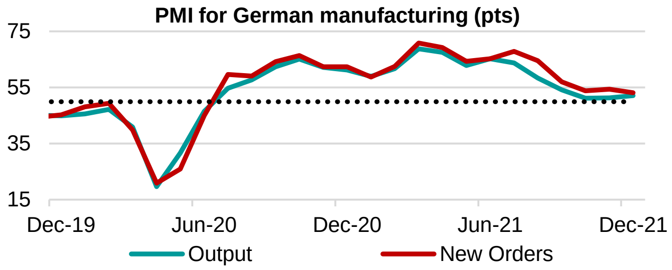
This week

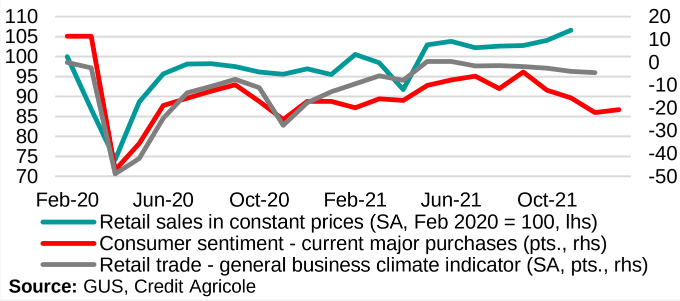
- **This week's most important event is the FOMC meeting scheduled for Wednesday.** Key information in the statement and press conference after the meeting will concern the prospects for a further monetary policy tightening in the US. The *Minutes* from the December meeting show that FOMC members generally believe that the Federal Reserve will have to "start raising interest rates earlier or raise interest rates faster" than initially expected. During the conference, the Fed Chair will, on the one hand, most likely emphasize that inflation will exceed previous expectations and, on the other, point to the negative impact of the coronavirus Omicron variant on economic activity, which limits the potential for quick interest rate hikes. Given the current pace of tapering, the quantitative easing program will end in March 2022, and, in our opinion, the first interest rate hike (of 25bp) will materialize in Q2 this year. However, we see the risk that the Fed may raise interest rates sooner. We anticipate that the conference after the meeting will trigger increased volatility in the financial markets.
- **Another major event this week will be the release of preliminary results of economic surveys in major European economies scheduled for today.** We expect that in January the aggregate PMI index in the Eurozone contracted to 51.4 pts from 53.3 pts in December. The deterioration of the epidemiological situation spurred the slowdown in activity growth (primarily in the services sector). A decline of the index was also observed in German manufacturing (down from 57.4 pts in December to 56.5 pts in January). Tuesday will see the publication of the Ifo index reflecting the sentiment of German businesses in the manufacturing, construction, trade, and services sectors. We expect the index to have contracted from 94.7 pts in December to 93.8 pts in January. In our opinion, the publication of the results of economic surveys for the Eurozone will be slightly positive for the PLN and prices of Polish bonds.



Source: Markit, Credit Agricole

- **This week, important data from the US will be published.** On Thursday, preliminary data on durable goods orders in the US will be released. We believe that orders fell by 0.7% MoM in December compared with a 2.6% increase in November on the back of reduced orders in the "transportation" category. We predict PCE inflation to have accelerated to 5.8% YoY in December, up from 5.7% in November, largely owing to higher core inflation (4.9% YoY vs. 4.7% in November). Thus, both indicators are expected to reach their highest levels since 1983. We anticipate that the data on new home sales (751k in December vs. 744k in November) will signal a further recovery in the US real estate market. This week, results of sentiment surveys will also be published. In our opinion, the final University of Michigan index (68.8 pts in January vs. 70.6 pts in December), similarly to the Conference Board consumer confidence index (110.0 pts vs. 115.8 pts in December), will show a decline in household sentiment in the wake of the deteriorating epidemiological situation and high inflation. The flash GDP estimate for Q4 2021 will also be released this week. We expect annualized GDP growth to have increased to 5.0%, up from 2.3% in Q3 due to the partial waning of the negative impact of the Covid-19 pandemic (of the Delta variant) on economic activity. We believe US data releases will have a limited impact on financial markets.

Today, data on retail sales will be released. We expect retail sales to have increased by 20.3% YoY in December vs. a 21.2% growth in November. The slowdown in nominal sales growth was driven by the deterioration in consumer sentiment and the shift (more pronounced than in 2020) of Christmas shopping from December to November, related to the growing popularity of Black Friday. Our forecast is above market consensus (18.5%), and thus its materialization will be slightly positive for the PLN and yields on Polish bonds.

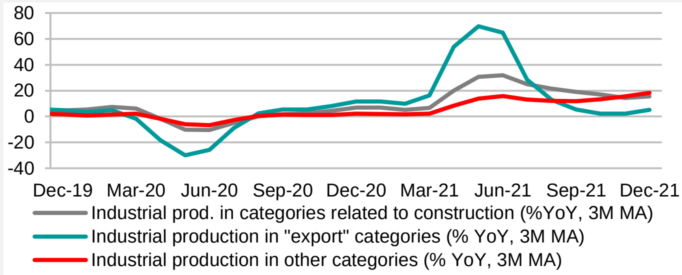


Source: GUS, Credit Agricole

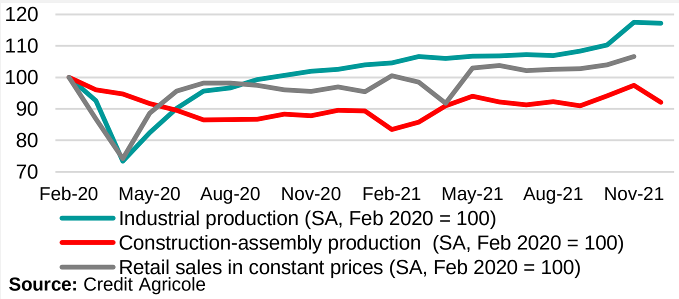
Last week

Last week, NBP President, Adam Glapiński, told Bloomberg that "interest rates in Poland should rise beyond the market's current expectations considering the recent macro data". The interpretation of the President's statement presents some difficulty. On the one hand, he could have been referring to the market consensus on the MPC's decision at the February meeting. On the other hand, Adam Glapiński could have been referring to the reference rate level after the end of the current monetary policy tightening cycle priced in by FRAs (around 4%). The NBP President's last week's comment signals an upward risk to our interest rate forecast and a downward risk to our EURPLN forecast.

In December, Poland's industrial production expanded by 16.7% YoY, up from 15.3% in November. The rise in industrial output between November and December is attributable primarily to statistical effects, specifically the unfavorable difference in the number of business days. Adjusted for seasonal factors, industrial production grew by 0.2% MoM between December and November. In the structure of data on December output, particularly noteworthy is the continued rapid growth in the production of intermediate goods, signifying a further increase of inventories in response to the high risk of disruptions in the supply of materials and components caused by new restrictions in countries (chiefly Asian) that are an important source of supplies for Polish industrial manufacturing companies. Sector-wise, particularly noteworthy is the acceleration of production growth in the categories with a substantial share of export sales in revenues. We believe that this is indicative of a gradual weakening of the growth barrier caused by bottlenecks in the production process (see MACROpulse of 21/01/2022). In turn, construction and assembly production grew by 3.1% YoY compared with 12.7% in November. Production growth slowed down strongly despite the favorable difference in the number of business days (statistical effect). Seasonally-adjusted construction and assembly production contracted in December by 5.6% MoM (the most substantial monthly



Source: GUS, Credit Agricole



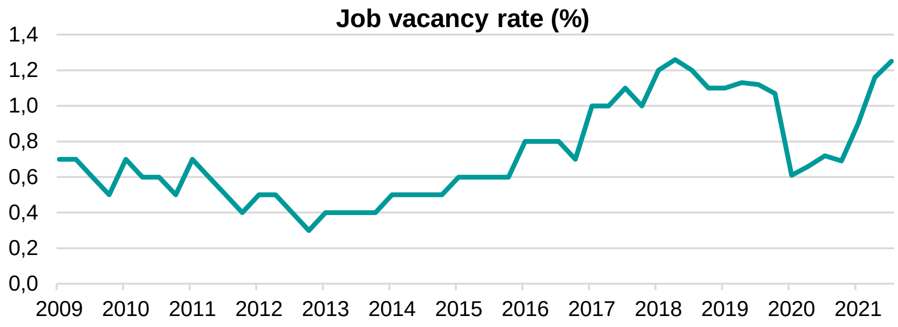
Source: Credit Agricole

decline since February 2021). Considering the recent results of business sentiment surveys, we believe that the marked decrease in construction activity recorded in December does not signal a reversal of the upward trend in this sector seen in 2021. The data on construction and assembly production and industrial production in December production poses a slight upside risk to our forecast whereby Poland's GDP expanded by 7.0% YoY in Q4.

- **In December, the nominal wage growth rate in the Polish corporate sector climbed to 11.2% YoY vs. 9.8% in November, reaching its highest level since July 2008.** It is also worth noting that the December growth in the average monthly salary (by 10.3%) was the highest on record. In our opinion, the strong increase in wages in December was driven by the payment of overtime pay (effect of the fourth wave of the pandemic and the high number of quarantined employees), shifting of the payout of variable remuneration components (acceleration of bonuses and annual bonuses due to tax progression increases following the introduction of the Polish Deal) and gradually intensifying wage pressures (see MACROpulse of 21/01/2022). The acceleration in wage growth in December and a slight slowdown in employment growth in the corporate sector (0.5% YoY, down from 0.7% in November) drove an increase in the real growth rate of the wage fund in the corporate sector (the product of employment and the average wage adjusted for price changes) to 2.9% YoY vs. 2.6% in November. As a result, the quarterly growth of the wage fund slowed down from 4.4% YoY in Q3 to 2.5% in Q4. Nevertheless, we anticipate a strong rebound in consumption growth from 4.7% YoY in Q3 to 6.9% YoY in Q4, supported by the low base effects from 2020.
- **Last week, important US data was released.** Data on building permits (1,873k in December vs. 1,717k in November), housing starts (1,702k vs. 1,678k) and existing-home sales (6.18m vs. 6.48m), attesting to the continued high activity on the US real estate market. Last week saw the release of the readings of regional sentiment surveys, the NY Empire State and Philadelphia Fed indices, which provided mixed signals from US manufacturing. We stand by our forecast that in 2021 US GDP rose by 5.6% compared with a 3.5% decline in 2020. At the same time, considering the lack of Senate support for Joe Biden's new spending package, we see a downside risk to our scenario predicting that in 2022 and 2023 US GDP will grow by 3.8% and 2.3%, respectively.

Labour market as hot as before the pandemic

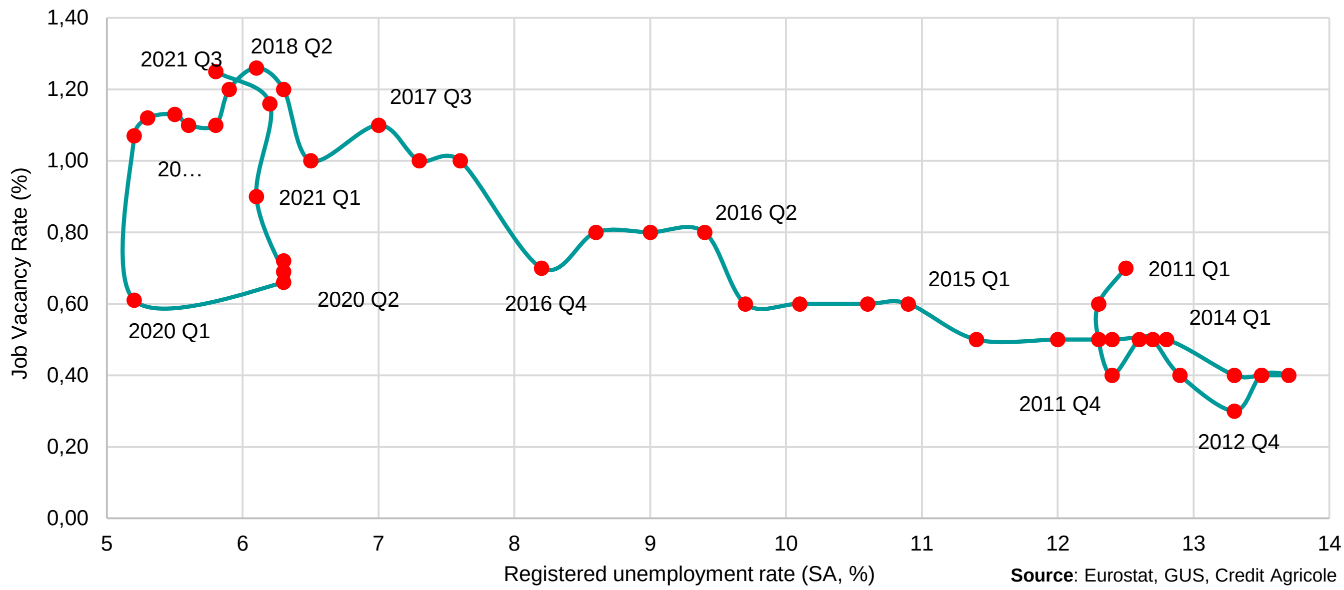
Recently, the topic of rising inflation has dominated economic discussion. The issues of disruptions in supply chains and rising energy prices have been the main focus, while the situation in the labour market has received less attention. Below we present the main trends in this area and outline their expected impact on inflation in the medium term.



Source: Eurostat, GUS, Credit Agricole

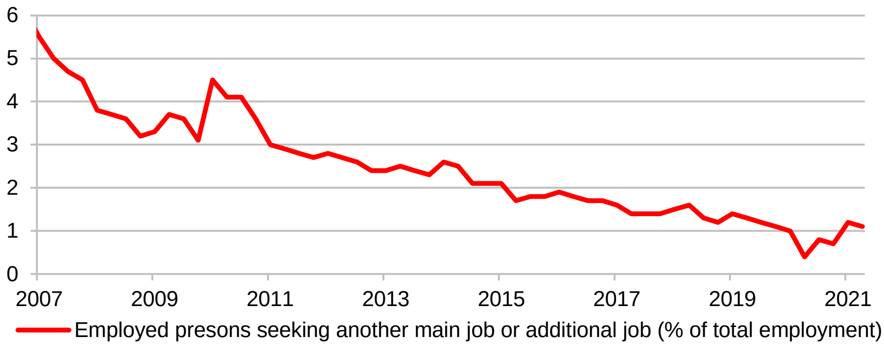
One of the measures for assessing the labour market situation is the vacancy rate, which measures the share of vacancies in the sum of occupied and vacant jobs in a given period. At the end of Q3 2021, this indicator increased to 1.25% in Poland. A higher value of the indicator in the history of the series (i.e. since 2009) was recorded only in Q2 2018. Thus, the mentioned indicator signals high demand of enterprises for employees.

The job vacancy rate is often analysed in tandem with the unemployment rate. Usually, the relationship between these two variables takes the hyperbolic shape and slopes downwards, which is called the Beveridge curve. When unemployment is low, there is a high vacancy rate as there is a shortage of suitably qualified workers. On the other hand, when unemployment is high, vacancies are easy to fill due to the large number of job seekers. Such a relationship can also be noted for Poland in 2011-2019 (see chart below).



Source: Eurostat, GUS, Credit Agricole

Then, in early 2020, we noted a shift in the points shown in the graph to the space below the curve due to the outbreak of the COVID-19 pandemic. A significant drop in the vacancy rate was observed due to a reduction in recruitment processes amidst heightened uncertainty. At the same time, the increase in the unemployment rate was significantly smaller than the historical relationship observed based on the Beveridge curve would suggest. This was possible thanks to government measures aimed at hibernating employment (e.g. the Anti-crisis Shield). Thanks to the shield measures, the labour market situation began to return to equilibrium as economic activity picked up in 2021. Thus, the points on the graph presenting the situation in Poland quickly returned to the relationship observed in the long term (lower unemployment rate, higher vacancy rate). The seasonally adjusted registered unemployment rate was 5.5% in November 2021 and was only 0.4 pp higher than in February 2020, the last month in which the pandemic had not yet had a significant negative impact on the labour market.



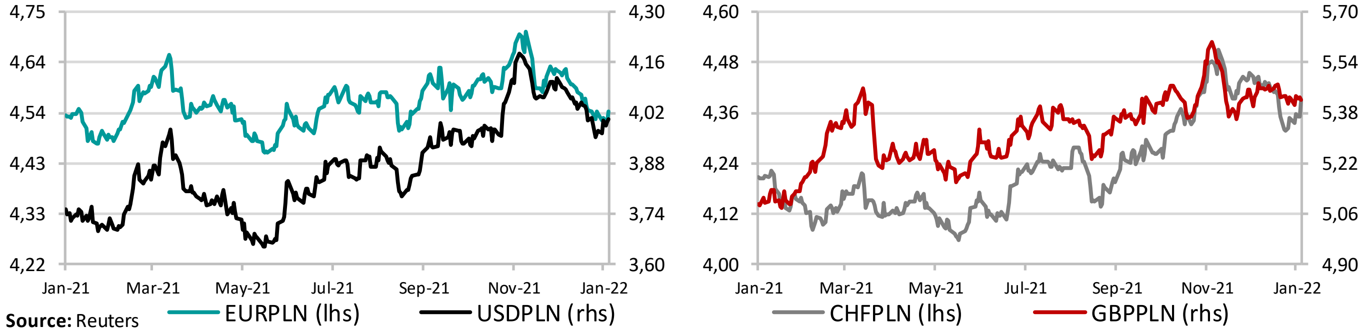
Source: GUS, Credit Agricole

The development of labour demand has important implications for wage growth. Particularly important in this context is the fact that the share of employees looking for another main or additional job remains at a very low level compared to the historical background, which indicates the reluctance of employees to change jobs. In addition, among the reasons for looking for another job, the motive of receiving better financial conditions dominates. These are conditions that are conducive to increasing wage pressure (higher wage demands from employees). This does not mean, however, that in the coming quarters we will see an explosion of salaries growth. Due to the aforementioned reluctance of employees to change their place of work, a new employer would have to offer significantly better financial conditions in order to win the employee. Taking into account the growing costs of businesses (e.g. energy, materials) such a large scale of increases is unlikely due to the need to maintain profitability of operations. Therefore, we expect that in the nearest future pay rises will mainly materialize in the case of already employed people (as a response to wage pressure caused by, among others, rising inflation), and will not serve as a tool for recruiting new employees. The tendency to increase salaries in businesses is visible in the NBP business surveys. According to the results of the "Quick monitoring, October 2021", the percentage of businesses anticipating wage increases in Q4 2021 rose to 44%, reaching a historic high. The intention to raise wages was observed in a wide range of businesses (both in terms of size and scope of activity).

We believe that in the coming months we will see a trend of further improvement in the labour market situation - a fall in the unemployment rate and increasing difficulties in finding qualified workers. Such a scenario is consistent with our forecast for nominal wage growth - rising to 8.9% YoY from 8.8% in 2021. At the same time, we see upside risks to this forecast given the significantly higher-than-expected data on salary growth in the corporate sector in December published last week (see above). Continued rapid wage growth will act to increase unit labour costs and be a pro-inflationary factor. The trends outlined above support our forecast for total CPI inflation (after taking into account the impact of the Anti-Inflation Shield increase) to rise to 7.5% YoY in 2022 from 5.1% in 2021.

Publication of flash PMI for the Eurozone may strengthen PLN

FX rates



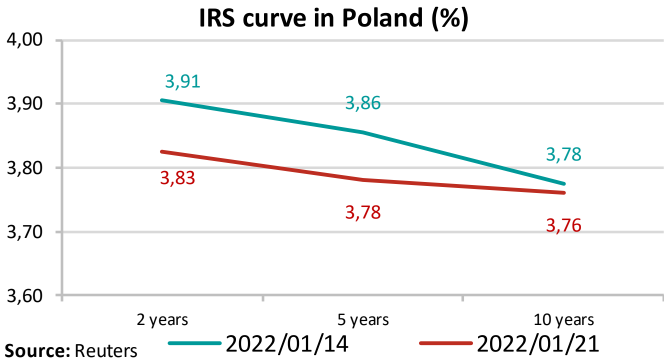
Source: Reuters

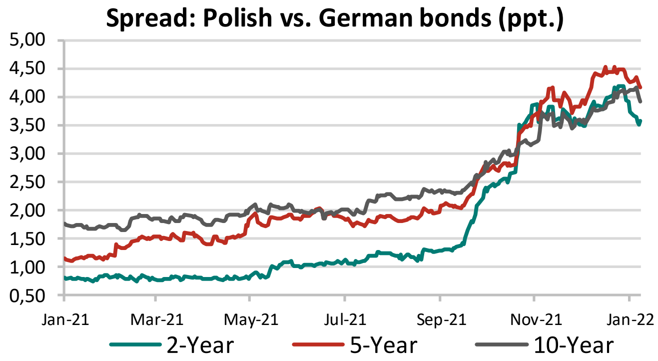
Last week, the EURPLN rate increased to 4.5398 (the PLN weakened by 0.1%). Last week, due to the modest calendar of macroeconomic events, the PLN exchange rate was characterised by low volatility compared to recent weeks. Friday's accumulated releases of domestic data on employment and average wages in the business sector as well as industrial production data did not have a significant impact on the PLN.

On the other hand, the EURUSD exchange rate declined last week. The strengthening of the USD against the EUR was supported by an increase in global risk aversion reflected by the rise in the VIX index. Heightened market uncertainty was fostered by corrections in the main stock market indices. Higher risk aversion also favoured the strengthening of the CHF against the EUR.

This week, the FOMC meeting scheduled for Wednesday will be crucial for the PLN; this will be conducive to increased volatility of the PLN. We expect that today's publication of preliminary PMIs for the most important European economies will contribute to a slight strengthening of the PLN. We believe that the publication of today's domestic retail sales data may have an impact in the same direction. Other publications from the Polish and global economy planned for this week will not have a significant impact on the PLN, in our opinion.

Domestic retail sales data crucial for IRS rates





Source: Reuters

Last week the 2-year IRS rates decreased to 3.83 (down by 8bp), 5-year rates to 3.78 (down by 8bp), and 10-year rates to 3.76 (down by 2bp). Last week saw further decline in IRS rates, particularly visible at the short end of the curve, following core markets. As two weeks ago, investor concerns about the outlook for economic growth, which have begun to dominate over fears of further increases in inflation, remain a significant factor affecting the debt market.

We expect Wednesday's FOMC meeting to lead to elevated IRS rate volatility. In addition, we believe that the publication of preliminary PMIs for major European economies scheduled for today may contribute to an increase in IRS rates. Today's release of domestic retail sales data, which could also support a rise in IRS rates, will be in the spotlight. Other data releases from the Polish and global economy scheduled for this week will be neutral for the curve in our opinion.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland

Indicator	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22
NBP reference rate (%)	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,50	1,25	1,75	2,25
EURPLN*	4,55	4,52	4,52	4,63	4,56	4,48	4,52	4,56	4,52	4,60	4,60	4,65	4,58	**4,57**
USDPLN*	3,73	3,72	3,74	3,95	3,79	3,66	3,81	3,84	3,83	3,98	3,98	4,10	4,03	**4,04**
CHFPLN*	4,21	4,18	4,11	4,18	4,15	4,07	4,12	4,24	4,18	4,27	4,35	4,47	4,42	**4,39**
CPI inflation (% YoY)	2,4	2,6	2,4	3,2	4,3	4,7	4,4	5,0	5,5	5,9	6,8	7,9	8,6	
Core inflation (% YoY)	3,7	3,9	3,7	3,9	3,9	4,0	3,5	3,7	3,9	4,2	4,5	4,7	5,3	
Industrial production (% YoY)	11,1	0,7	2,5	18,6	44,2	29,6	18,1	9,6	13,1	8,7	7,6	15,3	16,7	
PPI inflation (% YoY)	0,1	1,0	2,2	4,2	5,5	6,6	7,2	8,4	9,6	10,3	12,0	13,2	14,2	
Retail sales (% YoY)	-0,8	-6,0	-2,7	17,1	25,7	19,1	13,0	8,9	10,7	11,1	14,4	21,2	**20,3**	
Corporate sector wages (% YoY)	6,6	4,8	4,5	8,0	9,9	10,1	9,8	8,7	9,5	8,7	8,4	9,8	11,2	
Employment (% YoY)	-1,0	-2,0	-1,7	-1,3	0,9	2,7	2,8	1,8	0,9	0,6	0,5	0,7	0,5	
Unemployment rate* (%)	6,3	6,5	6,6	6,4	6,3	6,1	6,0	5,9	5,8	5,6	5,5	5,4	**5,4**	
Current account (M EUR)	751	2034	652	71	1582	-38	-494	-1362	-1530	-651	-856	-1112		
Exports (% YoY EUR)	17,0	1,0	5,6	27,7	66,6	41,4	23,4	12,0	18,1	12,7	9,7	14,2		
Imports (% YoY EUR)	14,6	-3,7	6,0	23,6	55,6	52,7	36,6	20,8	30,7	21,8	20,9	29,0		

*end of period

Forecasts of the quarterly macroeconomic indicators

Main macroeconomic indicators in Poland

	Indicator	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2021	2022	2023
	Gross Domestic Product (% YoY)	-0,8	11,2	5,3	7,0	4,5	4,0	3,6	4,9	5,7	4,3	3,8
	Private consumption (% YoY)	0,1	13,1	4,7	6,9	3,0	2,3	2,9	3,7	5,9	3,0	3,8
	Gross fixed capital formation (% YoY)	1,7	5,6	9,3	18,4	9,8	9,9	11,8	11,5	10,3	11,0	6,8
	Export - constant prices (% YoY)	7,3	29,2	8,6	8,9	13,7	13,8	10,3	9,8	12,8	11,9	8,1
	Import - constant prices (% YoY)	10,3	34,5	15,2	13,9	13,6	13,2	13,5	11,8	17,6	13,0	9,3
GDP growth contributions	Private consumption (pp)	0,0	7,2	2,7	3,4	1,8	1,3	1,7	1,8	3,3	1,6	2,1
	Investments (pp)	0,2	0,9	1,5	3,9	1,2	1,5	1,9	2,7	1,7	1,9	1,2
	Net exports (pp)	-1,1	-0,3	-2,7	-1,8	1,0	1,2	-1,6	-0,5	-1,5	0,0	-0,4
	Current account (% of GDP)***	2,7	1,8	0,7	-0,8	-1,6	-1,6	-2,1	-1,4	-0,8	-1,4	-1,8
	Unemployment rate (%)**	6,4	6,0	5,6	5,4	5,6	5,3	5,1	5,3	5,4	5,3	5,3
	Non-agricultural employment (% YoY)	0,1	3,1	2,7	1,5	0,6	0,8	0,6	0,6	1,8	0,7	0,1
	Wages in national economy (% YoY)	6,6	9,6	9,4	9,7	9,8	8,9	8,4	8,3	8,8	8,9	7,5
	CPI Inflation (% YoY)*	2,7	4,5	5,5	7,7	7,9	6,8	8,2	7,1	5,1	7,5	5,5
	Wibor 3M (%)**	0,21	0,21	0,23	2,54	3,13	3,13	3,13	3,13	2,54	3,13	3,13
	NBP reference rate (%)**	0,10	0,10	0,10	1,75	3,00	3,00	3,00	3,00	1,75	3,00	3,00
	EURPLN**	4,63	4,52	4,60	4,58	4,65	4,60	4,60	4,60	4,58	4,60	4,40
	USDPLN**	3,95	3,81	3,98	4,03	4,08	4,00	3,97	3,90	4,03	3,90	3,64

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

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST*	
					CA	CONSENSUS**
		Monday 01/24/2022				
9:30	Germany	Flash Manufacturing PMI (pts)	Jan	57,4	56,5	57,0
10:00	Eurozone	Flash Services PMI (pts)	Jan	53,1	50,9	52,1
10:00	Eurozone	Flash Manufacturing PMI (pts)	Jan	58,0	56,0	57,6
10:00	Eurozone	Flash Composite PMI (pts)	Jan	53,3	51,4	52,6
10:00	**Poland**	**Retail sales (% YoY)**	**Dec**	**21,2**	**20,3**	**18,5**
15:45	USA	Flash Manufacturing PMI (pts)	Jan	57,7		
		Tuesday 01/25/2022				
10:00	Germany	Ifo business climate (pts)	Jan	94,7	93,8	94,5
15:00	USA	Case-Shiller Index (% MoM)	Nov	0,9		
16:00	USA	Consumer Confidence Index	Jan	115,8	110,0	113,3
16:00	USA	Richmond Fed Index	Jan	16,0		
		Wednesday 01/26/2022				
10:00	**Poland**	**Registered unemplyment rate (%)**	**Dec**	**5,4**	**5,4**	**5,4**
14:00	**Poland**	**M3 money supply (% YoY)**	**Dec**	**10,1**	**10,2**	**9,9**
16:00	USA	New home sales (k)	Dec	744	751	770
20:00	USA	FOMC meeting (%)	Jan	0,25	0,25	0,25
		Thursday 01/27/2022				
14:30	USA	Initial jobless claims (k)	w/e	286		
14:30	USA	Preliminary estimate of GDP (% YoY)	Q4	2,3	5,0	5,8
14:30	USA	Durable goods orders (% MoM)	Dec	2,6	-0,7	-0,2
		Friday 01/28/2022				
10:00	Eurozone	M3 money supply (% MoM)	Dec	7,3		7,0
11:00	Eurozone	Business Climate Indicator (pts)	Jan	1,84		
14:30	USA	Real private consumption (% MoM)	Dec	0,0		
14:30	USA	PCE Inflation (% YoY)	Dec	5,7	5,8	5,8
14:30	USA	PCE core inflation (% YoY)	Dec	4,7	4,9	4,8
16:00	USA	Final U. of Michigan Sentiment Index (pts)	Jan	68,8	68,8	68,8

*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

Jakub BOROWSKI
Chief Economist
tel.: 22 573 18 40
jakub.borowski@credit-agricole.pl

Krystian JAWORSKI
Senior Economist
tel.: 22 573 18 41
krystian.jaworski@credit-agricole.pl

Jakub OLIPRA
Senior Economist
tel.: 22 573 18 42
jakub.olipra@credit-agricole.pl