This week

- **The most important event this week will be the publication of domestic hard data enabling a more precise assessment of the impact of the COVID epidemic on the GDP growth rate in Poland in Q2.** We forecast that industrial production dropped by 18.0% YoY in April vs. a 2.3% decrease in March. The main factor behind the decrease in production were stoppages in many companies. On Friday we will see data on retail sales which, in our view, dropped by 29.0% YoY in March vs. a 7.1% decrease in March. The main factors deepening the decline in sales compared with March were: a longer period when the shopping malls were closed and the abatement of the effect related to the stockpiling by households. Our forecasts of both industrial production and retail sales are significantly below the market consensus (-10.0% YoY and -16.9%, respectively); therefore, their materialization would be slightly negative for PLN and yields on Polish bonds.
- **Another important event this week will be the reading of the flash May business sentiment indicators for major European economies scheduled for Friday**. We expect that the Composite PMI for the Eurozone rose to 33.0 pts in May vs. 13.6 pts in April. Some surveyed companies whose situation visibly deteriorated in March and April due to the COVID-19 epidemic are likely to report either "no change" or "improvement" compared to previous month, following the easing of restrictions in many countries. ZEW index reflecting the sentiment among analysts and institutional investors regarding the economic situation in Germany will be released on Tuesday. We expect its value to increase to 35.0 pts in May vs. 28.2 pts in April. Although our forecasts of business survey results in the Eurozone are above the consensus, their publication will be neutral for the financial markets, we believe.
- **Minutes of the FOMC meeting will be released on Wednesday**. We believe that in the light of last week's remarks of the FED Chairman, J. Powell (see below), the document will not provide any new information significantly changing the US monetary policy outlook. Crucial will be the fragments pointing to FOMC readiness to further ease the monetary policy if necessary. However, no specific measures are likely to be indicated in this respect. We believe that the publication of the Minutes will not be market moving. The testimonies of FED Chairman J. Powell and Treasury Secretary S. Mnuchin to the Congress are scheduled for Tuesday. The Congressmen are likely to ask questions about the planned stimulus packages, the one retroactively passed by the Senate last Friday and the Democrats-proposed package amounting to USD 3 trillion. S. Mnuchin's remarks may be of particular significance in the context of the Republicans' opposition against this program. We believe that J. Powell's and S. Mnuchin's testimonies will support lower global risk aversion and a slight appreciation of PLN.
- **This week we will see data from the US**. We expect that data on housing starts (973k in April vs. 1216k in March, down by 21.9% MoM), building permits (1050k vs. 1350k, down by 25.9%), and existing home sales (4.48M vs, 5.27M, down by 17.0% MoM) will point to a marked decline in activity in the US real estate market. We believe that the publication of US data will be neutral for PLN and yields on Polish bonds.
- **The March data on average wages and employment in the corporate sector in Poland will be released on Wednesday**. We forecast that employment dynamics dropped to -1.1% YoY in April vs. 0.3% YoY, due to the suspension of recruitment processes, reduction of working time, stoppages and redundancies amid the pandemic. We expect that the average wage dynamics decreased to 5.0% YoY in April vs. 6.3% in March. Though important for the forecast of private consumption dynamics in Q2, the release of data on corporate wages and employment will be neutral for PLN and the debt market, we believe.

Last week

- **The GDP growth rate in Poland dropped to 1.9% YoY in Q1 vs. 3.2% YoY in Q4 2019, thus running slightly above the market consensus (1.7%) and visibly above our forecast (0.1%).** Seasonally adjusted quarterly GDP dynamics decreased to -0.5% in Q1 vs. 0.2% in Q4 2019. The data published by GUS are a flash estimate and full data on GDP including information about its structure will be released towards the end of the month. We believe that the main reason for the lower than we expected deceleration of economic growth was a smaller than we assumed decrease in consumption dynamics (see MACROpulse of 15/5/2020). Despite the higher-than-we-expected data on GDP in Q1, we maintain our forecast of economic growth in 2020 (-3.8%), due to the forecast of corporate investments which we have adjusted downwards. We believe that due to increased uncertainty about the spread of COVID-19 pandemic, corporate investments will decrease more than we had expected. Our quarterly table (see below) presents a detailed structure of GDP in 2020.
- **CPI inflation in Poland dropped to 3.4% YoY in April vs. 4.6% in March, running in line with the GUS flash estimate**. The main factor behind the decrease of inflation in April were significantly lower dynamics of fuel prices, due to the collapse of global oil prices. The decrease in inflation resulted also from lower dynamics of the prices of food and non-alcoholic beverages due to high base effects from the year before for the prices of pork. Core inflation also recorded a decrease and according to our estimates dropped to 3.5% YoY in April vs. 3.6% in March (see MACROpulse of 15/5/2020). According to GUS statement, the administrative restrictions related to the combat against the spread of the COVID-19 pandemic in April have affected the calculation of the rate of inflation to a much bigger extent than in March. In addition to changing the method of monitoring prices to remote, GUS had to estimate price dynamics in branches which were not functioning due to the administrative restrictions. We expect that subsequent months will bring further decrease in inflation. It will result from lower dynamics of prices of fuels, food and from lower core inflation. Consequently, we forecast that inflation will decrease to 2.6% YoY in Q2 vs. 4.5% in Q1 and in the whole 2020 it will increase to 3.1% YoY vs. 2.3% in 2019.
- **In March the surplus in the Polish current account rose to EUR 2438M vs EUR 878M in February.** The improvement in the current account balance resulted from higher balances on primary income and secondary income (higher than in February by EUR 2443M and EUR 152M, respectively), while lower balances on goods and services (lower than in February by EUR 911M and EUR 124M, respectively) had opposite impact. Export dynamics dropped to -7.5% YoY in March vs. 7.5% in February, and imports dynamics dropped to -4.5% YoY vs. 0.6%. The significant decrease in exports and imports, signalled earlier by the collapse of industrial production and retail sales, resulted from a sharp decrease in economic activity due to the COVID-19 epidemic. In accordance with the NBP statement, a significant cause of the sharp increase in the balance on primary income were the losses of foreign direct investors deriving from their capital investments in Polish companies. We estimate that the cumulative current account balance for the last 4 quarters in relation to GDP increased to 1.3% in Q1 vs. 0.5% in Q4 2019.
- **Flash data on GDP for major European economies were released last week.** Quarterly GDP dynamics in the Eurozone dropped to -3.8% in Q1 vs. 0.1% in Q4 2019 (-3.2% YoY in Q1 vs. 1.0% in Q4). The collapse in economic activity was wide ranging geographically. The sharpest GDP decrease was recorded in France (-5.8% QoQ in Q1 vs. 0.4% in Q4), in Spain (-5.2% vs. 0.4%), and in Italy (-4.7% vs. -0.3%), namely in the countries that were affected the most by the COVID-19 pandemic. In Germany, the quarterly GDP dynamics decreased to -2.2% vs. -0.1%. Detailed data, including GDP structure, will be released on 9 June. We forecast that in the whole 2020, GDP in the Eurozone will decrease by 6.5% YoY vs. a 0.6% increase in 2019.
- **Last week we saw some significant data from the US economy.** CPI inflation decreased to 0.3% YoY in April vs. 1.5% in March. The decrease in inflation resulted from lower dynamics of energy

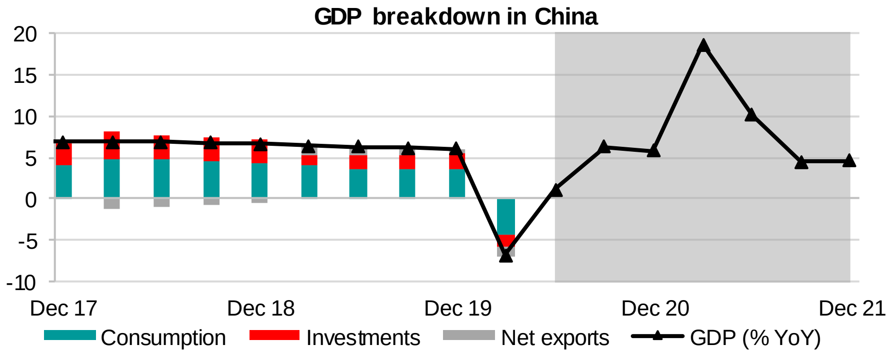
prices and from lower core inflation (1.4% YoY in April vs. 2.1% in March). The monthly dynamics of industrial production dropped to -11.2% in April vs. -4.5% in March, due to lower output dynamics in all its major branches: manufacturing, mining, and utilities. At the same time, it has been the sharpest decline in the US industrial production in the history of the series. Capacity utilization decreased to 64.9% in April vs. 73.2% in March. Last week we also saw data on retail sales, which decreased by 16.4% MoM in April vs. a 8.3% decrease in March. 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. Excluding car sales, the monthly retail sales dynamics dropped to -17.2% MoM in April vs. -4.0% in March. Further deterioration in the US labour market was indicated by the data on the number of jobless claims which amounted to 2981k last week vs. 3176k two weeks ago. Last week we also saw the NY Empire State Index (-48.5 pts in May vs. -78.2 pts in April) which pointed to sligh recvery in manufacturing in the state of New York with the gradual reopening of the US economy. In turn, the preliminary University of Michigan Index pointed to a slight improvement of consumer sentiment, rising to 73.7 pts in May vs. 71.8 pts in April. Its increase resulted from higher sub-index for the assessment of the current situation while the expectations sub-index had an opposite impact. We forecast that the US GDP will decrease by 5.5% in 2020 vs. a 2.3% increase in 2019.

- **The Chairman of the Federal Reserve, J. Powell, spoke last week.** He said that subsequent monetary and fiscal measures would be needed to mitigate the long-term negative consequences of the COVID-19 pandemic for the US economy. At the same he emphasized that FED was not currently considering the policy of negative interest rates and said that the current set of the FED monetary policy tools was adequate. We believe that the US interest rates will stay at the present level at least until the end of 2022 and the quantitative easing program will be continued until 2021.

Tensions between the US and China threaten recovery in China

Subsequent data from China reflecting the subsiding impact of the COVID-19 epidemic on the economic activity in this country were released week. Data on retail sales (-7.5% YoY vs. -15.8%) and urban investments (-10.3% vs. -16.1%) pointed to a slower decrease of activity in April than in March. Especially good looked the reading of industrial production, whose growth increased to 3.9% YoY vs. a 1.1% decrease in March. Thus, it has been the first increase in production in annual terms since the beginning of 2020. The last week's data signal a gradual normalization of the economic situation in China. The data structure indicates at the same time that production is recovering faster from consumption. However, the return of economic activity to the state seen before the epidemic will require further support from the monetary and fiscal policies.

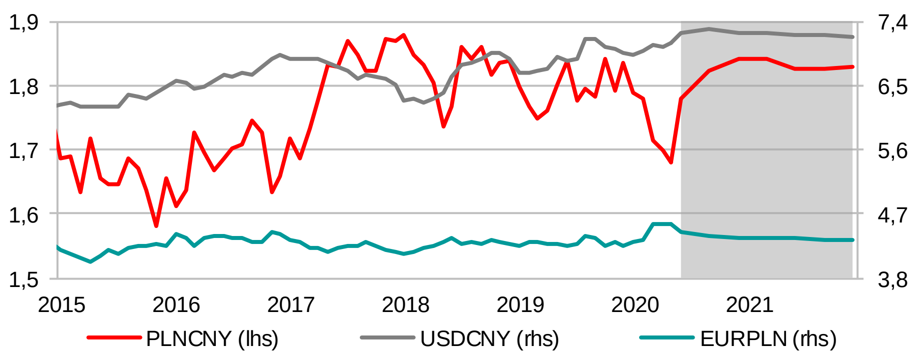
The All-China Congress of People's Representatives will take place this week. The annual meeting of the Chinese parliament was postponed due to the COVID-19 epidemic. The new target for economic growth is not likely to be given during the debates. On the other hand the meeting will focus on this year's amended budget. We expect the public finance deficit to be fixed at 7.5% of GDP vs. 5.4% in 2019. We expect that the government actions in the area of stimulating economic growth will, apart from implementing increased investments, focus on improving the situation in the labour market which is crucial for political and social equilibrium. In monetary policy we expect further interest rate cuts and recommendations to commercial banks concerning a significant increase of lending. The government's taking wide ranging actions to reduce poverty and support consumption is crucial for the restoration of domestic demand and economic activity.



Source: Reuters, Credit Agricole

We believe that the stimulation of domestic demand by Chinese authorities will be successful. Thus, we forecast that after a marked decrease in GDP in Q1 (by 6.8% YoY), the annual dynamics of the Chinese GDP will stand above zero in subsequent three quarters of 2020. Consequently in the whole 2020 the GDP growth rate will stand at 2.0%. At the same time we forecast that due to low base effects, the growth rate of the Chinese GDP will increase to 7.5% in 2021.

The main risk to our forecast of economic growth in China is the global situation. According to business survey results, Chinese manufacturing has now recorded a sharp decrease in new export orders. The scale of the recovery in China will be limited by weaker foreign demand due to the spread of COVID-19 epidemic in other countries. In addition, the US-Chinese relations deteriorated again in recent weeks. Both parties have aggravated the mutual rhetoric concerning the coronavirus pandemic and are arguing about human rights, protests in Hong Kong, Taiwan status, and the work of foreign correspondents. D. Trump also threatened to break the “first phase” trade agreement signed in January if China failed to increase the purchase of US goods. The US administration also informed that it was accelerating actions aimed at reducing the dependence of global supply chains on China. Last week, the US President decided to further reduce the cooperation of the US companies with the Chinese equipment manufacturers, such as Huawei and ZTE. Due to the approaching presidential election in the US, the tensions between the US and China are likely to continue into subsequent months. It cannot be ruled out that the two countries will resume trade war by imposing import tariffs. Possible economic conflict with the US will be conducive to lower annual growth rate in China in the coming quarters.

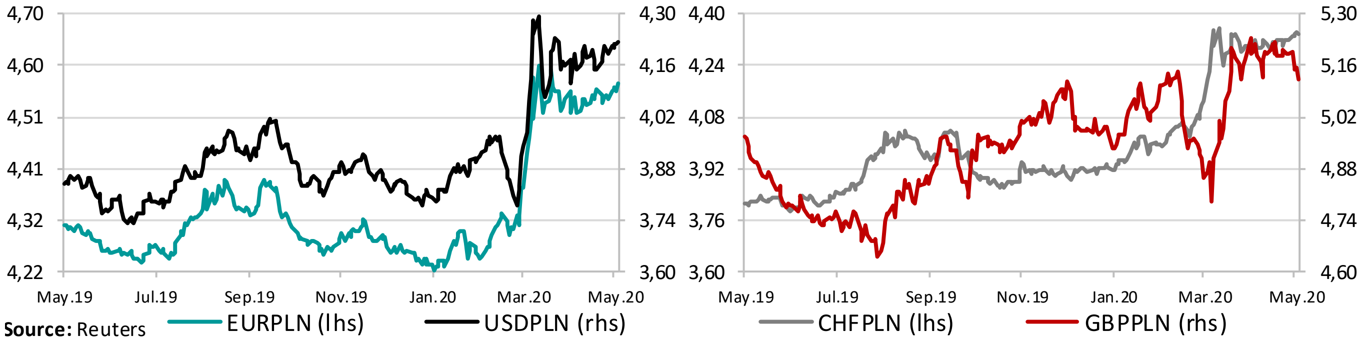


Source: Reuters, Credit Agricole

We expect that due to the anticipated easing of the monetary policy by the People’s Bank of China and increased uncertainty about the US-China relations, USDCNY will increase from the present level of 7.12 to 7.25 at the end of Q2 2020 and will stay at an increased level until the year end. With the forecast by us economic recovery in China, USDCNY will decrease to 7.20 at the end of 2021. Considering our forecast of USDPLN (see the quarterly table), we expect that CNY will depreciate vs. PLN. We forecast a PLNCNY increase from the current level of 1.69 to 1.84 at the end of 2020 and its stabilization between 1.83 and 1.84 in subsequent quarters.

Domestic data on production and sales may weaken PLN

FX rates



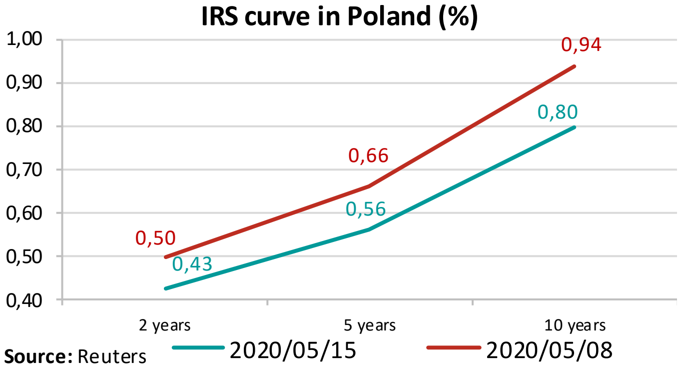
Source: Reuters

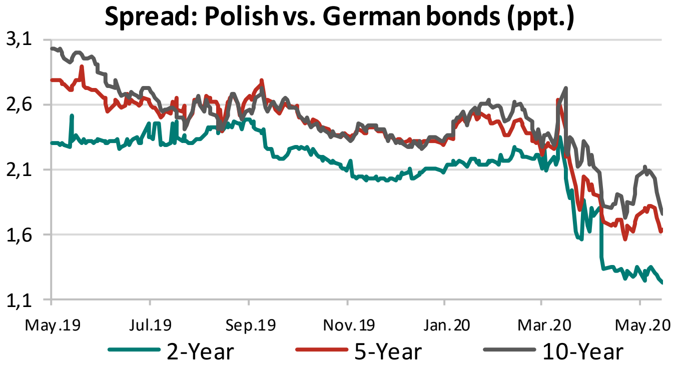
Last week, the EURPLN exchange rate rose to 4.5690 (weakening of PLN by 0.6%). Last week, EURPLN was characterized by low volatility against the backdrop of recent weeks and was showing a weak upward trend. The better-than-expected domestic GDP data resulted in a slight temporary appreciation of PLN.

EURUSD also recorded a relatively low volatility against the backdrop of recent weeks. The remarks of FED Chairman J. Powell and the publication of numerous data from both the US and the Eurozone had no substantial impact on the market.

We expect that this week, like in the previous weeks, PLN will remain impacted by global sentiment related to the coronavirus pandemic. We believe that domestic data on industrial production and retail sales may result in the depreciation of PLN. In our view, data on employment and average wages in the Polish corporate sector will not have any significant impact on PLN. The results of business surveys in the Eurozone (flash PMIs, ZEW index for Germany), data from the US (housing starts, building permits, existing home sales) and FOMC Minutes will be neutral for PLN, we believe. In turn, the scheduled for Wednesday J. Powell's and S. Mnuchin's testimonies to the Congress may be conducive to a slight appreciation of PLN.

Domestic data on production and sales are negative for IRS rates





Source: Reuters

Last week, 2-year IRS rates decreased to 0.43 (down by 7bps), 5-year rates to 0.56 (down by 10bps), and 10-year rates to 0.80 (down by 14bps). Last week saw a slight decrease in IRS rates across the curve, following the German market. The NBP purchased PLN 9.4bn of treasury bonds and securities issued by PFR and BGK, which stabilized IRS rates, especially at the long end of the curve.

This week, like in the previous weeks, the main factor affecting IRS rates will be media reports about the COVID-19 pandemic. We believe that the scheduled for this week publications of domestic data on industrial production and retail sales may result in a decrease of IRS rates. In our view, data on employment and average wages in the Polish corporate sector will not have any significant impact on the curve. The results of business surveys in the Eurozone (flash PMIs, ZEW index for Germany), data from the US (housing starts, building permits, existing home sales), and FOMC Minutes will also be neutral for IRS rates.

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	**4,12**
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	**3,5**	
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	878	2438		
Exports (% YoY EUR)	9,5	11,5	-2,4	6,4	-1,2	13,0	4,0	0,8	9,0	3,6	7,5	-7,5		
Imports (% YoY EUR)	8,5	11,5	-5,3	6,7	-3,0	6,2	0,3	-3,5	-0,7	2,4	0,6	-4,5		

*end of period

Forecasts of the quarterly macroeconomic indicators

Main macroeconomic indicators in Poland

Indicator		2020 Q1	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2019	2020	2021
Gross Domestic Product (% YoY)		1,9	-8,4	-3,1	-5,3	-0,2	5,5	3,7	3,5	4,1	-3,8	3,0
Private consumption (% YoY)		1,5	-15,0	-5,1	-2,0	2,1	8,1	4,3	3,7	3,9	-5,1	4,2
Gross fixed capital formation (% YoY)		2,2	-7,0	-12,2	-16,5	-5,4	3,4	4,8	5,4	6,9	-10,3	2,5
Export - constant prices (% YoY)		1,5	-6,3	-2,3	-1,1	2,0	4,5	4,0	4,1	4,2	-2,1	3,6
Import - constant prices (% YoY)		0,2	-7,0	-5,4	1,0	4,5	5,0	3,4	3,5	3,0	-2,8	4,0
GDP growth contributions	Private consumption (pp)	0,9	-8,7	-3,0	-1,0	1,3	4,4	2,5	1,9	2,2	-2,9	2,3
	Investments (pp)	0,3	-1,2	-2,2	-4,2	-0,7	0,6	0,8	1,2	1,3	-1,9	0,4
	Net exports (pp)	0,8	0,0	1,5	-1,0	-1,2	0,0	0,5	0,5	0,8	0,3	0,0
Current account (% of GDP)***		1,3	1,2	1,1	0,2	-0,1	-0,1	0,0	0,1	0,5	0,2	0,1
Unemployment rate (%)**		5,4	8,2	8,6	8,0	7,8	6,2	5,5	6,1	5,2	8,0	6,1
Non-agricultural employment (% YoY)		0,3	-2,5	-3,1	-2,0	-0,9	3,2	2,9	2,2	0,3	-1,8	1,8
Wages in national economy (% YoY)		7,7	5,9	3,6	2,9	3,0	3,6	4,3	4,9	7,2	5,0	4,0
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	0,53	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	FORECAST* CONSENSUS**
		Monday 05/18/2020				
14:00	**Poland**	**Core inflation (% YoY)**	**Apr**	**3,6**	**3,5**	**3,5**
		Tuesday 05/19/2020				
11:00	Germany	ZEW Economic Sentiment (pts)	May	28,2	35,0	33,5
14:30	USA	Housing starts (k MoM)	Apr	1216	973	908
14:30	USA	Building permits (k)	Apr	1350	1050	1040
		Wednesday 05/20/2020				
10:00	**Poland**	**Employment (% YoY)**	**Apr**	**0,3**	**-1,1**	**-0,5**
10:00	**Poland**	**Corporate sector wages (% YoY)**	**Apr**	**6,3**	**5,0**	**4,5**
10:00	Eurozone	Current account (bn EUR)	Mar	40,2		
11:00	Eurozone	HICP (% YoY)	Apr	0,4	0,4	0,4
16:00	Eurozone	Consumer Confidence Index (pts)	May	-22,7		-23,4
20:00	USA	FOMC Minutes	Apr			
		Thursday 05/21/2020				
10:00	**Poland**	**Industrial production (% YoY)**	**Apr**	**-2,3**	**-18,0**	**-10,0**
10:00	**Poland**	**PPI (% YoY)**	**Apr**	**-0,5**	**-1,5**	**-1,4**
14:00	**Poland**	**MPC Minutes**	**May**			
14:30	USA	Initial jobless claims (k)	w/e	3169		2450
14:30	USA	Philadelphia Fed Index (pts)	May	-56,6		-45,0
15:45	USA	Flash Manufacturing PMI (pts)	May	36,1		37,5
16:00	USA	Existing home sales (M MoM)	Apr	5,27	4,48	4,30
		Friday 05/22/2020				
9:30	Germany	Flash Manufacturing PMI (pts)	May	34,5	41,0	40,0
10:00	**Poland**	**Retail sales (% YoY)**	**Apr**	**-7,1**	**-29,0**	**-16,9**
10:00	Eurozone	Flash Services PMI (pts)	May	12,0	30,0	25,0
10:00	Eurozone	Flash Manufacturing PMI (pts)	May	33,4	40,0	38,0
10:00	Eurozone	Flash Composite PMI (pts)	May	13,6	33,0	24,0

*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

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