Growth of economic activity in the Eurozone has sharply accelerated

This week

- **The most important event this week will be the publication of the final estimate of GDP in Poland in Q3 2017 scheduled for Thursday.** We see a slight risk that final dynamics may be revised downwards as compared with the flash estimate (4.7% vs. 4.0% in Q2). This view is supported by corporate investments data released last week pointing to their decrease in real terms in Q3 (-0.8% YoY vs. -1.6% in Q2). Conducive to faster GDP growth were higher contributions of net exports and investments. Lower contributions of inventories and consumption had an opposite impact. The publication of GDP data should not be market moving.
- **Significant data from the US will be released this week.** The second estimate of GDP in Q3 will be released on Wednesday. We expect that the annualized economic growth rate rose to 3.3% vs. 3.0% in the flash estimate, due to higher contribution of inventories. US business survey results will also be released this week. We forecast that the Conference Board Consumer Confidence Index (124.0 pts vs. 125.9 pts in October) will signal a slight deterioration of households' sentiment in November. The publication of US data, consistent with the scenario of federal fund rates being hiked by FED by 25 bp at the December meeting, should not have a substantial impact on 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 1.6% YoY in November vs. 1.4% in October. The flash estimate of the November HICP inflation in Germany will be released on Wednesday. Like in the case of the Eurozone, we expect it to increase to 1.9% YoY from 1.5% in October. In both cases, conducive to the increase in inflation was higher growth rate of fuel prices. We expect the publication of data on inflation in the Eurozone to be neutral for the financial markets.
- **The November PMIs for Chinese manufacturing (Caixin and CFLP) will be released this week**. We forecast that Caixin PMI slightly rose to 51.5 pts vs. 51.0 pts in October, while PMI according to CFLP rose to 51.7 pts vs. 51.6 pts in October. 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.
- **Data on the November inflation in Poland, which, in our view, rose to 2.3% YoY vs. 2.1% in October, will be released on Thursday.** We believe that the increase in inflation rate was due to higher dynamics of fuel prices. We believe that the data will be neutral for PLN and yields on Polish bonds.
- **Data on business sentiment in Polish manufacturing will be released on Friday.** We expect that PMI rose to 54.5 pts from 53.4 pts in October. The faster growth rate of activity in manufacturing occurred due to improvement of sentiment in Germany (see below). In our view, the data may be slightly positive for PLN and yields on Polish bonds.

Last week

- **PMI Composite (for manufacturing and services) for the Eurozone rose to 57.5 pts in November from 56.0 pts in October, hitting the highest level since April 2011.** The index increase resulted from higher values of its sub-indices for both business activity in services and output in manufacturing. Between October and November the average value of PMI Composite amounted to 56.7 pts vs. 56.0 pts in Q3, which poses an upside risk to our forecast assuming a slight decrease in GDP growth rate in the Eurozone in Q4 (0.5% QoQ vs. 0.6% in Q3 – see below).
- **The dynamics of industrial production in Poland rose to 12.3% YoY in October vs. 4.3% in September.** The main reason for the sharp increase in industrial production dynamics between September and October was a favourable difference in the number of working days. The

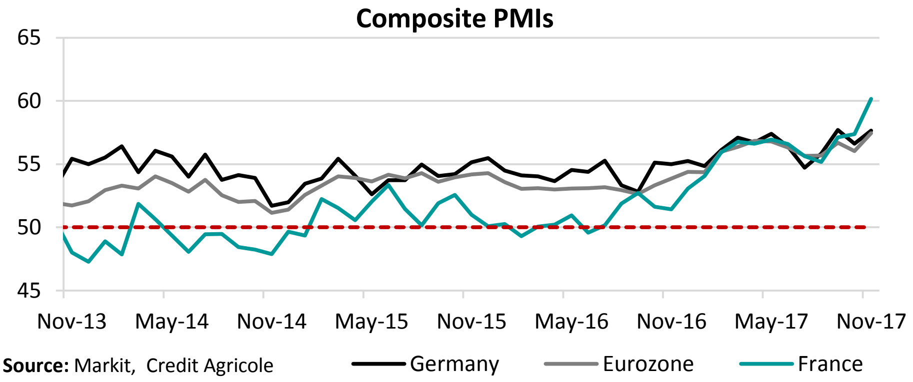
increase in industrial production dynamics was also due to a faster production growth in the category "mining and quarrying", related to i.a. low base effects from the year before in this category. Like in previous months, we saw a relatively fast increase in output both in segments with a considerable share of exports in sales ("machinery and equipment", "textiles", and "electrical equipment") and in segments connected with the construction sector ("metals", "metal products", "other non-metallic mineral products", and "rubber and plastic products"). The construction-assembly production growth rate increased to 20.3% YoY in October vs. 15.5% in September. Conducive to its increase were the above-mentioned favourable calendar effects. Seasonally-adjusted construction-assembly production dropped month-on-month by 1.0%. Thus, it has been its third consecutive month of MoM decline. We maintain our view that the decrease in the month-on-month seasonally-adjusted construction-assembly production is temporary and in the coming months production will again follow an upward trend, boosted by growing absorption of EU funds, higher public outlays on infrastructure and continuing recovery in residential construction (see MACROpulse of 20/112017). Taking into account the results of our analyses presented in MACROmaps between 23/10/2017 and 13/11/2017, we expect that the recovery in construction will peak at the turn of 2018 and 2019. Overall, the October data on industrial production and construction-assembly production pose an upside risk to our forecast of GDP growth rate in Q4 (4.2% YoY vs. 4.5% in Q2).

- **Nominal dynamics of retail sales in Poland decreased to 8.0% YoY in October vs. 8.6% in September**. Real retail sales growth dropped to 7.1% YoY in October vs. 7.5% in September. The deceleration in sales growth was largely due to changed timing of the seasonal increase in purchases of clothing and footwear from the autumn and winter collection, which occurred in September instead of October (see MACROpulse of 20/11/2017). We expect that in the coming months the annual sales dynamics will gradually decrease due to last year's high base effect related to the disbursement of funds under the Family 500+ scheme. Retails sales in Q4 will be supported by the reduction of the retirement age. The October data on retail sales support our forecast of private consumption dynamics in Q4 (4.7% yoY vs. 4.9% in Q3).
- **The Minutes of the November FED meeting were released last week.** As we expected, they have not provided any new information about the prospects for the US monetary policy (see MACROmap of 20/10/2017). The description of the discussion after the meeting indicates that FED members continue being concerned about the medium-term inflation prospects. Nevertheless, due to the fact that GDP growth rate continues to run above the potential GDP dynamics, many members are in favour of subsequent interest rate hike taking place soon, subject to unchanged medium-term economic outlook for the US. The text of the Minutes does not alter our scenario in which FED will hike interest rates by 25bp in December 2017. At the same time, FED members' concerns about inflation prospects support our view that the scale of interest rate hikes in 2018 will be lower from median expectations presented in in the September FOMC projection (75bp) and will amount to 50bp (see MACROmap of 25/9/2017).
- **Significant hard data from the US economy and business survey results were released last week.** Preliminary durable goods orders decreased by 1.2% MoM in October vs. a 2.2% increase in September, which was mainly the result of lower dynamics of orders for means of transport (the effect of decrease in orders in the Boeing company). Excluding means of transport, the monthly growth rate of durable goods orders dropped to 0.4% in October vs. 1.1% in September. Especially noteworthy in the data structure is the continuing high annual dynamics of orders for non-military capital goods excluding orders for aircrafts (8.1% YoY in October vs. 8.7% in September), being the leading indicator for future investments. Data on existing home sales (5.48M in October vs. 5.37M in September) were also released last week, pointing to the continuation of the improvement in the US real estate market. Slight deterioration in consumer sentiment was confirmed last week by the final University of Michigan Index, which dropped to 98.5 pts In November vs. 100.7 pts in October and 97.8 pts in the flash estimate. The index decrease resulted from lower values of its sub-indices for the assessment of the current

situation and for expectations. We forecast that the annualized US GDP growth rate will decrease to 3.0% in Q4 vs. 3.3% in Q3.

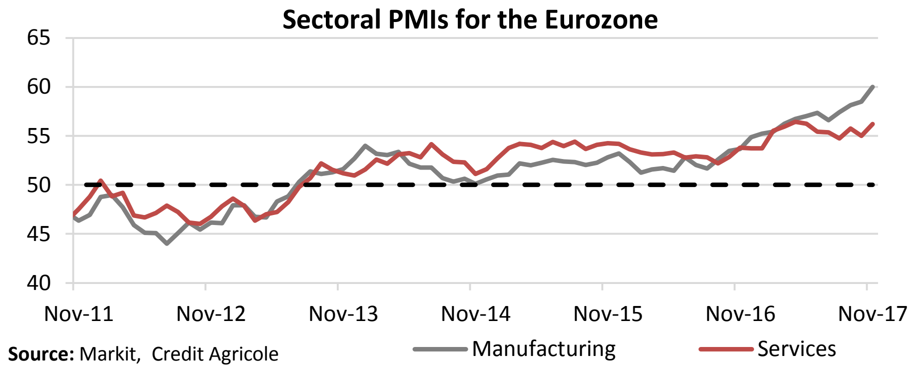
- **In accordance with the final estimate the quarterly dynamics of the German GDP rose to 0.8% in Q3 vs. 0.6% in Q2.** Conducive to faster GDP growth rate were higher contributions of net exports (0.4 pp in Q3 vs. -0.4 pp in Q2) and inventories (0.4 pp vs. 0.2 pp). Lower contributions of the sub-indices for consumption (-0.1 pp in Q3 vs. 0.5 pp in Q2) and investments (0.4 pp vs. 0.2 pp) had an opposite impact. Thus, the main source of the German GDP growth in Q3 was net export while in Q2 it was consumption. We forecast that in the whole 2017 the German GDP will increase by 2.2% vs. 1.9% in 2016.

Growth of economic activity in the Eurozone has sharply accelerated



Source: Markit, Credit Agricole

The Composite PMI (for manufacturing and services) in the Eurozone rose to 57.5 pts in November from 56.0 in October. Thus, it hit the highest level since April 2011. The increase in Composite PMI occurred due to an increase in both its sub-index for business activity in services and for output in manufacturing. Between October and November, the average value of the Composite PMI amounted to 56.7 pts vs. 56.0 pts in Q3, which poses an upside risk to our forecast assuming a slight decrease in the GDP growth rate in the Eurozone in Q4 (0.5% QoQ vs. 0.6% in Q3).



Source: Markit, Credit Agricole

Although improved sentiment in the Eurozone was recorded for both manufacturing and services, noteworthy is the growing discrepancy in the growth rates of activity in these sectors. The recovery in the Eurozone manufacturing is supported by a sharp increase in internal and foreign orders. Increasingly stronger signals pointing to growing barriers related to curbed supplies are also observed. Suppliers' delivery times in the Eurozone manufacturing in November have been the longest since the year 2000, which signals that companies are behind in executing orders. This view is also supported by the sub-index concerning production backlogs which was record high in November. These tendencies support higher investments in production capacities, including increase in employment. This is confirmed by the sub-index for employment in the Eurozone manufacturing which rose to 57.9 pts in November vs. 57.3 pts in October, setting a new record.

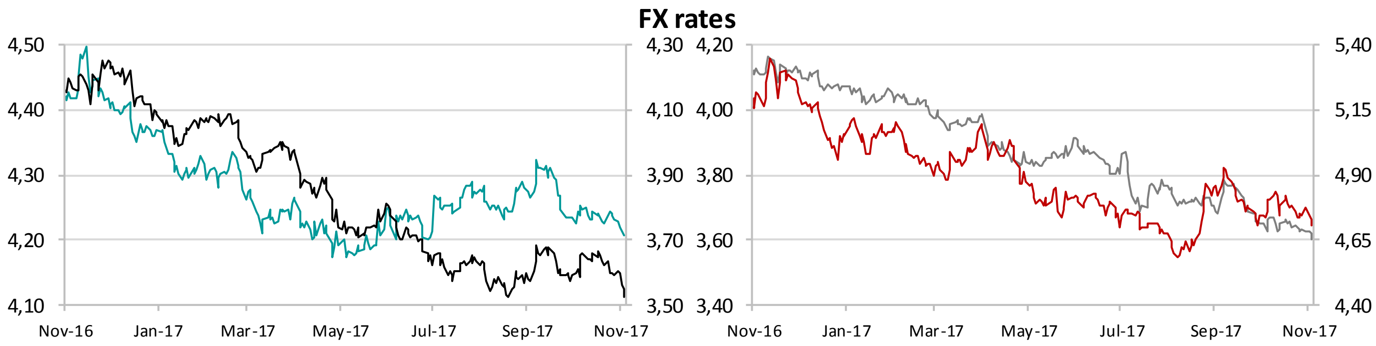
Geographically, the improvement of sentiment in the Eurozone occurred due to faster growth rate of economic activity in both Germany (57.6 pts in November vs. 56.6 pts in October) and in France (60.1 pts vs. 57.4 pts – the highest level since May 2011). The increase in the PMIs for Germany and France resulted from higher sub-indices concerning both output in manufacturing and business activity in services. Other Eurozone countries covered by the survey also recorded higher growth rates of economic activity than the month before.

From the point of view of assessing future business climate in Poland, especially noteworthy is the situation in German manufacturing. The German manufacturing PMI rose to 62.5 pts in November vs. 62.5 pts in October, hitting the highest level since February 2011. In the data structure noteworthy is a sharp increase in the sub-indices for new orders (63.7 pts vs. 60.4 pts) and new export orders (62.9 pts vs. 60.1 pts) to second highest levels in their history. Fast inflow of orders has contributed to further increase in the output sub-index (62.9 pts in November vs. 60.2 pts in October – the highest level since April 2011).

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. This index rose to 117.5 pts in November vs. 116.7 pts in October, setting a new record. The index increase resulted from higher sub-index concerning expectations while lower sub-index concerning the assessment of the current situation had an opposite impact. Sector-wise, improved sentiment was recorded in two of the four sectors (wholesale trade and manufacturing), while the situation in retail trade and construction deteriorated. The data on PMIs and Ifo pose a slight upside risk to our forecast, in which the quarterly GDP growth rate in Germany will decrease to 0.5% in Q4 vs. 0.8% in Q3.

The marked improvement in the Eurozone manufacturing, in Germany in particular, 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 is in line with our forecast in which the annual dynamics of Polish exports will increase to 9.5% in Q4 vs. 8.3% in Q3. At the same time, the growing demand for intermediate goods made in Poland in the conditions of high capacity utilization supports higher fixed capital formation in Polish manufacturing. This supports our forecast of higher investment growth rate in Q4 (5.9% YoY vs. 3.7% in Q3).

EURPLN at 4-month low



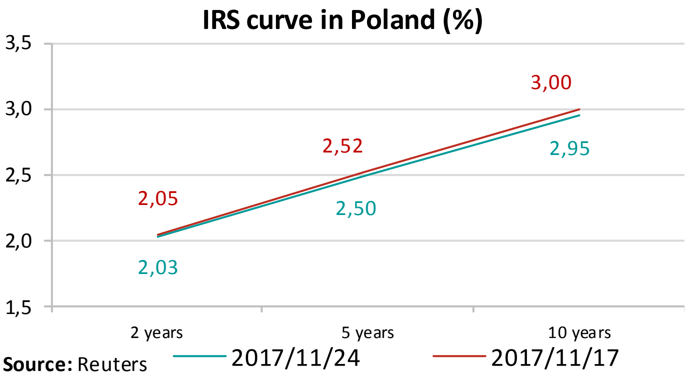
Source: Reuters

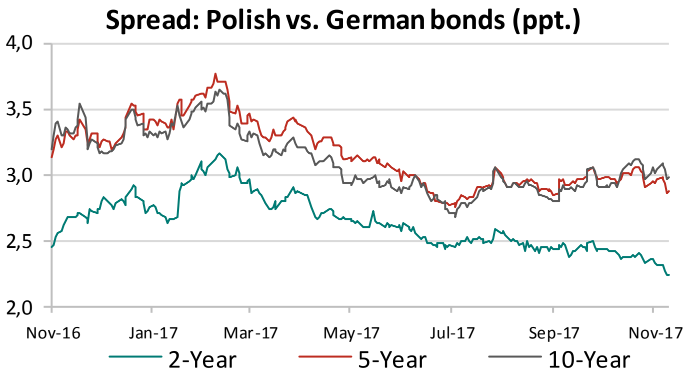
Last week EURPLN rate dropped to 4.2081 (PLN strengthening by 0.6%). Monday through Friday EURPLN showed a downward trend. Conducive to PLN appreciation was decrease in global risk aversion reflected by lower VIX index. PLN appreciation was also supported by markedly better-than-expected data on domestic industrial production and the Tuesday’s decision of the Bank of Hungary to ease the monetary policy. The investors responded to this decision by lowering the share of Hungarian assets in their portfolios in favour of assets denominated in PLN. Consequently, EURPLN dropped to 4.2020 on Thursday, hitting the lowest level since July 2017. Friday saw a slight correction. Throughout last week

PLN was also appreciating against CHF. This resulted from PLN strengthening vs. EUR given a simultaneous increase in EURCHF. Thus, CHFPLN is now close to the levels from before 15 January 2015, when CHF sharply appreciated following SNB decision to float its rate against EUR (see MACROmap of 19/1/2017).

In or view, important for PLN this week will be Poland manufacturing PMI. If our forecast materializes, it will be conducive to PLN strengthening. Other domestic data (final GDP estimate and flash estimate of inflation) will not be market moving, we believe. Data on inflation in Germany and in the Eurozone, data from the US (second estimate of GDP, consumer confidence index and manufacturing ISM), and results of business surveys for Chinese manufacturing (Caixin PMI and CFLP PMI) are also likely to be neutral for PLN.

The debt market focuses on Poland manufacturing PMI





Source: Reuters

Last week the 2-year IRS rates dropped to a level of 2.033 (down by 1 bp), of 5-year rates to a level of 2.500 (down by 2 bp), and of 10-year rates to a level of 2.95 (down by 5 bp). The most important event for PLN last week was the Thursday's debt auction at which the Ministry of Finance sold PLN 4.0bn of 3-, 5-, 6-, 7-, and 11-year bonds with demand amounting to PLN 13.8bn. The low supply of bonds given high demand contributed to a fall of IRS rates across the curve and to narrower spread between Polish and German bonds. On other days the market volatility was limited.

The publication of Poland manufacturing PMI scheduled for Friday may contribute to an increase in IRS rates this week. Other domestic data (final GDP estimate and flash estimate of inflation), data from the US (second estimate of GDP, consumer confidence index, and manufacturing ISM), and data from the Eurozone (flash estimates of inflation in the Eurozone, including in Germany) will be neutral for IRS, we believe.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland

Indicator	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-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*	4,31	4,45	4,40	4,32	4,31	4,23	4,23	4,18	4,23	4,25	4,25	4,31	4,24	**4,22**
USDPLN*	3,92	4,20	4,18	4,00	4,07	3,97	3,88	3,72	3,70	3,59	3,57	3,65	3,64	**3,58**
CHFPLN*	3,96	4,13	4,11	4,04	4,05	3,96	3,90	3,84	3,86	3,72	3,72	3,77	3,65	**3,64**
CPI inflation (% YoY)	-0,2	0,0	0,8	1,7	2,2	2,0	2,0	1,9	1,5	1,7	1,8	2,2	2,1	
Core inflation (% YoY)	-0,2	-0,1	0,0	0,2	0,3	0,6	0,9	0,8	0,8	0,8	0,7	1,0	0,8	
Industrial production (% YoY)	-1,3	3,2	2,2	9,1	1,1	11,0	-0,6	9,1	4,5	6,2	8,7	4,3	12,3	
PPI inflation (% YoY)	0,6	1,8	3,2	4,0	4,5	4,8	4,2	2,4	1,8	2,2	3,0	3,2	3,0	
Retail sales (% YoY)	3,7	6,6	6,4	11,4	7,3	9,7	8,1	8,4	6,0	7,1	7,6	8,6	8,0	
Corporate sector wages (% YoY)	3,6	4,0	2,7	4,3	4,0	5,2	4,1	5,4	6,0	4,9	6,6	6,0	7,4	
Employment (% YoY)	3,1	3,1	3,1	4,5	4,6	4,5	4,6	4,5	4,3	4,5	4,6	4,5	4,4	
Unemployment rate* (%)	8,2	8,2	8,2	8,5	8,4	8,0	7,6	7,3	7,0	7,0	7,0	6,8	6,6	
Current account (M EUR)	-14	-97	-106	2548	-514	-405	459	-297	-1114	-491	-80	-100		
Exports (% YoY EUR)	-1,0	4,3	9,0	15,1	6,4	19,7	2,5	18,5	6,5	12,4	12,1	10,2		
Imports (% YoY EUR)	1,3	5,2	9,8	16,0	10,5	19,8	3,8	20,4	13,0	12,8	7,6	5,7		

*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)		4,1	4,0	4,5	4,2	4,0	3,7	3,6	3,8	2,9	4,1	3,8
Private consumption (% YoY)		4,7	4,9	4,7	4,7	4,6	4,3	4,3	3,9	3,9	4,7	4,3
Gross fixed capital formation (% YoY)		-0,4	0,8	3,7	5,9	7,9	7,0	6,8	6,1	-7,9	3,2	6,7
Export - constant prices (% YoY)		8,3	2,8	8,3	9,5	8,0	7,7	6,8	5,5	8,8	7,1	7,0
Import - constant prices (% YoY)		8,7	6,1	8,5	11,6	10,6	10,0	10,4	8,3	7,9	8,9	9,8
GDP growth contributions	Private consumption (pp)	3,0	2,9	2,8	2,4	3,0	2,6	2,6	1,9	2,9	2,8	2,5
	Investments (pp)	0,0	0,1	0,6	1,4	0,9	1,1	1,2	1,5	-2,1	0,5	1,2
	Net exports (pp)	0,1	-1,5	0,1	-0,6	-1,1	-0,8	-1,8	-1,3	0,9	-0,6	-1,2
Current account***		0,1	-0,5	0,0	-1,2	-1,7	-1,5	-1,7	-2,0	-0,3	-1,2	-2,0
Unemployment rate (%)**		8,0	7,0	6,8	6,9	7,1	6,6	6,8	6,9	8,3	6,9	6,9
Non-agricultural employment (% YoY)		2,1	2,4	1,8	1,0	0,3	0,1	0,1	0,1	1,9	1,8	0,2
Wages in national economy (% YoY)		4,1	5,0	4,9	6,0	6,4	6,7	6,6	6,5	3,8	5,0	6,5
CPI Inflation (% YoY)*		2,0	1,8	1,9	1,8	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	4,31	4,16	4,15	4,12	4,10	4,07	4,40	4,16	4,07
USDPLN**		3,97	3,70	3,65	3,50	3,49	3,40	3,33	3,26	4,18	3,50	3,26

* quarterly average
** end of period
***cumulative for the last 4 quarters

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST*	
					CA	CONSENSUS**
		Monday 11/27/2017				
16:00	USA	New home sales (k)	Oct	667	620	625
		Tuesday 11/28/2017				
10:00	Eurozone	M3 money supply (% MoM)	Oct	5,1		5,1
15:00	USA	Case-Shiller Index (% MoM)	Sep	0,5		0,4
16:00	USA	Richmond Fed Index	Nov	12,0		
16:00	USA	Consumer Confidence Index	Nov	125,9	124,0	124,0
		Wednesday 11/29/2017				
11:00	Eurozone	Business Climate Indicator (pts)	Nov	1,44		1,54
14:00	Germany	Preliminary HICP (% YoY)	Nov	1,5	1,9	1,7
14:30	USA	Second estimate of GDP (% YoY)	Q3	3,0	3,3	3,2
		Thursday 11/30/2017				
2:00	China	Caixin Manufacturing PMI (pts)	Nov	51,6	51,7	51,5
10:00	**Poland**	**Final GDP (% YoY)**	**Q3**	**3,9**	**4,5**	**4,5**
11:00	Eurozone	Preliminary HICP (% YoY)	Nov	1,4	1,6	1,6
11:00	Eurozone	Unemployment rate (%)	Oct	8,9		8,9
14:00	**Poland**	**Flash CPI (% YoY)**	**Nov**	**2,1**	**2,3**	**2,3**
14:30	USA	Real private consumption (% MoM)	Oct	0,6		
15:45	USA	Chicago PMI (pts)	Nov	66,2		63,5
		Friday 12/01/2017				
2:45	China	Caixin Manufacturing PMI (pts)	Nov	50,2	51,5	50,9
9:00	**Poland**	**Manufacturing PMI (pts)**	**Nov**	**53,4**	**54,5**	**54,0**
9:55	Germany	Final Manufacturing PMI (pts)	Nov	62,5	62,5	62,5
10:00	Eurozone	Final Manufacturing PMI (pts)	Nov	60,0	60,0	60,0
16:00	USA	ISM Manufacturing PMI (pts)	Nov	58,7	58,4	58,4

*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

MACRO MAP

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