Bank Zachodni WBK

Weekly economic update

28 April – 4 May 2008

After a series of March data releases, much lower than forecast, there was a strengthening of opinion in the financial market that interest rates will remain unchanged this month, which is in line with our predicted scenario. The result of the MPC meeting will be announced on Wednesday in the middle of the day, and the Council's statement and comment to the decision will be presented at the press conference at 14:00 GMT (16:00 local time). If the MPC does not surprise this time, the decision and statement should have little impact on the market, due to the beginning of the long weekend in Poland. Investors' activity on the local market week will be limited in the further part of the. On Friday (the first working day of May) the Ministry of Finance may present its forecast of April's inflation, however it cannot be ruled out that a release will be delayed until Monday because of the long weekend.

In foreign markets, one could expect quite significant volatility of moods due to a big number of important events. On Wednesday evening the FOMC will make decision on US interest rates. The market predicts another rate cut, but its scale (50 or 25 bp?) as well as Fed comment may have significant impact on the EURUSD rate and debt markets. During the week, there will be a large number of data releases with US advance GDP and non-farm payrolls on the top of

Economic calendar

Time GMT	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST BZWBK	LAST VALUE
		TUESDAY (29 April)					
13:00	US	Case/Shiller index of home prices	Feb	%YoY	-	-	-10.7
14:00	US	Consumer confidence index	Apr	pts	62.9	-	64.5
		WEDNESDAY (30 April)					
	PL	**MPC meeting – decision**	**-**	**%**	**5.75**	**5.75**	**5.75**
	JP	BoJ meeting - decision	-	%	0.50	-	0.50
9:00	EZ	Economic sentiment index	Apr	pts	99.0	-	99.6
9:00	EZ	HICP flash	Apr	%YoY	3.4	-	3.6
12:15	US	ADP employment	Apr	k	-45.0	-	8.0
12:30	US	GDP advance	Q1	%	0.2	-	0.6
12:30	US	Core PCE	Q1	%	2.4	-	2.5
12:30	US	GDP deflator	Q1	%	3.1	-	2.4
13:45	US	Chicago PMI	Apr	pts	48.0	-	48.2
18:15	US	FOMC meeting – decision	-	%	1.75	-	2.25
		THURSDAY (1 May)					
	PL	**Market holiday**	-				
12:30	US	Core PCE	Mar	%MoM	0.2	-	0.1
12:30	US	New jobless claims	w/k	k	360.0	-	342.0
14:00	US	ISM manufacturing	Apr	pts	48.0	-	48.6
		FRIDAY (2 May)					
08:00	EZ	PMI manufacturing	Apr	pts	50.8	-	52.0
12:30	US	Non-farm payrolls	Apr	k	-73.0	-	-80.0
12:30	US	Unemployment	Apr	%	5.2	-	5.1
14:00	US	Factory orders	Mar	%	0.1	-	-1.3

Source: BZ WBK, Parkiet, Reuters

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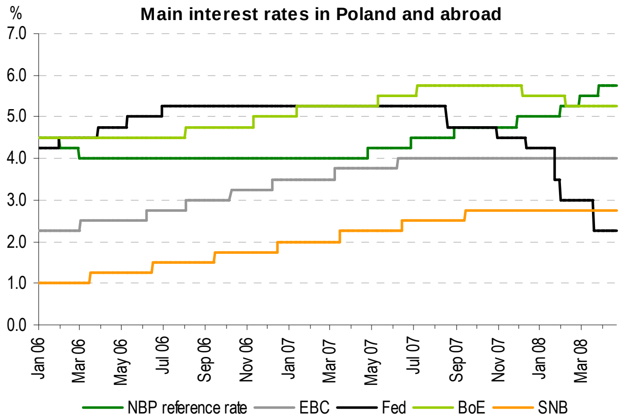
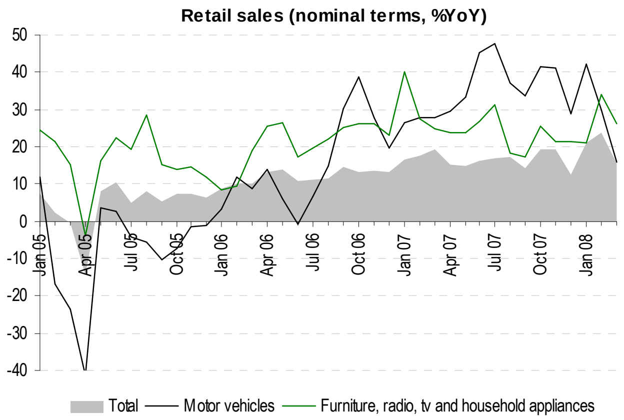
What's hot this week – MPC and FOMC decisions ahead of the long weekend

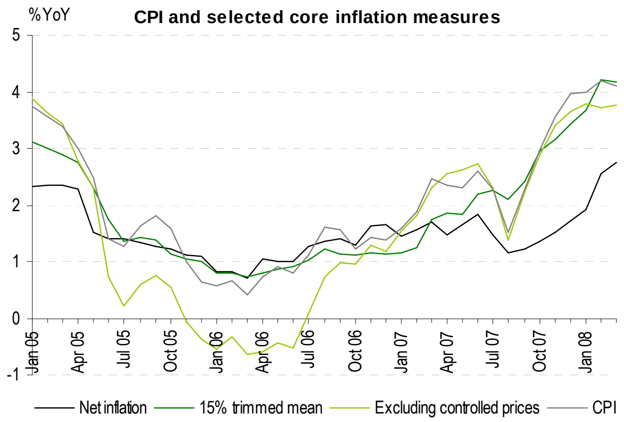


- Wednesday is a key day of the nearest week, when the Monetary Policy Council in Poland and the Federal Reserve in the US will make decision about interest rates.
- We predict that local interest rates will remain unchanged this month, as after a series of lower than expected data the majority of MPC members will prefer to wait for more information to assess how persistent is deterioration of economic climate.
- Next interest rate cut aimed at reviving the economy is predicted in the US. Most of analysts expect a 25 bp cut, however there are voices about possible lower reduction.
- On Friday, the Ministry of Finance may release a forecast of April's inflation. We predict a drop in CPI growth to 4.0%.
- There will be a large number of important data releases abroad, including US GDP figures, non-farm payrolls and busines climate indices, plus euro zone's inflation.

Economy last week – New arguments for a pause in monetary tightening



- Retail sales growth decelerated in March to 15.7%YoY from almost 24% in February, against market predictions at 21% and our forecast 19%YoY. Real sales growth slowed down to 11.7%YoY from 19.2% one month earlier. At the same time, deflator of retail sales decreased in March to 3.6%YoY from 3.9% in February, which is another positive news about inflationary pressure in March.
- Right now, it is hard to determine to what extent worse results in March were a temporary phenomenon connected with earlier Easter, and to what extent it is a herald of economic slowdown. However, the latest publications give arguments to wait with monetary tightening.
- Registered unemployment rate decreased in March to 11.1%, in line with Labour Ministry's estimate. According to our forecast, jobless rate will fall to one-digit level in May.



- Core net inflation increased in March to 2.7%YoY, in line with our forecast. Remaining four measures of core inflation remained close to 4%. Path of core inflation predicted by us shows a transmission of inflationary pressure to a rise in net inflation to ca. 4% at the end of Q3, and later on a gradual decline should take place.
- According to the results of MPC voting released last week, in February seven MPC members supported monetary tightening. Only Mirosław Pietrewicz, Stanisław Nieckarz and Stanisław Owsiak were against a 25 bp hike.
- Minutes of the MPC meeting in March showed that there were many dovish arguments voiced during the discussion last month. The rate hike decision shows that concerns related to rising wage pressure and possible above-potential GDP growth predominated in March, however after latest weaker data those concerns have probably waned.

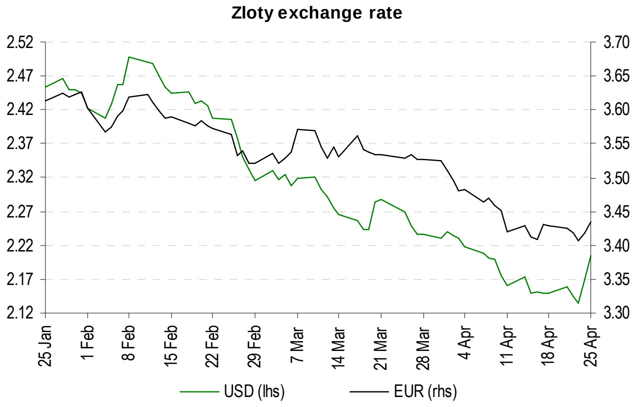
Quote of the week – Lower data and strong zloty important for some of the MPC members

Andrzej Sławiński, MPC member, PAP, 22 April

On one hand, business climate indicators still show a good situation in our economy, which implies that monetary policy tightening cannot be ruled out. On the other hand, acceleration of zloty strengthening was a factor that tightened monetary policy this month. [...] Faster zloty appreciation is still relatively short, but one cannot ignore potential threats that may arise if the zloty soars above the path of appreciation of equilibrium exchange rate.

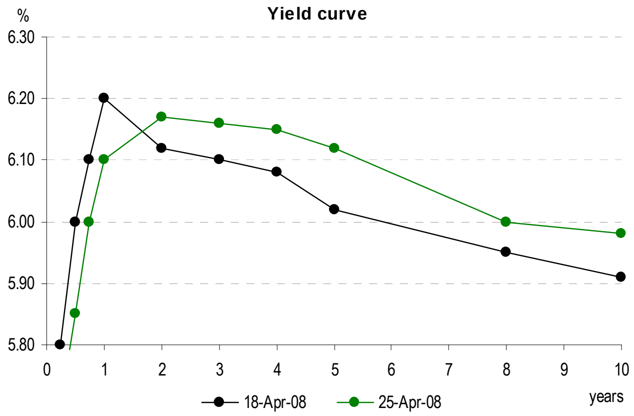
The latest comments of the "hawkish" MPC members (Filar, Noga, Wojtyna) show that despite weaker data they will vote in favour of fourth straight interest rate hike in April. However, for the interest rate decision crucial will be opinions of MPC member with more balanced views. According to Jan Czekaj, production data and zloty appreciation are arguments against rate hike this month. Also Andrzej Sławiński's comments suggest he is likely to opt for a pause in monetary tightening. Without support of those two members, a motion to raise interest rates once again will not get enough support (assuming that the NBP president will be also against a rate hike this month).

Market monitor



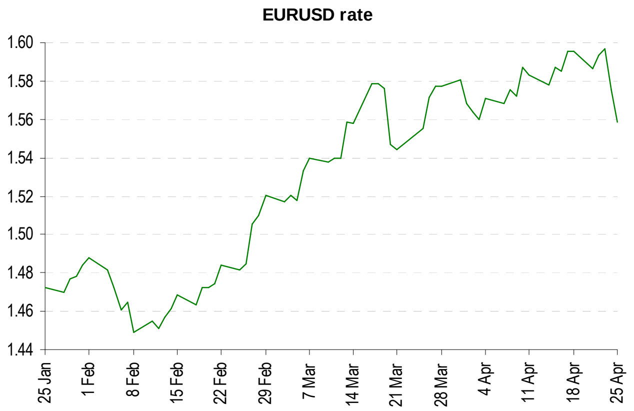
Correction of the zloty towards the end of the week

- For the better part of last week the zloty was remaining strong, being traded within narrow range. However, towards the end of the week a quite significant weakening of the domestic currency took place, following considerable drop in EURUSD. As a result, EURPLN topped 3.43.
- Amid limited market liquidity this week, one can expect a possibility of higher volatility in the FX market in the next days, similarly as it happened during May weekends in previous years. We predict continuation of the zloty correction, but much will depend on what sentiment is prevailing in the global markets under influence of next data releases in the US. We see EURPLN in a range of 3.40-3.50 and USDPLN in 2.13-2.23.



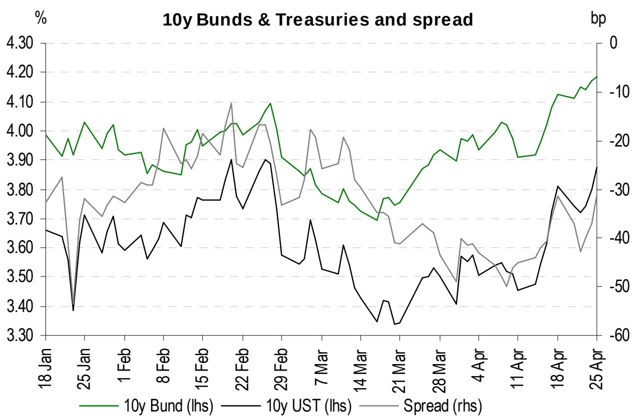
Yields slightly up after clear earlier drop

- Last week yields of domestic bonds moderately increased, despite next weaker than expected data (retail sales) and comments from MPC members suggesting a pause in hikes in April. Activity in the local debt market was limited as investors were waiting for the MPC meeting and decision this week.
- Materialization of our expectations that the MPC will leave rates on hold should have slightly positive impact on the market this week, but with limited liquidity in the market we do not expect large changes in yields. Full reaction to a decision of the MPC and its official statement as well to the FinMin's estimate of CPI inflation in April should take place already after the long weekend.



Significant recovery of the dollar against the euro

- After initial weakening of the dollar against the euro at the start of the week when the EURUSD temporarily broke through 1.60, in the next days there was a substantial recovery, among others due to negative news from the euro zone, positive results of the US financial companies and weakening expectations for deep interest rate cuts in the US. In the result, the EURUSD rate was at 1.56 at the end of the week.
- The important data from the US to be released this week contain downside risks for the dollar. However, the Fed decision and its justification is going to be of key importance for the trend for next days. Concerns that the US central bank will end the interest rate cuts sooner than the market expected, were growing recently. Confirmation of these fears would act in favour of the dollar.



Inflation fears boost yields

- During the week there were significant fluctuations in the core debt markets. The fears over the performance of financial sector and unfavourable financial results of some companies (among others Bank of America) supported the strengthening of the market. On the other hand concerns over inflation, falling expectations on interest rate cuts in the United States and in the euro zone as well as planned high supply of US government bonds at auction put pressure on higher yields. Towards the end of the week an increase appetite for risk also player a role.
- Direction of changes in the core debt markets this week will depend on outcome of the FOMC meeting and next data from the US and the euro zone.

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