

This week

- ✓ **The most important event this week was the today's release of the July business sentiment indicators for major European economies.** PMI Composite for the Eurozone dropped to 55.8 pts in July vs. 56.3 pts in June. The index decline resulted from a slight deterioration both in Germany and in France. Ifo Index, reflecting the sentiment among German managers representing the manufacturing, construction, wholesale and retail trade sectors, will be released on Tuesday. We expect that the index value will not change in July compared to June and will amount to 115.1 pts. We forecasts that the GDP growth rate in the Eurozone will decline to 0.4% QoQ in Q3 2017 vs. 0.5% in Q2.
- ✓ **FOMC meeting will be held on Wednesday.** We expect that the target range for the Federal Reserve funds will be left unchanged. We believe that FED may adjust the text of the statement, signaling an early date of starting to reduce the FED balance-sheet. This change in communication will be consistent with earlier remarks of the FED chair, J. Yellen. In our view, the press release after the meeting will not bring any new information substantially altering our scenario of US monetary policy outlook, in which FED will start to reduce its balance-sheet in September 2017 and will hike interest rates by 25bp in December 2017. We expect that the publication of the press release after the FOMC meeting will be conducive to increased volatility in the financial markets.
- ✓ **Significant hard data on US economy and business survey results will be released this week.** The flash estimate of the US GDP in Q2 will be released on Friday. We expect that the annualized economic growth rate rose to 2.4% vs. 1.4% in Q1, due to higher contribution of consumption. We forecast that the monthly growth of preliminary durable goods orders rose to 5.0% in June vs. -0.8% in May, due to higher orders in the Boeing company. We expect that the data on existing home sales (5.58M in June vs. 5.62M in May) and new home sales (625k vs. 610k in May) will confirm the recovery in the US real estate market. The results of consumer sentiment surveys in July will also be released in the US. We believe that both the upward-revised final University of Michigan Index (93.4 pts vs. 95.1pts in June) and the Conference Board Consumer Confidence Index (115.0 pts vs. 118.9 pts) will signal a slight deterioration of households' sentiment in July. In our view, the aggregate impact of data on the US economy on the financial market will be neutral.

Last week

- ✓ **Hard data on the US economy and business survey results were released last week.** The data on building permits (1254k in June vs. 1168k in May) and the number of housing starts (1215k in June vs. 1122k in May) pointed to the ongoing recovery in the US real estate market. On the other hand, regional business sentiment indicators for manufacturing recorded a decline. The NY Empire State index dropped to 9.8 pts in July vs. 19.8 pts in June, while the Philadelphia FED index decreased to 19.5 pts in July vs. 27.6 pts in June. The last week's data from the US economy do not alter our forecast, in which the annualized GDP growth rate in the US will increase from 1.4% in Q1 to 2.4% in Q2 and will remain at this level in Q3.
- ✓ **The ECB meeting was held last week.** As we expected, the monetary policy parameters have been left unchanged. The announcement that interest rates are likely to be left at the present level for an extended period of time, significantly exceeding the horizon of the asset purchase program (so-called forward guidance), has also been maintained. Contrary to our expectations, the fragment saying that the ECB was prepared to increase the scale or extend the horizon of the asset purchase program has been left unchanged. We expected the part on the probability of possible increase in the purchase volume to be deleted (see MACROmap of 17/7/2017). The ECB will probably want to wait with changing the statement until the September publication of

the ECB economic projection, whose significance for the future monetary policy was emphasized by the ECB Governor, M. Draghi, during the press conference after last week's meeting. In his remarks, M. Draghi indicated that robust economic growth was observed in the Eurozone. At the same time, he said that possible tapering of the asset purchase program had not been discussed at the meeting. Despite M. Draghi's dovish remarks, their consequence was the appreciation of EUR vs. USD and increased volatility of German bonds. We expect that the ECB will announce the details of the outlook for the Expanded Asset Purchase Program at the September meeting. We believe that the ECB will present a detailed plan of its tapering or will only announce that the tapering will start in January 2018 and the details will be presented at subsequent meetings. We also allow an alternative scenario in which, in order to reduce market volatility, the ECB will only signal in September that talks are under way on the program's future and will announce the decision on its tapering in October.

✔ **Nominal wage dynamics in the Polish corporate sector rose to 6.0% YoY in June vs. 5.4% in May, hitting the highest level since January 2012.** In our view, the main factor behind the higher wage growth in the corporate sector was the changed timing of bonus payments rather than the increase in wage pressure related to the improvement in the labour market (see MACROPulse of 18/7/2017). The annual employment dynamics dropped to 4.3% YoY in June from 4.5% in May. The slowdown of annual employment growth in June resulted from the high base effect from the year before. We estimate that real wage fund dynamics (employment times average wages) in enterprises amounted to 7.9% in Q2 and 7.1% in Q1. We expect a slight decrease of the annual employment growth in subsequent months as the improvement in the labour market will gradually slow down.

✔ **The dynamics of industrial production in Poland dropped to 4.5% YoY in June vs. 9.1% in May.** The main reason for the sharp decrease in production dynamics between May and June was an unfavourable difference in the number of working days. Like in previous months, high production growth was recorded in the branches with a significant share of exports in the sales of products, trade goods, and materials. Thus, the data confirm the continuing strong foreign demand for goods made in Poland (see MACROPulse of 19/7/2017). The construction-assembly production growth rose to 11.6% YoY in June vs. 8.4% in May. It increased despite the above-mentioned unfavourable difference in the number of working days. The increase in the construction-assembly production dynamics resulted from higher output growth rate in the categories "civil engineering objects" and "specialized construction activities", while its decrease in the category "construction of buildings" had an opposite impact. We forecast that in subsequent months the assembly-construction production will show an upward trend due to the expected by us growing absorption of EU funds, significant increase in public outlays on infrastructure and recovery in residential construction. It should be noted that high against the backdrop of other categories industrial production growth was recorded in June for the segments: "metals", "metal products", "other non-metallic products", and "rubber and plastic products". In our view, this is the effect of the positive impact of the recovery in construction on branches manufacturing goods used in the construction-assembly production. In the whole Q2 the average dynamics of industrial production dropped to 4.3% vs. 7.1% in Q1, while the construction-assembly production dynamics rose to 8.4% vs. 5.6%. The data support our forecast of GDP growth rate in Q2 2017 (down to 3.9% YoY vs. 4.0% YoY in Q1).

✔ **Nominal dynamics of retail sales in Poland decreased to 6.0% YoY in June vs. 8.4% in May.** Real retail sales growth dropped to 5.8% YoY in June vs. 7.4% in May. Conducive to lower sales growth in June was the above-mentioned unfavourable difference in the number of working days. Negative for retail sales growth were also the high base effects from the year before related to the Family 500+ scheme (June 2016 was the first month which recorded the positive impact of the 500+ scheme on retail sales) and Euro 2016. They were reflected mainly in lower sales dynamics in the categories: "textiles, clothing, footwear" and "furniture, audio-video and household equipment". In the whole Q2 retail sales in constant prices rose by 6.6% YoY vs. a

7.1% increase in Q1, which supports our forecast that private consumption growth rate dropped to 4.2% YoY in Q2 vs. 4.7% YoY in Q1 2017.

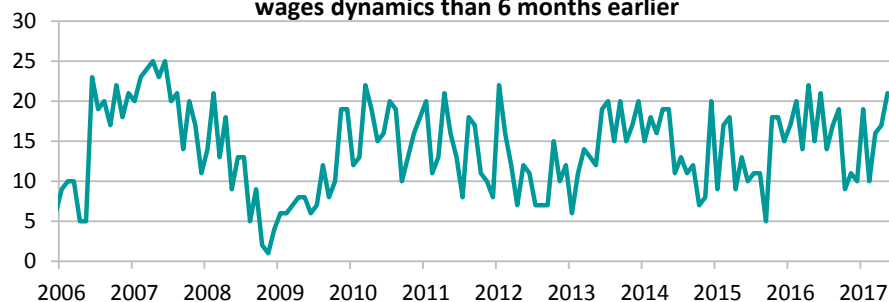
➤ **ZEW index reflecting the sentiment among analysts and institutional investors regarding the economic situation in Germany dropped to 17.5 pts in July vs. 18.6 pts in June.** According to the press release, the index dropped slightly despite continuing optimistic expectations concerning the future economic situation. We forecast that the quarterly German GDP growth rate will not change in Q2 compared to Q1 and will amount to 0.6%.

➤ **Last week the Ministry of Finance published the data on the estimated implementation of the state budget between January and June 2017.** Especially noteworthy is the budget surplus amounting to PLN 5.9bn. It is the effect of recognizing higher-than-the-government-expected budget revenues deriving from the NBP profit for 2016 amounting to PLN 8.7bn (95% of profit amounting to PLN 9.2bn), as the budget for 2017 showed the NBP contribution amounting to PLN 627M. Conducive to lower budget deficit were also higher tax revenues, mainly from VAT (up by 28.1% YoY). At the same time, the implementation of expenditures in H1 2017 is 3.8% lower than planned. This results i.a. from lower than the year before implementation of expenditures in the categories: subsidies to the Social Insurance Fund, settlements with the EU general budget on account of own funds, and State debt service. Property related expenditures, i.e. mainly investments, between January and May (data for June are not available yet) were also lower (by 3.5%) from 2016. We believe that the pace of implementing budget expenditures will accelerate in the coming months (mainly the implementation of public investments) and thus the budget will again record a deficit. We believe that the government is likely to undertake actions consisting in shifting a part of the deficit from 2018 to 2017 through earlier VAT reimbursements. Consequently, we estimate that towards the end of the year, the budget deficit will amount to ca. PLN 23bn vs. the budgeted 59.3bn. Allowing for the forecasted by us deficit in the budget of local government units amounting to 0.7% of GDP, we estimate that the balance of the budget of the General Government sector will amount to ca. 2.0% of GDP. A lower deficit than that budgeted in the Multiyear Financial Plan (2.9% of GDP) will be conducive to the strengthening of PLN and lower spreads between the yields on Polish and German bonds. This supports our forecast of EURPLN dropping to 4.16 at the end of the year.

Wage explosion is not likely to occur in Poland

In accordance with GUS data published last week, nominal wage dynamics in the sector of enterprises employing more than 9 persons rose to 6.0% YoY in June vs. 5.4% in May, thus hitting the highest level since January 2012. This has been already a second month of visible acceleration in wage growth. Without knowing its structure (the data will be published in the Statistical Bulletin towards the end of the month), it is difficult to categorically state if the wage increase resulted from one-off factors or if it is rather a signal of a sustainable trend (see MACROPulse of 18/7/2017). Below we present trends observed in the labour market in recent month and are trying to answer the question what is the likelihood of a strong wage growth in subsequent quarters.

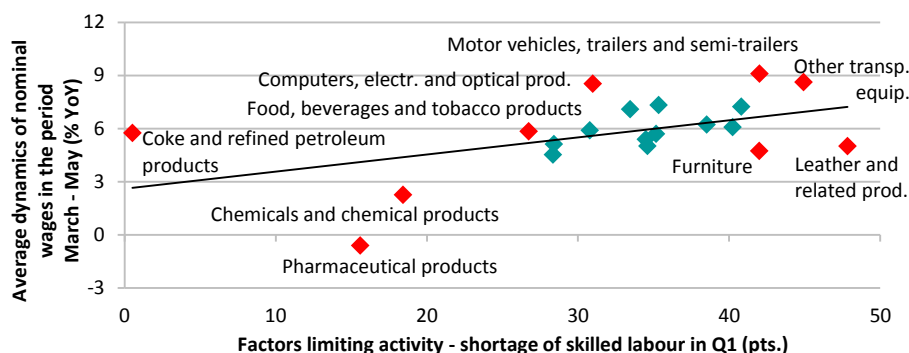
Number of manufacturing branches that recorded higher wages dynamics than 6 months earlier



Source: GUS, Credit Agricole

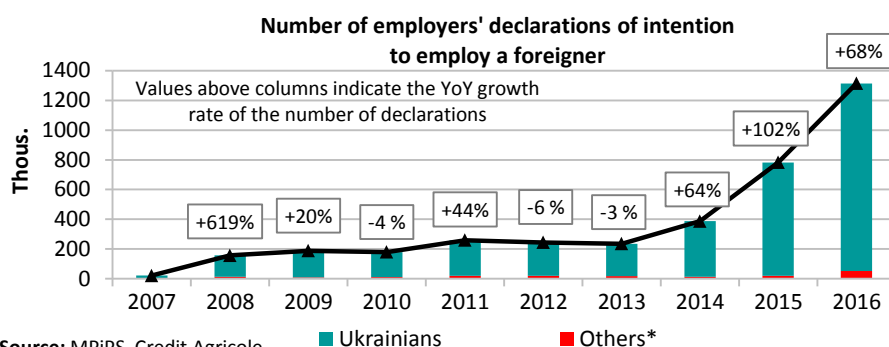
The structure of the corporate wage data for a few past months indicates that the observed acceleration in wage growth has a widening scope. In May, the nominal annual wage growth was higher than six months ago in 21 of the 28 manufacturing and services branches covered by our analysis. It is more than twice the

percentage recorded in December 2016 when wage growth accelerated only in 10 categories. However, it should be noted that the indicator presented on the chart is not record high now against the backdrop of historical values. During the boom on the labour market in 2007, the increase in dynamics compared to levels from six months before was observed simultaneously for as many as 25 branches.



Source: GUS, Credit Agricole

the differences in wage dynamics between branches. The chart shows GUS index concerning barrier to businesses operations resulting from the shortage of skilled labour in Q1 and the average nominal wage growth in different manufacturing branches between March and May. The two values show a moderate positive correlation (49%) and this correlation is higher than for non-lagged dependencies. It means that this indicator has leading characteristics. The highest values of GUS business sentiment indicator in Q2 were shown in branches dealing in the manufacture of “leather and related products”, “metal products”, “machinery and equipment”, “furniture”, and “other transport equipment”. It means that, judging only by GUS business sentiment indicators, these categories can be expected to achieve a high, against the backdrop of other branches, wage growth rate in Q3.



Source: MPiPS, Credit Agricole

*Belarusians, Russians, Molodovans, Georgians, Armenians

Hungary (4.3%). Wage growth in Romania and Hungary is now at a two-digit level. We believe that the strong inflow of Ukrainians to our country is the main factor explaining a relatively low, against the backdrop of the region, growth rate of nominal wages in Poland. The number of work permits issued to foreigners in Poland before the end of 2016 increased by ca. 94% compared to the previous year and the number of registered declarations of intention to employ a foreigner by ca. 68%. Foreigners are largely persons with lower skills, thus showing lower productivity and obtaining lower wages. The most popular job for which declarations were registered in 2016 was a farm-hand. A large number of declarations were also recorded for workers performing basic tasks in horticulture and fruit-growing, general construction, and manufacturing. The employers registering declarations in 2016 only in 20% of cases declared the intention to employ under an employment contract (this percentage increased by 4.8 pp. compared to 2015). This means that foreigners are covered by corporate wage and employment statistics to a limited extent (as these only cover persons employed under employment contracts). However, the presence of the Ukrainians in the labour market is conducive to a slower growth of wages

The significant improvement in the labour market, illustrated in recent quarters by a decrease in unemployment rate according to BAEL (down to 5.0% in Q1) with simultaneous acceleration in wage growth, is not an isolated case of Poland. A sharp decline in unemployment rate can also be observed in the countries of the region – the Czech Republic (down to 3.3%), Romania (5.4%), and

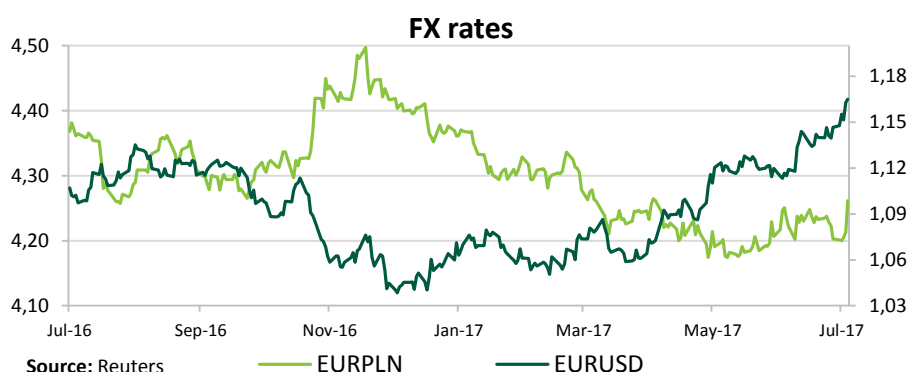
of other employees. A gradual geographic dispersion of employment of foreigners in Poland is also worth noting. The highest demand for immigrant labour continues to be recorded in Mazowieckie province (ca. 38% of permits issued and ca. 28% of declarations registered in 2016); however, the significance of this region is gradually diminishing comparing to the rest of Poland. The growing geographic diversification of the employment of immigrants intensifies its negative impact on the wage growth dynamics.

Our view is supported by the results of the quarterly business survey published last week by the NBP (so-called "Quick Monitoring"). According to this report, the percentage of enterprises which recorded growing wage pressure has diminished in Q2 (to 15%). It stands at a slightly lower level than six months ago and much lower than in 2008. In accordance with the NBP survey, in addition to the inflow of immigrants, additional incomes related with the payments under the Family 500+ scheme are among the factors limiting the growing wage pressure. The NBP report also indicates that wage pressure is crucial to changes in wages. In the group of companies where such pressure is not observed the frequency of wage rises is low and has hardly changed in recent years.

The factors outlined above support our scenario in which the annual wage growth rate in the corporate sector will run below 6% in the coming months but will remain within a weak upward trend. The above view is consistent with our forecast of moderate increase in wage growth rate in the national economy of up to 4.5% in 2017 vs. 3.8% in 2016.



Business survey results in the Eurozone positive for PLN

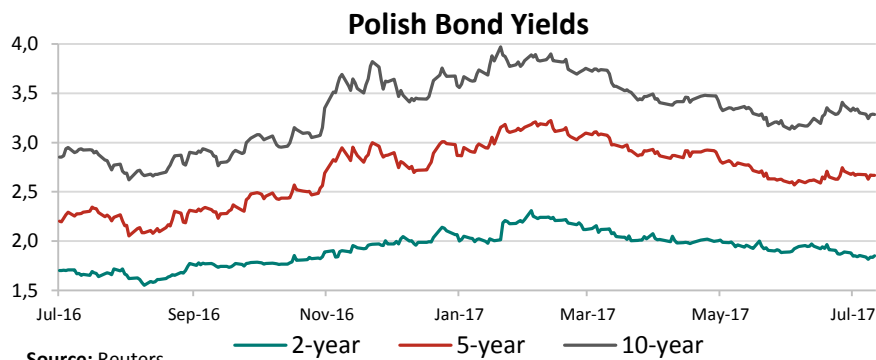


Last week EURPLN rate rose to 4.2611 (PLN weakening by 1.4%). On Monday and Tuesday, PLN was relatively stable and oscillated around the level of 4.20 vs. EUR. From Wednesday until the end of the week, PLN was depreciating, as political risk grew in Poland due to a strong protest of the opposition against the government-introduced changes in the functioning of the

administration of justice. This view is supported by PLN depreciation vs. HUF. On Thursday, PLN showed additionally increased volatility due to the ECB meeting.

On Wednesday we expect PLN rate to show increased volatility due to the FOMC meeting. In our view, the aggregate impact of numerous data from the US (the first estimate of GDP, the Conference Board Index, new home sales, existing home sales, and durable goods orders) on PLN rate will not be market moving.

FOMC meeting crucial for yields on Polish bonds



Last week the yield of Polish 2-year benchmark bonds have not changed compared to the level from two weeks ago and amounted to 1.852, of 5-year bonds dropped to a level of 2.669 (down by 1 bp), and of 10-year bonds dropped to a level of 3.286 (down by 2 bp). Last week the most important event for the prices of the Polish debt was the Thursday's ECB meeting. In effect,

on Thursday, during the press conference after the meeting, Polish bonds showed increased volatility, following German bonds. Low supply of bonds by the Ministry of Finance continues to be conducive to a drop of yields on Polish bonds.

This week the Polish debt market will focus on the FED meeting scheduled for Wednesday. We expect that it will be conducive to increased volatility of the prices of Polish bonds. Numerous US readings (the first estimate of GDP, the Conference Board Index, new home sales, existing home sales, and durable goods orders) will be neutral for yields on Polish bonds, we believe.

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	3,66
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	3,83
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	1,5	
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	
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	4,5	
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	1,8	
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	6,0	
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	6,0	
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	4,3	
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	
Current account (M EUR)	-723	-503	-729	-858	172	99	-219	2342	-599	-529	-160	-179		
Exports (% YoY EUR)	6,0	-5,3	9,3	3,1	-0,6	5,7	5,1	14,3	5,7	15,1	1,4	14,5		
Imports (% YoY EUR)	0,8	-7,3	10,7	3,5	3,6	6,3	7,1	16,0	8,9	16,8	3,3	19,1		

*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	1,8
	Investments (pp)	0,0	0,6	1,1	2,0	1,0	1,1	0,9	1,0	-1,6	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
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	1,8	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	4,23	4,18	4,16	4,15	4,12	4,10	4,07	4,40	4,16	4,07
USDPLN**	3,97	3,70	3,57	3,53	3,52	3,46	3,42	3,36	4,18	3,53	3,36

* quarterly average

** end of period

***cumulative for the last 4 quarters

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST*	
					CA	CONSENSUS**
Monday 07/24/2017						
9:30	Germany	Flash Manufacturing PMI (pts)	Jul	59,6	58,8	59,2
10:00	Eurozone	Flash Services PMI (pts)	Jul	55,4	54,8	55,5
10:00	Eurozone	Flash Manufacturing PMI (pts)	Jul	57,4	56,9	57,2
10:00	Eurozone	Flash Composite PMI (pts)	Jul	56,3	55,7	56,2
15:45	USA	Flash Manufacturing PMI (pts)	Jul	52,0		52,0
16:00	USA	Existing home sales (M MoM)	Jun	5,62	5,68	5,58
Tuesday 07/25/2017						
10:00	Germany	Ifo busienss climate (pts)	Jul	115,1	115,1	114,9
10:00	Poland	Registered unemployment rate (%)	Jun	7,4	7,1	7,1
15:00	USA	Case-Shiller Index (% MoM)	May	0,3		0,3
16:00	USA	Richmond Fed Index	Jul	7,0		
16:00	USA	Consumer Confidence Index	Jul	118,9	115,0	116,5
Wednesday 07/26/2017						
16:00	USA	New home sales (k)	Jun	610		615
20:00	USA	FOMC meeting (%)	Jul	1,25	1,25	1,25
Thursday 07/27/2017						
10:00	Eurozone	M3 money supply (% MoM)	Jun	5,0		5,0
14:30	USA	Durable goods orders (% MoM)	Jun	-0,8	5,0	3,0
Friday 07/28/2017						
11:00	Eurozone	Business Climate Indicator (pts)	Jul	1,10		1,12
14:00	Germany	Preliminary HICP (% YoY)	Jul	1,5		1,40
15:30	USA	Preliminary estimate of GDP (% YoY)	Q2	1,4	2,4	2,6
16:00	USA	Final U. of Michigan Sentiment Index (pts)	Jul	93,1	93,4	93,0

*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