Bank Zachodni WBK

Weekly economic update

13-19 April 2009

Despite the small number of data releases the pre-holiday week was a period of high volatility in the financial market and significant changes in moods. Amid limited liquidity, the increase in risk appetite and wave of optimism in the stock markets before Easter triggered a significant strengthening of the currencies in the region. How long this lasts will depend on direction in which the investors' sentiment changes after holiday in reaction to the incoming quite large injection of news. Calendar for the next few days includes not only a number of releases of macroeconomic data in the domestic stage and in the core debt markets, but also news on financial results from next companies listed overseas, which may be crucial for the assessment of chances for fighting off the crisis.

We expect a deepening of collapse in foreign trade turnover in February in a scale close to the market consensus. However, the current account deficit should clearly decline, among others due to large surplus in current transfers. The March CPI inflation and money supply growth should according to our forecasts be below the median of market expectations, and our forecast for the slowdown in wage growth and drop in employment is in line with market consensus. Overall, data should not give new arguments against continuation of interest rate cuts as poor prospects of economic growth mean a weakening of inflation pressure in the medium term.

Economic calendar

Time GMT	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST BZWBK	LAST VALUE
		TUESDAY (14 April)					
12:00	**PL**	**Current account balance**	**Feb**	**€ m**	**-650**	**-610**	**-1078**
12:00	**PL**	**M3 money supply**	**Mar**	%YoY	**17.4**	**17.1**	**17.4**
12:30	US	PPI	Mar	%MoM	0.0	-	0.1
12:40	US	Retail sales	Mar	%MoM	0.4	-	-0.1
		WEDNESDAY (15 April)					
9:00	**PL**	**Switching auction**					
12:00	**PL**	**CPI**	Mar	%YoY	**3.3**	**3.2**	**3.3**
12:30	US	CPI	Mar	%MoM	0.1	-	0.2
12:30	US	NY Fed index	Apr	pts.	-35.0	-	-38.23
13:15	US	Capital flows	Feb	$ bn	-	-	-
13:15	US	Industrial production	Mar	%MoM	-0.1	-	-1.5
		THURSDAY (16 April)					
13:00	EZ	Industrial production	Feb	%YoY	-17.5	-	-17.3
13:00	EZ	HICP final	Mar	%YoY	0.6	-	1.2
16:30	US	New home starts	Mar	m	0.55	-	0.583
16:30	US	Building permits	Mar	m	0.55	-	0.564
16:30	US	New jobless claims	w/e	k	655	-	654
18:00	US	Philadelphia Fed index	Apr	pts.	-32.0	-	-35.0
		FRIDAY (17 April)					
16:00	**PL**	**Wage growth in enterprises sector**	Mar	%YoY	**4.2**	**4.2**	**5.1**
16:00	**PL**	**Employment in enterprises sector**	Mar	%YoY	**-0.8**	**-0.8**	**-0.2**
17:55	US	Preliminary Michigan index	Apr	pts.	58.5	-	57.3

Source: BZ WBK, Reuters

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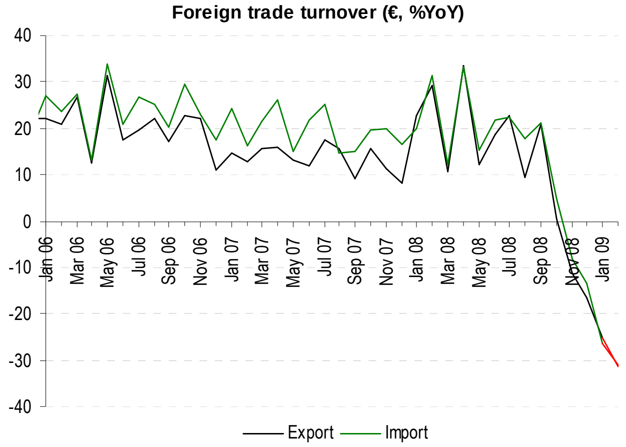
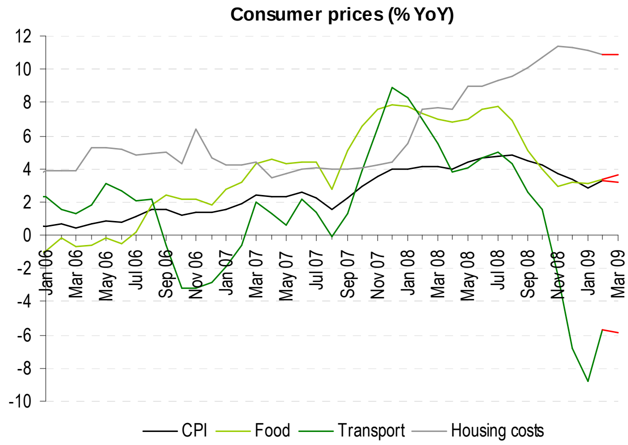
What's hot this week – Post-Easter rush of data



▪ Though the data calendar was very light before Easter, high volatility was seen in the market. However, the next couple of days will be very intensive in terms of releases. Despite shorter week, we will see a number of figures in Poland and abroad. Also, the period of 1Q09 earning reports publication may have influence on market sentiment.

▪ The first important piece of information will concern the balance of payments for February, which will show whether there were any changes in the trend of foreign trade turnover, after a collapse at the very beginning of the year. We think that the positive effect of higher demand for Polish cars from Germany will be visible only in March data and figures for February will continue to show substantial fall in both exports and imports. In February there was substantial inflow of EU funds, but mostly on the capital account side. We think C/A deficit fell to 5.3% of GDP.



▪ As usual, focus will be on CPI inflation data. The estimate of the Ministry of Finance shows inflation increase to 3.5%YoY in March (last month their forecast of 3.4% was too high). Our forecast is lower at the level of 3.2% and the market consensus assumes slight increase to 3.4%. In our opinion, the highest risk is connected with food prices, as this component used to be volatile in spring time.

▪ However, in our opinion even if CPI inflation did not fall in March or slightly increased (for example, as a result of higher food or/and fuel prices), this should not be the key factor for the MPC when deciding on rates later this month. This is especially the case as the MPC wrote in the latest statement that inflation may be higher in the nearest future, which would not change medium-term prospects.

▪ Monetary statistics will probably show a slowdown in money and credit growth in March.

▪ The important indicator regarding future disposable income and the medium-term inflation outlook will be labour market data. We expect a continuation of employment reduction and further slowdown in corporate wage growth (similarly as the market consensus). As a result, the real growth in wage bill in the enterprise sector will fall close to zero. Lower growth in income as well as uncertainty regarding unemployment will certainly lead to slowdown in consumption demand this year.

▪ During the week the Ministry of Finance will also release budget deficit data for Q1. It is expected that deficit rose to ca. PLN10bn, which represents 55% of the whole-year plan.

▪ Financial results of US companies will be important for markets, especially as a few releases before Easter improved the sentiment. We will see whether this was only a temporary phenomenon.

Quote of the week – Will next data convince to cut rates again?

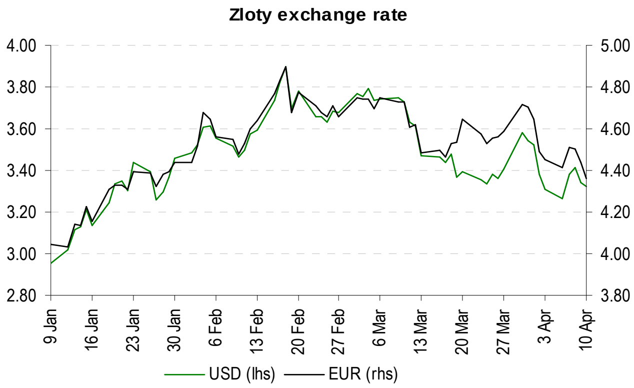
Jan Czekaj, MPC member, Reuters, 9 April

The next macroeconomic data releases, which we will see in the near future will be important from the point of view of the MPC decision on interest rates. In my opinion we are still in the cycle of monetary easing, the only question is on probability of lowering rates and keeping rates on hold.

Weakening of the currency may be beneficial for the economy and may limit the crisis effects. (…) We may not have in future such a good moment to enter ERM2. It would be easier to negotiate with the ECB a better parity rate. (…) Besides, the weaker exchange rate means limited potential for further depreciation. Additionally, the budget situation will improve when the economy will get out of crisis. In 2011 we will have Poland's presidency in the EU and this would allow taking positive decision for Poland.

Hawkish members of the Monetary Policy Council in their latest comments were trying the convince that this would be better to wait with next irate cuts un till June, when the new NBP GDP and inflation projection will be released. However, the comment of the mainstream member of the Council, Jan Czekaj, are similar to his comments before March decision – next decision data dependant. Though the next couple of data, which will be published before the next MPC meeting, will look less dramatic as compared to previous ones (at least according to our forecasts), this does not really mean that economic outlook improves considerably. Quite contrary, forecasts for the Polish and euro zone economy worsened recently. This will improve inflation outlook making a room for more rate cuts. Obviously, after each cut a probability of pause is higher, though we do not think this will take place in April.

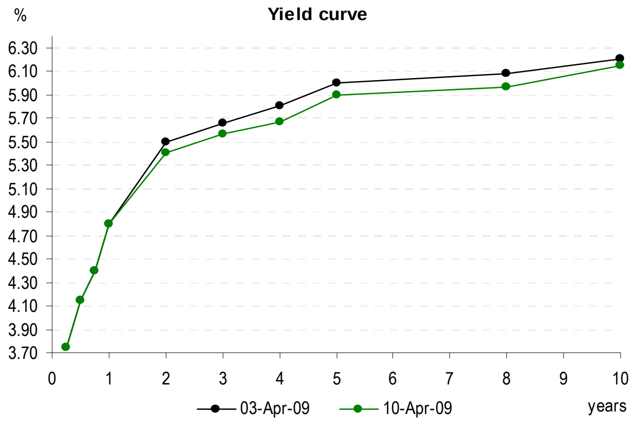
Market monitor



High FX volatility with stronger zloty

▪ Market sentiment on the financial market was quite volatile last week, but after some risk aversion seen at the beginning of the week, a substantial rise in risk appetite globally took place. Investors seemed to believe that we are at the beginning of the end of crisis. Positive moods in global markets drove the Polish currency, which appreciated substantially. The EURPLN rate broke the level 4.52 and at the end of the week fell much below 4.40.

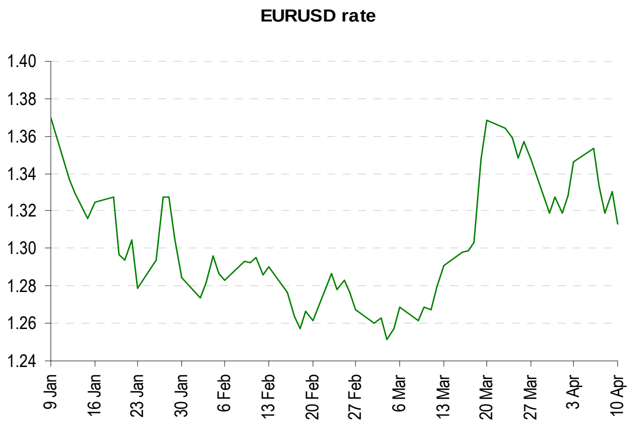
▪ In our opinion, one should expect high volatility to persist in the coming days, especially as the week after Easter will be full of important market drivers, which may influence sentiment in both directions. The next important barrier for EURPLN will be 4.30, but it is quite likely that the next week will see a correction with the resistance level at ca. 4.55.



Risk appetite and zloty lower yields

▪ In the interest rate market there was a clear strengthening during the week, which was influenced by very good results of the ten-year bond auction (which weakened negative influence of the global moods' deterioration), and later on by significant scale of zloty appreciation. Since last Friday bond yields and IRS rates declined by ca. 10 bp.

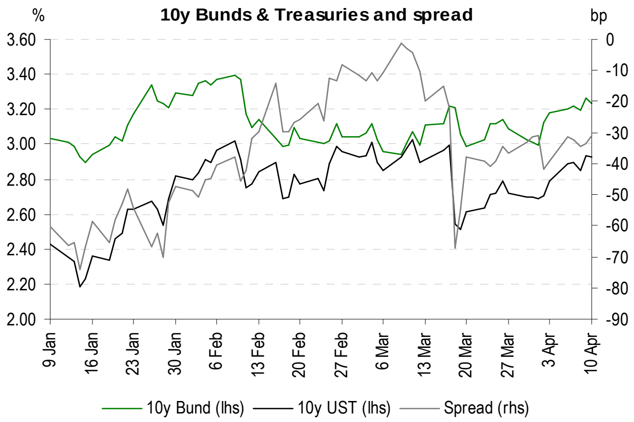
▪ This week among domestic factors the CPI inflation data and labour market statistics (as well as any MPC accompanying MPC members' comments) will be crucial for the bond yields and money market rates. However, in case of substantial changes in sentiment in the global markets, they may recede into the background.



Stronger dollar amid hopes for a recovery

▪ Last week the US dollar strengthened considerably against the euro – the EURUSD rate fell to 1.315 Friday afternoon (by ca. 2%) from 1.342 a week before. This was driven by higher risk appetite before Easter with a bit better than expected macroeconomic data releases and less pessimistic than expected financial information from companies.

▪ Expectations as regards financial results of enterprises are so pessimistic that it is relatively easy to achieve positive surprise in the near future. On the other hand, it is worth to remember that season of poor results is probably not over and recession in the US will last for the next couple of quarters and thus optimism may not be a permanent phenomenon.



Stock markets up, core debt markets weaker

▪ The wave of optimism in the global financial markets, which resulted in higher demand for more risky assets contributed to the weakening in the core debt markets. Yields of 10Y Treasuries rose during the day by 13 bp and Bunds by ca. 5 bp.

▪ A series of data on manufacturing activity, housing market, leading indicators as well as releases of results of companies will influence on expectations of the scale and the and the length of the recession. News supporting and cementing the current moods improvement will contribute to higher yields, though the scale of this phenomenon will be limited by purchases of Treasury bonds announced

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