

This week

- **Full data on GDP in Poland in Q2 will be released by GUS on Friday.** We see a slight risk that the economic growth rate will be revised upwards vs. the flash estimate (4.4%) and will amount to 4.5% YoY vs. 4.7% in Q1. We believe that conducive to the slowdown of GDP between Q1 and Q2 were lower contributions of investments and net exports. In our view, the GDP reading will not have any substantial impact on PLN and bond yields.
- **This week we will see important hard data from the US economy and the results of the consumer sentiment surveys.** On Thursday, the second estimate of GDP in Q2 will be published. We expect that the annualized rate of economic growth has been revised downwards to 2.0% against 2.1% in the flash estimate, due to lower contributions of inventories and public spending. The results of consumer surveys in August will also be released in the US. We expect the Conference Board Index to have decreased to 130.0 points vs. 135.7 points in July, due to the escalation of trade wars. We believe that the final University of Michigan Index (93.0 pts in August vs. 98.4 pts in July) will confirm the deterioration in consumer sentiment, signalled by the index flash estimate. In our opinion, the aggregate impact of US data will be neutral for the financial markets.
- **On Friday, a preliminary estimate of HICP inflation in the Eurozone will be published.** We expect that annual price growth did not change in August compared to July and amounted to 1.0% YoY. We believe that the decrease in the dynamics of fuel prices has been compensated by higher core inflation. On Thursday, additional information on inflation in the Eurozone will be provided by the preliminary estimate of the HICP inflation in Germany. We forecast that in August it stood at the same level as in July and amounted to 1.1% YoY. We expect that the reading of inflation in the Eurozone will be neutral for the financial markets.
- **Ifo Index reflecting the sentiment among German managers representing the manufacturing, construction, trade, and services will be released today.** The index dropped to 94.3 pts in August vs. 95.8 pts in July.
- **On Friday we will see flash data on inflation in Poland, which in our view has not changed in August compared to July and amounted to 2.9% YoY.** The increase in food dynamics was compensated by lower dynamics of the prices of fuels and energy. Our forecast is above the consensus (2.8%); therefore, its materialization will be slightly positive for PLN and yields on Polish bonds.

Last week

- **The US-China relations have deteriorated in recent weeks.** At the beginning of August the US President D. Trump announced that increased tariffs of 10% would be imposed on the remaining goods imported from China (worth USD 300bn) from September 2019. In mid-August D. Trump announced the postponement of the introduction of higher tariffs on about half of these products until December 2019. In response to the US actions, China announced last week the imposition of retaliatory tariffs (amounting to 5-10%) on USD 75bn of goods imported from the US. They will be introduced in two stages – in September and December 2019. In reaction to the decision of the Chinese authorities, D. Trump informed last Friday that starting from 1 October USD 250bn of goods from China currently subject to tariffs amounting to 25% would be tariffed at 30%. In addition, the remaining goods and products from China worth USD 300bn that were to be tariffed at 10% from 1 September would be tariffed at 15%. The escalation of the trade war between the US and China last week has contributed to the deterioration of market sentiment, higher risk aversion, and depreciation of PLN. The deterioration in the Chinese-US relations materializing in recent weeks is in line with our baseline scenario (see MACROmap of 1/7/2019).

- **Nominal investments in the Polish sector of enterprises employing at least 50 persons increased by 17.1% YoY in Q2 vs. 22.9% in Q1.** Especially noteworthy in the structure of corporate investments in Q2 is a wide range of the growth of investment outlays. In constant prices they increased both in the category “buildings and structures” (17.6% YoY) and in “machinery, technical equipment and tools” (11.6%) and “means of transport” (36.4%). It signals that, despite the marked deterioration in Poland’s major trade partners, the companies, in response to the continuingly high capacity utilization and fast increase in domestic demand, decide to increase investment outlays. Conducive to the slowdown of growth of gross capital formation of the 50+ companies between Q1 and Q2 were mainly lower contributions of investments of manufacturing companies (decline in dynamics down to 12.7% YoY vs. 17.9% in Q1) and energy companies (19.8% vs. 45.8% in Q1). The data on investments of 50+ companies support our forecast of total investments in the whole 2019 (8.5% YoY vs. 8.7% in 2018) and consequently for GDP growth in 2019 (4.4% YoY vs. 5.1% in 2018).
- **The Minutes of the July FOMC meeting were published last week.** The description of the discussions showed the difference of FOMC members’ views on the July interest rate cut. Most FOMC members believe that it was the adjustment of the interest rates trajectory to the changing economic conditions in recent months (including the uncertainty caused by the global slowdown and deterioration in global trade). Most members were in favour of a 25bp cut but several preferred 50 bp due to the persistently low inflation. Some FED members wanted to maintain the so-far monetary policy parameters in July, pointing to solid data from the labour market and concerns about the financial system stability. The publication of the Minutes has contributed to USD appreciation vs. EUR. On Friday, the FED Chairman J. Powell gave a speech at the symposium in Jackson Hole. His address included no clear indications as to how the US monetary policy would evolve in the coming months. He said that the US economy was in good condition and the Federal Reserve will take adequate actions to sustain economic expansion. The Chairman’s speech was received by the markets as dovish, which has contributed to USD depreciation vs. EUR. The text of the Minutes and J. Powell’s address do not alter our scenario assuming a 25bp cut of US interest rates in September.
- **In accordance with the Minutes to the July meeting of the Monetary Policy Council, a motion was made for interest rate hike by 25 bp.** Two members voted in favour of the motion (E. Gatnar and K. Zubelewicz) and therefore it was not accepted. According to the description of the discussion at the meeting, some Council members believed that the economic growth rate and price dynamics were likely to be higher than the current projection indicated. Consequently, inflation may – in their view – exceed the inflation target in subsequent years. In addition, together with the anticipated increase in price dynamics, the level of real interest rates will be decreasing, which – according to these Council members – could overstimulate lending and generate the problem of excessive indebtedness of households. In the opinion of these Council members, when striving to maintain the stability of prices and limit the increase in loans to households, it is advisable to increase the NBP interest rates. In accordance with our baseline scenario, we expect the slowdown of economic growth and decrease of inflation in 2020. Therefore, the publication of the Minutes and the results of the July vote do not alter our scenario of the stabilization of the NBP interest rates at least until the end of 2020.
- **According to flash data, the composite PMI (for manufacturing and the services sector) in the Eurozone rose to 51.8 pts in August vs. 51.5 pts in July, running above the market expectations (51.2 pts).** The index increase resulted from higher sub-indices for both output in manufacturing and business activity in services (see below). The average PMI in the July-August period (51.7 pts) stood slightly below the average for Q2 (51.8 pts), posing a downside risk to our forecast, in which the quarterly GDP growth rate in the Eurozone will increase to 0.3% in Q3 from 0.2% in Q2.
- **Nominal wage dynamics in the Polish sector of enterprises amounted to 7.4% YoY in July vs. 5.3% in June (see MACROPulse of 20/8/2019).** The sharp increase in the annual wage dynamics

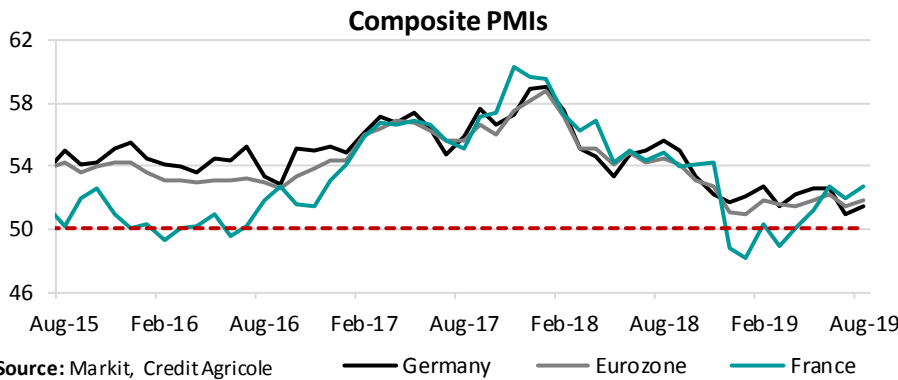
in July compared to June resulted from the statistical effect in the form of a favourable difference in the number of working days which increased the wage dynamics of workers paid by the piece. Another factor conducive to higher wage dynamics in July was the abatement of the effect of the shift of variable remuneration in mining which has contributed to a marked decrease in total wage dynamics in June. In addition, the nominal wage growth rate was supported by the sustained wage pressure. The employment growth rate in the Polish corporate sector dropped to 2.7% YoY in July vs. 2.8% in June. We expect the trend towards a slight increase in month-on-month employment to continue into subsequent months. However it will weaken due to the persistent barrier in the form of shortage of skilled labour. We estimate that the real wage fund growth rate (the employment times the average salary) for the enterprise sector rose to 7.2% YoY in July from 5.4% in June and 7.1% in Q2. We maintain our view that the intensification of inflationary expectations resulting from higher dynamics of food prices will be conducive to a weak increase of the wage growth rate in the corporate sector. However, we believe that the likelihood of a sharp acceleration of the wage growth in H2 2019 is low.

✓ **In accordance with the Polish Central Statistical Office's (GUS) data, the dynamics of sold production of industry in Poland rose to 5.8% YoY in July vs. -2.7% in June, running significantly below our forecast (7.5%) and the market expectations (6.6%).** The sharp increase in the annual dynamics of industrial production in July compared to June resulted from the statistical effect in the form of a favourable difference in the number of working days (see MACROpulse of 21/8/2019). Seasonally-adjusted industrial production increased by 0.9% MoM in July. The main reason for the disappointing data on production was the joint impact of the downturn in Poland's major trade partners (including the recession in German manufacturing) and the deceleration in domestic construction. In our view, the results of business surveys for Polish manufacturing indicate that the slowdown of activity in industry is sustainable and will be confirmed by data on production and exports in H2 2019. The construction-assembly production dynamics rose to 6.6% YoY in July vs. -0.7% in June. Although the construction activity will remain high in the coming quarters, we expect that the annual production dynamics will continue to show a downward trend, mainly due to the ending of the cycle in public investments and the expected by us profile of EU funds absorption within the current programming period. The July data on industrial production and construction-assembly production support our forecast of GDP growth in 2019 (4.4%).

✓ **In accordance with the GUS data, retail sales in Poland increased in current prices by 7.4% YoY in July vs. a 5.3% increase in June, running below our forecast (8.0% YoY) and slightly above the market consensus (7.3%).** The sales dynamics in constant prices increased to 5.7% in July vs. 3.7% in June (see MACROpulse of 22/8/2019). The July retail sales data confirm that the strong labour market, optimism of consumers, and payment of social transfers are conducive to households' higher propensity to consume. This view is supported, first of all, by the increase recorded in recent months in the 6-month moving average for the annual sales dynamics in the categories covering durable goods: "furniture, radio, tv and household appliances" (up to 15.9% in July, the highest level since November 2012) and "motor vehicles, motorcycles and parts" (up to 9.8%). The source of the fast increase in private consumption was also the high growth of consumer credit (on the average equal to 8.5% YoY in H1 2019). It should be pointed out that strong consumer demand is also reflected by the results of GUS consumer surveys. The indicator of "current major purchases" was record high in July. The July data do not alter our forecast, in which the growth rate of private consumption dropped to 4.5% YoY in Q3 vs. 5.0% in Q2.

Has Germany entered a technical recession?

According to flash data, the composite PMI (for manufacturing and the services sector) in the Eurozone rose to 51.8 pts in August vs. 51.5 pts in July, running above the market expectations (51.2 pts). The index increase resulted from higher sub-indices for both output in manufacturing and business activity in services. The average PMI in the July-August period (51.7 pts) stood

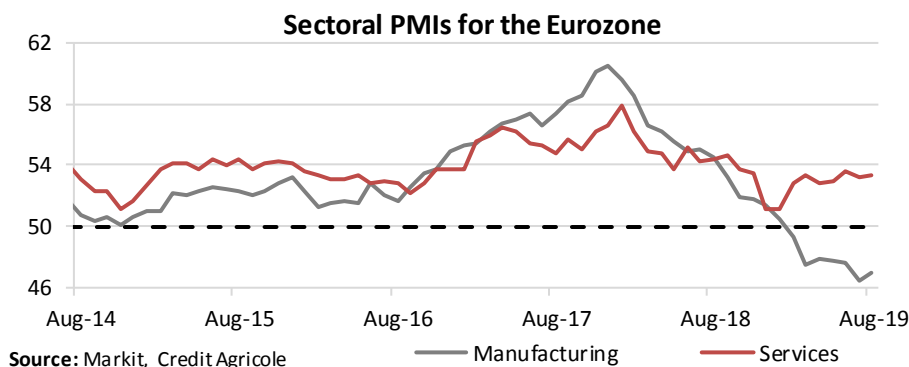


Source: Markit, Credit Agricole — Germany — Eurozone — France

slightly below the average for Q2 (51.8 pts), posing a downside risk to our forecast, in which the quarterly GDP growth rate in the Eurozone will increase to 0.3% in Q3 from 0.2% in Q2. The estimated by Markit (exclusively on the basis of PMI values) economic growth rate amounts to 0.1-0.2% QoQ in Q3.

Geographically, an increase in the economic growth rate was recorded in Germany and in France. In Germany the increase in the composite PMI resulted from higher sub-index for output in manufacturing and lower sub-index for business activity in services. In turn, in France these two sub-indices increased. According to the Markit survey, the economic growth rate in other Eurozone countries covered by the survey has not changed significantly between July and August.

At first sight, the August data show a better picture of the Eurozone economy than last month. However, a closer analysis of the business survey results points to several risks. Especially noteworthy in the data are the continuing differences between the situation in manufacturing and in services. The economic growth in the Eurozone is supported exclusively



Source: Markit, Credit Agricole — Manufacturing — Services

by growing activity in services while in manufacturing we observe contraction of activity (the sub-index has for seven months now stood below the 50 pts threshold). Historically, these differences were short-lived, which, in our view, points to a high likelihood that the situation in services will soon deteriorate following the weaker sentiment in manufacturing.

In addition, the indicator of future activity (in the coming 12 months) for the whole Eurozone decreased in August to the lowest level since May 2013, which signals high risk of the deterioration of business climate in the coming months. The report does not explicitly show the source of the managers' pessimism. A month ago, the surveyed companies were expressing concerns about trade wars, weaker global economic outlook, and geopolitical tensions, in particular, the uncertainty about Brexit. It should not be assumed that the reasons for the managers' pessimistic expectations have substantially changed since July.

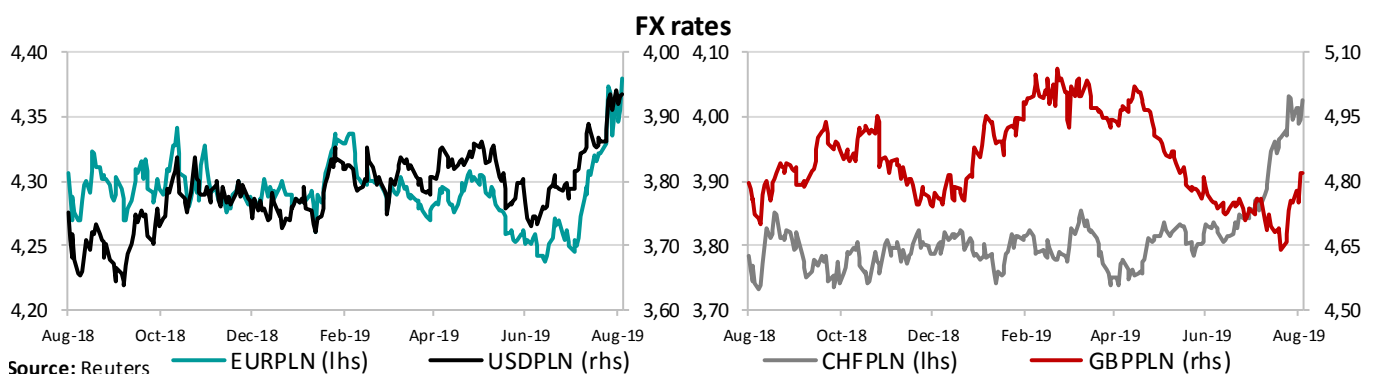
From the point of view of Polish exports, the sentiment in the German economy is of particular importance. The unfavourable picture of the situation in the German manufacturing has not changed

significantly compared to July – PMI has only slightly increased (up to 43.6 pts in August from 43.2 in July). Three factors in particular point to a very poor condition of the German manufacturing – deepening decline in employment (the fastest since July 2012), further marked decrease in total new orders (including new export orders), and the lowest in the survey history (since 2012) reading of the future output indicator. Demand for labour is one of the best barometers of business climate, therefore further decrease in FTEs poses a significant downside risk to the outlook for the German manufacturing.

It should be pointed out that the German GDP recorded a decrease in Q2 (by 0.2%) with the composite PMI for this economy running markedly above 50 pts (on the average 52.5 pts). This indicator fell down to 51.2 pts in the August-July period. The expected by us monetary easing in the Eurozone will have a positive impact on the economic growth in Germany at a certain delay. It means that without a prompt relaxation of the fiscal policy, Germany may go into so-called technical recession (GDP decreasing for two consecutive quarters) in Q3. This view is also supported by the decrease of economic activity (jointly for services and manufacturing) within the horizon of one year anticipated by the German managers for the first time since October 2014.

The August business survey results for German manufacturing signal a high likelihood of weaker demand for goods manufactured in Poland and used in the production of final products (intermediate goods). However, this negative impact of the downturn abroad on the situation in Polish manufacturing will be limited by the structural changes taking place in the Polish industry (such as growing competitive advantage of Polish companies abroad, geographic reorientation of exports, or shifts in the supply chain) and still considerable (albeit decreasing) production backlogs. However, the external environment continues to be difficult and – coupled with the expiring boom in domestic construction – will be conducive to a further weak slowdown of the industrial production growth in Poland. The last week’s data on investments in 50+ enterprises in Q2 (see above) are in line with our scenario of a deceleration in total investment outlays growth in subsequent quarters. We therefore maintain our forecast of the slowdown of economic growth to 4.4% YoY in 2019 vs. 5.1% in 2018.

PLN depreciation follows the escalation of trade wars

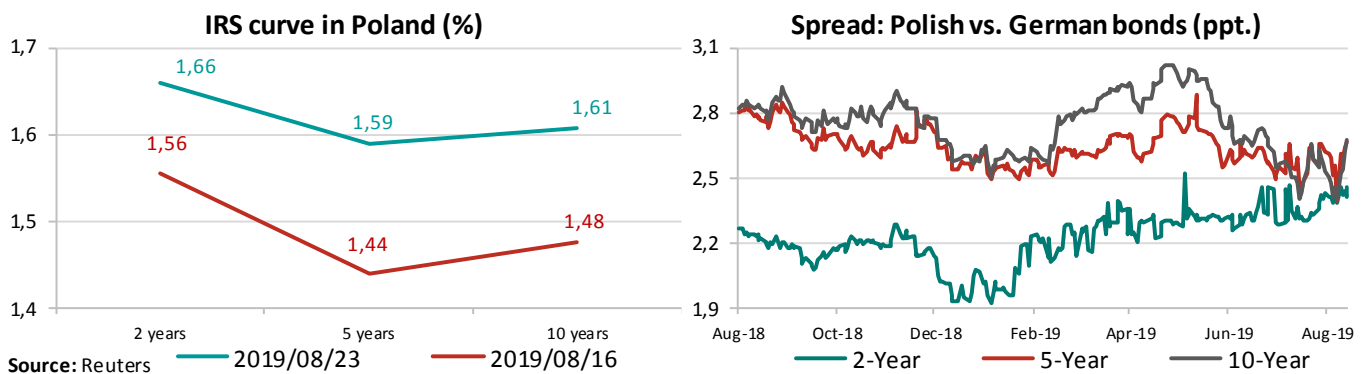


Last week, the EURPLN exchange rate rose to 4.3801 (PLN depreciation by 1.0%). Monday saw PLN weakening. It was a correction after its marked appreciation two weeks ago, given limited trading in the market due to the absence of local investors. The improvement of sentiment resulting from the growing expectations of fiscal easing in the Eurozone was conducive to a slight appreciation of PLN on Tuesday and Wednesday. Later, PLN weakening vs EUR was supported till the end of the week by the increase in the global risk aversion, reflected by higher VIX index. PLN depreciation was especially visible after the Friday’s escalation of the trade war between the US and China (see above). The publication of numerous domestic data had a limited impact on PLN.

Last week also saw USD depreciation vs. EUR in reaction to a more dovish than expected tone of the FOMC chairman’s address in Jackson Hole and the escalation of the US-China trade war.

Data on domestic inflation may be important for PLN this week. In our view, they will be conducive to PLN appreciation. The publication of data from the US (GDP, durable goods orders, consumer sentiment indicators) and the Eurozone (flash inflation) are likely to be neutral for PLN. In our view, data on domestic GDP in Q2 will not have any substantial impact on PLN. We believe that, due to scarce macroeconomic calendar, PLN will be shaped this week mainly by global market sentiment determined by investors’ expectations concerning the prospects for the FED and ECB policy as well as the trade conflict between the US and China.

➤ Growing risk aversion boosted IRS rates



Last week, 2-year IRS rates increased to 1.66 (up by 10bp), 5-year to 1.59 (up by 15bp), and 10-year to 1.61 (up by 13bp). IRS rates increased on Monday, due to the announcements of possible fiscal policy easing in Germany. Tuesday saw a partial correction. From Wednesday until the end of the week IRS rates were showing a weak upward trend supported by the fall of debt prices in the core markets (growing expectations of fiscal policy easing in the Eurozone) and increasing spread between Polish and German bonds (the effect of higher risk aversion). Domestic data had a limited impact on the curve.

We believe that the publication of domestic data on inflation scheduled for Friday will be conducive to higher IRS rates. We expect that, due to scarce macroeconomic calendar, IRS rates will be impacted this week by global market sentiment determined by investors’ expectations concerning the prospects for the FED and ECB policy as well as the trade conflict between the US and China. In our view, the scheduled readings of data from the US and the Eurozone will be neutral for the curve. Also the final reading of the GDP growth rate in Poland should not substantially impact the quotations of IRS rates.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland														
Indicator	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19
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*	4,27	4,30	4,28	4,34	4,29	4,29	4,26	4,30	4,30	4,28	4,28	4,24	4,29	4,36
USDPLN*	3,66	3,71	3,69	3,84	3,79	3,74	3,72	3,79	3,84	3,82	3,83	3,73	3,87	3,94
CHFPLN*	3,69	3,83	3,75	3,80	3,79	3,81	3,74	3,79	3,85	3,75	3,83	3,82	3,90	4,00
CPI inflation (% YoY)	2,0	2,0	1,9	1,8	1,3	1,1	0,7	1,2	1,7	2,2	2,4	2,6	2,9	
Core inflation (% YoY)	0,6	0,9	0,8	0,9	0,7	0,6	0,8	1,0	1,4	1,7	1,7	1,9	2,2	
Industrial production (% YoY)	10,3	5,0	2,7	7,4	4,6	2,8	6,0	6,9	5,5	9,2	7,6	-2,7	5,8	
PPI inflation (% YoY)	3,4	3,0	3,0	3,2	2,8	2,1	2,2	2,9	2,5	2,6	1,4	0,6	0,6	
Retail sales (% YoY)	9,3	9,0	5,6	9,7	8,2	4,7	6,6	6,5	3,1	13,6	7,3	5,3	7,4	
Corporate sector wages (% YoY)	7,2	6,8	6,7	7,6	7,7	6,1	7,5	7,6	5,7	7,1	7,7	5,3	7,4	
Employment (% YoY)	3,5	3,4	3,2	3,2	3,0	2,8	2,9	2,9	3,0	2,9	2,7	2,8	2,7	
Unemployment rate* (%)	5,8	5,8	5,7	5,7	5,7	5,8	6,1	6,1	5,9	5,6	5,4	5,3	5,3	
Current account (M EUR)	-754	-1005	-876	-405	343	-1126	2438	-718	116	720	874	21		
Exports (% YoY EUR)	12,0	8,9	-1,5	13,2	8,1	1,7	5,4	9,9	7,8	10,1	12,7	-1,6		
Imports (% YoY EUR)	12,4	14,0	4,2	18,1	9,2	2,2	1,6	7,8	2,6	8,5	11,3	-3,1		

*end of period

Forecasts of the quarterly macroeconomic indicators

Main macroeconomic indicators in Poland											
Indicator	2019				2020				2018	2019	2020
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Gross Domestic Product (% YoY)	4,7	4,4	4,4	4,2	4,2	3,9	3,7	3,5	5,1	4,4	3,8
Private consumption (% YoY)	3,9	5,0	4,5	4,0	3,7	3,6	3,5	3,4	4,5	4,3	3,6
Gross fixed capital formation (% YoY)	12,6	8,9	8,1	6,9	4,8	4,9	5,2	4,8	8,7	8,5	4,9
Export - constant prices (% YoY)	5,9	6,0	5,0	4,9	5,0	5,2	5,2	5,0	6,3	5,4	5,1
Import - constant prices (% YoY)	5,0	6,2	7,5	7,2	6,9	6,7	6,2	6,3	7,1	6,5	6,5
GDP growth contributions	Private consumption (pp)	2,4	2,9	2,7	2,0	2,3	2,1	1,7	2,6	2,5	2,1
	Investments (pp)	1,6	1,4	1,4	1,7	0,6	0,8	1,0	1,2	1,5	0,9
	Net exports (pp)	0,7	0,2	-1,1	-1,0	-0,8	-0,6	-0,4	-0,6	-0,2	-0,4
Current account (% of GDP)***	-0,3	-0,1	-0,3	-0,4	-0,5	-0,6	-0,8	-0,8	-0,6	-0,4	-0,8
Unemployment rate (%)**	5,9	5,3	5,4	5,7	5,8	5,1	5,3	5,6	5,8	5,7	5,6
Non-agricultural employment (% YoY)	0,0	0,2	0,2	0,1	0,1	0,1	0,1	0,1	0,9	0,1	0,1
Wages in national economy (% YoY)	7,1	7,6	7,8	7,7	7,7	7,7	7,3	7,1	7,2	7,6	7,5
CPI Inflation (% YoY)*	1,2	2,4	2,4	2,4	2,9	1,9	1,8	1,6	1,6	2,1	2,0
Wibor 3M (%)**	1,72	1,72	1,72	1,72	1,72	1,72	1,72	1,72	1,72	1,72	1,72
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**	4,30	4,24	4,28	4,28	4,28	4,28	4,25	4,23	4,29	4,28	4,23
USDPLN**	3,84	3,73	3,82	3,75	3,69	3,63	3,54	3,50	3,74	3,75	3,50

* quarterly average

** end of period

***cumulative for the last 4 quarters

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST*	
					CA	CONSENSUS**
Monday 08/26/2019						
10:00	Poland	Registered unemployment rate (%)	Jul	5,3	5,3	5,3
10:00	Germany	Ifo business climate (pts)	Aug	95,7	92,0	95,1
14:30	USA	Durable goods orders (% MoM)	Jul	1,9	2,0	1,1
Tuesday 08/27/2019						
8:00	Germany	Final GDP (% QoQ)	Q2	-0,1	-0,1	-0,1
15:00	USA	Case-Shiller Index (% MoM)	Jun	0,1		
16:00	USA	Richmond Fed Index	Aug	-12,0		
16:00	USA	Consumer Confidence Index	Aug	135,7	130,0	130,0
Wednesday 08/28/2019						
10:00	Eurozone	M3 money supply (% MoM)	Jul	4,5		4,7
Thursday 08/29/2019						
11:00	Eurozone	Business Climate Indicator (pts)	Aug	-0,12		
14:00	Germany	Preliminary HICP (% YoY)	Aug	1,1	1,10	1,2
14:30	USA	Second estimate of GDP (% YoY)	Q2	2,1	2,0	2,0
Friday 08/30/2019						
10:00	Poland	Final GDP (% YoY)	Q2	4,7	4,5	4,5
10:00	Poland	CPI (% YoY)	Aug	2,9	2,9	2,8
11:00	Eurozone	Preliminary HICP (% YoY)	Aug	1,0	1,0	1,0
11:00	Eurozone	Unemployment rate (%)	Jul	7,5		7,5
14:30	USA	Real private consumption (% MoM)	Jul	0,2		
15:45	USA	Chicago PMI (pts)	Aug	44,4		47,5
16:00	USA	Final U. of Michigan Sentiment Index (pts)	Aug	92,1	93,0	92,1
Saturday 08/31/2019						
3:00	China	Caixin Manufacturing PMI (pts)	Aug	49,7		49,6

*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