Higher risk appetite negative for CHF

This week

- **The most important event this week will be the publication of data on industrial production and retail sales in Poland scheduled for Tuesday.** We forecast that production dynamics rose to 7.8% YoY in January vs. 2.7% in December 2017 due to the favourable calendar effects. In turn, nominal retail sales dynamics rose, in our view, to 6.9% YoY in January vs. 6.0% in December, due to the abatement of the effect of changed timing of shopping caused by so-called "Black Friday" (see MACROpulse of 19/1/2018). If our forecasts materialize, the aggregate impact of the data will be neutral for PLN and yields on Polish bonds, we believe.
- **Another important event will be publication of February business survey results for major European economies scheduled for Wednesday.** We expect that PMI Composite for the Eurozone dropped to 57.6 pts in February vs. 58.6 pts in January. In our view, the index decreased due to deterioration of sentiment both in Germany and in France. ZEW index reflecting the sentiment among analysts and institutional investors regarding the economic situation in Germany will be released on Tuesday. We expect that it will drop to 16.0 pts in February vs. 20.4 pts in January. Ifo Index, reflecting the sentiment among German managers representing the manufacturing, construction, wholesale and retail trade sectors, will be released on Thursday. We expect that it dropped to 116.3 pts in February vs. 117.6 pts in January. We believe that the publication of business survey results for the Eurozone will be slightly positive for PLN and prices of Polish bonds.
- **Minutes of the January FOMC meeting will be released on Wednesday.** The markets will focus on FED members' in-depth analyses of short- and medium-term prospects for the economic situation in the US (including mainly the expected inflation profile). The publication of the Minutes is not likely to provide any new information that would alter our scenario of gradual normalization of the US monetary policy (3 hikes in 2018) and will not be market moving, we believe.

Last week

- **Important data on US economy were released last week.** CPI inflation rose to 0.5% MoM in January vs. 0.2% in December (2.1% YoY in January and December). The main factor behind the increase in monthly inflation was higher monthly dynamics of energy prices. Core inflation rose to 0.3% MoM in January vs. 0.2% in December (1.8% YoY in January and December). Core inflation increased MoM due to higher dynamics of prices in the category "apparel", "furniture", and "medical care". Data on total inflation and core inflation proved to be higher from the market consensus (the market consensus for these data stood at 0.3% MoM and 0.2% MoM, respectively). Therefore, the readings resulted in USD appreciation and higher yields on US bonds across the curve. Data on retail sales were also released last week and their nominal dynamics dropped to -0.3% MoM in January vs. 0.0% in December. Their decline resulted from lower sales growth rate in majority of the categories. Excluding car sales, nominal retail sales growth dropped to 0.0% MoM vs. 0.1% in December. Data on industrial production were also released last week and decreased by 0.1% MoM in January vs. a 0.4% increase in December. The decrease in monthly production growth resulted from its lower growth rate in utilities and mining. Capacity utilization dropped to 77.5% in January vs. 77.7% in December. The continuing recovery in the US real estate market was indicated by data on building permits (1396k in January vs. 1300k in February) and housing starts (1326k vs. 1209k). Business survey results were also released last week. Mixed signals on the situation in manufacturing were provided by the NY Empire State Index (down to 13.1 pts in February vs. 17.7 pts in January) and the Philadelphia FED Index (up to 25.8 pts vs. 22.2 pts). On the other hand, the preliminary University of Michigan Index pointed to an improvement in consumer sentiment, rising to 99.9

pts in February vs. 95.7 pts in January. Conducive to the index increase were its higher sub-indices concerning both the assessment of current situation and expectations. The last week's data from the US economy do not alter our forecast, in which the annualized GDP growth rate in the US will decrease to 2.3% in Q1 vs. 2.6% in Q4 2017.

- **The annual GDP growth in Poland rose to 5.1% YoY in Q4 2017 vs. 4.9% in Q3, running in line with our forecast and slightly below the market expectations (5.2%).** Fuller data on GDP structure in Q4 will be published by GUS towards the end of February. We estimate that conducive to faster GDP growth were higher contributions of investments and public consumption. Lower contributions of inventories, net exports, and private consumption had an opposite impact. At the same time, we believe that investments were the main source of GDP growth in Q4 (see MACROpulse of 30/1/2018).
- **CPI inflation in Poland dropped to 1.9% YoY in January vs. 2.1% in December 2017.** The data on the January inflation are incomplete and preliminary, due to the annual review of weights in the inflation basket. At the same time, the structure of inflation in January, published this year, includes fewer categories than a year ago, which additionally limits the possibility of drawing conclusions based on these data. Full data on the rise in prices in the respective categories in January and February 2018, including a revised inflation indicator in January, will be released in March. We estimate that conducive to decrease in inflation in January was slower growth of prices in the category "food and non-alcoholic beverages" and "energy". The increase in core inflation, which, according to our estimates, amounted to 1.0% YoY in January vs. 0.9% in December, had an opposite impact (see MACROpulse of 15/2/2018). In subsequent months we expect a further decrease in the dynamics of food and fuel prices with a moderate increase in core inflation. Consequently, we forecast that inflation will fall to 1.7% in 2018 vs. 2.0% in 2017 (see MACROmap of 11/12/2017). This supports our scenario in which the MPC will leave interest rates at an unchanged level until the middle of 2019.
- **A deficit in current account of EUR 1152M was recorded in Poland in December vs. a surplus at a level of EUR 272M in November.** At the same time it has been the highest deficit since July 2015. The current account balance decreased due to lower balances on goods and primary income (lower from November by EUR 1418M and EUR 46M, respectively). Higher balance on services and secondary income (up by EUR 22M and 18M, respectively, compared to November) had an opposite impact. Export dynamics dropped to 2.1% YoY in December vs. 14.9% in November, and imports dynamics dropped to 10.9% vs. 15.7%. Slower exports and imports growth was due to the statistical effect in the form of unfavourable difference in the number of working days. On the other hand, according to NBP statement, imports growth was supported by large unit transactions: purchase of aircrafts and higher imports of oil. The last week's data on the balance of payments pose a considerable downside risk to our forecast, in which the relation of cumulative current account balance for the last 4 quarters to GDP rose to 0.3% in Q4 vs. 0.2% in Q3. A precise calculation of this relation will be possible only after seeing the final data on GDP. We forecast that this relation will decrease to -0.1% in Q1 2018, supported by higher demand for imported goods due to recovery in domestic investments.
- **Nominal wage dynamics in the Polish sector of enterprises have not changed compared to December and amounted to 7.3% YoY.** The stabilization of wage growth in January is highly surprising considering the numerous factors contributing towards its marked decline: the abatement of the effect related to the variable components of remuneration paid out in mining, smaller than last year increase in minimum wage, and the review of the sample of enterprises. Thus the data indicate the growing wage pressure in the Polish economy. The dynamics of corporate sector employment amounted to 3.8% YoY in January vs. 4.5% in December. The sharp monthly employment growth (by 121.8k persons) was caused by the annual review of data on employment in microenterprises (see MACROpulse of 16/2/2018). In subsequent quarters we expect a gradual slowdown of the improvement in the labour market and a mild reduction of the annual employment growth, both in the corporate sector and in the entire

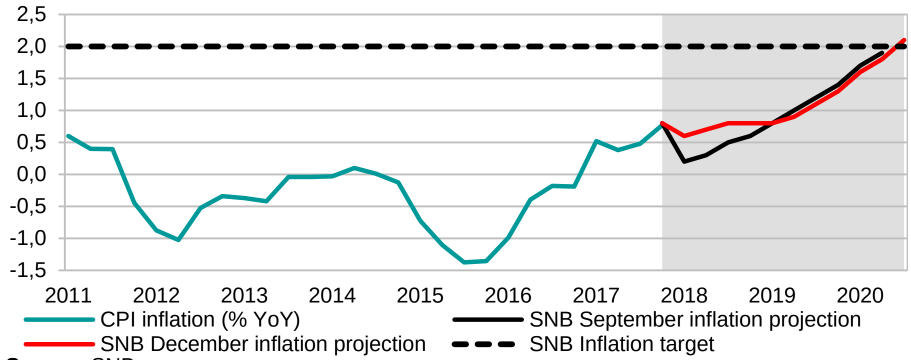
economy. We estimate that the growth rate of the real wage fund (employment times average remuneration) in enterprises amounted to 9.3% YoY in January vs. 9.9% YoY in December 2017 and 9.4% in Q4 2017. The surprisingly high real wage growth in January and the above-mentioned sharp increase in wage growth in the national economy in Q4 support our forecast of higher private consumption growth in Q1 2018 (5.2% YoY vs. 4.8% in Q4 2017**).**

- **Flash data on GDP for major European economies were released last week.** Quarterly GDP dynamics in the Eurozone dropped to 0.6% in Q4 2017 vs. 0.7% in Q3 (2.7% YoY in Q4 vs. 2.8% in Q3). Conducive to slower GDP growth rate within the single currency area were lower growth dynamics in Germany (0.6% QoQ in Q4 vs. 0.7% in Q3), Italy (0.3% vs. 0.4%), and Spain (0.7% vs. 0.8%). Higher GDP dynamics i.a. in France (0.6% QoQ in Q4 vs. 0.5% in Q3), Belgium (0.5% vs. 0.2%), and Netherlands (0.8% vs. 0.4%) had an opposite impact. We forecast that GDP in the Eurozone will decrease to 0.5% in Q1 2018.

Higher risk appetite negative for CHF

Two weeks ago there was a strong correction in the US stock exchange and consequently also in global equity markets. S&P 500 hit the lowest level since October 2017. At the same time global risk aversion sharply increased. The VIX Index (so-called fear index) reflecting financial markets volatility hit the highest level since August 2015. Changes in global levels of risk aversion are an important factor determining inflow/outflow of capital to/from so-called safe havens, of which CHF is one. Below we present our scenario for EURCHF in the coming quarters and our forecast of CHFPLN.

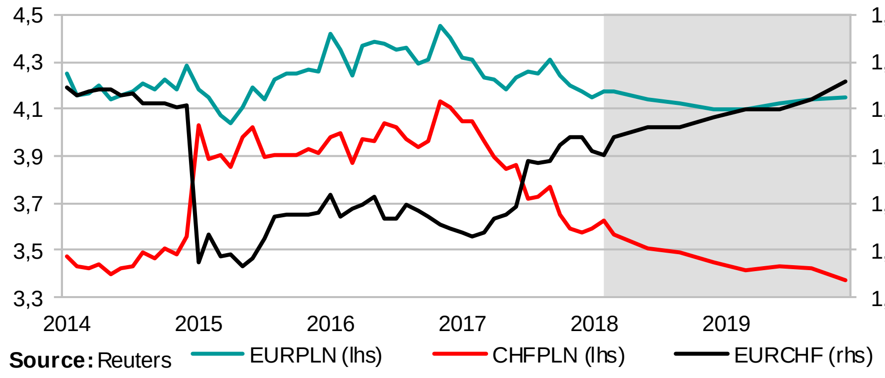
From mid-2017 EURCHF was within an upward trend, reaching the local maximum (1.18) on 15 January 2018. The main factor supporting EUR appreciation versus CHF was the improvement of economic situation in the Eurozone which was conducive to intensification of market expectations of earlier monetary tightening by the ECB.



Source: SNB

Then, the above-presented trend reversed, namely EURCHF decreased. CHF was supported by the above-mentioned sell-off in the equity market and the related increase in risk aversion. Another factor that was positive for CHF was a change in the market expectations concerning the prospects for the monetary policy of the Swiss National Bank (SNB). In his address on 16 January 2018, the SNB Governor, T. Jordan, indicated that interest rate hikes would have resulted in CHF strengthening. He added at the same time that, inasmuch as a visible easing of the monetary policy had been needed during the crisis, its normalization should not have been delayed. These signals were interpreted by the markets as higher probability of SNB interest rate hikes in the coming quarters. This view was also supported by the SNB projection, published in December 2017, which for the first time in several years pointed to overshooting of the SNB inflation target, defined as inflation lower from 2% YoY (2.1% YoY in Q3). Consequently, EURCHF reached its local minimum on 8 February, falling below the level of 1.15.

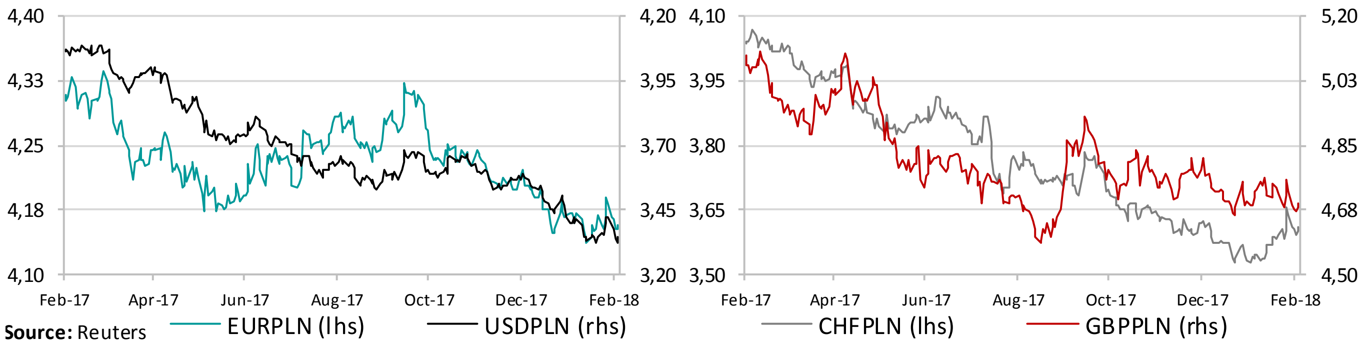
We expect that EURCHF will stay within an upward trend until the end of 2018. We believe that the global risk aversion will not increase significantly in the coming quarters. Its increase will be limited i.a. by the markets-expected scale of the monetary tightening by FED. Currently, the financial markets are pricing in 3 hikes in the US in 2018 (by 75bp in total) and we believe that the scale of the tightening will remain unchanged in the coming quarters. At the same time, we believe that the expectations of a monetary tightening in the Eurozone will gradually increase. Our base scenario assumes that in June 2018 the ECB will decide to reduce the monthly scale of the asset purchase program to EUR 15bn starting from September 2018, extending it at the same time until December 2018. This will be conducive to EUR appreciation versus CHF.



Considering the factors outlined above, we believe that EURCHF will increase to 1.17 as at the end of March 2018 to reach 1.19 as at the end of 2018. Taking into consideration the forecast by us PLN strengthening versus EUR (see the quarterly table), we expect that CHFPLN will decrease to 3.45 as at the end of 2018.

Flash Eurozone PMIs positive for PLN

FX rates

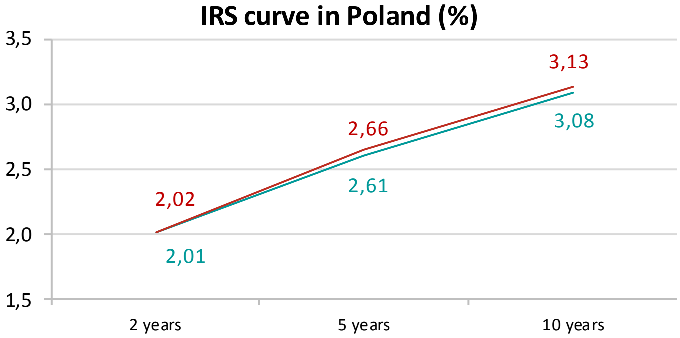


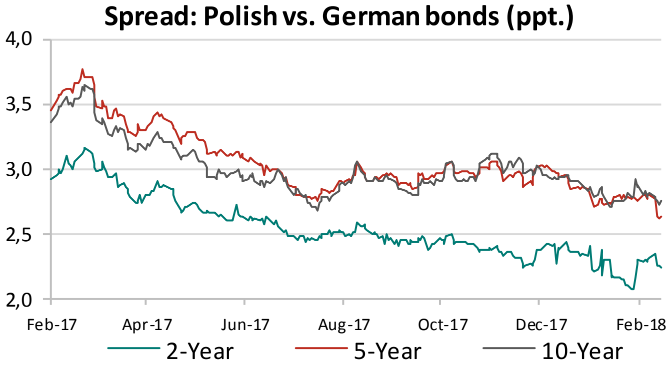
Last week EURPLN rate dropped to 4.1583 (PLN strengthening by 0.6%). On Monday, PLN was appreciating, partially making up for the losses from two weeks ago. The clearly lower than expected data on the Polish balance of payments, released on Tuesday, had a limited impact on PLN, which oscillated around 4.17 vs. EUR. Wednesday saw a temporary weakening of PLN in response to markedly higher than the market consensus data on inflation in the US, which fueled the market expectations on a faster pace of the monetary tightening by FED. However, later on Wednesday, there was a correction, supported by a decrease in global risk aversion, reflected by lower VIX index. On Thursday, PLN continued to appreciate. On Friday morning, PLN dropped below 4.15 to EUR. However, later on Friday, PLN weakened, possibly due to some investors realizing profits.

Last week, PLN was appreciating versus all major currencies (EUR, USD, CHF, and GBP). It was a correction after its depreciation two weeks ago, when it came to a sell-off in the US stock market and a sharp increase in global risk aversion (see MACROmap of 12/2/2018).

Crucial for PLN this week will be the business survey results for major European economies (flash PMIs as well Ifo and ZEW indices for Germany). Our forecasts concerning PMIs are below the market expectations; therefore, their materialization may be positive for PLN. We believe that the aggregate impact of domestic data on retail sales and industrial production will be neutral for PLN. In our view, the publication of the FOMC Minutes will also have a limited impact on the market.

The market focuses on business survey results for the Eurozone





Source: Reuters

Last week 2-year IRS rates dropped to a level of 2.01 (down by 1 bp), 5-year rates to a level of 2.605 (down by 5 bp), and 10-year rates to a level of 3.08 (down by 4 bp). IRS rates were relatively stable last week, running close to the level observed two weeks ago, when they rose sharply together with increase in global risk aversion. The most important event was the publication of higher-from-the-market-consensus data on inflation in the US, which intensified the market expectations of a faster pace of the monetary tightening by FED. It brought about a temporary increase in IRS rates across the curve.

This week the market will focus on business survey results for major European economies (flash PMIs as well Ifo and ZEW indices for Germany). We believe that the publication of PMIs may be slightly negative for IRS rates. Domestic data (retail sales and industrial production) as well as FOMC Minutes will be neutral for IRS rates, we believe.

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	7,3	
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	3,8	
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	272	-1152		
Exports (% YoY EUR)	15,1	6,4	19,7	3,2	19,2	7,2	13,3	11,5	10,0	15,5	14,9	2,1		
Imports (% YoY EUR)	16,0	10,5	19,8	4,6	21,7	14,5	13,2	7,8	7,5	14,8	15,7	10,9		

*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	7,1	6,8	5,8	6,1	6,8	5,3	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	FORECAST* CONSENSUS**
		Monday 02/19/2018				
10:00	Eurozone	Current account (bn EUR)	Dec	32,5		
		Tuesday 02/20/2018				
10:00	**Poland**	**PPI (% YoY)**	**Jan**	**0,3**	**0,1**	**0,1**
10:00	**Poland**	**Retail sales (% YoY)**	**Jan**	**6,0**	**6,9**	**7,3**
10:00	**Poland**	**Industrial production (% YoY)**	**Jan**	**2,7**	**7,8**	**8,0**
11:00	Germany	ZEW Economic Sentiment (pts)	Feb	20,4	16,0	16,0
16:00	Eurozone	Consumer Confidence Index (pts)	Feb	1,3	1,1	1,0
		Wednesday 02/21/2018				
9:30	Germany	Flash Manufacturing PMI (pts)	Feb	61,1	60,3	60,8
10:00	Eurozone	Flash Services PMI (pts)	Feb	58,0	56,7	57,6
10:00	Eurozone	Flash Manufacturing PMI (pts)	Feb	59,6	58,6	59,3
10:00	Eurozone	Flash Composite PMI (pts)	Feb	58,8	57,6	58,5
15:45	USA	Flash Manufacturing PMI (pts)	Feb	55,5		55,3
16:00	USA	Existing home sales (M MoM)	Jan	5,57	5,59	5,60
20:00	USA	FOMC Minutes	Jan			
		Thursday 02/22/2018				
10:00	Germany	Ifo busienss climate (pts)	Feb	117,6	116,3	117,0
14:00	**Poland**	**M3 money supply (% YoY)**	**Jan**	**4,6**	**4,7**	**4,8**
14:30	USA	Initial jobless claims (k)	w/e	230		230
		Friday 02/23/2018				
8:00	Germany	Final GDP (% QoQ)	Q4	0,0	0,6	0,6
10:00	**Poland**	**Registered unemplyment rate (%)**	**Jan**	**6,6**	**6,9**	**6,9**
11:00	Eurozone	HICP (% YoY)	Jan	1,3	1,3	1,3

*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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