This week

- **The most important event this week will be the FOMC meeting scheduled for Wednesday.** We expect that after the rates hike in June, this week, the Federal Reserve will maintain the status quo in monetary policy. The markets will focus on possible changes in the statement tone, taking into account D. Trump's remarks concerning protectionist measures in foreign trade. We believe that the text of the statement will be consistent with our scenario assuming two more hikes in 2018, each by 25 bp (in September and December). In our view, the publication of the FOMC statement after the meeting will not provide any new information in relation to the FED chairman's testimony to the Congress two weeks ago (see MACROmap of 23/7/2018). However, it may contribute to higher volatility of PLN and bond yields.
- **Important data from the US will also be released this week.** Data from the labour market will be released on Friday. We expect that non-farm payrolls growth amounted to 190k in July vs. 213k in June, with unemployment rate falling down from 4.0% to 3.9% in July. 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 175k in July vs. 177k in June). Business survey results will also be released this week. The manufacturing ISM will be published on Wednesday and, in our view, it dropped to 59.4 pts vs. 60.2 pts in June, consistently with the results of regional business surveys (i.a. the declines recorded for NY Empire State and Philadelphia Fed indices). We expect that the Conference Board Consumer Confidence Index, like the University of Michigan Index (see below), will indicate a slight deterioration in households' sentiment in July and will amount to 126.1 pts vs. 126.4 pts in June. We believe that the US readings will be neutral for PLN and the prices of the Polish debt.
- **Important data from the Eurozone will be released this week.** We expect that the quarterly GDP growth rose to 0.5% in Q2 from 0.4% in Q1. A downside risk to our forecast is the lower-than-expected estimate of GDP in France released last week (0.2% QoQ in Q1 and Q2). In addition we forecast that HICP inflation in July has not changed compared to June and amounted to 2.0% YoY. The publication of data from the Eurozone will not be market moving, we believe.
- **The July China manufacturing PMIs (Caixin and CFLP) will be released this week.** We expect that CFLP PMI dropped to 51.4 pts vs. 51.5 pts in June. We forecast that Caixin PMI has not changed in July compared to June and amounted to 51.0 pts. Concerns of Chinese companies in the context of trade wars will be conducive to a slight deterioration of sentiment in July, but this impact will be limited, as this factor had already been reflected by a lower new export orders sub-index in previous months for the both indices (see MACROmap of 2/7/2018). We believe that the business survey results in China will be neutral for the markets.
- **Preliminary data on the July inflation in Poland will be released on Tuesday and, in our view, it dropped to 1.9% vs. 2.0% in June.** We believe that lower dynamics of food prices have been partially offset by faster increase in fuel prices and higher core inflation. Our forecast is below the consensus (2.0%), therefore its materialization will be slightly negative for PLN and yields on Polish bonds.
- **Data on business sentiment in Polish manufacturing will be released on Wednesday.** We expect that PMI dropped to 54.0 pts vs. 54.2 pts in June, which will be consistent with the expected by us deceleration in employment growth in manufacturing. Our forecast is close to the market consensus (54.2 pts), therefore its materialization is likely to be neutral for PLN and yields on Polish bonds.

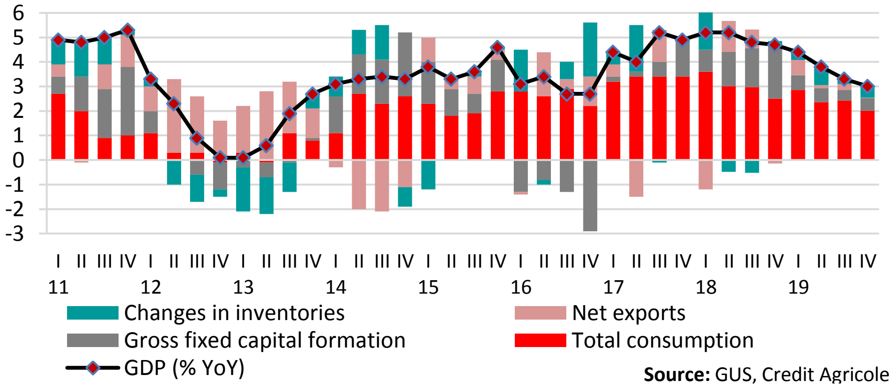
Last week

- **Important hard data from the US and business survey results were released last week**. In accordance with the first estimate, the annualized US GDP growth rate amounted to 4.1% in Q2 vs. 2.2% in Q1, running in line with the market expectations. Higher GDP dynamics resulted from higher contributions of consumption (2.69 pp in Q2 vs. 0.36 pp in Q1), net exports (1.06 pp vs. -0.02 pp), and government spending (0.37 pp vs. 0.27pp. Lower contributions of inventories (-1.00 pp vs. 0.27 pp) and investments (0.94 pp vs. 1.34 pp) had an opposite impact. Thus, consumption was the main source of economic growth in US in Q2, while in Q1 it was investments. Before the Friday's reading, the US President, D. Trump, announced that GDP data will be "terrific". In effect, some investors expected them to be better than the market consensus, which supported USD. Therefore, data in line with the consensus were disappointing for the investors, resulting in an upward correction of EURUSD directly after their publication. Preliminary data on durable goods orders were also released last week and increased by 1.0% MoM in June vs. a 0.3% decrease in May. The increase in their monthly dynamics resulted largely from higher growth rate of orders for non-military aircrafts and parts (4.3% MoM in June vs. -11.6% in May). Excluding means of transport, durable goods orders rose by 0.4% MoM vs. a 0.3% increase in May. Especially noteworthy in the data structure is further increase in annual growth rate of orders for non-military capital goods excluding orders for aircrafts (8.3% in June vs. 6.9% in May – the highest increase since December 2017), being a leading indicator for future investments. Data on new home sales (631k in June vs. 666k in May – the lowest level since January 2018) and existing home sales (5.38M vs. 5.41M – the lowest level since December 2017) were also released last week. Combined with data on new building permits and housing starts, released two weeks ago, they pointed to a visible slowdown in the US real estate market in June (see MACROmap of 23/7/2018). On the one hand, it results from the supply-side constraints related to higher construction costs due to increasingly lower availability of labour and building lots as well as higher prices of timber (the effect of higher import tariffs on timber from Canada). On the other hand, increasingly visible in the market are demand-side constraints related to higher mortgage rates. The results of consumer sentiment surveys were also released last week. The final University of Michigan Index indicated a slight deterioration of consumer sentiment, decreasing to 97.9 pts in July vs. 98.2 pts in June and 97.1 pts in the flash estimate. Conducive to the index decline was lower value of its sub-index for the assessment of the current situation while higher sub-index for expectations had an opposite impact. We forecast that the annualized US GDP growth rate will decrease to 3.0% in Q3.
- **The ECB meeting was held last week.** Although the monetary policy parameters in the Eurozone have been left unchanged, the part of the statement after the meeting concerning its outlook (so-called "forward guidance") has been modified. Now the ECB expects interest rates "to remain at their present levels at least through the summer of 2019, and in any case for as long as necessary to ensure the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term". Earlier, the ECB expected interest rates "to remain unchanged at least through the summer of 2019 and in any case for as long as necessary to ensure that the evolution of inflation remains aligned with our current expectations of a sustained adjustment path". In our view, the above marginal change in the text of the statement after the meeting may indicate that that the ECB considers sustainable return of inflation to a level consistent with the adopted definition of stability to be increasingly likely. However, during the conference after the meeting, the ECB Governor, M. Draghi, when answering one of the questions, pointed out that although HICP inflation in the

Eurozone stood currently at 2.0% YoY, core inflation remained low and "it's very early to call victory". The dovish remark of M. Draghi has led to EUR weakening vs. USD. We maintain our scenario, in which the ECB will hike the deposit rate by 40 bp in total in H2 2019 and the main interest rate by 25 bp in Q4 2019.

- **The Composite PMI Index in the Eurozone dropped to 54.3 pts in July vs. 54.9 pts in June, running below the market expectations (54.8 pts.) and our projections (54.5 pts.).** Thus confirmed was our view from the month before that the increase in PMI composite for the Eurozone in June was temporary and largely caused by favourable calendar effects (see MACROmap of 25/6/2018). The decrease in PMI composite for the Eurozone in July resulted from lower value of its sub-index for business activity in services, while the value of the sub-index for manufacturing output has remained unchanged. In geographic terms, slower growth rate of economic activity was recorded in France while it accelerated in Germany. The deterioration in France resulted from lower sub-index for business activity in services and higher sub-index for manufacturing output. A decrease in the sub-index for business activity in services was also recorded in Germany but was more than offset by a sharp increase in the sub-index for manufacturing output (to the highest level in 3 months). Other Eurozone countries covered by the survey recorded deterioration of sentiment. From the point of view of future business climate in Poland especially noteworthy in the structure of the last week's data is the increase in German manufacturing PMI which rose to 57.3 pts in July vs. 55.9 pts in June, hitting the highest level in 3 months. Conducive to the index increase were higher contributions of four of its five sub-indices (for output, new orders, inventories, and suppliers' delivery times). The increase in the sub-indices for output and new orders, including export orders, in German manufacturing supports the demand for goods made in Poland and used in the production of final goods (intermediate goods). This supports our upward-revised forecast of Polish GDP (see below). It is also worth emphasizing that the increase in the sub-index for new export orders was recorded only in German manufacturing, while manufacturing in France and in the whole Eurozone has decreased (in France below the 50 pts threshold dividing expansion from contraction of activity). This shows that the Eurozone countries are coping differently with the slowdown in global trade observed since the beginning of 2018. The last week's business survey results for the Eurozone support our forecast, in which the quarterly GDP growth rate within the single currency area in Q2, Q3, and Q4 will stabilize at 0.5% and in the whole 2018 will drop to 2.2% vs. 2.6% in 2017.
- **Ifo Index reflecting the sentiment among German managers representing the manufacturing, construction, wholesale and retail trade sectors, dropped to 101.7 pts in July vs. 101.8 pts in June.** The index decrease resulted from its lower sub-index concerning expectations while higher sub-index concerning the assessment of the current situation had an opposite impact. Sector-wise, deterioration of sentiment was recorded in two of the four surveyed segments (manufacturing and trade), while the situation in services and construction improved. Further deterioration of sentiment in the German economy poses a downside risk to our forecast, in the quarterly GDP growth rate in the German economy will increase to 0.5% in Q3 vs. 0.4% in Q2.

Forecasts for 2018-2019



Source: GUS, Credit Agricole

In view of recent data on the real economy and trends shown by business survey results, we have revised our macroeconomic forecasts (see the table on page 7). We expect the GDP to grow at 5.0% YoY in 2018 (4.5% before the revision), and at 3.7% in 2019 (vs. 3.2% in the previous forecast).

The upward revision of the GDP growth rate forecast by us for 2018 results mainly from a higher starting point of the forecast, i.e. the expected economic growth rate seen in Q2. Based on the data on industrial production, construction-assembly production, and retail sales as well as the business survey results for April-June 2018, we estimate that the annual GDP dynamics in Q2 did not change compared to Q1 and amounted to 5.2%.

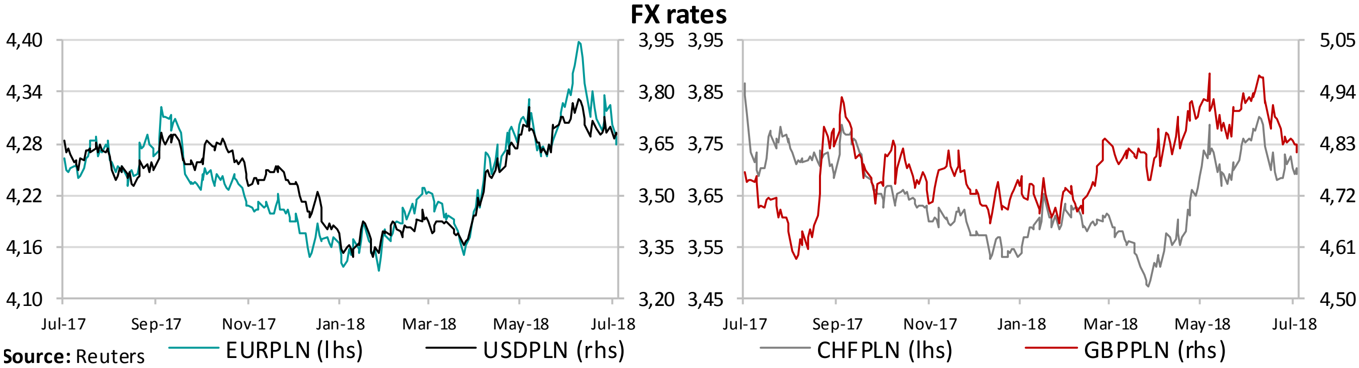
The revision also results from our changed expectations concerning the profile of rebound in total investments. We believe that it will be smoother without a well-defined peak. We believe that the difficulties in finding skilled labor, high capacity utilization among contractors, shortages of certain source materials and components or their high prices will make awarding contracts and efficient implementation of public investments difficult. Considering these tendencies, we expect that the currently observed high dynamics of public outlays on fixed assets will not increase any more in subsequent quarters but will remain at relatively high levels for an extended period of time (until the turn of 2018 and 2019). According to the latest data, the recovery in corporate investments also has a smooth profile – their growth rate stood in Q1 (and is likely to stand) below our earlier forecasts. At the same time, we believe that – in the context of forecasts of high demand and insufficient production capacities – corporate investments will step up in subsequent quarters. Mainly responsible for this will be Polish private companies (the investments of large companies in this segment have been decreasing in annual terms continuously since Q2 2017). Consequently, we have increased the forecast of dynamics of total investments in the whole 2018 and flattened their quarterly trajectory. Our view is supported by the results of the NBP business surveys ("Quick Monitoring, July 2018") – the recorded in Q2 increase in the indicator of planned new investments in the horizon of one quarter and until the end of the year.

We have also revised our forecasts of consumption in the coming quarters. Despite growing difficulties in finding skilled labour, the employment growth is not slowing down. In our opinion, the increase in FTEs is boosted by gradual acceleration in real wage growth, supporting the return to the labour market of so-far professionally inactive people as well as growing registered employment of immigrants from Ukraine. Amid continuing wage pressure, conducive to a relatively fast wage increase, low inflation and further increase in employment will support stable consumption growth in the coming quarters. In H2 2018, conducive to acceleration in private consumption growth will be the launch of the government program "Good Start", consisting in a one-time social benefit of PLN 300 for every child attending school. We believe that households will not use the period of favourable conditions in the labour market to increase the savings rate. Consumption will remain the main driver of economic growth throughout the forecast horizon.

At the same time we have not changed our inflation forecast. High oil prices will be a boost to inflation increase only in the short term while base effects will be conducive to a slower price growth next year. Our expectations for food prices have not changed markedly compared to our June forecast. We continue to believe that Q4 will see slight deflation in food prices, to a large extent driven by last year's high base effects. At the same time, we expect that demand and cost pressure will be conducive to a gradual increase in core inflation in subsequent quarters. Considering the factors outlined above, we believe that CPI inflation will amount to 1.6% in 2018 and to 1.3% in 2019.

We have also maintained our scenario of domestic monetary policy (first hike in 2019) and gradual appreciation of PLN (EURPLN at 4.24 as at the end of 2018 and 4.15 as at the end of 2019).

Flash data on inflation may weaken PLN



Source: Reuters

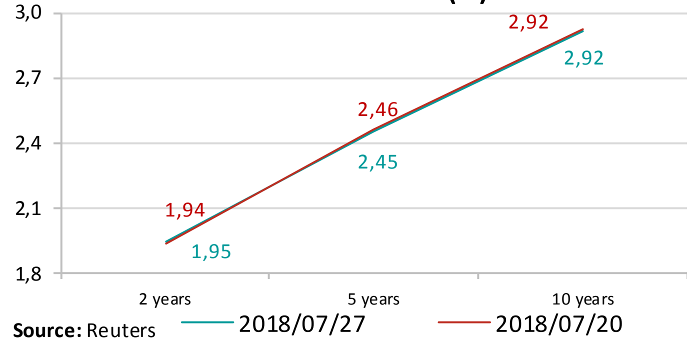
Last week, the EURPLN exchange rate dropped 4.2798 (PLN strengthening by 0.9%). Throughout the week EURPLN showed a downward trend. PLN strengthening was supported by higher risk appetite reflected by lower VIX index. The decrease in risk aversion resulted largely from the Trump-Juncker agreement reached last week which increased the chances of avoiding trade war between the US and the EU. Consequently, the appreciation was observed also for other emerging currencies.

Due to PLN strengthening vs. EUR, PLN was also appreciating vs. other major currencies. In effect, last week, PLN strengthened vs. USD (by 0.3%), CHF (by 0.4%), and GBP (by 0.4%). PLN strengthening vs. USD was limited by EUR depreciation vs. USD, supported by the dovish tone of the conference after the ECB meeting and by D. Trump's remark who said that data on the US GDP for Q2 would be "terrific". Although the data proved to be in line with the expectations and led to a correction, EUR has not managed to make up for the losses vs. USD from the first part of the week.

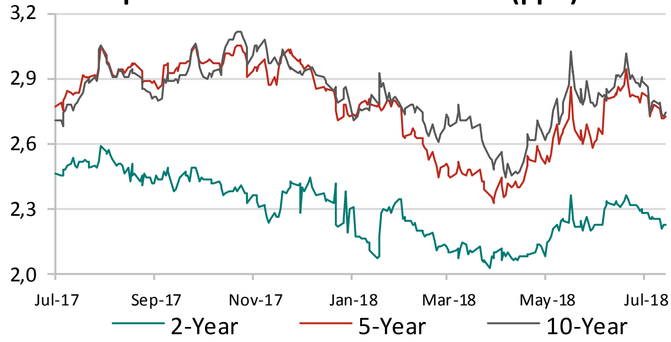
Crucial for PLN this week will be the publication of flash data on inflation in Poland. We believe that they may lead to a slight weakening of PLN. The publication of the PMI results for Polish manufacturing scheduled for Wednesday will not have a substantial impact on PLN, we believe. In our view, numerous data from the Eurozone (flash GDP and flash inflation), the US (non-farm payrolls, Conference Board Index, manufacturing ISM), and China (manufacturing Caixin and CFLP indices) will also have a limited impact on PLN. On the other hand, the tone of the statement after the Wednesday's FOMC meeting may contribute to increased volatility of PLN.

Market focused on flash inflation in Poland

IRS curve in Poland (%)



Spread: Polish vs. German bonds (ppt.)



Source: Reuters

Last week, 2-year IRS rates increased to 1.95 (up by 1bp), 5-year decreased to 2.45 (down by 1bp), and 10-year remained unchanged compared to the level from two weeks ago and amounted to 2.92. Last week saw low liquidity related to the holiday period which limited IRS rates volatility. The most important event for the market was the Thursday's ECB meeting. The dovish tone of the conference after the meeting has led to a slight decrease in IRS rates. The Friday's debt auction, at which the Finance Ministry sold PLN 7.0bn of 2-, 5-, 6-, 10-, and 29-year bonds with demand amounting to PLN 10.2bn, had a limited impact on IRS rates.

This week the market will focus on the publication of flash data on inflation in Poland scheduled for Tuesday. If our forecast that is lower from the market expectations materializes, the data may contribute to a decrease in IRS rates at the short end of the curve. The publication of the PMI results for Polish manufacturing scheduled for Wednesday will not be market moving, we believe. In our view, limited impact on IRS rates will also have data from the Eurozone (flash GDP and flash inflation), as well as numerous data from the US (non-farm payrolls, Conference Board Index, manufacturing ISM). On the other hand, the tone of the statement after the Wednesday's FOMC meeting may contribute to increased volatility of 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	**4,28**
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	3,74	**3,67**
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	**3,69**
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	5,2	6,8	
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	3,0	3,7	
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	10,3	
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	7,5	
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	3,7	
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	206	54	-847	1955	-782	-785	-90	42		
Exports (% YoY EUR)	7,2	15,0	13,4	11,5	15,8	15,5	2,6	12,1	5,9	-1,6	8,9	2,7		
Imports (% YoY EUR)	14,3	14,6	8,7	8,9	15,4	15,9	10,9	16,7	8,1	1,4	11,1	1,7		

*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	5,2	4,8	4,7	4,4	3,8	3,3	3,0	4,6	5,0	3,7
Private consumption (% YoY)		4,8	4,6	4,6	4,5	4,0	3,5	3,6	3,4	4,8	4,6	3,7
Gross fixed capital formation (% YoY)		8,1	8,6	9,4	9,1	4,9	3,4	2,5	2,1	3,4	8,9	3,2
Export - constant prices (% YoY)		1,1	6,0	5,5	4,7	7,0	5,5	5,3	4,9	8,2	4,3	5,7
Import - constant prices (% YoY)		3,5	4,0	4,5	5,3	6,2	5,8	5,4	5,1	8,7	4,3	5,7
GDP growth contributions	Private consumption (pp)	3,0	2,7	2,7	2,3	2,6	2,1	2,1	1,7	2,7	2,7	2,1
	Investments (pp)	0,9	1,4	1,6	2,2	0,6	0,6	0,4	0,5	0,6	1,5	0,6
	Net exports (pp)	-1,2	1,3	0,8	-0,1	0,6	0,1	0,2	0,0	0,1	0,2	0,2
Current account (% of GDP)***		-0,2	0,0	-0,1	-0,6	-0,9	-0,9	-0,8	-0,9	0,2	-0,6	-0,9
Unemployment rate (%)**		6,6	5,9	5,7	6,0	6,4	5,9	5,7	6,0	6,6	6,0	6,0
Non-agricultural employment (% YoY)		1,4	1,2	1,0	0,8	0,5	0,3	0,2	0,1	1,9	1,1	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	1,7	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	3,74	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	FORECAST* CONSENSUS**
		Monday 07/30/2018				
14:00	Germany	Preliminary HICP (% YoY)	Jul	2,1	2,1	2,1
		Tuesday 07/31/2018				
3:00	China	Caixin Manufacturing PMI (pts)	Jul	51,5	51,4	51,3
10:00	**Poland**	**CPI (% YoY)**	**Jul**	**1,9**	**1,9**	**2,0**
11:00	Eurozone	Preliminary GDP (% QoQ)	Q2	0,4	0,5	0,4
11:00	Eurozone	Preliminary HICP (% YoY)	Jul	2,0	2,0	2,0
11:00	Eurozone	Unemployment rate (%)	Jun	8,4		8,3
14:30	USA	Real private consumption (% MoM)	Jun	0,0		
15:00	USA	Case-Shiller Index (% MoM)	May	0,2		
15:45	USA	Chicago PMI (pts)	Jul	64,1		63,0
16:00	USA	Consumer Confidence Index	Jul	126,4	125,3	126,5
		Wednesday 08/01/2018				
3:45	China	Caixin Manufacturing PMI (pts)	Jul	50,2	51,0	50,8
9:00	**Poland**	**Manufacturing PMI (pts)**	**Jul**	**54,2**	**54,0**	**54,2**
9:55	Germany	Final Manufacturing PMI (pts)	Jul	57,3	57,3	57,3
10:00	Eurozone	Final Manufacturing PMI (pts)	Jul	55,1	55,1	55,1
14:15	USA	ADP employment report (k)	Jul	177		175
15:45	USA	Flash Manufacturing PMI (pts)	Jul	55,5		
16:00	USA	ISM Manufacturing PMI (pts)	Jul	60,2	59,4	59,8
20:00	USA	FOMC meeting (%)	Aug	2,00	2,00	2,00
		Thursday 08/02/2018				
13:00	UK	BOE rate decision (%)	Aug	0,50	0,75	0,75
16:00	USA	Factory orders (% MoM)	Jun	0,4	0,4	1,0
		Friday 08/03/2018				
10:00	Eurozone	Services PMI (pts)	Jul	54,4	54,4	54,4
10:00	Eurozone	Final Composite PMI (pts)	Jul	54,3	54,3	54,3
14:30	USA	Unemployment rate (%)	Jul	4,0	3,9	3,9
14:30	USA	Non-farm payrolls (k MoM)	Jul	213	190	195
16:00	USA	ISM Non-Manufacturing Index (pts)	Jul	59,1	59,0	59,0

*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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