This week

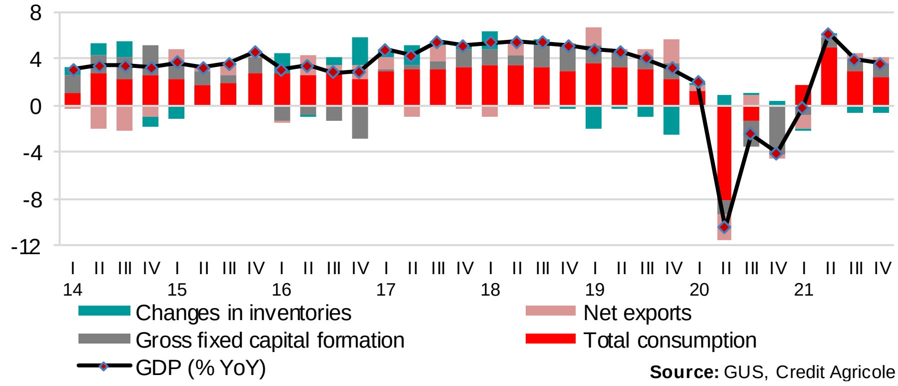
- **The most important event this week will be the FOMC meeting scheduled for Wednesday.** We expect that FED will leave the target range for the Federal Reserve funds rate unchanged at [0.00%; 0.25%]. At the press conference the FED Chair is likely to repeat that interest rates will be kept close to zero for a longer period of time. Considering the significant rate cuts and wide range of unconventional measures (i.a. direct asset purchase, see MACROmap of 30/3/2020 and 14/4/2020) taken by FED in recent months, we believe that no subsequent unconventional measures aimed at easing the monetary policy will be announced during this meeting. We expect the Federal Reserve to repeat its declaration to use all its tools to support the economy. The economic projections of FED members are likely to be published this week (they were not published in March, as scheduled, due to increased uncertainty). The inflation and GDP growth profiles will be visibly lowered while the unemployment rate profile will be revised upwards. If FED does not introduce the Yield Curve Control this week, it may be interpreted by financial markets as the acceptance of a further increase in yields in the US (see below). The materialization of such scenario will be conducive to USD appreciation vs. EUR, slight depreciation of PLN, and higher yields on Polish bonds.
- **Important data from the US will be released this week.** We expect that headline inflation dropped to 0.2% YoY in May vs. 0.3% in April, due to lower core inflation and lower dynamics of energy prices. The preliminary University of Michigan Index will be released on Friday. We forecast that its value decreased to 69.0 pts in June vs. 71.8 pts in May. We believe that that the data from the US economy will be overshadowed by the FOMC meeting and thus their impact on financial markets will be limited.
- **Data on industrial production in Germany have been released today**. Production dynamics dropped to -17.9% MoM in April vs. -8.9% in March, running below the market expectations (-16.0%). A decline in production was recorded in all the main categories (manufacturing, energy, and construction). Especially noteworthy is the decrease in production in the automotive branch by 74.6% MoM. Today’s data are neutral from the point of view of the financial markets as they reflect the situation from two months ago. However, they are important from the perspective of the outlook for Polish exports. The automotive branch in Germany and Poland is likely to slowly increase the capacity utilization, as reflected i.a. by the subsequent extension of the downtime in FCA factory in Tychy. Data from the German economy support our forecast, in which GDP in Germany will decrease by 8.0% YoY in 2020 due to the COVID-10 epidemic.

Last week

- **The ECB meeting was held last week.** As we expected, interest rates were left at an unchanged level. At the same time the ECB increased the scale of its Pandemic Emergency Purchase Program (PEPP) from EUR 750bn to EUR 1350bn and extended the program’s duration by six months i.e. at least until June 2021. At the same time it announced that the maturing principal payments from securities purchased under the PEPP will be reinvested until at least the end of 2022. Thus the changes in PEPP parameters are generally consistent with our scenario presented two weeks ago (see MACROmap of 1/6/2020). The ECB also published its June macroeconomic projection. These are the first forecasts taking into account the impact of the COVID-19 pandemic on the economic situation in the Eurozone. According to the June projection, the GDP dynamics will amount to -8.7% in 2020, 5.2% in 2021, and 3.3% in 2022. In turn, inflation will stand at 0.3% in 2020, 0.8% in 2021, and 1.3% in 2022, remaining in the whole projection horizon below the ECB inflation target (namely, close to but below 2%). We believe that it is highly likely that the ECB will before the end of 2020 increase the scale of its asset purchase programs (PEPP or its basic quantitative easing program) and will increase the limit for the amount of funds to be placed with the ECB at a rate of 0.0% (so-called tiering). At the same time, amid the deterioration of lending, the ECB may relax the principles of its TLTRO III program. We also expect the ECB to use the way in which it conducts its asset purchase programs to actively reduce the increase in spreads between the bonds of the respective Eurozone countries in subsequent months. The scenario of the ECB monetary policy presented above is consistent with the revised scenario of the NBP monetary policy (see below).

Last week we saw some significant data from the US economy. The number of new unemployment benefit claims dropped to 1877k last week vs. 2126k two weeks ago. Last week we also saw data on non-farm payrolls which increased by 2.5M in May vs. a 20.7M decrease in April (revised from -20.5M), running significantly above the market expectations (decrease by 8M). In reaction to the reading, USD appreciated vs. EUR and yields on US bonds surged (see below). The highest increase in employment was recorded in leisure and hospitality (+1.2M), namely in the sector that was affected the most by the wave of redundancies in April (-7.5M). It is worth noting that an increase in employment was recorded in as many as 9 of the 14 segments. At the same time, the decrease in employment in the remaining segments has visibly slowed down. The worst situation is in the public sector where employment in May decreased by 585k vs. a 963k decrease in April. The unemployment rate dropped to 13.3% in May vs. 14.7% in April. It has decreased in spite of higher participation rate which rose to 60.8% in May vs. 8.0% in April. May saw a marked decrease in the dynamics of average earnings to 6.7% vs. 8.0% in April. This is in line with our view presented a month ago that due to COVID-19 jobs were lost by low earners which boosted the average level of wages in April. As these persons will be finding employment, the wage dynamics will gradually decrease. The data on non-farm payrolls in the US indicate that the worst in the US labour market is probably over and subsequent months will see a gradual improvement. Business survey results were also released last week. The manufacturing ISM rose to 43.1 pts in May vs. 41.5 pts in April. The index increase resulted from higher contributions of 4 of its 5 sub-indices (for output, new orders, employment, and inventories) while lower contribution of the sub-index for suppliers' delivery times had opposite impact. Non-manufacturing ISM also recorded an increase and rose to 45.4 pts in May vs. 41.8 pts in April, due to higher contributions of all its 4 sub-indices (for business activity, new orders, employment, and delivery times). Although the ISM indices for both manufacturing and non-manufacturing recorded an increase in May, it is worth noting that they are still visibly below the 50 pts threshold. Thus, May saw a further decrease in economic activity but the pace of this decrease was slower than in April. The last week's data from the US labour market pose an upside risk to our scenario in which the US GDP will decrease by -30% (in annualized terms) in Q2 and in the whole 2020 it will decrease by 5.5% (see MACROmap of 1/6/2020). Despite the better-than-expected data from the US labour market, we maintain our scenario of the FED monetary policy assuming that FED interest rates will remain close to zero at least until the end of 2021. At the same time we maintain that FED will start to control the level of the yield curve at its short end as a form of communicating its monetary policy outlook.

Forecasts for 2020-2021



Source: GUS, Credit Agricole

Considering the most recent incoming hard data and the tendencies signaled in business surveys, we have revised our macroeconomic forecasts (see the table on page 7). Our forecast of GDP decrease by 3.8% YoY in 2020 has remained the same but the time profile and the structure of economic growth have changed.

The data on economic activity in April (industrial production, retails sales, and construction-assembly production) proved significantly worse than we had expected. That is why we have revised our forecast of GDP dynamics in Q2 downwards to -10.5% YoY. The incoming recently so-called soft business sentiment indicators (i.a. payment card transactions, volume of road traffic, hotel bookings) point to growing optimism of households. Thus, we have increased our forecast of consumption in H2 2020. We continue to expect that private consumption will be decreasing in year-on-year terms but to a smaller extent than previously.

The outlook for investments is gloomy. The investment activity of enterprises will be limited this year due to the increased uncertainty about further spread of the epidemic. This view is supported by GUS business survey results pointing to the recorded in May increase in the total percentage of companies indicating "negative and serious" and "threatening company stability" consequences of the COVID-19 pandemic for the business of enterprises in manufacturing, construction, wholesale and retail trade as well as transport and warehouse management (a stable total percentage of companies was recorded only in "catering and accommodation"). In addition, we are still waiting for a visible decrease in gross fixed capital formation of local governments (the effect of savings amid the difficult financial situation caused by the COVID-19 epidemic), which is in line with the government view presented in the update of the 2020 Convergence Program (decrease in public investments by ca. 4% in 2020). We also believe that households' investments (purchase of apartments for own needs and for investment purposes) will decrease in subsequent quarters due to the deterioration in the labour market (see MACROmap of 20/5/2020). All in all, the decrease in investments will be deepening and in H2 2020 will reach a double-digit rate in year-on-year terms.

In our view, the GDP dynamics will run below zero until Q1 2021, including this quarter. Then, due to low base effects, the economic growth rate will be clearly positive. We forecast that GDP dynamics will amount to 3.2% in 2021. GDP growth next year will be additionally supported by the launch of the EU reconstruction fund. It will contribute towards a faster increase in investments and economic growth not only in 2021 but also in subsequent years.

We have revised our forecast of inflation. We have increased our profile of food prices due to higher starting point of our forecast. Nonetheless, we maintain our view that subsequent months will bring further decrease in food prices dynamics largely caused by high base effects from the previous year (i.a. for the prices of meat, fruits, and vegetables). Considering the May rainfall, the risk of drought in Poland has somewhat diminished but is still high. Thus, the agrometeorological conditions are the main risk to our scenario. At the same time the global oil prices are above our earlier expectations, which is conducive to higher dynamics of fuel prices. Consequently, we have revised our forecast of inflation in 2020 upwards to 3.6% YoY. We believe that in the horizon of several quarters core inflation will decrease to nearly zero supported by high base effects and weak economic growth. We expect that headline inflation will amount, on a yearly average, to 2.2% in 2021.

We believe that amid inflation running below the target in the medium term and low investment activity of enterprises, the MPC will maintain the accommodative monetary policy for an extended period of time. We expect that in July 2020 the MPC will introduce so-called forward guidance, namely the announcement of maintaining interest rates at the current, nearing zero level for a longer period of time. In our view, the introduction of forward guidance is necessary for a stronger anchoring of the market expectations concerning the NBP reference rate amid improvement of global sentiment conducive to further appreciation of PLN. This scenario is supported by further monetary easing by the ECB last week (extension of the scale and horizon of the temporary asset purchase program, see above). We expect that before the end of 2020 the ECB will again extend the scope and the horizon of the quantitative easing program in response to the outlook for inflation sustainably running below the target.

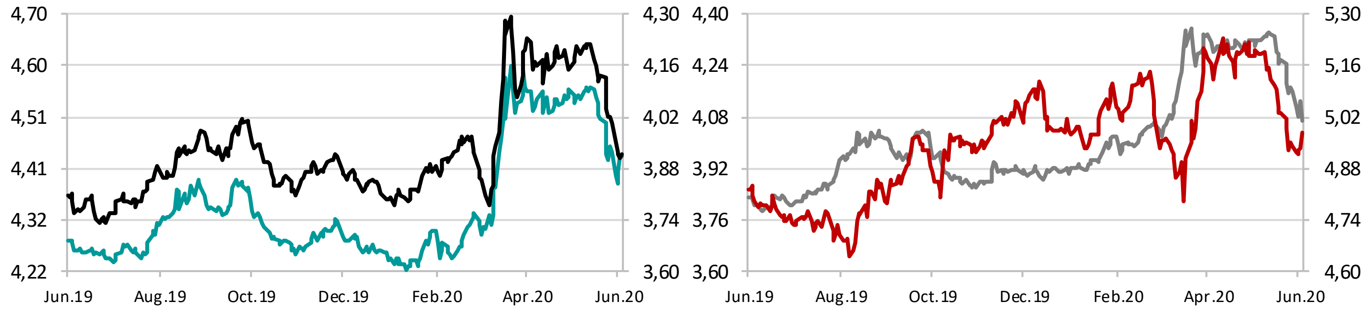
If our scenario of the collapse of corporate investment activity materializes, we expect that the MPC will revert in autumn to unconventional measures in monetary policy. It is now hard to precisely foresee which tools the MPC will resort to. The extension of the NBP's current bond purchase program would have a limited impact on real economy. We expect the MPC measures to aim at stimulating the investment activity of companies. To this end the central bank could grant loans to commercial banks at zero or negative interest rates and the latter would grant low-interest loans to e.g. small and medium-sized enterprises. According to a remark by MPC member G. Ancyparowicz, such program may now be difficult to launch due to legal constraints (her remark referred to the ECB's targeted longer-term refinancing operations TLTRO) which supports our scenario that the introduction of forward guidance will be the MPC's first step towards further easing of the monetary policy.

The normalization of monetary policy will be possible when some prospects appear for the stabilization of inflation around the target and the economy regaining the equilibrium. And such prospects will appear no sooner than in 2022. The normalization of the monetary policy will first consist in the termination of the unconventional measures and rates hike will be the last step. It would then materialize no sooner than in H2 2022.

We maintain our currency forecasts. We believe that EURPLN will decrease at the end of 2020 due to lower global risk aversion and the increasingly priced in by investors economic recovery in Poland and globally, supported by relaxed fiscal and monetary policy. In 2021 PLN will continue to appreciate (EURPLN down to 4.33 at the end of 2021).

FED meeting negative for PLN

FX rates



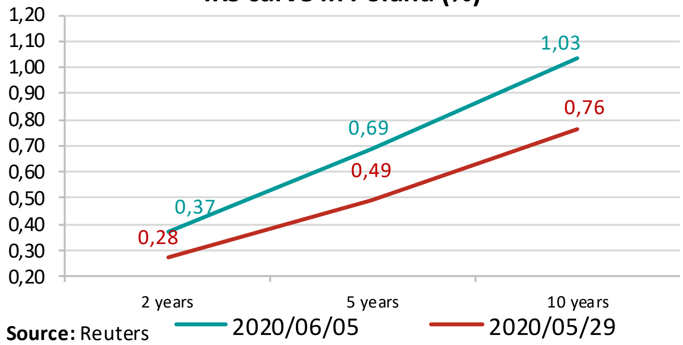
Source: Reuters

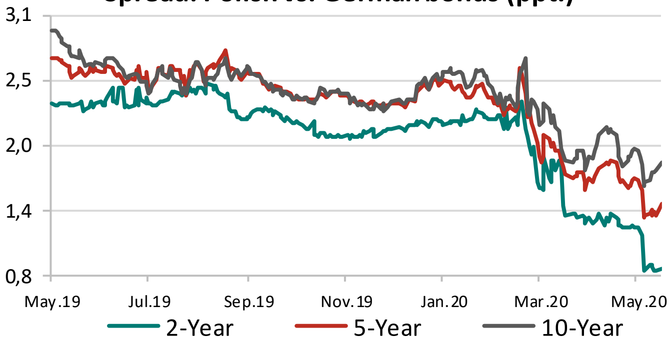
Last week, the EURPLN exchange rate dropped to 4.4474 (strengthening of PLN by 0.2%). The first part of the week saw a decrease in EURPLN in continuation of the appreciation of PLN observed two weeks ago (see MACROmap of 1/6/2020). The strengthening of PLN was supported by the improving global sentiment with gradual reopening of major economies. Wednesday saw a correction and further into the week EURPLN was showing an upward trend. The ECB decision on further monetary easing was positive for PLN but failed to reverse the trend.

Last week also saw a marked depreciation of USD vs. EUR. It was the continuation of the trend from two weeks ago. The increase in EURUSD continued despite a visibly bigger than expected scale of the monetary easing by the ECB. In our view it results from a decrease in the risk premium with the lowering, in the investors' opinion, of the likelihood of the disintegration of the Eurozone, supported by the proposal announced by the European Commission to launch the reconstruction fund and the Thursday's ECB decision pointing to its determination in limiting the spread between the bonds of the Eurozone countries (see above). Consequently, USDPLN dropped last week to slightly below 3.90 reaching the lowest value since March 2020. The visibly better-than-expected data on non-farm payrolls in the US resulted in the appreciation of USD; however, it did not manage to make up for the losses from the beginning of the week. We believe that EURUSD is overvalued. Thus we see a significant likelihood of its correction in the coming weeks.

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 information 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 FED meeting scheduled for Wednesday. We believe that it supports a slight weakening of PLN. We believe that data from the US (inflation, preliminary University of Michigan Index) will not be market moving.

Market focused on FED meeting





Source: Reuters

Last week, 2-year IRS rates increased to 0.37 (up by 9bps), 5-year rates to 0.69 (up by 20bps), and 10-year rates to 1.01 (up by 25bps). Last week saw a marked increase in IRS rates, especially visible at the centre and at the long end of the curve in the wake of core markets (Germany, USA). Consequently, 10-year rates returned to the levels from before the last interest rates cut. Higher yields on bonds in core markets are supported by the outflow of capital from the bond market to the equity market as the investors' demand for risk assets increases. This view is supported by the observed in recent weeks decrease in the VIX index. The increase in IRS rates at the short end of the curve was limited by the continuing strong demand from the investors for domestic securities with short tenors. Last week the BGK issued PLN 8.5bn of bonds and the PFR issued PLN 12.0bn.

This week an increase in IRS rates may be supported by the FED meeting scheduled for Wednesday. We believe that the publication of US data (inflation, preliminary University of Michigan Index) will be neutral for the curve.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland

Indicator	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	Jun.20
NBP reference rate (%)	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,00	0,50	0,10	**0,10**
EURPLN*	4,28	4,24	4,29	4,38	4,37	4,26	4,31	4,26	4,30	4,33	4,55	4,54	4,44	**4,44**
USDPLN*	3,83	3,73	3,87	3,98	4,01	3,82	3,91	3,79	3,87	3,92	4,13	4,15	4,00	**4,07**
CHFPLN*	3,83	3,82	3,90	4,02	4,02	3,87	3,91	3,92	4,02	4,06	4,29	4,30	4,16	**4,19**
CPI inflation (% YoY)	2,4	2,6	2,9	2,9	2,6	2,5	2,6	3,4	4,3	4,7	4,6	3,4	**3,0**	
Core inflation (% YoY)	1,7	1,9	2,2	2,2	2,4	2,4	2,6	3,1	3,1	3,6	3,6	3,6	**3,5**	
Industrial production (% YoY)	7,6	-2,6	5,8	-1,5	5,5	3,7	1,5	3,8	1,1	4,8	-2,4	-24,6	**-20,0**	
PPI inflation (% YoY)	1,4	0,5	0,5	0,9	0,8	-0,3	-0,1	1,0	0,9	0,2	-0,3	-1,3	**-1,5**	
Retail sales (% YoY)	7,3	5,3	7,4	6,0	5,3	5,4	5,9	7,5	5,7	9,6	-7,0	-22,6	**-18,5**	
Corporate sector wages (% YoY)	7,7	5,3	7,4	6,8	6,6	5,9	5,3	6,2	7,1	7,7	6,3	1,9	**2,4**	
Employment (% YoY)	2,7	2,8	2,7	2,6	2,6	2,5	2,6	2,6	1,1	1,1	0,3	-2,1	**-2,7**	
Unemployment rate* (%)	5,4	5,3	5,2	5,2	5,1	5,0	5,1	5,2	5,5	5,5	5,4	5,8	**6,3**	
Current account (M EUR)	-227	10	-824	-820	846	442	1412	366	2348	878	2438	**2196**		
Exports (% YoY EUR)	11,5	-2,4	6,4	-1,2	13,0	4,0	0,8	9,0	3,6	7,5	-7,5	**-32,3**		
Imports (% YoY EUR)	11,5	-5,3	6,7	-3,0	6,2	0,3	-3,5	-0,7	2,4	0,6	-4,5	**-30,4**		

*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)	2,0	-10,5	-2,5	-4,1	-0,2	6,2	3,9	3,6	4,1	-3,8	3,2
Private consumption (% YoY)	1,2	-15,0	-3,1	-1,0	2,1	8,1	4,3	3,7	3,9	-4,4	4,2
Gross fixed capital formation (% YoY)	0,9	-7,0	-12,2	-16,5	-5,4	5,1	5,4	5,9	7,2	-10,6	3,1
Export - constant prices (% YoY)	0,6	-11,0	-5,1	-3,1	2,0	5,1	4,2	4,1	4,7	-4,6	3,6
Import - constant prices (% YoY)	-0,2	-8,0	-7,4	-2,8	4,5	5,0	3,4	3,5	2,7	-4,6	3,9
GDP growth contributions: Private consumption (pp)	0,7	-8,7	-1,8	-0,5	1,3	4,4	2,5	1,9	2,2	-2,5	2,4
GDP growth contributions: Investments (pp)	0,1	-1,2	-2,2	-4,2	-0,7	0,9	0,9	1,3	1,3	-1,9	0,5
GDP growth contributions: Net exports (pp)	0,4	-2,1	0,9	-0,3	-1,2	0,2	0,6	0,5	1,2	-0,3	0,1
Current account (% of GDP)***	1,3	1,2	0,8	0,5	0,2	0,1	0,2	0,2	0,5	0,5	0,2
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)	0,7	-2,5	-3,1	-2,0	-0,9	3,2	2,9	2,2	0,3	-1,7	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	3,1	3,0	3,5	2,2	2,9	2,2	1,5	2,3	3,6	2,2
Wibor 3M (%)**	1,17	0,27	0,30	0,30	0,30	0,30	0,30	0,30	1,71	0,30	0,30
NBP reference rate (%)**	1,00	0,10	0,10	0,10	0,10	0,10	0,10	0,10	1,50	0,10	0,10
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 06/08/2020				
8:00	Germany	Industrial production (% MoM)	Apr	-9,2		-16,8
10:30	Eurozone	Sentix Index (pts)	Jun	-41,8		-22,5
		Tuesday 06/09/2020				
8:00	Germany	Trade balance (bn EUR)	Apr	12,8		10,0
11:00	Eurozone	Final GDP (% YoY)	Q1	-3,2	-3,2	-3,2
11:00	Eurozone	Revised GDP (% QoQ)	Q1	-3,8	-3,8	-3,8
11:00	Eurozone	Employment (% YoY)	Q1	0,3		
16:00	USA	Wholesale inventories (% MoM)	Apr	0,4		0,4
16:00	USA	Wholesale sales (% MoM)	Apr	-5,2		
		Wednesday 06/10/2020				
3:30	China	PPI (% YoY)	May	-3,1		-3,3
3:30	China	CPI (% YoY)	May	3,3		2,6
14:30	USA	CPI (% MoM)	May	-0,8	-0,1	0,0
14:30	USA	Core CPI (% MoM)	May	-0,4	0,0	0,0
20:00	USA	FOMC meeting (%)	Jun	0,25	0,25	0,25
		Thursday 06/11/2020				
14:30	USA	Initial jobless claims (k)	w/e	2123		1800
		Friday 06/12/2020				
11:00	Eurozone	Industrial production (% MoM)	Apr	-11,3		-20,0
16:00	USA	Initial U. of Michigan Sentiment Index (pts)	Jun	72,3	74,0	74,8

*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

Jakub BOROWSKI
Chief Economist
tel.: 22 573 18 40
jakub.borowski@credit-agricole.pl

Krystian JAWORSKI
Senior Economist
tel.: 22 573 18 41
krystian.jaworski@credit-agricole.pl

Jakub OLIPRA
Economist
tel.: 22 573 18 42
jakub.olipra@credit-agricole.pl