

Weekly economic update

28 November – 4 December 2005

The previous week saw a significant, quite unexpected, strengthening on both foreign exchange and fixed income market. FX market was influenced by Ministry of Finance's transactions (which already took place and which were announced), while the bond market took advantage of better sentiment in the region (and strengthening on the core markets) and corrections on stronger-than-expected data were rather moderate. In the upcoming week the market will be driven by the budget amendment proposal, GDP data for 3Q05 and the MPC decision. We do not expect major changes in the budget proposal of the new government as compared to previous comments and budget deficit should be maintained at the level of PLN30bn, which should stabilise the market. We maintain our view that interest rates reduction would be possible only in case of negative surprise form GDP data (especially as regards domestic demand). Also, comments of MPC members indicated that there are no strong arguments in favour of changing bias in monetary policy to neutral from easing (which suggests higher probability of cuts than hikes).

Economic calendar

Time GMT	COUNTRY	INDICATOR (importance level*)	PERIOD	FORECAST		LAST VALUE	
				MARKET	BZWBK		
TUESDAY (29 November)							
15:00	POL	GDP (H)	3Q	%	3.4	3.6	2.8
15:00	POL	Private consumption (H)	3Q	%	2.5	2.8	1.5
15:00	POL	Fixed investments (H)	3Q	%	5.3	6.0	3.8
9:00	EMU	Money supply (M)	Oct	%	8.6	-	8.5
13:30	USA	Durables orders (H)	Oct	%	1.1	-	-2.4
15:00	USA	Consumer confidence (H)	Nov		90.0	-	85.0
WEDNESDAY (30 November)							
	POL	MPC meeting – decision (H)	Nov	%	4.5	4.5	4.5
10:00	EMU	Consumer confidence (H)	Nov	pts	-13.0	-	-13.0
10:00	EMU	GDP revised (H)	3Q.	%YoY	1.5	-	1.1
10:00	EMU	Flash HICP (H)	Nov	%YoY	2.5	-	2.5
13:30	USA	Preliminary GDP (H)	3Q	%	4.0	-	3.8
15:00	USA	Chicago PMI (M)	Nov	%	1.4	-	1.3
THURSDAY (1 December)							
9:00	EMU	Manufacturing PMI(H)	Nov	pts	53.0	-	52.7
10:00	EMU	Unemployment (M)	Oct	%	8.4	-	8.4
12:45	EMU	ECB meeting – decision (H)	Nov	%	2.25	2.25	2.0
13:30	USA	Personal income (M)	Oct	%	0.5	-	1.7
15:00	USA	Manufacturing ISM (H)	Nov	pts	57.5	-	59.1
FRIDAY (2 December)							
10:00	EMU	PPI (H)	Oct	%YoY	4.0	-	4.4
13:30	USA	Hourly average earnings (M)	Nov	%	0.2	-	0.5
13:30	USA	Non-farm payrolls (H)	Nov	'000	210	-	56
13:30	USA	Unemployment (M)	Nov	%	5.0	-	5.0

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

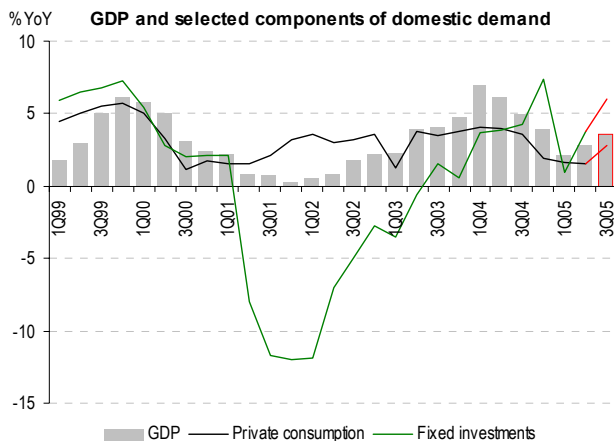
Maciej Reluga Chief economist (+48 22) 586 8363

Piotr Bielski (+48 22) 586 8333

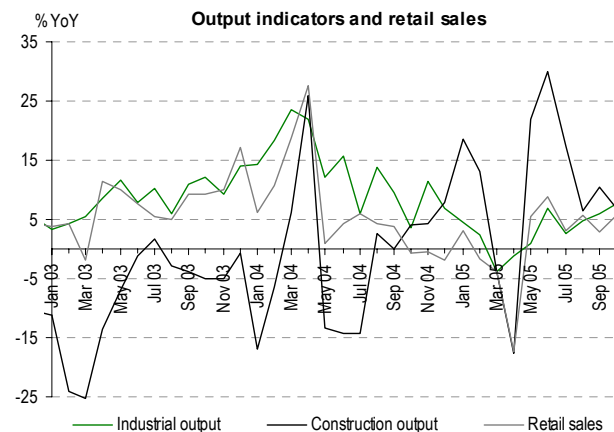
Piotr Bujak (+48 22) 586 8341

Cezary Chrapek (+48 22) 586 8342

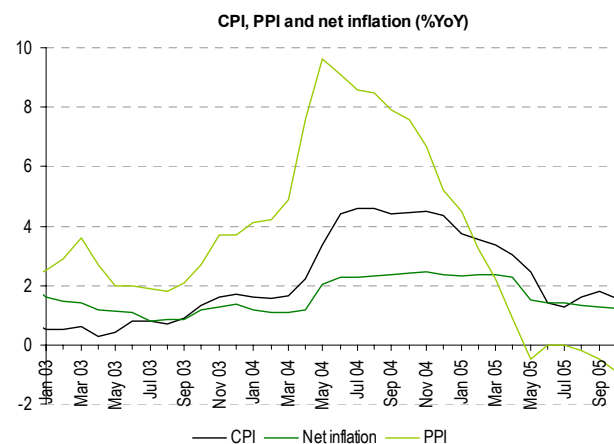
e-mail: ekonomia@bzwbk.pl

What's hot this week – GDP data crucial for MPC decision

- Many comments of MPC members indicated that data on GDP growth in Q3 will be very important for upcoming monetary policy decisions, and thus for market sentiment.
- In our view, the breakdown of GDP growth should be even more important than growth figure itself (we expect 3.6%). We forecast some acceleration in both fixed investments and private consumption. But the question is whether growth of these variables by some 5% and 2.5%, respectively, is excessive?
- We predict contribution of net exports of slightly below 2%, although there is a chance this would be even higher (which would mean lower growth in domestic demand).
- In base-case scenario we expect no change in official rates and maintaining easing bias in monetary policy on Wednesday. In December rates should be stable as well.

Economy last week – Higher growth and still low inflation

- Growth of both industrial production (7.6%) and retail sales (7.5% in nominal terms and 5.7% in real terms) was higher than predicted by market participants, confirming that Polish economy has entered the final quarter of this year in a good shape (GDP growth of above 4% according to our forecast), with steadily accelerating activity.
- Output growth was driven to a large extent by export orders. However, some improvement in domestic demand was also possible due to peaking consumers' demand for building materials and household furnishings caused by tax allowance for house repairs that expires in December. One should remember that this would be rather temporary phenomenon.
- Slightly less encouraging were data about production in construction, showing 6.8%YoY growth in real terms.



- Higher economic growth is not accompanied by higher pressure on domestic prices. All inflation indicators published before November's MPC meeting were low. Let's remind that CPI inflation amounted to 1.6%YoY and producer prices showed a fall by 0.9% YoY.
- The data showed completely no signs of inflationary pressure, especially that in manufacturing (the most competitive part of industry) prices collapsed 2.1%YoY. Producers are highly reluctant to lift their prices even in the face of rising energy and oil prices. Core inflation measure fell and they are below 1.3%, which shows that demand-side pressure on prices is still hardly recognisable.
- High wages growth in October (6.4%) was rather temporary, as one sector, which was responsible for lowering wage dynamics in September (telecommunication), showed an adverse effect in October (rise by 45.9%YoY).

Quote of the week – Oil prices as in projection, zloty stronger... but other banks increase rates

Andrzej Sławiński, MPC member; PAP, 23 November

The most likely scenario is still the same as presented in August inflation projection. Oil prices lowered to the level predicted previously, while the zloty exchange rate is much stronger.

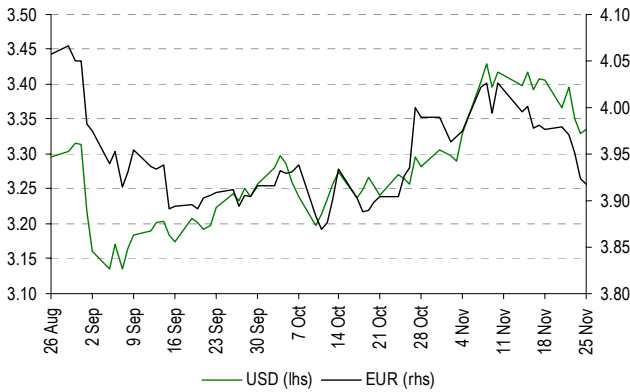
Halina Wasilewska-Trenkner, MPC member; PAP, 23 November

As regards the level of interest rates, we should wait for the data on Q3, especially investments. Other central banks started to raise rates.

MPC members' comments indicated that easing bias in monetary policy is well justified and interest rates reduction may be considered if base-case scenario changes (weaker data). It is interesting whether the Council maintains opinion that inflation may return to the target faster than it was presented in the August projection, as prof. Sławiński said that oil prices are lower and zloty stronger than in projection.

Market monitor

Zloty exchange rate

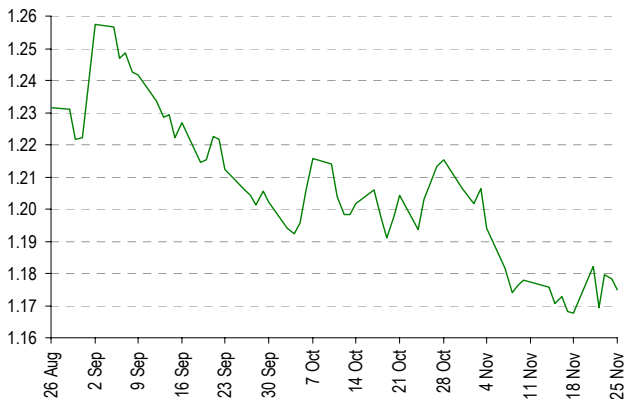


Strong zloty - improved sentiment to emerging markets

▪ Last week zloty appreciated against main currencies to the strongest level for a month, which was mainly a result of increased interest of foreign investors towards assets from emerging markets. This occurred in reaction to lower expectations on rates hikes in U.S., which was suggested by FOMC minutes from November meeting. The beginning and end of the week featured low activity. Information on exchange of proceeds from foreign bonds issues supported zloty appreciation and may affect exchange rate of Polish currency in the future. Within a week zloty gained 2.1% against the dollar and 1.5% against the single currency.

▪ This week we forecast EURPLN trading in range 3.87-3.97 whereas USDPLN between 3.27-3.37.

EURUSD rate

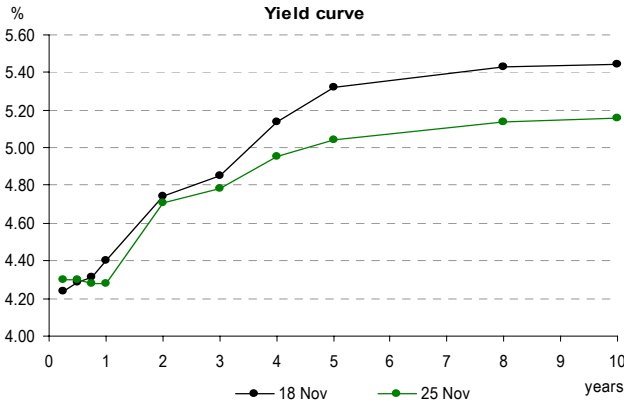


Volatile EURUSD

▪ In the passing week EURUSD fluctuated between 1.17-1.185, and euro strengthened against the dollar 0.6%. Single currency gained on hawkish statement of EBC chairman from the previous week, though further comments, that interest rate raise will not be a start for rates hikes cycle effected in correction. EURUSD soared again on FOMC minutes publication, which suggested soon end of rate increases series in U.S. Correction occurred before U.S. holidays, on higher than expected Michigan and lower Ifo.

▪ In the coming week EURUSD exchange rate should be influenced by flash HICP and PPI inflation in EMU, manufacturing PMI and ISM, EBC rate decision, durables orders, non-farm payrolls and preliminary 3Q GDP data in U.S.

Yield curve

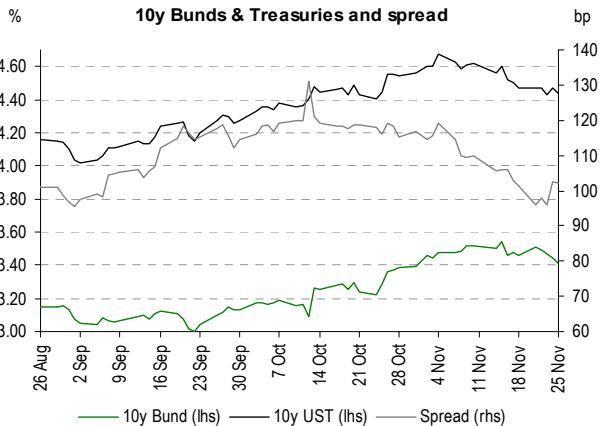


Significant yields drop and flattening of the curve

▪ First part of the week went along quite low activity, though bond market was gradually strengthening. During the whole week yields dropped as much as 3-29 bp, and 5Y government bond yield fell temporarily below 5%. The curve firmly flattened on improved sentiment of foreign investors towards emerging markets, which effected on dovish Fed minutes publication. Bonds were supported by yields drop on the bond core markets.

▪ Next week the most important data for the market and MPC will be 3Q GDP data. If they are below expectation 5Y yield may drop below 5%, on the other hand if data is positive yield should stay within the range of 5.0-5.5%.

10y Bunds & Treasuries and spread



Strengthening on the bonds core markets

▪ 10Y American and German government bonds strengthened from 4.47% to 4.43% and from 3.46% to 3.41% respectively, mainly after dovish FOMC minutes were released, which suggested soon end of rate hikes. In the euro weaker than expected Ifo index as well as EBC members (Trichet, Caruana) comments, that any rate increase will not be a start of aggressive tightening of monetary policy, were the most essential for market.

▪ The market expects EBC to raise rate on the next week meeting up to 2.25%, though money supply data, flash HICP and PMI may still weigh. Preliminary figure for 3Q GDP, manufacturing ISM as well as situation on the labour market will be the most important for the U.S. market.

This publication has been prepared by Bank Zachodni WBK S.A. (a member of AIB Group) for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Bank Zachodni WBK S.A., its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Bank Zachodni WBK S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Bank Zachodni WBK S.A. entity or an AIB Group entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

Additional information is available on request. Please contact Bank Zachodni WBK S.A. Treasury Division, Economic Analysis Unit, ul. Marszałkowska 142, 00-061 Warsaw, Poland, phone (+48 22) 586 83 63, email ekonomia@bzwbk.pl, <http://www.bzwbk.pl>



Bank Zachodni WBK is a member of Allied Irish Banks Group