

Weekly economic update

16 – 22 April 2007

First data for March released on Friday showed slightly higher inflation and much lower than predicted current account deficit. We do not think that such information could decide about the result of the next MPC meeting. More significant will be data due for release this week, particularly about wages and employment in enterprises. We expect acceleration in wage growth to 6.6%YoY and employment to 4.5%YoY (from 6.4% and 4.3% in February), which is slightly above market consensus. It would imply that total wage bill in enterprises sector rose almost 9%YoY in real terms, supporting expectations for further strong consumption rise. At the same time, production data to be released two days later will show lower output growth in industry due to lower number of working days. It will not signal a persistent downturn in industry, as adjusted growth rate should be even better than in the previous month.

It is still not certain whether the next rate hike will take place in April or in May, especially that according to NBP governor the new inflation projection will show lower CPI along the entire forecast horizon. Although thus far it seemed that significance of the projection for MPC decisions was not excessive (which was reflected in recent months' decisions), but recently a few MPC members declared that their decisions may be well dependent on the results of the new projection to be released in April.

In the first part of the week there will be a large number of important data releases abroad to watch. Particularly important for the market could be data from the US regarding retail sales growth and CPI inflation, that will deliver new hints regarding possible future Fed decisions.

Economic calendar

Time GMT	COUNTRY	INDICATOR	PERIOD		FORECAST		LAST VALUE
					MARKET	BZWBK	
MONDAY (16 April)							
9:00	EMU	Final HICP	Mar	%YoY	1.9	-	1.8
12:30	USA	Retail sales	Mar	%MoM	0.4	-	0.1
12:30	USA	Net capital flows	Mar	\$ bn	85.0	-	74.6
TUESDAY (17 April)							
12:00	POL	Wages	Mar	%YoY	6.5	6.6	6.4
12:00	POL	Employment	Mar	%YoY	4.4	4.5	4.3
9:00	GER	ZEW index	Apr		10.0	-	5.8
12:30	USA	CPI	Mar	%MoM	2.7	-	2.4
12:30	USA	House starts	Mar	m	1.5	-	1.525
13:15	USA	Capacity use	Mar	%	81.9	-	82.0
13:15	USA	Industrial production	Mar	%MoM	0.1	-	1.0
WEDNESDAY (18 April)							
9:00	POL	Auction of PLN1.5-2.5bn 5Y PS0412 bonds					
CZWARTEK (19 April)							
12:30	USA	Philadelphia index	Mar		0.9	-	0.2
FRIDAY (20 April)							
12:30	POL	PPI	Mar	%YoY	3.5	3.6	3.6
12:30	POL	Industrial production	Mar	%YoY	10.2	10.1	12.9

Source: Reuters, BZ WBK

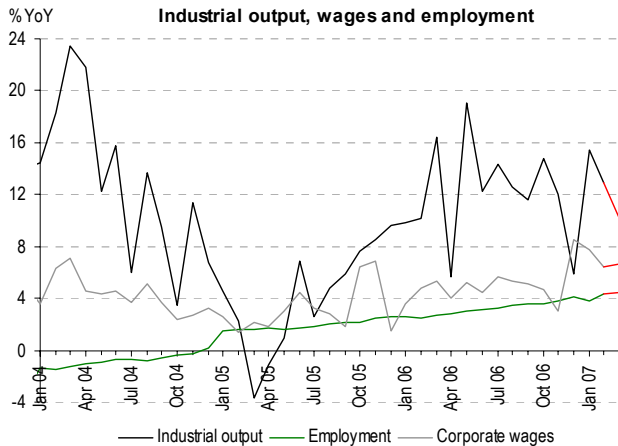
Maciej Reluga Chief economist (+48 22) 586 8363

Piotr Bielski (+48 22) 586 8333

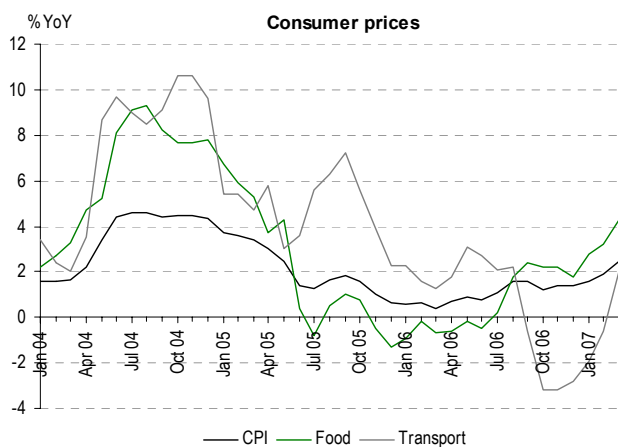
Piotr Bujak (+48 22) 586 8341

Cezary Chrapek (+48 22) 586 8342

e-mail: ekonomia@bzwbk.pl

What's hot this week – Next data crucial for the MPC

- Data about wages and employment due for release on Tuesday will be more important for the MPC decision than Friday's inflation. Further acceleration in growth rates of both variables could be among arguments tipping scales in favour of interest rate hike.
- Industrial output growth is likely to be lower than in February, due to lower number of working days. However, adjusted growth rate should confirm continuation of strong expansion in industry. One should keep an eye on likely slowdown in construction output after two months of exceptionally strong growth rates due to very good weather.
- Lots of important data will appear abroad. Especially, retail sales and CPI data from the US could be important for the market, showing hints about domestic demand strength and inflationary pressure in the American economy.

Economy last week – Higher inflation, strong exports

- Inflation rose to 2.5%YoY in March from 1.9%YoY in February, slightly more than expected. Thus, inflation rate reached inflation target for the first time since 2005.
- It was driven mostly by supply side impulses – food prices up 0.8%YoY and 4.3%YoY, fuel prices up 4.9%MoM and 4.0%YoY.
- Other kinds of goods and services recorded moderate price increases, and we estimate that net inflation rose only from 1.6% to 1.7%YoY.
- CPI data did not change near-term prospects of monetary policy. Rate hike in April still seems probable, though it is not a deal done. This will depend on further economic information, especially from the labour market, which will be available this week.



- Current account deficit amounted to €424m in February, much below market expectations, mostly due to very low trade deficit (€60m against market consensus €475m).
- Export growth accelerated again to 16.3%YoY and at the same time import growth slowed down to 13.4%. The data confirmed that December's exports' downturn was a one-off phenomenon.
- The cumulative 12-month C/A deficit fell to 2.3% of GDP from 2.5% in January.
- Money supply growth remained at high level (18%YoY, slightly below forecasts). Credit growth accelerated, mainly due to loans for companies (up 17.5%YoY after 15% rise in February), which confirmed hopes for continuation of fast investment rise.

Quote of the week – Rate hike in the pipeline, but when?**Sławomir Skrzypek, NBP governor; Dziennik, 13 April**

We have new inflation projection ready. It is more optimistic that I have expected. In the entire projection horizon inflation path is lower than was shown by previous calculations. (...) Currently there are no unanimous premises that show that current level of interest rates needs to be corrected, but until the day of the MPC meeting a number of new data will appear.

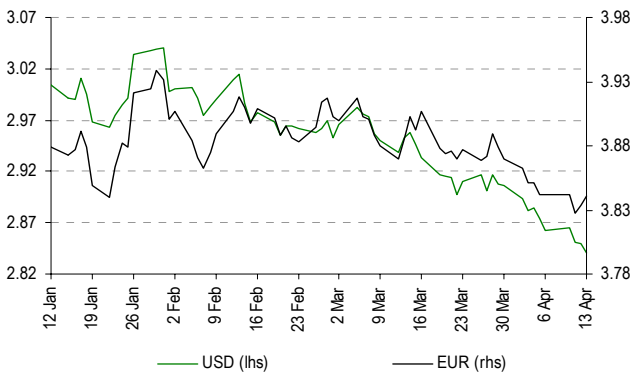
Halina Wasilewska-Trenkner, MPC member; PAP, 13 April

If the first rate hike takes place in April, there will be a period of observation afterwards (...) whether it controls inflation adequately. If yes, then maybe a 25 bp rate hike would be enough..

If the new inflation projection truly shows higher CPI throughout entire forecast horizon, as depicted by the NBP president, not only in the short run, it could be quite problematic for the MPC to justify a rate hike in April. Unless labour market data post another surprise on the upside. On the other hand, if the significance of the projection for the MPC is not particularly big, as we had emphasised many times, then perhaps it would be not a big problem. Anyway, if a rate hike takes place, one should not expect to see a hawkish statement if even Halina Wasilewska-Trenkner believes that it will be necessary to wait some time with further policy changes.

Market monitor

Zloty exchange rate

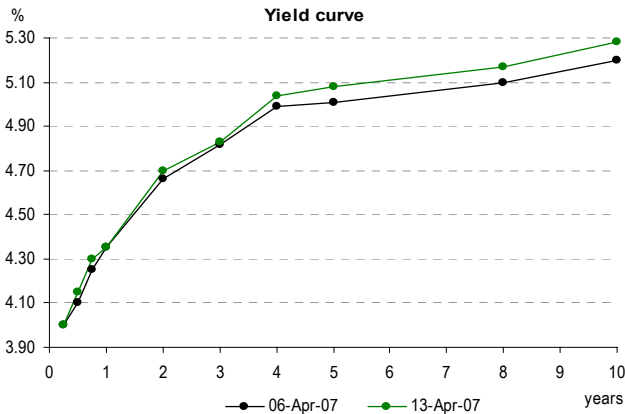


Zloty gets stronger again

Amid positive sentiment toward the Polish currency zloty's strengthening was continued in the first part of the past week. The EURPLN fell even below 3.83. At the end of the week there was a temporary correction though after much better current account and trade balance data Polish currency regained strength. Zloty appreciated 0.3% against euro and 1.4% vs. the dollar with regards to weakening of US currency in the international markets.

We hold our view that a series of very good data on Polish economy is going to support zloty. After significant decline of the USDPLN rate it is worth to focus on G7 comments on trade between US and China. In our opinion the EURPLN rate is going to stay in range of 3.80-3.90 (3.85 - resistance), and USDPLN in range of 2.80-2.90.

Yield curve

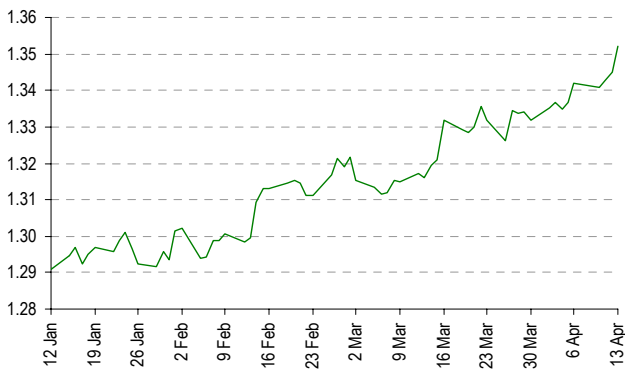


Yield curve goes up again

In the week after holidays the debt weakened in reaction to significant increase of yields in the German government bond market. Quite hawkish comments of Stanisław Niecekarsz could also be a negative factor. A temporary strengthening in the FRA market occurred on comments of the NBP's President and MPC member H. Wasilewska-Trenkner, though higher CPI index contributed to another rise in rates.

We still assume that interest rates may be raised already in April though it is not a deal done situation. This will depend most of all on data from the labour market, which are going to be released this week. Production data will also be important in the context of current labour productivity and unit labour costs. PPI figure will also be essential as well as core bond market behaviour amid ample data releases.

EURUSD rate

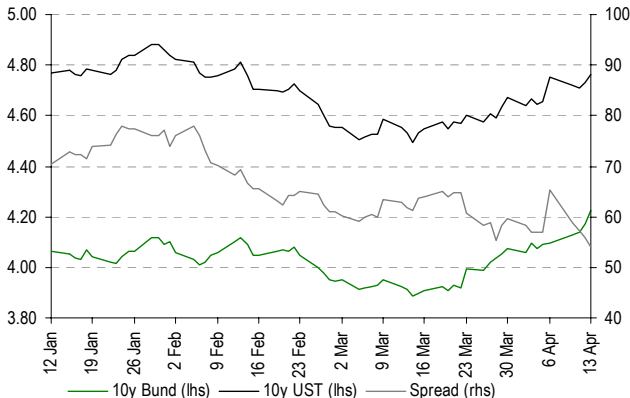


EURUSD rate above 1.35, will it go higher?

The dollar weakened at the start of the week in reaction to escalation of tensions between the US and China in trade relations, and investors might have wanted to limit dollar positions ahead of G7 meeting. US PPI figure were quite close to market consensus, which did not support the dollar. What is more the ECB's communiqué remained hawkish and suggested further rate hikes in the EMU.

At the start of the week the retail sales data and CPI index (essential whether they will confirm fears that inflation stays above level accepted by the Fed) are going to be the most important for the dollar. ZEW index is going to be crucial for the euro zone. At the end of the week the number of foreign data release is going to be lower with focus on Philly Fed. In the nearest days after the G7 meeting the rate may be a slight correction of the EURUSD rate.

10y Bunds & Treasuries and spread



Continuation of Bunds' weakening

At the start of the week German Bunds weakened in reaction to previous Friday's US non-farm payrolls. Yields of 10Y Bunds broke important technical levels and rose again (up to 4.20% vs. 4.9% in the previous week) and this was continued after the ECB's meeting, which kept market expectations for further monetary policy tightening. Yields of 10Y Treasuries remained at 4.74% level, which resulted in a spread fall.

In line with Fed's statement the inflation (especially this weeks core CPI to be released on Tuesday) is going to be the most important factor for the monetary policy in the US. Retail sales data will affect the prospects of US economic growth. US Philadelphia Fed index for manufacturing sector and the ZEW index for the euro zone are going to be also essential.

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Additional information is available on request. Please contact Bank Zachodni WBK S.A. Treasury Division, Economic Analysis Unit, ul. Marszałkowska 142, 00-061 Warsaw, Poland, phone (+48 22) 586 83 63, email ekonomia@bzwbk.pl, <http://www.bzwbk.pl>



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