Boom in corporate investments will be short-lived

This week

- **The most important event this week will be the publication of the flash data on the March inflation in Poland scheduled for Wednesday. We believe that it rose to 1.6% YoY vs. 1.4% in February.** Conducive to increase in inflation were higher dynamics of food and fuel prices as well as higher core inflation. Our forecast is in line with the consensus; therefore, its materialization will be neutral for PLN and yields on Polish bonds.
- **Important data from the US will also be released this week.** Data from the labour market will be released on Friday. We expect that the increase in non-farm payrolls amounted to 190k in March vs. 313k in February, with unemployment rate dropping down to 4.0% from 4.1% in February. 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 205k in March vs. 235k in February). The ISM index for manufacturing was released yesterday and dropped to 59.3 pts in March vs. 60.8 pts in February. The index decline resulted from lower contributions of all its five sub-indices (for new orders, output, stocks of goods purchased, suppliers' delivery times, and employment). We believe that the publication of US labour market data will be neutral for financial markets.
- **The flash estimate of HICP inflation for the Eurozone will be released on Wednesday**. We expect that the annual inflation rate rose to 1.4% YoY in March vs. 1.1% in February due to the shift of the date of Easter holiday this year (temporary increase in core inflation). Our forecast is supported by the flash estimate of HICP inflation in Germany (up to 1.5% in March vs. 1.2% in February). We expect that the data on inflation will not have any substantial impact on PLN or bond yields. We forecast that HICP inflation in the Eurozone will stay within a weak upward trend in subsequent months and will reach 1.5% YoY in Q4 2018. Conducive to higher inflation will be the low base effects for fuel prices and gradual increase in core inflation.
- **March data on business sentiment in Polish manufacturing have also been released today.** PMI has not changed in March compared to February and amounted to 53.7 pts, running above our forecast (53.4 pts) and the market expectations (53.1 pts). Conducive to the index increase were four of its five sub-indices (for employment, output, stocks of goods purchased, and suppliers' delivery times). Lower value of the sub-index for new total orders had an opposite impact. Especially noteworthy in the data structure is the slight decrease (sub-index value below 50 pts) in new export orders, which is consistent with the deterioration of sentiment recorded in the Eurozone (see MACROmap of 26/3/2018). In the context of the difficulties reported by companies in finding skilled labour surprising is the increase in the employment sub-index to the highest level since April 2017. In our view, the increase in employment in the coming months will be increasingly limited by growing difficulties of companies in finding skilled labour. Together with growing production backlogs, this will be conducive to increase in corporate investments enabling to change production techniques to less labour consuming ones, and thus to increase productivity. In the whole Q1 PMI dropped to 54.0 pts vs. 54.2 pts in Q4 2017. Today's reading poses a slight upside risk to our forecast of economic growth rate in Poland (4.7% in Q1 vs. 5.2% in Q4).

Last week

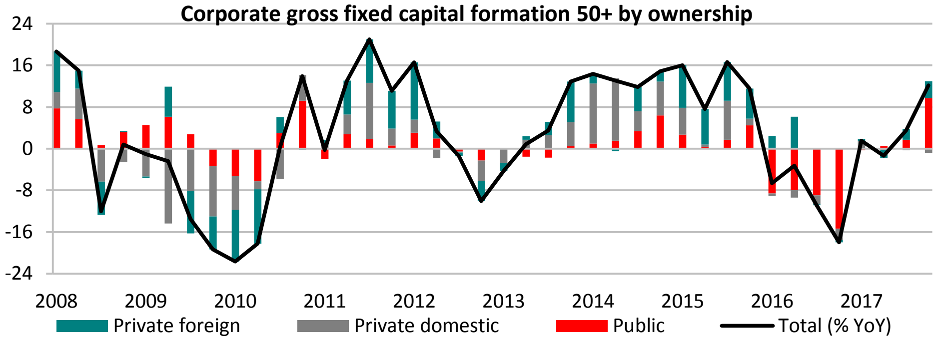
- **Important data from the US economy and business survey results were released last week.** According to the final estimate, the annualized economic growth rate in Q4 2017 was revised upwards to 2.9% vs. 2.5% in the second estimate. It resulted from higher contribution of private consumption (2.75 pp in the third estimate vs. 2.58 pp in the second estimate), inventories (-0.53 pp vs. -0.70 pp), government expenditure (0.51 pp vs. 0.49 pp), and investments (1.31 pp vs. 1.29 pp), while lower contribution of net exports (-1.99 pp vs. -1.97 pp) had an opposite impact. The results of consumer sentiment surveys were also released last week. The Conference Board Index dropped to 127.7 pts in March vs. 130.0 pts in February. The index decline resulted from its lower sub-indices concerning both the assessment of the current situation and expectations. On the other hand, the University of Michigan Index indicated improvement in consumer sentiment by rising to 101.4 pts vs. 99.7 in February and 102.0 pts in the initial estimate. Its increase resulted from higher sub-index for the assessment of the current situation while lower value of the sub-index for expectations had an opposite impact. We forecast that the annualized US GDP growth rate will decrease to 1.8% in Q1 2018.

- **China CFLP manufacturing PMI rose to 51.5 pts in March vs. 51.3 pts in February**. On the other hand, Caixin PMI recorded a decrease and dropped to 51.0 pts in March vs. 51.5 pts in February. Conducive to the index decrease were lower contributions of four of its five sub-indices (for output, new orders, employment, and stocks of goods purchased). Higher contribution of the sub-indices for suppliers' delivery times had an opposite impact. Noteworthy in the data structure is also the increase in the sub-index for production backlogs. Longer delivery times with simultaneous increase in production backlogs suggest that the source of the deterioration of sentiment in Chinese manufacturing in March was not weaker demand but increasingly more obstructed chain of supplies. The risk of trade war between the US and China continues to pose a risk to the situation in Chinese manufacturing. On Monday, China imposed increased customs duty on 128 goods from the US. Due to limited share of these goods in mutual trade, it can be expected that this measure is a warning and leaves room for discussions with a view to an agreement between these countries. Consequent, we believe that the probability of the escalation of conflict is limited on both sides.
- **According to the data of the Ministry of Finance, the debt of the general government sector, calculated in accordance with the EU definition, amounted to PLN 1 003.4bn**. Consequently, the relation of public debt to GDP dropped to 50.6% (down by 3.6 pp in annual terms), hitting the lowest level since 2009. Especially noteworthy among the main factors conducive to the decrease in public debt is the strengthening of PLN, recorded in 2017, which has reduced the public debt in foreign currencies by PLN 26.3bn (1.3% of GDP). The data pointing to a significant decrease in the relation of the general government debt to GDP are slightly positive for Poland's credit ratings. Thus, they are positive for PLN and negative for yields on Polish bonds.

Boom in corporate investments will be short-lived

According to data released by GUS two weeks ago, nominal domestic investments of enterprises employing at least 50 persons increased by 12.2% YoY in Q4 2017 vs. a 1.7% increase in Q3. The higher growth rate of fixed capital formation was wide ranging and resulted from higher contributions of investments in all the segments: manufacturing, energy, construction, services and mining. However, mainly responsible for higher dynamics of investments between Q3 and Q4 was energy sector (up by 4.1 pp) and manufacturing (up by 3.7 pp). In the case of energy, this was due to the low base effects from the year before. In turn, in the case of manufacturing, an important role was played by investments in segments directing a significant part of production for exports ("manufacture of chemicals" and "manufacture of furniture") and those linked to the construction branch ("manufacture of other non-metallic mineral products", "manufacture of metals", "manufacture of metallic products" and "manufacture of coke and refined petroleum products"). Services recorded a sharp increase of investments in the category "transport", which occurred likely due to higher railway investments.

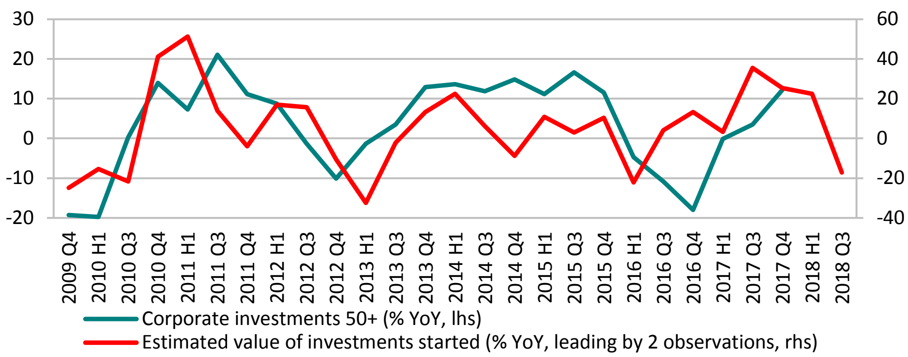
Boom in corporate investments will be short-lived



Source: PONT Info, Credit Agricole

At first sight, the above data suggest a good investment climate for Polish companies. However, to assess investment growth tendencies we would need to analyze the increase in fixed capital formation broken down to the form of ownership of companies. PONT Info company processes the information that enterprises provide to GUS on F-01 forms (statement of revenues, costs and financial result and outlays on fixed assets). According to PONT Info data, the sharp increase in the growth rate of 50+ companies in Q4 2017 was mainly due to the recovery of investments of companies controlled by the public sector entities (companies, in which this sector has a prevailing share in the company capital; hereinafter "public companies"). These investments rose by 48.6% YoY in Q4 (the highest dynamics since at least Q1 2008 – earlier data not being available) vs. a 9.6% increase in Q3. They accounted for the increase in total corporate investments by 8.0 pp between Q3 and Q4. Conducive to higher dynamics of investments of public sector enterprises were mainly the low base effects from the year before (in Q4 2016 their outlays decreased by 48.5% YoY – the lowest dynamics in the time series history).

The recovery in investments of private companies in Q4 was less spectacular compared to that of public companies. The outlays of private companies rose only by 3.1% YoY in Q4 vs. a 2.2% increase in Q3. In addition, it should be noted that responsible for the acceleration in growth (by 1.2 pp) were only foreign companies whose fixed capital formation rose by 8.1% YoY in Q4 2017 vs. 5.2% in Q3. On the other hand, in Q4 2017 domestic private companies recorded a deepening of the decline in investments in annual terms (-2.0% YoY vs. -0.8% in Q3). Slower growth in this segment was conducive to a decrease in the growth rate of investments of 50+ companies by 0.5 pp between Q3 and Q4. 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 82.7% in Q1 vs. 81.0% in Q4 (the highest in history). On the other hand, the growth of corporate investments is limited by growing difficulties of companies in finding skilled labour. Based on the above data one can propose the hypothesis that supply-side constraints in the labour market are an important barrier to the development of domestic companies. In turn, foreign firms, where productivity is higher than in domestic firms and which, therefore, may offer higher pay to staff than domestic companies, cope better with these constraints.

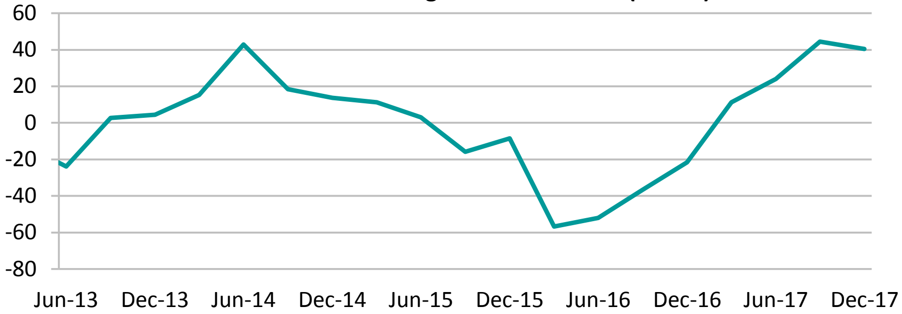


Source: GUS, Credit Agricole

The leading indicator for corporate investments is so-called estimated value of investments started. It is the value of outlays on building 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 investment started ca. two to three quarters in advance signal changes in the profile of the growth rate of investments of 50+ enterprises. The growth profile of estimated value of investments started signals that the increase in fixed capital formation of enterprises will probably slightly slow down in H1 2018.

Considering only the indicator of estimated value of investments started, we should expect a sharp decrease in investments of 50+ companies in annual terms.

Investments of local government units (% YoY)

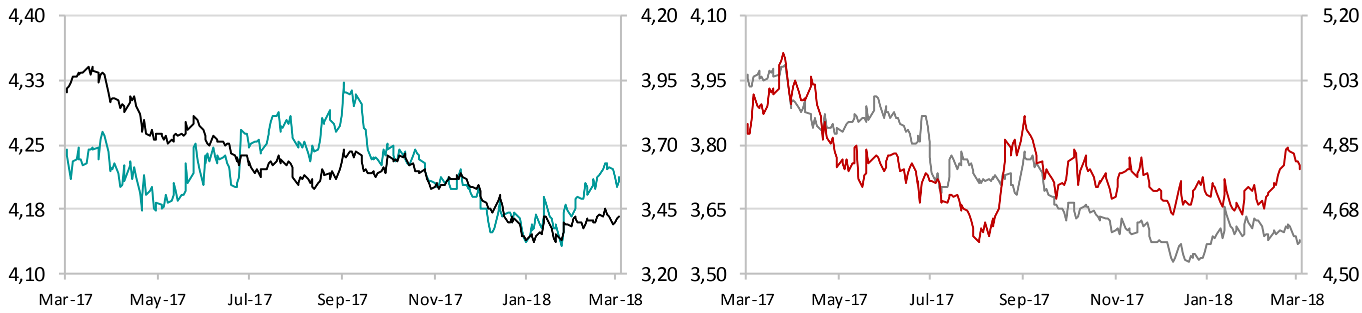


Source: Ministry of Finance, Credit Agricole

We do not forecast as sharp decrease in investments as data on estimated value of investments started would suggest but we believe that the dynamics of fixed capital formation of enterprises will stay within a weak downward trend in 2018. The results of our analysis are in line with the study we presented in MACROmap of 13/11/2017 pointing to a shortening length of the cycle of corporate investments. Similar tendency is likely to be observed also in the context of investments of local government units. In Q4 2017 the dynamics of fixed capital formation in this segment dropped to 40.4% YoY vs. 44.5% in Q3. In subsequent quarters the growth rate of LGU investments will be supported by the investment activity related to the municipal election planned for autumn though it will continue to gradually decrease due to high base effects. The tendencies outlined above support the forecast by us declining investment profile in 2018 (from 11.3% in Q4 2017 down to 4.3% in Q4 2018). In effect, we expect that the average yearly dynamics of total fixed capital formation will amount to 7.1% in 2018 vs. 5.2% in 2017.

US data neutral for PLN

FX rates

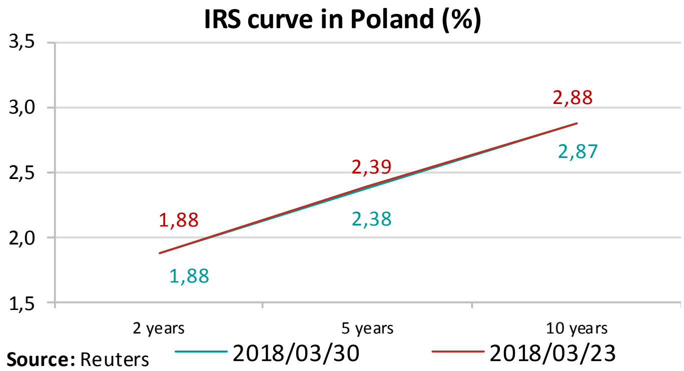


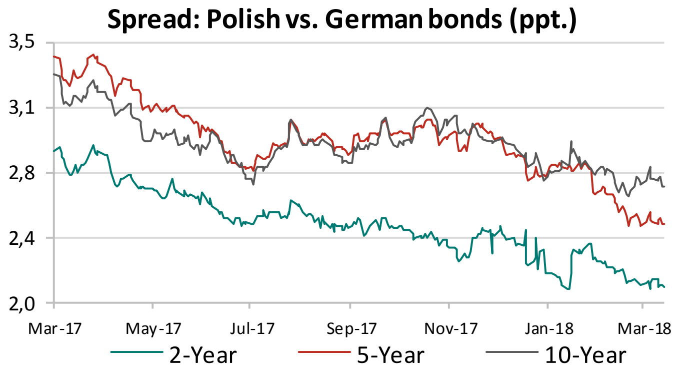
Source: Reuters

Last week EURPLN rate dropped to 4.2133 (PLN strengthening by 0.3%). Monday through Wednesday, PLN was appreciating supported by the decrease in global risk aversion, reflected by lower VIX index. Improved market sentiment was supported by the information that the US and China were holding talks with a view to avoiding trade war. Nevertheless, after EURPLN dropped below 4.20, there was a slight correction. On Thursday and Friday, PLN was relatively stable, supported by lower activity of investors due to the approaching Easter. Lower risk aversion supported PLN appreciation also vs. other major currencies: GBP (PLN appreciation by 1.0%) and CHF (by 0.8%). PLN rate vs. USD has not changed compared to the level from two weeks ago because its appreciation vs. EUR was offset by EUR weakening vs. USD.

The most important event for PLN this week will be the publication of data on non-farm payrolls in the US. If our forecast that is close to market expectations materializes, their impact on PLN will be limited. Also flash data on inflation in Poland and in the Eurozone should not have any substantial impact on PLN. ON the other hand, PLN weakening may be supported by the correction at the US stock exchange due to the imposition of customs duties on some US goods as well as D. Trump's remarks concerning the Amazon company suggesting that it avoids paying taxes and has a negatively impact on the US retail trade.

Festive atmosphere supported stabilization of IRS rates





Source: Reuters

Last week the 2-year IRS rates amounted to 1.88 (no change compared to the level from two weeks ago), 5-year rates dropped to a level of 2.38 (down by 1 bp), and 10-year rates dropped to a level of 2.87 (down by 11 bp). Low liquidity prevailed throughout last week due to the approaching Easter. Consequently, IRS rates showed low volatility. On Tuesday, there was a debt auction at which the Finance Ministry sold PLN 3.0bn of 2-, 5-, 6-, and 10-year bonds with demand amounting to PLN 6.59bn. Despite the high demand, the auction had a limited impact on IRS rates.

This week the market will focus on data on non-farm payrolls in the US. However, we believe that their impact on IRS rates will be limited. Flash data on inflation in Poland and in the Eurozone will also be neutral for IRS rates.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland

Indicator	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-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*	4,23	4,23	4,18	4,23	4,25	4,25	4,31	4,24	4,20	4,18	4,15	4,17	4,21	**4,16**
USDPLN*	3,97	3,88	3,72	3,70	3,59	3,57	3,65	3,64	3,53	3,48	3,34	3,42	3,42	**3,40**
CHFPLN*	3,96	3,90	3,84	3,86	3,72	3,72	3,77	3,65	3,59	3,57	3,59	3,62	3,58	**3,55**
CPI inflation (% YoY)	2,0	2,0	1,9	1,5	1,7	1,8	2,2	2,1	2,5	2,1	1,9	1,4	**1,6**	
Core inflation (% YoY)	0,6	0,9	0,8	0,8	0,8	0,7	1,0	0,8	0,9	0,9	1,0	0,8	**0,9**	
Industrial production (% YoY)	11,0	-0,5	9,3	4,4	6,3	8,9	4,3	12,4	9,2	2,8	8,6	7,4	**4,4**	
PPI inflation (% YoY)	4,8	4,2	2,4	1,8	2,2	3,0	3,2	3,0	1,8	0,3	0,2	-0,2	**-0,3**	
Retail sales (% YoY)	9,7	8,1	8,4	6,0	7,1	7,6	8,6	8,0	10,2	6,0	8,2	7,9	**8,3**	
Corporate sector wages (% YoY)	5,2	4,1	5,4	6,0	4,9	6,6	6,0	7,4	6,5	7,3	7,3	6,8	**7,0**	
Employment (% YoY)	4,5	4,6	4,5	4,3	4,5	4,6	4,5	4,4	4,5	4,6	3,8	3,7	**3,7**	
Unemployment rate* (%)	8,0	7,6	7,3	7,0	7,0	7,0	6,8	6,6	6,5	6,6	6,9	6,8	**6,5**	
Current account (M EUR)	-405	350	-264	-892	-203	189	120	297	272	-1152	-1152	**-468**		
Exports (% YoY EUR)	19,7	3,2	19,2	7,2	13,3	11,5	10,0	15,5	14,9	2,1	2,1	**8,7**		
Imports (% YoY EUR)	19,8	4,6	21,7	14,5	13,2	7,8	7,5	14,8	15,7	10,9	10,9	**10,6**		

*end of period

Forecasts of the quarterly macroeconomic indicators

Main macroeconomic indicators in Poland

Indicator	2017				2018				2016	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	4,9	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	11,3	9,2	9,5	7,6	4,7	5,2	7,1	3,1
Export - constant prices (% YoY)	9,6	3,1	7,6	6,8	7,5	6,5	6,6	6,0	6,7	6,6	5,0
Import - constant prices (% YoY)	9,7	6,0	5,7	9,2	8,1	7,8	7,5	7,0	7,7	7,6	6,0
GDP growth contributions: Private consumption (pp)	2,9	2,9	2,9	2,5	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	2,8	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	-0,8	0,0	-0,4	-0,2	-0,3	-0,2	-0,2	-0,3
Current account***	0,1	-0,4	0,2	0,1	-0,1	-0,1	-0,4	-0,4	0,1	-0,4	-0,6
Unemployment rate (%)**	8,0	7,0	6,8	6,6	6,5	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	0,2
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	1,6	1,6	1,5	1,1	2,0	1,4	1,7
Wibor 3M (%)**	1,73	1,73	1,73	1,72	1,70	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	4,20	4,19	4,18	4,17	4,18	4,17	4,15
USDPLN**	3,97	3,70	3,65	3,48	3,44	3,41	3,34	3,31	3,48	3,31	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 04/02/2018				
3:45	China	Caixin Manufacturing PMI (pts)	Mar	50,2	51,7	51,7
15:45	USA	Flash Manufacturing PMI (pts)	Mar	55,7	55,7	
16:00	USA	ISM Manufacturing PMI (pts)	Mar	60,8	59,5	60,0
		Tuesday 04/03/2018				
9:00	**Poland**	**Manufacturing PMI (pts)**	**Mar**	**53,7**	**53,4**	**53,2**
9:55	Germany	Final Manufacturing PMI (pts)	Mar	58,4	58,4	58,4
10:00	Eurozone	Final Manufacturing PMI (pts)	Mar	56,6	56,6	56,6
		Wednesday 04/04/2018				
10:00	**Poland**	**Flash CPI (% YoY)**	**Mar**	**2,1**	**1,6**	**1,7**
11:00	Eurozone	Preliminary HICP (% YoY)	Mar	1,1	1,4	1,4
11:00	Eurozone	Unemployment rate (%)	Feb	8,6		8,5
14:15	USA	ADP employment report (k)	Mar	235		205
16:00	USA	ISM Non-Manufacturing Index (pts)	Mar	59,5	58,5	59,0
16:00	USA	Factory orders (% MoM)	Feb	-1,4	1,4	1,8
		Thursday 04/05/2018				
8:00	Germany	New industrial orders (% MoM)	Feb	-3,9		1,2
10:00	Eurozone	Services PMI (pts)	Mar	55,0	55,0	55,0
10:00	Eurozone	Final Composite PMI (pts)	Mar	55,3	55,3	55,3
11:00	Eurozone	PPI (% YoY)	Feb	1,5		1,5
11:00	Eurozone	Retail sales (% MoM)	Feb	-0,1		0,6
		Friday 04/06/2018				
8:00	Germany	Industrial production (% MoM)	Feb	-0,1		0,3
14:30	USA	Unemployment rate (%)	Mar	4,1	4,0	4,0
14:30	USA	Non-farm payrolls (k MoM)	Mar	313	190	198

*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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