This week

- **Significant data on US economy will be released this week**. We believe that industrial production increased by 0.1% MoM in August vs. a 0.2% increase in July, which will be consistent with business survey results. We forecast that nominal retail sales dropped to 0.2% MoM in August from 0.6% in July due to lower sales in the automotive branch. We expect that CPI inflation rose to 1.9% YoY from 1.7% in July. Business surveys' results for the US will also be released this week. We forecast that the NY Empire State Index dropped to 12.0 pts in September vs. 25.2 pts in August, while the preliminary University of Michigan Index has not changed in September compared to August and amounted to 96.9 pts. We believe that the materialization of our forecasts of the US economy that are higher from the consensus will be conducive to a weakening of PLN and a drop in prices of the Polish debt.
- **Hard data on Chinese economy will be released on Thursday.** According to the market consensus dynamics of industrial production rose to 6.6% YoY in August from 6.4% in July and of urban investments increased to 10.5% YoY from 10.4%. At the same time, the market expects a drop in dynamics of retail sales to 10.3% YoY in August vs. 10.4% in July.
- **Data on the Polish balance of payments in July will be released on Friday**. We expect the current account deficit to increase to EUR 1271M vs. EUR 932M in June, which will mainly result from lower balance on trade. We forecast that exports dynamics rose to 11.7% YoY in July vs. 8.7% in June, while imports growth rate decreased to 14.3% vs. 15.0%. Conducive to the increase in imports and exports dynamics was the effect of a favourable difference in the number of working days. Our forecast of the balance of payments is significantly below the market consensus (EUR -850M), therefore its materialization will be slightly negative for PLN.
- **Final data on the August inflation in Poland will be released today.** We see a risk that the growth rate will be revised upwards compared to the flash estimate (1.8%) and will amount to 1.9% YoY vs. 1.7% in July. We believe that conducive to the increase in inflation was higher dynamics of fuel prices. The publication of data on inflation will be neutral for PLN and prices of Polish bonds.

Last week

- **The ECB meeting was held last week.** The monetary policy parameters have been left unchanged. In accordance with the introductory statement to the press conference, the ECB expects that interest rates are likely to remain unchanged for an extended period of time, significantly exceeding the horizon of the asset purchase program (so-called forward guidance). The part saying that the ECB was ready to increase the scale or extend the horizon of the asset purchase program has been left unchanged. The statement after the meeting also continued to include the provision that in the ECB's view the risks to economic growth in the Eurozone were balanced. The results of the September economic projection were presented at the conference after the meeting. The inflation path has been slightly revised downwards compared to the June projection. The ECB now forecasts that inflation in the Eurozone will amount to 1.5% in 2017 (1.5% in the June projection), to 1.2% in 2018 (1.3%), and to 1.5% in 2019 (1.6%). With regards to GDP growth, the forecast for 2017 has been revised upwards to 2.2% (1.9%) while the forecasts for 2018 and 2019 have not changed and amount to 1.8% and 1.7%, respectively. At the press conference after the meeting, the ECB Governor, M. Draghi referred, as we expected, to the strengthening of EUR vs. USD, observed since the end of 2016 which was mentioned in the last Minutes (see MACROmap of 21/8/2017). M. Draghi said that, though important for economic growth and inflation, foreign exchange rate was not the policy target of the ECB. M. Draghi also said that the Governing Council had a preliminary discussion about the future of the asset purchase program. At the same time, answering questions during the conference, M.

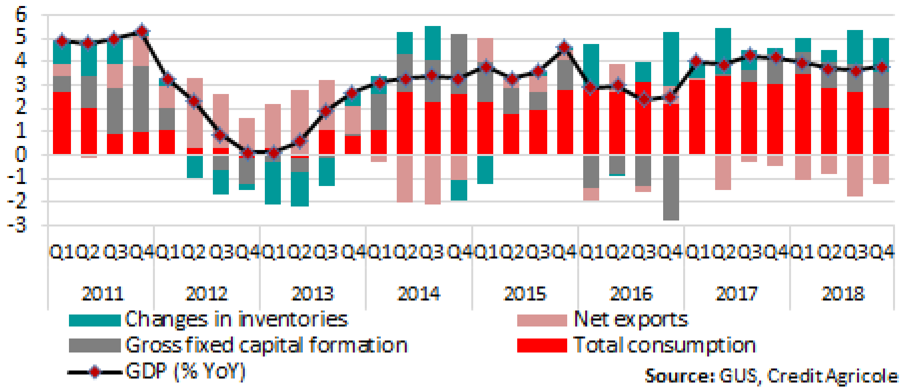
Draghi signaled that most decisions concerning the future of the asset purchase program would be taken in October. In reaction to M. Draghi's remarks EUR appreciated vs. USD. The remarks of the ECB Governor at the press conference after the meeting support our scenario assuming that the ECB will not delay its decision until the December meeting as this could lead to increased market volatility due to the approaching end date of the program minimum duration signaled in the statements ("at least until the end of 2017"). We believe that at its October meeting the ECB will take decision on gradual tapering of the program from January 2018, extending it until June. The scale of asset purchase will also be reduced from EUR 60bn down to EUR 40bn per month. At the same time we believe that the ECB will not hike interest rates sooner than in H2 2019.

- **As we expected, the Monetary Policy Council has 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. The Council indicated in its statement that in the following quarters inflation would remain moderate and the risk of inflation persistently running above the target in the medium term was limited (see MACROpulse of 6/9/2017). The MPC has not presented its evaluation of prospects for investments in the statement after the meeting. This is quite surprising given the disappointing data on the GDP structure in Q2 published two weeks ago which indicated no signs of improvement in investments despite high degree of capacity utilization and fast growth of internal and external demand (see MACROpulse of 31/8/2017). At the conference after the meeting, the NBP Governor, A. Glapiński, repeated the view presented earlier that in case of materialization of the macroeconomic scenario outlined in the July inflation projection (see MACROpulse of 5/7/2017), NBP interest rates would not change until the end of 2018. In his view the discussion on interest rates hikes will start in H2 2018. At the same time, A. Glapiński and J. Kropiwnicki which was present at the press conference, expressed the opinion that there was a limited risk of excessive wage pressure. The statement after the meeting and remarks of A. Glapiński during the press conference support our scenario assuming that interest rates will remain unchanged until November 2018.
- **According to the final estimate the quarterly GDP growth in the Eurozone rose to 0.6% in Q2 vs. 0.5% in Q1 (2.3% YoY in Q2 vs. 2.0% YoY in Q1) which is consistent with the preliminary estimates.** Conducive to the acceleration in the quarterly GDP growth rate were higher contributions of investments (0.2 pp in Q2 vs. -0.1 pp in Q1), private consumption (0.3 pp vs. 0.2 pp), and public consumption (0.1 pp vs. 0.0 pp). Lower contribution of net exports (0.1 pp vs. 0.4 pp) had an opposite impact. Thus the main source of growth in Q2, like in Q4 2016, was private consumption, while in Q1 it was net exports. We forecast that the quarterly GDP growth rate in the Eurozone will drop to 0.5% in Q3. However, we see an upside risk to our forecast as the expected by us stronger internal demand may more than offset a lower contribution of net exports.
- **The US Non-Manufacturing ISM Index rose to 55.3 pts in August vs. 53.6 pts in July.** Conducive to the index increase were higher contributions of 3 out of its 4 sub-indices (for business activity, employment, and new orders). Lower contribution of the sub-index for suppliers' delivery times had an opposite impact. The average index value between July and August amounted to 54.6 pts vs. 57.3 pts in Q2. Thus the data support our forecast in which the annualized GDP growth rate in the US will drop to 2.4% in Q3 vs. 3.0% in Q2. The decrease in GDP growth rate does not alter our scenario of US monetary policy assuming that at its September meeting the FED will announce a plan of balance-sheet reduction starting from October and will hike interest rates by 25 bp in December.
- **Significant data from the German economy were released last week**. The foreign trade surplus decreased to EUR 19.6bn in July vs. EUR 21.2bn in June. Exports rose by 0.2% MoM in July vs. a 2.7% decrease in June, while imports rose by 2.1% MoM in July vs. a 2.7% decrease in June. The

monthly dynamics of industrial production also rose and stood at 0.0% vs. -1.1% in June. Its increase resulted from higher output dynamics in manufacturing and construction, while lower output dynamics in energy had an opposite impact. Orders in manufacturing recorded a decline and dropped by 0.7% MoM in July vs. a 0.9% increase in June. The last week's data from the German economy support our forecast that the quarterly growth rate of the German GDP will drop to 0.5% in Q3 vs. 0.6% in Q2.

- **The Chinese trade balance surplus decreased to USD 42.0bn in August vs. USD 46.7bn in July.** At the same time exports dynamics dropped to 5.5% YoY in August vs. 7.2% in July, while imports dynamics rose to 13.3% YoY in August vs. 11.0% in July. Considering the results of business survey for Chinese manufacturing for August, where sub-index for new export orders recorded an increase to the highest level since March 2010 (see MACROmap of 4/9/2017), the activity in Chinese exports may be expected to increase in subsequent months. This is in line with our scenario of recovery in global trade and supports our forecast of GDP growth in China (6.8% in 2017 vs. 6.7% in 2016).
- **Last week Moody's revised macroeconomic forecasts for Poland**. In its new scenario Moody's took into account the better than expected execution of the state budget between January and July and the data on GDP for Q2 2017. In effect the forecast of the economic growth rate in 2017 has been raised to 4.3% YoY from 3.2%. The Agency expects that the deficit of the general government sector will run in 2017 at a level lower from 2.5% of GDP vs. the earlier expected 2.9% of GDP. The publication of the report contributed to a visible strengthening of PLN and a rise in prices of Polish bonds at the beginning of last week. The publication of the review of Poland's long-term rating by Moody's was also scheduled for last Friday. However, the Agency did not update Poland's rating and did not publish a credit report. Thus Poland's rating was maintained at the existing level (A2 with stable outlook).

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 4.1% YoY (4.0% before revision) while in 2018 will be equal to 3.8% (previously 3.7%).

Our macroeconomic scenario has not been significantly changed compared to the last forecast. We expect that in H2 2017 GDP growth rate will increase to 4.2% YoY vs. 3.9% in H1 2017. 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 units, the central budget, the National Road Fund, and enterprises controlled by the public sector will be launched gradually. We expect that the peak of total investments dynamics will be in Q1 2018.

The positive impact of the Family 500+ scheme on consumption dynamics abated at the turn of Q2 and Q3 2017, which will limit the GDP growth rate in subsequent quarters. However, we believe that private consumption dynamics will stay at a level of 4.0% YoY or above in the whole forecast horizon. This will be the effect of continued improvement of situation at the labour market (including expected by us faster growth of real wages), high propensity of households to cover current expenses with accumulated savings, and reduction of retirement age. In Q4 2017 more than 330k persons will become entitled to old-age pension. We believe that most of them will decide to continue to work despite receiving pension (the existing law does not prevent it). This will contribute to a visible increase in the dynamics of households' real incomes in the horizon of one year, and consequently also of consumption.

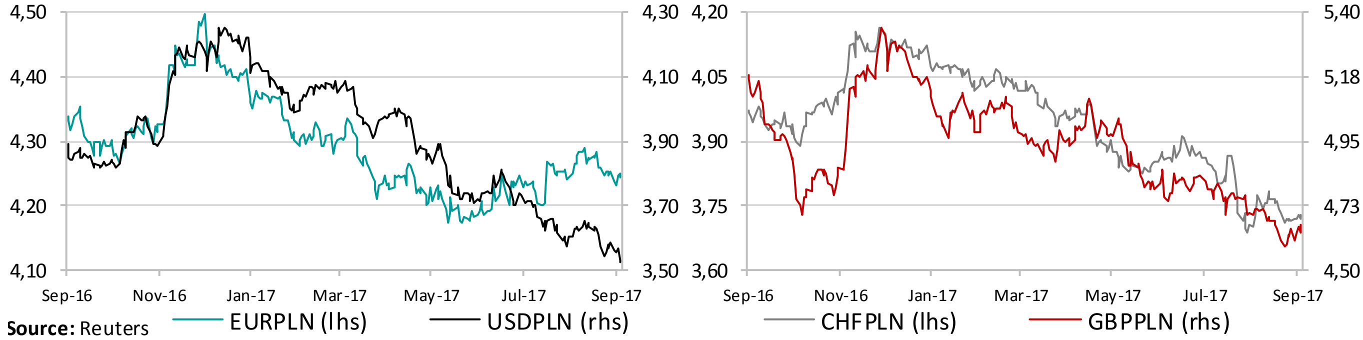
In the conditions of the sharp increase in domestic demand, outlined above, the Polish economy will increasingly show the overheating symptoms. The growing difficulties of companies in finding skilled labour will be conducive to lower outlays on fixed assets (see MACROmap of 4/9/2017). According to GUS business surveys, the percentage of manufacturing companies reporting such difficulties in Q3 was the highest in the survey history. Thus, in the conditions of persisting high capacity utilization in manufacturing and limited possibilities of its increase, companies will be unable to meet the growing domestic and foreign demand. The rebound in investments and consumption will contribute towards a significant acceleration in imports growth and – consequently – to a decrease in the contribution of net exports to GDP growth. This decrease will occur despite a slight acceleration in exports caused by the expected by us recovery in global trade (see MACROmap of 28/8/2017). It will lead at the same time to a sharp decrease in the balance of payments in relation to GDP from -1.2% in 2017 to -2.0% in 2018.

Another symptom of overheated economy will be growing wage pressure and increase in nominal wages up to 6.5% YoY in 2018 vs. 5.2% in 2017. Consequently, core inflation will increase to 0.9% YoY in Q4 2017 and 1.9% in Q4 2018. We forecast that total inflation will amount to 1.9% in 2017 and to 1.6% in 2018. Due to high base effect for fuel prices dynamics in December 2016, inflation will decrease to 1.5% as at the end of 2017.

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 November 2018.

Moody's report strongly supported PLN

FX rates



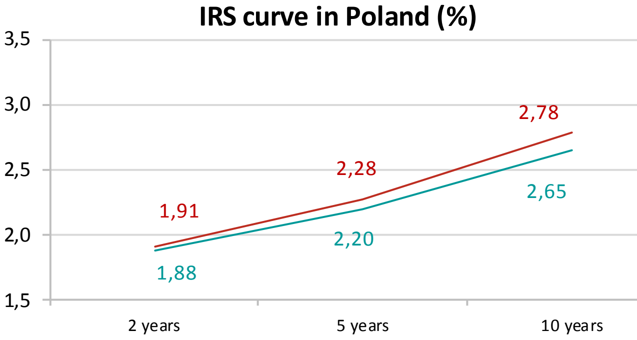
Source: Reuters

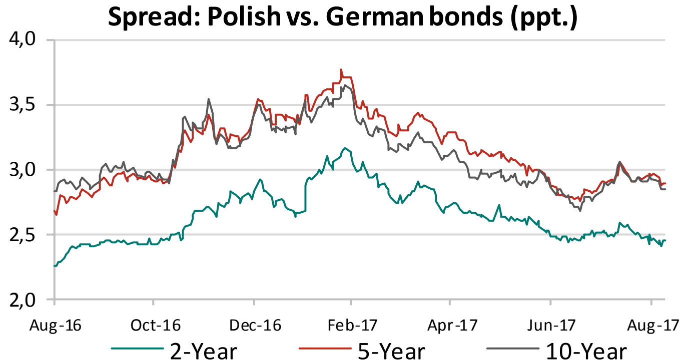
Last week EURPLN rate dropped to 4.2453 (PLN strengthening by 0.2%). On Monday and Tuesday PLN was appreciating, supported by favourably revised forecasts of the Polish GDP and deficit published Monday morning by Moody's. On Wednesday PLN started depreciating in anticipation of the Thursday's ECB meeting. PLN depreciation was also supported by the continuing high risk aversion caused by the political tension around North Korea. On Thursday PLN showed increased volatility in reaction to the ECB meeting. The relatively hawkish tone of the conference after the meeting supported a weak depreciation of PLN. On Friday PLN depreciated further. Last week PLN was strongly appreciating vs.

USD, due to higher EURUSD rate. USD was weakening especially on Thursday and Friday with growing market expectations of the normalization of the ECB monetary policy.

Crucial for PLN this week will be the numerous data from the US (inflation, retail sales, industrial production, NY Empire State Index, and preliminary University of Michigan Index). We believe that if our forecasts materialize, the aggregate impact of these data on PLN will be slightly negative. The publication of the Polish balance of payments, scheduled for Wednesday, may also contribute towards PLN weakening. Domestic data on inflation will be neutral for PLN, we believe.

US data may be conducive to higher IRS rates





Source: Reuters

Last week the 2-year IRS rate dropped to a level of 1.88 (down by 1 bp), of 5-year rate to a level of 2.203 (down by 7 bp), and of 10-year rate to a level of 2.648 (down by 13 bp). Throughout last week, IRS rates were decreasing across the curve. This drop was related to a sharp increase in foreign demand for the Polish debt in reaction to the favourably revised forecasts of the economic growth and general government deficit in Poland published Monday morning by Moody’s. Negative for IRS rates were also lower expectations of interest rate hikes in Poland, in reaction to a dovish tone of press conference after the MPC meeting. Thursday saw a slight increase in IRS rates due to the ECB meeting which increased market expectations of normalization of the monetary policy in the Eurozone.

This week the Polish debt market will focus on the numerous data from the US (inflation, retail sales, industrial production, NY Empire State Index, and preliminary University of Michigan Index). In our view they will be conducive in total to an increase in IRS rates. Domestic data on inflation and balance of payments will be neutral for the Polish debt market, we believe.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland														
Indicator	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	Sep-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*	4,36	4,29	4,31	4,45	4,40	4,32	4,31	4,23	4,23	4,18	4,23	4,25	4,25	**4,23**
USDPLN*	3,91	3,82	3,92	4,20	4,18	4,00	4,07	3,97	3,88	3,72	3,70	3,59	3,57	**3,62**
CHFPLN*	3,97	3,93	3,96	4,13	4,11	4,04	4,05	3,96	3,90	3,84	3,86	3,72	3,72	**3,71**
CPI inflation (% YoY)	-0,8	-0,5	-0,2	0,0	0,8	1,7	2,2	2,0	2,0	1,9	1,5	1,7	**1,9**	
Core inflation (% YoY)	-0,4	-0,4	-0,2	-0,1	0,0	0,2	0,3	0,6	0,9	0,8	0,8	0,8	**0,8**	
Industrial production (% YoY)	7,5	3,2	-1,3	3,2	2,2	9,1	1,1	11,0	-0,6	9,1	4,5	6,3	**6,7**	
PPI inflation (% YoY)	-0,1	0,2	0,6	1,8	3,2	4,0	4,5	4,8	4,2	2,4	1,8	2,2	**2,8**	
Retail sales (% YoY)	5,6	4,8	3,7	6,6	6,4	11,4	7,3	9,7	8,1	8,4	6,0	7,1	**5,8**	
Corporate sector wages (% YoY)	4,7	3,9	3,6	4,0	2,7	4,3	4,0	5,2	4,1	5,4	6,0	4,9	**5,7**	
Employment (% YoY)	3,1	3,2	3,1	3,1	3,1	4,5	4,6	4,5	4,6	4,5	4,3	4,5	**4,6**	
Unemployment rate* (%)	8,4	8,3	8,2	8,2	8,3	8,6	8,5	8,1	7,7	7,4	7,1	7,1	**7,0**	
Current account (M EUR)	-729	-858	172	99	-219	2342	-599	-529	-160	-298	-932	**-1271**		
Exports (% YoY EUR)	9,3	3,1	-0,6	5,7	5,1	14,3	5,7	15,1	1,4	16,2	8,7	**11,7**		
Imports (% YoY EUR)	10,7	3,5	3,6	6,3	7,1	16,0	8,9	16,8	3,3	21,4	15,0	**14,3**		

*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	4,3	4,2	4,0	3,7	3,6	3,8	2,7	4,1	3,8
Private consumption (% YoY)	4,7	4,9	4,2	4,5	4,6	4,3	4,3	3,9	3,8	4,6	4,3
Gross fixed capital formation (% YoY)	-0,4	0,8	3,0	5,5	7,9	7,0	6,8	6,1	-7,8	3,0	6,7
Export - constant prices (% YoY)	8,3	2,8	8,0	10,0	8,0	7,7	6,8	5,5	9,0	7,3	7,0
Import - constant prices (% YoY)	8,7	6,1	9,0	11,6	10,6	10,0	10,4	8,3	8,9	8,9	9,8
GDP growth contributions											
Private consumption (pp)	3,0	2,9	2,5	2,3	3,0	2,6	2,6	1,9	2,3	2,7	2,5
Investments (pp)	0,0	0,1	0,5	1,3	0,9	1,1	1,2	1,5	-1,6	0,5	1,2
Net exports (pp)	0,1	-1,5	-0,3	-0,4	-1,1	-0,8	-1,8	-1,3	0,3	-0,6	-1,2
Current account***	0,1	-0,5	-0,7	-1,2	-1,7	-1,5	-1,7	-2,0	-0,2	-1,2	-2,0
Unemployment rate (%)**	8,1	7,1	7,0	7,3	7,6	6,8	6,9	7,3	8,3	7,3	7,3
Non-agricultural employment (% YoY)	2,1	2,4	1,9	1,0	0,3	0,1	0,1	0,1	1,9	1,9	0,2
Wages in national economy (% YoY)	4,1	5,0	5,6	6,0	6,4	6,7	6,6	6,5	3,8	5,2	6,5
CPI Inflation (% YoY)*	2,0	1,8	2,0	1,9	1,5	1,9	1,6	1,5	-0,6	1,9	1,6
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 09/11/2017				
14:00	**Poland**	**CPI (% YoY)**	**Aug**	**1,8**	**1,9**	**1,8**
		Tuesday 09/12/2017				
14:00	**Poland**	**Core inflation (% YoY)**	**Aug**	**0,8**	**0,8**	**0,8**
		Wednesday 09/13/2017				
11:00	Eurozone	Employment (% YoY)	Q2	1,5		
11:00	Eurozone	Industrial production (% MoM)	Jul	-0,6		0,1
14:00	**Poland**	**Current account (M EUR)**	**Jul**	**-932**	**-1271**	**-850**
		Thursday 09/14/2017				
4:00	China	Retail sales (% YoY)	Aug	10,4		10,5
4:00	China	Industrial production (% YoY)	Aug	6,4		6,6
4:00	China	Urban investments (% YoY)	Aug	8,3		8,2
9:30	Switzerland	SNB rate decision %)	Q3	-0,75		
13:00	UK	BOE rate decision (%)	Sep	0,25	0,25	0,25
14:30	USA	Initial jobless claims (k)	w/e	236		300
14:30	USA	CPI (% MoM)	Aug	0,1	0,4	0,3
14:30	USA	Core CPI (% MoM)	Aug	0,1	0,2	0,2
		Friday 09/15/2017				
11:00	Eurozone	Wages (% YoY)	Q2	1,4		
14:30	USA	Retail sales (% MoM)	Aug	0,6	0,2	0,1
14:30	USA	NY Fed Manufacturing Index (pts)	Sep	25,2	12,0	20,0
15:15	USA	Industrial production (% MoM)	Aug	0,2	0,1	0,2
15:15	USA	Capacity utilization (%)	Aug	76,7	76,7	76,8
16:00	USA	Business inventories (% MoM)	Jul	0,5	0,2	0,2
16:00	USA	Initial U. of Michigan Sentiment Index (pts)	Sep	96,8	96,8	95,1

*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

Jakub BOROWSKI
Chief Economist
tel.: 22 573 18 40
jakub.borowski@credit-agricole.pl

Krystian JAWORSKI
Senior Economist
tel.: 22 573 18 41
krystian.jaworski@credit-agricole.pl

Jakub OLIPRA
Economist
tel.: 22 573 18 42
jakub.olipra@credit-agricole.pl