

This week

- ✔ **Significant hard data on US economy and business survey results will be released this week.** The final estimate of the US GDP in Q4 will be released on Thursday. We expect that the annualized economic growth rate will be revised upwards to 2.0% vs. 1.9% in the second estimate, due to higher contribution of private consumption. March business survey results will also be released in the US. We believe that the Conference Board Consumer Sentiment Index (114.8 pts – unchanged compared to February), like the upward-revised University of Michigan Index (98.4 pts vs. 96.3 pts in February), will confirm the good households' sentiment. We expect that the US readings will not be market moving.
- ✔ **Ifo Index reflecting the sentiment among German managers representing the manufacturing, construction, wholesale and retail trade sectors, will be released today.** We expect that the index value will increase to 111.3 pts in March from 111.0 pts in February. The publication of business survey results in Germany is likely to be neutral for PLN and prices of Polish bonds.
- ✔ **China manufacturing CFLP PMI will be released on Friday.** We expect that its value will rise to 51.8 pts in March vs. 51.6 pts in February. Business survey results pointing to a slight acceleration of economic activity growth in the Chinese economy will be neutral for PLN and yields on Polish bonds, we believe.
- ✔ **Flash estimate of HICP inflation in the Eurozone will be released on Friday.** We expect that the inflation decreased to 1.6% YoY in March vs. 2.0% in February. Flash estimate of HICP inflation in Germany will be released on Thursday. We forecast that it dropped to 1.7-1.8% YoY in March vs. 2.2% in January. In both cases the fall of inflation indicator was due to lower dynamics of food and energy prices. We expect the data not to have a significant impact on PLN or yields on bonds.
- ✔ **Data on the March inflation in Poland will be released on Friday.** In our view, it dropped to 2.0% in March vs. 2.2% in February. We believe that lower dynamics of food and energy prices has not been fully offset by higher core inflation. Our forecast is below the market consensus (2.3%); therefore, its materialization will be slightly negative for PLN and yields on Polish bonds.

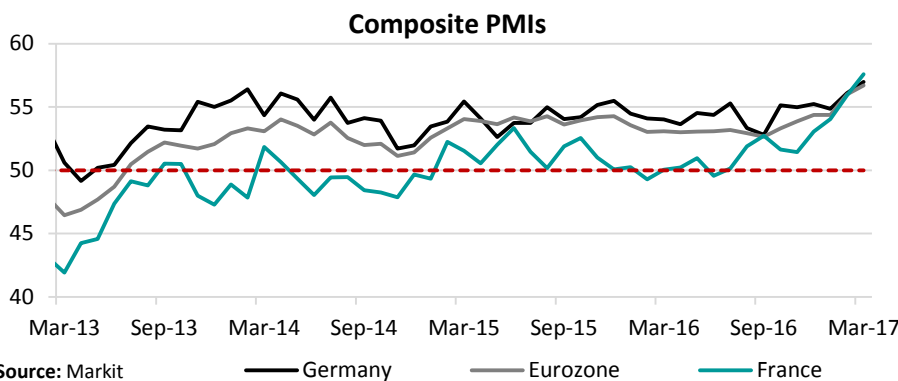
Last week

- ✔ **Flash March business sentiment indicators (PMI) for major European economies were released last week.** PMI composite for the Eurozone rose to 56.7 pts in March vs. 56.0 pts in February, hitting the highest level since April 2011. The index increase was due to a sharp gain in the sub-index concerning activity in the services sector while a slight decrease in the sub-index concerning output in manufacturing had an opposite impact. In the whole Q1, Composite PMI for the Eurozone rose to 55.7 pts vs. 53.8 pts in Q4 2016. This poses an upside risk to our forecast, in which the quarterly GDP growth rate in the Eurozone will not change in Q1 compared to Q4 2016 and will amount to 0.4% (see below).
- ✔ **Numerous data from the US economy were released last week.** According to preliminary data, durable goods rose 1.7% MoM in February vs. a 2.3% increase in January. The main reason for the decrease in the monthly growth rate was lower dynamics of orders for means of transport. Excluding means of transport, durable goods orders rose by 0.4% MoM vs. a 0.2% increase in January. Especially noteworthy in the data structure is an increase in orders for non-military capital goods, excluding orders for aircrafts (2.7% YoY in February vs. 0.7% in January), being a leading indicator for future investments, which rose for third consecutive month in year-on-year terms. Data on existing home sales (5.48M in February vs. 5.69M in January) and new home sales (592k in February vs. 558k in January) were also released last week and pointed to a sustainable boom in the US real estate market. The last week's data from the US economy do not change our forecast, in which the annualized economic growth rate will decrease to 1.6% in

Q1 vs. 2.0% in Q4 2016.

- According to GUS data, nominal investments of enterprises employing at least 50 people decreased by 19.2% YoY in Q4 2016 vs. a 10.5% decrease in Q3.** The decrease in the dynamics of fixed capital formation was wide ranging and resulted from lower contributions of investments in services, energy, manufacturing, and mining, which reduced investment dynamics by 6.1 pp, 1.5 pp, 1.0 pp, and 0.3 pp, respectively. The wide range of the fall of investment dynamics was partly due to the high base effects from Q4 2015, resulting from the accelerated use of EU funds towards the end of the 2007-2013 programming period and lower use of funds at the beginning of the 2014-2020 programming period. In subsequent quarters we expect a gradual increase in corporate investments together with higher inflow of EU funds. Consequently, considering the low base effects of 2016, we forecast that total investments will rise by 5.3% in 2017 vs. a 5.5% decline in 2016.
- Last week Speaker of the United States House of Representatives., P. Ryan, withdrew the bill on US healthcare reform from the Congress before the vote, due to insufficient support of the Republicans.** The direct market reaction to this news was decline of equities, higher EURUSD rate and lower yields on US bonds. P. Ryan’s decision supports our view that the expectations of economic agents and FED members regarding positive impact of the policy of D. Trump’s administration on economic growth in the medium term are too optimistic. The failure to gain enough votes to pass the reform of the healthcare system points to a low likelihood of passing other D. Trump’s proposals assuming fiscal expansion financed by growing public deficit. P. Ryan also shared this opinion last week. In our view, the Congress and the Senate will only support such proposals of reducing taxes or increasing outlays on infrastructure which will have a limited negative impact on the balance of the federal budget. Consequently, in the coming months, economic entities will revise downwards their expectations concerning the scale of the fiscal expansion which may contribute to lower assessment of business sentiment in the corporate sector and deterioration in the demand outlook. Consequently, we expect that by the end of 2017, FED will have hiked interest rates by only 25 bp (in September). Our expectations concerning the future profile of FED interest rates run below the market expectations and the profile presented in the March macroeconomic projection of FOMC members (see MACROmap of 20/3/2017).

Economic growth in the Eurozone is gaining momentum



The Composite PMI for the Eurozone rose to 56.7 pts in March vs. 56.0 pts in February, hitting the highest level since April 2011. The index increase resulted from a sharp increase in the sub-index concerning activity in services while a slight decrease in the sub-index for output in manufacturing had an opposite impact. In the whole Q1, PMI composite for the Eurozone

rose to 55.7 pts vs. 53.8 pts in Q4 2016. This poses an upside risk to our forecast, in which the quarterly GDP growth rate in the Eurozone will not change in Q1 compared to Q4 2016 and will amount to 0.4%.

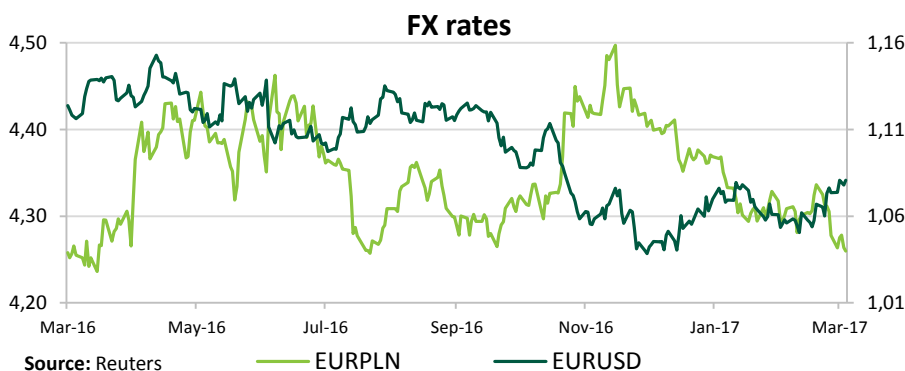
Especially noteworthy in the data structure is the increase in the sub-index concerning employment to the highest level since July 2007 (54.9 pts in March vs. 53.8 pts in February). It is a result of the sharp increase recorded in recent months in new orders (55.5 pts in Q1 vs. 53.6 pts in Q4 2016) and output

(55.7 pts vs. 53.8 pts). Higher orders combined with limited capacity are conducive to increase in production backlogs and growing cost pressure. This view is supported by higher sub-index concerning production backlogs (52.5 pts in Q1 vs. 51.8 pts in Q4) with a simultaneous increase in the sub-index concerning prices of the finished products (52.4 pts vs. 50.8 pts) and production costs (59.8 pts vs. 55.9 pts). It should be noted that Composite PMI for France stood above the value for Germany for second consecutive month.

Geographically, faster growth rate of economic activity was recorded in Germany and in France, while other Eurozone economies covered by the survey recorded a slight decline. 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 Composite PMI was higher sub-index concerning activity in services, while lower sub-index concerning output in manufacturing had an opposite impact.

From the point of view of future business climate in Poland, noteworthy is the situation in German manufacturing. The German manufacturing PMI rose to 58.3 pts in March vs. 58.3 pts in February, hitting the highest level since April 2011. In the whole Q1 it rose to 57.2 pts vs. 55.0 pts in Q4 2016, which supports our forecast, in which the quarterly dynamics of the German GDP will increase to 0.5% in Q1 vs. 0.4% in Q4 2016. The increase in the German PMI in March resulted from higher contributions of all its five sub-indices (employment, new orders, output, stocks of purchases, and suppliers' delivery times). It is worth noting that the sub-indices concerning new export orders stood at the highest level since April 2011. This supports our scenario of recovery in global trade. At the same time, the increase in export orders in the German manufacturing suggests a high likelihood of increase in demand for goods manufactured in Poland used in the production of final products (intermediate goods). This supports our forecast, in which the annual Polish exports growth rate will increase to 8.8% in Q1 2017 vs. 8.6% in Q4 2016. 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).

Flash estimate of inflation in Poland negative for PLN



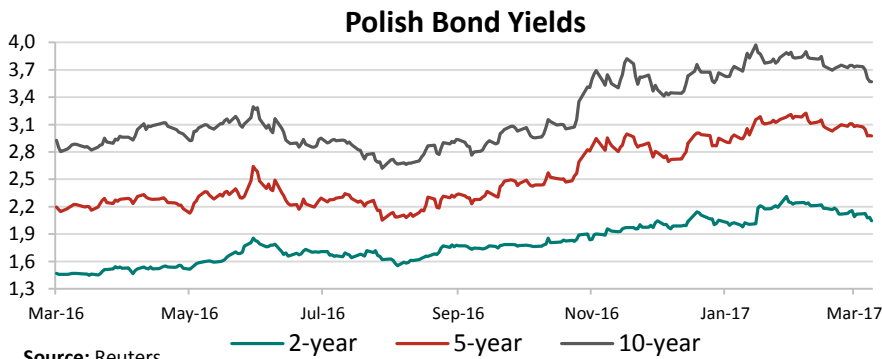
Last week EURPLN rate dropped to 4.2586 (PLN strengthening by 0.4%). On Monday, PLN continued the appreciation from two weeks ago, caused by a less-hawkish-than-expected tone of the conference after the FOMC meeting (see MACROmap of 20/3/2017). After EURPLN approached a level 4.25, there was a slight correction. Further

into the week, PLN stayed within the range 4.25-4.29, helped by a scarce macroeconomic calendar. The better-than-expected data on business sentiment released on Friday for major European economies had a limited impact on PLN. On Friday afternoon, PLN was appreciating due to the incoming information that the Trump administration might not gain sufficient support for the health care reform being one of the election promises.

The most important event for PLN this week will be the publication of the flash estimate of inflation in Poland scheduled for Friday. If our lower-from-the-consensus forecast assuming decrease inflation materializes, we expect PLN weakening. In our view, the aggregate impact of data from the US (final GDP estimate, Conference Board Index, final University of Michigan Index) on PLN will be limited. We

believe that data from the Eurozone (flash estimate of inflation), Germany (Ifo Index), and China (PMI) will also be neutral for PLN.

Polish debt market focuses on flash estimate of domestic inflation



Source: Reuters

Last week the yield of Polish 2-year benchmark bonds dropped to a level of 2.046 (down by 7 bp), of 5-year bonds to a level of 2.974 (down by 11 bp), and of 10-year bonds to a level of 3.57 (down by 17 bp). Last week, the yields on Polish bonds continued to decrease and their prices remained under the influence of the less hawkish than expected

tone of the conference after the FED meeting two weeks ago (see MACROmap of 20/3/2017). On Thursday there was a debt auction at which the Ministry of Finance sold EUR 5.00bn of 2-, 5-, 9-, and 10-year bonds with demand amounting to 8.13bn. The auction had little impact on the prices of the Polish debt. The Friday's better than expected PMI readings for major European economies were neutral for yields on Polish bonds.

This week, the Polish debt market will focus on the publication of the flash estimate of inflation in Poland scheduled for Friday. In our view, it will be below the market expectations, which will be negative for yields on Polish bonds, we believe. In our view, the aggregate impact of data from the US (final GDP estimate, Conference Board Index, final University of Michigan Index) will be neutral for the prices of the Polish debt. We believe that data from the Eurozone (flash estimate of inflation), Germany (Ifo Index), and China (PMI) will also have a limited impact on yields on Polish bonds.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland														
Indicator	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	Mar-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*	4,35	4,24	4,37	4,38	4,38	4,35	4,36	4,29	4,31	4,45	4,40	4,32	4,31	4,27
USDPLN*	4,00	3,73	3,81	3,94	3,94	3,90	3,91	3,82	3,92	4,20	4,18	4,00	4,07	3,95
CHFPLN*	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	3,99
CPI inflation (% YoY)	-0,8	-0,9	-1,1	-0,9	-0,8	-0,9	-0,8	-0,5	-0,2	0,0	0,8	1,7	2,2	
Core inflation (% YoY)	-0,1	-0,2	-0,4	-0,4	-0,2	-0,4	-0,4	-0,4	-0,2	-0,1	0,0	0,2	0,3	
Industrial production (% YoY)	6,8	0,7	5,9	3,2	6,0	-3,4	7,5	3,2	-1,3	3,2	2,2	9,1	1,2	
PPI inflation (% YoY)	-1,5	-1,9	-1,2	-0,4	-0,8	-0,5	-0,1	0,2	0,6	1,8	3,2	4,0	4,4	
Retail sales (% YoY)	3,9	0,8	3,2	2,2	4,6	2,0	5,6	4,8	3,7	6,6	6,4	11,4	7,3	
Corporate sector wages (% YoY)	3,9	3,3	4,6	4,1	5,3	4,8	4,7	3,9	3,6	4,0	2,7	4,3	4,0	
Employment (% YoY)	2,5	2,7	2,8	2,8	3,1	3,2	3,1	3,2	3,1	3,1	3,1	4,5	4,6	
Unemployment rate* (%)	10,2	9,9	9,4	9,1	8,7	8,5	8,4	8,3	8,2	8,2	8,3	8,6	8,5	
Current account (M EUR)	-652	-217	691	1392	-723	-993	-739	-445	-531	-188	-533	2457		
Exports (% YoY EUR)	5,4	0,0	4,0	1,4	6,0	-5,2	9,2	2,7	-2,3	4,7	6,7	13,8		
Imports (% YoY EUR)	7,4	0,9	0,0	2,5	0,8	-6,9	10,8	3,1	2,1	6,2	9,0	16,0		

*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	4,2	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	8,6	8,8	9,2	12,1	12,5	8,4	10,2	7,3	
Import - constant prices (% YoY)	8,7	10,0	7,8	8,5	8,9	10,7	13,0	13,1	8,7	11,2	9,0	
GDP growth contributions	Private consumption (pp)	2,0	1,9	2,3	2,1	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	0,3	-0,3	-0,2	-0,1	0,2	0,1	-0,1	-0,6
Current account***	-0,8	-0,5	-0,5	-0,5	-0,9	-1,0	-1,1	-1,0	-0,5	-1,0	-1,5	
Unemployment rate (%)**	9,9	8,7	8,3	8,3	8,3	7,2	7,1	7,7	8,3	7,7	7,7	
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	2,0	1,9	1,7	1,6	-0,6	1,8	1,5	
Wibor 3M (%)**	1,67	1,71	1,71	1,73	1,73	1,73	1,73	1,73	1,73	1,73	1,98	
NBP reference rate (%)**	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,75	
EURPLN**	4,24	4,38	4,29	4,40	4,27	4,33	4,23	4,18	4,40	4,18	4,07	
USDPLN**	3,73	3,94	3,82	4,18	3,95	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 03/27/2017						
10:00	Germany	Ifo business climate (pts)	Mar	111,0	111,3	111,0
10:00	Eurozone	M3 money supply (% MoM)	Feb	4,9		4,9
Tuesday 03/28/2017						
15:00	USA	Case-Shiller Index (% MoM)	Jan	0,9		0,7
16:00	USA	Richmond Fed Index	Mar	17,0		
16:00	USA	Consumer Confidence Index	Mar	114,8	114,8	113,9
Thursday 03/30/2017						
12:00	Eurozone	Business Climate Indicator (pts)	Mar	0,80		0,84
14:00	Germany	Preliminary HICP (% YoY)	Mar	2,2	1,7	1,9
14:30	USA	Final GDP (% YoY)	Q4	1,9	2,0	2,0
Friday 03/31/2017						
0:00	Poland	Flash CPI (% YoY)	Mar	2,2	2,0	2,3
3:00	China	NBS Manufacturing PMI (pts)	Mar	51,6	51,8	51,6
11:00	Eurozone	Preliminary HICP (% YoY)	Mar	2,0	1,6	1,8
14:30	USA	Real private consumption (% MoM)	Feb	-0,3		
15:45	USA	Chicago PMI (pts)	Mar	57,4		56,8
16:00	USA	Final U. of Michigan Sentiment Index (pts)	Mar	97,6	98,4	97,6

*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