This week

- **A meeting of the Monetary Policy Council will be held on Wednesday.** We expect that the MPC will decide to leave interest rates at an unchanged level. We believe that the issue of the stronger-than-expected economic growth in Q4 2017 (including mainly the recovery in investments) as well as the PLN appreciation observed in recent weeks and its impact on inflation prospects will be raised during the conference after the meeting. In our opinion, the NBP Governor, A. Glapiński, will maintain his view that interest rates will remain unchanged until the end of 2018 and most likely also at the beginning of 2019. We believe that the press release after the Council meeting and NBP Governor's remarks during the conference will be slightly negative for PLN and yields on Polish bonds at the short end of the curve.
- **Data on the Chinese balance of trade will be released on Thursday**. We expect that its balance decreased to USD 49.9bn in January vs. USD 54.7bn in December. We forecast that export growth rate rose to 11.6% YoY in January vs. 10.9% in December, while import dynamics rose to 7.2% YoY from 4.5%. The publication of data from China will be neutral for the markets, we believe.

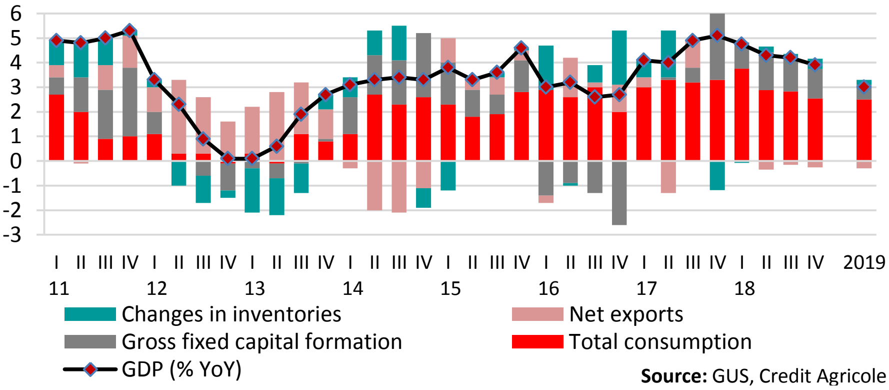
Last week

- **FOMC meeting was held last week.** As we expected, the target range for Federal Reserve Funds Rate remained unchanged at [1.00%; 1.25%]. The press release after the meeting included a statement that FOMC members expected inflation to increase in 2018 and stabilize around the target (2%) in the medium term. Earlier FOMC members had expected inflation to stay below the target in the near future. In our opinion, the change in FED view concerning inflation outlook results from the recently recorded USD weakening and rise in global oil prices. The press release after the meeting also included a statement that FOMC members expected the economic situation to develop in the direction justifying "further" gradual interest rate hikes. Earlier this statement did not include the word "further". Due to the increase in oil prices and USD depreciation last week we have increased our forecast of inflation in 2018 and 2019. This made us revise our scenario of interest rates profile in the US. We now expect that FED will hike interest rates three times in 2018 by 25bp each time (in March, June and September), while earlier we assumed 2 hikes by 25bp (in March and September).
- **Important hard data and business survey results were released last week in the US.** Non-farm payrolls in the US rose by 200k in January vs. 160k increase in December (revised upwards from 148k), running above the market expectations (180k increase). The highest increase in employment was recorded in education and health service (+38.0k), construction (+36.0k) and hospitality and leisure (+35.0k). On the other hand, employment decreased in information services (-6.0k) and utilities (-1.4k). Unemployment rate has not changed in January compared to December and amounted to 4.1%, running below the natural unemployment rate indicated by FOMC (4.6% - see MACROmap of 18/12/2017). The participation rate has not changed in January compared to December and amounted to 62.7%. The annual dynamics of average hourly earnings rose and amounted to 2.9% in January vs. 2.7% in December, which suggests a growing wage pressure as the situation in the US labour market improves. The results of business surveys in the US were also released last week. The ISM index for manufacturing decreased to 59.1 pts in January vs. 59.3 pts in December. Conducive to the index decrease were lower values of three of its five sub-indices (for employment, new orders and output). Higher contributions of sub-indices for suppliers' delivery times and inventories had an opposite impact. The Conference Board Index was also released last week and rose to 125.4 pts in January vs. 123.1 pts in December. It increased due to higher value of the expectations sub-index and lower sub-index for the assessment of the current situation. On the other hand, the final index of the University of Michigan pointed to a slight deterioration of consumer

sentiment, dropping to 95.7 pts in January vs. 95.9 pts in December and 94.4 pts in the flash estimate. Conducive to the index decrease was lower value of the sub-index for assessment of the current situation while higher sub-index for expectations had an opposite impact. The last week's readings from the US economy do not alter our forecast, in which the annualized US GDP growth rate will decrease to 2.0% in Q1 vs. 2.6% in Q4.

- **In accordance with the flash estimate, GDP in Poland rose by 4.6% in 2017 vs. 2.9% in 2016.** Conducive to higher GDP growth rate were higher contributions of investments (1.0 pp in 2017 vs. -1.6 pp in 2016), private consumption (2.8 pp vs. 2.3 pp), and public consumption (0.5 pp vs. 0.3 pp). Lower contribution of inventories (0.2 pp vs. 1.2 pp) and net exports (0.1 pp vs. 0.7 pp) had an opposite impact. Thus private consumption continued to be the main source of GDP growth in Poland in 2017 (see MACROpulse of 30/1/2018). Based on the data published by GUS, we have estimated that the real GDP growth rate stood at a 5.1% YoY in Q4 2015 vs. 4.9% in Q3. We estimate that conducive to the increase in GDP growth were higher contributions of investments (2.9 pp in Q4 vs. 0.6 pp in Q3) and public consumption (0.9 pp vs. 0.3 pp). On the other hand, lower contributions of inventories (-1.3 pp vs. 0.0 pp), net exports (1.0 pp vs. 1.1 pp), and private consumption (2.4 pp vs. 2.9 pp) had an opposite impact. Thus, the main source of GDP growth in Q4 were investments while in Q3 it was private consumption. We forecast that the Polish GDP will increase by 4.3% in 2018 vs. a 4.6% increase in 2017 (see below).
- **Polish manufacturing PMI decreased to 54.6 pts in January vs 55.0 pts in December**. The index decline resulted from lower contributions of 2 out of its 5 components (for output and suppliers' delivery times). An opposite impact came from higher contributions of sub-indices for employment, new orders and stocks of purchases. Especially noteworthy in the data structure is an increase in new orders sub-index (56.7 pts in January vs. 56.0 pts in December) to its highest level since January 2015. The increase was accompanied by a rise in new export orders sub-index that came despite marked PLN appreciation last month (see MACROpulse of 1/2/2018). Despite slight fall of PMI index in January its value was above the average of Q4 2017, which supports our upward revised forecast of GDP growth rate in Q1 2018 (4.7% YoY vs. 5.1% YoY in Q4 2017 – see below).
- **In accordance with the flash estimate, quarterly GDP growth for the Eurozone dropped to 0.6% in Q4 vs. 0.7% in Q3.** Lower was also the annual economic growth rate which stood at 2.7% in Q4 vs. 2.8% in Q3. The GDP reading is a flash estimate and do not include its structure. Subsequent GDP estimate in the Eurozone in Q4, including the growth rate in all the countries of the single currency area, will be released on 14 February and data on GDP structure on 7 March.
- **In accordance with the flash estimate, inflation in the Eurozone decreased to 1.3% YoY in January vs. 1.4% in December.** Conducive to lower inflation were lower dynamics of energy and food prices which reduced inflation in total by 0.1 pp. In our view, core inflation in the Eurozone will stay at a low level (0.9% - 1.1% YoY) until Q3 2018 and will increase to 1.2-1.3% in Q4. Thus we forecast that HICP inflation in the Eurozone will range from 1.2% to 1.6% YoY in 2018 and on a yearly average will amount to 1.4% YoY. This supports our scenario in which in June 2018 the ECB will extend the asset purchase program until December 2018 reducing its scale to EUR 15bn starting from September 2018.
- **China Caixin manufacturing PMI has not changed in January compared to December 2017 and amounted to 51.5 pts**. The index stabilization resulted from higher contributions of the sub-indices for employment, output and inventories as well as lower contributions of the sub-indices for new orders and suppliers' delivery times. Especially noteworthy in the index structure is a slight decrease in the sub-index for new export orders (52.4 pts in January vs. 52.6 pts in December). Despite a slight decline its value continues to stay above the average level for Q4 2017 (51.9 pts) which supports our scenario of recovery in global trade. On the other hand a slight decrease of the growth rate of activity in Chinese manufacturing was indicated last week by CFLP PMI which dropped to 51.3 pts in January vs. 51.6 pts in December.

Forecasts for 2018-2019



Source: GUS, Credit Agricole

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). The structure of economic growth in Q4 2017 estimated on the basis of GDP data published by GUS for 2017 differed from the one presented in the December forecast (see MACROmap of 11/12/2017 and MACROpulse of 30/1/2018). The greatest surprise was a sharp acceleration in investment growth to ca. 11.7-11.9% YoY vs. 3.3% in Q3. It was the main factor which made us revise upwards the forecast of GDP growth rate in subsequent quarters.

In our view, the recovery of growth of gross fixed capital formation can be attributed to faster growth of public investments and to increased investment activity of enterprises in the area of modernization of the existing fixed assets or expansion of production capacity. We expect that public investments dynamics amounted to ca. 40% YoY in Q4. We expect that it will gradually decrease in subsequent quarters but will remain at a double-digit level until Q3. Investment activity in this segment will be supported by the absorption of EU funds within the new financial perspective. Subsequent investment projects financed from budgets of local governments units, the central budget, the National Railway Fund, and the National Road Fund will be launched gradually. Consequently, we expect that the peak of public investments dynamics will be in 2018. This is consistent with the results of our analysis of experiences related to the absorption of EU funds within 2007-2013 programming period (see MACROmap of 23/10/2017). The peak dynamics of the value of the requests for payment under the operational program fell then on the fifth year of that programming period.

We believe that corporate investments markedly accelerated in Q4 2017, largely due to investments of enterprises controlled by the public sector. In turn, the recovery of investments in private companies was – in our view – limited. Our view is consistent with the results of the NBP business survey ("Quick Monitoring", January 2018). In the conditions of persisting high capacity utilization in manufacturing, corporate investment growth can be expected to further accelerate in H1 2018. We expect that in H2 2018 the dynamics of corporate investments will slightly decrease (limited by high base effects) but will remain at a high level. The growth of corporate investments will also be limited by growing difficulties of companies in finding skilled labour.

We maintain our scenario concerning the labour market. The coming quarters will see further increase in wage pressure and increase of nominal wage growth rate. Growing difficulties of companies in finding skilled labour will limit the increase of non-farm employment. In effect, the increase in private consumption will be stable throughout 2018. Real consumption growth in 2018 will also be slightly supported by somewhat lower inflation. Consequently, consumption will again become the main driver of economic growth in the forecast horizon.

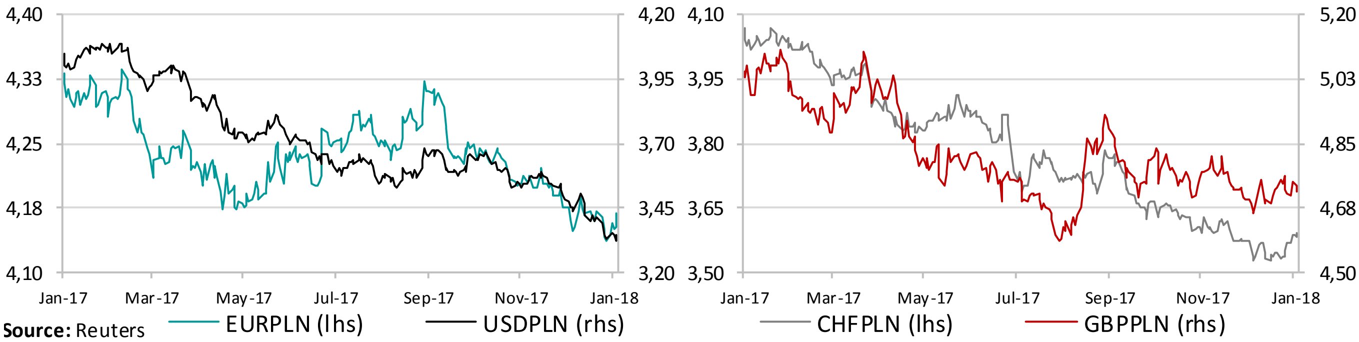
In 2018 we expect a slight decrease in the economic growth rate in the Eurozone which will be conducive to a slowdown in Polish exports. At the same time we believe that increased investment activity will contribute towards maintaining fast growth of imports and – consequently – to a decrease in the contribution of net exports to growth. Considering the factors outlined above,we expect that GDP growth will stay within a downward trend in subsequent quarters of 2018 reaching 3.9% YoY in Q4. Consequently we forecast that economic growth rate will amount to 4.3% YoY in 2018 (3.8% before the revision) vs. 4.6% in 2017. In 2019 we expect the economic slowdown to continue – GDP growth rate will decrease to 3.0%.

Our forecast has also addressed the recent increase in oil prices and in EURUSD rate. We expect that the price of Brent oil will gradually increase to reach USD 75 per barrel as at the end of 2018 while EURUSD will increase to 1.26 at the end of 2018. The above tendencies have an opposing impact on the dynamics of fuel prices. Our expectations concerning the profile of food prices and core inflation have not changed significantly compared to the December forecast (see MACROmap of 11/12/2017). In effect, the changes in the inflation path in 2018 have not been significant. Considering the factors outlined above, we believe that CPI inflation will reach the local minimum at a level of 1.3% YoY in Q4 2018. We assume that the prices of oil will start decreasing at the turn of 2018 and 2019 which will have a negative impact on inflation in 2019. We expect its slight increase to 1.8% YoY.

The revision of the macroeconomic scenario does not alter our forecasts of NBP interest rates and EURPLN. GUS will publish full data on GDP in Q4 towards the end of February. Should our estimates differ substantially from the published GDP structure, we accept the possibility of revising our macroeconomic scenario at the beginning of March.

Elevated global risk aversion has weakened PLN

FX rates

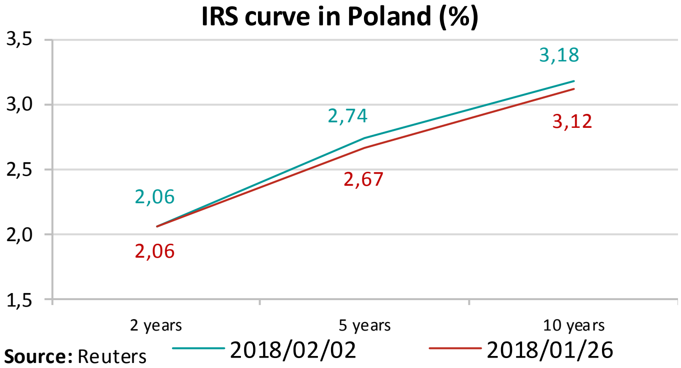


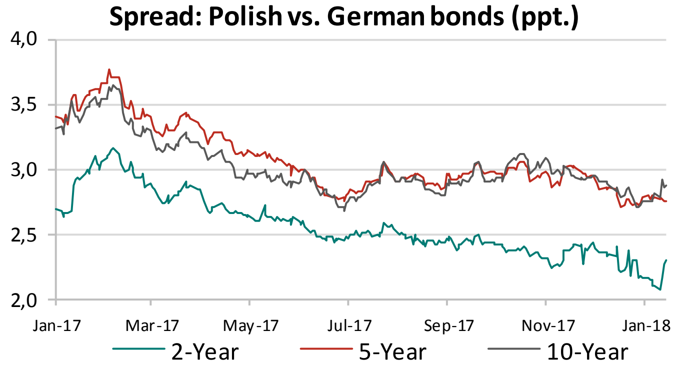
Source: Reuters

Last week EURPLN rate rose to 4.1682 (PLN weakening by 0.8%). Last week PLN and other emerging currencies were depreciating due to increase in global risk aversion reflected by higher VIX index. Lower risk appetite resulted largely from the correction in the US stock markets. Domestic better-than-expected data on GDP had no material impact on PLN. On Friday conducive to PLN weakening were higher-from-the-market-consensus data from the US labour market.

This week PLN stabilization will be supported by scarce macroeconomic calendar. Important for PLN will be the press conference after the MPC meeting scheduled for Wednesday. We believe that its tone will be slightly negative for PLN. Data on the balance on trade in China will be neutral for the markets, we believe.

The Polish debt market focused on MPC meeting





Source: Reuters

Last week the 2-year IRS rates have not changed compared to the level from two weeks ago and amounted to 2.06, 5-year rates rose to a level of 2.74 (up by 7 bp), and 10-year rates to a level of 3.183 (up by 7 bp). Last week saw an increase in IRS rates across the curve, following the German debt market. To a significant extent it continued to be the effect of the hawkish statement by the ECB Governor M. Draghi from two weeks ago about the future of the quantitative easing program in the Eurozone, implying that its sudden termination was not out ruled out (see MACROmap of 29/1/2018). Domestic better-than-expected data on GDP in Poland and data from the US labour market had no material impact on the yield curve.

This week the Polish debt market will focus on the MPC meeting scheduled for Wednesday. We believe that the tone of the conference after the meeting will support a decrease in IRS rates at the short end of the curve.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland

Indicator	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18
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*	4,32	4,31	4,23	4,23	4,18	4,23	4,25	4,25	4,31	4,24	4,20	4,18	4,15	**4,16**
USDPLN*	4,00	4,07	3,97	3,88	3,72	3,70	3,59	3,57	3,65	3,64	3,53	3,48	3,34	**3,38**
CHFPLN*	4,04	4,05	3,96	3,90	3,84	3,86	3,72	3,72	3,77	3,65	3,59	3,57	3,59	**3,58**
CPI inflation (% YoY)	1,7	2,2	2,0	2,0	1,9	1,5	1,7	1,8	2,2	2,1	2,5	2,1	**1,9**	
Core inflation (% YoY)	0,2	0,3	0,6	0,9	0,8	0,8	0,8	0,7	1,0	0,8	0,9	0,9	**1,0**	
Industrial production (% YoY)	9,1	1,1	11,0	-0,6	9,1	4,5	6,2	8,7	4,3	12,3	9,1	2,7	**7,8**	
PPI inflation (% YoY)	4,0	4,5	4,8	4,2	2,4	1,8	2,2	3,0	3,2	3,0	1,8	0,3	**0,1**	
Retail sales (% YoY)	11,4	7,3	9,7	8,1	8,4	6,0	7,1	7,6	8,6	8,0	10,2	6,0	**6,9**	
Corporate sector wages (% YoY)	4,3	4,0	5,2	4,1	5,4	6,0	4,9	6,6	6,0	7,4	6,5	7,3	**6,2**	
Employment (% YoY)	4,5	4,6	4,5	4,6	4,5	4,3	4,5	4,6	4,5	4,4	4,5	4,6	**3,5**	
Unemployment rate* (%)	8,5	8,4	8,0	7,6	7,3	7,0	7,0	7,0	6,8	6,6	6,5	6,6	**6,9**	
Current account (M EUR)	2548	-514	-405	350	-264	-892	-203	189	120	297	233	**303**		
Exports (% YoY EUR)	15,1	6,4	19,7	3,2	19,2	7,2	13,3	11,5	10,0	15,5	14,8	**5,7**		
Imports (% YoY EUR)	16,0	10,5	19,8	4,6	21,7	14,5	13,2	7,8	7,5	14,8	15,9	**5,6**		

*end of period

Forecasts of the quarterly macroeconomic indicators

Main macroeconomic indicators in Poland

Indicator	2017				2018				2017	2018	2019
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Gross Domestic Product (% YoY)	4,1	4,0	4,9	5,1	4,7	4,3	4,2	3,9	4,6	4,3	3,0
Private consumption (% YoY)	4,7	4,9	4,8	4,8	5,2	4,2	4,1	4,3	4,8	4,4	3,6
Gross fixed capital formation (% YoY)	-0,5	0,9	3,3	11,8	9,2	9,5	7,6	4,7	5,4	7,1	3,1
Export - constant prices (% YoY)	9,6	3,1	7,6	8,0	7,5	6,5	6,6	6,0	7,0	6,6	5,0
Import - constant prices (% YoY)	9,7	6,0	5,7	8,3	8,1	7,8	7,5	7,0	7,4	7,6	6,0
GDP growth contributions: Private consumption (pp)	2,9	2,9	2,9	2,4	3,4	2,5	2,4	2,1	2,8	2,6	2,1
GDP growth contributions: Investments (pp)	0,0	0,1	0,6	2,9	1,1	1,5	1,3	1,2	1,0	1,3	0,6
GDP growth contributions: Net exports (pp)	0,4	-1,3	1,1	0,1	0,0	-0,4	-0,2	-0,3	0,1	-0,2	-0,3
Current account***	0,1	-0,4	0,2	0,3	-0,1	-0,1	-0,4	-0,4	0,3	-0,4	-0,6
Unemployment rate (%)**	8,0	7,0	6,8	6,6	6,6	6,0	6,2	6,5	6,6	6,5	6,5
Non-agricultural employment (% YoY)	2,1	2,4	1,8	1,6	1,2	0,7	0,4	0,3	2,0	0,6	0,0
Wages in national economy (% YoY)	4,1	5,0	4,9	5,9	6,8	5,8	6,1	6,8	5,0	6,4	6,5
CPI Inflation (% YoY)*	2,0	1,8	1,9	2,3	1,8	1,9	2,0	1,3	2,0	1,7	1,8
Wibor 3M (%)**	1,73	1,73	1,73	1,72	1,72	1,72	1,72	1,72	1,72	1,72	1,97
NBP reference rate (%)**	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,75
EURPLN**	4,23	4,23	4,31	4,18	4,17	4,14	4,12	4,10	4,18	4,10	4,15
USDPLN**	3,97	3,70	3,65	3,48	3,42	3,37	3,30	3,25	3,48	3,25	3,19

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

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST*	
					CA	CONSENSUS**
		Monday 02/05/2018				
10:00	Eurozone	Services PMI (pts)	Jan	57,6	57,6	57,6
10:00	Eurozone	Final Composite PMI (pts)	Jan	58,6	58,6	58,6
10:30	Eurozone	Sentix Index (pts)	Feb	32,9		33,0
11:00	Eurozone	Retail sales (% MoM)	Dec	1,5		-1,0
16:00	USA	ISM Non-Manufacturing Index (pts)	Jan	55,9	57,0	56,3
		Tuesday 02/06/2018				
8:00	Germany	New industrial orders (% MoM)	Dec	-0,4		0,6
		Wednesday 02/07/2018				
8:00	Germany	Industrial production (% MoM)	Dec	3,4		-0,5
	Poland	**NBP rate decision (%)**	**Feb**	**1,50**	**1,50**	**1,50**
		Thursday 02/08/2018				
	China	Trade balance (bn USD)	Jan	54,7	49,4	54,0
8:00	Germany	Trade balance (bn EUR)	Dec	22,3		21,7
13:00	UK	BOE rate decision (%)	Feb	0,50	0,50	0,50
		Friday 02/09/2018				
2:30	China	PPI (% YoY)	Jan	4,9	4,5	4,4
2:30	China	CPI (% YoY)	Jan	1,8	1,6	1,5
16:00	USA	Wholesale inventories (% MoM)	Dec	0,2		0,2
16:00	USA	Wholesale sales (% MoM)	Dec	1,5		

*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

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