Bank Zachodni WBK

Weekly economic update

6 – 12 November 2006

There were no important data release during the last week, but some positive information appeared concerning the Polish economy. Namely, the National Bank of Poland released results of a survey for 4Q06 carried out among senior loan officers, and Central Statistical Office revealed results of consumers confidence survey for October. Both pieces of information suggested that expansion of investment and consumption demand is continued, supporting optimistic growth estimates for Q3 and forecast for the subsequent quarters.

At the same time, interest rate market has been positively surprised by the Ministry of Finance, which released its estimates for October's inflation. According to the estimates, CPI inflation reached 1.2%YoY in October, falling from 1.6%YoY in September, while earlier the ministry forecasted the headline inflation rate amounted to 1.5-1.6%YoY in October. The market was not expecting so optimistic estimates (for instance, we had expected earlier that the inflation rate in October reached 1.4-1.5%YoY) and it is likely that the market expectations will adjust to the ministry's predictions, because they were often quite accurate in the previous months. Interest rate market believed in FinMin's estimates and strengthened after the publication of the news from the ministry. If the predictions materialize, then expectations for swift rate hikes should decrease. This was the most important positive factor for the debt market in the previous week. Among negative factors the most important was the hawkish tone of comments from the ECB, heralding further rise in borrowing costs in the euro zone, and data published in the US, including employment report.

MPC member Dariusz Filar suggested on Tuesday in an interview with Warsaw-based Radio PiN that the economic information that will be released before January are unlikely to be enough in order to convince the majority of the Council that a swift rate hikes are needed. This supports our view that a change in interest rates in this year is very unlikely while the central bank's actions in 2007 will depend on further data release, mainly on labour market statistics and core inflation measures. This week, there will be no major data release, so the market should be quite stable, waiting for indicators that will published in the subsequent weeks of this month, first of all, for the CPI due for release on November 15.

Economic calendar

Time GMT	COUNTRY	INDICATOR (importance level*)	PERIOD	UNIT	FORECAST MARKET	FORECAST BZWBK	LAST VALUE
		MONDAY (6 November)					
9:00	EMU	PMI in services (H)	Oct		56.9	-	56.7
10:00	EMU	PPI (M)	Sep	% YoY	4.6	-	5.7
10:00	**POL**	**Auction of 800m of 52-week of T-bills (M)**					
		TUESDAY (7 November)					
10:00	EMU	Retail sales (M)	Sep	% YoY	1.9	-	2.4
		WEDNESDAY (8 November)					
10:00	**POL**	**Auction of 7-year floating coupon bonds and 12-year CPI-indexed bonds (M)**					
		THURSDAY (9 November)					
12:00	UK	BoE meeting: decision (M)	Nov	%	5.00	-	4.75
13:30	US	International trade balance (H)	Sep	$ bn	-67.0	-	-69.9
15:00	US	Michigan index preliminary (H)	Nov			-	93.6
15:00	US	Wholesale inventories (H)	Sep	% MoM	0.5	-	1.1

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

Maciej Reluga Chief economist (+48 22) 586 8363

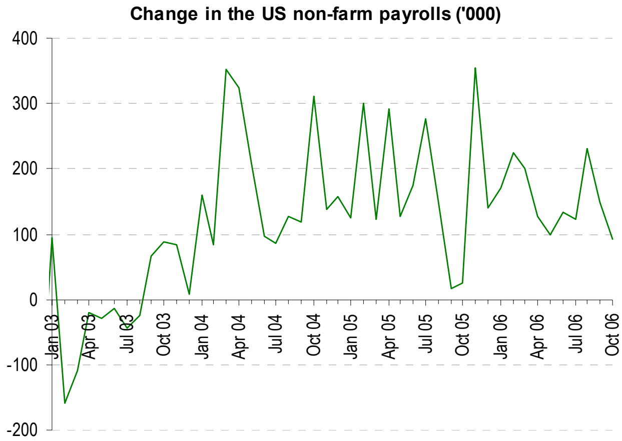
Piotr Bielski (+48 22) 586 8333

Piotr Bujak (+48 22) 586 8341

Cezary Chrapek (+48 22) 586 8342

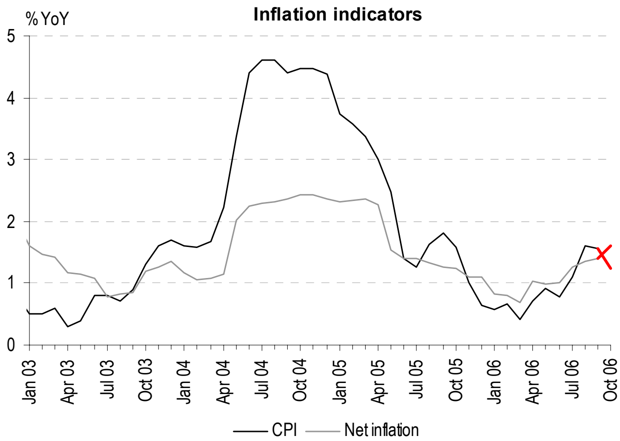
e-mail: ekonomia@bzwbk.pl

What's hot this week – Waiting for next data

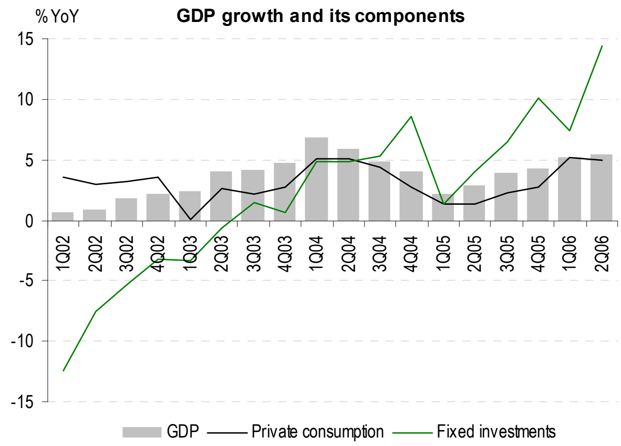


- The incoming week will be very light in terms of essential events for the market. This relates both to the domestic market and to foreign markets.
- There will be a few data publications abroad, but they will not be numerous, and most of all they will be less crucial compared to the ones published the previous week.
- This week will be the last one before the local elections scheduled for November 12, but this event is of no importance to the market, as political turmoil within the coalition linked to these elections is finished since a long time now.
- Thus, markets will have the opportunity to follow a direction set by the US labour market report during the whole incoming week. Possible further comments from members of the Polish MPC could be important driver for the Polish market.

Economy last week – Nothing but good news



- The Ministry of Finance assesses that inflation amounted to 1.2%YoY in October (earlier it assessed inflation at 1.5-1.6%YoY), falling from 1.6%YoY in September. Besides, FinMin lowered its inflation forecast for December to 1.9%YoY from earlier predicted 2.1-2.2%YoY.
- The market was not expecting so optimistic estimates and it is likely that now the market expectations will adjust to the Ministry's predictions, because they were often quite accurate in the previous months.
- Confirmation of the estimates by the actual figures could weaken expectations of swift rate hikes.
- It is worth noticing that the inflation fall in October, according to FinMin, was mainly due to fuel prices fall, and quite favourable food prices performance. This is why we estimate that net inflation rose to 1.6%YoY in October, although this is still very low level.



- Results of the survey carried out by the NBP among senior loan officers showed that demand for loans in Q3 credit still grows. Banks informed that conditions of giving credits for companies will be softened. The main reason why credit demand for companies was growing in Q3 is the rising financing need for investment, inventories, floating capital and associated to mergers and acquisitions.
- Concerning credits for households, demand growth grew despite more rigorous criteria for getting them (implementation of "recommendation S"). Banks have noticed a bigger interest for housing credits as much as consumption ones.
- Along with optimistic results of the CSO's consumers confidence survey, the NBP survey is a good sign for domestic demand assessments for Q3 and Q4 and the surveys bodes well for GDP growth in 2H06.

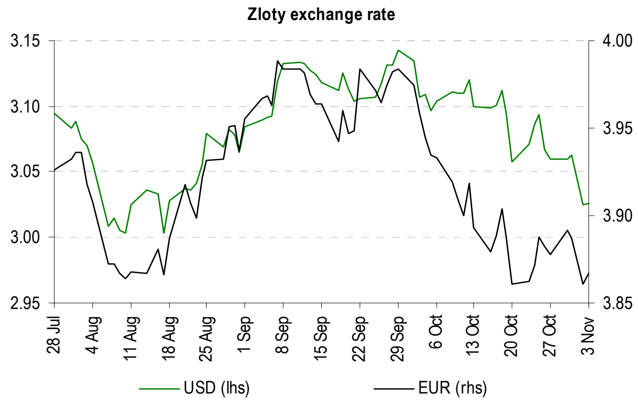
Quote of the week – No rate hikes this year

Dariusz Filar; MPC governor, Radio PiN, 31 October

We can say that there were opinions, in the Council, indicating that a rate hike is needed, and that the appropriate moment was October, because we had the new projection. (...) Now, this is our current situation: in November we will only have monthly data, which will not change significantly the picture of the situation, they would have to be very dramatic so that to change the picture of the situation, and on the other hand in December, there will be only one month left to the next projection, so...

Although a large part of the MPC members put pressure in favour of a rate hike in October, the majority of central bankers decided that interest rates should remain unchanged. We keep our view that monetary policy tightening before the end of the year is very unlikely. Indirectly this was confirmed by prof Filar's statement, who stressed that in November the MPC will not have much more information about the economy than now, and in December, there will be only one month left to the next projection.

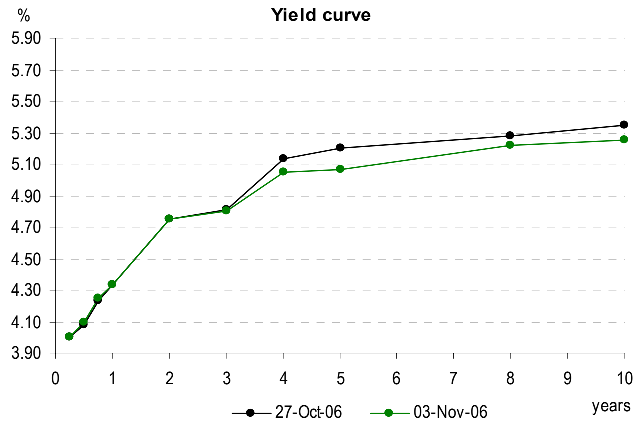
Market monitor



Zloty strong amid low liquidity

▪ Due to the market holiday on Wednesday and the lack of macroeconomic data publication, activity on the zloty market was moderate in the last week. Initially, zloty weakened against euro crossing the 3.895 level, though in the second part of the week, the rate came back to stronger levels, partly as a consequence of good fiscal information from Hungary. During the week, the EURPLN rate declined by 0.3%, and USDPLN by 1.1%.

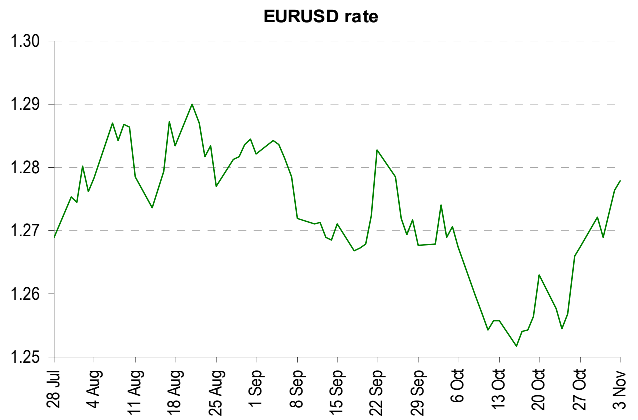
▪ Schedule for next week is again not planning any data publication nor important events in Poland, so market's attention will go to foreign tendencies. We expect the EURPLN rate to remain in the same 3.82-3.92 range against the euro and 3.02-3.12 against the dollar.



Flattening of the yield curve

▪ Calm atmosphere and small trading turnover reigned on the fixed income market as well. Long term bond yields were gradually declining, which was due to analogous movement on the fixed income markets abroad and optimistic inflation assessment by the Ministry of Finance. In turn, yields of treasuries with short maturities remained broadly stable so the yield curve got flattened.

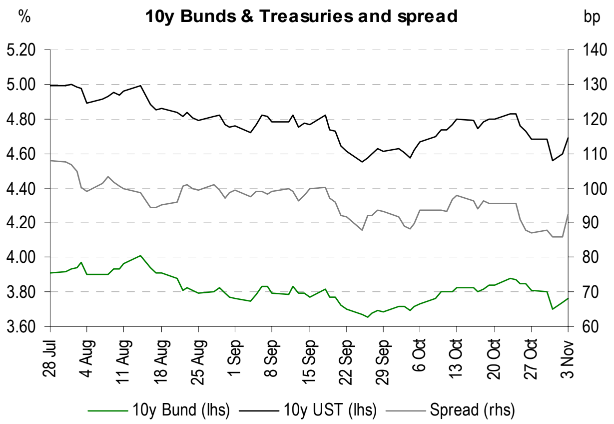
▪ Lack of important events and figures next week will cause that the Polish debt market should keep following foreign markets amid moderate activity, responding also to changes in international investors' risk aversion.



Dollar bounce after a weaker week

▪ During the better part of the previous week, the American currency was weakening against euro. It was favoured by the release of indicators showing weakening economic activity in the US and signal from the ECB announcing a rate hike in December. Those factors pushed the EURUSD rate up to 1.278 in the middle of Friday session. The trend reversed after US labour market data release, which showed a sizeable upward revision of payrolls number. As a result, the EURUSD rate came back to below 1.27 by Friday afternoon.

▪ A few data release will influence the euro and the dollar this week. The dollar could be undermined again by the release of weaker Michigan sentiment index.



Yields on core markets down and up again

▪ Weaker activity indices in the US pushed yields down on core debt markets at the start of last week. However, the trend that was maintained until Wednesday reversed in the next two days in reaction to ECB's signal about possible rate hike in December and very strong labour market data in the US on Friday. In effect, the week ended with yields of 10-year bonds in US and euro zone little changed from previous Friday's levels.

▪ This week core debt markets will be influenced by very few data releases in the US (preliminary Michigan) and euro zone (PMI services, preliminary Q3 GDP in France). Monthly ECB bulletin is likely to confirm expectations for next rate hike in December.

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