

# Weekly economic update

12 – 18 April 2010

At the end of a fairly quiet week after Easter, the NBP intervened in the currency market, and thus warnings that appeared recently in central bankers' comments have materialised. This was the first FX intervention since the introduction of direct inflation targeting strategy in 1998. The MPC gave the permission for this operation, and the Ministry of Finance declared the government's full support for it, which shows that, despite differences of views on some issues (FCL, NBP profit), an effective interaction of these bodies in key areas is possible. In our view, Friday intervention is a signal to the market that exchange rate policy in Poland is changing to a more active type, which should weaken the pressure for appreciation of the zloty.

Major domestic publications this week include CPI and the balance of payments. Investors will, however, focus most of all on further guidance from the NBP on the exchange rate (eg. such as statements by MPC members on Friday that the optimal rate for the economy would be about 4.0 per euro). It is possible that the market will try to test the patience of the central bank, but we think the zloty is likely to continue weakening in the nearest week.

## Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD	FORECAST		LAST VALUE
				MARKET	BZWBK	
<b>MONDAY (12 April)</b>						
<b>11:00</b>	<b>PL</b>	<b>Tender of 52-week T-bills worth PLN0.7-1.0bn</b>				
	<b>PL</b>	<b>MPC special meeting</b>				
<b>TUESDAY (13 April)</b>						
<b>14:00</b>	<b>PL</b>	<b>Current account balance</b>	<b>Feb</b>	<b>€bn</b>	<b>-0.237</b>	<b>0.400</b>
14:30	US	Import prices	Mar	%MoM	0.9	-
14:30	US	International trade	Feb	\$bn	-39.0	-
<b>WEDNESDAY (14 April)</b>						
<b>11:00</b>	<b>PL</b>	<b>Auction 10Y DS1020 bonds</b>				
11:00	EZ	Industrial production	Feb	%MoM	0.1	-
<b>14:00</b>	<b>PL</b>	<b>M3 money supply</b>	<b>Mar</b>	<b>%YoY</b>	<b>5.0</b>	<b>5.0</b>
14:30	US	CPI	Mar	%MoM	0.1	-
14:30	US	Retail sales	Mar	%MoM	0.8	-
<b>THURSDAY (15 April)</b>						
11:00	EZ	Foreign trade	Feb	€bn	-1.4	-
<b>14:00</b>	<b>PL</b>	<b>CPI</b>	<b>Mar</b>	<b>%YoY</b>	<b>2.6</b>	<b>2.6</b>
14:30	US	New jobless claims	w/e	k	440.0	-
14:30	US	New York Fed index	Apr	pts.	23.75	-
15:00	US	Capital flows	Feb	\$bn		-
15:15	US	Capacity use	Mar	%	73.1	-
15:15	US	Industrial production	Mar	%MoM	0.4	-
16:00	US	Philadelphia Fed index	Apr	pts.	19.0	-
<b>FRIDAY (16 April)</b>						
11:00	EZ	HICP final	Mar	%YoY	1.5	-
14:30	US	House starts	Mar	m	0.59	-
14:30	US	Building permits	Mar	m	0.62	-
15:55	US	Michigan index preliminary	Apr	pts.	74.0	-

Source: BZ WBK, Reuters, Parkiet

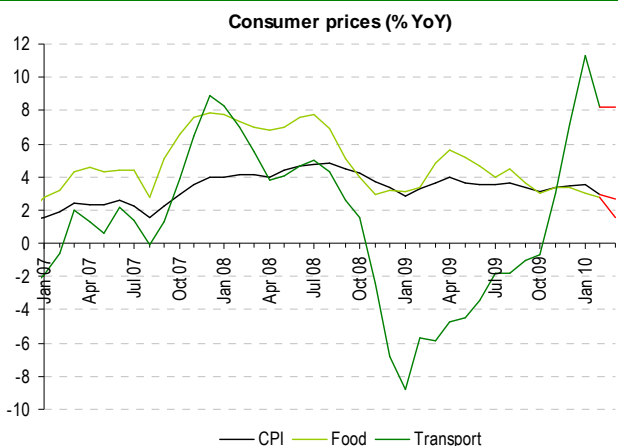
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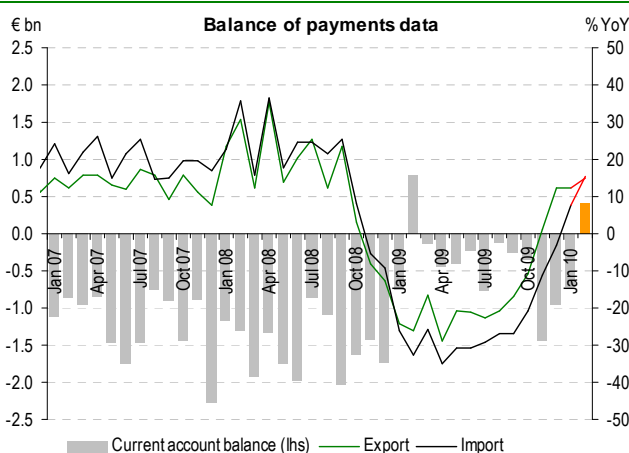
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**What's hot this week** – Inflation, balance of payments, conflict in NBP, numerous data abroad

- This week starts the publication of next set of monthly economic data. The most important information of the week will be the CPI data for March. Our forecast, the market consensus, and the Ministry of Finance estimates are consistent and indicate a decline in CPI to 2.6% YoY from 2.9% in February, influenced among others by a much weaker than last year food price growth.

- After Friday's NBP intervention, the market will mainly focus on comments and possible further actions of the central bank in area of exchange rate policy.

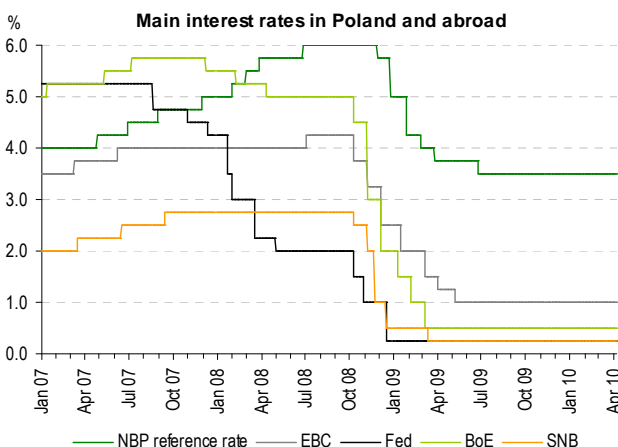
- On Monday the MPC holds a special meeting about the rules of creating provisions for foreign exchange risk, but is uncertain whether it will bring much new to the discussion with the NBP Board, as the latter is waiting for the opinion of the ECB. According to the Witold Koziński, the opinion may arrive within a couple of days.



- Balance of payments data for February should be positive for the exchange rate. We estimate that the current account was in surplus of ca. €400m, due to low trade deficit (€100m) and very large transfers of funds from the EU. Exports and imports growth probably clearly accelerated due to strong performance of industry and strengthening of the zloty.

- Our forecast and the market consensus predict stabilisation of money supply growth in March at around 5%YoY, amid a slight acceleration of credit growth. However, these data are usually of secondary importance to the market.

- In the middle of the week, a publication of key data for global markets will begin abroad. They will include among others inflation and industrial production in the euro area and U.S. data from the U.S. housing market, retail sales and consumer sentiment index.

**Economy last week** – Interest rates in Europe unchanged, concerns over Greece persist

- As expected, the ECB, the Bank of England and Bank of Japan left key interest rates unchanged at levels of 1.0%, 0.5% and 0.1%. ECB president reiterated that rates are at appropriate level, inflation expectations remain firmly anchored, and recovery in the euro zone economy will be moderate this year.

- The Bank of Australia has raised its main rate by 25 bp, to 4.25% and signalled the possibility of further monetary policy tightening in response to the economic recovery.

- During the week, concerns about the success of the aid plan for Greece increased, influenced by rumours that the government does not want the IMF's support because of the severe conditions. ECB president's announcement that the bank will maintain relaxed collateral framework for loans was perceived as positive for Greece, which supported moods slightly.

**Quote of the week** – Central bank intervened**Witold Koziński, deputy NBP governor, TVN CNBC, 9 Apr**

*Personally, I cannot imagine such a situation, that the zloty reached 3.60 per euro. (...) We'll see whether there will be an real intervention in cash. I do not think in general if such a situation will take place, the NBP would defended a specific exchange rate.*

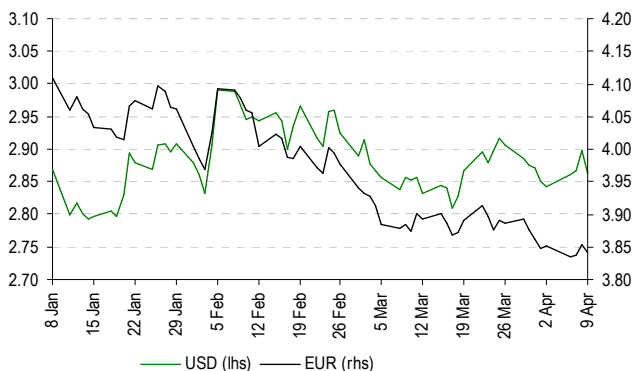
**Dominik Radziwiłł, deputy finance minister, Reuters, PAP, 9 Apr**

*There is full compliance on both sides of the Świętokrzyska street as regards concerns over the strengthening of the zloty. NBP translated words into deeds. This is definitely beneficial. This is a factor that market participants must include in their analysis. (...) MF cooperates with the NBP. It cannot be excluded that we buy the currency as well.*

In recent days, there was severity of the verbal FX intervention of representatives of the NBP, MPC and the government, who drew attention to the potential negative effects of the zloty appreciation for the economy and reminded about the possibility of reaction of the government and the central bank. The central bank apparently was aware that words alone are not enough to effectively influence the market, and on Friday afternoon, the NBP announced that it "has purchased some amount of foreign currencies at a favourable exchange rate", weakening the zloty by ca. 1%. The next few days will show how persistent is the effect of these actions, but it seems that the moment of the intervention was quite good, and investors will now have to be aware of change in exchange rate policy to more active, which may help to stop pressure on the appreciation of the zloty.

Market monitor

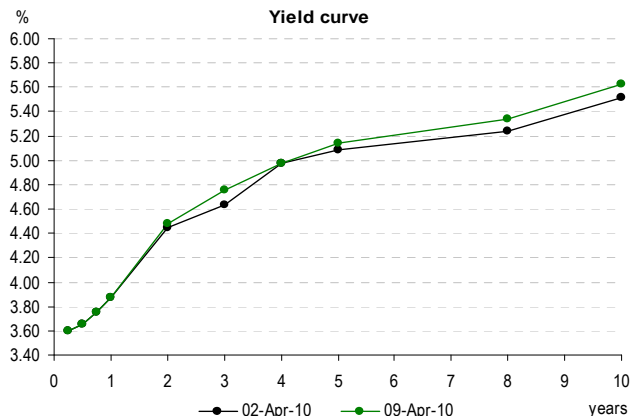
Zloty exchange rate



NBP intervention weakened the zloty

- While the first days after Easter saw a further appreciation of the zloty and EURPLN fell below 3.83, the end of the week brought a turnaround in the domestic FX market. After a series of comments about possible interventions, on Friday the NBP actually came into action, weakening the zloty by 1% to 3.89 vs. the euro and 2.89 to the dollar.
- One cannot exclude that the market will try to check whether the NBP will intervene again and at what level. The balance of payments data should also be supportive for the zloty. However, uncertainty regarding interventions, together with concerns about situation of Greece and in the region (Bulgaria informed of delay in its ERM2 entry u due to fiscal problems) will limit zloty appreciation. We do not expect the EURPLN to return below 3.85-3.86 in the near term.

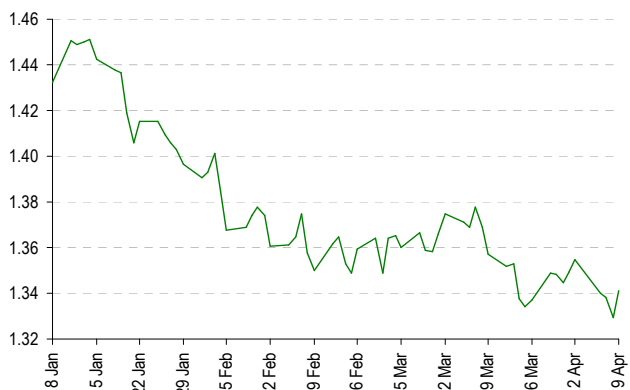
Yield curve



Correction in the debt market

- In the debt market after a dozen or so sessions of yields drop, there was a correction, fuelled by the realisation of stop-loss transactions by some investors. Despite very good results of the 2Y auction, the correction was continued along with zloty weakening and only on Friday bonds slightly recovered mainly at the short end of the curve. In the money market there was clear drop of the WIBOR and FRA rates, under influence of rising liquidity in the market and slight change of the expectations regarding the MPC rates.
- The situation in the FX market and level of risk aversion will have important influence on the debt market situation. Assuming continuation of the zloty correction we expect increase in yields. Market moods will be tested by auction of 10Y bonds scheduled on Wednesday.

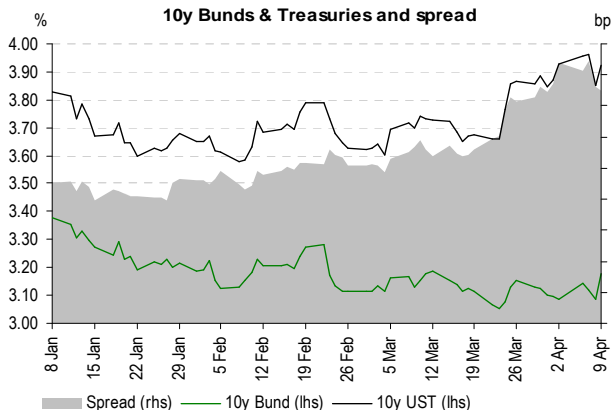
EURUSD rate



Problems of Greece depressed the euro

- After temporary recovery of the euro vs. the dollar, the past week brought further clear decline of the EURUSD rate to 1.329, under influence of increasing concerns about situation in Greece and hesitance of the Greek government to take significant saving actions. The comments of ECB president helped the euro to rebound to 1.345.
- Situation in Greece will remain one of the key drivers of global moods. Another important issue will be speculation regarding the revaluation of the Chinese yuan, which according to many analysts may come yet before the visit of the China's president in Washington this week. During the week there may be a series of comments of Fed representatives, including Ben Bernanke's testimony to the US Congress.

10y Bunds & Treasuries and spread



High spread between German and US debt

- Concerns regarding the Greek problems were accompanied by significant weakening of the Greek bonds and increase of the spread vs. German Bunds (which prices remained relatively stable) to record high levels (ca. 420 bp). In the US market after strengthening, yields returned to the levels from the last week's levels under influence of profit taking and improvement of moods in the stock markets on Friday.
- This week the macroeconomic data from the US and the euro zone scheduled for the second half of the week will be crucial for the debt markets (the data include inflation, output, retail sales), as they will signal how the recovery in the biggest economies moves on.

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