

Weekly economic update

22 – 28 March 2010

After a clear strengthening of the zloty and bonds, the end of the last week saw a moderate correction on the domestic market, related to, inter alia, concerns about the rescue package for Greece. In the nearest days the zloty will remain more vulnerable to swings of moods abroad than to domestic data, especially that the number of publications will be limited.

Set of macroeconomic data, which were published last week, brought a rather optimistic information about the inflation outlook and ambiguous instructions on the economic activity in the first quarter. The positive surprise in industrial production was overshadowed by much deeper than forecast drop in construction output. In turn, higher than expected wage growth in the corporate sector was accompanied by a stronger decline in employment. In total, the data indicate a risk that GDP growth in the first quarter may be below 3%. From this perspective, the CSO press conference next Wednesday will be important, at which the data on retail sales for February will be released. Other domestic data published this week should not have a significant impact on the market. Abroad, market attention will focus on data from the real estate market in the US and business climate indices in Europe, as well as on news about the situation in Greece.

Economic calendar

| Time CET | COUNTRY | INDICATOR | PERIOD | FORECAST | | LAST VALUE |
|-----------------------------|---------|--|--------|----------|-------|------------|
| | | | | MARKET | BZWBK | |
| MONDAY (22 March) | | | | | | |
| 11:00 | PL | Tender of T-bills: 39-week worth PLN0.7-1.2bn and 52-week worth PLN1.0-1.5bn | | | | |
| - | JP | Market holiday | | | - | - |
| 14:00 | PL | Business climate indicators | Mar | pts | - | - |
| 14:00 | PL | Core inflation | Feb | %YoY | 2.3 | 2.2 |
| TUESDAY (23 March) | | | | | | |
| 15:00 | US | Existing home sales | Feb | m | 5.0 | - |
| 15:00 | US | Home prices | Feb | %YoY | - | -1.5 |
| 15:00 | US | Richmond Fed index | Mar | pts | - | 0.0 |
| WEDNESDAY (24 March) | | | | | | |
| 9:58 | EZ | Flash PMI manufacturing | Mar | pts | 54.2 | - |
| 9:58 | EZ | Flash PMI services | Mar | pts | 52.0 | - |
| 10:00 | PL | Retail sales | Feb | %YoY | 3.9 | 2.5 |
| 10:00 | PL | Registered unemployment rate | Feb | % | 13.0* | 13.0 |
| 10:00 | DE | Ifo index | Mar | pts | 95.8 | - |
| 13:30 | US | Durable goods | Feb | % | 0.0 | - |
| 16:00 | US | New home sales | Feb | m | 0.32 | - |
| THURSDAY (25 March) | | | | | | |
| 8:00 | DE | Gfk index | Apr | pts | 3.1 | - |
| 10:00 | EZ | Money supply M3 | Feb | %YoY | -0.1 | - |
| 13:30 | US | Initial jobless claims | w/e | k | 450.0 | - |
| FRIDAY (26 March) | | | | | | |
| 13:30 | US | Final GDP | Q4 | % | 5.7 | - |
| 13:30 | US | Core PCE | Q4 | % | 1.6 | - |
| 13:30 | US | GDP deflator | Q4 | % | 0.4 | - |
| 14:55 | US | Final Michigan index | Mar | pts | 72.5 | - |

Source: BZ WBK, Dow Jones, Parkiet, Reuters; * Labour Ministry's estimate

Maciej Reluga Chief economist (+48 22) 586 8363

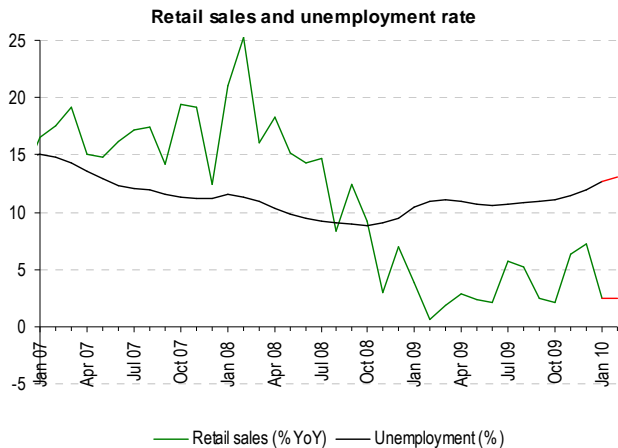
Piotr Bielski (+48 22) 586 8333

Piotr Bujak (+48 22) 586 8341

Cezary Chrapek (+48 22) 586 8342

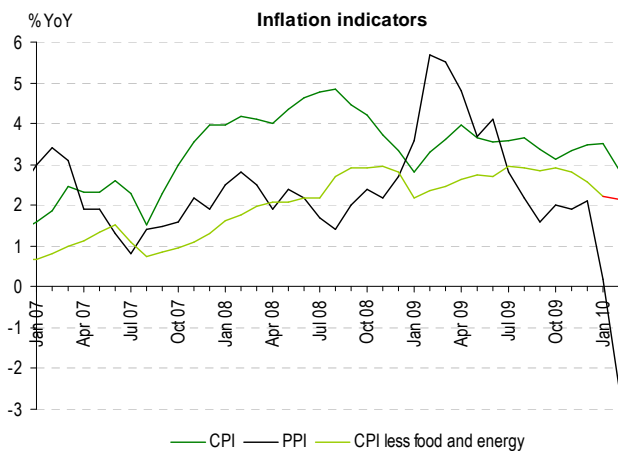
e-mail: ekonomia@bzwbk.pl

What's hot this week – Few more data in Poland and abroad

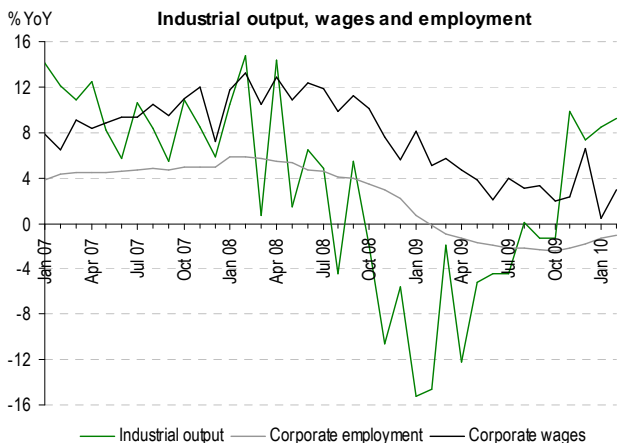


- Data on retail sales for February will be a key domestic release this week, and an important hint about the health of the consumer sector in Q1. Lacklustre performance of car sales in February appear to confirm our forecast of a small increase in retail sales by 2.5%YoY, below the market consensus.
- Other indicators will remain in the background. Core inflation excluding food and energy prices probably stood in February at 2.2%, same as in January. The unemployment rate rose in February to 13%, according to information from Labour Ministry. Business climate survey will give guidance on activity in industry, construction and trade in March.
- Market sentiment abroad will remain under influence of news from Greece and less numerous data releases than last week (including data from the real estate market in the US, European indices PMI prosperity, Ifo, Gfk).

Economy last week – New data not calling for faster monetary tightening



- CPI inflation in February fell to 2.9%YoY from 3.5%YoY in January (which was revised down from 3.6% after re-weighting of the consumption basket). Detailed data on the pattern of change in consumer prices do not change the inflation outlook for this year and the medium run. We still expect inflation to fall below 2% in the summer, and rebound slightly in the second half.
- Producer prices in February fell slightly more than expected, by 2.4%YoY, and most likely the PPI growth will remain deeply below zero until the end of the year.
- Data from the labour market in the enterprise sector for February were mixed – wages rose faster than expected (2.9%YoY), while data on employment (-1.1%YoY) were worse than forecast. The number of employees fell by 0.2%MoM (8,000 people). Real wage bill in the corporate sector in February was more than 1% lower than last year.



- The positive surprise from the industrial production data for February (growth accelerated more than forecast to 9.2%YoY, and after seasonal adjustment it was at 9.5%YoY), was offset by a disappointing performance of construction sector (output fell by 24.6%YoY, most since 2003), resulting largely from the impact of bad weather. In total, the data pose a risk to GDP estimates for the first quarter, as the catch-up in construction may take some time.
- In total, a set of recent data did not give reasons for the acceleration of monetary policy tightening.
- State budget deficit in February was PLN16.7bn (32% of the annual plan) and, according to Finance Ministry in March it may exceed PLN25bn (nearly 49% of plan). Positive change is a clear improvement in revenue from indirect taxes and the PIT.

Quote of the week – Less clear division between “hawks” and “doves”

Sławomir Skrzypek, NBP president, Gazeta Wyborcza, 17 Mar

Analysis of our inflation projection indicates that the time of interest rate hikes is approaching. On the other hand, we must be aware that the economic situation for a long time is not normal. There are many unknowns. (...) Recently observed appreciation of the zloty reduces the inflationary risk.

Reuters, 18 March: At present, the action the MPC should be aimed at encouraging the development of the economy (...) When the monetary policy tightening will be necessary, the Council actions will be firm. (...) (...) The Council could decide to raise interest rate, without the prior changes in informal monetary policy bias.

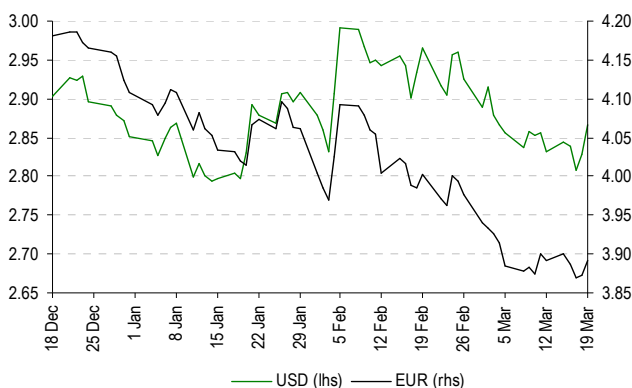
Adam Glapiński, MPC member, Reuters, 16 Mar

Taking into account time needed to translate the MPC decision on the inflationary process, I believe that the MPC should decide to tighten monetary policy at the end of this year.

Tone of the MPC representatives in recent weeks has been quite varied and not too much in line with their pre-positioning on the axis of restrictiveness. Presumed as “doves” Glapiński and Skrzypek emphasized that a time for rate hikes is coming, while the “hawk” Bratkowski argued that hikes may not take place this year at all. President Skrzypek pointed out that the Council may raise rates even without changing bias, but also reminded (and so did Zielińska-Głębocka) that there is currently no strong inflationary pressure and the strong zloty may delay rate hikes. It seems that this multiple voices from the MPC can lead to variability in market expectations about monetary policy, although we still expect the two cautious rate hikes in the last quarter of this year.

Market monitor

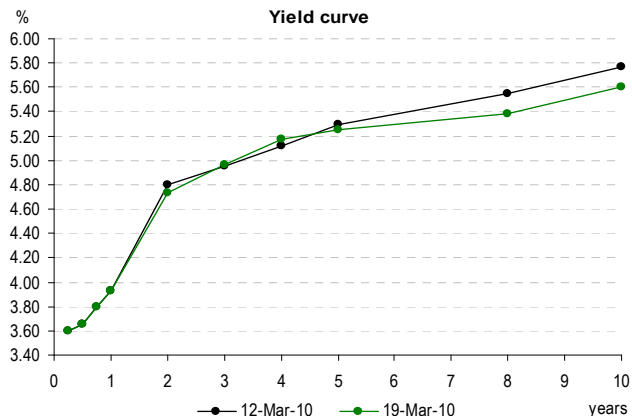
Zloty exchange rate



Correction after strengthening

- Improved global risk appetite under the influence of macroeconomic data, Fed's confirmation that rates will stay low for some time, and policy loosening by the Bank of Japan, led to the strengthening of the zloty in the last week, but the important level of 3.86 per euro has not been broken. End of the week saw a correction related to concerns about the situation in Greece.
- This week, the main factor for the zloty will remain a global sentiment. Investors' attention will be focused at the EU summit (Thursday-Friday), at which the European leaders may decide what to do next with the aid package for Greece. Continuation of the correction of the zloty may be expected, with the resistance band for the EURPLN at 3.95-3.97.

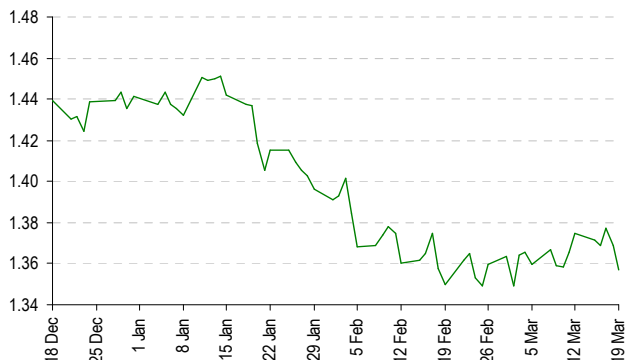
Yield curve



Large appetite for Polish debt

- Domestic debt market saw a continuation of downward trend in yields. Yield curves in bond market and IRS market moved down considerably during the week. Results of auction of floating-coupon bonds confirmed high demand for Polish securities, and national macro data did not have a major impact on the market. Only decreased appetite for risk at the end of the week resulted in a slight correction.
- It seems that the debt market, as well as the currency market, may see some correction in near term, although data on retail sales might be a slight support for bonds in our view. In addition to domestic factors and the risk appetite, investors may pay attention to the meeting of the Czech National Bank, as well as the fragile political situation in Latvia and Turkey.

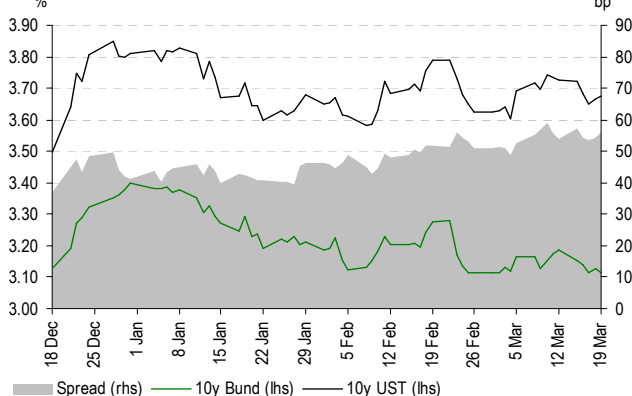
EURUSD rate



Greek problems hurt euro again

- After strengthening in the first half of the week, the euro once again lost its value against the dollar after an increase concerns that Greece may not receive aid from the EU and will have to turn to IMF support. The strengthening of the dollar was also triggered by rumours about a possible further increase of the Fed's discount rate between official meetings. As a result, the EURUSD rate, after increase to 1.38, fell on Friday afternoon to 1.35, its lowest level in 3 weeks.
- With a moderate number of data releases, this week a crucial issue for the EURUSD may be the fate of aid package for Greece and the result of the dispute within the EU, whether the country should turn to the IMF aid. Also, quite numerous statements of the Fed officials, including Ben Bernanke (Thursday), may be important.

10y Bunds & Treasuries and spread



Low inflation and low Fed rates helped bonds

- The sentiment in the core debt markets was affected on one hand by changes in risk appetite, and on the other by evidence of continued low inflationary pressures in the US. After a decline in yields for most of the week, on Friday there was a correction in anticipation of a large supply of securities at auctions this week. Scale of weakening was limited by concerns about the problems of Greece, which increased investors' risk aversion.
- As in the case of the FX market, important for the core debt markets in the coming days will be result of the EU talks on aid to Greece, which will climax at a summit in Brussels at the end of the week. Impact of macroeconomic data should be limited.

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, <http://www.bzwbk.pl>



Bank Zachodni WBK is a member of Allied Irish Banks Group