

This week

- ✓ **Significant data from the US will be released this week.** Data from the labour market will be published on Friday. We expect the employment to have increased by 185k in December vs. 178k in November, while unemployment rate increased to 4.7% vs. 4.6%. Before the Friday's readings some additional information on the labour market will be provided by the ADP report on private sector employment (the market expects an increase by 173k in December vs. 216k in November). The results of US business surveys will also be released this week. We forecast that the ISM index for manufacturing increased to 54.1 pts in December vs. 53.2 pts in November, which will be consistent with the results of regional business surveys. On the other hand, a slight decrease was recorded in case of non-manufacturing ISM index (56.0 pts in December vs. 57.2 pts in November). Data from the US should not be market moving, we believe.
- ✓ **The December Caixin PMI index for Chinese manufacturing will be released on Tuesday.** We expect that the indicator did not change in comparison to November and amounted to 50.9 pts in December. We expect that the business survey results in China, signaling stabilization of sentiment in manufacturing, will be neutral for the markets.
- ✓ **The flash reading of HICP inflation in the Eurozone will be released on Wednesday.** We expect that the price dynamics rose to 1.0% YoY in December vs. 0.6% in November. Higher inflation will be i.a. due to low base effects for energy prices. We expect that these data will not substantially affect PLN or yields on bonds.
- ✓ **December data on business sentiment in Polish manufacturing have been released today (see below).** PMI rose to 54.3 pts from 51.9 pts in November running above our forecast (52.4 pts) and market expectations (52.2 pts).

Last two weeks

- ✓ **Numerous hard data from the US economy and business survey results were released last week.** According to the final estimate, the annualized economic growth rate in Q3 was revised upwards to 3.5% vs. 3.2% in the second estimate. Upward revision resulted from higher contributions of investments (0.02 pp in the final estimate vs. -0.15 pp in the second estimate), private consumption (2.03 pp. vs. 1.89 pp.) and government consumption (0.14 pp. vs. 0.05 pp.). The opposite impact came from lower contribution of net exports (0.85 pp in the final estimate vs. 0.87 pp in the second estimate). The contribution of inventories did not change and amounted to 0.49 pp. Data indicate that the main source of the US GDP growth in Q3 was private consumption. Two weeks ago flash data on durable goods orders were released which decreased by 4.6% MoM in November vs. a 4.8% increase in October. The drop in the monthly dynamics of orders between October and November was due to slower pace of orders for means of transport. Excluding means of transport, orders rose by 0.5% in November vs. a 0.9% increase in October. Especially noteworthy in the data structure is the continuation of decline in orders for non-military capital goods excluding orders for aircrafts (-3.2% YoY in November vs. -4.4% in October), being a leading indicator of future investments. Data on existing home sales (5.61 M in November vs. 5.57 M in October) and new home sales (592 k vs. 563 k) were released two weeks ago and suggested continuation of the recovery in the US real estate market. Within the last two weeks the consumer sentiment surveys were also published. The final University of Michigan index increased in December to 98.2 pts vs. 93.8 pts in November and 98.0 in flash estimate. Its increase was due to higher sub-indices concerning both the assessment of current situation and expectations. Improvement of consumer sentiment was also signaled by the Conference Board index (113.7 pts in December vs. 109.4 pts. in November). Its growth was a result of higher subindex of expectations while a deterioration of assessment of current situation had an opposite effect. We forecast that the annualized economic growth rate in the US will amount to

1.7% in Q4.

➤ **Industrial production in Poland rose by 3.3% YoY in November vs. a 1.3% decline in October.**

The main reason for the increase in production growth in November was a positive statistical effect related to a favourable difference in the number of working days. The increase in industrial production growth was also due to higher output growth rate in segments related to construction (see MACROPulse of 19/12/2016). On the other hand, the high base effect from the year before, related to accelerated implementation of projects co-financed with EU funds from the 2007-2013 programming period and resulting from the need to settle them before the end of 2015, had an opposite impact. The construction and assembly production dropped by 12.8% YoY in November vs. a 20.1% decline in October. Seasonally-adjusted construction and assembly production rose by 6.7% compared to October. Higher construction and assembly production growth was, as in case of industrial production, largely due to a positive statistical effect related to a favourable difference in the number of working days while the high base effects from the year before related to acceleration of construction works, resulting from the necessity of settling EU funds from the 2007-2013 programming period towards the end of 2015, had an opposite impact. The November data on industrial production and construction and assembly production pose an upside risk to our forecast, in which the annual GDP dynamics in Poland will drop to 1.7% in Q4 vs. 2.5% in Q3.

➤ **Nominal retail sales in Poland rose by 6.6% YoY in November vs. a 3.7% increase in October.**

The sales in constant prices rose by 7.4% YoY in November vs. a 4.6% increase in October. The acceleration in real retail sales growth was mainly due to higher dynamics of sales in the category "motor vehicles, motorcycles, parts", "solid, liquid and gas fuels" and "other" (see MACROPulse of 19/12/2016). November data on retail sales do not change our forecast that annual dynamics of private consumption in Q4 stayed at the Q3 level and amounted to 3.9%.

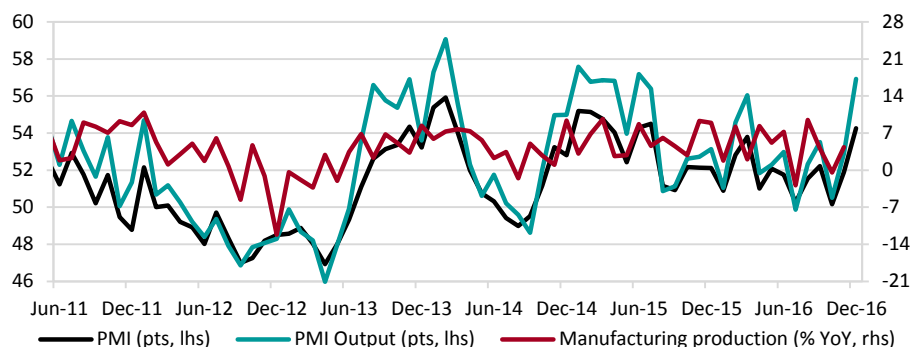
➤ **Ifo index reflecting the sentiment among German managers representing the manufacturing, construction, wholesale and retail trade sectors, rose to 111.0 pts in December vs. 110.5 pts in November.**

The index increase was due to higher sub-index concerning both the assessment of the current situation and expectations. Sector-wise, improved sentiment was recorded in 3 out of 4 sectors (manufacturing, construction and wholesale trade). Stabilization of situation was recorded in retail trade. Combined with the other business surveys results for Germany (PMI, ZEW), Ifo index supports our forecast, in which the quarterly German GDP growth rate will increase to 0.4% in Q4 vs. 0.2% in Q3.

➤ **According to the flash estimate, inflation in Poland rose to 0.8% YoY in December vs. 0.0% in November which was above our forecast equal to the market consensus (0.5%).**

We believe that the increase in inflation was due higher dynamics of food and fuel prices. Final data on inflation including its structure will be released on 13 January.

➤ **The end of the year brought a strong recovery in manufacturing**



Source: Markit, GUS

Business sentiment in Polish manufacturing (PMI) rose to 54.3 pts in December from 51.9 pts in November, running above our forecast (52.4 pts) and the market consensus (52.2 pts). Moreover, the index has reached the highest level since July 2015. The index growth was due to higher contributions of its all components (output, new orders,

employment, delivery times and stocks of purchases) which signals the broad improvement of situation in Polish manufacturing.

Especially noteworthy in the data structure is a strong increase in output subindex (56.9 pts in December vs. 52.9 pts in November). It is supportive for our December industrial production forecast (3.0% YoY vs. 3.3% in November) which is clearly higher than the market consensus (0.9%).

It is noteworthy also that a strong increase in new orders subindex (54.1 pts in December vs. 51.7 pts in November) was accompanied by higher export orders subindex (53.0 pts vs. 49.7 pts). Furthermore, it has been the first increase in export orders on the monthly terms since September 2016. Recovery of external demand was signaled earlier by the December PMI index for German manufacturing which indicated on the strong growth of subindices for output and new orders (see MACROmap of 19/12/2016).

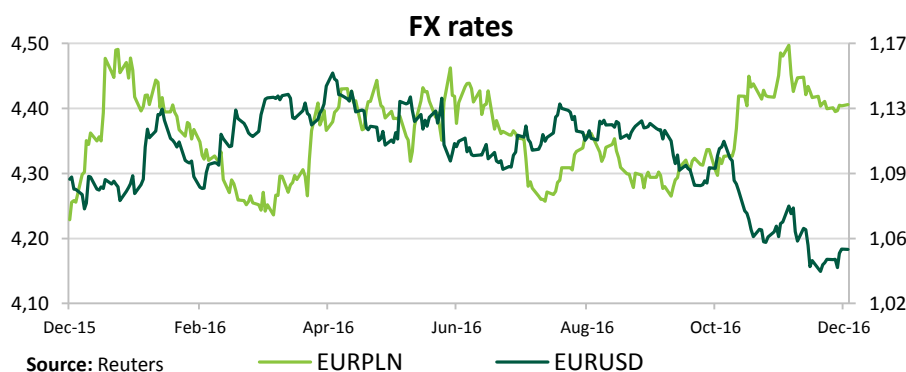
It is also worthy to notice a strong increase in employment subindex (55.4 pts in December vs. 53.9 pts. in November) which has reached the highest level since March 2015. We believe that the labour market is close to equilibrium. We expect that employment growth in non-agricultural sector will gradually decrease to reach 0.1% YoY in Q4 2017. The slowdown of improvement in the labour market will largely result from difficulties in finding skilled labour (see MACROmap of 12/12/2016).

A significant increase was also recorded in case of output prices (66.2 pts. in December vs. 57.5 pts. in November) which have reached the highest level since April 2011. According to the Markit press release, it reflects a strong growth of costs associated with higher prices of commodities and weakening of PLN.

The PMI value in Q4 stood at a higher level than in Q3 (52.1 pts vs. 51.3 pts). Thus, today's data pose an upward risk to our forecast of GDP growth in Q4 (1.7% YoY vs. 2.5% in Q3).

Today's data on December PMIs are slightly positive for PLN and yields on Polish bonds.

US labour market data essential for PLN

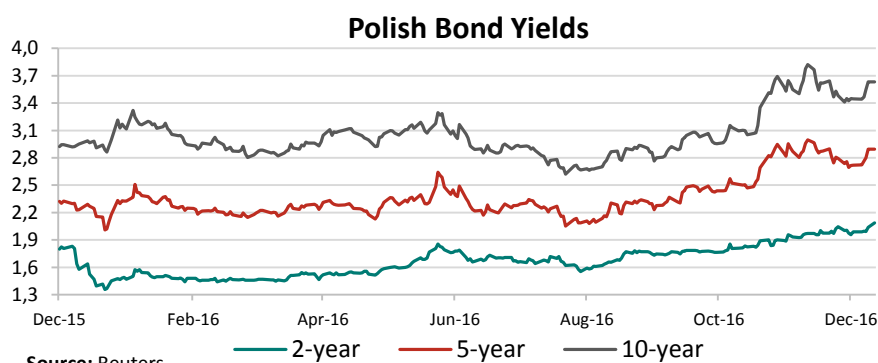


During last two weeks EURPLN rate fell down to 4.4039 (strengthening by 0.3%). Before the Christmas PLN and other currencies of the region were in the strengthening trend. Their appreciation was, in our opinion, connected largely with a drop in global risk aversion represented by decrease in VIX index. It may be a result of lower uncertainty after the December decisions of FED and ECB (see

MACROmap of 19/12/2016). Conducive to PLN strengthening were also better than expected data on industrial production and retail sales. On last Monday, due to the second day of Christmas, the activity on FX market was very low and PLN rate was relatively stable. In the second part of the week, PLN and other currencies of the region were weakening which might be connected with the correction after the recent appreciation of the emerging market currencies and closing positions by the part of investors at the end of year.

Today's PMI index for Polish manufacturing which turned out to be markedly higher than market consensus is, in our opinion, slightly positive for PLN. These week essential for Polish currency will be Friday data on the US nonfarm payrolls. In case of materialization of our forecasts, reading would be neutral for PLN, we believe. Limited impact on PLN will have also remaining US data (ISM manufacturing and non-manufacturing indices), Caixin PMI index for Chinese manufacturing and the flash estimate of HICP inflation in the Eurozone.

US data in the focus of the Polish debt market



During the last two weeks the yield of Polish 2-year benchmark bonds dropped to a level of 2.036 (down by 1 bp), of 5-year bonds increased to a level of 2.893 (up by 10 bp), of 10-year bonds increased to a level of 3.631 (up by 15 bp). Before the Christmas, yields on Polish bonds were decreasing across the curve, which was largely due to the lower global risk aversion represented by

a drop in VIX index. It might be a result of lower uncertainty on the market after the December decisions of FED and ECB (see MACROmap of 19/12/2016). In the first part of the last week, due to the holiday period the activity on the Polish debt market was very limited. The second part of the week saw an increase in yields on Polish bonds across the curve which might be connected with closing positions by the part of investors at the end of year.

Today's, better than expected data on the situation in Polish manufacturing (PMI) is positive for yields on Polish bonds, we believe. This week the focus of the Polish debt market will be on nonfarm payrolls data in the US. In case of materialization of our forecast, which is near the market consensus, the impact of the data on Polish debt most likely will be limited. Neutral for yields on Polish bonds will also be remaining US readings (manufacturing and non-manufacturing ISM indices) and the flash HICP inflation in the Eurozone.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland														
Indicator	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	Jan-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*	4,26	4,42	4,35	4,24	4,37	4,38	4,38	4,35	4,36	4,29	4,31	4,45	4,40	4,44
USDPLN*	3,92	4,08	4,00	3,73	3,81	3,94	3,94	3,90	3,91	3,82	3,92	4,20	4,18	4,23
CHFPLN*	3,91	3,98	4,00	3,87	3,97	3,96	4,04	4,02	3,97	3,93	3,96	4,13	4,11	4,11
CPI inflation (% YoY)	-0,5	-0,9	-0,8	-0,9	-1,1	-0,9	-0,8	-0,9	-0,8	-0,5	-0,2	0,0	0,5	
Core inflation (% YoY)	0,2	-0,1	-0,1	-0,2	-0,4	-0,4	-0,2	-0,4	-0,4	-0,4	-0,2	-0,1	-0,1	
Industrial production (% YoY)	6,7	1,4	6,8	0,7	5,9	3,2	6,0	-3,4	7,5	3,2	-1,3	3,3	3,0	
PPI inflation (% YoY)	-0,8	-1,2	-1,5	-1,9	-1,2	-0,4	-0,8	-0,5	-0,1	0,2	0,6	1,7	2,5	
Retail sales (% YoY)	4,9	0,9	3,9	0,8	3,2	2,2	4,6	2,0	5,6	4,8	3,7	6,6	6,9	
Corporate sector wages (% YoY)	3,1	4,0	3,9	3,3	4,6	4,1	5,3	4,8	4,7	3,9	3,6	4,0	3,7	
Employment (% YoY)	1,4	2,3	2,5	2,7	2,8	2,8	3,1	3,2	3,1	3,2	3,1	3,1	2,9	
Unemployment rate* (%)	9,7	10,2	10,2	9,9	9,4	9,1	8,7	8,5	8,4	8,3	8,2	8,2	8,3	
Current account (M EUR)	-846	679	-652	-217	492	389	113	-635	-1007	-999	-393	-366		
Exports (% YoY EUR)	10,8	-1,3	5,4	0,0	4,1	0,0	5,7	-5,1	8,5	1,5	-3,1	2,0		
Imports (% YoY EUR)	4,4	0,3	7,4	0,9	0,3	1,5	0,4	-6,8	10,7	3,2	0,2	3,4		

*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	0,1	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	4,40	4,35	4,33	4,23	4,18	4,45	4,18	4,07	
USDPLN**	3,73	3,94	3,82	4,18	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 01/02/2017						
9:00	Poland	Manufacturing PMI (pts)	Dec	51,9	52,4	52,2
9:55	Germany	Final Manufacturing PMI (pts)	Dec	55,5	55,5	55,5
10:00	Eurozone	Final Manufacturing PMI (pts)	Dec	54,9	54,9	54,9
Tuesday 01/03/2017						
2:45	China	Caixin Manufacturing PMI (pts)	Dec	50,2	50,9	51
14:00	Germany	Preliminary HICP (% YoY)	Dec	0,7		1,3
15:45	USA	Flash Manufacturing PMI (pts)	Dec	54,2		
16:00	USA	ISM Manufacturing PMI (pts)	Dec	53,2	54,1	53,5
Wednesday 01/04/2017						
10:00	Eurozone	Services PMI (pts)	Dec	53,1	53,1	53,1
10:00	Eurozone	Final Composite PMI (pts)	Dec	53,9	53,9	53,9
11:00	Eurozone	Preliminary HICP (% YoY)	Dec	0,6	1,0	1,0
14:15	USA	ADP employment report (k)	Dec	216		170
Thursday 01/05/2017						
11:00	Eurozone	PPI (% YoY)	Nov	-0,4		0,1
16:00	USA	ISM Non-Manufacturing Index (pts)	Dec	57,2	56,0	56,8
Friday 01/06/2017						
8:00	Germany	New industrial orders (% MoM)	Nov	4,9		-2,3
11:00	Eurozone	Business Climate Indicator (pts)	Dec	0,40		
11:00	Eurozone	Retail sales (% MoM)	Nov	1,1		-0,4
14:30	USA	Unemployment rate (%)	Dec	4,6	4,7	4,7
14:30	USA	Non-farm payrolls (k MoM)	Dec	178	185	175
16:00	USA	Factory orders (% MoM)	Nov	2,7	-3,0	-2,2

*The forecasts of macroeconomic indicators for Poland were prepared by Credit Agricole Bank Polska S.A. The forecasts of foreign indicators were prepared by Crédit Agricole Corporate and Investment Bank

** Reuters