

Weekly economic update

1 – 7 March 2010

Last week, in line with our expectations, the situation in the financial markets has been fairly stable. The result of the MPC meeting and the conclusions of the new NBP's projection for inflation and GDP did not change expectations about the prospects of domestic monetary policy. Before the meeting of the Council we saw the domestic retail sales data for January, which were disappointing, showing clearly stronger than expected slowdown in nominal growth to 2.5%YoY from 7.2% in December. When evaluating these data one should note that as with many other indicators for January, they were under influence of temporary and statistical factors. Recent indicators of consumer sentiment for February by the CSO and Ipsos showed continued improvement. The assessment of actual trends in consumer demand have to wait for the data for subsequent months. More light on the process of revival of the Polish economy will throw this week's data on GDP for the fourth quarter of 2009 and the PMI index for February. Crucial for the Polish financial market, however, will be changes of sentiment in global markets, for which important factors this week will be indicators of activity in the euro zone and the US, the ECB meeting, and the data from the labour market in the US. Decision on rates by Australian central bank due on Tuesday may also be important.

Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST		LAST VALUE
					MARKET	BZWBK	
MONDAY (1 March)							
09:00	PL	PMI manufacturing	Feb	pts	51.5	51.9	51.0
09:58	EZ	PMI manufacturing	Feb	pts	54.1	-	52.4
11:00	PL	Tender of 52-week T-bills worth PLN0.7-1.0bn					
14:30	US	Personal income/spending	Jan	%	0.4/0.4	-	0.4/0.2
14:30	US	Core PCE	Jan	%	0.0	-	0.1
16:00	US	ISM manufacturing	Feb	pts	57.5	-	58.4
TUESDAY (2 March)							
10:00	PL	GDP	Q4	%YoY	3.0	3.1	1.7
11:00	EZ	Flash HICP	Feb	%YoY	1.0	-	1.0
11:00	EZ	PPI	Jan	%YoY	-1.1	-	-2.9
WEDNESDAY (3 March)							
9:58	EZ	PMI services	Feb	pts	52.0	-	52.5
11:00	PL	Switch auction of bonds					
11:00	EZ	Retail sales	Jan	%YoY	-1.6	-	-1.6
14:15	US	ISM non-manufacturing	Feb	k	-10.0	-	-22.0
16:00	US	ADP report	Feb	pts	51.0	-	50.5
THURSDAY (4 March)							
11:00	EZ	Revised GDP	Q4	%QoQ	0.1	-	0.1
13:00	GB	BoE decision	-	%	0.5	-	0.5
13:45	EZ	EBC decision	-	%	1.0	1.0	1.0
14:30	US	Factory orders	Jan	k	469.0	-	496.0
16:00	US	Initial jobless claims	w/e	%	1.5	-	1.0
16:00	US	Pending home sales	Jan	%	1.0	-	1.0
FRIDAY (5 March)							
14:30	US	Non-farm payrolls	Feb	k	-30.0	-	-20.0
14:30	US	Unemployment rate	Feb	%	9.8%	-	9.7%

Source: BZ WBK, Dow Jones, Parkiet, Reuters

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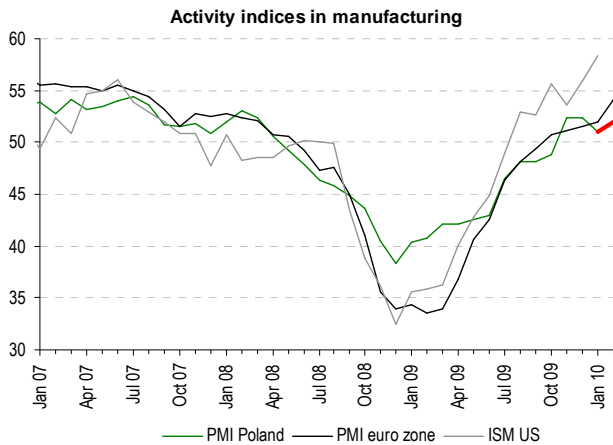
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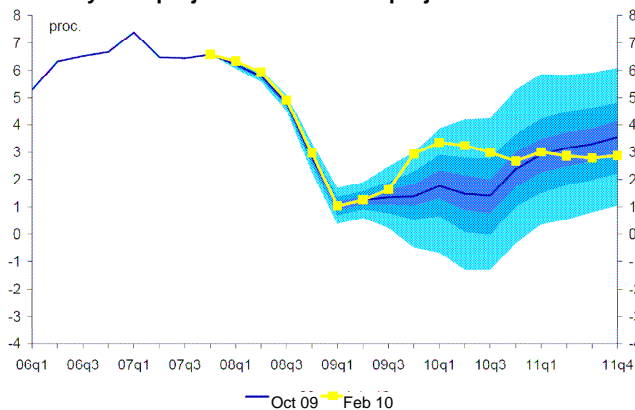
What's hot this week – GDP, PMI, inflation forecast, ECB meeting and data abroad



- Based on tentative data for the whole 2009 and assuming no revision in data for Q1-Q3 2009 we assume that annual GDP growth in Q4 alone was 3.1% with slowdown in individual consumption growth to 2.0% from 2.2% in the previous quarter and with rise in fixed investment by 1.5% after drop of the same scale in Q3. However, one should remember about a possibility of revision to overall GDP growth or its breakdown for previous quarters of 2009.
- An important hint on the latest tendencies in the Polish manufacturing will be PMI for February, which in our view rebounded after a quite significant drop in January. This is suggested by clear rise in the euro zone's PMI.
- On Monday we will get the FinMin's estimate of CPI in February. We forecast 3.0%YoY versus 3.6% in January.
- As to events abroad, focus will be on activity indicators, ECB meeting and the US non-farm payrolls report.

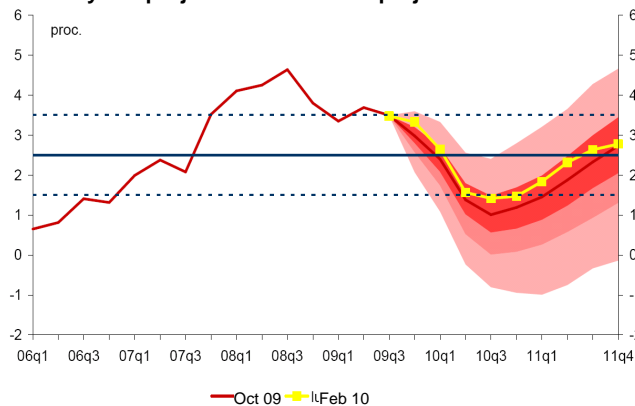
Economy last week – Data

February GDP projection vs. October projection



- Last week the MPC met for the first time with all nine new members and as expected interest rates were kept on hold and informal policy bias was maintained.
- Comments from MPC members during the press conference after afterwards, even from those perceived as hawks (Andrzej Bratkowski, Anna Zielińska-Głębocka) clearly suggested that the neutral policy bias is currently justified, and changes in monetary policy are unlikely to occur quickly.
- Taking into account the post-meeting statement and conclusions from the press conference we do not change expectations concerning monetary policy. We assume the first rate hike in October and a change in monetary policy bias to tightening more or less in the middle of the year. Relatively low inflation this year should not encourage to take hasty decisions.

February CPI projection vs. October projection



- Our view is supported by the new projection of inflation and GDP, which shows a rise in inflation clearly above the target only in 2012 and low pace of economic growth throughout the projection horizon.
- As regards GDP projection, the report notes the expected change in the breakdown of growth in the next couple of years – acceleration in domestic demand and neutral or slightly negative effect of net exports. We assume the similar change in the GDP breakdown but of a larger scale and thus higher GDP growth. According to the NBP, the balance of risks for GDP and CPI projections is neutral. On the one hand, NBP said that substantial risk is connected with a possibility of higher food and energy prices. On the other hand, inflation path (and GDP) may be lower due to zloty appreciation. In our opinion, the latter factor is more important and more probable.

Quote of the week – Too early to change the bias

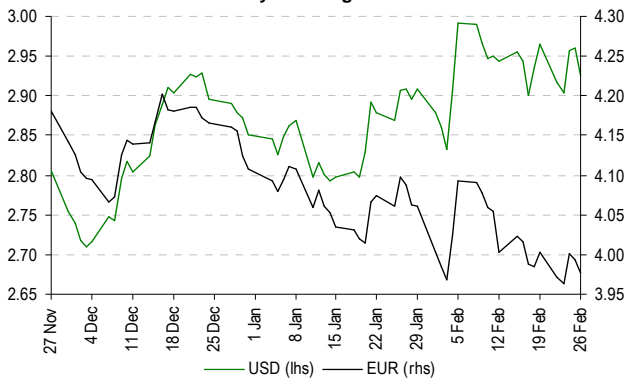
Elżbieta Chojna-Duch, MPC member, TVN CNBC, PAP, 24 Feb
[As regards interest rates] there was a consensus view, there were not doubts. However, there were [doubts] regarding indication of future bias, but we decided not to change the communiqué.

Anna Zielińska-Głębocka, MPC member, PAP, 25 Feb
It is too early to change the informal policy bias. In the nearest weeks we should carefully monitor all risks. It may appear that some of them will materialise and then the Council will have to review its stance and change policy bias. (...) I think nothing like that should happen in H1. (...) We are waiting for potential correction of forecasts. The next projection is in June. Until then the informal policy bias could remain unchanged, assuming there are no unexpected events.

Although Elżbieta Chojna-Duch said in interview with TVN CNBC that there were some doubts within the Council as regards keeping neutral bias in February, most likely this concerned only the extreme hawks. According to Chojna-Duch, monetary tightening may be considered only in the medium-term horizon and signalling it today would be premature. In our opinion the change in bias will take place in the middle of the year, at the earliest. What is important, Anna Zielińska-Głębocka (who describes herself as a hawk) said that change of bias to tightening should not take place until the June's MPC meeting. Moreover, the most recent comments of NBP President show that he is quite sceptical about strength and persistence of recovery abroad, which should lower his propensity to change policy bias quickly.

Market monitor

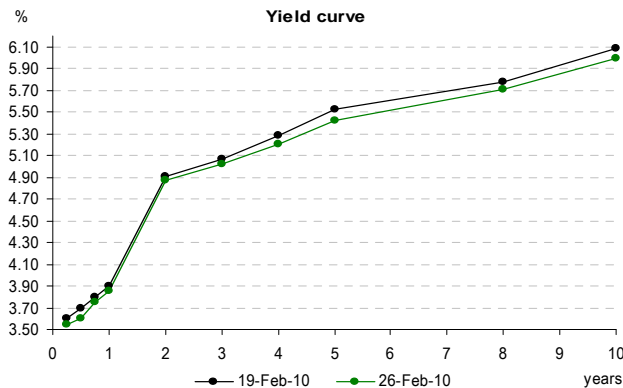
Zloty exchange rate



Zloty in horizontal trend

- The fluctuations of the zloty exchange rate in the past week were limited again and the EURPLN remained near 4.00. This was supported by limited range of changes in the global stock markets and relatively small fluctuations of the EURUSD rate. During the week the zloty performance was better than of other currencies in the region, appreciating vs. the euro by 0.4% as compared to forint appreciation by 0.3% and crown depreciation by 0.8%.
- This week the tone of the macroeconomic data abroad, the result of the ECB meeting and EURUSD rate move will be crucial for the zloty. In our view the tone of the data will be slightly positive, and the EURUSD rate may slightly rebound, which would allow EURPLN to break 3.95-3.96 range. Next important level is 3.90, but in our view it will not be reached this week.

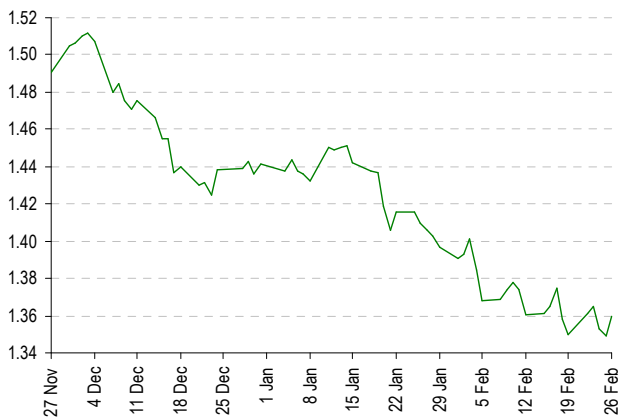
Yield curve



Domestic yield curve down

- High liquidity of the domestic banks and calm behavior of the zloty amid some stabilisation of the risk appetite level led to fall in yields on Polish bonds yields. At the same time, the stabilization of the zloty as well as the fact that the outcome of the MPC meeting and conclusions from the new NBP projection for inflation and GDP confirmed that there will rather not be swift interest rate hikes in Poland contributed to stabilisation of IRS rates. With lower bond yields and stable IRS curve, levels of asset swap spreads declined.
- We expect that this week the domestic debt market is going to strengthen amid improvement of global moods and zloty appreciation.

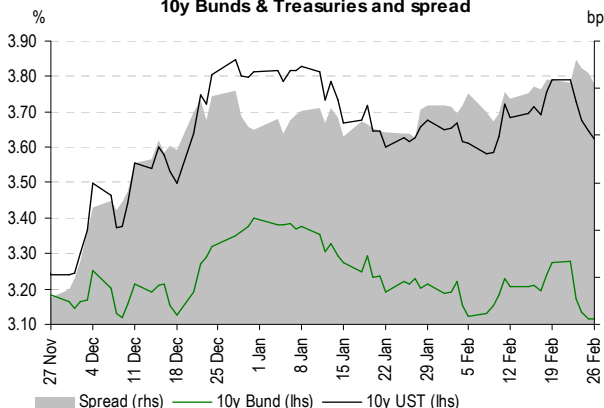
EURUSD rate



Downward trend in EURUSD stopped

- Trading in EURUSD was rather stable last week with relatively narrow range of 1.345-1.36. Changes in the rate were driven by sentiment regarding Greek fiscal problems, as well expectations regarding the scope of recovery in the US and the euro zone after the new data releases. The downward trend in EURUSD was stopped also as a result of comments by Fed chief Ben Bernanke that interest rates in the US would remain unchanged for longer.
- From the point of view of technical analysis it seems that upward correction in EURUSD is more and more likely. We expect that economic data this week will be rather positive for the market sentiment (assuming that it would not be much more positive for the US relatively to the euro zone) and this may be an impulse for such a correction. The risk factor is the ECB meeting and possible suggestions regarding the so-called exit strategy.

10y Bunds & Treasuries and spread



Significant strengthening in core bond markets

- Core bond markets strengthened last week amid higher interest of investors for higher quality debt instruments, i.e. Treasuries and Bunds. This was driven by market's perception of higher risk of rating downgrade for Greece (though during the week as a whole it did not have a material impact on EURUSD nor equity markets). Also, statements from Ben Bernanke that official rates will remain stable for some time have a positive impact. As a result, at the end of the week yields of 10Y Treasuries and Bunds fell to 3.62% and 3.11%, respectively, from 3.79% and 3.28% one week before.
- As we assume some rise in risk appetite this week and thus core bond markets may see a correction of recent strengthening.

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