

This week

- **The most important event this week will be the FOMC meeting scheduled for Wednesday.** We expect that after the rates hike in March, the Federal Reserve will maintain the status quo in the monetary policy this week. The markets will focus on possible changes in the tone of the press release, addressing the latest remarks of D. Trump concerning the prospects of the economic policy of his administration (including the tax system reform). In our view, the press release after the FOMC meeting may contribute to increased volatility in the financial markets.
- **Some important data from the US will also be released this week.** The ISM index for manufacturing was released yesterday and dropped to 54.8 pts in April vs. 57.2 pts in March. The index decline was due to lower contributions of 3 out of its 5 sub-indices (for new orders, employment, and suppliers' delivery times), while higher sub-indices for inventories and output had an opposite impact. Data from the labour market will be released on Friday. We expect non-farm payrolls to have increased by 180k in April vs. 98k in March, with unemployment rate rising up to 4.6% from 4.5% in March. 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 180k vs. 263k in March). The impact of the employment reading will be neutral for PLN and the prices of Polish debt, we believe.
- **Flash estimate of the Eurozone GDP will be released on Wednesday.** We expect that the quarterly GDP dynamics have not changed in Q1 compared to Q4 2016 and amounted to 0.4%. Our forecast which is lower than the market consensus (0.5%) is supported by the decline recorded last week for the economic growth rate in France (0.3% QoQ in Q1 2017 vs. 0.5% in Q4 2016). On the other hand, the March results of business surveys (PMI) within the single currency area signal an upside risk to our forecast (see MACROmap of 27/3/2017). The release of the data from the Eurozone should not be market moving, we believe.
- **The April China manufacturing PMIs (Caixin and CFLP) have been released in recent days.** The Caixin PMI dropped to 50.3 pts in April vs. 51.2 pts in March. The index decline resulted from lower contributions of 3 out of its 5 sub-indices (for output, new orders, and employment), while higher sub-indices for inventories and suppliers' delivery times had an opposite impact. The PMI according to CFLP also recorded a decline and dropped to 51.2 pts in April vs. 51.8 pts in March. Despite declining in April, the indices continue to stay above the 50 pts threshold dividing expansion from contraction of activity. This supports our forecast, in which 2017 will be the first year since 2011 when China will not record an economic slowdown. We forecast that GDP dynamics will not change compared to 2016 and will amount to 6.7%. Thus, the economic growth rate will be above the target set by the Chinese government (above 6.5%).
- **The April data on business sentiment in Polish manufacturing have been released today.** PMI rose to 54.1 pts vs. 53.5 pts in March, thus being below our forecast (54.2 pts) and above the market consensus (53.9 pts). Today's reading supports our forecast of economic growth rate in Poland (3.7% YoY in Q2 vs. 4.0% in Q1, see below).

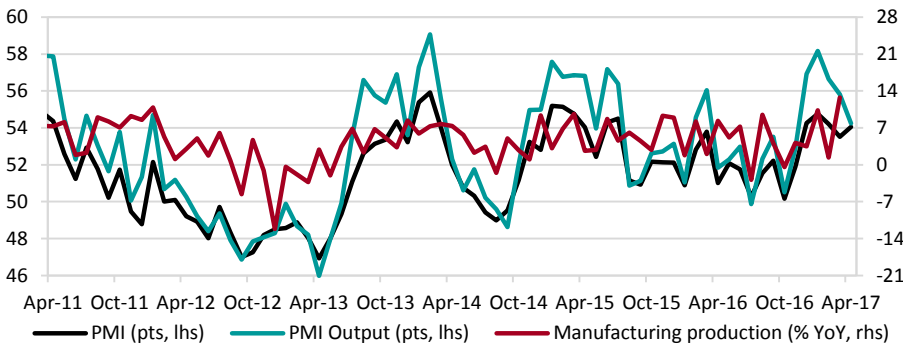
Last week

- **Hard data from the US economy and business survey results were released last week.** According to the flash estimate, the annualized US GDP dropped to 0.7% in Q1 vs. 2.1% in Q4 2016. Its decline was due to lower contribution of private consumption (0.23 pp in Q1 vs. 2.40 pp in Q4), inventories (-0.93 pp vs. 1.01), and government spending (-0.30 pp vs. 0.03 pp). Higher contributions of net exports (0.07 pp in Q1 vs. -1.82 pp in Q4) and investments (1.62 pp vs. 0.46 pp) had an opposite impact. In effect, investments were the main source of US economic growth in Q1. Preliminary data on durable goods orders were also released last week. They rose by 0.7% MoM in March vs. a 2.3% increase in February, due to higher growth of

orders for means of transport. Excluding means of transport, durable goods orders decreased by 0.2% MoM in March vs. a 0.7% increase in February. Especially noteworthy in the data structure is the increase in orders for non-military capital goods, excluding orders for aircrafts (3.0% YoY in March vs. 3.1% in February) being a leading indicator for future investments, which rose in year-on-year terms for a fourth month in a row. The results of business surveys were also released last week. The Conference Board Index dropped to 120.3 pts in April vs. 124.9 pts in March. Despite the decline vs. April, the index continues to stay at a historically high level, suggesting the sustainability of good consumer sentiment, confirmed also by the final University of Michigan index which rose to 97.0 pts vs. 96.9 pts in March and 98.0 pts in the first estimate. The index increase compared to March resulted from its higher sub-index concerning expectations while lower sub-index for the assessment of current situation had an opposite impact. We forecast that the annualized US GDP growth rate will increase to 3.8% in Q2 2017.

- ✓ **The ECB meeting was held last week.** As we expected, it left unchanged the existing parameters of the monetary policy. The press release after the April's meeting repeated the statement that the expanded asset purchase program would continue at least until December 2017. The part saying that interest rates were likely to stay at the current or lower level for an extended period, significantly exceeding the horizon of the asset purchase program (so-called forward guidance), has not been changed either. In accordance with the press release after the meeting, inflationary pressure in the Eurozone continues to be low. At the press conference, M. Draghi pointed out that downside risks to economic growth had decreased. We believe that if the economic situation in the Eurozone improves further, the ECB will decide to change the forward guidance at the June meeting by deleting the part on possible further interest rate cuts. At the same time, we expect that at the September meeting the ECB will decide to extend the expanded asset purchase program at least until March 2018.
- ✓ **According to the flash estimate, inflation in the Eurozone rose to 1.9% YoY in April vs. 1.5% in March.** The increase in inflation resulted from higher dynamics of prices of services while lower dynamics of food prices had an opposite impact. The data pose an upside risk to our scenario, in which inflation in the Eurozone will decrease to 1.5% YoY in Q2 vs. 1.8% in Q1.
- ✓ **According to the flash estimate, inflation in Poland has not changed in April compared to March and amounted to 2.0% YoY.** We believe that lower dynamics of fuel prices were offset by higher core inflation. Final data on inflation including its structure will be released on 12 May.
- ✓ **Ifo index reflecting the sentiment among German managers representing the manufacturing, construction, wholesale and retail trade sectors, rose to 112.9 pts in April vs. 112.4 pts in March.** The index increase was due to higher sub-index concerning the assessment of the current situation while lower sub-index concerning expectations had an opposite impact. Sector-wise, improved sentiment was recorded only in construction, retail trade, and wholesale trade, while the situation in manufacturing deteriorated. The data support our forecast, in which the quarterly GDP growth rate in the German economy will not change in Q2 compared to Q1 and will amount to 0.5%.

Recovery in Polish manufacturing continues



Source: Markit, GUS

Business sentiment indicator in Polish manufacturing (PMI) rose to 54.1 pts vs 53.5 pts in March, running above the market consensus (53.9 pts) and below our forecast (54.2 pts). The index increase resulted from higher contributions of 4 out of 5 its indicators (for new orders, employment, suppliers' delivery times, and stocks of purchases), which points to a wide

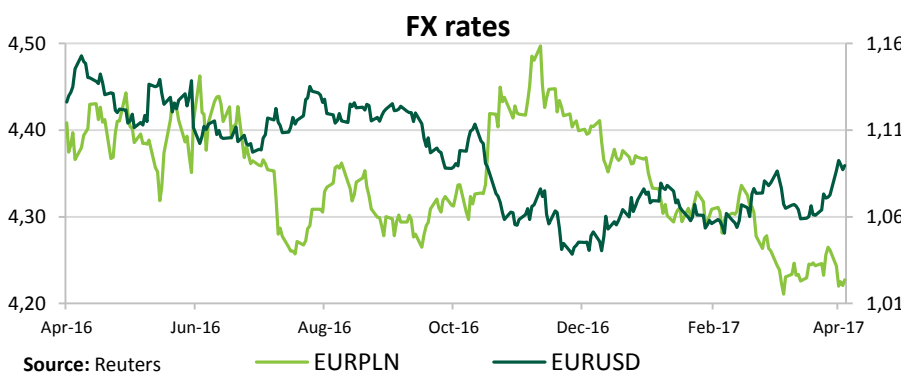
range of the recovery in Polish manufacturing. Conducive to index decrease was lower contribution of the output sub-index.

Especially noteworthy in the data structure is the increase in total orders (54.5 pts in April vs. 53.7 pts in March), which was accompanied by increase in foreign orders (54.3 pts vs. 53.8 pts). The recovery in foreign demand was signaled earlier by the April's flash German manufacturing PMI indicating continuing strong increase in output and new orders (see MACROmap of 24/4/2017). Considering the leading nature of the sub-indices for new orders, the increase in activity in Polish manufacturing can be expected to continue in subsequent months.

Noteworthy in the data structure are also the biggest delays in deliveries since September 2016. This shows that an increasing number of businesses is encountering the barrier of limited capacities. This view is supported by the results of GUS business surveys, in which the seasonally-adjusted indicator of capacity utilization in Polish manufacturing rose in Q2 2017 to the highest level since Q2 2008.

PMI index in April stood slightly below the level of Q1 (54.1 pts vs. 54.2 pts). Thus, today's data support our forecast, in which the dynamics of the Polish GDP will drop to 3.7% YoY in Q2 vs. 4.0% in Q1. In our view, today's data on the situation in Polish manufacturing are neutral for PLN and bond yields.

Polish PMI neutral for PLN



Source: Reuters

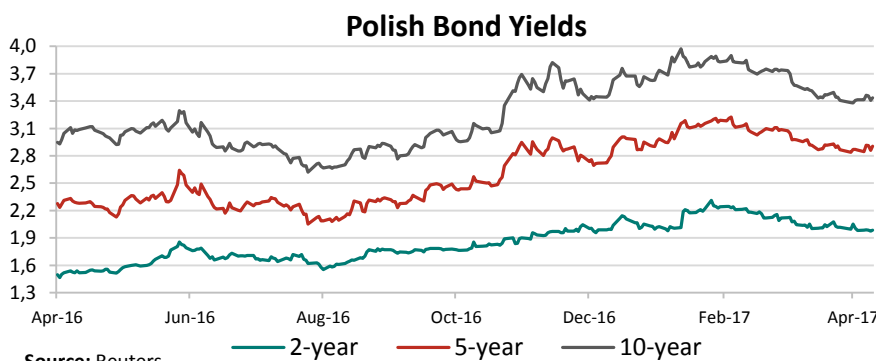
Last week EURPLN rate dropped to 4.2275 (PLN strengthening by 0.8%). On Monday and Tuesday, PLN and other currencies of the region were appreciating, mainly due to the publication of the results of the first round of the French presidential election pointing to the victory of E. Macron. Further into the week, EURPLN oscillated around 4.22

helped by the stabilization of global risk aversion reflected by the VIX index.

The today's publication of Poland manufacturing PMI is neutral for PLN, we believe. Crucial for PLN this week will be the reading of US non-farm payrolls scheduled for Friday. However, if our forecast

materializes, its impact on PLN will be limited. On Wednesday we expect increased volatility of PLN due to FOMC meeting. ISM manufacturing indices in the US and the flash GDP estimate in the Eurozone will not be market moving, we believe. The polls concerning the second round of presidential election in France may be of significant importance for PLN. If pointing to an increase in the likelihood of M. Le Pen's victory, they might be negative for PLN.

FOMC meeting and presidential polls in France crucial for debt market



Last week the yield of Polish 2-year benchmark bonds did not change compared to the level from two weeks ago and amounted to 1.985, the yield of 5-year bonds rose to a level of 2.904 (up by 4 bp), and of 10-year bonds to a level of 3.434 (up by 2 bp). On Monday, the rise in prices of the Polish debt continued and was especially visible at the centre

and at the long end of the curve. It was mainly due to the publication of the results of the first round of the French presidential election pointing to the victory of E. Macron. On Tuesday, there was a correction and the prices of Polish bonds decreased. On Tuesday, the Ministry of Finance held a debt auction at which it sold PLN 8.97bn of 2-, 5-, 9-, and 10-year bonds with demand amounting o PLN 10.96bn. The relatively small difference between demand and supply was conducive to the continuation of the increase in yields on Polish bonds. Further into the week, the prices of the Polish debt were relatively stable due to the lack of significant macroeconomic events and limited risk appetite before the long weekend.

Today's data on sentiment in Polish manufacturing are neutral for the prices of the Polish debt, we believe. This week, the Polish debt market will focus on the reading of US non-farm payrolls scheduled for Friday. However, if our forecast materializes, the reading will be neutral for the prices of Polish bonds. On Wednesday we may see increased volatility in the Polish debt market due to FOMC meeting. ISM index for US manufacturing and the flash GDP estimate in the Eurozone will be neutral for the Polish debt market, we believe. The polls concerning the second round of presidential election in France may be significant for the Polish debt market. If pointing to an increase in the likelihood of M. Le Pen's victory, they might be negative for the prices of Polish bonds.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland														
Indicator	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	May-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*	4,37	4,38	4,38	4,35	4,36	4,29	4,31	4,45	4,40	4,32	4,31	4,23	4,23	4,22
USDPLN*	3,81	3,94	3,94	3,90	3,91	3,82	3,92	4,20	4,18	4,00	4,07	3,97	3,88	3,92
CHFPLN*	3,97	3,96	4,04	4,02	3,97	3,93	3,96	4,13	4,11	4,04	4,05	3,96	3,90	3,92
CPI inflation (% YoY)	-1,1	-0,9	-0,8	-0,9	-0,8	-0,5	-0,2	0,0	0,8	1,7	2,2	2,0	2,0	2,0
Core inflation (% YoY)	-0,4	-0,4	-0,2	-0,4	-0,4	-0,4	-0,2	-0,1	0,0	0,2	0,3	0,6	0,6	0,6
Industrial production (% YoY)	5,9	3,2	6,0	-3,4	7,5	3,2	-1,3	3,2	2,2	9,1	1,1	11,1	2,8	2,8
PPI inflation (% YoY)	-1,2	-0,4	-0,8	-0,5	-0,1	0,2	0,6	1,8	3,2	4,0	4,5	4,7	4,5	4,5
Retail sales (% YoY)	3,2	2,2	4,6	2,0	5,6	4,8	3,7	6,6	6,4	11,4	7,3	9,7	8,0	8,0
Corporate sector wages (% YoY)	4,6	4,1	5,3	4,8	4,7	3,9	3,6	4,0	2,7	4,3	4,0	5,2	4,3	4,3
Employment (% YoY)	2,8	2,8	3,1	3,2	3,1	3,2	3,1	3,1	3,1	4,5	4,6	4,5	4,4	4,4
Unemployment rate* (%)	9,4	9,1	8,7	8,5	8,4	8,3	8,2	8,2	8,3	8,6	8,5	8,1	7,7	7,7
Current account (M EUR)	691	1392	-723	-503	-729	-858	-179	-128	-56	2576	-860	-165	-165	-165
Exports (% YoY EUR)	4,0	1,4	6,0	-5,3	9,3	3,1	-0,5	5,8	5,2	13,9	3,8	16,6	16,6	16,6
Imports (% YoY EUR)	0,0	2,5	0,8	-7,3	10,7	3,5	3,6	6,3	7,1	16,1	9,1	17,4	17,4	17,4

*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)	2,9	3,0	2,4	2,5	4,0	3,7	3,7	4,1	2,7	3,8	3,4	
Private consumption (% YoY)	3,4	3,4	4,1	4,5	4,1	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	2,1	4,0	6,8	8,7	-7,9	6,2	10,0	
Export - constant prices (% YoY)	7,1	11,8	7,8	9,3	9,5	8,7	12,1	11,9	9,0	10,6	7,3	
Import - constant prices (% YoY)	8,7	10,1	8,7	8,2	9,0	9,7	12,7	13,1	8,9	11,2	7,3	
GDP growth contributions	Private consumption (pp)	2,2	2,0	2,5	2,2	2,6	2,1	1,7	1,4	2,3	1,8	
	Investments (pp)	-1,4	-0,8	-1,3	-2,8	0,3	0,7	1,2	2,1	-1,6	1,1	
	Net exports (pp)	-0,5	1,2	-0,3	0,8	0,7	0,0	0,0	-0,2	0,3	0,1	
Current account***	-0,8	-0,5	-0,4	-0,3	0,5	0,9	0,7	0,6	-0,3	0,7	0,4	
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	4,23	4,23	4,18	4,40	4,18	4,07	
USDPLN**	3,73	3,94	3,82	4,18	3,97	3,99	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	CONSENSUS**
Monday 05/01/2017						
14:30	USA	Real private consumption (% MoM)	Mar	-0,1		
15:45	USA	Flash Manufacturing PMI (pts)	Apr	52,8		
16:00	USA	ISM Manufacturing PMI (pts)	Apr	57,2	57,2	56,5
Tuesday 05/02/2017						
3:45	China	Caixin Manufacturing PMI (pts)	Apr	50,2	51,0	51
9:00	Poland	Manufacturing PMI (pts)	Apr	53,5	54,2	53,9
9:55	Germany	Final Manufacturing PMI (pts)	Apr	58,2	58,2	58,2
10:00	Eurozone	Final Manufacturing PMI (pts)	Apr	56,8	56,8	56,8
11:00	Eurozone	Unemployment rate (%)	Mar	9,5		9,4
Wednesday 05/03/2017						
11:00	Eurozone	Preliminary GDP (% QoQ)	Q1	0,4	0,4	0,5
11:00	Eurozone	PPI (% YoY)	Mar	4,5		4,1
14:15	USA	ADP employment report (k)	Apr	263		180
16:00	USA	ISM Non-Manufacturing Index (pts)	Apr	55,2	55,3	55,8
20:00	USA	FOMC meeting (%)	May	1,00	1,00	1,00
Thursday 05/04/2017						
10:00	Eurozone	Services PMI (pts)	Apr	56,2	56,2	56,2
10:00	Eurozone	Final Composite PMI (pts)	Apr	56,7	56,7	56,7
11:00	Eurozone	Retail sales (% MoM)	Mar	0,7		0,1
16:00	USA	Factory orders (% MoM)	Mar	1,0	-0,1	0,4
Friday 05/05/2017						
14:30	USA	Unemployment rate (%)	Apr	4,5	4,6	4,6
14:30	USA	Non-farm payrolls (k MoM)	Apr	98	180	185

*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