Bank Zachodni WBK

Weekly economic update

3 – 9 March 2008

After a series of surprisingly good data form the economy, which swept away concerns about a swift economic slowdown in Poland, the MPC has raised main interest rates by 25bp for a second time in a row, explaining this by a necessity to avoid second round effects. Reducing the time between the hikes indicates in our opinion that the next move may already take place in March, amongst others after data about high inflation rate in February.

There will be no domestic statistic data releases this week, however already at the beginning of the week an important information for the market will be published – February's inflation forecast of the Ministry of Finance. Its influence on the interest rate market may not be as high as recently because of the fact that in the last month the FinMin's forecast was far away from the reality. Besides, the market will surely wait for new comments of the MPC members, especially those whose votes may influence future MPC decisions (Czekaj, Sławiński).

Abroad, the economic calendar is filled with numerous important publications and events. Crucial for the EURUSD rate and bonds on the major markets may be a tone of the ECB chairman's comments after the meeting and potential suggestions concerning the possibility of rate cuts in the euro zone. There will be a lot of very significant indicators from the euro zone and the USA, amongst others PMI and ISM activity, HICP inflation figure, and data from the US labour market.

Economic calendar

Time GMT	COUNTRY	INDICATOR	PERIOD		FORECAST		LAST VALUE
					MARKET	BZWBK	
		MONDAY (3 March)					
9:00	EZ	PMI – manufacturing PMI	Feb	pts	52.3	-	52.8
10:00	EZ	Flash HICP	Feb	%YoY	3.2	-	3.2
15:00	US	Manufacturing ISM	Feb	pts	48.0	-	50.7
		TUESDAY (4 March)					
10:00	EZ	GDP	Q4	%	2.3	-	2.7
		WEDNESDAY (5 March)					
10:00	**PL**	**Auction of 5Y bonds**	**-**	**-**	**-**	**-**	**-**
10:00	EZ	Services PMI	Feb	pts	52.3	-	50.6
10:00	EZ	Retail sales	Jan	%YoY	0.1	-	-2.0
13:15	US	ADP report	Feb	'000	9	-	130
13:30	US	Unit labour costs	Q4	%	2.1	-	2.1
13:30	US	Labour productivity	Q4	%	1.8	-	1.8
15:00	US	Factory orders	Jan	%	-2.5	-	2.3
15:00	US	Services ISM	Feb	pts	47.0	-	41.9
		THURSDAY (6 March)					
12:00	GB	BoE meeting – decision	-	%	5.25	-	5.25
12:45	EZ	ECB meeting – decision	-	%	4.0	-	4.0
13:30	US	New jobless claims	w/e	'000	360	-	373
15:00	US	Pending homes sales	Jan	%	-1.0	-	-1.5
		FRIDAY (7 March)					
06:00	JP	Report after interest rate decision	-	-	-	-	-
13:30	US	Non-farm payrolls	Feb	'000	25	-	-17
13:30	US	Unemployment	Feb	%	5.0	-	4.9

Source: BZ WBK, Parkiet, Reuters

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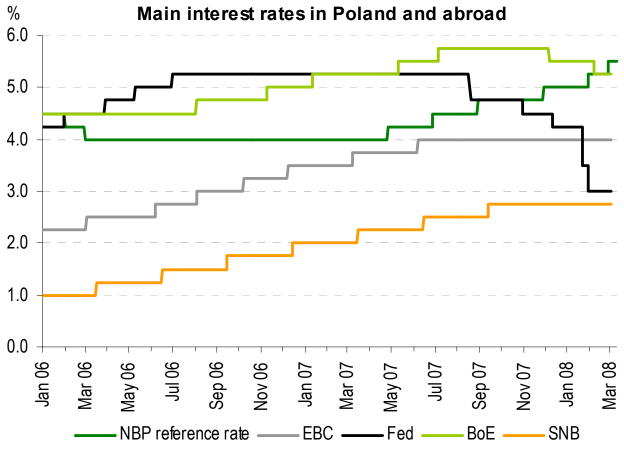
What's hot this week – No domestic data, but many events abroad



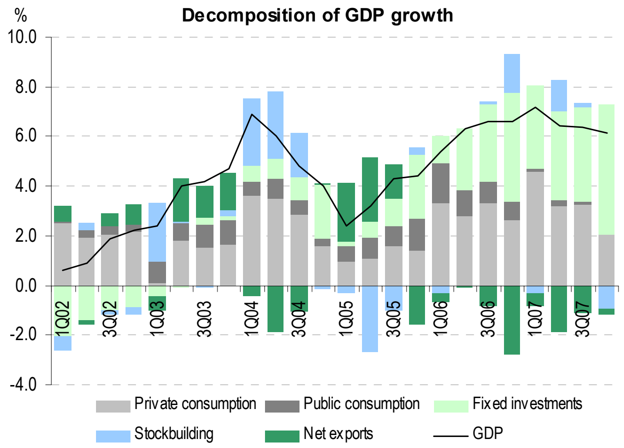
▪ This week there will be no local data releases, but we will see a lot of data and information from abroad.

▪ On Thursday the decisions of ECB and BoE will be released. In both cases the market expects the interest rates to stay on hold. However, a tone of the ECB chairman's comments after the meeting will be crucial for the EURUSD rate. If the comment lacks signals of rate cuts in the near future, the EURUSD may reach new record high.

▪ Equally important for the dollar may be data from the USA and the euro zone published during the week, indicating the condition of the world major economies.

▪ For the domestic bond market, the FinMin's CPI forecast for February will be crucial (we expect 4.6%) as well as potential comments of the MPC members, which as usual may be published in the media in the week following the MPC meeting.

Economy last week – Higher data, higher rates

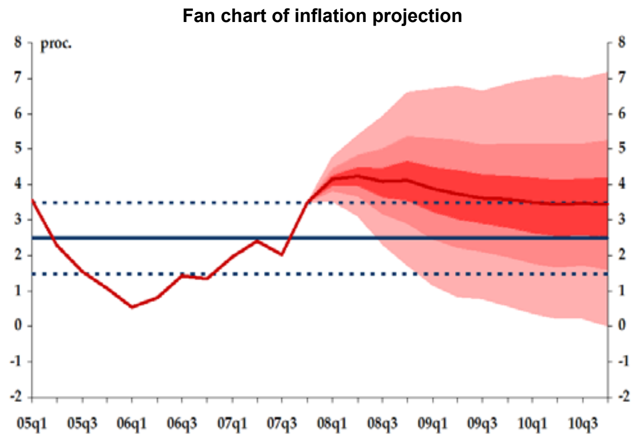


▪ January's retail sales data, like most statistics this month, were higher than expected. Retail sales grew by almost 21% YoY (real growth 15.9%) approving the good condition of the consumption demand supported by the fast growth of wages.

▪ Registered unemployment grew seasonally in January to 11.7%, however according to LFS survey jobless rate dropped to 8.5% in the fourth quarter of 2007 which is the lowest level in the history of this research.

▪ GDP growth in the fourth quarter accounted to 6.1% YoY which is just slightly higher than our forecast. Growth in personal consumption (3.8%) and investments (18.5%) matched exactly our predictions whereas the negative contribution of the foreign trade was smaller (-0.2 pp).

▪ GDP growth in the upcoming quarters will surely be below 6%, however taking January's data into account growth in the first quarter may be higher than the earlier estimated 5% YoY.



▪ The MPC decided for a second interest rate hike in a row, amongst others as to avoid second round effects in a situation of higher inflation caused by controlled prices and high pressure on the labour market.

▪ The latest inflation projection shows the CPI considerable higher than the last range (and above the upper end of fluctuations band around inflation target) till the end of the first half of 2009 but the later period is close to the October's projection.

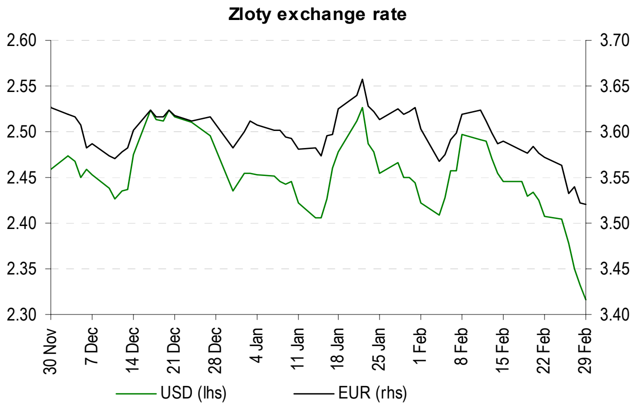
▪ According to the NBP, in the long run a risk for projection is biased downwards due to situation on the food market (possible deceleration in prices) and potential growth slowdown in the world economy. But one should remember the projection did not account for a risk of stronger hikes in gas prices and higher starting point (January CPI was not known at the time of preparing the projection).

Quote of the week – Three rate hikes in a row?

Andrzej Sławiński, MPC member, TOK FM, 28 Febraury
Taking the whole economic situation into account, it is hard to exclude that we are still in the monetary policy tightening cycle.
Jan Czekaj, MPC member, Reuters, 28 February
In March we will know the data for February which should give us a clearer picture of the economy.(…) Today I don't know if further rate hikes will be necessary.(…)High growth in wages a confirmation that the economy is still developing very fast, that means about 6.5% would militate in favour of a rate hike.
Dariusz Filar. MPC member, PAP, 28 February
In my opinion the target interest rate level didn't change. It is still around 6% for the key interest rate.

By deciding for a rate hike in February already a month after the last decision, the MPC has sent a signal, that in their appraisal the inflation perspectives worsened within the last month and that they prefer to raise interest rates in a faster pace to keep their general scale lower. Taking into account that our forecasts for February show another month with strong economic activity and high inflation, the next rate hike in March seems very likely. Even though the MPC members from the moderate caucus are not certain right now about a timing of future decisions, they are likely to support the next hike after seeing new set of strong data. After all, delivering a hike in February they confirmed they are ready to act faster than before.

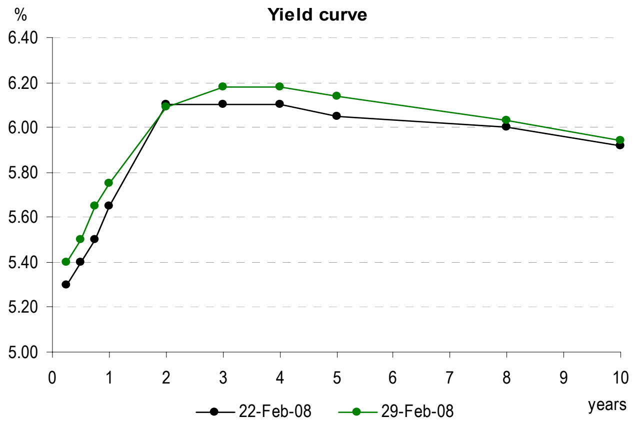
Market monitor



Zloty gaining strength

▪ Last week the zloty gained significantly, going below the ranges expected by us. This was related among others to a rise in market interest rates after stronger than expected retail sales data and outcome of MPC meeting. The zloty gained particularly against the dollar, as EURUSD rose to new highs.

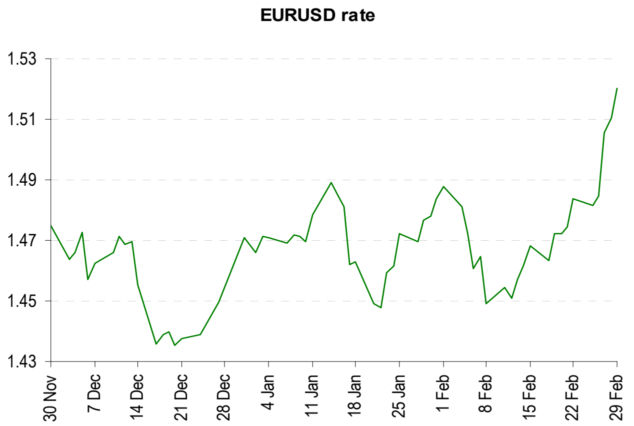
▪ This week a situation in the domestic FX market will depend mostly on development in the international markets due to lack of major domestic events (except for release of the FinMin's inflation forecast) and a large number of important events abroad. The zloty may further strengthen versus the dollar, so we lower expected range for EURPLN to 3.48-3.58 and for USDPLN to 2.26-2.36.



New data and MPC weakened bonds

▪ In reaction to higher than expected retail sales data and publication of statement after the MPC meeting, which was regarded by the market as hawkish, yields of local bonds increased last week. The market started to price in rate hikes to above 6% this year.

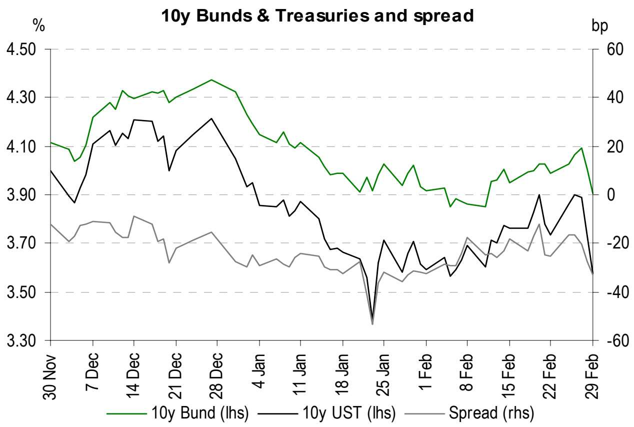
▪ At the very beginning of this week we will get an important information for the local debt market – the FinMin's estimate of CPI inflation in February. Our forecast and market consensus are at 4.6%. Besides, the Polish interest rate market will be under influence of many crucial data releases abroad and comments from ECB President after the decision meeting on Thursday. They may affect expectations regarding monetary policy actions in the euro zone.



Record weak dollar

▪ During the week there was s significant weakening of the US dollar, while the EURUSD rate set on Thursday a new record high level rising to 1.523. This was a reaction to further disappointing data from the US economy and comments of Ben Bernanke heralding further significant rates reduction.

▪ In the coming days the pressure on the dollar may increase even more, if the data from the United States are still going to be negatively surprise, and the signals from the ECB suggest no hurry with interest rate cuts. We do not rule out the EURUSD rate will test new record high levels, as the data from the United States are predicted to be weak again, which may trigger another wave of fears over recession.



Changing risk aversion affect the markets

▪ As far as the poor economic data from the United States had negative impact on the dollar and the global equity markets causing higher risk aversion, then at the same time they were positive for bonds in the core markets. In the past week yields of 10Y US government bonds lowered as much as 16 bp, while yields of 10Y German government bonds declined by 8 bp.

▪ This week the core debt markets may be significantly affected by large number of data releases in the US and the euro zone as well as by outcome of ECB meeting. The ISM indices expected to stay below 50pts and predicted low increase in non-farm payrolls will act in favour of low bond yields.

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