

Weekly economic update

11 – 17 June 2012

Data on monthly US payrolls released at the end of last week proved to be well below market expectations but triggered only temporary deterioration of global market sentiment. Improvement of investors' moods was fuelled by expectations that, given the weakening economy, Ben Bernanke will announce further monetary stimulus during his speech at the US Congress. Market hoped also that the ECB will declare its readiness to take certain actions to support banking system and will say it is willing to help to solve the European debt crisis. Still, both central banks disappointed and that overshadowed the fact that Chinese central bank cut interest rates and proposals to establish a bank union in Europe. Additionally, Fitch downgraded Spain to BBB from A (only two notches above junk level) and investors focused on troubles of fourth biggest European economy again. Furthermore, on Friday some rumors emerged that during the weekend Spain will officially ask for external help for its banks. Amid deterioration of global market sentiment the EURPLN exchange rate rebounded from to 4.30 from 4.23 (reached on Thursday as Polish market was closed).

It seems that Greek elections will be the most important event of the coming week, mainly of its second part. Earlier the market will probably remain focused on Spain, particularly if Friday's rumor proves correct and this country actually does ask for help. Apart from that, investors will surely interpret US macro data as Bernanke said it is crucial to better analyze the situation in the economy before deciding on any further Fed's actions. These publications may have much impact on the FX market. EURPLN remains strongly dependent on the EURUSD exchange rate and this week the effects of this relationship may be even more visible. Our forecast of May's inflation is below market consensus and if it proves correct, it may support the shorter end of the yield curve.

This week Polish national team will play second game on EURO2012, this time with Russia. At the time of release of this report we do not know whether that would be a "last-chance-game" or we will be in the position of the leader of group A (what was suggested by our forecasts presented last week).

Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST		LAST VALUE
					MARKET	BZWBK	
MONDAY (11 June)							
18:00	UA	EURO2012 France vs. England			-	1:2	
TUESDAY (12 June)							
14:30	US	Import prices	May	%MoM	-1.0	-	-0.5
18:00	PL	EURO2012 Greece vs. Czech Republic			-	0:0	-
20:45	PL	EURO2012 Poland vs. Russia			-	0:0	-
WEDNESDAY (13 June)							
11:00	EZ	Industrial output	Apr	%YoY	-2.3	-	-2.2
14:00	PL	CPI	May	%YoY	3.9	3.7	4.0
14:30	US	Retail sales after excluding autos	May	%MoM	0.2	-	0.1
THURSDAY (14 June)							
11:00	PL	Bond switch auction					
11:00	EZ	HICP	May	%YoY	2.4	-	2.4
14:00	PL	Money supply	May	%YoY	10.2	10.3	10.3
14:30	US	Initial jobless claims	week	k	-	-	377
14:30	US	Core CPI	May	%MoM	0.2	-	0.2
FRIDAY (15 June)							
14:00	PL	Exports	Apr	€m	12 011	11 895	12 903
14:00	PL	Imports	Apr	€m	12 711	12 681	13 302
14:00	PL	Current account balance	Apr	€m	-924	-1 048	-228
14:30	US	NY Fed index	Jun	pts	15.0	-	17.09
15:15	US	Industrial output	May	%MoM	0.3	-	1.1
15:15	US	Capacity utilization rate	May	%	79.2	-	79.2
15:55	US	Flash Michigan index	Jun	pts	-	-	79.3

Source: BZ WBK, Reuters, Parkiet

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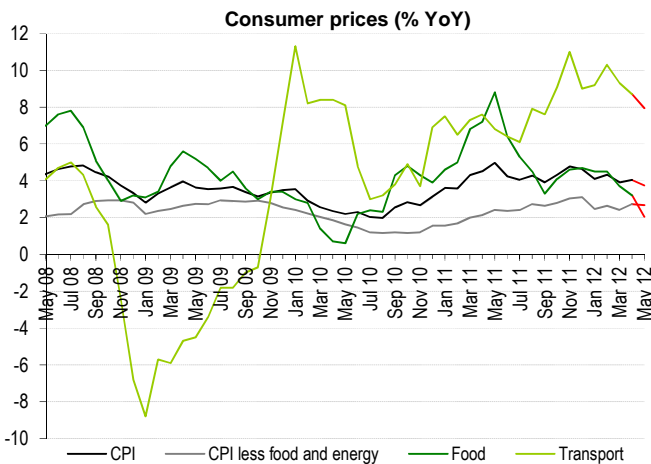
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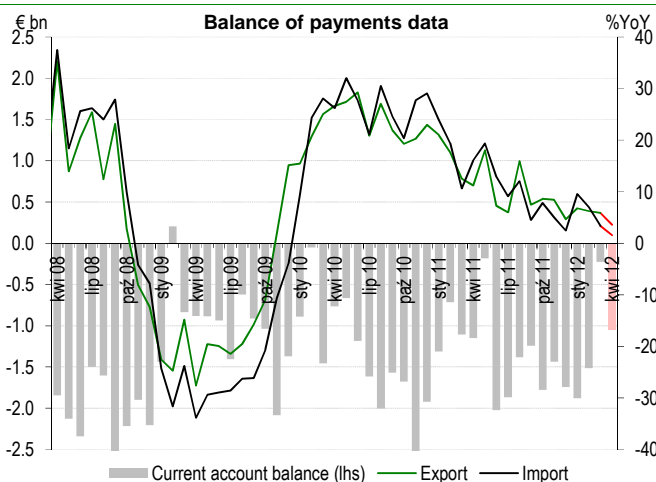
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What's hot this week – Inflation again lower (temporarily), loans and foreign trade slow

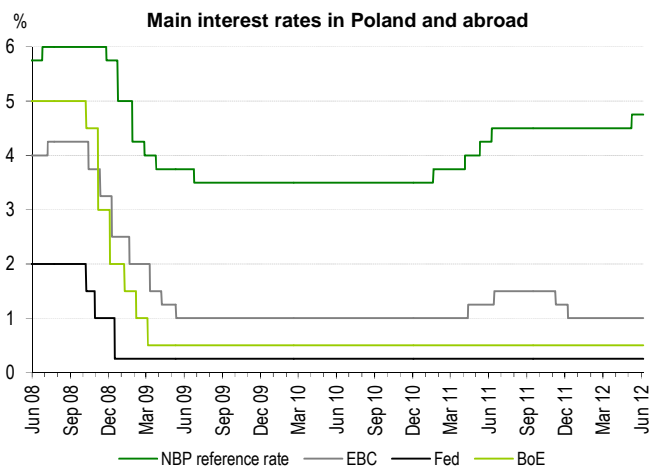
▪ We expect that headline CPI inflation declined to 3.7%YoY in May from 4.0%YoY in April, which was due to high base from May 2011, stabilization of growth of food prices (mainly due to declining egg prices, after their strong increase in March and April after introduction of new EU regulations) and decreasing fuel prices. However, it is worth noting that market forecasts range between 3.7 and 4.1%, with consensus seeing 3.9%YoY, thus reflecting the scale of analysts' uncertainty about the May reading. A figure in line with our forecasts can be supportive for the shorter end of the curve.

▪ In our view the data will be neutral for the MPC, the inflation's drop below 4% will be temporary and prices' growth will be stronger in the upcoming months (among other due to EURO2012). We expect a more substantial decline of inflation at the year-end (to ca. 3%).



▪ In our view April's data on domestic balance of payments will show a further deceleration of exports and imports due to influence of waning economic activity in Poland and in Europe. Current account deficit may widen, mainly because of higher trade deficit and lower inflow of current transfers from the European Union. Weak reading of German exports pose a downward risk for our forecast of growth of domestic exports (3.5%YoY).

▪ Annual growth of M3 money supply will remain unchanged in May. We expect the data to show a further deceleration of credit growth (Foreign exchange rate adjusted). Loans for households rose at the slowest pace since 2003 already in April, while growth rate of corporate loans decelerated markedly.

Last week in the economy – MPC awaits new projections

▪ The MPC left main interest rates unchanged in June, with main interest rate at 4.75%, in line with broad expectations. The Council expects that in the medium term CPI inflation will be curbed by slowdown of economic growth and by implemented rates hikes. The assessment whether next interest rate adjustments are justified would be possible in Council's view after release of next economic data and new NBP's macroeconomic projections. The statement included no clear hint about possible interest rate hikes, which signals that risk of monetary tightening in July is not particularly high.

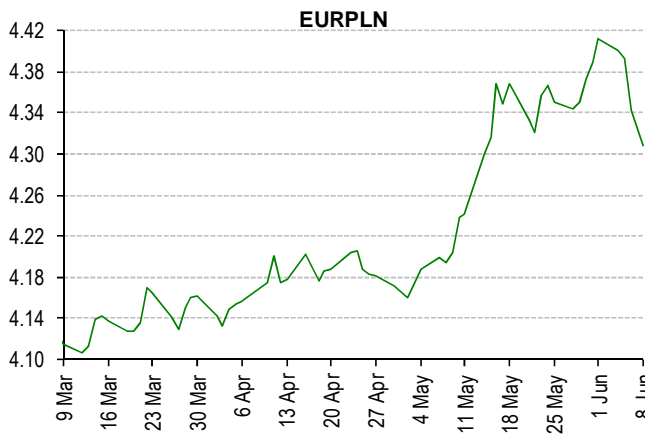
▪ The ECB did not change interest rates at its rate-setting meeting in June. Neither the European nor the US central bank suggested a further monetary stimulus, thus disappointing the financial market.

Quote of the week – Will consumption of champagne increase?**Marek Belka, NBP president, 6 May, post-meeting press conference**

I think that more considerable impact on domestic CPI will be exerted by Polish victory in EURO2012 and increased consumption of champagne.

At the press conference after June's Monetary Policy Council meeting, the NBP president Marek Belka, when asked about potential impact of EURO2012 on economy and inflation, expressed his hopes about increased consumption of champagne. Of course due to success of the Polish team. We share his hopes. As regards cup's influence on inflation, no matter how strong it is (in our view prices of hotels in hosting cities may rise considerably), it will be only temporary and should not be distressing for the central bankers.

Foreign exchange market – Greek elections and US data to set direction for the zloty

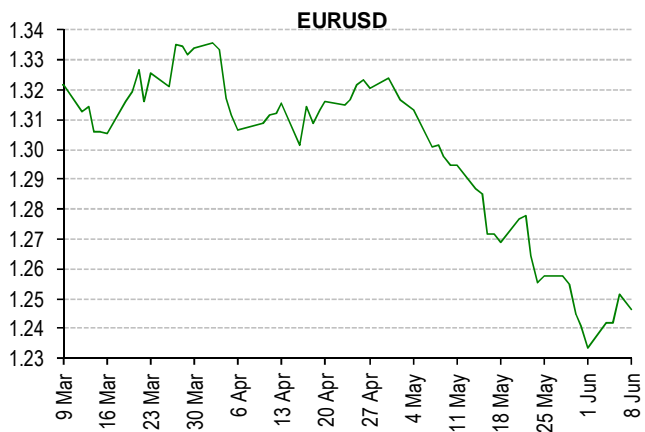


Strong appreciation of the zloty

During the past week the domestic currency gained considerably versus main currencies. That was due to hopes for further actions from the Fed after poor Friday's payrolls and positive information on ideas about solutions of the euro zone debt crisis. The appreciation trend of the zloty clearly accelerated on Thursday when Polish market was closed. At the end of the week some part of gains from past days was trimmed as the market was disappointed that Bernanke did not signal any chances of QE3 and a day earlier ECB did not announce plans on conducting third LTRO. Consequently, EURPLN rebounded from 4.23 to ca. 4.30 at the end of the week.

Clear downward trend was also recorded on the USDPLN market. The exchange rate plunged due to lower worries over the euro zone (which pushed the EURUSD up) and consequently USDPLN reached temporarily even 3.36, so is PLN0.24 lower than peak from the beginning of the month.

The EURPLN exchange rate remains strongly dependent on the situation on the EURUSD market and this week the results of this relationship may be even more visible. The market will focus on both Greek elections and US data. Interpretation of the latter may have much impact on market's assessment of chances for QE3 in the US. Important levels for the EURPLN are 4.26 and 4.32 (next resistance at 4.35).

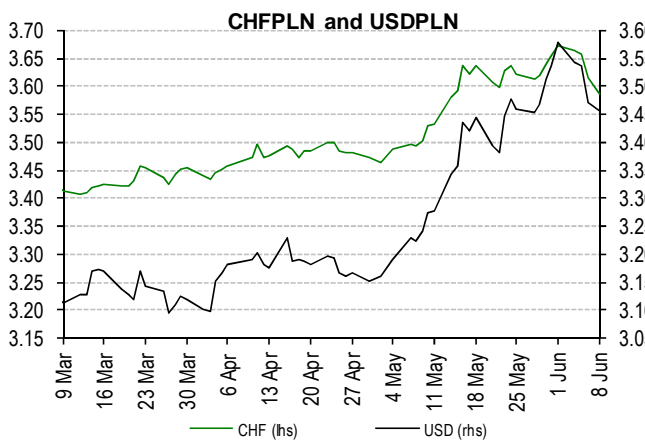


High volatility of EURUSD

Since the beginning of the past week the euro was gaining versus the dollar amid hopes for next step towards solving the euro zone debt crisis and expectations that Ben Bernanke will announce third round of monetary stimulus. Consequently, the exchange rate reached 1.2625. At the end of the week a visible correction occurred as the speech of Fed's governor at the US Congress disappointed.

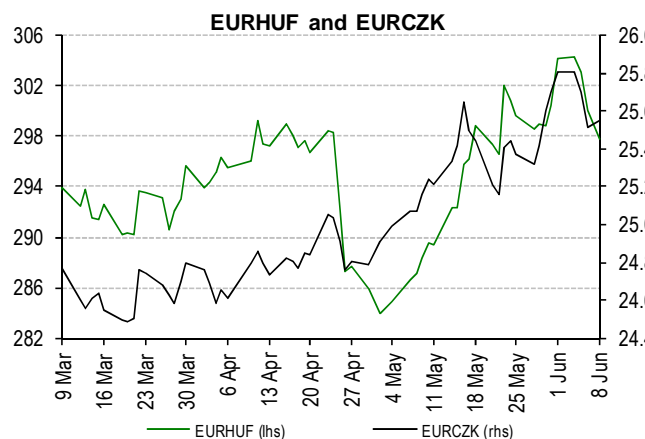
This week plenty of important US data is due for release and, taking into account the latest comments of Ben Bernanke, they may have much impact on EURUSD. If data are better than expected, then there is a risk that downward correction from the end of the week is continued amid further drop of hopes for QE3. This is also last week before Greek parliamentary elections and it is likely that the closer to June 17, the biggest impact on the EURUSD hopes or worries over the results will have. Consequently, the volatility shall remain high and as EURO2012 games take place after closing of the European session the tournament should not limit much of investors' activity.

As some of the upward moves of EURUSD seen last week were very rapid, appreciation of the single currency was triggered partly due to closing short bets in euro. One may suppose that currently the potential for lower EURUSD is bigger than a week ago when number of short bets on euro was record high (203k).

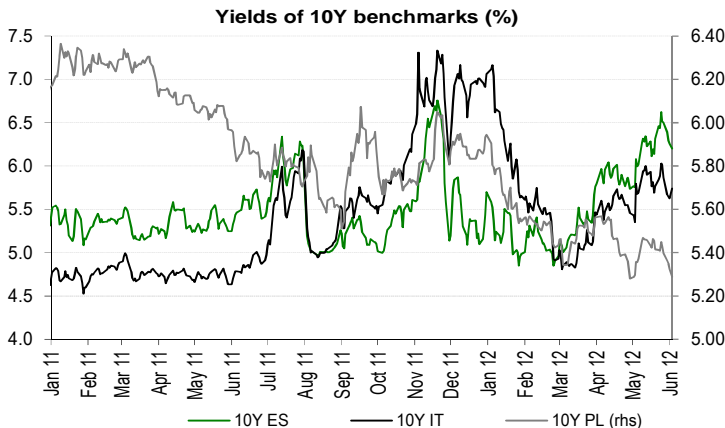
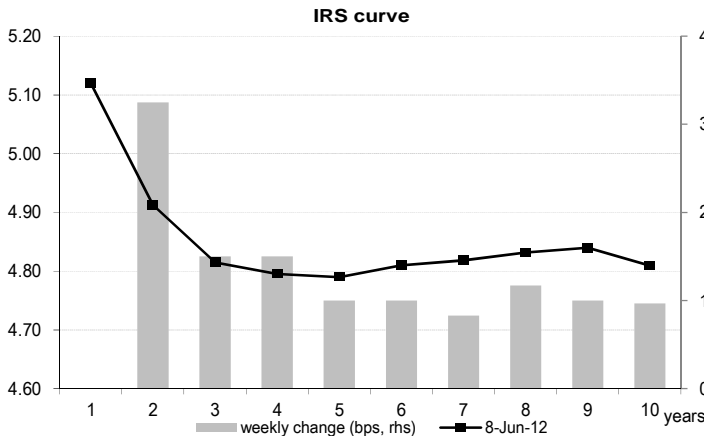
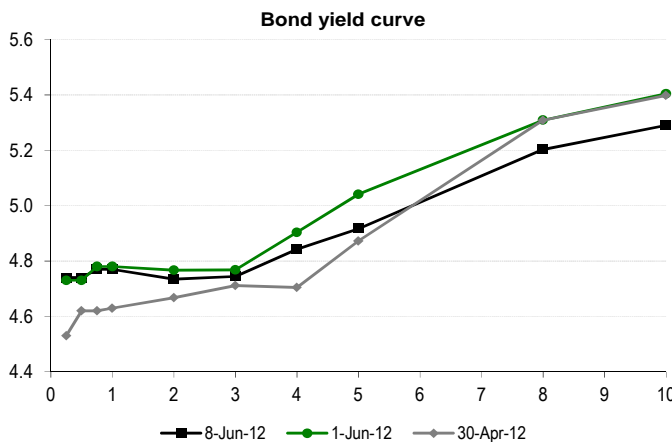
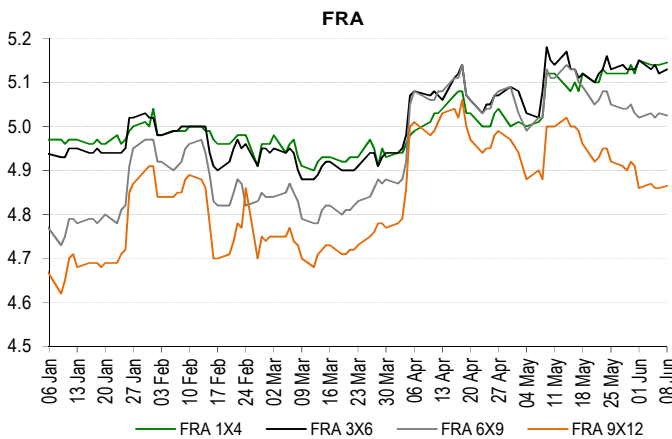


Forint and koruna under influence of global sentiment

The situation on the forint and Czech koruna market was strongly dependent on the swings of global market sentiment. Due to optimism persisting for the better part of the week, EURHUF declined to 293 from 305 and EURCZK from 28.5 to 25.1. On Friday, just as it was in case of the EURPLN, both exchange rates increased to 296 and 25.6, respectively.



Interest rate market – Debt market relatively strong; market awaits CPI and election in Greece



Money market rates relatively stable

▪ Last week the money market has remained relatively stable. WIBOR rates did not change significantly, with WIBOR 3M increasing by 1bp to 5.12%. As regards FRA market, changes were also muted. The June MPC's decision to keep interest rates unchanged was in line with expectations and neutral for the market players. Market has already been interpreting the May's hike as a one-off event and has started to price-in interest rates cuts in H1 2013 after softer Council's rhetoric. It is clearly suggested by FRA9x12, which ended the week at 4.86% (flat in weekly terms).

▪ This week investors will focus on CPI inflation data, which will be released on Wednesday (13.06). Materialisation of our scenario (we predict the headline CPI at 3.7%YoY) should support the FRA market. However, potential of decline of FRA rates is rather limited as risk of further monetary policy tightening still exists. We would like to recall that most of the Council members argued that the July CPI and GDP projections could bring some additional arguments.

Significant strengthening on the mid and long-end

▪ The beginning of June brought significant strengthening on the debt market, especially on the mid and long-end of the curve. Similarly to the first week of May, bond yields fell despite low liquidity of the market and 5Y and 10Y bonds were traded near important support levels at 4.90% and 5.30%, respectively. It came from higher risk appetite. As regards the short front of the curve, 2Y sector was relatively stable. All in all yield curve moved down by 1-12bps in weekly terms, with the highest downward move in 5Y sector.

▪ IRS market, in contrast to T-bonds, has remained more calm last week. IRS 10Y has oscillated around 4.80%. IRS curve is relatively flat, with 2-10Y spread at -8bps. On the other hand asset swap spreads narrowed in all sectors due to bond yields decline, in which in case of 5Y it reached the lowest level since mid-May.

CPI inflation and elections in Greece crucial

▪ We have an interesting week ahead: release of domestic macro data, including the CPI inflation and parliamentary election in Greece and France. Drop of inflation towards 3.7%YoY should be supportive for the shorter end of the curve; we do not rule out that 2Y benchmark may test support at 4.70%. Inflation data may also support the 5Y sector. Support at 4.90% may be tested as well.

▪ Longer end of the curve will remain under influence of global factors – mainly elections in Greece and France and new information from Spain. Rising uncertainty, especially in the second half of the week, may generate an impulse for profit-taking after recent considerable strengthening. In our view, level of 5.30% should sufficiently stop downward trend of 10Y bond.

▪ We do not expect substantial changes on the IRS market. Currently, 4.80% is a key support for 10Y IRS. Some additional factors are necessary to break this support (e.g. drop of CPI inflation), as they may generate an impulse to test this level.

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