There will be no explosion of corporate investments

This week

- **The most important event this week will be the publication of data from the US labour market scheduled for Friday.** We expect non-farm payrolls to have increased by 180k in November vs. 261k in October, with unemployment rate down to 4.0% vs. 4.1% in October. 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 191k in November vs. 235k in October). Business survey results will also be released this week. We forecast that the preliminary University of Michigan Index (100.2 vs. 98.5 pts in November) will signal a slight improvement in households' sentiment in December. The publication of US data, consistent with the scenario of FED hiking federal funds rate by 25 bp at the December meeting, should not be market moving.
- **Meeting of the Monetary Policy Council will be held on Tuesday.** We expect that the MPC will decide to leave the interest rates at an unchanged level. We believe that the issue of weaker from the NBP expectations and market consensus data on investments in Q3 and inflation, which according to the flash estimate attained the NBP target in November, will be raised during the conference. Both pieces of information will be significant from the point of view of the monetary policy outlook. In our view, the NBP Governor, A. Glapiński, will repeat his view that interest rates will remain unchanged for an extended period of time. We believe that the press release after the Council meeting and NBP Governor's remarks during the press conference will be slightly negative for PLN and yields on Polish bonds.
- **The review of Poland's long-term debt rating by Fitch is scheduled for Friday.** In July the Agency affirmed Poland's long-term credit rating at A- with a stable outlook. In the justification of their decision Fitch indicated that the existing rating reflected solid macroeconomic fundamentals of the Polish economy, including i.a. the well-capitalized banking sector and public debt at a level similar to that of countries with the same rating. We expect Fitch to affirm Poland's rating with stable outlook this week. The Agency's decision will be released after the closing of the European markets, therefore the possible reaction of the foreign exchange market and the debt market will take place no sooner than next week.

Last week

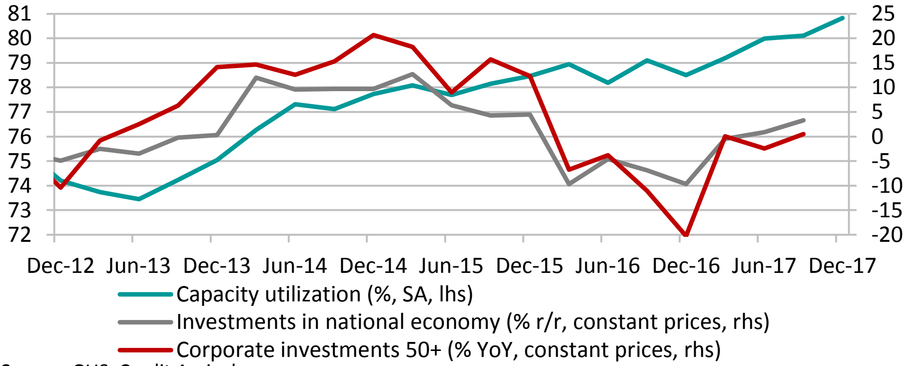
- **In accordance with the final estimate, Polish GDP growth rate rose to 4.9% YoY in Q3 vs. 4.0% in Q2 and thus stood above the flash estimate released earlier (4.7%).** The annual GDP growth rate in Q3 was the highest since Q4 2011. Conducive to higher annual GDP dynamics were higher contributions of net exports (1.1 pp in Q3 vs. -1.3 pp in Q2) and investments (0.6 pp vs. 0.1 pp). Lower contributions of inventories (0.0 pp in Q3 vs. 1.9 pp in Q2) and public consumption (0.3 pp vs. 0.4 pp) had an opposite impact. The contribution of private consumption to GDP growth in Q3 has not changed compared to Q2 and amounted to 2.9 pp. Thus, private consumption continued to be the main source of increase of Polish economic growth (see MACROpulse of 30/11/2017). The last week's better-than-expected data on GDP do not alter our scenario of NBP interest rates (first hike by 25 bp in November 2018), as they indicate that the recovery in investments is much slower than assumed in the November NBP projection (ca. 6% YoY).
- **According to the flash estimate, inflation in Poland rose to 2.5% YoY in November vs. 2.1% in October, running above our forecast in line with the market expectations (2.3%).** Thus, inflation reached the MPC inflation target in November. We believe that its increase was due to acceleration in the food and fuel prices growth. Final data on inflation including its structure will be released on 11 December. In our view, inflation reached the target only temporarily and will decrease in the following months due to lower dynamics of food and fuel prices. We therefore

maintain our monetary policy scenario assuming the first NBP interest rates hike in November 2018.

- **Polish manufacturing PMI rose to 54.2 pts in November vs. 53.4 pts in October**. Conducive to index growth were higher contributions of three of its five sub-indices (for output, supplier's delivery times, and stocks). Lower contributions of sub-indices for employment and new orders had an opposite impact. Especially noteworthy in the data structure is a decrease in the employment sub-index (50.4 pts vs. 51.8 pts), which is now only slightly above the 50.0 pts threshold dividing increase from decrease of employment. In our view, like in the previous months, the increase in employment was limited by growing difficulties of companies in finding skilled labour. These effects are intensified by the reduction of retirement age (see MACROpulse of 1/12/2017). PMI between October and November (53.8 pts) stood at a higher level than in Q3 (52.8 pts). Thus, the data pose a substantial upside risk to our forecast of GDP growth rate in Q4 (4.2% YoY vs. 4.9% in Q3).
- **Numerous data from the US economy and business survey results were released last week.** In accordance with the second estimate, the annualized GDP growth rate in the US rose to 3.3% vs. 3.0% in the first estimate. The upwards revision resulted from higher contribution of investments (0.39 pp in the second estimate vs. 0.25 pp in the first estimate), government expenditure (0.07 pp vs. -0.02 pp), inventories (0.80 pp vs. 0.73 pp), and net exports (0.43 pp vs. 0.41 pp). Lower contributions of private consumption (1.60 pp in the second estimate vs. 1.62 pp in the first estimate) had an opposite impact. The continuation of the recovery in the US real estate market was indicated last week by data on new home sales which rose to 685k in October vs. 645k in September. The results of business surveys were also released last week. The Conference Board Index rose to 129.6 pts in November vs. 126.2 pts in October, hitting the highest level since November 2000. Conducive to the index increase were its higher sub-indices for both the assessment of the current situation and expectations. The ISM Index pointed to a slight deterioration of sentiment in manufacturing, dropping to 58.2 pts in November vs. 58.7 pts in October. Its decrease resulted from lower contributions of three of its five sub-indices (for supplier's delivery times, inventories, and employment). The last week's data from the US economy pose an upside risk to our scenario in which the annualized US GDP growth rate will drop to 2.9% in Q4.
- **According to the flash estimate, inflation in the Eurozone rose to 1.5% YoY in November vs. 1.4% in October, running below our forecast in line with the market consensus (1.6%).** The increase in inflation resulted from higher dynamics of energy prices. Lower dynamics of food prices had an opposite impact. We expect that conducive to lower inflation in subsequent months will be high base effects for fuel prices. Their impact will be partially weakened by the rise in oil prices observed in H2 2017. On the other hand, conducive to higher inflation will be the persisting high rate of economic growth. Consequently we forecast that inflation in the Eurozone will increase to 1.5% in Q4 vs. 1.4% in Q3. In Q1 2018 we expect inflation to decrease to 1.3% YoY due to lower dynamics of energy prices. In subsequent months it will stay within a weak upward trend to reach 1.4% YoY in Q4 2018. Thus we forecast that in our forecast relevant horizon inflation in the Eurozone will run below the ECB target ("below but close to 2%"). This supports our scenario of monetary policy in the Eurozone in which the ECB will at its June meeting decide to extend the assets purchase program at least until December 2018. At the same time, we expect that the ECB interest rates will remain at an unchanged level at least until September 2019.
- **The results of business surveys for Chinese manufacturing were released last week.** China Caixin PMI dropped to 50.8 pts in November vs. 51.0 pts in October. Conducive to its decrease were lower contributions of three of its five sub-indices (for employment, new orders, and suppliers' delivery times). Higher contributions of output and stocks had an opposite impact. Especially noteworthy in the data structure is a lower scale of decrease of the sub-index for new export orders (51.5 pts in November vs. 51.6 pts in October) than for total orders (51.8 pts vs.

52.4 pts). It shows that the main source of lower sub-index for new orders was weaker domestic demand. On the other hand, PMI according to CLFP pointed to slight improvement in Chinese manufacturing and rose to 51.8 pts in November vs. 51.6 pts in October. The last week's data support our forecast, in which GDP growth rate in China will decrease to 6.7% YoY and in the whole 2017 will increase to 6.8% vs. 6.7% in 2016.

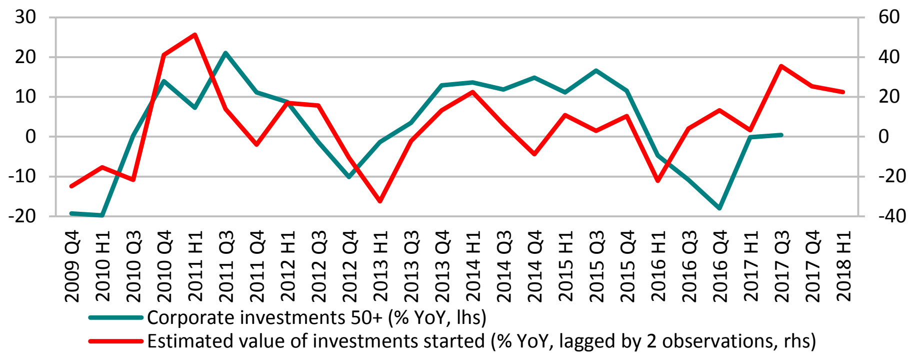
There will be no explosion of corporate investments



Source: GUS, Credit Agricole

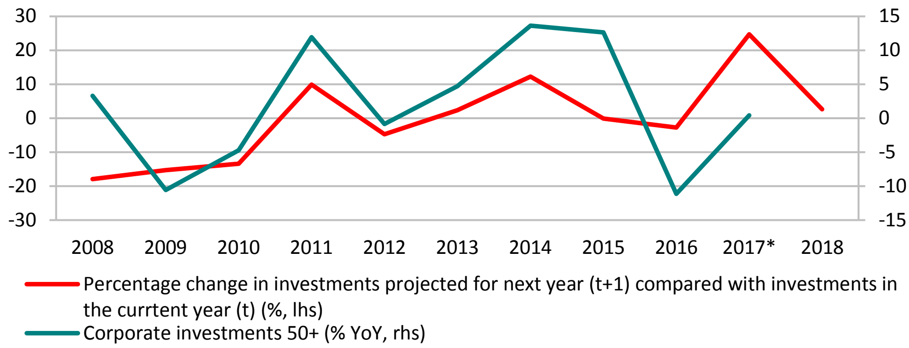
According to data released by GUS two weeks ago, nominal domestic investments of enterprises employing at least 50 persons increased by 1.7% YoY in Q3 vs. a 1.2% decrease in Q2. Their higher growth rate resulted mainly from higher contributions of investments in services (up by 4.0 pp), mining (up by 1.0 pp), and energy (up by 0.9 pp). Higher dynamics of outlays on services resulted from higher investment activity of enterprises in the categories "trade" and "transportation and storage". Especially noteworthy is the growth rate of investments in manufacturing which, for the first time since Q1 2013, stood below zero (-0.6% YoY in Q3 vs. 5.7% in Q2). Its decrease was mostly due to high base effects in the categories "manufacture of coke and refined petroleum products" and "manufacture of tobacco products". However, it should be noted that investments in most categories showed stagnation tendencies. A decrease in the fixed capital formation in year-on-year terms was recorded in half of the 22 categories. In Q3, the 50+ companies were increasing outlays on transport equipment, while investments in buildings, machinery, technical equipment and tools have decreased in year-on-year terms.

We expect that the barrier in the form of high capacity utilization will be the main factor encouraging companies to increase investment expenditure in the coming months. According to GUS data, seasonally–adjusted capacity utilization in manufacturing amounted to 80.8% in Q4 vs. 80.1% in Q3 (the highest level since Q2 2008). On the other hand, investments are limited by growing difficulties of companies in finding skilled labour. Below we present the most likely scenario of investments of 50+ enterprises in subsequent quarters, based on available data and business survey results



Source: GUS, Credit Agricole

The leading indicator for corporate investments is so-called estimated value of investments started. It is the value of outlays on fixed assets started during the reporting period as resulting from design-budget documentation. Based on historical data, it can be noted that the dynamics of the estimated value of investments started signals ca. two quarters in advance the changes in the growth rate of investments of 50+ enterprises. The dynamics of estimated value of investments started suggest that the growth rate of fixed capital formation of enterprises is likely to accelerate in Q4 to slightly decrease later in H1 2018. However, noteworthy is the growing importance of investments in increasing production capacity of enterprises as compared to outlays on the modernization of existing fixed assets. In Q3 new investments represented 68.9% of estimated value of investments started while in H1 2017 they represented only 45.4%.



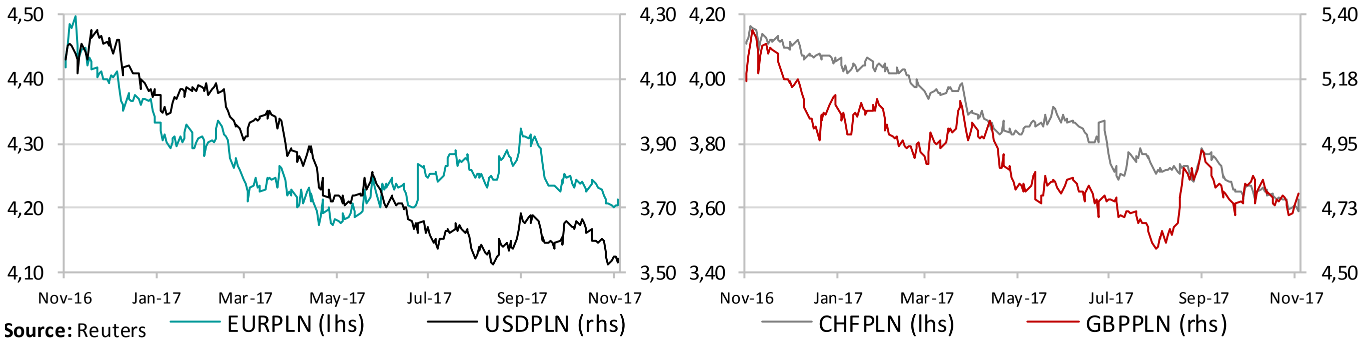
Source: GUS, Pontinfo, Credit Agricole * Dynamics of investments in Q1-Q3 2017

Another source of information on the expected corporate investments profile is GUS business survey. The survey covers 3500 of manufacturing enterprises employing at least 9 persons. The form includes i.a. a question about change in investment outlays expected by enterprises in the next year compared to the current year. The business sentiment indicator of the investment survey is calculated using the method of weighted average of all the replies of single enterprises to this question (index weighted by revenues from sale of products, goods, and materials in manufacturing). Historically, this indicator used to show strong correlation with the dynamics of investments of 50+ companies (correlation coefficient of 67.7% between 2008 and 2016). According to the results of the survey carried out in October 2017, companies expect a slight increase in fixed capital formation in 2018 (2.6% YoY vs. a 24.7% increase expected in 2017), which with high probability suggests only a moderate acceleration in investments of 50+ companies in 2018.

The lower-than-we-expected dynamics of investments of 50+ enterprises in Q3 as well as the aforementioned data on estimated value of investments started and business survey results indicate that the recovery of corporate investments in 2018 is likely to be only moderate. In other words, the likelihood of recording a double-digit year-on-year increase in investments of 50+ enterprises (registered last time in Q4 2015) is low, we believe. The results of our analysis are consistent with our study presented in MACROmap of 13/11/2017 which pointed to a decreasing amplitude of corporate investment cycles. The tendencies outlined above are an argument in favour of decreasing the corporate investment dynamics expected by us in 2018 and thus the forecast of the growth rate of total investments (6.7% in 2018 vs. 3.2% in 2017). We will present our latest macroeconomic scenario including revised investment profile in the next MACROmap.

Conference after MPC meeting may weaken PLN

FX rates



Source: Reuters

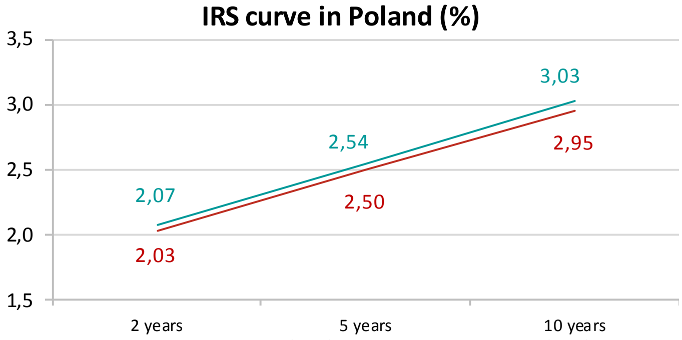
Last week EURPLN rate rose to 4.2128 (PLN weakening by 0.1%). On Monday and Tuesday, PLN was within a weak upward trend. On Wednesday morning, EURPLN fell below 4.20, triggering stop loss orders from some investors. Consequently, PLN temporarily strengthened vs. EUR by 0.2%, falling below

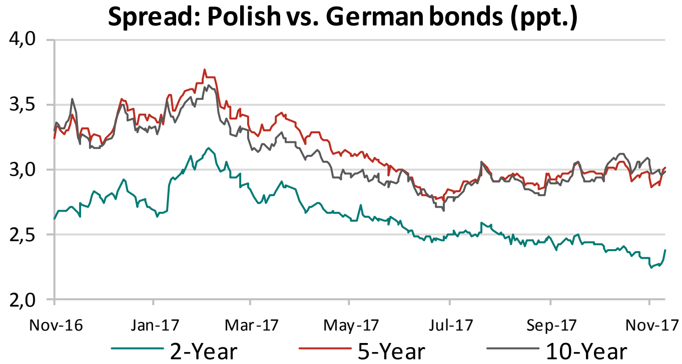
4.19. Later on Wednesday, a correction was recorded. On Thursday, PLN was relatively volatile against the backdrop of the whole week, due to the publication of some important domestic data (final estimate of GDP and flash estimate of inflation in Poland). The GDP reading was conducive to PLN weakening, which, in our view, was related to data structure pointing to lower-than-expected increase in investments dynamics. Higher-than-expected data on inflation had an opposite impact. On Friday, PLN was depreciating because some investors were taking profits. In the afternoon, there was a temporary correction but towards the end of the day PLN continued to depreciate.

Throughout the week, PLN was appreciating against CHF. This resulted from PLN strengthening vs. EUR with a simultaneous increase in EURCHF. Thus, CHFPLN is now only 1.1% above the level from before 15 January 2015 when CHF strengthened significantly following SNB decision to float its rate vs. EUR (see MACROmap of 19/1/2017).

Crucial for PLN this week will be the MPC meeting scheduled for Tuesday. We believe that the tone of the conference after the meeting may be slightly negative for PLN. Data from the US labour market and the preliminary University of Michigan Index will not be market moving, we believe. The Friday's review 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.

Debt market focuses on MPC meeting





Source: Reuters

Last week 2-year IRS rates rose to a level of 2.074 (up by 4 bp), 5-year rates to a level of 2.540 (up by 4 bp), and 10-year rates to a level of 3.025 (up by 7 bp). Monday through Tuesday, IRS rates were stable across the curve. Wednesday saw an increase in IRS rates in anticipation of data on GDP and inflation in Poland. On Thursday, IRS continued to increase following the publication of better-than-expected domestic data on GDP and inflation. The increase in rates at the short end of the curve was limited by the characteristic of last days of the month higher demand from domestic financial institutions related to adjusting the assets structure in order to reduce banking tax to be paid. Friday saw a correction.

This week the Polish debt market will focus on the MPC meeting scheduled for Tuesday. We believe that the remarks of Governor A. Glapiński during the conference after the meeting may be conducive to lower IRS rates. In our view, the impact of data from the US labour market on IRS rates will be limited. The Friday's review of Poland's rating by Fitch will be released after the closing of the European markets, therefore its impact on the Polish debt market will materialize no sooner than next week.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland														
Indicator	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	Dec-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*	4,45	4,40	4,32	4,31	4,23	4,23	4,18	4,23	4,25	4,25	4,31	4,24	4,20	**4,19**
USDPLN*	4,20	4,18	4,00	4,07	3,97	3,88	3,72	3,70	3,59	3,57	3,65	3,64	3,53	**3,52**
CHFPLN*	4,13	4,11	4,04	4,05	3,96	3,90	3,84	3,86	3,72	3,72	3,77	3,65	3,59	**3,61**
CPI inflation (% YoY)	0,0	0,8	1,7	2,2	2,0	2,0	1,9	1,5	1,7	1,8	2,2	2,1	**2,3**	
Core inflation (% YoY)	-0,1	0,0	0,2	0,3	0,6	0,9	0,8	0,8	0,8	0,7	1,0	0,8	**0,8**	
Industrial production (% YoY)	3,2	2,2	9,1	1,1	11,0	-0,6	9,1	4,5	6,2	8,7	4,3	12,3	**7,8**	
PPI inflation (% YoY)	1,8	3,2	4,0	4,5	4,8	4,2	2,4	1,8	2,2	3,0	3,2	3,0	**2,3**	
Retail sales (% YoY)	6,6	6,4	11,4	7,3	9,7	8,1	8,4	6,0	7,1	7,6	8,6	8,0	**6,5**	
Corporate sector wages (% YoY)	4,0	2,7	4,3	4,0	5,2	4,1	5,4	6,0	4,9	6,6	6,0	7,4	**6,9**	
Employment (% YoY)	3,1	3,1	4,5	4,6	4,5	4,6	4,5	4,3	4,5	4,6	4,5	4,4	**4,3**	
Unemployment rate* (%)	8,2	8,2	8,5	8,4	8,0	7,6	7,3	7,0	7,0	7,0	6,8	6,6	**6,7**	
Current account (M EUR)	-97	-106	2548	-514	-405	459	-297	-1114	-491	-80	-100	**-99**		
Exports (% YoY EUR)	4,3	9,0	15,1	6,4	19,7	2,5	18,5	6,5	12,4	12,1	10,2	**18,9**		
Imports (% YoY EUR)	5,2	9,8	16,0	10,5	19,8	3,8	20,4	13,0	12,8	7,6	5,7	**14,8**		

*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)	4,1	4,0	4,9	4,2	4,0	3,7	3,6	3,8	2,9	4,1	3,8
Private consumption (% YoY)	4,7	4,9	4,8	4,7	4,6	4,3	4,3	3,9	3,9	4,7	4,3
Gross fixed capital formation (% YoY)	-0,5	0,9	3,3	5,9	7,9	7,0	6,8	6,1	-7,9	3,2	6,7
Export - constant prices (% YoY)	9,6	3,1	7,6	9,5	8,0	7,7	6,8	5,5	8,8	7,1	7,0
Import - constant prices (% YoY)	9,7	6,0	5,7	11,6	10,6	10,0	10,4	8,3	7,9	8,9	9,8
GDP growth contributions											
Private consumption (pp)	2,9	2,9	2,9	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)	0,4	-1,3	1,1	-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	4,19	4,17	4,14	4,12	4,10	4,40	4,19	4,10
USDPLN**	3,97	3,70	3,65	3,52	3,50	3,42	3,35	3,28	4,18	3,52	3,28

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

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST*	
					CA	CONSENSUS**
		Monday 12/04/2017				
10:30	Eurozone	Sentix Index (pts)	Dec	34,0		33,6
11:00	Eurozone	PPI (% YoY)	Oct	2,9		2,6
16:00	USA	Factory orders (% MoM)	Oct	1,4	-0,3	-0,4
		Tuesday 12/05/2017				
10:00	Eurozone	Services PMI (pts)	Nov	56,2	56,2	56,2
10:00	Eurozone	Final Composite PMI (pts)	Nov	57,5	57,5	57,5
11:00	Eurozone	Retail sales (% MoM)	Oct	0,7		-0,7
16:00	USA	ISM Non-Manufacturing Index (pts)	Nov	60,1	58,5	59,1
	Poland	**NBP rate decision (%)**	**Dec**	**1,50**	**1,50**	**1,50**
		Wednesday 12/06/2017				
8:00	Germany	New industrial orders (% MoM)	Oct	1,0		-0,1
14:15	USA	ADP employment report (k)	Nov	235		190
		Thursday 12/07/2017				
8:00	Germany	Industrial production (% MoM)	Oct	-1,6		1,1
11:00	Eurozone	Final GDP (% YoY)	Q3	2,5		2,5
11:00	Eurozone	Revised GDP (% QoQ)	Q3	0,6	0,6	0,6
		Friday 12/08/2017				
	China	Trade balance (bn USD)	Nov	38,2		
8:00	Germany	Trade balance (bn EUR)	Oct	21,8		21,5
14:30	USA	Unemployment rate (%)	Nov	4,1	4,0	4,1
14:30	USA	Non-farm payrolls (k MoM)	Nov	261	180	198
16:00	USA	Wholesale inventories (% MoM)	Oct	-0,4		-0,3
16:00	USA	Wholesale sales (% MoM)	Oct	1,3		
16:00	USA	Initial U. of Michigan Sentiment Index (pts)	Dec	98,5	100,2	99,0

*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

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