Bank Zachodni WBK

Weekly economic update

24 – 30 November 2008

Local macro data for October released last week (output, CPI, wages and employment) confirmed economic slowdown, although on a moderate scale so far. Data due for release his week (retail sales, unemployment, GDP) should be in similar tone. However, one should be aware that impact of the global crisis on Poland will lagged, and only data for the next months and quarters will show the real scale of damages in the Polish economy. In face of the growing risks for domestic economic growth and improving local inflation outlook amid strong disinflationary tendencies globally, the MPC is likely to change its informal policy bias to easing from neutral at this week's meeting. However, we think the first rate cut is not going to be delivered before the end of this year (before the MPC makes sure about scale of slowdown), but depending on upcoming data it could be larger move than 25bps. Abroad we will see many data releases in the first part of the week, mainly in the US, and the market could be volatile. At the start of the week, the European Commission will reveal a stimulation package for the economy.

Economic calendar

Time GMT	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST BZWBK	LAST VALUE
		MONDAY (24 November)					
10:00	**PL**	**Tender of 0.2-0.7bn 13-week and 0.8-1.8bn 52-week treasury bills**					
9:00	DE	Ifo index	Nov	pts.	88.7	-	90.2
10:00	EZ	Industrial orders	Sep	%YoY	-1.9	-	-6.6
15:00	US	Home sales	Oct	m	5.05	-	5.18
		TUESDAY (25 November)					
7:00	DE	GfK index	XII	pts.	1.5	-	1.9
13:30	US	GDP preliminary	Q3	%	-0.5	-	-0.3
13:30	US	GDP deflator	Q3	%	4.2	-	4.1
13:30	US	Core PCE	Q3	%	2.9	-	2.9
14:00	US	Case/Schiller index	Sep	%YoY	-17.0	-	-16.6
15:00	US	Consumer confidence	Nov	pts.	39.0	-	38.0
		WEDNESDAY (26 November)					
9:00	**PL**	**Retail sales**	**Oct**	**%YoY**	**9.1**	**9.1**	**11.6**
9:00	**PL**	**Unemployment rate**	**Oct**	**%YoY**	**8.9**	**8.9**	**8.9**
	PL	**MPC meeting – decision**		**%**	**6.0**	**6.0**	**6.0**
13:30	US	Core PCE	Oct	%MoM	0.1	-	0.2
13:30	US	Durable goods orders	Oct	%MoM	-2.2	-	0.9
13:30	US	Jobless claims	week	'000	536	-	542
14:45	US	Chicago PMI	Nov	pts.	36.5	-	37.8
14:55	US	Michigan final	Nov	pts.	56.0	-	57.6
15:00	US	New home sales	Oct	'000	450	-	464
		THURSDAY (27 November)					
	US	Market holiday					
9:00	EZ	M3 money supply	Oct	%YoY	8.1	-	8.6
10:00	EZ	Business climate	Nov	pts.	-1.5	-	-1.34
		FRIDAY (28 November)					
9:00	**PL**	**GDP**	**Q3**	**%YoY**	**4.75**	**4.5**	**5.8**
10:00	EZ	HICP flash	Nov	%YoY	2.4	-	3.2

Source: BZ WBK, Parkiet Reuters, PAP;

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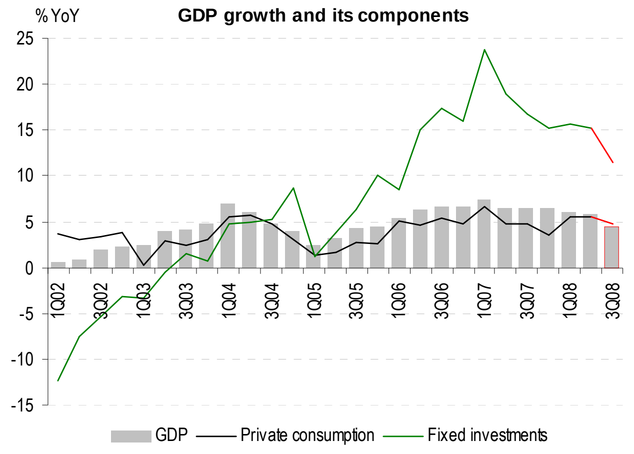
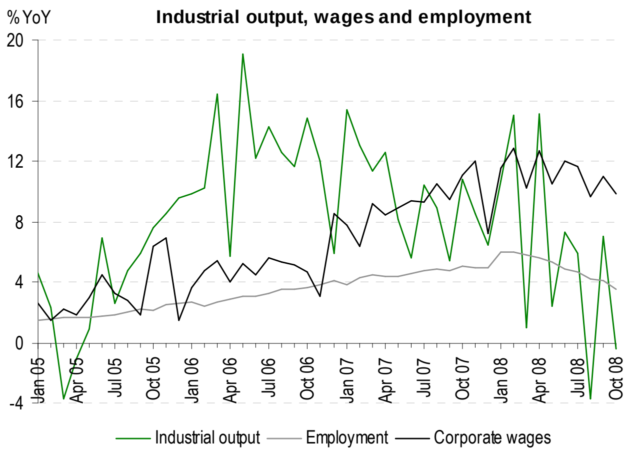
What's hot this week – MPC, GDP, and many data releases abroad

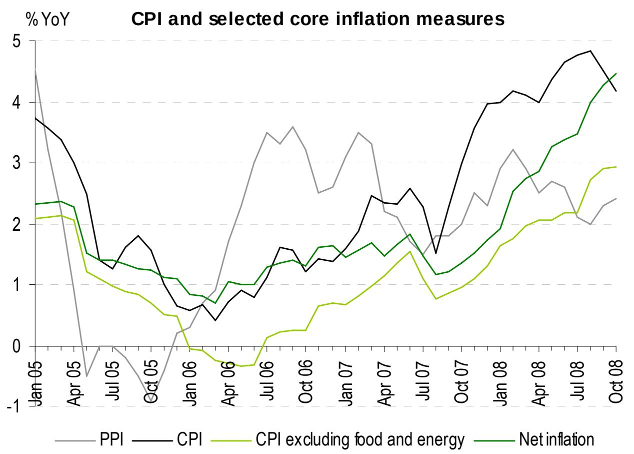


- The last week of November will be very busy for the markets. Locally the key focus of attention will be the MPC meeting on Wednesday and GDP data for Q3 on Friday. Abroad we will get many major data, mostly from the US, as well as announcement of EC's stimulation package.
- We expect the MPC to change its informal bias from neutral to easing, but a rate cut is likely to wait until the beginning of 2009 after next data are analysed.
- Data on retail sales for October (due for release before the MPC decision) and GDP for Q3 (Friday) should show moderate slowdown (retail sales up 9%YoY, GDP 4.5%YoY). More rapid growth slowdown will be observed next year.
- Prime Minister is going to meet representatives of parliamentary caucuses to discuss euro adoption plan. Possibly PM will shed more light on how he intends to find political support for the government's plan.

Economy last week – Weaker data from labour market and industry



- Industrial production rose 0.2%YoY in October (0.5% after seasonal adjustment), which was slightly above our forecast, but well below market expectations. In construction sector, situation was still not that bad (over 10% growth), however it is unlikely that this will last in the following months.
- Deterioration in prospects of economic growth was also confirmed by financial results of companies for Q3 (net profits fell in annual terms for the fist time in three years).
- Data about wages and employment confirmed a gradual cooling down of labour market situation, however wage slowdown was smaller than expected. In the subsequent months one should expect a gradual continuation of this trend, which will have negative impact on future consumption spending. On the other hand, this impact will be moderated, among others, by tax reduction and fall in inflation.



- Most of core inflation measures fell in October, with exception of net inflation (rise to 4.5% from 4.3%YoY) and CPI excluding food and energy prices (stable at 2.9%). Nevertheless, inflation will definitely fall next year due to weaker demand and lower prices of commodities.
- PPI growth reached 2.4%YoY in October, which was consistent with market consensus and below our forecast of 2.5%. One should notice that data for September were revised substantially – from 0.2%MoM and 2.1%YoY to 0.3%YoY and 2.3%YoY. A fall in prices in October was triggered mainly by changes in mining sector, although in manufacturing also a decline was recorded (-0.2%MoM), which was due to fall in commodities prices.
- Business climate indices fell sharply year-on-year across all sectors in November, CSO survey showed.

Quote of the week – Is it possible to reach political consensus on euro adoption?

Donald Tusk, PM, PAP, Reuters, 20 November

I think that there is time until the end of this year to reach an agreement between all political forces. (…) If there is common sense, we will agree a road map, or there will be strong opposition and we will look for other options (…) The project is feasible, I do not give up.

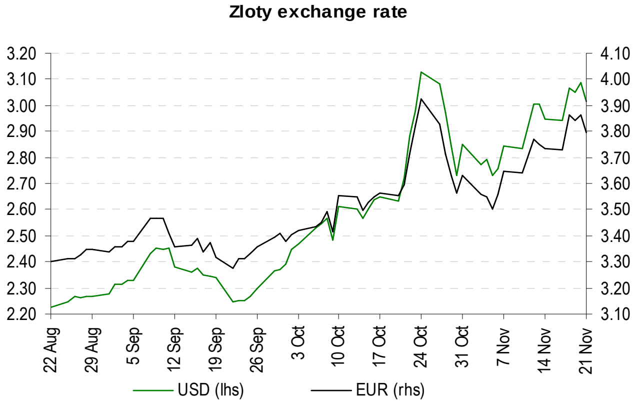
For 100% [2012 is viable date of euro adoption] (…) I do not hide that I want to persuade PiS leaders to support the project.

Jarosław Kaczyński, PiS President, Reuters, 20 November

We are ready for talks and a referendum, but you won't convince us that in times of crisis Poland needs to adopt the euro because this is a policy ... against investment and fast growth. There will be no support for such policy.

According to PM Tusk, the plan of swift euro adoption in 2012 is viable in 100%, and if the opposition does not agree for changes in the constitution, he will "look for other ways". As for now we do not know what "other ways" are given that PiS still strongly opposes fast euro adoption. The possible solution could be early election, but PM excluded such option in one of his comments recently. This week there will be next talks on the euro adoption issue in the Sejm, but a change in opposition's stance is highly unlikely. Meanwhile, everyone agree that the zloty should not enter ERM2 before changes in the constitution. Moreover, even PM admits that without wide political consensus on euro adoption the ECB and the EC are unlikely to agree for Poland's entry to the euro zone. The referendum could decide, but the most recent public opinion poll, carried out in November, showed only 20% of Poles support euro adoption in Poland in 2012.

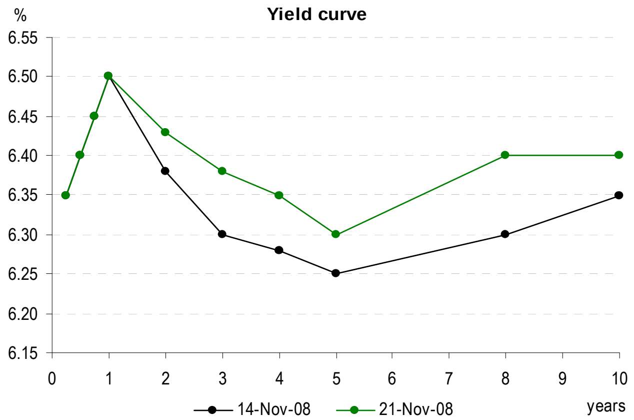
Market monitor



Zloty under pressure of risk aversion

▪ Deep falls in global stock markets and heightened risk aversion, reflecting growing concerns about scale of recession in world's major economies, led to weakening of the zloty and other EM currencies. EURPLN broke 3.80 already at the beginning of the past week, in next days ranged in 3.80-3.87 and at the end of the week rose to nearly 3.89.

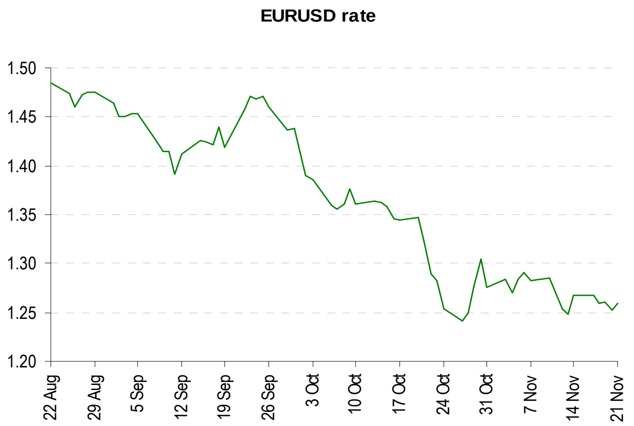
▪ In the next days situation in the domestic FX market will remain under influence of changes in moods in the global markets. There will be many data releases abroad, which are likely to confirm gloomy prospects for the global economy and negatively affect the zloty. On the other hand, presentation of the EC's Economic Regeneration Package could support the euro and the zloty.



Slight yields changes with very limited liquidity

▪ At the beginning of last week, together with increase in risk aversion, there was weakening of domestic bonds, which did not reverse later in the week. At the same time, FRA and IRS rates were falling as macro data for October released last week strengthened market expectations of rate cuts by the MPC. The NBP carried out first FX swap operation in CHF for longer term than 7 days and WIBOR rates slightly fell.

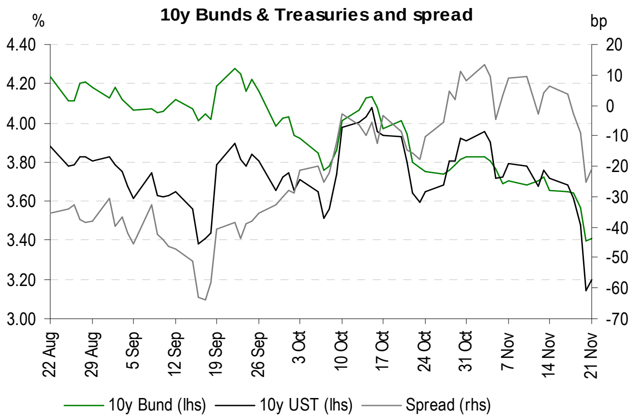
▪ Unless risk aversion in the global markets decreases, interest in Polish bonds will remain limited. However, the new proposal of the European Commission could improve market sentiment. Further actions within the framework of the NBP confidence package should lead to further improvement in situation in the domestic money market.



Dollar gains on growing recession fears

▪ New wave of fear in the international financial markets about scale of global recession, possibility of deflation in the US and deeper than previously predicted losses of companies triggered another flee to safe assets, leading to appreciation of US dollar ant Japanese yen.

▪ This week, volatility in world FX markets may be high due to numerous data releases and possible information about new interventionist measures to fight economic crisis (European Commission will reveal stimulus package worth €130bn). At the end of the week, activity in international markets will be lower due to Thanksgiving Day in the US.



Record gains in core debt markets

▪ Amid massive flee to quality and growing speculation that Fed may trim rates to zero to fight deflation, core debt markets strengthened substantially. Yields of US 2Y Treasuries fell below 1%, the lowest level in history, while yields of 10Y Treasuries dropped temporarily below 3%, falling over 50 bp since previous Friday.

▪ Changes this week will be largely dependent on whether higher impact on investors' moods will have new economic data in US and euro zone (which are likely to confirm gloomy picture) or news about new interventionist measures to fight recession (EU package).

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