

This week

- **The most important event this week will be the release of final reading of GDP in Poland in Q1, including its structure, scheduled for Wednesday.** We expect that the GDP growth rate will not change compared to the flash estimate (4.0% YoY vs. 2.5% in Q4 2016). We believe that the main factor behind the acceleration of GDP growth in Q1 were public investments and investments of enterprises controlled by the public sector implemented with the use of EU funds. In our view, the reading will be neutral for the financial markets.
- **Significant data from the US will be released this week.** The labour market data will be released on Friday. We expect the employment to have increased by 190k in May vs. 211k in April, with unemployment rate up to 4.5% from 4.4% in April. Before the Friday's reading some additional information on the labour market will be provided by the ADP report on private sector employment (the market expects an increase by 185k vs. 177k in April). The results of US business surveys will also be released this week. We forecast that ISM index for manufacturing rose to 55.0 pts in May vs. 54.8 pts in April. We expect that the Conference Board Consumer Confidence Index (122.0 pts vs. 120.3 pts) will signal improvement in households' sentiment in May. The US readings, consistent with the scenario of a 25 pb hike of the Federal Funds rate by FED at the June meeting, should not be market moving.
- **The May's China manufacturing PMIs (Caixin and CFLP) will be released on Thursday.** We expect that Caixin PMI slightly decreased to 50.2 pts vs. 50.3 pts in April, while CFLP PMI dropped to 51.1 pts vs. 51.2 pts in April. The results of business surveys in China, pointing to the stabilization of sentiment in manufacturing, will be neutral for the markets, we believe.
- **The flash estimate of HICP inflation in the Eurozone will be released on Wednesday.** We expect that annual inflation dropped to 1.4% YoY in May vs. 1.9% in April. The flash estimate of HICP inflation in Germany will be released on Thursday. We forecast that it dropped to 1.4% YoY in May vs. 2.0% in April. In both cases, conducive to the index decline was the abatement of the law base effects from the year before. We expect that the reading of inflation will contribute to a slight strengthening of PLN and an increase in prices of the Polish debt.
- **Data on the May inflation in Poland will be released on Wednesday and, in our view, it dropped to 1.8% YoY vs. 2.0% in April.** The index decline was due to lower dynamics of fuel prices. Our forecast is below the market consensus (2.1%), therefore its materialization will be slightly negative for PLN and yields on Polish bonds.
- **Data on business sentiment in Polish manufacturing will be released on Thursday.** We expect that PMI rose to 54.5 pts vs. 54.1 pts in April. Conducive to higher growth rate of manufacturing activity was the improvement of sentiment in Germany (see below). The data should be neutral for PLN and prices of Polish bonds.

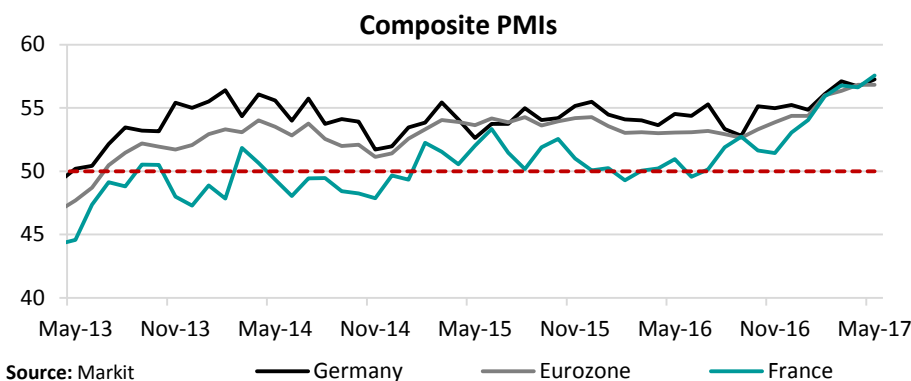
Last week

- **The Composite PMI (for manufacturing and services sector) in the Eurozone has not changed in May compared to April and amounted to 56.8 pts.** The stabilization of Composite PMI occurred due to a decrease in the sub-index for business activity in services and an increase in the sub-index concerning output in manufacturing (see below).
- **The Minutes of the May FOMC were released last week.** According to the Minutes, most FOMC members believe that further monetary policy tightening will be soon justified if the US economic situation develops in accordance with their expectations. This supports our scenario in which FED will hike interest rates by 25 bp in June. The Minutes also included information about discussion on the future policy of FED regarding balance sheet management. Most FOMC members support the strategy of gradually phasing out the reinvestment strategy. For that purpose, FOMC members want to minimize the negative impact of this policy on the financial

markets (higher yields on US bonds). We believe that FED will start to reduce its balance-sheet in December 2017.

- Numerous hard data and business survey results from the US were released last week.** In accordance with the second estimate, the annualized GDP growth rate was revised upwards to 1.2% vs. 0.7% in the first estimate. The upward revision resulted from higher contributions of investments (1.85 pp in the second estimate vs. 1.62 pp in the first estimate), private consumption (0.44 pp vs. 0.23 pp), government expenditure (-0.20 pp vs. -0.30 pp), and net exports (0.13 pp vs. 0.07 pp). Lower contribution of inventories (-1.07 pp in the second estimate vs. -0.93 pp in the first estimate) had an opposite impact. Thus, investments were the main factor behind the US GDP growth in Q1. Data on durable goods orders were also released last week and decreased by 0.7% MoM in April vs. a 2.3% increase in March. Excluding means of transport, the durable goods orders dynamics dropped to 0.4% in April vs. a 0.8% increase in March. The main reason for lower monthly growth rate of orders was lower dynamics of orders for aircrafts. Especially noteworthy in the data structure is increase in orders for non-military capital goods excluding orders for aircrafts (2.9% YoY in April vs. 2.6% in March), being a leading indicator for future investments, which recorded a year-on-year growth for a third month in a row. Data on existing home sales (5.57M in April vs. 5.71M in March) and new home sales (569k in April vs. 642k in March) were also released last week and pointed to a decline in activity in the US real estate market. The final University of Michigan Index was also release last week and rose to 97.1 pts in May vs. 97.0 pts in April and 97.7 pts in the first estimate. Conducive to the index increase was its higher sub-index concerning expectations, while lower sub-index concerning the assessment of the current situation had an opposite impact. The last week’s data on the US economy do not alter our forecast in which the annualized economic growth rate will increase to 3.8% in Q2.
- According to the final estimate, the quarterly GDP growth rate in Germany rose to 0.6% YoY in Q1 vs. 0.4% in Q4 2016.** Conducive to faster quarterly German GDP growth rate were higher contributions of net exports (0.4 pp in Q1 vs. -0.2 pp in Q4 2016), investments (0.3 pp vs. 0.1 pp), and consumption (0.2 pp vs. 0.1 pp). A lower contribution of inventories (-0.4 pp in Q1 vs. 0.4 pp in Q4 2016) had an opposite impact. Thus, the main source of the German GDP growth in Q1 was net exports. We forecast that the quarterly GDP growth rate will decrease to 0.5% in Q2.

Eurozone economy accelerates



Source: Markit

— Germany — Eurozone — France

The Composite PMI (for manufacturing and services) in the Eurozone has not changed in May compared to April and amounted to 56.8 pts. Thus, the business sentiment in the Eurozone has for the last two months stayed at the highest level in 6 years. The stabilization of PMI Composite occurred among lower sub-index for business activity in services and

higher sub-index for output in manufacturing.

Especially noteworthy in the data structure is increase in the sub-index concerning employment (54.5 pts in May vs. 54.3 pts in April), to the 6th highest level in the past decade. The continuing high growth

rate of employment reflects the optimism concerning the development of future economic situation in the Eurozone. This view is supported by higher indicator of future (in the horizon of 12 months) output, which rose to 67.3 pts in May vs. 67.1 pts in April.

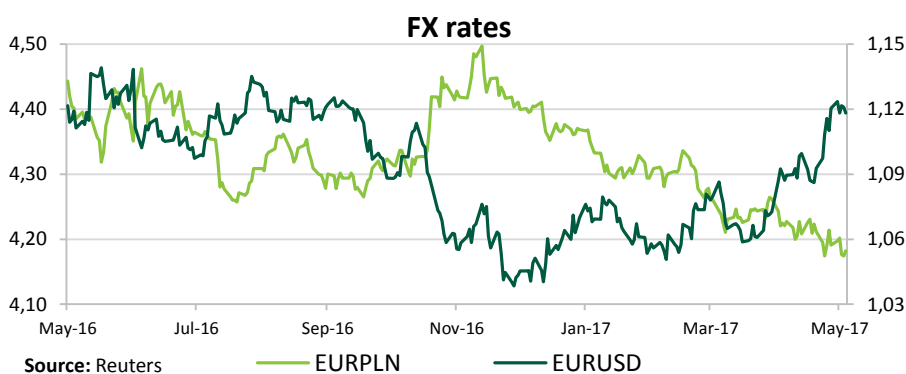
Geographically, a faster growth rate of economic activity was recorded both in Germany and in France. The improvement in Germany resulted from higher sub-index concerning output in manufacturing, while lower sub-index concerning business activity in services had an opposite index. The improvement in France occurred due to higher sub-index for business activity in services and lower sub-index for output in manufacturing. On the other hand, a slight deterioration of sentiment was recorded in the remaining Eurozone countries included in the survey.

From the point of view of future business climate in Poland, noteworthy is the situation in German manufacturing. The German manufacturing PMI rose to 59.4 pts in May vs. 58.2 pts in April, hitting the highest level since April 2011. The index increase resulted from higher contributions of four of its five sub-indices (for employment, new orders, output, and stocks of purchases), while lower contribution of suppliers' delivery times had an opposite impact. Especially noteworthy in the data structure is increase in the sub-index for new orders (60.4 pts in May vs. 59.3 pts in April – the highest level since April 2011) accompanied by increase in the sub-index for new export orders (60.2 pts in May vs. 58.4 pts in April – the highest level since May 2010). The increase in the sub-index for new export orders supports our scenario of recovery in global trade.

Additional information on the situation in German economy was also provided last week by the Ifo Index reflecting the sentiment among German managers representing the manufacturing, construction, wholesale and retail trade sectors which rose to 114.6 pts in May vs. 113.0 pts in April. The index increase resulted from higher values of its sub-indices concerning both the assessment of the current situation and expectations. Sector-wise, improved sentiment was recorded in three of the four sectors (manufacturing, construction and wholesale trade) while in retail trade it deteriorated.

The increase in export orders in the German manufacturing signals a high likelihood of higher demand for goods manufactured in Poland and used in the production of final goods (intermediate goods). This poses an upside risk to our forecast in which the annual dynamics of Polish exports will decrease to 8.7% in Q2 vs. 9.5% in Q1. We expect that in subsequent quarters the annual exports dynamics will increase further to a two-digit level (see below).

US data neutral for PLN



Source: Reuters

EURPLN

EURUSD

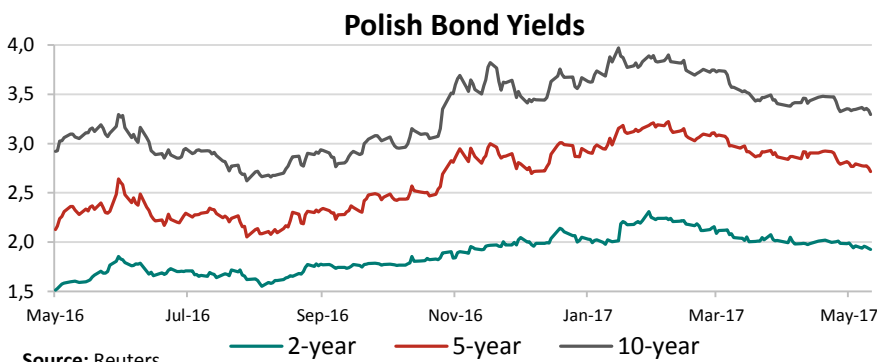
Last week EURPLN rate dropped to 4.1822 (PLN strengthening by 0.2%). On Monday and Tuesday, EURPLN was stable, ranging from 4.18 to 4.20. As we expected, the PMI indices released on Tuesday for major European economies were neutral for PLN. On Wednesday, PLN appreciated together with other emerging currencies, due to the

information that the US draft budget prepared by D. Trump's administration will not be supported by the Congress. The decreasing probability of delivery on D. Trump's election promises of expansive fiscal policy is conducive to lower market expectations of a faster normalization of the US monetary policy

and, consequently, is supportive of increased demand for risky assets, including PLN. On Thursday, EURPLN oscillated around 4.17 and FOMC Minutes released the night before were neutral for the market. On Friday, PLN was slightly depreciating, supported by the release of a better-than-expected second estimate of the US GDP.

Crucial for PLN this week will be flash data on domestic inflation which, if our forecast materializes, may contribute to its weakening. Other domestic data (final estimate of GDP, manufacturing PMI) will be neutral for PLN, we believe. We expect that US data (non-farm payrolls, manufacturing ISM, Conference Board Index) will not be market moving. In our view, the release of business survey results for Chinese manufacturing (Caixin PMI and CFLP PMI) will also be neutral for PLN.

 **Data on inflation in Poland positive for bond prices**



Source: Reuters

Last week the yield of Polish 2-year benchmark bonds dropped to a level of 1.927 (down by 4 bp), of 5-year bonds dropped to a level of 2.716 (down by 8 bp), and of 10-year bonds dropped to a level of 3.295 (down by 5 bp). Monday through Thursday, the prices of the Polish debt were stable. Both the release of PMIs for major European economies and of

Minutes of the FOMC May meeting were neutral for the market. On Thursday, the Finance Ministry held a debt exchange auction at which it redeemed PLN 4.1bn of bonds maturing this year, selling PLN 4.3bn of 2-, 5-, 9-, and 10-year bonds with demand amounting to PLN 6.1bn. The auction had a limited impact on the market. On Friday an increase in Polish debt prices was recorded across the curve, following German bonds.

This week the Polish debt market will focus on data on domestic inflation. If our forecast materializes, we expect an increase in the prices of Polish bonds. Other domestic data (final estimate of GDP, manufacturing PMI) will be neutral for the market, we believe. Data on preliminary inflation in Germany and in the Eurozone may contribute to a decrease in yields on Polish bonds. We expect that US readings (non-farm payrolls, manufacturing ISM, Conference Board Index) will be neutral for the Polish debt prices.

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	4,18
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	3,74
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	3,83
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	1,9	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	0,0	-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**
Monday 05/29/2017						
10:00	Eurozone	M3 money supply (% MoM)	Apr	5,3		5,2
Tuesday 05/30/2017						
11:00	Eurozone	Business Climate Indicator (pts)	May	1,10		1,11
14:00	Germany	Preliminary HICP (% YoY)	May	2,0	1,4	1,5
14:30	USA	Real private consumption (% MoM)	Apr	0,3		
15:00	USA	Case-Shiller Index (% MoM)	Mar	0,7		0,9
16:00	USA	Consumer Confidence Index	May	120,3	121,0	119,9
Wednesday 05/31/2017						
3:00	China	Caixin Manufacturing PMI (pts)	May	51,2	51,1	51,0
11:00	Eurozone	Preliminary HICP (% YoY)	May	1,9	1,4	1,5
11:00	Eurozone	Unemployment rate (%)	Apr	9,5		9,4
14:00	Poland	Flash CPI (% YoY)	May	9,5	1,8	2,1
15:45	USA	Chicago PMI (pts)	May	58,3		57,0
Thursday 06/01/2017						
3:45	China	Caixin Manufacturing PMI (pts)	May	50,2	50,2	50
9:00	Poland	Manufacturing PMI (pts)	May	54,1	54,5	54,3
9:55	Germany	Final Manufacturing PMI (pts)	May	59,4	59,4	59,4
10:00	Eurozone	Final Manufacturing PMI (pts)	May	57,0	57,0	57,0
14:15	USA	ADP employment report (k)	May	177		185
15:45	USA	Flash Manufacturing PMI (pts)	May	52,5		
16:00	USA	ISM Manufacturing PMI (pts)	May	54,8	55,0	54,5
Friday 06/02/2017						
11:00	Eurozone	PPI (% YoY)	Apr	3,9		4,5
14:30	USA	Unemployment rate (%)	May	4,4	4,5	4,4
14:30	USA	Non-farm payrolls (k MoM)	May	211	190	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