

Weekly economic update

27 July – 2 August 2009

Last week was marked by rise in risk appetite globally. The euro gained to the dollar and core debt markets weakened. At the same time, there clear strengthening of the emerging markets' currencies, stocks and bonds. The zloty reached the strongest levels since January and domestic bonds gained substantially. The driver of increase in risk aversion were stronger than predicted macro figures from the US and the euro zone as well as mostly better than expected earnings reports for Q2 revealed last week. Domestic factors had no visible impact on the zloty and Polish bonds, although higher than expected retail sales in June and information about privatisation acceleration were supportive for rise in investors' interest in Polish assets. The difference between actual retail sales figures and forecasts was not large enough to alter our estimate of private consumption growth in Q2 at 2%YoY versus 3.3%YoY in Q1. Moreover, taking into account all the monthly economic activity indicators for Q2 we do not change our estimate that GDP growth rate lowered to ca. 0% in that period. In our view the domestic macro data released during the past week were also neutral for the MPC. Minutes of the MPC meeting in June showed that majority of MPC members were convinced to deliver next rate cut by fall in inflation and economic slowdown. We still think that at the meeting this week and at least until the end of summer the Council will not change rates, but we believe that later in the year the MPC may reduce rates again under amid further inflation drop and weaker demand. Apart from the MPC meeting, there are no major events scheduled domestically. The Polish financial market will be influenced by publication of next important macro data in the euro zone and the US as well as further earnings reports for Q2. As to events in the region, the markets will wait for decision of the Hungarian central bank on Monday and developments of the situation in Latvia, where uncertainty re-emerged whether the country will receive next tranche of financial aid from the IMF.

Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD	FORECAST		LAST VALUE
				MARKET	BZWBK	
MONDAY (27 July)						
11:00	PL	Auction PLN 1.2-1.5bn of 52-week Treasury Bills				
8:00	DE	Gfk index	Aug	pts	2.9	- 2.9
10:00	EZ	Money supply M3	Jun	%YoY	3.5	- 3.7
16:00	US	New home sales	Jun	m	0.36	- 0.342
TUESDAY (28 July)						
15:00	US	Case/Shiller house price index	May	%YoY	-17.9	- -18.1
16:00	US	Consumer confidence	Jul	pts	48.8	- 49.3
WEDNESDAY (29 July)						
-	PL	MPC decision	-	%	3.50	3.50 3.50
14:30	US	Durable goods orders	Jun	%MoM	-1.0	- 1.8
20:00	US	Fed publishes Beige Book			-	-
THURSDAY (30 July)						
11:00	EZ	Economic sentiment index	Jul	pts	75.0	- 73.3
14:30	US	Initial jobless claims	w/e	k	570.0	- 554.0
FRIDAY (31 July)						
11:00	EZ	Wstępny HICP	Jul	%YoY	-0.4	- -0.1
14:30	US	Przedwstępny PKB	Q2	%	-1.2	- -5.5
14:30	US	Bazowy PCE	Q2	%	0.3	- 0.3
14:30	US	Deflator PKB	Q2	%	1.4	- 2.8
15:45	US	Chicago PMI	Jul	pts	42.1	- 39.9

Source: BZ WBK, Parkiet, Reuters

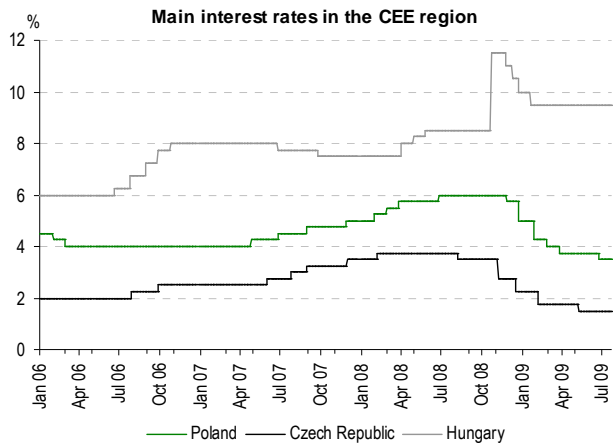
Maciej Reluga Chief economist (+48 22) 586 8363

Piotr Bielski (+48 22) 586 8333

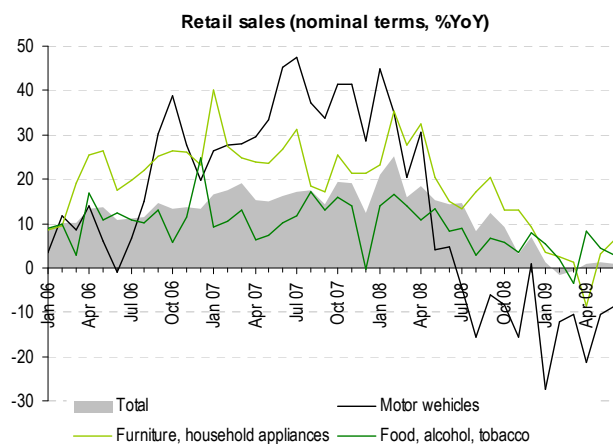
Piotr Bujak (+48 22) 586 8341

Cezary Chrapek (+48 22) 586 8342

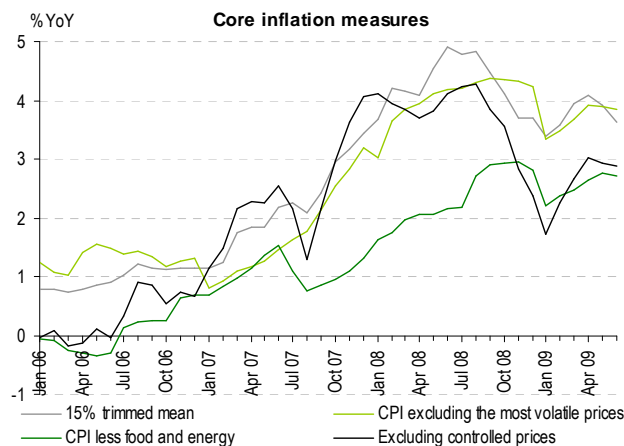
e-mail: ekonomia@bzwbk.pl

What's hot this week – MPC meeting locally while abroad next macro data and earnings reports

- This week the only important event locally is the MPC meeting. There are no doubts that this time central bankers will keep rates on hold. All economists surveyed by PAP and Reuters point to no change in rates this month. However, the post-meeting statement will be important for market expectations regarding further steps of the MPC.
- For markets in the region, an important event will be decision of the Hungarian central bank with a rate cut of 50bps widely expected. The markets will also watch situation in Latvia where uncertainty appeared in the past week whether the country will be able to secure next tranche of IMF aid funds.
- Besides, there will be many major data releases in the euro zone and the US this week, which together with further earnings reports for Q2 will set the tone for markets and determine the level of global risk appetite.

Economy last week – New data neutral for GDP forecasts and MPC decisions

- Nominal growth in retail sales in June edged down to 0.9%YoY from 1% in May, being slightly above market consensus of 0.4%YoY and our forecast at -0.1%YoY.
- The total sales growth rate was still negatively affected by deep fall in auto sales, but its scale in the past two months strongly decreased (to -8.6%YoY from -21.5%YoY in April). This suggests some improvement in households' demand on durable goods, especially taking into account the fact that in June there was also acceleration in annual sales growth in furniture, radio, TV and household appliances.
- The nominal drop in fuel sales was still strong in June, due to a price effect and not a fall in demand. Excluding autos and fuels, annual growth in retail sales slowed down to 4.1% from 4.5% in May, but it was higher than average rise of 3.8%YoY in Q1.



- The registered unemployment rate fell to 10.7% at the end of June from 10.8% in May. The fall in unemployment in June is a typical seasonal phenomenon while in annual terms the scale of unemployment rise accelerated again. Negative tendencies on the labour market were confirmed by detailed statistics on wages and employment in the enterprise sector. They showed that the significant slowdown in corporate wages was not only the effect of high statistical base in mining, but also due to lowering of annual growth of salaries in manufacturing (to 1.7% from 3.3 in May). The manufacturing sector also saw strong drop in employment.
- June saw fall in all core inflation measures. CPI inflation less food and energy prices dropped to 2.7%YoY from 2.8%YoY in May. In next months we should see fall in core inflation amid weaker demand and gradual zloty appreciation.

Quote of the week – Privatisation acceleration?**Statement of the Treasury Ministry, 22 July**

The Treasury Ministry prepared update of privatisation programme assuming revenues of PLN36.7bn. List of key projects covers inter alia energy, chemical sectors and sale of part of Treasury shares in listed companies, including part of KGHM and Lotos stocks. (...) ca. PLN10bn from the assumed inflows will be reached already in H2 2009. (additional PLN2.0bn comes from already signed agreements), the remaining amount, ca. PLN25bn, in 2010.

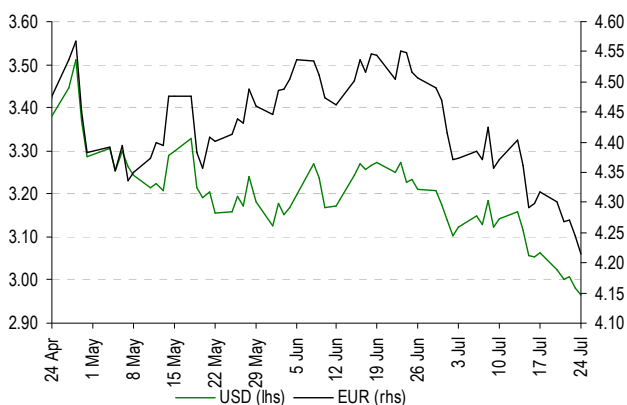
Grzegorz Schetyna, deputy PM, PAP, 23 July

Privatisation of KGHM in this term is ruled out. This is our commitment in the election campaign. We do not deny, however, that there are companies, which possibility of privatisation will be analysed, in order to escape the necessity of raising taxes. We will do it however only where it is sensible and one may reach good price.

Acceleration of privatisation would be advantageous for the Polish public finance, taking into account that the problem is approaching with public debt to cautionary limits. In this situation the largest part of the deficit should be financed with privatisation revenues. If the proposed plan is in large part fulfilled, this will support the zloty and bonds in medium term. Nevertheless there are significant doubts regarding the chances of realisation of the proposed programme. This is indicated by the comments of deputy PM Schetyna that in this term of the parliament privatisation of KGHM is ruled out. There may be some problems also with the sale of parts of the other companies with large labour unions. Moreover, one should remember, that large part of the inflows from privatisation supplies different funds, and not finance the deficit.

Market monitor

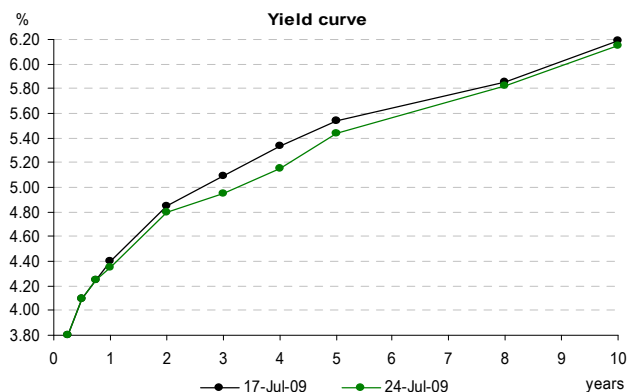
Zloty exchange rate



Significant zloty strengthening

- Higher appetite for risky assets in global markets and a sharp improvement of sentiment towards emerging markets caused the significant zloty strengthening last week. The domestic currency has been gradually appreciating during the whole week and the EURPLN broke important technical barriers. At the end of the week EURPLN was below 4.20 and the Polish currency gained the most in the region (3.2%), while EURHUF dropped by 2.8% and EURCZK by 1.6%.
- As the zloty broke the levels we had indicated last week, we think there is a rising risk of a correction on the FX market, as the scale of appreciation within last week encourage to profit-taking. The next important support level for EURPLN is 4.15, while the scale of possible correction is to 4.30-4.40. Direction for the Polish currency will be set by next data from the euro zone and the US, as well as central banks meetings in the region.

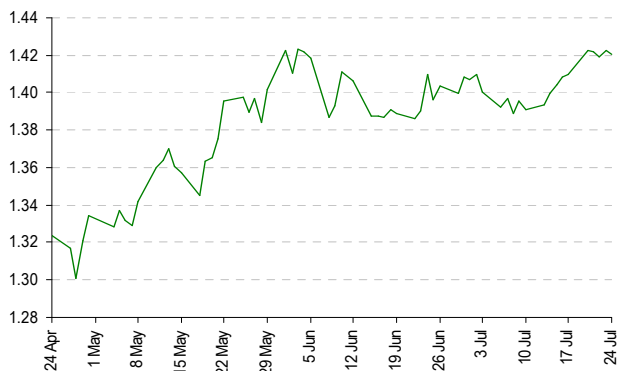
Yield curve



... and decrease in local bond yields

- Higher demand for assets in the region led to a strengthening in the Polish bond market. The yields fell across the curve by 5-10 bp. At the beginning of the week the positive factor was the successful auction of Poland's bonds denominated in US dollar worth US\$1.5bn on Monday. Later during the week, optimistic results of domestic bond auction in the Czech Republic were also important.
- If the official statement of the Monetary Policy Council and members' comments would be in line with expectations and would not rule out more rate cuts, then a possible correction in emerging markets (on profit-taking) would have limited influence on the Polish curve (especially short-end).

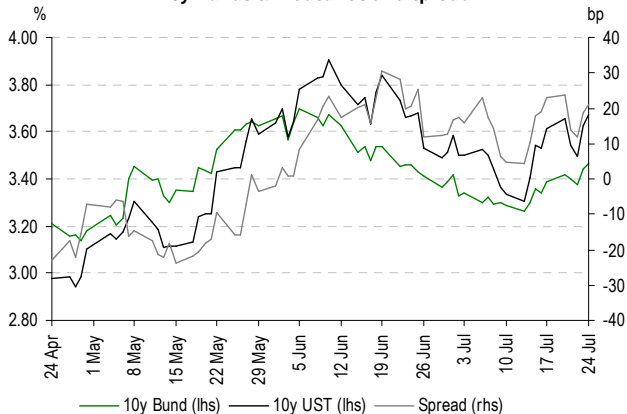
EURUSD rate



Euro stronger to the dollar

- Higher risk appetite global brought the EURUSD higher, to the highest level in the last couple of weeks. Good data from the US (e.g. from the housing market) and better-than-expected financial results of companies for 2Q09 led to the increase in demand for higher-risk currencies as compared to the US dollar. Additional support for the euro came from macroeconomic data, which suggested that prospects for recovery in the main European economies are not necessarily bleaker than for the US.
- The EURUSD will remain under influence of changes in risk appetite. After unsuccessful approaching to 1.43 last week, a possible return of higher risk aversion could drive the ERUUSD rate towards 1.40.

10y Bunds & Treasuries and spread



Higher yields in core debt markets

- Factors influencing core bond markets were the same as for the other markets – lower appetite for risk-free assets led to increase in yields of both Treasuries and Bunds. Also, impact in the same direction came from Thursday's information on record-high supply of Treasuries scheduled for this week (US\$115bn), as well as comments by Dallas Fed's Richard Fischer. He said that not all resources at Fed's disposal may be spent on Treasuries purchases. At the end of the week yields of 10Y Treasuries and Bunds were at 3.68% and 3.47%, respectively, against 3.62% and 3.39% a week earlier.
- If the scenario of higher risk aversion and some outflows from emerging markets materialises, yields of bonds in the core markets would decrease.

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