Bank Zachodni WBK

Weekly economic update

15 – 21 February 2010

The last week was still under influence of fiscal problems in Greece and other peripheral countries of the euro zone, which was reflected in falling EURUSD rate. However, in line with our expectations the Polish currency strengthened supported by higher risk appetite globally and rising equity indices, which was driven by market hopes that Greek problems will be solved somehow by other euro zone countries. Additionally, positive data on US retail sales for January and weekly labour market data were more important than weak statistics on German GDP and the second hike in reserve requirements by the Chinese central bank in a month time.

We expect that this week will bring stabilisation of market situation and the EURPLN rate should trade horizontally around 4.0. We assume that the series of economic data in the euro zone and the US will not bring big surprises and fears regarding fiscal position of euro zone countries will not intensify. Domestic macroeconomic indicators will look rather pessimistic at the first glance (labour market statistics and production data will deteriorate under influence of temporary and/or statistical effect), but this would not change prospects for the Polish economy and therefore should have limited negative impact on the foreign exchange market.

Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST		LAST VALUE
					MARKET	BZWBK	
		MONDAY (15 February)					
11:00	**PL**	**Tender of 52-week T-bills worth PLN0.7-1.0bn**					
14:00	**PL**	**CPI**	**Jan**	**%YoY**	**3.5**	**3.5**	**3.3**
-	US	Market holiday					
		TUESDAY (16 February)					
11:00	DE	ZEW index	Feb	pts	42.0	-	47.2
14:00	**PL**	**Average wage in enterprises**	**Jan**	**%YoY**	**3.1**	**2.2**	**6.5**
14:00	**PL**	**Average employment in enterprises**	**Jan**	**%YoY**	**-2.3**	**-2.7**	**-1.8**
15:00	US	Capital flows	Dec	$bn	-	-	126.8
		WEDNESDAY (17 February)					
11:00	**PL**	**Auction of 10Y and 20Y bonds DS/WS**					
14:30	US	House starts	Jan	m	0.58	-	0.557
14:30	US	Building permits	Jan	m	0.60	-	0.653
14:30	US	Import prices	Jan	%MoM	0.8	-	0.0
15:15	US	Industrial production	Jan	%MoM	0.8	-	0.6
20:00	US	FOMC minutes	-	-	-	-	-
		THURSDAY (18 February)					
14:00	**PL**	**Industrial production**	**Jan**	**%YoY**	**6.5**	**0.1**	**7.4**
14:00	**PL**	**Construction production**	**Jan**	**%YoY**	**-3.4**	**-14.5**	**3.1**
14:00	**PL**	**PPI**	**Jan**	**%YoY**	**0.9**	**0.2**	**2.1**
14:30	US	PPI	Jan	%YoY	4.4	-	4.4
16:00	US	Philadelphia Fed index	Feb	pts	17.0	-	15.2
		FRIDAY (19 February)					
9:58	EZ	Flash PMI manufacturing	Feb	pts	52.6	-	52.4
9:58	EZ	Flash PMI services	Feb	pts	52.5	-	52.5
14:00	**PL**	**Minutes of the MPC meeting in January**	**-**	**-**	**-**	**-**	**-**
14:30	US	CPI	Jan	%YoY	2.8	-	2.7

Source: BZ WBK, Parkiet, Reuters,

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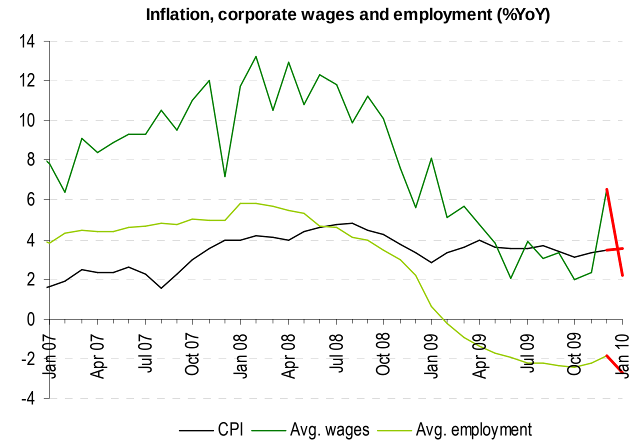
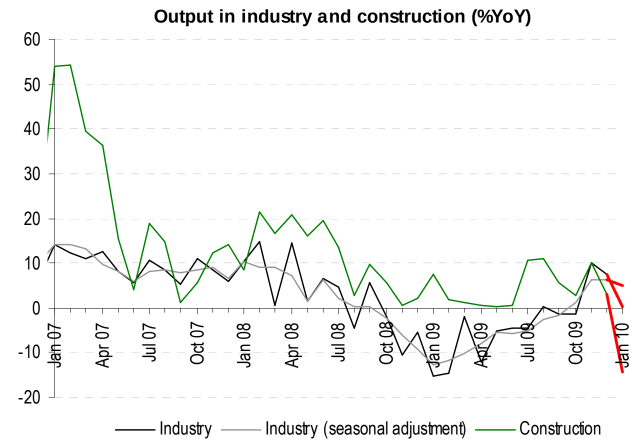
What's hot this week – Key domestic data and activity indicators abroad



▪ We forecast that CPI Inflation in January was stable at 3.5% level recorded in December. Our assumptions include stable annual growth rate of food prices, significant acceleration of fuel prices (low base effect) and substantial decrease in prices dynamics in other categories. This was observed not only in energy prices (high base effect), as net inflation excluding prices of food and energy fell to 2.1% from 2.5% in December.

▪ Domestic data from the labour market for January may be surprising, as the statistical office will do the annual revision of sample regarding firms employing more than 9 workers. Also, there will be the high statistical base effect in the case of wages (connected with lower PIT rates starting January 2009, which caused shift in wage payments from Dec 2008 to Jan 2009). Therefore, the assessment of tendencies in the labour market will be quite difficult this month.

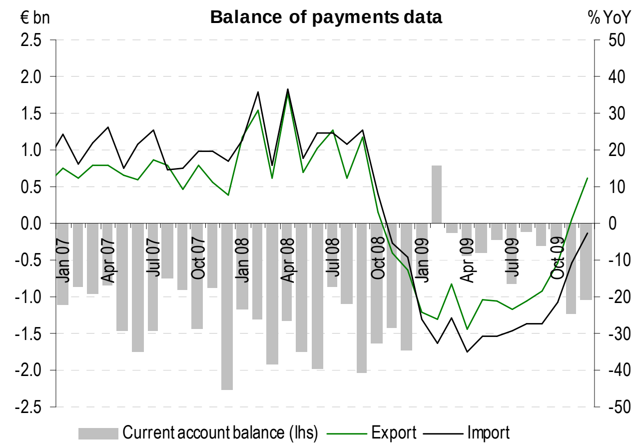


▪ Weak reading of PMI for January (fall from 52.4 to 51.0, while the market expected rise and our forecasts suggested a slight fall) supports our below-consensus estimate of industrial production. At the same time, weather conditions affected significantly the construction output in January and we expect sharp annual drop.

▪ Minutes of the MPC meeting in January will be interesting as they will show whether after a change of almost half of MPC members the main subjects of discussion remains the same. However, more important may be the long-awaited appointment of three new members by the President.

▪ A lot of important activity indicators will released abroad, in both the US and the euro zone. Still, a possible support for Greece will be in the key focus of attention (meeting of European Finance Ministers at the beginning of the week).

Economy last week – Not much important data



▪ Balance of payments data for December were in line with our forecasts, confirming recovery in exports and moderate increase in trade balance. In 2009 current account deficit amounted to 1.5% of GDP and it was the lowest level in the last four years. Additionally, it was covered in 240% by long-term capital inflow. The balance of trade in good and services in Q4 was slightly above zero which suggests that contribution of net exports to GDP growth in Q4 2009 much larger than indicated by our estimates based of preliminary data for 2009 as a whole.

▪ Growth in broad money supply decelerated in January to 6.2%YoY from 8.1% in December 2009. This was below our forecast and market consensus, which were slightly below 8%. Both deposit and credit growth of households and enterprises decelerated at the beginning of the year.

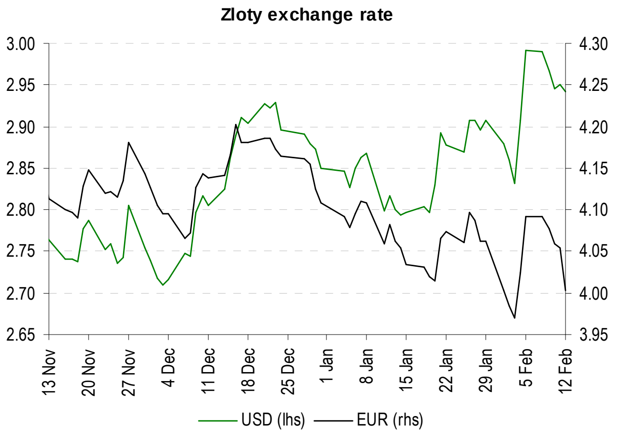
Quote of the week – Unemployment rate may (temporarily) exceed 13%

Czesława Ostrowska, deputy labour minister, PAP, 10 Feb
Unemployment [in 1H 2010] may fluctuate in range 11.5-13.0%. In February we may expect a slight increase, however already in March the stabilisation should start. Even some slight decrease is possible. It seems that the first half of the year will be difficult, however the unemployment rate should not exceed 13%.

Czesława Ostrowska, deputy labour minister, Reuters, 11 Feb
In February the unemployment will rise and may exceed 13% (...) Since March we expect a systematic decrease, and since September a stabilisation. The biggest rise in unemployment takes place in winter. Additional factor is currently adverse weather conditions. Work in construction sector virtually stopped.

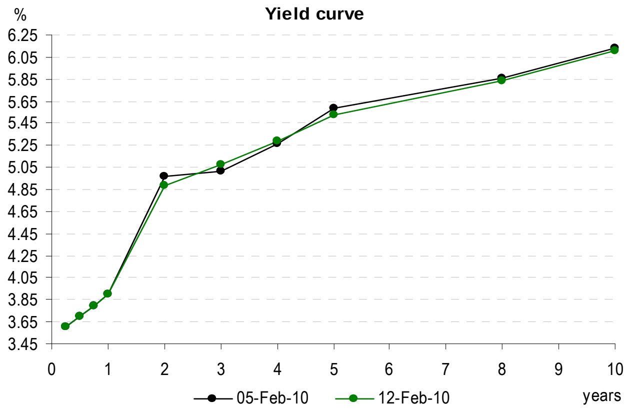
Earlier the Ministry of Labour informed about tentative estimates showing a surge in the registered unemployment rate to 12.8% in January from 11.9% in December. Now the ministry heralds a further increase in February, perhaps even above 13%. Stronger than usual increase in jobless rate at the beginning of the year results from exceptionally adverse weather conditions this year (and therefore stronger than normal seasonal effect). In addition, an important effect was a delay in signing up for unemployment in anticipation of an increase in benefits at the beginning of 2010. Hence, it can not be concluded that at the beginning of this year there has been an adverse change in the labour market trend. After a strong seasonal increase in winter, in the remainder of 2010 we anticipate a decrease in unemployment.

Market monitor



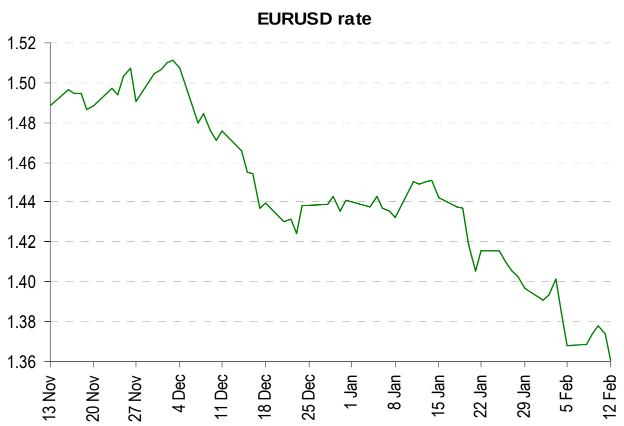
Recovery of the zloty ...

- As we expected, last week the zloty recovered from earlier weakening. The domestic currency was supported by a rebound after earlier decline in the global stock markets. At the same time the appreciation of the domestic currency was curbed by concerns regarding Greece and decline of the EURUSD rate. The zloty performed the strongest among currencies in the region, appreciating against the euro during the week by almost 2%, while the forint gained 1.3%, and Czech crown appreciated by 0.5%.
- After at the end of the last week the EURPLN rate temporarily fell below 4.00 and we expect that this week it will remain near this level. Some weakening of concerns over situation of the euro zone's peripheral countries will support the zloty, though the domestic data may slightly deteriorate sentiment towards the Polish currency.



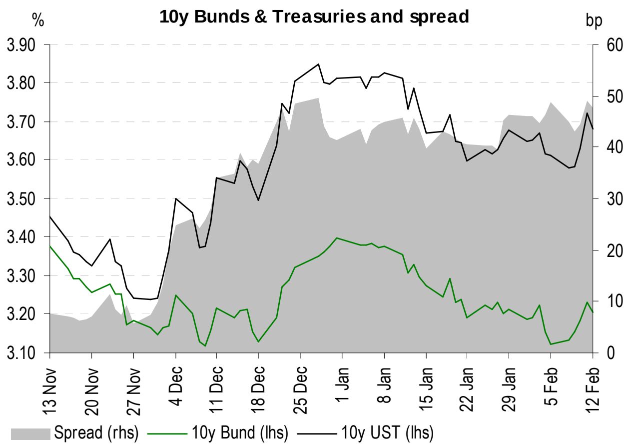
… and in the domestic debt market

- Along with higher risk appetite in the international markets and the zloty appreciation, the domestic debt market strengthened. Bond yields lowered to similar extent across the whole curve. Nevertheless, concerns connected with peripheral euro zone countries limited the strengthening of the Polish debt market, while the scale of domestic bonds decline was smaller than IRS rates decline, which resulted in widening of asset swap spreads. However, it is hard to say that relative credit risk of Poland increased taking into account narrowing of spread for Polish bonds versus Bunds.
- This week the domestic debt market may strengthen on improvement of global moods in the international markets and poor domestic macroeconomic data.



EURUSD lower and lower

- Persisting concerns over the fiscal situation of peripheral euro zone's countries, especially Greece, still negatively influenced the single currency. At the start of the week there was rebound in the EURUSD rate after news on works on rescue plan for Greece, though the later general declarations on support of the euro zone countries for the government in Athens amid lack of sufficient details did not preserve the euro from renewed wave of weakening against the dollar. At the end of the week the EURUSD rate approached 1.35 against ca. 1.37 a week before.
- This week the pressure on the euro may still hold as it is hard to expect a clear lowering of concerns over fiscal situation of peripheral euro zone countries. Fed minutes and new data will also be important for the EURUSD.



Weakening in the core debt markets

- During most part of the past week the core debt markets were gradually weakening along with regular increase of the major stock indices. Only at the end of the week yields slightly declined after news on second increase of reserve rate in China within a month. Deterioration of sentiment towards the euro zone contributed to an increase of Bunds yields. At the end of the week yields of 10Y Treasuries and Bunds were at 3.70% and 3.21% respectively against 3.61% and 3.12% week earlier.
- Apart from the changes in risk appetite and situation in Greece, the core debt markets will be influenced by changes in the expectations on monetary policy prospects after releases of new data and FOMC minutes.

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