

Weekly economic update

29 August – 4 September 2011

The global sentiment was highly volatile over the last week. The trading was affected mostly by expectations for Friday's speech of Ben Bernanke at the Jackson Hole conference. Still, the expectations for positive (from the market's point of view) scenario scaled back gradually. This was reflected in profit-taking on the stock markets one day ahead of the speech and the increases of EURUSD during the week proved to be only temporary. The data released over the week (both in Poland and abroad) confirmed the imminent economic slowdown and maintained the investors' unwillingness to purchase risky (Polish) assets. The zloty, similarly as the forint, Romanian leu and Brazilian real, clearly did not follow the developments of the global market. The domestic currency remained under pressure, even when the mood improved. The selling of the euro by the BGK bank also did not help. On the domestic interest rate market the expectations for interest rates cuts scaled back, the IRS rates rebounded considerably. Bernanke did not announce any substantial measures and even though it should have been widely expected, investors were disappointed. Shortly after the release of the speech the stock markets and EURUSD plunged.

This week also seems to be very interesting, especially in context of market's disappointment about Bernanke's speech. We will see plenty of data releases, for a start very important data on situation of US consumers and later PMI, ISM for manufacturing as well as data from the US labour market. These readings will determine market expectations as regards the scale of economic slowdown. At the same time, it cannot be excluded that the market will focus again on the euro zone debt problems, which would be a headwind for the zloty. The domestic GDP figures will only have a historic meaning, PMI release is of greater importance as it will deliver hints about the Q3 in the domestic economy.

Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST		LAST VALUE
					MARKET	BZWBK	
MONDAY (29 August)							
14:30	US	Consumer spending	Jul	%MoM	0.4	-	-0.2
14:30	US	Personal income	Jul	%MoM	0.3	-	0.1
14:30	US	Core PCE	Jul	%MoM	0.2	-	0.1
16:00	US	Pending home sales	Jul	k	-1.5	-	2.4
TUESDAY (30 August)							
11:00	EZ	Economic sentiment index	Aug	pts	100.8	-	103.2
14:00	PL	GDP	Q2	%YoY	4.2	4.2	4.4
15:00	US	S&P/Case-Shiller home price index	Jun	%MoM	-4.6	-	-4.5
16:00	US	Consumer confidence index	Aug	pts	55.0	-	59.5
20:00	US	Minutes Fed					
WEDNESDAY (31 August)							
11:00	EZ	Flash HICP	Aug	%YoY	2.5	-	2.5
14:00	PL	Inflation expectations	Aug	%YoY	-	-	4.7
14:15	US	ADP report	Aug	k	110	-	114
16:00	US	Industrial orders	Jul	%MoM	1.0	-	-0.8
THURSDAY (1 September)							
3:00	CN	PMI – manufacturing	Aug	pts	-	-	49.3
9:00	PL	PMI – manufacturing	Aug	pts	51.9	52.3	52.9
9:53	DE	PMI – manufacturing	Aug	pts	52.0	-	52.0
9:58	EZ	PMI – manufacturing	Aug	pts	49.7	-	50.4
14:30	US	Initial jobless claims	week	k	410	-	417
16:00	US	ISM - manufacturing	Aug	pts	49.9	-	50.9
FRIDAY (2 September)							
11:00	EZ	PPI	Jul	%YoY	6.1	-	5.9
14:30	US	Non-farm payrolls	Aug	k	100	-	117
14:30	US	Unemployment rate	Aug	%	9.1	-	9.1

Source: BZ WBK, Reuters

Maciej Reluga Chief economist +48 22 586 8363

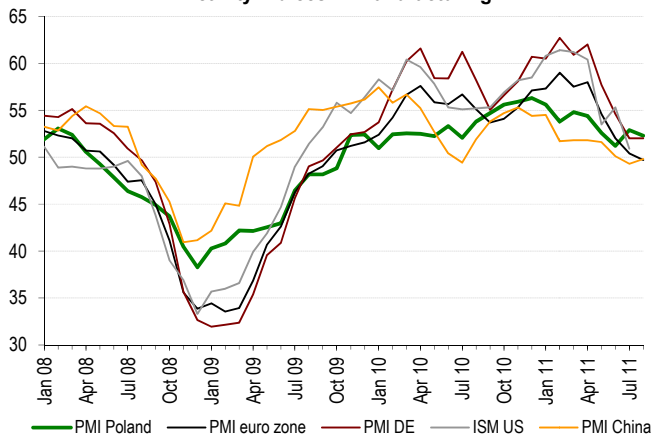
e-mail: ekonomia@bzwbk.pl

Piotr Bielski +48 22 586 8333

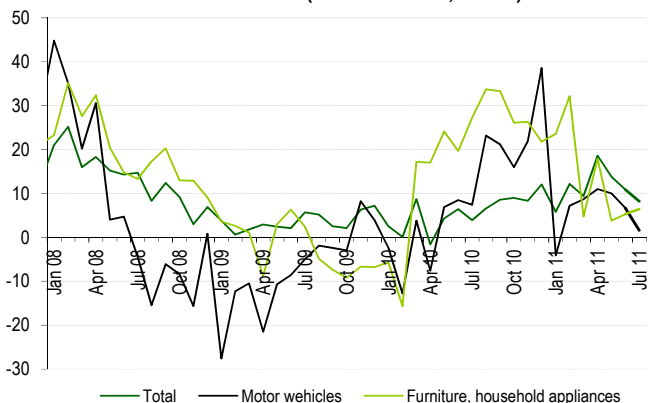
Marcin Luziński

+48 22 586 8362

Marcin Sulewski +48 22 586 8342

What's hot this week – Domestic GDP for Q2 and PMI as a hint for Q3**Activity indices in manufacturing**

- On Wednesday the CSO is to release GDP for Q2. However, this figures will have only historical meaning amid volatile changes occurring currently in the global economy, which will surely influence the domestic GDP growth in the upcoming quarters. We forecast that the data will show a growth of consumption by 3.8%YoY and investments by 8%YoY. These data will have no impact on the market.
- The end of the week seems to be very interesting, as the domestic PMI for manufacturing in August will be released. One month ago, the index was a surprise on the upside and rose despite the drops of PMI for Germany and euro zone. We expect that this time the data will show a slowdown in that sector, though the scale of drop could be moderate. We predict that the data will show a declining momentum of employment and new export orders.

Last week in the economy – Another weak data**Retail sales (nominal terms, %YoY)**

- Retail sales advanced in July by 8.2%YoY, below our forecast of the high one-digit growth (9.6%), not even mentioning market consensus expectations above 10%. July's reading was the weakest since January and markedly below H1 average (12%).
- The overall increase of sales was undermined by weak growth of the car sales (deceleration to 1.6%YoY from 6.7% in June). Surprisingly, there was an acceleration (to 6.4%YoY from 5.3YoY in June) in the "furniture, electronics and household appliances" category, which could be perceived as durable goods.
- Higher disposable income in Q3 still supports high momentum of retail sales and consumption but in light of dwindling positive tendencies on the labour market (confirmed by another data – details below), it will be hard to maintain such a trend in the upcoming quarters.

Unemployment rate (%)

- After disappointing data on employment in the corporate sector it seemed clear that the unemployment rate may be higher than expected. We have raised our forecast to 11.6% from 11.5%, but it still was too optimistic – the unemployment rate dropped to only 11.7% from 11.8% in June. The unemployment rate is still higher than in the same month of the previous year.
- As compared to June, the number of jobseekers decreased by 20k, which is rather weak as for this part of year (seasonal jobs). Annual growth amounted to 2.8%. It is worth noting that the employment in manufacturing sector contracted in July by 3k workers, which is an unusual development for July and happened only in crisis years 2008 and 2009.
- The LFS data showed a decelerating growth of number of workers to 1.1%YoY from 1.9% in Q1.

Quote of the week – Informally neutral**Marek Belka, 25 August, obserwatorfinansowy.pl**

I think it is too early to announce a significant change in monetary policy bias, but personally I think that an appetite to raise rates is much lower than in the first half of the year.

Andrzej Bratkowski, 25 August, Reuters

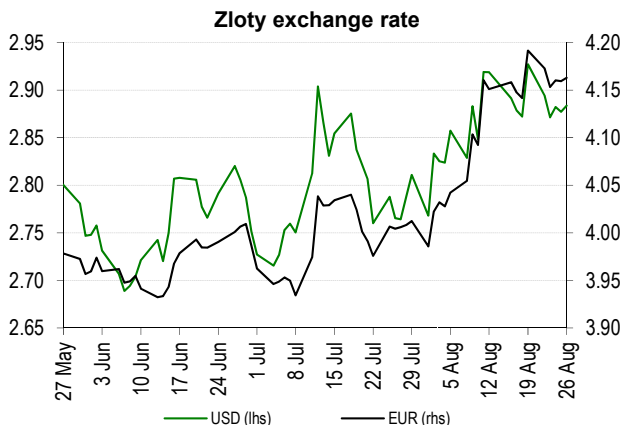
There are no grounds for signalling to the market a lowering of interest rates.

Zyta Gilowska, 26 August, PAP

I see no grounds to tighten monetary policy. However, market expectations of rate cuts are premature in my opinion.

The minutes of the July MPC's meeting released this week read that the Council reiterated that another interest rates hikes may be necessary should the prospects of inflation returning to target deteriorate. However, we think that this view is not valid anymore. Even the only MPC member who voted for a hike in July, Andrzej Kaźmierczak, is currently suggesting that his view changed completely. Also, comments of Belka and Bratkowski suggest that they both represent views typical for neutral policy bias, while such a bias is clearly declared by Gilowska. Our forecast of no interest rates changes until the end of the year and a change of informal policy bias to neutral in the autumn is still valid.

Market monitor

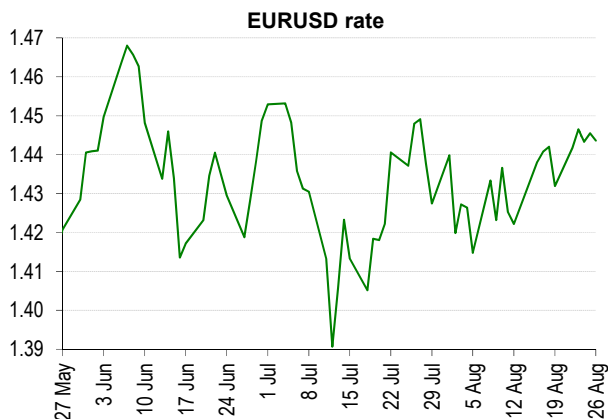


The zloty will remain under pressure

▪ The zloty has been under pressure throughout the week. Moments of slight increase in optimism, which occurred temporarily, failed to support the zloty permanently. The BGK bank has apparently sold euro on the market, but this activity had no significant impact on the currency. EURPLN just temporarily dropped below the support at 4.15 and was close to resistance at 4.20 when Bernanke disappointed the market with lack of substantial announcements (exchange rate climbed to 4.1795). We do not expect the market situation to change considerably this week. We predict that EURPLN will stay above 4.14-4.15, while a negative pressure on the zloty could be exerted by expectations for slowdown in global and domestic economies.

▪ As regards the CEE currencies, only Czech koruna gained, as it was supported by the S&P, which raised the Czech rating from A to AA-

▪ EURUSD was hovering in the range 1.43-1.45 prior to the speech of Fed's president. Trading rallied to the tune of scenario of euro appreciation during the European session and expectations for suggestion of launching of QE3 and drop of EURUSD as the session in the USA began. The Bernanke's speech disappointed the market and caused a rapid drop from 1.444 to 1.439. After a temporary rebound, this trend may be continued. We expect that this week can bring appreciation of the dollar, due to lack of concrete statements from the Fed's president and due to fears about future of bailout for Greece.

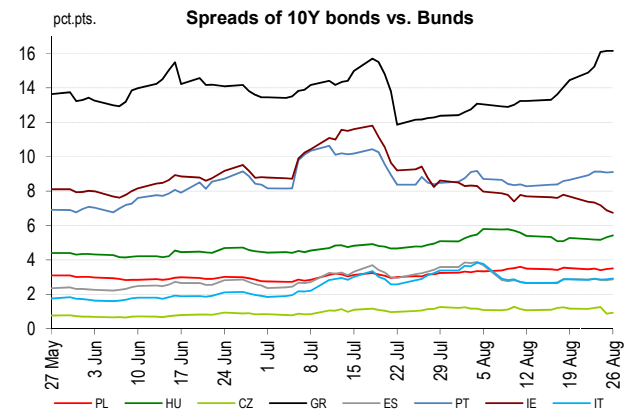
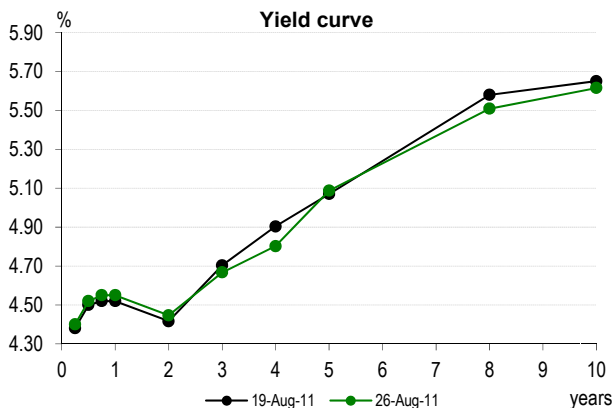


FI market will be under influence of global events

▪ The domestic yield curve has steepened over the previous week, but the scale of changes was limited, similarly as the investors' activity. As we expected, the yields of 2Y bonds were stable. On the other hand, the IRS rates increased, especially in 5 and 10Y segment, which caused a considerable narrowing of asset swap spreads in these tenors. As regards the FRA market, a correction of expectations for interest rates cuts took place. FRA6x9 and FRA9x12, which aggressively priced-in hikes over the past weeks, increased markedly. After the Friday's speech of Fed president the domestic market did not react. This week the domestic market will remain mainly under influence of global sentiment and the domestic data releases should not affect the trading. We expect a higher volatility on FRA and IRS markets, while the direction of their changes will depend on the final perception and interpretation of Bernanke's words and on the investors' moods.

▪ On the core debt markets the yields retreated from all-time lows set in the previous week. This was due to declining demand for safe assets in face of gaining stock markets. Moreover, a negative pressure on the German bonds was exerted by weak demand on 10Y securities auction. At the end of the week the yields of 10Y Bunds and Treasuries amounted to 2.13% and 2.16%, respectively.

▪ On the euro zone peripheries debt market the spreads against 10Y Bunds widened due to uncertainty about launching the bailout for Greece, as Finland can stand in the way with its demands of collateral.



This publication has been prepared by Bank Zachodni WBK S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Bank Zachodni WBK S.A., its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Bank Zachodni WBK S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Bank Zachodni WBK S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication. 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>