

Weekly economic update

7 – 13 December 2009

Last week in the financial markets was marked by strengthening interest in risky assets. This translated into significant appreciation of the zloty. The EURPLN rate decisively broke the important technical level of 4.06 (the weekly minimum seen reached on Friday was 4.04) and moved towards the psychological barrier of 4.00. The key factor for improvement in sentiment on the global markets was publication of the much better than expected US non-farm payrolls report on Friday. It showed drop in employment outside farming by a mere 11k against forecasted fall of 125k while the unemployment rate fell to 10% against predicted stabilization at 10.2%. Additional driver of the zloty appreciation were domestic data on GDP for Q3 and PMI manufacturing for November, which proves better than market consensus and even our relatively optimistic forecasts. The zloty appreciation translated into strengthening of the domestic interest rate market, although fall in money market rates and bond yields was constrained by strong GDP and PMI figures, which strengthened market expectations of quite swift rate hikes in Poland. However, comments from three official candidates for the new MPC from Sejm – Andrzej Bratkowski, Elżbieta Chojna-Duch and Anna Zielińska-Głębocka – do not signal any revolutionary steps in the monetary policy. Even comments from Andrzej Bratkowski, who seemed to be potentially the clear hawk among the new MPC members were not much hawkish.

We expect that positive moods after Friday's data from the US labour market will be continued this week. The target for the EURPLN rate is 4.00. The key day of this week will be Friday again, when we will get the US data on retail sales for November and preliminary Michigan index for December. The numbers will be important for assessment of strength of consumption demand and thus the markets' belief in durability of the economic recovery in the US.

Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD	FORECAST		LAST VALUE
				MARKET	BZWBK	
MONDAY (7 December)						
12:00	DE	Industrial orders	Oct	%	0.6	- 0.9
TUESDAY (8 December)						
12:00	DE	Industrial output	Oct	%	1.0	- 2.7
WEDNESDAY (9 December)						
11:00	PL	Auction of road-bonds IDS1018 worth PLN1.8bn				
16:00	US	Wholesale inventories	Oct	%MoM	-0.5	- -0.9
THURSDAY (10 December)						
9:30	CH	SNB decision	-	%	0.25	- 0.25
13:00	GB	BoE decision	-	%	0.50	- 0.50
14:30	US	Trade balance	Oct	\$bn	-36.8	- -36.47
14:30	US	Initial jobless claims	w/e	k	457.0	- 457.0
20:00	US	Federal budżet	Nov	\$bn	-135.0	- -125.2
FRIDAY (11 December)						
14:00	PL	C/A balance	Oct	€m	-190	7 -59
14:00	PL	Export	Oct	%YoY	-12.5	-12.1 -17.1
14:00	PL	Import	Oct	%YoY	-22.3	-22.3 -26.4
14:30	US	Import prices	Oct	%MoM	1.0	- 0.7
14:30	US	Retail sales	Nov	%MoM	0.6	- 1.4
15:55	US	Preliminary Michigan index	Dec	pts	68.5	- 67.4

Source: BZ WBK, Parkiet, Reuters

Maciej Reluga Chief economist (+48 22) 586 8363

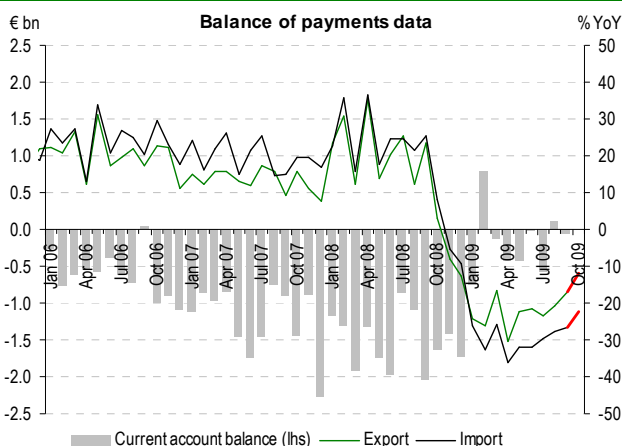
Piotr Bielski (+48 22) 586 8333

Piotr Bujak (+48 22) 586 8341

Cezary Chrapek (+48 22) 586 8342

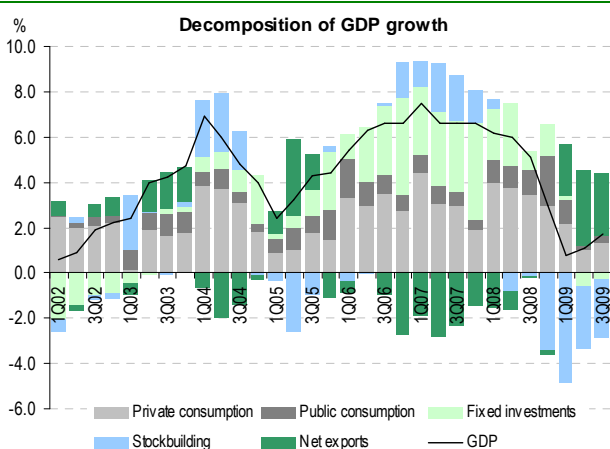
e-mail: ekonomia@bzwbk.pl

What's hot this week – Key data again on Friday

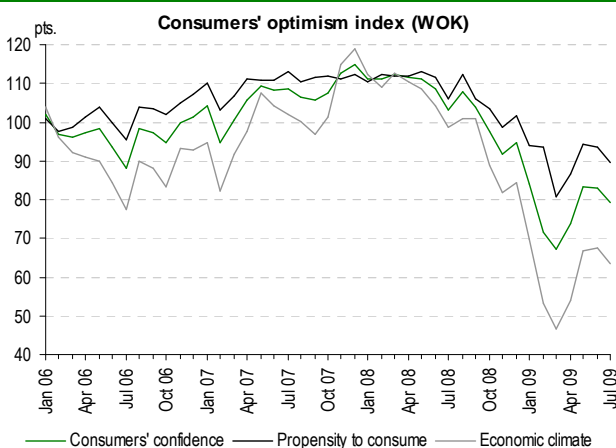


- We predict that balance of payments for October, which will be the only data release this week, will show slight surplus on the current account with an improvement in foreign trade turnover. Materialisation of our forecasts would confirm good situation in Poland's economic external relations (the falling 12M C/A gap in relation to GDP) and an improvement in domestic export sector (especially that we are more optimistic for exports growth rate than the market consensus).
- The number of market sensitive events abroad is not large this week. The key day of the week will be Friday when we will see the US data on retail sales for November and preliminary Michigan index for December. This will be important for assessment of strength of consumption demand and thus market's belief in durability of economic recovery in the US.

Economy last week – Many good news



- Domestic GDP data for Q3 proved better than market expectations. Annual GDP growth accelerated to 1.7% from 1.1% in Q2, in line with our forecast.
- At the same time, there was surprising strengthening of private consumption growth to 2.2%YoY and weakening in fixed investment drop to -1.5%oY. Domestic demand dropped 1.2%YoY, to a large extent due to further destocking. Net exports contribution was positive at 3.0pp.
- All in all, the data confirmed that the Polish economy is on the recovery path. A conducive factor to further acceleration in Q4 will be low base effect. Data for Q3 were not surprising enough to change monetary policy prospects. According to the Ministry of Economy, GDP growth in 2009 will be close to 1.5% and in Q4 it may reach 2.5%. Market consensus according to Parkiet survey shows 2% growth in 2009 and 1.5% in Q4.



- Poland's PMI manufacturing reached 52.4 in November, clearly beating market consensus of 49.3 and our forecast of 49.7. Scale of the index rebound points to revival in activity of industry and supports our forecast indicating strong rise in industrial output in November. This also increases chances that GDP growth in Q4 and in 2010 will be higher than currently expected. We will present our new GDP forecast in December's MACROscope.
- The improvement in Polish manufacturing sector was stronger than in the euro zone, which occurred relatively rarely in the past. The euro zone's PMI manufacturing was at 51.2 in November, the highest level since March 2008. A clear improvement was seen in new orders and output indices, which reached the highest levels in ca. 2 years. The euro zone's PMI rise resulted mainly from improvement of situation in Germany and France.

Quote of the week – Current interest rate level adequate for situation

Anna Zielińska-Głębocka, candidate for MPC, PAP, 3 Dec

As for now, there should be no revolutionary moves.

Elżbieta Chojna-Duch, candidate for MPC, PAP, 2 Dec

I think that the current level of rates is adequate for macro situation.

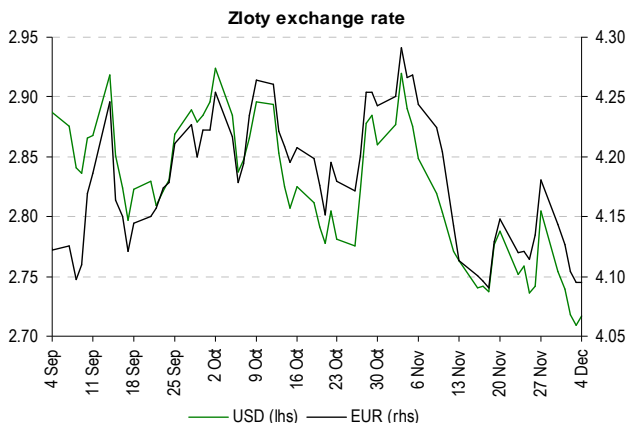
Andrzej Bratkowski, candidate for MPC, PAP, 30 Nov

One should play in such a way so that the zloty appreciation, is likely to be coupled with larger difference between our rates and in the euro zone, would be used as a factor stabilising inflation and not something that would decelerate economic growth.

There is no risk that if inflation goes above the target the whole strategy will crumble into ruin. Therefore, one should try to reach the middle of the inflation target and not try to be closer to the lower end of the end of the target band, as the perspective of euro adoption suggests.

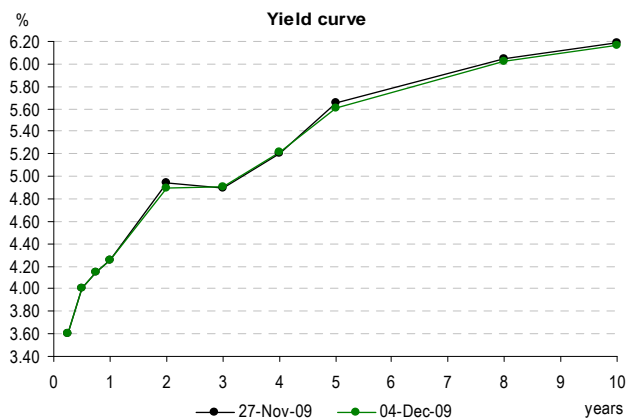
Last week, we finally get to know three official candidates for the MPC from Sejm. PO's candidates are Andrzej Bratkowski (former deputy NBP governor and chief economist of Pekao S.A.) and Anna Zielińska-Głębocka (PO's deputy and professor of economy at Gdańsk University), while the Peasants Party proposed Elżbieta Chojna-Duch (a lawyer and deputy finance minister in the current government, specializing in public finances). Their comments show one should not expect any sudden shift in domestic monetary policy. It is worth to note that in the past the Peasants Party's candidates used to be dovish members and if this situation repeated, the NBP President's casting vote would be decisive. However, at current stage it is hard to predict whether prof. Chojna-Duch will follow this pattern. Besides, it is noteworthy that comments from Bratkowski are not much hawkish.

Market monitor



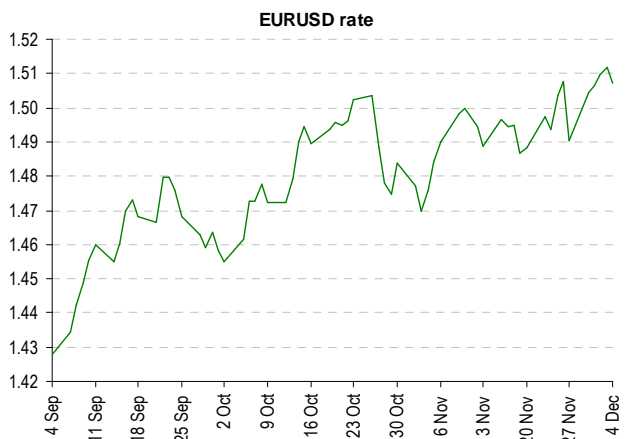
Zloty the strongest since January

- Last week we saw lowering of credit risk connected with problems in Dubai, which resulted in return of appetite for more risky assets. This positively affected emerging market currencies, including CEE region. At the end of the week the additional significant positive impulse came from the US after stronger-than-expected labour market data. During the week the zloty gained 2.5% (EURPLN temporarily below 4.04), while the Hungarian forint and the Czech crown 1.8%. As to relative strength of the zloty, a few positive recommendations for the zloty could have played a role.
- The significant rise in risk appetite after Friday's US data and breaking the important level of 4.06 by EURPLN shows potential for further appreciation of the Polish currency. The level of 4.0 may be important psychological barrier.



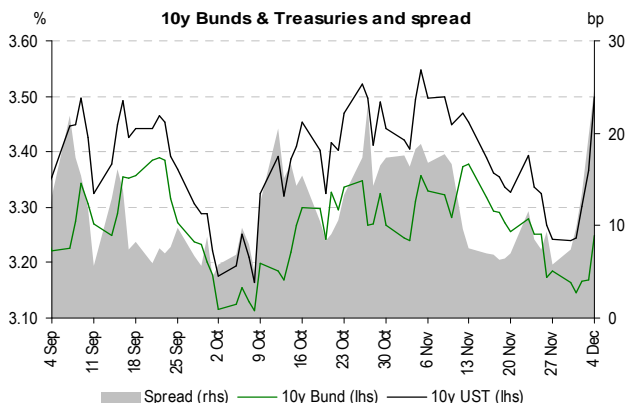
Domestic yield curve down

- The zloty appreciation amid high risk appetite on global markets positively affected the Polish debt market. The bond yield curve moved down by some 5 bp. The scale of the change in the money market and on the short end of the curve was limited by very positive economic data on the Polish economy (GDP, PMI).
- No key information for the Polish debt market are scheduled for this week (limited impact on interest rate market from balance of payments data). However, the auction of BGK bonds may be important test for the market. Thus, performance of the zloty driven by changes in global moods will be of key importance. A possible comments from candidates for MPC should be rather neutral for the interest rate market, similar as the previous week.



EURUSD around 1.50

- From the better part of the past week the EURUSD rate was under influence of changes in risk appetite. Along with the higher interest in risky assets, the dollar was gradually weakening against the euro and the EURUSD rate fluctuated above 1.50. At the end of the week the typical correlation of the EURUSD rate to risk appetite was disturbed. Better than expected data from the labour market in the US increased appetite for risk, though at the same time significantly improved the assessment of the condition of the US economy, which strengthened the dollar and the EURUSD rate fell below 1.50.
- This week changes of the EURUSD may depend on the changes in risk appetite again and also on the assessment of relative condition of the US economy versus the euro zone. From this point of view Friday's data on US retail sales and the Michigan index will be crucial.



Weakening of the core debt markets

- The retreat from the safe haven assets last week brought substantial increase in yields in the core debt markets. The most significant move was recorded after the Friday's release of the US non-farm payrolls report. The result of the ECB meeting had no significant influence on the markets. At the end of the week yields of 10Y Treasuries and Bunds were at 3.51% and 3.25% respectively against 3.24% and 3.18% a week earlier.
- This week we expect further increase in yields in the core debt markets, as in our view the positive moods in the global markets will be maintained. Any change in such a tendency is possible only under influence of US data due for release on Friday.

This publication has been prepared by Bank Zachodni WBK S.A. (a member of AIB Group) for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Bank Zachodni WBK S.A., its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Bank Zachodni WBK S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Bank Zachodni WBK S.A. entity or an AIB Group entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

Additional information is available on request. Please contact Bank Zachodni WBK S.A. Treasury Division, Economic Analysis Unit, ul. Marszałkowska 142, 00-061 Warsaw, Poland, phone (+48 22) 586 83 63, email ekonomia@bzwbk.pl, <http://www.bzwbk.pl>



Bank Zachodni WBK is a member of Allied Irish Banks Group