Bank Zachodni WBK

Weekly economic update

16 – 22 November 2009

The weeks ahead is full of information and data that may have a crucial impact on the behavior of financial markets and expectations of prospects of world economy. Publications in the US and the euro area will be particularly important, as they may determine the direction of change in global equity markets and risk aversion. As regards the domestic data, we expect to see a combination of indicators which will have in total positive impact on the debt market, as they will show that although the economy is gradually bottoming out, there is no reason to fear a significant inflationary pressures in the medium term.

Balance of payments data released last week, showing significantly lower current account deficit than forecast and improvement in its financing structure, helped to strengthen the zloty, which may soon be heading in the direction of 4.06 per euro. Still, we believe that there may be a correction ahead due to the belief of some investors that rising prices of risky assets observed in March has outpaced of the improvement in the economic fundamentals.

Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST		LAST VALUE
					MARKET	BZWBK	
		MONDAY (16 November)					
11:00	EZ	HICP final	Oct	%YoY	-0.1	-	-0.3
14:30	US	New York Fed index	Nov	pts.	30.0	-	34.57
14:30	US	Retail sales	Oct	%MoM	0.9	-	-1.5
		TUESDAY (17 November)					
11:00	EZ	Trade balance	Sep	€ bn	-2.0	-	-4.0
14:30	US	PPI	Oct	%MoM	0.5	-	-0.6
15:00	US	Capital flows	Sep	$ bn		-	10.2
15:15	US	Capacity use	Oct	%	70.8	-	70.5
15:15	US	Industrial production	Oct	%MoM	0.4	-	0.7
		WEDNESDAY (18 November)					
14:00	**PL**	**Wages in enterprise sector**	**Oct**	%YoY	**2.7**	**2.8**	**3.3**
14:00	**PL**	**Employment in enterprise sector**	**Oct**	%YoY	**-2.5**	**-2.5**	**-2.4**
14:30	US	Building permits	Oct	m	0.58	-	0.575
14:30	US	House starts	Oct	m	0.6	-	0.59
14:30	US	CPI	Oct	%MoM	0.2	-	0.2
		THURSDAY (19 November)					
14:00	**PL**	**Industrial production**	**Oct**	%YoY	**-2.1**	**-4.9**	**-1.3**
14:00	**PL**	**Construction and assembly production**	**Oct**	%YoY	**4.1**	**3.5**	**5.7**
14:00	**PL**	**PPI**	**Oct**	%YoY	**1.7**	**1.6**	**1.6**
14:00	**PL**	**MPC minutes**	**Oct**	**-**	**-**	**-**	**-**
14:30	US	New jobless claims	w/e	k	505.0	-	502.0
16:00	US	Leading indicators	Oct	%MoM	0.4	-	1.0
16:00	US	Philadelphia Fed index	Nov	pts.	12.9	-	11.5
		FRIDAY (20 November)					
	JP	BoJ decision		%	0.1	-	0.1
14:00	**PL**	**Business climate indicators**	**Nov**	**pts.**	**-**	**-**	**-**
14:00	**PL**	**Core inflation**	**Oct**	**%YoY**	**2.8**	**2.8**	**2.9**

Source: BZ WBK, Reuters, Parkiet

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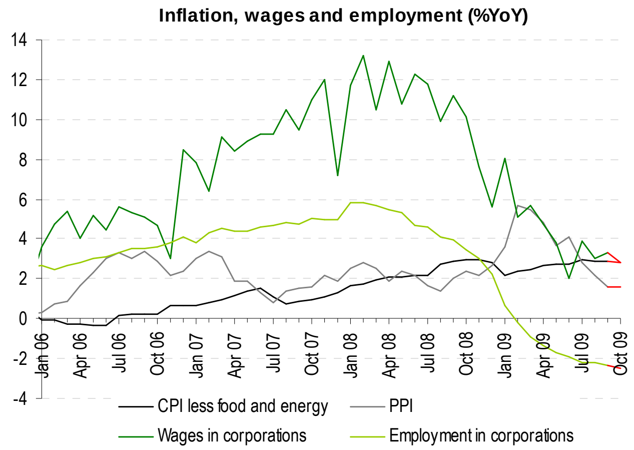
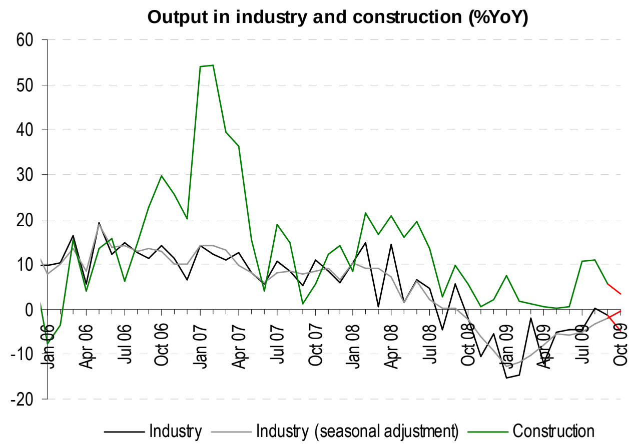
What's hot this week – Week full of important data releases

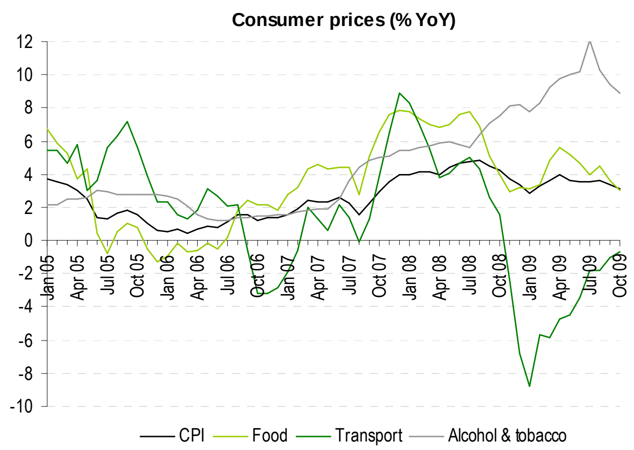


- Domestic data on wages and employment will give guidance on the purchasing power of households and future inflationary pressures. We expect a further deterioration in the labour market. However, one should remember about a discrepancy that emerged between the data on wages in the enterprise sector and across the economy in Q3 (the latter accelerated). This may mean that the prospects for consumption are not so bad as is suggested by data on wage bill in the enterprises.
- Producer prices growth is expected to stabilise in October at a low level (1.6%), but in the case of core inflation we expect a slight decrease (to 2.8%), signalling a start of trend reversal.
- The market will not react to MPC minutes, particularly in the context of the approaching end of the term of the current Council.



- Important information about the state of the economy in October will be data on production in industry and construction. We expect a clear deterioration in output growth in both cases under the influence of fewer working days than a year before, however, after adjustment for working days effect, the output growth rate will be probably the highest for many months, confirming a gradual recovery in the economy.
- Business climate indicators in industry, construction and trade published by the CSO will be the first hints on economic activity in November. We expect a stabilisation of companies' optimism.
- A lot of key data will appear in the U.S. and the euro area. Inflation, sales and production will be in the foreground, and will affect market expectations about the pace of recovery of the global economy.

Economy last week – Lower trade deficit, lower inflation



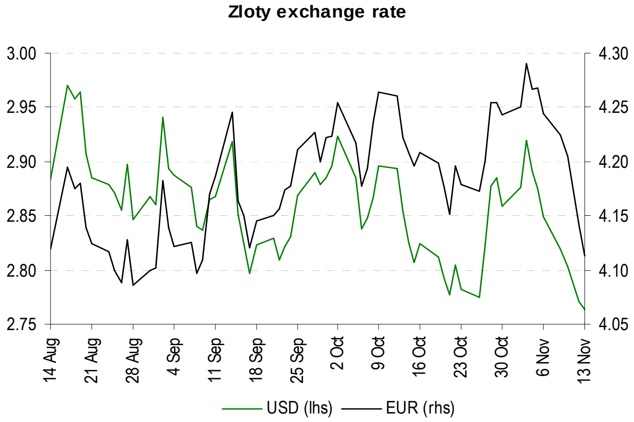
- Current account deficit in September and in the entire third quarter was much lower than expected, which positively influenced GDP estimates for this period. Moreover, the structure of financing of the deficit improved, and coverage of the current account gap by long-term capital inflow in the last 12 months increased to ca. 160%.
- CPI inflation fell in October to 3.1%, which was in line with FinMin forecast. The biggest positive surprise was a fall in fuel prices and low growth of food prices. The data did not change much inflation prospects for following months (rise in inflation till December and fall next year) nor expectations regarding official interest rates.
- Significant acceleration of money supply growth in October was related to IPO of PGE. After one-off increase in September, loans for companies (adjusted by FX effect) fell again in October.

Quote of the week – Is the reduction of OFE contribution the optimal solution?

Marek Bucior, deputy labour minister, Reuters, 10 Nov
It looks that such a move (limiting contributions to OFE), would take place anyway at some time. Committing an error is bad, but it is even worse to stick with it. (...) It would be better to wake up a few years earlier, but the situation on the markets and the global economic crisis have some impact on this. (...) As the open pension funds invest so much in bonds, the capital pension system becomes a PAYG. (...) I hope that the OFE will increase the share of shares in their portfolios. Investment in the stock market is an important element of the pension system and are needed. We must help the OFE to invest in the stock market rather than bonds issued by the Treasury.

One may agree with the opinion that too much of OFE assets is allocated in bonds. However, the solution to this problem would be to change the limits regarding investment policy of funds and actions leading to development of markets for alternative financial instruments (e.g. corporate bonds). Measures reducing the operating costs of OFE and increasing competition between them can (and should) be carried out at the same time. Meanwhile, the solution proposed by the government, not only that it dismantles the pension system and undermines its credibility for the sake of short-term budgetary benefits, it also somehow "fixes" the high proportion of bonds (or at least their equivalent) in our pension portfolios (this portion of the contribution, which, instead of the OFE will go to individual accounts in ZUS).

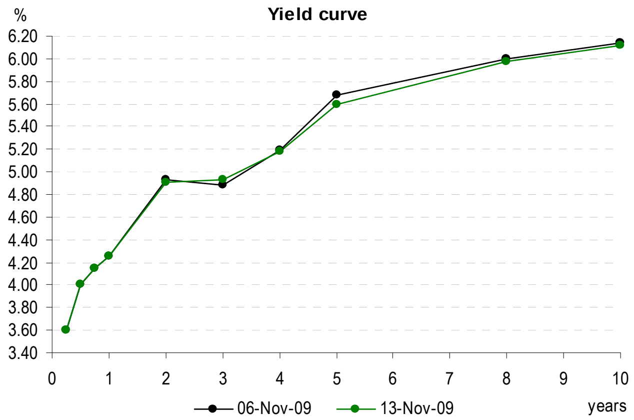
Market monitor



Zloty gains in strength

▪ Last week brought significant zloty strengthening, which resulted from both external factors (results of the G20 meeting IMF report, dollar depreciation) but also domestic ones, like the balance of payments data for September. In the last trading hours on Friday the EURPLN rate broke through 4.10, strengthening by ca. 3.6% over the week.

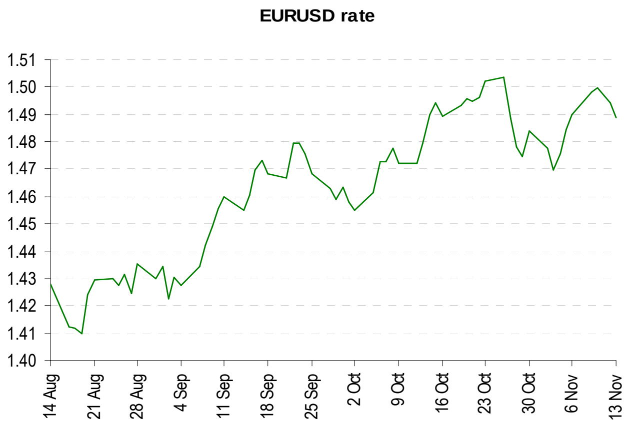
▪ Along with possible continuation of dollar weakening the zloty may appreciate. Next important support level after breaking 4.10 is 4.06, which in our view is hard to be broken. Weak data on output, wages and employment may partly offset positive influence of the balance of payments data. Nevertheless, the decisive factor will be most probably risk aversion in the global markets.



Stable debt market

▪ During the entire week the activity in the domestic debt market was limited, which was influenced by a market holiday on Wednesday and expectations for the release of data on CPI inflation on Friday. However, even lower than expected data on CPI did not result in important reaction in the bond market. FRA and IRS rates fell discounting lower risk of interest rate hikes within next few months.

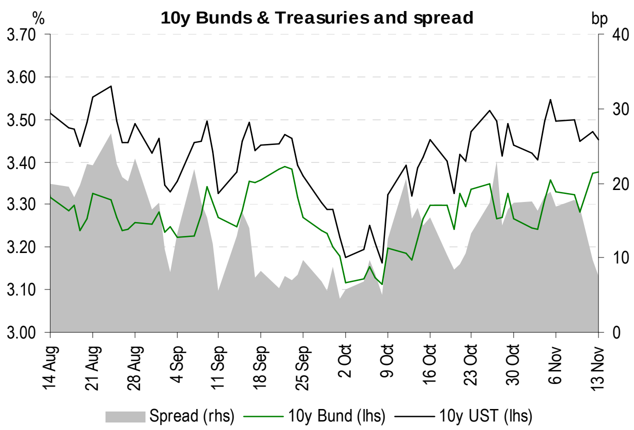
▪ This week the debt market may strengthen, and the domestic macroeconomic factors will be crucial for this move (especially data on industrial output). Bonds will be also positively influenced by further strengthening of the zloty.



The dollar fluctuates

▪ During the first part of the week the dollar was weakening in the world markets, which was influenced among others by faith in economic recovery, expectations that Fed's policy will stay accommodative for extended period and signals from Asia on possible modification of exchange rate policies. However at the end of the week the dollar recovered losses going back to levels from previous Friday.

▪ This week there will be a series of new macroeconomic data abroad, which may have influence on the euro-dollar exchange rate. Economic activity data (output, retail sales) will be crucial. Investors will also pay attention to Fed and ECB members' comments. Dollar should stay close to record weak levels against the euro, staying under pressure of risk appetite improvement and low US rates prospects.



... as well as yields in the core markets

▪ Bond yields in the core markets were fluctuating in moderate range without a clear trend, following changing expectations of analysts about the strength of the global economic recovery and trends in the stock markets. At the end of the week the bonds strengthened under the influence of weaker than forecast data on US consumer confidence.

▪ Market belief that major central banks will not hurry with withdrawal from the accommodative monetary policy should exert downward pressure on bond yields fall in core markets. On the other hand, trends in stock markets and the general tone of data on economic activity in the US will be important this week.

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