

# Weekly economic update

15 – 21 October 2007

After a pause in domestic data releases, this week we will receive next set of monthly data publications. The focus of attention will be on Monday's data regarding consumer prices, as well as wages and employment in enterprises sector. We predict that inflation rate in September rose less than indicated by median market forecast, which should be a positive factor for the debt market. Although labour market data are likely to show further acceleration in wage increase and new record high employment growth, it will be consistent with analysts' expectations. Another surprise may come from industrial output data as according to our forecast its growth decelerated to ca. 4% (market prediction 6%). Even though a slowdown is probably temporary (among others, effect of lower number of working days), the next data release below market consensus may weaken market expectations regarding pace and scale of further monetary tightening. Especially that zloty appreciation observed recently also affects the economy, limiting potential inflationary pressure, and may be one of factors with significant impact on the MPC members' future decisions.

Agenda of data releases abroad is also quite full this week, so trends on international markets may have significant impact on behaviour of zloty and local bonds, particularly in the middle of the week.

The last week of election campaign may witness escalation of emotions on political scene, however this will have no effect on the financial market and on the economy. Investors are awaiting the election results with calm.

## Economic calendar

Time GMT	COUNTRY	INDICATOR	PERIOD		FORECAST		LAST VALUE
					MARKET	BZWBK	
<b>MONDAY (15 October)</b>							
12:00	POL	CPI	Sep	%YoY	2.0	1.8	1.5
12:00	POL	Wages in enterprise sector	Sep	%YoY	10.7	10.6	10.5
12:00	POL	Employment in enterprise sector	Sep	%YoY	4.8	4.9	4.8
12:00	POL	Current account balance	Aug	€ m	-1005	-977	-1300
12:30	USA	New York Fed index	Oct	pts	14.0	-	14.7
<b>TUESDAY (16 October)</b>							
9:00	GER	ZEW index	Oct	pts		-	-18.1
9:00	EMU	Final HICP	Sep	%YoY	2.1	-	1.7
13:00	USA	Capital inflow	Aug	\$ bn		-	103.8
13:15	USA	Capacity utilisation	Sep	%	82.2	-	82.2
13:15	USA	Industrial output	Sep	%MoM	0.1	-	0.2
<b>WEDNESDAY (17 October)</b>							
9:00	POL	Auction of 5Y bonds PS0412 (PLN1.5-2.5bn)					
12:30	USA	CPI	Sep	%MoM	0.2	-	-0.1
12:30	USA	House starts	Sep	m	1.29	-	1.33
<b>THURSDAY (18 October)</b>							
12:00	POL	Industrial output	Sep	%YoY	6.0	4.2	9.0
12:00	POL	PPI	Sep	%YoY	2.0	1.9	1.7
16:00	USA	Philadelphia Fed index	Oct	pts	9.5	-	10.9

Source: Reuters

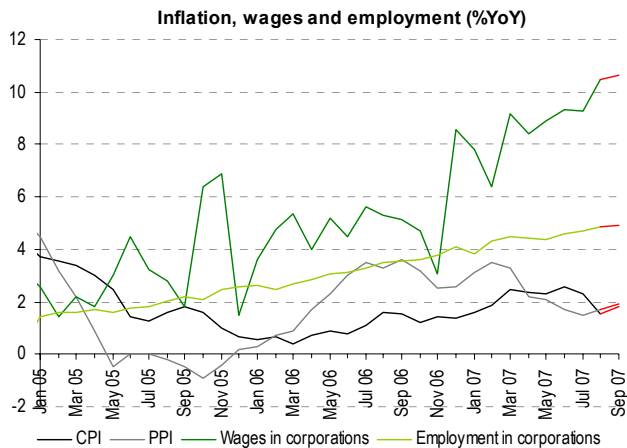
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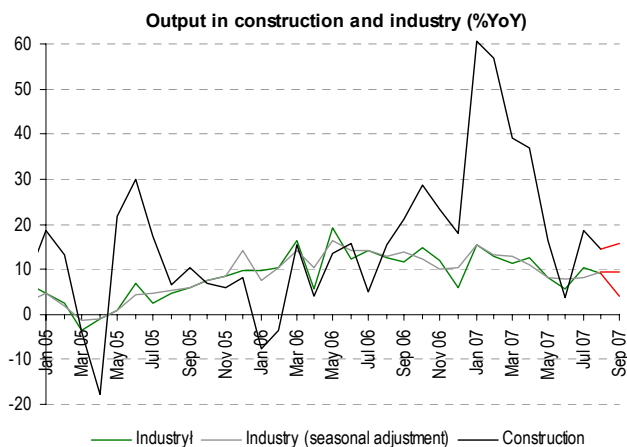
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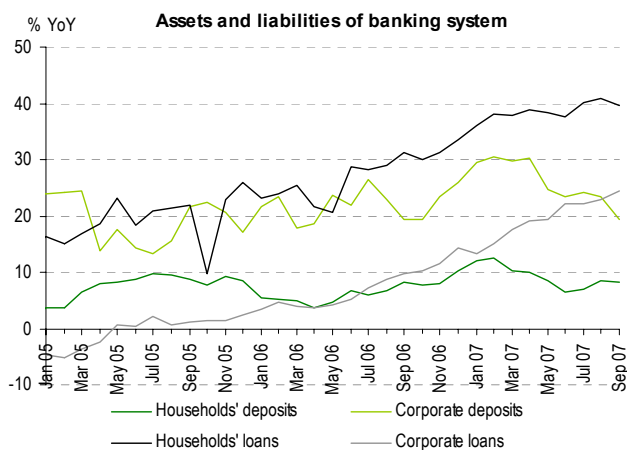
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**What's hot this week** – Important data at the start and at the end of the week

- The week will start with data releases important for the financial market. Information about CPI, wages and employment, due on Monday, may have significant effect on the expectations regarding pace of further rate hikes.
- We predict another positive inflationary surprise, as in our opinion CPI growth accelerated in September to 1.8%. Market consensus and Ministry of Finance's prediction are at 2.0%, probably because of higher assumed food prices. If our forecast proves more accurate, it will be a factor supportive for the bond market.
- Overtone of labour market data may be different, as wages and employment probably accelerated again, which creates some risk for medium term inflation outlook. In sum, it should lessen the positive impact of low inflation figure.



- On Monday we will also see balance of payments data for August, which should show similar picture as in previous months – fast export growth being overshadowed by even faster import expansion. Cumulative 12-month current account deficit should remain at 3.8% of GDP.
- Next data releases are scheduled on Thursday. PPI growth is likely to accelerate slightly in September, however it should have little impact on the market.
- More important will be industrial output figure. This month we expect to see rather weak growth (4.2%YoY), among others due to lower number of working days and low PMI. For the financial market, publication of next indicator below market consensus may be a signal for weakening expectations for further MPC's rate hikes, especially if inflation data will be lower than median forecast as well.

**Economy last week** – Awaiting crucial data and following foreign markets

- For the better part of last week, amid lack of local data releases the market in Poland was under influence of events abroad and responded to rising general risk appetite on world markets. This was assisted, among others, by the release of Fed minutes of September's meeting that included remarks that calmed down concerns about situation of US economy.
- International Monetary Fund has reduced its forecasts of GDP growth for 2008. Euro zone's economy is predicted to grow 2.1% (earlier 2.5%), US economy 1.9% (2.8%), and world economy should expand 4.8% (previously 5.2%).
- NBP's data about money supply showed strong rise in loans for companies and decline in their deposits in September (possibly, in effect of surge in investments). Rapid expansion of loans for households was maintained.

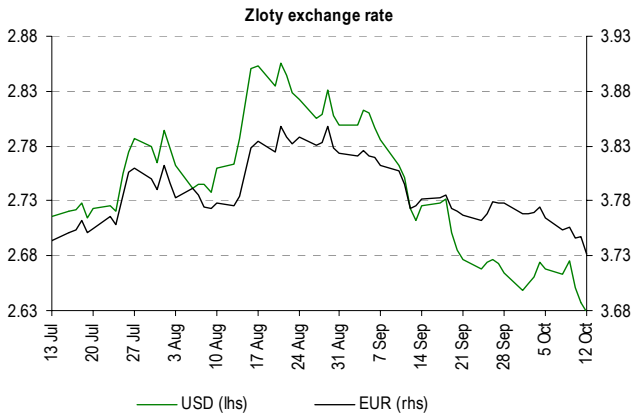
**Quote of the week** – Monday's data and zloty important for the MPC

**Jan Czekaj, MPC member, Reuters, 11 Oct**

*[Zloty appreciation] This is a good sign from the perspective of inflation. But we are now waiting for data, especially wages and inflation. Poland's fundamentals are strong and global markets sentiment is improving. That keeps the zloty strong.*

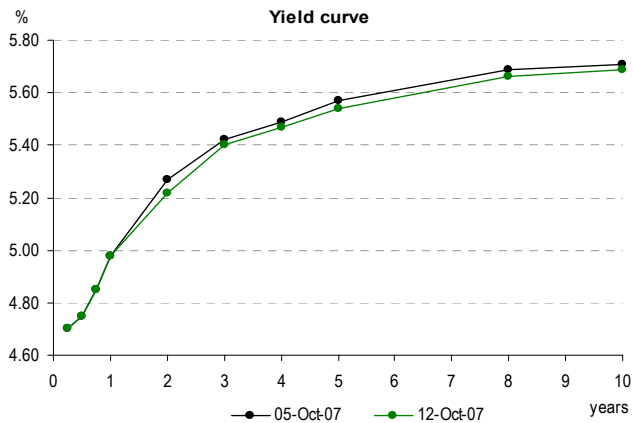
Although in the last communiqué the MPC wrote that a CPI drop in August was temporary, one could have impression that this data had significant effect on the softening of tone of MPC members' comments in the last month. Therefore, the data due on Monday may be also important for the MPC members' opinion on inflation outlook. If inflation is lower than predicted again, a consent about need for further rate hikes this year may weaken. Especially in the face of strong zloty appreciation observed recently.

**Market monitor**



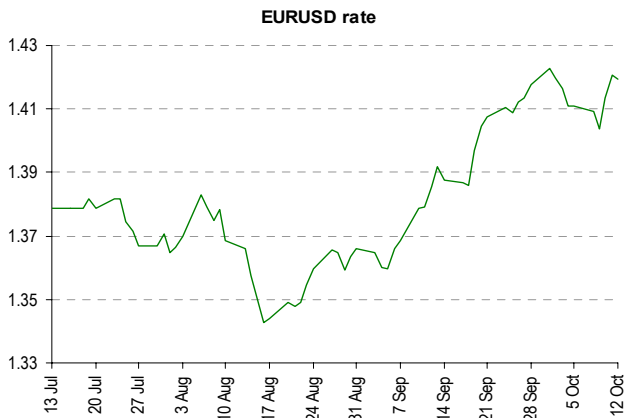
**Zloty strengthening amid falling risk aversion**

- During the week zloty appreciated against euro and dollar, together with other currencies in the region, thanks to higher appetite for risk on international markets. At the end of week, the EURPLN fell to the lowest level since 2002, and USDPLN dipped even more amid dollar plunge.
- On Thursday and on Friday, the EURPLN fell below the lower end of our forecasted band (3.73). Although we expect more zloty appreciation towards the end of the year (even below 3.70), in the short run some correction seems more likely. Our predicted band of currency fluctuations for this week is lower, at 3.70-3.80 for EURPLN and 2.60-2.70 for USDPLN.



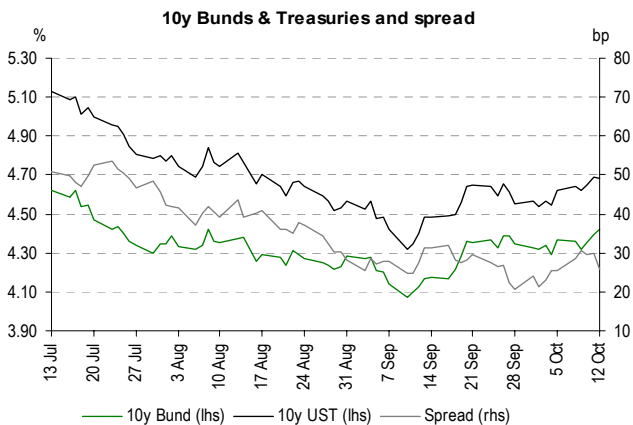
**Debt market awaiting new data**

- Bond market in Poland remained stable for the second straight week, amid lack of important events and information that could change expectations regarding interest rates prospects. Yields of bonds with shorter maturity fell slightly at the end of the week, among others after quite dovish statement of MPC's Jan Czekaj.
- This week may be more exciting because of new important data releases, crucial for the MPC. As we expect that CPI inflation and industrial output data will be below market consensus, the debt market should strengthen, and market expectations regarding pace and scale of future monetary tightening should weaken.



**Dollar under pressure again**

- US dollar started the last week with regaining previous losses, amid profit taking by some investors. It was also assisted, among others, by the release of Fed minutes that included suggestions that condition of American economy is not that bad, and next interest rate cuts may be not so soon. But at the end of the week, the EURUSD increased again, getting close to 1.42.
- The economic calendar for this week includes many events and publications that may affect the dollar. Key data releases include inflation numbers, indicators concerning economic activity in the world's biggest economy, as well as housing market data.



**Diminishing hopes for soon rate cuts in the US**

- Information and data released during the week, improved the assessment of American economy's perspectives and reduced investors' hopes for imminent rate cuts in the US. Although it failed to support the dollar for good, the core debt markets weakened and bond yields increased.
- There are several notable releases in the US this week, including industrial production and CPI reports for September, both of which will be closely watched for policy implications. In the euro zone, the German ZEW index could prove to be the highlight of a week. Markets will also be watching speeches from a number of Fed officials, including Bernanke. Wednesday's Beige Book could also provide some insights ahead of the next Fed meeting.

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