

Weekly economic update

15 – 21 June 2009

The week after the long weekend will be full of important data releases and events. Apart from new domestic data, that may affect market expectations concerning MPC decisions, the market will pay attention to government's work on the budget (on Monday, the cabinet will approve and publish assumptions for 2010 budget, work on 2009 budget amendment is also in progress). There are also plenty of data releases abroad in the agenda, which may influence sentiment in stock markets and global risk aversion. Currency markets in the region will also focus the situation in Latvia and fate of spending cuts proposed by the government, which is condition for help from IMF and EU (vote in the parliament on Wednesday). If the plan is approved, concerns about devaluation should ease.

Economic calendar

Time GMT	COUNTRY	INDICATOR	PERIOD		FORECAST		LAST VALUE
					MARKET	BZWBK	
MONDAY (15 June)							
9:00	PL	Auction PLN1.2-1.6bn of 52-week Treasury Bills					
12:00	PL	CPI	May	%YoY	3.8	3.8	4.0
12:30	US	New York Fed index	Jun	pts.	-3.5	-	-4.55
13:00	US	Capital flows	Apr	\$ bn		-	23.2
TUESDAY (16 June)							
	JP	BoJ decision		%		-	0.1
9:00	DE	ZEW index	Jun	pts.	35.0	-	31.1
9:00	EZ	Final HICP	May	%YoY	0.0	-	0.6
12:30	US	New home starts	May	m	0.4	-	0.458
12:30	US	Building permits	May	m	0.5	-	0.498
12:30	US	PPI	May	%MoM	0.6	-	0.3
13:15	US	Capacity use	May	%	68.4	-	69.1
13:15	US	Industrial production	May	%MoM	-0.8	-	-0.5
WEDNESDAY (17 June)							
9:00	PL	Bonds switching auction					
9:00	EZ	Foreign trade balance	Apr	€ bn	-1.3	-	0.4
12:00	PL	Current account balance	Apr	€ bn	0.100	0.141	0.075
12:30	US	CPI	May	%MoM	0.3	-	0.0
THURSDAY (18 June)							
7:30	CH	SNB decision		%	0.25	-	0.25
12:00	PL	Wages in enterprises sector	May	%YoY	5.0	4.8	4.8
12:00	PL	Employment in enterprises sector	May	%YoY	-1.7	-1.6	-1.4
12:00	PL	MPC minutes	Apr	-	-	-	-
12:30	US	New jobless claims	w/e	k	610.0	-	601.0
14:00	US	Philadelphia Fed index	Jun	pts.	-17.5	-	-22.6
14:00	US	Leading indicators	May	pts.	0.8	-	1.0
FRIDAY (19 June)							
12:00	PL	Industrial production	May	%YoY	-6.2	-8.3	-12.4
12:00	PL	PPI	May	%YoY	4.5	4.5	5.1

Source: BZ WBK, Parkiet daily, Reuters;

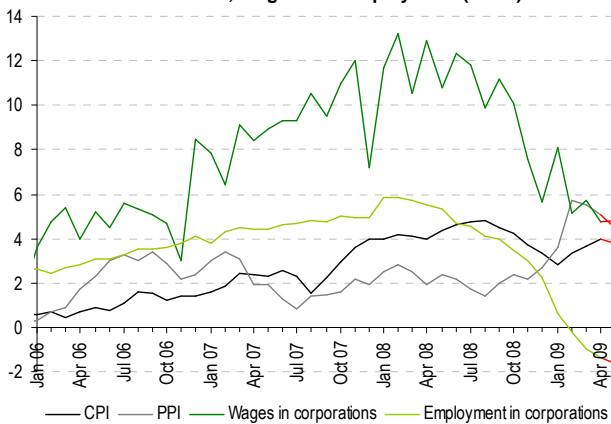
Maciej Reluga Chief economist (+48 22) 586 8363

Piotr Bielski (+48 22) 586 8333

Piotr Bujak (+48 22) 586 8341

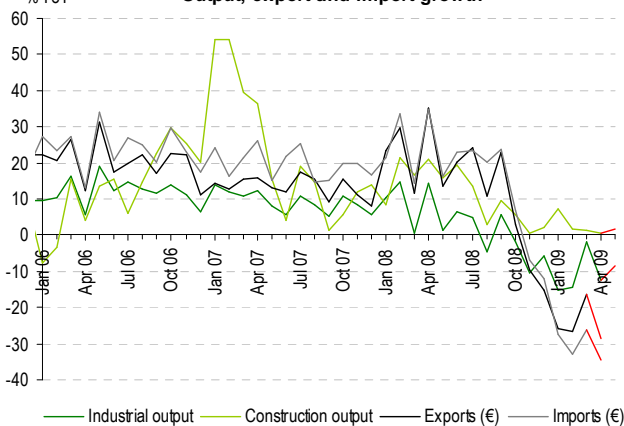
Cezary Chrapek (+48 22) 586 8342

e-mail: ekonomia@bzwbk.pl

What's hot this week – Lots of important events**Inflation, wages and employment (%YoY)**

- Data about inflation that will start a series of domestic data releases this week will be important for local interest rate market and expectations for further MPC decisions. In recent months we saw only negative surprises in CPI, which weakened expectations for rate cuts. We do not expect similar story to repeat this time. However, even if it happens, one should remember that factors behind recent price growth (hikes in food, fuels and energy) should not have persistent effect on inflation. More about fundamental inflationary pressure will say economic data to be released in the second part of the week, including labour market statistics and industrial production.

- On Monday, the government should approve main assumptions for 2010 budget draft. According to press information, GDP growth is assumed at ca. 0.5%, which is a cautious estimate.

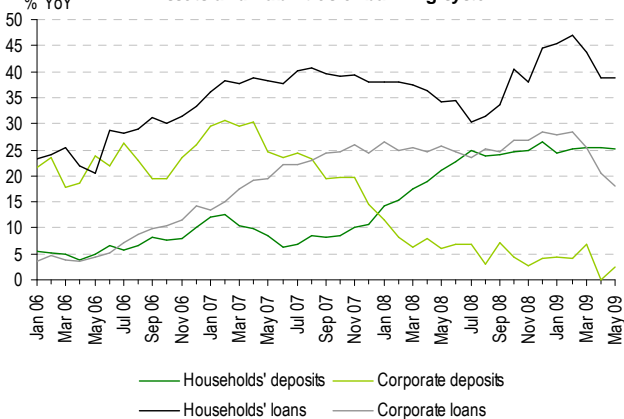
Output, export and import growth

- Data about balance of payments in April should be positive for the FX market (another surplus in current account), however they will show continuation of strong decline in trade turnover (export drop almost -30%YoY), confirming poor prospects of GDP growth in Q2.

- We predict a significant decline in industrial output in May (bigger than market consensus), however as compared to April the annual rate of fall will lessen due to no negative effect of number of working days.

- We predict deeper fall in employment in enterprises amid temporary stabilisation of wage growth (low base effect).

- Minutes of the MPC meeting in May will show whether the motion to cut rates was submitted this time. However, impact of this document on the market should be limited, as always. More important will be comments of the MPC members after data releases.

Economy last week – Slight deceleration in money growth**Assets and liabilities of banking system**

- Deceleration of money supply growth in May was smaller than predicted. M3 growth slowed down only slightly, from 14.4% yo 14.3%YoY. In relation to April, there was a sizeable rise in deposits, particularly from companies (PLN3.7bn, 0.6%MoM), so as a result their annual growth changed only marginally (15.8% versus 16.1% last month).

- Households' loan growth remained high (38.8%YoY), but there was a significant slowdown in loans for companies (17.9%YoY). According to our estimate, after eliminating impact of exchange rate fluctuation, total loan growth decelerated in May to 20.8%YoY (without adjustment 29.3%).

- At the end of week, concerns about possible devaluation in Latvia have eased somehow, after strong commitment of Latvian authorities and declaration about support from the IMF and EU.

Quote of the week – How to knit up the budget?

Grzegorz Schetyna, deputy PM, TVN24, 8 June

Currently neither a rise in taxes nor a hike in pension premium is considered. If the revenue is terrible, then we will seek ideas how to counter those losses. (...) We will see whether it will have to result in tax hike. We cannot say it right now.

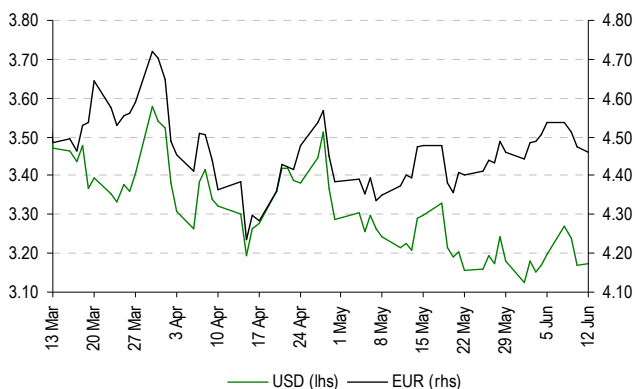
Maciej Grabowski, deputy finance minister, TVN CNBC, 8 June

It is already visible that realisation of budget plan for this year will be very difficult, if not impossible. (...) We will have to seek solutions on both spending side and revenue side. Income taxes cannot be changed because of the constitution. VAT or excise taxes are the only alternatives. We can also fix tax system as not only rates are important.

While some government officials are denying information that government plans hikes in tax rates, the deputy finance minister admitted recently that solutions should be searched on both sides – spending side and revenue side. We estimate that shortfall in budget revenue in the central budget due to economic slowdown will reach ca. PLN40bn, and additionally in local governments and social security funds there will be additional PLN15 underperformance. Most likely, despite holding some spending, shifting some of them outside central budget, and possibly a rise in some taxes (although government says it wants to avoid it), the central budget deficit will have to be increased. We assume moderate hike to PLN25bn.

Market monitor

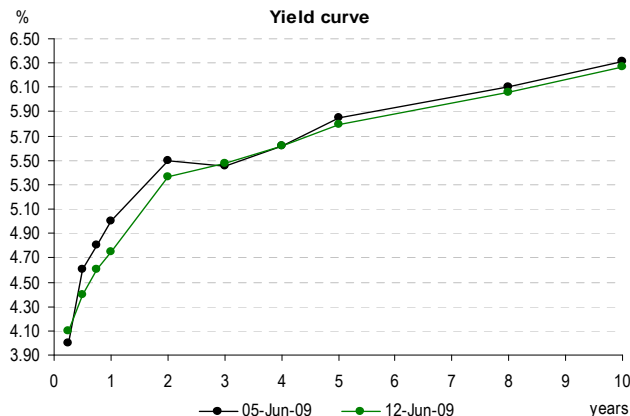
Zloty exchange rate



Currencies in the region influenced by Latvia

- During the week, zloty exchange was fluctuating, similarly as other currencies in the region, mainly under influence of concerns of devaluation in Latvia on one side, and situation in stock markets and changes in global risk aversion on the other hand. Level 4.60 versus euro was not breached, and the week ended well below 4.50, 1.4% stronger than last Friday.
- Fears about lat devaluation weakened at the end of the week and if Latvian parliament approves spending cuts, they should recede to the background, which will support the zloty. Then, key factors for FX markets may be new data releases and their impact on global sentiment. Important resistance for the EURPLN remains 4.55-4.60.

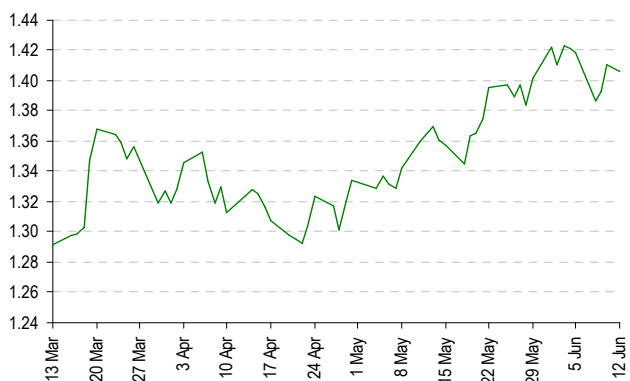
Yield curve



Yields slightly down

- There was slight strengthening in domestic debt market at the start of last week, due to quite good result of T-bills auction and information from the Ministry of Finance about cancelling Wednesday's auction of long-term bonds. In the second part of the week, there was stabilisation of yields amid scarce market activity during the long weekend.
- CPI data on Monday will be crucial for local debt market. If they show a negative surprise, similarly as in last few months, there will be weakening of interest rate market. However, we do not anticipate such scenario. Next data to be released during the week should be supportive for bonds, showing a slowdown in the economy.

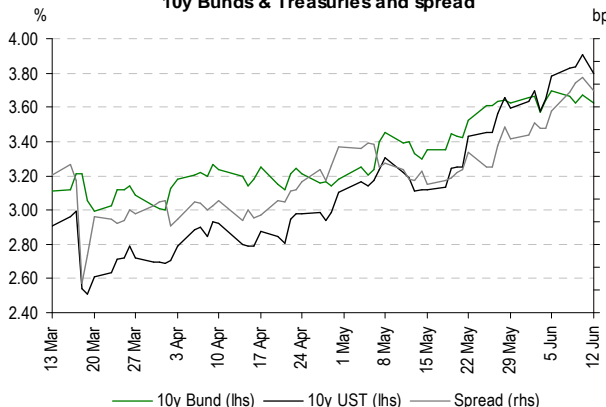
EURUSD rate



Further fluctuations in dollar rate

- After significant dollar strengthening at the start of the week, to ca. 1.38 versus euro, there was a rebound amid wave of profit taking, however the EURUSD rate ended the week below 1.40 level, among others due to weaker data from European economy and thanks to support from higher yields of US Treasuries.
- Nevertheless, we predict the underlying bear trend for the US dollar to continue as markets remain focused on signs that the world is emerging from its economic downturn. The schedule in the US this week includes the June Empire State and Philly Fed indices, both of which are expected to continue the improving trend seen over recent months, which should be positive for risk appetite. However, real activity data, in the shape of the industrial production report for May, are expected to show that output contracted once again.

10y Bunds & Treasuries and spread



Core bond yields going up

- After some recovery from earlier losses at the start of the week, bond yields in core markets maintained upward trend, which was triggered among others by good sentiment in stock markets, concerns about upcoming bond auctions, and information from Russia about plan to decrease share of US Treasuries in their foreign reserves. At the end of the week there was a rebound again, after statement of Japanese finance minister about their "unshakable" confidence in US Treasuries.
- This week, large number of publications will affect expectations concerning a pace of coming out of recession, which may be crucial for core debt markets. Also, data about inflation in the US and euro zone will be important.

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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>



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