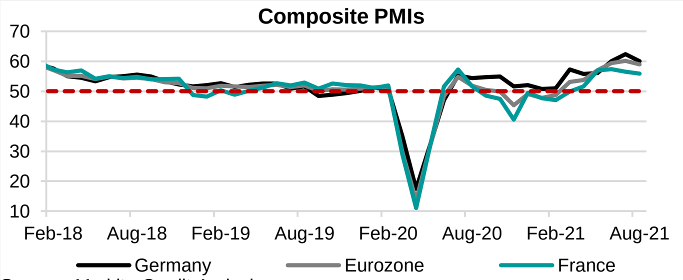
Short-term outlook for Polish automotive industry remains positive

This week

- **This week's highlight is the FOMC meeting scheduled for Wednesday.** We do not expect the Fed to change its monetary policy parameters. Considering the weak August data from the US labour market (see MACROmap of 06/09/2021), we believe that the Federal Reserve will opt not to initiate a tapering of its asset purchase program at its September meeting. In our opinion, the Fed will not implement this measure before November unless September data regarding US non-farm payrolls is disappointing. After the meeting, the FOMC will present its latest macroeconomic projection, which, for the first time, will extend to 2024. Our baseline scenario assumes that the median of FOMC members' expectations regarding interest rates will not change compared with the June projection (no hike in 2022 and two hikes of 25bp each in 2023). We believe that the September projection will assume another two increases of 25bp each in 2024, a move consistent with the dovish US monetary policy tightening cycle. However, we see a significant upward risk for our scenario, and in the alternative scenario, we assume raising of the entire path, with the first hike occurring in 2022. In our opinion, the FOMC meeting will induce the increased volatility of the PLN exchange rate and Polish bond yields.
- **This week will see the release of US housing market data.** We expect that data on housing starts (1,565k in August vs. 1,534k in July, up by 2.0% MoM), building permits (1,589k vs. 1,630k, down by 2.5%), existing home sales (5.85 million vs. 5.99 million, down by 2.3% MoM) and new home sales (715k vs. 708k, up by 1.0%) will paint a mixed picture of activity on the US real property market. We believe that the data from the US housing market will remain overshadowed by the Fed meeting and its effect on the PLN exchange rate and Polish bond yields will be limited.
- **On Thursday, preliminary results of economic surveys in major European economies will be published.** We expect that the composite PMI in the Eurozone did not change between September and August, standing at 59.0 pts. We believe that the stabilization of the index followed from an improvement of the economic situation in services and a slight deterioration in manufacturing. So far, the limited impact of the fourth wave of the pandemic on the activity in the services sector had a positive effect on sentiment. Geographically, we expect a slight improvement of the situation in France and a slight deterioration in Germany. Friday will see the publication of the Ifo index showing the sentiment of German businesses representing the manufacturing, construction, trade and services sectors. We anticipate that the index climbed to 99.5 pts in September vs. 99.4 pts in August. Our forecasts for the business sentiment in the Eurozone are close to the consensus, and thus their materialization will be neutral for the PLN and Polish bond prices.

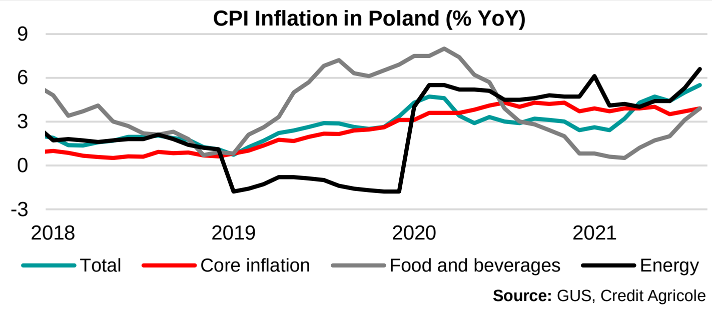


Source: Markit, Credit Agricole

- **Today, data on Poland's industrial production in August will be published.** We forecast that industrial output growth accelerated to 15.9% YoY vs. 9.8% in July. The main driver of this trend was favorable calendar effects, while the economic situation in the industry, both in Poland and abroad, deteriorated. Our forecast of industrial output growth is fairly aligned with the market consensus, thus its materialization will be neutral for the PLN exchange rate and Polish bond yields.
- **On Tuesday, data on retail sales in Poland will be published.** We forecast that it increased by 10.0% YoY in August vs. an 8.9% growth in July. Similarly to industrial output, retail sales expanded chiefly on the back of favorable calendar effects. Our forecast for retail sales growth

is close to the market consensus, thus its materialization will not have a major bearing on the PLN exchange rate and Polish bond yields.

Last week



- **CPI inflation in Poland climbed to 5.5% YoY in August vs. 5.0% in July, exceeding the preliminary estimate (5.4%).** Thus, inflation reached its highest level since June 2001 and has remained above the upper band for deviations for the NBP's inflation target (3.5% YoY) for 5 months running. Inflation was driven by higher core inflation (3.9% YoY in August vs. 3.7% in July), as well as an increase in prices in the "food and non-alcoholic beverages" (3.9% vs. 3.1%) and "energy carriers" (6.6% vs. 5.3%) categories with a slowdown in fuel price growth (28.0% as compared to 30.0%) having the opposite effect. Particularly noteworthy in the data structure is the rise in core inflation, mainly attributable to the realization of pent-up demand in sectors of the economy that were frozen in the previous months, which has a pro-inflationary effect in a supply-constrained environment (see MACROpulse of 15/09/2021). Last week's data suggest a significant upward risk to our inflation scenario in 2021 (4.4% YoY vs. 3.4% in 2020). Nevertheless, we stand by our monetary policy scenario for Poland, whereby the Monetary Policy Council will not change interest rates until the end of 2022, with the first reference rate hike occurring in January 2023 (from 0.10% to 0.25% – see MACROpulse of 08/09/2021).
- **The Polish current account balance contracted to EUR -1,972m in July, down from EUR +281m in June, well below market expectations (EUR -160m) and our forecast (EUR +93m).** This marks the first deficit on the Polish current account since July 2019. The reduction in the current account balance was attributable to the balances on goods, services and primary income (by, respectively, EUR 1,475m, EUR 572m and EUR 314m lower than in June), with a higher balance on secondary income (EUR 253m higher than in June) having the opposite effect. The main reason for this surprising result was a more pronounced decline in Polish exports growth (13.7% YoY in July vs. 23.9% in June) than the growth of imports (22.1% vs. 36.3%). Demand for imported goods grew on the back of the strong recovery in consumption and investment in the Polish economy observed in recent months. The data poses a downward risk to our forecast, whereby the cumulative current account balance for the last four quarters in relation to GDP will decline to 2.1% in Q3 compared with 2.3% in Q2. Given the stabilization of interest rates, the marked current account deficit in Poland recorded in August is a negative factor for the PLN exchange rate.
- **In August, the nominal wage growth rate in the Polish enterprise sector climbed to 9.5% YoY vs. 8.7% in July.** Wage growth was driven by the favorable difference in the number of working days and the gradually increasing wage pressures in enterprises signaled in business climate surveys (see MACROpulse of 17/09/2021). Employment growth in the enterprise sector fell in August to 0.9% YoY vs. 1.8% in July. The annual employment growth rate slowed down chiefly on the back of last year's high base effects related to the rapid recovery of employment after the first wave of the pandemic. On a monthly basis, employment decreased by 9.7k in August vs. a 2.4k increase in July. The unexpected and clear drop in employment in August was most likely attributable to employment adjustments in companies using the financial shield, which required them to maintain staffing levels unchanged while they were receiving assistance. Real wage fund growth in the enterprise sector (the product of employment and the average wage adjusted by

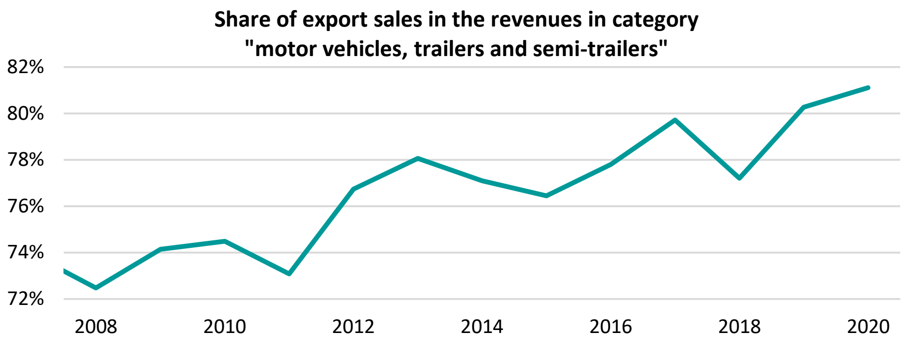
price changes) fell in August to 4.7% YoY vs. 5.4% in July and 7.5% in Q2. The slowdown in real wage fund growth is consistent with our forecast assuming that consumption growth will go down from 13.3% in Q2 to 4.4% YoY in Q3.

- **Last week saw the publication of important data from China.** In August, the industrial production growth slowed down to 5.3% YoY from 6.4% in July, retail sales slowed down to 2.5% vs. 8.5%, and fixed asset investment to 8.9% vs. 10.3%, performing below market expectations (5.8%, 7.2% and 9.2%, respectively). In the data structure, particularly noteworthy is the decline in retail sales and industrial production, largely in the wake of disruptions caused by a spike in China's COVID-19 cases and the August floods in the country. The markedly more substantial decline in retail sales growth than other indicators suggests that, apart from the factors mentioned above, the decline was also driven by deteriorating consumer sentiment and weaker domestic demand. Such an assessment is supported by the structure of retail sales data, where its decline was recorded not only in catering and fuel but also in electronics and clothing. August data from the Chinese economy and disruptions related to the rising number of COVID-19 infections in China prompted us to revise our GDP path for China downwards. We currently forecast that in 2021 China's economic growth will stand at to 8.3% YoY compared with 2.3% in 2020, and in 2022 will fall to 5.5% (8.5% and 5.7%, respectively, before the revision).
- **Last week, numerous data regarding the US economy was published.** The number of initial jobless claims increased to 322k vs. 312k two weeks prior (upward revision from 310k), running above market expectations. In turn, the number of continued claims dropped from 2.9m to 2.7m. Thus, the data shows that while the situation in the US labor market is gradually improving, it is still far from equilibrium. Last week also saw the release of data on industrial output, which grew by 0.4% in August compared with 0.8% in July (downward revision from 0.9%), running slightly below market expectations (0.5%). The decline was spurred by lower output growth in mining and processing, with a higher production growth rate in utilities having the opposite effect. It is worth noting that a monthly uptick in industrial production was recorded despite the negative impact of Hurricane Ida on activity in the US industry, especially in the mining sector. In August, capacity utilization increased to 76.4% compared with 76.2% in July, and thus was only slightly below pre-pandemic levels (approx. 77%). Last week also saw the release of data on retail sales, which in August grew by 0.7% vs. a -1.8% decrease in July (downward revision from -1.1%), performing well above market expectations (-1.0%). Excluding cars, monthly sales grew by 1.8% in August vs. -1.0% in July (downward revision from -0.4%), largely on the back of increasing sales across all categories. Growth in US retail sales was supported by the release of pent-up demand and funds given to households as part of Biden's stimulus package. Last week, data on CPI inflation was also released, showing a contraction to 5.3% YoY in August vs. 5.4% in July, in line with market expectations. On the other hand, monthly inflation unexpectedly deaccelerated strongly to 0.3% MoM in August compared with 0.5% in July, with market expectations running at 0.4%. At the same time, core inflation fell to 0.1% MoM in August vs. 0.3% in July, its lowest level since this February. As a consequence, in annual terms, core inflation fell to 4.0% YoY in August vs. 4.3% in July. On the one hand, the data structure of core inflation data shows that the pace of price growth in the categories that have been the main drivers of its growth so far (e.g. used cars, car rental, airline tickets, accommodation away from home) is slowing down. On the other hand, attention should be paid to the gradually increasing price pressures in non-covid categories (including rent, new cars and clothing). This supports our assessment that inflation in the US will remain at an elevated level until early 2022 and will not fall markedly before H2 2022. Last week, the regional NY Empire State (34.3 pts in September vs. 18.3 pts in August) and the Philadelphia FED (30.7 pts vs. 19.4 pts) indices were also published, signaling a slight improvement in manufacturing. The flash University of Michigan index signaled a slight improvement in consumer sentiment, which rose in September to 71.0 pts compared with 70.3 pts in August, which was nevertheless still below market expectations (71.9 pts). The index's growth followed from an improvement in consumers' future outlook with the present situation

assessment component having the opposite effect. The level of University of Michigan index, which was relatively low compared to recent months, indicates that the sentiment of American consumers is negatively influenced by the fourth wave of the pandemic in the US and high inflation. Last week's data from the US economy do not change our scenario whereby the annualized GDP growth rate will climb to 7.0% in Q3 compared with 6.6% in Q2 and in Q4 will follow along a downward trajectory. Consequently, throughout 2021 the American GDP will expand by 6.1% compared to a 3.5% drop in 2020, and in 2022 will increase by 4.0%.

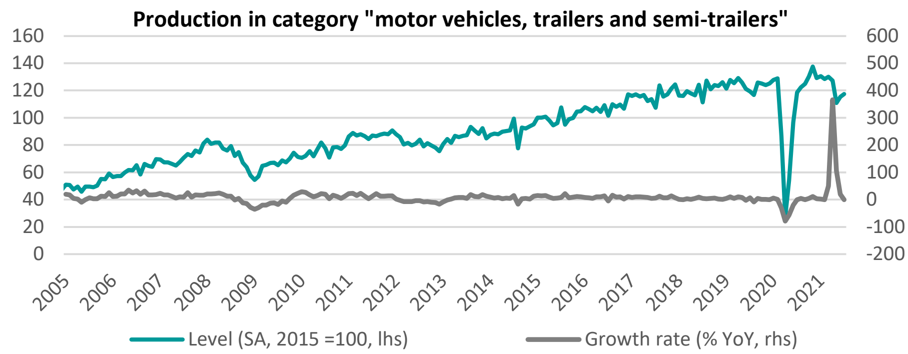
Short-term outlook for Polish automotive industry remains positive

In the MACROmap of 30/08/2021, we presented an analysis of the impact of the German automotive industry's slump on Polish manufacturing. In it, we demonstrated that the production slowdown in the German automotive industry has a limited effect on the activity in Polish manufacturing, and its negative consequences are primarily affecting the "motor vehicles, trailers and semi-trailers" category. Thus, the subject of the analysis below is to assess the current situation in the "motor vehicles, trailers and semi-trailers" category and its outlook.



Source: GUS, Credit Agricole

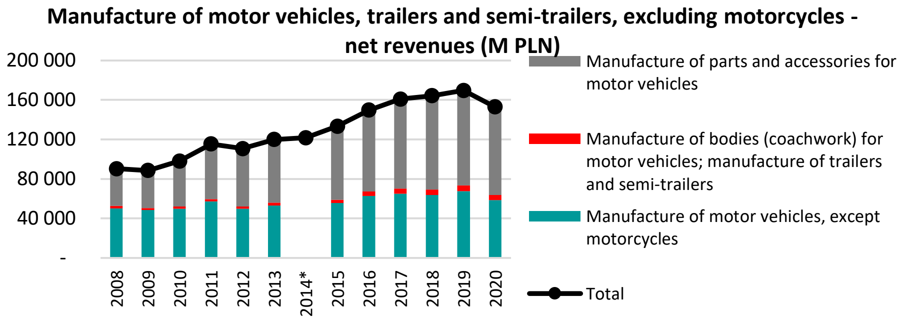
The "motor vehicles, trailers and semi-trailers" category has a very high exposure to foreign markets, particularly the German market. According to GUS data, the share of sales of products, goods and materials for export in this category's 2020 revenues increased to 81.1% compared to 80.3% and in the last decade was on a clear upward trend.



Source: Eurostat, Credit Agricole

The Polish automotive industry's strong reliance on exports resulted in the collapse of production in this category with the outbreak of the pandemic, due to the breakdown in international supply chains. In April 2020, the seasonally adjusted production level in the "motor vehicles, trailers and semi-trailers" category was 78.8% lower than directly prior to the outbreak of the pandemic (i.e. in February 2020). As supply chains were restored in the H2 2020, there was a spike in output as in late 2020 its seasonally adjusted level recovered to pre-pandemic trends. Nevertheless, the industry failed to make up accumulated production backlogs from previous months.

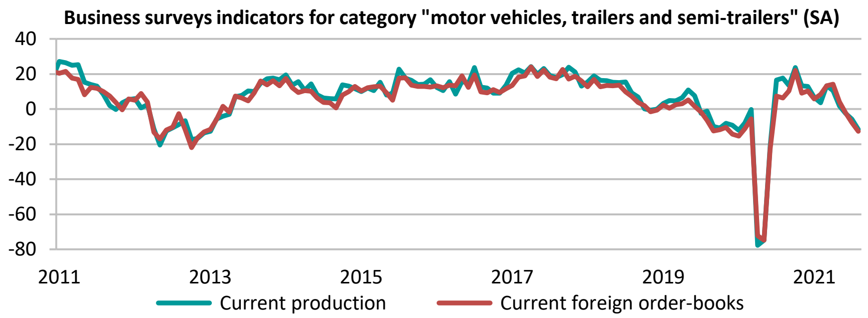
Short-term outlook for Polish automotive industry remains positive



Source: PONT Info, Credit Agricole

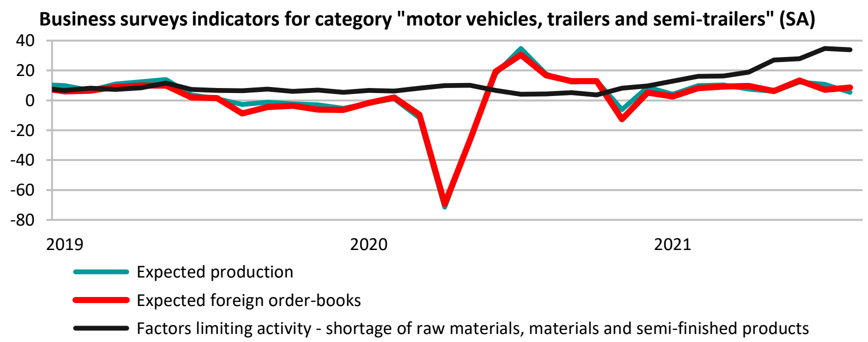
* lack of data

As a result of accumulated production backlogs, net revenues in the Polish automotive industry decreased to PLN 152.9bn in 2020 compared with PLN 169.6bn in 2019 (-9.9% YoY) and were at the lowest level since 2016. The drop in net revenues was wide-ranging and was recorded in all subcategories: "parts for motor vehicles" (-7.5%), "bodywork, trailers and semi-trailers" (-8.8%), "motor vehicles (excluding motorcycles)" (-13.4% YoY).



Source: GUS, Credit Agricole

Despite a robust end to 2020, as of early 2021 output and orders in the Polish automotive sector have started declining again. However, contrary to the situation in 2020, the current drivers of lower output are supply barriers related to the shortage of components necessary in the production process, e.g. semiconductors.

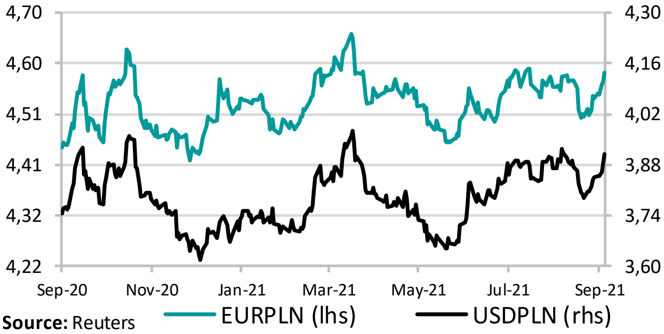


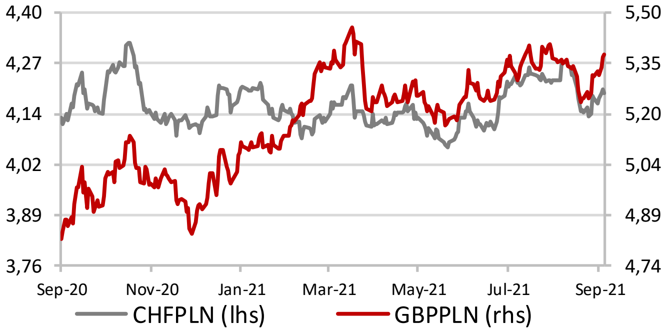
Source: GUS, Credit Agricole

In the coming months, we believe that supply barriers will gradually subside, favoring an uptick in production in the Polish automotive industry and its return to levels consistent with the long-term trend. This assessment is consistent with the results of economic surveys, according to which companies from the "motor vehicles, trailers and semi-trailers" sector have an optimistic outlook regarding both the level of anticipated production and foreign orders, with the main barrier to production growth currently being a shortage of raw materials, materials and parts . In the long term, excessive exposure towards the German automotive industry, which is poised to struggle with major structural problems in the coming years (see MACROmap of 30/08.2021), may pose a serious threat to the industry's outlook.

Fed meeting crucial for PLN

FX rates



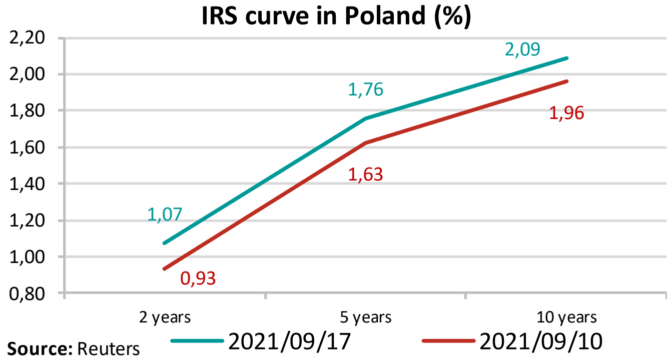


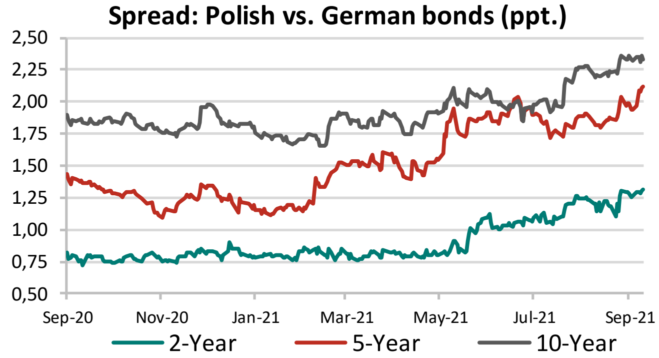
Source: Reuters

Last week, the EURPLN exchange rate rose to 4.5870 (depreciation of the PLN by 1.1%). The first part of the week saw a stabilization of the EURPLN exchange, with the Polish currency rising Wednesday through Friday. On Wednesday, the depreciation of the PLN was mainly attributable to local factors related to the discrepancy in the policy of central banks in the region (status quo in the policy of the NBP, prospect for continued interest rate hike cycle in Hungary by the MNB). This assessment is supported by an increase in the EURPLN rate with a simultaneous decline in the EURHUF rate. Later in the week, the reasons for the depreciation of the PLN were global, and, as a consequence, the EURPLN and EURHUF rates moved in the same direction. The weakening of the region's currencies may be associated with rising global risk aversion amid persistently high inflation in major economies, as well as increased uncertainty in anticipation of the FOMC meeting scheduled for this week, which will provide new important information on the US monetary policy prospects. This assessment is supported by the strengthening of the dollar against the euro recorded in the second part of last week. As a result, last week the USDPLN rate reached the highest value in over 3 weeks.

This week, the Fed meeting will be of key importance for the PLN as it may spur volatility on the market. Data from the US real estate market and the results of business climate surveys for the most important European economies (PMI indices, Ifo index for Germany) will, in our opinion, not have a significant impact on the exchange rate of the Polish currency. Domestic data on industrial output and retail sales will most likely be neutral for the PLN.

Fed meeting in market’s spotlight





Source: Reuters

Last week, 2-year IRS rates increased to 1.07 (up by 14 bps), 5-year to 1.76 (up by 13 bps), and 10-year to 2,09 (up by 13 bps). Last week saw a marked rise in IRS rates along the entire length of the curve, following the core markets (Germany, USA). The rise in yields in the core markets is supported by investors' concerns about rising inflation in the world's major economies fuelling their expectations of interest rate hikes by major central banks. In Poland, an additional factor conducive to an increase in IRS rates was the publication of inflation data exceeding the preliminary estimate. Last week, the NBP carried out an outright buy whereby the central bank bought bonds maturing in 13, 14, 15, 16 and 30 years worth PLN 1.83bn, of which PLN 0.43bn were treasury bonds and PLN 1.40bn BGK bonds for the COVID-19 Response Fund. The transaction had no significant effect on the curve. Since launching the program, the NBP has purchased bonds with a total nominal value of PLN 143.08bn. On Thursday, the Ministry of Finance conducted a debt conversion auction where for PLN 3.36bn, it repurchased bonds maturing in 2021 and 2021 and sold bonds with 3-, 5-, 10- and 11-year maturities for PLN 3.57bn. Similarly to the NBP operation, the auction had no major bearing on the curve.

This week the Fed meeting will be in the market's spotlight. We believe that it may contribute to increased volatility of IRS rates. Data from the US real estate market, results of business climate surveys for the most important European economies (PMI indices, Ifo index for Germany) and domestic data on industrial output and retail sales will, in our opinion, not have a significant impact on the curve.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland

Indicator	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-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*	4,40	4,53	4,60	4,47	4,55	4,52	4,52	4,63	4,56	4,48	4,52	4,56	4,52	**4,60**
USDPLN*	3,68	3,86	3,95	3,75	3,73	3,72	3,74	3,95	3,79	3,66	3,81	3,84	3,83	**3,87**
CHFPLN*	4,07	4,21	4,32	4,13	4,21	4,18	4,11	4,18	4,15	4,07	4,12	4,24	4,18	**4,22**
CPI inflation (% YoY)	2,9	3,2	3,1	3,0	2,4	2,6	2,4	3,2	4,3	4,7	4,4	5,0	5,5	
Core inflation (% YoY)	4,0	4,3	4,2	4,3	3,7	3,9	3,7	3,9	3,9	4,0	3,5	3,7	3,9	
Industrial production (% YoY)	1,5	5,7	1,0	5,4	11,1	0,7	2,5	18,6	44,2	29,6	18,1	9,8	**15,9**	
PPI inflation (% YoY)	-1,3	-1,4	-0,4	-0,2	0,1	1,0	2,2	4,2	5,5	6,6	7,2	8,2	**9,4**	
Retail sales (% YoY)	0,4	2,7	-2,1	-5,3	-0,8	-6,0	-2,7	17,1	25,7	19,1	13,0	8,9	**10,0**	
Corporate sector wages (% YoY)	4,1	5,6	4,7	4,9	6,6	4,8	4,5	8,0	9,9	10,1	9,8	8,7	9,5	
Employment (% YoY)	-1,5	-1,2	-1,0	-1,2	-1,0	-2,0	-1,7	-1,3	0,9	2,7	2,8	1,8	0,9	
Unemployment rate* (%)	6,1	6,1	6,1	6,1	6,2	6,5	6,5	6,4	6,3	6,1	5,9	5,8	**5,8**	
Current account (M EUR)	1273	1330	1917	1504	889	2006	834	116	1631	129	281	-1827		
Exports (% YoY EUR)	2,4	6,6	3,6	10,0	14,7	0,8	6,3	28,9	69,2	41,7	23,9	13,7		
Imports (% YoY EUR)	-4,0	2,1	-4,1	4,1	12,4	-4,5	5,8	24,3	59,7	53,7	36,3	22,1		

*end of period

Forecasts of the quarterly macroeconomic indicators

Main macroeconomic indicators in Poland

Indicator	2021				2022				2020	2021	2022
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Gross Domestic Product (% YoY)	-0,9	11,1	5,4	5,6	5,0	5,1	4,8	4,8	-2,7	5,3	4,9
Private consumption (% YoY)	0,2	13,3	4,4	4,0	3,9	3,5	3,7	3,6	-3,0	5,2	3,7
Gross fixed capital formation (% YoY)	1,3	5,0	7,6	13,5	8,5	8,1	8,6	7,0	-9,6	8,0	7,9
Export - constant prices (% YoY)	5,7	29,3	15,4	8,1	7,0	7,5	7,3	7,5	-0,2	13,9	7,3
Import - constant prices (% YoY)	10,0	35,8	17,2	9,3	8,5	8,3	8,1	8,0	-1,9	17,0	8,2
GDP growth contributions											
Private consumption (pp)	0,1	0,0	2,6	2,0	2,4	2,0	2,2	1,7	-1,7	2,9	2,1
Investments (pp)	0,2	0,0	1,2	2,9	1,1	1,2	1,4	1,6	-1,8	1,3	1,3
Net exports (pp)	-1,9	0,0	0,1	0,0	-0,4	0,0	0,0	0,2	0,8	-0,6	0,0
Current account (% of GDP)***	3,1	2,3	2,1	2,0	1,9	1,8	1,7	1,7	3,5	2,0	1,7
Unemployment rate (%)**	6,4	5,9	5,7	5,8	6,0	5,5	5,3	5,4	6,2	5,8	5,4
Non-agricultural employment (% YoY)	0,1	3,1	1,0	0,8	0,5	0,5	0,4	0,4	-0,5	1,2	0,5
Wages in national economy (% YoY)	6,6	9,6	8,1	7,5	7,0	6,5	7,0	6,3	5,3	7,9	6,7
CPI Inflation (% YoY)*	2,7	4,5	5,1	5,2	4,4	3,3	2,7	2,6	3,4	4,4	3,3
Wibor 3M (%)**	0,21	0,21	0,22	0,22	0,22	0,22	0,22	0,45	0,21	0,22	0,45
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
EURPLN**	4,63	4,52	4,60	4,55	4,50	4,40	4,35	4,30	4,55	4,55	4,30
USDPLN**	3,95	3,81	3,87	3,79	3,75	3,64	3,57	3,47	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	FORECAST* CONSENSUS**
		Monday 09/20/2021				
10:00	**Poland**	**PPI (% YoY)**	**Aug**	**8,2**	**9,4**	**9,2**
10:00	**Poland**	**Industrial production (% YoY)**	**Aug**	**9,8**	**15,9**	**13,7**
		Tuesday 09/21/2021				
10:00	**Poland**	**Retail sales (% YoY)**	**Aug**	**8,9**	**10,0**	**10,0**
14:30	USA	Housing starts (k MoM)	Aug	1534	1565	1560
14:30	USA	Building permits (k)	Aug	1630	1589	1600
		Wednesday 09/22/2021				
14:00	**Poland**	**M3 money supply (% YoY)**	**Aug**	**8,8**	**9,2**	**9,2**
16:00	USA	Existing home sales (M MoM)	Aug	5,99	5,85	5,88
16:00	Eurozone	Consumer Confidence Index (pts)	Sep	-5,3		-5,8
20:00	USA	FOMC meeting (%)	Sep	0,25	0,25	0,25
		Thursday 09/23/2021				
9:30	Switzerland	SNB rate decision %)	Q3	-0,75		
9:30	Germany	Flash Manufacturing PMI (pts)	Sep	62,6	61,7	61,5
10:00	Eurozone	Flash Services PMI (pts)	Sep	59,0	59,2	58,7
10:00	Eurozone	Flash Manufacturing PMI (pts)	Sep	61,4	60,3	60,5
10:00	Eurozone	Flash Composite PMI (pts)	Sep	59,0	59,0	58,8
10:00	**Poland**	**Registered unemplyment rate (%)**	**Aug**	**5,8**	**5,8**	**5,8**
13:00	UK	BOE rate decision (%)	Sep	0,10	0,10	0,10
15:45	USA	Flash Manufacturing PMI (pts)	Sep	61,1		61,5
		Friday 09/24/2021				
10:00	Germany	Ifo business climate (pts)	Sep	99,4	99,5	98,9
16:00	USA	New home sales (k)	Aug	708	715	713

*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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