Bank Zachodni WBK

Eyeopener – MPC to take away a punch bowl?

23 October 2013

- **Chojna-Duch sees no recovery and again mentions easing bias in monetary policy, while Belka suggests "taking away a punch bowl"**
- **Retail sales below expectations, although not that bad**
- **Disappointing data from US labour market weakened dollar, strengthened Polish debt and the zloty**
- **Today, consumer sentiment index in the euro area**

The delayed release of US labour market data was the crucial event of yesterday's auction. Weak reading fuelled hopes that – given downturn on the labour market, the FOMC may delay the start of QE3 tapering until 2014. In reaction to yesterday's data, the dollar lost considerably. Prior to the release it was oscillating around 1.367, but at the end of the day it climbed to 1.377, the highest level since November 2011. The very same factor caused a significant strengthening on the Polish FI and FX markets. EURPLN climbed to ca. 4.184 in the first part of the session, but fell to 4.16 after the US data, which supported the risky assets. USDPLN fell to almost 3.01. Given lack of important data releases, today a slight rebound after yesterday's dynamic changes is possible. At the start of the session the stock futures in Europe are declining, while the dollar stopped losing against the euro.

On the domestic interest rate market the IRS curve flattened in 2-10Y segment. 2Y rate declined by 6bps, 5- and 10Y by 9bp. This move was a reaction to the US numbers, which dragged the European debt market yields down. This was favourable also for the Polish bonds, but scale of the strengthening was less considerable than in case of IRS: 2Y benchmark remained stable, yields of 5Y fell by 7bp, 10Y by 3bp. However, it is worth noting that the debt was weaker during the day and more than offset its losses after the US data. Trade volumes were moderate. WIBOR 1-12M remained stable, slight changes occurred on the FRA market.

Finance Ministry sold yesterday bonds worth PLN12bn (upper limit of the border) given demand at PLN16.5bn. Sales of IZ0823 were equal to PLN5.8bn, of OK0116 to PLN4.8bn (demand at PLN8.3bn) and of DS1023 PLN1.4bn (demand at PLN2.4bn, yields at 4.302%, close to market levels). Deputy finance minister, Wojciech Kowalczyk, said that the resort has fully covered this year's borrowing needs and the upcoming auction will be pre-financing 2014 needs. He added that the Ministry plans to issue dollar-denominated bonds further in the year.

September's reading of retail sales was weaker than expected. However, the result was not that bad, and comparable to previous two months. We were a bit too optimistic as regards food, tobacco and beverages, pharmaceutics and cosmetics. On the other hand, we underestimated car sales. A clear acceleration was recorded in case of retail trade turnover (these numbers cover small trade units, as opposed to retail sales data). Growth rate reached 6.8%YoY and this was the best result since December 2010. Unemployment rate remained unchanged in September at 13.0%, which was in line with market consensus and our forecast. Number of jobseekers fell (for the seventh month in a row), but only by 100 persons. Still, this was the best September since 2008 and annual growth rate of number of jobseekers fell to 5.3% from 6.0% in August and this was the lowest reading since June 2012.

After the domestic data was released, Elżbieta Chojna-Duch, the MPC member known for her dovish bias in monetary policy, gave a comment. She said that there are no obvious signs of economic recovery, so extension of the neutral bias until mid-2014 is reasonable provided there are no shocks and changes in macroeconomic environment. She repeated that given decisions of other central banks the MPC could even consider returning to the easing bias. In our opinion, signs of the recovery are quite clear and it is hard to miss them. In Q3 retail sales increased by nearly 4%YoY in real terms versus 1.5% in Q2 and 0% in Q1. The pace of growth of industrial output accelerated to ca. 5%YoY in Q3 from 1.2%YoY in Q2. This will probably be reflected in Q3 GPD data – we expect growth by 1.8%YoY vs. 0.8%YoY in Q2. As we have already mentioned earlier, next to strong exports we have some improvement of the situation on the labour market and this will have positive impact on consumption. September's PMI report showed fastest increase of employment since May 2007 (after many months of labour shedding).

Yet before the release of Polish data, NBP governor Marek Belka said that the recovery is „very slow and there is no inflationary pressure". He added that recent macro data brings the MPC closer to extending the period when the policy bias is neutral. What is more interesting, the ObserwatorFinansowy.pl published the text of speech that NBP governor gave at the Warsaw International Banking Summit titled "Financial market and low interest rates in the economy". Belka says that the NBP is fully aware that, given the historical evidence, current level of interest rates in Poland is unusual and the central bank has to be particularly careful, as taking care over the economy it should not inflate distortions on the financial market at the same time. Belka reminded a well-known warning of former Fed governor, William McChesney Martin, who said that a good central bank knows when to take the punch bowl away as the party gets going (that is, when to stop cutting/start hiking interest rates). This suggests that the return to the easing bias is rather unlikely and perhaps the MPC should start thinking about tightening of the monetary policy.

ECONOMIC ANALYSIS DEPARTMENT

ul. Marszałkowska 142. 00-061 Warszawa
email: ekonomia@bzwbk.pl
fax +48 22 586 83 40
Web site: http://www.bzwbk.pl

Maciej Reluga (Chief Economist)	+48 22 534 18 88
Piotr Bielski	+48 22 534 18 87
Agnieszka Decewicz	+48 22 534 18 86
Marcin Luziński	+48 22 534 18 85
Marcin Sulewski	+48 22 534 18 84

TREASURY SERVICES

Poznań	+48 61 856 5814/30
Warszawa	+48 22 586 8320/38
Wrocław	+48 71 369 9400

FX market

Today's opening

EURUSD	1.3765	CADPLN	2.9356
USDPLN	3.0292	DKKPLN	0.5590
EURPLN	4.1682	NOKPLN	0.5126
CHFPLN	3.3828	SEKPLN	0.4750
JPYPLN*	3.1103	CZKPLN	0.1618
GBPPLN	4.9016	HUFPLN*	1.4241

*for 100JPY/100HUF

Last session 22.10.2013

	min	max	open	close	fixing
EURPLN	4.1614	4.1832	4.1730	4.1630	4.1786
USDPLN	3.0225	3.0598	3.0526	3.0236	3.0564
EURUSD	1.3663	1.3774	1.3674	1.3772	-

Interest rate market 22.10.2013

T-bonds**

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
OK0715 (2Y)	2.85	-2	23.04.13	2.748
PS0718 (5Y)	3.55	-2	23.04.13	2.889
DS1023 (10Y)	4.24	-3	22.10.13	4.302

IRS rates**

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	2.77	0	0.29	0	0.40	-1
2L	3.00	-6	0.42	-3	0.53	-3
3L	3.19	-6	0.69	-5	0.71	-5
4L	3.37	-7	1.06	-5	0.96	-5
5L	3.51	-9	1.48	-2	1.20	-5
8L	3.79	-11	2.34	-2	1.78	-5
10L	3.94	-9	2.65	-8	2.07	-5

WIBOR rates

TERM	%	Daily change (bp)
O/N	2.41	-4
T/N	2.51	-2
SW	2.55	0
2W	2.57	0
1M	2.59	0
3M	2.67	0
6M	2.70	0
9M	2.73	0
1Y	2.75	0

FRA rates**

TERM	%	Daily change (bp)
1x2	2.62	-1
1x4	2.70	1
3x6	2.70	-1
6x9	2.74	0
9x12	2.82	-1
3x9	2.76	2
6X12	2.80	0

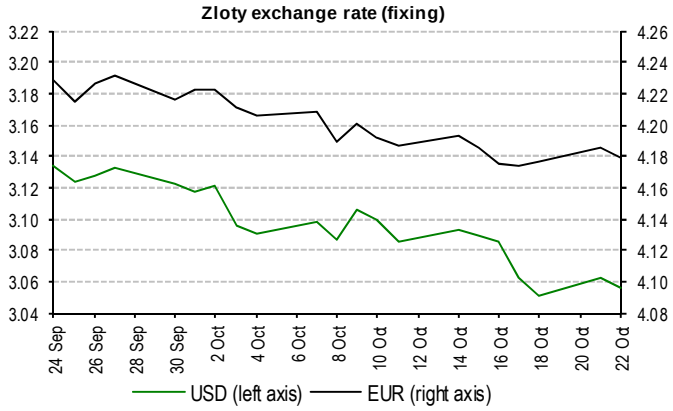
Measures of fiscal risk

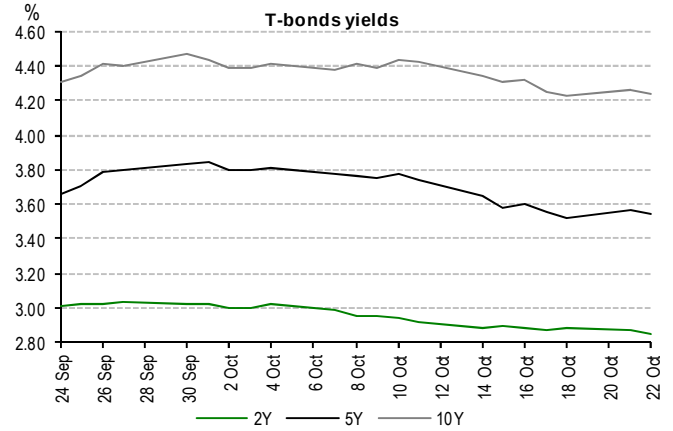
Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	83.4	0	2.45	2
Czech Republic	60.3	0	0.61	0
Hungary	254.2	0	3.76	0
Greece	37030.5	0	6.94	13
Spain	183.8	-9	2.39	-4
Italy	197.4	-11	2.32	-3
Portugal	364.6	-7	4.38	-6
Ireland	129.1	-2	1.80	3
Germany	22.3	0	--	--

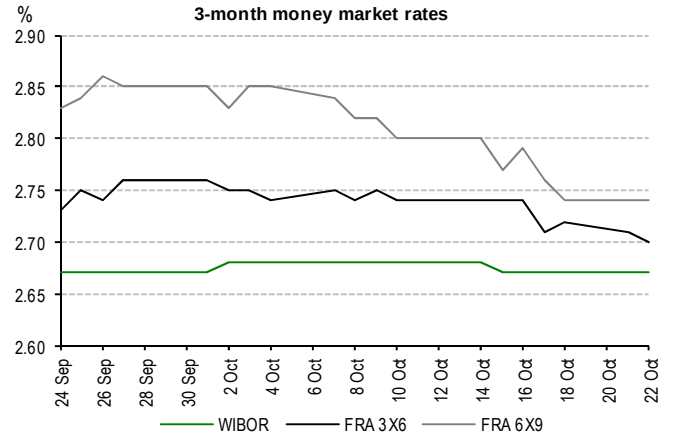
* 10Y treasury bonds over 10Y Bunds

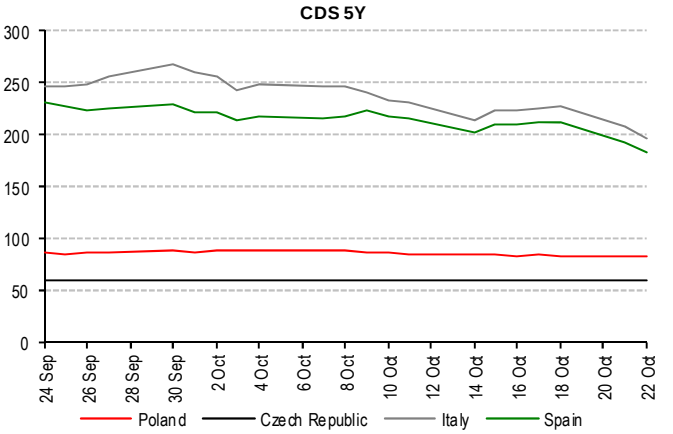
**Information shows mid levels on the interbank market

Source: Reuters









Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST BZWBK	ACTUAL VALUE	LAST VALUE*
		FRIDAY (17 October)						
4:00	CN	GDP	Q3	%YoY	7.8	-	7.8	7.5
4:00	CN	Industrial output	Sep	%YoY	10.2	-	10.2	10.4
		MONDAY (21 September)						
16:00	US	Home sales	Sep	m	5.32	-	5.48	5.39
		TUESDAY (22 October)						
10:00	**PL**	**Retail sales**	**Sep**	**%YoY**	**4.6**	**4.6**	**3.9**	**3.4**
10:00	**PL**	**Unemployment rate**	**Sep**	**%**	**13.0**	**13.0**	**13.0**	**13.0**
11:00	**PL**	**Bond auction – OK0116, IZ0823 and DS 1023 worth PLN8-12bn**						
14:30	US	Non-farm payrolls	Sep	k	180	-	148	193
14:30	US	Unemployment rate	Sep	%	7.3	-	7.2	7.3
		WEDNESDAY (23 October)						
16:00	EZ	Consumer confidence	Oct	pts	-14.5	-		-14.9
		THURSDAY (24 October)						
3:45	CN	Flash PMI – manufacturing	Oct	pts	-	-		50.2
9:28	DE	Flash PMI – manufacturing	Oct	pts	51.5	-		51.1
9:28	DE	Flash PMI – services	Oct	pts	53.9	-		53.7
9:58	EZ	Flash PMI – manufacturing	Oct	pts	51.4	-		51.1
9:58	EZ	Flash PMI – services	Oct	pts	52.4	-		52.2
14:30	US	Initial jobless claims	week	k	340	-		358
16:00	US	New home sales	Sep	k	425	-		421
		FRIDAY (25 October)						
10:00	DE	Ifo index	Oct	pts	108	-		107.7
14:30	US	Durable goods orders	Sep	%MoM	1.9	-		0.1
15:55	US	Michigan index	Oct	pts	75.2	-		77.5

Source: BZ WBK, Reuters, Bloomberg

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

*** data releases suspended*

This publication has been prepared by Bank Zachodni WBK S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Bank Zachodni WBK S.A.. its affiliates and any of its or their officers may be interested in any transactions. securities or commodities referred to herein. Bank Zachodni WBK S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Bank Zachodni WBK S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

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