

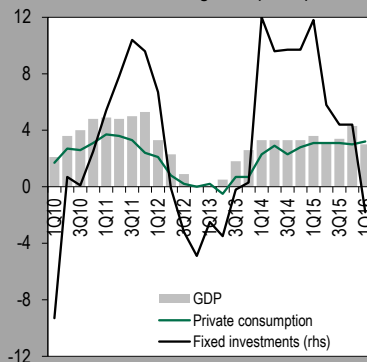
MACROscope

Polish Economy and Financial Markets

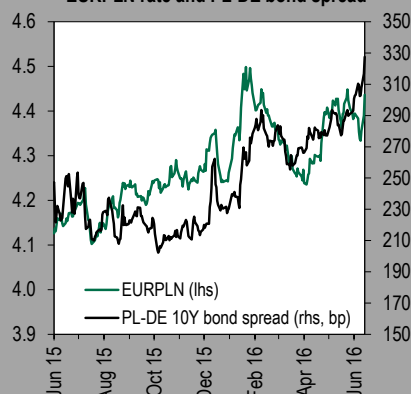
June 2016

Risks predominate

Economic growth (%YoY)



EURPLN rate and PL-DE bond spread



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■ The GDP growth slowdown to 3.0% y/y in 1Q16 was stronger than expected, but we see increasing evidence that the following quarters should be better, as economic growth should be supported by strong external demand (growth in the Euro zone, particularly in Germany, is doing fine) and accelerating private consumption (boosted by solid labour income and new child subsidies). The biggest uncertainty concerns investment growth. Still, we expect the Polish economy to gradually accelerate, reaching nearly 3.5% on average in 2016. Deflation is surprisingly persistent, but we think that the CPI has already passed the trough and, over the coming months, there should be a gradual pickup towards 0.5% y/y at the end of this year and 1.5% y/y at the end of 2017.

■ The MPC meeting in June, the last chaired by Marek Belka, brought no surprises. The main message remained unchanged: deflation has shown no negative effects, the GDP slowdown in 1Q16 was temporary and interest rates are at optimal levels. The Sejm has already approved Adam Glapiński as the new central bank governor and he should be sworn in on June 21. Mr Glapiński, an ex MPC member, is an advocate of conservative monetary policy. He also suggested recently that the current level of interest rates is adequate and the central bank should leave them stable for as long as possible. Investors have now scaled back their expectations for interest rate cuts in Poland and we expect no significant change in the monetary policy outlook after Mr Glapiński takes over the NBP chair. Further monetary easing seems unlikely, as long as economic growth does not slow further below 3% in the coming quarters.

■ The Polish financial market has been under pressure recently, due to both internal (the FX loans issue) and external risks (next FOMC decisions and the EU membership referendum in the UK). We think those uncertainties may continue to affect market sentiment in the coming weeks. On June 7, the team of experts working on the new FX loan proposal concluded their work, but we think it may take at least several more weeks until Poland's president decides the final shape of his new proposal.

■ In the bond market, the 10Y spread vs German bunds rose significantly above 300bp and we think it may remain high, at least while the key uncertainties remain. At the short end of the curve, the room for yields to decline looks limited, as the structural excess liquidity of the banking system has been gradually drying up (the value of outstanding NBP bills fell to PLN65bn in early June from over PLN90bn at the start of the year) and it seems that bank demand for short-term treasury securities is reaching its limit.

■ We expect the FX market to remain volatile in the coming weeks, until the result of the UK referendum on EU membership and the Polish FX loan conversion issue are cleared up. We do not rule out a temporary zloty strengthening at the end of June. But the currency may remain volatile in the following months, as fresh uncertainties will arise (details of the 2017 budget, rating agency decisions on Poland's sovereign debt and the government's decision on the retirement age).

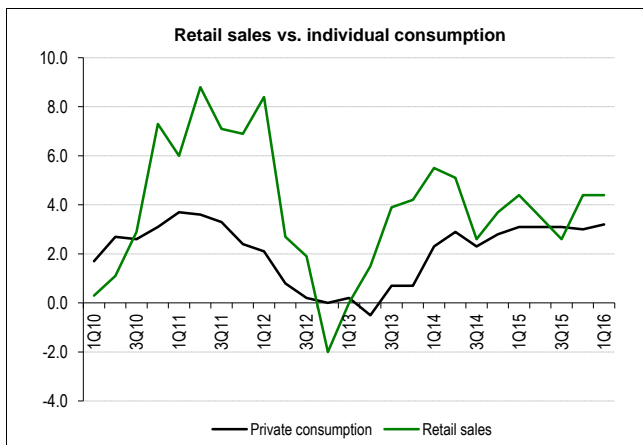
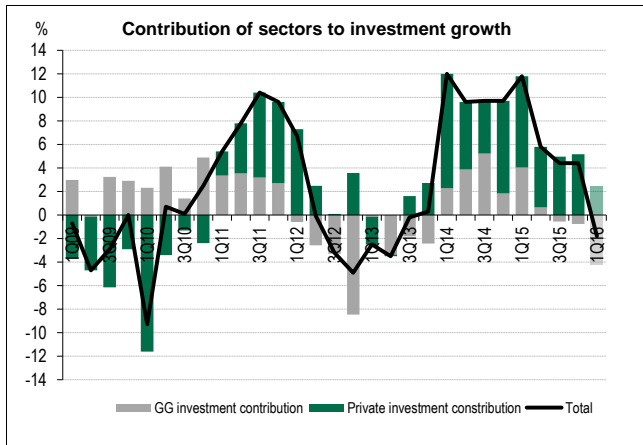
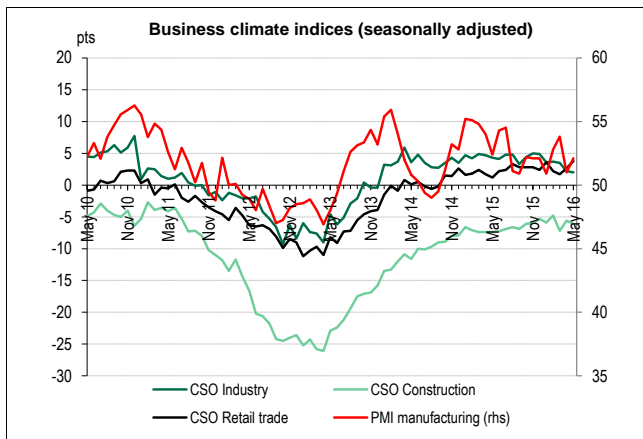
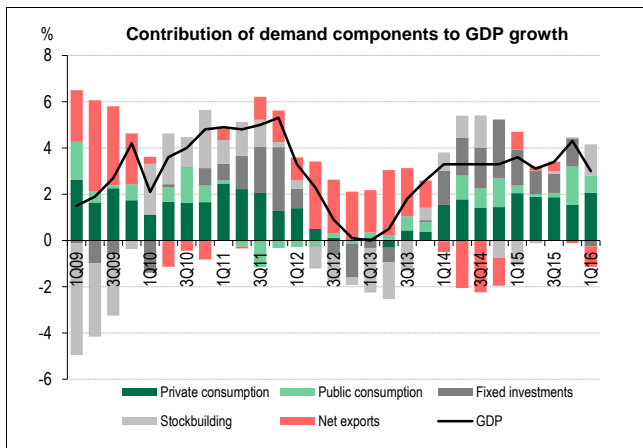
Financial market on June 14, 2016:

NBP deposit rate	0.50	WIBOR 3M	1.68	EURPLN	4.4363
NBP reference rate	1.50	Yield on 2-year T-bond	1.84	USDPLN	3.9483
NBP lombard rate	2.50	Yield on 5-year T-bond	2.61	CHFPLN	4.0920

This report is based on information available until 14.06.2016.

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Economic update



Source: Markit, Eurostat, CSO, BZ WBK.

GDP growth slowed in 1Q16 . . .

- GDP growth in 1Q16 reached 3.0% y/y, in line with the flash estimate and versus 4.3% y/y in 4Q15. After seasonal adjustment, GDP fell by 0.1% q/q and rose by 2.6% y/y. This was the weakest growth since 4Q13 and the slowdown was mainly due to a drop in investment (-1.8% y/y) and a negative net export contribution (-0.9 pp). Consumption remained the main engine of growth in 1Q.

- Leading indicators suggest that no further deterioration should be expected in the months to come. The Polish manufacturing PMI index rose to 52.1 in May, after a surprisingly sharp drop to 51.0 in April. Growth rates for output, new orders, exports and employment all picked up, signalling an improvement in business conditions and confirming our assessment that Polish industry should benefit from solid economic growth in the Euro zone and the weak zloty. Other major leading indicators (CSO, ESI) were more or less stable in April/May. We expect the GDP growth rate to accelerate gradually until the end of the year and reach an average of c3.5% for 2016 as a whole (see below for more on the GDP growth breakdown and outlook).

. . . and investment fell in annual terms . . .

- Investment deducted 0.2 percentage points from GDP growth in 1Q16. Lower fixed investment was primarily due to declining public outlays, according to Halina Dmochowska, Acting President of the statistics office, which fell by as much as 20% y/y. Data from local governments showed that investment in this sector fell by 57% y/y. In our view, this is a result of the transition between two EU financial frameworks and is possibly also due to a slower decision-making process after the election and the ensuing staff changes in the public administration. However, private spending slowed as well, according to our estimates. Some indicators, like the NBP business conditions survey, showed companies are delaying investments due to uncertainty about changes in legislation. Data from the big companies (employing at least 50 people) suggest that investment declined most in water supply, transport and warehousing as well as in energy production, so sectors connected to the public sector. By contrast, investment in industrial manufacturing rose 9% y/y. It is significant that companies' demand for investment loans and for labour is still high, so, in our view, this slowdown may be only temporary, particularly as spending of EU funds may increase before the year end.

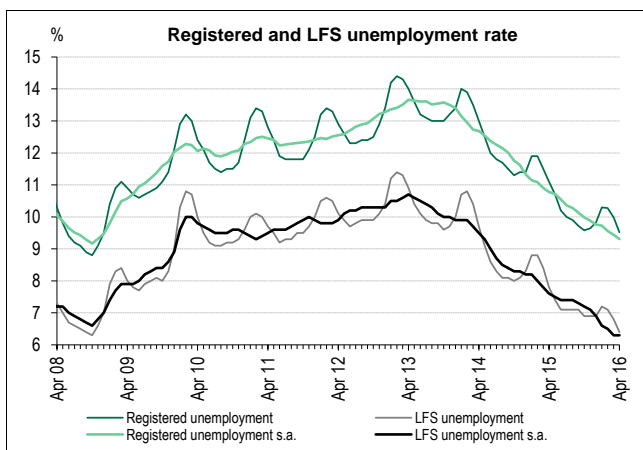
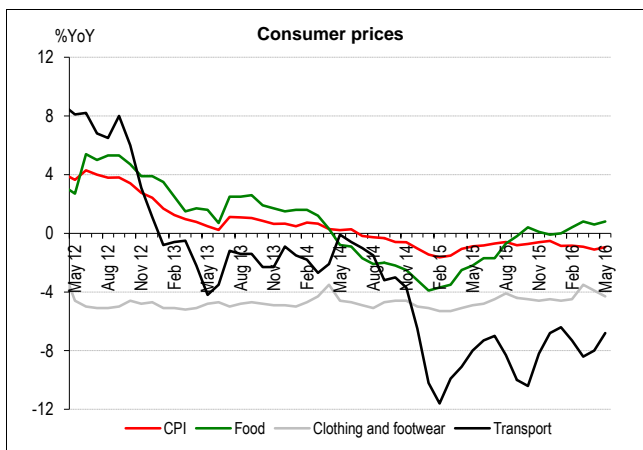
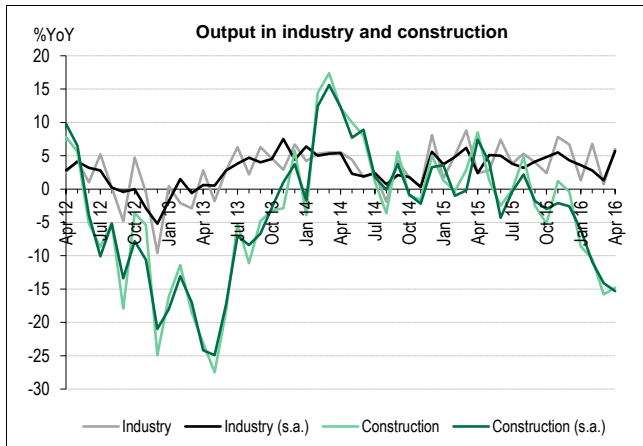
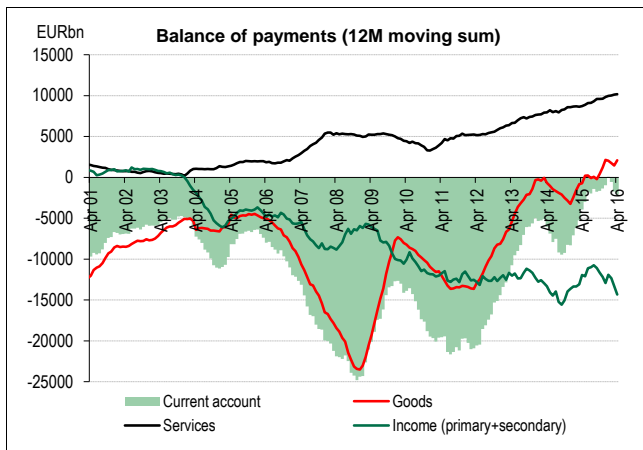
- The start of 2Q did not bode well for investment this quarter: Construction output fell by 14.8% y/y in April, the weakest result since mid-2013. All construction sectors declined, but the worst hit was civil engineering, down 31.5% y/y.

. . . while consumption remained robust

- Private consumption rose 3.2% y/y, similarly to previous quarters. Consumption was supported by the favourable labour market underpinning households' purchasing power and their propensity to spend. We expect an acceleration of private consumption in 2H to 4%-5% y/y due to the new 500+ child benefit programme introduced in April.

- At the start of 2Q, retail sales at constant prices rose by 5.5% y/y, close to market consensus. As we expected, the fluctuation in the annual growth of retail sales (it fell to 3.0% y/y in March) was, to a large extent, affected by calendar effects, ie the timing of Easter. The Easter effect lowered April's growth in sales of food (to 4.1% y/y vs 6.4% y/y in March) and in non-specialised shops (7.3% y/y vs 9.7% in March) but boosted sales of clothing and footwear (22.6% y/y vs 4.2% in March) and household appliances (15.2% y/y vs 0.9% in March). Solid growth (the highest this year) was also recorded in sales of motor vehicles (19.1% y/y).

Economic update



Source: CSO, NBP, Eurostat, BZ WBK.

Exports were weak in 1Q, but April data suggest a rebound

- Exports and imports rose by 6.9% and 9.3% YoY, respectively, in 1Q16. The faster growth in imports led to a fall in the contribution of net exports to economic growth. It was -0.9 pp in 1Q16 vs -0.1% in 4Q15. The growth in exports in the first quarter was surprisingly slow considering the improvement of the economic standing of Poland's main trade partners.

- April's balance of payments showed some rebound in exports, which added 4.8% y/y in EUR terms (and 12.0% in PLN), while growth in imports remained weaker (0.4% y/y in EUR and 7.3% in PLN). These numbers support our expectations that 1Q was the weakest quarter in 2016 in terms of export growth. We expect a further acceleration of exports in the coming months on the back of the economic recovery in the Euro zone. However, weaker growth in emerging economies may prove to be a drag on Polish exports, while imports should accelerate thanks to strengthening domestic demand.

Industry remained robust

- Industry remains one of the brightest spots in the Polish economy, allowing us to believe that a major economic slowdown is unlikely. Value added in this sector rose 3.3% y/y in 1Q and contributed 0.8pp to economic growth. In April, industrial output climbed 6.0% y/y, considerably above market forecasts. Seasonally-adjusted growth reached 5.7% y/y (vs 0.8% y/y in March) and this was the highest reading since March 2015. Growth in manufacturing reached 8.3% y/y, its highest since December.

- The strong rebound in industry at the start of 2Q confirms our expectations that robust growth in the Euro zone, coupled with a rather weak PLN, should prevent Polish industry from a prolonged deceleration, as it is strongly dependent on orders from EU countries. The most significant growth rates were recorded in the most export-oriented sectors: furniture (18.4% y/y), cars (12.5% y/y), manufacture of metals (11.8% y/y) and computers and electronic appliances (11.3% y/y).

Deflation may persist until 4Q16

- Inflation in May reached -0.9% y/y vs the flash estimate of -1.0% y/y and April's -1.1% y/y. For us the biggest surprise was a small drop in food prices (-0.1% m/m, in our view mainly due to cheaper vegetables) as our estimates suggested a moderate increase for the fifth month in a row. The main factor pushing prices up versus the previous month was fuel prices (+4.2% m/m), which was a result of both a higher oil price in the global market and a weaker zloty. In June, fuel prices are likely to rise again, although the pace of the increase has eased in recent days. As regards the remaining categories, there were no surprises: goods and services were roughly stable or followed the seasonal pattern (eg clothing and footwear fell slightly). Core inflation (CPI excluding food and energy) was -0.4% y/y, the same as in April, signalling a lack of any price pressure. We think deflation could persist until 4Q16 but this is not likely to trigger any monetary policy easing unless we see a further deceleration of GDP growth, which we do not expect.

Money supply shows some deceleration in loans

- Growth of M3 money supply was 11.5% y/y in May, roughly unchanged versus April. There was some deceleration of loan growth (from 6.8% y/y to 5.2% y/y) but, in our view, it was due to an FX effect.

Labour market is in top gear

- The labour market is still in good shape, with unemployment at a new low and high number of new job offers. We think the economy is reaching full capacity in terms of jobs and we expect a slowdown in employment growth and an acceleration in wages.

Monetary policy watch

Excerpts from the MPC's official statement after its June meeting

In Poland, the revised data on national accounts indicate that GDP growth in 2015 Q4 was higher than previously estimated. In 2016 Q1, GDP growth might have slowed down slightly. The rise in economic activity is still supported by growing employment, improving consumer sentiment, sound financial standing of enterprises, their high capacity utilization and stable lending growth. Hence, the weakening in GDP growth in early 2016 was probably temporary, although the continuing uncertainty about economic conditions abroad is a risk factor for domestic economic activity.

In the Council's assessment, price growth will stay negative in the coming quarters due to the earlier substantial decline in global commodity prices. At the same time, GDP growth is expected to remain stable, following a temporary deceleration earlier this year. Consumer demand will continue to be the main driver of economic growth, supported by rising employment, forecasted acceleration of wage growth and an increase in social benefits. This notwithstanding, the downside risks to the global economic conditions and the volatility of commodity prices remain the sources of uncertainty for domestic economy and price developments.

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The Council maintains its assessment that – given the available data and forecasts – the current level of interest rates is conducive to keeping the Polish economy on the sustainable growth path and maintaining macroeconomic balance.

Various metrics of official reserves adequacy in Poland

	Reserves in months of imports	Reserves to broad money	Reserves to short-term external debt	ARA*
IMF benchmark	>3	>20%	>100%	100-150%
2015	5.2	32%	99%	117%
Simulation (1)	2.9	18%	58%	73%
Simulation (2)	2.9	18%	56%	66%

*ARA (Assessing Reserve Adequacy) metric: IMF reserve adequacy indicator equal to reserves divided by sum of 30% of short-term external debt, 10% of other external portfolio liabilities, 5% of broad money and 10% of exports;

Simulation (1) – scenario assuming that after FX loan conversion with use of official reserves Poland's external debt decreases by the amount corresponding to the value of converted loans;

Simulation (2) – scenario assuming FX loan conversion with use of reserves but with no reduction in external debt;

We think the most probable scenario lies between simulations (1) and (2).

Official ARA reserves adequacy metric in CEE countries

	2014	2015
Poland	114	117*
Czech R.	100	-
Hungary	136	114
Romania	150	158

*BZ WBK estimate.

Interest rates on hold at Governor Marek Belka's last meeting

▪ The Monetary Policy Council (MPC) kept interest rates on hold in June (the main reference rate is still 1.50%), in line with expectations. The tone of the official statement did not change versus the previous month and the key fragments at the end of the document remained exactly the same. The main message was also unchanged: deflation has shown no negative effects, the GDP growth slowdown in 1Q16 (and in particular the fall in investment) was temporary and the current level of interest rates is keeping economic growth balanced.

▪ Outgoing NBP President Marek Belka said council members discussed different economic scenarios at the meeting, but they were not overly concerned about the economic outlook. He also said a deterioration in companies' financial results would be something that could make the MPC reconsider easing, but that is not happening.

... and likely to remain so after Glapiński takes over

▪ June's MPC meeting was the last chaired by Marek Belka. The Sejm confirmed Adam Glapiński as the new governor on June 13, and he will be sworn in during the next parliamentary sitting on June 21.

▪ Investors have recently scaled back their expectations of interest rate cuts in Poland and we expect no significant change in monetary policy outlook after Mr Glapiński takes over. In recent interviews, he reiterated that Poland's monetary policy should be conservative and cautious and there are no reasons to change something that is working well. Glapiński also said he will encourage other MPC members to keep interest rates on hold until inflationary pressure returns.

▪ As regards the CHF loan issue, Glapiński said there are no economic reasons to deal with this issue, only political reasons. He also added that the central bank has to monitor the banking sector's stability and, if parliament approves a bill that needs NBP involvement, then the central bank will be involved. In Glapiński's view, forced conversion of CHF loans will destabilize the zloty, regardless of whether it is done in the market or via the NBP.

FX reserves – high or low?

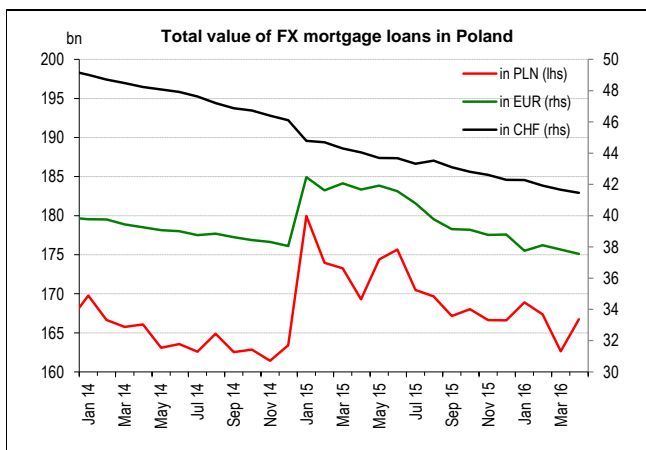
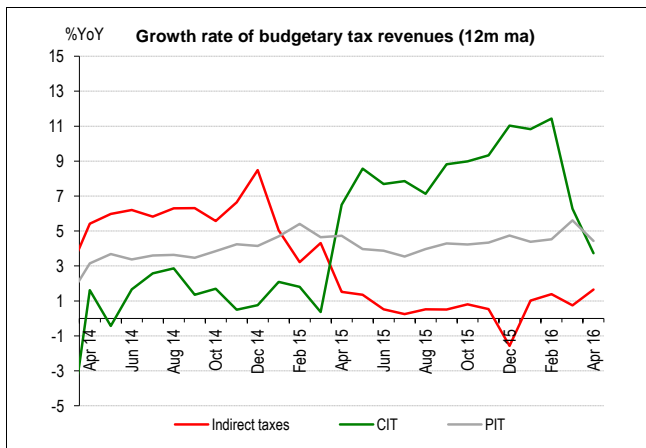
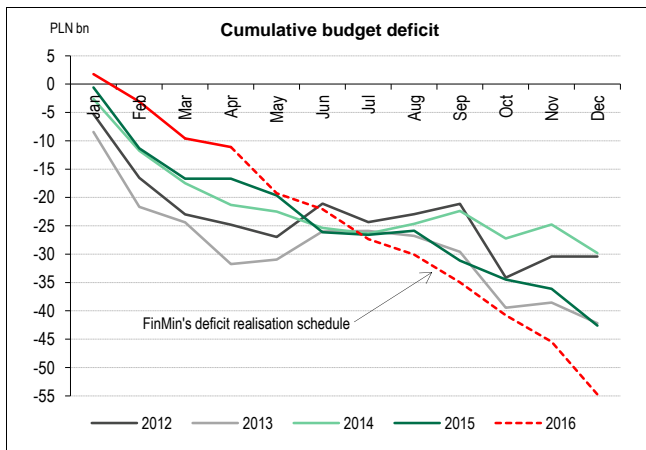
▪ The total value of the NBP's official FX reserves rose to €97bn at the end of May. That is assessed as safe – as reserve adequacy indicators were above the IMF's benchmark levels at the end of 2015 (see table on left). Proposals that would involve the NBP in the FX mortgage loan conversion raise the question of whether this operation would lower the official reserves excessively.

▪ Total value of FX mortgage loans is around €38bn (at the end of April). In case of the conversion of those loans to PLN, commercial banks would have to buy foreign currencies on the spot market in order to close their FX positions. If they purchased forex from the NBP instead (to avoid a zloty depreciation), FX reserves may fall by as much as 40%. The impact of such an operation on reserve adequacy is shown on the left. In such a scenario, reserve adequacy indicators slide way below what the IMF sees as safe levels.

▪ According to our estimates, the room to reduce FX reserves is only €12-15bn if the ARA metric is to stay above the 100% benchmark.

▪ However, we should remember that Poland has access to a so-called Flexible Credit Line from the IMF, worth €17bn. Additionally, if reserves go down significantly, the government and the NBP may decide that all the future inflows of EU funds to Poland will be converted into PLN at the central bank, not on the FX market, which would allow for a quicker recovery of the official reserves.

Fiscal policy watch



	Spread vs. Bunds (10Y) in bp			CDS (5Y USD)		
	10.06	Change since 10.05.16	Change since 31.12.15	10.06	Change since 10.05.16	change since 31.12.15
Poland	308	16	78	85	-1	10
Czech R.	46	12	50	41	0	-9
Hungary	334	4	55	139	-7	-25
Greece	745	-27	-26	826	-366	-165
Spain	144	-2	29	93	9	6
Ireland	72	-5	19	59	-1	22
Portugal	312	-7	122	257	13	97
Italy	131	-2	34	124	9	34
France	37	0	2	35	-1	11
Germany	-	-	-	18	1	6

Source: Ministry of Finance, Reuters, Eurostat, CSO, BZ WBK.

Improvement in tax revenues in April

Four months into the year, the state budget deficit was PLN11.1bn, which is 20.3% of the annual plan. Tax revenues reached PLN90.3bn over the four months and PLN25.5bn in April alone, which seems to have resulted from some pick-up in indirect tax inflow. VAT tax revenue in April was up c1% y/y, after falling significantly in February-March. A further increase is likely later this year, after consumption spending gets an additional boost from the 500+ programme. Revenues from the new bank tax were PLN725mn after four months, which signals that the full-year amount may be PLN1.8bn below plan. However, we still believe that there is no significant threat to this year's deficit target, as lower revenue from bank tax and retail tax should be offset by higher inflows from the NBP's profit.

We see much more uncertainty around the 2017 budget. Fitch ratings agency, which is due to revise Poland's rating on July 15, warned recently that a relaxation of the fiscal stance that worsened the government debt trajectory, or a weakening of policy credibility or economic performance, would be possible triggers for a negative rating action.

FX loans – still more questions than answers

On June 7, advisors to President Duda held a press conference summing up their conclusions and recommendations on the FX loans issue. Unfortunately, this did little to dispel doubts about the final shape of the solution and its possible impact on the economy and the financial sector.

In our view the few key takeaways that are positive from bank shareholders' perspective are as follows: 1) the conversion will be voluntary; 2) the outstanding not the original value of the loan is to be converted; 3) the conversion rate will be based on a 'fair formulae' concept, not on the FX rate from the loan origination date; 4) a handful of criteria (eg DTI for 'fair conversion rate' or LTV for non-recourse 'key hand in' availability) will be introduced, likely limiting further the number of borrowers eligible; 5) a relatively short eligibility time frame will be set, 6) stability of the banking sector is to be assured via spreading the cost (and equity) over time, and 7) there is no mention of penalty interest on top of excessive FX spreads.

Unfortunately, the vast array of potential options makes it practically impossible to estimate the potential cost to the banks. During the presentation, a PLN30-40bn figure was mentioned as a potential cost. Advisors suggested that it would be spread over at least 30 years, though they failed to present the details (unclear concept of 'securitization'). Finally, the experts said that neither the central bank nor any other public institution will have to be involved in the conversion. Unfortunately, there was no explanation of how to avoid the conversion causing a zloty depreciation without the participation of the central bank.

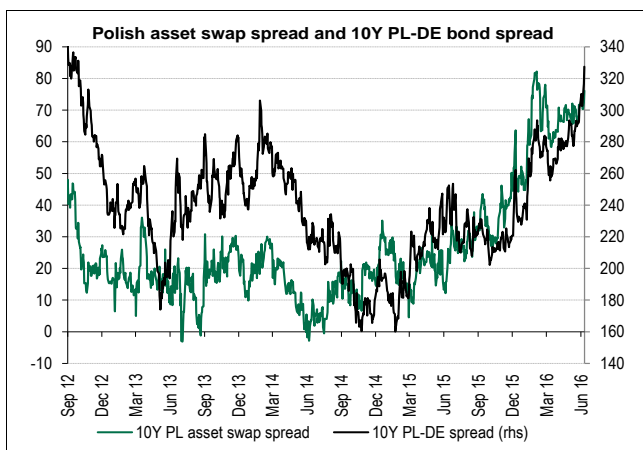
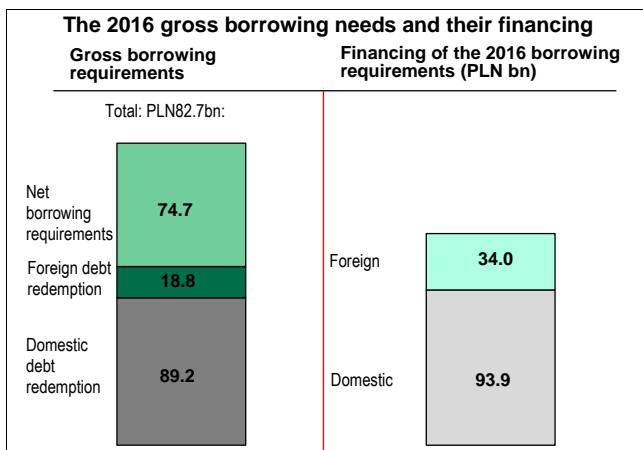
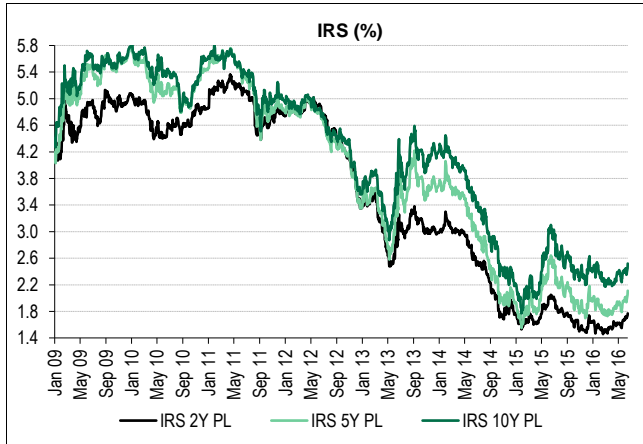
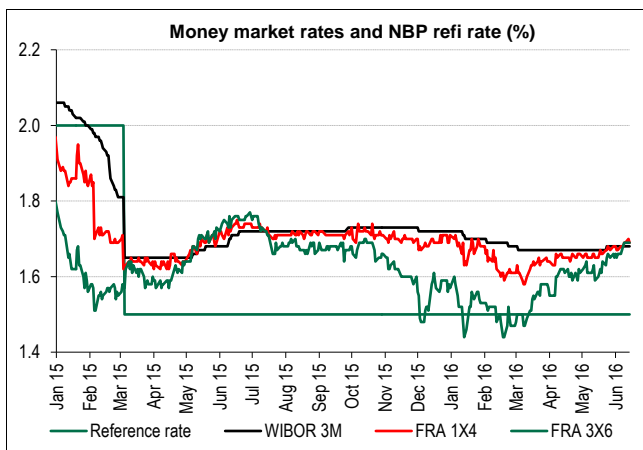
The President's Office is to take over the work and will prepare a final draft for parliament in the early summer. We think uncertainty about the final solution will continue to weigh on the financial markets in the weeks to come.

Risk premium for both peripheral and CEE debt remained high

Core debt markets strengthened markedly in the first ten days of June as weak data from the US labour market reduced the chances of the Federal Reserve raising rates in the nearest months and the demand for low-risk assets was high due to rising worries about the outcome of the EU referendum in UK. As a result, the 10Y Bund yield fell below zero for the first time in history. At the same time, the risk premium for both Euro zone peripheral and CEE debt remained high as spreads over bunds widened.

We expect some re-pricing of debt market valuations once the June FOMC meeting (when new CPI and GDP and appropriate interest rate projections will be released) and the UK referendum are over.

Interest rate market



Source: Finance Ministry, Reuters, Bloomberg, BZ WBK.

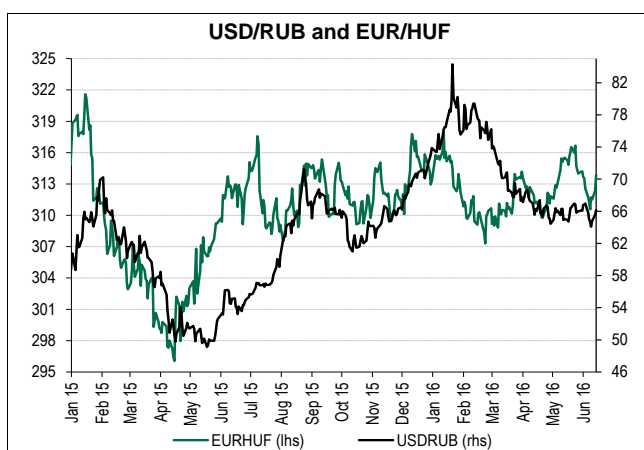
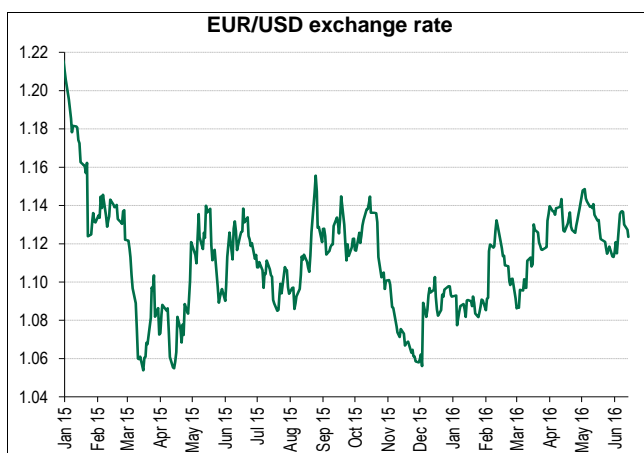
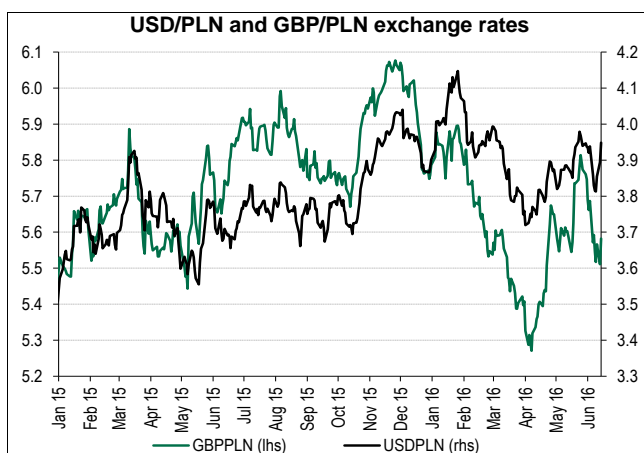
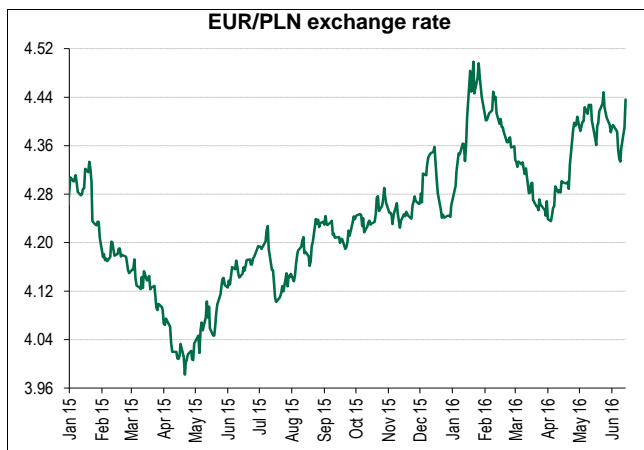
WIBORs rise as expectations of monetary easing fade

- In early June WIBORs inched up by 1-3bp (excluding the 3M rate) after a fairly quiet May. This resulted from still hawkish MPC's rhetoric and quite good domestic macro data. FRAs continued their upward trend. During the first ten days of June, the FRA curve shifted up by 1-6bp, after rising by 2-10bp in May.
- The FRA market clearly suggests that investors backed away from expectations of monetary easing later this year. What is more, FRA rates also suggest 3M WIBOR will remain quite stable over the next 21 months.
- In our view, FRA valuations will be strongly data-dependent. Further improvement in the labour market (with sharp wage growth acceleration), together with quite decent growth in industrial output and retail sales, might result in some upward pressure on FRAs, in particular the longer tenors (over 12M). We expect WIBORs to remain quite stable in the coming weeks/months.

Curves flatten, risk premium elevated

- Poland's interest rate market revived in early June after a gradual increase in yields/IRS rates in May. This stemmed from core market strengthening as disappointing US jobs report for May lowered the risk of a Fed rate hike in the coming months. An additional factor supporting domestic debt came from strong demand on the Polish primary market (details below). The 10Y benchmark yield fell to 3.05% from 3.20% but this proved short-lived as concerns about the UK leaving the EU increased and helped push the yield to nearly 3.30%.
- Bunds gained, amid global risk aversion (with the 10Y yield turning negative for the first time ever) and Polish debt came under pressure. The risk premium jumped, with the 10Y spread over Bunds surging to 330bp, its highest since 4Q12.
- Poland's Finance Ministry successfully launched OK1018 and DS0726 bonds at the only regular auction in June. As we expected, the offered range narrowed to PLN3-4bn from PLN3-6bn indicated earlier. Recorded demand was strong. As a result, the ministry did not have any problems with placing all the securities on the market. We estimate that after the auction c70% of the government's 2016 borrowing needs have been covered. What is more, Deputy Finance Minister Piotr Nowak said the ministry was on track to issue Panda bonds and that its liquidity cushion allowed it to cancel one or two auctions, even allowing for potential turmoil due to the outcome of the EU referendum in the UK.
- The start of June showed the front end of yield curve under pressure. It seems that bank demand for short-term treasury securities (due to the bank tax) is reaching its limit. It is worth noting that the structural excess liquidity of the banking system has been gradually drying up.
- Global factors are still the key for the belly and long end of the curves. June's FOMC meeting will, therefore, be important. Given the disappointing GDP growth and the weak May labour market report in the US, the Fed is likely to postpone its interest rate hike at least until July, which is priced in by market participants. We think that dovish rhetoric from the FOMC may support Polish assets in the short run. However, risk factors, both internal (news about the presidential proposal of FX-loan conversion) and external (the outcome of the EU referendum in the UK), remain in place for Poland's interest rate market. We expect these to add to market volatility, creating upward pressure until their solution later this month. Therefore, the spread vs bunds could remain quite wide, with the political and fiscal risks still elevated in Poland.
- Overall, we remain less optimistic about the FI market in the months to come and expect yields and IRS to rise later in the year, driven mainly by the Fed's rate hikes and economic growth in the Euro zone.

Foreign exchange market



Sources: Reuters, Bloomberg, Markit, BZ WBK.

Risks still present

- Last month we said we were rather pessimistic about the room for the zloty to appreciate and we still remain cautious as regards the next few weeks. Although the summer has not started yet, the next couple of weeks may be a hot period for the Polish currency, in our view, due to both internal and external factors.

- The presidents' advisors' recommendations for the FX mortgage conversion bill did not dispel doubts regarding the final shape of the proposal and its possible impact on the economy and the financial sector. The President's Office will now prepare a final draft to be submitted to parliament in the early summer. However, we do not expect parliament to start working on the bill until after the holidays, so uncertainty about the final solution will continue weighing on the Polish financial market in the weeks to come.

- In July, fiscal policy will be in focus again as we wait for the next rating agency decisions (S&P is scheduled to review Poland's rating on July 1 and Fitch on July 15). Also, news of the 2017 budget might emerge.

- New data releases from Poland should be moderately supportive for the PLN, in our view, confirming a gradual acceleration in GDP growth and thus lowering the chance of interest rate cuts. However, it is unlikely to outweigh other risk factors.

- On the external front, the uncertainty regarding the timing of the Federal Reserve's rate hikes weighs on EMs. Also, worries related to the EU referendum in the UK might also limit the scope for more risky assets to appreciate in the very short term.

Dollar may gain in the short term

- The outlook for US monetary policy continued to be the main driver of EUR/USD. The exchange rate jumped above 1.14, from 1.115, on the very disappointing US non-farm payrolls and the chance of a June Fed rate hike falling to near zero.

- This month the market's attention is likely to turn to Europe and the UK referendum.

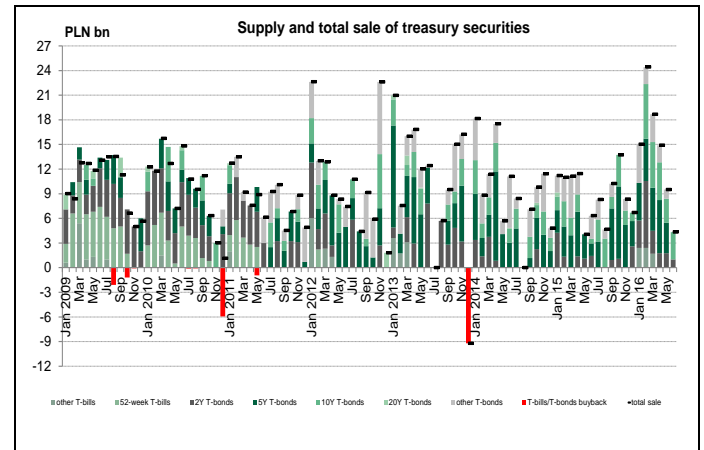
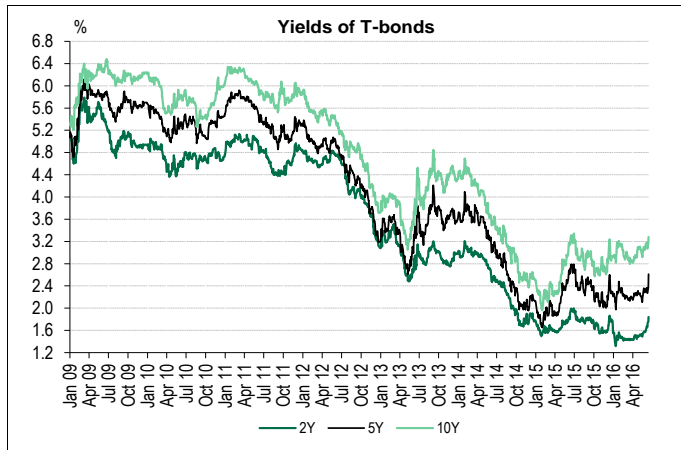
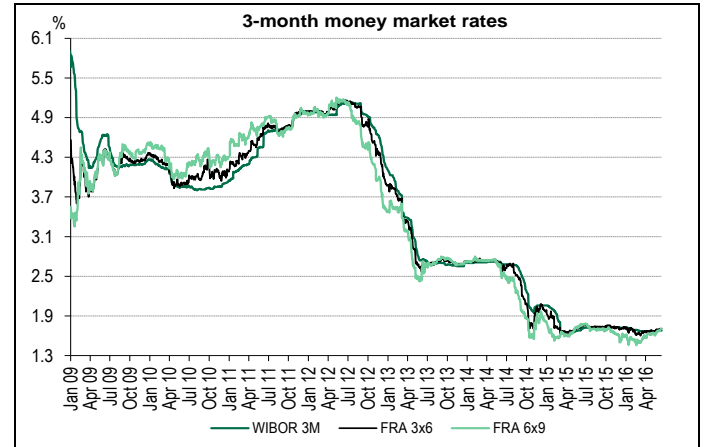
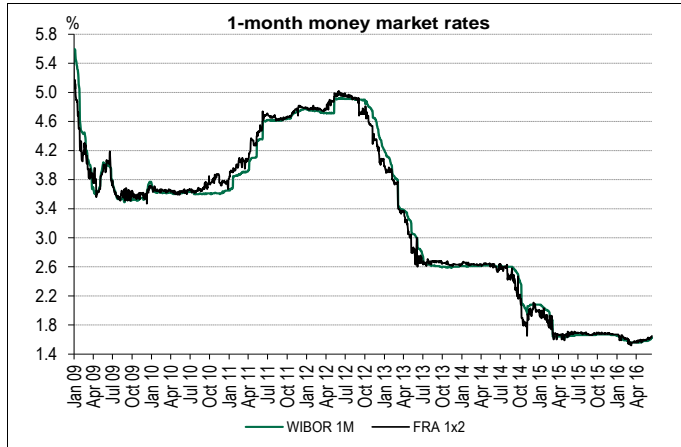
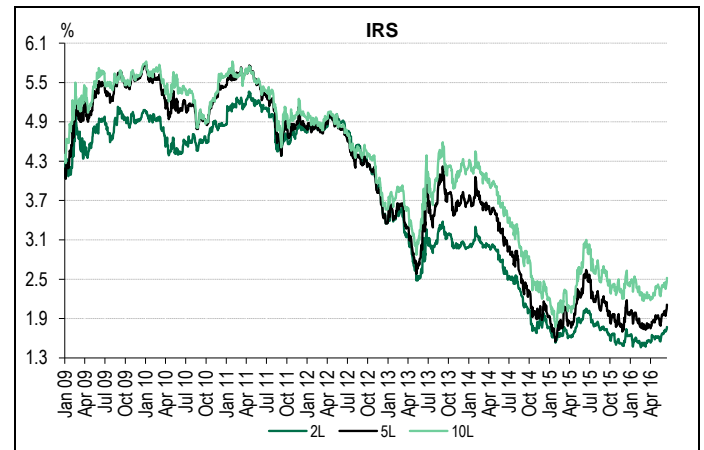
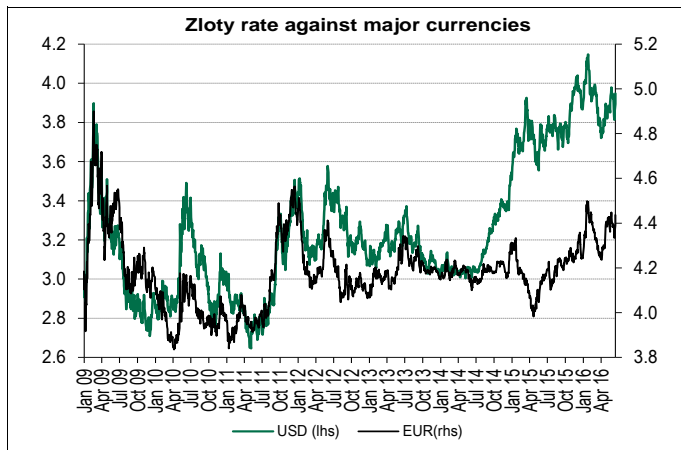
- We still expect EUR/USD to rise later in the year as the European economy seems to have gained some traction, the ECB is likely to refrain from any additional measures in the short term and the Fed rate hikes will be very gradual.

Ruble pressured by monetary policy

- Since late April, USD/RUB has fallen only marginally despite the continued surge in the Brent price. It appears that the hawkish signals from the FOMC and dovish tone from the Central Bank of Russia (CBR) were the main drivers limiting the ruble's gains and we think this negative mix may persist in the coming months.

- In late April, the CBR left interest rates unchanged, but the tone of the statement was clearly more dovish than in previous months. Although the bank still views the risk for inflation as "elevated", it said it could ease monetary policy "at one of its forthcoming meetings". Not surprisingly, in early June the bank cut its main refi rate by 50bp to 10.50%. The CBR seem to have been changing its opinion quite often recently. Recall that in late January it switched from dovish to hawkish rhetoric and suggested that rate hikes could be on the agenda. The timing of these changes indicates that the CBR could be concerned about the exchange rate and does not want the ruble to gain too much and pressure the economy.

Market monitor



Treasury bond auctions in 2015/2016 (PLN mn)

Month	First Auction				Second Auction			Switch Auction			
	Date	T-bonds	Offer		Date	T-bonds	Offer	Date	T-bonds	Offer	
June '15	11.06	OK0717/WZ0120	2000-4000	4236.5				25.06	OK0715/DS1015	PS0420/DS0725	
July	9.07	WZ0120/WZ0124	1000-2000	2430.3	23.07	PS0420/DS0725	3000-6000	5852.7			
August	6.08	DS0725/WZ0126	1000-4000	4655.9							
September	10.09	WZ0126/DS0726	2000-4000	3019.0	24.09	OK0717/PS0420	4000-6000	7214.0			
October	29.10	OK/PS/DS	5000-8000	8082.0				8.10	DS1015/OK0116	PS0421/DS0726	
November	26.11	EUR20160201**	Up to €1bn	€730m				19.11	OK0116/PS0416	WZ0120/PS0421/DS0726	
December								10.12	OK0116/PS0416	OK0717/PS0421/DS0726	
January '16	7.01	PS0421	2500-4500	4555.0	28.01	OK1018/WZ0120/WZ0126	5000-8000	8074.0			
February	4.02	OK1018/DS0726	4500-7500	9011.2	18.02	WZ0120/PS0421	4000-6000	7210.0			
March	3.03	OK1018/DS0726	4000-7000	8387.5							
April	7.04	OK1018/DS0726	3000-6000	6356.6	28.04	WZ0120/PS0721/WZ0126	5000-8000	8534.7	24.03	PS0416/OK0716/PS1016	WZ0120/PS0721/WZ0126
May	5.05	OK1018/DS0726	2500-4500	4703.9	25.05	PS0721/IZ0823	2000-4000	4801.7			
June	9.06	OK1018/DS0726	3000-4000	4321.7				27.06	OK0716/IZ0816/PS1016	To be announced	

* with supplementary auction, ** buy-back auction, *** demand/sale.

Economic calendar

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
13 June <i>PL: CPI (May)</i> <i>PL: Balance of payments (Apr)</i>	14 <i>PL: Money supply (May)</i> <i>PL: Core inflation (May)</i> EZ: Industrial output (Apr) US: Retail sales (May)	15 US: FOMC decision US: Industrial output (May)	16 <i>PL: Wages and employment (May)</i> EZ: HICP (May) US: Philly Fed index (Jun) US: CPI (May)	17 <i>PL: Industrial output (May)</i> <i>PL: PPI (May)</i> <i>PL: Retail sales (May)</i> US: Housing starts (May) US: Building permits (May)
20	21 DE: ZEW index (Jun) HU: Central bank decision	22 US: Home sales (May)	23 <i>PL: MPC minutes</i> DE: Flash PMI – manufacturing (Jun) EZ: Flash PMI – manufacturing (Jun) US: New home sales (May)	24 DE: Ifo index (Jun) US: Durable goods orders (May) US: Michigan index (Jun)
27	28 US: Final GDP (Q1) US: Consumer confidence index (Jun)	29 US: Personal income (May) US: Consumer spending (May) US: Pending home sales (May)	30 <i>PL: Inflation expectations (Jun)</i> EZ: Flash HICP (Jun) CZ: Central bank decision	1 July <i>PL: S&P decision on rating</i> <i>PL: PMI – manufacturing (Jun)</i> CN: PMI – manufacturing (Jun) DE: PMI – manufacturing (Jun) EZ: PMI – manufacturing (Jun) US: ISM – manufacturing (Jun) CZ: GDP (Q1)
4	5 DE: PMI – services (Jun) EZ: PMI – services (Jun) US: Industrial orders (May)	6 <i>PL: MPC decision</i> DE: Industrial orders (May) US: ISM – services (Jun) US: FOMC minutes	7 DE: Industrial output (May) US: ADP report (May)	8 DE: Exports (May) CZ: Industrial output (May) HU: CPI (Jun) US: Non-farm payrolls (Jun) US: Unemployment rate (Jun)
11 <i>PL: CPI (Jun)</i>	12 <i>PL: Core inflation (Jun)</i> CZ: CPI (Jun)	13 EZ: Industrial output (May) US: Fed Beige Book	14 <i>PL: Balance of payments (May)</i> <i>PL: Money supply (Jun)</i>	15 <i>PL: Fitch decision on rating</i> EZ: HICP (Jun) US: Retail sales (Jun) US: CPI (Jun) US: Industrial output (Jun) US: Flash Michigan (Jul)

Source: CSO, NBP, Bloomberg.

Calendar of MPC meetings and data releases for 2016

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
ECB meeting	21	-	10	21	-	2	21	-	8	20	-	8
MPC meeting	13-14	2-3	10-11	5-6	12-13	7-8	5-6	-	6-7	4-5	8-9	6-7
MPC minutes	28	18	17	21	27	23	-	25	22	20	24	22
Flash GDP*		12			13			12			15	
GDP*	-	29	-	-	31	-	-	30	-	-	30	-
CPI	15	12 ^a	15 ^b	11	12	13	11	12	12	11	14	12
Core inflation	18		16	12	13	14	12	16	13	12	15	13
PPI	21	17	17	19	19	17	19	18	19	19	21	19
Industrial output	21	17	17	19	19	17	19	18	19	19	21	19
Retail sales	21	17	17	19	19	17	19	18	19	19	21	19
Gross wages, employment	20	16	16	18	18	16	18	17	16	18	18	16
Foreign trade												
Balance of payments*			31									
Balance of payments	13	15	15	13								
Money supply	14	12	14	14								

* Quarterly data. a preliminary data for January. b January and February.

Source: CSO, NBP.

Economic data and forecasts for Poland

Monthly economic indicators

		May 15	Jun 15	Jul 15	Aug 15	Sep 15	Oct 15	Nov 15	Dec 15	Jan 16	Feb 16	Mar 16	Apr 16	May 16E	Jun 16E
PMI	pts	52.4	54.3	54.5	51.1	50.9	52.2	52.1	52.1	50.9	52.8	53.8	51.0	52.1	52.5
Industrial production	% YoY	2.8	7.4	3.8	5.3	4.0	2.4	7.8	6.7	1.3	6.8	0.7	6.0	5.0	6.5
Construction production	% YoY	1.3	-2.5	-0.1	4.8	-2.5	-5.2	1.2	-0.4	-8.6	-10.5	-15.8	-14.8	-11.3	-4.5
Retail sales ^a	% YoY	1.8	3.8	1.2	-0.3	0.1	0.8	3.3	4.9	0.9	3.9	0.8	3.2	3.7	3.8
Unemployment rate	%	10.7	10.2	10.0	9.9	9.7	9.6	9.6	9.8	10.3	10.3	10.0	9.5	9.1	8.8
Gross wages in corporate sector	% YoY	3.2	2.5	3.3	3.4	4.1	3.3	4.0	3.1	4.0	3.9	3.3	4.6	4.8	5.9
Employment in corporate sector	% YoY	1.1	0.9	0.9	1.0	1.0	1.1	1.2	1.4	2.3	2.5	2.7	2.8	2.8	2.9
Exports (€)	% YoY	7.8	10.6	5.2	8.1	3.0	4.5	12.6	11.5	-0.4	4.7	-0.1	4.8	3.9	8.6
Imports (€)	% YoY	0.5	10.3	7.3	6.7	5.2	0.2	6.7	3.8	0.3	7.3	1.7	0.4	6.3	6.8
Trade balance	EUR mn	500	-165	-727	-150	19	252	574	294	548	216	204	520	198	77
Current account balance	EUR mn	928	-963	-1,174	-574	-608	-216	395	-603	805	-552	-103	594	1,234	-676
Current account balance	% GDP	-0.7	-0.4	-0.5	-0.3	-0.4	-0.4	-0.3	-0.2	0.0	-0.1	-0.4	-0.5	-0.4	-0.4
Budget deficit (cumulative)	PLN bn	-19.6	-26.1	-26.6	-25.9	-31.1	-34.5	-36.1	-42.6	1.8	-3.1	-9.6	-11.1	-19.3	-22.1
Budget deficit (cumulative)	% of FY plan	42.6	56.7	57.7	56.1	67.6	74.8	78.4	92.5	-3.2	5.7	17.5	20.3	35.2	40.3
CPI	% YoY	-0.9	-0.8	-0.7	-0.6	-0.8	-0.7	-0.6	-0.5	-0.9	-0.8	-0.9	-1.1	-0.9	-0.9
CPI excluding food and energy	% YoY	0.4	0.2	0.4	0.4	0.2	0.3	0.2	0.2	-0.1	-0.1	-0.2	-0.4	-0.4	-0.1
PPI	% YoY	-2.1	-1.4	-1.8	-2.7	-2.8	-2.3	-1.8	-0.8	-1.2	-1.5	-1.9	-1.2	-0.7	-1.4
Broad money (M3)	% YoY	7.5	8.2	8.5	7.2	8.3	8.9	9.3	9.1	10.2	10.1	9.1	11.6	11.5	11.2
Deposits	%YoY	7.8	8.7	8.8	7.7	8.9	9.2	9.7	9.1	9.9	10.4	9.4	11.6	11.7	11.4
Loans	%YoY	7.7	7.9	7.9	7.6	7.9	7.7	7.0	6.9	6.2	5.8	4.4	6.7	5.0	4.6
EUR/PLN	PLN	4.08	4.16	4.15	4.19	4.22	4.25	4.25	4.29	4.41	4.40	4.29	4.31	4.41	4.37
USD/PLN	PLN	3.66	3.71	3.78	3.77	3.75	3.78	3.96	3.95	4.06	3.96	3.87	3.80	3.90	3.91
CHF/PLN	PLN	3.93	3.98	3.96	3.89	3.86	3.91	3.92	3.96	4.03	3.99	3.93	3.94	3.99	3.97
Reference rate ^b	%	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
3M WIBOR	%	1.67	1.70	1.72	1.72	1.72	1.73	1.73	1.72	1.71	1.69	1.67	1.67	1.67	1.68
Yield on 2-year T-bonds	%	1.74	1.91	1.82	1.79	1.79	1.65	1.58	1.71	1.46	1.46	1.44	1.48	1.54	1.75
Yield on 5-year T-bonds	%	2.38	2.68	2.45	2.40	2.43	2.18	2.10	2.28	2.24	2.26	2.18	2.25	2.24	2.45
Yield on 10-year T-bonds	%	2.83	3.20	3.00	2.88	2.91	2.66	2.73	2.93	3.04	3.03	2.88	2.95	3.04	3.20

Note: ^a in nominal terms, ^b at the end of the period.

Source: CSO, NBP, Finance Ministry, BZ WBK estimates.

Quarterly and annual economic indicators

		2013	2014	2015	2016E	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16E	3Q16E	4Q16E
GDP	PLN bn	1,656.3	1,719.1	1,790.1	1,856.7	413.1	431.0	437.1	508.4	426.2	439.4	451.8	530.4
GDP	% YoY	1.3	3.3	3.6	3.4	3.6	3.1	3.4	4.3	3.0	3.2	3.6	3.8
Domestic demand	% YoY	-0.7	4.9	3.3	3.6	2.9	3.0	3.0	4.5	4.1	2.7	3.7	4.0
Private consumption	% YoY	0.2	2.6	3.1	4.0	3.1	3.1	3.1	3.0	3.2	3.5	4.6	4.8
Fixed investments	% YoY	-1.1	9.8	6.1	1.9	11.8	5.8	4.4	4.4	-1.8	0.5	3.0	3.5
Industrial production	% YoY	2.3	3.4	4.8	4.8	5.3	3.9	4.3	6.0	3.0	5.8	6.2	4.5
Construction production	% YoY	-10.3	4.3	0.3	-3.1	1.4	1.9	0.5	-1.5	-12.2	-9.9	-4.2	7.2
Retail sales ^a	% YoY	2.6	3.1	1.5	5.4	0.7	1.4	0.4	3.2	1.9	3.8	7.7	7.7
Unemployment rate ^b	%	13.4	11.4	9.8	8.6	11.5	10.2	9.7	9.8	10.0	8.8	8.4	8.6
Gross wages in the national economy ^a	% YoY	3.4	3.6	3.3	4.5	4.1	3.1	3.0	3.2	3.1	4.9	4.7	5.2
Employment in the national economy	% YoY	-1.1	0.2	0.9	1.9	0.8	0.8	0.9	1.0	1.9	2.0	2.0	1.8
Exports (€)	% YoY	5.7	6.4	8.3	6.6	9.8	9.0	5.3	9.3	1.5	5.7	9.0	10.0
Imports (€)	% YoY	0.2	8.3	4.9	6.5	3.5	6.2	6.4	3.4	3.2	4.4	8.0	10.0
Trade balance	EUR mn	-335	-3,255	2,135	2,493	1,651	216	-852	1,120	968	795	-502	1,232
Current account balance	EUR mn	-5,031	-8,303	-1,011	-149	900	864	-2,348	-427	150	1,152	-1,864	413
Current account balance	% GDP	-1.3	-2.0	-0.2	0.0	-1.3	-0.4	-0.4	-0.2	-0.4	-0.3	-0.2	0.0
General government balance	% GDP	-4.0	-3.3	-2.6	-2.8	-	-	-	-	-	-	-	-
CPI	% YoY	0.9	0.0	-0.9	-0.7	-1.5	-0.9	-0.7	-0.6	-0.9	-1.0	-0.8	0.0
CPI ^b	% YoY	0.7	-1.0	-0.5	0.4	-1.5	-0.8	-0.8	-0.5	-1.1	-0.9	-0.5	0.4
CPI excluding food and energy	% YoY	1.2	0.6	0.3	-0.1	0.4	0.3	0.3	0.2	-0.1	-0.3	-0.2	0.2
PPI	% YoY	-1.3	-1.5	-2.2	-0.7	-2.7	-2.1	-2.4	-1.6	-1.5	-1.1	-0.1	-0.1
Broad money (M3) ^b	% oY	6.2	8.2	9.1	5.3	8.7	8.2	8.3	9.1	9.1	8.1	7.1	5.3
Deposits ^b	%YoY	6.6	9.0	9.1	4.7	9.2	8.7	8.9	9.1	9.4	8.3	7.2	4.7
Loans ^b	%YoY	3.5	7.2	6.9	3.1	7.8	7.9	7.9	6.9	4.4	3.4	2.4	3.1
EUR/PLN	PLN	4.20	4.18	4.18	4.37	4.20	4.09	4.19	4.26	4.37	4.36	4.41	4.33
USD/PLN	PLN	3.16	3.15	3.77	3.88	3.72	3.70	3.77	3.90	3.96	3.87	3.90	3.77
CHF/PLN	PLN	3.41	3.45	3.92	3.86	3.93	3.93	3.90	3.93	3.98	3.96	3.85	3.63
Reference rate ^b	%	2.50	2.00	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
3M WIBOR	%	3.02	2.52	1.75	1.68	1.87	1.67	1.72	1.73	1.69	1.67	1.68	1.69
Yield on 2-year T-bonds	%	2.98	2.46	1.70	1.61	1.61	1.75	1.80	1.65	1.45	1.59	1.72	1.67
Yield on 5-year T-bonds	%	3.46	2.96	2.21	2.34	1.90	2.35	2.43	2.19	2.23	2.31	2.42	2.40
Yield on 10-year T-bonds	%	4.04	3.49	2.69	3.17	2.24	2.79	2.93	2.77	2.98	3.07	3.23	3.38

Note: ^a in nominal terms, ^b at the end of period. Source: CSO, NBP, Finance Ministry, BZ WBK estimates.

This analysis is based on information available until 14.06.2016 has been prepared by:

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IMPORTANT DISCLOSURES

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