

# Weekly economic update

5 – 11 September 2011

The market sentiment started the week on optimistic note. The disappointment with lack of Bernanke's suggestion about start of QE3 was offset by his assessment of US economic outlook and by announcement of two-day FOMC meeting in September, which has bolstered hopes that the economic stimulus will finally be launched. The minutes of the August Fed meeting have additionally supported the expectations for QE3. The weak results of Spanish and Italian bond auctions exerted a negative pressure on the euro. The figures released in the USA in subsequent days were mostly better than expected, thus scaling back the markets expectations for QE3 and supporting the dollar against the euro. Even though the market sentiment was quite good and the domestic stock market gained, after initial strengthening the domestic currency was under pressure of dropping EURUSD. Domestic PMI for manufacturing sector declined in August more than we expected and it suggests maintaining negative tendencies in the upcoming months.

The beginning of the week should be calm due to banking holiday in the USA. In the following days the market will focus on the condition of the biggest euro zone economy and at the same time our biggest trade partner. On Tuesday the leaders of Germany, Finland and Netherlands will meet to discuss the euro zone crisis and the market will surely be awaiting the outcome of these talks. This week the MPC, ECB and BoE are to make decisions on interest rates. The last ECB communique has indicated a possibility of interest rates hikes, but the recent developments in global economy have rendered this scenario unlikely. We expect the domestic MPC to keep the interests rates on hold. More interesting than the decision itself is its justification and the MPC's assessment of risk balance which may suggest a change of Council's informal bias to neutral. We predict a limited reaction of the debt and interest rate markets to the communique, as the trading rallies to the tune of global events. Similarly in case of zloty exchange rate, changes sentiment abroad will be crucial. After monthly data from the US labour market the concerns about global economic outlook may strengthen, which will limit potential for zloty strengthening.

## Economic calendar

Time CET	COUNTRY	INDICATOR	PERIOD		FORECAST		LAST VALUE
					MARKET	BZWBK	
<b>MONDAY (5 September)</b>							
9:58	EZ	PMI – services	Aug	pts	51.5	-	51.6
10:30	EZ	Sentix index	Sep	pts	-18.0	-	-13.5
11:00	EZ	Retail sales	Jul	%YoY	-1.0	-	-0.4
	US	Market holiday					
<b>TUESDAY (6 September)</b>							
11:00	EZ	GDP revision	Q2	%QoQ	0.2	-	0.8
12:00	DE	Industrial orders	Jul	%MoM	-1.5	-	1.8
16:00	US	ISM – services	Aug	pts	51.0	-	52.7
<b>WEDNESDAY (7 September)</b>							
	<b>PL</b>	<b>MPC decision</b>		<b>%</b>	<b>4.50</b>	<b>4.50</b>	<b>4.50</b>
12:00	DE	Industrial output	Jul	%MoM	0.5	-	-1.1
20:00	US	Fed's Beige Book					
<b>THURSDAY (8 September)</b>							
8:00	DE	Exports	Jul	%MoM	-0.1	-	-1.2
<b>11:00</b>	<b>PL</b>	<b>Bond switching auction</b>					
13:00	GB	BoE decision		%	0.50	-	0.50
13:45	EZ	ECB decision		%	1.50	-	1.50
14:30	US	Trade balance	Jul	\$bn	-50.8	-	-53.1
14:30	US	Initial jobless claims	week	k	410	-	409
<b>FRIDAY (9 September)</b>							
4:30	CN	CPI	Aug	%YoY	6.2	-	6.5
4:30	CN	Industrial output	Aug	%YoY	13.6	-	14.0
16:00	US	Wholesale inventories	Jul	%MoM	0.8	-	0.6

Source: BZ WBK, Reuters, Parkiet

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

e-mail: ekonomia@bzwbk.pl

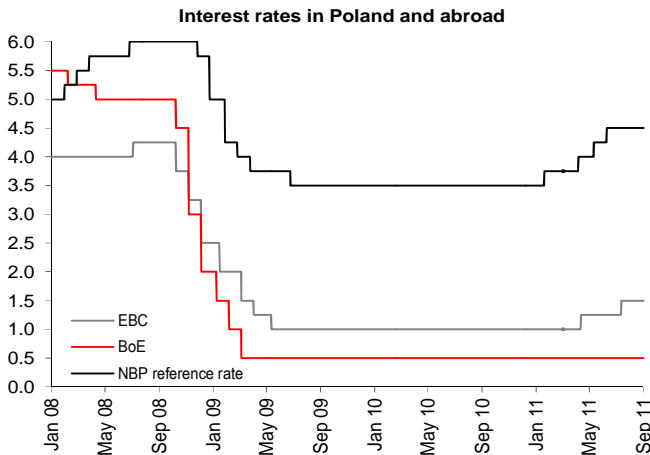
**Piotr Bielski** +48 22 586 8333

**Marcin Luziński**

+48 22 586 8362

**Marcin Sulewski** +48 22 586 8342

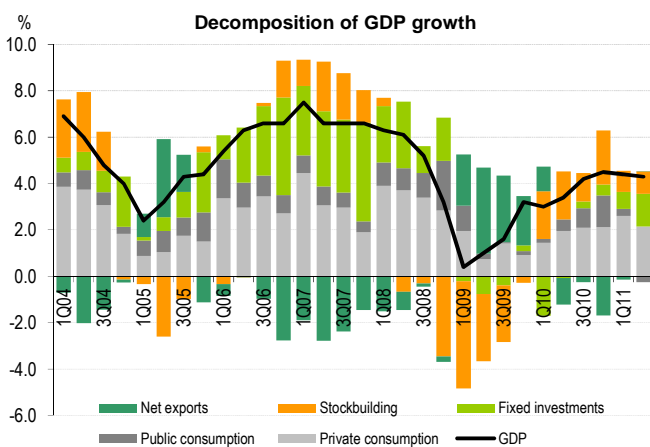
## What's hot this week – Decisions of central banks, important data from Germany



▪ This week will be marked by decisions of central banks. We expect, similarly as the market, that the MPC will keep interest rates on hold at the Wednesday's meeting. More interesting than the decision will be its justification and the MPC's assessment of risk balance. Some MPC members have explicitly postulated a change of informal policy bias, some have only unofficially suggested it with their comments' tone.

▪ Rates will remain unchanged also in case of EBC and BoE. The last BoE inflation report showed that the forecasts of GDP for 2011 and 2012 were revised down, thus putting an end to issue of interest rates hikes in this country. Even though the last ECB statement has indicated a possibility of interest rates hikes, currently we should expect a more dovish communique, suggesting that rates will remain on hold.

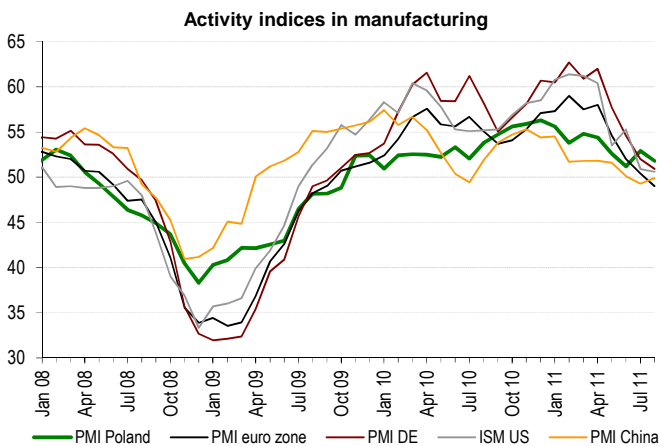
## Last week in the economy – Solid GDP growth in Q2, PMI suggests a slowdown in Q3



▪ The annual GDP growth in Q2 amounted to 4.3%, slightly above our and consensus expectations at 4.2%, slowing down only slightly from 4.4% in Q1.

▪ Growth breakdown was in line with our forecasts. Fixed investments accelerated from 6.0%YoY in Q1 to 7.8% (we predicted 8.0%). Contribution of gross accumulation to GDP growth amounted to 2.4pp and became the main engine of growth. Total consumption disappointed growing only with 2.4%YoY while we expected 3.4%YoY.

▪ The data suggested that the Polish economy was still in good condition in Q2. However, it should be noted, that in the context of strong turmoil in global economy observed recently these figures reflect a fairly distant past. We expect that economic activity will be gradually diminishing in upcoming quarters, as the outlook for global GDP growth is deteriorating, market turmoil persists and foreign demand has already weakened.



▪ The PMI index for Polish manufacturing declined in August more than we expected. Reading at 51.8pts is the second worst since January 2010.

▪ As we expected, the detailed data have shown a drop in export orders and employment (for a third month in a row). New orders sustained pace of growth seen in July, but mainly due to domestic orders. The cost pressure has abated in August for the seventh consecutive month, the companies indicated that this was due to zloty weakening. The producer prices advanced at fastest pace in three months.

▪ Data confirmed that weaker business climate abroad has a negative pressure on Polish manufacturing sector. The momentum of output and export orders is declining due to waning economic activity abroad, mainly in Germany. In the following months one should expect negative tendencies to persist.

## Quote of the week – Too early for interest rates cuts

### Anna Zielińska-Głębocka, 30 August, PAP

I do not think that the current economic situation is indicating a need for interest rates cuts. Inflation running above 4% is still very high. (...) High inflation is unfavourable situation and it is considerably above target. Thus, there is no reason to cut interest rates.

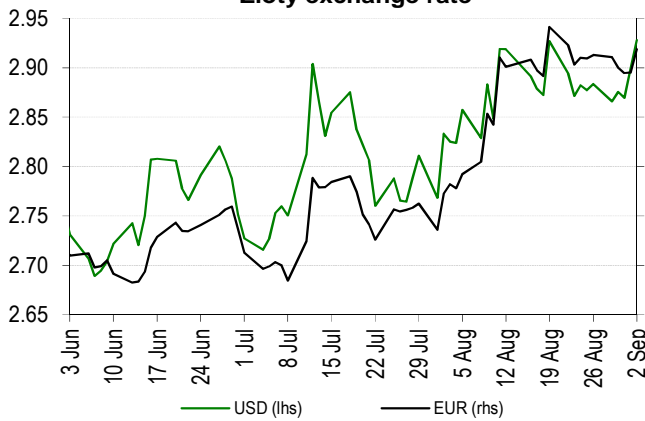
### Elżbieta Chojna-Duch, 30 August, PAP

It seems that stabilization of interest rates in H2 is desirable. Rapid actions taken by any institution, including MPC, are not justified. (...) Discussion on interest rates cuts is clearly premature. We should closely observe the political actions in the EU as well as their effects.

The MPC members' comments from the previous week did not add anything new to monetary policy outlook for the nearest future, especially as Zielińska-Głębocka and Chojna-Duch spoke in tone similar to that heard earlier. Their words support our forecast that NBP interest rates will remain unchanged till the end of the year. The FRA market has gradually scaled back its expectations for cuts since mid-August. Currently it prices-in one cut by 25bps in 6-9 months. Also the OIS market has lowered its cuts prediction. According to Parkiet survey, only a few domestic institutions expect a cut in 2012Q1.

**Market monitor**

**Zloty exchange rate**



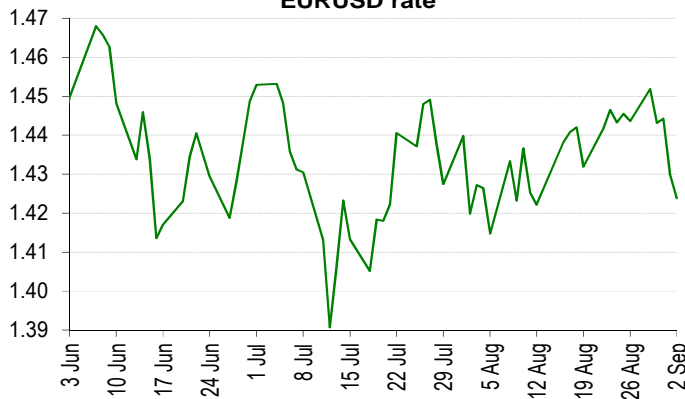
**Global factors will not allow zloty to strengthen**

▪ The EURPLN was gently falling in the first days of the week, as the zloty benefited from positive sentiment in the global markets. However, next days saw a significant weakening of euro versus the dollar and a stop to upward trend in stock markets, which has negatively affected the zloty. Ultimately, at the end of the week, after very poor data from the US, the EURPLN was near 4.20, above the previous Monday's level. Our expectations regarding the outlook for the 3.95 zloty did not change. We still believe there are no favourable conditions for a drop in EURPLN. Concerns about the euro zone and about global economy will keep the EURPLN this week above 4.14. First resistance is 4.22, the next one 4.26.

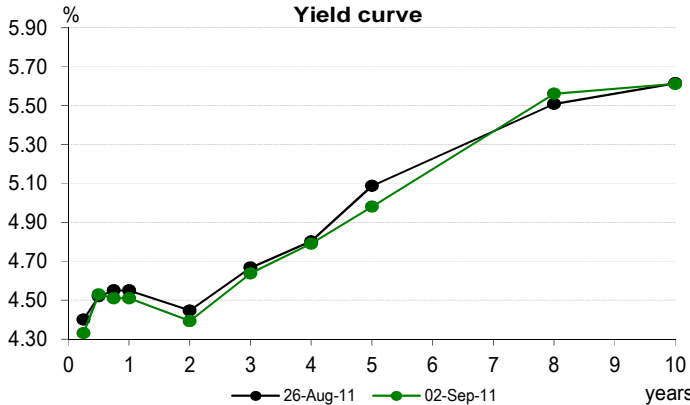
▪ The zloty depreciation versus euro (0.36%) was the smallest among the currencies in our region last week. The EURCZK, after a clear drop seen two weeks ago, rebounded from important level 24.0 and was rising throughout the week (up ca. 0.8%). The forint depreciation was the biggest (1.2%).

▪ At the start of the week, the EURUSD was climbing, supported by positive market sentiment and persisting expectations for launching next round of monetary stimulus by Fed. Better than predicted US data (ISM, Chicago PMI) reminded investors about Bernanke's words in Jackson Hole that condition of US economy has not deteriorated dramatically, which supported the dollar against euro. Only after weak data from the US labour market there was a stop in rate's decline at 1.42. In the first days of the new week the rate may continue a rebound from the support at 1.42. The resistance is at 1.45.

**EURUSD rate**



**Yield curve**



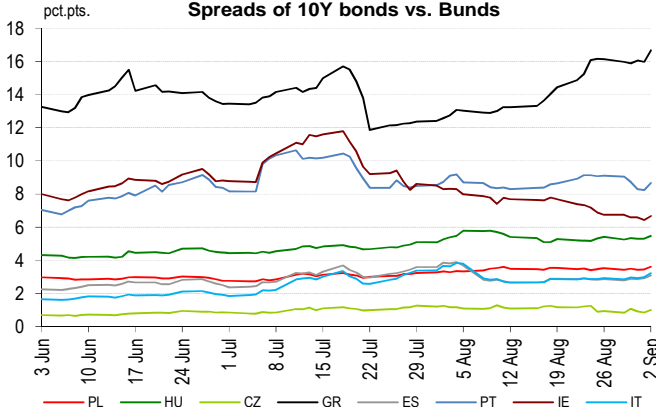
**Fixed income market stable ahead of MPC meeting**

▪ In the previous week the trade on the domestic debt market was calm. Bonds gained slightly, which could be due to persisting good sentiment on the global market and to activity of mutual funds at the end of the month. The beginning of the new week should be calm as well, due to banking holiday in the USA and awaiting the MPC communique. The MPC's assessment of inflationary risks balance may signal a change of Council's informal bias to neutral. In our view the debt and interest rates' reaction to the communique will be limited, as the investors will focus on the outlook for global economy and the domestic market will stay under influence of global trends.

▪ Yields on core debt markets began the week above Friday's close, thanks to good mood prevailing on the market. In the following days the yields dropped amid disappointing results of Spanish and Italian bond auctions and weak monthly data on US payrolls. At the end of the day the yields of 10Y Bunds and Treasuries amounted to 2.02 and 2.03%, respectively.

▪ On the euro zone's peripheral debt markets the spreads versus 10Y Bunds have widened. This was triggered by correction of Italian and Spanish bonds, which took place after information on weak demand during auctions in those countries. A negative impact was also exerted by reduction of Italian austerity package and uncertainty regarding bailout package for Greece (collateral for Finland and meeting fiscal criteria by Greece).

**Spreads of 10Y bonds vs. Bunds**



---

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>