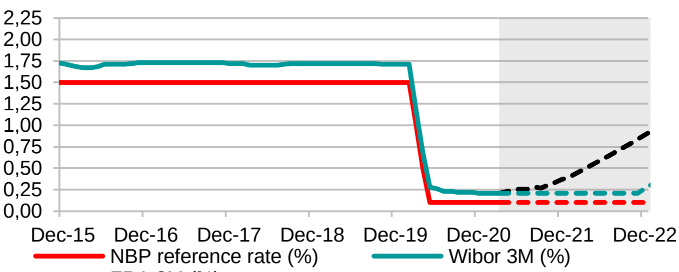
Corporate investments about to recover?

This week

- **The most important event this week will be the MPC meeting planned for Wednesday.** We expect the MPC to maintain the interest rates unchanged. The statement will most likely address the issue of inflation, which is currently running above the path shown in the NBP's March projection, and its impact on monetary policy prospects. We believe that the part of the statement reading '*the lack of a visible and more durable zloty exchange rate adjustment to the global pandemic shock and to the monetary policy easing introduced by NBP'* may be modified to take into account the depreciation of the PLN seen in recent weeks, and then its appreciation. In our opinion, the MPC bias presented in the statement will not change considerably compared to that of March and will note the expected stabilization of interest rates in the coming quarters. Thus, we expect that the publication of the statement will be neutral for the PLN and yields on Polish bonds.

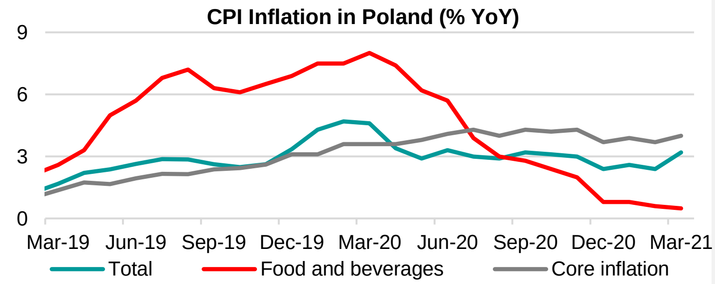


Source: Reuters, Credit Agricole

- **On Wednesday, Minutes of the last FOMC meeting will be published.** We believe that the Minutes will not provide any new information vs. the statement and the conference after the meeting. The Minutes will note that the economic recovery has recently accelerated slightly, but that the situation in the sectors most severely affected by the pandemic remains difficult. At the same time, the document will point out that the economic recovery in the coming quarters will depend on the further course of the pandemic, including the progress of the vaccination programme. It will also be reiterated that the Fed sees its 2% inflation target as an average long-term inflation target. In other words, after a period of below-target inflation, the Federal Reserve allows inflation to temporarily deviate above the 2% level. In our baseline scenario, we expect interest rate to remain stable at the current level at least until the end of 2023. At the same time, we expect the scale of the Fed's purchases of assets to remain unchanged until the end of the year. We believe that the Minutes will not provide any new information in the context of monetary policy prospects in the US, and we do not expect any market reaction to their publication.

Last week

- **In accordance with the flash estimate, the CPI inflation in Poland rose to 3.2% YoY in March from 2.4% in February, running well above the market consensus equal to our forecast (2.9%).** GUS published partial data on the inflation structure, which contained information about price growth rates for the following categories: 'food and non-alcoholic beverages', 'energy', and 'fuels'. Inflation was driven up by higher growth rates of prices of fuels (7.6% YoY in March from -3.7% in February) and energy (4.2% YoY in March from 4.1% in February), as well as by a higher core inflation, which, according to our estimates, stood at 4.0% YoY in March vs. 3.7% in February (in our opinion, due to pro-inflationary impact of the third wave of the pandemic on some of the categories). An opposite impact on inflation came from lower growth rate of prices of food and



Source: GUS, Credit Agricole

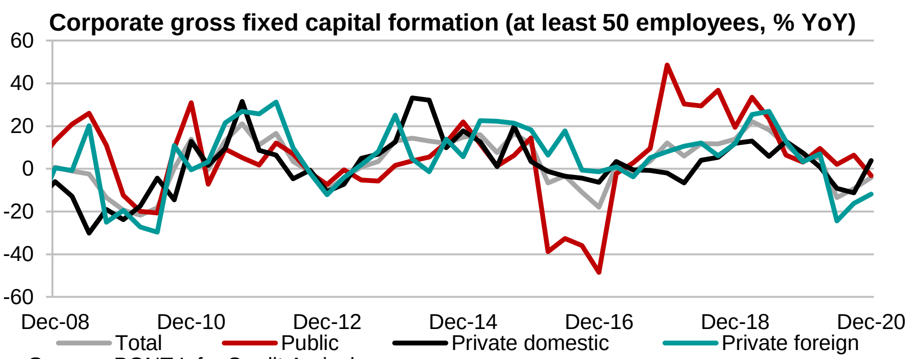
non-alcoholic beverages (0.5% YoY in March vs. 0.6% in February). In the coming months, we expect inflation to continue to grow, driven up by stronger rises in fuel and food prices. In consequence, we believe that in Q2 inflation will rise to 3.9% from 2.7% in Q1, and in May it will be, temporarily, above 4% (see MACROmap of 29/03/2021).

- **In accordance with the flash estimate, inflation in the Eurozone rose to 1.3% YoY in March from 0.9% in February, running in line with the market consensus and below our forecast (1.4%).** The rise in inflation was driven up by stronger rises in energy and services prices, with opposite impacts coming from lower rates of growth in non-energy industrial goods and food prices. We expect that in the coming months inflation in the Eurozone will be on an upward trend, reaching 2.0% YoY in Q4. Consequently, we forecast that the annual average inflation rate for 2021 will rise to 1.5% YoY from 0.3% in 2020.
- **The PMI for Polish manufacturing rose to 54.3 pts in March from 53.4 pts in February, running below our forecast (55.5 pts) and market consensus (55.4 pts).** Therefore, it has reached the highest level since January 2018. The PMI was driven up by higher contributions of 4 out of its 5 components (new orders, current output, delivery times, and employment), while the contribution of the inventories component did not change. March was the third month in a row to see a marked acceleration in the rate of growth in total orders, including export orders, which was to a large extent driven by a recovery in global trade, resulting in industrial production momentum in the Eurozone picking up. The PMI structure in March reflects a growing supply barrier, which will constrain manufacturing output growth in the coming months. In March, the delivery times component has hit the lowest level on record. Longer delivery times and pent-up demand result in growing backlogs of work and faster rises in output prices (see MACROpulse of 01/04/2021). The data supports our quarterly GDP growth path which shows that in H2 2021, with growing availability of materials and unblocking global supply chains, stronger external demand will boost production in segments with high shares of exports in sales.
- **The Caixin PMI for Chinese manufacturing dropped to 50.6 pts in March from 50.9 pts in February, running below market expectations (51.2 pts).** It slipped to the lowest level since May 2020, showing that the recovery in Chinese manufacturing is losing momentum. The index was driven down by lower contributions of 3 out of its 5 components (new orders, current output, and delivery times), with an opposite impact coming from higher contributions of employment and inventories components. What is worth noting about the data is a marked increase in the delivery times component, which is now only slightly below the 50-point threshold that separates their lengthening from shortening. Thus, delivery times keep on growing, but clearly more slowly than in previous months. In accordance with press release, this shows that the bottlenecks in supply chains caused by the pandemic are being gradually cleared. Nevertheless, due to continued high demand, March saw a further increase, the sharpest since November 2017, in prices of some raw materials and other intermediate goods used in production. We expect supply barriers to constrain the scale of recovery in Chinese manufacturing in the coming months. Last week, data on CFLP PMI for Chinese manufacturing was also published; the index rose to 51.9 pts in March from 50.6 pts in February, running above market expectations (51.2 pts). The data is consistent with our forecast that the GDP growth rate in China amounted to 24.8% YoY in Q1 due to last year low base effects. We forecast that the GDP growth rate in China in the whole 2021 will accelerate to 8.5% vs. 2.3% for 2020.
- **A number of important data on US economy was released last week.** The number of new jobless claims rose to 719k vs. 658k two weeks ago, which was markedly above the market expectations (680k). The number of continued claims did not change, and stayed at 3.8m. Data on non-farm payrolls was also published last week, which showed that non-farm employment increased in March by 916k, comparing to a rise by 468k in February (upward revision from 379k), running markedly above the market consensus (+630k). The strongest increase in employment was seen in tourism and recreation (+280k), where the drop caused by the pandemic was the sharpest. It is indicative of a recovery in the activity in this sector, with the pandemic gradually receding as

the number of vaccinated people is growing (see COVID Dashboard). The unemployment rate fell from 6.2% in February to 6.0% in March, which was in line with the market consensus. At the same time, activity rate increased from 61.4% in February to 61.5% in March. Non-farm payroll and jobless claims data for the US show that the US labour market is still far from the equilibrium despite the situation improving gradually. The ISM index for manufacturing increased from 60.8 pts in February to 64.7 pts in March, running above the market expectations (61.3 pts). Thus, it has reached the highest level since December 1983. The index increased due to higher contributions from its all 5 components (new orders, current output, employment, delivery times and inventories). As regards the data structure, it is worth noting that the new orders and current output reached the highest level since January 2004. The increase is accompanied by further marked lengthening of delivery times, and an increase in prices of some raw materials and other semi-finished products used for production. With a sharp increase in the number of orders and growing supply constraints, the backlogs of work component hit an all-time high in the data history (i.e. since January 1993). The Conference Board index was also published last week. It increased from 90.4 pts in February to 109.7 pts in March, running markedly above the market consensus (97.0 pts). A strong improvement in the consumers' sentiment in the US was reflected by an increase in index components for both assessment of current situation and expectations. The improvement was driven by gradual end of the pandemic in the US resulting from progress in vaccinations (see COVID Dashboard) and by expectations connected with J. Biden's fiscal package passed in March (see MACROmap of 15/03/2021). In the context of the last week's data, we see an upward risk for our forecast, in which the annualised US GDP growth rate will drop from 4.3% in Q4 to 4.2% in Q1. In our opinion, the economic growth will strongly accelerate in the quarters to come, driven by the launch of the new fiscal package worth of USD 1.9tn. We forecast that throughout 2021, US GDP will grow by 5.1% vs. a 3.5% decline in 2020, to expand by 2.9% in 2022.

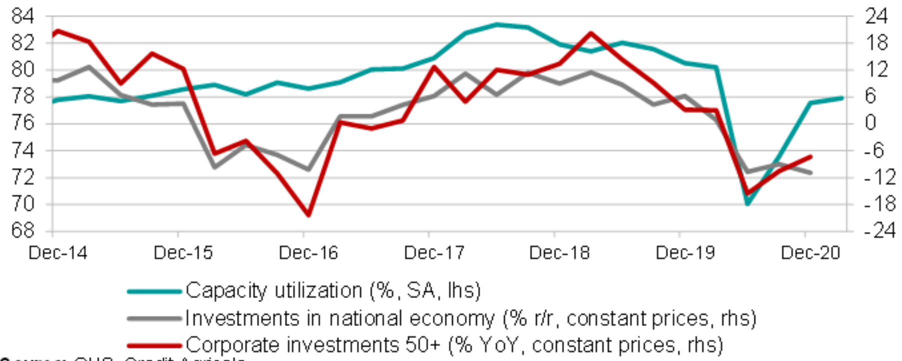
- **Standard & Poor's did not publish any new report on Poland's rating last week, which means that the long-term rating was kept at A- with a stable outlook.** The rating stabilisation is neutral for the PLN and the yields on Polish bonds.

Investment of enterprises about to recover?



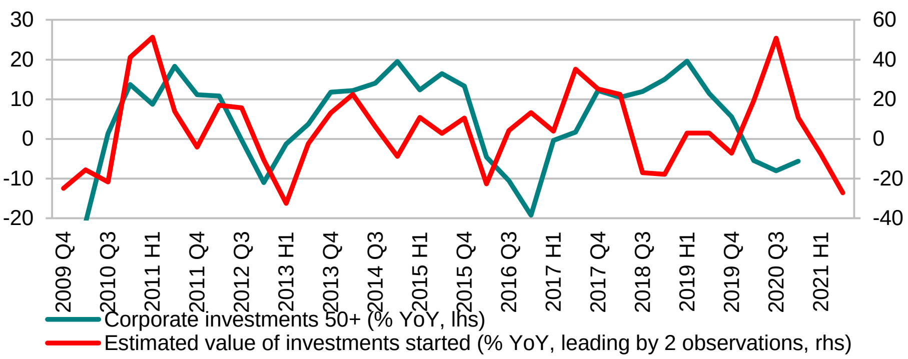
Source: PONT Info, Credit Agricole

According to data published by the Central Statistical Office (GUS) two weeks ago, the growth rate of nominal investments of enterprises employing at least 50 people increased in Q4 2020 to -5.6% YoY vs. -8.0% in Q3. The increase in the growth rate of gross fixed capital formation was the result of higher investment contributions in energy and manufacturing. The factor driving the dynamics of outlays in some industries (e.g. food and beverage, energy) were the effects of a low base from a year ago. By industry, we see no correlation between the rate of capacity utilisation and the growth rate of fixed capital formation. To assess the trend in investment growth, it is necessary to analyse the growth in fixed capital formation by form of ownership of enterprises. For this purpose we used data from the PONT Info database. The information contained in the database is based on complete, official GUS data presented in F-01 reports filled in by enterprises representing individual sectors of the economy. According to PONT Info data, the increase in the growth rate among enterprises 50+ in Q4 2020 was mainly due to the recovery of investments of private firms - mainly domestic ones, and foreign ones to a lesser extent. At the same time, the contribution of investments of enterprises controlled by units of the public sector (firms with a dominant share of this sector in the enterprise capital) decreased in Q4. Taking into account the course of the pandemic, including the second wave which was more severe than expected, and increased uncertainty, the increase in the growth rate of investments of enterprises 50+ recorded in Q4 last year was a positive surprise.



Source: GUS, Credit Agricole

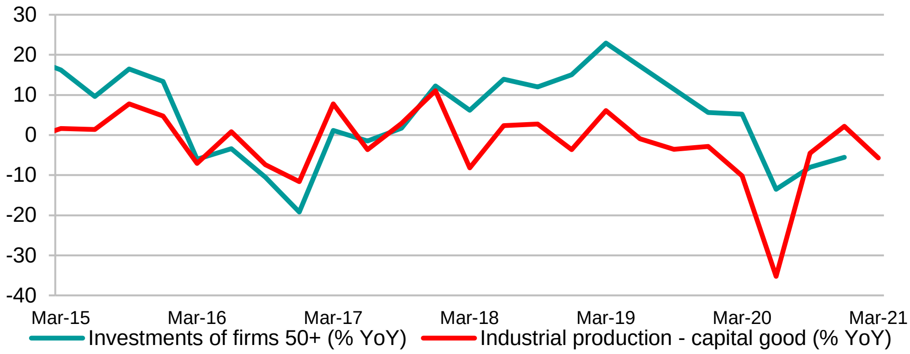
In this context, the question arises as to whether the trends recorded in Q4 were the beginning of an investment recovery or whether the increase in investment in some industries was rather temporary. According to GUS data, seasonally adjusted capacity utilization in manufacturing was 77.9% in Q1 and was only slightly lower than the average for 2019 (81.4%), i.e. before the outbreak of the COVID-19 pandemic. In the past, the barrier of high capacity utilisation has been a major factor prompting firms to increase capital expenditure. Thus, capacity utilisation, which has been increasing continuously since Q2 2020, may signal the sustainability of the investment recovery. However, other indicators, which we will present below, suggest caution in making such a conclusion.



Source: GUS, Credit Agricole

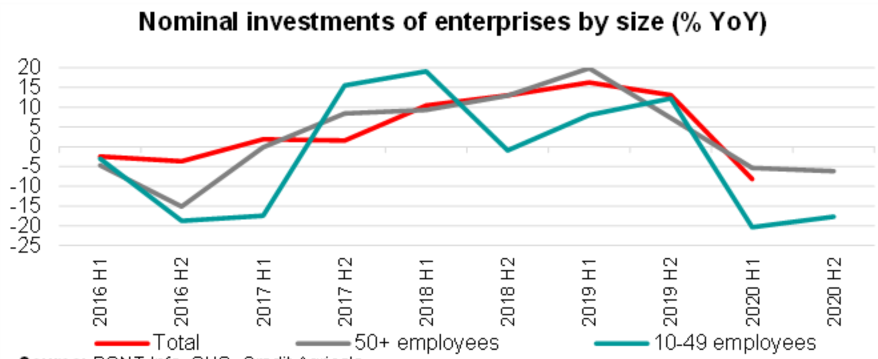
An indicator that is helpful in assessing future trends in investment outlays of enterprises is the so-called total estimated value of investments started. This is the value of fixed capital formation commenced in the reporting period resulting from design and cost estimate documentation. On the basis of historical data, it may be observed that the growth rate of the estimated value of investments started preceded changes in the growth rate of investments of enterprises 50+ by approximately two to three quarters. However, one should remember that this dependence has weakened in the last three years. In H2 2020, the estimated value of investments started clearly decreased (by 7.5% YoY in Q3 and by 27.1% in Q4). We believe this will be an inhibiting factor for the recovery in corporate investment in early 2021. In turn, the increase in the growth rate of outlays of enterprises 50+ recorded in Q4 could be the result of the completion of investment projects started at the turn of 2019 and 2020 as the growth rate of investments started then was at a double-digit level.

Another source of information on the expected development of investment of enterprises is the GUS business survey. The survey covers thousands of entities in the industrial manufacturing sector, employing at least 9 employees. The form includes, among others, a question about the change in investment outlays expected by the enterprises. The business sentiment index based on the investment survey is calculated using the weighted average method from all the responses of individual enterprises to the question (index weighted by revenue from sales of products, goods and materials in manufacturing). According to the October 2020 survey, companies anticipated a 4.5% YoY decline in fixed capital formation in 2021, and according to the March survey they expect a 3.8% YoY decline in 2021. The trends outlined above, observed in the business surveys regarding the investment activity of industrial manufacturing companies, represent a downward risk factor for the scenario of a recovery in total corporate investment this year.



Source: GUS, Credit Agricole

Moreover, we see two further risk factors for the scenario of a marked recovery in corporate investment in 2021. Against the background of recent years, the growth rate of capital goods production correlated well with the growth rate of fixed capital formation 50+. In H2 2020, the growth rate of this production was in an upward trend, while in January-February 2021 it declined, signalling a similar direction of change for investment as well.



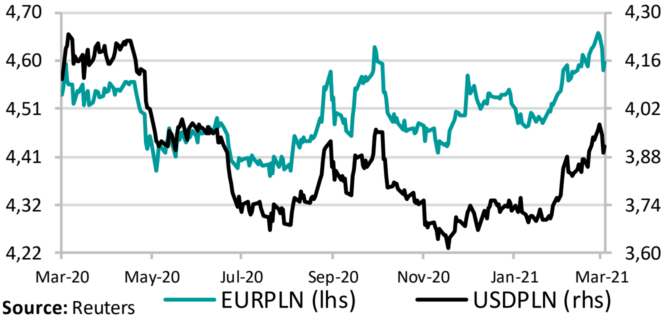
Source: PONT Info, GUS, Credit Agricole

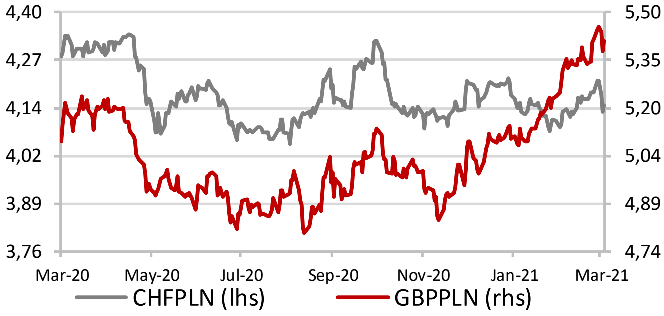
In addition, it should be noted that corporate investment in H2 2020 was driven mainly by outlays from larger entities (with at least 50 employees). The dynamics of outlays of smaller entities (with 10-49 employees) was strongly negative (-17.7% YoY in H2 2020 vs. -20.4% in H1 2020). Although investments by large companies account for about two-thirds of total corporate outlays, it should be noted that the investment climate in smaller entities has not improved significantly.

In summary, we believe that the increase in the growth rate of investment of enterprises 50+ recorded in Q4 2020 does not warrant a revision to our entire path of total enterprise investment in 2021. Although the growth rate of investment of enterprises will increase markedly in Q1 2021, this will be primarily the result of the impact of the low base effects of a year ago, rather than an increase in firms' propensity to invest. Taking into account the latest data, we believe that the annual growth rate of total corporate investment will be close to zero in Q1 vs. the previously assumed still negative growth rate. Thus, we have slightly revised upwards our forecast for total investment in Q1 only. We maintain our scenario of year-on-year growth in total investment from Q2 onwards. For 2021 as a whole, we forecast it to increase by 3.8%, compared to a decline by 8.4% in 2020.

EURPLN exchange rate highest since March 2009

FX rates





Source: Reuters

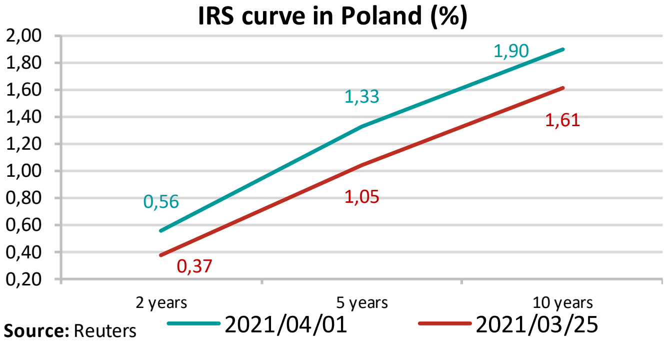
Last week, the EURPLN rate dropped to 4.6003 (the PLN strengthened by 0.8%). The beginning of last week brought further weakening of the PLN. As a result, on Monday the EURPLN exchange rate exceeded the level of 4.67, reaching its highest value since March 2009. Since Wednesday there has been a marked strengthening of the PLN, supported by a reduction in global risk aversion, which was reflected in a decline in the VIX index. Increased demand for risky assets was supported by the publication of clearly better-than-market-consensus data on the business sentiment in the US, as well as investors' expectations that the pandemic will end due to the growing number of vaccinated people. Friday's decision by S&P to maintain Poland's rating and its outlook was announced after the close of European markets, hence it had no impact on the PLN exchange rate.

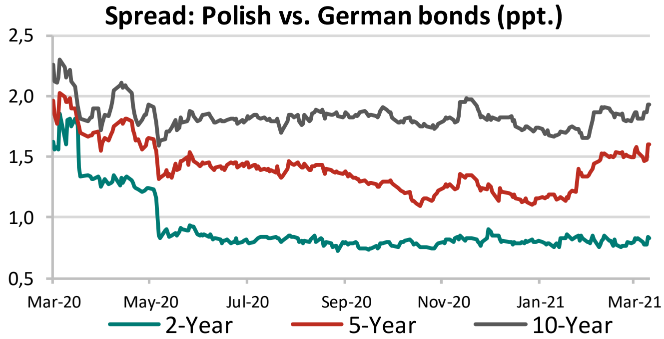
The decrease in global risk aversion, observed in the second half of the week, was also conducive to the weakening of the USD against the EUR, which ended the clear downward trend of the EURUSD exchange rate started two weeks ago (see MACROmap of 29/3/2021).

This week, the MPC meeting to be held on Wednesday will be crucial for the Polish currency. However, we believe that the publication of the statement after the meeting will not have a significant impact on the PLN exchange rate. In our opinion, the publication of the Minutes of the March FOMC meeting will also be neutral for the FX market.

We believe that the current exchange rate of the EUR against the PLN is still significantly overvalued. Taking into account our forecasts assuming strong GDP growth in Poland in the coming years supported by the revival in global trade and the inflow of funds under the EU Recovery Fund, we see a high probability of a significant strengthening of the PLN along with the appearance of signs of the end of the third wave of the pandemic.

MPC meeting in the spotlight





Source: Reuters

Last week, 2-year IRS rates increased to 0.56 (up by 19 bps), 5-year rates to 1.33 (up by 28 bps) and 10-year ones to 1.90 (up by 29 bps). Throughout last week we saw marked growth in IRS rates along the curve, following core markets. Higher bond yields in core markets were supported by a decline in global risk aversion and growing investors' concerns about rising inflation as a result of the observed economic recovery. Last week, BGK held an auction in which it sold bonds issued on behalf of the COVID-19 Response Fund with 8-, 13- and 20-year maturities for PLN 2.69bn with demand of PLN 2.92bn. The auction had no significant impact on the curve.

This week the market will focus on the Wednesday's MPC meeting. However, we believe that the publication of the statement after the meeting will not have a significant impact on the curve. The publication of the Minutes from the March FOMC meeting will also be neutral for IRS rates, we believe.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland														
Indicator	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21
NBP reference rate (%)	1,00	0,50	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10
EURPLN*	4,55	4,54	4,44	4,44	4,41	4,40	4,53	4,60	4,47	4,55	4,52	4,52	4,63	**4,55**
USDPLN*	4,13	4,15	4,00	3,95	3,74	3,68	3,86	3,95	3,75	3,73	3,72	3,74	3,95	**3,89**
CHFPLN*	4,29	4,30	4,16	4,17	4,10	4,07	4,21	4,32	4,13	4,21	4,18	4,11	4,18	**4,12**
CPI inflation (% YoY)	4,6	3,4	2,9	3,3	3,0	2,9	3,2	3,1	3,0	2,4	2,6	2,4	**2,9**	
Core inflation (% YoY)	3,6	3,6	3,8	4,1	4,3	4,0	4,3	4,2	4,3	3,7	3,9	3,7	**3,6**	
Industrial production (% YoY)	-2,4	-24,6	-16,8	0,5	1,1	1,5	5,7	1,0	5,4	11,1	0,7	2,7	**14,7**	
PPI inflation (% YoY)	-0,3	-1,4	-1,7	-0,8	-0,6	-1,3	-1,4	-0,4	-0,2	0,1	1,0	2,0	**3,3**	
Retail sales (% YoY)	-7,0	-22,6	-8,6	-1,9	2,7	0,4	2,7	-2,1	-5,3	-0,8	-6,0	-2,7	**15,5**	
Corporate sector wages (% YoY)	6,3	1,9	1,2	3,6	3,8	4,1	5,6	4,7	4,9	6,6	4,8	4,5	**5,5**	
Employment (% YoY)	0,3	-2,1	-3,2	-3,3	-2,3	-1,5	-1,2	-1,0	-1,2	-1,0	-2,0	-1,7	**-1,2**	
Unemployment rate* (%)	5,4	5,8	6,0	6,1	6,1	6,1	6,1	6,1	6,1	6,2	6,5	6,5	**6,4**	
Current account (M EUR)	805	823	1560	3175	625	1093	1517	2356	2116	430	3258	**1692**		
Exports (% YoY EUR)	-6,6	-29,6	-19,3	3,9	1,7	1,9	6,1	3,8	10,1	14,8	-2,8	**4,6**		
Imports (% YoY EUR)	-3,9	-28,9	-27,3	-7,4	-4,3	-4,7	1,8	-3,5	5,3	13,6	-5,3	**3,3**		

*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	-2,8	-1,5	6,9	4,2	4,7	-2,7	3,6	4,9
Private consumption (% YoY)	1,2	-10,8	0,4	-3,2	-0,5	7,1	3,5	3,1	-3,0	3,2	4,1
Gross fixed capital formation (% YoY)	0,9	-10,7	-9,0	-10,9	-6,2	5,4	6,0	6,3	-8,4	3,8	8,2
Export - constant prices (% YoY)	2,0	-14,5	2,0	8,0	6,7	9,0	4,9	5,8	-2,5	6,5	8,3
Import - constant prices (% YoY)	0,4	-18,0	-1,0	7,9	6,5	9,1	4,3	4,1	-4,1	5,8	8,9
GDP growth contributions: Private consumption (pp)	0,8	-6,2	0,2	-1,7	-0,3	3,9	2,1	1,5	-1,7	1,8	2,3
GDP growth contributions: Investments (pp)	0,1	-1,8	-1,7	-2,8	-0,8	0,9	1,0	1,4	-1,6	0,6	1,4
GDP growth contributions: Net exports (pp)	0,9	1,1	1,7	0,4	0,5	0,7	0,6	1,3	1,0	0,8	0,0
Current account (% of GDP)***	1,1	2,2	2,9	3,6	3,3	3,0	2,7	2,9	3,6	2,9	2,3
Unemployment rate (%)**	5,4	6,1	6,1	6,2	6,4	5,7	5,4	5,6	6,2	5,6	5,2
Non-agricultural employment (% YoY)	0,7	-1,8	-0,7	0,0	0,0	1,8	0,7	0,5	-0,5	0,8	0,4
Wages in national economy (% YoY)	7,7	3,8	4,8	5,0	2,8	3,3	3,0	3,1	5,3	3,1	5,8
CPI Inflation (% YoY)*	4,5	3,2	3,0	2,8	2,7	3,9	3,5	3,3	3,4	3,4	2,4
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	4,63	4,46	4,42	4,37	4,55	4,37	4,27
USDPLN**	4,13	3,95	3,86	3,73	3,95	3,81	3,71	3,64	3,73	3,64	3,44

* quarterly average
** end of period
***cumulative for the last 4 quarters

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST*	
					CA	CONSENSUS**
		Monday 04/05/2021				
16:00	USA	ISM Non-Manufacturing Index (pts)	Mar	55,3	59,0	58,5
16:00	USA	Factory orders (% MoM)	Feb	2,6	0,3	-0,5
		Tuesday 04/06/2021				
10:30	Eurozone	Sentix Index (pts)	Apr	5,0		6,7
11:00	Eurozone	Unemployment rate (%)	Feb	8,1		8,1
		Wednesday 04/07/2021				
10:00	Eurozone	Services PMI (pts)	Mar	48,8	48,8	48,8
10:00	Eurozone	Final Composite PMI (pts)	Mar	52,5	52,5	52,5
20:00	USA	FOMC Minutes	Mar			
	Poland	**NBP rate decision (%)**	**Apr**	**0,10**	**0,10**	**0,10**
		Thursday 04/08/2021				
8:00	Germany	New industrial orders (% MoM)	Feb	1,4		1,0
11:00	Eurozone	PPI (% YoY)	Feb	0,0		1,2
14:30	USA	Initial jobless claims (k)	w/e	719		690
		Friday 04/09/2021				
3:30	China	PPI (% YoY)	Mar	1,7		
3:30	China	CPI (% YoY)	Mar	-0,2		
8:00	Germany	Trade balance (bn EUR)	Feb	22,2		
8:00	Germany	Industrial production (% MoM)	Feb	-2,5		1,5
14:00	**Poland**	**MPC Minutes**	**Apr**			
16:00	USA	Wholesale inventories (% MoM)	Feb	0,5		0,5
16:00	USA	Wholesale sales (% MoM)	Feb	4,9		

*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

MACRO MAP

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