Business sentiment in manufacturing is a good sign for investments

This week

- **The most important event this week will be the meeting of the Monetary Policy Council scheduled for Wednesday.** We expect the MPC to decide to leave interest rates unchanged. The recent remarks of some Council members indicate that despite a markedly weaker than expected structure of GDP growth in Q2 (see MACROpulse of 30/8/2016), they support the wait-and-see formula in the monetary policy. In addition, our expectations are supported by the September data on business sentiment in the Eurozone and Germany (see MACROmap of 26/9/2016), signaling a low likelihood for a sharp slowdown of economic growth of Poland's major trade partners. FRA market is currently pricing no interest rates cuts in the horizon of 6 months. The continuation of the status quo in the monetary policy will be neutral for PLN and yields on Polish bonds, we believe.
- **The most important foreign event this week will be the release of data on non-farm payrolls in the US, scheduled for Friday.** We expect the employment to have increased by 175k in September vs. 151k in August. At the same time, we forecast that unemployment rate slightly dropped to 4.8% vs. 4.9% in August. Before the Friday reading some additional information on the labour market will be provided by the ADP report on private sector employment (the market expects an increase by 165k in September vs. 177k in August). The results of business surveys in US companies will also be released this week. We forecast that the ISM index for manufacturing rose to 50.4 pts in September vs. 49.4 pts in August. Our forecast of non-farm payrolls increase is close to the market consensus, therefore its materialization will not be market moving.
- **September data on business sentiment in Polish manufacturing have been released today (see below).** PMI rose to 52.2 pts from 51.5 pts in August running above our forecast (51.9 pts) and market expectations (52.0 pts).

Last week

- **Last week the prime Minister, B. Szydło, announced reconstruction of the government.** The Minister of Finance. P. Szałamacha, was replaced by Vice Premier M. Morawiecki who will combine the functions of Minister for Development and Minister of Finance and will head the Government Economic Committee. B. Szydło justified her decision by the need for changes in the state administration with a view to implementing the Responsible Development Plan. This shows that the Ministry of Finance will in fact be subordinated to the Ministry for Development. In our view, it is now hard to assess the consequences of the government reconstruction for economic growth and public finance in medium term.
- **Numerous hard data from the US economy and business survey results were released last week.** In accordance with the third estimate, the annualized economic growth rate was revised upwards to 1.4% vs. 1.1% in the second estimate. Higher GDP dynamics resulted from higher contributions of investments (-0.18 pp in the third estimate vs. -0.42 pp in the second estimate), inventories (-1.16 pp vs. -1.26 pp), and net exports (0.18 pp vs. 0.10 pp). Lower contributions of private consumption (2.88 pp in the third estimate vs. 2.94 pp in the second estimate) and public consumption (-0.30 pp vs. -0.27 pp) had an opposite impact. Thus, the main driver of economic growth in Q2 was private consumption. Data from the real estate market were also released last week. New home sales dropped to 609k in August vs. 659k in July. Combined with the August data on building permits, housing starts, and existing home sales (see MACROmap of 26/9/2016), this points to a decline in activity in the US real estate market in August. Preliminary data on durable goods orders were also released last week and their monthly

dynamics dropped to 0.0% in August vs. 3.6% in July. Excluding orders for transportation, durable goods orders decreased by 0.4% MoM in August vs. a 1.1% increase in July. The decline in monthly dynamics of total orders between July and August resulted from slower pace of orders in most sectors. Especially noteworthy in data structure is the continuing from November 2015 negative growth of orders for non-military capital goods, excluding orders for aircrafts (-3.1% in August vs. -5.6% in July), being a leading indicator for investments. The results of consumer sentiment surveys were also released last week. The Conference Board Index rose to 104.1 pts in September vs. 101.1 pts. The index increase resulted from its higher sub-indices concerning both the assessment of current situation and expectations. The final University of Michigan Index also pointed to improvement of consumer sentiment and rose to 91.2 pts vs. 89.8 pts in the flash estimate and August. The index increase compared to preliminary data resulted from higher sub-indices concerning both the assessment of current situation and expectations. The last week's data from the US economy are in line with our scenario, in which we assume one increase in the target range for the Federal Reserve funds in 2016 by 25 bp in December up to [0.50%; 0.75%].

- **Flash estimate of inflation in Poland was released last week.** It rose to -0.5% YoY in September vs. -0.8% in August, running below our forecast (-0.4%) in line with the market consensus (-0.4%). We believe that the increase in inflation was due to higher dynamics of fuel and energy prices and higher core inflation. Final data on inflation including its structure will be released on 11 October.
- **In accordance with the flash estimate, inflation in the Eurozone rose to 0.4% YoY in September vs. 0.2% in August.** Conducive to higher inflation (up by 0.3 pp) was higher dynamics of energy prices. Lower dynamics of food prices had an opposite impact (down by 0.1 pp). We forecast that inflation in the Eurozone will rise to 0.7% YoY in Q4 vs. 0.3% in Q3 and will amount to 0.2% in the whole 2016 vs. 0.0% in 2015.
- **Ifo index reflecting the sentiment among German managers representing the manufacturing, construction, wholesale and retail trade sectors, rose to 109.5 pts in September vs. 106.3 pts in July, hitting the highest level from May 2014.** The index increase was due to higher sub-indices concerning both the assessment of the current situation and expectations. Sector-wise, improved sentiment was recorded in all sectors covered by the survey (manufacturing, construction, wholesale trade, and retail trade). We forecast that the quarterly GDP growth rate in the German economy will not change in Q4 compared to Q3 and will amount to 0.3%.
- **Chinese Caixin PMI manufacturing index rose to 50.1 pts in September vs. 50.0 pts in August.** Thus, it has been third month in a row when the index was above the 50 pts threshold dividing expansion from contraction of activity. The index increase resulted from higher contributions of 3 out of 5 its components (new orders, employment, and stocks of purchases). Lower contributions of output and suppliers delivery times had an opposite impact. Especially noteworthy in the data structure is the increase in the sub-index concerning new orders, which rose above the 50 pts threshold for the first time since November 2015. At the same time, its increase was sharper than the increase in the sub-index concerning total new orders (0.8 pp vs. 0.2 pp), which shows that that the main source of increase in total orders in September was stronger foreign demand. The last week's data on business sentiment in China manufacturing support our forecast, in which the GDP in China will increase by 6.7% in 2016 vs. a 6.5% increase in 2015.

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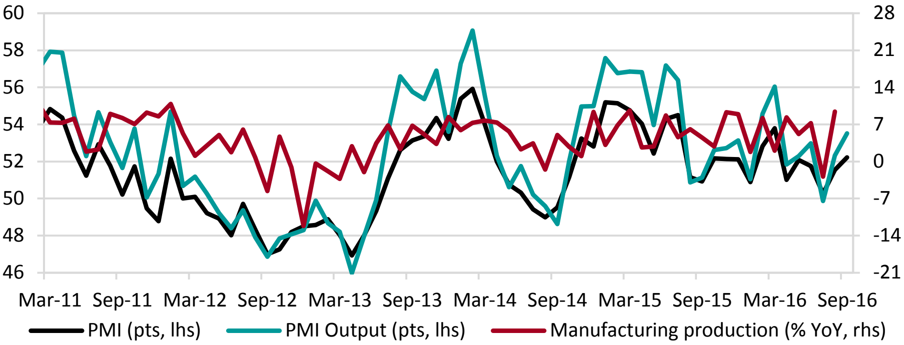


Source: Markit, GUS

Business sentiment in Polish manufacturing (PMI) rose to 52.2 pts in September from 51.5 pts in August, running above our forecast (51.9 pts) and the market consensus (52.0 pts). The improvement of sentiment recorded in September in Polish manufacturing was mainly due to changes in sub-indices concerning suppliers delivery times, new orders, and output. They were jointly responsible for an increase in PMI by 1.4 pts.

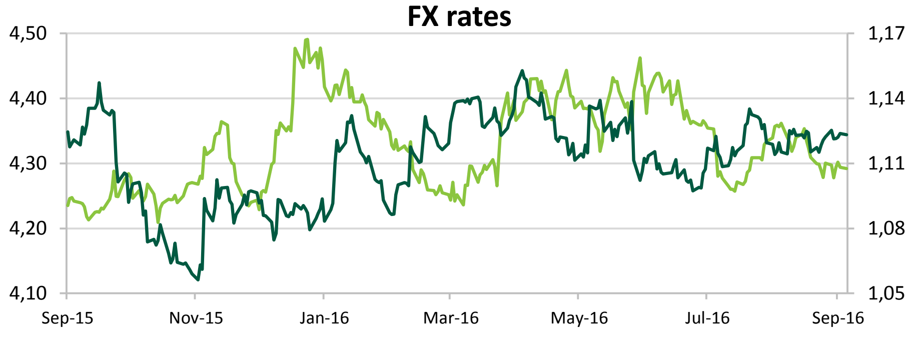
Especially noteworthy in the September's PMI structure is the decrease in the value of the sub-index concerning suppliers delivery times, which was the longest in five-and-a-half years. The extension of delivery times signals a strong increase in demand in Polish manufacturing, which is increasingly hard to satisfy given the current capacities. Therefore, the September PMIs are a good sign for investments in manufacturing and – more widely – in the corporate sector in Q4 2016. Consequently, they support our scenario of increase in the dynamics of corporate investment outlays in H2 2016 (see MACROmap of 19/9/2016).

The results of the September PMI survey also suggest a visible acceleration in new orders growth, including export orders. What is interesting, the sub-index concerning total new orders stood at a level exceeding the sub-index concerning new export orders for the first time since February 2016, which points to a relatively strong influence of domestic demand on the activity in Polish manufacturing. In our view, this may reflect the recovery in construction, which would be consistent with the September results of GUS surveys of business sentiment in this sector (we will discuss business sentiment in construction profoundly in the next MACROmap). Due to a marked increase in orders, the output sub-index hit the highest level since March 2016, signaling a moderately fast output increase in Polish manufacturing. This supports our forecast of not-seasonally-adjusted dynamics of industrial production in September (2.8% YoY vs. 7.4% YoY in August), which, adjusted by the working days' effect, will run at a slightly lower level from that recorded in August (5.1% YoY).

The PMI value in Q3 (51.3 pts) stood at a slightly lower level than in Q2 (51.6 pts). Thus, today's data support our forecast of GDP growth in Q3 (2.8% YoY vs. 3.1% in Q2). It is worth emphasizing that the September PMIs point to a continuing increase in export orders in manufacturing of the Eurozone and Germany (according to the initial results PMI sub-index concerning new export orders in Germany was at 32-month high). This shows that favourable business sentiment in Polish manufacturing will also continue into Q4, which is consistent with our forecast of a slight acceleration of GDP growth in that period (up to 2.9% YoY).

Today's data on September PMIs are slightly positive for PLN and yields on Polish bonds.

MPC meeting neutral for PLN

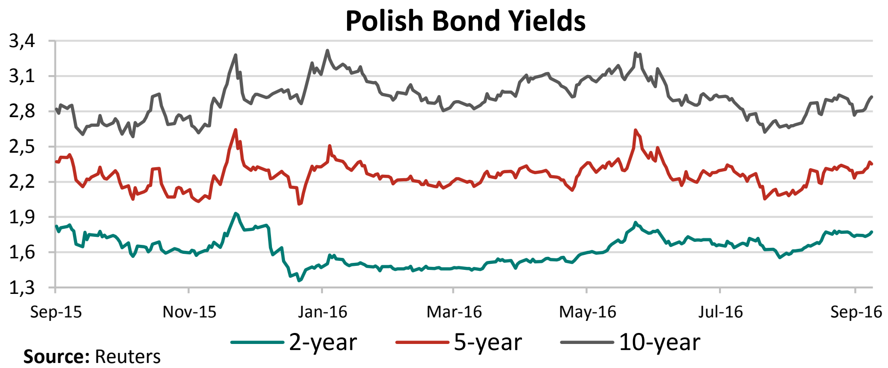


Source: Reuters

Last week EURPLN rate fell down to 4.2939 (strengthening by 0.2%). Monday through Tuesday, PLN and other emerging currencies were within a weak upward trend, due to a decline in global risk aversion, reflected by VIX index. Conducive to lower risk aversion could be i.a. the presidential debate in the US on Monday to Tuesday night Warsaw time, which financial markets received as an increased likelihood of H. Clinton winning the election. On Wednesday, PLN started depreciating and its depreciation continued into Friday. Conducive to its weakening was, in our view, the increase in political risk in Poland, related to the announced reconstruction of government, better than expected final GDP estimate in the US, and increase in global risk aversion, related to the difficult financial situation of Deutsche Bank. On Friday afternoon, there was a correction which led to PLN strengthening.

Poland manufacturing PMI released this morning is slightly positive for PLN, we believe. The most important event for PLN this week will be the Friday's data on non-farm payrolls in the US. However, if our close to market expectations forecast materializes, their impact on PLN will be limited. We expect that the results of business surveys in the US (manufacturing and non-manufacturing ISM) as well as the Wednesday's decision of the Monetary Policy Council on interest rates will also be neutral for the markets.

Polish debt market focuses on US non-farm payrolls data



Source: Reuters

Last week the yield of Polish 2-year benchmark bonds rose to a level of 1.772 (up by 3 bp), of 5-year bonds to a level of 2.352 (up by 8 bp), and of 10-year bonds to a level of 2.922 (up by 12 bp). Monday through Friday an increase in yields on Polish bonds continued across the curve. It was accompanied by an increase in spread between the Polish and the US and German benchmark bonds. At the same time, spread between the Hungarian and the Polish bonds decreased and credit risk in Poland rose (higher spread between yields on Polish 5-year bonds and 5-year IRS rate). This shows that the last week's fall of Polish debt prices was mainly caused by domestic factors and, in our view, was most likely due to the government reconstruction in Poland and the dismissal of the Minister of Finance, signaling increased uncertainty concerning the prospects for public finance.

The results of business surveys for Polish manufacturing (PMI) released this morning are slightly negative for yields on Polish bonds, we believe. This week the Polish debt market will focus on data on non-farm payrolls in the US. If our close to market consensus forecast materializes, the impact of these data on the prices of Polish debt will be limited, we believe. We expect that the results of business surveys in the US (manufacturing and non-manufacturing ISM) as well as the Wednesday's decision of the Monetary Policy Council on interest rates will also be neutral for yields on Polish bonds.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland

Indicator	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16
NBP reference rate (%)	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	**1,50**
EURPLN*	4,25	4,25	4,27	4,26	4,42	4,35	4,24	4,37	4,38	4,38	4,35	4,36	4,29	**4,30**
USDPLN*	3,80	3,86	4,04	3,92	4,08	4,00	3,73	3,81	3,94	3,94	3,90	3,91	3,82	**3,86**
CHFPLN*	3,90	3,91	3,93	3,91	3,98	4,00	3,87	3,97	3,96	4,04	4,02	3,97	3,93	**3,97**
CPI inflation (% YoY)	-0,8	-0,7	-0,6	-0,5	-0,9	-0,8	-0,9	-1,1	-0,9	-0,8	-0,9	-0,8	**-0,4**	
Core inflation (% YoY)	0,2	0,3	0,2	0,2	-0,1	-0,1	-0,2	-0,4	-0,4	-0,2	-0,4	-0,4	**-0,2**	
Industrial production (% YoY)	4,0	2,4	7,8	6,7	1,4	6,8	0,7	5,9	3,2	6,0	-3,4	7,4	**2,8**	
PPI inflation (% YoY)	-2,8	-2,3	-1,8	-0,8	-1,2	-1,5	-1,9	-1,2	-0,4	-0,8	-0,5	-0,1	**0,1**	
Retail sales (% YoY)	0,1	0,8	3,3	4,9	0,9	3,9	0,8	3,2	2,2	4,6	2,0	5,6	**6,7**	
Corporate sector wages (% YoY)	4,1	3,3	4,0	3,1	4,0	3,9	3,3	4,6	4,1	5,3	4,8	4,7	**4,4**	
Employment (% YoY)	1,0	1,1	1,2	1,4	2,3	2,5	2,7	2,8	2,8	3,1	3,2	3,1	**3,1**	
Unemployment rate* (%)	9,7	9,6	9,6	9,8	10,3	10,3	10,0	9,5	9,1	8,8	8,6	8,5	**8,4**	
Current account (M EUR)	-608	-305	405	-573	771	-529	54	563	624	-203	-802	**-615**		
Exports (% YoY EUR)	3,0	4,5	12,6	11,5	-0,9	5,9	0,8	4,8	-0,7	6,4	-4,8	**7,4**		
Imports (% YoY EUR)	5,2	0,2	6,7	3,8	0,6	7,7	1,1	0,3	0,4	2,4	-7,3	**6,9**		

*end of period

Forecasts of the quarterly macroeconomic indicators

Main macroeconomic indicators in Poland

Indicator		2016				2017				2015	2016	2017
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Gross Domestic Product (% YoY)		3,0	3,1	2,8	2,9	3,3	3,5	3,3	3,9	3,6	2,9	3,5
Private consumption (% YoY)		3,2	3,3	4,0	4,0	4,0	3,7	3,0	3,1	3,1	3,6	3,4
Gross fixed capital formation (% YoY)		-1,8	-4,9	-3,4	-1,5	3,0	4,4	5,1	5,2	5,8	-2,7	4,7
Export - constant prices (% YoY)		6,9	10,9	6,6	6,6	7,2	7,0	6,1	7,0	6,8	7,7	6,8
Import - constant prices (% YoY)		9,3	9,9	6,0	6,1	6,9	6,3	6,6	7,3	6,3	7,8	6,8
GDP growth contributions	Private consumption (pp)	2,0	1,9	2,4	1,9	2,6	2,2	1,8	1,5	1,8	2,1	2,0
	Investments (pp)	-0,2	-0,9	-0,7	-0,4	0,4	0,7	0,9	1,4	1,1	-0,5	0,9
	Net exports (pp)	-0,9	0,8	0,4	0,4	0,4	0,6	-0,1	0,2	0,3	0,2	0,3
Current account***		-0,8	-0,6	-0,4	-0,5	-0,4	-0,5	-0,4	-0,6	-0,6	-0,5	-0,6
Unemployment rate (%)**		10,0	8,8	8,4	8,4	8,9	8,0	7,9	8,4	9,8	8,4	8,4
Non-agricultural employment (% YoY)		2,2	2,3	2,6	1,9	1,4	1,0	0,5	0,0	1,4	2,2	0,7
Wages in national economy (% YoY)		3,1	4,3	5,0	5,3	5,3	5,1	5,0	4,9	3,3	4,4	5,1
CPI Inflation (% YoY)*		-0,9	-0,9	-0,7	0,3	1,8	2,0	1,7	1,6	-0,9	-0,6	1,8
Wibor 3M (%)**		1,67	1,71	1,71	1,71	1,71	1,96	2,13	2,21	1,72	1,71	2,21
NBP reference rate (%)**		1,50	1,50	1,50	1,50	1,50	1,50	1,75	2,00	1,50	1,50	2,00
EURPLN**		4,24	4,38	4,29	4,30	4,30	4,20	4,20	4,15	4,26	4,30	4,15
USDPLN**		3,73	3,94	3,82	3,91	3,91	3,75	3,72	3,61	3,92	3,91	3,61

* quarterly average
** end of period
***cumulative for the last 4 quarters

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST*	
					CA	CONSENSUS**
		Monday 10/03/2016				
9:00	**Poland**	**Manufacturing PMI (pts)**	**Sep**	**51,5**	**51,9**	**52,0**
9:55	Germany	Final Manufacturing PMI (pts)	Sep	54,3	54,3	54,3
10:00	Eurozone	Final Manufacturing PMI (pts)	Sep	52,6	52,6	52,6
15:45	USA	Flash Manufacturing PMI (pts)	Sep	51,4		
16:00	USA	ISM Manufacturing PMI (pts)	Sep	49,4	50,4	50,3
		Tuesday 10/04/2016				
11:00	Eurozone	PPI (% YoY)	Aug	-2,8		-2,1
		Wednesday 10/05/2016				
10:00	Eurozone	Services PMI (pts)	Sep	52,1	52,1	52,1
10:00	Eurozone	Final Composite PMI (pts)	Sep	52,6	52,6	52,6
11:00	Eurozone	Retail sales (% MoM)	Aug	1,1		-0,4
14:15	USA	ADP employment report (k)	Sep	177		170
16:00	USA	Factory orders (% MoM)	Aug	1,9	0,1	-0,2
16:00	USA	ISM Non-Manufacturing Index (pts)	Sep	51,4	52,8	53,0
	Poland	**NBP rate decision (%)**	**Oct**	**1,50**	**1,50**	**1,50**
		Thursday 10/06/2016				
8:00	Germany	New industrial orders (% MoM)	Aug	0,2		0,2
		Friday 10/07/2016				
8:00	Germany	Industrial production (% MoM)	Aug	-1,5		0,8
14:30	USA	Unemployment rate (%)	Sep	4,9	4,8	4,9
14:30	USA	Non-farm payrolls (k MoM)	Sep	151	175	170
16:00	USA	Wholesale inventories (% MoM)	Aug	-0,1		-0,1
16:00	USA	Wholesale sales (% MoM)	Aug	-0,4		0,2

*The forecasts of macroeconomic indicators for Poland were prepared by Credit Agricole Bank Polska S.A. The forecasts of foreign indicators were prepared by Crédit Agricole Corporate and Investment Bank

** Reuters

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