

Eyeopener – Retail sales and unemployment today

26 August 2013

- **Investors' moods volatile under influence of data and comments from ECB and Fed**
- **Zloty slightly stronger at the end of the week, EURUSD temporarily above 1.34**
- **Slight rebound in domestic interest rate market**
- **Today, Polish retail sales and unemployment and US durable goods data**

On Friday the market sentiment was quite good, supporting risky assets. At the start of the day the euro was gaining against the dollar due to comment of the ECB Governing Board Council, Ewald Nowotny, who said he currently sees no arguments to cut interest rates. Market is still uncertain about starting date of QE3 tapering and this issue was addressed by two voting FOMC members, James Bullard and Dennis Lockhart. The former said there is no need to be in any hurry with tapering, as figures are still mixed and the Committee should take their time and assess the situation. On the other hand, the latter said that he will support reduction of asset purchases already in September, provided that data do not suggest that the economy is knocked off recovery course. Data from the US housing market, released at the end of the day, were significantly worse than expected, undermining the dollar and supporting expectations for later implementation of QE3 tapering.

On Friday evening the Fitch rating agency cut Poland's rating outlook to stable from positive and confirmed the credit rating at A-. Agency named the main factors behind this move as: worse fiscal outlook and suspension of safety lines, hurting the fiscal policy's credibility. However, please recall that Fitch's decision is actually a withdrawal of earlier decision to change the credit outlook from stable to positive. The February's move, which took place in February 2013, was apparently premature. We do not think that Poland is threatened by negative changes of rating parameters by other agencies.

End of the week brought a strengthening of the single currency, fuelled by the comment of ECB's Nowotny and worse-than-expected US housing market data. As a result, the rate tested 1.34 at the end of the European session (session maximum close to 1.341), but returned to 1.338 late in the afternoon. During Asian trading time EURUSD remained stable and is oscillating around 1.338 at today's opening. Today the market will focus on US data (durable goods orders). This reading will be viewed in context of future Fed actions. Important levels for EURUSD are 1.334 and 1.345.

Improvement of global market sentiment supported risky assets, including the zloty and other currencies in our region. EURPLN tested 4.22, but did not manage to break it. At the

same time USDPLN reached local low at 3.1465. Friday's decision of Fitch did not have much impact on the market, however, the zloty pared some gains versus main currencies during the Monday's Asian session. At today's opening the zloty is slightly stronger versus the single currency – EURPLN is just above 4.22 and USDPLN is slightly above 3.15. Today's domestic data releases should confirm slight rebound in private consumption, which should support slightly the domestic currency. Wide trading range for EURPLN at 4.20-4.26 is still valid.

Some recovery was recorded on the interest rate market on Friday, mainly in the 10Y tenor. This was due to stabilization on the core markets. 2Y and 5Y debt and IRS did not change much and thus both curves flattened (5-10 spread narrowed). 3M and 6M WIBOR rates increased by 1bp while remaining ones did not change. Amid some recovery on the IRS and bond market, FRA rates dropped marginally. Domestic data remains mainly under the influence of external factors, today's Polish data may prove less important.

Business sentiment indicators for August, published by Poland's statistical office on Friday, showed improvement in most sectors; indexes of manufacturing, construction and wholesale trade were better than in the same period of previous year. The order portfolio, but also production and financial situation of companies turned more optimistic, suggesting a slight improvement. However, mood in retail trade has remained relatively weak. These data support our forecast of rebound in economic activity driven by exports, with still weak private consumptions and worse perspectives for retail trade. Situation of consumers also improved, confirmed by increase in confidence indexes both current and leading – consumer confidence indices reached the highest levels since 2011.

This week we will see the last August's releases, including preliminary GDP estimate for Q2 together with detailed breakdown. Our forecast of July's retail sales is below market consensus, but after data about car registrations we see upward risk to our prediction. Thus, the release should not undermine the market's faith in economic recovery. Expected drop in unemployment rate to 13.1% in July may be the last one this year – in the following months we expect to see stabilisation and then a seasonal rise in unemployment. Still, there are signs of improvement visible in the labour market. Most important releases globally are the US data (confidence indexes, GDP, incomes and spending), which will be affected expectations about timing of QE3 tapering.

ECONOMIC ANALYSIS DEPARTMENT

ul. Marszałkowska 142. 00-061 Warszawa
email: ekonomia@bzwbk.pl

Maciej Reluga (Chief Economist)

Piotr Bielski

Agnieszka Decewicz

Marcin Sulewski

Marcin Luzziński

fax +48 22 586 83 40

Web site: <http://www.bzwbk.pl>

+48 22 586 83 63

+48 22 586 83 33

+48 22 586 83 41

+48 22 586 83 42

+48 22 586 83 62

TREASURY SERVICES

Poznań

Warszawa

Wrocław

+48 61 856 5814/30

+48 22 586 8320/38

+48 71 369 9400

F/X rates (today's opening)

EURUSD	1.3340	CADPLN	3.0147
USDPLN	3.1813	DKKPLN	0.5689
EURPLN	4.2439	NOKPLN	0.5211
CHFPLN	3.4394	SEKPLN	0.4879
JPYPLN*	3.2110	CZKPLN	0.1652
GBPPLN	4.9577	HUFPLN*	14.172

*for 100JPY/100HUF

Financial market review - 23.08.2013

The zloty trading ranges

	min	max	open	close	fixing
EURPLN	4.2220	4.2472	4.2439	4.2220	4.2323
USDPLN	3.1532	3.1863	3.1813	3.1503	3.1673
EURUSD	1.3332	1.3401	1.3340	1.3402	-

T-bonds

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
OK0114 (2Y)	3.07	0	23.04.13	2.748
PS1016 (5Y)	3.85	0	23.04.13	2.889
DS1021 (10Y)	4.48	-3	11.04.13	3.515

IRS rates (Mid)

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	2.87	0	0.36	1	0.47	1
2L	3.33	2	0.59	2	0.68	2
3L	3.67	2	1.01	5	0.94	3
4L	3.92	2	1.47	6	1.21	4
5L	4.10	3	1.88	6	1.46	4
8L	4.38	2	2.75	6	2.01	5
10L	4.47	0	3.08	6	2.28	6

WIBOR rates

TERM	%	Daily change (bp)
O/N	2.59	0
T/N	2.59	0
SW	2.60	0
2W	2.60	0
1M	2.62	0
3M	2.71	1
6M	2.72	0
9M	2.75	1
1Y	2.76	0

FRA rates (Mid)

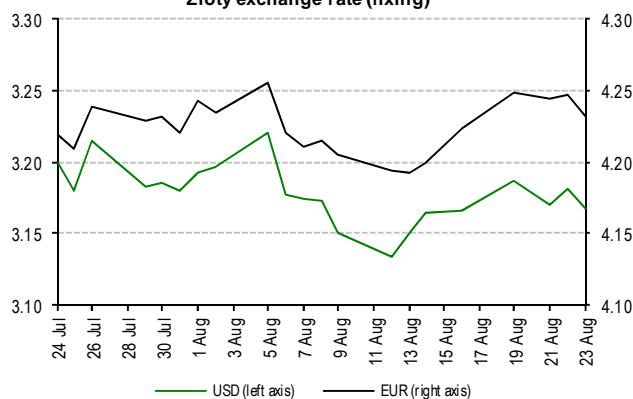
TERM	%	Daily change (bp)
1x2	2.65	-1
1x4	2.71	-1
3x6	2.73	0
6x9	2.85	0
9x12	3.06	-1
3x9	2.83	2
6x12	3.00	1

Measures of fiscal risk

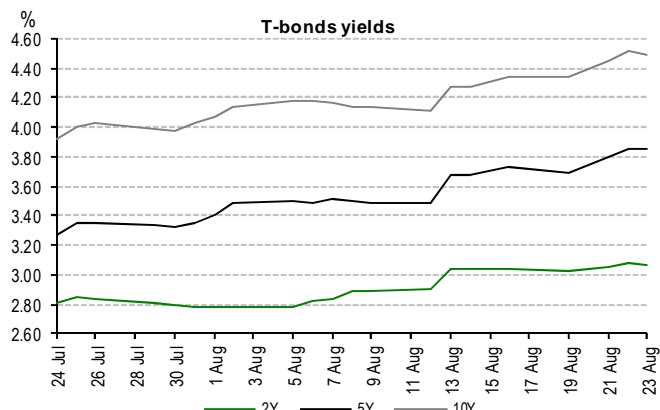
Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	94.0	3	2.56	-3
Czech Republic	65.3	0	0.47	-5
Hungary	327.3	1	4.52	-7
Greece	0.0	0	8.14	-26
Spain	231.6	-3	2.49	-8
Italy	243.0	-3	2.38	-3
Portugal	429.3	13	4.60	-7
Ireland	146.4	0	2.03	-6
Germany	28.5	0	--	--

* 10Y treasury bonds over 10Y Bunds

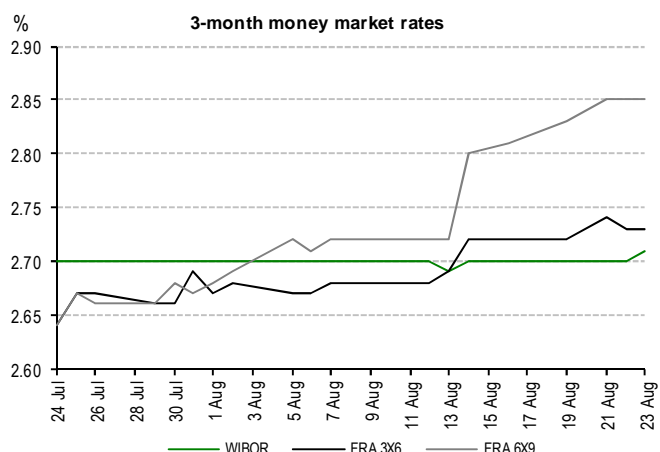
Zloty exchange rate (fixing)



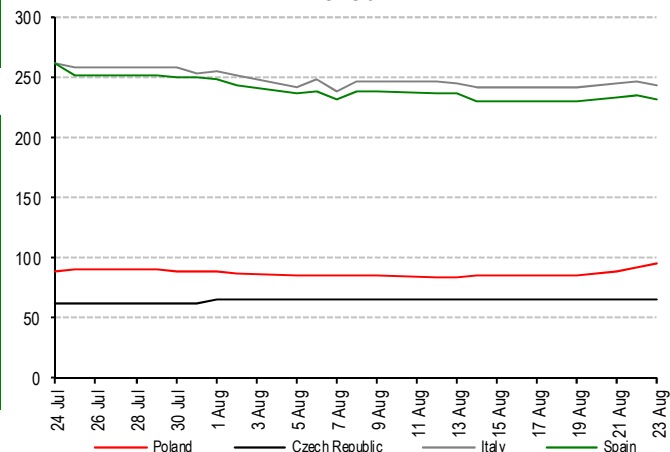
T-bonds yields



3-month money market rates



CDS 5Y



Source: Reuters

Economic calendar

CZAS W-WA	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	BZWBK		
FRIDAY (23 August)								
8:00	DE	GDP	Q2	%YoY	0.9	-	0.9	-1.6
16:00	EZ	Consumer confidence index	Aug	pts	-16.5	-	-15.6	-17.4
16:00	US	New home sales	Jul	k	490	-	394	455
MONDAY (26 August)								
10:00	PL	Retail sales	Jul	%YoY	2.8	1.6		1.8
10:00	PL	Unemployment rate	Jul	%	13.1	13.1		13.2
14:30	US	Durable goods orders	Jul	%MoM	-4.0	-		3.9
TUESDAY (27 August)								
10:00	DE	Ifo index	Aug	pts	107.0	-		106.2
14:00	HU	Central bank decision	Aug	%	-	-		4.00
15:00	US	S&P/Case-Shiller home price index	Jun	%YoY	12.0	-		12.2
16:00	US	Conference Board index	Aug	pts	80.3	-		80.3
16:00	US	Richmond Fed index	Aug	pts	-	-		-11
WEDNESDAY (28 August)								
8:00	DE	GfK index	Sep	pts	7.1	-		7.0
16:00	US	Pending home sales	Jul	%MoM	0.0	-		-0.4
THURSDAY (29 August)								
14:30	US	Preliminary GDP	Q2	%YoY	2.2	-		1.7
14:30	US	Initial jobless claims	week	k	330	-		336
FRIDAY (30 August)								
10:00	PL	GDP	Q2	%YoY	0.8	0.8		0.5
10:00	PL	Fixed investments	Q2	%YoY	-3.2	-5.0		-2.0
10:00	PL	Private consumption	Q2	%YoY	0.4	0.5		0.0
14:30	US	Personal spending	Jul	%MoM	0.3	-		0.5
14:30	US	Personal income	Jul	%MoM	0.2	-		0.3
15:45	US	Chicago PMI index	Aug	pts	53.0	-		52.3
15:55	US	Michigan index	Aug	%YoY	80.5	-		85.1

Source: BZ WBK, Reuters, Bloomberg

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

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Additional information is available on request. Please contact Bank Zachodni WBK S.A. Rates Area, Economic Analysis Department, ul. Marszałkowska 142, 00-061 Warsaw, Poland, phone +48 22 586 83 63, email ekonomia@bzwbk.pl, <http://www.bzwbk.pl>