

This week

- **The most important event this week will be the publication of flash April business survey results for major European economies scheduled for Thursday.** We expect that PMI composite for the Eurozone rose to 30.5 pts in April vs. 29.7 pts in March. Due to PMI structure, its level is stabilized by longer suppliers' delivery times (see MACROmap of 24/2/2020). At the same time, some surveyed companies, whose situation has visibly deteriorated in March due to the COVID-19 epidemic, are likely to report "no changes" in April compared to the previous month, which will be conducive to PMI increase. The reading of the ZEW index reflecting the sentiment among analysts and institutional investors concerning the economic situation in Germany will be released on Tuesday. We expect that the index value will drop to -60.0 pts in April vs. -49.5 pts in March. Ifo Index reflecting the sentiment among German managers representing the manufacturing, construction, and services sectors will be released on Friday. We expect it to drop to 80.0 pts in April from 86.1 pts in March. Our forecasts of business survey results in the Eurozone are above the consensus; therefore, their materialization will be slightly positive for PLN.
- **Many American companies (i.a. Coca Cola, IBM, Verizon, American Express Intel, At&T) are going to publish their financial statements for Q1 2020 this week.** We believe that the quarterly accounts will point to a deterioration of the financial situation of those companies (lower turnovers and profits). Such scenario has to a significant extent been already priced in by the financial markets. Nonetheless, this week we may see increased market volatility and higher risk aversion if the published quarterly results are weaker than expected.
- **Significant hard data from the US and business survey results will be released this week.** We expect that preliminary durable goods orders decreased by 10.0% MoM in March vs. a 1.2% increase in February, due to the COVID-19 epidemic. We expect that data concerning new home sales (673k in March vs. 765k in February, down by 12% MoM) and existing home sales (5.48M in April vs. 5.77M in March) will indicate a marked decrease in activity in the US real estate market. We are also going to see the April consumer survey results. We believe that the final University of Michigan Index (67.0 pts vs. 89.1 pts in March) will confirm a sharp deterioration of households' sentiment. We believe that the publication of US data will be slightly negative for global sentiment and PLN.
- **The March data on average wages and employment in the corporate sector in Poland were released today.** For more details see today's MACROPulse.
- **On Wednesday we will see data on retail sales in Poland, which in our view increased by 6.0% YoY in March vs. 9.6% in February.** Slower sales growth resulted from the stockpiling by households and the closing of shopping malls in the second half of March which had opposite impact. Our forecast of retail sales dynamics is above the market consensus (-3.4%); therefore, its materialization would be slightly positive for PLN.
- **On Thursday we will see data on the construction-assembly production in Poland.** We forecast that production dynamics rose to 6.3% YoY in March vs. 5.4% in February. We believe that the COVID-19 epidemic has to a small extent limited the construction activity in March. In addition, the increase in production was supported by the abatement of high base effects, by favourable calendar effects, and good weather conditions. Our forecast is above the market expectations (0.8%) but its materialization will be neutral for PLN and yields on Polish bonds believe.
- **Data on the March industrial production in Poland will be released on Tuesday.** We forecast that industrial production growth slowed down to 4.5% YoY vs. 4.9% in February. We see a significant downside risk to our forecast, due to the significantly lower than expected Polish manufacturing PMI released at the beginning of the month and difficult to estimate scale of downtime in many companies. Our forecast of industrial production dynamics is above the market consensus (-1.7%); therefore, its materialization would be slightly positive for PLN.

Last week

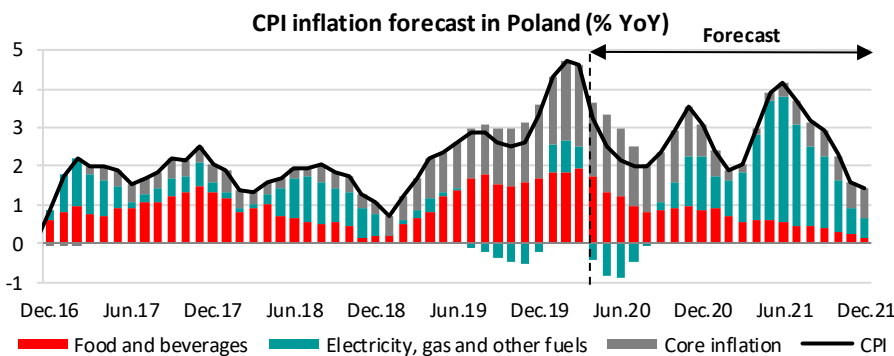
- **CPI inflation in Poland dropped to 4.6% YoY in March vs. 4.7% in February.** Thus, inflation has for three months now been staying above the upper limit of band for deviations from the NBP inflation target. Conducive to the decrease in inflation were lower dynamics of fuel prices, resulting from their sharp decrease in monthly terms and from the abatement of the last year's low base effects. Higher dynamics of the prices of food and non-alcoholic beverages had opposite impact. Core inflation has not changed in March compared to February and amounted to 3.6% YoY. At the same time, the structure of core inflation pointed to the first signs of the impact of the COVID-19 epidemic on the prices of goods and services. According to GUS statement, due to the COVID-19 epidemic, important changes were introduced in the price survey methodology (see MACROPulse of 15/4/2020). In accordance with our revised inflation scenario, the inflation rate will increase to 3.1% YoY in 2020 vs. 2.3% in 2019 and will drop to 2.7% in 2021 (see below).
- **The surplus in the Polish current account dropped to EUR 659M in February vs. EUR 2 348M in January.** The decrease in the current account balance resulted from lower balances on services and primary income (lower from January by EUR 510M and EUR 1 738M, respectively), while higher balances on goods and secondary income (higher from January by EUR 45M and EUR 514M, respectively) had opposite impact. The recorded in February sharp decrease in the balance on primary income resulted from lower balance on transfers with the European Union. Export dynamics rose to 5.7% YoY in February vs. 3.6% in January and imports dynamics dropped to 0.5% YoY vs. 2.4%. Due to the spread of the coronavirus pandemic, the data published last week refer to a different reality from the one we are dealing with now, namely from before the outbreak of the COVID-19 pandemic. Consequently, the usefulness of these data for forecasting the outlook for Poland's foreign trade is limited.
- **Important data from China were released last week.** The GDP growth rate dropped to -6.8% YoY in Q1 vs. 6.0% in Q4, running slightly below the market expectations (-6.5%) and significantly above our forecast (-13.0%). The quarterly GDP dynamics dropped to -9.8% in Q1 vs. 1.55 in Q4, with expectations at -9.9%. Last week we also saw the monthly data on industrial production (-1.1% YoY in March vs. -13.5% YoY in February), retail sales (-15.8% vs. -20.5%), and urban investments (-16.1% vs. -24.5%), which pointed to a slower decrease in activity in March than in February. This signals a gradual normalization of the economic situation in China. The data structure indicates at the same time that production is recovering faster than consumption. We believe that such dependence will continue into the coming months. The last week's data pose a substantial upside risk to our scenario, in which the dynamics of the Chinese GDP will decrease to 2.0% in 2020 vs. 6.1% in 2019 (see MACROmap of 14/4/2020).
- **Last week we saw significant data from the US economy.** The monthly dynamics of industrial production dropped to -5.4% in March vs. 0.5% in February, due to lower output dynamics in all its major branches: manufacturing, mining, and utilities. It is worth noting that it has been the sharpest monthly decline in the US industrial production since 1946, which points to the extremely strong impact of the COVID-19 pandemic on the US industry. Capacity utilization decreased to 72.7% in March vs. 77.0% in February. Last week we also saw data on retail sales, which decreased by 8.7% in March vs. a 0.4% decrease in February. Lower monthly retail sales dynamics resulted from a sharp decrease in most of their categories, due to the administrative restrictions imposed as part of the effort to contain the COVID-19 pandemic. A particularly sharp decrease in sales was recorded in clothing (-50.5% MoM). By more than 20% down were the sales of cars, car parts, recreation equipment, furniture and foodstuffs. Excluding car sales, the monthly retail sales dynamics dropped to -4.5% MoM vs. -0.4% in February. Data from the US labour market were also released last week. The number of unemployment benefit requests decreased to 5245k last week vs. 6615k. Thus, the cumulative number of unemployment

benefit requests in the last four weeks amounted to 22.0M, which represents more than 13% of the US labour force resources. Last week we also saw data on building permits (1353k in February vs. 1452k in January) and housing starts (1216k vs. 1564k), which pointed to a decrease in activity in the US real estate market. Regional business surveys were also released last week. Both the NY Empire State Index (-78.2 pts in April vs. -21.5 pts in March) and the Philadelphia FED Index (-56.6 pts in April vs. -12.7 pts in March) indicated a downturn in manufacturing due to the COVID-19 pandemic. The last week's data pointing to a further surge in unemployment in the US and a marked decrease in the economic activity signal a high likelihood of lower wage pressure in the coming months. This will be conducive to lower inflation and, consequently, to a longer horizon of the FED's accommodative monetary policy.

➤ **Last week US President D. Trump presented a plan for the reopening of the US economy.** The plan has three phases. In the first phase the recommended number of meeting participants should not exceed 10 persons, travel should be limited to minimum, and whenever possible work should be done from home. Restaurants, places of recreation and religious practices will be allowed to reopen, subject to meeting the requirements of social distancing. In the second phase schools will reopen and the recommended maximum number of meeting participants will be increased to 50. The third phase assumes the restoration of normal economic activity with safety precautions in place. The moment the respective states will go from phase to phase will be decided by the governors based on data on new infections. The plan announced by D. Trump indicates that the US administration is determined to reopen the economy as soon as possible which supports the global risk appetite and our forecast for PLN (EURPLN down to PLN 4.44 at the end of June 2020).

➤ **Last week Prime Minister M. Morawiecki and Health Minister Ł. Szumowski announced the plan for the reopening of the Polish economy.** The whole process will have four stages. During the first stage, binding from today, the limits on persons who may be in the shops at the same time will be increased. At the same time the possibility of moving for recreational purposes will be restored subject to social distancing and covering of faces. The second stage assumes the opening of building stores during the weekends, hotels and other sleeping facilities, as well as some cultural institutions. During the third stage opened will be some catering establishments (subject to limitations), hairdressing and beauty parlors, and shops in shopping malls. Sport events of up to 50 people (without audience) will also be allowed to take place. Child care will resume in nurseries, kindergartens and schools in 1-3 forms (subject to specific limits on children in classrooms). At the fourth stage massage rooms, tanning salons, gyms and fitness clubs as well as cinemas and theatres will reopen under new sanitary regime. No specific time frames for the respective reopening stages were given during the press conference. The presented plan is consistent with our macroeconomic scenario, in which we were assuming a gradual exit from the restrictions in Q2 2020 (see MACROmap of 14/4/2020).

Inflation will be higher due to drought



Source: GUS, Credit Agricole

We have revised our inflation forecast downwards. We now believe that the rate of inflation will increase to 3.1% YoY in 2020 (2.9% in the previous forecast) vs. 2.3% in 2019 and will drop to 2.7% (2.4%) in 2021. The revision of our inflation scenario resulted from the forecast by us lower profiles of fuel prices and core inflation as well as higher profile of food prices. Below

we present the reasons for the revised forecasts.

We forecast that the dynamics of the prices of food and non-alcoholic beverages will increase to 5.2% YoY in 2020 vs. 4.9% in 2019 (4.7% in the previous forecast) and will decrease to 2.0% (1.3%) in 2021. The main factor behind the upward revision of our food prices profile is the deepening drought in Poland. If the currently observed agrometeorological conditions continue into subsequent months, it will have a substantial negative impact on the volumes of the domestic agricultural production. Hence, based on the long-term weather forecasts, our forecast assumes that this year's conditions will resemble those in 2019 (we earlier assumed that they would be better from last year). Consequently, the agricultural production in the categories which are particularly dependent on weather (vegetables, fruits, cereals) stands at a level similar to that in 2019. The main risk to such scenario is possible improvement of the agrometeorological conditions later in the year.

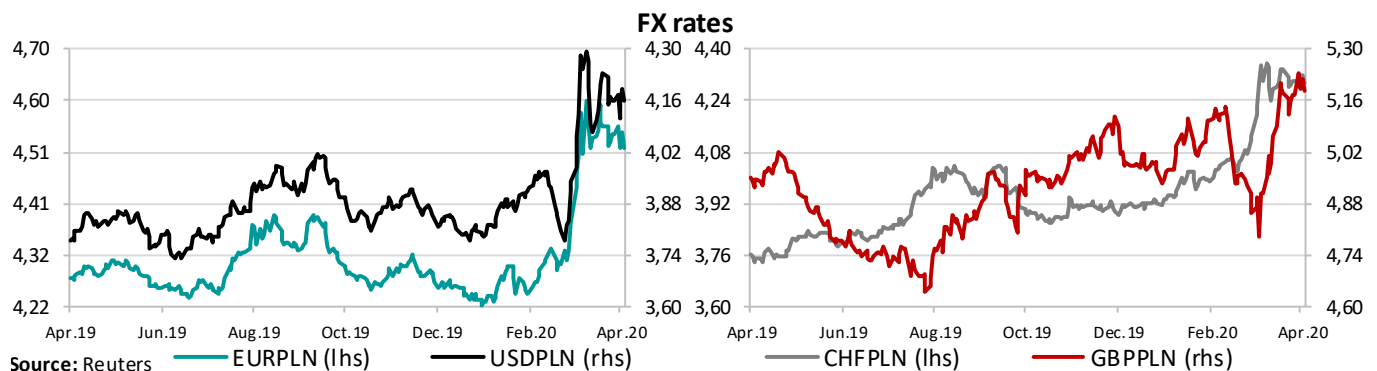
The positive impact of drought on inflation will be partly offset by the observed in recent weeks excess supply in some agricultural markets (i.a. milk and meat market). Thus our scenario, in which due to blocked distribution channels (closed restaurants and hotels, logistic difficulties) the regions with excess production will observe excess supply of food conducive to lower prices, has materialized. We assume that subsequent months will see some adaptation processes and the excess production will be largely consumed by other distribution channels (i.a. the foodstuffs so far sold to restaurants and hotels will be sold through shops). At the same time we can expect that, as the economies will gradually reopen, restaurants and hotels will also resume activity, especially in countries being the main importers of Polish food, i.e. in Germany, UK, and France. However, we see a significant likelihood that until then many producers will be forced to reduce production. Consequently, with the later unblocking of the distribution channels, the reduced supply may not be able to keep up with the increase in demand being conducive to higher prices. This largely explains our higher inflation profile in 2021.

Despite the agreement of OPEC+ countries to reduce the production of oil, the price of this commodity is now below our earlier expectations. This situation is likely to continue into the coming weeks. Consequently we have downwardly revised our forecast of the annual dynamics of fuel prices in 2020. A sustainable increase in the global oil prices can be expected only with a gradual global economic recovery. We expect that the growth rate of fuel prices, supported by the low base effects, will reach a level of several tens of percent in year on year terms in Q2 and Q3 2021.

We believe that the deterioration of the situation in the labour market conducive towards weakening domestic demand will limit in the short term the possibility of producers and service providers increasing their prices. In addition, higher unemployment rate will be conducive to a slower increase of wages and thus (through lower labour costs) to lower core inflation. Nonetheless, the potential to a

marked fall in prices is also small. As the government will be gradually lifting the restrictions, the companies will find themselves in a different reality. The service providers will have to reorganize their activity to ensure the health safety of employees and customers (lower number of tables in restaurants, lower number of customers in cinemas, shopping malls, etc.). The need to remain profitable given lower turnovers limits the possibility of cutting prices. Consequently, we forecast that core inflation will on a yearly average amount to 2.7% YoY in 2020 vs. 2.0% in 2019 and will decrease to 0.8% in 2021. The prospect of core inflation running clearly below the MPC inflation target in the horizon of several quarters strongly supports our scenario assuming interest rate cut in Poland to 0.05% in Q2 2020.

Business survey results for the Eurozone positive for PLN

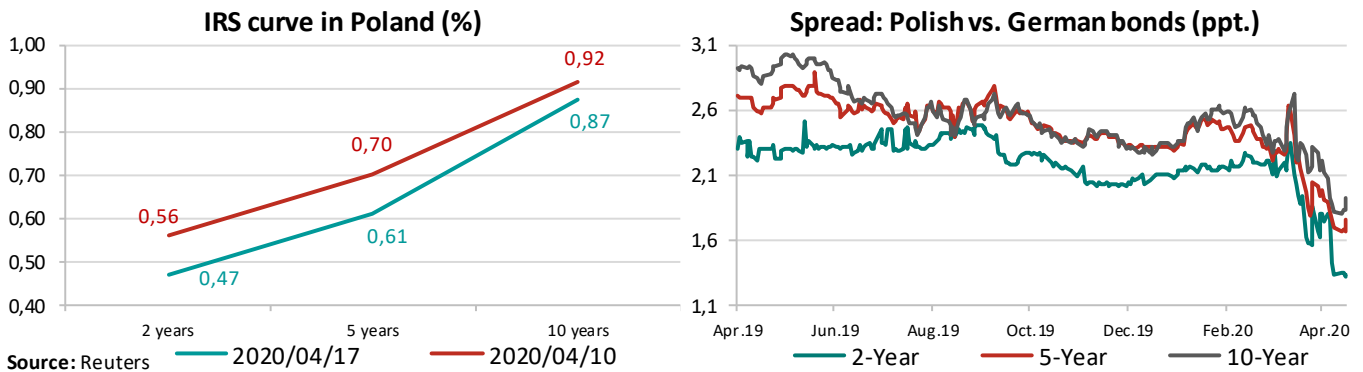


Last week, the EURPLN exchange rate dropped to 4.5149 (strengthening of PLN by 0.6%). Last week EURPLN was showing a weak downward trend. This may indicate that the investors, at least at the present stage, have to a significant extent already discounted the negative impact of the pandemic on the global economy. Thus, their sentiment is increasingly resilient to the incoming weak hard data from major economies. This supports higher demand for more risky assets, including PLN.

Noteworthy last week is also a slight appreciation of USD vs. EUR. The last week's data from the US economy were generally consistent with the market expectations. At the same time, the announced by D. Trump plan of gradual reopening of the economy was received by some investors as a higher likelihood of a sooner than expected normalization of the situation which would have a positive impact on the outlook for US economic growth and global risk appetite.

We expect that this week, like in the previous weeks, PLN will remain impacted by global sentiment related to the coronavirus epidemic. Crucial for investors will be information on the pace of the spread of the epidemic. Important for PLN will also be the business survey results for the Eurozone (PMIs and Ifo and ZEW indices for Germany). We believe that they may contribute towards PLN appreciation. Data from the domestic economy (industrial production, retail sales) may have similar impact. The data coming this week from the US economy (preliminary durable goods orders, new home sales, existing home sales, final University of Michigan Index, and financial results of major US companies for Q1) are likely to be slightly negative for PLN. Data on domestic construction-assembly production will not be market moving, we believe.

Domestic readings may support increase of IRS rates



Last week, 2-year IRS rates decreased to 0.47 (down by 9bps), 5-year rates to 0.61 (down by 9bps), and 10-year rates to 0.87 (down by 5bps). The debt market remains impacted all the time by the media reports on the spread of the COVID-19 pandemic. Last week saw a further decrease in IRS rates following the German market. Conducive to lower IRS rates were also the growing investors' expectations of interest rate cuts in Poland, reflected by lower FRA rates. On Thursday, the NBP made a direct purchase of treasury bonds, buying securities worth PLN 30.7bn. On Thursday there was also a debt auction at which the Finance Ministry sold PLN 5.2bn of 2-, 4-, 5-, and 9-year bonds with demand amounting to PLN 7.8bn. Both the purchase of NBP bonds and the FM debt auction had no significant impact on the debt market.

This week, like in the previous weeks, the main factor affecting IRS rates will be media reports on the COVID-19 epidemic. The market will focus on information on the spread of the epidemic. The scheduled for this week publications of domestic data (industrial production, retail sales, construction-assembly production) will be neutral for the curve, we believe. Data from the US economy (preliminary durable goods orders, new home sales, existing home sales, final University of Michigan Index, and financial results of major US companies for Q1) will also have no substantial impact on IRS rates. In our view, the scheduled for this week publications of business survey results for the Eurozone (PMI, as well as Ifo and ZEW indices for Germany) will not have any significant impact on the curve. A stabilizing factor for the yield curve will be the unconventional monetary policy instruments applied by the central banks.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland														
Indicator	Mar.19	Apr.19	May.19	Jun.19	Jul.19	Aug.19	Sep.19	Oct.19	Nov.19	Dec.19	Jan.20	Feb.20	Mar.20	Apr.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	1,00	0,50
EURPLN*	4,30	4,28	4,28	4,24	4,29	4,38	4,37	4,26	4,31	4,26	4,30	4,33	4,55	4,53
USDPLN*	3,84	3,82	3,83	3,73	3,87	3,98	4,01	3,82	3,91	3,79	3,87	3,92	4,13	4,11
CHFPLN*	3,85	3,75	3,83	3,82	3,90	4,02	4,02	3,87	3,91	3,92	4,02	4,06	4,29	4,22
CPI inflation (% YoY)	1,7	2,2	2,4	2,6	2,9	2,9	2,6	2,5	2,6	3,4	4,3	4,7	4,6	
Core inflation (% YoY)	1,4	1,7	1,7	1,9	2,2	2,2	2,4	2,4	2,6	3,1	3,1	3,6	3,6	
Industrial production (% YoY)	5,5	9,2	7,6	-2,6	5,8	-1,5	5,5	3,7	1,5	3,8	1,1	4,8	4,5	
PPI inflation (% YoY)	2,5	2,6	1,4	0,5	0,5	0,9	0,8	-0,3	-0,1	1,0	0,9	0,1	0,0	
Retail sales (% YoY)	3,1	13,6	7,3	5,3	7,4	6,0	5,3	5,4	5,9	7,5	5,7	9,6	6,0	
Corporate sector wages (% YoY)	5,7	7,1	7,7	5,3	7,4	6,8	6,6	5,9	5,3	6,2	7,1	7,7	7,2	
Employment (% YoY)	3,0	2,9	2,7	2,8	2,7	2,6	2,6	2,5	2,6	2,6	1,1	1,1	0,8	
Unemployment rate* (%)	5,9	5,6	5,4	5,3	5,2	5,2	5,1	5,0	5,1	5,2	5,5	5,5	5,6	
Current account (M EUR)	197	-158	-227	10	-824	-820	846	442	1412	366	2348	659		
Exports (% YoY EUR)	10,4	9,5	11,5	-2,4	6,4	-1,2	13,0	4,0	0,8	9,0	3,6	5,7		
Imports (% YoY EUR)	4,3	8,5	11,5	-5,3	6,7	-3,0	6,2	0,3	-3,5	-0,7	2,4	0,5		

*end of period

Forecasts of the quarterly macroeconomic indicators

Main macroeconomic indicators in Poland												
Indicator	2020				2021				2019	2020	2021	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Gross Domestic Product (% YoY)	0,1	-11,7	-2,1	-1,8	0,7	5,6	3,6	2,9	4,1	-3,8	3,0	
Private consumption (% YoY)	0,0	-20,0	-5,1	-2,0	2,1	8,1	4,3	3,7	3,9	-6,7	4,1	
Gross fixed capital formation (% YoY)	0,9	-9,4	-6,8	-2,8	1,3	4,5	4,0	2,9	6,9	-4,6	3,1	
Export - constant prices (% YoY)	2,4	-6,3	-2,3	-1,1	2,0	4,5	4,0	4,1	4,2	-1,8	3,6	
Import - constant prices (% YoY)	1,0	-7,0	-5,4	1,0	4,5	5,0	3,4	3,5	3,0	-2,6	4,0	
GDP growth contributions	Private consumption (pp)	0,0	-11,6	-3,0	-1,0	1,3	4,3	2,4	1,8	2,2	-3,8	2,2
	Investments (pp)	0,1	-1,6	-1,2	-0,7	0,2	0,8	0,7	0,7	1,3	-0,8	0,6
	Net exports (pp)	0,9	0,0	1,5	-1,0	-1,3	0,0	0,5	0,5	0,8	0,3	0,0
Current account (% of GDP)***	0,9	0,7	1,1	0,2	-0,1	-0,1	0,0	0,1	0,5	0,2	0,1	
Unemployment rate (%)**	5,6	9,4	8,7	8,2	7,2	6,2	5,8	6,1	5,2	8,2	6,1	
Non-agricultural employment (% YoY)	0,3	-3,7	-3,7	-2,3	-1,0	3,2	2,9	2,2	0,3	-2,3	1,8	
Wages in national economy (% YoY)	7,5	5,9	4,8	3,6	3,0	3,6	4,3	5,5	7,2	5,5	4,1	
CPI Inflation (% YoY)*	4,5	2,6	2,1	3,2	2,1	3,7	3,3	1,8	2,3	3,1	2,7	
Wibor 3M (%)**	1,17	0,25	0,25	0,25	0,25	0,62	0,70	0,70	1,71	0,25	0,70	
NBP reference rate (%)**	1,00	0,05	0,05	0,05	0,05	0,05	0,50	0,50	1,50	0,05	0,50	
EURPLN**	4,55	4,44	4,40	4,37	4,36	4,35	4,34	4,33	4,26	4,37	4,33	
USDPLN**	4,13	3,96	3,86	3,87	3,89	3,88	3,91	3,90	3,79	3,87	3,90	

* quarterly average

** end of period

***cumulative for the last 4 quarters

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST*	
					CA	CONSENSUS**
Monday 04/20/2020						
10:00	Poland	Employment (% YoY)	Mar	1,1	0,8	0,8
10:00	Poland	Corporate sector wages (% YoY)	Mar	7,7	7,2	6,6
10:00	Eurozone	Current account (bn EUR)	Feb	35,0		
Tuesday 04/21/2020						
10:00	Poland	Industrial production (% YoY)	Mar	4,9	4,5	-1,7
10:00	Poland	PPI (% YoY)	Mar	0,1	0,0	-0,5
11:00	Germany	ZEW Economic Sentiment (pts)	Apr	-49,5	-60,0	-41,7
16:00	USA	Existing home sales (M MoM)	Mar	5,77	5,48	5,30
Wednesday 04/22/2020						
10:00	Poland	Retail sales (% YoY)	Mar	9,6	6,0	-3,4
16:00	Eurozone	Consumer Confidence Index (pts)	Apr	-11,6		-19,0
Thursday 04/23/2020						
9:30	Germany	Flash Manufacturing PMI (pts)	Apr	45,4	42,0	39,0
10:00	Eurozone	Flash Services PMI (pts)	Apr	26,4	28,0	25,0
10:00	Eurozone	Flash Manufacturing PMI (pts)	Apr	44,5	41,0	39,6
10:00	Eurozone	Flash Composite PMI (pts)	Apr	29,7	30,5	26,0
14:00	Poland	MPC Minutes	Apr			
14:30	USA	Initial jobless claims (k)	w/e	6606		4000
15:00	Poland	M3 money supply (% YoY)	Mar	9,4	9,1	9,6
15:45	USA	Flash Manufacturing PMI (pts)	Apr	48,5		38,5
16:00	USA	New home sales (k)	Mar	765		650
Friday 04/24/2020						
10:00	Poland	Registered unemployment rate (%)	Mar	5,5	5,6	5,6
10:00	Germany	Ifo business climate (pts)	Apr	86,1	80,0	80,0
14:30	USA	Durable goods orders (% MoM)	Mar	1,2	-10,0	-11,8
16:00	USA	Final U. of Michigan Sentiment Index (pts)	Apr	71,0	67,0	68,0

*The forecasts of macroeconomic indicators for Poland were prepared by Credit Agricole Bank Polska S.A. The forecasts of foreign indicators were prepared by Crédit Agricole Corporate and Investment Bank

** Reuters