

Bi-weekly economic update

25 April – 8 May 2011

The last week began with a strong rise in risk aversion after downgrade of US rating outlook by the S&P agency. The zloty weakened and the EURUSD rate dropped substantially. In the further part of the week optimism was prevailing due to better than expected quarterly companies' results. The greatest influence on zloty appreciation was exerted by NBP and FinMin's decision to exchange EU funds on the market.

The week after Easter seems to be very interesting as regards the data due for release. The market will surely pay much attention to US figures, including the Wednesday's flash GDP estimate for Q1. As to local events, on Tuesday, April 26 at 11:00 the CSO will release the revised GDP figures for 2010 as well as public debt and deficit. These figures can have a significant impact on the market, especially if deficit-to-GDP ratio will deviate substantially from the official estimate of 7.9%. The data on unemployment rate, retail sales and PMI probably will not change the outlook for domestic monetary policy. We expect that EURPLN will remain in 3.94-4.0 range, more likely closer to the upper limit of the band. EURUSD rate may be affected by flash data on April HICP in the euro zone, which tended to be surprising recently. In our view, a potential for further rise is already over and a correction should be expected.

Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD	FORECAST		LAST VALUE	
				MARKET	BZWBK		
MONDAY (25 April)							
	PL. DE. CH. GB	Easter					
16:00	US	New homes sales	Mar	k	280	-	250
TUESDAY (26 April)							
15:00	US	S&P/Case-Shiller index	Feb	%MoM	-0.3	-	-0.2
16:00	US	Consumer sentiment index	Apr	pts	64.5	-	63.4
WEDNESDAY (27 April)							
8:00	DE	GfK index	Mar	pts	5.9	-	5.9
10:00	PL	Retail sales	Mar	%YoY	8.4	7.0	12.2
10:00	PL	Unemployment rate	Mar	%	13.1	13.2	13.2
18:30	US	Fed's decision		%	0.0-0.25	-	0.0-0.25
THURSDAY (28 April)							
14:30	US	First GDP estimate	Q1	%QoQ	2.0	-	3.1
14:30	US	Initial jobless claims	week	k	390	-	403
16:00	US	Pending homes sales	Mar	%MoM	1.5	-	2.1
FRIDAY (29 April)							
11:00	EZ	Flash HICP	Apr	%YoY	2.7	-	2.7
14:30	US	Consumer spending	Mar	%MoM	0.5	-	0.7
14:30	US	Personal income	Mar	%Mom	0.4	-	0.3
14:30	US	Core PCE	Mar	%Mom	0.1	-	0.2
15:45	US	PMI Chicago index	Apr	pts	69.0	-	70.6
15:55	US	Michigan index	Apr	pts	69.6	-	
MONDAY (2 May)							
9:00	PL	PMI - manufacturing	Apr	pts	-	55.1	54.8
9:28	EZ	PMI - manufacturing	Apr	pts	-	-	57.5
16:00	US	ISM - manufacturing	Apr	pts	60.3	-	61.2
WEDNESDAY (4 May)							
14:15	US	ADP report		k	200	-	201
THURSDAY (5 May)							
13:45	EZ	ECB's decision		%	1.25	-	1.25
FRIDAY (6 May)							
14:30	US	Non-farm payrolls	Apr	k	200	-	216
14:30	US	Unemployment rate	Apr	%	8.8	-	8.8

Source: BZ WBK, Parkiet, Reuters

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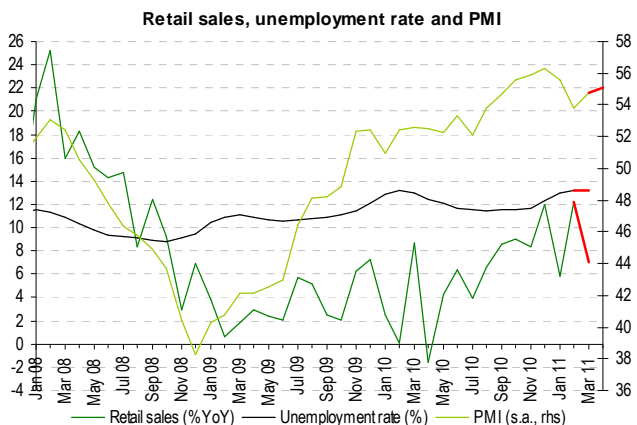
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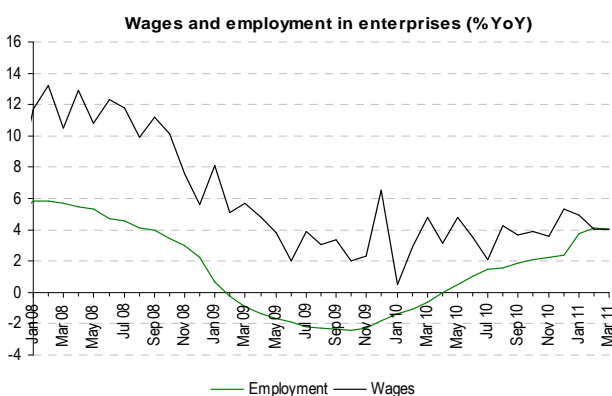
Marcin Luzziński

What's hot this week – Retail sales and unemployment with no impact on the market

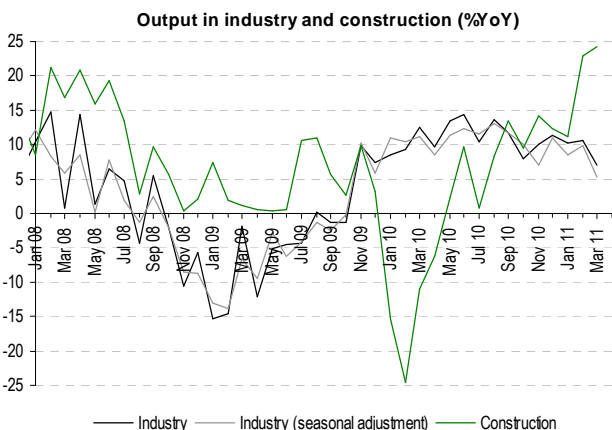


- We expect that the annual growth of retail sales returned to one-digit level in March. A positive effect on nominal growth rate of retail sales can come from strong rise in prices, which took place in that period.
- In our view the unemployment rate remained stable in March. Much confusion was introduced by the Ministry of Labour, which initially informed tentatively about a rise in the unemployment rate to at least 13.5% while one week later said that it expects a decline to 13.1%.
- Poland's PMI manufacturing for April increased in our view thanks to continued good business climate in Germany. We expect a confirmation of positive tendencies occurring in the economy: persisting growth of industrial output and further rise in employment.

Economy last week – Moderate data on labour market and industrial output



- The average employment in corporate sector climbed in March by 4.1%YoY (like in February) and the increase of average wages slowed down slightly to 4.0%YoY (from 4.1% in the previous month). Both figures were below our forecasts and market consensus.
- Although we anticipated a faster pace of changes in the labour market, the data do not herald a break in positive trends. The increases are not strong enough, to recognise them as a proof of ballooning wage pressure and labour market tensions. However, we still expect the increase of labour demand to continue later in the year, which will lead – under conditions of high inflation and surging inflation expectations – to a substantial acceleration of wages.



- The annual growth of industrial output decelerated to 7.0%YoY in March from 10.7%YoY in February. The output growth lost momentum in all sections of industry. In the following months we expect that single digit output's pace of growth in industrial output will be maintained due to gradual weakening of foreign demand amid moderate economic slowdown in Poland's main trading partners.
- The annual growth of construction reached 24.2%, which can reflect expected by us recovery in investment activity in private sector in 2011.
- The PPI inflation rose to 9.3%YoY mainly due to a strong growth of prices in manufacturing. To some extent this was a result of surging commodities' prices on the global markets, but the zloty weakening contributed as well.

Quote of the week – Sale of foreign currency limits pressure on rate hikes

Marek Belka, NBP governor, MinFin-NBP conference, April 21

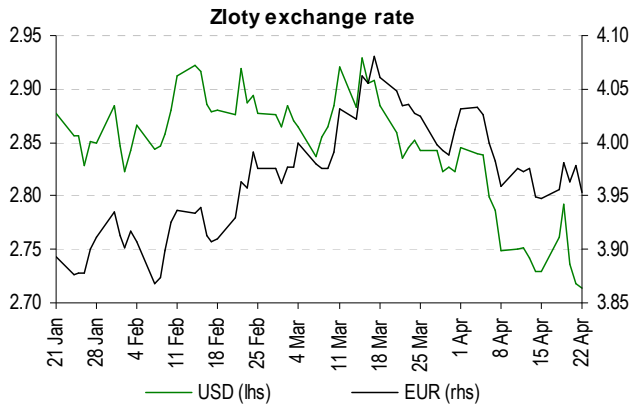
We have come to a conclusion that such actions (limiting the excessive liquidity in the banking system) can help to limit the pressure on further NBP rates hikes. (...) The recent data [about industrial and construction output] did not change our view on the economic situation and I do not think that they can affect the monetary policy in upcoming periods. (...). The rise in core inflation in March to 2% from 1.7% in February is significant, but I do not think that this is a beginning of second round effects.

Statement concerning the exchange of EU funds, MinFin, April 21

The decision to exchange EU funds on the market is a systematic action, not a one-off one. In 2011 the amount of EU funds, which can be exchanged to zlotys, makes ca. €16-17bn, from which in Q1 €2.7bn was exchanged in the NBP. The FX market liquidity will affect the amount of funds which will be exchanged on the market. The market exchange will be performed in the current system – via the BGK.

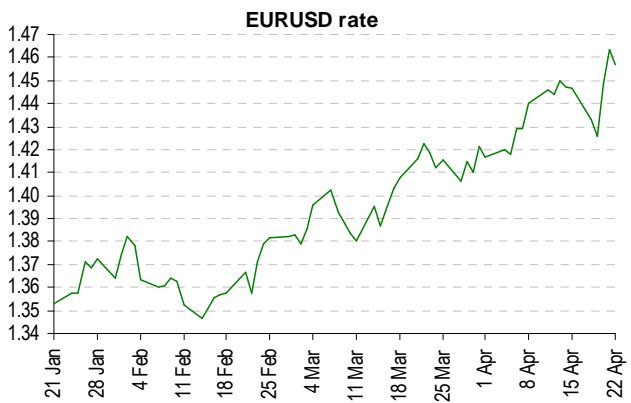
The announcement of regular sales of foreign currencies by MinFin on the market (as usually via the BGK without informing about the individual transactions) can be viewed as a step improving the mix of monetary and fiscal policies. Sale of foreign currencies through the market can work towards strengthening of the zloty, which will have anti-inflationary effects (supporting the implementation of the MPC target) and also will support a reduction of public debt to GDP ratio (key from the MinFin's perspective). Moreover, action towards achieving the NBP objectives by selling currencies on the market may to some extent reduce the upward pressure on NBP interest rates, which may prevent an increase in debt issuance costs and reduce the negative impact of monetary policy tightening on economic growth (although the zloty strengthening will work in the opposite direction). The announced decision supports our forecast of keeping interest rates on hold at the MPC meeting in May.

Market monitor

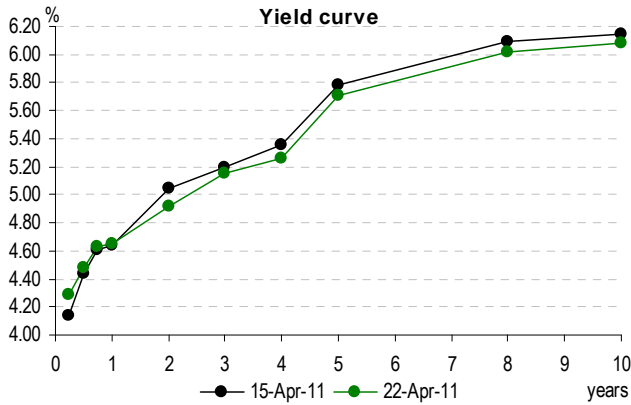


Limited potential for zloty appreciation

▪ Already at the beginning of the week a rapid zloty depreciation took place due to strong rise in risk aversion after S&P's decision to downgrade the outlook for US rating. In the following days the zloty appreciation was supported by substantial sentiment improvement thanks to news from companies. The decision of MinFin and NBP, released after Marek Belka and Jacek Rostowski press-conference, to exchange a part of EU funds on the market pushed the EURPLN and USDPLN downwards. The latter has fallen to its lowest level since December 2009. The EURPLN dropped after the conference to 3.94, from which it rebounded on Friday due to diminishing market expectations for rate hike in May. In our view it can be difficult to break this support level in the upcoming two weeks. EURPLN will probably remain in 3.94-4.0 range. The second unsuccessful attempt to break the support can mean that the rate is probable to move in the upper part of the band.

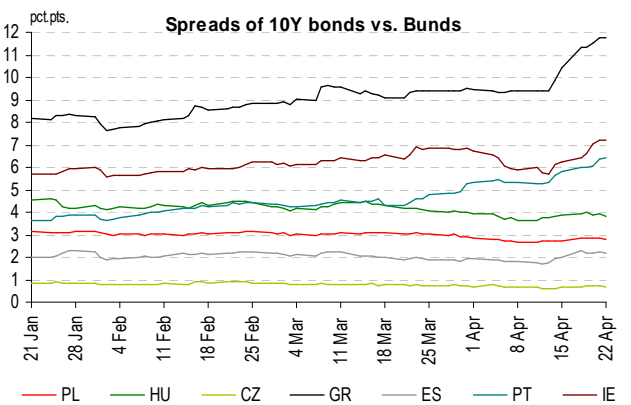


▪ The EURUSD rate dropped rapidly at the beginning of the week from 1.44 to ca. 1.42. Although after the S&P decision the dollar weakened for a while, then amid rising risk aversion, the assets denominated in dollar were acknowledged as the most secure and thus the EURUSD rate drop on Monday. In the following days the sentiment improved substantially, the pair broke 1.452 and continued to climb, reaching the highest level since December 2009 (1.4649). The last increase wave is equal to the previous one (shaped between end of March and mid-April) and such a technical situation indicates that a correction to 1.44 is likely.



Yields stable before the MPC decision

▪ On the domestic debt market a substantial lowering of yield curve after release of MinFin and NBP decision, which diminished the market expectations for a rate hike in May and as regards the overall scale of tightening this year. The most considerable drop occurred in case of 2Y bonds while at other segments of the curve the effect was slightly weaker. The FRA rates dropped as well. The exchange of currencies on the market can support the zloty appreciation, which can curb inflation. The decision supports our forecast of no hike in May. In the upcoming two weeks the most important are data on GDP and fiscal situation in 2010. In our view the monthly indicators will not change the market expectations for a rate hike in May and the yields at shorter end will not rebound after recent substantial drops. A slight upward move can be a result of profit taking. More important will be annual data, especially if the deficit-to-GDP ratio differs considerably from official estimate of 7.9%.



▪ On the core debt markets yields dropped due to S&P decision and remained stable for the next part of the week. The growth potential was limited due to concerns about possibility for Greek debt restructuring.

▪ In the euro zone peripheries yields recorded noticeable increases in case of Greek, Irish and Portuguese bonds. The sell-off of these securities is relevant to persisting fears that Greece will be forced to restructure its debt. In the last week there were speculations that this country has already informed the EC and IMF about the willingness to do it. Although these rumours were denied quickly, it did not change the situation on the debt market.

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