

# Weekly economic update

4 – 10 April 2011

The optimistic sentiment prevailed during most of the previous week, which was reflected in rising stock prices and yields in the core debt markets. Concerns about the situation in Japan and Libya have been overshadowed by good macro data released in the US, which fuelled expectations for robust growth of the global economy. At the same time, bond yields in Portugal experienced a rapid surge, after the next downgrade of credit rating by S&P's and information about higher than planned budget deficit. The euro appreciated against the dollar primarily due to continued positive sentiment in the market and expectations for a rate hike by the ECB. At the end of the week, the appreciation of the euro slowed down a bit after hawkish comments of FOMC members. In the domestic market, the most important factor was the growing concern about the balance of payments data and unofficial news on the withdrawal of the French company EDF from negotiations on privatisation of Enea. These factors triggered a depreciation of the zloty against the euro, after the initial consolidation. Domestic debt market was stable in anticipation of Tuesday's MPC decision.

This week will be predominated by central banks' decisions about interest rates. We expect – similarly as the market – that the MPC will raise the cost of money by 25bps. Our forecast was supported last week by strong increase in households' inflation expectations in March. At the same time, we anticipate, that the MPC's communiqué will be quite dovish, which may scale down market expectations of scale of rate hikes this year. This may have a negative impact on the zloty. The ECB Council members have been preparing the market for a rate hike for some time and if the expectations come true, the ECB decision will deliver a reason to correct the previous euro gains. The market attention may be focused on problems of Portugal and hawkish US data (eg Friday's favourable job market figures) as well as Fed members' comments, which will support the dollar, so the last week's drop of EURUSD rate will be continued.

## Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST		LAST VALUE
					MARKET	BZWBK	
<b>MONDAY (4 April)</b>							
10:30	EZ	Sentix index	Apr	pts	16.8	-	17.1
<b>11:00</b>	<b>PL</b>	<b>Tender of 51-week T-bills worth PLN0.5-1.0bn</b>					
11:00	EZ	PPI	Feb	%MoM	0.7	-	1.5
<b>TUESDAY (5 April)</b>							
	<b>PL</b>	<b>MPC decision</b>		<b>%</b>	<b>4.0</b>	<b>4.0</b>	<b>3.75</b>
9:53	DE	PMI – services	Mar	pts	60.1	-	58.6
9:58	EZ	PMI – services	Mar	pts	56.9	-	56.8
11:00	EZ	Retail sales	Feb	%MoM	0.1	-	0.4
16:00	US	ISM – services	Mar	pts	60.0	-	59.7
20:00	US	Fed minutes					
<b>WEDNESDAY (6 April)</b>							
11:00	EZ	Final GDP	Q4	\$QoQ	0.3	-	0.3
<b>THURSDAY (7 April)</b>							
12:00	DE	Industrial output	Feb	%MoM	0.5	-	1.8
13:00	GB	BoE decision		%	0.50	-	0.50
13:45	EZ	ECB decision		%	1.25	-	1.0
14:30	US	Initial jobless claims	week	k	382	-	388
<b>FRIDAY (8 April)</b>							
8:00	DE	Exports	Feb	%MoM	1.4	-	-1.0
16:00	US	Wholesale inventories	Feb	%MoM	1.2	-	1.0

Source: BZ WBK, Reuters

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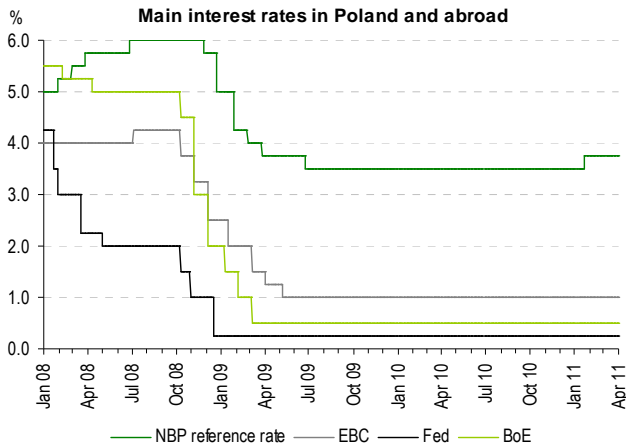
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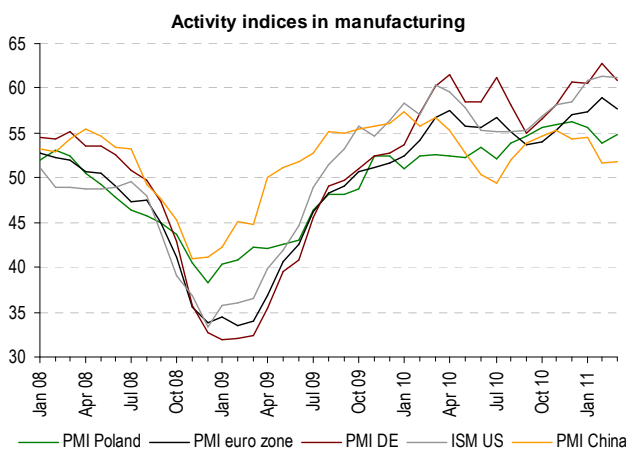
**Marcin Luzziński**

## What's hot this week – MPC, EBC and BoE decisions

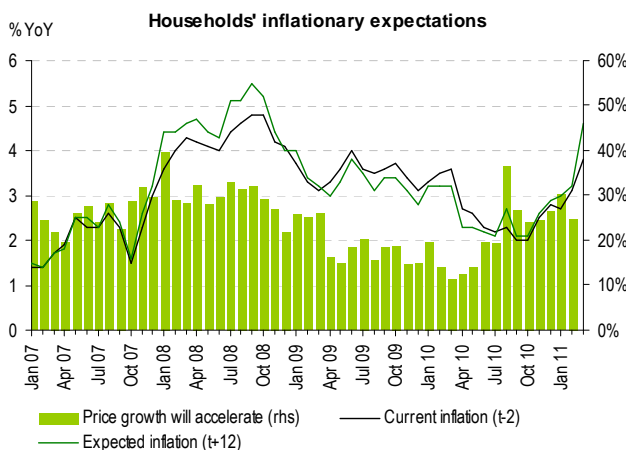


- On Tuesday the MPC will make decision on interest rates. More hawkish tone of recent comments of those Council members, who did not support rate hikes earlier, together with strong rise in inflation expectations in March, support our forecast, that the interest rate will be increased by 25bps. However, we think that the official communiqué will be not too “hawkish”, in order not to fuel the market expectations concerning the total scale of rate hikes.
- On Thursday ECB and BoE will decide about interest rates. The members of the ECB Council have prepared the market for a hike, so if the decision is in line with expectations, than the post-meeting conference will be most important, as investors will look for hints about further ECB moves. In case of BoE it should be anticipated, that the rates will stay on hold, although proposals of hikes will be put forward.

## Economy last week – Polish firms more optimistic than consumers



- The PMI index for Polish manufacturing sector jumped in March to 54.8 pts, much stronger than forecast. At the same time, the analogous indexes for Germany and euro zone recorded drops.
- According to HSBC/Markit report, the production accelerated due to increase in new orders (mainly domestic). The high production backlogs are still present, although their growth slowed down, but such a situation supports rise in employment. It is noteworthy, that the prices of finished products climbed strongly (the highest growth since May 2004), which is in line with our PPI forecast for March at 9.0% YoY. The results of the survey support our scenario assuming increasing role of domestic demand and a gradual decline of unemployment under growing inflationary pressure conditions.



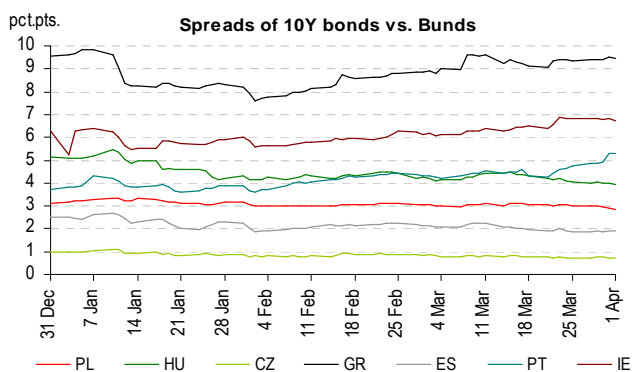
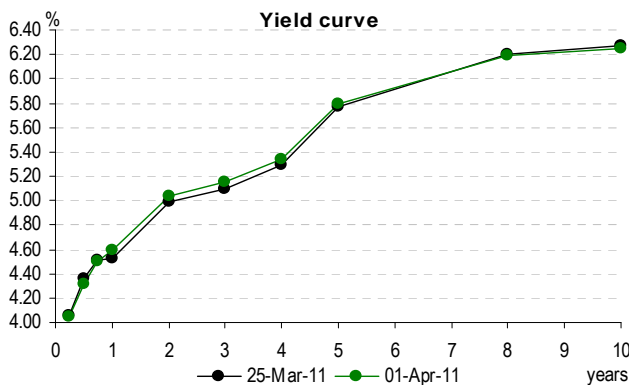
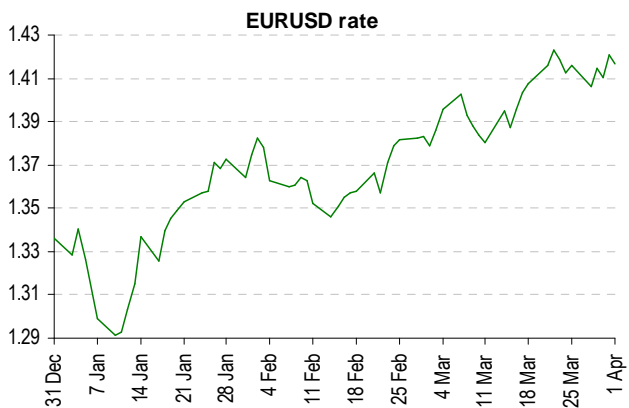
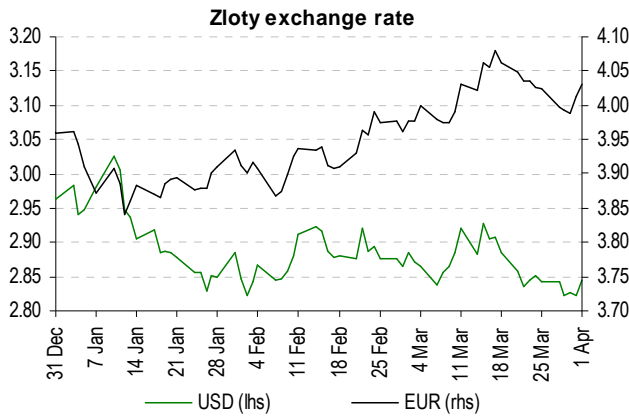
- On the other hand, according to Ministry of Labour, the unemployment rate climbed in March to at least 13.5% against 13.2% in February. It is a surprisingly high rise for March and possibly an effect of cut in work offices' funds for active forms of fighting unemployment.
- The households' inflation expectations surged in March to 4.6% from 3.2% in February (the difference between actual and expected inflation grew to 0.8 pts – the highest discrepancy since January 2008). A strong growth in expectations is probably a result of the fact, that the price hikes were the biggest in case of basic goods and services (food, fuel, housing costs), which substantially influenced the inflation perceived by the households.
- The consumer confidence index released by Ipsos recorded a considerable drop in March (mainly regarding the assessment of general business climate).

## Quote of the week – Errors and omissions puzzle unresolved at least till June

**Józef Sobota, head of NBP Statistics Dept., Parkiet, 31 March**  
 There is at least a couple of theories. (...) For example the import of used cars brought to Poland can be underestimated. (...) To make the case clear: it does not have any impact on nominal GDP. The GDP calculation has two sides – creation and distribution. (...) [Another source of errors can be] incomes of persons working abroad and their transfers to Poland. Plus the outflow of non-residents incomes as well. (...) I do not think, that [the swap transactions] are the main reason for our problems. (...) [Does it mean a widening of current account deficit?] I think, that to some extent, yes. But I would warn about automatic use of the current account deficit/GDP ratio as a measure of external imbalance of Polish economy. (...) I think, that a favourable moment for such revisions will be release date of 2011Q1 data, it is June.

Just as we suggested last week, the NBP did not resolve the puzzle of immense “errors and omissions” figure in balance of payments data yet. The balance of payments figures for Q4 2010 showed a minor upward revision of current account deficit (to €5.28bn from €4.99bn). The data for previous quarters remained virtually unchanged. According to director of NBP Statistics Department, a major revision of balance of payments may take place in June, when data for 2011Q1 are released. Risk of substantial drop in GDP due to current account revision is rather small. Even if it turns out, that the whole “errors and omissions” figure results from underestimated imports, than it would probably mean a need for revisions in other national accounts positions, which would reduce the impact of revision on the GDP.

Market monitor



**Risk of privatisation delays may weigh on the zloty**

▪ The zloty weakened last week against the euro and stayed stable against the dollar. During the first part of the week the domestic currency was supported by positive global mood and rise in expectations for MPC rates hike. Growing market concerns about substantial underestimation of domestic imports as well as unofficial news about decision of French concern EDF to withdraw from talks with Ministry of Treasury about purchase of Enea shares triggered a considerable zloty weakening in the consecutive days. The EURPLN rate rebounded from the bottom line of the upward trend and the nearest resistance area is 4.05-4.055. We expect, that – if the issue of current account deficit looses attention – the withdrawal of EDF may draw market’s concern to risk, that the demand for zloty connected to privatisation plans is not that certain. Moreover, we anticipate a relatively dovish tone of post-meeting MPC communiqué, which is a factor potentially adversely affecting the domestic currency. At the same time we think that the resistance will not be broken.

▪ The positive mood persisting from the very beginning of the week and flash estimates showing inflation acceleration in the euro zone supported rise in the EURUSD rate. Only at the end of the week this trend slowed down due to comments of Fed members concerning possibility of rate hikes and suggestions to reduce QE2 programme. Another support for the dollar were Friday’s US job market figures. The most important event for the EURUSD rate this week will be ECB sitting and post-meeting conference. In the last period the euro gained against the dollar on hike expectations, so after announcement of such decision, a correction of previous EURUSD increases toward 1.40 should be expected. Resistance is 1.425.

**Dovish communiqué will lower the yields**

▪ In the last week the domestic yield curve flattened slightly due to minor yields increase at the shorter end. The bonds at the middle and end of curve remained stable, continuing the lateral trend. This week crucial for the domestic debt interest rate markets will be the MPC sitting. The investors anticipate a hike, so the release of the decision in line with forecast should not affect the yields. From this point of view most important is the post-meeting communiqué, which can be relatively dovish and cause a correction of market expectations concerning the scale of rate hikes this year (in our view, which was suggested by the comments of NBP governor Marek Belka in the last weeks).

▪ On the domestic debt markets the yields increased amid persisting market optimism and – in consequence – dropping demand for safe assets.

▪ The centre of attention concerning the euro zone peripheries remains Portugal. The S&P agency cut this country’s rating two times in a few days, and later it turned out, that in 2010 the budget deficit strongly exceeded the government’s plan (8.6% of GDP against assumed 7.3%). A strong sell-off affected bonds at the whole length of curve and pushed the yields of 10-year bonds to their record level at 8.74%. On Friday’s tender of securities maturing in June 2012 the yields jumped to 5.79% against 3.16% at the previous tender. A substantial decline in demand/supply ratio was recorded as well – to 1.4 from 2.3.

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