

## This week

- **The most important event this week will be the FOMC meeting scheduled for Wednesday.** We expect that after the rate hike in December 2016, the Federal Reserve will maintain status quo in the monetary policy this week. The latest remarks of some FED members pointed to a low likelihood of monetary tightening in the nearest future. The markets will focus on possible changes in the tone of the press release reflecting the recent remarks of D. Trump concerning the prospects for the economic policy of his administration. In our view, the press release after the FOMC meeting this week may contribute to increased volatility in the financial markets.
- **Important data from the US will also be released this week.** Data from the labour market will be released on Friday. We expect non-farm payrolls to have increased by 175k in January vs. 165k in December 2016, with unemployment rate unchanged at 4.7%. Before the Friday's reading, some additional information on the labour market will be provided by the ADP report on private sector employment (the market expects an increase by 162k in January vs. 153k in December). Business survey results will also be released this week. We forecast that the ISM index for manufacturing rose to 55.2 pts in January vs. 54.7 pts in December 2016, which will be consistent with the optimistic results of regional business surveys. We expect the Conference Board Consumer Sentiment Index to signal a slight deterioration in households' sentiment in January (110.7 pts vs. 113.7 pts in December). We believe that the publication of data from the US should not be market moving.
- **The January China manufacturing PMIs (Caixin and CFLP) will be released this week.** We expect that Caixin PMI rose slightly to 52.0 pts vs. 51.9 pts in December while CFLP PMI dropped to 51.2 pts vs. 51.4 pts in December. We expect that the results of business surveys in China, suggesting stabilization of sentiment in manufacturing, will be neutral for the markets.
- **Important data from the Eurozone will be released on Tuesday.** We expect the quarterly GDP dynamics in the Eurozone to have increased to 0.4% in Q4 2016 vs. 0.3% in Q3. In addition, we forecast that HICP inflation rose to 1.7% YoY in January vs. 1.1% in December 2016. We believe that the reading of inflation in the Eurozone may be conducive to a slight weakening of PLN and lower prices of Polish bonds.
- **The GDP estimate in Poland for 2016 will be released on Tuesday.** We forecast that the GDP growth rate amounted to 2.5% YoY vs. 3.9% in 2015. The data on industrial production, assembly-and-construction production, and retail sales, released in November and December, signal an upside risk to the annual GDP forecast. However, we do not expect a possibly higher than we expected annual GDP growth in 2016 to have a material impact on PLN and prices of bonds.
- **The January data on business sentiment in Polish manufacturing will be released on Wednesday.** We expect that PMI dropped to 53.7 pts from 54.2 pts in December. The main source of lower growth rate of manufacturing activity was a high base effect. On the other hand, the improvement in manufacturing in Germany and in the Eurozone (see below) had an opposite impact. Our forecast is close to the consensus; therefore, its materialization will be neutral for PLN and yields on Polish bonds.

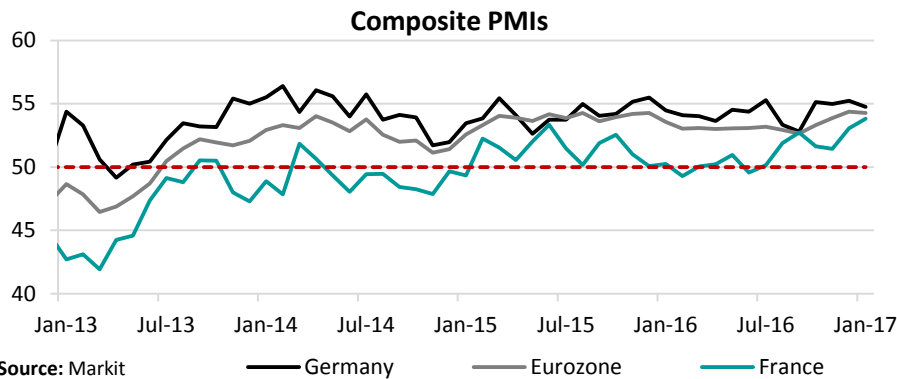
## Last week

- **The results of business surveys (PMI) for major European economies were released last week.** PMI Composite (for manufacturing and services) in the Eurozone dropped to 54.3 pts in January vs. 54.4 pts in December. The index slight decline resulted from a slight decrease of its sub-indices for both output in manufacturing and activity in the services sector (see below).
- **Numerous data from the US economy and business survey results were released last week.** According to the flash estimate, the annualized GDP growth rate dropped to 1.9% in Q4 vs. 3.5%

in Q3. Lower GDP dynamics resulted from lower contribution of net exports (-1.70 pp in Q4 vs. 0.85 pp in Q3) and private consumption (1.70 pp vs. 2.03 pp). Higher contributions of investments (0.67 pp vs. 0.02 pp), inventories (1.00 pp vs. 0.49 pp), and government spending (0.21 pp vs. 0.14 pp) had an opposite impact. Thus, private consumption remained the main source of growth of the US GDP in Q4. Preliminary data on durable goods orders were also released last week and decreased by 0.4% MoM in December vs. a 4.8% decrease in November. The main factor contributing towards sharp increase in the monthly orders dynamics was higher growth rate of orders for non-military aircrafts and parts. Excluding means of transport, durable goods orders rose by 0.5% MoM in December vs. a 1.0% increase in November. Especially noteworthy in the data structure is the first since October 2015 increase in orders for non-military capital goods, excluding aircrafts (2.8% YoY in December vs. -2.3% in November), being a leading indicator for future investments. Data on new home sales (536k in December vs. 598k in November) and existing home sales (5.49M vs. 5.65M) were also released last week. Considering the sound data on the number of housing starts and new building permits released two week ago (see MACROmap of 23/1/2017), lower new home sales and existing home sales do not signal a substantial risk to the continuation of the recovery in the US real estate market. The results of consumer sentiment surveys were also released last week. The final index of the University of Michigan rose to 98.5 pts in January vs. 98.2 pts in December and 98.1 pts in the flash estimate. Conducive to the index increase was higher value of the sub-index concerning expectations while lower sub-index concerning the assessment of the current situation had an opposite index. The last week's data from the US economy support our scenario in which we assume that FED will hike interest rates by 50 bp in total in 2017.

➤ **The results of the NBP business survey (Quick Monitoring, January 2017) were released last week.** According to the survey results, the companies controlled by the public sector – including in particular companies owned by local governments – intend to clearly increase outlays for fixed assets this year. The visible acceleration in investments in public sector companies should start in Q1 2017. In turn, in the case of private companies we can see a deterioration of expectations concerning investment activity both in the horizon of a quarter and in the whole year. High uncertainty is mentioned as one of the main barriers to growth of investments. We believe that the results of the Quick Monitoring do not pose a risk to the expected by us economic recovery in 2017. We expect that together with the increasing higher absorption of EU funds and acceleration in public investments, we will also see increased investment activity in private companies, in particular in branches affected by the cycle in public investments. In addition, according to the NBP survey results, an increasing number of businesses feel a clearly growing wage pressure. More than 16% of enterprises noted an increase in wage pressure on the part of employees. This pressure increased in all the sectors of the economy covered by the NBP survey. The survey results signal a slight upside risk to our forecast of investments in Q1 (-1.0% YoY vs. -5.4% in Q4 2016) and support our forecast of higher wage growth in the national economy in 2017 (4.6% YoY vs. 4.0% in 2016).

## The German locomotive will pull Polish exports



Source: Markit

— Germany — Eurozone — France

The Composite PMI (for manufacturing and services) for the Eurozone dropped to 54.3 pts in January vs. 54.4 pts in December. The slight decline of the index resulted from a slightly lower value of its sub-indices for both output in manufacturing and activity in the services sector.

Especially noteworthy in the data structure is the higher sub-index for employment, which hit the highest level since November 2007. According to Markit release, this results from the high growth rate of orders continuing in recent months for both manufacturing and services and reflects the increasingly optimistic investors' expectations concerning future economic situation in the Eurozone.

Geographically, slower growth rate of economic activity was recorded in Germany and resulted from lower sub-index concerning activity in the services sector and higher sub-index concerning output in manufacturing. Despite the slower growth rate of economic activity in Germany in January, it continues to run above the average for the whole Eurozone. Improved sentiment was recorded in France due to higher sub-index concerning activity in services, while lower sub-index concerning output in manufacturing had an opposite impact. In other Eurozone economies covered by the survey, economic activity slightly decreased in January though remaining at a high level compared to last year.

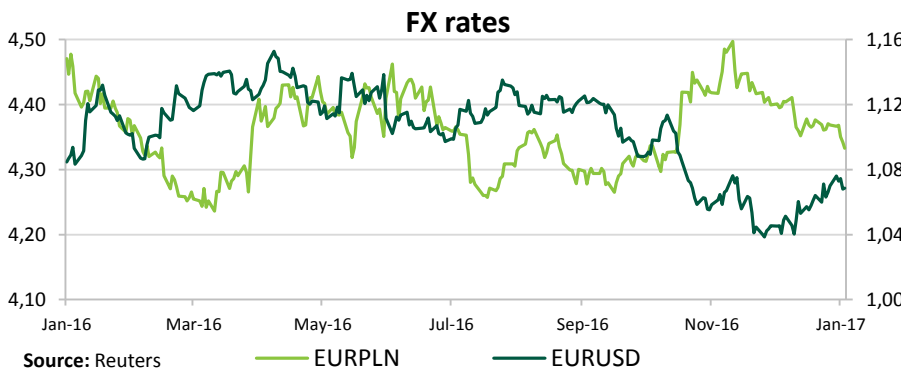
From the point of view of future business climate in Poland noteworthy is the situation in German manufacturing. The German manufacturing PMI rose to 56.5 pts in January vs. 55.6 pts in December and 55.0 pts in Q4 2016. The index increase resulted from higher contributions of four of its five sub-indices (employment, new orders, output, and suppliers' delivery times). On the other hand, lower sub-index concerning stocks of purchases had an opposite impact. It is worth noting that the total new orders sub-index rose to the highest level since January 2014, which was largely due to the acceleration in export orders growth.

Ifo index, reflecting the sentiment among German managers representing the manufacturing, construction, wholesale and retail trade sectors, also provided some additional information on the situation in the German economy last week and dropped to 109.8 pts in January vs. 111.0 pts in December. Its decrease resulted from lower value of its sub-index concerning expectations, while higher sub-index concerning the assessment of the current situation had an opposite impact. Sector-wise, deterioration was recorded in all the segments covered by the survey (manufacturing, construction, as well as retail and wholesale trade). In our view, the decrease in the Ifo index may largely result from correction after the December index increase to the highest level since February 2014. Thus, it does not suggest a deterioration of the German economic outlook, we believe.

The January results of PMI business surveys suggesting a significant increase in orders in the German manufacturing signal a high likelihood of increase in demand for goods manufactured in Poland and used in the production of final products. This view is supported by the January results of the NBP business survey (so-called NBP Quick Monitoring), in which an exceptional growth of exports value can be expected soon due to the PLN depreciation of Q4 2016. This supports our forecast, in which the annual Polish exports growth rose to 6.7% in Q1 2017 vs. 4.5% in Q4 2016 (see MACROmap of 12/12/2016). In

subsequent quarters we expect further increase in the annual export growth which will reach a two-digit level in H2 2017 (see below).

**Data on inflation in the Eurozone negative for PLN**

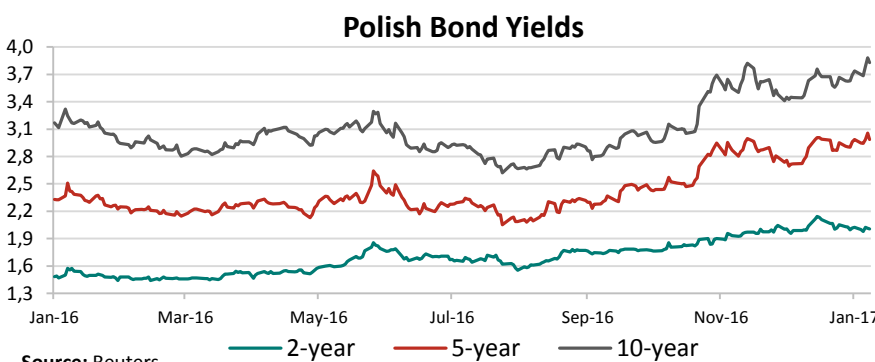


**Last week EURPLN rate dropped to 4.330 (PLN strengthening by 0.8%).** Monday through Friday, PLN was within an upward trend following the decreasing global risk aversion, reflected by lower VIX Index. In our view, the decrease in the global risk aversion resulted from the improvement in global equity markets. The Monday data on business sentiment for major

European economies and the Friday data from the US economy (first Q4 GDP estimate and preliminary durable goods orders) had a limited impact on the market.

Crucial for PLN this week will be the Wednesday FOMC meeting. We believe that the press release after the FOMC meeting may contribute to increased volatility of PLN. Conducive to weaker PLN may be the Tuesday's flash data on the Eurozone inflation, which will point to higher-from-the-consensus rate of inflation, we believe. In our view, the GDP estimate for Poland for 2016 and business survey results for Polish manufacturing (PMI) will have a limited impact on PLN. Data from the US (non-farm payrolls, manufacturing and non-manufacturing ISM, and the Conference Board Index), China (Caixing and CFLP PMIs) as well as the flash estimate of GDP in the Eurozone are also likely to be neutral for PLN.

**Press release after FOMC meeting to increase volatility in the Polish debt market**



**Last week the yield of Polish 2-year benchmark bonds dropped to a level of 2.005 (down by 2 bp), of 5-year bonds did not change compared to the level from two weeks ago and amounted to 2.986, and of 10-year bonds rose to a level of 3.83 (up by 9 bp).** Debt auctions (main and supplementary one) took place on Monday at which the

Finance Ministry sold PLN 10.7bn of 2-, 5-, 6-, and 10-year bonds with demand amounting to PLN 22.3bn. The high demand for bonds contributed to a decrease in yields on Polish bonds across the curve. On Tuesday and Wednesday, the prices of the Polish debt were stable, supported by a scarce macroeconomic calendar. On Thursday, the yields increased across the curve. In our view, this increase was largely of a transactional nature and can only partly be attributed to the outflow of due to bull market. This view is supported by a visible increase in spread between the Polish and the German and US bonds in this period. On Friday afternoon, there was a slight correction.

This week the Polish debt market will focus on the press release after the Wednesday FOMC meeting. We believe that it may be conducive to increased volatility of prices of Polish bonds. Positive for yields on Polish bonds may be the Tuesday's flash data on Eurozone inflation, which, if our forecasts materialize, will prove higher from the market expectations. The GDP estimate for Poland for 2016 and business survey results for Polish manufacturing (PMI) will be neutral for the Polish debt market, we believe. Data from the US (non-farm payrolls, manufacturing and non-manufacturing ISM, and the Conference Board Index) as well as the flash estimate of GDP in the Eurozone will also have a limited impact on the prices of Polish bonds, we believe.

## 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	<b>4,33</b>
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	<b>4,05</b>
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	<b>4,05</b>
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	0,8	
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	0,0	
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	2,3	
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	3,0	
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	6,4	
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	2,7	
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	3,1	
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	691	1392	-723	-993	-739	-445	-531	-427		
Exports (% YoY EUR)	10,8	-1,3	5,4	0,0	4,0	1,4	6,0	-5,2	9,2	2,7	-2,3	4,6		
Imports (% YoY EUR)	4,4	0,3	7,4	0,9	0,0	2,5	0,8	-6,9	10,8	3,1	2,1	6,4		

\*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	
	Investments (pp)	-0,3	-0,9	-1,4	-1,5	-0,1	0,2	1,1	2,1	-1,0	0,9	
	Net exports (pp)	-0,7	1,0	-0,3	-0,3	-0,4	-0,3	-0,3	-0,1	-0,1	-0,3	
Current account***	-0,8	-0,5	-0,5	-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	0,2	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	4,40	4,18	4,07	
USDPLN**	3,73	3,94	3,82	4,18	4,14	4,16	4,03	3,87	4,18	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**
<b>Monday 01/30/2017</b>						
11:00	Eurozone	Business Climate Indicator (pts)	Jan	0,80		
14:00	Germany	Preliminary HICP (% YoY)	Jan	1,7	2,0	2,0
14:30	USA	Real private consumption (% MoM)	Dec	0,1		
<b>Tuesday 01/31/2017</b>						
<b>10:00</b>	<b>Poland</b>	<b>Annual GDP (% YoY)</b>	<b>2016</b>	<b>3,9</b>	<b>2,5</b>	<b>2,7</b>
11:00	Eurozone	Preliminary GDP (% QoQ)	Q4	0,3	0,4	0,5
11:00	Eurozone	Preliminary HICP (% YoY)	Jan	1,1	1,7	1,5
15:00	USA	Case-Shiller Index (% MoM)	Nov	0,6		0,6
15:45	USA	Chicago PMI (pts)	Jan	54,6		55,0
16:00	USA	Consumer Confidence Index	Jan	113,7	110,7	112,5
<b>Wednesday 02/01/2017</b>						
2:00	China	NBS Manufacturing PMI (pts)	Jan	51,4	51,2	51
<b>9:00</b>	<b>Poland</b>	<b>Manufacturing PMI (pts)</b>	<b>Jan</b>	<b>54,3</b>	<b>53,7</b>	<b>53,5</b>
9:55	Germany	Final Manufacturing PMI (pts)	Jan	56,5	56,5	56,5
10:00	Eurozone	Final Manufacturing PMI (pts)	Jan	55,1	55,1	55,1
14:15	USA	ADP employment report (k)	Jan	153		162
15:45	USA	Flash Manufacturing PMI (pts)	Jan	55,1	55,1	
16:00	USA	ISM Manufacturing PMI (pts)	Jan	54,7	55,2	55,0
20:00	USA	FOMC meeting (%)	Feb	0,75	0,75	0,75
<b>Thursday 02/02/2017</b>						
13:00	UK	BOE rate decision (%)	Jan	0,25	0,25	0,25
14:30	USA	Initial jobless claims (k)	w/e	234		250
<b>Friday 02/03/2017</b>						
2:45	China	Caixin Manufacturing PMI (pts)	Jan	50,2	52,0	52
10:00	Eurozone	Services PMI (pts)	Jan	53,6	53,6	53,6
10:00	Eurozone	Final Composite PMI (pts)	Jan	54,3	54,3	54,3
14:30	USA	Unemployment rate (%)	Jan	4,7	4,7	4,7
14:30	USA	Non-farm payrolls (k MoM)	Jan	156	175	172
16:00	USA	ISM Non-Manufacturing Index (pts)	Jan	57,2	56,2	57,0
16:00	USA	Factory orders (% MoM)	Dec	-2,4		1,4

\*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