

This week

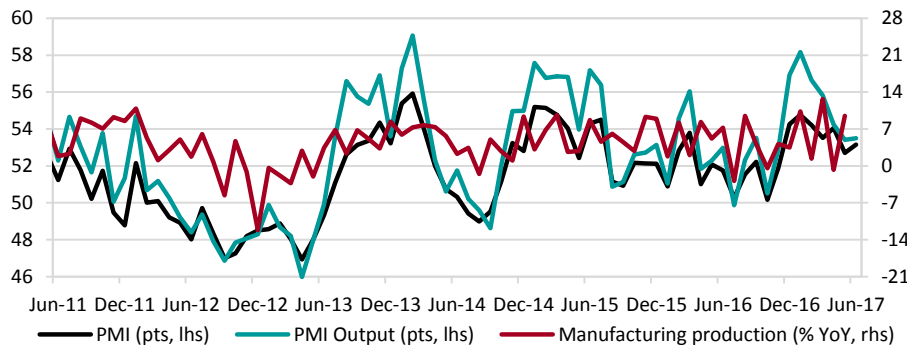
- **The most important event this week will be the release of data on non-farm payrolls in the US scheduled for Friday.** We expect employment to have increased by 175k in June vs. 138k in May, with unemployment rate stable at 4.3%. Before the Friday's reading some additional information on the labour market will be provided by the ADP report on private sector employment (the market expects an increase by 187k in June vs. 258k in May). We forecast that the ISM index for manufacturing increased to 55.4 pts in June vs. 54.9 pts in May, which will be consistent with the results of regional business surveys. The aggregate impact of the US readings should be neutral for the financial markets.
- **The Minutes of the June FOMC will be released on Wednesday.** The markets will focus on FED members' opinions concerning the short-term outlook for the US economy, the likely date of the next interest rate hike, and expected balance sheet reduction plans. The release of the Minutes may be conducive to increased volatility in the financial markets; however, they are unlikely to provide any new information altering our scenario of gradual normalization of the US monetary policy. Our baseline scenario assumes that the FED will start to reduce its balance sheet in September 2017 and will increase interest rates by 25 bp in December.
- **A meeting of the Monetary Policy Council will be held on Wednesday.** We expect that the MPC will decide to leave interest rates at an unchanged level. We believe that the issue of lower inflation will be raised during the conference in the context of the monetary policy outlook. In our view, the NBP Governor, A. Głapiński, will repeat his view that interest rates will remain unchanged for an extended period of time. The results of the latest NBP inflation projection will be presented at the same time. We expect that the inflation path will be revised slightly downwards, as compared to the March projection, while the expected economic growth rate may be slightly increased. We believe that the press release after the Council meeting and NBP Governor's remarks during the press conference will not substantially affect PLN or yields on Polish bonds.
- **The update of Poland's long-term rating by Fitch is scheduled for Friday.** In January, the agency affirmed Poland's long-term rating at A- with a stable outlook. In the justification of the decision, Fitch indicated that the rating reflected solid macroeconomic foundations of the Polish economy, including i.a. well-capitalized banking sector and public debt at a level similar to that of the countries with the same rating. In its release, Fitch pointed to lower predictability of economic policy in Poland and deterioration of political climate since October 2015. According to the Agency, such changes posed an upside risk to the public debt profile and might adversely affect Poland's economic outlook. The agency also indicated at the time that the government would probably conduct policy aimed at keeping public finance deficit below 3% of GDP, fearing that Poland might be covered again by the excessive deficit procedure. In our view, the likelihood of the public finance deficit exceeding 3% of GDP in medium term has not significantly increased and the remaining risks listed above have not materialized since the January revision. Consequently, we expect that Fitch will affirm the existing rating with a stable outlook this week. The agency's decision will be released after the closing of the European markets, therefore the reaction of the foreign exchange market and of the debt market will not materialize sooner than next week.
- **Caixin PMI for China manufacturing has been released today and rose to 50.4 pts in June vs. 49.6 pts in May.** It thus stood above the 50 pts threshold dividing the expansion from the contraction of activity. The index increase resulted from higher contributions of all its 5 sub-indices (for output, new orders, employment, stocks of goods purchased, and supply delivery times). The improvement of sentiment in Chinese manufacturing was also signaled by PMI according to CFLP (up to 51.7 pts vs. 51.2 pts in May). We expect that the GDP growth rate in China will drop to 6.8% YoY in Q2 vs. 6.9% in Q1.
- **June data on business sentiment in Polish manufacturing was released today.** PMI rose to 53.1

pts from 52.7 pts in May, running below our forecast (53.8 pts) and the market consensus (53.7 pts). The average PMI value in Q2 ran below the level from Q1 (53.3 pts vs. 54.2 pts). Thus, today's data support our forecast in which the GDP growth rate in Poland will drop to 3.9% YoY in Q2 vs. 4.0% in Q1.

Last week

- **Numerous data from the US economy and business survey results were released last week.** According to the final estimate, the annualized US GDP growth rate dropped to 1.4% in Q1 2017 vs. 2.1% in Q4 2016. Its decrease resulted from lower contribution of private consumption (0.75 pp in Q1 vs. 2.40 pp in Q4), inventories (-1.11 pp vs. 1.01 pp), and public spending (-0.16 pp vs. 0.03 pp). Higher contributions of net exports (0.23 pp in Q1 vs. -1.82 pp in Q4) and investments (1.71 pp vs. 0.46 pp) had an opposite impact. In effect, investments were the main source of the increase in the US economy in Q1. Data on durable goods orders were also released last week. They increased by 1.1% MoM in May vs. a 0.9% decrease in April, which was due to lower growth rate of orders for means of transport. Excluding transportation, durable goods orders rose by 0.1% in May vs. a 0.5% decrease in April. Especially noteworthy in the data structure is an increase in orders for non-military capital goods, excluding orders for aircrafts (5.0% YoY in May vs. 3.1% in April), being a leading indicator for future investments, which increased in YoY terms for the fourth consecutive month. The results of business surveys were also released last week. The Conference Board Consumer Sentiment Index rose to 118.9 pts in June vs. 117.6 pts in May, in turn the final University of Michigan Index dropped to 95.1 pts in June vs. 97.1 pts in May and 94.5 pts in the flash estimate. The index decrease compared to May resulted from its higher sub-index concerning expectations while lower sub-index for the assessment of the current situation had an opposite impact. We forecast that the annualized US GDP growth rate will increase to 2.8% in Q2 2017.
- **According to the flash estimate, inflation in Poland dropped to 1.5% YoY in June vs. 1.9% in May.** We believe that the decrease in inflation was due to lower dynamics of fuel prices. Final data on inflation including its structure will be released on 11 July.
- **According to the flash estimate, inflation in the Eurozone dropped to 1.3% YoY in June vs. 1.4% in May.** The decrease in inflation was due to lower dynamics of energy. In effect, inflation in the Eurozone decreased to 1.5% YoY in Q2 vs. 1.8% in Q1. We expect that the annual rate of inflation within the single currency area will decrease to 1.3% in Q3.
- **Ifo Index reflecting the sentiment among German managers representing the manufacturing, construction, wholesale and retail trade sectors, rose to 115.1 pts in June vs. 114.6 pts in May.** The index increase resulted from its both indices (assessment of the current situation and expectations). Sector-wise, improved sentiment was recorded in construction, retail and wholesale trade, while the situation in manufacturing deteriorated. The data support our forecast, in which the quarterly growth rate of the German GDP will not change in Q2 compared to Q1 and will amount to 0.6%.

PMI signals slowdown of GDP growth in Q2



Source: Markit, GUS

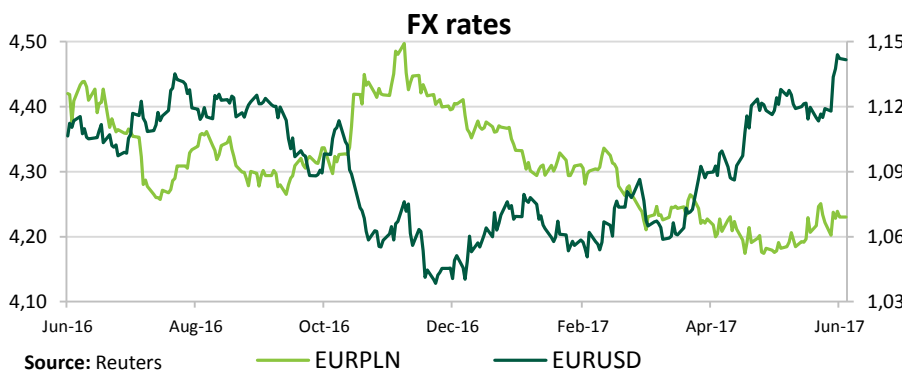
Poland manufacturing PMI rose to 53.1 pts from 52.7 pts in May, running below our forecast (53.8 pts) and the market consensus (53.7 pts). The improvement of sentiment resulted from higher contributions of four of its five indicators (for new orders, suppliers' delivery times, output, and stocks of purchases), which point to a wide range of the

improvement of sentiment in Polish manufacturing. One of the factors limiting PMI increase was – for a second month in a row – a decrease in the sub-index concerning employment down to 50.9 pts vs. 52.8 pts in May. In our view, the increase in employment was limited by the growing difficulties of companies in finding skilled labour. This view is confirmed by GUS surveys in which the percentage of companies reporting such difficulties in Q2 was the highest in the survey history. At the same time, today's reading supports our lower than the market consensus (4.4%) forecast of annual dynamics of corporate employment (4.3% in June vs. 4.5% in May).

Especially noteworthy in the data structure is an increase in the new orders sub-index (55.2 pts in June vs. 53.4 pts in May) up to the highest level since July 2017, with a simultaneous decrease in the sub-index for new export orders (52.0 pts in June vs. 54.7 pts in May). It means that the reason for higher growth rate of orders in Polish manufacturing in June was the acceleration in domestic demand, while the increase in foreign demand slightly slowed down. We believe that stronger domestic demand occurred due to the positive impact of the rebound in construction (resulting from the acceleration in public investments implemented with the use of EU funds) on branches manufacturing goods used in the assembly-construction production. On the other hand, a slower inflow of foreign orders was already signaled earlier by the flash June German manufacturing PMI (see MACROmap of 26/6/2017). We believe that the decrease in the sub-index for new export orders in Polish manufacturing was temporary and does not alter our scenario of recovery in global trade. The increase in the new orders sub-index was conducive to a slight acceleration of the output growth rate (53.5 pts in June vs. 53.4 pts in May).

The average PMI value in Q2 stood below the level of Q1 (53.3 pts vs. 54.2 pts). Thus, today's data support our forecast, in which the dynamics of the Polish GDP will drop to 3.9% YoY in Q2 vs. 4.0% in Q1.

FOMC Minutes may increase PLN volatility



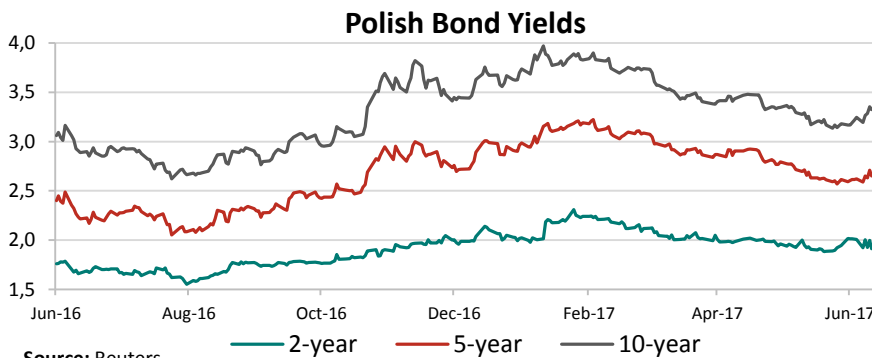
Source: Reuters

Last week EURPLN rate rose to 4.2304 (PLN weakening by 0.2%). Monday saw PLN strengthening which was a continuation of the trend observed two weeks ago. On Tuesday, M. Draghi, the ECB Governor, said that an increasingly strong and widening recovery could be currently observed in the Eurozone while deflationary tendencies had been

replaced by reflationary ones. The markets interpreted this remark as an increased likelihood of the ECB starting monetary tightening sooner. In effect, M. Draghi's words were an impulse for EUR strengthening vs. USD and PLN weakening vs. EUR until Thursday. On Friday the trend reversed – PLN started strengthening despite lower-than-expected data on domestic inflation.

Crucial for PLN this week will be the release of the Minutes of the June FOMC meeting scheduled for Wednesday. We believe that it will be conducive to increased volatility of PLN. In our view, the MPC meeting will be neutral for PLN. We expect that US readings (non-farm payrolls and manufacturing ISM) will be neutral for PLN. The Friday's update of Poland's rating by Fitch will be released after the closing of the European markets, therefore its impact on PLN will materialize no sooner than next week.

MPC meeting neutral for bond yields



Source: Reuters

Last week the yield of Polish 2-year benchmark bonds dropped to a level of 1.913 (down by 9 bp), of 5-year bonds rose to a level of 2.652 (up by 3 bp), and of 10-year bonds to a level of 3.326 (up by 8 bp). Last week saw an increase in yields on Polish bonds in the middle and at the long end of the curve. In turn, debt prices at the short end of the curve

remained within a weak upward trend. Conducive to increase in yields on bonds in Poland was the Tuesday's remark by M. Draghi (see above) which also contributed to a drop of debt prices in the core markets. On Friday, the prices of the Polish debt rose due to the publication of lower-than-expected June inflation in Poland and information of the Ministry of Finance on no bonds auctions in July and limited bond supply in the whole Q3.

This week the investors will focus on the release of the Minutes of the June FOMC meeting scheduled for Wednesday. We believe that it may contribute to increased volatility of the prices of Polish bonds. In our view, the MPC meeting will be neutral for the prices of the Polish debt. US data (non-farm payrolls and manufacturing ISM) will also have a limited impact on the yield curve. The Friday's update of Poland's rating by Fitch will be released after the closing of the European markets, therefore its impact on the Polish debt will materialize no sooner than next week.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland														
Indicator	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	Jul-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	4,35	4,36	4,29	4,31	4,45	4,40	4,32	4,31	4,23	4,23	4,18	4,23	4,21
USDPLN*	3,94	3,90	3,91	3,82	3,92	4,20	4,18	4,00	4,07	3,97	3,88	3,72	3,70	3,72
CHFPLN*	4,04	4,02	3,97	3,93	3,96	4,13	4,11	4,04	4,05	3,96	3,90	3,84	3,86	3,85
CPI inflation (% YoY)	-0,8	-0,9	-0,8	-0,5	-0,2	0,0	0,8	1,7	2,2	2,0	2,0	1,9	1,9	1,9
Core inflation (% YoY)	-0,2	-0,4	-0,4	-0,4	-0,2	-0,1	0,0	0,2	0,3	0,6	0,9	0,8	0,8	0,8
Industrial production (% YoY)	6,0	-3,4	7,5	3,2	-1,3	3,2	2,2	9,1	1,1	11,0	-0,6	9,1	9,1	9,1
PPI inflation (% YoY)	-0,8	-0,5	-0,1	0,2	0,6	1,8	3,2	4,0	4,5	4,8	4,2	2,5	2,5	2,5
Retail sales (% YoY)	4,6	2,0	5,6	4,8	3,7	6,6	6,4	11,4	7,3	9,7	8,1	8,4	8,4	8,4
Corporate sector wages (% YoY)	5,3	4,8	4,7	3,9	3,6	4,0	2,7	4,3	4,0	5,2	4,1	5,4	5,4	5,4
Employment (% YoY)	3,1	3,2	3,1	3,2	3,1	3,1	3,1	4,5	4,6	4,5	4,6	4,5	4,5	4,5
Unemployment rate* (%)	8,7	8,5	8,4	8,3	8,2	8,2	8,3	8,6	8,5	8,1	7,7	7,4	7,1	7,1
Current account (M EUR)	-723	-503	-729	-858	-179	-128	-56	2576	-825	-738	-275	-638	-638	-638
Exports (% YoY EUR)	6,0	-5,3	9,3	3,1	-0,5	5,8	5,2	13,9	4,9	14,9	0,6	11,0	11,0	11,0
Imports (% YoY EUR)	0,8	-7,3	10,7	3,5	3,6	6,3	7,1	16,1	9,9	18,9	3,4	15,8	15,8	15,8

*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***	0,1	-0,1	-0,1	-0,5	-1,1	-1,3	-1,2	-1,0	-0,2	-0,5	-1,0	
Unemployment rate (%)**	8,1	7,1	7,0	7,3	7,6	6,8	6,6	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	4,22	4,18	4,16	4,15	4,12	4,10	4,07	4,40	4,16	4,07	
USDPLN**	3,97	3,70	3,77	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 07/03/2017						
3:45	China	Caixin Manufacturing PMI (pts)	Jun	50,2	49,9	49,5
9:00	Poland	Manufacturing PMI (pts)	Jun	52,7	53,8	53,7
9:55	Germany	Final Manufacturing PMI (pts)	Jun	59,3	59,3	59,3
10:00	Eurozone	Final Manufacturing PMI (pts)	Jun	57,3	57,3	57,3
11:00	Eurozone	Unemployment rate (%)	May	9,3		9,2
15:45	USA	Flash Manufacturing PMI (pts)	Jun	52,1	52,1	
16:00	USA	ISM Manufacturing PMI (pts)	Jun	54,9	55,4	55,2
Tuesday 07/04/2017						
11:00	Eurozone	PPI (% YoY)	May	4,3		3,6
Wednesday 07/05/2017						
10:00	Eurozone	Services PMI (pts)	Jun	54,7	54,7	54,7
10:00	Eurozone	Final Composite PMI (pts)	Jun	55,7	55,7	55,7
11:00	Eurozone	Retail sales (% MoM)	May	0,1		0,3
16:00	USA	Factory orders (% MoM)	May	-0,2	-0,8	-0,5
20:00	USA	FOMC Minutes	Jun			
	Poland	NBP rate decision (%)	Jul	1,50	1,50	1,50
Thursday 07/06/2017						
8:00	Germany	New industrial orders (% MoM)	May	-2,1		2,0
14:15	USA	ADP employment report (k)	Jun	253		187
14:30	USA	Initial jobless claims (k)	w/e	244		
16:00	USA	ISM Non-Manufacturing Index (pts)	Jun	56,9	56,0	56,5
Friday 07/07/2017						
8:00	Germany	Industrial production (% MoM)	May	0,8		0,3
14:30	USA	Unemployment rate (%)	Jun	4,3	4,3	4,3
14:30	USA	Non-farm payrolls (k MoM)	Jun	138	175	180

*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