Bank Zachodni WBK

Tri-weekly economic update

21 December 2009 – 10 January 2010

November's data published last week were inline with our forecasts, confirming continuation of recovery in the Polish economy and we may see GDP growth at ca. 3% in the last quarter of the year. At the same time, inflation pressure remains under control, which means that the new MPC should not decide to hike interest rates earlier than in the second half of 2010. Especially, as main central banks will not hurry with interest rate increases as suggested by Fed last week. Jerzy Hausner (ex-economy and labour minister in 2001-05) was nominated as the candidate for MPC member, which seems to limit risk that the new Council will be overly hawkish.

The next three weeks will go by in holiday Christmas and New Year mood and this is usually the period of lower activity and lower liquidity in the markets. Given that we will publish the next Weekly Economic Update on January 8. Economic data, which will be published domestically should not change the overall assessment of the Polish economy. The Ministry of Finance may publish the plan of public finance consolidation (it was promised to be delivered until year-end), but this should not have major impact on the market. Global events will be more important, as we will see a number of data releases, which may change expectations regarding the path of economic recovery in main economies.

We wish all our readers Merry Christmas and Happy New Year!

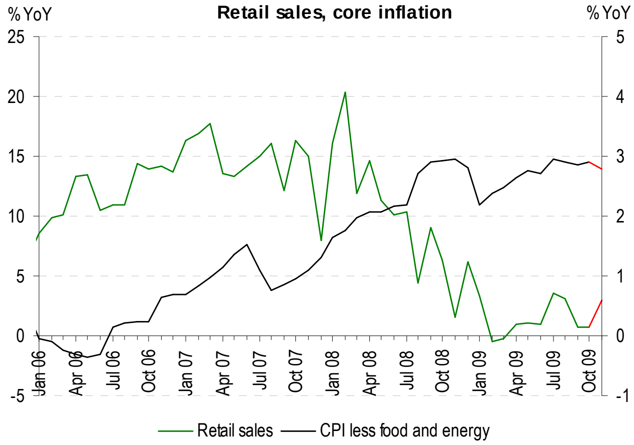
Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST BZWBK	LAST VALUE
		TUESDAY (22 December)					
8:00	DE	GfK index	Jan	pkt.	3,5	-	3,7
14:00	**PL**	**Core inflation**	**Nov**	**% r/r**	**2,9**	**2,8**	**2,9**
14:00	**PL**	**Business climate indicators**	**Dec**	**pkt.**	**-**	**-**	**-**
14:30	US	GDP final	Q3	%	2,8	-	2,8
14:30	US	Core PCE	Q3	%	1,3	-	1,3
16:00	US	Home sales	Nov	m	6,25	-	6,1
16:00	US	Home prices	Oct	% r/r		-	-3,0
		WEDNESDAY (23 December)					
10:00	**PL**	**Retail sales**	**Nov**	**%YoY**	**4,6**	**4,6**	**2,1**
10:00	**PL**	**Registered unemployment rate**	**Nov**	**%**	**11,4**	**11,4**	**11,1**
	PL	**MPC decision**	**Dec**	**%**	**3,5**	**3,5**	**3,5**
14:30	US	Core PCE	Nov	%MoM	0,1	-	0,2
15:55	US	Final Michigan index	Dec	pts.	73,6	-	67,4
16:00	US	New home sales	Nov	m	0,44	-	0,43
		WEDNESDAY (30 December)					
14:00	**PL**	**Current account balance**	**Q3**	**€ m**	**-**	**-503**	**-845**
15:45	US	Chicago PMI	Dec	pts.	55,0	-	56,1
		MONDAY (4 January)					
9:00	**PL**	**PMI manufacturing**	**Dec**	**pts.**	**52,1**	**52,9**	**52,4**
9:58	EZ	PMI manufacturing	Dec	pts.	51,6	-	51,2
16:00	US	ISM manufacturing	Dec	pts.	54,0	-	53,6
		TUESDAY (5 January)					
16:00	US	Factory orders	Nov	%	0,5	-	0,6
16:00	US	Pending home sales	Nov	%	2,5	-	3,7
		WEDNESDAY (6 January)					
9:58	EZ	PMI services	Dec	pts.	53,7	-	53,0
11:00	EZ	HICP flash	Dec	%YoY		-	0,5
14:15	US	ADP employment	Dec	k	-75,0	-	-169,0
16:00	US	ISM non-manufacturing	Dec	pts.	49,5	-	48,7
		FRIDAY (8 January)					
14:30	US	Non-farm payrolls	Dec	k	5,0	-	-11,0
14:30	US	Unemployment rate	Dec	%	10,1	-	10,0

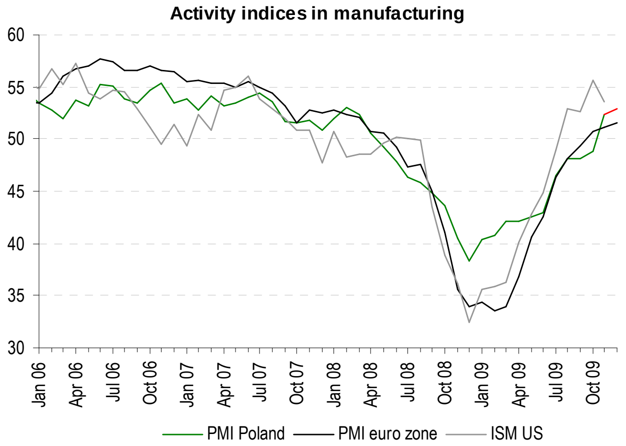
Source: BZ WBK, Parkiet, Reuters

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 – Waiting for more signs of recovery

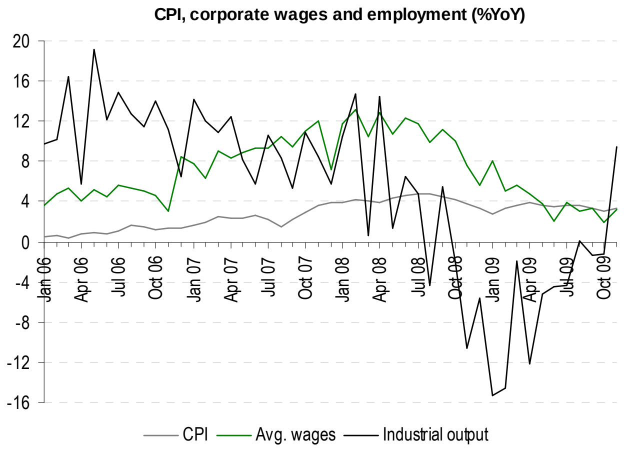


- In the period around Christmas and New Year, liquidity in the financial markets will be subdued, as usually. In these circumstances, large number of data releases, especially abroad, may be a source of higher variation of moods. Investors will be particularly sensitive to signals that would validate hopes for soon economic recovery in the world.
- As regards domestic data, the most important will be retail sales figures for November. We expect a clear acceleration in sales growth (to 4.6%YoY), mainly due to good results of car sales. We estimate that excluding cars and fuels sales growth decelerated below 2%YoY.
- After four months of stabilisation at 2.9%, core inflation excluding prices of food and energy should start a downward trend in November, decreasing slightly to 2.8%.



- Seasonal growth in registered unemployment rate in November to 11.4%, consistent with estimate of Labour Ministry, should not raise concerns, especially that data on employment were better than predicted. More interesting will be detailed data from the *Statistical bulletin* on structure of wages and employment in various branches.
- The last MPC meeting this year will be a pure formality as no one is expecting a change in monetary policy.
- Quarterly NBP data on balance of payments may show substantial revisions to earlier statistics, particularly in income account.
- Shortly after the New Year investors will focus on PMI data and FinMin's inflation forecast. We predict further rise in activity index, although not as strong as in November. We also predict a rise in December's inflation to 3.6%YoY.

Economy last week – Optimistic November's data



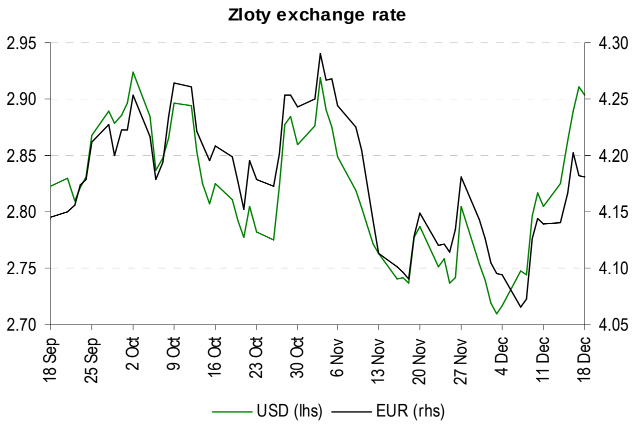
- High growth of production in industry (9.8%YoY) and construction (9.9%YoY) in November, and stabilisation of employment in enterprises at the level similar as in October and September (annual drop by 2.2%YoY) were next signals that Polish economy is on the path of revival, and negative trends in the labour market are decelerating.
- Slight CPI growth in November was consistent with expectations (3.3%YoY) and did not change forecasts assuming a clear inflation fall after the New Year. Especially that low growth in producer prices (2.0%YoY) and lower than expected wage growth in enterprises (2.3%YoY) did not signal any risk of growing inflationary pressure.
- Money supply growth decelerated sharply in November (7.9%YoY) due to reversal of effects related to PGE IPO in October.

Quote of the week – Hausner, Rzońca and Winiecki nominated to MPC by the Senate

Grzegorz Schetyna, head of PO caucus, Reuters, 18 Dec
Candidates for MPC members from Senate are Jan Winiecki, Andrzej Rzońca i Jerzy Hausner.
Sławomir Skrzypek, NBP president, Reuters, 17 Dec
I must say that professor Jerzy Hausner is a very strong, very good candidate. In general I think that the proposed candidatures will confer prestige to the MPC, as the panel will consist of top-level professionals.
Jan Winiecki, MPC hopeful, Reuters, 17 Dec
As we can see, inflation does not wane. I keep hearing forecasts that inflation will fall in future, however I see no premises for that. (...) If the circumstances will be in line with my predictions, then it (rate hike in 2010) has to be taken into consideration.

The final list of candidates to the next MPC from the Senate appeared to be slightly different than was earlier suggested. Placing Jerzy Hausner on the list of Senat candidates to the MPC seems to lower the chances that the policy of the new Council will be much more hawkish than currently. Nevertheless, both Jan Winiecki and Andrzej Rzońca (similarly to Andrzej Bratkowski put forward by Sejm), will most probably belong to proponents of restrictive monetary policy. In fact, we will know actual profiles of the new members after some time of their functioning in a new role, especially as monetary policy was not a main subject of interest for large part of MPC hopefuls.

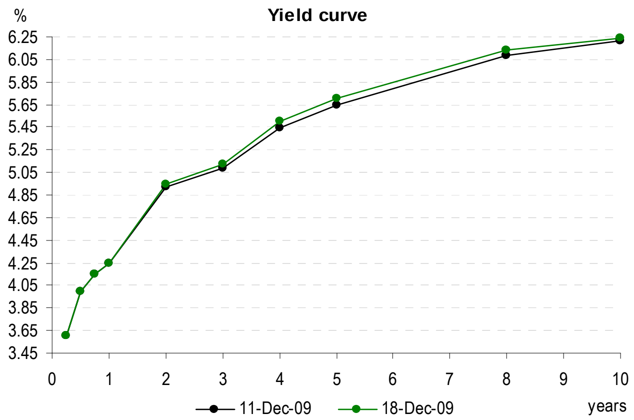
Market monitor



Zloty weakened before Christmas

▪ Last week brought weakening of the zloty and other currencies in the region, which resulted, among others, from concerns over stability of Austrian banks, next rating downgrade of Greece, as well as substantial appreciation of the dollar against the euro, which is to some extent an automatic signal for sale of risky currencies. On Wednesday the EURPLN rate reached 4.22, and afterwards till the end of the week it fluctuated in a narrow range around 4.20.

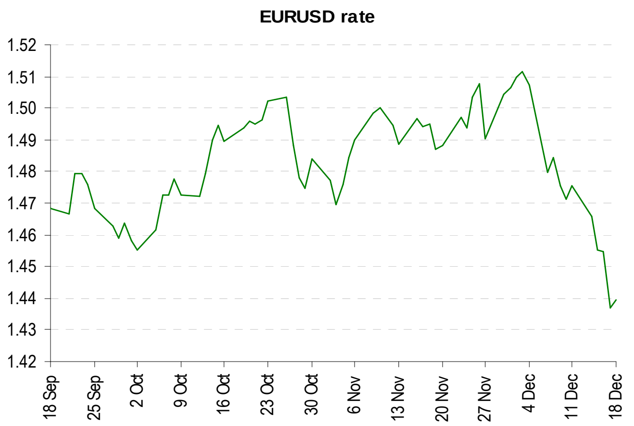
▪ The zloty should recover after recent weakening, though it is hard to say, whether it will manage to do this before the year-end. Maintaining concerns about the situation of peripheral countries of the euro zone, geopolitical risk, and decline of the EURUSD rate may decelerate medium term appreciation trend of the zloty. In the short term an important resistance range is 4.20-4.23.



Low activity in the debt market

▪ Despite significant fluctuations in the FX market, government bond yields were stable, and investors' activity was gradually waning as the end of the year was getting closer. Domestic macroeconomic data did not have significant influence on the market. Ahead of the year-end the FRA money market rates started to gradually rise, discounting future interest rate hikes.

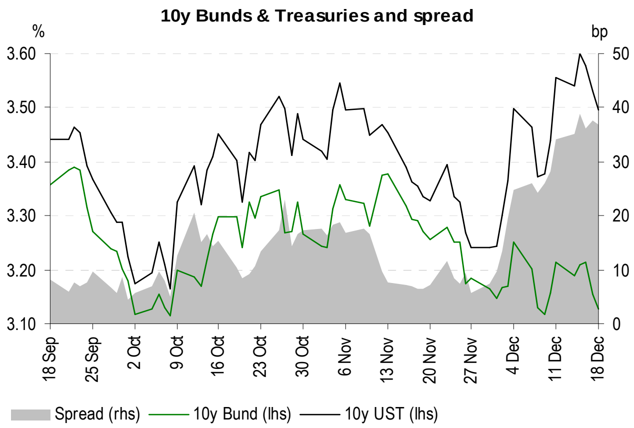
▪ In the next weeks the activity at the sessions in the domestic debt market will be even more limited than in the previous weeks. There should be no significant moves in the bond yields from current levels.



Dollar strengthening against the euro

▪ US dollar continued its appreciation trend against the euro, which was influenced by among others US data, concerns over the European banks and Fed statement. Although the US central bank kept the opinion the interest rates would remain unchanged for an extended period, though his positive assessment of economic situation led to strengthening of market expectations, that global recovery will accelerate monetary policy tightening. On Friday the EURUSD rate fell below 1.43 among others under influence of rising concerns about conflict between Iraq and Iran.

▪ In the nearest weeks the dollar rate may be influenced by both ample economic data releases but also news about geopolitical situation in the Middle East.



Growing spread between yields in US and euro zone

▪ US yields were initially negatively affected by rising expectations that Fed may start monetary policy tightening sooner than previously expected. Overall, during the week there was quite clear strengthening in the core debt markets (yields of 10Y Bunds fell by ca. 9 bp, and of 10Y Treasuries by 6 bp) under influence of higher risk aversion and rising concerns over tensions in relations between Iran and Iraq at the end of the week.

▪ Escalation of conflict between Iran and Iraq may increase global risk aversion and support a fall in yields. Market concerns about sooner start of policy tightening by the Fed will be increasing the spread between yields of bonds in the US and in the euro area.

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