

Weekly economic update

13 – 19 July 2009

Amid lack of important publications, market attention last week was focused on events abroad, stock market trends, and budgetary plans for this and next years. PM Tusk's proposal to transfer NBP profit for 2009 of over PLN10bn to the budget raised controversies and it may be expected that a debate on this subject will go on. However, this week fiscal issues may recede to the background amid huge number of macroeconomic data releases and earning reports of key companies overseas (including the major US banks), which may determine market sentiment around the globe. We expect to see local data that will confirm economic growth close to zero and diminishing inflationary pressure. Also, comments of MPC members will be important, as they may show when the next interest rate cuts may be expected.

Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD	FORECAST		LAST VALUE	
				MARKET	BZWBK		
MONDAY (13 July)							
11:00	PL	Auction PLN1.0-1.3bn of 52-week Treasury Bills					
TUESDAY (14 July)							
11:00	DE	ZEW	VII	pts.	47.8	-	44.8
11:00	EZ	Industrial production	V	%YoY	-17.7	-	-21.6
14:00	PL	CPI	VI	%YoY	3.6	3.5	3.6
14:00	PL	Money supply	VI	%YoY	13.8	13.4	14.3
14:00	PL	Current account balance	V	€ bn	0.10	-0.09	0.17
14:30	US	PPI	VI	%MoM	0.9	-	0.2
14:30	US	Retail sales	VI	%MoM	0.4	-	0.5
WEDNESDAY (15 July)							
11:00	PL	Auction of PLN1-2bn of PS0414 bonds					
11:00	EZ	Final HICP	VI	%YoY	-0.1	-	0.0
14:30	US	CPI	VI	%MoM	0.6	-	0.1
14:30	US	NY Fed index	VII	pts.	-5.0	-	-9.41
15:15	US	Capacity use	VI	%	67.9	-	68.3
15:15	US	Industrial production	VI	%MoM	-0.6	-	-1.1
20:00	US	FOMC minutes			-	-	-
THURSDAY (16 July)							
	JP	BoJ decision		%	0.1	-	0.1
14:00	PL	Wages in enterprises sector	VI	%YoY	2.6	2.1	3.8
14:00	PL	Employment in enterprises sector	VI	%YoY	-1.9	-1.8	-1.7
14:30	US	New jobless claims	w/e	k	580.0	-	565.0
15:00	US	Capital flows	V	\$ bn	-	-	-53.2
16:00	US	Philadelphia Fed index	VII	pts.	-5.0	-	-2.2
FRIDAY (17 July)							
11:00	EZ	Trade balance	V	mld €	2.7	-	2.7
14:00	PL	Industrial production	VI	%YoY	-5.9	-6.5	-5.2
14:00	PL	PPI	VI	%YoY	3.4	3.4	3.7
14:30	US	New house starts	VI	m	0.53	-	0.532
14:30	US	Building permits	VI	m	0.52	-	0.518

Source: BZ WBK, Reuters, Parkiet

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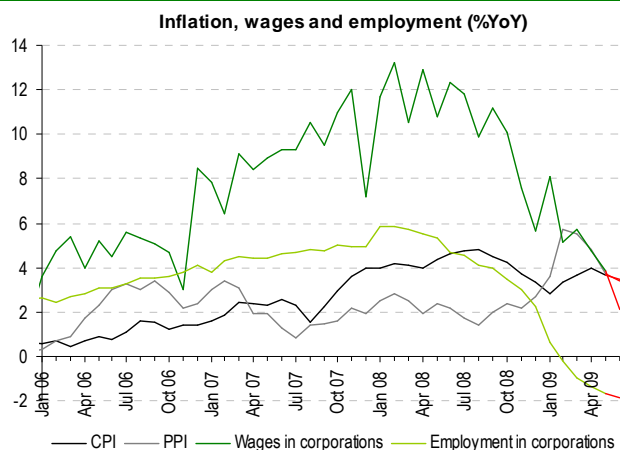
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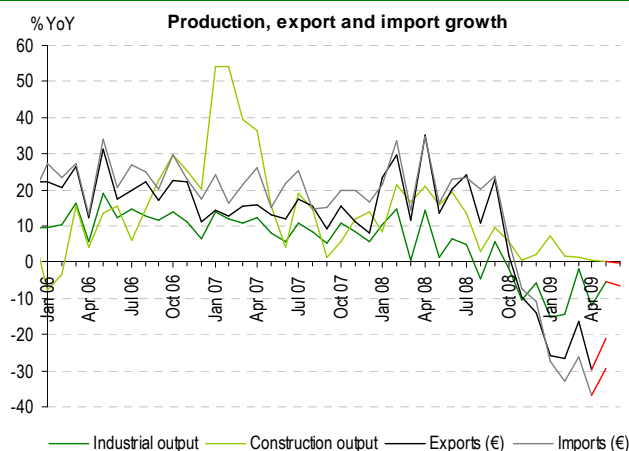
What's hot this week – Large number of important publications



▪ After a week of no local data releases, this week will bring many crucial information. Apart from important macro data releases in Poland and abroad, the financial markets will also watch numerous earnings reports for Q2 due for publication by many major companies in the US.

▪ Local CPI figures for June will be key focus of attention for the Polish interest rate market and expectations regarding next steps of the MPC. The FinMin's estimate assuming CPI inflation drop to 3.4%YoY did not change the market consensus, which according to PAP survey remained at 3.6%YoY. We also have not changed our forecast at 3.5% based on the assumption of seasonal drop in food prices. A factor preventing CPI inflation from stronger inflation fall in June was significant rise in fuel prices.

▪ We expect larger drop in PPI inflation, among others thanks to reduction in natural gas price.



▪ Data on wages and employment should be helpful in assessment of private consumption strength later in the year. We predict continuation of the clear deceleration in wage growth (as an effect of high base, but also in reaction of companies to economic slowdown), amid deepening employment drop.

▪ Fall in industrial output in June is likely to have been deeper than in May, but rather not to an extent that could revive expectations for faster rate cuts by the MPC. In construction we predict the first slight annual drop in output in 3 years, along with finishing projects started a few quarters ago.

▪ Balance of payments data for May should post again nearly balanced trade and current account balances with continued strong drop in exports and imports.

Economy last week – Government approved budget amendment

Planned budget revenue in 2009 according to draft budget amendment

(PLN m)	Budget bill	Budget amendment	Difference
Total revenue	303 035	272 904	-30 131
Tax and non-tax revenue	269 433	231 140	-38 293
Tax revenue	251 434	204 812	-46 622
Indirect taxes	178 064	147 462	-30 602
VAT	118 590	94 000	-24 590
excise tax	58 110	51 900	-6 210
CIT	33 120	23 000	-10 120
PIT	40 250	34 350	-5 900
Non-tax revenue	17 999	26 328	8 329
Dividends	3 351	8 652	5 301
Customs duty	2 032	1 917	-115
Budgetary units revenue	9 023	9 561	538
Other non-tax revenue	785	3 297	2 512
Local government payments	2 702	2 702	0
Foreign revenue, funds from EU and other non-refundable sources	33 601	41 763	8 162

▪ Government approved draft budget amendment for 2009, lifting budget deficit by PLN9bn, to PLN27.2bn.

▪ Apart from earlier announced rise in dividend payments by PLN5.3bn, the amendment assumes a rise in foreign revenues and EU funds by PLN8.1bn, thanks to exchange to zlotys under higher euro exchange rate than earlier assumed, and increase in other non-tax revenues by PLN2.5bn due to exchange rate gains related to realisation of EU subsidies for farmers.

▪ Taking into account FinMin's cautious macroeconomic forecasts that were a basis for budget amendment construction, we think that deficit target after changes may be accomplished without further amendments. However, a "safety margin" is not big, so one should pay close attention to realisation of revenues in the next months.

Quote of the week – Will the state budget get the NBP profit?

Sławomir Skrzypek, NBP president, Dziennik, 10 July

If it is in line with regulations, we will transfer money to the state budget. As regards the reserve (for FX fluctuations), its level depends on exchange rate risk related to volatility of our currency.

Dariusz Filar, MPC member, Reuters, 9 July

If the profit is as high as the PM says, which is possible, it seems reasonable (...) that the bank should transfer some part of the profit to the budget.

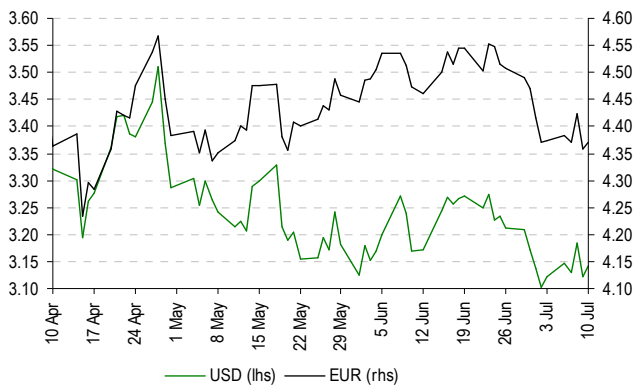
Sławomir Nowak, head of PM's office, TVN24, 10 July

We spoke to the president also that even if we do not convince the NBP head Skrzypek and he will hide taxpayers' money (...) then we will try to allow transfer of NBP profit (to the budget) through change in legislation.

Government's estimate assuming NBP profit from exchange rate gains at PLN12-14bn seems to be quite optimistic. Especially that according to our forecasts the zloty should be gradually strengthening in 2H 2009. Secondly, according to current regulations, NBP profit from FX gains goes for increasing reserve for covering losses from unfavourable FX changes in future. A change of this rule would require agreement and a special resolution of the MPC. While comments of NBP president suggested a will for cooperation, it is not sure whether there will be a support of majority of MPC members. It is likely that the zloty will be appreciating in the next years, which suggests that a reserve kept by the central bank should be substantial. Moreover, the NBP still has over PLN10bn of losses from previous years to cover.

Market monitor

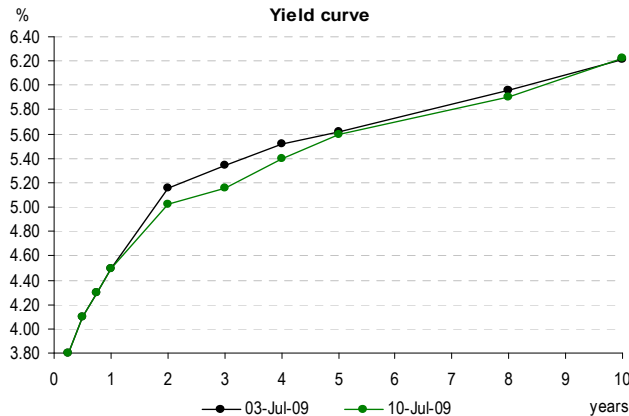
Zloty exchange rate



Zloty stabilised despite volatile risk appetite

- First days of the previous week were marked by rising risk aversion and weakening of currencies in the region with EURPLN up to nearly 4.44 on Wednesday. However, later on moods in the global markets improved, among others after the IMF revised up its forecasts for the global economy, and the zloty started to gain strength, returning to levels seen at the end of the previous week.
- Many crucial events in the nearest days may lead to high volatility in the FX market. Key factors for the zloty are not the domestic data, but moods in the global markets for which the main driver will be macro data abroad and earnings reports for Q2 from some of major US companies. If the reports do not disappoint the markets, EURPLN may break the range of 4.32-4.33.

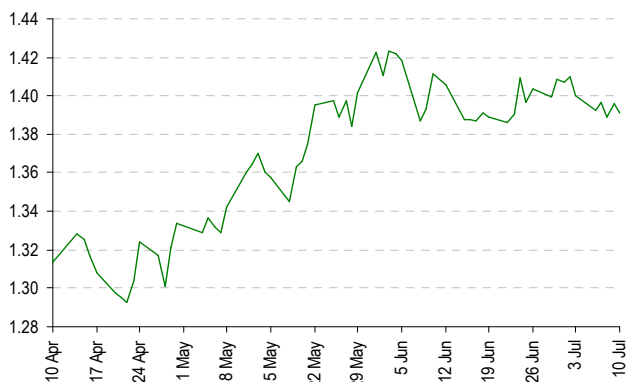
Yield curve



Further strengthening in the local interest rate market

- After initial clear rise in yields at the long end of the domestic yield curve, later in the week there was a rebound. Along with zloty appreciation and rise in risk appetite, yields of Polish bonds significantly fell with further steepening of the curve. At switching auction, the FinMin sold 10Y bonds amid sizeable demand from investors.
- Fall in inflation, clear deceleration in wage growth and drop in output should be positive for the domestic debt market. However, similar as in case of the zloty, changes in moods on the global markers driven by events abroad may be of higher importance. An important gauge of sentiment towards Polish bonds will be Wednesday's auction of 5Y bonds.

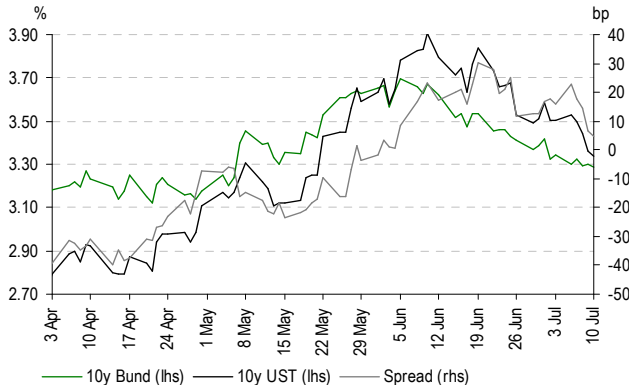
EURUSD rate



Risk aversion affects the dollar

- During the week the dollar exchange rate fluctuated against the euro around 1.39 following the changing investors' moods and risk aversion. Overall the week closed with slight strengthening of the US currency, due to holding concerns over the pace of recovery in the world economy.
- Before the release of the financial reports of key US listed companies the markets will stay very cautious. News on corporate earnings will be crucial determinant of market moods this week, though the risk aversion, and also the dollar will be also affected by macroeconomic data from the US and the euro zone (among others industrial output, retail sales, inflation, business climate indicators).

10y Bunds & Treasuries and spread



Fall of yields in the core debt markets

- Bond yields in the core debt markets clearly fell last week, which was influenced first by rising risk aversion and sell-off in the international equity markets as well as good results of bonds auctions in the US, which calmed investors concerns regarding the large supply of government securities.
- Any news clarifying prospects for economic bottoming out and recovery of the major economies will be important for debt markets in the coming days. Last week investors started to fear that the optimism regarding global growth and observed recently was overstated, thus they will look at macroeconomic data and corporate earnings in order to confirm or rejects these concerns. However, market forecasts signal the figures will not be one-sided.

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