Eurozone economy resumed cruising speed

This week

- **The August data on average wages and employment in the corporate sector in Poland will be released on Tuesday**. We forecast that employment dynamics did not change in August compared to July and amounted to 3.5% YoY. In turn, the average wage dynamics dropped to 6.7% YoY in August vs. 7.2% in July. Though important for the forecast of private consumption dynamics in Q3, the release of data on corporate wages and employment will be neutral for PLN and the debt market, we believe.
- **Domestic data on the August industrial production in Poland will be released on Wednesday.** We forecast that industrial production growth slowed down to 5.5% YoY in August vs. 10.3% in July. Conducive to lower output dynamics were unfavourable calendar effects and last year's high base effect. Our forecast is close to the market consensus. Therefore, its materialization will be neutral for PLN and yields on Polish bonds.
- **Data on retail sales growth in Poland will be released on Friday.** In our view it dropped to 9.0% YoY in August vs. 9.3% in July. Conducive to its decrease were unfavourable calendar effects and last year's high base effect. Our forecast is close to the market consensus. Therefore, its materialization will be neutral for PLN and yields on Polish bonds.
- **Flash September business survey results for major European economies will be released on Friday.** We expect that Composite PMI for the Eurozone decreased to 54.2 pts in September vs. 54.5 pts in August. We believe that the indicator decreased due to the deterioration of situation in both Germany and France. The survey results will be of particular importance for assessing the sustainability of the slowdown observed in recent months in economic growth within the single currency area and the impact of D. Trump's protectionist measures on exporters' sentiment. Our forecasts of business survey results for major European economies are close to the consensus. Therefore, their materialization will have no substantial impact on PLN and the prices of Polish bonds.
- **Important hard data on the US economy and business survey results will be released this week.** The stabilization in the US real estate market will be indicated by data on housing starts (1203k in August vs. 1168k in July), new building permits (1308k in August vs. 1303k in July), and existing home sales (5.34M in August and July). The September regional business survey results will also be released this week. The NY Empire State Index will point to a slight deterioration in manufacturing in the state of New York and according to our forecast it will decrease to 24.0 pts in September vs. 25.6 pts in August. On the other hand, the Philadelphia FED Index will suggest improvement in manufacturing in the Northeastern United States and it will increase to 17.0 pts in September vs. 11.9 pts in August. In our view, the aggregate impact of the US data will be neutral for the financial markets.

Last week

- **The ECB meeting was held last week.** As we expected, the ECB has left the so-far parameters of the monetary policy unchanged. The latest ECB macroeconomic projection was presented at the conference after the meeting (see below).
- **Numerous data from the US were released last week.** CPI inflation dropped to 2.7% YoY in August vs. 2.9% in July, running below the market expectations (2.8%). The decrease in headline inflation resulted from lower core inflation (2.2% YoY in August vs. 2.4% in August), due to lower dynamics of prices of i.a. apparel and health care. Data on the monthly dynamics of nominal retail sales were also released last week and dropped to 0.1% in August vs. 0.7% in July. Excluding car sales, retail sales dynamics dropped to 0.3% vs. 0.9%. Conducive to their decrease were lower sales dynamics in most of their categories. Data on the monthly dynamics of industrial production were also released last week and have not

changed in August compared to July standing at 0.4%. Conducive to higher dynamics was an increased output growth in utilities, while its decrease in manufacturing had an opposite impact. The output growth rate in mining did not change compared to July. On the other hand, the capacity utilization slightly increased and amounted to 78.1% in August vs. 77.9% in July. The preliminary University of Michigan Index pointed to improvement in consumer sentiment, rising to 100.8 pts in September vs. 96.2 pts in August and hitting the highest level since March 2018. The index increase resulted from higher values of its sub-indices concerning both the assessment of current situation and expectations. The last week's data from the US economy support our forecast, in which FED will hike interest rates two more times this year each time by 25bp (in September and December).

- **In accordance with final GUS data, inflation in Poland has not changed in August compared to July and amounted to 2.0% YoY, running in line with the GUS flash estimate**. Conducive to the decrease in inflation were lower dynamics of prices in the categories "fuels" and "food and non-alcoholic beverages". Higher dynamics of prices in the category "energy" – the effect of gas price rises - and higher core inflation (0.9% YoY in August vs. 0.6% in July) had an opposite impact. The increase in core inflation resulted from higher price dynamics in several categories: "other expenditure on goods and services", "communications", "clothing and footwear", "housing" (excluding energy), "recreation and culture", and "health" (see MACROpulse of 13/9/2018). In subsequent months, we expect further slight increase in core inflation. This increase will be related to moderate wage pressure conducive to increase in unit labour costs.
- **The deficit in Poland's current account rose to EUR 809M in July vs. EUR 240M in June.** The decrease in the current account balance resulted from lower balances on goods, services, and secondary income (lower from June by EUR 532M, EUR 42M, and EUR 10M, respectively). Higher balance on primary income (up by EUR 175M compared to June) had an opposite impact. Export dynamics rose to 9.8% YoY in July vs. 9.0% in May, and imports dynamics rose to 11.6% YoY vs. 10.2%. Conducive to faster exports and imports growth was the statistical effect in the form of a favourable difference in the number of working days. The last week's data support our forecast, in which the relation of cumulative current account balance for the last 4 quarters to GDP will decrease to -0.4% in Q3 vs. 0.0% in Q2.
- **ZEW index reflecting the sentiment among analysts and institutional investors regarding the economic situation in Germany rose to -10.6 pts in September vs. -13.7 pts in August, running above the market expectations (-14.0 pts)**. At the same time, this was the second consecutive month in which the index has recorded an increase. According to the press release, improved sentiment was supported by the agreement reached between the US and Mexico concerning some provisions of the NAFTA agreement. The aggravation of the currency crisis in Turkey and Argentine as well as weaker-than-expected data on orders in German industry had an opposite impact. Despite another increase in ZEW, considering the incoming data from the German economy (see MACROmap of 10/9/2018), we see a downside risk to our forecast in which the German GDP growth rate will not change in Q3 2018 compared to Q2 and will amount to 0.5%.
- **Numerous data from China were released last week**. Industrial production increased by 6.1% YoY in August vs. 6.0% in July, urban investments rose by 9.0% YoY vs. 8.8% in July, while retail sales went up by 5.3% YoY vs. 5.5%. Thus, the data proved in general to be in line with the market consensus and indicated stabilization in the growth rate of activity in the Chinese economy. We maintain our forecast, in which the GDP growth rate in China will decrease to 6.6% in 2018 vs. 6.9% in 2017. Our forecast is supported by the measures planned by the Chinese government to stimulate internal demand. They include higher tax allowance, lower corporate tax, increased lending, launch of new infrastructural investments, or tax preferences for export-oriented companies. In addition, the list of stimulating measures keeps expanding. Nevertheless, we expect further deterioration of

sentiment in China in subsequent quarters and the first effects of the government policy aimed at stimulating economic growth will most likely be reflected by business surveys no sooner than in Q2 2019. The main risk to our scenario is possible further escalation of protectionist measures in global trade (see below).

- **Last week the US administration confirmed the information that the US Treasury Secretary, S. Mnuchin, had proposed to China to resume negotiations in order to avoid further escalation of the trade war between those two countries.** Nevertheless, we maintain our baseline scenario, in which the US will introduce higher tariffs on subsequent tranche of imports from China, this time worth USD 200bn. This view is supported by the remark of the US President, D. Trump, who, referring to the information on the resumption of negotiations, emphasized that the United States were under no pressure to reach an agreement. At the same time, he said that China was more afraid of a further escalation of the trade war and was trying to stop it. He also said that currently "Our markets are surging, theirs are collapsing. We will soon be taking in Billions in Tariffs & making products at home." In our view, these words point to a low likelihood of an agreement being reached between the US and China, which in the coming weeks may be conducive to increase in global risk aversion and a weakening of PLN.

Eurozone economy resumed cruising speed

The ECB meeting was held last week. The statement after the meeting retained the provision that the ECB expected "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" (so-called forward guidance).

The ECB has also published the latest macroeconomic projections. The GDP profile was slightly lowered. In accordance with the September projection, GDP in the Eurozone will increase by 2.0% in 2018 (2.1% in the June projection), by 1.8% in 2019 (1.9%), and by 1.7% in 2020 (1.7%). The GDP growth profile outlined by the ECB does not differ significantly from our scenario. According to the commentary to the projection, the slight lowering of the forecasted economic growth profile results from the slowdown in global trade observed from the beginning of 2018. It was reflected by downwards revisions of exports and imports dynamics. The revision of the exports dynamics was stronger from the revision of the imports dynamics, as reflected by lower forecast contribution of net exports to GDP growth. It is worth noting that the ECB expects an increase in both the dynamics of imports and exports in 2019. Thus, the ECB believes that the currently observed slowdown in global trade is temporary.

EBC macroeconomic projections (% YoY)

	September 2018				June 2018			
	2017	2018	2019	2020	2017	2018	2019	2020
Real GDP	2,5	2,0	1,8	1,7	2,5	2,1	1,9	1,7
Private consumption	1,7	1,5	1,7	1,6	1,7	1,6	1,7	1,5
Government consumption	1,2	1,4	1,4	1,3	1,2	1,3	1,3	1,2
Gross fixed capital formation	2,8	4,0	3,2	2,9	3,3	4,2	3,3	2,8
Exports*	5,6	3,1	3,8	3,6	5,4	4,2	4,4	3,8
Imports*	4,2	3,5	4,5	3,9	4,6	4,1	4,7	4,0
HICP Inflation	1,5	1,7	1,7	1,7	1,5	1,7	1,7	1,7
Core HICP inflation	1,0	1,1	1,5	1,8	1,0	1,1	1,6	1,9

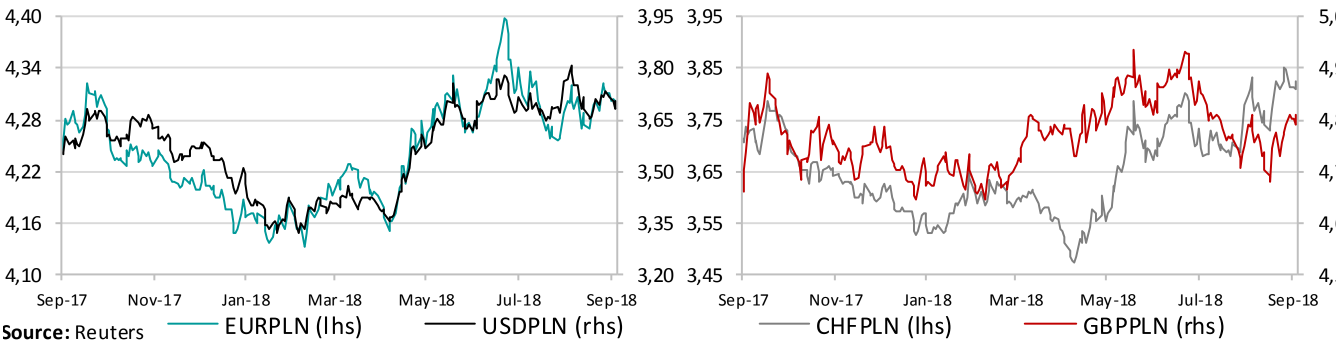
Source: EBC, Credit Agricole
*including intra-euro area trade

The inflation forecast remained unchanged and HICP inflation stands at 1.7% throughout the projection horizon, consistently with our scenario. According to the commentary to the projection, its stabilization will result from lower dynamics of energy and gradual increase in core inflation, which will amount to 1.1% in 2018 (vs. 1.1% in the June projection), to 1.5% in 2019 (1.6%), and to 1.8% in 2020 (1.9%). Such core inflation profile indicates that it will continue to be low in subsequent quarters which will limit the increase in inflation in Poland (see MACROmap of 10/9/2018).

At the press conference after the meeting, the ECB Governor, M. Draghi, was asked about the slowdown in the Eurozone manufacturing in the context of his continuously optimistic view of the economic situation within the single currency area. M. Draghi answered that the drop in industrial productions observed in recent months was a sign of convergence of the economy to its steady state. In other words, in his view, the economic growth in the Eurozone in the nearest future will be close to the potential GDP growth rate. In our opinion, it shows that the slowdown observed in the Eurozone from the beginning of 2018 and related to the downturn in global trade has a limited impact on the ECB monetary policy outlook. Thus, M. Draghi's remark, combined with the results of the September ECB macroeconomic projection, supports our scenario, in which the ECB will hike the deposit rate in total by 40bp in H2 2019 and the main interest rate by 25bp in Q4 2019.

PLN to remain impacted by the US-China trade war

FX rates



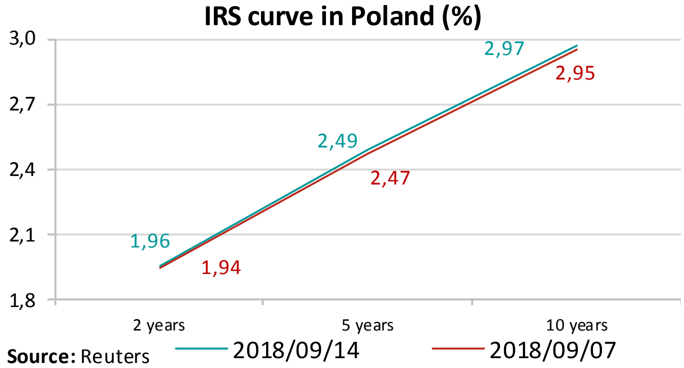
Source: Reuters

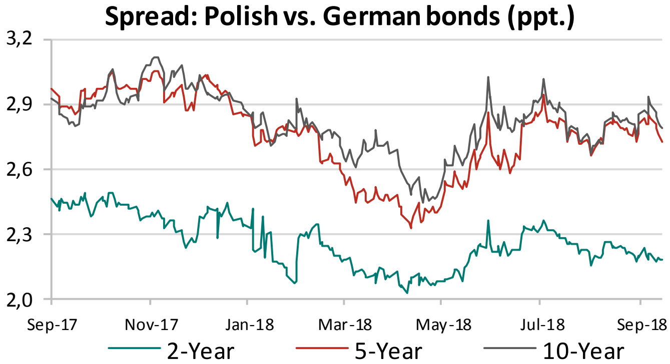
Last week, the EURPLN exchange rate dropped to 4.3019 (PLN strengthening by 0.2%). Throughout last week EURPLN was within a downward trend, mainly due to a decrease in global risk aversion, reflected by lower VIX index. Higher risk appetite was supported by the information that the US Treasury Secretary, S. Mnuchin, proposed to China to resume negotiations in order to avoid further escalation of the trade war between those two countries (see above). Positive for PLN were also the lower-than-expected data on US inflation. The Moody's did not review Poland's rating on Friday evening, which is neutral for PLN.

Due to the nature of last week's PLN appreciation, which resulted mainly from lower risk aversion related to increase in investors' expectations of restart of negotiations between US and China to avoid further escalation of trade war, PLN was also appreciating vs. other major currencies. In effect, last week, PLN strengthened vs. USD (by 0.8%) and CHF (by 0.6%). PLN was depreciating only vs. GBP (by 0.4%), as last week saw a visible drop of EURGBP amid remarks of the politicians involved in the Brexit negotiations (including by the UE chief negotiator M. Barnier) suggesting lower likelihood of the materialization of a hard Brexit scenario.

This week PLN will remain impacted by the US-China trade war. The publication of flash PMIs for the Eurozone scheduled for Friday will also be important for PLN. If our forecasts that are close to the market consensus materialize, it is likely to be neutral for PLN. Data from Poland (industrial production, retails sales, corporate wages and employment) and from the US (Philadelphia FED, NY Empire State Indices, housing starts, new building permits, existing home sales) will also have a limited impact on PLN.

Market focuses on the Eurozone business survey results





Source: Reuters

Last week, 2-year IRS rates rose to 1.96 (up by 2bp), 5-year rates to 2.49 (up by 2bp), and 10-year rates to 2.97 (up by 2bp). Monday and Tuesday saw the continuation of IRS rate increases from two weeks before due to increased supply of securities, after one of the leadings funds was liquidating some of its investment portfolios two weeks ago. Attractive debt prices led to a correction on Wednesday which also reduced IRS rates. On Thursday IRS rates stabilized and the ECB meeting had no substantial impact on the curve. In turn, on Friday they rose again following the German market. The Moody's did not review Poland's rating Friday evening which is neutral for the curve.

This week the market will focus on the publication of flash PMIs for the Eurozone. Our forecasts are close to the market expectations; therefore, their materialization will have a limited impact on IRS rates. Data from Poland (industrial production, retails sales, corporate wages and employment) and from the US (Philadelphia FED, NY Empire State Indices, number of housing starts, new building permits, existing home sales) are also likely to be neutral for the curve.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland

Indicator	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	Sep-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	4,31	4,24	4,20	4,18	4,15	4,17	4,21	4,24	4,31	4,37	4,27	4,30	**4,31**
USDPLN*	3,57	3,65	3,64	3,53	3,48	3,34	3,42	3,42	3,51	3,69	3,74	3,66	3,71	**3,65**
CHFPLN*	3,72	3,77	3,65	3,59	3,57	3,59	3,62	3,58	3,54	3,74	3,78	3,69	3,83	**3,68**
CPI inflation (% YoY)	1,8	2,2	2,1	2,5	2,1	1,9	1,4	1,3	1,6	1,7	2,0	2,0	2,0	
Core inflation (% YoY)	0,7	1,0	0,8	0,9	0,9	1,0	0,8	0,7	0,6	0,5	0,6	0,6	0,9	
Industrial production (% YoY)	8,9	4,3	12,4	9,2	2,8	8,6	7,3	1,7	9,3	5,2	6,7	10,3	**5,5**	
PPI inflation (% YoY)	3,0	3,2	3,0	1,8	0,3	0,2	-0,1	0,5	1,0	3,0	3,7	3,4	**3,2**	
Retail sales (% YoY)	7,6	8,6	8,0	10,2	6,0	8,2	7,9	9,2	4,6	7,6	10,3	9,3	**9,0**	
Corporate sector wages (% YoY)	6,6	6,0	7,4	6,5	7,3	7,3	6,8	6,7	7,8	7,0	7,5	7,2	**6,7**	
Employment (% YoY)	4,6	4,5	4,4	4,5	4,6	3,8	3,7	3,7	3,7	3,7	3,7	3,5	**3,5**	
Unemployment rate* (%)	7,0	6,8	6,6	6,5	6,6	6,9	6,8	6,6	6,3	6,1	5,9	5,9	**5,9**	
Current account (M EUR)	311	218	206	54	-847	1955	-782	-785	-90	169	-240	-809		
Exports (% YoY EUR)	13,4	11,5	15,8	15,5	2,6	12,1	5,9	-1,6	8,9	2,7	9,0	9,8		
Imports (% YoY EUR)	8,7	8,9	15,4	15,9	10,9	16,7	8,1	1,4	11,1	1,5	10,2	11,6		

*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	5,1	4,4	4,5	3,7	3,5	3,4	3,3	4,6	4,8	3,5
Private consumption (% YoY)		4,8	4,9	4,8	4,7	4,4	3,9	3,7	3,6	4,8	4,8	3,9
Gross fixed capital formation (% YoY)		8,1	4,5	8,0	8,5	6,2	4,4	3,4	2,9	3,4	7,5	3,9
Export - constant prices (% YoY)		1,1	6,9	5,8	4,8	3,7	5,0	5,3	4,8	8,2	4,7	4,7
Import - constant prices (% YoY)		3,5	6,5	7,3	5,9	5,3	6,4	6,1	5,3	8,7	5,8	5,8
GDP growth contributions	Private consumption (pp)	3,0	2,9	2,8	2,3	2,8	2,3	2,2	1,8	2,7	2,8	2,3
	Investments (pp)	0,9	0,7	1,4	2,1	0,8	0,7	0,6	0,7	0,6	1,4	0,7
	Net exports (pp)	-1,2	0,5	-0,5	-0,4	-0,7	-0,5	-0,3	-0,2	0,1	-0,5	-0,4
Current account (% of GDP)***		-0,2	0,0	-0,4	-0,7	-1,0	-0,9	-0,7	-0,7	0,2	-0,7	-0,7
Unemployment rate (%)**		6,6	5,9	5,8	5,9	6,2	5,8	5,8	5,9	6,6	5,9	5,9
Non-agricultural employment (% YoY)		1,4	1,0	0,8	0,6	0,4	0,4	0,4	0,4	1,9	0,9	0,4
Wages in national economy (% YoY)		6,2	7,1	7,3	6,9	7,3	6,7	6,2	6,3	5,3	6,9	6,6
CPI Inflation (% YoY)*		1,5	1,7	1,9	1,4	1,6	1,6	1,3	1,4	2,0	1,6	1,5
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	4,31	4,29	4,27	4,25	4,20	4,15	4,18	4,29	4,15
USDPLN**		3,42	3,74	3,65	3,55	3,47	3,40	3,28	3,19	3,48	3,55	3,19

* quarterly average
** end of period
***cumulative for the last 4 quarters

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST*	
					CA	CONSENSUS**
		Monday 09/17/2018				
11:00	Eurozone	HICP (% YoY)	Aug	2,0	2,0	2,0
14:30	USA	NY Fed Manufacturing Index (pts)	Sep	25,6	24,0	23,0
		Tuesday 09/18/2018				
10:00	**Poland**	**Employment (% YoY)**	**Aug**	**3,5**	**3,5**	**3,5**
10:00	**Poland**	**Corporate sector wages (% YoY)**	**Aug**	**7,2**	**6,7**	**7,0**
		Wednesday 09/19/2018				
10:00	Eurozone	Current account (bn EUR)	Jul	23,5		
10:00	**Poland**	**Industrial production (% YoY)**	**Aug**	**10,3**	**5,5**	**5,2**
10:00	**Poland**	**PPI (% YoY)**	**Aug**	**3,4**	**3,2**	**3,0**
14:30	USA	Housing starts (k MoM)	Aug	1168	1203	1230
14:30	USA	Building permits (k)	Aug	1303	1308	1310
		Thursday 09/20/2018				
9:30	Switzerland	SNB rate decision %)	Q3	-0,75		
14:00	**Poland**	**MPC Minutes**	**Sep**			
14:30	USA	Philadelphia Fed Index (pts)	Sep	11,9	17,0	16,5
16:00	USA	Existing home sales (M MoM)	Aug	5,34	5,34	5,36
16:00	Eurozone	Consumer Confidence Index (pts)	Sep	-1,9	-1,5	-2,0
		Friday 09/21/2018				
9:30	Germany	Flash Manufacturing PMI (pts)	Sep	55,9	55,6	55,6
10:00	**Poland**	**Retail sales (% YoY)**	**Aug**	**9,3**	**9,0**	**9,0**
10:00	Eurozone	Flash Services PMI (pts)	Sep	54,4	54,2	54,4
10:00	Eurozone	Flash Manufacturing PMI (pts)	Sep	54,6	54,1	54,4
10:00	Eurozone	Flash Composite PMI (pts)	Sep	54,5	54,2	54,4
15:45	USA	Flash Manufacturing PMI (pts)	Sep	54,7		55,0

*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

Jakub BOROWSKI
Chief Economist
tel.: 22 573 18 40
jakub.borowski@credit-agricole.pl

Krystian JAWORSKI
Senior Economist
tel.: 22 573 18 41
krystian.jaworski@credit-agricole.pl

Jakub OLIPRA
Economist
tel.: 22 573 18 42
jakub.olipra@credit-agricole.pl