Will the US-China deal boost the GDP growth rate in the USA?

This week

- **The most important event this week will be the reading of the January business sentiment indicators for major European economies scheduled for Friday.** We expect that the Composite PMI for the Eurozone rose to 51.2 pts vs. 50.9 pts in December. We believe that conducive to the index increase was the improvement in France and Germany. At the same time, we expect that German manufacturing PMI rose to 44.8 pts in January vs. 43.7 pts in December. The business survey results will be particularly relevant for the assessment of the sustainability of the recovery observed in recent months within the single currency area. ZEW index reflecting the sentiment among analysts and institutional investors regarding the economic situation in Germany will be released on Tuesday. We expect it to rise to 15.0 pts in January vs. 10.7 pts in December. We believe that the publication of business survey results for the Eurozone will be neutral for the financial markets.
- **The ECB meeting will be held on Thursday.** In our view, the monetary policy parameters will not be changed this week. The macroeconomic outlook for the Eurozone is the same as during the December meeting. Therefore, we do not expect the conference to provide any new information substantially altering our scenario of the ECB monetary policy. We expect the ECB to cut the deposit rate by 10 bp down to -0.60% in June 2020 and to continue the quantitative easing program until March 2022. The remarks of the ECB Governor during the conference after the meeting should not be market moving.
- **The December data on average wages and employment in the corporate sector in Poland will be released on Tuesday**. We forecast that employment dynamics have not changed in December compared to November and amounted to 2.6% YoY. We expect that the average wage dynamics rose to 6.1% YoY in December vs. 5.3% in November, due to low base effect. 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 December industrial production in Poland will be released on Wednesday.** We forecast that industrial production growth accelerated to 6.8% YoY vs. 1.4% in November, i.a. due to favourable calendar effects. Our forecast is also supported by a significantly-higher-than-expected Polish manufacturing PMI released at the beginning of the month. Our forecast is above the market consensus (6.1%); therefore, its materialization will be slightly positive for PLN and yields on Polish bonds.
- **On Thursday we will see data on retails sales dynamics which we believe rose to 8.2% YoY in December vs. 5.9% in November**. Conducive to their increase were last year's low base effects, favourable difference in the number of working days, and strong labour market contributing to bigger Christmas shopping. We believe that the materialization of our forecast will be positive for PLN and yields on Polish bonds.

Last week

- **In accordance with the GUS final data, CPI inflation rose to 3.4% YoY in December vs. 2.6% in November, running in line with the GUS flash estimate.** The main source of the sharp increase in inflation in December was higher core inflation, which rose to 3.2% YoY vs. 2.6% in November. The structure of core inflation increase in recent months points to growing cost pressure in the Polish economy, visible especially in growing prices of services. This view is supported by higher dynamics of prices of services which rose to 6.1% YoY in December vs. 5.3% in November, hitting the highest level since 2010 (see MACROpulse of 15/1/2020). Conducive to the increase in inflation were also higher dynamics of fuel prices (0.0% YoY in December vs. -5.4% in November) and food and non-alcoholic beverages (6.9% vs. 6.5% - mainly the effect of rising prices of pork), while the dynamics of energy prices have not changed in December compared to November and amounted to -1.8%. In Q1 we expect further increase in headline inflation to 4.2% YoY which will largely result from the rise in electricity prices and the pro-inflationary impact of the sharp increase in the minimum wage with the beginning of 2020. In subsequent quarters inflation will be gradually decreasing due to high base effects and expiring shocks boosting food prices and thus on a yearly average it will amount to 2.9% in the whole 2020 vs. 2.3% in 2019.

- **The surplus in the Polish current account rose to EUR 1 457M in November vs. EUR 573M in October.** The improvement in the current account balance resulted from higher balances on goods, services, primary income, and secondary income (higher from October by EUR 402M, EUR 294M, EUR 73Mand EUR 115M, respectively). Export dynamics dropped to -1.0% YoY in November vs. 3.8% in October, and imports dynamics dropped to -4.6% YoY vs. -0.2%, largely due to the statistical effect in the form of unfavourable difference in the number of working days. The higher-than-expected data made us revise our forecast of cumulative current account balance for the last 4 quarters to GDP in Q4. We now expect it to amount to 0.6% vs. 0.2% in Q3. We forecast that the current account balance in relation to GDP will amount to 0.1% in 2020 and to -0.2% in 2021. The indicator will be stabilized by weaker domestic demand with simultaneous improvement abroad.
- **Important data from the US were released last week.** CPI inflation rose to 2.3% YoY in December vs. 2.1% in November, running in line with the market expectations. The increase in inflation resulted from higher dynamics of energy prices, while the dynamics of food prices have decreased. Core inflation has not changed in December compared to November and amounted to 2.3% YoY. Last week we also saw data on industrial production the monthly dynamics of which decreased to -0.3% in December vs. a 0.8% in November, running below the market expectations (-0.1%). Conducive to their decrease were lower output dynamics in manufacturing and utilities, while higher output dynamics in mining had opposite impact. At the same time, capacity utilization dropped to 77.0% in December vs. 77.5% in November. Last week we also saw data on retail sales the monthly dynamics of which have not changed in December compared to November and amounted to 0.3%. Excluding car sales, the monthly sales dynamics rose to 0.7% in December vs. 0.0% in November, due to the acceleration in sales growth in most of their categories. Last week we also saw data on building permits (1416k in December vs. 1474k in November) and housing starts (1608k vs. 1375k) which indicated a sharp increase in activity in the US real estate market, supported by FED's more accommodative monetary policy in recent months. The results of business surveys were also released last week. The NY Empire State Index (4.8 pts in January vs. 3.5 pts in December) and Philadelphia FED (17.0 pts vs. 2.4 pts) signaled improvement in manufacturing. The preliminary University of Michigan Index also recorded an increase, rising to 99.1 pts in January vs. 99.3 pts in December. The index slight decline resulted from its lower sub-index for expectations while higher sub-index for the assessment of the current situation had opposite impact. The last week's data do not alter our forecast, in which the annualized US GDP growth rate dropped to 1.7% in Q4 vs. 1.9% in Q3. In subsequent months we expect it to decrease further to 1.5% in Q2 and Q3 2020, largely due to the abatement of the positive effect of fiscal stimulation, continuing high uncertainty which limits investment dynamics, and increasingly slow improvement in the labour market being conducive to lower consumption growth. Our scenario has factored in the signing of the preliminary agreement between the US and China (see below).
- **Important data from Chinese economy were released last week**. The GDP growth rate has not changed in Q4 compared to Q3 and amounted to 6.0% YoY (1.5% QoQ both in Q3 and Q4), running in line with the market consensus. Thus, in the whole 2019, the dynamics of the Chinese GDP dropped to 6.1% vs. 6.6% in 2018, hitting the lowest level since 1990. On the other hand, the monthly data on industrial production (6.9% YoY in December vs. 6.2% in November, with expectations at 6.2%), retail sales (8.0% vs. 8.0%; 7.8%), and urban investments (5.4% vs. 5.2%; 5.2%) proved to be better than expected. Last week we also saw data on the Chinese trade balance which rose to USD 46.8bn in December vs. 37.9bn in November. An increase was

also recorded for the dynamics of exports (7.6 YoY in December vs. -1.3% in November) and imports (16.3% vs. 0.5%) which stood significantly above expectations (3.2% and 9.6%, respectively). Thus, the last week data point to the stabilization of the economic situation in China resulting from the stimulation of growth by the Chinese government. The partial de-escalation of the US-China trade war (see below) will be a positive factor for the economic activity in China in the coming months. Nonetheless, we expect that subsequent years will see further decrease in the Chinese GDP. We believe that it will decrease to 6.0% in 2020 and will drop to 5.8% in 2021 (see MACROmap of 7/1/2020).

- **The GDP growth rate in Germany dropped to 0.6% in 2019 vs. 1.5% in 2018, running in line with our forecast equal to the market expectations.** A decline was recorded for the dynamics of investments (2.5% YoY in 2019 vs. 3.5% in 2018), exports (0.9% vs. 2.1%), and imports (1.9% vs. 3.6%). In turn a higher growth rate was recorded for private consumption (1.6% vs. 1.3%) and public spending (2.5% vs. 1.4%). Thus lower economic growth rate in Germany resulted from lower contributions of inventories (-0.9pp in 2019 vs. 0.3 pp in 2018), investments (0.5 pp vs. 0.7 pp), while higher contribution of public spending (0.5pp vs. 0.3pp) and private consumption (0.8 pp vs. 0.7 pp) had opposite impact. The contribution of net exports has not changed and amounted to -0.4 pp. Consequently, the main source of economic growth in Germany was private consumption while in 2018 it was both private consumption and investments. Noteworthy in the data structure is the structure of German investments where the sharpest decrease in contribution to economic growth was recorded in outlays on machinery and equipment. It is consistent with the monthly data coming in recent months from the German economy and pointing to a continuing sharp decline in orders for capital goods in German manufacturing. Based on the data for the whole of 2019, we estimate that the quarterly dynamics of German GDP have not changed in Q4 compared to Q3 and amounted to 0.1%.

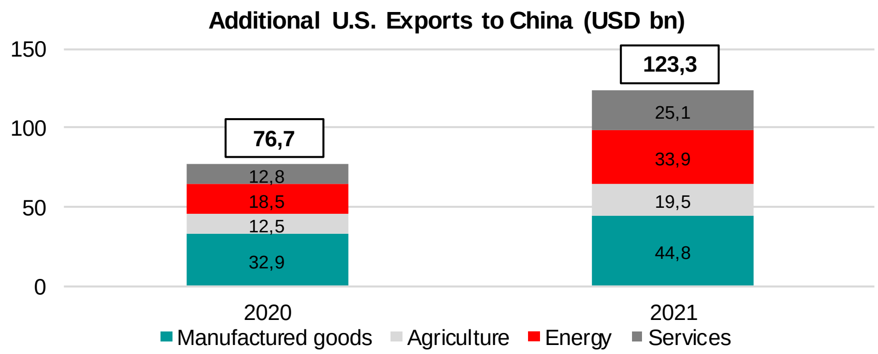
Will the US-China deal boost the GDP growth rate in the USA?

The “first phase” trade deal between the US and China was signed last week. The text of the deal is consistent with the preliminary agreements we learnt about in December (see MACROmap of 16/12/2019). The fact that there were no surprises compared to earlier reports in this respect limited market reaction last week. The deal is a lengthy document containing many elements. Below we present the most important agreements from the perspective of the economic situation in the two countries.

Even before the final deal was signed, the US had suspended import tariffs planned to be imposed on USD 160bn of Chinese goods on 15 December 2019 and additionally reduced from 15% to 7.5% the tariffs imposed on ca. USD 112bn of other Chinese goods. D. Trump said last week that those tariffs had to remain as otherwise the US would have lost the bargaining power in further negotiations with China.

In accordance with the signed deal, China agreed to open the food market wider to the American exporters (through lowering the barriers resulting from phytosanitary standards) and enable the US firms to provide financial services in China to a wider extent. In addition, China agreed to increase the protection of intellectual property and ban the forced technology transfer from the US companies (e.g. while applying for licences or other permits from the authorities). Furthermore China (like the US) agreed not to manipulate their currency rate with a view to improve the competitiveness of exports. Form the point of view of the impact on the economic situation of both countries, China’s crucial commitment is the promise to increase the imports of goods and services from the US over two years by USD 200bn compared to 2017.

Will the US-China deal boost the GDP growth rate in the USA?

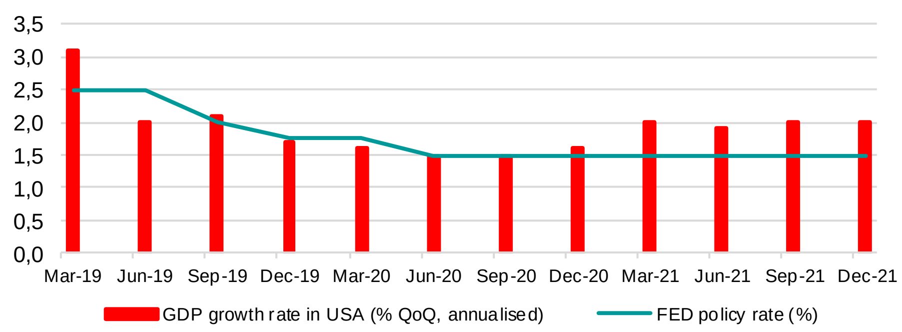


Source: USA-China Deal, Credit Agricole

In 2020 the US imports to China is to increase by USD 76.7bn and in 2021 by subsequent USD 123.3bn. The major part (ca 40%) of these amounts concerns processed goods (see the table below). Another category in terms of the planned scale of increase in exports from the US (ca. 25%) will be energy. In addition, the import of agricultural goods, and services from the US is planned to increase. We estimate that with other conditions unchanged increased exports from the US will be conducive to an increase in GDP dynamics in the US by ca. 0.4 percentage points in 2020 and by 0.6 pp in 2021. At the same time, increased imports will, ceteris paribus, limit the economic growth rate in China by ca. 0.5 pp in 2002 and by 0.8 pp in 2021.

It is worth noting however that the negative impact on GDP growth in China will be limited by the reduction of some of the tariffs imposed earlier by the US as well as, most likely, the reorientation of Chinese imports (i.e. higher imports from the US at the expense of imports from other countries). In addition, the deal provisions making the purchases dependent on the prevailing market conditions and prices raise doubts as to whether the agreed scale of purchases will be implemented in full. It is also noteworthy that the US may be unable to ensure such supply of goods for export within the designated time. Consequently, the actual scale of the signed deal’s impact on the economies of the two countries is likely to be smaller from what the above calculations would imply.

The provisions of the deal take effect 30 days after its signing. D. Trump said that negotiations on further terms of the economic cooperation between the US and China would start as soon as the “first phase” deal was signed. We maintain our scenario in which in subsequent months – despite the ongoing negotiations – there will be no further de-escalation of the conflict between these countries and a deeper agreement will not be reached. We think it is possible that after the presidential election in the US this year the conflict between the US and China may escalate again. Increased uncertainty about the US trade relations not only with China but also with other partners (e.g. the European Union) will limit the recovery in global trade and global economic growth.



Source: Datastream, Credit Agricole

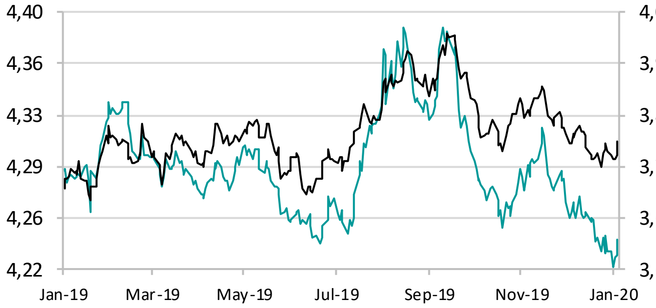
The deal signed last week is neutral from the point of view of our forecasts of economic growth in the US and China, as our baseline scenario has already factored in partial de-escalation of the conflict between these countries at the end of 2019. We believe that the still increased uncertainty about the future US-China relations as well as the results of the presidential election in the US will be conducive to a deceleration of investments in the US. Thus, we maintain our scenario assuming the reduction of interest rates by FED by 25bp in Q2 2020. We forecast that the GDP growth rate in the US will stand at 1.6% in 2020 and at 1.8% in 2021 vs. 2.3% in 2019 and in China it will amount to 6.0% in 2020 and to 5.8% in 2021 vs. 6.1% in 2019.

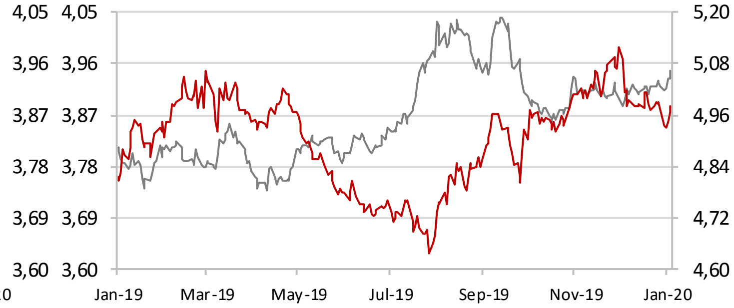
Increases in U.S. exports to China over 2 years (USD Billion)			
Product category	Additional U.S. Exports to China on Top of 2017 Baseline		
	Year 1	Year 2	2-Year Total
1. Manufactured Goods	**32,9**	**44,8**	**77,7**
Industrial machinery			
Electrical equipment and machinery			
Pharmaceutical products			
Aircraft (orders and deliveries)			
Vehicles			
Optical and medical instruments			
Iron and steel			
Other manufactured goods			
2. Agriculture	**12,5**	**19,5**	**32**
Oilseeds			
Meat			
Cereals			
Cotton			
Other agricultural commodities			
Seafood			
3. Energy	**18,5**	**33,9**	**52,4**
Liquefied natural gas			
Crude oil			
Refined products			
Coal			
4. Services	**12,8**	**25,1**	**37,9**
Charges for use of IP			
Business travel and tourism			
Financial services and insurance			
Other services			
Cloud and related services			
TOTAL	**76,7**	**123,3**	**200**

Source: US-China Deal, Credit Agricole

Domestic data on production and retail sales are positive for PLN

FX rates





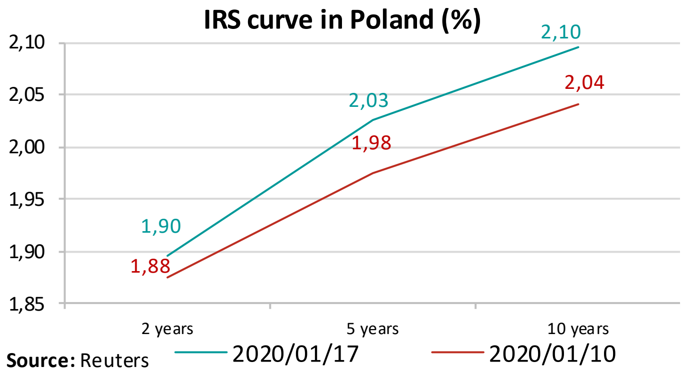
Source: Reuters

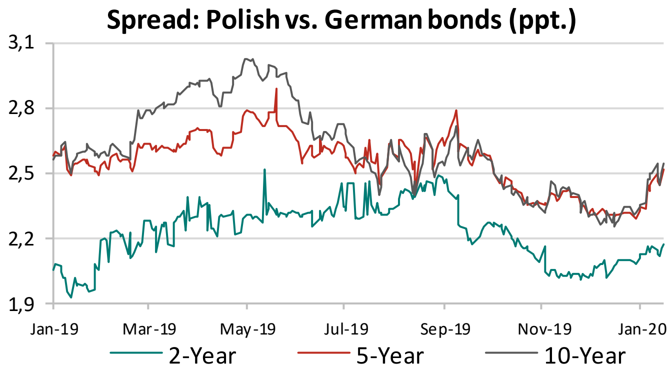
Last week, the EURPLN exchange rate dropped to 4.2407 (PLN weakening by 0.2%). The end of last week saw PLN strengthening in reaction to readings pointing to a significant surplus in Polish foreign trade. From Wednesday we observed a weak depreciation of PLN which was a correction after the appreciation at the beginning of the week. The trade deal signed between the US and China on Wednesday evening had no substantial impact on the foreign exchange market. The solid data from China released Friday morning were also neutral for PLN.

Last week EURUSD was showing a weak upward trend, supported by improved sentiment in the financial market due to a partial de-escalation of the US-China trade war. On the other hand, EUR was depreciating vs. CHF, continuing the trend observed since October. EUR depreciation vs. CHF was supported by the prospective monetary easing by the ECB.

Crucial for PLN this week will be domestic data on industrial production and retail sales. If our higher-from-the-market-consensus forecasts materialize, they will be conducive to PLN strengthening. In our view, the data on average wages and employment in the Polish corporate sector will not be market moving. We believe that also flash PMIs for major Eurozone economics, ZEW index for Germany, and ECB meeting will have no substantial impact on PLN.

Market focused on flash PMIs





Source: Reuters

Last week, 2-year IRS rates increased to 1.90 (up by 2bp), 5-year rates to 2.03 (up by 5bp), and 10-year rates to 2.10 (up by 6bp). From Monday, IRS rates continued to increase across the curve following core markets, supported by improved investors' sentiment due to partial de-escalation of the US-China trade war two weeks ago. Subsequent days saw a correction and IRS rates returned to the levels from the beginning of the week. The publication of final data on domestic inflation and the signing of the US-China trade deal had no direct impact on the curve. Friday saw a slight increase in IRS rates following core markets.

This week IRS rates may increase in reaction to domestic data on industrial production and retail sales. In turn, the data on average wages and employment in the Polish corporate sector will not have any substantial impact on the curve, we believe. The market will also focus on the publication of flash PMIs for major Eurozone economics. However we believe that if our close-to-the-consensus forecasts materialize, they will not have any substantial impact on IRS rates. ZEW index for Germany and ECB meeting are also likely to be neutral for IRS rates.

Forecasts of the monthly macroeconomic indicators

Indicator	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20
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*	4,29	4,26	4,30	4,30	4,28	4,28	4,24	4,29	4,38	4,37	4,26	4,31	4,26	**4,27**
USDPLN*	3,74	3,72	3,79	3,84	3,82	3,83	3,73	3,87	3,98	4,01	3,82	3,91	3,79	**3,81**
CHFPLN*	3,81	3,74	3,79	3,85	3,75	3,83	3,82	3,90	4,02	4,02	3,87	3,91	3,92	**3,90**
CPI inflation (% YoY)	1,1	0,7	1,2	1,7	2,2	2,4	2,6	2,9	2,9	2,6	2,5	2,6	3,4	
Core inflation (% YoY)	0,6	0,8	1,0	1,4	1,7	1,7	1,9	2,2	2,2	2,4	2,4	2,6	3,1	
Industrial production (% YoY)	2,8	6,0	6,9	5,5	9,2	7,6	-2,6	5,8	-1,5	5,5	3,7	1,5	**6,8**	
PPI inflation (% YoY)	2,1	2,2	2,9	2,5	2,6	1,4	0,5	0,5	0,9	0,8	-0,3	-0,1	**0,6**	
Retail sales (% YoY)	4,7	6,6	6,5	3,1	13,6	7,3	5,3	7,4	6,0	5,3	5,4	5,9	**8,2**	
Corporate sector wages (% YoY)	6,1	7,5	7,6	5,7	7,1	7,7	5,3	7,4	6,8	6,6	5,9	5,3	**6,1**	
Employment (% YoY)	2,8	2,9	2,9	3,0	2,9	2,7	2,8	2,7	2,6	2,6	2,5	2,6	**2,6**	
Unemployment rate* (%)	5,8	6,1	6,1	5,9	5,6	5,4	5,3	5,2	5,2	5,1	5,0	5,1	**5,2**	
Current account (M EUR)	-1528	2529	-630	217	542	430	-114	-915	-246	962	573	1457		
Exports (% YoY EUR)	-0,5	5,9	10,5	7,8	9,6	11,5	-2,6	5,9	-1,8	13,5	3,8	-1,0		
Imports (% YoY EUR)	0,2	2,1	8,4	2,8	8,0	11,1	-5,4	6,9	-3,4	6,4	-0,2	-4,6		

Main monthly macroeconomic indicators in Poland

*end of period

Forecasts of the quarterly macroeconomic indicators

Main macroeconomic indicators in Poland

Indicator		2019 Q1	2019 Q2	2019 Q3	2019 Q4	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2019	2020	2021
Gross Domestic Product (% YoY)		4,8	4,6	3,9	3,5	3,3	3,2	2,7	2,7	4,2	3,0	3,3
Private consumption (% YoY)		3,9	4,4	3,9	3,8	3,4	3,6	3,4	3,0	4,0	3,3	3,0
Gross fixed capital formation (% YoY)		12,2	9,1	4,7	2,7	3,1	1,9	1,5	1,7	6,0	1,9	5,0
Export - constant prices (% YoY)		7,3	3,2	5,0	4,9	4,2	4,1	4,2	4,4	5,1	4,2	5,3
Import - constant prices (% YoY)		6,0	3,1	3,9	3,9	3,6	3,5	3,3	3,0	4,2	3,4	4,0
GDP growth contributions	Private consumption (pp)	2,5	2,5	2,2	1,9	2,1	2,1	2,0	1,5	2,3	1,9	1,7
	Investments (pp)	1,5	1,5	0,8	0,7	0,4	0,3	0,3	0,4	1,1	0,3	0,9
	Net exports (pp)	1,0	0,2	0,8	0,7	0,5	0,5	0,6	0,8	0,6	0,6	0,6
Current account (% of GDP)***		-0,6	-0,4	0,2	0,6	0,4	0,3	0,2	0,1	0,6	0,1	-0,2
Unemployment rate (%)**		5,9	5,3	5,1	5,2	5,5	5,0	5,0	5,3	5,2	5,3	5,5
Non-agricultural employment (% YoY)		0,0	0,2	0,5	0,1	-0,1	-0,1	-0,2	-0,3	0,2	-0,2	-0,5
Wages in national economy (% YoY)		7,1	7,0	7,7	7,0	7,5	7,6	7,4	7,0	7,2	7,4	6,0
CPI Inflation (% YoY)*		1,2	2,4	2,8	2,8	4,2	3,1	2,4	2,1	2,3	2,9	2,0
Wibor 3M (%)**		1,72	1,72	1,72	1,71	1,71	1,71	1,71	1,71	1,71	1,71	1,71
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	4,37	4,26	4,29	4,29	4,29	4,29	4,26	4,29	4,25
USDPLN**		3,84	3,73	4,01	3,79	3,83	3,73	3,64	3,70	3,79	3,70	3,76

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

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST* CA	FORECAST* CONSENSUS**
		Tuesday 01/21/2020				
10:00	**Poland**	**Employment (% YoY)**	**Dec**	**2,6**	**2,6**	**2,6**
10:00	**Poland**	**Corporate sector wages (% YoY)**	**Dec**	**5,3**	**6,1**	**6,1**
11:00	Germany	ZEW Economic Sentiment (pts)	Jan	10,7	15,0	14,5
		Wednesday 01/22/2020				
10:00	**Poland**	**Industrial production (% YoY)**	**Dec**	**1,4**	**6,8**	**6,1**
10:00	**Poland**	**PPI (% YoY)**	**Dec**	**-0,1**	**0,6**	**0,9**
16:00	USA	Existing home sales (M MoM)	Dec	5,35	5,42	5,42
		Thursday 01/23/2020				
10:00	**Poland**	**Retail sales (% YoY)**	**Dec**	**5,9**	**8,2**	**7,3**
13:45	Eurozone	EBC rate decision (%)	Jan	0,00	0,00	0,00
14:00	**Poland**	**MPC Minutes**	**Jan**			
14:30	USA	Initial jobless claims (k)	w/e	214		216
16:00	Eurozone	Consumer Confidence Index (pts)	Jan	-8,1	-7,5	-7,6
		Friday 01/24/2020				
9:30	Germany	Flash Manufacturing PMI (pts)	Jan	43,7	44,8	44,5
10:00	Eurozone	Flash Services PMI (pts)	Jan	52,8	52,5	52,9
10:00	Eurozone	Flash Manufacturing PMI (pts)	Jan	46,3	47,1	46,8
10:00	Eurozone	Flash Composite PMI (pts)	Jan	50,9	51,2	51,2
14:00	**Poland**	**M3 money supply (% YoY)**	**Dec**	**9,4**	**9,3**	**9,1**
15:45	USA	Flash Manufacturing PMI (pts)	Jan	52,4		

*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