

## This week

- **The most important event this week will be the release of US presidential election results scheduled for Wednesday.** We expect H. Clinton to win, which will be conducive to a decrease in global risk aversion, we believe. In our view, the materialization of this scenario will be slightly positive for PLN and the prices of Polish bonds (see below).
- **The meeting of the Monetary Policy Council will be held on Wednesday.** We expect that the MPC will decide to keep the interest rates at an unchanged level. We believe that the NBP Governor, A. Głapiński, will maintain the view he presented at the conference after the MPC October meeting and repeated also last week. In his view the stabilization of the NBP interest rates in 2017 and starting interest rates hike cycle no sooner than in 2018 is now the most likely scenario. The FRA market is not pricing in any changes in the interest rates level before the end of 2017. The results of the NBP November inflation projection will be presented at the same time. We expect that the economic growth rate forecasted in this projection will be revised downwards compared to the July projection, whereas the inflation path will not change significantly. The text of the press release after the Council meeting, results of the NBP inflation projection, and NBP Governor's remarks during the conference will not be market moving, we believe.
- **Data on the Chinese balance of trade will be released on Tuesday.** We expect that its surplus decreased to USD 54.3bn in October vs. USD 44.99bn in September. We forecast that export growth recorded an increase to -6.6% YoY in October vs. -10.0% in September, while import growth dropped to -4.1% from -1.9%. In our view, Chinese readings will be neutral for the markets.
- **The initial University of Michigan index will be released on Friday.** We forecast that it dropped to 86.5 pts in November from 87.2 pts in October. In our view, the deterioration of consumer sentiment will be related to the uncertainty about the results of the US presidential election. The release of the results of consumer sentiment survey should not meet with a significant reaction of the markets.

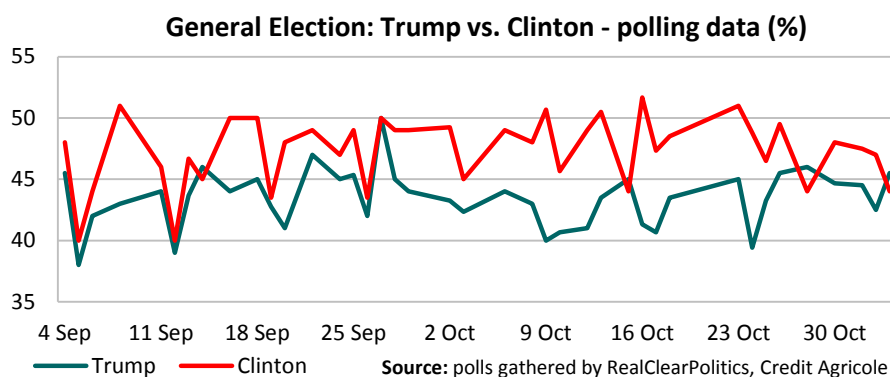
## Last week

- **FOMC meeting was held last week.** As we expected, the target range for the Federal Reserve funds remained unchanged at [0.25%; 0.50%]. The text of the press release after the meeting indicates that FOMC members express a more favourable view of the US macroeconomic outlook, due to continued improvement in the labour market and growing inflation. This supports our scenario, in which FED will increase the target range for the Federal Reserve funds by 25 bp to [0.50%; 0.75%]. The main risk to our forecast is the possible victory of D. Trump in the US presidential election (see below).
- **Non-farm payrolls in the US rose by 161 in October vs. a 191k increase in September (revised upwards from 156k), running slightly below the market expectations (175k).** The highest increase in employment was recorded in education and health service (+52.0k), business services (+43.0k), and the public sector (+19.0k). Employment decreased in manufacturing (-9.0k), mining and logging (-2.0k), and retail trade (-1.1k). Unemployment rate dropped to 4.9% in October vs. 5.0% in September, running slightly above the natural unemployment rate indicated by FOMC (4.8% - see MACROmap of 26/9/2015). Its decline was mainly due to the fact that some unemployed people left the workforce. This was reflected by a decrease in participation rate to 62.8% in October vs. 62.9% in September. The annual dynamics of average hourly earnings rose to 2.8% vs. 2.7% in September, hitting the highest level since June 2009. This suggests a growing wage pressure in the US economy as the labour market is approaching equilibrium. The results of business surveys in the US were also released last week. The ISM

index for manufacturing rose to 51.9 pts in October vs. 51.5 pts in September. The index increase was due to higher values of three of its five sub-indices (output, employment and supplier delivery times). The decrease in sub-indices concerning new orders and inventories had an opposite impact. Especially noteworthy in the data structure is the first since June 2016 increase in the employment sub-index above the 50-point threshold dividing expansion from contraction of activity. The non-manufacturing ISM was also released last week and dropped to 54.8 pts in October vs. 57.1 pts in September. The index decrease resulted from lower values of all its four sub-indices (business activity, new orders, employment, and supplier delivery times). In our view, the index decline occurred to a significant extent due to the high base effect from the month before (see MACROmap of 10/10/2016). The last week's readings from the US economy do not alter our scenario, in which the annualized economic growth rate will amount to 2.3% in Q4 vs. 2.9% in Q3. Thus, the US GDP growth rate in H2 2016 will run above the potential level, supporting the arguments in favour of the US monetary policy tightening in December.

- ✓ **Flash estimate of inflation in Poland was released last week.** It rose to -0.2% YoY in October vs. -0.5% in September, which was above our forecast equal to the market consensus (-0.3%). We believe that the increase in inflation was due to higher dynamics of fuel prices, while core inflation and food prices increases were stable, compared to September. Final data on inflation, including its structure, will be released on 14 November.
- ✓ **Poland's manufacturing PMI dropped to 50.2 pts in October vs. 52.2 pts in September.** Conducive to the index decline were lower contributions of four of its five sub-indices (concerning new orders, output, delivery times, and employment). The increase in sub-index concerning stocks of purchases had an opposite impact. Especially noteworthy in the index structure is the decline in the sub-index concerning total new orders (including export orders) below the 50-point threshold, diving expansion from contraction of activity. This suggests a decline in both domestic and foreign demand (see MACROpulse of 2/11/2016). In our view, the strong decline in PMI index recorded in October is temporary. Nevertheless, the data pose a slight downside risk to our forecast of GDP growth in Q4 (2.9% YoY vs. 2.8% in Q3).
- ✓ **According to a flash estimate, the quarterly GDP dynamics in the Eurozone has not changed in Q3 compared to Q2 and amounted to 0.3%.** The annual economic growth rate has not changed either and stood at 1.6% in Q3 as in Q2. The GDP data are a flash estimate and do not include its structure. Subsequent GDP estimate in the Eurozone in Q3, covering the growth rate in all the countries of the single currency area, will be released on 15 November and the data on GDP structure will be released on 6 December.
- ✓ **According to a flash estimate, inflation in the Eurozone rose to 0.5% YoY in October vs. 0.4% in September.** Conducive to increase in inflation (by 0.2 pp) was higher growth of energy prices. A decline in food prices had an opposite impact and lowered inflation by 0.1 pp. The data support our forecast, in which inflation in the Eurozone will increase to 0.7% YoY in Q4 vs. 0.3% in Q3.
- ✓ **China Caixin manufacturing PMI rose to 51.2 pts in October vs. 50.1 pts, hitting the highest level since July 2014.** The index increase resulted from higher contributions of three of its five sub-indices (output, new orders, and employment). Lower contributions of sub-indices concerning stocks of goods purchased and supplier delivery times had an opposite impact. Especially noteworthy in the data structure is the sharp increase in the sub-index concerning total new orders, while the sub-index for export new orders dropped below the 50-point threshold. This shows that the main source of the increase in output was stronger domestic demand. The CFLP PMI also pointed to improvement in Chinese manufacturing and rose to 51.2 pts in October vs. 50.4. The October results of business surveys for Chinese manufacturing support our forecast, in which the GDP growth rate in China will increase by 6.7% in 2016 vs. a 6.5% increase in 2015. Thus, its growth rate will be consistent with the economic growth target set by the Chinese government for 2016 at a level of "6.5-7.0%".

## Will D. Trump's victory shake the financial markets ?



**Presidential election in the US will take place on Tuesday.** Last weeks' polls do not give a clear answer as to the most likely result of the vote. The support for the candidates of the two main political parties – the Democrats (H. Clinton) and the Republicans (D. Trump) is at a similar level and amounts to ca. 45%. The uncertainty about the election results is magnified by the

fact that the voters do not directly elect a specific candidate in a popular vote but decide which of the candidates will receive the electoral votes assigned to the respective states. The candidate who gains the biggest support in popular vote will get all the electoral votes from a given state. Each of the states casts as many electoral votes as the total number of representatives in the Congress. This means that gaining a majority in election polls does not unequivocally translate into the candidate's bigger chances of winning the election. Below, based on the most important economic proposals of each candidate, we present a scenario analysis of the most likely short-term reaction of the financial markets to the results of presidential election.

The most important election promises of H. Clinton include actions aimed at increasing the disposable income of the working class and introducing tax reliefs for this social group. To this end, she plans i.a. infrastructural investments, easier access to education, and wider access to broadband Internet. To finance these expenditures, H. Clinton proposes changes in the tax law, consisting in increased burden for the richest citizens (i.a. higher rates of income tax, higher real estate tax) and closing the loopholes in the tax system in the area of corporate tax. Consequently, the proposed changes should have a limited negative impact on the amount of public finance deficit. According to H. Clinton, the increase in disposable income of citizens with low income (having a relatively higher propensity to consume than the wealthier part of the community) should contribute to accelerating economic growth in short and medium term. At the same time, infrastructural investments and actions enabling to increase human capital will boost productivity and will be conducive to higher GDP growth rate in long term.

H. Clinton's policy will to a significant extent be the continuation of the current political programme of the Democrats. Her victory is largely priced in by the investors. Thus, the reaction of the financial markets to the victory of the Democratic Party candidate is most likely to be limited. The main reaction channel will be lower global risk aversion due to the elimination of the uncertainty about election results. Increased risk appetite will be conducive to the appreciation of the emerging currencies (i.a. lower EUR/PLN rate) and higher debt prices in these countries. At the same time, H. Clinton's victory will most likely contribute to a slight intensification of market expectations of the December interest rates hike in the US and their gradual increase in subsequent quarters. Consequently, USD will slightly strengthen vs. EUR. This will also contribute towards limiting the rise in prices of assets in the emerging markets related to the above-mentioned decrease in risk aversion. We expect the net impact of H. Clinton's victory on PLN and prices of Polish bonds to be positive.

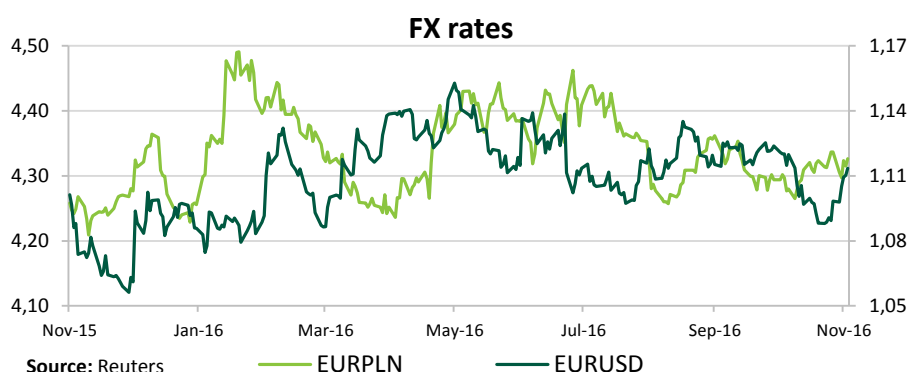
The most likely shape of D. Trump's economic policy is difficult to assess, as the election proposals voiced by him so far are not fully coherent. On the one hand, he proposes to modify the tax law by reducing the number of thresholds and lowering the maximum rates of income tax, reducing corporate

tax burden and resigning from real estate tax. These actions will be the most advantageous for richer part of the society and will contribute to a visible decrease in the tax revenues of the state. On the other hand, the Republican candidate plans to increase public expenditures (i.a. for national defense) and leave the pension system – which generates a considerable burden on the budget – unchanged, while promising to obtain surplus in public finances. D. Trump's views on foreign policy are controversial. He declares readiness to leave the North American Free Trade Agreement (NAFTA), unless more favourable conditions of cooperation are ensured to the United States. He has also spoken negatively about the Trans-Pacific Partnership (TPP). In addition, the Republican Party candidate presented a plan of introducing 45% customs tariffs on products imported from China. His views on the US trade policy are characterized by protectionism. In his other remarks, he has also questioned the so-far functioning of the North Atlantic Treaty Organization (NATO) making the fulfillment of the mutual defence obligation by the USA conditional on other member states' incurring more of the costs of this protection. The future economic policy of D. Trump is characterized by uncertainty due to largely departing from the economic program of the Republican Party and adjusting election promises to the populist nature of the election campaign.

The scenario of possible victory of D. Trump is priced in by the investors to a small extent and his victory, would be conducive to an increase in global risk aversion and increased volatility in the financial markets. The protectionist policy of the Republican Party candidate will pose a downside risk to the economic growth rate in long term, in the US and globally. If this is the case, market expectations of interest rates hikes by FED are likely to weaken. This will be conducive to lower yields on US bonds across the curve. Such reaction will be partly supported by inflow of foreign capital to the USA, which may be seen by the investors as a so-called "safe haven". At the same time, we believe that due to the expected slower pace of monetary policy tightening by FED in subsequent quarters, we will see a weakening of USD vs. EUR. An additional factor conducive to USD weakening may be D. Trump's earlier remarks suggesting a possibility of financing the costs of servicing public debt by issuing money. Increase in global risk aversion will also be conducive to PLN depreciation vs. EUR (higher EURPLN rate) and lower yields on Polish bonds. In our view, this effect will dominate over the positive impact of weaker market expectations of further normalization of interest rates in the US on the prices of Polish assets. Due to the expected by us weakening of USD vs. EUR, the USDPLN rate will remain relatively stable. We believe that after the initial period of increased uncertainty, in the horizon of several days/weeks there will be a correction on the markets, as so-far remarks of leaders of the Republic Party show that the likelihood of obtaining support in the Congress for D. Trumps economic program in its original form is low. We expect that after D. Trump's victory, some of his economic proposals will be clearly mitigated and some will be abandoned which will be conducive to a decrease in global risk aversion.

In our view, the most likely scenario is the victory of H. Clinton in the presidential election. The market reaction, outline above, consisting of a decrease in global risk aversion if this scenario materializes, supports our forecast assuming strengthening of PLN within the range of 4.30 vs. EUR as at the end of 2016.

**PLN awaiting the result of US presidential election**

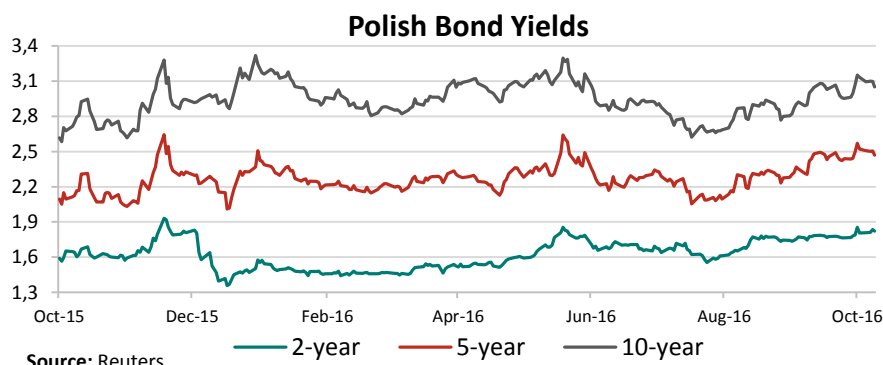


**Last week EURPLN rate fell down to 4.3265 (strengthening by 0.2%).** On Monday and Tuesday, PLN was within an appreciating trend, making up for the losses of the previous week. Its relatively high volatility in those days may have partly resulted from weaker presence of foreign investors due to long weekend. Wednesday saw a depreciation of PLN, largely due

to a clearly-lower-than-expected Poland's manufacturing PMI. On Thursday, PLN was stable. On Friday, PLN was depreciating in reaction to data from the US labour market, suggesting increased likelihood of the US monetary policy normalization in December 2016.

The results of the US presidential election will be crucial for PLN this week. In the first part of the week they will most likely be conducive to higher uncertainty in the market, and consequently to PLN weakening. We expect that the materialization of our base scenario assuming the victory of H. Clinton will be slightly positive for PLN. The impact of the MPC meeting and of other foreign data (preliminary University of Michigan Index, balance of trade in China) on PLN will be limited, we believe.

**Polish debt market focuses on US presidential election**



**Last week the yield of Polish 2-year benchmark bonds rose to a level of 1.822 (up by 2 bp), of 5-year bonds dropped to a level of 2.469 (down by 5 bp), and of 10-year bonds dropped to a level of 3.051 (down by 8 bp).** On Monday and Tuesday, due to long weekend, the trading on the Polish debt market was either small or completely suspended. On Wednesday, the prices of Polish

bonds were stable. On Thursday, an increase in yields was observed on Polish bonds, which followed core markets (in the US and Germany). Further into the day a debt conversion auction took place, at which the Ministry of Finance redeemed PLN 3.7bn of bonds maturing in 2017, while selling PLN 3.9bn of 2-, 7-, and 11-year bonds with demand amounting to PLN 6.4bn. The high demand at the auction contributed towards trend reversal and decrease in yields on Polish bonds, visible especially at the center and at the long end of the curve. The impact of the Friday's data from the US labour market on the prices of the Polish debt was limited and low liquidity prevailed on the market.

This week the Polish debt market will focus on the presidential election in the US. Consequently, due to increased uncertainty in the markets, the prices of Polish bonds may be expected to be highly volatile in the first part of the week. If our base scenario assuming the victory of H. Clinton materializes, the election results may be slightly positive for the prices of the Polish debt. The Wednesday's MPC meeting and the Friday's reading of the preliminary University of Michigan Index will be neutral for yields on bonds, we believe.

## Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland														
Indicator	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	Nov-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	4,27	4,26	4,42	4,35	4,24	4,37	4,38	4,38	4,35	4,36	4,29	4,31	4,33
USDPLN*	3,86	4,04	3,92	4,08	4,00	3,73	3,81	3,94	3,94	3,90	3,91	3,82	3,92	3,94
CHFPLN*	3,91	3,93	3,91	3,98	4,00	3,87	3,97	3,96	4,04	4,02	3,97	3,93	3,96	4,01
CPI inflation (% YoY)	-0,7	-0,6	-0,5	-0,9	-0,8	-0,9	-1,1	-0,9	-0,8	-0,9	-0,8	-0,5	-0,3	-0,3
Core inflation (% YoY)	0,3	0,2	0,2	-0,1	-0,1	-0,2	-0,4	-0,4	-0,2	-0,4	-0,4	-0,4	-0,4	-0,4
Industrial production (% YoY)	2,4	7,8	6,7	1,4	6,8	0,7	5,9	3,2	6,0	-3,4	7,5	3,2	0,9	0,9
PPI inflation (% YoY)	-2,3	-1,8	-0,8	-1,2	-1,5	-1,9	-1,2	-0,4	-0,8	-0,5	-0,1	0,2	0,3	0,3
Retail sales (% YoY)	0,8	3,3	4,9	0,9	3,9	0,8	3,2	2,2	4,6	2,0	5,6	4,8	5,2	5,2
Corporate sector wages (% YoY)	3,3	4,0	3,1	4,0	3,9	3,3	4,6	4,1	5,3	4,8	4,7	3,9	4,3	4,3
Employment (% YoY)	1,1	1,2	1,4	2,3	2,5	2,7	2,8	2,8	3,1	3,2	3,1	3,2	3,0	3,0
Unemployment rate* (%)	9,6	9,6	9,7	10,2	10,2	9,9	9,4	9,1	8,7	8,5	8,4	8,3	8,2	8,2
Current account (M EUR)	-165	28	-846	679	-652	-217	492	389	113	-635	-1047	-632	-632	-632
Exports (% YoY EUR)	5,2	10,7	10,8	-1,3	5,4	0,0	4,1	0,0	5,7	-5,1	8,0	3,4	3,4	3,4
Imports (% YoY EUR)	-1,0	6,3	4,4	0,3	7,4	0,9	0,3	1,5	0,4	-6,8	10,4	5,0	5,0	5,0

\*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	2,0	
	Investments (pp)	-0,2	-0,9	-0,7	-0,4	0,4	0,7	0,9	1,4	1,2	0,9	
	Net exports (pp)	-0,9	0,8	0,4	0,4	0,4	0,6	-0,1	0,2	0,8	0,3	
Current account***	-0,8	-0,6	-0,6	-0,5	-0,4	-0,5	-0,4	-0,6	-0,6	-0,5	-0,6	
Unemployment rate (%)**	9,9	8,7	8,3	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 11/07/2016</b>						
8:00	Germany	New industrial orders (% MoM)	Sep	1,0		0,3
10:30	Eurozone	Sentix Index (pts)	Nov	8,5		9,0
11:00	Eurozone	Retail sales (% MoM)	Sep	-0,1		-0,3
<b>Tuesday 11/08/2016</b>						
	China	Trade balance (bn USD)	Oct	42,0	54,3	51,7
8:00	Germany	Industrial production (% MoM)	Sep	2,5		-0,5
8:00	Germany	Trade balance (bn EUR)	Sep	22,2		23,0
<b>Wednesday 11/09/2016</b>						
2:30	China	PPI (% YoY)	Oct	0,1	1,3	0,8
2:30	China	CPI (% YoY)	Oct	1,9	2,3	2,1
16:00	USA	Wholesale inventories (% MoM)	Sep	0,2		0,2
16:00	USA	Wholesale sales (% MoM)	Sep	0,7		0,5
	<b>Poland</b>	<b>NBP rate decision (%)</b>	<b>Nov</b>	<b>1,50</b>	<b>1,50</b>	<b>1,50</b>
<b>Thursday 11/10/2016</b>						
14:30	USA	Initial jobless claims (k)	w/e	265		260
<b>Friday 11/11/2016</b>						
16:00	USA	Initial U. of Michigan Sentiment Index (pts)	Nov	87,2	86,5	87,5

\*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