Bank Zachodni WBK

Weekly economic update

30 March – 5 April 2009

Last week brought next domestic data (rise in unemployment, slump in consumer confidence and first annual fall in retail sales in many years), which confirmed economic slowdown and added to list of argument in favour of further rate cuts. In reaction to deterioration in prospects for economic growth, in line with expectations the MPC trimmed interest rates by 25 bps at its meeting last week, bringing the reference rate down to 3.75%, the historical low. However, the Polish market was influenced mainly by changing moods in the global markets (rise in stock indices for the better part of the week and drop on Friday). News from the region were also important, i.e. negative impact on political turmoil in Hungary and the Czech Republic, and positive influence of information about IMF support for the region – more favourable rules for granting funds to credible emerging markets and decision on aid packages for Romania and Serbia. Towards the end of the week, the negative moods dominated. Rise in risk aversion weakened the zloty and local bonds. If the deterioration in moods continues, the zloty may weaken further, although the G20 meeting could revive risk appetite. EBC meeting and the US non-farm payrolls will be important as well. Domestically, important factors include PMI, FinMin's inflation estimate and auctions of government securities.

Economic calendar

Time GMT	COUNTRY	INDICATOR	PERIOD		FORECAST		LAST VALUE
					MARKET	BZWBK	
		MONDAY (30 March)					
9:00	**PL**	**Auction of PLN0.3-0.5bn of 26-week and PLN0.8-1.0bn of 52-week T-bills**					
9:00	EZ	Economic sentiment	Mar	pts	65.5	-	65.4
		TUESDAY (31 March)					
9:00	EZ	Flash HICP	Mar	%YoY	0.9	-	1.2
12:00	**PL**	**Balance of payments**	**Q4**	**-**	**-**	**-**	**-**
13:00	US	Case/Shiller house prices index	Jan	%YoY	-18.6	-	-18.5
13:45	US	Chicago PMI	Mar	pts	35.0	-	34.2
14:00	US	Consumer confidence	Mar	pts	27.5	-	25.0
		WEDNESDAY (1 April)					
7:00	**PL**	**PMI manufacturing**	**Mar**	**pts**	**-**	**42.1**	**40.8**
7:58	EZ	PMI manufacturing	Mar	pts	34.0	-	33.5
9:00	EZ	Unemployment rate	Feb	%	8.3	-	8.2
9:00	**PL**	**Auction of bonds OK0711 and/or PS0414**					
12:15	US	ADP report	Mar	k	-660.0	-	-697.0
14:00	US	ISM manufacturing	Mar	pts	36.0	-	35.8
14:00	US	Pending home sales	Feb	%MoM	2.0	-	-7.7
		THURSDAY (2 April)					
-	GB	G20 meeting	-	-	-	-	-
11:45	EZ	ECB decision	-	%	1.0	-	1.5
12:30	US	Initial jobless claims	w/e	k	650.0	-	652.0
14:00	US	Factory orders	Feb	%MoM	1.5	-	-1.9
		FRIDAY (3 April)					
7:58	EZ	PMI services	Mar	pts	40.1	-	39.2
12:30	US	Non-farm payrolls	Mar	k	-654.0	-	-651.0
12:30	US	Unemployment rate	Mar	%	8.5	-	8.1
14:00	US	ISM non-manufacturing	Mar	pts	42.0	-	41.6

Source: BZ WBK, *Parkiet* daily, Reuters

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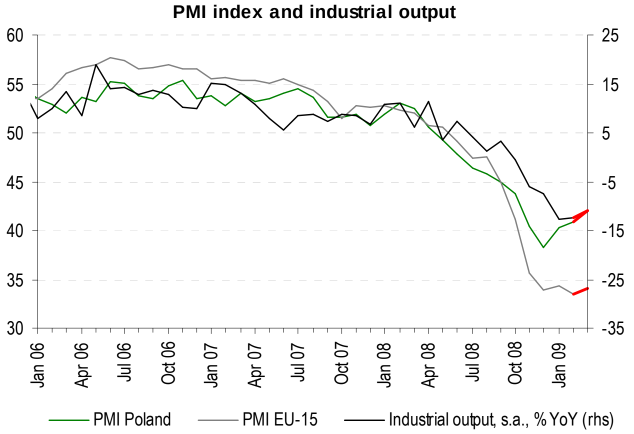
What's hot this week – New data and ECB decision



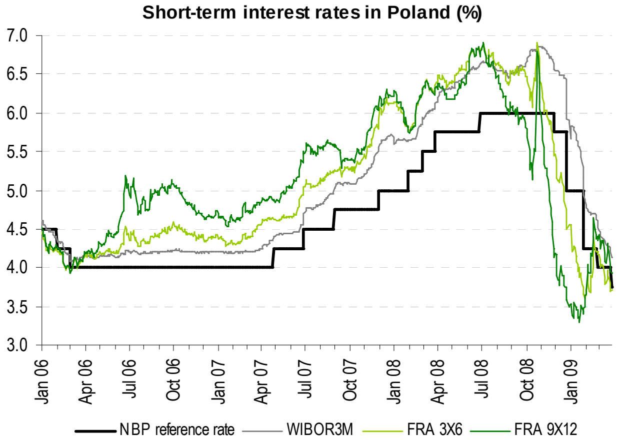
▪ This week, as usual at the beginning of the month, we will see two pieces of information important for the Polish market – PMI for March and the FinMin's inflation forecast for March.

▪ According to our estimate PMI will show a further improvement, though in a very limited scale, which is a ground for our forecast of moderate rebound in the seasonally adjusted figure of March industrial production. Recovery in non-seasonally adjusted output will be more significant (though annual growth figure will remain in red) amid higher number of working days.

▪ It is hard to guess what will be MinFin's CPI forecast, but we expect inflation to go down slightly in March.

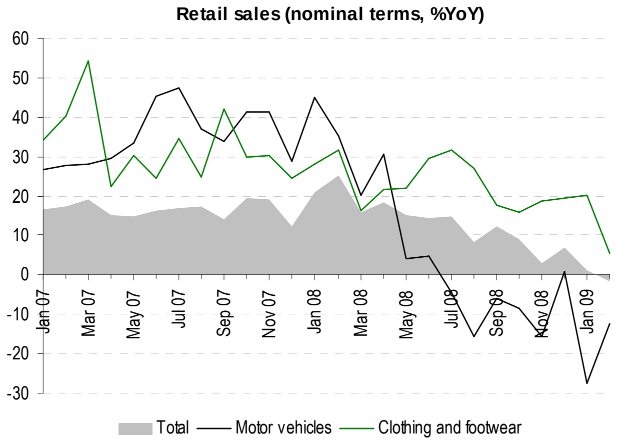
▪ As regards events abroad the key events include G20 meeting, ECB decision and US non-farm payrolls.

Economy last week – MPC trims rates after next weak data



▪ Similarly as in February, at its meeting last week the MPC cut interest rates by 25bp, the reference rate to 3.75% - the lowest level in history. This was in line with expectations. In our opinion the Council will continue rate cuts by 25bp in the following months. We maintain our forecast that the reference rate will fall to 3% this year.

▪ Our opinion was confirmed by an overtone of the official statement that was very similar as last month, which means "dovish". The easing bias was maintained and a number of arguments favouring this even increased as compared to February's statement (the Council added deteriorating situation in the labour market and worsening financial condition of enterprises). Expectations for further rate cuts, with possible move of 25 well possible at the next meeting in April, were also supported by comments from rate-setters, who are key for MPC decisions (Czekaj and Skrzypek).



▪ Data on retail sales for February proved slightly worse than expected and for the first time in many years showed annual drop both nominally (-1.6%YoY versus market forecast at –1.3%YoY) and in real terms (-2.3%YoY).

▪ Also, tentative estimates showing a rise in registered unemployment rate in February were confirmed (10.9% after 10.5% in January). Moreover, the stats office's consumer climate indices for March showed further deterioration in consumer sentiment. The tendency was also showed by consumer confidence indices from Ipsos.

▪ All in all, the data confirmed slowdown of private consumption growth in Q1. However, retail sales data were not weaker than expected to an extent that would change our estimates for Q1 concerning individual consumption (ca. 3.5% from 5.2% in Q4 2008) and overall GDP growth (0-1%YoY), at least not before receiving data for March.

Quote of the week – How the cabinet will convince to EMR2 entry without changes in constitution?

Jan Czekaj, MPC member, PAP, 26 March

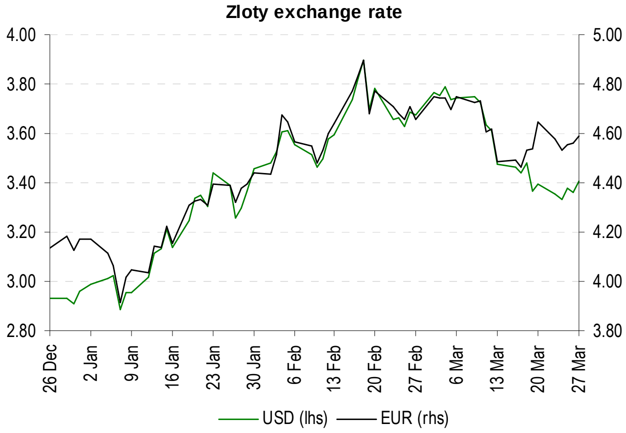
At the meeting with Prime Minister, we decided that a condition for ERM2 entry is change in constitution. The condition was repeated in MPC statements, as we have not agreed on new conditions with the government. I think that the Council will present such stance until new conditions are set. The MPC as a whole is rather in favour of swift euro adoption. If there is a reasonable plan for EMR2 without changes in constitutions, then I think the Council should support it. However, we are also responsible for that, so we need to have a chance for assessment of reality of such plan.

Dariusz Filar, MPC member, PAP, 27 March

Such an agreement would have to be credible to such an extent so that it could be treated as actually leading to change in constitution. (…) In current political situation, such a political support seems to be unlikely.

Comments from Jan Czekaj suggest that changes in the constitution as a precondition to enter the ERM2 has been mentioned by the MPC in its official statements as this was the conclusion of the meeting with Prime Minister in autumn last year and since then there was no new discussion. Czekaj thinks that "if there was a reasonable plan to join ERM2 with no change in the constitution", then "the MPC would be willing to support it". This suggests that a change in the opinion by the MPC is quite possible, although he stressed that the new plan would have to be credible. Other MPC member Dariusz Filar doubt in credibility of a new plan. It will be very interesting to see what kind of arguments the government's representatives will use to convince the MPC (as well as the ECB and the European Commission) to change theirs opinion on the issue of ERM2 entry without legal changes.

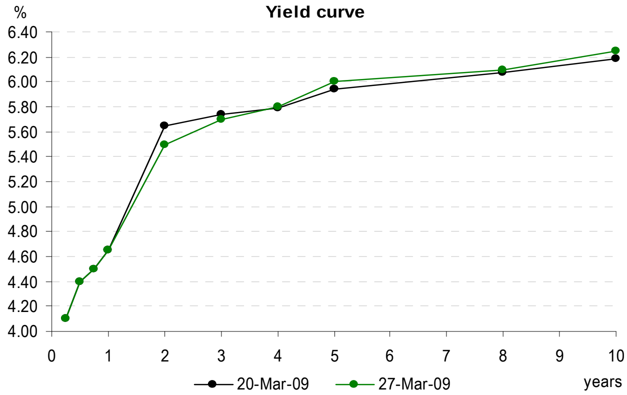
Market monitor



Zloty weaker

▪ The beginning of last week saw zloty strengthening despite political turmoil in Hungary, amid positive equity markets (Dow Jones up by almost 7%). Later during the week political instability in the region was reinforced by non-confidence vote against government in Czech Republic – the zloty lost a bit and then stabilised. The MPC decision did not affect the FX market, but on Friday a significant sell-off took place (EURPLN above 4.66), driven by higher risk aversion globally and fall in EURUSD rate. Overall, during the week the zloty lost to the euro 0.8% (for comparison forint was down by 0.9% and the Czech crown by 2.3%).

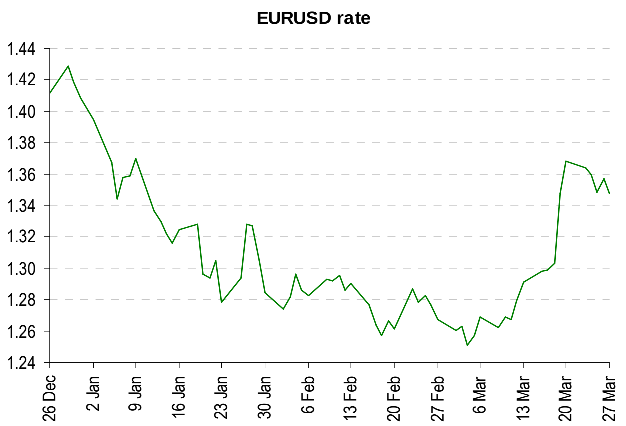
▪ This week there will be limited number of events domestically, and the zloty performance will depend on global risk appetite and attitude towards the region. If correction in stocks continue the zloty may weaken further.



Local bonds up and down

▪ Last week there were significant movements in the local debt market during the week. In the first part of the week Polish bonds gained significantly along with rising risk appetite and ahead of expected rate cut by the MPC. After the MPC decision there was profit-taking. Rise in yields was then continued due to increase in risk aversion and the zloty weakening. As compared to previous week, the yield curve did not move much, although it steepened slightly.

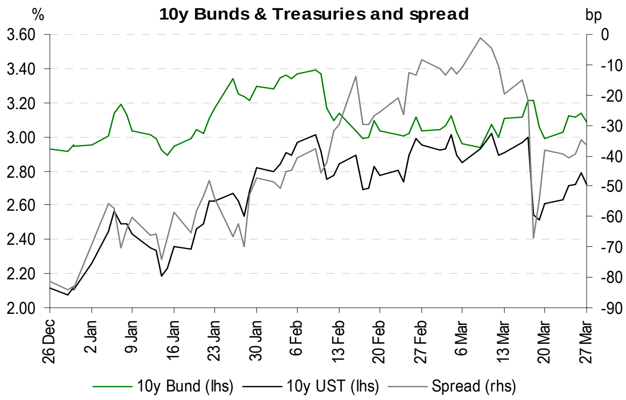
▪ We think that domestic figures due for release this week (slight fall in CPI inflation and moderate rise in PMI) will be neutral for the local interest rate market. The key factor will be further changes of moods in the global market and related to that performance of the zloty.



US dollar stronger after consolidation period

▪ For the most part of the previous week the EURUSD arte was relatively stable, consolidating In the range of 1.34-1.37. Some volatility was observed together with changing investors' assessment of the US administration and Fed plans, as well as Treasury Secretary's comment on world reserve currencies. Only on Friday the downward move in EURUSD took place amid higher risk aversion and correction of previous gains in equity markets. The dollar strengthened against the euro to below 1.33 against 1.36 a week before.

▪ This week movements in EURUSD will be driven by G20 and ECB meetings as well new data releases. Any hints of a move by ECB to engage in some form of quantitative easing activity are likely to weigh heavily on the euro.



Correction in the core debt markets

▪ Results of auction of Treasury papers had a significant impact on the core Bond markets last week. Wednesday's five-year bond auction in the US and 30-year bond auction in the UK were unsuccessful. However, results of the 7-year US Treasuries, one day later, were positive. On Friday, core bond markets were supported by lower risk appetite as well as by the second phase of buying government papers by Fed. Overall, at the end of the week yields of 10Y Treasuries were at 2.72% versus 2.61% a week ago. 10Y Bunds rose from 2.99% to 3.08%.

▪ Similarly as in the case of dollar, this week core bond markets will be mostly affected by G20 and ECB meetings. Next data will also play a role.

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