

# Eyeopener – Government lowers 2013 forecast

4 September 2012

- **Peaceful start of the week amid market holiday in US**
- **Zloty slightly weaker against euro and dollar, EURUSD without change**
- **Domestic bonds slightly stronger amid low turnover, FRA keep falling**
- **Government trimmed GDP forecast for 2013**
- **Today, US manufacturing ISM, Polish government debates budget draft**

In spite of weak August's PMI indices for the euro zone and for Germany released in the morning, the trade on FX market was calm yesterday. The euro zone's indicator was below neutral mark of 50pts for the 13th month in a row, but this did not cause any significant market reaction, probably due to absence of the US investors. Meanwhile, stock market indices were climbing on hopes for economic stimulus of the Chinese central bank (thanks to a weak reading of Chinese manufacturing PMI). At the end of the domestic session unofficial information appeared that the ECB president said in the European Parliament that purchases of sovereign bonds with maturities up to 3 years does not constitute state financing. Such interpretation of these actions made the euro gain against the dollar. This comment has also boosted expectations ahead of the Thursday's ECB meeting. Representatives of key euro zone countries are meeting to discuss details of the bond purchasing plan. Still, this morning the sentiment deteriorated after information that the Moody's rating agency downgraded the outlook of European Union's rating.

The EURUSD exchange rate was oscillating yesterday in a narrow range 1.256-1.258. Volatility was limited by lack of the US investors. Only at the end of the day the rate approached 1.26 after appearance of the Draghi words. Overnight EURUSD reached almost 1.263, this morning it is hovering close to 1.26. One week ago the investors were awaiting the Fed president speech, and this week the volatility may be limited until Thursday, when the conference after ECB meeting is scheduled. In the afternoon trade may be affected by release of the ISM index for US manufacturing.

EURPLN and USDPLN increased at the beginning of the session due to release of domestic PMI and strengthened expectations for rate cuts by the MPC. Consequently, the EURPLN reached nearly 4.20 while USDPLN advanced to 3.34. At the end of the day both exchange rates were just below daily peaks. Over the night the situation on the zloty's market did not change much, today in the morning the EURPLN is close to 4.18. Factors that prevented the domestic currency from appreciation yesterday are valid also today. We expect the EURPLN to stay today in the range of 4.165-4.20.

On the domestic debt market yields of bonds declined, but the trade volume remains extremely low. Spread versus 10Y Bunds retreated

from resistance at 360bps and yesterday reached just below 350bps. FRA continued to decline quite visibly (by 4-9bps). After yesterday's session the market prices in already 100bps rate cut in coming 9 months. In case of WIBOR the situation stabilized, scale of decline was limited to 1bps. Before the decision of the MPC we do not expect big changes of money market rates.

PMI for Polish manufacturing plunged in August well below market consensus. The level of 48.3pts (versus 49.7pts in July) is lowest since June (48pts) and second lowest since September 2009. This decline was biggest monthly drop since February. Manufacturing production contracted in August at fastest pace since June 2009 and already for the fourth month in a row. Domestic and foreign demand continued to weaken (subindexes for this categories are below neutral level of 50pts already for 7 and 5 months, respectively). Some positive impact on the PMI was provided by rising employment in enterprises (for the fifth month in a row). Still, subindex for this category declined visibly over the month and is only slightly above 50pts. Yesterday's data is consistent with trends observed in Polish economy and indicate that in coming months deceleration of pace of GDP growth will be continued.

Today the Polish government will discuss the budget draft for 2013. According to Reuters, GDP growth forecast for the upcoming year was cut to 2.2% (as compared to 2.9% in flash assumptions prepared before summer holidays); inflation was estimated at 2.7% (unchanged) and unemployment at 13% (earlier 12.4%). Average EURPLN exchange rate is expected at 4.05. Budget deficit is planned at PLN35.6bn, i.e. slightly more than PLN35bn planned for this year and by PLN3bn more than outlined in the Multi-year State Financial Plan; borrowing needs are to amount to PLN145bn. Budgetary receipts are planned to PLN299.2bn, i.e. by ca. 1.9% more than the sum planned for this year. However, it should be noted that this year's receipts will probably be lower than the plan. This change of macroeconomic assumptions means making them more realistic, but they still cannot be described as conservative in context of recent deterioration of economic outlook. Central budget deficit was set more or less at the same level as in 2012, which is suggesting that the general government deficit will not be cut to 2.2% of GDP as planned earlier. Still, under circumstances of a considerable deterioration of economic climate in whole Europe we do not think that this may diminish the assessment of Polish fiscal policy.

Deputy treasury minister Paweł Tamborski said yesterday that this year's plan of privatization receipts (PLN10bn) can be reached without selling PZU stake. He added that current realization of the plan amounts to 80% and the rest can be acquired via public offer of Pątnów-Adamów-Konin power plant and PHN S.A. group.

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F/X rates (today's opening)

EURUSD	12611	CADPLN	3.3684
USDPLN	3.3196	DKKPLN	0.5618
EURPLN	4.1861	NOKPLN	0.5725
CHFPLN	3.4859	SEKPLN	0.4970
JPYPLN*	4.2355	CZKPLN	0.1682
GBPPLN	5.2747	HUFPLN*	14697

\*for 100JPY/100HUF

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The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.1663	4.1990	4.1810	4.1913	4.1981
USDPLN	3.3100	3.3414	3.3250	3.3300	3.3398
EURUSD	12560	12585	12574	12583	-

T-bonds

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
OK0714 (2Y)	4.04	-3	19.07	4.361
PS0417 (5Y)	4.30	-5	108	4.361
DS1021 (10Y)	4.84	-2	10.05	5.349

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	4.46	-7	0.38	1	0.49	0
2L	4.31	-4	0.40	-1	0.50	-1
3L	4.26	-3	0.46	-3	0.60	0
4L	4.25	-1	0.58	-5	0.76	-2
5L	4.26	0	0.76	-6	0.95	-2
8L	4.33	-1	1.36	-6	1.46	-2
10L	4.36	-1	1.65	-6	1.71	-2

WIBOR rates

TERM	%	Daily change (bp)
O/N	4.88	0
T/N	4.88	0
SW	4.84	0
2W	4.85	0
1M	4.90	0
3M	4.98	-1
6M	4.99	-2
9M	5.01	-1
1Y	5.01	-1

FRA rates (Mid)

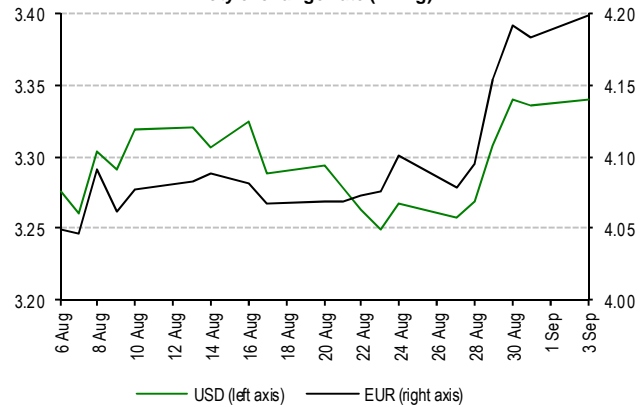
TERM	%	Daily change (bp)
1x2	4.90	7
1x4	4.88	-1
3x6	4.53	-6
6x9	4.16	-9
9x12	3.96	-9
3x9	4.53	-10
6x12	4.19	-7

Measures of fiscal risk

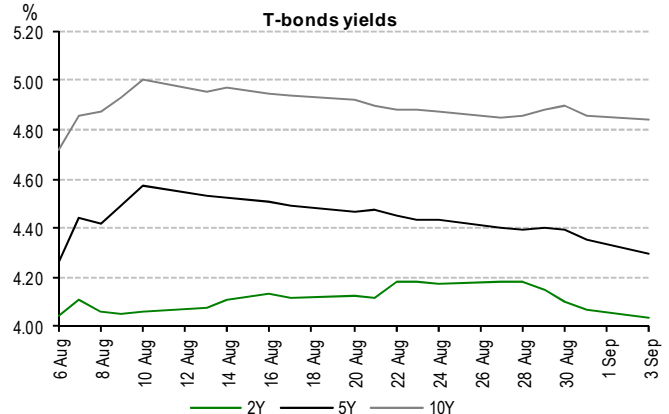
Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	156.8	1	3.50	0
Czech Republic	113.4	-1	1.04	11
Hungary	436.1	0	6.06	6
Greece	37030.5	0	2148	-48
Spain	5011	-9	5.55	19
Italy	4516	-9	4.46	4
Portugal	635.4	-4	8.02	-1
Ireland	435.0	-3	4.68	4
Germany	62.0	0	--	--

\* 10Y treasury bonds over 10Y Bunds

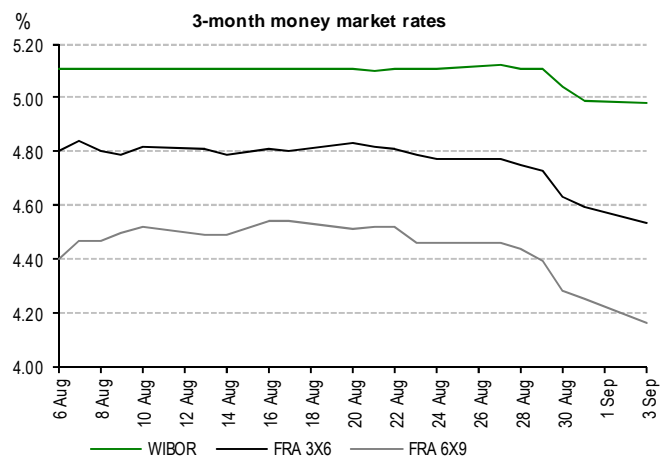
Zloty exchange rate (fixing)



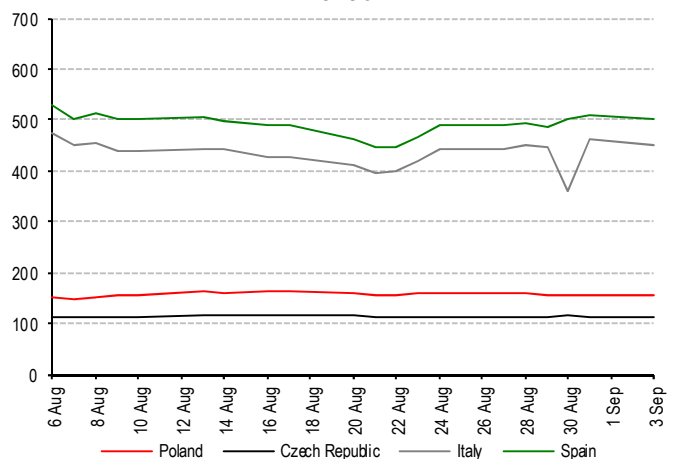
T-bonds yields



3-month money market rates



CDS 5Y



Source: Reuters

## Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	BZWBK			
FRIDAY (30 August)								
11:00	EZ	Flash HICP	Aug	%YoY	2.5	-	2.6	2.4
14:00	PL	Inflation expectations	Aug	%YoY	-	-	4.4	3.5
15:45	US	Chicago PMI index	Aug	pts	53.5	-	53.0	53.7
15:55	US	Michigan index	Aug	pts	73.6	-	74.3	72.3
16:00	US	Industrial orders	Jul	%MoM	1.2	-	2.8	-0.5
MONDAY (3 September)								
	US	Market holiday						
4:30	CN	PMI – manufacturing	Aug	pts	-	-	47.6	49.3
9:00	PL	PMI – manufacturing	Aug	pts	49.0	49,0	48.3	49.7
9:53	DE	PMI – manufacturing	Aug	pts	45.1	-	44.7	43.0
9:58	EZ	PMI – manufacturing	Aug	pts	45.3	-	45.1	44.0
TUESDAY (4 September)								
16:00	US	ISM – manufacturing	Aug	pts	50.0	-		49.8
WEDNESDAY (5 September)								
	PL	MPC decision		%	4.75	4,75		4.75
9:53	DE	PMI – services	Aug	pts	48.3	-		50.3
9:58	EZ	PMI – services	Aug	pts	47.5	-		47.9
11:00	EZ	Retail sales	Jul	%MoM	-0.2	-		0.1
THURSDAY (6 September)								
11:00	PL	Bond switch auction						
11:00	EZ	GDP revision	Q2	%YoY	-0.4	-		0.0
13:00	GB	BoE decision		%	0.50	-		0.50
13:45	EZ	EBC decision		%	0.75	-		0.75
14:15	US	ADP report	Aug	k	150	-		163
14:30	US	Initial jobless claims	week	k	370			374
FRIDAY (7 September)								
8:00	DE	Exports	Jul	%MoM	-0.5	-		-1.5
12:00	DE	Industrial output	Jul	%MoM	0.0	-		-0.9
14:30	US	Non-farm payrolls	Aug	k	135	-		163
14:30	US	Unemployment rate	Aug	%	8.2	-		8.3

Source: BZ WBK, Reuters, Dow Jones

\* in case of the revision, the data is updated

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