

Weekly economic update

31 January – 6 February 2011

Last week, sentiment in global markets improved under influence of falling concerns about debt problems in Europe (an increase of faith in effectiveness of the EFSF). This was reflected in the increase in equity indices and EURUSD (to the resistance around 1.37 pointed to by us a week ago). Nevertheless, last week was not successful for the zloty. The negative technical picture, dovish comments from MPC members (rate hikes more likely in Q2 than in March) and some deterioration in the global market moods at the end of the week (negative rating news from Japan and the US) caused that on Friday the EURPLN broke the upper limit of the consolidation range of 3.84-3.92 indicated by us. Preliminary GDP data for 2010 were neutral for the market amid solid growth in consumption and still low investments. Data on retail sales for December surprised clearly on the upside, but to a large extent this could be have been associated with the acceleration of purchases before the VAT hike and results of recent surveys of consumer sentiment are not good.

This week, the focus will be on events abroad including economic activity indicators in China, the euro zone and the US, the ECB meeting, and the data from the US labour market. Locally the only event is PMI manufacturing for January.

Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD	FORECAST		LAST VALUE	
				MARKET	BZWBK		
MONDAY (31 January)							
11:00	PL	Tender of 52-week T-bills worth PLN1.5-2.0bn					
11:00	EZ	Flash HICP	Jan	pts	2.4	-	2.2
14:30	US	Core PCE	Dec	%MoM	0.1	-	0.1
14:30	US	Personal income	Dec	%MoM	0.4	-	0.3
14:30	US	Personal consumption	Dec	%MoM	0.5	-	0.4
15:45	US	Chicago PMI index	Jan	pts	65,5	-	66.8
TUESDAY (1 February)							
3:30	CN	PMI – manufacturing	Jan	pts	-	-	54.4
9:00	PL	PMI – manufacturing	Jan	pts	56.1	56.2	56.3
9:53	DE	PMI – manufacturing	Jan	pts	60.2	-	60.9
9:58	EZ	PMI – manufacturing	Jan	pts	56.9	-	57.1
16:00	US	ISM – manufacturing	Jan	pts	57.4	-	57.0
WEDNESDAY (2 February)							
11:00	PL	Bond switching auction					
14:15	US	ADP report	Jan	k	151	-	297
THURSDAY (3 February)							
9:53	DE	PMI – services	Jan	pts	60.0	-	59.2
9:58	EZ	PMI – services	Jan	pts	55.2	-	54.2
13:45	EZ	ECB decision		%	1.0	-	1.0
14:30	US	Preliminary productivity	Q4	%QoQ	2.0	-	2.3
14:30	US	Initial jobless claims	week	k	423	-	454
16:00	US	Industrial orders	Dec	%MoM	1.1	-	0.7
16:00	US	ISM – services	Jan	pts	57.0	-	57.1
19:15	US	Public speech of Fed's governor					
FRIDAY (4 January)							
14:30	US	Non-farm payrolls	Jan	k	108	-	103
14:30	US	Unemployment rate	Jan	%	9.4	-	9.4

Source: BZ WBK, Reuters, Parkiet

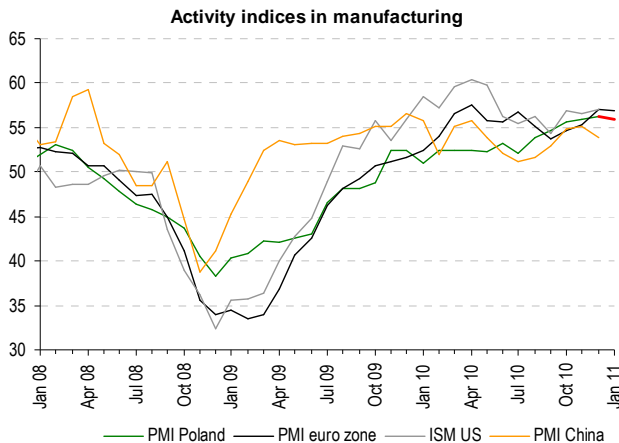
Maciej Reluga Chief economist (+48 22) 586 8363

Piotr Bielski (+48 22) 586 8333

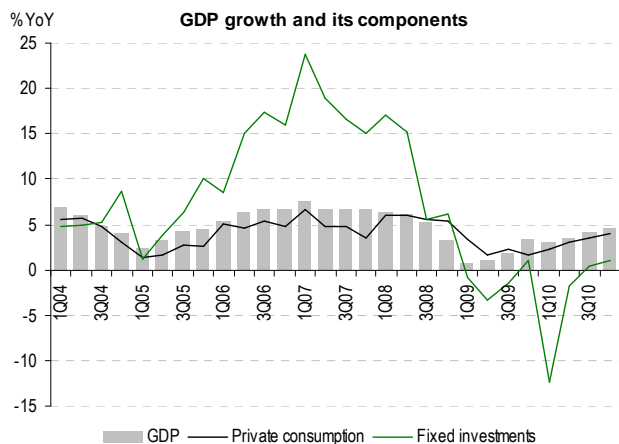
Piotr Bujak (+48 22) 586 8341

Marcin Sulewski (+48 22) 586 8342

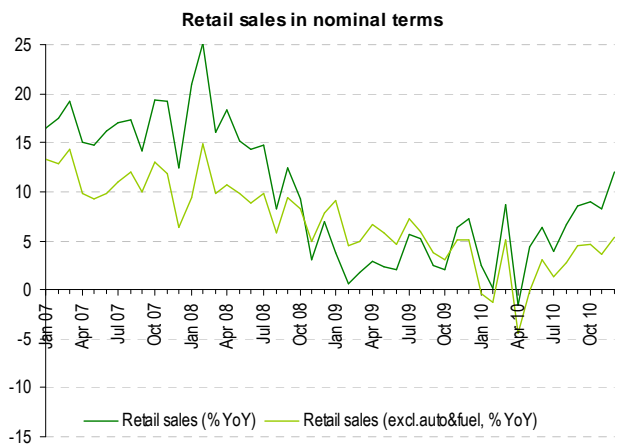
e-mail: ekonomia@bzwbk.pl

What's hot this week – Domestic PMI, many crucial data abroad and ECB meeting

- The only domestic event potentially important for the Polish market this week is PMI for January. We predict a slight drop (to still high level), which in our view will not change prospects for the economy in the MPC perception and thus the figure should be neutral for the market.
- This time the domestic PMI manufacturing will be the only piece of local information released at the beginning of the month, because last month the FinMin announced it would not release its CPI estimates anymore. The next hint on inflation developments for the market will be official CPI data due for release by the stats office on February 15.
- The key events abroad include factors, which will help to assess relative strength of major economies and prospect of monetary policy of the Fed and ECB. Thus, one should closely watch economic activity indicators (PMI, ISM), the US non-farm payrolls and the ECB meeting.

Economy last week – Neutral GDP and hawkish retail sales figures

- Tentative GDP data for 2010 as a whole proved better than our expectations for overall GDP growth (3.8%) and individual consumption (rise of 3.2%), but fixed investment (drop of 2.0%) disappointed again.
- Our estimates for Q4 alone, based on tentative data for the whole year and earlier released data for first three quarters of the year, indicate that GDP growth accelerated to 4.6%YoY with strong rise in individual consumption (4%YoY) and sluggish increase in fixed investment (1%YoY). However, one should be aware that large discrepancy seen between growth rates of GDP and value added suggests that the stats office figures may be quite significantly revised.
- From the MPC's point of view, the tentative GDP numbers for 2010 are not a clear hint when the next interest rate hikes should take place.



- Retail sales growth clearly accelerated in December (to 12.3%YoY from 8.3%YoY in November), which confirms that economic activity was quite strong in late 2010. However, retail sales in next months may not be that strong, as there was probably a shift in consumption from 2011 amid concerns about price rise related to VAT hike.
- Detailed labour market data confirmed that high wage growth in December was partly the effect of high bonuses in mining, but in other sectors there was also a visible acceleration of wage growth (in manufacturing from 5.6% to 6.4%YoY, which signals that wage pressure is mounting.
- A hawkish signal for the MPC is information that CPI inflation expected by households in 12 month time rose to 3.0% in January from 2.9% in December, despite the current inflation at the time of the NBP survey (i.e. CPI for inflation November) dropped.

Quote of the week – Next rate hike rather in Q2, labour market data in focus**Andrzej Bratkowski, MPC member: PAP, 25 Jan**

It is not excluded that a rate hike will not be necessary in March, but only in the middle of the year, in May-June. (...) I hope that an appreciation of the zloty will be continued and that acceleration in wage growth in December was a one-off related to extra payments. However, I may be wrong, it is not certain that it will be like this and therefore one cannot exclude a rate hike in March.

Zyta Gilowska, MPC member: PAP, 24 Jan

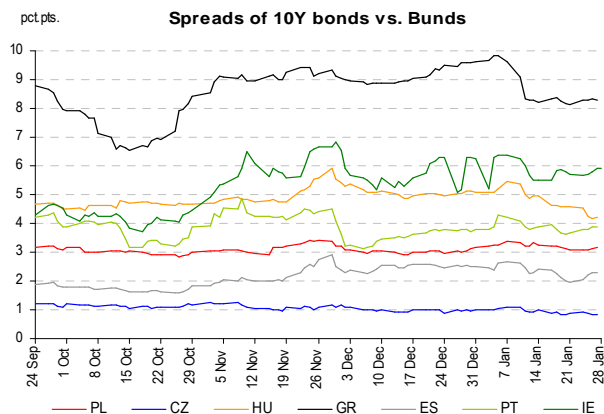
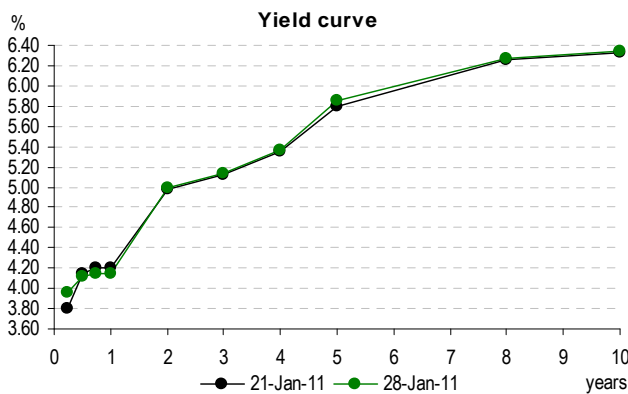
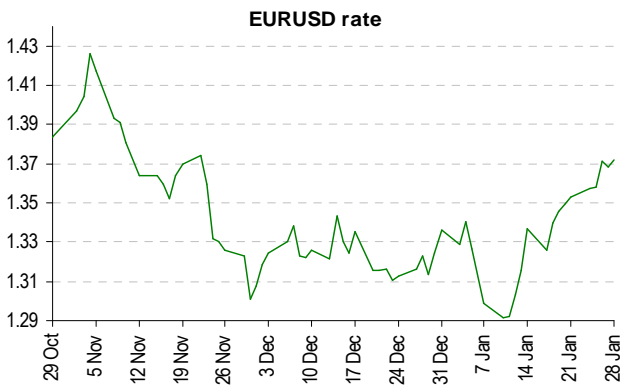
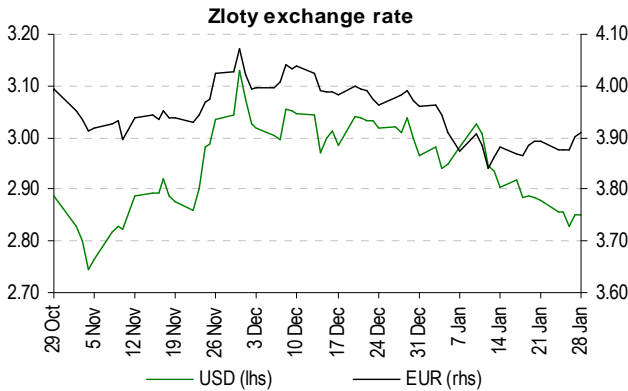
The Polish economy grows at too slow pace so that risk any cooling.

Anna Zielińska-Głębocka, MPC member: PAP, 26 Jan

I think that after the rate hike in January the MPC has quite long period – 6 weeks – to observe the economy. Next decisive meeting is only in early March (...) Labour market data will be very important.

Last week brought a series of comments from MPC members, confirming our expectations that the next rate hike, after initiation of the cycle in January, should be expected rather only in Q2. In view of dovish Elżbieta Chojna-Duch, interest rates may remain unchanged for some time. According to prof. Gilowska, economic growth is too weak to risk another hike in short time. Hawkish Andrzej Bratkowski does not see a need for a swift hike, if the zloty appreciates and wage pressure does not intensify. Also usually hawkish prof. Zielińska-Głębocka thinks that one can wait with next move in the cycle, but similar as Bratkowski she stressed importance of labour market data. Prof. Hausner did not give clear hints on timing of next hike in his recent comments.

Market monitor



EURPLN and EURUSD close to resistance levels

During the first days of the week the EURPLN was quite stable between support at 3.84 and resistance at 3.92. The consolidation of the EURPLN and gradually rising EURUSD supported slight zloty's appreciation versus the dollar. The depreciation of the zloty that occurred later in the week was due to higher than expected unemployment rate, downgrade of Japanese rating and dovish comments from MPC members. Also data on lower than expected GDP growth in the US put a negative pressure on the zloty. Consequently, the EURPLN broke the resistance level on Friday. In our opinion, assuming continuation of downward trend of the EURUSD, further increase of the EURPLN after Friday's breaking resistance level is possible. The first days of the new week will be crucial for further development of the situation. After confirmed breaking of 3.92, the next resistance is at 3.96. Support is at 3.84.

Just at the beginning of the past week the EURUSD broke the resistance area at ca. 1.36. After that the upward trend was continued later in the week, the exchange rate maintained in a gradual upward trend and reached next resistance at 1.375. The euro was supported by hopes for extending the EFSF activity, strong demand on the first bond auction of the EFSF and expectations for the interest rates hikes that emerged after last ECB meeting. The downgrade for Japan had only temporary effect. On Friday the EURUSD stabilized just above the resistance at 1.375 as investors awaited advanced data on the US GDP growth in Q4. The data was lower than expected and after short fluctuation the dollar started to appreciate versus the euro. We expect that the drop of the EURUSD, seen after rebound from the resistance level and US GDP data, will be continued towards support area at 1.36. Next support is at 1.35.

Domestic yield curve unchanged again

In the first part of the week, yields in the domestic debt market were falling. Move in the short end of the curve was triggered by dovish comments of MPC members. In the following days yields of short-term bonds rose, mainly after Anna Zielińska-Głębocka's comment about expected build-up of inflationary pressures, which was interpreted as hawkish by the market. Increase at the long end of the curve was the result of a gradual investors' retreat from risky assets. As a result, during the entire week yields have shifted slightly upwards, the most in case of 5-year bonds. The move at the long end of the swap curve was greater than in the bond market, so the curve became steeper.

In the core debt markets yields have not changed significantly. Early in the week, there was a fall after news on a quarterly GDP drop in the UK. Later on, yields increased slightly, following the publication of hawkish minutes of the BoE meeting. Yields of Treasuries dropped after the Moody's information about possible reduction of US rating outlook to negative.

Spreads versus 10-year Bunds fell in the first part of the week because of the market hopes that the EFSF will be able to buy bonds of the euro zone peripheral countries. In addition, Germany's declarations of readiness to take all measures to protect the euro area were calming down the markets. To some extent, increase in yields in the euro zone's peripheral debt market, which occurred in the second part of the week, was triggered by profit-taking after recent declines.

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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>



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