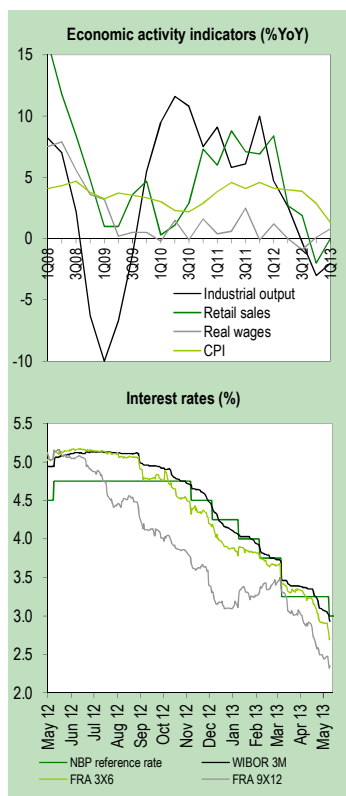


MACROscope

Polish Economy and Financial Markets

May 2013



Is that just a correction?

- In May 2013, the Polish Monetary Policy Council cut the interest rate by 25 basis points. Marek Belka, the President of the National Bank of Poland, highlighted that the move was not tantamount to the beginning of a new rate-cutting cycle and was merely a correction of the decision taken in March (when the MPC decreased the rates by 50bps, while announcing that it was “complementing” the cycle). The MPC’s May decision was triggered by recent data which drove down the Council’s assessment of economic prospects and inflation-related projections. In our view that step probably does not represent the end of the easing cycle and the rates may still be cut by another 25bps-50bps by July.

- Following the steady rise of the PMI from September to February, the two last months witnessed decreases (the April figure was clearly below expectations). Therefore, a question arises: is that just a temporary correction of the upward trend or, maybe, a modification of the economic scenario for the upcoming quarters? Our projections remain unchanged and we uphold our view that this year will see gradual and moderate revival. The GDP data for Q1 (flash announcement on 14 May) will probably show that the pace of economic growth is flat vs. Q4 2012. Additionally, the nearest monthly data for Q2 2013 will not suggest the approaching turning point yet. Admittedly, we expect the April industrial output figure to be at the highest level since October 2012 but that will result, to some extent, from the difference in the number of working days. What is more, our projection is below the median of market expectations. The situation is similar for retail sales where it will turn out that the last month’s improvement was rather temporary in nature (caused by seasonal factors). Concurrently, the annual inflation rate will continue to fall until June when it may get close to the record low of 0.3%YoY dating back to April 2003. In the case of the April inflation data, we are also below the consensus (our projection stands at 0.6%YoY vs. 0.7YoY).

- Upcoming economic data will be conducive to further interest rate cuts in June and/or July and will prompt positive sentiment on the interest rate market. The correction observed two days after the MPC’s meeting may, therefore, prove to be temporary in nature although, naturally, it will depend to a significant extent on global factors which largely contributed to that move. Our projections of economic data, to be published in the upcoming weeks, suggest that the domestic factors will rather speak in favour of the market pricing-in an (evident) interest rate cut at the next MPC’s meeting. Nevertheless, we are still of the opinion that H2 2013 will witness a stronger upward move of the market interest rates, once it turns out that the MPC will decide not to cut the official rates down to 2% and both the economic indexes & inflation will start to go up slowly.

- Higher yields observed recently on the bonds market have also contributed to the correction of the EUR/PLN exchange rate, however, in this very case, we are still talking about zloty staying in a wide range of fluctuations and a horizontal trend (4.10-4.20). The nearest weeks will not see many factors which could change that situation. The exchange rate could get to 4.18, should further weak global economic data be published. We maintain our projection for May 2013, whereby the average EUR/PLN rate stands at 4.13.

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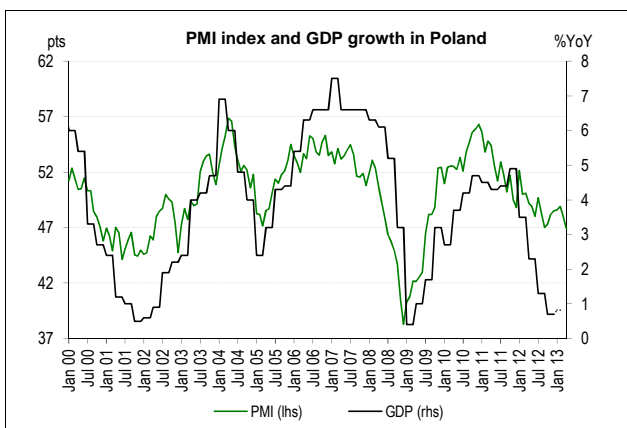
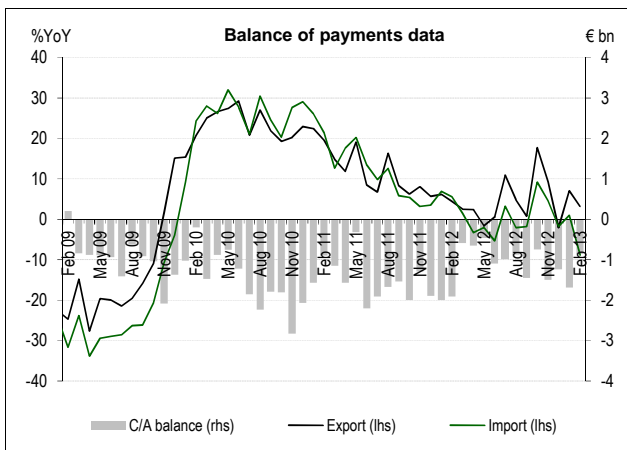
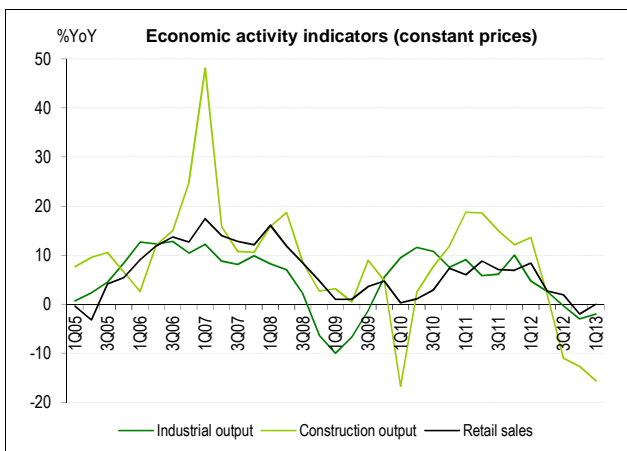
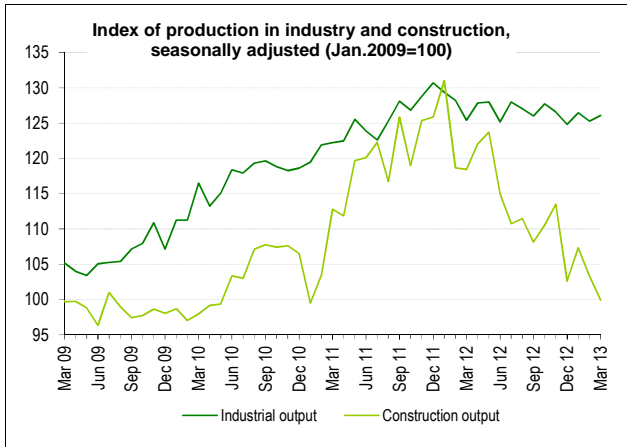
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Financial market on 10 May 2013:

NBP deposit rate	1.50	WIBOR 3M	2.93	EURPLN	4.1417
NBP reference rate	3.00	Yield on 2-year T-bond	2.50	USDPLN	3.1861
NBP lombard rate	4.50	Yield on 5-year T-bond	2.69	CHFPLN	3.3244

This report is based on information available until 10.05.2013

Economic update



Source: CSO, NBP, Markit, BZ WBK

Is industry bottoming out?

- In March industrial output contracted by 2.9%YoY and by 0.6%YoY after seasonal adjustment. Construction and assembly output recorded a tenth in a row considerable decrease, by 18.5%YoY (-15.7%YoY after seasonal adjustment).

- Industrial production data for Q1 2013 showed that output decreased by 1.6%YoY, more or less at the same pace as observed in Q4 2012 (1.7%). Situation is significantly worse in the construction sector. In January-March period construction was by 15.7% lower than in the same period of previous year, which means intensification of deterioration as compared to Q4 2012 (from -12.7%YoY). These data confirm our baseline scenario, assuming bottoming of economic activity in Q1 2013. We expect that upcoming quarters will bring gradual, but still very slow improvement in economic activity.

- As we wrote in our previous reports, in our view improvement in industry will be mainly provided by exports. Our expectations are supported by recent better-than-expected data from Germany (orders and output in industry). However, weak results of PMI survey are a risk factor – index for manufacturing fell in April to 46.9pts, reaching the lowest level since mid-2009 and it was pulled downwards by weak orders and output.

No revival in consumption

- Retail sales increased in March by 0.1%YoY vs. -0.8%YoY in February, in line with our forecast. However, these data should not be interpreted as a signal of improvement of consumer demand because the rebound is driven by Easter shopping carried already in late March (this year Easter was on March 31, while in 2012 on April 8). This effect is reflected in sales of food – acceleration from 1.8%YoY in February to 8.9%YoY in March. The pace of growth in remaining categories is still low. In whole Q1 retail sales expanded by 0.9%YoY in nominal terms and by 0.4%YoY in real terms.

- We expect the consumer demand to remain subdued in coming quarters. No visible improvement of situation on the labour market and uncertainty regarding situation in this area may make households more cautious in spending money.

Improvement in balance of payments

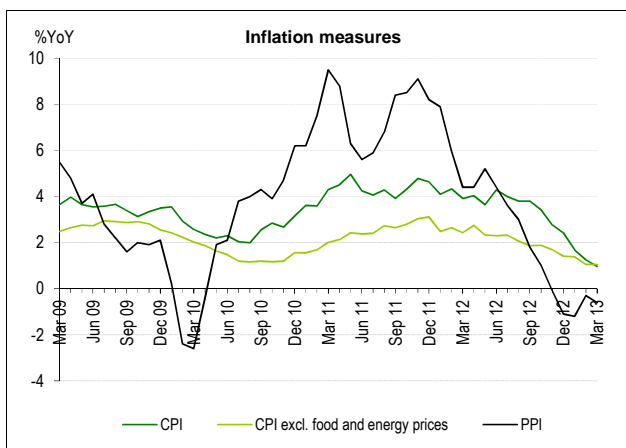
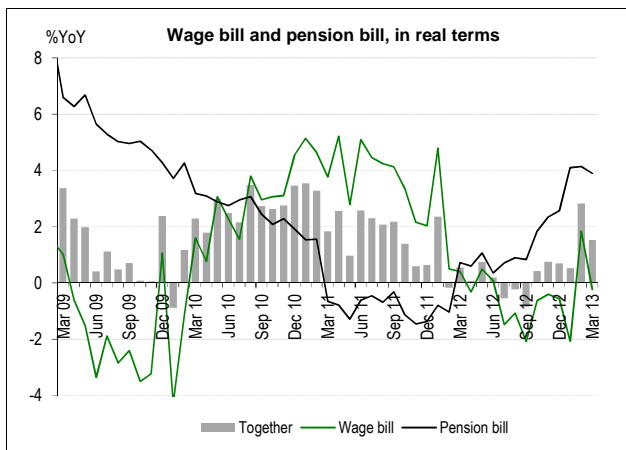
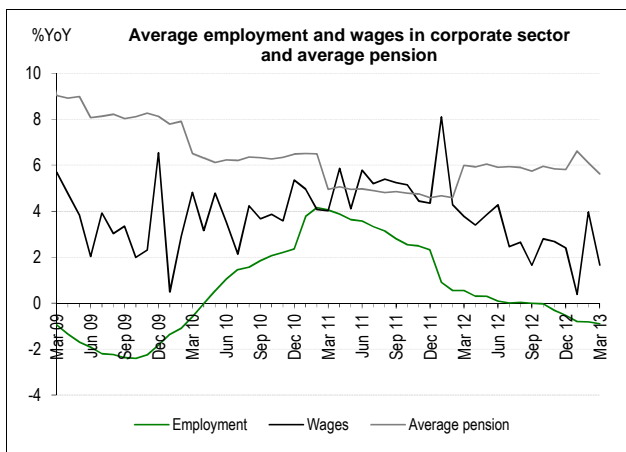
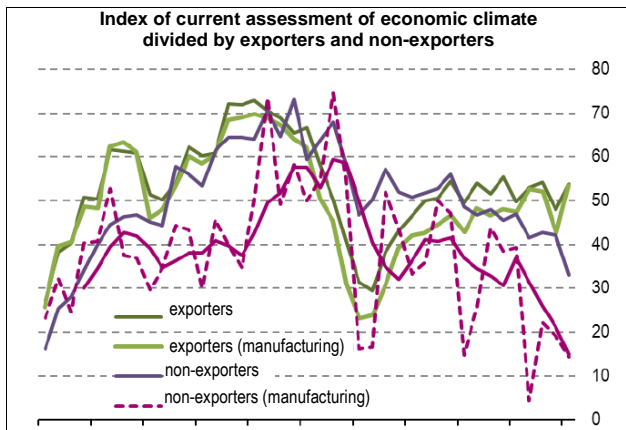
- February brought improvement in balance of payments. Current account deficit narrowed (to €854m from €1546m in previous month) It came mainly from significant improvement in trade balance – surplus amounted to €602m, with exports growth by 3.2%YoY and imports decline by 8.8%YoY. In coming months we still expect relatively good exports data, accompanied by weakening imports due to limited growth of domestic demand.

Paltry acceleration of GDP in Q1

- We will see flash release of data GDP for 1Q2013 already in mid-May. As we showed above, we are expecting that consumer demand was still stagnating in Q1. In our view private consumption recorded a growth by ca. 0.5%YoY. Survey of business climate and credit policies survey showed that enterprises are still not eager to invest and they are reducing their investment plans. That is why we are expecting that fixed investments fell by 5.5%YoY. This will translate into fourth in a row quarter of declining domestic demand (-1.5%YoY). Net exports remained the main engine of growth. We are estimating its contribution to GDP at 2.4pp.

- We are estimating GDP growth at 0.8%YoY, which means a minimal acceleration as compared to 4Q2012 (0.7%YoY). Yet, economy was in fact still stagnating in Q1.

Economic update



Source: CSO, NBP, BZ WBK

Companies hoping for better second half of the year

- According to NBP report the business climate in Q1 was weak and it may deteriorate further in Q2. Firms were expecting an improvement of situation in the second half of the year, although there was a high uncertainty regarding the assessment.
- Situation of exporters improved already in Q1, and in this group expectations for further improvement are the strongest. Outlook for domestic demand is perceived negatively, in particularly as regards consumption demand and construction sector.

Employment forecasts have deteriorated. Companies' investment activity has been weak, although an indicator of new investments have inched up. The biggest companies (employing 2000+ people) were quite optimistic as regards investment plans.

Pace of employment reductions is gaining steam

- Employment in the enterprise sector declined in March by 0.9%YoY (compared to -0.8%YoY recorded in two previous months). During the past month reduction of workplaces amounted to 8.5k and since January this is already 18k. In the same period of last year, the scale of reduction reached 12k so the pace of cutting workplaces in corporate sector does not abate. We thought that March data were distorted by poor weather conditions that could postpone launching construction and seasonal works and had negative pressure on employment. More detailed information showed however, that weakness of employment is broad-based, also in sectors less vulnerable to weather conditions.

- Registered unemployment fell in March to 14.3% from 14.4% in February. However, decline of unemployment was not due to improvement in labour market situation, but mainly to intervention of the Labour Ministry, which was sending jobseekers to trainings and subsidized jobs.

- LFS jobless rate (seasonally adjusted) rose in March to 10.7%, the highest level since February 2007. Interestingly, this was still not the effect of lower employment, but rising labour activity.

- Wages in corporate sector increased only by 1.6%YoY in March. As we mentioned a few times recently, data on wages in January and February were distorted by some one-off statistical factors and it was worth to analyse the average of these two months to determine the trend. The March pace of growth was below the average 2.2%YoY seen in January-February and this may suggest the trend is weaker than we initially assumed.

- Wage bill increased by 0.7%YoY in nominal terms, but given March inflation at 1.0%YoY, it contracted by 0.3%YoY in real terms. We expect the reduction of employment to be continued in coming quarters and the pace of wage growth will hover around 1.5-2.0%YoY. Some improvement and acceleration of real pace of growth of wage bill may be recorded only in 2H.

Inflation lower and lower

- In March the CPI inflation rate fell to 1.0%YoY from 1.3%YoY in February. Decline of inflation was supported by weak growth of prices in food, clothing and footwear (despite introduction of new collections) and promotions on the mobile phone market. Downward trend of inflation will probably be continued in the upcoming months, we think that there is even a high probability that in June inflation will be lower than all-time low set in April 2003 (0.3%YoY). Still, in the following months inflation will rise due to effect of low statistical base from 2H2012.

- All measures of core inflation fell in March. CPI excluding prices of food and energy reached 1.0%. In second year-half the core inflation should start bottoming out in our view, similarly as the CPI.

- PPI inflation reached -0.6%YoY in March and we think it may remain below the zero mark until the end of the year.

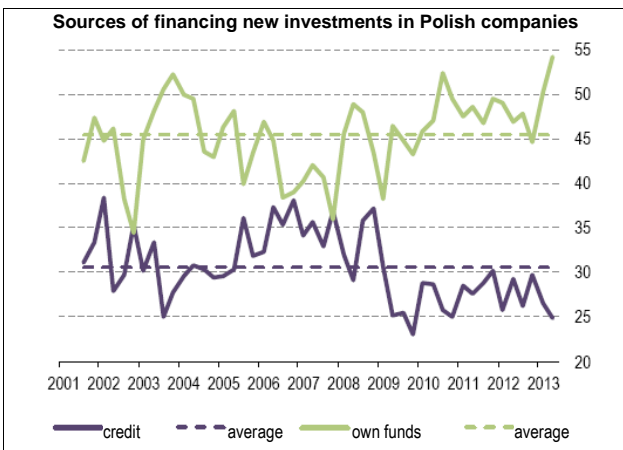
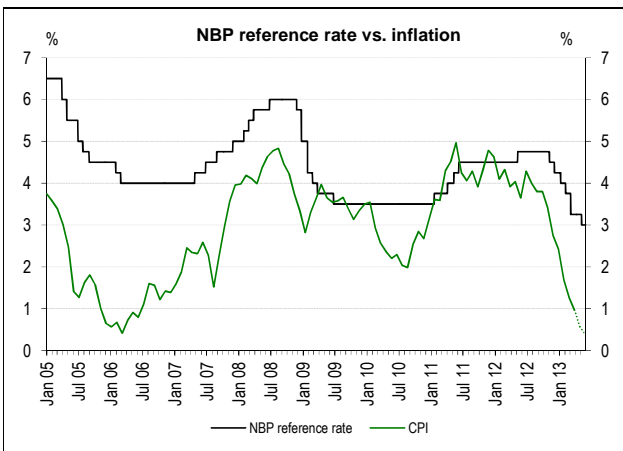
Monetary policy watch

Fragments of MPC communiqué after May's meeting

In the opinion of the Council, the incoming data confirm indicate low that economic growth in Poland remains weak, while inflation decline is stronger than forecasted in the March projection. as well as no wage and inflationary pressures. Economic activity may gradually improve in the coming quarters. However, GDP growth will probably remain moderate, which will continue to contain inflationary pressure. At the same time, uncertainty about the pace and timing of the expected recovery in the euro area has increased, which can adversely affect economic activity in Poland. Hence, the risk of inflation staying markedly below the target in the medium term has risen. The Council decided to keep lower the NBP interest rates unchanged. The Council's decisions in the following months will depend on the assessment of the incoming data with regard to the probability of inflation remaining markedly below the NBP inflation target in the medium term and regarding economic activity.

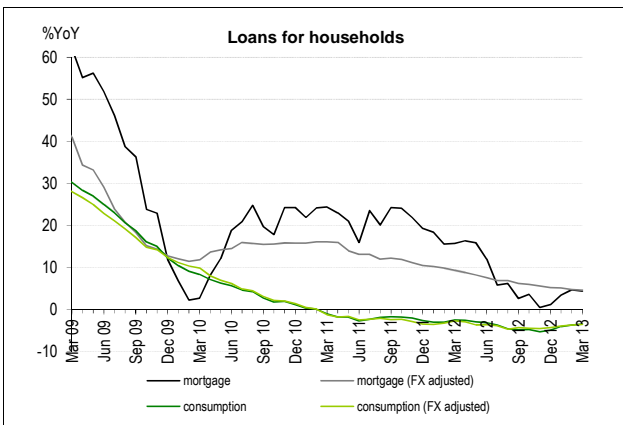
Correction of March's decision, not the last one

- The Monetary Policy Council trimmed interest rates by 25bps in May, reducing the NBP refinancing rate to the new record low level of 3.0%.
- The statement said that new economic data confirmed sluggish economic growth in Poland and deeper decline of inflation, as well as higher uncertainty regarding the outlook for a rebound in economic activity abroad. Consequently, it increased the risk of CPI staying clearly below NBP target, even below path presented in the last NBP projection, and this has opened the door for a rate cut. In the last, crucial sentence of the MPC's statement the Council has deleted a piece, suggesting that further decisions in upcoming months will be strongly dependent on the assessment "regarding economic activity". The NBP's Governor Marek Belka highlighted that it shows the Council would focus even more on inflation outlook.
- NBP President emphasised May's rate cut should not be treated as the beginning of new easing cycle, but as a "correction of what the MPC has announced two months ago". He added that Council does not intend to signal a high probability of further monetary policy easing – either a rate cut or leaving rates unchanged in June is in his opinion equally likely. He said also that the disparity of interest rates between Poland and other countries is still considerable and one cannot say that we are already approaching "ultra-low" level of interest rates (which – as he stressed in the previous month – the MPC would like to avoid). According to Belka, the MPC remains in the easing bias.
- Recently we have changed the NBP interest rates forecast, assuming more reductions by 50bps. As the next rate cut cannot be excluded at the nearest meeting, and another one may follow in July (due to falling inflation), there is a downward risk for our projection. Nevertheless, we think that the scale of interest rate cuts priced-in by the market is exaggerated.



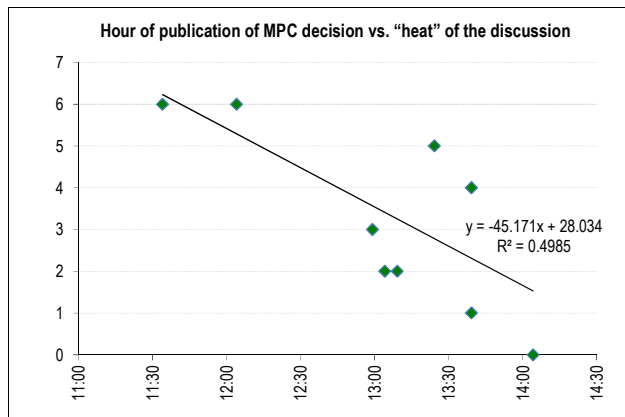
Mixed signals from the credit market

- The results of senior loan officer survey showed that in 1Q2013 banks still ran tight lending policies, and demand for credit remained weak.
- Conditions of loans for companies have been tightened again. There was a drop in demand from large firms, resulting mainly from lower needs to finance investment. Banks were expecting further tightening of lending policy for companies.
- Other NBP surveys also confirmed similar trends – according to the quarterly report about business climate in enterprises sector the index of demand for credit (seasonally adjusted) fell in Q1 to the lowest level in the history of survey. At the same time, the ratio of firms which use own funds to finance new investment have increased sharply in Q2, to the new historical high of 54.2%.
- In the segment of loans for households there appeared some more optimistic signs though: loan criteria and conditions remained roughly unchanged, but banks are expecting their easing in Q2. For the first time in a year banks decided to cut margins on consumption loans and are expecting improvement of demand in this segment in next quarters.
- There was a fall in demand for mortgage loans (in some banks the drop was substantial). Apart from households' financial and economic situation, it was triggered by termination of government's pro-family housing support package.
- Banks were justifying change in their attitude by lower risk related to predicted economic situation and changes in MPC's monetary policy.



Source: CSO, Reuters, BZ WBK

Restrictiveness of the Monetary Policy (Council)



Later decision means more heated discussion?

- At the press conference in January the NBP President Marek Belka said that the length of discussion is not correlated with the heat of the debate, and that the time of releasing the statement should not be taken as a hint about the decision itself.
- We have analysed the relation between time of announcing decisions and a "heat" of the discussions in 2012 and 2013. We assumed that the more heated the discussion, the more difficult it is to establish a clear majority. Thus, our measure of "heat" is the difference between the number of votes in majority and in minority (for example, for vote 8:2 the measure is 6 – the higher the result, the less heated the discussion). For meetings with several votes, we selected the one with lowest measure.
- It turned out that we found some regularity – the later the time of publishing the statement, the more difficult it was to build majority.



Rzońca (1.28)

Winięcki (1.29)

Gilowska (1.35)

Kaźmierczak (1.22)

Głapiński (1.17)

Hausner (1.03)

Belka (0.94)

Zielińska-Głębocka (0.89)

Chojna-Duch (0.51)

Bratkowski (0.49)



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.

Voice of NBP President decided about 50bps rate cut in March

March rate cut by 50bps was passed thanks to the support of Marek Belka. He was joined by Andrzej Bratkowski, Elżbieta Chojna-Duch, Anna Zielińska-Głębocka and Jerzy Hausner. Interestingly, Zyta Gilowska attended the MPC meeting in March (for the first time this year). In April, the motion to cut rates have not even been submitted by the most dovish MPC members, which probably resulted from their desire to maintain consistent communication after March decision (need to wait for next data, which would determine inflation outlook). In sum, we do not think that the latest voting results or comments of MPC members suggested their big will to cut rates significantly. Apparently, market participants believe that the MPC's willingness to cut more will eventually appear due to information from the economy.

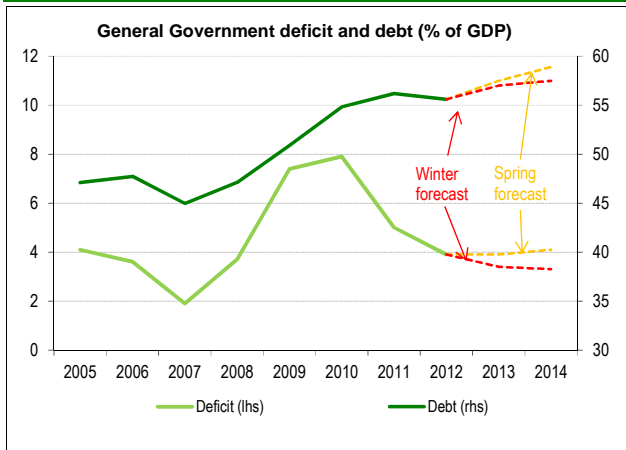
Room for cuts consumed. How big will be the next one?

As we wrote on the previous page, the MPC agreed in May that due to new information it was necessary to make adjustment to March's move (when MPC cut rates by 50bps, announcing the cycle has been "complemented"). At the press conference it was underscored that this is not a start of a new cycle. However, one can suspect that the data that are ahead will not change substantially the balance of risks (and if they will, then on "dovish" side). Thus, May's "adjustment" will not be the last one. Especially that some MPC members attach quite large importance to the indicators of current inflation. Even Marek Belka at the press conference, talking about high level of real interest rates in Poland, used measure of current inflation rate. True, he said this is a "primitive" measure, but this does not change anything. Lack of clear revival in nearest indicators and inflation rate approaching zero could create a room for easing, which the MPC will decide to "consume". But as long as we will not talk about a significant change in macroeconomic scenario (economic stagnation and lack of inflation rise also in second year-half and in forecasts for 2014), we do not think that a market assessment of possible rate cuts is right. Even if there are next rate cuts by 25bps in June and July, in August the Council takes a break and holds no decisive meeting. In September it will have economic indicators for the start of Q3, which will show some rebound in both economic activity and inflation. So, there may be not enough time to deliver as many rate cuts as currently priced-in by the market.

Breakdown of economic growth crucial

During the press conference, the NBP governor allotted much attention to uncertainty regarding the pace and the scale of any economic recovery as well as its breakdown. He hinted that the MPC does not expect further deceleration, but the pace of improvement shall be moderate. Additionally, according to Belka, the breakdown of the GDP growth is of particular importance. He said that currently this structure is worrying because "we do not expect Polish economy will be able to grow in the long run solely on one engine, which is net exports". In our opinion, positive contribution of net exports will be maintained until mid-2014.

Fiscal policy watch



The general government deficit above expectations ...

▪ The general government (GG) deficit in 2012 declined to 3.9% of GDP, down from 5.0% of GDP in 2011. The tightening of fiscal policy was a consequence of surplus of the social security sector and lower deficit of the municipal sector. According to European Commission (EC) report, higher than predicted GG gap resulted from reasons independent of the fiscal policy, mainly from slowdown of GDP growth.

▪ Despite continued fiscal consolidation Poland failed to reach its deficit target of 3.5% of GDP last year and did not fulfil the European Council's recommendation. Consequently, the excessive deficit procedure will not be lifted this year. What is more, spring EC forecasts for Polish general government deficit and debt were revised upward as compared to winter ones. They show that in 2013-2014 deficits will be around 4% of GDP on average vs 3.4% for 2013 and 3.3% for 2014 expected in January. The EC also increased its forecast for GG debt to 57.5% in 2013 and 58.9% in 2014 (vs 57% and 57.5%, respectively).

▪ On May 29 the European Commission will present the assessment of convergence programs prepared by the governments of EU member counties and will outline recommendations for all states. According to unofficial sources it is likely that the EC will extend by one year the deadline for Poland to cut the GG deficit to the reference level (3% of GDP). Earlier the commission recommended cutting deficit until 2012.

... but the MF is still determined to trim deficit

▪ April's update of convergence program shows that Poland's government intends to continue fiscal consolidation. However, path of the general government deficit narrowing towards the reference level (i.e. 3% GDP) is extended to 2015 (decline towards 2.7%). We would like to point out that the Ministry of Finance assumes decline of fiscal deficit to 3.5% of GDP this year, which will allow to lift the excessive deficit procedure in 2014. In our opinion it is realistic, however, we see a lot of risks of higher reading.

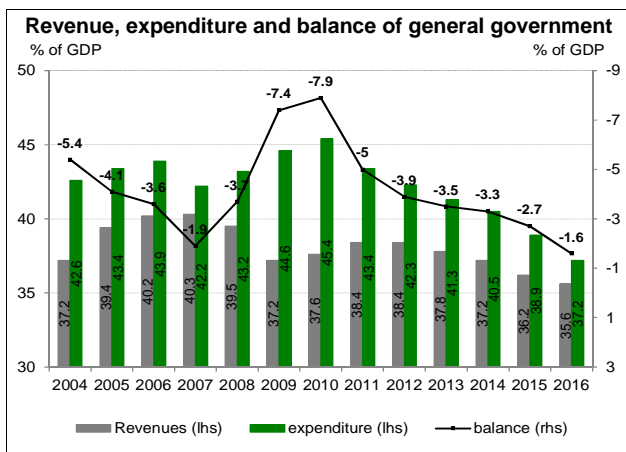
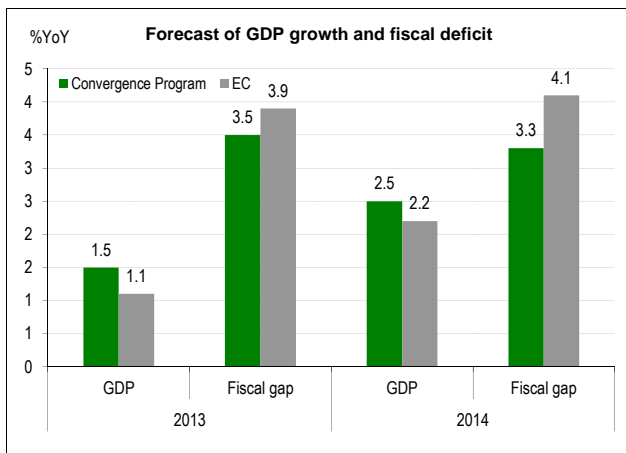
▪ According to Ministry the general government deficit is under control. The deficit in nominal terms should continue the downward trend in 2013-2016 period.

▪ Regarding the general government debt, the Ministry is more optimistic than the European Commission. The Updated Convergence Program assumes that after increase of debt to 55.8% of GDP, the debt should gradually decline towards 54.5% of GDP in 2016. The more optimistic forecast comes from assumption that implementation of next step in liquidity management of consolidated units of fiscal sector. In this way net borrowing requirements should be reduced in coming years.

ECB supports positive mood on debt markets

▪ Weaker macroeconomic data (both in the US and the euro area) and expectations for further monetary stimulus (including strong expectation for rate cuts by the ECB) sustained appetite for bonds not only from core markets, but also from peripheral ones. Additional supportive factor was improvement in political situation in Italy (creation of a new government). As a consequence yield of 10Y Bunds fell slightly below 1.20%, while yield of Italian 10Y fell below 4% (for the first time since end-2010). It results in decrease in risk premium for peripheral countries.

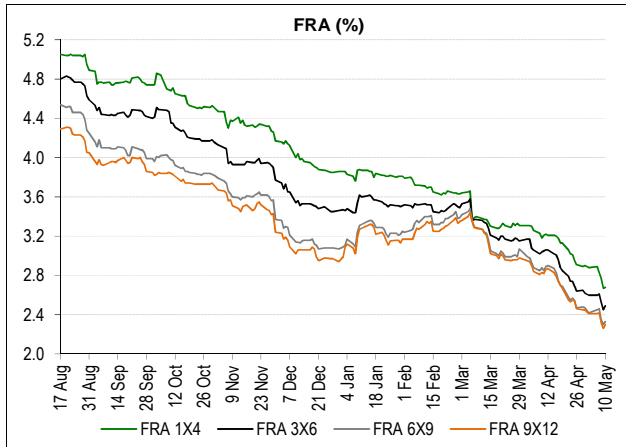
▪ In line with expectations, the ECB cut rates by 25bps at its May's meeting. Moreover, the ECB did not exclude to reduce the deposit rate to negative territory. After significant rallying, there was some correction move across the board. However, in our opinion, still uncertain prospects for global economy should support debt markets in coming weeks.



	Spread vs Bunds (10Y) in bps			CDS (5Y USD)		
	10.05	change since 10.04.13	change since 31.12.12	10.05	change since 10.04.13	change since 31.12.12
Poland	174	-47	-67	77	-7	-3
Czech	17	-33	-37	57	-3	-6
Hungary	386	-75	-106	268	-45	-1
Greece	832	-167	-221	0	0	0
Spain	285	-48	-115	226	-36	-62
Ireland	212	-52	-107	155	-22	-61
Portugal	410	-101	-159	332	-79	-105
Italy	255	-46	-67	236	-31	-38
Germany	-	-	-	34	1	-5

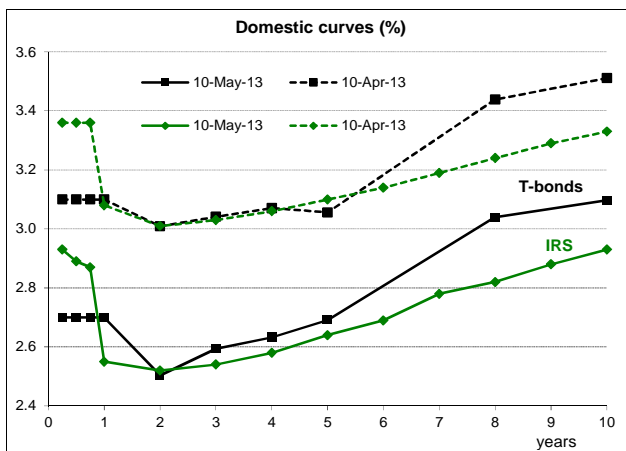
Source: CSO, MF, Reuters, BZ WBK

Interest rate market



Extremely bullish money market

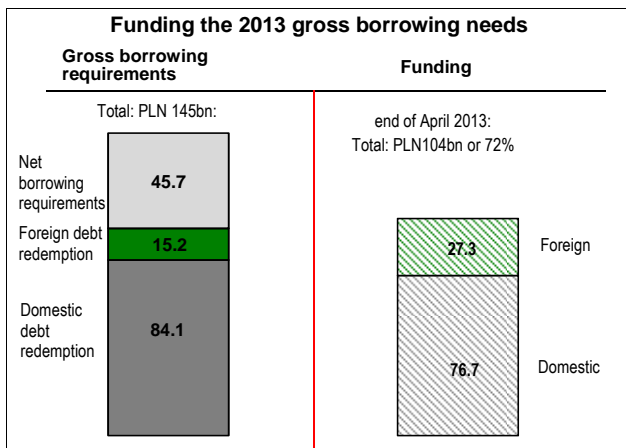
- In April WIBOR rates have continued downward trend due to dovish statements of MPC's members (in particular Mr Hausner) and weak macro data, which strengthened expectations on further monetary easing. Consequently, at the end of month rates between 3M and 1Y were only slightly above 3%. This level was broken after May's MPC decision, trimming official rates by 25bps.
- Macro data flows caused significant decline in FRA rates. At the end of April both FRA and OIS were pricing-in NBP rates reduction by 100bps in total. After May's decision market players have adjusted their expectations to new market environments. Currently, market is pricing-in rate cuts by another 75bps in total till end-July. In 6 months horizon investors expect the reference rate to decline to 2.25%.



- Upcoming macro data for April (still weak data from real economy, downward move of inflation) might again strengthen expectations on further monetary easing or even change expectation regards the scale of further cuts. Therefore in coming weeks we foresee WIBOR rates to continue downward move and FRA rates to stabilise near their minimum levels (or even decline if market starts to price-in more aggressive rate cuts than currently expected).

Bond yields and IRS rates lower and lower ...

- Both bond and IRS markets have continued rallying in April. Bullish sentiment was supported by strong expectations on cuts and expansionary policy by the main central banks (mainly BoJ). In monthly terms IRS curve shifted parallel (decline by 50bps), while the yield curve moved down by 54-67bps (with the deepest decline in 10Y).

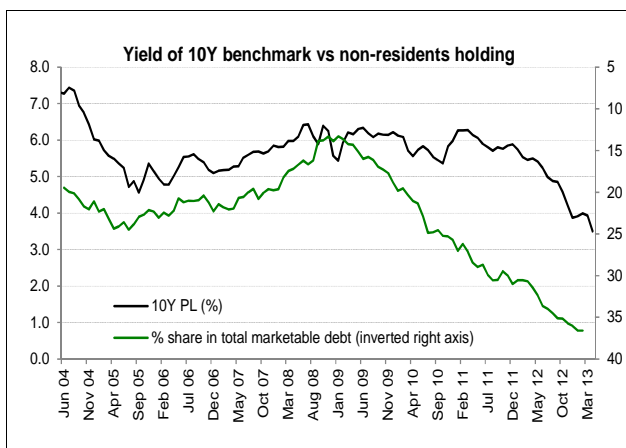


- Foreign demand has remained relatively strong. At the end of March portfolio of Polish marketable bonds held by foreign investors reached PLN205.3bn, the highest level in history. The upward move has been continuing since the beginning of 2009. What is more, thanks to foreign capital inflows the Ministry of Finance has completed 72% of this year borrowing requirements.

- The beginning of May brought another strong wave of bond and IRS purchasing, supported by the May's MPC decision, reducing official rates by 25bps. Both yields and IRS rates reached a fresh all time-lows; IRS rates up to 10Y were traded below 3%, while yield of 10Y benchmark declined towards 3%. Additional supportive factor for market was the first auction in May. Tender of a new 5Y benchmark PS0718 attracted strong demand from both domestic and foreign investors, which exceeded PLN9bn. It allowed the Ministry to launch PS0718 with record low yield (2.55%).

...and upcoming macro data are still supportive

- We expect yields and IRS rates to remain at low levels over the next few weeks. Upcoming macro data for April will support expectations for further monetary easing. Therefore we think that correction on the market (which started two days after the MPC's meeting) will be only short-lived.

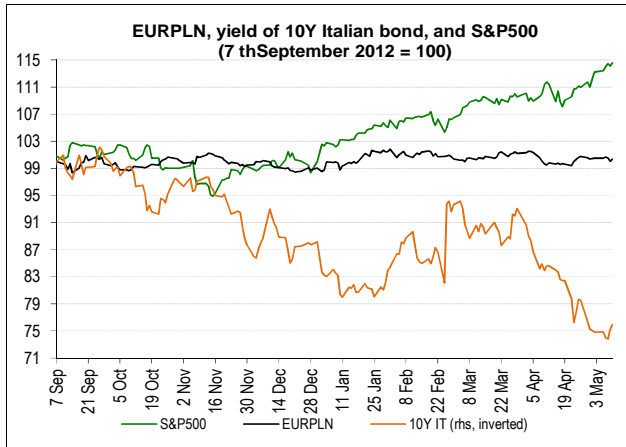


- Mid and long end of curves will be more vulnerable to the situation on core markets (in particular Bunds). The spread to Bunds has been narrowing, and we believe there is small room for further drop (mainly in 10Y sector).

- Situation on IRS market suggests that investors are pricing-in scenario assuming stagnation in Polish economy and low interest rates for a longer period. But it is not our basic scenario – we expect that the second half of 2013 will bring moderate rebound of economic activity and gradual increase of inflation CPI. As a consequence we do not exclude increase in yields and IRS rates later this year, in particular at the end of the curve.

Source: NBP, Reuters, BZ WBK

Foreign exchange market



EURPLN temporarily below 4.12 but still no breakthrough...

▪ Appreciation of the zloty recorded at the beginning of April after the Bank of Japan extended the easing program was soon nearly entirely reversed. Flash PMI for German and euro zone's manufacturing proved much weaker than expected and this triggered weakening of the domestic currency. The scale of depreciation was additionally fuelled by lower liquidity during Polish May's market holidays. Consequently, the EURPLN increased temporarily to nearly 4.18. The domestic currency pared part of losses after Mario Draghi said the ECB is technically ready to cut deposit rate below 0% if there is such need. This pushed the EURPLN down to ca. 4.12. However, just like in previous months, also this time last weeks can be summed up as a period that did not bring breaking changes zloty vs. major currencies.

... just like in case of Polish economy

▪ The first chart shows that while since the turn of August and September 2012 the horizontal trend persists in case of the EURPLN, on the foreign markets strong directional tendencies have been recorded. US stock indexes are establishing fresh all-time-high levels while yields on the peripheral debt market are declining. There is only slight impact on the zloty from developments taking place in case of forint and Czech koruna. Since 3Q these currencies are gradually depreciating versus the euro, this trend is particularly visible in case of the EURCZK (it increased from 24.32 in early September to nearly 26.0 – it stays close to this level currently). The zloty on one hand does not benefit from firm trends of appreciation of risky assets. On the other hand, it remains immune to negative regional factors.

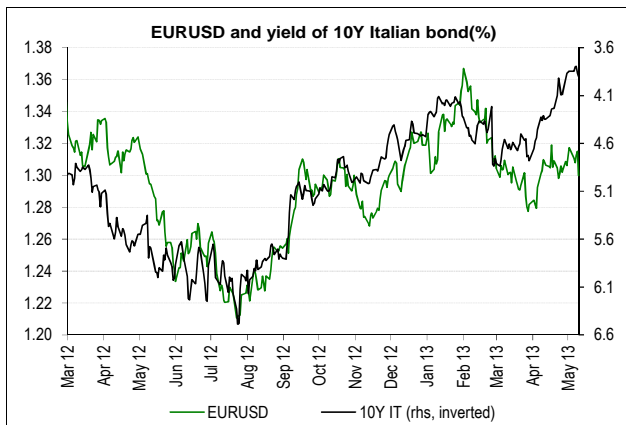
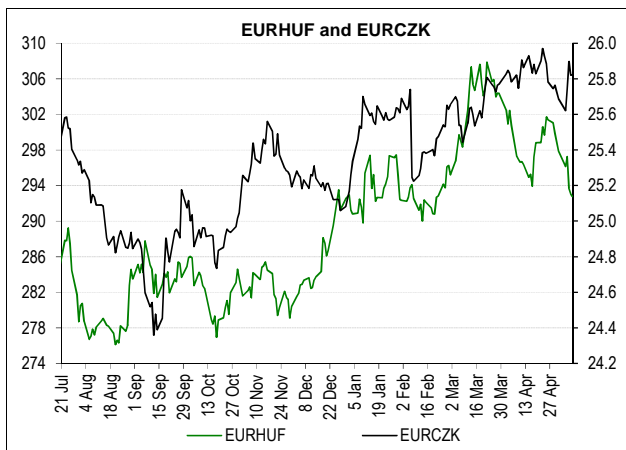
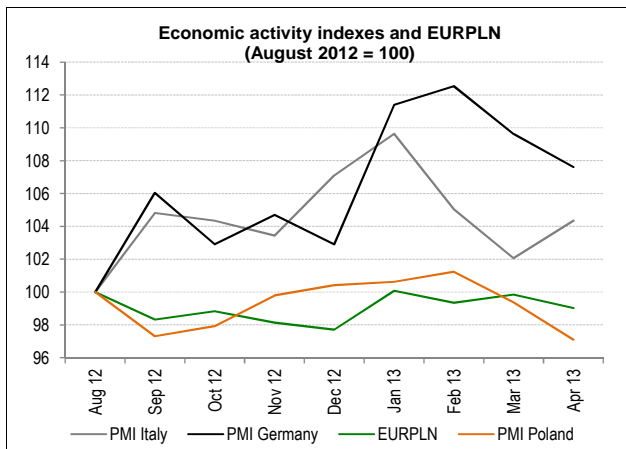
▪ Second chart shows that since August 2012 the pace of changes of moods regarding the situation in domestic economy – measured by PMI index – were less optimistic in Poland than in Western Europe. In Poland we did not feel as significant variations of hopes for fast rebound of economic growth and this might have contributed to the fact that the zloty remained only stable and did not benefit – as much as domestic bonds – from expectations for monetary policy easing from global central banks.

▪ We expect next data to show already known picture of the domestic economy – further decline of inflation and weakness in manufacturing. Thus we do not see much room for stronger zloty. We expect average EURPLN at 4.13 with slight upward risk to this forecast. Even if next Polish and foreign data confirm prolonging stagnation of the economy, the potential for depreciation of the domestic currency shall be limited by situation on the debt market (bonds may continue to gain due to expectations for more rate cuts). We do not anticipate the EURPLN to stay longer above 4.18.

Euro under pressure of worries over deposit rate cut

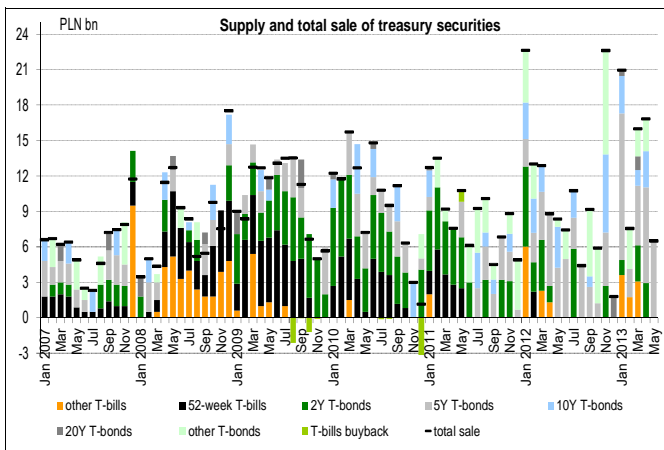
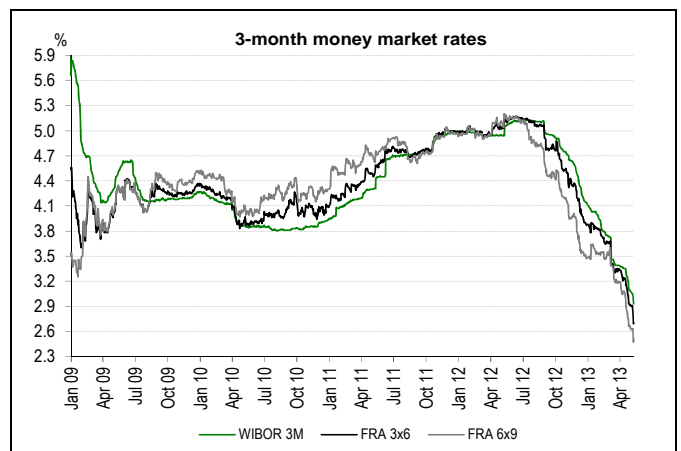
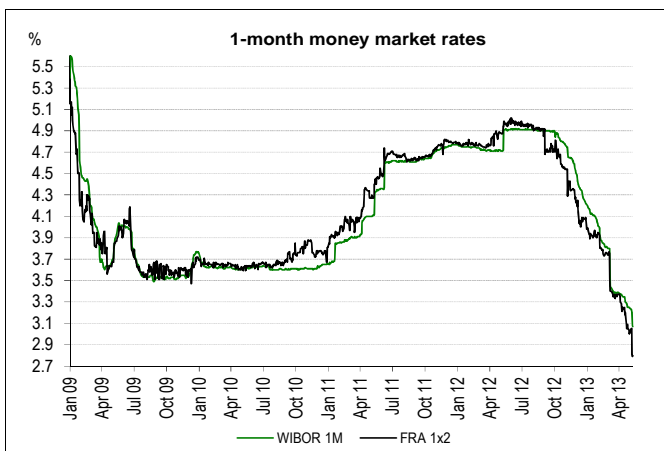
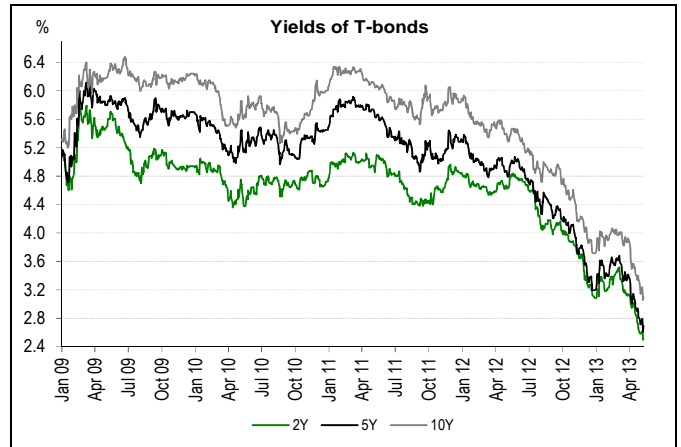
▪ The single currency gained versus the dollar (in early May the exchange rate reached 1.324 – highest since February) but this was only temporary. In the following weeks the euro was under pressure from comment of ECB governor who said during the press conference that the central bank is technically ready to cut deposit rate below 0%. Consequently, the EURUSD broke 200-day moving average and reached ca. 1.294. Since mid-April the exchange rate stays in the broad range of 1.294-1.324.

▪ During the past month one factor weighing on the euro disappeared – Italy finally has a new PM – but emerged another one: lack of signals of expected economic rebound. Data from the euro may be of particular importance and in case of next disappointments – and if accompanied by more encouraging US data – our end-May forecast at 1.315 may prove too optimistic.



Source: CSO, NBP, Reuters, BZ WBK

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	date	First auction			Second auction			Switch auction			
		T-bonds	offer		date	T-bonds	offer	date	T-bonds	offer	
May '12	10.05	DS1021/WS0429	2000-4000	4092.3	16.05	PS0417	2000-4000	-	14.06	OK0712/OK1012	WZ/IZ
June	20.06	PS0417	2000-4000					05.07	OK0712/OK1012	PS0417/DS1021	
July	19.07	OK0714	2000-5000								
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	
April	11.04	DS1023/WZ0124	3000-5000	5029.1	23.04	OK/WZ/PS	5000-10000	11788.6			
May	9.05	PS0718	3500-5500	6498.0	16.05	DS/WZ/WS	2000-6000				

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

Source: MF, Reuters, BZ WBK

Economic calendar

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
13 May US: Retail sales (Apr)	14 PL: Flash GDP (Q1) PL: Money supply (Apr) EZ: Industrial output (Mar) DE: ZEW index (Apr)	15 PL: CPI (Apr) PL: Balance of payments (Mar) DE: Flash GDP (Q1) EZ: Flash GDP (Q1) US: Industrial output (Apr)	16 PL: Core inflation (Apr) EZ: HICP (Apr) US: House starts (Apr) US: Building permits (Apr) US: Philly Fed index (May)	17 US: Flash Michigan (May)
20 PL: Wages and employment (Apr)	21 PL: Industrial output (Apr) PL: PPI (Apr)	22 US: Home sales (Apr)	23 PL: MPC minutes CN: Flash PMI – manuf. (Jun) DE: Flash PMI – manuf. (Jun) EZ: Flash PMI – manuf. (Jun) GB: Preliminary GDP (Q1) US: New home sales (Apr)	24 PL: Retail sales and unemployment rate (Apr) DE: Ifo index (May) US: Durable goods orders (Apr)
27	28 S&P/Case-Shiller (Mar) US: Consumer confidence index (May)	29 PL: GDP (Q1)	30 US: Preliminary GDP (Q1) US: Pending home sales (Apr)	31 PL: Inflation expectations (May) EZ: Flash HICP (May) US: Personal income (Apr) US: Consumer spending (Apr) US: Core PCE (Apr) US: Michigan index (May)
3 June PL: PMI – manufacturing (May) DE: PMI – manufacturing (May) EZ: PMI – manufacturing (May) US: ISM – manufacturing (May) CN: PMI – manufacturing (Apr)	4 CZ: Flash GDP (Q1) US: Trade balance (Apr)	5 PL: MPC decision DE: PMI – services (May) EZ: PMI – services (May) EZ: GDP revision (Q1) US: ADP report (May) US: ISM – services (May)	6 GB: BoE decision EZ: ECB decision	7 DE: Exports (Apr) DE: Industrial output (Apr) US: Non-farm payrolls (May) US: Unemployment rate (May)
10 CZ: CPI (May) EZ: Sentix index (Jun)	11 HU: CPI (May)	12 EZ: Industrial output (Apr)	13 PL: CPI (May) US: Retail sales (May)	14 PL: Money supply (May) PL: Core inflation (May) EZ: HICP (May) US: Industrial output (May) US: Flash Michigan (Jun)
17 PL: Balance of payments (Apr)	18 PL: Wages and employment (May) DE: ZEW index (Jun) US: CPI (May) US: House starts (May) US: Building permits (May)	19 PL: Industrial output (May) PL: PPI (May) US: Fed decision	20 PL: MPC minutes DE: Flash PMI – manufacturing (Jun) EZ: Flash PMI – manufacturing (Jun) CN: Flash PMI – manufacturing (Jun) US: Home sales (May) US: Philly Fed index (Jun)	21

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	-	29	-	-	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	23	24	-	-	-	-	-	-	-
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	12	-	-	-	-	-
Money supply	14	14	14	12	14	14	12	-	-	-	-	-
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

		Apr 12	May 12	Jun 12	Jul 12	Aug 12	Sep 12	Oct 12	Nov 12	Dec 12	Jan 13	Feb 13	Mar 13	Apr 13	Maj 13
PMI	pts	49.2	48.9	48.0	49.7	48.3	47.0	47.3	48.2	48.5	48.6	48.9	48.0	46.9	47.0
Industrial production	%YoY	2.6	4.2	1.0	5.2	0.2	-4.8	4.7	-0.5	-9.6	0.4	-2.1	-2.9	2.0	0.0
Construction production	%YoY	7.8	5.6	-5.2	-8.7	-5.1	-17.9	-3.6	-5.4	-24.9	-16.1	-11.4	-18.5	-14.5	-21.6
Retail sales ^a	%YoY	5.5	7.7	6.4	6.9	5.8	3.1	3.3	2.4	-2.5	3.1	-0.8	0.1	-0.2	-0.6
Unemployment rate	%	12.9	12.6	12.3	12.3	12.4	12.4	12.5	12.9	13.4	14.2	14.4	14.3	14.0	13.6
Gross wages in enterprises sector ^a	%YoY	3.4	3.8	4.3	2.4	2.7	1.6	2.8	2.7	2.4	0.4	4.0	1.6	1.5	1.8
Employment in enterprises sector	%YoY	0.3	0.3	0.1	0.0	0.0	0.0	0.0	-0.3	-0.5	-0.8	-0.8	-0.9	-0.9	-1.0
Export (€)	%YoY	2.4	-1.6	0.6	10.9	4.8	0.7	17.7	9.2	-2.1	7.1	3.2	0.0	5.5	4.1
Import (€)	%YoY	-3.3	-2.0	-5.3	3.3	-2.1	-1.8	9.2	4.6	-1.8	1.0	-8.8	-4.6	2.4	-1.7
Trade balance	EURm	-420	-846	-372	-389	-109	57	286	-249	-1 154	-8	602	66	-62	-138
Current account balance	EURm	-655	-454	-1 092	-973	-868	-1 448	-743	-1 495	-1 235	-1 688	-854	146	-519	-317
Current account balance	% GDP	-4.9	-4.9	-4.6	-4.4	-4.1	-4.1	-3.7	-3.7	-3.5	-3.4	-3.3	-3.1	-3.0	-3.0
Budget deficit (cumulative)	PLNbn	-24.8	-27.0	-21.1	-24.3	-22.9	-21.1	-34.1	-30.4	-30.4	-8.4	-21.7	-24.4	-30.1	-29.5
Budget deficit (cumulative)	% of FY plan	70.9	77.1	60.2	69.6	65.5	60.4	97.5	86.9	86.9	23.7	60.9	68.6	84.5	83.0
CPI	%YoY	4.0	3.6	4.3	4.0	3.8	3.8	3.4	2.8	2.4	1.7	1.3	1.0	0.6	0.4
CPI excluding prices of food and energy	%YoY	2.7	2.3	2.3	2.3	2.1	1.9	1.9	1.7	1.4	1.4	1.1	1.0	0.8	0.6
PPI	%YoY	4.4	5.2	4.4	3.6	3.0	1.8	1.0	-0.1	-1.1	-1.2	-0.3	-0.6	-1.6	-2.2
Broad money (M3)	%YoY	10.2	11.1	11.0	11.0	9.8	7.6	8.0	5.7	4.5	4.4	5.5	6.6	7.0	5.9
Deposits	%YoY	10.0	10.8	10.4	10.9	9.5	7.9	8.1	5.8	4.7	5.0	5.2	6.5	7.0	5.9
Loans	%YoY	13.4	13.1	10.7	7.5	7.1	5.4	5.4	2.3	2.3	3.7	3.8	3.6	3.7	2.9
EUR/PLN	PLN	4.18	4.30	4.30	4.19	4.09	4.14	4.11	4.13	4.10	4.14	4.17	4.16	4.14	4.13
USD/PLN	PLN	3.17	3.36	3.43	3.41	3.30	3.22	3.17	3.22	3.12	3.11	3.12	3.21	3.18	3.15
CHF/PLN	PLN	3.47	3.58	3.58	3.49	3.41	3.42	3.40	3.43	3.39	3.37	3.39	3.39	3.39	3.36
Reference rate ^b	%	4.50	4.75	4.75	4.75	4.75	4.75	4.75	4.50	4.25	4.00	3.75	3.25	3.25	3.00
WIBOR 3M	%	4.94	5.05	5.12	5.13	5.10	4.95	4.82	4.62	4.26	4.03	3.80	3.48	3.29	2.92
Yield on 52-week T-bills	%	4.58	4.75	4.75	4.64	4.58	4.53	4.42	4.14	3.94	3.62	3.56	3.30	3.06	2.60
Yield on 2-year T-bonds	%	4.67	4.77	4.71	4.46	4.12	4.09	3.94	3.66	3.23	3.25	3.36	3.26	2.89	2.55
Yield on 5-year T-bonds	%	4.97	4.97	4.85	4.58	4.43	4.28	4.12	3.78	3.35	3.46	3.56	3.46	3.03	2.65
Yield on 10-year T-bonds	%	5.50	5.41	5.24	4.99	4.88	4.85	4.59	4.21	3.87	3.91	4.00	3.93	3.50	3.15

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	1 595.3	1 624.8	370.1	389.1	393.8	442.2	380.2	393.7	398.5	452.4
GDP	%YoY	3.9	4.5	1.9	1.2	3.5	2.3	1.3	0.7	0.8	0.9	1.2	1.9
Domestic demand	%YoY	4.6	3.6	-0.2	-0.4	2.2	-0.4	-0.8	-1.6	-1.5	-0.5	-0.1	0.2
Private consumption	%YoY	3.2	2.6	0.8	0.9	1.7	1.3	0.2	-0.2	0.5	0.8	1.0	1.4
Fixed investments	%YoY	-0.4	8.5	-0.8	-2.6	6.8	1.4	-1.7	-4.1	-5.5	-4.0	-2.0	-1.0
Industrial production	%YoY	9.0	7.7	1.0	1.7	4.7	2.6	-0.3	-3.0	-2.0	1.7	1.4	5.0
Construction production	%YoY	4.6	12.3	-1.0	-15.5	13.6	2.0	-11.0	-12.7	-15.6	-17.1	-15.5	-14.0
Retail sales ^a	%YoY	6.1	11.2	6.0	1.2	12.6	6.5	5.3	0.9	0.9	0.3	1.4	2.1
Unemployment rate ^b	%	12.4	12.5	13.4	13.9	13.3	12.3	12.4	13.4	14.3	13.4	13.3	13.9
Gross wages in national economy ^a	%YoY	3.9	5.2	3.7	2.0	5.2	3.9	2.8	2.9	2.6	2.5	2.1	2.7
Employment in national economy	%YoY	-0.2	0.6	0.0	-0.8	0.2	0.2	-0.1	-0.4	-0.6	-0.7	-0.6	-0.3
Export (€)	%YoY	22.8	12.1	4.6	6.2	4.1	0.4	5.0	8.9	3.4	5.0	6.0	10.0
Import (€)	%YoY	24.9	12.2	1.1	2.0	4.3	-3.5	-0.4	4.3	-4.1	1.5	4.0	6.5
Trade balance	EURm	-8 893	-10 059	-5 313	671	-2 115	-1 640	-445	-1 113	660	-414	277	147
Current account balance	EURm	-18 129	-17 977	-13 480	-7 449	-4 515	-2 203	-3 285	-3 477	-2 426	-1 118	-1 871	-2 033
Current account balance	% GDP	-5.1	-4.9	-3.5	-1.9	-5.1	-4.6	-4.1	-3.5	-3.0	-2.6	-2.3	-1.9
General government balance	% GDP	-7.9	-5.0	-3.9	-3.5	-	-	-	-	-	-	-	-
CPI	%YoY	2.6	4.3	3.7	0.9	4.1	4.0	3.9	2.9	1.3	0.4	0.7	1.2
CPI ^b	%YoY	3.1	4.6	2.4	1.3	3.9	4.3	3.8	2.4	1.0	0.2	1.0	1.3
CPI excluding food and energy prices	%YoY	1.6	2.4	2.2	1.0	2.5	2.5	2.1	1.7	1.2	0.7	1.0	1.3
PPI	%YoY	2.1	7.6	3.4	-1.4	6.1	4.7	2.8	-0.1	-0.7	-1.9	-1.5	-1.4
Broad money (M3) ^b	%YoY	8.8	12.5	4.5	2.5	9.1	11.0	7.6	4.5	6.6	5.9	5.4	2.5
Deposits ^b	%YoY	9.1	11.7	4.7	2.3	8.5	10.4	7.9	4.7	6.5	5.9	5.2	2.3
Loans ^b	%YoY	9.2	14.4	1.2	3.7	12.8	10.7	5.4	2.3	3.6	4.5	5.5	1.2
EUR/PLN	PLN	3.99	4.12	4.19	4.13	4.23	4.26	4.14	4.11	4.16	4.13	4.13	4.10
USD/PLN	PLN	3.02	2.96	3.26	3.11	3.23	3.32	3.31	3.17	3.15	3.15	3.09	3.04
CHF/PLN	PLN	2.90	3.34	3.47	3.35	3.50	3.55	3.44	3.40	3.38	3.37	3.33	3.31
Reference rate ^b	%	3.50	4.50	4.25	2.75	4.50	4.75	4.75	4.25	3.25	2.75	2.75	2.75
WIBOR 3M	%	3.94	4.54	4.91	3.14	4.97	5.04	5.06	4.57	3.77	3.02	2.79	3.00
Yield on 52-week T-bills	%	3.96	4.51	4.48	2.95	4.50	4.69	4.58	4.16	3.49	2.76	2.67	2.88
Yield on 2-year T-bonds	%	4.72	4.81	4.30	2.84	4.66	4.71	4.22	3.61	3.29	2.67	2.62	2.78
Yield on 5-year T-bonds	%	5.31	5.44	4.53	3.03	5.02	4.93	4.43	3.75	3.49	2.78	2.87	2.98
Yield on 10-year T-bonds	%	5.74	5.98	5.02	3.51	5.58	5.38	4.91	4.22	3.95	3.29	3.31	3.48

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 10.05.2013 has been prepared by:

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