

Weekly economic update

8 – 14 August 2011

In line with our expectations presented in our last weekly report, the past week proved to be equally interesting as the previous one. Even though the US Congress backed the agreement on raising the debt ceiling and cutting the budget spending, while the rating agencies did not downgrade the world's biggest economy, the concerns about outlook of economic growth in the USA (due to weak macro data) and about spread of debt crisis into other European countries intensified rapidly. The risk aversion surged and the markets were in the panic mode at the end of the week. Neither the interventions of Japanese and Swiss central banks nor the outcome of the ECB meeting managed to improve the sentiment. The rebound occurred only after clearly better-than-expected data on US labour market, which dented the concerns about approaching recession.

In face of serious turmoil on the financial markets, the investors' attention this week will be focused on the actions of central banks. If risk aversion reaches again last Thursday's levels, it seems likely that the major central banks may undertake coordinated actions in order to scale down the panic and to stabilize the situation. Crucial will be the Fed meeting, which ends on Tuesday, as market players will seek any suggestions about another round of quantitative easing in the USA. The market will take under scrutiny the ECB actions about the euro zone bonds purchase programme – information about buying Italian or Spanish bonds could contribute to stabilization of moods considerably. A raft of data from China and the USA will also deliver hints, if the concerns about severe slowdown of global economy were justified.

Although the global markets were marked by signs of panic, the scale of zloty weakening was quite moderate. Yet, the EURPLN broke through the resistance 4.03 indicated by us. Until the moods abroad stabilise, the EURPLN can in our view stay in 4.00-4.04 range.

Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST		LAST VALUE
					MARKET	BZWBK	
MONDAY (8 August)							
10:30	EZ	Sentix index	Aug	pts	1.9	-	5.3
TUESDAY (9 August)							
3:30	CN	CPI	Jul	%YoY	6.3	-	6.4
3:30	CN	Industrial output	Jul	%YoY	14.6	-	15.1
8:00	DE	Exports	Jun	%MoM	-1.5	-	4.3
14:30	US	Preliminary labor productivity	Q2	%QoQ	-0.9	-	1.8
20:15	US	Fed decision		%	0-0.25	-	0-0.25
WEDNESDAY (10 August)							
4:00	CN	Trade balance	Jul	\$bn	27.5	-	22.3
11:00	PL	OK/PS bonds auction					
16:00	US	Wholesale inventories	Jun	%MoM	1.0	-	1.8
THURSDAY (11 August)							
14:00	PL	Current account	Jun	€m	-1456	-1775	0.0
14:00	PL	Exports	Jun	€m	12036	11564	12157
14:00	PL	Imports	Jun	€m	12934	12480	13137
14:30	US	Initial jobless claims	week	k	403	-	400
14:30	US	Trade balance	Jun	\$bn	-48.0	-	-50.2
FRIDAY (12 August)							
11:00	EZ	Industrial output	Jun	%YoY	4.4	-	4.0
14:00	PL	CPI	Jul	%YoY	4.3	4.3	4.2
14:00	PL	Money supply	Jul	%YoY	7.5	7.2	7.1
14:30	US	Retail sales excluding autos	Jul	%MoM	0.2	-	0.0
15:55	US	Flash Michigan index	Aug	pts	63.0	-	63.7

Source: BZ WBK, Parkiet, Reuters

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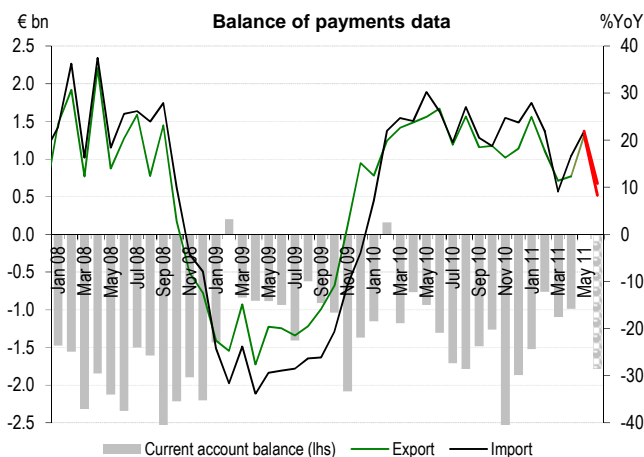
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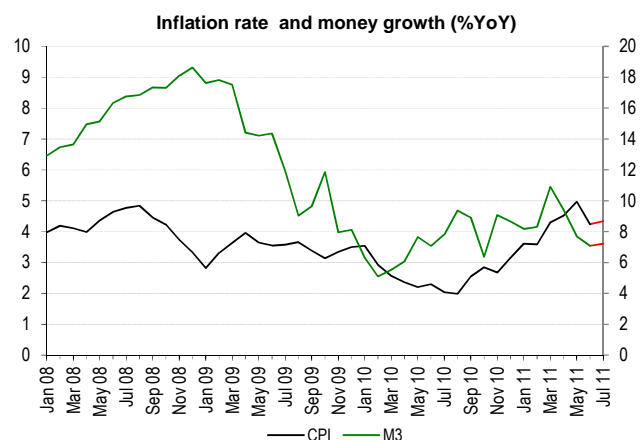
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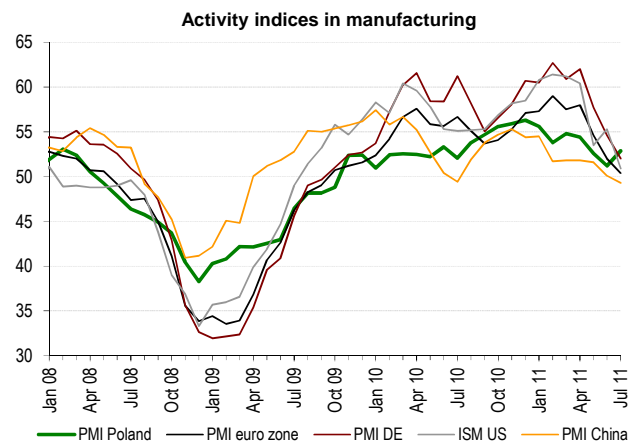
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What's hot this week – Domestic data overshadowed by Fed decision and events abroad

- In face of panic in the global markets, the events and data from abroad will be the key market movers this week. The markets will await possible actions of central banks.
- The balance of payments figures will be the most important domestic release this week. We expect a considerable (larger than the market) C/A deficit in June, which can have an adverse impact on the zloty. In May the current account deficit extraordinarily narrowed to zero thanks to substantial inflow of EU funds. In June this inflow was significantly lower.
- We expect a substantial weakening of pace of growth of trade turnover, which is supported by weak data on June's industrial output and clear signs of slowing down economic activity abroad. The annual pace of growth of exports should – according to our estimates – decline in the upcoming months to one-digit level.



- We expect, similarly as the market, a slight increase of annual CPI in July. This was caused, along with some slowdown in pace of decline of food prices, by increasing housing costs (rise in gas and heat energy prices). The fuel prices jumped strongly at the end of month, but the average price remained more or less at the June's level.
- The inflation figures will probably have a limited impact on the market. The accruing recently signs of severe slowdown in global economy have clearly scaled down the expectations for interest rates hikes worldwide and in Poland, and only a strong upward surprise can revive them.
- The money supply figures, neutral for the financial market, will probably show a continuation of revival in corporate loans.

Last week in the economy – Surprising surge of domestic PMI

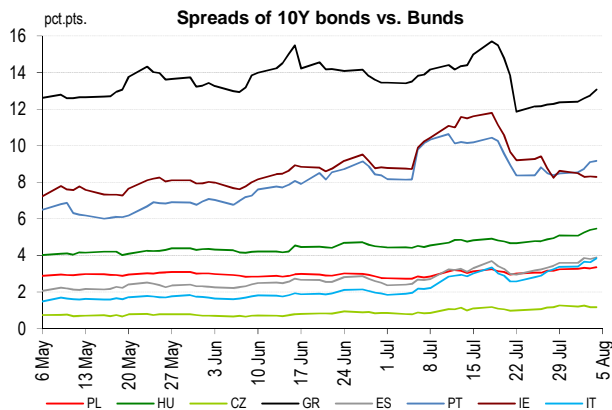
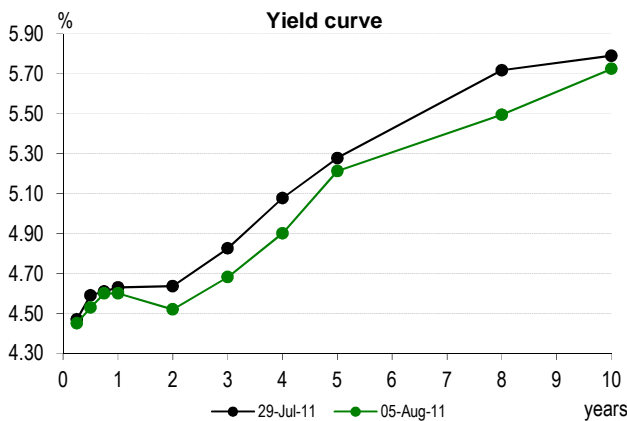
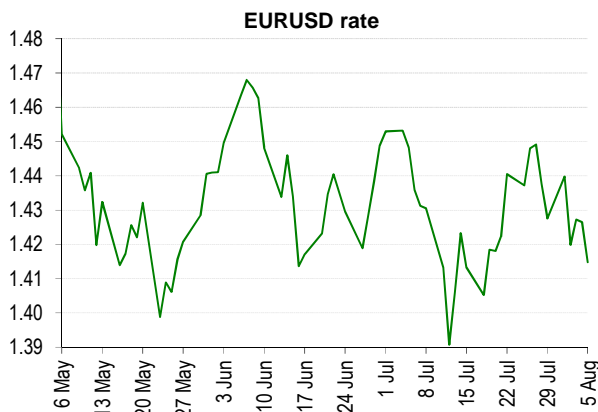
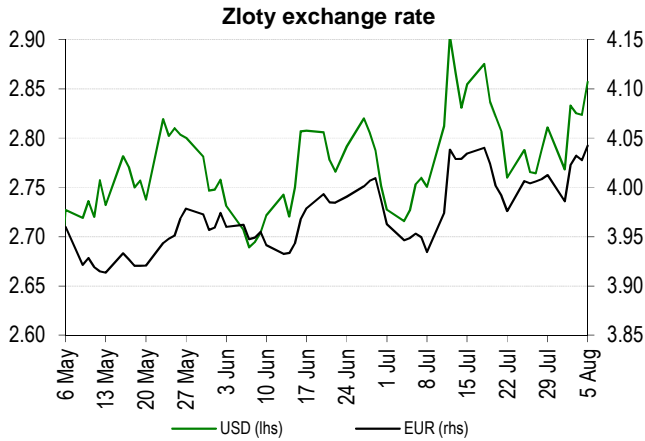
- PMI for Polish manufacturing jumped in July to 52.9 pts from 51.2 in June, considerably exceeding the forecasts and standing out against the plummeting indicators for other countries.
- The survey has shown an increase of new orders (although not the export ones), increase in output and continuing pick-up of employment in the manufacturing companies. At the same time, some weakening of cost pressure at the producers level is visible.
- The exceptionally good reading of PMI index for Poland indicates that the slowdown in domestic industry can be weaker than expected (although it is worth reminding that in the previous months the correlation between PMI and industrial output deteriorated). However, the high reading of PMI invigorated us to raise our forecast of July industrial output from 0.8% to 2.2%.

Quote of the week – GDP growth in 2012 subject to risk**Ludwik Kotecki, Finance Minister Deputy, DGP, 5 August**

(The GDP growth at) 4% this year is a very realistic scenario. However, I fear that such a result in upcoming year, even though it is still achievable and realistic, is subject to greater risk. (...) We maintain our forecast of 5.6% of GDP (public sector deficit), as the sector's deficit is not only a difference between revenues and spending of central budget. As regards the central budget, we think that it may be lower by PLN10bn.

We agree with Deputy Minister Kotecki that the accruing lately signs of slowdown in world's major economies advise to look carefully on the forecasts of domestic GDP growth in 2012. The forecasts for 2012 presented by us in our last monthly report assume a slowdown to 3.7% from 4.2% this year and we see some downward risk for this prediction after recent series of US and euro zone figures. The FinMin's assumptions concerning the central budget are in line with our estimates from a couple of months ago. Also, it seems that the target 5.6% for the whole public sector deficit is achievable.

Market monitor



Zloty quite resilient to global turmoil...

▪ The zloty strengthened at the beginning of the week, after news about agreement on the issue of US debt ceiling, but the following days have brought a correction. The magnitude of zloty weakening proved to be moderate compared to the panic which predominated the markets. This indicates, together with a stable situation on domestic fixed income market, that the investors assess Poland positively in comparison to other countries, burdened with serious problems. The EURPLN rate, after rebounding from support at 3.98, hovered in 4.02-4.04 range and only on Friday broke temporarily through 4.05. The CHFPLN reacted stronger, setting a new all-time-high at 3.75. After release of better-than-expected data on US employment the zloty returned to 4.03 per euro Friday afternoon. EURPLN can remain in 4.02-4.04 range until global market mood stabilises.

▪ The euro was fluctuating in a wide range against the dollar, reacting abruptly to changes in moods as new information emerged (agreement to raise the debt ceiling, weak US macro data, concerns about Italy, SNB and Bank of Japan interventions, ECB decision, good US employment figures). The EURUSD rate declined from 1.45 on Monday to 1.406 on Friday morning, but on Friday afternoon the rate rebounded to 1.417. Even though the US data have dented the pessimism about outlook of US economy, the relief may only be temporary if no additional impulses such as positive surprises with macro data or central banks' stabilizing actions emerge. Until this time the support for EURUSD lays at 1.40, resistance at 1.45.

... and domestic bonds even more

▪ The domestic debt market not only did not weaken on significant wave of global risk aversion, but strengthened quite considerably. During the week yields of Polish Treasury papers fell by some 10 bp across the curve with quite high turnover. As we wrote many times in the past, the downward pressure on yields comes from low ratio of demand to supply on the market, which was connected with high level of maturing debt and low issuance in the primary market. Additionally, due to relatively good fundamentals of the Polish economy as compared to other countries the domestic assets have not been sold, but quite the opposite.

▪ Core bond markets saw falling yields due to flight to quality and escape from risky assets. Yields of ten-year Bunds and Treasuries fell to the lowest levels in almost 12 month period, reaching local minima at 2.25% and 2.34%. Yields of one-month US Treasury bills fell on Thursday below zero per cent. After Friday's data on US employment, some increase in yields was observed.

▪ The debt markets of euro zone peripheries stayed under pressure, due to concerns whether the debt crisis will spill into countries like Italy or Spain. In due course, the spreads of their bonds against the Bunds and the CDS rates remained in upward trends.

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