

Weekly economic update

12 – 18 January 2009

The data published in the past few weeks, both abroad and locally, suggest that economic slowdown in next quarters will be significant and at the same time inflation outlook should improve considerably. This is important for assessment of central banks policy, including the Polish MPC, which trimmed rates by 75bps before Christmas. Last week, rates were cut by the Bank of England and the next week should bring a rate cut in the euro zone. The ECB meeting will be the key market driver this week, apart from some next major data in the euro zone and the US.

Locally the market will focus on December's CPI figures and balance of payments for November. The latter should show, according to our forecasts, a clear slump in export and import growth rates in reaction to weakening in domestic demand. The C/A deficit in November was probably narrower than in previous months, but the cumulated 12M C/A gap will increase above 5.5% of GDP due to an effect of low base a year ago. Monetary statistics usually do not have impact on the market. This time their interpretation will be additionally more difficult due to large influence of the zloty depreciation in the ending of 2008 on zloty-value of loans and deposits denominated in foreign currency.

Economic calendar

Time GMT	COUNTRY	INDICATOR	PERIOD		FORECAST		LAST VALUE
					MARKET	BZWBK	
MONDAY (12 January)							
10:00	PL	Auction of 52-week Treasury Bills (PLN500-600m)					
TUESDAY (13 January)							
13:30	US	International trade	Nov	\$ bn	-51,0	-	-57,2
WEDNESDAY (14 January)							
10:00	PL	Auction of 20Y fixed coupon bonds WS0429 (PLN1-2bn)					
10:00	EZ	Industrial production	Nov	%YoY	-6.0	-	-5.3
13:00	PL	CPI	Dec	%YoY	3.3	3.5	3.7
13:00	PL	M3 money supply	Dec	%YoY	17.8	17.8	18.0
13:30	US	Import prices	Dec	%MoM	-5.3	-	-6.7
13:30	US	Retail sales	Dec	%MoM	-1.2	-	-1.8
THURSDAY (15 January)							
10:00	EZ	HICP final	Dec	%YoY	1.1	-	1.4
12:45	EZ	ECB decision	Dec	%	2.0	2.0	2.5
13:00	PL	Current account balance	Nov	€ bn	-2.0	-1.62	-2.22
13:30	US	Jobless claims	w/e	k	500.0	-	467.0
13:30	US	NY Fed manufacturing index	Dec	pts.	-25.0	-	-25.76
13:30	US	PPI	Dec	%MoM	-2.0	-	-2.2
15:00	US	Philadelphia Fed index	Dec	pts.	-34.5	-	-32.9
FRIDAY (16 January)							
13:30	US	CPI	Dec	%MoM	-0.9	-	-1.7
14:15	US	Capacity use	Dec	%	74.6	-	75.4
14:00	US	Overall capital flows	Nov	\$ bn	-	-	286.3
14:15	US	Industrial production	Dec	%MoM	-0.9	-	-0.6
14:55	US	Michigan preliminary index	Jan	pts.	59.0	-	60.1

Source: BZ WBK, Parkiet, Reuters

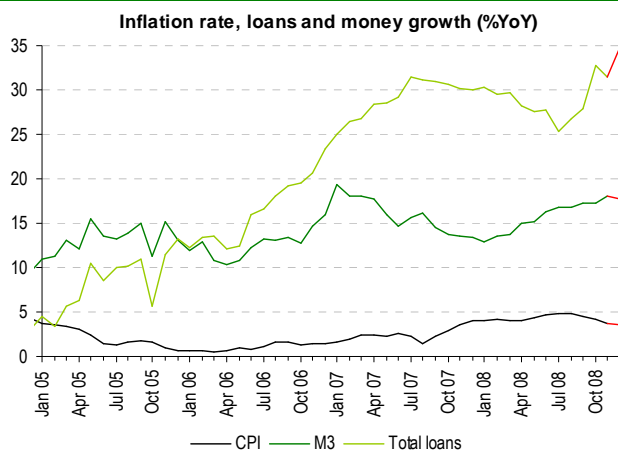
Maciej Reluga Chief economist (+48 22) 586 8363

Piotr Bielski (+48 22) 586 8333

Piotr Bujak (+48 22) 586 8341

Cezary Chrapek (+48 22) 586 8342

e-mail: ekonomia@bzwbk.pl

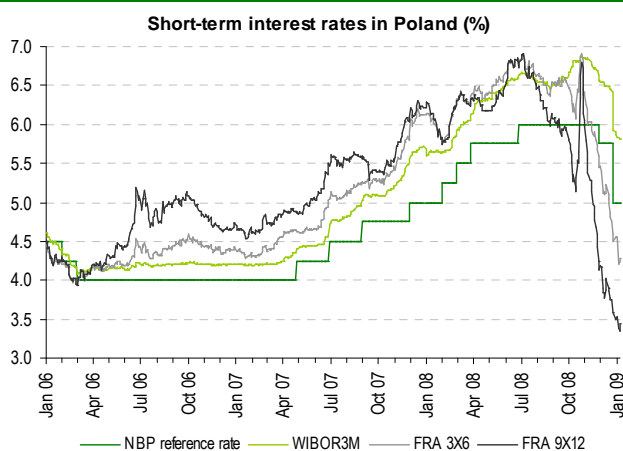
What's hot this week – First domestic data in the new year

- This week will be dominated by the data releases in the US and the euro zone, as well as the expectation for the decision of the ECB. We expect the bank will cut interest rates again by 50 bp after a series of news on weakening demand and falling inflation.

- The most important domestic release will be the CPI data for December. Our estimate is 3.5%YoY, though we see downward risk due to collapse of fuel prices.

- The results of the balance of payments will most probably show a substantial collapse in exports, though this time in our view the current account deficit should decrease (€-1.6bn), due to even stronger deceleration in exports.

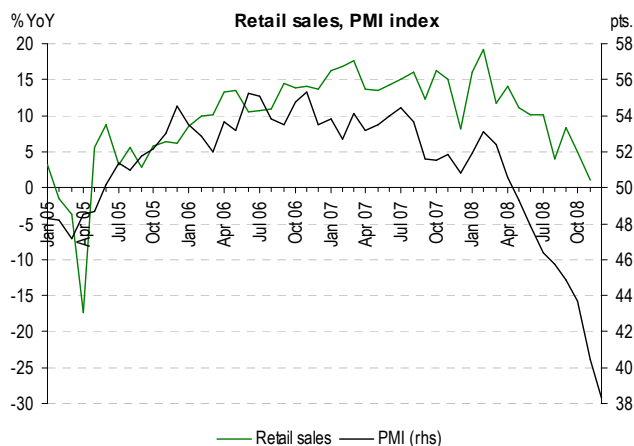
- The December data are going to show substantial rise in loans value, which is an effect of strong zloty depreciation at the year-end (revaluation of foreign currency loans). Next months are going to show deceleration in loans.

Economy last week – Interest rates down, as economy slows

- The MPC lowered interest rates by 75 bp just before Christmas (the reference rate fell to 5.0%), slightly stronger than it was assumed by analysts. However, such scale of the reduction was not a big surprise, due to very unfavourable news from the economy, which were released before the meeting.

- There is no doubt that one should expect next interest rates reductions in 2009. There is only question about the scale and timing. Taking into account recent comments of the MPC members, decisions of central banks abroad and data suggesting economic slowdown in Poland, we expect interest rate cuts in January and February by 50 bp, and further reduction of the reference rate to 3.5% in Q2.

- Concern about excessive zloty depreciation will be probably a factor preventing the MPC from one deeper interest rate reduction.



- The data released at the end of December showed quite pessimistic picture of Polish economy at the end of the year.

- Retail sales growth in November reached only 2.7%YoY (significantly below consensus), the consumer confidence in December worsened significantly, the rate of registered unemployment increased in November to 9.1%, and detailed data on wages showed that apart from large bonuses in mining sector, the slowdown in wages growth in November was even larger than it seemed.

- A clear drop in business climate indices of the CSO and also in PMI index showed that further weakening of industrial output in December should be expected and deterioration in economic activity in next months is possible.

Quote of the week – ERM2 without constitution change or thanks to no discipline in PiS?**Donald Tusk, Prime Minister, Dziennik, 30 December**

There will be no referendum, it is not considered any more. (...) The euro zone road map will be realised this way or another. Perhaps, the parliamentary elections in 2011 may play the role of referendum. Or perhaps PiS will not be unanimous in this case?

Ludwik Kotecki, deputy finance minister, PAP, 8 January

We are following the road map, which is currently binding. The Prime Minister announced entering the ERM2 in Spring, which stays in force.

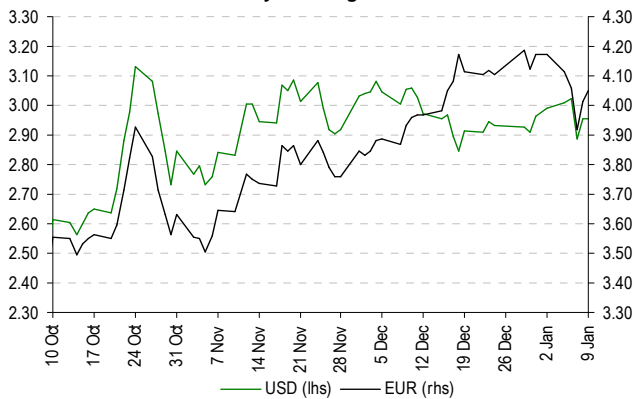
Jacek Rostowski, deputy finance minister, PAP, 9 January

I do not expect that there will be no required consensus in order to change constitution (before the ERM2 entry).

Prime Minister declared there will be no referendum on euro adoption and at the same time the government holds declarations of earlier accepted "road map". This may mean a decision of entering the ERM2 without changing the constitution, which in our view is a very risky solution (there is a threat that the stay in the ERM2 will lengthen without reason). However, one may not rule out that PO counts for gaining support for changing the constitution of some PiS members despite the official objection of this party (only a few votes are needed). It is hard for us to assess how probable is this scenario, though up till now on crucial issues the PiS parliament members were disciplined. The MPC member Andrzej Wojtyna wrote recently that such strategy of "shelling out" representatives of the opposition would bring very important issue to "primitive political game".

Market monitor

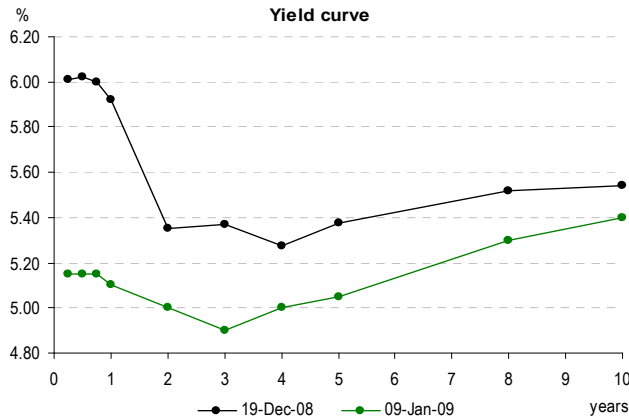
Zloty exchange rate



FX rollercoaster at the turn of the year

- After a significant depreciation of the zloty in the last days of December, when the EURPLN broke 4,20 amid limited liquidity, the start of the year showed a significant strengthening of the Polish currency (below 3.90). However, the zloty lost again in the next couple of days (to 4.08) and the week ended at 4.05 against the euro and 2.99 against dollar.
- We still expect high volatility on the Polish foreign exchange market, maintaining our forecast for the average EURPLN rate at 4,0 in January. Our expected trading range for the next week is 3.95-4.00 for EURPLN and 2.90-3.00 for USDPLN. We still see a potential for the zloty to strengthen during the year, though the unfavourable development of the situation regarding the euro zone (and possibly also ERM2) entry might limit the zloty appreciation.

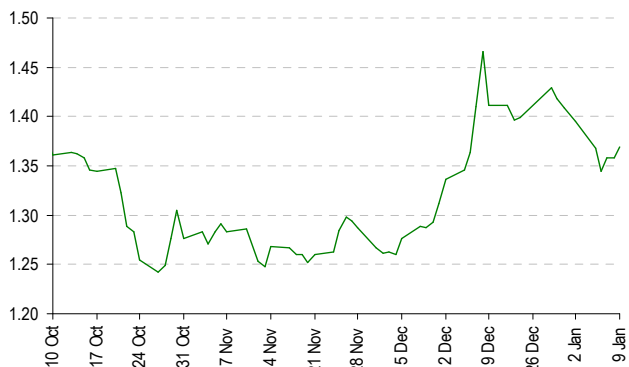
Yield curve



Yields down, as official rates expected to fall sharply

- The significant move by the MPC In December, as well as reinforcing expectations for next swift and large steps caused a strengthening in the interest rate market, especially at the short-end of the curve. FRA and IRS levels continued sharp downward trend, pricing-in a possibility of the NBP reference rate to fall as low as 3% during the year.
- Next week the debt market will concentrate on December's inflation forecast by the Ministry of Finance, as well as further comments by MPC members. We do not expect the market to reverse from current pricing of aggressive cuts by the Polish central bank in January or February. Especially as the ECB decision expected on Thursday will probably make next cuts by the MPC even easier.

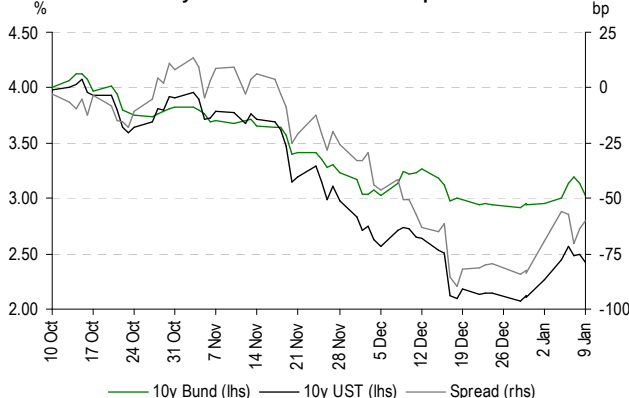
EURUSD rate



Beginning of the year positive for the US dollar

- The first days of 2009 showed positive trend for the American currency. The US dollar strengthened against the euro temporarily to 1.35, which was connected with rising expectations for another interest rate cut by the ECB during the upcoming meeting. Also, market participants hoped that activity of both Fed and US administration will help to revive the US economy.
- Despite a moderate improvement in market moods at the beginning of the year, uncertainty is still very high regarding further development of the situation on the market, which may caused high volatility on FX markets. ECB decision and new data releases in both the euro zone and the US will be the key for EURUSD rate this week. There is a chance for further dollar strengthening assuming the ECB communiqué will be dovish.

10y Bunds & Treasuries and spread



Large debt supply weighs on core bond markets

- After significant strengthening in core debt markets at the end of the year and a drop in yields to record low levels, there was a correction, triggered by improvement in sentiment in stock markets and mounting worries about growing size of debt supply, particularly in the US.
- Data to be released this week (GDP in Germany, industrial output in euro zone) are likely to confirm a need for more easing by the ECB. Together with a rate cut on Thursday and likely doveish statement, this should be a support for European bonds. There will be reasons for debt strengthening also in the US – weak retail sales figures, plus CPI and PPI data that should confirm that inflationary pressures are waning.

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. Information presented in the publication is not an investment advice. 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. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. 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