

This week

- **The most important event this week will be the reading of the flash estimate of Polish Q3 GDP and planned to be released on Tuesday.** We forecast that the GDP growth rate dropped to 2.8% YoY from 3.1% in Q2. In our view, conducive to slower GDP growth was lower contribution of net exports. Higher growth of consumption and investments had an opposite impact. A source of uncertainty for our forecast is the revision of GDP in 2015 made by GUS last month. The materialization of our forecast, lower from the market expectations (2.9%), may be conducive to a slight weakening of PLN and lower yields on Polish bonds.
- **Significant hard data on US economy and business survey results will be released this week.** We expect that industrial production has not changed in October vs. a 0.1% MoM increase in September, which occurred amid lower production growth in utilities and mining and higher growth rate in manufacturing. We forecast that nominal retail sales rose by 0.5% MoM in October vs. a 0.6% increase in September, which will be consistent with business survey results suggesting a slight deterioration of sentiment in trade. The sustainability of the recovery in the US real estate market will be confirmed by the high-compared-to-recent-years values of the number of building permits (1182k in October vs. 1225k in September) and housing starts (1126k vs. 1047k). Business survey results will also be released in the US. In our view, Philadelphia FED Index dropped to 5.0 pts in November from 9.7 pts in October; in turn, the NY Empire State Index is likely to have increased to -3.0 pts in November from -6.8 pts in September. We believe that the aggregate impact of data from the US economy on the financial market will be limited.
- **Subsequent GDP estimates for major European economies will be released on Friday.** We expect that, like in the first estimate, the quarterly GDP dynamics in the Eurozone has not changed in Q3 compared to Q2 and amounted to 0.3%. The economic growth rate in Germany is likely to have run in Q3 at the level from Q2 and amounted to 0.4% QoQ. The release of GDP data for the Eurozone and Germany will not have a significant impact on PLN or the Polish debt market, we believe.
- **ZEW index reflecting the sentiment among analysts and institutional investors regarding the economic situation in Germany will be released on Tuesday.** In accordance with the consensus, its value will increase to 8.9 pts in November vs. 6.2 pts in October. We see a downside risk to market expectations resulting to increased risk aversion related to the US presidential elections. The materialization of this risk will be conducive to a weakening of PLN and higher yields on Polish bonds.
- **Numerous data from the Chinese economy have been released today.** The growth rate of industrial production and urban investments has not changed in October compared to September and amounted to 6.1% YoY and 8.2% YoY, respectively. On the other hand, retail sales dynamics recorded a decrease and dropped to 10.0% YoY vs. 10.7% in September. The October data from the Chinese economy are neutral for PLN and yields on Polish bonds, we believe.
- **Data on the October inflation in Poland will be released today.** We maintain our forecast, in which inflation amounted to -0.3% YoY vs. -0.5% in September and the flash estimate at -0.2%. In our view, the increase in inflation rate was mainly due to higher dynamics of fuel prices. If the indicator is revised downwards, the reading of the October inflation will be slightly negative for PLN and yields on Polish bonds.
- **Data on the Polish balance of payments in September will be released today.** We expect the current account deficit to drop to EUR 632M vs. EUR 1047M in August. We forecast that export dynamics dropped to 3.4% in September vs. 8.0% in August, while import dynamics dropped to 5.0% YoY vs. 10.4%. The simultaneous decrease in import and export growth rate was related to the statistical effect in the form of an unfavourable difference in the number of working days. The materialization of our forecast assuming close-to-the-consensus current account balance

will not have any substantial impact on PLN.

- **The October data on average wages and employment in the corporate sector in Poland will be released on Friday.** We forecast that employment growth rate dropped to 3.0% YoY from 3.1% in September. In turn, the average wage dynamics rose to 4.3% YoY in October vs. 3.9% in September, due to the base effects. The release of data on corporate wages and employment will confirm strong recovery in the labour market. The data will be neutral for PLN and the debt market, we believe.

Last week

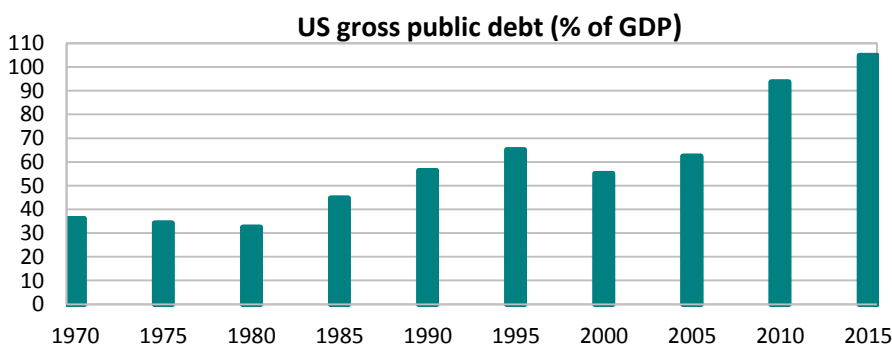
- **The most important event last week was the US presidential election, which was unexpectedly won by D. Trump.** His victory has contributed to a sharp weakening of PLN and a significant increase in bond yields on core markets and in Poland. Below we present our preliminary assessment of the impact of D. Trump's victory on the financial markets in short- and medium-term.
- **As we expected, the Monetary Policy Council left interest rates unchanged at its meeting last week (the reference rate amounts to 1.50%).** The bias of the Council's statement has not substantially changed compared to the October statement. The MPC maintained the view that given the available data and forecasts, the current level of interest rates was conducive to keeping the Polish economy on the sustainable growth path and maintaining macroeconomic balance. The inflation path between 2016-2018, forecasted in the November projection, has not substantially changed compared to the scenario presented in the July projection. In accordance with the November projection, inflation will continue to run significantly below the MPC inflation target (2.5%) in the policy-relevant horizon and will not attain this target before 2019. At the same time, the forecasted GDP growth rate in 2016 was slightly lowered and slightly revised upwards in 2017-2018 period (see MACROpulse of 9/11/2016). During the press conference, the NBP Governor, A. Głapiński, informed that, despite the expected increase in inflation and acceleration of economic growth next year, in his view, the most likely scenario was the stabilization of NBP interest rates in 2017. A. Głapiński's remark signals a downside risk to our forecast of NBP rates in 2017. However, we maintain the view that the expected by us acceleration of economic growth in H1 2017, combined with increase in inflation to significantly positive levels and a drop of real NBP reference rate to a level close to zero will make the MPC start a monetary tightening cycle in July 2017 and increase the NBP reference rate by 50bp in total in 2017. Our forecast is supported by the results of the presidential elections pointing to a possibility of a sooner than expected by the market monetary policy tightening by FED in 2017. The main risk to our forecast continues to be the likely extension by the ECB of the expanded asset purchase program.
- **The initial University of Michigan Index, reflecting consumer sentiment in the US, increased to 91.6 pts in November vs. 87.2 pts in October.** The index increase was due to higher values of its sub-indices concerning both the assessment of the current situation and expectations. The survey was carried out before the publication of the results of the US presidential elections. Consequently, it is highly likely that the final November University of Michigan Index will be revised downwards compared to the flash estimate.
- **Numerous data from the German economy were released last week.** The foreign trade surplus dropped to EUR 21.3bn in September vs. EUR 21.6bn in August. Lower were also the dynamics of exports (-0.7% MoM in September vs. 3.4% in August) and imports (-0.5% MoM vs. 1.9%). The monthly dynamics of industrial production also recorded a decline and stood at -1.8% in September vs. 3.0% in August. The decline resulted from lower output dynamics in all its categories (manufacturing, energy, and construction). The dynamics of orders in manufacturing also declined and amounted to -0.6% MoM in September vs. 0.9% in August. The last week's,

weaker-than-expected data from the German economy pose a downside risk to our forecast, in which the quarterly growth rate of the German GDP will not change in Q4 compared to Q3 and will amount to 0.4% (see above).

➤ **The foreign trade surplus in China rose to USD 49.1bn in October vs. USD 42.0bn in September.** At the same time, export dynamics rose to -7.7% YoY in October vs. -10.0% in September, while import dynamics dropped to -7.5% YoY vs. -1.9%. Thus, the data suggest deterioration of internal demand in the Chinese economy. The last week’s data do not change our forecast, in which GDP 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%”.

➤ How will Trump-economics impact financial markets?

Donald Trump’s unexpected victory in the US presidential election gives rise to the question about its short- and medium-term impact on the financial markets, including, in particular, PLN rate and yields on Polish bonds. An analysis of D. Trump’s election program and his latest remarks enable some initial conclusions to be drawn concerning the most likely correction in the economic policy of the US government. Due to the radical nature of D. Trump’s election postulates and the potentially material impact of the materialization of some of them on FED’s interest rate decisions, the assessment of the impact of the economic policy of the new administration (Trump-economics) is subject to considerable uncertainty.



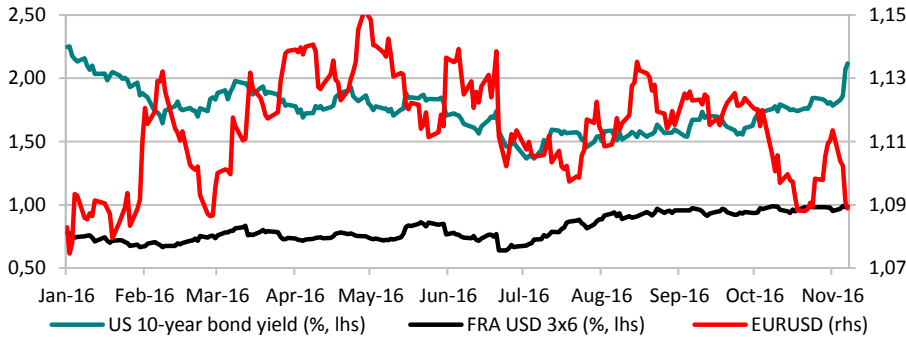
Source: Datastream

Contrary to our expectations (see MACROmap of 7/11/2016), the financial markets reacted to D. Trump’s victory by sharp appreciation of USD and higher bond yields on core markets, including in particular yields on US bonds. This reaction can be interpreted as an increase – in the opinion of the investors – in the likelihood of monetary policy

tightening in medium perspective. This view is justified in the light of the latest remarks of D. Trump, who after the release of the election results emphasized the need of a sharp increase in public investments, failing to refer at the same time to the remaining main elements of the economic program (limitation of immigration, introduction of protectionist actions, and reduction of taxes). This suggests a possibility of faster growth in domestic demand in the US starting from 2017. In the situation where the US economy is close to macroeconomic equilibrium, a sharp increase in domestic demand will be conducive to higher inflation. Fiscal expansion in the USA, if any, will contribute towards further increase in public debt in relation to GDP, which may also be connected to a relatively small increase in premium for insolvency risk, due to possible favourable impact of public investments in infrastructure on productivity and dynamics of potential GDP. This view is supported by a slight increase in CDS rates for US bonds after the announcement of presidential election results.

Therefore, in sum, Trump-economics may result in a significant change in the policy-mix towards a clearly more lenient fiscal policy and tighter monetary policy. If the coming weeks bring subsequent declarations of the President-elect and his representatives that will increase the likelihood of the materialization of this scenario, the market may start pricing in more than one interest hike in 2017. The

intensification of investors' expectations of interest rate hikes would be conducive to a further weakening of PLN and increase in yields on bonds.



Source: Reuters

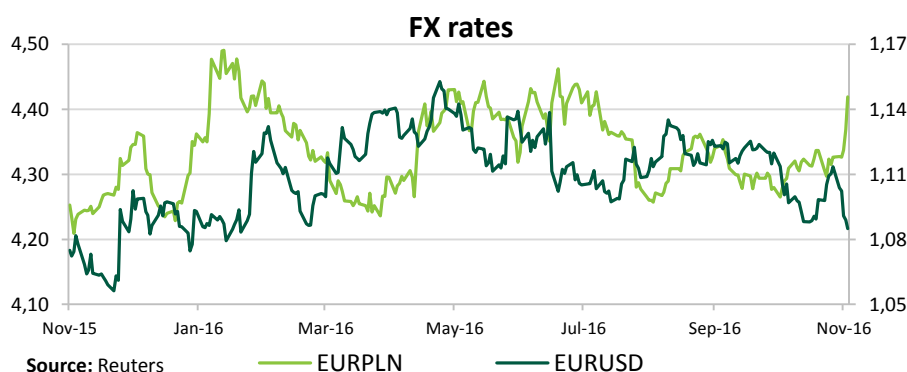
During the election campaign, D. Trump pointed to the need of changes in the functioning of NATO. He made the continuation of the safety guarantee for other NATO members conditional on “reasonable reimbursement for the tremendous cost” of the protective umbrella over the NATO member countries (most member countries do not follow the guideline of

allocating 2% of GDP for national defense). In addition, Trump’s administration may alleviate the policy vs. Russia by introducing so-called reset in mutual relations, which may contribute towards alleviation of sanctions imposed by the USA against Russia after the annexation of Crimea and increased differences between EU countries and the USA regarding the sanction policy vis-a-vis Russia. Consequently, the results of the US elections suggest a risk of lower “comfort of safety” of the counties of Central and Eastern Europe and the Baltic States as well as renewed increase in tension between Russia and Ukraine. Possible materialization of this risk will be conducive to a weakening of PLN.

A quite likely geopolitical consequence of the US election result is also intensification of anti-globalist and Eurosceptic sentiment in Europe and increase in political risk in the key – from the point of view of the direction of changes in the EU functioning – EU member countries. The coming quarters will see: constitutional referendum in Italy (4 December, if the government-proposed changes are rejected, M. Renzi will resign and the likelihood of calling early elections will significantly increase), repeated presidential elections in Austria (4 December), parliamentary elections in Holland (15 March), presidential elections in France (7 May), and parliamentary elections in Germany (autumn 2017; A. Merkel has not decided yet if she will run again for the office of Chancellor). The result of the US election increases the likelihood of a domino effect in Europe, namely a series of results in general elections clearly increasing the Eurosceptic parties’ influence on foreign and economic policy in those countries, which may be interpreted as growing risk to the Common Market and stability of economic growth in the EU countries. The possible domino effect is most likely to make difficult also for Poland the budgetary negotiations concerning the amount of EU funds granted to Poland under the 2021-2027 financial perspective. Consequently, the coming quarters may see the waves of increased risk aversion in the EU peripheral markets, conducive to lower demand for assets denominated in PLN and to depreciation of PLN.

To sum up, based on D. Trump’s so-far declarations, we may conclude that in short- and medium-perspective, the changes expected in the US foreign and economic policy will be conducive to an increase in domestic demand in the US, stronger than expected so far tightening of the monetary policy by FED and higher political risk in the key for the future of the EU member-countries. Consequently, we see a significant upside risk to our quarterly forecast of EURPLN rate until the end of 2017. We will address this risk in the latest macroeconomic forecast to be released on 12 December. Both the expected further monetary tightening in the US and the upside risk to the expected EURPLN profile support our scenario of two interest rate hikes by the MPC in July and November 2017 (by 50bp in total).

Flash estimate of Polish GDP may weaken PLN

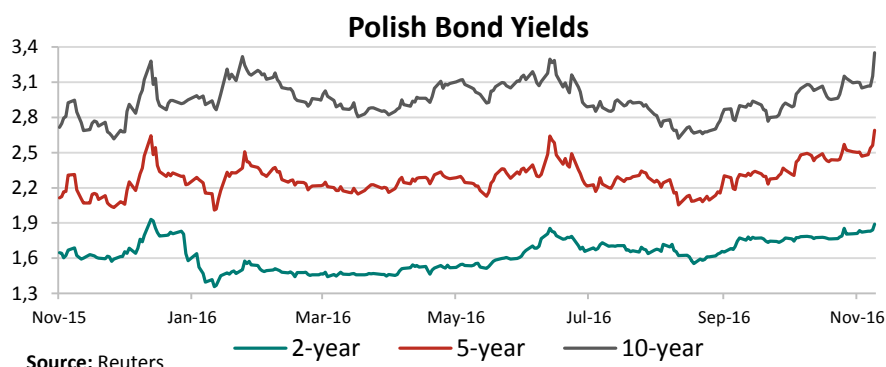


Last week EURPLN rate rose to 4.4193 (PLN weakening by 2.1%). Monday through Tuesday saw a stabilization of PLN at a level of ca. 4.33 vs. EUR in anticipation of the result of the US presidential election. In reaction to D. Trump’s victory, PLN vs. EUR opened on Wednesday lower by ca. 0.5% than it closed on Tuesday, and showed increased volatility further into the

day. On Thursday, PLN has been depreciating since morning, following growing yields on bonds in Poland and on the core markets. In our view, this was related to the market expectations of higher inflationary pressure in the US in medium term due to D. Trump’s declarations concerning expansive fiscal policy during his term of office. On Friday, PLN stayed within the downward trend and its weakening was boosted by the absence of domestic investors due to the Independence Day in Poland.

The Tuesday’s reading of the flash GDP estimate in Poland will be crucial for PLN this week. If our lower-from-the-market-consensus forecast materializes, the data may be slightly negative for PLN. Conducive to PLN weakening may also be the today’s final estimate of domestic inflation and the Tuesday’s reading of the German ZEW index. In our view, other data from Poland (balance of payments and corporate wages and employment) will be neutral for PLN. GDP estimates for major European economies and numerous data from the US – retail sales, industrial production, building permits, house starts, as well as NY Empire State and Philadelphia FED indices - will also have a limited impact on PLN, we believe.

Sharp increase in yields in reaction to D. Trump’s victory



Last week the yield of Polish 2-year benchmark bonds rose to a level of 1.889 (up by 7 bp), of 5-year bonds to a level of 2.69 (up by 22 bp), and of 10-year bonds to a level of 3.351 (up by 30 bp). Monday through Tuesday a weak increase in yields on Polish bonds was visible, in anticipation of the results of the US presidential election. In reaction to D. Trump’s

victory, Wednesday saw a further decline in prices of the Polish debt. On Thursday, a sharp increase in yields on Polish bonds continued following the core markets. In our view, this was related to the market expectations of higher inflationary pressure in the US in medium term, due to D. Trump’s declarations concerning expansive fiscal policy during his term in office. On Friday, the trading on the Polish debt market was suspended due to the Independence Day in Poland.

This week the Polish debt market will focus on the Tuesday’s flash GDP estimate in Poland. If our lower-from-the-market-consensus forecast materializes, we expect a slight decline in yields on Polish bonds. The today’s final estimate of domestic inflation may also have a positive impact on the prices of the Polish debt. On the other hand, the Tuesday’s reading of the German ZEW index may be slightly

negative for the prices of Polish bonds. Other domestic data (balance of payments and corporate wages and employment), numerous data from the US (retail sales, industrial production, building permits, house starts, and NY Empire State and Philadelphia FED indices) as well as GDP estimates for major European economies will be neutral for the Polish debt market, 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	4,37
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	4,03
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	4,06
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	
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	
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	
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	
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	
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	
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	
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	
Current account (M EUR)	-165	28	-846	679	-652	-217	492	389	113	-635	-1047	-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		
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		

*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	-0,6	-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	4,1	5,3	5,3	5,1	5,0	4,9	3,3	4,2	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	1,72	1,72	1,97	2,14	2,22	1,72	1,72	2,22	
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 11/14/2016						
3:00	China	Retail sales (% YoY)	Oct	10,7	10,8	10,7
3:00	China	Industrial production (% YoY)	Oct	6,1	6,2	6,2
3:00	China	Urban investments (% YoY)	Oct	8,2	8,2	8,2
11:00	Eurozone	Industrial production (% MoM)	Sep	1,6		-1,0
14:00	Poland	CPI (% YoY)	Oct	-0,5	-0,3	-0,3
14:00	Poland	Current account (M EUR)	Sep	-1047	-632	-604
14:00	Poland	M3 money supply (% YoY)	Oct	9,3	8,7	8,8
Tuesday 11/15/2016						
8:00	Germany	Preliminary GDP (% QoQ)	Q3	0,4	0,4	0,3
10:00	Poland	GDP (% YoY)	Q3	3,1	2,8	2,9
11:00	Eurozone	Preliminary GDP (% QoQ)	Q3	0,3	0,3	0,3
11:00	Eurozone	GDP flash estimate (% YoY)	Q3	1,6	1,6	1,6
11:00	Germany	ZEW Economic Sentiment (pts)	Nov	6,2		8,9
14:00	Poland	Core inflation (% YoY)	Oct	-0,4	-0,4	-0,3
14:30	USA	Retail sales (% MoM)	Oct	0,6	0,5	0,5
14:30	USA	NY Fed Manufacturing Index (pts)	Nov	-6,8	-3,0	-3,0
16:00	USA	Business inventories (% MoM)	Sep	0,2	0,2	0,1
Wednesday 11/16/2016						
15:15	USA	Industrial production (% MoM)	Oct	0,1	0,0	0,2
15:15	USA	Capacity utilization (%)	Oct	75,4	75,4	75,5
Thursday 11/17/2016						
11:00	Eurozone	HICP (% YoY)	Oct	0,5	0,5	0,5
14:30	USA	CPI (% MoM)	Oct	0,3	0,3	0,4
14:30	USA	Core CPI (% MoM)	Oct	0,1	0,2	0,2
14:30	USA	Housing starts (k MoM)	Oct	1047	1126	1155
14:30	USA	Building permits (k)	Oct	1225	1182	1198
14:30	USA	Philadelphia Fed Index (pts)	Nov	9,7	5,0	8,0
Friday 11/18/2016						
10:00	Eurozone	Current account (bn EUR)	Sep	29,7		
14:00	Poland	Corporate sector wages (% YoY)	Oct	3,9	4,3	4,3
14:00	Poland	Employment (% YoY)	Oct	3,2	3,0	3,1

*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