Bank Zachodni WBK

Weekly economic update

14 – 20 April 2008

After a very calm period of no data releases, the next couple of days will bring a significant amount of economic information from the Polish economy. The focus will be on inflation, wages and employment figures, to be released on Tuesday. In our opinion, they should be quite positive for the debt market and also supportive for our view as regards the scenario of no interest rate hike at the nearest meeting of the MPC. Similar signal should be sent by data on production, scheduled for Friday, which are expected to show slowdown in economic activity in both industrial and construction sector. Probably, comments by MPC members will have at least the same significance for the market as the figures, as they will suggest to what extent the MPC willingness to tighten monetary policy would maintain under influence of news flow on the data front. We expect the positive surprise on the export side, though it has to be stressed that recent revision of trade data by the NBP created more risks for balance of payments indicators.

On the international markets we will also see a number of data releases concerning economic activity and inflation in the euro zone and the US. Also, a number of Fed members are scheduled to speak over the week.

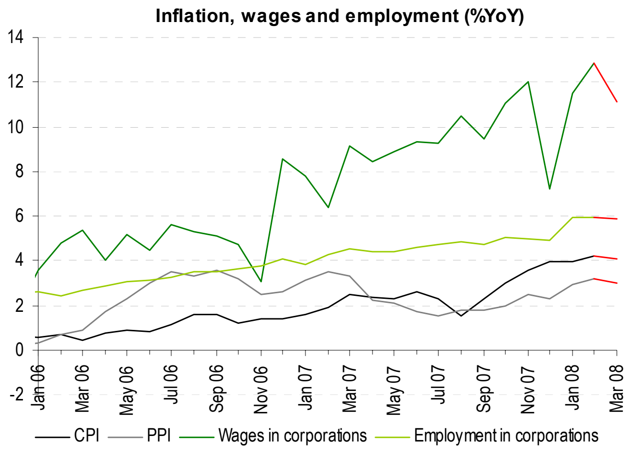
Economic calendar

Time GMT	COUNTRY	INDICATOR	PERIOD		FORECAST		LAST VALUE
					MARKET	BZWBK	
		MONDAY (14 April)					
9:00	EZ	Industrial output	Feb	%YoY	2.9	-	3.8
12:00	**PL**	**Money supply**	**Mar**	**%YoY**	**13.9**	**13.8**	**13.8**
12:30	US	Retail sales	Mar	%MoM	0.1	-	-0.6
		TUESDAY (15 April)					
9:00	DE	ZEW index	Apr	pkt.	-30.0	-	-32.0
12:00	**PL**	**CPI**	**Mar**	**%YoY**	**4.2**	**4.1**	**4.2**
12:00	**PL**	**Wages in enterprises**	**Mar**	**%YoY**	**11.1**	**11.1**	**12.8**
12:00	**PL**	**Employment in enterprises**	**Mar**	**%YoY**	**5.9**	**5.9**	**5.9**
12:00	**PL**	**Current account balance**	**Feb**	**€ bn**	**-1.01**	**-1.194**	**-1.035**
12:30	US	NY Fed index	Apr	pts.	-17.5	-	-22.23
12:30	US	PPI	Mar	%MoM	0.2	-	0.5
13:00	US	Capital flows	Feb	$ bn	-	-	37.4
		WEDNESDAY (16 April)					
9:00	EZ	Final HICP	Mar	%YoY	3.5	-	3.3
12:30	US	CPI	Mar	%MoM	0.3	-	0.0
12:30	US	House starts	Mar	m	1.02	-	1.065
13:15	US	Capacity utilisation	Mar	%	80.3	-	80.4
13:15	US	Industrial output	Mar	%MoM	-0.1	-	-0.5
		THURSDAY (17 April)					
12:30	US	New jobless claims	w/k	tys.	-	-	357.0
14:00	US	Philadelphia Fed index	Apr	pts	-15.0	-	-17.4
		FRIDAY (18 April)					
12:00	**PL**	**Industrial output**	**Mar**	**%YoY**	**8.3**	**5.1**	**14.9**
12:00	**PL**	**PPI**	**Mar**	**%YoY**	**3.2**	**3.0**	**3.2**

Source: BZ WBK, Parkiet, 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 – Accumulation of key data releases



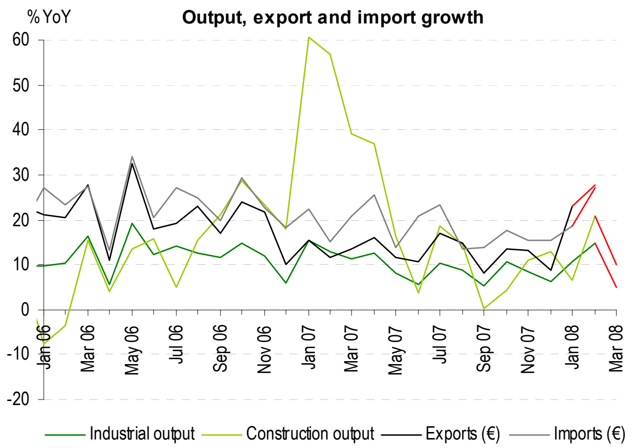
▪ Tuesday will be the key day of the week, when the data on CPI, labour market and balance of payments will be released.

▪ We predict a slight decline in inflation in March, and the Ministry of Finance has the same view, while median of market forecasts is at 4.2%YoY.

▪ Our forecasts of wages and employment in enterprises sector are consistent with market consensus and assume slight deceleration of pay rise amid still very hike job creation.

▪ Balance of payments data for February are likely to show export and import growth stronger than predicted by the market (which is suggested by high growth of output and sales in February), and slightly higher current account gap.

▪ Money supply and credit growth are likely to stabilise at February's levels, without major impact on the market.



▪ Friday's data about production and PPI should be, like inflation and wages, a support for our view assuming a break in MPC rate hikes.

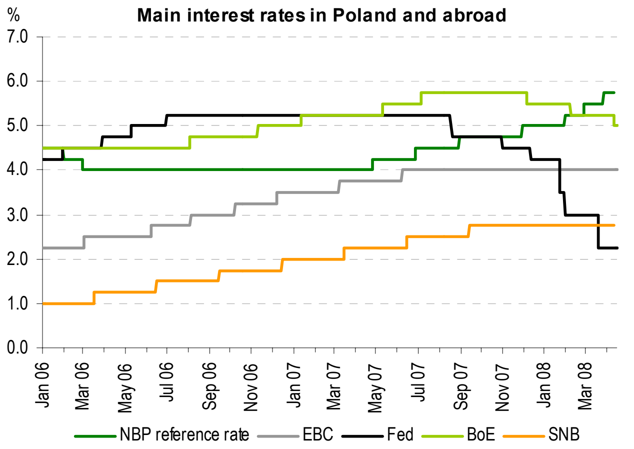
▪ Output growth in industry and construction has slowed down considerably in March, much more than assumed by the market consensus (to 5.1% and 10.1%YoY, respectively), mainly due to Easter holiday and fewer working days.

▪ PPI growth also slowed down this time, to 3%YoY (below market consensus).

▪ Even though reasons of output slowdown in March are of one-off nature, a scale of weakening, together with slightly better data on inflation and wages, plus very strong zloty appreciation can persuade the MPC to postpone a rate hike.

▪ This week, a large portion of data releases in the US and euro zone is in the agenda.

Economy last week – Central banks did not surprise



▪ As expected, the Bank of England lowered interest rates by 25bps and the main rate dropped to 5%. In turn the ECB kept interest rates unchanged with the refinance rate at 4%

▪ According to quarterly balance of payments data, the current account deficit in 4Q07 was slightly narrower than indicated by monthly statistics. There were also downward revisions to data for previous quarters – exports down, imports slightly down and as a result trade gap proved wider. This was partly offset by smaller deficit in the income account, related to significant correction of estimates of income sent to Poland by emigrants. It is possible that changes in NBP data will lead to revision of GDP data for the last two years, taking into account more negative contribution of net exports.

Quote of the week – Hawks ready to hike in April, Czekaj concerned about growth

Dariusz Filar, MPC member, PAP, 10 April

Rate hike in April is very likely, but final decision on the move will depend on the data and how they will affect trends observed so far.

Andrzej Wojtyna, MPC member, PAP, Reuters, 10 April

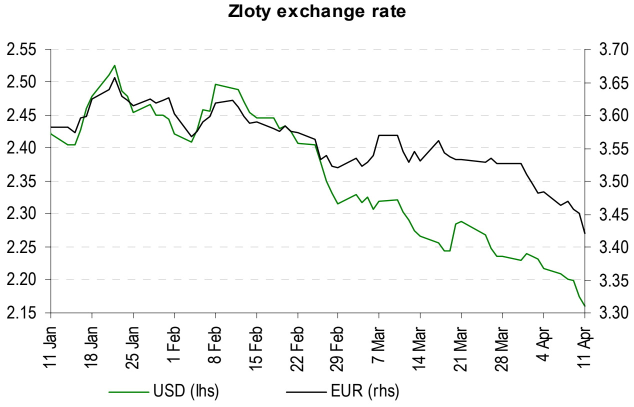
[Is a rate hike in April needed?] I think so. There have been no changes since the previous meeting, which would give us a possibility to pause rate hikes.

Jan Czekaj, MPC member, Rzeczpospolita, 8 April

If it turns out that inflation is higher than the target, but the economy slows down, then rate hikes are not obvious or even needed.

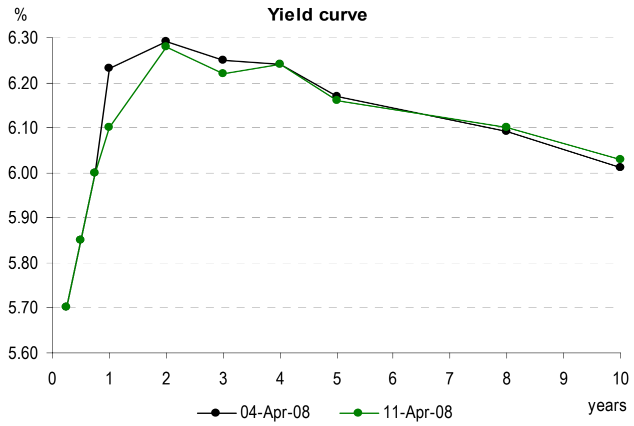
Hawkish members of the MPC probably will insist on another rate hike in April. However, even the most radical hawk, Dariusz Filar, admitted that the decision will depend on upcoming data. Taking into account our forecasts, which point to a clear deceleration in growth of output, retail sales and wages as well as some fall in the headline inflation rate, we expect that these rate-setters who often tip the balance during the votes will have arguments to wait with another hike. Especially that for instance Jan Czekaj stressed that if the economy slows, rate hike would not be needed. Another important factor, which should be taken into account by the Council is rapid appreciation of the zloty.

Market monitor



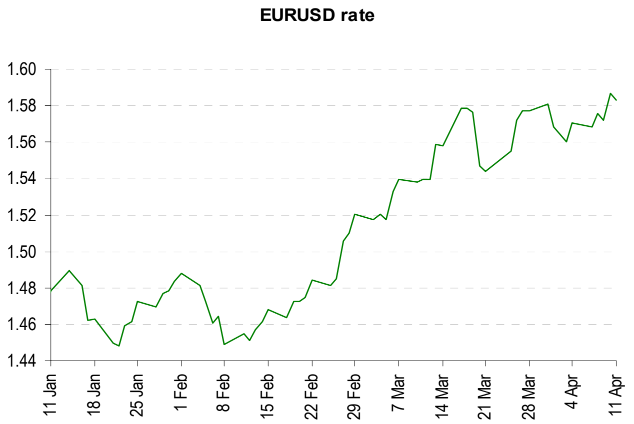
Is zloty appreciation trend really endless?

- The zloty has been appreciating during the whole week against both the euro and the dollar despite no new factors driving the market. Possibly, statements by deputy PM Pawlak on swift euro adoption, as well as hawkish comments of the MPC members could have had some influence but the key driver was the speculative capital flow from foreign investors. During the last ten sessions the zloty gained 10 groszy against the euro.
- On Friday the appreciation trend has been stopped and in our opinion data scheduled for this week should limit market expectations for interest rate hike already in April and thus may cause further correction. We expect the EURPLN to be trade in 3.40-3.50 range, while USDPLN should be within 2.13-2.23 trading range.



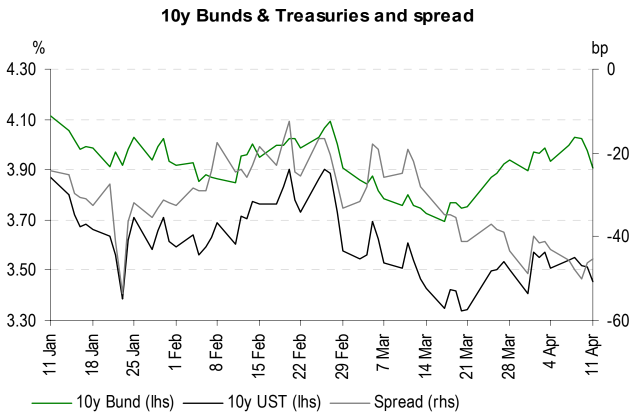
Debt market awaiting new data

- The Polish debt market showed limited activity during the week, as the investors has been awaiting the data releases for March. Even the unsuccessful auction of ten-year bonds had a limited influence on the market. The same applies to hawkish comments by MPC members, which led to some rises in yields, but the move was moderate and temporary.
- New economic data and fresh comments from MPC will be the key factors for the debt markets in the coming days. Given the fact that we see figures on inflation and production below market consensus, we see a chance for some decrease in Polish yields. Also, the fixed income will closely watch possible comments on the data by the members of the MPC.



The dollar on new record-lows

- The dollar lost again against other major currencies and the EURUSD rate saw fresh lifetime highs of 1.5915 ahead of ECB policy announcement, losing some of its gains (1.579) as profit taking followed the news of unchanged rates. Also, some influence was observed of negative newsflow on financial results of big US companies, US economic data and Fed minutes.
- Concerns about the upward pressure on prices worldwide and the dilemma it is causing for central banks should feature high on the agenda this week, having a possible impact on the EURUSD rate. Also, the US retail sales report for March and business climate information will provide the latest insight in terms of real economic activity. The market will also focus on Fed comments.



Yields higher in Europe on high inflation

- Core bond markets had weakened during the week despite the fact that moods on equity market were not so positive either and the risk aversion was important element on the market again. US yields were under influence of Fed minutes, showing a possibility of worse-than-expected economic scenario for the US.
- This week the key data for the global fixed income market will concern inflation. US year-on-year PPI and CPI rates are forecast to remain at elevated levels and will likely reinforce the Fed's concerns about a potential rise in inflation expectations. Yields will be also under influence of central bankers' speeches, data on economic activity and Fed Beige Book.

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