Chinese dragon's landing is still under control

This week

- **Monetary Policy Council is scheduled to meet on Wednesday.** We anticipate that the MPC will decide to maintain interest rates at their current levels. We believe that during the press conference after the meeting, the issue of the MPC's response to the strong inflation growth expected in the coming months will be discussed, as well as the increased uncertainty related the growing US-Iran tensions. In our opinion, during the conference the Governor of the National Bank of Poland will reiterate his view that that NBP interest rates would remain stable in the coming quarters. We believe that the conference will not have a major bearing on the Polish zloty exchange rate and Polish bond yields.
- **On Friday, important data from the US labor market will be published.** We anticipate an increase in employment outside agriculture of 175 thousand in December against 266 thousand in November (the marked increase in employment in November was attributable to the conclusion of the strike at General Motors – see MACROmap from 9.12.2019), with the unemployment rate settling at 3.5%. Before Friday's publication, additional information on the labor market will be provided by the ADP report on employment in the private sector (the market expects an increase of 156 thousand in December vs. 67 thousand in November). We believe that the materialization of our forecast regarding the increase in employment outside agriculture, which is above the market consensus (160 thousand), may be conducive to a slight strengthening of the US dollar, weakening of the Polish zloty and an increase in the yield on Polish bonds.
- **Preliminary data on inflation in Poland were published today.** The headline inflation rose to 3.4% YoY in December against 2.6% in November. The increase was mainly attributable to a higher core inflation, as well as faster growth of food and fuel prices.
- **Today, a preliminary estimate of HICP inflation in the Eurozone was published.** The headline inflation increased to 1.3% YoY vs. 1.0% in November due to higher dynamics of energy and food prices.

Last week

- **The PMI index for Polish manufacturing rose to 48.0 pts in December compared with 46.7 pts in November, exceeding both our forecast (46.5 pts) and the market consensus (46.8 pts).** This marks the fourteenth consecutive month where the index remains below the 50 point limit, which separates expansion from contraction. This growth of the PMI index follows from the higher contribution of 3 out of 5 of its components (for new orders, output, suppliers' delivery times), with the lower contribution of the stocks of purchases component having the opposite effect. It should be noted that in the structure of the December PMI for Polish manufacturing, the Future Output Index (for a 12-month horizon) has grown for the first time since August. This signals an improvement in the outlook of the polled companies regarding activity in the coming quarters (see MACROpulse from 02.01.2020). It also indicates that the resilience factors of Polish manufacturing to the slowdown in global trade and German manufacturing that we have identified (see MACROmap from 1.04.2019) are still applicable. Despite the improvement in assessments of expected production, we continue to believe that the coming quarters will see a decline in public investments and a slump in global trade, including in the automotive industry, which will in turn limit the scale of activity in Polish manufacturing.
- **The Caixin PMI index for Chinese manufacturing activity dropped to 51.5 pts, compared to 51.8 pts in November, slightly below market expectations (51.8 points).** Thus, despite a slight decline in December for the last five months the index has remained above the 50-point threshold, which separates expansion from contraction of activity. This drop resulted from lower contributions from 4 out of 5 of its components (for new orders, output, employment and

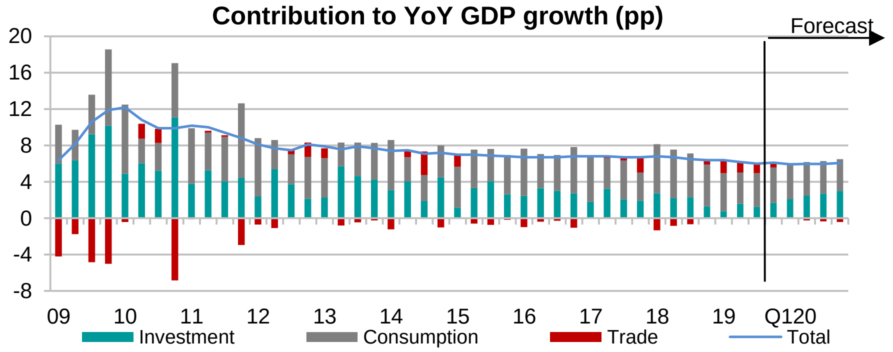
suppliers' delivery times), with the higher contribution of the stocks of purchases having the opposite effect. Components for output and new orders are particularly noteworthy in the data structure as despite a slight drop in December, they have remained above the 50-point limit since July. In our opinion, this is attributable to the Chinese government's efforts to stimulate China's economic growth. The CFLP PMI index for Chinese manufacturing was also published last week. It did not change in December compared to November and amounted to 50.2 pts, slightly exceeding market expectations (50.1 pts). We forecast that the growth rate of Chinese GDP will decrease in 2020 to 6.0% compared to 6.2% in 2019, and will fall to 5.8% in 2021 (see below).

- **Last week, data regarding economic activity in the USA was published.** In December, the Conference Board index contracted to 126.5 pts, against 126.8 pts in November, below market expectations (128.2 points). This trend resulted from the decrease of its component for future expectations with the present situation index having the opposite effect. Last week the ISM index for manufacturing was also published. In December, the index fell to 47.2 pts against 48.1 pts in November, well below market expectations (49.0 pts). Thus, December was the fifth month in a row in which the index was below 50 points, which separates expansion from contraction. At the same time, the index has reached its lowest level since June 2009. This drop resulted from lower contributions from 3 out of 5 of its components (for current output, employment and new orders), with the higher contribution of the stocks of purchases and suppliers' delivery times having the opposite effect. On the one hand, December saw a faster rate of decline in new orders, including new export orders, which suggests a high probability of a further decrease in activity in US manufacturing in the coming months. On the other hand, some of the polled companies expect an improvement in their situation as a result of the planned signing of the first phase of the US-China trade deal. As a result, in the following months the economic situation in US manufacturing will largely depend on the progress in talks between the two countries. Last week's data pose a downward risk for our forecast, according to which the annualized growth rate of US GDP in Q4 shrunk to 1.7% vs. 1.9% in Q3. In the following quarters, we expect it to slump further to 1.5% in Q2 and Q3 2020, which will be chiefly due to the expiry of the positive effect of fiscal stimulation, persistent high uncertainty holding back investment growth, as well as consistently slower improvement of the situation on the labor market stifling consumption.
- **Minutes from December FOMC meeting released last week.** According to the minutes, FOMC members still believe that there was an elevated geopolitical risk related to the US-China trade war and Brexit. However, FOMC members remain optimistic as to USA economic outlook. They pointed out that there was still room for a further reduction of the unemployment rate without increasing cost pressures in the economy. As a result, FOMC members think that the current FED monetary policy bias will remain appropriate as long as the incoming information is consistent with FOMC's expectations. In our baseline scenario, we assume that the FED will lower interest rates by 25 bp in Q2 2020 in response to the economic slowdown we anticipate.

Chinese dragon's landing is still under control

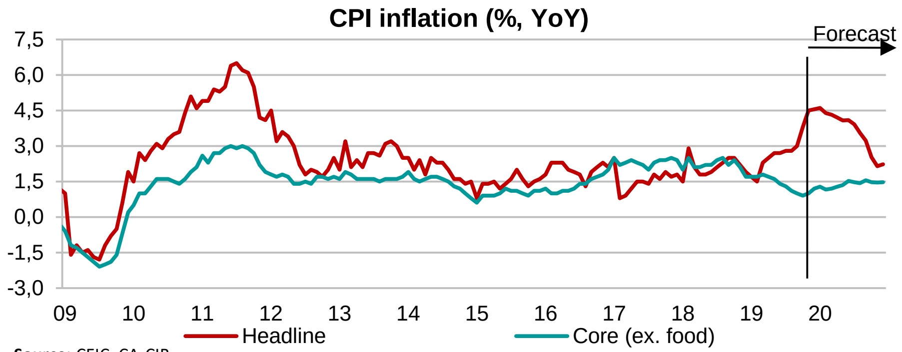
In recent quarters, we have been observing a slowdown in economic activity growth in China. The possible continuation of this trend is an important risk factor for the outlook for global trade and, consequently, global economic growth. In the analysis below, we present the 2020-2021 macroeconomic forecasts of the Credit Agricole group for China.

Chinese dragon's landing is still under control



Source: CEIC, CA-CIB

We expect the Chinese GDP growth rate to decline further in the coming years. We believe that in 2020 it will decrease to 6.0% against 6.2% in 2019, and drop to 5.8% in 2021. The continued slowdown of economic growth in China will follow from both external and internal factors. We believe that the US-China trade war will contribute to shifting global supply chains from China to other markets, thereby driving a decline in Chinese exports and a deterioration of China's trade balance in the medium term. At the same time, we maintain our position that the ongoing negotiations between the USA and China will bring about only a temporary de-escalation of the conflict which will escalate again in the coming quarters. The pace of economic growth in China will also be limited by the decline in economic activity and employment rate that we anticipate, which will hamper private consumption. We also forecast that a slowdown in investments due to the high level of debt of Chinese enterprises will negatively affect GDP growth.



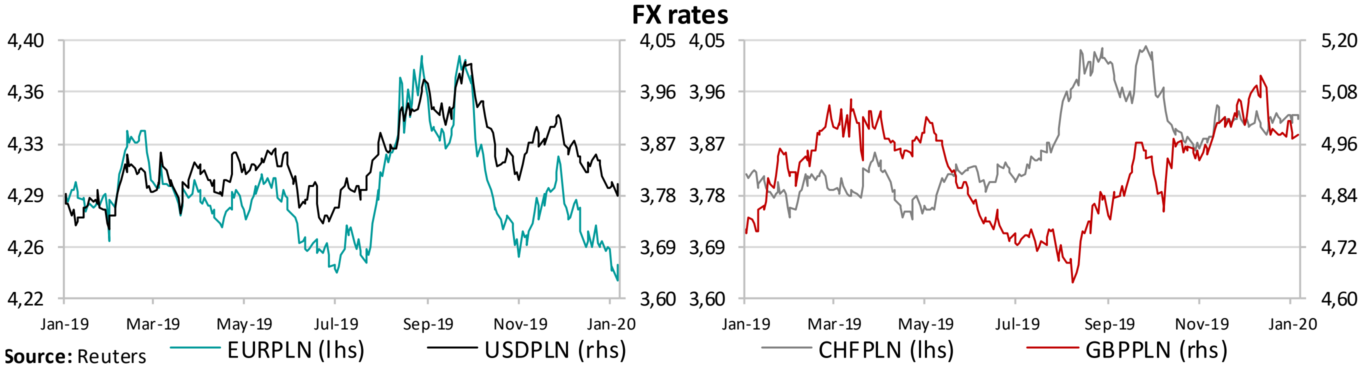
Source: CEIC, CA-CIB

We expect CPI inflation to increase to 3.5% in 2020 vs. 2.9% in 2019, and to drop to 2.2% in 2021. The strong increase in inflation in 2020 will largely be attributable to higher pork prices resulting from the spread of ASF in the country. Thus, in 2020 it will exceed the level of the government's target of 3.0%. This indicates limited potential for the further easing of China's monetary policy in 2020. As a result, we forecast that by the end of 2020 the main interest rate will be reduced by 25bp, while the reserve requirement ratio will be decreased by 150bp (last week, the People's Bank of China reduced the reserve requirement ratio by 50bp). We believe that the interest rate cuts we forecast will not have a significant impact on new lending. Thus, in an environment of limited options for a marked easing of the monetary policy, fiscal policy will remain the primary tool for stimulating economic growth in China. As a consequence, we expect a further increase in China's budget deficit, which in 2020 will rise to 5.0% from 4.6% in 2019.

We believe that the signing of the first phase of the agreement between the US and China slated for 15 January announced by Donald Trump may lead to temporary strengthening of the yuan against the US dollar. Nevertheless, along with the escalation of the US–China trade war we anticipate that the USD–CNY exchange will return to an upward trajectory. Accordingly, we believe that at the end of 2020 it will amount to 7.30 against 6.96 at the end of 2019, while at the end of 2021 it will record a slight decrease to 7.20. Given our forecast for the USD–PLN exchange rate (see quarterly table), we expect a depreciation of the yuan against the Polish zloty. We forecast the PLN-CNY exchange rate to rise from 1.84 at the end of 2019 to 1.97 at the end of 2020, while at the end of 2021 it will fall to 1.91.

The analysis was based on the report "China outlook 2020: managing a slowing economy" by Dariusz Kowalczyk from Crédit Agricole Corporate and Investment Bank.

Data from the American labour market may weaken the PLN



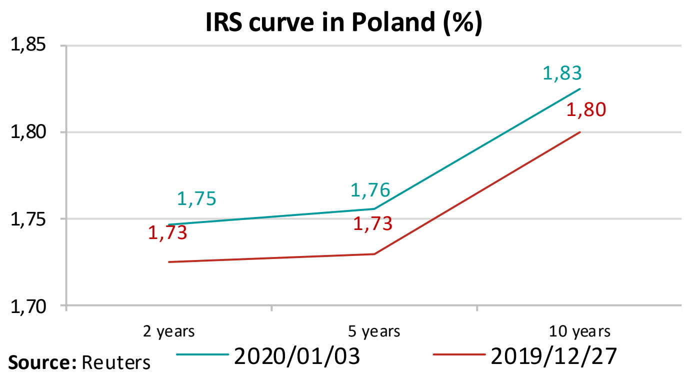
Source: Reuters

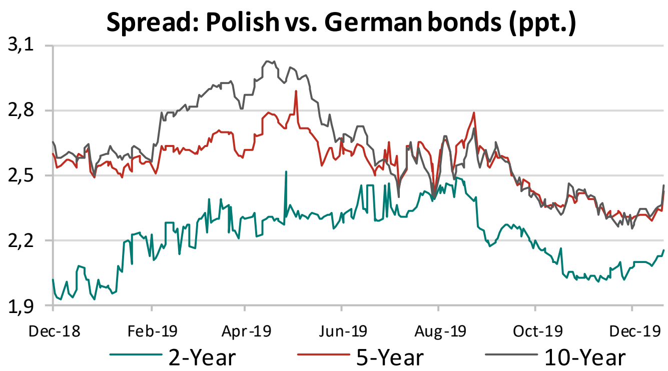
Last week, the EURPLN rate dropped to 4.2421 (the PLN strengthened by 0.4%). From Monday to Thursday the volatility of the EURPLN rate was low which was supported by lower liquidity on the market due to the holiday season and the New Year. On Thursday the PLN and the currencies of the region appreciated thanks to an increase in demand for risky assets, which was reflected in a declining VIX index. On Friday both the PLN and other emerging market currencies weakened in response to a sharp increase in global risk aversion after the US missile attack on Iraqi territory killed the Iranian special forces commander General K. Sulejmani. As a result, according to investors, the risk of an open armed conflict between the US and Iran has significantly increased. Towards the end of the day there was a partial adjustment and the PLN appreciated. The *Minutes* of the December FOMC meeting were released already after the markets closed and thus did not have a significant impact on the PLN.

As a result of the increased risk aversion, on Friday we also saw the strengthening of the US dollar and the Swiss franc, i.e. currencies treated by investors as so called safe havens.

The release of data from the US labour market planned for Friday will likely be negative for PLN. We believe that the MPC meeting will not have a significant impact on the market. Taking into account recent statements by D. Trump, who has threatened Iran with military response should Iran strike on Americans or on American assets, this week we might see an increased risk aversion which might be conducive to a slight depreciation of the PLN.

Domestic inflation data may contribute to an increase in IRS rates





Source: Reuters

Last week, 2-year IRS rates increased to 1.75 (up by 2 bps), 5-year to 1.76 (up by 3 bps) and 10-year to 1.83 (up by 3bps). Last week, the volatility of IRS rates was quite low, which was supported by the holiday season. At the beginning of the week IRS rates increased slightly which was driven by transactions. On Friday we observed a drop in IRS rates following the underlying markets (the US, Germany). What contributed to the decline in profitability on underlying markets was the increase in global risk aversion after the US missile attack on Iraqi territory killed the Iranian special forces commander General K. Sulejmani. Consequently, last week we also saw a higher spread between Polish and German bonds. Towards the end of the day there was a partial adjustment and increase in IRS rates.

The US non-farm payroll data will likely contribute to an increase in IRS rates. We do not expect the Wednesday Polish Monetary Policy Council's meeting to have a significant impact on the yield curve. Taking into account recent statements by D. Trump, who has threatened Iran with military response should Iran strike on Americans or on American assets, this week we might see an increased risk aversion which might be conducive to a drop in IRS rates following the underlying markets and, simultaneously, a higher spread between Polish and German bonds.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland

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	**3,0**	
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	**2,7**	
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	357	379	-310	-797	-659	172	529	**-45**		
Exports (% YoY EUR)	-0,5	5,9	10,5	7,8	9,4	11,6	-3,1	7,7	-0,1	9,3	4,0	**-0,7**		
Imports (% YoY EUR)	0,2	2,1	8,4	2,8	7,7	10,1	-4,7	8,4	-2,5	4,3	-0,1	**-0,2**		

* end of period

Forecasts of the quarterly macroeconomic indicators

Main macroeconomic indicators in Poland

Indicator		2019				2020				2019	2020	2021
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
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	4,5
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	0,2
Current account (% of GDP)***		-0,6	-0,4	-0,1	0,0	-0,2	-0,4	-0,5	-0,6	0,0	-0,6	-1,0
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	2,7	3,5	2,4	1,7	1,5	2,3	2,3	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

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST* CA	FORECAST* CONSENSUS**
		Monday 01/06/2020				
10:00	Eurozone	Services PMI (pts)	Dec	52,4	52,4	52,4
10:00	Eurozone	Final Composite PMI (pts)	Dec	50,6	50,6	50,6
10:30	Eurozone	Sentix Index (pts)	Jan	0,7		2,6
11:00	Eurozone	PPI (% YoY)	Nov	-1,9		-1,5
		Tuesday 01/07/2020				
10:00	**Poland**	**CPI (% YoY)**	**Dec**	**2,6**	**3,0**	**2,9**
11:00	Eurozone	Preliminary HICP (% YoY)	Dec	1,0	1,3	1,3
11:00	Eurozone	Retail sales (% MoM)	Nov	-0,6		0,6
16:00	USA	ISM Non-Manufacturing Index (pts)	Dec	53,9		54,5
16:00	USA	Factory orders (% MoM)	Nov	0,3		-0,8
		Wednesday 01/08/2020				
8:00	Germany	New industrial orders (% MoM)	Nov	-0,4		0,3
11:00	Eurozone	Business Climate Indicator (pts)	Dec	-0,23		-0,16
14:15	USA	ADP employment report (k)	Dec	67		160
	Poland	**NBP rate decision (%)**	**Jan**	**1,50**	**1,50**	**1,50**
		Thursday 01/09/2020				
2:30	China	PPI (% YoY)	Dec	-1,4		-0,4
2:30	China	CPI (% YoY)	Dec	4,5		4,7
8:00	Germany	Industrial production (% MoM)	Nov	-1,7		0,7
8:00	Germany	Trade balance (bn EUR)	Nov	20,6		20,0
11:00	Eurozone	Unemployment rate (%)	Nov	7,5		7,5
		Friday 01/10/2020				
14:30	USA	Unemployment rate (%)	Dec	3,5	3,5	3,5
14:30	USA	Non-farm payrolls (k MoM)	Dec	266	175	160
16:00	USA	Wholesale inventories (% MoM)	Nov	0,0		0,1
16:00	USA	Wholesale sales (% MoM)	Nov	-0,7		0,2

* 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

MACRO MAP

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