Bank Zachodni WBK

Weekly economic update

14 – 20 July 2008

This week we will see a set of data of key importance in assessment of inflation outlook and future decisions of the Monetary Policy Council. The most important will be data about CPI, wages and employment, due for release on Tuesday. After two-days break, also industrial output data may have impact on the market, as they will hint whether a long-awaited slowdown has already started materialising. Data about balance of payments will probably show clear slowdown in export growth and deepening of current account gap in May, which may stop the zloty from going down South, at least for a while. Especially if data about inflation and wages will not be higher than predicted by the market, which will confirm expectations for a pause in interest rate hikes.

Calendar of economic data releases abroad is also heavy this week. The market will pay close attention to data about inflation in the euro zone and in the US, as well as production figures for both areas, business climate indicators and news from the US housing market. With a host of companies due to report half year earnings, the performance of stock markets will be closely watched, as will the Fed Chairman Bernanke's speeches on Tuesday and Wednesday.

Economic calendar

Time GMT	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST BZWBK	LAST VALUE
		MONDAY (14 July)					
9:00	**PL**	**T-bill auction: 13-week worth PLN0.5bn and 52-week worth PLN1.2bn**					
12:00	**PL**	**Money supply**	**Jun**	**%YoY**	**15.6**	**16.1**	**15.0**
9:00	EZ	Industrial production	May	%YoY	0.3	-	3.9
		TUESDAY (15 July)					
12:00	**PL**	**CPI**	**Jun**	**%YoY**	**4.5**	**4.6**	**4.4**
12:00	**PL**	**Wages in enterprises sector**	**Jun**	**%YoY**	**11.2**	**10.8**	**10.5**
12:00	**PL**	**Employment in enterprises sector**	**Jun**	**%YoY**	**5.2**	**5.0**	**5.4**
12:00	**PL**	**Balance of payments**	**May**	**€bn**	**-1.690**	**-1.768**	**-1.550**
9:00	DE	ZEW index	Jul	pts.	-55.0	-	-52.4
12:30	US	NY Fed index	Jul	pts.	-7.5	-	-8.68
12:30	US	PPI	Jun	%MoM	1.2	-	1.4
12:30	US	Retail sales	Jun	%MoM	0.5	-	1.0
		WEDNESDAY (16 July)					
9:00	EZ	Final HICP	Jun	%YoY	4.0	-	3.7
12:30	US	CPI	Jun	%MoM	0.7	-	0.6
13:00	US	Overall capital flows	May	$bn	-	-	60.6
13:15	US	Capacity use	Jun	%	79.3	-	79.4
13:15	US	Industrial production	Jun	%MoM	0.0	-	-0.2
		THURSDAY (17 July)					
12:30	US	Building permits	Jun	m	0.96	-	0.978
12:30	US	House starts	Jun	m	0.96	-	0.975
12:30	US	Jobless claims	w/k	k	378.0	-	346.0
14:00	US	Philadelphia Fed index	Jul	pts.	-14.8	-	-17.1
		FRIDAY (18 July)					
12:00	**PL**	**Industrial production**	**Jun**	**%YoY**	**10.2**	**7.9**	**2.3**
12:00	**PL**	**PPI**	**Jun**	**%YoY**	**2.9**	**2.8**	**2.8**

Source: BZ WBK, Parkiet, Reuters

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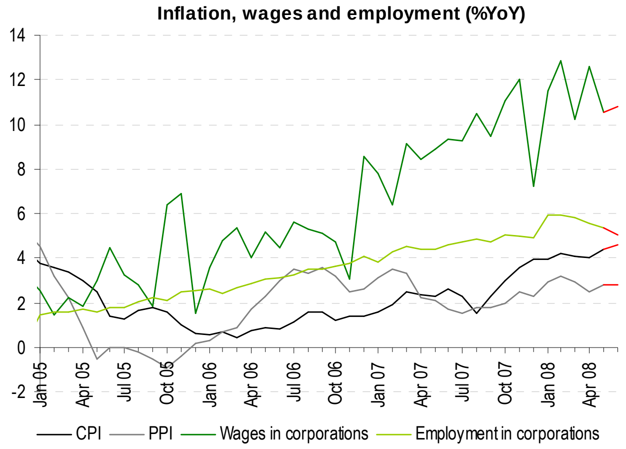
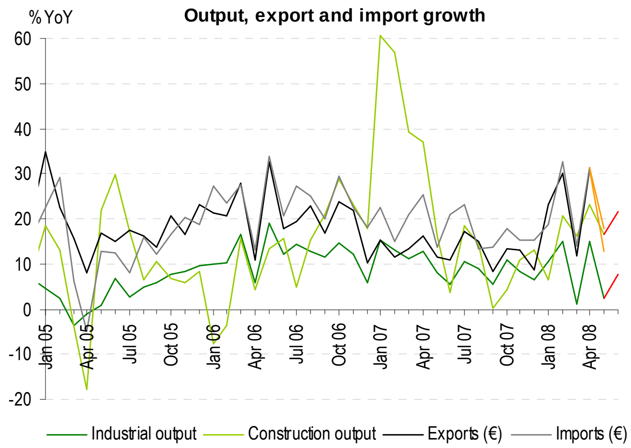
What's hot this week – Heavy data calendar in Poland and abroad



▪ We have next hot summer week ahead. Although the weather in Warsaw is forecasted moderately good, temperature in the financial market will rise because of crucial data releases. The hottest day will be Tuesday when data about CPI, wages, employment and balance of payments will be released.

▪ Inflation and labour market figures, as well as possible comments of MPC members following them, will be key in assessment of monetary policy perspectives. We predict slightly higher CPI than the market, but lower growth in wages and employment suggesting that labour market tensions are abating. In sum, this should support debt market.

▪ Food prices in June may give important hint about CPI behaviour in the summer holiday period. We predict food prices to decline 0.8%MoM.

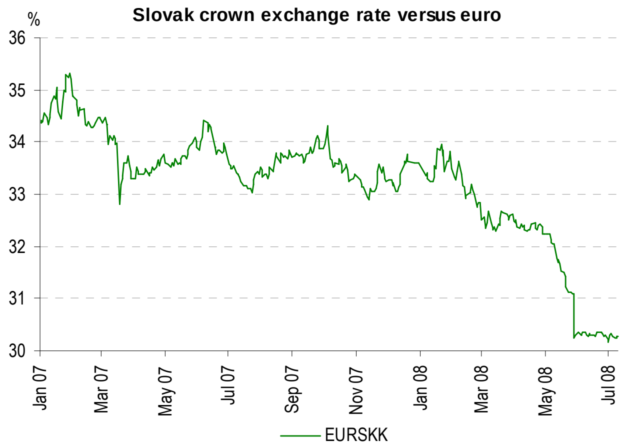


▪ Another inflationary hint will appear on Friday along with PPI data. We predict no clear sign of rising price pressure among producers and stabilisation of PPI growth at 2.8%.

▪ Production growth in industry and construction probably rebounded in June, amid higher number of working days. However, we expect to see lower growth than predicted by market median forecast, which is supported by a clear decline in PMI index last month.

▪ Balance of payments data are likely to show a clear deterioration of export and import growth in May, in line with much slowed growth in production and sales in this month. Current account deficit will probably rise again, reaching 4.8% of GDP in 12-month cumulative terms.

Economy last week – Slovakia allowed to join euro zone in 2009



▪ Finance ministers of 27 EU states made final decision about Slovakia's entry to the euro zone in January 2009. Irrevocable exchange rate of the Slovak crown versus euro was set at the level of last central parity in the ERM-2.

▪ At the same time, the ministers decided about abrogation of excessive deficit procedure against Poland.

▪ Finance minister Jacek Rostowski is afraid the zloty may be subject to sharp appreciation after entering the ERM-2. In our opinion, it will not take place anytime soon though.

▪ In line with expectations, the Bank of England maintained main repo rate unchanged at 5.0%.

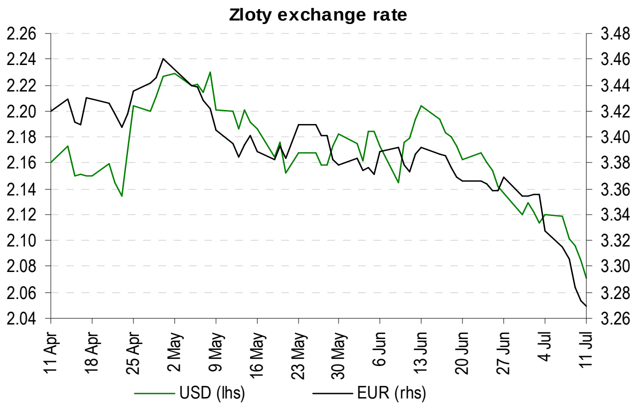
▪ Last week saw extremely high volatility in the commodities markets. Crude oil prices fell significantly to $134 p/b at the start of the week, and then resurged setting new record of above $147 on Friday.

Quote of the week – Strong zloty may delay rate hikes?

Dariusz Filar, MPC member, Reuters, 8 July
Strong zloty is our ally in fighting inflation. (...) If such rate persists or is close to current level, then perhaps a path of future inflation would be lower, which would give some chance for smaller rate hikes.
Mirosław Pietrewicz, MPC member, Reuters, 8 July
From the point of view of inflation, zloty appreciation is good. But sharply strengthening zloty is very bad for the economy. (...) There should be no change in monetary policy until October. What happens after October.. we will have the new projection that will be a basis for discussion about future.

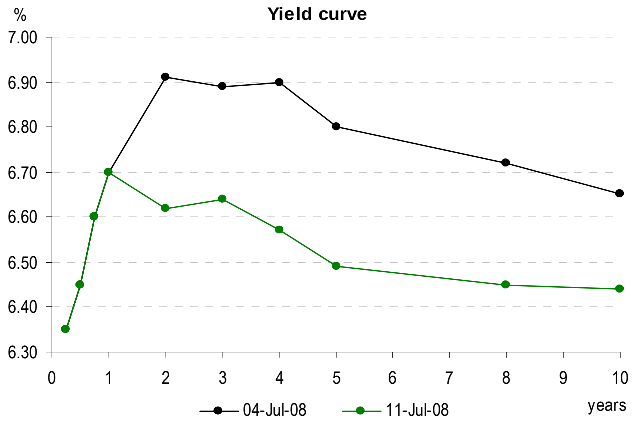
Exchange rate of the zloty is a factor seriously taken into account by the MPC when making decisions about interest rates. It is confirmed by central bankers' comments. Two MPC members from the opposite ends of our breakdown of central bankers' restrictiveness commented the new records of the zloty in a similar way. It should be noted that the most hawkish Filar admitted that the zloty can partially do the work for the MPC in reducing inflation, and at the same time the most dovish of all Pietrewicz does not rule out chance for interest rate hike, although not earlier than in October. It confirms our scenario of rate rise to 6.25-6.50% after summer holidays.

Market monitor



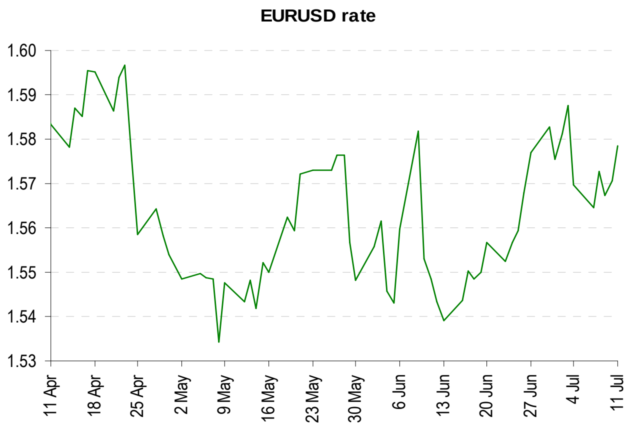
The zloty reaches new all-time highs

- The pace of zloty appreciation accelerated significantly last week. Since last Friday the EURPLN rate fell by 0.05, breaking important technical barriers. The scope of zloty strengthening against the dollar was similar. The trend was not stopped by changing moods in global markets and elevated risk aversion. At the end of the week the zloty hit new record-high levels of 3.26 against the euro and 2.05 against the dollar.
- We think that further zloty appreciation is limited and we would even expect a correction on the market, which may be caused by data showing deterioration in external trade and confirming a few months break in interest rate hikes. We see the trading range for this week at 3.24-3.34 for EURPLN (asymmetric on the upside) and 2.03-2.13 for USDPLN.



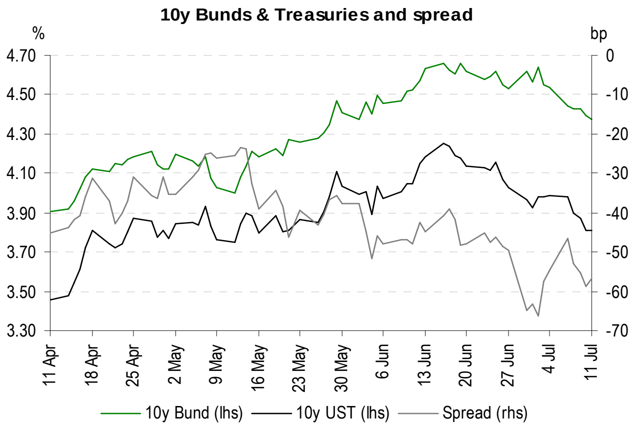
Moods improved on the interest rate market

- After a significant rise in yields in recent weeks when the bearish mood prevailed, the last coupe of days saw a sharp improvement in sentiment. This was driven by low supply of bonds at the auction, significant zloty appreciation interpreted as limiting chances for further rate hikes, as well as positive moods towards bonds observed in international markets.
- If June's data show no significant surprise, yields should be maintained close to current levels. A negative impact of moderate inflation increase should be offset by lower tensions in the labour market, as well as lower than consensus industrial production. Still, strong zloty will improve inflation prospects. On the other hand, a possible change in moods abroad may be a negative factor if record-high oil price will arouse global inflation fears again.



Dollar weaker on politics and credit markets problems

- The American currency lost quite significantly at the end of the week, which was mainly connected with rising fears regarding possibility of conflict in the Middle East after some information on missile test by Iran and military actions by Israel. Data from the US economy, which were slightly better than expected, and officials' comments on strong dollar policy influenced the foreign exchange market only temporarily. On Friday the EURUSD broke through 1.59.
- This week both economy and politics will drive the market. A number of economy data will be released in both the US and the euro zone. If the data influence expectations regarding official interest rates, this may influence the EURUSD rate. With a host of companies due to report half year earnings, the performance of stock markets will be closely watched.



Core bond markets stronger

- Practically the whole previous week yields of bonds were in the downward trend, which was caused by high uncertainty in the equity markets and higher interest of investors in buying assets of lower risk due to complicating geopolitical situation.
- The situation of the global fixed income market is hard to predict for the next couple of days. On the one hand, data will confirm weakness in the American and euro zone's economy, which should increase demand for bonds. The risk of conflict in Iran will work in the same direction. At he same time, however, data on inflation in the US and the euro zone and the new record-high oil price may increase investors' fears regarding monetary tightening. Similarly as for the foreign exchange market, comments of Fed governor and minutes of the last Fed meeting will be important.

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