

## This week

- **Eurozone Composite PMI came in a lot stronger than expected for October, at 53.7 after 52.6 in September (consensus at 52.8), a new 2016 high.** The positive surprise is broad based, in term of sectors (both the Manufacturing and Services PMIs have improved). The Composite PMI in Germany recovered from its September fall (from 52.8 pts to 55.1 pts). This suggests that the Eurozone recovery is still going on in H2 2016. We forecast the GDP growth rate will amount to 0.3% QoQ in Q4 2016 – the same as in Q3.
- **Significant hard data on US economy and business survey results will be released this week.** Flash September data on durable goods orders will be released on Thursday. In our view, they decreased by 0.4% MoM vs. a 0.1% increase in August. Data on new home sales will also be released this week. We believe they rose by 600k in September vs. 609k in August. Flash estimate of the US GDP in Q3 will be released on Friday. We expect that the annualized economic growth rate rose to 2.5% vs. 1.4% in Q2, due to higher contributions of inventories and net exports. Data concerning consumer sentiment will also be released in the US. We expect that the upward-revised final University of Michigan Index (89.0 pts vs. 89.8 pts in September) like the Conference Board Consumer Confidence Index (103.0 pts vs. 104.1 in September) will reflect a deterioration of consumer sentiment in October. We believe that the reading of durable goods orders may contribute to a slight strengthening of PLN and a rise in prices of Polish bonds. Other data from the US should not be market moving.

## Last week

- **Industrial production in Poland rose by 3.2% YoY in August vs. a 7.5% increase in August.** The main reason for the decline in production growth in September was a negative statistical effect related to an unfavourable difference in the number of working days (see MACROPulse of 19/10/2016). The construction and assembly production dropped by 15.3% YoY in September vs. a 18.8% decline in August. Seasonally-adjusted construction and assembly production rose by 3.3% compared to August. In the whole Q3, the construction and assembly production dropped by 18.1% vs. a 13.8% decline in Q2. The last week's data support our view that the construction and assembly production dynamics reached the local minimum in August (see MACROmap of 10/10/2016). The data on industrial production and construction and assembly production for Q3 support our scenario in which economic growth will slow down to 2.8% YoY in Q3 from 3.1% in Q2 (see below).
- **Retail sales in Poland rose in current prices by 4.8% YoY in September vs. a 5.6% increase in August.** The sales in constant prices rose by 6.3% YoY in September vs. a 7.8% increase in August. The slowdown in real retail sales growth was mainly due to lower dynamics in the categories "motor vehicles, motorcycles, parts" and "others". We believe that these declines are rather of a one-off nature and do not signal a permanent trend towards deterioration in retail sales (see MACROPulse of 19/10/2016). The September data on retail sales, like those from the last few months, reflect the consumer demand realized with the use of the proceeds from the Family 500+ scheme only to a limited extent. We believe that these funds are to a great extent used for services' consumption or purchases in shops employing less than 10 persons. In the whole Q3, real retail sales rose by 6.2% YoY vs. a 5.4% increase in Q2, which supports our forecast, in which real private consumption dynamics will rise to 4.0% YoY in Q3 vs. 3.3% in Q2.
- **Numerous data from the US economy were released last week.** Industrial production increased by 0.1% MoM in September vs. a 0.5% decline. The increase in production was due to higher growth in manufacturing and mining. Lower production growth rate in utilities had an opposite impact. Numerous data on building permits (1225 in September vs. 1152k in August),

house starts (1047k vs. 1150k), and existing home sales (5.47M vs. 5.30M) were also released last week and pointed to the continuation of the recovery in the US real estate market. Business survey results were also released last week. The NY Empire State Index dropped to -6.8 pts vs. -0.2 pts in September, while Philadelphia FED Index dropped to 9.7 pts in October vs. 12.8 pts in September, suggesting a deterioration of sentiment in manufacturing. The last week's data on the US economy do not alter our scenario, in which we assume one increase of the target range for the Federal Reserve funds in 2016 by 25 bp in December to [0.50%; 0.75%].

- **The ECB meeting was held on Thursday.** As we expected, at the meeting the monetary policy parameters were maintained. According to the remarks of Governor M. Draghi, no changes in the extended assets purchases program or its possible extension were discussed during the meeting but the issue of negative interest rates was briefly raised. Consequently, the press conference failed to provide any substantial new information on the prospective evolution of the monetary policy in the Eurozone, especially in the context of the future of the extended assets purchases program. In accordance with earlier information, the ECB is now working on changes in its monetary policy, making the further evolution of the ECB monetary policy conditional on the December macroeconomic projection. We believe that its results will make the ECB decide to extend the asset purchase program until September 2017 (the program horizon now reaches March 2017).
- **Numerous data from China were released last week.** The economic growth rate has not changed in Q3 compared to Q2 and amounted to 1.8% QoQ (6.7% YoY both in Q3 and in Q2). The September data on industrial production (6.1% in September vs. 6.3% in August), retail sales (10.7% vs. 10.6%), and urban investments (8.2% vs. 8.1%) pointed to the continuation of a similar pace of economic activity as in the month before. The last week's data support our forecast, in which GDP in China will increase by 6.6% in 2016 vs. a 6.5% increase in 2015. Thus, its growth rate will be in line with the GDP growth target set by the Chinese government for 2016 at a level "6.5-7.0%"
- **Nominal wage dynamics in the sector of enterprises in Poland dropped to 3.9% YoY in September vs. 4.7% in August.** The decline in nominal wage growth was partly due to the high base effects from the year before (see MACROPulse of 18/10/2016). The average nominal pace of wage growth in Q3 amounted to 4.5% YoY vs. 4.9% in Q2. Thus, despite the business survey results pointing to growing difficulties in finding skilled labour, the data do not signal a stronger increase in wage pressure. The annual employment dynamics rose to 3.2% YoY in September vs. 3.1% in August. We maintain our view that employment growth is close to the local maximum. We estimate that the real wage fund growth (employment times average wages) in enterprises dropped to 8.6% in Q3 vs. 8.7% in Q2.

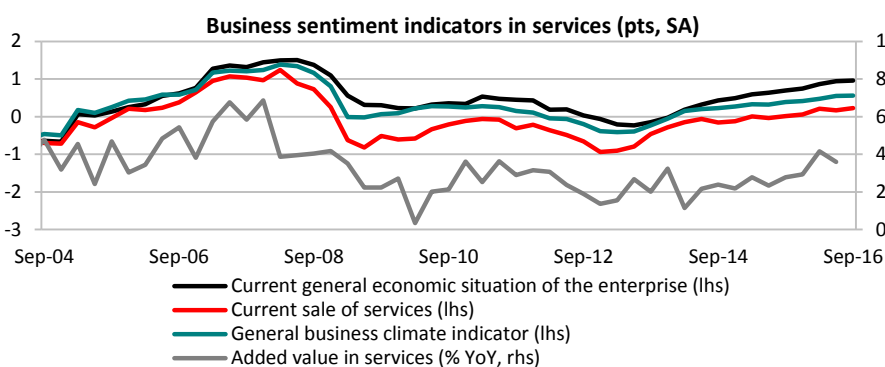
## **GDP dynamics below 3.0% for the first time since 2013**

**The hard data released by GUS last week allow for a more precise assessment of the Polish economic growth rate in Q3 2016. Below we present our estimate of GDP dynamics in Q3 based on current economic activity in manufacturing, construction, and services.**

Industrial production in Poland rose by 2.3% YoY in Q3 vs. 5.0% in Q2. Sentiment in manufacturing was relatively stable in Q3, as the average value of PMI index amounted to 51.3 pts in Q3 vs. 51.6 pts in Q2. On the other hand, the main factor which contributed to a decline in production dynamics in Q3 was the negative statistical effect related to an unfavourable difference in the number of working days (in Q2 2016 the number of working days was higher by 1 than in 2015, while in Q3 2016 it was the same as the year before). Considering the production slowdown in Q2, we estimate, based on our quarterly

econometric model that the dynamics of added value in manufacturing dropped to 2.5% YoY vs. 5.1% in Q2. This is conducive to a decline in the annual GDP growth by 0.7 pp in Q3.

The contraction of activity in construction has been observed for several quarters – construction and assembly production growth has stayed within a downward trend since mid-2015. This year the slowdown intensified. The downturn is the deepest in the category "civil engineering facilities", whose dynamics this year is, on the average, below the remaining two categories of construction and assembly production ("specialized construction activities" and "construction of buildings", see MACROmap of 10/10/2016). This is consistent with the slowdown in public investments, related to limited absorption of EU funds at the beginning of the new financial perspective 2014-2020. Q3 saw further deepening of the decline in construction and assembly activity in annual terms (-18.1 YoY vs. -13.8% in Q2). Therefore we forecast that the dynamics of added value in construction dropped to -10.0% YoY in Q3 vs. -9.6% in Q2, which is conducive to a decline in the annual GDP growth by 0.2 pp in Q3.



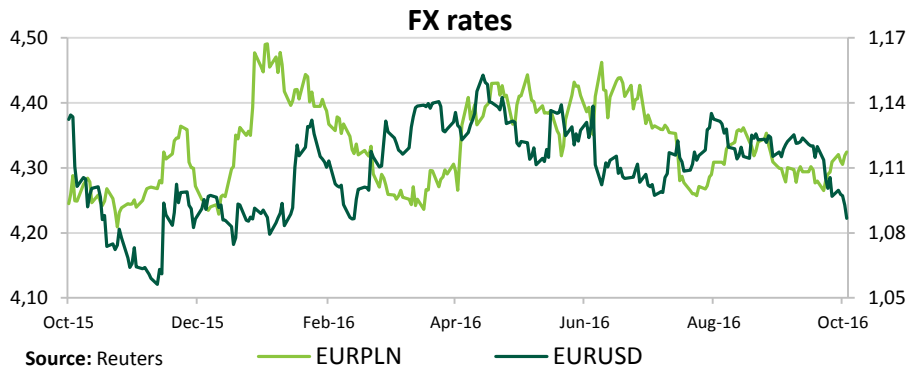
Source: GUS, Credit Agricole

To estimate the economic growth rate it is necessary to assess the situation in services, which is the most important component of added value (63.3% in 2015). For this purpose, we have used the results of GUS business surveys for this sector. Seasonally adjusted indices concerning "current general economic situation of the enterprise", "current sale of

services", and "general business climate indicator", weighted by the shares of respective categories in the total added value of services, suggest continued improvement in Q3. In our view, higher sales of services were related to i.a. good situation in the labour market and purchases with the use of the proceeds of the 500+ scheme. Based on business survey results, we estimate that the dynamics of added value in services rose to 4.4% YoY in Q3 vs. 3.6% in Q2, which is conducive to increase in annual GDP growth by 0.5 pp in Q3.

Considering the factors outlined above, we estimate that GDP growth dropped to 2.8% YoY in Q3 vs. 3.1% in Q2. Thus, the economic growth rate would stand below the 3.0% YoY threshold for the first time since Q4 2013. A downside risk to our forecast is the upward revised GDP growth in 2015, released last week by GUS (3.9% YoY vs. 3.6% before the revision). With other conditions unchanged, the increase in the economic growth rate last year is conducive to its decrease this year (so-called higher base effect). However, no information about the revised GDP growth profile in respective quarters makes it difficult to precisely forecast GDP growth in Q3 2016.

**Data on US orders may strengthen PLN**



Source: Reuters

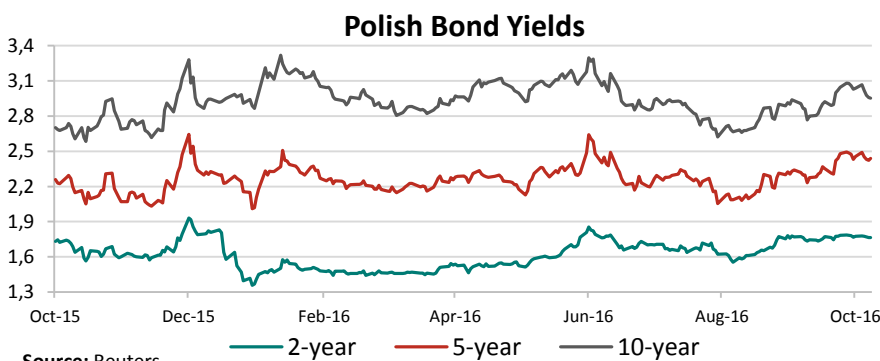
EURPLN EURUSD

simultaneous depreciation of the Hungarian forint and the Romanian leu. On Tuesday and Wednesday, PLN was within an upward trend, which resulted from the decreasing global risk aversion, reflected by a decrease in VIX index. Increase volatility of PLN was observed on Thursday due to the ECB meeting. On Friday, PLN was depreciating together with a weakening appetite for risky assets, reflected by increase in VIX.

**Last week EURPLN rate rose to 4.3244 (PLN weakening by 0.4%).** Monday saw a depreciation of PLN. It was not justified by the macroeconomic data released that day; therefore, we believe that the depreciation was most likely related to factors of a transactional like nature (i.a. closing of some currency positions in the region). Our view is supported by

Crucial for PLN this week will be the Wednesday’s data on durable goods orders in the US, which – if our forecast materializes – will be conducive to PLN strengthening. The impact of other data from the US economy (first GDP estimate in Q3, new home sales, Conference Board Index, and final University of Michigan Index) on PLN rate will be limited, we believe. Results of business surveys for Germany (Ifo Index) will also be released this week. We forecast that they will run at a level close to the market consensus, therefore their publication is likely to be neutral for PLN.

**The Polish debt market focuses on US data**



Source: Reuters

2-year 5-year 10-year

Polish debt due to its attractive prices. On Thursday, increased volatility in yields on Polish bonds was observed due to the ECB meeting. On Friday there was a debt auction, at which the Finance Ministry sold a total of PLN 9.94bn of 5- and 6-year bonds with demand amounting to PLN 12.8bn. The high supply of bonds was conducive to a decline in prices of the Polish debt, visible especially at the centre and at the long end of the yield curve as well as higher spread between Polish and German bonds.

**Last week the yield of Polish 2-year benchmark bonds dropped to a level of 1.765 (down by 1 bp), of 5-year bonds to a level of 2.419 (down by 4 bp), and of 10-year bonds to a level of 2.954 (down by 8 bp).** Monday through Friday, a weak decline continued in yields on Polish bonds visible across the curve. In our view, it was mainly related to higher demand for the

This week the Polish debt market will focus on the release of data on durable goods orders in the US scheduled for Thursday. If our forecasts materialize, the data may be conducive to a rise in prices of the Polish debt. Other data from the US economy (first GDP estimate in Q3, new home sales, Conference Board Index, and final University of Michigan Index) will not be market moving, we believe. Results of

business surveys for major Germany economies (Ifo Index) will also be released this week. Their impact on yields on Polish bonds will be limited, we believe.

## 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	<b>4,30</b>
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	<b>3,94</b>
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	<b>3,97</b>
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	-0,5	
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	-0,4	
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	3,2	
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	0,2	
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	4,8	
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	3,9	
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	3,2	
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	<b>8,4</b>	
Current account (M EUR)	-550	-165	28	-846	679	-652	-217	492	389	113	-635	-1047		
Exports (% YoY EUR)	4,3	5,2	10,7	10,8	-1,3	5,4	0,0	4,1	0,0	5,7	-5,1	8,0		
Imports (% YoY EUR)	6,2	-1,0	6,3	4,4	0,3	7,4	0,9	0,3	1,5	0,4	-6,8	10,4		

\*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	3,9	2,9	3,5	
Private consumption (% YoY)	3,2	3,3	4,0	4,0	4,0	3,7	3,0	3,1	3,2	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	6,1	-2,7	4,7	
Export - constant prices (% YoY)	6,9	10,9	6,6	6,6	7,2	7,0	6,1	7,0	7,7	7,7	6,8	
Import - constant prices (% YoY)	9,3	9,9	6,0	6,1	6,9	6,3	6,6	7,3	6,6	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	1,2	-0,5	0,9
	Net exports (pp)	-0,9	0,8	0,4	0,4	0,4	0,6	-0,1	0,2	0,8	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	-0,8	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**
<b>Monday 10/24/2016</b>						
9:30	Germany	Flash Manufacturing PMI (pts)	Oct	54,3	54,6	54,3
10:00	Eurozone	Flash Services PMI (pts)	Oct	52,2	52,4	52,4
10:00	Eurozone	Flash Manufacturing PMI (pts)	Oct	52,6	52,4	52,6
10:00	Eurozone	Flash Composite PMI (pts)	Oct	52,6	52,9	52,8
15:45	USA	Flash Manufacturing PMI (pts)	Oct	51,5		51,6
<b>Tuesday 10/25/2016</b>						
10:00	Germany	Ifo business climate (pts)	Oct	109,5	109,6	109,5
<b>10:00</b>	<b>Poland</b>	<b>Registered unemployment rate (%)</b>	<b>Sep</b>	<b>8,5</b>	<b>8,4</b>	<b>8,4</b>
15:00	USA	Case-Shiller Index (% MoM)	Aug	0,0		0,2
16:00	USA	Richmond Fed Index	Oct	-8,0		
16:00	USA	Consumer Confidence Index	Oct	104,1	103,0	102,0
<b>Wednesday 10/26/2016</b>						
16:00	USA	New home sales (k)	Sep	609	600	600
<b>Thursday 10/27/2016</b>						
10:00	Eurozone	M3 money supply (% MoM)	Sep	5,1		5,1
14:30	USA	Durable goods orders (% MoM)	Sep	0,1	-0,4	0,1
14:30	USA	Initial jobless claims (k)	w/e	246		258
<b>Friday 10/28/2016</b>						
11:00	Eurozone	Business Climate Indicator (pts)	Oct	0,40		0,45
14:00	Germany	Preliminary HICP (% YoY)	Oct	0,5	0,70	0,60
14:30	USA	Preliminary estimate of GDP (% YoY)	Q3	1,4	2,5	2,5
16:00	USA	Final U. of Michigan Sentiment Index (pts)	Oct	87,9	89,0	88,2

\*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