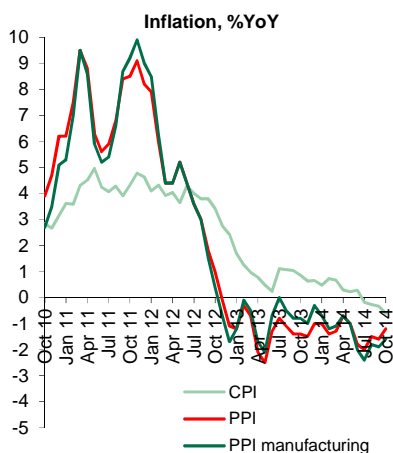
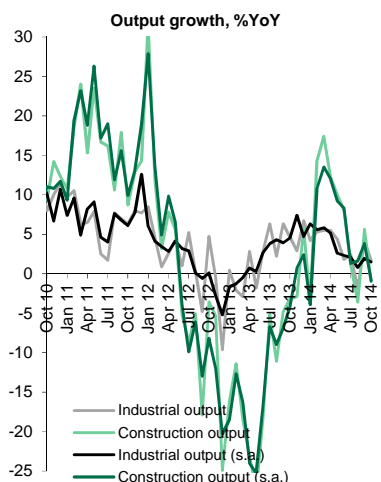


INSTANT COMMENT

20 November 2014

Production data show further slowdown

Industrial production increased in October by 1.6%YoY, slightly more than expected by the market but less than we predicted. The data suggest, in our view, that Polish economy continued slowing down in the final quarter of the year, probably mainly due to lower inflow of export orders from the stagnating euro zone. Recent news from the Polish economy suggested that robust domestic demand may be offsetting part of this slowdown. However, construction output fell 1%YoY in October, clearly below forecast, which is not an optimistic signal in this regard. PPI growth reached -1.2%YoY and remained negative for the 24th straight month, showing completely no cost pressure on Polish firms. We think there is still room for interest rate cut in Poland but it is really hard to guess whether the recent set of data will change the balance of votes in the MPC already in December. November's MPC minutes revealed that there were three rate-cut motions submitted: -100bp, -50bp, -25bp, none of which gathered enough support. Some members of the rate-setting panel see really substantial room for monetary easing, but the majority was against even the slightest move. We still have a few data releases before the next meeting (retail sales, PMI, detailed GDP breakdown), and their results may determine the MPC decision in December, but if there is a rate cut, it shall not be deeper than -25bp, in our view.



Production growth slowing down

Industrial production growth slowed in October to 1.6%YoY (and 1.5%YoY after seasonal adjustment), which was slightly above market median forecast (1.4%YoY) and below our prediction (2.1%YoY). After two months of disturbances introduced by varying number of working days (in August it decreased, while in September boosted YoY production growth), this time the output numbers were not affected by this issue. And, in our view, the data confirm that activity in Polish industrial sector is slowing. The main source of a slowdown is worsening external demand and lower export orders. However, it has to be noted that among industrial branches recording highest YoY production increases there were still many export-oriented ones (for example, furniture 16.9%, computers and electronics 10.1%, machinery and tools 9.9%, electrical appliances 9%).

Construction output fell in October by 1%YoY, clearly below forecasts, which also adds to our concerns about slowing economy in the final part of the year. We were hoping to see a rebound, not only due to unusually good weather, but also thanks to higher investment activity in the private sector and higher municipal investments ahead of the local elections.

In general, the data cancelled some of the optimism introduced earlier by 3Q GDP and October's employment and wages. However it is hard to say if it will be enough to convince the MPC to cut interest rates in December. We still have some data releases ahead, which may determine about MPC meeting's outcome.

Producer prices fell following oil prices

PPI inflation showed -1.2%YoY in October as compared to -1.6%YoY in September, in line with expectations. PPI indicator has been negative for 24 months in a row. In monthly terms, producer prices declined by 0.3%. This was the first decline after three months and the most considerable decline since November 2013. Headline figure was dragged lower by prices in manufacturing, which slid by 0.4%, mainly due to impact of lower oil prices in the global market (prices of coke and refined petroleum products plunged by 4.8%MoM). Declining oil prices will put a negative pressure on PPI in the short term. In the medium term, PPI inflation will be limited by weaker economic activity, so we expect it to remain low in the quarters to come.

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