

This week

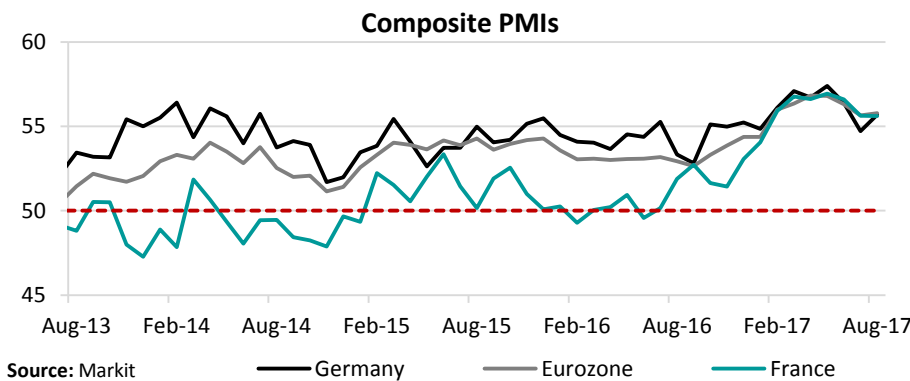
- **The most important event this week will be the publication of the final estimate of the Polish GDP including its structure scheduled for Thursday.** We believe that the final GDP growth rate has not changed compared to the flash estimate and amounted to 3.9% vs. 4.0% in Q1. Conducive to slower GDP growth were lower contributions of consumption and net exports. Higher contribution of investments had an opposite impact. The release of final GDP data should not be market moving.
- **Important data from the US will be released this week.** The second estimate of GDP in Q2 will be released on Wednesday. We expect that the annualized economic growth rate rose to 2.9% vs. 2.6% in the flash estimate due to a higher contribution of private consumption. Data from the labour market will be released on Friday. We expect non-farm payrolls to have increased by 180k in August vs. 209k in July, with unemployment rate remaining 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 the same increase as in July - 178k). US business survey results will also be released this week. We forecast that the ISM index for manufacturing rose to 56.8 pts in August vs. 56.3 pts in July, running in line with the results of regional business surveys. We expect that the Conference Board Consumer Confidence Index (120.0 pts vs. 121.1 pts in July) will signal a slight deterioration of households' sentiment in August. In turn, the final University of Michigan Index (97.2 pts vs. 93.4 pts in July) will point to its improvement. The publication of US data consistent with the scenario of FED fund rate hike by 25bp at the December meeting should not substantially affect the financial markets.
- **The flash estimate of HICP inflation for the Eurozone will be released on Thursday.** We expect that the annual inflation rate rose to 1.5% YoY in August vs. 1.3% in July. The flash estimate of the August HICP inflation in Germany will be released on Wednesday. Like in the case of the Eurozone, we expect its decrease to 1.7% YoY from 1.5% in July. In both cases, conducive to the increase in inflation was higher growth rate of fuel prices. We expect the publication of data on higher than expected inflation in the Eurozone to be slightly negative for PLN and yields on Polish bonds.
- **The August PMIs for Chinese manufacturing (Caixin and CFLP) will be released this week.** We forecast that Caixin PMI slightly rose to 51.3 pts vs. 51.1 pts in July while PMI according to CFLP rose to 51.6 pts vs. 51.4 pts in July. We expect that the results of business surveys in China, pointing to a slight improvement of sentiment in manufacturing, will be neutral for the markets.
- **Preliminary data on the August inflation in Poland, which we believe has increased to 1.9% YoY vs. 1.7% in July, will be released on Thursday.** In our view, inflation increased due to higher dynamics of food and fuel prices. In turn, core inflation has most probably not changed compared to July and amounted to 0.8% YoY. We believe that the data will be neutral for PLN and yields on Polish bonds.
- **The August data on business sentiment in Polish manufacturing will be released on Friday.** We expect that PMI rose to 53.0 pts vs. 52.3 pts in July. The higher growth rate of activity in manufacturing was due to: the abatement of the impact of holiday breaks in car factories (see MACROPulse of 1/8/2017) and the improvement of sentiment in Germany (see below). The data may be slightly positive for PLN and yields on Polish bonds, we believe.

Last week

- **The Council of Ministers has adopted the preliminary draft budgetary act for 2018.** The central budget deficit envisaged in the draft act will not exceed PLN 41.5bn (2.1% of GDP) and will be composed of expenditures amounting to PLN 397.2bn with revenues planned at PLN 355.7bn. On the expenditure side the draft act provides i.a. for the financing of Family 500+ and Housing+ schemes, reduction of retirement age, higher outlays on defense, and further financing of restructuring in coal mining. The draft budget assumes real GDP growth rate at 3.8% and average annual inflation at 2.3% in 2018. We expect that general government deficit will amount to 1.4% of GDP in 2017. The government expects that it will reach a level of 2.7% of GDP in 2018, which is in line with our forecast (2.5% - 2.7%). The achievement in 2017 and 2018 of deficit target at a level close to our forecasts will mean a strong fiscal loosening in the conditions of a very good business climate. The achievement in 2017 of a deficit significantly lower than planned in the Multiyear Financial Plan (2.9% of GDP) will be conducive to lower risk premium, stronger PLN, and lower spreads between Polish and German bonds. This supports our forecast of EURPLN falling to 4.16 as at the end of 2017.
- **Nominal domestic investments of enterprises employing at least 50 persons dropped by 1.5% YoY in Q2 vs. a 1.2% increase in Q1.** Their slower growth rate was mainly due to lower contribution of investments in energy (by 2.6 pp), resulting from the high base effects from the year before, related i.a. to the construction of two power blocks in Elektrownia Opole and complex modernization of the power plant in Bełchatów. Conducive to the decrease in investment dynamics was also lower contribution of investments in manufacturing (drop in annual dynamics to 5.7% in Q2 vs. 6.0% in Q1). On the other hand, higher contribution of investment outlays in construction companies, related to the recovery in residential and infrastructural construction, had an opposite impact (see MACROPulse of 18/8/2017). According to GUS data, seasonally adjusted capacity utilization in manufacturing amounted to 80.0% in Q3 vs. 80.1% in Q2 (the highest level since Q2 2008). We expect that in the coming months the barrier in the form of high capacity utilization in manufacturing will make companies increase the outlays on investments. However, the last week's data on corporate investments pose a downside risk to our forecast of increase in the investments dynamics in Q3 (6.1% YoY vs. 2.7% in Q2). A revised corporate investments profile will be presented in the next MACROmap.
- **The results of consumer sentiment surveys in Poland were released last week.** Both the current and the leading consumer confidence index have reached new highest levels in the survey history. Together with the GUS data released last week which pointed to an increase in the employment dynamics according to LFS (1.9% YoY in Q2 vs. 1.7% in Q1), the continuation of the improvement in consumer sentiment poses an upside risk to our forecast of consumption growth in Q2 2017 (down to 3.2% YoY in Q3 and 3.1% in Q4 vs. 4.5% in Q2).
- **According to GUS data, the unemployment rate in Poland has not changed in July compared to June and amounted to 7.1%.** Thus, the data are in line with the flash estimate of the Ministry of Family, Labour and Social Policy released at the beginning of August. After seasonal adjustments, it has been its first increase (by 0.1 pp) since April 2013. This shows that the labour market has reached equilibrium. The unemployment data pointing to a sharp slowdown of its decline, given continuing high demand for labour, support our forecast of wage dynamics in the national economy. We forecast that the wage growth rate will increase to 4.9% YoY in 2017 vs. 3.8% in 2016.
- **Composite PMI for the Eurozone rose to 55.8 pts in August vs. 55.7 pts in July.** Thus, it is running only slightly below its six-year high recorded in April in May (56.8 pts). The slight increase in composite PMI occurred due to its higher sub-index for output in manufacturing and lower sub-index for business activity in services (see below).

US hard data were released last week. New home sales dropped to 571k in July vs. 630k in June, while existing home sales dropped to 5.44M in July vs. 5.51M in June. Combined with the data on housing starts and building permits released last week (see MACROmap of 21/8/2017), the data point to a deterioration of sentiment in the US real estate market in July. Flash data on durable goods orders were also released last week. They dropped by 6.8% MoM in July vs. a 6.4% increase in June, which was mainly due to a lower growth rate of orders for means of transport (the effect of lower orders in the Boeing factory). Excluding means of transport, durable goods orders rose by 0.5% MoM in July vs. a 0.1% increase in June. Especially noteworthy in the data structure is lower annual growth rate of orders for non-military capital goods excluding orders for aircrafts (3.5% YoY in July vs. 5.8% in June), being a leading indicator for future investments. The last week's data support our forecast, in which the annualized growth rate of the US GDP will fall down to 2.4% in Q3 vs. 2.9% in Q2.

Positive business sentiment in the Eurozone continues



Source: Markit

— Germany — Eurozone — France

The Composite PMI (for manufacturing and services) in the Eurozone rose to 55.8 pts in August from 55.7 pts in July. Thus, it is only slightly below its six-year high recorded in April and May (56.8 pts). The slight increase in Composite PMI occurred due to an increase in its sub-index for output in manufacturing and a decline in the sub-index for business activity in services.

In the first two months of Q3, the Composite PMI for the Eurozone dropped to 55.7 pts vs. 56.6 pts in Q2, remaining clearly above the 50 pts threshold dividing expansion from contraction of activity. This supports our forecast assuming a decrease in the GDP growth rate in the Eurozone in Q3 (0.4% QoQ vs. 0.6% in Q2).

Especially noteworthy in the data structure is the deepening of the differences in assessment of sentiment in manufacturing and services. The manufacturing PMI rose to 57.4 pts in August vs. 56.6 pts in July, thus returning to its June value, which was the highest since April 2014. In turn, PMI for services fell down to 54.9 pts in August vs. 55.4 pts, hitting the lowest level since January 2017.

Geographically, the slight improvement of sentiment in the Eurozone occurred due to faster growth rate of economic activity in Germany and its stabilization in France. The increase in the Composite PMI for Germany resulted from higher sub-indices concerning both output in manufacturing and business activity in services. In turn, its stabilization in France resulted from higher sub-index for output in manufacturing with a simultaneous decrease in the sub-index for business activity in services. Other Eurozone countries covered by the survey recorded a slight decrease in the growth rate of economic activity.

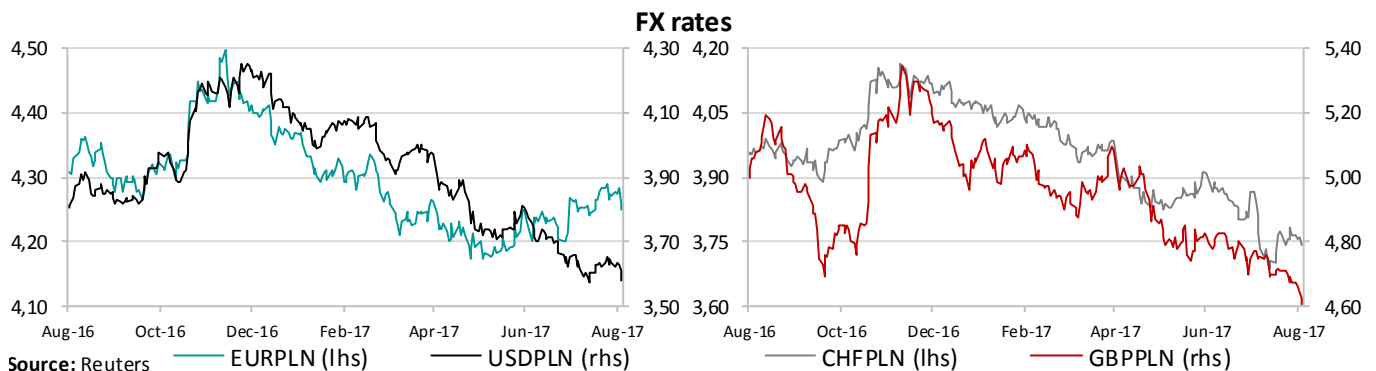
From the point of view of future business climate in Poland, noteworthy is the situation in German manufacturing. The German manufacturing PMI rose to 59.4 pts in August vs. 58.1 pts in July. In the

index structure noteworthy is an increase in the sub-index for new orders (60.2 pts in August vs. 58.6 pts in July), accompanied by an increase in the sub-index for new export orders (61.1 pts in August vs. 58.2 pts in July – the highest level since May 2010). Higher 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 slightly dropped to 115.9 pts in August vs. 116.0 pts in July when it hit the highest level in the survey history. The index decrease resulted from lower value of its sub-index for the assessment of the current situation while increase in the sub-index for expectations had an opposite impact. Sector-wise, deterioration of sentiment was recorded in two of the four sectors (retail trade and wholesale trade) while in construction and manufacturing it improved. On the other hand, ZEW Index reflecting the sentiment among analysts and institutional investors regarding the economic situation in Germany recorded a decline dropping to 10.0 pts in August vs. 17.5 pts in July. According to the press release, the deterioration of sentiment resulted from increased uncertainty about the future economic situation in Germany, resulting from weaker than expected data on German exports in June (see MACROmap of 14/8/2017) and the investigation started by the European Commission against leading German automotive industry suspected of creating a cartel.

The increase in export orders in the German manufacturing signals a high likelihood of stronger demand for goods manufactured in Poland and used in the production of final goods (so-called intermediate goods). This supports our forecast in which the annual dynamics of Polish exports will reach a two-digit level in Q4 (see below).

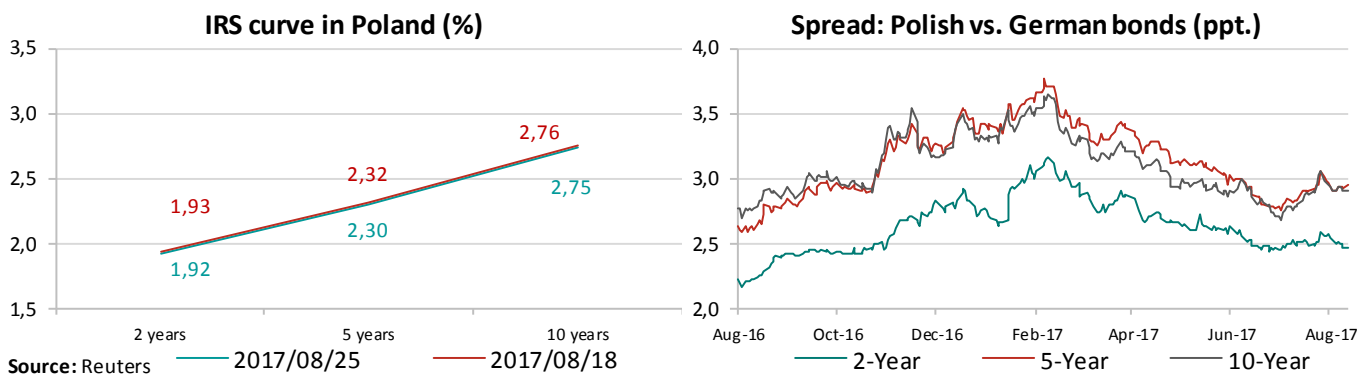
Data on inflation in the Eurozone negative for PLN



Last week EURPLN rate dropped to 4.2503 (PLN strengthening by 0.5%). Monday through Wednesday PLN was relatively stable and oscillated around 4.27 vs. EUR. The low volatility of PLN was supported by a relatively scarce macroeconomic calendar in the first part of the week. Thursday saw a correction, supported by the publication of draft Polish budget for 2018, which pointed to a low, in the view of some investors, deficit planned by the government. On Friday, PLN remained stable in anticipation of J. Yellen's speech during the symposium in Jackson Hole. As we expected, it did not include any reference to the outlook for the FED monetary policy which was received by some investors as dovish. Consequently, Friday afternoon saw a strengthening of PLN and other emerging currencies. Last week PLN was also appreciating against USD. This resulted from the appreciation of EUR vs. USD in anticipation of the Jackson Hole symposium and then in reaction to J. Yellen's speech.

Crucial for PLN this week will be the publication of flash data on inflation in the Eurozone scheduled for Thursday. If our forecast materializes, these data will be negative for PLN. On the other hand, the publication of manufacturing PMI for Poland may have an opposite impact. Numerous US readings (hard data and business survey results) and the publication of China manufacturing PMI will not have a substantial impact on PLN, we believe. Domestic data on GDP and inflation will also be neutral for PLN.

 **Polish debt market focuses on data on inflation in the Eurozone**



Last week the 2-year IRS dropped to 1.814 (down by 1 bp), of 5-year IRS to 2.689 (down by 2 bp), and of 10-year IRS to 3.357 (down by 1 bp). A slight decline observed in IRS rates across the curve was following core markets. At the same time, a relatively low liquidity continued in the market in anticipation of the Friday speeches by J. Yellen and M. Draghi at the symposium in Jackson Hole.

The last week Yellen’s speech may support a decrease in IRS rates at the beginning of the week. This week the Polish debt market will focus on data on inflation in the Eurozone. We believe that their publication scheduled for Thursday will be conducive to lower IRS rates. On the other hand, the release of manufacturing PMI index for Poland scheduled for Friday may contribute to their increase. Numerous US readings (hard data and business survey results) as well as domestic data on GDP and inflation will be neutral for the Polish debt market.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland														
Indicator	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	Aug-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*	4,35	4,36	4,29	4,31	4,45	4,40	4,32	4,31	4,23	4,23	4,18	4,23	4,25	4,25
USDPLN*	3,90	3,91	3,82	3,92	4,20	4,18	4,00	4,07	3,97	3,88	3,72	3,70	3,59	3,58
CHFPLN*	4,02	3,97	3,93	3,96	4,13	4,11	4,04	4,05	3,96	3,90	3,84	3,86	3,72	3,74
CPI inflation (% YoY)	-0,9	-0,8	-0,5	-0,2	0,0	0,8	1,7	2,2	2,0	2,0	1,9	1,5	1,7	
Core inflation (% YoY)	-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)	-3,4	7,5	3,2	-1,3	3,2	2,2	9,1	1,1	11,0	-0,6	9,1	4,5	6,2	
PPI inflation (% YoY)	-0,5	-0,1	0,2	0,6	1,8	3,2	4,0	4,5	4,8	4,2	2,4	1,8	2,2	
Retail sales (% YoY)	2,0	5,6	4,8	3,7	6,6	6,4	11,4	7,3	9,7	8,1	8,4	6,0	7,1	
Corporate sector wages (% YoY)	4,8	4,7	3,9	3,6	4,0	2,7	4,3	4,0	5,2	4,1	5,4	6,0	4,9	
Employment (% YoY)	3,2	3,1	3,2	3,1	3,1	3,1	4,5	4,6	4,5	4,6	4,5	4,3	4,5	
Unemployment rate* (%)	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)	-503	-729	-858	172	99	-219	2342	-599	-529	-160	-298	-932		
Exports (% YoY EUR)	-5,3	9,3	3,1	-0,6	5,7	5,1	14,3	5,7	15,1	1,4	16,2	8,7		
Imports (% YoY EUR)	-7,3	10,7	3,5	3,6	6,3	7,1	16,0	8,9	16,8	3,3	21,4	15,0		

*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	4,5	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	2,7	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	2,6	1,9	1,5	2,1	2,0	1,8	1,6	2,3	2,2	1,8
	Investments (pp)	0,0	0,5	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	-0,5	-0,4	-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	5,0	5,3	5,0	5,2	5,5	5,7	5,8	3,8	4,9	5,5	
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	4,23	4,16	4,15	4,12	4,10	4,07	4,40	4,16	4,07	
USDPLN**	3,97	3,70	3,62	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 08/28/2017						
10:00	Eurozone	M3 money supply (% MoM)	Jul	5,0		4,9
Tuesday 08/29/2017						
15:00	USA	Case-Shiller Index (% MoM)	Jun	0,1		0,2
16:00	USA	Consumer Confidence Index	Aug	121,1	120,0	121,0
Wednesday 08/30/2017						
11:00	Eurozone	Business Climate Indicator (pts)	Aug	1,00		1,06
14:00	Germany	Preliminary HICP (% YoY)	Aug	1,5		1,70
14:15	USA	ADP employment report (k)	Aug	178		183
14:30	USA	Second estimate of GDP (% YoY)	Q2	2,6	2,9	2,7
Thursday 08/31/2017						
3:00	China	Caixin Manufacturing PMI (pts)	Aug	51,4	51,6	51,3
11:00	Eurozone	Preliminary HICP (% YoY)	Aug	1,3	1,5	1,4
11:00	Eurozone	Unemployment rate (%)	Jul	9,1		9,1
14:00	Poland	Flash CPI (% YoY)	Aug	1,7	1,9	
14:30	USA	Real private consumption (% MoM)	Jul	0,0		
15:45	USA	Chicago PMI (pts)	Aug	58,9		59,2
Friday 09/01/2017						
3:45	China	Caixin Manufacturing PMI (pts)	Aug	50,2	51,3	50,9
9:00	Poland	Manufacturing PMI (pts)	Aug	52,3	53,0	
9:55	Germany	Final Manufacturing PMI (pts)	Aug	59,4	59,4	59,4
10:00	Eurozone	Final Manufacturing PMI (pts)	Aug	57,4	57,4	57,4
14:30	USA	Unemployment rate (%)	Aug	4,3	4,3	4,3
14:30	USA	Non-farm payrolls (k MoM)	Aug	209	180	180
15:45	USA	Flash Manufacturing PMI (pts)	Aug	52,5		
16:00	USA	Final U. of Michigan Sentiment Index (pts)	Aug	97,6	97,2	97,1
16:00	USA	ISM Manufacturing PMI (pts)	Aug	56,3	56,8	56,6

*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