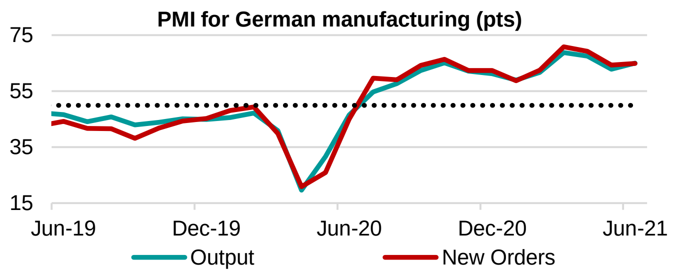
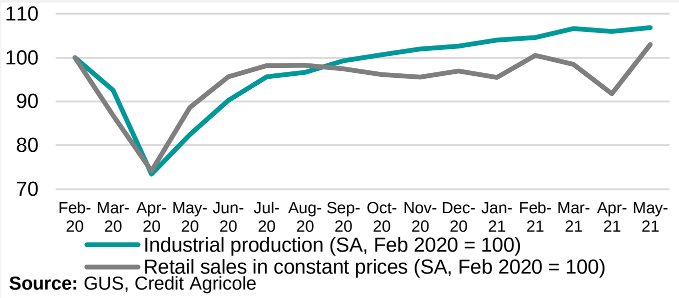
This week

- **The most important event this week will be the publication of flash PMI survey results for June for key European economies, planned for Friday.** We expect a rise in the Eurozone's composite PMI to 61.0 points in July from 59.5 points in June. The rise was driven by continued opening of the economies of some Eurozone countries. However, we expect to see a small drop in the PMI for German manufacturing, to 64.6 pts in July from 65.1 pts in June, due to last month's high base effects and supply barriers. Our Eurozone PMI projections are close to the consensus, and thus their materialization will be neutral for the PLN and the prices of Polish bonds.



Source: Markit, Credit Agricole

- **Another important event this week will be the ECB meeting planned for Thursday.** We expect the ECB to keep interest rates in the Eurozone unchanged and the conference to be dovish in tone. We believe that in its press release following the meeting the EBC will adjust its forward guidance with reference to the new inflation target presented in the its new strategy (see MACROmap of 12/07/2021). We expect that the ECB conference may add to the volatility of the PLN and yields on Polish bonds.
- **Data on the US real estate market will be released this week.** We expect that data on housing starts (1564k in June vs. 1572k in May, up by 2.0% MoM), building permits (1675k vs. 1683k, up by 0.6%), existing home sales (5.9m vs. 5.8m, up by 2.2% MoM) will show a mixed picture for the US housing market. We believe that the impact of the US data on the PLN rate and yields on Polish bonds will be limited.
- **Data on employment and average salary in the Polish enterprise sector for June will be released today.** We forecast that growth in employment did not change in June vs. May, standing at 2.7% YoY. At the same time, average salary growth dropped to 9.6% YoY from 10.1% in May due to high base effects. We believe that the publication of data on employment and average salary in the enterprise sector, although important for the private consumption growth forecast for Q2, will be neutral for the PLN and the debt market.
- **Tuesday will see the release of data on industrial production in Poland for June.** We forecast that industrial production growth fell to 21.1% YoY from 29.8% in May. The drop is accounted for by the fading of last year's low base effects and favourable calendar effects. Our industrial production growth forecast is above the market consensus (19.0%), and thus its materialization will be slightly positive for the PLN and yields on Polish bonds.

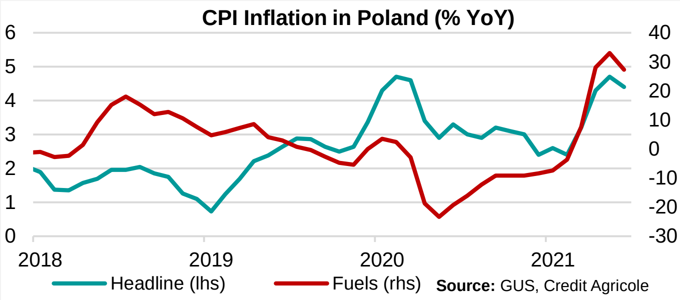


Source: GUS, Credit Agricole

- **Data on retail sales in Poland will be published on Wednesday; we expect retail sales to have grown by 9.5% YoY in June vs. growth of 19.1% in May.** The drop is accounted for by the unfavourable statistical effects mentioned above related to the fading of the low base. We expect that the publication of retail sales date will be slightly negative for the PLN and yields on Polish bonds.

Last week

- **CPI inflation in Poland fell to 4.4% YoY in June from 4.7% in May, running in line with the GUS flash estimate.** It is worth noting that June was the third month in a row that inflation was above the upper limit of deviations from the NBP inflation target (3.5% YoY). Inflation was driven down by slower rises in fuel prices (27.3% YoY in June vs. 33.0% in May) and by a drop in core inflation, to 3.5% YoY in June from 4.0% in May. At the same time, inflation was driven up by faster rises in the prices of food and non-alcoholic beverages (2.0% vs. 1.7%), while the pace of rises in energy prices did not change in June compared to May (4.4%). The breakdown of core inflation data suggests that the drop seen in June was to a large extent accounted for by last year's high base effects associated with a wave of covid-related price rises during the first phase of the pandemic. At the same time, faster price rises were seen for those sectors that had recently been back in business following the easing of restrictions, such as 'restaurants and hotels', 'recreational and sporting services', and 'package domestic holidays'. This has been driven by pent-up demand combined with limited supply in those sectors (see MACROpulse of 15/07/2021). Despite the marked drop in inflation seen in June, we expect inflation to remain at an elevated level until the end of the year (4.5% YoY on average in H2).



- **The Polish current account surplus declined in May to EUR 60m vs. EUR 1631m in April, running clearly below market expectations (EUR 1505m) and our forecast (EUR 860m).** The reduction in the current account balance was due to lower trade balances in goods, services, and primary and secondary income (EUR 1115m, EUR 200m, EUR 76m and EUR 180m lower than in April, respectively). The main surprise came from a significantly sharper contraction in the dynamics of Polish exports (41.7% YoY in May vs. 69.2% in April) than that of imports (53.7% vs. 59.7%). The slowdown in exports and imports observed in May resulted from a gradual fading of the low base effects of a year ago associated with the outbreak of the COVID-19 pandemic. These data pose a downward risk to our forecast according to which the relation of the accumulated balance on the current account for the last 4 quarters to the GDP will decrease in the Q2 to 2.8% vs. 3.1% in Q1. The much lower-than-expected current account surplus in Poland is a factor contributing to a weaker PLN, given the stable interest rate environment.
- **Last week, a number of data from the US economy was published.** The number of new jobless claims dropped to 360k from 386k two weeks ago (upward revision from 373k), which was in line with market expectations (385k). On the other hand, the number of continued claims fell to 3.2m vs. 3.4m. The data thus indicates that although the situation in the US labour market is improving, it is still far from its equilibrium. Last week we also saw data on industrial production, whose monthly growth decelerated to 0.4% in June from 0.7% in May (downward revision from 0.8%), running slightly below market expectations (0.6%). It was pushed down by lower production growth in manufacturing, while higher production growth in mining and utilities had the opposite effect. Capacity utilisation increased to 75.4% in June from 75.1% in May and is still below pre-pandemic levels (around 77%). Last week we also saw data on retail sales, whose monthly growth accelerated to 0.6% in June from -1.7% in May (downward revision from -1.3%), which was above market expectations (-0.4%). Excluding cars, monthly sales growth increased to 1.3% in June vs. -0.9% in May (downward revision from -0.7%), which was the result of an increase in its monthly growth rate in most categories. Last week also saw the publication of CPI inflation data, which

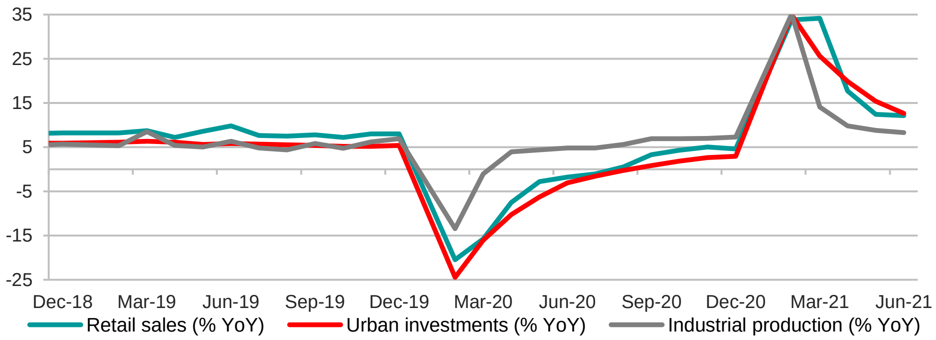
rose to 5.4% YoY in June vs. 5.0% in May, which was clearly above market expectations (4.9%). It thus reached its highest level since August 2008. The increase in inflation was driven mostly by higher core inflation (4.5% YoY in June vs. 3.8% in May) – the highest level since November 1991) and higher food prices, while a drop in energy prices had the opposite effect. Higher price dynamics in the categories of "used cars", "accommodation away from home", "car rental" and "airline tickets", among others, had an upward effect on core inflation. Last week also saw the publication of regional indices of the NY Empire State (43.0 pts in July vs. 17.4 pts in June) and the Philadelphia FED (21.9 pts vs. 30.7 pts), which generally indicated a continuing good economic situation in manufacturing. Meanwhile, the final University of Michigan index indicated a deterioration in consumer sentiment, as it fell to 80.8 pts in July vs. 85.5 pts in June, running below market expectations (86.5 pts). The decline in the index was due to a drop of its components for both the assessment of the current situation and expectations. Last week's data on the US economy do not change our scenario that annualised GDP growth will hit its local high of 10.2% in Q2 this year and will be on a downward trend from Q3 onwards. Consequently, US GDP will expand by 6.5% in 2021, compared with a decline of 3.5% in 2020, and will grow by 4.0% in 2022.

- **Last week, the Fed Chairman J. Powell presented the Fed's semi-annual monetary policy report to Congress.** As we expected, the report did not provide any new significant information concerning US monetary policy prospects. J. Powell pointed out that although the situation in the US labour market is improving, it is still far from its equilibrium. J. Powell also stressed that despite the recent strong increase in inflation, he maintains his assessment that this increase is temporary. He reminded that FOMC members will closely monitor inflation expectations, nevertheless, so far they are consistent with the Fed's long-term inflation target. J. Powell also reiterated that the Federal Reserve will inform investors in advance of its intention to start reducing the scale of asset purchases (tapering). In his opinion, even if FOMC members expect further improvement in the macroeconomic situation, still a long time has to pass before this will justify the start of monetary policy tightening. J. Powell's speech supports our scenario that the Federal Reserve will start reducing the scale of asset purchases in early 2022. At the same time, we expect interest rates to remain stable at the current level at least until the end of 2023.
- **Last week saw the publication of important data on the Chinese economy.** Annual economic growth in China slowed to 7.9% YoY in Q2 from 18.3% in Q1. There were also declines in industrial production (8.3% YoY in June vs. 8.8% in May), retail sales (12.1% vs. 12.4%) and urban investment (12.6% vs. 12.5%). We maintain our forecast that economic growth in China will slow to 6.0% YoY in Q3 this year and 4.3% in Q4 (see below).

China's credit impulse is weakening

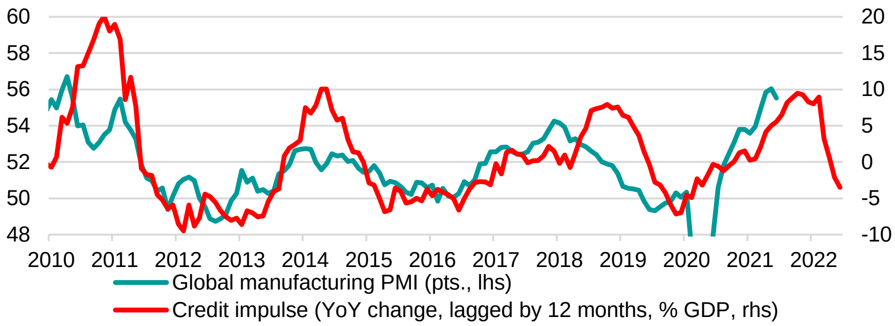
According to last week's data, in Q2 the annual pace of China's economic growth fell to 7.9% YoY, down from 18.3% in Q1. The strong decline in the annual GDP growth followed mainly from the waning of COVID-related low base effects from last year and thus does not signal a slowdown. On a QoQ basis, free of the above-mentioned statistical effects, GDP growth rose from 0.6% in Q1 to 1.3% in Q2 (to 5.3% on an annualized basis), thus outpacing the market consensus (1.2%).

In Q2, the main engine of GDP growth on a YoY basis was consumption with a contribution equal to 4.7 pp. However, the contribution of net exports to economic growth (2.4 pp in Q2) was at its highest level in at least 6 years. We expect that the continued recovery in global trade and the launch of the US stimulus package will support the rapid expansion of Chinese exports in the coming quarters. The contribution of investments to GDP growth in Q2 was only 0.7 pp as this component was held back most by base effects (from among the individual components of GDP). Moreover, the growing imports of raw materials seen in the recent months signal that investments will pick up pace soon. The structure of economic growth in Q2 was balanced from the production side. Growth of value added in manufacturing and services was similar and stood at approx. 8% YoY.



Source: Reuters, Credit Agricole

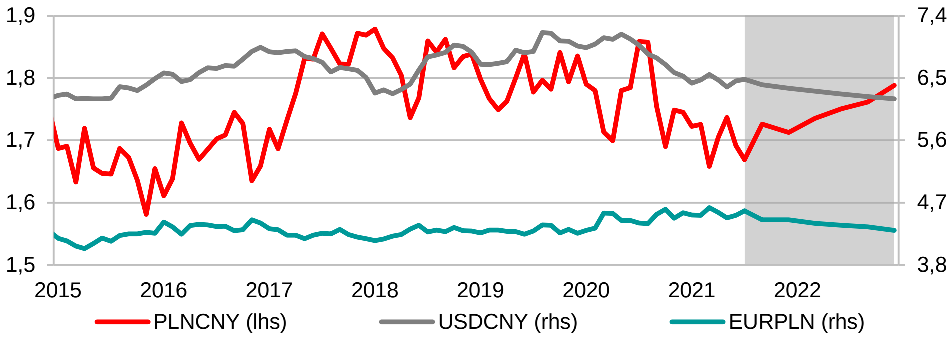
Additio nally, monthly data on industrial production (8.3% YoY in June vs. 8.8% in May compared with expectations of 7.9%), retail sales (12.1% vs. 12.4%; 11.0%) and fixed asset investment in urban agglomerations (12.6% vs. 12.5%; 15.4%) all exceeded the market consensus. June monthly data also confirmed the persistent, though gradually decreasing, divergence between continuously weak domestic demand and strong foreign demand. In June, industrial production was 13.5% higher than in June 2019, while retail sales and fixed asset investment were up by 6.6% and 9.1%, respectively.



Source: CEIC, Markit, Credit Agricole

Despite relatively robust data for Q2, China's prospects for economic growth in the coming quarters are still uncertain with the main risk factor being the evolution of new lending. The credit impulse, defined as new aggregate financing provided by the government, the banking sector and other sources (e.g., issue of bonds and shares) in relation to GDP, has followed along a downward trend since the beginning of this year. The credit impulse is a leading indicator for not only the GDP growth rate in China, but also growth in global manufacturing activity (see chart). If China is to maintain its rapid growth, it will have to ramp up support through its fiscal and/or monetary policies. Two weeks ago, the People's Bank of China reduced the reserve requirement ratio by 50 bps. We expect that in the coming months, the government's efforts aimed at stimulating economic growth will be mainly pursed through its fiscal policy (e.g. by issuance of bonds by local government units to finance infrastructure investment projects). It is possible that in Q4 the People's Bank of China may elect to cut the reserve requirement ratio even further.

We maintain our forecast that economic growth in China will decline to 6.0% YoY in Q3 and to 4.3% in Q4, chiefly on the back of base effects. Nevertheless, throughout the year, GDP will expand by 8.5% YoY, which will allow for meeting the government target for economic growth ('at least 6%') by a large margin. We forecast that in 2022 average annual GDP growth will slow down to 5.7% as the government will have to balance between further support for the economy and curbing the growth of national debt.

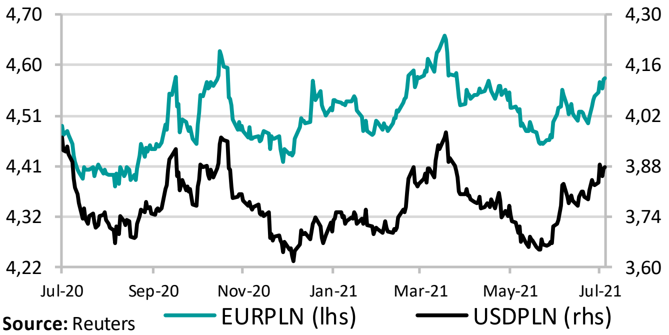


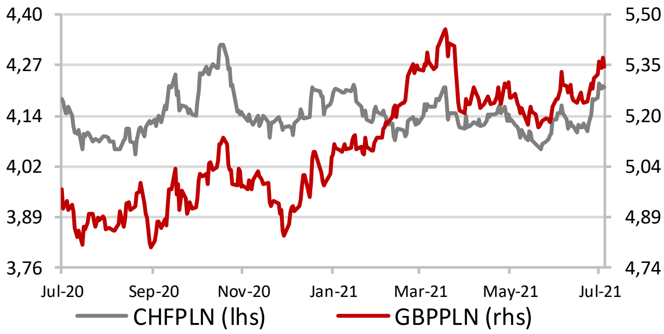
Source: Reuters, Credit Agricole

We expect that economic recovery will lead to the continued gradual appreciation of the yuan against the dollar. We project that the USDCNY exchange rate in late 2021 will stand at 6.35, to fall to 6.20 in late 2022. Given our forecast for the USDPLN exchange rate (see quarterly table), we anticipate a depreciation of the yuan against the PLN. We anticipate that PLNCNY exchange rate will rise from its current level of 1.67 to 1.71 in late 2021 and 1.79 in late 2022.

Legal dispute with EU weakens PLN

FX rates





Source: Reuters

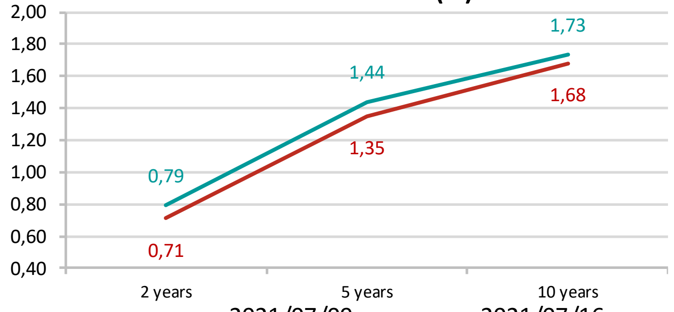
Last week, the EURPLN exchange rate climbed to 4.5804 (weakening of the PLN by 0.8%). Last week saw the PLN weakening against the euro. A similar tendency was also observed in the case of the forint against the euro. The factor contributing to the depreciation of currencies in the region was the increase in the risk premium related to the European Commission's decision from two weeks back to suspend funds from the Recovery Fund for Hungary, as well as the escalating legal dispute between Poland and EU institutions, which may result in the same decision being made in respect to Poland. The depreciation of the PLN was also influenced by the decline in investors' expectations of interest rate hikes in Poland related to the dovish press release following the July MPC meeting, the tone of which was strengthened by the comments of the NBP Governor (see MACROmap of 12/07/2021).

Tuesday and Wednesday saw increased volatility of the EURUSD rate, a trend supported by Federal Reserve Chair Jerome Powell's testimonies before the Congress. A factor conducive to the strengthening of the dollar against the euro was higher than expected US inflation data, which fueled investors' expectations for a faster tapering of the FED's asset purchase program.

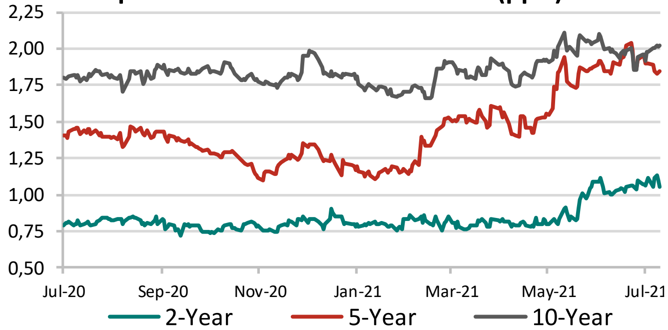
This week, data on industrial production in Poland will be of key importance for the PLN as it may contribute to the strengthening of the Polish currency. Domestic data on employment and average corporate sector wages will in our opinion be neutral for the exchange rate of the Polish currency, and data on retail sales may contribute to a weakening of the PLN. However, the ECB meeting may spur some volatility. In our opinion, data releases from the USA (housing starts, building permits, home sales on the secondary market) and the Eurozone (flash PMI indices) will not have a major bearing on the curve.

ECB meeting in the spotlight

IRS curve in Poland (%)



Spread: Polish vs. German bonds (ppt.)



Source: Reuters

Last week, 2-year IRS rates decreased to 0.71 (down by 8 bps), 5-year to 1.35 (down by 9 bps), and 10-year to 1,68 (down by 5 bps). All of last week saw a decline in IRS rates along the entire length of the curve, following the core markets, a continuation of the trends observed two weeks prior (see MACROmap of 07/12/2021). The decline in yields in the core markets is supported by growing investor concerns regarding a fourth wave of the pandemic and the ensuing tightening of monetary policies by major central banks. Last week, the NBP carried out an outright buy whereby the central bank bought back bonds worth PLN 4.4bn, of which PLN 3.7bn were treasury bonds and PLN 0.7bn BGK bonds for the COVID-19 Response Fund. Since launching the program, the NBP purchased bonds with a total nominal value of PLN 140.2bn. The transaction had no significant effect on the curve.

This week the market will focus on the ECB meeting, which may contribute to increased volatility of IRS rates. On the other hand, domestic industrial production data may support an increase in IRS rates. We believe that data on employment and average wages in the Polish corporate sector will be neutral for the yield curve while retail sales data may contribute to a decline in yields at the short end of the curve. In our opinion, data releases from the US (housing starts, building permits, home sales on the secondary market) and the Eurozone (flash PMI indices) will not have a major bearing on the curve.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland

Indicator	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21
NBP reference rate (%)	0,10	0,10	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*	4,44	4,41	4,40	4,53	4,60	4,47	4,55	4,52	4,52	4,63	4,56	4,48	4,52	**4,52**
USDPLN*	3,95	3,74	3,68	3,86	3,95	3,75	3,73	3,72	3,74	3,95	3,79	3,66	3,81	**3,80**
CHFPLN*	4,17	4,10	4,07	4,21	4,32	4,13	4,21	4,18	4,11	4,18	4,15	4,07	4,12	**4,12**
CPI inflation (% YoY)	3,3	3,0	2,9	3,2	3,1	3,0	2,4	2,6	2,4	3,2	4,3	4,7	4,4	
Core inflation (% YoY)	4,1	4,3	4,0	4,3	4,2	4,3	3,7	3,9	3,7	3,9	3,9	4,0	3,5	
Industrial production (% YoY)	0,5	1,1	1,5	5,7	1,0	5,4	11,1	0,7	2,5	18,6	44,2	29,7	**21,1**	
PPI inflation (% YoY)	-0,8	-0,6	-1,3	-1,4	-0,4	-0,2	0,1	1,0	2,2	4,2	5,5	6,5	**7,0**	
Retail sales (% YoY)	-1,9	2,7	0,4	2,7	-2,1	-5,3	-0,8	-6,0	-2,7	17,1	25,7	19,1	**9,5**	
Corporate sector wages (% YoY)	3,6	3,8	4,1	5,6	4,7	4,9	6,6	4,8	4,5	8,0	9,9	10,1	**9,6**	
Employment (% YoY)	-3,3	-2,3	-1,5	-1,2	-1,0	-1,2	-1,0	-2,0	-1,7	-1,3	0,9	2,7	**2,7**	
Unemployment rate* (%)	6,1	6,1	6,1	6,1	6,1	6,1	6,2	6,5	6,5	6,4	6,3	6,1	**5,9**	
Current account (M EUR)	3333	650	1273	1330	1917	1504	889	2006	834	116	1631	60		
Exports (% YoY EUR)	4,3	2,2	2,4	6,6	3,6	10,0	14,7	0,8	6,3	28,9	69,2	41,7		
Imports (% YoY EUR)	-7,4	-3,6	-4,0	2,1	-4,1	4,1	12,4	-4,5	5,8	24,3	59,7	53,7		

*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)		2,0	-8,3	-1,7	-2,7	-0,9	12,0	4,9	5,5	-2,7	5,3	4,9
Private consumption (% YoY)		1,2	-10,8	0,4	-3,2	0,2	12,3	3,8	3,5	-3,0	4,7	4,5
Gross fixed capital formation (% YoY)		1,7	-9,8	-8,2	-15,4	1,3	7,7	6,1	11,8	-9,6	7,6	8,4
Export - constant prices (% YoY)		2,7	-13,7	2,3	7,6	5,7	14,9	8,5	9,3	-0,2	9,4	8,3
Import - constant prices (% YoY)		0,8	-16,6	-0,3	8,2	10,0	9,6	6,7	8,0	-1,9	8,5	8,9
GDP growth contributions	Private consumption (pp)	0,7	-6,2	0,2	-1,7	0,1	6,8	2,2	1,7	-1,7	2,6	2,5
	Investments (pp)	0,2	-1,6	-1,4	-3,9	0,2	1,2	1,0	2,5	-1,8	1,3	1,4
	Net exports (pp)	1,1	0,8	1,4	0,1	-1,9	3,5	1,5	1,3	0,8	1,1	0,0
Current account (% of GDP)***		1,1	2,2	2,9	3,5	3,1	2,8	3,2	3,1	3,5	3,1	2,5
Unemployment rate (%)**		5,4	6,1	6,1	6,2	6,4	5,9	5,7	5,6	6,2	5,6	5,1
Non-agricultural employment (% YoY)		0,7	-1,8	-0,7	0,0	0,0	1,8	0,9	0,7	-0,5	0,9	0,4
Wages in national economy (% YoY)		7,7	3,8	4,8	5,0	6,6	7,0	6,5	6,3	5,3	6,6	5,8
CPI Inflation (% YoY)*		4,5	3,2	3,0	2,8	2,7	4,5	4,5	4,5	3,4	4,1	3,0
Wibor 3M (%)**		1,17	0,26	0,22	0,21	0,21	0,21	0,21	0,21	0,21	0,21	0,44
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	4,52	4,45	4,45	4,55	4,45	4,30
USDPLN**		4,13	3,95	3,86	3,73	3,95	3,81	3,71	3,71	3,73	3,71	3,47

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

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST* CA	FORECAST* CONSENSUS**
		Monday 07/19/2021				
10:00	**Poland**	**Employment (% YoY)**	**Jun**	**2,7**	**2,7**	**2,7**
10:00	**Poland**	**Corporate sector wages (% YoY)**	**Jun**	**10,1**	**9,6**	**9,3**
		Tuesday 07/20/2021				
10:00	Eurozone	Current account (bn EUR)	May	22,8		
10:00	**Poland**	**PPI (% YoY)**	**Jun**	**6,5**	**7,0**	**6,8**
10:00	**Poland**	**Industrial production (% YoY)**	**Jun**	**29,8**	**21,1**	**19,0**
14:30	USA	Housing starts (k MoM)	Jun	1572	1564	1592
14:30	USA	Building permits (k)	Jun	1683	1675	1700
		Wednesday 07/21/2021				
10:00	**Poland**	**Retail sales (% YoY)**	**Jun**	**19,1**	**9,5**	**11,2**
		Thursday 07/22/2021				
13:45	Eurozone	EBC rate decision (%)	Jul	0,00	0,00	0,00
14:00	**Poland**	**M3 money supply (% YoY)**	**Jun**	**9,0**	**8,2**	**7,9**
14:30	USA	Initial jobless claims (k)	w/e	360		350
16:00	USA	Existing home sales (M MoM)	Jun	5,80	5,90	5,90
16:00	Eurozone	Consumer Confidence Index (pts)	Jul	-3,3	-2,5	-2,5
		Friday 07/23/2021				
9:30	Germany	Flash Manufacturing PMI (pts)	Jul	65,1	64,6	64,1
10:00	Eurozone	Flash Services PMI (pts)	Jul	58,3	60,8	59,6
10:00	Eurozone	Flash Manufacturing PMI (pts)	Jul	63,4	62,5	62,5
10:00	Eurozone	Flash Composite PMI (pts)	Jul	59,5	61,0	60,0
10:00	**Poland**	**Registered unemplyment rate (%)**	**Jun**	**6,1**	**5,9**	**6,0**
15:45	USA	Flash Manufacturing PMI (pts)	Jul	62,1		62,0

*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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