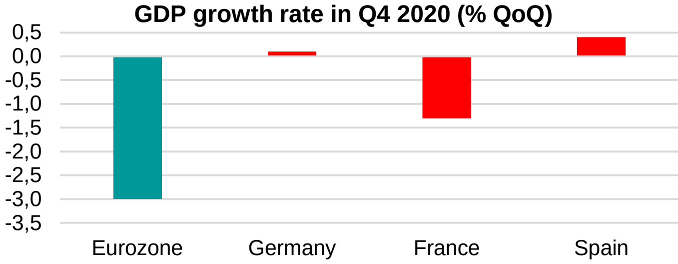
Foreign demand supports Polish manufacturing

This week

- **The most important event this week will be a meeting of the Monetary Policy Council planned for Wednesday.** We expect the MPC to decide to maintain the interest rates unchanged. The statement will probably note better-than-expected data on the Polish economy for December and an upward risk to GDP growth rate for 2021. The NBP will again communicate that it will intervene in the foreign exchange market. We believe that the statement of the Council after its meeting will be neutral for the PLN and yields on Polish bonds. We have revised our scenario of monetary policy in Poland. We believe that interest rates will remain unchanged at least until the end of 2022. The full version of the interview with the NBP President published in January shed new light on the fragment suggesting an interest rate cut in Q1. A. Glapiński made the interest rate cut conditional on further deterioration of economic prospects due to the possible third wave of the pandemic, which would be reflected in the NBP's macroeconomic forecast in March. Recently revised epidemic models developed by scientists from Warsaw University and the Wrocław University of Technology indicate that the number of new reported COVID-19 cases will fall in the weeks to come provided that the restrictions remain in force. The risk of the third wave of the pandemic is currently lower than the models previously suggested. Besides, positive macroeconomic data that has been published recently means that the starting point for NBP's March projection will be higher, thus having a favourable impact on the average annual economic growth profile in 2021. We expect that the NBP will not cut interest rates, but will continue its foreign exchange interventions.
- **Important data from the US labour market will be released on Friday.** We expect non-farm payrolls to have increased by 25k in January vs. a drop of 140k December, with the stabilization of the unemployment rate at 6.7%. 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 40k increase in January vs. a 123k drop in December). The ISM's manufacturing index will be published today. We expect it went down to 59.5 pts in January vs. 60.7 pts in December, which would be in line with results of regional business surveys. We believe this week's US data will be neutral for financial markets.
- **Significant data from the Eurozone will be published this week.** We expect the GDP growth rate to have dropped to -3.0% in Q4 vs. +12.5% in Q3. Flash GDP estimates for some Eurozone economies signal a significant upward risk to our forecast. In Germany, the quarterly GDP growth rate dropped to 0.1 in Q4 vs. 8.5% in Q3 (while the expected growth rate was 0.0%), In France, it dropped to -1.3% vs. 18.5% (-3.9%), while in Spain the rate dropped to 0.4% vs. 16.4% (-1.5%). We are also forecasting HICP inflation in the Eurozone to have gone up to 0.8% YoY in January vs. -0.3% in December. Our forecast is supported by a strong increase in inflation seen in Germany in January. If our expectations regarding inflation materialize, the inflation reading will be conducive to a slight weakening of the PLN and an increase in yields on Polish bonds, while the publication of GDP data is not likely to meet with a significant market reaction.

GDP growth rate in Q4 2020 (% QoQ)



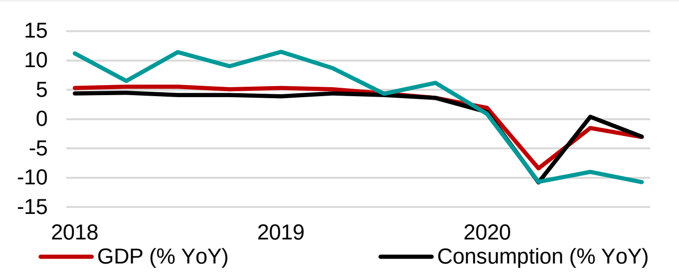
Source: Datastream, Credit Agricole

- **Caixin PMI index for Chinese manufacturing published this morning fell from 53.0 pts in December to 51.5 pts in January, running well below the market expectations (52.7 pts).** Despite the significant drop in January, since April 2020 the index has remained above the 50-point threshold that separates growth from contraction of activity. The decline in the Caixin PMI index resulted from lower contributions of 4 out of its 5 components (new orders, current output, employment and inventories), while higher contribution of delivery times had the opposite effect.

It is worth noting here that longer delivery times were accompanied by a decline in the new export orders indicator which has dropped below the 50-point level for the first time since July 2020. It shows that the second wave of the pandemic is exerting an increasingly negative impact on the activity in the global trade, which used to be an important factor behind the recovery in Chinese manufacturing over the last couple of months. Hence, data suggests that disruptions caused by the second wave of the pandemic (also in China) were the main reason for the lengthening of delivery times, and therefore it cannot be treated as a sign of economic recovery. With regards to the data structure, noteworthy is also a decline in the index for the future output expected in a 12-month horizon, which stood on the lowest level since May 2020. According to the press release, the companies that responded to the survey are increasingly afraid of another wave of the COVID-19 pandemic in the months to come. Last weekend also saw the publication of the CFLP PMI index for Chinese manufacturing, which fell from 51.9 pts in December to 51.3 pts in January, running below the market expectations (51.6 pts). In our opinion, data from China is neutral for financial markets. Business surveys results for Chinese manufacturing support our scenario, in which the Chinese GDP growth rate will strongly decelerate in Q1 2021. The slowdown will be caused by movement restrictions before the Chinese New Year and gradually receding support from the Chinese government over the last couple of months. Consequently, we expect that the Chinese government will increase the scale of its support in the months to come to maintain the economic recovery in 2021.

- **PMI index for Polish manufacturing increased from 51.7 pts in December to 51.9 pts in January, running above our forecast (51.2 pts) and market consensus (51.3 pts).** The increase in PMI index resulted from higher contributions of 3 out of its 5 components (new orders, current output and delivery times), while lower contributions of inventories and employment subindices had the opposite effect (see below).

Last week



Source: GUS, Credit Agricole

- **According to the flash estimate, GDP in Poland fell by 2.8% in 2020 vs. a 4.5% growth in 2019, which was below the market consensus (-2.6%) and our forecast (-2.5%).** Data on economic activity reflects a significant, negative impact of the COVID-19 pandemic. Slower economic growth was driven by lower contributions of private consumption (-1.7 pp in 2020 vs. 2.3 pp in 2019), investments (-1.6 pp vs. 1.3 pp), public consumption (0.5 pp vs. 1.1 pp) and net exports (0.8 pp vs. 1.1 pp), which was partially offset by a higher contribution of inventories (-0.8 pp vs. -1.3 pp). Thus, the main factor behind the GDP decline in 2020 was lower private consumption (see MACROpulse of 29/01/2021). Based on GUS data, we have estimated that the real GDP growth rate was -3.0% YoY in Q4 2020 vs. -1.5% in Q3, running below our expectations (-1.8%). The marked decline in the GDP growth rate between Q3 and Q4 reflects a strong, negative impact of administrative restrictions imposed on the Polish economy in Q4. We are estimating that GDP growth was driven down by lower contributions of net exports (-0.5 pp in Q4 vs. 1.7 pp in Q3) private consumption (-1.5 pp vs. 0.2 pp) and investments (-2.7 pp vs -1.7 pp), while the opposite impact came from higher contributions of inventories (0.9 pp vs. -2.3 pp) and public consumption (0.7 pp vs. 0.6 pp). Thus, the main factor behind the decline in Poland's GDP in Q4 was a lower contribution of net exports. Data on economic activity in Q4 2020 has no impact on our economic growth forecast for 2021 (3.6%). At the same time, we can see an upward risk to this forecast, connected with the currently observed global trade recovery, which will support Polish exports.

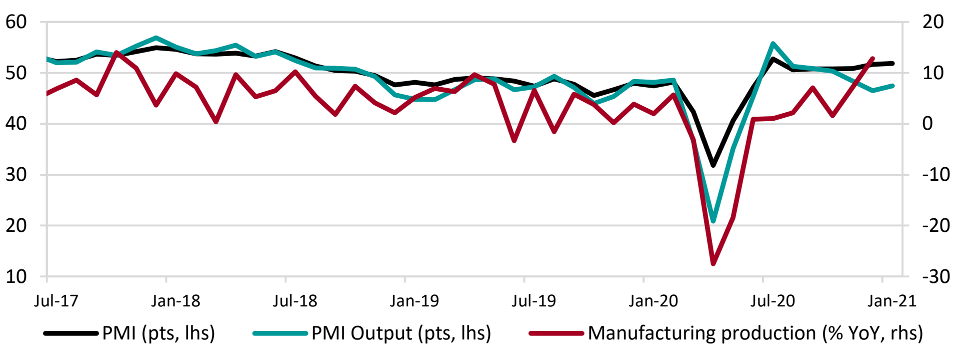
- **Industrial production in Poland increased by 11.1% YoY in December, vs. a 5.4% growth in November.** The main reason behind the acceleration of industrial production growth between November and December was the low base effect. Seasonally-adjusted industrial production increased by 0.5% MoM in December. We estimate that the industrial production in December was 7.1% higher than in February last year. The recovery of activity in Polish industry was wide ranging and was recorded both in industries with a significant share of export sales in revenues, in industries related to construction and in other categories (see MACROpuls of 25/01/2021). Industrial production data indicates that activity in industry in December was characterized by high resilience to the administrative restrictions introduced in November and extended in December in connection with the intensifying COVID-19 pandemic.
- **At last week's meeting, the Fed maintained its target range for Federal Reserve funds rate at [0.00%; 0.25%], which was in line with market expectations.** The scale of the Federal Reserve's asset purchase programme also remained unchanged at USD 120bn per month, of which USD 80bn are government bonds and USD 40bn are mortgage-backed securities (MBS). The announcement that asset purchases would continue until there is significant further progress towards the maximum level of employment and the inflation target was maintained. In the release, the Fed highlighted the slowing pace of the US economic recovery, as evidenced by the decline in employment recorded in December, rising jobless claims, and reduced consumption. The Fed stressed at the same time that it was closely monitoring the progress of the pandemic and, in particular, the progress of the vaccination programme. In a post-meeting conference, Fed Chairman J. Powell noted that the US economy is still far from the Federal Reserve's targets for inflation and employment and it will take "some time" before there is a "significant progress" towards achieving them. He also pointed out that it was too early to talk about a monetary policy tightening strategy. Referring to forecasts indicating a rise in inflation in 2021 J. Powell made it clear that at this stage the Fed was more concerned about the sustainability of the recovery than the prospect of a temporary rise in inflation and will not react to higher price growth rate. We maintain our scenario, in which interest rates in the US will remain as they are at least until the end of 2023. At the same time, we believe that the Fed will start reducing the scale of its asset purchases no earlier than early 2022, and the timing will depend on success in the fight against the pandemic.
- **Important data on US economy was released last week.** In accordance with the first estimate, annualised US GDP growth slowed to 4.0% in Q4 from 33.4% in Q3, which was in line with market expectations. The decrease in the GDP growth rate between Q3 and Q4 was due to lower contributions of private consumption (1.70 pp in Q4 vs. 25.44 pp in Q3), inventories (1.04 pp vs. 6.57 pp), investments (3.02 pp vs. 5.39 pp), while the opposite impact came from the higher contributions of net exports (-1.52 pp vs. -3.21 pp) and government expenditures (-0.22 pp vs. -0.75 pp). Thus, investments were the main source of GDP growth in Q4. Last week, we also saw preliminary data on durable goods orders, which rose by 0.2% MoM in December, following a 1.2% increase in November, which was below market expectations (0.9%). The growth rate of durable goods orders, excluding transportation, slowed to 0.7% in December from 0.8% in November. The level of durable goods orders in the US is already only about 0.4% lower than in February, the last month without a strong impact of the pandemic on orders. In contrast, the volume of orders for non-military capital goods excluding aircrafts was 8.0% higher in December than in February, indicating the prospect of a recovery in US investment in the coming months. Last week we also data from the labour market was published. Initial jobless claims fell to 847k from 914k a fortnight earlier, which was below market expectations (875k). Also noteworthy is further decrease in the number of continued jobless claims (from 5.0m to 4.8m), which is largely due to the loss of the right to benefit by the long-term unemployed. The data thus confirms that the recovery in the US labour market is slow and that the market itself is still far from its

equilibrium. New home sales recorded an increase (842k in December vs. 829k). Taking into account data from a fortnight ago on new building permits, housing starts and existing home sales, the data supports our assessment that we are seeing a strong recovery in the US real estate market (see MACROmap of 25/01/2021). Las week also the results of consumer sentiment surveys were released. The Conference Board index rose to 89.3 pts in January vs. 87.1 pts, slightly above market expectations (88.9 pts). The rise in the index was due to a higher value of its component for expectations, while the assessment of the current situation component had an opposite impact. The improvement in US consumer expectations can be attributed to the high pace of vaccination in the US compared to other countries. In contrast, a deterioration in consumer sentiment was indicated by the final University of Michigan index, which fell to 79.0 pts in January from 80.7 points in December and 79.2 points in the flash estimate. The decline in the index resulted from a drop in its components for both assessment of the current situation and expectations. We forecast that the annualized US GDP growth rate will slow down to 1.2% in Q1 from 4.0% in Q4. We believe that in Q1 activity in the US economy will remain under a strong negative influence of administrative restrictions related to the second wave of the coronavirus epidemic. We expect a clear acceleration of economic growth only in H2, supported by the launch of the new fiscal package. If enacted on the scale we expect (USD 1trn), the fiscal package will boost US GDP growth rate by about 1 pp in 2021 to 4.0% YoY vs. -3.6% in 2020.

- **The Ifo index, reflecting the sentiment among German managers representing the manufacturing, construction, trade and services sectors, declined to 90.1 pts in January from 92.2 pts in December, below market expectations (92.0 pts).** The decline in the index resulted from a drop in its components for both assessment of the current situation and expectations. With regards to the situation in particular sectors, deterioration of sentiment was recorded in all of the branches covered by the survey: trade, construction, services and manufacturing. The downturn in Germany is largely linked to a strong tightening of administrative restrictions due to the second wave of the pandemic. We forecast that German GDP growth in Q1 will increase to 0.8% from 0.1% in Q4. Further course of the pandemic is the main risk factor for our forecast.

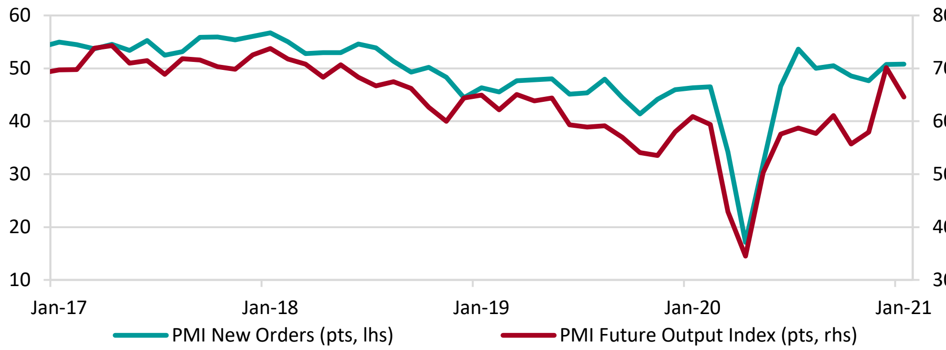
Foreign demand supports Polish manufacturing

The PMI index for Polish manufacturing rose to 51.9 pts in January from 51.7 pts in December, exceeding our forecast (51.2 pts) and the market consensus (51.3 pts). The increase of PMI index resulted from higher contributions of 3 out of its 5 components (new orders, current output and delivery times), while lower contributions of employment and inventories had the opposite effect.



Source: Markit. GUS

Export orders increased in January at the fastest pace since January 2018, while total orders grew only slightly faster than in December. This points to weakening domestic demand with foreign demand playing a key role in shaping the recovery. Despite the increase in orders, current output continued to fall - for the third month in a row. According to the Markit report, this was due to limited production capacity resulting i.a. from factory workers being quarantined. In addition, supply constraints may have also limited production. As a result of material shortages and bottlenecks in supply chains, costs inflation reached its highest level since April 2011, and delivery times increased significantly (higher results were recorded only in March and April last year). The business survey results released today support our lower-than-consensus forecast for industrial production growth in January (0.0% YoY vs. 11.9% in December).

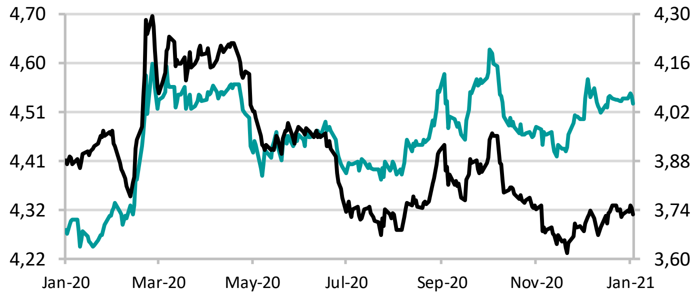


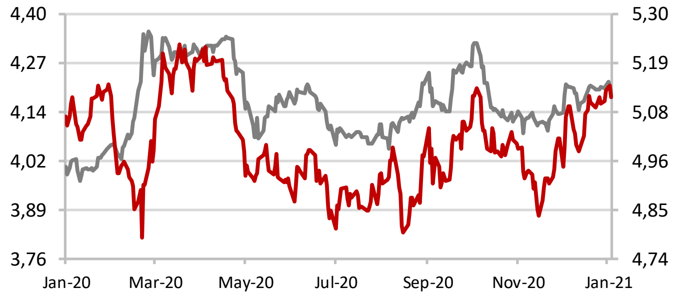
Source: Markit

However, the overall tone of the PMI index is optimistic. The index of expected output over the next 12 months has fallen from the 31-month high recorded in December last year, but still stays at an elevated level. The January PMI report confirms that a rise of the demand in export sectors will be accelerating an increase in industrial 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 manufacturing are slightly positive for the PLN and for the yields on Polish bonds.

Eurozone inflation data may weaken the PLN

FX rates





Source: Reuters

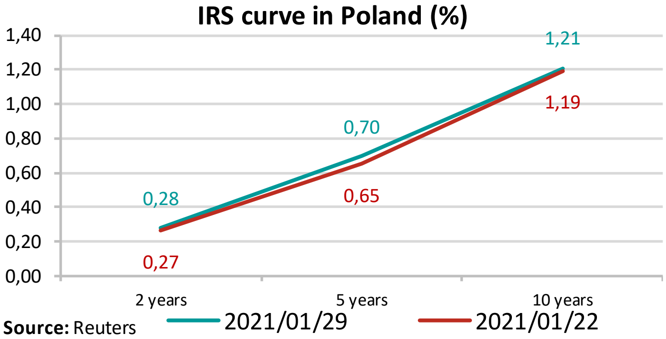
Last week, the EURPLN rate dropped to 4.5235 (the PLN strengthened by 0.3%). From Monday to Thursday, the EURPLN exchange rate followed a mild upward trend. On Thursday, the trend was reversed and the PLN strengthened. Consequently, on Thursday and Friday the PLN more than made up for the losses of the first part of the week. However, the EURPLN exchange rate stopped above the level of 4.50, which indicates that an important factor limiting the pressure on the PLN's appreciation is the presence of the NBP in the foreign exchange market, which has recently intervened to weaken the PLN. Friday's publication of domestic GDP data had no significant impact on the Polish currency.

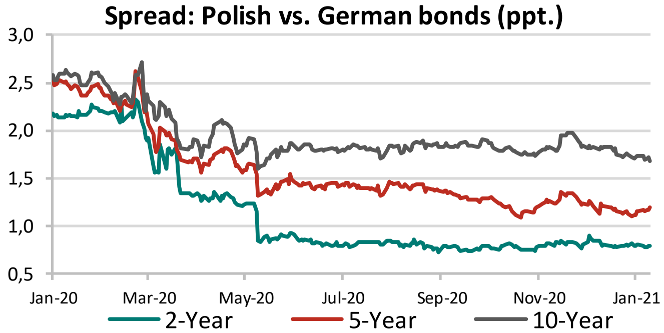
The EURUSD exchange rate was relatively stable last week. The FOMC meeting did not have a significant impact on the markets. On Friday, the EUR strengthened against the USD, to some extent due to better-than-expected GDP data from some of the largest economies in the single currency area.

The business survey results for manufacturing in China published this morning are neutral for the PLN, while the PMI index in Poland is slightly positive for the PLN. Inflation data in the Eurozone will be in the spotlight this week. If our higher-than-market-consensus forecast materializes, the data may weaken the PLN. Eurozone GDP data, US data (US non-farm payrolls, ISM manufacturing index) and the MPC meeting will not have a significant impact on the market in our view.

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 the case of increasing pressure on the appreciation of the PLN, further NBP currency interventions are possible.

Preliminary data on inflation in the Eurozone in the spotlight





Source: Reuters

Last week, 2-year IRS rates increased to 0.28 (up by 1 bp), 5-year rates to 0.70 (up by 5 bps) and 10-year ones to 1.21 (up by 2 bps). Throughout last week, IRS rates were characterized by very low volatility compared to recent weeks. Last Friday saw a rise in IRS rates across the curve following the core markets. Higher yields on the core markets resulted from the publication of better-than-expected GDP data in Germany, France and Spain.

The PMI index for Polish manufacturing published this morning is slightly positive for IRS rates. This week, preliminary data on inflation in the Eurozone will be crucial for IRS rates. If our higher-than-market-consensus forecast materializes, it could support a rise in IRS rates. Eurozone GDP data, US data (US non-farm payrolls, ISM manufacturing index) and the MPC meeting will be neutral for the curve in our view.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland

Indicator	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	Feb-21
NBP reference rate (%)	1,50	1,50	1,00	0,50	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10	**0,10**
EURPLN*	4,30	4,33	4,55	4,54	4,44	4,44	4,41	4,40	4,53	4,60	4,47	4,55	4,52	**4,53**
USDPLN*	3,87	3,92	4,13	4,15	4,00	3,95	3,74	3,68	3,86	3,95	3,75	3,73	3,73	**3,74**
CHFPLN*	4,02	4,06	4,29	4,30	4,16	4,17	4,10	4,07	4,21	4,32	4,13	4,21	4,19	**4,16**
CPI inflation (% YoY)	4,3	4,7	4,6	3,4	2,9	3,3	3,0	2,9	3,2	3,1	3,0	2,4	**2,6**	
Core inflation (% YoY)	3,1	3,6	3,6	3,6	3,8	4,1	4,3	4,0	4,3	4,2	4,3	3,7	**3,7**	
Industrial production (% YoY)	1,1	4,8	-2,4	-24,6	-16,8	0,5	1,1	1,5	5,7	1,0	5,4	11,2	**0,0**	
PPI inflation (% YoY)	0,9	0,2	-0,3	-1,4	-1,7	-0,8	-0,6	-1,3	-1,4	-0,4	-0,2	0,0	**0,4**	
Retail sales (% YoY)	5,7	9,6	-7,0	-22,6	-8,6	-1,9	2,7	0,4	2,7	-2,1	-5,3	-0,8	**-6,6**	
Corporate sector wages (% YoY)	7,1	7,7	6,3	1,9	1,2	3,6	3,8	4,1	5,6	4,7	4,9	6,6	**4,1**	
Employment (% YoY)	1,1	1,1	0,3	-2,1	-3,2	-3,3	-2,3	-1,5	-1,2	-1,0	-1,2	-1,0	**-1,6**	
Unemployment rate* (%)	5,5	5,5	5,4	5,8	6,0	6,1	6,1	6,1	6,1	6,1	6,1	6,2	**6,5**	
Current account (M EUR)	2756	1100	805	823	1560	3175	625	1093	1517	2356	1725	**485**		
Exports (% YoY EUR)	4,9	8,0	-6,6	-29,6	-19,3	3,9	1,7	1,9	6,1	3,8	9,5	**15,6**		
Imports (% YoY EUR)	3,9	0,9	-3,9	-28,9	-27,3	-7,4	-4,3	-4,7	1,8	-3,5	5,3	**13,0**		

*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	-3,0	-1,0	6,9	4,0	4,4	-2,8	3,6	4,9
Private consumption (% YoY)	1,2	-10,8	0,4	-3,0	0,0	7,1	3,5	3,1	-3,0	3,3	4,1
Gross fixed capital formation (% YoY)	0,9	-10,7	-9,0	-10,7	-7,2	5,4	6,0	6,3	-12,2	3,6	8,2
Export - constant prices (% YoY)	2,0	-14,5	2,0	0,9	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	-1,5	0,0	3,9	2,1	1,6	-1,7	1,9	2,3
Investments (pp)	0,1	-1,8	-1,7	-2,7	-0,9	0,9	1,0	1,5	-1,6	0,6	1,4
Net exports (pp)	0,9	1,1	1,7	-0,5	0,5	0,7	0,6	1,2	-0,3	0,8	0,0
Current account (% of GDP)***	1,0	2,1	2,8	3,5	2,9	2,8	2,5	2,7	3,5	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	2,8	2,2	2,8	2,7	2,8	3,4	2,6	2,2
Wibor 3M (%)**	1,17	0,26	0,22	0,21	0,21	0,21	0,21	0,21	0,21	0,21	0,26
NBP reference rate (%)**	1,00	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10	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	FORECAST* CONSENSUS**
		Monday 02/01/2021				
2:45	China	Caixin Manufacturing PMI (pts)	Jan	50,2		52,7
9:00	**Poland**	**Manufacturing PMI (pts)**	**Jan**	**51,7**	**51,2**	**51,3**
9:55	Germany	Final Manufacturing PMI (pts)	Jan	57,0	57,0	57,0
10:00	Eurozone	Final Manufacturing PMI (pts)	Jan	54,7	54,7	54,7
11:00	Eurozone	Unemployment rate (%)	Dec	8,3		8,3
15:45	USA	Flash Manufacturing PMI (pts)	Jan	59,1		
16:00	USA	ISM Manufacturing PMI (pts)	Jan	60,7	59,5	59,5
		Tuesday 02/02/2021				
11:00	Eurozone	Preliminary GDP (% QoQ)	Q4	12,5	-3,0	-1,8
		Wednesday 02/03/2021				
10:00	Eurozone	Services PMI (pts)	Jan	45,0	45,0	45,0
10:00	Eurozone	Final Composite PMI (pts)	Jan	47,5	47,5	47,5
11:00	Eurozone	PPI (% YoY)	Dec	-1,9		-1,3
11:00	Eurozone	Preliminary HICP (% YoY)	Jan	-0,3	0,8	0,4
14:15	USA	ADP employment report (k)	Jan	-123		40
16:00	USA	ISM Non-Manufacturing Index (pts)	Jan	57,2	56,5	56,5
	Poland	**NBP rate decision (%)**	**Feb**	**0,10**	**0,10**	**0,10**
		Thursday 02/04/2021				
11:00	Eurozone	Retail sales (% MoM)	Dec	-6,1		1,3
13:00	UK	BOE rate decision (%)	Feb	0,10	0,10	0,10
14:30	USA	Initial jobless claims (k)	w/e	847		850
16:00	USA	Factory orders (% MoM)	Dec	1,0	1,0	0,6
		Friday 02/05/2021				
8:00	Germany	New industrial orders (% MoM)	Dec	2,3		-1,5
14:00	**Poland**	**MPC Minutes**	**Jan**			
14:30	USA	Unemployment rate (%)	Jan	6,7	6,7	6,8
14:30	USA	Non-farm payrolls (k MoM)	Jan	-140	25	20

*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

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