

Weekly economic update

4 – 10 May 2009

After long May weekend, liquidity in the European markets may remain limited, among others due to market holiday in London on Monday. However, there will be several news, which may influence the fluctuations of investors' moods. In the domestic stage on Monday there will be two key releases: PMI and inflation forecast of the Ministry of Finance. At the start of the week the European Commission is going to publish its updated macroeconomic forecasts for EU countries, and after this release a recommendation on starting excessive deficit procedure against Poland may be issued. After the weekend in the US a report summing up the results of stress-tests for the US banks will be published. More news after the weekend about growing pace of swine flu spreading may also affect the market sentiment. During the week there will be a number of important macroeconomic data releases in the euro zone and in the US. Decisions of the central banks in Europe (ECB and Bank of England), as well as releases of next Q1 earning reports of companies (including some domestic banks) may also be important.

Economic calendar

Time GMT	COUNTRY	INDICATOR	PERIOD		FORECAST		LAST VALUE
					MARKET	BZWBK	
MONDAY (4 May)							
	GB	Market holiday					
9:00	PL	PMI	Apr	pts.	43.2	43.9	42.2
9:58	EZ	PMI – manufacturing	Apr	pts.	36.7	-	33.9
11:00	PL	Auction of 25- and 52-week T-bills worth PLN2.2-2.5bn					
16:00	US	Pending home sales	Mar	m		-	82.1
TUESDAY (5 May)							
	JP	Market holiday					
11:00	EZ	PPI	Mar	% r/r	-2.9	-	-1.8
16:00	US	ISM – services	Apr	pts.	42.0	-	40.8
WEDNESDAY (6 May)							
	JP	Market holiday					
9:58	EZ	PMI – services	Apr	pts.	43.1	-	40.9
11:00	EZ	Retail sales	Mar	% r/r	-2.6	-	-4.0
11:00	PL	Bond switching auction					
14:15	US	ADP report	Apr	k	-700	-	-742
THURSDAY (7 May)							
12:00	DE	Factory orders	Mar	%	-0.5	-	-3.5
13:00	GB	BoE meeting – decision		%	0.5	-	0.5
13:45	EZ	EBC meeting – decision		%	1.0	-	1.25
14:30	US	New jobless claims	w/e	k		-	631.0
14:30	US	Labour costs	Q1	%	3.1	-	5.7
14:30	US	Labour productivity	Q1	%	0.4	-	-0.4
FRIDAY (8 May)							
14:30	US	Non-farm payrolls	Apr	k	-631	-	-663
14:30	US	Unemployment rate	Apr	%	8.8	-	8.5
16:00	US	Wholesale inventories	Mar	%	-1.0	-	-1.5

Source: BZ WBK, Parkiet daily, Reuters

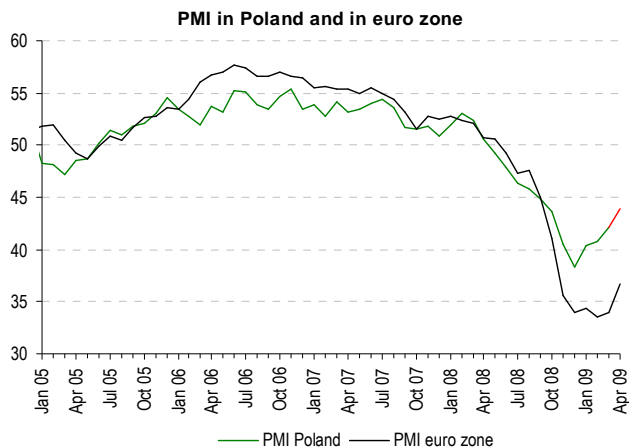
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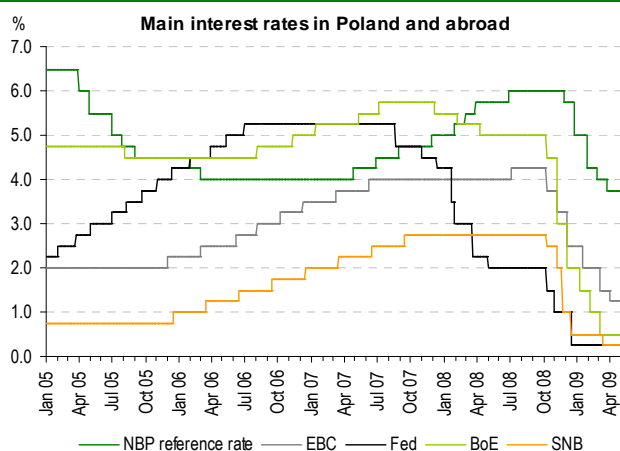
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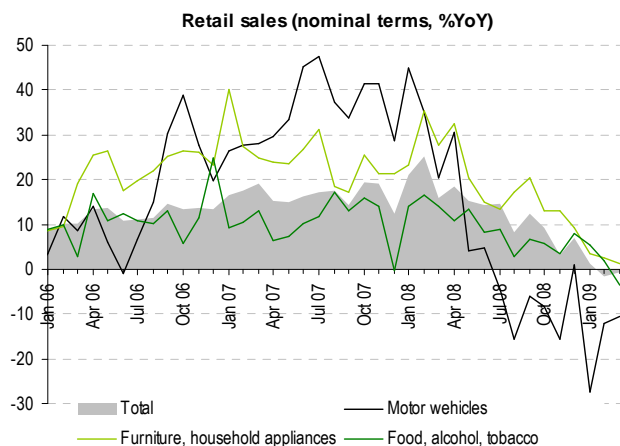
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What's hot this week – FinMin's inflation forecast, PMI and more data abroad

- As usual, the beginning of the month will be calmer in terms of data publication in Poland. However, we will see two important pieces of information – inflation forecast published by the Ministry of Finance and PMI indicator.
- Director of research department in the ministry revealed that they expect inflation to rise further in April. According to market consensus 12M CPI index will reach 3.8%, while we forecast a stabilisation at the level observed in March (3.6%). High uncertainty is connected with food prices development.
- We expect some further companies' moods improvement reflected in higher PMI index in April. This was supported by the release of preliminary PMI index in the euro zone.
- As regards events abroad, US non-farm payrolls will be the key, as well ECB meeting. Rates will be probably unchanged, though some steps towards quantitative easing are possible in the euro zone.

Economy last week – Rates on hold, as for now

- For the first time since October, the MPC left main interest rates unchanged, but maintained easing bias in monetary policy and a tone of the communiqué was rather dovish, confirming that decision should be treated as a pause in the cycle, rather than the end of cuts. One cannot rule out that rates will remain unchanged also in May (depending on the coming data), but new NBP's projection of inflation and GDP, which will be released in June, will most likely convince the MPC that medium-term perspectives justify further monetary easing. We maintain our forecast that the reference rate will reach 3% this year.
- Decisions to keep rates on hold at extremely low level were also taken by FOMC and Bank of Japan. The scale of quantitative easing by Fed was maintained and the statement said the US recession appears to be easing, which helped to maintain positive market sentiment.



- After a series of better-than-expected data, retail sales surprised on the downside. While the market consensus pointed to an increase in sales in March, it fell by 0.8%YoY. Two main factors accounted for this decline – large falls in annual terms in sales of cars and fuels. Also, sale in food sector could have been negatively affected by later Easter. Slowdown in demand was also reflected by deterioration in durable goods sales. In the conditions of significant deterioration of situation in the labour market it is hard to count on significant improvement in consumer demand.
- In March the unemployment rate rose for the fifth month in a row. The number of the unemployed was at 1.76m, which means an increase by 40k as compared to February, and first increase since mid-2003 in annual terms.
- US GDP growth fell by 6.1%, 1pp below forecasts.

Quote of the week – Pause in monetary easing possible also in May

Marian Noga, MPC member, PAP, 30 April

We are still in the easing mood, but I maintain my previous opinion that one should not exclude a possibility of a pause in cutting rates also in May. [...] this may be the case that despite keeping rates on hold in April, we will see negative real interest rate.

Dariusz Filar, MPC member, Dziennik, 30 April

In June we will have the new inflation projection. This will take into account all the data since January, including the performance of the economy abroad as well rate cuts by 125 bp cumulatively. This will allow to analyse outlook more precisely.

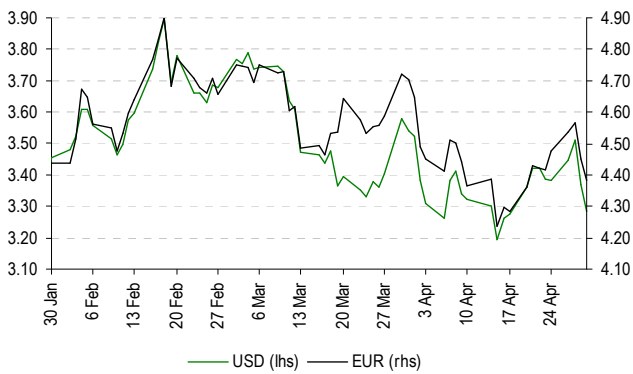
Andrzej Sławiński, MPC member, Polsat News, 29 April

As for now, we can assume that we are in the easing cycle [...] the amount and scale [of further easing] will depend on economic outlook in our main trading partners.

After the meeting, MPC members indicated that most important arguments against rate cut included higher CPI inflation and zloty exchange rate. We do not expect inflation to fall in April and the situation on the foreign exchange market is still uncertain (despite recent strengthening of the zloty). This suggests that the same argument may favour a pause also at the next MPC meeting. This is especially the case as the next data should not be as bad as in January-February. GDP growth for the first quarter may be worse than expected by the Council, but they will be published only after the meeting in May. As suggested by MPC members' comments, some of them would also like to wait for the new CPI and GDP projection of the central bank.

Market monitor

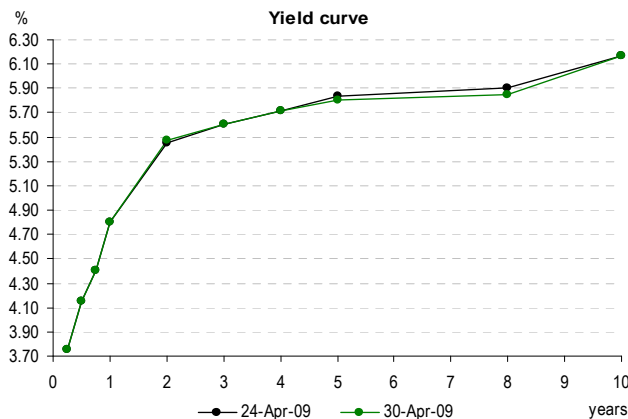
Zloty exchange rate



First weakening, then recovery

- As we expected a week ago, last week the zloty continued a correction, and the EURPLN rate approached 4.60, close to the range indicated by us in our previous report. In the second part of the week the zloty was appreciating due to improvement of sentiment in the international stock markets and the EURPLN rate temporarily fell below 4.40.
- The start of May could be still a period of significant FX rate fluctuation. The number of domestic data releases is small, though foreign investors' sentiment may change under influence of global markets moods (ample economic data and corporate earnings releases). Unfavourable news for the zloty may be recommendation to start excessive deficit procedure from EC. The 4.30 level will be support for the EURPLN, while 4.55-4.58 will remain strong resistance.

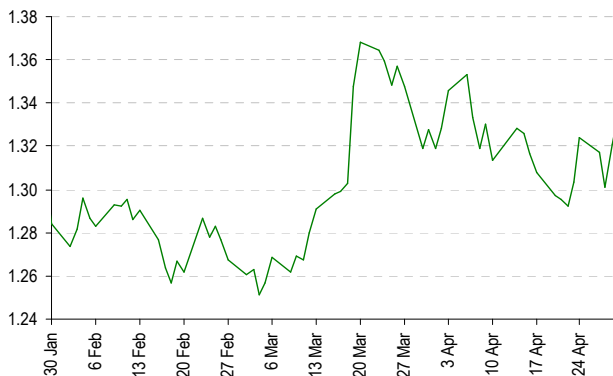
Yield curve



Debt market still stable

- Despite significant fluctuations of the exchange rate the domestic debt market was quite stable and the yield curve hardly changed during the week. There was a slight flattening – marginally higher yields at shorter end on expectations for another pause in interest rate cuts, 5y-8y bond yields were lower on stronger zloty. In turn, IRS curve became more steep over the weekend.
- Another increase in PMI suggesting weakening of the economic slowdown, the decision of EC on excessive deficit procedure and probable quite high inflation forecast of the Finance Ministry may hurt Polish bonds this week. The results of the switch auction will be also important, where the Ministry of Finance will have yet another chance to spread the accumulation of debt maturing this month.

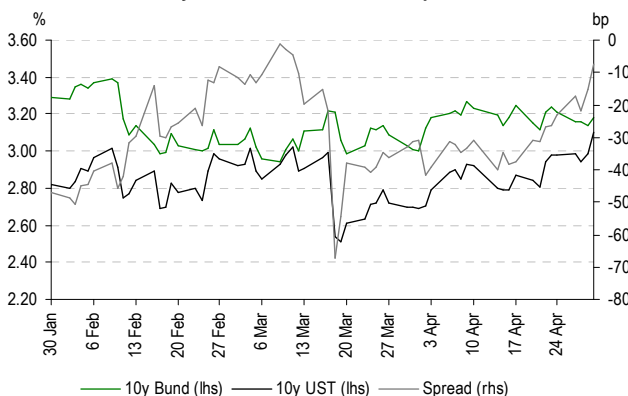
EURUSD rate



Euro slightly stronger

- Start of the week saw a rise in appetite for safe assets and dollar strengthening versus euro in global markets to ca. 1.30. Later on, there was a gradual rise of investors' hopes that the worst stage of economic crisis in already behind us (which was favoured by earning reports of some companies and Fed statement). Poor data about US GDP and better than predicted data from the euro zone strengthened this trend and on Thursday the EURUSD was above last week's close.
- We do not rule out further dollar weakening this week under influence of stress-tests results of US banks, and a big number of important data releases. On the other hand, introduction of ECB's monetary easing measures may hurt the euro in the second part of the week.

10y Bunds & Treasuries and spread



Yields abroad influenced by supply and equity markets

- There was a clear weakening in the US bond market and yields of 10Y Treasuries increased by ca. 13 bp, which was largely connected with concerns about big supply on auctions, improvement of sentiment in stock markets, and higher optimism concerning economic outlook after Fed's statement. Yields of German Bunds, after significant strengthening on Monday, ended the day close to previous week's level.
- Performance of core debt markets this week will depend on changes in general risk aversion. Yields in Europe will be also under impact of ECB decision. Median forecast in Reuters' poll shows a rate cut to 1%, however even if there is no cut, the decision about introducing quantitative easing measures may be a strengthening factor.

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