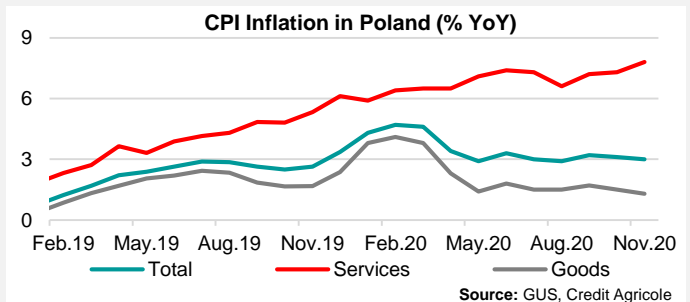


This week

- ▮ **Important data from the US will be released this week.** In line with market expectations, non-farm payroll increased by 100k in December vs. an increase by 245k in November, and the unemployment rate grew from 6.7% to 6.8%. Before the Friday publication, some additional data on the labour market will be provided in the ADP report on non-farm private sector employment (the market expects a 159k growth in December vs. an increase by 307k in November). The ISM index for the manufacturing industry will be published this Tuesday, and it will fall to 56.5 pts in December vs. 57.5 pts in November, in line with market expectations. We expect that data from the US will be neutral for financial markets.
- ▮ **Minutes from the FOMC meeting are planned to be published this Wednesday.** We do not think the document will contain any new information that would significantly change the prospects for the monetary policy in the US. Information concerning the FED members' discussions concerning the modification of quantitative easing programme parameters will be of key importance. We maintain our scenario, in which interest rates in the US will remain as they are at least until the end of 2023. We do not expect any market reaction to the *Minutes*.
- ▮ **Preliminary HICP inflation estimate for the Eurozone will be published this Thursday.** We expect the inflation to have increased to -0.2% YoY in December vs. -0.3% in November. The decline in the total inflation was driven by a higher dynamics of energy prices, and by a decline in the core inflation and a lower increase in food prices. Preliminary HICP inflation estimate for Germany, which will be published this Wednesday, will provide some additional information about inflation in the Eurozone. We expect it to have increased to -0.5% YoY in December vs. -0.7% YoY in November. Our forecast for the inflation in the Eurozone is consistent with the market consensus, and if it were to materialise, its materialisation would be neutral for the PLN exchange rate and for the prices of Polish bonds.

- ▮ **Preliminary data on inflation in Poland will be published this Thursday. In our opinion, the inflation fell from 3.0% in November to 2.6% YoY in December.** The decline in inflation was driven by last year's high base effects connected with food prices and core inflation. Our inflation forecast is consistent with the market consensus, and if it were to materialise, its materialisation would be neutral for financial markets.

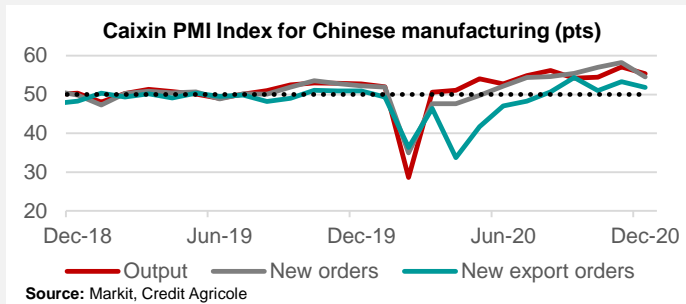


- ▮ **The PMI for the Polish processing industry has been published today.** The index rose to 51.7 pts in December vs. 50.8 pts in November, which was slightly below our forecast of 51.8 pts but above market expectations (51.3 pts). The PMI increase resulted from higher contributions of 3 out of its 5 components (new orders, inventories and delivery times), while lower contributions of current output and employment had the opposite effect. Longer delivery times are noteworthy when it comes to the data structure. In accordance with the announcement, they were partly caused by an increased demand, though many respondents reported shortages of raw materials and transport disruptions, which may be connected with the second wave of the pandemic. A decline in the ongoing production accelerated in December. However, it is worth noting that both new orders and new export orders increased in December, and they are back above the 50-point level that separates growth from contraction. Therefore, it can be expected that the increasing number of orders will be reflected in the production recovery in the months to come. This forecast is supported by the growth in the index value for the production expected in a 12-month horizon, which stood on the highest level since May 2018. Therefore, in general, the PMI looks optimistic. It indicates that an increase in the demand in export sectors will be accelerating an increase in the industry production in the months to come. This is in line with our

scenario, in which the growth of exports will accelerate in H1 2021. Today's results of the PMI survey for the Polish processing industry are neutral for the PLN and for the bonds yields.

Last week

Last week, we learned the results of a business surveys in Chinese manufacturing. The PMI CFLP index fell in December to 51.9 pts from 52.1 pts in November, slightly below market expectations (52.0 pts). The downturn in Chinese manufacturing was also indicated by the Caixin PMI index published this morning, which fell to 53.0 pts in December from 54.9 pts in November, which was below market expectations (54.9 pts). The drop in the index was due to lower contributions of 4 out of 5 of its components (current output, new orders, employment and stocks), while higher contribution of delivery times component had the opposite impact. It is worth noting that the lengthening of delivery times was caused by supply chain disruptions linked to the second wave of the pandemic, and thus does not signal an economic recovery. In the structure of the data, a clear decrease in the new orders component deserves special attention, although it remains at a relatively high level. An important factor in reducing this component was the slower inflow of foreign orders, which can also be linked to the second wave of the pandemic worldwide. The results of the economic survey of Chinese manufacturing are consistent with our forecast that Chinese GDP growth rate will decrease to 2.6% YoY in 2020 vs. an increase by 6.1% in 2019, and it will reach 8.0% and 5.1% in 2021 and 2022 respectively. Our scenario is consistent with the Chinese Government's long-term objective for economic growth (the average GDP growth rate for the last 15 years in 2035 is expected to be 4.73%).



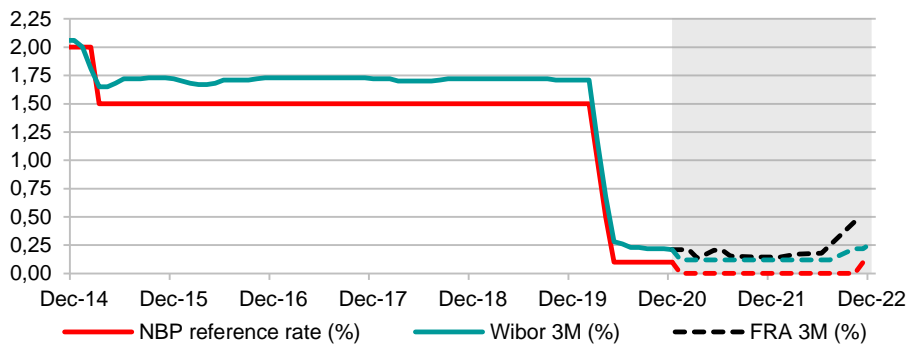
Will the NBP be able to maintain a weaker PLN exchange rate?

The end of 2020 saw an unexpected FX rate intervention by the NBP, and the NBP President A. Glapiński statement, also rather unexpected, that the monetary policy is likely to be eased further, and suggesting that the NBP will remain active in the foreign currency market. Below we present a detailed analysis of the recent events and their implications for our interest rate and EURPLN scenarios.

On 18 December 2020, the NBP unexpectedly intervened in the foreign currency market with the aim of weakening the PLN. Following the intervention, the MPC members R. Sura and J. Żyżyński called it a right decision because in their opinion the PLN exchange rate should be weaker to support Polish exports and the economic recovery in 2021. On 29 and 30 December 2020, the PLN weakened significantly again in response to the NBP President A. Glapiński suggesting unexpectedly that *"it is possible that the rates will be further reduced in Q1 2021"*, and that *"the recently increasing pressure on the appreciation of the PLN is seriously worrying and very harmful (...) from the point of view of our GDP growth rebound and maintaining the dynamics of our exports"*. MPC member G. Ancyparowicz supported the NBP President's position. It can be expected that two other MPC members (E. Łon and C. Kochalski), whose aversion to inflation is low, share the NBP President's view on the PLN exchange rate being too strong, and that an interest rate reduction is quite likely.

A. Glapiński also referred to the NBP’s November inflation forecast: “given our low inflation forecast for the next year, this obviously creates some room for potential decisive interventions of the central bank”. In our opinion, this suggests that the NBP perceives a significant downward risk for the GDP growth vs. the November forecast (as a result of new restrictions imposed due to a high probability of the third wave of the coronavirus epidemics). This in turn suggests that if A. Glapiński’s words and the NBP interventions were motivated by the intention to improve the NBP’s financial result and increase the contribution from the profit to the budget in 2021, then most probably it was not the only reason why Glapiński said so, and probably not the most important one, either. In our opinion, these words should be interpreted as suggesting that the monetary policy is highly likely to be adjusted in Q1 2021. We expect the reduction of pressure on the appreciation of the PLN to be the objective of the foreign exchange rate policy in the months to come. We believe that further exchange rate interventions aiming to keep the EURPLN rate over 4.50 are possible in Q1 2021. This means a change in the monetary policy, which will be focused on the foreign exchange rate channel to a greater extent in the immediate future. This change is also due to the fact that the NBP reference rate cut to 0.10% has left little leeway when it comes to the interest rate policy. Refocusing the monetary policy on the exchange rate channel also means that the probability of easing the monetary policy with the use of unconventional tools such as increasing the scale of purchase of bonds or launching a cheap loan programme for banks and (indirectly) companies is low.

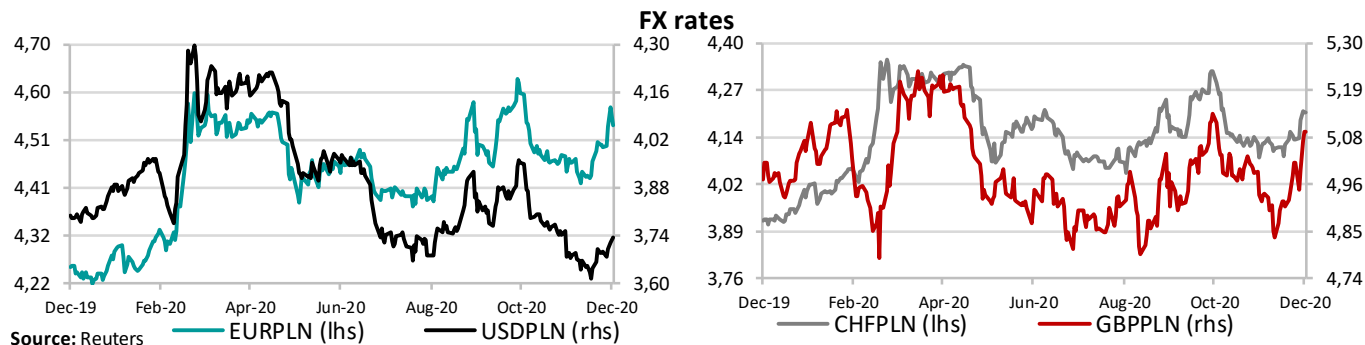
The task, which the NBP has set itself is difficult, given that in the coming months we expect pressure on the appreciation of the PLN due to the expected further improvement in sentiment in the global financial market, related to the phasing out of the pandemic and the brighter outlook for economic growth in the medium term. The appreciation pressure will also be caused by Poland’s good balance of payments situation, which is reflected in a significant current account surplus, related to the high competitiveness of the Polish exports and the high share of exports carried out within global value chains in total Polish exports. In other words, the NBP interventions reducing the appreciation pressure will be the equivalent of ‘going against the current’, i.e. playing against market trends shifting the PLN towards stronger levels aligned with the fundamentals of the Polish economy. Such a policy of currency interventions is described in literature as ‘leaning against the wind’. It encourages speculation on strengthening the exchange rate and is usually ineffective in the long run. As a consequence, the effectiveness of the NBP’s currency interventions is likely to be limited. We therefore expect the NBP to combine its currency interventions with a 0.1 pp cut of the reference rate to 0.00%. After the reference rate has been reduced to zero, foreign exchange interventions will be non-sterilised (additional liquidity resulting from the interventions will not, as before, be absorbed in open market operations), which will increase the effectiveness of the interventions.



Source: Reuters, Credit Agricole

We believe that A. Glapinski has sufficient support among the members of the MPC to push through the proposal to reduce interest rates. As a result, we expect the MPC to reduce interest rates to 0.00% in Q1 (probably as early as the January meeting) and keep them at this level for a longer period of time.

We forecast that the monetary policy tightening cycle will start in November 2022 (unchanged in comparison to our previous forecast). At the same time, we expect the NBP to maintain the EURPLN exchange rate above 4.50 in Q1, and that the EURPLN exchange rate will return to a mild downward trend in Q2. The revised EURPLN and WIBOR 3M profiles for 2021-2022 are presented in the quarterly table below.


The end of 2020 brought a marked weakening of the PLN


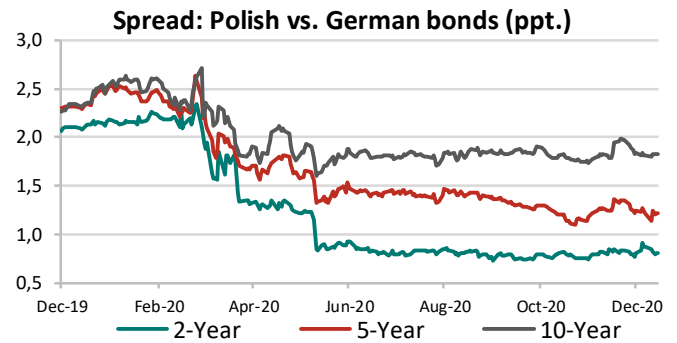
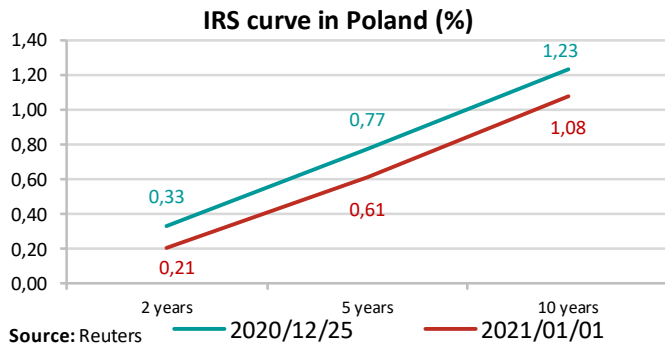
Last week, the EURPLN rate increased to 4.5378 (the PLN weakening by 0.9%). Last week the PLN significantly weakened against the EUR in response to unexpected statements by NBP President A. Glapinski, who suggested a reduction in interest rates in Poland in Q1 and further NBP interventions in the currency market. As a result, both on Wednesday and Thursday, the EURPLN exchange rate temporarily exceeded 4.60. On Thursday, towards the end of the day, the PLN strengthened significantly, but it did not manage to make up for the losses from the first part of the week and the EURPLN rate exchange rate stabilised at just below 4.54.

Particularly noteworthy is the continuation of the EURUSD exchange rate increase, which exceeded 1.23 last week, reaching the highest value since April 2018. The weakening of the USD is influenced by an improvement in sentiment in the global financial market related to investors' expectations for a clear recovery of economic growth in 2021 with a gradual phasing out of the pandemic. Also noteworthy is last week's fall in the EURGBP exchange rate, supported by an agreement reached on the trade agreement between the UK and the EU.

The PMI indices for Chinese and Polish manufacturing industries published this morning are neutral for the PLN. This week, preliminary data on domestic inflation will be important for the zloty. However, we believe that it will not meet with a significant market response. The preliminary data on inflation in the Eurozone and data on US economy (non-agricultural employment, ISM index for manufacturing) will also have a limited impact on the exchange rate of the Polish currency. The publication of Minutes from the December FOMC meeting will most probably also be neutral for the PLN.

We expect that this week the EURPLN exchange rate will be in the range of 4.50-4.55. At the same time, we believe that in case of increasing pressure on the appreciation of the PLN, further NBP currency interventions are possible.

Domestic data on inflation in the spotlight



Last week, 2-year IRS rates decreased to 0.21 (12bp decrease), 5-year rates decreased to 0.61 (16bp decrease) and 10-year rates decreased to 1.08 (15bp decrease). Last week saw a strong decrease in IRS rates across the curve, which was related to the statement by the NBP President A. Glapiński, in which he suggested an interest rate cut in Poland in Q1. As regards bond yields, their spreads in relation to the German *bunds* remained stable. The FRA market is currently pricing a slight reduction of the NBP reference rate to a level close to zero in H1 2021.

The results of business surveys for the Polish manufacturing published this morning are neutral for IRS rates. This week, release of preliminary data on the inflation in Poland will be in the spotlight. However, we believe that its impact on the curve will be limited. In our opinion, preliminary data on inflation in the Eurozone and data on US economy (non-agricultural employment, ISM index for processing) will also be neutral for IRS rates. The publication of Minutes from the December FOMC meeting is not likely to have significant impact on the curve, either.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland														
Indicator	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21
NBP reference rate (%)	1,50	1,50	1,50	1,00	0,50	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,00
EURPLN*	4,26	4,30	4,33	4,55	4,54	4,44	4,44	4,41	4,40	4,53	4,60	4,47	4,55	4,50
USDPLN*	3,79	3,87	3,92	4,13	4,15	4,00	3,95	3,74	3,68	3,86	3,95	3,75	3,73	3,72
CHFPLN*	3,92	4,02	4,06	4,29	4,30	4,16	4,17	4,10	4,07	4,21	4,32	4,13	4,21	4,16
CPI inflation (% YoY)	3,4	4,3	4,7	4,6	3,4	2,9	3,3	3,0	2,9	3,2	3,1	3,0	2,6	
Core inflation (% YoY)	3,1	3,1	3,6	3,6	3,6	3,8	4,1	4,3	4,0	4,3	4,2	4,3	3,9	
Industrial production (% YoY)	3,8	1,1	4,8	-2,4	-24,6	-16,8	0,5	1,1	1,5	5,7	1,0	5,5	10,0	
PPI inflation (% YoY)	1,0	0,9	0,2	-0,3	-1,4	-1,7	-0,8	-0,6	-1,3	-1,4	-0,4	-0,2	-0,2	
Retail sales (% YoY)	7,5	5,7	9,6	-7,0	-22,6	-8,6	-1,9	2,7	0,4	2,7	-2,1	-5,3	-0,6	
Corporate sector wages (% YoY)	6,2	7,1	7,7	6,3	1,9	1,2	3,6	3,8	4,1	5,6	4,7	4,9	4,5	
Employment (% YoY)	2,6	1,1	1,1	0,3	-2,1	-3,2	-3,3	-2,3	-1,5	-1,2	-1,0	-1,2	-1,2	
Unemployment rate* (%)	5,2	5,5	5,5	5,4	5,8	6,0	6,1	6,1	6,1	6,1	6,1	6,1	6,3	
Current account (M EUR)	73	2756	1100	805	772	2028	3811	1012	1275	1072	2241	2154		
Exports (% YoY EUR)	10,8	4,9	8,0	-6,6	-29,3	-19,6	2,6	1,7	2,5	4,6	3,7	6,2		
Imports (% YoY EUR)	0,7	3,9	0,9	-3,9	-28,4	-28,2	-10,3	-4,4	-4,9	1,5	-3,5	3,7		

*end of period

Forecasts of the quarterly macroeconomic indicators

Main macroeconomic indicators in Poland												
Indicator	2020				2021				2020	2021	2022	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Gross Domestic Product (% YoY)	1,9	-8,4	-1,5	-4,2	-1,0	6,9	4,0	4,4	-3,1	3,6	4,9	
Private consumption (% YoY)	1,2	-10,8	0,4	-4,0	0,0	7,1	3,5	3,1	-3,2	3,3	4,1	
Gross fixed capital formation (% YoY)	0,9	-10,7	-9,0	-10,5	-7,2	5,4	6,0	6,3	-8,3	3,6	8,2	
Export - constant prices (% YoY)	2,0	-14,5	2,0	0,5	3,5	9,0	4,5	5,4	-2,5	5,5	8,3	
Import - constant prices (% YoY)	0,4	-18,0	-1,0	2,0	3,0	9,1	3,8	3,4	-4,1	4,6	8,9	
GDP growth contributions	Private consumption (pp)	0,8	-6,2	0,2	-2,0	0,0	3,9	2,1	1,6	-1,9	1,9	2,3
	Investments (pp)	0,1	-1,8	-1,7	-2,7	-0,9	0,9	1,0	1,5	-1,5	0,6	1,4
	Net exports (pp)	0,9	1,1	1,7	-0,7	0,5	0,7	0,6	1,2	0,7	0,8	0,0
Current account (% of GDP)***	1,0	2,3	3,1	2,9	2,4	2,2	2,5	2,7	2,9	2,7	2,3	
Unemployment rate (%)**	5,4	6,1	6,1	6,3	6,3	5,7	5,4	5,6	6,3	5,6	5,2	
Non-agricultural employment (% YoY)	0,7	-1,8	-0,7	-0,5	0,0	1,8	0,7	0,5	-0,6	0,8	0,4	
Wages in national economy (% YoY)	7,7	3,8	4,8	4,0	2,8	3,3	3,0	3,1	5,1	3,1	5,8	
CPI Inflation (% YoY)*	4,5	3,2	3,0	2,9	2,2	2,8	2,7	2,8	3,4	2,6	2,2	
Wibor 3M (%)**	1,17	0,26	0,22	0,21	0,12	0,12	0,12	0,12	0,21	0,12	0,27	
NBP reference rate (%)**	1,00	0,10	0,10	0,10	0,00	0,00	0,00	0,00	0,10	0,00	0,10	
EURPLN**	4,55	4,44	4,53	4,55	4,50	4,46	4,42	4,37	4,55	4,37	4,27	
USDPLN**	4,13	3,95	3,86	3,73	3,78	3,72	3,65	3,58	3,73	3,58	3,42	

* quarterly average

** end of period

***cumulative for the last 4 quarters

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST*	
					CA	CONSENSUS**
Monday 01/04/2021						
2:45	China	Caixin Manufacturing PMI (pts)	Dec	50,2		54,8
9:00	Poland	Manufacturing PMI (pts)	Dec	50,8	51,8	51,3
9:55	Germany	Final Manufacturing PMI (pts)	Dec	58,6	58,6	58,6
10:00	Eurozone	Final Manufacturing PMI (pts)	Dec	55,5	55,5	55,5
10:30	Eurozone	Sentix Index (pts)	Jan	-2,7		0,0
15:45	USA	Flash Manufacturing PMI (pts)	Dec	56,5		
Tuesday 01/05/2021						
11:00	Eurozone	M3 money supply (% MoM)	Nov	10,5		10,7
16:00	USA	ISM Manufacturing PMI (pts)	Dec	57,5		56,5
Wednesday 01/06/2021						
10:00	Eurozone	Services PMI (pts)	Dec	47,3	47,3	47,3
10:00	Eurozone	Final Composite PMI (pts)	Dec	49,8	49,8	49,8
11:00	Eurozone	PPI (% YoY)	Nov	-2,0		-2,2
14:00	Germany	Preliminary HICP (% YoY)	Dec	-0,7	-0,5	-0,6
16:00	USA	Factory orders (% MoM)	Nov	1,0		0,6
20:00	USA	FOMC Minutes	Dec			
Thursday 01/07/2021						
8:00	Germany	New industrial orders (% MoM)	Nov	2,9		-1,5
10:00	Poland	CPI (% YoY)	Dec	3,0	2,6	2,6
11:00	Eurozone	Business Climate Indicator (pts)	Dec	-0,63		
11:00	Eurozone	Preliminary HICP (% YoY)	Dec	-0,3	-0,2	-0,2
11:00	Eurozone	Retail sales (% MoM)	Nov	1,5		-3,6
16:00	USA	ISM Non-Manufacturing Index (pts)	Dec	55,9		54,6
Friday 01/08/2021						
8:00	Germany	Industrial production (% MoM)	Nov	3,2		0,7
8:00	Germany	Trade balance (bn EUR)	Nov	18,2		
11:00	Eurozone	Unemployment rate (%)	Nov	8,4		8,5
14:30	USA	Unemployment rate (%)	Dec	6,7		6,8
14:30	USA	Non-farm payrolls (k MoM)	Dec	245		100
16:00	USA	Wholesale inventories (% MoM)	Nov	-0,1		0,4
16:00	USA	Wholesale sales (% MoM)	Nov	1,8		

*The forecasts of macroeconomic indicators for Poland were prepared by Credit Agricole Bank Polska S.A. The forecasts of foreign indicators were prepared by Crédit Agricole Corporate and Investment Bank

** Reuters