

Weekly economic update

2 – 8 November 2009

Last week saw a significant deterioration in sentiment in global markets, among others due to growing concerns about deterioration in the largest economies after the expiry of stimulus programs, disappointing results of companies, and worse than expected macro data (such as US consumer sentiment). Better than predicted GDP data in the US halted a correction in the stock markets, but the correction is still looming and moods are sensitive to any negative signals. In this context, data and events scheduled for this week will be key determinants for short-term trends. If there are no new optimistic signals, the bearish moods may prevail again.

MPC has not changed interest rates in October, although it shifted the informal policy bias was to neutral, at the same time indicating that there will be no changes in interest rates until the end of the year, which was clear for the market anyway. To assess the prospects for monetary policy, we should now pay attention to comments of candidates for new MPC members, but the problem is they will not be officially confirmed at least until mid-December. There is a lot of events in this week's agenda that can alter market sentiment. In addition to indexes of economic activity, comments after the meetings of central banks will be essential, as well as monthly data from the US labor market.

Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST		LAST VALUE
					MARKET	BZWBK	
MONDAY (2 November)							
9:00	PL	PMI manufacturing	Oct	pts.	48.6	48.9	48.2
9:58	EZ	PMI manufacturing	Oct	pts.	50.7	-	49.3
16:00	US	ISM manufacturing	Oct	pts.	53.0	-	52.6
16:00	US	Pending home sales	Sep	%	1.9	-	6.4
TUESDAY (3 November)							
	JP	Market holiday			-	-	-
16:00	US	Factory orders	Sep	%MoM	1.0	-	-0.8
WEDNESDAY (4 November)							
9:58	EZ	PMI services	Oct	pts.	52.3	-	50.9
9:58	EZ	PMI composite	Oct	pts.	53.0	-	51.1
10:00	EZ	PPI	Oct	%YoY	-7.7	-	-7.5
16:00	US	ISM non-manufacturing	Oct	pts.	51.8	-	50.9
14:15	US	ADP report	Oct	tys.	-188.0	-	-254.0
20:15	US	FOMC decision		%	0-0.25	-	0-0.25
THURSDAY (5 November)							
11:00	EZ	Retail sales	Oct	%YoY	-2.2	-	-2.6
13:00	GB	BoE decision		%	0.5	-	0.5
13:45	EZ	EBC decision		%	1.0	-	1.0
14:30	US	New jobless claims	w/e	k	520.0	-	530.0
14:30	US	Unit labour costs	Q3	%QoQ	-4.5	-	-5.9
FRIDAY (6 November)							
14:30	US	Non-farm payrolls	Oct	tys.	-175.0	-	-263.0
14:30	US	Unemployment rate	Oct	%	9.9	-	9.8
16:00	US	Wholesale inventories	Sep	%MoM	-1.0	-	-1.3

Source: BZ WBK, Reuters, Parkiet

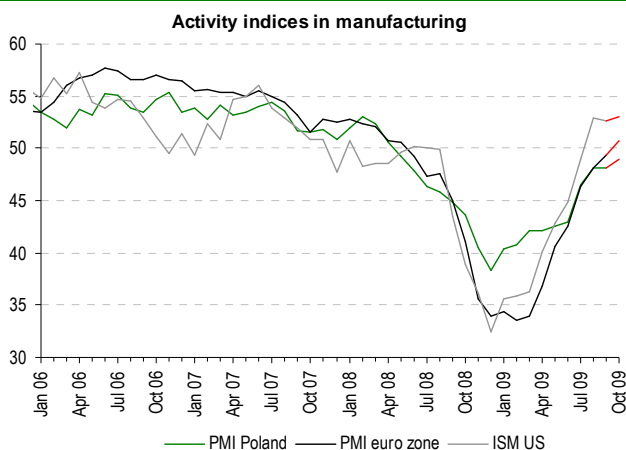
Maciej Reluga Chief economist (+48 22) 586 8363

Piotr Bielski (+48 22) 586 8333

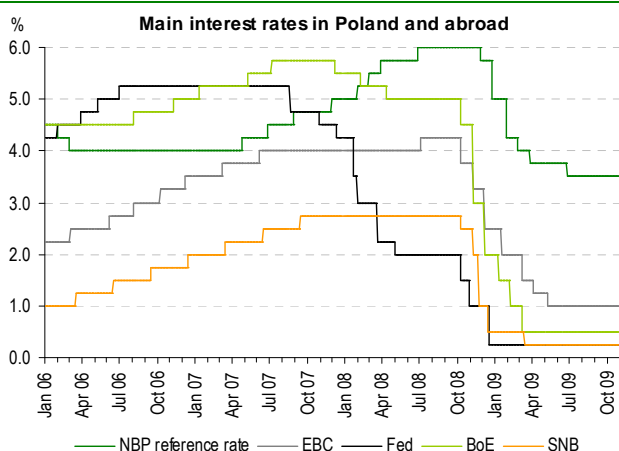
Piotr Bujak (+48 22) 586 8341

Cezary Chrapek (+48 22) 586 8342

e-mail: ekonomia@bzwbk.pl

What's hot this week – FinMin's CPI forecast, central bank decisions, activity indicators

- The most important determinants of global moods in the financial markets in the first part of the week will be activity indices in the manufacturing and services sectors in the euro zone and the US, which will verify expectations regarding the pace of economic recovery. Flash PMI data in the euro zone was optimistic, which (assuming there will be no negative surprise in the final data) allows to believe that risk aversion, which slightly declined after better than expected figures on US Q3 GDP, will not revive sharply at the start of the week.
- We expect that the increase of domestic PMI in October will be smaller than in the euro zone, similarly as in the previous month, and the index will stay slightly below 50, signalling stabilisation of economic growth rate in Q4.



- Forecast of the Ministry of Finance regarding the October inflation to be released on Monday may have some influence on the domestic interest rate market at the start of the week. Our estimates point to CPI decline to 3.3%YoY, amid weaker growth in prices of food and house utilities and a slight increase in transport prices. The market consensus is at 3.2%.
- In the middle of the week the central banks' meeting will be in focus of attention. No changes in interest rates are expected in case of Fed, ECB or BoE, but the Bank of Australia may hike rates again. Any signals regarding the banks' view on economic prospects will be important.
- On Tuesday the European Commission is going to release Autumn macroeconomic forecasts. The US labour market data to be released on Friday will be equally important for the expectations on world economic prospects.

Economy last week – Rates unchanged, informal bias neutral**Projections of inflation and GDP in subsequent Inflation reports**

	CPI			
	Oct 08	Feb 09	Jun 09	Oct 09
2009	3.9-5.7	2.5-3.9	2.8-3.5	3.3-3.5
2010	1.9-4.5	0.5-3.2	1.1-3.2	0.8-2.2
2011	-	-0.9-2.6	0.8-3.4	1.1-3.2
	GDP			
	Oct 08	Feb 09	Jun 09	Oct 09
2009	1.9-3.7	0.3-1.9	-0.4-1.1	1.1-1.5
2010	2.7-4.5	1.2-3.3	0.2-2.5	0.8-2.8
2011	-	2.5-4.8	2.4-4.5	2.2-4.2

Note: According to NBP projection, GDP growth and CPI inflation will be in the indicated ranges with probability of 50%.

- As expected the MPC kept interest rates unchanged. However, the informal monetary policy bias – against recent comments of the MPC members – was changed to neutral. The tone of the communiqué was not significantly changed as compared with September. The MPC vote results show that already since July the motion to change the bias was blocked by the NBP president with vote relation of 5:5.
- New inflation projection showed lower path of inflation in 2010, and lack of important change in 2011. GDP path was increased in 2010 and lowered in 2011.
- However, it is noteworthy that the reduction of the CPI path results mainly from lower predicted fuel prices, while the core inflation remained high in the projection horizon(it does not go below inflation target despite GDP growth below potential).

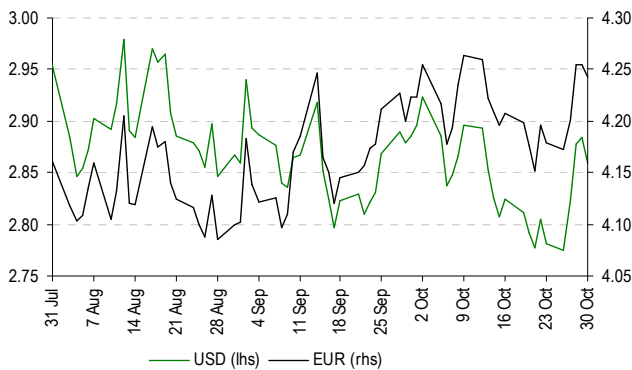
Quote of the week – The most hawkish member of the new MPC?**Jan Winięcki, potential MPC hopeful, Reuters, 29 October**

I see no reason for any additional central bank actions to support the economy, and this (opinion) includes deposit rate cuts. (...) Generally, experience tells us that if GDP growth is to rise then (...) we should not expect that inflation will sharply fall next year. And if it doesn't then at some point it may become an argument for rate hikes. (...) In Poland inflation was fuelled by additional impulse in 2006, as the money supply growth rate increased three times in a year and after such jump initially the industrial production accelerates and after 12-18 months also the prices, so one could have acted preventively. This was not done, which resulted in nesting inflation in the economy, which was not erased even by sharp fall of GDP growth.

Until the end of the MPC term there will be no more changes in the monetary policy parameters. Meanwhile, for assessment of interest rate prospects for the next year the key should be the comments of candidates to the new Council. Nevertheless, it seems that recent statements of prof. Winięcki should be treated with some distance. Firstly, the candidates to the new MPC have been not yet officially confirmed (the Sejm set the deadline for applications at 10 December, and Senate at 23 December). Secondly, if Winięcki becomes the MPC member, he will most probably represent the most „hawkish” wing, and his view will not represent the consensus, which determines the MPC vote results. Thirdly, the opinions he presented are quite disputable. It is worth to recall that a sudden decline of inflation amid rising GDP is possible and the best example is 2005-2006 period.

Market monitor

Zloty exchange rate

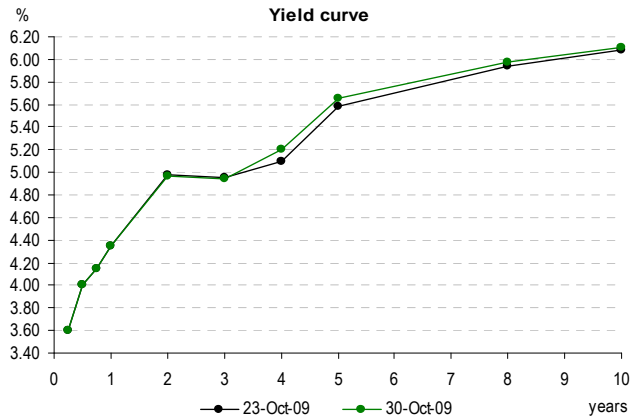


Stabilisation after significant correction

For the better part of the week the zloty, likewise other currencies in the region, was under negative impact of higher risk aversion globally. EURPLN temporarily rose above 4.28, but after better than expected GDP figures from the US a moderate recovery of the zloty took place. At the end of the week the EURPLN rate was 1.8% higher than a week earlier. Weakening versus the dollar was nearly twice as large due to fall in EURUSD.

Direction of changes in the FX market this week will depend on new macro data and central banks' decisions abroad. There is a chance for a zloty appreciation in the short-term, if the new data surprise on the positive side again. However, the markets still seem vulnerable to a correction and with lack of positive impulses the EURPLN may move towards 4.30.

Yield curve

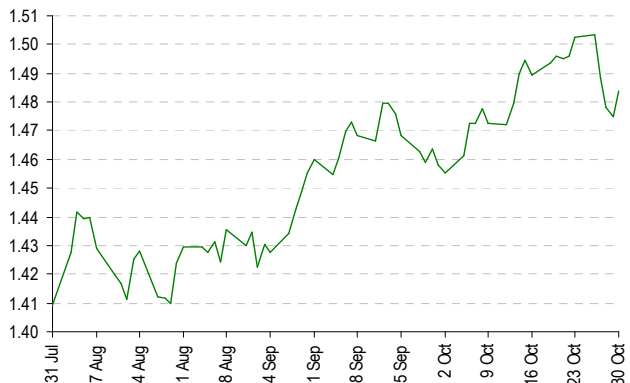


Weakening of local bonds due to global moods

The local debt market was driven by moods in the region and performance of the zloty. After a slight weakening in the first part of the week, a rebound took place. There was clear rise in FRA rates over the past week for terms over 6 month, which reflected strengthening expectations for interest rate hikes by about 50bps in such a time horizon. In our view the first rate hikes will not take place before Q3 2010 and the market is pricing-in rate hikes too soon.

The market consensus regarding inflation in October is below our forecast. If the FinMin's estimate is at similar level, this may be supportive factor for the local debt market. On the other hand, tendencies in the global markets and level of risk appetite seem more important.

EURUSD rate

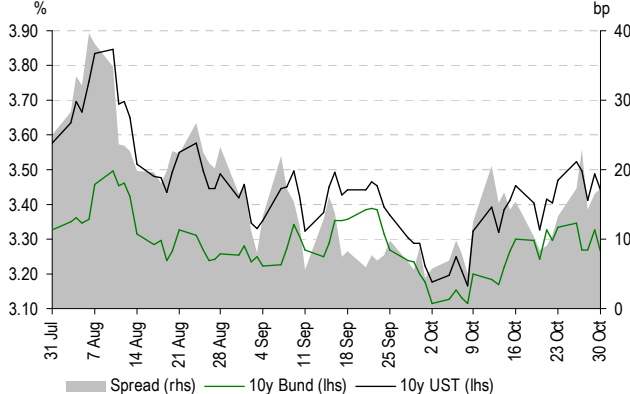


EURUSD driver by changes in risk aversion

On the rising wave of risk appetite the dollar gained to the euro to the strongest level in a month. The improved moods in the stock markets after the US GDP figures led to only slightly correction of the dollar's gains. At the end of the week the EURUSD was 1.9% below the level seen a week earlier.

Changes in the EURUSD in the near time, likewise in the past few weeks, will probably be driven by risk appetite and expectations regarding prospects for global economic recovery. The key focus of attention will be on economic activity indicators and messages from central banks. The season of earnings reports for Q3 continues and news from important companies may also substantially influence market moods this week.

10y Bunds & Treasuries and spread



Higher appetite for safe assets

Fall in yields of bonds on the core markets was temporarily stopped by better than expected US GDP data, but towards the end of the week yields fell again due to weakening in the global stock markets.

This week investors in the core debt markets will focus on outcomes of central banks' meetings. On the one hand, the second rate hike in Australia is likely. On the other hand, the BoE is expected to expand the program of debt instruments purchases. However, it will be also important what will be central bankers' expectations regarding economic recovery and suggestions regarding further monetary policy actions in the US and the euro zone.

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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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