Bank Zachodni WBK

# Weekly economic update

## 23 – 29 November 2009

**The past week has brought a reversal from two weeks of the ongoing upward trend in risk appetite in world markets and the related strengthening of the zloty. Market sentiment was hurt by a series of disappointing macro data in the US (retail sales, industrial production, house starts), and bad news from companies (including poor results of Dell and Sony). Domestic macro data were mixed (better than expected industrial production and employment, but worse construction output and wages), but confirmed a gradual recovery of the economy (it is also suggested by improvement in the annual growth of revenues and financial results of companies) amid a gradual weakening of fundamental inflationary pressures (decline in most measures of core inflation). MPC minutes did not contribute anything new to the monetary policy outlook. MPC meeting this week probably will be in the background. The key domestic event will be release of retail sales data. But probably the most important will be developments in the global markets before the long weekend in the US.**

### Economic calendar

| Time CET | COUNTRY | INDICATOR | PERIOD | | FORECAST MARKET | FORECAST BZWBK | LAST VALUE |
|---|---|---|---|---|---|---|---|
| | | **MONDAY (23 November)** | | | | | |
| - | JP | Market holiday | - | - | - | - | - |
| 9:58 | EZ | Flash PMI manufacturing | Nov | pts | 51.2 | - | 50.7 |
| 9:58 | EZ | Flash PMI services | Nov | pts | 52.8 | - | 52.6 |
| **11:00** | **PL** | **Buy-back tender of T-bills** | **-** | **-** | **-** | **-** | **-** |
| 16:00 | US | Existing home sales | Oct | m | 5.7 | - | 5.57 |
| | | **TUESDAY (24 November)** | | | | | |
| 10:00 | DE | Ifo index | Nov | pts | 92.5 | - | 91.9 |
| 14:30 | US | Preliminary PKB | Q3 | % | 3.0 | - | 3.5 |
| 15:00 | US | Case/Shiller house price index | Sep | %YoY | -9.0 | - | -11.3 |
| 16:00 | US | Consumer confidence | Nov | pts. | 48.0 | - | 47.7 |
| 20:00 | US | Minutes of the FOMC meeting in November | | - | - | - | - |
| | | **WEDNESDAY (25 November)** | | | | | |
| **-** | **PL** | **MPC decision** | **-** | **%** | **3.50** | **3.50** | **3.50** |
| 8:00 | DE | Gfk index | Dec | pts | 4.0 | - | 4.0 |
| **10:00** | **PL** | **Retail sales** | **Oct** | **%YoY** | **2.3** | **2.2** | **2.5** |
| **10:00** | **PL** | **Registered unemployment rate** | **Oct** | **%** | **11.0** | **11.0** | **10.9** |
| 14:30 | US | Durable goods orders | Oct | % | 0.5 | - | 1.4 |
| 14:30 | US | Core PCE | Oct | % | 0.1 | - | 0.1 |
| 14:30 | US | Initial jobless claims | w/e | k | 500.0 | - | 505.0 |
| 14:30 | US | Personal income / spending | Oct | % | 0.2 / 0.5 | - | 0.0 / –0.5 |
| 15:55 | US | Final Michigan index | Nov | pts | 66.0 | - | 66.0 |
| 16:00 | US | New home sales | Oct | m | 0.41 | - | 0.402 |
| | | **THURSDAY (26 November)** | | | | | |
| - | US | Market holiday | - | - | - | - | - |
| 10:00 | EZ | Money supply M3 | Oct | %YoY | 2.0 | - | 2.5 |
| **11:00** | **PL** | **Switch auction of bonds** | **-** | **-** | **-** | **-** | **-** |
| | | **FRIDAY (27 November)** | | | | | |
| 11:00 | EZ | Economic sentiment index | Nov | pts | 88.0 | - | 86.2 |

Source: BZ WBK, Parkiet, Reuters

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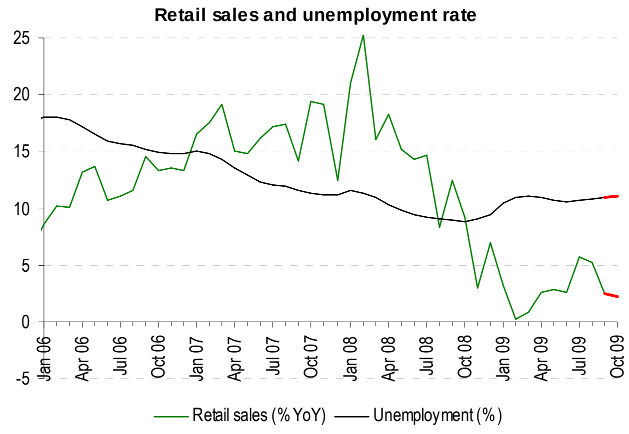
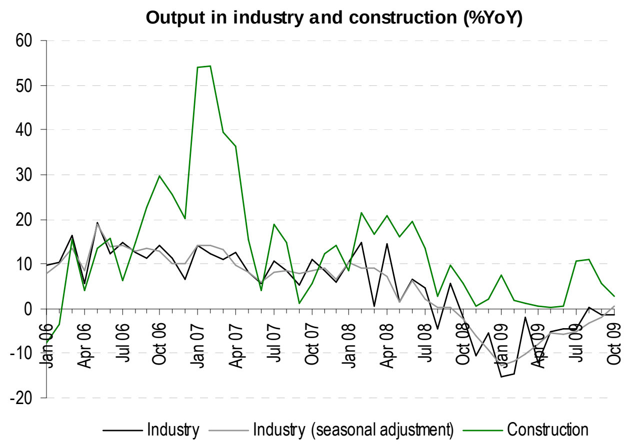
## **What's hot this week –** Focus on retail sales, MPC in the background

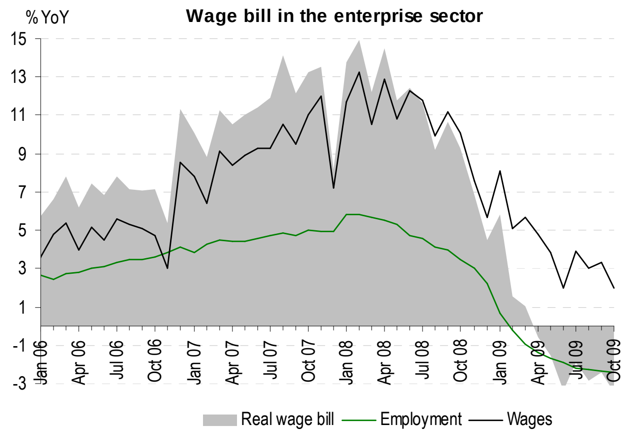



- This week the key domestic event will be next macro data while the MPC meeting should be in the background. The market waits for first official candidacies for the new Council while there are no doubts the current MPC will not change anything until the end of its term.
- As to local macro figures, focus will be on retail sales for October. It will be important how the sales growth rate will change after surprising changes in the three previous months. In our view, the slowdown in September was not a one-off (rather rebound in sales in July-August was temporary) and it will be confirmed by further slight slowdown in October. Detailed labour market statistics due on Wednesday will be helpful in interpretation of the wages statistics published last week.
- However, it may appear that key factor for the Polish market will be new macro data abroad.

## **Economy last week –** Confirmation of gradual economic recovery




- Industrial output fall in October (-1.2%YoY) was weaker than forecast, confirming a rebound in Polish industry, connected to a large extent with reviving foreign demand.
- On the other hand, disappointing rise in construction output (2.7%YoY) weakens the positive influence of the output data on estimate of GDP in Q4.
- However, it seems likely that the economic growth rate will approach 2% at the year-end. According to the FinMin the GDP growth in the last quarter may be even above 2% and industrial output growth will be above zero until the end of this year.
- The acceleration in PPI growth in October (2%YoY) stemmed mainly from higher commodities prices, while maintaining negative output gap and zloty strengthening should result in deceleration of producer prices growth in the following months.




- Average wage growth slowed down deeper than expected in October (to 2%YoY from 3.3%YoY in September) while employment drop was weaker than expected (-2.4%YoY). Wage bill growth rate was the lowest this year both in nominal (-0.5%YoY) and in real terms (-3.5%YoY).
- One should be careful in making conclusions on the basis of the data about the strength of consumer demand. This is due to a discrepancy that appeared in Q3 between the data on wages in the enterprise sector and in the entire economy. Anyway, we keep assessment that the situation on the labour market remains difficult, and until there is a clear improvement in trends in employment and wages, one should not expect a rebound in consumer demand.
- CPI excluding food and energy prices remained at 2.9%YoY in October, but majority of core inflation measures fell, confirming weakening underlying inflationary pressure.

## **Quote of the week –** Modified classification of public debt instead of changes in the pension system?

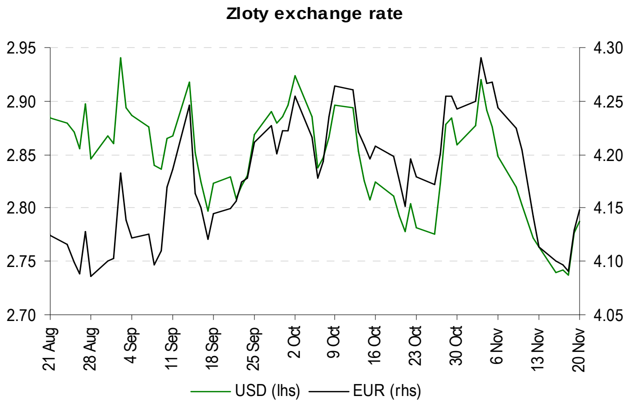
**Michał Boni, head of advisors to PM; DGP, PAP; 16 XI**

There will be no such change (in the pension system proposed by ministers of finance and labour). It seems to me it will not be introduced. The Prime Minister's intention is to find a solution, which would not deform the pension system reform, but at the same time will radically improve effectiveness of open pension funds. The intention is also to find such solutions, which would constrain dangers connected with rising public debt level. (…) The next few weeks will be spent on discussion about these issues.

We define in the Polish law what is the public debt. Possibly it was forgotten 10 years ago (when the pension system reform was introduced) that transfers to open pension funds will generate public debt and thus there should be different classification of the public debt.

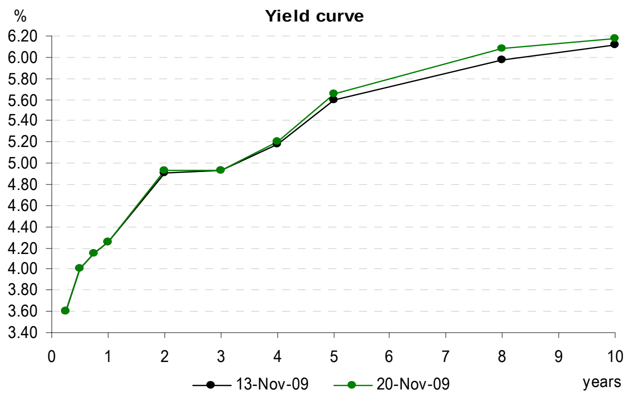
Latest comments from head of the advisory team to Prime Minister indicate that the widely criticised idea of changes in the pension system promoted by ministries of labour and finance will not be approved by the government. However, the remaining question is how the government will avoid the exceeding the precautionary threshold of 55% for public debt to GDP ratio. The government's official still confirm the threshold will be not even temporarily suspended. Comments from minister Boni suggest that an alternative solution may be to change the classification of the public debt in a way so that costs of the pension system reform were excluded from the public debt. Although the solution is not free of serious disadvantages, it seems better than the earlier ideas.

## Market monitor



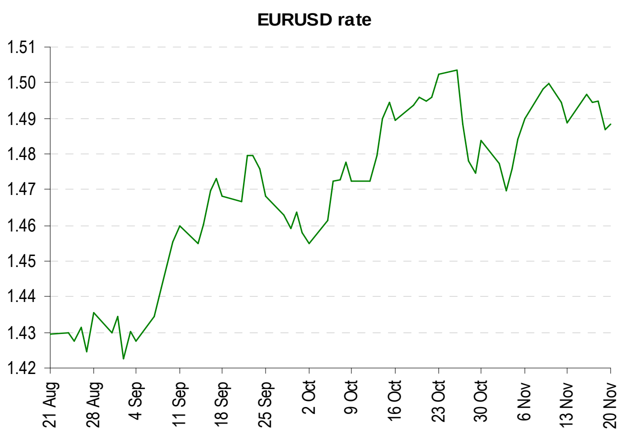

### Moderate correction of the zloty

- Last week saw a correction in appreciation trend of the zloty observed in the last two weeks. Although there was some strengthening of the zloty at the start of the week (EURPLN fell below 4.08), in two last days the currency was gradually weakening to ca. 4.16 on Friday. Other currencies in the region fluctuated in a similar way. This was related to a rise in risk aversion in global markets and associated falls in stock markets and decrease in EURUSD.
- This week the local currency market and world markets may fluctuate in narrow ranges amid limited activity due to long weekend in the US. We predict that EURPLN will be in range 4.08-4.18.



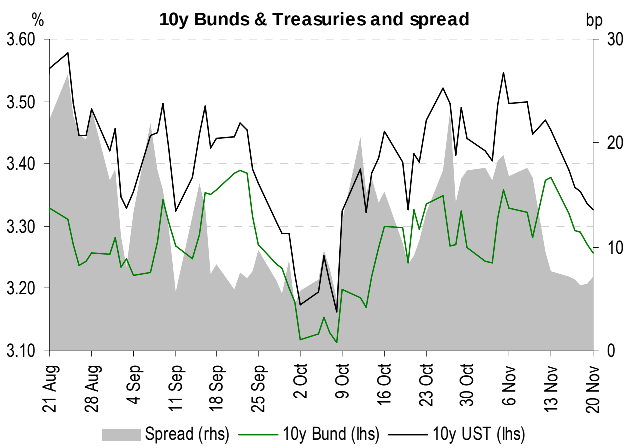

### Slight strengthening in the local debt market

- In the local interest rate market there was small weakening last week. In the first part of the week FRA and IRS rates as well as bond yields were stable, but they increased at the end of the week, following depreciation of the zloty. A rise in rise aversion and decrease in demand for emerging markets' assets was not strong enough though to cause a rise in asset swap spread, reflecting the level of credit risk.
- This week the local interest rate market will remain under the influence of zloty exchange rate (and moods in international markets), as well as local data releases, while the MPC meeting will not be a significant factor. A test for the debt market will be bond switching auction.




### Slight drop in EURUSD

- In the conditions of rising risk aversion in the past week there was a tendency of EURUSD rate decline amid fluctuations in a range of 1.48-1.50. The scale of dollar appreciation was smaller than declines in the equity markets, as in case of US currency the positive effect of rising risk aversion was compensated by negative influence of strengthening expectations of the market that interest rates in the US will stay unchanged for a long time. Such scenario was supported by new comments from Fed officials.
- This week the EURUSD rate may fluctuate in narrow range again. Ahead of the long weekend the EURUSD rate may record a significant change only in case of a large surprise in the fresh macroeconomic data.




### Strengthening in the core debt markets

- Increased interest in safe haven assets visible in the past week resulted in strengthening of the core debt markets. The falling tendency in yields was additionally strengthened by investors' view that interest rates in the US and euro zone will stay unchanged for a long time, which was cemented by new comments from central bankers. The maintained concerns over the influence of large supply of government securities worked in the opposite direction. At the end of the week yields of 10Y Treasuries and Bunds were at 3.33% and 3.26% respectively versus 3.45% and 3.38% a week earlier.
- This week the activity in the core debt markets may be limited due to long weekend in the US. Ample data to be released earlier may impact the interest in safe haven assets and/or expectations regarding monetary actions of the Fed and the ECB.

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