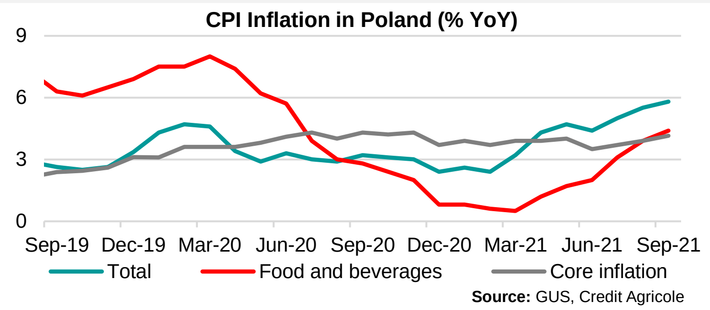
# This week

- **The most important event this week will be the publication of Minutes of the last FOMC meeting, planned for Wednesday.** An important part of the Minutes will be information about differences in individual Fed member's expectations regarding the pace of monetary policy tightening, including in particular the appropriate timing of tapering of the quantitative easing programme. At the press conference following the meeting, the Fed Chairman J. Powell indicated that if the US economy's recovery continued in line with the expectations of FOMC members, the Fed may announce the tapering of its asset purchases in November. The Minutes will be even more important in the context of the September US labour market figures, which are weaker than expected (see below). It the Minutes show strong determination of Fed members to start tapering soon, their publication will translate into a slight weakening of the PLN and a rise in yields on Polish bonds.
- **Some important data from the US will be released this week.** We expect nominal retail sales to have remained flat in September versus a 0.7% MoM growth in August. Overall sales growth was driven down by lower sales in the automotive industry. In our opinion, CPI inflation rose to 5.4% YoY in September from 5.3% in August, driven by higher core inflation (4.1% vs. 4.0%). We expect that the preliminary University of Michigan index will show some improvement in consumer sentiment (75.0 pts in October vs. 72.8 pts in September). We believe that the data on the US economy will be neutral for financial markets.
- **The ZEW index, reflecting sentiment of analysts and institutional investors regarding the economic situation in Germany, will be published on Tuesday.** The consensus indicates that the index will fall to 24.0 pts in October from 26.5 pts in September, reflecting investors' growing concerns over the impact of the COVID-19 pandemic on economic activity and a series of weaker data from Germany (see below). We believe that the publication of the index will be neutral for financial markets.
- **On Wednesday, data on China's trade balance will be released.** We expect that China's trade balance shrank to USD 39.5bn in September from USD 58.3bn in August. In our opinion, growth in imports fell to 25.4% YoY in September from 33.1% in August, and growth in exports slowed to 22.3% YoY from 25.6%. The lower rates of growth will reflect both imports and exports going back to normal with the further fading of last year's low base effects and a negative impact of supply constraints on China' supply chains. In our opinion, the publication of data from China will be neutral for financial markets.
- **Data on Poland's balance of payments for August will be released on Thursday.** We expect the current account balance to have increased to EUR -850m from EUR -1,827m in July, primarily as a result of a higher balance of trade in goods. We forecast that growth in exports increased from 13.7% YoY in July to 18.0% in August, while growth in imports increased from 22.1% YoY to 24.3%. Growth in exports and imports in August was driven up by favourable calendar effects. In our opinion, data on the balance of payments will be neutral for the PLN and yields on Polish bonds.
- **Final data on inflation in Poland for September will be released on Friday.** We believe that growth in prices will be in line with the flash estimate (5.8% YoY vs. 5.5% in August). Growth in prices in September was driven by higher contributions of all components (prices of food, fuels, energy, and higher core inflation). The publication of data on inflation will be neutral for the PLN and the prices of Polish bonds.

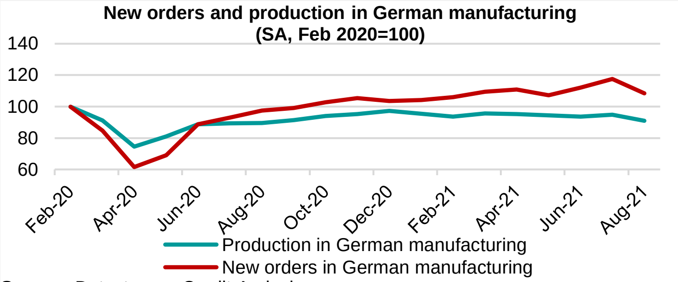


## Last week

- **At its meeting last week, the Monetary Policy Council took a surprising decision to raise interest rates.** The reference rate and the lombard rate were increased from 0.10% to 0.50% and from 0.50% to 1.00%, respectively. The MPC also decided to increase the required reserve rate from 0.50% to 2.00%. The MPC's press release no longer includes the comment about the NBP continuing asset purchases, which is another sign of monetary policy tightening. While in its previous press releases the MPC stressed that elevated inflation was driven primarily by supply-related factors, the last release noted another demand-related pro-inflationary factor, namely the ongoing economic recovery, including rising household incomes (see MACROpulse of 06/10/2021). The press release also indicates that the MPC believes that the scenario of the economy overheating, i.e. increasing wage pressure causing inflation to remain elevated for a longer period of time, is very likely in the medium term perspective. In the MPC's opinion, this, in turn, would carry the 'risk of inflation staying above the inflation target in the medium term'. We believe that last week's decision was not a one-off adjustment of interest rates (see below).
- **We have revised our monetary policy scenario.** At last week's conference, the NBP President A. Glapiński tried to cool down expectations of further interest rate hikes. However, we believe that in response to inflation getting close to 7%, which indirectly poses a risk to meeting the inflation target in the medium term, the MPC will decide to raise interest rates again, by 25 bps, in the coming months. In our baseline scenario we expect the next interest rate hike to materialize in January 2022, however, we acknowledge the risk of monetary policy tightening already in November in response to the release of a hawkish inflation projection. We have also revised our PLN exchange rate forecast. In view of inflation running markedly above the inflation target and the MPC's flexible approach to inflation stabilization, we believe that PLN exchange rate will run above earlier expectations and will reach 4.60 at the end of the year and 4.40 at the end of 2022.
- **Some significant data on the US economy was released last week.** Non-farm payrolls rose by 194k in September vs. 366k in August (upward revision from 235k), running markedly below market expectations (an increase of 500k). Much weaker than expected employment growth in the US may result from a negative impact of higher benefits as part of the J. Biden package in some states, which discouraged some people from looking for a job, as well as from the fourth wave of the COVID-19 pandemic, which adversely affects economic activity in the US (see COVID Dashboard). The strongest increases in employment were seen in leisure and hospitality (+74.0k), professional and business services (+60.0k), and retail trade (56.1k). The biggest falls in employment were seen in the government sector (-123.0k, as a result of disruptions in seasonal employment growth patterns in public education due to the fourth wave of the COVID-19 pandemic), other services (-16.0k), and education and health services (-16.0k). Unemployment fell to 4.8% in September from 5.2% in August, running markedly below market expectations (5.1%). The drop in unemployment was accompanied by a decline in the labour force participation rate (61.6% in September vs. 61.7% in August), which remains to be markedly below pre-pandemic levels (ca. 63.3%). The jobless claims figures were also released last week. The number of new jobless claims dropped to 326k from 364k two weeks ago, running slightly below market expectations (350k). At the same time, the number of continued claims fell from 2.8m to 2.7m. The data thus indicates that despite a recovery seen in recent quarters, the US labour market is still far from equilibrium. Last week, the ISM services index was also was published; the index rose to 61.9 pts in September from 61.7 pts in August, running above market expectations (60.0 pts). The rise in the index was accounted for by higher contributions of 2 out of its 4 components, business activity and new orders, partially offset by lower contributions of employment and delivery times components. The figures also showed a drop in the inventories index accompanied by a rise in the price component, which suggests that the US services sector

continues to be affected by supply constraints. Last week's US labour market figures do not change our scenario that the Fed will start to taper its asset purchases in November. We believe that the rise in employment seen in September combined with a marked upward revision of August data and a drop in unemployment will provide sufficient arguments for the Fed in favour of the tightening of monetary policy already at its November meeting.

**Some important data on German economy was released last week.** Orders in manufacturing fell by 7.7% MoM in August against a 4.9% increase in July (upward revision from 3.4%), which was significantly below market expectations (-2.0%). Despite this strong decline, the number of orders in Germany's manufacturing in August was by 8.5% higher than right before the outbreak of the pandemic (February 2020). The reduction in orders in German manufacturing was due to both a decline in domestic and export orders. It is worth noting that the decline in export orders was due to an increase in orders from the Eurozone and a strong decline in orders from outside the single currency area, which was largely due to high base effects from a month earlier. Taking into account the product structure of orders in the German manufacturing sector, it is worth noting a sharp deepening of the decline in orders in the category of 'motor vehicles, trailers and semi-trailers', which in our opinion reflects the supply barriers hampering activity in this sector (see MACROmap of 30/9/2021). Last week, we also saw data on industrial production, which fell by 4.0% MoM in August, compared to an increase of 1.3% in July (upward revision from 1.0%), which was below market expectations (-0.5%). Thus, industrial production in Germany in August was by 9.0% lower than immediately before the outbreak of the pandemic. The reduction in industrial production growth was due to production slowdown in manufacturing and construction, while the opposite impact came from higher production growth in the energy sector. The breakdown of production by the type of use of goods produced shows that decline in production was driven by capital goods, intermediate and consumption goods. Moreover, all these categories recorded a decrease in production on a monthly basis. At the same time, it is worth noting that production of capital goods in August was by 18.7% lower than immediately before the outbreak of the pandemic, which may suggest that supply-side constraints remain a significant factor limiting investment in the German economy. Last week also saw the publication of data on the trade surplus in Germany, which fell to EUR 13.0bn in August from EUR 17.7bn in July (downward revision from EUR 17.9bn, running well below market expectations (EUR 15.8bn). This was driven by a fall in exports (-1.2% MoM in August versus 0.6% in July) with a simultaneous increase in imports (3.5% versus -3.6%). Last week's data from the German economy pose a downside risk to our forecast that German GDP will grow by 3.2% in 2021 against a 4.6% decrease in 2020.

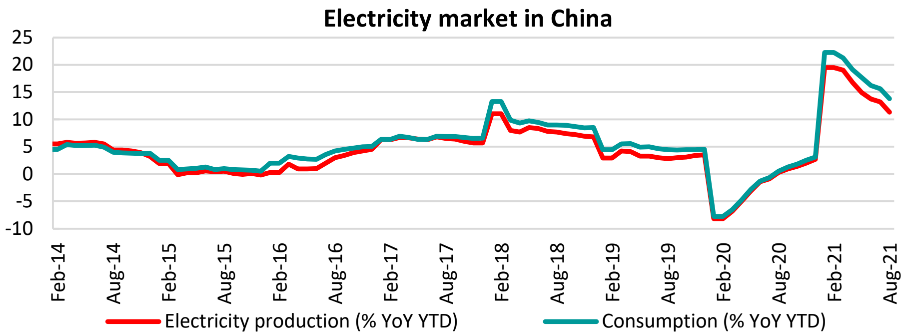


**Source:** Datastream, Credit Agricole

## Power crisis in China to make supply constraints more severe

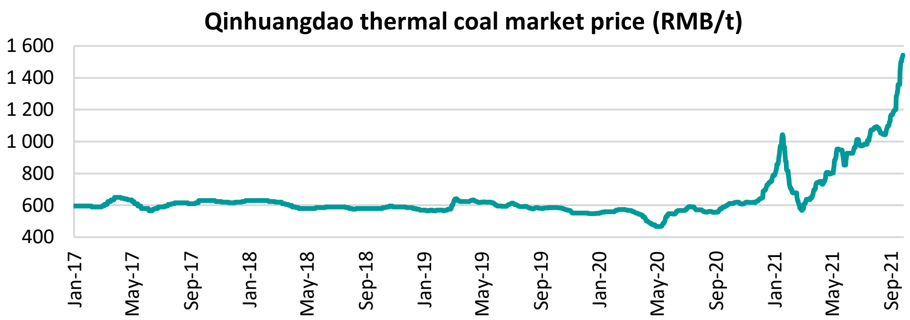
**As of mid-September this year, nearly 20 out of 31 administrative units (provinces, separate cities and autonomous regions) in China have already announced plans to ration electricity and reduce its supply to factories, particularly those with high energy intensity and carbon emissions. In the northern provinces, the sudden reduction in electricity supply has led to disruptions to the functioning of towns and cities and interruptions in power supply to households. This is thus the biggest power crisis in China recorded in recent decades. The following analysis assesses the impact of the energy crisis in China on supply constraints in the global economy.**

There are two main reasons for energy rationing in China. First, Chinese administrative units are trying to meet annual targets imposed on them by the central administration for reducing electricity consumption, which is an important part of their annual assessment. In mid-August this year the National Development and Reform Commission (NDRC) issued warnings to 19 administrative units that failed to meet their half-year targets for reducing electricity consumption, requiring them to take appropriate measures to catch up in H2 this year. Secondly, China's power generation has become unprofitable in recent months which is conducive to its reduction. This is because administratively regulated energy prices in China have not kept pace with the sharp increase in coal prices observed in recent months as a consequence of insufficient coal production.

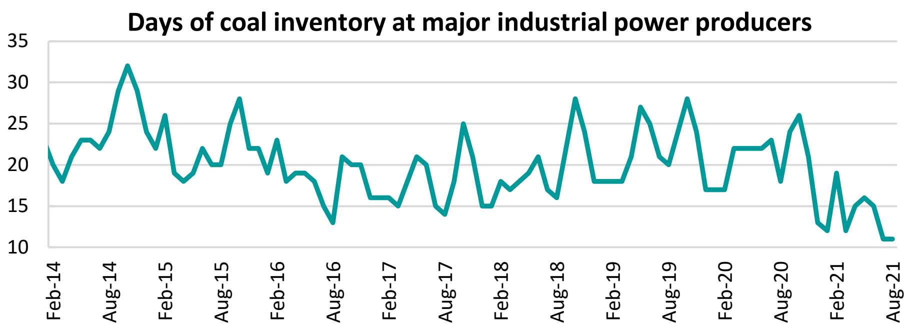


**Source**: Wind, Credit Agricole CIB

At the same time, demand for electricity in China continues to grow strongly. This is mainly due to the boom in Chinese industry, supported mainly by a recovery in foreign demand, while domestic demand remains weak (see MACROmap of 4/10/2021). Due to rising commodity prices, demand for power from mining has also been increasing. The launch of energy-intensive investment projects by investors who want to be in time for future regulations aimed at reducing energy consumption and carbon emissions is also having a positive impact on energy consumption. In western China, cryptocurrency mines have also been a significant driver of energy consumption, being located there due to the relatively low energy prices compared to the country as a whole.



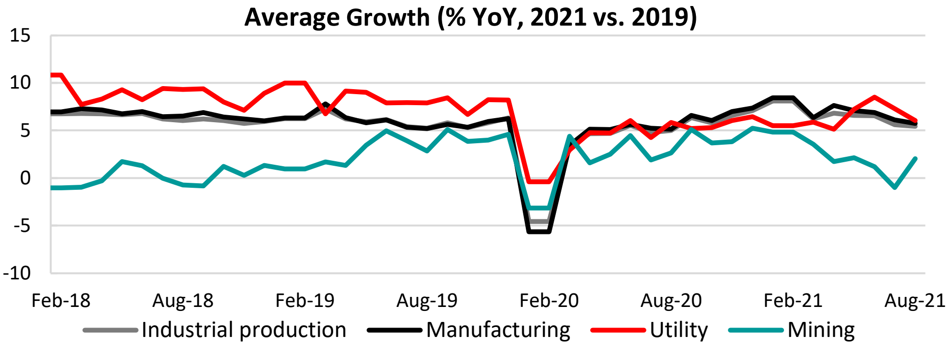
**Source**: Wind, Credit Agricole CIB



**Source**: Wind, Credit Agricole CIB

Due to the Chinese government's measures to reduce carbon emissions, the Chinese power industry is unable to meet the growing demand for energy. Coal-fired power plants contribute 72% of China's energy production. In August this year, China's coal production, which secures 93% of power plants' demand for this raw material, increased by only 4.4% YoY. Over the same period, coal imports fell by 10.3%. Because of this, coal stocks in China have reached record lows and the price of coal has more than doubled. At the same time, China's other energy sources are currently unable to compensate for the lower dynamics of coal-fired power generation.

The Chinese government is likely to take measures in the near future to alleviate the energy shortage and ensure the stability of energy supply especially for public services and households. On 28 September, the NDRC agreed to increase coal and gas production and imports. However, given the limits for carbon emissions, this will have a limited impact on domestic production. The NDRC is also considering raising administered electricity prices to boost production. However, it should be borne in mind that this would hit the margins of businesses, which already remain under severe cost pressure amidst the inability to raise prices of final goods due to weak domestic demand. The only solution that would lead to a quick resolution of the power crisis would be an easing of this year's limits on electricity consumption, which is not our baseline scenario. It is worth noting that warnings on exceeding the limits have been issued to Guangdong, Jiangsu and Zhejiang provinces, which are key Chinese manufacturing centres and export hubs. As a result, we believe that industrial energy shortages will persist in the coming months, which will have a negative impact on annual industrial production growth, which is expected to be in the range of 3% to 5% in September-December compared to 5.3% in August this year. Slower industrial production growth in China will slow Chinese exports. As a result, we see significant downside risks to our scenario that China's economic growth rate will be 8.3% YoY in 2021 vs. 2.3% in 2020, and will slow down to 5.5% in 2022. Due to lower industrial production and export dynamics, the availability of goods produced by Chinese manufacturing will decrease, which will impact global supply constraints in the coming months.

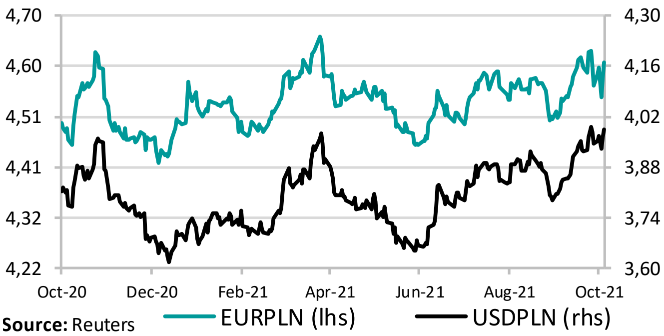


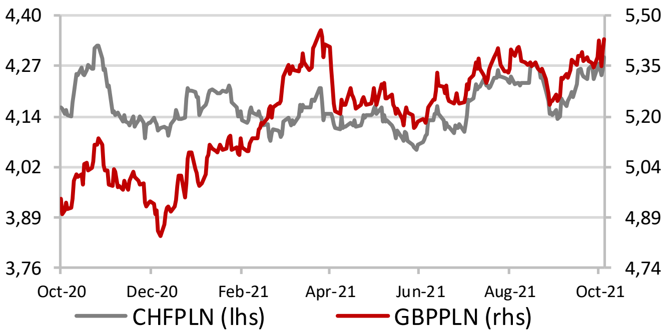

**Source**: CEIC, Credit Agricole CIB

*The analysis is based on the report 'China: power shortage is set to hurt' prepared by Xiaojia Zhi, chief economist at Crédit Agricole CIB in China.*

## FOMC Minutes negative for the PLN

**FX rates**




**Source:** Reuters

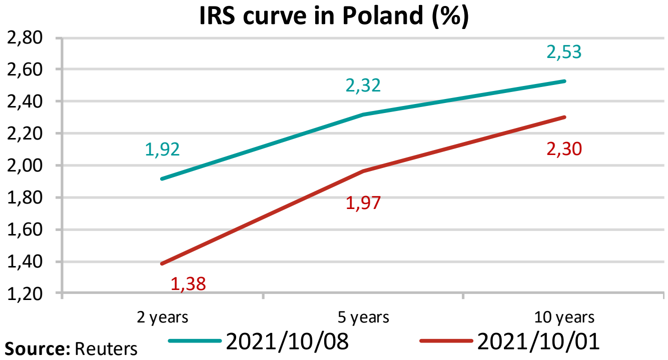
**Last week, the EURPLN rate increased to 4.6101 (the PLN weakened by 0.9%).** Last week saw increased volatility of the PLN. On Wednesday it strengthened considerably in response to the unexpected decision of the MPC to raise interest rates. On Thursday the PLN started to weaken considerably, pushed by a dovish tone of the press conference held by NBP President A. Glapiński, as well as by the ruling of the Constitutional Court, that certain provisions (those giving Polish courts the power to give precedence to

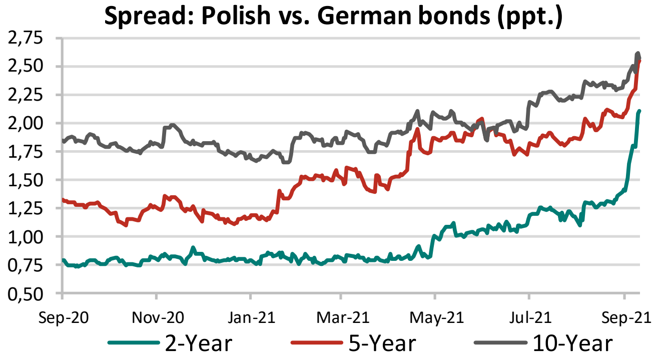
EU law over national law) of the Treaty on the European Union are inconsistent with the Constitution of the Republic of Poland, which led to an escalation of the Poland-EU dispute.

EURUSD declined throughout last week. The strengthening of the USD against the EUR is supported by investors' expectations of the Fed's decision to start the tapering of its asset purchase programme.

This week the publication of the Minutes of the September Fed meeting will be of key importance for the PLN and it may contribute to its weakening. Data from the US (CPI inflation, retail sales), Poland (final inflation, balance of payments), Germany (ZEW index) and China (trade balance) will be neutral for EURPLN in our opinion.

## FOMC Minutes may push IRS rates higher




**Source:** Reuters

**Last week, 2-year IRS rates increased to 1.92 (up by 54 bps), 5-year rates to 2.32 (up by 35 bps) and 10-year ones to 2.53 (up by 23 bps).** Last week saw a strong rise in IRS rates. It resulted from the MPC's unexpected decision to raise interest rates as well as from the Constitutional Court's ruling that certain provisions (those giving Polish courts the power to give precedence to EU law over national law) of the Treaty on the European Union are inconsistent with the Constitution of the Republic of Poland, which led to an escalation of the Poland-EU dispute. As a consequence, last week also saw a strong increase in spreads between the yields of Polish and German bonds.

This week, the publication of Minutes from the September Fed meeting will be in the spotlight. We believe that this publication can contribute to an increase in IRS rates. Data from the US (CPI inflation, retail sales), Poland (final inflation, balance of payments) and Germany (ZEW index) will not have a significant impact on the curve, in our opinion.

# Forecasts of the monthly macroeconomic indicators

**Main monthly macroeconomic indicators in Poland**

| Indicator | 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 | Oct-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 | 0,50 |
| EURPLN* | 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 | **4,61** |
| USDPLN* | 3,86 | 3,95 | 3,75 | 3,73 | 3,72 | 3,74 | 3,95 | 3,79 | 3,66 | 3,81 | 3,84 | 3,83 | 3,98 | **3,98** |
| CHFPLN* | 4,21 | 4,32 | 4,13 | 4,21 | 4,18 | 4,11 | 4,18 | 4,15 | 4,07 | 4,12 | 4,24 | 4,18 | 4,27 | **4,23** |
| CPI inflation (% YoY) | 3,2 | 3,1 | 3,0 | 2,4 | 2,6 | 2,4 | 3,2 | 4,3 | 4,7 | 4,4 | 5,0 | 5,5 | **5,8** | |
| Core inflation (% YoY) | 4,3 | 4,2 | 4,3 | 3,7 | 3,9 | 3,7 | 3,9 | 3,9 | 4,0 | 3,5 | 3,7 | 3,9 | **4,1** | |
| Industrial production (% YoY) | 5,7 | 1,0 | 5,4 | 11,1 | 0,7 | 2,5 | 18,6 | 44,2 | 29,6 | 18,1 | 9,6 | 13,3 | **8,3** | |
| PPI inflation (% YoY) | -1,4 | -0,4 | -0,2 | 0,1 | 1,0 | 2,2 | 4,2 | 5,5 | 6,6 | 7,2 | 8,4 | 9,5 | **9,8** | |
| Retail sales (% YoY) | 2,7 | -2,1 | -5,3 | -0,8 | -6,0 | -2,7 | 17,1 | 25,7 | 19,1 | 13,0 | 8,9 | 10,7 | **8,4** | |
| Corporate sector wages (% YoY) | 5,6 | 4,7 | 4,9 | 6,6 | 4,8 | 4,5 | 8,0 | 9,9 | 10,1 | 9,8 | 8,7 | 9,5 | **8,5** | |
| Employment (% YoY) | -1,2 | -1,0 | -1,2 | -1,0 | -2,0 | -1,7 | -1,3 | 0,9 | 2,7 | 2,8 | 1,8 | 0,9 | **0,7** | |
| Unemployment rate* (%) | 6,1 | 6,1 | 6,1 | 6,2 | 6,5 | 6,5 | 6,4 | 6,3 | 6,1 | 5,9 | 5,8 | 5,8 | **5,7** | |
| Current account (M EUR) | 1330 | 1917 | 1504 | 889 | 2006 | 834 | 116 | 1631 | 129 | 281 | -1827 | **-850** | | |
| Exports (% YoY EUR) | 6,6 | 3,6 | 10,0 | 14,7 | 0,8 | 6,3 | 28,9 | 69,2 | 41,7 | 23,9 | 13,7 | **18,0** | | |
| Imports (% YoY EUR) | 2,1 | -4,1 | 4,1 | 12,4 | -4,5 | 5,8 | 24,3 | 59,7 | 53,7 | 36,3 | 22,1 | **24,3** | | |

*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 | 4,5 | 5,1 | 4,5 | 4,8 | 4,5 | 4,8 | -2,5 | 4,9 | 4,7 |
| Private consumption (% YoY) | 0,2 | 13,3 | 3,5 | 3,0 | 3,1 | 3,0 | 3,1 | 3,2 | -3,0 | 4,7 | 3,1 |
| Gross fixed capital formation (% YoY) | 1,3 | 5,0 | 7,6 | 13,5 | 6,2 | 5,7 | 7,8 | 7,0 | -9,0 | 8,0 | 6,8 |
| Export - constant prices (% YoY) | 5,7 | 29,3 | 15,4 | 8,1 | 7,0 | 7,5 | 7,3 | 7,5 | 0,1 | 13,9 | 7,3 |
| Import - constant prices (% YoY) | 10,0 | 35,8 | 18,0 | 9,3 | 8,1 | 7,9 | 8,0 | 8,0 | -1,2 | 17,2 | 8,0 |
| GDP growth contributions | | | | | | | | | | | |
| Private consumption (pp) | 0,1 | 7,4 | 2,1 | 1,5 | 1,9 | 1,7 | 1,8 | 1,5 | -1,8 | 2,7 | 1,7 |
| Investments (pp) | 0,2 | 0,8 | 1,2 | 2,9 | 0,8 | 0,8 | 1,3 | 1,6 | -1,7 | 1,3 | 1,1 |
| Net exports (pp) | -1,9 | -0,7 | -0,3 | 0,0 | -0,2 | 0,2 | 0,1 | 0,2 | 0,7 | -0,7 | 0,1 |
| Current account (% of GDP)*** | 2,7 | 1,7 | 1,7 | 1,7 | 1,7 | 1,6 | 1,5 | 1,5 | 2,9 | 1,7 | 1,5 |
| 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 | 5,4 | 6,4 | 6,3 | 5,3 | 4,5 | 3,7 | 3,4 | 4,8 | 4,9 |
| Wibor 3M (%)** | 0,21 | 0,21 | 0,23 | 0,88 | 0,88 | 0,88 | 0,88 | 0,96 | 0,21 | 0,88 | 0,96 |
| NBP reference rate (%)** | 0,10 | 0,10 | 0,10 | 0,50 | 0,75 | 0,75 | 0,75 | 0,75 | 0,10 | 0,50 | 0,75 |
| EURPLN** | 4,63 | 4,52 | 4,60 | 4,60 | 4,57 | 4,50 | 4,45 | 4,40 | 4,55 | 4,60 | 4,40 |
| USDPLN** | 3,95 | 3,81 | 3,98 | 3,83 | 3,81 | 3,72 | 3,65 | 3,55 | 3,73 | 3,83 | 3,55 |

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

# Calendar

| TIME | COUNTRY | INDICATOR | PERIOD | PREV. VALUE | FORECAST* | |
|---|---|---|---|---|---|---|
| | | | | | CA | CONSENSUS** |
| | | **Tuesday 10/12/2021** | | | | |
| 11:00 | Germany | ZEW Economic Sentiment (pts) | Oct | 26,5 | | 24,0 |
| | | **Wednesday 10/13/2021** | | | | |
| 11:00 | Eurozone | Industrial production (% MoM) | Aug | 1,5 | | -1,6 |
| 14:30 | USA | CPI (% MoM) | Sep | 0,3 | 0,4 | 0,3 |
| 14:30 | USA | Core CPI (% MoM) | Sep | 0,1 | 0,3 | 0,2 |
| 20:00 | USA | FOMC Minutes | Sep | | | |
| | China | Trade balance (bn USD) | Sep | 58,3 | 39,5 | 47,6 |
| | | **Thursday 10/14/2021** | | | | |
| 3:30 | China | PPI (% YoY) | Sep | 9,5 | | 10,5 |
| 3:30 | China | CPI (% YoY) | Sep | 0,8 | | 0,9 |
| **14:00** | **Poland** | **Current account (M EUR)** | **Aug** | **-1827** | **-850** | **-896** |
| 14:30 | USA | Initial jobless claims (k) | w/e | 360 | | 348 |
| | | **Friday 10/15/2021** | | | | |
| **10:00** | **Poland** | **CPI (% YoY)** | **Sep** | **5,5** | **5,8** | **5,8** |
| 14:30 | USA | NY Fed Manufacturing Index (pts) | Oct | 34,3 | | 25,0 |
| 14:30 | USA | Retail sales (% MoM) | Sep | 0,7 | 0,0 | -0,2 |
| 16:00 | USA | Business inventories (% MoM) | Aug | 0,5 | | 0,6 |
| 16:00 | USA | Initial U. of Michigan Sentiment Index (pts) | Oct | 72,8 | 75,0 | 73,7 |

*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

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