

Weekly economic update

1 – 7 February 2010

Preliminary GDP data for 2009 as a whole confirmed that the Polish economy is on the recovery path and economic growth in Q4 reached ca. 3%YoY. However, the GDP figures as well as earlier released better than expected retail sales data for December does not eliminate the risk for the medium-term economic growth prospects for Poland related to a possibility of another wave of economic downturn in the global economy. Thus, we think that the fresh data are neutral for monetary policy prospects, especially that the MPC meeting in January with partly changed makeup did not bring any surprises in assessment of outlook for the economy and inflation. In the government's Plan of Fiscal Development and Consolidation there were many ideas pointing to the right direction, though most of them are general statements and announcements (most of them were earlier discussed), and there is lack of clear-cut solutions. Actually, the proposed rule according to which public spending (though only the non-fixed ones) would rise not faster than 1% above inflation may limit the fiscal deficit almost only in the scenario of GDP growth acceleration. Domestic data were supportive for the zloty and it was resistant to unfavourable conditions in the global markets (falling EURUSD and major stock indices). Strong macro figures released in the US on Friday suggest the zloty will gain this week. The key driver for the local market this week will be events abroad. Locally we will get PMI, FinMin's inflation estimate and possibly the update of the convergence program.

Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST		LAST VALUE
					MARKET	BZWBK	
MONDAY (1 February)							
9:00	PL	PMI manufacturing	Jan	pts	52.7	52.3	52.4
9:58	EZ	PMI manufacturing	Jan	pts	52.0	-	51.6
11:00	PL	Tender of 52-week T-bills worth PLN.9-1.2bn					
14:30	US	Personal income	Dec	%	0.3	-	0.4
14:30	US	Personal spending	Dec	%	0.3	-	0.5
14:30	US	Core PCE	Dec	%	0.1	-	0.0
16:00	US	ISM manufacturing	Jan	pts	55.0	-	54.9
TUESDAY (2 February)							
11:00	EZ	PPI	Dec	%YoY	-3.1	-	-4.4
16:00	US	Pending home sales	Dec	%	1.5	-	-16.0
WEDNESDAY (3 February)							
11:00	PL	Switch auction of bonds					
9:58	EZ	PMI services	Jan	pts	52.3	-	53.6
11:00	EZ	Retail sales	Dec	%YoY	-2.5	-	-4.0
14:15	US	ADP report (employment)	Jan	k	-40.0	-	-84.0
16:00	US	ISM non-manufacturing	Jan	pts	50.8	-	49.8
THURSDAY (4 February)							
13:00	GB	BoE decision	-	%	0.5	0.5	0.5
13:45	EZ	ECB decision	-	%	1.0	1.0	1.0
14:30	US	New jobless claims	w/e	k	460.0	-	470.0
16:00	US	Factory orders	Dec	%	0.6	-	0.6
FRIDAY (5 February)							
14:30	US	Non-farm payrolls	Jan	k	5.0	-	-85.0
14:30	US	Unemployment rate	Jan	%	10.0	-	10.0

Source: BZ WBK, Parkiet, Reuters,

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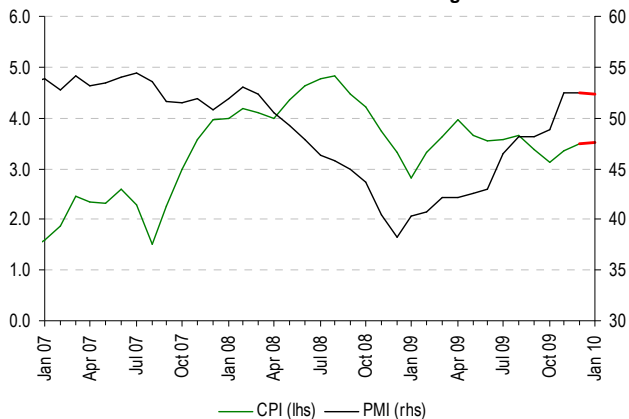
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What's hot this week – PMI, FinMin's inflation estimate and data abroad

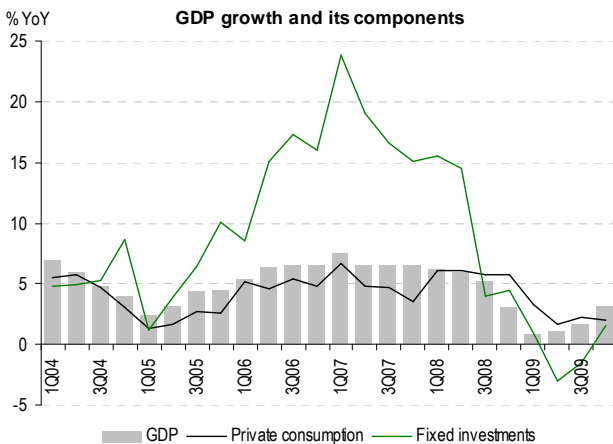
CPI inflation and manufacturing PMI



- We predict that Poland's PMI manufacturing slightly fell in January following the strong rise seen a few months ago. However, the domestic PMI will be still above the euro zone's PMI and clearly above 50.0, confirming continuation of recovery in the manufacturing sector.
- As always at the beginning of the month we will also get the MinFin's inflation estimate. We forecast CPI inflation in January stabilised at 3.5%YoY posted in December.
- This week is also likely to see publication of the updated convergence program. Its publication a few days after presentation of the fiscal consolidation plan was announced by the FinMin's officials.
- As usual events abroad will be of key importance – focus will be on many economic activity indicators and the US non-farm payrolls report. Publication of EC's economic forecasts on Wednesday will also be important.

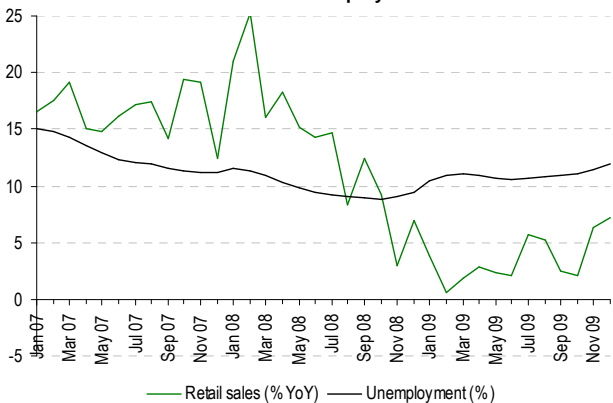
Economy last week – A dose of positive news

GDP growth and its components



- Preliminary GDP figures for 2009 matched our estimate and showed economic growth of 1.7%. The data for the whole year and estimates for Q4 confirmed that the Polish economy is on the recovery path.
- What is important, breakdown of GDP growth indicates that quality of the recovery is better than expected as private consumption remained relatively strong (rise of 2.3% in 2009 as a whole) while fixed investments hardly fell by 0.3% in the whole year and rose in Q4 alone.
- At the same time one should remember that the data are historic and do not influence the assessment of the probability of a second wave of economic slowdown in the global economy, which is the main source of risk for medium-term prospects of economic growth in Poland. Thus, in our view the data do not influence the assessment of monetary policy prospects.

Retail sales and unemployment rate



- Retail sales figures for December proved better than expected (nominal growth in annual terms accelerated to 7.2% from 6.3% against the market consensus of 6.7% and our forecast of 6.1%).
- The registered unemployment rate rose to 11.9% at the end of 2009, in line with tentative estimates. Besides, detailed data from the labour market confirmed that surprisingly high wage growth in December was strongly influenced by a shift in bonus payments in mining (improvement in the annual wage growth in this sector to 24.9% from -14.7% in November). However, one must also note an improvement in annual wage growth in manufacturing (to 5.9% from 5.2%), suggesting some improvement in underlying wage growth (although wage growth in manufacturing in December 2009 could be affected to an extent by the effect of tax changes a year ago).

Quote of the week – We will prepare and we will try to convince

Donald Tusk, Prime Minister, PAP, Reuters, 29 Jan

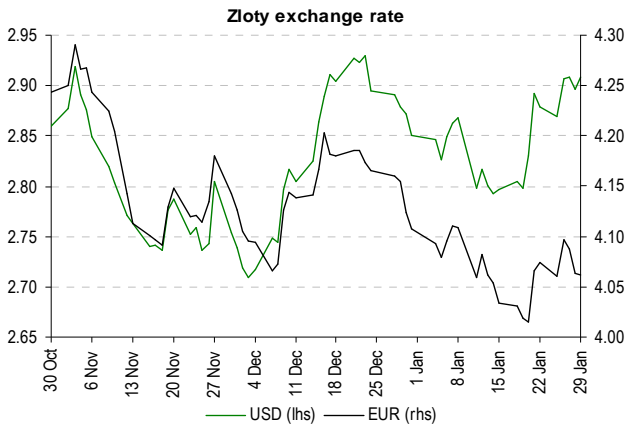
This year we will prepare bills, which will start a process of eliminating pension system privileges. The goal is not to take away someone his rights (...) though nobody new will acquire these rights (...) We will try to convince, so as to start using income criteria to the wealthiest farmers, without KRUS liquidation. (...) We want radical acceleration of privatisation, PLN27bn or more in 2010.

Jacek Rostowski, finance minister, PAP, Reuters, 29 Jan

Redefinition of the public debt will be possible only after introduction of the most fundamental elements of the public finance consolidation plan (...) Such redefinition has to go along with lowering of the first threshold perhaps to 40%. (...) We do not set any euro adoption date.

The Fiscal Development and Consolidation Plan presented by the government is rather a program declaration (it was stated in the title that the document includes proposals) rather than a set of clear-cut and ready solutions (the latter are going to be presented by the year-end). The document precisely points 2 main goals of the government for the next 2 years: avoiding risks connected with rising debt and deficit as well as creating a base for building competitive advantages of the Polish economy in the long term. The most concrete proposal is a plan to introduce rules (through respective bill), which will limit the public spending growth. Overall, the document does not bring much new to the assessment of public finance.

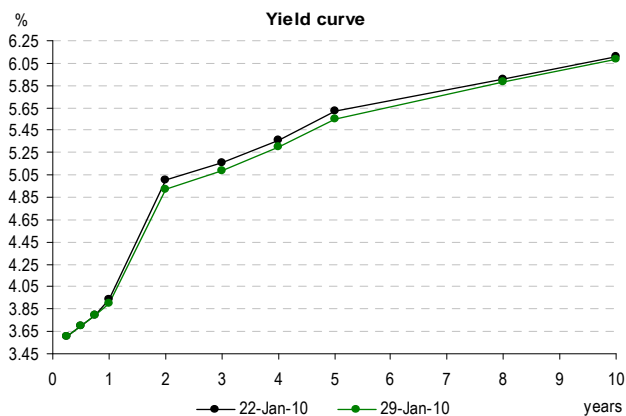
Market monitor



Zloty stable despite fall of EURUSD and equity markets

Zloty was quite stable against the major currencies last week despite the conditions in the world markets were not favourable – drop of the EURUSD rate and of main stock indices. Such behaviour of the local currency means it was relatively strong. It is also reflected by the fact that the zloty performed clearly better than other currencies in the region. EURPLN fell during the week by 1.6%, EURHUF declined by 0.3%, and the EURCZK rose by 0.2%. The zloty was supported among others by better than expected GDP data.

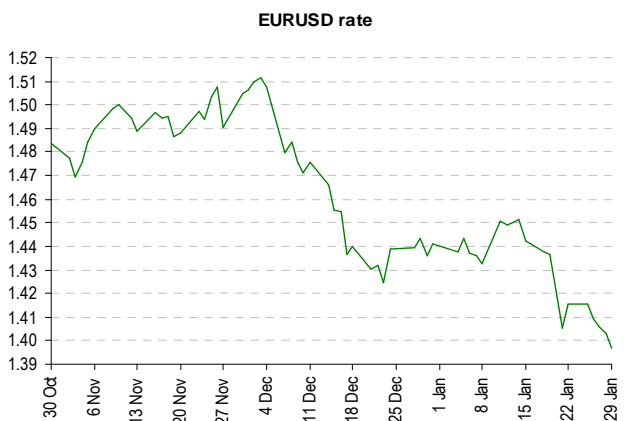
This week we expect an improvement of global moods after positive data from the US. Consequently, the EURPLN rate may successfully test 4.00, though with still high uncertainty in the markets after breaking this level there may be some correction.



Small changes in the domestic debt market

Last week amid relatively stable zloty the domestic debt market strengthened. Good data from the Polish economy, which decrease the fiscal risk perceived by investors, were supportive for the domestic bond market. At the same time the first meeting of the MPC and comments from central bankers confirmed that one should not expect swift interest rate hikes, which along with expected significant drop of inflation during 2010 supports the Polish debt market.

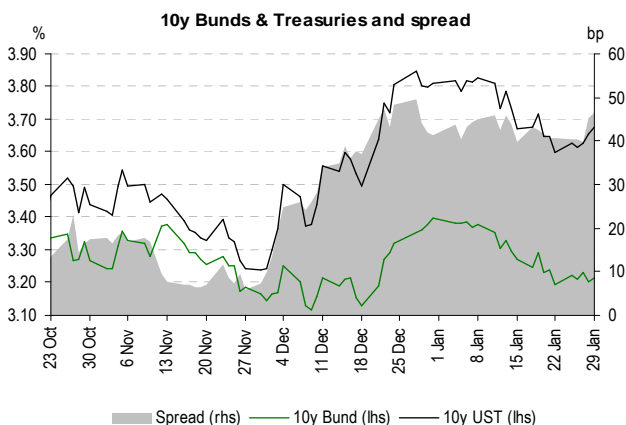
We expect that together with the improvement in sentiment on the global markets and with zloty appreciation, this week should bring strengthening of the local debt market. We expect sound results of the T-bills tender and switch auction of bonds.



EURUSD the lowest in 6 months

Past week brought decline of the EURUSD rate to the lowest level in over 6 months. The single European currency was hurt by maintained concerns over fiscal situation in some countries of the euro zone and fall of the risk appetite in the world markets. Pressure on the euro connected with the problems of Greece was fuelled by the S&P comment that the announcement of the 2010 budget by Portugal did not decrease concerns over the public finance in this country. In this situation quite good data from the euro zone (the Ifo index and economic sentiment index of the European Commission) gave little support to the euro.

In our view this week the dollar may strengthen again to the euro in reaction to data released at the end of the past week, which may fuel expectations on sooner rate hikes by Fed.



Rise in yields on the core markets

Despite falls in the stock markets bond yields in the core markets rose in the past week. This happened due to improved Fed's assessment of the US economy and much better than forecasted preliminary US Q4 GDP data (increase by 5.7% instead of expected 4.4-4.6%), which overall strengthened expectations for rate hikes in the US. At the end of the week yields of 10Y Treasuries and Bunds were at 3.68% and 3.22%, respectively, against 3.60% and 3.19% in the previous week.

Possible intensification of expectations for interest rate hikes by Fed on positive US data and improved risk appetite would lead to further rise in yields in the core debt markets this week.

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