E. Macron will march on

This week

- **According to final election results, E. Macron won the second round of presidential election with 66% of the votes. This scenario was in line with our expectations (see MACROmap of 24/4/2017).** In our view, the victory o E. Macron – and thus the abatement of uncertainty in the markets concerning the result of the French presidential election and reduction of concerns about the disintegration tendencies within the EU – will be conducive to a decrease in global risk aversion. Consequently, we believe that the result of the French presidential election will contribute this week towards the strengthening of PLN and lower yields on Polish bonds as well as higher EURUSD rate (see below). Due to the fact that E. Macron's victory was to a significant extent priced in by the investors, the said changes in the bond and foreign exchange markets are likely to be limited.
- **The most important event this week will be the publication of the update of Poland's long term credit rating by Moody's scheduled for Friday.** Despite the planned assessment of Poland's credit rating for January, Moody's did not review the rating and publish a credit report. Thus, Poland's rating was left unchanged at A2 (with a negative outlook). We expect the agency to maintain its rating this week. The factors Moody's indicated in its earlier reports – i.a. lowering of retirement age contributing to the deterioration in public finance, ongoing decline in investments, and crisis around the constitutional court – will be an argument in favour of maintaining the rating's negative outlook. The agency decision will be released after the closing of the European markets, therefore the reaction of the foreign exchange and debt markets will materialize next week.
- **Significant data from the US economy will be released this week.** We forecast that nominal retail sales rose by 0.6% MoM in April vs. a 0.2% decrease in March, due to higher sales dynamics in the automotive branch. The preliminary University of Michigan Index will be released on Friday. We forecast that its value dropped to 96.5 pts in May vs. 97.0 pts in April. The aggregate impact of the US data on PLN and prices of the Polish debt is likely to be limited.
- **Final data on the April inflation in Poland will be released on Friday.** We expect that the final data was in line with the flash estimate (2.0% YoY) and thus it has not changed compared to March. We believe that lower growth of fuel prices was offset by higher core inflation. The publication of the data should not be market moving.
- **Data on the Chinese balance of trade has been released today**. Its balance rose to USD 38.0bn in April vs. USD 23.9bn in March. At the same time, export dynamics recorded a decline to 8.0% YoY in April vs. 16.4% in March, while import dynamics dropped to 11.9% from 20.3%. The publication of data from China is neutral for the markets, we believe.

Last week

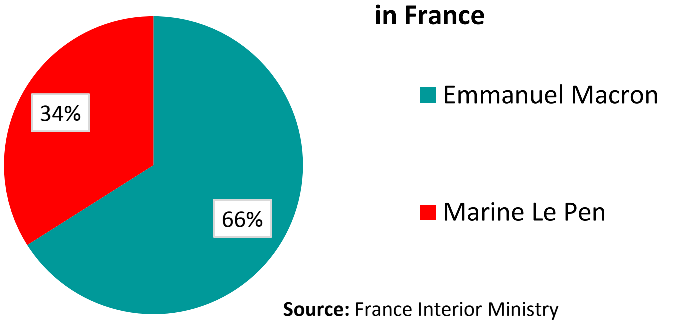
- **Data from the US labour market were released last week.** Non-farm payrolls in the US rose by 211k in April vs. a 79k increase in March (revised downwards from 98k), running above the market expectations (185k). The highest increase in employment was recorded in leisure and hospitality (+55.0k), education and health services (+41.0k), and business services (+39.0k). On the other hand, employment decreased in information services (-7.0k). Unemployment rate dropped to 4.4% in April vs. 4.5% in March, thus running below the natural unemployment rate indicated by FOMC (4.7% - see MACROmap of 20/3/2017). The participation rate dropped to 62.9% in April vs. 63.0% in March. The annual dynamics of average hourly earnings dropped to 2.5% in April vs. 2.7% in March. We expect that further improvement in the labour market in subsequent months will contribute towards increasing the annual wage growth.
- **FOMC meeting was held last week.** As we expected, the target range for the Federal Reserve funds was left unchanged at [0.75%; 1.00%]. The press release after the meeting indicates that

FOMC members favourably assess the US macroeconomic outlooks, due to the continuing improvement in the labour market and inflation running close to target. In addition, FED members indicated that the slowdown of economic growth recorded on Q1 2017 had most probably been only temporary. The solid data from the labour market pointing to a high likelihood of inflation running close to target in subsequent quarters and the relatively hawkish bias of the press release after the May FOMC meeting made us revise our scenario of the US monetary policy. We believe that until the end of 2017 FED will raise interest rates by 50 bp (two hikes by 25 bp each, in June and September). Before the revision we had forecasted only one hike (in September).

- **According to the flash estimate, quarterly GDP dynamics in the Eurozone have not changed in Q1 compared to Q4 2016 and amounted to 0.5%.** On the other hand, the annual economic growth rate dropped to 1.7% vs. 1.8% in Q4. The GDP reading is a flash estimate and does not include its structure. Subsequent estimate of GDP in Q1 for the Eurozone, including the growth rate in all the countries of the single currency area, will be released on 16 May and data on GDP structure will be published on 8 June.
- **Poland manufacturing PMI rose to 54.1 pts in April vs. 53.5 pts in March (see MACROpulse of 2/5/2017).** The index increase resulted from higher contributions of four of its 5 sub-indices (for new orders, employment, suppliers' delivery times, and stocks of goods purchased), which shows that the recovery in Polish manufacturing was wide ranging. Conducive to index decline was lower contribution of the sub-index concerning output. Especially noteworthy in the index structure is higher sub-index for total orders (54.5 pts in April vs. 53.7 pts in March), accompanied by an increase in foreign orders (54.3 pts vs. 53.8 pts). 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. The value of PMI 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 decrease to 3.7% YoY in Q2 vs. 4.0% in Q1.

E. Macron will march on

Results of the second round of presidential election in France

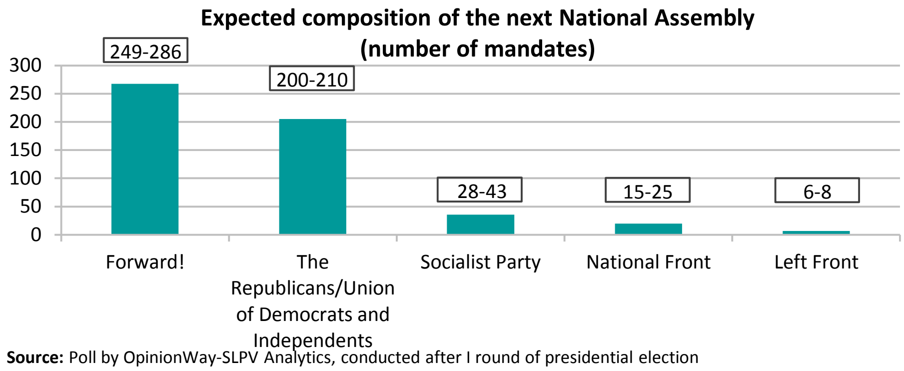


Source: France Interior Ministry

According to the official election results, E. Macron won in the 2nd round of the presidential election with 66% of the votes. This scenario was in line with our expectations (see MACROmap of 24/4/2017). Below we present the most important election promises of E. Macron and the expected impact of his election victory on the financial markets in medium term.

The economic program of E. Macron focuses on reforms that would improve the competitiveness of the French economy. His international policy assumes strengthened cooperation between the EU member states. He also proposes to increase the flexibility of the labour market through changes in the labour code (i.a. change of working time and extending the scope of contractual terms negotiable directly between the employer and the employees). E. Macron also proposes a reform of the tax system including i.a. lower tax burden for enterprises. His program assumes a gradual reduction of the public finance deficit in relation to GDP and consequently achieving a balanced budget in 2022. To this end, E. Macron promised to reduce public expenditure in relation to GDP from 57% in 2015 to 53% in 2022. However, at the same time he is planning a significant increase in public investment expenditure dedicated to increasing innovation and modernization. We believe that delivery on E. Macron's election proposals will contribute towards improvement in the French public finances and increase in potential economic growth rate in the long term. Nonetheless, the planned reduction of total public expenditure with simultaneous increase in public sector's outlays on fixed assets will be a difficult task to accomplish, we believe.

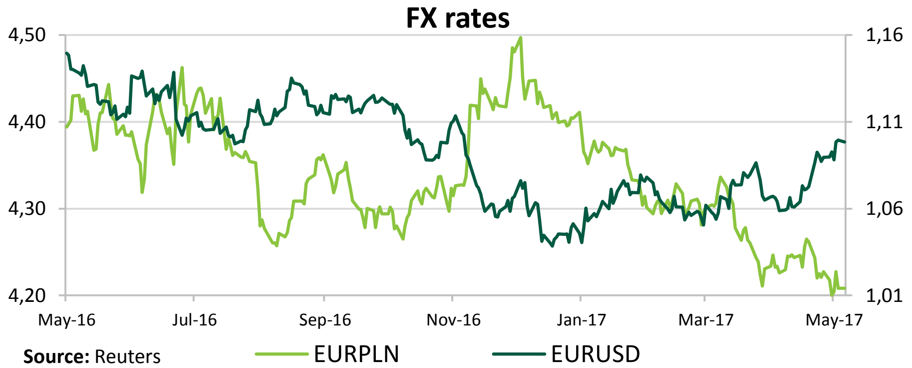
In the short term, E. Macron's victory – and thus the abatement of the uncertainty in the markets concerning the result of the French presidential election and reduction of concerns about disintegration tendencies within the EU - will be conducive to a decrease in global risk aversion, we believe. Consequently, we are of the opinion that the result of the French presidential election will contribute this week towards the strengthening of PLN and lower yields on Polish bonds as well as higher EURUSD rate. Due to the fact that E. Macron's victory was to a significant extent priced in by the investors, the above-mentioned changes in the bond and foreign exchange markets will be limited. However, in the horizon of several weeks we may see a correction in the markets due to return of increased political risk related to the approaching parliamentary elections in France (11 and 18 June 2017).



Source: Poll by OpinionWay-SLPV Analytics, conducted after I round of presidential election

It is currently difficult to precisely assess the distribution of votes in the lower house of the French parliament (so-called National Assembly) after the June elections. Only one public opinion poll has been released so far (OpinionWay-SLPV Analytics, conducted after the first round of the presidential election). It indicates that E. Macron's party (En Marche! – Forward!) will obtain ca. 249-286 of the 577 seats in the National Assembly, the Republicans and the Union of Democrats and Independents would obtain in total ca. 200-210 seats, in turn the party of M. Le Pen (the National Front) would only have 15-25 seats. The poll results indicate that En Marche! is not likely to win a majority in the parliament, which will mean the need of it building a coalition. This may lead to difficulties in taking decisions concerning economic policy and, consequently, delays in delivering the reforms. In our view, such situation should not contribute to a significant increase in global risk aversion, though. On the contrary, such distribution of votes in the National Assembly would mean a weakening of anti-globalisation and Eurosceptic sentiment in Europe, compared to the tendencies observed in recent months, as well as decreasing risk to the Common Market and stable economic growth in the EU countries. Thus, the materialization of the June election scenario signaled by the poll should be positive for PLN vs. USD and the prices of Polish bonds. Thus, the above-outlined factors support our forecast of EURPLN (4.23) and EURUSD (1.09) as at the end of June 2017.

E. Macron's victory supportive for PLN

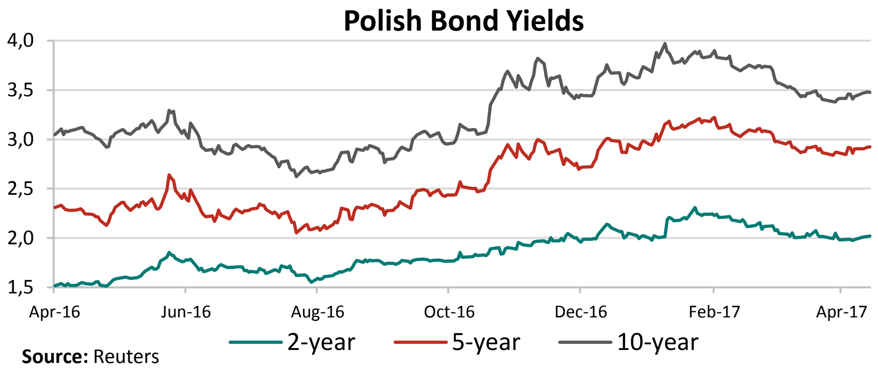


Source: Reuters

Last week EURPLN rate dropped to 4.2083 (PLN strengthening by 0.5%). Monday through Wednesday – given lower activity on the part of Polish investors – PLN was within an upward trend. PLN appreciation was supported by solid results of business surveys for Polish manufacturing. In effect, on Wednesday, EURPLN was temporarily below 4.20. Subsequently there was a correction due to realization of gains. Conducive to PLN weakening was also the press release after the Wednesday's FOMC meeting, which pointed in the market assessment to increased likelihood of interest rates hike at the June meeting. Friday saw PLN strengthening, despite better-from-the-consensus data from the US labour market.

We believe that the results of the French presidential election indicating E. Macron's victory will have a moderately positive impact on PLN. Data from the US (retail sales and the University of Michigan Index) will be neutral for PLN, we believe. Domestic data on inflation is also likely to have a limited impact on PLN. The Friday's review of Poland's rating by Moody's will be released after the closing of the European markets, therefore its impact on PLN will materialize no sooner than next week.

Polish debt market focuses on Poland's rating update



Source: Reuters

Last week the yield of Polish 2-year benchmark bonds rose to a level of 2.021 (up by 4 bp), of 5-year bonds to a level of 2.923 (up by 2 bp), and of 10-year bonds to a level of 3.478 (up by 4 bp). On Monday and Wednesday the trading in the Polish debt market was suspended due to holidays. The remaining days saw low volatility of the debt prices. Stable yields on Polish bonds were supported by the approaching second round of the French presidential election.

We believe that the results of the French presidential election pointing to E. Macron's victory will have a moderately positive impact on the prices of the Polish debt. In our view, the US readings (retail sales and the University of Michigan Index) will have a limited impact on yields on Polish bonds. Domestic data on inflation are also likely to have a limited impact on the yield curve. The Friday's review of Poland's rating by Moody's will be released after the closing of the European markets, therefore its impact on the Polish debt market will materialize no sooner than next week.

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	**4,23**
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	**3,88**
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	**3,91**
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**	
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**	
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**	
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**	
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**	
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**	
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**	
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**	
Current account (M EUR)	691	1392	-723	-503	-729	-858	-179	-128	-56	2576	-860	**-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**		
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**		

*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	1,9	1,8
	Investments (pp)	-1,4	-0,8	-1,3	-2,8	0,3	0,7	1,2	2,1	-1,6	1,1	1,8
	Net exports (pp)	-0,5	1,2	-0,3	0,8	0,7	0,0	0,0	-0,2	0,3	0,1	-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	4,23	4,23	4,18	4,40	4,18	4,07
USDPLN**		3,73	3,94	3,82	4,18	3,97	3,88	3,85	3,73	4,18	3,73	3,45

* quarterly average

** end of period

***cumulative for the last 4 quarters

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST* CA	FORECAST* CONSENSUS**
		Monday 05/08/2017				
	China	Trade balance (bn USD)	Apr	23,9	31,0	35,5
8:00	Germany	New industrial orders (% MoM)	Mar	3,4		1,0
10:00	Eurozone	Sentix Index (pts)	May	23,9		25,0
		Tuesday 05/09/2017				
8:00	Germany	Trade balance (bn EUR)	Mar	21,0		19,8
8:00	Germany	Industrial production (% MoM)	Mar	2,2		-0,6
16:00	USA	Wholesale inventories (% MoM)	Mar	-0,1		-0,1
16:00	USA	Wholesale sales (% MoM)	Mar	0,6		0,2
		Wednesday 05/10/2017				
3:30	China	PPI (% YoY)	Apr	7,6	7,2	6,9
3:30	China	CPI (% YoY)	Apr	0,9	1,2	1,1
		Thursday 05/11/2017				
13:00	UK	BOE rate decision (%)	May	0,25	0,25	0,25
		Friday 05/12/2017				
8:00	Germany	Preliminary GDP (% QoQ)	Q1	0,4	0,5	0,7
11:00	Eurozone	Industrial production (% MoM)	Mar	-0,3	0,3	0,3
14:00	**Poland**	**CPI inflation (% YoY)**	**Apr**	**2,0**	**2,0**	**2,0**
14:30	USA	Retail sales (% MoM)	Apr	-0,2	0,6	0,6
14:30	USA	CPI (% MoM)	Apr	-0,3	0,3	0,2
14:30	USA	Core CPI (% MoM)	Apr	-0,1	0,2	0,2
16:00	USA	Initial U. of Michigan Sentiment Index (pts)	May	97,0	96,5	97,0
16:00	USA	Business inventories (% MoM)	Mar	0,3	0,1	0,1

*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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