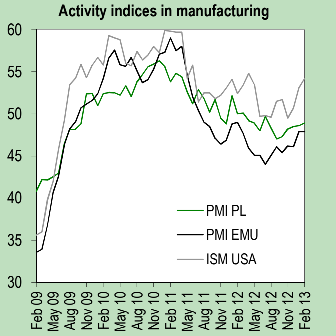
Bank Zachodni WBK

MACROscope

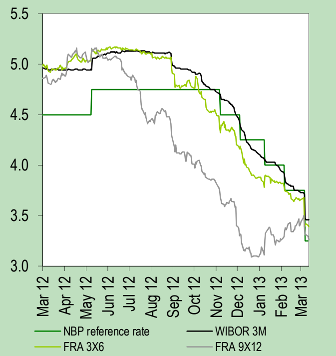
Polish Economy and Financial Markets

March 2013

Activity indices in manufacturing



Interest rates (%)



In this issue:

Maciej Reluga
Chief Economist
+48 22 586 8363

Piotr Bielski
+48 22 586 8333

Agnieszka Decewicz
+48 22 586 8341

Marcin Luziński
+48 22 586 8362

Marcin Sulewski
+48 22 586 8342

Email: ekonomia@bzwbk.pl

Strong ending

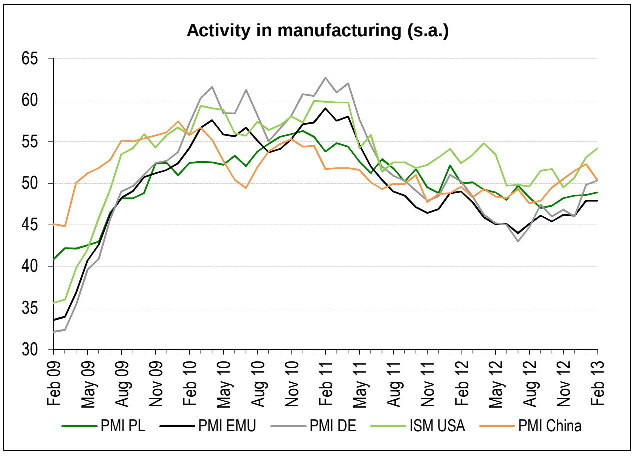
- **In March the MPC took markets by surprise and cut main interest rates by 50 basis points, bringing the NBP reference rate down to 3.25%, the lowest level ever.** In our view a deeper cut at the end of the easing cycle was fully justified. Actually, the Council signalled quite strongly that the easing cycle has come to an end, but it has left door open for further cuts. Governor Marek Belka said that cuts are possible, but only provided that economic scenario diverges strongly from current expectations outlined in the projection. We do not expect this to happen. One way or another, interest rates will remain unchanged, at least until July.
- **Our expectations about economic outlook did not change much. Data released recently were better than expected, but it is too early to say that recovery is in place, like it was too early to herald a disaster in December.** In our view, data for February and March can disappoint again, showing that slowdown was continued in Q1. On the other hand, there are no signals underpinning the most pessimistic scenarios assuming negative GDP growth. We maintain our forecasts of GDP growth at ca. 0.5%YoY in Q1 and we are still expecting that every next quarter will following quarters the preceding one. This will be mainly due to exports revival, and we are predicting that economic growth will be slightly above 2% at the year-end.
- **Weak data from the real economy, together with further inflation decline, may reignite expectations for continuation of interest rate cuts.** However, in our view such scenario has already been taken into account by the Monetary Policy Council when it decided to declare the end of the easing cycle. Therefore, if the interest rate market (FRA, IRS, bonds) positively reacts to upcoming data releases, the effect should be short-lived. In the nearest weeks we may witness a horizontal trend in the interest rate market, however in the longer horizon we maintain our forecasts assuming a rise in yields.
- **Upward trend observed in EURPLN since the start of the year has stopped in February.** This was due to better than expected domestic macroeconomic data (January's output and sales and Q4 GDP), which trimmed expectations for NBP rate cut in March. The zloty was relatively immune to a rise in risk aversion triggered by elections in Italy, and additional support for domestic currency was Fitch's decision to lift Poland's rating outlook. Testing the support zone around 4.11-4.12 was not successful and we do not expect the exchange rate to return to this area in the near term. Next data may rather have a negative impact on the zloty, especially if global risk aversion rises. In sum, the horizontal trend may be still valid until the middle of the year, and after that the strengthening of the zloty is possible.

Financial market on 12 March 2013:

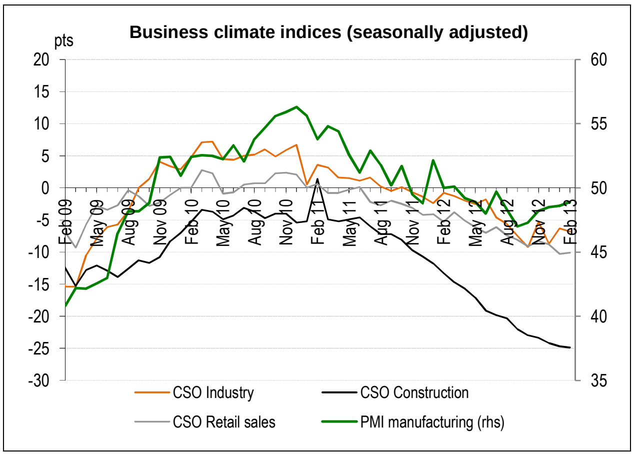
NBP deposit rate	1.75	WIBOR 3M	3.46	EURPLN	4.1500
NBP reference rate	3.25	Yield on 2-year T-bond	3.32	USDPLN	3.1887
NBP lombard rate	4.75	Yield on 5-year T-bond	3.51	CHFPLN	3.3643

This report is based on information available until 12.03.2013

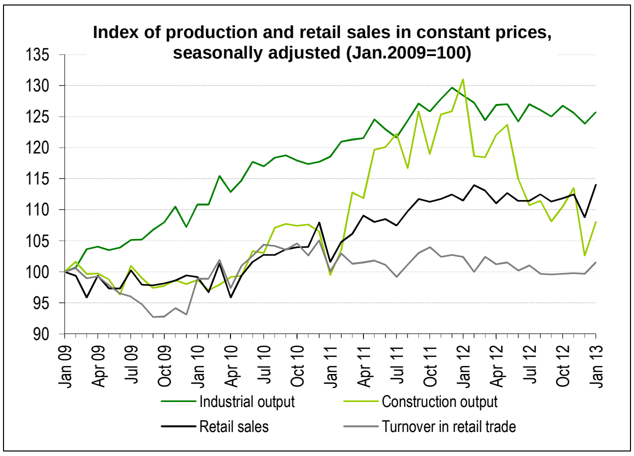
Economic update



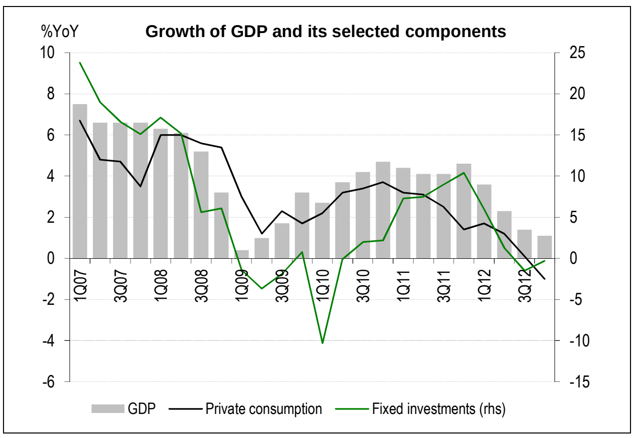
Activity in manufacturing (s.a.)



Business climate indices (seasonally adjusted)



Index of production and retail sales in constant prices, seasonally adjusted (Jan.2009=100)



Growth of GDP and its selected components

Source: CSO, Eurostat, BZ WBK

End of the crisis… or an illusion

- A visible improvement of business climate indices for the world's main economies fuelled hopes that, after very weak 4Q2012, the global economic activity will soon begin to improve.
- However, it is worth noting two issues: (1) rebound of indices is very uneven, especially in the euro zone, where a significant improvement of moods in German economy is accompanied by further collapse in southern countries and, among others, in France; (2) global recovery will be sluggish, slower than expected previously. This is shown, inter alia, by the newest revisions of economic forecasts of the European Commission and the ECB.
- Lower-than-expected pace of recovering from recession in Europe and surprises on the political scene (e.g. results of elections in Italy) are suggesting that it is still too early to herald that an end of European debt and economic crisis is imminent. However, we are expecting that a gradual economic rebound at our main trading partners will be continued. This, in turn, should translate into better results of Polish exports and industry.
- As for the time being, domestic business climate gauges suggest no breakthrough in economy, but they surely show that negative tendencies abated. PMI index for manufacturing climbed in February for the fifth time in a row, but is still staying below the neutral level of 50 points. Improvement was recorded by subindexes for new exports orders and employment. CSO business climate indexes did not post a considerable improvement, but declines of gauges for most economic sectors slowed down. Construction is an exception, with the sentiment already at record lows and falling further. February has seen an improvement of consumer confidence, but this index still remains rather weak.

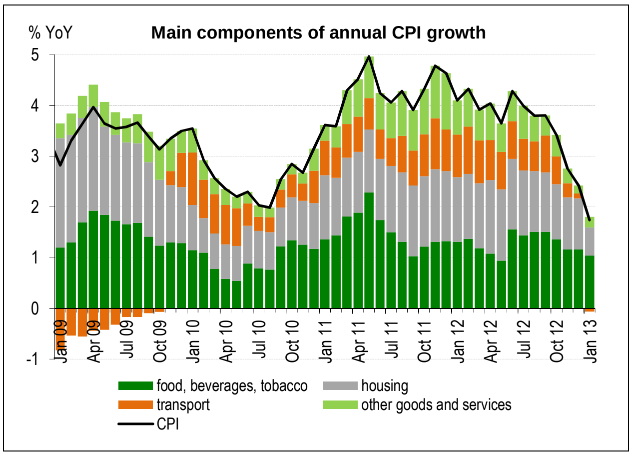
January's (and December's) data distorted

- Some figures for January (e.g. industrial output and retail sales) proved to be better than expected, and posted an improvement versus very weak results of December. Still, this rebound was due to statistical effects and one-off distortions (difference in number of working days in case of industrial output, shift of a large part of direct subsidies for farmers from December to January in case of retail sales, we already mentioned this factor one month ago), so one should not view these developments as a harbinger of economic recovery, but rather as another deviation from the trend.
- Revival in industry will probably appear in the later part of the year, together with improving export orders. However, a persistent and considerable improvement of consumer demand will commence later. We do not expect any persistent improvement in construction as well, even though data for February may look better due to strong base effects.

… but rebound of GDP growth getting closer

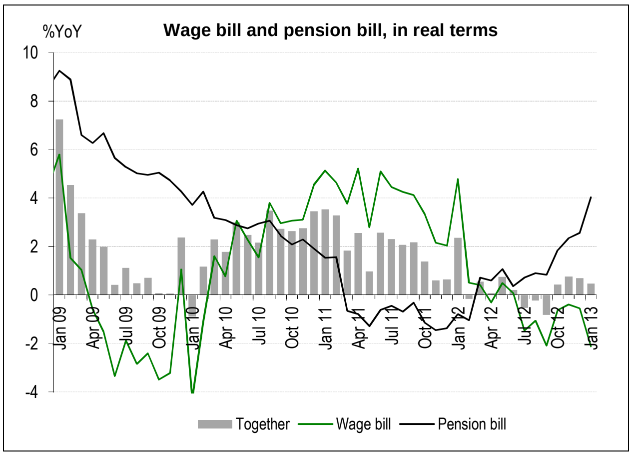
- Data on GDP for 4Q2012, which positively surprised some analysts and MPC members, were not a surprise for us and in our view they do not suggest a reversal of negative tendencies. Decline of investments, which lost steam in Q4, will probably deepen again in the upcoming quarters. Consumer demand may rebound in Q1 due to shift in payments for farmers, but this will be no persistent effect and demand will remain low later in the year.
- Still, we maintain our view that we are close to trough of the economic cycle, and, from Q2 on, we should observe a gradual revival of economic growth, with exports as main engine.
- We think that this is too early to revise GDP forecasts upwards, but risk balance is gradually shifting upwards.

Economic update



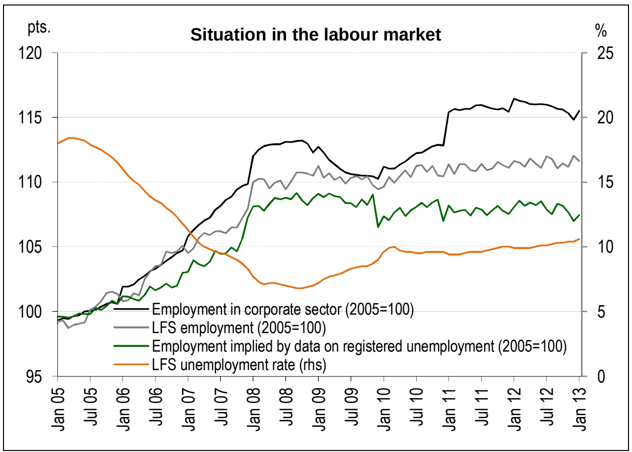
Inflation heading towards 1%

- Decline of inflation in January was faster than expected – CPI rose by a mere 1.7%YoY. The chart beside is showing that the sole culprits of growth in consumer prices were food prices and housing costs, while increases of prices in other categories of goods and services were minute.
- We are expecting further declines of inflation in the upcoming months, to almost 1% in Q2. At the same time, core inflation should remain close to 1.5% (or below). Lack of inflationary pressure is also shown by negative pace of growth of PPI, which will probably run below zero in H1.
- Reweighing of CPI basket, which will be applied by the CSO together with release of data for February, should not affect inflation strongly in the short-term (we estimate this effect to raise it by ca. 0.02pp), and may change the inflation path for the next months.



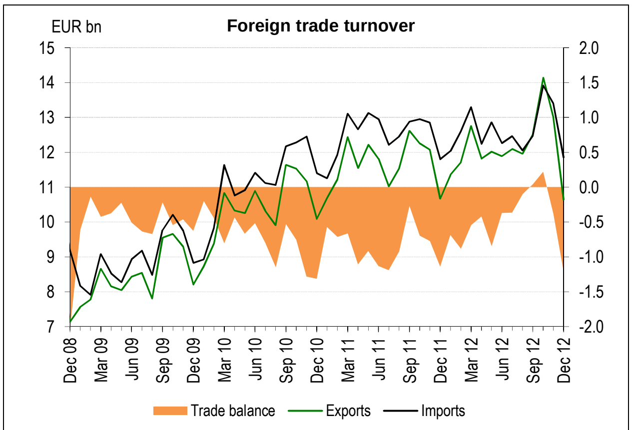
… which supports households' real income

- January's strong decline of wage growth in enterprise sector (to 0.4%YoY) was partly due to high base effects (in 2012 payment of some wage components was shifted from February to January). This is why one should expect that wage growth will rebound in February, yet temporarily. Still, average pace of wage growth will remain moderate for the remainder of the year.
- Yet, the quickly falling inflation is underpinning real income growth. This is especially favourable for households of pensioners, whose social benefits will be indexed with high CPI figure for 2012.
- On the other hand, chances for a revival in consumption are limited by an expected by us further rise in households' propensity to save (this process began already in 2H2012).



Unemployment rising, but number of workers not falling

- Registered unemployment rate climbed in January to 14.2%, and seasonally-adjusted LFS unemployment rate to 10.6%, being the highest levels in 6 and 5 years, respectively.
- We find it interesting that the rise in unemployment rate is caused primarily by rising labour activity rather than a significant decline of workplaces. According to LFS data, the number of workers shows no significant downward tendency. On the other hand, average employment in corporate sector was declining gradually throughout 2012. Downward tendency at the year-end was also shown by number of workers calculated based on CSO's data on registered unemployment.
- Surveys show that still more companies are planning staff reductions than hiring new workers, but declared pace of employment reduction declined considerably over the last months.



Source: CSO, NBP, BZ WBK

Rapid (but temporary?) deterioration of trade balance

- End of 2012 brought a rapid reversal of trend of trade balance improvement, visible over the preceding months. As a result, in December trade deficit amounted to €1.2bn, the highest level in two years. However, we think that this may have been due to one-off distortions, a result of calendar effects, which have considerably weighed on exports and industrial output in December.
- Current account deficit amounted in 2012 to €13.5bn, i.e. 3.5% of GDP (versus €17.98bn and 4.9% in 2011).
- In the upcoming months and quarters we are expecting recovery of exports, and moderate pace of growth of imports as a result of weak domestic demand. This will cause a further improvement of trade and current account balances. Net exports will remain the main driver of growth in 2013.

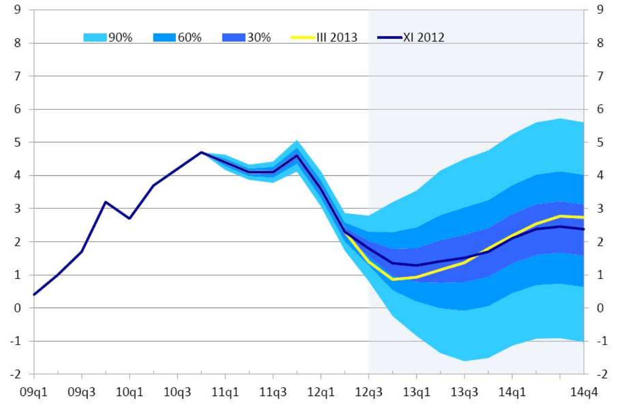
Monetary policy watch

Fragments of MPC communiqués (comparison of the last sentences from December, January and February)
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.
March: In the opinion of the Council, considerable monetary policy easing in recent months and at the March meeting will allow inflation to run close to target in the medium term and at the same time supports recovery of the Polish economy.

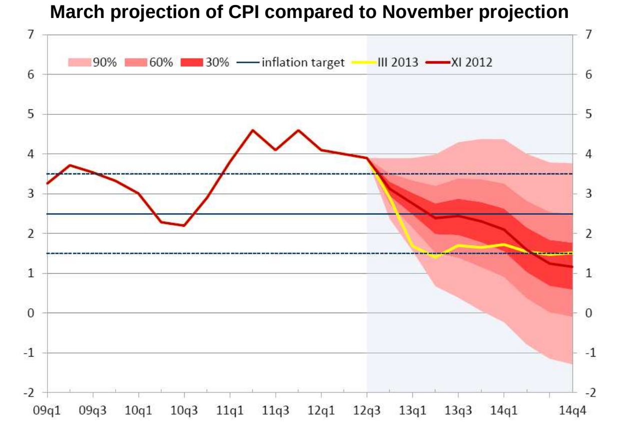
NBP projections in subsequent *Inflation reports*

	GDP growth			
	Mar 12	**Jul 12**	**Nov 12**	**Mar 13**
2013	1.1-3.5	1.0-3.2	0.5-2.5	0.6-2.0
2014	1.9-4.4	1.7-4.2	1.1-3.5	1.4-3.7
2015	x	x	x	1.9-4.4
	CPI inflation			
	Mar 12	**Jul 12**	**Nov 12**	**Mar 13**
2013	2.2-3.6	2.0-3.4	1.8-3.1	1.3-1.9
2014	1.2-3.0	1.0-2.7	0.7-2.4	0.8-2.4
2015	x	x	x	0.7-2.4

March projection of GDP compared to November projection



March projection of CPI compared to November projection



Source: CBs, Reuters, BZ WBK

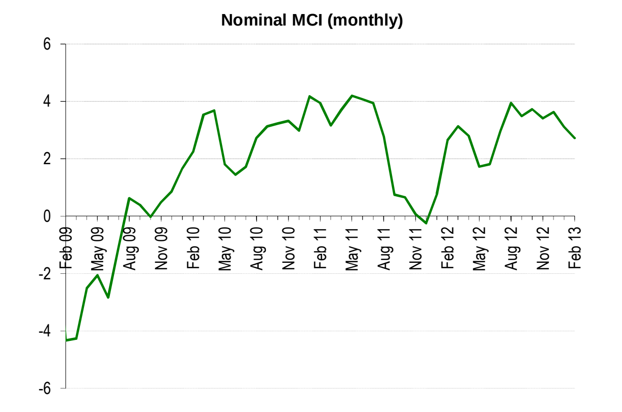
Strong ending of easing cycle

- The MPC surprised in March, cutting main interest rates by 50bp. As a result, the NBP reference rate fell to 3.25%, the lowest level in history. Apparently, the MPC decided that the new projections of inflation and GDP justify deeper reduction of interest rate cut, and there is no point in delaying it. In our view, deeper interest rate cut was justified and it is a pity that the Council arrived to this conclusion so late. We have been arguing for a long time that economic situation justifies reduction of main interest rate to around 3%.
- The NBP Governor Marek Belka said at the press conference and in later interview that the Council left the door open for a potential another rate cut ('wait and see' approach), however he underscored that further policy easing would be possible only should the reality divert strongly from the projections. At the same time, he signalled that interest rates are very likely to remain on hold until July (release of new NBP projection).
- In such situation next weak data from domestic economy and further fall of inflation may spur market speculation about next interest rate cuts in the second half of the year. Indeed, data about industrial output and retail sales in nearest months will not resemble January's figures. At the same time, CPI growth will be falling and is likely to reach ca. 1% shortly. Nevertheless, we think that if such data trigger declines in market interest rates (FRA, IRS), they should be temporary. As the time goes, signals of upcoming economic recovery in Europe and in Poland should be strengthening, which will allow keeping monetary policy unchanged. This would imply that main interest rates will remain on hold not only until July, but at least until the end of this year.

Gradual recovery no threat for inflation

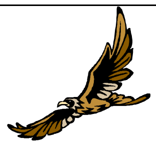
- The new NBP projection assumes – similarly to our forecasts – that the trough of economic cycle takes place at the turn of the year (2012/2013). According to projection, in the second half of the year the GDP growth (in YoY terms) will be gradually accelerating, however it will remain below the potential growth rate until Q2-2014. As a result, the negative output gap will be still growing in the nearest quarters and only at the end of forecast horizon (2015) it may start gradually closing.
- A scenario of gradual recovery, where growth of domestic demand remains relatively low, implies no major inflationary risks.
- The NBP projection predicts a stabilisation of CPI inflation rate close to 1.5% (the lower end of allowed fluctuations bank around the inflation target) in almost entire forecast horizon (i.e. until the end of 2015). The central path of inflation in the nearest quarters sits well below the one predicted in November's NBP report, which is explained mainly by lower growth of energy prices (cut in gas tariffs). At the same time, forecast of core inflation has been reduced further. According to current projection it will reach only 0.7% on average in 2013 and 1.1% in 2015. It should be remembered that Marek Belka and other MPC members pointed recently that behaviour and outlook of core inflation would be particularly important for monetary policy decisions.
- The results of NBP projection not only confirm that the deeper interest rate reduction in March was "safe" and justified, but even provoke question if even deeper interest rate cut would be possible. The fact that the MPC clearly signalled the end of the cycle suggests that it does not fully believe in the scenario depicted by the NBP projection (which was confirmed by Marek Belka). Thus, market (and MPC's) expectations regarding future interest rates may be highly sensitive to the upcoming macro data releases from Polish economy.

Restrictiveness of the Monetary Policy (Council)



MCI in downward trend

- During the last few months the nominal index of monetary policy restrictiveness MCI was moving in a downward trend. Decline of index was underpinned by cuts of NBP interest rates, translating into lower money market rates (average monthly WIBOR3M fell since peak of MCI in August 2012 until February 2013 by almost 130 basis points) and weakening of the zloty (average EURPLN exchange rate climbed by ca. 2% between August 2012 and February 2013).
- We are predicting further declines of monetary policy restrictiveness index in March (due to cut of NBP interest rates by 50 basis point) and then a stabilization in the upcoming months thanks to ending of monetary easing cycle and expected slight strengthening of the zloty.



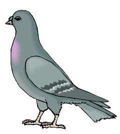
Rzońca (1.04)
Winiecki (1.03)

Glapiński (0.99)
Gilowska (0.99)

Kaźmierczak (1.07)
Hausner (1.03)

Zielińska-Głębocka (0.94)
Belka (0.92)

Chojna-Duch (0.49)
Bratkowski (0.37)



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.

Few supporters of a deep rate cut in January

Voting results of January's MPC meeting were not surprising. Andrzej Bratkowski wanted (alone) to trim rates by 125bps. Rate cut by 50bps was backed by him and Elżbieta Chojna-Duch. Zyta Gilowska was absent. Decision on rate cut by 25bps was unanimous. This had slight impact on the index of MPC members' restrictiveness. Nevertheless, we additionally decided to change their positions on the axis due to numerous comments after the February's MPC meeting – Adam Glapiński had suggested he would not back any additional rate cuts, and decision in March was probably dependent mostly on Jerzy Hausner and Andrzej Kaźmierczak.

March decision supposedly was not a done deal

Before the MPC meeting in March we had witnessed numerous comments of Council members. Some of them (Glapiński, Winiecki) stated that they did not support additional rate cuts any more. Other were still declaring readiness to ease policy further (Bratkowski, Chojna-Duch), but were not certain whether they will be able to convince the majority of MPC members to do so. There were also comments that suggested that March decision will be particularly important not only in the context of interest rate decision, but also in the context of working-out a medium-term strategy of the Council (Belka, Hausner). Overall, we think that interest rate cut in March could have been supported by slim majority of votes (five or six, including the NBP Governor).

The fact that 50bp-rate cut was such a surprise for the market looks interesting in the context of MPC's communication policy. For a couple of months the Council has been convincing the market that a break in the easing cycle is nearing, not only through official statements but also comments of the members. The end of rate cuts cycle was nearing. And indeed it took place. However, nobody expected that it will be so spectacular. The market's surprise is shown clearly by market reaction – zloty weakened versus euro (to 4.16), and yield curve fell by ca. 10bp at the short end and ca. 5bp at the long end. After the release of the statement there was a partial correction of this move.

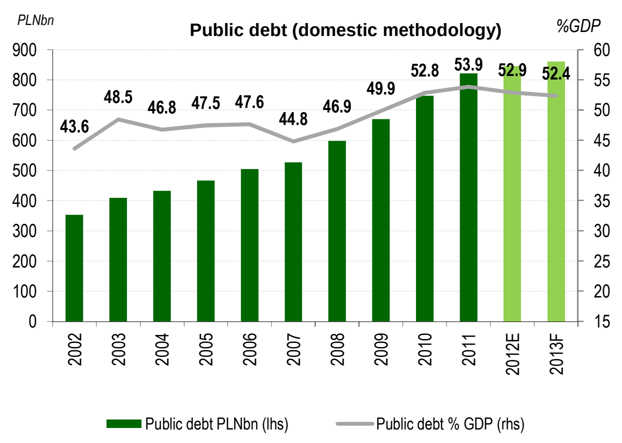
Will the communication match the action?

After numerous months of observing the Monetary Policy Council's actions, nothing can be said for sure (apart from the fact that it is surely not boring). However, we think that this time, after such a strong declaration of end of easing cycle, it is difficult to imagine that another cut may be implemented in the upcoming months. Or in fact it can happen, but only provided that actual economic scenario diverges strongly from current expectations of the Council. And we do not mean upcoming inflation readings (CPI may even fall below 1%), but the economic outlook. If it turns out, that recovery is not here, or it is by far weaker than expected, then the Council can implement further easing. But it is not our baseline scenario as for the time being.

Moreover, in our view, we are actually in a situation when further deep cuts may prove to be an exaggeration. Situation from the hiking cycle (overshot tightening) should not be repeated. In other words, it is not worth chasing the falling inflation with further cuts, it is better to wait and see, and we will probably see some prospects of inflation's return to target in medium term.

Source: NBP, BZ WBK

Fiscal policy watch



	Spread vs Bunds (10Y) in bps			CDS (5Y USD)		
	12.03	change since 12.02.13	change since 31.12.12	12.03	change since 12.02.13	change since 31.12.12
Poland	250	9	9	89	-2	9
Czech	47	7	-7	60	0	-3
Hungary	506	24	15	317	29	47
Greece	913	-49	-140	0	0	0
Spain	325	-43	-75	254	-22	-34
Ireland	221	15	-98	162	-14	-54
Portugal	450	-46	-119	365	-22	-72
Italy	313	27	-9	262	5	-12
Germany	-	-	-	36	-7	-3

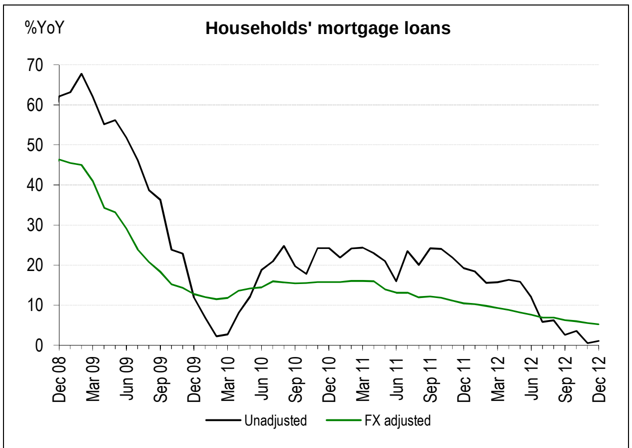
The public debt at ca 53% of GDP in 2012

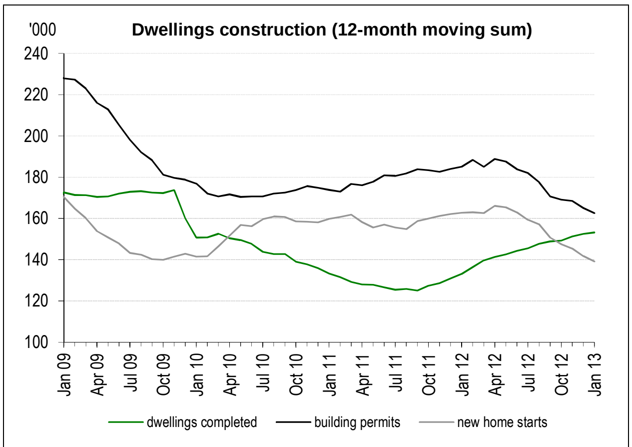
- Central government debt amounted to PLN794bn at the end of 2012, which means a slight increase by 3%YoY vs ca. 10% in 2011. Based on these data and our estimation of the local government debt, we predict that public finance debt (according to Polish methodology) may have declined to ca. 53% of GDP at the end of 2012 (as compared to 53.5% in 2011). According to winter forecasts of European Commission the general government (GG) debt (ESA95) reached the level of 55.8% of GDP in 2012, while this year it is expected to increase to ca. 57% of GDP.
- We expect that the GG deficit has narrowed in 2012 to ca. 3.5% of GDP thanks to a significant limitation of local governments deficit (to PLN2.7bn vs PLN11.4bn planned for 2012), but also the lower than assumed central government gap. It should be enough to lift the excessive deficit procedure this year, which was confirmed by Economic and Monetary Affairs Commissioner Olli Rehn. Rehn said that Poland could secure abrogation of excessive deficit procedure with the general government deficit at 3.5% of GDP.

Situation in euro zone still uncertain

- Results of parliamentary elections in Italy and worries that this contry might leave the path of austerity resulted in shifting capital into safe-haven assets. Consequently, after announcement of election results, both Italian and Spanish bonds significantly weakened, with the scope of increase in Spanish yields lower than in Italian. Although fresh debt supply at auctions attracted investors, they demanded much higher risk premium.
- We expect yields on core market to remain near current levels. The political deadlock in Italy is still a main risk factor, which might result in higher volatility on the market. However, investors focus on the ECB, which earlier intervened to stabilise the market.

Housing market update



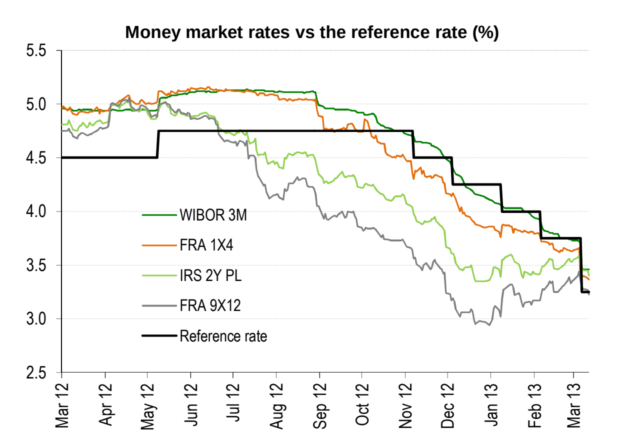


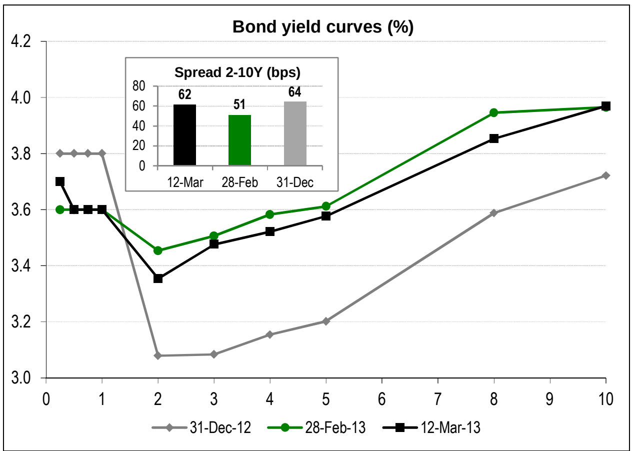
2012 was not favourable for the housing market

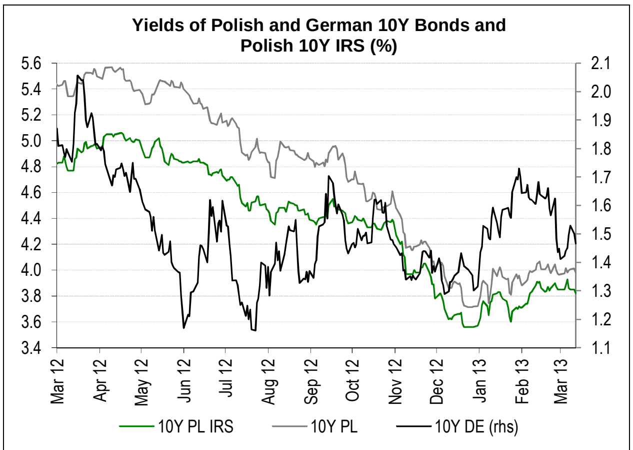
- Growth rate of housing loans decelerated from 18.6%YoY in January to a mere 1.0%YoY in December. Demand for loans was undermined by new regulations considering creditworthiness calculation, withdrawal of currency loans (their share in new credits fell from 15% in Q1 to 1.5% in Q4), rising interest (increase from 6.6% in 2011 to 7.0% in 2012 for PLN-denominated loans) and uncertainty about economic situation. Total value of loan contracts signed in Q4 amounted to PLN8.8bn, which was the lowest level since 1Q2009, even despite strong rise in demand for loans backed by family-support housing programme (39.6%QoQ), extinguished at the year-end.
- Supply of new houses was rising, in 2012 total of 153k new houses was finished (increase by 16.5%YoY). Housing market developers have strongly overestimated their demand predictions, which is shown by a number of 54k unsold houses at primary market at the end of 2012. In Q4 investment plans were scaled back considerably – number of building permits fell by 13%YoY, number of house starts by 26%YoY. Hence, we will probably see a declining number of new houses in 2013.
- Declining demand, accompanied by rising supply, translated into decreasing prices. After sixth year in a row of downward tendency, prices of houses in Poland's biggest cities returned to levels seen at the beginning of 2006. In December 2012 prices were by 4-6% lower than one year before and by 15-20% lower than in the peak of the housing boom of mid-2007.
- In our view year 2013 will not bring a significant improvement – negative factors described above will be still present. Yet, demand may be somehow supported by falling interest on loans due to monetary policy easing, and declines of prices may be mitigated by limited houses supply. Still, we do not think that these factors will be able to reverse tendencies observed throughout 2012.

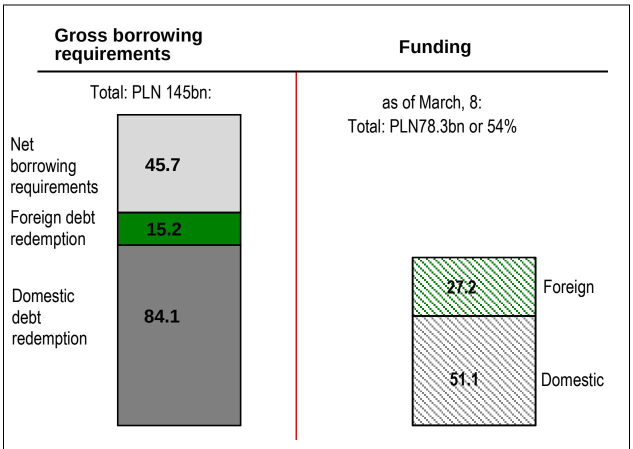
Source: CSO, NBP, MF, Reuters, szybko.pl, AMRON-SARFiN, BZ WBK

Interest rate market









Source: NBP, Reuters, BZ WBK

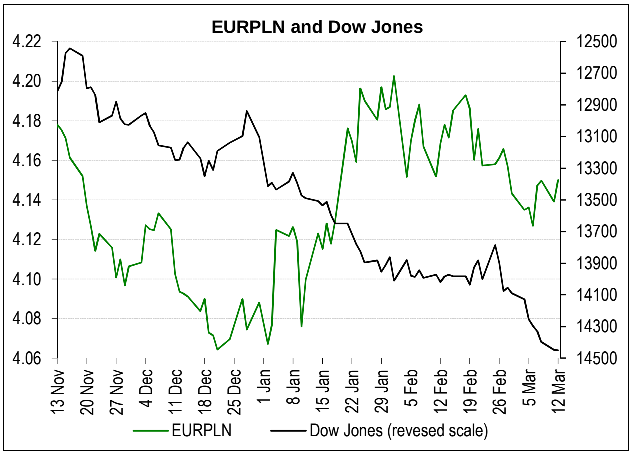
WIBOR rates at all-time lows

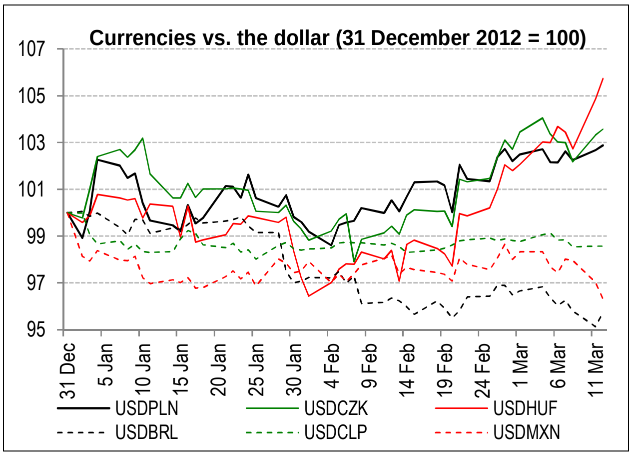
- In February WIBOR rates have continued gradual downward trend. All of them (excluding 1M) reached the lowest levels in history. At the same time FRA market was more vulnerable to news flow. Better than predicted readings of industrial output and retail sales cooled down expectations on monetary easing in March. Consequently, FRA rates increased, in particular 6x9 and 9x12.
- Poland's Monetary Policy Council surprised market players, trimming official interest rates by 50bps in March. Unexpected Council's decision caused significant decline in WIBOR rates for 1 and 3M and also in FRA contracts 1x4 and 3x6. As regards longer tenors, the scale of adjustment to the MPC's decision was much lower. Despite clear signal that easing cycle is completed, both WIBOR and FRA have continued gradual downward move.
- FRA market still is pricing-in (partly) one more cut in 6 months horizon. We expect the WIBOR 3M to continue decline to 3.40% at the end of March. Weak data from real economy might cause further decline and test of that level. Our baseline scenario till the end of the year is still valid – after some stabilization period we expect WIBOR rates to increase slightly in the last months of the year.

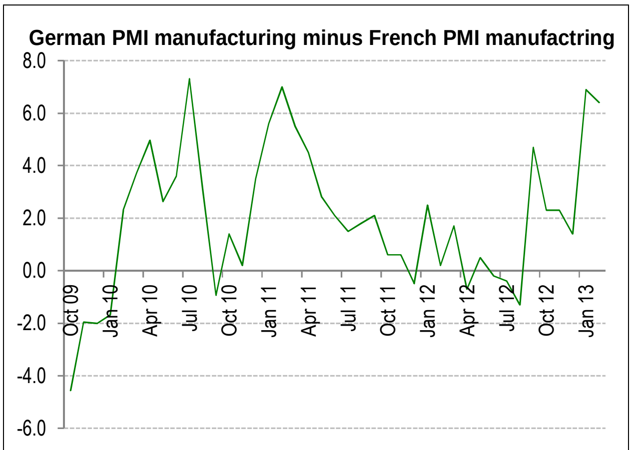
March's MPC decision supported the front end of the curve

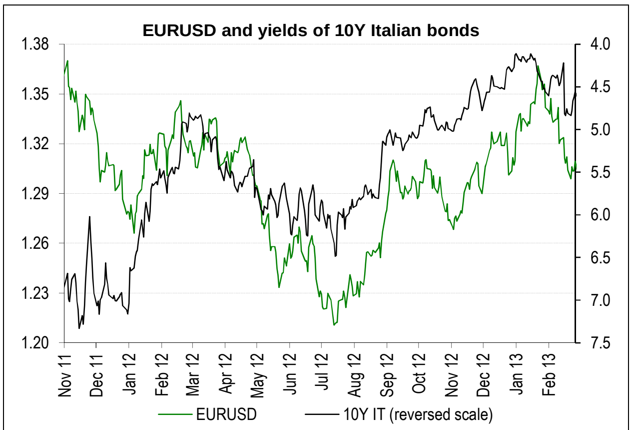
- Mood on both bonds and IRS markets was more vulnerable to macroeconomic data releases and situation on core markets. Better than predicted figures of January's industrial output and retail sales scaled back interest rate cut expectations in March and caused bond yields and IRS rates up to 5Y increase. At the same time the long end of the curve was affected by situation on core markets. Higher risk aversion in the euro area supported German Bunds and local long-term benchmarks. Additionally, unexpected Fitch's decision to upgrade Poland's credit rating outlook to positive helped the 10Y+ sector to rebound in short term. At the end of February 2-10Y spread narrowed significantly.
- The Monetary Policy Council surprised the market by cutting the reference rate by 50bps this month. After announcement of the Council's decision the front end of curves (up to 3Y) gained more in comparison with the mid and long-end of curves. Consequently, curves steepened, in particular the IRS one.
- Positive reactions (yield declines) after the MPC's decision might last for some time. This, together with upcoming macro data (we expect CPI inflation to continue disinflation trend and weak industrial output and retail sales data), should be supportive for the front end of bond and IRS curves, but in case of bonds it is rather unlikely to reach historical lows from the end of 2012.
- The long end of the curve will remain under influence of mood on core markets. As we mentioned earlier uncertain situation in the euro zone will last in coming weeks, which should result in horizontal trend of 10Y yield (between 3.95-4.05%). Stabilization of the situation in the euro zone peripheries might again push Bunds yields up, which may in turn worsen outlook for Polish 10-year benchmarks. We uphold our scenario of subdued increase in yield of 10Y benchmark till year-end.
- As regards the supply and demand sides, the situation is still favourable. After the March's switch tender the Ministry of Finance has completed ca. 54% of this year's borrowing requirements, which means a significant limitation of T-bonds offer in the second half of 2013. On the other hand, foreign investors' demand is still solid. However non-residents do not accept such low yields as compared with the end of 2012.

Foreign exchange market









Source: CSO, NBP, Reuters, BZ WBK

Zloty gains thanks to domestic data…

▪ The domestic currency appreciated during the past month vs. the euro, Swiss franc and British pound due to Polish macro data (GDP for 4Q and January's industrial output), decision of Fitch, the debate on Poland's entrance into the euro zone and suggestion on the end of the easing cycle by the MPC after March rate cut. These factors stabilized the zloty during the market turmoil fuelled on the global market after Italian elections. The EURPLN declined temporarily to slightly below 4.12 vs. ca. 4.15 at the closing date of our previous report.

…but room for further appreciation limited

▪ Although the zloty has already pared ca. half of losses suffered in January (driven by expectations for NBP rate cuts), the domestic currency lags in our view other risky assets. The chart shows that since the beginning of 2013 – when the last upward wave started in the US that after a 12% increase pushed the Dow Jones to highest level in history – the zloty lost 2% vs. the euro.

▪ Divergence on the European stock exchanges persist. German DAX is just below record level reached in September 2007, while French CAC40 is still 40% below peak from June 2007. This is also visible in changes of PMI that indicate divergence in pace of the economic revival among euro zone countries (including Germany and France). Consequently, the reluctance of Polish zloty to more visible appreciation, apart from domestic factors, may be due to uncertainty regarding further developments in the European economy while more and more signals from the USA indicate clear improvement of situation (the unemployment rate lowest for 4 years, ISM for manufacturing highest since June 2011). Perhaps this the reason why in recent weeks currencies with tighter geographical and economic relations with the USA perform better than the zloty.

▪ Next to the divergences in pace of improvement in the euro zone, the domestic and regional risk factors remain in place. We expect that upcoming Polish macro data will show further decline of inflation and continuation of slowdown in manufacturing and thus the expectations for next rate cut by the MPC will persist on the market. Hungarian PM appointed the economy minister as a new central bank governor and investors' worries over excessive monetary policy stimulus for the economy hit the forint (the EURHUF reached highest level since June 2012, ca. 303).

▪ In our opinion in March (and probably in April) the EURPLN will be at 4.17 on average due to factors mentioned above. Only in coming months, if the economic growth is recorded in more countries of the euro zone and NBP rate cuts became less probable, the domestic currency may start to gain gradually.

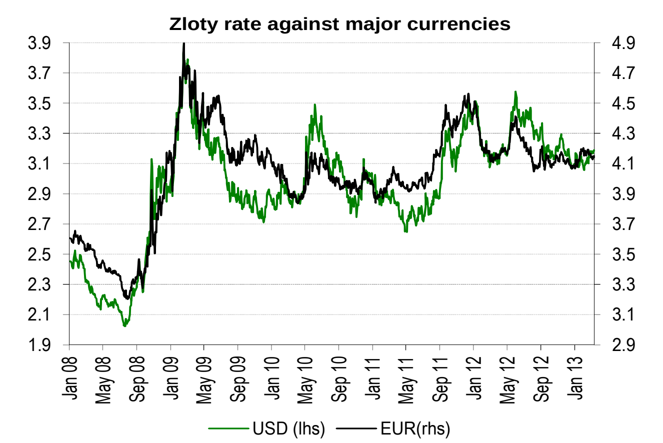
Pace of euro's appreciation dependent on situation in Italy

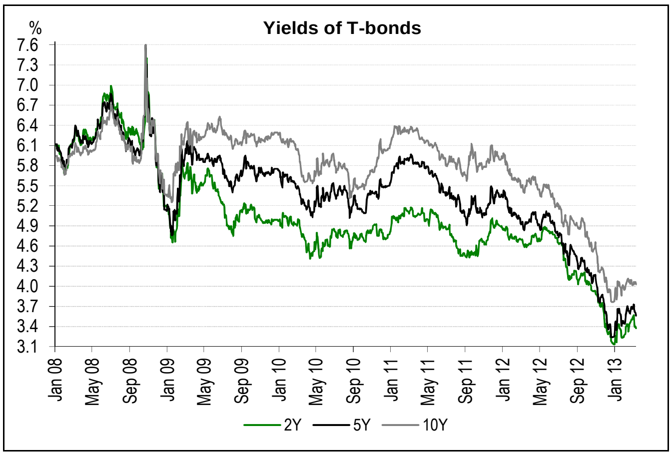
▪ The EURUSD stayed in the downward trend in February due to inconclusive Italian elections, worries over termination/limitation the QE3 by the Fed and some weaker data from the euro zone. The exchange rate broke the support indicated by us at 1.33-1.34 and reached the lowest level since December 2012 (1.295).

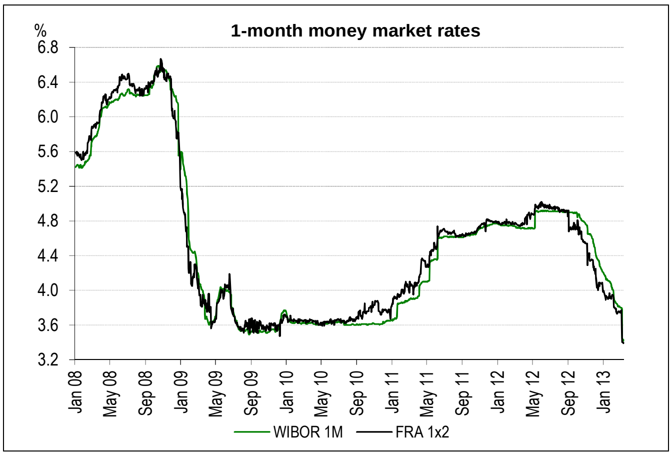
▪ Much better than expected monthly US non-farm payrolls fuelled worries that the Fed will tamper with QE3. On the other hand, stock markets reacted positively, so if market optimism holds, then the euro may stop losing against the dollar, and positive correlation between the EURUSD and global market sentiment may return.

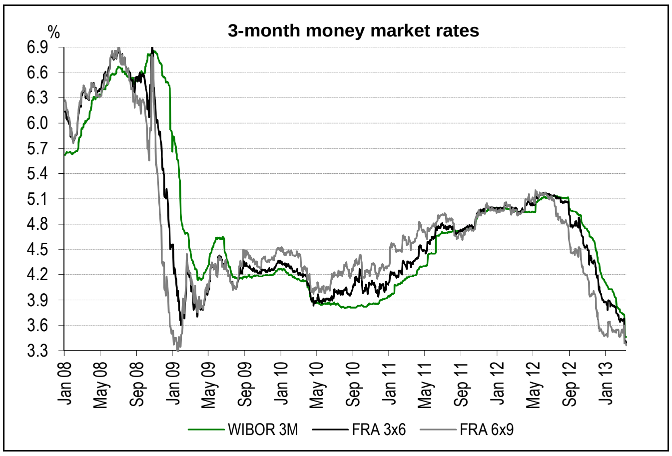
▪ We expect gradual rebound of the EURUSD towards 1.32. The pace of euro's recovery will depend on further developments in Italy.

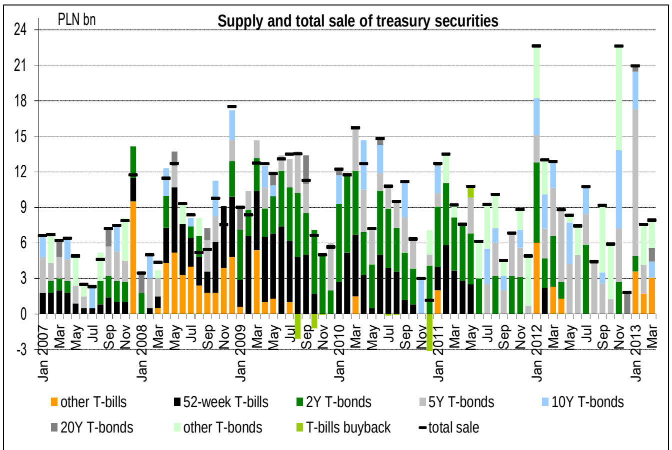
Market monitor











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
04.03.2013	25-week: 2000-3000	7324/3084

* 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
March '12	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	4584.7			
March	20.03	OK/PS/WZ	2000-6000						7.03	PS0413/OK0713/DS1013	DS/WS/WZ

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

Source: MF, Reuters, BZ WBK

Economic calendar

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
11 March 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)
18 ***PL: Wages and employment (Feb)*** ***PL: Core inflation(Jan, Feb)***	**19** DE: ZEW index (Mar) US: House starts (Feb) US: Building permits (Feb) ***PL: Industrial output (Feb)*** ***PL: PPI (Feb)***	**20** US: Fed decision	**21** ***PL: MPC minutes*** DE: Flash PMI – manufacturing (Mar) EZ: Flash PMI – manufacturing (Mar) CN: Flash PMI – manufacturing (Mar) US: Home sales (Feb) US: Philly Fed index (Mar)	**22** ***PL: Retail sales and unemployment rate (Mar)*** DE: Ifo index (Mar)
25	**26** US: Durable goods orders (Feb) US: S&P/Case-Shiller home price index (Jan) US: Consumer confidence index (Mar) US: New home sales (Feb)	**27** US: Pending home sales (Feb)	**28** ***PL: Balance of payments (Q4)*** US: Final GDP (Q4)	**29** ***PL: Inflation expectations (Mar)*** US: Personal income (Feb) US: Consumer spending (Feb) US: Core PCE (Feb) US: Michigan index (Mar)
1 April CN: PMI – manufacturing (Mar) US: ISM – manufacturing (Mar)	**2** ***PL: PMI – manufacturing (Mar)*** DE: PMI – manufacturing (Mar) EZ: PMI – manufacturing (Mar) US: Industrial orders (Feb)	**3** EZ: Flash HICP (Mar) US: ADP report (Mar)	**4** DE: PMI – services (Mar) EZ: PMI – services (Mar) GB: BoE decision EZ: ECB decision	**5** EZ: Retail sales (Feb) DE: Industrial orders (Feb) US: Non-farm payrolls (Mar) US: Unemployment rate (Mar)
8 EZ: Sentix index (Apr) DE: Industrial output (Feb)	**9** DE: Exports (Feb)	**10** ***PL: MPC decision***	**11**	**12** ***PL: Money supply (Mar)*** EZ: Industrial output (Feb) US: Retail sales (Mar) US: Flash Michigan (Apr)
15 ***PL: CPI (Mar)*** ***PL: Balance of payments (Feb)***	**16** ***PL: Core inflation (Mar)*** EZ: HICP (Mar) DE: ZEW index (Apr) US: CPI (Mar) US: House starts (Feb) US: Building permits (Mar) US: Industrial output (Mar)	**17** ***PL: Wages and employment (Mar)***	**18** ***PL: Industrial output (Mar)*** ***PL: PPI (Mar)*** US: Philly Fed index (Apr)	**19**

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	22	-	-	-	-	-	-	-	-	-
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	-	-	28	-	-	-	-	-	-
Balance of payments	18	12	14	15	15	17	-	-	-	-	-	-
Money supply	14	14	14	12	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

		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	Mar 13
PMI	pts	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	49.4
Industrial production	%YoY	4.6	0.9	2.6	4.2	1.0	5.2	0.2	-4.8	4.7	-0.5	-9.6	0.3	-3.3	-3.4
Construction production	%YoY	11.9	3.2	7.8	5.6	-5.2	-8.7	-5.1	-17.9	-3.6	-5.4	-24.9	-16.1	-5.8	-14.0
Retail sales [a]	%YoY	13.7	10.7	5.5	7.7	6.4	6.9	5.8	3.1	3.3	2.4	-2.5	3.1	1.0	3.0
Unemployment rate	%	13.4	13.3	12.9	12.6	12.3	12.3	12.4	12.4	12.5	12.9	13.4	14.2	14.4	14.6
Gross wages in enterprises sector [a]	%YoY	4.3	3.8	3.4	3.8	4.3	2.4	2.7	1.6	2.8	2.7	2.4	0.4	3.4	1.8
Employment in enterprises sector	%YoY	0.6	0.6	0.3	0.3	0.1	0.0	0.0	0.0	0.0	-0.3	-0.5	-0.8	-0.8	-0.8
Export (€)	%YoY	4.4	2.5	2.4	-1.6	0.6	9.8	3.7	-0.8	15.4	7.8	-0.2	7.8	1.1	2.2
Import (€)	%YoY	5.6	1.5	-3.3	-2.0	-5.3	2.1	-3.2	-3.2	7.5	4.3	0.4	4.9	-3.7	0.4
Trade balance	EURm	-883	-544	-420	-846	-372	-367	-98	44	221	-382	-1 212	-397	-289	-318
Current account balance	EURm	-1 909	-585	-655	-454	-1 092	-1 005	-901	-1 457	-755	-1 477	-1 204	-1 693	-1 108	-584
Current account balance	% GDP	-5.3	-5.1	-4.9	-4.9	-4.6	-4.4	-4.1	-4.1	-3.7	-3.7	-3.5	-3.4	-3.4	-3.4
Budget deficit (cumulative)	PLNbn	-16.5	-23.0	-24.8	-27.0	-21.1	-24.3	-22.9	-21.1	-34.1	-30.4	-31.1	-8.4	-17.0	-23.0
Budget deficit (cumulative)	% of FY plan	47.2	65.6	70.9	77.1	60.2	69.6	65.5	60.4	97.5	86.9	88.8	23.7	47.8	64.7
CPI	%YoY	4.3	3.9	4.0	3.6	4.3	4.0	3.8	3.8	3.4	2.8	2.4	1.7	1.6	1.5
CPI excluding prices of food and energy	%YoY	2.6	2.4	2.7	2.3	2.3	2.3	2.1	1.9	1.9	1.7	1.4	1.5	1.4	1.5
PPI	%YoY	6.0	4.4	4.4	5.2	4.4	3.6	3.0	1.8	1.0	-0.1	-1.1	-1.2	-0.4	-0.2
Broad money (M3)	%YoY	12.4	9.1	10.2	11.1	11.0	11.0	9.8	7.6	8.0	5.7	4.5	4.5	5.4	5.7
Deposits	%YoY	12.5	8.5	10.0	10.8	10.4	10.9	9.5	7.9	8.1	5.8	4.7	5.0	5.0	5.7
Loans	%YoY	13.0	12.8	13.4	13.1	10.7	7.5	7.1	5.4	5.4	2.3	2.3	3.7	4.8	4.6
EUR/PLN	PLN	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	4.17
USD/PLN	PLN	3.16	3.13	3.17	3.36	3.43	3.41	3.30	3.22	3.17	3.22	3.12	3.11	3.12	3.17
CHF/PLN	PLN	3.47	3.43	3.47	3.58	3.58	3.49	3.41	3.42	3.40	3.43	3.39	3.37	3.39	3.42
Reference rate [b]	%	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	3.25
WIBOR 3M	%	4.97	4.95	4.94	5.05	5.12	5.13	5.10	4.95	4.82	4.62	4.26	4.03	3.80	3.49
Yield on 52-week T-bills	%	4.50	4.48	4.58	4.75	4.75	4.64	4.58	4.53	4.42	4.14	3.94	3.62	3.56	3.60
Yield on 2-year T-bonds	%	4.66	4.58	4.67	4.77	4.71	4.46	4.12	4.09	3.94	3.66	3.23	3.25	3.36	3.40
Yield on 5-year T-bonds	%	5.00	4.88	4.97	4.97	4.85	4.58	4.43	4.28	4.12	3.78	3.35	3.46	3.56	3.58
Yield on 10-year T-bonds	%	5.53	5.45	5.50	5.41	5.24	4.99	4.88	4.85	4.59	4.21	3.87	3.91	4.00	3.97

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	1 595.9	1 634.6	370.7	388.3	392.1	444.8	379.3	396.0	400.6	458.7
GDP	%YoY	3.9	4.3	2.0	1.2	3.6	2.3	1.4	1.1	0.5	1.0	1.3	1.9
Domestic demand	%YoY	4.6	3.4	0.1	-0.2	2.5	-0.4	-0.7	-0.7	-0.9	-0.5	0.0	0.5
Private consumption	%YoY	3.2	2.5	0.5	1.1	1.7	1.2	0.1	-1.0	1.2	0.9	1.0	1.4
Fixed investments	%YoY	-0.4	9.0	0.6	-2.0	6.0	1.3	-1.5	-0.3	-4.0	-4.0	-2.0	-0.2
Industrial production	%YoY	9.0	7.7	1.0	0.3	4.9	2.8	-0.1	-3.2	-2.2	0.1	-0.2	3.4
Construction production	%YoY	4.6	12.3	-1.0	-7.9	13.6	2.0	-11.0	-12.7	-12.2	-8.8	-7.1	-5.5
Retail sales [a]	%YoY	6.1	11.2	6.0	3.5	12.6	6.5	5.3	0.9	2.4	2.8	3.9	4.6
Unemployment rate [b]	%	12.4	12.5	13.4	14.0	13.3	12.3	12.4	13.4	14.6	13.7	13.5	14.0
Gross wages in national economy [a]	%YoY	3.9	5.2	3.7	2.0	5.2	3.9	2.8	2.9	2.5	2.6	2.2	2.8
Employment in national economy	%YoY	-0.2	0.6	0.0	-0.8	0.2	0.2	-0.1	-0.3	-0.6	-0.7	-0.6	-0.3
Export (€)	%YoY	22.8	12.1	4.1	6.2	4.1	0.4	3.7	8.1	3.8	5.0	6.0	10.0
Import (€)	%YoY	24.9	12.2	0.8	3.2	4.3	-3.5	-1.6	4.2	0.6	1.5	4.0	6.5
Trade balance	EURm	-8 893	-10 059	-5 553	-1 267	-2 115	-1 640	-425	-1 373	-1 003	-414	289	-139
Current account balance	EURm	-18 129	-17 977	-13 521	-8 624	-4 515	-2 203	-3 367	-3 436	-3 385	-1 099	-1 815	-2 324
Current account balance	% GDP	-5.1	-4.9	-3.5	-2.2	-5.1	-4.6	-4.1	-3.5	-3.2	-2.9	-2.5	-2.2
General government balance	% GDP	-7.9	-5.0	-3.5	-3.5	-	-	-	-	-	-	-	-
CPI	%YoY	2.6	4.3	3.7	1.6	4.1	4.0	3.9	2.9	1.6	1.2	1.6	2.0
CPI [b]	%YoY	3.1	4.6	2.4	2.1	3.9	4.3	3.8	2.4	1.5	1.1	1.8	2.1
CPI excluding food and energy prices	%YoY	1.6	2.4	2.2	1.5	2.5	2.5	2.1	1.7	1.5	1.2	1.6	1.8
PPI	%YoY	2.1	7.6	3.4	0.4	6.1	4.7	2.8	-0.1	-0.6	-0.5	0.6	1.9
Broad money (M3) [b]	%YoY	8.8	12.5	4.5	3.3	9.1	11.0	7.6	4.5	5.7	5.5	5.3	3.3
Deposits [b]	%YoY	9.1	11.7	4.7	3.2	8.5	10.4	7.9	4.7	5.7	5.9	5.2	3.2
Loans [b]	%YoY	9.2	14.4	1.2	3.7	12.8	10.7	5.4	2.3	4.6	5.5	6.5	1.2
EUR/PLN	PLN	3.99	4.12	4.19	4.14	4.23	4.26	4.14	4.11	4.16	4.16	4.15	4.10
USD/PLN	PLN	3.02	2.96	3.26	3.10	3.23	3.32	3.31	3.17	3.14	3.13	3.10	3.03
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	3.25	4.50	4.75	4.75	4.25	3.25	3.25	3.25	3.25
WIBOR 3M	%	3.94	4.54	4.91	3.49	4.97	5.04	5.06	4.57	3.77	3.38	3.38	3.42
Yield on 52-week T-bills	%	3.96	4.51	4.48	3.62	4.50	4.69	4.58	4.16	3.59	3.57	3.63	3.68
Yield on 2-year T-bonds	%	4.72	4.81	4.30	3.41	4.66	4.71	4.22	3.61	3.34	3.37	3.43	3.48
Yield on 5-year T-bonds	%	5.31	5.44	4.53	3.61	5.02	4.93	4.43	3.75	3.53	3.56	3.65	3.72
Yield on 10-year T-bonds	%	5.74	5.98	5.02	4.05	5.58	5.38	4.91	4.22	3.96	3.99	4.08	4.17

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

This analysis is based on information available until 12.03.2013 has been prepared by:

ECONOMIC ANALYSIS DEPARTMENT

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

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

Maciej Reluga – Chief Economist

tel. +48 22 586 83 63. Email: maciej.reluga@bzwbk.pl

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

TREASURY SERVICES DEPARTMENT

Poznań
pl. Gen. W. Andersa 5
61-894 Poznań
tel. +48 61 856 58 14/30
fax +48 61 856 44 56

Warszawa
ul. Marszałkowska 142
00-061 Warszawa
tel. +48 22 586 83 20/38
fax +48 22 586 83 40

Wrocław
ul. Rynek 9/11
50-950 Wrocław
tel. +48 71 369 94 00
fax +48 71 370 26 22