

Weekly economic update

29 September – 5 October 2008

As the work in the US Congress on the rescue plan for the financial industry went into a stalemate and there was no progress until the end of the Polish session on Friday, moods in the financial markets were faltering last week. Uncertainty concerning the future of the plan was negatively affecting the zloty which depreciated against major currencies. The zloty was also not supported by growing doubts regarding chances for realisation of quick euro adoption path.

The MPC kept main interest rates on hold at its September meeting but maintained restrictive bias, despite the official statement included indication of higher risk for economic growth. The Council has not yet taken a clear stance on the declared aim to achieve positive assessment of meeting convergence criteria in 2011. Possibly, a reference to this will be included in the Monetary Policy Guidelines for 2009 that will be released in the next days. Meanwhile, MPC member Dariusz Filar said that the Council may lower inflation target in the Guidelines for 2010 or declare that it will try to fulfil the target with a large safety margin. We still believe that confirmation of fast euro adoption target calls for further monetary policy tightening. Apart from the publication of Monetary Policy Guidelines, the Polish market will also pay attention to the FinMin's inflation forecast, but mostly to the fate of the US rescue plan.

Economic calendar

Time GMT	COUNTRY	INDICATOR	PERIOD		FORECAST		LAST VALUE
					MARKET	BZWBK	
MONDAY (29 September)							
09:00	EZ	Sentiment index	Sep	pts	87.5	-	88.8
12:30	US	Core PCE	Jul	%MoM	0.2	-	0.3
TUESDAY (30 September)							
	PL	Balance of payments	Q2	€m	-	-5420	-4038
09:00	EZ	Flash HICP	Sep	%YoY	3.6	-	3.8
12:30	US	Case/Shiller house price index	Jul	%YoY	-16.1	-	-15.9
13:45	US	Chicago PMI	Sep	pts	54.0	-	57.9
14:00	US	Consumer confidence	Sep	pts	54.0	-	56.9
WEDNESDAY (1 October)							
07:00	PL	PMI	Sep	pts	-	46.0	45.8
09:00	PL	Auction of 5Y bonds					
08:00	EZ	PMI – manufacturing sector	Sep	pts	45.3	-	47.6
12:15	US	ADP report	Sep	'000	-57.0	-	-33.0
14:00	US	ISM – manufacturing sector	Sep	pts	49.5	-	49.9
THURSDAY (2 October)							
9:00	EZ	PPI	Aug	%YoY	8.5	-	9.0
11:45	EZ	ECB decision	Oct	%	4.25	4.25	4.25
12:30	US	Initial jobless claims	w/e	'000	475.0	-	493.0
14:00	US	Factory orders	Aug	%MoM	-2.3	-	1.3
FRIDAY (3 October)							
8:00	EZ	PMI – services sector	Sep	pts	48.2	-	48.5
9:00	EZ	Retail sales	Aug	%YoY	-4.4	-	-2.8
12:30	US	Non-farm payrolls	Sep	'000	-100.0	-	-84.0
12:30	US	Unemployment	Sep	%	6.1	-	6.1
14:00	US	ISM – services sector	Sep	pts	51.0	-	51.6

Source: BZ WBK, Reuters

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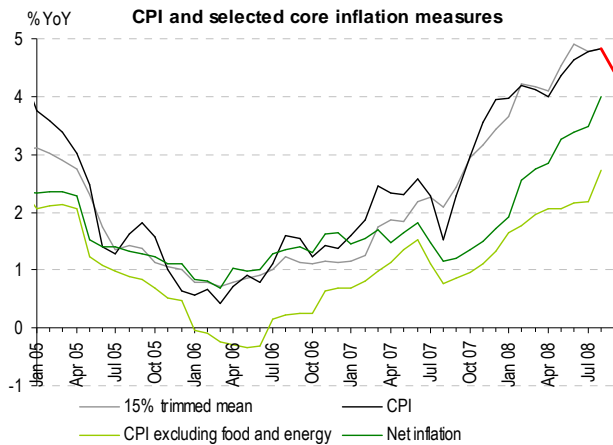
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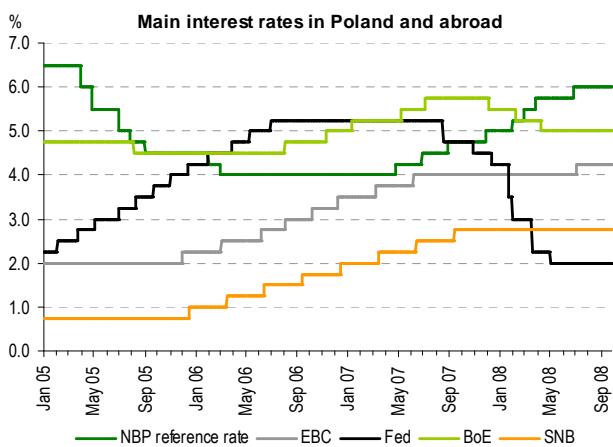
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What's hot this week – Important domestic events overshadowed by crucial news from abroad

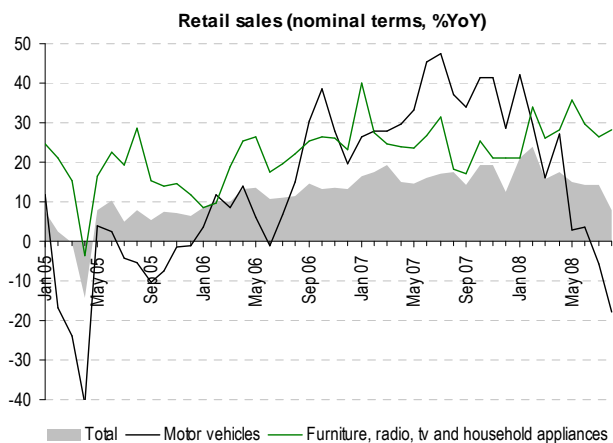


- Important domestic event this week will be publication of the Monetary Policy Guidelines for 2009, although it is not known yet on what day this will take place. On Wednesday (most likely at 08:00 GMT) FinMin will release its CPI inflation estimate for September. Our forecast is at 4.5%YoY. On the same day we will get Poland's PMI manufacturing for September and auction of 5Y bonds will be held. Release of the balance of payments for Q2 should have relatively the weakest influence on the market, unless it bring significant revision to earlier released monthly data.
- While local events will be important, the key focus of attention of all markets in the world will be still on fate of rescue plan for the US financial sector. Market will also pay much attention to outcome of the MPC meeting (focusing on comments from Trichet) and to the US non-farm payrolls report.

Economy last week – No rate hike in September after weak data



- The Monetary Policy Council kept rates on hold. It seems that possible prospects of fast euro adoption process did not affect the decision, which was connected with no precise plan of the government in this regard.
- Despite this and with the expected economic slowdown, which was mentioned in the statement, the MPC maintained the restrictive bias in monetary policy and did not exclude possibility of further tightening.
- It is still likely that rates will be raised this year and this will depend to a large extent on the results of CPI and GDP projection due for publication in October. Also, *Monetary Policy Guidelines for 2009*, which will be published in the next days, will be an important hint showing the MPC's reference to the government's plans of fast euro adoption and its potential influence on monetary policy prospects.



- Retail sales data for August were another negative surprise this month, indicating significant slowdown of annual growth, mainly due to falling sales of motor vehicles. However, data on auto sales probably do not include rising private imports of cheaper cars from abroad. Other categories of retail sales still experience robust growth suggesting that consumption demand remains strong.
- Nevertheless, the data increased uncertainty about further development of the economic situation and downward risk to our GDP growth forecast of 4.8% for Q3, although deputy CSO President Janusz Witkowski said that based on monthly data for July and August GDP growth in Q3 should be just lower than 5.8% in Q2.
- The registered unemployment rate fell again in August, although detailed data on employment in the enterprise sector showed there were job losses in manufacturing again.

Quote of the week – Euro zone should be preceded by a referendum before going into EMR2

Przemysław Gosiewski, head of PiS caucus, PAP, 25 September
PiS says very clearly that entry to the euro zone should be preceded by a referendum that must take place before the ERM2 entry, i.e. before autumn 2009. If Poles opt in favour of euro, it would oblige the parliament to change the constitution.

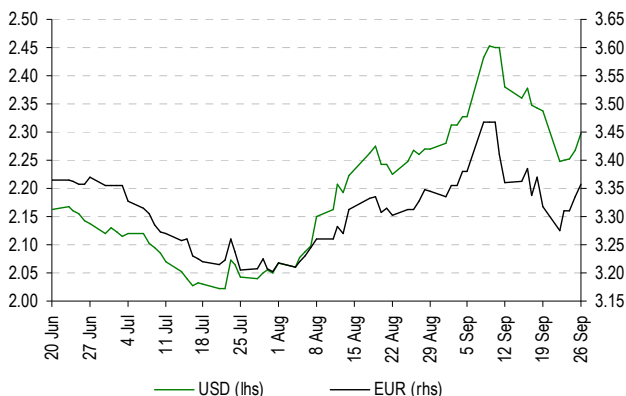
Jarosław Kaczyński, PiS president, PAP, 25 September

It is [entry to the euro zone] used to raise prices. There were already experiences of many countries and everywhere it was the same, everywhere the prices were rising. If several last years showed some improvement, even though not everyone has felt it, this improvement may be erased through introduction of euro. Therefore, we are against it.

According to head PiS caucus, his party is of the opinion that a referendum regarding Poland's euro zone entry should be held before introducing necessary changes to the Constitution and going into ERM2. In turn, head of the PiS party, Jarosław Kaczyński said again explicitly that his party is against the euro adoption in Poland within the next dozen or so years (earlier he had mentioned years of 2020-2025 as a possible date of entry). Lack of support in the parliament for the changes in the Constitution may be important problem on the road to the euro zone. Introduction of the changes in the next months, with or without referendum, seems unlikely. Delay in legislative changes and an attempt to carry out them already in the ERM2 is a risky solution, as it could lead to increased volatility in the FX market, pose a threat to fulfilment of the exchange rate criterion.

Market monitor

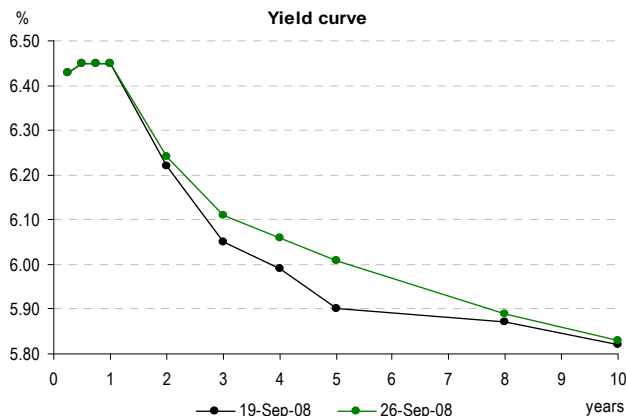
Zloty exchange rate



The zloty weakens amid high uncertainty in markets

- Last week the depreciation trend on zloty was dominating. The domestic currency was weakening against the euro for the whole week, and against the dollar it appreciated only temporarily on Monday, when there was a sudden jump of the EURUSD rate. An increase in risk aversion connected with growing concerns about the prospects of the US bailout plan was negative for the zloty. Rising uncertainty over the chances for soon euro adoption also did not help the Polish currency.
- This week the zloty performance will depend on the development of the situation abroad, though the FinMin inflation forecast as well as details of the Monetary Policy Guidelines for 2009 may also influence the FX market. We increase the trading range for EURPLN to 3.30-3.40 and we leave than range for USDPLN unchanged at 2.25-2.35.

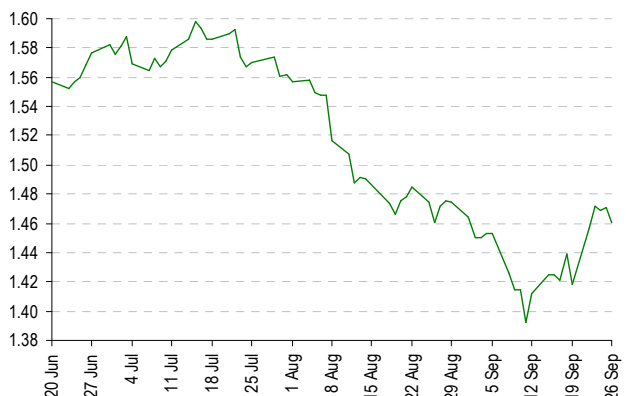
Yield curve



Domestic yields curve up

- Yields of domestic bonds went up last week, especially in the segment of 5Y. The reason for the weakening was increase in risk aversion in the global markets after enthusiasm related to the US rescue plan had started to wane. Outcome of the MPC meeting had no significant impact on the market, although lack of reference to the declared path of the euro zone entry should be treated as support for the local bonds.
- If Monetary Policy Guidelines for 2009 will include the reference to the path of swift euro adoption and suggestion that this should be connected with more restrictive monetary policy, this would have negative impact on the Polish bonds in 2-5Y segment and positive influence on the long end of the yield curve.

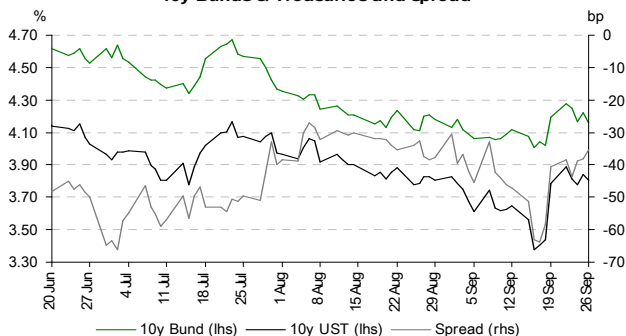
EURUSD rate



The dollar recovers from losses at the start of the week

- At the start of the week the dollar significantly weakened against the euro due to market concerns, the rescue plan for the financial sector is going to substantially deteriorate the condition of the US public finance and even if this restore confidence in US financial sector, this will lower confidence in the dollar. Afterwards, the dollar gradually recovered amid information on the disagreement of some congressmen against the proposed plan.
- This week further actions on the US financial sector bailout plan are going to be crucial for EURUSD, though much will depend on the result of the ECB meeting and next data from the euro zone and the US. Among data releases, the key one for the dollar will be US non-farm payrolls report with strong fall in employment expected again.

10y Bunds & Treasuries and spread



Core debt markets little changed

- In the course of the week yields in the core debt markets strongly fluctuated, following changes in investors moods over the future of the US government bailout plan for the US financial sector. Nevertheless, at the end of the week yields of 10Y Treasuries and Bunds were almost at the same levels as the week before reaching 3.81% and 4.15% against 3.79% and 4.18% a week earlier.
- This week the key issue for the core debt markets will be decisions on the US rescue package for the financial sector. Apart from this, market will focus on the European Central Bank meeting as well as many data releases, especially the US non-farm payrolls report.

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