

# Weekly economic update

13 - 19 December 2010

The past week has not brought dramatic changes in the markets, the zloty depreciated slightly yet remained in the range of fluctuations against the euro indicated by us in the previous report. Hopes for positive developments in Ireland and a good macro data from the major global economies has increased the appetite for risk. Improved forecasts for the US economy, which fuelled expectations for interest rate hikes by the Fed, triggered a fall in EURUSD. This week, there will be many key data releases in Poland and abroad, while also significant for the market will be the Fed meeting and the EU summit. Among the domestic data, the most important for the market will be Tuesday's publication of CPI inflation. We expect that the zloty and domestic bonds will remain relatively stable.

## Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST		LAST VALUE
					MARKET	BZWBK	
<b>MONDAY (13 December)</b>							
14:00	PL	Current account	Oct	€m	-1153	-1055	-1417
14:00	PL	Exports	Oct	€m	11171	11170	11258
14:30	PL	Imports	Oct	€m	11896	11975	11790
<b>TUESDAY (14 December)</b>							
11:00	DE	ZEW index	Dec	pts	4.0	-	1.8
11:00	EZ	Industrial output	Oct	%YoY	7.8	-	5.4
14:00	PL	CPI	Nov	%YoY	2.9	2.9	2.8
14:00	PL	Money supply	Nov	%YoY	8.8	8.7	6.3
14:30	US	Retail sales excluding autos	Nov	%MoM	0.6	-	0.4%
20:15	US	Fed decision		%	0.25	-	0.25
<b>WEDNESDAY (15 December)</b>							
14:30	US	Core CPI	Nov	%MoM	0.1	-	0.0
14:30	US	NY Fed index	Dec	pts	5.0	-	-11.14
15:15	US	Industrial output	Nov	%MoM	0.3	-	0.0
15:15	US	Capacity utilization rate	Nov	%	75.0	-	74.8
<b>THURSDAY (16 December)</b>							
9:28	DE	Flash PMI – manufacturing	Dec	pts	58.1	-	58.1
9:58	EZ	Flash PMI – manufacturing	Dec	pts	55.3	-	55.3
14:00	PL	MPC minutes	Nov				
14:00	PL	Wages	Nov	%YoY	4.3	3.9	3.9
14:00	PL	Employment	Nov	%YoY	2.2	2.2	2.1
14:30	US	Initial jobless claims	week	k	425	-	421
14:30	US	Building permits	Nov	k	560	-	550
14:30	US	House starts	Nov	k	552	-	519
16:00	US	Philly Fed index	Dec	pts	15.0	-	22.5
<b>FRIDAY (17 December)</b>							
10:00	DE	Ifo index	Dec	pts	109.1	-	109.3
14:00	PL	Industrial output	Nov	%YoY	9.6	10.7	8.0
14:00	PL	PPI	Nov	%YoY	4.4	4.5	4.0
16:00	US	Leading indicators	Nov	%MoM	1.0	-	0.5

Source: BZ WBK, Reuters, Parkiet

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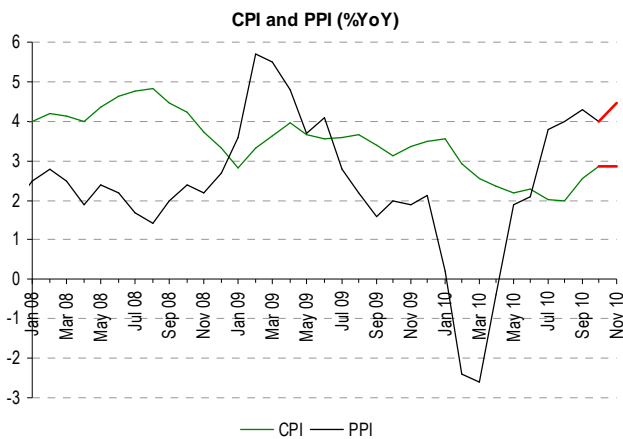
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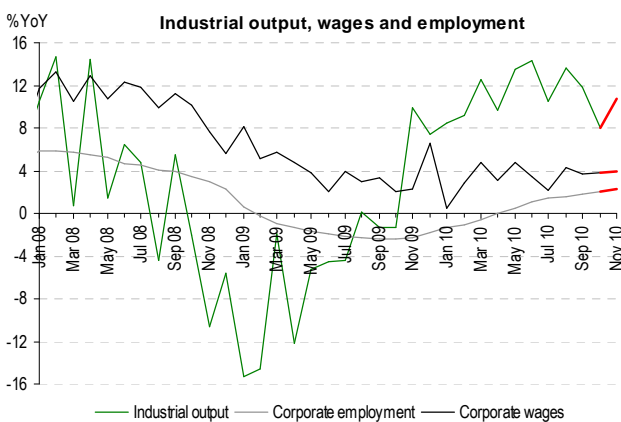
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## What's hot this week – Busy week with many key events and data releases

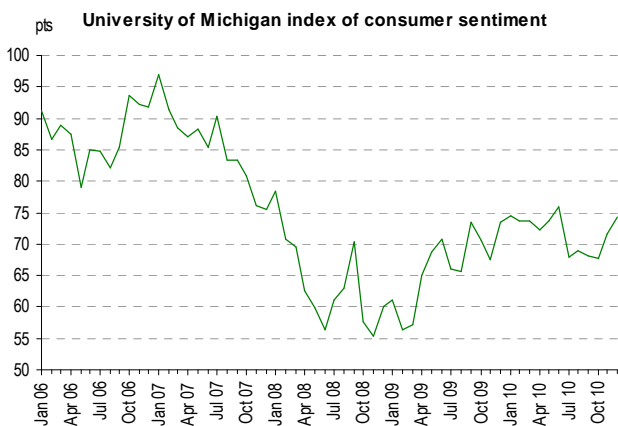


- This week's agenda is full of important publications in Poland and abroad. The key data will be those from the US and the euro area. In the domestic market, the most important will be Tuesday's data on inflation.
- We expect that the CPI inflation accelerated to 2.9%YoY in November against 2.8% in October, which was driven again mainly by prices of food and energy. In monthly terms, we expect an increase in consumer prices by 0.5% (FinMin estimates 0.2%), mainly due to food prices (we estimate 0.7%MoM rise, FinMin 0.4%). Core inflation (excluding food and energy costs) rose according to our estimates to 1.3%YoY.
- We expect that producer prices recorded a significant rise in November, by 4.5%YoY, mainly due to a low base effect.



- We predict that wage growth in enterprises sector remained in November at 3.9%YoY, confirming that wage pressure in the economy remains constrained. This is one of factors allowing further acceleration in annual growth of employment.
- Industrial production growth should return to double-digit level, after temporary slowdown to 8%YoY in October due to lower number of working days. Similarly, construction output should return to solid upward trend after temporary slowdown in October.
- As regards balance of payments data for October, we predict further deceleration of annual growth in trade turnover, being the result of negative effect of working days seen earlier in industrial output data, and also some weakening of external demand growth.

## Economy last week – Improved moods of US consumers and good data from Asia



- Flash data on the Michigan consumer confidence index in December surprised positively. The upward trend of the index lasts since the end of 2008, what may indicate that US consumers are coping better every month despite high unemployment.
- The Chinese trade surplus reached in November \$22.9bn. The data was better than expected, mainly due to record high exports. Later the same day, the reserve requirement ratio was increased by 50bps. That was another step towards cooling Chinese economy.
- The US trade deficit in October was much lower than expected (\$38.71bn versus market consensus at \$43.6bn). The decline was mainly due to higher exports of goods, what might have been supported by earlier dollar's depreciation. Imports declined only slightly.

## Quote of the week – Interest rate hikes will start, but not necessarily right away

### Andrzej Kaźmierczak, MPC member, Reuters, 8 Dec

*Interest rate hike at this stage could harm the recovering economy, and it will not curb down inflation anyway, as it results from supply-side factors.*

### Andrzej Rzońca, MPC member, PAP, 9 Dec

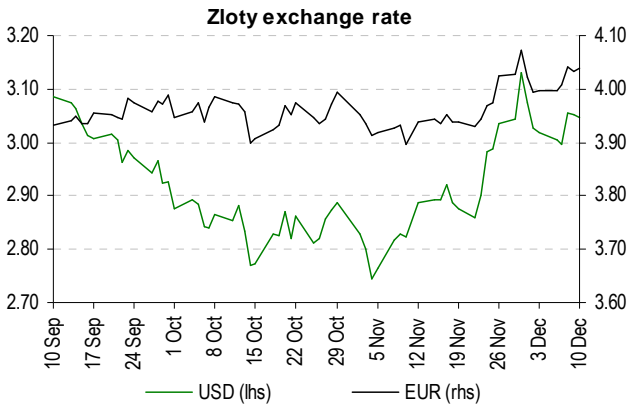
*My assessment has not changed since August. I think that the risk that in one or one and a half year time the factors that are currently temporarily boosting inflation will be replaced by factors working towards inflation rise in a more permanent way, is not lower than we could assess in August.*

### Andrzej Bratkowski, MPC member, Bloomberg, 9 Dec

*[Interest rate hike] would not harm the economy, as a hike even by 50 bp from such low level would not affect the real sector. The risk of starting rate hikes cycle is now higher, although it does not mean we must start it right away.*

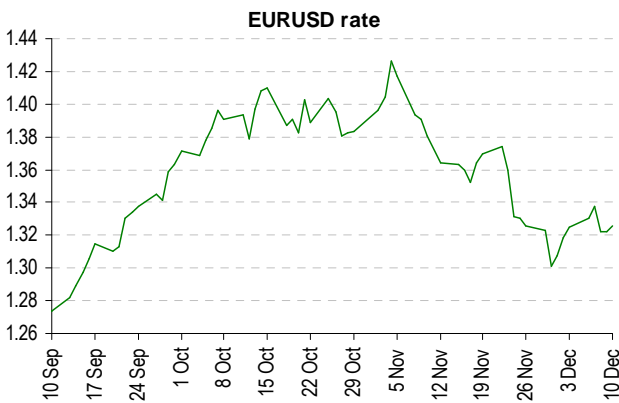
The latest comments of Andrzej Bratkowski and Andrzej Rzońca, two hawkish MPC members, showed that this faction has not forgotten a need to hike interest rates. On the other hand, Andrzej Kaźmierczak is strengthening his position of radical dove. In his opinion, the domestic economy is not strong enough to lift interest rates. It implies that, taking into account the delays with which the monetary tightening affects the economy, he expects a long way to closing demand gap. Summing up, it seems that at least part of the "hawks" in the MPC will vote for the rate hike at the next meeting, although looking at Bratkowski's comments we still believe that there will be no majority for starting monetary tightening until the start of the next year.

**Market monitor**

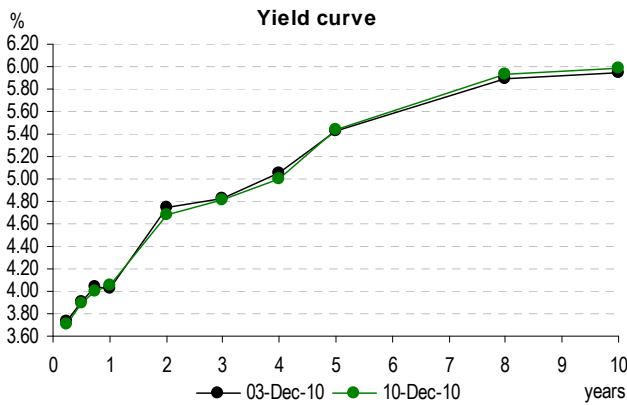


**High volatility of the EURPLN within horizontal trend**

Only in the first hours of Monday's trade the zloty managed to decline below 3.98 per euro. The drop of USDPLN below resistance area at 2.98-3.0 was also short-lived. Later in the week the EURPLN advanced, breaking the resistance level at 4.05 temporarily on Wednesday. The negative pressure on the zloty was put by Hungarian rating cut and to some extent by lack of agreement among EU leaders on future anti-crisis mechanism. Falling EURUSD pushed the USDPLN up to nearly 3.08. The decision on prolonging the tax relief in the US and good data from Asia improved market sentiment, what supported slightly domestic currency. The end of the week was pretty interesting, as the rumours that the BGK was selling euro on the market pushed the EURPLN down from 4.04 to 4.025. We expect that this week the EURPLN will stay in the range of 3.98-4.05.

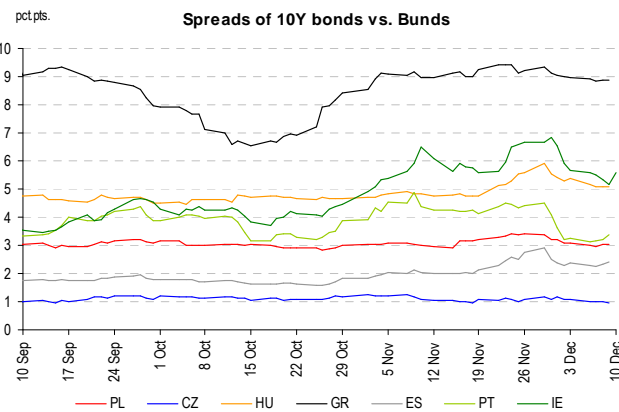


Lack of key macro data releases caused that investors' attention was focused on the European debt market. Hopes that Irish parliament manages to pass the budget cuts pushed the EURUSD up to 1.34. The dollar's appreciation that occurred later in the week was fuelled by Fed governor's comment, that the QE2.0 program may be extended if needed. The market promptly priced in the possibility of visible acceleration of inflation growth and consequently the interest rate hikes, that may occur sooner than in Europe. Surge of yields of Treasuries attracted investors, which additionally, supported demand for the greenback. Also the declaration of the Irish Labour Party that it would vote against the bailout package dragged the EURUSD down. This week a big load of macro data may influence the exchange rate.



**Steepening of the yield curve**

During the first days of the past week yields at the short end of the curve continued their downward trend. Only Thursday's hawkish comments of Andrzej Bratkowski and Andrzej Rzońca triggered slight rebound. At the long end yields increased again, after slight decline after publication of domestic GDP data. Still, this time the scale of the move was limited. This week the data on Polish CPI in November may be crucial. Higher than expected growth of CPI, supported by hawkish comments of MPC members may push yields up at the short end of the curve. The impact of the data on the securities with longer maturities will be limited, and swings in global market sentiment may play the main role.



On the core debt market yields increased visibly in the past week. The upward move was triggered by lower risk aversion and hopes that the Irish parliament will pass the budget cuts and higher taxes. Also prolonging Bush's tax relief in the US provided support for the upward trend, due to its potentially negative impact on the budget and positive on the prospect of faster economic growth (and consequently sooner interest rates hikes). Yields of Bunds followed that trend. The yields of 10Y Bunds and Treasuries reached levels last seen in May and June 2010, respectively.

The past week on the euro zone's peripheral bond market was surprisingly stable. Optimistic news from Ireland on passing first part of the budget did not initiate any visible improvement of the market sentiment. On the other hand, lack of agreement among EU leaders on future anti crisis facilities did not put a negative pressure on the PIIGS's bonds prices.

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