

This week

- ✓ **In accordance with the exit poll by Ipsos, A. Duda has won the first round of the presidential election taking 41.8% of the vote.** R. Trzaskowski secured 30.4%, Sz. Hołownia 13.3%, and K. Bosak 7.4% of the vote. The remaining candidates gained support of less than 3%. We believe that the results of the first round of presidential election are neutral for PLN and yields on Polish bonds.
- ✓ **The most important event this week is the publication of data from the US labour market scheduled for Thursday.** We expect that non-farm payrolls rose by 2.25M in June vs. a 2.51M increase in May, due to the gradual resumption of economic activity after some states have lifted restrictions. We forecast that unemployment rate dropped to 12.5% in June from 13.3% in May. Before the Thursday's reading some additional information on the labour market will be provided by the ADP report on private sector employment (the market expects an increase by 3.0M in June vs. a 2.76M decrease in May). On Wednesday we will see the ISM index for manufacturing which, according to our forecast, will increase to 48.0 pts in June vs. 43.1 pts in May. A slower decrease in manufacturing activity has already been signaled earlier by regional business surveys. The Conference Board Consumer Confidence Index will be released on Tuesday and, in our view, will point to some improvement in households' sentiment (91.5 pts in June vs. 86.6 pts in May). We now observe the second wave of the COVID-19 epidemic in the US. A sharp increase in new infections will have a negative impact on consumer sentiment and poses a downside risk to our forecast of the Conference Board Index. We expect that the publication of data from the US will be neutral for the financial markets.
- ✓ **Another important event will be the publication of the Minutes from FOMC meeting scheduled for Wednesday.** We believe that in the light of the remarks by FED Chairman J. Powell in recent weeks (see MACROmap of 15/6/2020), the document will provide no new information substantially altering the US monetary policy outlook. Crucial will be the fragments pointing to FOMC readiness to further ease the monetary policy if needed. However no specific measures are likely to be indicated in this respect. We maintain our scenario in which possible launch of the yield curve control will take place no sooner than in September 2020. We believe that the publication of the Minutes will not be market moving.
- ✓ **This week we will see business survey results for China.** We expect that CFLP PMI for Chinese manufacturing rose to 50.8 pts in June vs. 50.6 pts in May while Caixin PMI for Chinese manufacturing rose to 50.9 pts vs. 50.7 pts in May. The improvement will reflect the measures taken by the Chinese government and the People's Bank of China to stimulate internal demand. In our view the publication of business survey results will be neutral for PLN and the prices of bonds.
- ✓ **The flash estimate of HICP inflation for the Eurozone will be released on Wednesday.** We expect that the annual inflation rate rose to 0.2% YoY in June vs. 0.1% in May, due to lower core inflation and higher dynamics of energy prices. The publication of data on inflation in the Eurozone will be neutral for PLN and the prices of Polish bonds
- ✓ **On Tuesday we will see flash data on inflation in Poland, which, in our view, dropped to 2.8% YoY in June vs. 2.9% in May.** In our opinion, conducive to slower price growth in June were lower dynamics of food prices and lower core inflation. Higher dynamics of fuel prices had opposite impact. Our forecast of inflation is in line with the market consensus; therefore, its materialization will be neutral for the financial markets.
- ✓ **Polish manufacturing PMI will be released on Wednesday.** We expect that the index will rise to 47.3 pts in June vs. 40.6 pts in May, consistently with the improvement recorded in GUS business surveys. Polish PMI is also supported by improved sentiment in the Eurozone, including in Germany (see below). Our forecast is above the market consensus (46.5 pts); therefore, its materialization would be slightly positive for PLN and yields on Polish bonds.

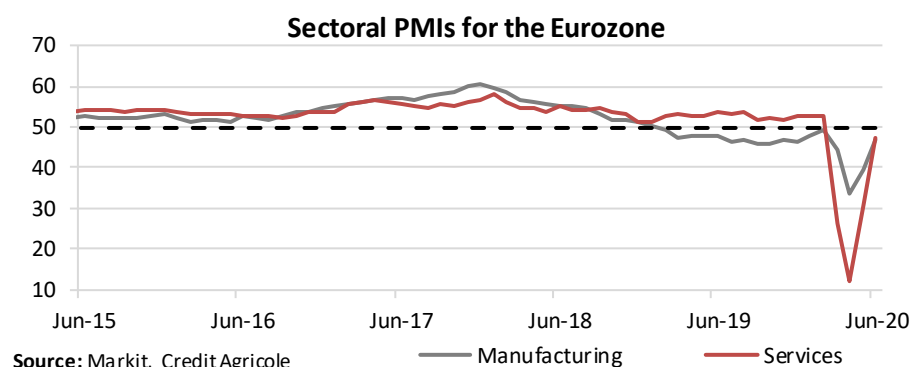
Last week

- ✓ **In accordance with the statement by the US trade representative R. Lighthizer, the United States are contemplating the imposition of tariffs on USD 3.1bn worth of goods exported from some countries of the European Union.** The new tariffs would be imposed i.a on olives, beer, gin, and heavy-duty vehicles. In addition, there are plans to increase the current duties on some goods, including aircrafts, cheeses and yogurts. The purpose of the tariffs is to convince the EU to a settlement in the ongoing dispute between the US and the EU in the World Trade Organization over illegal subsidies for Airbus and Boeing. At the beginning of June, the EU trade commissioner P. Hogan pointed out that in recent weeks the US withdrew from the talks aimed at settling the dispute and therefore “the European Union will have no other option than to use its right to retaliation and impose its own sanctions”. Possible trade war between the US and the EU would be negative for market sentiment which would be conducive to PLN weakening.
- ✓ **We have revised our forecast for EURUSD.** The EUR exchange rate will be supported by the planned launch of the reconstruction fund (see MACROmap of 15/6/2020) conducive to lower market concerns about the economic outlook for the Eurozone. On the other hand, the uncertainty about the approaching presidential election in the US will be conducive to the depreciation of USD. Consequently, we forecast that EURUSD will amount to 1.15 at the end of 2020 and to 1.13 at the end of 2021. Considering our forecast of EURPLN, we expect that USDPLN will amount to 3.80 at the end of 2020 and to 3.83 at the end of 2021 (see the quarterly table).
- ✓ **According to flash data, the composite PMI (for manufacturing and services) in the Eurozone rose to 47.5 pts in June vs. 31.9 pts in May, running above the market expectations (41.0 pts) and our forecast (45.0 pts).** This supports our forecast assuming that GDP in the Eurozone will decrease by 8.2% in 2020 and will increase by 5.7% in 2021 (see below).
- ✓ **Ifo Index reflecting the sentiment among German managers representing the manufacturing, construction, trade, and services, rose to 86.2 pts in June vs. 79.9 pts in May, running slightly above the market expectations (85.0 pts).** The index increase resulted from its higher sub-index for both expectations and the assessment of the current situation. Sector-wise, improved sentiment was recorded in all the analyzed sectors: manufacturing, construction, trade, and services, due to the gradual lifting of restrictions imposed to contain the spread of the COVID-19 pandemic. We forecast that the German GDP will decrease by 8.0% in 2021 and will increase by 6.1% in 2021.
- ✓ **The construction-assembly production in Poland decreased by 5.1% YoY in May vs. a 0.9% decrease in April, running significantly below our forecast equal to the market consensus (-0.5%).** May has been the first month since the outbreak of the COVID-19 epidemic which saw a sharp decrease in construction activity. Seasonally adjusted construction-assembly production decreased by 3.1% MoM in May. The main factor deepening the decrease in production in May was the slowdown of activity in public investments. The May’s data are consistent with our view from the previous month that the situation in construction will significantly deteriorate in few months’ time. The main argument supporting such scenario is the sharp decrease in GUS business sentiment indicator reflecting the current level of the orders portfolio of construction companies. The data on construction-assembly production in May support our forecast of economic growth in Q2 (-10.5% YoY) and in whole 2020 (-3.8%).
- ✓ **Retail sales in enterprises employing more than 9 people decreased in current prices by 8.6% YoY in May vs. a 22.6% decrease in April, running significantly above the market consensus (-12.9%) and our forecast (-18.5%).** The sales dynamics in constant prices increased to -7.7% YoY in May vs. -22.9% in April. The main reason for the sharp increase in retail sales in May was the gradual lifting of restrictions imposed in March and April to contain the spread of the COVID-19 epidemic (i.a. the reopening of shopping malls). We expect that the gradual dying out of

concerns related to the epidemic, conducive to increasing consumers' mobility and their propensity to consume, will contribute towards further significant increase in the annual sales dynamics in June. This scenario is supported by data on BLIK and payment card payments made by CA BP customers in the first half of June (see MACROmap of 22/6/2020) and by further improvement recorded in consumer sentiment in June. We maintain our forecast of the annual consumption dynamics in Q2 (down to -15.0% YoY vs. a 1.2% increase in Q1).

Important data from the US were released last week. The number of unemployment benefit claims amounted to 1480k last week vs. 1540k two weeks ago, pointing to a gradually decreasing inflow of new unemployed. Last week we also saw flash data on durable goods orders which increased by 15.8 MoM in May vs. an 18.1% decrease in April. Excluding means of transport, the monthly dynamics of durable goods orders rose to 4.0% vs. -8.2% in April. Last week we saw the final estimate of the US GDP in Q1, in which the annualized US GDP growth rate amounted to -5.0% (same as in the second estimate). The lack of changes resulted from the revision of the contribution of inventories (-1.56 pp in the final estimate vs. -1.43 pp in the second estimate), investments (-0.21 pp vs. -0.41 pp), consumption (-4.73 pp vs. -4.69 pp), and net exports (1.31 pp vs. 1.32 pp). Thus, consumption was the main source of the US GDP decrease. Last week we also saw data on new home sales (673k in May vs. 580k in April) and existing home sales (3.91M vs. 4.33M in April). An improvement of consumer sentiment was indicated by the final University of Michigan Index which rose to 78.1 pts in June vs. 72.3 pts in May and 78.9 pts in the flash estimate. The Index increase resulted from higher sub-indices for both the assessment of the current situation and expectations. We forecast that the annualized US GDP growth rate will drop to -30% in Q2 and will decrease by 5.5% in the whole of 2020.

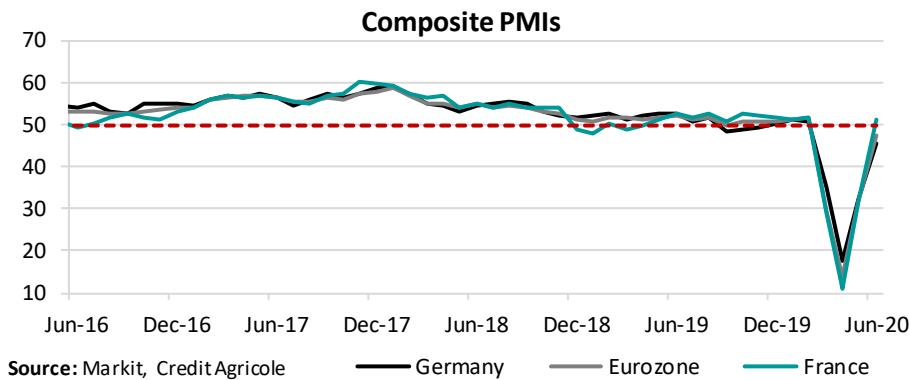
The impact of the pandemic on the Eurozone economy is abating



Source: Markit, Credit Agricole

According to flash data, the Composite PMI (for manufacturing and the services sector) in the Eurozone rose to 47.5 pts in June vs. 31.9 pts in May, running above the market expectations (41.0 pts) and our forecast (45.0 pts). The increase of the composite PMI index resulted from higher sub-indices for both output in manufacturing and business activity

in services. The aforementioned three indicators stood at 4-month high. Despite the marked increase in June, the composite PMI for the Eurozone remains visibly below the 50 pts threshold dividing expansion from contraction of activity. Thus, the economic activity in the Eurozone decreased further in June, although the pace of its decline was visibly slower than in May.



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. The data structure reflects the gradual easing of the administrative restrictions imposed in the respective Eurozone countries with a view to containing the spread of the pandemic. Especially noteworthy is the

increase of the composite index in France above the 50 pts threshold.

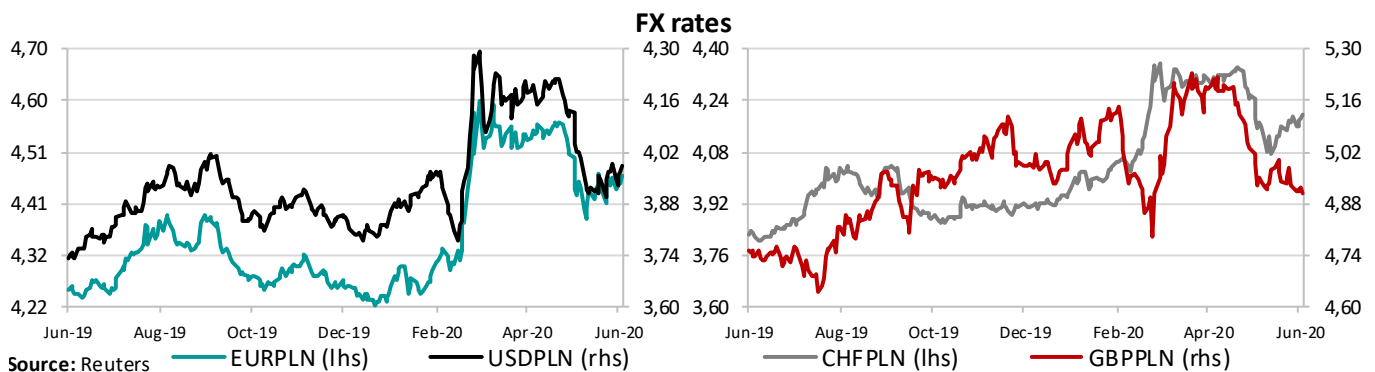
According to the statement, the companies operating in the Eurozone which reported further decline in production and orders in June usually blamed it on the pandemic. On the other hand, emphasized were lower turnovers in restaurants, hotels and tourism. Other survey participants pointed out weaker demand due to households' higher propensity to save and cautious spending policy of other companies.

The surveyed companies are quite optimistic about longer-term prospects. The sub-index for anticipated production in the horizon of 12 months stood in June above the 50pts threshold in all the surveyed countries and segments of the economy. This means that for the first time since the outbreak of the COVID-19 epidemic, the number of companies anticipating an increase in production is higher from the number of enterprises expecting its decrease. Optimistic is also the continuing relatively low rate of decline in employment. – in June it was the smallest since February, namely before the outbreak of the epidemic. The factor which limits the reduction of jobs are government aid programs implemented in the Eurozone countries.

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 manufacturing PMI pointed to a markedly slower pace of the decline in activity (44.6 pts in June vs. 36.8 pts in May). It is worth pointing out that the sub-indices for new orders, including new export orders, also recorded a significant improvement albeit staying below the 50 pts threshold. This signals that in the horizon of several months foreign demand for goods made in Poland should be gradually on the rise. However, this does not alter our view that the dynamics of Polish exports in year-on-year terms will stay below zero until the end of 2020.

Despite the optimistic tone of the business surveys for the Eurozone in the context of a longer horizon, increased uncertainty about further spread of the pandemic will prevail in the shorter-term. For this reason we believe that the pace of the restoration of internal demand in the Eurozone will be very slow and, consequently, capacity utilization in the Eurozone economy will remain at a lower level for an extended period of time. This supports our scenario assuming that the production volume in the Eurozone will return to levels observed before the outbreak of the pandemic no sooner than in 2022. We forecast that GDP in the Eurozone will decrease by 8.2% in 2020 and will increase by 5.7% in 2021.

PLN under pressure of increased risk aversion

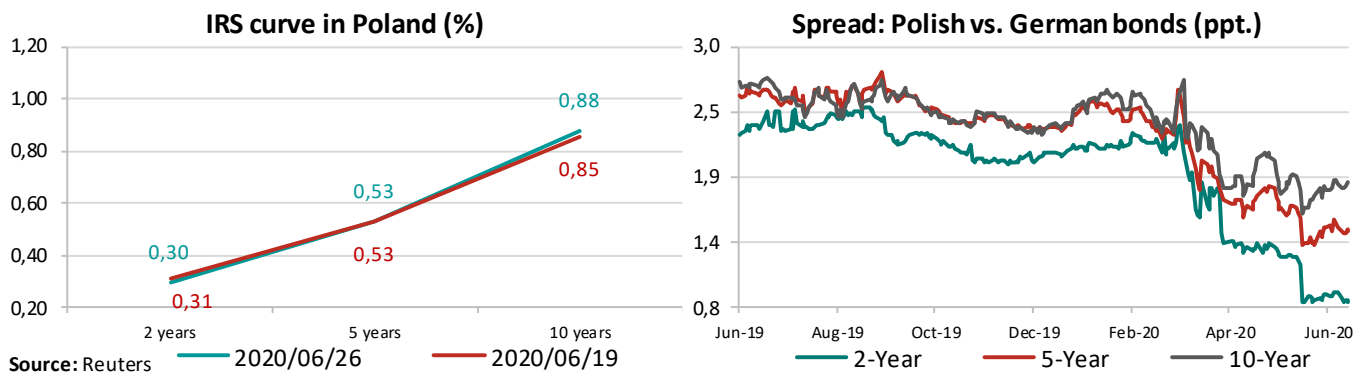


Last week, the EURPLN exchange rate rose to 4.4633 (PLN weakening by 0.1%). Monday through Friday PLN was showing a lateral trend – EURPLN ranged from 4.44 to 4.47. Domestic data on construction-assembly production had no substantial impact on PLN. A factor which was conducive to PLN depreciation in the second part of the week was increased risk aversion (see below)

On Tuesday, EUR appreciated vs. USD due to the publication of better-than-expected business survey results. Wednesday saw a correction and a decrease in the EURUSD exchange rate was observed until the end of the week. Such tendency was supported by increased risk aversion due to the statement by the US administration that it was contemplating the introduction of import tariffs on goods from some countries of the European Union.

In our view, the results of the first round of presidential election are neutral for PLN. We expect that this week, like in the previous weeks, PLN will remain impacted by global sentiment related to the coronavirus pandemic. Especially important will be the information coming from the US where in recent days many states recorded record numbers of new infections and re-introduced restrictions aimed at slowing down the spread of the epidemic. We expect that bad news from the US will be conducive to the deterioration of market sentiment this week. The materialization of our higher-from-the-market-consensus forecast for PMI in Poland will be slightly positive for PLN. Data from the US (non-farm payrolls, manufacturing ISM, Conference Board Index) will not have substantial impact on PLN. Flash data on inflation in Poland and in the Eurozone as well as the publication of the Minutes of the FOMC meeting and business survey results in China will be neutral for EURPLN.

Stabilization of IRS rates



Last week, 2-year IRS rates decreased to 0.295 (down by 2bps), 5-year rates amounted to 0.53 (no change), and 10-year rates rose to 0.875 (up by 2bps). The IRS rates were relatively stable last week. On the one hand we saw a decrease in bond yields in core markets, and on the other hand the spread between German and Polish bonds increased due to higher risk aversion. Last week the Ministry of Finance issued PLN 3.6bn of bonds (exchange auction). In turn, the NBP purchased PLN 2.4bn of bonds (including PLN 2.0bn of BGK bonds). Since the beginning of March 2020, as part of open market structural operations, the NBP has purchased in total PLN 96.2bn of bonds.

In our view, the results of the first round of presidential election are neutral for IRS rates. We expect that the publication of business survey results for Polish manufacturing will be conducive to higher IRS rates. The publication of the Minutes of the FOMC meeting should not meet with a significant reaction of the debt market. Data from the US (non-farm payrolls, manufacturing ISM, Conference Board Index) as well as data on inflation in Poland and in the Eurozone will be neutral for the curve, we believe.

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	3,96
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	4,18
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	2,9	
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	3,8	
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	-17,0	
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	-1,4	-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	-8,6	
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	1,2	
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	-3,2	
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	6,0	
Current account (M EUR)	-227	10	-824	-820	846	442	1412	366	2348	878	2438	1163		
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	-29,2		
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	-28,2		

*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)	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
	Investments (pp)	0,1	-1,2	-2,2	-4,2	-0,7	0,9	0,9	1,3	1,3	-1,9	0,5
	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	6,0	6,5	7,5	7,3	6,1	5,5	6,1	5,2	7,5	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	2,3	3,2	3,4	2,7	3,2	2,9	3,0	7,2	4,1	3,0	
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	0,26	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	3,96	3,86	3,80	3,79	3,82	3,84	3,83	3,79	3,80	3,83	

* quarterly average

** end of period

***cumulative for the last 4 quarters

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST*	
					CA	CONSENSUS**
Monday 06/29/2020						
11:00	Eurozone	Business Climate Indicator (pts)	Jun	-2,43		
14:00	Germany	Preliminary HICP (% YoY)	Jun	0,5	0,70	0,60
Tuesday 06/30/2020						
3:00	China	Caixin Manufacturing PMI (pts)	Jun	50,6	50,8	50,4
10:00	Poland	CPI (% YoY)	Jun	2,9	2,8	2,8
11:00	Eurozone	Preliminary HICP (% YoY)	Jun	0,1	0,2	0,1
15:00	USA	Case-Shiller Index (% MoM)	Apr	0,5		0,4
15:45	USA	Chicago PMI (pts)	Jun	32,3		44,5
16:00	USA	Consumer Confidence Index	Jun	86,6	91,5	90,0
Wednesday 07/01/2020						
3:45	China	Caixin Manufacturing PMI (pts)	Jun	50,2	50,9	50,5
9:00	Poland	Manufacturing PMI (pts)	Jun	40,6	47,3	46,5
9:55	Germany	Final Manufacturing PMI (pts)	Jun	44,6	44,6	44,6
10:00	Eurozone	Final Manufacturing PMI (pts)	Jun	46,9	46,9	46,9
14:15	USA	ADP employment report (k)	Jun	-2760		3000
15:45	USA	Flash Manufacturing PMI (pts)	Jun	49,6		
16:00	USA	ISM Manufacturing PMI (pts)	Jun	43,1	48,0	49,0
20:00	USA	FOMC Minutes	Jun			
Thursday 07/02/2020						
11:00	Eurozone	Unemployment rate (%)	May	7,3		7,7
11:00	Eurozone	PPI (% YoY)	May	-4,5		-4,8
14:30	USA	Initial jobless claims (k)	w/e	1508		1325
14:30	USA	Unemployment rate (%)	Jun	13,3	12,5	12,3
14:30	USA	Non-farm payrolls (k MoM)	Jun	2509	2250	3000
16:00	USA	Factory orders (% MoM)	May	-13,0	8,1	8,5
Friday 07/03/2020						
10:00	Eurozone	Services PMI (pts)	Jun	47,3	47,3	47,3
10:00	Eurozone	Final Composite PMI (pts)	Jun	47,5	47,5	47,5

*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