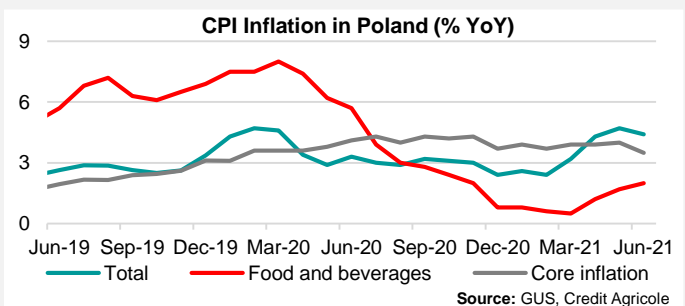


This week

- / **The most important event this week will be the FOMC meeting planned for Wednesday.** We expect the Fed to keep monetary policy parameters unchanged. J. Powell will most likely point out again that although the situation in the US labour market is improving, it is still far from its equilibrium. The Fed Chairman J. Powell will also stress that despite the recent strong increase in inflation, he maintains his assessment that the increase is temporary. The meeting will most likely start a discussion about the tapering of the asset purchase programme. We expect, however, that no details will be released and J. Powell will only repeat that the Fed will notify investors in advance about its intention to start tapering. We believe that the conference following the FOMC meeting will add to the volatility of the PLN and the prices of Polish bonds.
- / **Significant data from the Eurozone will be published this week.** We expect QoQ GDP growth to have picked up to 1.3% in Q2 from -0.3% in Q1 amidst the easing of restrictions in the Eurozone. On Thursday, the release of a flash estimate of Germany's GDP growth will provide more data on GDP growth in the Eurozone. We forecast that GDP growth rose to 2.2% QoQ in Q2 from -1.8% in Q1. We also forecast that HICP inflation in the Eurozone did not change in July compared to June, standing at 1.9% YoY. We believe that the release of the data will add to the volatility of the PLN and yields on Polish bonds.
- / **Some important data from the US will be released this week.** Thursday will see the release of preliminary data on durable goods orders in the US, which according to our forecast grew by 3.0% MoM in June vs. growth of 2.3% in May due to a higher volume of Boeing orders. We expect that PCE inflation rose from 3.9% in May to 4.1% YoY in June, which would be the highest level since 2008. The rise in headline inflation was driven by an increase in core PCE inflation, from 3.4% to 3.8%. This week will also see the publication of business survey results. We believe that both the Conference Board's consumer confidence index (122.3 pts in July vs. 127.3 pts in June) and the final University of Michigan index (80.8 pts vs 85.5 pts) will show a deterioration in household sentiment due to high inflation and concerns mounting over another wave of the pandemic. A flash GDP estimate for Q2 will also be released this week. We expect that annualized GDP growth rose to 8.8% from 6.4% in Q1 due to the opening of the economy after the spring restrictions. We believe that the release of US economy data will be overshadowed by the FOMC meeting, and thus its impact on financial markets will be limited.
- / **Friday will see the release of Poland's flash inflation figures; in our opinion inflation rose to 4.7-4.8% YoY in July from 4.4% in June.** The pace of price rises in July was driven up by faster rises in the prices of fuels, energy, and food while being driven down by lower core inflation. Our forecast is close to the consensus (4.7%), and thus its materialization would be neutral for the PLN and yields on Polish bonds.
- / **Today, the Ifo index will be published, reflecting the sentiment of German businesses in the manufacturing, construction, trade, and services sectors.** We expect the index to have risen to 103.2 pts in July from 101.8 pts in June. Our forecast is supported by a strong rise in Germany's Composite PMI (see below). We believe that the publication of the index will be neutral for financial markets.

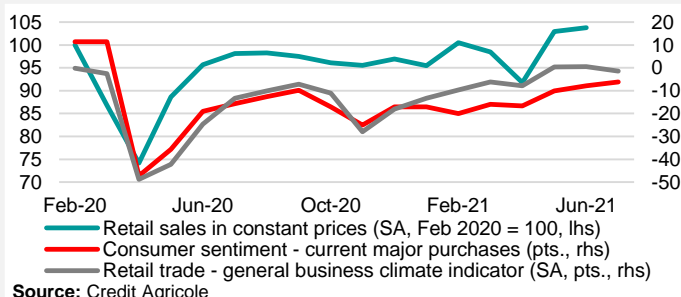


Last week

- **According to flash data, the Eurozone's Composite PMI rose to 60.6 pts in July from 59.5 pts in June, which is slightly above market expectations (60.0 pts)** and represents the highest level since June 2020. Moreover, the index rose in July markedly above its average for Q2 (56.8 pts), which supports our forecast of a marked acceleration of GDP growth in the Eurozone, from 1.3% QoQ in Q2 to 3.1% in Q3 (see below).
- **The ECB met last week.** As we expected, the ECB interest rates were kept unchanged (the deposit rate is -0.50%). The ECB reiterated that it would continue its asset purchases under the Pandemic Emergency Purchase Programme (PEPP) while maintaining its target scale (EUR 1,850bn) and horizon (at least until March 2022). In its press release the ECB confirmed that it would continue the Asset Purchase Programme (APP) at a monthly pace of EUR 20bn for as long as necessary to reinforce the easing effect of the ECB's key interest rates. The statement that the programme will end shortly before the ECB starts raising interest rates was also reiterated. The parameters of the TLTRO (targeted longer-term refinancing operations) and programmes were also maintained. The key change in the monetary policy parameters is the revision of the ECB's forward guidance in line with its new strategy, including the revised inflation target (2%, see MACROmap of 12/07/2021). Previously, the forward guidance read: 'The Governing Council expects the key ECB interest rates to remain at their present or lower levels until it has seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2% within its projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics.' The wording was revised as follows: ' (...) the Governing Council expects the key ECB interest rates to remain at their present or lower levels until it sees inflation reaching two per cent well ahead of the end of its projection horizon and durably for the rest of the projection horizon, and it judges that realised progress in underlying inflation is sufficiently advanced to be consistent with inflation stabilising at two per cent over the medium term.' We believe that in practice this means that a necessary condition for a rate hike would be for core inflation projected by the ECB in its macroeconomic projections to remain at least at 2% over a two-year horizon. It is worth noting that the last time such a situation occurred was in 2005 and we do not expect such a scenario to materialize in the coming years. Thus, such a change to the forward guidance indicates that easy monetary policy (both low interest rates and continuation of quantitative easing and TLTRO programmes) will be continued for longer than earlier expected. Consequently, we believe that in September or Q4, the ECB will calibrate its asset purchase programmes, increasing their scale and extending their time horizon.
- **Industrial production in Poland grew by 18.4% YoY in June vs. growth of 29.8% in May.** The main reason for the sharp slowdown in industrial production between May and June were base effects related to the opening of the economy a year ago - in June 2020 seasonally adjusted industrial production grew strongly (by 9.4% MoM). Seasonally adjusted industrial production grew by 0.2% between May and June. We estimate that industrial production in June was already 7.1% higher than before the outbreak of the pandemic (i.e. February 2020). It is worth noting that in recent months we have seen a gradual change in the breakdown of industrial production growth. Last February, export sectors alone accounted for almost all the growth in industrial production, while in the following months they lost in relative importance to sectors other than exports and constructions. In June, the contributions of those two segments to production growth levelled off (see MACROPulse of 20/07/2021). Construction and assembly production grew by 4.4% YoY in June vs. a drop of 4.7% in May. Year-on-year slowdown in production is quite surprising in the light of last year's low base effects and statistical effects in the form of a favourable difference in the number of working days. Seasonally-adjusted construction-and-assembly production fell by 1.5% MoM in June (see MACROPulse of 21/07/2021). We believe that the surprising June construction-and-assembly production figures should be seen as a

temporary disruption in the growth cycle rather than a sign that the positive trends in construction will reverse. The data on industrial production and construction and assembly production combined with retail sales data (see below) do not change our forecast of Poland's GPG growth of 12.0% YoY in Q2 vs. a drop of 0.9% in Q1.

➤ **Nominal retail sales in Poland grew by 13.0% YoY in June comparing to a 19.1% growth in May.** Retail sales in constant prices increased by 8.6% YoY in June comparing to an increase of 13.9% in May. Seasonally-adjusted retail sales in constant prices grew by 0.8% MoM in June, and went up by 3.8%

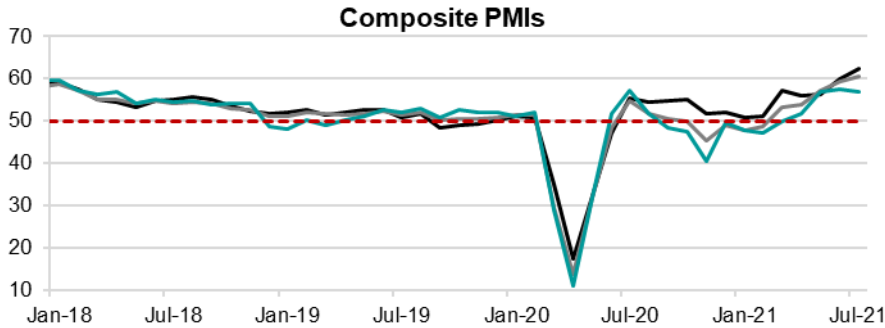


comparing to February 2020, which was the last month when the sales were not materially affected by the pandemic. The June data shows that the annual retail sales growth is going back towards normal, being mostly driven by the wage fund growth now, with the restrictions adopted in relation to the third wave of the pandemic having been lifted (see MACROpulse of 21/07/2021). In our opinion, sales growth expressed in annual terms will be gradually slowing down from July to September, but we do not expect it to come back entirely to normal due to households' mobility, which is much higher than the year before, and due to a lower base effect, which is related to it. The June data on retail sales carries an upside risk for our forecast, in which consumption will grow by 12.3% YoY in Q2 comparing to a 0.2% growth in Q1.

➤ **In accordance with the GUS data, nominal salary growth in the enterprise sector fell from 10.1% YoY in May to 9.8% YoY in June.** In real terms, after the adjustments made to take into consideration the changes in prices, salaries in companies rose by 5.1% YoY in June comparing to a 5.2% growth in May. The employment growth in the enterprise sector went up to 2.8% YoY in June vs. 2.7% in May. In monthly terms, in June, the number of employed increased by 20.8k comparing to a 21.6k growth in May. According to the GUS, it resulted, among others, from employers hiring new employees, upward adjustments to working time bases to pre-pandemic levels, and reduced absence caused by employees' taking sickness benefits and carer's allowance. This was connected with the last stage of economy unfreezing in the second half of May (see MACROpulse of 20/07/2021). However, it should be noted that even though the number of FTEs has grown strongly over the last couple of months, the number of employed in June was still lower by 87,000 comparing to the level seen before the outbreak of the pandemic (February 2020).

➤ **We have revised our forecast for the EURPLN rate upwards (see the quarterly table).** Poland's legal dispute with the EU that carries a risk for the launching of the National Recovery Plan, weakening market expectations about the tightening of the monetary policy by the MPC and the dovish statements of the NBP President as well as uncertainties concerning the autumn wave of the COVID-19 pandemic should be mentioned as factors having a negative impact on the PLN. In the mid-term horizon, we expect the pandemic to withdraw gradually, the economic recovery to continue, and the dispute with the EU to be settled, which will be conducive to PLN appreciation. To sum up, we expect the EURPLN to stand at 4.55 and 4.30 at the end of 2021 and 2022, respectively.

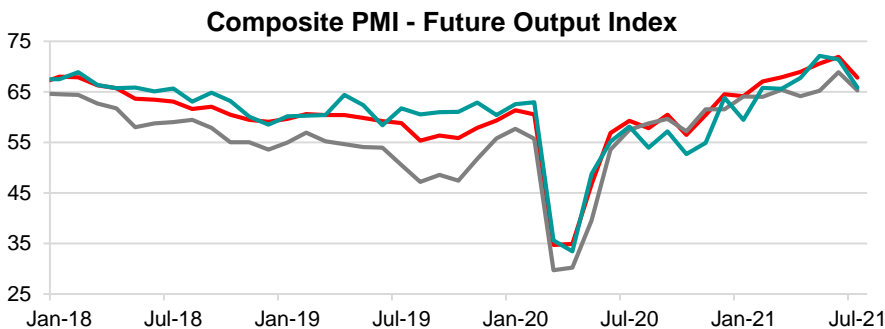
Sentiment in the Eurozone negatively impacted by the fears of fourth wave of the pandemic



Source: Markit, Credit Agricole — Germany — Eurozone — France

Preliminary data shows that the composite PMI (manufacturing and services) for the Eurozone increased from 59.5 pts in June to 60.6 pts in July, running slightly above the market consensus (60.0 pts). The increase in the composite PMI index was due to an increase in the component for business activity in services, while a decline in the component for current production

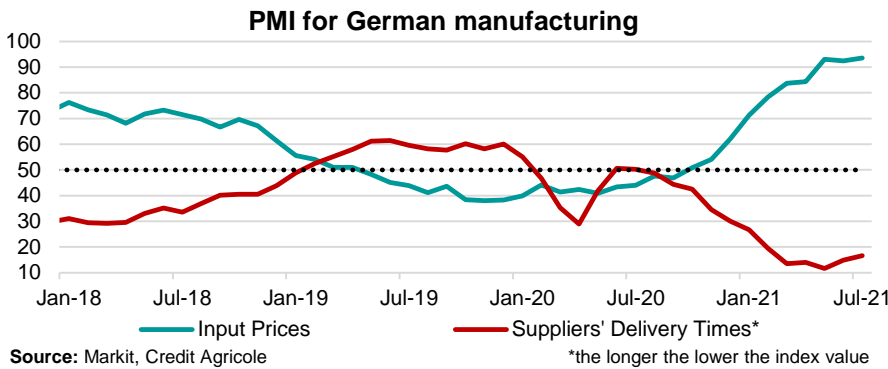
in manufacturing had the opposite effect. The increase in the PMI indices had a wide geographical scope. It declined only in France, while Germany and other Eurozone economies included in the survey saw improvement in the situation. The composite PMI for the Eurozone has reached the highest level since June 2020. Moreover, in July, it increased significantly comparing to an average value for Q2 2021 (56.8 pts), which supports our forecast, in which the economic growth in the Eurozone will accelerate significantly from 1.3% QoQ in Q2 2021 to 3.1% in Q3 2021.



Source: Markit, Credit Agricole — Eurozone — Germany — France

Although companies are optimistic about the current situation, the optimism being supported by further, gradual unfreezing of economies in the Eurozone, they are less so about the future. The index of expected output for 12 months (aggregated for manufacturing and services) in the Eurozone in July has reached the lowest level since February 2021. The indices

concerning expectations in France and Germany have also reached the lowest levels comparing to values reported over the last couple of months (see the diagram). In accordance with the press release, the pessimism grew because the firms that took part in the survey fear the impact of the Covid-19 Delta variant on the economic perspectives in the months to come. Apart from concerns regarding the impact of the growing number of new cases on the demand, the companies also pointed to another wave of the pandemic as a factor that may cause the supply barriers to intensify (see below). The issues mentioned above were most frequently pointed to by French firms, which is consistent with an increasing wave of the pandemic currently seen in France (see COVID Dashboard).

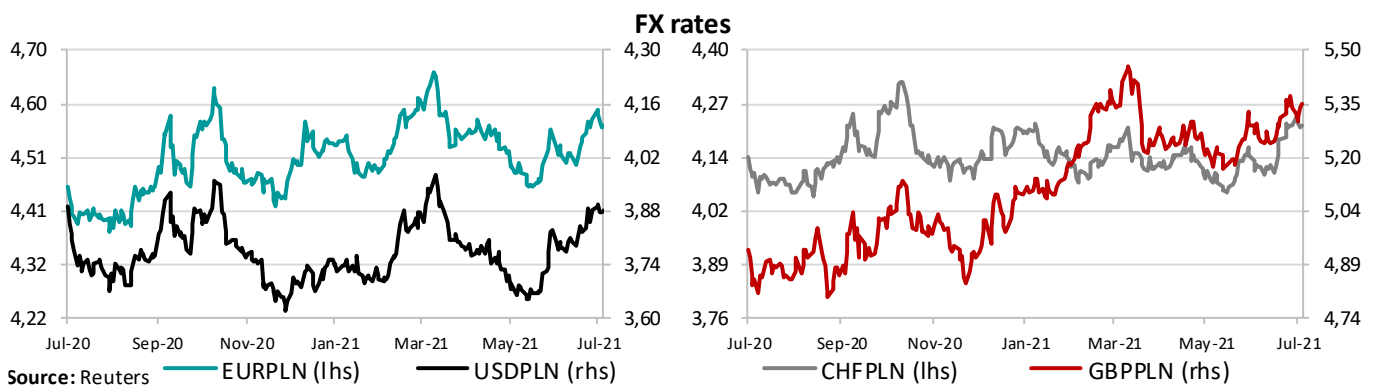


From the point of view of Polish exports, trends in Germany are particularly important, where the PMI index for manufacturing rose to 65.6 pts in July vs. 65.1 pts in June. The surveyed firms reported a strong increase in demand, which was reflected by the component for new total orders reaching the highest level since April 2021. At the same time, the companies pointed

to growing supply problems connected with the so-called bottlenecks in the production process. Delivery times have increased significantly in July, and so have the backlogs of work. The supply barriers have curbed the industrial production in July to the lowest level since May 2021. They have also caused the inflation pressure to rise. The prices of semi-finished goods, raw materials and finished products in July have been growing at the fastest pace in the history of the survey. Therefore, supply barriers are a factor that limits the economic recovery in Germany in the short-term horizon. Bottlenecks in German manufacturing may lead to a reduction in demand for intermediate goods manufactured in Poland and used in the production process (see MACROPulse of 20/07/2021).

Last week's sentiment data is indicative of a relatively favourable outlook for the demand both in Germany and in the Eurozone economy as a whole. Uncertainty connected with the fourth wave of the pandemic continues to carry a downside risk for the GDP growth. It is expected to have a slight negative impact on the economic activity, which supports our scenario in which the dynamics of the Polish exports will decrease only slightly from 14.9% YoY in Q2 2021 to 8.9% in H2 2021.

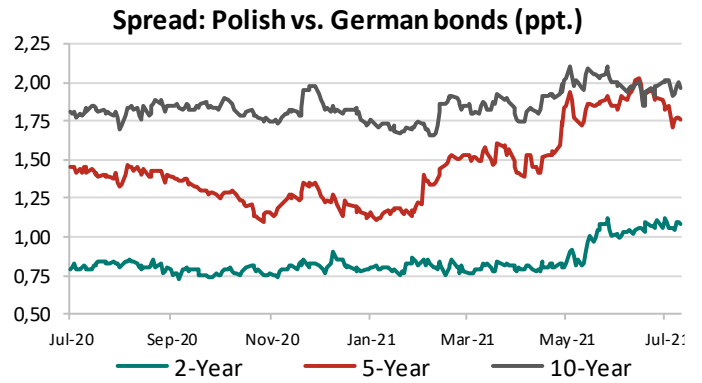
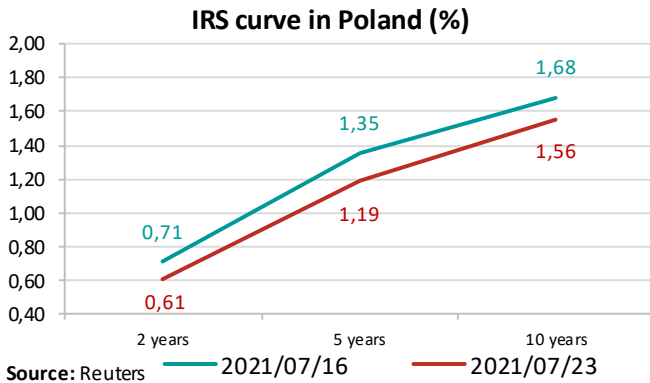
Data from the Eurozone of key importance for the PLN



Last week, the EURPLN rate dropped to 4.5667 (the PLN strengthened by 0.2%). Last week, the EURPLN followed a slight downward trend driven by a decrease in global risk aversion, which was reflected in the decrease in the VIX index. The publication of data on the labour market, industrial production and retail sales in Poland had no significant impact on the market. However, the results of economic sentiment surveys in the Eurozone, which were better than expected were driving the EURPLN up on Friday. The decrease in global risk aversion also facilitated the EURUSD rate growth. Nonetheless, given the dovish tone of the conference following the ECB meeting, we saw a temporary weakening of the euro against the dollar (see above).

The data on the GDP growth in the Eurozone and Germany and on the inflation in the Eurozone will be important for the PLN as they may contribute to an increased volatility of the PLN. We believe that the FOMC meeting which is planned for this week will also be conducive to an increased volatility in the currency market. In our opinion, the US data, the Ifo, and the publication of inflation data for Poland will not have any significant impact on the PLN.

FOMC meeting in the spotlight



Last week the 2-year IRS rates decreased to 0.61 (down by 11bp), 5-year rates to 1.19 (down by 17bp), and 10-year rates to 1.56 (down by 13bp). Last week saw a significant decline in IRS rates across the curve following the core markets. The decline was connected with investors’ fears concerning the growing number of new COVID-19 infections in many countries, which curbed market expectations for monetary policy tightening. The publication of data on the labour market, industrial production and retail sales in Poland had no impact on the market.

Information on the growing number of new Covid-19 cases will come under the spotlight this week. We believe that the data on the GDP growth in the Eurozone and Germany and on the inflation in the Eurozone will be conducive to an increased volatility of IRS rates. The FED’s meeting, which is planned for this week will have a similar impact on the IRS rates. We believe that other macroeconomic data that will be published this week will have no impact 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	4,57
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	3,84
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	4,16
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	18,4	
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	6,6	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	13,0	
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	9,8	
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	2,8	
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	3,7	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	4,60	4,55	4,55	4,55	4,30	
USDPLN**	4,13	3,95	3,86	3,73	3,95	3,81	3,83	3,79	3,73	3,79	3,47	

* quarterly average

** end of period

***cumulative for the last 4 quarters

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST*	
					CA	CONSENSUS**
Monday 07/26/2021						
10:00	Germany	Ifo business climate (pts)	Jul	101,8	103,2	102,1
16:00	USA	New home sales (k)	Jun	769	800	800
Tuesday 07/27/2021						
10:00	Eurozone	M3 money supply (% MoM)	Jun	8,4		8,2
14:30	USA	Durable goods orders (% MoM)	Jun	2,3	3,0	2,1
15:00	USA	Case-Shiller Index (% MoM)	May	1,6		
16:00	USA	Richmond Fed Index	Jul	22,0		
16:00	USA	Consumer Confidence Index	Jul	127,3	122,3	124,1
Wednesday 07/28/2021						
20:00	USA	FOMC meeting (%)	Jul	0,25	0,25	0,25
Thursday 07/29/2021						
11:00	Eurozone	Business Climate Indicator (pts)	Jul	1,71		
14:00	Germany	Preliminary HICP (% YoY)	Jul	2,1	2,8	3,0
14:30	USA	Preliminary estimate of GDP (% YoY)	Q2	6,4	8,8	8,6
Friday 07/30/2021						
8:00	Germany	Preliminary GDP (% QoQ)	Q2	-1,8	2,2	2,0
10:00	Poland	CPI (% YoY)	Jul	4,4	4,7	4,7
11:00	Eurozone	Preliminary GDP (% QoQ)	Q2	-0,3	1,3	1,5
11:00	Eurozone	Preliminary HICP (% YoY)	Jul	1,9	1,9	2,0
11:00	Eurozone	Unemployment rate (%)	Jun	7,9		7,9
14:30	USA	Real private consumption (% MoM)	Jun	-0,4		
14:30	USA	PCE Inflation (% YoY)	Jun	3,9	4,1	
14:30	USA	PCE core inflation (% YoY)	Jun	3,4	3,8	3,7
15:45	USA	Chicago PMI (pts)	Jul	66,1		63,5
16:00	USA	Final U. of Michigan Sentiment Index (pts)	Jul	80,8	80,8	80,8

*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