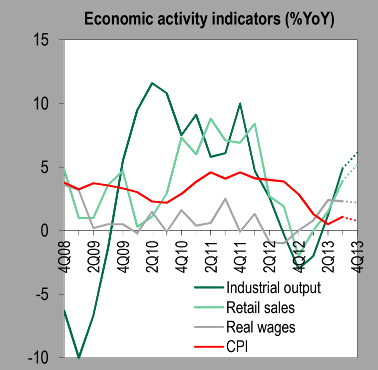
Bank Zachodni WBK
Grupa Santander

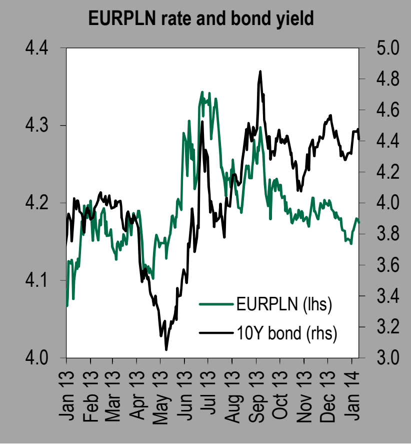
MACROscope

Polish Economy and Financial Markets

January 2014

Strong turn of the year





Macroeconomic data released at the year-end confirmed that Polish economy was expanding by 2.5%YoY or even more in the final quarter of 2013. Despite the fact that December's PMI index for Poland disappointed somewhat, we are not worried too much about condition of Polish industry, as the gauge is still suggesting a clear expansion. Moreover, we are expecting very good results of output and sales in December (our forecasts are above consensus), which will be supported by strong underlying trend in these sectors and by statistical effects. Let us note that manufacturing activity indices for most euro zone economies (apart from France) rose strongly in December. We see no reasons to change our optimistic forecast of economic growth in Poland (above 3% this year, with rising role of domestic demand).

The turn of the year proved optimistic also for financial markets. Fed's decision to start QE tapering since January did not scary investors. Good economic data and improving prospects of euro zone peripheries brought a decline of these countries' bonds. As regards Spain and Italy, yields in 10Y sector fell below 4%, i.e. to the lowest level since 4Q2010. Risk indicators have also improved – spread versus German bonds narrowed (below 200bp for Spain for the first time in a couple of years) and CDS rates declined. In Poland, the zloty gained considerably at the year-end, and EURPLN reached 4.15, expected by us. According to Bloomberg, in 2013 the zloty was the third strongest emerging currency versus the euro, the US dollar, the Swiss franc and the British pound. Beginning of 2014 was less favourable for the zloty, but this weakness is only temporary, in our view.

As regards monetary policy in Poland, the turn of the year brought nothing interesting. The first MPC meeting in 2014, similarly as the December's one, did not provide new information as regards monetary policy prospects and its result was easy to predict. The most important message has not changed – the Council sticks to its assessment that NBP interest rates should remain stable at least until end of 1H2014. It seems that MPC meeting in March will be more interesting, when we will see an update of inflation and GDP forecasts, and this will help assess how long will interest rates stay flat. We maintain our forecast of first hike in the autumn, but we see a risk that stable-rate period will be extended more substantially. Such a scenario is acknowledged also by market players, as the market is pricing a 25bp-hike in 12 months' time. However, we are expecting that rising inflation and positive data from the economy will make the FRA market price-in an earlier monetary tightening.

Year-end was favourable for the bond market, while January brought elevated volatility, e.g. due to uncertainty about OFE portfolios prior to transfer to ZUS. Still, first January's debt issues on both foreign and domestic markets met solid demand of investors and it seems that as much as 50% of this year's borrowing needs may be covered at the end of January. Limited debt supply later in the year will be putting a ceiling on yields, however the latter will be rising due to higher GDP growth and inflation and (or maybe mostly because of) higher yields worldwide.

We are pleased to inform that our team won the title of top currency analysts of 2013, ranking first in the FX forecast competition organized by *Puls Biznesu* daily (covering forecasts of the zloty against euro, dollar and Swiss franc).

In this issue:

Financial market on 13 January 2014:					
NBP deposit rate	1.00	WIBOR 3M	2.70	EURPLN	4.1600
NBP reference rate	2.50	Yield on 2-year T-bond	2.91	USDPLN	3.0450
NBP lombard rate	4.00	Yield on 5-year T-bond	3.55	CHFPLN	3.3718

This report is based on information available until 13.01.2014

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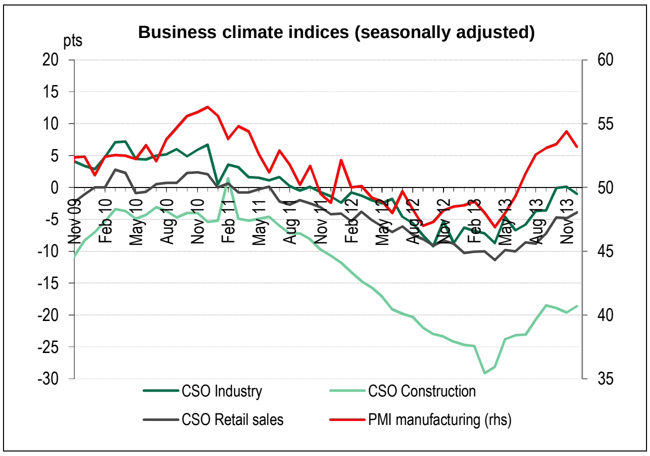
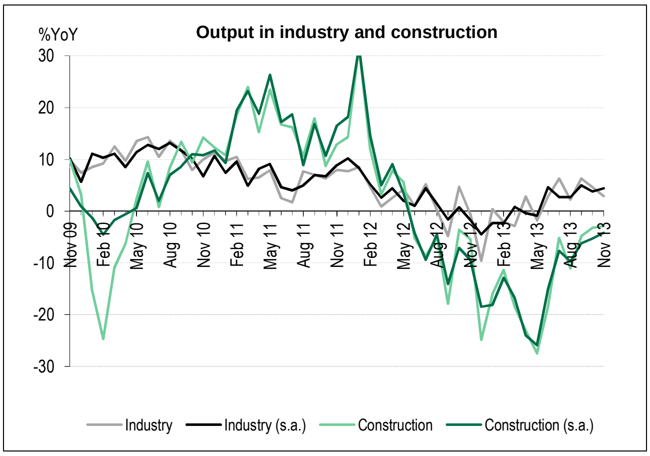
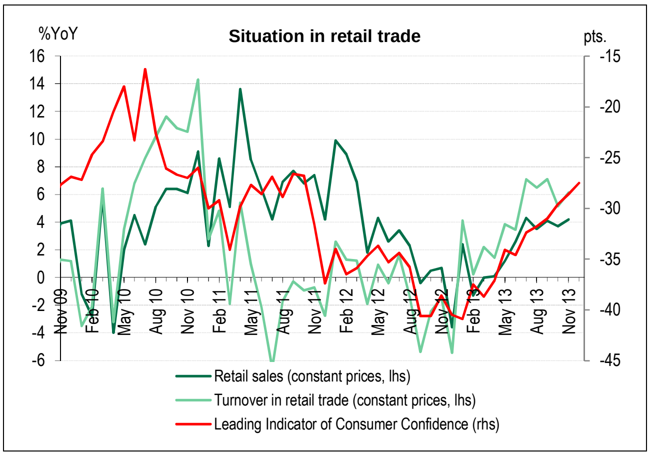
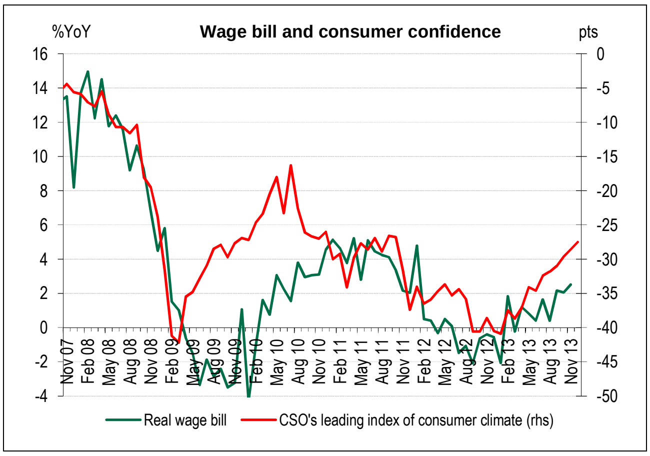
Economic update









Source: CSO, NBP, Markit, BZ WBK

Further improvement of business climate at the end of 2013

- December's manufacturing PMI index for Poland slightly disappointed, falling from 54.4 to 53.2, which resulted from slowing growth of production and new orders (including export orders). What is important, the pace of employment growth did not deteriorate and approached September's peak (highest for over 6 years). Slight correction of PMI after seven straight months of solid increases does not worry us too much at this stage, as the index is still in the area representing solid expansion. Especially that manufacturing activity indices in most of euro area countries continued significant upward tendencies in December, which shows that strong external demand should keep supporting Polish exports and production in the next months. This should be accompanied by a gradual revival of domestic demand.
- CSO's business climate index for manufacturing (seasonally adjusted) also recorded slight correction in upward trend in December. At the same time, in retail trade and construction a further improvement of situation was recorded.

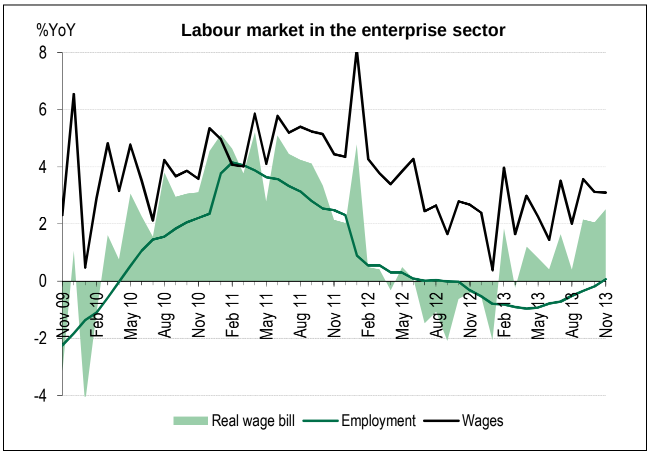
Good forecasts of production in industry and construction

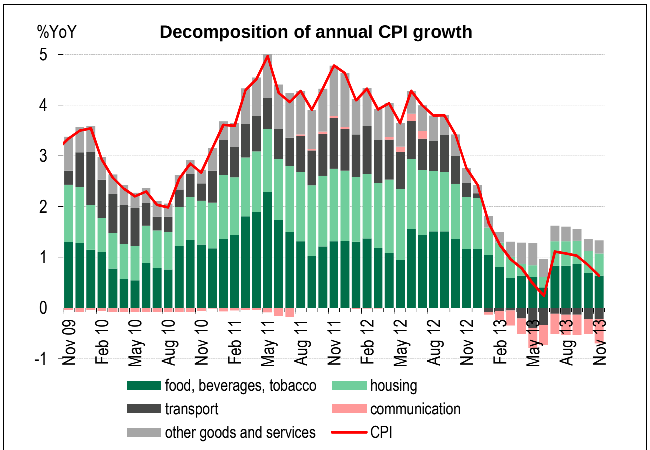
- Despite slightly weaker indicators of activity in manufacturing, we expect to see solid industrial production growth in December, which will be supported – apart from generally good situation in the sector – also by the calendar effect (one working day more than last year) and the effect of very low base (in December 2012 the output fell by almost 10%YoY, among others due to production downtime in car industry). In our view, industrial production growth may be in double digits in December 2013. In November the growth slowed down a bit (to 2.9%YoY), but it was connected with lower number of working days. Seasonally adjusted growth accelerated to 4.4%YoY.
- Even stronger rebound is expected in case of construction output, where growth may exceed 20%YoY in December. In this case, apart from calendar effect and very low base, the growth was supported by the very favourable weather conditions. Those factors will add to the general trend of revival in this sector, observed for a couple of months (while in May 2013 construction output was falling by more than 25%YoY, in November it was only -2.9%YoY). A useful hint about situation in the Polish construction market is the information from Association of Cement Producers that production of cement in December was up 42%YoY and sales of cement increased 55%YoY.

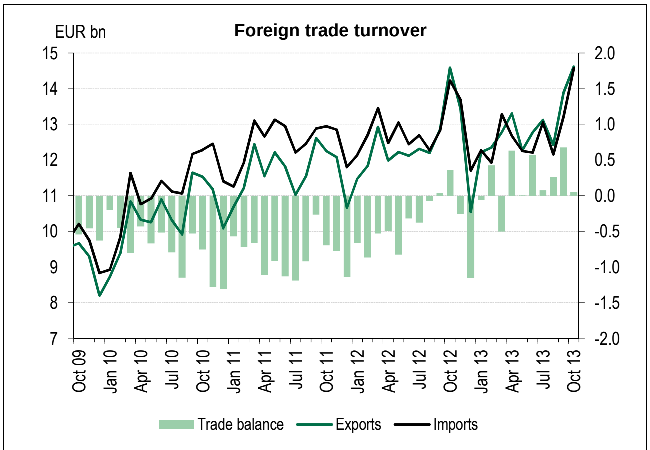
Growing turnover in retail trade

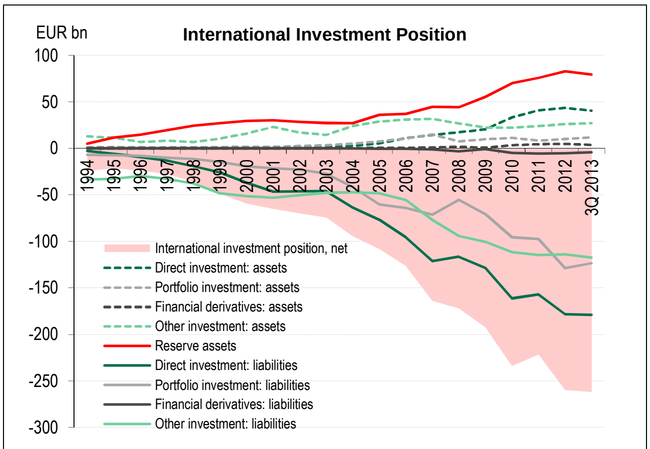
- The end of the year saw a continuation of recovery in retail trade. Retail sales growth started accelerating since 2Q2013, which was triggered by a reversal of negative trends in the labour market, rising purchasing power of households and consequent improvement in consumer sentiment. In November the real retail sales growth rose to 4.2%YoY, even despite some slowdown in car sales. Data about turnover in retail trade, which exclude motor vehicles, but take into account small shops employing less than 10 people, show even faster growth, by ca. 6%YoY in constant prices. We forecast that December's data will show a clear acceleration of retail sales growth (over 7%YoY), which will be caused – apart from further improvement of consumers' moods – also by low base effect, similarly as in case of industrial output (in December 2012 the households' demand was temporarily reduced by the delay in payment of direct subsidies for farmers).
- Taking into account above-mentioned forecasts, we estimate that GDP growth accelerated in 4Q 2013 above 2.5%YoY. Economic growth in the entire year was probably at ca. 1.5%.

Economic update









Source: CSO, NBP, BZ WBK

Gradual improvement in the labour market continues

- After seven consecutive months of rising employment in the corporate sector, in December average number of jobs was probably slightly lower due to seasonal reasons, however the decrease should be lower than in the previous year. Consequently, the annual growth of employment, which already in November turned positive for the first time in a year (reaching 0.1%YoY), should continue improving gradually. This will be accompanied by moderately paced upward trend in wages, which will result in further gradual acceleration of wage bill growth, also in real terms.
- Slight increase of registered unemployment rate in November and probably also in December was caused by a seasonal effect. LFS unemployment (seasonally adjusted) remained unchanged for the third month in a row, and the pace of registration of new unemployed has been clearly decelerating (in year-on-year terms). We expect to see further gradual improvement in the labour market, which will favour continuation of moderately-paced acceleration of consumption demand growth.

Inflation still very low but will be gradually rising

- Inflation rate in November fell to 0.6%YoY and once again proved to be lower than forecast, among others due to low food prices. However, main surprise in this month concerned costs of communication, where prices fell by almost 5%MoM due to promotions in mobile telephony.
- In our view inflation will be slowly rising in the following months, up to ca. 2%YoY at the end of 2014. At the start of the year the growth in CPI will be caused by higher costs of transport (hikes of ticket prices in public transportation) and higher excise tax for alcohol, while in next quarters a revival of domestic demand should start having more significant impact on prices.
- CPI path may be strongly affected by food market situation. As for the time being, it is a strong disinflationary factor (in 2H2013 the index of world food prices calculated by FAO and adjusted by PLN exchange rate was falling by 6-8%YoY), but this situation may reverse under impact of variable weather conditions.

Low current account deficit

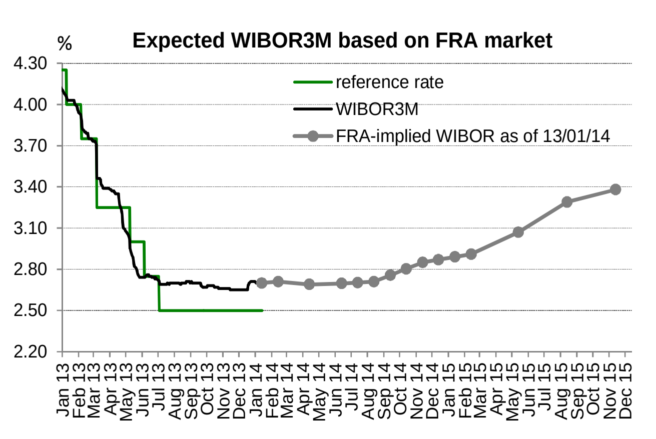
- Since April till October 2013 the trade balance was showing a surplus and this was the first time such situation took place since comparable NBP data is available. Current account balance was negative in this period, but clearly lower than the shortage recorded a year ago. Consequently, the ratio of cumulative 12-month current account deficit to GDP ratio declined to slightly below 2%, the lowest level since mid-90's.
- November's data may show some deterioration of balance of payments, among others, due to low surplus of current transfers and seasonal deficit on trade of goods account. However, in the following months we expect exports to be higher than imports again as sales of goods and services abroad (supported mainly by an economic rebound in Germany) will be accompanied by slower recovery of imports (as revival of domestic demand remains moderate).

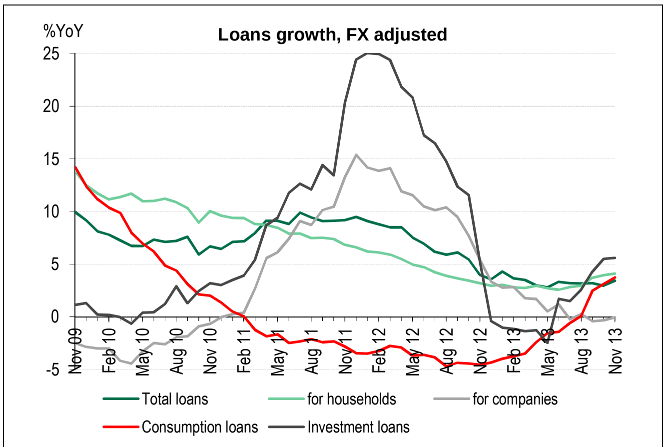
... but Poland's negative investment position deteriorated

- In 3Q 2013 Poland's net international investment position (IIP) deteriorated and reached the record level of -€262bn (-67.6% of GDP). During the third quarter, the value of foreign investments in Poland of almost all kinds (with the exception of investments in treasury bonds and financial derivatives) recorded strong increase. The value of Polish assets abroad also increased versus Q2, but at smaller scale. However, changes described above should be, in our opinion, linked to rising value of assets (bullish equity markets amid loose monetary policies around the world) rather than an inflow of new money. Diminishing current account deficit in Poland will help to stabilize the net IIP in the medium run.

Monetary policy watch

Fragments of MPC communiqué after January's meeting
Growth in global economic activity remains moderate. Moderate growth in global economic activity is conducive to inflation staying low in many countries.
Data on domestic economic activity in November 2013 indicate a continuation of the gradual recovery in Poland. Ongoing economic recovery translates into an improvement in labour market conditions only to a limited extent. Employment growth remains too weak to bring down the still elevated unemployment rate. High unemployment reduces wage and demand pressures in the economy, while wage growth in the corporate sector remains low.
CPI inflation declined to 0.6% in November 2013 (from 0.8% in October), continuing well below the NBP inflation target of 2.5%. This was accompanied by a decrease in most core inflation indices. At the same time, producer prices in industry continued to fall, which indicates low cost pressure in the economy. Inflation expectations stayed low as well.
Growth in lending to the private sector remains limited. In November 2013, the annual growth in corporate and household loans was still low. However, since mid-2013 growth in consumer loans has been gradually gathering pace.
In the opinion of the Council, gradual economic recovery is likely to continue in the coming quarters, however, inflationary pressures will remain subdued. Therefore, the Council decided to keep NBP interest rates unchanged. **The Council maintains its assessment that NBP interest rates should be kept unchanged at least until the end of the first half of 2014.**





Sources: NBP, BZ WBK

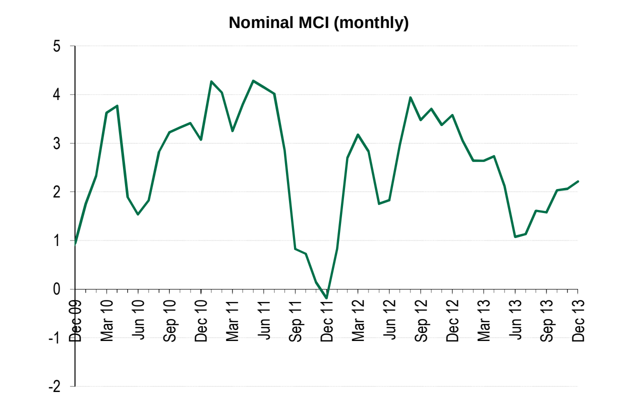
March will be more interesting

- First meeting of the Monetary Policy Council in 2014, similarly as the December's one, did not shed any new light on the monetary policy outlook and its result was easy to predict.
- The most important part of the MPC's statement was left intact. The Council maintained the opinion that the NBP interest rates should remain on hold at least until the end of first half of 2014. In the MPC's view, reduction of interest rates in the first half of last year and keeping them at low level in subsequent quarters will support revival of domestic economy, gradual return of inflation towards the target, and stabilisation in financial markets. In the statement the Council noticed a continuation of gradual economic recovery (suggested by business climate indicators, growth of industrial output and retail sales, and some rebound in construction), which to a limited extent translates into improvement in the labour market situation (high unemployment is curbing wage and demand pressures in the economy), while inflationary pressure stays low.
- It seems that the MPC meeting in March will be more interesting, when we will see an update of inflation and GDP growth forecasts, which probably will be addressed by the MPC. This was suggested by the MPC members already at the January's press conference (details at the next page). New medium-term economic forecast will help assess how long will interest rates remain flat.
- We maintain our forecast that the first hike will be implemented in the autumn, but we see a risk of even substantial extension of the flat-rate period. This will depend on (recently lowered) expected inflation path and possible further changes in the Council composition due to probable amendment of the NBP act (we elaborated on this issue in our last report). Such a risk is also acknowledged by market players. As chart beside shows, currently the market is pricing-in a 25bp-hike in 12 months' time. However, we do not think that the MPC will be inclined in the near future to extend its forward guidance up to such a long horizon. Moreover, due to rising inflation and positive data from the economy the FRA market may start pricing-in an earlier monetary policy tightening.
- January's meeting was the first one with Jerzy Osiatyński, the new MPC member. It is too early to judge the impact of his presence on the discussion (governor Belka refrained from such opinions as well). However, comments of Osiatyński presented recently (details on the next page) suggest that after his access to the MPC, it may be harder to gather the majority for hiking interest rates.

Loans still rising moderately

- Growth rate of loans still remains weak, yet trends on the households' loan market are different than on the companies' loan market.
- Growth rate of loans for households accelerated somewhat from ca. 2.5%YoY in mid-2013 to 4.0%YoY in November (data adjusted for seasonal effects). This change was mostly triggered by improving situation in consumer loans, which showed an increase by 3.7%YoY as compared to a decline by 4% at the beginning of 2013. Mortgage loans showed a slight deceleration, from ca. 5% in January to ca. 3.5% in November.
- Loans for companies were decelerating throughout the year and the same tendency was visible in categories covering current loans and loans for real estate. Meanwhile, investment loans showed a rebound from -1.0%YoY in January to 5.6%YoY in November.

Restrictiveness of the Monetary Policy (Council)



Slight rise in MCI

- MCI monetary restrictiveness index climbed somewhat in December. This move was due to a slight upward move of money market rates (WIBOR3M climbed at the year-end to 2.71% from 2.65%), which was accompanied by a strengthening of Polish currency (EURPLN exchange rate was by 0.01PLN lower in December than in November).
- We are expecting that in the upcoming months MCI index will be moving in an upward trend under impact of strengthening PLN and then, at the year-end due to rising money market rates.
- In our view, the level of monetary policy restrictiveness is not high enough to threaten the economic recovery.

Rzońca (1.44)

Winiecki (1.45)

Kaźmierczak (1.41)

Glapiński (1.38)

Hausner (1.03)

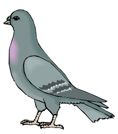
Belka (0.96)

Zielińska-Głębocka (0.81)

Osiatyński

Chojna-Duch (0.73)

Bratkowski (0.58)



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.

Source: NBP, Reuters, BZ WBK

January's conference with no breakthrough, new projection will be important

At January's press conference the NBP President Marek Belka said that in the forecasting period inflation rate remains at a very low level, although he also pointed out that this low level comes to large extent from cost-side factors. MPC member Andrzej Kaźmierczak, adding to Belka's comment, said that inflation may approach 2% in June (1.8% to be precise) amid rising core inflation and economic growth accelerating to almost 4%. Well, such circumstances could make at least some MPC members think about interest rate hikes. The question is whether this would be majority, as Marek Belka stressed that such a GDP growth forecast (almost 4%) is the result of Mr. Kaźmierczak's intuition, not a hint regarding the new NBP projections. Even Kaźmierczak himself added that as regards internal factors, the output gap is still negative, which implies lack of threats for inflation (at least in the horizon of first half of the year).

New MPC member is dovish, but he needs a couple of weeks

In an interview for PAP conducted shortly after nomination, Jerzy Osiatyński maintained his earlier opinions that, given current circumstances, monetary policy should not undermine the economic recovery and keeping rates on hold as long as possible is highly recommended. When asked if he will support an extension of MPC forward guidance, Osiatyński said: "I need a few weeks of works before I dare to form an opinion on this matter".

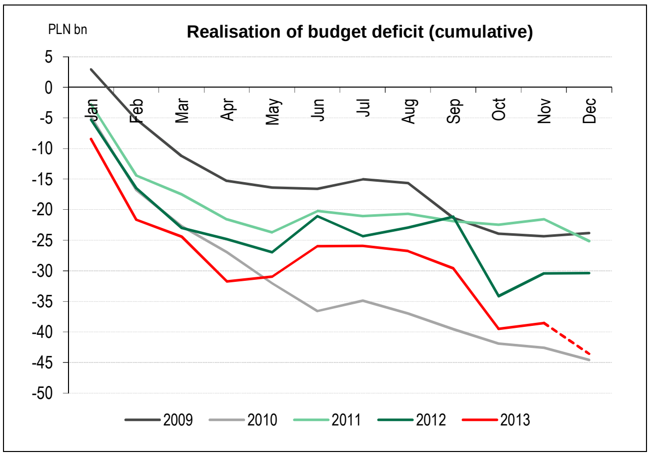
Prior to the nomination, Osiatyński said in an interview for TOK FM radio that inflation is at "very, dangerously low" level, which means that MPC members should not specify any precise moments (like: "after summer holidays"), when first rate hikes can be implemented. The new member stated he sees no risk of inflation acceleration.

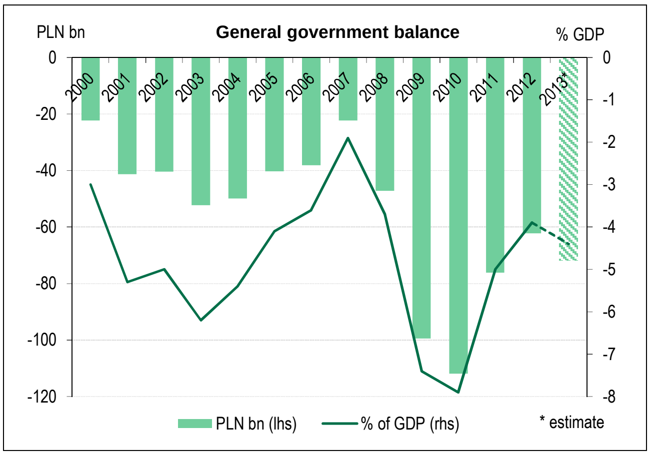
As Jerzy Osiatyński has not participated in any vote yet, it is difficult to formally place him on our axis of MPC members' restrictiveness. Still, taking into account his recent comments on monetary policy, we guess he joins the camp of most dovish members.

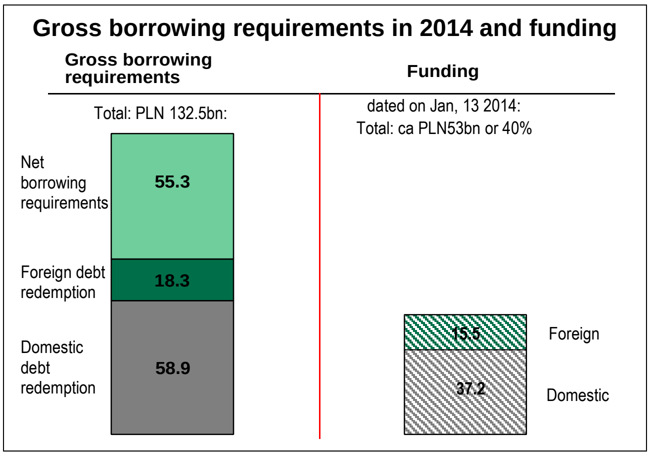
Bratkowski sees hikes "when children will go to schools"

During one of interviews at the end of 2013 Andrzej Bratkowski suggested that an optimal moment of beginning of hiking cycle moved in time a bit. A few days earlier Bratkowski spoke about turn of 2014 and 2015, this time he mentioned beginning of Q4 or even September. On the other hand, Belka said that keeping rates on hold until mid-2014 does not mean that the MPC will begin changing rates already in July. This will depend on data and GDP / CPI projection. Well, recent data showed that economic growth is surprising to the upside and inflation to the downside, so their impact on monetary policy prospects is not clear. However, further strengthening of the economic growth, and especially of domestic demand, should be generating a stronger inflationary pressure in a couple of quarters and should encourage the MPC to support motions for hikes.

Fiscal policy watch







	Spread vs Bunds (10Y) in bps			CDS (5Y USD)		
	13.01	change since 11.12.13	change since 31.12.13	13.01	change since 11.12.13	change since 31.12.13
Poland	253	-7	15	77	-6	-2
Czech	70	29	12	60	0	-1
Hungary	371	-35	-6	235	-36	-21
Greece	605	-91	-55	38	12	2
Spain	203	-18	-18	130	-18	-24
Ireland	147	-18	-5	106	-14	-14
Portugal	351	-67	-58	283	-59	-63
Italy	209	-14	-6	152	-13	-17
France	52	5	3	52	1	-2
Germany	-	-	-	24	-1	-2

Source: MoF, Reuters, GUS, BZ WBK

Better than expected budget revenues in 2013

- Budget deficit reached the level of PLN38.54bn in January-November period, which accounted for ca 75% of annual plan after amendment. One should notice that in November alone the budget posted a surplus worth nearly PLN1bn (after a PLN10bn deficit in October). It came from better than expected budget revenues, mainly higher inflows from taxes both corporate income tax - CIT (increase by ca 9%YoY) and personal income tax – PIT (increase by 1.5%YoY). On the other hand in November incomes from indirect taxes declined by 5.7%YoY, mainly due to deterioration in VAT (by 12.7%YoY after an increase by 14.2%YoY in October).
- According to Finance Ministry's preliminary estimations, the budget gap at the end of 2013 reached nearly PLN44bn and was lower by PLN8bn than the amended 2013 target (PLN51.6bn). Better realization resulted, among others, from higher than expected budget revenues (by PLN2.5-3.0bn in comparison with amended target). We think that it resulted from slightly higher CIT and PIT inflows, while realization of indirect taxes (including VAT) was more or less at the level assumed in the 2013 budget amendment.
- On the other side, realization of budget spending was at ca. PLN322bn or 98.5% of amended 2013 target. One should notice that Poland paid an extra PLN470m to the adjusted EU budget yet in 2013 in order not to burden the state finance in 2014.
- Lower than expected 2013 budget deficit implies that also the general government gap was lower than previously expected (4.8% of GDP forecasted by the Ministry of Finance and the European Commission). In our opinion it reached the level of near 4.4%.

Strong start of 2014

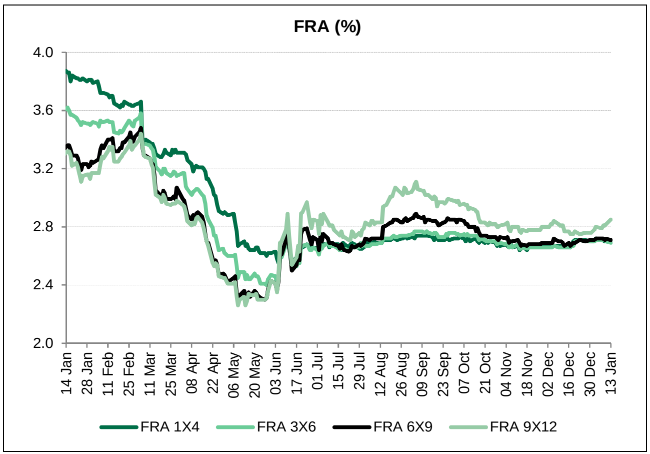
- Poland's Ministry of Finance has started 2014 well-secured as pre-financing program for 2014 was much better than expected by the Ministry of Finance. It was 25-30% of this year borrowing requirements (the final figure will be confirmed after settlement of the 2013 budget) vs 27% at the beginning of 2013.

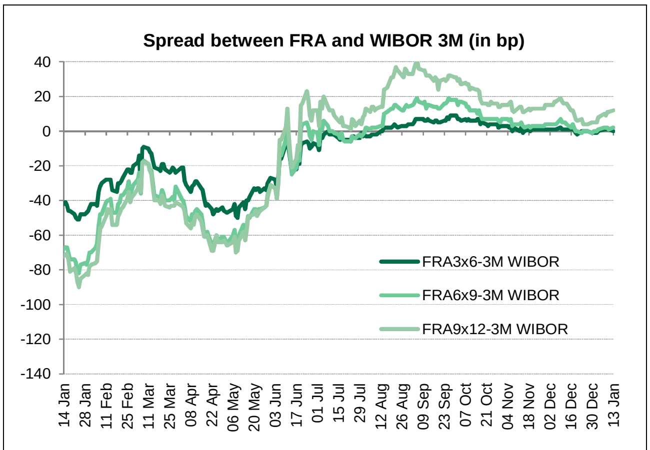
The first January's issues on both foreign and domestic markets attracted strong demand from investors. What is more, central banks' demand (14% of total sale) was clearly visible among investors, who purchased a new 10Y eurobond benchmark (worth €2bn). Taking into account eurobond issue, auction of domestic debt (PS0718 and WZ0124) and credit from international financial institutions (€0.54bn), we estimate that this year's borrowing needs are already financed in nearly 40%. Poland's Ministry of Finance expects to secure 50% of the annual target at the end of January. In our opinion, such plan is feasible to achieve, in particularly taking into consideration the second January's auction of T-bonds. It will be supported by liquidity situation thanks to inflow of money from OK0114 redemption and coupon payments from floating rate bonds (WZ series) worth PLN15bn in total. We think that also assumption to finance the 2013 borrowing needs in 100% at the end of July is realistic.

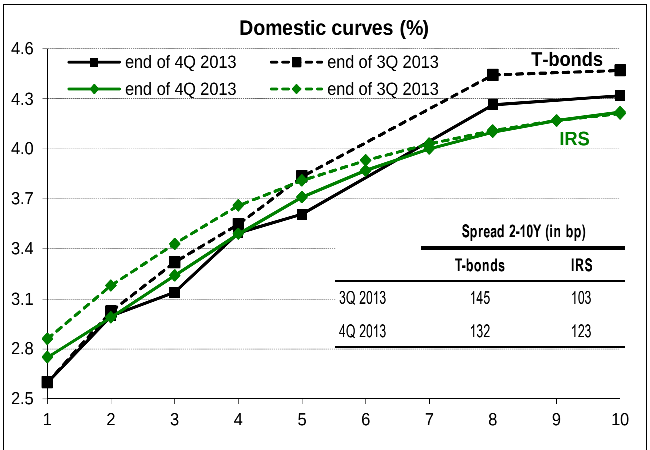
Improving fundamentals support peripheries

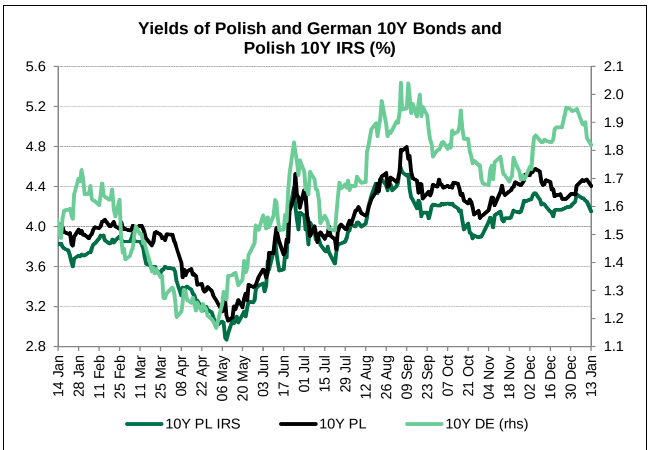
- In December the FOMC decided to reduce scale of QE3 effective since January 2014. Market reaction to this announcement suggest that this decision was partly discounted (yields of 5-10Y Treasuries increased by 6-10bp). After strong US macro data was released, yield of US 10Y bond increased above 3% while its German equivalent to c.2%.
- Improving outlook for peripheral economies supported debt of these countries. Yields of 10Y Spanish and Italian bonds declined below 4%, to lowest levels since 4Q-10. Also credit risk measures improved – spreads vs. German bonds narrowed and CDS rates dropped.
- We expect some moderate increase of long-term yields on the core markets while peripheries should remain relatively strong.

Interest rate market









Source: Reuters, BZ WBK

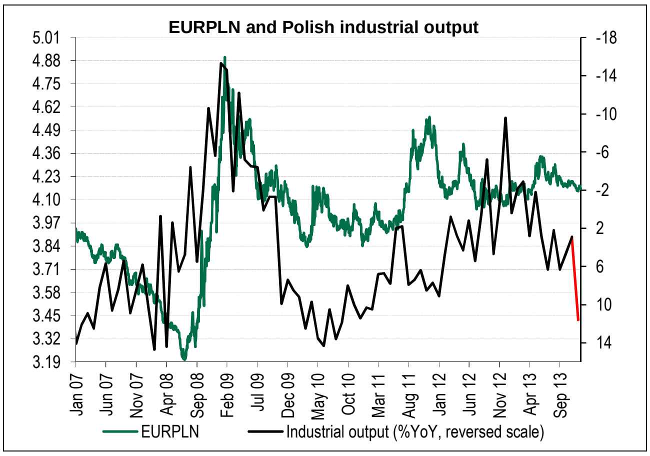
Under impact of MPC declaration

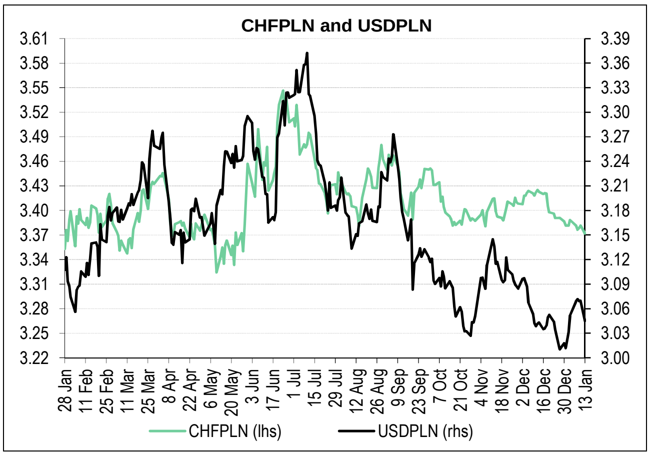
- Second half of December brought an increase of WIBOR rates, in particular 3M one, which reached 2.71% at the year-end (the highest level since end of August). Partially this increase was due to year-end effect – usually WIBORs with maturities up to 6 months rise in this period. Thus, spread between WIBOR3M and reference rate narrowed slightly above 20bp. Beginning of the new year did not bring many changes in WIBOR with 3M rate stabilizing at 2.70%.
- FRA rates were more sensitive to macro data. November's inflation reading, which proved lower than expected, brought a decline of FRA rates along the curve. Due to changes on both markets the spread between FRA and WIBOR3M decreased considerably at the year-end (with FRA9x12-WIBOR3M spread falling to 5bp as compared to almost 20bp at the beginning of December). Start of the new year brought a widening of this spread, mainly for longer maturities. Let us note that FRA12x15 stabilized recently close to 3%, showing that the market is expecting the first interest rate hike in one year's time.
- Money market remains under strong influence of MPC's declaration, stating that interest rates will remain unchanged at least until mid-2014 (this declaration was confirmed also at January's MPC meeting). Current market expectations are below our forecasts of future monetary policy (we are expecting the first interest rate hike in September). In our view, WIBOR will remain unchanged in the upcoming months, as long as inflation outlook is muted and economic growth is moderate.

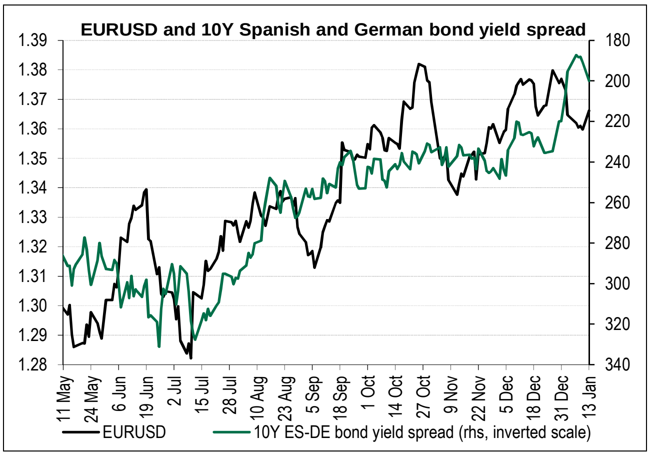
OFE and global market sentiments will set a direction

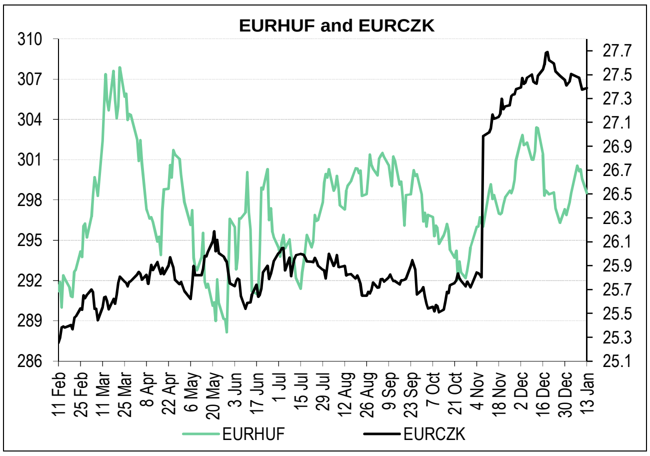
- December brought a strengthening on bond and IRS markets. Despite Fed's decision to reduce QE3 from January 2014 on, yield and IRS curves declined. Demand concentrated mostly on the middle and the long end of curve, while the shorter end remained relatively stable. As a consequence, curves flattened somewhat – 2-10Y narrowed, after reaching peaks in early December at 170bp for bonds and 130bp for IRS.
- End of 2013 and start of the new year brought an enhanced market volatility and a rise of bond yields and IRS rates (mainly on the middle and the long end). Higher supply on the secondary debt market may have been due to investors' adjustment to the expected drop of share of Polish bonds in global benchmarks. First bond issues on foreign (euro-denominated papers worth €2bn) and domestic markets showed a solid investors' demand. In our view, recent increases of yields improved the attractiveness of Polish debt for domestic (mainly domestic banks) and foreign investors. Auction results were supportive for the bond market, providing an impulse for a decline in yields across the curve. Also the weaker-than-expected reading of US labour market data contributed to a further decline of yields and IRS rates.
- In the upcoming months the domestic bond market will be under strong influence of global market moods. After changes in OFE come into force, the share of foreign investors among holders of outstanding zloty-denominated Polish debt will rise substantially (probably above 40%). Thus, changes of sentiment on the global markets (e.g. due to actions of the Fed) can be important for investors. Uncertainty about scale of QE3 reduction in the following months of 2014 can affect bond yields negatively, mostly on the longer ends. On the other hand, short end of curves is well-anchored given still low inflationary pressure.

Foreign exchange market









Sources: CSO, Reuters, BZ WBK

Temporary weakening of the zloty in early 2014

▪ According to data collected by Bloomberg, the zloty was 3rd strongest currency vs. the euro, US dollar, Swiss franc and British pound in 2013, among emerging markets' currencies. Only Romanian leu and Chinese renminbi performed better.

▪ However, the very beginning of 2014 was not too good period – domestic currency was doing quite badly versus four main currencies mentioned above – even Turkish lira, Russian rouble or many LatAm currencies perform better than the zloty. Pressure for Polish currency – and other CEE currencies – was put, among others, by weaker than expected manufacturing PMI indexes for December. Additionally, Warsaw Stock Exchange is clearly underperforming at the beginning of 2014 as compared to Western capital markets and this may also weigh on the zloty. Only very disappointing data from the US labour market triggered a recovery and EURPLN dropped from 4.18 to nearly 4.14.

▪ Weakness seen in early 2014 proved only temporary. Furthermore, our forecasts for December's industrial and construction output as well as retail sales are above market consensus. If they materialize, then these releases may erase the disappointing signal from the PMI data and have a positive impact on the zloty later in the month. Additionally, reaction of the zloty to not widely expected FOMC decision on tapering the QE3 was muted. Response of the capital markets – rising stock prices due to FOMC rhetoric stressing that last decision was based on expectations for further economic recovery of the US economy – suggests, that outlook for further trimming of monetary policy stimulus is not that scary any more. Particularly after US December's nonfarm payrolls data that have clearly disappointed and strengthened expectations that next QE3 tapering may be postponed. We anticipate the EURPLN to reach 4.15 on average in January.

Euro gains due to US data

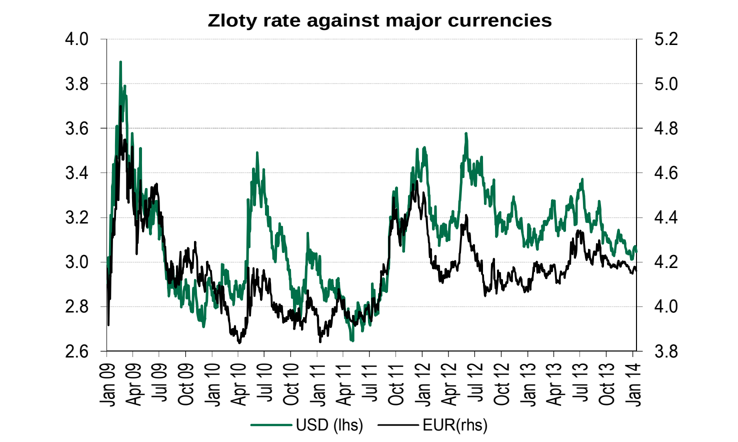
▪ During the Christmas/New Year period EURUSD recorded quite visible, but only temporary surge to nearly 1.39. However, at the very beginning of 2014 the dollar regained strength. The single currency was pressured by data from the euro zone showing deep divergences in the pace of an economic rebound (French data was particularly disappointing) and positive data from the US. Only well below market consensus data from the US labour market triggered a rebound to 1.365.

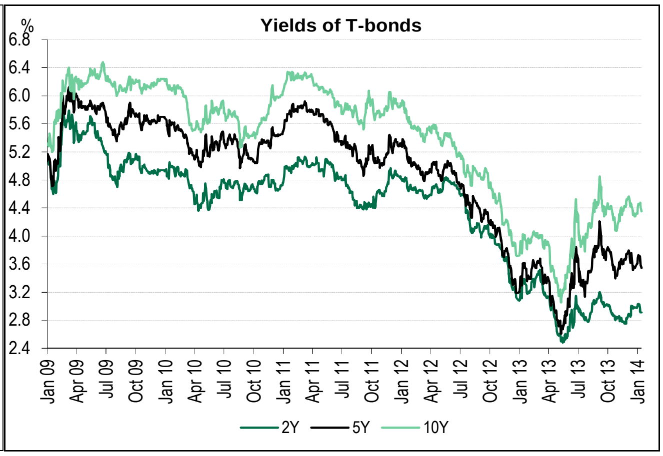
▪ We sustain our scenario of gradual appreciation of the single currency vs. the dollar on the course of 2014. In January the spread between yields of 10Y Spanish and German bonds declined below 200bps for the first time since May 2011, spread versus the Italian debt has also narrowed. This is a supporting circumstance for the euro, however, in the short run the dollar may recover slightly. The market seems to be accustomed to tapering of QE3 and ECB's tone after the January's meeting strengthened expectations that bank may ease monetary policy further in the nearest future. This factor, together with correction after significant surge triggered by last much weaker US labour market data may drag EURUSD down to close to 1.35 at the end of January.

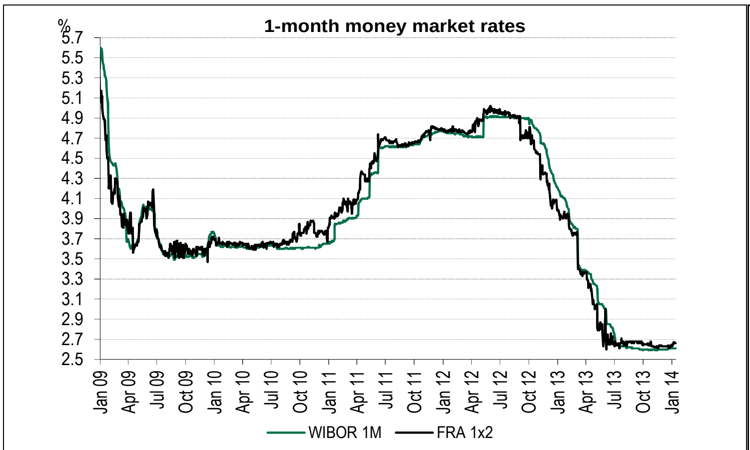
Koruna and forint recover after early-2014 losses

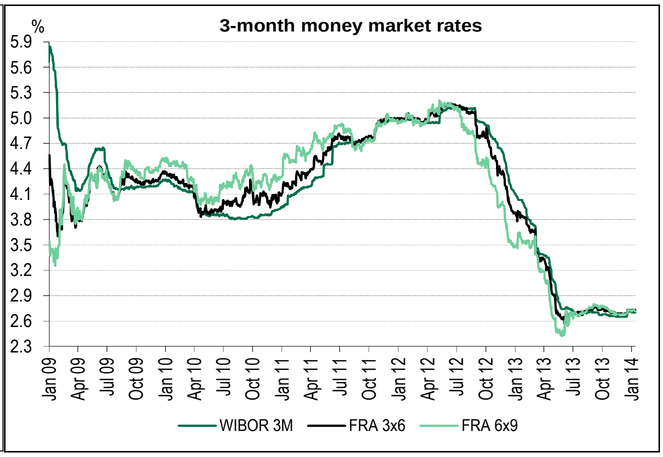
▪ Just like in case of the zloty, Czech koruna and Hungarian forint also suffered some losses in early 2014. An upward move of EURCZK was limited, but EURHUF rebounded from 296 to just above 301. Both currencies managed to pare part of losses after strong macro data and increase of inflation (koruna) and successful bond auction and suggestion that monetary policy easing cycle may be getting to an end (forint). Earlier, forint was supported by ruling of Hungarian Supreme Court saying that commercial banks are not responsible for losses suffered by borrowers due to changes of the exchange rate. This was interpreted as a factor that may limit the costs that Hungarian banks may incur as a consequence of Hungarian government's actions aimed at easing the burden for FX borrowers.

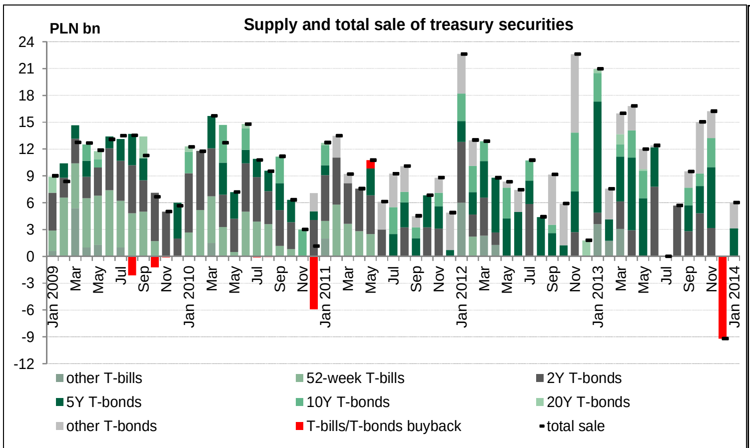
Market monitor











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	3117/1332
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
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	8080.6					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	
July	-	-	-	-	-	-	-	-	-	-	-
August	7.08	OK0116	3000-5000	5695.0							
September	5.09	OK0112/PS0718	5000-7000	5706.8					25.09	DS1013/OK0114	WZ0119/DS1023
October	3.10	PS0718	2500-4500	3008.0	22.10	OK0116/IZ0823/DS1023	6000-12000	12019.9	16.10	EUR20140203**	445.0
November	7.11	OK0116/PS0718	4000-7000	7964.2	13.11	USD20140115**	100	132.2	20.11	OK0114/PS0414	DS1023/WS/WZ/IZ
December									5.12	OK0114/PS0414	PS0416/WZ0119
January '14	9.01	PS0718/WZ0124	3000-5000	6013	23.01	OK0716/WZ0119/run-off benchmarks					

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

Source: MoF, Reuters, BZ WBK

Economic calendar

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
13 January	**14** ***PL: Money supply (Dec)*** EZ: Industrial output (Nov) US: Retail sales (Dec)	**15** **PL: CPI (Dec)** HU: CPI (Oct) US: Fed Beige Book	**16** **PL: Core inflation (Dec)** EZ: HICP (Dec) US: CPI (Dec) US: Philly Fed index (Jan)	**17** ***PL: Balance of payments (Nov)*** US: House starts / building permits (Dec) US: Industrial output (Dec) US: Flash Michigan (Jan)
20 ***PL: Wages and employment (Dec)***	**21** ***PL: Industrial output (Dec)*** ***PL: PPI (Dec)*** DE: ZEW index (Jan) HU: Central bank decision	**22**	**23** ***PL: MPC minutes*** CN: Flash PMI – manufacturing (Jan) DE: Flash PMI – manufacturing (Jan) EZ: Flash PMI – manufacturing (Jan) US: Home sales (Dec)	**24**
27 DE: Ifo index (Jan) US: New home sales (Dec)	**28** US: Durable goods orders (Dec) US: S&P/Case-Shiller (Nov) US: Consumer confidence index (Jan)	**29** US: Fed decision	**30** ***PL: Retail sales and unemployment rate (Dec)*** CN: PMI – manufacturing (Jan) US: Advance GDP (Q4) US: Pending home sales (Dec)	**31** ***PL: Inflation expectations (Jan)*** US: Personal income (Dec) US: Consumer spending (Dec) US: Michigan index (Jan)
3 February ***PL: PMI – manufacturing (Jan)*** DE: PMI – manufacturing (Jan) EZ: PMI – manufacturing (Jan) US: ISM – manufacturing (Jan)	**4** US: Industrial orders (Dec)	**5** ***PL: MPC decision*** DE: PMI – services (Jan) EZ: PMI – services (Jan) US: ADP report (Jan) US: ISM-services (Jan)	**6** CZ: Industrial output (Dec) CZ: Central bank decision EZ: ECB decision DE: Industrial orders (Dec)	**7** DE: Exports (Dec) DE: Industrial output (Dec) US: Non-farm payrolls (Jan) US: Unemployment rate (Jan)
10	**11**	**12** CZ: CPI (Jan) EZ: Industrial output (Dec) ***PL: Balance of payments (Dec)***	**13** US: Retail sales (Jan)	**14** ***PL: CPI (Jan)*** ***PL: Money supply (Jan)*** **PL**, HU, CZ, DE, EZ: Flash GDP (Q4)
17	**18** ***PL: Wages and employment (Jan)*** DE: ZEW index (Feb)	**19** ***PL: Industrial output (Jan)*** ***PL: PPI (Jan)*** US: House starts (Jan) US: Building permits (Jan) US: FOMC minutes	**20** **PL: MPC minutes** CN, DE, EZ: Flash PMI – manufacturing (Feb) US: CPI (Jan) US: Philly Fed index (Feb)	**21** US: Home sales (Jan)

MPC meetings and data release calendar for 2014

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
ECB meeting	8	6	6	3	8	5	3	7	4	2	6	4
MPC meeting	7-8	4-5	4-5	8-9	6-7	3-4	1-2	19	2-3	7-8	4-5	2-3
MPC minutes	23	20	20	17	22	20	-	21	18	23	20	18
Flash GDP*	-	14	-	-	15	-	-	14	-	-	14	-
GDP*	-	28	-	-	30	-	-	29	-	-	28	-
CPI	15	14[a]	14[b]	15	14	13	15	13	15	15	13	15
Core inflation	16	-	14	16	15	16	16	14	16	15	17	16
PPI	21	19	19	17	20	18	17	20	17	17	20	17
Industrial output	21	19	19	17	20	18	17	20	17	17	20	17
Retail sales	24	25	22	23	24	25	23	26	24	22	26	23
Gross wages,employment	20	18	18	16	19	17	16	19	16	16	19	16
Foreign trade	about 50 working days after reported period											
Balance of payments*	2											
Balance of payments	17	12										
Money supply	14	14										
Business climate indices	23	21	21	23	22	23	22	22	22	22	21	19

* 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

		Dec 12	Jan 13	Feb 13	Mar 13	Apr 13	May 13	Jun 13	Jul 13	Aug 13	Sep 13	Oct 13	Nov 13	Dec 13	Jan 14
PMI	pts	48.5	48.6	48.9	48.0	46.9	48.0	49.3	51.1	52.6	53.1	53.4	54.4	53.2	54.0
Industrial production	%YoY	-9.6	0.4	-2.1	-2.9	2.8	-1.8	2.8	6.3	2.2	6.3	4.6	2.9	11.6	3.7
Construction production	%YoY	-24.9	-16.1	-11.4	-18.5	-23.1	-27.5	-18.3	-5.2	-11.1	-4.8	-3.2	-2.9	21.9	4.4
Retail sales [a]	%YoY	-2.5	3.1	-0.8	0.1	-0.2	0.5	1.8	4.3	3.4	3.9	3.2	3.8	7.3	6.1
Unemployment rate	%	13.4	14.2	14.4	14.3	14.0	13.5	13.2	13.1	13.0	13.0	13.0	13.2	13.5	14.0
Gross wages in enterprises sector [a]	%YoY	2.4	0.4	4.0	1.6	3.0	2.3	1.4	3.5	2.0	3.6	3.1	3.1	2.7	3.3
Employment in enterprises sector	%YoY	-0.5	-0.8	-0.8	-0.9	-1.0	-0.9	-0.8	-0.7	-0.5	-0.3	-0.2	0.1	0.3	0.5
Export (€)	%YoY	-1.1	6.4	4.3	-1.2	11.0	0.3	5.4	6.6	1.9	8.1	0.2	1.1	16.8	9.9
Import (€)	%YoY	-0.9	1.1	-6.2	-1.3	1.6	-6.1	-1.9	2.8	-0.9	3.2	2.4	1.0	-0.6	4.2
Trade balance	EURm	-1 156	-64	426	-502	630	1	570	78	264	677	53	-260	690	636
Current account balance	EURm	-1 705	-1 375	-668	-272	569	-176	100	-661	-533	-877	-466	-1 230	-23	-586
Current account balance	% GDP	-3.7	-3.5	-3.3	-3.1	-2.8	-2.8	-2.3	-1.9	-2.0	-1.9	-1.9	-1.9	-1.4	-1.2
Budget deficit (cumulative)	PLNbn	-30.4	-8.4	-21.7	-24.4	-31.7	-30.9	-26.0	-25.9	-26.8	-29.6	-39.5	-38.5	-43.6	-6.0
Budget deficit (cumulative)	% of FY plan	86.9	16.4	42.0	47.3	61.6	60.0	50.4	50.3	51.9	57.4	76.6	74.7	84.5	12.6
CPI	%YoY	2.4	1.7	1.3	1.0	0.8	0.5	0.2	1.1	1.1	1.0	0.8	0.6	0.8	0.9
CPI excluding prices of food and energy	%YoY	1.4	1.4	1.1	1.0	1.1	1.0	0.9	1.4	1.4	1.3	1.4	1.1	1.3	1.5
PPI	%YoY	-1.1	-1.2	-0.3	-0.7	-2.1	-2.5	-1.3	-0.8	-1.1	-1.4	-1.4	-1.5	-1.0	-0.8
Broad money (M3)	%YoY	4.5	4.4	5.5	6.6	7.4	6.5	7.0	6.6	6.1	6.1	5.9	5.7	6.1	6.0
Deposits	%YoY	4.7	5.0	5.2	6.6	7.1	6.0	6.5	5.6	5.8	6.0	5.9	5.1	5.0	5.4
Loans	%YoY	2.3	3.6	3.7	3.5	2.3	1.4	3.5	3.7	3.3	3.7	2.9	3.8	4.0	3.4
EUR/PLN	PLN	4.10	4.14	4.17	4.16	4.14	4.18	4.28	4.28	4.23	4.24	4.19	4.19	4.18	4.15
USD/PLN	PLN	3.12	3.11	3.12	3.21	3.18	3.22	3.25	3.27	3.18	3.17	3.07	3.10	3.05	3.04
CHF/PLN	PLN	3.39	3.37	3.39	3.39	3.39	3.36	3.47	3.46	3.43	3.43	3.40	3.40	3.41	3.37
Reference rate [b]	%	4.25	4.00	3.75	3.25	3.25	3.00	2.75	2.50	2.50	2.50	2.50	2.50	2.50	2.50
WIBOR 3M	%	4.26	4.03	3.80	3.48	3.29	2.86	2.74	2.70	2.70	2.69	2.67	2.65	2.67	2.70
Yield on 2-year T-bonds	%	3.23	3.25	3.36	3.26	2.89	2.55	2.86	2.87	2.98	3.07	2.90	2.80	2.94	2.98
Yield on 5-year T-bonds	%	3.35	3.46	3.56	3.46	3.03	2.80	3.43	3.36	3.67	3.86	3.62	3.64	3.65	3.60
Yield on 10-year T-bonds	%	3.87	3.91	4.00	3.93	3.50	3.28	3.95	3.97	4.31	4.50	4.28	4.38	4.41	4.38

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

Quarterly and annual economic indicators

		2011	2012	2013	2014	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
GDP	PLNbn	1 523.2	1 595.2	1 632.0	1 702.4	377.9	395.7	404.3	454.1	391.8	412.9	422.1	475.5
GDP	%YoY	4.5	1.9	1.5	3.1	0.5	0.8	1.9	2.6	2.7	3.2	3.3	3.3
Domestic demand	%YoY	3.6	-0.2	-0.2	2.2	-0.9	-1.7	0.5	0.9	1.0	1.9	2.3	3.4
Private consumption	%YoY	2.6	0.8	0.7	1.8	0.0	0.2	1.0	1.5	1.5	1.7	2.0	2.2
Fixed investments	%YoY	8.5	-0.8	-0.5	3.7	-2.1	-3.2	0.6	1.0	1.0	2.0	3.0	6.0
Industrial production	%YoY	7.7	1.0	2.7	5.7	-2.0	1.2	4.9	6.1	6.0	5.7	5.7	5.4
Construction production	%YoY	12.3	-1.0	-8.6	11.6	-15.6	-22.9	-7.0	5.6	9.6	19.8	16.6	3.5
Retail sales [a]	%YoY	11.2	6.0	2.8	5.7	0.9	0.8	4.0	5.0	5.9	7.0	4.2	5.8
Unemployment rate [b]	%	12.5	13.4	13.5	12.7	14.3	13.2	13.0	13.5	13.7	12.9	12.4	12.7
Gross wages in national economy [a]	%YoY	5.2	3.7	3.3	4.9	2.6	3.3	4.0	3.1	4.1	4.9	5.4	5.3
Employment in national economy	%YoY	0.6	0.0	-0.8	0.5	-0.7	-1.1	-1.2	-0.1	0.4	0.5	0.5	0.5
Export (€)	%YoY	12.1	5.9	4.8	11.3	3.2	5.5	5.6	5.0	11.0	11.5	11.8	11.0
Import (€)	%YoY	12.2	2.3	-0.4	8.9	-2.0	-2.2	1.7	1.0	7.0	8.5	9.0	11.0
Trade balance	EURm	-10 059	-5 175	2 564	6 549	-139	1 203	1 017	483	1 345	2 455	2 213	536
Current account balance	EURm	-18 519	-14 191	-5 119	-833	-2 313	486	-2 072	-1 220	-209	1 053	-412	-1 265
Current account balance	% GDP	-5.0	-3.7	-1.3	-0.2	-3.1	-2.3	-1.9	-1.3	-0.8	-0.6	-0.2	-0.2
General government balance	% GDP	-5.0	-3.9	-4.4	4.4	-	-	-	-	-	-	-	-
CPI	%YoY	4.3	3.7	0.9	1.4	1.3	0.5	1.1	0.8	1.1	1.4	1.2	1.9
CPI [b]	%YoY	4.6	2.4	0.8	2.0	1.0	0.2	1.0	0.8	1.1	1.6	1.4	2.0
CPI excluding food and energy prices	%YoY	2.4	2.2	1.2	1.8	1.2	1.0	1.4	1.3	1.7	1.8	1.6	2.0
PPI	%YoY	7.6	3.4	-1.3	0.7	-0.7	-2.0	-1.1	-1.3	-0.5	0.7	0.7	2.1
Broad money (M3) [b]	%YoY	12.5	4.5	6.1	5.4	6.6	7.0	6.1	6.1	5.4	4.8	6.2	5.4
Deposits [b]	%YoY	11.7	4.7	5.0	6.6	6.6	6.5	6.0	5.0	4.8	4.8	6.0	6.6
Loans [b]	%YoY	14.4	1.2	4.0	5.0	3.5	3.5	3.7	4.0	4.2	3.2	3.3	5.0
EUR/PLN	PLN	4.12	4.19	4.20	4.06	4.16	4.20	4.25	4.19	4.14	4.08	4.04	3.99
USD/PLN	PLN	2.96	3.26	3.16	2.96	3.15	3.22	3.21	3.08	3.05	3.00	2.94	2.86
CHF/PLN	PLN	3.34	3.47	3.41	3.23	3.38	3.41	3.44	3.40	3.34	3.26	3.21	3.11
Reference rate [b]	%	4.50	4.25	2.50	3.00	3.25	2.75	2.50	2.50	2.50	2.50	2.75	3.00
WIBOR 3M	%	4.54	4.91	3.02	2.88	3.77	2.96	2.70	2.66	2.70	2.73	2.92	3.17
Yield on 2-year T-bonds	%	4.81	4.30	2.98	3.26	3.29	2.77	2.98	2.88	2.99	3.10	3.35	3.58
Yield on 5-year T-bonds	%	5.44	4.53	3.46	3.84	3.49	3.09	3.63	3.64	3.66	3.73	3.92	4.03
Yield on 10-year T-bonds	%	5.98	5.02	4.04	4.64	3.95	3.58	4.26	4.36	4.45	4.58	4.70	4.82

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

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