When will investments accelerate ?

This week

- **The most important event this week will be the ECB meeting scheduled for Thursday.** In our view, interest rates will be left unchanged. The issue of the recent appreciation of EUR and its impact on future inflation and monetary policy outlook is likely going to be raised at the conference. We believe that the tone of the statement and conference after the meeting will point to further change in the ECB bias towards neutral. We expect M. Draghi to signal that a discussion on the further evolution of the Expanded Asset Purchase Program is currently under way and detailed information about its future will be delivered soon. This will be in line with our scenario assuming that at its October meeting the ECB will take decision on gradual tapering of the program starting from January 2018. The latest macroeconomic projection will also be presented at the conference after the meeting. We believe that the inflation path will be revised downwards and the expected economic growth rate will be slightly raised compared to the June projection. We expect to see increased volatility in the financial markets during the conference.
- **Another important event will be the publication of the review of Poland's long-term debt rating by Moody's.** In May the agency affirmed Poland's rating at A2 and changed its outlook from negative to stable. Moody's justified the change in outlook by reduced risk of the government conducting excessively expansive tax policy due to lower than the agency expected public deficit in 2016. In the justification of its decision Moody's also pointed out lower uncertainty about the government's unorthodox economic policy, which is conducive to the improvement of investment climate. The tone of the statement this week is likely to change towards a more unfavourable one compared to May due to the changes in the function of the judiciary being enforced by the government in recent months. In July the agency said that the aforementioned actions as well as the disputes between Poland and the European Commission might contribute towards deteriorating the investment climate in Poland and consequently is credit negative. However, we do not expect the agency to change the rating or its outlook this week. The main arguments supporting such decision are good execution of the general government budget this year and strong foundations of the Polish economy. The agency's decision will be released after the closing of the European markets; therefore, the reaction of the foreign exchange market and the debt market will not materialize sooner than next week.
- **A meeting of the Monetary Policy Council will be held on Wednesday.** We expect that the MPC will decide to leave interest rates at an unchanged level. We believe that the issue of weaker-from-market-expectations data on investments in Q2 and lower-from-the-consensus August PMI will be raised during the conference in the context of monetary policy outlook. In our opinion, the NBP Governor A. Glapiński will repeat his view that interest rates will remain unchanged for an extended period of time. The press release after the Council meeting and NBP Governor's remarks during the conference will not have a substantial impact on PLN or yields on Polish bonds, we believe.
- **Data on the Chinese trade balance will be released on Thursday**. We expect that its surplus rose to USD 51.5bn in August vs. USD 46.7bn in July. At the same time, we believe that export growth recorded a decline in August down to 2.9% YoY vs. 7.2% in July, while import growth has not changed compared to July and amounted to 11.9%.

Last week

- **Important data from the US economy and business survey results were released last week**. According to the second estimate, the annualized GDP growth rate rose to 3.0% in Q2 vs. 2.6% in the first estimate. The upward revision resulted from higher contribution of private consumption (2.28 pp in the second estimate vs. 1.93 pp in the first estimate), investments

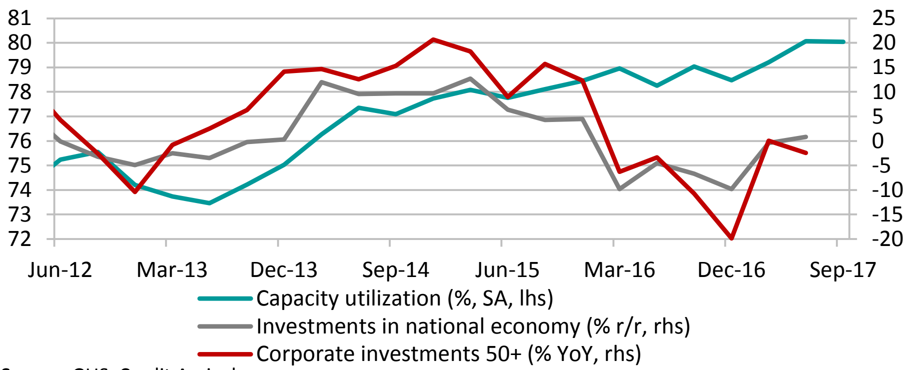
(0.58 pp vs. 0.36 pp), inventories (0.02 pp vs. -0.02 pp), and net exports (0.21 pp vs. 0.18 pp), while lower contribution of government expenditure (-0.05 pp vs. 0.12 pp) had an opposite impact. Thus, the main source of US GDP growth in Q2 was private consumption. Data on non-farm payrolls was also released last week and rose by 156k in August vs. a 189k increase in July (revised downwards from 209k), running clearly below the market expectations (182k). The highest increase in employment was recorded in business services (+40.0k), manufacturing (+36.0k), and construction (+28.0). Employment decreased in the public sector (-9.0k), information services (-8.0k), and utilities (-0.5k). Unemployment rate rose to 4.4% in August vs. 4.3% in July but continues to run below the natural unemployment rate indicated by FOMC (4.6% - see MACROmap of 19/6/2017). Its increase resulted from a decrease in the number of employees (down by 74k) given a simultaneous increase in the number of the unemployed (up by 151k). It is worth noting that the unemployment rate in the US is estimated based on the results of the second survey conducted among households instead of companies as is the case for non-farm payrolls estimates. This explains the – usually temporary – differences between the results of the two surveys (increase in employment in the survey for companies and its decrease in the household survey). The participation rate has not changed in August compared to July and amounted to 62.9%. The annual dynamics of average hourly earnings also remained unchanged at 2.5%. We expect that the continuing improvement in the labour market in subsequent months will be conducive to higher annual wage growth. The publication of weaker-than-expected data from the US labour market resulted in a temporary depreciation of USD vs. EUR. The results of business surveys were also released last week. The Conference Board Index pointed to improved consumer sentiment and rose to 122.0 pts in August vs. 120.0 pts in July. Its increase resulted from higher sub-indices for both the assessment of the current situation and for expectations. The final University of Michigan Index also pointed to improved consumer sentiment and amounted to 96.8 pts in August vs. 93.4 pts in July and 97.6 pts in the flash estimate. Its increase compared to July resulted from higher sub-index for expectations while the sub-index for the assessment of the current situation has decreased. The ISM index for manufacturing was also released last week and rose to 58.8 pts in August vs. 56.3 pts in July, hitting the highest level since April 2011. Its increase resulted from higher contribution of four of its five sub-indices (for inventories, employment, output, and suppliers' delivery times). Lower sub-index for new orders had an opposite impact. In the data structure especially noteworthy is an increase in the inventories sub-index to the highest level since September 2010. This may suggest that companies are increasing the inventories buffer in anticipation of further improvement of business climate in the US. The last week's readings from the US economy do not alter our forecast, in which the annualized US GDP growth rate will decrease to 2.4% in Q3 vs. 3.0% in Q2. At the same time, they are consistent with our scenario of the US monetary policy, assuming that FED will announce the plan of balance-sheet reduction from October and will hike interest rates by 25 bp in December.

- **Polish GDP growth rate in Q2 amounted to 3.9% YoY vs. 4.0% in Q1 and thus was in line with the previously published flash estimate.** Conducive to lower economic growth rate were lower contributions of net exports (down to -1.5 pp in Q2 vs. 0.1 pp in Q1) and private consumption (2.9 pp vs. 3.0 pp). Higher contributions of inventories (1.9 pp in Q2 vs. 0.7 pp in Q1), public consumption (0.5 pp vs. 0.2 pp), and investments (0.1 pp vs. 0.0 pp) had an opposite impact. Thus, like in Q1, the main source of economic growth in Q2 was private consumption. Especially noteworthy in the data structure is a decrease in the investment rate for the last 4 quarters down to 17.7% vs. 17.8% in Q1, being the lowest level since Q2 1996 (see MACROpulse of 31/8/2017). We believe that the slowdown of economic growth in Q2 was temporary and the GDP growth rate will increase in Q3, supported by higher contribution of investments which will more than offset the decrease in the contribution of private consumption.
- **According to the flash estimate, inflation in Poland rose to 1.8% YoY in August vs. 1.7% in July, running in line with the market expectations and below our forecast (1.9%)**. We believe that

conducive to increase in inflation were higher dynamics of fuel prices. In turn core inflation (0.8% YoY) and the growth rate of food prices (4.4%) have likely not changed compared to July. Final inflation data including its structure will be released on 11 September.

- **Business sentiment indicator for Polish manufacturing (PMI) rose to 52.5 pts in August vs. 52.3 pts in July, running below our forecast equal to the market consensus (53.0 pts)**. Conducive to the indicator increase were higher contributions of sub-indices for new orders, output, and suppliers' delivery times. Lower contributions of the sub-indices for employment and stocks of goods purchased had an opposite impact. Surprising in the data structure is a slowdown of new export orders growth, which occurred despite the improvement in the Eurozone, including Germany (see MACROpulse of 28/8/2017). The August data also indicate growing problems in finding new labour, as reflected by the first since February 2015 increase in production backlogs (see MACROpulse of 1/9/2017).The continuing high demand for labour given its limited supply supports our forecast of wage growth in the national economy. We forecast that wage growth rate will increase in 2017 up to 4.9% YoY vs. 3.8% in 2016.
- **According to the flash estimate, inflation in the Eurozone rose to 1.5% YoY in August vs. 1.3% in July**. Higher inflation in August resulted from higher growth of energy prices. The data indicate an upside risk to our forecast of inflation in the Eurozone in Q3 (1.3% YoY vs. 1.5% in Q2).
- **China manufacturing PMIs were released last week.** Caixin PMI rose to 51.6 pts in August vs. 51.1 pts in July, hitting the highest level since February 2017. The index increase resulted from higher contributions of four of its five sub-indices (for employment, new orders, inventories, and supply delivery times). Lower contribution of the output sub-index had an opposite impact. Especially noteworthy in the data structure is an increase in the sub-index concerning new orders, which hit the highest level since March 2010. This supports our scenario of recovery in global trade. CFLP PMI also recorded and increase and amounted to 51.7 pts in August vs. 51.4 pts in July. The rebound in Chinese manufacturing supports our forecast of GDP increase in China (6.8% in 2017 vs. 6.7 in 2016).

When will investments accelerate ?



Source: GUS, Credit Agricole

According to data published by GUS two weeks ago, nominal domestic investments of enterprises employing at least 50 persons dropped by 1.5% YoY in Q2 vs. a 1.2% increase in Q1. Their slower growth occurred was mainly due to lower contribution of investments in energy sector (by 2.6 pp), resulting from the high base effects from the year before, related i.a. to the construction of two power blocks in power plant in Opole and complex modernization of the power plant in Bełchatów. The contributions of the remaining categories to investments growth rate remained relatively stable –they dropped by 0.1 pp in services and mining, rose by 0.4 pp in construction, and fell down by 0.2 pp in manufacturing. Especially noteworthy is the growth rate in manufacturing which despite a slight decline in Q2 continues to stay at a relatively high level (5.7% in Q2 vs. 6.0% in Q1). Considering the structure of corporate fixed capital formation, we estimate that their slower growth in Q2 (resulting mainly from statistical effects) does not a signal any negative trends in subsequent quarters.

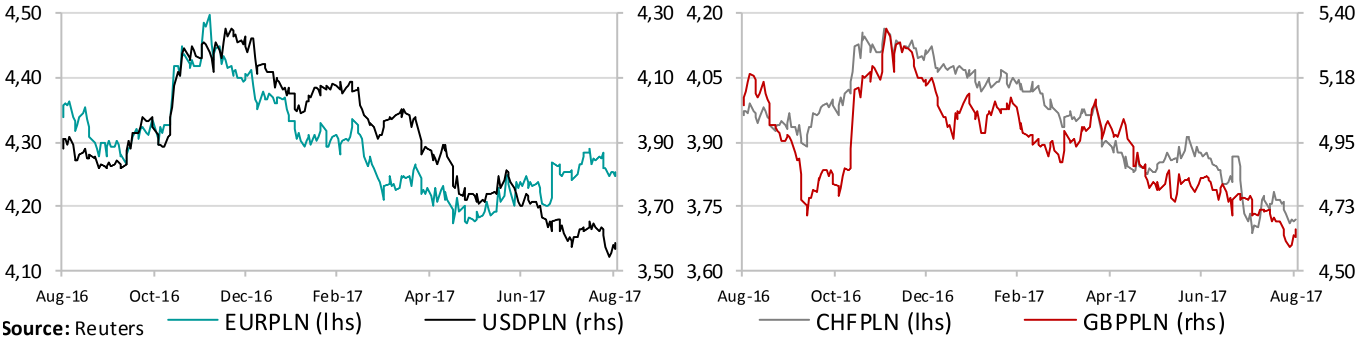
We expect that in the coming months the barrier in the form of high capacity utilization in manufacturing will be the main factor causing companies to increase the outlays on investments. According to GUS data, seasonally adjusted capacity utilization in manufacturing amounted to 80.0% in Q3 vs. 80.1% in Q2 (the highest level since Q2 2008). In Q2 the 50+ companies increased outlays on transport equipment, while investments in buildings, machinery, technical equipment and tools decreased in annual terms. This means that companies are now mainly modernizing their outdated fixed assets and to a limited extent invest in increasing production capacity. We believe that this trend will reverse in subsequent quarters. In addition to the high capacity utilization, other elements which contribute to a favourable investment climate can be said to include also optimistic demand outlook, historically low interest rates, inflow of EU funds within the new programming period, overliquidity of enterprises enabling them to finance projects with their own funds, as well as diminishing uncertainty of entrepreneurs about the economic environment signaled in the business surveys.

In subsequent quarters we expect a significant rebound in public investments and increase in gross fixed capital formation of companies controlled by the public sector, due to increasing use of EU funds. In the conditions of high capacity utilization, the increase in these investments should contribute to growth of gross fixed capital formation by private companies, in particular those connected with the public investment cycle. Our view is supported by the NBP business surveys (Quick Monitoring, July 2017), which point to higher investment activity of enterprises. The companies declare acceleration in investments growth in Q3. The companies have also increased – compared to the previous survey – the forecasts of whole year investment expenditure. A downside risk to our forecast of higher corporate investments growth are growing difficulties in finding skilled labour, which are conducive to lower outlays on fixed assets. According to GUS business surveys, the percentage of manufacturing companies reporting such difficulties in Q3 was the highest in the survey history. The August manufacturing PMIs indicated delays in the execution of orders due to staff shortages. An increase in production backlogs was recorded for the first time since February 2015. The negative impact of the situation in the labour market on the investments growth rate is also supported by the results of the August Work Service survey. According to the survey results, due to staff shortages, 32.6% of the surveyed companies are unable to enter into new deals and 12.8% of companies decide to either limit or fully resign from investments for this reason.

A lower than we expected growth of investments in 50+ companies in Q2 and difficulties in finding skilled labour are conducive to a lowering of our forecast of corporate investments growth in 2017 (6.2% YoY vs. -4.6% in 2016) and thus of the forecast of total investments growth (5.4% in 2017 vs. -7.9% in 2016). In the next MACROmap we will present our latest macroeconomic scenario including revised investments profile.

ECB may increase PLN volatility

FX rates



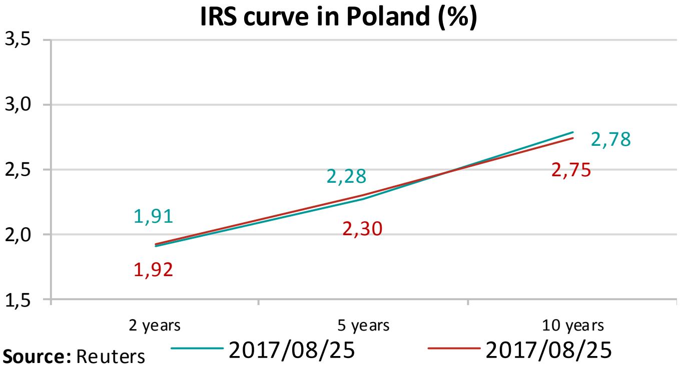
Source: Reuters

Last week EURPLN rate dropped to 4.2542 (PLN strengthening by 0.1%). The most important event for PLN last week was a sharp increase in global risk aversion on Tuesday, after North Korea launched a missile which flew over the territory of Japan. In response to this incident, the US President, D. Trump, said that all options reagrding North Korea were on the table. Consequently, on Tuesday afternoon, EURPLN reached its weekly maximum, temporarily exceeding 4.27. Further into the week, PLN was making up for the losses, supported by gradual decline in risk aversion, reflected by VIX Index decline. Temporarily positive for PLN was also the Friday's, clearly weaker-than-expected non-farm payrolls data in the US. On the other hand, PLN was depreciating vs. GBP last week, which resulted from a decline in EURGBP rate. It resulted from a correction which occurred on Wednesday after GBP had hit the lowest level vs. EUR since October 2016.

Crucial for PLN this week will be the ECB meeting scheduled for Thursday. We believe that during the conference after the meeting we can see increased volatility of PLN. The release of data on Chinese balance on trade scheduled for Friday as well as the meeting of the MPC scheduled for Wednesday will be neutral for PLN, we believe. The Friday's update of Poland's rating by Moody's is likely to be released after the closing of the European markets, therefore its impact on PLN will materialize no sooner than next week.

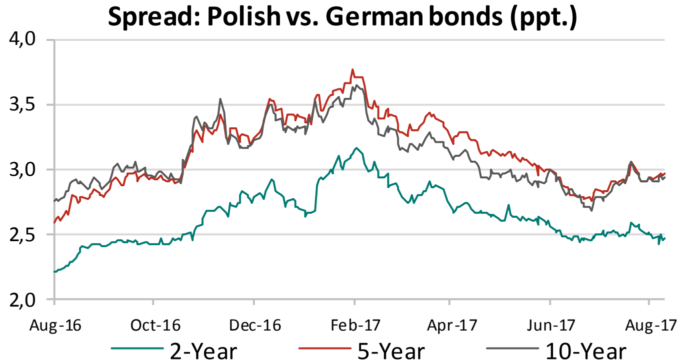
The markets focus on ECB meeting

IRS curve in Poland (%)



Source: Reuters

Spread: Polish vs. German bonds (ppt.)



Last week the Polish 2-year IRS rate dropped to a level of 1.91 (down by 1 bp), of 5-year rate to a level of 2.275 (down by 2 bp), and of 10-year rate rose to a level of 3.7809 (up by 4 bp). Throughout the week, low liquidity prevailed on the Polish IRS market. The most important event was the Friday's release of clearly weaker-than-expected data from the US labour market. This resulted in a temporary decrease in IRS rates visible across the curve.

This week the Polish debt market will focus on the ECB meeting scheduled for Thursday. In our view, it will support increased volatility of IRS rates. The MPC meeting scheduled for Wednesday will be neutral for IRS rates, we believe. The update of Poland's credit rating by Moody's is likely to be announced after the closing of the European markets, therefore its impact on IRS rates will materialize no sooner than next week.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland

Indicator	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17
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*	4,36	4,29	4,31	4,45	4,40	4,32	4,31	4,23	4,23	4,18	4,23	4,25	4,25	**4,23**
USDPLN*	3,91	3,82	3,92	4,20	4,18	4,00	4,07	3,97	3,88	3,72	3,70	3,59	3,57	**3,62**
CHFPLN*	3,97	3,93	3,96	4,13	4,11	4,04	4,05	3,96	3,90	3,84	3,86	3,72	3,72	**3,71**
CPI inflation (% YoY)	-0,8	-0,5	-0,2	0,0	0,8	1,7	2,2	2,0	2,0	1,9	1,5	1,7	**1,9**	
Core inflation (% YoY)	-0,4	-0,4	-0,2	-0,1	0,0	0,2	0,3	0,6	0,9	0,8	0,8	0,8	**0,8**	
Industrial production (% YoY)	7,5	3,2	-1,3	3,2	2,2	9,1	1,1	11,0	-0,6	9,1	4,5	6,3	**6,7**	
PPI inflation (% YoY)	-0,1	0,2	0,6	1,8	3,2	4,0	4,5	4,8	4,2	2,4	1,8	2,2	**2,8**	
Retail sales (% YoY)	5,6	4,8	3,7	6,6	6,4	11,4	7,3	9,7	8,1	8,4	6,0	7,1	**5,8**	
Corporate sector wages (% YoY)	4,7	3,9	3,6	4,0	2,7	4,3	4,0	5,2	4,1	5,4	6,0	4,9	**5,7**	
Employment (% YoY)	3,1	3,2	3,1	3,1	3,1	4,5	4,6	4,5	4,6	4,5	4,3	4,5	**4,6**	
Unemployment rate* (%)	8,4	8,3	8,2	8,2	8,3	8,6	8,5	8,1	7,7	7,4	7,1	7,1	**7,0**	
Current account (M EUR)	-729	-858	172	99	-219	2342	-599	-529	-160	-298	-932	**-1271**		
Exports (% YoY EUR)	9,3	3,1	-0,6	5,7	5,1	14,3	5,7	15,1	1,4	16,2	8,7	**11,7**		
Imports (% YoY EUR)	10,7	3,5	3,6	6,3	7,1	16,0	8,9	16,8	3,3	21,4	15,0	**14,3**		

*end of period

Forecasts of the quarterly macroeconomic indicators

Main macroeconomic indicators in Poland

Indicator		2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2016	2017	2018
Gross Domestic Product (% YoY)		4,0	3,9	4,1	4,1	3,4	3,8	3,6	3,9	2,7	4,0	3,7
Private consumption (% YoY)		4,7	4,9	3,2	3,1	3,3	3,3	3,0	3,2	3,8	3,8	3,2
Gross fixed capital formation (% YoY)		-0,4	0,8	6,1	8,2	8,8	6,8	5,2	4,1	-7,9	5,4	5,7
Export - constant prices (% YoY)		8,3	2,8	9,6	10,1	8,1	7,2	8,8	8,9	9,0	9,1	8,3
Import - constant prices (% YoY)		8,7	6,1	10,6	11,7	10,1	9,1	8,1	7,9	8,9	10,1	8,8
GDP growth contributions	Private consumption (pp)	3,0	2,9	1,9	1,5	2,1	2,0	1,8	1,6	2,3	2,2	1,8
	Investments (pp)	0,0	0,1	1,1	2,0	1,0	1,1	0,9	1,0	-1,6	1,0	1,0
	Net exports (pp)	0,1	-1,5	-0,2	-0,4	-0,7	-0,6	0,6	0,7	0,3	-0,2	0,0
Current account***		0,1	-0,5	-0,4	-0,5	-1,1	-1,3	-1,2	-1,0	-0,2	-0,5	-1,0
Unemployment rate (%)**		8,1	7,1	7,0	7,3	7,6	6,8	6,6	7,3	8,3	7,3	7,3
Non-agricultural employment (% YoY)		2,1	2,4	1,5	0,6	0,2	0,0	0,0	0,0	1,9	1,7	0,0
Wages in national economy (% YoY)		4,1	5,0	5,3	5,0	5,2	5,5	5,7	5,8	3,8	4,9	5,5
CPI Inflation (% YoY)*		2,0	1,8	2,0	1,9	1,3	1,6	1,3	1,3	-0,6	2,0	1,4
Wibor 3M (%)**		1,73	1,73	1,73	1,73	1,73	1,73	1,90	1,98	1,73	1,73	1,98
NBP reference rate (%)**		1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,75	1,50	1,50	1,75
EURPLN**		4,23	4,23	4,23	4,16	4,15	4,12	4,10	4,07	4,40	4,16	4,07
USDPLN**		3,97	3,70	3,62	3,53	3,52	3,46	3,42	3,36	4,18	3,53	3,36

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

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST*	
					CA	CONSENSUS**
		Monday 09/04/2017				
10:30	Eurozone	Sentix Index (pts)	Sep	27,7		27,4
11:00	Eurozone	PPI (% YoY)	Jul	2,5		2,2
		Tuesday 09/05/2017				
10:00	Eurozone	Services PMI (pts)	Aug	54,9	54,9	54,9
10:00	Eurozone	Final Composite PMI (pts)	Aug	55,8	55,8	55,8
11:00	Eurozone	Retail sales (% MoM)	Jul	0,5		-0,1
16:00	USA	Factory orders (% MoM)	Jul	3,0	-3,1	-3,2
		Wednesday 09/06/2017				
8:00	Germany	New industrial orders (% MoM)	Jul	1,0		0,1
16:00	USA	ISM Non-Manufacturing Index (pts)	Jan	53,9	56,1	
	Poland	**NBP rate decision (%)**	**Sep**	**1,50**	**1,50**	**1,50**
		Thursday 09/07/2017				
8:00	Germany	Industrial production (% MoM)	Jul	-1,1		0,6
11:00	Eurozone	Revised GDP (% QoQ)	Q2	0,6	0,6	0,6
11:00	Eurozone	Final GDP (% YoY)	Q2	2,2		2,2
13:45	Eurozone	EBC rate decision (%)	Sep	0,00	0,00	0,00
14:30	USA	Initial jobless claims (k)	w/e	234		240
		Friday 09/08/2017				
	China	Trade balance (bn USD)	Aug	46,7	51,5	
8:00	Germany	Trade balance (bn EUR)	Jul	21,2		
16:00	USA	Wholesale inventories (% MoM)	Jul	0,4		
16:00	USA	Wholesale sales (% MoM)	Jul	0,7		

*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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