Faster growth driven by three engines

This week

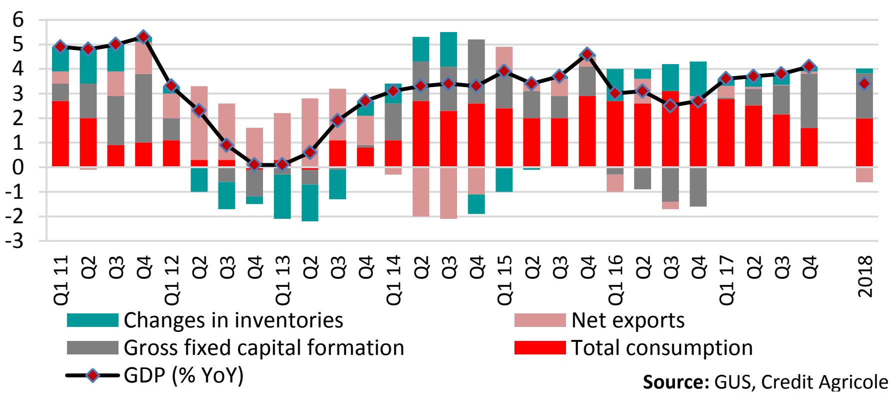
- **The most important event this week will be the publication of the Minutes of the March FOMC meeting.** The markets will focus on FED members' in-depth assessment concerning the evolution of the US economic conditions in the short term and the likely date of the next rate hike. Detailed information on the balance of risks for the March FED macroeconomic projection will also be important for the market. The publication of the Minutes may be conducive to increased volatility in the financial markets, though it is not likely to provide any new information significantly altering our scenario of gradual normalization of the US monetary policy. Our base scenario assumes that before the end of 2017 FED will increase interest rates by 25bp.
- **The meeting of the Monetary Policy Council will be held on Wednesday.** We expect that the MPC will decide to leave interest rates at an unchanged level. We believe that issues of the decrease in inflation in March and of the recently recorded PLN strengthening will be raised during the conference after the meeting in the context of the monetary policy outlook. We believe that the NBP Governor, A. Glapiński, will reaffirm his stance that the "wait-and-see" approach is currently the best way to conduct the monetary policy and that interest rates are most likely to stay unchanged at least until the end of 2017 with a risk of no hikes also in 2018. We believe that the content of the press release after the Council meeting and the NBP Governor's remarks during the press conference will not have any significant impact on PLN or yields on Polish bonds.
- **Some 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 190k in March vs. 235k in February, with unemployment rate down to 4.6% from 4.7% in February. 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 185k in March vs. 298k in February). The results of business surveys will also be released this week. We forecast that that the ISM index for manufacturing has not changed in March compared to February and amounted to 57.7 pts, which will be in line with regional business survey results. We believe that the employment reading will be conducive to a slight weakening of PLN and a fall of prices of Polish bonds. Other US data should not be market moving.
- **The March data on business sentiment in Polish manufacturing have been released today.** PMI dropped to 53.5 pts vs. 54.2 pts in February, thus running below our forecast (54.5 pts) and market expectations (54.6 pts). In the whole Q1 PMI rose to 54.2 pts vs. 52.1 pts in Q4 2016. Today's data support our upward-revised forecast of economic growth rate in Poland. We expect that GDP growth in 2017 will amount to 3.8% YoY (3.3% before the revision), and in 2018 to 3.4% (previously 3.2%, see below).

Last week

- **Numerous data from the US economy and business survey results were released last week.** According to the final estimate, the annualized GDP growth rate in Q4 2016 was revised upwards to 2.1% vs. 1.9% in the second estimate. Higher GDP dynamics resulted from upward-revised contributions of private consumption (2.40 pp in the final estimate vs. 2.05 pp in the second estimate) and inventories (1.01 pp vs. 0.94 pp). Lower contributions of investments (0.46 pp in the final estimate vs. 0.51 pp in the second estimate), net exports (-1.82 pp vs. -1.70 pp), and public consumption (0.03 pp vs. 0.06pp) had an opposite impact. Thus, private consumption continued to be the main source of US GDP growth in Q4. The results of US business surveys were released last week. Improvement in consumer sentiment was indicated by the Conference Board Index, which rose to 125.6 pts in March vs. 116.1 pts in February, hitting the highest level since December 2000. Conducive to the index increase were higher values of its sub-indices concerning both the assessment of the current situation and expectations. The University of Michigan Index also recorded an increase and, according to the final estimate, rose to 96.9 pts in March vs. 96.3 pts in February and 97.6 pts in the flash estimate. Conducive to the index increase compared to February was a higher value of its sub-index concerning assessment of the current situation while the expectations sub-index stood at the same level as in February. The last week's data from the US economy do not alter our forecast in which the annualized GDP growth rate in the US will amount to 1.3% in Q1 2017.

- **According to the flash estimate, inflation in Poland dropped to 2.0% YoY in March vs. 2.2% in February.** We believe that lower dynamics of food and fuel prices have not been fully compensated by higher core inflation. Final data on inflation including its structure will be released on 11 April.
- **According to the flash estimate, inflation in the Eurozone dropped to 1.5% YoY in March vs. 2.0% in February.** The decline in inflation resulted from lower growth of the prices of energy, food, and services, which lowered inflation by 0.2 pp, 0.1 pp, and 0.1 pp, respectively. The data support our scenario, in which inflation in the Eurozone will decrease to 1.5% in Q2 vs. 1.8% in Q1.
- **Ifo Index reflecting the sentiment among German managers representing the manufacturing, construction, wholesale and retail trade sectors rose to 112.3 pts in March vs. 111.1 pts in February.** The index increase was due to higher values of its sub-indices concerning both the assessment of the current situation and expectations. Sector-wise, improved sentiment was recorded in manufacturing, construction, and retail trade, while the situation in retail trade deteriorated. In the whole Q1 2017, Ifo Index rose to 111.1 pts vs. 110.7 pts in Q4 2016. The data support our forecast, in which the quarterly growth rate of the German GDP will rise to 0.5% in Q1 vs. 0.4% in Q4 2016.
- **China Caixin manufacturing PMI dropped to 51.2 pts in March vs. 51.7 pts in February**. The index decrease resulted from a slight decrease in the contributions of all its sub-indices (for output, new orders, employment, suppliers' delivery times, and stocks of goods purchased). On the other hand, China manufacturing PMI according to CFLP recorded an increase and amounted to 51.8 pts in March vs. 51.6 pts in February. Especially noteworthy in the structure of the Caixin PMI is the new export orders sub-index which, despite a decline in March, stood at 52.9 pts in the whole Q1 vs. 49.8 pts in Q4 2016. This supports our scenario of recovery in global trade.

Faster growth driven by three engines



Source: GUS, Credit Agricole

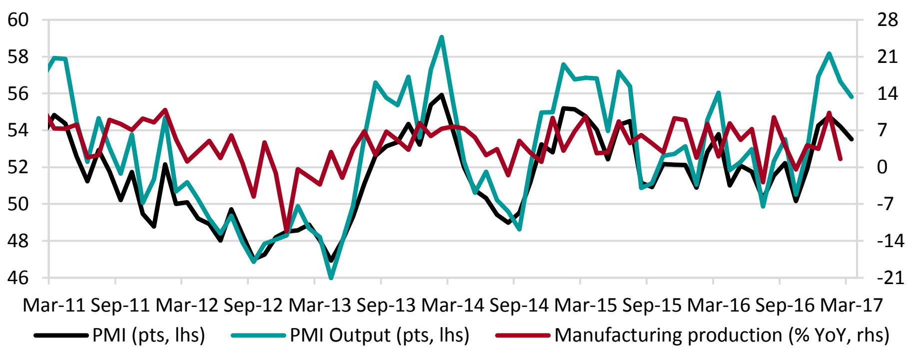
Considering the recently released hard data and the tendencies signaled in business surveys, we have revised our macroeconomic forecasts (see the table on page 6). We expect that GDP dynamics rose to 3.6% YoY in Q1 vs. 2.7% in Q4 2016, due to higher growth rate of value added in manufacturing and construction. Lower dynamics of value added in services, influenced by the high base effect from the year before in the category "financial and insurance activities", had an opposite impact. We forecast that GDP dynamics will gradually increase in subsequent quarters to reach

4.1% YoY in Q4. Hence, we have revised our forecast of the average annual economic growth rate in 2017 upwards to 3.8% YoY (3.3% before the revision). We believe that it will amount to 3.4% in 2018 (previously 3.2%).

On the demand side, the structure of economic growth has not substantially changed compared to our previous forecast (see MACROmap of 6/2/2017). We believe that it will be based on three drivers – investments, private consumption, and net exports. The main factor contributing to acceleration of GDP growth in 2017 will be public investments and investments of companies controlled by the public sector implemented with the use of EU funds. At the same time, higher investment expenditure of companies may be expected in the conditions of high degree of capacity utilization in manufacturing and increased demand (see MACROmap of 13/2/2017).

The improvement in the labour market recorded in recent months, reflected by a further decline in seasonally adjusted unemployment rate, was stronger than expected. Hence, we have revised upwards our forecast of employment growth and have decreased the expected by us profile of unemployment rate in the subsequent quarters. At the same time, we have raised our forecast of private consumption growth in Q1. Nonetheless, the positive impact of the 500+ scheme on consumption growth will abate at the turn of Q2 and Q3 2017 which will limit the GDP growth rate.

We expect the economic growth rate in the Eurozone to stabilize in 2017. However, its structure will change (acceleration of exports), contributing to higher demand for goods manufactured in Poland and used in the production of final products exported to non-Eurozone countries. The March results of PMI business surveys for the Eurozone (see MACROmap of 27/3/2017) support our scenario, in which subsequent quarters will see a recovery in global trade positively impacting the growth of Polish exports.



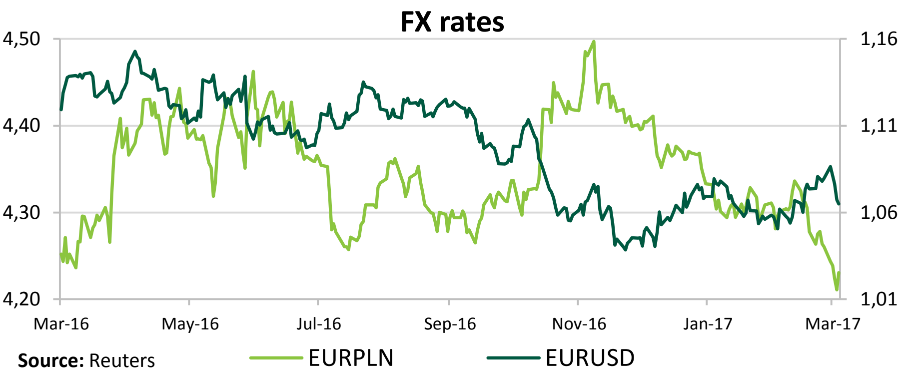
Source: Markit, GUS

The March results of business surveys released today by Markit for the Polish manufacturing support our upward-revised forecast of economic growth rate in Poland. PMI dropped to 53.5 pts in March from 54.2 pts in February, still running clearly above the 50 pts threshold dividing expansion from contraction of activity. In the whole Q1 PMI rose to 54.2 pts vs. 52.1 pts in Q4 2016.

Despite the PMI slight decline in March, especially noteworthy in the data structure is the continuation of still relatively strong growth of new orders (including export orders), output, and employment. Similar values of sub-indices for total new orders and new export orders signal that the increase in Polish manufacturing activity is boosted by both domestic and foreign demand.

An optimistic signal for future situation in Polish manufacturing is the recorded increase in the indicator of future (in the horizon of 12 months) output – it rose in March to the highest level since February 2016. The companies attributed the improvement in their expectations concerning future output to i.a. launch of new products, gaining new customers, marketing campaigns, and bigger investments. This signals that the recovery in manufacturing is sustainable and will be one of the factors boosting economic growth in subsequent quarters.

US non-farm payrolls data slightly negative for PLN

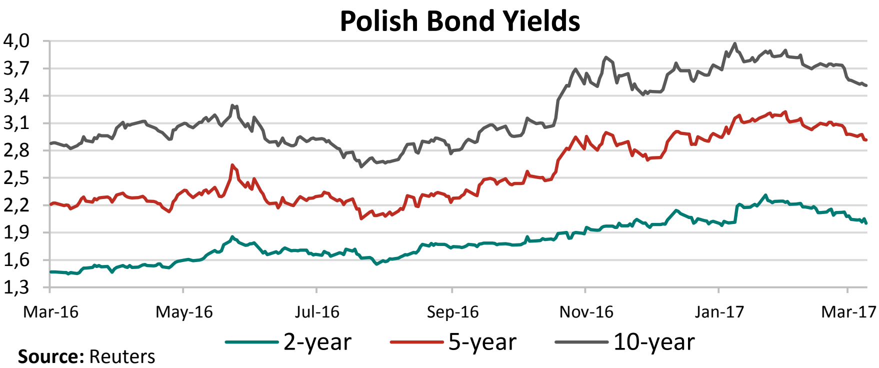


Source: Reuters

Last week EURPLN rate dropped to 4.2306 (PLN strengthening by 0.7%). Monday through Thursday saw appreciation of PLN and other emerging currencies which resulted from decrease in global risk aversion reflected by a decline of VIX index. In our view, this was largely the effect of lower likelihood of D. Trump's administration implementing some of its most important election promises, as shown by the failure to gain enough votes to pass the reform of the US healthcare system two weeks ago (see MACROmap of 27/3/2017). The prospect of smaller scale of the fiscal expansion in the US is conducive to a slower expected pace of the normalization of the FED monetary policy; hence, it is positive for the prices of the emerging assets. On Friday PLN was depreciating, partly due to lower-than-expected flash estimate of inflation in Poland.

The released this morning Poland manufacturing PMI is slightly negative for PLN, we believe. Important for PLN this week will be the scheduled-for-Friday reading of US non-farm payrolls which, in our view, may be slightly negative for PLN. The impact of other US data (manufacturing ISM) will be neutral for PLN, we believe. On the other hand, release of the Minutes of the March FOMC meeting scheduled for Wednesday may contribute to increased volatility of PLN. The MPC meeting and the conference after the meeting will have a limited impact on PLN, we believe.

Release of FOMC minutes may increase volatility in Polish debt market



Source: Reuters

Last week the yield of Polish 2-year benchmark bonds dropped to a level of 2.003 (down by 4 bp), of 5-year bonds to a level of 2.917 (down by 6 bp), and of 10-year bonds to a level of 3.511 (down by 6 bp). At the beginning of last week, the prices of the Polish debt were stable across the curve, due to scarce macroeconomic calendar. On Thursday and Friday, conducive to lower yields on Polish bonds were lower-than-expected flash data on inflation in the Eurozone (including Germany) and in Poland.

The released today Poland manufacturing PMI is slightly negative for yields on Polish bonds, we believe. This week, the Polish debt market will focus on the scheduled-for-Friday publication of data on non-farm payrolls in the US. We believe it may be slightly negative for the prices of Polish bonds. Other data from the US economy (manufacturing ISM) will be neutral for the Polish debt market, we believe. On the other hand, the scheduled-for-Wednesday release of the Minutes of the March FOMC meeting may be conducive to increased volatility of the prices of the Polish debt. The MPC meeting and the conference after the meeting will be neutral for the Polish debt market, we believe.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland														
Indicator	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	Apr-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*	4,24	4,37	4,38	4,38	4,35	4,36	4,29	4,31	4,45	4,40	4,32	4,31	4,23	**4,26**
USDPLN*	3,73	3,81	3,94	3,94	3,90	3,91	3,82	3,92	4,20	4,18	4,00	4,07	3,97	**4,00**
CHFPLN*	3,87	3,97	3,96	4,04	4,02	3,97	3,93	3,96	4,13	4,11	4,04	4,05	3,96	**3,98**
CPI inflation (% YoY)	-0,9	-1,1	-0,9	-0,8	-0,9	-0,8	-0,5	-0,2	0,0	0,8	1,7	2,2	**2,1**	
Core inflation (% YoY)	-0,2	-0,4	-0,4	-0,2	-0,4	-0,4	-0,4	-0,2	-0,1	0,0	0,2	0,3	**0,6**	
Industrial production (% YoY)	0,7	5,9	3,2	6,0	-3,4	7,5	3,2	-1,3	3,2	2,2	9,1	1,2	**7,1**	
PPI inflation (% YoY)	-1,9	-1,2	-0,4	-0,8	-0,5	-0,1	0,2	0,6	1,8	3,2	4,0	4,4	**4,7**	
Retail sales (% YoY)	0,8	3,2	2,2	4,6	2,0	5,6	4,8	3,7	6,6	6,4	11,4	7,3	**9,4**	
Corporate sector wages (% YoY)	3,3	4,6	4,1	5,3	4,8	4,7	3,9	3,6	4,0	2,7	4,3	4,0	**4,3**	
Employment (% YoY)	2,7	2,8	2,8	3,1	3,2	3,1	3,2	3,1	3,1	3,1	4,5	4,6	**4,5**	
Unemployment rate* (%)	9,9	9,4	9,1	8,7	8,5	8,4	8,3	8,2	8,2	8,3	8,6	8,5	**8,2**	
Current account (M EUR)	-217	691	1392	-723	-993	-739	-445	-531	-188	-533	2457	**-103**		
Exports (% YoY EUR)	0,0	4,0	1,4	6,0	-5,2	9,2	2,7	-2,3	4,7	6,7	13,8	**5,4**		
Imports (% YoY EUR)	0,9	0,0	2,5	0,8	-6,9	10,8	3,1	2,1	6,2	9,0	16,0	**6,9**		

*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**	**3,6**	**3,7**	**3,8**	**4,1**	**2,8**	**3,8**	**3,4**
Private consumption (% YoY)		**3,2**	**3,3**	**3,9**	**4,2**	**3,9**	**3,6**	**2,9**	**2,8**	**3,6**	**3,3**	**3,1**
Gross fixed capital formation (% YoY)		**-2,2**	**-5,0**	**-7,7**	**-5,8**	**0,5**	**4,0**	**6,8**	**8,7**	**-5,5**	**5,9**	**10,0**
Export - constant prices (% YoY)		**6,7**	**11,4**	**6,8**	**8,6**	**9,2**	**9,8**	**12,1**	**12,5**	**8,4**	**10,9**	**7,3**
Import - constant prices (% YoY)		**8,7**	**10,0**	**7,8**	**8,5**	**9,0**	**10,7**	**12,7**	**13,1**	**8,7**	**11,4**	**7,3**
GDP growth contributions	**Private consumption (pp)**	**2,0**	**1,9**	**2,3**	**2,1**	**2,5**	**2,1**	**1,7**	**1,4**	**2,1**	**1,9**	**1,8**
	Investments (pp)	**-0,3**	**-0,9**	**-1,4**	**-1,6**	**0,1**	**0,7**	**1,2**	**2,2**	**-1,1**	**1,1**	**1,8**
	Net exports (pp)	**-0,7**	**1,0**	**-0,3**	**0,3**	**0,5**	**0,1**	**0,0**	**0,1**	**0,1**	**0,2**	**-0,6**
Current account* **		**-0,8**	**-0,5**	**-0,4**	**-0,3**	**-0,4**	**-0,5**	**-0,6**	**-0,7**	**-0,3**	**-0,7**	**-1,2**
Unemployment rate (%)**		**9,9**	**8,7**	**8,3**	**8,3**	**8,2**	**7,2**	**7,0**	**7,3**	**8,3**	**7,3**	**7,3**
Non-agricultural employment (% YoY)		**2,2**	**2,3**	**1,5**	**1,5**	**1,1**	**0,8**	**0,5**	**0,2**	**1,9**	**0,7**	**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**	**2,0**	**1,7**	**1,7**	**-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**	**4,23**	**4,33**	**4,23**	**4,18**	**4,40**	**4,18**	**4,07**
USDPLN**		**3,73**	**3,94**	**3,82**	**4,18**	**3,97**	**4,08**	**3,92**	**3,80**	**4,18**	**3,80**	**3,51**

* quarterly average
** end of period
***cumulative for the last 4 quarters

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST* CA	FORECAST* CONSENSUS**
		Monday 04/03/2017				
9:00	**Poland**	**Manufacturing PMI (pts)**	**Mar**	**54,2**	**54,5**	**54,6**
9:55	Germany	Final Manufacturing PMI (pts)	Mar	58,3	58,3	58,3
10:00	Eurozone	Final Manufacturing PMI (pts)	Mar	56,2	56,2	56,2
11:00	Eurozone	PPI (% YoY)	Feb	3,5		4,3
11:00	Eurozone	Unemployment rate (%)	Feb	9,6		9,5
15:45	USA	Flash Manufacturing PMI (pts)	Mar	53,4		
16:00	USA	ISM Manufacturing PMI (pts)	Mar	57,7	57,7	57,0
		Tuesday 04/04/2017				
11:00	Eurozone	Retail sales (% MoM)	Feb	-0,1		0,5
16:00	USA	Factory orders (% MoM)	Feb	1,2	1,0	1,0
		Wednesday 04/05/2017				
10:00	Eurozone	Services PMI (pts)	Mar	56,5	56,5	56,5
10:00	Eurozone	Final Composite PMI (pts)	Mar	56,7	56,7	56,7
14:15	USA	ADP employment report (k)	Mar	298		185
16:00	USA	ISM Non-Manufacturing Index (pts)	Mar	57,6	57,0	57,0
20:00	USA	FOMC Minutes	Mar			
	Poland	**NBP rate decision (%)**	**Apr**	**1,50**	**1,50**	**1,50**
		Thursday 04/06/2017				
9:00	Germany	New industrial orders (% MoM)	Feb	-7,4		4,0
		Friday 04/07/2017				
8:00	Germany	Trade balance (bn EUR)	Feb	18,5		18,0
9:00	Germany	Industrial production (% MoM)	Feb	2,8		-0,2
14:30	USA	Unemployment rate (%)	Mar	4,7	4,6	4,7
14:30	USA	Non-farm payrolls (k MoM)	Mar	235	190	180
16:00	USA	Wholesale inventories (% MoM)	Feb	0,4		0,4
16:00	USA	Wholesale sales (% MoM)	Feb	-0,1		0,3

*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

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