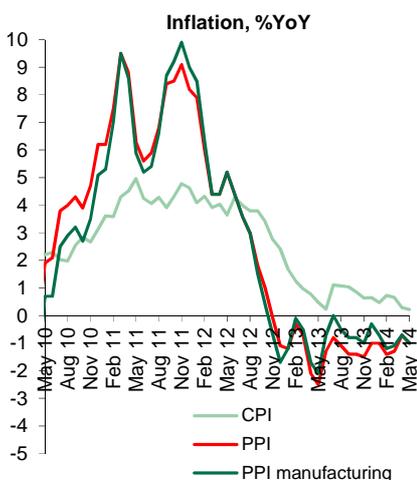
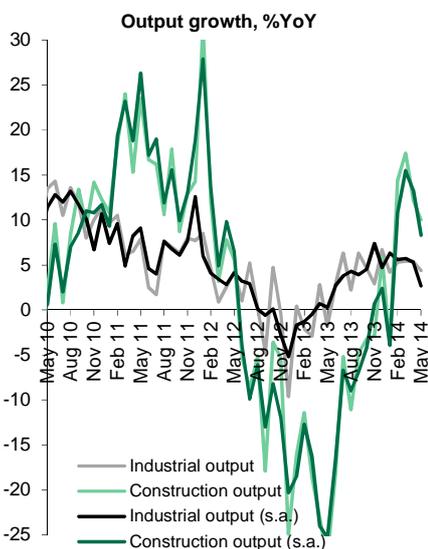


INSTANT COMMENT

18 June 2014

Production and PPI below forecasts

Pace of industrial output growth decelerated in May to 4.4%YoY (and 2.7%YoY after seasonal adjustment), while construction and assembly output slowed to 10.0%YoY (8.3%YoY after seasonal adjustment). PPI also fell below expectations, to -1%YoY. These numbers are weaker than anticipated and increase worries whether the pace of economic growth in Poland abates. In our opinion, pace of the GDP growth in 2Q14 should be close to the one recorded in first quarter and even if it slides marginally, it should remain above 3%YoY. May's data sound dovish, but we expect improvement in manufacturing in the second half of the year due to further revival of foreign trade with the euro zone countries. This should help the economy to stay on the path of relatively fast growth in the quarters to come. Bond yields dropped after the data release by c4bp in the middle and long end of the curve.



Output growth decelerated

Industrial output growth decelerated in May to 4.4%YoY and was weaker than expected (our forecast 5.1%YoY, market consensus at 5.9%YoY). Growth adjusted by seasonal factors amounted only to 2.7%YoY, the lowest level in a year.

27 out of 34 industrial branches increased output in annual terms, with the highest growth rates in export-oriented branches (furniture 18.3%YoY, machinery and devices 13.2%YoY, manufacture of metal products 11.6%YoY, computers 11.6%YoY). Let us also note that result of the whole industry, similarly as in previous months of the year, was undermined in May by the weak performance of mining (-8.7%YoY) and energy (-1.7%YoY) sectors. Industrial manufacturing itself advanced by 5.7%YoY, which still can be viewed as a good result, although preceding months were considerably better (industrial manufacturing grew by over 7%YoY in February-April).

Construction and assembly output also disappointed in May and reached 10%YoY, as compared to market forecasts at c14%YoY. Seasonally adjusted output in construction increased by 8.3%YoY, the weakest reading since January, according to the CSO.

The significant plunge of Polish manufacturing PMI index and now below-expectations growth of output may indicate some deceleration in economic growth in 2Q, perhaps due to the situation in Russia/Ukraine. This data increases the uncertainty over the pace of economic revival in the remainder of the year.

PPI also below consensus

PPI inflation dropped unexpectedly in May to -1.0%YoY (market consensus at -0.7%YoY, our forecast at -0.6%YoY) vs. -0.7%YoY in April. On monthly basis, production prices declined fourth month in row, this time by 0.2%MoM. The decline of prices in manufacturing surprised (-0.2%MoM) while the biggest monthly drop was recorded in the case of autos manufacturing and chemicals (-0.6%MoM).

Just like in the previous months, PPI indicates lack of any inflationary pressure. We expect the PPI to stay in the negative territory at least until the end of the year.

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