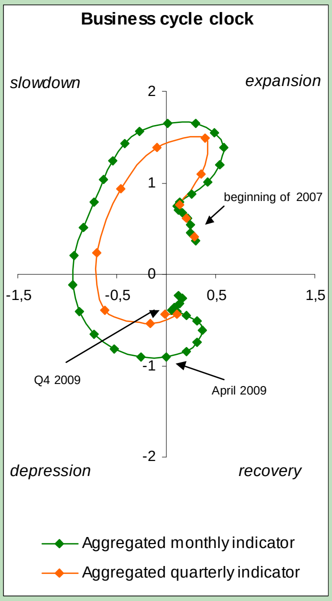
Bank Zachodni WBK

MACROscope

Polish Economy and Financial Markets

May 2010



Note: construction of business cycle clock, including concepts and methodology used for its creation was presented in November's MACROscope http://english.bzwbk.pl/_items/english/doc/m_eng_2009_11.pdf

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Recovery in crisis

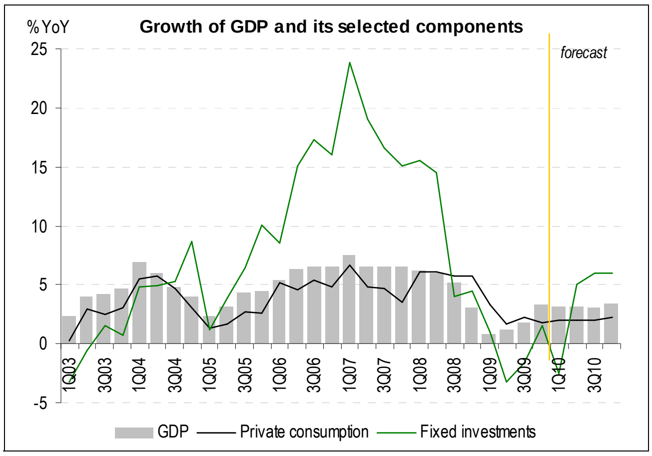
- **Revision of the quarterly economic growth path for 2009 and subsequent positive signals sent by the markets encouraged our team to revise the 2010 economic growth forecast upwards to 3.2%.** While previously we expected the Q1 GDP growth below 3%, following the publication of full March data we assess (in sync with information provided by the Central Statistical Office) that the slowdown was apparently insignificant when compared to the figure of 3.3% recorded for Q4'09. It was the consequence of a clear improvement of foreign trade turnover and a material rise in industrial production. Over the recent months, data on the construction and retail sectors were severely distorted by one-off factors. Nevertheless, it is evident that production in the construction sector started bottoming out in spring. On the other hand, the rapid growth in retail sales of above 8% will not be continued in the months to come, yet, there are no symptoms of a collapse in the consumer demand. All the more that the Polish labour market has seen the first signals of recovery. We envisage that the economic growth pace above 3% will be maintained in the upcoming months despite all the uncertainty around the Euro zone and some possible slowdown in the industrial production and exports in the next quarters.
- **Fiscal problems of some Euro-zone countries, Greece in particular, led to a significant EUR weakening against USD. A concurrent risk aversion, witnessed globally, contributed to the temporary disposal of Polish assets and thus to the PLN weakening and an improved profitability.** In our view, in the near future that factor should not have any major impact on the prospects for the Polish economy given the fact that the economic recovery is also evident in the Euro zone, though its pace is rather uneven. Paradoxically, the EUR depreciation supports the European economies fuelled by exports (Germany) which also benefits Poland. The PLN weakening witnessed at the beginning of May also does not trigger any serious implications given that just a few weeks ago many observers were concerned about its potentially excessive strength. The EU-IMF-ECB assistance package has (temporarily?) headed off the worse case scenario for the euro zone which means that it prevented the contagion spreading from Greece to other peripheral countries (Portugal, Spain) and freeze of their fiscal reforms. In the negative scenario, not only the Greece's debt would have to be restructured with the contagion hitting the European banks funding sovereign debts. As a consequence, the lending business would be tightened even more severely prompting another wave of economic slowdown in the euro zone and then also in Poland. In addition, under the systemic risk scenario a further depreciation of the PLN and bonds would put pressure on our public debt/GDP ratio. From the economic growth perspective that would seriously threaten a further recovery in 2011. Notwithstanding the above, a clear tightening of fiscal policies in the Euro zone which is the prerequisite for support offered to some countries still presents a serious risk for the growth of the Poland's GDP in the mid-term and reinforces our moderate optimism for 2011 (with the predicted GDP growth pace similar to that recorded in 2010).

Financial market on 30 April 2010:

NBP deposit rate	2.00	WIBOR 3M	3,86	USDPLN	2.9305
NBP reference rate	3.50	Yield on 2-year T-bonds	4.50	EURPLN	3.9020
NBP lombard rate	5.00	Yield on 5-year T-bonds	5.14	EURUSD	1.3315

This report is based on information available until 11.05.2010

Economic update

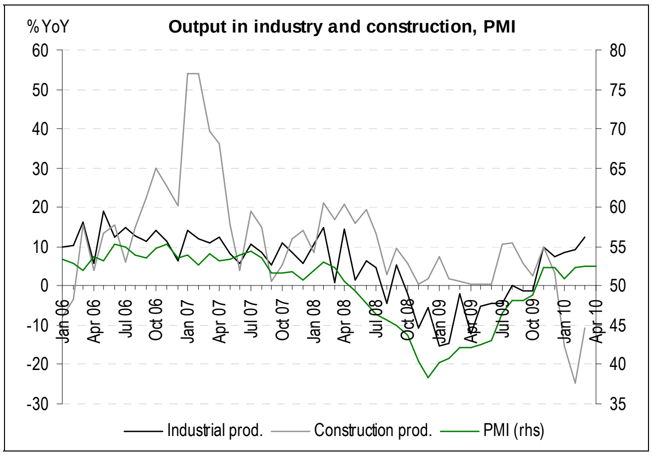


GDP growth in Q1 yet above 3%YoY

▪ Domestic macroeconomic data published since the previous report were mostly better than predicted. Among positive surprises there were data on industrial and construction output, retail sales and wages. There were also positive signals in recent survey data, indicating rising optimism of enterprises and consumers.

▪ New positive figures and revision of GDP data for 2009 made us to revise upward our forecast of GDP growth in 2010 to 3.2%. Already the starting point will be better as contrary to earlier expectations GDP growth in Q1 has not fallen below 3% and decelerated only slightly.

▪ A risk factor (mainly for 2011) is situation in the external environment of the Polish economy, including possible negative effects of deterioration in credit markets on the real economy.



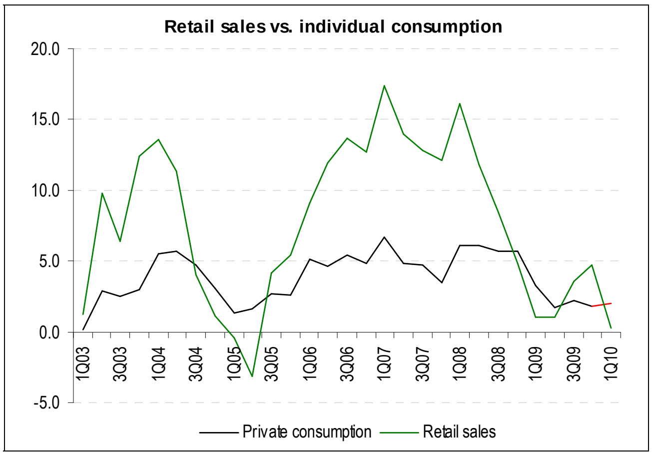
Industry gains strength, construction bottoming out

▪ Industrial production growth in March was higher than expected (12.3%YoY vs. expected 10.2%YoY rise), confirming continuation of the economic recovery, although a part of acceleration in growth as compared to 9.2%YoY in February was due to positive effect of higher number of working days.

▪ The main sector responsible for strong industrial output rise in March was manufacturing (13.6%YoY growth). The seasonally adjusted growth in industrial output was 9.6%YoY.

▪ Poland's PMI manufacturing in April was unchanged at 52.5pts, remaining at the highest level in over 2 years. Detailed data showed that April was another month in a row with rise in output and new orders (both domestic and foreign ones).

▪ Construction output growth rebounded to –10.8%YoY in March after –24.6%YoY in February caused by severe weather.

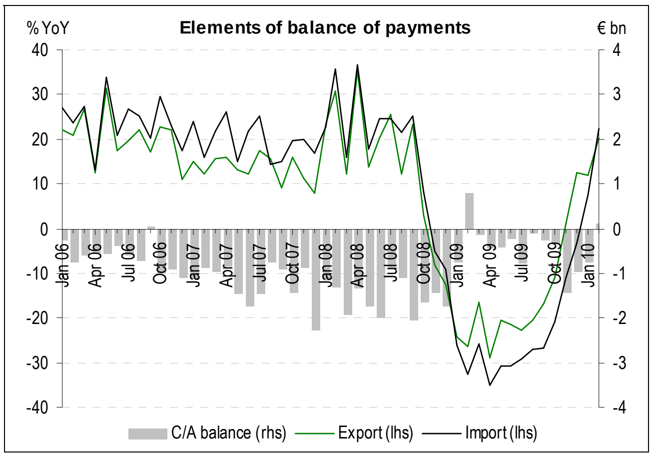


Rapid (one-off?) acceleration in retail sales growth

▪ Retail sales figures for March proved much stronger than expected, indicating acceleration in annual growth in nominal terms to 8.7% from a mere 0.1% in February. In real terms annual growth rate improved to 5.9% from –2.8%.

▪ The figure for March was to some extent under positive impact of transitory effects (weather improvement and pre-holiday shopping), but this was taken into account in forecasts, so the data improve estimate of consumption demand.

▪ In the next months, retail sales may weaken (low car sales), but this should not be significant given signs of improving labour market conditions. We do not change much forecast of private consumption growth in 2010. From this point of view, an optimistic thing is strong wage growth in the whole economy in Q1 (4.1%YoY) and high indexation of social security benefits.



Source: CSO, NBP own calculations

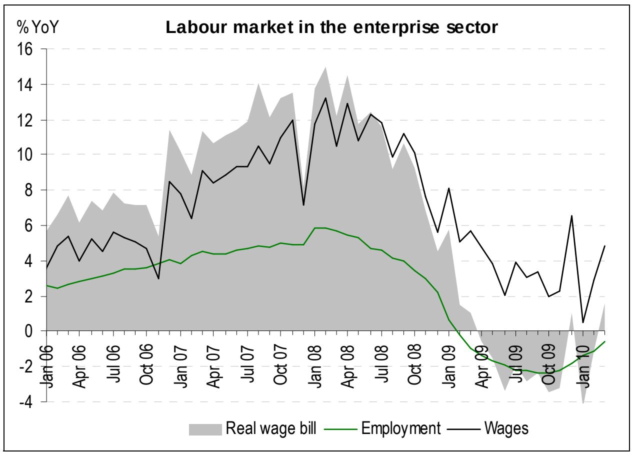
Clear rebound in foreign trade turnover

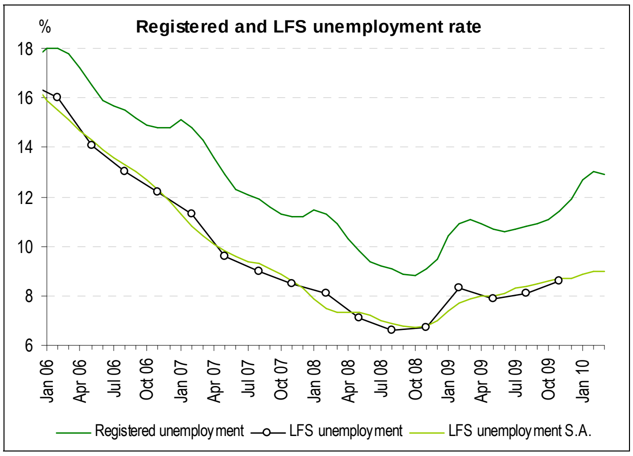
▪ Continuation of economic recovery is confirmed by clearly rising foreign trade turnover related to improving economic conditions abroad. Exports in euro terms rose 20%YoY in February

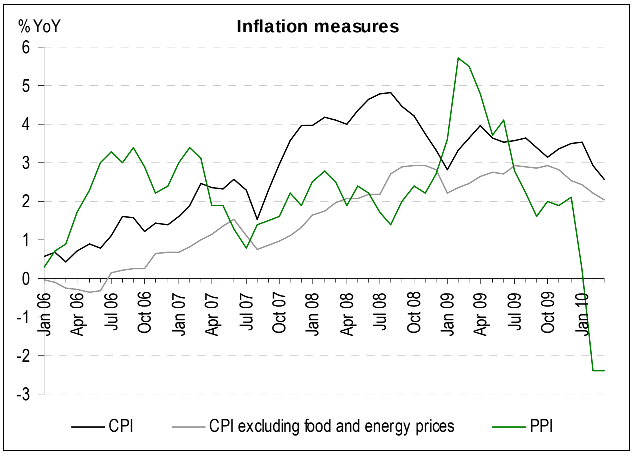
▪ Imports accelerated even stronger (to 22%YoY in euro terms in February), which leads to gradual widening of the trade and C/A deficits, and slightly negative contribution of net exports to GDP. Clear rise in imports results partly from import dependence of exports, but also is a positive indication as regards strength of domestic demand.

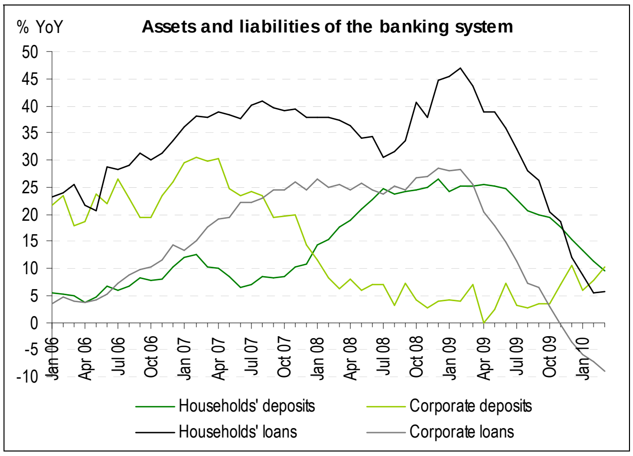
▪ In February there was C/A surplus of €106m, mainly due to large inflow of funds from the EU (surplus in the transfers account of €1.2bn). Once again there was also solid inflow of FDIs, which reached nearly €1bn.

Economic update









Source: CSO, NBP, own calculations

Positive signals from the labour market

▪ The average wage growth in the corporate sector in March clearly accelerated to 4.8%YoY with deceleration in employment drop to -0.6%YoY (a marginal employment rise on a monthly basis). It is too early to say whether this is a start of persistent trend, as the scale of the economic recovery seems to us still too limited so as to result in a clear wage pressure. Nevertheless, the continuation of these tendencies in the following months, amid fast decline of inflation would mean a clear improvement of households' purchasing power. What is important, detailed data from the labour market showed that stronger than expected acceleration of annual growth rate in average wage took place in vast majority of sections and was not connected with an improvement in a single sector, e.g. due to shift in timing of wage hikes or bonus payments.

▪ The registered unemployment rate fell to 12.9% at the end of March from 13.0% at the end of February. Last year in March the unemployment was rising and now it is falling, which points to a change in the tendencies in the labour market. In the next months seasonal factors and improving trend will contribute to further decline of unemployment. The Ministry of Labour expects that in April the registered unemployment rate fell to 12.3%. We forecast that at the year-end the registered unemployment rate may fall below 12%.

▪ The improvement of the labour market conditions is reflected in a significant increase in job offers in March (by 25.2%YoY to almost 118k, i.e. the most since April 2008). Although one should note that declared layoffs in the near time also increased (to 41k from 33.7k a month earlier and 27.2k a year before), in our opinion this reflects mainly the delayed restructuring in the public sector rather than mainstream trend in the labour market.

Inflation does not surprise – clear deceleration

▪ CPI inflation in March dropped to 2.6%YoY from 2.9%YoY in February, in line with our forecast. There were a few surprises in the structure of price growth, but the NBP data showed drop in core inflation measures. CPI less food and energy prices fell to 2.0%YoY from 2.2%YoY in February, matching our forecast.

▪ There was also drop in the remaining three core inflation measures calculated by the central bank. All in all, consumer inflation indicators for March has not changed the inflation prospects for the remainder of this year and for the medium-term. We expect CPI inflation to fall below 2% in summer and then to rise moderately to ca. 2.5% at year-end.

▪ The FinMin's estimate for CPI inflation in April showed a rise to 2.3%YoY, which is consistent with our forecast and slightly above the market consensus of 2.2%YoY.

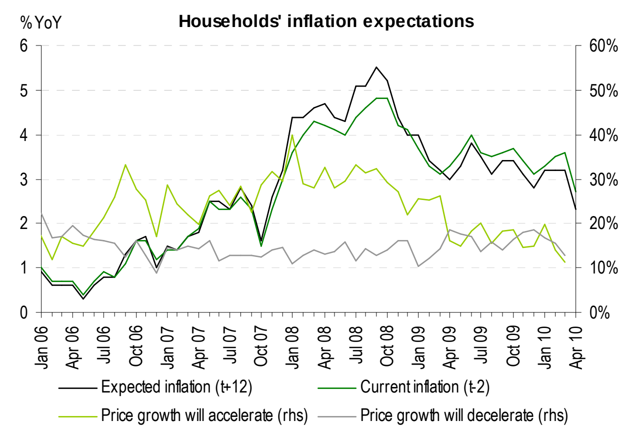
Disappointing development of lending activity

▪ March brought another monthly rise (of 0.5%) in total deposits excluding FX effect. A 0.1% drop in households deposits was more than offset by a rise in corporate deposits by 2.9%.

▪ Total loans excluding FX effect rose by 0.4% in March. There was an improvement in households loans – excluding FX effect annual rise accelerated to 12.4% from 11.4% in February after a monthly rise of 1.6% (rise in all categories). On the other hand, corporate loans strongly disappointed showing a drop of 1.2% after elimination of the FX effect (drop in all categories), although in January and February monthly rises of 0.4% were seen heralding some revival of lending for firms. All in all, data on loans for Q1 were some disappointment, which made us to revise down our forecasts for the whole year.

Central bank watch

Selected fragments of the MPC statement in February
Further signs of recovery are appearing in the world economy, even though the scale of improvement in economic activity varies across regions. In developed economies the recovery is proceeding at a relatively slow pace and – as expected in a post-recession period – is mainly observed in manufacturing. (...) At the same time, fast economic growth is recorded in the largest emerging economies. The ensuing risk of increasing economic imbalances leads to a gradual macroeconomic policy tightening in those countries.
The signs of recovery are conducive to the growth of commodity prices, including oil prices. High annual growth of energy prices, which also results from a low reference base, is raising the annual inflation rate in developed countries, though core inflation indices remain at low levels in those countries. The negative consequences – mainly those related to public debt accumulation – of strongly expansionary macroeconomic policies, which have so far supported the global economic recovery, are becoming more and more evident. The fiscal crisis in Greece is increasing the uncertainty in international financial markets.
The data on the Polish economy in 2010 Q1 indicate a continuing economic recovery in some sectors, including primarily a significant rise in activity in industry. At the same time, 2010 Q1 brought a strong fall in the construction and assembly output. After a two-month decline mainly related to – similarly as in the case of the construction output – unfavourable weather conditions, in March the growth of retail sales increased. Consumer confidence indicators are still improving together with enterprises' expectations with regard to economic conditions – among others, expectations about demand, including foreign demand for Polish goods. After a decline in investment in 2009 Q4, currently most enterprises do not envisage an increase in their investment activity, though at the same time they do not reduce their previous investment plans, which is a favourable development in comparison to previous quarters. A slight employment rise in the enterprise sector, stabilisation of the unemployment rate (adjusted for seasonal factors), an increase in the number of new vacancies and accelerated wage growth in March 2010 as well as enterprises' expectations concerning their employment level and pay rises may all signal a gradual deceleration of the unfavourable labour market tendencies.
In the Council's assessment the probabilities of inflation running below or above the inflation target in the medium term are balanced. An important factor affecting monetary policy is the situation of the public finance sector. Introducing measures aimed at permanently reducing the deficit of the general government sector and at curbing the increase of the public debt will support macroeconomic stability and allow to meet the criteria for euro adoption.



Comments of Sejm Speaker on NBP Governor appointment:
PAP, 5 May *„ Next week I intend next to start a series of meetings with both candidates for NBP Governor, as well as political forces, however after amending the NBP Law there will be no such a hurry with this issue."*
PAP, 4 May *„There are things that absolutely need to make quick decisions. These are the bills, (...) these are matters of stabilising the IPN, or NBP. (...) I begin a series of talks to consider whether it is possible to safely carry out a good candidate through the Parliament during the election period."*
PM Donald Tusk about euro zone entry:
Reuters, 6 May *„Today, building an agenda of euro zone entry is not a top priority for me."*

Source: NBP, PAP, Reuters

Interest rate hikes rather later than sooner ...

▪ As expected, at its meeting in April the MPC did not change the main interest rates (the reference rate remains at 3.5%) nor the informal bias in monetary policy. In the post-meeting statement there weren't too many significant changes as well. The Council recognised further signals of the recovery in the global economy, noticing that it occurs unevenly in different regions, and pointed out that the negative effects of expansionary macroeconomic policies are seen increasingly strongly. Assessment of the situation in the Polish economy did not change much. According to the MPC, rebound in construction output as well as in retail sales observed in March was mainly due to unfavourable weather conditions in the two previous months.

▪ We do not change the prediction for the monetary policy outlook. We expect that the first interest rate rise is likely to occur in the fourth quarter at the earliest and the total scale of rate hikes until the end of 2011 will be around 100 bp. Recent developments in global financial markets and risks related to the Greek fiscal problems are implying, in our opinion, that the risks to the scenario of interest rate increases are moving towards later than sooner decisions.

▪ One should not expect that the recent sharp movements in the currency market will have a significant influence on the NBP's activities regarding interest rates and FX intervention. The growth in EURPLN rate slightly above 4.0 may give the stimulus to Polish export sector (according to recent NBP survey, the threshold of exporters' profitability was at 3.66 in 1Q10). The unfavourable situation would be observed only if further, uncontrolled depreciation of the zloty takes place, leading among others to a significant increase in public debt to GDP ratio.

... which is supported by low inflationary expectations

▪ According to the NBP's data, inflation expectations of households fell in April to 2.3% (from 3.2% in March) – the lowest level since October 2007.

▪ The structure of answers to survey questions was also satisfactory. Fewer and fewer respondents (11.3%) believe that prices will rise faster than currently. On the other hand, the same phenomenon is seen in the responses to the question whether the price will grow at a slower rate (12.8%).

▪ In turn, in the last months the fastest growing group of people are those expecting that prices will rise at similar pace as at present (63.2% - the highest level in the long history of research). This may indicate the stabilisation of expectations, which together with falling current inflation indicator will translate into a further decline in the expected inflation rate.

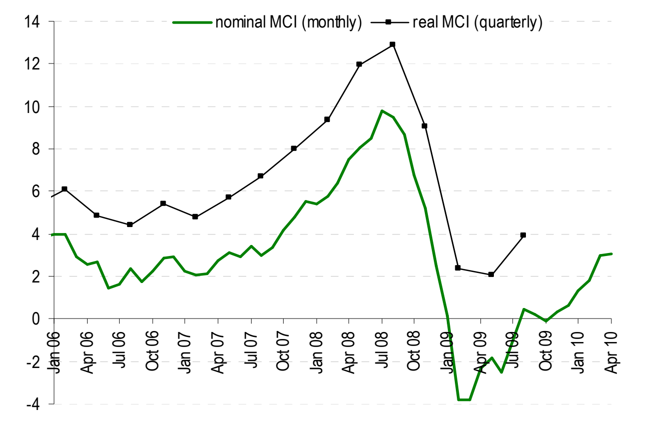
When the new NBP Governor?

▪ It is still hard to say when a new Governor of the Central Bank will be appointed, because statements of the incumbent head of state Bronisław Komorowski are quite variable. At the moment, it seems that it comes to consultation, both with possible candidates and political parties to assess the chance of selecting the NBP governor before the presidential election.

▪ The Sejm Speaker said that the new NBP Governor will introduce Poland to the euro zone. Well, this is not so certain, given the recent comments of the Prime Minister.

▪ Sooner or later, election of a new NBP head will probably change a balance of power in the MPC. Governor Skrzypek used to be one of the most dovish members, and the new chairman is likely to be a "hawk".

Restrictiveness of the Monetary Policy (Council)



Drop in WIBOR limited MCI rise in April

- In April nominal MCI rose again, but only marginally. The weakening of the rise in monetary policy restrictiveness was due to considerable drop in WIBOR rates, which nearly entirely offset the tightening of monetary conditions related to the zloty appreciation.
- Real MCI on a quarterly basis confirmed a rise in monetary policy restrictiveness in Q3 2009, indicated earlier by nominal MCI available with shorter lag.
- Taking into account the rapid deprecation of the zloty in early May and our FX forecasts for the remainder of the month, one may expect that even without further drop in WIBOR rates we will see lowering of nominal MCI.

Filar 1.63 (1.61)

Winiecki

Wasilewska-Trenkner 1.59 (1.48)

Rzońca

Noga 1.53 (1.52)

Zielińska-Głębocka

Wojtyna 1.50 (0.91)

Bratkowski

Sławiński 1.25 (0.91)

Hausner

Chojna-Duch

Czekaj 1.00 (0.86)

Gilowska

Owsiak 0.88 (0.91)

Wiesiołek

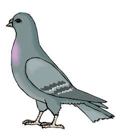
Glapiński

Nieckarz 0.88 (0.83)

$\boxed{\text{Skrzypek}}$ 0.81 (b.d.)

Kaźmierczak

Pietrewicz 0.80 (0.74)



Index is between 0 and 2. A vote for the majority view is given a score of 1. A vote for a more hawkish (less dovish) decision than the majority view has a score of 2 and a vote for a less hawkish (more dovish) decision than the majority view has a score of 0. Average of points for all votes is the value of the index for a given MPC member.

Numbers directly by the name are values of the index for period since the beginning of Sławomir Skrzypek's term as NBP governor and numbers in parentheses are values of the index for 2004-2006.

Direction of the restrictiveness axis reflects our expectations regarding direction of interest rate changes in the nearest months.

Few surprises in views on inflation and interest rates

In the recent comments of Monetary Policy Council members there are still more references to the calculation of provisions for foreign exchange risk, flexible credit line from the IMF or potential FX intervention and the situation in the zloty market. In general, it is not surprising that the interest rate policy receded into the background. It is difficult to disagree with the statement of Zyta Gilowska, who said that there is currently no space either to increase or to reduce interest rates, adding that in Poland a period of loose fiscal and monetary policies is coming to an end. Interestingly, speaking of possibility of one or two rate hikes in the fourth quarter, Adam Glapiński said that he would opt for one 50 bp rate hike. We still think that rate hikes by 25 bp are more likely and more appropriate.

Conflict on the provision for foreign exchange risk resolved

The MPC accepted the NBP financial report for 2009, with PLN4.2bn profit. The result of vote on this issue was said to be determined by Elżbieta Chojna-Duch, who together with the acting Governor and three members of the Council nominated by the President supported the version of the NBP Management Board. She explained that such decision was aimed at avoiding a deadlock, which could badly affect the reputation of the bank. The question arises whether the vote on the NBP report is an indication that Chojna-Duch may be a "swing-voter" also in other areas, such as decisions on interest rates. At the moment it is difficult to resolve this issue, especially that in a vote on a credit line from the IMF Chojna-Duch supported the "parliamentary" members of the MPC. However, one should take into account that her opinions may weigh on the MPC decisions on important issues.

Situation almost cleared also in the case of the FCL

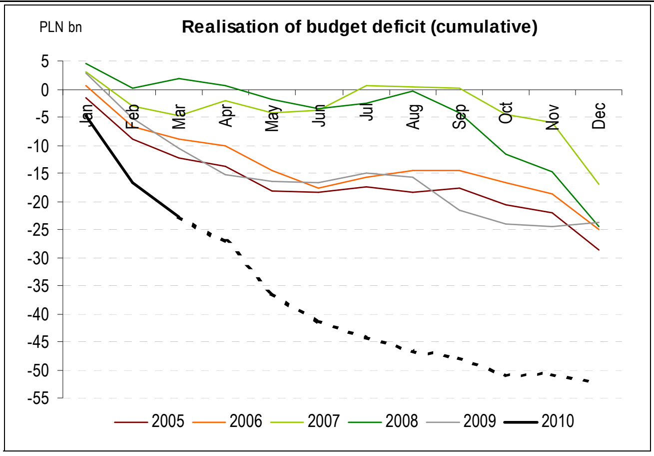
NBP Management Board still claims that a flexible credit line from the IMF is not required. According to the Ministry of Finance last turbulence in foreign markets justify an extension of access to the FCL, as Poland is still threatened by instability in the world. In our opinion, while the market situation indeed confirms that the short-term fluctuations in the global market are translated into the Polish market, the high level of NBP foreign exchange reserves suggests that the FCL does not seem necessary. NBP Deputy President Witold Koziński said that if the ministry will ask for support in obtaining it, we'll get it. Perhaps this is the most appropriate solution to the conflict.

Will there be FX intervention in the opposite direction?

We do not expect the central bank to intervene in the currency market to defend the zloty by using foreign exchange reserves (or even more the FCL credit line). Until very recently, many analysts were concerned about the rapid appreciation of the zloty, so the latest correction (even though quite significant) fundamentally should not be reason for concern. It seems that even in the scenario assuming further outflow of capital from Poland and further weakening of the zloty, more appropriate would be a strategy to sell foreign currencies (from the EU funds) on the market by the Ministry of Finance rather than interventions by the central bank. As regards NBP's activity, we think the policy of occasional interventions in order to smooth movements of the zloty is appropriate. We will present more on this subject in the next edition of MACROscope in June.

Source: CSO, Eurostat, NBP, own calculations

Government and politics

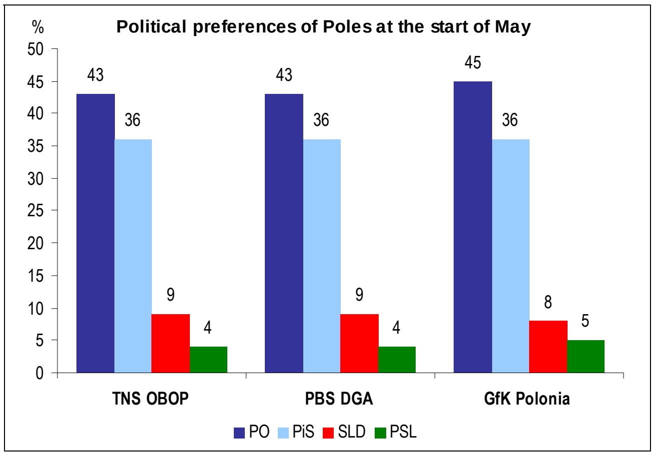


Budget realisation better than planned

▪ Budget deficit amounted to PLN22.7bn in March and was PLN2.7bn less than scheduled, thanks to slightly lower than planned expenditure and higher revenue. There was a significant increase in revenue from indirect taxes, confirming the increasing activity in the economy.

▪ According to FinMin, after April deficit was lower by PLN2-3bn than the level in the schedule (PLN25.5bn), which means the equivalent of ca. 44-45% of the annual plan for the whole year. A better outcome is the result of lower than planned expenditure.

▪ Rise in Treasury yields due to the crisis in peripheral euro zone countries should not have detrimental effect on the budget. It was temporary and on a smaller scale than the decline in yields in Q1, in which the FinMin financed almost a half of this year's gross borrowing needs for this year.

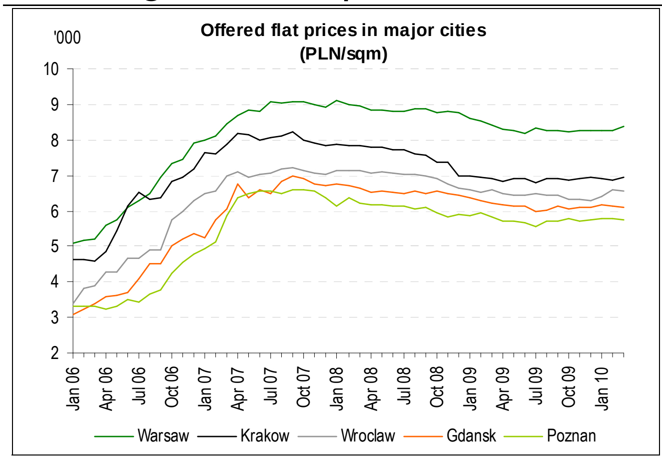


PO loses support, PiS gains

▪ Last weeks saw a strong decrease of the advantage that the ruling party PO had over PiS, as regards public support in parliamentary elections. After the tragedy in Smolensk in which many politicians were killed, including Poland's President, the difference between PO and PiS has shrunk from more than 20 percentage points to ca. 7 points. Other parties are still far behind, and among them only the SLD is above the threshold of 5% enabling entrance to the Parliament.

▪ In the polls concerning the presidential elections, the PO candidate Bronisław Komorowski can still count on the biggest share of Poles' votes (depending on the survey, ca. 45-50%), but his advantage over PiS leader Jarosław Kaczyński is also melting. Surveys suggest Komorowski will win with Kaczyński in the second round of presidential election.

Housing market update

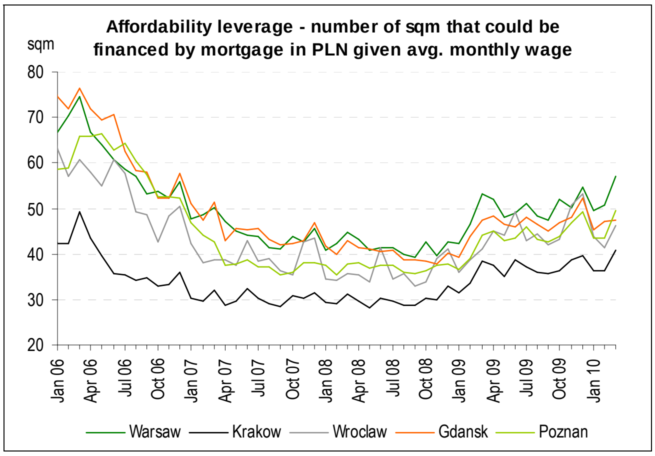


Prices stable, houses' affordability rising

▪ Stabilisation of house prices in Poland continues. In most big cities the average prices are still more or less at the same level as at the beginning of 2009.

▪ At the same time, the purchasing power of households in the housing market returned to the upward trend after a two-month break. This is a result of acceleration in wage growth in March and slight easing in credit conditions by banks. A strong decline in WIBOR interest rates in April and the anticipated gradual improvement in labour market conditions suggest that this trend will continue in the coming months.

▪ In the house rental market in big cities, demand remains stagnant, while the supply of flats is increasing, which is supporting a gradual decrease in rents.



Source: Ministry of Finance, CSO, NBP, szybko.pl, own calculations

Slightly tighter lending policy of banks

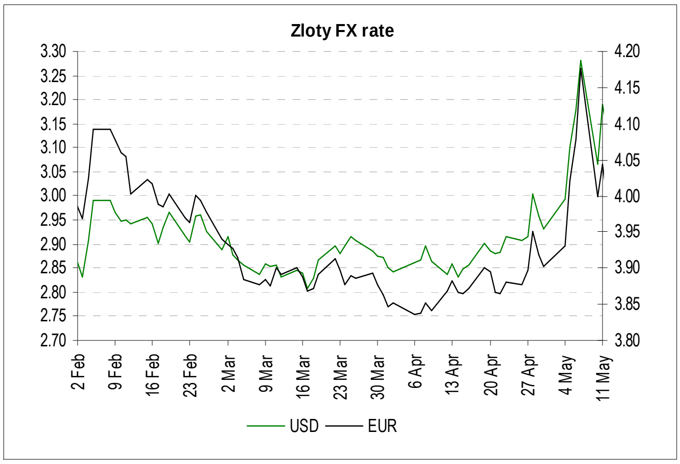
▪ According to the NBP report on the situation in the credit market, banks slightly tightened on average the criteria for granting housing loans in the first quarter of this year, although the responses of banks were very different – ca. 30% of banks have eased their policies.

▪ A lot of banks decided to lower credit margins and the required own contribution, however, there was sharpening of other criteria (such as credit rating).

▪ More than 20% of banks recorded the increase in demand in the first quarter. Banks expect a further increase in demand.

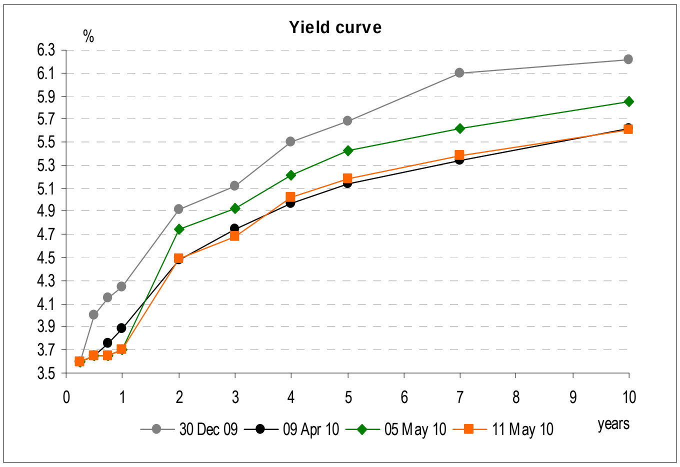
▪ The survey showed that in Q2 most banks do not intend to change the credit policy. Strong decline in money market rates that took place in April, however, will result in lowering costs of zloty-denominated loans in the coming months.

Market monitor



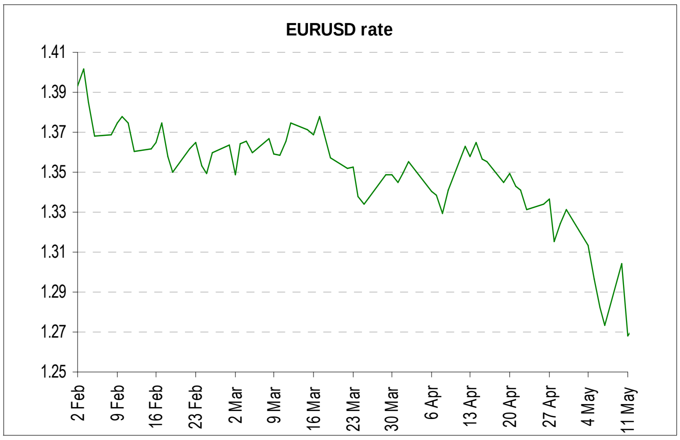
Problems in the euro zone contribute to weaker zloty ...

- After a wave of zloty strengthening in February and March at the start of April the NBP intervened in the market, which led to zloty correction. This was supported by technical situation (low RSI, MACD divergence), and EURPLN stabilised in range of 3.85-3.92. The intensification of concerns over the situation in Greece resulted in sharp sell-off of the risky assets and the EURPLN rate rocketed to ca. 4.25. The recovery after the announcement of the EU stabilisation package was very strong, and the zloty fell below 4.0.
- Lowering of systemic risk for the euro zone should calm down the markets and limit volatility. Weak euro should support German economy and thus also Polish exports, which should limit negative pressure on the zloty. Important support levels for the EURPLN are at 3.94 and 3.85. We do not significantly change our forecasts for the remainder of 2010.



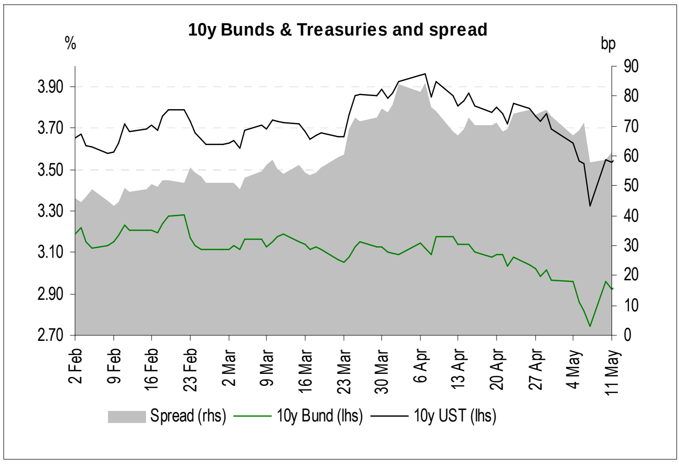
... and temporary jump in market rates

- The recovery of bond prices and drop in IRS rates until mid-April went along with the zloty strengthening. In April the improvement of the liquidity situation in the money markets and decline of WIBOR rates contributed to lower rates. Moreover, the market interpreted the NBP FX intervention, which weakened the zloty, as the central bank was not concerned about inflation, which additionally decreased the interest rates. At the end of August a correction in rates began accompanied by gradual zloty weakening, and it accelerated amid increase of concerns over fiscal situation of peripheral euro zone countries.
- Debt sell-off in reaction to the fiscal problems in the euro zone was a good occasion for bond purchases. The rates declines should be supported by gradual zloty recovery amid falling current inflation, similar as delaying interest rate hikes by ECB.



EURUSD drops on higher risk of south euro zone countries

- Increasing concerns over fiscal situation, risk of rising indebtness and financing costs in the south euro zone countries (especially Greece) led to clear euro weakening. Series of negative events amid Greece rating cut to junk triggered the EURUSD slide to 1.255. Though the EU and IMF stabilisation package was introduced under market pressure, it was still surprisingly large (€720bn) and decreased the nervousness in the markets leading to temporary rebound of EURUD to above 1.30.
- Problems of some euro zone countries and introduction of the fiscal cuts plans will negatively affect the economic recovery in the euro zone and may cause later rate hikes by the ECB. Amid sooner rate hikes and economic recovery in the US this should lead to further pressure on the euro.

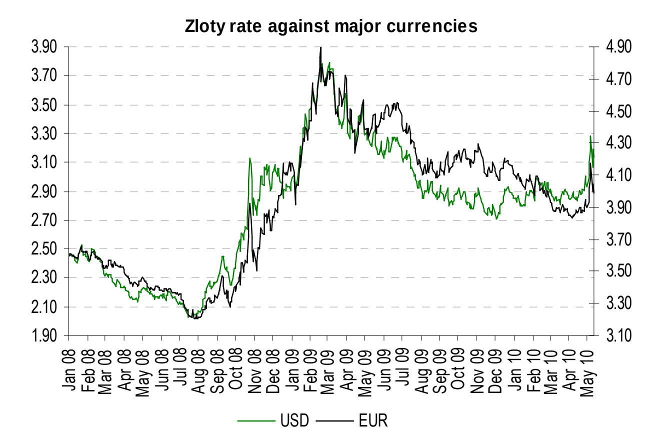


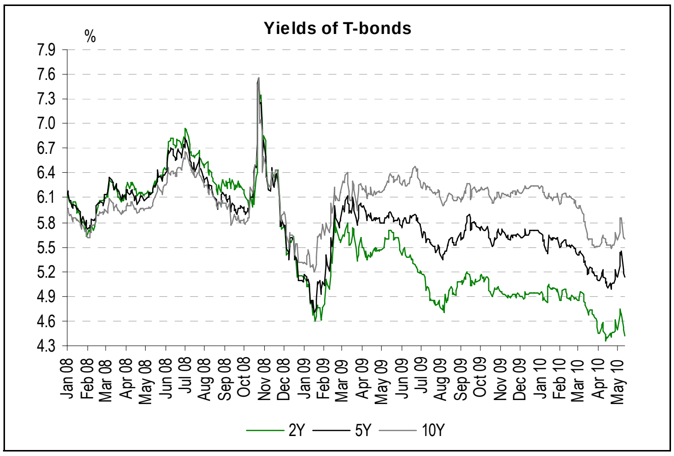
Core debt stronger on safe haven flows

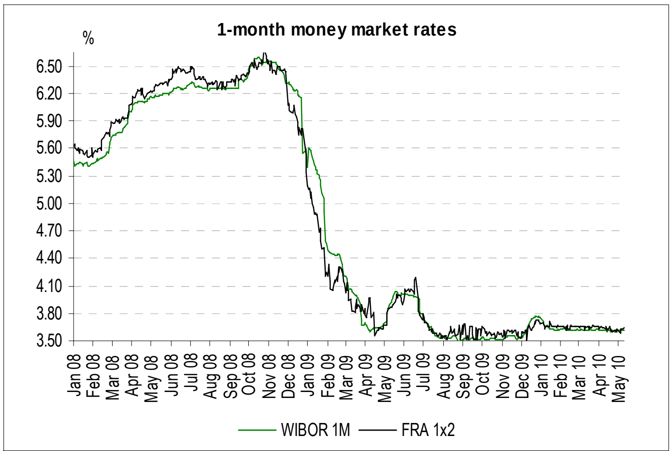
- Mounting concerns over the problems with servicing the indebtness in the PIIGS countries as well as existence of the euro zone led to increase in demand for safe haven assets and significant strengthening in the core debt markets. Yields of 10Y Bunds and Treasuries fell during the past month to 2.74% and 3.32% from 3.17% and 3.92% in mid-April. Calming down global moods after accepting EU package and start of bond purchases of euro zone countries with fiscal problems by the ECB led to rebound in Bunds and Treasuries yields to 2.90% and 3.48%.
- Spread between yields of the euro zone countries and Bunds should continue declining, though it will probably not come down back to levels recorded before the intensification of concerns over the PIIGS fiscal position. This may also result in increase in spread between Bunds and US Treasuries.

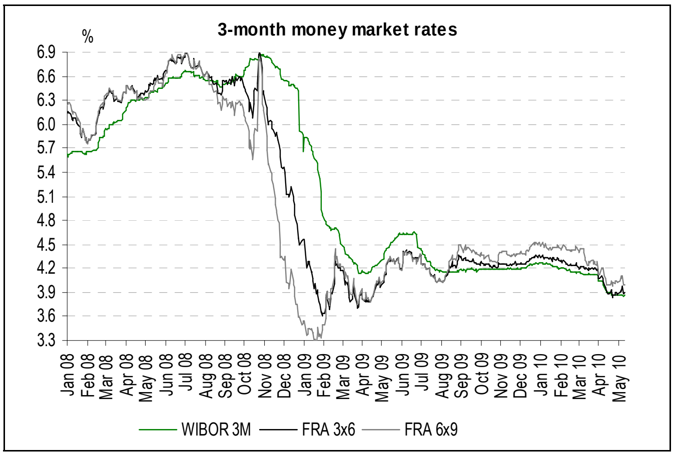
Source: Reuters, BZ WBK

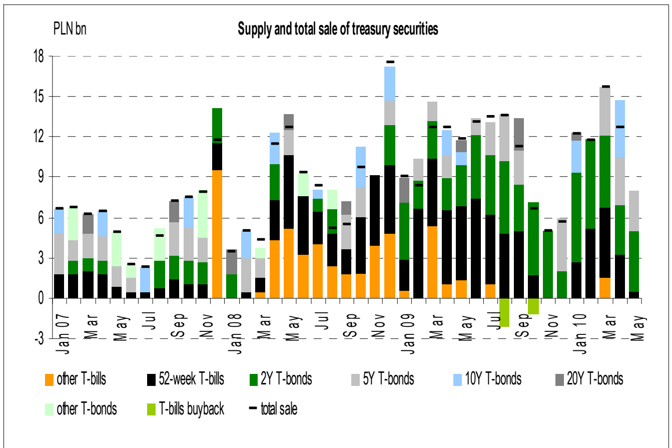
Market monitor











Treasury bills auctions (PLN m)

Auction date	OFFER	DEMAND/SALE
1.03.2010	52-week.: 700-1000	2933/1000
8.03.2010	52-week: 700-1000	1949/1000
15.03.2010	52-week: 700-1000	2610/1023
22.03.2010	52-week:700-1200; 39-week:1000-1500	2653/1150; 2862/1498
29.03.2010	52-week.: 700-1000	2637/1000
1.04.2010	52-week: 700-1000	4409/760
12.04.2010	52-week: 700-1000	4429/855
19.04.2010	52-week: 700-800	3941/750
26.04.2010	52-week: 400-500	2183/500
30.04.2010	cancelled	cancelled
10.05.2010	52-week: 400-500	2632/500
17.05.2010	-	-
24.05.2010	-	-

** based on data of the Ministry of Finance*

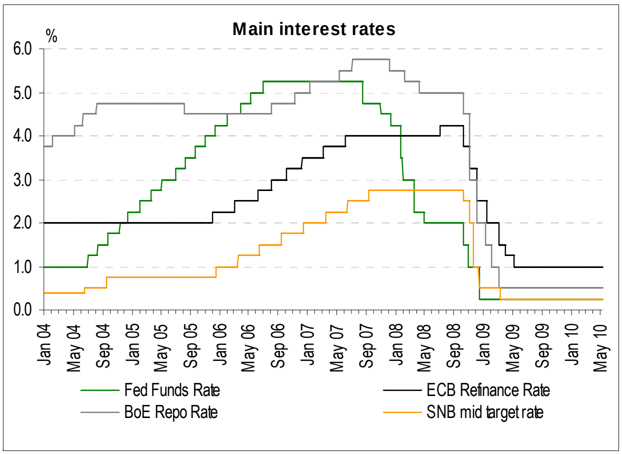
Treasury bond auctions in 2009/2010 (PLNm)

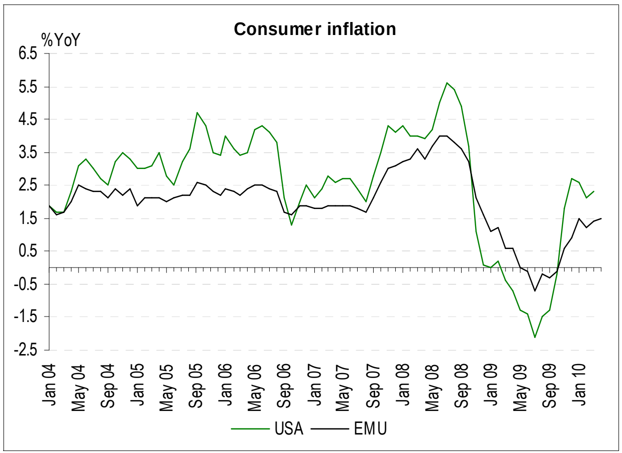
month	First auction				Second auction				Switch auction		
	date	T-bonds	offer	sale	date	T-bonds	Offer	sale	date	T-bonds	sale
July	1.07	OK0112	3000-4500	4006	15.07*	PS0414	1000-2000	-	8.07	PS0414/ DS1019	0/1982
August	5.08*	OK0112	3900-5400	5402	12.08	PS0414	2000-3500	3500	-	-	-
September	2.09	OK0112	2500-3500	3500	9.09	PS0414	1000-2500	1109	23.09*	WS0922	1000-2400/2400
October	7.10*	OK0112	3000-5400	5400	-	-	-	-	29.10	PS0413/PS0414/DS1019	1573/1753/1290
November	10.11	OK0712	3500-5000	5000	-	-	-	-	26.11	OK0712/P0414	1121/2243
December	2.12	OK0712/PS0415	3000-6000	5651	-	-	-	-	16.12	-	-
January	13.01*	OK0712	6600	6600	20.01*	DS1019/WS0429	2400/600	2409/591	6.01	PS0415/WZ0118	2494/2383
February	10.02*	OK/PS	6600	6600	17.02	DS/WS/WZ/IZ	-	-	3.02	-	-
March	10.03	OK0712	3500-5400	5448	17.03	WZ0121	2000-3600	3600	3.03	PS0415/DS1019/WS0429	1784/2662/315
April	7.04	OK1012	2500-3600	3219	14.04	DS1020	2000-4200	3600	21.04**	PS0415	3600/3000***
May	5.05	OK1012	2500-4500	3700	12.05	PS0415	1500-3000	-	27.05	-	-
June	2.06	OK1012	-	-	16.06	DS/WS/WZ/IZ	-	-	23.06	-	-

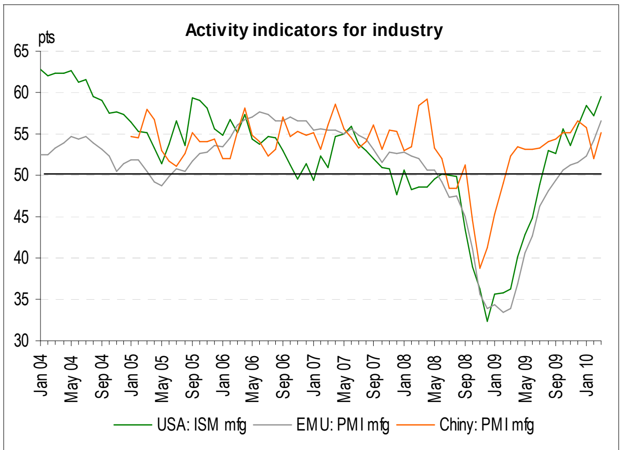
* with supplementary auction, ** primary auction, *** demand/sale

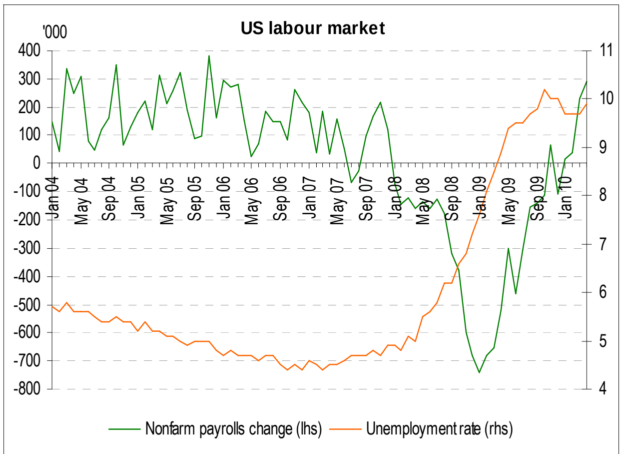
Source: Ministry of Finance, Reuters, BZ WBK

International review









Source: Reuters, ECB, Federal Reserve

Sterilised purchases of sovereign debt by the ECB

▪ At April meeting Fed left interest rates unchanged at minimum level at 0-0.25%. At the same time the bank underlined that rates will remain low for extended period and it also recorded improvement of situation in the economy amid limited inflation pressure.

▪ In a situation of big turmoil in the financial markets connected with concerns over the fiscal situation of euro zone countries the result of ECB meeting disappointed investors, as large part of them expected active steps of the ECB. Trichet said that the ECB Council members did not discuss the purchases of bonds. The ECB president said that the level of the interest rates in the euro zone were appropriate. Trichet assessed that the European economy will develop at a moderate pace in 2010 "in an environment full of uncertainty". In ECB's opinion inflation should remain subdued in the next period.

▪ After accepting the stabilisation package by the EU and IMF (worth €750bn) aiming at calming down investors' concerns about problems of Greece the ECB announced that it will purchase sovereign and private debt. Fed announced that it renewed the swap lines with other central banks in order to decrease the pressure in the European markets and increase dollar supply.

▪ US CPI rose in March by 0.1%MoM (2.3%YoY), in line with expectations, while core inflation remained unchanged (against a forecasted 0.1%MoM). US PPI rose in March by 0.7%MoM, while PPI excluding food and energy prices rose by 0.1%, against expected increase of 0.5% and 0.1%MoM respectively. Annual PPI inflation rose to 6.0%, and after excluding food and energy prices to 0.9%, in both cases in line with expectations.

▪ According to final Eurostat data March HICP inflation in the euro zone was at 1.4%YoY. According to preliminary estimate HICP rose by 1.5% in April.

High activity indices, improvement in the US labour market

▪ Official Chinese PMI rose in April to 55.7 pts from 55.1 pts in March. Meanwhile, the HSBC PMI index fell to 55.4 pts (the lowest level in 6 months) from 57 pts (which intensified concerns over deterioration of business climate in this country).

▪ Manufacturing PMI for the euro zone rose to 57.5 in April from 56.6 in March as was close to expectations. PMI index for services sector in the euro zone rose in April to 55.l6 from 54.1 in March. Data on industrial output in the euro zone showed increase in February by 0.9%MoM, above expected 0.1%. Retail sales in the euro zone fell in March by 0.2%YoY vs. expected -0.5%.

▪ US manufacturing ISM index rose in April to the highest level in almost 6 years 60.4 pts (vs. 60 pts expected). Services Ism remained in April unchanged and was at 55.4 vs. expected 56.

▪ Q1 US GDP data were close to expectations and showed GDP growth by 3.2%QoQ annualised amid acceleration of consumer spending (the strongest increase in more than 3 years), which bodes well for the economic recovery amid expected improvement in employment.

▪ Non-farm payrolls rose in March by 290k from 230k after correction in March above market expectations (190k). Data for the previous 2 months were upwardly revised by total of 120k. It is also worth to point that as much as 231k jobs were created in the private sector and only 59k in the public sector, which was influenced by hiring for national census. There was a negative surprise in increase of unemployment rate to 9.9% from 9.7% amid expected stabilisation at the previous months level of 9.7%, though the increase in the labour force is a positive phenomenon pointing to increasing number of people looking for jobs.

Economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
17 May ***PL: Auction of Treasury Bills*** ***PL: Balance of payments (Mar)*** US: NY Fed index (May) US: Capital flows (Feb)	**18** DE: ZEW index (May) EZ: Final HICP (Apr) US: PPI (Apr) US: House starts (Apr) US: Building permits (Apr)	**19** ***PL: BGK bond auction*** ***PL: Wages and employment (Apr)*** US: CPI (Apr) US: FOMC minutes	**20** ***PL: Industrial output (Apr)*** ***PL: PPI (Apr)*** ***PL: MPC minutes (Apr)*** US: Leading indicators (Mar) US: Philly Fed index (May)	**21** ***PL: Business climate indicators (Apr)*** ***PL: Core inflation (May)*** EZ: Flash manufacturing PMI (May) EZ: Flash services PMI (May) DE: Ifo index (May)
24 ***PL: Auction of Treasury Bills*** ***PL: MPC meeting*** CH: Market holiday	**25** ***PL: MPC meeting-decision*** US: Home sales (Apr) US: Case/Shiller (Mar) US: Consumer confidence (May) US: House prices (Apr)	**26** ***PL: Retail sales (Apr)*** ***PL: Unemployment rate (Apr)*** DE: Gfk index (Jun) US: Durable goods orders (May) US: New home sales (Apr)	**27** ***PL: Switch auction*** US: Preliminary GDP (Q1)	**28** US: Core PCE (Apr) US: Chicago PMI (May) US: Final Michigan (May)
31 ***PL: Auction of Treasury Bills*** ***PL: GDP (Q1)*** US, GB: Market holiday EZ: M3 money supply (Apr) EZ: Economic sentiment (May) EZ: Flash HICP (May)	**1 June** ***PL: PMI (May)*** EZ: Manufacturing PMI (May) US: Manufacturing PMI (May)	**2** ***PL: 2Y bond auction*** EZ: PPI (Apr) US: ADP report (Apr) US: Pending home sales (Apr)	**3** ***PL: Corpus Christi*** EZ: Non-manufacturing PMI (May) EZ: Retail sales (Apr) US: Labour productivity & unit labour costs (Q1) US: Factory orders (Apr) US: Non-manufacturing PMI (May)	**4** EZ: Revised GDP (Q1) US: Non-farm payrolls (May) US: Unemployment rate (May)
7 ***PL: Auction of Treasury Bills***	**8** DE: Export (Mar)	**9** US: Wholesale inventories (Mar)	**10** EZ: ECB decision GB: BoE decision	**11** US: Retail sales (May) US: Flash Michigan (Jun)
14 ***PL: Auction of Treasury Bills*** ***PL: Money supply (May)*** ***PL: Balance of payments (Apr)*** EZ: Industrial production (Apr)	**15** ***PL: CPI (May)*** DE: ZEW index (Jun) US: Import prices (May) US: NY Fed index (May) US: Capital flows (Apr) JP: BoJ decision	**16** ***PL: Bond auction*** EZ: Final HICP (May) US: Home sales (May) US: PPI (May)	**17** ***PL: Wages and employment (May)*** US: Capacity utilisation (May) US: Industrial production (May) CH: SNB decision US: CPI (May) US: Leading indicators (Apr) US: Philly Fed index (Jun)	**18** ***PL: Industrial output (May)*** ***PL: PPI (May)***

Source: CSO, NBP, Ministry of Finance, Reuters.

MPC meetings and data release calendar for 2010

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
MPC meeting	25-26	23-24	30-31	27-28	24-25	29-30	-	-	-	-	-	-
MPC minutes	21	19	18	22	20	24	-	-	-	-	-	-
GDP*	-	-	2	-	31	-	-	30	-	-	30	-
CPI	14	15[a]	15[b]	15	14	15	13	13	14	13	15	14
Core inflation	21	-	22	22	21	22	20	20	21	20	22	21
PPI	21	18	17	20	20	18	19	18	17	19	19	17
Industrial output	21	18	17	20	20	18	19	18	17	19	19	17
Retail sales	28	23	24	23	26	-	-	-	-	-	-	-
Gross wages, employment	19	16	16	19	19	17	16	17	16	18	18	16
Unemployment	28	23	24	23	26	-	-	-	-	-	-	-
Foreign trade	about 50 working days after reported period											
Balance of payments*	-	-	31	-	-	30	-	-	-	-	-	-
Balance of payments	15	12	12	13	17	14	-	-	-	-	-	-
Money supply	14	12	12	14	14	14	-	-	-	-	-	-
NBP balance sheet	7	5	5	7	7	7	-	-	-	-	-	-
Business climate indices	22	22	22	22	21	22	22	20	22	22	22	22

* quarterly data, [a] preliminary data for January, [b] January and February
Source: CSO, NBP

Economic data and forecasts

Monthly economic indicators

		Apr 09	May 09	Jun 09	Jul 09	Aug 09	Sep 09	Oct 09	Nov 09	Dec 09	Jan 10	Feb 10	Mar 10	Apr 10	May 10
PMI	pts	42.1	42.5	43.0	46.5	48.2	48.2	48.8	52.4	52.4	51.0	52.4	52.5	52.5	52.8
Industrial production	%YoY	-12.2	-5.2	-4.5	-4.4	0.1	-1.3	-1.3	9.9	7.4	8.5	9.2	12.3	10.9	10.1
Construction production	%YoY	0.5	0.3	0.5	10.7	11.0	5.7	2.7	9.9	3.2	-15.3	-24.6	-10.8	-3.6	5.6
Retail sales [a]	%YoY	2.9	2.4	2.1	5.7	5.2	2.5	2.1	6.3	7.2	2.5	0.1	8.7	3.5	5.4
Unemployment rate	%	10.9	10.7	10.6	10.7	10.8	10.9	11.1	11.4	11.9	12.7	13.0	12.9	12.3	12.0
Gross wages in enterprises sector [a]	%YoY	4.8	3.8	2.0	3.9	3.0	3.3	2.0	2.3	6.5	0.5	2.9	4.8	4.1	5.5
Employment in enterprises sector	%YoY	-1.4	-1.7	-1.9	-2.2	-2.2	-2.4	-2.4	-2.2	-1.8	-1.4	-1.1	-0.6	-0.2	0.1
Export (€)	%YoY	-28.9	-20.6	-21.3	-22.8	-20.6	-17.0	-10.8	1.0	12.4	11.9	20.1	28.9	22.3	22.2
Import (€)	%YoY	-35.1	-30.7	-30.6	-29.3	-27.0	-26.8	-20.9	-11.0	-3.3	7.6	22.3	31.2	22.9	24.3
Trade balance	EURm	-205	-26	-279	-445	-420	59	-185	-288	-645	-205	-248	-475	-300	-200
Current account balance	EURm	-451	-405	-232	-776	-116	-250	-342	-1 433	-959	-754	106	-555	-650	-700
Current account balance	% GDP	-3.8	-3.5	-3.0	-3.0	-2.8	-2.3	-1.9	-1.9	-1.6	-1.6	-1.8	-2.0	-2.0	-2.1
Budget deficit (cumulative)	PLNbn	-15.3	-16.4	-16.7	-15.0	-15.6	-21.5	-24.0	-24.4	-23.8	-4.8	-16.7	-22.7	-27.1	-32.9
Budget deficit (cumulative)	% of FY plan	64.5	68.9	70.0	63.2	65.8	90.3	101.1	102.6	100.0	9.3	32.1	43.5	51.9	63.0
CPI	%YoY	4.0	3.6	3.5	3.6	3.7	3.4	3.1	3.3	3.5	3.5	2.9	2.6	2.3	2.2
CPI excluding prices of food and energy	%YoY	2.6	2.8	2.7	2.9	2.9	2.9	2.9	2.8	2.6	2.4	2.2	2.0	1.8	1.7
PPI	%YoY	4.8	3.7	4.1	2.8	2.2	1.6	2.0	1.9	2.1	0.2	-2.4	-2.4	-1.5	-1.4
Broad money (M3)	%YoY	14.4	14.2	14.4	11.9	9.0	9.6	11.9	8.0	8.1	6.3	5.1	5.6	6.2	5.8
Deposits	%YoY	16.1	15.7	15.9	13.0	10.7	10.9	13.5	10.3	9.8	7.5	6.8	6.2	7.3	6.7
Loans	%YoY	30.3	29.3	26.8	23.3	19.8	18.6	14.9	13.4	8.6	5.4	3.0	2.3	4.8	5.0
USD/PLN	PLN	3.36	3.23	3.22	3.05	2.90	2.86	2.85	2.79	2.83	2.85	2.93	2.87	2.89	3.15
EUR/PLN	PLN	4.43	4.41	4.51	4.30	4.13	4.16	4.21	4.17	4.14	4.07	4.01	3.89	3.87	3.99
Reference rate [b]	%	3.75	3.75	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Lombard rate [b]	%	5.25	5.25	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
WIBOR 3M	%	4.20	4.52	4.60	4.26	4.16	4.18	4.18	4.19	4.23	4.24	4.17	4.13	3.92	3.85
Yield on 52-week T-bills	%	4.80	4.91	4.73	4.43	4.23	4.33	4.35	4.26	4.25	4.01	3.90	3.92	3.84	3.80
Yield on 2-year T-bonds	%	5.44	5.60	5.34	4.93	4.92	5.10	5.03	4.92	4.92	4.95	4.90	4.76	4.47	4.50
Yield on 5-year T-bonds	%	5.88	5.85	5.83	5.55	5.53	5.74	5.65	5.64	5.67	5.58	5.51	5.27	5.10	5.15
Yield on 10-year T-bonds	%	6.17	6.30	6.34	6.19	6.08	6.18	6.15	6.14	6.21	6.12	6.09	5.71	5.56	5.60

Source: CSO, NBP, Finance Ministry, BZ WBK own estimates; [a] in nominal terms, [b] at the end of period

Quarterly and annual economic indicators

		2007	2008	2009	2010	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10
GDP	PLNbn	1 176.7	1 272.8	1 342.6	1 415.7	313.8	326.6	331.6	370.6	332.5	344.0	347.8	392.3
GDP	%YoY	6.8	5.0	1.8	3.2	0.8	1.2	1.8	3.3	3.1	3.2	3.0	3.6
Domestic demand	%YoY	8.7	5.5	-0.9	3.8	-1.5	-2.1	-1.5	1.3	3.4	3.7	3.5	4.6
Private consumption	%YoY	4.9	5.9	2.3	2.2	3.3	1.7	2.2	1.8	2.0	2.1	2.3	2.5
Fixed investments	%YoY	17.6	8.2	-0.4	4.4	1.0	-3.2	-1.6	1.5	-2.5	5.0	6.0	6.0
Industrial production	%YoY	10.7	3.6	-3.2	8.5	-10.0	-6.7	-1.3	5.5	9.4	10.4	8.3	5.6
Construction production	%YoY	16.4	10.0	4.6	3.1	3.1	0.5	9.0	4.8	-16.7	2.7	6.9	10.1
Retail sales (real terms)	%YoY	7.6	5.0	2.7	2.7	1.0	1.0	3.6	4.7	0.3	2.4	3.0	4.3
Unemployment rate [a]	%	11.2	9.5	11.9	11.9	11.1	10.6	10.9	11.9	12.9	11.7	11.4	11.9
Gross wages in enterprise sector (real terms)	%YoY	6.8	6.1	1.1	1.5	3.2	0.2	0.5	0.5	-0.2	1.8	1.6	2.6
Employment in enterprise sector	%YoY	4.6	4.8	-1.2	0.2	0.1	-1.0	-1.8	-2.0	-1.3	0.1	0.8	1.2
Export (€)	%YoY	13.4	14.2	-17.1	16.6	-22.2	-23.8	-20.1	0.1	20.3	22.1	15.0	10.0
Import (€)	%YoY	19.5	17.2	-25.4	18.8	-28.2	-32.2	-27.8	-12.1	20.5	23.2	17.0	15.0
Trade balance	EURm	-12 369	-17 724	-3 183	-5 915	-744	-513	-812	-1 114	-928	-900	-1 460	-2 627
Current account balance	EURm	-14 696	-18 302	-5 005	-7 090	-30	-1 088	-1 159	-2 728	-1 203	-1 950	-1 560	-2 377
Current account balance	% GDP	-4.7	-5.1	-1.6	-2.0	-4.0	-3.0	-2.3	-1.6	-1.9	-2.1	-2.1	-1.9
General government balance	% GDP	-1.9	-3.7	-7.1	-6.6	-	-	-	-	-	-	-	-
CPI	%YoY	2.5	4.2	3.5	2.4	3.3	3.7	3.5	3.3	3.0	2.2	2.0	2.3
CPI [a]	%YoY	4.0	3.3	3.5	2.4	3.6	3.5	3.4	3.5	2.6	2.1	2.1	2.4
CPI excluding food and energy prices	%YoY	1.0	2.3	2.7	1.8	2.3	2.7	2.9	2.8	2.2	1.7	1.5	1.7
PPI	%YoY	2.0	2.2	3.3	-1.5	4.9	4.2	2.2	2.0	-1.5	-1.8	-1.1	-1.5
Broad money (M3) [a]	%YoY	13.4	18.6	8.1	6.2	17.5	14.4	9.6	8.1	5.6	5.7	6.6	6.2
Deposits [a]	%YoY	14.5	20.6	9.8	6.1	19.4	15.9	10.9	9.8	6.2	6.3	6.8	6.1
Loans [a]	%YoY	29.9	36.0	8.6	8.2	34.5	26.8	18.6	8.6	2.3	5.1	6.9	8.2
USD/PLN	PLN	2.77	2.41	3.12	2.96	3.45	3.27	2.94	2.83	2.88	3.05	3.01	2.90
EUR/PLN	PLN	3.78	3.52	4.33	3.89	4.50	4.45	4.20	4.17	3.99	3.94	3.88	3.77
Reference rate [a]	%	5.00	5.00	3.50	3.75	3.75	3.50	3.50	3.50	3.50	3.50	3.50	3.75
Lombard rate [a]	%	6.50	6.50	5.00	5.25	5.25	5.00	5.00	5.00	5.00	5.00	5.00	5.25
WIBOR 3M	%	4.73	6.36	4.42	3.98	4.83	4.44	4.20	4.20	4.18	3.87	3.85	4.03
Yield on 52-week T-bills	%	4.69	6.26	4.54	3.99	4.75	4.81	4.33	4.29	3.94	3.81	4.00	4.20
Yield on 2-year T-bonds	%	5.23	6.22	5.17	4.65	5.26	5.46	4.98	4.96	4.87	4.47	4.45	4.80
Yield on 5-year T-bonds	%	5.52	6.15	5.65	5.26	5.50	5.85	5.61	5.66	5.46	5.12	5.10	5.35
Yield on 10-year T-bonds	%	5.56	6.06	6.11	5.69	5.86	6.27	6.15	6.17	5.97	5.57	5.55	5.65

Source: CSO, NBP, Finance Ministry, BZ WBK own estimates [a] at the end of period

Bank Zachodni WBK

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