

This week

- **On Wednesday and Thursday, the new FED chair, J. Powell, will present to the Congress a semi-annual report on monetary policy.** The investors will closely follow Powell's statements on economic outlook, inflation, and interest rates. Especially important will be Powell's remarks on the expected by FED impact of tax cuts in the US on the prospects for economic growth and, consequently, on the pace of the normalization of the monetary policy, as the Minutes of the January FOMC meeting indicate that this impact may be somewhat stronger than it was expected earlier (see below). In effect, we may see increased volatility in the financial markets during Powell's testimonies.
- **Important data from the US will be released this week.** The second estimate of GDP in Q4 will be released on Wednesday. We expect that the annualized economic growth rate dropped to 2.4% vs. 2.6% in the preliminary estimate due to a lower contribution of private consumption. Data on durable goods orders will be released on Tuesday and, in our view, they decreased by 1.7% MoM in January vs. a 2.8% increase in December, due to lower orders for aircrafts in the Boeing company. We expect today's data on new home sales (630k in January vs. 625k in December) to confirm further recovery in the US real estate market. The manufacturing ISM index will be released on Thursday and, in accordance with our forecast, will drop to 58.8 pts in February vs. 59.1 pts in January. A slight index decline was signaled earlier by regional business sentiment indicators. On the other hand, the Conference Board Consumer Confidence Index (125.4 pts in January and February) and the final University of Michigan Index (99.5 pts in February vs. 95.7 pts in January and 99.9 pts in the flash estimate) will point to solid households' sentiment. Our forecasts are close to the market expectations therefore their materialization will be neutral for PLN and yield on Polish bonds.
- **On Wednesday GUS will publish full data on GDP in Q4 2017.** We expect that the economic growth rate was in line with the flash estimate and amounted to 5.1% YoY vs. 4.9% in Q3. The GDP data will be significant in the context of assessing the scale of the acceleration of fixed capital formation growth but their publication should not be market moving.
- **The February data on business sentiment in Polish manufacturing will be released on Thursday.** We expect that PMI rose to 54.8 pts from 54.6pts in January. The scale of the improvement of sentiment in Polish manufacturing was limited by the deterioration in Germany (see below). We believe that the publication of the index will be neutral for PLN and yields on Polish bonds.
- **China manufacturing PMIs (Caixin and CFLP) will be released this week.** We expect that Caixin PMI has not changed compared to January and amounted to 51.5 pts. On the other hand, CFLP PMI recorded a slight decline and, in our view, dropped to 51.1 pts in February vs. 51.3 pts in January. We expect that the business survey results in China, indicating a stabilization of sentiment in manufacturing, will be neutral for the financial markets.
- **The flash estimate of HICP inflation for the Eurozone will be released on Wednesday.** We expect that the annual inflation rate decreased to 1.2% YoY in February vs. 1.3% in January. Conducive to the decrease in inflation in the Eurozone were the last year's high base effects in the categories "energy" and "food". Some additional information on inflation in the Eurozone will be provided on Tuesday by the flash estimate of the February HICP inflation in Germany. Like in the case of the Eurozone, we expect it to drop to 1.3% YoY from 1.4% in January. We expect that the publication of data on inflation in the Eurozone will not be market moving.

Last week

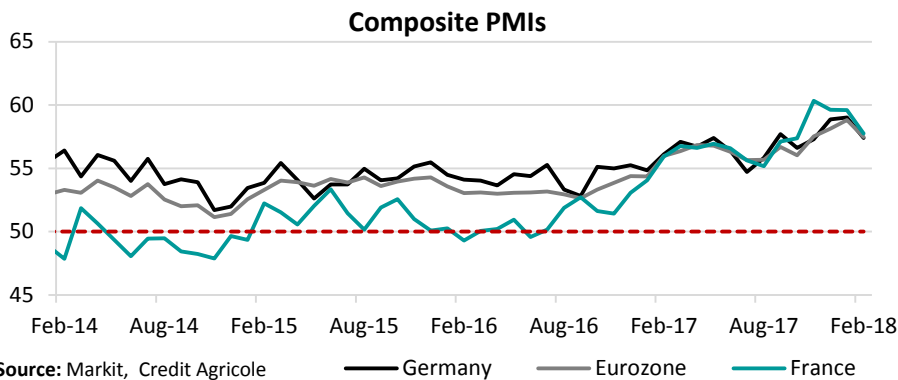
- **PMI Composite for the Eurozone dropped to 57.5 pts in February vs. 58.8 pts in January, when it hit the highest level since June 2006.** The decline of PMI Composite Index was due to lower

values of its sub-indices for both business activity in services and output in manufacturing. Over the period from January to February the average value of PMI Composite for the Eurozone amounted to 58.2 pts vs. 57.2 pts in Q4 2017. This poses an upside risk to our forecast, in which the quarterly GDP growth rate in the Eurozone will not change in Q1 2018 as compared to Q4 2017 and will amount to 0.6% (see below).

- ❗ **The Minutes of the January FED meeting were released last week.** According to the Minutes, most FOMC members noted that the improving prospects for economic growth increased the probability of “further” gradual normalization of the US monetary policy. This view was reflected in the statement after the January meeting, according to which FOMC members expected the economic situation to develop in the direction justifying “further” gradual interest rate hikes. In previous months this statement did not include the word “further”. The Minutes also included the information that many FOMC members believed that the positive impact of tax cuts in the US on the economic growth rate and inflation would be somewhat stronger in the short term than expected earlier. The Minutes also indicate that some FOMC members are increasingly optimistic about the prospects of inflation reaching the target in the medium term. The Minutes of the January FOMC meeting support our scenario, in which FED will hike interest rates three times in 2018 by 25bp each time (in March, June and September).
- ❗ **The dynamics of industrial production in Poland rose to 8.6% YoY in January vs. 2.7% in December 2017.** The main factor behind the increase in industrial production dynamics between December and January was a favourable difference in the number of working days. 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”, “electrical equipment”, and “furniture”) and in segments connected with the construction sector (“other non-metallic mineral products”, “metals”, and “rubber and plastic products”). The construction-assembly production growth rose to 34.7% YoY in January vs. 12.7% in December 2017. Conducive to faster production growth rate were the above-mentioned favourable calendar effects. Seasonally-adjusted construction-assembly production rose by 8.8% MoM, which has been its highest growth since March 2017. The growth of construction production in January was wide ranging and was recorded in all its sectors “construction of buildings”, “specialized construction activities”, and “civil engineering” (see MACROpulse of 20/2/2018). This shows that the construction-assembly production growth was boosted by higher public outlays on infrastructure, growing investment activity of enterprises and by continuing recovery in residential construction. An important factor conducive to higher annual dynamics of construction-assembly production in January were favourable weather conditions. The January data on industrial production and construction-assembly production pose an upside risk to our forecast of GDP growth rate in Q1 (4.7% YoY vs. 5.1% in Q4 2017).
- ❗ **Nominal dynamics of retail sales in Poland increased to 8.2% YoY in January vs. 6.0% in December.** Real retail sales growth rate rose to 7.7% YoY in January vs. 5.2% in December. Conducive to higher dynamics of retail sales were mainly higher sales in the category “motor vehicles, motorcycles, parts” and “other” (see MACROpulse of 20/2/2018). Especially noteworthy in the data structure is high growth in the category “other retail sales in non-specialized stores”, pointing to a continuing strong consumer demand. The January data on retail sales support our forecast of consumption dynamics in Q1 (5.2% YoY vs. 4.8% in Q4).
- ❗ **According to final estimate, the quarterly GDP growth rate in Germany dropped to 0.6% in Q4 vs. 0.7% in Q3 (2.3% YoY in Q4 vs. 2.2% in Q3).** The decrease in the quarterly growth rate of the German GDP resulted from lower contributions of inventories (0.0 pp in Q4 vs. 0.3 pp in Q3) and investments (0.1 pp vs. 0.0 pp). Higher contributions of consumption (0.1 pp vs. 0.0 pp) and of net exports (0.5 pp vs. 0.4 pp) had an opposite impact. Thus, the German GDP growth in Q4, like in Q3, was mainly driven by net exports. We forecast that in the whole 2018 the German GDP will increase by 2.6% vs. a 2.5% increase. Conducive to a slight increase in its dynamics will be higher contributions of net exports and inventories.

▄ **Data on the wage growth structure in the Polish corporate sector were released last week.** Our assumptions that the shifts in variable components of remuneration paid out mainly in manufacturing were an important factor contributing to higher wage in January have been confirmed. We estimate that this effect appeared in as many as 9 of its 22 segments i.a. in the segment “furniture”, “other transport equipment”, “rubber and plastic products”, “other non-metal products”, “leather goods”, and “wood, cork, straw and wicker products” (see MACROPulse of 16/2/2018). This will be a negative factor for the wage growth rate in February. In subsequent months we expect a slight increase in the annual wage growth rate, supported by the rises promised in mining and trade and the increasing wage pressure in several branches. Consequently, the annual wage dynamics in the coming months will range from 7% to 8%.

▄ Is the Eurozone recovery losing momentum?



Source: Markit, Credit Agricole

— Germany — Eurozone — France

The Composite PMI in the Eurozone dropped to 57.5 pts in February vs. 58.8 pts in January, when it hit the highest level since June 2006. The Composite PMI declined due to a decrease in both its sub-index for business activity in services and for output in manufacturing. Geographically, the decrease in Composite PMI was recorded both in Germany (57.4 pts in February vs.

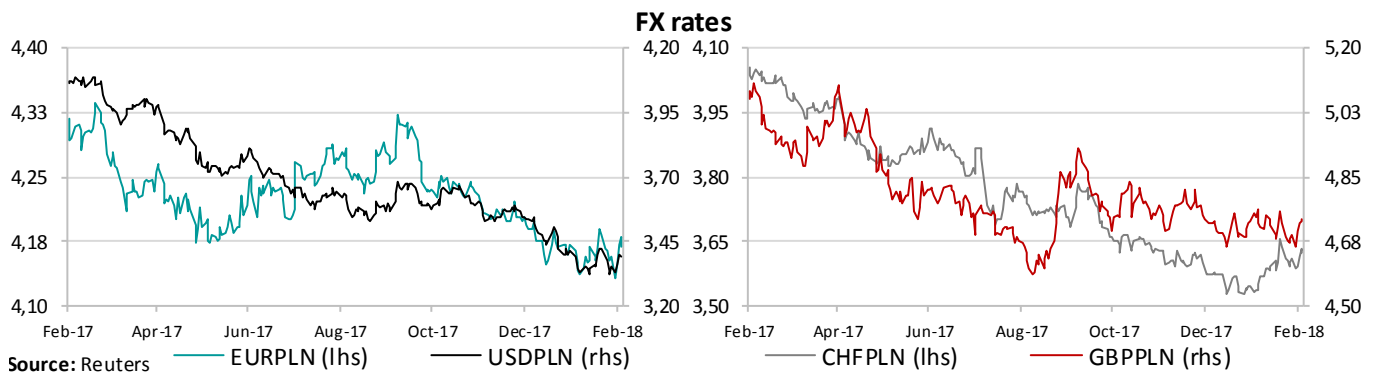
59.0 pts in January) and in France (57.8 pts vs. 59.6 pts). In both these cases the PMI decline resulted from lower sub-indices for output in manufacturing and business activity in services. Deterioration of sentiment has also been recorded in other Eurozone economies covered by the survey. In our view, the wide range of PMI declines within the single currency area, both geographically and sector-wise, is a correction after its sharp increase in January and does not signal a deterioration of prospects for economic growth. Over the period from January to February the average value of PMI Composite for the Eurozone amounted to 58.2 pts vs. 57.2 pts in Q4 2017. Therefore it indicates an upside risk to our forecast, in which the quarterly GDP growth rate in the Eurozone will not change in Q1 2018 as compared to Q4 2017 and will amount to 0.6%.

From the point of view of future business climate in Poland, especially noteworthy is the situation in German manufacturing. The German manufacturing PMI dropped to 60.3 pts in February vs. 61.1 pts in January. Its decrease resulted from lower contributions of four of its five sub-indices (for output, new orders, employment, and stocks of goods purchased). Higher contribution of the sub-index for suppliers' delivery times had an opposite impact. Sub-indices for new orders (58.7 pts in February vs. 60.0 pts in January) and new export orders (58.1 pts vs. 59.3 pts) have recorded a decline, which signals the risk of a slight slowdown of output growth in German manufacturing in the coming months. ZEW and Ifo indices also pointed to a deterioration of sentiment in the German economy. ZEW index reflecting the sentiment among analysts and institutional investors regarding the economic situation in Germany dropped to 17.8 pts in February vs. 20.4 pts in January. In turn, Ifo Index reflecting the sentiment among German managers representing the manufacturing, construction, wholesale and retail trade sectors, dropped to 115.4 pts in February vs. 117.6 pts in January, when it equaled the historic maximum of November 2017. The index decline resulted from lower values of its sub-indices for both the assessment of the current situation and expectations. Sector-wise the deterioration of sentiment was recorded in all the four sectors (manufacturing, construction, and retail and wholesale trade). The business survey

results in Germany signal a downside risk to our forecast, in which the quarterly German GDP growth rate will increase to 0.7% in Q1 vs. 0.6% in Q4.

The slight deterioration of sentiment in German manufacturing is conducive to lower growth rate of demand for goods manufactured in Poland and used in the production of final products (so-called intermediate goods). This supports our forecast assuming a slight decrease in the dynamics of Polish exports in Q1 (7.5% YoY vs. 8.0% in Q4).

The testimonies of the new FED Chairman may increase PLN volatility

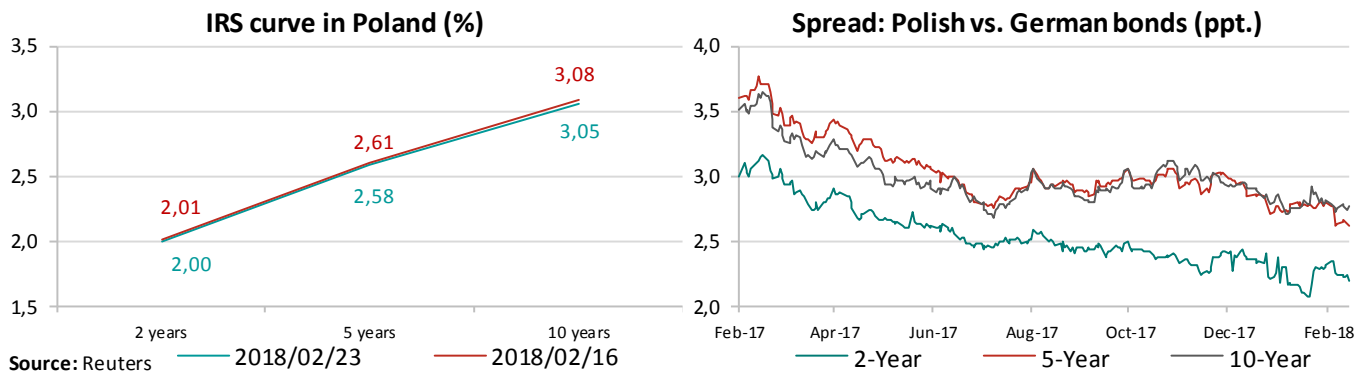


Last week EURPLN rate rose to 4.1695 (PLN weakening by 0.3%). On Monday, PLN continued the appreciation from two weeks ago. Low activity prevailed in the market due to a holiday in the US. Tuesday through Wednesday, PLN was depreciating in anticipation of the Minutes of the January FOMC meeting. The Tuesday's clearly better domestic data on industrial production and retail sales as well as the weaker-from-the-market-consensus business survey results in the Eurozone had a limited impact on PLN. The FOMC Minutes released on Wednesday night were received by the market as hawkish, which supported further PLN weakening on Thursday. Friday saw a slight correction.

Last week PLN was depreciating the most against USD (by 1.1%), due to EUR weakening versus USD with a simultaneous depreciation of PLN versus EUR. USD was appreciating versus EUR with an increase in some investors' expectations of further normalization of monetary policy in the US. These were additionally strengthened by the hawkish tone of the Minutes of the January FOMC meeting published last week (see above).

Crucial for PLN this week will be the testimonies to the Congress by the new FED Chairman, J. Powell, scheduled for Wednesday and Thursday. In our view, they may be conducive to increased volatility of PLN. We believe that the publication of Poland manufacturing PMI scheduled for Thursday will have a limited impact on the market. Numerous data from the US (second GDP estimate, durable goods orders, new home sales, manufacturing ISM, Conference Board Index, and final University of Michigan Index) will also be neutral for PLN, we believe. The preliminary data on inflation in the Eurozone and business survey results for Chinese manufacturing (Caixin PMI and CFLP PMI) will also have a limited impact on PLN.

Sharp decrease in IRS rates following the German debt market



Source: Reuters

Last week 2-year IRS rates dropped to a level of 2.00 (down by 1 bp), 5-year rates to a level of 2.58 (down by 3 bp), and 10-year rates to a level of 3.05 (down by 3 bp). Last week IRS rates continued to decrease across the curve following the German debt market. The decline in IRS rates was supported by the Thursday’s debt auctions (main and supplementary), at which the Finance Ministry sold PLN 4.81bn of 2-, 5-, 6-, and 10-year bonds with demand amounting to PLN 15.46bn. The publication of the Minutes of the January FOMC meeting, business survey results for the Eurozone, and domestic data on retail sales and industrial production had no substantial impact on the curve.

This week the market will focus on the testimonies to the Congress by the new FED Chairman, J. Powell, scheduled for Wednesday and Thursday. In our view, his remarks may be conducive to increased volatility of IRS rates. We believe that the publication of Poland manufacturing PMI scheduled for Thursday will have a limited impact on the market. Numerous data from the US (second GDP estimate, durable goods orders, new home sales, manufacturing ISM, Conference Board Index, and final University of Michigan Index) and preliminary data on inflation in the Eurozone will also be neutral for 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	8,6	
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	0,2	
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	8,2	
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	2,1	
	Investments (pp)	0,0	0,1	0,6	2,9	1,1	1,5	1,3	1,2	1,0	0,6	
	Net exports (pp)	0,4	-1,3	1,1	0,1	0,0	-0,4	-0,2	-0,3	0,1	-0,2	
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	1,3	1,2	0,7	0,4	0,3	1,9	0,6	0,0	
Wages in national economy (% YoY)	4,1	5,0	4,9	7,1	6,8	6,1	6,4	6,8	5,3	6,5	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 02/26/2018						
16:00	USA	New home sales (k)	Jan	625	630	645
Tuesday 02/27/2018						
10:00	Eurozone	M3 money supply (% MoM)	Jan	4,6		4,6
11:00	Eurozone	Business Climate Indicator (pts)	Feb	1,54		1,47
14:00	Germany	Preliminary HICP (% YoY)	Feb	1,4	1,3	1,3
14:30	USA	Durable goods orders (% MoM)	Jan	2,8	-1,7	-2,0
15:00	USA	Case-Shiller Index (% MoM)	Dec	0,7		0,6
16:00	USA	Richmond Fed Index	Feb	14,0		
16:00	USA	Consumer Confidence Index	Feb	125,4	125,4	126,6
Wednesday 02/28/2018						
2:00	China	Caixin Manufacturing PMI (pts)	Feb	51,3	51,1	51,2
10:00	Poland	Final GDP (% YoY)	Q4	4,9	5,1	5,1
11:00	Eurozone	Preliminary HICP (% YoY)	Feb	1,3	1,2	1,2
14:30	USA	Second estimate of GDP (% YoY)	Q4	2,6	2,4	2,5
15:45	USA	Chicago PMI (pts)	Feb	65,7		64,2
Thursday 03/01/2018						
2:45	China	Caixin Manufacturing PMI (pts)	Feb	50,2	51,5	51,3
9:00	Poland	Manufacturing PMI (pts)	Feb	54,6	54,8	
9:55	Germany	Final Manufacturing PMI (pts)	Feb	60,3	60,3	60,3
10:00	Eurozone	Final Manufacturing PMI (pts)	Feb	58,5	58,5	58,5
11:00	Eurozone	Unemployment rate (%)	Jan	8,7		8,6
14:30	USA	Real private consumption (% MoM)	Jan	0,3		
15:45	USA	Flash Manufacturing PMI (pts)	Apr	55,5		
16:00	USA	ISM Manufacturing PMI (pts)	Feb	59,1	58,8	58,7
Friday 03/02/2018						
11:00	Eurozone	PPI (% YoY)	Jan	2,2		1,6
16:00	USA	Final U. of Michigan Sentiment Index (pts)	Feb	99,9	99,5	99,5

*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

** Reuters