This week

- **The most important event this week will be the FOMC meeting scheduled for Wednesday.** We expect FED to raise the target range for the Federal Reserve funds rate by 25 bp up to [2.25%; 2.50%]. The December FOMC macroeconomic projection will be presented after the meeting. We believe that these projections will be of special importance in the context of the impact of expansive fiscal policy and US-China trade war on the US economy. We expect that the forecast economic growth rate and unemployment rate will be revised slightly downwards compared to the September projection, while the anticipated inflation profile will not change significantly. In addition, the projection is likely to indicate that core inflation will run above the target (2.0%) in 2019 and 2020. In our view the median expectations of FOMC members concerning the level of interest rates at the end of 2019 will stay unchanged and will amount to [3.00%; 3.25%]. We believe that the FED chairman, J. Powell, is going to indicate that FOMC members' expectations concerning future level of interest rates are subject to considerable uncertainty due to the difficulties in estimating natural unemployment rate and equilibrium interest rate. In our view, the part about the FOMC members-expected further gradual normalization of the monetary policy will be deleted from the statement after the FOMC meeting and is likely to be replaced by a provision saying that monetary policy decisions will be depending more on incoming data thus making the FOMC monetary policy more flexible. This change in communication will be consistent with the released Minutes of the November FOMC meeting and the previous remarks of the FED chairman (see MACROmap of 3/12/2018). The scale of the monetary tightening in 2019 as indicated in the projection will be in line with our scenario and higher from current market expectations (25 bp). The conference after the meeting and the publication of the macroeconomic projection may contribute to increased volatility in the financial markets.
- **Important data from the US will be released this week**. The final estimate of GDP in Q3 will be released on Friday. We expect that the annualized economic growth rate has not changed compared to the second estimate and amounted to 3.5%. This week we will also see preliminary data on durable goods orders which, in our view, rose by 1.0% MoM in November vs. a 4.3% decrease in October, due to higher orders in the Boeing company. Data on the number of housing starts (1222k in November vs. 1228k in October), new building permits (1257k vs. 1265k), and existing home sales (5.19M vs. 5.22M) will also be released this week, pointing to further slowdown of activity in the US real estate market. US business survey results will also be published. We expect that the NY Empire State Index dropped to 22.0 pts in December vs. 23.3 pts in November. In turn, Philadelphia FED rose to 17.0 pts vs. 12.9 pts in November. We expect that the final University of Michigan Index (97.0 pts in November vs. 97.5 pts in November) will suggest slight deterioration of households' sentiment. In our view, the publication of US data will be overshadowed by the FED meeting scheduled for Wednesday and should not be market moving.
- **The flash estimate of HICP inflation for the Eurozone will be released today**. We expect that the annual inflation rate decreased to 2.0% YoY in November vs. 2.2% in October. In our view, the decrease in total inflation resulted from lower core inflation and lower dynamics of energy prices. Our forecast is in line with the market consensus; therefore, its materialization will be neutral for PLN and for the prices of Polish bonds.
- **Ifo Index reflecting the sentiment among German managers representing the manufacturing, construction, trade, and services sectors will be released on Tuesday.** We expect it to drop to 101.8 pts in December vs. 102.0 pts in November. The deterioration of sentiment will be consistent with the decrease recorded last week in the PMI composite for Germany (see below). Our forecast is close to the consensus; therefore, its materialization will be neutral for the markets.
- **The November data on average wages and employment in the corporate sector in Poland will be released on Tuesday**. We forecast that employment dynamics decreased to 3.0% YoY in

November vs. 3.2% in October (last year's high base effect). In turn, the average wage dynamics decreased to 7.1% YoY in November vs. 7.6% in October, due to the abatement of the positive impact of higher wage dynamics in mining. Though important for the forecast of private consumption dynamics in Q4, the release of data on corporate wages and employment will be neutral for PLN and the debt market, we believe.

- **Data on the November industrial production in Poland will be released on Wednesday.** We forecast that industrial production growth slowed down to 4.5% YoY vs. 7.4% in October. Conducive to lower output dynamics were unfavourable calendar effects. The published at the beginning of the month Polish manufacturing PMI that was significantly lower from the expectations poses a downside risk to our forecast. In our view, the November data on industrial production will confirm the downturn observed in recent months in this sector due to slowdown in global trade. Our forecast of industrial production dynamics is above the market consensus (3.6%); therefore, its materialization will be slightly positive for PLN and yields on Polish bonds.
- **Data on retails sales dynamics in Poland, which in our view decreased to 8.0% YoY in November vs. 9.7% in October, will be released on Friday.** Conducive to their decrease were the unfavourable difference in the number of working days and the high base effect from the year before. We believe that the materialization of our forecast will be slightly positive for PLN and yields on Polish bonds.

Last week

- **In accordance with final GUS data, CPI inflation decreased to 1.3% YoY in November vs. 1.8% in October, running above GUS flash estimate (1.2%, see MACROpulse of 14/12/2018).** Thus, inflation fell below the lower bound of the inflation target tolerance band adopted by Monetary Policy Council (2.5% +/- 1 percentage point), hitting the lowest level since December 2016. November recorded disinflation (lowering of annual price dynamics) in all four categories material to the assessment of inflation pressure: food and non-alcoholic beverages, energy, fuel prices, and core inflation. This means that the disinflation recorded in Poland in November was wide ranging and simultaneous decrease in the price dynamics in all the aforementioned categories took place for the first since January 2013. Especially noteworthy is the marked decrease in core inflation (excluding the prices of food, fuels, and other energy) from 0.9% YoY in October down to 0.7%. The data on core inflation suggest lack of excessive inflation pressure in the economy, despite a fast increase in consumer demand, largely due to continuing strong competitive pressure in the services sector and decreasing wage pressure in the corporate sector. The reading of November inflation is in line with our inflation forecast for Q4 2018 (1.4% YoY vs. 2.0% in Q3). In the coming months we expect annual inflation to slightly increase to 1.6% YoY in Q2 (local maximum), supported by a gradual increase in core inflation and faster growth of food prices (see MACROmap of 10/12/2018). We forecast that the average yearly inflation will amount to 1.5% in 2019 vs. 1.6% in 2018.
- **The deficit in Polish current account decreased to EUR 457M in October vs. EUR 547M in September.** The improvement in the current account balance resulted from higher balances on primary income and services (higher from September by EUR 305M and EUR 228M, respectively) and lower balance on secondary income and on goods (down by EUR 304M and EUR 139M, respectively, compared to September). Export dynamics rose to 10.2% YoY in October vs. 0.3% in September, and imports dynamics rose to 15.7% YoY vs. 5.4%. Conducive to higher exports and imports growth was the statistical effect in the form of a favourable difference in the number of working days. Especially noteworthy is the increase in the difference observed in recent months between 3-month moving average for import dynamics and 3-month moving average for export dynamics and resulting, in our view, from the recovery

in investments. The last week's data do not alter our forecast of the cumulative current account balance for the last 4 quarters in relation to GDP in Q4 2018 (-0.7% vs. -0.4% in Q3).

- **Numerous data from the US were released last week.** CPI inflation in the US decreased to 0.0% MoM in November vs. 0.3% in October (2.2% YoY in November vs. 2.5% in October), running in line with the market expectations. Conducive to its decrease were lower dynamics of energy prices. In turn, core inflation increased to 2.2% YoY in November vs. 2.1% in October. Data on retail sales dynamics which dropped to 0.2% MoM in November vs. 1.1% in October were also released last week. Excluding car sales, retail sales dynamics dropped to 0.2% MoM vs. 1.0%. Conducive to their decrease was lower growth rate of sales in most of their sectors. Last week also saw data on the monthly dynamics of industrial production which increased to 0.6% in November vs. -0.2% in October. Conducive to its increase was higher output growth rate in utilities and mining. Capacity utilization has also slightly increased and amounted to 78.5% in November vs. 78.1% in October. We forecast that the annualized US GDP growth rate will decrease to 2.3% in Q4 vs. 3.5% in Q3, though staying above the potential economic growth rate estimated by FED at slightly below 2%,
- **Important data from the Chinese economy were released last week**. Data on industrial production (5.4% YoY in November vs. 5.9% in October) and retail sales (8.1% vs. 8.6%) stood significantly below the market expectations (5.9% and 8.8%, respectively). On the other hand, the dynamics of urban investments rose to 5.9% YoY in November vs. 5.7% in October. The slowdown in retail sales gives rise to a question about the ability of domestic demand to offset weaker foreign demand in the light of the currently observed slowdown in global trade. We believe that the numerous measures taken by the Chinese government and the People's Bank of Chine will contribute towards stimulating internal demand (these effects are likely to be visible in Q2 2019) and will limit the scale of the slowdown in Chinese economy. Hence, we forecast that the dynamics of the Chinese GDP will decrease only slightly to 6.4% in 2019 vs. 6.6% in 2018.
- **In accordance with the flash data, composite PMI (for manufacturing and services) in the Eurozone dropped to 51.3 pts in December vs. 52.7 pts in November, running below the market expectations (52.8 pts).** The decrease in PMI composite resulted from higher value of its sub-index for output in manufacturing and lower sub-index for business activity in services. Geographically, slower growth of economic activity was recorded both in Germany and in France. The deterioration of sentiment in Germany resulted from lower sub-index for business activity in the services and increase in the sub-index for output in manufacturing, while in France both sub-indices have decreased. According to the information included in the report, in France – in addition to weak foreign demand – the economic activity was adversely affected by the "yellow vests" protest. In effect, for the first time since June 2016, France recorded PMI composite below 50.0 pts (i.e. decrease of economic activity in MoM terms). Deterioration was recorded also in other Eurozone countries covered by the survey. Noteworthy in the structure of data for the whole Eurozone and Germany is the acceleration in the decrease of production backlogs in manufacturing. It indicates that, given a smaller number of new orders, including new export orders, the companies are clearing the production backlogs accumulated in previous months. This enables the output sub-index to stay slightly above the 50 pts threshold dividing expansion from contraction of activity. The surveyed companies were attributing the deterioration of sentiment to growing concerns about global economic growth and global trade, increasing political risk, Brexit, tighter financial conditions, and downturn in automotive industry. It can be expected that, as the buffer in the form of outstanding orders will be drying out, given further decline in new orders, output in Germany and in the whole Eurozone will also start decreasing which will be conducive to a downturn in Polish manufacturing. PMI composite for the Eurozone decreased to 52.2 pts in the October-December period vs. 54.3 pts in Q3, posing a downside risk to our forecast of economic growth in the Eurozone in Q4 2018 (0.3% QoQ vs. 0.2% in Q3).

- **Contrary to earlier decisions, the vote on the Brexit deal negotiated by T. May did not take place last Tuesday**. Due to a high likelihood of the treaty being rejected by the parliament, the prime Minister postponed the vote to a later date (no later than 21 January 2019). The agreement negotiated by T. May towards the end of November was raising parliamentarians' concerns especially about the "backstop" – namely the point providing for the UK temporarily remaining within the customs union so as to avoid a hard customs border between Ireland and Northern Ireland. This week, T. May tried, to no avail, to negotiate with the European Council changes to the earlier agreed treaty. The European Council emphasized that the agreement was not renegotiable and the "backstop" was like an insurance policy ensuring the integrity of the single market. The European Council also said that even if activated, the "backstop" would have been temporary unless and until replaced by another agreement ensuring that hard border would be avoided. We believe that in the coming weeks T. May will succeed in convincing a sufficient number of MPs and the Brexit treaty will be adopted. The approaching date of the UK leaving the EU (29 March 2019) and desire to avoid uncontrolled withdrawal (hard Brexit) will increase the MPs' support. Nevertheless, there is substantial risk that the agreement negotiated with the European Council will be voted down by the British parliament. If this scenario materializes, we believe that the British parliament will be trying to postpone the date of UK's exit from the EU under Article 50 in order to avoid hard Brexit. In the coming weeks the uncertainty about further developments related to Brexit will be conducive to GBP weakening vs. EUR and increased risk aversion, which will be negative for PLN.
- **The ECB meeting was held last week.** The statement after the meeting retained the provision that 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" (so-called forward guidance). According to the statement, the ECB will terminate the assets purchase until the end of December 2018. In addition, forward guidance concerning reinvestments has been extended. The ECB intends to continue to reinvest – in full – the repaid principal deriving from maturing securities purchased under the asset purchase program for an extended period of time after the ECB interest rates start being hiked and at any rate for as long as necessary to maintain favourable liquidity conditions and a dovish monetary policy. The ECB has also published the latest macroeconomic projections. The GDP profile has been slightly lowered. In accordance with the December projection, GDP in the Eurozone will increase by 1.9% in 2018 (2.0% in the September projection), by 1.7% in 2019 (1.8%), by 1.7% in 2020 (1.7%), and by 1.5% in 2021. In accordance with the comments on the projection, the slight lowering of the forecast economic growth profile results from weaker-than-expected economic growth in Q3 2018, due i.a. to the deterioration of sentiment in the automotive industry. The GDP growth rate outlined by the ECB does not differ significantly from our scenario. In accordance with our revised forecast, we expect the economic growth rate in the Eurozone to amount to 1.9% YoY in 2018 and to 1.6% between 2019 and 2020. The ECB-forecast inflation will stand at 1.8% in 2018, 1.6% in 2019, 1.7% in 2020, and at 1.8% in 2021 vs. 1.7% between 2018 and 2020 anticipated in the September projection. In accordance with the comments, the changes in the inflation forecast resulted from lower dynamics of energy prices and lower profile of core inflation which will amount to 1.0% in 2018 (vs. 1.1% in the September projection), 1.4% in 2019 (1.5%), 1.6% in 2020 (1.8%), and 1.8% in 2020. Such core inflation profile indicates that it will remain low in the coming quarters, reducing the increase of inflation in Poland (see MACROmap of 10/12/2018). The statement after the meeting repeated the view expressed the month before that the risks surrounding the euro zone growth outlook were broadly balanced. However, it pointed out that, due to continuing uncertainty about the geopolitical situation, protectionism, vulnerabilities in emerging markets and financial market volatility, downside elements were becoming more prominent. The market is currently pricing in the first interest rate hike in Q1 2020. We maintain our scenario, in which the ECB will hike

the deposit rate by a total of 40bp in H2 2019 and the main interest rate by 25bp in Q4 2019.

- **The meeting of the Swiss National Bank (SNB) was held last week.** As expected, the SNB left the target range for LIBOR CHF 3M unchanged at [-1.25%; -0.25%] and deposit rate at -0.75%. The press release after the meeting indicated that Swiss franc effective rate has weakened form September 2018, mainly due to USD strengthening. The SNB noted that CHFEUR has remained practically unchanged and continued to be high. Consequently, it was necessary to maintain negative interest rates and the readiness to be active in the currency market if needed. The latest macroeconomic projection of the SNB was presented at the conference after the meeting. The inflation path shown there was revised downwards as compared to the September projection, mainly due to the fall of oil prices and deterioration of outlook for economic growth. In accordance with the December projection, inflation will run at 0.5% in 2019 (vs. 0.8% in the September projection) and 1.0% in 2020 (vs. 1.2%). The forecast of economic growth in 2018 was also reduced: 2.5% vs. 2.5-3.0% in the September projection, due to the projection's lower starting point after GDP QoQ decrease in Q3 2018. The SNB decisions and the press release after the meeting are consistent with our scenario for EURCHF and EURPLN, in which CHFPLN will amount to 3.46 as at the end of 2019 to decrease to 3.28 as at the end of 2020. The strengthening of PLN vs CHF will result from the expected by us depreciation of EURPLN (4.15 and 4.07 as at the end of December 2019 and 2020, respectively) and appreciation of EURCHF (1.20 and 1.24 as at the end of 2019 and 2020, respectively).

Forecasts regarding the CE-3 region for 2018-2020

In MACROmap of 10/12/2018 we have presented our medium-term scenario for Poland. Below we present our abridged forecasts for 2018-2020 for other countries of the Central and Eastern Europe – the Czech Republic, Hungary and Romania.

Hungary

After the economic recovery recorded in Hungary in 2018, we expect deceleration of GDP growth in 2019-2020. The key factor conducive to slower GDP growth in subsequent quarters will be lower contribution of gross fixed capital formation. We expect households' investments to markedly increase in 2019 before the anticipated expiration of the preferential VAT rate on new housing with the beginning of 2020. In turn, corporate investments will be supported by the program of low-interest loans for small and medium-sized enterprises (Funding for Growth Scheme Fix) to be launched by the National Bank of Hungary (MNB) at the beginning of next year and by the construction of a new BMW plant in 2020. Nonetheless, we believe that, despite the favourable environment, further fast growth of investments (on the average 17.5% YoY in Q1-Q3 2018) is unlikely to sustain in the coming quarters due to high base effects. Economic growth in H1 2019 will also be limited by the economic downturn currently observed in Hungary's major trading partners, which, given sharp increase in domestic demand, will result in lower contribution of net exports and lower current account surplus in relation to GDP.

We believe that the contribution of consumption to GDP growth is also going to decrease in subsequent quarters. Difficulties in finding skilled labour will limit employment growth. Demand for labour will partly be satisfied through existing reserves –increasing of participation rate and flow of employees from the public to the private sector. Supply-side constraints in the labour market will be conducive to increase in wages, though at a lower rate than in 2018. Consequently, we forecast that GDP growth rate will decrease to 3.2% in 2019 and 2.8% in 2020 vs. 4.8% in 2018.

We believe that the positive impact of higher wages on core inflation will be limited by higher workforce productivity and investments in more capital-intensive production techniques, as well as further cuts of social contributions payed by the employers. Low inflation in the Eurozone will also limit the price growth in Hungary. Likewise, the currently observed low oil prices will slow down inflation growth. All things considered, we believe that CPI inflation in Hungary will amount to 3.2% YoY in 2019 and will drop to 2.8% in 2020.

In September the MNB released a "Roadmap" describing the way of gradually exiting the unconventional monetary policy. The mortgage bond purchase and IRS programs as well as the absorption of liquidity in the form of 3-month deposits will have been terminated by the end of 2018. According to the document, currency swaps and interest rate corridor will be the main monetary policy tools in subsequent quarters. A program offering low-interest financing for businesses will be launched at the beginning of 2019. We believe that in 2019 the MNB will start to absorb more excess liquidity of the banking sector, which will facilitate the increase of 3-moth BUBOR to a level close to the base rate (currently equal to 0.90%) towards the end of 2019. We expect that the deposit rate and the base rate will be hiked no sooner than in Q4 2019 to 0.00% and 1.00%, respectively. The spread between these two rates will be reduced to 100bp – the level observed before the start of the unconventional policy. Still, the scenario outlined above is a "smooth" version of future events. In reality the exact MNB decisions are difficult to forecast, as the central bank will adjust the monetary policy in line with changing macroeconomic and market conditions. We do not rule out that the MNB monetary policy will remain dovish for a longer period than we assume now, if inflation runs below the MNB expectations. We forecast that in 2020 the MNB will hike interest rates by 50 bp in total, consistently with the expected by us further monetary policy tightening in the Eurozone. The above scenario is in line with our forecast of EURHUF decreasing to 319 at the end of 2019 and 315 at the end of 2020.

Forecasts of main macroeconomic indicators in Hungary

	2018	2019	2020		2018	2019	2020
GDP growth rate (% YoY)	4,8	3,2	2,8	CPI inflation (% YoY)	2,9	3,0	3,0

	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
MNB base rate (%)	0,90	0,90	0,90	0,90	1,00	1,00	1,25	1,50	1,50
EURHUF	322	322	321	321	320	318	317	315	315

Source: Credit Agricole

Romania

After a significant easing of the fiscal policy in Romania in 2016-2017, 2018 was neutral in terms of fiscal impulse. 2018 recorded a marked slowdown of economic growth, although GDP dynamics continued to be high – we expect that it will amount to 4.2% on average. We believe that private consumption will continue to be the main driver of growth in 2019-2020, though we expect its dynamics to decrease, due to the expected by us lower nominal wage growth resulting i.a. from the abating effect of pay rises in the public sector in 2018 and lower increase of minimum wage in 2019. This impact will be partly offset by pension increases in 2019. We believe that in 2019-2020 the contribution of investments to GDP growth will increase, however mainly due to low base effects – in the period of Q1-Q3 2018 gross capital formation decreased in annual terms on the average by 1.1%. A relatively fast growth of domestic demand given limited export dynamics will be conducive to lower contribution of net exports to GDP and increasing current account deficit in subsequent quarters. Considering the factors outlined above, we forecast that GDP growth rate will amount to 3.5% in 2019 and to 3.2% in 2020.

For most of 2018 inflation stood at an elevated level (on the average 4.9% YoY between January and October). Conducive to inflation increase in this period was the combination of several supply shocks (rises of energy prices and fuel excise as well as increase of prices of oil and processed food). As these effects will abate, inflation will gradually decrease in the coming months. Our view is supported by the November CPI reading – inflation has markedly dropped to 3.4% YoY, running below the upper limit of the inflation target tolerance band (3.5%). Considering the expected low inflation in the Eurozone, diminishing wage pressure, high base effects and lack of changes in fiscal policy that would significantly affect prices, we forecast that inflation in Romania will amount to 3.0% YoY in 2019 and to 2.6% in 2020.

We believe that the National Bank of Romania (NBR) treats inflation target as a band (1.5%-3.5%) rather than a point target. Therefore, if the inflation scenario outlined above materializes, we expect that the NBR will not hike interest rates before Q4 2019. At the same time, it should be pointed out that, although NBR rates were increased by only 75bp in the last monetary tightening cycle (delivered in H1 2018), the actual scale of the monetary policy tightening was much bigger – rates at the interbank market (ROBOR) have risen by more than 200 bp from mid-2017. Another argument against interest rate hikes is the decline in investments observed in the last two quarters and their expected limited growth in the coming quarters. We believe that in the horizon of our forecast, the NBR will increase interest rates twice by 25 bp (in Q4 2019 and Q3 2020). The materialization of such scenario will be consistent with our expectations concerning the shape of the monetary policy in the Eurozone. Due to the limited scale of rate hikes in Romania and the currency interventions of the central bank, we believe that EURRON will range from 4.66 to 4.72 until the end of 2020.

Forecasts of main macroeconomic indicators in Romania

	2018	2019	2020		2018	2019	2020
GDP growth rate (% YoY)	4,2	3,5	3,2	CPI inflation (% YoY)	4,6	3,0	2,6

	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
NBR policy rate (%)	2,50	2,50	2,50	2,50	2,75	2,75	2,75	3,00	3,00
EURRON	4,66	4,70	4,70	4,70	4,70	4,72	4,72	4,72	4,72

Source: Credit Agricole

Czech Republic

Against the backdrop of other countries of the region, the Czech Republic boasts the lowest unemployment rate, which stood at 2.2% in October 2018. Supply-side constraints (difficulties in finding qualified labour) will be one of the main factors slowing down GDP growth in 2019-2020. We expect that private consumption will continue to be the main driver of economic growth in the forecast horizon. We believe that tensions in the labour market will be conducive to higher wage pressure. Households' income in 2019 will also be supported by higher minimum wage and pension increases. We believe that limited possibilities of further increase in employment will contribute to growth of investments aimed at substituting labour-intensive production techniques with capital-intensive ones. In addition, conducive to higher gross fixed capital formation will also be higher public investments resulting from the absorption of EU funds. The Czech Republic will experience a similar trend regarding the contribution of net exports to GDP growth as the other countries of the region – it will stand below zero in the coming quarters. The tightening of the monetary policy delivered by the Czech National Bank (CNB) in last few quarters will have a negative impact on the economic growth in the forecast horizon. All things considered, we believe that GDP growth rate in the Czech Republic will amount to 3.1% YoY in 2019 and to 3.0% in 2020.

We expect that core inflation in the coming quarters will be boosted by fast wage growth. In turn, the main anti-inflationary factor in 2019 will be declining dynamics of fuel prices. Low growth rate of import prices and only gradual appreciation of CZK, supported by the monetary policy tightening by the CNB, will slow down inflation increase. Consequently, we expect that in subsequent quarters the CPI inflation will amount on an average to 2.4% in 2019 and to 2.0% in 2020.

Since Q3 2017 the CNB has been gradually normalizing the monetary policy, hiking interest rates seven times to the present level of 1.75%. In accordance with the forecast of 3-month PRIBOR presented in the November report, the CNB will not hike interest rates until the end of 2019. We believe that the development of EURCZK exchange rate will be crucial for future monetary policy decisions. Our forecast of EURCZK for 2019 stands above the CNB expectations presented in the November projection. The factors limiting the CZK appreciation in subsequent quarters include increased global risk aversion, resulting from growing protectionism in foreign trade, and pressure on emerging markets' currencies, resulting from the expected by us larger scale of monetary tightening in the US in 2019 from the one being currently priced in by the financial markets (75 bp vs. 25 bp). The potential of CZK to strengthen will also be limited by the gradual closing of long currency positions opened due to the expected CZK appreciation after its "de-pegging" in 2017.

Consequently, we believe that the CZK strengthening starting from Q1 2019, assumed in CNB the projection, will not materialize at the scale expected by the central bank, prompting the CNB to further tighten its monetary policy. In the baseline scenario we expect that the CNB will hike interest rates by a total of 50bp in 2019 (in May and November) up to 2.25% as at year end. This forecast is consistent with our scenario of the ECB monetary policy (deposit rate hiked by 40bp in total in H2 2019 and refi rate by 25 bp in Q4 2019). We believe that the decisions of the ECB will have a substantial impact on the monetary policy in the Czech Republic. We forecast that the CNB will hike interest rates in 2020 only once by 25 bp (to 2.50% in Q2). A gradual monetary tightening in the Czech Republic will be conducive to a slight appreciation of CZK vs. EUR (EURCZK amounting to 24.90 as at the end of 2019 and to 24.5 as at the end of 2020).

Forecasts of main macroeconomic indicators in Czech Republic

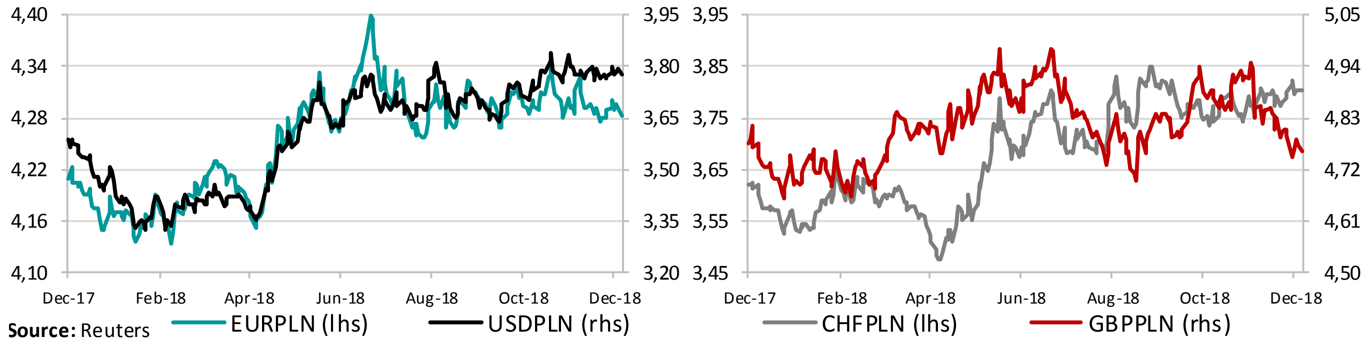
	2018	2019	2020		2018	2019	2020
GDP growth rate (% YoY)	2,9	3,1	3,0	CPI inflation (% YoY)	2,2	2,4	2,0

	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
CNB 2W repo rate (%)	1,75	1,75	2,00	2,00	2,25	2,25	2,25	2,50	2,50
EURCZK	25,75	25,20	25,15	25,00	24,90	24,75	24,60	24,50	24,50

Source: Credit Agricole

Domestic data positive for PLN

FX rates

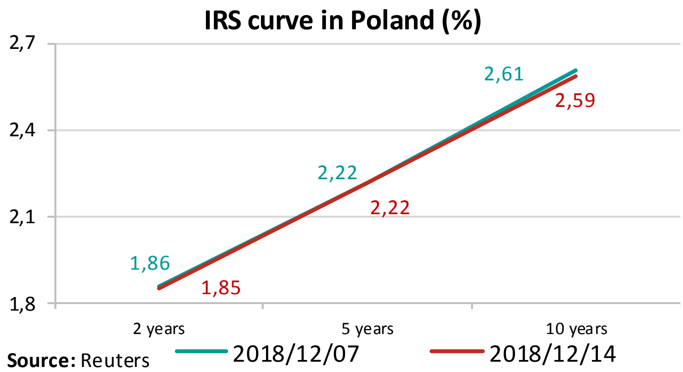


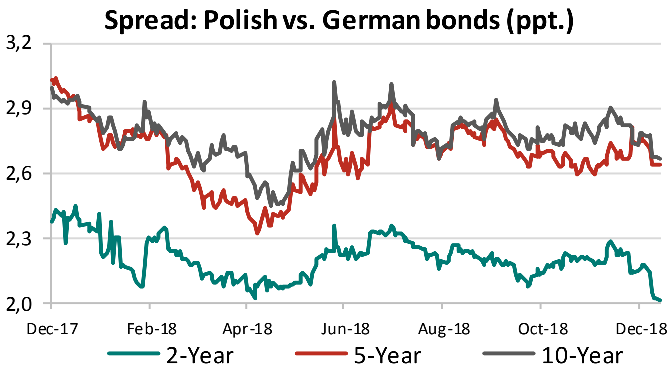
Source: Reuters

Last week, the EURPLN exchange rate amounted to 4.29 (same as two weeks ago). Despite numerous events, PLN was relatively stable last week and ranged between 4.28 and 4.30 vs. EUR. Conducive to its weakening was the uncertainty about further developments relating to Brexit and the conference after the ECB meeting, whose tone was less dovish than investors had expected. In turn, weaker-than-expected business survey results for the Eurozone had an opposite impact. Noteworthy is last week's PLN appreciation vs. GBP (by 0.4%), due to no progress in the Brexit procedure.

Important for PLN this week will be domestic data on industrial production and retail sales. We believe that they will be conducive to PLN strengthening. Conducive to increased volatility of EURPLN may be the conference after the Wednesday's FOMC meeting. In our view, data from the labor market in Poland will not be market moving. Neutral for PLN will also be data from the US (final GDP estimate, business survey results, and data on real estate market) and the reading of Ifo in Germany and inflation in the Eurozone, we believe.

Polish debt market focused on FOMC meeting





Source: Reuters

Last week, 2-year IRS rates decreased to 1.85 (down by 1bp), 5-year to 2.215 (down by 1bp), and 10-year to 2.585 (down by 2bp). Like in the case of PLN, last week saw a relative stabilization of IRS rates. The conference after the ECB meeting, remarks of some MPC members, readings of November inflation in Poland and of other foreign data had no substantial impact on IRS rates. A debt exchange auction took place on Friday at which the Finance Ministry repurchased PLN 4.4bn of bonds maturing in 2019 and sold PLN 4.4bn of 3-, 6-, and 10-year bonds. The auction had no substantial impact on IRS rates.

This week the Polish debt market will focus on data on industrial production and retail sales in Poland. If our forecasts materialize, the data will be positive for IR rates. The conference after the Wednesday FOMC meeting may contribute towards increased volatility of IRS rates. Numerous data from the US, the reading of inflation in the Eurozone, Ifo index in Germany, and data from the labour market in Poland will also have a limited impact on the yield curve.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland														
Indicator	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-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*	4,20	4,18	4,15	4,17	4,21	4,24	4,31	4,37	4,27	4,30	4,28	4,34	4,29	**4,29**
USDPLN*	3,53	3,48	3,34	3,42	3,42	3,51	3,69	3,74	3,66	3,71	3,69	3,84	3,79	**3,76**
CHFPLN*	3,59	3,57	3,59	3,62	3,58	3,54	3,74	3,78	3,69	3,83	3,75	3,80	3,79	**3,73**
CPI inflation (% YoY)	2,5	2,1	1,9	1,4	1,3	1,6	1,7	2,0	2,0	2,0	1,9	1,8	1,3	
Core inflation (% YoY)	0,9	0,9	1,0	0,8	0,7	0,6	0,5	0,6	0,6	0,9	0,8	0,9	**0,7**	
Industrial production (% YoY)	9,2	2,8	8,6	7,3	1,7	9,3	5,2	6,7	10,3	5,0	2,7	7,3	**4,5**	
PPI inflation (% YoY)	1,8	0,3	0,2	-0,1	0,5	1,0	3,0	3,7	3,4	3,0	3,0	3,2	**3,3**	
Retail sales (% YoY)	10,2	6,0	8,2	7,9	9,2	4,6	7,6	10,3	9,3	9,0	5,6	9,7	**8,0**	
Corporate sector wages (% YoY)	6,5	7,3	7,3	6,8	6,7	7,8	7,0	7,5	7,2	6,8	6,7	7,6	**7,1**	
Employment (% YoY)	4,5	4,6	3,8	3,7	3,7	3,7	3,7	3,7	3,5	3,4	3,2	3,2	**3,0**	
Unemployment rate* (%)	6,5	6,6	6,8	6,8	6,6	6,3	6,1	5,8	5,8	5,8	5,7	5,7	**5,7**	
Current account (M EUR)	95	-1354	2289	-792	-914	291	495	-200	-750	-582	-547	-457		
Exports (% YoY EUR)	17,7	4,8	15,5	6,6	-4,4	9,1	1,1	6,2	9,2	7,2	0,3	10,2		
Imports (% YoY EUR)	17,8	13,2	19,0	9,5	0,3	12,4	1,4	7,9	10,3	11,3	5,4	15,7		

*end of period

Forecasts of the quarterly macroeconomic indicators

Main macroeconomic indicators in Poland												
Indicator		2018				2019				2018	2019	2020
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Gross Domestic Product (% YoY)		5,3	5,1	5,1	4,5	3,7	3,6	3,2	2,9	5,0	3,3	3,2
Private consumption (% YoY)		4,7	4,9	4,5	4,4	4,2	3,5	3,4	3,3	4,6	3,6	3,0
Gross fixed capital formation (% YoY)		8,2	4,7	9,9	9,3	8,1	6,7	4,4	3,6	8,3	5,2	4,2
Export - constant prices (% YoY)		3,4	7,6	4,9	4,4	4,7	4,7	4,9	5,4	5,1	4,9	4,5
Import - constant prices (% YoY)		5,5	6,5	6,9	6,5	5,7	5,6	6,3	5,8	6,4	5,9	6,0
GDP growth contributions	Private consumption (pp)	3,0	2,8	2,7	2,2	2,7	2,0	2,0	1,6	2,7	2,1	1,7
	Investments (pp)	1,0	0,8	1,7	2,3	1,0	1,1	0,8	0,9	1,5	1,0	0,8
	Net exports (pp)	-1,0	0,9	-0,9	-0,9	-0,4	-0,3	-0,6	-0,1	-0,5	-0,3	-0,6
Current account (% of GDP)***		-0,2	0,0	-0,4	-0,7	-1,0	-1,0	-1,0	-0,9	-0,7	-0,9	-0,8
Unemployment rate (%)**		6,6	5,8	5,7	5,8	6,1	5,6	5,7	5,8	5,8	5,8	5,8
Non-agricultural employment (% YoY)		1,4	1,0	1,1	0,8	0,4	0,4	0,4	0,4	1,1	0,4	0,1
Wages in national economy (% YoY)		6,2	7,1	7,6	7,3	7,5	7,2	6,9	6,2	7,1	7,0	5,5
CPI Inflation (% YoY)*		1,5	1,7	2,0	1,4	1,6	1,6	1,2	1,4	1,6	1,5	2,0
Wibor 3M (%)**		1,70	1,70	1,72	1,72	1,72	1,72	1,72	1,80	1,72	1,80	2,30
NBP reference rate (%)**		1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	2,00
EURPLN**		4,21	4,37	4,28	4,29	4,27	4,25	4,20	4,15	4,29	4,15	4,07
USDPLN**		3,42	3,74	3,69	3,76	3,71	3,57	3,44	3,35	3,76	3,35	3,16

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

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST*	
					CA	CONSENSUS**
		Monday 12/17/2018				
11:00	Eurozone	HICP (% YoY)	Nov	2,0	2,0	2,0
14:00	**Poland**	**Core inflation (% YoY)**	**Nov**	**0,9**	**0,7**	**0,7**
14:30	USA	NY Fed Manufacturing Index (pts)	Dec	23,3	22,0	20,0
		Tuesday 12/18/2018				
10:00	**Poland**	**Employment (% YoY)**	**Nov**	**3,2**	**3,0**	**3,0**
10:00	**Poland**	**Corporate sector wages (% YoY)**	**Nov**	**7,6**	**7,1**	**7,2**
10:00	Germany	Ifo busiensss climate (pts)	Dec	102,0	101,8	101,8
14:30	USA	Housing starts (k MoM)	Nov	1228	1222	1225
14:30	USA	Building permits (k)	Nov	1265	1257	1259
		Wednesday 12/19/2018				
10:00	**Poland**	**Industrial production (% YoY)**	**Nov**	**7,4**	**4,5**	**3,6**
10:00	**Poland**	**PPI (% YoY)**	**Nov**	**3,2**	**3,3**	**3,2**
16:00	USA	Existing home sales (M MoM)	Nov	5,22	5,19	5,20
20:00	USA	FOMC meeting (%)	Dec	2,25	2,50	2,50
		Thursday 12/20/2018				
10:00	Eurozone	Current account (bn EUR)	Oct	16,9		
13:00	UK	BOE rate decision (%)	Dec	0,75	0,75	0,75
14:00	**Poland**	**MPC Minutes**	**Dec**			
14:30	USA	Philadelphia Fed Index (pts)	Dec	12,9	17,0	15,0
		Friday 12/21/2018				
10:00	**Poland**	**Retail sales (% YoY)**	**Nov**	**9,7**	**8,0**	**7,0**
10:00	**Poland**	**Registered unemplyment rate (%)**	**Nov**	**5,7**	**5,7**	**5,8**
14:30	USA	Final GDP (% YoY)	Q3	3,5	3,5	3,5
14:30	USA	Durable goods orders (% MoM)	Nov	-4,3	1,0	1,6
16:00	USA	Final U. of Michigan Sentiment Index (pts)	Dec	97,5	97,0	97,5
16:00	Eurozone	Consumer Confidence Index (pts)	Dec	-3,9		-4,3
16:00	USA	Real private consumption (% MoM)	Nov	0,4	0,3	

*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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