

# Weekly economic update

11 – 17 January 2010

The turn of the year was favourable for the zloty and the domestic debt market. In the holiday season the zloty gradually appreciated against the major currencies, while yields of Polish bonds were stable amid limited activity. The start of the year brought further zloty appreciation amid improvement of global moods (relatively stable EURUSD, higher yields in the core debt markets and higher equity indices). There was also a clear strengthening of the local debt market in reaction to positive news regarding the fiscal policy, allowing to assume this year's budget deficit and borrowing needs will be lower than was earlier feared, though they will be still very high acting toward significant increase of public debt. Publication of fiscal consolidation plan is delayed and it should be finally released within 1-2 weeks. The domestic macroeconomic data released at the turn of the year has not significantly changed the economic picture. On one hand, we had better than expected retail sales data for November, and on the other hand slightly disappointing PMI for December. Overall, they confirmed the expectations for continuation of economic recovery with annual GDP growth rate in Q4 2009 around 3%. Last week brought passing two first candidates to the MPC by Sejm – Andrzej Bratkowski and Elżbieta Chojna-Duch. The remaining candidates of the ruling coalition from the parliament are due to be accepted in the next few weeks and the President is going to announce nominees in the second half of January. This week we will get important domestic data (CPI and balance of payments) and a large portion of important figures from abroad (mainly at the end of the week). ECB meeting will also be important.

## Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD	FORECAST		LAST VALUE	
				MARKET	BZWBK		
<b>MONDAY (11 January)</b>							
11:00	PL	Tender of 52-week T-bills worth PLN500-700m					
<b>TUESDAY (12 January)</b>							
14:30	US	Trade balance	Nov	\$bn	-35.0	-	-32.9
<b>WEDNESDAY (13 January)</b>							
11:00	PL	Auction of 2Y bonds OK0712					
11:00	EZ	Industrial output	Nov	%YoY	-8.5	-	-11.1
<b>THURSDAY (14 January)</b>							
14:00	PL	CPI	Dec	%YoY	3.6	3.6	3.3
14:00	PL	M3 money supply	Dec	%YoY	6.8	6.8	7.9
13:45	EZ	EBC decision	-	%	1.0	1.0	1.0
14:30	US	Initial jobless claims	w/e	k	440	-	434
14:30	US	Import prices	Dec	%MoM	-0.2	-	1.7
14:30	US	Retail sales	Dec	%MoM	0.4	-	1.3
<b>FRIDAY (15 January)</b>							
14:00	PL	C/A balance	XI	€m	-1635	-2359	-991
14:00	PL	Export	XI	€m	8857	8999	8957
14:00	PL	Import	XI	%YoY	9562	9699	9776
11:00	EZ	Final HICP	XII	%YoY	0.9	-	0.5
14:30	US	NY Fed index	I	pts	10.0	-	2.55
14:30	US	CPI	XII	%MoM	2.8	-	1.8
15:15	US	Industrial output	XII	%MoM	0.4	-	0.8
15:15	US	Capacity utilisation	XII	%	71.8	-	71.3
15:55	US	Preliminary Michigan index	I	pts	73.5	-	73.4

Source: BZ WBK, Parkiet, Reuters

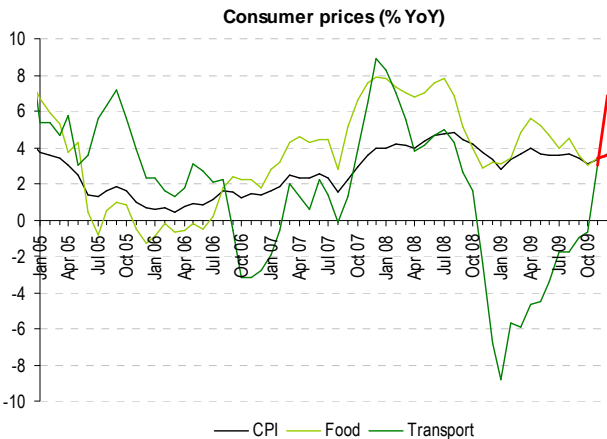
**Maciej Reluga** Chief economist (+48 22) 586 8363

**Piotr Bielski** (+48 22) 586 8333

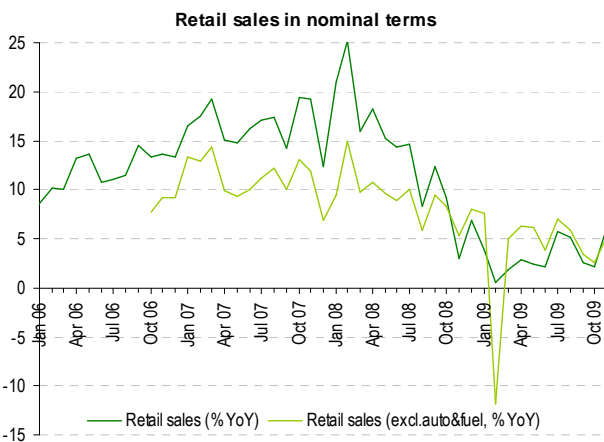
**Piotr Bujak** (+48 22) 586 8341

**Cezary Chrapek** (+48 22) 586 8342

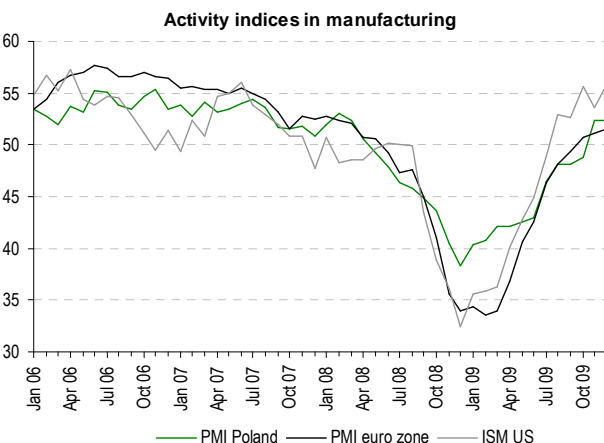
e-mail: ekonomia@bzwbk.pl

**What's hot this week – Domestic CPI, balance of payments and data abroad**

- The FinMin estimates that CPI inflation rose to 3.6%YoY in December with monthly rise in consumer prices by 0.1%. The FinMin's estimate is consistent with our forecast. This concerns not only overall price growth, but also its structure – the same as in our forecast the FinMin assumes that food prices grew 0.4%MoM and prices in other categories on average remained flat.
- We estimate that balance of payments for November will show substantial widening of C/A gap due to an effect of dividend payments by PZU insurer (nearly €2.5bn gap on the income account). Annual growth rates of exports and imports considerably improved, but to a large extent due to low base effect.
- As to event abroad, focus will be on the ECB meeting and a large dose of important US data due for release towards the end of the week.

**Economy last weeks – Confirmation of economic recovery**

- Retail sales data for November published before Christmas showed clear acceleration in annual growth rate to 6.3% (consensus was 4.6%). What is important, according to our estimates the annual growth of retail sales excluding autos and fuels accelerated to above 5% from 2%. All in all, the data confirmed that the economy is on the recovery path and pace of GDP growth in Q4 may reach (or even exceed) 3%YoY.
- The registered unemployment rate at the end of November reached 11.4% and according to tentative estimates of labour ministry rose to 11.9% at the year-end. In the first months of this year one may expect further rise in the unemployment rate, but it should not rise much above 12%, reaching its peak at a clearly lower level than one could have feared a few months ago.



- The Poland's PMI manufacturing stabilized at 52.4 in December. Although the result was somewhat disappointing (the market consensus and our forecast at 52.9), the index remained clearly above the neutral level of 50.0 (following earlier strong rise), indicating continuation of economic recovery in Poland. Besides, the employment sub-index rose above 50pts for the first time since April 2008, which suggests some improvement in households' financial stance and consumption demand in the course of 2010.
- Quarterly balance of payments for Q3 showed much higher deficit than indicated by earlier released monthly data for that period. However, at the same time the estimate of FDIs inflow to Poland was revised up. As a result, the primary C/A balance (ordinary C/A balance less inflow of long-term capital) significantly improved.

**Quote of the last weeks – There will be NBP profit****Sławomir Skrzypek, NBP governor, PAP, Reuters, 6-7 Jan**

There was a profit at the central bank and it was sizeable as compared to 2004-2008 years. This is a good news for the budget. 95% of the NBP profit will be transferred to the budget.

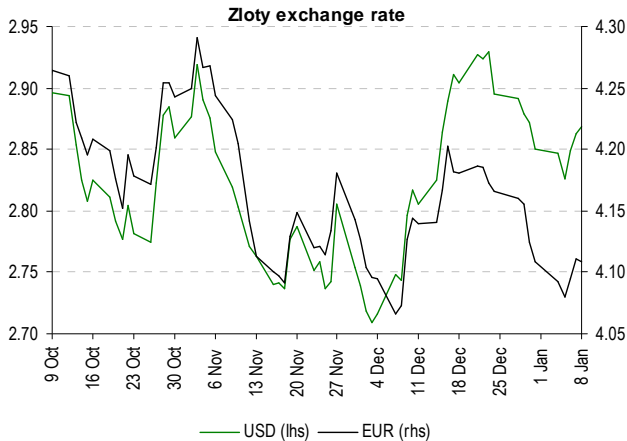
With a certain optimism we are looking at our profit prospects but it will be for sure below PLN4.4bn.

**Jacek Rostowski, finance minister, Reuters, 6 Jan**

Thanks to the fact that we have better tax revenues, we will have a central budget deficit lower than expected. We expect it to be at between 24 and 25 billion zlotys, which means it will be similar to the size of deficit in 2008.

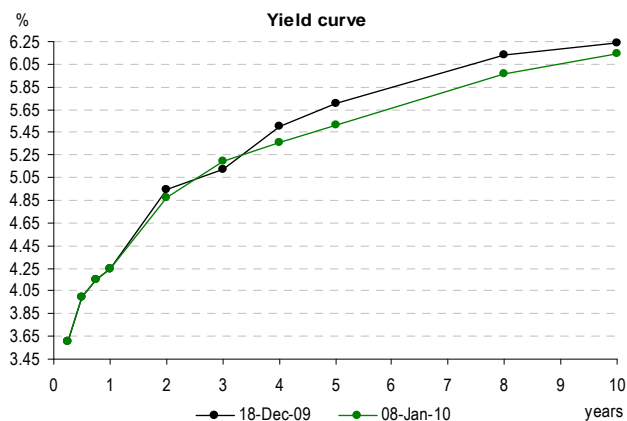
The news that the NBP will show profit in 2009 was not the only one, which positively affected the assessment of this year's budget result and had important influence on the behaviour of the domestic debt market. The comment from finance minister was also important, as he said last year's budget deficit was a few billion zlotys below the plan among others due to higher than expected tax revenues (by PLN5bn from VAT, by PLN2bn from excise tax and by PLN1bn from PIT). Higher than assumed revenues in 2009 will make it easier to achieve 2010 revenues, especially amid higher than assumed GDP growth and inflation. The sale of 10% of KGHM stake at WSE was also important news as it improved the assessment of chances for realisation of ambitious privatisation plans for this year.

**Market monitor**



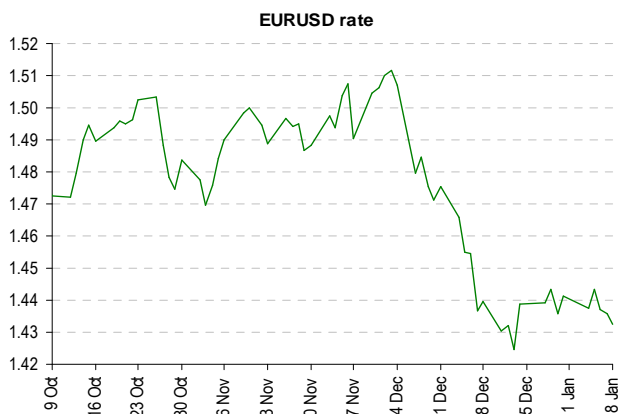
**Turn of the year positive for the zloty**

- Last two weeks of 2009 and first week of the new year brought moderate strengthening of the zloty and other currencies in the region. This was supported by stabilisation of the EURUSD rate after earlier clear drop and improvement of world market moods thanks to mostly better than expected macroeconomic data from the major economies. Nevertheless, the EURPLN rate did not break the important range of 4.06-4.08 and the zloty needs a positive impulse for further downward move toward psychological barrier of 4.00.
- In the first part of this week the zloty may be traded in horizontal trend and only the result of the ECB meeting on Thursday and important data from the US on Thursday and Friday will determine the direction of EURUSD rate change, global risk appetite and also the zloty performance.



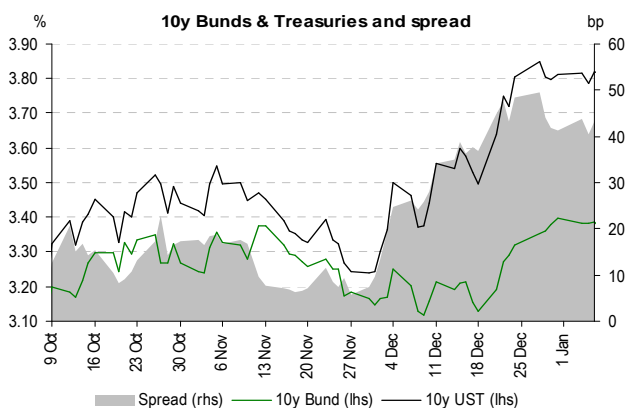
**Clear strengthening of domestic bonds**

- In holiday season the domestic bond market was virtually inactive and bond yields were unchanged. At the start of this year there was strengthening in the domestic debt market due to higher global risk appetite, zloty appreciation and news allowing to expect that the borrowing needs, including the issue of government securities in the domestic market, may be lower than previously assumed. The 5Y segment strengthened the most (with yields fall in the last 3 weeks by nearly 20 bps).
- After clear strengthening in the past week, this week may bring stabilisation of the domestic yield curve amid expectations for CPI release (confirmation of widely expected rise to 3.6%YoY would be neutral) and publication of the delaying fiscal consolidation plan.



**EURUSD stable at lowered level**

- The end of the past year and the start of the 2010 was a period of relative stabilisation of the EURUSD rate in a quite narrow range of 1.425-1.445. Process of limiting short-dollar positions against other currencies noticeable in the earlier weeks came to a stop. This was supported by a fact that new macroeconomic data were not explicitly more positive for the US than for the euro zone. Moreover, investors got used to earlier news on serious problems of some of the euro zone countries (mainly Greece), which earlier contributed to clear EURUSD rate decline.
- In the first part of this week the EURUSD rate may remain in quite a narrow range and later in the week its performance will depend on outcome of the ECB meeting and tone of the macro figures due for release in the US.



**Yields in the core debt markets strongly up**

- In the last few weeks the core debt markets recorded significant weakening and yields of US bonds reached the highest level in a few months (for 10Y Treasuries the highest since the start of June 2009). This was connected with smaller interest of investors in safe-haven assets due to rising hope for economic recovery and intensification of expectations for interest rates hikes by Fed. At the end of the past week yields of 10Y Treasuries and Bunds were at 3.82% and 3.37% against 3.50% and 3.13% on Friday, 18 December 2009.
- This week the performance of the core debt markets will depend, similar as in case of the EURUSD rate, on factors expected in the second half of the week.

---

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](mailto:ekonomia@bzwbk.pl), <http://www.bzwbk.pl>



Bank Zachodni WBK is a member of Allied Irish Banks Group