

Weekly economic update

12 – 18 July 2010

Moods on the global financial markets improved last week, which was connected with higher IMF's forecast for global growth, a few better than expected macroeconomic indicators and some optimism as regards financial results in the banking sector in the second quarter. The zloty appreciated and euro strengthened against the dollar.

This week there is heavy economic calendar with many publications of important economic indicators. A moderate surplus in current account and strong growth in exports should support the Polish currency at the beginning of the week unless we see reviving worries in global markets regarding the process of economic recovery. The latter will depend on data releases abroad, including economic activity indicators in the US and the euro zone and financial reports of US companies for Q2. As regards other domestic figures, fall in CPI inflation is widely expected and should be neutral for the market, similarly as labour market data. A possible information on the budget for the next year (deficit and financing needs) may be important for the perception of fiscal risk in Poland.

Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD	FORECAST		LAST VALUE
				MARKET	BZWBK	
MONDAY (12 July)						
11:00	PL	Tender of 52-week T-bills worth PLN0.7-1.0bn				
TUESDAY (13 July)						
11:00	DE	ZEW	Jul	pts.	25.0	- 28.7
14:00	PL	CPI	Jun	% YoY	2.1	2.1 2.2
14:00	PL	Current account	May	€ bn	-280	60 -424
14:30	US	Trade balance	May	\$ bn	-39.5	- -40.29
WEDNESDAY (14 July)						
11:00	PL	5Y bond tender OK1012				
11:00	EZ	Industrial production	May	% YoY	11.0	- 9.5
11:00	EZ	Final HICP	Jun	% YoY	1.4	- 1.4
14:00	PL	Money supply	Jun	% YoY	7.8	6.5 7.6
14:30	US	Import prices	Jun	% MoM	0.1	- -0.6
14:30	US	Retail sales	Jun	% MoM	0.0	- -1.2
20:00	US	FOMC minutes				
THURSDAY (15 July)						
	JP	BoJ Decision		%	0.1	- 0.1
14:30	US	New jobless claims	week	k	450.0	- 454.0
14:30	US	NY Fed index	Jul	pts.	18.95	- 19.57
14:30	US	PPI	Jun	% MoM	-0.1	- -0.3
15:15	US	Industrial production	Jun	% MoM	0.1	- 1.3
15:15	US	Capacity utilization rate	Jun	%	74.2	- 74.1
16:00	US	Philadelphia Fed	Jul	pts.	11.5	- 8.0
FRIDAY (16 July)						
14:00	PL	Wages in enterprises sector	Jun	% YoY	4.6	4.4 4.8
14:00	PL	Employment in enterprises sector	Jun	% YoY	1.0	1.0 0.5
14:30	US	CPI	Jun	% MoM	0.0	- -0.2
15:00	US	Capital flows	May	\$ bn		- 83.0
15:55	US	Preliminary Michigan	Jul	pts.	74.0	- 76.0

Source: BZ WBK, Parkiet, Reuters;

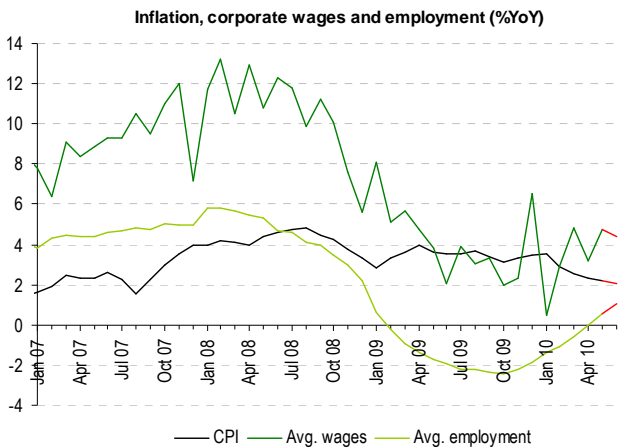
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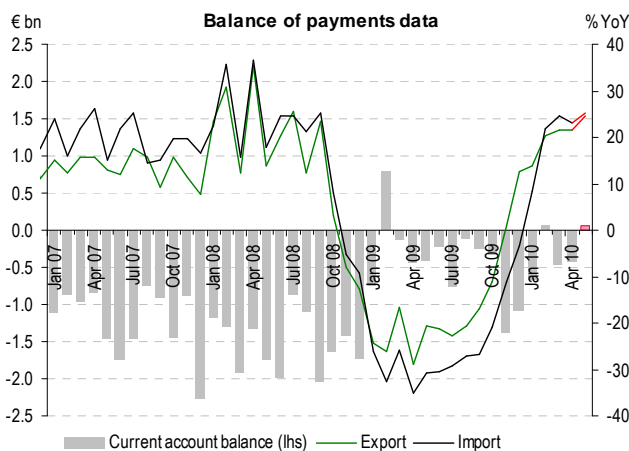
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What's hot this week – New set of important publications

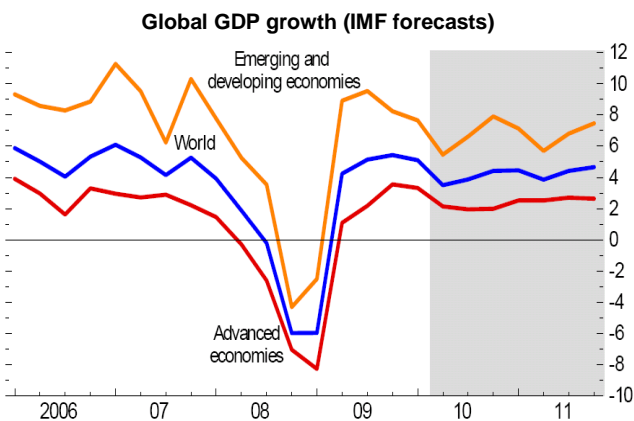


- This week a new round of monthly economic data releases will start in Poland and abroad. Except the figures, the US Q2 reporting season gets under way and is likely to be a major driver of markets. Also, Polish budget for 2011 may be in focus, especially as the cabinet will discuss macroeconomic assumptions.
- Expectations on June's CPI inflation are well defined at 2.1%, which is the forecast of the Ministry of Finance, ourselves and the market consensus. Impact of flood on food prices is important risk factor. We still expect some seasonal decline in food prices.
- We expect Money supply growth to decelerate after a temporary – as we see it – significant increase in May. The market consensus predicts stronger growth as compared to our forecast.



- Balance of payments data will show, in our opinion, further acceleration in foreign trade turnover in May, which was supported by strong increase in industrial production. As regards current account, we forecast a moderate surplus, which was connected with significant inflow of funds from the European Union.
- We also expect positive data from the labour market. Both our forecast and market consensus see June as another month of increase in employment in the enterprise sector and the annual growth is expected at 1% - the highest since December 2008. As regards wage growth dynamics, even though we are less optimistic than the market (4.4%YoY vs consensus at 4.6%) this would be still strong growth rate, positive for consumption demand, especially given the phase of economic cycle.

Economy last week – Rates in the euro zone on hold



- In line with expectations the European Central Bank kept the main reference rate unchanged at 1%. The ECB President Jean-Claude Trichet maintained tone suggesting that the bank does not intend to rush with interest rate hikes, and also assured that it will continue providing liquidity operations for banks, which will be able to freely borrow for one week, one month, and three months. He also expressed the view that economic growth in Europe will be modest and uneven.
- The Bank of England also kept rates on hold (0.5%).
- According to the IMF, world economic growth in 2010 will amount to 4.6%, the highest since 2007 (previously expected 4.2%), and in 2011, 4.3% (forecast unchanged). At the same time, the IMF pointed to a major increase in risk associated with the fiscal crisis in Europe.

Quote of the week – The MPC keeps the gun loaded

Andrzej Kaźmierczak, MPC member, PAP, 5 Jul

As regards inflation, I see nothing worrying there. There is no threat for realisation of inflation target. Even if it grows slightly to 2.9%. (...) Those actions (in fiscal policy) are needed and if they will not follow quickly, this may be an impulse for monetary policy to act. Such scenarios are being considered and are possible.

Elżbieta Chojna-Duch, MPC member, PAP, 5 Jul

Volatility suggests caution, we should not hasten decisions in monetary policy, but keep holding the ammo in the magazine.

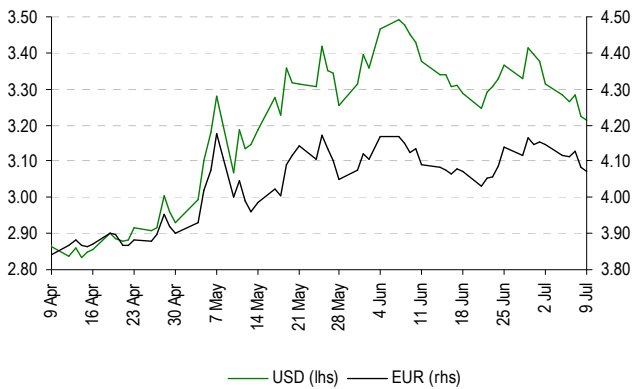
Adam Glapiński, MPC member, PAP, 5 Jul

This (NBP projection) leads me to maintain what I said earlier that the time is approaching when the MPC will have to seriously think about this. And send a signal to markets.

Marek Belka after his appointment as the NBP President said that the head of the central bank should be restrained in his comments. The first weeks of his reign in the central bank show that this rule applies also to other members of the MPC. From the few comments that appeared in the last week one may conclude that members of the Council will not hurry too much to change monetary policy, but they keep an eye on risk factors (including fiscal policy and situation in the foreign exchange market), and are "holding the ammunition in the magazine". This does not change our belief that at the end of this year there will be the first hike in interest rates in the cycle, by 25 basis points (although there are still opinions in the Council, e.g. of Adam Glapiński, suggesting that it may be a move by 50 bp).

Market monitor

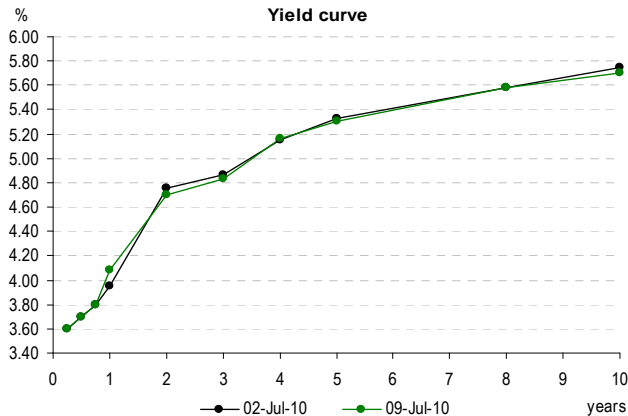
Zloty exchange rate



Reaction to negative emotions supported zloty

- A number of positive factors on which the investors focused their attention contributed to the strengthening of the zloty (the IMF's agreement to grant Romania the next tranche of the loan, increase in the IMF's GDP forecast for the world economy, B. Komorowski's victory in the presidential election). Since the beginning of the week EURPLN rate has been testing support area for 4.11-4.12. Confirmed breaching of the level which took place in the middle of the week brought the rate to the next zone, which limits further declines: 4.06-4.08.
- In the following week we expect zloty to stabilize with a slight tendency to appreciation. In the case of a continuation of good mood in the world, confirmed breaching of 4.06-4.08 area will mean the potential to achieve a level of 4.04 per euro and then 4.00. Levels of resistance are 4.10 and 4.12.

Yield curve



Continuing declines in yields of Polish bonds

- On the domestic debt market in the first part of the week we observed clear decreases in yields, particularly at the long end of the curve. However, downward trend was halted in the last days of the week. Profit taking preceded by reaching key support levels by yields appeared to be an effective barrier, which stopped further declines in yields.
- The yields of bonds on the short and long end of the curve are now very close to the recent lows. Continuation of the current vertical trend would suggest that yields should increase this week. Predicted by us wage growth, which is lower than the consensus, should be neutral, as more important will be continuation of employment growth in companies.

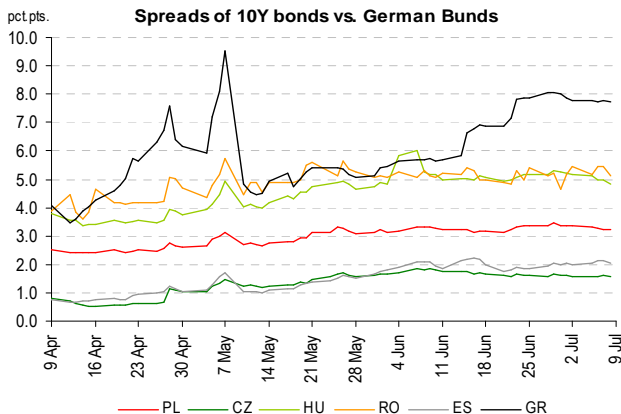
EURUSD rate



Distracted attention from fiscal issues backed the euro

- During the past week some optimistic information dominated the market. Factors such as worries of fiscal stability of the euro zone countries and expectation for results of the stress-tests played a passive role on the market, i.e. slightly constrained the upward trend on the EURUSD. However, the euro managed to advance over the level of support 1.2454 indicated in our report last week. Breaking the next level of support at 1.26 has also been confirmed.
- The situation on the EURUSD market gives the opportunity to further euro's appreciation towards 1.28 (first level of resistance) and in case of having broken that level even to 1.30.

Spreads of 10Y bonds vs. German Bunds



Yields rise on the core market

- Worldwide surge of risk appetite, that occurred on the market last week, triggered the sell-out of safe-heaven assets. Consequently, we observed the surge of yields of Bunds (from 2.55% to 2.63%) and Treasuries (from 2.92% to 3.04). Lack of any perspective for interest rate' hikes in the euro zone and the US gives the market sentiment chance to be a decisive factor influencing the yields.
- As market participants focused on the positive information, worries of fiscal condition in the euro zone abated. Lower uncertainty over the solvency of the countries from our region and the south of Europe was reflected in the decline of spreads versus Bunds and CDS rates on weekly basis.

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