Polish exports growth to accelerate in 2017

In the coming two weeks

- **The most important event this week will be the today's readings of the November industrial production and retail sales in Poland.** We forecast that industrial production dynamics rose to 0.0% YoY in November vs. -1.3% in October and nominal retail sales growth rate rose to 4.5% YoY vs. 3.7% in October. Conducive to higher dynamics of the two indicators was the favourable difference in the number of working days. We believe that if our forecasts materialize, the data will be slightly negative for PLN and yields on Polish bonds.
- **Significant hard data on US economy and business survey results will be released in the coming two weeks.** Preliminary data on durable goods orders will be released on Thursday. We believe they decreased by 5.1% MoM vs. a 4.6% increase in October, due to lower orders in the Boeing company. The final estimate of the US GDP in Q3 will also be released on Thursday. We expect that the annualized economic growth rate was revised upwards to 3.4% vs. 3.2% in the second estimate, due to higher contributions of inventories and consumption. Data on the real estate market will also be released this week. We believe that new home sales rose by 574k in November vs. 563k in October and existing home sales by 5.51M vs. 5.60M. Data on consumer sentiment will also be released in the US. We expect that the final University of Michigan Index will be slightly revised downwards to 97.8 pts vs. 98.0 pts in the preliminary reading and 93.8 pts in November. In turn, the Conference Board Consumer Confidence Index will drop to 106.3 pts after the local maximum recorded in November (107.1 pts). The US readings will not be market moving, we believe.
- **Ifo Index reflecting the sentiment among German managers representing the manufacturing, construction, wholesale and retail trade sectors will be released today.** We expect that, like the composite PMI for Germany (see below), the index value will decrease to 109.9 pts in December from 110.4 pts in November. The reading is likely to be neutral for PLN and prices of Polish bonds.

Last week

- **On Friday, the Sejm rostrum was blocked by opposition MPs, protesting against the planned changes concerning media reporting from the Sejm**. A consequence of the protest was the adoption of the budget act outside the Chamber, which was against the law according to opposition representatives. It is hard to foresee now how long the current parliamentary crisis will last and how it will affect the assessment of investment risk in Poland. Possible escalation of the crisis, signaling increased uncertainty concerning the shape of economic policy and outlook for economic growth, will be negative for Poland's long-term rating, PLN, and prices of Polish bonds, we believe.
- **FOMC meeting was held last week.** The target range for the Federal Reserve funds rate was increased by 25bp to [0.50%; 0.75%], which was in line with our expectations and the market consensus. The decision was unanimous. According to the press release, the increase is justified by the current and forecasted evolution of inflation and situation in the labour market. New macroeconomic projections of FOMC members were presented at the conference after the meeting. Compared to the September projection, the forecast of economic growth rate was raised to 1.9% vs. 1.8% in 2016, to 2.1% (2.0%) in 2017, left unchanged in 2018 (2.0%), raised to 1.9% (1.8%) in 2018, and left unchanged in the long term (1.8%). Inflation projection in 2016 was raised to 1.5% from 1.3%, while in 2017, 2018, 2019, and in the long term it was left unchanged as compared to the September projection (1.9%, 2.0%, 2.0%, and 2.0%, respectively). According to the December projection, the unemployment rate will drop to 4.5% in Q4 2017 and will stay at this level until Q4 2019. At the same time, FED did not change its estimate of natural unemployment rate (4.8%). The FOMC members-expected federal funds

interest rate was slightly raised. Currently the median expectations concerning interest rates at the end of 2017 amounts to 1.375% (vs. 1.125% in the September projection), 2.125% at the end of 2018 (1.875%), 2.875% at the end of 2019 (2.625%), and 3.0% in the long term (2.75%). During the press conference after the meeting, the FED chair, J. Yellen, emphasized that all FOMC members indicated that future monetary policy in the US was subject to considerable uncertainty due to the shape of the fiscal policy of D. Trump administration. In our scenario we assume that in the whole 2017 FED will increase interest rates by 50bp in total, which is above the median expectations from FOMC December projection (75bp).

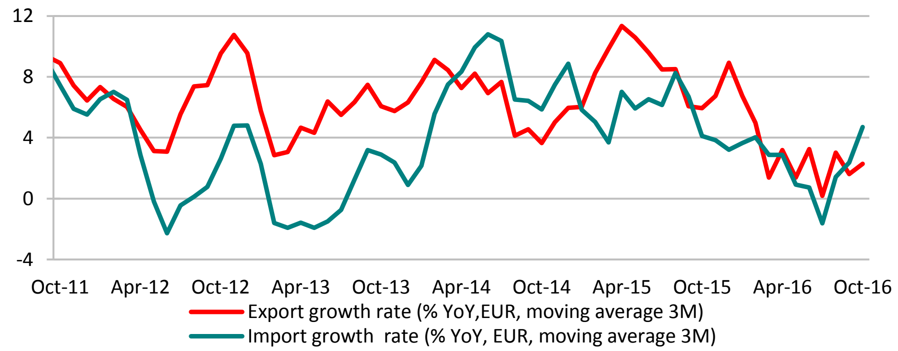
- **Numerous data from the US economy were released last week.** Industrial production growth dropped to -0.4% MoM in November vs. 0.1% in October. Conducive to its decline was lower production growth in all its segments (manufacturing, mining, and utilities). Capacity utilization dropped to 75.0% in November vs. 75.4% in October. Data on retail sales were also released last week. They rose by 0.1% MoM in November vs. a 0.6% increase in October. The main reason for the decline in monthly retail sales dynamics was lower sales growth rate in most their categories. Excluding cars, retails sales rose by 0.2% in November vs. a 0.6% increase in October. Data on housing starts (1090k in November vs. 1340k in October) and building permits (1201k vs. 1260k) were also released last week and indicated lower activity in the US real estate market. Better than expected results of regional business surveys were also released last week for the US manufacturing. The NY Empire State Index rose to 9.0 pts in December vs. 1.5 pts in November, while the Philadelphia FED Index rose to 21.5 pts vs. 7.6 pts. The last weeks' data from the US economy do not alter our scenario, in which the annualized economic growth rate will amount to 2.3% in Q4 vs. 3.4% in Q3.
- **Flash December business sentiment indicators (PMI) for major European economies were released last week.** PMI composite for the Eurozone has not changed compared to November and amounted to 53.9 pts. The index stabilization was due to higher value of the indicator in France (52.8 pts in December vs. 51.4 pts in November) and its decline in Germany (54.8 pts vs. 55.0 pts). The index increase in France was due to higher values of sub-indices concerning both output in manufacturing and business activity in the services sector. The downturn in Germany resulted from lower business activity in the services sector and higher sub-index concerning output in manufacturing. Other Eurozone countries covered by the survey recorded a slight downturn. In the whole Q4, the composite PMI for the Eurozone rose to 55.0 pts vs. 53.8 pts in Q3, which poses a slight upside risk to our forecast, in which the quarterly GDP growth rate in the Eurozone will not change in Q4 compared to Q3 and will amount to 0.3%.
- **ZEW index reflecting the sentiment among analysts and institutional investors regarding the economic situation in Germany has not changed in November compared to October and amounted to 13.8 pts**. According to the press release, conducive to improved sentiment were data on GDP in the Eurozone, while the deterioration in the Italian banking sector and increased uncertainty related to the approaching elections in the UE member countries with the highest influence on the pace of the European integration (i.a. presidential election in France and parliamentary elections in Germany) had an opposite impact. Combined with the flash PMIs, the last week's ZEW index, does not alter our forecast in which the GDP growth rate in Germany will rise to 0.4% in Q4 vs. 0.2% in Q3.
- **CPI inflation in Poland rose to 0.0% YoY in November vs. -0.2% in October**. The increase in inflation (by 0.2 pp) was mainly due to higher dynamics of food prices (see MACROpulse of 12/12/2016). Conducive to higher inflation (by 0.1 pp) was also higher core inflation, excluding food and energy prices, which amounted to -0.1% YoY in November vs. -0.2% in October. On the other hand, conducive to decrease in inflation (down by 0.1 pp) was lower growth rate of fuel prices. We forecast that the price growth rate will be positive in December 2016 and the average yearly inflation in the whole 2016 will run at -0.6% YoY vs. -0.9% in 2015.
- **The deficit in the Polish in current account dropped to EUR 393M in October from EUR 999M in September.** The slight increase in the current account balance was due to higher balances on

primary income, goods, and secondary income (higher from September by EUR 244M, EUR 230M, and EUR 134M, respectively). Lower balance on services (down by EUR 2M compared to September) had an opposite impact. Export dynamics dropped to -3.1% YoY in October vs. 1.5% in September, and imports dynamics dropped to 0.2% YoY vs. 3.2%. Slower exports and imports growth was largely due to the unfavourable difference in the number of working days. The October data support our forecast, in which the relation of cumulative current account balance for the last 4 quarters to GDP will increase to -0.6% in Q4 vs. -0.7% in Q3.

- **Nominal wage dynamics in the Polish sector of enterprises increased to 4.0% YoY in November vs. 3.6% in October**. Conducive to an increase in nominal wage growth between October and November was i.a. the favourable difference in the number of working days supporting the growth of pay for piecework (see MACROpulse of 16/12/2016). The employment dynamics did not change compared to October and amounted to 3.1% YoY in November. We maintain the view that employment dynamics reached the local maximum in Q3 and from Q4 will start to gradually decrease. The real wage fund growth (employment times average wages) in enterprises dropped to 7.1% YoY in October-November period vs. 8.6% in Q3. This signals a slight downside risk to our forecast of stabilized private consumption dynamics in Q4 compared to Q3 (3.9% YoY).
- **Numerous data on the Chinese economy were released last week.** Urban investments growth rate has not changed in November compared to October and amounted to 8.3% YoY. On the other hand, higher dynamics were recorded in industrial production (6.2% in November vs. 6.1% in October) and retail sales (10.8% vs. 10.0%). The November data from the Chinese economy support our scenario, in which GDP in China will rise 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%".
- **The meeting of the Swiss National Bank (SNB) was held last week.** As expected, the SNB left the target range for LIBOR CHF 3M unchanged at [-1.25%; -0.25%] and deposit rate at -0.75%. The press release presented a view that Swiss franc continued to be significantly over-valued and the SNB would continue to be active in the currency market if needed. The latest macroeconomic projection was presented at the same time. The inflation path was slightly revised downwards as compared to the September projection. In accordance with the December projection, inflation will run at -0.4% in 2016 (no change compared to the September projection), 0.1% in 2017 (0.2%), and 0.5% in 2018 (0.6%). The forecast of the Swiss GDP was maintained and will run at ca. 1.5% both in 2016 and in 2017. Considering the forecasted by us EURPLN path (see the quarterly table), we expect that CHFPLN will amount to 4.08 as at the end of 2016 and to 3.80 as at the end of 2017.

Polish exports growth to accelerate in 2017

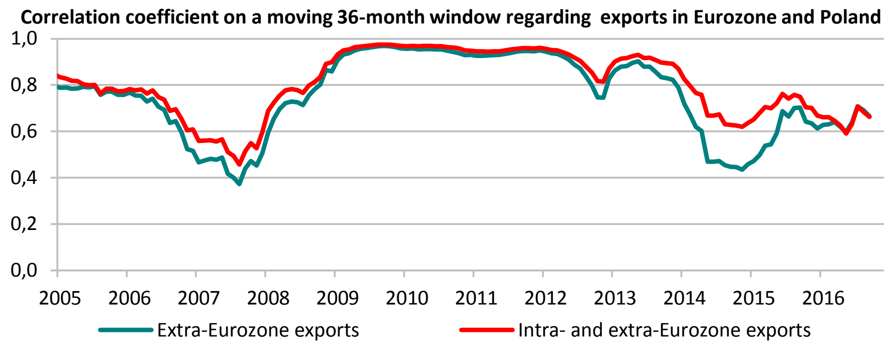
The sharp slowdown of Polish exports raises the question about their short-term perspectives. The analysis below presents our scenario for the Polish exports in 2017, addressed in the latest quarterly forecast published in the last week's MACROmap.



Source: NBP, Credit Agricole

NBP data on the dynamics of EUR-denominated exports of goods suggest their sharp slowdown in H1 2016 and continuation of lower growth in subsequent months. The downturn in Polish exports is confirmed by PMI surveys. In November, the sub-index concerning new export orders stood for the second time in a row below 50 pts, signaling a decline in foreign orders.

The main reason for slower growth of Polish exports of goods in 2016 was lower GDP growth in the Eurozone (from 1.9% in 2015 down to the forecasted by us 1.6%), including a sharp slowdown in the growth rate of exports from the Eurozone (from 6.2% down to 2.4%). The significantly slower growth of exports from the Eurozone in 2016 was conducive to lower demand for goods imported from Poland and constituting intermediate consumption in the process of production of final goods exported from the Eurozone (in the first three quarters of 2016, intermediate consumption represented 49.2% of the Polish exports of goods).

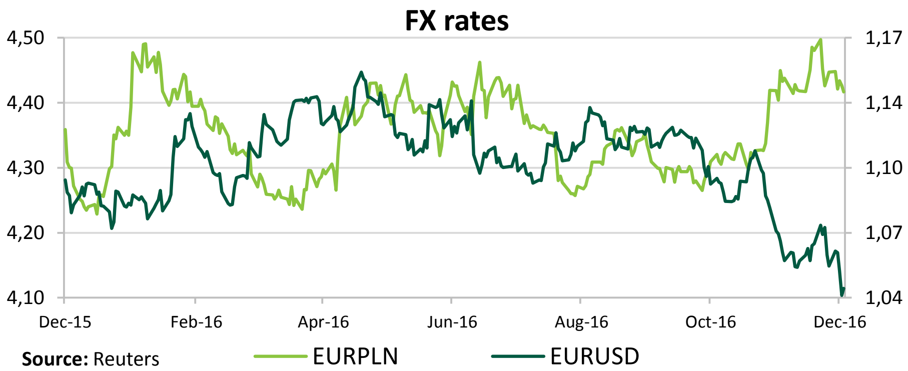


Source: Eurostat, Markit, Credit Agricole

The assessment of outlook for Polish exports should factor in the tendencies expected in total Eurozone exports, both directed outside the single currency area and the trade exchange between the Eurozone countries. The latter also has a material impact on the demand for imports from Poland, constituting an input for production of trade goods manufactured in the Eurozone. A moderately strong correlation between Polish exports and the trade exchange in the Eurozone is confirmed by moving correlation coefficients for the dynamics of Polish exports and exports of the Eurozone (sale outside the single currency area and total trade exchange between Eurozone countries and non-Eurozone countries). In 2014, these coefficients decreased, largely due to the Russian embargo on imports of food from the UE countries, having a relatively strong impact on Polish exports. Despite that, the correlation between Polish exports and trade exchange in the Eurozone continues to be moderately strong.

We expect that Polish exports of goods will be boosted in 2017 by a recovery in the emerging markets, including Russia, in particular. It will be the main factor conducive to acceleration of the increase in exports from the Eurozone from 2.4% in 2016 up to 3.1% and increase in the demand for goods imported from Poland and constituting intermediate consumption. In H2 2017, conducive to the acceleration of increase in Polish exports in annual terms will be the low base effect. In addition, Polish exports in 2017 will be accelerated by a gradual increase in output of the automotive sector, resulting from growing foreign investments in this sector. We also expect that a faster increase in the exports of goods will be accompanied by higher dynamics of the export of services, related, to a certain extent, to earlier investments in so-called centres of services. Considering the above factors, we expect that the exports of goods and services will slightly accelerate to 9.9% in 2017 vs. 7.3% in 2016. Nevertheless, the contribution of net exports to GDP growth will decline from -0.1 pp down to -0.3 pp, due to a sharp increase in dynamics of investment outlays and the resulting increase in demand for capital goods.

Domestic data on production and retail sales negative for PLN

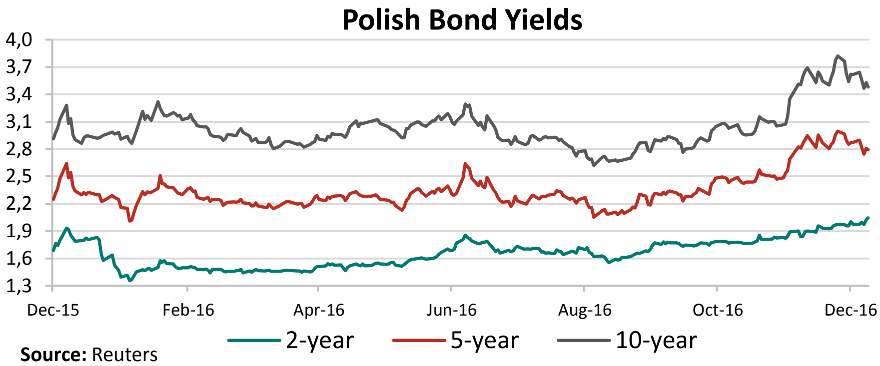


Source: Reuters

Last week EURPLN rate fell down to 4.4166 (strengthening of PLN by 0.7%). On Monday, PLN rate was stable and domestic data on inflation, in line with flash GUS estimate, were neutral for the market. On Tuesday, PLN was slightly appreciating, which may have been partly due to the publication of better than expected data from the Chinese economy. On Wednesday, PLN was volatile in anticipation of the evening FOMC meeting. FED decision was in line with market expectations; consequently, its impact on PLN was limited. Nonetheless, the hawkish December FED economic projection, assuming faster from the September projections pace of normalization of the US monetary policy, was conducive to PLN weakening on Thursday morning. In the afternoon, there was a correction, helped by a decline in the global risk aversion reflected by lower VIX index. In our view, it was related to lower uncertainty in the market, following FOMC decision. On Friday, the increase in global risk appetite and the accompanying appreciation of PLN were continued.

Crucial for PLN this week will be the today's data on domestic industrial production and retail sales, which, in our view, will be conducive to a slight depreciation of PLN. Conducive to a weakening of PLN may also be the parliamentary crisis in Poland (see above), which, if escalated, will be negative for Poland's long-term rating. Today's reading of Ifo index will not be market moving, we believe. The aggregate impact of data from the US economy (final estimate of GDP in Q3, durable goods orders, new home sales, existing home sales, and final University of Michigan Index) will be neutral for PLN, we believe. Next week, due to scarce economic calendar and the holiday period, we expect lower liquidity in the FX market.

Holiday mood in the Polish debt market



Source: Reuters

Last week the yield of Polish 2-year benchmark bonds rose to a level of 2.045 (up by 7 bp), of 5-year bonds dropped to a level of 2.793 (down by 8 bp), and of 10-year bonds dropped to a level of 3.482 (down by 14 bp). Monday through Wednesday, the prices of Polish debt were growing, following German bonds. This shows that lower yields could have been the continuation of market reaction to the ECB decision from two weeks ago on extending the expanded asset purchase program (see MACROmap of 12/12/2016) and gradual stabilization of the political situation in Italy. Low activity of investors was recorded for bonds with short tenors, which was most likely due to the market expectations of the Wednesday's FOMC meeting. In reaction to the publication of FOMC members' December projections, assuming faster from the September projections pace of normalization of the US monetary policy, the prices of the Polish debt opened lower on Thursday than they closed on Wednesday. On Thursday morning, there also was a debt conversion auction, at which the Ministry of Finance bought back PLN 5.0bn of bonds maturing in 2017 and sold PLN 5.5bn of 3Y bonds. In the afternoon, a decline in yields was observed for bonds with medium and long tenors, which also continued on Friday. In our view, this resulted from a decrease in global risk aversion reflected by VIX index, due to lower uncertainty following FED decision.

This week the Polish debt market will focus on today's data on domestic retail sales and industrial production, which, if our forecasts materialize, may be slightly positive for the prices of Polish bonds. The parliamentary crisis in Poland (see above), which, if escalated, will be negative for Poland's long-term rating, may have an opposite impact. Today's reading of Ifo index will not be market moving, we believe. In our view, the aggregate impact of the US data (final estimate of GDP in Q3, durable goods orders, new home sales, existing home sales, and final University of Michigan iIndex) will also be neutral for the Polish debt market. Next week, due to scarce economic calendar and the holiday period, we expect limited trading on the Polish debt market.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland

Indicator	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	Dec-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*	4,27	4,26	4,42	4,35	4,24	4,37	4,38	4,38	4,35	4,36	4,29	4,31	4,45	**4,45**
USDPLN*	4,04	3,92	4,08	4,00	3,73	3,81	3,94	3,94	3,90	3,91	3,82	3,92	4,20	**4,20**
CHFPLN*	3,93	3,91	3,98	4,00	3,87	3,97	3,96	4,04	4,02	3,97	3,93	3,96	4,13	**4,08**
CPI inflation (% YoY)	-0,6	-0,5	-0,9	-0,8	-0,9	-1,1	-0,9	-0,8	-0,9	-0,8	-0,5	-0,2	0,0	
Core inflation (% YoY)	0,2	0,2	-0,1	-0,1	-0,2	-0,4	-0,4	-0,2	-0,4	-0,4	-0,4	-0,2	-0,1	
Industrial production (% YoY)	7,8	6,7	1,4	6,8	0,7	5,9	3,2	6,0	-3,4	7,5	3,2	-1,3	**0,0**	
PPI inflation (% YoY)	-1,8	-0,8	-1,2	-1,5	-1,9	-1,2	-0,4	-0,8	-0,5	-0,1	0,2	0,6	**0,8**	
Retail sales (% YoY)	3,3	4,9	0,9	3,9	0,8	3,2	2,2	4,6	2,0	5,6	4,8	3,7	**4,5**	
Corporate sector wages (% YoY)	4,0	3,1	4,0	3,9	3,3	4,6	4,1	5,3	4,8	4,7	3,9	3,6	4,0	
Employment (% YoY)	1,2	1,4	2,3	2,5	2,7	2,8	2,8	3,1	3,2	3,1	3,2	3,1	3,1	
Unemployment rate* (%)	9,6	9,7	10,2	10,2	9,9	9,4	9,1	8,7	8,5	8,4	8,3	8,2	**8,3**	
Current account (M EUR)	28	-846	679	-652	-217	492	389	113	-635	-1007	-999	-393		
Exports (% YoY EUR)	10,7	10,8	-1,3	5,4	0,0	4,1	0,0	5,7	-5,1	8,5	1,5	-3,1		
Imports (% YoY EUR)	6,3	4,4	0,3	7,4	0,9	0,3	1,5	0,4	-6,8	10,7	3,2	0,2		

*end of period

Forecasts of the quarterly macroeconomic indicators

Main macroeconomic indicators in Poland

Indicator		2016				2017				2016	2017	2018
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Gross Domestic Product (% YoY)		3,0	3,1	2,5	1,7	2,6	2,4	3,0	3,9	2,5	3,0	3,2
Private consumption (% YoY)		3,2	3,3	3,9	3,9	3,6	3,6	2,9	2,8	3,6	3,2	2,9
Gross fixed capital formation (% YoY)		-2,2	-5,0	-7,7	-5,4	-1,0	1,3	6,1	8,2	-5,3	4,8	10,0
Export - constant prices (% YoY)		6,7	11,4	6,8	4,5	6,7	9,1	11,8	11,7	7,3	9,9	7,3
Import - constant prices (% YoY)		8,7	10,0	7,8	5,4	8,0	10,7	13,0	13,1	7,9	11,2	9,0
GDP growth contributions	Private consumption (pp)	2,0	1,9	2,3	1,9	2,3	2,1	1,7	1,4	2,1	1,9	1,7
	Investments (pp)	-0,3	-0,9	-1,4	-1,5	-0,1	0,2	1,1	2,1	-1,0	0,9	1,8
	Net exports (pp)	-0,7	1,0	-0,3	-0,3	-0,4	-0,3	-0,3	-0,1	-0,1	-0,3	-0,6
Current account***		-0,8	-0,6	-0,7	-0,6	-0,9	-1,0	-1,1	-1,0	-0,6	-1,0	-1,5
Unemployment rate (%)**		9,9	8,7	8,3	8,3	8,8	7,9	7,8	8,1	8,3	8,1	8,1
Non-agricultural employment (% YoY)		2,2	2,3	1,5	1,3	0,6	0,4	0,2	0,1	1,8	0,3	0,0
Wages in national economy (% YoY)		3,1	4,3	4,1	4,4	4,5	4,6	4,6	4,5	4,0	4,5	4,8
CPI Inflation (% YoY)*		-0,9	-0,9	-0,8	0,0	1,5	1,7	1,3	1,6	-0,6	1,5	2,3
Wibor 3M (%)**		1,67	1,71	1,71	1,73	1,73	1,73	1,73	1,73	1,73	1,73	2,23
NBP reference rate (%)**		1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	2,00
EURPLN**		4,24	4,38	4,29	4,45	4,35	4,33	4,23	4,18	4,45	4,18	4,07
USDPLN**		3,73	3,94	3,82	4,20	4,10	4,12	4,03	3,87	4,20	3,87	3,51

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

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST*	
					CA	CONSENSUS**
		Monday 12/19/2016				
10:00	Germany	Ifo busienss climate (pts)	Dec	110,4	109,9	110,7
11:00	Eurozone	Wages (% YoY)	Q3	0,9		
14:00	**Poland**	**Retail sales (% YoY)**	**Nov**	**3,7**	**4,5**	**4,8**
14:00	**Poland**	**PPI (% YoY)**	**Nov**	**0,6**	**0,8**	**1,0**
14:00	**Poland**	**Industrial production (% YoY)**	**Nov**	**-1,3**	**0,0**	**1,8**
		Tuesday 12/20/2016				
10:00	Eurozone	Current account (bn EUR)	Oct	25,3		
		Wednesday 12/21/2016				
16:00	USA	Existing home sales (M MoM)	Nov	5,60	5,51	5,50
16:00	Eurozone	Consumer Confidence Index (pts)	Dec	-6,1		-6,0
		Thursday 12/22/2016				
14:30	USA	Final GDP (% YoY)	Q3	3,2	3,4	3,3
14:30	USA	Durable goods orders (% MoM)	Nov	4,6	-5,1	-4,0
16:00	USA	Real private consumption (% MoM)	Nov	0,1		
		Friday 12/23/2016				
10:00	**Poland**	**Registered unemplyment rate (%)**	**Nov**	**8,2**	**8,3**	**8,3**
16:00	USA	New home sales (k)	Nov	563	574	575
16:00	USA	Final U. of Michigan Sentiment Index (pts)	Dec	98,0	97,8	98,0
		Tuesday 12/27/2016				
15:00	USA	Case-Shiller Index (% MoM)	Oct	0,4		0,4
16:00	USA	Richmond Fed Index	Dec	4,0		
16:00	USA	Consumer Confidence Index	Dec	107,1	106,3	108,0
		Thursday 12/29/2016				
10:00	Eurozone	M3 money supply (% MoM)	Nov	4,4		4,4
14:30	USA	Initial jobless claims (k)	w/e	254		
		Friday 12/30/2016				
15:45	USA	Chicago PMI (pts)	Dec	57,6		57,8

*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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