

This week

- **The most important event this week will be the FOMC meeting scheduled for Wednesday.** We expect that the FOMC will rise the target range for the Federal Reserve funds by 25 bp to [1.00%; 1.25%]. June's macroeconomic projection of the FOMC will be presented during the conference after the meeting. We expect that projected paths of GDP growth rate and inflation for years 2017-2018 will not be significantly altered compared to the March projection. In turn, the path of unemployment rate will be revised downward. The projection will most likely indicate also that preferred by FED members range of monetary policy tightening in 2017 is 75 bp and 75 bp in 2018 (no change compared to the March projection). Our scenario assuming rate hike in US by 25 bp this week is in line with the market consensus, however, during the conference after the FOMC meeting, market's volatility may be increased.
- **The important data from the US will be released this week.** We expect that industrial production rose by 0.2% MoM in May vs. a 1.0% increase in April, which will be consistent with the decrease of employment recorded in manufacturing (- 1.0k persons). We also forecast that dynamics of the nominal retail sales decreased to -0.1% MoM in May vs. 0.4% in April, because of lower sales in automotive industry. We expect that the continuation of the recovery in the US real estate market will be confirmed by data on housing starts (1220k in May vs. 1172k in April) and building permits (1253k vs. 1229k). This week the results of business surveys will be published. We expect that NY Empire State index increased to 5.0 pts in June vs. -1.0 pts in May, while Philadelphia FED index decreased to 27.0 pts vs. 38.8 pts in May. The preliminary estimate of University of Michigan Index will be released on Friday. We forecast that its value rose to 97.5 pts in June vs. 97.1 pts in May. We expect that aggregate impact of data from the US economy on the financial markets will be limited.
- **ZEW index, reflecting the sentiment among analysts and institutional investors towards economic situation in Germany, will be released on Tuesday.** The market expects that its value will increase up to 21.5 pts in June vs. 20.6 pts in May.
- **Significant data on Chinese economy will be released on Wednesday.** We expect that industrial production dynamics decreased to 6.4% YoY in May vs. 6.5% in April, and urban investments to 8.7% YoY from 8.9%. We also forecast that retail sales growth rate did not change in May compared to April and amounted to 10.7% YoY. The May data on Chinese economy will be neutral for PLN and yields on Polish bonds, we believe.
- **Today the final data on Polish CPI inflation in May will be released.** We expect that prices growth rate may be revised upwards compared to the flash estimate (2.0% YoY vs. 1.9%), thus has not changed vs. April. In our view lower growth of fuel prices was offset by higher contributions of core inflation and food prices. The materialization of our scenario will be conducive to slight appreciation of PLN and decrease in prices of Polish bonds.
- **Data on Polish balance of payments in April will be released on Tuesday.** We expect that current account deficit will increase to 764M EUR vs 738M EUR in March, which will be mostly the result of decrease in balance on trade in goods. We forecast that export growth rate decreased to 1.7% YoY in April vs. 14.9% in March, while import growth rate decreased to 8.2% YoY vs. 18.9%. The lower dynamics of export and import were resulting from the effect of unfavorable difference in number of working days. Our forecast is significantly lower than the market consensus (EUR -276M), thus its realization will be slightly negative for PLN.

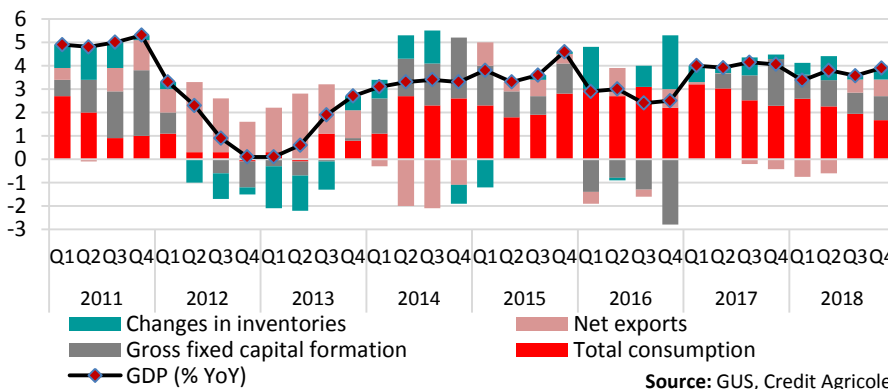
Last week

- ✔ **In accordance with the official results, the Conservative Party won in the UK parliamentary elections, obtaining 318 seats (13 less than it had before the elections).** The largest opposition party, the Labour Party, won 262 seats (30 more than it had before the elections). Consequently, the Conservative Party lost majority in the parliament and ability to govern independently. The increase in political risk in the United Kingdom led to a sharp weakening of the pound vs. euro, which weakened by 2.0% straight after the elections. We expect that until a new government is formed in the United Kingdom and its stance on the expected direction of Brexit negotiations with the EU is determined, GBP will show increased volatility and will tend to depreciate. This poses a downside risk to our GBPPLN forecast at year end (4.78).
- ✔ **The ECB meeting was held last week.** As we expected, it maintained the so-far parameters of the monetary policy. At the same time, the part on possible further interest rate cuts was deleted from the statement issued after the meeting. The ECB now expects that interest rates are likely to remain at the current level for an extended period of time and well past the horizon of the asset purchases programme (so-called forward guidance). The part saying that the ECB was prepared to increase the scale or extend the horizon of the asset purchase program was left unchanged. The statement after the meeting also included the information that in the ECB opinion the risks surrounding the Eurozone's economic growth outlook were broadly balanced (in April the ECB was pointing to risks "tilted to the downside"). The results of the June economic projection were presented at the conference after the meeting. The ECB forecasts that inflation in the Eurozone will amount to 1.5% in 2017 (1.7% in the March projection), to 1.3% in 2018 (1.6%), and to 1.6% in 2019 (1.7%). The GDP forecasts were slightly revised upwards to 1.9% in 2017 (1.8%), 1.8% in 2018 (1.7%), and 1.7% in 2019 (1.6%). At the conference after the meeting, M. Draghi emphasized in his statements that the ECB would remain active in the debt market yet for a long time and, if needed, may continue to apply all available instruments of monetary policy. Publication of the new economic projection and statement by M. Draghi resulted in depreciation of EUR against USD and drop in yields on German bonds. We expect that the ECB will extend the horizon of the expanded asset purchase program at the September meeting at least until June 2018 and will announce its gradual tapering since January 2018.
- ✔ **As we expected, the Monetary Policy Council left interest rates unchanged at its meeting last week (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 May, 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 (see MACROpulse of 7/6/2017). During the conference after the meeting, the NBP Governor, A. Glapiński maintained the view presented earlier that interest rates were likely to remain unchanged until the end of 2018. A. Glapiński's remarks support our scenario, in which the Council will decide to start the monetary tightening cycle in November 2018 hiking interest rates by 25 bp.
- ✔ **According to the final estimate, the quarterly GDP growth rate in the Eurozone rose to 0.6% QoQ in Q1 vs. 0.5% in Q4 2016 (1.9% YoY in Q1 2017 vs. 1.8% in Q4 2016).** Higher GDP growth was due to higher contribution of net exports (0.0 pp in Q1 vs. -0.8 pp in Q4 2016). Lower contributions of investments (0.3 pp vs. 0.7 pp) and inventories (0.0 pp vs. 0.4) had an opposite impact. The contributions of private consumption and public spending have not changed and amounted to 0.2 pp and 0.1 pp, respectively. Thus, investments were the main source of GDP growth in the Eurozone in Q1. We forecast that the quarterly GDP growth rate in the Eurozone

will drop to 0.4% in Q2.

- Numerous data from the German economy were released last week.** The foreign trade surplus dropped to EUR 19.75M in April vs. EUR 19.82M in March. At the same time, export dynamics rose to 0.9% MoM in April vs. 0.4% in March, while import dynamics dropped to 1.2% MoM vs. 2.1%. Data on monthly industrial production growth rate were also released week and rose to 0.8% MoM in April vs. -0.1% in March. Its increase resulted from higher output dynamics in energy and manufacturing. Lower output dynamics in construction had an opposite impact. Orders in German manufacturing also recorded a decline, dropping by 2.1% MoM in April vs. a 1.1% increase in March. The last week’s data do not alter our forecast, in which the quarterly growth rate of the German GDP will not change in Q2 compared to Q1 and will amount to 0.5%.
- The non-manufacturing ISM index in the US decreased to 56.9 pts in May vs. 57.5 pts in April.** The index decline resulted from lower contributions of three of its four sub-indices (for new orders, business activity, and suppliers’ delivery times). An increase in the sub-index for employment had an opposite impact. The slight deterioration of non-manufacturing business sentiment in the US does not alter our forecast, in which the annualized economic growth rate in the US will increase to 3.8% in Q2 vs. 1.2% in Q1.
- The Chinese balance on trade increased to USD 40.8bn in May vs. USD 38.0bn in April.** At the same time, export dynamics recorded an increase to 8.7% YoY in May vs. 8.0% in April, while import dynamics rose to 14.8% YoY from 11.9%. Higher growth rates of the Chinese imports and exports support our scenario of recovery in global trade.

Forecasts for 2017 - 2018



Considering the recently released hard data and the tendencies signaled in business surveys, we have revised our macroeconomic forecasts (see the table on page 6). We expect that GDP growth rate in 2017 will amount to 4.0% YoY (3.8% before revision) while in 2018 will equal to 3.7% (previously 3.4%).

Our macroeconomic scenario has not been significantly changed compared to the last forecast. We expect that in Q2 2017 GDP growth rate will decrease to 3.9% YoY, and in H2 2017 will amount to 4.1%. In the following quarters we will observe growing absorption of EU funds within the new financial perspective. Subsequent investment projects financed from budgets of local governments, the central budget and by public enterprises will be launched gradually. At the same time we can expect higher dynamics of companies investment outlays in conditions of persistent high degree of capacity utilization in manufacturing. We expect that the peak of total investments dynamics will be on the turn of 2017/2018.

The recovery in investments will be conducive to significant increase in growth of imports and – as the result – decrease of net exports contribution to growth. The decrease will occur despite a significant acceleration of exports due to expected by us recovery of global trade. The results of business survey in German manufacturing in May are supportive to our scenario. The headline PMI index, as well as its

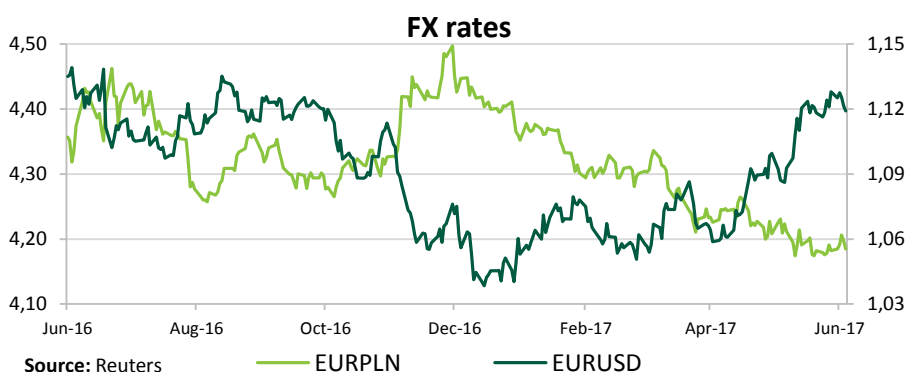
sub-index for new orders, have reached the highest levels for six years. The growth in orders in German manufacturing signals the high probability of increased demand on Polish goods that are inputs to the productions of final goods (so called intermediate goods).

On the turn of Q2 and Q3 2017 the positive impact of the Family 500+ scheme on consumption dynamics will abate, which will limit the GDP growth rate. However, we expect that private consumption dynamics will be above 3.0% YoY border in the whole forecast horizon due to continued improvement of situation at the labour market (including expected by us faster growth of real wages) and the higher propensity to cover current expenses with accumulated savings.

In the recent months the core inflation was above our expectations, what induced us to upwards revision of inflation path in subsequent quarters of 2017. We expect that in Q3 and Q4 the average inflation rate will amount to ca. 1.9% - 2.0% YoY. Due to high base effect for fuel prices dynamics in December 2016, inflation will decrease to 1.4% at the end of 2017. In 2018, we expect relative stabilization of inflation in the range of 1.3% - 1.6% (annual average 1.4%). In the whole forecast horizon the closing of demand gap will be conducive to slight rise in core inflation. On the other hand, we expect that crude oil prices will be lower than in our previous forecast, which, considering expected by us appreciation of PLN (we revised our EURPLN forecast to 4.16 at the end of 2017), will limit the increase in total inflation. At the same time in H2 2017 conducive to growth of inflation rate will be higher dynamics of food prices, especially visible in categories such as “fruit” (result of spring frosts) and “bread and cereals” (result of rising grains prices). The opposite effect will have lower growth rate of sugar prices and high base effects from previous year i. a. in case of meat prices and dairy products. In 2018 we expect the decrease in dynamics of food prices due to lower growth rate of prices of dairy products, sugar and meat and high base effect from 2017 in “fruit” category.

We maintain our scenario for monetary policy outlook. We expect that under conditions of ongoing inflation significantly below inflation target, the MPC will keep interest rates at unchanged level until the November 2018.

ECB rhetoric appreciated PLN

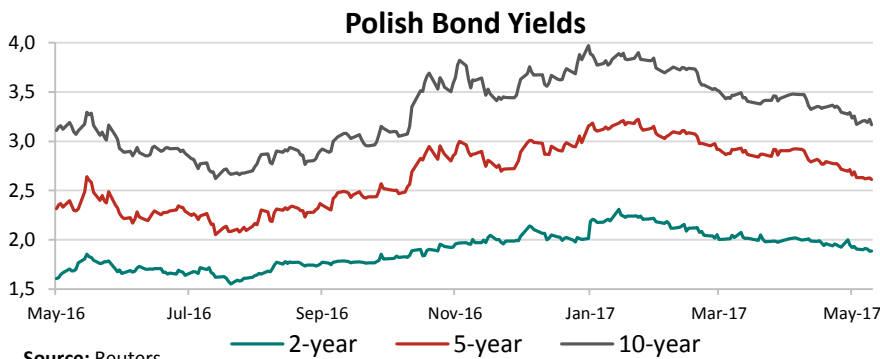


Last week EURPLN rate rose to **4.1846 (weakening of PLN by 0.1%)**. Monday through Thursday PLN was slightly depreciating in anticipation of ECB meeting. The MPC meeting was neutral for its exchange rate. Less hawkish than expected rhetoric of ECB led to reversion of the trend and strengthening of PLN. On Friday PLN continued to appreciate

supported by the results of UK elections, according to which Conservative Party has lost the majority in parliament. The reaction of PLN indicates that in conditions of more divided British parliament, investors expect that negotiations concerning Brexit will end reaching softer terms of leaving (so called “soft Brexit”). Therefore, in their opinion, negative influence of Brexit on GDP growth in EU will be lower than previously expected.

This week crucial for PLN will be FOMC meeting that will be held on Wednesday. Our scenario assuming interest rates hike by 25 bp is consistent with market expectations and for this reason we believe that this decision will be neutral for PLN. Nevertheless, on Wednesday, because of FOMC meeting, we expect the higher volatility of Polish currency. The remaining data from the US (retail sales, housing starts, building permits and preliminary University of Michigan Index) will remain, in our view, in the shadow of FOMC meeting and their aggregate impact on PLN will be neutral. Crucial for PLN can be domestic data. We expect that today's inflation data will be positive for Polish currency, and Tuesday data on balance of payments will be conducive towards its depreciation. The publication of data from China (retail sales, industrial production, urban investments) will be neutral for PLN.

Inflation data positive for yields on Polish bonds



Last week the yield on Polish 2-year benchmark bonds fell to a level of 1.888 (down by 2 bp), of 5-year bonds to a level of 2.612 (down by 2 bp), and of 10-year bonds did not change compared to the level from 2 weeks ago and amounted to 3.169. Monday through Thursday, we observed the stabilization of prices of Polish debt on the whole yield curve, due to the lack of significant macroeconomic events. The

MPC meeting had limited impact on market. On Thursday Polish bond market was more volatile due to ECB meeting. On Friday, the Ministry of Finance held a debt auction at which it sold PLN 3.0bn of 2-, 5-, 9-, 10- and 30-year bonds with demand amounting to PLN 6.17 bn. The auction led to increase of Polish bonds prices, that was especially visible at the middle part and long end of the yield curve.

This week the focus of the Polish debt market will be on FOMC meeting scheduled for Wednesday. Our scenario, in which we expect the rise of interest rates by 25 bp, is in line with market consensus. Therefore, the decision will be neutral for prices of Polish bonds, we believe. Nevertheless, on Wednesday, before FOMC meeting we expect increased volatility on Polish debt market. The remaining US data (retail sales, housing starts, building permits and preliminary University of Michigan Index) will be, in our view, neutral for yields on Polish bonds. We believe that today's data on inflation in Poland will be negative for Polish debt prices. The domestic data on balance of payments will be not market moving, we believe.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland														
Indicator	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	Jun-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*	4,38	4,38	4,35	4,36	4,29	4,31	4,45	4,40	4,32	4,31	4,23	4,23	4,18	4,20
USDPLN*	3,94	3,94	3,90	3,91	3,82	3,92	4,20	4,18	4,00	4,07	3,97	3,88	3,72	3,75
CHFPLN*	3,96	4,04	4,02	3,97	3,93	3,96	4,13	4,11	4,04	4,05	3,96	3,90	3,84	3,89
CPI inflation (% YoY)	-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	-0,2	-0,4	-0,4	-0,4	-0,2	-0,1	0,0	0,2	0,3	0,6	0,9		0,6
Industrial production (% YoY)	3,2	6,0	-3,4	7,5	3,2	-1,3	3,2	2,2	9,1	1,1	11,0	-0,6		8,9
PPI inflation (% YoY)	-0,4	-0,8	-0,5	-0,1	0,2	0,6	1,8	3,2	4,0	4,5	4,8	4,3		3,4
Retail sales (% YoY)	2,2	4,6	2,0	5,6	4,8	3,7	6,6	6,4	11,4	7,3	9,7	8,1		8,1
Corporate sector wages (% YoY)	4,1	5,3	4,8	4,7	3,9	3,6	4,0	2,7	4,3	4,0	5,2	4,1		4,7
Employment (% YoY)	2,8	3,1	3,2	3,1	3,2	3,1	3,1	3,1	4,5	4,6	4,5	4,6		4,6
Unemployment rate* (%)	9,1	8,7	8,5	8,4	8,3	8,2	8,2	8,3	8,6	8,5	8,1	7,7		7,3
Current account (M EUR)	1392	-723	-503	-729	-858	-179	-128	-56	2576	-825	-738	-764		
Exports (% YoY EUR)	1,4	6,0	-5,3	9,3	3,1	-0,5	5,8	5,2	13,9	4,9	14,9			1,7
Imports (% YoY EUR)	2,5	0,8	-7,3	10,7	3,5	3,6	6,3	7,1	16,1	9,9	18,9			8,2

*end of period

Forecasts of the quarterly macroeconomic indicators

Main macroeconomic indicators in Poland												
Indicator	2017				2018				2016	2017	2018	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Gross Domestic Product (% YoY)	4,0	3,9	4,1	4,1	3,4	3,8	3,6	3,9	2,7	4,0	3,7	
Private consumption (% YoY)	4,7	4,2	3,2	3,1	3,3	3,3	3,0	3,2	3,8	3,8	3,2	
Gross fixed capital formation (% YoY)	-0,4	3,9	6,1	8,2	8,8	6,8	5,2	4,1	-7,9	5,4	5,7	
Export - constant prices (% YoY)	8,3	8,5	9,6	10,1	8,1	7,2	8,8	8,9	9,0	9,1	8,3	
Import - constant prices (% YoY)	8,7	9,4	10,6	11,7	10,1	9,1	8,1	7,9	8,9	10,1	8,8	
GDP growth contributions	Private consumption (pp)	3,0	2,5	1,9	1,5	2,1	2,0	1,8	1,6	2,3	2,2	1,8
	Investments (pp)	0,0	0,6	1,1	2,0	1,0	1,1	0,9	1,0	-1,6	1,0	1,0
	Net exports (pp)	0,1	0,0	-0,2	-0,4	-0,7	-0,6	0,6	0,7	0,3	-0,2	0,0
Current account***	0,0	-0,1	-0,1	-0,5	-1,1	-1,3	-1,2	-1,0	-0,3	-0,5	-1,0	
Unemployment rate (%)**	8,1	7,1	7,0	7,3	7,6	6,8	7,0	7,3	8,3	7,3	7,3	
Non-agricultural employment (% YoY)	2,1	1,5	1,3	0,6	0,2	0,0	0,0	0,0	1,9	1,4	0,0	
Wages in national economy (% YoY)	4,1	4,4	4,9	4,6	4,9	5,2	5,4	5,5	3,8	4,5	5,2	
CPI Inflation (% YoY)*	2,0	2,0	2,0	1,9	1,3	1,6	1,3	1,3	-0,6	2,0	1,4	
Wibor 3M (%)**	1,73	1,73	1,73	1,73	1,73	1,73	1,90	1,98	1,73	1,73	1,98	
NBP reference rate (%)**	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,75	1,50	1,50	1,75	
EURPLN**	4,23	4,20	4,18	4,16	4,15	4,12	4,10	4,07	4,40	4,16	4,07	
USDPLN**	3,97	3,75	3,80	3,71	3,71	3,61	3,50	3,45	4,18	3,71	3,45	

* quarterly average

** end of period

***cumulative for the last 4 quarters

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST*	
					CA	CONSENSUS**
Monday 06/12/2017						
14:00	Poland	CPI (% YoY)	May	2,0	2,0	1,9
Tuesday 06/13/2017						
11:00	Germany	ZEW Economic Sentiment (pts)	Jun	20,6		21,5
14:00	Poland	Current account (M EUR)	Apr	-738	-764	-276
14:00	Poland	Core inflation (% YoY)	May	0,9	1,0	1,0
Wednesday 06/14/2017						
4:00	China	Retail sales (% YoY)	May	10,7	10,7	10,6
4:00	China	Industrial production (% YoY)	May	6,5	6,4	6,3
4:00	China	Urban investments (% YoY)	May	8,9	8,7	8,8
11:00	Eurozone	Employment (% YoY)	Q1	1,1		
11:00	Eurozone	Industrial production (% MoM)	Apr	-0,1		0,5
14:00	Poland	M3 money supply (% YoY)	May	6,6	6,5	6,5
14:30	USA	Retail sales (% MoM)	May	0,4	-0,1	0,1
14:30	USA	CPI (% MoM)	May	0,2	-0,1	0,0
14:30	USA	Core CPI (% MoM)	May	0,1	0,1	0,2
16:00	USA	Business inventories (% MoM)	Apr	0,2		-0,2
20:00	USA	FOMC meeting (%)	Jun	1,00	1,25	1,25
Thursday 06/15/2017						
9:30	Switzerland	SNB rate decision (%)	Q2	-0,75		
13:00	UK	BOE rate decision (%)	Jun	0,25	0,25	0,25
14:30	USA	NY Fed Manufacturing Index (pts)	Jun	-1,0	5,0	3,8
14:30	USA	Philadelphia Fed Index (pts)	Jun	38,8	27,0	25,0
15:15	USA	Industrial production (% MoM)	May	1,0	0,2	0,2
15:15	USA	Capacity utilization (%)	May	76,7	76,8	76,8
Friday 06/16/2017						
11:00	Eurozone	Wages (% YoY)	Q1	1,6		
11:00	Eurozone	HICP (% YoY)	May	1,4	1,4	1,4
14:30	USA	Housing starts (k MoM)	May	1172	1220	1215
14:30	USA	Building permits (k)	May	1228	1253	1247
16:00	USA	Initial U. of Michigan Sentiment Index (pts)	Jun	97,1	97,5	97,0

*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