This week

- **The most important event this week will be the FOMC meeting scheduled for Wednesday.** We expect FED to maintain the target range for the federal funds at [0.00%; 0.25%]. We believe that the conference after the meeting will take the dovish tone. The statement is likely to introduce forward guidance, namely the announcement of keeping interest rates at the current level and continuing the quantitative easing programme for an extended period of time. The conference may raise the issue of the Yield Curve Control, which consists in the central bank setting a specific target for the level of long-term interest rates and in purchasing appropriate amounts of bonds to meet this target. Some FED members have signaled a possibility of using this instrument but we believe that such decision will not be taken before September. We expect that during the conference we can see increased volatility of PLN and yields on Polish bonds.
- **Significant data from the Eurozone will be released this week.** We expect that the quarterly GDP dynamics dropped to -12.7% in Q2 from -3.6% in Q1, due to the negative impact of the COVID-19 epidemic on the economic activity within the single currency area. Some additional information on economic growth in the Eurozone will be provided on Thursday by the flash estimate of GDP for Germany. We forecast that GDP growth rate decreased to -10.9% QoQ in Q2 from -2.2% in Q1. In addition, we forecast that HICP inflation in the Eurozone dropped to -0.3% YoY in July vs. 0.3% in June, due to lower core inflation. Our forecasts of GDP dynamics are below the consensus both for Germany and for the whole Eurozone (-9.0% and -12.0%, respectively). The materialization of our expectations concerning changes in GDP will be conducive to a slight appreciation of PLN and lower yields on Polish bonds, while the publication of the data on inflation is not likely to be market moving.
- **This week we will see some important data from the US.** The flash estimate of GDP in Q2 is scheduled to be released on Thursday. We expect that the annualized change in GDP amounted to -33.0% in Q2 vs. -5.0% in Q1. We believe that the COVID-19 epidemic and the restrictions imposed by the administration have deepened the declines in investments and consumption relative to Q1. On Thursday we will see the preliminary data on durable goods orders in the US which in accordance with our forecast increased by 8.0% MoM in June vs. a 15.7% increase in May. Mainly responsible for the further increase in orders in July was the transport branch. The number of unemployment benefit claims will be known on Thursday. According to the consensus it will amount to 1500k vs. 1416k a week ago. This indicator will be relevant to assessing the impact of restrictions imposed again in some US states and the lasting effects of the COVID-19-related shock on the US economy. We expect that the Conference Board Consumer Confidence Index (93.0 pts in July vs. 98.1 pts in June), like the final University of Michigan Index (72.5 pts in July vs. 78.1 pts in June) will point to the deterioration in consumer sentiment due to the second wave of the epidemic. The materialization of our forecasts will be neutral for PLN and yields on Polish bonds.
- **Business survey results for China will be released on Friday.** We expect that CFLP PMI for the Chinese manufacturing rose to 51.0 pts in July vs. 50.9 pts in June. The slight improvement of sentiment 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 the business survey results will be neutral for PLN and bond prices.
- **Ifo Index reflecting the sentiment among German managers representing the manufacturing, construction, and service sectors will be released today.** We expect that the index value will increase to 90.0 pts in July from 86.2 pts in June, consistently with the improvement of sentiment recorded in PMI surveys (see below). In our view, the publication of Ifo index will be neutral for the markets.
- **On Friday we will see flash data on inflation in Poland, which in our view dropped to 3.2% YoY in July vs. 3.3% in June.** In our opinion, conducive to slower price growth in June were lower dynamics of food and energy prices (reduced gas prices). Higher dynamics of fuel prices had

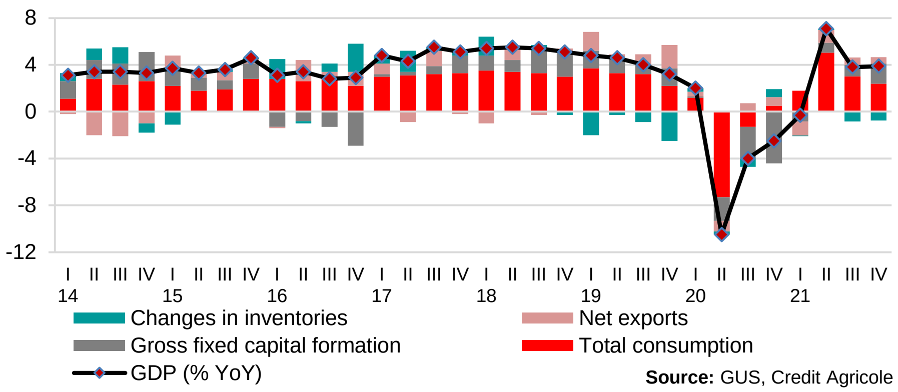
opposite impact. We expect core inflation to stabilize at 4.1% YoY in July. The forecast is subject to uncertainty due to the resumption by GUS of direct recording of prices by surveyors in shopping centers. Out forecast of inflation is above the consensus (3.1%); therefore, its materialization would be slightly positive for PLN and yields on Polish bonds.

Last week

- **The dynamics of sold production of industry in enterprises employing more than 9 people rose to +0.5% YoY in June vs. -17.0% in May, running significantly above the market consensus (-6.9%) and our forecast (-7.5%).** Seasonally-adjusted industrial production increased by 9.7% MoM in June. Consequently, the seasonally-adjusted production stood in June at a level that was ca. 10% lower than before the outbreak of the COVID-19 epidemic. June recorded a wide range of recovery in Polish manufacturing. The annual industrial production dynamics increased between May and June in all the categories except "production of beverages" and "electricity, gas, steam, and hot water supply". Mostly responsible for the recovery in total industrial production was the resumption of activity in the automotive branch (the production dynamics in the category: "motor vehicles, trailers and semi-trailers" rose from -57.9% YoY in May to -15.2% in June). Consequently, June saw an increase in the production dynamics in export branches. Despite the increase in total industrial production in year-on-year terms, the production in the category "investment goods" decreased by 8.6% YoY in June. This supports our scenario of a slump in gross fixed capital formation (down by 12.8% YoY in 2020 – see below).
- **The construction-assembly production in Poland decreased by 2.4% YoY in June vs. a 5.1% decrease in May, running below our forecast (0.0% YoY) and the market consensus (-1.8%).** The increase in the annual dynamics of construction-assembly production resulted from the positive working days effect. Seasonally-adjusted construction-assembly production decreased by 2.5% MoM in June, which points to a marked decline in construction activity. The main factor behind the decrease in the construction-assembly production dynamics in June were lower production dynamics among entities dealing in the construction of building. We maintain our scenario in which the situation in construction will significantly deteriorate in H2 2020. This scenario is supported by a sharp deterioration in the investment climate in enterprises (see MACROmap of 20/7/2020), the fact that GUS business sentiment indicator reflecting the current level of the orders portfolio of construction companies continues to stay at a very low level (significantly lower than during the bottom of the cycle in construction recorded in 2013), expected visible decrease in road investments in 2020, as compared with 2019, and fixed capital formation of local government units as well as marked decrease in residential construction activity.
- **In accordance with GUS data, retail sales in enterprises employing more than 9 people decreased in current prices by 1.9% YoY in June vs. an 8.6% decrease in May, running significantly above the market consensus (-4.0%) and our forecast (-2.5%).** The sales dynamics in constant prices rose to -1.3% YoY in June vs. -7.7% in May. The reasons for the sharp increase in retail sales in June were the diminishing concerns of households about the ongoing epidemic, continuing postponed demand effect (increase in the households' expenditures not made due to the restrictions binding between March and May), increase recorded in June in the wage dynamics amid the slowdown of employment decline in the corporate sector as well as a favourable difference in the number of working days. The June data on sales point to a gradually abating negative impact of the COVID-19 pandemic on consumer demand. We forecast that that consumption dynamics will amount to -13.5% YoY in Q2 and to -3.8% on a yearly average in 2020.

- **Important data from the US were released last week.** The number of unemployment benefit claims amounted to 1416k last week vs. 1307k two weeks ago, pointing to an again increasing inflow of the new unemployed (the effect of the restrictions imposed due to the second wave of the epidemic). Last week we also saw data on new home sales (776k in June vs. 682k in May) and existing home sales (4.72M vs. 3.91M in May), which pointed to further increase in activity in the US real estate market. We forecast that the annualized US GDP growth rate will drop to -33.0% in Q2 and in the whole 2020 the GDP will decrease by 5.5%.
- **In accordance with flash data, the composite PMI (for manufacturing and services) in the Eurozone rose to 54.8 pts in July vs. 48.5 pts in June, running above the market expectations (51.1 pts) and our forecast (52.4 pts).** The increase in the composite PMI resulted from higher sub-indices for both output in manufacturing and business activity in services. The aforementioned three indicators stood at 2-year highs. It is worth pointing out that the composite PMI for the Eurozone has for the first time since February 2020 stood above the 50 pts threshold dividing expansion from contraction of activity. The increase in PMI indices was wide ranging geographically and was recorded in Germany, France, and in other Eurozone economies covered by the survey. The data structure reflects the gradual lifting of the administrative restrictions imposed in respective Eurozone countries to contain the spread of the pandemic. The surveyed companies are quite optimistic with regard to longer time perspective. The index of anticipated production in the horizon of 12 months stood in July markedly above the 50 pts threshold in all the surveyed countries and segments of the economy. The only pessimistic element of the business survey results is the continuing, albeit slower from June, decrease in employment (both in manufacturing and services). The business sentiment indicators published last week support our forecast of GDP dynamics in the Eurozone in Q3 (+9.6% QoQ vs. -12.7% in Q2).
- **The results of the NBP business survey (Quick Monitoring) were released last week.** Especially noteworthy is the presented information pointing to the collapse of investment climate in enterprises. The planned change in outlays in the quarterly and annual horizon as well as the quarterly and annual indicator of new investments have visibly decreased in Q2. The companies indicated the COVID-19 epidemic, low demand, and high uncertainty as the main barriers to growth. Important in this context is the proposal of introducing so-called “Estonian CIT” in Poland currently considered by the Finance Ministry. The new tax solution which would be binding from 2021 is addressed to small and medium-sized capital companies with revenues not exceeding PLN 50M per year. Companies would not have to pay CIT for as long as they do not pay out profits. We believe that the contemplated “Estonian CIT” will not contribute to a marked rebound in total investments, as the companies with revenues not exceeding PLN 50M are responsible for only ca. 15% of all corporate investments.

Forecasts for 2020-2021



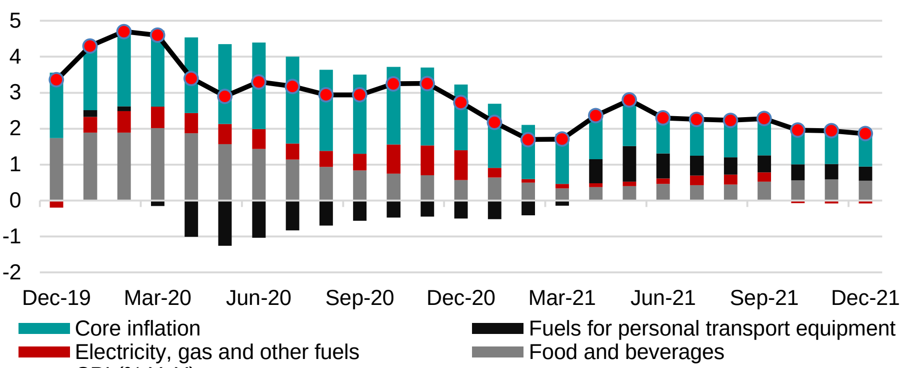
Source: GUS, Credit Agricole

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). We have maintained our forecast of GDP decrease by 3.8% YoY in 2020 but the structure of economic growth has changed.

The main changes in 2020 refer to Q2. Data on retail sales for June have proved better than expected (see MACROpulse of 21/7/2020). In addition, data on payment card transactions suggest a smaller decline in consumption than we assumed earlier. That is why we have revised our forecast of private consumption dynamics in Q2 upwards to -13.5% YoY. On the other hand, the collapse in investments is likely to be deeper than we assumed, as indicated i.a. by data on the production of investment goods in Q2 (see MACROpulse of 20/7/2020). Furthermore, the incoming data pointed to a decline in exports and imports that is much deeper from our earlier expectations. However, the revision in this respect is neutral from the point of view of the contribution of net exports to GDP growth. Considering the above tendencies, we maintain our forecast of GDP decline by 10.5% YoY, although it is subject to uncertainty that is higher than usual.

We believe that the decline in investments will deepen in H2 2020, mainly due to lower outlays of enterprises. The investment activity of enterprises will be limited this year due to increased uncertainty about further spread of the epidemic. Our view is confirmed by the NBP business survey results released last week and pointing to the collapse of investment climate in enterprises (see above). As regards public investments we are more optimistic than in the previous forecasting round – we do not assume their marked year-on-year decline (as confirmed by the data on construction-assembly production for Q2 in terms of infrastructural investments). Nonetheless, the potential to increase in public gross fixed capital formation in year on year terms is limited due to the effect of savings in local government units amid the difficult financial situation caused by the COVID-19 epidemic. 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.

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 have also revised our forecast of GDP dynamics in 2021 upwards to 3.6%. The main factor justifying the change of forecast is that we have taken into account of the positive impact of the EU reconstruction fund (see MACROmap of 15/6/2020). We expect that the first investment projects financed from this fund are likely to be launched in H2 2021. This will contribute towards a faster increase in fixed capital formation and economic growth not only in 2021 but also in subsequent years.



Source: GUS, Credit Agricole

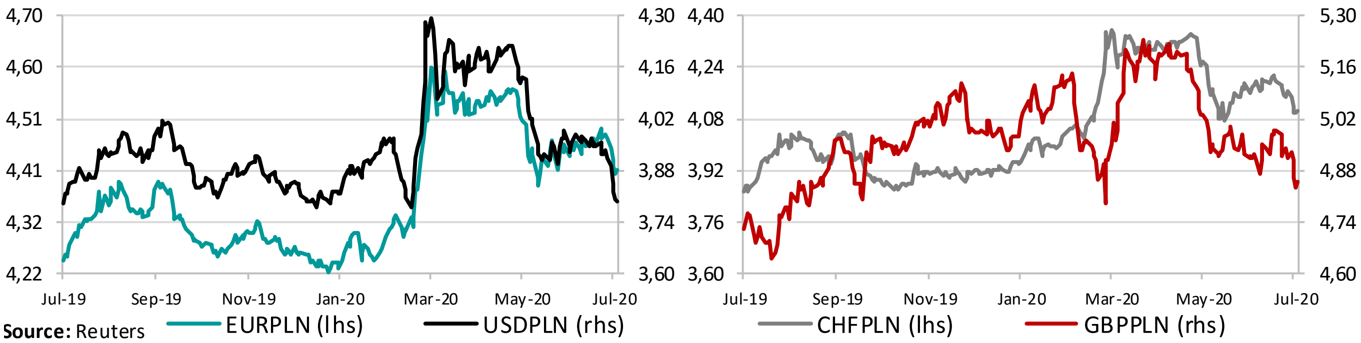
Our forecast of inflation has not changed (3.6% YoY in 2020 and 2.2% in 2021) but we have revised its structure. Core inflation in the coming months will stand at higher levels than we assumed earlier due to the fact that companies will transfer the costs resulting from the necessity to meet the safety requirements amid the pandemic to consumers. At the same time global oil prices are higher than we expected earlier which is conducive to higher dynamics of fuel prices. Our forecast has also taken into account the reduction of gas prices (July 2020), introduction of so-called power fee which will contribute towards higher prices of electricity (October 2021) and expected payment of compensation to households (January 2021) . We have slightly decreased our profile of food prices. The main source of our forecast was the significant improvement recorded in recent months in the agrometeorological conditions. At the same time we have lowered our profile of meat prices due to the continuing in recent weeks decline in the prices of pigs in the EU market.

We maintain our scenario in which the MPC will decide in the coming months to use unconventional monetary policy tools. We now believe that the most likely scenario is that 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 September 2020 (see MACROmap of 13/7/2020). If there is a second wave of the COVID-19 epidemic and accompanying it increase in uncertainty and deterioration of business climate, the Council may also decide to take measures aimed at stimulating lending and demand similar to those taken in recent years by the central banks conducting monetary policy amid interest rates close to zero (see MACROmap of 13/7/2020).

We maintain our currency forecasts. We believe that EURPLN will decrease to 4.37 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 and the expected increased inflow of EU funds. In 2021 PLN will continue to appreciate (EURPLN down to 4.33 at the end of 2021).

EURUSD continues to show upward trend

FX rates



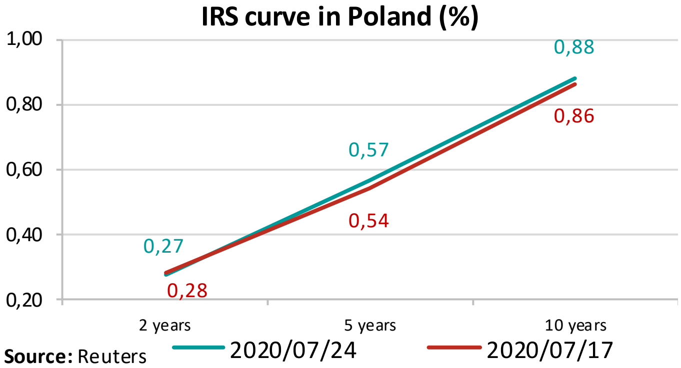
Source: Reuters

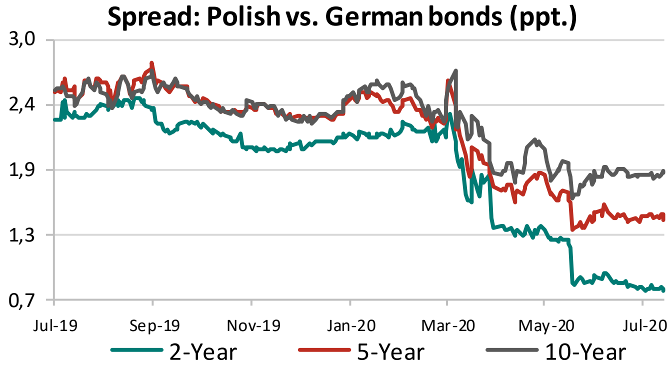
Last week, the EURPLN exchange rate dropped 4.4135 (PLN strengthening by 1.3%). Throughout last week PLN vs. EUR was showing an upward trend. PLN was supported by lower risk aversion due to the agreement reached at the EU summit concerning the reconstruction fund, better-than-expected domestic macroeconomic data, and marked improvement of sentiment in the Eurozone (PMI).

Especially noteworthy is also further increase in EURUSD which last week exceeded 1.16 (the highest level since Q4 2018). Conducive to EUR strengthening vs. USD was the agreement reached on the EU reconstruction fund. Negative for USD were also investors' concerns about the economic consequences of the second wave of the COVID-19 pandemic observed now in the US and growing tension between the US and China.

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 second wave of infections and new spikes in the US. This week important for PLN will be the data on GDP growth in the Eurozone and Germany. Our forecasts are below the market expectations; therefore, their materialization may be conducive to a slight appreciation of PLN. We believe that the FOMC meeting scheduled for this week may support increased volatility in the foreign exchange market. Slightly positive for PLN will be the flash data on domestic inflation. Other data from the US, PMI for China, Ifo index, and inflation reading for the Eurozone will not have any significant impact on PLN, we believe.

Stabilization of IRS rates





Source: Reuters

Last week, 2-year IRS rates decreased to 0.274 (down by 1bp), 5-year rates rose to 0.568 (up by 3bps), and 10-year rates rose to 0.86 (up by 2bps). Last week IRS rates were relatively stable. Domestic data on retail sales and industrial production and the publication of business survey results for the Eurozone were not market moving. Last week, the NBP purchased the MoF and BGK securities issued to provide financing for the COVID-19 fund totalling PLN 1.6bn. The operation had a limited impact on the curve. The NBP has so far purchased securities totalling PLN 102.9bn. On Thursday, the Finance Ministry sold PLN 6.0bn of 3-, 5-, 9-, and 10-year bonds. The auction had a limited impact on the market.

This week the market will focus on information about the second wave of infections and new spikes in the US. We believe that data on GDP in the Eurozone and Germany may contribute to lower IRS rates. In turn, the FED meeting scheduled for this week will be conducive to increased volatility of IRS rates. On the other hand, flash data on inflation in Poland will have a positive impact on IRS rates. We believe that other macroeconomic data this weeks will be neutral for the curve.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland

Indicator	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	Jul-20
NBP reference rate (%)	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	0,10
EURPLN*	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	**4,40**
USDPLN*	3,73	3,87	3,98	4,01	3,82	3,91	3,79	3,87	3,92	4,13	4,15	4,00	3,95	**3,79**
CHFPLN*	3,82	3,90	4,02	4,02	3,87	3,91	3,92	4,02	4,06	4,29	4,30	4,16	4,17	**4,10**
CPI inflation (% YoY)	2,6	2,9	2,9	2,6	2,5	2,6	3,4	4,3	4,7	4,6	3,4	2,9	3,3	
Core inflation (% YoY)	1,9	2,2	2,2	2,4	2,4	2,6	3,1	3,1	3,6	3,6	3,6	3,8	4,1	
Industrial production (% YoY)	-2,6	5,8	-1,5	5,5	3,7	1,5	3,8	1,1	4,8	-2,4	-24,6	-16,9	0,5	
PPI inflation (% YoY)	0,5	0,5	0,9	0,8	-0,3	-0,1	1,0	0,9	0,2	-0,3	-1,4	-1,5	-0,8	
Retail sales (% YoY)	5,3	7,4	6,0	5,3	5,4	5,9	7,5	5,7	9,6	-7,0	-22,6	-8,6	-1,9	
Corporate sector wages (% YoY)	5,3	7,4	6,8	6,6	5,9	5,3	6,2	7,1	7,7	6,3	1,9	1,2	3,6	
Employment (% YoY)	2,8	2,7	2,6	2,6	2,5	2,6	2,6	1,1	1,1	0,3	-2,1	-3,2	-3,3	
Unemployment rate* (%)	5,3	5,2	5,2	5,1	5,0	5,1	5,2	5,5	5,5	5,4	5,8	6,0	6,1	
Current account (M EUR)	10	-824	-820	846	535	1139	253	2263	949	1292	1156	2455		
Exports (% YoY EUR)	-2,4	6,4	-1,2	13,0	3,9	0,8	9,1	5,0	8,9	-5,7	-29,1	-19,8		
Imports (% YoY EUR)	-5,3	6,7	-3,0	6,2	0,3	-3,5	-0,6	4,4	0,9	-3,5	-28,1	-27,2		

*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	-4,0	-2,5	-0,3	7,1	3,8	3,9	4,1	-3,8	3,6
Private consumption (% YoY)		1,2	-13,5	-3,1	0,0	2,1	8,1	4,3	3,7	3,9	-3,8	4,4
Gross fixed capital formation (% YoY)		0,9	-12,0	-15,5	-17,5	-6,3	5,2	6,3	8,0	7,2	-12,8	4,3
Export - constant prices (% YoY)		0,6	-19,9	-6,1	-2,1	2,0	10,3	4,2	4,1	4,7	-6,8	4,9
Import - constant prices (% YoY)		-0,2	-20,1	-8,1	-4,0	4,5	9,0	3,4	3,5	2,7	-8,1	4,9
GDP growth contributions	Private consumption (pp)	0,7	-7,8	-1,8	0,0	1,3	4,5	2,5	1,9	2,2	-2,2	2,5
	Investments (pp)	0,1	-2,0	-2,7	-4,4	-0,8	0,9	1,0	1,7	1,3	-2,3	0,7
	Net exports (pp)	0,4	-0,9	0,7	0,8	-1,2	1,1	0,6	0,5	1,2	0,3	0,3
Current account (% of GDP)***		1,0	1,2	0,8	0,5	0,2	0,1	0,2	0,2	0,4	0,5	0,2
Unemployment rate (%)**		5,4	6,1	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	3,2	3,2	3,2	2,0	2,5	2,3	1,9	2,3	3,6	2,2
Wibor 3M (%)**		1,17	0,26	0,26	0,26	0,26	0,26	0,26	0,26	1,71	0,26	0,26
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	3,95	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 07/27/2020				
10:00	Germany	Ifo business climate (pts)	Jul	86,2	90,0	89,3
10:00	Eurozone	M3 money supply (% MoM)	Jun	8,9		9,3
14:30	USA	Durable goods orders (% MoM)	Jun	15,7	8,0	7,2
		Tuesday 07/28/2020				
15:00	USA	Case-Shiller Index (% MoM)	May	0,3		0,3
16:00	USA	Richmond Fed Index	Jul	0,0		
16:00	USA	Consumer Confidence Index	Jul	98,1	93,0	94,5
		Wednesday 07/29/2020				
20:00	USA	FOMC meeting (%)	Jul	0,25	0,25	0,25
		Thursday 07/30/2020				
10:00	Germany	Preliminary GDP (% QoQ)	Q2	-2,2	-10,9	-9,0
11:00	Eurozone	Business Climate Indicator (pts)	Jul	-2,26		
11:00	Eurozone	Unemployment rate (%)	Jun	7,4		7,7
14:00	Germany	Preliminary HICP (% YoY)	Jul	0,8		0,40
14:30	USA	Initial jobless claims (k)	w/e	1416		1500
14:30	USA	Preliminary estimate of GDP (% YoY)	Q2	-5,0	-33,0	-34,0
		Friday 07/31/2020				
3:00	China	Caixin Manufacturing PMI (pts)	Jul	50,9	51,0	50,7
10:00	**Poland**	**CPI (% YoY)**	**Jul**	**3,3**	**3,2**	**3,1**
11:00	Eurozone	Preliminary GDP (% QoQ)	Q2	-3,6	-12,7	-12,0
11:00	Eurozone	Preliminary HICP (% YoY)	Jul	0,3	-0,3	0,2
14:30	USA	Real private consumption (% MoM)	Jun	8,1		
15:45	USA	Chicago PMI (pts)	Jul	36,6		44,5
16:00	USA	Final U. of Michigan Sentiment Index (pts)	Jul	73,2	72,5	72,9

*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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