

Weekly economic update

15 – 21 January 2007

After the first week of this year, which saw strong wave of weakening in emerging markets, including Poland, last week was also a period of high volatility on the market. Nervousness of investors in the Polish market was additionally increased by uncertainty connected with appointment of new NBP governor. For the better part of the week there were no domestic data releases. Only on Friday, the NBP published monetary statistics for December, which confirmed very strong expansion of the Polish economy at the end of 2006.

This week we will get many important data in Poland: CPI, PPI, wages, output and employment for December as well as balance of payments for November. Generally the numbers should confirm the picture of economic situation known so far, i.e. strengthening economic activity coupled with continuously subdued inflation. Confirmation of such scenario would deliver a support for the zloty and domestic bond prices.

It may turn out, however, that in the nearest days the most important driver for the domestic market will be again changes in moods in global markets and in attitudes towards emerging markets. Therefore, much attention should be paid to US data. An important factor for the EURUSD rate will be publication of Germany's ZEW index. As regards attitudes towards emerging markets, an important event will be decision of the Bank of Japan. A rate increase by the Japanese central bank will be another step, decreasing global liquidity.

Economic Calendar

Time GMT	COUNTRY	INDICATOR (importance level)	PERIOD		FORECAST		LAST VALUE
					MARKET	BZWBK	
MONDAY (15 January)							
13:00	PL	CPI (H)	Dec	%YoY	1.6	1.7	1.4
TUESDAY (16 January)							
13:00	PL	Wages (H)	Dec	%YoY	6.2	5.9	3.1
13:00	PL	Employment (H)	Dec	%YoY	3.9	3.8	3.8
13:00	PL	Current account (M)	Nov	€ m	-475	-380	
10:00		ZEW index (H)	Jan		-10.0	-	-19.0
WEDNESDAY (17 January)							
10:00	PL	Auction of PLN1.8-2.8bn 5Y PS0412 bonds (H)					
10:00	EMU	Final HICP (H)	Dec	%YoY	1.9	-	1.9
13:30	US	PPI (H)	Dec	%MoM	0.5	-	1.0
14:00	US	Net capital flows (H)	Nov	\$ bn		-	82.3
14:15	US	Capacity use (H)	Dec	%	81.8	-	81.8
14:15	US	Industrial production (H)	Dec	%MoM	0.1	-	0.2
THURSDAY (18 January)							
6:00	JP	BOJ – decision – report (H)					
13:30	US	CPI (H)	Dec	%MoM	0.5	-	0.0
13:30	US	House starts (H)	Dec	m	1.555	-	1.588
17:00	US	Philadelphia Fed index (H)	Jan		3.0	-	-4.3
FRIDAY (19 January)							
13:00	PL	Industrial production (H)	Dec	%YoY	7.5	6.4	11.7
13:00	PL	PPI (H)	Dec	%YoY	3.0	3.0	2.6
15:00	US	Preliminary Michigan (H)	Dec		92.5	-	91.7

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

Maciej Reluga Chief economist (+48 22) 586 8363

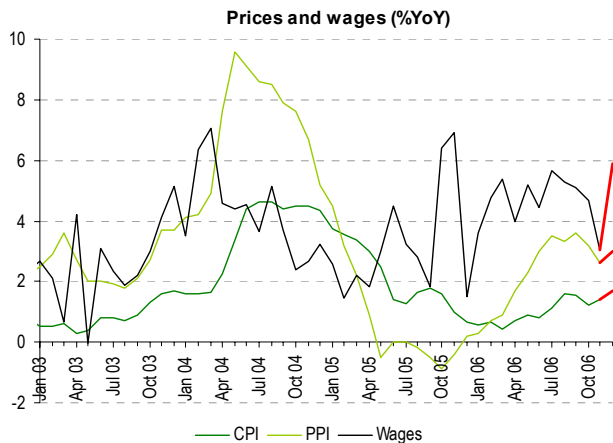
Piotr Bielski (+48 22) 586 8333

Piotr Bujak (+48 22) 586 8341

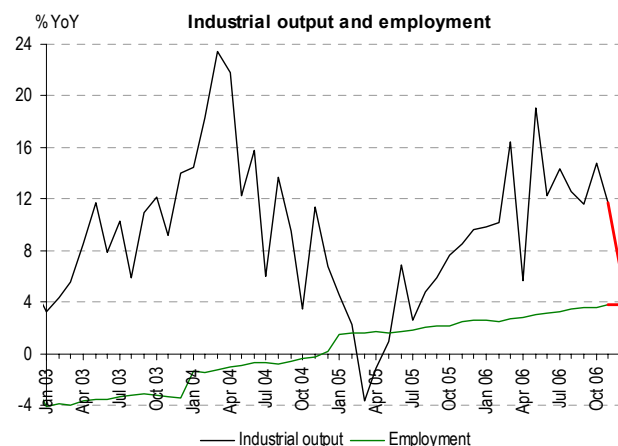
Cezary Chrapek (+48 22) 586 8342

e-mail: ekonomia@bzwbk.pl

What's hot this week – Key data releases

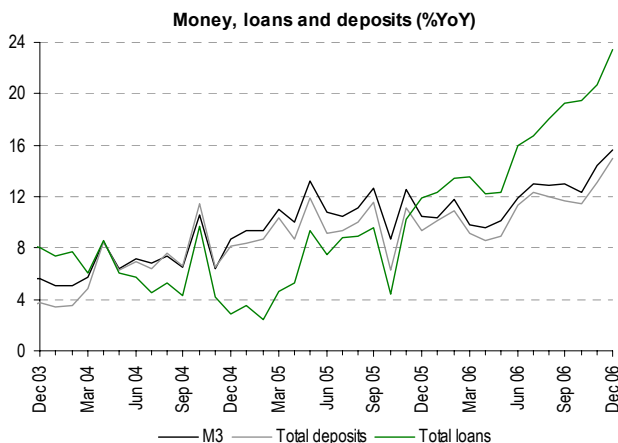


- This week will bring a few important pieces of information regarding inflationary tendencies.
- CPI figures should show another inflation increase, but to the lower level than it was expected a few months ago.
- According to current forecasts, also PPI inflation in December was lower than it had been predicted not so long time ago.
- Low current inflation indicators are of course good information for the fixed income market, but central bank focuses on medium-term inflation outlook.
- An important information on future inflation will be data on wages. We expect December saw a rebound in average wage growth after one-off slump in November, but underlying wage growth remains quite stable and does not pose a threat to price stability.



- Apart from inflation data, this week we will also get hints on economic activity.
- We predict that output growth significantly decelerated in December, but this was caused by lower number of working days and does not mean a change of upward trend to a downward one. Therefore, a 6-7%YoY rise in industrial output, expected by us, would be consistent with forecasts of GDP growth in 4Q06 at slightly above 6%.
- Strong economic expansion at the end of 2006 should be also reflected in data on employment. According to our forecasts, employment growth in the enterprise sector remained at record high 3.8%YoY in December.
- Excellent condition of the Polish economy should be also confirmed by balance of payments data which are due on Tuesday (we expect strong export rise and high FDI inflow)

Economy last week – Monetary statistics confirm strong economic activity



- Monetary statistics for December were the only data release last week.
- The numbers proved much higher than expected, showing strong rises in money supply and loans.
- What is important, fast growth in total loans stems not only from further acceleration in households' loans growth, but this was also a result of a revival in corporate borrowing. The latter has been expected for long time and it reflects intensified investment activity in the economy, which has become important driver of GDP growth.
- All in all, the data clearly indicated that economic activity at the end of 2006 was very strong and the Polish economy entered the 2007 vigorously which should enable to achieve fast pace of GDP growth again. Let us recall we predict economic growth in 2007 to reach 5.3% after 5.7% growth in 2006.

Quote of the week – Four pillars of new NBP governor

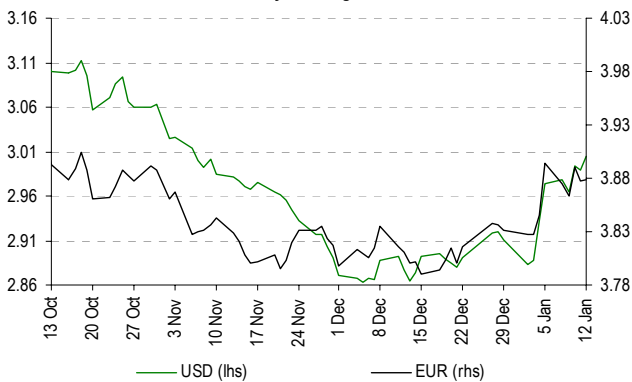
Sławomir Skrzypek, NBP governor; PAP, 8-9 January

There are four basic pillars that I want to base on. It is independence, transparency, credibility and competence. (...) My primary task will be to take care of stability of the Polish zloty and to take care of economic growth, as long as it won't threaten price stability. (...) I do not plan any radical changes in the monetary policy, we will make content-related decisions based on solid data from the NBP analysts at the MPC meetings. (...) Euro is not the most important economic subject. (...) Poland should join the euro area when it will be most beneficial for it. (...) Give me 100 days to take a position on this matter.

As regards general declarations, comments of new NBP governor should be assessed positively, because he stressed his activity in the central bank should be based on four pillars: independence, transparency, credibility and competence. At the same time, however, he avoided answers to detailed questions regarding interest rates, exchange rate and Poland's road to the euro zone. He also made a few mistakes answering to quite elementary questions regarding central banks' activity, but market reaction to his nomination was neutral. Now investors will wait for first, more detailed comments of the new NBP head and his first decisions.

Market monitor

Zloty exchange rate

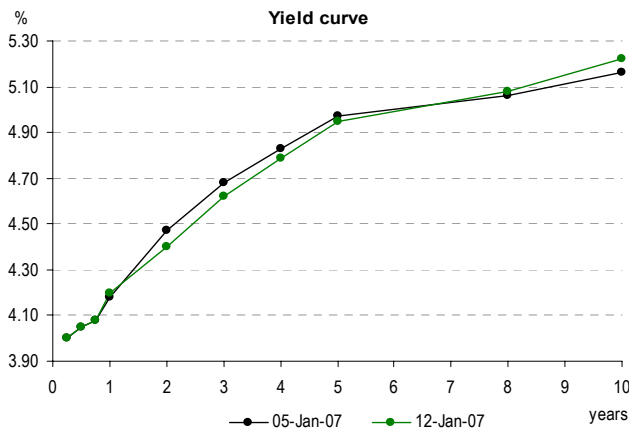


Zloty stabilizes after a sell-off

▪ In the first part of the week investors continued to take profit in the emerging markets amid correction of the stock markets, perspective of monetary policy tightening in Japan and jitters in Venezuela and Thailand (EURPLN temporarily broke 3.9 vs. euro). At the end of the previous week there was a zloty stabilisation. During the week EURPLN rate was almost unchanged and USDPLN rose marginally.

▪ We hold our view that zloty will be supported by the strong fundamentals. In the short term the investors' sentiment toward the emerging markets will be crucial, still influenced by the incoming data from US and decision of Bank of Japan on rates. In our view the EURPLN rate is going to stay in range of 3.83-3.93, and USDPLN between 2.94 and 3.04.

Yield curve

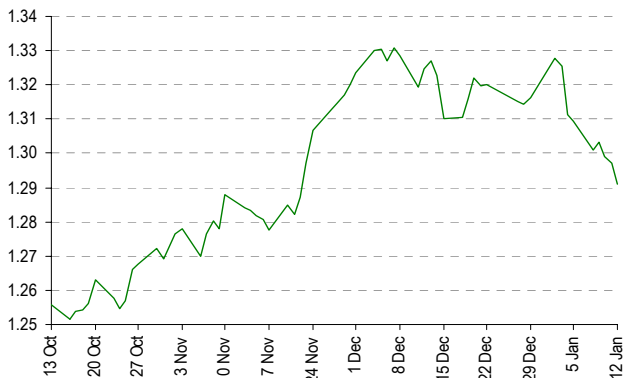


Yield curve steepening

▪ The sell-off in the debt market continued also in the previous week with regards to poor sentiment of foreign investors to the emerging markets and process of approving new NBP president, though at the end of the week there was a slight recovery especially at the short end of the curve ahead of Monday CPI release and maybe with reference to the confirmation of (as it seems rather dovish) chief of central bank.

▪ We assume that inflation data may still have positive effect on the rate decisions scenario. Labour market statistics will work in the opposite direction. The 5Y bonds auction will show moods toward the Polish market. Industrial production data and PPI may also weigh. The core markets will be crucial amid publication of lots of data (CPI, PPI in US, ZEW).

EURUSD rate

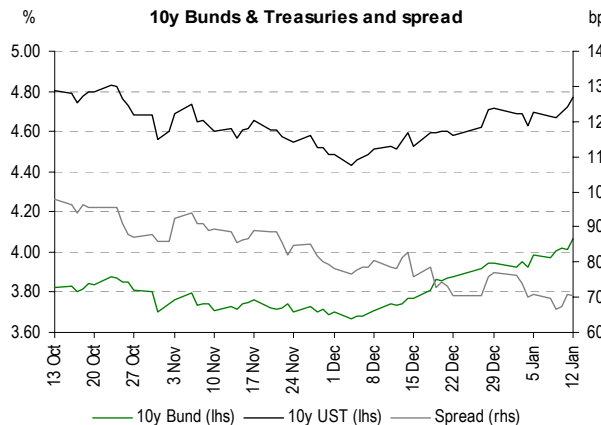


Positive US data still support the dollar

▪ After optimistic ISM and non-farm payrolls another important and positive US figure was released, the retail sales, what supported the dollar. The tone of the ECB's communiqué delayed the prospective rate hikes in the euro zone and worked against the single currency. Since last Friday the EURUSD rate fell by 0.6%.

▪ We still forecast the potential weakening of US greenback with regards to economic slowdown in US. On Monday the activity may be limited with regards to the holiday in US. ZEW index may show the impact of German VAT hike. In the US markets should focus on the inflation statistics, housing market data, Philadelphia Fed index, that may show the situation in the manufacturing sector. The dollar may find support in the net capital flows data.

10y Bunds & Treasuries and spread



Strong US data delay rate cuts

▪ Treasuries continued the weakening in reaction to GDP-positive balance of payments data, surprising rate hike by the BoE, positive data from the labour market and retail sales. Bunds behaved similarly though additionally ECB's statement after the meeting contributed to postponing of rate hikes perspective. Yields of 10Y Treasuries and Bunds rose respectively to 4.77% and 4.02%.

▪ US PPI and CPI are going to be crucial next week, while housing market figures and Philadelphia index reflecting activity in the manufacturing sector may be equally essential. In the euro zone the publication of ZEW index and HICP inflation will be in key focus. We expect another rate hike in the EU-13 countries at earliest in March and the official rate may target 4.25% at the end of year while US Fed Funds rate may drop to 4.5%.

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