Bank Zachodni WBK

Weekly economic update

28 January – 3 February 2008

Last week brought very large volatility in the financial markets. At the start of the week there was panic in stock markets, which supported the dollar and core debt markets, and at the same time hurt the zloty. After the Fed brought a relief with the rate cut of 75bps at the special meeting, the situation has reversed. The dollar and core debt markets started to weaken and the zloty, together with stock markets, was gradually recovering and eventually was slightly stronger than a week earlier. The domestic interest rates market gained on the week thanks to waning expectations of a scale of further tightening of the domestic monetary policy. Calendar of events this week is very heavy and the key day will be Wednesday when we will get domestic GDP figures, but above all decision on interest rates will be announced by the MPC and the FOMC.

Economic calendar

Time GMT	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST BZWBK	LAST VALUE
		MONDAY (28 January)					
09:00	EZ	Money supply M3	Dec	%YoY	12.2	-	12.3
15:00	US	New home sales	Dec	m	0.65	-	0.647
		TUESDAY (29 January)					
13:30	US	Durable goods	Dec	%	0.6	-	-0.1
14:00	US	Case/Schiller house price index	Nov	%YoY	-	-	-6.1
15:00	US	Consumer confidence	Jan	pts	86.0	-	88.6
		WEDNESDAY (30 January)					
09:00	**PL**	**Advanced GDP**	**2007**	**%YoY**	**6.5**	**6.4**	**6.2**
09:00	**PL**	**Domestic demand**	**2007**	**%YoY**	**7.8**	**7.6**	**7.3**
09:00	**PL**	**Fixed investment**	**2007**	**%YoY**	**20.6**	**19.2**	**15.6**
-	**PL**	**MPC meeting – decision**	**-**	**%**	**5.25**	**5.25**	**5.00**
13:15	US	ADP Report	Jan	'000	45.0	-	40.0
13:30	US	Advanced GDP	Q4	%	1.2	-	4.9
13:30	US	Core PCE	Q4	%	2.2	-	2.0
13:30	US	GDP deflator	Q4	%	2.5	-	1.0
19:15	US	FOMC meeting – decision	-	%	3.0	-	3.5
		THURSDAY (31 January)					
10:00	EZ	Flash HICP	Jan	%YoY	3.1	-	3.1
13:30	US	Initial jobless claims	w/e	'000	315.0	-	301.0
13:30	US	Core PCE	Dec	%	0.2	-	0.2
14:45	US	Chicago PMI	Jan	pts	51.0	-	52.0
		FRIDAY (1 February)					
09:00	EZ	PMI manufacturing	Jan	pts	52.6	-	52.6
13:30	US	Non-farm payrolls	Jan	'000	60.0	-	18.0
13:30	US	Unemployment rate	Jan	%	5.0	-	5.0
15:00	US	ISM manufacturing	Jan	pts	47.8	-	47.7
15:00	US	Final Michigan index	Jan	pts	75.8	-	75.5

Source: BZ WBK, PAP, Parkiet, Reuters

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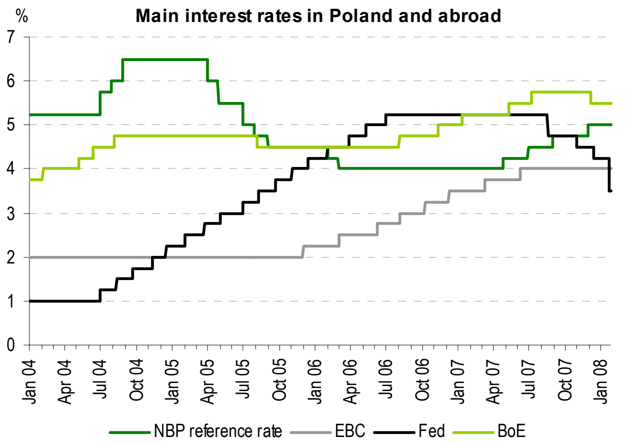
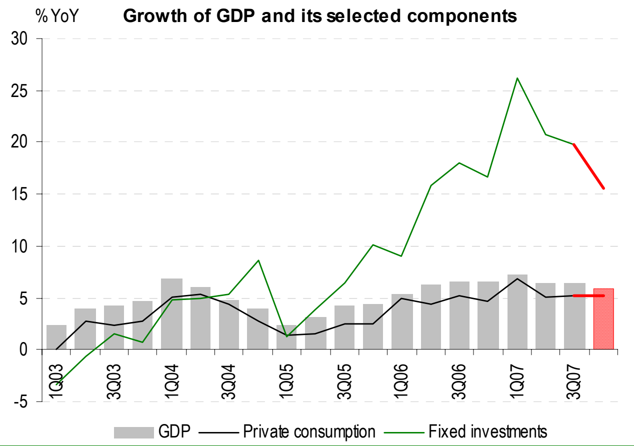
What's hot this week – Many crucial events



- The key day this week will be Wednesday when decision on interest rates will be announced by the MPC and Fed.
- Until recently it was entirely certain for market participants that the MPC will deliver another hike of 25bps at its January meeting. However, in face of fresh data from the economy and comments from rate-setters it seems that there is some probability that the Council would like to wait for clarification of the situation abroad and publication of next domestic data. However, our basic scenario and market consensus still assumed rate hike of 25bps this week.
- As regards the FOMC decision, the markets widely expect rate cut of 50bps. Lower scale of the cut would disappoint the markets and could increase risk aversion. Awaiting for FOMC decision may somewhat decrease strength of reaction to the MPC decision.



- On Wednesday in the morning, before announcement of the MPC decision, we will get preliminary GDP data for 2007 as a whole. Based on them it will be possible to estimate GDP growth and its components in 4Q07 alone.
- According to our forecasts, GDP growth in 4Q07 reached 5.9% with fixed investment growth at 15.5% and private consumption rise of 5.2%.
- Possible more significant deceleration in GDP growth from 6.4% in 3Q07 could have an impact on market's assessment of further monetary policy decisions.
- Apart from domestic GDP numbers and decision of the MPC and the FOMC, the Polish financial market may be affected this week by numerous major data releases abroad, especially next data from the labour and housing markets in the US.

Economy last week – Weaker than expected data again

- Retail sales data for December proved weaker than expected, similarly to majority of other macroeconomic indicators published recently.
- Nominal rise in retail sales was a mere 12.4%YoY, i.e. much lower not only from the market consensus of above 20%YoY, but even below our forecast of 18.5%YoY which was the least optimistic on the market.
- The numbers strengthened market expectations that there will be no more than two rate hikes of 25bp this year.
- The registered unemployment rate at the end of 2007 grew to 11.4% and the seasonal increase should be continued until February.
- Net inflation rose to 1.7%YoY in December, in line with estimates based on CPI data. Other core inflation measures also increased in December.

Quote of the week – Scale of necessary tightening has been reduced

Andrzej Wojtyna, MPC member, Dow Jones, 23 January

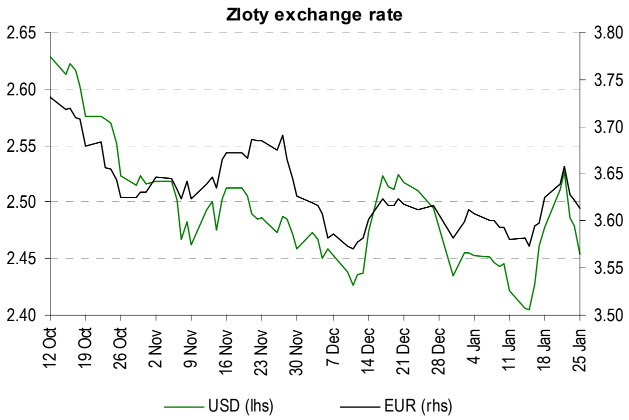
Our scope for monetary tightening has decreased somewhat because the rising probability of a (US) recession is doing part of the work for central banks.

Now I'd reduce the lower range of possible rate increases this year to one, which might be enough, although I wouldn't exclude two or more The Federal Reserve's easing) is a very serious part of the broader external environment, and in the sense of interest-rate disparity, it will affect our policy decisions. Especially, we will have to see how the ECB reacts.

I'd still maintain that the monetary tightening cycle isn't over and that we retain the equivalent of a restrictive policy bias. But compared with the situation at last month's policy meeting, I believe the scale of necessary tightening has been reduced.

Minutes of the MPC meeting in December have not changed assessment of the domestic monetary policy prospects. At the moment the market is more focused on comments from rate-setters on recently published data and developments abroad. In this context, there were important comments from MPC's Andrzej Wojtyna, which showed that his assessment of economic situation has changed since the December meeting. While he suggested that further monetary policy tightening is still needed, now Wojtyna believes that the minimum scale of further tightening may be just one move by 25bps, although he did not exclude two or three moves of the same scale. His statements suggest that the central bank may wait with hikes until situation abroad clarifies and its influence on the domestic economy and inflation prospects is more clear.

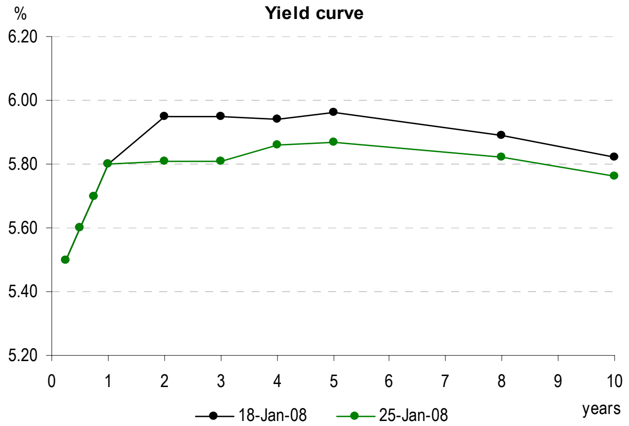
Market monitor



Zloty on the roller coaster

▪ Due to global panic in stock markets, the beginning of last week was not good for the zloty. EURPLN temporarily exceeded 3.67 and USDPLN topped 2.55. However, after the Fed delivered rate cut of 75bps, the domestic currency, together with stock markets, was gradually recovering and on Friday it was at slightly stronger levels than a week earlier with EURPLN at ca. 3.61.

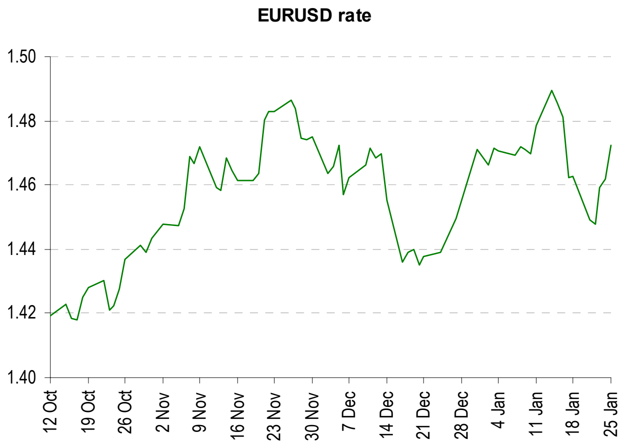
▪ This week the zloty will remain under influence of moods in the global stock markets, which will depend to a large extent on the outcome of the FOMC meeting. The MPC meeting will also be an important factor. Rate cut in the US and hike in Poland should be supportive for the zloty. For this week we maintain expected range of 3.57-3.67 for EURPLN and 2.44-2.54 for USDPLN.



Domestic bonds stronger again

▪ Weakening of expectations regarding further tightening of the domestic monetary policy led to strengthening of the Polish interests rate market last week. In the first part of the week the domestic debt market was additionally supported by falling yields in the core debt markets, but then Treasuries and Bunds experienced a correction, which triggered a wave of profit-taking in the Polish market. However, at the end of the week the domestic yield curve was lower than a week earlier. At the moment the interest rate market prices in no more than two rate hikes of 25bps this year.

▪ This week the key day for the domestic interest rates market will be Wednesday when we will get GDP data and MPC decision will be announced. Before these events, the market activity may be limited.

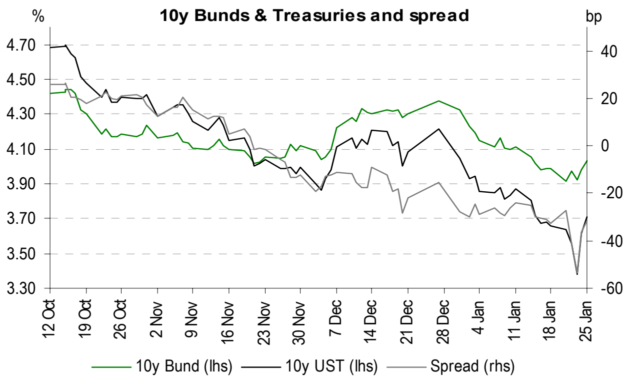


Dollar follows changes in risk aversion

▪ At the beginning of the week, along with increase in risk aversion, the dollar gained versus the euro. Before announcement of the FOMC decision, EURUSD was even temporarily below 1.44. However, later in the week the greenback was gradually weakening amid receding risk aversion. At the end of the week EURUSD exceeded 1.47 against 1.463 a week earlier. Apart from lowered risk aversion after the FOMC decision, rise in EURUSD was driven by better than expected data from the euro zone and lack of significant signals that the ECB would follow the Fed as regards rate cuts.

▪ This week EURUSD will be influenced by many

▪ W tym tygodniu kurs EURUSD będzie pod wpływem wielu wydarzeń, z których kluczowa będzie oczywiście decyzja Fed oraz dane o zatrudnieniu w USA.



Core debt markets temporarily gain on panic in stocks

▪ Panic in stock markets at the beginning of the week significantly increased investors' interest in safe assets. As a result, there was substantial fall in yields on the core debt markets. Before the FOMC decision 10-year Treasuries were at 3.30% against 3.66% at the end of the previous week, but after weakening later in the week, together with lowered risk aversion, on Friday they were at 3.72%. Yields of 10-year Bunds were temporarily below 3.79%, but at the end of the week increased to 4.03% against 3.99% a week earlier.

▪ This week the core debt markets may be again very volatile amid changes in moods on the global markets under influence of many important events.

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