CRÉDIT AGRICOLE

MACRO MAP

The best sentiment in the Eurozone in 6 years

This week

- **The first round of French presidential election took place on Sunday.** According to the official results, E. Macron obtained 23.75% of votes, M. Le Pen 21.53%, F. Fillon 19.91% and J.-L. Melenchon 19.64%. Other candidates got less than 10% of votes. The fact that no candidate won at least 50% support means the necessity of holding second round between E. Macron and M. Le Pen. This scenario is in line with our expectations (see MACROmap of 17/4/2017). Our base scenario is that E. Macron will win in the second round – polls before the first round indicated a high likelihood of this scenario. We believe that as long as the polls do not indicate M. Le Pen's victory in the second round, the first round results will be conducive to a decrease in global risk aversion and consequently higher EURUSD rate, lower EURPLN rate, and lower yields on Polish bonds. Decreasing political risk in Europe will be conducive to strengthening economic recovery in Europe. This supports our scenario of strong acceleration in exports and GDP growth in Poland (see below).
- **Significant hard data on US economy and business survey results will be released this week.** The flash estimate of the US GDP in Q1 will be released on Friday. We expect that the annualized economic growth rate dropped to 0.7% vs. 2.1% in Q4 2016, due to the lower contribution of private consumption (high base effect). We forecast that new home sales decreased to 580k in March vs. 592k in February. We expect that the monthly dynamics of the preliminary durable goods orders have not changed in March compared to February and amounted to 1.8%. The results of consumer sentiment surveys will also be released in the US. We believe that the Conference Board Consumer Confidence Index (123.0 pts vs. 125.6 pts in March), like the upward revised final reading of the University of Michigan Index (98.2 pts vs. 96.9 pts in March), will confirm the sustainable good household's sentiment. In our view, the aggregate impact of data from the US will be neutral for the financial markets.
- **The ECB meeting will be held on Thursday**. In our view, it will not bring any changes in the Eurozone monetary policy. Questions about the future shape of the ECB monetary policy may be asked during the press conference in the context of the strong improvement of business sentiment within the single currency area, signaled by the April PMIs, and the expected return of inflation to a level consistent with the ECB definition of price stability (see below). The latest remarks of M. Draghi were clearly dovish and we do not expect the ECB bias to change after the Thursday's meeting. During the conference after the ECB meeting PLN and prices of the Polish debt may show increased volatility.
- **Flash estimate of HICP inflation in the Eurozone will be released on Friday.** We expect that the annual inflation rate rose to 1.6-1.7% YoY in April vs. 1.5% in March. The flash estimate of HICP inflation in Germany will be released on Thursday. We forecast that it rose to 1.8% YoY in April vs. 1.5% in March. In both cases conducive to increase in inflation was higher core inflation. We expect that the data will not materially impact PLN or yields on Polish bonds.
- **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 113.1 pts in April vs. 112.3 pts in March. The publication of the business survey results in Germany is likely to be neutral for PLN and prices of Polish bonds.
- **Data on the April inflation in Poland will be released on Friday.** We forecast that it has not changed compared to March and amounted to 2.0% YoY. In our view, lower dynamics of fuel prices was offset by higher core inflation. Our forecast is below the consensus (2.1%), therefore its materialization will be slightly negative for PLN and yields on Polish bonds.

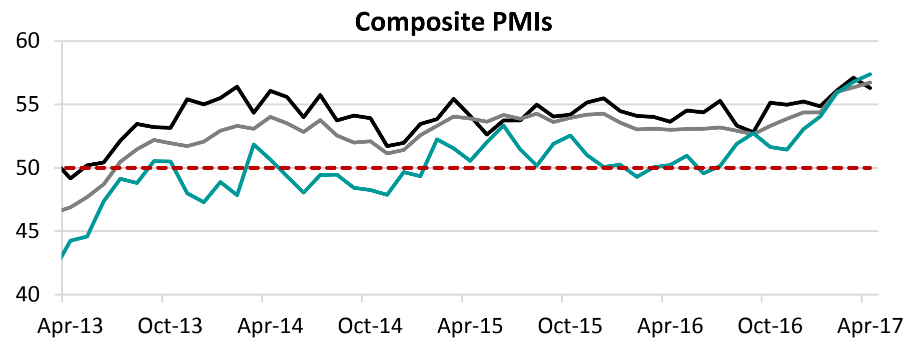
Last week

- **As expected, the Standard & Poor's rating agency left Poland's long term credit rating unchanged at BBB+ with a stable outlook.** S&P indicated that stable outlook reflected the balance between negative impact of expansionary fiscal policy (including increased social spending) on the rating and the expected relatively high economic growth rate. The report indicates that although the reduction in retirement age is of marginal importance for the situation in public finance in the short term, it is conducive to a substantial increase in public spending in the long term. The agency expects that the public finance deficit in relation to GDP will increase from 2.6% in 2016 to 3.0% between 2017 and 2018 and will then gradually decrease to 2.8% in 2020. S&P forecasts that public debt will increase from 53.4% to 54.5% of GDP in the same period. The deficit projection between 2017 and 2019 has not been significantly altered compared to the December forecast. In turn, the projection of public debt in relation to GDP was increased by ca. 1.3 pp, due to a higher starting point of the forecast (budget execution in 2016 was weaker than the agency had expected). According to S&P, potentially negative for the rating will be a sharper – than currently expected by the Agency – deterioration of the situation in public finance or increase in concerns about limited independence of the central bank. In turn, the rating could be upgraded in the event of a stronger than expected decrease in public deficit or durable reduction in public debt and stabilization of its service costs. We expect that in subsequent years the government will shape the fiscal policy so that the public sector deficit does not exceed the threshold of 3% of GDP. According to the results of our simulations, in the conditions of moderate economic recovery and inflation running close to the target, subsequent years should see either stabilization or a slight decline in public debt in relation to GDP. It will mainly result from the assumed by us strengthening of PLN, conducive to decrease in foreign debt once converted to PLN. In effect, considering the risks to the evaluation of Poland's creditworthiness as outlined in S&P report, we expect that S&P will not change Poland's rating in the horizon of several quarters and will maintain its stable outlook. The last week's decision of the agency is neutral for PLN and the debt market, we believe.
- **Flash April business sentiment indicators (PMI) for major European economies were released last week.** PMI composite for the Eurozone rose to 56.7 pts in April vs. 56.4 pts in March, hitting the highest level since April 2011. The index increase was due to higher values of its sub-indices for both business activity in services and output in manufacturing (see below).
- **Industrial production rose by 11.1% YoY in March vs. a 1.2% increase in February**. The main reason for the sharp increase in output growth between February and March was a favourable difference in the number of working days. High, against the backdrop of other categories, production growth was recorded in March in branches with a significant share of exports in the sales of products, trade goods and materials. These data are in line with our scenario, in which the recovery in the global trade will boost demand for Polish exports and increase manufacturing activity in 2017. The construction-and-assembly production rose by 17.2% YoY in March vs. a 5.4% YoY decline in February. Seasonally-adjusted construction production rose by 9.7% MoM (the highest since February 2008) and on an annual basis it rose by 10.2% (the highest since April 2014). The increase in the annual production growth was due to the above-mentioned difference in the number of working days, favourable weather conditions in March, and recovery in residential and infrastructural construction. We expect that the recovery in construction will continue into subsequent months due to the forecasted by us higher absorption of EU funds, significant increase in public outlays on infrastructure, and boom in residential construction (see MACROpulse of 20/4/2017). The data on industrial production and assembly-and-construction production in March signal a significant upside risk to our forecast of

GDP growth in Q1 2017 (up to 3.6% YoY vs. 2.5 YoY in Q4).

- **Retail sales in Poland rose in current prices by 9.7% YoY in March vs. a 7.3% increase in February**. The sales in constant prices rose by 7.9% YoY in March vs. 5.2% in February. Especially noteworthy in the structure of the March sales is the wide range of the acceleration in sales growth. It shows that the increase in sales growth was caused by favourable calendar effects. In addition, higher annual sales growth was due to low base effects of last year in the category "other", "furniture, audio-video and household equipment" and favourable weather conditions compared to March 2016 boosting sales of clothes from the spring and summer collection (increase in sales in the category "textiles, clothing, footwear" - see MACROpulse of 20/4/2017). Data on retail sales in Q1 2017 pose an upside risk to our forecast of private consumption (3.9% YoY vs. 4.5 in Q4 2016).
- **Nominal wage dynamics in Polish sector of enterprises rose to 5.2% YoY in March vs. 4.0% in February.** Conducive to higher wage growth was the postponement of the payment of additional annual bonus in mining (so-called "fourteenth salary") from February to March in Katowicki Holding Węglowy (see MACROpulse of 19/4/2017). The increase in nominal wage dynamics between February and March occurred also due to a favourable difference in the number of working days, increasing the dynamics of piecework pay. The annual dynamics of employment dropped to 4.5% YoY in March vs. 4.6% in February. We estimate that the growth rate of the real wage fund (employment times average remuneration) in enterprises amounted to 7.7% YoY in March vs. 6.5% YoY in February. We forecast that annual employment growth will stabilize at ca. 4.5% in subsequent months, as the improvement in the labour market will gradually slow down. At the same time, we believe that nominal wage growth rate will decelerate in subsequent months and we estimate the probability of occurrence of secondary effects caused by increase in inflation (so-called second round effects) as low.
- **Hard data from the US economy and business survey results were released last week.** Industrial production rose by 0.5% MoM in March vs. a 0.1% increase in February, which was due to higher output growth in utilities and its decline in manufacturing and mining. Capacity utilization rose to 76.1% in March vs. 75.7% in February. Data on building permits (1260k in March vs. 1216k in February), housing starts (1215k vs. 1303k), and existing home sales (5.71M vs. 5.47M) were also released last week and pointed to continuation of recovery in the US real estate market. The results of business surveys were also released last week. The NY Empire State index dropped to 5.2 pts in April vs. 16.4 pts in March, while Philadelphia FED Index dropped to 22.0 pts vs. 32.8 pts, pointing to lower growth rate of manufacturing activity. The last week's data from the US economy do not alter our forecast in which the annualized economic growth rate in the US will decrease to 0.7% in Q1 vs. 2.1% in Q4 2016.

The best sentiment in the Eurozone in 6 years



Source: Markit

The Composite PMI (for manufacturing and services) in the Eurozone rose to 56.7 pts in April vs. 56.4 pts in March, hitting the highest level since April 2011. The index increase resulted from higher values of its sub-indices concerning both business activity in services and output in manufacturing, which shows that the improvement in the Eurozone is wide ranging.

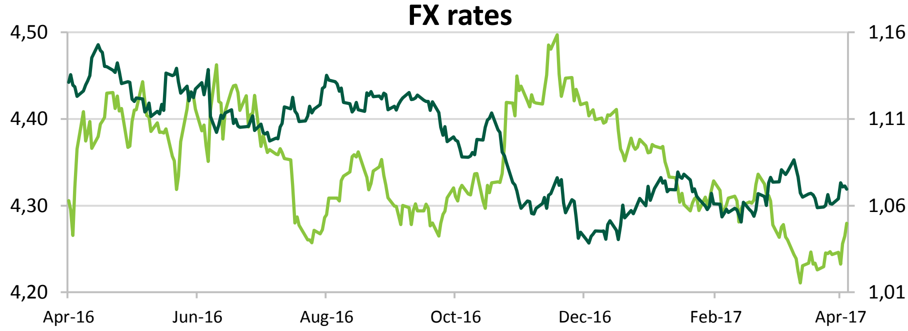
Especially noteworthy in the data structure is further increase in the sub-index concerning output to 56.7 pts vs. 56.4 pts in March. At the same time, sub-indices concerning production backlogs and new orders dropped only slightly (by 0.4 pts), running above their average levels from Q1 2017. It should be pointed out that the decrease in the sub-index for new orders within PMI composite resulted from deterioration of sentiment in services, while the pace of inflow of new orders in manufacturing accelerated further, hitting the highest level since March 2011. High capacity utilization made enterprises increase the number of jobs – the employment sub-index in the whole Eurozone economy rose in April to the highest level since July 2007, while the number of employees in manufacturing was growing in April at the fastest rate since May 2000. This signals good prospects for economic growth in the coming months. At the same time, the April business survey results pose an upside risk to our forecast, in which the quarterly GDP growth rate in the Eurozone will not change in Q2 compared to Q1 and will amount to 0.4%. The survey authors estimate – based on the April PMI value – that the economic growth rate within the single currency area will amount to 0.7% QoQ.

Geographically, a faster growth rate of economic activity was recorded in all the Eurozone countries covered by the survey, with the exception of Germany. The improvement in France – to the highest level since May 2011 - resulted from higher sub-indices concerning both activity in the services sector and output in manufacturing. In turn, Germany recorded a decline in composite PMI resulting from lower values of the sub-index concerning activity in services and the sub-index concerning output in manufacturing. It is worth noting that PMI composite for France has for a third month in a row stood above the value for Germany.

From the point of view of future business climate in Poland, noteworthy is the situation in German manufacturing. The German manufacturing PMI dropped slightly to 58.2 pts in April vs. 58.3 pts in March, at the same time running significantly above its average value from Q1 (57.2 pts). The index decline resulted from lower contributions of four of its five sub-indices (for employment, new orders, output, and stocks of purchases), while higher contribution of and suppliers' delivery times had an opposite impact. We believe that the index decline recorded in April was of a one-off correction and high activity in the German manufacturing is likely to be maintained in the coming months.

The April business survey results pointing to a significant increase in orders in the German manufacturing signal a high likelihood of increase in demand for goods manufactured in Poland used in the production of final products. This poses an upside risk to our forecast, in which the annual Polish exports growth rate will increase to 9.8% in Q2 2017 vs. 9.2% in Q1. 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). At the same time, we see a significant upside risk to our forecast of economic growth rate (3.6% YoY in Q1 and 3.7% in Q2). In the next MACROmap, we will publish our latest macroeconomic scenario.

Results of French presidential election positive for PLN



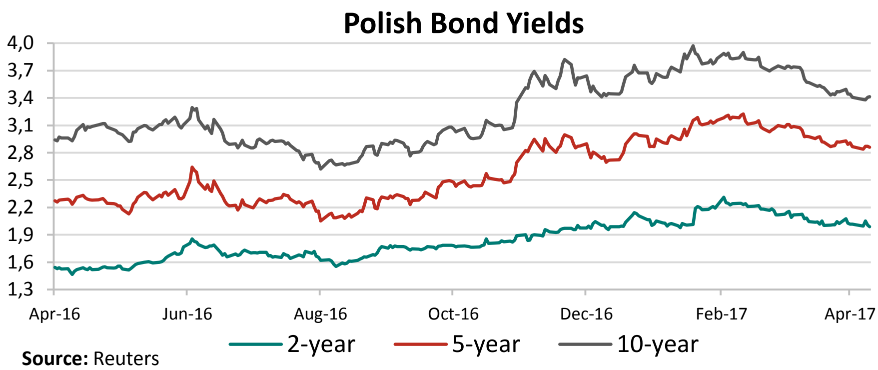
Source: Reuters

Last week EURPLN rate rose to 4.2615 (PLN weakening by 0.4%). On Monday, PLN was slightly depreciating in the absence of Polish investors due to holiday in Poland. On Tuesday PLN was strengthening which may have been caused by the publication of better-than-expected data from the

Chinese economy. Further into the week, PLN and other currencies of the region were depreciating due to the uncertainty about the results of the Sunday's presidential election in France. On Thursday, a temporary appreciation of PLN was due to better-than-expected domestic data on industrial production and retail sales. S&P decision to leave Poland's so-far rating and its stable outlook was published after the closing of the European markets; therefore, its impact on PLN was limited.

We believe that the official results of the French presidential election, whereby M. Le Pen and E. Macron will compete in the second round, will have a positive impact on PLN. Neutral for PLN will be the S&P decision released last Friday to leave Poland's so-far rating and its stable outlook. We believe that important for PLN this week will be the publication of the flash estimate of domestic inflation scheduled for Friday. If our lower-from-the-market-consensus forecast materializes, it may be slightly negative for PLN. On Thursday, during the press conference after the ECB meeting, we expect increased volatility of PLN. We expect that the aggregate impact of US data (flash GDP estimate, new home sales, preliminary durable goods orders, and Conference Board Consumer Confidence Index) on PLN will be limited. Neutral for PLN will also be the readings of preliminary inflation in the Eurozone and Ifo index in Germany.

Polish debt market focuses on domestic inflation



Source: Reuters

Last week the yield of Polish 2-year benchmark bonds dropped to a level of 1.982 (down by 4 bp), of 5-year bonds has not changed compared to a level from two weeks ago and amounted to 2.863, and of 10-year bonds rose to a level of 3.414 (up by 1 bp). Last week the Polish debt market recorded low trading due to the festive season and uncertainty about the Sunday's presidential election in France. Lower investors' activity helped a relative stability of prices of Polish bonds. The most important event for the Polish debt market was the Thursday's publication of data on industrial production and retail sales, which was conducive to increase in yields on Polish bonds. S&P decision to leave Poland's so-far rating and its stable outlook was published after the closing of the Polish market; therefore, it had no impact on the debt prices.

In our view, the official results of the French presidential election, whereby M. Le Pen and E. Macron will compete in the second round, will have a positive impact on the prices of the Polish debt. Limited impact on the prices of Polish bonds will have the S&P decision to leave Poland's so-far rating and its stable outlook released last Friday. We expect that this week the Polish debt market will focus on the publication of the flash estimate of domestic inflation scheduled for Friday. We believe that it will be lower from the market expectations, which will be slightly positive for the prices of the Polish debt. On Thursday, during the press conference after the ECB meeting, we expect increased volatility of yields on Polish bonds. The aggregate impact of US data (flash GDP estimate, new home sales, preliminary durable goods orders, and Conference Board Consumer Confidence Index) on the Polish debt market will be limited, we believe. In our view, neutral for the prices of the Polish debt will also be the readings of preliminary inflation in the Eurozone and Ifo index in Germany.

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	**4,01**
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	**3,99**
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	2,0	
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	11,1	
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	9,7	
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	5,2	
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	-503	-729	-858	-179	-128	-56	2576	-860		
Exports (% YoY EUR)	0,0	4,0	1,4	6,0	-5,3	9,3	3,1	-0,5	5,8	5,2	13,9	3,8		
Imports (% YoY EUR)	0,9	0,0	2,5	0,8	-7,3	10,7	3,5	3,6	6,3	7,1	16,1	9,1		

*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)		2,9	3,0	2,4	2,5	3,6	3,7	3,8	4,1	2,7	3,8	3,4
Private consumption (% YoY)		3,4	3,4	4,1	4,5	3,9	3,6	2,9	2,8	3,8	3,3	3,1
Gross fixed capital formation (% YoY)		-9,8	-4,5	-6,7	-9,8	0,5	4,0	6,8	8,7	-7,9	5,9	10,0
Export - constant prices (% YoY)		7,1	11,8	7,8	9,3	9,2	9,8	12,1	12,5	9,0	10,9	7,3
Import - constant prices (% YoY)		8,7	10,1	8,7	8,2	9,0	10,7	12,7	13,1	8,9	11,4	7,3
GDP growth contributions	Private consumption (pp)	2,2	2,0	2,5	2,2	2,5	2,1	1,7	1,4	2,3	1,9	1,8
	Investments (pp)	-1,4	-0,8	-1,3	-2,8	0,1	0,7	1,2	2,2	-1,6	1,1	1,8
	Net exports (pp)	-0,5	1,2	-0,3	0,8	0,5	0,1	0,0	0,1	0,3	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 04/24/2017				
10:00	Germany	Ifo busienss climate (pts)	Apr	112,3	113,1	112,5
		Tuesday 04/25/2017				
15:00	USA	Case-Shiller Index (% MoM)	Feb	0,9		0,6
16:00	USA	New home sales (k)	Mar	592	580	585
16:00	USA	Richmond Fed Index	Apr	22,0		
16:00	USA	Consumer Confidence Index	Apr	125,6	123,0	122,9
		Wednesday 04/26/2017				
10:00	**Poland**	**Registered unemplyment rate (%)**	**Mar**	**8,5**	**8,2**	**8,2**
		Thursday 04/27/2017				
11:00	Eurozone	Business Climate Indicator (pts)	Apr	0,80		0,82
13:45	Eurozone	EBC rate decision (%)	Apr	0,00	0,00	0,00
14:00	Germany	Preliminary HICP (% YoY)	Apr	1,5	1,8	1,9
14:30	USA	Durable goods orders (% MoM)	Mar	1,8	1,8	1,2
		Friday 04/28/2017				
0:00	**Poland**	**Flash CPI (% YoY)**	**Apr**	**2,0**	**2,0**	**2,1**
10:00	Eurozone	M3 money supply (% MoM)	Mar	4,7		4,8
11:00	Eurozone	Preliminary HICP (% YoY)	Apr	1,5	1,7	1,8
14:30	USA	Preliminary estimate of GDP (% YoY)	Q1	2,1	0,7	1,1
15:45	USA	Chicago PMI (pts)	Apr	57,7		56,5
16:00	USA	Final U. of Michigan Sentiment Index (pts)	Apr	98,0	98,2	98,0

*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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