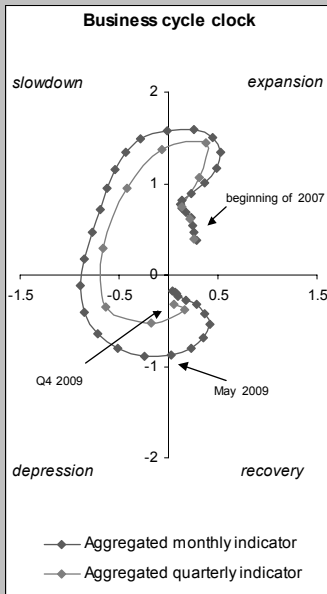


MACROscope

Polish Economy and Financial Markets

April 2010



Note: construction of business cycle clock, including concepts and methodology used for its creation was presented in November's MACROscope http://english.bzwbk.pl/items/english/doc/m_eng_2009_11.pdf

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▪ **After Saturday's tragedy, the Polish financial market has not shown any sudden movements.** Responsibilities of the NBP Governor Sławomir Skrzypek as head of the central bank were taken over by the First Deputy Governor Piotr Wiesiołek. What is more, Piotr Wiesiołek also takes over powers of the chairman of the Monetary Policy Council with the right to vote. A candidate for the NBP Governor may be indicated by the Lower House Speaker Bronisław Komorowski, who after the death of President Lech Kaczyński is acting head of the state. Given the legal interpretation as mentioned above, financial markets should not be concerned even if Komorowski decides to wait with indication of a candidate for the new NBP Governor until the Poland's President is elected. Decisions on this issue will probably be made in the coming weeks. The National Bank of Poland is functioning without any disturbances, pursuing all the statutory tasks of the central bank.

▪ **Last month we wrote about the absence of surprises after the first MPC's meeting and about interesting statements made by the MPC members with regard to the exchange rate. The following month brought a shift of the MPC's attention which was followed by a very distinct change of views and a conflict between the NBP Management Board and the MPC.** In our view, a purely subject-matter debate on the optimum amount of the FX risk provision (even taking into account unrealised profits from FX changes) might prove useful and interesting. Today, it is very hard to say whether and when a compromise between the NBP and the MPC will be reached.

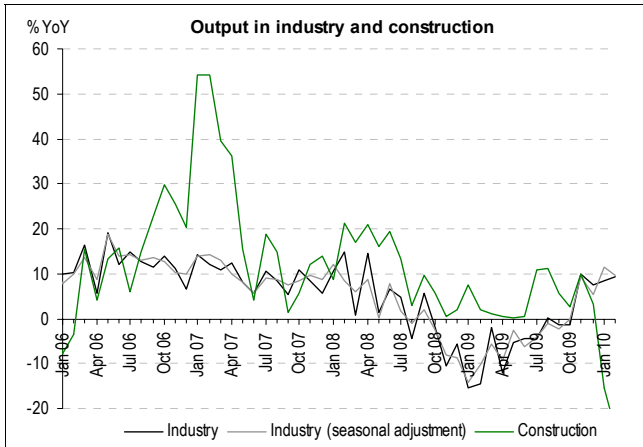
▪ **The foreign exchange market has experienced the correction as we expected, but it proved shallow (EURPLN ca. 3.92) and short-lived.** It was followed by further appreciation towards the level of 3.80 which, however, was not hit. We are not revising our forecast for the rest of the year. It also seems to us that if further strong appreciation was to come, it would meet with another central bank's intervention. Occasional FX interventions by the central bank do not change our view interest rates path. We will write about the efficiency of FX interventions in one of the upcoming MACROscope editions.

▪ **Economic data for February came as a disappointment with respect to the construction and retail sector, while revival was witnessed in industry.** Overall, the negative surprise with sales and construction outweighed the positive surprise in industry, hence we revised the forecast of the GDP growth in Q1 down to below 3% while the forecast for the whole year remains unchanged (2.8%) as the backlogs from early this year should be made up for in the following months, especially in the construction sector. PMI index for March was below expectations yet it has grown slightly to now continue at above 50 by suggesting expansion in this sector. We decided to revise up the industrial production and exports forecast for the following quarters though the scale of the economic recovery in the euro zone remains a big unknown.

Financial market on 31 March 2010:					
NBP deposit rate	2.00	WIBOR 3M	4.10	USDPLN	2.8720
NBP reference rate	3.50	Yield on 2-year T-bonds	4.52	EURPLN	3.8622
NBP lombard rate	5.00	Yield on 5-year T-bonds	5.11	EURUSD	1.3448

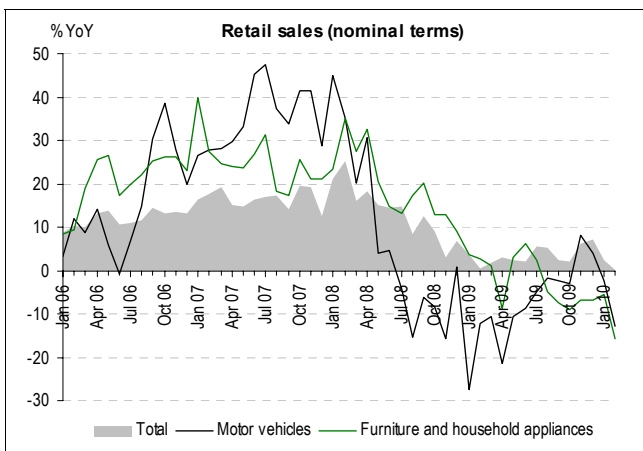
This report is based on information available until 11.04.2010

Economic update



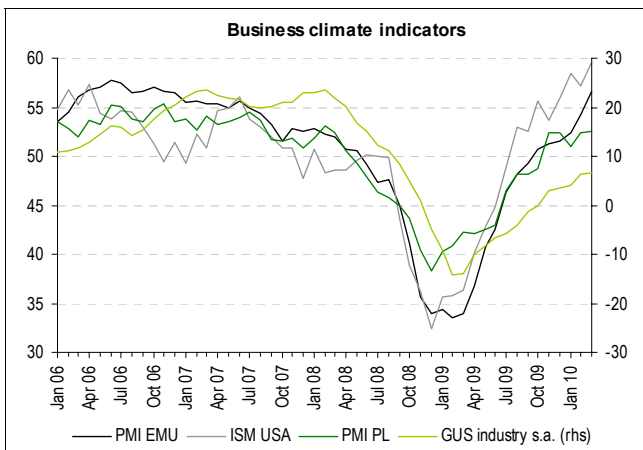
Good news from manufacturing sector

- Growth of industrial production in February was better than forecasts and amounted to 9.2%YoY (seasonally adjusted growth reached 9.5%YoY). In manufacturing, production increased by 10.7%YoY. The highest growth was recorded in the export-oriented sectors of industry. Exceptionally high growth in production of computers, electronic and optical products was maintained (58%YoY after almost 67%YoY in January), but we are still not sure whether this is a permanent phenomenon.
- According to the CSO data, growth in new industrial orders accelerated in February to 11.4%YoY (the highest level for over two years), which – along with continuing recovery signals from abroad – suggested that the increase in industrial production may remain at a high level in the coming months.



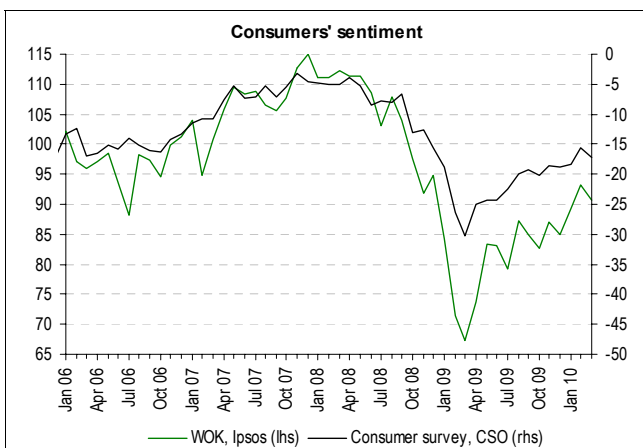
Disappointment in construction and trade

- Data on the construction production disappointed, showing a drop of 24.6%YoY, the deepest since 2003. After seasonal adjustment, the decrease was 13.7%YoY. Apparently the weather improvement in the second half of the month was not sufficient to start catching up with production.
- Retail sales in February was also smaller than expected, as it increased in nominal terms by only 0.1%YoY, and declined in real terms by 2.8%YoY. Deterioration of growth took place in most categories, which is a negative sign as concerns Poles' propensity to consume.
- In total, a negative surprise in the case of retail sales and construction output was greater than the positive surprise in the industrial sector, and therefore we reduced our forecast of GDP growth in the first quarter to 2.7%, although the full year forecast remains unchanged (2.8%) since the backlogs from the beginning of the year should be made up for in the coming months and quarters, especially when it comes to the construction sector.



The ambiguous business climate indicators for March

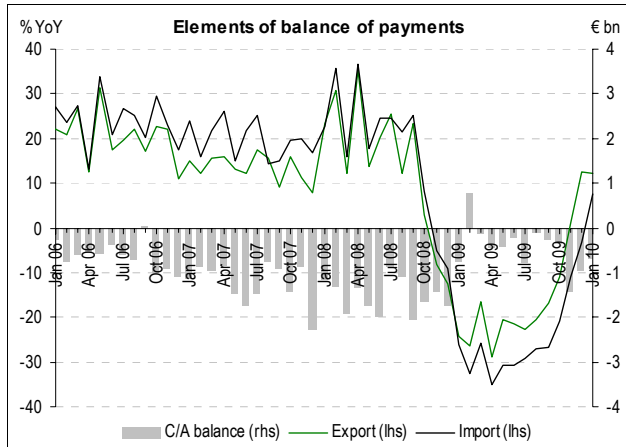
- PMI manufacturing index for Poland was 52.5 in March versus 52.4 in February and was significantly lower than forecasts, although above 50 points, which demarcates between the phases of development, and a slowdown. At the same time, PMI indices in most major economies in the world recorded strong increases in March, confirming the continuation of global recovery in the manufacturing sector.
- According to the PMI report for Poland, March saw a continuation of growth in domestic and foreign orders in manufacturing sector and a "strong" growth in production, amid weakening cuts in employment. At the same time, there was a clear drop in stocks of finished goods, mainly due to increased sales.



- In turn, business climate survey by the CSO showed a clear increase in March, virtually in all analyzed sectors. The value of indices in industry, construction and trade has increased against both the previous month and year to year. Seasonally adjusted indicators also improved. Overall, the results of the CSO survey confirmed that in March there was continuation of economic activity improvement in Polish companies.
- Less optimistic were the results of consumer sentiment surveys. Both Ipsos consumer optimism index (WOK) and the current index of consumer sentiment by CSO decreased in March, however partly this could be attributed to seasonal effect. The annual growth of indices remained in a strong upward trend (supported in part by the effect of extremely low base).

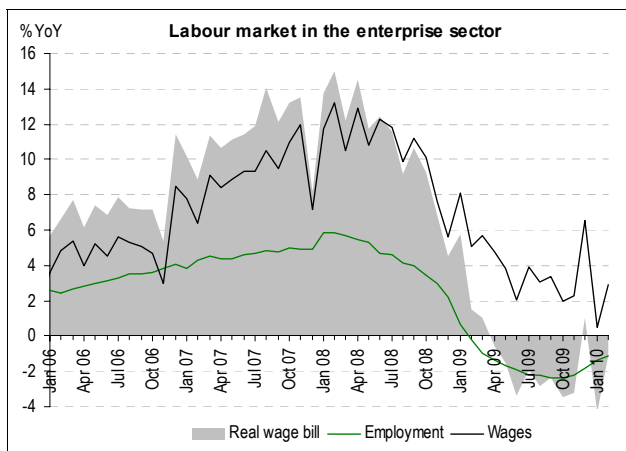
Source: CSO, Reuters, own calculations

Economic update



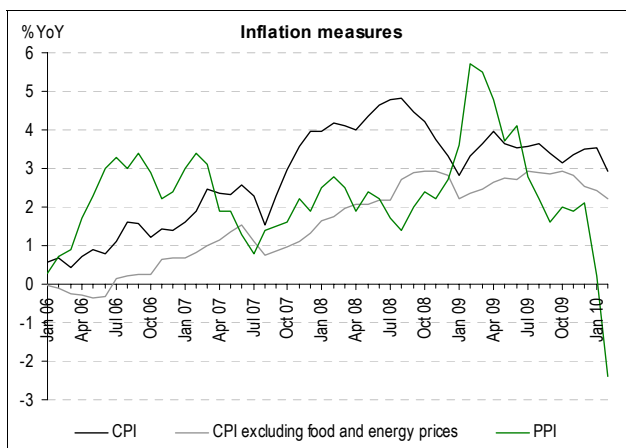
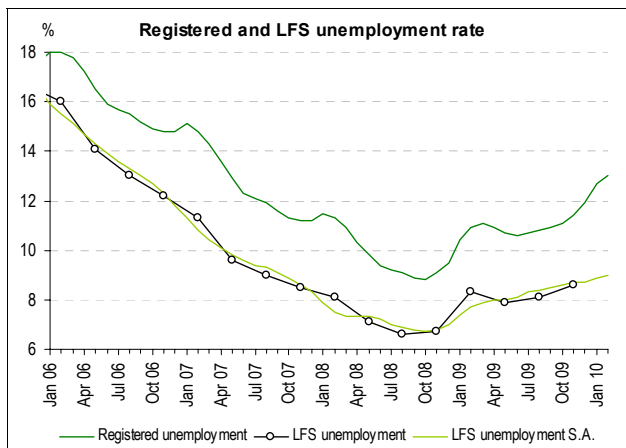
Foreign trade bottoming out

- Data on balance of payments confirmed that the revival of economic activity abroad promotes the rebound in Polish foreign trade. Current account deficit in January amounted to €710m, amid almost balanced merchandise trade balance (-€171m) and increase in exports by 12.3%YoY and imports by 7.6%YoY.
- Signals about rising foreign orders suggest that export growth should accelerate in the coming months, which will be also supported by a very low base from last year. However, the improvement of the import growth rate may be even faster, especially in the second half of the year, thanks to the strengthening of the zloty and the acceleration of domestic demand growth (rebuilding inventories and investment growth). As a result, net exports contribution to GDP is likely to be negative this year.



Unemployment growing moderately

- Data from the labour market in the enterprises sector for February were mixed – wages rose faster than expected, and employment data were worse than forecast; unemployment rate has increased once again.
- Number of jobs in the enterprises sector declined in February by 8,000 people (0.2%MoM), which implies an improvement of the annual growth rate from -1.4% in January to -1.1%YoY.
- As expected, after a one-off sudden collapse of wage growth in January, there was a clear rebound in February (from 0.5% to 2.9%YoY). This was a bit better result than our forecast and market consensus.
- Wage bill in the enterprises sector increased in nominal terms by 1.8%YoY, which amid still elevated inflation, implied a decline in real terms by more than 1%YoY.
- The registered unemployment rate at the end of February stood at 13.0%, in line with our forecast and the estimate of the Ministry of Labour. This represents an increase from 12.7% at the end of January, which is mainly due to seasonal factors. The annual increase in the unemployment rate declined to 2.1 pp from 2.3 pp in January, suggesting that the negative trends in the labour market are gradually decelerating. This is also indicated by significant improvement in the number of vacancies (the first annual increase since July 2008) and the dynamics of the number of declared layoffs (monthly decline and weakening of the annual increase).
- According to the estimates of the Ministry of Labour, in March, the registered unemployment rate fell slightly, to 12.9%, which was possible thanks to much smaller than in previous months influx of new unemployed and an increase in the number of exemptions from the registration due to employment.



The downward inflation trend has started

- CPI inflation in February fell to 2.9%YoY from 3.5%YoY in January, which was revised down from 3.6% after re-weighting of the consumption basket. Detailed data on the pattern of price changes do not alter the picture of the inflation outlook for this year and in the medium term. We still expect inflation to fall below 2% in summer, and rebound slightly in the second year-half.
- PPI in February fell more than forecast, by 2.4%YoY, and probably will remain below zero until the end of the year.
- All measures of core inflation recorded a fall in February after all but one fell in January. The most closely watched core inflation without food and energy prices was at 2.2%YoY in February, the lowest level for over a year. In the coming months we expect a further decline in core inflation.

Source: CSO, NBP, own calculations

Central bank watch

Selected fragments of the MPC statement in March (changes as compared to February's communiqué)

The global economic recovery is still being supported by strongly expansionary macroeconomic policies based on both conventional and non-standard instruments. However, negative consequences of those policies, mostly those related to public debt accumulation, are becoming increasingly visible.

Over the recent period, currencies of many emerging economies, including the zloty, have appreciated. Nonetheless, the risk-aversion uncertainty in the international financial markets has risen and remains elevated, which was largely related to fears about the effects of the fiscal problems in some of the euro-area economies mostly driven by the fiscal crisis in Greece. The measures undertaken by international institutions seem to restrain this uncertainty only to a moderate degree. At the same time, oil prices remained highly volatile. Inflation increase in emerging market economies was accompanied with a slight rise in inflation in some of the developed economies.

Preliminary GUS data on GDP in 2009 imply that GUS data on GDP have confirmed earlier estimates according to which 2009 Q4 saw a recovery in economic activity. Monthly data on the situation of the Polish economy at the beginning of 2010 point to an improved economic activity continued improvement in some sectors, primarily in manufacturing. At the same time, however, the most recent data on retail sales as well as construction and assembly output may signal slightly weaker than expected economic activity in Poland in 2010 Q1. It cannot be ruled out, though, that this is a temporary phenomenon related to unfavourable weather conditions. Some stabilisation of the small scale of decrease in employment in the enterprise sector may signal a gradual deceleration of the unfavourable labour market tendencies, despite further growth in unemployment rate largely driven by increasing labour force participation. The growth in loans to the non-financial sector remains low, though banks envisage higher lending to this sector in the coming period. At the same time, the improvement in the financial results of enterprises for 2009 may reduce their demand for bank loans.

In the Council's assessment the probabilities of inflation running below or above the inflation target in the medium term are balanced. In the Council's view, the improvement in global economic activity and the previously implemented monetary policy easing support the return of the economy to the potential growth path. In the Council's view, however, the impact of the hitherto pursued expansionary macroeconomic policies abroad and their prospective reversal are an important source of uncertainty for future economic growth and inflation in the world economy and, consequently, also for the domestic monetary policy risk factor which may affect this assessment.

Fragments of the Act on the National Bank of Poland

ART. 12 2. In consideration of monetary policy guidelines, the Council shall, in particular: (...) approve the NBP financial plan and the report on the activity of the NBP, accept the annual accounts of the NBP..

ART. 65 The NBP shall create a reserve fund to cover the risk of changes in the exchange rate of the zloty against other currencies. The principles for creating and releasing such a reserve fund shall be laid down by the Council.

ART. 68 3. The NBP accounting principles, the terms of reference for the balance sheet and for profit and loss account, and the contents of the additional information shall be specified by the Council.

ART. 69 1. The annual accounts of the NBP shall be audited by an external auditor appointed by the Council.

3. The President of the NBP shall submit the annual accounts of the NBP to the Council of Ministers for approval until 30 April of the year following the fiscal year.

4. A portion of the annual profit of the NBP (payment from the NBP profit) shall be remitted to State budget within 14 days following the approval of the annual accounts of the NBP by the Council of Ministers.

Fragments of the MPC Resolution dated 30/03/2010 (changes as compared to previous resolution form December 2006)

PARAGRAPH 1

1. The provision for FX risk is equal the estimated amount, which would cover identified risk of changes in PLN Exchange rate against foreign currencies.

2. When estimating the amount of provision, factors to be taken into account especially include: a) the amount of resources in foreign currencies facing FX risk; b) assessment of risk of zloty exchange rate against foreign currencies, which is based on widely acceptable and applicable methods of calculating financial risk, c) current and forecasted level of the revaluation account, as well as unrealised profits and costs connected with changes of zloty exchange rate against foreign currencies.

3. The amount of provision calculated in a way described in point 2 has to be decreased by the level of unrealised profits connected with changes in zloty exchange against foreign currencies, excluding unrealised profits for gold on 31 December of accounting year.

Nothing new on interest rates

■ In March the MPC did not change interest rates (reference rate at 3.50%) and kept neutral informal bias in monetary policy. The communiqué released after the Council meeting did not bring significant changes, and those that took place were inconclusive (changes in the statement are presented in the table on the left).

■ The Council sees a risk that economic growth in Poland in the first quarter might be lower due to weak data, but adds also that it may be a temporary phenomenon. The Council draws attention to gradual slowdown of adverse changes in the labour market, but mentions growing unemployment. Regarding the situation abroad, the Council indicated the clear revival of economic activity, accompanied by inflation rise, but at the same time the wording regarding the effect of expansionary macroeconomic policies on economic recovery has been changed.

■ In general, it seems that in the MPC assessment the scale of uncertainty in both the global and the Polish economy is so large that it was difficult to make any decisive statements reflecting possible direction of monetary policy in coming months. However, if we were to determine in which direction the message has changed, it seems that it is slightly more dovish in March.

■ For example, the Council dropped the sentence that "the improvement in global economic activity and the previously implemented monetary policy easing support the return of the economy to the potential growth path". We expect similar decisions in the coming months with the first interest rate hike in the fourth quarter and change to restrictive bias not earlier than in June, after the new inflation projection.

■ Another subject which will be discussed by the Council in the nearest future is the amount of NBP profit for 2009.

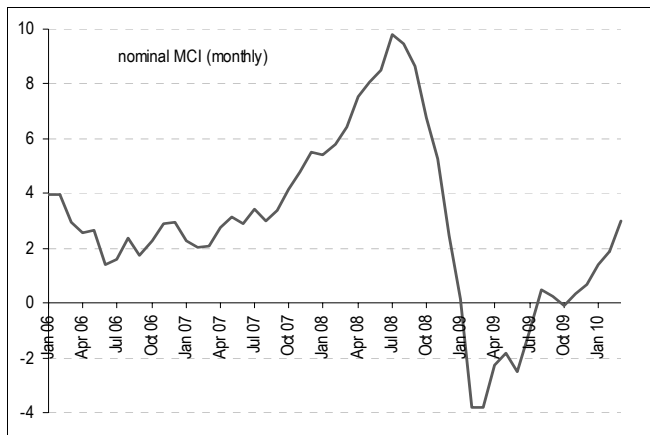
But open conflict over the NBP profit

■ MPC adopted a resolution amending the previous resolution of the Council on how to create provisions for foreign exchange risk. NBP Management Board deemed this change to have legal flaws. From an economic point of view, it is hard to have reservations to the amendment. However, we do not understand why the Council adopted the resolution, as, according to the NBP Act, it is the MPC who sets rules for creating provisions, so that the same majority in the Council could have advised the NBP Board to prepare the report for 2009 in the desired manner.

■ The legal dispute continues, and the NBP Management Board approved a report for 2009, according to which the NBP profit amounted to PLN4.166bn. According to the Council, it could be around 8 billion if the creation of provisions for exchange rate risk took into account unrealized gains from foreign exchange differences.

■ The key to the dispute should determining the appropriate level of provisions for FX risk, even taking into account unrealized gains. Note that a higher profit for 2009 was possible thanks to revenue realized mainly through the FX swap transaction. These transactions also led to an increase in the average rate of currency acquisition, which means potentially higher FX risk and the need for much larger provision for this risk. NBP is likely to show a loss this year without additional provisions. This is not unacceptable or risky (we think it does not necessarily reduce the credibility of the NBP or increase the cost of conducting monetary policy), but the question is whether it is reasonable to decide to lower the provision (as desired by the MPC), knowing that unrealized gains will be soon offset by appreciation of the zloty (for the euro it has already taken place in the first quarter).

Restrictiveness of the Monetary Policy (Council)



MCI up due to zloty gain, despite fall in market interest rates

- March saw continuation of the upward tendency in nominal MCI observed since turn of Q1 and Q2 2009.
- Similarly as a month ago, the MCI rose due to significant appreciation of the zloty (larger deviation of EURPLN downwards from its long-term trend), and despite a fall in market interest rates to the lowest level in many months (larger deviation of WIBOR 3M downwards from its long-term trend).
- Influence of the zloty appreciation on the tightening of overall monetary conditions would be continued in the remainder of this year, according to our FX forecasts. Related to that rise in MCI may constrain willingness of some MPC members to deliver swift interest rate hikes.

Filar 1.63 (1.61)

Wasilewska-Trenkner 1.59 (1.48)

Noga 1.53 (1.52)

Wojtyna 1.50 (0.91)

Sławiński 1.25 (0.91)

Czekaj 1.00 (0.86)

Owsiak 0.88 (0.91)

Nieckarz 0.88 (0.83)

Skrzypek 0,81 (b.d.)

Pietrewicz 0.80 (0.74)

Winięcki

Rzońca

Zielińska-Głębocka

Bratkowski

Hausner

Chojna-Duch

Gilowska

Skrzypek

Glapiński

Każmierczak

Nothing new in views on inflation and interest rates

The post-meeting statement has not brought anything new to the assessment of prospects for interest rates. Moreover, comments from central bankers after the meeting were focused on the conflict regarding rules for NBP provisioning for the FX risk (details below). After the MPC meeting, actually only Andrzej Kaźmierczak commented interest rates outlook, presenting rather dovish view. In his opinion, it will be difficult to see inflation lower than 2% this year against 2.5% expected in March, as fixed investment and public spending are going to rise. However, he added that if inflation remained in the band of allowed fluctuations around the inflation target, there would be no need to hike interest rates this year. Thus, we do not make any changes at our axis of central bankers' restrictiveness, following concentration of MPC members in the middle of the axis which took place a month ago.

Conflict over a few billion zlotys

Some time ago, it seemed that the main lines of divisions in the new Council would be along views on interest rate policy or the euro zone entry (possibly also co-operation with the banking supervision). However, now the key division within the Council is with respect to rules regarding NBP provisioning for the FX risk (and thus the amount of NBP profit for 2009). The differences in views of central bankers are along lines of political sources of nominations, so it is hard not to have an impression that the conflict is to some extent of political nature. According to NBP Management Board member Zdzisław Sokal, the report adopted by the Board received a positive opinion from the auditor, which was selected by the MPC. The Board will do its constitutional duty and will deliver the Financial Statement to the government till 30 April. We are not lawyers and it is hard to assess what happens if the MPC rejects NBP' Annual Report, but it seems that the NBP Act is not precise with this regard. Probably, such a scenario was in mind of MPC's Andrzej Bratkowski, who said that if the government accepts the way of calculation of the provision for currency risk proposed by the NBP Board then he will resign from the post in the Council. Another member Andrzej Rzońca said that he would not be surprised if in such case Council members put their resignations, though he does not believe in such scenario and he knows nothing about the Board will not fulfil the MPC resolution. In the meantime, the NBP Management Board still awaits the opinion by the European Central Bank and according to some members the Constitutional Tribunal will have to decide. According to Bratkowski, the resolution of the MPC is in force until the Constitutional Tribunal says is it against the acts of higher rank. Another MPC member Andrzej Kaźmierczak believes the realisation of the resolution would have to wait until the Tribunal's decision.

On the occasion of many speeches by the MPC members concerning the way of calculating the NBP profit, there was one more interesting phenomenon observed. Namely, the rules applied recently in the MPC regarding the communication after the MCP meeting were ignored by Council's members. First, it was assumed that MPC members withdraw from comments in the first two days after the meeting. Second, Anna Zielińska-Głębocka seemed to report on the meeting's course. Third, Elżbieta Chojna-Duch disclosed the division in votes on the MPC resolution regarding the rules of calculation of provisions on FX risk with 6 votes in favour of the resolution. This runs a risk of accusation of disclosing the course of the meeting and the result of the vote before their official publication. Most probably the new members did not yet master the rules applicable to them.

Index is between 0 and 2. A vote for the majority view is given a score of 1. A vote for a more hawkish (less dovish) decision than the majority view has a score of 2 and a vote for a less hawkish (more dovish) decision than the majority view has a score of 0. Average of points for all votes is the value of the index for a given MPC member.

Numbers directly by the name are values of the index for period since the beginning of Sławomir Skrzypek's term as NBP governor and numbers in parentheses are values of the index for 2004-2006.

Direction of the restrictiveness axis reflects our expectations regarding direction of interest rate changes in the nearest months.

Source: CSO, Eurostat, NBP, own calculations

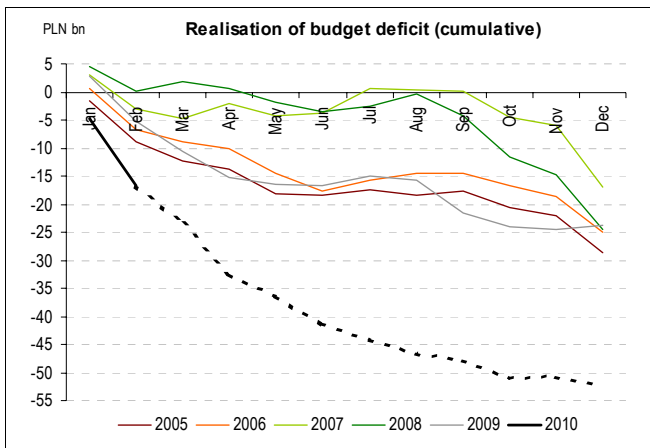
Government and politics

Piotr Winczorek, lawyer, constitutional expert, PAP, 11 Apr

Legally, according to the constitution there are no contraindications for Sejm Speaker to announce candidate for NBP President. The fact of death of the NBP President should not be a cause of concern for financial markets, as the constitution and laws are prepared to such tragedies as occurred today. However, certain questions arise on how the Speaker should proceed: whether to apply for appointment of a new NBP President as of now, wait until it is the full composition of the Sejm is completed, as the deputies died also in the crash, or to postpone the election of the NBP President until the election of new Poland's President. As regards Mr. Komorowski, there may appear political allegations that appointing the NBP president now he is trying to change the balance of power in the NBP Management Board in relation to the recent differences of opinion regarding the profit of the NBP. These questions and doubts remain open at this time and are unresolved. However, in light of the law the Speaker can announce the candidate for NBP President right now, despite the fact that the continuity of power in the NBP has been maintained in the person of the first vice-president.

What next after the tragic accident?

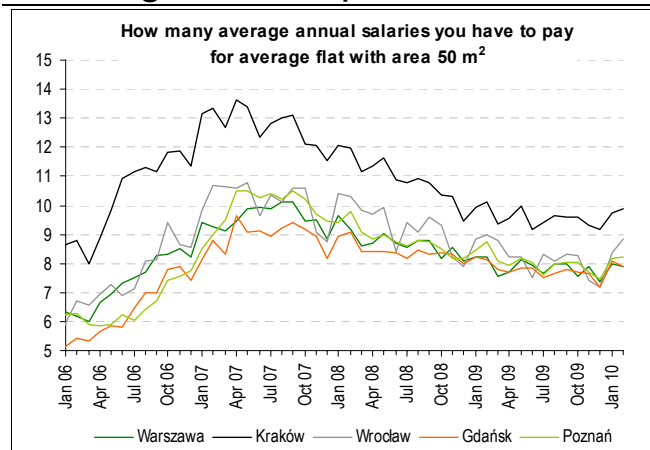
- Despite the horrible tragedy that occurred on April 10 as the Presidential plane crashed, the functioning of the state and the economy in Poland remains undisturbed. After the tragic death of President Lech Kaczyński, the Sejm Speaker Bronisław Komorowski took over the duties of head of state. Within two weeks he will announce the presidential elections, which must take place within 60 days since the notice.
- 15 Sejm deputies who died in the crash, will be replaced by politicians from successive places on electoral lists. In three districts, there will be supplementary election for the Senate.
- The Sejm Speaker has the right to designate the candidate for the NBP President, but it is possible that he will leave this decision to the next Poland's President.



Big increase in deficit in February, smaller in March

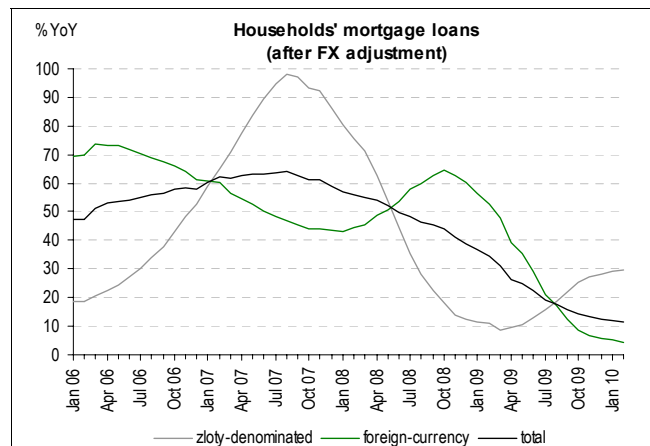
- State budget deficit in February amounted to PLN16.7bn (32% of the annual plan) and was consistent with the schedule. A significant rise in the deficit compared with January (almost PLN12bn) resulted, inter alia, from large subsidies to Social Security Fund. Positive change on the revenue side was a marked improvement in tax revenue.
- According to the Ministry of Finance, after March the budget deficit was lower by about PLN2-3bn than the level planned in the schedule (PLN25.5bn), which would mean the equivalent of about 44 -45% of the planned deficit for the entire year. In the same period of last year the deficit amounted to PLN10.6bn, or 44.6% of full-year deficit. Better than expected result of the budget is, according to deputy finance minister, the effect of lower than planned expenditure.

Housing market update



Slight revival of demand, but prices little changed

- For a couple of months real estate agents and developers are reporting a growing demand and rising number of transactions in the housing market. This concerns both the new projects and the secondary market.
- However, average offered prices remain broadly stable and according to szybko.pl the prices in Poland's major cities are ca. 2-3% lower than a year ago and a dozen or so percent lower than in the peak of the boom in mid-2007. According to Home Broker, transaction prices started to rise slightly, although it is hard to say whether this is a durable trend.
- Supply of new houses remains subdued – the number of houses under construction in February fell to the lowest level in two and a half years and the number of building permits keeps falling.

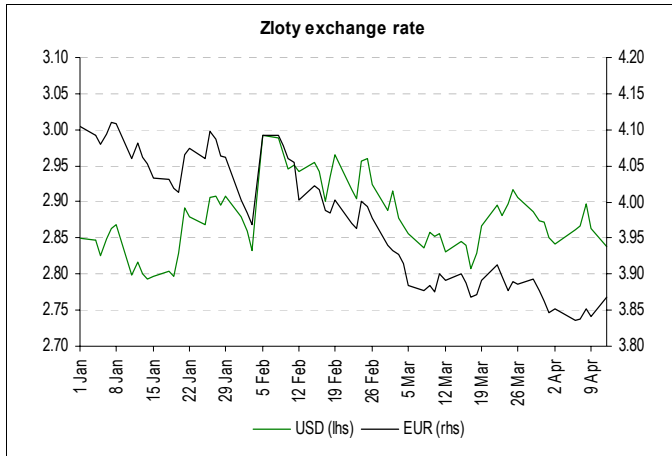


Slower rise in housing loans

- After easing of terms on banks loans at the beginning of this year, the tendency has somewhat weakened recently. Interest rates on housing loans continue to decline slightly, but mainly due to drop in interbank interest rates while level of bank margins stabilised. However, banks are still gradually easing terms on loans and the way they assess creditworthiness of clients.
- After a slight recovery in clients' demand towards the end of 2009, the rise in housing loans decelerated again – in February they rose (after elimination of the FX effect) by a mere PLN0.6bn, i.e. the weakest since April 2009.
- The NBP data does not confirm information about rising demand for housing loans in euro, despite monthly instalments for a loan in euro are much lower than for a loan in the zloty.

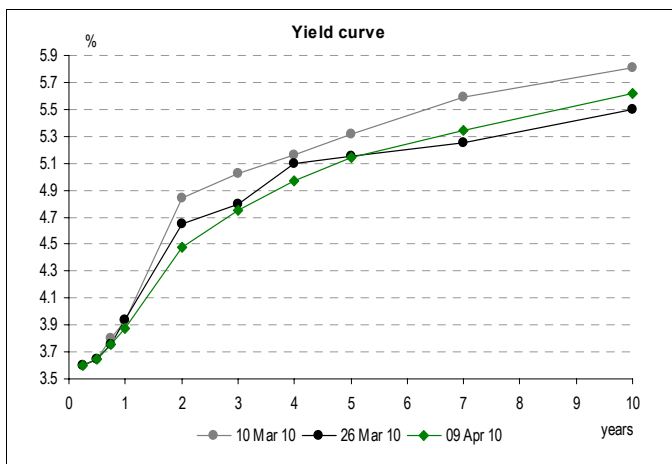
Source: Ministry of Finance, CSO, NBP, szybko.pl, own calculations

Market monitor



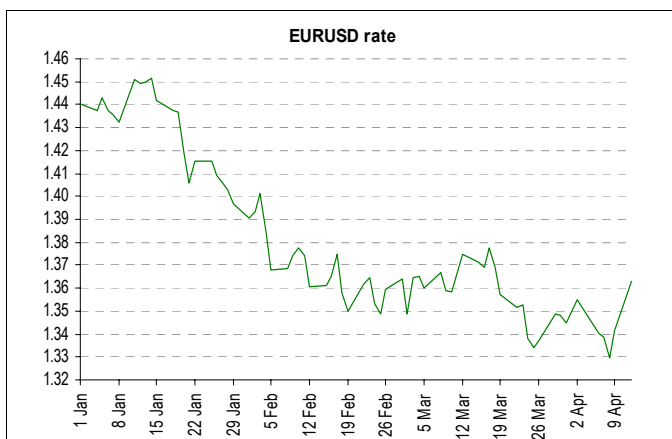
First NBP intervention stops the zloty appreciation

- In March the EURPLN rate breached 3.88-3.90, especially on hawkish comments of the MPC, and amid positive assessment of the Polish economy by the foreign investors and inflow of capital to the Polish debt market. The EURPLN rate fell also below 3.86 and to ca. 3.83. The zloty was strengthening against the euro, on news from Greece, which weakened the euro. The zloty appreciation disturbed the NBP, which intervened in the market.
- The scale and the speed of the zloty appreciation during the year may decline, as investors may be discouraged by the possibility of next NBP interventions. At the same time, the market players may be willing to test at which level the NBP would intervene again. The zloty rate will to a large extent depend on global events.



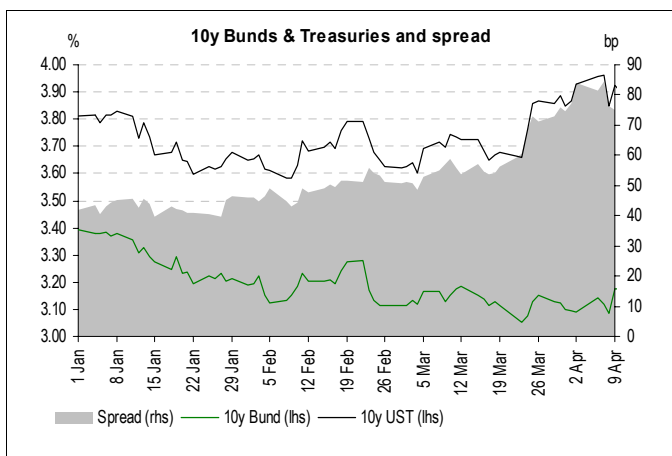
Significant decline of market rates continued

- In the past weeks a decline of interest rates started in February was continued, though mainly at the short end of the curve. This resulted from the zloty strengthening, change in overtone of MPC members, large demand of foreign investors for Polish bonds, good results of auctions and improvement in global moods. Polish market appeared to be resistant to fiscal problems of the euro zone countries. Moreover, worse than expected data weakened expectations for interest rate hikes this year. Improving liquidity in the markets supported the decline in WIBOR rates.
- After such significant move it is hard to expect further decline in bond yields. Stabilisation of debt prices will be supported by prospect of narrower zloty trading range. Improving liquidity and further decline of the WIBOR rates may limit upward correction of the FRA and IRS rates.



EURUSD still influenced by Greece issue

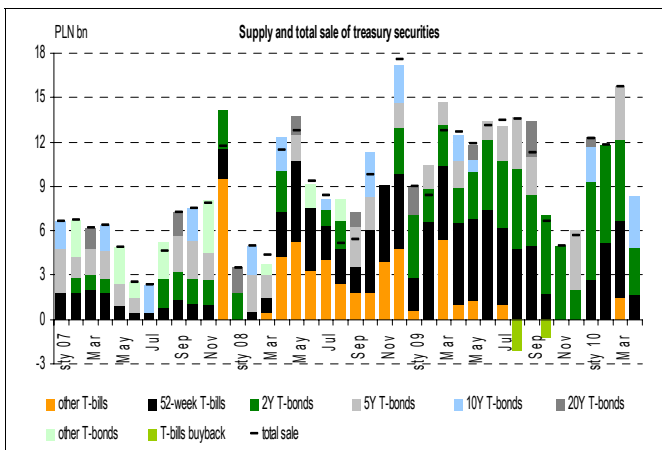
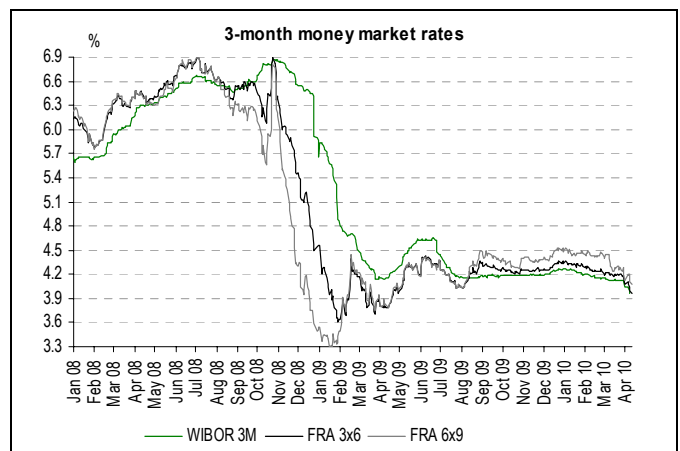
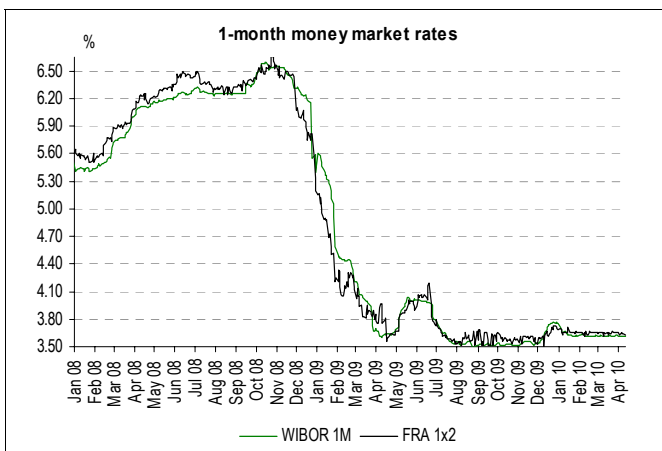
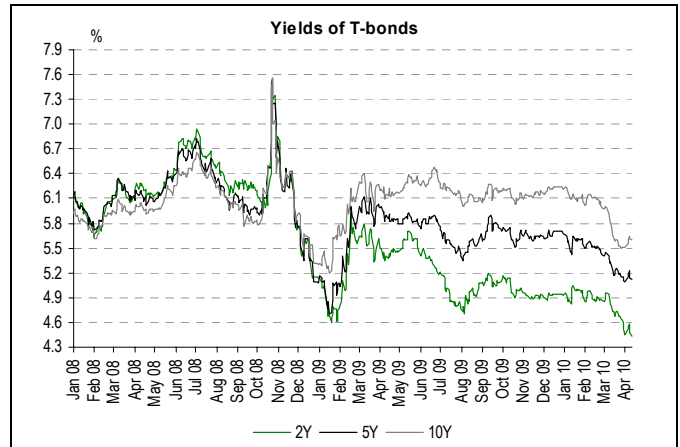
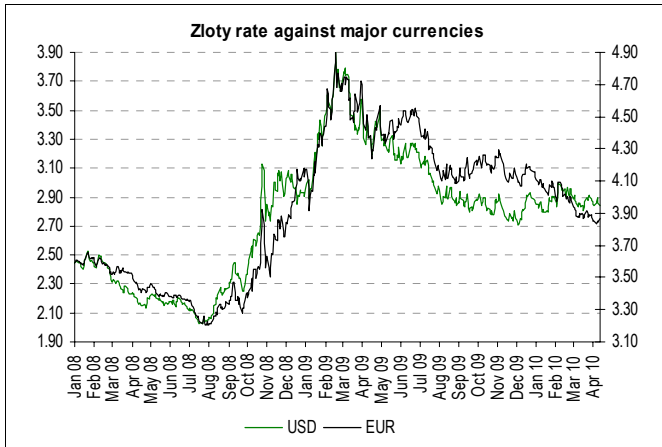
- In the last weeks the main factor affecting the EURUSD rate (trading in range of 1,32-1,37) were problems of Greece. The euro was under negative influence of concerns that Greece may not be granted support from the EU and will have to apply for IMF help. The closing of the short euro positions at the quarter end and the agreed support package from UE with IMF participation only temporarily supported the euro. Only after the release of details of the help package for Greece by the Eurogroup (ca. €45bn) investors moods improved.
- In our view in the nearest time, until Greece finances the debt maturing in the coming weeks, the EURUSD rate will rather stay in narrow range. Even despite solving rollover the debt the problems of Greece may hinder the euro from recovering, which we expect in the second half of the year.



Significant weakening of US bonds

- Last month there was a clear increase in 10Y Treasuries bond yields (by ca. 20 bp to 3.92%) due to quite positive macro data, which strengthened the markets expectations in economic recovery. Decline of the bonds prices were accompanied by the increases in the stock markets. Additional factor was large supply of bond at auctions. Meanwhile, in the euro zone the German bond prices were relatively stable at a cost of bonds of peripheral euro zone countries (Greece, Portugal). Spread between the yields of 10Y German and Greek bonds rose to record high levels (ca. 420 bp).
- After accepting detailed plan of support for Greece by the Eurogroup yields of 10Y German Bunds may rise. After significant sale of US bonds favourable levels may encourage investors to purchases, though yields decline may be limited if macroeconomic data positively surprise.

Market monitor



Treasury bills auctions (PLN m)

Auction date	OFFER	DEMAND/SALE
1.03.2010	52-week.: 700-1000	2933/1000
8.03.2010	52-week: 700-1000	1949/1000
15.03.2010	52-week: 700-1000	2610/1023
22.03.2010	52-week:700-1200; 39-week:1000-1500	2653/1150; 2862/1498
29.03.2010	52-week.: 700-1000	2637/1000
1.04.2010	52-week: 700-1000	4409/760
12.04.2010	52-week: 700-1000	4429/855
19.04.2010	-	-
26.04.2010	-	-
30.04.2010	-	-
10.05.2010	-	-
17.05.2010	-	-
24.05.2010	-	-

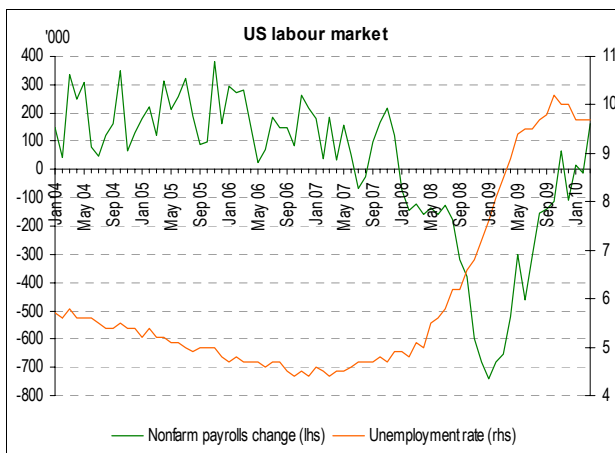
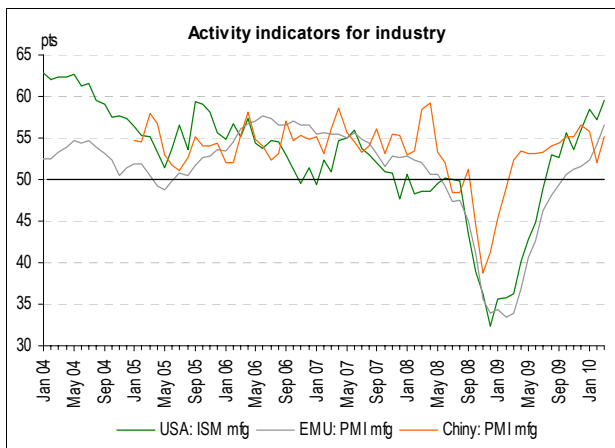
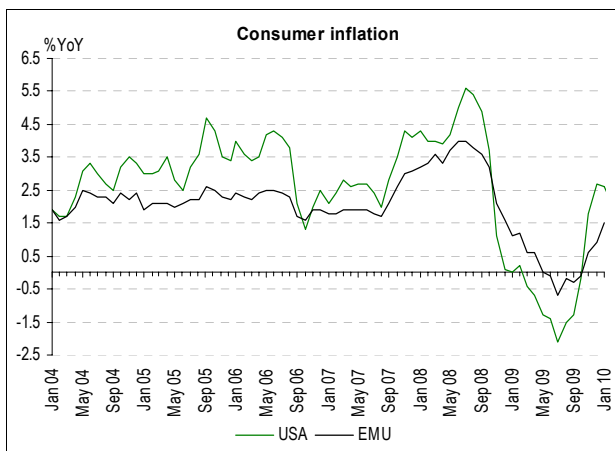
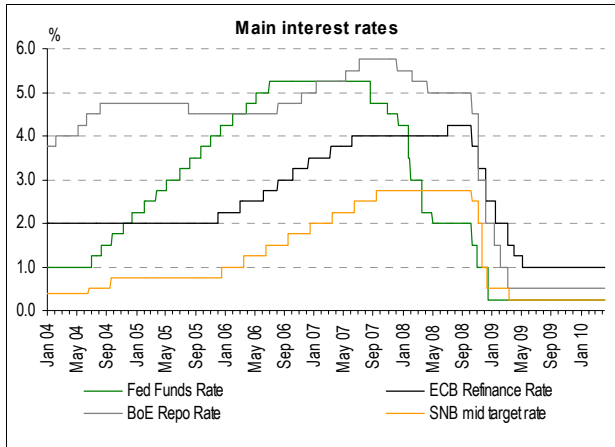
** based on data of the Ministry of Finance*

Treasury bond auctions in 2009/2010 (PLNm)

month	First auction			Second auction			Switch auction				
	date	T-bonds	offer	sale	date	T-bonds	Offer	sale	date	T-bonds	sale
July	1.07	OK0112	3000-4500	4006	15.07*	PS0414	1000-2000	-	8.07	PS0414/ DS1019	0/1982
August	5.08*	OK0112	3900-5400	5402	12.08	PS0414	2000-3500	3500	-	-	-
September	2.09	OK0112	2500-3500	3500	9.09	PS0414	1000-2500	1109	23.09*	WS0922	1000-2400/2400
October	7.10*	OK0112	3000-5400	5400	-	-	-	-	29.10	PS0413/PS0414/DS1019	1573/1753/1290
November	10.11	OK0712	3500-5000	5000	-	-	-	-	26.11	OK0712/P0414	1121/2243
December	2.12	OK0712/PS0415	3000-6000	5651	-	-	-	-	16.12	-	-
January	13.01*	OK0712	6600	6600	20.01*	DS1019/WS0429	2400/600	2409/591	6.01	PS0415/WZ0118	2494/2383
February	10.02*	OK/PS	6600	6600	17.02	DS/WS/WZ/IZ	-	-	3.02	-	-
March	10.03	OK0712	3500-5400	5448	17.03	WZ0121	2000-3600	3600	3.03	PS0415/DS1019/WS0429	1784/2662/315
April	7.04	OK0712	2500-3600	3219	14.04	DS1020	2000-3500	-	21.04**	PS0415	-
May	5.05	OK0712	-	-	12.05	PS0415	-	-	27.05	-	-
June	2.06	OK0712	-	-	16.06	DS/WS/WZ/IZ	-	-	23.06	-	-

* with supplementary auction, ** primary auction

International review



Source: Reuters, ECB, Federal Reserve

First rate hikes probable in 2011

■ As expected, the US central bank kept interest rates unchanged yesterday (the Fed funds rate in the range of 0-0.25%) and repeated in the post-meeting statement that interest rates will remain low “for an extended period”. It was also added that the housing market is still in depressed and economic recovery is not strong. According to the FOMC minutes the situation in the US economy is improving, though the scale of recovery is being limited by high unemployment. In Fed’s view if the prospects of the economy deteriorate or inflation slows down, the US central bank may keep interest rates at very low level for much longer that investors expect.

■ The ECB left interest rates unchanged, (the main refinance rate at 1%). The ECB reiterated that the rates are appropriate, the inflation expectations are well anchored, while the recovery in the euro zone will be moderate this year. The ECB president said that the bank would keep loose rules regarding the collateral in ECB operations. Bank continues to withdraw its extraordinary instrument supporting the market liquidity, though it will support the short-term financing of banks till mid-October. In our view the concerns regarding the durability of the economic recovery in the euro zone will contribute to postponing the decision regarding the interest rate hike decision till 2011.

■ In February the US CPI remained unchanged in monthly terms and rose by 2.1%YoY (consensus: 0.1%MoM, 2.3%YoY), core CPI rose as expected by 0.1%MoM and 1.3%YoY (consensus: 1.4%YoY).

■ Inflation in the euro zone in February was at 0.9%YoY and core inflation was at 0.8%YoY. According to preliminary estimates of the Eurostat the HICP accelerated in March to 1.5%YoY, mainly due to recovery in energy prices.

High activity indices, favourable non-farm payrolls

■ After two months of PMI decline for the Chinese manufacturing sector the index rebounded in March to 55.1 pts, which diminished concerns over the condition of the economy. The PMI for euro zone showed higher than expected increase to 56.6 in manufacturing (in Germany 60.2, the highest level in 14 years) and 54.1 pts in services.

■ Macroeconomic data in the euro zone were less optimistic and slightly worse than expected. After the GDP growth in Q3 was under positive influence of rebuilding of inventories in Q4 there as stagnation (0%QoQ GDO growth), and the Q1 was under negative influence of weather conditions. Private consumption remains weak (lower than forecasted sales in February) and recovery results mainly from improvement in manufacturing and exports. Apart from this the situation in the labour market is still weak (unemployment rate at 10%).

■ The US manufacturing ISM index was higher than expected and rose to 59.6 pts from 56.5. in February, against a forecast of 57.0. ISM index for services rose in March to 55.4 pts. from 53 pts. US Q4 GDP data were downwardly revised to 5.6%YoY from 5.9%.

■ The non-farm payrolls rose in March by 162k, slightly less than expected (190k), nevertheless this was the biggest increase in three years. The unemployment rate stayed at 9.7%. Data for the previous months were revised slightly up. Quite significant increase in jobs resulted partly from recruiting 48k of seasonal workers to help in the national census in the US (this factor will also affect the non-farm payroll number in the next months). Nevertheless, even after taking this factor into account data were pointing to recovery of demand for labour in the US private sector.

■ Fifth month in a row of spending increase in February (+0.3%MoM) was in line with analysts’ expectations and it confirmed that the consumer demand starts to slowly rebound.

Economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
12 April <i>PL: Auction of Treasury Bills</i>	13 <i>PL: Balance of payments (Feb)</i> US: Import prices (Mar) US: Trade balance (Feb)	14 <i>PL: 10Y bond auction</i> <i>PL: Money supply (Mar)</i> EZ: Industrial production (Feb) US: CPI (Mar) US: Retail sales (Mar)	15 <i>PL: CPI (Mar)</i> EZ: Trade balance (Feb) US: NY Fed index (Apr) US: Capital flows (Feb) US: Capacity utilisation (Mar) US: Industrial production (Mar) US: Philly Fed index (Apr)	16 EZ: Final HICP (Apr) US: House starts (Mar) US: Building permits (Mar) US: Flash Michigan (Apr)
19 <i>PL: Auction of Treasury Bills</i> <i>PL: Wages and employment (Mar)</i> US: Leading indicators (Mar)	20 <i>PL: Industrial output (Mar)</i> <i>PL: PPI (Mar)</i> DE: ZEW index (Apr)	21 <i>PL: 5Y bond auction</i> <i>PL: Core inflation (Mar)</i>	22 <i>PL: MPC minutes (Mar)</i> <i>PL: Business climate indicators (Apr)</i> EZ: Flash manufacturing PMI (Apr) EZ: Flash services PMI (Apr) US: PPI (Mar) US: Home sales (Mar) US: House prices (Mar)	23 <i>PL: Retail sales (Mar)</i> <i>PL: Unemployment rate (Mar)</i> DE: Ifo index (Apr) US: Durable goods orders (Mar) US: New home sales (Mar)
26 <i>PL: Auction of Treasury Bills</i>	27 <i>PL: MPC meeting</i> DE: Gfk index (May) US: Case/Shiller (Feb) US: Consumer confidence (Apr) JP: BoJ decision	28 <i>PL: MPC meeting-decision</i> US: Fed decision	29 <i>PL: Switch auction</i> JP: Market holiday EZ: M3 money supply (Mar) EZ: Economic sentiment (Apr)	30 <i>PL: Auction of Treasury Bills</i> EZ: Flash HICP (Apr) US: Advance GDP (Q1) US: Chicago PMI (Apr) US: Final Michigan (Apr)
3 May <i>PL: 3. May Constitution Day</i> GB, JP: Market holiday EZ: Manufacturing PMI (Apr) US: Manufacturing PMI (Apr)	4 <i>PL: PMI (Mar)</i> JP: Market holiday EZ: PPI (Mar) US: Factory orders (Mar) US: Pending home sales (Mar)	5 <i>PL: 2Y bond auction</i> EZ: Non-manufacturing PMI (Apr) EZ: Retail sales (Mar) US: ADP report (Apr) US: Non-manufacturing ISM (Apr)	6 EZ: ECB decision US: Labour productivity & ULC (Q1)	7 US: Non-farm payrolls (Apr) US: Unemployment rate (Apr)
10 <i>PL: Auction of Treasury Bills</i> GB: BoE decision	11 US: Wholesale inventories (Mar)	12 <i>PL: 5Y bond auction</i> EZ: Flash GDP (Q1) EZ: Industrial production (Mar) US: Trade balance (Mar)	13 US: Import prices (Apr)	14 <i>PL: Money supply (Apr)</i> <i>PL: CPI (Apr)</i> US: Industrial production (Apr) US: Retail sales (Apr) US: Flash Michigan (May)

Source: CSO, NBP, Ministry of Finance, Reuters.

MPC meetings and data release calendar for 2010

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
MPC meeting	25-26	23-24	30-31	27-28	24-25	29-30	-	-	-	-	-	-
MPC minutes	21	19	18	22	20	24	-	-	-	-	-	-
GDP*	-	-	2	-	31	-	-	30	-	-	30	-
CPI	14	15 ^a	15 ^b	15	14	15	13	13	14	13	15	14
Core inflation	21	-	22	21	20	22	21	20	21	21	22	21
PPI	21	18	17	20	20	18	19	18	17	19	19	17
Industrial output	21	18	17	20	20	18	19	18	17	19	19	17
Retail sales	28	23	24	23	-	-	-	-	-	-	-	-
Gross wages, employment	19	16	16	19	19	17	16	17	16	18	18	16
Unemployment	28	23	24	23	-	-	-	-	-	-	-	-
Foreign trade	about 50 working days after reported period											
Balance of payments*	-	-	31	-	-	30	-	-	-	-	-	-
Balance of payments	15	12	12	13	17	14	-	-	-	-	-	-
Money supply	14	12	12	14	14	14	-	-	-	-	-	-
NBP balance sheet	7	5	5	7	7	7	-	-	-	-	-	-
Business climate indices	22	22	22	22	21	22	22	20	22	22	22	22

* quarterly data, ^a preliminary data for January, ^b data for January and February

Source: CSO, NBP

Economic data and forecasts

Monthly economic indicators

		Mar 09	Apr 09	May 09	Jun 09	Jul 09	Aug 09	Sep 09	Oct 09	Nov 09	Dec 09	Jan 10	Feb 10	Mar 10	Apr 10
PMI	pts	42.2	42.1	42.5	43.0	46.5	48.2	48.2	48.8	52.4	52.4	51.0	52.4	52.5	53.5
Industrial production	%YoY	-1.9	-12.2	-5.2	-4.5	-4.4	0.1	-1.3	-1.3	9.9	7.4	8.5	9.2	11.9	10.5
Construction production	%YoY	1.2	0.5	0.3	0.5	10.7	11.0	5.7	2.7	9.9	3.2	-15.3	-24.6	-13.5	-3.4
Retail sales ^a	%YoY	1.8	2.9	2.4	2.1	5.7	5.2	2.5	2.1	6.3	7.2	2.5	0.1	3.9	3.1
Unemployment rate	%	11.1	10.9	10.7	10.6	10.7	10.8	10.9	11.1	11.4	11.9	12.7	13.0	12.9	12.7
Gross wages in enterprises sector ^a	%YoY	5.7	4.8	3.8	2.0	3.9	3.0	3.3	2.0	2.3	6.5	0.5	2.9	2.7	3.4
Employment in enterprises sector	%YoY	-0.9	-1.4	-1.7	-1.9	-2.2	-2.2	-2.4	-2.4	-2.2	-1.8	-1.4	-1.1	-0.6	-0.3
Export (€)	%YoY	-16.6	-28.9	-20.6	-21.3	-22.8	-20.6	-17.0	-10.8	1.0	12.4	12.3	15.0	20.7	25.3
Import (€)	%YoY	-25.9	-35.1	-30.7	-30.6	-29.3	-27.0	-26.8	-20.9	-11.0	-3.3	7.6	15.3	20.7	24.3
Trade balance	EURm	-214	-205	-26	-279	-445	-420	59	-185	-288	-645	-171	-100	-262	-175
Current account balance	EURm	-131	-451	-405	-232	-776	-116	-250	-342	-1.433	-959	-710	400	-462	-425
Current account balance	% GDP	-4.0	-3.8	-3.5	-3.0	-3.0	-2.8	-2.3	-1.9	-1.9	-1.6	-1.6	-1.7	-1.8	-1.8
Budget deficit (cumulative)	PLNbn	-10.6	-15.3	-16.4	-16.7	-15.0	-15.6	-21.5	-24.0	-24.4	-23.8	-4.8	-16.7	-23.5	-32.6
Budget deficit (cumulative)	% of FY plan	44.6	64.5	68.9	70.0	63.2	65.8	90.3	101.1	102.6	100.0	9.3	32.1	44.9	62.5
CPI	%YoY	3.6	4.0	3.6	3.5	3.6	3.7	3.4	3.1	3.3	3.5	3.5	2.9	2.6	2.5
Core inflation excluding prices of food and energy	%YoY	2.5	2.6	2.8	2.7	2.9	2.9	2.9	2.9	2.8	2.6	2.4	2.2	2.0	1.8
PPI	%YoY	5.5	4.8	3.7	4.1	2.8	2.2	1.6	2.0	1.9	2.1	0.2	-2.4	-2.9	-2.1
Broad money (M3)	%YoY	17.5	14.4	14.2	14.4	11.9	9.0	9.6	11.9	8.0	8.1	6.3	5.1	5.0	6.3
Deposits	%YoY	19.4	16.1	15.7	15.9	13.0	10.7	10.9	13.5	10.3	9.8	7.5	6.7	6.0	7.3
Loans	%YoY	34.5	30.3	29.3	26.8	23.3	19.8	18.6	14.9	13.4	8.6	5.4	3.1	3.7	6.3
USD/PLN	PLN	3.55	3.36	3.23	3.22	3.05	2.90	2.86	2.85	2.79	2.83	2.85	2.93	2.87	2.85
EUR/PLN	PLN	4.62	4.43	4.41	4.51	4.30	4.13	4.16	4.21	4.17	4.14	4.07	4.01	3.89	3.85
Reference rate ^b	%	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Lombard rate ^b	%	5.25	5.25	5.25	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
WIBOR 3M	%	4.30	4.20	4.52	4.60	4.26	4.16	4.18	4.18	4.19	4.23	4.24	4.17	4.13	3.95
Yield on 52-week T-bills	%	4.78	4.80	4.91	4.73	4.43	4.23	4.33	4.35	4.26	4.25	4.01	3.90	3.92	3.85
Yield on 2-year T-bonds	%	5.60	5.44	5.60	5.34	4.93	4.92	5.10	5.03	4.92	4.92	4.95	4.90	4.76	4.50
Yield on 5-year T-bonds	%	5.97	5.88	5.85	5.83	5.55	5.53	5.74	5.65	5.64	5.67	5.58	5.51	5.27	5.20
Yield on 10-year T-bonds	%	6.21	6.17	6.30	6.34	6.19	6.08	6.18	6.15	6.14	6.21	6.12	6.09	5.71	5.60

Source: CSO, NBP, Finance Ministry, BZ WBK own estimates; ^a in nominal terms, ^b at the end of period

Quarterly and annual economic indicators

		2007	2008	2009	2010	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10
GDP	PLNbn	1,176.7	1,272.8	1,341.9	1,414.1	314.1	326.3	331.5	370.0	333.0	343.7	346.5	390.8
GDP	%YoY	6.8	5.0	1.7	2.8	0.8	1.1	1.7	3.1	2.7	2.8	2.8	3.0
Domestic demand	%YoY	8.7	5.5	-0.9	3.5	-1.5	-2.1	-1.2	0.9	2.6	3.4	3.4	4.3
Private consumption	%YoY	4.9	5.9	2.3	1.9	3.3	1.7	2.2	2.0	1.5	2.0	2.0	2.2
Fixed investments	%YoY	17.6	8.2	-0.3	4.1	1.0	-3.0	-1.5	1.6	-3.0	4.0	6.0	6.0
Industrial production	%YoY	10.7	3.6	-3.2	7.8	-10.0	-6.7	-1.3	5.5	10.0	9.7	7.5	4.3
Construction production	%YoY	16.4	10.0	4.6	3.1	3.5	0.4	9.1	5.3	-17.7	3.0	7.1	10.3
Retail sales (real terms)	%YoY	7.6	5.0	2.7	2.7	1.0	1.0	3.6	4.7	-0.6	3.3	3.7	4.6
Unemployment rate ^a	%	11.2	9.5	11.9	12.3	11.1	10.6	10.9	11.9	12.9	11.9	11.7	12.3
Gross wages in enterprise sector (real terms)	%YoY	6.8	6.1	1.1	1.7	3.2	0.2	0.5	0.5	-1.0	1.9	2.6	3.5
Employment in enterprise sector	%YoY	4.6	4.8	-1.2	0.1	0.1	-1.0	-1.8	-2.0	-1.0	0.1	0.7	0.9
Export (€)	%YoY	13.4	14.2	-17.1	11.8	-22.2	-23.8	-20.1	0.1	15.9	15.0	10.0	7.0
Import (€)	%YoY	19.5	17.2	-25.4	14.1	-28.2	-32.2	-27.8	-12.1	14.5	15.0	14.0	13.0
Trade balance	EURm	-12,369	-17,724	-3,183	-5,943	-744	-513	-812	-1,114	-533	-590	-1,946	-2,874
Current account balance	EURm	-14,696	-18,302	-5,005	-7,332	-30	-1,088	-1,159	-2,728	-772	-1,690	-2,246	-2,624
Current account balance	% GDP	-4.7	-5.1	-1.6	-2.0	-4.0	-3.0	-2.3	-1.6	-1.8	-1.9	-2.1	-2.0
General government balance	% GDP	-1.9	-3.6	-7.2	-6.8	-	-	-	-	-	-	-	-
CPI	%YoY	2.5	4.2	3.5	2.5	3.3	3.7	3.5	3.3	3.0	2.3	2.0	2.4
CPI ^a	%YoY	4.0	3.3	3.5	2.6	3.6	3.5	3.4	3.5	2.6	2.1	2.2	2.6
PPI	%YoY	2.0	2.2	3.3	-2.0	4.9	4.2	2.2	2.0	-1.7	-2.4	-1.7	-2.1
Broad money (M3) ^a	%YoY	13.4	18.6	8.1	6.2	17.5	14.4	9.6	8.1	5.0	5.7	6.6	6.2
Deposits ^a	%YoY	14.5	20.6	9.8	6.1	19.4	15.9	10.9	9.8	6.0	6.3	6.8	6.1
Loans ^a	%YoY	29.9	36.0	8.6	9.4	34.5	26.8	18.6	8.6	3.7	5.3	7.2	9.4
USD/PLN	PLN	2.77	2.41	3.12	2.79	3.45	3.27	2.94	2.83	2.88	2.84	2.76	2.69
EUR/PLN	PLN	3.78	3.52	4.33	3.84	4.50	4.45	4.20	4.17	3.99	3.83	3.78	3.73
Reference rate ^a	%	5.00	5.00	3.50	4.00	3.75	3.50	3.50	3.50	3.50	3.50	3.50	4.00
Lombard rate ^a	%	6.50	6.50	5.00	5.50	5.25	5.00	5.00	5.00	5.00	5.00	5.00	5.50
WIBOR 3M	%	4.73	6.36	4.42	4.04	4.83	4.44	4.20	4.20	4.18	3.92	3.90	4.17
Yield on 52-week T-bills	%	4.69	6.26	4.54	4.07	4.75	4.81	4.33	4.29	3.94	3.90	4.05	4.40
Yield on 2-year T-bonds	%	5.23	6.22	5.17	4.76	5.26	5.46	4.98	4.96	4.87	4.55	4.70	4.90
Yield on 5-year T-bonds	%	5.52	6.15	5.65	5.36	5.50	5.85	5.61	5.66	5.46	5.22	5.35	5.40
Yield on 10-year T-bonds	%	5.56	6.06	6.11	5.75	5.86	6.27	6.15	6.17	5.97	5.62	5.70	5.70

Source: CSO, NBP, Finance Ministry, BZ WBK own estimates

^a at the end of period

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