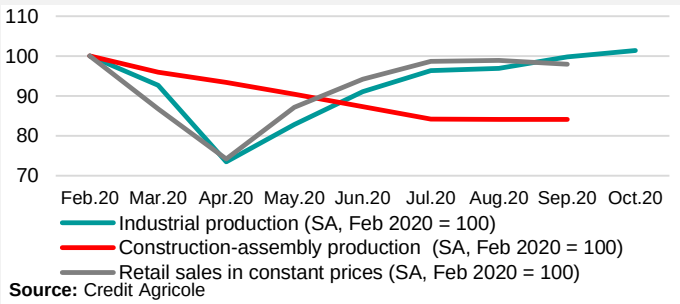
This week

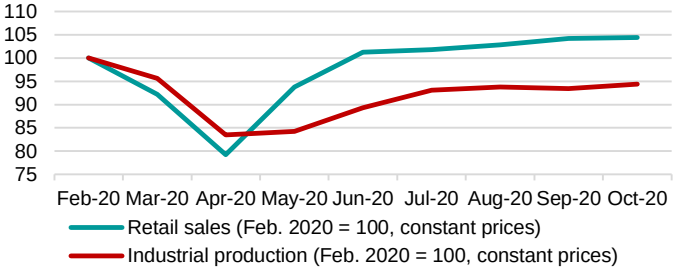
- **The most important event this week will be today's publication of the preliminary November results of business surveys in major European economies scheduled.** We expect that the Composite PMI for the Eurozone dropped to 42.3 pts in November vs. 50.0 pts in October, due to the deterioration of sentiment in both manufacturing and services. We believe that similar situation will also be observed for France and Germany. Conducive to lower PMIs is the second wave of the pandemic and restrictions imposed by some European governments. Ifo index reflecting the sentiment among German managers representing the manufacturing, construction, and services will be released on Tuesday. We expect that its value will decrease to 90.6 pts in November from 92.7 pts in October. Our forecasts of business survey results in the Eurozone are below the consensus; therefore, their materialization would be slightly negative for PLN and yields on Polish bonds.
- **The publication of the Minutes of the FOMC meeting is scheduled for Wednesday.** We believe that the document will not provide any new information significantly changing the outlook for the US monetary policy. Crucial will be the information concerning FED members' discussions on the modification of the parameters of the quantitative easing program, as mentioned by J. Powell during the conference after the last FED meeting. We maintain our scenario, in which interest rates in the US will be kept at the current level for an extended period of time and FED is likely to ease the monetary policy by modifying the parameters of the quantitative easing program. However, the date of this modification is hard to foresee, due to several risk factors (such as the scale and time-frame of the launch of the fiscal package and the impact of the COVID-19 pandemic on macroeconomic conditions - see MACROmap of 9/11/2020). We believe that the publication of the Minutes will not be market moving.
- **This week we will see some important data from the US.** The publication of the second estimate of GDP in Q3 is scheduled for Wednesday. We forecast that the annualized change in GDP amounted to +33.1% in Q3 (no change compared to flash estimate). Flash data on durable goods orders in the US will be released on Wednesday. We expect that they increased by 1.2% MoM in October vs. a 1.9% increase in September. On Wednesday we will also see the number of initial jobless claims. In accordance with the consensus it will amount to 733k vs. 742k last week, dropping after a one-off increase last week. Business survey results will also be released this week. We expect that the Conference Board Index (96.0 pts in November vs. 100.9 pts in October), like the final University of Michigan Index (76.5 pts in November vs. 81.8 pts in October) will point to the deterioration of consumer sentiment, due to the subsequent wave of the pandemic being observed now in the US. We believe that the aggregate impact of the data from the US economy on the financial markets will be limited.
- **Data on domestic retail sales will be released today**. We forecast that retail sales dynamics dropped from 2.7% YoY in August to -3.9% in September. Our forecast is supported by the deterioration of consumer sentiment recorded in October and the government-imposed restrictions. Our forecast of retail sales dynamics is below the market consensus (-0.3%); therefore, its materialization will be slightly negative for PLN and yields on Polish bonds.



Source: Credit Agricole

Last week

- **Last week we saw some significant data from the US.** The number of initial jobless claims rose to 742k vs. 711k two weeks ago, running above the market expectations (707k). At the same time it has been the first increase in the number of benefit claims in 5 weeks. Noteworthy is also further sharp decrease in the number of continuing jobless claims from 6.8M down to 6.4M. It is worth noting that its decrease results largely from the loss of right to the benefit by long-term unemployed persons. Thus, the data confirm that the improvement in the US labour market has clearly slowed down and the market itself is still far from the equilibrium. Last week we also saw data on industrial production which increased by 1.1% MoM in October vs. a 0.4% decrease in September, running above the market expectations (+0.8%). The increase in the production dynamics resulted from higher output dynamics in utilities and manufacturing, while their decrease in mining had an opposite impact. Capacity utilization rose to 72.8% in October vs. 72.0%. Nonetheless, it continues to be markedly below the pre-pandemic levels (ca. 77%). Last week we also saw data on retails sales which increased by 0.3% in October vs. a 1.6% increase in September, running below the market expectations (0.5%). Excluding car sales, the monthly sales dynamics dropped to 0.2% in October vs. 1.2% in September. A decrease in retails sales dynamics has been recorded in the most of their categories. The level of retails sales in October was nearly 5% higher than before the outbreak of the pandemic, pointing that after a strong recovery of consumer demand in the US observed in previous months, its pace has clearly slowed down now. Last week we also saw data on existing home sales (6.85M in October vs. 6.57M in September), housing starts (1530k vs. 1459k), and building permits (1545k in October and September), which pointed to further recovery of activity in the US real estate market. Last week we also saw the Philadelphia FED (26.3 pts in November vs. 32.3 pts in October) and NY Empire State (6.3 pts vs. 10.5 pts) Indices, which signaled a deterioration in manufacturing. The last week's data support our scenario, in which the US GDP will decrease by 4.5% in 2020 vs. a 2.3% increase in 2019 and will increase by 3.7% in 2021. Further course of the COVID-19 pandemic in the US as well as the scale and time profile of the new stimulus package currently are the main risks to the sustainability of the recovery of economic growth in the US.



Source: Datastream, Credit Agricole

- **Industrial production in Poland increased by 1.0% YoY in October vs. a 5.9% increase in September**. The main reason for the decrease in the dynamics of industrial production between September and October was an unfavourable difference in the number of working days. Seasonally-adjusted industrial production increased by 1.6% MoM in October. Consequently, October was the first month in which the seasonally-adjusted production stood markedly above (ca. 1.4%) the level recorded in February 2020, namely in the last month before the strong negative pandemic effect on production. In October, like in recent months, the main source of industrial production growth was the increase of activity in segments with a significant percentage of export sales in revenues (see MACROpulse of 20/11/2020). The factor behind higher production in the export-oriented branches is the gradual recovery in global trade. The structure of the branches which recorded a relatively high increase in industrial production indicates that consumption is one of the main sources of the recovery in global trade. Last week GUS also released the results of the November survey of sentiment in manufacturing which pointed to its significant deterioration. The main reason for the deterioration of sentiment in

manufacturing is the second wave of the COVID-19 pandemic. It is also worth noting that a marked decrease in the general business climate indicator in November was recorded also in other main areas of the economy, including construction, retail trade, transport and warehouse management, as well as catering and accommodation. The wide range of the deterioration in November is in line with our macroeconomic scenario anticipating a significant decrease in GDP dynamics from -1.6% YoY in Q3 down to -4.5% in Q4.

- **Nominal wage dynamics in the Polish sector of enterprises dropped to 4.7% YoY in October vs. 5.6% in September**. In real terms, corporate wages, adjusted for the changes in prices, increased by 1.6% YoY in October. The decrease in the wage dynamics between September and October resulted from the statistical effect in the form of an unfavourable difference in the number of working days. In our view, lower growth rate of wages between September and October resulted also from a weaker from the previous year effect of bonus and award payments (see MACROpulse of 19/11/2020). The dynamics of employment in the sector of enterprises increased to -1.0% YoY in October vs. -1.2% in September. In MoM terms, employment increased by 5.9k in October vs. an increase by 17.4k in September. The increase in employment in October compared to September resulted from further restoration of pre-pandemic working times and from new employment. It is worth noting that the monthly employment dynamics have markedly decreased compared to previous months, while in October employment itself continued to be 127.6k lower from February 2020, namely the last month before the strong pandemic effect on the labour market. This points to a visible slowdown of the improvement in the labour market, consistently with our scenario assuming its slow return to equilibrium. The last week's data are consistent with our forecast assuming that the registered unemployment rate will increase to 7.1% at the end of Q4 vs. 6.1% at the end of Q3, while consumption dynamics will decrease to -3.6% YoY in Q4 vs. 1.0% in Q3.
- **Last week Prime Minister M. Morawiecki presented an approximate time schedule for the easing of the administrative restrictions imposed in Poland in recent weeks to contain the spread of coronavirus.** The so-called "responsibility phase" will be valid from 28 November to 27 December. Its most important assumption is the reopening of shops in shopping malls while retaining the existing limit on customers in shops and so-called hour for senior citizens. At the earliest from 28 December (depending on the epidemiological situation) the so-called "stabilization stage" will be binding. Based on the average number of cases in the last 7 days, Poland will return to the division into zones: red (19k cases), yellow (9.4k case), and green (3.8k cases), with their respective administrative restrictions. At the same time, M. Morawiecki announced that this year the winter school break would take place at the same time in all the districts between 4 and 17 January. This means that teaching in schools after Christmas will be resumed no sooner than 18 January. Although not directly announced by the government, some travel restrictions are likely to be imposed during the winter holiday. The date of the resumption of teaching in schools is likely to coincide with the date the vaccine will start being available in Poland. Based on the latest ICM forecast (ICM – Warsaw University Cross-Disciplinary Mathematical and Computer Modelling Centre), it is now hard to say now whether despite the opening of shopping malls in November, the daily number of new cases will fall at the beginning of January below the threshold enabling the red zone to be lifted across the whole country. Nevertheless, even if this is the case, the opening of hotels (yellow zone) will take place during the winter break, namely during the period of the likely travel restrictions. Thus, the positive impact of the easing of restrictions on consumption in January will be limited. This is consistent with our scenario of a crawling lockdown, in which the Polish GDP dynamics will increase to -1.2% YoY in Q1 vs. -4.5% in Q4.

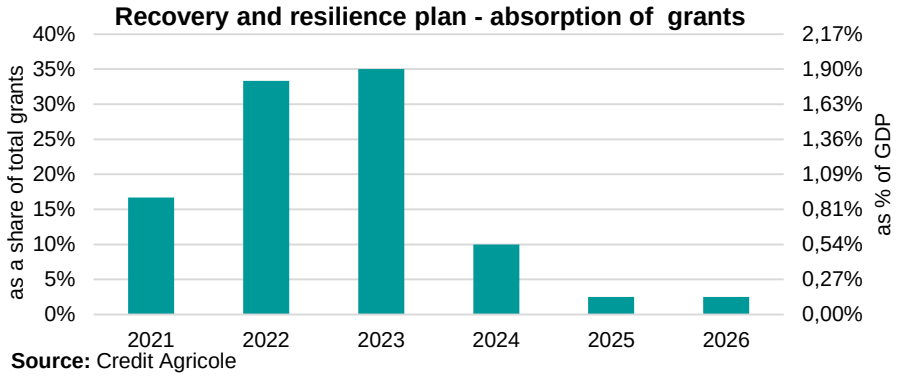
Will the veto of the EU budget weaken the economic recovery?

The EU summit in July 2020 decided that, to ensure the respect for the rule of law, a so called regime of conditionality will be introduced to protect the budget (Multiannual Financial Framework - MFF) and Next Generation EU Instrument (hereinafter the Recovery Fund). A consequence of these decisions is the regulation of the European Council (EC) and the European Parliament (EP) under which the EC may, on the proposal of the European Commission, decide to suspend the disbursements of the EU funds under the MFFs and the Recovery Fund should it consider that the rule of law is not respected by a member state. The Council's decisions will be adopted by a qualified majority. On Monday, the EC and EP regulation was questioned by Poland and Hungary who declared to veto the MFFs for 2021-2027 and the Recovery Fund unless the regulation is significantly modified (as proposed by Poland, whose representatives are talking about "no legal predictability") or rejected (as proposed by Hungary, which would mean an impasse in MFF and Recovery Fund processing by the European Parliament which clearly supports tying the disbursement of EU funds with the respect for the rule of law.

We believe that despite these apparently significant differences between the positions of most EU countries and of Poland and Hungary both parties may reach a compromise at the December EU summit or – which is somewhat less likely – at one of subsequent such summits. The compromise reached in December and developed under the auspices of the German presidency could be in the form of an amendment to the said regulation in which the conditions of the European Council's decision to suspend the disbursement of EU funds would be worded satisfactorily for both parties to the dispute. In an alternative scenario (i.e. veto of the budget), actually meaning an escalation between the European Union and Poland and Hungary, we would see a marked deterioration of the medium-term macroeconomic outlook for the two countries. This scenario is discussed below.

The EU budget veto will have significant macroeconomic implications. The EU annual budget being a derivative of multi-year financial framework is usually adopted towards the end of the previous budget year. According to the EU Treaty, if no agreement is reached in this respect, the new budget follows the 'provisional twelfths' rule – no more than one-twelfth of the budget for the previous year can be spent each month. However this amount may not exceed one-twelfth of the appropriations provided for in the draft budget. Legal regulations in this regard are of a general nature; therefore, the consequences of introducing so-called provisional budget are hard to foresee. However it can be expected that the above-described rule concerning the transfer of funds from the previous year will be applicable only to current expenditures (e.g. the Common Agricultural Policy) and not to investment expenditures. In addition, the aforementioned regulations regarding the rule of law could be applied to the provisional budget for 2021 which could mean a considerable reduction of EU funds received in Poland under the FFF. In accordance with the projection presented in the November NBP Inflation Report, the forecast utilization of EU funds will amount to ca. PLN 80bn (ca. 3.8% of GDP) this year.

A veto would mean that the EU Recovery Fund would not be launched. We have discussed the macroeconomic implications for Poland resulting from the launch of the Recovery Fund in MACROmap of 19/10/2020. Under this fund member states may benefit from loans and non-reimbursable grants for the implementation of so-called National Recovery Plans (NRP). NRPs are complex programs of reforms and strategic projects prepared by individual countries and presented to the European Commission for acceptance. The time frame of the reforms and investments is until the end of 2026. It is hard to foresee in advance what part of the NRP will be financed with the EU-offered loans. Therefore, our estimates below assume that only non-reimbursable grants will be used for the purpose of NRP implementation. Under the Recovery Fund Poland and Hungary would receive non-reimbursable grants amounting to ca. 5.4% of GDP for 2018.

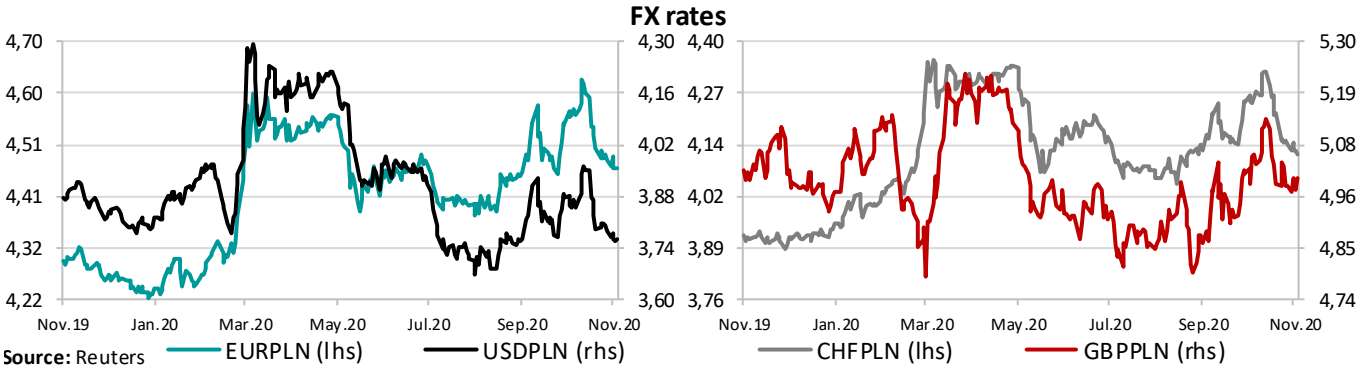


Source: Credit Agricole

The implementation of investments financed via the Recovery Fund will be conducive to faster economic growth in Poland and Hungary in the coming years. The NRP for Hungary, like for Poland, has not been published yet. That is why in this analysis we have adopted similar assumptions concerning the profile of the absorption of proceeds under NRP in Hungary and Poland (see MACROmap of 19/10/2020). We expect that 50% percent of the total amount of available grants will have been spent by the end of 2022 (of which one third will fall on 2021 and two third on 2022) while the remaining half of the grants under the NRP will be absorbed in 2023 and in the following years. With the assumed by us absorption profile of these proceeds (see the chart), the EU funds will be mostly responsible for boosting the economic growth in 2021 and 2022, while in subsequent years their impact will be smaller.

Possible forfeiture of grants provided under the EU Recovery Fund due to the EU budget veto would be conducive to lowering the economic growth trajectory in Hungary and in Poland. The materialization of such scenario would pose a substantial downside risk to our forecasts of economic growth in Hungary (4.1% YoY) and in Poland (3.6% YoY) in 2021. Such scenario would also mean an upside risk to our forecast of EURPLN (4.35) and EURHUF (345.00) exchange rates at the end of 2021.

Flash PMIs for the Eurozone are negative for the PLN



Source: Reuters

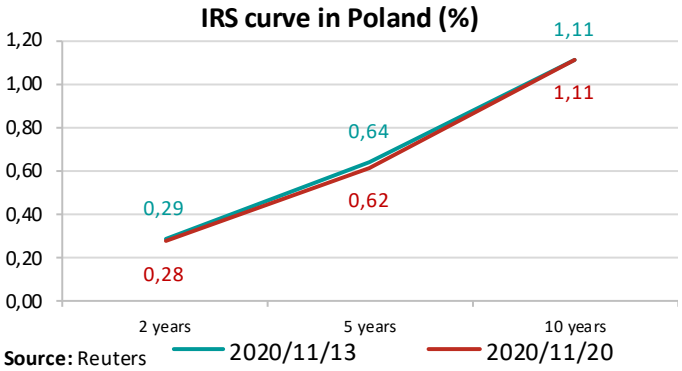
Last week, the EURPLN exchange rate dropped to 4.4645 (strengthening of PLN by 0.3%). Throughout last week EURPLN was showing a slight downward trend. It was the continuation of the PLN strengthening from two weeks ago in reaction to the information about the development of an effective vaccine against coronavirus (see MACROmap of 20/11/2020). As we expected, the publication of domestic data on production and average wages and employment did not have any significant effect on the market.

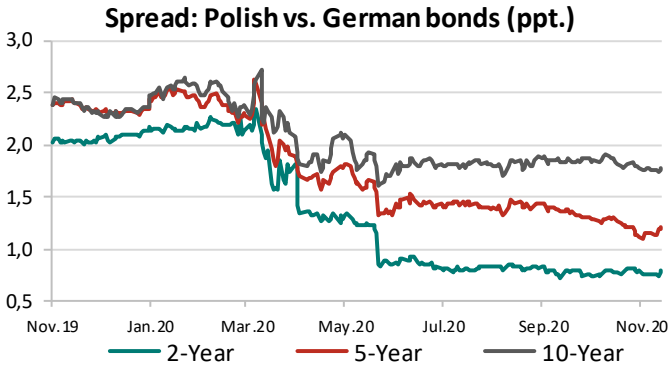
In turn, EURUSD recorded the continuation of the upward trend from two weeks ago and the information about a fast increase in the number of coronavirus infections in the US failed to result in a sustainable appreciation of USD vs. EUR.

This week, like in the previous weeks, PLN will remain impacted by global sentiment related to the coronavirus pandemic and information about the prospects for the launch of a new stimulus package in

the US. We believe that the planned for today publication of flash PMIs for major European economies will be slightly negative for PLN. Conducive to the depreciation of PLN will also be today's domestic data on retail sales. Data from the US (second GDP estimate, Conference Board Index, final University of Michigan Index) and Germany (Ifo Index) as well as the publication of the Minutes of the November FOMC meeting will not have any significant impact on PLN, we believe.

Market focused on flash PMIs and data on domestic retail sales





Source: Reuters

Last week, 2-year IRS rates dropped to 0.28 (down by 1bp), 5-year rates to 0.62 (down by 2bps), and 10-year rates amounted to 1.11 (no change). Throughout last week a stabilization of IRS rates was observed across the curve. As we expected, the publication of domestic data on production and average wages and employment did not have any significant effect on the market. On Wednesday, the NBP carried out an outright buy operation purchasing a total of EUR 214.5M of treasury bonds. The operation was not market moving. So far the NBP has purchased in outright buy transactions a total of PLN 105.5bn of bonds.

This week, like in the previous weeks, IRS rates will remain impacted by global sentiment related to the coronavirus pandemic. Crucial for the investors will be the information about the prospects for the launch of a new stimulus package in the US. The market will focus on today's publication of flash PMIs for major European economies, which may be conducive to lower IRS rates. We believe that data from the US (second GDP estimate, Conference Board Index, final University of Michigan Index) and Germany (Ifo Index) as well as the publication of the Minutes of the November FOMC meeting will not have any significant impact on the curve.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland

Indicator	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	Nov.20
NBP reference rate (%)	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	0,10
EURPLN*	4,26	4,31	4,26	4,30	4,33	4,55	4,54	4,44	4,44	4,41	4,40	4,53	4,60	**4,51**
USDPLN*	3,82	3,91	3,79	3,87	3,92	4,13	4,15	4,00	3,95	3,74	3,68	3,86	3,95	**3,89**
CHFPLN*	3,87	3,91	3,92	4,02	4,06	4,29	4,30	4,16	4,17	4,10	4,07	4,21	4,32	**4,20**
CPI inflation (% YoY)	2,5	2,6	3,4	4,3	4,7	4,6	3,4	2,9	3,3	3,0	2,9	3,2	3,1	
Core inflation (% YoY)	2,4	2,6	3,1	3,1	3,6	3,6	3,6	3,8	4,1	4,3	4,0	4,3	4,2	
Industrial production (% YoY)	3,7	1,5	3,8	1,1	4,8	-2,4	-24,6	-16,8	0,5	1,1	1,5	5,9	1,0	
PPI inflation (% YoY)	-0,3	-0,1	1,0	0,9	0,2	-0,3	-1,4	-1,7	-0,8	-0,6	-1,3	-1,6	-0,4	
Retail sales (% YoY)	5,4	5,9	7,5	5,7	9,6	-7,0	-22,6	-8,6	-1,9	2,7	0,4	2,7	**-3,9**	
Corporate sector wages (% YoY)	5,9	5,3	6,2	7,1	7,7	6,3	1,9	1,2	3,6	3,8	4,1	5,6	4,7	
Employment (% YoY)	2,5	2,6	2,6	1,1	1,1	0,3	-2,1	-3,2	-3,3	-2,3	-1,5	-1,2	-1,0	
Unemployment rate* (%)	5,0	5,1	5,2	5,5	5,5	5,4	5,8	6,0	6,1	6,1	6,1	6,1	**6,1**	
Current account (M EUR)	243	1182	73	2756	1100	805	772	2028	3811	1012	1275	1072		
Exports (% YoY EUR)	5,5	2,5	10,8	4,9	8,0	-6,6	-29,3	-19,6	2,6	1,7	2,5	4,6		
Imports (% YoY EUR)	2,1	-1,8	0,7	3,9	0,9	-3,9	-28,4	-28,2	-10,3	-4,4	-4,9	1,5		

*end of period

Forecasts of the quarterly macroeconomic indicators

Main macroeconomic indicators in Poland

Indicator		2020				2021				2019	2020	2021
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Gross Domestic Product (% YoY)		1,9	-8,4	-1,6	-4,5	-1,2	6,3	4,6	4,7	4,5	-3,1	3,6
Private consumption (% YoY)		1,2	-10,8	1,0	-3,6	0,0	7,1	4,3	3,0	4,0	-3,0	3,5
Gross fixed capital formation (% YoY)		0,9	-10,7	-14,9	-17,0	-9,9	4,8	7,5	8,8	7,2	-12,2	4,0
Export - constant prices (% YoY)		2,0	-14,5	1,3	1,0	2,0	8,0	5,3	5,4	5,1	-2,5	5,1
Import - constant prices (% YoY)		0,4	-18,0	-4,7	-1,0	1,0	9,0	4,1	3,6	3,3	-5,8	4,2
GDP growth contributions	Private consumption (pp)	0,8	-6,2	0,6	-1,8	0,0	3,9	2,6	1,5	2,3	-1,7	2,0
	Investments (pp)	0,1	-1,8	-2,6	-4,3	-1,3	0,8	1,1	1,9	1,3	-2,2	0,7
	Net exports (pp)	0,9	1,1	3,1	1,0	0,6	0,2	1,0	1,2	1,1	1,6	0,8
Current account (% of GDP)***		1,0	2,3	3,1	2,9	2,0	1,5	1,7	2,3	0,5	2,9	2,3
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	-2,2	-2,4	-1,5	1,3	1,6	2,0	0,3	-1,4	0,9
Wages in national economy (% YoY)		7,7	3,8	3,3	3,5	2,8	3,3	3,0	3,1	7,2	4,6	3,1
CPI Inflation (% YoY)*		4,5	3,2	3,0	2,7	1,6	2,3	2,3	2,6	2,3	3,4	2,2
Wibor 3M (%)**		1,17	0,26	0,22	0,22	0,22	0,22	0,22	0,22	1,71	0,22	0,22
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**
		Monday 11/23/2020				
9:30	Germany	Flash Manufacturing PMI (pts)	Nov	58,2	53,5	56,5
10:00	**Poland**	**Retail sales (% YoY)**	**Oct**	**2,7**	**-3,9**	**-0,3**
10:00	Eurozone	Flash Services PMI (pts)	Nov	46,9	40,0	42,5
10:00	Eurozone	Flash Manufacturing PMI (pts)	Nov	54,8	52,5	53,1
10:00	Eurozone	Flash Composite PMI (pts)	Nov	50,0	42,3	46,1
15:45	USA	Flash Manufacturing PMI (pts)	Nov	53,4		53,0
		Tuesday 11/24/2020				
8:00	Germany	Final GDP (% QoQ)	Q3	8,2	8,2	8,2
10:00	Germany	Ifo business climate (pts)	Nov	92,7	90,6	90,8
14:00	**Poland**	**M3 money supply (% YoY)**	**Oct**	**17,0**	**16,8**	**16,8**
15:00	USA	Case-Shiller Index (% MoM)	Sep	0,5		
16:00	USA	Richmond Fed Index	Nov	29,0		
16:00	USA	Consumer Confidence Index	Nov	100,9	96,0	98,0
		Wednesday 11/25/2020				
10:00	**Poland**	**Registered unemplyment rate (%)**	**Oct**	**6,1**	**6,1**	**6,1**
13:30	USA	Durable goods orders (% MoM)	Oct	0,5	1,2	1,0
14:30	USA	Second estimate of GDP (% YoY)	Q3	33,1	33,1	33,1
14:30	USA	Real private consumption (% MoM)	Oct	1,2		
14:30	USA	Initial jobless claims (k)	w/e	742		733
16:00	USA	New home sales (k)	Oct	959		970
16:00	USA	Final U. of Michigan Sentiment Index (pts)	Nov	77,0	76,5	77,0
20:00	USA	FOMC Minutes	Nov			
		Thursday 11/26/2020				
10:00	Eurozone	M3 money supply (% MoM)	Oct	10,4		10,5
		Friday 11/27/2020				
11:00	Eurozone	Business Climate Indicator (pts)	Nov	-0,74		

*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

MACRO MAP

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