

Weekly economic update

10 January – 16 January 2005

This week, a number of important data releases and economic events in Poland will be limited again. Money supply figures on Friday should not influence financial markets, which will be awaiting much more important data on December's inflation, wages and employment (to be released on 17th January). We expect M3 money supply growth of 6.8%YoY (market consensus points to 6.5% rise).

Last week, the most interesting news on the Polish market was announcement on Paris Club debt repayment. What is important, according to rating agencies this operation will not influence Poland's ratings.

The US non-farm payrolls number for December was slightly lower than expected, but previous two months data were upwardly revised in total by 34k. There was little reaction of the EURUSD rate to the figure. The euro has steadily declined from December's all time highs and could come under further pressure in the short-term.

Economic calendar

TIME GMT	COUNTRY	INDICATOR (importance level*)	PERIOD	FORECASTS		LAST VALUE	
				MARKET	BZWBK		
MONDAY (10 January)							
10:00	POL	Auction 52- and 13-weeks Treasury Bills – PLN600m and PLN100m (M)					
15:00	USA	Wholesale inventories (M)	XI	%	0.7	-	1.1
TUESDAY (11 January)							
07:45	FRA	Trade balance (M)	XI	€bn	-	-	-0.21
07:50	FRA	Industrial production (M)	XI	%MoM	-	-	-0.7
10:00	GER	ZEW index (H)	I	-	20.00	-	14.40
11:00	GER	Industrial production (H)	XI	%MoM	-	-	0.5
WEDNESDAY (12 January)							
10:00	POL	Auction for 10y bond – PLN2.6bn (H) Paris Club Meeting (H)					
13:30	USA	International trade (H)	XI	\$bn	-53.45	-	-55.46
19:00	USA	Monthly budget statement (H)	XII	\$bn	-22.00	-	-17.64
THURSDAY (13 January)							
12:45	EMU	ECB Meeting (H)		%	2.00	2.00	2.00
13:30	USA	Retail sales (M)	XII	%MoM	0.5	-	0.1
13:30	USA	Import prices (M)	XII	%	-0.1	-	0.2
FRIDAY (14 January)							
15:00	POL	Money supply (M)	XII	%YoY	6.5	6.8	6.4
13:30	USA	PPI (M)	XII	%MoM	0.2	-	0.5
13:30	USA	Business inventories (M)	XI	%	0.6	-	0.2
14:15	USA	Industrial production (M)	XII	%MoM	0.3	-	0.2
14:15	USA	Capacity utilization (M)	XII	%	78.7	-	78.7

* Importance level: (H)igh, (M)oderate; Source: Reuters, BZ WBK, Gazeta Bankowa

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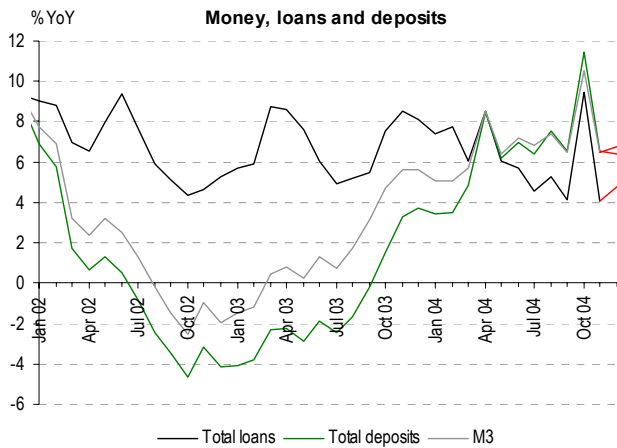
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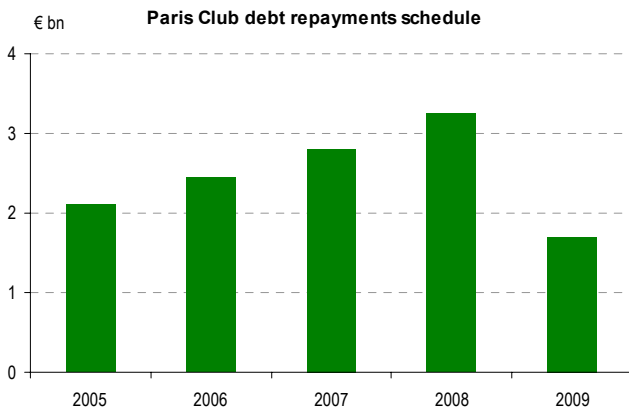
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What's hot this week – Money supply figures on Friday

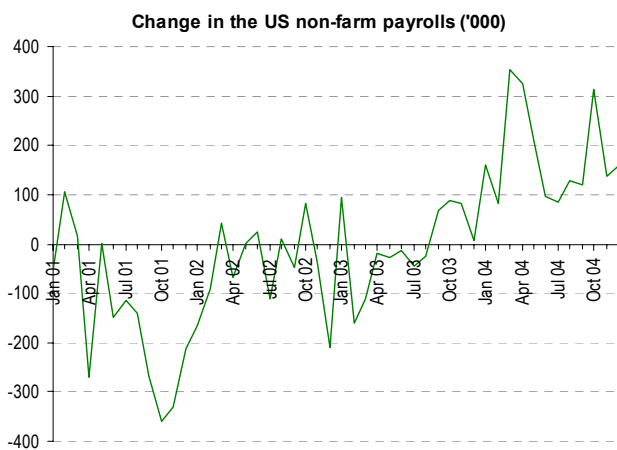


- This week, a number of important data releases and economic events in Poland will be limited again.
- Money supply figures will be published on Friday, but they should not influence financial markets, which will be awaiting much more important data on December's inflation, wages and employment (to be released on 17 January).
- We expect M3 money supply growth of 1.4%MoM and 6.8%YoY (market consensus points to 6.5% rise), which should be still perceived as very moderate growth given GDP growth of ca. 5% and CPI inflation at 4.5%.
- We estimate total credits growth at 4.8% and total deposits increase of 6.4% (in November 4.1% and 6.5%, respectively).
- Also, a couple of US data will be released, which may influence €/ \$ market and interest rate expectations.

Economy last week – Paris Club debt repayment; US non-farm payrolls



- Poland plans premature repayment of Paris Club debt in 2005. The total outstanding amount of the debt amounts to €12.3bn, and its maturity is concentrated in 2005-2009 (see chart), in 2010-14 only 70 mln € is to be repaid.
- Paris Club will examine this issue at the meeting on January 12, and "discussions are already very advanced".
- Operation will be financed by eurobonds issuance, but the remaining question is whether the ministry would buy FX currencies on the market in the scenario of strong zloty appreciation (which we do not expect, by the way).
- Against the Ministry of Finance's expectations, it is unlikely that the Polish rating will be changed as a result of buy back Poland's debt in the Paris Club.
- ... and it is hard to expect changes in rating agencies' assessments ahead of parliamentary elections.



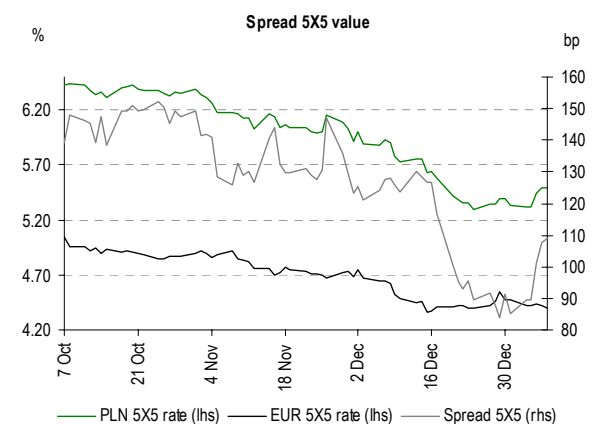
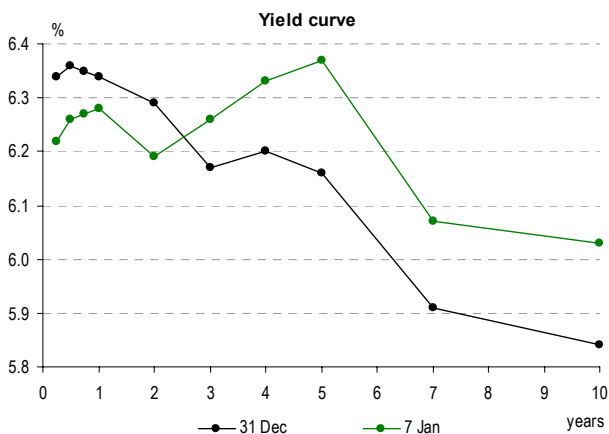
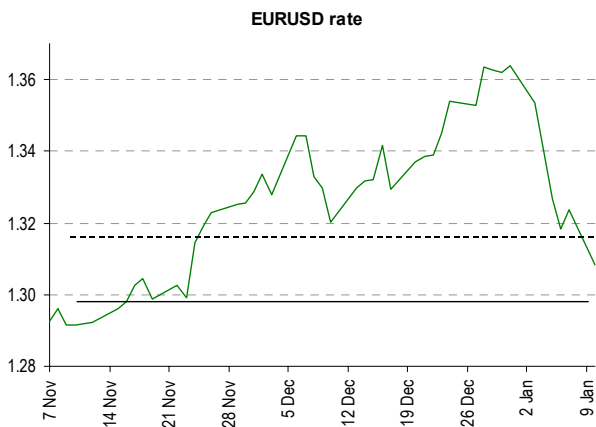
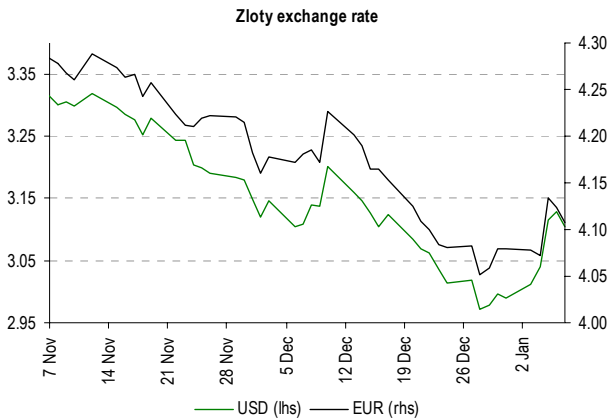
- December's non-farm payrolls number came in at 157k, lower the market consensus at 175k.
- However, it has to be stressed that after the publication of a few business climate indicators, market participants had believed the risk was on the downside.
- Moreover, previous two months data were upwardly revised by 34k altogether.
- All in all, non-farm payrolls report was broadly neutral for the financial market sentiment, failing to alter the markets view on US interest rates.

Quote of the week – Neutral bias does not mean swift rate cuts

Dariusz Filar, MPC member (PAP, 5 Jan)
I would not ignore the February inflation projection, as it could hasten decision on changing monetary policy bias into neutral (...) but this does not exclude possibility of rate hike. Changing bias into easing is still a distant perspective. Reference rate at slightly above 6% is closely corresponding to neutral interest rate, amid inflation reaching target 2.5%. One cannot tie monetary policy only to exchange rate movements.

Adopting neutral bias need not signal preparation for a rate cut. It would just reflect the fact that inflation predictions returned close to the target (mostly as a result of stronger zloty), but it would allow for interest rate moves in both directions. It is still quite a long way until the MPC could adopt easing bias, signalling a clear tendency to cut rates. We agree with Filar, and it is one of the reasons why we still do not expect the MPC to cut rates in 2005, even after changing bias to neutral.

Market monitor



The zloty shared the fate of other currencies

- Throughout the week, the zloty was weaker by 5% to the dollar and merely by 0.51% to euro. This time the driving force was the dollar that was advancing within the whole last week to all the currencies.
- Beside international markets performance, larger turnover on the FX market over in the first week of January was the reason for zloty depreciation. It was completed yet by the concern that resources for buy-back of Paris Club debt will come from domestic FX market.
- In our opinion, in the coming week owing to the lack of important figures the zloty market will stay rangebound 4.06-4.12 to euro and 3.08-4.15 to dollar, however it will remain sensitive to the data and performance of the American currency.

The dollar's week

- Last week the dollar gained to the euro by 4.25%. It was fuelled by the minutes from last FOMC meeting about necessity of further rate hikes, relatively good economic data and Friday's comment from US Treasury Secretary John Snow on the need to curb US twin deficits.
- The euro following decline from the outset of the week found support at 1.3160 (December low), but Snow's comment pulled the rate smoothly below the barrier. Labour market data virtually had no impact on the market.
- The euro probably will remain under pressure, that may pull it below 1,30 mark. However we think that overhang positioning removal occurred, not the trend change. Reasons for dollar weakness remain intact.

The curve changes its shape

- Yields on the long end of the curve backed up, in line with our forecasts by 20 bp hitting to pre-Christmas levels. Moreover the market saw the change of curve shape in 2/5y from slightly inverted (-7 bp) to normal (+18 bp).
- The reason behind that was, on the one hand, 2y papers auction well received by investors, which confirmed market's bias to rate cuts and on the other hand large offer of longer dated papers and the zloty weakening.
- Next week the curve should remain stable with only minor fluctuations. Investors "obtained" decent premium before 10y bond auction, that are expected to be sold painlessly at ca. 6.00%. The market will await the inflation data due next Monday.

Return to fair value

- The difference of 5Y/5Y interest rate between Poland and euro zone widened to expected by us 100-110 bp due to yields rise in Poland. We predict the stabilisation at those levels prior to Wednesday's tender.
- The first bond tenders in Europe, though with huge volatility afterwards, passed successfully. 10y Bund recorded yield decline by 7 bp to 3.60%, despite major euro correction. American 10Y bond actually remained unchanged even after quite hawkish FOMC report.
- Slipping euro reduced some pressure for lower yields in Europe. Next week, other EMU countries will hold long-term bond auctions that probably bring minor setback.

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