

Weekly economic update

21 – 27 September 2009

Although a set of domestic macroeconomic data released last week had no big impact on the assessment of economic perspectives and on investors' behaviour, there were quite significant fluctuations in the Polish exchange rate and interest rate markets, among others under influence of changing moods in global risk appetite. The zloty weakened to almost 4.25 against euro and then temporarily strengthened to below 4.10. There were large movements in the domestic debt market after information from the Ministry of Finance about possible cancellation of long bonds supply until the end of this year. It seems to us that a positive impact of this information may be offset quite quickly by large supply of bonds from the BGK (although part of it may be purchased by the EBI) and possible sale of bonds by the PZU, as well as negative perspective of large supply of Treasury debt planned for the next year.

This week the number of data releases will be smaller, and the zloty may remain vulnerable to changing sentiment in world stock markets, which will react to information from the US and euro zone. Wednesday will be crucial, as in Poland there will be 20Y bond auction and CSO press conference, while in the US the Fed's decision will be announced.

Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD	FORECAST		LAST VALUE
				MARKET	BZWBK	
MONDAY (21 September)						
	JP	Market holiday				
11:00	PL	Auction PLN 0.8-1.0bn of 52-week Treasury Bills				
16:00	US	Leading indicators	Aug	%	0.7	- 0.6
TUESDAY (22 September)						
	JP	Market holiday				
14:00	PL	Core inflation	Aug	%YoY	2.9	3.0 2.9
14:00	PL	Business climate indicators	Sep	pts.	-	- -
16:00	US	House price	Jul	%YoY		- -5.0
WEDNESDAY (23 September)						
	JP	Market holiday				
9:58	EZ	Flash PMI – manufacturing	Sep	pts.	49.7	- 48.2
9:58	EZ	Flash PMI – services	Sep	pts.	50.5	- 49.9
10:00	PL	Retail sales	Aug	%YoY	5.6	5.6 5.7
10:00	PL	Registered unemployment rate	Aug	%YoY	10.9	10.8 10.8
11:00	PL	Auction of 20Y bonds WS0922 worth PLN1-2bn			-	- -
20:15	US	FOMC decision		%	0-0.25	- 0-0.25
THURSDAY (24 September)						
10:00	DE	Ifo index	Sep	pts.	92.0	- 90.5
14:00	PL	MPC minutes	Aug		-	- -
14:30	US	New jobless claims	w/e	k	550.0	- 545.0
16:00	US	Home sales	Aug	m	5.35	- 5.24
FRIDAY (25 September)						
10:00	EZ	M3 money supply	Aug	%YoY	2.7	- 3.0
14:30	US	Durable goods orders	Aug	%	0.5	- 5.1
15:55	US	Final Michigan index	Sep	pts.	70.2	- 65.7
16:00	US	New home sales	Aug	m	0.44	- 0.433

Source: BZ WBK, Parkiet daily, Reuters

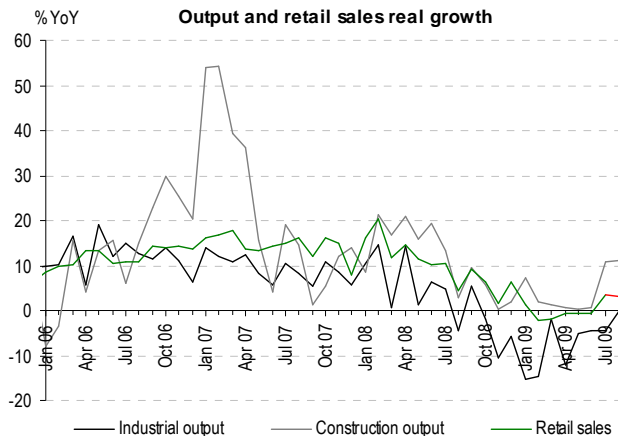
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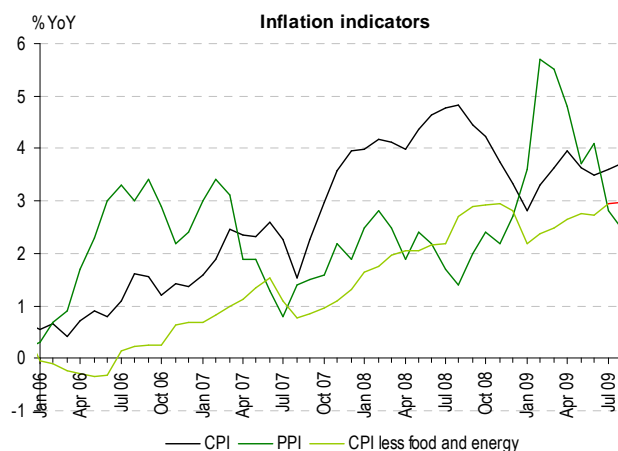
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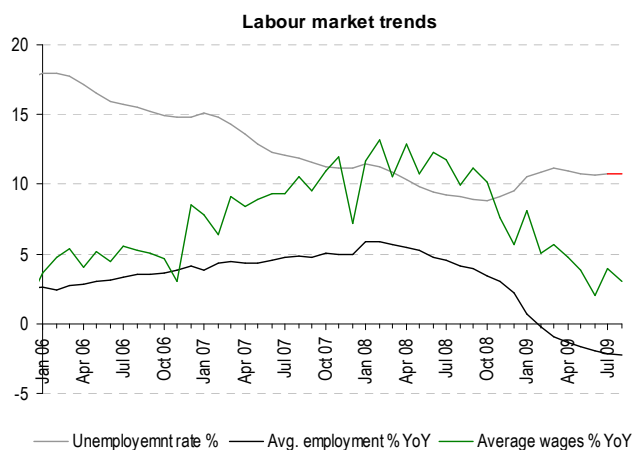
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What's hot this week – Sales, unemployment, new data abroad

- List of data releases in Poland and abroad is much shorter this week than in the previous one. Crucial day for the domestic market will be Wednesday when the CSO will hold a press conference and the auction of long-term bonds will be a gauge of market sentiment.
- Forecasts point to retail sales growth in August similar to the one in July and stabilisation of unemployment rate. Core inflation excluding prices of food and energy is likely to show a small increase, yet it is still below the CPI. Indices of business climate released by the CSO will be a hint whether improvement in industry and trade was gaining momentum in September.
- FOMC meeting and its statement will be in focus of attention abroad. Also, data from US housing market and indicators of economic climate will be closely watched.

Economy last week – Data for August neutral for the market

- Statistical data for August released last week have not changed the assessment of economic situation and expectations regarding monetary policy outlook.
- Industrial production fell in August by 0.2%YoY and in manufacturing there was the first rise (0.6%YoY) since September 2008. Seasonally adjusted output improved less significantly (-3.1%YoY). Once again, data about construction output were a positive surprise, showing growth acceleration to 11%YoY from 10.7% in July (9.8%YoY after seasonal adjustment).
- Inflation rate in August was higher than predicted and rose to 3.7%YoY, among others due to lower than we assumed seasonal drop in food prices. Nevertheless, medium-term inflation perspectives have not changed in our view. PPI growth slowed down more than expected, to 2.5%YoY, partly thanks to appreciation of the zloty.



- Data about wages and employment in enterprises sector were close to expectations. Wage growth decelerated again (after one-off upturn in July) to 3.0%YoY, and employment maintained downward trend (-2.2%YoY). Pace of job reduction stopped accelerating, however this does not change the fact that situation in the labour market is not supportive for private consumption demand. Households' real revenue from labour are much lower than last year.
- Money supply fell in monthly term for the second time in a row, and its annual growth decelerated in August to 9.2%YoY. This was due to slower growth in cash and deposits. Also, there was further slowdown in loan growth – according to our estimate, after elimination of exchange rate movements August was a fifth straight month of decline in credit for enterprises.

Quote of the week – MPC likely to wait until October**Mirosław Pietrewicz, MPC member, PAP, 17 September**

If the next data about developments in the real economy will be still not too optimistic, then we cannot rule out that we will have to take action aiming at reviving those processes, in a form of one more rate cut.

Jan Czekaj, MPC member, PAP, 17 September

I do not rule out a rate cut, but its probability is not big. The MPC will surely wait for the October's projection

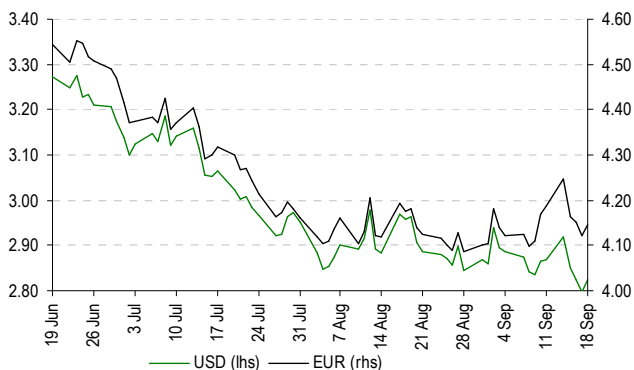
Sławomir Skrzypek, NBP governor, TVN CNBC, 18 September

We are still in the monetary easing mode, however there are signals that force us to reconsider it. (...) I think that October will be the moment when we will focus on this issue.

Data about industrial production, even not differ substantially from market expectations, seemed to be a disappointment for some MPC members, and in effect there appeared comments that interest rate cut cannot be ruled out (although is not very likely), while only one week earlier even "dovish" central bankers were focusing on timing of possible change of monetary policy bias from easing to neutral. In our view, the MPC will not seriously consider interest rate cut unless the next data about economic activity surprise on the downside more clearly than last production figure. Nevertheless, recent comments do suggest that the Council will wait with important decisions (including a change in bias) until October, when the new projection of inflation and GDP will be available.

Market monitor

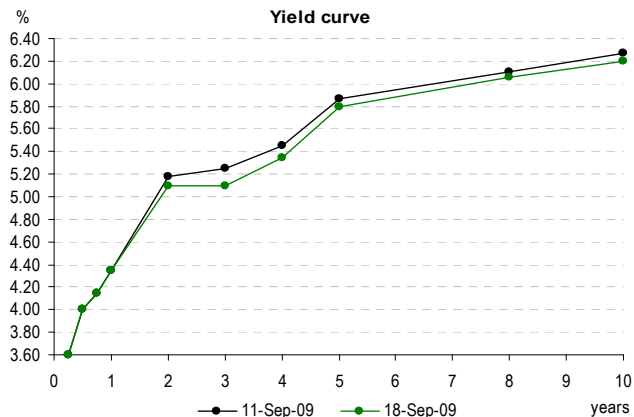
Zloty exchange rate



Roller coaster on the FX market

- The last week started with significant zloty weakening because of the aftermath of negative news on budget 2010 has been accompanied by higher risk aversion in global markets. As a result the EURPLN rate rose to close to 4.25 already on Monday. However, the move back below 4.20 started already same day and during the week we saw gradual appreciation amid moods improvement internationally. Temporarily the rate fell below 4.10 but on Friday it moved back to 4.12. Overall, during the week the zloty gained 1.5% against the euro and 2.2% against the dollar.
- This week the zloty will remain under influence of trends in global markets. The factor, which may drive EURPLN higher to above 4.20, may be agreement of the Polish government with Eureko, as some expectations of transferring PZU dividend on the FX market into euros may appear.

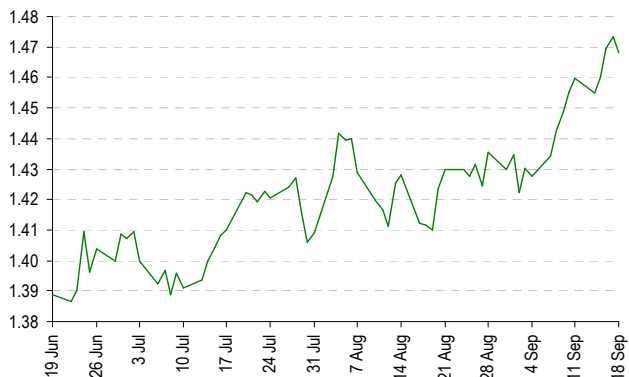
Yield curve



News from MinFin (temporarily) improved moods

- The beginning of the week brought the continuation of rising trends in bond yields to new local highs. However, after information from the Ministry of Finance about limited supply of long-term bonds until year-end we saw sharp strengthening of Polish bonds. Also, the market was supported by zloty appreciation and by falling yields in Hungary amid reinforcing expectations for more monetary easing. Domestic data did not have much impact on the market.
- Decrease in yields caused by news from MinFin was partly offset later during the week and we think that weakening may be continued. Well, prospects of high supply of bonds next year seems to be more important than the size of the offer in the next couple of weeks. Also, the offer of bonds from the so-called Road Fund by BGK bank and possible sale of bonds by PZU may have negative influence on the market.

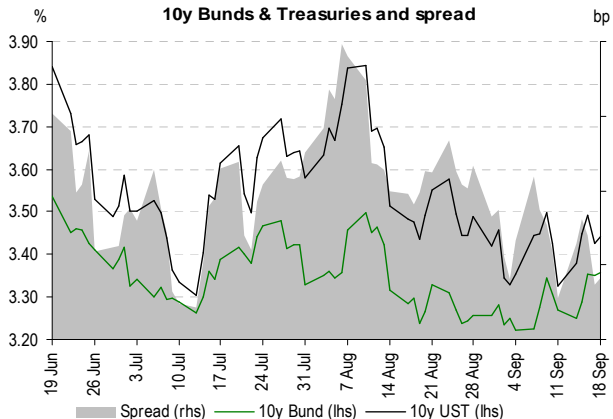
EURUSD rate



Dollar the weakest in a year

- Although the dollar began the past week with appreciation due to higher risk aversion, later in the week it lost considerably amid rising risk appetite in reaction to better than expected macro data from the US, which increased hopes for swift recovery of the global economy. After EURUSD reached annual high of 1.475, there was a correction towards the end of the week.
- The dollar is likely to remain under pressure of increased risk appetite, unless new economic activity indicators show reversal of positive tendencies in the euro zone and the US. Forecasts suggest, however, that there should be further improvement in economic activity indicators, which may lead to increase in EURUSD.

10y Bunds & Treasuries and spread



Changing moods on the core debt markets

- Yields in the core debt markets, similar to exchange rates, were following changes in risk appetite. Following initial gains, later on there was significant rise in yields of Treasuries and Bunds, partly corrected at the end of the week amid return of concerns about prospects for global economic recovery.
- This week the key focus of attention for the markets will be the FOMC statement in which the US central bank will present its assessment for recovery of the US economy. We expect a cautious acknowledgment that the worst is over but no sign of any move towards exit strategies from current stimulatory policies. Numerous economic activity indicators and data from the housing markets will also be important.

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