This week

- **A meeting of the Monetary Policy Council will be held on Wednesday.** We expect that the MPC will decide to leave the interest rates at an unchanged level. We believe that the issues of the likely increase in inflation in subsequent months and intensification of the market expectations of monetary policy tightening will be raised during the conference (FRAs are now pricing in a rate hikes by ca. 20 bp before the end of 2017). We believe that during the conference, NBP Governor, A. Glapiński, will attempt to verbally weaken the market expectations of prompt monetary tightening and will maintain his position from the month before that the Council acts in accordance with the "wait-and-see" approach and that interest rates are highly likely to be left unchanged throughout 2017. The press release after the Council meeting and NBP Governor's remarks during the conference may be conducive to PLN weakening and to lower yields on Polish bonds, we believe.
- **Data on the Chinese balance of trade will be released on Friday**. We expect that its surplus rose to USD 48.2bn in January vs. USD 40.8bn in December 2016. We forecast that export growth recorded a decline in January down to -8.2% YoY vs. -6.1% in December, while import growth dropped to 0.5% from 3.1%. The publication of data from China will be neutral for the markets, we believe.
- **The preliminary University of Michigan Index will also be released on Friday.** We forecast that its value slightly dropped from the local maximum recorded in January (98.5 pts – the highest level since January 2004) down to 97.5 pts in February. The publication of the data should be neutral for the financial markets.

Last week

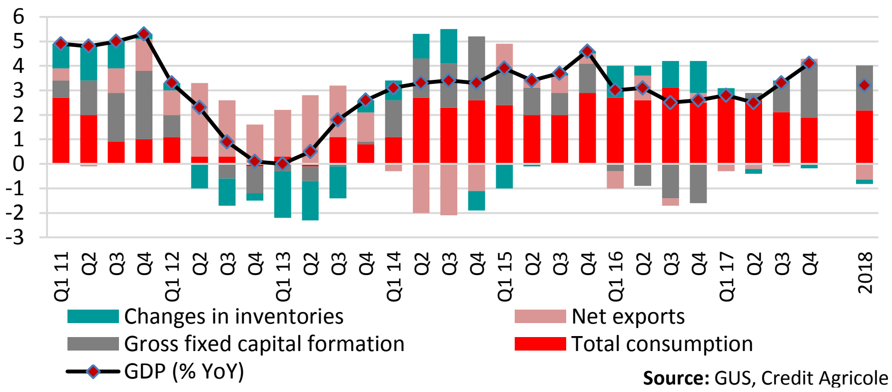
- **Numerous hard data on the US economy and business survey results were released last week.** Non-farm payrolls in the US rose by 227k in January vs. 157k in December (revised upwards from 156k), running above the market expectations (175k). The highest increase in employment was recorded in retail trade (+45.9k), business services (+39.0k), and construction (+36.0k). On the other hand, employment decreased in the public sector (-10.0k), transport and warehousing (-4.0k), and utilities (-0.6k). Unemployment rate rose to 4.8% in January vs. 4.7% in December, thus reaching the natural unemployment rate indicated by FOMC (see MACROmap of 19/12/2016). Its increase was mainly due to a faster increase in labour force than employment. This may suggest that the improving situation in the labour market has encouraged some so-far economically inactive persons to enter the labour market. The increase in labour force was reflected in higher participation rate, which amounted to 62.9% in January vs. 62.7% in December. The annual dynamics of average hourly earnings dropped to 2.5% in January vs. 2.8% in December, due to the abatement of the favourable statistical effect. We expect that the continuation of the improvement in the US labour market in the coming months will be conducive to higher annual wage growth. The results of business surveys in the US were also released last week. The ISM index for manufacturing increased to 56.0 pts in January vs. 54.5 pts in December, hitting the highest level since November 2014. Conducive to the index increase were higher values of all its five sub-indices (for new orders, output, employment, stocks of goods purchased, and suppliers' delivery times). Thus, the data structure suggests a wide range of the improvement in the US manufacturing. On the other hand, the non-manufacturing ISM recorded a slight decrease and dropped to 56.5 pts in January vs. 56.6 pts in December. Conducive to the index decrease were lower values of its sub-indices concerning new orders and business activity, while higher values of sub-indices for employment and suppliers' delivery times had an opposite impact. The Conference Board Index was also released last week and dropped to 111.8 pts vs. 113.3 pts in December. The index decline resulted from its lower sub-index concerning expectations, while higher sub-index concerning the assessment of the current situation had an opposite impact. Despite the January decline, the Conference Board Index stood above its average value for Q4 2016 (107.8 pts). Therefore, it does not suggest a significant risk to the continuation of improved consumer sentiment in the US, we believe. The last week's readings from the US economy support our forecast, in which the annualized GDP growth rate in the US will amount to 2.0% in Q1 2017 vs. 1.9% in Q4 2016.

- **In accordance with the flash estimate, GDP in Poland rose by 2.8% in 2016 vs. a 3.9% increase in 2015.** Slower GDP growth resulted from lower contributions of investments (-1.1 pp in 2016 vs. 1.2 pp in 2015) and net exports (0.1 pp vs. 0.6 pp). Higher contributions of inventories (1.0 pp vs. -0.2 pp), public consumption (0.7 pp vs. 0.4 pp), and private consumption (2.1 pp vs. 1.9 pp) had an opposite impact. Thus, private consumption continued to be the main source of GDP growth in Poland in 2016 (see MACROpulse of 31/1/2017). At the same time, the data indicate that the main source of slower growth in 2016 was a decline in gross fixed capital formation, which was mainly caused by a significant reduction of public and corporate investments, attributed to lower absorption of EU funds after the end of the 2007-2013 programming period. Based on GUS data, we have estimated that real GDP growth rate stood at 2.6% YoY in Q4 2016 vs. 2.5% in Q3. We estimate that conducive to the acceleration in economic growth were higher contributions of net exports (0.4 pp in Q4 vs. -0.3 pp in Q3) and of inventories (1.3 pp vs. 1.1 pp). Lower contributions of public consumption (0.5 pp vs. 0.8 pp), private consumption (2.0 vs. 2.3 pp), and investments (-1.6 pp vs. -1.4 pp) had an opposite impact. Thus, private consumption was the main source of growth in Q4. The flash GDP data for 2016 are in line with our scenario, in which the economic slowdown ended in Q4 2016. We expect that in subsequent quarters of 2017, GDP dynamics will stay within an upward trend reaching a level of 4.1% YoY in Q4 2017 (see below).
- **FOMC meeting was held last week.** As we expected, the target range for the Federal Reserve funds was left unchanged at [0.50%; 0.75%]. The text of the press release after the meeting shows that FOMC members are more and more satisfied with the US macroeconomic outlook due to the sustained improvement in the labour market and the increase in inflation they expect. The press release after the meeting has failed to provide any new information about the plans of further monetary policy normalization in the US. We believe that the FED's conservative rhetoric results from the high uncertainty as to the shape of the future economic policy of D. Trump administration. In our base scenario we assume that in the whole 2017 FED will increase interest rates by 50 bp in total (by 25 bp in June and 25 bp in December), which is below median expectations from the FOMC December projection (75 bp).
- **Polish manufacturing PMI rose to 54.8 pts in January from 54.3 pts in December.** The index increase resulted from higher contributions of four of its five sub-indices (concerning new orders, output, stocks of purchases, and suppliers' delivery times). Lower contribution of the sub-index concerning employment had an opposite impact. Especially noteworthy in the data structure is the sharp increase in the output sub-index to 58.2 pts in January vs. 56.9 pts in December 2016, which is its highest level since February 2014. The acceleration in production resulted from stronger inflow of orders, including in particular increased foreign demand. This view is supported by the highest level of the sub-index for new export orders since February 2014 (see MACROpulse of 1/2/2017). The business survey results support our forecast of increase in industrial production growth rate in January (7.6% YoY vs. 2.3% in December).
- **According to the flash estimate, inflation in the Eurozone rose to 1.8% YoY in January vs. 1.1% in December.** Conducive to higher inflation were higher dynamics of prices of energy, food and industrial goods, which contributed to increase of inflation by 0.5 pp, 0.1 pp, and 0.1 pp. respectively. The data pose an upside risk to our forecast, in which inflation in the Eurozone will rise to 1.5% YoY in Q1 2017 vs. 0.7% in Q4 2016.
- **According to the flash estimate, GDP growth in the Eurozone rose to 0.5% in Q4 vs. 0.4% in Q3.** On the other hand, the annual economic growth rate has not changed and stood at 1.8%

both in Q4 and in Q3. The published GDP data are a flash estimate and do not factor in its structure. Subsequent GDP estimate for the Eurozone in Q4, including the growth rate in all the countries of the single currency area, will be released on 14 February and the data on GDP structure on 7 March.

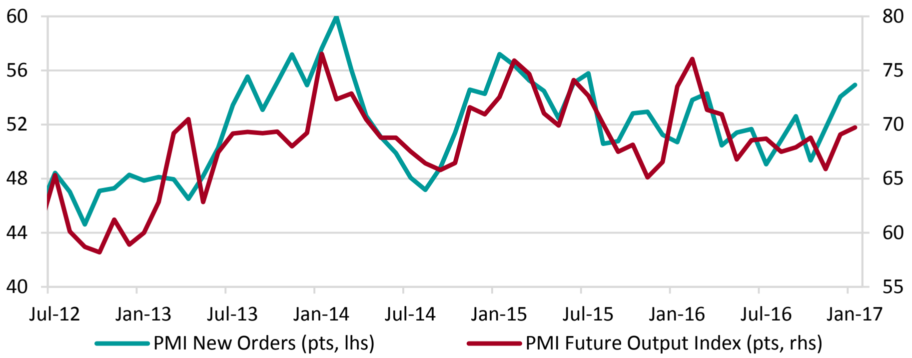
- **China Caixin manufacturing PMI dropped to 51.0 pts in January vs. 51.9 pts in December**. The index decline was due to lower values of four of its five sub-indices (for output, new orders, employment, and stocks of goods purchased). Higher contribution of the sub-index for suppliers' delivery times had an opposite impact. Especially noteworthy in the index structure is the increase in the sub-index concerning new export orders to the highest level since September 2014. China manufacturing PMI also recorded a decline and dropped to 51.3 pts in January vs. 51.4 pts in December. The results of the business surveys for the Chinese manufacturing support our scenario, in which subsequent months will see a recovery in global trade (see MACROpulse of 1/2/2017).
- **Last week, the Ministry of Finance released the estimated data concerning the deficit of general government.** In the whole 2016, the state budget revenues amounted to PLN 314.6bn, expenditure to PLN 360.9bn, and deficit to PLN -46.3bn. The Ministry estimates that the general government deficit in relation to GDP amounted to ca. 2.8-2.9%. Its higher realization as compared to earlier market expectations is mainly due to two factors. Firstly, in accordance with the Eurostat methodology, the income from LTE auction (PLN 9.2 bn) in public finance statistics will be spread over 15 years, instead of the one-off sharp increase of income in 2016, as originally assumed in the Budget Act. Secondly, VAT income stood in 2016 ca. PLN 2bn below the level assumed in the Budget Act. We believe that this was largely due to the return in December 2016 of VAT (VAT income dropped by ca. 50% YoY in December 2016) on corporate investments or to the return of VAT retained earlier by the tax authorities for additional explanations. The postponement of the return of VAT is conducive to higher deficit of the GG sector in 2016 and its decrease in 2017. Consequently, we continue to assess the risk of public deficit exceeding the threshold of 3.0% of GDP in 2017 as low.

Forecasts for 2017-2018



Source: GUS, Credit Agricole

Considering the recently released hard data and the tendencies signaled in business surveys, we have revised our macroeconomic forecasts (see the table on page 6). The structure of economic growth in Q4 2016, estimated on the basis of the GDP data released by GUS for 2016, was to a considerable extent consistent with our December forecast (see MACROmap of 12/12/2016 and MACROpulse of 31/1/2017). A surprise was an increased contribution of net exports to the estimated by us level of 0.4 pp in Q4 (up by 0.7 pp). In our view, this was due to a weaker than we expected slowdown of exports and sharper decline of import growth. This was the main reason, which made us revise the forecast of GDP growth rate in subsequent quarters.



Source: Markit

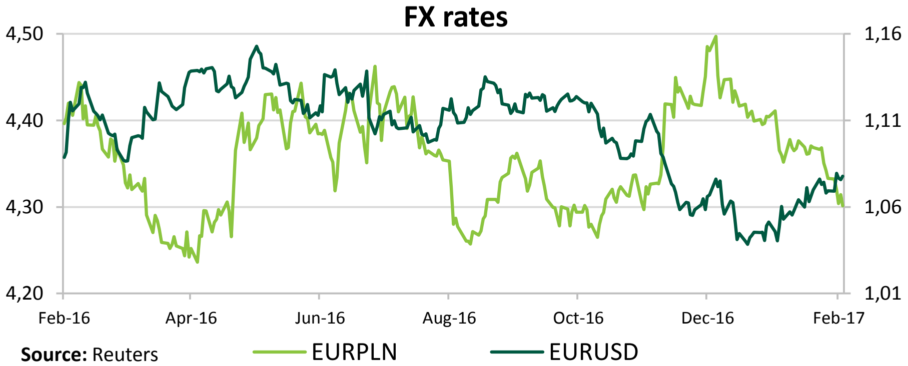
We expect the economic growth rate in the Eurozone to stabilize in 2017. However, its structure will change (acceleration in exports), contributing to higher demand for goods manufactured in Poland and used in the production of final products exported to non-Eurozone countries. Our scenario is supported by the January results of PMI business surveys. The improvement in manufacturing had a wide geographic scope – in January, high PMIs were recorded not only for Poland but also for Czech Republic, Hungary, Germany, and the Eurozone. The business survey results support our scenario, in which subsequent quarters will see a recovery in global trade, positively impacting the dynamics of Polish exports. This view is also supported by the January results of the NBP business survey (so-called NBP Quick Monitoring), in which, due to depreciation of PLN in Q4 2016, an exceptional growth of the value of exports can be expected soon. Consequently, we have revised upwards our forecast of exports growth rate to 10.2% YoY vs. 7.5% in 2016.

The most important factor boosting GDP growth in 2017 will be public investments and investments of companies controlled by the public sector, implemented with the use of EU funds. Our scenario is supported by data on disbursement requests within the 2014-2020 programming period, pointing to a sharp increase in the absorption of EU funds in Q4 2016. Due to the recovery in exports being stronger than we assumed earlier, we have increased our forecast of investment growth (to 5.3% YoY in 2017 vs. -5.5% in 2016), as the growth rate of corporate investment outlays may be expected to increase in the conditions of high capacity utilization in manufacturing and higher foreign demand. At the same time, we believe that increased investment activity will result in a significant acceleration in imports growth and – consequently – lower contribution of net exports to growth. Considering the factors outlined above, we expect that in subsequent quarters of 2017, GDP growth will stay within an upward trend reaching a level of 4.1% YoY in Q4 2017. In effect, we forecast that the economic growth rate in 2017 will amount to 3.3% YoY (3.0% before the revision) vs. 2.8% in 2016.

At the same time, we have not changed our forecast of economic growth rate for 2018 – we forecast a slight decline in GDP growth to 3.2% YoY. On the one hand, we will see further increase in the dynamics of both public and corporate investments, due to the accumulation of projects financed with EU funds. On the other hand, we expect a slight slowdown in export growth (mainly due to the high base effects), which, given high import growth supported by investment demand, will result in lower contribution of net exports. In addition, the positive impact of the Family 500+ scheme on consumption dynamics will abate at the turn of Q2 and Q3 2017, reducing the GDP growth rate also in 2018.

GUS will release full data on GDP in Q4 towards the end of February. If there are any significant differences between our estimates and the published GDP structure, we will revise our macroeconomic scenario at the beginning of March.

Conference after MPC meeting important for PLN

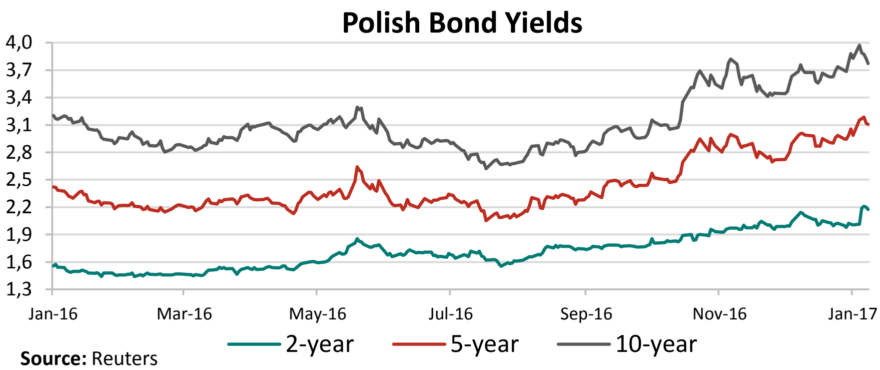


Source: Reuters

Last week EURPLN rate dropped to 4.3012 (PLN strengthening by 0.7%). On Monday, PLN was relatively stable due to scarce macroeconomic calendar. Tuesday and Wednesday saw appreciation of PLN, boosted by a decline in global risk aversion, reflected by lower VIX index. Conducive to stronger PLN were also better-than-expected domestic GDP data and business survey results for Polish manufacturing (PMI), which increased investors' expectations of interest rate hikes in Poland. This view is supported by higher FRA rates (in particular, 8x11 and 9x12). On Thursday, PLN was stable due to scarce macroeconomic calendar. The better-than-expected data on non-farm payrolls in the US, released on Friday afternoon, were conducive to PLN depreciation.

The most important event for PLN this week will be the Wednesday's MPC meeting and the following press conference. We believe that the expected by us dovish rhetoric of the NBP Governor, A. Glapiński, will be negative for PLN. The scheduled for Friday readings of the Chinese balance of trade and preliminary University of Michigan index will not be market moving, we believe. On other days, due to scarce macroeconomic calendar, we expect a relative stabilization of PLN, which will be mainly impacted by global sentiment.

Scarce macroeconomic calendar will decrease volatility in the debt market



Source: Reuters

Last week the yield of Polish 2-year benchmark bonds rose to a level of 2.176 (up by 17 bp), of 5-year bonds rose to a level of 3.104 (up by 8 bp), and of 10-year bonds dropped to a level of 3.773 (down by 6 bp). On Monday, the prices of the Polish debt were stable due to scarce macroeconomic calendar. On Tuesday, yields on Polish bonds rose at the short end of the curve, which was mainly due to the better-than-expected reading of the Polish GDP, which increased the expectations of interest rate hikes in Poland. This view is supported by higher FRA rates (in particular, 8x11 and 9x12). In our view, the increase in bond yields at the long end of the curve was due to transactional reasons – some investors may have been selling bonds to obtain liquidity before the Thursday's debt auction. The better-than-the-market-consensus business survey results for Polish manufacturing (PMI), released on Wednesday, resulted in a temporary decline in yields on Polish bonds at the short end of the curve. Bond prices at the centre and long end of the curve were stable. Debt auctions (main and supplementary one) were held on Thursday, at which the Finance Ministry sold PLN 5.96bn of 2-, 5-, 9-, and 10-year bonds with demand amounting to PLN 15.07bn. The high demand for bonds contributed to a decline in yields on Polish bonds, visible especially at the short end and at the center of the curve. The impact of the Friday's data on non-farm payrolls in the US on the Polish debt market was limited.

This week we expect stabilization of Polish bond prices due to scarce macroeconomic calendar. The Polish debt market will focus on the Wednesday's MPC meeting and the following press conference. We believe that the expected by us dovish rhetoric of the NBP Governor, A. Glapiński, will be conducive to a decline in yields on Polish bonds at the short end of the curve. The scheduled for Friday reading of the preliminary University of Michigan index will be neutral for the Polish debt market.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland

Indicator	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	Feb-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*	4,42	4,35	4,24	4,37	4,38	4,38	4,35	4,36	4,29	4,31	4,45	4,40	4,32	**4,29**
USDPLN*	4,08	4,00	3,73	3,81	3,94	3,94	3,90	3,91	3,82	3,92	4,20	4,18	4,00	**4,01**
CHFPLN*	3,98	4,00	3,87	3,97	3,96	4,04	4,02	3,97	3,93	3,96	4,13	4,11	4,04	**4,01**
CPI inflation (% YoY)	-0,9	-0,8	-0,9	-1,1	-0,9	-0,8	-0,9	-0,8	-0,5	-0,2	0,0	0,8	**1,6**	
Core inflation (% YoY)	-0,1	-0,1	-0,2	-0,4	-0,4	-0,2	-0,4	-0,4	-0,4	-0,2	-0,1	0,0	**0,2**	
Industrial production (% YoY)	1,4	6,8	0,7	5,9	3,2	6,0	-3,4	7,5	3,2	-1,3	3,2	2,4	**7,6**	
PPI inflation (% YoY)	-1,2	-1,5	-1,9	-1,2	-0,4	-0,8	-0,5	-0,1	0,2	0,6	1,8	3,0	**3,8**	
Retail sales (% YoY)	0,9	3,9	0,8	3,2	2,2	4,6	2,0	5,6	4,8	3,7	6,6	6,4	**8,1**	
Corporate sector wages (% YoY)	4,0	3,9	3,3	4,6	4,1	5,3	4,8	4,7	3,9	3,6	4,0	2,7	**4,0**	
Employment (% YoY)	2,3	2,5	2,7	2,8	2,8	3,1	3,2	3,1	3,2	3,1	3,1	3,1	**2,9**	
Unemployment rate* (%)	10,2	10,2	9,9	9,4	9,1	8,7	8,5	8,4	8,3	8,2	8,2	8,3	**8,7**	
Current account (M EUR)	679	-652	-217	691	1392	-723	-993	-739	-445	-531	-427	**145**		
Exports (% YoY EUR)	-1,3	5,4	0,0	4,0	1,4	6,0	-5,2	9,2	2,7	-2,3	4,6	**4,5**		
Imports (% YoY EUR)	0,3	7,4	0,9	0,0	2,5	0,8	-6,9	10,8	3,1	2,1	6,4	**4,4**		

*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	2,6	2,8	2,5	3,3	4,1	2,8	3,3	3,2
Private consumption (% YoY)	3,2	3,3	3,9	4,0	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	-5,8	0,0	1,6	6,8	8,7	-5,5	5,3	10,0
Export - constant prices (% YoY)	6,7	11,4	6,8	6,0	6,9	9,2	12,1	12,5	7,5	10,2	7,3
Import - constant prices (% YoY)	8,7	10,0	7,8	5,5	8,0	10,7	13,0	13,1	7,8	11,2	9,0
GDP growth contributions: Private consumption (pp)	2,0	1,9	2,3	2,0	2,3	2,1	1,7	1,4	2,1	1,9	1,7
GDP growth contributions: Investments (pp)	-0,3	-0,9	-1,4	-1,6	0,0	0,3	1,2	2,2	-1,1	1,0	1,8
GDP growth contributions: Net exports (pp)	-0,7	1,0	-0,3	0,4	-0,3	-0,2	-0,1	0,2	0,1	-0,1	-0,6
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**
		Monday 02/06/2017				
8:00	Germany	New industrial orders (% MoM)	Dec	-2,5		0,5
10:30	Eurozone	Sentix Index (pts)	Feb	18,2		17,4
		Tuesday 02/07/2017				
8:00	Germany	Industrial production (% MoM)	Dec	0,4		0,3
		Wednesday 02/08/2017				
	Poland	**NBP rate decision (%)**	**Feb**	**1,50**	**1,50**	**1,50**
		Thursday 02/09/2017				
8:00	Germany	Trade balance (bn EUR)	Dec	21,7		21,4
16:00	USA	Wholesale inventories (% MoM)	Dec	1,0		1,0
16:00	USA	Wholesale sales (% MoM)	Dec	0,4		0,5
		Friday 02/10/2017				
	China	Trade balance (bn USD)	Jan	40,8	48,2	47,9
16:00	USA	Initial U. of Michigan Sentiment Index (pts)	Feb	98,5	97,5	97,8

*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

MACRO MAP

Jakub BOROWSKI
Chief Economist
tel.: 22 573 18 40
jakub.borowski@credit-agricole.pl

Krystian JAWORSKI
Economist
tel.: 22 573 18 41
krystian.jaworski@credit-agricole.pl

Jakub OLIPRA
Economist
tel.: 22 573 18 42
jakub.olipra@credit-agricole.pl