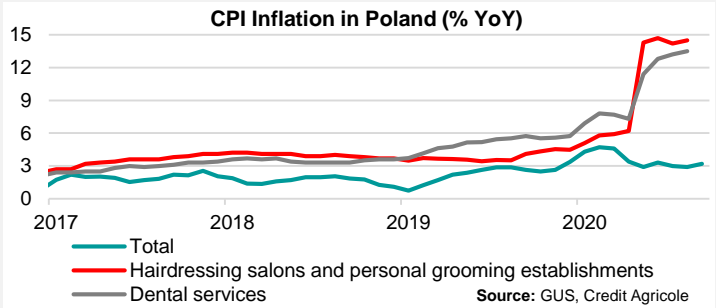


This week

- ▮ **This week we will see significant data from the US.** We expect nominal retail sales to have increased by 0.8% MoM in September vs. a 0.6% increase in August. We forecast that industrial production increased by 0.9% MoM in September vs. a 0.4% increase in August. We expect that headline inflation rose to 1.4% YoY vs. 1.3% in August, due to higher core inflation (up to 1.8% YoY from 1.7% in August). The number of unemployed benefit claims will be released on Thursday. In accordance with the consensus it will amount to 810k vs. 881k last week, confirming a downward trend for this indicator. The preliminary University of Michigan Index will be released on Friday. We forecast its stabilization (80.5 pts in October vs. 80.4 pts in September). We believe that the aggregate impact of US data on the financial markets will be limited while crucial for global sentiment will be the information on the course of negotiations between the Democrats and the Republicans concerning the scale and implementation date of the subsequent stimulus package in the US.
- ▮ **Data on the balance on trade in China will be released on Tuesday.** We expect that it rose to USD 64.7bn in September vs. USD 58.9bn in August. At the same time, export dynamics rose to 16.1% YoY in August vs. 9.5% in August, which will be yet another signal of the recovery in global trade. We also expect that import dynamics increased to 5.7% YoY vs. -2.1%. The reading will be neutral for the financial markets.
- ▮ **ZEW index reflecting the sentiment among analysts and institutional investors regarding the economic situation in Germany will be released on Tuesday.** The market expects that its value will drop to 74.0 pts in October vs. 77.4 pts in September, due to the spreading COVID-19 pandemic and higher risk aversion in the financial markets. The reading is likely to be neutral for the financial markets.
- ▮ **Final data on the September inflation in Poland will be released on Thursday.** The rate of inflation is likely to be in line with the flash estimate (3.2% YoY vs. 2.9% in August). Conducive to higher inflation were higher dynamics of the prices of fuels, energy and higher core inflation, which, according to our estimates, rose to 4.2% YoY vs. 4.0% in August. We believe that the reason for the inflation surprise in the case of core inflation (we, like the market, expected it to fall to 3.9% in September) could have been the second wave of rises in services (e.g. hairdressing or dental services) due to the COVID-19 pandemic. The September inflation reading will be neutral for PLN and the prices of Polish bonds.



Source: GUS, Credit Agricole
- ▮ **Data on the Polish balance of payments in August will be released on Wednesday.** We expect the current account balance to have increased to EUR 1780M vs. EUR 1620M in July. We forecast that export dynamics rose from 2.7% YoY in July to 3.7% in August, while import growth rate dropped to -4.8% YoY from -3.9%. Thus, the data on trade exchange will confirm the ongoing recovery of demand for exports, largely due to the restoration of broken supply chains and continuing low demand for imports, resulting mainly from the collapse of investment activity of enterprises and lower prices of commodities. In our view, the data on the balance of payments will be neutral for PLN and yields on Polish bonds.

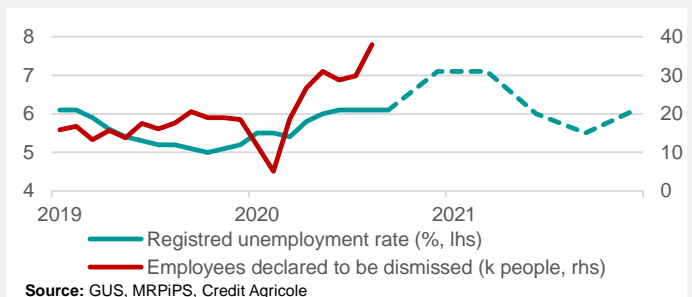
Last week

- **Last week Prime Minister M. Morawiecki announced that from 10 October the yellow zone will be binding across the whole country apart from the areas where red zone had been introduced earlier.** It means that security requirements will be increased from Saturday throughout Poland, i.a. in restaurants, gyms, in the organization of congresses and fairs, cultural, sport and other events. The security requirements for trade, public transport and beauty and hairdressing salons will remain unchanged. We believe that the restrictions will impact the economy the most through lower activity in the catering business. We estimate that the share of households' expenditure on catering services is responsible for 2% of the Polish GDP. The fact that the whole country has been covered by yellow and red zones is consistent with our scenario, in which subsequent months will see a "W-shaped" profile of consumer sentiment (see MACROmap of 5/10/2020). The government decision also supports our forecast in which consumption dynamics will amount to 0.0% YoY in Q3 and will increase only slightly to 0.5% in Q4 2020.
- **As we expected, the Monetary Policy Council has not changed interest rates at its last week's meeting (the reference rate amounts to 0.10%).** In the statement numerous changes were introduced pointing to a deterioration of global economic outlook for Poland and globally due to the second wave of the pandemic (see MACROPulse of 7/10/2020). The MPC also noted in its statement that the global spike of COVID-19 infections had contributed to weaker sentiment in international financial markets, as reflected, inter alia, by the depreciation of the emerging currencies, including PLN. Noteworthy in this context is a slightly changed view from the month before that "the pace of the economic recovery could also be limited by the lack of visible and more durable PLN exchange rate adjustment to the global pandemic-driven shock and to the monetary policy easing introduced by NBP". The word "more durable" is a new element compared to the September statement. This means that, according to the MPC, the depreciation of PLN must be visible and durable for its positive impact on economic growth and inflation to be significant. The adding of this word signals a change in the MPC bias to a more dovish one. Apart from the said fragment, it is difficult to find in the statement any other signals pointing to a change in the MPC bias in the monetary policy. This supports our scenario in which the Council will not decide to introduce any unconventional tools of monetary easing and the first hike of the NBP reference rate (from 0.10% to 0.25%) will take place in November 2022.
- **Important data from the German economy were released last week.** Industrial production decreased by 0.2% in August vs. a 1.4% increase in July, running visibly below the marked expectations (+1.5%). The decrease in industrial production dynamics resulted from lower output dynamics in manufacturing while increase in construction and energy had opposite impact. The decrease recorded in industrial production in August has been its first drop since April 2020. Thus, industrial production in Germany stood in August at a level that was more than 10% lower from February, namely the last month before the strong impact of the pandemic on German manufacturing. Last week we also saw data on new orders in German manufacturing, which increased by 4.5% MoM in August vs. a 3.3% increase in July, running clearly above the marked expectations (2.5%). The increase in orders resulted both from higher domestic and foreign orders, both from the Eurozone and from outside the single currency area. It is worth noting however that the dynamics of new orders from outside the Eurozone, being a barometer of the situation in global trade, has markedly decreased in August. Last week we also saw the data on the German foreign trade, whose surplus dropped to EUR 15.7bn in August vs. EUR 18.0bn in July. An increase was recorded for both the dynamics of exports (5.8% MoM in August vs. 1.1% in July) and imports (2.4% vs. 4.7%) but in both cases they were above the market consensus (1.4% for the two) pointing to a higher-

than-expected pace of the recovery in foreign trade. The mixed impact of last week's data does not alter our forecast, in which the German GDP will decrease by 5.4% in 2020 vs. a 0.6% increase in 2019 and will increase by 5.0% in 2021. Thus, the German GDP will reach its pre-pandemic level no sooner than in 2022.

➤ **Significant data from the US economy were released last week.** The number of new unemployment benefit claims dropped to 840k vs. 849k two weeks ago, running above the market expectations (820k). In turn, the number of continued claims dropped to 11.0M vs. 12.0M. The marked decrease in this indicator is to an increasing extent due to the loss of right to the benefit by long-term unemployed persons. Thus, the data confirm the observed in recent weeks slowdown of the improvement in the US labour market which is still far from the equilibrium. At the same time it is worth noting that in the State of California the receipt of new claims has been suspended for two weeks now in order to clear the backlogs in their processing and to limit frauds, which reduces the data cognitive value. The non-manufacturing ISM was also released last week and rose to 57.8 pts in September vs. 56.9 pts in August, running above the market expectations (56.3 pts). The index increase resulted from higher contributions of three of its four sub-indices (for business activity, new orders, and employment) while lower contribution of the sub-index for suppliers' delivery times had opposite impact. The last week's data support our scenario, in which the US GDP will increase by 24.3% in Q3 (in annualized terms) vs. a 31.4% decrease in Q2, will increase by 3.7% in Q4 and will decrease by 4.5% in the whole 2020. Further course of the COVID-19 pandemic in the US as well as the scale and time profile of the subsequent stimulus package currently negotiated between the Democrats and the Republicans continue to be the main risks to the sustainability of the economic growth in the US.

➤ **According to the estimates of the Ministry of Family and Social Policy, the unregistered unemployment rate has not changed in September compared to August and amounted to 6.1%.** At the same time, the number of unemployed persons decreased



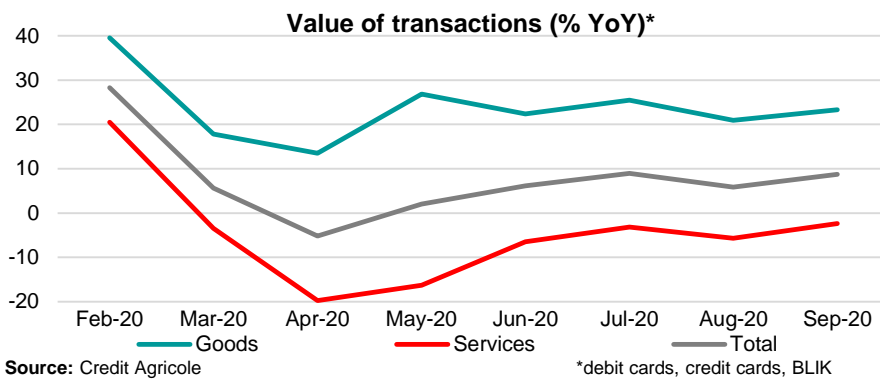
by 3.3k between August and September. Thus, our scenario of a surge in the number of unemployed persons due to the registration with employment offices after the end of the validity of the so-called solidarity bonus at the end of August has failed to materialize. Persons receiving the said bonus had probably largely registered earlier (in accordance with the law it was possible to receive both the bonus and unemployment benefit at the same time). In addition, the data of the ministry indicate that the demand for labour is quite strong. The number of available jobs and professional activation places declared by employers to employment offices amounted to 109.3k in September and was 13.5% higher than in August 2020 and 0.1% higher than in September 2019. Considering the above factors, we have revised our forecast of registered unemployment rate downwards. We expect that it will amount to 7.1% at the end of 2020 and to 6.1% at the end of 2021.

➤ **The Minutes of the September FOMC meeting was released last week.** Contrary to our expectations, its content has not provided any new information on the new strategy of inflation target, namely the average inflation targeting (AIT – see MACROmap of 5/10/2020). FOMC members highlighted in their debates the exceptionally high uncertainty about the US economic outlook. According to the Minutes, they believe that the main risk to the sustainability of the US economic recovery is the lack of progress in the negotiations concerning the launch of additional fiscal package. Most FOMC members support the idea of a more accurate communication of the plans concerning future monetary policy (forward

guidance). The text of the Minutes is consistent with our scenario, in which interest rates in the US will stay at the current level for an extended period of time. We also expect the FED to change the structure of the purchased treasury securities by focusing on securities with longer maturities. However we believe that it will take place no sooner than at the beginning of 2021.

Subsequent signals of consumption flattening

Last week the yellow zone restrictions were extended to cover the whole country (see above). The analysis below presents the tendencies in the activity of households on the eve of the introduction of the new restrictions. To assess consumer trends we are using information on the payments made by individual customers of our bank (see MACROmaps of 27/4/2020 and 11/5/2020). The analysis below has used weekly data presenting the total value of BLIK and payment card transactions.

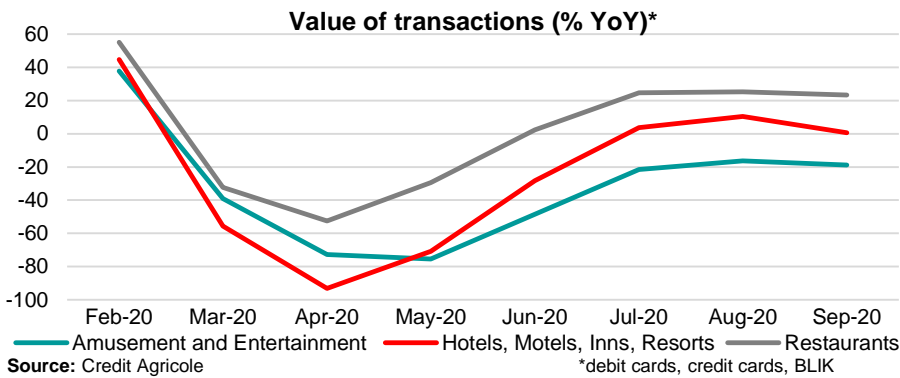


Each transaction is described with an MCC (Merchant Category Code). This is the indication assigned to the enterprise operating in a given branch at the time of installing a terminal for the payments by cards of global operators (Mastercard, Visa and American Express). Based on MCCs, transactions can be divided into those pertaining to goods and those presenting

expenditure on services. In recent months we could observe a clear gap between the annual dynamics of the value of transactions pertaining to goods and services. For the former, after the lockdown was lifted in May, the growth rate ranged between 20 and 25% YoY. In turn, the expenditures on services stood in recent months at lower levels than in the same period last year. When analyzing the total value of transactions of all individual clients we can see that their dynamics were quite stable in the respective months of Q3 and stood at a level of 6-9% YoY.

The aforementioned values cannot be treated directly as the indicator of the growth rate of the retail sales of goods and of consumption. It should be pointed out that the dynamics of the transactions values are distorted by several factors, i.a. increase in active bank clients who contribute to a higher number of transaction values. Nonetheless, the comparison of transaction value dynamics between periods may signal changes in shopping trends. Our data indicate that after restrictions were lifted in May, the growth rate of the purchasing activity has stabilized. Thus, the transactional data for the April-June period support our forecast of consumption dynamics in Q3 (0.0% YoY vs. -10.9% in Q2).

Crucial in the context of the coming weeks will be the tendencies in expenditures on services which involve an increased risk of coronavirus infection. On the one hand they will be impacted by the government restrictions (e.g. minimum distance between customers, limits on maximum number of customers at one time). On the other hand, we expect that amid growing numbers of new COVID-19 cases, the households' demand will also weaken for fear of infection. Such services can be said to include catering, entertainment and hotels.

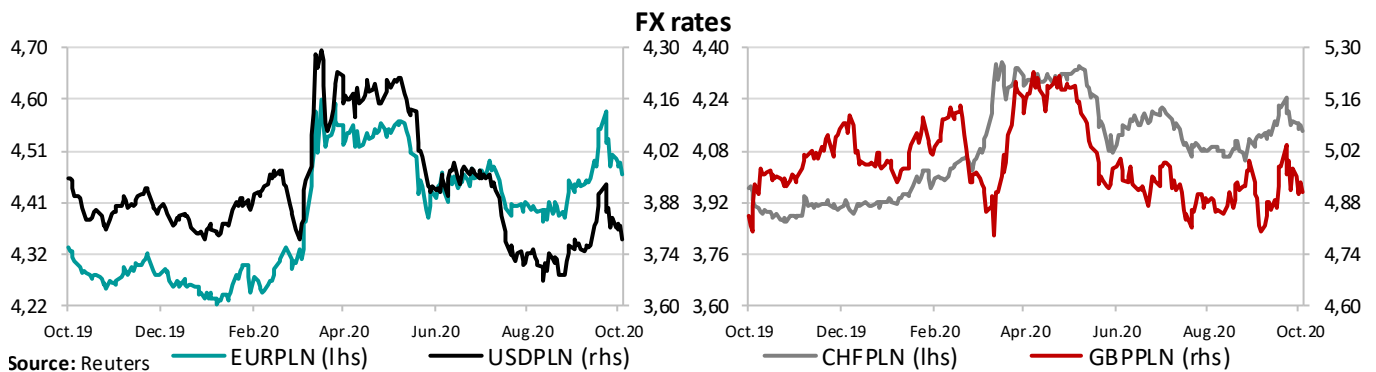


It is worth noting that holiday months saw a marked increase in expenditures on hotels and restaurants, in annual terms. And if the dynamics of the values of transactions in restaurants stayed at a high level in September, the growth rate of expenditures on hotels has markedly decreased due to the end of holidays with much lower occupancy rates for hotels

resulting from business trips. In the category “entertainment” (covering i.a. cinemas, theatres, gyms, etc.) the transaction dynamics have also increased after the lifting of the lockdown in May but continue to stay at a level that was markedly below zero. It shows that the demand for these services has not been restored yet.

We believe that with the expected by us deterioration of consumer sentiment (see MACRmap of 5/10/2020) and the spreading epidemic, the value of turnovers in the aforementioned service branches will be decreasing and the potential for further increase in retail sales and consumption is limited. This supports our forecast in which the consumption dynamics will increase only slightly to 0.5% in Q4 2020 vs. 0.0% in Q3.

D. Trump’s remarks increased market volatility



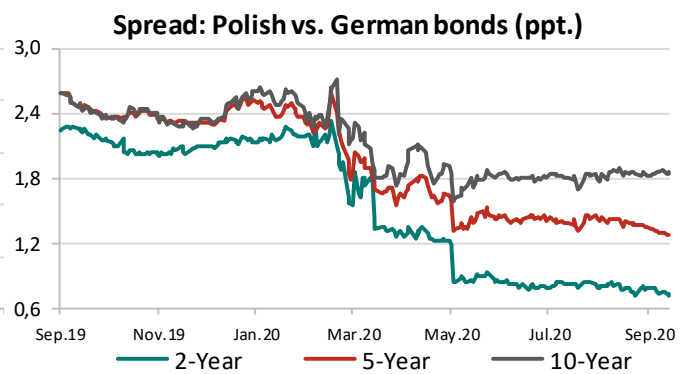
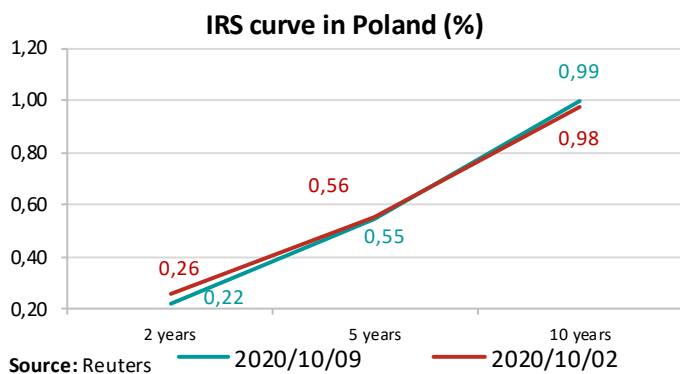
Last week, the EURPLN exchange rate dropped to 4.4655 (strengthening of PLN by 0.8%). Monday and Tuesday saw a slight decrease in EURPLN exchange rate which was showing a downward trend started two weeks ago (see MACROmap of 5/10/2020). Further into week, EURPLN stopped decreasing and stabilized at ca. 4.48 supported by a scarce macroeconomic calendar.

Tuesday saw a marked increase in global risk aversion reflected by higher VIX index. Lower global demand for risk assets resulted from the remarks of the US President D. Trump who asked his administration to suspend the talks on the stimulus package until after the US presidential election (3 November 2020). Higher risk aversion resulted in the strengthening of USD vs. EUR. Later in the week D. Trump softened his remark implying that the stimulus package may be introduced in a limited form even before the elections which was conducive to improving global sentiment and weakening of USD. The decrease in risk aversion was also supported by growing investors’ expectations of J. Biden’s victory in the presidential

election which, according to some market participants, would increase the likelihood of bigger fiscal stimulus compared to D. Trump’s victory.

This week, like in the previous weeks, PLN will remain impacted by global sentiment related to the coronavirus pandemic and negotiations concerning the fiscal package in the US. We believe that the scheduled for this week publications of data from the US (retail sales, industrial production, preliminary University of Michigan Index, inflation), Poland (final inflation, balance of payments) and China (balance on trade) will not have any significant impact on PLN.

Further course of COVID-19 pandemic crucial for IRS rates



Last week, 2-year IRS rates decreased to 0.25 (down by 4bps), 5-year rates to 0.55 (down by 1bp), and 10-year rates increased to 0.99 (up by 1bp). Last week IRS were changing following global sentiment related to information about D. Trump’s hospitalization due to coronavirus infection. Consequently, the first part of the week saw an increase in IRS rates. On Wednesday the trend reversed after D. Trump left the hospital on Tuesday. On Wednesday there was an auction at which BGK sold PLN 3.3bn of bonds in aid of the Anti-COVID-19 Fund with demand amounting to PLN 9.5bn.

This week, like in the previous weeks, IRS rates will remain impacted by global sentiment related to the coronavirus pandemic and negotiations concerning the fiscal package in the US. In our view, the scheduled for this week publications of data from the US (retail sales, industrial production, preliminary University of Michigan Index, inflation) and Poland (final inflation, balance of payments) will be neutral for the curve.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland														
Indicator	Sep.19	Oct.19	Nov.19	Dec.19	Jan.20	Feb.20	Mar.20	Apr.20	May.20	Jun.20	Jul.20	Aug.20	Sep.20	Oct.20
NBP reference rate (%)	1,50	1,50	1,50	1,50	1,50	1,50	1,00	0,50	0,10	0,10	0,10	0,10	0,10	0,10
EURPLN*	4,37	4,26	4,31	4,26	4,30	4,33	4,55	4,54	4,44	4,44	4,41	4,40	4,53	4,54
USDPLN*	4,01	3,82	3,91	3,79	3,87	3,92	4,13	4,15	4,00	3,95	3,74	3,68	3,86	3,91
CHFPLN*	4,02	3,87	3,91	3,92	4,02	4,06	4,29	4,30	4,16	4,17	4,10	4,07	4,21	4,20
CPI inflation (% YoY)	2,6	2,5	2,6	3,4	4,3	4,7	4,6	3,4	2,9	3,3	3,0	2,9	3,2	
Core inflation (% YoY)	2,4	2,4	2,6	3,1	3,1	3,6	3,6	3,6	3,8	4,1	4,3	4,0	4,2	
Industrial production (% YoY)	5,5	3,7	1,5	3,8	1,1	4,8	-2,4	-24,6	-16,8	0,5	1,1	1,5	5,3	
PPI inflation (% YoY)	0,8	-0,3	-0,1	1,0	0,9	0,2	-0,3	-1,4	-1,7	-0,8	-0,6	-1,2	-1,5	
Retail sales (% YoY)	5,3	5,4	5,9	7,5	5,7	9,6	-7,0	-22,6	-8,6	-1,9	2,7	0,4	2,0	
Corporate sector wages (% YoY)	6,6	5,9	5,3	6,2	7,1	7,7	6,3	1,9	1,2	3,6	3,8	4,1	4,3	
Employment (% YoY)	2,6	2,5	2,6	2,6	1,1	1,1	0,3	-2,1	-3,2	-3,3	-2,3	-1,5	-0,9	
Unemployment rate* (%)	5,1	5,0	5,1	5,2	5,5	5,5	5,4	5,8	6,0	6,1	6,1	6,1	6,1	
Current account (M EUR)	846	535	1139	253	2263	949	1292	1156	2321	2842	1620	1780		
Exports (% YoY EUR)	13,0	3,9	0,8	9,1	5,0	8,9	-5,7	-29,1	-19,3	3,0	2,7	3,7		
Imports (% YoY EUR)	6,2	0,3	-3,5	-0,6	4,4	0,9	-3,5	-28,1	-27,4	-10,7	-3,9	-4,8		

*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	-8,2	-2,0	-2,8	-0,1	5,6	4,1	5,0	4,5	-2,8	3,6	
Private consumption (% YoY)	1,2	-10,9	0,0	0,5	2,1	7,1	4,3	4,5	4,0	-2,3	4,4	
Gross fixed capital formation (% YoY)	0,9	-10,9	-14,5	-16,3	-5,4	5,2	6,4	8,1	7,2	-11,9	4,5	
Export - constant prices (% YoY)	0,6	-14,3	-2,5	-2,0	2,0	8,0	5,3	5,4	5,1	-4,5	5,1	
Import - constant prices (% YoY)	-0,2	-17,5	-4,7	-2,1	4,5	9,0	4,1	3,6	3,3	-6,1	5,1	
GDP growth contributions	Private consumption (pp)	0,7	-6,3	0,0	0,2	1,3	3,9	2,5	2,3	2,3	-1,3	2,5
	Investments (pp)	0,1	-1,8	-2,6	-4,1	-0,7	0,8	1,0	1,8	1,3	-2,2	0,7
	Net exports (pp)	0,4	0,8	1,0	-0,1	-1,2	0,2	0,9	1,1	1,1	0,6	0,3
Current account (% of GDP)***	1,0	2,3	2,5	2,0	0,4	-0,1	0,0	0,6	0,4	2,0	0,6	
Unemployment rate (%)**	5,4	6,1	6,1	7,1	7,1	6,0	5,5	6,1	5,2	7,1	6,1	
Non-agricultural employment (% YoY)	0,7	-1,8	-2,1	-2,0	-0,9	1,5	1,8	2,0	0,3	-1,3	1,1	
Wages in national economy (% YoY)	7,7	3,8	3,2	3,4	2,7	3,2	2,9	3,0	7,2	4,5	3,0	
CPI Inflation (% YoY)*	4,5	3,2	3,0	3,0	1,5	2,0	1,8	1,7	2,3	3,4	1,7	
Wibor 3M (%)**	1,17	0,26	0,22	0,23	0,23	0,23	0,23	0,23	1,71	0,23	0,23	
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	4,53	4,43	4,40	4,39	4,37	4,35	4,26	4,43	4,35	
USDPLN**	4,13	3,95	3,86	3,75	3,70	3,69	3,64	3,63	3,79	3,75	3,63	

* quarterly average

** end of period

***cumulative for the last 4 quarters

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST*	
					CA	CONSENSUS**
Tuesday 10/13/2020						
11:00	Germany	ZEW Economic Sentiment (pts)	Oct	77,4		74,0
14:30	USA	CPI (% MoM)	Sep	0,4	0,2	0,2
14:30	USA	Core CPI (% MoM)	Sep	0,4	0,4	0,2
	China	Trade balance (bn USD)	Sep	58,9	64,7	60,0
Wednesday 10/14/2020						
11:00	Eurozone	Industrial production (% MoM)	Aug	4,1		0,7
14:00	Poland	Current account (M EUR)	Aug	1620	1780	1020
Thursday 10/15/2020						
3:30	China	PPI (% YoY)	Sep	-2,0		-1,8
3:30	China	CPI (% YoY)	Sep	2,4		1,8
10:00	Poland	CPI (% YoY)	Oct	3,2	3,2	3,2
14:30	USA	Initial jobless claims (k)	w/e	840		810
14:30	USA	NY Fed Manufacturing Index (pts)	Oct	17,0		15,0
14:30	USA	Philadelphia Fed Index (pts)	Oct	15,0		14,5
Friday 10/16/2020						
11:00	Eurozone	HICP (% YoY)	Sep	-0,3	-0,3	-0,3
14:00	Poland	Core inflation (% YoY)	Sep	4,0	4,2	4,2
14:30	USA	Retail sales (% MoM)	Sep	0,6	0,8	0,6
15:15	USA	Industrial production (% MoM)	Sep	0,4	0,9	0,6
15:15	USA	Capacity utilization (%)	Sep	71,4		71,9
16:00	USA	Business inventories (% MoM)	Aug	0,1		0,3
16:00	USA	Initial U. of Michigan Sentiment Index (pts)	Oct	80,4	80,5	80,9

*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