

Eyeopener – Inflation data today

14 March 2013

- **Weak data from Europe and good data from US supporting dollar versus euro**
- **Zloty stable against euro, sharply falling against dollar due to collapse of EURUSD**
- **2Y IRS only 4bps above record low from end-2012, domestic bonds much stronger due to positioning ahead of inflation data**
- **Today, data on CPI, current account, money supply**

Weaker than expected data from the euro zone and surprisingly strong releases in the US determined the direction for the FX market during the yesterday's session. After the deeper than expected decline of January's industrial output in the euro zone and additionally not too successful auction of Italian bonds (the country collected €7bn versus €7.25bn planned) the market sentiment deteriorated. In the afternoon, after stronger than anticipated increase of the US retail sales the pace of dollar's appreciation vs. other currencies gained steam. On the European stock exchanges the red colour was dominating while during the US session optimism was clearly more visible. During today's Asian session main stock indexes (except in Japan) declined amid worries that Chinese government will take steps aiming at cooling down the real estate market.

The EURUSD plunged yesterday below local minimum established in early March (at around 1.295) and reached temporarily ca. 1.292. At the end of the day the exchange rate rebounded to 1.295 and stayed stable during the night. The EURUSD broke through the lower end of the consolidation zone and next vital support that may be tested soon is just below 1.29. Until the end of the week many vital US data is due and if they continue to beat expectations, the dollar may keep gaining versus the euro.

The EURPLN exchange rate remained immune to rising volatility of EURUSD and was oscillating around 4.14 while awaiting today's data on Polish CPI. Still, depreciation of the euro against the dollar translated into increase of USDPLN, which climbed from 3.165 to 3.20. Overnight the zloty was stable. We are expecting a slight decline of inflation, so the reading might have only temporary impact on the domestic currency. Important levels for EURPLN are still 4.12 and 4.15.

On the domestic interest rate market IRS rates fell, following strengthening bonds. 2Y rate fell by 1bp and is currently 4bps above all-time low from the end of 2012. 5Y and 10Y IRS also fell, more considerably than the shorter end, but they are still closer to this year's peaks. Bond yields were still under

influence of last week's MPC decision and rhetoric indicating a possibility of further rate reductions. Moreover, the market was taking positions ahead of today's inflation data, which will probably show further deceleration of price growth. We think that the market reaction to the release will be moderate, as the CPI fall will be less significant than in last two months and the market seems to have priced-in these results already yesterday. Like on Friday, the WIBOR1M fell by 1bp, while longer rates remained stable.

NBP governor said yesterday that the domestic economy has good conditions for a fast rebound from the current slowdown. Marek Belka added that the individual consumption should be monitored closely as this is the element that may trigger the recovery. We do not share this optimism. In our opinion there is very little chance for visible and persistent improvement in consumption demand this year. Data for Q1 may actually look better, but just like in case of January's retail sales, this will be only a temporary disturbance driven by payment of subsidies for farmers (postponed from December). Anna Zielińska-Głębocka said in TVN CNBC that it is hard to say whether current level of interest rate is optimal but MPC may currently allow for "short-term wait-and-see" approach. She repeated that if the situation in economy deviates from scenario presented in the projection, then the Council may take more action.

Today at 14:00CET we will see a row of domestic data. We are expecting further decline of CPI in February, but not as strong as in January – from 1.7% to 1.6%YoY – which was among others due to hike of fuel prices. Market expectations sit slightly lower (1.5%). We are predicting further fall of inflation in the upcoming months, to almost 1% in Q2. The impact of annual reweighting of CPI basket on the inflation figures in the nearest months should not be large (we are estimating that this revision may raise the headline inflation by ca. 0.02 percentage points). We are expecting a rebound in growth rates of exports and imports in January, to 7.8%YoY and 4.9%YoY, respectively, accompanied by narrower trade deficit. Yesterday's CSO data on foreign trade seem to support our expectations. Current account deficit probably widened versus December, mainly due to weaker inflow of funds from the European Union. Data on M3 money supply will show a continuation of tendencies observed in the previous months, i.e. paltry growth of deposits and loans. Loan market may be supported in the upcoming months by lower level of interest rates and easing of Recommendation T.

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F/X rates (today's opening)

EURUSD	12967	CADPLN	3.1080
USDPLN	3.1895	DKKPLN	0.5546
EURPLN	4.1357	NOKPLN	0.5554
CHFPLN	3.3460	SEKPLN	0.4969
JPYPLN*	3.3172	CZKPLN	0.1614
GBPPLN	4.7657	HUFPLN*	13584

*for 100JPY/100HUF

Financial market review - 13.03.2013

The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.1290	4.1503	4.1503	4.1398	4.1484
USDPLN	3.1598	3.2037	3.1721	3.1973	3.1863
EURUSD	1.2922	1.3084	1.3084	1.2949	-

T-bonds

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
OK07'15 (2Y)	3.29	-4	23.10.12	3.856
PS04'18 (5Y)	3.43	-8	7.02.13	3.521
DS10'23 (10Y)	3.90	-7	3.01.13	3.847

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	3.35	-3	0.32	1	0.35	0
2L	3.39	-1	0.39	0	0.44	-1
3L	3.43	-3	0.54	1	0.57	-1
4L	3.49	-3	0.76	0	0.74	-1
5L	3.55	-3	1.02	1	0.92	-1
8L	3.70	-3	1.75	2	1.46	-1
10L	3.78	-4	2.11	2	1.74	0

WIBOR rates

TERM	%	Daily change (bp)
O/N	3.40	-4
T/N	3.40	-4
SW	3.40	-1
2W	3.41	0
1M	3.41	-1
3M	3.46	0
6M	3.48	0
9M	3.51	0
1Y	3.52	0

FRA rates (Mid)

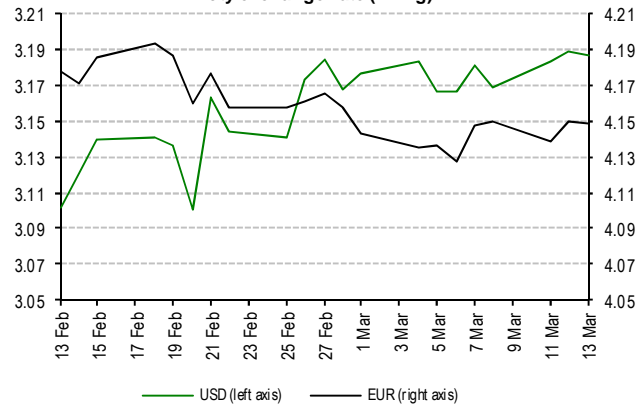
TERM	%	Daily change (bp)
1x2	3.36	-1
1x4	3.37	0
3x6	3.33	-1
6x9	3.23	-1
9x12	3.21	-2
3x9	3.33	-1
6x12	3.29	-1

Measures of fiscal risk

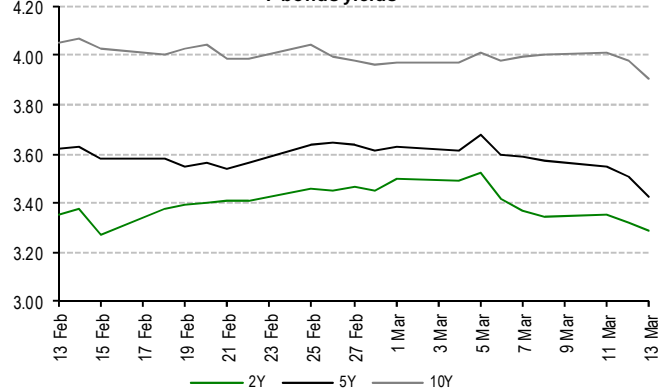
Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	88.7	0	2.47	-2
Czech Republic	59.7	0	0.56	9
Hungary	334.5	0	5.17	11
Greece	37030.5	0	9.18	5
Spain	260.5	4	3.29	4
Italy	269.8	5	3.20	7
Portugal	367.8	2	4.46	-4
Ireland	166.3	4	2.20	-1
Germany	33.4	-2	--	--

* 10Y treasury bonds over 10Y Bunds

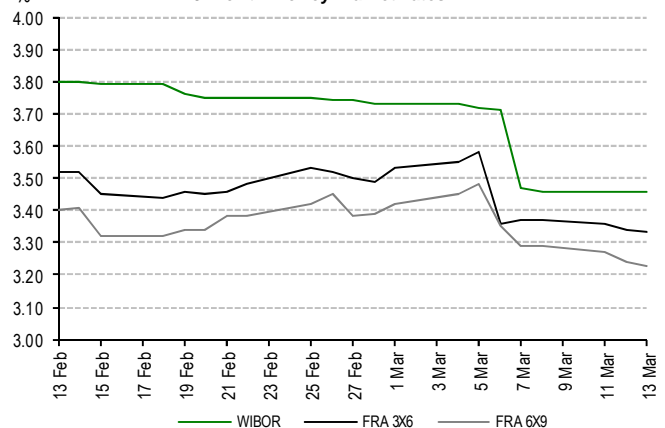
Zloty exchange rate (fixing)



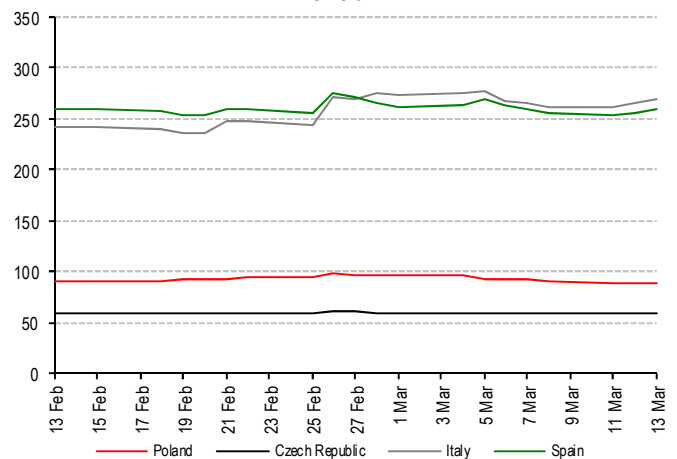
T-bonds yields



3-month money market rates



CDS 5Y



Source: Reuters

Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	BZWBK			
FRIDAY (8 March)								
12:00	DE	Industrial output	Jan	%MoM	0.4	-	0.0	0.6
14:30	US	Non-farm payrolls	Feb	k	160	-	236	119
14:30	US	Unemployment rate	Feb	%	7.9	-	7.7	7.9
MONDAY (11 March)								
8:00	DE	Exports	Jan	%MoM	0.5	-	1.4	0.2
9:00	PL	Publication of „Inflation report – March 2013”						
TUESDAY (12 March)								
		No important data releases						
WEDNESDAY (13 March)								
11:00	EZ	Industrial output	Jan	%MoM	-0.1	-	-0.4	0.9
13:30	US	Retail sales ex autos	Feb	%MoM	0.6	-	1.0	0.4
THURSDAY (14 March)								
13:30	US	Initial jobless claims	week	k	350	-		340
14:00	PL	CPI	Feb	%YoY	1.5	1.6		1.7
14:00	PL	Money supply	Feb	%YoY	5.0	5.4		4.5
14:00	PL	Current account	Jan	€m	-1 547	-1 693		-1 204
14:00	PL	Exports	Jan	€m	11 999	12 237		10 640
14:00	PL	Imports	Jan	€m	12 475	12 633		11 852
FRIDAY (15 March)								
11:00	EZ	HICP	Feb	%YoY	1.8	-		1.8
13:30	US	Core CPI	Feb	%	0.1	-		0.3
14:15	US	Industrial output	Feb	%MoM	0.4	-		-0.1
14:15	US	Capacity utilization rate	Feb	%	79.3	-		79.1
14:55	US	Flash Michigan	Mar	pts	77.4	-		77.6

Source: BZ WBK, Reuters, Bloomberg

* in case of the revision, the data is updated

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