

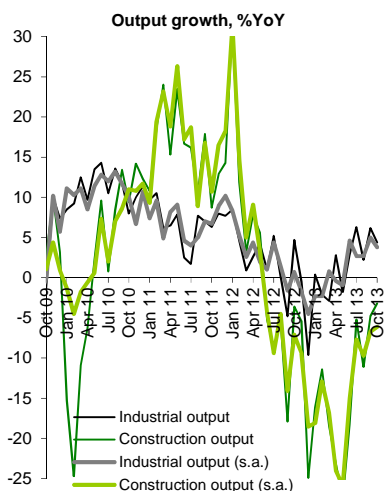
INSTANT COMMENT

21 November 2013

Moderate recovery amid lack of inflationary pressure

Industrial production rose in October by 4.4%YoY, slightly less than we predicted, while output in construction (-3.2%YoY) was better than expected. Consequently, the data did not change significantly our assessment of economic outlook – the moderate recovery is under way, it is likely that GDP growth will reach 2%YoY in Q4 and will be near 3% in 2014. At the same time, cost pressure on producers remains low, which is reflected in PPI staying below zero.

Minutes of MPC's November meeting confirmed the Council was unanimous on keeping interest rates on hold. The extension of its forward guidance until mid-2014 was justified by the assessment that pace of economic growth, despite revival, will remain moderate, the uncertainty about persistence of recovery abroad, low expected inflationary pressure from domestic demand and low pressure on world commodity prices. The scale of rebound in domestic demand and its impact on inflationary outlook may be crucial for future decisions of Polish MPC.



Moderate growth of industrial output, further recovery in construction sector

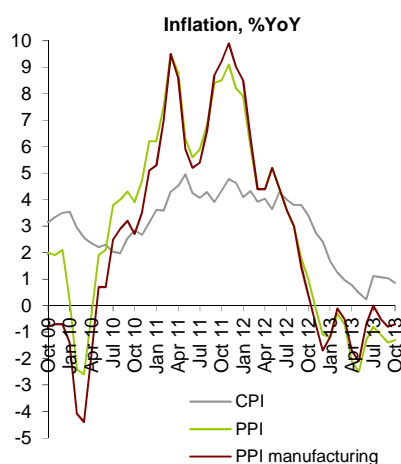
Industrial output increased in October 4.4%YoY, in line with market consensus and below our forecast (6.6%YoY). Number of working days was the same as a year ago and this was one of factors that dragged the annual pace of growth down (vs. 6.2% in September and 6.3% in July, when there was a positive impact of number of working days). November is likely to show even less optimistic headline number as there are two working days less than in 2012. According to the CSO, the output after seasonal adjustment increased by 3.8%YoY (vs. 5% in September). Just like in previous months, best performance was recorded in sectors traditionally focused on foreign markets. This indicates that export is still a very important engine driving the ongoing recovery.

Construction and assembly output surprised to the upside – annual pace of growth improved to -3.2% (-6.1% after seasonal adjustment) vs. our forecast at -4.7% and market consensus at -5.5%. This result was partly due to convenient weather conditions see this year. Nevertheless, this was yet another month of recovery of this sector after a deep contraction seen in H1 and it seems to confirm gradual rebound in investments.

There is no inflationary pressure in the industry

PPI inflation increased in October to -1.3%YoY from -1.4%YoY in September. Producer prices declined by 0.5% on a monthly basis, which came from zloty strengthening against the main currencies and commodity prices decline on the international market, for example crude oil (it is clearly showed in significant decrease in prices of manufacture of coke and refined petroleum products).

Industrial sector continues to face no cost pressure despite the continuation of an economic revival. We expect PPI inflation to stay below or close to zero in coming months and it may return to positive territory in the next year provided that consumption demand improves.



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