

Weekly economic update

30 April – 6 May 2007

The upcoming week in the Polish financial market will go by with limited activity of local players amid two days off. Nevertheless, there will be several data publications on the international markets, especially in the U.S., which may influence expectations as regards next steps in monetary policy by Fed. Thus, this may influence risk appetite on global markets and thus have some effect on emerging markets as well.

In Poland the market participants will have some time to digest last week's decision of the Monetary Policy Council. The rate hike by 25 bp was widely expected and did not lead to significant market reaction. Given arguments put during discussions at MPC meetings in previous months, majority of MPC members are of the opinion that inflationary pressure in Poland is still constrained by several factors (among others by rising openness of the Polish economy and globalisation effects). Therefore, they may not hurry with further monetary tightening, unless new data deliver another surprise on the upside and suggest much stronger than expected GDP growth in the forthcoming quarters. It seems, therefore, that both financial markets and the MPC have some time for further analysis of economic situation and its impact on the inflation prospects.

Economic calendar

Time GMT	COUNTRY	INDICATOR	PERIOD		FORECAST		LAST VALUE
					MARKET	BZWBK	
MONDAY (30 April)							
8:00	EMU	M3 money supply	Mar	%YoY	9.5	-	10:0
9:00	EMU	Economic sentiment index	Apr		111.5	-	111.2
9:00	EMU	Flash HICP	Apr	%YoY	1.8	-	1.9
12:30	US	Core PCE	Mar	%MoM	0.1	-	0.3
13:45	US	Chicago PMI	Apr		54.5	-	61.7
TUESDAY (1 May)							
	POL	Labour Day – market holiday					
	GER	Market holiday					
14:00	US	Manufacturing ISM	Apr		51.3	-	50.9
WEDNESDAY (2 May)							
7:00	POL	Manufacturing PMI		Apr	55.2	58.0	55.6
8:00	EMU	Manufacturing PMI	Apr		55.6	-	55.4
12:15	US	ADP report	Apr	'000	113.0	-	106.0
14:00	US	Factory orders	Mar	%	1.0	-	1.0
THURSDAY (3 May)							
	POL	Constitution Day – market holiday					
12:30	US	New jobless claims					321.0
12:30	US	Labour productivity	Q1	%	1.2	-	1.6
12:30	US	Unit labour costs	Q1	%	3.8	-	6.6
14:00	US	Non-manufacturing ISM	Apr		53.0	-	52.4
FRIDAY (4 May)							
8:00	EMU	Services PMI	Apr		57.6	-	57.4
12:30	US	Non-farm payrolls	Apr	'000	128	-	180
12:30	US	Unemployment rate	Apr	%	4.5	-	4.4

Source: Reuters, BZ WBK

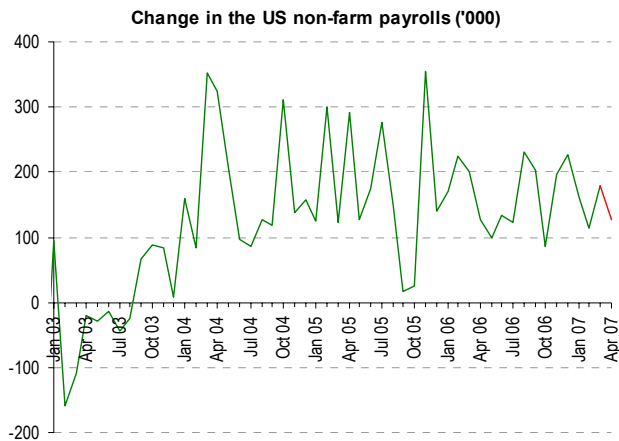
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What's hot this week – Calm locally, labour market data in the U.S.

- As the first week of May is usually very calm on the Polish market due to two national holidays, and additionally no important economic events are planned in the calendar, one should not expect events, which would influence financial markets.
- Also, we do not expect statements from MPC members. And even if they appear they should not change market's expectations as regards possibility and a scale of further monetary tightening. It seems that a neutral market reaction to last week's events and waiting for next economic data was the aim the MPC wanted to achieve.
- Of course, situation on international market will remain the key, especially as we will see a number of economic data releases, out of which the Friday's U.S. labour market figures will be the most important.

Economy last week – Pre-emptive move of the MPC**Key elements of MPC statement 25 April**

In the Council's assessment, in the second half of 2007 CPI inflation will temporarily decrease markedly below the inflation target of 2.5%, which is also indicated by the April inflation projection.

In the Council's assessment, in the medium term, the probability of inflation running above the target is larger than the probability of its running below the target, which persuaded the Council to tighten the monetary policy. The Council assessed that the high growth of domestic demand, which most probably outpaces the growth of potential GDP, will be sustained in the next quarters, which should be conducive to a gradual increase in wage and inflationary pressures.

In the coming months, the Council will be closely observing the relation between wage growth and the growth of labour productivity, zloty exchange rate, the impact of globalisation on the economy and other factors.

- In line with expectations, the Monetary Policy Council decided to raise official interest rates by 25 bp. Minutes of the MPC meetings in 1Q07, presented in the *Inflation Report* showed gradual establishment of consensus within the Council regarding a necessity of monetary policy tightening.
- The April's communiqué delivered no clear-cut suggestions as regards monetary policy prospects in the near future. It suggested that next decisions of the rate-setting panel will depend on incoming data, particularly those regarding labour market, and developments on the FX market. This gives the MPC some room for manoeuvre.
- We do not change our expectations that monetary policy tightening will be continued, although not in the nearest months – 25bp in 3Q07 and another 25 bp at the turn of the year.

Inflation projections (% YoY)

	Apr 06	Jul 06	Oct 06	Jan 07	Apr 07
Q4 2007	1.3-3.4	1.5-3.5	1.9-3.8	2.1-3.8	1.3-2.6
Q4 2008	1.2-3.9	1.7-4.3	2.2-4.6	2.2-4.5	1.6-3.8
Q4 2009	-	-	-	2.4-5.2	2.1-4.6

GDP growth projections (%)

	Apr 06	Jul 06	Oct 06	Jan 07	Apr 07
2007	3.4-5.8	3.6-5.9	4.1-6.2	4.9-6.7	6.0-7.0
2008	3.5-6.2	4.0-6.6	4.5-7.0	3.6-6.4	4.0-6.3
2009	-	-	-	3.5-6.5	4.0-7.0

Source: NBP, *Inflation Report - January 2007*

Note: Projection shows that there is a 50-percent probability that inflation and GDP growth will stay within the ranges indicated in the table.

- The new projection shows higher GDP growth as compared to January's results, but despite this the new central projection of inflation is lower over the whole projection horizon, as compared to January's report.
- According to the authors of the projection, in January risk factors pointed to higher likelihood of CPI inflation running below the central scenario and taking this into account, differences between the two projections are less considerable than suggested by the central inflation path.
- The Council agreed with the results of projection, as far as 2007 prospects are concerned. Unfortunately, there was no information in the statement as regards the MPC's view on the results of inflation projection for next years (2008-09).
- The MPC re-emphasised that the projection is only one of the inputs in decision-making process on NBP interest rates.

Quote of the week – ... and a few months of break**Sławomir Skrzypek, NBP President; PAP, 25 April**

The statement should not be read as an announcement of a series of interest rate hikes

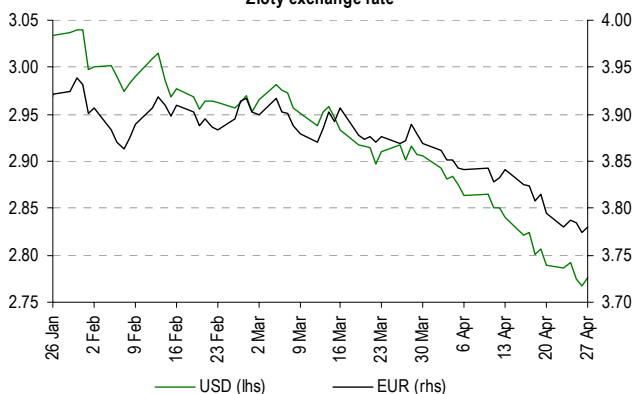
Halina Wasilewska-Trenkner, MPC member; PAP, 26 April

Yesterday's decision was a signal that economic situation, which is very favourable, may lead to higher inflation pressure. That's why we decided to assure we remain vigilant. The President of NBP wanted to say that there is no reason as for now to assume this is the beginning of a series of rate hikes.

During the press conference the President of the central bank stressed that the statement should not be treated as a herald of beginning of series of rate hikes. In April, the usual group of rate hikes supporters was joined by at least two other members - as far as the NBP governor was one of them - or, what seems more probable, at least three people (given the governor's casting vote). It seems that the decision to raise interest rates could have been backed by Andrzej Sławiński, Andrzej Wojtyna and Jan Czekaj, and possibly also by Stanisław Owsiak. It is their comments that are going to be important hints for the market on possible future decisions of the Council in the following months.

Market monitor

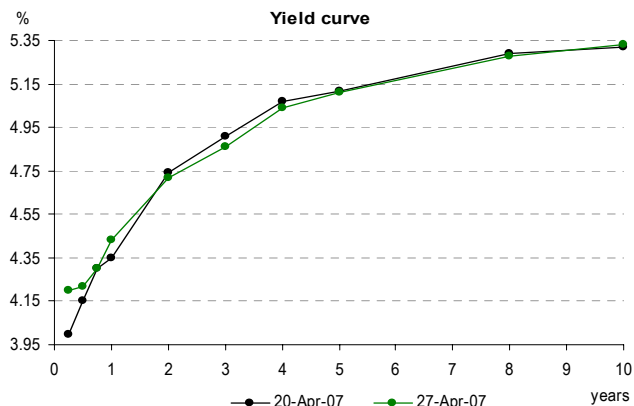
Zloty exchange rate



Zloty stable at strong levels

- In the last days the zloty stayed relatively stable and fluctuated at strong levels against the major currencies. A moderate and temporary appreciation occurred after the interest rate hike. The EURPLN rate was almost unchanged versus the previous Friday, while the USDPLN rate recorded a slight decline by ca. 0.7%, mainly due to the weakening of the dollar in the international markets.
- In our opinion, amid positive sentiment toward the zloty the current levels may be stable for some time. However, we maintain our view that in the nearest time there might be a correction, and 3.75 level against the euro should not be broken. The nearest week should be stable amid lack of domestic data releases and national holidays. We keep the ranges of 3.75-3.85 for EURPLN and 2.75-2.85 for USDPLN.

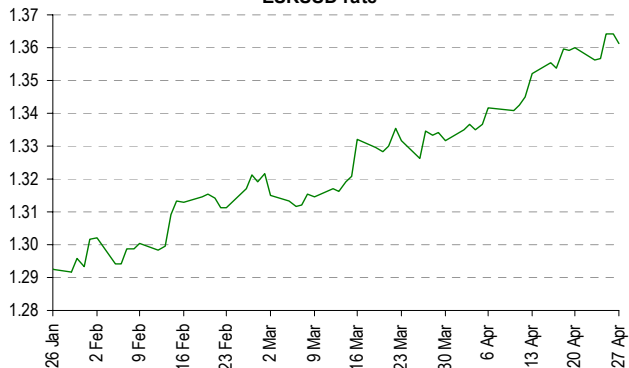
Yield curve



The MPC raised interest rates; the market is stable

- The MPC raised interest rates by 25 bp, which was in line with the market and analysts' expectations. The communiqué was more important and it suggested that for the next months the Council would hold with further decisions to tighten monetary policy, which slightly strengthened the interest rate market. It was rather not affected by the strong retail sales. The yields levels were almost unchanged as compared to the levels from the end of the previous week.
- Amid lack of data releases in the domestic market as well as the long May weekend the activity in the Polish market may be limited. The market rates may be more sensitive, especially at the longer end of the curve, to the moves in the core bond markets, especially taking into consideration ample data releases abroad.

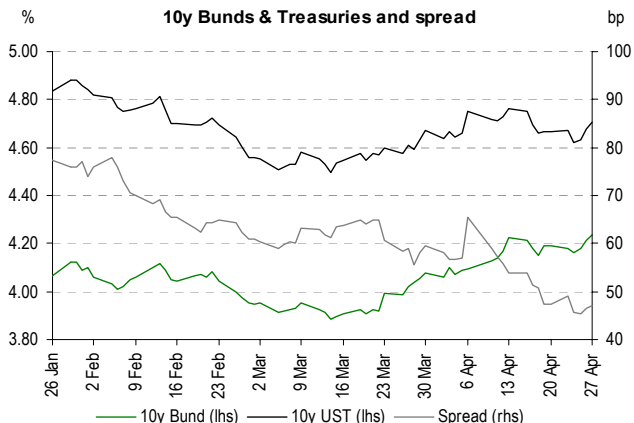
EURUSD rate



Dollar still weak

- This was yet another week, when the dollar was depreciating against the single currency. The factor, that negatively influenced the dollar were much weaker than expected data from the housing market on existing home and new homes sales. The EURUSD rate did not manage to break the important technical levels and it fell slightly, as investors decided to take some profit. However, after weak US GDP data the EURUSD rate jumped to 1.367.
- We maintain our view that the EURUSD rate may slightly rise, however it seems that the essential technical level of 1.37 should not be easily broken. The stabilisation at current levels and a correction is more probable. This week the EURUSD rate was influenced by the activity indices, the inflation PCE index and a series of data from the labour market from the United States.

10y Bunds & Treasuries and spread



Slight changes in the core debt markets

- After weak data from the US housing market there was significant strengthening in the core bond markets. However, at the end of the week yields of 10Y Treasuries and Bunds rose and after mixed Q1 US GDP data (lower growth & higher deflator, core PCE) rose further to 4.7% and 4.23% respectively (vs. 4.68% and 4.19% in the previous Friday).
- The US non-farm payrolls for April are going to be the key data release next week and the market consensus points to a slight weakening as compared to March. Core PCE index for March is going to be important with regards to fears over inflation in the US. ISM index is also going to be crucial. There will be a lot of data essential for the euro zone's bond market, especially the money supply figure, PMI indices and sentiment indices, which all should confirm the optimistic picture of the euro zone economy.

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