

Weekly economic update

25 – 31 January 2010

In line with our last week's suggestion the zloty did not breach 4.0 level against euro and after bouncing off this level was weakening, under influence of rising risk aversion and strengthening of the dollar in global markets. The correction may be continued this week, however the EURPLN should not exceed 4.15.

The key domestic figure will be GDP data for 2009. The most recent monthly indicators supported our forecast assuming over 3% GDP growth in Q4, which yields 1.7% increase in the entire year. Important factor for assessment of outlook for the next quarters will be growth in private consumption and investment in Q4. The first MPC meeting with presence of some new members and presentation of government's plan of development and fiscal consolidation should have no major impact on the market. Much more important will be FOMC meeting (we expect a cautious tone of the bank's statement), US macroeconomic data and financial reports of companies, which will determine market expectations concerning pace of economic recovery in world economy.

Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST		LAST VALUE
					MARKET	BZWBK	
MONDAY (25 January)							
8:00	DE	GfK index	Feb	pts.	3.1	-	3.3
11:00	PL	Tender of 52-week T-bills worth PLN1.0-1.3bn					
16:00	US	Home sales	Dec	m	5.9	-	6.54
TUESDAY (26 January)							
	PL	MPC decision		%	3.50	3.50	3.50
10:00	DE	Ifo index	Jan	pts.	95.1	-	94.7
15:00	US	Case/Shiller report	Nov	%MoM	-0.2	-	0.0
16:00	US	Home prices	Nov	%MoM		-	0.6
16:00	US	Consumer confidence	Jan	pts.	53.5	-	52.9
	JP	BoJ decision		%	0.1	-	0.1
WEDNESDAY (27 January)							
16:00	US	New home sales	Dec	m	0.37	-	0.355
20:15	US	FOMC decision		%	0-0.25	-	0-0.25
THURSDAY (28 January)							
10:00	PL	GDP	2009	%YoY	1.6*	1.7	4.9
10:00	PL	Retail sales	Dec	%YoY	6.7	6.1	6.3
10:00	PL	Registered unemployment rate	Dec	%	11.8	11.9	11.4
11:00	EZ	Economic sentiment	Jan	pts.	92.4	-	91.3
14:30	US	New jobless claims	w/e	k	450.0	-	482.0
14:30	US	Durable goods orders	Dec	%MoM	2.0	-	0.2
FRIDAY (29 January)							
10:00	EZ	M3 money supply	Dec	%YoY	-0.5	-	-0.2
11:00	EZ	Flash HICP	Jan	%YoY	1.2	-	0.9
11:00	EZ	Unemployment rate	Dec	%	10.1	-	10.0
14:30	US	GDP	Q4	%	4.4	-	2.2
14:30	US	Core PCE	Q4	%	1.3	-	1.2
15:45	US	Chicago PMI	Jan	pts.	56.0	-	58.7
15:55	US	Final Michigan index	Jan	pts.	72.9	-	72.5

Source: BZ WBK, Parkiet, Reuters, *Dow Jones Newswires

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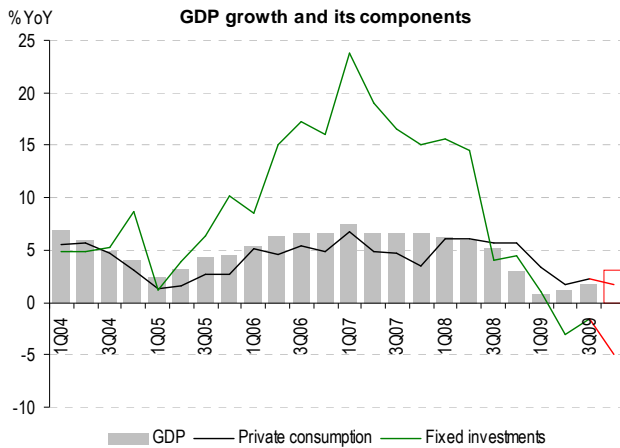
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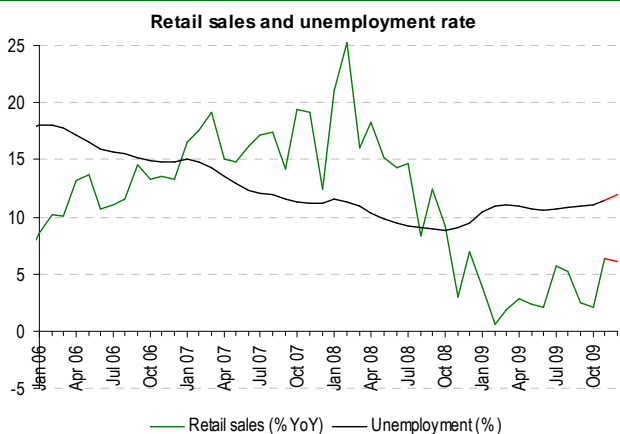
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What's hot this week – GDP, MPC, FOMC, numerous data abroad

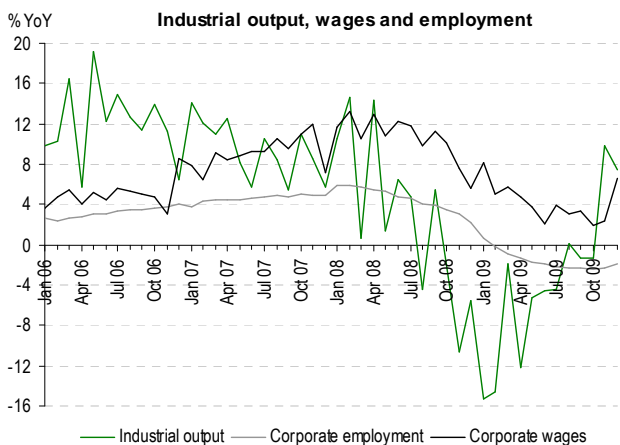


- Some of the MPC members of the new term will attend the Council meeting for first time this week. There will be no changes in monetary policy, but comments of the new members may be important hints for the market about their views. The first MPC meeting with participation of all newly elected members will take place in February.
- This week President Kaczyński should announce nominations of three MPC members.
- On Friday the government will present a long-awaited program of development and fiscal consolidation. Main parts of the document have been pre-announced so they should not surprise the market.
- FOMC meeting will be crucial for international markets that will try to answer how the most recent economic data influenced the Fed's assessment of prospects for economic recovery in the US.



- Crucial for assessment of Polish economy prospects will be GDP data for 2009 due on Wednesday. Our forecast of 1.7% growth in the entire year draws on the assumption of over 3%YoY rise in the fourth quarter. Not only the level but also the structure of economic growth will be important.
- Data about retail sales and unemployment will remain overshadowed by GDP figures. We predict maintaining robust sales growth in December and a seasonal rise in registered unemployment rate.
- During the week a large number of data will be released abroad. Investors' attention will focus mainly on GDP and housing market data in the US. Also, financial reports of large American companies will have impact on market sentiment.

Economy last week – Some surprises in data for December



- Labour market data for December were much better than expected, while data on production were below forecast. In sum, it did not change our assessment of economic situation in Q4 and prospects for the subsequent quarters. Especially that the data were affected by statistical effects (low base, delay in bonus payments, impact of holiday leaves).
- Negative trends in the labour market have stopped, which allows for optimism as regards households' situation and private consumption prospects. Revival in activity in manufacturing is being continued, although there is still uncertainty about persistence of economic growth abroad.
- Data on PPI and core inflation in December were close to expectations and did not change substantially the inflation outlook for this year. Next months should see a gradual decrease in inflation.

Quote of the week – Will the NBP president convince the MPC to publish interest rates path?

Andrzej Rzońca, MPC member, PAP, 20 Jan

Introduction of projection of all interest rates could bring some benefits in a form of reduced uncertainty. However, to achieve this, some conditions must be fulfilled. (...) Every one of the MPC members may have his own model of inflation and model of loss minimisation. (...) This publication may bring benefits, but rather small. (...) Perhaps I will be convinced to this idea.

Elżbieta Chojna-Duch, MPC member, PAP, 20 Jan

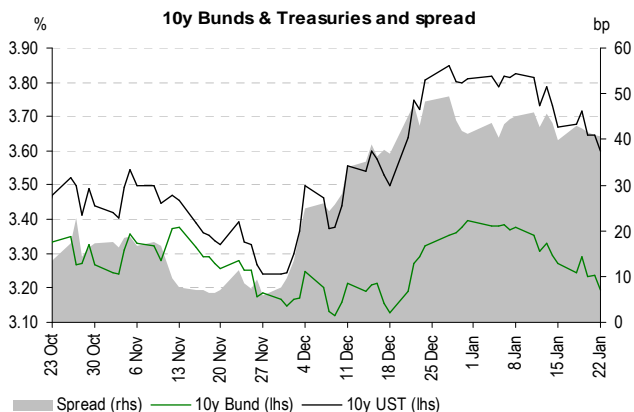
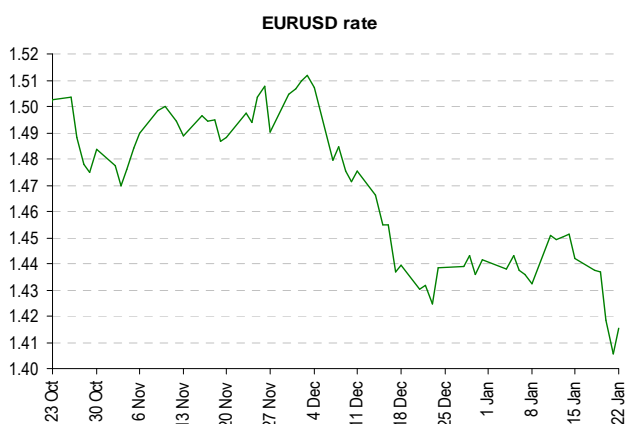
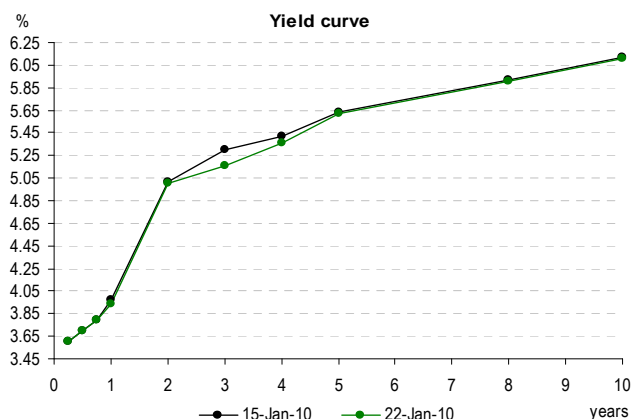
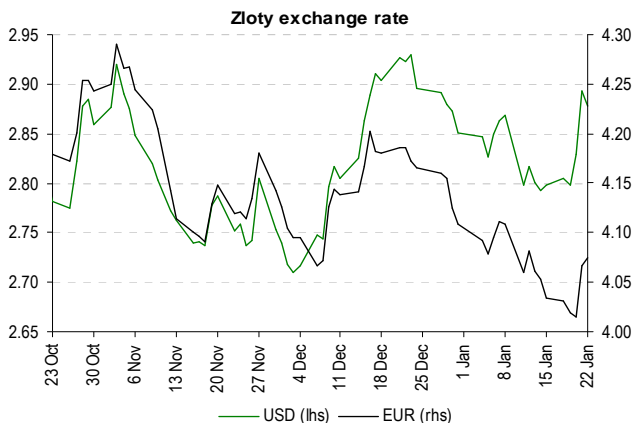
This was not yet widely used, and requires consideration. Monetary policy should be carried out carefully and judiciously.

Anna Zielińska-Głębocka, MPC member, PAP, 20 Jan

It's not a good idea, especially in terms of continuing instability economies.

NBP President Sławomir Skrzypek has announced that he will try to persuade the new MPC to introduce the new tool of communication with the market, namely the publication of future interest rates of the central bank. Two new MPC members did not exclude that they may support this proposal, however sceptical opinions appeared as well (Zielińska-Głębocka, and earlier Bratkowski). The previous MPC was sceptical about this idea, among others due to methodological and practical problems with its implementation (the should be a model of interest rates, which all MPC members agree with). It seems that this new instrument will not appear in the NBP toolbox in the near term.

Market monitor



Correction triggered by worse moods abroad

- Start of the week was favourable for the zloty, and EURPLN rate approached 4.0. However, the level was not breached, in line with our last week's suggestion. Next days saw a rise in global risk aversion and sharp euro depreciation against dollar, which triggered a correction in currency markets in the region and rise in EURPLN above 4.10 on Friday.
- It seems that it may take some time before a correction, driven by concerns about collapse of global economic recovery, ends. The zloty may be supported by good GDP data for 2009, but the key factors will be information from US (macro data, firms' financial reports, Fed statement), which will determine the risk aversion. Greece's fiscal problems are also negative for moods in the region. The important support level for the zloty is 4.15.

Stable in the local bond market

- Despite significant correction in the currency market, yields of Polish Treasury bonds remained quite immune to deterioration in global moods. The market was positively affected by very good results of auction of 10- and 20-year bonds (large demand, low average yield) and weaker than expected data on production, lowering fears about soon rate hikes. In effect, the yield curve on Friday was almost unchanged versus previous week.
- Continuation of zloty depreciation increases changes for profit taking in the domestic bond market. Good GDP data should also support the rise in yields. Government's plan of development and fiscal consolidation should not affect the market. First of all, some solutions were already announced, secondly, the market realises that the road from plans to realisation may be long and bumpy.

Weakest euro for five months

- The week passed under the sign of sharp euro depreciation against the dollar. This was triggered by a number of factors, including concerns about Greece's solvency, worse than predicted indicators of economic activity in Europe, and increasing general risk aversion. The end of the week saw some rebound and the EURUSD bounced from 1.40 to 1.41, after announcement of president Obama's plans to impose limits on the size and trading activities of financial institutions.
- A negative factor for the dollar this week may be a dovish tone of the FOMC statement after the Wednesday's meeting. Nevertheless, downside versus the euro should be limited as markets continue to focus on eurozone sovereign risk

Risk aversion supports core debt markets

- Losses in the stock markets and growth in global risk aversion triggered strengthening in the core debt markets, where yields fell by several basis points over the week. Concerns about situation in Greece caused differentiation between euro zone countries with good and poor credibility. Spread between yields of Greek and German bonds soared to the highest level for 11 years (306 bp) amid concerns there will be no demand for Greece's planned debt issue of ca. €3bn.
- New data from the biggest economies and signals after Fed meeting will decide about international investors' appetite for risk this week. We expect to see a cautious tone to the central bank's statement, which will favour further strengthening of core bonds, mainly in the US.

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