

# Weekly economic update

24 – 30 September 2012

Optimism that emerged after the Fed's decision on launching QE3 persisted only shortly on the global market. Since the beginning of the week investors were taking profit from gains recorded recently by risky assets. Risk aversion was also fuelled by impatience that Spain so far has not asked for help from the ECB/ESM and by macro data pointing to slowdown of global economy. The zloty suffered quite significantly as compared to changes that occurred in other risky assets. It seems that pressure on the domestic currency was put by market expectations for rate cuts that strengthened after weak data from domestic economy. A rate cut by 25bps is still our base scenario, but recent comments of MPC members still do not point that last data releases had substantial impact on Council's members and encouraged them to take prompt actions.

After surprising rebound of the flash PMI for German manufacturing investors will expect Ifo data to confirm this improvement and thus the release may have visible impact on the market. In the following days a number of important US data will be released with final GDP for Q2 seeming to play main role. Investors will also pay attention how US consumer confidence changed over the month as in August it recorded and surprising deterioration. Domestic data shall confirm that domestic demand is slowing down and continuation of this trend will constrain pace of GDP growth in coming quarters. The propensity to consume will be also limited by unfavourable situation on the labour market as it will be probably confirmed in August's data on the unemployment rate. This will be another bunch of data showing the room for a rate cuts. The EURPLN remains in the broad range of 4.05-4.20 and upper and lower band of this range remain vital levels also this week. On the domestic debt market investors will focus on data releases as well as planned supply of bonds for Q4. As the OK1012 will matures and coupon payments from DS and PS bonds are due (ca. PLN26bn will flow on the market) we expect that in September the supply of debt will be higher than it was in the past months. End of the quarter may also encourage window dressing and this may support middle and long end of the curve.

## Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		LAST VALUE
					MARKET	BZWBK	
<b>MONDAY (24 September)</b>							
10:00	DE	Ifo index	Sep	pts	102.3	-	102.3
<b>TUESDAY (25 September)</b>							
8:00	DE	GfK index	Oct	pts	5.9	-	5.9
10:00	PL	Retail sales	Aug	%YoY	5.9	5.9	6.9
10:00	PL	Unemployment rate	Aug	%YoY	12.3	12.3	12.3
15:00	US	S&P/Case-Shiller home price index	Jul	%MoM	0.8	-	0.9
16:00	US	Consumer confidence index	Sep	pts	62.0	-	60.6
<b>WEDNESDAY (26 September)</b>							
16:00	US	New home sales	Aug	k	380	-	372
<b>THURSDAY (27 September)</b>							
10:30	GB	GDP	Q2	%YoY	-0.5	-	-0.5
14:30	US	Final GDP	Q2	%QoQ	1.7	-	2.0
14:30	US	Initial jobless claims	week	k		-	382
14:30	US	Durable goods orders	Aug	%MoM	-2.5	-	4.1
16:00	US	Pending home sales	Aug	%MoM	-0.7	-	2.4
<b>FRIDAY (28 September)</b>							
11:00	EZ	Flash HICP	Sep	%YoY	2.4	-	2.6
14:00	PL	Inflation expectations	Sep	%YoY	-	-	4.4
14:00	PL	Balance of payments	Q2	€m	-	-2 702	-4 344
14:30	US	Personal income	Aug	%MoM	0.2	-	0.3
14:30	US	Consumer spending	Aug	%MoM	0.5	-	0.4
14:30	US	Core PCE	Aug	%MoM	0.1	-	0.0
15:45	US	Chicago PMI index	Nov	pts	53.2	-	53.0
15:55	US	Michigan index	Sep	pts	74.0	-	79.2

Source: BZ WBK, Reuters, Parkiet

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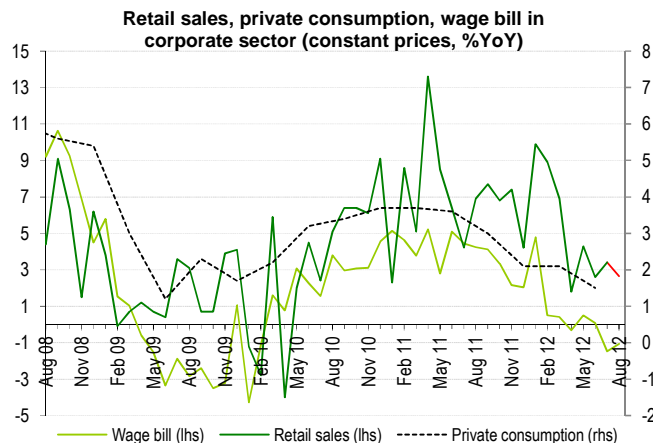
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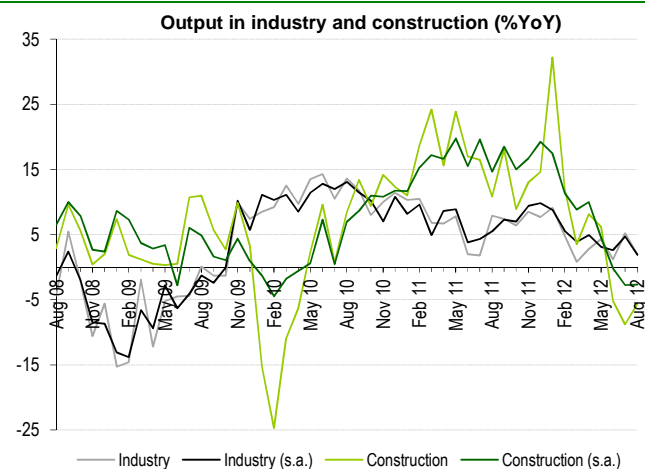
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## What's hot this week – Weak retail sales reflecting slowing private consumption

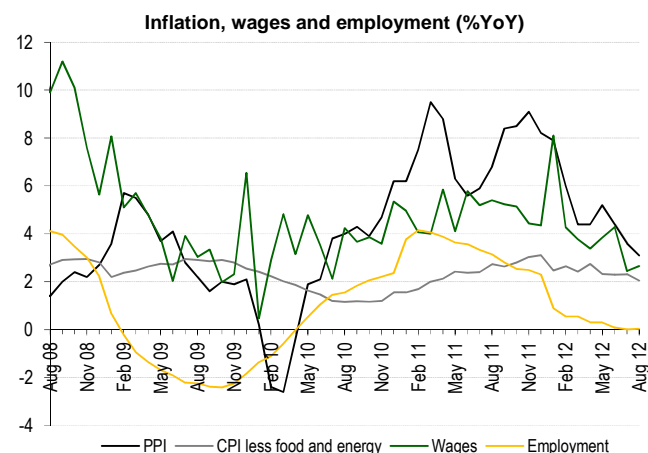


- Last set of economic data releases this month is likely to provide new evidence that domestic economic growth is faltering.
- We predict a slowdown in retail sales growth (consistent with market consensus), resulting from deterioration of households' real income and higher job uncertainty. SAMAR's data on weak new car sales once again are suggesting a slight downward risk for our forecast.
- NBP's measure of households' inflationary expectations should decline in September, due to drop in observed CPI, being a basis for calculation.
- Quarterly balance of payments data may, as usually, introduce sizeable revisions to trends pointed earlier by monthly data.

## Last week in the economy – Economy slows, inflationary pressure non-existent



- August data for Polish industry confirmed that July's rebound was just a short-lived disturbance in a downward trend. Industrial output growth slowed down to 0.5%YoY and in construction another solid drop was recorded (-5%YoY). We expect to see continuation of negative trends in subsequent months. Data for September may look particularly bad, as they will be affected by two working days less than in 2011.
- Wage growth in corporate sector accelerated slightly in August (to 2.7%YoY), but employment once again dropped in monthly terms. Since the start of the year ca. 30k jobs have been cut, versus ca. 20k increase in the similar period of 2011.
- The data are in line with scenario of clear slowdown in economic growth, driven by not only drop in external demand but also weakening domestic demand.



- All four NBP's measures of core inflation declined in August. Inflation excluding prices of food and energy reached 2.1%YoY (after stabilising at 2.3% in three previous months).
- Annual PPI growth decelerated third month in a row, to 3.1%YoY, the lowest level for more than two years; since May the annual PPI growth decreased by more than 2 pct. points.
- Recent publications confirmed that the cost pressure on producers is decreasing, and it is hard to see any inflationary pressure, in the environment of clear deceleration of economic growth and deteriorating labour market situation.

## Quote of the week – October is too early?

**Andrzej Kaźmierczak, MPC member, 21.09, Reuters**

Bias concerning tightening monetary policy is not obvious any more. However, if we are talking about policy easing, such decision has not been made yet. One has to be sure that disinflation is of permanent nature. In my opinion October is too early to make such considerations.

**Anna Zielińska-Giębocka, MPC member, 20.09, Reuters**

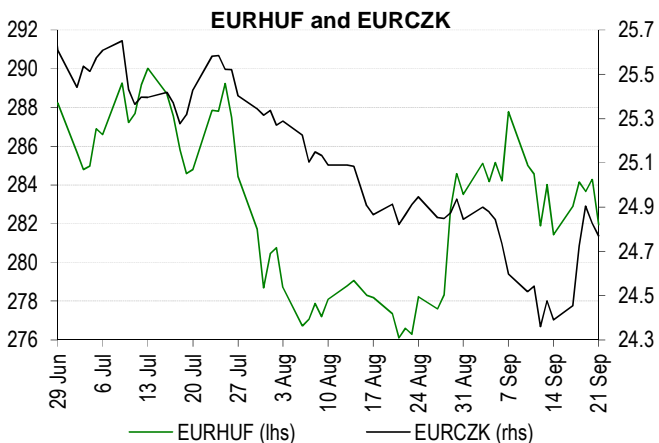
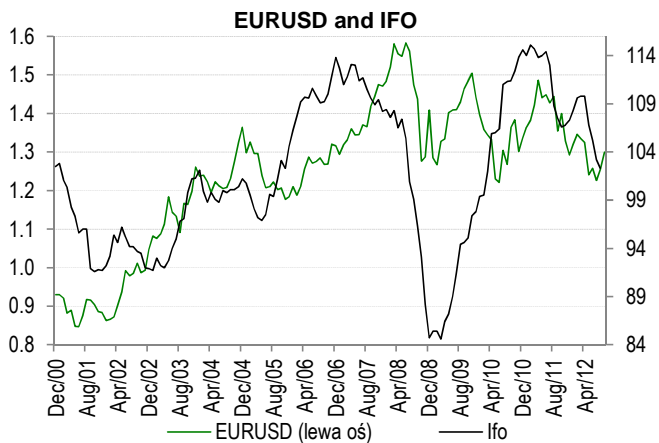
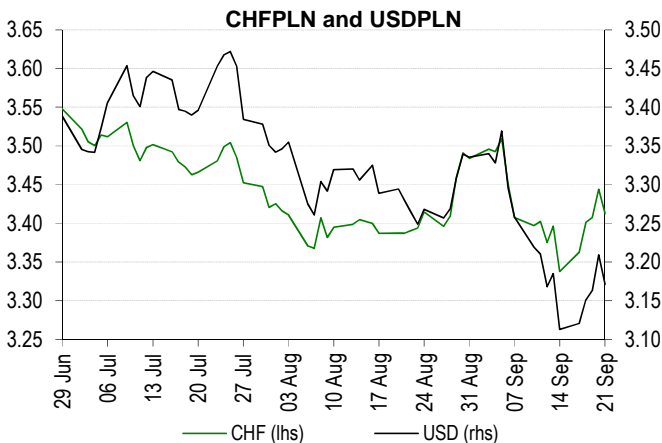
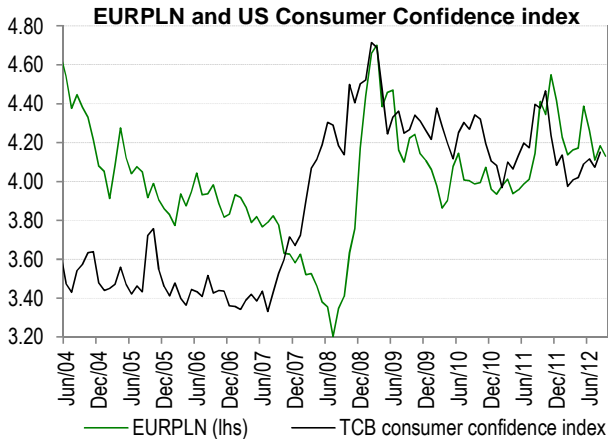
Inflation is still high and will stay relatively high. (...) It shows that current level of rates is adequate. (...) I believe that a cut this year is possible but it's difficult to say when. I think a cut in October or November is (equally) possible.

**Andrzej Bratkowski, MPC member, 20.09, Radio PiN**

If there is no improvement (in EU), then such level (reference rate at 3.5%) will be justified. Probability of shallow recession increased, of deep one decreased. Economic growth around 1 percent is quite likely.

Minutes of the last MPC meeting that there was some easing of their stance concerning interest rates – interest rate hikes are not considered any more. In September two motions to cut interest rates (by 25 and 50bp) have been voted again, probably submitted and backed by the same members as in July (Chojna-Duch, Bratkowski). However, most recent comments of some MPC members have suggested that despite weak economic data they are still unconvinced about need and possibility of monetary policy easing. We stick to our base-case scenario, assuming rate cut in October, although after the recent comments we see growing risk that the majority for interest rate cuts may not be established before November.

## Foreign exchange market – US and German data vital for the EURPLN and EURUSD



### Worldwide profit taking hits also the zloty

- Profit taking after Fed's decision on launching QE3 and verdict of the German Constitutional Court as well as worries over situation in the euro zone and global economic growth resulted in a situation when the zloty pared most of gains recorded during the previous week. The EURPLN reached temporarily 4.18 while at the end of the previous week was close to 4.05. At the end of the week the exchange rate recovered to 4.13.

- It is worth to notice that the range trading of the EURPLN was clearly wider than in case of other markets (stock exchanges, peripheral debt market). This may suggest that zloty's depreciation was not only driven by worries over the global economy or the euro zone, but also the outlook of rate cuts in Poland and CEE region.

- This week a number of US data will be released, including consumer sentiment index. For three years, the index has been staying clearly below pre-crisis level. It can be seen that the zloty dependence on situation in the US economy, in which consumption has a large importance, is quite large. Improvement of economic situation of US households may be thus one of the key prerequisites, allowing domestic currency to return to path of clear and stable appreciation. Meanwhile, EURPLN is still hovering in wide band 4.05-4.20. The upper and lower limits of this band are important levels for this week.

### Impact of Fed's QE3 on EURUSD (so far) temporary

- The EURUSD was gradually retreating from local peak at ca. 1.317 established after Fed's decision. The single currency was under pressure of profit taking, worries over the euro zone and poor data from global economy. During the week the exchange rate approached 1.29, but finally rebounded to 1.293.

- Consequently, the streak of five consecutive weeks of the euro's appreciation versus the dollar ended. Last time longer streak was observed since July to August 2010 and lasted six weeks. At that time the euro was benefiting from hopes for launching QE2 by the Fed.

- Next to set of vital US macro data also the release of the German Ifo index may be crucial. The market will check if the data confirm September's rebound in manufacturing that was suggested by flash PMI last week. As presented on the chart, without an increase of Ifo – suggesting that euro zone's biggest economy is performing well – it is hard to expect any considerable and long-lasting appreciation of single currency versus the dollar.

- Local peak at ca. 1.317 is a strong resistance and it is preventing the EURUSD from reaching even 1.34-1.35. Support level is at 1.275.

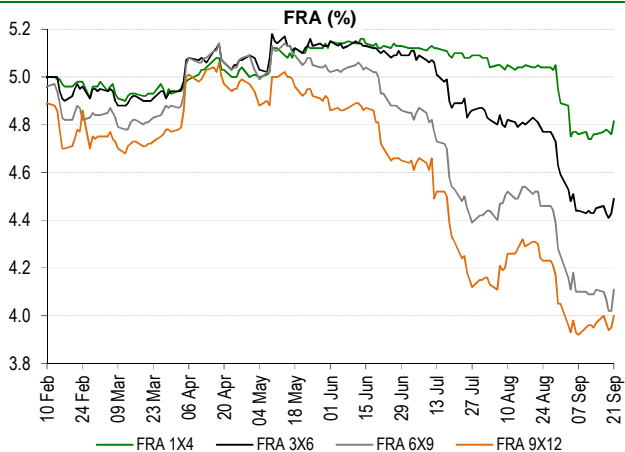
- Last developments on the market prompted a change of end-of-the-year forecast for the EURUSD. We expect the exchange rate to end the year close to 1.28 versus 1.20 anticipate earlier.

### Koruna weakens after dovish signals from Czech Rep.

- Remaining CEE3 currencies also depreciated. Koruna lost nearly 2% versus the euro, partly due to comment of Czech National Bank president. Miroslav Singer pointed that monetary policy may be loosened further (main interest rate in Czech Republic is at 0.5%). Hungarian forint performed better versus the single currency (it lost only 0.4%) while the zloty depreciated by 2.2%.

- Vital levels for this week for EURCZK and EURHUF are 24.6/25 and 279/285, respectively.

## Interest rate market – Issuance plan for Q4 and macro data important for investors



### FRA market has aggressively priced-in rate cuts ...

- Released last week macro data supported market expectations that the MPC would cut rates in October (although it is still not certain if a majority in the Council forms to support monetary easing next month). As a consequence FRA rates have continued downward trends, with relatively stable WIBOR rates. FRA9x12 remained below 4.0%, however the week ended at 4.0%. FRA3x6 at the end of week increased to near 4.50%, still pricing-in rate cuts by 50bps in total till year-end, which is also our basic scenario. Some profit taking at the end of week mainly resulted from statement by Kaźmierczak, who pointed out that it is too early to cut rates.

- One should notice that during the week FRA 6x9 oscillated near 4.02%, the lowest level since June 2010. The spread between implied WIBOR3M in 6 months period and spot rate increased slightly above 90bps, the highest level since February 2009. But it ended with rates at slightly above 4.10%.

### ... while bond market is more cautious

- Polish bonds, especially the long-end of the curve weakened at the beginning of the week. However, the next days brought some rebound and yields declined, trimming earlier losses. 10Y benchmark ended the week near 4.85%.

- IRS rates (mainly on mid and long end of the curve) also gradually declined last week. The scope of changes in 10Y sector was lower than on the bond market. Therefore asset swap spread slightly narrowed, but it consolidates between 40-50bps.

- Last week Poland's Ministry of Finance tapped bonds WZ0121, DS1021 and IZ0823 worth PLN3.55bn in total. Auction results showed more interest in WZ (floating) and IZ (inflation-linked) series than DS one (fixed), with the sale of WZ0121 accounted for nearly 60% of total sale. One should notice that demand for DS1021 recorded at the auction was much lower compared with the previous standard tender in May (1.2bn vs 5.4bn). It suggests that taking into account current market conditions, the long-end of the curve looks like expensive for investors.

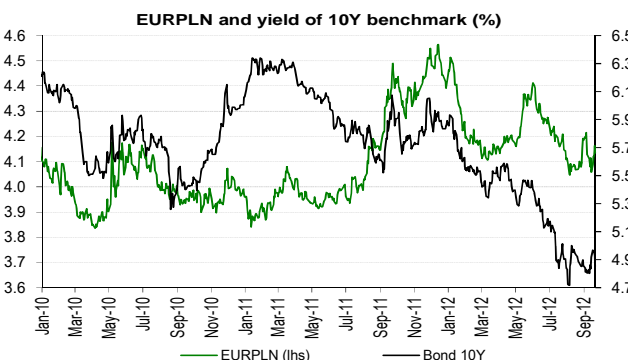
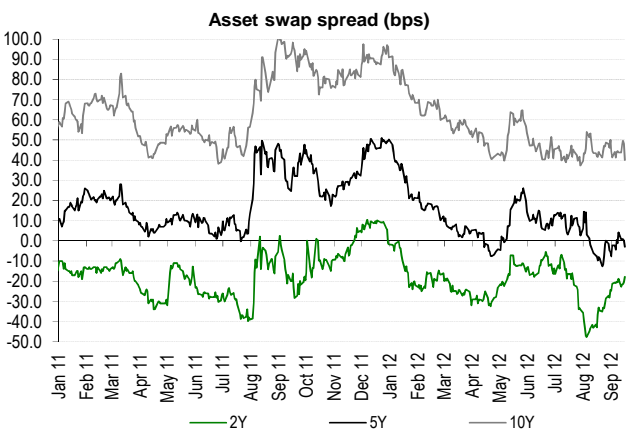
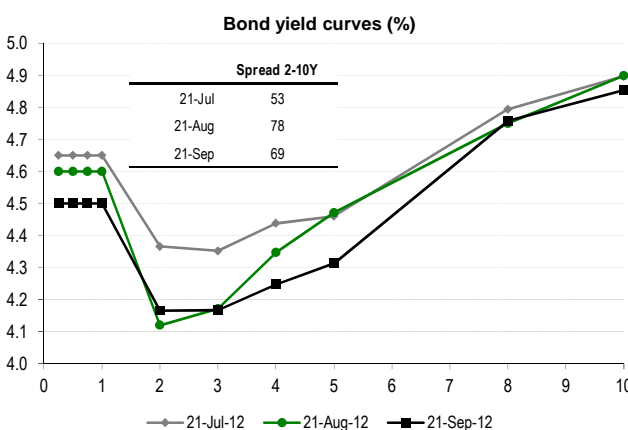
### Issuance plan for Q4 and macro data will affect mood

- This week will be very interesting – the end of month, the end of quarter, which could cause investors to improve valuation on the debt market (window dressing).

- Investors will focus on macro data - the last package will be published this week: retail sales, unemployment rate, quarterly balance of payment. The most important will be the former figures, showing consumption perspectives in coming months. Information that sales growth has continued to slow might support the short end of the curve.

- Before the MPC meeting next month, investors' attention will concentrate on the issuance plan for Q4, especially for October. The Ministry is in very comfortable situation taking into account that 97% of this year borrowing requirements is completed.

- Due to high liquidity on the market (redemption of OK1012 worth PLN16.4bn and interest payment from October's series of DS and PS worth PLN9.3bn) in October we foresee offer of wholesale bonds at relatively high level compared with other months of Q4. We do not exclude that the MF might offer a new benchmark of 10Y and 2Y benchmark OK0714.



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