

## This week

- **The most important event this week will be D. Trump's address to the Congress scheduled for Tuesday.** In accordance with past practice, in this speech presidents present main directions of the economic policy to be carried out by their administration. Therefore, the markets will focus on detailed information from D. Trump concerning the delivery on his election promises, in particular those concerning possible fiscal easing. We believe that his remarks may contribute towards increased volatility in financial markets.
- **Significant hard data on US economy and business survey results will be released this week.** The preliminary January data on durable goods orders will be released today. We believe they increased by 2.3% MoM vs. a 0.5% decline in December 2016 (the effect of lower orders in the Boeing company). The final estimate of the US GDP in Q4 will be released on Tuesday. We expect that the annualized economic growth rate rose to 2.3% vs. 1.9% in the second estimate, due to higher contributions of inventories and net exports. Business survey results will also be released in the US. We forecast that the manufacturing ISM dropped to 55.8 pts in February vs. 56.0 pts in January, which will be in line with the decline in the February PMI. We believe that the Conference Board Consumer Confidence Index, like the University of Michigan Index released week (see below), will indicate a slight deterioration of households' sentiment in February (111.5 pts vs. 111.8 pts in January). We expect the US readings to be neutral for the financial markets.
- **China manufacturing PMIs will be released on Wednesday.** We expect that Caixin PMI dropped to 50.7 pts in February vs. 51.0 pts in January. In turn, in our view, CFLP PMI dropped to 51.1 pts from 51.3 pts in January. The business survey results pointing to a slight slowdown of economic activity in the Chinese economy will be neutral for PLN and yields on Polish bonds, we believe.
- **The flash estimate of HICP inflation in the Eurozone will be released on Thursday.** We expect that the annual inflation has not changed in February compared to January and amounted to 1.8%. The flash estimate of HICP inflation in Germany will be released on Wednesday. We forecast that it rose to 2.1% YoY in February vs. 1.9% in January. We expect that the data will not substantially impact PLN or bond yields.
- **On Tuesday, GUS will release full data on GDP in Q4 2016.** We expect that the economic growth rate was in line with the flash estimate and amounted to 2.7% YoY vs. 2.5% in Q3. We estimate that conducive to the increase in GDP growth were higher contributions of net exports and inventories. On the other hand, public consumption, private consumption, and investments had an opposite impact. The GDP reading should not be market moving.
- **The February data on business sentiment in manufacturing in Poland will be released on Wednesday.** We expect that PMI has not changed compared to January and amounted to 54.8 pts. Conducive to lower activity growth rate in manufacturing was the high base effect from the month before. On the other hand, improvement in Germany and in the Eurozone (see below) had an opposite impact.

## Last week

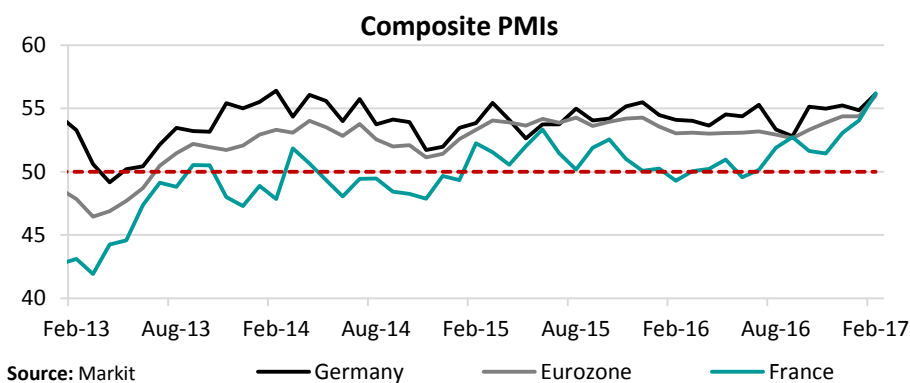
- **The results of business surveys (PMI) for major European economies were released last week.** PMI Composite (for manufacturing and service sector) in the Eurozone rose to 56.0 pts in February vs. 54.4 pts in January, hitting the lowest level since April 2011 (see below).
- **The Minutes of the January FOMC meeting were released last week.** As we expected, the description of the discussion did not provide any new information in relation to J. Yellen's testimony to the Congress two weeks ago (see MACROmap of 20/2/2017). Minutes indicated that most FOMC members support further normalization of the monetary policy, providing inflation and the labour market situation develop in line with the Federal Reserve's

expectations. Our base scenario assumes that subsequent interest rate hike (by 25 bp) will take place in June. We believe that before deciding to normalize the monetary policy, FED will like to see the new macroeconomic projection. Nevertheless, we do not rule out that possible markedly better-than-expected data on inflation and labour market may prompt FED to increase interest rates as soon as in May.

➤ **According to the final estimate, the quarterly dynamics of the German GDP rose to 0.4% in Q4 vs. 0.1% in Q3 (1.2% YoY in Q4 vs. 1.5% YoY in Q3).** Conducive to higher GDP growth were higher contributions of investments (0.2 pp in Q4 vs. 0.0 pp in Q3) and consumption (0.3 pp vs. 0.2 pp). Lower contribution of net exports (-0.4 pp vs. -0.3 pp) had an opposite impact. The contribution of inventories has not changed in Q4 compared to Q3 and amounted to 0.3 pp. Thus, the main sources of the German GDP growth in Q4 were consumption and inventories. We forecast that the quarterly growth rate of the German GDP will not change in Q1 2017 compared to Q4 2016 and will amount to 0.4%

➤ **The final University of Michigan Index dropped to 96.3 pts in February vs. 98.5 pts in January and 95.7 pts in the initial estimate.** The index decline resulted from the decrease in the sub-index concerning expectations, while a slight increase in the sub-index concerning the assessment of the current situation had an opposite impact. Data on existing home sales (5.69M in January vs. 5.51M in December) and new home sales (555k in January vs. 535k in December) were also released last week and suggested continuation of the improvement in the US real estate market. The last week's data from the US economy do not alter our forecast, in which the annualized economic growth rate will increase to 2.1% in Q1 vs. 2.3% in Q4 2016.

## Recovery in the Eurozone is gaining momentum



The Composite PMI (for manufacturing and services) for the Eurozone rose to 56.0 pts in February vs. 54.4 pts in January, hitting the highest level since April 2011. In the first two months of Q1 2017, the average index value amounted to 55.2 pts vs. 53.8 pts in Q4 2016. The index increase in February resulted from higher values of its sub-indices concerning

both output in manufacturing and activity in the services sector, which suggests wide scope of the recovery in the Eurozone, sector-wise.

Especially noteworthy in the data structure is the increase in the sub-index concerning production backlogs to the highest level since May 2011. It is the result of the consistently strong increase of new orders in recent months (55.1 pts in the first two months of Q1 2017 vs. 53.6 pts in Q4 2016) and output (55.2 pts vs. 53.8 pts). The growing capacity utilization, combined with the increase in the sub-index concerning expectations to the highest level in history (namely at least since July 2012), is conducive to increase in employment in the Eurozone. Consequently, the sub-index concerning employment in the Eurozone rose in February to the highest level since August 2007.

Geographically, faster growth rate of economic activity was recorded in Germany, in France, and in other Eurozone economies covered by the survey. The improvement in Germany resulted from higher sub-indices concerning both activity in the services sector and output in manufacturing. In France

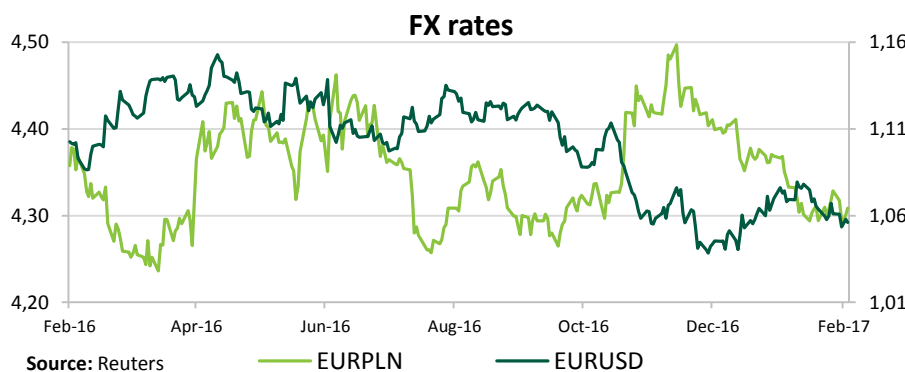
conducive to the increase in PMI composite was higher sub-index concerning activity in services, while sub-index concerning output in manufacturing has not changed compared to January. It is worth noting that PMI composite for France stood above the value for Germany for the first time since August 2012. At the same time, it has reached the highest level since May 2011.

From the point of view of future business climate in Poland, noteworthy is the situation in German manufacturing. The German manufacturing PMI rose to 57.0 pts in February vs. 56.4 pts in January and 55.0 pts in Q4 2016. The index increase resulted from higher contributions of four of its five sub-indices (for employment, new orders, output, and suppliers' delivery times), while lower sub-index concerning stocks of purchases had an opposite impact. It is worth noting that the sub-indices concerning total new orders and export orders reached the highest level since January 2014. This suggests that high activity in the German manufacturing is likely to continue in subsequent months.

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 rising to 111.0 pts in February vs. 109.9 pts in January. The index increase resulted from higher values of its sub-indices concerning both the assessment of the current situation and expectations. Sector-wise, improvement was recorded in manufacturing, and wholesale trade. In turn, in construction and retail trade a deterioration of sentiment was recorded.

The February 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 supports our forecast, in which the annual Polish exports growth rate will increase to 6.9% in Q1 2017 vs. 6.0% in Q4 2016 (see MACROmap of 6/2/2017). In subsequent quarters we expect further increase in the annual export growth rate, which will reach a two-digit level in H2 2017 (see below).

**D. Trump's speech may increase PLN volatility**

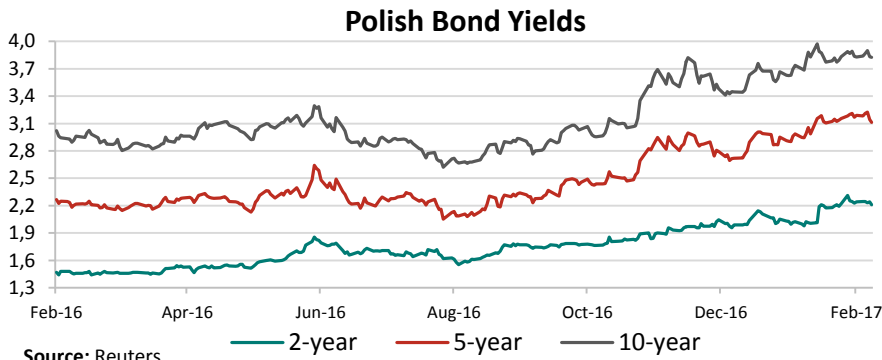


**Last week, EURPLN rate dropped to 4.3086 (PLN strengthening by 0.5%).** On Monday and Tuesday, PLN and other emerging currencies were appreciating. Conducive to their strengthening was lower global risk aversion reflected by lower VIX index. Better-than-expected business survey results (PMI) in the Eurozone had a limited impact on PLN. The Minutes of the

January FOMC meeting released on Wednesday evening did not provide any new information on the FED's monetary policy outlooks and did not affect PLN. Further into the week, PLN was slightly depreciating following weak increase in global risk aversion reflected by higher VIX index.

The most important event for PLN this week will be D. Trump's address to the Congress scheduled for Wednesday. We believe that his remarks may contribute to increased volatility of PLN. The aggregate impact of the numerous data from the US (initial durable goods orders, final GDP estimate, Conference Board Index, as well as manufacturing and non-manufacturing ISM Indices) on PLN will be limited, we believe. Other data from the global economy (PMIs for China and preliminary inflation in the Eurozone) as well as final GDP reading in Poland will also be neutral for PLN.

**Polish debt market in anticipation of D. Trump’s address**



Last week the yield of Polish 2-year benchmark bonds dropped to a level of 2.21 (down by 3 bp), of 5-year bonds dropped to a level of 3.113 (down by 8 bp), and of 10-year bonds have not changed compared to the level from two weeks ago and amounted to 3.827. The most important event on the Polish debt market last week was the

Tuesday’s release of the better-than-expected business survey results (PMI) in the Eurozone, which contributed to higher yields on Polish bonds in the middle and at the long end of the curve. On Thursday, the prices of Polish bonds were making up for the losses from the first part of the week, helped by the lack of any new information on FED monetary policy outlook in the Minutes of the January FOMC meeting released on Wednesday evening. On Friday, due to scarce economic calendar, yields on Polish bonds were stable.

This week the Polish debt market will focus on D. Trump’s address to the Congress scheduled for Wednesday. In our view, his remarks will be conducive to increased volatility in the financial markets. In our view, the aggregate impact of the numerous data from the US (initial durable goods orders, final GDP estimate, Conference Board Index, as well as manufacturing and non-manufacturing ISM Indices) on the Polish debt market will be neutral. We believe that the preliminary data on inflation in the Eurozone as well final GDP reading in Poland will also have a limited impact on the prices of Polish bonds.

## 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	4,31
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	4,08
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	4,05
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	1,8	
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	0,1	
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	9,0	
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	4,1	
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	11,4	
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	4,3	
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	4,5	
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	8,6	
Current account (M EUR)	679	-652	-217	691	1392	-723	-993	-739	-445	-531	-188	-533		
Exports (% YoY EUR)	-1,3	5,4	0,0	4,0	1,4	6,0	-5,2	9,2	2,7	-2,3	4,7	6,7		
Imports (% YoY EUR)	0,3	7,4	0,9	0,0	2,5	0,8	-6,9	10,8	3,1	2,1	6,2	9,0		

\*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	2,7	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
	Investments (pp)	-0,3	-0,9	-1,4	-1,6	0,0	0,3	1,2	2,2	-1,1	1,0	1,8
	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	1,5	0,6	0,4	0,2	0,1	1,9	0,3	0,0	
Wages in national economy (% YoY)	3,1	4,3	4,1	3,7	4,1	4,4	4,6	4,8	3,8	4,5	4,8	
CPI Inflation (% YoY)*	-0,9	-0,9	-0,8	0,2	1,8	1,7	1,5	1,3	-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 02/27/2017</b>						
10:00	Eurozone	M3 money supply (% MoM)	Jan	5,0		4,8
11:00	Eurozone	Business Climate Indicator (pts)	Feb	0,80		0,79
14:30	USA	Durable goods orders (% MoM)	Jan	-0,5	2,3	1,7
<b>Tuesday 02/28/2017</b>						
<b>10:00</b>	<b>Poland</b>	<b>GDP (% YoY)</b>	<b>Q4</b>	<b>2,5</b>	<b>2,7</b>	<b>2,7</b>
14:30	USA	Second estimate of GDP (% YoY)	Q4	1,9	2,3	2,1
15:00	USA	Case-Shiller Index (% MoM)	Dec	0,9		0,7
15:45	USA	Chicago PMI (pts)	Feb	50,3		53,0
16:00	USA	Richmond Fed Index	Feb	12,0		
16:00	USA	Consumer Confidence Index	Feb	111,8	111,5	111,0
<b>Wednesday 03/01/2017</b>						
2:00	China	NBS Manufacturing PMI (pts)	Feb	51,3	51,1	51
2:45	China	Caixin Manufacturing PMI (pts)	Feb	50,2	50,7	51
<b>9:00</b>	<b>Poland</b>	<b>Manufacturing PMI (pts)</b>	<b>Feb</b>	<b>54,8</b>	<b>54,8</b>	
9:55	Germany	Final Manufacturing PMI (pts)	Feb	57,0	57,0	57,0
10:00	Eurozone	Final Manufacturing PMI (pts)	Feb	55,5	55,5	55,5
14:00	Germany	Preliminary HICP (% YoY)	Feb	1,9	2,10	2,10
14:30	USA	Real private consumption (% MoM)	Jan	0,3		
15:45	USA	Flash Manufacturing PMI (pts)	Feb	54,3		
16:00	USA	ISM Manufacturing PMI (pts)	Feb	56,0	55,8	56,0
<b>Thursday 03/02/2017</b>						
11:00	Eurozone	Preliminary HICP (% YoY)	Feb	1,8	1,8	2,0
11:00	Eurozone	Unemployment rate (%)	Jan	9,6		9,6
11:00	Eurozone	PPI (% YoY)	Jan	1,6		3,1
<b>Friday 03/03/2017</b>						
10:00	Eurozone	Services PMI (pts)	Feb	55,6	55,6	55,6
10:00	Eurozone	Final Composite PMI (pts)	Feb	56,0	56,0	56,0
11:00	Eurozone	Retail sales (% MoM)	Jan	-0,3		0,4
16:00	USA	ISM Non-Manufacturing Index (pts)	Feb	56,5	55,5	56,5

\*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