

EYEOPENER

15 November 2013

GDP growth higher than expected, inflation under control

- **Mixed data about GDP in Europe; dovish Yellen's rhetoric supported financial markets**
- **Polish October's inflation below forecast, while Q3 GDP higher than expected**
- **Zloty and Polish debt slightly stronger after data releases; no big changes in EURUSD**
- **Today, in Poland core inflation and government committee's meeting regarding OFE overhaul; US industrial output in the afternoon**

Yesterday's flash data on Q3 GDP in European countries have clearly affected trade in the first part of the session. Estimate for the euro zone was slightly below expectations, which put a pressure on the single currency. This outcome fuelled worries that the ECB may take more actions. Quite considerable surprises were delivered by data from the Czech Republic and Hungary. Czech economic growth slowed down after only one quarter of improvement. On the other hand, Hungarian economy rebounded stronger than expected – GDP growth in Q3 was at the highest level since Q1 2011. These numbers considerably affected the koruna and the forint. Domestic data also proved better than expected. Polish GDP growth accelerated in Q3 to 1.9%YoY, beating expectations and confirming that economic revival is gaining steam. At the same time, inflation remained low – CPI decelerated in October to 0.8%YoY.

MPC's Elżbieta Chojna-Duch said after the GDP data that GDP growth may amount to ca. 3% in 2014. She confirmed that rates will be stable until mid-2014. In the afternoon, after CPI release, Adam Glapiński reiterated that MPC may not change rates until the end of next year. In his view "growth in Q3 is still nothing radical, it [the recovery] has to last a few more quarters". In general, the data did not change our assessment of economic outlook and expectations on monetary policy – GDP growth will be gradually accelerating (approaching 3% in 2014), while inflation will be slowly climbing. As a result, rates will remain flat until mid-2014, as the MPC declared, but the first hike is possible in Q3 2014.

In the afternoon the market focused on speech of the Fed chairman nominee before the US Senate Banking Commission. Janet Yellen said that the central banks should be careful not to limit economic stimulus too early, but at the same time the loose monetary policy should not be implemented for too long. In her view, benefits from the QE outweigh the costs and asset purchases programme should not be extinguished as long as the recovery is fragile. This comment of the next Fed governor awoke hopes that the US central bank may postpone QE3 tapering until later than currently expected (1Q2014), which supported financial markets (including equity market).

EURUSD declined in the first part of the session to 1.342 after the euro zone's flash GDP data proved slightly weaker than expected. In the

following hours the exchange rate was stable as the market awaited what Yellen will say at the hearing. The speech of the Federal Reserve chairman nominee at the US Senate banking committee had moderately positive impact on the euro. At the end of the day EURUSD was close to 1.347 and is hovering around this level today in the morning. In the first part of the session final data on euro zone's October HICP is due to be released – when last week flash data showed deep decline, the euro lost visibly versus the dollar. In the afternoon vital data on the US industrial output will be published. Resistance for today is at 1.35, support at 1.34.

EURPLN declined yesterday to nearly 4.18 due to, among others, data on domestic GDP that proved better than expected. The domestic currency lost slightly vs. the dollar due to the decline of EURUSD. Thursday was another day of weakening of Czech koruna – EURCZK increased to 27.205, mainly due to disappointing data on flash GDP in Q3 in Czech Rep. On the other hand, positive surprise from Hungary had positive, but limited and only temporary, impact on the forint – EURHUF declined to 297.2, but at the end of the day it rebounded close to opening level (298.5). Today in the morning EURPLN is close to 4.18, the zloty has pared all losses suffered at the beginning of the week when Polish market was closed. Data from the euro zone and the US may have some impact on the zloty. First short term support is at 4.175, resistance at 4.22.

On the domestic interest rate market IRS declined slightly, the biggest impact on this move was provided by data on October's CPI and most visible move was recorded on the short end of the curve. 10Y rate closed at 4.05%, 5Y at 3.62% and 2Y at 2.97%. Yields of bonds declined at similar scale, in this case big drop was also recorded on the short end of the curve. Yesterday 1M and 3M WIBOR rates declined by 1bp, other in 1-12M segment remained unchanged. 3M WIBOR rate terminated the stabilization lasting for 13 sessions. Today at 14:00CET data on October's core CPI will be released. CPI inflation decline was mainly due to exceptionally low food prices, while remaining categories surprised to the upside. Thus, we think core CPI after excluding food and energy prices increased slightly (to 1.4%YoY). If our estimates are confirmed, then today's release may weaken somewhat the dovish message from today's CPI data.

Today at the special meeting the government's committee will deal with the draft of bill on changes in pension system. After consultations, the new project assumes (1) lack of minimum 75% share of funds that have to be allocated into stocks by OFE, (2) extension of the time for making a decision whether to choose ZUS or OFE to 4 months from 3 months and (3) giving the OFE opportunity of invest in bonds issued by the BGK state bank (in these bonds, which will not be guaranteed by the state). The mechanism of gradual liberalization of limit for foreign investments by OFE was sustained, as well as cutting fees collected by OFE and the gradual transfer of funds from OFE to ZUS starting 10 years before the retirement age (in monthly instalments).

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FX market

Today's opening

EURUSD	1.3457	CADPLN	2.9735
USDPLN	3.1112	DKKPLN	0.5613
EURPLN	4.1855	NOKPLN	0.5057
CHFPLN	3.3922	SEKPLN	0.4679
JPYPLN*	3.1086	CZKPLN	0.1543
GBPPLN	5.0044	HUFPLN*	14050

*for 100JPY/100HUF

Last session

14.11.2013

	min	max	open	close	fixing
EURPLN	4.1825	4.2002	4.1971	4.1910	4.1890
USDPLN	3.1069	3.1226	3.1190	3.1136	3.1150
EURUSD	1.3417	1.3470	1.3457	1.3459	-

Interest rate market 14.11.2013

T-bonds (on the interbank market)**

Bond (term)	Yield (%)	Change (bp)	Last auction	Average yield
OK0715 (2Y)	2.78	-3	23.04.13	2.748
PS0718 (5Y)	3.59	-3	07.11.13	3.589
DS1023 (10Y)	4.30	-4	22.10.13	4.302

IRS rates (on the interbank market)**

TERM	PL		US		EA	
	%	Change (bp)	%	Change (bp)	%	Change (bp)
1L	2.71	-1	0.29	0	0.35	0
2L	2.97	-2	0.41	-2	0.45	1
3L	3.23	0	0.68	-3	0.61	1
4L	3.44	-1	1.06	-5	0.83	0
5L	3.62	-1	1.47	-5	1.07	0
8L	3.94	-1	2.41	-4	1.69	-2
10L	4.05	-2	2.80	-4	2.00	-2

WIBOR rates

TERM	%	Daily change (bp)
O/N	2.61	-1
T/N	2.61	-1
SW	2.55	0
2W	2.57	0
1M	2.59	-1
3M	2.65	-1
6M	2.70	0
9M	2.73	0
1Y	2.75	0

FRA rates (on the interbank market)**

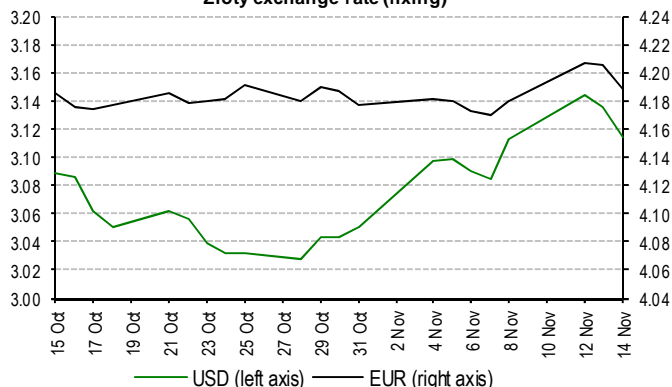
TERM	%	Daily change (bp)
1x2	2.61	0
1x4	2.64	0
3x6	2.66	1
6x9	2.68	-1
9x12	2.76	-1
3x9	2.71	3
6x12	2.74	-3

Measures of fiscal risk

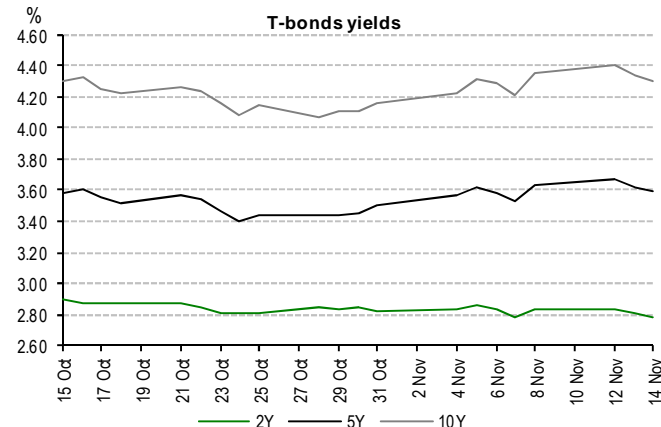
Country	CDS 5Y		Spread 10Y*	
	Value	Change (bp)	Value	Change (bp)
Poland	85.1	0	2.60	0
Czech Republic	59.5	0	0.51	-1
Hungary	280.3	0	4.17	-4
Greece	37030.5	0	7.04	-12
Spain	162.6	-2	2.36	0
Italy	189.9	-2	2.35	-2
Portugal	343.4	2	4.25	5
Ireland	125.7	1	1.83	1
Germany	20.0	0	--	--

* 10Y treasury bonds over 10Y Bunds

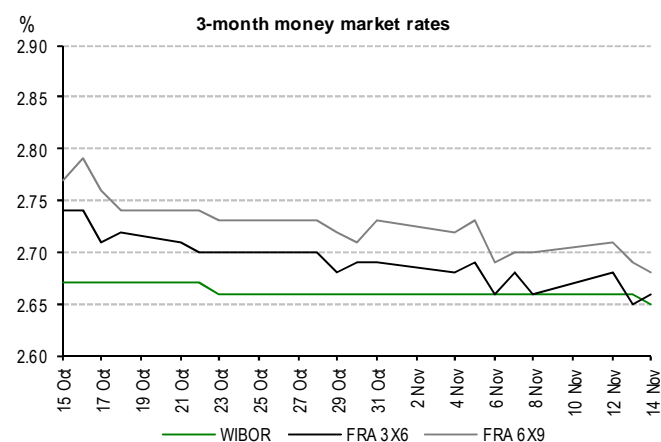
Zloty exchange rate (fixing)



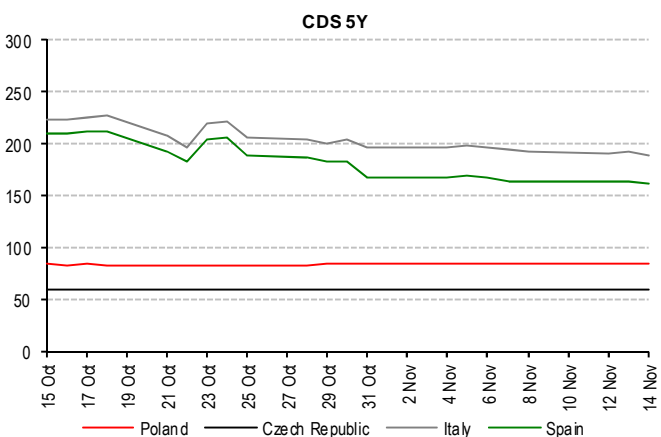
T-bonds yields



3-month money market rates



CDS 5Y



**Information shows mid levels on the interbank market at the end of the trading day

Source: Reuters

Economic calendar

CZAS W-WA	COUNTRY	INDICATOR	PERIOD		FORECAST		REALIZACJA	LAST VALUE*
					MARKET	BZWBK		
		FRIDAY (8 November)						
14:30	US	Non-farm payrolls	Oct	k	120	-	204	163
14:30	US	Unemployment rate	Oct	%	7.3	-	7.3	7.2
		MONDAY (11 November)						
	PL	The Independence Day						
	US	Market holiday						
9:00	CZ	CPI	Oct	%YoY	0.9	-	0.9	1.0
		TUESDAY (12 November)						
9:00	HU	CPI	Oct	%YoY	1.4	-	0.9	1.4
10:00	PL	Publication of “Report of Inflation”						
14:00	PL	Current account	Sep	€m	-762	-694	-1 024	-785
14:00	PL	Exports	Sep	€m	13 648	13 800	13 896	12 422
14:00	PL	Imports	Sep	€m	13 238	13 100	13 223	12 176
		WEDNESDAY (13 November)						
11:00	EZ	Industrial output	Aug	%MoM	-0.3	-	-0.5	1.0
		THURSDAY (14 November)						
8:00	DE	Flash GDP	Q3	%YoY	0.6	-	0.6	0.5
9:00	HU	Flash GDP	Q3	%YoY	0.8	-	1.7	0.5
9:00	CZ	Flash GDP	Q3	%YoY	-0.5	-	-1.6	-1.3
10:00	PL	Flash GDP	Q3	%YoY	1.6	1.8	1.9	0.8
11:00	EZ	Flash GDP	Q3	%YoY	-0.3	-	-0.4	-0.6
14:00	PL	CPI	Oct	%YoY	1.0	0.9	0.8	1.0
14:00	PL	Money supply	Oct	%YoY	5.8	5.8	5.9	6.1
14:30	US	Initial jobless claims	week	k	330	-	339	341
		FRIDAY (15 November)						
11:00	EZ	HICP	Oct	%YoY	0.7	-		1.1
14:00	PL	Core inflation	Oct	%YoY	1.3	1.4**		1.3
15:15	US	Industrial output	Oct	%MoM	0.2	-		0.6

Source: BZ WBK, Reuters, Bloomberg

* in case of the revision, the data is updated **estimate after inflation data

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