

# Weekly economic update

8 August – 14 August 2005

Last week was quite calm on the Polish financial market. One of the reasons for that was lack of domestic data releases. However, there were some important information. First of all, the Ministry of Finance said it was selling foreign currency (accumulated in the earlier part of this year) on the market in late July. The ministry's official assured the transactions were just an element of debt management strategy and not FX intervention. Nevertheless, information on FX operations of the ministry triggered expectations for similar actions in future, which translated into strengthening of the zloty against the major currencies. Other important news from the finance ministry, which appeared last week, concerned performance of this week's budget. According to hints from deputy finance minister, budget deficit after July amounted to only 51.2% of the full-year plan, to a large extent thanks to high tax inflows. This suggests that the Polish economy is growing quite robustly at the beginning of the second half of the year. This should be confirmed by July macroeconomic indicators. This week we will see monetary statistics for last month and published with longer lag balance of payments statistics for June.

Macro data for July, and to an even larger degree data on GDP in 2Q05 (they were preliminary scheduled for publication on August 29), might have significant influence on the outcome of the nearest MPC meeting. Last week's comments from MPC member Andrzej Sławiński indicate that after total rate cut of 175bp since start of this year the Council has become cautious as regards further moves in monetary policy.

## Economic calendar

Time GMT	COUNTRY	INDICATOR (importance level*)	PERIOD		FORECAST		LAST VALUE
					MARKET	BZWBK	
<b>MONDAY (8 August)</b>							
09:00	POL	Auction for 52-weeks treasury bills – PLN500m (M)					
<b>TUESDAY (9 August)</b>							
12:30	US	Productivity(H)	2Q05	%QoQ	2.0	-	2.9
14:00	POL	Average wage in the whole economy (H)	2Q05	%YoY	-	-	3.6
14:00	US	Wholesale Inventories (M)	Jun	%MoM	0.4	-	0.1
18:15	US	FOMC interest rate announcement (H)	-	%	3.5	-	3.25
<b>WEDNESDAY (10 August)</b>							
09:00	POL	Auction for 12y indexed bonds IZ0816 – PLN500m (M)					
18:00	US	Treasury Budget (H)	Jul	\$bn	-57.0	-	-69.2
<b>THURSDAY (11 August)</b>							
09:00	EMU	Flash GDP (H)	2Q05	%YoY	1.1	-	1.3
12:30	US	Retail sales (H)	Jul	%MoM	2.2	-	1.7
14:00	POL	Current account balance (H)	Jun	€m	-319	-153	-734
<b>FRIDAY (12 August)</b>							
12:30	US	Trade balance (H)	Jun	\$bn	-57.3	-	-55.3
13:45	US	Michigan sentiment index (H)	Aug	pts	96.0	-	96.5
14:00	POL	Monetary statistics (M)	Jul	%YoY	1.1	11.5	10.7

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

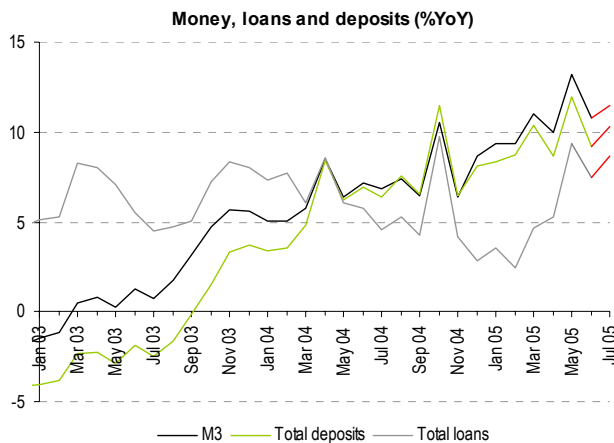
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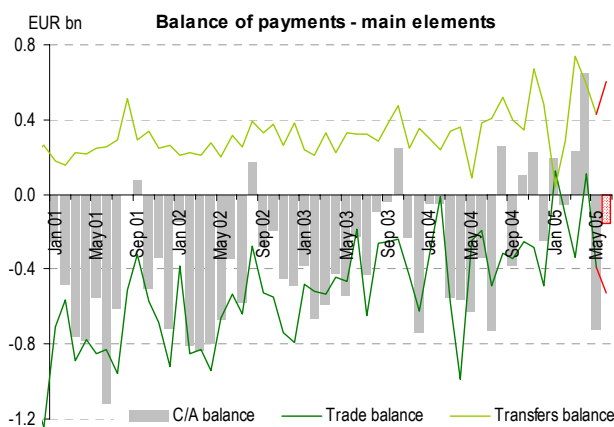
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## What's hot this week – First data for July

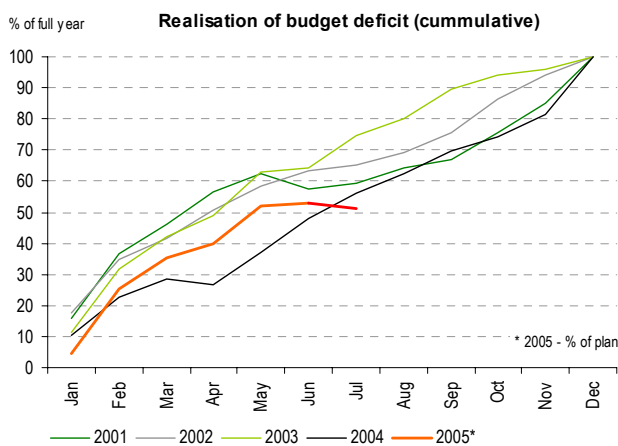


- This week we will see the first macro data for July. This will be monetary statistics to be published by the NBP.
- We predict that growth in money supply amounted to 11.5%YoY with growth in total deposits of above 10%YoY. Growth rate of total loans was over 8%YoY, according to our forecast, i.e. was much stronger than average growth of 5.5%YoY in the first half of this year.
- Acceleration in growth of deposits and loans would be another indication that the Polish economy is in the trend of fast economic growth and a slowdown in the first part of the year was temporary.
- Monetary statistics should not have major impact on the market, because market participants will wait for the long weekend (August 15 is public holiday in Poland) and data on inflation, wages and out figures that will be released only next week after the long weekend.



- This week will also bring publication of balance of payments statistics for June.
- We forecast that June saw deepening of trade deficit, but gap of the whole current account narrowed. 12-month cumulated C/A deficit should shrink to 0.3% of GDP.
- Our forecast assumed that imports' rise was faster than exports' growth. This would be another argument suggesting revival of domestic demand after very weak first part of the year.
- The only publication of the CSO this week will be a statement on the average monthly wages in the whole economy in 2Q05. This will be important hint on how trends in households' income evolve and thus what prospects for rebound in consumption demand are.

## Economy last week – Goods news on budget and credit activity



- Last week, the market waited for US non-payrolls data, which proved better than expectations, showing 207,000 rise in jobs against expectations of 183,000 increase.
- There were also some important information revealed in Poland, mostly by the finance ministry. The main news was that the ministry were selling foreign currencies in late July.
- Besides, the ministry presented optimistic predictions regarding performance of this year's budget (budget gap after July is expected to reach only 51.2% of the full-year plan). What is important, this resulted among others from high tax inflows, which is an indication of economy's health.
- Upbeat conclusions on the economy's prospects were presented by the NBP in its surveys on credit activity (rising demand for loans both for households and firms) and on business climate in 3Q05 (rising loans, growing employment, increasing investment).

## Quote of the week – Cautious monetary policy

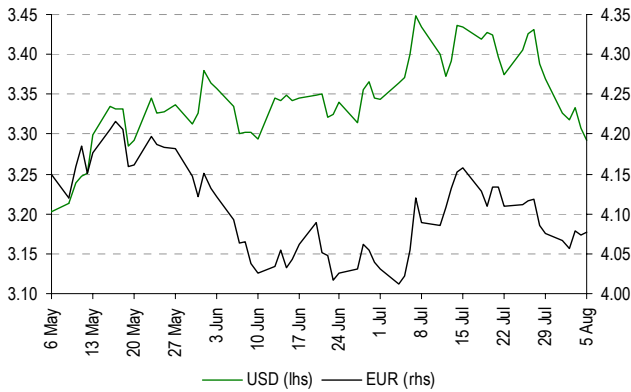
**Andrzej Sławiński, MPC member; Reuters, 3 August**

*Monetary policy in Poland should be conducted with a high measure of caution. We have a small, open economy, which is much influenced by difficult-to-predict changes in the exchange rate, and where economic forecasts are surrounded by substantial uncertainty.*

Comments of Prof. Sławiński confirmed what became evident after the last decision of the rate-setting panel. Namely, in the face of expected acceleration in economic growth, central bankers noticed a need for caution in monetary policy. Sławiński's comments seem to confirm our view that a scale of monetary easing before formation of the new government should not exceed 25bp.

Market monitor

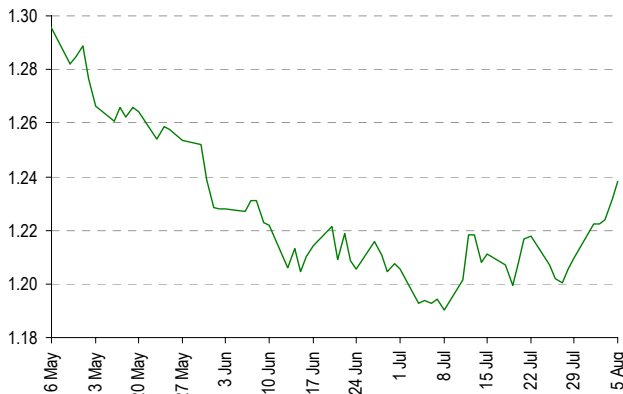
Zloty exchange rate



Market awaiting the long weekend

- Last week begun very well for the zloty, which has started appreciating since the first session after information from the Ministry of Finance about sale of foreign currencies on the market and possible further transactions of this kind. Later on, the zloty was moving in line with euro/dollar market, thus it strengthened mostly against American currency – during the week it gained over 2% against dollar and remained unchanged against the euro.
- Next days should be still peaceful for the zloty. Amid very few domestic data releases, scant holiday liquidity and expectations for longer weekend, Polish currency should be quite steady, following euro/dollar moves. We expect the zloty to be in 4.03-4.13 range against the euro and 3.25-3.35 against the dollar.

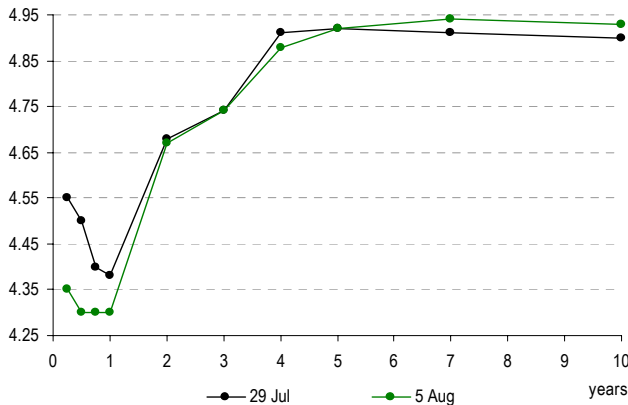
EURUSD rate



Dollar under pressure

- For most of last week the fx markets were awaiting publication of Friday's labour market report from the US. In the meantime, appearing information confirming economic revival in the euro zone and rumours about rise of euro share in central banks' reserve assets resulted in significant rise of euro against the USD.
- While interest rate differentials continue to be dollar supportive, last week's failure to hold the \$1.23 level could provide an opportunity for the euro to extend its rally. FX markets will be closely watching Friday's US trade data.

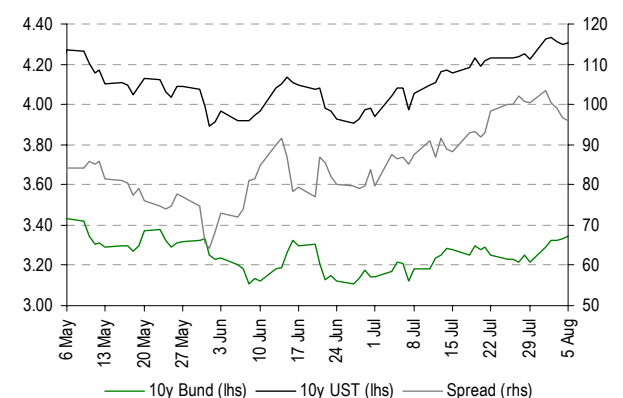
Yield curve



No clear trend amid lack of data

- There was nothing much going on on the fixed income market amid lack of important domestic economic data. High yields abroad were not supportive for strengthening in Polish bonds, despite quite good results of 2y bond tender and optimistic information about budget performance. At the end of the week, Polish yield curve was at similar level as last week.
- This week, Polish market could be again affected by trends abroad, especially by reaction on Fed's decision, because released domestic data will not be crucial. Only after the long weekend there will be more data that could affect expectations regarding interest rates. Considering rising yields abroad, one should not expect strengthening in Poland.

10y Bunds & Treasuries and spread



Yields rise after strong data

- Recently published data confirmed not only the strength of the US economy, but also some economic rebound in the euro zone. This resulted in yields rise in the euro zone and narrowing of spread between the European and US market. 5Y/5Y spread between the Polish and euro zone's bonds decreased to 65bp at the end of the week after an increase to 80bp at the beginning of the week.
- Another hike of 25bp in FOMC interest rate has already been priced in by the market. The market will focus on the tone of the official statement and publications of another important data abroad.

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