Bank Zachodni WBK

Weekly economic update

29 March – 4 April 2010

Last week was marked by expectations for a resolution of Greek debt problems. Associated with that market uncertainty and opinion of some market participants that a Franco-German proposal for a mix of IMF and bilateral loans for Greece is a proof of weakness of the euro zone, had a strong negative impact on the euro. Nevertheless, the zloty remained strong, and domestic bonds strengthened again. This was helped by a rise in global risk appetite, reflected in a distinct increase in equity prices in Poland and abroad. European Commission's unflattering opinion about the Polish convergence program remained overshadowed by concerns about the debt of the euro area. The EC said that Poland should consolidate public finances faster, as the assumption that the bulk of deficit reduction will take place in 2012 is risky (which we also pointed out earlier). Nevertheless, markets are still positive about the Polish economy, which was reflected in good results of Eurobond issue (a record share of central banks among purchasers). Strengthening of domestic interest rate market was also associated with worse than expected data on retail sales, which reduced estimates of GDP growth in the first quarter of this year. Still, there were also good information from our economy. This week (before Easter) activity in the markets will be limited. We anticipate a stabilization of the zloty and slight correction of domestic bonds amid still uncertain situation in global markets. In our view, the MPC will not make any changes in monetary policy at its meeting this week.

Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST		LAST VALUE
					MARKET	BZWBK	
		MONDAY (29 March)					
11:00	**PL**	**Tender of T-bills: 52-week worth ...**					
11:00	EZ	Business climate index	Mar	pts	97,2	-	95,9
14:30	US	Core PCE	Feb	%MoM	0,1	-	0,0
14:40	US	Personal income/spending	Feb	%MoM	0,1	-	0,1
		TUESDAY (30 March)					
15:00	US	Case/Shiller report	Jan	%MoM	0,0	-	-0,2
16:00	US	Consumer confidence	Mar	pts	50,0	-	46,0
		WEDNESDAY (31 March)					
-	**PL**	**MPC meeting – decision**		**%**	**3,5**	**3,5**	**3,5**
11:00	EZ	Flash HICP	Mar	%YoY	1,0	-	0,9
14:00	**PL**	**Current account balance**	**Q4**	**€bn**	**-**	**-**	**-**
14:15	US	ADP report	Mar	k	34,0	-	-20,0
15:45	US	Chicago PMI	Mar	pts.	61,0	-	62,6
16:00	US	Factory orders	Feb	%MoM	0,5	-	1,7
		THURSDAY (1 April)					
9:00	**PL**	**PMI manufacturing**	**Mar**	**pts**	**-**	**53,9**	**52,4**
9:58	EZ	PMI manufacturing	Mar	pts	56,3	-	54,2
14:30	US	New jobless claims	w/e	k	435,0	-	442,0
16:00	US	ISM manufacturing	Mar	pts	56,8	-	56,5
		FRIDAY (2 April)					
	US, DE, GB, CH	Market holiday					
14:30	US	Non-farm payrolls	Mar	k	180,0	-	-36,0
14:30	US	Unemployment rate	Mar	%	9,7	-	9,7

Source: BZ WBK, Dow Jones, Parkiet, Reuters

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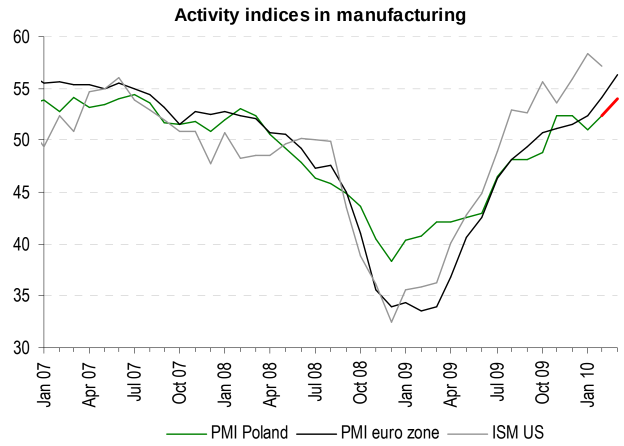
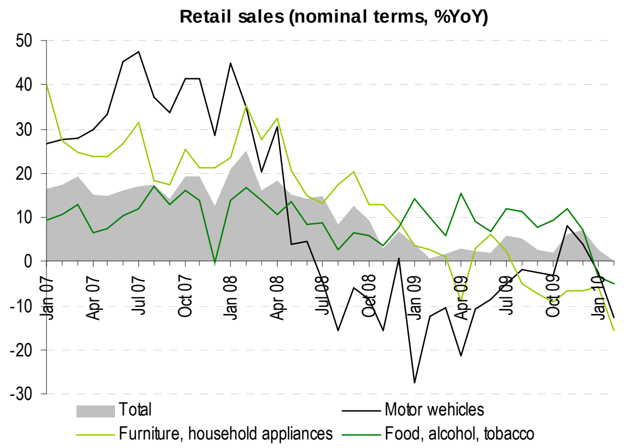
What's hot this week – MPC meeting, CPI forecast and PMI

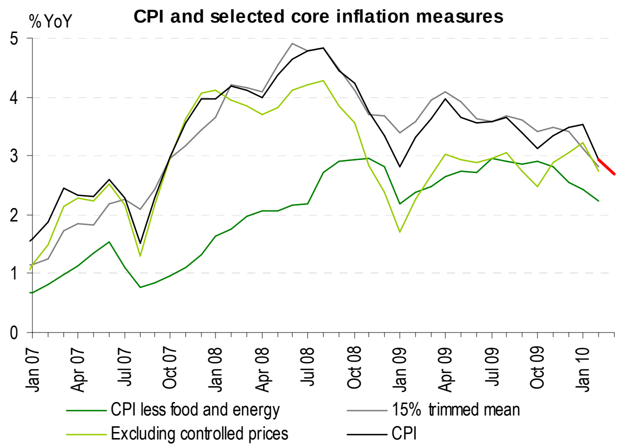


- This week the key domestic event will be the MPC meeting, for the second time with all new members. Based on outcome of the previous meeting, new NBP projection for inflation and GDP, fresh macro figures, the zloty performance and comments from central bankers over the past month (see below for comments over the last week), we expect that both the informal neutral bias and interest rates will remain unchanged this month.
- One day after the MPC meeting we will get the FinMin's estimate of CPI inflation in March and Poland's PMI manufacturing for March will be revealed. We forecast CPI inflation in March dropped to 2.6%YoY from 2.9%YoY in February. For PMI we predict clear rise to 53.9 from 52.4 along with strong rise in flash PMI for Germany.
- Abroad the key focus of attention this week will be the euro zone's flash HICP and manufacturing PMI/ISM.

Economy last week – Retail sales disappointed, but there were also positive news



- Retail sales figures for February disappointed, showing a mere 0.1% rise in nominal terms and a drop of 2.8%YoY in real terms. Together with much weaker than forecast data on construction output for February it means deceleration from 3.1%YoY growth posted in Q4 2009.
- On the other hand, according to CSO data, growth of new orders in the Polish industry accelerated in February to 11.4%YoY (the highest in over 2 years), which suggests that output growth in this sector may keep accelerating.
- The stats office said that in 2009 as a whole the gross financial result of Polish non-financial enterprises rose by ca. 20% and net result by ca. 25%. The last quarter was weaker than Q2 and Q3, but much better than Q4 2008, when effects of the crisis were the strongest. In the final quarter of 2009 there was acceleration in annual growth of revenues and annual decrease in costs.



- CSO survey showed a significant increase in business climate indicators in March in almost all sectors. The value of indices for industry, construction and retail trade increased both on a monthly basis and in annual terms. There was also rise in indices in seasonally adjusted terms. The results of the CSO survey seem to confirm that the revival of economic activity in Polish enterprises has been continued in March.
- All measures of core inflation declined in February after all but one fell in January. The most closely watched measure of core inflation calculated by the NBP, i.e. CPI inflation less food and energy prices, dropped to 2.2%YoY in February from 2.4% in January and 2.6% at the end of 2009,. It reached the lowest level in more than a year, and was in line with our estimate after the CPI data. In the coming months we expect a further drop in core inflation.

Quote of the week – Monetary policy will remain boring for some time

Jerzy Hausner, MPC member, Reuters, 22 March

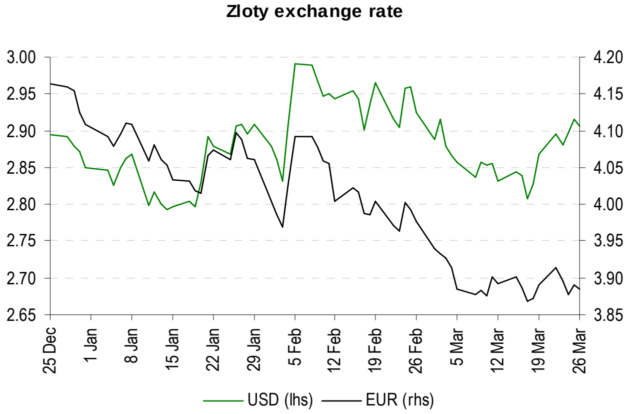
I believe that just like in the last few months monetary policy was boring, it will likely be so for some time ahead. The inflation projection is not a strong argument for changing interest rates. There are some actions possible as regards the FX market, including verbal and real interventions, which could neutralize the appreciation trend.

Anna Zielińska-Głębocka, MPC member, PAP, 22 March

I think there will be no change in bias at this meeting. This is my conviction. However, it is hard to say whether the Council will wait [with change in bias] until June. [Is there more advocates of rate hikes at the moment?] I don't think so, but it may be fifty-fifty.

Moderately hawkish Jerzy Hausner suggested that domestic monetary policy will remain 'boring' for some time, which in our view means that in the near time both the informal neutral bias and interest rates will remain unchanged. Prof. Hausner shares our view that the new NBP projection is not an argument for swift monetary tightening. Hausner believes that gradual appreciation of the zloty is not dangerous for the economy, but sharp gains and high volatility would be dangerous. In his opinion, co-ordinated actions of the NBP and the government could weaken the zloty and counteract excessive volatility. Comments from Anna Zielińska-Głębocka confirm that MPC meeting this week is unlikely to bring any changes in monetary policy.

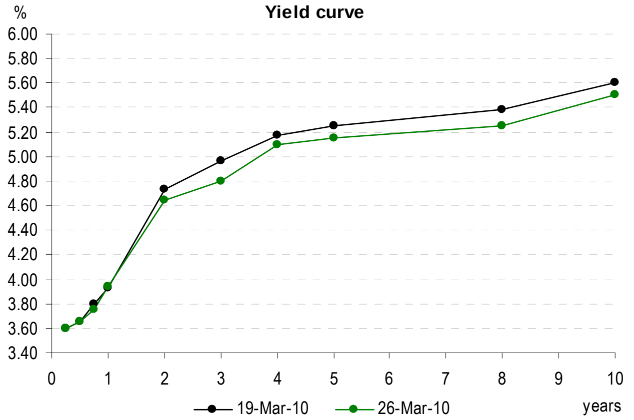
Market monitor



The zloty holds strong

▪ After the weakening at the start of the week (EURPLN at nearly 3.93, continuing correction began the previous week), later in the week the zloty recovered and EURPLN was traded around 3.89. Changes in USDPLN were larger reflecting fluctuations of the EURUSD in the global markets. At the end of the week the zloty was little changed as compared to the previous week, indicating resistance to problems of the peripheral members of the euro zone.

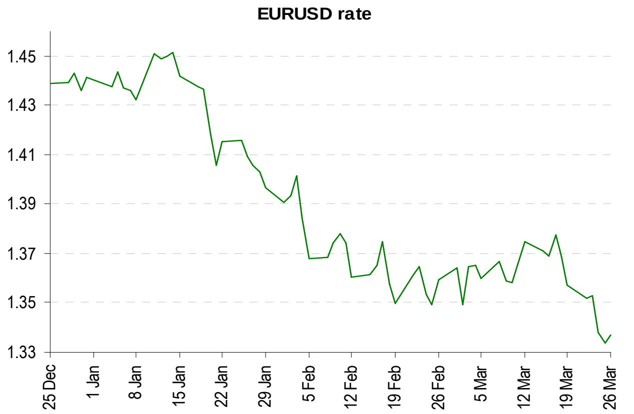
▪ This week EURPLN may remain in the horizontal trend in range of 3.86-3.93. Stabilisation of the zloty should be also caused by lower activity in the global markets ahead of Easter, unless there are substantial surprises in macro figures or breaking news regarding sovereign risk.



Still high demand for Polish bonds

▪ Domestic debt market gained in the past week, likewise in case of the zloty showed resistance to Greek debt problems. Spread of the Polish bonds versus Bunds again narrowed. The FinMin successfully sold 7Y eurobonds worth €1.25bn. The bonds were priced 100bps over mid-swap. Strengthening in the domestic interest rate market was also driven by lower than expected retail sales figures, which weakened expectations of swift monetary tightening in Poland. This was reflected in drop of FRA and IRS rates.

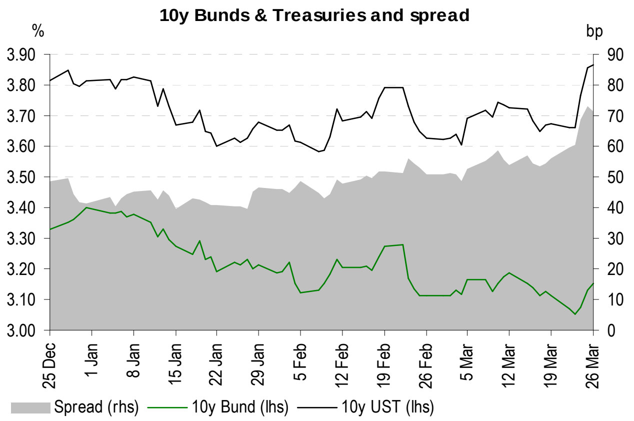
▪ This week we expect slight weakening of the domestic debt market as after earlier clear strengthening investors may want to take profits, probably before outcome of the MPC meeting will be announced.



Greek debt problems weaken the euro

▪ For the better part of the past week the euro was weakening versus other major currencies. EURUSD fell to below 1.33 on Thursday. The single currency was under pressure until the EU leaders agreed an agreement on help for Greece. The agreement includes a back-stop guarantee with a combination of EU loans and IMF loans in the event that Greece is not able to get market financing. On Friday, EURUSD rebounded and at the end of the week was above 1.34 versus nearly 1.36 a week earlier.

▪ We expect that this the EURUSD will stabilise thanks to lower uncertainty regarding Greek debt problems after the EU summit. However, any clearer gains of the euro seem unlikely until Greece secures financing needs in the next few weeks.



Higher sovereign risk hits Treasuries

▪ Higher sovereign risks led to the most significant weekly weakening of Treasuries this year. Investors were reluctant to buy not only bonds of peripheral euro zone countries, but also the US treasury papers, especially amid record-matching auctions of Treasuries last week. Demand at the auctions waned. As a result, yields of 10Y Treasuries rose during the week to the highest levels since mid-2009. Bunds outperformed Treasuries. At the end of the week yields of 10Y Treasuries and Bunds rose to 3.87% and 3.16%, respectively, versus 3.67% and 3.11% a week earlier.

▪ This week the core debt markets may somewhat rebound thanks to some lowering of uncertainty regarding resolution of Greek debt problems after the EU summit and given the fact that higher yields may attract a part of investors.

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