

# Weekly economic update

30 May – 5 June 2011

The start of the past week was dominated by the risk-averse mood due to defeat of Spanish ruling party in local elections, concerns about Greek debt restructuring and worse than expected flash PMI for manufacturing in Germany and the euro zone. A recommendation to purchase commodities, issued by one of the biggest investment banks, has improved the market sentiment and pushed the EURUSD rate upwards. The optimism was also supported by positive results of US enterprises, which overweighed the worse than expected second estimate of US GDP for Q1 2011. The zloty and domestic debt weakened amid risk aversion persisting for the better part of the week. Fresh comments from MPC members, supporting expectations for the next rate hike already in June, has not affected the market.

This week the market will surely await Friday's release of the US non-farm payrolls, which together with market holiday on Monday in the UK and the US may visibly constrain volatility at the beginning of the week. For the assessment of the situation in the global economy the US ISM manufacturing will also be vital. EURUSD may be also under clear influence of data on flash HICP in the euro zone. Main event in Poland is data on GDP growth in Q1 and according to our forecast it should confirm good condition of domestic economy. Still, data on investments are a risk factor. We expect that the global market sentiment will be pretty optimistic and that will support the zloty. On the debt market we expect some recovery on the long end of the curve and weakening on the short end due to expectations for an interest rate hike.

## Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST		LAST VALUE
					MARKET	BZWBK	
<b>MONDAY (30 May)</b>							
	GB, US	Market holiday					
<b>11:00</b>	<b>PL</b>	<b>Tender of 52-week T-bills worth PLN0.5-0.6bn</b>					
<b>TUESDAY (31 May)</b>							
<b>10:00</b>	<b>PL</b>	<b>GDP</b>	<b>Q1</b>	<b>%YoY</b>	<b>4.4</b>	<b>4.4</b>	<b>4.5</b>
11:00	EZ	Flash HICP	May	%YoY	2.8	-	2.8
11:00	EZ	Unemployment rate	Apr	%	9.9	-	9.9
<b>14:00</b>	<b>PL</b>	<b>Inflation expectations</b>	<b>May</b>	<b>%YoY</b>			<b>4.0</b>
15:00	US	S&P/Case-Shiller home price index	Mar	%MoM	-0.1	-	-0.2
15:45	US	Chicago PMI index	May	pts	65.0	-	67.6
16:00	US	Consumer confidence index	May	pts	65.8	-	65.4
<b>WEDNESDAY (1 June)</b>							
4:30	CN	PMI – manufacturing	May	pts	-	-	51.8
<b>9:00</b>	<b>PL</b>	<b>PMI – manufacturing</b>	<b>May</b>	<b>pts</b>	<b>-</b>	<b>53.5</b>	<b>54.4</b>
9:53	DE	PMI – manufacturing	May	pts	58.2	-	62.0
9:58	EZ	PMI – manufacturing	May	pts	54.8	-	58.0
<b>11:00</b>	<b>PL</b>	<b>Bond switching auction</b>					
14:15	US	ADP raport	May	k	175	-	179
16:00	US	ISM - manufacturing	May	pts	59.0	-	60.4
<b>THURSDAY (2 June)</b>							
14:30	US	Initial jobless claims	week	k	427	-	424
16:00	US	Industrial orders	Apr	%MoM	0.5	-	3.4
<b>FRIDAY (3 June)</b>							
9:53	DE	PMI - services	May	pts	54.9	-	56.8
9:58	EZ	PMI – services	May	pts	55.4	-	56.7
14:30	US	Non-farm payrolls	May	k	191	-	244
14:30	US	Unemployment rate	May	%	9.0	-	9.0

Source: BZ WBK, Reuters

**Maciej Reluga** Chief economist (+48 22) 586 8363

e-mail: ekonomia@bzwbk.pl

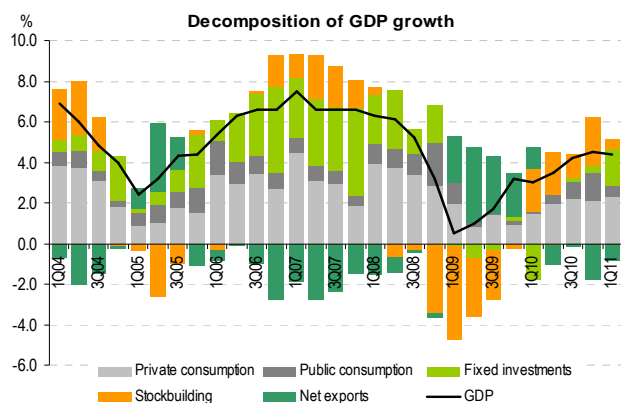
**Piotr Bielski** (+48 22) 586 8333

**Marcin Sulewski** (+48 22) 586 8342

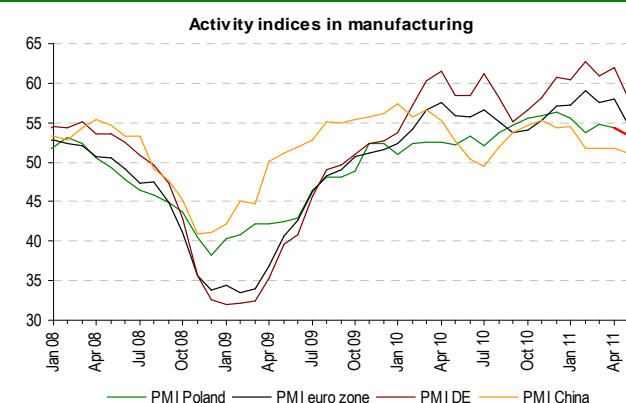
**Piotr Bujak** (+48 22) 586 8341

**Marcin Luziński** (+48 22) 586 8362

## What's hot this week – Domestic GDP, PMI and inflation expectations

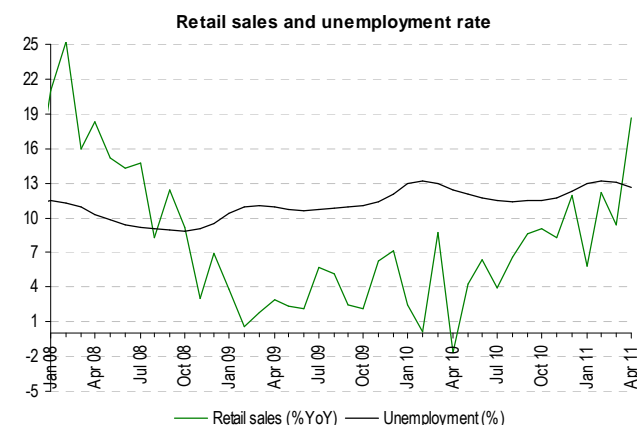


- We expect that data on GDP growth in Q1 2011 will show that Polish economy performs quite well. We anticipate that just as in previous quarters the personal consumption had a big positive impact on the annual growth. Visibly bigger than in the past year will be the contribution of investments, though there is a downward risk our forecast of growth by 15%. Data on investments in big companies in Q1 showed an increase only by 2.6%YoY. Still, that data did not always provide reliable suggestion on that element of the GDP. All in all, April's data on industrial, assembly output and retail sales support our expectations that the annual pace of GDP growth will stay above 4% in Q2.
- On Tuesday there will be also a measure of inflation expectations released by the NBP. It should increase and that will be another argument for an interest rate hike in June.



- Flash data on manufacturing PMI indexes for the euro zone and Germany signalled solid plunge in May and that supports our forecast of visible decline of domestic index of activity in manufacturing. On the other hand, in the past 4 months indexes for the euro zone and Poland changed in the opposite directions.
- In our opinion, Wednesday's data will confirm continuation of expected by us moderate growth of industrial output and maintaining stable growth of employment amid still high production backlogs. We expect that the data will be neutral from market point of view as US ADP report will be released later the same day.

## Economy last week – Consumption demand getting stronger



- The retail sales growth accelerated in April to 18.6%YoY, rising almost two times faster than in March. As we wrote before, a substantial acceleration resulted, among others, from low base effect caused by the fact that in 2010 most pre-Easter shopping has taken place in March. What is important, the higher increase of retail sales did not stem only from accelerating prices – the real sales growth jumped to 13.6YoY in April, confirming the expected by us gradual strengthening of consumer demand.
- The unemployment rate in April fell to 12.6%. The seasonal drop in the unemployment rate will be continued in the next months and it will be strengthened by upward trend in labour demand. The LFS unemployment rate rose to 10% in Q1 2011, but the number of unemployed dropped in annual terms (-3.7%) for the first time since the final quarter of 2008.

## Quote of the week – Rate hike in May was not something final

**Marek Belka, NBP governor, Reuters, 23 May**

We have observed the expectations of the market and by-and-large they have converged with what I think

**Jan Winięcki, MPC member, Reuters, 23 May**

The latest MPC statement said we were in a tightening cycle, which means the MPC does not treat the last hike as something final.

**Jerzy Hausner, MPC member, obserwatorfinansowy.pl, 23 May**

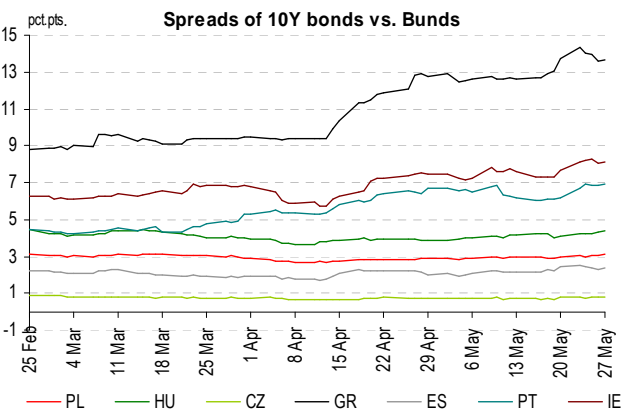
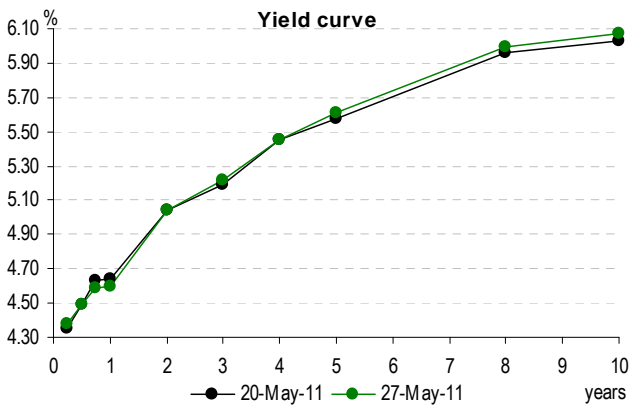
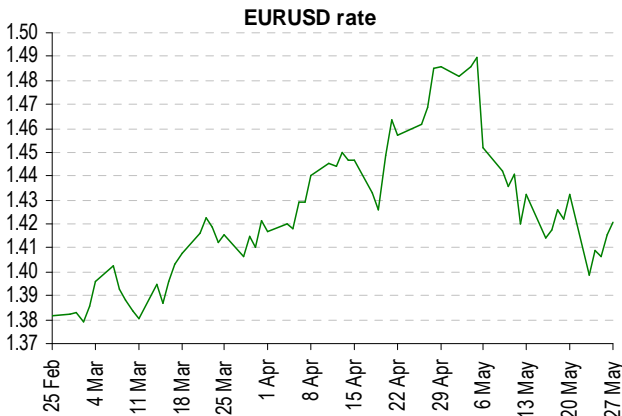
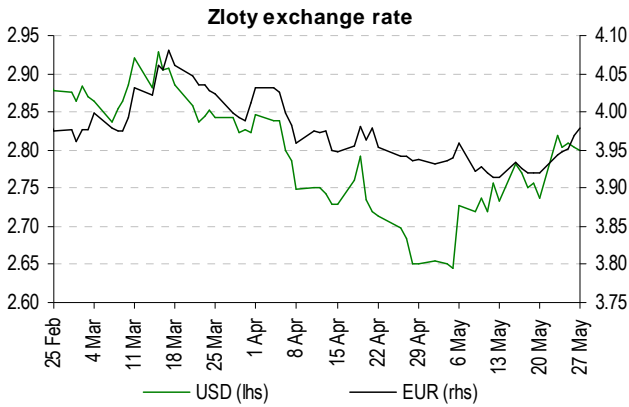
The May decision meant that the MPC has chosen a mode of operating that would help it to achieve our goal [of lowering inflation to 2.5%] thanks to faster rate hikes amounting to a smaller scale overall. (...) Probably we will continue to increase interest rates but there has never been and there is no signal that it will be a cyclical process.

**Adam Głapiński, MPC member, PAP, 24 May**

I may say that my assessment of the situation is shared by the vast majority of the MPC. (...) There is a question of how preemptive our actions should be – is it better to hike fast and than pause or gradual actions are more accurate. My idea, that I supported relied on systematic, gradual actions, until reaching certain level.

Second week after the MPC meeting brought next comments from the Council members. Particularly the statement of Adam Głapiński clearly indicate that the MPC's attitude towards rate hikes has recently changed radically, probably under impact of strong inflation surprise. Even though Mr. Głapiński did not give a clear hint if he is going to vote for the hike already in June, in our view we should expect a further monetary tightening already at the nearest MPC's meeting.

**Market monitor**



**Optimistic market sentiment to support the zloty**

▪ The zloty weakened against the euro, the dollar and particularly against the Swiss franc. During the start of the week, the negative pressure on domestic currency was exerted by dropping EURUSD rate and US stock indices. In due course, the EURPLN rate climbed to its highest level since mid-April (3.9897). Only on Friday, thanks to a slight rebound of US stock markets, the rate stabilized. We expect that the rate may be under pressure only at the beginning. In following days we expect a decline of EURPLN rate due to maintaining optimistic mood on the global market. Moreover, an approaching MPC meeting can cause that the expectations for another rate hike (strengthened by reading of inflation expectations) will lead to zloty appreciation towards 3.95 per euro. A possible market disappointment about the investment spending in 2011Q1 poses hardly a risk for this scenario.

▪ The Czech koruna weakened together with the zloty, while the Hungarian forint strengthened against the euro due to expectations for agreement between the banks and government concerning foreign currency loans.

▪ The EURUSD rate dropped after close of domestic session on Friday and at the beginning of previous week. In due course the rate approached the lowest level since mid-March. A negative pressure on the euro was exerted by the defeat of Spanish ruling party in local elections and still present concerns about Greek debt restructuring. In the following days a rebound occurred. The single currency was supported by the decision of Finnish Parliament to help Portugal and by improving market sentiment. We still see some potential to EURUSD rate increase. The first resistance is 1.435-1.44 area.

**Weaker at the short end, stronger at the long end**

▪ The domestic field curve steepened in the previous week mainly due to weakening in the middle and long end. A pressure on price-in of 5 and 10Y bonds was exerted by the risk aversion with sustained for the better part of the week. To some extent the yields were pushed up by the supply of securities during road bonds auction. We expect that this week the short-term bonds can lose due to upcoming MPC meeting. Also the inflation expectations figures can be a factor exerting a negative pressure on the shorter end. A risk factor for this scenario is a possible disappointment about Tuesday's figures about investment spending in 2011Q1, which can limit the MPC's propensity to tighten the monetary policy quickly. At the longer end of the curve a correction after yields' increases can occur.

▪ On the core debt market the yields dropped systematically amid persisting high risk aversion. A factor, which pushed the yields of 10Y Bunds below 3%, were worse than expected GDP figures in the USA for 2011Q1. In due course, the yields of German securities reached the lowest level since January 2011. Treasuries were, on the other hand, strongest since December 2010.

▪ The pressure relating to the euro zone peripheries still sustains on the market. Last week only yields of Irish and Portuguese bonds increased, while the Greek and Spanish bonds recorded a slight rebound after the earlier sell-off.

---

This publication has been prepared by Bank Zachodni WBK S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Bank Zachodni WBK S.A., its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Bank Zachodni WBK S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Bank Zachodni WBK S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication. Additional information is available on request. Please contact Bank Zachodni WBK S.A. Treasury Division, Economic Analysis Unit, ul. Marszałkowska 142, 00-061 Warsaw, Poland, phone (+48 22) 586 83 63, email [ekonomia@bzwbk.pl](mailto:ekonomia@bzwbk.pl), <http://www.bzwbk.pl>