

This week

- **This week the Senate is likely to reject the Sejm-proposed changes in the election law which would enable presidential election by postal vote.** The rejected act will then return to the Sejm, which may reject the veto by an absolute majority of votes. It is difficult to foresee now the result of this vote. We see a significant risk that the Senate's veto will not be rejected in the Sejm due to the lack of support of some MPs from the Agreement (Porozumienie) party. This would mean an increased likelihood of the introduction of the state of natural disaster resulting in the postponement of presidential election. The break-up of the coalition and early parliamentary elections would also be possible, resulting in increased uncertainty about the scale of the fiscal stimulus mitigating the negative economic consequences of the outbreak of the COVID-19 epidemic. Such scenario would be slightly negative for PLN.
- **This week we will see some important data from the US.** Friday is the scheduled date for the publication of data from the labour market which will allow to better assess the negative impact of the COVID-19 epidemic on the US economic activity. Considering the significant scale of the increase in the number of unemployment benefit requests (new jobless claims) in recent weeks (see below), we expect that non-farm payrolls decreased by 22.5M in April vs. a 701k decrease in March. Before the Friday's reading some additional information on the labour market will be provided by the ADP report on private sector employment (the market expects a decrease by 20M in April vs. a 27k decrease in March). The materialization of our forecast of change in non-farm payrolls in the US that is below the market expectations (-20M) will be slightly negative for PLN and yields on Polish bonds.
- **Data on the Chinese balance on trade will be released on Thursday.** The market expects that the balance dropped to USD 9.7bn in April vs. USD 19.9bn in March, According to the consensus, the growth rate of exports decreased to -12.4% YoY from -1.0% in March. We believe that that the publication of data on the Chinese balance on trade will not be market moving.
- **Polish manufacturing PMI has been released today.** The index decreased to 31.9 pts in April vs. 42.4 pts in March, running below the market expectations (34.6 pts) and our forecast (34.3 pts). Thus, the index has reached the lowest value in the history of the series (i.e. since mid-1998). The index decrease resulted mainly from lower sub-indices for output (20.9 pts in April vs. 36.6 pts in March) and total new orders (17.1 pts vs. 34.2 pts). At the same time the decline in export orders has deepened. The decrease in the aforementioned indicators is consistent with the restrictions imposed by the government in Poland and in other countries and stoppages in many companies. Today's data support our forecast of a decrease in industrial production by 18.0% in April. Amid limited capacity utilization, the companies continued to reduce employment and they did it at a faster pace than in March. Unlike in February and March, longer delivery times in April supported PMI to a limited extent (only 0.1 pts). The most pessimistic element of the business survey results is a further significant decrease in the indicator of future production (in the horizon of 12 months) which shows that the companies do not expect their situation to improve in the coming months. The entrepreneurs attributed their pessimism to concerns about long-term economic consequences of the social restrictions binding in Poland and abroad. The April business survey results support our forecast of the GDP dynamics in Q2 (-11.7% YoY vs. +0.1% in Q1).

Last week

- **In accordance with the flash estimate, CPI inflation in Poland dropped to 3.4% YoY in April vs. 4.6% in March, running in line with our forecast equal to the market expectations.** GUS has published partial data on the inflation structure, including information on the rate of inflation in

the categories “food and non-alcoholic beverages”, “energy”, and “fuels”. The decrease in headline inflation resulted from lower dynamics of the prices of food and non-alcoholic beverages (7.4% in April vs. 8.0% in March), fuels (-18.8% YoY in March vs. -2.9%), and energy (5.2% YoY vs. 5.5%). In accordance with our estimates, core inflation amounted to 3.4-3.6% in April vs. 3.6% in March. Due to continuing drought which is conducive to higher food prices, we see an upside risk to our forecast, in which inflation will, on a yearly average, amount to 3.1% YoY vs. 2.3% in 2019. Final data on inflation will be released on 15 May.

- ✔ **FOMC meeting was held last week.** As we expected, FED left the target range for federal funds at an unchanged level [0.00%; 0.25%]. They will also continue the asset purchases “in the amounts needed to support smooth market functioning”. From mid-March FED has purchased USD 1.4bn of treasury bonds and USD 575bn of mortgage backed securities (MBS). At the press conference the FED Chairman stated that interest rates would be kept close to zero for a longer period of time, in accordance with market expectations. During the conference, J. Powell called upon the Congress to ease fiscal policy. No numeric forecasts concerning the US economic outlook were provided. J. Powell pointed to considerable uncertainty about the course of possible economic recovery once the COVID-19 epidemic was contained. Considering the wide scope of risks indicated by FED, he does not expect a “V” shaped recovery. The text of the statement after the FOMC meeting and the tone of the conference after the meeting support our scenario assuming the stabilization of the US interest rates at least until the end of 2021.
- ✔ **The meeting of the European Central Bank was held last week.** As we expected, the interest rates were left unchanged. In the statement and at the conference after the meeting, Ch. Lagarde was emphasizing the ECB flexibility in shaping the monetary policy parameters in the Eurozone. The ECB is fully prepared to increase the scale and adjust the structure of the asset purchase program to the necessary extent and for as long as necessary. At any rate it is ready to adequately adjust all the tools at its disposal to make inflation – in accordance with the declared strive for symmetry – steadily advance towards the target level. The meeting decided to relax the conditions of conducting the targeted long-term refinancing operations (TLTRO III). In addition, “to support liquidity conditions in the euro area financial system and contribute to preserving the smooth functioning of money markets by providing an effective liquidity backstop”, a new series of pandemic emergency long-term refinancing operations (PELTRO) will be conducted supposed to constitute an effective mechanism of protecting liquidity. PELTRO series will include seven additional refinancing operations to begin in May 2020 and mature successively between July and September 2021.
- ✔ **Significant data from the US were released last week.** The annualized change in GDP amounted to -4.8% in Q1 vs. 2.1% in Q4 2019, running below the market expectations (-4.0%) and our forecast (-3.0%). Lower GDP dynamics resulted mainly from a visible decrease in the contribution of consumption (-5.26 pp in Q1 vs. 1.24 pp in Q4). The contributions of investments (-0.43 pp in Q1 vs. -0.09 pp in Q4), government expenditure (0.13 pp vs. 0.44 pp) and net exports (1.30 pp vs. 1.51 pp) have also decreased. A higher contribution of change in inventories (-0.53 pp vs. -0.98 pp) had opposite impact. The number of unemployment benefit requests amounted to 3839k last week vs. 4442k two weeks ago. Thus, the cumulative number of unemployment benefit requests in the last six weeks increased to 30.0M. The results of business surveys were also released last week in the US. Deterioration in manufacturing was signaled by the ISM Index which dropped to 41.5 pts in April vs. 49.1 pts in March, hitting the lowest level since 2009. Its decrease resulted from lower contributions of 3 of its 5 sub-indices (for new orders, employment, and output). Longer suppliers’ delivery times and higher inventories had opposite impact. Last week we also saw the Conference Board Index which decreased to 86.9 pts in April vs. 118.8 pts in March., running below the market expectations (88.0 pts). The index decrease resulted from its lower sub-index for the assessment of the current situation while the sub-index for expectations has increased. We expect that the annualized change in the US GDP will amount to ca. -30% in Q2, mainly due to a marked

decrease in consumption and investments.

- ✔ **China Caixin manufacturing PMI dropped to 49.4 pts in April vs. 50.1 pts in March, running below the market expectations (50.3 pts).** The index decrease resulted from lower contributions of 3 of its 5 sub-indices (for new orders, employment, and suppliers' delivery times). Noteworthy in the data structure is a sharp decrease in the sub-index for new export orders with a slight decrease in the sub-index for total new orders. This means that the scale of recovery in China is currently limited by weaker foreign demand due to the spreading COVID-19 epidemic in other countries. At the same time, the domestic demand is strong, supported by fiscal and monetary stimulus implemented by the Chinese government. Deterioration in Chinese manufacturing was also indicated by CFLP PMI which decreased to 50.8 pts in April vs. 52.0 pts in March, also running below the market expectations (51.0 pts). The business survey results for Chinese manufacturing do not alter our scenario assuming the acceleration of the economic growth in China in H2 2020. Consequently, we forecast that the dynamics of the Chinese GDP in the whole 2020 will amount to 2.0% vs. 6.1% in 2019.
- ✔ **According to the flash estimate, inflation in the Eurozone dropped to 0.4% YoY in April vs. 0.7% in March, running above our expectations (-0.1%) and the market consensus (0.1%).** The decrease in inflation resulted from lower dynamics of energy prices and lower core inflation, while faster increase in food prices had opposite impact. We expect that until the end of 2020 we will see a slight deflation in the Eurozone due to further decrease in core inflation and energy prices. We forecast that HICP inflation will on a yearly average amount to 0.0% YoY in 2020 vs. 1.1% in 2019.
- ✔ **According to the flash estimate, the quarterly GDP dynamics in the Eurozone decreased to -3.8% in Q1 2020 vs. 0.1% in Q4 2019 (-3.3% YoY vs. 1.0% in Q4), running below the market expectations (-3.4%) and above our forecast (-4.5%).** Last week we also saw flash GDP estimates for several Eurozone economies, including France (-5.8% QoQ in Q1 vs. -0.1% in Q4), Spain (-5.2% in Q1 vs. 0.4% in Q4), and Italy (-4.7% in Q1 vs. -0.3% in Q4). The GDP data are a flash estimate and do not include its structure. Subsequent GDP estimate for the Eurozone in Q1, reflecting the growth rate in all the countries of the single currency area, will be released on 15 May and data on GDP structure on 6 June. We maintain our forecast, in which GDP in the Eurozone will decrease by 8.2% YoY in 2020 vs. a 1.2% increase in 2019.

How long will the yield curve stay flattened?

The analysis below presents our scenario for the monetary policy outlook in Poland and its implications for short- and long-term interest rate profiles.

The interest rate cut by a total of 100bp carried out by the MPC in March and April took place before the publication of any macroeconomic data that would reflect the impact of the COVID-19-related restrictions on the economic activity. These effects were partly visible in March (see MACROmap of 27/4/2020) due to the “freezing” of the economy which lasted for two weeks. In April, as the government-imposed restrictions continued, the main monthly macroeconomic indicators (industrial production, construction-assembly production, and retail sales) will record, in our view, double-digit decreases in year-on-year terms (see the table with monthly forecasts). We believe that after seeing these data (scheduled to be released in the third week of May) the MPC will decide to cut interest rates effectively to zero (reference rate equal to 0.05%). We expect that in the horizon of several quarters inflation will stay close to the inflation target (2.5±1%). This enables the MPC to implement the NBP's second objective, which is to support the economic policy of the government, providing this does not limit the basic objective, namely to maintain a stable level of prices. We believe that the postponement

of the Council's May meeting from 6 to 28 May was partly dictated by the MPC members' need to see the incoming data before taking subsequent monetary policy decisions.

The materialization of a scenario where the Senate's veto on postal vote is not rejected by the Sejm (see above) poses an upside risk to our forecast of interest rates. The likely weakening of PLN in this scenario would limit the room for the reference rate cut.

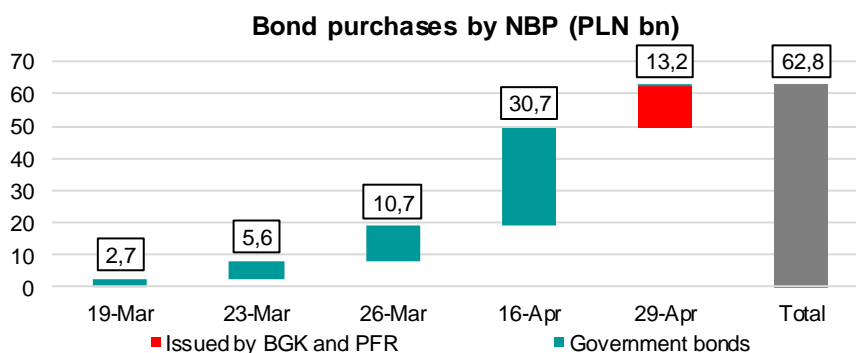
The MPC will most likely start normalizing the monetary policy only when the COVID-19 epidemic is brought under control. We expect that the reference rate will be hiked to 0.50% in H2 2020. Thus, short-term interest rates will stay at a low level at least in the horizon of several quarters.

The observed in recent weeks so-called flattening of the yield curve (namely lower differences between the long- and short-term interest rates) in Poland resulted from the easing of the monetary policy by major central banks and the implementation of the asset purchase program by the NBP. Since mid-March the spread between yields on 10-year bonds in Poland and 3-month WIBOR has decreased by ca. 20 bps. We believe that long-term interest rates will stay at a low level until the middle of 2021.

	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Yields of German Government Bonds (%)							
2Y	-0,65	-0,65	-0,65	-0,65	-0,65	-0,65	-0,65
5Y	-0,64	-0,59	-0,56	-0,53	-0,53	-0,51	-0,51
10Y	-0,50	-0,40	-0,35	-0,30	-0,30	-0,25	-0,25
30Y	-0,10	0,00	0,05	0,10	0,10	0,15	0,15
EUR IRS (%)							
2Y	-0,15	-0,20	-0,20	-0,25	-0,25	-0,30	-0,30
5Y	-0,14	-0,09	-0,06	-0,08	-0,08	-0,11	-0,11
10Y	0,00	0,10	0,15	0,15	0,15	0,20	0,20
30Y	0,05	0,15	0,20	0,20	0,20	0,25	0,25

The forecast of yields at the long end of the curve staying at a low level is supported by our expectations concerning the profile of interest rates in the Eurozone. We assume that due to strong long-term effects of the pandemic and the resulting accommodative monetary policy of the ECB, the yields on German bonds and EUR IRS rates will stay close to or below zero.

Source: Credit Agricole



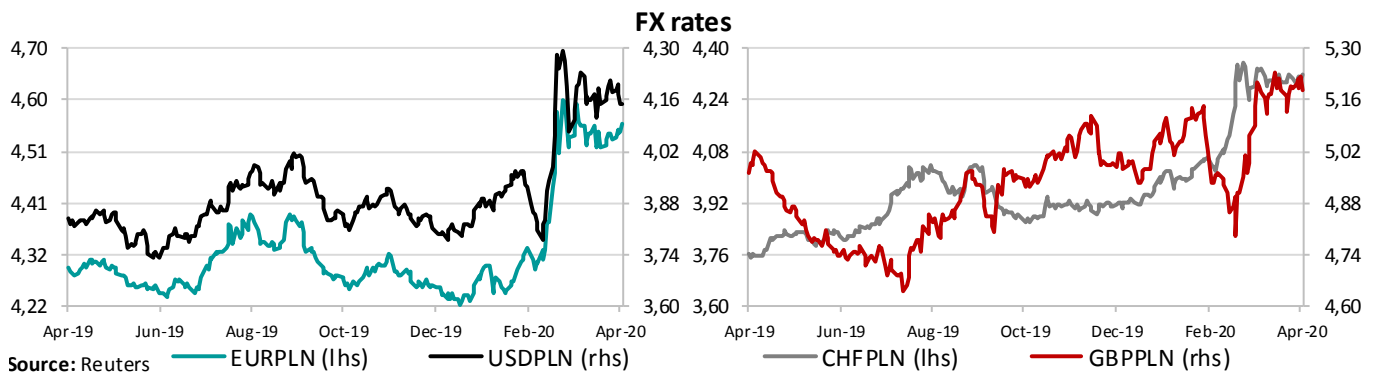
Source: Reuters, Credit Agricole

In addition to low interest rates at so-called core markets, conducive to lower yields on Polish bonds is the asset purchase program implemented by the NBP. As part of the structural operations carried out in March and April, the NBP has purchased PLN 50.4bn of treasury bonds and PLN 12.5bn of bonds issued by PFR (Polish Development Fund) and BGK (Bank

Gospodarstwa Krajowego) in total PLN 62.8bn. We believe that the long end of the curve will stay at a low level for as long as the NBP will continue to purchase these securities. The Polish Development Fund has planned the issues of bonds amounting to PLN 100bn to fund the so-called financial shield (see MACROPulse of 8/4/2020). In turn, Bank Gospodarstwa Krajowego announced the issue of bonds worth PLN 100bn to the benefit of the Fund to Combat COVID-19, which is likely to finance public investment programs. The aforementioned securities are likely to be largely purchased by the NBP.

We expect that long-term interest rates in Poland will increase significantly only when the NBP will be about to complete its asset purchase program. The bond issue for the needs of the COVID-19 Combat Fund will be implemented gradually, with the progress of investment projects. At that time the NBP will be purchasing treasury bonds to stimulate the demand of commercial banks for BGK bonds, which will be conducive to lower yields at the long end of the curve. We expect the NBP to stop purchasing bonds in mid-2021. In effect, the term premium included in long-term interest rates (currently reduced by structural operations) will start growing in H1 2021. In addition, conducive to higher bond yields in H2 2021 will be the growing market expectations of an increase in the NBP reference rate. Consequently, we expect that in H2 2021 the yields on Polish 10-year bonds will increase by ca. 80bps. The US saw a sharp increase at the long end of the yield curve in reaction to the approaching prospect for the end of bonds purchases in 2013. The remarks of the then FED chairman B. Bernanke on the planned reduction of the quantitative easing program (QE3) contributed towards a significant increase in bond yields (by ca. 60 bps within a month). Therefore, H2 2021 will see the steepening of the yield curve in Poland.

PLN weakening during the absence of domestic investors

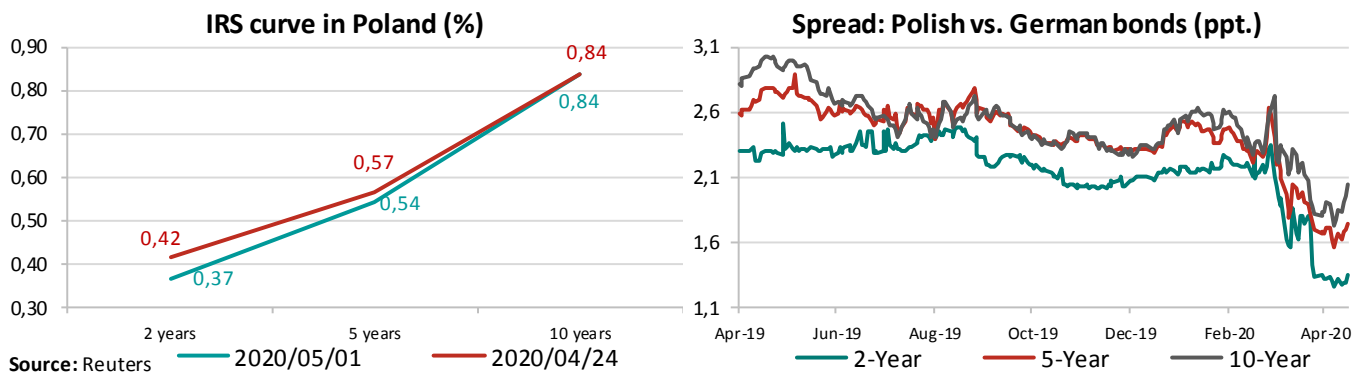


Last week, the EURPLN exchange rate rose to 4.56 (weakening of PLN by 0.7%). From Monday to Thursday PLN was showing a lateral trend – EURPLN ranged from 4.53 to 4.55. The conferences after the FOMC and ECB meetings had no substantial impact on PLN. Data on domestic inflation also went unheeded. On Friday, in the absence of domestic investors, PLN depreciated, partly due to higher risk aversion (see below).

Like EURPLN, EURUSD was relatively stable in the first part of the week. On Friday USD visibly depreciated vs EUR after the publication of weaker-than-expected financial results of Apple and Amazon and D. Trump's remarks about the imposition of subsequent economic sanctions on China. In his remarks, the US President again blamed China for the outbreak of COVID-19 pandemic and threatened to introduce import tariffs on Chinese goods.

We expect that this week, like in the previous weeks, PLN will remain impacted by global market sentiment related to the COVID-19 pandemic. Crucial for the investors will be information on the rate of the pandemic spread. Important for PLN will also be the data from the US labour market which may contribute towards PLN weakening. In our view, data about the Chinese balance on trade will not have any significant impact on PLN. In the event of the materialization of a scenario where the anticipated Senate's veto concerning the presidential election is not rejected by the Sejm this week, we may see a slight weakening of PLN (see above).

Lower IRS rates despite increasing spread versus core markets



Last week, 2-year IRS rates decreased to 0.365 (down by 5bps), 5-year rates to 0.5425 (down by 2bps), and 10-year rates have not changed and amounted to 0.835. The last week’s decrease in IRS rates resulted from lower bond yields in the core markets, due to further easing of monetary policy by the ECB (see above). At the same time we saw an increase in the spread between Polish and German bonds, which limited the decrease in IRS rates. It was the effect of higher risk aversion and investors’ concerns about the planned large bond issues by the government, BGK, and PFR (see above). Last week, as part of the structural operations, the NBP purchased PLN 13.2bn of bonds, including PLN 12.5bn of bonds issued by BGK and PFR. The auction had no significant impact on the yield curve.

This week, like in the previous weeks, IRS rates will be impacted by media reports on COVID-19. The market will focus on information about the spread of the pandemic. Data on non-farm payrolls in the US will be conducive to higher IRS rates. Other readings will be neutral for the curve.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland														
Indicator	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	May-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	1,00	0,50	0,05
EURPLN*	4,28	4,28	4,24	4,29	4,38	4,37	4,26	4,31	4,26	4,30	4,33	4,55	4,54	4,50
USDPLN*	3,82	3,83	3,73	3,87	3,98	4,01	3,82	3,91	3,79	3,87	3,92	4,13	4,15	4,14
CHFPLN*	3,75	3,83	3,82	3,90	4,02	4,02	3,87	3,91	3,92	4,02	4,06	4,29	4,30	4,25
CPI inflation (% YoY)	2,2	2,4	2,6	2,9	2,9	2,6	2,5	2,6	3,4	4,3	4,7	4,6	3,4	
Core inflation (% YoY)	1,7	1,7	1,9	2,2	2,2	2,4	2,4	2,6	3,1	3,1	3,6	3,6	3,3	
Industrial production (% YoY)	9,2	7,6	-2,6	5,8	-1,5	5,5	3,7	1,5	3,8	1,1	4,8	-2,3	-18,0	
PPI inflation (% YoY)	2,6	1,4	0,5	0,5	0,9	0,8	-0,3	-0,1	1,0	0,9	0,2	-0,5	-1,5	
Retail sales (% YoY)	13,6	7,3	5,3	7,4	6,0	5,3	5,4	5,9	7,5	5,7	9,6	-7,1	-29,0	
Corporate sector wages (% YoY)	7,1	7,7	5,3	7,4	6,8	6,6	5,9	5,3	6,2	7,1	7,7	6,3	5,0	
Employment (% YoY)	2,9	2,7	2,8	2,7	2,6	2,6	2,5	2,6	2,6	1,1	1,1	0,3	-1,1	
Unemployment rate* (%)	5,6	5,4	5,3	5,2	5,2	5,1	5,0	5,1	5,2	5,5	5,5	5,4	5,8	
Current account (M EUR)	-158	-227	10	-824	-820	846	442	1412	366	2348	659	648		
Exports (% YoY EUR)	9,5	11,5	-2,4	6,4	-1,2	13,0	4,0	0,8	9,0	3,6	5,7	-6,8		
Imports (% YoY EUR)	8,5	11,5	-5,3	6,7	-3,0	6,2	0,3	-3,5	-0,7	2,4	0,5	-6,7		

*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)	-0,3	-20,0	-5,1	-2,0	2,1	8,1	4,3	3,7	3,9	-6,8	4,1	
Gross fixed capital formation (% YoY)	2,5	-9,4	-6,8	-2,8	1,3	4,5	4,0	2,9	6,9	-4,3	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)	-0,2	-11,6	-3,0	-1,0	1,3	4,3	2,4	1,8	2,2	-3,9	2,2
	Investments (pp)	0,3	-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 (%)**	5,4	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	0,78	1,71	0,25	0,78	
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	4,07	4,00	3,94	3,93	3,95	3,95	3,94	3,79	3,94	3,94	

* quarterly average

** end of period

***cumulative for the last 4 quarters

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST*	
					CA	CONSENSUS**
Monday 05/04/2020						
9:00	Poland	Manufacturing PMI (pts)	Apr	42,4	34,3	34,6
9:55	Germany	Final Manufacturing PMI (pts)	Apr	34,4	34,4	34,4
10:00	Eurozone	Final Manufacturing PMI (pts)	Apr	33,6	33,6	33,6
10:30	Eurozone	Sentix Index (pts)	May	-42,9		-33,5
16:00	USA	Factory orders (% MoM)	Mar	0,0	-10,0	-9,8
Tuesday 05/05/2020						
11:00	Eurozone	PPI (% YoY)	Mar	-1,3		-2,7
16:00	USA	ISM Non-Manufacturing Index (pts)	Apr	52,5	38,5	
Wednesday 05/06/2020						
8:00	Germany	New industrial orders (% MoM)	Mar	-1,4		-10,0
10:00	Eurozone	Services PMI (pts)	Apr	11,7	11,7	11,7
10:00	Eurozone	Final Composite PMI (pts)	Apr	13,5	13,5	13,5
11:00	Eurozone	Retail sales (% MoM)	Mar	0,9		-10,5
14:15	USA	ADP employment report (k)	Apr	-27		-20000
Thursday 05/07/2020						
8:00	Germany	Industrial production (% MoM)	Mar	0,3		-7,0
8:00	UK	BOE rate decision (%)	May	0,10	0,10	0,10
14:30	USA	Initial jobless claims (k)	w/e	3839		3000
	China	Trade balance (bn USD)	Apr	19,9		9,7
Friday 05/08/2020						
8:00	Germany	Trade balance (bn EUR)	Mar	21,6		18,8
14:30	USA	Unemployment rate (%)	Apr	4,4	17,5	16,0
14:30	USA	Non-farm payrolls (k MoM)	Apr	-701	-22500	-21000
16:00	USA	Wholesale inventories (% MoM)	Mar	-1,0		-1,0
16:00	USA	Wholesale sales (% MoM)	Mar	-0,8		

*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