

# Weekly economic update

3 – 9 May 2010

The last week has passed under the sign of concerns about the risk of insolvency of Greece and other eurozone countries struggling with fiscal problems. Sharp reduction of Greece's ratings by S&P to "junk" status and downgrades of Portugal and Spain were accompanied by sale-off in the markets, but by the end of the week, the moods began stabilizing in hope that the negotiations between the IMF, the European Union and Greece will end with a deal during the weekend and Greece will receive substantial financial assistance (ca. €100-120bn over three years according to some sources) in exchange for a commitment to strong economic reforms. Details of the aid plan and exact conditions will be crucial for market sentiment this week. Please note that even if the deal is made, the uncertainty may persist, because the austerity measures may meet with strong resistance from the Greeks (a wave of strikes and protests is already planned in early May). However, it seems that the strong commitment of the EU and the IMF for assistance, and the Greek government to carry out the required cuts should improve risk appetite for some time, which should encourage the strengthening of the zloty and bonds.

The list of domestic publications this week is very short. PMI index will probably confirm further increase in industrial activity, but weaker than in the euro area. MinFin inflation forecast should not be a surprise, showing a continuation of downward trend. There will be quite a number of important releases in the US and the euro zone, as well as the ECB meeting (the press conference probably will be dominated by questions about Greece).

## Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST		LAST VALUE
					MARKET	BZWBK	
<b>MONDAY (3 May)</b>							
	<b>PL, GB, JP</b>	<b>Market holiday</b>					
9:58	EZ	PMI manufacturing	Apr	pts.	57.5	-	56.6
14:30	US	Core PCE	Mar	%MoM	0.0	-	0.0
14:30	US	Personal income	Mar	%MoM	0.3	-	0.0
14:30	US	Consumer spending	Mar	%MoM	0.6	-	0.3
16:00	US	ISM manufacturing	Apr	pts.	59.9	-	59.6
<b>TUESDAY (4 May)</b>							
<b>9:00</b>	<b>PL</b>	<b>PMI manufacturing</b>	<b>Apr</b>	<b>pts.</b>	<b>53.2</b>	<b>53.1</b>	<b>52.5</b>
11:00	EZ	PPI	Mar	%YoY	0.9	-	-0.5
16:00	US	Factory orders	Mar	%MoM	0.3	-	0.6
16:00	US	Pending home sales	Mar	%MoM	3.3	-	8.2
<b>WEDNESDAY (5 May)</b>							
<b>11:00</b>	<b>PL</b>	<b>Auction of 2Y bonds OK1012 worth PLN2.5-4.5bn</b>					
9:58	EZ	PMI services	Apr	pts.	55.5	-	54.1
11:00	EZ	Retail sales	Mar	%YoY	-0.5	-	-1.1
14:15	US	ADP Report	Mar	k	25.0	-	-23.0
16:00	US	ISM non-manufacturing	Apr	pts.	56.0	-	55.4
<b>THURSDAY (6 May)</b>							
13:45	EZ	ECB decision		%	1.0	-	1.0
14:30	US	New jobless claims	w/e	k	440.0	-	448.0
<b>FRIDAY (7 May)</b>							
14:30	US	Non-farm payrolls	Apr	k	190.0	-	162.0
14:30	US	Unemployment rate	Apr	%	9.7	-	9.7

Source: BZ WBK, Reuters, Parkiet

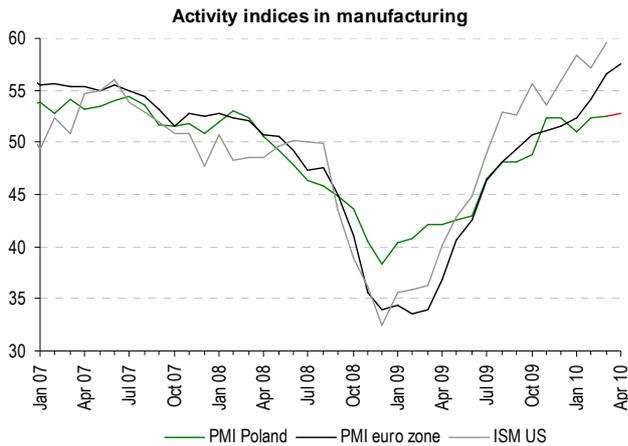
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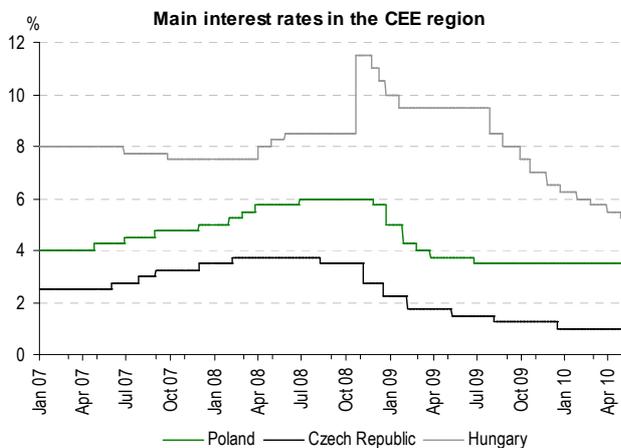
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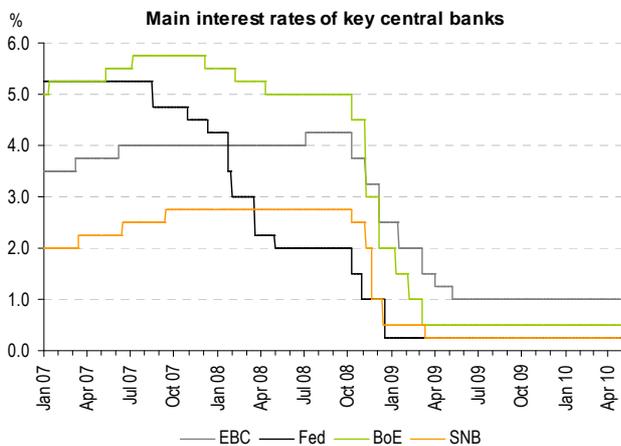
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**What's hot this week – What next with Greece? PMI and MinFin's CPI forecast in Poland**

- After the weekend financial markets will focus on conclusions from discussion between IMF, EU officials and Greece on details of bail-out plan. Adjustment on some markets, including the UK and Poland, will take place one day later due to market holiday on Monday.
- The upward path of Polish PMI decelerated in the last couple of months and we expect this was also the case in April. Increase in Polish index will be probably slower than the one for the euro zone. We expect the level of 53.1 pct.
- Also on Tuesday the Ministry of Finance will publish CPI inflation forecast for April. Our estimate is at 2.3% YoY.
- This week we will see a number of important data releases abroad, including US non-farm payrolls. The meeting of the ECB is likely to be dominated by questions about the impact of the Greek debt crisis. Markets will be looking to any changes in growth and inflation outlook.

**Economy last week – Interest rates in Poland and in the US unchanged**

- As expected, the MPC did not change the main interest rates nor the informal bias. In an official statement there weren't too many significant changes as well. The Council recognised further signals of the recovery in the global economy, but noticed that it occurs unevenly in different regions and pointed out that the negative effects of expansionary macroeconomic policies manifest themselves increasingly strongly. Assessment of the situation in the Polish economy did not change much. We do not change expectations regarding monetary policy outlook and we still predict the first rate hike to take place in the last quarter of the year, at the earliest.
- The MPC approved the NBP financial report for 2009 with profit of PLN4.2bn and the extension of the Flexible Credit Line in the IMF, despite negative opinion of the acting NBP governor Piotr Wiesziołek and the NBP Management Board.



- Acting President and Prime Minister said there is no need to hurry to nominate the new NBP governor and only extraordinary circumstances could speed up this process. It seems more and more likely that the nomination of the new NBP governor will take place after the presidential election.
- According to information from PAP and Reuters, at the preliminary stage of preparation of the 2011 budget, the FinMin assumed GDP growth of 3.5% and average inflation of 2.3%. The assumptions are very close to our forecasts.
- The US central bank left interest rates unchanged at its meeting last week with the Fed funds rate at record low level of 0-0.25%. At the same time the FOMC stressed once again that interest rates will remain at low level for extended period and acknowledged further improvement in economic conditions with limited inflationary pressure, which improved sentiment in the global markets.

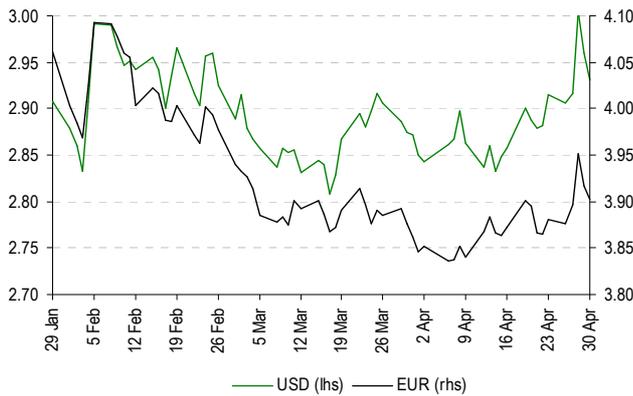
**Quote of the week – Chojna-Duch tipped the balance of votes****Elżbieta Chojna-Duch, Parkiet, 30 Apr**

*This was not a dispute about a size of the NBP profit transfer to the budget, as it was presented without understanding and knowledge of the issue, but about a size of the NBP provisions for the FX risk. This will constitute, in light of the resolution, an extraordinary large protection against the FX risk. For the most important thing was, especially after making the dispute public, the primary criterion – the credibility and prestige of the institution we represent and necessary trust to the monetary policy. Every other solution would lead to a legal deadlock and continuation of the dispute, which is detrimental to image of the NBP. These values are more important than the amount under dispute.*

Outcome of the MPC vote on the NBP financial report for 2009 is said to be decided by Elżbieta Chojna-Duch, who together with acting NBP governor and three MPC members nominated by the country's President supported the NBP Management Board's version of the report. Chojna-Duch explains that she made such a move to avoid a deadlock, which could negatively affect the bank's prestige. This raises a question whether the vote on the NBP financial report is an indication that Chojna-Duch may be a swing-voter also in case of other issues, for instance concerning interest rates. As for now it is hard to say so, especially that in case of vote on the FCL from the IMF she supported stance of 'parliamentary' members of the MPC. However, one should be aware that her view may prove decisive in important votes.

**Market monitor**

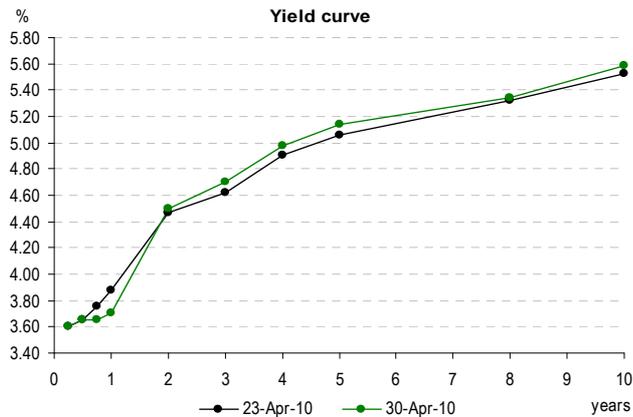
**Zloty exchange rate**



**Rollercoaster on Greek problems**

- Market sentiment last week was driven purely by worries regarding sovereign debt problems in Greece and peripheral euro zone countries. This caused high volatility of the Polish zloty, which traded between 3.87 and above 3.95 in the climax of sell-off. The week ended with EURPLN at 3.91.
- At the beginning of his week, we should see some improvement in market moods, which is likely to be driven by agreement on conditional bail-out package between IMF, EU and Greece. It is hard to specify how long the improvement will last but we see room for EURPLN to fall below 3.90 against the euro. Uncertainty regarding ability of Greek authorities to implement the program and risk of social protests, as well as worries on fiscal position of other euro zone countries, will probably limit the scale of zloty appreciation.

**Yield curve**



**Temporary rise in Polish yields**

- The panic sell-off in PIIGS markets affected also the Polish debt market, which saw a very significant increase in yields, especially at the long end of the curve. The result of Polish MPC meeting did not have impact on the market. At the end of the week most of previous losses were erased, after risk appetite revived in global markets.
- Amid lack of key domestic data releases and events, a direction of movements in the Polish bond market will be still determined by global moods, which in turn will remain vulnerable to news from Greece. Similarly as in the case of the zloty, a successful conclusion of talks on aid package in the weekend will give chances for some strengthening in the debt market, however a scale of the move may be limited.

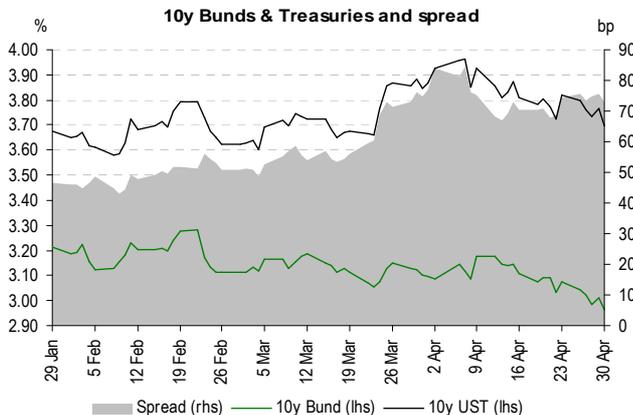
**EURUSD rate**



**Euro recovered after significant weakening**

- On Wednesday the single European currency reached the new record-level in the last twelve months (EURUSD 1.312), but improvement in global moods during the week it recovered before the weekend. The was connected with Fed communiqué, positive financial results of companies and expectations regarding financial aid for Greece. At the end of the week the EURUSD rose to 1.333.
- The situation in Greece and other euro zone countries with higher sovereign risk (PIIGS) will still weigh on the euro, which will remain volatile as markets await further details on the Greek bail-out plan. Other factors influencing EURUSD in the next couple of days will include numerous macroeconomic data releases in the US and euro zone. They will be an indication regarding the recovery path and the non-farm payrolls will be the key.

**10y Bunds & Treasuries and spread**



**Risk aversion supported core bond markets**

- Core bond markets saw significant strengthening in the middle of the week amid flight to quality connected with sell-off of assets in the euro zone peripheral countries. The spread between ten-year bonds in Germany and Greece reached even above 1000 bp (1600 bp for two-year papers). CDS for Greece, Portugal and Spain also rose to record-high levels. At the end of the week, worries about Greece lowered (fall in yields in PIIGS), which transferred into weakening in Bunds and Treasuries.
- Key for assessment of recovery outlook in the global economy and further monetary policy of main central banks will be US labour market data, indicators of economic activity, and the ECB's review of economic situation.

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