

Weekly economic update

29 July – 4 August 2013

Flash July's PMIs for German and euro zone's manufacturing proved much better than anticipated and other data released last week (Ifo or first estimate of UK GDP in 2Q, among others) were close to consensus. Though these publications supported market expectations for faster economic growth in second half of the year, they triggered a correction instead of a wave of optimism. Together with negative information from the CEE region this terminated the series of four consecutive weeks of zloty's appreciation versus the euro and the Swiss franc. The rebound of 10Y Bunds' yields from the support at 1.50% triggered also a weakening on the Polish debt market. The situation stabilised after *The Wall Street Journal* wrote that the statement from July's FOMC meeting would be dovish in order to ensure market participants that highly accommodative monetary policy would be sustained for a long time.

While the Polish MPC does not take any decisions on the monetary policy in August, three main central banks do their job. After last week's suggestions from the US press it seems that investors will be particularly awaiting the FOMC statement from the Wednesday's meeting. Expectations regarding the tapering of the QE3 by the Fed is the key factor driving the markets in recent weeks and next hints on this – provided also by monthly US nonfarm payrolls – may initiate direction for the market for coming weeks. The outcome of the Czech central bank's meeting may be also important for the zloty. Its governor said that the monetary policy could be eased further by using the instrument of FX interventions. This comment suggests that this issue may be discussed on the meeting and have an impact on the koruna and thus also on other CEE currencies. Investors should not be disappointed by lack of ECB's rate cut given the much better than expected data on flash PMI released last week.

Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		LAST VALUE
					MARKET	BZWBK	
MONDAY (29 July)							
16:00	US	Pending home sales	Jun	%MoM	-1.2	-	6.7
TUESDAY (30 July)							
15:00	US	S&P/Case-Shiller home price index	May	%MoM	1.4	-	1.7
16:00	US	Consumer confidence index	Jul	pts	81.0	-	81.4
WEDNESDAY (31 July)							
11:00	EZ	Flash HICP	Jul	%YoY	1.7	-	1.6
14:00	PL	Inflation expectations	Jul	%YoY	-	-	0.4
14:15	US	ADP report	Jul	k	180	-	188
14:30	US	Advance GDP	Q2	%QoQ	1.0	-	1.8
20:00	US	Fed decision		%	0.0-0.25	-	0.0-0.25
THURSDAY (1 August)							
3:45	CN	PMI – manufacturing	Jul	pts	47.7	-	48.2
9:00	PL	PMI – manufacturing	Jul	pts	50.1	49.7	49.3
9:53	DE	PMI – manufacturing	Jul	pts	50.3	-	48.6
9:55	EZ	PMI – manufacturing	Jul	pts	50.1	-	48.8
13:00	GB	BoE decision		%	0.50	-	0.50
13:45	EZ	ECB decision		%	0.50	-	0.50
14:00	CZ	CNB decision		%	0.05	-	0.05
14:30	US	Initial jobless claims	week	k	345	-	343
16:00	US	ISM – manufacturing	Jul	pts	52.0	-	50.9
FRIDAY (2 August)							
14:30	US	Non-farm payrolls	Jul	k	184	-	195
14:30	US	Unemployment rate	Jul	%	7.5	-	7.6
14:30	US	Personal income	Jun	%MoM	0.4	-	0.5
14:30	US	Consumer spending	Jun	%MoM	0.5	-	0.3

Source: BZ WBK, Bloomberg, Reuters, Parkiet

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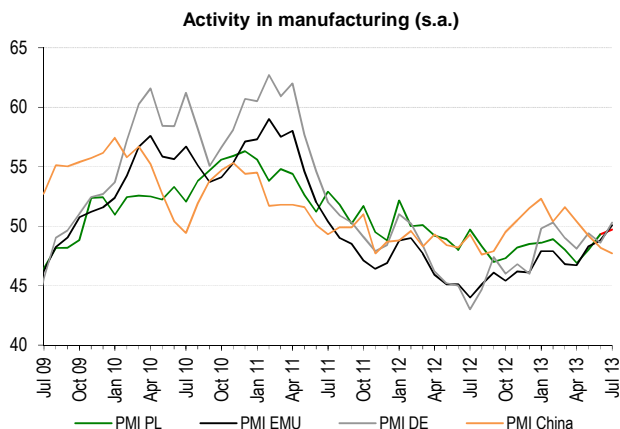
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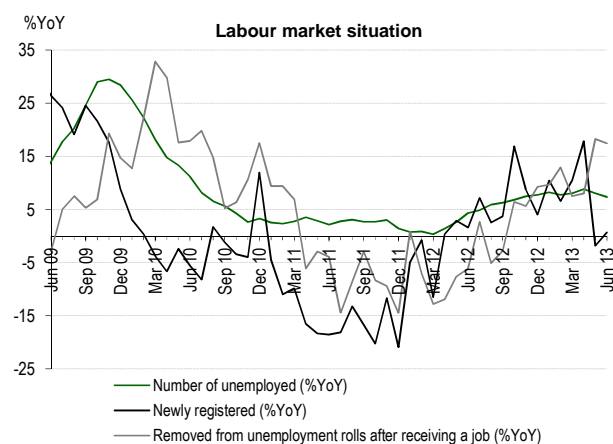
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What's hot this week – PMI indices go up



- We are expecting a further rise of PMI index for the Polish manufacturing in July (to 49.7pts against market consensus of 50,1), but the monthly change will be less considerable than one month ago, in our view. In June this indicator was elevated by effects due to floods and this month this factor will probably evaporate, which will negatively affect the headline PMI index. However, we are expecting that further improvement of subindexes for output and new orders, especially export orders, will cause a further rise in total PMI. In our view the index will surpass the 50pts barrier in course of the upcoming months.
- Flash PMI indices for the euro zone and for Germany proved to be much better than expected and they already jumped above the neutral mark of 50pts. If final readings, due for release this week, will be in line with flash, this will be an important signal that the euro zone economy is slowly recovering from recession.

Last week in the economy – More positive data from the economy



- The registered unemployment rate declined in June to 13.2% from 13.5% in May, in line with expectations.
- Decrease in unemployment was supported by seasonal effect and by interventions of the Labour and Social Policy Ministry. However, similarly as one month ago, also this time the growth rate of newly registered unemployed was low (0.7%YoY as compared to 11%YoY in the first four months of the year). This is showing that pace of destruction of workplaces is easing and companies begin to fire less employees.
- Growth rate of total number of jobseekers declined to 7.4%YoY (the lowest figure since October 2012), while number of persons removed from unemployment rolls after receiving a job jumped by 17%YoY (strength of this effect does not change much if we exclude subsidized jobs). This is a sign that demand for labour begins to recover.



- In June the pace of growth of retail sales accelerated to 1.8%YoY from 0.5%YoY month earlier. In monthly terms sales increased by 1.5%. In real terms sales increased by 2.6%YoY vs. 1.2% in May. In whole 2Q the average pace of growth of sales in real terms reached 1.3%YoY vs. 0.4% in 1Q.
- June's data on retail sales were better than expected and thus were in line with the series of positive surprises from data depicting the real economy. These figures show some gradual increase of households' spending and this tendency is expected to be maintained in coming months. We expect the pace of growth of retail sales to reach ca. 2% in 2H vs. 0.8% in 1H of 2013.
- June's data from real economy support our expectations that 2Q brought slight acceleration of pace of GDP growth (from 0.5%YoY to 0.8%YoY).

Quote of the week – One should not count on further cuts

Marek Belka, NBP Governor, 24.07, Reuters | 25.07, TVN CNBC

We said that one should not count on further cuts of interest rates.

In our very conservative GDP projection it is expected that growth will be close to 2% in the final quarter of the year.

Elżbieta Chojna-Duch, MPC member, 24.07, Reuters

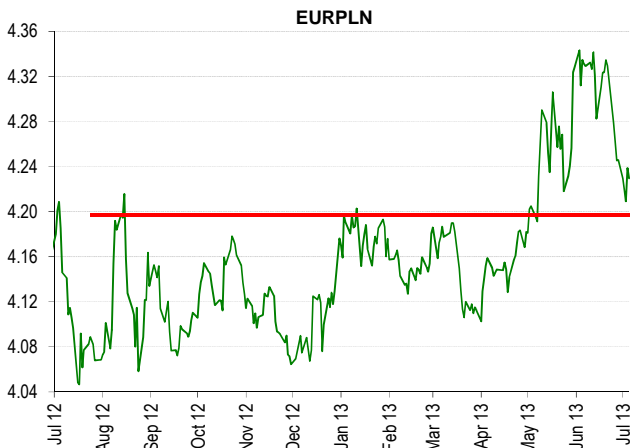
For the time being, we should wait, observe the external situation, financial markets, not during just one month but longer.

Andrzej Bratkowski, MPC member, 25.07, TVN CNBC

I am an optimist and I think that there is no such need [to cut interest rates further].

June's MPC voting results confirmed our assumptions that recent NBP interest rate cuts were passed by a 5:5 draw, with decisive vote of the Governor Marek Belka. Motion to reduce rates by 25bps was also supported by Andrzej Bratkowski, Anna Zielińska-Głębocka, Jerzy Hausner and Elżbieta Chojna-Duch. The two former members supported also a cut by 50bps. Recent comments of those members, who were pushing the monetary easing cycle, support our forecast that interest rates will remain unchanged until the year-end. The Council wants to observe the market situation, but it is also optimistic about the economic growth (Governor Belka thinks that NBP projection is conservative) and it does not want to cut rates when the economy is accelerating.

Foreign exchange market – Eyes on the FOMC



First attempt to break 4.20 unsuccessful

▪ Positive market sentiment persisting on the market and hopes the Fed will not taper QE3 soon fuelled zloty's appreciation. Consequently, the EURPLN broke support at 4.23 mentioned by us last week and declined temporarily even below 4.20. Zloty's appreciation versus the euro and further increase of the EURUSD dragged the USDPLN down to 3.17.

▪ In the following days quite visible correction was recorded – the EURPLN surged to nearly 4.25 and the USDPLN to ca. 3.22. Zloty's depreciation was triggered by the weakening of koruna and forint, as well as by profit taking after much better than expected flash PMI for the German and euro zone's manufacturing. At the end of the week some recovery was observed.

▪ The EURPLN did not manage to stay close to 4.20 for a longer period of time. It is worth to notice that around this level a strong resistance area is present that has been limiting the potential for zloty's weakening for nearly 10 months (until June 2013). At the end of the week *The Wall Street Journal* suggested that the statement from next week's FOMC meeting will be dovish in order to make the market certain that highly accommodative monetary policy will be maintained for a long time. This article triggered some volatility on the market and thus the FOMC official statement will be a particularly awaited document this week. Monthly nonfarm payrolls data will also attract market attention. If press rumours are not confirmed, then the zloty's depreciation may be continued. In the opposite scenario, support at 4.20 for the EURPLN may be tested again. Resistance is at 4.26.

Euro gains further versus the dollar

▪ After several attempts the EURUSD broke the resistance at 1.32 and in the following days reached nearly 1.33. The single currency was supported by decent market sentiment on the global market and the above-mentioned article issued by *The Wall Street Journal*. Much better than expected data from the euro zone (flash PMI for manufacturing) did not have firm impact on the market.

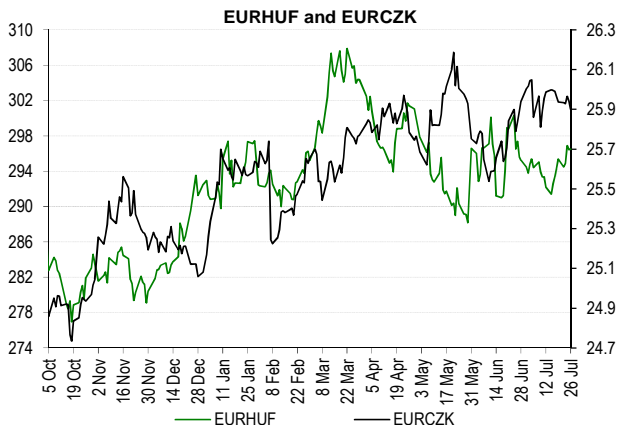
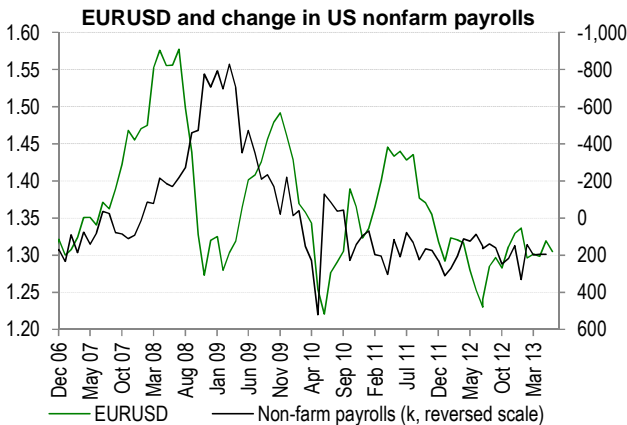
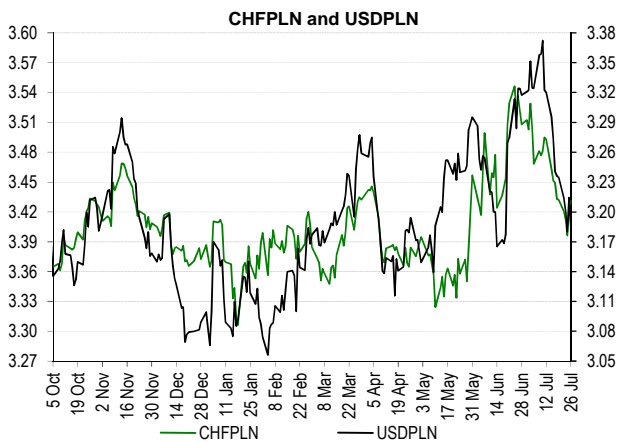
▪ It seems that this week investors will focus mainly on the statement from the FOMC. As the market will be awaiting the release of this document, the EURUSD is expected to remain above 1.32. Next resistance levels are at 1.334 and 1.34 (peak from June).

High volatility of koruna and weakening of forint

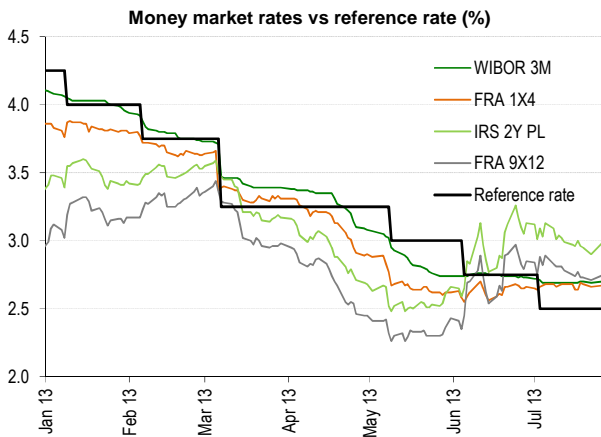
▪ Forint lost on value versus the euro during the past week, it was still under the pressure from uncertainty regarding the plans of the Hungarian government on FX loans. The currency pared some losses after the declaration that this time government actions will not be that severe for banks like those implemented two years ago.

▪ Quite high volatility was recorded on the koruna market. The EURCZK reached nearly 26.04 after the comment of the Czech central bank governor. Miroslav Singer said that in his opinion some easing could take place in the monetary policy and this can be achieved through FX interventions. Finally, koruna managed to pare losses.

▪ This week the CNB will held its meeting. Interest rates are likely to remain unchanged at lowest level in history. Recent comments of the central bank's governor suggest that the issue of FX interventions may be discussed during the meeting. This may have an impact on the koruna, and thus also on the zloty.

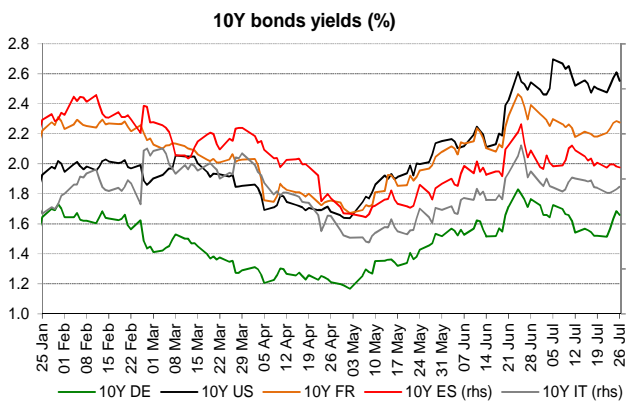


Interest rate market – Market under influence of core markets



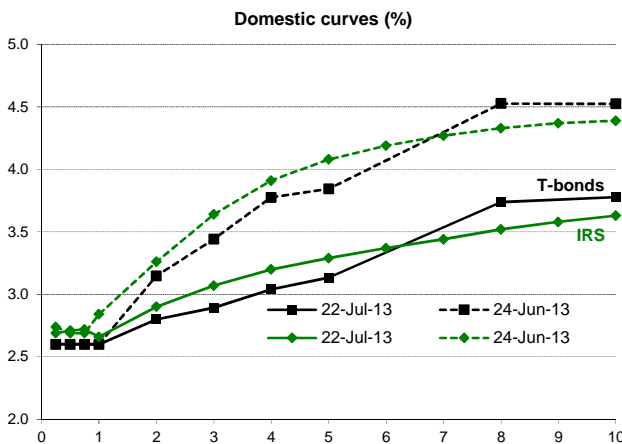
FRA curve nearly flat up to 9 months

- Last week WIBOR rates were more or less stable. In weekly terms WIBOR 1M decreased by 1bp, WIBOR 3M increased by 1bp, while other rates were stable. It is worth to highlight that the shape of WIBOR curve is normal and slightly growing, suggesting that the market doesn't count already on reductions in official rates (strong MPC's declaration after the July's meeting, the last statements of the Council's members and better than expected macro data for June).
- Situation on FRA market was more volatile, following moves on both IRS and T-bonds markets. FRA curve is nearly flat to 6 or even to 9 months, In longer period It implies gradual WIBOR 3M increase, suggesting the first hike (by 25 bps) in one year period, which is in line with our expectations.



Bunds put negative pressure on domestic curves

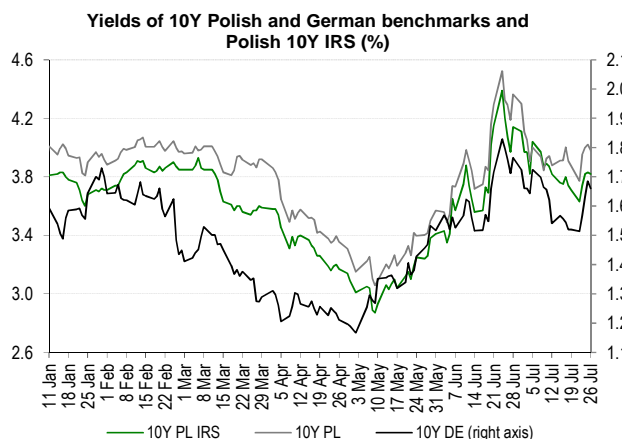
- Last week brought some upward correction in yields on both IRS and T-bonds markets. It came from weakening on core markets (see chart beside) due to better than expected PMI readings for euro zone and some improvement on the real estate market in the US. Yield of 10Y German bonds increased to nearly 1.70%, up from 1.50% at the beginning of week. Additionally, better than expected retail sales data for June also might negatively affect the mood on domestic FI market. Consequently, both bond yields and IRS rates on mid and long ends of curves increased. The front end of curves was more resistance to changes in mood on core markets. Due to the fact that the long-end underperformed the short term instruments, curves become more steep, with spread widening in 2-5Y sectors.



- Poland's deputy minister of finance Wojciech Kowalczyk tried to calm the market. He said that the inflow of foreign capital in July more than offset the outflow in the previous month. In June outflow was at 2.6%MoM as a result of worries about fast tapering of QE by Fed, which was suggested by Ben Bernanke already after June's meeting. Softer rhetoric of Fed's chief improved the market sentiment and result in some decline in yields on core markets, and consequently domestic one. Since the highest point (24 June) to the lowest (22 July) IRS curve shifted down by 36-71bps, while T-Bonds curve by 35-75bps, whit the highest drop on mid and long end of curves. Weakening in the second part of the last week trimmed earlier gains (rise in yields by 30bp on average for 5 and 10 years).

Global central banks will set a direction

- This week investors will focus on the central banks' meetings (Fed, ECB, Bank of England). We are expecting that monetary authorities will stick to "dovish" rhetoric in their statements. This should provide an impulse for rebound after recent rises in yields on core markets and, consequently, also in Poland.



- Macro data releases may affect tendencies after central bank meetings. US labour market data will be of special importance, while domestic data (July's PMI reading) will be overshadowed. For this week we are expecting an elevated volatility on the middle and the longer end of curve, while the shorter end may stabilise close to the current levels.

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