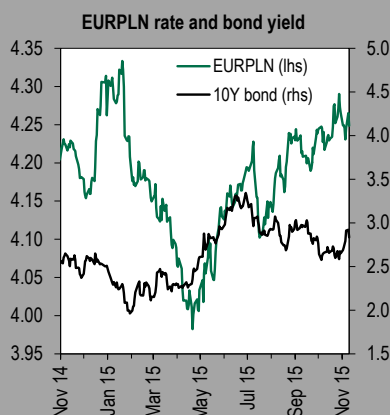
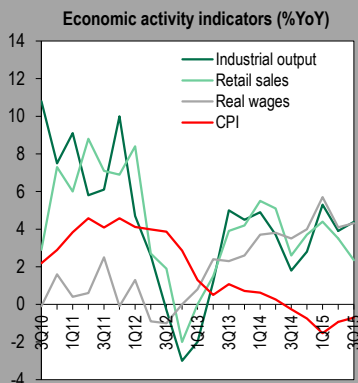


MACROscope

Polish Economy and Financial Markets

November 2015

Give PiS a chance



In this issue:

Economic update	2
Monetary policy watch	4
Fiscal policy watch	5
Interest rate market	6
Foreign exchange market	7
Market monitor	8
Economic calendar	9
Economic data & forecasts	10

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■ The conservative Law and Justice party (PiS) won the general elections with an outright majority in both houses of the parliament, which means it is able to form a government without a coalition partner. Two PiS nominations for economic positions in the cabinet should be perceived by the market as at least neutral, and potentially confidence-building, as the names are well known: Mateusz Morawiecki, now Development Minister and Deputy PM responsible for economic affairs, is ex-CEO of Bank Zachodni WBK and was a member of the Economic Council to the Prime Minister in 2010-12; Finance Minister Paweł Szałamacha was Deputy Treasury Minister in 2005-07, responsible for the financial sector, and a co-founder and CEO of the Sobieski Institute think tank.

■ The new government led by Prime Minister Beata Szydło will most likely be formed by the end of November. The new PM's inaugural speech will be key to assessing PiS' fiscal programme. We see a risk of an expansionary policy mix. On the fiscal front, if the government starts to deliver its key election promises (even only partly) and if tax collection falls short of the party's ambitious assumptions, we think the deficit could rise, at least temporarily. That said, we note that the candidate for finance minister has emphasised the importance of a 3% budget deficit ceiling.

■ As regards monetary policy, PiS has said there is still room to cut interest rates and that willingness to do so will be among the criteria used to choose candidates to join the central bank's Monetary Policy Council (MPC). We believe interest rates are indeed likely to be cut by 50bp at the start of 2016. Inflation will probably be above zero by then and trending upwards, while GDP growth should hold steady above 3% (supported by solid growth of investments, consumption and exports). Thus, if the new MPC wanted to trim borrowing costs, the best strategy would probably be to do it as soon as possible, so that it does not give the impression that it is a pro-cyclical move. By the time the February MPC meeting takes place, there Council will have five new members. Additionally, two current members, who were designated by PiS, have turned noticeably more dovish in recent months. One of them suggested that March might be an appropriate moment to consider an adjustment. The FRA market is pricing in a 50bp cut over a slightly longer horizon.

■ Such a scenario supports our forecast of a steeper yield curve in 2016. The main risk for the zloty is connected to the issue of converting FX loans and any ideas to amend the central bank's (NBP) charter. As we do not think those will be top priorities for the cabinet, we think that global factors will dominate and should support the zloty. For 2016, we see a risk of a higher EUR/PLN, as the new government might start implementing some of its more controversial policy measures.

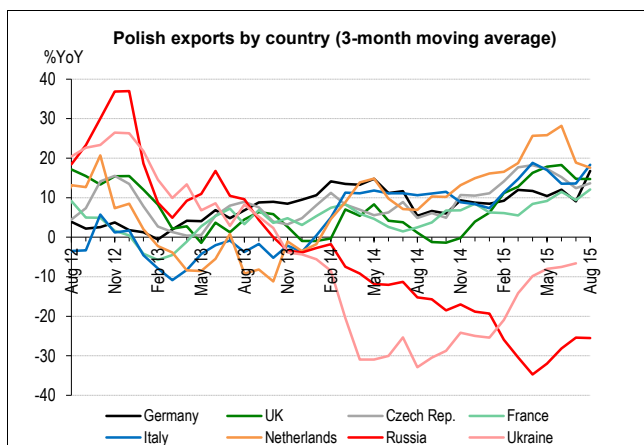
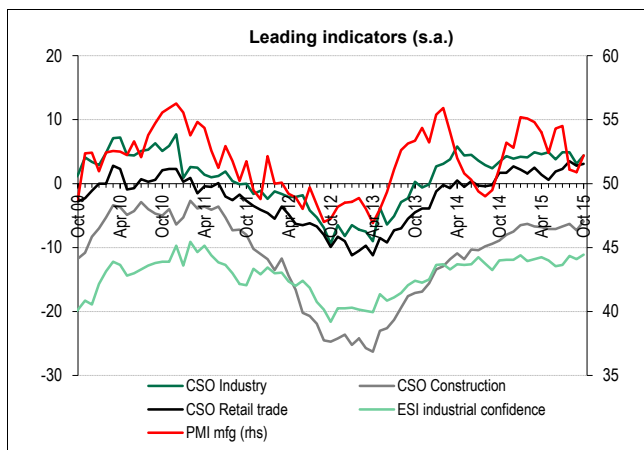
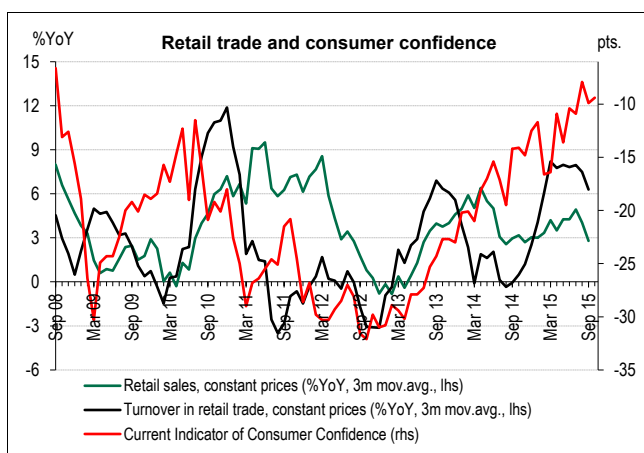
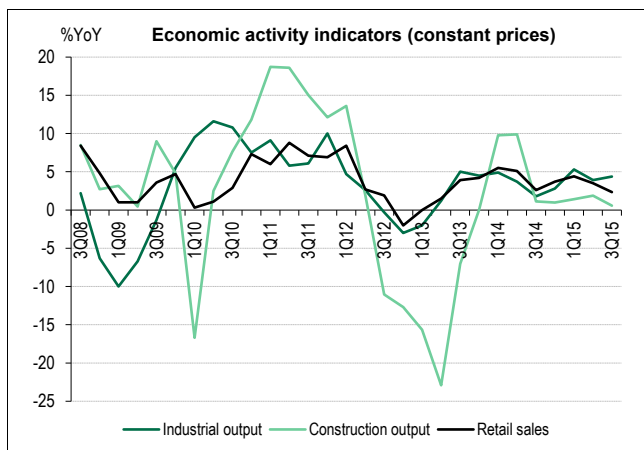
Financial market on November 10 2015:

NBP deposit rate	0.50	WIBOR 3M	1.73	EURPLN	4.2485
NBP reference rate	1.50	Yield on 2-year T-bond	1.62	USDPLN	3.9570
NBP lombard rate	2.50	Yield on 5-year T-bond	2.19	CHFPLN	3.9435

This report is based on information available until 10.11.2015.

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Economic update



Source: CSO, NBP, Eurostat, Markit, European Commission, BZ WBK.

GDP growth should remain stable

We are about to see the 3Q GDP flash reading. Based on economic data for this period, confirming a stable expansion of consumer and investment demand, we forecast a stabilization of GDP growth at 3.3%YoY. In our view, growth will stay close to this level in the following quarters.

Industry growing steadily but construction lags behind

- September industrial production increased by 4.1% YoY, close to expectations. Seasonally-adjusted industrial output growth amounted to 4.2% YoY, slightly below the average from previous months (4.4% YoY). Similarly to previous months, decent growth was recorded in export-oriented sectors (metal products, motor vehicles, electrical equipment) and in manufacturing in general (4.6% YoY). Seasonally-adjusted output growth has been quite stable at c4%YoY for about a year, showing no strong signs of acceleration or deceleration. We expect this trend to continue.

- Construction output disappointed and fell 2.5% YoY. The seasonally-adjusted figure was -0.9% YoY, which was the worst result since February and well below this year's average (c1.5% YoY). Detailed data showed that construction of buildings was particularly weak (8% YoY slide) but it is worth noting that recent statistics office data on building permits suggest some improvement ahead here.

Retail sales still disappointing

- Retail sales in constant prices accelerated in September to 2.9%YoY from 2.0%YoY a month before. Still, the result was considerably below average vs the first half of the year (4.2%YoY). We stick to our observation that growth in retail sales is a poor guide to consumer demand and that the data on the volume of retail trade (which also includes small stores) show much more positive tendencies (up more than 6%YoY in September). Taking into account the ongoing labour market improvement and relatively fast growth in real incomes, we expect a robust rise in consumption spending in the upcoming quarters.

Economic activity indicators rebounded

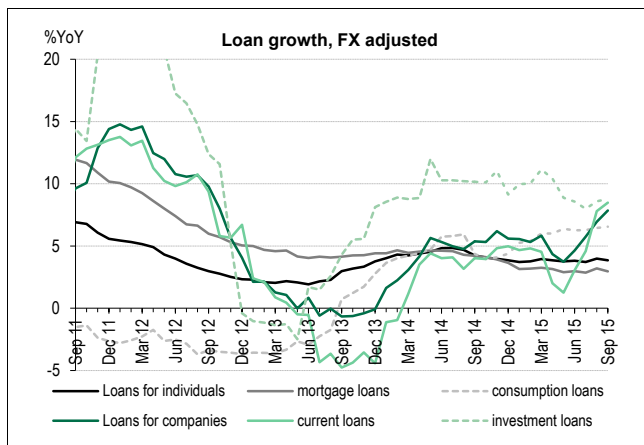
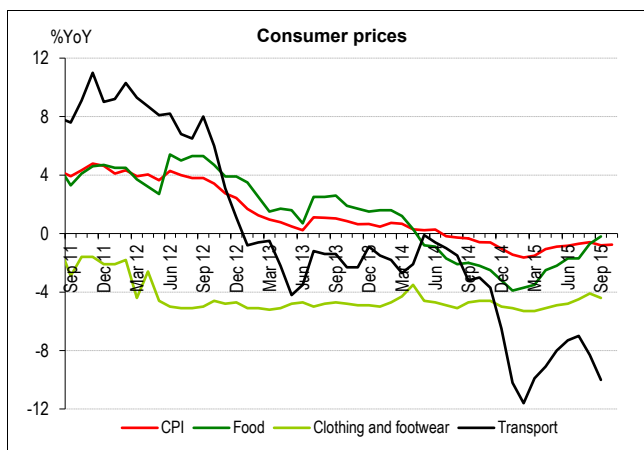
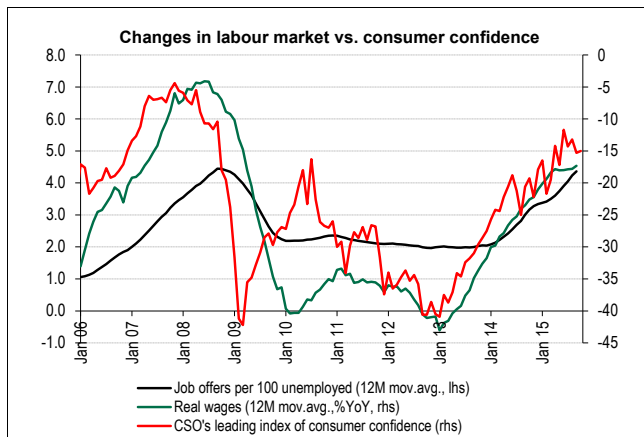
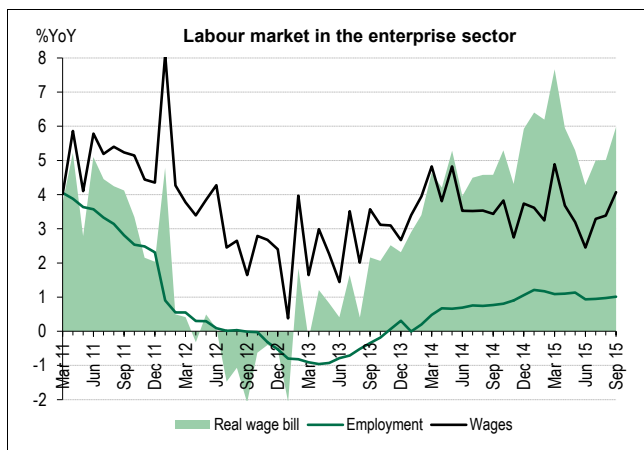
- Poland's PMI for manufacturing surprised again, but this time on the positive side, rising to 52.2 points in October (from 50.9 points in September). The monthly improvement was the biggest since June and was mainly attributable to a rise in output and new orders. The latter were helped by higher export orders, following the September contraction. At the same time, October numbers showed that there is still no sign of inflation pressure: production costs fell at the fastest pace in two and a half years. Other important economic activity indicators, such as the ESI, calculated by the European Commission, or Poland's stat office index, also improved, supporting our forecast of stable economic growth.

Exports still robust

- August saw a significant improvement in the current account balance. The C/A deficit narrowed to €864mn from €1,212mn and the trade deficit fell to €97mn from €747mn, while export and import growth rebounded to 8.6% and 6.7% YoY, respectively.

- We should bear in mind that the previous month the balance of payments data disappointed as they showed a significant contraction in exports, leading to larger trade deficit. This was partly explained by the slump in mobile phones exports after the so-called VAT reverse charge implemented in July (a measure aimed at fighting tax fraud). This effect probably weighed on August exports. Trade data released by the stat office suggest that the export improvement was driven by stronger sales to the EU's biggest economies. We still expect that economic activity in Europe will remain healthy in the next quarters, which should support demand for the Polish goods and services.

Economic update



Source: CSO, NBP, Eurostat, BZ WBK.

Labour market still growing stronger

- Labour market data surprised on the upside in September as they showed higher-than-expected wage growth of 4.1% YoY (the highest since March). Wages in constant prices rose 4.9%. At the same time, employment growth reached 1% YoY, the same as August and in line with expectations. Compared with the previous month, the number of workplaces rose by 5.1k. The total wage bill in the corporate sector rose 5.1% YoY in current prices and 6% in constant prices (also the highest growth since March).

- Registered unemployment fell to a lower-than-expected 9.7% in September and to 9.6% in October, according to data from the Labour Ministry. The numbers for previous months since December 2014 have been revised downwards. We expect the unemployment rate to fall further in the months to come, although the downward tendency will likely weaken. Data for October show that the number of free vacancies per 100 unemployed (12-month moving average) reached 4.4, rising to the October 2008 all-time high. The number of people who left the unemployment lists due to taking up jobs is lower than a year ago. This means that despite a very high number of vacancies, the process of hiring is losing strength, indicating a demand-supply mismatch and a growing labour market squeeze.

- In our view, accelerating wages will keep consumption demand high. At the same time, continuing employment growth will lead to stronger wage pressure as the stock of potential employees diminishes and the unemployment rate is already approaching record lows. We think this will be one of factors pushing inflation up in 2016.

Deflation will last a bit longer

- CPI inflation dropped in September to -0.8%YoY and remained there in October, according to the flash estimate. The upward CPI trend is slightly weaker than we expected, so we may see a slightly longer period of deflation. We expect to see positive CPI growth in December or in January 2016 (we are currently expecting CPI at 0.2%YoY in December). Upward momentum is now being generated by food prices, while core inflation, excluding food and energy, remains subdued, running slightly above zero (0.2%YoY in September, and 0.3% in October, according to our estimates).

- In September PPI inflation fell to -2.9% YoY (from -2.7 %YoY in August). On a monthly basis, producer prices fell 0.1% vs. -0.7% the previous month. We think that producer price growth will remain below zero until the end of the year.

Loan growth still robust

- Loan growth remains solid and shows no signs at all of economic slowdown in Poland.

- Growth in personal loans has been stable at around 4%YoY (after eliminating the impact of exchange rate fluctuations) for more than a year. The value of total mortgage debt held by individuals (FX adjusted) is growing c3%YoY, but if we look at zloty-denominated housing loans alone, they are rising by nearly 12%YoY. Consumption loans are slowly accelerating and in September they were up 6.6%YoY.

- Loans to companies look even more robust: total loan growth (FX adjusted) accelerated in September to almost 8%YoY. The main driver was a surge in current loans (8.5%YoY in September), amid stable demand for investment loans (8%-9%YoY).

Monetary policy watch

Excerpts from the MPC's communiqué after its November meeting

Growth of global economic activity remains moderate. In the euro area, economic recovery continues, and incoming data point to stable GDP growth in this economy. In the United States, GDP growth in the third quarter slowed down, however, the recovery is expected to continue in the coming quarters. At the same time, in China economic growth decreased again, while Russia and Brazil remain in recession. Therefore, concerns about the economic growth outlook in the emerging economies persist, which increases uncertainty about economic conditions worldwide.

The fall in commodity prices in the recent months has contributed to lower inflation in many economies, including in the United States and the euro area.

In Poland stable economic growth continues, driven mainly by domestic demand. The growth in demand is supported by robust labour market, strong consumer confidence, improvement in financial standing of enterprises as well as by stable lending growth. On the other hand, demand in the economy is adversely affected by uncertainty facing firms regarding the outlook for global growth.

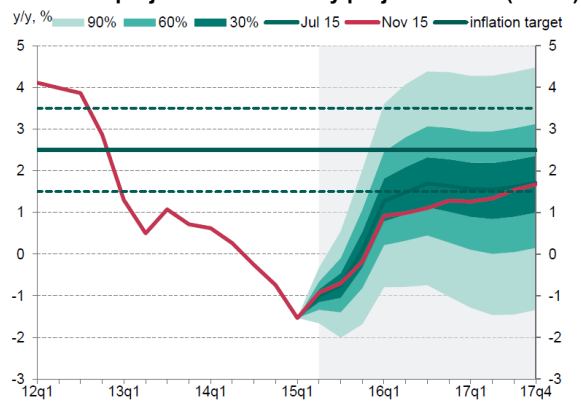
As demand is growing at a moderate pace and the output gap is still negative, there is no inflationary pressure in the economy. Both the annual consumer price growth and producer price growth remain negative. The sharp drop of commodity prices in the global markets remains the main reason for continued deflation. Amidst moderate wage growth, the fall in commodity prices contains the risk of increasing cost pressure. Against this background, inflation expectations are still very low.

In the opinion of the Council, price growth will slowly increase in the nearest quarters, supported by the gradual closing of the output gap amid improving economic conditions in the euro area and favourable domestic labour market developments. At the same time, the risk of a sharper slowdown in the emerging economies and the impact this may have on global economic activity, as well as the possibility of commodity prices persisting at low levels, and as a result, low inflation in the environment of the Polish economy, remain the source of uncertainty about the pace of inflation returning to the target.

MPC members' term of office expiry

MPC member:	Designated by (recommended by):	Date of appointment	Term of office expires:
Andrzej Bratkowski	Sejm (PO)	8 Jan 2010	10 Jan 2016
Elżbieta Chojna Duch	Sejm (PSL)	8 Jan 2010	10 Jan 2016
Jerzy Haunser	Senat (PO)	13 Jan 2010	24 Jan 2016
Andrzej Rzońca	Senat (PO)	13 Jan 2010	24 Jan 2016
Jan Winiński	Senat (PO)	13 Jan 2010	24 Jan 2016
Anna Zielińska-Głębocka	Sejm (PO)	9 Feb 2010	9 Feb 2016
Adam Glapiński	President (PiS)	16 Feb 2010	19 Feb 2016
Andrzej Kaźmierczak	President (PiS)	16 Feb 2010	19 Feb 2016
Marek Belka, the NBP Governor	President / Sejm (PO)	10 Jun 2010	10 Jun 2016
Jerzy Osiatyński	President (PO)	20 Dec 2013	20 Dec 2019

November projection versus July projection: CPI (%YoY)



Sources: NBP, Reuters, BZ WBK.

Monetary policy on hold until year-end

▪ The Monetary Policy Council left interest rates unchanged in November (with the reference rate at 1.50%), in line with a broad consensus. The text and tone of the statement did not change significantly from the previous month. The only novelty was the updated National Bank of Poland (NBP) projection that showed – in line with the earlier suggestions by central bank officials – slightly lower CPI and GDP numbers (see below for more details). Overall, the expected trends in inflation and economic growth did not change much.

▪ The MPC maintained the key fragment of its statement saying inflation will rise slowly and the output gap will close. At the press conference, NBP governor Marek Belka stressed that there is no justification for further interest rate cuts. It seems clear to us that there will be no changes in monetary policy parameters before the end of the current MPC's term of office.

The new Council is likely to change course

▪ The term for eight of the ten Monetary Policy Council members ends in January and February 2016 (see table bottom left). Even though we have no official information about potential candidates for the central bank, we think that the new MPC is very likely to trim interest rates further. PiS officials pledged to use all available monetary and fiscal policy tools to boost GDP growth towards 5%-6%. They declared, among other things, that there is still room to cut interest rate cuts by 25-50bp and revealed that willingness to cut rates will be among the criteria used to choose candidates to join the central bank's Monetary Policy Council.

▪ Please note that the two current MPC members nominated by former PiS President Lech Kaczyński – Adam Glapiński and Andrzej Kaźmierczak – have recently changed their views about appropriate policy actions and now appear to see room to ease monetary policy further, even though they have not supported a single rate cut since February 2013.

▪ We currently believe that the main interest rates are likely to be cut by 50bp in 1Q16. Inflation will probably be above zero by then and trending upwards, while GDP growth should hold steady above 3%. Thus, if the new MPC wanted to trim borrowing costs, the best strategy would probably be to do it as soon as possible, to (try to) avoid giving the impression that it is a pro-cyclical move. By the time the February MPC meeting takes place, there will be five new MPC members (plus the two designated by Kaczyński, who suddenly became more dovish). At the MPC meeting in March (when new NBP projection will be available) the Council will have the full new line-up, with eight fresh members.

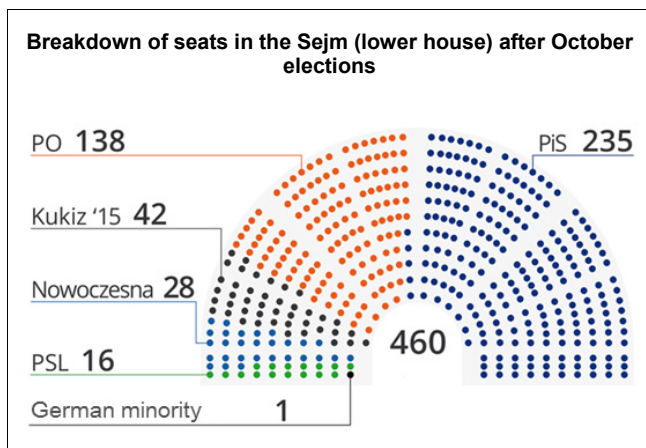
Small changes in the projection

▪ The new NBP projection shows slightly lower CPI and GDP growth in 2016, with only marginal revisions in 2017.

▪ The lower GDP growth projection is based on weaker-than-expected data on the Polish economy and the revision of assumptions about the public consumption. However, the projection did not take into account potential policy changes after the elections (as the new government's plans are still unknown).

▪ The downward revision of consumer price inflation in 2016 is related mainly to a decline in global energy prices, which will affect domestic energy prices. The assessment of the output gap has not changed significantly, as the downward revision of the GDP growth forecast was accompanied by lower expected potential output growth.

Fiscal policy watch



People responsible for economy in the new government

<p>Mateusz Morawiecki, Deputy PM, Minister of Development CEO of BZ WBK in 2007-15, member of the Economic Council to the Prime Minister in 2010-12, member of team negotiating Poland's EU accession.</p>
<p>Jerzy Kwieciński, Deputy Minister of Development Business Center Club expert, member of National Development Council appointed by President Duda. Undersecretary of State in Ministry of Regional Development in 2005-08.</p>
<p>Paweł Szałamacha, Minister of Finance Deputy Treasury Minister in 2005-07 responsible for the financial sector, co-founder and CEO of the Sobieski Institute think tank. Lawyer.</p>
<p>Dawid Jackiewicz, Minister of Treasury Secretary of State in the Ministry of Treasury in 2007, Deputy Head of Sejm's Treasury Committee in 2007-11. MEP since 2014.</p>

PiS' proposals and financing (annual figures, calculation by PiS)

Proposals	Financing
<ul style="list-style-type: none"> ■ Hike of tax free income from PLN3,091 to PLN8,000 – cost PLN7.0bn (NOTE: the cost is doubled if local governments are taken into account) ■ Return to lower retirement age (60Y for women and 65Y for men) – PLN5.5bn (in 1 year) ■ PLN500 allowance for every second and subsequent child and for every child in the poorest families – PLN21.5bn ■ Free drugs for elderly – PLN0.25bn 	<ul style="list-style-type: none"> ■ Better VAT tax collection – PLN19bn (NOTE: PLN50bn in previous version) ■ Better CIT tax collection – PLN4.5bn ■ Better excise duty collection – PLN8bn ■ Introduction of bank tax (most likely 0.39% of assets) – cPLN5bn ■ Introduction of large store tax – cPLN3.5bn

	Spread vs. Bunds (10Y) in bp			CDS (5Y USD)		
	10.11	change since 12.10.15	change since 31.12.14	10.11	change since 12.10.15	change since 31.12.14
Poland	222	13	25	73	-3	3
Czech	-8	-14	-29	50	1	-4
Hungary	288	12	-27	161	-5	-17
Greece	717	-16	-189	918	-155	-41
Spain	125	1	17	80	-13	-6
Ireland	57	-2	-14	42	-4	-9
Portugal	217	33	2	188	32	-13
Italy	106	-3	-29	87	-19	-51
France	32	3	4	26	-2	-19
Germany				12	-1	-6

Source: Opinion polls, Ministry of Finance, Reuters, BZ WBK.

The winner takes it all

■ The Law and Justice (PiS) won the general elections with 37.8% of the votes, beating the Civic Platform (PO, 24.1%), the Kukiz'15 movement (8.8%), Nowoczesna (7.6%) and the Peasants' Party (PSL, 5.13%). PiS has an outright majority in both the Sejm (235 out of 460 seats) and the Senate (61 out of 100), which means it is able to form a government without a coalition partner (the first such case in Poland's post-communist history).

■ President Andrzej Duda called the first session of the new Parliament for November 12. He will then have two weeks to designate the new PM and his cabinet, but we think it will take much less time, as the cabinet has been already approved by the PiS Political Committee and presented to the public. After the nomination, the new PM Beata Szydło will have two weeks to present her programme (exposé) and to win a vote of confidence in the Sejm. PiS would like to complete the cabinet formation as soon as possible, as it wants to propose an amendment to the 2016 budget to include some of its pre-election proposals.

■ Two PiS nominations for economic positions in the cabinet did not cause any market reaction, as the names are well known: Mateusz Morawiecki, Minister of Development and Deputy PM responsible for economic affairs is ex-CEO of Bank Zachodni WBK and ex-member of the Economic Council to Prime Minister in 2010-12; Paweł Szałamacha, Finance Minister, was Deputy Treasury Minister in 2005-07 with responsibility for the financial sector and co-founder and CEO of the Sobieski Institute think tank.

■ The new PM's exposé will be key to assess PiS's fiscal programme in practice. The first comments by Paweł Szałamacha underscored the importance of stability in public finances and keeping the budget deficit in check (with a possible minor increase of PLN1-1.5bn). The main issue to take into account in the 2016 budget draft amendment will be child benefits. Szałamacha quoted the NBP's unpublished estimate of the potential cost of child benefits (PLN15.5bn a year), while saying that implementing them as early as the start of 2016 is not possible (which means lower costs for budget in 2016). The project is to be financed with sector taxes (bank tax, most likely on assets, plus a tax on supermarkets), a slight increase of income from dividends, and improved tax collection. The second flagship PiS project – raising tax-free income – will probably be implemented later (budgetary effect in 2017). These plans imply some risk that the deficit will increase (more significantly than suggested by Szałamacha), if the expected rapid improvement in tax collection does not materialize.

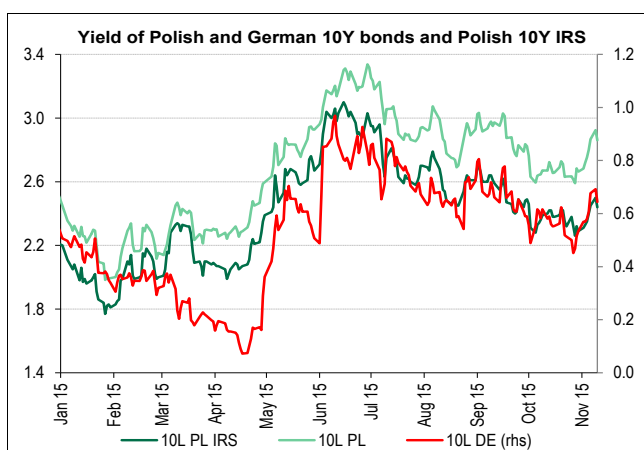
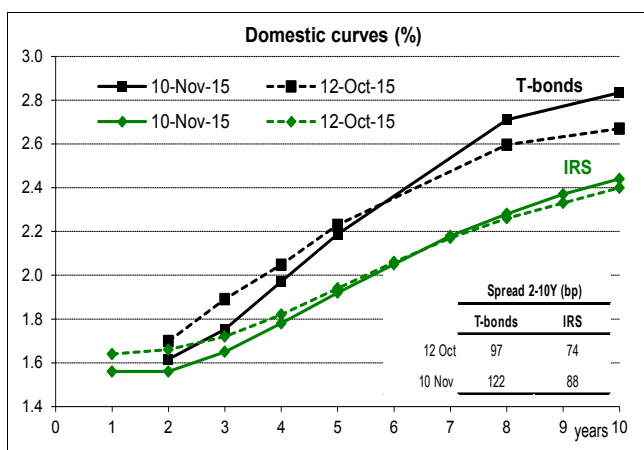
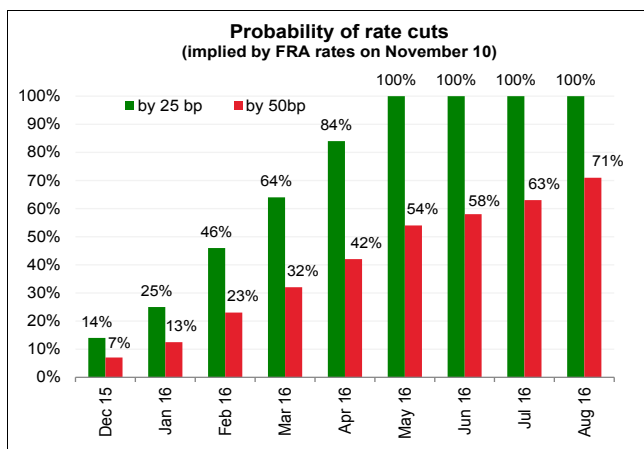
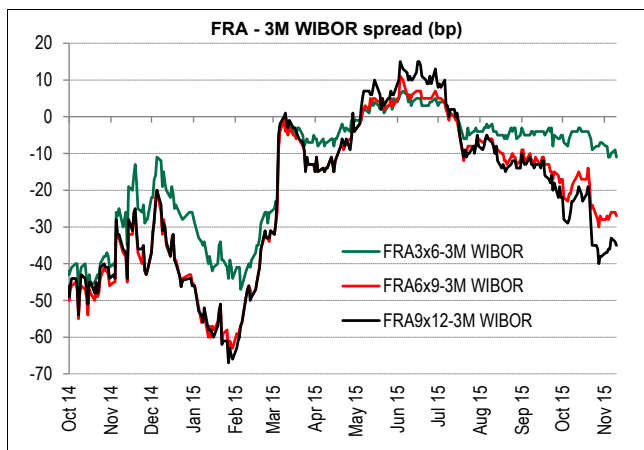
■ A bill on lowering the retirement age has been prepared in the president's office, as have proposals to deal with the CHF-loans issue. We will wait for the new PM's speech for further details.

Markets driven by central bank policy signals

■ The situation in the global bond market in October was mixed. While most European bond markets ended October with lower yields compared with the previous month, yields of the US Treasuries edged higher across the board after unexpectedly hawkish Fed rhetoric. The sell-off intensified in early November (in particular at the long end of the curves) as the probability of a rate hike by the Fed in December increased to c70% after strong October US non-farm payroll data.

■ Monetary policy divergence trade will continue to dominate global bond markets. We think that global growth worries and hyper-cautious monetary policy in Europe should keep yields quite low in the coming weeks. Investors are preparing for possible tightening in the US in December, so US Treasuries are likely to remain under pressure and yields should rise in the coming weeks.

Interest rate market



Source: Finance Ministry, Reuters, Bloomberg, BZ WBK.

Curves have become steeper

■ In October Poland's interest rate market strengthened visibly due to the ECB's dovish bias and growing expectations of further monetary easing by Poland's MPC after the decisive PiS election victory. However, the trend reversed in early November as much stronger-than-expected October non-farm payrolls data in the US increased the likelihood of a Fed rate hike in December towards 70%. As a result, the Polish 10Y benchmark yield increased to slightly above 2.90%, the highest level since mid-September.

■ Bearish sentiment has prevailed on Poland's fixed income market. It was reflected in significant widening of the 2-10Y spread for both IRS and bond curves as the long-ends underperformed the front-ends. The T-bond 2-10Y spread increased temporarily to c230bp, its highest level since July.

■ In the money market, WIBORs were stable early November, while FRAs inched slightly higher due to rising IRS rates. The market did not react to domestic events (lower-than-expected October flash CPI and the new NBP projection showing lower CPI and GDP paths). Nevertheless, expectations of further monetary easing in early 2016 remain strong. The market is now fully pricing-in a 25bp cut in six months' time and it sees nearly 70% odds of a 50bp reduction on a nine-month horizon.

Limited debt supply until the end of the year

■ In October Poland's Finance Ministry effectively finished financing this year's borrowing needs and started pre-financing its 2016 requirements, mainly through switch tenders. Despite significant payments last month for the redemption of DS1015 and debt servicing, the ministry managed to maintain its liquidity buffer at a prudent PLN44bn.

■ The ministry confirmed its issuance plan for November. There will be only one switch tender, at which it will offer to repurchase OK0116 and PS0416. It also plans to redeem up to €1bn of eurobonds maturing in February 2016. That would amount to c20% of the 2016 foreign debt/credit redemptions worth €4.6bn. As a result, pre-financing of 2016 gross borrowing needs might speed up slightly. In our view, Poland may be able to cover 20%-30% of its 2016 gross borrowing needs (PLN180bn) by the end of 2015.

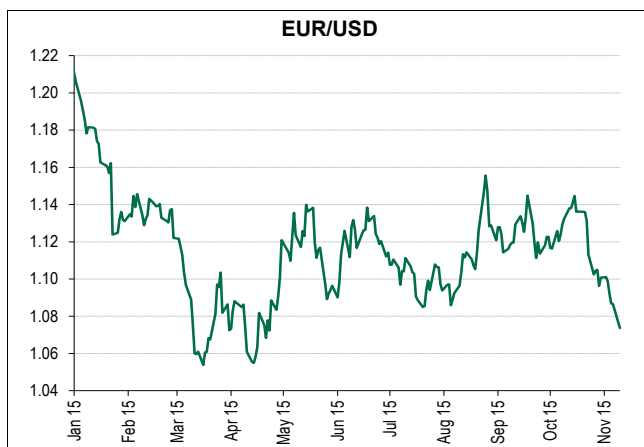
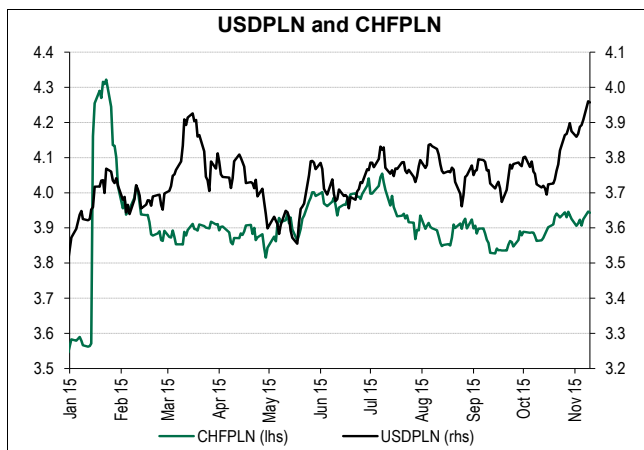
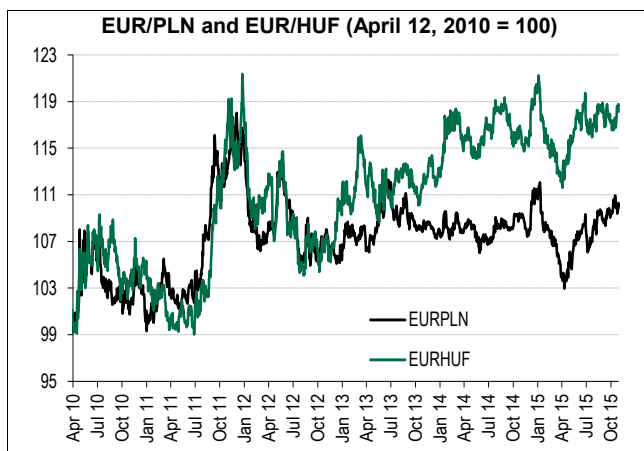
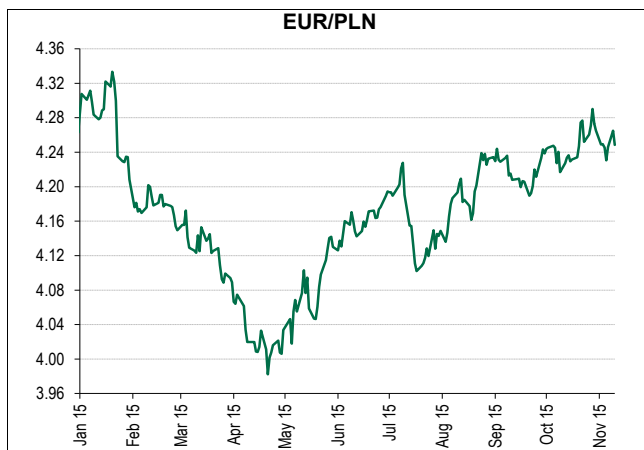
Central banks set the direction for the coming months

■ The PiS victory in the elections and a clear message from PiS officials about preferences as regards new MPC members have led us to change our forecast for the reference rate to 1% in 2016E (ie a cut of 50bp in 1Q16E) from 1.50% earlier. We therefore revise down our WIBOR forecast for 2016, keeping rates more or less stable in the last two months of 2015 as the turn of the year might be expensive on the money market. We see a more significant decline in WIBOR rates at the beginning of 2016.

■ In our view, the risk balance remains favourable for the front end of the curves. We remain mildly bullish on sectors up to 5Y, as pricing-in of monetary easing in 2016 could intensify in the upcoming weeks. The spread between WIBOR and the 2Y sector suggests there is still room for yields to go slightly lower, especially since leaving deflation behind will be a slower process than we had previously expected. Therefore, we do not rule out the 2Y benchmark testing the all-time low of 1.49% in the coming months. We also believe that the 5Y sector alone could benefit from strengthening expectations of rate cuts.

■ As regards the long end of curves, 10Y instruments should remain more vulnerable to global factors, in particular signals from the main central banks. We see yields/IRS rates higher at the end of the month as investors brace for the approaching December FOMC meeting and the probability of a rates lift-off has increased (to c70%) in the wake of the stronger October US labour market figures. All in all, we expect the long end of the Polish curves to remain quite volatile and look for a steepening of the curves.

Foreign exchange market



Sources: Reuters, Bloomberg, BZ WBK.

Elections results neutral for the zloty

- In October we focused on subdued volatility and suggested that swings in the Polish FX market could intensify, which could have a temporary negative impact on the zloty. The following weeks seemed to confirm our call. EUR/PLN jumped to c4.295, its highest since late January, on the back of pre-election uncertainty (rumours about PiS ideas to tackle CHF loan conversions, higher odds of monetary policy easing in Poland after the elections). The zloty soon recovered to almost 4.20 per euro, thanks to the dovish signals from the ECB and smaller investors' concerns about the global economic outlook.

- Markets did not react significantly to the election outcome or to the announcement of candidates to lead economy-related ministries. We recall that there was no sharp reaction in 2005 either, when the Law and Justice party won elections and formed a coalition with populist parties. The situation in the coming weeks may be quite similar to the Hungarian case, in our view. After Fidesz party won a majority in Hungarian parliament in 2010, EUR/PLN and EUR/HUF moved quite closely together for three years. The forint started to underperform only in 2014, when the Hungarian government started to deal with FX mortgage loan conversions and the Hungarian central bank cut rates.

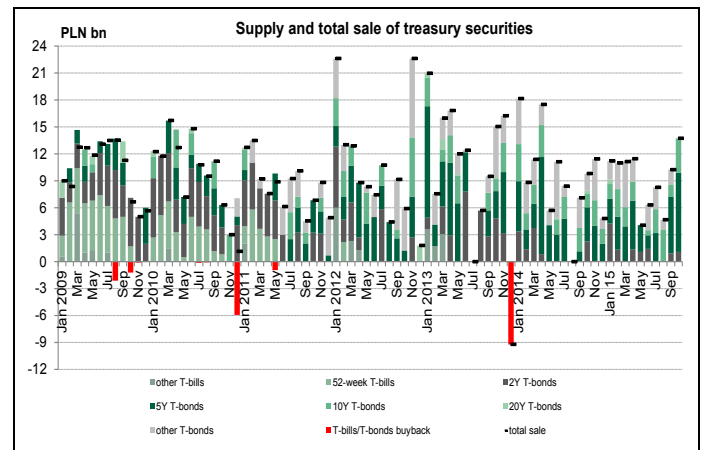
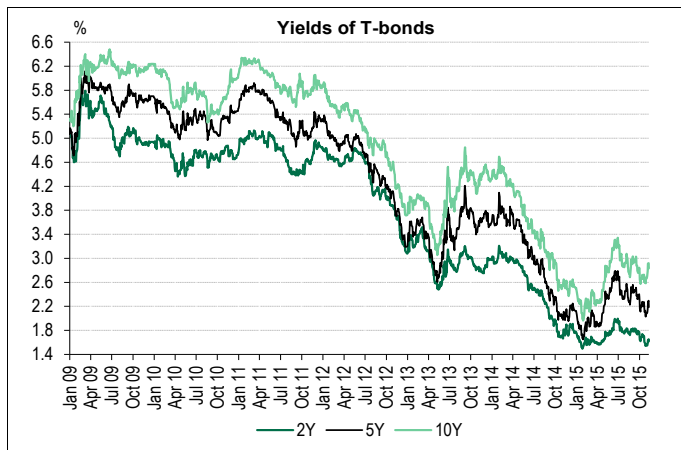
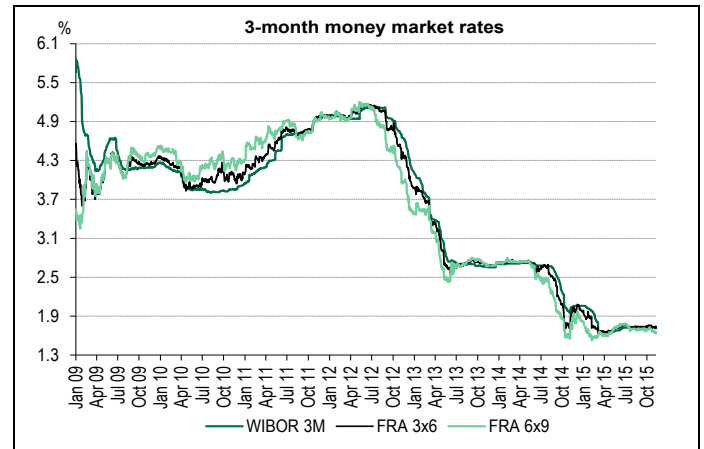
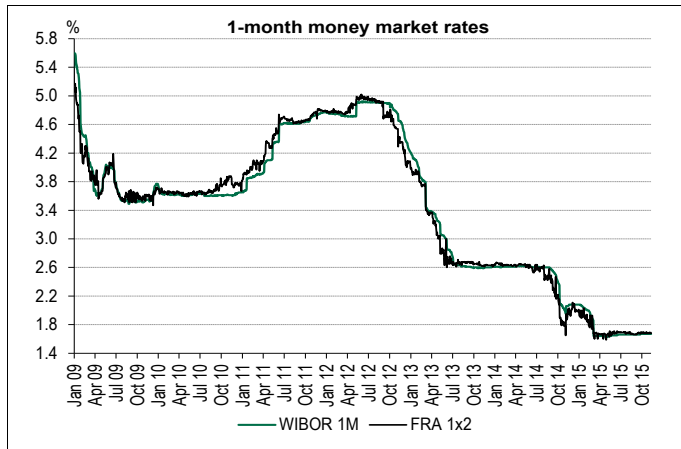
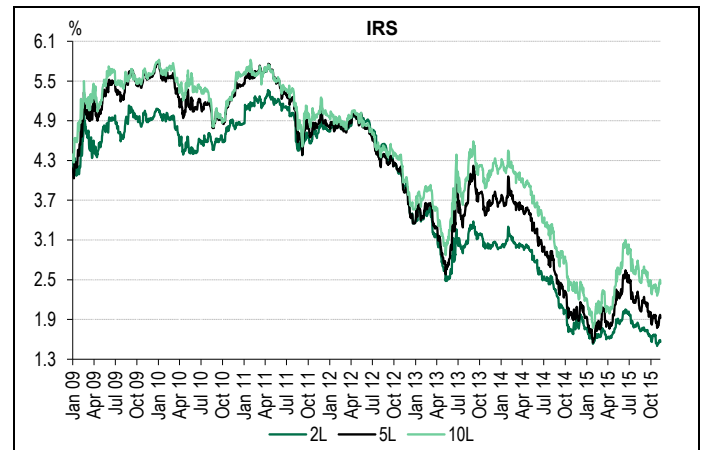
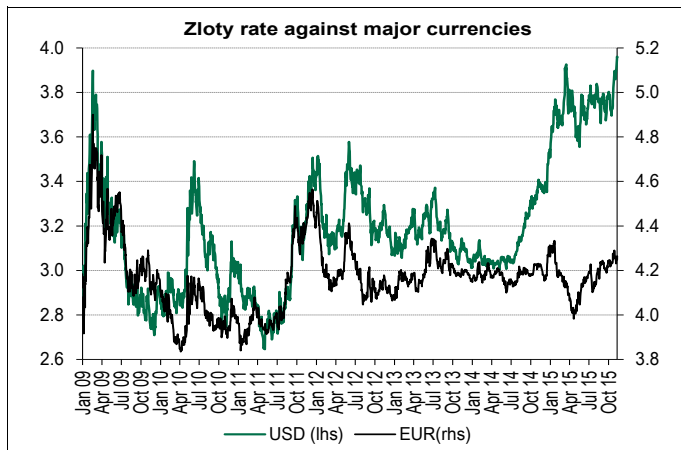
- We expect Polish politics to have a limited impact on the zloty in the short-term, with global market sentiment possibly sending EUR/PLN down (after its recent highs) towards 4.20 by the end of this year. However, we see a risk that the currency could underperform its peers in 2016 if there is a major shift in economic policy. The main risk for the zloty is connected with the issue of converting FX loans and ideas to amend the NBP charter. As we do not think those will be top priorities for the cabinet in the first few months, it should be some time before they affect the currency. We see a risk of a higher EUR/PLN later in 2016, as the new government may start implementing some of its more controversial policy measures.

Dollar boosted by the Fed, euro hit by the ECB

- Since mid-October the dollar has gained vs. the euro and the exchange rate has fallen from 1.14 to 1.07, its lowest since April. The main drivers of the downtrend were related to monetary policy. The ECB suggested it will review its measures in December and that it could carry out additional easing next month. At the same time, Fed Governor Janet Yellen said that the door to a rate hike before year-end remained open. The odds of a hike that are priced in by the financial markets jumped to 70%, from 50%, after the exceptionally strong US non-farm payrolls for October.

- The mix of ECB easing and Fed hiking generates a significant risk to our year-end forecast of EUR/USD at 1.16. Still, for the time being we keep it unchanged as we think the exchange rate is more likely to be closer to its August peak (1.17) at year end than to the 2015 bottom reached in March of 1.045. The odds of a December Fed rate hike are already high and some additional trigger might be needed to push EUR/USD towards a fresh 2015 low. At the same time, FOMC members could try to talk the dollar down to stop its appreciation, as an overly strong currency could weigh on economic growth and keep inflation low.

Market monitor



Treasury bond auctions in 2014/2015 (PLN mn)

month	First auction				Second auction				Switch auction		
	date	T-bonds	offer		date	T-bonds	offer		date	T-bonds	offer
December '14									18.12	WZ0115/PS0415/OK0715	PS0719/WZ0124/DS0725
January '15	15.01	WZ/DS/WS	3000-5000	4198.5	22.01	OK0717/PS0420	5000-7000	7005.2			
February	5.02	WZ/DS/WS	3000-5000	5980.0	12.02	OK0717/PS0420	3000-5000	5000.0			
March	5.03	USD20150716/ USD20151019**	up to \$500m	\$400.6m	12.03	WZ0124/DS0725/WS0428	3000-4000	4639.0	26.03	PS0415/OK0715/DS1015	WZ0120/PS0420
April	9.04	WZ0124/DS0725	2500-4500	3788.0	23.04	OK0717/WZ0120/PS0420	5000-7000	7654.3			
May	7.05	OK/WZ	3000-5000	Call off	21.05	OK0717/PS0420	2000-4000	4056.0			
June	11.06	OK0717/WZ0120	2000-4000	4236.5					25.06	OK0715/DS1015	PS0420/DS0725
July	9.07	WZ0120/WZ0124	1000-2000	2430.3	23.07	PS0420/DS0725	3000-6000	5852.7			
August	6.08	DS0725/WZ0126	1000-4000	4655.9							
September	10.09	WZ0126/DS0726	2000-4000	3019.0	24.09	OK0717/PS0420	4000-6000	7214.0			
October	29.10	OK/PS/DS	5000-8000	8082.0					8.10	DS1015/OK0116	PS0421/DS0726
November	26.11	EUR20160201**	Up to €1bn						19.11	OK0116/PS0416	To be announced
December									10.12	OK0116/PS0416	To be announced

* with supplementary auction, ** buy-back auction, *** demand/sale.

Source: MoF, Reuters, BZ WBK.

Economic calendar

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
9 November DE: Exports (Sep) CZ: CPI (Oct)	10 HU: CPI (Oct)	11 PL: Independence Day	12 EZ: Industrial output (Sep)	13 PL, DE, CZ, HU, EZ: Flash GDP (Q3) PL: CPI (Oct) PL: Balance of payments (Sep) PL: Money supply (Oct) US: Retail sales (Oct) US: Flash Michigan (Nov)
16 PL: Core inflation (Oct) EZ: HICP (Oct)	17 DE: ZEW index (Nov) HU: Central bank decision US: CPI (Oct) US: Industrial output (Oct)	18 PL: Wages and employment (Oct) US: House starts (Oct) US: Building permits (Oct) US: FOMC minutes	19 PL: MPC minutes PL: Industrial output (Oct) PL: PPI (Oct) PL: Retail sales (Oct) US: Philly Fed index (Nov)	20
23 CN: Flash PMI – manufacturing (Nov) DE: Flash PMI – manufacturing (Nov) EZ: Flash PMI – manufacturing (Nov) US: Home sales (Oct)	24 DE: GDP (Q3) DE: Ifo index (Nov) US: Preliminary GDP (Q3) US: Consumer confidence index (Nov)	25 PL: Unemployment rate (Oct) US: Personal income (Oct) US: Consumer spending (Oct) US: Durable goods orders (Oct) US: New home sales (Oct) US: Michigan index (Nov)	26	27 CZ: Preliminary GDP (Q3)
30 PL: GDP (Q3) PL: Flash CPI (Nov) PL: Inflation expectations (Nov) US: Pending home sales (Oct)	1 December PL: PMI – manufacturing (Nov) CN: PMI – manufacturing (Nov) DE: PMI – manufacturing (Nov) EZ: PMI – manufacturing (Nov) US: ISM – manufacturing (Nov)	2 PL: MPC decision EZ: Flash HICP (Nov) US: ADP report (Nov) US: Fed Beige Book	3 EZ: ECB decision DE: PMI – services (Nov) EZ: PMI – services (Nov) US: ISM – services (Nov) US: Industrial orders (Oct)	4 DE: Industrial orders (Oct) HU: GDP (Q3) EZ: GDP (Q3) US: Non-farm payrolls (Nov) US: Unemployment rate (Nov)
7 DE: Industrial output (Oct) CZ: Industrial output (Oct)	8 HU: CPI (Nov)	9 DE: Exports (Oct) CZ: CPI (Nov)	10	11 US: Retail sales (Nov) US: Flash Michigan (Dec)
14 PL: Balance of payments (Oct) PL: Money supply (Nov) EZ: Industrial output (Oct)	15 PL: CPI (Nov) DE: ZEW index (Dec) US: CPI (Nov) HU: Central bank decision	16 PL: Core inflation (Nov) PL: Wages and employment (Nov) EZ: HICP (Nov) CZ: Central bank decision US: House starts (Dec) US: Building permits (Dec) US: Industrial output (Nov) US: FOMC decision	17 PL: Industrial output (Nov) PL: PPI (Nov) PL: Retail sales (Nov) PL: MPC minutes DE: Ifo index (Dec) US: Philly Fed index (Dec)	18

Source: CSO, NBP, Bloomberg

Calendar of MPC meetings and data releases for 2015

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
ECB meeting	22	-	5	15	-	3	16	-	3	22	-	3
MPC meeting	13-14	3-4	3-4	14-15	5-6	2-3	7-8	-	1-2	5-6	3-4	1-2
MPC minutes	22	19	19	23	21	18	-	20	17	22	19	17
Flash GDP*		13			15			14			13	
GDP*	-	27	-	-	29	-	-	28	-	-	30	-
CPI	15	13 ^a	13 ^b	15	14	15	15	13	15	15	13	15
Core inflation	16	-	16	16	15	16	16	14	16	16	16	16
PPI	21	18	18	20	20	18	17	19	17	19	19	17
Industrial output	21	18	18	20	20	18	17	19	17	19	19	17
Retail sales	27	18	18	20	20	18	17	19	17	19	19	17
Gross wages, employment	20	17	17	17	19	17	16	18	16	16	19	16
Foreign trade	about 50 working days after reported period											
Balance of payments*			31			30			30			30
Balance of payments	13	13	16	13	15	15	14	13	14	14	13	14
Money supply	14	13	13	14	14	12	14	13	14	14	13	14

* quarterly data. a preliminary data for January. b January and February.

Source: CSO, NBP

Economic data and forecasts for Poland

Monthly economic indicators

		Oct14	Nov 14	Dec 14	Jan 15	Feb 15	Mar 15	Apr 15	May 15E	Jun 15	Jul 15	Aug 15	Sep 15	Oct 15E	Nov 15E
PMI	pts	51.2	53.2	52.8	55.2	55.1	54.8	54.0	52.4	54.3	54.5	51.1	50.9	52.2	52.6
Industrial production	% YoY	1.7	0.3	8.1	1.6	5.0	8.8	2.4	2.8	7.4	3.8	5.3	4.1	1.4	5.2
Construction production	% YoY	-1.0	-1.6	5.0	1.3	-0.3	2.9	8.5	1.3	-2.5	-0.1	4.8	-2.5	-3.5	-6.2
Retail sales ^a	% YoY	2.3	-0.2	1.8	0.1	-1.3	3.0	-1.5	1.8	3.8	1.2	-0.3	0.1	0.5	2.2
Unemployment rate	%	11.3	11.4	11.4	11.9	11.9	11.5	11.1	10.7	10.2	10.0	9.9	9.7	9.6	9.7
Gross wages in corporate sector	% YoY	3.8	2.7	3.7	3.6	3.2	4.9	3.7	3.2	2.5	3.3	3.4	4.1	3.6	5.6
Employment in corporate sector	% YoY	0.8	0.9	1.1	1.2	1.2	1.1	1.1	1.1	0.9	0.9	1.0	1.0	1.0	1.0
Exports (€)	% YoY	4.3	3.8	9.8	4.4	10.9	14.3	8.5	7.8	10.4	3.5	8.6	6.8	10.0	10.0
Imports (€)	% YoY	7.0	6.5	13.1	-2.1	3.9	8.7	7.8	0.3	9.2	5.8	6.7	6.0	8.0	8.0
Trade balance	EUR mn	-384	-231	-629	639	526	485	-142	539	-47	-747	-91	446	-117	26
Current account balance	EUR mn	-319	114	-1,011	-228	93	1,054	1,642	1,124	-1,602	-1,212	-864	-519	-772	21
Current account balance	% GDP	-2.2	-2.0	-2.0	-1.7	-1.5	-1.3	-0.8	-0.5	-0.4	-0.4	-0.3	-0.4	-0.5	-0.5
Budget deficit (cumulative)	PLN bn	-27.2	-24.8	-29.8	-0.6	-11.3	-16.7	-16.7	-19.6	-26.1	-26.6	-25.9	-31.1	-39.8	-41.8
Budget deficit (cumulative)	% of FY plan	57.4	52.1	62.7	1.3	24.6	36.2	36.2	42.6	56.7	57.7	56.1	67.6	86.4	90.6
CPI	% YoY	-0.6	-0.6	-1.0	-1.4	-1.6	-1.5	-1.1	-0.9	-0.8	-0.7	-0.6	-0.8	-0.8	-0.3
CPI excluding food and energy	% YoY	0.2	0.4	0.5	0.6	0.4	0.2	0.4	0.4	0.2	0.4	0.4	0.2	0.3	0.6
PPI	% YoY	-1.3	-1.6	-2.7	-2.8	-2.8	-2.5	-2.7	-2.1	-1.4	-1.8	-2.7	-2.9	-2.4	-1.8
Broad money (M3)	% YoY	7.7	8.4	8.2	8.6	8.7	8.9	7.2	7.6	8.3	8.6	7.3	8.4	8.5	8.1
Deposits	%YoY	8.4	9.0	9.0	9.1	9.0	9.2	7.8	7.8	8.7	8.8	7.7	8.9	9.2	8.7
Loans	%YoY	6.5	6.8	7.2	8.0	7.7	7.8	6.4	7.7	7.9	7.9	7.6	7.9	7.8	7.8
EUR/PLN	PLN	4.21	4.21	4.21	4.28	4.18	4.13	4.02	4.08	4.16	4.15	4.19	4.22	4.25	4.24
USD/PLN	PLN	3.32	3.38	3.42	3.68	3.68	3.81	3.73	3.66	3.71	3.78	3.77	3.75	3.78	3.86
CHF/PLN	PLN	3.48	3.50	3.50	3.96	3.93	3.89	3.88	3.93	3.98	3.96	3.89	3.86	3.91	3.89
Reference rate ^b	%	2.00	2.00	2.00	2.00	2.00	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
3M WIBOR	%	2.07	2.03	2.06	2.03	1.92	1.67	1.65	1.67	1.70	1.72	1.72	1.72	1.73	1.73
Yield on 2-year T-bonds	%	1.77	1.78	1.84	1.60	1.60	1.62	1.60	1.74	1.91	1.82	1.79	1.79	1.65	1.50
Yield on 5-year T-bonds	%	2.12	2.04	2.16	1.82	1.88	1.99	1.98	2.38	2.68	2.45	2.40	2.43	2.18	2.05
Yield on 10-year T-bonds	%	2.63	2.54	2.55	2.21	2.20	2.32	2.36	2.83	3.20	3.00	2.88	2.91	2.66	2.63

Note: ^a in nominal terms, ^b at the end of the period.

Source: CSO, NBP, Finance Ministry, BZ WBK estimates.

Quarterly and annual economic indicators

		2013	2014	2015E	2016E	1Q15	2Q15	3Q15E	4Q15E	1Q16E	2Q16E	3Q16E	4Q16E
GDP	PLN bn	1,662.1	1,728.7	1,792.7	1,881.4	417.8	433.8	442.7	498.3	438.4	455.7	463.1	524.2
GDP	% YoY	1.7	3.4	3.4	3.5	3.6	3.3	3.3	3.5	3.5	3.5	3.5	3.5
Domestic demand	% YoY	0.2	4.9	3.3	3.6	2.6	3.3	3.4	3.9	3.8	3.5	3.5	3.7
Private consumption	% YoY	1.1	3.1	3.2	3.2	3.1	3.0	3.3	3.3	3.3	3.2	3.1	3.1
Fixed investments	% YoY	0.9	9.2	7.0	6.0	11.4	6.4	6.2	6.0	6.0	6.0	6.0	6.0
Industrial production	% YoY	2.3	3.4	4.5	5.0	5.3	3.9	4.4	4.4	3.9	5.8	5.5	4.7
Construction production	% YoY	-10.3	4.3	-0.6	-0.1	1.4	1.9	0.6	-4.1	-3.0	-1.0	-1.2	2.9
Retail sales ^a	% YoY	2.6	3.1	0.9	4.1	0.7	1.4	0.4	0.9	1.6	1.7	5.2	7.5
Unemployment rate ^b	%	13.4	11.4	9.9	9.1	11.5	10.2	9.7	9.9	10.1	9.2	8.9	9.1
Gross wages in the national economy ^a	% YoY	3.4	3.6	3.7	5.4	4.1	3.1	3.4	4.1	3.9	5.9	6.2	5.5
Employment in the national economy	% YoY	-1.1	0.2	0.7	0.7	0.8	0.8	0.6	0.6	0.6	0.7	0.8	0.7
Exports (€)	% YoY	5.7	6.4	9.6	10.7	9.8	8.9	9.6	10.0	11.0	11.0	10.5	10.3
Imports (€)	% YoY	0.2	8.3	6.0	10.8	3.5	5.7	6.7	8.0	10.0	11.0	11.0	11.0
Trade balance	EUR mn	-335	-3,255	2,206	2,324	1,651	350	729	-524	2,241	389	592	-898
Current account balance	EUR mn	-5,031	-8,303	-1,198	-802	900	1,110	-1,474	-1,734	1,429	965	-1,580	-1,616
Current account balance	% GDP	-1.3	-2.0	-0.3	-0.2	-1.3	-0.4	-0.2	-0.3	-0.2	-0.2	-0.2	-0.2
General government balance	% GDP	-4.0	-3.2	-2.7	-3.2	-	-	-	-	-	-	-	-
CPI	% YoY	0.9	0.0	-0.9	1.4	-1.5	-0.9	-0.7	-0.3	0.9	1.2	1.4	2.0
CPI ^b	% YoY	0.7	-1.0	0.2	2.0	-1.5	-0.8	-0.8	0.2	1.0	1.3	1.7	2.0
CPI excluding food and energy	% YoY	1.2	0.6	0.4	1.0	0.4	0.3	0.3	0.5	0.7	0.9	1.0	1.2
PPI	% YoY	-1.3	-1.5	-2.2	-0.7	-2.7	-2.1	-2.5	-1.7	-1.5	-1.3	0.0	0.0
Broad money (M3) ^b	% oY	6.2	8.2	7.5	7.4	8.9	8.3	8.4	7.5	7.5	7.5	7.4	7.4
Deposits ^b	%YoY	6.6	9.0	6.8	7.8	9.2	8.7	8.9	6.8	7.1	7.3	7.5	7.8
Loans ^b	%YoY	3.5	7.2	6.5	5.5	7.8	7.9	7.9	6.5	6.3	6.0	5.7	5.5
EUR/PLN	PLN	4.20	4.18	4.18	4.20	4.20	4.09	4.19	4.23	4.17	4.20	4.25	4.21
USD/PLN	PLN	3.16	3.15	3.75	3.55	3.72	3.70	3.77	3.82	3.54	3.56	3.57	3.51
CHF/PLN	PLN	3.41	3.45	3.91	3.64	3.93	3.93	3.90	3.87	3.76	3.71	3.63	3.48
Reference rate ^b	%	2.50	2.00	1.50	1.00	1.50	1.50	1.50	1.50	1.00	1.00	1.00	1.00
3M WIBOR	%	3.02	2.52	1.75	1.30	1.87	1.67	1.72	1.73	1.42	1.25	1.25	1.26
Yield on 2-year T-bonds	%	2.98	2.46	1.67	1.35	1.61	1.75	1.80	1.54	1.36	1.30	1.33	1.42
Yield on 5-year T-bonds	%	3.46	2.96	2.20	2.51	1.90	2.35	2.43	2.11	2.27	2.45	2.60	2.72
Yield on 10-year T-bonds	%	4.04	3.49	2.66	3.08	2.24	2.79	2.93	2.66	2.76	2.97	3.18	3.42

Note: ^a in nominal terms, ^b at the end of period. Source: CSO, NBP, Finance Ministry, BZ WBK estimates.

This analysis is based on information available until 10.11.2015 has been prepared by:

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IMPORTANT DISCLOSURES

ANALYST CERTIFICATION:

The views expressed in this report accurately reflect the personal views of the undersigned analyst(s). In addition, the undersigned analyst(s) have not and will not receive any compensation for providing a specific recommendation or view in this report: **Maciej Reluga***, **Piotr Bielski***, **Agnieszka Decewicz***, **Marcin Luziński***, **Marcin Sulewski***.

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