

Weekly economic update

12 – 18 October 2009

In the last week, zloty was weakening, similarly to other currencies in the region, which was caused, among others, by rising concerns about the situation in the Baltics, heated political atmosphere in some countries (Romania, Poland) and growing expectations for interest rate cuts in the Czech Republic and Hungary. At the same time, the appetite for risk in global markets remained at relatively high levels, supported by macroeconomic data, financial results of companies in the US and the first rate hike since the outbreak of the crisis (in Australia), in reaction to signs of revival in the economy.

This week the domestic market will focus on the publication of local data, mainly about inflation and balance of payments, although the mood abroad will continue to play an important role. Beginning the week should be quiet because of the market holiday in the US and Japan. We expect a decline in CPI inflation to 3.5%, in line with consensus, which should be neutral for the market. In turn, the balance of payments data should show improvement in C/A balance (although in our opinion not as strong as predicted by the market), which may be mild support for the zloty. In the second half of the week there will be plenty of key data releases abroad, including retail sales and consumer sentiment in the US, industrial output in the US and the euro area, and earning reports for Q3 of major listed companies.

Economic calendar

| Time CET | COUNTRY | INDICATOR | PERIOD | | FORECAST | | LAST VALUE |
|-------------------------------|-----------|--|------------|-------------|---------------|---------------|---------------|
| | | | | | MARKET | BZWBK | |
| MONDAY (12 October) | | | | | | | |
| | US, JP | Market holiday | | | | | |
| 11:00 | PL | Auction PLN 0.4-0.6bn of 52-week Treasury Bills | | | | | |
| TUESDAY (13 October) | | | | | | | |
| 11:00 | DE | ZEW index | Oct | pts. | 58.3 | - | 57.7 |
| 14:00 | PL | Current account balance | Aug | € bn | -162.0 | -247.9 | -565.0 |
| WEDNESDAY (14 October) | | | | | | | |
| | JP | BoJ decision | | % | 0.1 | - | 0.1 |
| 11:00 | EZ | Industrial output | Aug | %YoY | -15.5 | - | -15.9 |
| 14:00 | PL | CPI | Sep | %YoY | 3.5 | 3.5 | 3.7 |
| 14:00 | PL | M3 money supply | Sep | %YoY | 8.8 | 9.0 | 9.2 |
| 14:30 | US | Import prices | Sep | %MoM | 0.2 | - | 2.0 |
| 14:30 | US | Retail sales | Sep | %MoM | -2.1 | - | 2.7 |
| THURSDAY (15 October) | | | | | | | |
| 11:00 | EZ | Final HICP | Sep | %YoY | -0.3 | - | -0.2 |
| 14:30 | US | CPI | Sep | %MoM | 0.2 | - | 0.4 |
| 14:30 | US | New jobless claims | w/e | k | 525.0 | - | 521.0 |
| 14:30 | US | New York Fed index | Oct | pts. | 17.0 | - | 18.88 |
| 16:00 | US | Philadelphia Fed index | Oct | pts. | 12.0 | - | 14.1 |
| FRIDAY (16 October) | | | | | | | |
| 14:00 | PL | Wages in enterprises sector | Sep | %YoY | 2.9 | 3.2 | 3.0 |
| 14:00 | PL | Employment in enterprises sector | Sep | %YoY | -2.4 | -2.4 | -2.2 |
| 15:00 | US | Capital flows | Aug | \$ bn | | - | -97.5 |
| 15:15 | US | Capacity use | Sep | % | 69.8 | - | 69.6 |
| 15:15 | US | Industrial output | Sep | %MoM | 0.2 | - | 0.8 |
| 15:55 | US | Preliminary Michigan index | Oct | pts. | 73.5 | - | 73.5 |

Source: BZ WBK, Reuters, Parkiet

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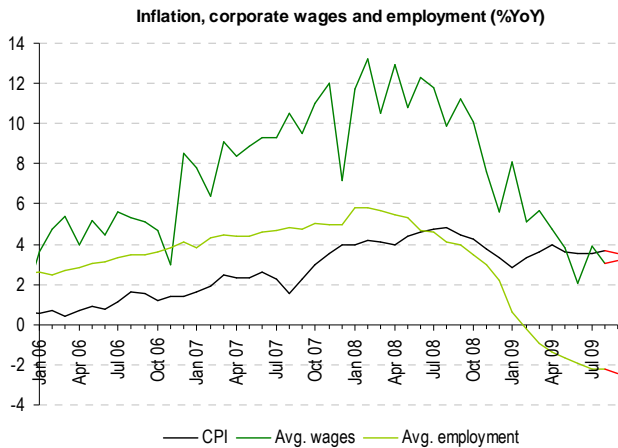
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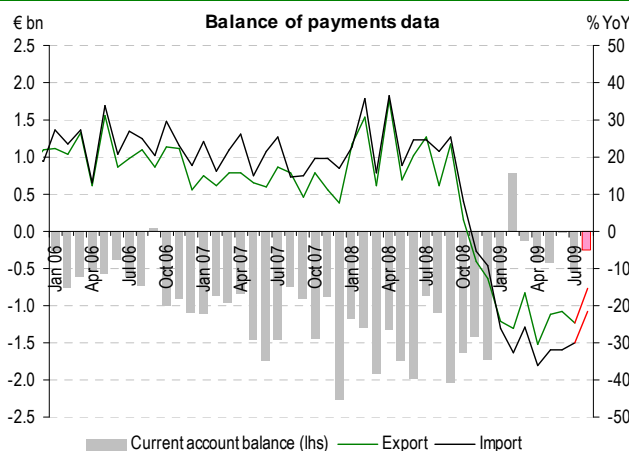
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What's hot this week – New data releases ahead

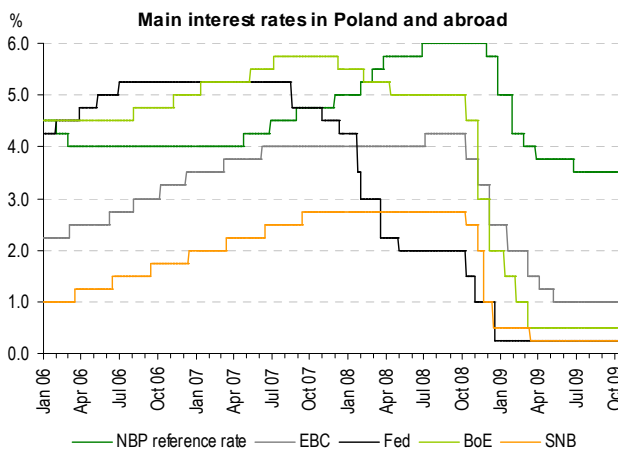


- This week the first data for the next months will be released. CPI figure will be in the foreground, and they should confirm that the local peak in inflation is behind us and a moderate downward tendency started.
- We expect, similar as the market consensus and the Ministry of Finance, the decrease of inflation to 3.5%YoY in September amid slight seasonal increase in food prices and continuation of drops of fuel prices.
- Data from the labour market will give guidance on how the income situation of households changes, which is relevant to the outlook for consumer demand. We forecast (temporary) acceleration of wage growth in the enterprise sector to 3.2%YoY (the market expects a slowdown to 2.9%) and the deepening of decline in the employment to -2.4%YoY.



- NBP data on balance of payments for August will be important for the currency market, because after the large balance of payments statistics revision last week, which worsened current account balance, investors may pay attention to whether external imbalances increase in the coming months. We expect lower current account deficit than a month before and a smaller rate of decline in exports and imports, which should have a slight positive impact on the zloty. Especially that the nature of the revision meant that the so-called primary balance of current account (current account balance plus FDI inflows and EU funds) has not substantially changed after adjustment, so good assessment of external stability of the Polish economy have not changed significantly.
- The money supply and credit growth should lower in September without much influence on the market.

Economy last week – Change in government, no change in interest rates



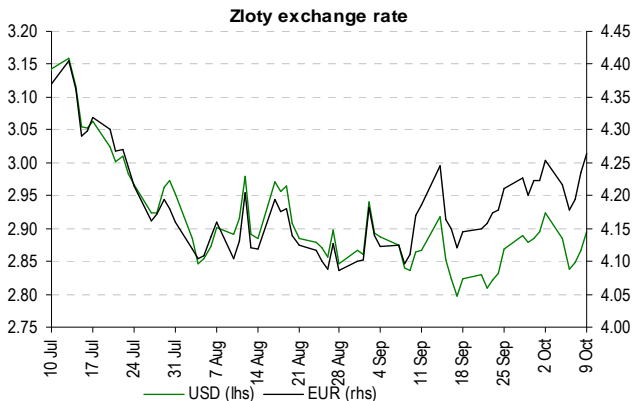
- Prime Minister accepted resignations of seven ministers after the so-called “gambling scandal”, including Deputy PM and minister of interior affairs, minister of justice, minister of sport and deputy minister of economy. Political turmoil may affect the support for the government and the PO, although recent surveys, carried out immediately after the disclosure of the scandal, have not shown significant changes in support for the ruling party yet.
- ECB and the Bank of England left interest rates unchanged, suggesting that in the short term one should not expect any hikes, or withdrawal from the quantitative monetary policy easing.
- Readiness to withdraw from the exceptionally mild state of monetary policy if economic recovery will gather momentum was signalled by Fed chief Ben Bernanke.

Quote of the week – What will be the new MPC like?

Adam Glapiński, President's advisor, Dziennik Gazeta Prawna, 7 Oct Rates should not be changed, at least until the moment when you see a solid recovery in the economy and inflation will soar above the target, or 2.5%. Some economists argue that it may occur in the second half of next year. (...) In the second half of the year or in the Autumn the new MPC will be able to start to do something. By this I mean the first interest rate hikes because, with economic growth, inflation will rise, which of course even today, taking into account the crisis is not low. (...) However, the fact that the new MPC, at least initially, will not have room for too creative activity, and will be - like the current MPC - in neutral bias.
 [Q: Has the President already chosen his candidates?] I know nothing about this. He did not talk about it with me. (...) Had it happened today, I would be interested (as MPC candidate). But there are a few months ahead and it is too early to talk about it, what would be my final decision.

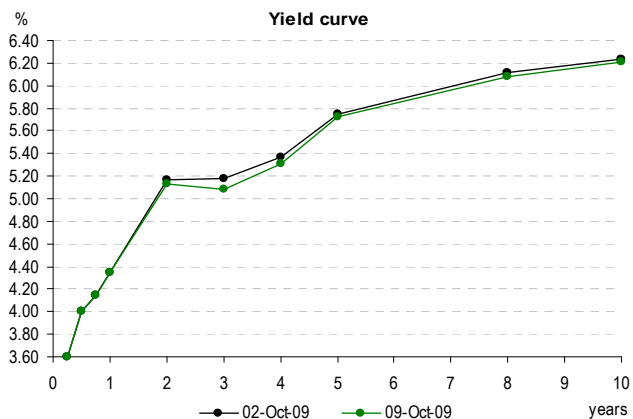
The moment of selecting the MPC members for a new term is approaching. According to unofficial news, the candidates for the new Council from the PO may be prof. Elżbieta Adamowicz, prof. Jan Winiński and prof. Janusz Beksiak. Andrzej Bratkowski was mentioned as well. The candidates supposed to be called on by the President include Adam Glapiński, prof. Wojciech Roszkowski, and (perhaps) prof. Zyta Gilowska. Meanwhile, the PSL candidates may be prof. Józef Kozioł, prof. Władysław Szymański and Elżbieta Chojna-Duch. Although these candidatures were not officially confirmed, the fact that virtually all of the people mentioned have solid academic and scientific background, and some of them also have practical experience, significantly reduces concerns about the shape of the new Council and that selection of new members will be under negative influence of the presidential campaign.

Market monitor



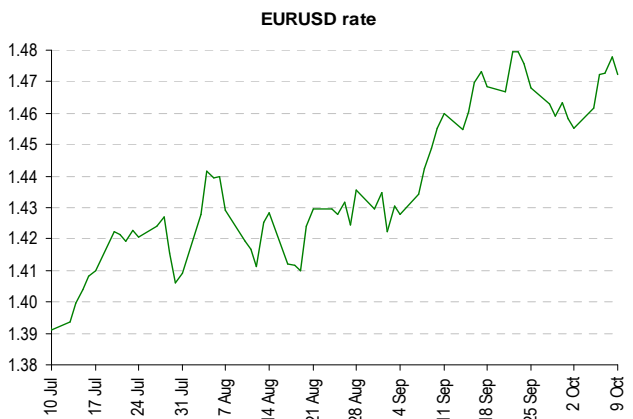
Weakening currencies in the region

- Last week started with a clear appreciation of the zloty, which was triggered by government's agreement with Eureka, the outcome of the referendum in Ireland, as well as a rate hike in Australia, in response to signs of economic recovery. However, the mood quickly deteriorated in the region, under the influence of recurring concerns about the devaluation of the Latvian lat. In line with our last week's suggestion the EURPLN went towards 4.30, but did not reach this level, bouncing off the 4.27.
- In the short term, zloty could remain under pressure, approaching and perhaps even beating the level of 4.30, but the potential correction seems to run out. If the earning reports in the US do not bring serious disappointment, and a new macro data confirm that the global economy is on the path of recovery, in the coming weeks zloty may strengthen.



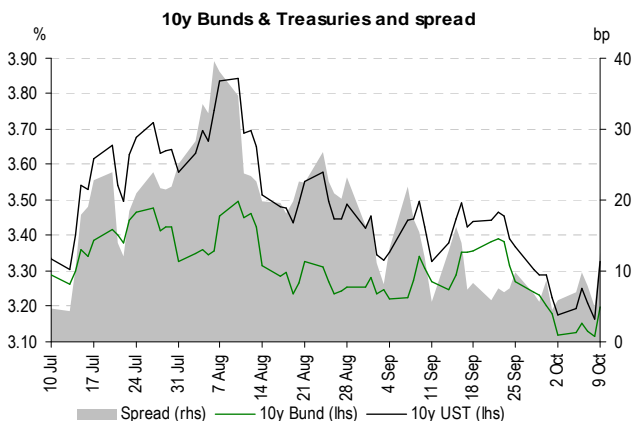
No major changes in the debt market

- Despite fluctuations on the currency market, debt market remained stable during the week, and bond yields even declined slightly as compared to the previous Friday. A support for such sentiment were good results of bond auctions in Poland and Hungary, which reported strong demand by investors.
- The key information for domestic debt market this week will be inflation data and the situation on the labour market, as well as comments of the MPC members that may appear after publications. If there are no new disturbing information from neighbouring markets (eg, Latvia) to discourage investment in the region, a further slight strengthening of domestic bonds is possible.



Dollar weaker again

- The US dollar clearly depreciated against the euro during the week. This was caused, apart from investors' retreat from safe assets, by information about talks between the Gulf states on possible replacement of dollar by a basket of currencies in oil trade. At the end of the week, the depreciation of US currency was stopped by Ben Bernanke who signalled the Fed's readiness to tightening of monetary policy when the US economy stands on its feet.
- Market holidays in the US and Japan could see activity get off to a slow start, though a plethora of data over the rest of the week should provide plenty of interest. Meanwhile, as the US Q3 earnings season gets into full swing, equity market performance will also be crucial in setting the tone.



Bernanke's statement weakened core bonds

- Yields in core debt markets have increased significantly at the end of last week, especially in the USA, which was triggered by a statement of the Fed president Bernanke that the central bank is prepared to apply the exit strategy from the exceptionally mild monetary policy when economic recovery will be strong enough.
- This week, investors' expectations about the pace of global economy's recovery from recession and possible increases in interest rates will be challenged, among others by the inflation data, retail sales, industrial production in the US, as well as financial results of large listed companies. Also, Fed's minutes to be released on Wednesday may also provide guidance on monetary policy.

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