

Weekly economic update

12 – 18 September 2011

High risk aversion dominated global markets since the beginning of previous week and even market holiday in the US on Monday did not limit nervousness of market participants. Deterioration in sentiment was still driven by worries as regards economic slowdown, as well as information from the euro zone – IMF/EC/ECB mission in Greece has been suspended, weak results of German CDU in local elections, awaiting for German Constitutional Court verdict on aid package for Greece, uncertainty on austerity measures in Italy. The poor sentiment maintained even despite some positive newsflow (in Italy additional measures were accepted, as well as fiscal rule in Spain, German Court rejected the motion). Expectations concerning global growth worsened further, which was fuelled by downward revisions of forecasts by OECD and ECB. Central bankers and politicians' comments did not support markets either.

The Polish MPC and the ECB did not deliver the type of comments, which could suggest the official rates would be reduced. On the foreign exchange market the key event was the announcement of the Swiss National Bank that it would not accept EURCHF levels below 1.20. This should set the floor for EURCHF fluctuations at least in the short-term.

There is rather light international data calendar at the beginning of the week, so the Polish market will be under influence of local data releases i.e. balance of payments and inflation. CPI reading below consensus might have potentially more significant positive influence on debt market as compared to the scenario of above-forecasts release. Overall, however, we still think the global moods will be the main drivers of changes in the Polish market. Data releases in the US and euro zone, together with further assessment of economic outlook for Q3, as well as any information regarding another tranche of financial aid for Greece, will be of key importance. We think that at the end of September the Polish currency may be slightly stronger, though in the following days it will probably remain under pressure.

Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST		LAST VALUE
					MARKET	BZWBK	
MONDAY (12 September)							
14:00	PL	Exports	Jul	€m	11246	11219	11888
14:00	PL	Imports	Jul	€m	12338	12254	12953
14:00	PL	Current account	Jul	€m	-1488	-1478	-1596
TUESDAY (13 September)							
14:00	PL	CPI	Aug	%YoY	4.1	4.2	4.1
14:30	US	Import prices	Aug	%MoM	-0.8	-	0.3
WEDNESDAY (14 September)							
11:00	EZ	Industrial output	Jul	%YoY	4.6	-	2.9
14:00	PL	M3 Money supply	Aug	%YoY	7.3	7.9	7.3
14:30	US	PPI	Aug	%MoM	-0.1	-	0.2
14:30	US	Retail sales excluding autos	Aug	%MoM	0.2	-	0.5
THURSDAY (15 September)							
11:00	EZ	HICP	Aug	%YoY	2.5	-	2.5
14:30	US	Core CPI	Aug	%MoM	0.2	-	0.2
14:30	US	NY Fed index	Sep	pts	-3.50	-	-7.72
14:30	US	Initial jobless claims	week	k	410	-	414
15:15	US	Capacity utilization	Aug	%	77.5	-	77.5
15:15	US	Industrial output	Aug	%MoM	0.1	-	0.9
15:15	US	Indeks Philly Fed	Sep	pts	-14.5	-	-30.7
FRIDAY (16 September)							
11:00	EZ	Trade balance	Jul	€bn	2.0	-	0.9
14:00	PL	Wages in corporate sector	Aug	%YoY	4.9	4.9	5.2
14:00	PL	Employment in corporate sector	Aug	%YoY	3.3	3.3	3.3
15:55	US	Preliminary Michigan	Sep	pts	56.0	-	55.7

Source: BZ WBK, Reuters, Parkiet

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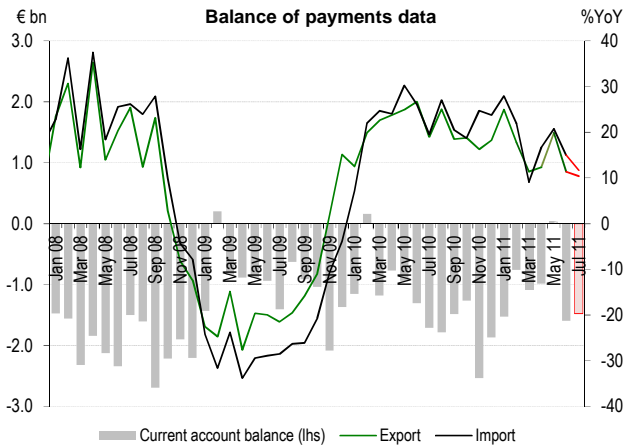
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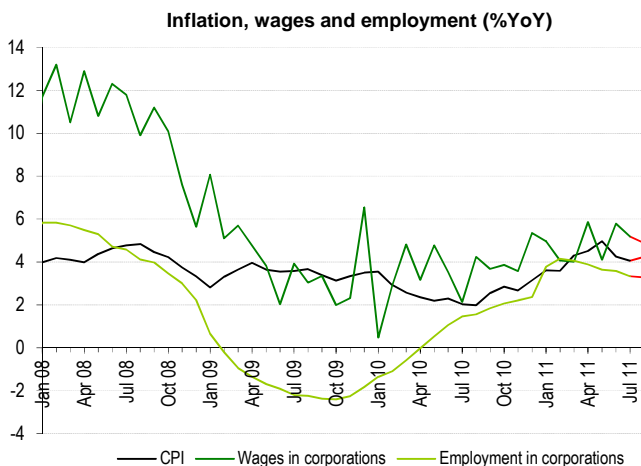
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What's hot this week – Domestic data unlikely to shake markets



- Data on balance of payments for July will probably show a slowdown in exports, which was previously signalled by a poor performance of industrial output and by falling export orders reported in the PMI report. The trade deficit and current account deficit should remain near the previous month's levels. Our forecasts are close to market consensus, and their realisation should have no major impact on trading.

- The release of the August inflation will be more interesting because of quite wide range of market forecasts (3.8%-4.2%), so regardless of the outcome, some analysts will be surprised. We expect a slight increase in the CPI, mainly due to increased transport costs (strong hike in the price of public transport) and energy. Food prices should record a slight decrease, similarly as in the previous year.

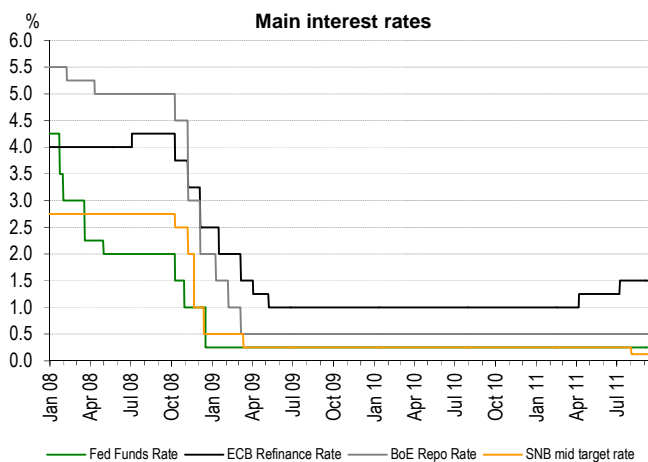


- Data from the domestic labour market, which are important when assessing the outlook of monetary policy, will be released at the end of the week and will probably remain in the shadow of important indicators and numerous releases abroad. Moreover, the expected by us stabilization of employment growth and only a slight weakening of wage growth will not be a strong indication of possible further MPC actions.

- In a situation of great uncertainty about the pace of deceleration in investment activity it is worth paying attention to data on money supply, usually ignored by the market, as it contains information on the dynamics of lending to companies.

- A large number of important releases in the euro zone and the USA in the second half of the week can have a significant impact on market expectations about the depth of global economic slowdown.

Last week in the economy – No hint on rate cuts despite worse economic outlook



- The MPC has kept its interest rates unchanged and has said in its statement that the Council "does not rule out further adjustments of monetary policy should the outlook of inflation returning to target deteriorate." However, comments of the NBP president indicate that the balance of inflation risks has changed due to deterioration of economic outlook in Poland and abroad. Elevated inflation and weaker zloty make the Council remain vigilant. Still, we do not change expectations, that the NBP rates remain unchanged in the coming months, and probably also in the whole of 2012.

- The ECB didn't signaled any willingness to cut rates, despite lower GDP growth forecasts. The inflation forecast was altered only slightly, and Jean-Claude Trichet reiterated that the policy is still accommodative, suggesting that interest rate cuts are not being contemplated.

Quote of the week – Too early to talk about rate cuts

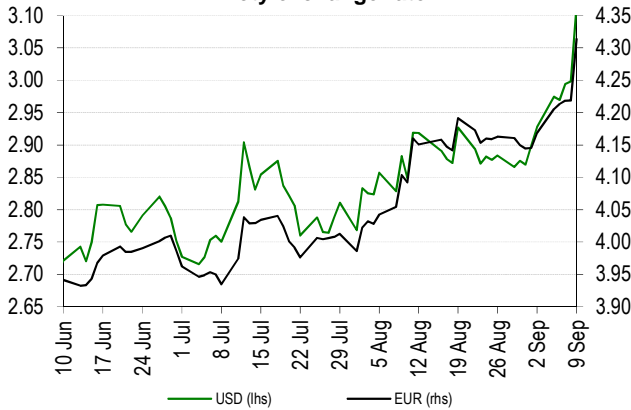
Marek Belka, NBP governor, 7 September, NBR conference

(...) There are severe arguments for a possible economic slowdown, hence changes in the balance of risks. If I compare our situation today with the situation from a few months ago, keeping the interest rates on hold is now more likely than a few months ago. (...) It is too early to talk about the possibilities of interest rate cuts. (...) This opinion is based on my own intuition. If the economic slowdown, which we predicted, not only comes but even deepens and causes a new factor, as the weakness of the markets, it will affect our exporters, therefore inflation will decrease faster.

Even though the Council in its communiqué did not rule out rate hikes, the comments of MPC members suggest that further tightening of monetary policy is highly unlikely and we do not think that the MPC is still considering it. Sooner or later this change will be reflected in the official statement. Probably a more aggressive decline in inflation is necessary to do it. Certainly, the November meeting will be interesting, because we will see a new projection of the GDP and CPI. Undoubtedly, the MPC policy will be affected by the moves of other central banks, and definitely the MPC's decision about possible policy easing in the spring of 2012 would be difficult if ECB doesn't signal it is ready to follow the same strategy.

Market monitor

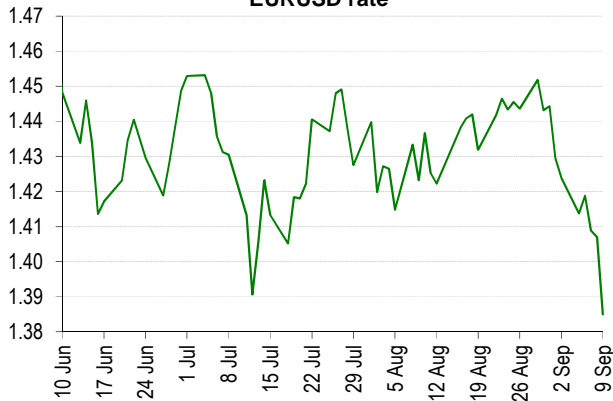
Zloty exchange rate



Global moods crucial for the zloty

Last week was extremely negative for the zloty. Risk aversion predominating since Monday has pushed EURPLN above 4.20, and despite fairly significant rebound on the stock markets, the domestic currency remained under pressure. SNB intervention, which managed to effectively anchor the EURCHF above 1.20, lead to zloty strengthening versus franc, but EURPLN responded only temporarily. On Thursday night it broke an important resistance rate 4.255, and on Friday sell-off has escalated to almost 4.34. After the information about the sale of foreign currencies by BGK, EURPLN returned to 4.30 at the end of the week. It seems that till the end of the month, zloty may gain slightly, but in the coming days the risk aversion may persist. Domestic data will not be an important support for the zloty; strengthening could possibly be triggered by US and euro zone data, if they reduce fear of recession. Resistance zone for EURPLN is at 4,32-4,36, support 4.20.

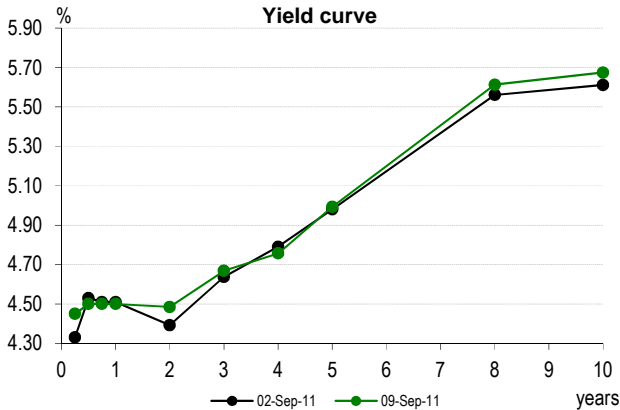
EURUSD rate



Euro was depreciating systematically versus the dollar during the week, and it was only temporarily supported by SNB intervention. The trend was triggered by the concerns about growth and crisis in the euro area and investors' disappointment after the ECB conference and the Fed chief's speech. EURUSD fell at the end of the week to about 1.37, its lowest level since February.

SNB intervention pushed EURCHF slightly above 1.20 and in the short term this effect should be maintained. However, there is concern whether the Swiss bank will be able to keep the franc weaker in the long run, without disappearance of external factors causing its appreciation, coming from huge uncertainty in the world. There are few alternatives to the franc as a safe haven currency in the times of crisis.

Yield curve



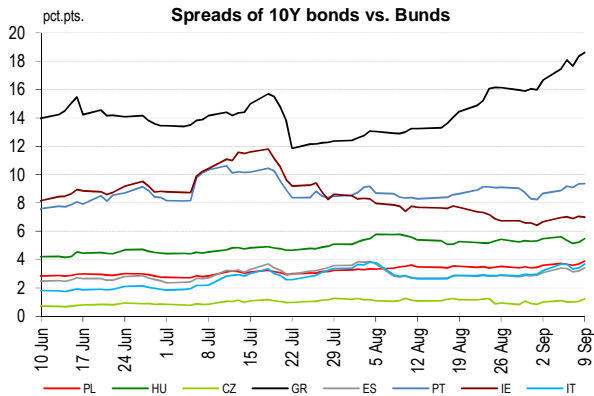
Inflation data important for domestic yield curve

Despite the growing risk aversion and the weakening national currency, the Polish bonds have strengthened significantly in the first part of the week, mainly at the long end of the curve, where yields have fallen to the lowest level for almost a year. At the end of the week there was a correction related to, among others, a switch auction, investors' disappointment about the fact that the MPC statement included no signal of neutral policy stance, and then by sell-off of assets in the region. Consequently, the yields rose slightly above the previous Friday's close. This week the domestic market will focus on inflation data. July's reading of 4.1% will be neutral, but the response to the deviation from the consensus may be asymmetric - larger strengthening is expected in the event of CPI below consensus, which will strengthen expectations of rate cuts, than correction if inflation is above 4.1%.

The core debt markets strengthened significantly, which reflected high demand for safe assets. Yields of 10Y Bunds and Treasuries reached the lowest levels in history (respectively 1.79% and 1.95%). In the coming days, the trends in these markets will depend on the tone of numerous important data from the US and the euro area, and any information on the debt crisis in Europe.

In the euro zone peripheries the spreads against Bunds widened, while CDS rates climbed after suspension of troika review in Greece before disbursement of another tranche of bailout. In the following days, quite positive fiscal information from Germany, Italy and Spain did not manage to reverse this correction, as they did not get rid of question marks regarding the further development of debt crisis in the euro zone.

Spreads of 10Y bonds vs. Bunds



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