

Weekly economic update

12 – 18 February 2007

This week market attention will be focused on new publications of macroeconomic data. Analysts predict acceleration of inflation, wages and employment in January, but the key issue is the scale of the improvement. If growth rates will not exceed forecasts by a large amount, expectations regarding monetary policy perspectives should not change significantly (recently market expectations for rate hikes moved away in time). However, please note that in our opinion the risk for employment growth in January is on the upside, which results e.g. from the revision in sample of enterprises made by the CSO every year. In the period of very good business climate a number of companies employing more than 5 people (that are included in the CSO surveys) is rising quickly, which could boost the annual growth rate of employment, also disturbing comparability of wage growth data. Information about money supply and balance of payments released during the week should be neutral for the market.

A number of important data releases will also appear abroad. At the start of the week the international markets could be influenced by the conclusions from G7 summit that ends during the weekend. Later on, the attention will turn to data from US economy (retail sales, capacity utilisation, activity indices, trade balance, capital inflow), which will be important as usually for investors' sentiment towards the emerging markets.

Economic Calendar

Time GMT	COUNTRY	INDICATOR (importance level)	PERIOD		FORECAST		LAST VALUE
					MARKET	BZWBK	
MONDAY (12 February)							
13:00	POL	Current account (M)	Dec	€ m	-545	-640	-510
19:00	US	Federal budget (M)	Jan	\$ bn	40,0	-	20,96
TUESDAY (13 February)							
10:00	GER	ZEW index (H)	Feb		5,0	-	-3,6
10:00	EMU	Preliminary GDP (H)	Q4	%YoY	3,0	-	2,7
13:30	USA	Trade balance (H)	Dec	\$ bn	-59,4	-	-58,23
WEDNESDAY (14 February)							
10:00	POL	Auction of PLN1.5-2.5bn of 10Y floating bonds and PLN0-500m 12 year CPI linked bond (M)					
10:00	POL	M3 money supply (M)		%YoY	16,1	15,5	15,7
13:30	USA	Retail sales (H)	Jan	%MoM	0,4	-	0,9
THURSDAY (15 February)							
13:00	POL	Preliminary CPI (H)	Jan	%YoY	1,7	1,7	1,4
13:00	POL	Wages (H)	Jan	%YoY	6,6	6,6	8,5
13:00	POL	Employment (H)	Jan	%YoY	4,2	4,2	4,1
13:30	US	Foreign trade prices (H)	Jan	%	-1,1	-	1,1
13:30	US	New jobless claims (H)		'000	314	-	311
14:15	US	Capacity utilization (H)	Jan	%	81,7	-	81,8
14:15	US	Industrial production (H)	Jan	%MoM	0,0	-	0,4
17:00	US	Philadelphia Fed index (H)	Feb		6,0	-	8,3
FRIDAY (16 February)							
13:30	US	House starts (H)	Jan	m	1,61	-	1,642
13:30	US	PPI (H)	Jan	%MoM	-0,4	-	0,9
15:00	US	Preliminary Michigan index (H)	Feb		97,0	-	96,9

Importance level: (H)igh, (M)oderate; Source: Reuters, BZ WBK * publication time not confirmed officially

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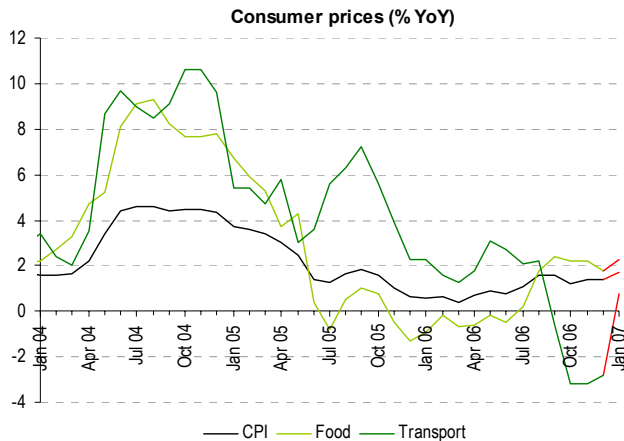
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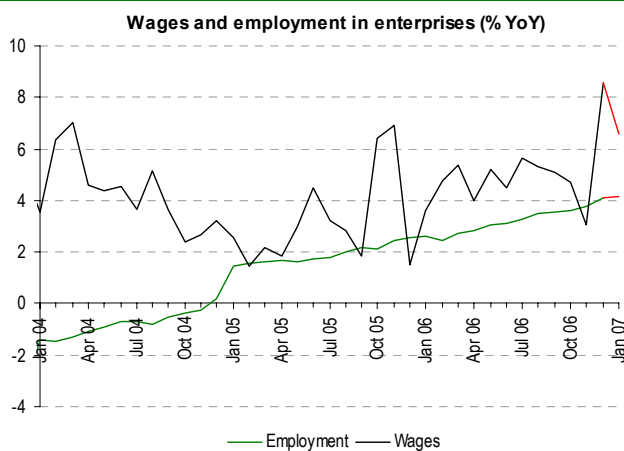
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What's hot this week – Next set of economic data

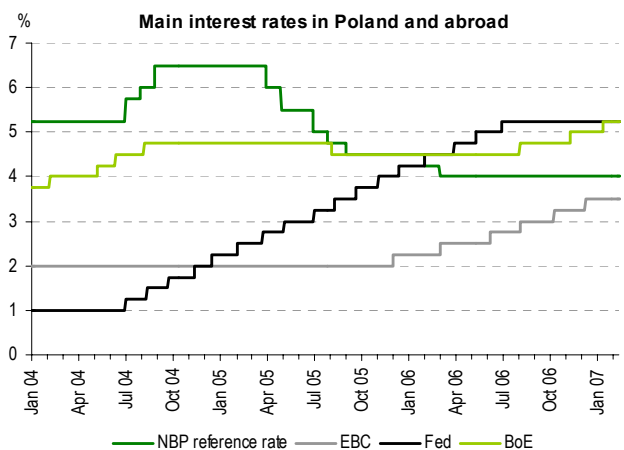


- After a relatively thin calendar of data releases at the start of the month, this week the markets will focus again on the economic data.
- Thursday will be the most important for the domestic market as there will be publication of CPI rate, wages and employment in enterprises sector.
- Inflation rate probably increased in January e.g. due to rise in administered prices, some tax hikes at the start of the year, and low base effect. Our forecast assumes CPI rise to 1.7%YoY, which is consistent with market consensus and Ministry of Finance's prediction. Such result should not raise significant concern of the MPC.
- One should remember it will be only a tentative estimate of CPI that will be subject to revision in March after the CSO calculates a new weight system in CPI basket.



- Equally important for the monetary policy perspectives will be data from the labour market. We expect to see 6.6%YoY rise in wages against 5.8% on average in last two months of 2006, and record-fast rise in employment of 4.2%YoY. Market predictions are similar. But it seems the risk for employment forecast is on the upside, which is connected with annual change in sample of companies surveyed by the CSO.
- Data about money growth and balance of payments should be rather neutral for the market.
- More important will be information from foreign markets that could determine investors' sentiment towards the emerging markets. Attention should be paid to US data: retail sales, capacity utilisation, Philadelphia and Michigan indices, capital inflow and trade balance.

Economy last week – Stabilisation ahead of new important events



- Last week passed in anticipation of new economic data releases, central banks' decisions, and results of G7 summit that was expected to bring statements of high importance for the emerging markets.
- Both the European Central Bank and the Bank of England kept main interest rates on hold as expected, although ECB statement suggested the next hike could take place in March.
- The European Commission criticised Poland's convergence programme, calling for deficit reduction below 3% of GDP in 2007 and cuts in spending. The market did not react to the report, probably because it is commonly expected that likelihood of imposing serious restrictions on Poland by the Commission is quite small at the moment.

Quote of the week – Seasonal unemployment rise in Q1

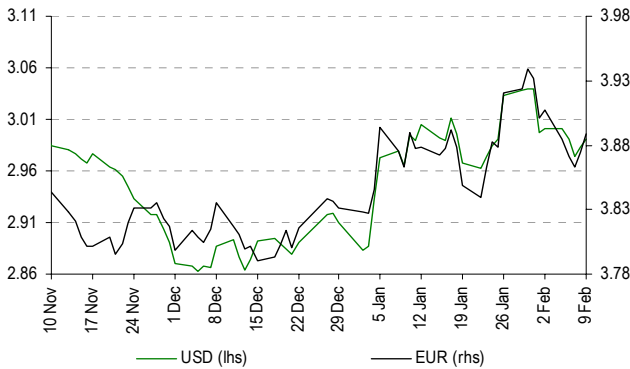
Ministry of Labour and Social Policy; PAP, 6 February

According to tentative data, unemployment rate in January 2007 increased to 15.2% from 14.9% in December 2006. January and December are the months that usually see a rise in unemployment. It results from a return of persons employed temporarily in construction, transport and trade to unemployment registers. The number was also increased by those who in the previous periods were engaged in the active forms of unemployment reduction and now returned to registers. Also, in January labour offices registered people (working abroad) who temporarily returned home for the holiday period and intended to receive healthcare security while staying home.

Unemployment rise in the first months of the year should not be a surprise, as – in line with the ministry's argumentation – it is a typical seasonal phenomenon. Much more important is that in year on year terms the jobless rate keeps falling faster and faster. If the ministry's estimates get confirmed, then in January the unemployment rate will be 2.8 pp lower than in the same month of the previous year, which is one of the deepest falls since 1989. It heralds another good year on the labour market, likely to spur private consumption growth.

Market monitor

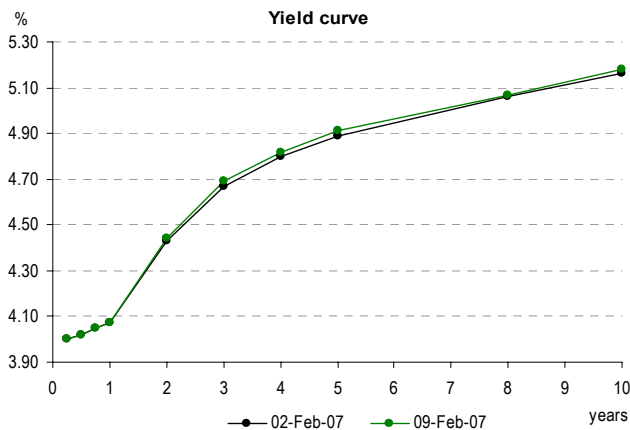
Zloty exchange rate



Zloty at stronger levels

- After some sound firming at the start of the week zloty fluctuated in a range we assumed (3.85-3.9 against euro) and gradually weakened amid lack of important events and domestic data releases and little number of foreign market data. The market awaited G7 meeting and comments on yen, which might influence the emerging market currencies. EURPLN rate fell by 0.4%, and USDPLN by 0.9%.
- At the start of the week some statements from the eurozone and US officials after the G7 meeting may weigh on the emerging markets sentiment. However it will also be under influence of expectations toward the future situation in United States. This week the EURPLN rate is going to stay in range of 3.85-3.95 (3.85-support, 3.9-resistance), and USDPLN in 2.95-3.05.

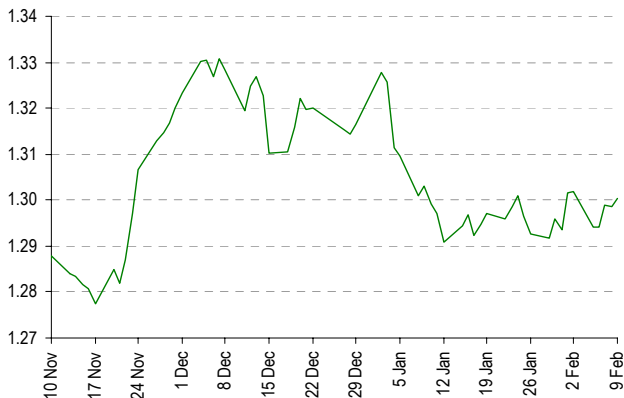
Yield curve



Stabilisation in the bond market

- The price movements in the Polish debt market were not significant similar to the FX markets and within a week yields hardly changed. After some strengthening which resulted among others from falling yields in the core markets there was a slight correction and in the result yields went back to the levels recorded at the end of the previous week.
- In the coming days several domestic and international figures are going to be released. Even if the inflation accelerated to 1.7% in January (forecast of Ministry of Finance and consensus) CPI still remains benign and this should support bonds. The labour market data are going to be crucial for the MPC and the market and may slightly weaken debt. The behaviour of core markets will be also essential.

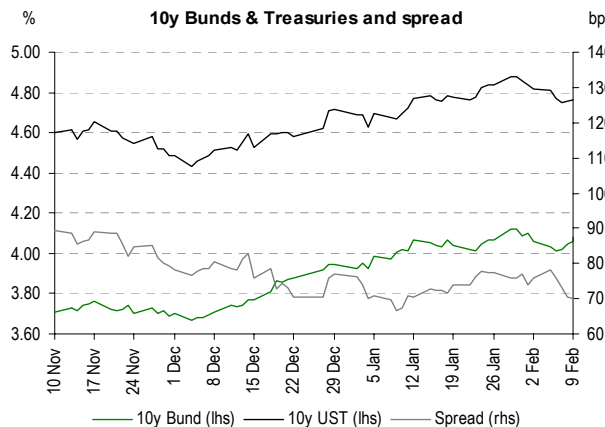
EURUSD rate



The EURUSD rate near 1.3 again

- On Monday the EURUSD rate went back slightly above 1.29 level in reaction to better than expected US non-manufacturing ISM index in United States. However the dollar gradually weakened against the euro amid ECB's meeting and EURUSD rose to 1.3. The bank's statement strengthened market expectations for interest rate hikes in March.
- This week the US retail sales data will be crucial for the view on economic performance of the most US economy. Philadelphia Fed index, house starts data and PPI data released at the end of the week will be also important. ZEW index, preliminary Q4 GDP data in the euro zone will be crucial for the single currency. Trade deficit and net capital flows data will be also important for the greenback.

10y Bunds & Treasuries and spread



Stronger in the core markets

- Good PMI and ISM data from the services sectors in the euro zone and United States and awaiting the bond auctions in US contributed to core bond yields staying at levels from the previous Friday. After very good results of the US tenders the Treasuries' yields significantly fell, which affected also the German market. Yields of 10Y Treasuries fell to 4.76% and Bunds remained rose to 4.08%
- The market expects a rate hike in March in the euro zone, and we assume rates may rise to 4.0% in the mid year and this may be not an end of monetary tightening. Retail sales data may influence the expectations on the economic situation in United States. It will be interesting whether the slowdown in the housing market and manufacturing sector substantially influenced the consumer demand.

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