Bank Zachodni WBK

Weekly economic update

7 February - 11 February 2005

This week there is light calendar abroad and no data releases in Poland. Market players may therefore focus on comments after today's meeting of the Monetary Policy Council with government's representatives. However, in line with expectations the meeting did not bring any conclusions nor decisions as regards FX policy. The interesting question, in our opinion, is whether, in the case of further zloty appreciation, the government may decide to buy foreign currency on the market (for repayment of Paris Club debt) if the MPC rejects an appeal for swift rate cuts or/and FX interventions. Friday's comments of NBP chief suggested the central bank is not likely to take any steps aimed at depreciating the zloty.

Amid no economic data releases, the Polish financial market will remain under influence of international markets swings. After Friday's non-farm payrolls release and Alan Greenspan comments, the dollar appreciated and treasuries' yields fell sharply, which influenced also the Polish market. The market will be watching the detail of US Budget 2006, which President Bush is due to announce. On Thursday, the US trade deficit data will be published, presenting some downside risk for the dollar.

Economic calendar

TIME GMT	COUNTRY	INDICATOR (importance level*)	PERIOD		FORECASTS MARKET	FORECASTS BZWBK	LAST VALUE
		MONDAY (7 February)					
	POL	**Meeting of the central bank with the government on a strategy of euro zone entry (H)**					
10:00	**POL**	**Auction for 52-weeks Treasury bills – PLN900m (M)**					
20:00	US	Consumer Credit (M)	Dec	$bn	7.7	-	-8.7
		TUESDAY (8 February)					
11:00	GER	Industrial output (M)	Dec	%MoM	1.0	-	-1.5
				%YoY	0.7		-0.5
		WEDNESDAY (9 February)					
10:00	**POL**	**Auction for 12y indexed bonds (IZ0816) – PLN800m (M)**					
15:00	US	Wholesale inventories (M)	Dec	%	0.9	-	1.1
		THURSDAY (10 February)					
12:00	UK	BoE decision (M)	-	%	4.75	-	4.75
13:30	US	Trade balance (H)	Dec	$bn	-57.0	-	-60.3
13:30	US	Jobless claims (H)	w/e	k	325	-	316
19:00	US	Monthly budget report (M)	Jan	$bn	5.2	-	-1.4
19:00	US	Fed's Stern Speaks (M)					
		FRIDAY (11 February)					
08:50	FRA	GDP - flash estimate (M)	4Q04	%QoQ	0.6	-	0.0
				%YoY	1.8		1.9
14:00	EMU	ECB's Caruana Speaks (M)					
20:50	US	Fed's Yellen Speaks (M)					
21:45	US	Fed's Bernanke Speaks (M)					

* Importance level: (H)igh, (M)oderate; Source: Reuters, BZ WBK, Gazeta Bankowa

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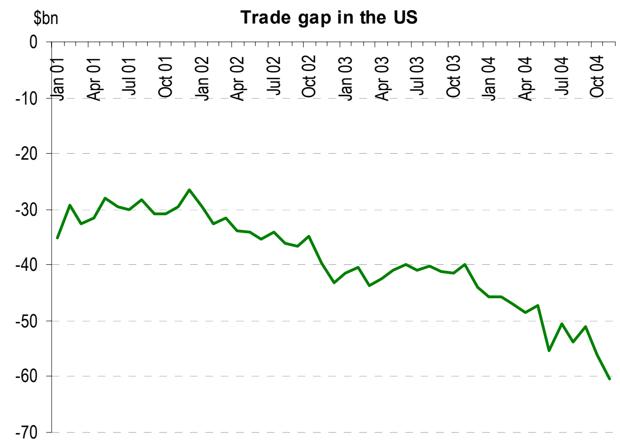
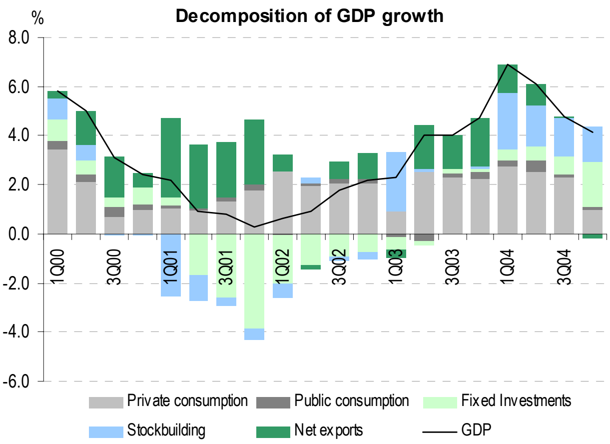
What's hot this week – Will policy makers influence the market?

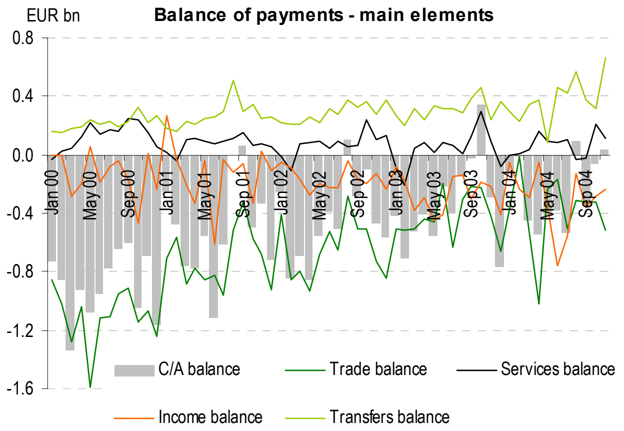


- This week there is no macroeconomic data releases in Poland.
- Also, there is light calendar abroad. Thursday's data on US trade deficit will be the most important (please see the chart) as it was one of the reasons behind dollar weakness in the previous months.
- Amid no economic data releases, financial markets participants attention will be focused on policy makers' statements. In Poland this may concern the meeting of the Monetary Policy Council with the government. Abroad, the market will be watching the detail of US Budget 2006, which President Bush is due to announce today. Also, a slew of Fed speakers could cast some light on Fed policy.
- The communiqué after MPC meeting with cabinet showed the central bank did not give in government's pressure (if any) on changing monetary policy direction.

Economy last week – Weaker consumption, stronger investments



- GDP growth amounted to 5.4% in 2004 with private consumption rising by 3.2% and fixed investments up by 5.1%.
- Estimates for 4Q04 show GDP growth of only 4.1%YoY (investments up by 7.3% and private consumption 1.6%).
- Though low growth in consumption suggested a weakening in demand, from the point of view of future growth as well as monetary policy perspectives, the acceleration in investments growth was more important.
- We perceive lower consumption as temporary. We see it much stronger in 2005 as a whole, which together with even stronger investments rise will make domestic demand the driver of economic growth in Poland. This might be a risk factor for inflation perspectives.
- We forecast GDP growth of some 4% in Q1, slightly above 4% in Q2 and above 5% in H2. In 2005 5% is achievable.



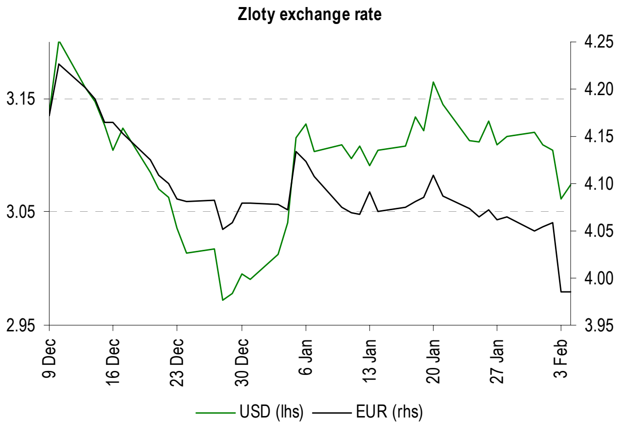
- Balance of payments data for November were favourable. External imbalance of the Polish economy remains low and foreign trade turnover rose strongly, which suggested quite high external internal demand.
- It seems that there was very low fiscal imbalance in January. According to minister Gronicki deficit amounted to only 7% of the annual plan.
- Medium-term perspective of Polish public finance sector is still murky. It was noticed also by the European Commission, which said that government's attempts to reform public finance sector are insufficient to enter the euro zone in 2009. The market ignores it and remains in positive mood.
- It is still unknown what the new government will propose in order to bring fiscal deficit down, but it is close to certain that it will formed only in autumn. SLD National Council decided the party would be against a parliament's dissolution.

Quote of the week – Is strong zloty a nightmare?

Jerzy Hausner, deputy PM and economy minister
(PAP, 3 Feb)
We have to talk to the MPC, and make them to see, what is happening and what may be economic consequences of continuation of conducting policy, which leads to such sharp zloty strengthening. I expect them to understand the situation, which from the point of view of public finance sector is very favourable temporarily, but from the point of view of economic growth becomes more and more dangerous. My worries are higher than previously.

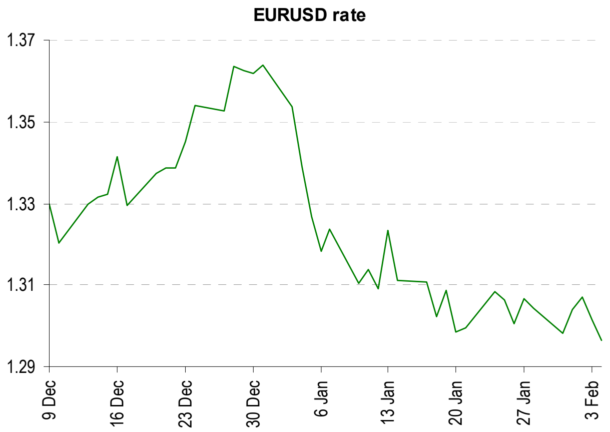
Last week the zloty reached the new record-high level against the euro, which brought an alarming comments of deputy PM. Jerzy Hausner, who in the meantime decided to leave the SLD party, could have insisted on the central bank during today's meeting to change monetary policy direction. Well, effectiveness of economy minister in that respect was probably even lower than in realisation of his savings plan in the parliament, which means close to null.

Market monitor



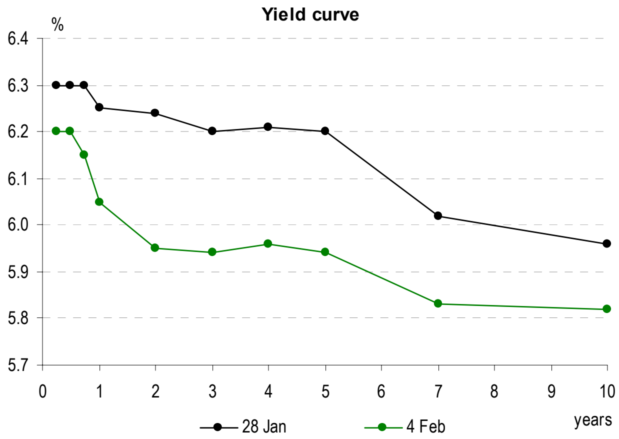
Zloty strengthening since the middle of last week

- Ranges of the zloty rate fluctuations expected by us for the last week (4.03-4.09 for euro and 3.07-3.15 for dollar) did not survive a wave of strong appreciation of the domestic currency, which started on Wednesday afternoon. The USDPLN rate fell below 3.07 on Thursday, reaching the lowest level at 3.055. On Friday, the EURPLN rate dropped below the psychological level of 4.0.
- Signals from the economy and behaviour of the market in the first half of the week did not herald such sharp appreciation of the zloty. Maybe foreign investors wanted to test the Polish government and central bank before their meeting, which was held today.
- For this week, we predict the zloty to range between 3.95 and 4.02 against the euro and 3.05 and 3.13 to the dollar.



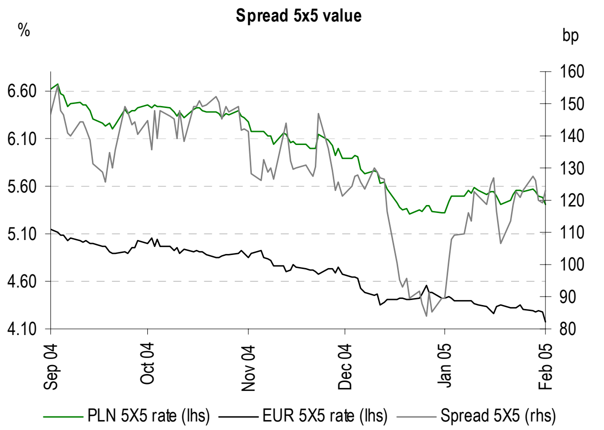
… and the dollar appreciated just before weekend

- During the large part of last week the dollar was traded close to 1.30 against the euro.
- Friday's weaker than expected non-farm payrolls report (146,000 versus forecasts for a rise of 190,000) had only a fleeting impact with markets choosing instead to focus on Greenspan's comments.
- As he was not overly concerned about the US current account deficit the dollar broke key resistance on Friday and has started the week about a cent high against the euro.
- It seems that $1.28 is the next shot-term target.
- Despite much speculation, there was no surprise from the G7 meeting. Last years' statement on currencies was repeated.



Polish yield curve down again

- The short end of the yield curve (up to 1 year) was stable for the better part of the week.
- The largest move took place in 2-4 years segment, where strengthening was observed throughout the week.
- The culmination of the move on the curve was observed on Friday, following the situation on the core markets.
- Strengthening of the zloty was connected with inflow of the capital on the debt market, as investors expect change in monetary policy parameters.
- Will sentiment on the market force a rate cut? Investors seem to think: "since the MPC reacts to the exchange rate, we should strengthen the zloty further, and the cut will be made". But what the MPC will do, when investors take profit?



.. but long-end only follows international markets

- Core yield curves went down at the end of last week after weak non-farm payrolls figure.
- This week the budget details could impact on the long end of the curve. Also, a number of Treasury auctions over the week may test sentiment levels.
- Positive sentiment on the Polish market was hardly a sign of changing foreign investors' perception towards Polish market – 5/5y spread between Polish and euro curve did not change and amounts to 123 bp.
- It was even higher than the range we indicated last week (110-120 bp). This may confirm that the capital flowing into the Polish market recently was short-term oriented.

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