

Weekly economic update

8 – 14 February 2010

Despite positive tendencies on the Polish financial market at the beginning of last week (EURPLN below 4.00), the following days brought the change in sentiment. As a result the zloty and Polish bonds weakened amid negative performance of equities and dollar strengthening. This was driven by further worries about fiscal stance of peripheral countries of the euro zone. This factor was more important than rising economic activity indicators in the manufacturing sector of main global economies. The domestic PMI index declined in January, though it remained above the level of 50.0. This release, similarly to the inflation forecast presented by the Ministry of Finance (in line with consensus), had no impact on the market. The US data crucial for the market (non-farm payrolls) did not change the overall economic picture, but decrease in unemployment rate led to some stabilisation in investors' moods.

This week we expect that negative sentiment in global markets may change, which would result in zloty strengthening and would stop the rise in bond yields. The domestic data should be limited influence on the market. We expect slight decline in current account deficit with strong export as compared to market forecasts. We also expect moderate deceleration in broad money supply. Also, in line with announcements made by Prime Minister, the Convergence Program will be released on Tuesday, at the latest. The assumptions regarding GDP growth, which were presented by the media, are not conservative. As regards situation abroad, market will concentrate on US retail sales and consumer confidence figures, while in the euro zone on flash 4Q09 GDP data. At the end of the week activity of investors may be limited due to long weekend in the US. In terms of global markets trends, a possible rise in EURUSD would support zloty strengthening.

Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST		LAST VALUE
					MARKET	BZWBK	
MONDAY (8 February)							
11:00	PL	Tender of 52-week T-bills worth PLN 0.7-1.2bn					
TUESDAY (9 February)							
16:00	US	Wholesale inventories	Dec	%	0.5	-	1.5
WEDNESDAY (10 February)							
11:00	PL	Auction of 2Y OK0712 bonds					
10:30	GB	Industrial output	Dec	%YoY	-4.1	-	-6.0
14:30	US	Trade balance	Dec	\$ bn	-35.5	-	-36.4
THURSDAY (11 February)							
	JP	Market holiday					
14:30	US	New jobless claims		'000	461	-	480
14:30	US	Retail sales	Jan	%MoM	0.3	-	-0.3
FRIDAY (12 February)							
14:00	PL	Money supply	Jan	%YoY	7.8	7.9	8.1
14:00	PL	Balance of payments	Dec	€ m	-847	-1000	-1272
14:00	PL	Export	Dec	€ m	7852	8100	9118
14:00	PL	Import	Dec	€ m	8583	8700	9410
11:00	EZ	Flash GDP	Q4	%YoY	-1.9	-	-4.0
11:00	EZ	Industrial production	Dec	%YoY	-1.5	-	7.1
15:55	US	Preliminary Michigan	Feb	pts	75.0	-	74.4

Source: BZ WBK, Parkiet, Reuters,

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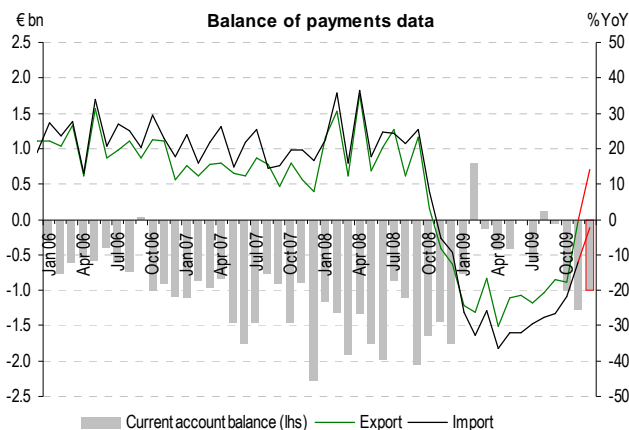
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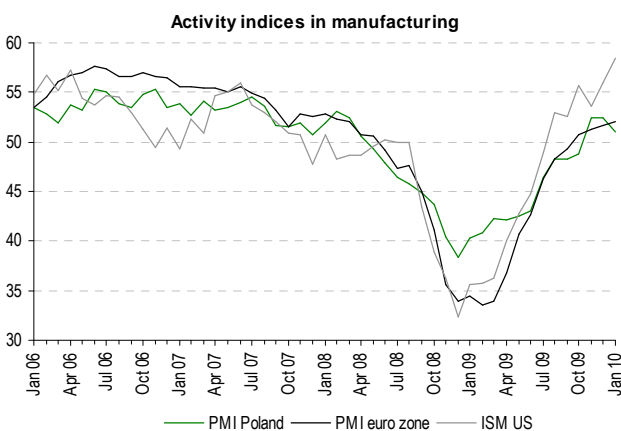
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What's hot this week – Balance of payments, monetary statistics



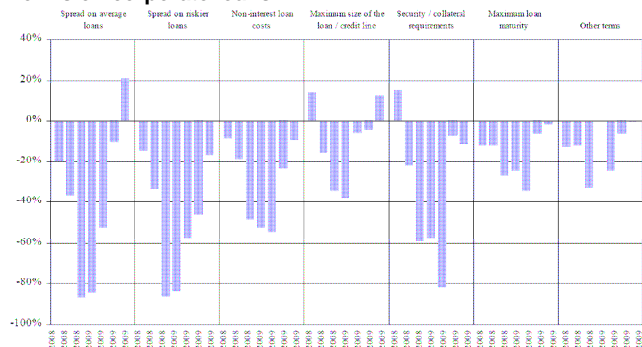
- This week the number of the important data releases domestically and abroad is limited.
- Balance of payments for December will start a series of new publication from the Polish economy. They will show a decline of the current account deficit to €1bn amid increase of trade deficit to €600m and clear rebound of exports growth to ca. 14%YoY and imports growth to -2.5%. Income and transfer accounts should slightly improve after elimination of the effect of PZU dividend payment.
- Meanwhile, the monetary statistics for January should show a small decline of the money supply to 7.9%YoY amid seasonal drop of the cash and slight increase in deposits (also after elimination of FX change effect).

Economy last week – PMI declines, FinMin's CPI forecast in line with consensus



- The PMI index for domestic manufacturing sector for January declined to 51, below the market consensus pointing to a rise to 52.7 from 52.4 in December and below our forecast at 52.3. Despite significant decline, the PMI is still above 50 threshold signalling economic recovery. Production index signalled the weakest output growth in 3 months, which should support our production growth forecast for January, which is quite low as compared to the market consensus.
- The FinMin's inflation estimate was in line with market consensus and our forecast at 0.5%MoM and 3.5%YoY. The ministry assumes that fuel prices rose by 2.7%MoM and food prices by 0.8%MoM, which is almost exactly in line with our forecasts (2.9% and 0.8, respectively).

Terms on corporate loans



Note: values in % is difference between percentage of banks declaring easing in terms on housing loans and percentage of banks declaring tightening of the terms

- NBP report showed credit policy tightening by banks was stopped in Q4 2009. Criteria of granting mortgage and SME loans were eased, were not changed in most cases for corporate loans and were tightened for consumer loans. At the same time demand for most types of loans increased, which is expected to be continued in Q1 amid further tightening of consumer and long term corporate loans criteria.
- According to Rzeczpospolita the source close to the government informed the convergence plan assumes GDP growth at 3.0% in 2010, 4.5% in 2011, and 4.2% in 2012. Our forecasts are at 2.6%, 3.7% and 5.0%. In our view the assumptions regarding the GDP growth at indicated levels are possible to fulfil, though it hard to call them conservative, as it happened while constructing the budget. In our view they should be rather below than above the consensus (according to Parkiet: 2.7% in 2010, 3.7% in 2011).

Quote of the week – Significant increase in unemployment rate in January

Jolanta Fedak, labour minister, Rzeczpospolita, 4 Feb

The unemployment rate rose in January to 12.8% from 11.9% at the end of 2009. This implies increase in January by 0.9 pp. In the analogous period of the last year it was 1 pp. This rise is of seasonal nature and it is hard to predict the following months, we have to wait until spring.

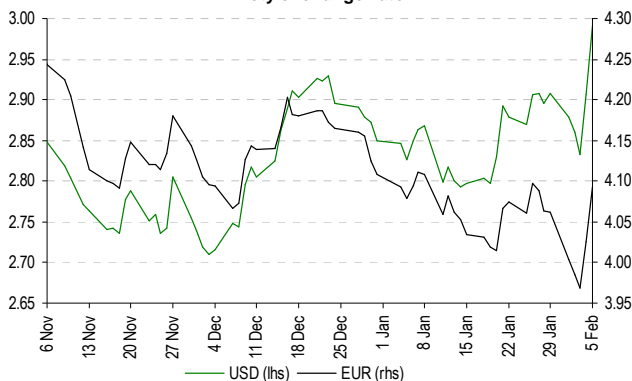
Czesława Ostrowska, deputy labour minister, Rzeczpospolita, 4 Feb

Last year was exactly the same. This January people decided to register as unemployed because of two factors: higher unemployment benefit by 200 PLN and weather. A lot of activities were stopped, especially in construction. The worrying signal would be only if in March-April the unemployment rate does not start to fall.

The estimate of Ministry of Labour and Social Policy of increase in unemployment rate may be a result of decision of many people, which lost jobs to delay registering as unemployed from January this year on increase in of unemployment benefits. Apart from this according to deputy labour minister Czesława Ostrowska seasonal effect could have been stronger because of weather conditions affecting construction work. We do not expect that in January there was any change in tendencies in the labour market. We still believe that the unemployment rate will reach peak at the turn of Q1 and Q2 and afterwards it will start to slowly decline. Despite delayed registrations in our view the unemployment rate will not exceed 13%.

Market monitor

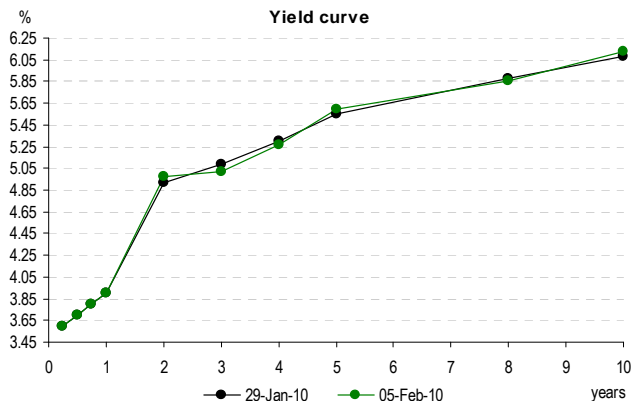
Zloty exchange rate



Significant correction of the zloty

- At the beginning of the past week the zloty clearly gained. Economic activity indices in advanced economies and strong earnings reports increased risk appetite, leading to fall in EURPLN to ca. 3.95. The zloty gained the strongest in the region. However, later in the in the week market sentiment deteriorated due to intensification of concerns about fiscal stance of peripheral countries of the euro zone. The zloty quickly weakened to 4.10 along with falling EURUSD.
- Despite lack of key events, we think that this week risk appetite may revive after strong sell off of the risky assets in the past week. EURPLN may go towards 4.00 again. Range of 4.10-4.11 remains important support level for the zloty against the euro. Next important level is 4.14.

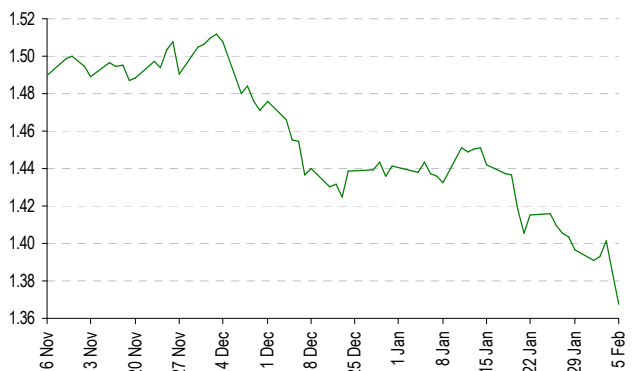
Yield curve



Local debt losses along with the zloty

- Early in the past week the local debt market continued strengthening amid zloty appreciation. Yield curve was the lowest since August. The FinMin's inflation estimate was in line with market consensus and had no impact on the market. However, along with deterioration in sentiment on the global markets and the zloty weakening there was correction of the domestic bonds to level seen at the end of the previous week. IRS rates rose on a similar scale (5-10bps).
- This week the local debt market may stabilise amid the expected rebound of the zloty. An important test for the Polish debt market will be bonds auction on Wednesday.

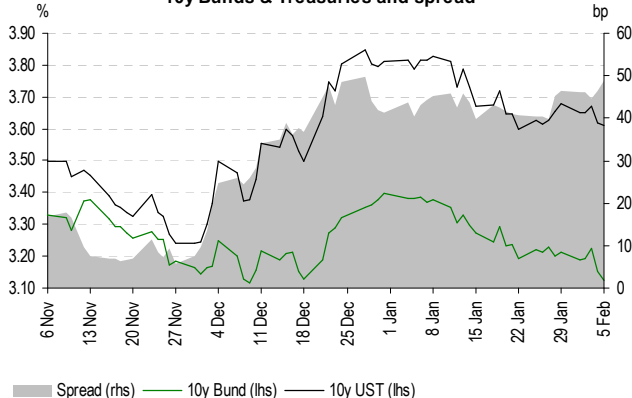
EURUSD rate



EURUSD clearly down

- At the beginning of the past week there was rebound of the euro to the dollar amid waning concerns about fiscal problems of Greece. However, as concerns about fiscal stance of other peripheral countries of the euro zone (Spain and Portugal) intensified, the euro lost considerably. Weaker than expected data on industrial orders from Germany and weekly labour market statistics from the US translated into further fall in EURUSD to below 1.37.
- The technical analysis suggests the euro is oversold. With a possible positive impulse for the global market sentiment the EURUSD rate may go up. The sentiment may be positively affected by retail sales data from the US while euro could be supported by a decrease of concerns about fiscal problems of some of the euro zone's members. The euro zone's GDP data will also be important for EURUSD.

10y Bunds & Treasuries and spread



Slight drop in yields on the core debt markets

- Despite clear declines in the stock markets, changes in yields on the core debt markets in the past week were not large. For the better part of the week yields of 10Y Treasuries and Bunds were in a slight upward tendency, but later the higher risk aversion led to a fall in yields by a few basis points. At the end of the week yields of 10Y Treasuries and Bunds was at 3.63% and 3.14% against 3.68% and 3.22% a week earlier.
- This week, due to the expected improvement in sentiment on the global markets there should not be further decline in yields in the core debt markets. Apart from the US retail sales figures the markets will also be driven by preliminary Michigan index.

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