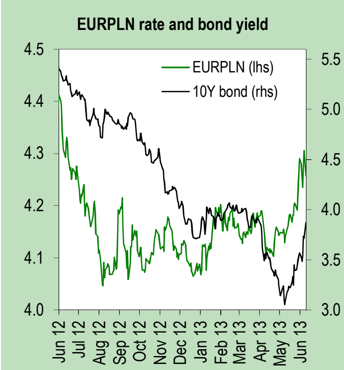
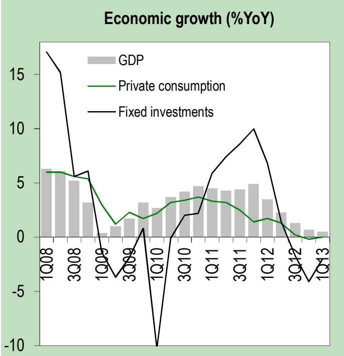
Bank Zachodni WBK

MACROscope

Polish Economy and Financial Markets

June 2013





Stormy markets

- **In June the MPC cut interest rates again by 25bps, reference rate is already at 2.75%.** This decision came as no surprise given recent macroeconomic data and earlier comments of the Council's members. The MPC stated that "monetary policy easing conducted since November 2012 supports economic recovery and limits the risk of inflation running below the NBP target in the medium term". At the same time, the NBP Governor Marek Belka stressed that a statement that the cycle has come to end or that the MPC is in neutral bias would be too far-fetched. We think that new GDP and inflation projection, to be shown in July, will justify another (and the last one, in our view) interest rate cut by 25bps.
- **Rhetoric of the MPC – indicating imminent end of the easing cycle – fuelled the strong upward trend of IRS and yields of domestic bonds.** In the last few days of May the much better-than-expected data was released in the US and this supported worries whether the Fed terminates QE3. This time, however, the scale of correction on the global FI market was very sudden and considerable in scale. Consequently, during the 2 weeks Polish IRS and bond curves surged by ca. 30-60bps.
- **Stormy changes occurred also on the Polish FX market.** After ca. 10 months of range trading, the turn of May and June saw sudden surge of the EURPLN to nearly 4.32 (highest level since mid-2012). The zloty was weakest this year vs. the British pound, since mid-July 2012 vs. Swiss franc and since September 2012 vs. the dollar. In the first week of June the NBP came to the rescue – its intervention dragged the exchange rate fast from ca. 4.30 to nearly 4.22. The NBP governor, Marek Belka, said that the main aim of the intervention was to limit excessive volatility of the zloty's exchange rate. He added that if excessive fluctuations persist, then further actions cannot be excluded. Still, the effect of this intervention was only temporary and soon the zloty started to depreciate again.
- **PMI for Polish manufacturing terminated the two month long slide and increased in May to 48pts, returning to level seen in March.** An improvement was also recorded in economic activity indexes calculated by Polish CSO and this suggests that hopes for a revival in second half of the year are not unfounded. However, before recovery arrives, a handful of weak data from domestic economy for May will be released – our forecasts of industrial output and retail sales are below market consensus. If they materialize, they may support – at least temporarily – Polish debt and initiate a correction after recent increase of the IRS. MPC's communication with the market is not clear and coherent, so some poor data from the domestic economy may again strengthen market expectations for more easing of the monetary policy – in contrast to suggestion from the Council on approaching end of the rate cuts.
- **We think that due to persisting uncertainty about further actions of the Fed, the room for any more visible appreciation of the zloty is limited.** However, first signs of improvement in economic situation emerged recently. A month ago we pointed that the zloty did not gain on hopes for fast revival of global economy because there were no signs of improvement in Polish data. If PMI and other activity indexes increase further in coming months, then better economic outlook may support the zloty. We expect the average EURPLN at 4.25 in June with upward risk.

Financial market on 10 June 2013:

NBP deposit rate	1.25	WIBOR 3M	2.76	EURPLN	4.2571
NBP reference rate	2.75	Yield on 2-year T-bond	2.90	USDPLN	3.2210
NBP lombard rate	4.25	Yield on 5-year T-bond	3.39	CHFPLN	3.4374

This report is based on information available until 10.06.2013

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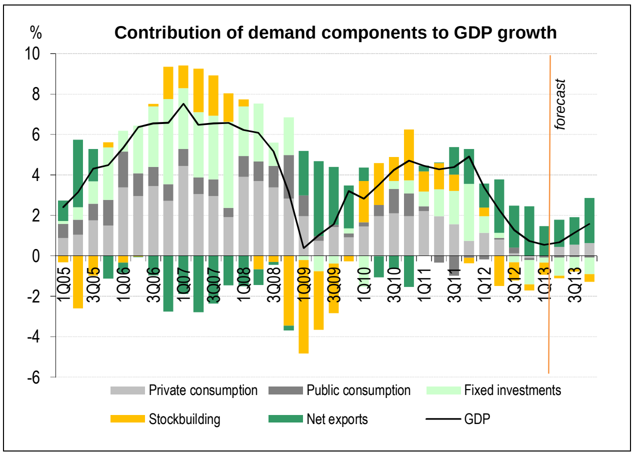
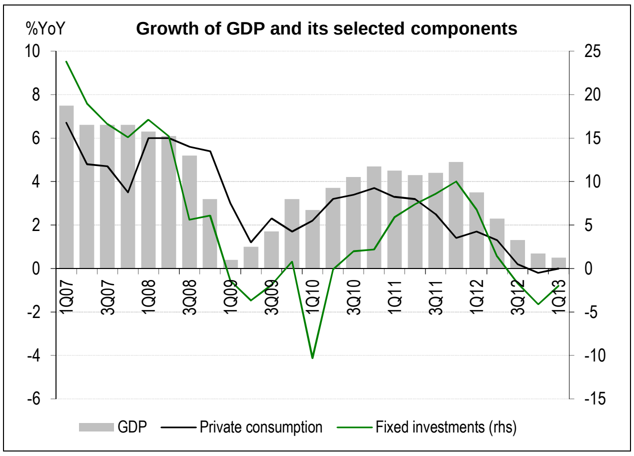
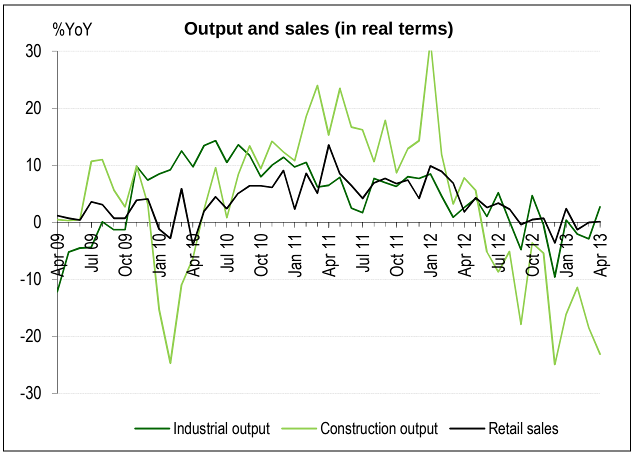
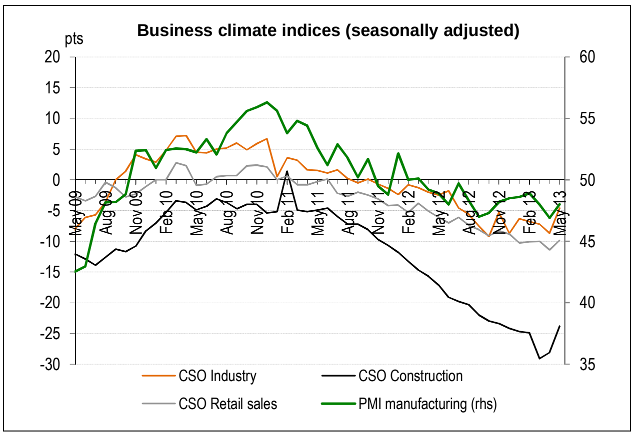
Economic update









Source: CSO, NBP, Markit, BZ WBK

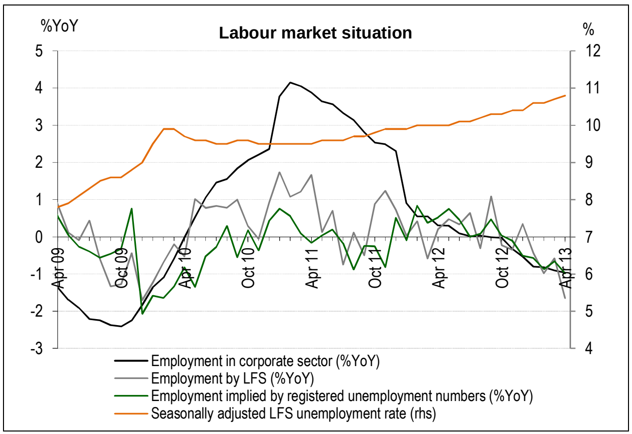
Weak GDP and domestic demand in Q1

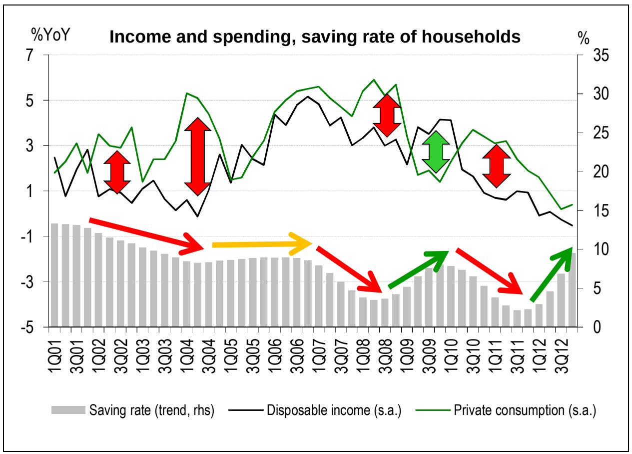
- GDP growth in 1Q2013 amounted to 0.5%YoY, i.e. slightly higher than the flash estimate (0.4%). Continuing weakness of the domestic demand was the main source of slow economic growth, as it plunged by 0.9%YoY (the fourth quarter in a row of negative annual growth). Individual consumption stagnated at 0%YoY (vs -0.2%YoY in 4Q2012), while investments contracted by 2%YoY (vs -4.1% in the previous quarter). Results of consumption are below expectations, while investments are above. A similar situation took place during flash release of GDP data for 4Q2012. However, one should remember that eventually the CSO strongly revised the 4Q data, raising the growth rate of consumption (from -1% to -0.2%YoY) and significantly lowering fixed investments (from -0.3% to -4.1%YoY). Thus, it is difficult to argue that slightly less considerable pace of contraction in investments in Q1 is a harbinger of recovery, especially as growth rate of construction and assembly output may be worse in Q2 than in was in Q1.
- Net exports delivered a marked positive contribution to GDP growth (+1.4pp), yet it was weaker than in Q4 (+2.4pp) and lower than estimate based on balance of payments data (in Q1 trade and services recorded a surplus of over PLN6bn, the highest number since mid-90, which was an improvement by PLN10bn as compared to 1Q2012).
- We uphold our stance that in the coming quarters the pace of GDP growth should not decline further. Improvement in economic activity in Q2 2013 might be only marginal and it seems we are still running at the bottom of business cycle. However, in the second half of 2013 we foresee more visible GDP acceleration. Net exports will remain the main engine of GDP growth, but the pace of growth of domestic demand should also gradually rebound.

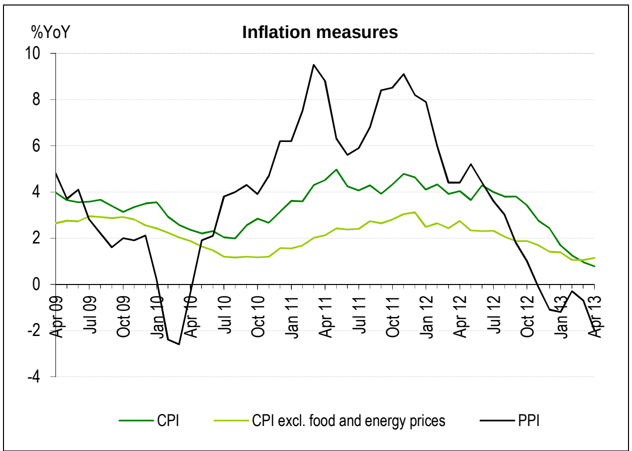
Output still weak, but business climate indexes improve

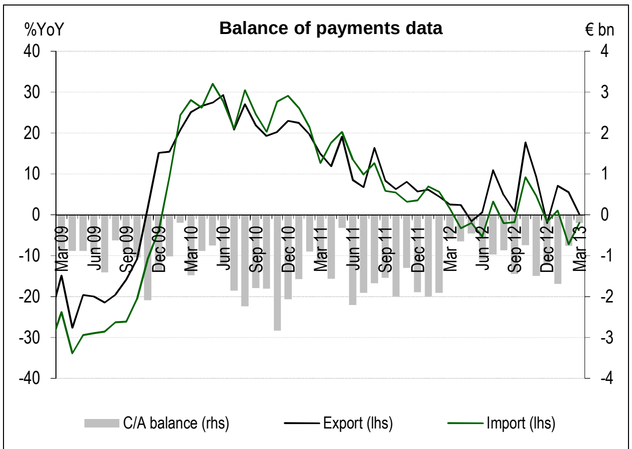
- Industrial output increased in April by 2.7%YoY after two consecutive months of negative annual growth. One should remember that in April 2013 there was one working day more than a year ago while in two previous months the situation was reversed. That is why these – seemingly positive – data do not indicate in our opinion any actual improvement in Polish manufacturing. Pace of industrial growth after seasonal adjustment (including working days effect) reported by the CSO showed a contraction by 0.3%YoY after an increase by 0.6%YoY in March. Thus, we still observe stagnation in domestic manufacturing.
- Construction and assembly output fell by 23.1%YoY, by most since December (seasonally adjusted output fell by 23.5%YoY, which is the biggest drop since we have comparable data, i.e. mid-90.). It cannot be excluded that weather conditions contributed to this result – the first days of April were still snowy. Nevertheless, poor construction data did not give reason to be optimistic about investment growth in the second quarter.
- Retail sales contracted in April by 0.2%YoY. Results of sales were undermined, among others, by effect of earlier Easter – this year the pre-holiday shopping (especially of food) was conducted entirely in March. What is interesting, some other categories recorded an opposite tendency – a significant improvement in April after weak results in March.
- PMI index for Polish manufacturing rose in May to 48.0pts, returning to level from March and breaking the two-month long downward slide. Improvement was recorded also by CSO business climate indexes in all main sectors (seasonally adjusted) and consumer confidence gauges, which is suggesting that expectations for economic recovery in H2 are not unfounded.

Economic update









Source: CSO, NBP, BZ WBK

Deepening of negative tendencies on the labour market

- In April the annual pace of growth of wages accelerated to 3%YoY, as compared to 1.6%YoY in the previous month. April's employment amounted to 5477.5k – with annual decline by 1%. Number of workplaces declined by 53k compared to April 2012 and this was already 7th month in a row of decline. What is interesting, LFS data, which earlier did not confirm the downward tendency of employment, show a considerable decline of employed after recent revision (-1.6%YoY, the strongest decline since December 2009).
- In April unemployment rate declined to 14.0% from 14.3% in March. The drop of unemployment is typical for April and is due to seasonal factors. However, data show that this effect was weaker than in past years – corporate sector employment in construction decreased in April on monthly basis for the first time for over 10 years. Additionally, part of the decline of unemployment rate may be attributed to intervention to Ministry of Labour. Seasonally adjusted LFS unemployment rate climbed in April from 10.7% to 10.8% (the highest number since February 2007).
- According to estimates of the Labour Ministry, unemployment rate fell in May to 13.5%, i.e. stronger that the seasonal factors may suggest. Still, this may be due to a rebound after prolonged winter and amplified intervention of the ministry.
- We estimate that wage bill in the enterprise sector increased in April by 2%YoY in nominal terms and by 1.2%YoY in real terms. Average real growth of households' incomes should improve in Q2 vs Q1 (e.g. due to lower inflation). Still, scale of revival in private consumption may be limited due to rising propensity to save. On the other hand, data on financial accounts show that process of savings rebuilding started some time ago already and this supports expectations for rebound in consumption in H2.

Inflation closer to zero

- CPI inflation declined in April to 0.8%YoY from 1.0%YoY in March. As much as half of the annual price growth is due to increase in April (as prices rose by 0.4%MoM), which is showing the strength of low base effect from 2H2012 (prices were on average declining in this period).
- Core inflation excluding food and energy prices climbed somewhat, to 1.1% from 1.0% in March. PPI inflation is still showing deep declines (-2.0%YoY), while deflator of retail sales entered deflationary territory (-0.3%YoY).
- We still think that the second half of the year will bring a rebound in inflation, which may run close to 1.5% at the year-end. The same trend will be followed by core inflation, as it can decline below 1% in the upcoming two months, but may climb even above 1.5% in H2. Beginning of upward inflation trend should prevent the MPC from cutting interest rate further.

Current account deficit above expectations

- Current account deficit amounted to €200m in March. Data on imports surprised to the upside, showing over €13bn, and expanding by 11.5%MoM (the highest monthly rise in March since 2010). However, in annual terms imports declined by 2%. Exports increased by 3.2%MoM, with annual growth by only 0.1%. Let us remind that in March we noted a significant decline in industrial output due to lower number of working days, which affected exports. Therefore, we do not think the annual growth rate should be distressing. On the other hand, imports growth might result from a temporary revival in retail sales (pre-Easter shopping).
- Our calculations show that in 1Q the current account deficit reached 3.0% of GDP (as compared to 3.5% in 4Q2012). We expect a gradual decline of this indicator in coming quarters to ca. 1.5% in 4Q 2013.

Monetary policy watch

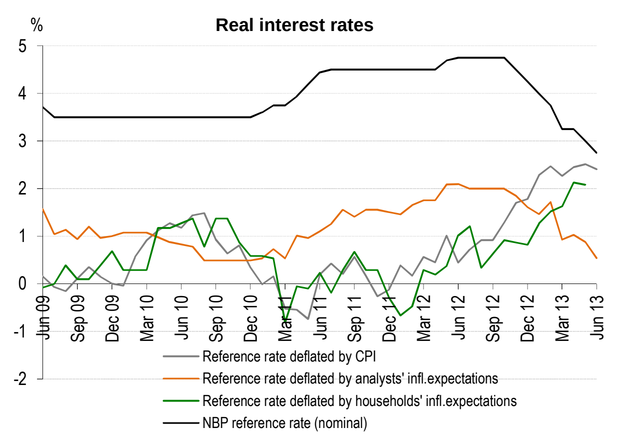
Fragments of MPC communiqué after June's meeting
Global economic activity remained weak in 2013 Q1. (…) Despite signs of some improvement, recent data on business conditions in the euro area point to persistently negative trends in that economy at the beginning of Q2.
In Poland, preliminary data on GDP in 2013 Q1 point to a slightly stronger than expected weakening in economic growth. (…) The April data on industrial and construction output and retail sales, as well as the majority of business climate indicators show that weak economic growth continued at the beginning of Q2.
The continuing slowdown in demand in 2013 Q1 contributed to further deterioration in the labour market; in particular the number of employed decreased and unemployment rose. Also the April data on the corporate sector point to a continued decline in employment, accompanied by rising registered unemployment rate (in seasonally adjusted terms). The situation in the labour market supports low wage growth.
In April 2013, growth in lending to the private sector remained limited. Both growth in loans to households and enterprises continued to be low.
In the opinion of the Council, incoming data point to weaker than expected economic growth in Poland and a stronger – than forecasted in the March projection – decline in inflation. At the same time, uncertainty about the scale and timing of the expected economic recovery in the euro area persists, which can adversely affect economic activity in Poland. Therefore, the Council decided to lower the NBP interest rates again.
The Council assesses that monetary policy easing conducted since November 2012 supports economic recovery and limits the risk of inflation running below the NBP target in the medium term.

End of the easing cycle is imminent

▪ In line with expectations, the Monetary Policy Council cut interest rates in June, bringing the reference rate to new all-time low at 2.75%. The Council noted in the statement that the upcoming data are indicating lower-than-expected economic growth in Q1 and stronger-than-expected decline of inflation. If we supplement this information with the fact that recent monthly data are suggesting low economic activity also in Q2, the cut was certain. However, as the Council acknowledge uncertainty about scale and timing of expected economic recovery in the euro zone, and this may adversely affect economic activity in Poland, they left the door for further cuts open.

▪ The last sentence of the communiqué may be suggesting that the MPC are adopting a neutral bias. However, the Governor Belka said directly that such an interpretation would be too far-fetched. Still, the last paragraph of the statement is suggesting that we are close to the end of the cycle, and this is in line with our scenario. As the Governor said during the press-conference, the Council preferred to wait for results of new GDP and inflation projection, as they will help to set the economic picture for the upcoming quarters in a better order and then it would be possible to send an unambiguous signal for the markets. Belka stressed that we are approaching level of interest rates, which can be described (according to most MPC members) as adequate.

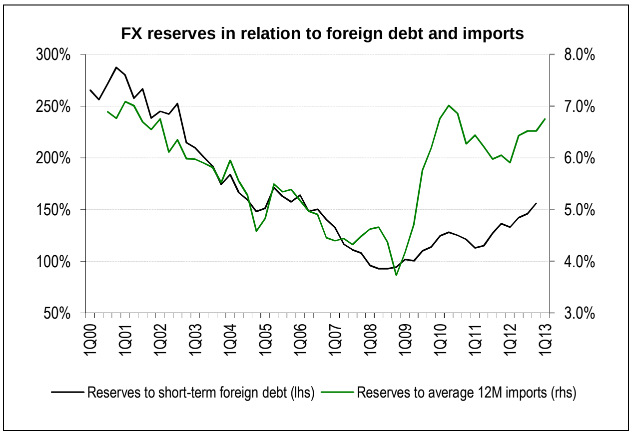
▪ In our opinion July's projection of inflation will allow the MPC to reduce interest rates one more time by 25bps and this will be the last cut in this easing cycle. Such scenario will be also justified by next macro data.



Real interest rates crucial for the MPC

▪ Since August 2012, households' inflation expectations have been moving in a downward trend. Market analysts revised their forecasts of inflation path for this year, but their expectations for 2014-2015 did not change much and are at 2.2% and 2.5%, respectively.

▪ NPB governor underlined recently that the aim of the MPC is to keep real interest rates (adjusted for analysts' expectations of inflation) in positive territory. If this is the fact, then the room for rate cuts is really limited – in June the real interest rate reached 0.5%, lowest since late 2010 when the MPC started to tighten the monetary policy. In second half of this year, when according to our forecast the CPI will rebound, the median of analysts' expectations will also probably pick up.



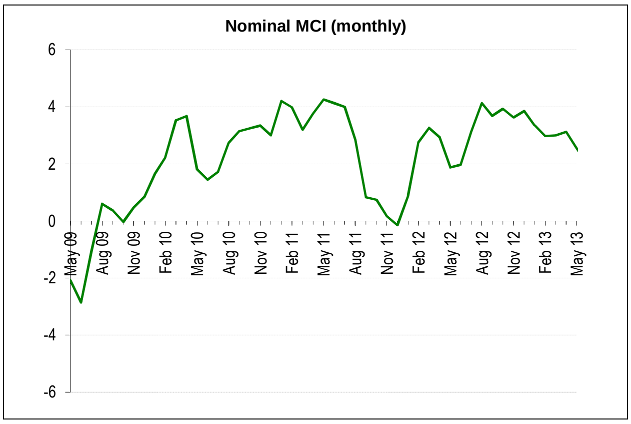
Currency reserves increase, but…

▪ After the NBP's intervention on the FX market aimed at halting the zloty's depreciation, investors may put bigger attention to the value of currency reserves held by the central bank.

▪ Level of Polish FX reserves is not alarmingly low, but it is also difficult to say the central bank disposes of high amount of ammunition to fight with global trends developing on the financial markets (particularly given rising level of Polish external debt). At the end of 4Q 2012 the value to FX reserves was equal to nearly 30% of Polish total external debt and ca. 156% of short term debt. At the end of May 2013 the value of foreign currencies held by the NBP reached €84.7bn and was higher by €2.1bn compared to level seen at the end of 2012. At the same time, in the Jan-May period, foreign investors increased their engagement in Polish marketable debt by nearly PLN17bn (ca. €4bn).

Source: CSO, Reuters, BZ WBK

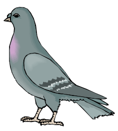
Restrictiveness of the Monetary Policy (Council)



Restrictiveness of the monetary policy declined again

- Nominal index of monetary policy restrictiveness MCI has stayed in downward trend since December 2012. This development was fuelled by falling market interest rates (amid easing of monetary policy by the MPC) and stable zloty's exchange rate.
- In May the index continued to decline and we expect this to be the case also in June but due to other factors than so far – WIBOR rates stabilized while the zloty depreciated quite significantly. In our view the WIBOR rates will remain stable until the end of 2013 while the domestic currency may gain slightly later in the year. This should generate some increase of monetary policy restrictiveness index.

Rzońca (1.24)
Winiecki (1.24)
Gilowska (1.26)
Kaźmierczak (1.17)
Glapiński (1.12)
Hausner (1.04)
Belka (0.93)
Zielińska-Głębocka (0.89)
Chojna-Duch (0.48)
Bratkowski (0.47)



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.

Marek Belka undermined the zloty… and the NBP supported the currency

NBP governor, Marek Belka said during the MPC's post-meeting press conference that recent weakening of the zloty was not due to specific factors related to Polish economy and it is not a phenomenon that worries the MPC. He added (and was right) that in current circumstances such a change will be positive for exporters. In response to this comment the domestic currency lost ca. PLN0.02 vs. the euro, as investors interpreted these words as suggestion that the central bank will not intervene on the FX market.

Only two days after this event the NBP actually intervened on the market and generated fast (though not too long-lasting) appreciation of the zloty. NBP governor explained that the main aim of the intervention was to limit excessive volatility of the zloty's exchange rate. He added that if too big fluctuations persist then further actions cannot be excluded.

MPC wants to keep positive real interest rates

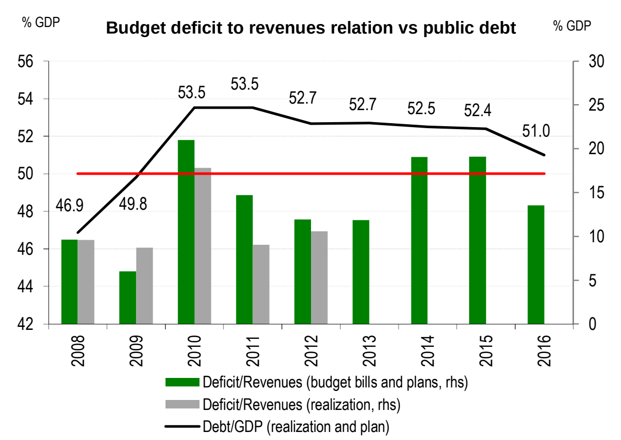
During the press conference the NBP governor reiterated the MPC wants to implement conventional monetary policy, which means keeping positive real interest rates. Such a policy determines in his view the room for rate cuts and thus – as Belka stressed – the Council does not want to cut rates fast. During the press conference Belka defined the real interest rate as the difference between current reference rate and expected inflation. Because households usually expect that inflation will remain unchanged, the MPC prefers to focus on expectations of analysts, as they are "less volatile". The chart from the previous page shows that under such approach the room for further rate cuts is diminishing – after July's rate cut by 25bps the real interest rate adjusted for analysts' inflation expectations will be very close to zero.

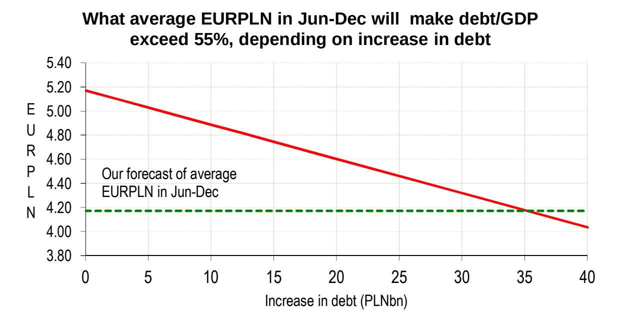
In July there the majority for a rate cut will be thin again

Marek Belka said during the press conference that "for some time the MPC's decisions have been taken by thin majority" (e.g. 5:5 with the NBP governor casting the decisive vote). Recent comments of Council members suggest that in July no major changes will occur in this case. Anna Zielińska-Głębocka said soon after the recent cut that there is still room for slight adjustment and this may take place in July. In her opinion, then the MPC may decide to end the easing cycle. On the other hand, Adam Glapiński said he sees marginal chances for a rate cut in July because more easing will not provide additional impulse for the economy and will only increase the risk of outflow of portfolio capital. In his opinion the easing cycle is now over.

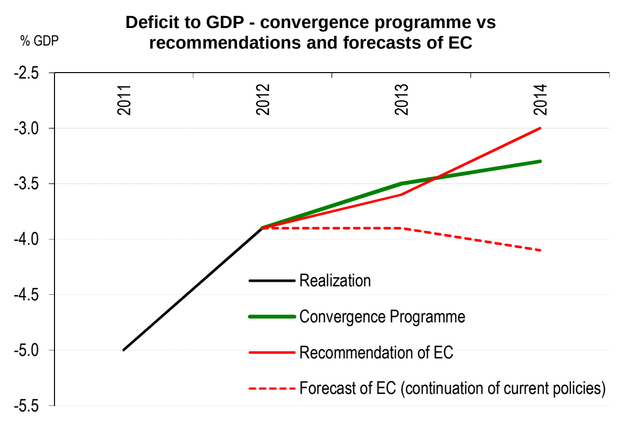
Source: NBP, BZ WBK

Fiscal policy watch





The chart is showing combinations of average EURPLN in June-December period and of additional increase in public debt as compared to budget bill (assuming flat debt of local government and social security fund - FUS), which cause the debt-to-GDP ratio to exceed 55%. We assumed EURUSD at 1.32, EURCHF at 1.24 and EURJPY at 1.32 and GDP in line with our forecast.



	Spread vs Bunds (10Y) in bps			CDS (5Y USD)		
	10.06	change since 10.05.13	change since 31.12.12	10.06	change since 10.05.13	change since 31.12.12
Poland	232	58	-8	81	5	2
Czech	54	37	0	63	5	0
Hungary	448	63	-43	307	39	38
Greece	809	-24	-244	0	0	0
Spain	299	14	-100	244	19	-43
Ireland	249	38	-70	156	1	-60
Portugal	457	47	-112	349	17	-88
Italy	270	15	-52	256	21	-18
Germany	-	-	-	28	-6	-11

Source: CSO, NBP, MF, Reuters, BZ WBK

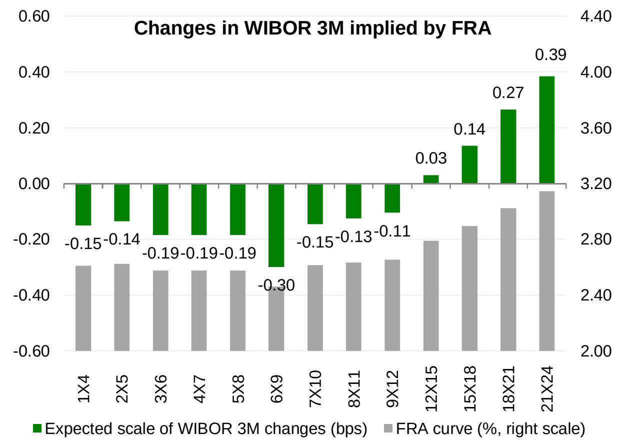
No budget bill amendment?

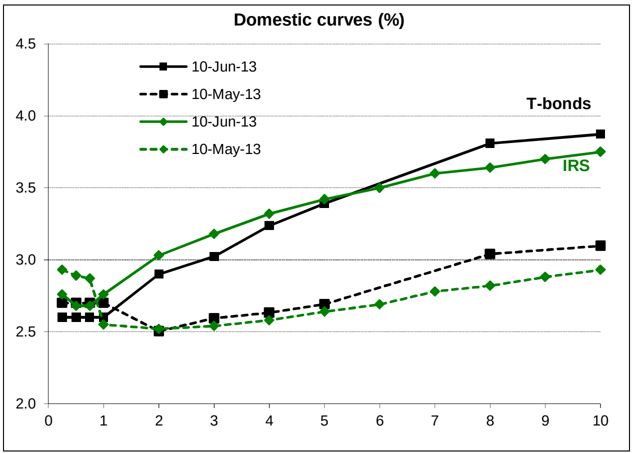
- Weak realization of tax revenues in the first four months of the year (decline by 10%YoY instead of an expected moderate increase) triggered speculation that an amendment of budget bill may be necessary. We are estimating that gap in tax revenues may reach even PLN30bn. A part of this gap will be covered by NBP profit and higher dividends (PL6-7bn in total). The remaining part has to be covered by raising deficit or cutting expenses.
- As regards higher deficit, the room for manoeuvre is limited by the public finance bill (PBF). As debt-to-GDP ratio exceeded 50% in 2011, the bill obliges the government to set the ratio of central budget deficit to revenues for 2013 at level not higher than this planned for 2012, which practically makes the revision of this year's budget impossible.
- In due course, the government has to focus on cutting expenses (procyclically!), or "pushing" higher deficit outside the central budget – e.g. by lower subvention to the Social Security Fund, which will be forced to raise funds on the market.
- However, room for increasing public finance deficit is also limited, as debt-to-GDP ratio is getting closer and closer to 55%. If this level is surpassed, then the government will be forced to plan a balanced budget for 2015 (election year).
- In 1Q2013 the public debt rose to 54.3% of GDP (all-time high!). However, situation in Q1 is specific, as in that period an exceptionally high amount of debt was issued, while GDP growth was really low. In the following quarters situation in both these factors will be better, so approaching 55% of GDP at the beginning of the year does not affect the year-end results strongly.
- Ca. 30% of debt is denominated in foreign currencies, which makes it vulnerable to FX market volatility. However, after recent change of public finance bill the average yearly exchange rate is crucial, not the year-end rate. According to our estimates, even assuming that average EURPLN stays close to 4.30 in June-December, then public finance deficit has to rise by ca. PLN30bn (as compared to plan), so that public debt exceeds 55% of GDP.
- In our view the budget bill amendment may not be necessary this year (or even may be impossible, given PBF regulations). Deficit to revenues ratio is still an important limitation for the government as regards 2014 budget – the Multi-Year Financial Plan of the State assumes deficit at PLN55bn, which is too high to hold this ratio constant. However, the ministry may avoid this limitation by amending the PBF together with introduction of so-called stabilizing expenditure rule, put forward by the Finance Ministry. However, level of public debt still remains a problem, since it is running close to crucial threshold of 55% of GDP.

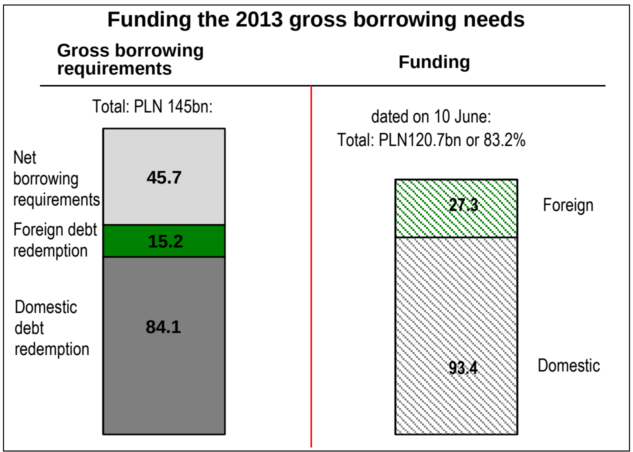
Global sell-off on debt market

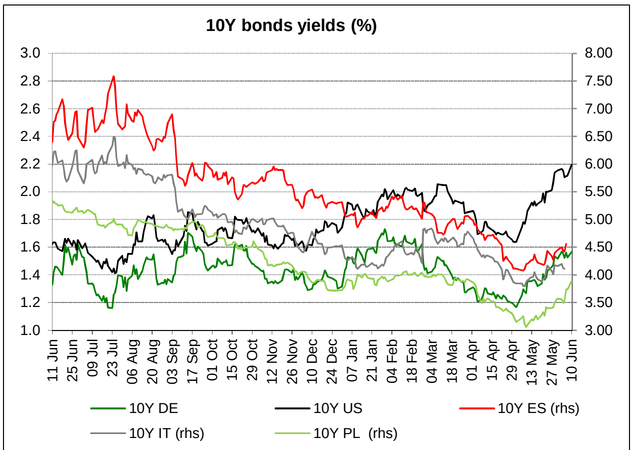
- May brought a significant sell-off on the global debt market. Upward trend of yields was recorded not only in case of peripheral countries, but also in safe-haven assets (e.g. Bunds, UST) and emerging markets. This was due to worries that the Fed will limit QE3 sooner than earlier expected. Moreover, lack of clear signals from the ECB about further monetary policy easing at the June's meeting provided another impulse to sell and fuelled rise of risk aversion gauges.
- Macro data are suggesting no considerable improvement of economic outlook for the euro zone and for the USA, so we think that a rebound on the debt markets is possible in the short-term. In longer term, we stick to our scenario of upward trend of yields and further steepening of curves.

Interest rate market









Source: NBP, Reuters, BZ WBK

Market has revised downward its rate cuts expectations

- In May WIBOR rates have continued downward trend, supported by expectations that the MPC will continue to monetary easing cycle. However, massive sell-off on the debt market at the turn of May and June halted the downward trend of WIBOR and, what is more, WIBOR has started gradual increase in case of 3M up to 12M rates. This development is due to the MPC's suggestion that easing cycle is close to an end after the June's reduction by 25bps.
- FRA market, like in previous month, has remained more volatile. FRA rates were resistant to increase in T-bonds yields and IRS rates due to investors' fears over the possibility of the Fed tapering off its QE3 programme. However, the end of May brought a significant increase in FRA rates and the upward move has continued in the first decade of June, in particular for longer tenors. This was caused by the MPC's comment, suggesting that the easing cycle might be completed in coming months.
- We expect that macroeconomic data for May will confirm still weak economic activity and disinflation trend. Therefore, the upcoming macro data will support expectations for July's rate reduction (it is our baseline scenario, which is priced-in also by market), which might positively influence the market mood, cause some rebound in FRA rates (after significant weakening in last weeks) and support further decline in WIBOR rates.

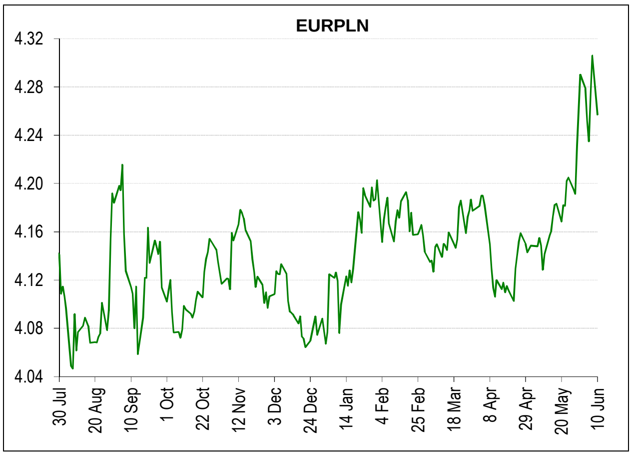
Curves more and more steepen due to capital outflow

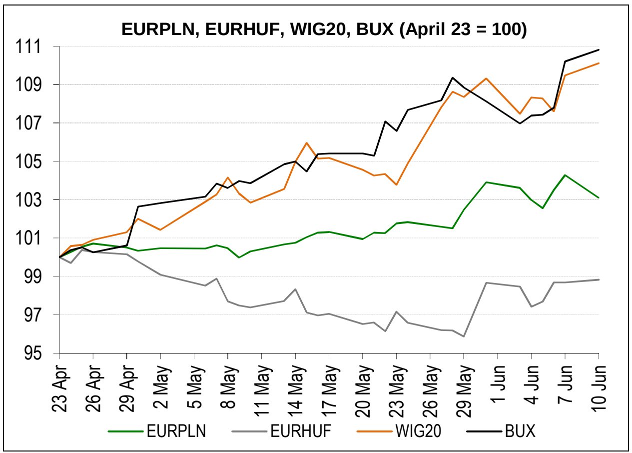
- In May, after reaching minimum levels, both T-bonds yields and IRS rates increased significantly. The massive sell-off on debt market came from foreign capital outflows from emerging markets due to uncertainty about global central banks actions (in particular Fed). June's rate cut was fully priced-in and did not help the market. What is more, suggestion that easing cycle is nearly finished brought another impulse to take profit. As a consequence both yields and IRS rates are far away from their minimum levels (yield of 10Y bonds tested 4%) and market volatility increased significantly – now intraday changes are more or less 20bps.
- The most considerable changes were observed in case of 5Y and 10Y sectors. In monthly terms (10 May – 10 June) curves shifted up by 50-80bps for IRS and by 40-80bps for T-bonds. As a result curves are steeper, in which 2-10Y spread for T-bonds widened towards 100bps (the highest level since the beginning of 2012) and to 80bps for IRS (the highest level since 2010).
- From the financing side, the Ministry of Finance is still in comfortable position as an issuer. After the first auction in June (The MF sold T-bonds PS0718 and WZ0119 worth PLN4.61bn) this year's gross borrowing requirements are financed in 83%. Deputy minister of finance Wojciech Kowalczyk said that increase in borrowing needs could not mean higher issuance of Treasury Securities as they might be financed by loans from international finance institutions.

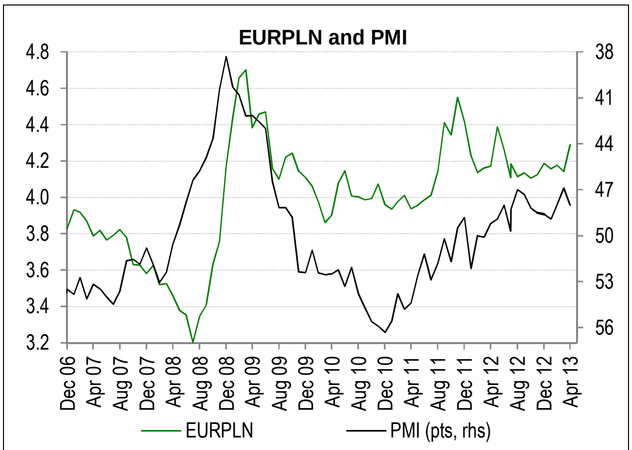
Foreign investors' moves crucial for market

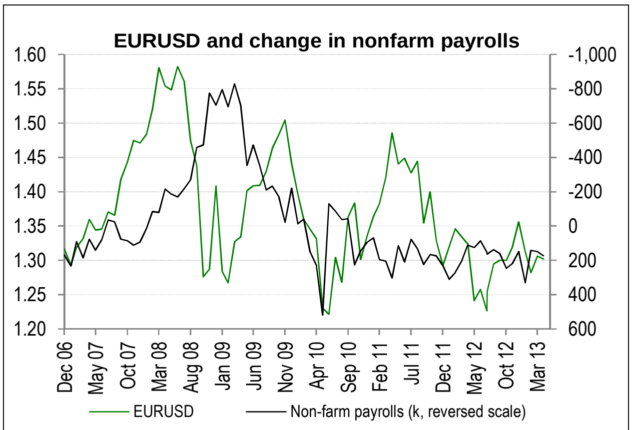
- Yields of T-bonds will be affected by situation on global debt market. Normalisation on situation on financial market (due to lower uncertainty about further Fed's action) should bring some rebound in bonds/IRS valuation globally, including domestic market. However, the capital flows towards risky assets (mainly equity) will increase the non-residents' willingness to reduce their holdings of Polish bonds. Consequently it will support upward move in yields/rates in medium terms.
- Renewed expectations for further rate cuts after weak macro data for May should support the front end of curves. As a consequence we do not exclude some rebound after significant weakening in last weeks. What is more scenario of curve steepening is still valid.

Foreign exchange market









Source: CSO, NBP, Reuters, Bloomberg, BZ WBK

Sudden depreciation of the zloty (and help of the NBP)…

- After ca. 10 months of range trading the turn of May and June saw clearly higher volatility of the EURPLN. In the last week of May the exchange rate broke 4.20 amid worries that the Fed might trim QE3 due to better-than-expected US data. The scale of zloty's depreciation was also fuelled by lower liquidity on the Polish market during long weekend. The EURPLN reached nearly 4.32 (highest since mid-2012). Zloty was weakest this year vs. the pound, since mid-July 2012 vs. the Swiss franc and since September 2012 vs. the dollar.
- In the first week of June the NBP came to the rescue. Intervention of the central bank dragged the EURPLN fast from ca. 4.30 to nearly 4.22. The NBP governor said that the main aim of the intervention was to limit excessive volatility of the zloty's exchange rate. He added that if too big fluctuations persist then further actions cannot be excluded.

… but other currencies performed even weaker

- Though the scale of upward move of the EURPLN was visible given the situation observed in recent months, then according to the Bloomberg ranking – at the culmination of the depreciation – the zloty was not the worst performing currency. Versus the euro, more severe depreciation than in case of the zloty (which was losing ca. 2.8%) was recorded in case of Turkish lira (4.7% loss), Romanian leu (4.6%) and Hungarian forint (3.8%). Considering the Eastern Europe, the zloty was first currency after the Czech koruna and Icelandic krona lost vs. the euro (these two currencies gained).
- Comparing the performance vs. currencies from emerging markets, PLN gained slightly vs. the dollar (0.1%) while Mexican and Chilean peso, Russian ruble and Brazilian real lose over 2%. On the other hand, Czech koruna again performed better than the zloty and gained over 3% vs. the greenback.

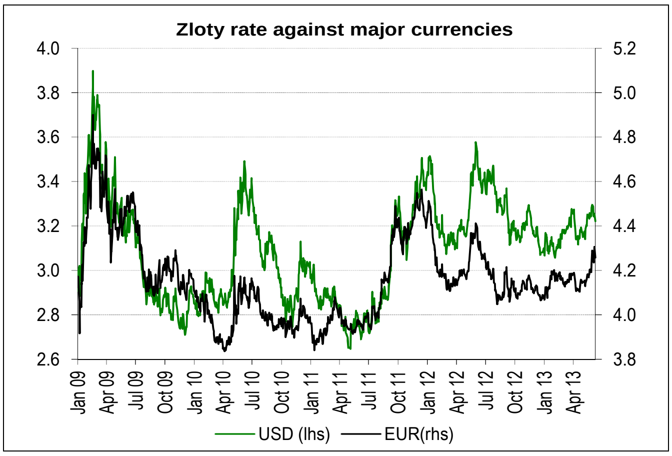
EURPLN to stay at elevated level for now

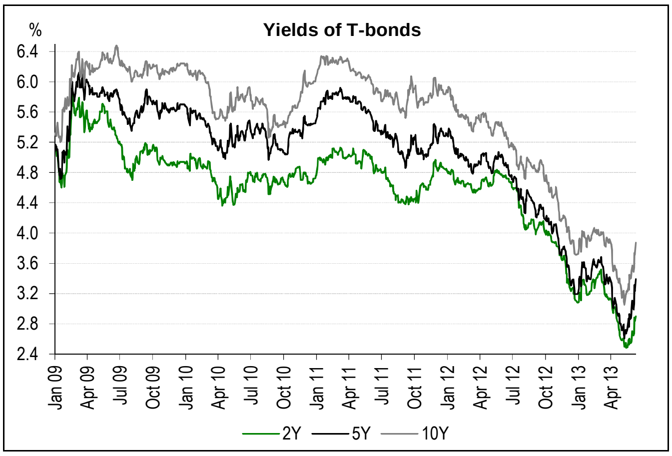
- The negative pressure on the zloty – and other CEE currencies – was put also by rising yields of bonds. On the other hand, stock indexes in Warsaw and Budapest – after a few months of underperformance – recorded visible increases during last few weeks. This suggests that worries over massive withdrawal of capital from emerging markets are exaggerated, at least for now.
- Last month we indicated that the zloty was not benefiting from hopes for recovery of the global economy because they were not confirmed in Polish data. In May Polish PMI for manufacturing – just like in case of the index for the euro zone and Germany – posted visible increase. If these tendencies are continued in the following months, then despite further increase of bond yields (as the market will be pricing-in ending of the easing cycle) the zloty may gain due to better economic outlook. We expect the average EURPLN at 4.25 in June with the risk to the upside.

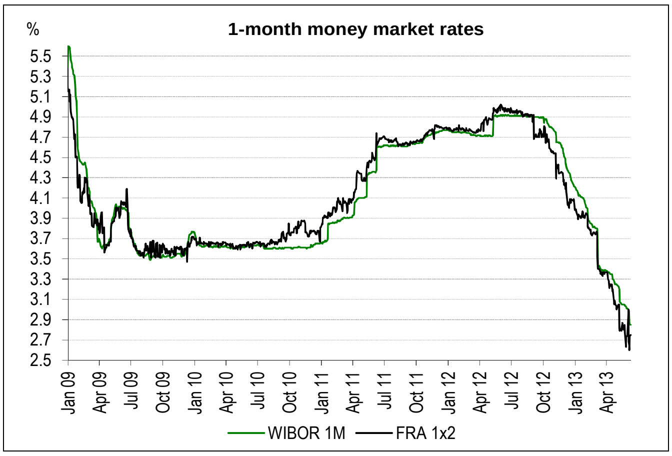
High volatility of the EURUSD

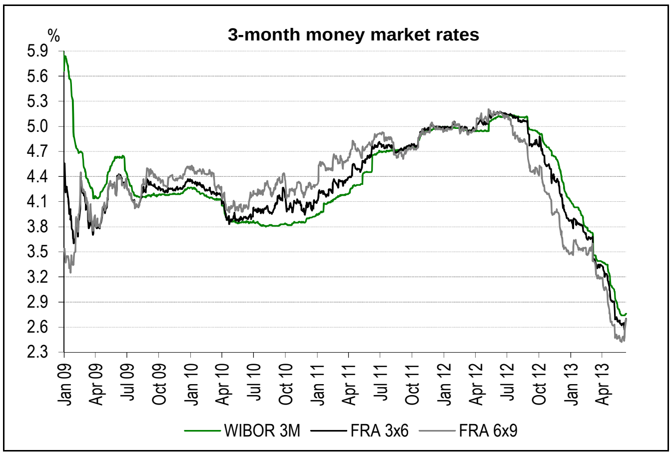
- Hopes and worries over next actions the central banks may take were main driver of the EURUSD. Better than expected US data fuelled worries over terminating QE3 by the Fed and dragged the exchange rate to 1.28. However, in mid-June the EURUSD is already close to 1.33. The euro gained thanks to data (PMI for manufacturing increased) and lower worries the ECB will cut the deposit rate below 0%.
- May's data from the US labour market showed monthly increase of nonfarm payrolls close to expectations, but April's data was revised clearly down and the unemployment rate inched up slightly. This calmed market a bit. However, positive reaction was more visible on stock exchanges than in case of EURUSD. The uncertainty regarding the scale of stimulus for the US economy may constrain the potential for higher EURUSD. Additionally, the German Constitutional Court will decide whether ECB actions are in line with the constitution. We expect average EURUSD at 1.32 in June.

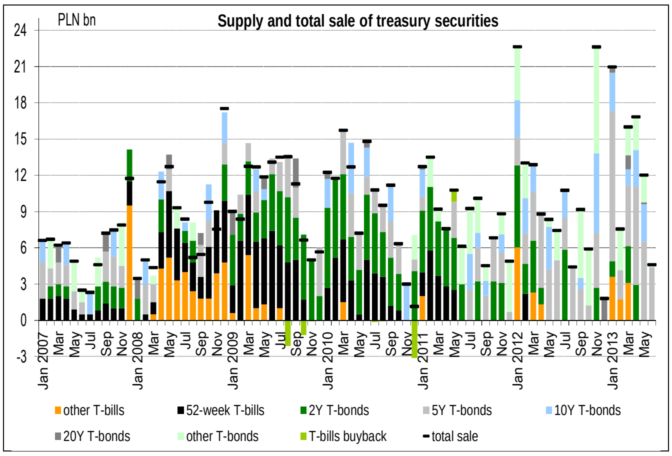
Market monitor











Treasury bill auctions in 2012/2013 (PLNm)

Auction date	OFFER	DEMAND/SALE
09.01.2012	*49-week: 1000-2000*	5402/2223
30.01.2012	*30-week: 1000-2000*	3249/1997
30.01.2012	51-week: 1000-2000	4225/1592
27.02.2012	*52-week: 1000-2000*	6711/2190
26.03.2012	*52-week: 1000-3000*	5402/2223
23.04.2012	*31-week*	3116,5/1332,1
07.01.2013	20-week: 2000-3000	10967/3602
04.02.2013	20-week: 1000-2000	7728/1747
04.03.2013	25-week: 2000-3000	7324/3084

* based on data of the Ministry of Finance

Treasury bond auctions in 2012/2013 (PLNm)

month	First auction				Second auction				Switch auction		
	date	T-bonds	offer		date	T-bonds	offer		date	T-bonds	offer
June 2012	20.06	PS0417	2000-4000						14.06	OK0712/OK1012	WZ/IZ
July	19.07	OK0714	2000-5000						05.07	OK0712/OK1012	PS0417/DS1021
August	01.08	PS0417	2000-4000								
September	19.09	WZ /DS /IZ	2000-4000	3458.8					05.09	OK1012/OK0113	WZ0117/PS0417
October	4.10	WZ /PS	3000-5000	5900.9	23.10	OK0714/DS1023	5000-9000	7840.5			
November	8.11	PS0418	2000-4000	4526.3					21.11	OK0113/PS0413	DS/WZ
December									6.12	OK0113/PS0413	WS
January '13	3.01	DS1023/WS0429	3000-5000	3664.3	23.01	OK0715/PS0418	6000-9000	13693.8			
February	7.02	PS0418/WZ0117	4000-6000	5806.5	13.02	OK0715/WZ0124	3000-5000	4584.7			
March	20.03	OK/PS/WZ	2000-6000						7.03	PS0413/OK0713/DS1013	DS/WS/WZ
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	5505.4			
June	6.06	PS0718/WZ0119	3000-5000	4606.5					19.06	OK0713/DS1013	depend on the market conditions

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

Source: MF, Reuters, BZ WBK

Economic calendar

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
10 June 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 – mfg (Jun) EZ: Flash PMI – mfg (Jun) CN: Flash PMI – mfg (Jun) US: Home sales (May) US: Philly Fed index (Jun)	**21**
24 DE: Ifo index (Jun)	**25** ***PL: Retail sales and unemployment rate (May)*** US: Durable goods orders (May) S&P/Case-Shiller (Apr) US: Consumer confidence index (Jun) US: New home sales (May)	**26** US: Final GDP (Q1)	**27** GB: Final GDP (Q1) US: Personal income (May) US: Consumer spending (May) US: Core PCE (May) US: Pending home sales (May)	**28** ***PL: Inflation expectations (Jun)*** US: Michigan index (Jun)
1 July ***PL: PMI – manufacturing (Jun)*** DE: PMI – manufacturing (Jun) EZ: PMI – manufacturing (Jun) US: ISM – manufacturing (Jun) CN: PMI – manufacturing (Jun) EZ: Flash HICP (Jun)	**2** US: Industrial orders (May)	**3** ***PL: MPC decision*** DE: PMI – services (Jun) EZ: PMI – services (Jun) EZ: Retail sales (May) US: ADP report (Jun) US: ISM – services (Jun)	**4** GB: BoE decision EZ: ECB decision	**5** DE: Industrial orders (May) US: Non-farm payrolls (Jun) US: Unemployment rate (Jun)
8 DE: Exports (May) EZ: Sentix index (Jul) DE: Industrial output (May)	**9**	**10**	**11**	**12** ***PL: Balance of payments (May)*** ***PL: Money supply (May)*** EZ: Industrial output (May) US: Flash Michigan (Jul)
15 ***PL: CPI (Jun)*** US: Retail sales (May)	**16** ***PL: Core inflation (Jun)*** ***PL: Wages and employment (Jun)*** DE: ZEW index (Jul) EZ: HICP (Jun) US: Core CPI (Jun) US: Industrial output (Jun)	**17** ***PL: Industrial output (Jun)*** ***PL: PPI (Jun)*** US: House starts (Jun) US: Building permits (Jun)	**18** US: Philly Fed index (Jul)	**19**

MPC meetings and data release calendar for 2013

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
ECB meeting	10	7	7	4	2	6	4	1	5	2	7	5
MPC meeting	8-9	5-6	5-6	9-10	7-8	4-5	2-3	20	3-4	1-2	5-6	3-4
MPC minutes	24	21	21	25	23	20	-	22	19	17	21	19
GDP*	-	-	1	-	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	25	-	-	-	-	-	-
Gross wages. employment	18	18	18	17	20	18	16	19	17	16	19	17
Foreign trade	about 50 working days after reported period											
Balance of payments*	2	-	28	-	-	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

		May 12	Jun 12	Jul 12	Aug 12	Sep 12	Oct 12	Nov 12	Dec 12	Jan 13	Feb 13	Mar 13	Apr 13	May 13	Jun 13
PMI	pts	48.9	48.0	49.7	48.3	47.0	47.3	48.2	48.5	48.6	48.9	48.0	46.9	48.0	49.0
Industrial production	%YoY	4.2	1.0	5.2	0.2	-4.8	4.7	-0.5	-9.6	0.4	-2.1	-2.9	2.7	-2.1	1.4
Construction production	%YoY	5.6	-5.2	-8.7	-5.1	-17.9	-3.6	-5.4	-24.9	-16.1	-11.4	-18.5	-23.1	-23.3	-16.5
Retail sales [a]	%YoY	7.7	6.4	6.9	5.8	3.1	3.3	2.4	-2.5	3.1	-0.8	0.1	-0.2	-0.2	1.6
Unemployment rate	%	12.6	12.3	12.3	12.4	12.4	12.5	12.9	13.4	14.2	14.4	14.3	14.0	13.7	13.4
Gross wages in enterprises sector [a]	%YoY	3.8	4.3	2.4	2.7	1.6	2.8	2.7	2.4	0.4	4.0	1.6	3.0	2.7	1.9
Employment in enterprises sector	%YoY	0.3	0.1	0.0	0.0	0.0	0.0	-0.3	-0.5	-0.8	-0.8	-0.9	-1.0	-1.0	-1.1
Export (€)	%YoY	-1.6	0.6	10.9	4.8	0.7	17.7	9.2	-2.1	7.1	5.5	0.1	7.5	0.8	5.0
Import (€)	%YoY	-2.0	-5.3	3.3	-2.1	-1.8	9.2	4.6	-1.8	1.0	-7.2	-2.0	2.9	-3.7	0.0
Trade balance	EURm	-846	-372	-389	-109	57	286	-249	-1 154	-8	676	-273	110	-269	218
Current account balance	EURm	-454	-1 092	-973	-868	-1 448	-743	-1 495	-1 235	-1 688	-757	-200	20	-6	-521
Current account balance	% GDP	-4.9	-4.6	-4.4	-4.1	-4.1	-3.7	-3.7	-3.5	-3.4	-3.2	-3.1	-3.0	-2.8	-2.7
Budget deficit (cumulative)	PLNbn	-27.0	-21.1	-24.3	-22.9	-21.1	-34.1	-30.4	-30.4	-8.4	-21.7	-24.4	-31.7	-29.5	-26.0
Budget deficit (cumulative)	% of FY plan	77.1	60.2	69.6	65.5	60.4	97.5	86.9	86.9	23.7	60.9	68.6	89.3	83.0	73.1
CPI	%YoY	3.6	4.3	4.0	3.8	3.8	3.4	2.8	2.4	1.7	1.3	1.0	0.8	0.5	0.3
CPI excluding prices of food and energy	%YoY	2.3	2.3	2.3	2.1	1.9	1.9	1.7	1.4	1.4	1.1	1.0	1.1	0.9	1.1
PPI	%YoY	5.2	4.4	3.6	3.0	1.8	1.0	-0.1	-1.1	-1.2	-0.3	-0.7	-2.0	-2.2	-1.7
Broad money (M3)	%YoY	11.1	11.0	11.0	9.8	7.6	8.0	5.7	4.5	4.4	5.5	6.6	7.2	6.5	6.6
Deposits	%YoY	10.8	10.4	10.9	9.5	7.9	8.1	5.8	4.7	5.0	5.2	6.6	7.0	6.5	6.4
Loans	%YoY	13.1	10.7	7.5	7.1	5.4	5.4	2.3	2.3	3.6	3.7	3.5	2.4	1.1	1.6
EUR/PLN	PLN	4.30	4.30	4.19	4.09	4.14	4.11	4.13	4.10	4.14	4.17	4.16	4.14	4.18	4.25
USD/PLN	PLN	3.36	3.43	3.41	3.30	3.22	3.17	3.22	3.12	3.11	3.12	3.21	3.18	3.22	3.23
CHF/PLN	PLN	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	3.43
Reference rate [b]	%	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	2.75
WIBOR 3M	%	5.05	5.12	5.13	5.10	4.95	4.82	4.62	4.26	4.03	3.80	3.48	3.29	2.86	2.70
Yield on 52-week T-bills	%	4.75	4.75	4.64	4.58	4.53	4.42	4.14	3.94	3.62	3.56	3.30	3.06	2.64	2.85
Yield on 2-year T-bonds	%	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	2.80
Yield on 5-year T-bonds	%	4.97	4.85	4.58	4.43	4.28	4.12	3.78	3.35	3.46	3.56	3.46	3.03	2.80	3.25
Yield on 10-year T-bonds	%	5.41	5.24	4.99	4.88	4.85	4.59	4.21	3.87	3.91	4.00	3.93	3.50	3.28	3.90

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	1 625.1	370.1	389.1	393.8	442.2	377.8	394.3	401.0	452.1
GDP	%YoY	3.9	4.5	1.9	1.0	3.5	2.3	1.3	0.7	0.5	0.7	1.1	1.6
Domestic demand	%YoY	4.6	3.6	-0.2	-0.6	2.2	-0.4	-0.8	-1.6	-0.9	-0.7	-0.2	-0.7
Private consumption	%YoY	3.2	2.6	0.8	0.7	1.7	1.3	0.2	-0.2	0.0	0.7	0.9	1.2
Fixed investments	%YoY	-0.4	8.5	-0.8	-3.3	6.8	1.4	-1.7	-4.1	-2.0	-5.0	-3.0	-3.0
Industrial production	%YoY	9.0	7.7	1.0	1.8	4.7	2.6	-0.3	-3.0	-2.0	0.7	2.5	5.4
Construction production	%YoY	4.6	12.3	-1.0	-17.5	13.6	2.0	-11.0	-12.7	-15.6	-20.8	-17.3	-15.9
Retail sales [a]	%YoY	6.1	11.2	6.0	1.5	12.6	6.5	5.3	0.9	0.9	0.6	1.8	2.5
Unemployment rate [b]	%	12.4	12.5	13.4	13.9	13.3	12.3	12.4	13.4	14.3	13.4	13.5	13.9
Gross wages in national economy [a]	%YoY	3.9	5.2	3.7	2.6	5.2	3.9	2.8	2.9	2.6	3.3	2.3	2.4
Employment in national economy	%YoY	-0.2	0.6	0.0	-0.6	0.2	0.2	-0.1	-0.4	-0.6	-0.8	-0.7	-0.4
Export (€)	%YoY	22.8	12.1	4.6	6.2	4.1	0.4	5.0	8.9	4.2	4.4	6.0	10.0
Import (€)	%YoY	24.9	12.2	1.1	0.8	4.3	-3.5	-0.4	4.3	-2.6	-0.3	2.0	4.0
Trade balance	EURm	-8 893	-10 059	-5 313	2 608	-2 115	-1 640	-445	-1 113	395	59	1 027	1 127
Current account balance	EURm	-18 129	-17 977	-13 480	-5 438	-4 515	-2 203	-3 285	-3 477	-2 645	-507	-1 293	-993
Current account balance	% GDP	-5.1	-4.9	-3.5	-1.4	-5.1	-4.6	-4.1	-3.5	-3.0	-2.6	-2.0	-1.4
General government balance	% GDP	-7.9	-5.0	-3.9	-3.9	-	-	-	-	-	-	-	-
CPI	%YoY	2.6	4.3	3.7	0.9	4.1	4.0	3.9	2.9	1.3	0.5	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	0.3	0.9	1.3
CPI excluding food and energy prices	%YoY	1.6	2.4	2.2	1.2	2.5	2.5	2.1	1.7	1.2	1.0	1.2	1.5
PPI	%YoY	2.1	7.6	3.4	-1.4	6.1	4.7	2.8	-0.1	-0.7	-2.0	-1.5	-1.4
Broad money (M3) [b]	%YoY	8.8	12.5	4.5	5.8	9.1	11.0	7.6	4.5	6.6	6.6	6.4	5.8
Deposits [b]	%YoY	9.1	11.7	4.7	5.3	8.5	10.4	7.9	4.7	6.6	6.4	6.3	5.3
Loans [b]	%YoY	9.2	14.4	1.2	2.3	12.8	10.7	5.4	2.3	3.5	1.6	1.1	1.2
EUR/PLN	PLN	3.99	4.12	4.19	4.19	4.23	4.26	4.14	4.11	4.16	4.19	4.23	4.18
USD/PLN	PLN	3.02	2.96	3.26	3.16	3.23	3.32	3.31	3.17	3.15	3.21	3.17	3.10
CHF/PLN	PLN	2.90	3.34	3.47	3.39	3.50	3.55	3.44	3.40	3.38	3.39	3.41	3.37
Reference rate [b]	%	3.50	4.50	4.25	2.50	4.50	4.75	4.75	4.25	3.25	2.75	2.50	2.50
WIBOR 3M	%	3.94	4.54	4.91	3.05	4.97	5.04	5.06	4.57	3.77	2.95	2.73	2.75
Yield on 52-week T-bills	%	3.96	4.51	4.48	3.06	4.50	4.69	4.58	4.16	3.49	2.85	2.88	3.02
Yield on 2-year T-bonds	%	4.72	4.81	4.30	2.95	4.66	4.71	4.22	3.61	3.29	2.75	2.83	2.92
Yield on 5-year T-bonds	%	5.31	5.44	4.53	3.29	5.02	4.93	4.43	3.75	3.49	3.02	3.28	3.37
Yield on 10-year T-bonds	%	5.74	5.98	5.02	3.87	5.58	5.38	4.91	4.22	3.95	3.56	3.99	3.98

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

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