

This week

- **The most important event this week will be the release of the May business sentiment indicators for major European economies scheduled for Tuesday.** We expect that PMI Composite for the Eurozone dropped to 56.6 pts in May vs. 56.8 pts in April. The index decreased due to expected deterioration of sentiment in both Germany and France. Ifo Index, reflecting the sentiment among German managers representing the manufacturing, construction, wholesale and retail trade sectors, will also be released on Tuesday. We expect the index value to decrease to 112.6 pts in May from 112.9 pts in April. Our forecasts of business survey results for the Eurozone are close to the consensus, therefore their materialization will be neutral for PLN and prices of Polish bonds, we believe.
- **The Minutes of the May FOMC meeting will be released on Wednesday.** The markets will focus on the FED members' in-depth analyses concerning the US short-term economic outlook and the likely date of subsequent interest rate hike. The release of the Minutes may be conducive to increased volatility in the financial markets; however, they are unlikely to provide new information substantially altering our scenario of gradual normalization of the US monetary policy. Our base scenario assumes that before the end of 2017 FED will hike interest rates twice by 25 bp (in June and September).
- **Significant hard data on US economy and business survey results will be released this week.** The second estimate of the US GDP in Q1 will be released on Friday. We expect that the annualized economic growth rate has not changed compared to the first estimate and amounted to 0.7%. We forecast that the monthly dynamics of preliminary durable goods orders dropped to -0.3% in April vs. 0.9% in March, due to lower orders in the Boeing company. We expect the ongoing recovery in the US real estate market to be confirmed by data on new home sales (595k in April vs. 621k in March) and existing home sales (5.70M vs. 5.71M). The May business survey results will also be released in the US. We expect that a downward-revised final University of Michigan Index (97.2 pts vs. 97.7 pts in April) will point to slight deterioration of households' sentiment. In our view, the aggregate impact of US data will be neutral for the financial markets.

Last week

- **According to the flash estimate, the GDP dynamics in Poland in Q1 rose to 4.0% YoY vs. 2.5% in Q4 2016.** Full data on GDP structure in Q1 will be published towards the end of May. We estimate that conducive to the acceleration of GDP were higher contributions of investments and consumption (see MACROPulse of 16/5/2017). The main source of GDP growth in Q1, like in Q4, was private consumption. The data confirm our scenario, in which the slowdown of economic growth ended in Q4 2016. We expect that the annual GDP growth rate will be close to 4% YoY in subsequent quarters of 2017. The main factor behind the high GDP growth will be public and corporate investments implemented with the use of EU funds.
- **The Monetary Policy Council left interest rates unchanged at its last week's meeting (the reference rate amounts to 1.50%).** The MPC maintained the view that given the available data and forecasts, the current level of interest rates was conducive to keeping the Polish economy on the sustainable growth path and maintaining macroeconomic balance. Like in April, the Council indicated in its statement that due to fading effects of the past increase in global commodity prices, with only a gradual rise in domestic inflationary pressure stemming from improving domestic economic conditions, the risk of inflation persistently running above the target in the medium term was limited. Referring to the flash estimate of GDP in Q1 2017, the Council also noted that the improvement observed in industry and construction might point to a gradual recovery in investment demand. During the press conference after the meeting, the

NBP Governor, Adam Glapiński, repeated the view presented earlier that interest rates were likely to remain unchanged until the end of 2018. He indicated at the same time that some MPC members might be in favour of starting the tightening cycle in H2 2018. The remarks of the NBP Governor lead to the conclusion that most MPC members share the view pointing to a low probability of interest rate hikes before the end of 2018 (see MACROPulse of 17/5/2018). A. Glapiński also stated that the current level of PLN rate was conducive to macroeconomic equilibrium. This signals that the marked appreciation of PLN recorded in recent weeks has not substantially impacted the short-term outlook for interest rates. A. Glapiński's remarks support our forecast in which the Council will decide to start the tightening cycle in November 2018, by increasing interest rates by 25 bp.

- ✓ **Industrial production in Poland dropped by 0.6% YoY in April vs. a 11.1% increase in March.** The main reason for the sharp decline in output dynamics between March and April was an unfavourable difference in the number of working days. The sharp slowdown of manufacturing activity in April can also be due to the weather anomalies in March and April which shifted the demand for goods manufactured by branches supplying the construction sector from April to March. Especially noteworthy in the data structure is the high, against the backdrop of other categories, production growth 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 to the Eurozone and increase manufacturing activity. The construction-and-assembly production rose by 4.3% YoY in April vs. a 17.2% YoY increase in March. Seasonally-adjusted construction production dropped by 1.2% MoM. The decline in the construction activity was due to the above-mentioned difference in the number of working days and weather anomalies. We expect that in subsequent months the assembly-and-construction production will show an upward trend due to the forecasted by us growing absorption of EU funds, significant increase in public outlays on infrastructure, and boom in residential construction (see MACROPulse of 19/5/2017). The reading of industrial and assembly-and-construction production in April supports our forecast of GDP growth in Q2 2017 (down to 3.7% YoY vs. 4.0 YoY in Q1 2017).
- ✓ **Retail sales in Poland rose in current prices by 8.1% YoY in April vs. 9.7% in March.** The sales in constant prices increased by 6.7% YoY in April vs. 7.9% in March. Conducive to higher annual sales growth in April were calendar effects related to later Easter than last year. The weather anomalies in March and April 2017 which supported earlier (March) shopping for spring and summer clothes and footwear had an opposite impact. These anomalies also caused – in our opinion temporary – reduction of demand for cars (see MACROPulse of 19/5/2017). The April's data on sales are consistent with our scenario of decrease in private consumption growth rate to 3.6% YoY in Q2 vs. 4.1% in Q1 2017.
- ✓ **The deficit in Poland's current account dropped to EUR 738M in March from EUR 825M in February.** The improvement in the current account balance was due to higher balance on goods (higher from February by EUR 285M), while lower balances on services, secondary income and primary income (down by EUR 94M, EUR 54M, and EUR 50M, respectively, compared to February) had an opposite impact. Export dynamics rose to 14.8% YoY in March vs. 6.3% in February, and imports dynamics rose to 18.9% YoY vs. 9.9%. Faster exports and imports growth occurred due to the statistical effect in the form of a favourable difference in the number of working days. We estimate that the relation of cumulative current account balance for the last 4 quarters to GDP rose to 0.0% in Q1 vs. -0.3% in Q4 2016.
- ✓ **Nominal wage dynamics in the Polish corporate sector dropped to 4.1% YoY in April vs. 5.2 % in March.** Conducive to lower wage growth was the abatement of the effect of bonuses paid in mining, high base effect in retail trade caused by last year's pay rises in Biedronka retail chain, and unfavourable difference in the number of working days (see MACROPulse of 18/5/2017). The annual dynamics of employment rose to 4.6% YoY in April vs. 4.5% in March. Consequently, the real wage fund dynamics (employment times average remuneration) in enterprises dropped

to 6.7% YoY in April vs. 7.7% YoY in March. We expect a mild decrease in the annual employment growth in subsequent months as the improvement in the labour market will gradually slow down.

- ✓ **The flash GDP data for major European economies were released last week.** The quarterly GDP growth in the Eurozone has not changed in Q1 2017 vs. Q4 2016 and amounted to 0.5% (1.7% YoY in Q1 vs. 1.8% in Q4). Conducive to the acceleration in GDP growth within the single currency area was higher growth dynamics in Germany (0.6% QoQ in Q1 vs. 0.4% in Q4) and Spain (0.8% vs. 0.7%). On the other hand, lower GDP dynamics i.a. in France (0.3% QoQ vs. 0.5% in Q4) and the Netherlands (0.4% vs. 0.6%) had a negative impact on the GDP growth rate in the Eurozone. The GDP growth rate in Italy has not changed in Q1 compared to Q4 and amounted to 0.2% QoQ. We forecast that the quarterly GDP growth rate in the Eurozone will decrease to 0.4% in Q2 2017.
- ✓ **Numerous data from the US economy and business survey results were released last week.** Industrial production dynamics amounted to 1.0% MoM in April vs. 0.4% in March. The increase in the monthly production dynamics compared to March resulted from higher production growth rate in mining and manufacturing. Lower production dynamics in “utilities” category had an opposite impact. At the same time, capacity utilization rose to 76.7% in April vs. 76.1% in March. Data on housing starts (1172k in April vs. 1203k in March) and building permits (1229k vs. 1267k) were also released last week and pointed to a slight deceleration of activity in the US real estate market. Mixed results of regional business surveys for the US manufacturing were also released last week. The NY Empire State Index dropped to -1.0 pts in May vs. 5.2 pts in April, while the Philadelphia FED Index rose to 38.8 pts in May vs. 22.0 in April. The last week’s data from the US economy do not alter our scenario, in which the annualized growth rate of the US GDP will increase to 3.8% in Q2 vs. 0.7% in Q1.
- ✓ **ZEW index reflecting the sentiment among analysts and institutional investors regarding the economic situation in Germany rose to 20.6 pts in May vs. 19.5 pts in April, thus hitting the highest level since August 2015.** According to the press release, the improvement of sentiment in May was supported by solid data on the German GDP in Q1 2017. We forecast that the quarterly German GDP growth rate will decrease to 0.4% in Q2 2017 vs. 0.6% in Q1 2017.

Will Brexit force reorientation of Polish exports?

Our baseline scenario assumes that after Brexit and before a possible free trade agreement is signed between the UK and the EU countries, their trade relations will be defined by the principles resulting from the membership of the UK and of other EU countries in the WTO (see MACROmap of 15/5/2017).

According to our baseline scenario, presented in details in the previous MACROmap, the UK customs duties on Polish exports will be equal to the tariff rates currently applied by the EU to third countries. The table on page 6 presents the amount of future average customs duties charged ad valorem (according to the value) in the respective categories of foreign trade. Our analysis focuses only on customs duties and disregards other Brexit-related trade restrictions and transactional costs.

At the first stage of our study we assigned the respective categories of foreign trade to appropriate sections of the Polish classification of economic activities (PKD). On this basis, we calculated the share of exports to the United Kingdom in the total exports of the respective section of PKD (see the table on page 5). Then, using data on the share of export sales in total revenues, we estimated the share of exports to the UK in total revenues. At the next stage, using data on sales margins (gains from sales/sales revenues*100%) in the respective section of PKD, we calculated how the introduction of customs duties will affect their level. We assumed that the margin on sales in the local market and in the

UK market was the same. At the same time, we assumed that the total costs of the introduction of customs duties would be transferred to the exporters to the UK. We also assumed that sales revenues equaled total revenues. The chart below presents the results of our calculations. Detailed data are presented in the table on page 5.

Average margin on sales by PKD sections



Source: WTO, Eurostat, Credit Agricole
* Data as of 2016

The results of our analysis show that the impact of the introduction of customs duties was the strongest for: “manufacture of tobacco products” (margin on total sales down by 0.4 pp to 3.7%), “manufacture of motor vehicles, trailers, and semi-trailers, excluding motorcycles” (0.3pp; 4.4%), and “manufacture of food products” (0.2 pp; 4.8%). These sections would also record the strongest relative decline in margin on sales. In other sections, the impact of Brexit would be limited and would not exceed 0.1 pp. At the same time, margins would continue to be positive in all the sections. The impact of Brexit on the margins on sales to the UK would be significantly stronger. According to our estimates, exports to the UK would become unprofitable in six of the twenty five branches covered by our analysis. The profitability of sales to the UK would turn negative in all the aforementioned branches and in sections such as “manufacture of textiles”, “manufacture of wearing apparel” and “manufacture of leather and related products”. Most of the remaining branches would also record a significant decline in sales.

Although the impact of Brexit on the profitability of total sales of Polish enterprises will be limited in our view, we expect a significant deterioration of the profitability of Polish exports to the UK, which will be negative for some sections. Consequently, the adoption of WTO rules as the basis for mutual trade between Poland and the United Kingdom may lead to a deterioration of the financial situation of exporting companies with high UK exposure, which will be conducive to the reorientation of Polish exports to other markets.

PKD section number	PKD section name	Share of exports to United Kingdom in total exports of given sector* (%)	Average duty (%)	Margin on total sales before Brexit (%)	Margin on total sales after Brexit (%)	Margin on sales to United Kingdom after Brexit (%)
01	Crop and animal production, hunting, including service activities	1,2	3,3	5,2	5,2	1,9
08	Other mining and quarrying	0,4	0,2	6,4	6,4	6,2
10	Manufacture of food products	10,2	8,9	5,0	4,8	-3,9
11	Manufacture of beverages	8,7	3,9	6,8	6,7	2,8
12	Manufacture of tobacco products	6,2	44,7	4,1	3,7	-40,6
13	Manufacture of textiles	2,5	7,3	6,6	6,5	-0,8
14	Manufacture of wearing apparel	2,5	11,2	5,7	5,6	-5,5
15	Manufacture of leather and related products	2,7	8,1	7,6	7,4	-0,5
16	Manufacture of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials	9,5	2,2	7,1	7,1	4,9
17	Manufacture of paper and paper products	4,8	0,0	9,0	9,0	9,0
19	Manufacture and processing of coke and refined petroleum products	2,4	0,8	5,6	5,5	4,8
20	Manufacture of chemicals and chemical products	6,7	2,9	9,4	9,3	6,5
21	Manufacture of basic pharmaceutical substances and medicines and other pharmaceutical products	4,1	0,0	9,8	9,8	9,8
22	Manufacture of rubber and plastic products	4,9	4,6	7,8	7,7	3,2
23	Manufacture of other non-metallic mineral products	9,3	2,4	9,0	8,9	6,6
24	Manufacture of metals	5,5	1,6	4,8	4,8	3,2
25	Manufacture of fabricated metal products, except machinery and equipment	4,7	1,4	7,8	7,8	6,4
26	Manufacture of computer, electronic and optical products	6,0	0,6	3,4	3,4	2,8
27	Manufacture of electrical equipment	7,3	2,8	4,2	4,1	1,4
28	Manufacture of machinery and equipment not elsewhere classified	7,4	1,8	7,2	7,2	5,4
29	Manufacture of motor vehicles, trailers and semi-trailers excluding motorcycles	7,9	5,8	4,8	4,4	-1,0
30	Manufacture of other transport equipment	1,3	2,3	8,0	7,9	5,7
32	Other manufacturing	7,4	2,1	7,2	7,1	5,1

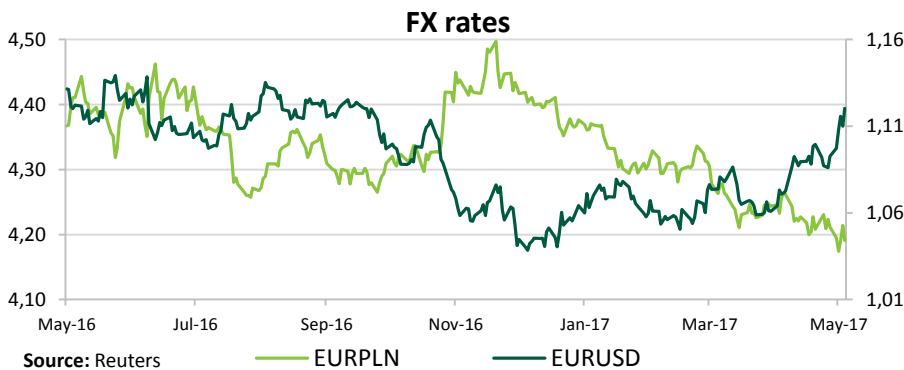
Source: WTO, Eurostat, GUS, Pontinfo, Credit Agricole

* Data as of 2016

HS code	Name	Average ad valorem duties in EU (%)	Share of exports to United Kingdom in total exports in given category (%)	HS code	Name	Average ad valorem duties in EU (%)	Share of exports to United Kingdom in total exports in given category (%)
01	Live animals	1,2	0,0	49	Printed books, newspapers, pictures and other products of the printing industry; manuscripts, typescripts and plans	0	7,3
02	Meat and edible meat offal	5,1	11,2	50	Silk	3,1	0,0
03	Fish and crustaceans, molluscs and other aquatic invertebrates	11,1	3,6	51	Wool, fine or coarse animal hair; horsehair yarn and woven fabric	3,5	2,9
04	Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere specified or included	5,3	6,1	52	Cotton	6,1	0,4
05	Products of animal origin, not elsewhere specified or included	0,1	2,5	53	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn	2,8	4,8
06	Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage	6,9	4,3	54	Strip and the like of man-made textile materials	6	1,4
07	Edible vegetables and certain roots and tubers	8,5	13,1	55	Man-made staple fibres	6,2	3,4
08	Edible fruit and nuts; peel of citrus fruits or melons	5,9	6,0	56	Wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles thereof	6	4,0
09	Coffee, tea, maté and spices	2,3	6,5	57	Carpets and other textile floor coverings	7,3	3,4
10	Cereals	2,2	0,9	58	Special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery	7,3	2,3
11	Products of the milling industry; malt; starches; inulin; wheat gluten	12,2	6,1	59	Impregnated, coated, covered or laminated textile fabrics; textile articles of a kind suitable for industrial use	6,1	1,8
12	Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal plants; straw and fodder	1,2	1,5	60	Knitted or crocheted fabrics	7,9	5,2
13	Lac; gums, resins and other vegetable saps and extracts	2,3	0,6	61	Articles of apparel and clothing accessories, knitted or crocheted	11,7	2,1
14	Vegetable plaiting materials; vegetable products not elsewhere specified or included	0	5,9	62	Articles of apparel and clothing accessories, not knitted or crocheted	11,3	2,7
15	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes	5,4	4,0	63	Other made-up textile articles; sets; worn clothing and worn textile articles; rags	10,1	1,8
16	Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates	18,2	22,1	64	Footwear, gaiters and the like; parts of such articles	11,1	3,2
17	Sugars and sugar confectionery	6,8	5,5	65	Headgear and parts thereof	2,3	3,5
18	Cocoa and cocoa preparations	6,1	18,9	66	Umbrellas, sun umbrellas, walking-sticks, seat-sticks, whips, riding-crops and parts thereof	4,3	1,8
19	Preparations of cereals, flour, starch or milk; pastrycooks' products	10,7	9,8	67	Prepared feathers and down and articles made of feathers or of down; artificial flowers; articles of human hair	2,8	0,5
20	Preparations of vegetables, fruit, nuts or other parts of plants	17,5	6,9	68	Articles of stone, plaster, cement, asbestos, mica or similar materials	1,4	3,3
21	Miscellaneous edible preparations	9,2	8,3	69	Ceramic products	4,6	12,6
22	Beverages, spirits and vinegar	3,9	8,7	70	Glass and glassware	5	10,8
23	Residues and waste from the food industries; prepared animal fodder	0,8	4,8	71	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal, and articles thereof; imitation jewellery; coin	0,6	33,9
24	Tobacco and manufactured tobacco substitutes	44,7	6,2	72	Iron and steel	0,3	0,3
25	Salt; sulphur; earths and stone; plastering materials, lime and cement	0,2	0,4	73	Articles of iron or steel	1,7	4,2
26	Ores, slag and ash	0	2,7	74	Copper and articles thereof	3,3	0,6
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	0,8	2,4	75	Nickel and articles thereof	0,7	1,4
28	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, of radioactive elements or of isotopes	4,5	3,1	76	Aluminium and articles thereof	6,4	4,2
29	Organic chemicals	4,3	1,0	78	Lead and articles thereof	2,3	0,9
30	Pharmaceutical products	0	4,1	79	Zinc and articles thereof	3,1	0,5
31	Fertilisers	4,8	10,4	80	Tin and articles thereof	0	6,3
32	Tanning or dyeing extracts; tannins and their derivatives; dyes, pigments and other colouring matter; paints and varnishes; putty and other mastics; inks	5,5	3,8	81	Other base metals; cermet; articles thereof	3	1,7
33	Essential oils and resinoids; perfumery, cosmetic or toilet preparations	2,4	13,2	82	Tools, implements, cutlery, spoons and forks, of base metal; parts thereof of base metal	3,1	5,5
34	Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial waxes, prepared waxes, polishing or scouring preparations, candles and similar articles, modelling pastes, 'dental waxes' and dental preparations with a basis of plaster	2	8,6	83	Miscellaneous articles of base metal	2,5	6,4
35	Albuminoidal substances; modified starches; glues; enzymes	4,6	2,6	84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	1,8	7,4
36	Explosives; pyrotechnic products; matches; pyrophoric alloys; certain combustible preparations	6,3	2,0	85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	2,8	7,3
37	Photographic or cinematographic goods	5,5	0,8	86	Railway or tramway locomotives, rolling-stock and parts thereof; railway or tramway track fixtures and fittings and parts thereof; mechanical (including electro-mechanical) traffic signalling equipment of all kinds	1,7	2,1
38	Miscellaneous chemical products	5,4	1,5	87	Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof	5,8	7,9
39	Plastics and articles thereof	6	4,3	88	Aircraft, spacecraft, and parts thereof	3,3	3,2
40	Rubber and articles thereof	2,6	6,1	89	Ships, boats and floating structures	1,1	0,5
41	Raw hides and skins (other than furskins) and leather	2	1,5	90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	2,2	5,9
42	Articles of leather; saddlery and harness; travel goods, handbags and similar containers; articles of animal gut (other than silkworm gut)	4,6	2,9	91	Clocks and watches and parts thereof	4,2	7,7
43	Furskins and artificial fur; manufactures thereof	1,2	1,7	92	Musical instruments; parts and accessories of such articles	3,2	8,2
44	Wood and articles of wood; wood charcoal	2,2	9,5	93	Arms and ammunition; parts and accessories thereof	2,2	1,4
45	Cork and articles of cork	2,7	0,4	94	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; lamps and lighting fittings, not elsewhere specified or included; illuminated signs, illuminated name-plates and the like; prefabricated buildings	2,3	7,3
46	Manufactures of straw, of esparto or of other plaiting materials; basketware and wickerwork	3	10,0	95	Toys, games and sports requisites; parts and accessories thereof	2,3	11,3
47	Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper or paperboard	0	5,0	96	Miscellaneous manufactured articles	3,3	3,9
48	Paper and paperboard; articles of paper pulp, of paper or of paperboard	0	4,8				

Source: WTO, Eurostat, Credit Agricole

Increased political risk in the US negative for PLN

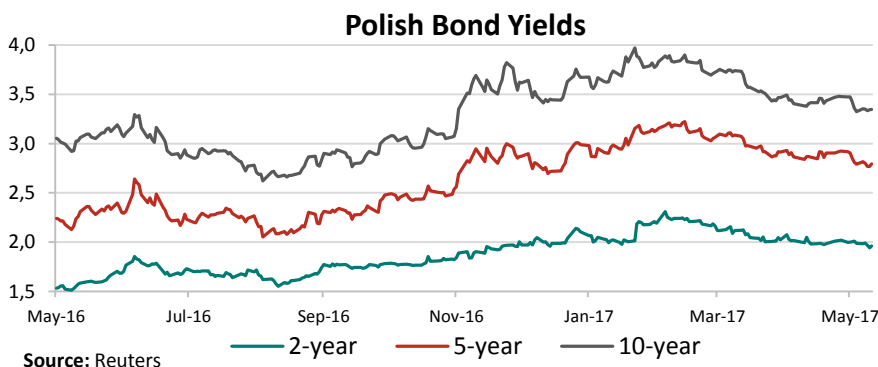


Last week, EURPLN rate dropped to 4.1908 (PLN strengthening by 0.5%). On Monday and Tuesday, PLN was appreciating supported by Moody's decision from two weeks ago to change the outlook of Poland's rating from negative to stable (see MACROmap of 15/5/2017). On Wednesday morning, PLN and other emerging currencies started depreciating with increase in global

risk aversion reflected by VIX index. In our view, lower demand for risky assets may have been caused by press reports on possible impeachment on D. Trump over the circumstances of his decision to fire the FBI Director J. Comey (it is suspected that it could have been an attempt to conceal possible contacts of D. Trump's electoral staff with Russia). These reports contributed towards a significant increase in EURUSD rate. Friday saw a correction and PLN was appreciating throughout the day. The reading of domestic data on industrial production and retail sales was not market moving.

Crucial for PLN this week will be the release of the May FOMC Minutes scheduled for Wednesday. In our view, it will be conducive to increased volatility of PLN. If our forecasts materialize, the data on business sentiment in major European economies (PMIs for the Eurozone and IFO Index for Germany) will be neutral for PLN. The aggregate impact of the US data (GDP, preliminary durable goods orders, new home sales, existing home sales, and final University of Michigan Index) on PLN will be limited, we believe.

Polish debt market focuses on FOMC Minutes



Last week the yield of Polish 2-year benchmark bonds dropped to a level of 1.963 (down by 2 bp), of 5-year bonds has not changed compared to the level from two weeks before and amounted to 2.795, and of 10-year bonds rose to a level of 3.347 (up by 2 bp). Monday opened with increase in yields on Polish bonds, visible especially in the middle and at the

long end of the curve. It occurred despite the Moody's decision from two weeks before to change the outlook of Poland's rating from negative to stable (see MACROmap of 15/5/2017). In our view, the source of the drop of prices of the Polish debt occurred due to profit taking by some investors after a sharp decrease in yields two weeks ago. Tuesday and Wednesday saw an increase in prices of Polish bonds, supported by the announcement of lower-than-expected supply of bonds at the Thursday's auction of the Ministry of Finance. At the debt auction, the Ministry of Finance sold PLN 3.0bn of 2-, 5-, 9-, and 10-year bonds with demand amounting to PLN 6.86bn. After the auction, bond prices slightly increased. On Friday, the prices of the Polish debt were relatively stable. The reading of domestic industrial production and retail sales had a limited impact on the debt market.

This week investors will focus on the release of the Minutes of the May's FOMC meeting scheduled for Wednesday. We believe that it may be conducive to increased volatility of Polish bond prices. The data on business sentiment in major European economies (PMIs for the Eurozone and IFO Index for Germany) will have a limited impact on the prices of Polish bonds, we believe. Numerous data from the US (GDP, preliminary durable goods orders, new home sales, existing home sales, and final University of Michigan Index) will also be neutral for the Polish debt market.

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	3,88
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	3,85
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	0,9	
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	-0,6	
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	4,3	
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	8,1	
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	4,1	
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	4,6	
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	-825	-738		
Exports (% YoY EUR)	4,0	1,4	6,0	-5,3	9,3	3,1	-0,5	5,8	5,2	13,9	4,9	14,9		
Imports (% YoY EUR)	0,0	2,5	0,8	-7,3	10,7	3,5	3,6	6,3	7,1	16,1	9,9	18,9		

*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)	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	0,0	-0,5	-0,6	-0,7	-0,3	-0,7	-1,2	
Unemployment rate (%)**	9,9	8,7	8,3	8,3	8,1	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	CONSENSUS**
Tuesday 05/23/2017						
8:00	Germany	Final GDP (% QoQ)	Q1	0,6	0,6	0,6
9:30	Germany	Flash Manufacturing PMI (pts)	May	58,2	57,3	58,0
10:00	Germany	Ifo business climate (pts)	May	112,9	112,6	113,1
10:00	Eurozone	Flash Services PMI (pts)	May	56,4	56,4	56,4
10:00	Eurozone	Flash Manufacturing PMI (pts)	May	56,7	56,3	56,5
10:00	Eurozone	Flash Composite PMI (pts)	May	56,8	56,6	56,6
15:45	USA	Flash Manufacturing PMI (pts)	May	52,8		53,0
16:00	USA	New home sales (k)	Apr	621	595	610
16:00	USA	Richmond Fed Index	May	20,0		
Wednesday 05/24/2017						
16:00	USA	Existing home sales (M MoM)	Apr	5,71	5,70	5,65
20:00	USA	FOMC Minutes	May			
Thursday 05/25/2017						
10:00	Poland	Registered unemployment rate (%)	Apr	8,1	7,7	7,7
Friday 05/26/2017						
14:30	USA	Second estimate of GDP (% YoY)	Q1	0,7	0,7	0,9
14:30	USA	Durable goods orders (% MoM)	Apr	1,7	-0,3	-1,2
16:00	USA	Final U. of Michigan Sentiment Index (pts)	May	97,7	97,2	97,5

*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