

## This week

- ✔ **Data on business sentiment in Polish manufacturing have been released today (see below).** Business sentiment indicator for Polish manufacturing (PMI) rose to 54.2 pts in June vs. 53.3 pts in May, running significantly above the market consensus (53.1 pts) and our forecast (53.0 pts). Consequently it has reached the highest level since January 2018. The average value of the Polish PMI in Q2 (53.8 pts) stood only slightly below its average value in Q1 (54.0 pts), which poses an upside risk to our forecast of GDP growth in Q2 (4.9% YoY vs. 5.2% in Q1).
- ✔ **Another important event this week will be the publication of the Minutes of the June FOMC meeting scheduled for Wednesday.** The markets will focus on FED members' in-depth analyses of short- and medium-term prospects for the economic situation in the US, mainly in the context of the effects of the protectionist actions of D. Trump's administration. The June FOMC projection was consistent with our and the market's scenario, in which FED will hike interest rates twice more in 2018 (in September and December, each time by 25 bp). Consequently, we believe that the release of the Minutes will not provide any new information that would substantially affect the financial markets this week.
- ✔ **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 195k in June vs. 223k in May, with unemployment rate having stabilized at 3.8%. 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 187k in June vs. 178k in May). The ISM index for manufacturing will also be released today and, in our view, has dropped to 58.3 pts in June vs. 58.7 pts in May, in line with the results of regional business surveys. The publication of US data will be neutral for PLN and the prices of Polish bonds, we believe.
- ✔ **The results of business surveys for Chinese manufacturing have been released in recent days.** CFLP PMI dropped to 51.5 pts in June vs. 51.9 pts in May, while the Caixin PMI released today dropped to 51.2 pts in June vs. 51.4 pts in May. Especially noteworthy in the structure of the two indices is the decrease in the sub-index for new export orders. In both cases it stood below the 50 pts threshold dividing expansion from contraction of activity. The decline in new export orders in Chinese manufacturing is related to higher import tariffs imposed by the US on Chinese goods worth USD 50bn (see MACROmap of 18/6/2018). In our view, the trade war in its current state will have a limited negative impact on the dynamics of the Chinese GDP which will not exceed 0.1 pp. Thus, we maintain our forecast, in which the Chinese GDP dynamics will decrease to 6.6% in 2018 vs. 6.9% in 2017. The main risk to our scenario is possible further escalation of the protectionist measures in global trade.
- ✔ **Flash data on the June inflation in Poland was released today. CPI inflation rose to 1.9% YoY vs. 1.7% in May.** Conducive to the increase of inflation were higher dynamics of fuel prices.

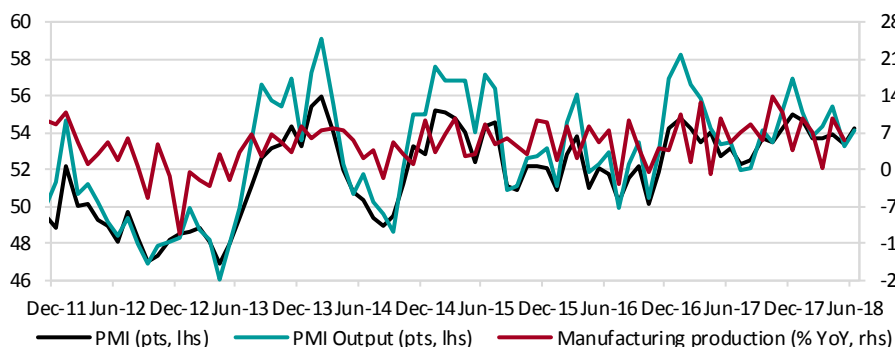
## Last week

- ✔ **According to the flash estimate, inflation in the Eurozone rose to 2.0% YoY in June vs. 1.9% in May, running in line with the market expectations and above our forecast (1.9%).** The increase in inflation resulted mainly from higher dynamics of prices in the categories "energy" and "food". Lower dynamics of prices in the category "services" had an opposite impact. We forecast that until November 2018 total inflation in the Eurozone will range from 1.8% to 1.9%, due to high dynamics of fuel prices. We believe that inflation within the single currency area will stay within a downward trend in subsequent quarters to reach 1.4% in Q4 2019. In our view, core inflation in the Eurozone will not exceed 1.4% within the next two years. This is consistent with our scenario, in which the first hike of the ECB interest rates (deposit rate) will take place in September 2019 and the main interest rate will be hiked in December 2019.

**Significant hard data from the US economy and business survey results were released last week.** According to the final estimate, the annualized US GDP growth rate amounted to 2.0% vs. 2.2% in the second estimate. The downward revision resulted from lower contributions of inventories (-0.01 pp in the third estimate vs. 0.13 pp in the second estimate), net exports (0.44 pp vs. 0.51 pp), and private consumption (0.60 pp vs. 0.71 pp). Higher contributions of investments (1.23 pp vs. 1.05 pp) and public spending (0.22 pp vs. 0.20 pp) had an opposite impact. Thus, investments were the main source of US economic growth in Q1, whereas since Q3 2013 it has been consumption. Data on durable goods orders were also released last week and decreased by 0.6% MoM in May vs. a 1.0% decrease in April. The increase in their monthly dynamics resulted to a significant extent from a slower pace of the decrease in orders for non-military aircrafts and parts (-7.0% MoM in May vs. -30.3% in April). Excluding means of transport, durable goods orders decreased by 0.3% MoM vs. a 1.9% increase in April, due to lower monthly dynamics of orders in most categories. Especially noteworthy in the data structure is the continuing high level of the annual dynamics of orders for non-military capital goods, excluding orders for aircrafts (6.1% in May vs. 7.0% in April), being the leading indicator of future investments. Data on new home sales were also released last week (689k in May vs. 646k in April) and pointed to further recovery in the US real estate market. The results of business surveys were also released last week. The Conference Board Index dropped to 126.4 pts in June vs. 128.8 pts in May. Conducive to the index decline were lower values of its sub-indices for both the assessment of the current situation and expectations. On the other hand, the final University of Michigan Index pointed to improvement in consumer sentiment, rising to 98.2 pts in June vs. 98.0 pts in the initial estimate. Conducive to the index increase was higher value of its sub-index for the assessment of the current situation while lower sub-index for expectations had an opposite impact. The last week's data from the US economy do not alter our scenario, in which the annualized US GDP growth rate will increase from 2.0% in Q1 to 3.1% in Q2.

**Ifo Index reflecting the sentiment among German managers representing the manufacturing, construction and services dropped to 101.8 pts in June vs. 102.3 pts in May.** The index decrease occurred due to lower sub-index concerning the assessment of the current situation while the sub-index concerning expectations has not changed compared to the previous month. Sector-wise, deterioration of sentiment was recorded in all the four sectors covered by the survey (manufacturing, construction, trade, and services). Further deterioration of sentiment in the German economy poses a downside risk to our forecast, in which the quarterly dynamics of the German GDP will increase to 0.6% in Q2 vs. 0.3% in Q1.

## **Strong domestic demand supports Polish manufacturing**



Source: Markit, GUS

**Business sentiment indicator for Polish manufacturing (PMI) rose to 54.2 pts in June vs. 53.3 pts in May, running significantly above the market consensus (53.1 pts) and our forecast (53.0 pts).** In effect, it has reached the highest level since January 2018. PMI increased due to higher values of the three sub-indices: total new orders, output, and employment. The effect of

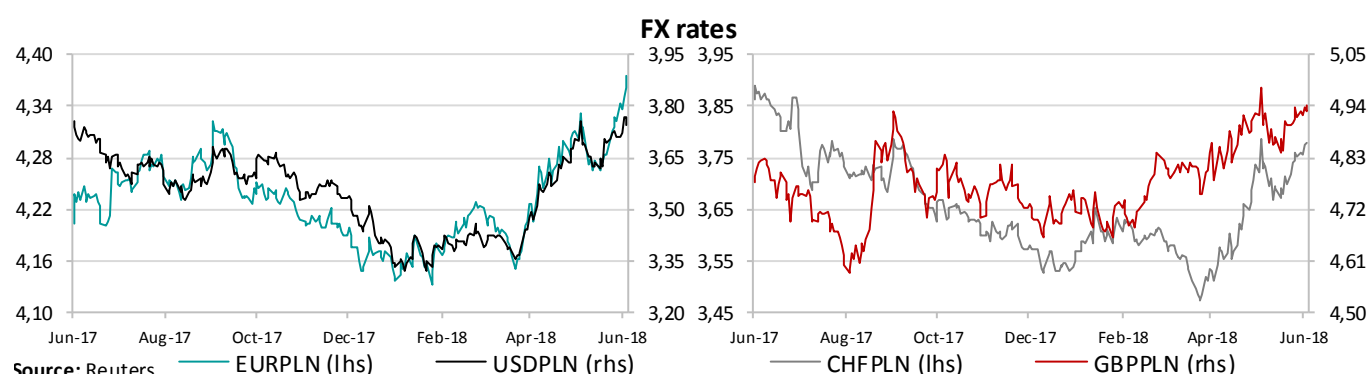
changes in the remaining two sub-indices (suppliers' delivery times and stocks of goods purchased) had a limited (lower than 0.1 pp) impact on the value of PMI.

Especially noteworthy in the data structure is the discrepancy between the growth rates of new total orders (the value of the sub-index equals 54.6 pts) and new export orders (51.4 pts). It shows that currently the situation in Polish manufacturing is positively impacted mainly by strong domestic demand with the inflow of foreign orders being less significant. This phenomenon has also been emphasized by the surveyed companies. We believe that this trend results from the recovery currently observed in construction, favourably affecting the manufacturing activity – mainly in branches connected with the construction sector. Thus, it mitigates the negative impact of the slowdown in global trade on Polish manufacturing.

Today's business survey results point to further supply-side constraints in Polish manufacturing resulting from high capacity utilization and difficulties in finding skilled labour. Production backlogs continued to increase in June while delays in deliveries were growing longer. Employment has risen at the fastest rate since April 2017, and yet some surveyed companies continued to report staff shortages. We believe that considerable production backlogs will be a stabilizing factor for the activity in Polish manufacturing in subsequent months. Despite the expected by us weakening of foreign demand (signalled by the deterioration of sentiment in the Eurozone, including Germany, see MACROmap of 25/6/2018), companies will maintain high level of production by carrying out outstanding orders.

The average value of the Polish PMI in Q2 (53.8 pts) stood only slightly below its average value in Q1 (54.0 pts), which, combined with the data on industrial production and construction-assembly production in April-May period, poses an upside risk to our forecast of GDP dynamics in Q2 (4.9% YoY vs. 5.2% in Q1). Today's business survey results for Polish manufacturing are slightly positive for PLN and yields on Polish bonds, we believe.

## PLN is the weakest since January 2017



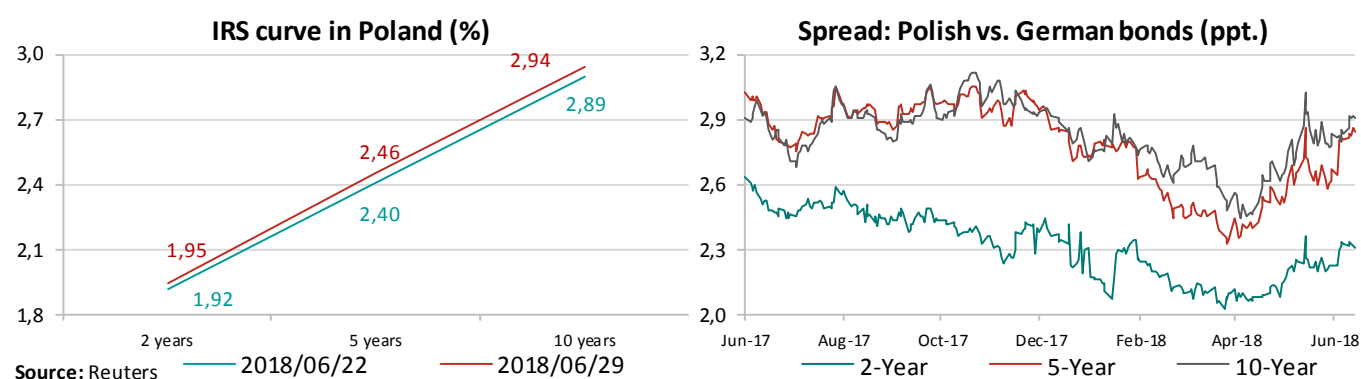
**Last week, the EURPLN exchange rate rose 4.3747 (PLN weakening by 1.2%).** Throughout last week PLN was depreciating. Conducive to its weakening was further increase in the probability of intensification of protectionist measures in global trade, supported by subsequent announcements by D. Trump concerning i.a. the introduction of higher customs duties on the EU car exports. In effect, EURPLN rose to 4.375 on Friday afternoon, reaching the highest level since January 2017.

Due to the nature of PLN weakening last week, resulting mainly from the increase in global risk aversion, PLN was also depreciating vs. other major currencies. Consequently, PLN depreciated last week vs. USD (by 1.1%), CHF (by 0.6%), and GBP (by 0.5%).

Today's PMI for Polish manufacturing is slightly positive for PLN, we believe. However, today conducive to PLN weakening may be the increase in political risk in Germany due to H. Seehofer's resignation submitted on Sunday from the position of Germany's interior minister and leader of the CSU coalition

party. Crucial for PLN this week will be the publication of US non-farm payrolls data scheduled for Friday. However, if our forecast which is in line with the market consensus materializes, it will not have any substantial impact on PLN rate. The publication of non-manufacturing ISM and of the Minutes of the June FED meeting will also be neutral for PLN.

## IRS rates remain under the influence of global factors



**Last week, 2-year IRS rates increased to 1.95 (up by 3bps), 5-year to 2.46 (up by 5bps), and 10-year to 2.94 (up by 5bps).** IRS rates increased across the curve. This was largely a correction after their sharp decrease in the previous two weeks, related mainly to the dovish rhetoric of the ECB (see MACROmap of 25/6/2018). Conducive to higher IRS rates was also the increased risk aversion resulting from the growing probability of intensification of protectionist measures in global trade.

In our view, today's results of business surveys (PMI) for Polish manufacturing are slightly positive for yields on Polish bonds. This week the market will focus on US non-farm payrolls data. If our forecast which is in line with the market consensus materializes, they are not likely to significantly affect IRS rates. Non-manufacturing ISM and the Minutes of the June FED meeting will also be neutral for IRS rates.

## Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland														
Indicator	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-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	4,25	4,25	4,31	4,24	4,20	4,18	4,15	4,17	4,21	4,24	4,31	4,37	4,38
USDPLN*	3,70	3,59	3,57	3,65	3,64	3,53	3,48	3,34	3,42	3,42	3,51	3,69	3,75	3,79
CHFPLN*	3,86	3,72	3,72	3,77	3,65	3,59	3,57	3,59	3,62	3,58	3,54	3,74	3,78	3,81
CPI inflation (% YoY)	1,5	1,7	1,8	2,2	2,1	2,5	2,1	1,9	1,4	1,3	1,6	1,7	2,0	
Core inflation (% YoY)	0,8	0,8	0,7	1,0	0,8	0,9	0,9	1,0	0,8	0,7	0,6	0,5	0,6	
Industrial production (% YoY)	4,4	6,3	8,9	4,3	12,4	9,2	2,8	8,6	7,3	1,7	9,3	5,3	7,0	
PPI inflation (% YoY)	1,8	2,2	3,0	3,2	3,0	1,8	0,3	0,2	-0,1	0,5	1,0	2,8	4,2	
Retail sales (% YoY)	6,0	7,1	7,6	8,6	8,0	10,2	6,0	8,2	7,9	9,2	4,6	7,6	8,2	
Corporate sector wages (% YoY)	6,0	4,9	6,6	6,0	7,4	6,5	7,3	7,3	6,8	6,7	7,8	7,0	7,0	
Employment (% YoY)	4,3	4,5	4,6	4,5	4,4	4,5	4,6	3,8	3,7	3,7	3,7	3,7	3,6	
Unemployment rate* (%)	7,0	7,0	7,0	6,8	6,6	6,5	6,6	6,9	6,8	6,6	6,3	6,1	5,9	
Current account (M EUR)	-902	-296	311	218	436	278	-699	2072	-972	-982	-21	-185		
Exports (% YoY EUR)	7,2	15,0	13,4	11,5	15,8	15,5	2,6	11,7	5,5	-2,0	8,6	2,4		
Imports (% YoY EUR)	14,3	14,6	8,7	8,9	15,4	15,9	10,9	16,3	8,3	1,6	9,9	0,9		

\*end of period

## Forecasts of the quarterly macroeconomic indicators

Main macroeconomic indicators in Poland											
Indicator	2018				2019				2017	2018	2019
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Gross Domestic Product (% YoY)	5,2	4,9	4,2	3,8	3,2	3,5	3,2	3,0	4,6	4,5	3,2
Private consumption (% YoY)	4,8	4,5	3,9	4,3	4,3	3,5	3,6	3,4	4,8	4,4	3,7
Gross fixed capital formation (% YoY)	8,1	8,9	8,7	6,7	5,7	4,7	3,6	3,2	3,4	7,9	4,0
Export - constant prices (% YoY)	1,1	4,5	4,3	4,7	6,0	5,5	5,3	4,9	8,2	3,7	5,4
Import - constant prices (% YoY)	3,5	6,1	4,2	5,3	6,2	5,8	5,4	5,1	8,7	4,8	5,6
GDP growth contributions	Private consumption (pp)	3,0	2,7	2,3	2,2	2,7	2,1	2,1	1,7	2,7	2,1
	Investments (pp)	0,9	1,4	1,5	1,6	0,7	0,8	0,6	0,8	0,6	0,7
	Net exports (pp)	-1,2	-0,6	0,3	-0,1	0,1	0,1	0,2	0,0	0,1	0,1
Current account (% of GDP)***	-0,1	0,1	-0,1	-0,6	-0,9	-0,9	-0,8	-0,9	0,3	-0,6	-0,9
Unemployment rate (%)**	6,6	5,8	5,9	6,0	6,4	5,8	5,9	6,0	6,6	6,0	6,0
Non-agricultural employment (% YoY)	1,4	1,2	0,6	0,3	0,3	0,3	0,3	0,1	1,9	0,9	0,3
Wages in national economy (% YoY)	6,2	7,4	7,0	7,1	7,6	7,0	6,7	6,6	5,3	6,9	7,0
CPI Inflation (% YoY)*	1,5	1,8	1,9	1,1	1,3	1,3	1,2	1,5	2,0	1,6	1,3
Wibor 3M (%)**	1,70	1,70	1,70	1,70	1,70	1,70	1,70	1,78	1,72	1,70	1,78
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
EURPLN**	4,21	4,37	4,27	4,24	4,23	4,20	4,18	4,15	4,18	4,24	4,15
USDPLN**	3,42	3,75	3,62	3,50	3,44	3,36	3,27	3,19	3,48	3,50	3,19

\* quarterly average

\*\* end of period

\*\*\*cumulative for the last 4 quarters

## Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST*	
					CA	CONSENSUS**
Monday 07/02/2018						
3:45	China	Caixin Manufacturing PMI (pts)	Jun	50,2	51,1	51,0
9:00	Poland	Manufacturing PMI (pts)	Jun	53,3	53,0	53,1
9:55	Germany	Final Manufacturing PMI (pts)	Jun	55,9	55,9	55,9
10:00	Poland	CPI (% YoY)	Jun	1,7	2,0	2,0
10:00	Eurozone	Final Manufacturing PMI (pts)	Jun	55,0	55,0	55,0
11:00	Eurozone	Unemployment rate (%)	May	8,5		8,5
15:45	USA	Flash Manufacturing PMI (pts)	Jun	54,6		
16:00	USA	ISM Manufacturing PMI (pts)	Jun	58,7	58,3	58,1
Tuesday 07/03/2018						
11:00	Eurozone	PPI (% YoY)	May	2,0		2,7
11:00	Eurozone	Retail sales (% MoM)	May	0,1		0,1
16:00	USA	Factory orders (% MoM)	May	-0,8		0,0
Wednesday 07/04/2018						
10:00	Eurozone	Services PMI (pts)	Jun	55,0	55,0	55,0
10:00	Eurozone	Final Composite PMI (pts)	Jun	54,8	54,8	54,8
20:00	USA	FOMC Minutes	Jun			
Thursday 07/05/2018						
8:00	Germany	New industrial orders (% MoM)	May	-2,5		1,1
14:15	USA	ADP employment report (k)	Jun	178		187
16:00	USA	ISM Non-Manufacturing Index (pts)	Jun	58,6	58,9	58,3
Friday 07/06/2018						
8:00	Germany	Industrial production (% MoM)	May	-1,0		0,4
14:30	USA	Unemployment rate (%)	Jun	3,8	3,8	3,8
14:30	USA	Non-farm payrolls (k MoM)	Jun	223	195	195

\*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