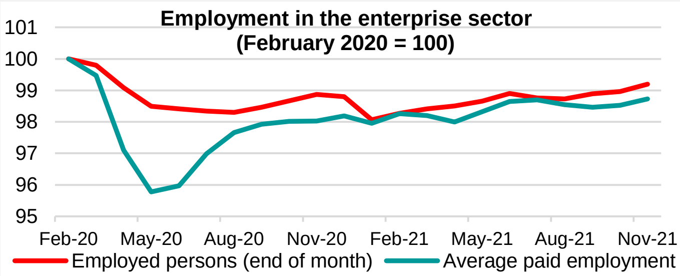
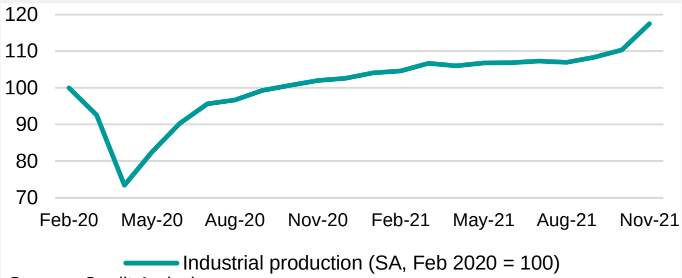
This week

- **Important data from China was published today.** GDP grew by 4.0% YoY in Q4 vs. a 4.9% growth in Q3 (1.6% QoQ in Q4 vs. 0.2% in Q3), above market expectations (3.6% YoY and 1.1% QoQ respectively). Partly better-than-expected Chinese growth data is due to a downward revision of 2020 economic growth and an upward revision of the quarterly growth rate for Q1-Q3 2020. The data on industrial production (4.3% YoY in December vs. 3.8% in November), retail sales (1.7% vs. 3.9%) and investment in urban areas (4.9% vs. 5.2%) was also published today. Industrial production and urban investment data was above expectations (3.6% and 4.8%, respectively), indicating that the deterioration in the epidemic situation and the energy crisis have had less impact on these sectors of the Chinese economy than initially expected. On the other hand, retail sales data was clearly below market expectations (3.7%), indicating a further strong slowdown in domestic demand in China. This is consistent with the Chinese import data published last week (see below). In our view, the Chinese data is neutral for the zloty and yields on Polish bonds.
- **US real estate market data will be released this week.** We expect the data on housing starts (1645k in December vs. 1679k in November), building permits (1700k vs. 1717k), and sales of houses on the secondary market (6.50m vs. 6.46m) to indicate a relative stabilization of activity in the US real estate market. We are of the opinion that the impact of US economic data on the zloty and yields on Polish bonds will be limited.
- **December data on employment and average wages in the business sector in Poland will be published on Friday.** We forecast that employment growth remained unchanged in December compared to November and was at 0.7% YoY. On the other hand, in our opinion, average wage growth slowed down to 8.9% YoY in December from 9.8% in November. The slower growth of wages was influenced by shifting the payment of variable remuneration components from December to November (see MACROpulse of 17/12/2021). The publication of data on employment and average wages in the enterprise sector, although important for the forecast of private consumption growth in Q4, will in our opinion be neutral for the zloty and the debt market.



Source: GUS, Credit Agricole

- **Data on December industrial production in Poland will be released on Friday.** We forecast that industrial production growth slowed slightly to 15.0% YoY in December from 15.2% in November. The slight decrease in production dynamics was due to high base effects (seasonally adjusted production grew by 6.5% MoM in November, which limits its potential for further growth) and favourable calendar effects. Our forecast for industrial production growth is above market consensus (13.0%), thus its materialization will be positive for the zloty exchange rate and yields on Polish bonds.



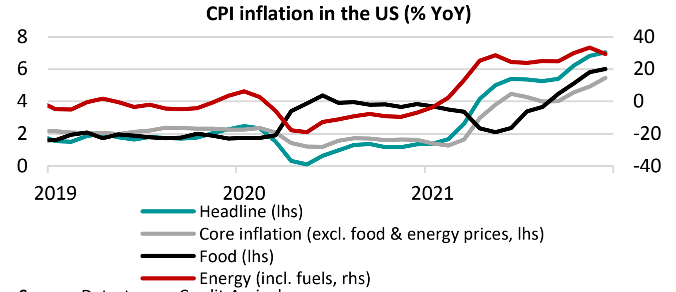
Source: Credit Agricole

Last week

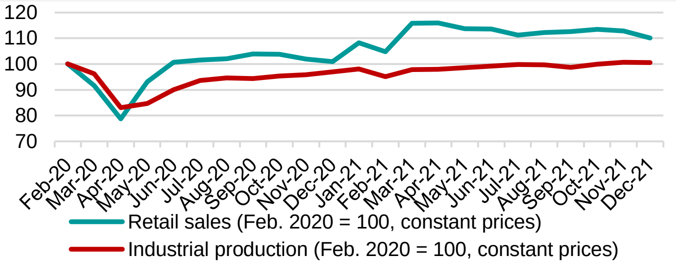
- **Poland's CPI inflation increased to 8.6% YoY in December from 7.8% in November, according to the preliminary estimate by GUS.** Hence, inflation reached its highest level since November 2000 and has remained above the upper limit of deviations from the NBP inflation target (3.5% YoY) for 9 months. The main factor contributing to the increase in inflation was higher price dynamics in the “food and non-alcoholic beverages” category (8.6% YoY in December vs. 6.4% in November). The wide product coverage of the food price increase, combined with its large scale, indicate that it is not only the result of higher prices of agricultural goods, but is also due to rising costs in food processing, including energy, labour and packaging costs (see MACROpulse of 14/01/2022). The higher dynamics of prices of energy (14.3% YoY in December vs. 13.4% in November), resulting from higher prices of gas, fuel and heat energy, also had an impact on the inflation growth. Higher core inflation, which rose to 5.2% YoY in December from 4.7% in November and was at its highest level since August 2001, also contributed to the rise in inflation. The December increase in core inflation had a wide product coverage and was recorded, inter alia, in the categories "communications", "clothing and footwear", "other expenditure on goods and services", "restaurants and hotels", "recreation and culture", "health", "household equipment and housekeeping" or "alcoholic beverages and tobacco products", reflecting a strong inflationary pressure in the Polish economy. On the other hand, the lower dynamics of fuel prices (32.9% YoY in December vs. 36.6% in November) had an opposite effect, which is due to the gradual extinction of the effects of a low base and a drop in fuel prices in the second half of December as a result of the introduction of the Anti-inflationary Shield. According to our revised inflation scenario, taking into account the effect of the "Anti-inflation Shield 2.0" (see below), CPI inflation in Poland will increase to 7.4% in 2022, compared to 5.1% in 2021, and decrease to 5.5% in 2023.
- **Polish current account balance decreased to EUR -1112M in November from EUR -856M in October (upward revision from EUR -1791M), exceeding market expectations (EUR -1860M) and our forecast (EUR -1368M).** Thus, this is the 7th consecutive month in which a deficit was recorded on the Polish current account. The reduction in the current account balance was due to a lower goods balance (EUR 414M lower than in October), while the opposite impact was due to higher services, primary and secondary income balances (EUR 121M, EUR 18M and EUR 19M higher than in October, respectively). At the same time, both export growth (14.2% YoY in November vs. 9.7% in October) and import growth (29.0% vs. 20.9%) increased in November, which is largely due to the statistical effect of the favourable difference in the number of working days. According to the NBP statement, the declining sales of cars and car parts continue to be a limiting factor for exports, while rising prices of raw materials, in particular energy raw materials, support the growth of imports. Last week's data poses a slight upward risk to our forecast that the cumulative current account balance for the last four quarters in relation to GDP declined to -0.8% in Q4 from 0.7% in Q3. The clearly visible current account deficit in recent months is a negative factor for the zloty, in addition to the relatively low level of interest rates in Poland compared to other countries of the region, the aggravation of the dispute between Poland and the EU, the difficult epidemic situation in Poland and tensions on the border with Belarus.
- **China's trade balance increased to USD 94.5bn in December, up from USD 71.2bn in November, well below market expectations (USD 74.5bn).** At the same time, this is China's highest ever trade balance surplus. The Chinese trade balance surplus was boosted by a stronger decrease in the dynamics of imports (19.5% YoY in December vs. 31.7% in November) than in exports (20.9% vs. 22.0%). This reflects continued strong external demand for Chinese goods, while domestic demand has slowed down. The data also indicates that the deterioration of the epidemic situation in China has so far had a limited impact on Chinese exports. Taking into account the

Chinese GDP data released today (see above), we are of the opinion that China's GDP growth increased to 8.1% YoY in 2021 compared to 2.3% in 2020, and it will decrease to 4.9% in 2022.

A number of data on US economy was released last week. CPI inflation rose to 7.0% YoY in December from 6.8% in November, in line with market expectations (6.8%). This was the highest level of inflation in the US since June 1982. The increase in inflation was driven by higher core inflation (5.5% YoY in December vs. 4.9% in November – the highest level since February 1991) and higher food prices, while lower energy prices had the opposite effect. It is worth noting that while initially the inflation increase was observed mainly in categories where we saw the realisation of pent-up demand, it now covers a very wide product range. This points to growing inflationary pressures in the US economy. We believe that in Q1 inflation will reach its local maximum, with core inflation exceeding 6.0% YoY. Monthly industrial production growth decelerated to -0.1% in December from 0.7% in November, running below market expectations (0.3%). It was pushed down by lower production growth in utilities and manufacturing, while higher production growth in mining had the opposite effect. Capacity utilisation declined to 76.5% in December from 76.6% in November and thus, despite the decline, remains close to pre-pandemic levels (around 77%). Last week we also saw data on retail sales, whose monthly nominal growth decelerated to -1.9% in December from 0.2% in November, which was clearly below market expectations (0.0%). Excluding cars, monthly sales growth fell to -2,3% in December from 0.1% in November. Lower sales growth was recorded in most categories. We believe that factors that may have contributed to the marked decline in retail sales in December were the shifting of part of Christmas shopping from December to November amid concerns about the availability of goods, the worsening epidemic situation (see COVID Dashboard), as well as rising inflation eroding household purchasing power. The preliminary University of Michigan index indicated further deterioration in consumer sentiment, as it fell to 68.8 pts in January vs. 70.6 pts in December, running below market expectations (70.1 pts). The decline in the index was due to a drop of its components for both the assessment of the current situation and expectations. However, the University of Michigan index remains at historically low levels, with rising inflation as the main negative factor for consumer sentiment. Taking into account the inflation data and the epidemic situation in the US, as well as the Fed's recent shift to a more hawkish stance, we have revised our US interest rate scenario. Currently, we expect the first 25bp rate hike in Q2 (most likely in May, although we do not rule out a hike in March). We believe there will be two more 25bp rate hikes in the following months of 2022. In 2023, we expect another two rate hikes of 25bp each. At the same time, taking into account the content of the latest Minutes (see MACROmap of 10/1/2022), we believe that the Federal Reserve will reduce its balance sheet total more rapidly in the upcoming interest rate hike cycle than in the previous monetary tightening cycle.



Source: Datastream, Credit Agricole



Source: Datastream, Credit Agricole

The Anti-Inflation Shield will drive inflation up in 2023

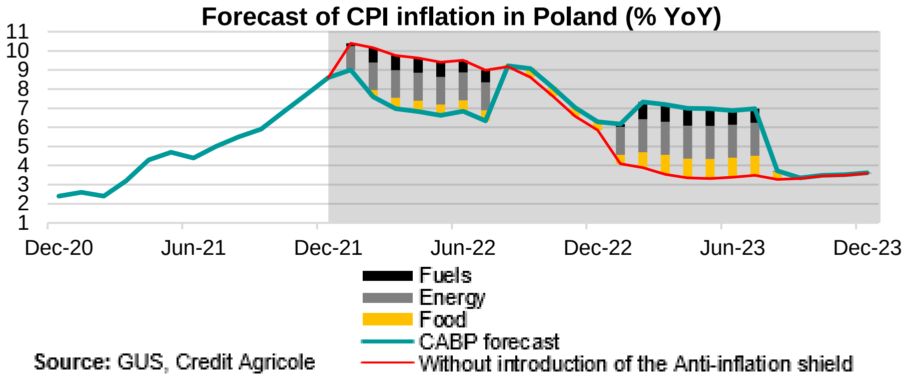
Last week, the government announced another package of measures to reduce inflation (the so-called Anti-Inflation Shield 2.0). Moreover, inflation in December 2021 surprised noticeably upwards (see MACROpulse of 14/1/2022). Both of the above-mentioned factors have an important impact on inflation developments in the short and medium term. Below we present our revised inflation scenario for 2022-2023.

The most important actions planned within the Anti-Inflation Shield 1.0 (see MACROmap of 29/11/2021) and Shield 2.0 are reduction of the VAT rate on fuels from 23% to 8%, exemption from VAT on fertilisers, certain food products (see MACROmap of 10/01/2021) and gas, and reduction of the VAT rate on heat from 23% to 5%. The individual measures will be introduced in January or February 2022 and will be maintained until July this year. A detailed list of individual measures and their impact on product prices is presented in the table below. At the same time, one should remember that at the beginning of 2022, significantly higher electricity (24% price increase) and gas (54%) tariffs were passed, and an increase in heat prices (ca. 7%) can be expected. These factors will offset the anti-inflationary impact of the Shield. As a result, the beginning of 2022 will see not a decrease but an increase in electricity (by ca. 5%) and gas (by ca. 25%) bills. The impact of the VAT rate cut on foodstuffs was presented in details in the MACROmap of 10/01/2021. At the same time, we believe that the temporary reduction of the VAT rate on fertilizers will not have a significant impact on the path of food prices in Poland.

Category	Action	Price effect for category (%MoM)	When?	Net price effect (%)	Price change after expiry of the Shield (%MoM)
Gas	Reduction of VAT rate from 23% to 8%	-12,2	January 2022	25,2	23,0
	Reduction of VAT rate from 8% to 0%	-7,4	February 2022		
	Change of tariff by URE (Polish Energy Regulatory Office)	54,0	January 2022		
Electricity	Reduction of excise tax	-0,8	January 2022	5,0	17,1
	Reduction of VAT rate from 8% to 0%	-14,6			
	Change of tariff by URE	24,0			
Fuels	Reduction of excise tax	-0,4	January 2022	-14,6	17,1
	Elimination of retail sales tax	-1,1	January 2022		
	Exemption from emission fees	-1,2	January 2022		
	Reduction of VAT rate from 23% to 8%	-12,2	February 2022		
Heat	Reduction of VAT rate from 23% to 8%	-12,2	January 2022	-6,0	13,9
	Estimated change in tariff	7,0			
Food	Reduction of VAT rate on certain products to 0%	-2,0	Feb/Mar 2022	-2,0	3,6
	Reduction of VAT rate on fertilizers from 8% to 0%	0,0	February 2022		

Source: Credit Agricole

We have presented the impact of the government's individual measures on the annual inflation growth within the main categories of the inflation basket using the bars in the chart below. We estimate that the solutions proposed by the government will reduce inflation by an average of 2.5 pp in January-July 2022 and by an average of 1.3 pp throughout 2022. While the solutions proposed by the government are anti-inflationary in the short term, in the long term they will have a inflationary effect. Firstly, the tax cuts in 2022 will raise inflation in 2023, due to the impact of low base effects, by an annual average of 2.0 pp. Secondly, we expect food price increases after the removal of the lower VAT rate to be larger than their reductions in early 2022 (see MACROmap of 10/01/2022). Thirdly, saved household incomes and additional transfers in the form of a shield allowance will drive demand in the coming quarters, which will also act to increase prices.

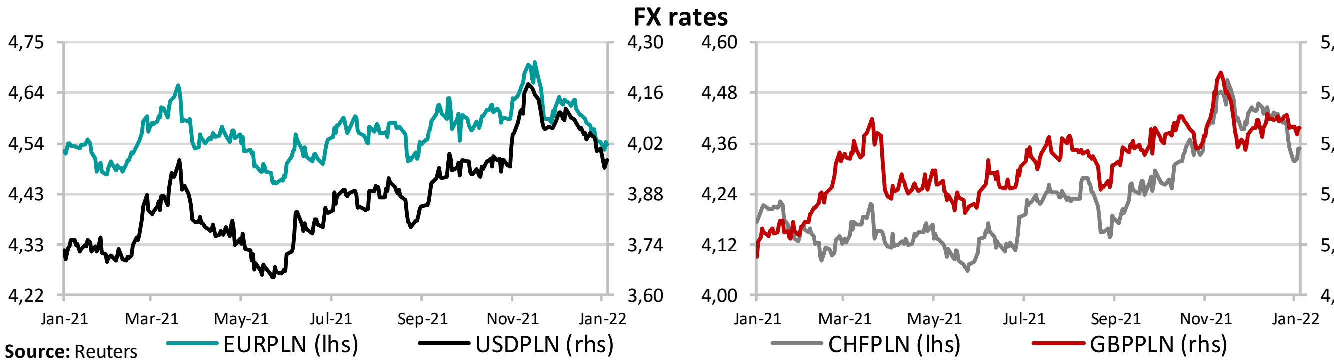


Source: GUS, Credit Agricole

In accordance with the final GUS data, CPI inflation in Poland went up to 8.6% YoY in December vs. 7.8% in November, running above the market consensus which was consistent with our forecast (8.3%). The higher starting point of the forecast has the effect of raising the expected inflation path throughout 2022. Thus, even after taking into account the newly announced anti-inflationary measures taken by the government, our forecast for average annual inflation in 2022 has not changed significantly (7.5% YoY vs. 7.4% previously). At the same time, due to the impact of low base effects and the aforementioned demand effects, we have revised our inflation forecast for 2023 sharply upwards (to 5.5% YoY from 3.5%). It is worth noting that the launch of the Inflation Shield smooths the path of inflation, lowering it in 2022 and raising it in 2023. We estimate that in the scenario without the Inflation Shield being implemented, the peak in inflation would have been realised in January this year at 10.4% YoY (see chart), and would have averaged 8.8% in 2022.

The forecast presented above takes into account our assumption of further monetary tightening by the MPC (50bp interest rate hikes in February and 25bp in March). We forecast inflation to reach 3.5% in Q4 2023. We believe that the materialisation of such a scenario would be acceptable to the majority of the new MPC, if the interpretation of the inflation target as a band (2.5% +/- 1pp) presented earlier is upheld. Thus, we believe that the potential for further monetary policy tightening is limited, and the scale of interest rate hikes currently priced in by markets (to over 4%) is excessive.

Domestic data on industrial production may strengthen the PLN

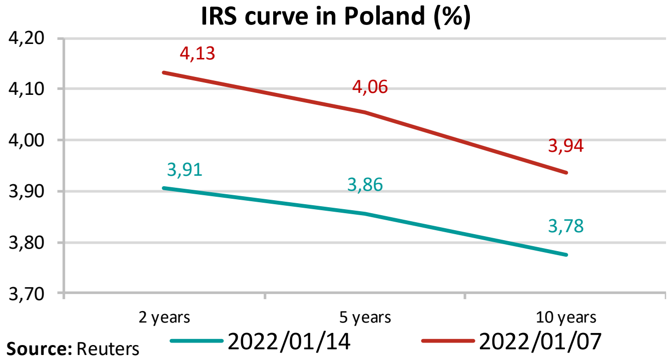


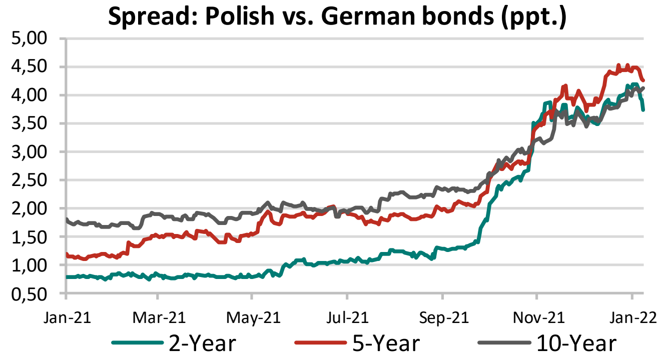
Source: Reuters

Last week, the EURPLN rate dropped to 4.5348 (the PLN strengthened by 0.2%). For the first part of last week, we saw a further mild decline in the EURPLN. On Thursday, the trend reversed and the PLN weakened, supported by a rise in global risk aversion. Higher risk aversion was fostered by investor concerns about the outlook for global economic growth, which began to dominate over fears of a further rise in inflation. For this reason, despite increased global risk aversion, we also saw the USD weaken against the EUR at the end of last week.

We believe the data from China published today to be neutral for the PLN. This week's key for the Polish currency will be the domestic industrial production data, which, if our higher-than-market-consensus forecast materialises, may lead to its strengthening. Other publications from the Polish and global economies planned for this week will not have a significant impact on the PLN, in our opinion.

Domestic industrial production data of key importance for IRS rates





Source: Reuters

Last week the 2-year IRS rates decreased to 3.91 (down by 22bp), 5-year rates to 3.86 (down by 22bp), and 10-year rates to 3.78 (down by 16bp). Last week saw a drop in IRS rates following the core markets. As in the foreign exchange market, the main factor determining the situation in the debt market was investors' concerns about the prospects for economic growth, which began to dominate over fears of further increases in inflation.

We believe the data from China published today to be neutral for the IRS rates. This week, domestic industrial production data will be in the spotlight; it may contribute to a rise in IRS rates. Other data releases from the Polish and global economies 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	7,8	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	**5,2**	
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	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				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	7,7	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 01/17/2022				
3:00	China	GDP (% YoY)	Q4	4,9	3,0	3,6
3:00	China	Industrial production (% YoY)	Dec	3,8	3,4	3,6
3:00	China	Retail sales (% YoY)	Dec	3,9	3,5	3,7
3:00	China	Urban investments (% YoY)	Dec	5,2	4,8	4,8
14:00	**Poland**	**Core inflation (% YoY)**	**Dec**	**4,7**	**5,1**	**5,1**
		Tuesday 01/18/2022				
11:00	Germany	ZEW Economic Sentiment (pts)	Jan	29,9		32,7
14:30	USA	NY Fed Manufacturing Index (pts)	Jan	31,9		25,0
		Wednesday 01/19/2022				
10:00	Eurozone	Current account (bn EUR)	Nov	18,1		
14:30	USA	Housing starts (k MoM)	Dec	1679	1645	1650
14:30	USA	Building permits (k)	Dec	1717	1700	1701
		Thursday 01/20/2022				
11:00	Eurozone	HICP (% YoY)	Dec	5,0		5,0
14:30	USA	Initial jobless claims (k)	w/e	230		
14:30	USA	Philadelphia Fed Index (pts)	Jan	15,4		20,0
16:00	USA	Existing home sales (M MoM)	Dec	6,46	6,50	6,43
		Friday 01/21/2022				
10:00	**Poland**	**Employment (% YoY)**	**Dec**	**0,7**	**0,7**	**0,6**
10:00	**Poland**	**Corporate sector wages (% YoY)**	**Dec**	**9,8**	**8,9**	**9,1**
10:00	**Poland**	**PPI (% YoY)**	**Dec**	**13,2**	**13,3**	**13,5**
10:00	**Poland**	**Industrial production (% YoY)**	**Dec**	**15,2**	**15,0**	**13,0**
16:00	Eurozone	Consumer Confidence Index (pts)	Jan	-8,3		-9,0

*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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