Bank Zachodni WBK

Weekly economic update

11 April – 17 April 2005

After a week of mourning, Poland's economy and financial market will be getting back to its normal activity in the coming days. This week, publication of macroeconomic figures for March will begin, attracting investor's attention. The most important will be CPI figures due on Thursday. Together with labour market statistics to be published on Friday, they will shed more light on what the most likely outcome of the nearest MPC meeting will be. As for now, we expect 25bp rate cut this month. This week, there is also quite heavy calendar of economic releases and events abroad (especially in the US, fewer events are expected in the euro zone), which is likely to have an impact on trends on international financial markets.

Due to the mourning, the number of market-driving events in Poland was very limited last week. The most important factor, which should be taken into account when formulating expectations regarding an outcome of the nearest MPC meeting, was comment from the Council's member Dariusz Filar. His statement showed that not all rate-setters are advocates of fast and deep rate reductions.

Economic calendar

Time GMT	COUNTRY	INDICATOR (importance level*)	PERIOD		FORECAST MARKET	FORECAST BZWBK	LAST VALUE
		MONDAY (11 April)					
09:00	**POL**	**Auction for 52- and 13-weeks T-bills – PLN1bn and PLN100m (M)**					
		TUESDAY (12 April)					
12:30	USA	International trade (H)	Feb	$bn	-59.00	-	-58.27
18:00	USA	Monthly budget statement (M)	Mar	$bn	-70.0	-	-72.9
-	USA	FOMC Minutes (H)	-				
		WEDNESDAY (13 April)					
09:00	**POL**	**Auction for 10y bond DS1015 – PLN1.5-2.5bn (H)**					
12:30	USA	Retail sales (M)	Mar	%MoM	0.5	-	0.4
		THURSDAY (14 April)					
09:00	EMU	GDP – revision (M)	4Q	%YoY	-	-	0.3
12:30	USA	Business inventories (M)	Feb	%	0.5	-	0.9
14:00	**POL**	**CPI (H)**	**Mar**	**%YoY**	**3.5**	**3.6**	**3.6**
14:00	**POL**	**Money supply (M)**	**Mar**	**%YoY**	**9.6**	**9.4**	**9.4**
		FRIDAY (15 April)					
12:30	USA	Import prices (M)	Mar	%MoM	1.2	-	0.8
13:00	USA	Net capital flows (H)	Feb	$bn	65.0	-	91.5
13:15	USA	Industrial production (H)	Mar	%MoM	0.3	-	0.3
13:15	USA	Capacity utilisation (H)	Mar	%	79.6	-	79.4
13:45	USA	Preliminary Michigan index (H)	Apr	-	91.5	-	92.6
14:00	**POL**	**Corporate gross wages (H)**	**Mar**	**%YoY**	**1.5**	**1.8**	**1.4**
14:00	**POL**	**Corporate employment (H)**	**Mar**	**%YoY**	**1.7**	**1.7**	**1.6**

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

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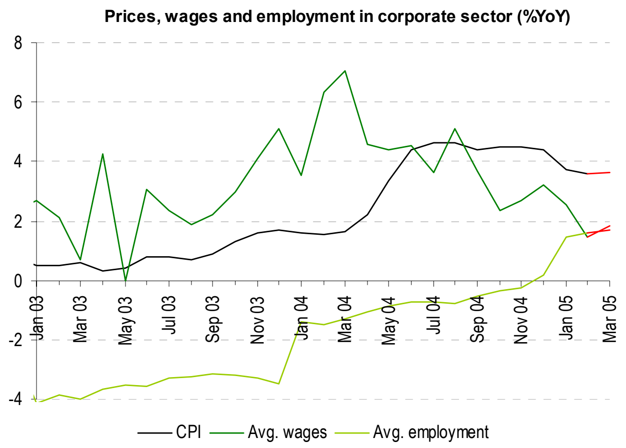
What's hot this week – The first set of March data in Poland



▪ This week will bring many events important for the Polish financial market.

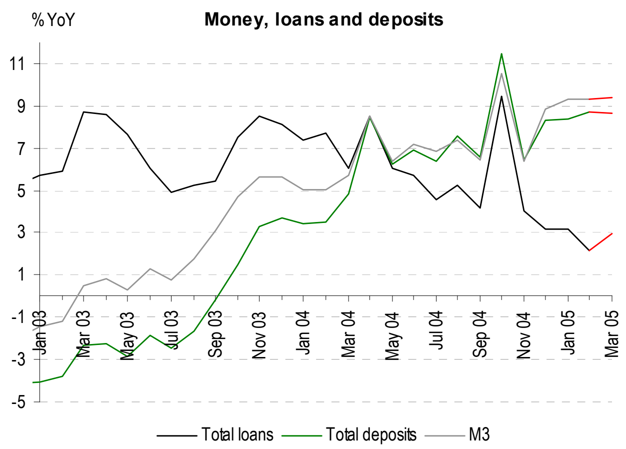
▪ Both in Poland and abroad (mainly in the US), there will be several major data releases.

▪ After a surprise in previous months, CPI figures for March will be of key importance for the Polish market.

▪ Together with Friday's data on average wage and employment in the enterprise sector, level of CPI in March will verify market expectations concerning an outcome of the nearest MPC meeting.

▪ In our opinion, if CPI was again lower than most of market forecasts, the expected scale of interest rate cut this month would grow.

▪ Further fall in consumer inflation could actually increase penchant of MPC members to trim borrowing costs soon.



▪ Monetary statistics for March should not discourage central bankers to monetary easing.

▪ Although, according to our estimates, money supply growth maintained at close to two-digit level, loans growth was very weak (weaker than on average in 2004 when it reached 7%YoY).

▪ On Friday we should also see data on budget performance after March, most likely consistent with earlier, relatively optimistic hints from finance ministry's officials.

▪ Abroad, the most important will be data on the US foreign trade (Tuesday), minutes from FOMC meeting on March 22 (Tuesday), retail sales (Thursday) and net capital inflow, industrial output and Michigan sentiment data (Friday).

▪ There are also many central bankers' speeches (both from the ECB and Fed) scheduled this week.

Economy last week – EC forecasts: lower GDP and inflation, higher fiscal deficit

EC macroeconomic forecasts for Poland (%YoY)

	2004		2005		2006	
	old	new	old	new	old	new
GDP	5.8	5.3	4.9	4.4	4.5	4.5
Priv. consumption	4.0	3.2	4.2	3.8	4.4	3.9
Fixed investment	6.5	5.6	10.0	10.0	12.0	11.0
Unemploym. rate	19.0	18.8	18.7	18.3	18.1	17.6
HICP inflation	3.5	3.6	3.3	2.1	3.0	2.3
General govt deficit *	-5.6	-4.8	-4.1	4.4	-3.1	-3.8
General govt debt *	47.7	43.6	49.8	46.8	49.3	47.6

Note: * (in % of GDP)

▪ European Commission updated economic forecasts for EU member states. In the case of Poland, forecasts of economic growth and inflation rate were revised down.

▪ General government deficit in 2004 was notably lower than assumed earlier, amid better than planned performance of state budget and better result of social security system.

▪ General government deficit is expected to drop to 4.4% of GDP in 2005 and 3.8% GDP in 2006, against 4.1% and 3.1% respectively in autumn's projection. Deterioration resulted from taking into account implementation of fiscal reforms and lower GDP growth forecast.

▪ Deficit forecast still assumed surplus in second pillar pension system, reaching ca. 2% of GDP in 2004 and 19% GDP in 2005.

Quote of the week – Carefully with rate cuts

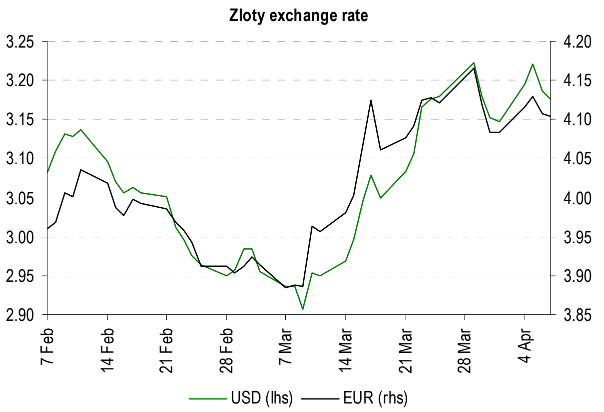
Dariusz Filar, MPC member
Reuters, 6 April

It is not written anywhere that the easing cycle must be long and deep. It could be that after the first big step, the next moves will be more limited, of 25 basis points (each) and more carefully spread out in time. (…) For me, May would be an appropriate time for decision.

It is a natural market characteristic to have more radical evaluations than those who conduct monetary policy.

Filar's statements suggest that hawkish members of the MPC (including NBP chief Leszek Balcerowicz) may point to no-change in rates policy this month. This supports the view that 25 bp is the most likely option, as for today. As dovish members are likely to call for another 50bp, 25 bp may appear as a compromise solution, acceptable for vast majority of the Council. Filar also mentioned that investment would be the key factor for the MPC, as they would suggest whether "the investment pick-up already underway guarantees that GDP growth will be sustained above 4%".

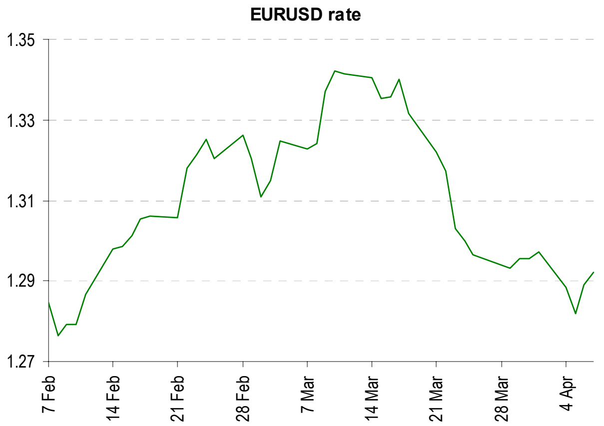
Market monitor



The zloty not very independent

▪ Last week due to national mourning f/x market limited its activity. The zloty was moving according to EURUSD rate, but finally it did not change pronouncedly its value both against the euro and the dollar, as core markets did not provide enough impulses for increased volatility.

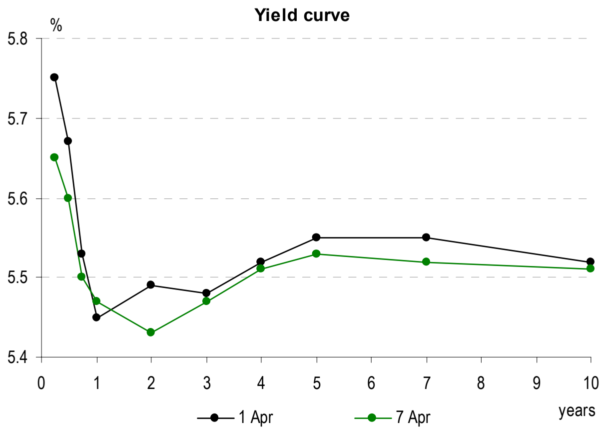
▪ During the whole week on the zloty market, EURUSD rate will have an impact. In the later part of the week domestic events will join it, but inflation data won't be yet such surprise that should translate into decline of volatility in the market. Influence of politics cannot be excluded ahead of long awaited voting in early May. Thus we expect the zloty to fluctuate between 4.04-4.14 to the euro and 3.1-3.18 to the dollar.



From one extreme into the other

▪ Fed speakers' testimonies last week filled a gap resulting from the scarcity of US economic data. None of them however was able to break the current narrow trading band. Also ECB releasing relatively dovish statement did not alter the situation.

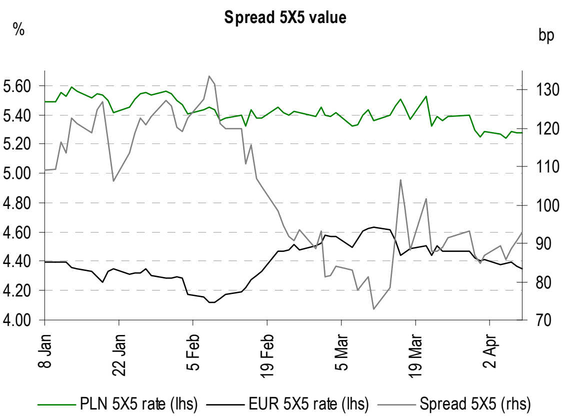
▪ This week however the market will see a concentration of important data. US international trade and net capital flows data, as usual, will trigger substantial rate moves. Further market performance will be dependent on Fed Minutes from March 22nd meeting, as in case of weaker FOMC emphasize on inflation than three weeks ago the market may bounce back strongly. EURUSD reached long term upward trend that amid favourable fundamentals gives it chances for rise.



Back to reality

▪ Last week Polish interest rate market was even less active than f/x one. Despite lower liquidity 2y bond auction was very well received what shows a conviction amongst market players for swift rate cuts. Ultimately the market gained a bit, benefiting from post-auction sentiment.

▪ This week the market should keep gaining awaiting another data bearing out low inflation. The short end of the curve will probably advance the most, though the market is already strongly positioned for price increases. Success of 10y bond auction depends to a large extent on the stance of Polish currency and performance of core markets. But issuer should not have rather any problems with a sale. Gradually political risk will weigh on the market ahead of voting at the beginning of May.



What did lay behind the change of the statement?

▪ Spread 5/5y between Poland and euro zone remained at stable level owing to limited activity in Polish market and only minor moves in Bunds.

▪ Yields of core benchmarks did not alter profoundly either. The market stayed still under influence of recent weak labour markets data and treated oil prices increases to close to $60 per barrel as a threat for inflation. Also ECB statement did not change anything, as its rather dovish tone0 has been already priced in.

▪ Fed Minutes from last meeting will provide the market with explanation what exactly laid behind the change in the statement following rate hike. Given further hikes the market should weaken, but one cannot neglect the negative impact of surging oil prices on the economy.

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