Bank Zachodni WBK

Weekly economic update

24 – 30 September 2007

In the last week of September we will see the result of the Monetary Policy Council's meeting, and even before that several economic indicators for August will be released. Core inflation data are likely to post declines, following big slump in CPI growth rate (net inflation predicted at 1.1%, down from 1.5% in July), while retail sales is likely to maintain high growth rate, ca. 17%YoY. The data should not affect the MPC decision and this time main interest rates will remain unchanged. Instead, the MPC is expected to approve and release the *Monetary Policy Guidelines for 2008*. Possibly, the document will include some hints helpful in predicting scale of monetary tightening in future.

A number of important data releases is scheduled abroad. After significant surge in market optimism that took place just after the Fed's decisive rate cut by 50 bp, some investors are getting more and more concerned about inflation perspectives in the US. Therefore, data releases from the major economies, as well as comments of ECB and Fed speakers, may have big impact on trends on the core markets, and this could also affect the emerging markets.

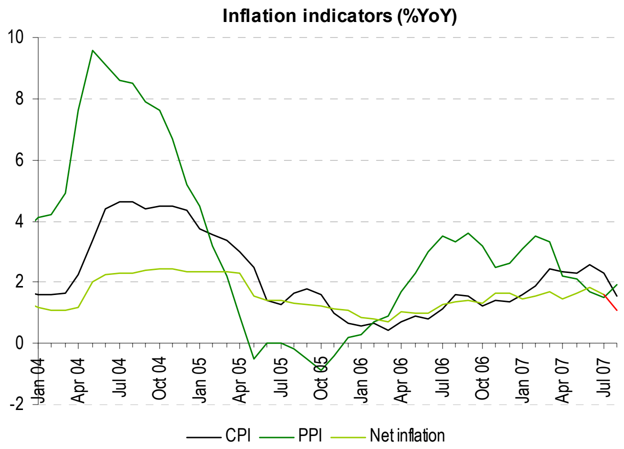
Economic calendar

Time GMT	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST BZWBK	LAST VALUE
		MONDAY (24 September)					
12:00	**POL**	**Core inflation**	**Aug**	**%YoY**	**1.2**	**1.1**	**1.5**
12:00	**POL**	**Business climate indicators**	**Sep**		-	-	-
		TUESDAY (25 September)					
8:00	**POL**	**Retail sales**	**Aug**	**%YoY**	**16.7**	**17.0**	**17.1**
8:00	**POL**	**Registered unemployment rate**	**Aug**	**%**		**12.0**	**12.2**
8:00	GER	Ifo index	Sep	pts	105.0	-	105.8
14:00	USA	Consumer confidence	Sep	pts	104.5	-	105.0
14:00	USA	House sales	Aug	m	5.6	-	5.75
		WEDNESDAY (26 September)					
	POL	**MPC decision – reference rate**	**Sep**	**%**	**4.75**	**4.75**	**4.75**
12:30	USA	Durable goods orders	Aug	%	-2.3	-	6.0
		THURSDAY (27 September)					
9:00	**POL**	**Switching auction**					
8:00	EMU	M3 money supply	Aug	%YoY	11.6	-	11.7
12:30	USA	Final GDP	Q2	%	3.9	-	4.0
12:30	USA	Core PCE	Q2	%	1.3	-	1.3
12:30	USA	GDP deflator	Q2	%	2.7	-	2.7
14:00	USA	New home sales	Aug	m	0.83	-	0.87
		FRIDAY (28 September)					
12:00	**POL**	**Current account balance**	**Q2**	**€bn**	**-4.5**	**-**	**-3.2**
9:00	EMU	Economic climate	Sep	pts	109.3	-	110.0
9:00	EMU	Flash HICP	Sep	%YoY	2.1	-	1.7
12:30	USA	Core PCE	Aug	%MoM	0.1	-	0.1
13:45	USA	Chicago PMI	Aug	pts	53.5	-	53.8
14:00	USA	Final Michigan index	Sep	pts	83.8	-	83.4

Source: Reuters

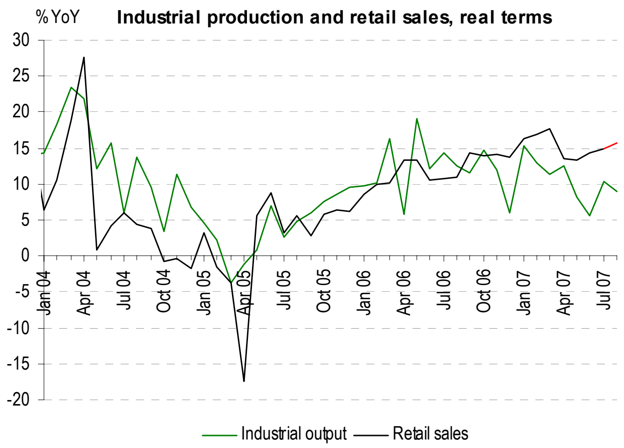
Maciej Reluga Chief economist (+48 22) 586 8363
Piotr Bielski (+48 22) 586 8333
Piotr Bujak (+48 22) 586 8341
Cezary Chrapek (+48 22) 586 8342
e-mail: ekonomia@bzwbk.pl

What's hot this week – Domestic interest rates unchanged for some time

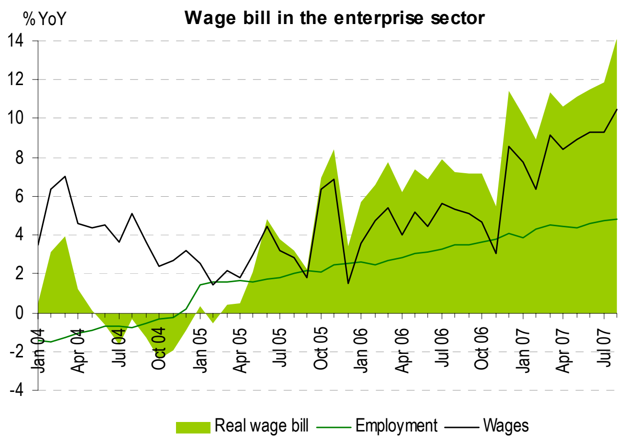


- This week domestic financial market will focus on the MPC meeting. Analysts are unanimous predicting that this time main interest rates will remain unchanged, especially after sharp decline in CPI inflation in August.
- Core inflation data to be released before the decision will show declines as well – net inflation should drop to 1.1% – which will deliver no arguments for hurrying with additional monetary tightening.
- Retail sales probably maintained rapid rate of growth in August (ca. 17%YoY), being supported by high increase in personal income, while unemployment rate fell to 12%.
- Quarterly balance of payments data for Q2 may show a revision of current account deficit, widening it by several hundred €, which was suggested by high negative net exports balance in GDP data for Q2.

Economy last week – Mixed economic data, aggressive rate cut in the US



- Macroeconomic data released last week showed mixed set of information from the point of view of monetary policy perspectives.
- PPI growth picked up less than we forecasted (to 1.7%), but as compared to July prices rose in most of industrial sub-branches, which may show that companies are trying to pass rising cost pressure on prices, amid rising demand.
- Industrial output rose 9%YoY in August, less than in July and less than predicted, however seasonally adjusted growth accelerated to 9.4% against ca. 8% in previous months.
- Construction output maintained double-digit growth rate (14.6%YoY), corresponding to still high rise in investment outlays, which implies continuation of rapid increase in economic potential.



- Data from the labour market proved to be much higher than expected. Wage growth in enterprises accelerated in August to 10.5%YoY, while employment growth hit another record at 4.8%YoY. Wage bill increased 15.8%YoY in nominal terms and 14.1%YoY in real terms. To some extent, the data were a counterbalance for earlier positive inflation surprise, as they showed a risk that unit labour costs will keep growing fast in the coming quarters. On the other hand, we think the data were not strong enough to induce the MPC to deliver next interest rate hike sooner than in November.
- One of the most important events of the week was the decision of the American Fed to cut rates aggressively by 50 bp. Deeper than expected scale of the cut improved sentiment on world financial markets (see next page), at the same time reducing risk of major economic slowdown in US.

Quote of the week – MPC hawks cautious in predicting future rate hikes

Andrzej Wojtyna, MPC, Thomson Financial, 19 September

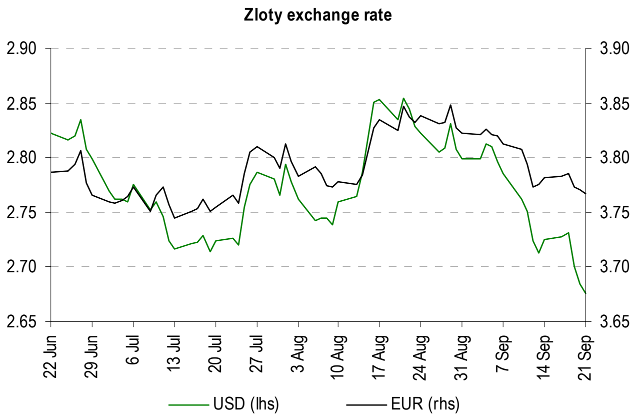
Taking into account inflationary pressure I believe that one more rise this year is possible. [...] We cannot say for sure that markets' expectations on rates will actually show up in the form of further hikes [in 2008].

Marian Noga, RPP, PAP, 17 September

Looking at second quarter's data, one can see that labour productivity did not fall as much as could be expected [...] so there is no risk of sudden inflation rise. This gives some time for thinking and observation. [...] If investment continues rising so fast, then levelling potential with real GDP would be faster and most likely interest rate at 5.5% would not be necessary.

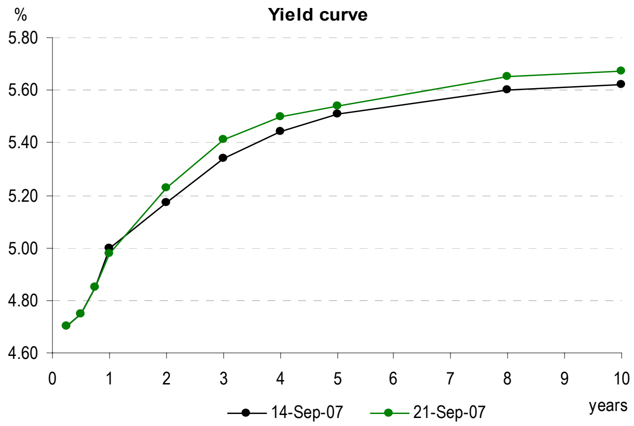
Comments of the Monetary Policy Council's members seen recently had clearly suggested that the bank will wait some time before making next decision on rates, which supported our view that the rate hike will be delivered in November. At the same time, one should notice that even those MPC member who used to vote in favour of monetary tightening in last months, are quite cautious in predicting size of interest rate hikes in future. For sure, the decisions will depend on the macroeconomic data due for release in following months, however at this moment it seems that a scale of monetary tightening assumed by us is valid.

Market monitor



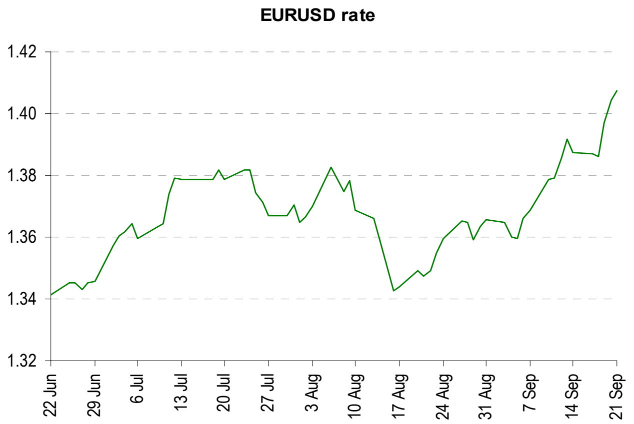
Zloty strengthening after Fed decision

- While in the first part of the week the zloty was slightly weakening, after the Fed's rate cut decision it appreciated again, particularly against the dollar that was loosing ground around the globe.
- In line with our view, 3.76 was a tough barrier for EURPLN rate, although it was breached for a moment on Friday, with a help of returning risk appetite. Still, the potential for further zloty strengthening seems to be exhausting in the short run. For this week, we reduced predicted range for EURPLN rate to 3.73-3.83, however 3.74 will be another important threshold for the zloty. USDPLN range is reduced to 2.63-2.73 amid depreciating dollar.



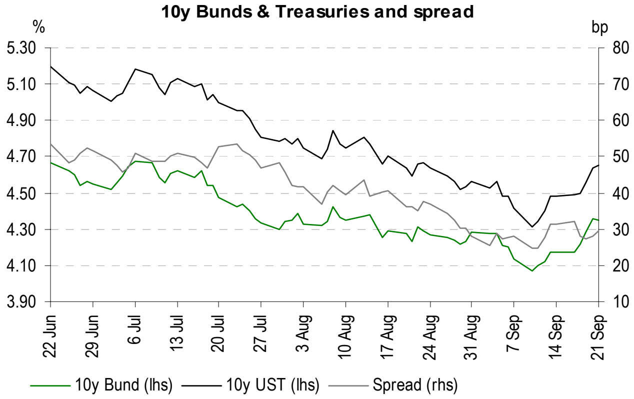
Yields slightly up on the local market

- During the week, yields of Polish bonds were slightly rising, among other erasing part of strong gains recorded after CPI data that were partly offset by solid labour market figures. Also, bonds reacted to weakening in core markets.
- Domestic data releases due this week and lack of interest rate change should be on balance neutral for the debt market. However, during the week some fluctuations are likely – initially strengthening after low core inflation, then rise in yields after strong retail sales figures. The MPC is likely to suggest that informal restrictive bias holds in monetary policy, which will be another factor unsupportive for local bonds market.



Dollar falling to new all-time lows

- Until the Fed's interest rate decision the dollar was slightly strengthening, but after more aggressive than expected rate cut and resulting return of risk appetite worldwide (triggering capital outflow from safe bond markets) the greenback plunged to new record lows. EURUSD rose to above 1.41 at the end of the week.
- Large number of important data releases in the US and euro zone may have significant effect on the dollar this week. If inflation figures will be as good as recently and house sales will continue falling, the dollar may be loosing ground further.



Yield curves steeper after US rate cut

- Surprising scale of Fed's rate cut resulted in steepening of US yield curve. Yields of bonds with longer maturities rose significantly amid returning risk appetite and growing concerns about inflation perspectives. At the end of the week, yields of 10Y Treasuries and Bunds returned to levels from mid-August – 4.68% and 4.35% respectively.
- This week core debt markets will remain under influence of numerous data releases and comments from a host of ECB and Fed speakers. Much attention will also focus on oil markets, with the price surging past the $80 a barrel level as inventories continue to fall, which could also affect inflation expectations.

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