Bank Zachodni WBK
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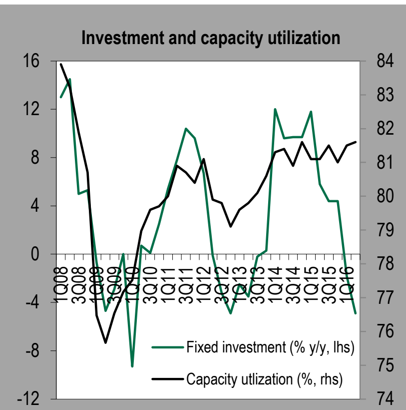
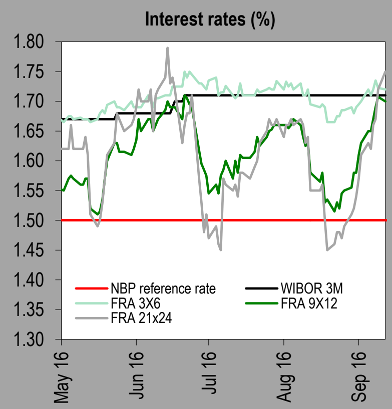
MACROscope

Polish Economy and Financial Markets

September 2016

Faith (in easing) no more?





- Poland's GDP growth failed to accelerate in 2Q16, with investments surprising negatively (-4.9% y/y), and we believe that the second half of the year will see no significant improvement in economic growth. Although private consumption is likely to gain strength in the coming quarters, supported by solid labour income and the new child subsidies, it may take time until investments recover, and the positive impact of net exports should not be easy to maintain (export growth may decelerate and imports accelerate). We expect a more significant investment pick-up next year, but by then the impact of the 500+ child benefit programme on consumption will be waning. Therefore, we forecast that GDP will grow 3.1% in 2016E and 2.9% in 2017E.

- Disappointing macro data slightly reduced the Monetary Policy Council's optimism about growth outlook, but their general stance did not change too much. The statement released after the first post-holiday MPC meeting was similar as in July and the Council still seemed to believe that slowdown in GDP growth and investments was temporary. The central bankers signalled they are not even thinking about interest rate cuts, and the NBP governor even mentioned a scenario (though still quite distant) of policy tightening (if growth accelerates and inflation increases towards 1.5%). As a result, investors have lost their faith in further monetary easing in Poland – the FRA market is currently pricing-in virtually stable money market rates in the next 21 months. We believe that in order to see a revival of speculation about rate cuts, we would need to witness a really strong impulse: either a sharp zloty appreciation (which we do not expect, given current global market sentiment and our below-consensus forecasts of economic growth, or a slump in GDP growth even sharper than we predict (GDP in next quarters closer to 2% than 3% y/y).

- Interestingly, a hawkish message from the Polish MPC coincided with a wave of worries abroad that the major central banks (ECB, BoJ) may abstain from further policy easing, while Fed may hike rates as soon as in September. It spurred a massive selloff in the world equity and debt markets, which also affected Polish bonds. In our opinion a sizeable correction may be used as a buying opportunity by foreign investors, and thus in our view, there is some room for a decline in Polish yields (towards August's lows) if there is no Fed interest rate hike in September. A rebound may be less pronounced in the case of short-term securities, as the hawkish signals from the MPC mean that hopes for monetary policy easing in Poland are fading. Therefore, yield curve flattening is possible in the coming weeks.

- As regards the FX market, we expect EUR/PLN to remain elevated in the coming weeks and we do not believe the exchange rate could near its local bottom anytime soon. The reasons for currency weakness are still a combination of both internal (worsening outlook for economic growth) and external factors (worsening global sentiment amid worries about less expansive central bank's policies). Additionally, technical analysis also suggests there is more upside potential for EUR/PLN in the weeks to come.

In this issue:

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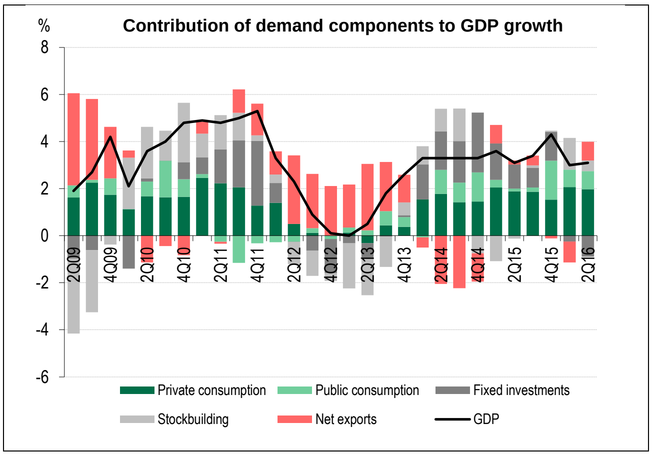
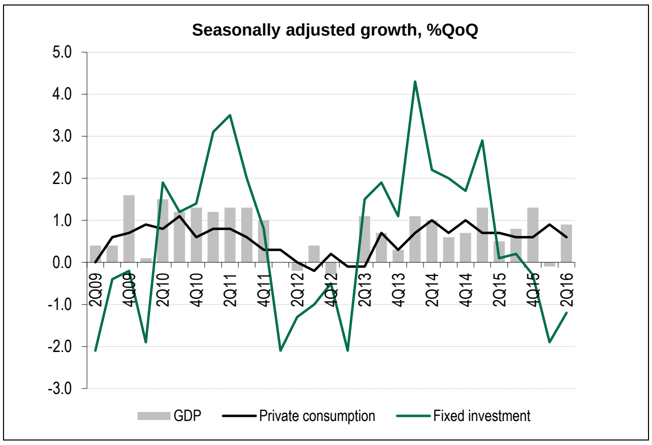
Financial market on September 12, 2016:

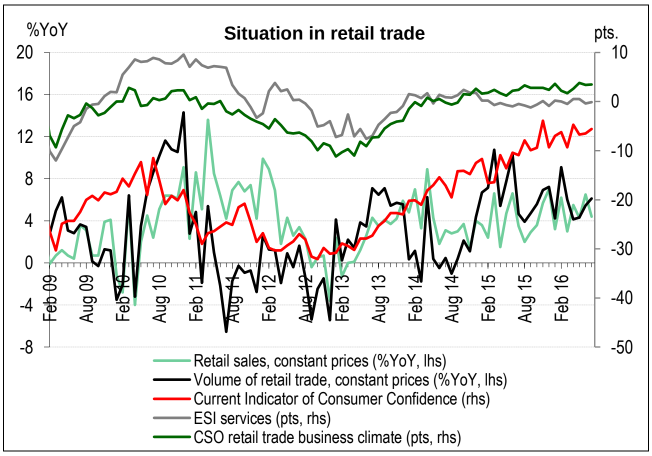
NBP deposit rate	0.50	WIBOR 3M	1.71	EURPLN	4.3460
NBP reference rate	1.50	Yield on 2-year T-bond	1.72	USDPLN	3.8668
NBP lombard rate	2.50	Yield on 5-year T-bond	2.26	CHFPLN	3.9695

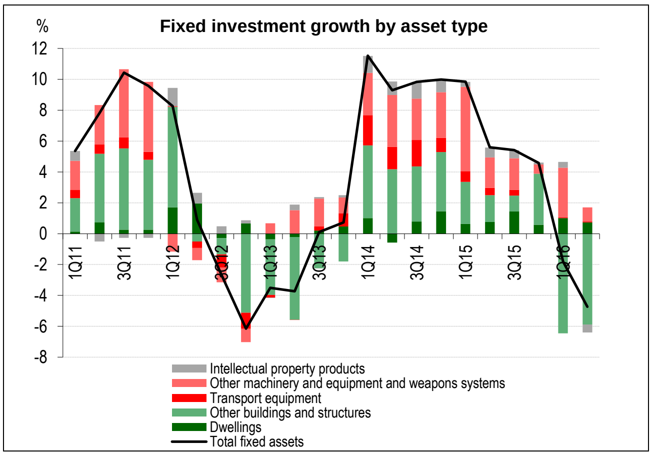
This report is based on information available until 13.09.2016.

Economic update









Source: Markit, Eurostat, CSO, European Commission, BZ WBK.

No acceleration of GDP growth in 2Q

▪ GDP rose by to 3.1% y/y in 2Q, in line with the flash estimate and vs 3.0% y/y in 1Q. After seasonal adjustments, GDP climbed by 0.9% q/q and 3.1% y/y. Economic growth was generated mainly by private consumption (which added 2.0pp to GDP growth) and net exports (positive contribution of 0.8pp). Growth of consumption was slightly below our forecast. Investments proved to be the biggest negative surprise of the data, as they fell by most since 4Q12. Exports delivered a positive surprise and rose at the fastest pace in 5 years (contribution of exports to GDP amounted to 5.5pp, most for 6 years, with a negative contribution of imports at 4. pp).

▪ We expect GDP growth to stabilize near 3% y/y in the coming quarters. Private consumption growth is likely to accelerate, investments should probably keep falling (although at slower pace), while change of inventories and net exports should add less to GDP growth than they did in the second quarter. We also keep our GDP forecast for 2017E unchanged (at 2.9%). Although investment growth should start accelerating next year (faster inflow of EU money), but the impact of 500+ programme on private consumption should dissipate. At the same time, a possible economic slowdown in the euro zone (including Germany) and in the UK would not be favourable for Polish exports, in our view.

Private consumption did not accelerate…

▪ Private consumption expanded by 3.3% y/y and 0.6% q/q after seasonal adjustment. Consumer demand rose at a stable pace, supported by solid labour income and high consumer confidence. A marked acceleration of consumption may take place in 3Q16E, when the effect of 500+ child benefit programme will be fully visible. We expect consumption to advance by more than 4% y/y in the forthcoming quarters.

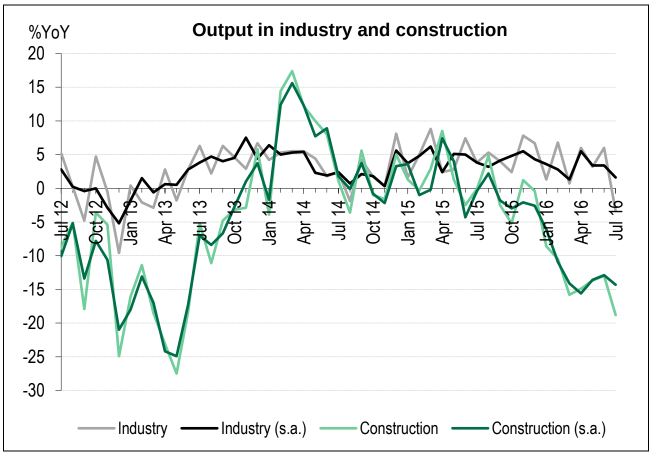
… and impact of 500+ becomes less sure

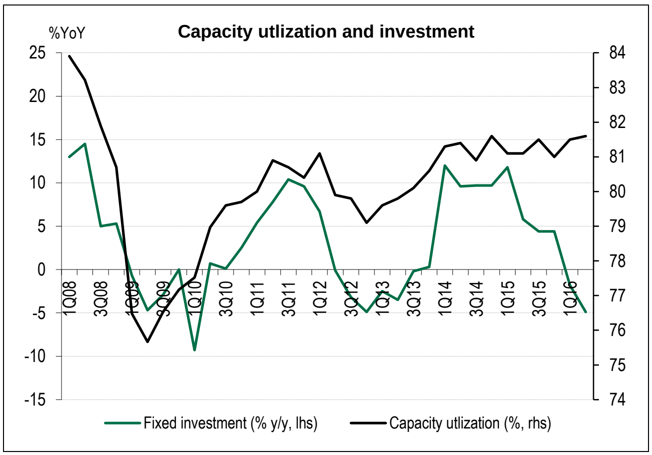
▪ Let us note, however, that most recent data on retail sales were rather disappointing (4.4% y/y in real terms in July), suggesting no acceleration in that sector. Real turnover in retail trade rose in July by 6.1% y/y and this was a result similar to previous months. In general, trade shows no signs of impact of the 500+ program despite the fact that until July a large part of money was already distributed (for period April-July i.e. 4 months!). Moreover, in our view there is not one single economic indicator that would confirm results of the 500+ programme: not only trade statistics and private consumption, but also all confidence indicators show no rebound. NBP analysts suggested that households may be streaming additional means to services, not goods, so impact of the programme is not visible in trade statistics. Unfortunately, we do not have much data on services in Poland, but even ESI services business climate indicator showed nothing interesting. In our view, all these anecdotal evidence reveal risk that the impact of 500+ programme on consumption acceleration in 3Q may appear to be smaller than anticipated.

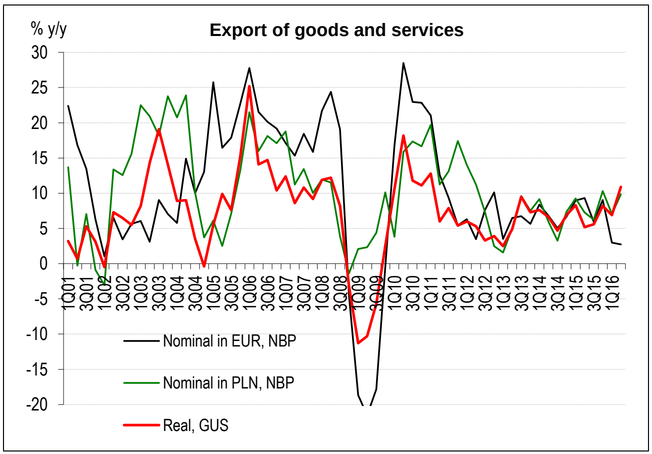
Investment in a deep fall…

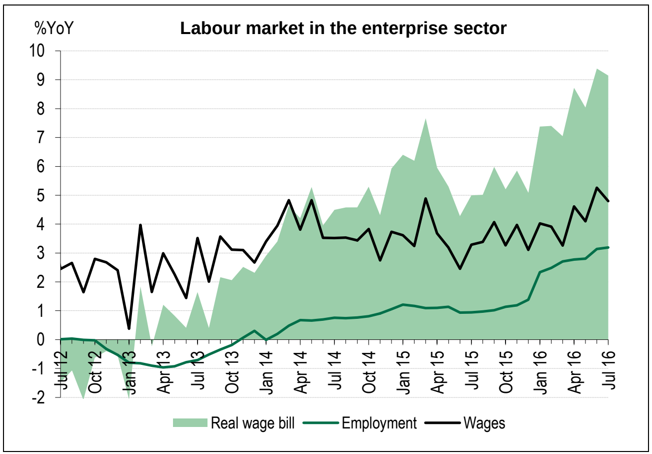
▪ Fixed investments fell by 4.9% y/y in 2Q (and 1.2% q/q seasonally adjusted). We do not yet know what the investment breakdown was between the private and public sectors. However, recently published data for 1Q showed that in this period private investments fell, while public investments increased moderately. Apparently, public investments were supported in 1Q by (possibly one-off) an increase in defence spending. Investment breakdown by asset type showed that lower spending on machinery and weapons dragged 2Q result down and this supports our view that the 1Q jump in military spending was temporary. Moreover, data from local governments showed a deep fall in investment in both 1Q and 2Q (by c50% y/y).

Economic update









Source: CSO, NBP, Eurostat, BZ WBK.

- Also, data from big companies (employing 50 and more) showed the decrease in fixed investments by 6% y/y in 2Q16 (mainly in construction, while machinery rebounded). Overall, it seems that in 2Q we had a continuation of negative trends in both public and private sectors.

- First 3Q data are not encouraging either, as construction output has continued its free fall in July (-18.8% y/y). We expect the investment growth rate to improve in 2H, but the a big question mark is: could turns positive by the year-end?

… even though the environment is supportive for investing

- Investment is falling despite a strong growth of investment loans, which expanded by 5.4% in Jan-Jul period (after FX adjustment). Moreover, capacity utilization is at a high level (81.6% in 2Q versus the 2005-15 average of 80.6%) and employment is expanding. All these factors are positively correlated with investment and in our view are arguments to expect a rebound in this economic category. However, low usage of EU funds remained a problem – 12M summed inflow of capital transfers from the EU was at EUR4.4bn in July vs EUR7.1bn in 2015 and EUR10.5bn in 2014. In our view, this is mostly weighing on investment in non-housing buildings and structures. However, even though investment ex non-housing rose by 1.8% y/y in 2Q, it reported a major slowdown from 5.8% y/y in 2015.

Exports outperformed but we expect it to weaken

- According to national accounts, exports of goods and services climbed in 2Q16 by 10.9% y/y in real terms (by 4.1% q/q after seasonal adjustment) and import by 9.9% y/y (2.5% q/q after seasonal adjustment).These results are actually puzzling for us, given the fact that all other measures of export performance are showing a clear deceleration (see chart aside). Historically, real export growth according to national accounts is more correlated with nominal exports in euro than with nominal exports in PLN. The mystery lies within the deflator, which has suggested no price growth, despite the fact that PLN was weaker by 3.8% y/y (NEER). The only possible explanation is that Polish exporters lowered their prices in euros, so that prices in zloty remained roughly stable. Recent data on global trade as well as on German output and exports were weak and this suggests that Polish exports may be weakening in the upcoming quarters.

- Weaker global trade has already weighed on Polish industry, which disappointed in July, showing a fall by 3.4% y/y. The release was below all market forecasts. Although in July we had a negative effect of working days (two less as compared with July 2015), the seasonally adjusted figure showed a very low growth of only 1.6% y/y (as compared to the average of 3.4% in Jan-Jun period).

Wages impacted by one-offs

- Employment in the corporate sector rose 3.2% y/y in July, in line with our forecast and market consensus. In monthly terms employment rose by 9k, the strongest rise since 2010. Since January employment increased by 59k, the best result since 2007. Data on employment show a constant strengthening of labour demand although one should remember that this trend may be to some extent distorted by the change in the forms of employment.

- Wages in the corporate sector grew in July by 4.8% y/y, less than in June (5.3% y/y), but above forecasts. Strong results were due to bonus payment in mining, so we expect wage growth to moderate in the upcoming months, but to remain above 4% y/y.

- The real wage bill in the enterprise sector rose by 9.1% y/y in July, which was the second-best reading since 2008. The favourable situation of the labour market should be positive for the private consumption and GDP growth in 2Q and 3Q.

Monetary policy watch

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

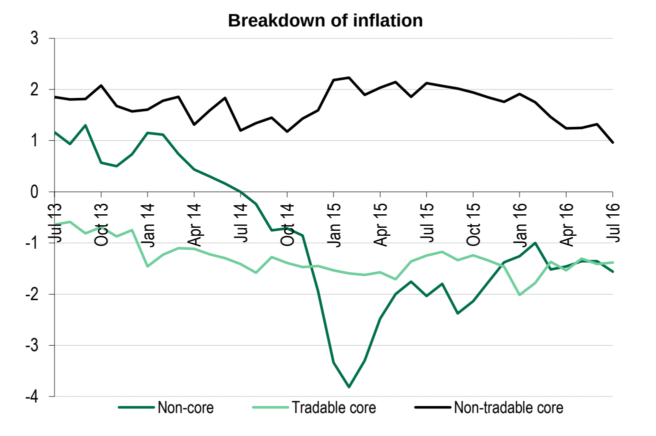
Global economic growth remains moderate, but uncertainty remains about its outlook. In the euro area, economic growth is stable despite a negative impact of weak economic conditions in the non-European emerging market economies. In the United States, GDP growth is lower than in previous years, but recent improvement in labour market has eased concerns about persistent deterioration in economic conditions. Recent indicators point to further slowdown in China, while in Russia recession is gradually receding.

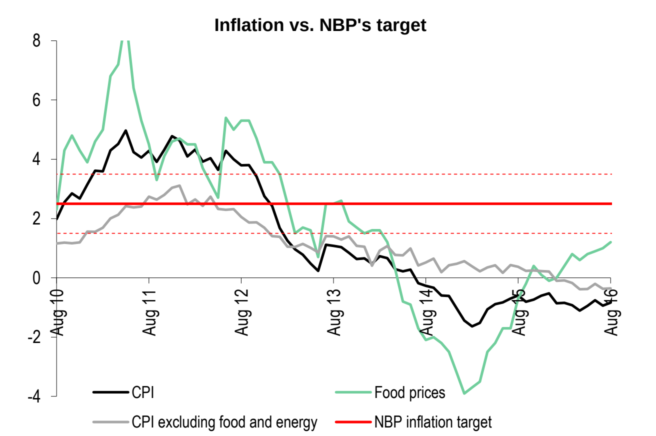
In Poland, GDP growth in 2016 2Q picked up somewhat. Growth was driven mainly by steady increase in consumer demand, supported by gradual improvement in the labour market, favourable consumer sentiment and the launch of the "Family 500 plus" programme. Another factor contributing to higher GDP growth in 2016 2Q was significant acceleration in exports. At the same time, GDP growth was contained by a decline in investment. It was related to a temporary lower EU funds absorption after the previous EU financial framework had expired, as well as uncertainty about the economic outlook.

With the negative output gap and moderate – though increasing – nominal wage growth, there is no inflationary pressure in the economy. The annual consumer price growth and producer price growth remain negative. Negative price growth results from external factors, mainly the earlier sharp fall in global commodity prices and the low price growth in the environment of the Polish economy. This is accompanied by low inflation expectations. According to available information, the persisting deflation has not adversely affected decisions taken by economic agents so far.

In the Council's opinion, the annual consumer price index will remain negative in the coming months. However, deflation will be gradually subsiding due to dissipating effects of low commodity prices in the global markets. In the coming quarters, higher price growth will be supported by stable GDP growth, amid acceleration in wage growth and higher child benefits. Investment should also rise, which will be supported by a gradual increase in EU funds absorption, good financial standing of enterprises and growing capacity utilisation of firms. The sources of uncertainty for expected economic activity and price developments are risks of a deterioration in the global economy and of a fall in commodity prices.

The Council confirms 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.





Sources: NBP, Eurostat, CSO, BZ WBK.

The MPC is not even thinking about rate cuts

▪ As widely expected, the Monetary Policy Council kept interest rates unchanged. The statement after the meeting is similar to the previous one and the main piece reads: current level of interest rates is conducive to keeping the Polish economy on the sustainable growth path and maintaining macroeconomic balance". Additionally, according to the MPC, decline in investment was temporary (was driven by EU funds absorption, investments should accelerate at the start of 2017), there is no inflationary pressure in the economy and persisting deflation has not adversely affected decisions taken by economic agents so far.

▪ At the very beginning of the press conference after the meeting, the NBP Governor Adam Glapiński stated that "nothing special has happened". Although the Governor said that GDP growth rate in 2016 is likely to be below expectations of the MPC, he said it should maintain at 3.1-3.3% (i.e. around potential growth rate) and the Council still believed that "wait and see" was the best policy option. Asked about temptation to cut rates in order to accelerate growth, Mr Glapiński rejected the idea and even started to talk about a scenario (though still quite distant) of policy tightening (if growth accelerates and CPI inflation increases towards 1.5%). We maintain our forecast that official rate will remain stable in 2016E-17E.

MPC's Chrzanowski steps down

▪ The MPC member Marek Chrzanowski resigned from his post for personal reasons.

▪ Mr Chrzanowski was not in favour of further monetary easing – in the recent interview he argued that trying to boost economic growth with interest rate cuts could do more harm than good. Moreover, he suggested the MPC should rather consider rate hikes and not cuts in the upcoming quarters. In his view, the financial sector stability (disadvantages of interest rates cuts could outweigh the benefits) was an important factor when making the decision.

▪ His replacement is not known yet, so it is hard to guess whether this will tilt the balance of votes significantly.

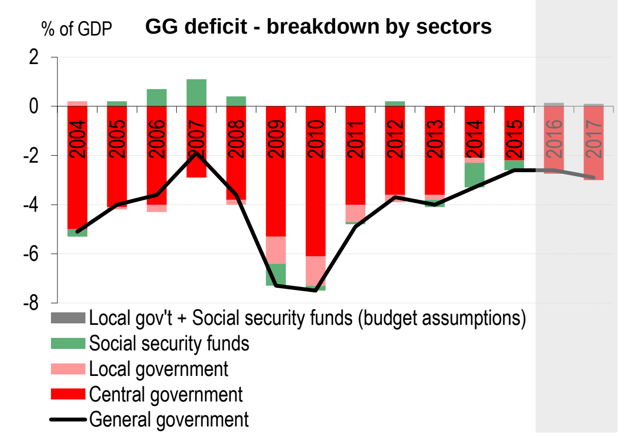
NBP criticised President's draft bill on CHF loans

▪ The NBP issued its opinion on President's draft bill on CHF loans. The opinion was critical about many aspects of the draft. Particularly, NBP analysts argued that costs of the bill for the banking sector were miscalculated and may prove two times higher than assumed (PLN3.6-4.0bn). Furthermore, the bill did not take into account costs of CIT refund for banks. The opinion was also negative about the range of the bill (it should be only limited to debtors who live in the credited property), some important assumptions (there is no reason to make banks pay penalty interest, maximum loan value eligible for spread refund is out of the blue). The bill proposed that the spread refund should be calculated as sum of overpaid spreads in CHF, changed for PLN at current exchange rate. According to the NBP, spread refund should be calculated as sum overpaid spreads in PLN.

Food pushed inflation up in August

▪ CPI inflation rose in August to -0.8% y/y, in line with the flash estimate and up from -0.9% y/y in July. Lower deflation was triggered mainly by food prices, which fell in August by 0.5% m/m, much less than they usually do in this period (c.1% m/m on average). A disturbance of seasonal pattern was triggered mainly by prices of meat (up 1% m/m), which have been rising for a couple of months, and a surge in sugar prices (5.7% m/m). One should also notice a 0.3% m/m rise in prices of "other goods and services" – the strongest since August 2009. It resulted mainly from higher insurance prices (0.7% m/m). We expect inflation to continue rising gradually reaching positive territory in December.

Fiscal policy watch



Budget revenue assumptions for 2017 and plans for 2016 (PLNbn)

Revenue	2016E	2017E	% y/y
Total revenues	317.7	324.1	2.0
Total revenues corrected for one-offs, new taxes and better collection	296.8	307.9	3.7
Tax revenues	275.3	299.8	8.9
VAT	128.9	143.0	10.9
VAT corrected for better collection	128.9	135.0	4.7
Excise duties	65.3	69.0	5.7
CIT	26.1	28.6	9.6
CIT corrected for better collection	26.1	26.6	1.9
PIT	48.6	51.0	4.9
Non-tax revenues	40.7	22.4	-44.9

Budget spending assumptions for 2017 and budget for 2016 (PLNbn)

Spending	2016E	2017E	% y/y
Total spending	368.5	383.4	4.0
Subsidies	197.0	209.6	6.4
Benefits for individuals	25.2	25.7	1.9
Current spending of budget entities	68.8	71.2	3.3
Investment spending	17.7	19.3	9.3
Debt servicing	31.8	30.4	-4.4
Payment to EU budget	19.2	18.2	-5.6
Co-financing of EU projects	8.7	8.9	2.7

Net borrowing needs and their funding (PLNbn)

	2016E (1)	2017E (2)	change (2) / (1)
Total net borrowing needs:	64.7	79.0	22.1%
▪ budget deficit	42.0	59.3	41.3%
▪ EU budget deficit	9.2	9.6	4.3%
▪ other	13.5	10.0	-25.5%
Funding of net borrowing needs:	64.7	79.0	22.1%
▪ ***domestic funding, of which***	66.9	62.6	-6.5%
- marketable T-bonds	55.4	59.5	7.4%
- T-bills	9.8	2.0	-80.0%
- other	1.7	1.1	-32.3%
▪ ***foreign funding, in which***	-2.2	16.4	-
- bonds	6.6	6.6	-0.4%
- credits from IFI	-1.0	4.0	-
- FX account	-7.9	5.8	-

Source: Ministry of Finance, Eurostat, BZ WBK.

Optimistic macro assumption in the 2017 budget draft

▪ The government presented its draft budget for 2017 with central budget deficit at PLN59.3bn, revenues at PLN324bn, spending at PLN383bn, and the general government (GG) deficit at 2.9% of GDP. The central budget deficit is projected at 3.0% of GDP, thus the government assumed a surplus in local government and social security funds (FUS).The government's plan to boost public investment spending is in contrast with the target of surpluses at local government level. As regards FUS, the position of this sector may indeed be favourable next year, amid strong labour market and the fact that the government decided to replace its loans to FUS by a subsidy (a loan is shown in FUS spending, a subsidy in central budget spending).

▪ Macroeconomic assumptions behind the budget seem optimistic – most important categories sit above market consensus and our forecasts. In general, the macro assumptions are realistic but not conservative, so we see some upward risk for the fiscal deficit.

Revenues driven by higher tax collection

▪ Total central government revenues are expected to rise by 2% y/y. After a correction for one-offs from 2016 (which generated a high base effect), new taxes, as well as expected better tax collection, revenues are envisaged to grow 3.7% y/y, which seems to be quite conservative (below the nominal GDP growth rate, not to mention domestic demand).

▪ The government expects better tax collection to be a major source of higher tax revenues in 2017. The government expects to raise PLN8.0bn from improved VAT collection (VAT excluding this effect is expected to grow by a solid, though not excessive, 4.7% y/y) and PLN2bn from CIT collection (CIT excluding this factor is expected to grow by 1.9% y/y). Thus, total VAT and CIT revenues are expected to grow by PLN16.6bn with PLN10bn stemming from better tax collection.

Spending likely to rise only slightly

▪ Total government spending is planned to rise by 4.0% y/y. However, if one deducts one-off and discretionary in expenditures (eg, children benefit programme 500+, a lower retirement age, wage increases for public administration, free medicine for seniors), we arrive at a mere 0.9% y/y growth rate, which is very low. Total spending rise is expected to be slower than GDP growth, so the government expects the spending-to-GDP ratio to fall to 19.6% from 19.8%.

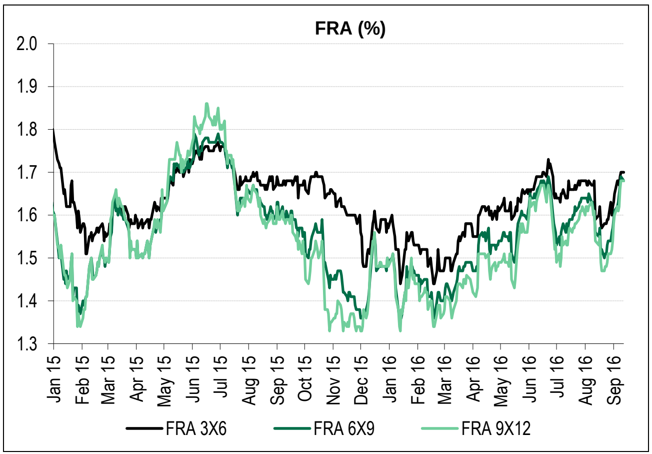
▪ The government assumed that the negative effect of a lower retirement age will amount to PLN1.4bn. In our view, this sum is underestimated, and we expect something closer to PLN2.5bn. Other planned cuts in spending vs 2016 include debt servicing (PLN30.4bn vs PLN31.8bn in 2016) and payments to the EU budget (PLN18.2bn vs PLN19.bn in 2016). We believe that debt servicing costs are quite likely to come down, given falling Polish bond yields. Payments to the EU will depend on the final EU budget in 2017, which is still at draft stage.

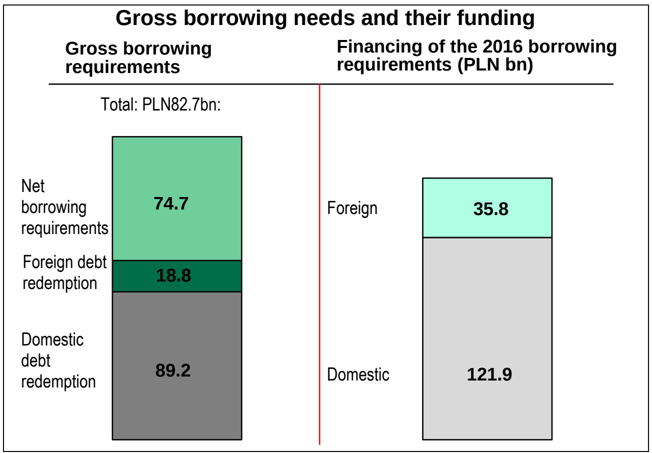
Net borrowing needs will rise

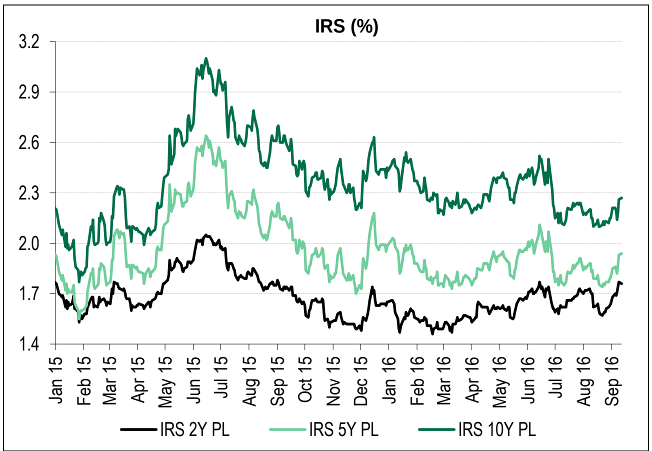
▪ The 2017 budget draft assumes net borrowing needs of PLN79bn (22% higher than this year's target) and gross borrowing needs of cPLN178.5bn (only 2% higher). The increase is mainly due to the larger deficit, while debt redemptions (both domestic and foreign) are 10% lower than in 2016. On a net basis, the government plans to slightly decrease domestic financing (by 6.5% to PLN62.6bn), while foreign financing is expected to increase sharply, mainly due to flows from credits and flows connected with the FX account (management of funds from the EU). The foreign financing will depend on the performance of domestic financing. The Ministry of Finance will reduce foreign financing (as it did in 2016 and previous years) if tapping T-bonds domestically is more favourable.

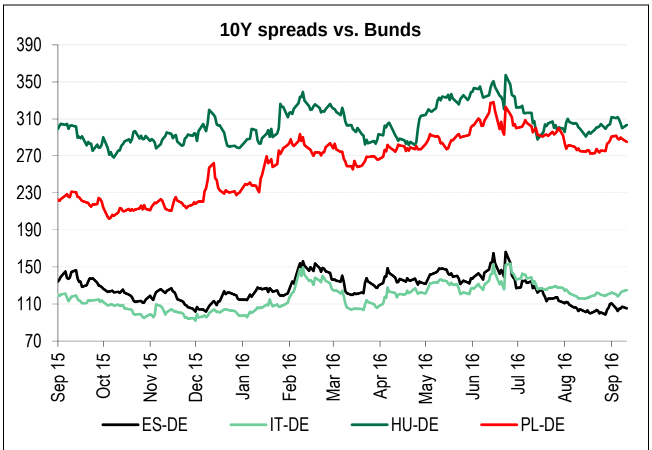
▪ In September, Poland's Ministry of Finance will start pre-financing its 2017 requirements through a switch tender. The ministry expects to cover c20% of its 2017 gross borrowing needs by the end of this year, which in our view is realistic.

Interest rate market









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

Very volatile rates market

- Poland's money market was volatile. During the summer, comments about possible rate cuts (by the MPC's Żyżyński) and weak macro data reinforced market speculation about possible policy easing in Poland. This resulted in sharp decrease in FRA rates, while WIBORs remained stable. As a result market priced-in the reference rate cut by 25bp in the next six months. However, it was only short-lived and at the turn of August-September FRA rates inched higher despite disappointing 2Q16 GDP data (particularly investment). Consequently, investors scaled back their expectations for monetary easing in upcoming months. The FRA rise was a reaction to higher than expected flash CPI and PMI, and hawkish signals from the MPC.
- As regards debt market, bond yields and IRS rates were falling in July-August, as international sentiment improved, and President Andrzej Duda's new proposal on FX loans suggested lower risk for the banking sector. As a result, the 10Y IRS reached 2.10%, the 5Y rate approached 1.75% while the 2Y IRS fell temporarily slightly below 1.60%. After a significant strengthening, a correction took place in the last week of August and the start of September. The two main factors behind the trend reversal were concerns about possible rate hikes by the US Fed and worries about a possible rating downgrade by Moody's after the agency warned that the escalating constitutional crisis is credit negative. Despite Moody's decision to keep Poland's rating unchanged, domestic interest rate market suffered from disappointing ECB (increase in yields on the core markets) and the 10Y IRS neared 2.30%, the 5Y rate rose to c2% and the 2Y IRS approached 1.75%.
- Measures of country-specific risks (asset swap spreads or spreads vs German bunds) increased, and the yield curve got steeper – the 2-10Y spread widened to 120bp, its highest since late July. Early September both yields and IRS curves flattened visibly as the long term instruments outperformed the short term ones. The front end of the curves was under pressure due to hawkish signals from the MPC, suggesting next move in rates will be up.

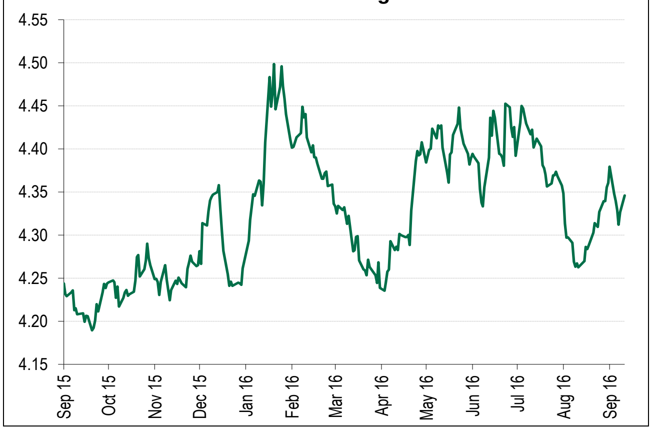
Issuance plan for 4Q16 could increase

- In July-September period the MoF tapped the primary market with T-bonds worth cPLN28bn in total vs sale of PLN28.7bn in 2Q16. The regular auctions attracted decent demand from both domestic and foreign investors. After September's auction, the MoF covered 86% of this year's borrowing needs.
- At the end of this month, the ministry will announce T-bond supply for 4Q16 and we believe the offer can slightly increase as Poland's Ministry of Finance plans to pre-finance c20% of the 2017 gross borrowing needs. The liquidity situation in the market should be supportive. In the October-December period, flows from both redemptions (PS1016) and interest payments (WZ, PS, DS series) should amount to cPLN29bn in total.

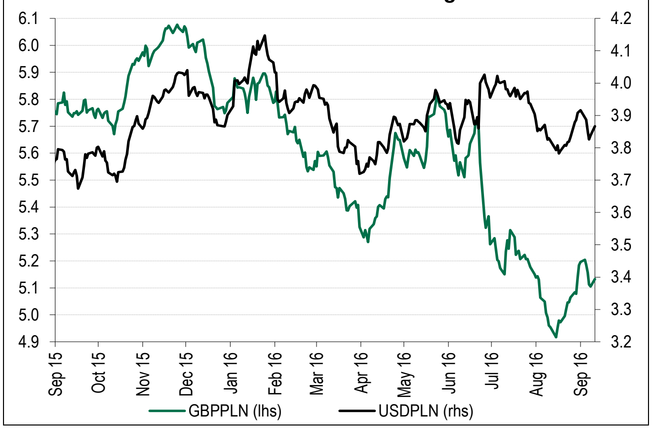
Fed and domestic data will be key

- In our view, WIBOR rates should remain stable in the next few weeks. The FRA market should be more volatile, with potential for a decline later this year if new disappointing data revive the discussion about monetary policy easing.
- We believe that a sizeable correction in debt market experienced recently may be used as a buying opportunity by foreign investors, and thus in our view, there is some room for a decline in Polish yields (towards August's lows) if there is no Fed interest rate hike in September.
- A rebound may be less pronounced in the case of short-term securities, as the hawkish signals from the MPC after September's meeting may limit hopes for monetary policy easing in Poland, in our view. In the nearest weeks hopes for policy easing may remain subdued, as macroeconomic data due late September will probably look much better than those released in August. Therefore, yield curve flattening is possible in the coming weeks.

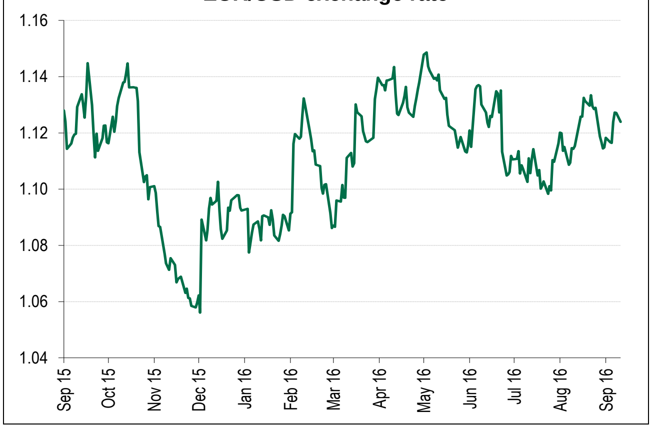
Foreign exchange market



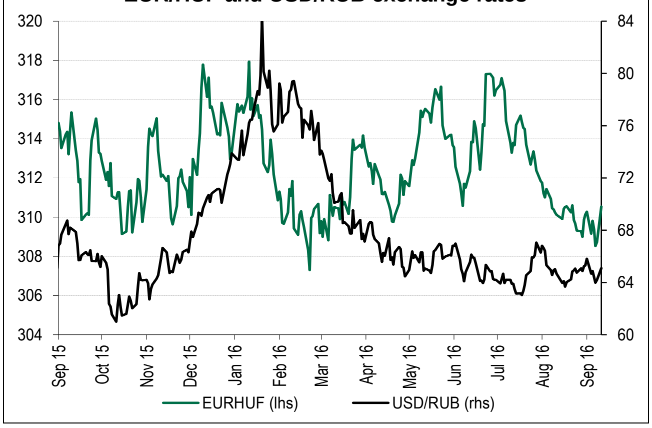
EUR/PLN exchange rate



USD/PLN and GBP/PLN exchange rates



EUR/USD exchange rate



EUR/HUF and USD/RUB exchange rates

Sources: Reuters, Bloomberg, Markit, BZ WBK.

EUR/PLN may stay high

- The July-August period was pretty volatile for EUR/PLN. The market has reacted positively to the president's new proposal on FX loans and this pushed the exchange rate down to 4.25. However, the following weeks showed a correction and the zloty gave up all of gains recorded on the president's proposal and the seasonal pattern we mentioned in July (that zloty usually depreciates vs the euro in August) was maintained. In early September EUR/PLN was back near 4.35 due to disappointing economic data from Poland, higher chances for rate cuts by the MPC and for rate hikes by the FOMC. At the same time, the ECB and BoJ refrained from more monetary policy easing hitting the global market sentiment.
- We expect EUR/PLN to remain elevated and we do not believe the exchange rate could near its local bottom anytime soon.
- First, in our view the weaker economic outlook may prevent zloty from appreciating. 2Q16 GDP numbers confirmed that the slowdown in 1Q was not a one-off and monthly data for 3Q suggest that economic growth will probably not accelerate in 2H16E. The zloty is a cyclical currency, so only stabilisation in economic activity should prevent EUR/PLN from a deeper decline. Additionally, more evidence that GDP growth is weaker than Monetary Policy Council members expected may spur market speculation about interest rate cuts later this year, which could hit the zloty.
- Second, the most recent comments from the US central bankers were rather hawkish despite somewhat disappointing macro data and higher chances for the Fed rate hike already this year weighed on the global market sentiment and on the EM currencies.
- Third, technical analysis also suggests there is more upside potential for EUR/PLN in the weeks to come.

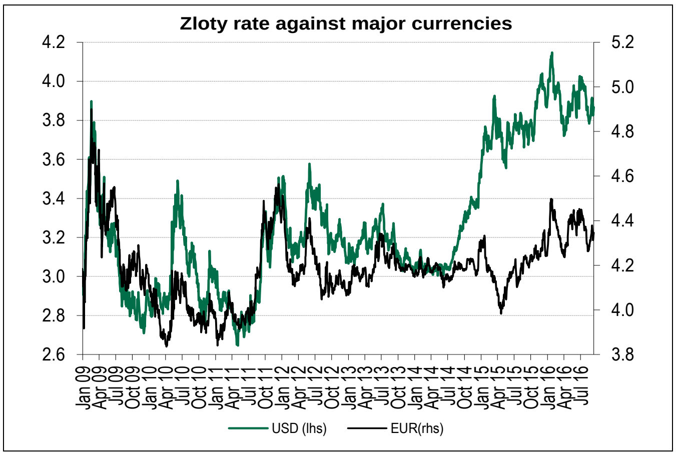
Trading range most likely for EUR/USD

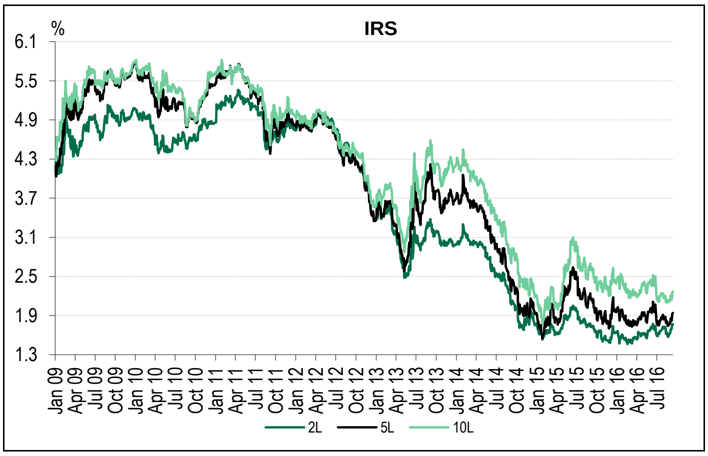
- EUR/USD trended upside in July-August with the exchange rate reaching 1.135 with the euro recovering nearly all losses suffered in response to the Brexit.
- We believe that EUR/USD should stay in the 1.112-1.135 range in the weeks to come. On the one hand, the recent comments from the FOMC members were pretty hawkish despite the below-consensus US macro data. We still believe that FOMC will deliver a 25bp hike in December and the market does not fully discount such scenario (60%, according to Bloomberg). On the other hand, however, the ECB refrained from announcing more monetary policy easing in September which was euro-positive.

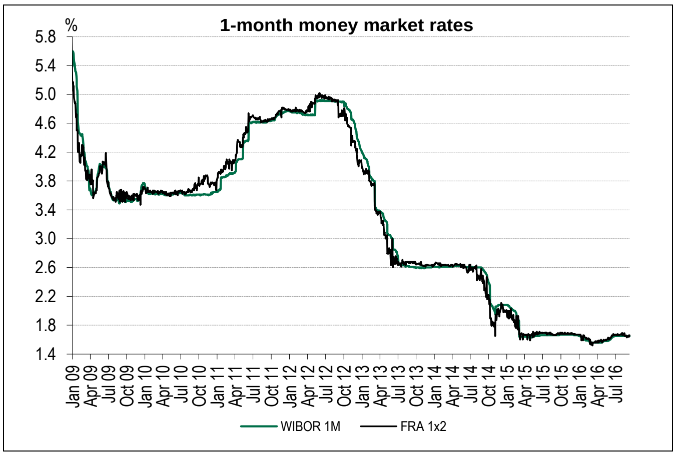
Risk for weaker forint, CBR may hit the Rouble (RUB)

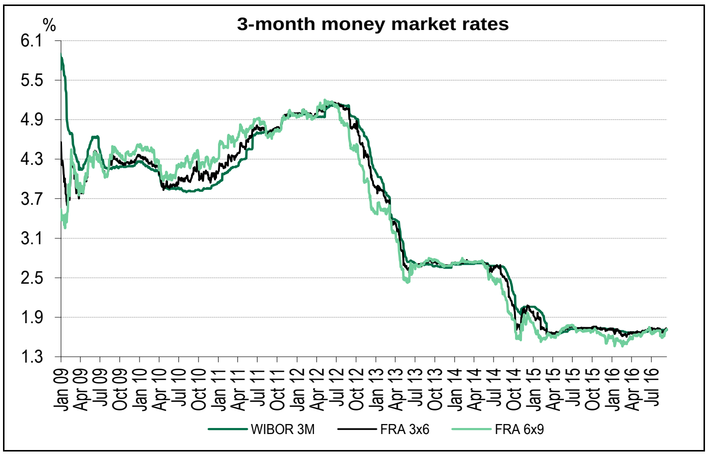
- The forint, like the zloty, benefited from the UK referendum being over and EUR/HUF fell to 308 for a while, its lowest since January. The Hungarian currency was backed also by the GDP data showing acceleration in 2Q to 2.6% y/y from 0.9% y/y in 1Q and above the market consensus at 1.9% y/y. We believe that forint (HUF) may give up part of its recent gains in the weeks to come due to the looming Fed rate hikes. Also, technical analysis suggests it is a good time to take profit from the recent drop of EUR/HUF.
- The ruble (RUB) remained pretty stable vs the dollar during the holidays with USD/RUB holding just above the local low at c63.6. The Central Bank of Russia (CBR) will decide on the interest rates in mid-September and the market expects a 50bp cut to 10%. In July, the CBR left the interest rates unchanged. The bank said more monetary policy easing was likely if inflation continued to decline in line with its expectations. August's annual CPI eased to 6.9% from 7.2%. The central bank still expects to reach its 4% target by the end of the next year, which is likely to support more monetary easing. Also, numerous comments have emerged in the last months, suggesting that the ruble has been too strong and this could also justify more rate cuts.

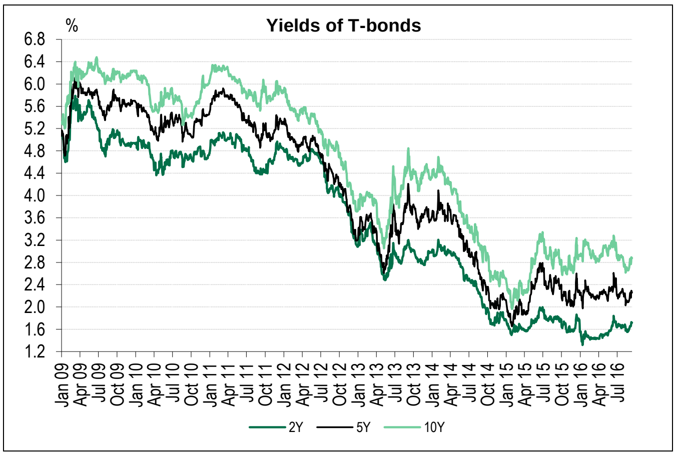
Market monitor

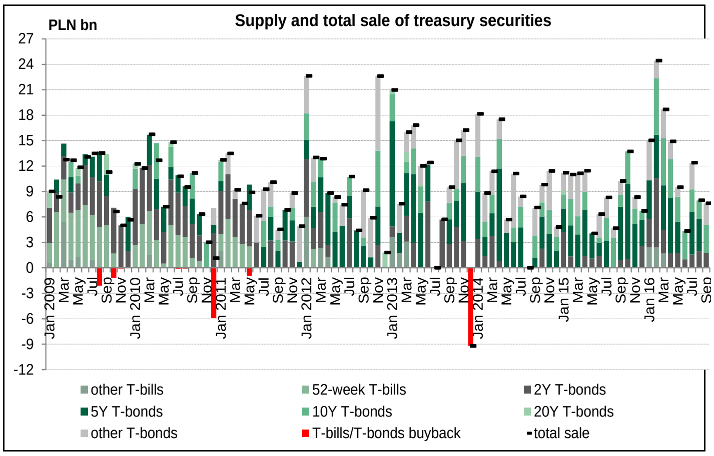












Treasury bond auctions in 2015/2016 (PLN mn)

Month	First Auction				Second Auction				Switch Auction		
	Date	T-bonds	Offer		Date	T-bonds	Offer		Date	T-bonds	Offer
September'15	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					24.03	PS0416/OK0716/PS1016	WZ0120/PS0721/WZ0126
April	7.04	OK1018/DS0726	3000-6000	6356.6	28.04	WZ0120/PS0721/WZ0126	5000-8000	8534.7			
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	Cancelled
July	7.07	OK/DS/WS	3000-6000	4431.9	28.07	PS0721/WZ1122/WZ0126	5000-8000	7950.9			
August	18.08	OK/PS/DS	5000-8000	7949.4							
September	1.09	OK/DS/WZ	4000-7000	7593.5					22.09	PS1016/WZ0117/PS0417	To be announced

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

Source: Finance Ministry, Reuters, BZ WBK.

Economic calendar

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
12 September ***PL: CPI (Aug)***	**13** ***PL: Core inflation (Aug)*** ***PL: Balance of payments (Jun)*** DE: ZEW index (Sep)	**14** ***PL: Money supply (Aug)*** EZ: Industrial output (Aug)	**15** EZ: HICP (Aug) US: Retail sales (Aug) US: Philly Fed index (Sep) US: Industrial output (Aug)	**16** ***PL: Wages and employment (Aug)*** US: CPI (Aug) US: Flash Michigan (Sep)
19 ***PL: Industrial output (Aug)*** ***PL: PPI (Aug)*** ***PL: Retail sales (Aug)***	**20** HU: Central bank decision US: House starts (Aug) US: Building permits (Aug)	**21** US: FOMC decision	**22** ***PL: MPC minutes*** US: Home sales (Aug)	**23** DE: Flash PMI – manufacturing (Sep) EZ: Flash PMI – manufacturing (Sep)
26 DE: Ifo index (Sep) US: New home sales (Aug)	**27** US: Consumer confidence index (Sep)	**28** US: Durable goods orders (Aug)	**29** US: GDP (Q2) US: Pending home sales (Aug) CZ: Central bank decision	**30** EZ: Flash HICP (Sep) US: Personal income (Aug) US: Consumer spending (Aug) US: Michigan index (Sep) CZ: GDP (Q2)
3 October ***PL: PMI – manufacturing (Sep)*** CN: PMI – manufacturing (Sep) DE: PMI – manufacturing (Sep) EZ: PMI – manufacturing (Sep) US: ISM – manufacturing (Sep)	**4**	**5** ***PL: MPC decision*** DE: PMI – services (Sep) EZ: PMI – services (Sep) US: ISM – services (Sep) US: ADP report (Sep) US: Industrial orders (Aug)	**6** DE: Industrial orders (Aug)	**7** DE: Industrial output (Aug) CZ: Industrial output (Aug) US: Non-farm payrolls (Sep) US: Unemployment rate (Sep)
10 DE: Exports (Aug) CZ: CPI (Sep)	**11** ***PL: CPI (Sep)*** DE: ZEW index (Oct) HU: CPI (Sep)	**12** ***PL: Core inflation (Sep)*** EZ: Industrial output (Aug) US: FOMC minutes	**13**	**14** ***PL: Balance of payments (Aug)*** ***PL: Money supply (Sep)*** US: Retail sales (Sep) US: Flash Michigan (Oct)
17 EZ: HICP (Sep) US: Industrial output (Sep)	**18** ***PL: Wages and employment (Sep)*** US: CPI (Sep)	**19** ***PL: Industrial output (Sep)*** ***PL: PPI (Sep)*** ***PL: Retail sales (Sep)*** US: House starts (Sep) US: Building permits (Sep) US: Fed Beige Book	**20** ***PL: MPC minutes*** EZ: ECB decision US: Philly Fed index (Oct) US: Home sales (Oct)	

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	about 50 working days after reported period											
Balance of payments*			31			30			30			
Balance of payments	13	15	15	13	13	13	14	12	13	14	14	
Money supply	14	12	14	14	13	14	14	12	14	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

		Aug 15	Sep 15	Oct 15	Nov 15	Dec 15	Jan 16	Feb 16	Mar 16	Apr 16	May 16	Jun 16	Jul 16	Aug 16E	Sep 16E
PMI	pts	51.1	50.9	52.2	52.1	52.1	50.9	52.8	53.8	51.0	52.1	51.8	50.3	51.5	51.7
Industrial production	% YoY	5.3	4.0	2.4	7.8	6.7	1.3	6.8	0.7	6.0	3.2	6.0	-3.4	6.9	4.1
Construction production	% YoY	4.8	-2.5	-5.2	1.2	-0.4	-8.6	-10.5	-15.8	-14.9	-13.7	-13.0	-18.8	-14.1	-12.2
Retail sales [a]	% YoY	-0.3	0.1	0.8	3.3	4.9	0.9	3.9	0.8	3.2	2.2	4.6	2.0	3.5	3.5
Unemployment rate	%	9.9	9.7	9.6	9.6	9.8	10.3	10.3	10.0	9.5	9.1	8.8	8.6	8.5	8.4
Gross wages in corporate sector	% YoY	3.4	4.1	3.3	4.0	3.1	4.0	3.9	3.3	4.6	4.1	5.3	4.8	4.4	3.5
Employment in corporate sector	% YoY	1.0	1.0	1.1	1.2	1.4	2.3	2.5	2.7	2.8	2.8	3.1	3.2	3.3	3.3
Exports (€)	% YoY	8.1	3.0	4.5	12.6	11.5	-0.9	5.9	0.8	4.8	-0.7	6.4	-4.8	8.5	9.7
Imports (€)	% YoY	6.7	5.2	0.2	6.7	3.8	0.6	7.7	1.1	0.3	0.4	2.4	-7.3	8.7	8.5
Trade balance	EUR mn	-150	19	252	574	294	441	316	444	531	345	404	-313	-181	202
Current account balance	EUR mn	-574	-608	-305	405	-573	771	-529	54	563	624	-203	-802	-350	-267
Current account balance	% GDP	-0.3	-0.4	-0.4	-0.3	-0.2	0.0	-0.1	-0.4	-0.5	-0.5	-0.4	-0.3	-0.2	-0.1
Budget deficit (cumulative)	PLN bn	-25.9	-31.1	-34.5	-36.1	-42.6	1.8	-3.1	-9.6	-11.1	-13.5	-18.7	-14.4	-29.2	-35.5
Budget deficit (cumulative)	% of FY plan	56.1	67.6	74.8	78.4	92.5	-3.2	5.7	17.5	20.3	24.6	34.1	26.3	53.4	64.9
CPI	% YoY	-0.6	-0.8	-0.7	-0.6	-0.5	-0.9	-0.8	-0.9	-1.1	-0.9	-0.8	-0.9	-0.8	-0.3
CPI excluding food and energy	% YoY	0.4	0.2	0.3	0.2	0.2	-0.1	-0.1	-0.2	-0.4	-0.4	-0.2	-0.4	-0.4	0.0
PPI	% YoY	-2.7	-2.8	-2.3	-1.8	-0.8	-1.2	-1.5	-1.9	-1.2	-0.4	-0.8	-0.4	-0.4	0.1
Broad money (M3)	% YoY	7.2	8.3	8.9	9.3	9.1	10.2	10.1	9.1	11.6	11.6	11.4	10.7	10.5	9.8
Deposits	%YoY	7.7	8.9	9.2	9.7	9.0	9.9	10.4	9.4	11.6	11.8	11.3	10.6	10.3	9.3
Loans	%YoY	7.6	7.9	7.7	7.0	6.9	6.2	5.8	4.4	6.7	5.0	4.6	4.7	4.1	3.6
EUR/PLN	PLN	4.19	4.22	4.25	4.25	4.29	4.41	4.40	4.29	4.31	4.41	4.40	4.40	4.30	4.35
USD/PLN	PLN	3.77	3.75	3.78	3.96	3.95	4.06	3.96	3.87	3.80	3.90	3.92	3.98	3.84	3.92
CHF/PLN	PLN	3.89	3.86	3.91	3.92	3.96	4.03	3.99	3.93	3.94	3.99	4.04	4.05	3.96	3.96
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	%	1.72	1.72	1.73	1.73	1.72	1.71	1.69	1.67	1.67	1.67	1.69	1.71	1.71	1.72
Yield on 2-year T-bonds	%	1.79	1.79	1.65	1.58	1.71	1.46	1.46	1.44	1.48	1.54	1.70	1.66	1.61	1.60
Yield on 5-year T-bonds	%	2.40	2.43	2.18	2.10	2.28	2.24	2.26	2.18	2.25	2.24	2.38	2.24	2.14	2.20
Yield on 10-year T-bonds	%	2.88	2.91	2.66	2.73	2.93	3.04	3.03	2.88	2.95	3.04	3.11	2.89	2.71	2.80

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

		2014	2015	2016E	2017E	1Q16	2Q16	3Q16E	4Q16E	1Q17E	2Q17E	3Q17E	4Q17E
GDP	PLN bn	1,719.1	1,790.1	1,852.6	1,933.9	426.2	446.3	452.6	527.5	447.6	465.8	471.0	549.5
GDP	% YoY	3.3	3.6	3.1	2.9	3.0	3.1	3.2	2.9	3.1	2.9	2.7	2.8
Domestic demand	% YoY	4.9	3.3	3.3	3.5	4.1	2.4	3.4	3.4	3.9	3.8	3.3	3.2
Private consumption	% YoY	2.6	3.1	4.0	3.9	3.2	3.3	4.6	4.9	4.7	4.2	3.4	3.2
Fixed investments	% YoY	9.8	6.1	-1.2	2.9	-1.8	-4.9	-2.0	1.5	2.6	3.0	3.0	3.0
Industrial production	% YoY	3.4	4.8	3.0	4.9	3.0	5.0	2.4	1.7	6.9	4.5	6.0	2.4
Construction production	% YoY	4.3	0.3	-11.3	4.7	-12.2	-13.9	-15.0	-5.9	-3.3	4.4	13.1	2.2
Retail sales [a]	% YoY	3.1	1.5	2.7	4.3	1.9	3.5	3.0	2.3	4.0	4.6	4.1	4.4
Unemployment rate [b]	%	11.4	9.8	8.6	8.0	10.0	8.8	8.4	8.6	8.9	7.9	7.7	8.0
Gross wages in the national economy [a]	% YoY	3.6	3.3	3.9	5.6	3.1	4.3	3.9	4.3	5.3	5.4	5.6	5.8
Employment in the national economy	% YoY	0.2	0.9	2.3	0.7	2.1	2.4	2.3	2.1	0.9	0.8	0.6	0.4
Exports (€)	% YoY	6.4	8.3	3.8	6.5	2.0	3.5	4.4	5.4	6.0	6.4	6.8	6.9
Imports (€)	% YoY	8.3	4.9	3.3	8.5	3.2	1.0	3.0	6.0	7.7	8.5	8.8	9.0
Trade balance	EUR mn	-3,255	2,135	3,106	-167	1,200	1,280	-292	918	555	460	-1,191	8
Current account balance	EUR mn	-8,303	-1,059	-306	-3,632	296	984	-1,418	-168	-363	177	-2,351	-1,096
Current account balance	% GDP	-2.0	-0.2	-0.1	-0.8	-0.4	-0.4	-0.1	-0.1	-0.2	-0.4	-0.6	-0.8
General government balance	% GDP	-3.3	-2.6	-2.8	-3.0	-	-	-	-	-	-	-	-
CPI	% YoY	0.0	-0.9	-0.6	1.3	-0.9	-0.9	-0.7	0.1	1.3	1.4	1.3	1.3
CPI [b]	% YoY	-1.0	-0.5	0.4	1.4	-1.1	-0.8	-0.3	0.4	1.4	1.3	1.2	1.4
CPI excluding food and energy	% YoY	0.6	0.3	-0.1	0.8	-0.1	-0.3	-0.3	0.2	0.4	0.8	1.0	1.1
PPI	% YoY	-1.5	-2.2	-0.5	0.7	-1.5	-0.8	-0.2	0.4	1.4	0.4	0.5	0.5
Broad money (M3) [b]	% oY	8.2	9.1	8.0	5.5	9.1	11.4	11.1	8.0	7.3	6.7	6.1	5.5
Deposits [b]	%YoY	9.0	9.0	7.5	4.7	9.4	11.3	10.9	7.5	6.8	6.1	5.4	4.7
Loans [b]	%YoY	7.2	6.9	4.2	3.0	4.4	4.6	3.9	4.2	3.9	3.6	3.3	3.0
EUR/PLN	PLN	4.18	4.18	4.37	4.32	4.37	4.37	4.35	4.38	4.37	4.32	4.30	4.30
USD/PLN	PLN	3.15	3.77	3.93	3.81	3.96	3.87	3.91	3.97	3.93	3.82	3.76	3.72
CHF/PLN	PLN	3.45	3.92	3.99	3.83	3.98	3.99	3.99	3.98	3.93	3.84	3.79	3.76
Reference rate [b]	%	2.00	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
3M WIBOR	%	2.52	1.75	1.70	1.75	1.69	1.68	1.71	1.74	1.75	1.75	1.75	1.75
Yield on 2-year T-bonds	%	2.46	1.70	1.58	1.79	1.45	1.57	1.62	1.67	1.70	1.73	1.82	1.92
Yield on 5-year T-bonds	%	2.96	2.21	2.24	2.56	2.23	2.29	2.19	2.27	2.33	2.45	2.63	2.83
Yield on 10-year T-bonds	%	3.49	2.69	2.95	3.35	2.98	3.04	2.80	3.00	3.17	3.27	3.40	3.55

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

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