Bank Zachodni WBK

Weekly economic update

10 – 16 August 2009

For the better part of last week, moods in international financial markets were quite optimistic, as most of economic data and companies' earning reports indicated that a period of deepest contraction in economic activity around the world is already behind us. Nevertheless, question marks concerning a pace of recovery from recession are still there, and investors' moods remain vulnerable to every piece of new economic data and information.

This week, among the most important events abroad we will see FOMC meeting and statement, data from US and euro zone about inflation, preliminary Q2 GDP figure in the euro zone, and American consumers' confidence survey. In the domestic market, investors' attention will focus on CPI inflation data for July. We predict a slight fall in inflation to 3.4%, although the Ministry of Finance estimated that it remained steady at 3.5%. Monetary statistics are likely to show a deep slowdown in M3, deposit and loan growth, among others due to significant zloty appreciation in July. Balance of payments data for June will probably show another surplus in current account amid deep fall in exports and even stronger collapse in imports. A measure of sentiment in the debt market will be auction of 5Y bonds on Wednesday.

Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST		LAST VALUE
					MARKET	BZWBK	
		MONDAY (10 August)					
11:00	**PL**	**Auction PLN 1.0-1.3bn of 52-week Treasury Bills**					
		TUESDAY (11 August)					
	JP	BoJ decision		%	0.1	-	0.1
14:30	US	Unit labour costs	Q2	%	-2.3	-	3.0
14:30	US	Labour productivity	Q2	%	5.0	-	1.6
16:00	US	Wholesale inventories	Jun	%	-1.0	-	-0.8
		WEDNESDAY (12 August)					
11:00	**PL**	**Auction of PLN1.5-3.5bn PS0414 5Y bonds**					
11:00	EZ	Industrial production	Jun	%YoY	-16.0	-	-17.0
14:00	**PL**	**Current account balance**	**Jun**	**€ bn**	**0.138**	**0.125**	**0.207**
14:30	US	Trade balance	Jun	$ bn	-28.5	-	-25.96
20:15	US	FOMC decision		%	0.25	-	0.25
		THURSDAY (13 August)					
14:00	**PL**	**Money supply (M3)**	**Jul**	**%YoY**	**13.5**	**12.2**	**14.3**
14:00	**PL**	**CPI**	**Jul**	**%YoY**	**3.4**	**3.4**	**3.5**
11:00	EZ	Preliminary PKB	Q2	%YoY	-5.1	-	-4.9
14:30	US	Import prices	Jun	%	-0.4	-	3.2
14:30	US	New jobless claims	w/e	k	540.0	-	550.0
14:30	US	Retail sales	Jul	%	0.6	-	0.6
		FRIDAY (14 August)					
11:00	EZ	Final HICP	Jul	%YoY	-0.6	-	-0.1
14:30	US	CPI	Jul	%MoM	0.0	-	0.7
15:15	US	Capacity use	Jul	%	68.1	-	68.0
15:15	US	Industrial production	Jul	%MoM	0.2	-	-0.4
15:55	US	Preliminary Michigan index	Aug	pts.	68.5	-	66.0

Source: BZ WBK, Parkiet, Reuters

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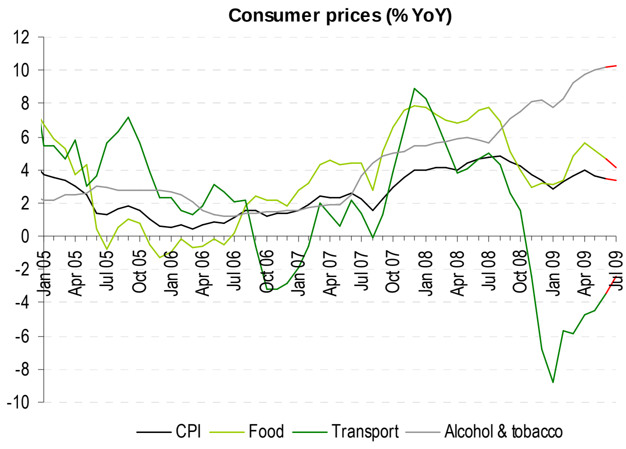
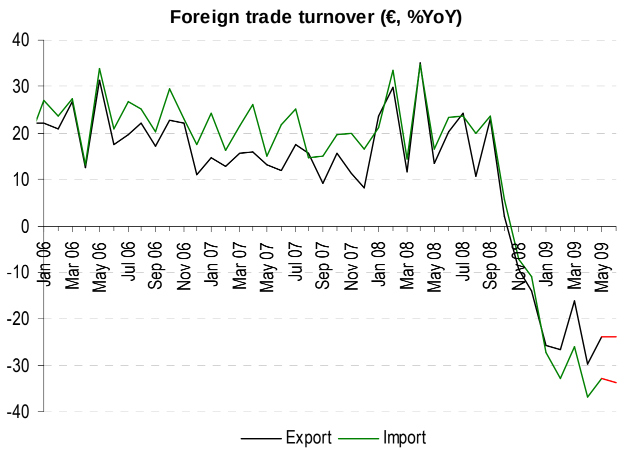
What's hot this week – Fed, inflation, new data abroad

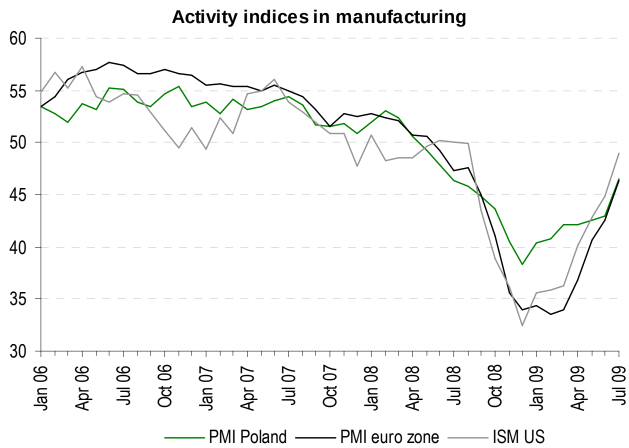


- This week, the FOMC meeting will be on the top of agenda abroad, while CPI data release will be the key information to watch in Poland.
- Interest rates in the US are likely to remain unchanged, but the market will analyse the bank's statement to see the current assessment of economic situation.
- According to Ministry of Finance's estimate, CPI growth stabilised in July at 3.5%, among others due to significant rise in prices of alcohol and tobacco (2.7% MoM) and transport (1.7%MoM), amid a fall in food prices by 1.4%MoM. Our forecast of food prices are similar, but we assume lower hikes in transport and much lower growth in alcohol and tobacco. In effect, according to our forecast, CPI fell to 3.4%YoY in July, which is consistent with market consensus.



- Data about balance of payments in June will probably show the fifth straight month of surplus in current account. Nevertheless, we expect that a deep fall in exports and imports will be maintained.
- According to our forecast, money supply growth decelerated sharply in July (more than assumed by market consensus), which was triggered, among others, by significant zloty appreciation and effect related to deposit outflow from banks after the end of a quarter.
- Loan growth decelerated as well, not only due to exchange rate effect, but also as a consequence of tightening credit policies by banks. According to NBP report released last week, banks predict further tightening of credit conditions and curbing loan growth despite expected increase in demand from households and companies.

Economy last week – Strong sentiment improvement in manufacturing



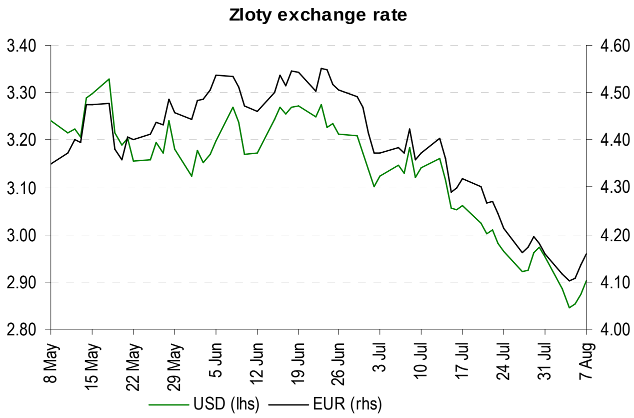
- PMI manufacturing index in Poland rose to 46.5 in July, the highest level for over a year, exceeding market consensus and our forecast (ca. 44). A monthly rise of 3.5 pts was the strongest since the beginning of the survey in June 1998. The report confirmed a weakening fall in production, orders and employment, showing that the worst is already behind in the manufacturing sector in Poland. Stronger than expected PMI rise (to 49.2) was also recorded in Hungary.
- Manufacturing PMI in the euro zone was slightly better than consensus and amounted to 46.3 in July against preliminary estimate of 46.0. However, the most surprising was the ISM manufacturing index in the US – it rose to 48.9 pts from 44.8 in June, while the market consensus was at 46.5 pts. The data reinforced positive moods in global markets and hopes that the world economy may be bottoming out.

Quote of the week – GDP forecasts for Poland will be revised up

Katarzyna Zajdel-Kurowska, IMF, Rzeczpospolita, 3 August
(How Poland compares versus region?) Very good, not only against Europe but also versus entire world that is struggling with crisis. Taking into account Q2 data, IMF economists do not rule out upward revision of forecasts. In their view, they are too pessimistic, especially for this year. Current IMF forecast for Poland assumes GDP drop by 0.7% this year and 1.5% rise next year.
European Commission's expert, Dziennik, 4 August
This result (GDP) will be substantially revised up now, to around zero, or even to slightly above zero.
Anatolij Annenkow, EBOR, PAP, 7 August
Data for the first quarter were better than expected, so in the forecast that we are about to release in October, we may incline to set GDP growth for 2009 slightly above zero.

After the fist half of the year, which confirmed that economic growth in Poland, despite a decent slowdown, still remains above zero, it is obvious that institutions that used to predict a slump in GDP this year should revise up their macroeconomic forecasts for Poland. This is not a surprise for us. The key question right now is not whether Poland will enter recession or not, but what will be a pace of recovery from the bottom and a return to a path of moderately rapid economic growth. In our view, it may be a sluggish process, similarly to a predicted recovery in the world economy.

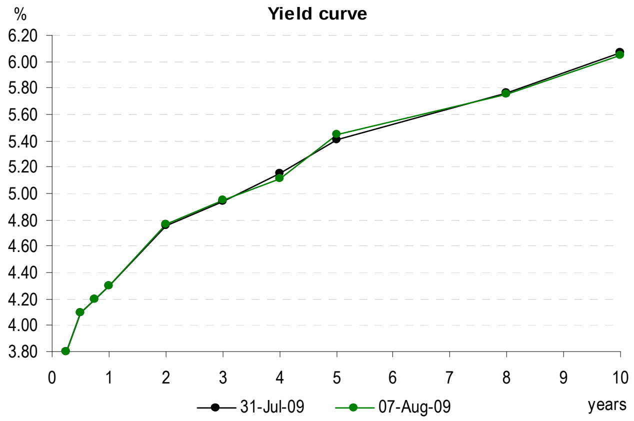
Market monitor



Strengthening, correction, strengthening again

▪ Good moods in international financial markets and rise in risk appetite triggered a significant appreciation of the zloty at the start of last week. EURPLN broke through the first level that we indicated: 4.15, but the resistance level 4.08 was not broken. In the second part of the week, there was a correction that we anticipated, which drove the EURPLN up to 4.17. However, better than expected data about US employment triggered a surge in optimism again, and the zloty returned to 4.11.

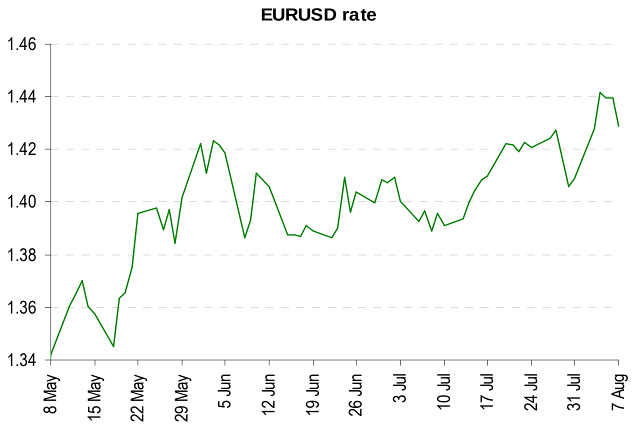
▪ Clear fall in risk aversion on Friday afternoon suggests that a start of the new week may be good for the zloty. Exchange rate behaviour in next days will depend on trends in stock markets. We still think that there should be a more significant correction of the zloty in the near term. In the meantime, 4.08 remains a significant resistance level.



Bond market relatively stable

▪ Yields of Polish bonds followed changes in the FX market. The results of 2Y bond auction, at which investors' demand significantly exceeded Ministry of Finance's offer, was a positive factor for moods in the domestic debt market. However, overall at the end of the week the yield curve was at similar level as on previous Friday.

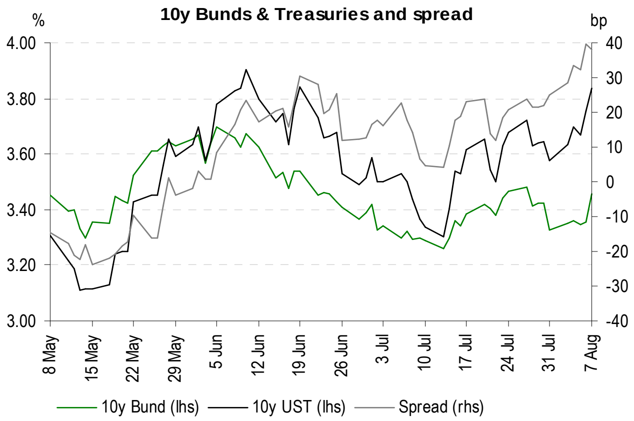
▪ Inflation data will be crucial for the domestic debt market this week. Yet before the data release the results of 5Y bond auction will be an important event. Appetite for Polish debt in the last weeks was quite significant, though the investors' moods will depend on changes in risk aversion in the nearest days. A slight decline in CPI inflation should support bond market at the end of the week.



US employment data supported the dollar

▪ A rise in risk appetite at the start of last week triggered a depreciation of the dollar versus euro to ca. 1.44. Afterwards, the EURUSD stabilised in a narrow range around that level. At the end of the week, the dollar was appreciating, and the process gained strength on Friday, after the release of non-farm payrolls data in the US. As compared to previous Friday's close, the dollar weakened over the week by ca. 1.3% versus euro.

▪ The data releases, which may appear crucial for the dollar exchange rate this week, are scheduled for the second part of the week. Apart form the Fed's communiqué, they will include data on US inflation, industrial output and retail sales, as well as preliminary Q2 GDP estimate in the euro zone.



Rising risk appetite weakened core debt markets

▪ Optimism in equity markets and higher appetite for risky assets caused increase in yields of bonds in core markets. This trend was not stopped by purchase of Treasuries by Fed neither by a few worse-than-expected macroeconomic indicators. Overall, most of data releases confirmed that major economies might have started to bottom out from the recession. Decision by the ECB and Bank of England were in line with expectations, while continuation of quantitative easing by BoE caused another wave of rise in risk appetite.

▪ If the next macroeconomic data releases confirm the scenario of moderate recovery, weakening in core bond markets may be continued.

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