This week

- **The most important event this week will be the meeting of the Monetary Policy Council scheduled for Thursday**. We expect that the MPC will decide to cut interest rates by 45pb. We believe that the cut will be justified by the weaker-than-expected April data from the Polish economy (sharp decrease in wage, industrial production, and retail sales dynamics), very poor May business survey results, and deteriorating outlook for investments in Poland, due to continuing uncertainty (see below). The interest rate cut by 45bp at the nearest meeting has not been fully priced in by the market; therefore, the materialization of our forecast may lead to PLN weakening and lower yields on Polish bonds.
- **Important data from the US will be released this week.** The data on the number of jobless claims are planned to be released on Thursday. The market expects that this week it will amount to 2.0M vs. 2.4M two weeks ago, pointing to continuing high wave of redundancies in the US economy. On Thursday we will also see flash data on durable goods orders in the US, which, in accordance with our forecast, decreased by 15.0% MoM in April vs. a 14.7% decrease in March. However, unlike the March data, they will point to a wide ranging decrease in orders while in March the main source of the decrease in orders were lower orders for means of transport. The Conference Board Index will be released on Tuesday and, in our view, will indicate a relative stabilization of consumer sentiment (88.0 pts in May vs. 86.9 pts in April). On Tuesday we will also see data on new home sales (514k in April vs. 627k in March), which will confirm the strong reduction of activity in the US real estate market. The final University of Michigan Index will be released on Friday. We forecast that it will not change compared to the flash estimate and will amount to 73.7 pts. The second estimate of GDP in Q1 will also be released this week. We expect that the annualized change in GDP will not be revised compared to the first estimate and will amount to -4.8%. We believe that the aggregate impact of data from the US economy on PLN and Polish bond yields will be limited.
- **The flash estimate of HICP inflation for the Eurozone will be released on Friday**. We expect that the annual inflation rate dropped to 0.0% YoY in May vs. 0.3% in April, largely due to lower dynamics of energy prices. On Thursday, some additional information on inflation in the Eurozone will be provided by the flash estimate of HICP inflation in Germany. We forecast that it dropped to 0.2% YoY in May from 0.8% in April. In our view, the publication of data on inflation in the Eurozone will be neutral for PLN and the prices of Polish debt.
- **On Friday we will see flash data on inflation in Poland, which, in our view, dropped to 3.1% YoY in May vs. 3.4% in April**. Considering the difficulties in obtaining retail prices in the traditional way (data collected personally by the surveyors), our forecast is subject to significant risk. In our view, conducive to a slower price increase in April were lower dynamics of food and fuel prices. The materialization of our forecast will be neutral for PLN and the prices of Polish debt.
- **Ifo Index reflecting the sentiment among German managers representing the manufacturing, construction, trade and services sectors was released today.** The index value increased to 79.5 pts in May from 74.2 pts in April.

Last week

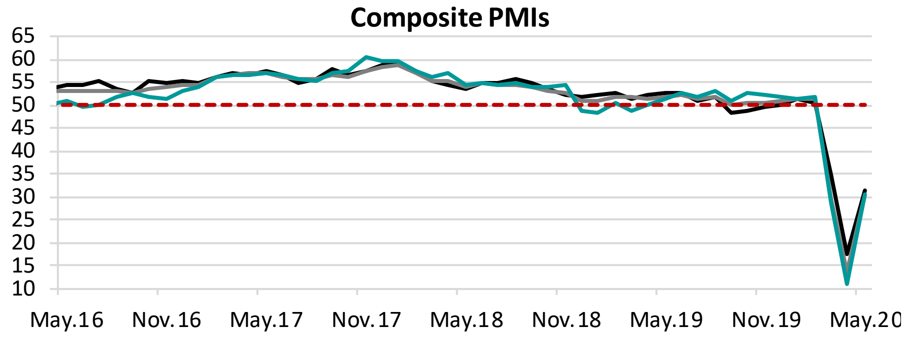
- **The dynamics of industrial production in Poland dropped to -24.6% YoY in April vs. -2.3% in March**. Seasonally adjusted industrial production decreased by 20.8% MoM, recording the highest rate of decline in the history of the series. Like in March, the main reason for the sharp decline in production in April were the broken by the spreading COVID-19 pandemic supply chains which have led to the reduction of production in many plants, in particular those with a relatively large percentage of exports in sales. Nonetheless, the scale of the decrease in production in April was much bigger than in March (see MACROpulse of 21/5/2020). A marked decline in production dynamics was also recorded in segments responsible for the supply of raw materials and consumables used in construction projects. This shows that the construction sector which before had been resilient to the COVID-19 pandemic, was affected by it in April. This view is confirmed by the data on construction-assembly production. Its dynamics dropped to 0.9% YoY in April vs. a 3.7% increase in March. Despite the small scale of the construction-assembly production decline in April, we maintain the view that the situation in construction will significantly deteriorate in few months (see MACROpulse of 22/5/2020). It is worth noting that most branches of industrial production which initially recorded a visible increase in output, due to a surge in demand for some groups of products during the pandemic, have also recorded a decline in production. The only segment with still positive output growth is "pharmaceuticals". We believe that in the coming months, despite a gradual reconstruction of supply chains, capacity utilization in Polish industry will continue to be relatively low and the return of production to the levels from before the outbreak of the pandemic will be slow. Thus, last week's data, coupled with continuing increased uncertainty about the further spread of the pandemic, strongly support our scenario assuming a double-digit decline in investments in H2 2020. At the same time, the data pose a downside risk to our forecast of GDP decrease in 2020 by 3.8%.

- **Retail sales in Poland decreased in current prices by 22.6% YoY in April vs. 7.0% in March.** The sales dynamics in constant prices decreased to -22.9% YoY in April vs. -8.9% in March. The reason for the slump in retail sales in April were numerous restrictions imposed by the government with a view to containing the spread of the COVID-19 epidemic. These measures were reflected by the deepening of the annual rate of decline in sales in the categories that were affected the most by the closing of shopping malls, such as "textiles, clothing, footwear", "furniture, audio-video and household equipment", and "other sales in specialized stores" (see MACROpulse of 22/5/2020). The factor which limited retail sales was also a sharp increase in households' uncertainty about the outlook for employment and income which was conducive to deepening the declines in the sales of durable goods, including in particular "motor vehicles, motorcycles and parts". We expect that the annual dynamics of retail sales will visibly increase in May, mainly due to the opening of shopping malls (see MACROmap of 11/5/2020) and the signaled by GUS business survey results improvement of consumer sentiment in May resulting from the gradual lifting of restrictions which limited households' mobility and propensity to buy. We maintain our forecast of the annual consumption dynamics in Q2 (down to -15.0% YoY vs. a rise by 1.5% in Q1).
- **Nominal wage dynamics in the Polish sector of enterprises amounted to 1.9% YoY in April vs. 6.3% in March, hitting he lowest level since June 2013.** In real terms, corporate wages decreased by 1.4% YoY in April, recording the first decrease since January 2013. The sharp slowdown of wage growth in April was due to the outbreak of the COVID-19 epidemic and the resulting significant increase of uncertainty about the demand outlook. Employment in the sector of enterprises decreased by 2.1% YoY in April, recording the first annual decline since October 2013 and the deepest decline since November 2009, vs. a 0.3% increase in March. In MoM terms, employment decreased by 152.9k. It has been the biggest monthly employment decline in the data history. In our view, the main reason explaining such large scale of decrease in the companies-reported employment was the fact that many employees have claimed child care benefits and the employment freezing tools implemented by enterprises under the "anti-crisis shield" (see MACROpulse of 20/5/2020). The sharp decrease in employment in April is therefore largely temporary and as such it is not relevant for assessing the current trends in the labour market. The data on the labour market are thus in line with our moderately optimistic scenario, in which the rate of registered unemployment in 2020 will peak in Q3 at a level of 8.6% and will gradually decrease in subsequent quarters. However, the data on salaries in April signal that the recovery of consumer demand expected from Q3 will be slower than we anticipated.

- **The Minutes of the April's FOMC meeting were released last week.** As we expected, the document has provided no significant new information on the US monetary policy outlook. In their discussions, FOMC members pointed to a strong negative impact of the pandemic on the economic activity, employment, and inflation in the US economy. At the same time, they emphasized that FED would use all its tools to support the US economy. An important element of the debates at the April's FED meeting was the issue of informing the market about the monetary policy outlook, so-called forward guidance. Some FOMC members support more transparent communication and making changes in interest rates conditional on the objectives met by FED or the incoming information from the economy. At the same time, several FOMC members pointed out that similar communication should also be in place for the asset purchase program. Negative interest rates have not been mentioned during the debates. This is consistent with the latest remarks by J. Powell who said two weeks ago that FED was not currently considering the policy of negative interest rates and in his view the current set of the FED monetary policy tools was adequate (see MACROmap of 18/5/2020). The testimonies of FED Chairman J. Powell and Treasury Secretary S. Mnuchin to the Congress also took place last week. However, they have not provided any significant new information about the US monetary and fiscal policy. We believe that the FED interest rates will remain at the present level at least until the end of 2020 and the quantitative easing program will last until 2021.
- **Numerous US data were released last week.** A marked decrease in activity in the US real estate market was indicated by data on building permits (1074k in April vs. 1356k in March), housing starts (891k vs. 1276k), and new home sales (4.33M vs. 5.25M). Further deterioration in the US labour market was confirmed by the publication of the number of jobless claims which last week amounted to 2438k vs 2687k two weeks ago. In turn, the Philadelphia FED Index (-43,1 pts in May vs. -56,6 pts in April) has signaled a slight improvement in manufacturing in the regions of Pennsylvania, New Jersey, and Delaware. We forecast that the annualized US GDP growth rate will decrease to -30% in Q2 vs. -4.8% in Q1.
- **ZEW index reflecting the sentiment among analysts and institutional investors regarding the economic situation in Germany rose to 51.0 pts in May vs. 28.2 pts in April, running significantly above the market expectations (32.0 pts).** The index surprising increase points to survey participants' growing expectations concerning fast economic recovery in Germany. According to the statement, survey participants expect that the cycle will reach a turning point in the summer months and a gradual improvement will be observed. Nonetheless, in the opinion of the survey participants, production will reach the level seen before the pandemic no sooner than in 2022. We forecast that the German GDP will decrease by 8.0% in 2020 vs. a 0.5% increase in 2019, and will increase by 6.1% in 2021.
- **In accordance with flash data, the composite PMI (for manufacturing and services sector) in the Eurozone rose to 30.5 pts in May vs. 13.6 pts in April, running above the market expectations (24.0 pts) and slightly below our forecast (33.0 pts)**. The increase of the composite PMI index resulted from higher sub-indices for both output in manufacturing and business activity in services. Despite the marked increase in May, the composite PMI for the Eurozone remains visibly below the 50 pts threshold diving expansion from contraction of activity. We believe that the economic growth rate in the Eurozone recorded its minimum in April. Nevertheless, due to increased uncertainty about further spread of the pandemic, we expect that the pace of restoring internal demand in the Eurozone will be very slow and, consequently, capacity utilization in the Eurozone economy will remain at a reduced level for a longer period of time. This supports our forecast assuming that the production volume in the Eurozone will return to levels observed before the outbreak of the pandemic no sooner than in 2022 (see below).
- **The All-China Congress of People's Representatives took place this week**. As we expected, the Chinese government decided not to set the target for economic growth this year. This year the Chinese government's priority will be to support employment which will determine the fiscal

policy (increasing the deficit to 8.3% of GDP) and the monetary policy (further interest rate cuts and stimulating lending). Considering the data coming from the Chinese economy, we see an upside risk to our forecast, in which the GDP in China will increase by 2% in 2020. Nonetheless, growing tensions between US and China pose a significant risk to economic growth in China. In our view, it is highly likely that the dispute will escalate further with the approaching presidential election in the US in November 2020.

The Eurozone economy is stamping the bottom



Source: Markit, Credit Agricole

According to flash data, the Composite PMI (for manufacturing and the services sector) in the Eurozone rose to 30.5 pts in May vs. 13.6 pts in April, running above the market expectations (24.0 pts) and slightly below our forecast (33.0 pts). The increase of the composite PMI index resulted from higher sub-indices for both output in manufacturing and business activity in services. Despite the marked increase in May, the composite PMI for the Eurozone remains visibly below the 50 pts threshold diving expansion from contraction of activity. Thus, the economic activity in the Eurozone decreased further in May, although the pace of its decline was visibly lower from April.

The increase of PMI indices was wide ranging geographically and was recorded in Germany, in France and in other Eurozone economies covered by the survey. Thus, the data structure points to the first effects of the gradual easing of the administrative restrictions imposed in the respective Eurozone countries with a view to containing the spread of the pandemic. According to the statement, the number of companies from both the services and the manufacturing sector which recorded a monthly decline in activity was smaller than in April. At the same time, some companies observed an improvement. This was reflected by higher sub-index for anticipated production in the horizon of 12 months. However, it is worth pointing out that among the surveyed companies the number of those anticipating a decline in production is still higher from the number of companies anticipating its increase.

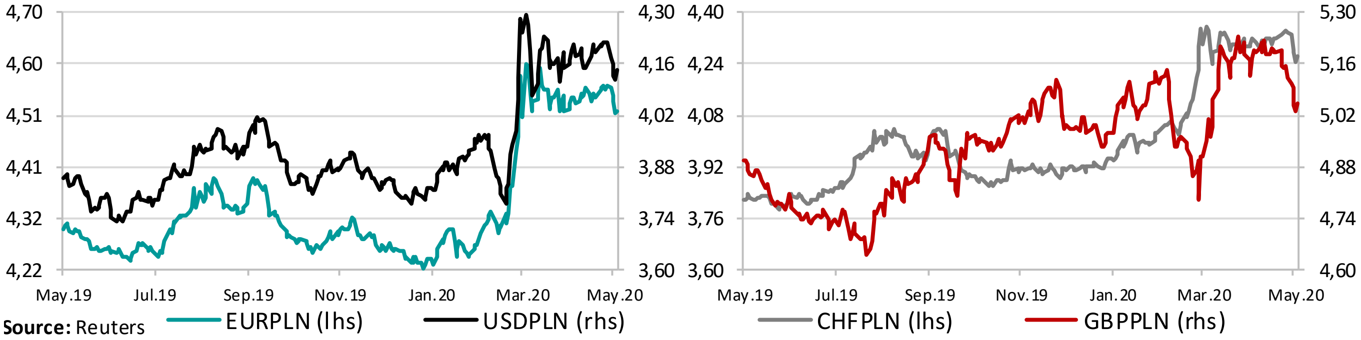
Noteworthy in the data structure is the continuing relatively low rate of decline in employment. The surveyed companies credit it to the use of the aid programs introduced by the governments of the respective Eurozone countries to reduce the increase in unemployment. However, the companies are pointing out that in the medium term the scale of redundancies will depend on the pace of the restoration of the orders portfolio. At the same time, higher scale of redundancies in the medium term may be supported by the expiration of the aid programs which are now enabling the companies to hoard labour.

From the point of view of the outlook for the economic growth in Poland, the sentiment in the German manufacturing is of particular importance. Like in the case of the whole Eurozone, the German PMI pointed to a slower pace of the decline in activity (36.8 pts in May vs. 34.5 pts in April). However, it is worth pointing out that the sub-indices for new orders, including new export orders, despite a slight increase, remain at a very low level in May and in both cases do not exceed 26.0 pts, indicating their continuing fast decrease. In our view, this points to continuing very poor prospects for the restoration of demand in both Germany and in the whole Eurozone economy. This supports our scenario assuming a double-digit decline in investments in Poland in H2 2020, largely due to low demand for Polish exports and low likelihood of its significant and sustainable increase.

We believe that the economic growth in the Eurozone reached its minimum in April. Nonetheless, due to increased uncertainty about further spread of the pandemic, we expect that the pace of restoring internal demand in the Eurozone will be very slow and, consequently, capacity utilization in the Eurozone economy will remain at a reduced level for a longer period of time. This supports our forecast assuming that the production volume in the Eurozone will return to levels observed before the outbreak of the pandemic no sooner than in 2022.

Interest rate cuts in Poland are negative for the PLN

FX rates



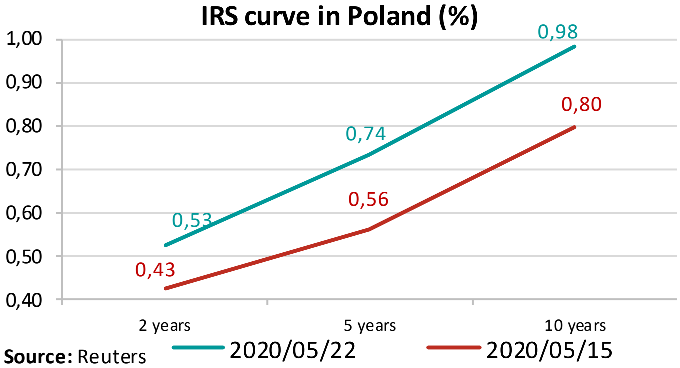
Source: Reuters

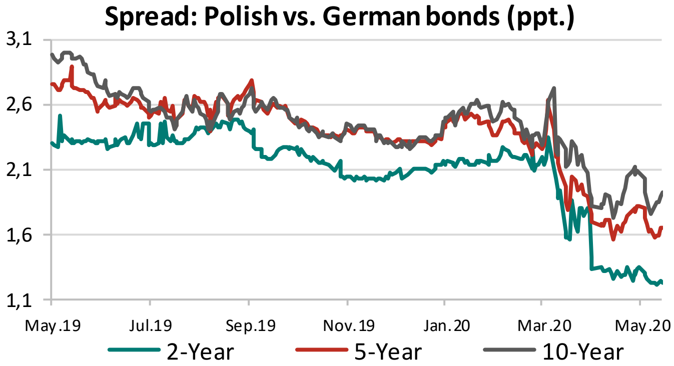
Last week, the EURPLN exchange rate dropped to 4.5146 (strengthening of PLN by 1.1%). Last week EURPLN was showing a downward trend, supported by decreased global risk aversion, reflected by lower VIX index. The publication of a series of domestic data pointing to a strong negative impact of the COVID-19 pandemic on the economic activity in Poland had a limited impact on PLN. This is in line with our scenario, in which in the coming months the main factor affecting EURPLN will be the global spread of the COVID-19 pandemic and the resulting gradual increase in global risk appetite.

Noteworthy last week is also the strengthening of USD vs EUR. The USD appreciation vs EUR was supported by the increase in the tension between the US and China and the growing risk of the escalation of the trade war between these two countries.

We expect that this week, like in the previous weeks, PLN will remain impacted by global sentiment related to the coronavirus pandemic. Crucial for the investors will be the data on the spread of the pandemic, especially in the context of the prospective lifting of administrative restrictions in major economies. This week of particular importance for PLN will be the MPC meeting scheduled for Thursday. We believe that the MPC will cut interest rates by 45 bps. A cut at this scale has not been fully discounted by the market; therefore, the materialization of our forecast may lead to the depreciation of PLN. Flash data on inflation in Poland and in the Eurozone, and US data (jobless claims, second GDP estimate, preliminary data on durable goods orders, new home sales, final University of Michigan Index) will not have any significant impact on PLN, we believe.

Market focused on MPC meeting





Source: Reuters

Last week, 2-year IRS rates increased to o.53 (up by 10bps), 5-year rates to 0.74 (up by 18bps), and 10-year rates to 0.98 (up by 18bps). Last week saw an increase in IRS rates across the curve. The market is increasingly feeling the pressure of the growing supply of treasury bonds and debt securities issued by PFR and BGK. Last week the Finance Ministry issued PLN 5.0bn of bonds, BGK PLN 9.0bn, and PFR PLN 15.2bn. Amid the continuingly limited scale of the assets purchase by the NBP and coupled with the weak data from the Polish economy increasing investors' concerns about the outlook for economic growth and the condition of public finance, it supports an increase of IRS rates across the curve. We believe that this effect is temporary and the outright buy operation planned by the NBP for the coming Wednesday will support a decrease of IRS rates across the curve.

This week the market will focus on the MPC meeting scheduled for Thursday. If our forecast assuming an interest rate cut by 45 bps materializes, we may see a decrease in IRS rates. Flash data on inflation in Poland and in the Eurozone, and US data (jobless claims, second GDP estimate, preliminary data on durable goods orders, new home sales, final University of Michigan Index) will be neutral for the curve, we believe.

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	3,6	
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	-24,6	
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	-1,3	
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	-22,6	
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	1,9	
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	-2,1	
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				2021				2019	2020	2021
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
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 05/25/2020				
8:00	Germany	Final GDP (% QoQ)	Q1	-2,2	-2,2	-2,2
10:00	Germany	Ifo busienss climate (pts)	May	74,3	75,0	78,3
15:00	**Poland**	**M3 money supply (% YoY)**	**Apr**	**11,8**	**11,3**	**11,9**
		Tuesday 05/26/2020				
10:00	**Poland**	**Registered unemplyment rate (%)**	**Apr**	**5,4**	**5,8**	**5,7**
15:00	USA	Case-Shiller Index (% MoM)	Mar	0,4		0,2
16:00	USA	New home sales (k)	Apr	627		490
16:00	USA	Consumer Confidence Index	May	86,9	88,0	88,0
		Wednesday 05/27/2020				
16:00	USA	Richmond Fed Index	May	-53,0		
		Thursday 05/28/2020				
11:00	Eurozone	Business Climate Indicator (pts)	May	-1,81		
14:00	Germany	Preliminary HICP (% YoY)	May	0,8	0,2	0,5
14:30	USA	Initial jobless claims (k)	w/e	2438		2100
14:30	USA	Second estimate of GDP (% YoY)	Q1	-4,8	-4,8	-4,8
14:30	USA	Durable goods orders (% MoM)	Apr	-14,7	-15,0	-18,5
	Poland	**NBP rate decision (%)**	**May**	**0,50**	**0,05**	**0,50**
		Friday 05/29/2020				
10:00	Eurozone	M3 money supply (% MoM)	Apr	7,5		7,8
10:00	**Poland**	**CPI (% YoY)**	**May**	**3,4**	**3,1**	**3,0**
11:00	Eurozone	Preliminary HICP (% YoY)	May	0,3	0,0	0,1
14:30	USA	Real private consumption (% MoM)	Apr	-7,3		
15:45	USA	Chicago PMI (pts)	May	35,4		40,0
16:00	USA	Final U. of Michigan Sentiment Index (pts)	May	73,7	73,7	74,0

*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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