rates declined by 16-18bps, which is a substantial deceleration (in comparison, these rates fell by 30-46bps MoM in December 2012). Declines of WIBOR accelerated slightly at the beginning of February, anticipating the NBP interest rate cuts. 1 Month rate posted the most substantial decrease (by 15bps as compared to 11-13bps in other tenors). This can be due to the fact that longer rates (3M and more) recorded considerable drops earlier.
- FRA rates were more volatile. Even though weak data from real economy in December strengthened expectations for cuts of reference rate to 3%, after February's decision and comments of NPB governor the market again adjusted its predictions to slightly altered conditions presented by Marek Belka during the press conference. Current quotations of FRA contracts show that investors' expectations are anchored close to 3.25% for the reference rate. Thus, further declines of FRA1x4 are possible in the upcoming weeks, but potential for drops of FRAs for longer terms is rather limited (FRA3x6 is slightly above 3.50%, level which is our target for reference rate).
- In our view the upcoming weeks will bring further downward moves of WIBOR rates. We think that the macroeconomic data for January will strengthen expectations for a rate cut in March, which should be conducive to further drops of rates, especially with 1M maturity. Pace of decreases of 3M and longer rates should be gradually decelerating.

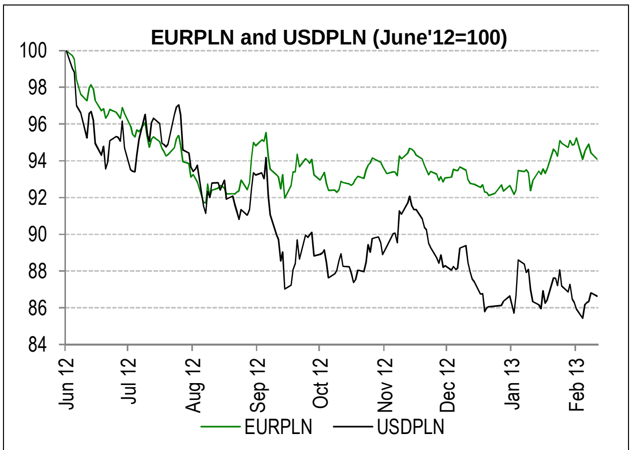
Higher yields of bonds and IRS

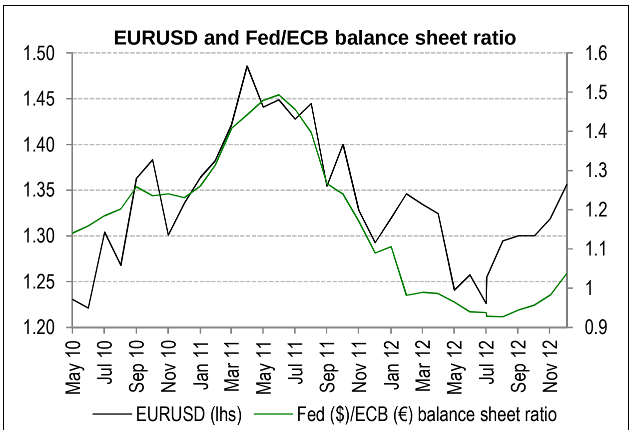
- In January an upward correction of yields was recorded. Consequently, the bond curve moved up by 11-20bps with 5Y and 10Y debt suffering most due to weakening observed on the core market. The upward momentum was continued also at the beginning of February (by 6-15bps) due to unclear signals from the MPC, weak results of bond auction and comment of deputy finance minister, Jacek Kowalczyk. He said the Ministry of Finance is considering issue of 2Y bonds (these securities, OK0715, together with longer maturity WZ0124 will be offered at auction on February 13).
- IRS also moved up. In January the IRS curve moved up by 8-14bps with the long end leading in the scale of move. At the beginning of February the IRS continued to increase by further 4-9bps.
- Domestic 10Y bond performed better than its Spanish and Italian equivalents. The upward move of yields on the peripheral debt market is mainly due to uncertainty regarding the stability of political situation in these countries. This tendency may be continued in the coming weeks due to Italian parliamentary elections scheduled for February 24-25. This should support Polish 10Y debt.
- We expect that weak data from real economy accompanied by continuation of the downward trend of the CPI (we expect inflation declined below 2% in January) and lower demand for risky assets (due to the factor of Italian elections that should support lower yields of Bunds) shall have positive impact on domestic debt. We anticipate that yields of 2Y, 5Y and 10Y bonds will stay between the record low levels established in late 2012 and local peaks from January. The room for more visible appreciation of Polish debt (particularly the mid- and long-term one) may be limited by the EURPLN persisting at elevated level.

Foreign exchange market









Source: CSO, NBP, Reuters, BZ WBK

Weaker zloty due to expectations for rate cuts

- Last month we suggested that zloty's depreciation observed in early 2013 was quite similar to what we have seen at the beginning of 2012. We pointed that market sentiment may improve and this will limit the potential for weakening of the domestic currency due to expectations for NBP rate cuts.
- The global market did improve (since closing date of previous report S&P500 increased by 3.2% and the EURUSD temporarily by nearly 5%), but the EURPLN surged temporarily by ca. 2%. The importance of domestic data proved much stronger than we anticipated. The EURPLN was pushed above the upper band of the suggested range of 4.05-4.14 after the weaker than market expected (and in line with our forecast) data on Polish industrial output. In the following weeks the zloty remained under negative pressure of strengthened expectations for NBP rate cuts. As a result, the EURPLN temporarily broke 4.21 and approached the highest level since early September. The zloty managed to pare some losses as PM Tusk announced a debate on the implementation of the euro to be held in mid-February and thanks to deal on the EU budget.

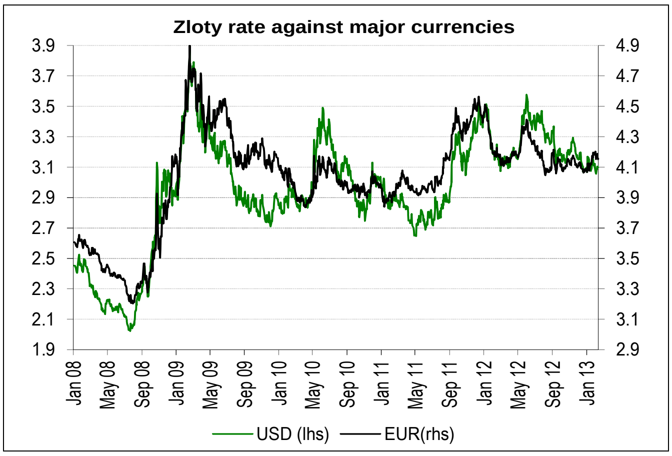
Little room for lower EURPLN

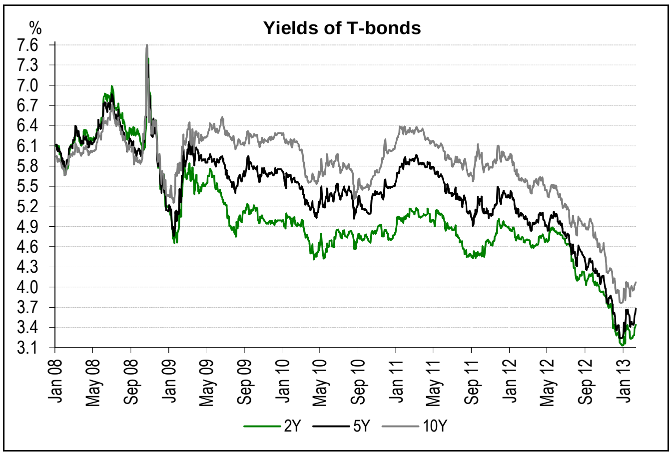
- The third chart shows that since early September (soon after the weaker than expected data on domestic 2Q GDP growth were released and the NBP governor suggested in an interview that the bias of the MPC has changed) the EURPLN detached somewhat from the USDPLN. The zloty stopped gaining versus the euro amid improving global market sentiment as expectations for rate cuts started to play main role and situation in Polish economy was deteriorating. Appreciation versus the dollar was only due to higher EURUSD.
- Currently, we do not see a big potential for closing of this gap soon. First, the cycle of monetary policy easing is expected to be continued and inflation is likely to fall further (we expect bottom for the CPI in June). We expect the 5th rate cut by 25bps in March. This will be justified by both upcoming data (we expect the CPI plunged below 2% in January) and new inflation and GDP projection. Second factor that is constraining room for lower EURPLN are (so far only) verbal interventions from the government and central bank pointing that further appreciation of the zloty may be harming for Polish economy.
- To sum up, we expect the average EURPLN at 4.17 in February. The outlook for more rate cuts and uncertainty related to results of Italian elections will put negative pressure on the zloty versus the euro and the dollar.

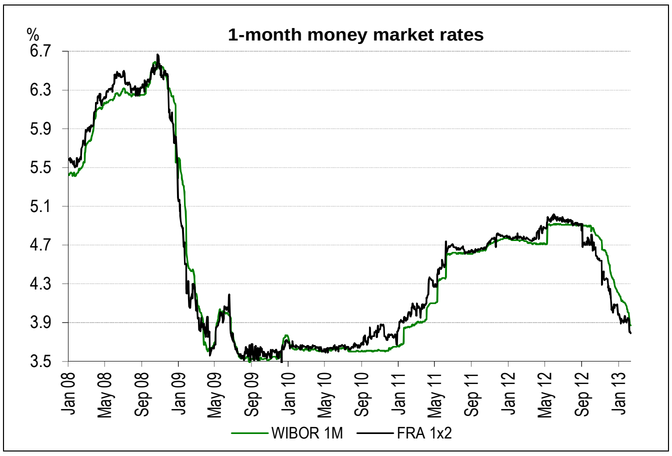
Only temporary decline of the EURUSD?

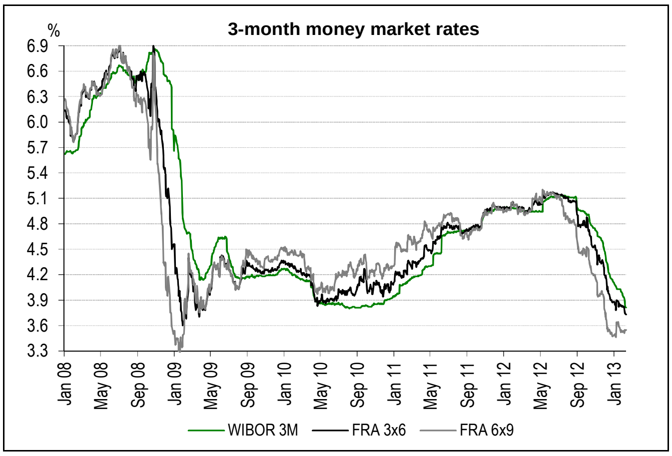
- As regards the EURUSD, recent data and information from Europe (strong improvement of PMI, Ifo and ZEW, commercial banks paying back loans from the LTRO to the ECB) proved supportive for the euro. The exchange rate surged temporarily above 1.37 (highest since November 2011). The size of ECB balance sheet declined and as Fed is likely to maintain its bond buying program, the ratio of Fed to ECB balance sheet is likely to increase further. This should be supportive for the euro versus the dollar. Thus, in our opinion there is limited potential that the downward corrections initiated after February's ECB meeting will be continued. On the other hand the uncertainty regarding the further developments on the peripheral political scene (accusation of corruption against Spanish PM and results of Italian parliamentary elections scheduled for late February) may constrain the pace at which the euro will pare recent losses. Those factors may be also putting negative pressure – next to domestic ones – on the zloty. Vital area of support for the EURUSD is 1.33-1.34.

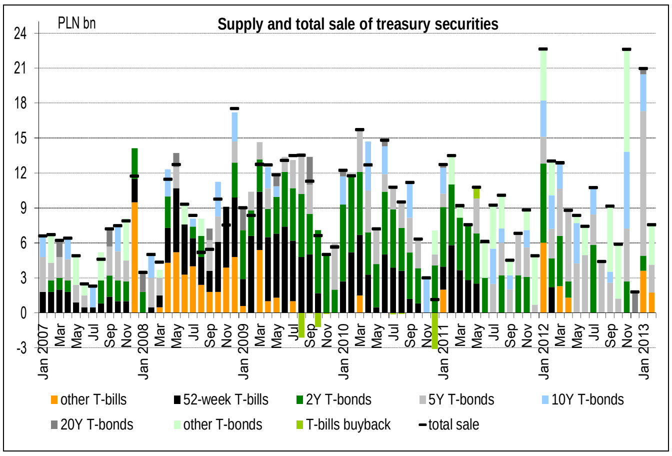
Market monitor











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
04.02.2013	20-week: 1000-2000	7728/1747

* based on data of the Ministry of Finance

Treasury bond auctions in 2012/2013 (PLNm)

month	First auction				Second auction				Switch auction		
	date	T-bonds	offer		date	T-bonds	offer		date	T-bonds	offer
February 12	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	6000-9000	13693.8			
February	7.02	PS0418/WZ0117	4000-6000	5806.5	13.02	OK0715/WZ0124	3000-5000				

** 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
11 February	**12** ***PL: Balance of payments (Dec)***	**13** EZ: Industrial output (Dec) US: Retail sales (Jan)	**14** ***PL: Money supply (Jan)*** DE: Flash GDP (Q4) EZ: Flash GDP (Q4)	**15** ***PL: CPI (Jan)*** US: Industrial output (Jan) US: Flash Michigan (Feb)
18 ***PL: Wages and employment (Jan)***	**19** DE: ZEW index (Feb) ***PL: Industrial output (Jan)*** ***PL: PPI (Jan)***	**20** US: House starts (Jan) US: Building permits (Jan) US: Minutes Fed	**21** ***PL: MPC minutes*** DE: Flash PMI – manufacturing (Feb) EZ: Flash PMI – manufacturing (Feb) CN: Flash PMI – manufacturing (Feb) US: CPI (Jan) US: Home sales (Jan) US: Philly Fed index (Feb)	**22** DE: Ifo index (Feb)
25 ***PL: Retail sales and unemployment rate (Feb)***	**26** US: S&P/Case-Shiller home price index (Dec) US: Consumer confidence index (Feb) US: New home sales (Jan)	**27** US: Durable goods orders (Jan) US: Pending home sales (Jan)	**28** ***PL: Inflation expectations (Feb)*** EZ: HICP (Jan) US: Preliminary GDP (Q4)	**1 March** ***PL: PMI – manufacturing (Feb)*** DE: PMI – manufacturing (Feb) EZ: PMI – manufacturing (Feb) EZ: Flash HICP (Feb) CN: PMI – manufacturing (Feb) US: Personal income (Jan) US: Consumer spending (Jan) US: Core PCE (Jan) US: Michigan index (Feb) US: ISM – manufacturing (Feb)
4 EZ: Sentix index (Mar)	**5** DE: PMI – services (Feb) EZ: PMI – services (Feb) EZ: Retail sales (Jan)	**6** ***PL: MPC decision*** EZ: GDP revision (Q4) US: ADP report (Feb) US: Industrial orders (Jan) US: Fed Beige Book	**7** DE: Industrial orders (Jan) GB: BoE decision EZ: ECB decision US: Trade balance (Jan)	**8** DE: Industrial output (Jan) US: Non-farm payrolls (Feb) US: Unemployment rate (Feb)
11 DE: Exports (Jan)	**12**	**13** EZ: Industrial output (Jan) US: Retail sales (Feb)	**14** ***PL: CPI (Feb)*** ***PL: Money supply (Feb)*** ***PL: Balance of payments (Dec)***	**15** EZ: HICP (Feb) US: Industrial output (Feb) US: CPI (Feb) US: Flash Michigan (Mar)

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	24	25	-	-	-	-	-	-	-	-	-	-
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

		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	Feb 13
PMI	pts	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	48.9
Industrial production	%YoY	9.1	4.8	0.8	2.8	4.3	1.2	5.4	0.6	-5.2	4.7	-0.9	-10.6	-3.5	-2.8
Construction production	%YoY	32.2	12.0	3.5	8.1	6.2	-5.2	-8.7	-5.0	-17.9	-3.6	-5.3	-24.8	-15.2	-14.8
Retail sales [a]	%YoY	14.3	13.7	10.7	5.5	7.7	6.4	6.9	5.8	3.1	3.3	2.4	-2.5	3.0	0.7
Unemployment rate	%	13.2	13.4	13.3	12.9	12.6	12.3	12.3	12.4	12.4	12.5	12.9	13.4	14.2	14.5
Gross wages in enterprises sector [a]	%YoY	8.1	4.3	3.8	3.4	3.8	4.3	2.4	2.7	1.6	2.8	2.7	2.4	1.2	4.4
Employment in enterprises sector	%YoY	0.9	0.6	0.6	0.3	0.3	0.1	0.0	0.0	0.0	0.0	-0.3	-0.5	-1.3	-1.4
Export (€)	%YoY	6.2	4.4	2.5	2.4	-1.6	0.6	9.8	3.7	-0.8	15.4	7.8	0.1	3.1	4.8
Import (€)	%YoY	6.9	5.6	1.5	-3.3	-2.0	-5.3	2.1	-3.2	-3.2	7.5	4.4	-4.2	-0.3	0.0
Trade balance	EURm	-687	-883	-544	-420	-846	-372	-367	-98	44	221	-394	-629	-300	-315
Current account balance	EURm	-1 994	-1 909	-585	-655	-454	-1 092	-1 005	-901	-1 457	-755	-1 490	-543	-1 393	-1 016
Current account balance	% GDP	-5.0	-5.3	-5.1	-4.9	-4.9	-4.6	-4.4	-4.1	-4.1	-3.7	-3.7	-3.4	-3.2	-3.1
Budget deficit (cumulative)	PLNbn	-5.3	-16.5	-23.0	-24.8	-27.0	-21.1	-24.3	-22.9	-21.1	-34.1	-30.4	-31.1	-5.5	-17.0
Budget deficit (cumulative)	% of FY plan	15.1	47.2	65.6	70.9	77.1	60.2	69.6	65.5	60.4	97.5	86.9	88.8	15.5	48.6
CPI	%YoY	4.1	4.3	3.9	4.0	3.6	4.3	4.0	3.8	3.8	3.4	2.8	2.4	1.9	1.8
CPI excluding prices of food and energy	%YoY	2.5	2.6	2.4	2.7	2.3	2.3	2.3	2.1	1.9	1.9	1.7	1.4	1.9	1.7
PPI	%YoY	7.9	6.0	4.4	4.4	5.2	4.4	3.6	3.0	1.8	1.0	-0.1	-1.1	-1.5	-0.8
Broad money (M3)	%YoY	13.7	12.4	9.1	10.2	11.1	11.0	11.0	9.8	7.6	8.0	5.7	4.6	5.4	6.7
Deposits	%YoY	12.8	12.5	8.5	10.0	10.8	10.4	10.9	9.5	7.9	8.1	5.8	4.7	5.8	6.0
Loans	%YoY	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	3.8
EUR/PLN	PLN	4.37	4.18	4.14	4.18	4.30	4.30	4.19	4.09	4.14	4.11	4.13	4.10	4.14	4.17
USD/PLN	PLN	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	3.10
CHF/PLN	PLN	3.61	3.47	3.43	3.47	3.58	3.58	3.49	3.41	3.42	3.40	3.43	3.39	3.37	3.38
Reference rate [b]	%	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	3.75
WIBOR 3M	%	4.99	4.97	4.95	4.94	5.05	5.12	5.13	5.10	4.95	4.82	4.62	4.26	4.03	3.78
Yield on 52-week T-bills	%	4.51	4.50	4.48	4.58	4.75	4.75	4.64	4.58	4.53	4.42	4.14	3.94	3.62	3.50
Yield on 2-year T-bonds	%	4.75	4.66	4.58	4.67	4.77	4.71	4.46	4.12	4.09	3.94	3.66	3.23	3.25	3.30
Yield on 5-year T-bonds	%	5.20	5.00	4.88	4.97	4.97	4.85	4.58	4.43	4.28	4.12	3.78	3.35	3.46	3.51
Yield on 10-year T-bonds	%	5.74	5.53	5.45	5.50	5.41	5.24	4.99	4.88	4.85	4.59	4.21	3.87	3.91	3.96

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	1 599.3	1 642.6	370.7	388.3	392.1	448.2	380.4	396.8	401.4	463.9
GDP	%YoY	3.9	4.3	2.0	1.2	3.6	2.3	1.4	1.0	0.5	1.0	1.3	2.0
Domestic demand	%YoY	4.6	3.4	0.1	-0.2	2.5	-0.4	-0.7	-0.7	-1.0	-0.5	0.0	0.5
Private consumption	%YoY	3.2	2.5	0.5	1.0	1.7	1.2	0.1	-1.0	0.8	0.9	1.0	1.4
Fixed investments	%YoY	-0.4	9.0	0.6	-2.0	6.0	1.3	-1.5	-0.4	-4.0	-4.0	-2.0	-0.2
Industrial production	%YoY	9.0	7.7	1.0	-0.1	4.9	2.8	-0.1	-3.2	-2.9	-0.3	-0.5	3.3
Construction production	%YoY	4.6	12.3	-1.0	-8.8	13.8	2.2	-11.0	-12.6	-14.8	-9.6	-7.6	-6.1
Retail sales [a]	%YoY	6.1	11.2	6.0	3.2	12.6	6.5	5.3	0.9	2.2	2.5	3.6	4.3
Unemployment rate [b]	%	12.4	12.5	13.4	14.0	13.3	12.3	12.4	13.4	14.5	13.7	13.5	14.0
Gross wages in national economy [a]	%YoY	3.9	5.2	3.7	3.0	5.2	3.9	2.8	2.9	3.3	3.5	3.4	3.8
Employment in national economy	%YoY	-0.2	0.6	0.0	-1.2	0.2	0.2	-0.1	-0.3	-1.0	-1.0	-0.9	-0.7
Export (€)	%YoY	22.8	12.1	4.1	6.5	4.1	0.4	3.7	8.2	4.8	5.0	6.0	10.0
Import (€)	%YoY	24.9	12.2	0.4	3.4	4.3	-3.5	-1.6	2.8	1.5	1.5	4.0	6.5
Trade balance	EURm	-8 893	-10 059	-4 982	-616	-2 115	-1 640	-425	-802	-962	-414	289	470
Current account balance	EURm	-18 129	-17 977	-12 873	-5 176	-4 515	-2 203	-3 367	-2 788	-2 900	-599	-915	-762
Current account balance	% GDP	-5.1	-4.9	-3.4	-1.3	-5.1	-4.6	-4.1	-3.4	-2.9	-2.5	-1.8	-1.3
General government balance	% GDP	-7.9	-5.0	-3.5	-3.5	-	-	-	-	-	-	-	-
CPI	%YoY	2.6	4.3	3.7	1.7	4.1	4.0	3.9	2.9	1.8	1.3	1.7	2.1
CPI [b]	%YoY	3.1	4.6	2.4	2.3	3.9	4.3	3.8	2.4	1.7	1.2	1.9	2.3
CPI excluding food and energy prices	%YoY	1.6	2.4	2.2	1.9	2.5	2.5	2.1	1.7	1.9	1.6	1.9	2.2
PPI	%YoY	2.1	7.6	3.4	-0.1	6.1	4.7	2.8	-0.1	-1.0	-0.9	0.2	1.5
Broad money (M3) [b]	%YoY	8.8	12.5	4.5	3.6	9.1	11.0	7.6	4.6	6.6	5.8	5.1	3.5
Deposits [b]	%YoY	9.1	11.7	4.7	3.5	8.5	10.4	7.9	4.7	6.4	5.7	5.0	3.5
Loans [b]	%YoY	9.2	14.4	1.2	3.7	12.8	10.7	5.4	2.3	3.5	4.4	5.4	1.2
EUR/PLN	PLN	3.99	4.12	4.19	4.14	4.23	4.26	4.14	4.11	4.17	4.16	4.15	4.10
USD/PLN	PLN	3.02	2.96	3.26	3.09	3.23	3.32	3.31	3.17	3.12	3.09	3.09	3.05
CHF/PLN	PLN	2.90	3.34	3.47	3.35	3.50	3.55	3.44	3.40	3.39	3.37	3.35	3.31
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	3.64	4.97	5.04	5.06	4.57	3.81	3.51	3.58	3.65
Yield on 52-week T-bills	%	3.96	4.51	4.48	3.60	4.50	4.69	4.58	4.16	3.53	3.46	3.61	3.81
Yield on 2-year T-bonds	%	4.72	4.81	4.30	3.39	4.66	4.71	4.22	3.61	3.27	3.26	3.41	3.61
Yield on 5-year T-bonds	%	5.31	5.44	4.53	3.61	5.02	4.93	4.43	3.75	3.48	3.48	3.63	3.85
Yield on 10-year T-bonds	%	5.74	5.98	5.02	4.08	5.58	5.38	4.91	4.22	3.94	3.94	4.10	4.35

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

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