Bank Zachodni WBK

Weekly economic update

29 May – 4 June 2006

A couple of economic for the Polish economy were published last week and all of them confirmed quite strong expansion - retail sales increased by 13.6% in real terms (only slightly below expectations), unemployment rate fell to 17.2% (which was 1.6 pp lower than year ago) and investments in big firms rose by 9%YoY in 1Q06. It seems there are more and more indications that GDP growth may reach 5% in the first half of this year. On the other hand, all measures of core inflation increased (net inflation at the highest scale amid rising gas prices), though there is still no evidence of resurgence of underlying inflationary pressure. We maintain our opinion presented already a couple of months ago that official interest rates will remain flat and it seems such view is shared by all market participants. The statement of the MPC will probably suggest a continuation of wait-and-see approach and a rate change in the following months (or even quarters) will be possible only in case of significant surprise in economic data releases. The only data this week will GDP growth in Q1 2006, which we expect to amount to 5.3% amid acceleration in both investments and consumption and with positive contribution of net exports. As usual in recent weeks, amid lower risk appetite globally, data from abroad will be crucial for Polish market sentiment.

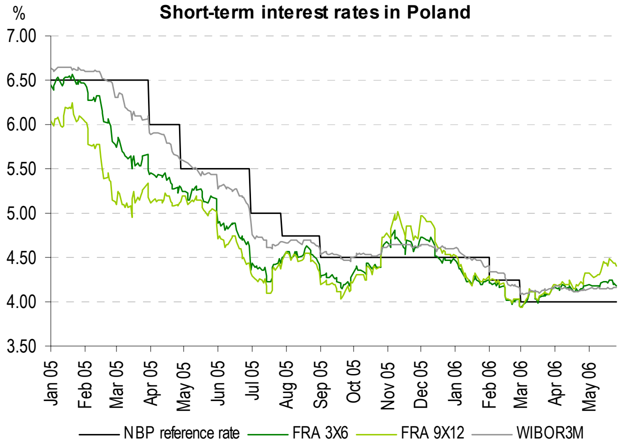
Economic calendar

TIME GMT	REGION	INDICATOR (importance level*)	PERIOD		FORECAST		LAST VALUE
					MARKET	BZWBK	
		MONDAY (29 May)					
	INT	Market holiday (H)					
		TUESDAY (30 May)					
8:00	EMU	M3 money supply (H)	Apr	%	8.5	-	8.6
14:00	USA	Consumer confidence (H)	May	pts	101.5	-	109.6
		WEDNESDAY (31 May)					
8:00	**POL**	**GDP (H)**	**Q1**	**%YoY**	**5.2**	**5.3**	**4.2**
8:00	**POL**	**Fixed investment (H)**	**Q1**	**%YoY**	**9.6**	**10.5**	**9.8**
8:00	**POL**	**Private consumption (H)**	**Q1**	**%YoY**	**4.0**	**4.1**	**3.1**
	POL	**MPC meeting - decision (H)**	**May**	**%**	**4.0**	**4.0**	**4.0**
9:00	EMU	Economic sentiment (H)	May	pts	105.0	-	105.3
9:00	EMU	Preliminary HICP (H)	May	%YoY	2.4	-	2.4
14:00	USA	Chicago PMI (M)	May	%	57.0	-	57.2
		THURSDAY (1 June)					
7:00	EMU	Manufacturing PMI (H)	May	pts	56.5	-	56.7
9:00	EMU	Revised GDP (H)	Q1	%	2.0	-	1.8
9:00	EMU	Unemployment rate (M)	Q1	%	8.1	-	8.1
12:30	USA	Unit labour costs – revised (H)	Q1	%	1.9	-	2.5
12:30	USA	Labour productivity – revised (H)	Q1	%	4.0	-	3.2
14:00	USA	Manufacturing ISM (H)	May	pts	56.5	-	57.3
		FRIDAY (2 June)					
12:30	USA	Non-farm payrolls (H)	May	'000	175	-	138
12:30	USA	Unemployment rate (H)	May	%	4.7	-	4.7
14:00	USA	Factory orders (H)	April	%	0.5	-	4.1

* Importance level: (H)igh, (M)oderate; Source: 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 – Exciting Wednesday in Poland, a lot of data abroad

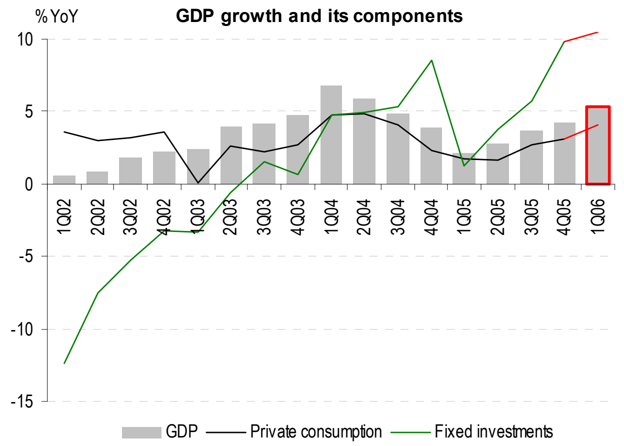


▪ Two the most important events on the Polish market will take place the same day. Although GDP data will be probably known a few hours before the MPC makes decision on interest rates, they should not influence the way of thinking of central bankers.

▪ Comments of vast majority of MPC members indicated a broad consensus as regards the view that rates should remain unchanged for some time.

▪ Difference in MPC members' opinions concerns influence of different factors on future inflation path and this will be possibly again reflected in the official statement or during press conference.

▪ The key message from the MPC meeting would be, in our opinion, that change in interest rate cuts would be possible only in case of significant change in the most likely scenario of economic events.



▪ According to our forecast GDP growth exceeded 5% (market consensus 5.2%) in Q1. As regards demand side we expect acceleration in investment growth (to 10,5%YoY from 9,8%) and in private consumption (to 4,1%YoY from 3,1%). Contribution of net exports amounted, in our opinion, to +0.7 pp, while inventories' change was only moderately positive.

▪ If our forecasts materialise, this would not be good news for bonds, but quite positive for the zloty.

▪ Except Monday (public holiday in U.S. and UK), the upcoming week will bring a number of important economic data releases abroad, which may be another helpful hint in assessing likelihood of rate hike by Fed.

▪ Economic activity indicators and information from the American labour market seem the most important.

Economy last week – Retail sales strongly up, unemployment strongly down

▪ Growth of retail sales in April amounted to 13.2%YoY, which was only slightly below consensus of 14.5%. In real terms, retail sales increased by 13.6%YoY.

▪ Both nominal and real growth in retail sales in April were the best result since accession boom in 1H04.

▪ The unemployment rate fell to 17.2% at the end of April from 17.8% in March. In annual terms, the unemployment rate dropped by 1.6pp – the best result since mid-1998.

▪ Business climate and consumers' optimism indicators for May showed continued improvement in enterprises' and households' moods. This heralds that positive economic picture should not be one-off phenomenon in Q1 but should endure further into 2006.

▪ Though core inflation measures rose, there is still no evidence of rising underlying inflationary pressure.

Quote of the week – Interest rates unchanged unless data surprise strongly

Andrzej Sławiński, MPC member; PAP, 17 May

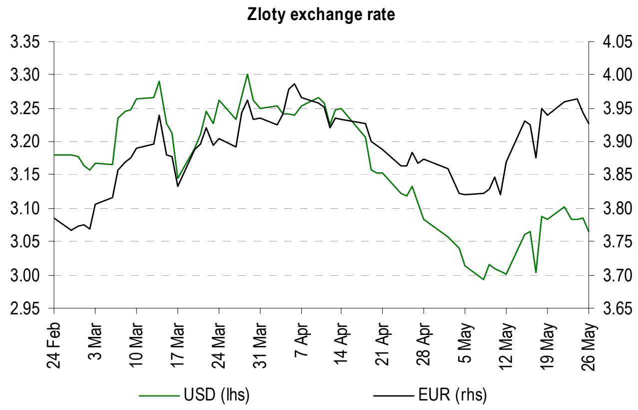
Only if the path of events were to start significantly varying from the projection would reasons appear to start considering possible fine-tuning of rates.

Dariusz Filar, MPC member; PAP, 17 May

As long as next inflation projections continue to show that the path of inflation has not significantly changed, the present parameters of monetary policy are correct for reaching our goal.

Latest comments of MPC members show that Halina Wasilewska-Trenkner is still the only one central banker who sees a possibility of rate hike in a foreseeable future. Therefore, it is not surprising that vast majority of market participants expect the reference rate to remain on hold for considerable period. All 14 analysts surveyed by Reuters expected the bank to keep its main rate at 4% until December. The poll also showed 7 out of 12 analysts saw rates steady until May 2007, though 5 of them expected the bank could order a 25-50bps hike in that period.

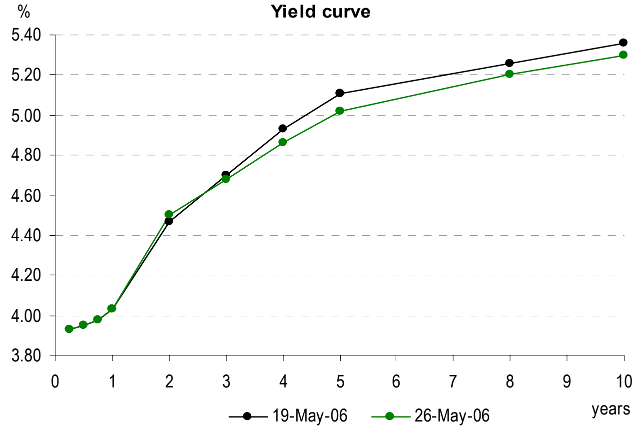
Market monitor



Some stabilization after emerging markets sell-off

▪ The previous week started with a continuation of the sell-off on the emerging markets amid global rise of risk aversion. After temporary stabilization and correction zloty fell again, though to much smaller extent than currencies of other emerging economies. At the end of the week it regained some strength and as compared to the previous week it appreciated against the euro by ca. 0.5% and against the dollar by ca. 1%

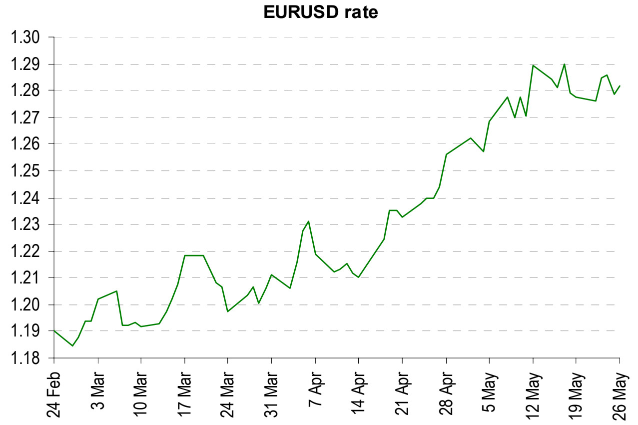
▪ As far as the data in U.S. are higher than expected and investors believe in further rate hikes in United States, risk aversion may stay on high level, which may still work against emerging currencies. GDP data and sound fundamentals should balance this negative influence. We think EURPLN rate should trade in range 3.88-3.98 and USDPLN in 3.03-3.13.



Foreign investors strengthen Polish debt

▪ The weakening in the markets of emerging economies negatively affected Polish debt market again, however the strengthening on the core markets supported the domestic market. At the end of the week foreign investors started buying Polish bonds and eventually yields of government papers fell by 1-11 bp in comparison to the level on previous Friday.

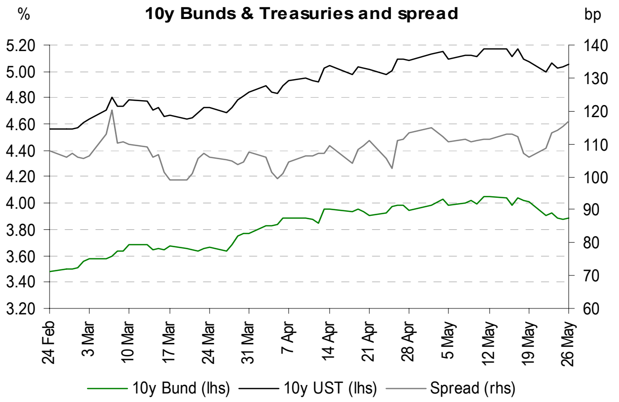
▪ In the nearest period, likewise recently, data from abroad, especially influencing the yields level in U.S. will be the most important for the Polish market. Moreover the GDP figure should hint on further acceleration of domestic economy. We expect, like the majority of the market, that the MPC will not change the main interest rate at the Wednesday meeting and the refinance rate will stay flat till the end of 2006.



EURUSD almost unchanged

▪ At the beginning of the week the euro was supported by the Trichet's comments on keeping vigilance toward inflation and Ifo, though later on the dollar recovered part of incurred losses with regards to a sell-off on the emerging markets. Later on the dollar fluctuated in reaction to released data. At the end of the week there was some stabilization on the world markets before the long weekend in U.S. and GB. During the week the EURUSD rate rose by 0.2%.

▪ In the coming week the data published in United States are going to be the most essential again, especially from the labour market as well as the manufacturing ISM. Activity indices are going to be the most important for the euro zone together with sentiment indices and HICP inflation.



High volatility and strengthening on the core markets

▪ Amid global retreat from the emerging markets investors decided to buy "safe haven" U.S. government papers. Yields of Treasuries fell even to 4.99%, though higher than expected housing market data in U.S. contributed to a correction and rise of yields to 5.06%. Yields of 10Y Bunds declined in the previous week from 3.99% to 3.88%.

▪ Increase of volatility on the international markets is caused among others by uncertainty toward the further Fed's steps and performance of U.S. economy. This why the most important for the markets will be data influencing expectations on U.S. monetary policy. Weaker data could influence investors to stop buying U.S. government papers.

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