Bank Zachodni WBK

Weekly economic update

19 – 25 April 2010

Saturday's tragedy had no impact on the Polish financial market. The Sejm's Speaker Bronisław Komorowski, as acting President of the country, announced that at the beginning of this week, after analysis of the legal expertises, he will decide whether he would be in a hurry to nominate the NBP President. After recognition by the MPC that the First Deputy of the NBP President, Piotr Wiesiołek, takes over the right to chair the MPC and has the right to vote, a delay in nomination of the new NBP President should not bother the markets. On April 21, Komorowski is due announce official date of presidential elections (most likely June 20). Largely positive macro data and earnings reports lifted global stock markets, but at the same time Treasuries and Bunds gained as capital in the debt markets fled towards more credible issuers amid renewed strengthening of concerns about Greek debt problems. Better moods in the global markets did not translate into stronger zloty, as appreciation of the local currency is constrained by a possibility of NBP interventions in the market. At the same time, interventions weakened expectations for a hike in NBP rate, which led to strengthening in the interest rate market. This week we will get many important data locally, but the key driver for the markets will be events abroad: both macro figures, earnings reports and developments re Greece.

Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST		LAST VALUE
					MARKET	BZWBK	
		MONDAY (19 April)					
11:00	**PL**	**Tender of 52-week T-bills worth PLN0.7-0.8bn**					
14:00	**PL**	**Average wage in enterprises**	**Mar**	**%YoY**	**3.2**	**2.7**	**2.9**
14:00	**PL**	**Average employment in enterprises**	**Mar**	**%YoY**	**-0.7**	**-0.6**	**-1.1**
16:00	US	Leading indicators	Mar	%	0.9	-	0.1
		TUESDAY (20 April)					
11:00	DE	ZEW index	Apr	pts	45.4	-	44.5
14:00	**PL**	**Industrial output**	**Mar**	**%YoY**	**10.2**	**11.9**	**9.2**
14:00	**PL**	**Construction output**	**Mar**	**%YoY**	**-11.6**	**-13.5**	**-24.6**
14:00	**PL**	**PPI**	**Mar**	**%YoY**	**-2.5**	**-2.9**	**-2.4**
		WEDNESDAY (21 April)					
11:00	**PL**	**Auction 5Y bonds**					
14:00	**PL**	**Core inflation (CPI less ford and energy proces)**	**Mar**	**%YoY**	**2.1**	**2.0**	**2.2**
		THURSDAY (22 April)					
14:00	**PL**	**Minutes of the MPC meeting in March**	**Mar**	**-**	**-**	**-**	**-**
14:00	**PL**	**Business climate indicators**	**Apr**	**-**	**-**	**-**	**-**
9:58	EZ	Flash PMI - sektor przetwórczy	Apr	pts	56.7	-	56.3
9:58	EZ	Flash PMI - sektor usług	Apr	pts	54.3	-	53.7
14:30	US	Initial jobless claims	w/e	k		-	484
14:30	US	PPI	Mar	%MoM	0.3	-	-0.6
16:00	US	Home sales	Mar	m	5.21	-	5.02
		FRIDAY (23 April)					
10:00	**PL**	**Retail sales**	**Mar**	**%YoY**	**4.1**	**3.9**	**0.1**
10:00	**PL**	**Registered unemployment rate**	**Mar**	**%**	**12.9**	**12.9**	**13.0**
10:00	DE	Ifo index	Apr	pts	98.9	-	98.1
14:30	US	Durable goods	Mar	%MoM	0.4	-	0.9
16:00	US	New home sales	Mar	m	0.32	-	0.308

Source: BZ WBK, Reuters, Parkiet

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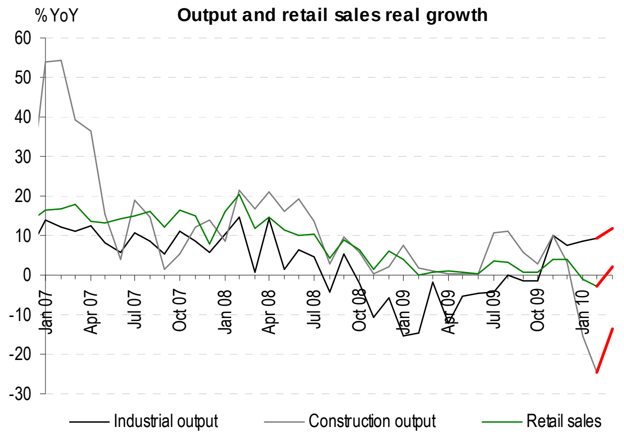
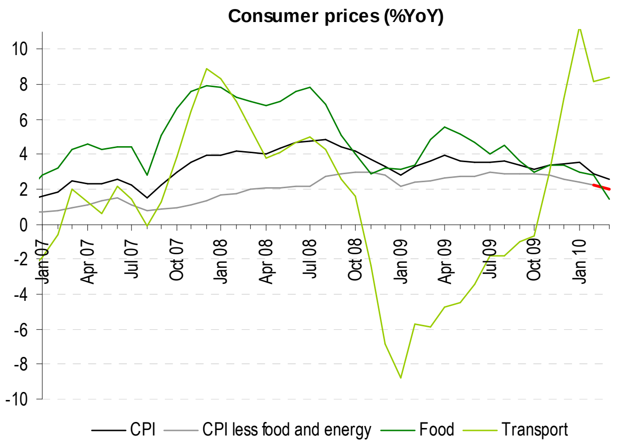
What's hot this week – Large dose of data and next earnings reports

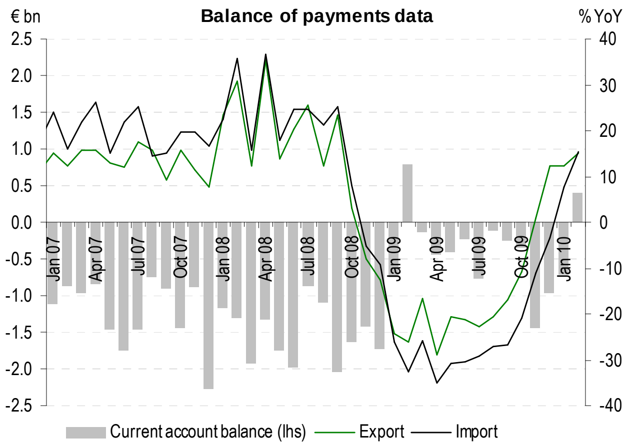


- We forecast that data from the labour market will show slowdown in employment drop (along with economic revival), but with still low wage growth (so far the economic recovery and labour market conditions not strong enough to fuel wage pressure).
- For industrial output we predict acceleration of growth due to higher number of working days. In construction we forecast weakening of output drop with improvement in weather conditions in March.
- We predict rebound in retail sales growth due to higher number of working days and strong auto sales. Data on strong budget revenue inflows from indirect taxes also suggest improvement in retail sales statistics.
- We estimate PPI inflation lowered in March due to still high base and impact of the zloty appreciation on price drop in manufacturing.

Economy last week – Inflation drop and C/A surplus



- CPI inflation fell in March to 2.6%YoY from 2.9% a month ago. This was in line with our forecast, market consensus and the estimate presented by the Ministry of Finance. In CPI breakdown there were a few surprises, but relative contribution to CPI inflation of exogenous and other factors remained unchanged. Our estimate of the key core inflation measure (CPI excluding food and energy prices) remained at 2.0%.
- All in all, the CPI figures for March has not changed the inflation prospects for the remainder of this year nor for the medium-term. We still expect CPI inflation to fall below 2% in summer and then to rise moderately to ca. 2.5% at year-end. Also, we stick to our view that rate hikes by the MPC will start in 4Q 2010, being preceded by the change in informal monetary policy bias to restrictive in June at the earliest when the new NBP inflation projection is revealed.



- Balance of payments for February showed a surplus in the current account of €106m, thanks to large transfers from the EU. The economic recovery abroad translates into robust rise in exports (in March up 20%YoY in euro terms), but import growth accelerates even stronger (22%YoY rise in euro terms), which will lead to gradual widening of trade gap (in February it was €248m) and thus to negative contribution of net exports to GDP growth.
- All in all, the data were positive as they confirmed economic recovery (reflected in stronger foreign trade turnover) and at the same time showed external relations of the economy are balanced – C/A gap for the past 12 months reached ca. 1.8% of GDP and was financed by long-term capital (FDIs plus EU funds) in more than 200%.

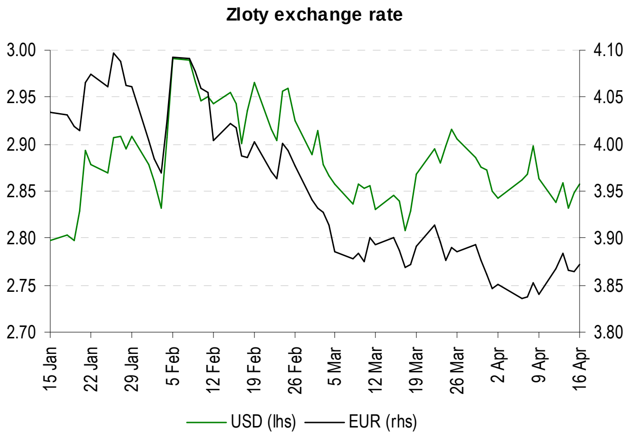
Quote of the week – The gun is still loaded

Michał Boni, head of PM's advisors team, PAP, 14 April
[13:31 CET] I do not think so that next FX interventions were necessary. In a operational sense, relations between the NBP, the MPC and the finance ministry are very firm. We have feeling of confidence and stability.
[16:21 CET] If there was a need for the FX intervention, the respective steps would be taken.

Ludwik Kotecki, deputy finance minister, PAP, 15 April
Nothing has changed in the FX market. The exchange rate has not changed. As situation since last comments and actions of the NBP has not changed, then also probability of FX interventions has not changed. The gun is still loaded.

One of comments from minister Boni on FX interventions was wrongly interpreted by the market as a suggestion that the government and the NBP may desist from actions in the market. However, his later comments indicate he does not expect conditions, which would result in necessity of intervention, i.e. he does not expect excessive zloty appreciation. One day later deputy finance minister reminded that probability of interventions has not changed and the gun is still loaded. In our view the best approach was taken by acting NBP President and MPC Chairman, Piotr Wiesiołek, who said in an interview with *Rzeczpospolita* daily that "the lesser one talk about it, the better". He stressed that maintaining stabilisation and value of the zloty is one of key tasks of the central bank.

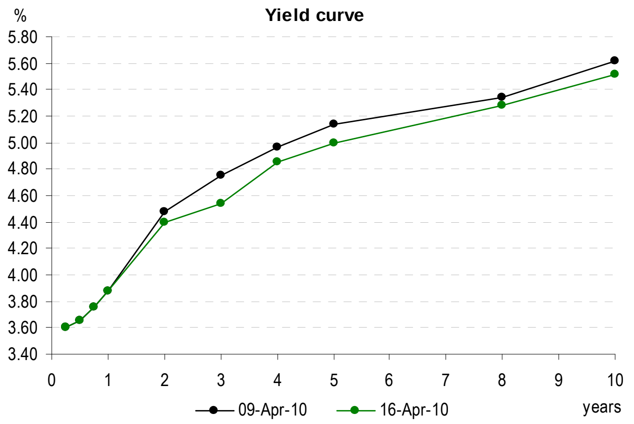
Market monitor



Stabilisation of the zloty

▪ The past week bright stabilisation of the EUPLN rate in range of 3.85-3.89. There was no significant reaction to the tragedy that had happened at the weekend. During the week the zloty did not take a clear direction and its appreciation resulting from increases in the stock markets stopped at 3.85 (slightly above a level where the NBP intervened), which we pointed as a bottom level of the important support range for the EURPLN rate. It is worth to note the forint strengthening after parliamentary elections, which result (victory of the centre-right party) increased investors faith in reforms.

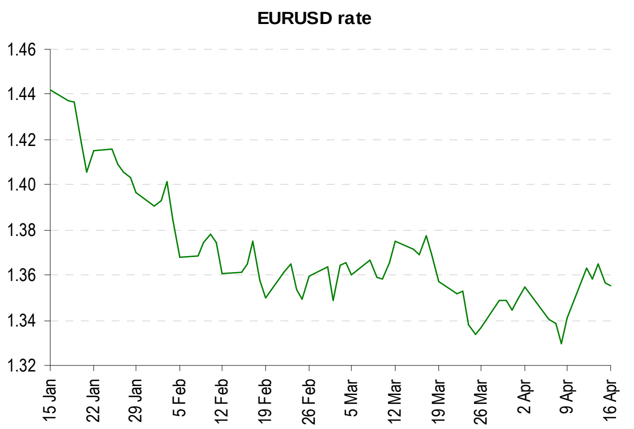
▪ This week the zloty will trade under influence of changes in risk appetite depending on the Q1 earnings reports and macroeconomic data. Level of 3.85 is still an important support for the EURPLN rate amid possibility of next NBP interventions.



Debt market keeps strengthening

▪ In the debt market there was a clear strengthening. Although we expected continuation of correction visible a week earlier, NBP FX intervention decreased expectations of some investors for soon interest rate hikes of the NBP. Moreover, elevated appetite for risk was maintained similar to positive sentiment toward the emerging economies. At the same time the IRS curve declined even more than the bond yields, which was connected with a clear decline of the money market rates. As expected, inflation data did not have influence on the market.

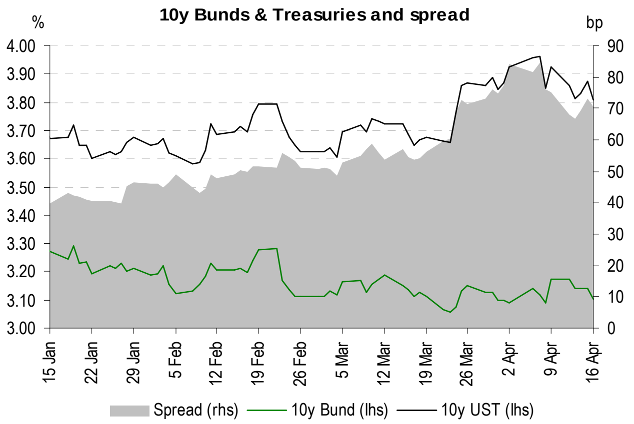
▪ In our view this week there may be a correction in the debt market on profit taking after earlier significant strengthening. Especially, as the potential for further strengthening is limited in our view.



Renewed concerns about Greece weakened the euro

▪ At the start of the past week after agreeing a concrete support package for Greece from the Eurogroup and the IMF the EURUSD rate opened with a large gap, rising to almost 1.37 from nearly 1.35 a week earlier. Later on the concerns over the situation in Greece returned (increase of CDS rates again to above 400 bp), which hurt the major currency and pushed the EURUSD rate gradually downward to around 1.35 at the end of the week.

▪ This week the EURUSD rate may still remain under influence of news from Greece. The markets speculate that in the nearest time the support package for Greece may be launched. If it is confirmed this may support the euro vs. the dollar at least for some time.



...but did not hurt the core debt markets

▪ Return of concerns about Greek debt problems did not result in such a strong increase in sovereign risk so that hurt Treasuries or Bunds. They were rather supported by capital flow in the debt markets toward more credible issuers. During the week there was a gradual decline in yields of 10Y Treasuries and Bunds. At the end of the week they were at 3.82% and 3.11% respectively against 3.93% and 3.18% a week earlier. This happened despite increase of risk appetite and upward move of major stock indices.

▪ This week a crucial factor for the core debt markets remains the situation of Greece and the assessment of sovereign credit risk. The level of risk appetite shaped under influence of next earning reports will also be crucial.

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