

Weekly economic update

28 March – 3 April 2011

Data concerning Polish economy which were released last week supported the zloty, showing lower-than-expected current account deficit in January and strong increase of retail sales in February. Another support for the domestic currency was delivered by comments of dovish MPC members, indicating a need to tighten the monetary policy. However, key events were changes in sentiment on the global financial markets. Despite realisation of negative political scenario in Portugal and unrest in MENA region, the optimistic assessment of outlook for global economy and good information from the companies prevailed. Concerns about debt problems in Europe weighted virtually only on prices of bonds of euro zone peripheries. This week's agenda is full of important data releases in the euro zone and the USA and if they don't change the general conclusion concerning the increasing global economic activity, the worries about euro zone debt and conflict in Libya may be overshadowed. Domestic quarterly NBP data on balance of payments may draw much more market attention than usually, as some fear strong upward revision of import and considerable increase of current account deficit. We don't share that view; an immense "errors and omissions" figure is rather an effect of calculation problems in capital and financial account than in current account.

Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST		LAST VALUE
					MARKET	BZWBK	
MONDAY (28 March)							
11:00	PL	Tender of 51-week T-bills worth PLN0.5-1.0bn					
14:30	US	Personal consumption	Feb	%MoM	0.6	-	0.2
14:30	US	Personal income	Feb	%MoM	0.4	-	1.0
14:30	US	Core PCE	Feb	%MoM	0.2	-	0.1
16:00	US	Pending home sales	Feb	%Mom	-0.8	-	-2.8
TUESDAY (29 March)							
8:00	DE	GfK Index	Apr	pts	5.8	-	6.0
15:00	US	S&P/Case-Shiller home price index	Jan	%MoM	-0.3	-	-0.4
16:00	US	Consumer confidence	Mar	pts	65.0	-	70.4
WEDNESDAY (30 March)							
11:00	EZ	Economic sentiment	Mar	pts	107.5	-	107.8
14:15	US	ADP report	Mar	k	200	-	217
THURSDAY (31 March)							
11:00	EZ	Flash HICP	Mar	%YoY	2.3	-	2.4
14:00	PL	Current account	Q4	€bn	-	-5.0	-3.6
14:30	US	ISM NY Index	Mar	pts	-	-	513.4
14:31	US	Initial jobless claims	week	k	380	-	382
15:45	US	Chicago PMI Index	Marc	pts	70.0	-	71.2
16:01	US	Industrial orders	Feb	%MoM	0.6	-	3.1
FRIDAY (1 April)							
9:00	PL	PMI - manufacturing	Mar	pts	-	53.3	53.8
9:53	DE	PMI - manufacturing	Mar	pts	60.9	-	62.7
9:58	EZ	PMI - manufacturing	Mar	pts	57.7	-	59.0
11:00	EZ	Unemployment rate	Feb	%	9.9	-	9.9
14:30	US	Non-farm payrolls	Mar	k	190	-	192
14:30	US	Unemployment rate	Mar	%	8.9	-	8.9
15:00	US	ISM - manufacturing	Mar	pts	61.0	-	61.4

Source: BZ WBK, Reuters

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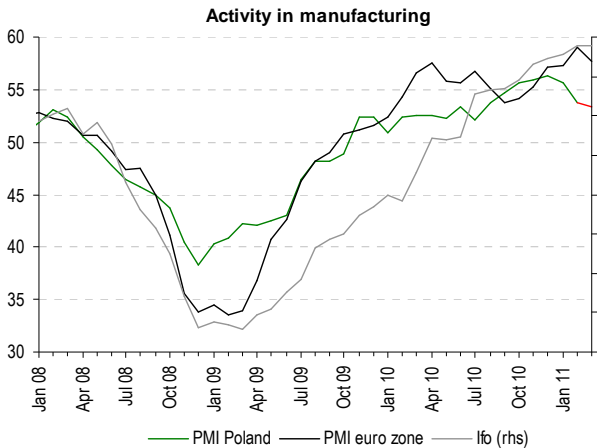
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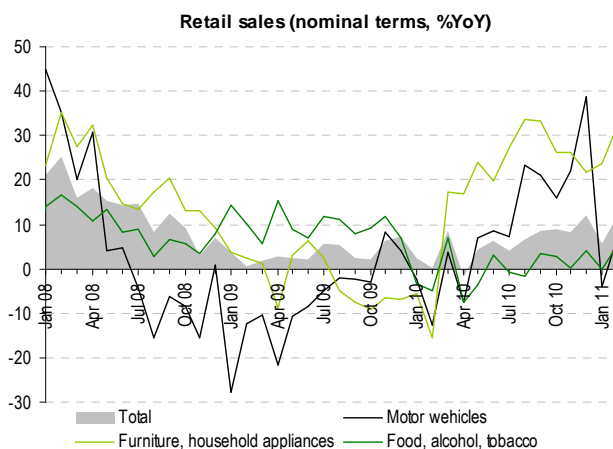
Marcin Luziński

What's hot this week – Domestic moods following sentiment abroad

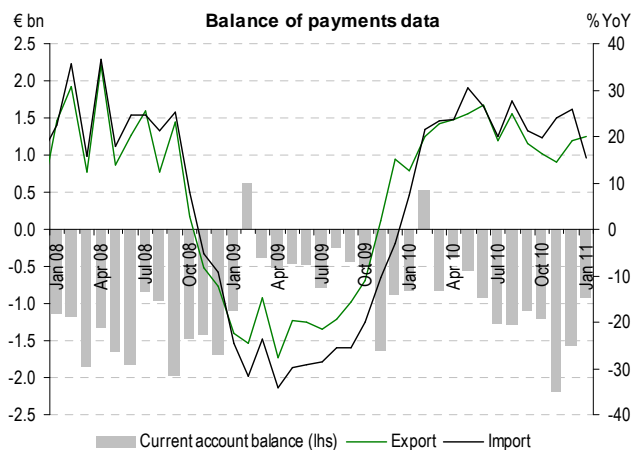


- This week the market will be focused mainly on news from abroad – issue of financial assistance for Portugal, unrest in MENA region and, most of all, numerous releases of important data.
- Polish PMI is probably going to show a drop following European indexes. Such a development would support our forecasts of slight slowdown of industrial output in March, although it has to be reminded, that in the recent months the relation between the PMI and dynamics of Polish industry had been distorted.
- The quarterly data on balance of payments are likely to show revision, but we don't think, that NBP has already solved the puzzle of immense "errors and omissions" figure. The news from CSO suggest, that the import underestimating is not the case (which may imply problem is not within current account, but perhaps financial account).

Economy last week – Strong sales growth despite high unemployment



- Retail sales climbed in February by 12.2% YoY, much above expectations and stronger than in December, when the concerns about price and tax increase boosted the purchases. Growth was stronger in almost all categories, including the durable goods.
- At the same time, the economic sentiment indicators dropped in March consecutively, indicating a worse assessment of own financial situation, economic outlook and propensity to buy.
- The unemployment rate jumped in February to 13.2%, in our opinion due to seasonal factors. A further increase in work demand should decrease the unemployment in the upcoming months.
- Core inflation after excluding food and energy prices amounted to 1.6% in January and 1.7% in February. Other measures of core inflation increased noticeably stronger.



- The current account deficit in January 2011 amounted to €930m, which was considerably below the forecasts. This is an effect of strong drop in import (the yearly dynamics fell to 15.2% from 25.8% in December), while positive tendencies in export sustained (growth by ca. 20% YoY).
- Some impact on drop in import at the beginning of the year may stem from slowdown (as it turns out only temporary) in consumer demand. However, NBP's comment about balance of payments data suggests, that the central bank is unsure if the data are correct and asked the CSO to verify its calculations. It's difficult to draw strong conclusions concerning the tendencies in foreign trade. It's probable that the January figures will be substantially revised after the verification.

Quote of the week – Increasingly hawkish comments of doves

Andrzej Kaźmierczak, MPC member, Reuters, 23 March

The only clear thing is the fact, that the monetary policy may be tightened. There is no doubt that the core inflation increase delivers an absolutely disturbing sign.

Zyta Gilowska, MPC member, PAP, 22 March

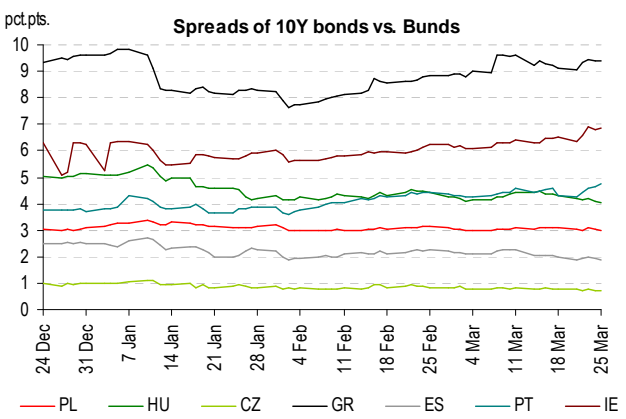
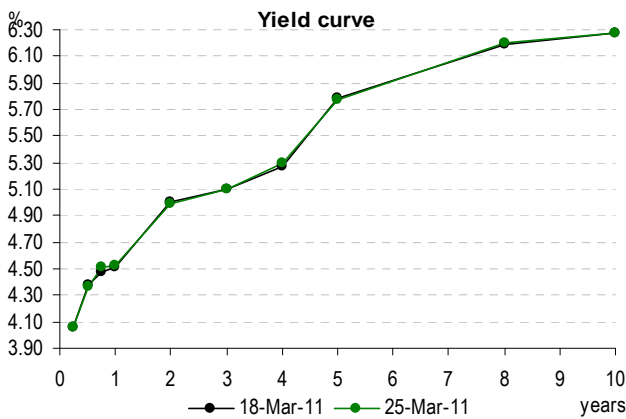
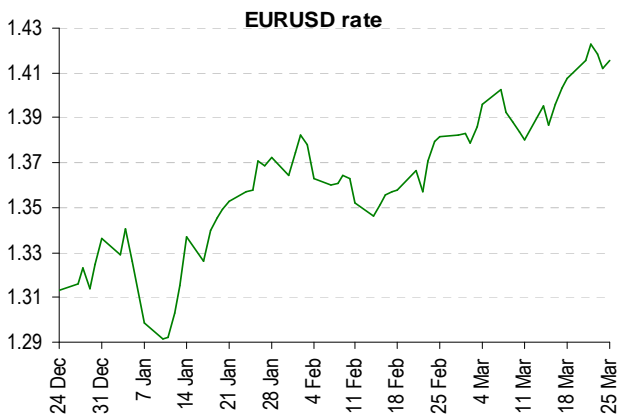
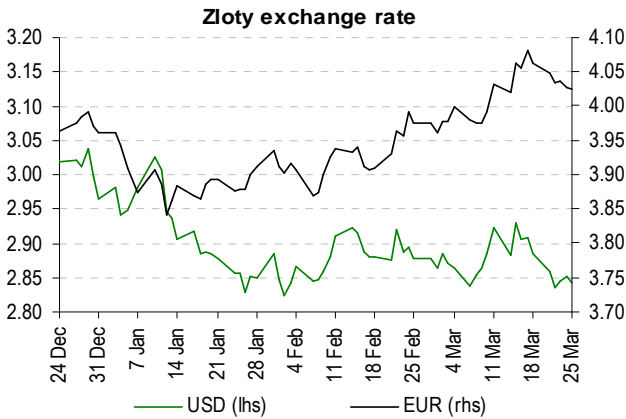
Gradual and reasonable monetary policy tightening is imminent. Reasonable means that this process can't be chaotic nor rapid.

Marek Belka, NBP governor, Obserwatorfinansowy.pl, 22 March

If that decision [ECB's rate hike] is made earlier, than it changes our inflation projection and induces an earlier rate hike. In other words, if the current information shows, that the reality is departing from the assumed scenario, than it should affect our decision concerning rate hike (...). In my opinion the markets are overestimating the necessary rate hikes scale. The central bank, like a good doctor, shouldn't prescribe too big doses of medicine.

In the last period our attention was drawn by a gradual change in tone of those MPC members, who earlier voted against rate hikes. Last week we wrote about Adam Glapiński, who didn't exclude a rate hike in April. This week other doves made their statements, including the NBP governor and the most dovish, according to our restrictiveness index, Andrzej Kaźmierczak. Even though we can't find in their words an explicit answer if they will support a rate hike in April, but it seems, that - compared to earlier wordings - their tone is considerably more hawkish. We still expect, that the MPC will hike interest rate by 25bps in the next meeting, but the communiqué won't be very hawkish in order not to boost expectations about total hike scale.

Market monitor



The zloty in upward trend

▪ The past week has to be named a favourable one for the zloty. The domestic currency made up for practically all losses against the euro from the preceding week, which were caused by events in Libya and Japan. Despite still present risk factors, inter alia in form of unrest in MENA region and government crisis in Portugal, the risk appetite increased and the zloty was additionally supported by lower-than-expected current account deficit, high retail sales in February and hawkish comments of dovish MPC members. Other CEE region currencies gained as well. At the end of the week the EURPLN rate approached 4.00 and we expect, that - assuming no negative factors from abroad in the nearest future - this level will be broken. This week the exchange rate should stay in 3.99-4.06 band.

▪ In the first part of the week the euro continued gains against the dollar, supported by expectations for imminent interest rate hike, but in the following days the concerns about unresolved debt problems prevailed, due to political crisis in Portugal. After rebounding from resistance at 1.425, the EURUSD rate temporarily slumped to support at 1.406, but at the end of the week returned to 1.413. Neither downgrading of Portugal, nor 30 Spanish banks, didn't have a permanent impact on the rate. In the upcoming week numerous important data are due to release and they are likely to decide upon the changes in euro-dollar market. Key will be the data from US job market and activity indexes in manufacturing. Support is 1.406, resistance 1.425.

Possible yield stabilisation ahead of MPC meeting

▪ On the domestic debt market the yields were quite stable, although the spread against strengthening German Bunds increased considerably in the middle of the week, reflecting the temporary peak in risk aversion after dismissal of Portuguese government. The FRA rates virtually didn't change, even though comments of the MPC members - in our opinion - noticeably supported expectations for rate hike in April. In the upcoming week the shorter end of the curve should remain stable before the MPC sitting, amid no important domestic data and comments of the Council members (soon the quiet period begins), which could change the expectations concerning the outcome of the sitting. We anticipate a stabilisation at other segments of the curve.

▪ The yields on core debt markets oscillated due to changing risk aversion. Despite temporary increase of demand for securities, the Bunds' and Treasuries' yields recorded noticeable growths, as the positive sentiment prevailed at the end of the week.

▪ The dismissal of Portuguese government enhanced the risk, that this country would be forced to ask EU and IMF for financial assistance and adversely affected the prices of euro zone peripheries bonds, reminding about unresolved debt problems. Similar effect was triggered by downgrading of Portuguese ratings by Fitch and S&P's. The situation of this country is additionally complicated by the fact, that in April and June maturities amounting to €9bn are scheduled. The highest growth this week was recorded by spreads of 10-year Portuguese, Irish and Greek bonds. Spain and Italy remained stable.

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