

# Bi-Weekly economic update

12 – 25 August 2013

June's data from Germany confirmed the positive signals seen in PMI indices. This, combined with releases from China, contributed to a decline of EURPLN below 4.20 and to a significant rise in EURUSD.

We have two interesting weeks ahead. On one hand, domestic market activity – traditionally thinner in the summer – will be additionally limited by the long weekend. On the other hand, we will see a row of interesting macro data in Poland and abroad, which means that we may face elevated volatility. We are expecting positive domestic numbers, which will confirm our scenario of gradual economic recovery and a start of upward trend in inflation. This will fuel rise of yields on the interest rate market and strengthening of the zloty. Pace of the zloty appreciation may be however limited by changes in global moods.

## Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		LAST VALUE
					MARKET	BZWBK	
<b>MONDAY (12 August)</b>							
14:00	PL	Exports	Jun	€m	12 770	12 789	12 385
14:00	PL	Imports	Jun	€m	12 521	12 513	12 272
14:00	PL	Current account	Jun	€m	225	110	574
<b>TUESDAY (13 August)</b>							
11:00	DE	ZEW index	Aug	pts	12.0	-	10.6
11:00	EZ	Industrial output	Jun	%MoM	1.1	-	-0.3
14:30	US	Retail sales ex autos	Jul	%MoM	0.4	-	0.0
<b>WEDNESDAY (14 August)</b>							
8:00	DE	Flash GDP	Q2	%YoY	0.2	-	-0.2
9:00	CZ	Flash GDP	Q2	%YoY	-1.4	-	-2.2
9:00	HU	Flash GDP	Q2	%YoY	0.6	-	-0.9
10:00	PL	Flash GDP	Q2	%YoY	0.7	0.8	0.5
11:00	EZ	Flash GDP	Q2	%YoY	-0.8	-	-1.1
14:00	PL	CPI	Jul	%YoY	0.5	0.5	0.2
14:00	PL	Money supply	Jul	%YoY	7.1	7.3	7.1
<b>THURSDAY (15 August)</b>							
	PL	Market holiday					
14:30	US	Initial jobless claims	week	k		-	333
14:30	US	Core CPI	Jul	%MoM	0.2	-	0.2
15:15	US	Industrial output	Jul	%MoM	0.3	-	0.3
16:00	US	Philly Fed index	Aug	pts	15.5	-	19.8
<b>FRIDAY (16 August)</b>							
11:00	EZ	HICP	Jul	%YoY	1.6	-	1.6
14:00	PL	Core inflation	Jul	%YoY	0.9	0.7	0.9
14:30	US	House starts / Building permits	Jul	k	905/945	-	836/911
15:55	US	Flash Michigan	Aug	pts	85.5	-	85.1
<b>MONDAY (19 August)</b>							
14:00	PL	Employment in corporate sector	Jul	%YoY	-0.7	-0.6	-0.8
14:00	PL	Wages in corporate sector	Jul	%YoY	2.8	2.9	1.4
<b>TUESDAY (20 August)</b>							
14:00	PL	Industrial output	Jul	%YoY	5.1	7.0	3.0
14:00	PL	Construction and assembly output	Jul	%YoY	-12.2	-7.7	-18.3
14:00	PL	PPI	Jul	%YoY	-0.9	-0.9	-1.5
<b>WEDNESDAY (21 August)</b>							
16:00	US	Home sales	Jul	m		-	5.08
20:00	US	FOMC minutes					
<b>THURSDAY (22 August)</b>							
3:45	CN	Flash PMI – manufacturing	Aug	pts	-	-	47.7
9:28	DE	Flash PMI – manufacturing	Aug	pts	-	-	50.7
9:58	EZ	Flash PMI – manufacturing	Aug	pts	-	-	50.3

Source: BZ WBK, Bloomberg, Reuters, Parkiet

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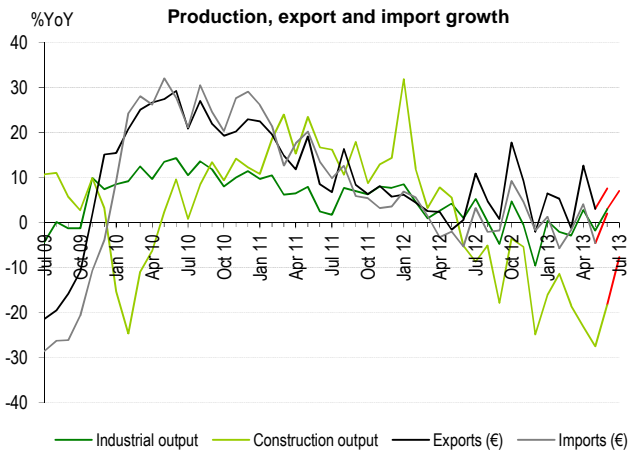
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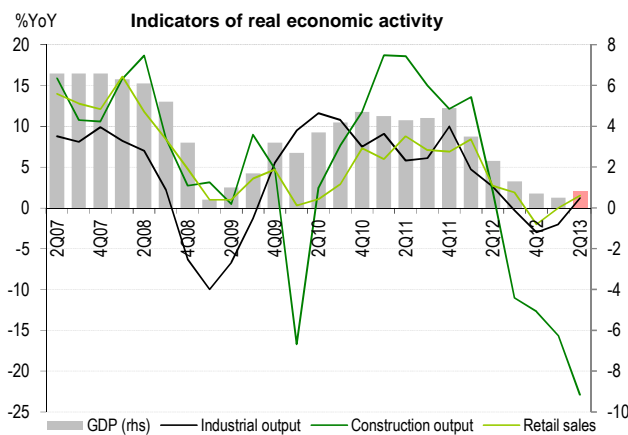
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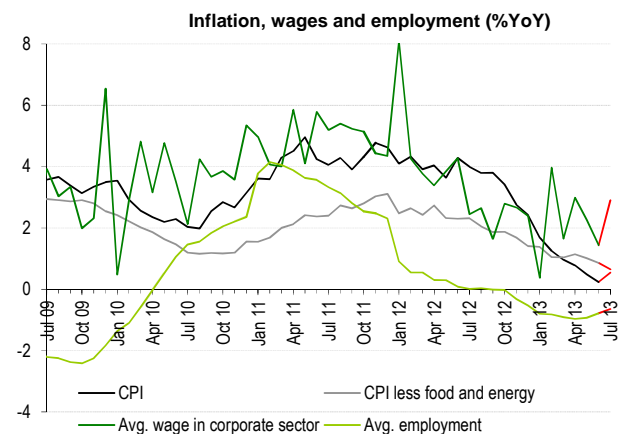
## What's hot this week – Next symptoms of warming?



- In the upcoming two weeks we are expecting a new series of data confirming that the Polish economy is gradually bottoming out.
- Data on balance of payments in June will probably show a third in a row monthly surplus in current account (but not as high as in May, which was due to, in our view, one-off improvement in income balance; revision of May's figures cannot be excluded). We are expecting, similarly as the market that exports will accelerate, following the higher growth rate of industrial output and foreign orders.
- According to our forecasts, in 2Q the balance of goods and services recorded the highest surplus in history (€2.6bn), more than two times higher than in 1Q. This was one of major sources of improvement in annual GDP growth, as compared to the previous quarter (see below).



- On Wednesday the CSO will release a flash GDP estimate for 2Q2013. According to our estimates, GDP growth accelerated to ca. 0.8%YoY (slightly above market consensus), confirming that the Polish economy has bottomed out. However, let us remind that these are "experimental" data, likely to be revised later. More detailed data on economic growth in 2Q will be shown on 30 August.
- Information on inflation will be released shortly after the GDP. Our forecast and market consensus assume that CPI rebounded in July to 0.5%YoY from the all-time low at 0.2% in June. However, range of forecast is quite broad – from 0.3% to 0.9%YoY! Inflation was pushed upwards by higher fuel prices, costs of waste maintenance and less considerable decline of food prices; opposite effect was exerted by lower prices of energy, roaming and television tariffs.



- Despite rise in CPI, core inflation fell slightly in July in our view, to 0.7%YoY (below market consensus) and only next months will see its gradual upward move.
- Data from labour market should confirm trend of slight increase in employment, observed since May. Predicted clear acceleration in wage growth would be in our view mostly the effect of shift in bonus payments in mining, rather than a sign of growing wage pressure.
- The data on production in industry and construction will recap the series of optimistic data releases. In our view, they will record a significant improvement in July. Our forecasts are clearly above market consensus, although – just like in case of CPI – the range of market forecasts is quite wide (between 2.0% and 7.5%YoY).

## Quote of the week – Unemployment falling for the fifth straight month

**Jacek Męcina, deputy minister of labour, 6.08, Reuters**

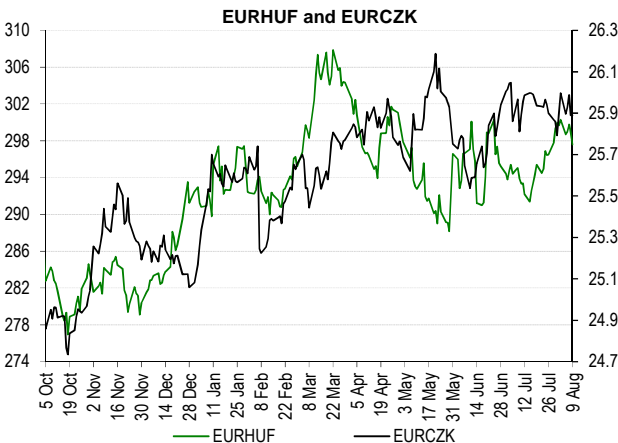
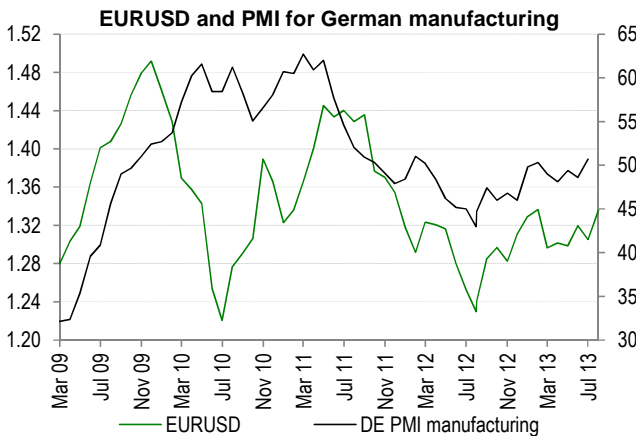
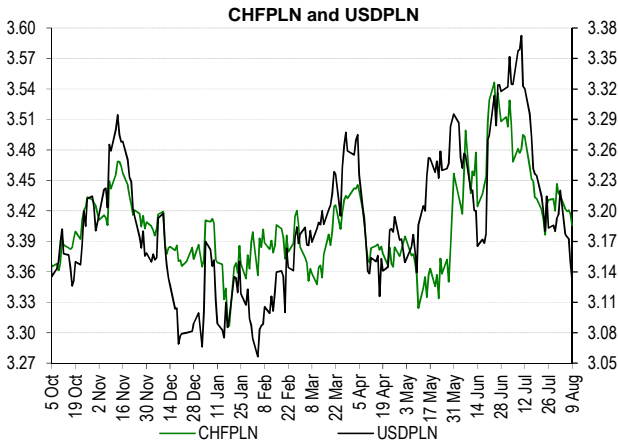
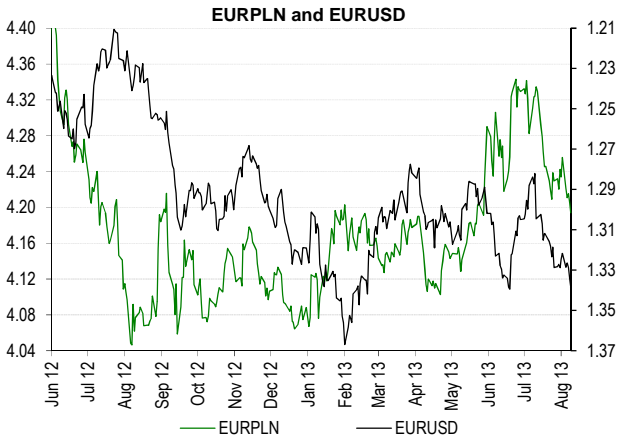
Unemployment rate in July reached 13.1% and fell by 0.1 pp as compared to June. In August I expect a stabilisation of unemployment rate, surely not a rise.

Unemployment rate has been falling for the fifth straight month. In particular, a drop of jobless rate in the last three months is signalling a revival in the labour market, which may be related to first signals of improvement in economic situation.

As compared to last year, this year is a bit better. Especially that the number of the new job offers submitted to labour offices has increased by more than a thousand.

Labour Ministry's estimates of registered unemployment rate in July are consistent with our forecasts. Although it is still hard to claim that labour market is in sharp recovery, there is growing number of signs showing that the negative trends are not deepening anymore and one can even see some signs of shy improvement of situation. This is shown not only by data from labour offices (lower inflow of new unemployment, more job offers), but also data from the corporate sector (slight rise in average employment since May) and monthly LFS reports (in June seasonally adjusted unemployment rate fell for the first time in 1.5 years, while number of employed increased). This gives hope for some slight rebound in consumer demand in second year-half.

**Foreign exchange market – EURPLN below 4.20**



**Third time lucky – EURPLN below 4.20**

- German data on industrial output and industrial orders were much better than expected and provided fuel for zloty's appreciation. Consequently, hopes for continuation of revival of the European economy supported demand for risky assets and made the third attempt to break 4.20 by EURPLN successful.
- Further increase of EURUSD backed also appreciation of the domestic currency versus the dollar. USDPLN declined to nearly 3.12, lowest level since mid-April. Zloty was strongest versus the Swiss franc since late July (CHFPLN reached ca. 3.40).
- The appreciation trend of the zloty was initiated in July after data on large current account surplus. Next (third) month of positive C/A balance, accompanied by accelerating export growth, should keep supporting Polish currency. Data on industrial output and CPI should work in the same direction. Publications scheduled for second half of August will confirm in our opinion that the bottom of economic cycle is behind us and further rate cuts are rather unlikely. On the other hand, foreign data (in particular from the US) may have impact on the domestic FX market, influencing expectations regarding future Fed actions. Release of FOMC minutes may impact the market as they will show the temperature of discussion one month before the September's meeting when the QE3 may be limited.
- Next week liquidity on the market will likely be quite thin. Next support on daily for EURPLN is at 4.17. Resistance is at 4.26.

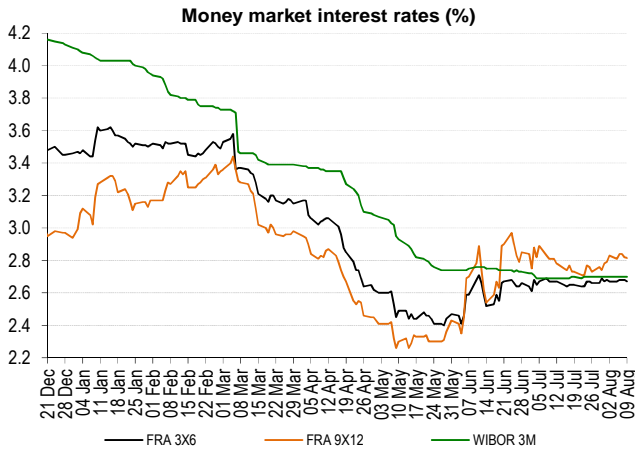
**Euro gains due to global data**

- The euro gained during the past week vs. the US currency. German data confirming signals from PMI indices and quite positive releases in China pushed EURUSD to 1.34, that is just below local peak from mid-June at 1.3415.
- Many data with a potential to generate higher volatility are due to be released during the next two weeks (incl. ZEW, flash PMI). Investors will also likely pay attention to the tone of the FOMC statement before the September's meeting when the tapering of QE3 is expected to be announced.
- Next resistance after 1.3415 is at 1.35, support at 1.32.

**Global market sentiment supports forint and koruna**

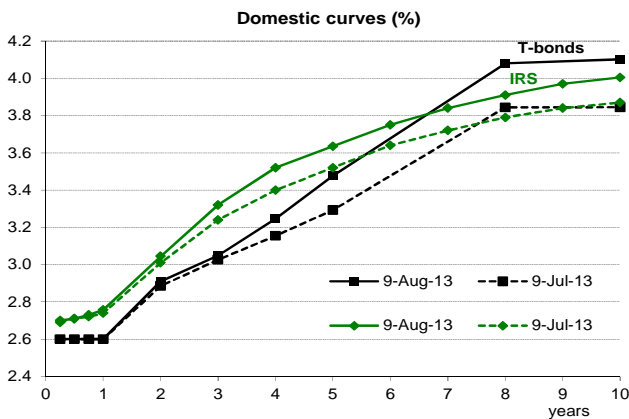
- During first days of the past week the forint was still under pressure vs. the euro, EURHUF reached 300 again. However, the optimism persisting on the market supported finally also the forint and the exchange rate declined to 297.5
- Czech koruna was also losing vs. the single currency since the beginning of the week. An increase of EURCZK was fuelled by much worse than expected data on industrial output. Depreciation of the koruna halted marginally above 26.0 and then EURCZK started to decline. The market ignored news from political scene (PM Jiří Rusnok and his government lost the vote of confidence) and the exchange rate declined to 25.79. Only the release of minutes from Czech central bank meeting at the end of the week – which showed greater support for FX intervention – triggered a rebound to 25.92.
- This week preliminary data on 2Q GDP are due to be released in the CEE region. This publication may be of particular importance for Czech koruna in the context of risk of FX interventions.

**Interest rate market – Macro data and situation on core markets are crucial**



**Summertime stabilisation on the money market ...**

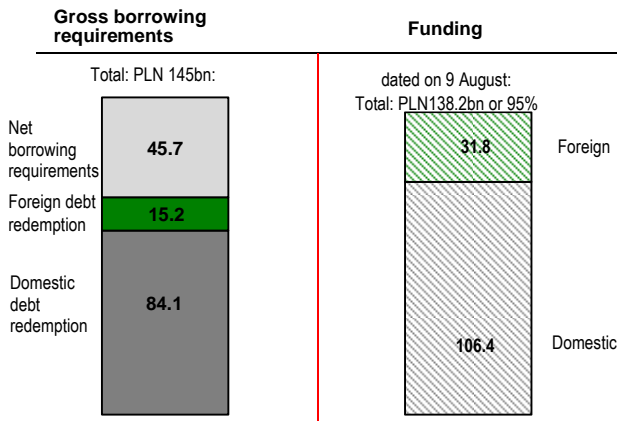
- Summertime trading has continued to dominate on the money market, with relatively low investors' activity. Last week market remained relatively stable – in weekly terms most WIBOR rates were unchanged, only 1M decreased by 2bp, while 9M increased by 1bp. FRA market also did not change significantly – longer tenors (9x12) moved more visibly in weekly terms. FRA quotations still suggest that market is pricing-in the first interest rate hike in 12 month horizon.
- The key macro data (incl. CPI inflation, flash 2Q GDP, industrial output) will be released in coming two weeks. We expect that July data should confirm gradual CPI increase and further improvement in economic activity. These data might cause some upward pressure on WIBOR, in particular on longer tenors.



**... and small changes on the interest rate market**

- Interest rate market has remained under influence of global factors. The beginning of the week was very promising, bringing some strengthening of both IRS and T-bonds due to lower than expected reading of labour market data in the US. Next days were more diversified in terms of investors' action. IRS rates have remained relatively stable – in weekly terms they increased by only 1-2bps across the board. 10Y IRS has anchored slightly above 4%. More visible changes were observed on T-bonds market. The front end of the curve was under pressure of auction of OK0116, while mid and long-end strengthened due to investors' sentiment improvement. The end of the week brought more significant decline in yields in comparison with previous days. Consequently, in weekly terms 2-10Y spread narrowed to 125bps (down from 140bps at the end of previous week), the lowest level since the end of July.

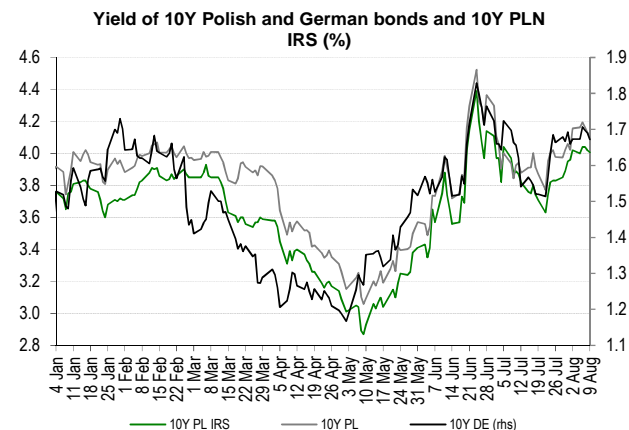
**Gross borrowing requirements and their financing in 2013**



- Poland's Ministry of Finance successfully returned on the domestic primary market. Offer of 2Y T-bonds OK0116 attracted high demand of investors, in particular non-residents. The ministry launched T-bonds OK0116 worth ca PLN5.7bn (with recorded demand at PLN9.2bn), i.e. above maximum level of offer (PLN5bn) and with auction yield at 2.961% (below the level on secondary market). Such good results of auction were possible to achieve, among others, thanks to earlier cash inflows worth over PLN10bn in total from both redemption of OK0713 and interest payments. We estimate that after auction this year's gross borrowing requirements are covered in 95% (or it will be ca 86% after the 2013 budget amendment, which will increase both budget deficit and borrowing requirements by PLN16bn).

**Rebound in economy - an impulse for increase**

- In coming two weeks important macroeconomic data for July will be released. Crucial readings for the market are inflation data (headline CPI, core CPI measures), flash 2Q GDP and industrial output data. Our forecasts of economic growth and production are above market consensus, which might bring some upward impulse for IRS and yields of T-bonds.
- The mid and long end of the curve are still strongly correlated with situation on Bunds. Changes in yield of 10Y Bund significantly affect valuation of domestic 10Y benchmark. Additionally, due to market holiday this week, volatility will remain high and might result in significant changes in valuation of both IRS and T-bonds in intraday trading.



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