Bank Zachodni WBK

Weekly economic update

18 – 24 January 2010

Recent days saw a continuation of gradual strengthening of the zloty towards the level 4.0, however in our opinion this barrier should not yet be breached in the short term. In the debt market, there was a decline in market rates supported by the appreciation of the zloty and the results of auctions of 2Y bonds and eurobonds. Inflation increased less than expected in December, but this has not supported the interest rate market. Balance of payments data showed good data on exports and services that support our estimates of GDP growth in Q4.

Last week the Senate chose three MPC members: Andrzej Rzońca, Jan Winiecki and Jerzy Hausner. The latter member may be key for the result of the Council voting, in addition to Elżbieta Chojna-Duch elected last week, due to his moderate views. The President is expected to announce his nominations to the Council in the second half of January.

This week, there are ample domestic data in the agenda. We expect a greater acceleration in wage growth than the market and a fall in employment in line with the consensus. We also expect a fairly high two-digit growth in industrial output and slowdown in construction production in December. These data and business climate indicators should confirm a continuation of revival in the domestic economy and will support the zloty, and may slightly inhibit the downward trend in market rates. Domestic investors are still waiting for the plan of public finance consolidation. Abroad, the start of the week should be quiet amid US market holiday. The key to global sentiment will be publications of Q4 earnings reports abroad. Moreover, important data will include ZEW and PMIs in the euro zone, and housing market data and the Philly Fed index in the US.

Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST		LAST VALUE
					MARKET	BZWBK	
		MONDAY (11 January)					
11:00	**PL**	**Tender of 52-week T-bills worth PLN500-700m**					
14:30	US	Market holiday					
		TUESDAY (12 January)					
14:00	**PL**	**Wages in the corporate sector**	**Dec**	**%YoY**	**3.2**	**4.7**	**2.3**
14:00	**PL**	**Employment in the corporate sector**	**Dec**	**%YoY**	**-1.9**	**-1.9**	**-2.2**
11:00	DE	ZEW index	Jan	pts	49.5	-	50.4
		WEDNESDAY (13 January)					
11:00	**PL**	**Auction of 2Y bonds OK0712**					
14:30	US	House starts	Nov	m	0.58	-	0.574
14:30	US	PPI	Nov	%MoM	0.0	-	1.8
		THURSDAY (14 January)					
14:00	**PL**	**Industrial output**	**Dec**	**%YoY**	**11.8**	**12.1**	**9.8**
14:00	**PL**	**Construction–assembly output**	**Dec**	**%YoY**	**7.9**	**6.9**	**9.9**
14:00	**PL**	**PPI**	**Dec**	**%YoY**	**2.2**	**2.2**	**2.0**
14:00	**PL**	**Core inflation**	**Dec**	**%YoY**	**2.7***	**2.5**	**2.8**
14:30	EZ	Flash manufacturing PMI	-	pts	51.8	-	51.6
14:30	EZ	Flash services PMI	w/e	pts	53.9	-	53.7
14:30	US	New jobless claims	Dec	'000	440	-	444
16:00	US	Philladelphia Fed index	Dec	pts	18	-	22.5
		FRIDAY (15 January)					
14:00	**PL**	**MPC Minutes**	**Dec**				
14:00	**PL**	**Business climate indicators**	**Jan**				

Source: BZ WBK, Parkiet, Reuters, *Dow Jones Newswires

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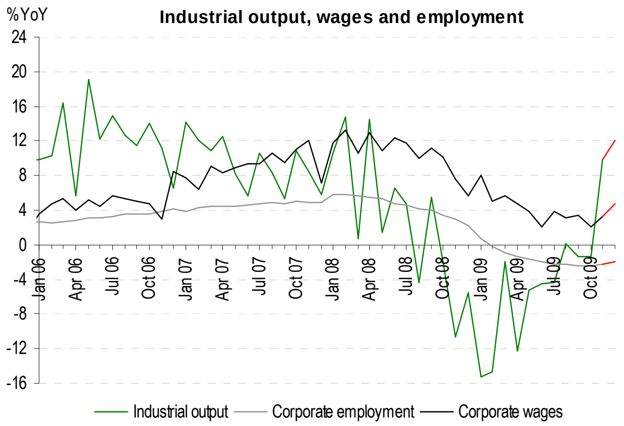
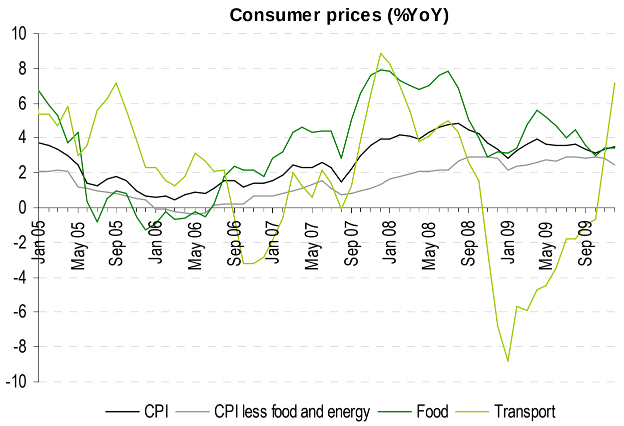
What's hot this week – Another portion of domestic data

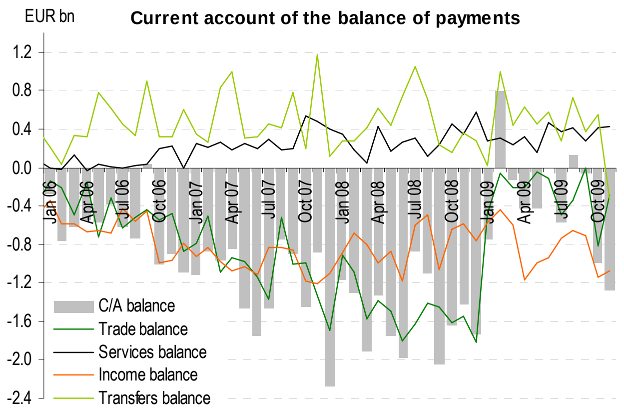


- After very good data for November in our view in December the industrial output should accelerate further and the annual growth will reach two-digit level. Samar car production data are supportive for our production estimate. Moreover, the stabilisation of the PMI index at high level (52.4 pts) also signals maintaining the seasonally adjusted output near level from November.
- In our view the PPI index slightly accelerated in December to 2.2%YoY (-0.2%MoM). However, in the next months we expect significant decline of annual growth rate.
- Data form the labour market should show significant acceleration of wage growth in the corporate sector due to probable change in timing of bonuses payments in mining. We also expect deceleration of employment decline.

Economy last week – Balance of payments data good for GDP, smaller increase in inflation



- M3 money supply rose in December by 8.1%YoY, stronger than indicated by our and market's forecast of 6.8%YoY, mainly due to strong growth in deposits of households (3.4%) and businesses (7.0%). It is difficult to state to what extent this is a result of improvement of financial condition of households and enterprises, and to what extent effect of raising liquidity by banks at year-end.
- CPI inflation in December rose to 3.5%YoY, while our forecast, market consensus and the FinMin's estimate pointed to 3.6%YoY. Lower inflation came mostly from monthly drop in communication and recreation and culture. Given the structure of the price increase in December, our estimate of core inflation without energy and food prices was reduced to 2.5%YoY (from 2.6%YoY). The data did not change the medium term outlook for inflation and rates expectations by new MPC.



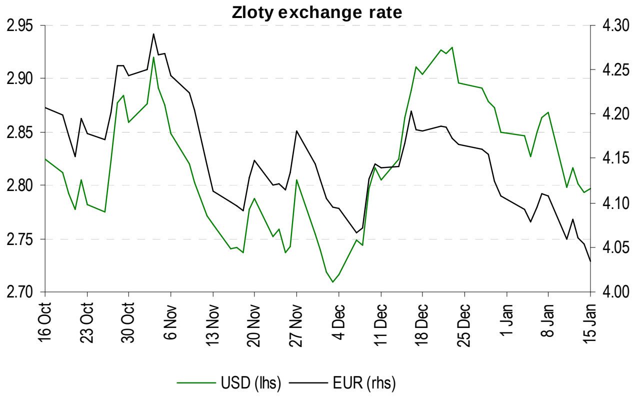
- Balance of payments data for November showed current account deficit at €1.3bn, however this result was under significant effect of one-off transaction between Eureko and State Treasury after the conflict between the two parties regarding PZU insurer was solved.
- From the point of view of data important for net export contribution to GDP, information was positive. Firstly, trade deficit was below €300m with exports at the same level as a year ago, significant revision of exports for October and lower-than-expected imports.
- Secondly, surplus in services balance was above €400m and was above our forecast. Overall, the data were positive as regards the scope of economic recovery in Poland, confirming that GDP growth in 4Q09 was above 3%YoY.

Quote of the week – Votes of Hausner and Chojna-Duch may be crucial

Andrzej Rzońca, MPC member, PAP, Reuters, 13-14 Jan
If economic growth and inflationary pressure prove to be stronger than expected, the rate hikes would have to come quick. (...) Inflation may be above the target faster than at the end of the projection horizon. If [this is shown by] projection, this would be an argument for changing informal policy bias to restrictive.
Jan Winiecki, MPC member, PAP, Reuters, 13 Jan
Entrance to the euro zone should take place as fast as will be allowed by economic circumstances. MPC intervention was needed at the turn of 2006/07, but it did not happen.
Jerzy Hausner, MPC member, Reuters, 13 Jan
We are talking about entry to the euro zone in 2015 at best. The next government will take the political decision.

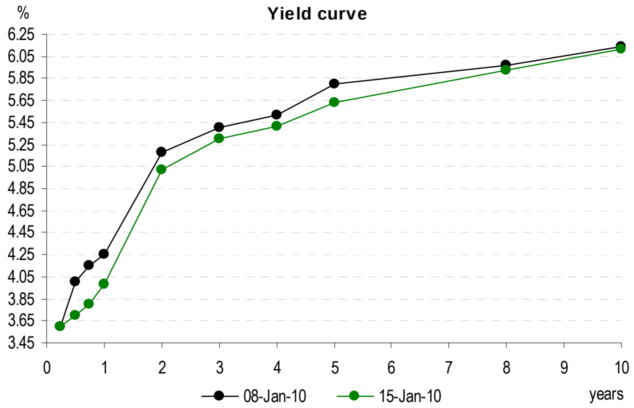
The Senate chose Andrzej Rzońca, Jan Winiecki and Jerzy Hausner to the new MPC. Andrzej Rzońca said rise of inflation above the inflation target before the new projection horizon, will be an argument for a change in informal monetary policy bias to restrictive. In his view the sooner the economy recovers the sooner the MPC should raise rates, as postponing this decision in time will result in higher total scale of rate hikes later on. Apart from this Rzońca claims that the MPC should also track asset price inflation. Rzońca and Jan Winiecki said that the euro adoption should take place as soon as the conditions allow. Rzońca, Winiecki and Hausner positively assessed NBP activity during the turmoil in the financial market. In our view the vote of Jerzy Hausner and Elżbieta Chojna-Duch may be key for rate decisions.

Market monitor



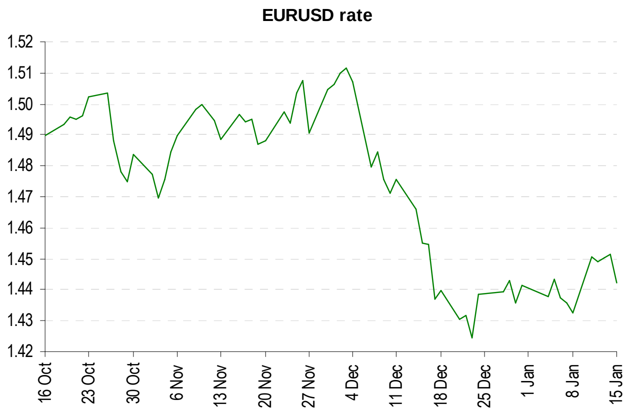
Zloty going towards 4.0

- Last week the zloty remained at relatively strong levels and positive attitude to domestic currency was persisting. After slight correction at the start of the week, next days saw a gradual strengthening of the zloty despite dollar appreciation in international markets. EURPLN rate decreased during the week by ca. 0.4%, more than Hungarian forint (0.1%) and Czech crown (1.4%).
- This week, key factors for the zloty will be global moods being mainly under influence of publications of rather optimistic financial results of companies for Q4 amid small number of economic data releases abroad. Strong data on domestic production should support the zloty. However, in our view the level 4.0 will rather not be breached this week yet.



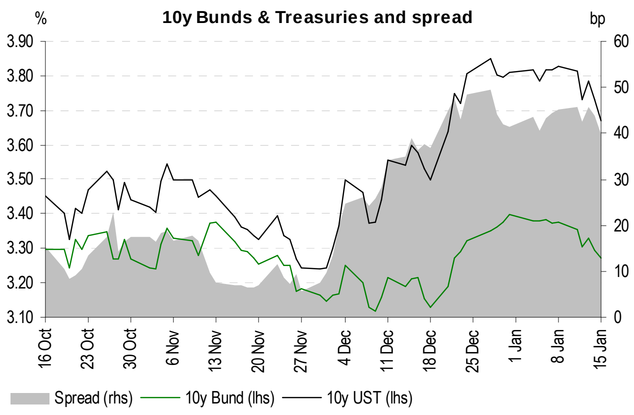
Market rates decline again

- At the start of last week, the interest rate market was under positive impact of favourable news about fiscal situation, signalling lower debt supply this year, which triggered a fall in yields, particularly at the short end of the curve. Additional positive factors, strengthening bond market was very good result of 2Y bond auction and large supply of eurobonds (€3bn), which allowed to accomplish the annual plan of foreign bonds issuance. At the end of the week there was some temporary correction.
- Taking into account our forecasts concerning data on production and wages to be released this week, we may see a hold in downward trend of market interest rates. On the other hand, strong zloty will be still a factor supporting the debt market.



Further rebound of the dollar

- Last week was characterised by high stability of the EURUSD rate. After very peaceful start of the week, next days saw a strengthening of the dollar despite weaker than predicted data from the labour market and about US retail sales. A support for the dollar was a comment of the ECB president that the strong dollar is important. The EURUSD continued a decline under influence of fears about slowdown in China and after high growth in NY Fed index.
- Start of this week should be peaceful amid market holiday in the US. The most important for the EURUSD rate may be next reports on the Q4 financial results. The number of economic data releases will be limited. Important for the euro will be ZEW and PMI indicators and for the dollar the data from the housing market and Philly Fed index.



Strengthening in the core debt markets

- Last week there was a strengthening in the core debt markets. A support for German bonds was a comment of Ewald Novotny from the ECB that economic growth in the euro zone in 2010 will be slow, as well as favourable results of bond auctions in the euro area. Also, a strengthening in the core markets was triggered by weak data on retail sales and labour market from the US and comments of the ECB president. In the last week yields of 10Y Treasuries and Bunds fell to 3.71% and 3.29% from 3.82% and 3.37% last Friday.
- Important for core debt markets will be expectations about difference in pace of economic revival in the US and euro zone. Important will be also factors influencing EURUSD and stock markets.

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