

This week

- **The most important event this week will be the release of the final estimate of Polish GDP in Q2 2018, including its structure, scheduled for Friday.** We see a slight risk that the final dynamics will be revised upwards compared to the flash estimate (5.1% YoY) and will amount to 5.2% - same as in Q1. Conducive to the acceleration of economic growth were higher contributions of net exports and investments. Lower contributions of inventories and consumption had an opposite impact. The publication of the final GDP data should not be market moving.
- **Important data from the US will be released this week.** The second estimate of GDP in Q2 will be released on Wednesday. We expect that the annualized economic growth rate has not changed compared to the flash estimate and amounted to 4.1%. Lower contribution of consumption has been offset by higher contribution of investments. US consumer survey results will also be released this week. We expect that the Conference Board Consumer Confidence Index (126.4 pts in August vs. 127.4 pts in July), like the final University of Michigan Index (95.3 pts in August vs. 97.9 pts in July), will signal a slight deterioration of households' sentiment. The publication of US data consistent with the scenario of a 25 bp interest rates hike by FED at the September meeting should not substantially affect the financial markets.
- **The flash estimate of HICP inflation for the Eurozone will be released on Friday.** We expect that the annual inflation rate dropped to 2.0% YoY in August vs. 2.1% in July, due to high base effects. We expect that core inflation stabilized in August at a similar level as in July (1.0-1.1% YoY). Our forecast is consistent with the market consensus; therefore, its materialization will be neutral for PLN and yields on Polish bonds.
- **The August China manufacturing CFLP PMI will be released on Friday.** The market consensus points to the index decline down to 51.0 pts vs. 51.2 pts in July. We expect that the results of business surveys in China, indicating a slight deterioration of sentiment in manufacturing, will be neutral for the markets.
- **Flash data on the August inflation in Poland will be released today and, in our view, decreased to 1.9% YoY vs. 2.0% in July.** We believe that the decrease in inflation rate resulted from lower dynamics of food and fuel prices. In turn, the rise in the prices of gas had an opposite impact. Core inflation has probably not changed compared to July and amounted to 0.6% YoY. Our forecast is below the consensus (2.0%); therefore, its materialization will be slightly negative for PLN and yields on Polish bonds.
- **The trade negotiations between the US and China brought no results, hence the US introduced last week the earlier planned 25% tariffs on goods imported from China worth USD 16bn.** Thus, the tariffs already cover Chinese goods worth USD 50bn. According to the latest information, a decision on imposing a subsequent tranche of tariffs on goods imported from China worth USD 200bn is to be taken in the next few days. Increased uncertainty related to this decision will be conducive to a deterioration of market sentiment this week and, consequently, to PLN weakening.
- **Ifo Index reflecting the sentiment among German managers representing the manufacturing, construction, and services will be released today.** We expect that the index value will increase to 101.9 pts in August from 101.7 pts in July. The improvement of sentiment will be consistent with increase of the August PMI composite for Germany recorded last week. Our forecast is close to the consensus; therefore, its materialization will be neutral for the markets.

Last week

- **In accordance with GUS data, the dynamics of industrial production rose to 10.3% YoY in July vs. 6.8% in June.** Seasonally-adjusted industrial production has not changed compared to June

2018. The main factor behind the increase in industrial production dynamics between June and July was a favourable difference in the number of working days (see MACROPulse of 20/8/2018). The high dynamics of sold production growth in July also resulted from the last year's low base effects. In addition, the increase in manufacturing activity in July 2018 was supported by shorter than last year holiday breaks in car factories. The construction-assembly production dynamics decreased to 18.7% YoY in July vs. 24.7% YoY in June. The production growth rate has decreased despite the above-mentioned statistical effect in the form of a favourable difference in the number of working days. The reason for this was mainly the last year's high base effects (construction-assembly production rose by 4.6% MoM in July 2017). Seasonally-adjusted construction-assembly production decreased in July 2018 by 1.0% MoM. The July data do not alter our forecast of GDP growth rate in Q3 2018 (4.8% YoY vs. 5.1% in Q2).

✓ **In accordance with GUS data, retail sales increased in current prices by 9.3% YoY in July vs. a 10.3% increase in June.** The sales growth rate in constant prices dropped to 7.1% YoY in July vs. 8.2% in June (see MACROPulse of 22/8/2018). The main factor behind the deceleration of retail sales growth in July were lower dynamics of sales in the category "food, beverages and tobacco products and "other retail sales in non-specialized stores", including i.a. hypermarkets. Conducive to slower retail sales growth rate in July 2018 were also lower dynamics in the category "furniture, radio, TV, and household appliances", caused by the abatement of a positive temporary effect, namely the sharp increase in demand for TV equipment due to World Cup in June 2018. The retail sales data do not alter our forecast of stabilization of consumption growth in Q3 (4.6% YoY vs. similar dynamics in Q2).

✓ **The government has adopted the draft budget act for 2019.** The central budget deficit planned in the draft act amounts to PLN 25.5bn and consists of expenditures amounting to PLN 415.4bn and incomes amounting to PLN 386.9bn. The expenditures include i.a. salary increases for public-sector employees, financing of the "Good Start" program, expenses on the modernization of Police, Border Guards, State Fire Service, and State Protection Office, financing of defense needs, restructuring of coal mining, and higher subsidies to fuel for farmers. The draft budget act assumes that real GDP growth rate will amount to 3.8% and average yearly inflation to 2.3% in 2019. The materialization of the scenario presented in the budget means that the public finance deficit will stand in 2019 at the same level as in 2018 (1.8% of GDP). The stabilization of public deficit will support our forecast of gradual strengthening of PLN in subsequent quarters.

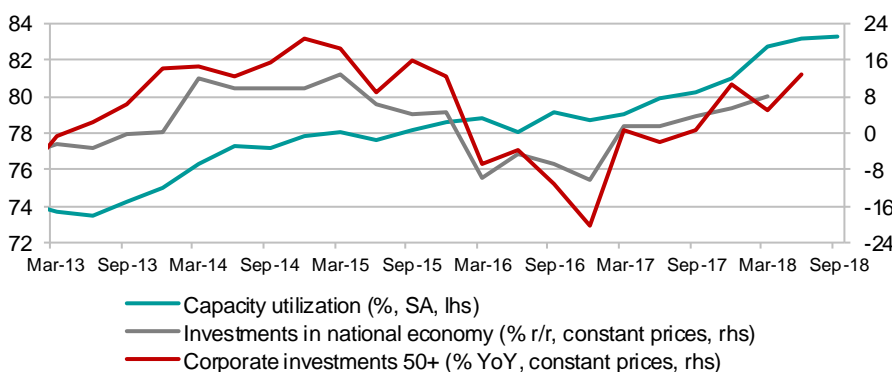
✓ **The Minutes of the August FOMC meeting were released last week.** The document included FED members' views concerning short- and medium-term prospects for the economic situation in the US. FED representatives expect that economic growth will decelerate in H2 2018 compared to the growth rate recorded in Q2 but will continue to stay above the potential. Many members indicated that unless the incoming data significantly changed their expectations, further monetary tightening would be the appropriate action. In the context of the effects of the protectionist measures introduced by the Trump administration, FED members pointed out that they were a serious source of uncertainty about the economic outlook. The text of the Minutes does not alter our scenario, in which FED will hike interest rates two more times this year, each time by 25 bp (in September and December). This view has also been supported by the address of the FED chairperson, J. Powell, during the Jackson Hole symposium. He pointed out that if wages and employment continued to grow, further tightening of monetary policy would be justified.

✓ **Significant data from the US were released last week.** Preliminary durable goods orders in the US dropped by 1.7% MoM in July vs. a 0.7% increase in June. The decrease in their monthly dynamics resulted to a significant extent from lower growth rate of orders for non-military aircrafts and parts. Excluding means of transport, durable goods orders rose by 0.2% MoM vs. a 0.1% increase in June. Especially noteworthy in the data structure is further increase in the annual dynamics of orders for non-military capital goods, excluding orders for aircrafts (8.5% in

July vs. 8.3% in June – the sharpest increase since December 2017), being the leading indicator for future investments. Data on new home sales (627k in July vs. 638k in June – the lowest level since October 2017) and existing home sales (5.34M vs. 5.38M in June – the lowest level since September 2017) were also released last week. They pointed to further slowdown in the US real estate market resulting from supply-side constraints due to higher construction costs and demand-side constraints resulting from higher mortgage rates (see MACROmap of 30/7/2018). We forecast that the annualized US GDP growth rate will decrease to 3.0% in Q3 from 4.1% in Q2.

PMI Composite for the Eurozone rose to 54.4 pts in August vs. 54.3 pts in July. The increase in PMI Composite for the Eurozone in August resulted from higher values of both its sub-indices – for business activity in services and current production in manufacturing. Geographically, increase in economic activity growth rate was recorded both in France and Germany. At first sight, the data present an optimistic view of the Eurozone economy, however a more detailed analysis of the business survey results points to several risks. Firstly, the remaining economies covered by the survey (except for France and Germany) saw further downturn – the sub-indices for output and new orders have reached the lowest level in 22 months and the future output index stood at five-year low. Secondly, the future output index for the whole Eurozone dropped in August to the lowest level since August 2016. Thirdly, further decrease in the sub-index for new export orders in manufacturing was recorded in the Eurozone and in Germany. This points to further negative impact of the slowdown in global trade, observed from the beginning of 2018, on the economic activity within the single currency area. From the point of view of assessing the future business climate in Poland, especially noteworthy in the structure of the last week’s data is the decrease in PMI for German manufacturing which dropped to 56.1 pts in August vs. 56.9 pts in July. It was caused i.a. by slower growth of new orders. The output sub-index in German manufacturing has not changed in August compared to July. Such structure of the German index signals a downside risk to the demand for goods manufactured in Poland and used in the production of final goods (intermediate goods). The last week’s business survey results in the Eurozone pose a downside risk to our forecast, in which the quarterly GDP growth rate within the single currency area will amount to 0.5% in H2 2018 vs. 0.4% in Q2.

Sharp acceleration in investment growth in Q2

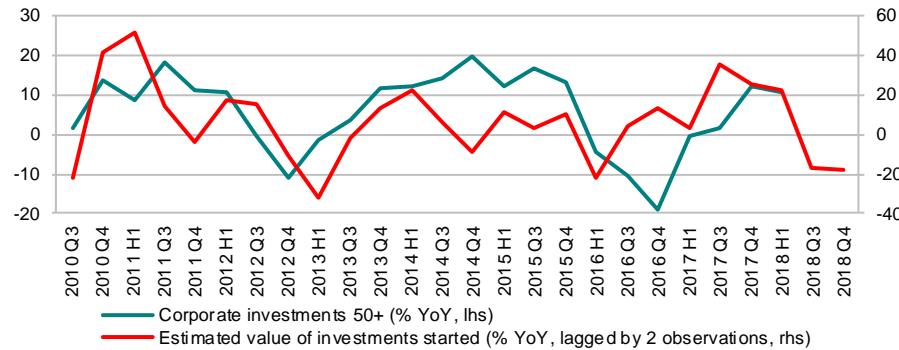


According to data released by GUS last weeks, nominal domestic investments of enterprises employing at least 50 persons increased by 13.9% YoY in Q2 vs. a 6.1% increase in Q1. Their higher growth rate resulted from higher contributions of investments in energy (up by 4.9pp), manufacturing (3.1 pp), and mining (1.1 pp). In turn, the growth of fixed capital formation

Source: GUS, Credit Agricole

was hampered by lower contribution of investments in the services sector (down by 1.6 pp). However, it should be pointed out that despite a slight deceleration in investment growth in services, the growth rate of these investments continues to stay at a high level (20.0% YoY in Q2 vs. 26.4% in Q1). It can be noted that the recovery in investment growth in manufacturing is wide ranging, as 13 of 22 industries have recorded acceleration in fixed capital formation growth in annual terms.

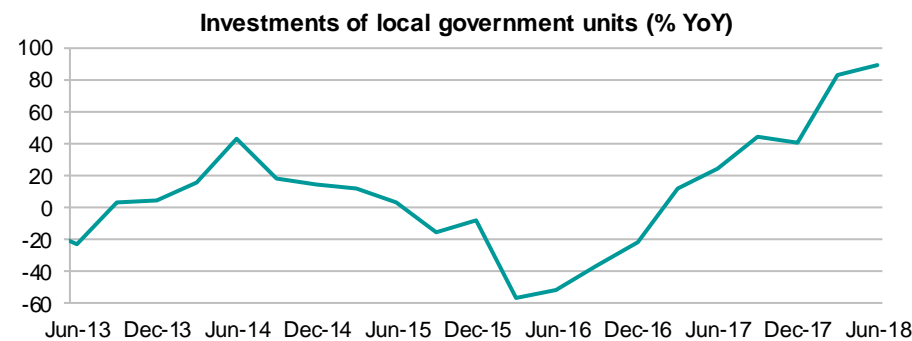
In Q2, the 50+ companies increased outlays on buildings, machinery, technical equipment and tools, while investments in means of transport have decreased in annual terms. Such structure of fixed capital formation growth may suggest that the investment activity of companies was oriented towards increasing production capacities. 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 has not changed in Q3 compared to Q2 and amounted to 83.2% (the highest level in the survey history). On the other hand, the growth of corporate investments is limited by growing difficulties of companies in finding skilled labour.



Source: GUS, Credit Agricole

The leading indicator for corporate investments is so-called total 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 in YoY terms. 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. Our view is supported by the results of the NBP business survey ("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 year.

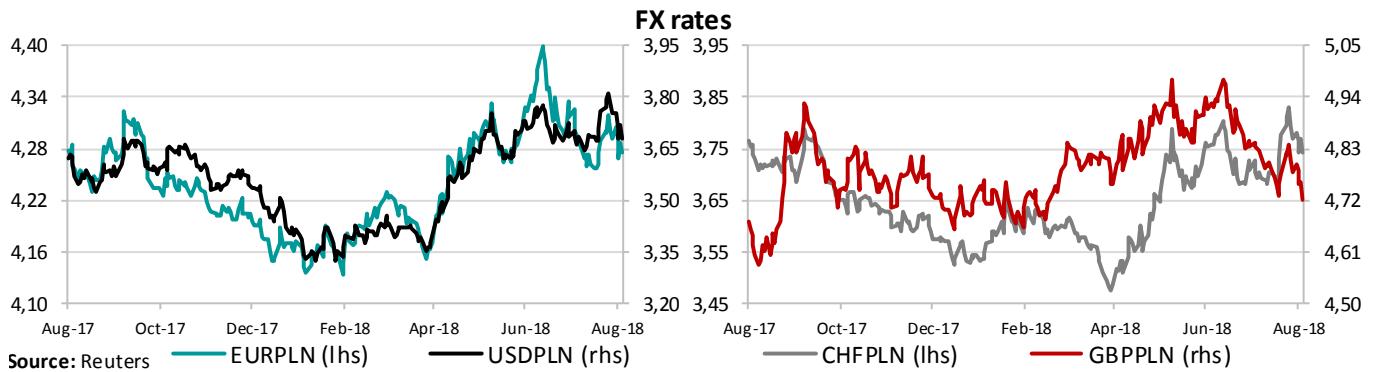


Source: Ministry of Finance, Credit Agricole

Acceleration in investment growth was also observed in the case of investments of local government units. In Q2 the dynamics of fixed capital formation in this segment rose to 89.2% YoY vs. 83.1% in Q1. Until the end of the year, the growth rate of LGU investments will be supported by the investment activity related to the municipal election planned for autumn though we believe that it will gradually decrease due to high base effects.

Considering the above-presented data on gross fixed capital formation of large enterprises and local government units, we see a significant upside risk to our forecast of total investments in Q2 2018 (8.6% YoY vs. 8.1% in Q1). The data will be released this Friday together with the publication of GDP structure (see above). The tendencies outlined above also pose an upside risk to our forecast of investment growth in the whole 2018 (8.9% YoY vs. 3.4% in 2017).

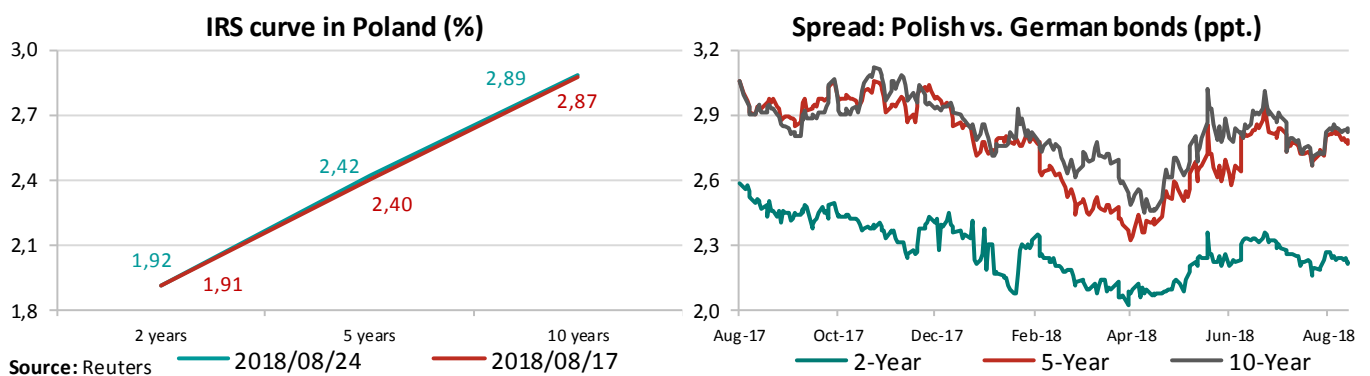
Flash data on inflation may weaken PLN



Last week, the EURPLN exchange rate dropped to 4.2750 (PLN strengthening by 0.4%). Throughout last week EURPLN was showing a downward trend. PLN appreciation was supported by increase in risk appetite reflected by lower VIX index. Conducive to lower risk aversion were smaller concerns about the situation in Turkey and growing optimism about resumed trade negotiations between the US and China. Due to PLN strengthening vs. EUR, PLN was also appreciating against other major currencies. In effect, last week, PLN appreciated vs. USD (by 2.0%), CHF (by 1.1%), and GBP (by 1.6%).

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. In our view, the publication of final data on GDP in Poland, scheduled for Friday, will not have any substantial impact on PLN. Numerous data from the Eurozone, Germany, US, and China will also have a limited impact on PLN, we believe. Increased uncertainty in the markets about the probability of subsequent tranche of tariffs being imposed on goods imported from China to the US by the Trump administration will be conducive to a deterioration of market sentiment this week and, consequently, to PLN weakening.

Market focuses on flash inflation in Poland



Last week, 2-year IRS rates have not changed compared to the level from two weeks ago and amounted to 1.9175, 5-year rates rose to 2.42 (up by 2bps), and 10-year to 2.885 (up by 1bp). The improving market sentiment concerning the prospects for economic growth and inflation in the Eurozone have contributed to a fall of prices of the German debt. At the same time, lower risk aversion was conducive to a decrease in spread between Polish and German bonds. The resultant of these two tendencies was a slight increase in Polish IRS rates. The Thursday exchange auction, at which the

Finance Ministry redeemed bonds maturing in 2018 and 2019 by selling PLN 4.8bn of 2-, 5-, 6-, and 10-year bonds, had no substantial impact on the curve.

This week the market will focus on the publication of flash data on inflation in Poland scheduled for Friday. If our forecast that is lower from the market expectations materializes, the data might contribute to a decrease in IRS rates. In our view, the publication of GDP structure in Poland scheduled for Friday will not be market moving. Data from the Eurozone (flash inflation), Germany (Ifo index), and numerous data from the US (second GDP estimate, Conference Board Index, University of Michigan Index) will also have a limited impact on IRS rates, we believe.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland														
Indicator	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	Aug-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*	4,25	4,25	4,31	4,24	4,20	4,18	4,15	4,17	4,21	4,24	4,31	4,37	4,27	4,27
USDPLN*	3,59	3,57	3,65	3,64	3,53	3,48	3,34	3,42	3,42	3,51	3,69	3,74	3,66	3,64
CHFPLN*	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	3,67
CPI inflation (% YoY)	1,7	1,8	2,2	2,1	2,5	2,1	1,9	1,4	1,3	1,6	1,7	2,0	2,0	
Core inflation (% YoY)	0,8	0,7	1,0	0,8	0,9	0,9	1,0	0,8	0,7	0,6	0,5	0,6	0,6	
Industrial production (% YoY)	6,3	8,9	4,3	12,4	9,2	2,8	8,6	7,3	1,7	9,3	5,2	6,8	10,3	
PPI inflation (% YoY)	2,2	3,0	3,2	3,0	1,8	0,3	0,2	-0,1	0,5	1,0	3,0	3,7	3,4	
Retail sales (% YoY)	7,1	7,6	8,6	8,0	10,2	6,0	8,2	7,9	9,2	4,6	7,6	10,3	9,3	
Corporate sector wages (% YoY)	4,9	6,6	6,0	7,4	6,5	7,3	7,3	6,8	6,7	7,8	7,0	7,5	7,2	
Employment (% YoY)	4,5	4,6	4,5	4,4	4,5	4,6	3,8	3,7	3,7	3,7	3,7	3,7	3,5	
Unemployment rate* (%)	7,0	7,0	6,8	6,6	6,5	6,6	6,9	6,8	6,6	6,3	6,1	5,9	5,9	
Current account (M EUR)	-296	311	218	206	54	-847	1955	-782	-785	-90	169	-240		
Exports (% YoY EUR)	15,0	13,4	11,5	15,8	15,5	2,6	12,1	5,9	-1,6	8,9	2,7	9,0		
Imports (% YoY EUR)	14,6	8,7	8,9	15,4	15,9	10,9	16,7	8,1	1,4	11,1	1,5	10,2		

*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	2,1	
	Investments (pp)	0,9	1,4	1,6	2,2	0,6	0,6	0,4	0,5	0,6	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	
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	1,0	1,0	0,8	0,5	0,3	0,2	0,1	1,9	1,0	0,3	
Wages in national economy (% YoY)	6,2	7,1	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	CONSENSUS**
Tuesday 08/28/2018						
10:00	Eurozone	M3 money supply (% MoM)	Jul	4,4		4,3
15:00	USA	Case-Shiller Index (% MoM)	Jun	0,2		0,3
16:00	USA	Richmond Fed Index	Aug	20,0		
16:00	USA	Consumer Confidence Index	Aug	127,4	126,4	126,5
Wednesday 08/29/2018						
14:30	USA	Second estimate of GDP (% YoY)	Q2	4,1	4,1	4,0
Thursday 08/30/2018						
11:00	Eurozone	Business Climate Indicator (pts)	Aug	1,29		1,26
14:00	Germany	Preliminary HICP (% YoY)	Aug	2,1	2,0	2,0
14:30	USA	Real private consumption (% MoM)	Jul	0,3		
Friday 08/31/2018						
3:00	China	Caixin Manufacturing PMI (pts)	Aug	51,2		51,0
10:00	Poland	Final GDP (% YoY)	Q2	5,2	5,2	5,1
10:00	Poland	CPI (% YoY)	Aug	2,0	1,9	2,0
11:00	Eurozone	Preliminary HICP (% YoY)	Aug	2,1	2,0	2,1
11:00	Eurozone	Unemployment rate (%)	Jul	8,3	8,2	8,2
15:45	USA	Chicago PMI (pts)	Aug	65,5		63,0
16:00	USA	Final U. of Michigan Sentiment Index (pts)	Aug	95,3	95,3	95,5

*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