


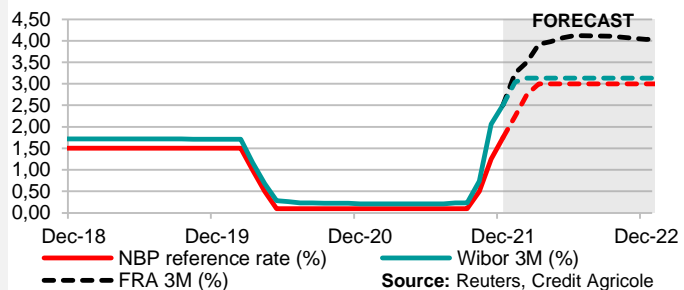
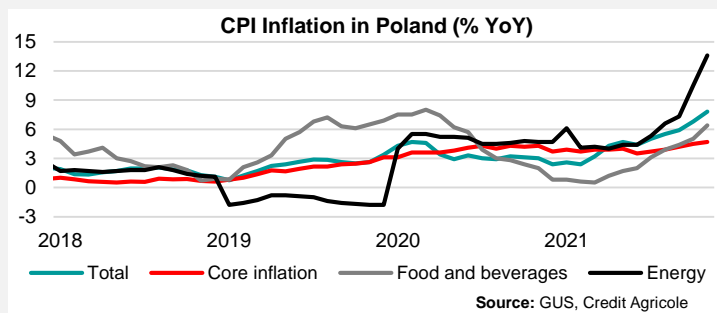


This week

-  **The most important event this week will be the Monetary Policy Council meeting scheduled for Tuesday.** We expect the MPC to increase the interest rate by 50bp to 2.25%. The scenario of monetary policy tightening is supported by statements given by some MPC members (A. Glapiński, E. Łon, C. Kochalski, Ł. Hardt and E. Gatnar), which indicated the need for further moderate interest rate hikes. We are of the opinion that the post-meeting statement will be constructed in such a way that it will not significantly weaken expectations for further rate hikes, which will be conditioned by the inflation perspectives. Nevertheless, we expect the MPC's decision to be slightly negative for the PLN and yields on Polish bonds. At the same time, we see a risk that the reference rate will be raised this week by 75bp to 2.50% in response to the inflation scenario presented by A. Glapiński last week. The most recent NBP forecast predicts that the annual average inflation in 2022 will amount to 7.6% YoY vs. 5.8% in the November NBP projection. The new forecast of the central bank takes into account the impact of the Anti-inflationary Shield and the reduction of VAT on food to zero. According to the NBP President, the local maximum for inflation will be reached in June 2022 (8.3%) and then it will gradually decrease to 6.2% in December 2022. While the annual average inflation rate in 2022 expected in the NBP forecast is similar to our scenario (7.4%, see below), its time profile is different. In our view the maximum inflation (8.9%) will be reached in January this year, and in December 2022 the price dynamics will reach the level of 5.1%. At the same time, we revised our medium-term monetary policy scenario. In our baseline scenario, we expect the Council to raise interest rates by 50bp this week, 50bp in February and 25bp in March, bringing the reference rate to 3.00%. Inflation will be the main argument for further monetary policy tightening, which according to our scenario (see below) will be above 8% in the period of December-February, thus generating the risk of price dynamics consolidating clearly above the inflation target in the medium term. We expect that the March NBP projection will indicate a strong decline in inflation within the monetary policy horizon to a level close to 3.5% in H2 2023, which will be an argument for the MPC for a lower increase of interest rates than in previous months and for ending the monetary policy tightening cycle.
-  **Another important event this week will be the release of *Minutes* from the latest FOMC meeting, planned on Wednesday.** An important element of the *Minutes* will be information on differences in expectations of individual Fed members as to the pace of monetary policy tightening, particularly the timing of the first rate hike after the tapering of the quantitative easing program in March this year. We believe that the publication of the *Minutes* will result in increased volatility on financial markets.
-  **Some important data from the US will be released this week.** The release of labour market data is scheduled for Friday. The market expects non-farm payrolls to have increased by 400k in December versus an increase by 210k in November, with the unemployment rate decreasing to 4.1% versus 4.2% in November. The ADP report on employment in the private sector (the market expects an increase of 438k in December vs. 534k in November) will provide additional information on the labour market before Friday's publication. This week we will also get to know the results of the business sentiment survey. On Tuesday, the ISM index for manufacturing will be published, which according to the consensus decreased to 60.2 pts. in December from 61.1 pts. in November, which will be consistent with the results of regional business sentiment survey. We are of the opinion that the US data releases will be neutral for financial markets.



- ▮ **The preliminary estimate of HICP inflation in the Eurozone will be published on Friday.** We expect the annual rate of price growth to remain unchanged in December compared to November and amount to 4.9% YoY. The stabilisation of headline inflation was a result of a slight decrease in the prices of energy and services, and a faster increase in food prices. On Thursday, the preliminary estimate of HICP inflation in Germany will provide additional information on inflation in the Eurozone. We forecast that it decreased to 5.6% YoY in December from 6.0% in November. Our Eurozone inflation forecast is above market expectations (4.7%). Hence, its materialisation will be conducive to weakening of the PLN and increase in yields on Polish bonds.
- ▮ **This week we will get to know the results of business survey in China's manufacturing.** The market expects the Caixin PMI to have increased slightly in December to 50.0 pts from 49.9 pts in November, which will be consistent with last week's increase in the CFLP PMI for manufacturing (see below). Economic activity in China continues to be constrained by power supply problems, the increasing number of COVID-19 cases and the accompanying restrictions, as well as continuing disruptions in global supply chains. In our view, data from China will be neutral for financial markets.
- ▮ **On Friday, data on inflation in Poland will be published, which we believe increased to 8.3% YoY in December from 7.8% in November.** In our view, higher contributions from core inflation, food prices, and energy contributed to the rise in inflation in December. In turn, fuel price dynamics declined in December due to the impact of high base effects and the launch of the Anti-Inflation Shield. Our forecast is in line with consensus, and thus its materialisation will be neutral for the PLN and the yield on Polish bonds.
- ▮ **The PMI for Polish manufacturing increased to 56.1 pts in December from 54.4 pts, clearly above the market consensus (54.1 pts) and our forecast (54.5 pts).** The increase in the index resulted from higher contributions from 4 out of 5 of its components (for output, employment, new orders and inventories), while the opposite was driven by a lower contribution from the component for delivery times (see below). The average PMI value in Q4 amounted to 54.8 pts vs. 55.6 pts in Q3. However, this does not change our forecast that Polish GDP dynamics in Q4 will increase to 7.0% YoY vs. 5.3% in Q3.



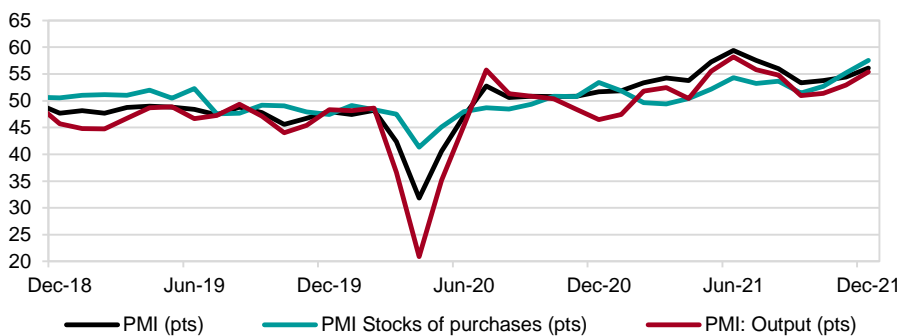
Last week

- ▮ **We have revised our GDP and inflation forecasts (see the quarterly table).** We forecast the GDP growth rate of 5.7% YoY in 2021 (previously 5.2%). The revision of the economic growth forecast for last year is mainly related to a series of better-than-expected data for October and November (industrial production, retail sales, construction and assembly production). As a result, we raised our Q4 GDP growth forecast to 7.0% YoY, which contributed to an upward revision of the average annual growth rate in 2021 as well. At the same time, we have not changed our economic growth forecast for 2022 (4.3% YoY). Interest rate hikes, a delay in the launch of the National Recovery Plan and the continuation of the COVID-19 pandemic are important risk factors for GDP dynamics this year, the role of some of the growth-boosting factors in Q4 (increasing corporate inventories and completion of infrastructure projects) will decline. We have also revised our inflation forecast. On the one hand, we have taken into account the fact that the Energy Regulatory Office

(URE) has announced higher than we had previously assumed price hikes of electricity (by 24%) and gas (by 54%) at the beginning of this year. On the other hand, due to the Prime Minister's announcement to cut VAT on "basic foodstuffs" as of "February for at least six months", we have revised our food price dynamics path. We believe it will be 4.1% YoY in 2022 compared with 5.6% in the scenario without the VAT cut, and it will drop to 2.4% (0.9%) in 2023. We estimated the impact of the VAT reduction by making a number of assumptions. Firstly, we assume that only basic products will be subject to the VAT reduction, that is, those that are currently subject to a 5% rate and sugar, where the rate is 8%. Secondly, we assume that the reduced VAT rate will be in force for exactly six months, that is, from February to July this year. Thirdly, taking into account the market mechanisms in the agri-food sector, we assume that the VAT reduction will not be fully reflected in prices, as food distributors will partly try to use it to increase their profitability in the face of the strong cost pressure they are currently facing. For the same reason, we are of the opinion that the effect of the reduction itself and the subsequent increase in VAT to its original level will be spread over at least two months, as market participants will adapt their pricing strategy to that of their competitors. Summing up, we expect average annual inflation to reach 7.4% YoY in 2022 compared with 5.1% in 2021, and in 2023 it will be 3.5%.

Last week, data on CFLP PMI for Chinese manufacturing was published. The index rose to 50.3 pts in December from 50.1 pts in November, running above market expectations (50.0 pts). The rise in the index comes as a surprise in light of the worsening epidemic situation in China and the related tightening of administrative restrictions, as well as the persistent slowdown in domestic demand in the country. We see a significant likelihood of a downturn in Chinese manufacturing early this year due to the tightening of anti-smog policies with the upcoming Winter Olympics in Beijing (4-20 February 2022). We expect China's GDP growth to have accelerated to 7.7% YoY in 2021 from 2.3% in 2020, and to slow down to 4.9% in 2022.

Good end of the year in Polish manufacturing sector



Source: Markit

PMI for Polish manufacturing increased from 54.4 pts to 56.1 pts in December, running clearly above market consensus (54.1 pts) and our forecast (54.5 pts). The increase in the index resulted from higher contributions of 4 out of its 5 components (output, employment, new orders and inventories), while lower contribution of delivery times component had the opposite effect.

What is noteworthy in the data structure is the strong growth in output, the component which has been in an upward trend for four months. Higher output is supported by an increase in new orders. It is worth noting here that the increase has also been recorded for foreign orders, for the first time since August 2021. Rising production and higher orders support growth in employment, which increased in December after a temporary decline in November (see MACROPulse of 01/12/2021). We believe that the need to replace workers in quarantine was also a factor influencing the increase in temporary employment.

December data also pointed to persistent supply constraints. What supports this assessment are components for prices of intermediate goods used in production as well as prices for final goods, which

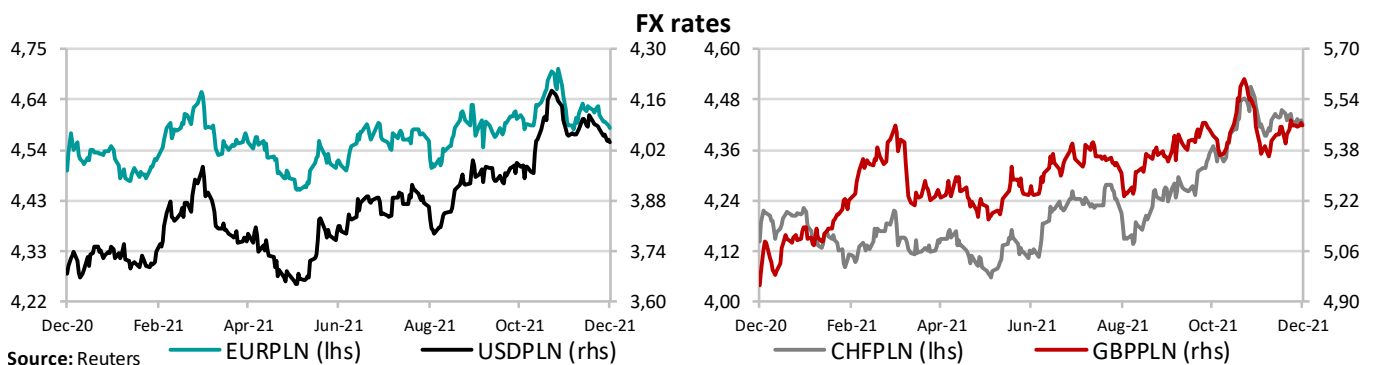
remain at historically high levels. On the other hand, delivery times increased slightly slower than in previous months.

Also noteworthy is the accumulation of inventories in the Polish manufacturing. According to the Markit press release, it is fostered by firms' concerns about product availability amid persistent supply constraints. As a result, they are trying to accumulate the necessary components to ensure continuity of production in the following months, as well as to protect themselves against price increases.

The average value of the PMI in Q4 was 54.8 pts, compared to 55.6 pts in Q3. However, this does not change our forecast that Polish GDP growth in Q4 will increase to 7.0% YoY vs. 5.3% in Q3 (see above).

In our opinion, today's data is slightly positive for the PLN and the yields on Polish bonds.

Eurozone inflation data may weaken zloty

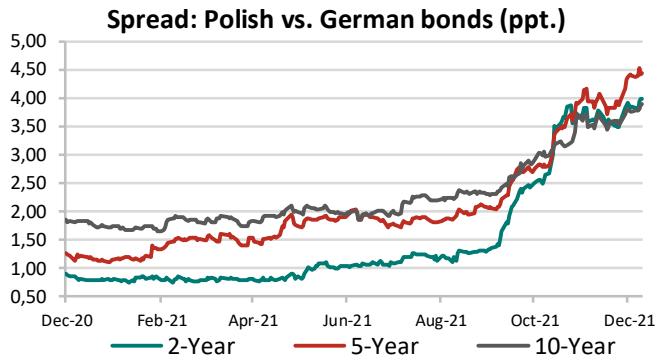
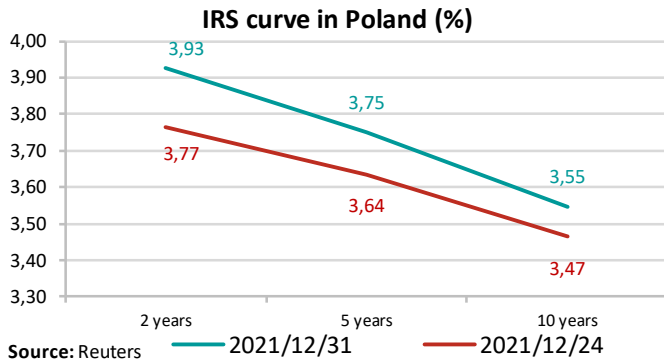


Last week, the EURPLN rate dropped to 4.5848 (the PLN strengthened by 0.6%). Throughout last week, the EURPLN exchange rate was characterised by low volatility and remained in a mild downward trend. The strengthening of the PLN was supported by a decrease in global risk aversion, reflected by a decline in the VIX index.

Last week also saw further declines in EURGBP and EURCHF. The strengthening of the GBP is supported by the tightening of monetary policy by the Bank of England. On the other hand, the persistence of relatively low inflation compared to the Eurozone, which increases the disparity in real interest rates between these economies, remains a positive factor for the CHF exchange rate. The EURUSD exchange rate experienced limited volatility, supported by a poor calendar of macroeconomic publications.

The PMI for Polish manufacturing published this morning is slightly positive for the PLN in our view. This week the meeting of the MPC will be crucial for the PLN. In our opinion it may contribute to slight weakening of the PLN. In our opinion, the publication of preliminary data on inflation in the Eurozone will also have a negative impact on the Polish currency. On the other hand, the publication of the Minutes of the December FOMC meeting may have an impact on the increased volatility of the PLN. Other publications from the Polish and global economy will be neutral for the PLN in our opinion.

MPC meeting crucial for IRS rates



Last week, 2-year IRS rates increased to 3.93 (up by 16 bps), 5-year rates to 3.75 (up by 11 bps) and 10-year ones to 3.55 (up by 8 bps). Last week saw a further rise in IRS rates across the curve following the core markets. Investors' fears of faster monetary policy tightening by major central banks amid the strong inflation growth currently being observed had an upward effect on yields in the core markets. At the same time, the inverted shape of the yield curve persists. Such a shape of the curve means that in the longer term the market is pricing in a downward adjustment of interest rates.

The PMI index for Polish manufacturing published this morning is positive for IRS rates in our view. This week's market focus will be on the MPC meeting, which may contribute to a decline in IRS rates. The publication of preliminary inflation data in the Eurozone may have an opposite effect. On the other hand, the publication of the Minutes of the December FOMC meeting is likely to foster increased volatility in IRS rates. Other publications from the Polish and global economies 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	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	4,59	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	4,05	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	4,43	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	7,8	8,3	
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	5,1	
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	15,0	
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	13,3	
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	8,9	
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	0,7	
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	1269	-531	-378	-1551	-1441	-1339	-1791	-1368		
Exports (% YoY EUR)	17,0	1,0	5,6	27,7	68,6	40,5	22,7	13,1	18,9	12,2	6,6	11,7		
Imports (% YoY EUR)	14,6	-3,7	6,0	23,6	58,3	52,4	34,7	21,5	31,6	21,5	20,4	25,4		

*end of period

Forecasts of the quarterly macroeconomic indicators

Main macroeconomic indicators in Poland												
Indicator	2021				2022				2021	2022	2023	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
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	7,6	8,2	8,1	7,7	5,7	5,1	7,4	3,5	
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	4,60	4,65	4,60	4,60	4,60	4,60	4,60	4,40	
USDPLN**	3,95	3,81	3,98	4,06	4,08	4,00	3,97	3,90	4,06	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 01/03/2022						
9:00	Poland	Manufacturing PMI (pts)	Dec	54,4	54,5	54,1
9:55	Germany	Final Manufacturing PMI (pts)	Dec	57,9	57,9	57,9
10:00	Eurozone	Final Manufacturing PMI (pts)	Dec	58,0	58,0	58,0
15:45	USA	Flash Manufacturing PMI (pts)	Dec	57,8		
Tuesday 01/04/2022						
2:45	China	Caixin Manufacturing PMI (pts)	Dec	50,2		50,0
16:00	USA	ISM Manufacturing PMI (pts)	Dec	61,1		60,2
	Poland	NBP rate decision (%)	Jan	1,75	2,25	2,25
Wednesday 01/05/2022						
10:00	Eurozone	Services PMI (pts)	Dec	53,3	53,3	53,3
10:00	Eurozone	Final Composite PMI (pts)	Dec	53,4	53,4	53,4
14:15	USA	ADP employment report (k)	Dec	534		413
20:00	USA	FOMC Minutes	Dec			
Thursday 01/06/2022						
8:00	Germany	New industrial orders (% MoM)	Nov	-6,9		2,0
11:00	Eurozone	PPI (% YoY)	Nov	21,9		22,9
14:00	Germany	Preliminary HICP (% YoY)	Dec	6,0	5,6	5,6
14:30	USA	Initial jobless claims (k)	w/e	269		
16:00	USA	ISM Non-Manufacturing Index (pts)	Dec	69,1		66,8
16:00	USA	Factory orders (% MoM)	Nov	1,0		1,3
Friday 01/07/2022						
8:00	Germany	Industrial production (% MoM)	Nov	2,8		0,9
8:00	Germany	Trade balance (bn EUR)	Nov	12,5		12,6
10:00	Poland	Flash CPI (% YoY)	Dec	7,8	8,3	8,3
11:00	Eurozone	Business Climate Indicator (pts)	Dec	1,80		
11:00	Eurozone	Preliminary HICP (% YoY)	Dec	4,9	4,9	4,7
11:00	Eurozone	Retail sales (% MoM)	Nov	0,2		-0,5
14:30	USA	Unemployment rate (%)	Dec	4,2		4,1
14:30	USA	Non-farm payrolls (k MoM)	Dec	210		400

*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