Bank Zachodni WBK

Weekly economic update

9 – 15 March 2009

The first week of March brought no information that changed substantially our assessment of economic situation in Poland and abroad. However, one should notice a change in behaviour of financial markets participants, who started distinguishing between particular countries in our region, which was reflected in forex markets performance. It was triggered by publication of several reports and articles, underscoring relatively good assessment of situation in Poland and Czech Republic as compared to other countries in the region. Data about GDP growth in Q4 2008, which were close to our estimates, also confirmed relative strength of our economy – annual GDP growth in Poland, despite a clear slowdown, was one of the highest in the EU; also, Poland was one of a few countries that avoided a negative quarterly growth in GDP in Q4.

The nearest days should pass in expectation for publication of Friday's data about inflation. As every year, data for February is biased with additional uncertainty resulting from effect of weights change in CPI basket, which is hard to asses a priori. Our forecast, consistent with market consensus, predicts slight rise in inflation to 3.2%, while the Ministry of Finance estimated it should be 3.4%. Comments of MPC members following the data release will be equally important as the data itself. One should keep in mind that the MPC used to predict possible inflation rise in the nearest months, and in spite of that it anticipated a fall in inflation below the target in the medium run. Data about balance of payments for January are not likely to be optimistic, as they will show a deep slump in exports and imports, following sharp contraction in industrial production. Current account deficit in relation to GDP should remain at moderate level 5.5%. Number of key events abroad is limited this week, with data about retail sales in US and euro zone in the foreground. Comments from the Fed's Bernanke will also be closely watched. Polish borrowers will be also interested in the Swiss National Bank's decision about interest rates, due on Thursday.

Economic calendar

Time GMT	COUNTRY	INDICATOR	PERIOD		FORECAST		LAST VALUE
					MARKET	BZWBK	
		MONDAY (9 March)					
10:00	**PL**	**Auction of PLN1.1-1.4m of 26-week and PLN1.5-1.8bn of 52-week T-bills**					
		TUESDAY (10 March)					
10:00	EZ	PPI	Jan	%YoY	0.6	-	1.8
14:00	US	Wholesale inventories	Jan	%MoM	-1.0	-	-1.4
		WEDNESDAY (11 March)					
10:00	**PL**	**Switching auction**					
		THURSDAY (12 March)					
12:30	US	New jobless claims	w/e	k		-	639.0
12:30	US	Retail sales	Feb	%MoM	-0.4	-	1.0
13:00	CH	SNB meeting - decision		%	0.25	-	0.5
		FRIDAY (13 March)					
10:00	EZ	Retail sales	Feb	%YoY	-2.1	-	-1.6
12:30	US	Import prices	Feb	%MoM	-0.5	-	-1.1
12:30	US	Trade balance	Jan	$ bn	-38.2	-	-39.93
13:00	**PL**	**CPI**	**Jan/Feb**	**%YoY**	**3.2**	**3.2**	**3.1**
13:00	**PL**	**Current account balance**	**Jan**	**€ bn**	**-1.32**	**-1.25**	**17.7**
13:00	**PL**	**Money supply**	**Feb**	**%YoY**	**17.0**	**16.6**	**-1.92**
13:55	US	Preliminary Michigan index	Mar	pts.	55.0	-	56.3

Source: BZ WBK, *Parkiet* daily, Reuters

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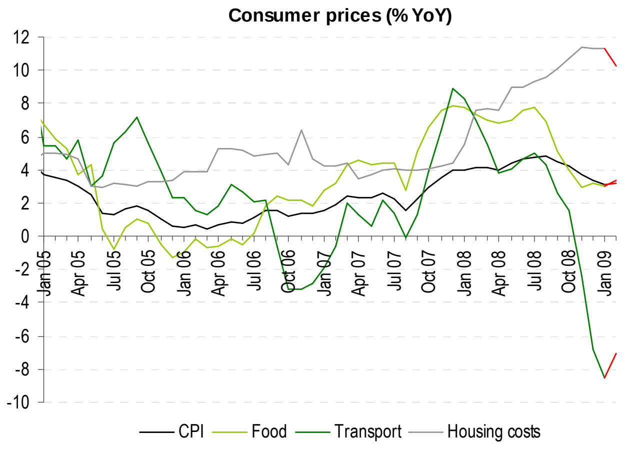
What's hot this week – Awaiting new data

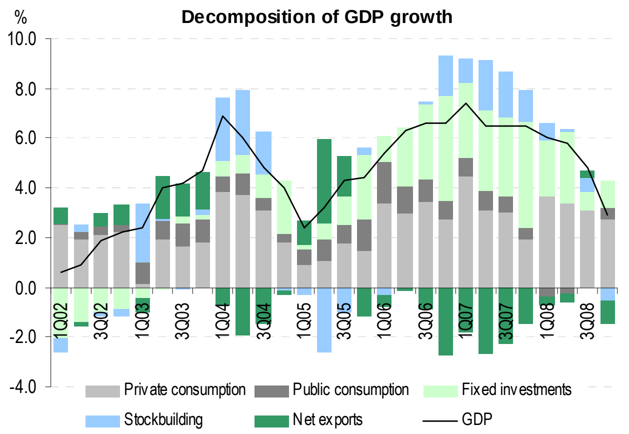


▪ This week will pass in expectation for Friday's CPI data. Our estimate is consistent with market consensus at 3.2%YoY, however spread of forecasts is extremely large (from 2.9% to 3.6%). According to FinMin, inflation rose to 3.4% in February, which was caused mainly by hike in costs of fuels and energy. Uncertainty about the result is magnified by annual change in structure of weights in CPI basket.

▪ Apart from inflation, also balance of payments data for January will be released on Friday, which are likely to show further drop in imports and exports, following a collapse in industrial production. Our forecast of exports (-27.5%YoY) is among the most optimist in the market. Current account deficit should remain at ca. 5.5% of GDP.

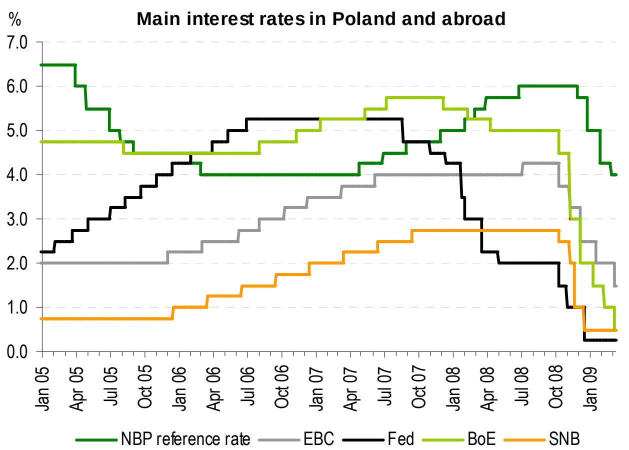
▪ Data about money supply will be least important for the market, as usually. Especially that loan growth in February was still biased up by zloty depreciation.

Economy last week – Next signs of a slowdown, rate cuts in Europe



▪ GDP growth in Q4 was close to our estimates based on preliminary GDP figures for entire 2008, and it slowed down to 2.9% from 4.8% in Q3, amid investment growth of 3.5% and private consumption rise 5.2%. Contribution of net exports was much worse than expected, and it reduced GDP growth in Q4 by 0.9 pp. In general, the data did not change our GDP forecasts for 2009, as for them much more important will be upcoming monthly data.

▪ PMI index for Polish manufacturing sector in February was slightly better than expected, increasing to 40.8 from 40.3 in January. Nevertheless, the index remains clearly below 50, signalling that economic situation in manufacturing has been still deteriorating, although at slightly smaller pace.



▪ In line with expectations, the European Central Bank cut main interest rates by 50 bp to 1.5%. The Bank of England also trimmed rates by 50 bp, to 0.5%. Although in both cases main interest rates fell to the lowest levels in history, one could expect this was not the end of monetary policy easing in Europe. Interest rate in the euro zone may go down to 1% in Q2. Also, further easing in the UK cannot be excluded. This week, the Swiss National Bank will decide about interest rates level and the market consensus predicts a 25 bp rate cut.

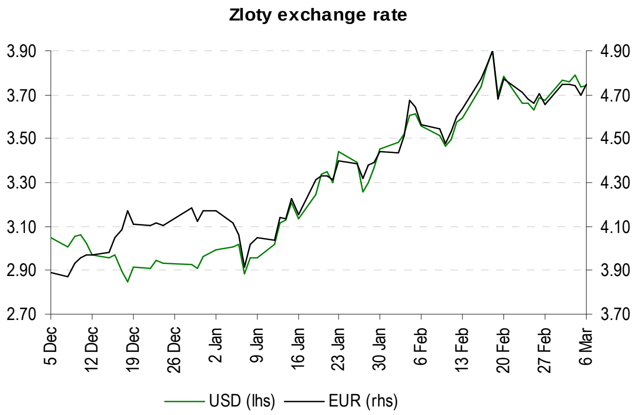
▪ US unemployment rate increased to 8,1% in February, the highest level in more than 25 years, non-farm payrolls fell by 651,000, and data for the preceding months were revised down significantly. Despite positive reaction of US stock markets, the data showed that American economy is still far from bottoming out.

Quote of the week – What about interest rates?

Mirosław Pietrewicz, MPC member, Reuters, 5 March
In my opinion we need one or two decisive rate cuts and assumption that we stabilise rate at this level – something like former neutral bias. Those rate cuts should be quick and concentrated in time.
Jan Czekaj, MPC member, TVN CNBC, 5 March
Surely, if we lower interest rates, there will be no more cuts by 75 bp, as it was the case in December and January. (...) taking into account current state of the economy, we may state that interest rate cuts of 25-50 bp are likely.
Dariusz Filar, MPC member, Rzeczpospolita, 5 March
Moves of the main rate are not crucial for the economy at the moment. Two actions are possible, closely related to each other. (...) we may reduce reserve requirement ratio, and at the same time cut deposit rate.

Latest comments of MPC members show that opinions of central bankers about future monetary policy decisions are highly divided. We expect that, similarly as in February, the macroeconomic data that will be released before the MPC meeting will be bad enough to trigger another rate cut, however a scale of reduction will be probably again a compromise between those who want to act decisively and those more cautious. Possibly, the vote will be again 5:5, as was the case several times in the last couple of months. It cannot be excluded that apart from cut in main reference rate (not instead, as suggested by D. Filar), the MPC will decide to lower reserve requirement ratio and/or cut deposit rate more aggressively in order to revive bank loans market.

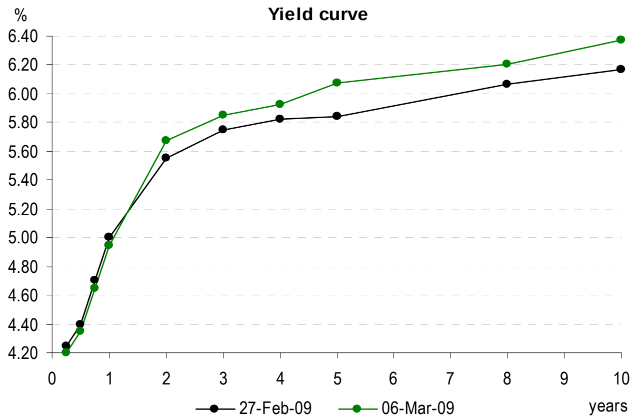
Market monitor



Fluctuations in the foreign exchange market

▪ Zloty exchange rate was fluctuating in moderate – as for recent times – band in the last week. Negative information from abroad (disappointing result of EU summit, growing fears about recession, bad news from companies, downgrade of Hungary's rating) were weakening the zloty. On the other hand, investors started differentiating currencies in the region, which helped the zloty to erase some losses. After improvement in moods on Friday evening, the week ended only slightly weaker versus previous Friday.

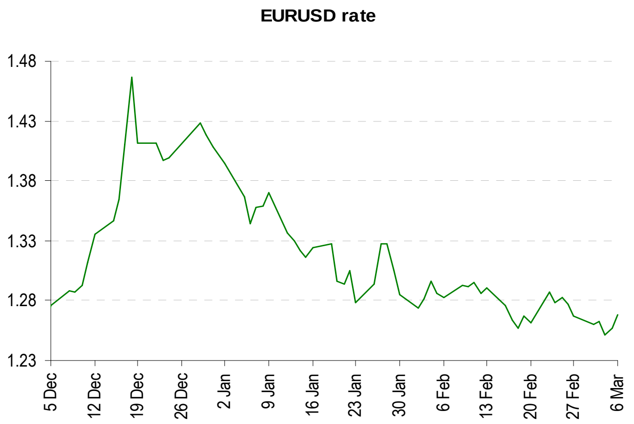
▪ We keep our view that the zloty should become more stable in the near term, and later on the currency should appreciate with EURPLN moving towards 4.40. However, external factors are in the foreground add if there is a rebound in risk aversion, one cannot exclude new record lows of the zloty.



Yields going up

▪ Yields of Polish government bonds rose at the beginning of last week amid higher risk aversion (downgrade of Hungarian rating) and high inflation forecast published by the Ministry of Finance. After a temporary strengthening in the middle of the week, which followed the zloty appreciation, on Friday the yield curve moved up again maid worsening in global moods and worries regarding Polish budget. Money market rates, FRA and IRS fell slightly during the week, though this move was partly reversed on Friday.

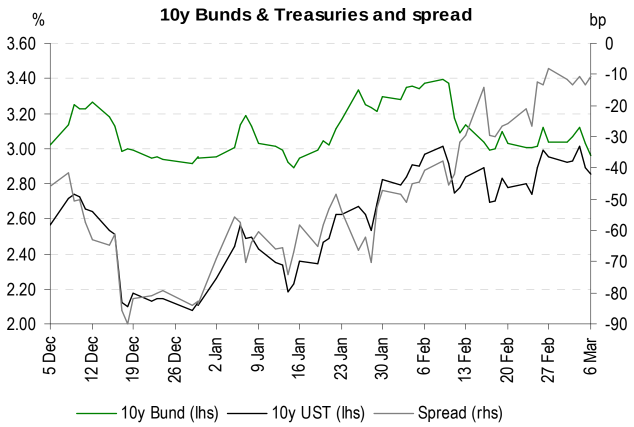
▪ The debt market should be quite stable for most of the week, awaiting the release of CPI inflation figure. Similarly as in the case of foreign exchange market, we can see higher volatility in case of changing moods in global markets.



Dollar supported by risk aversion

▪ The dollar exchange rate versus the euro fluctuated in quite wide range. For the better part of the week the dominant tendency was fall in EURUSD (temporarily below 1.25), which was driven mainly by stronger risk aversion and flight to quality. However, on Friday the euro rebounded and EURUSD returned above 1.27 after publication of the US non-farm payrolls report.

▪ This week we will have few data releases in the US and the euro zone that could drive EURUSD. The focus may be on expected comments from ECB officials and Fed Chairman. The ECB monthly bulleting due for release on Thursday should not introduce much to what we learnt from the last ECB press conference.



Core debt markets roughly stable

▪ Despite high uncertainty in the international financial markets, deep declines of stock prices (new local lows in the US, among others after warning on possibility of bankruptcy of GM and higher concerns over financial sector), and interest rate cuts in Europe, bond yields in the core debt markets remained relatively stable. This was influenced inter alia by fears against large debt supply present in the markets for some time.

▪ This week the data on consumer demand in the US and euro zone may be important for the markets, as well as central bankers' comments. Large supply of government securities (T-bills and bonds) in the United States may also hurt the markets.

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