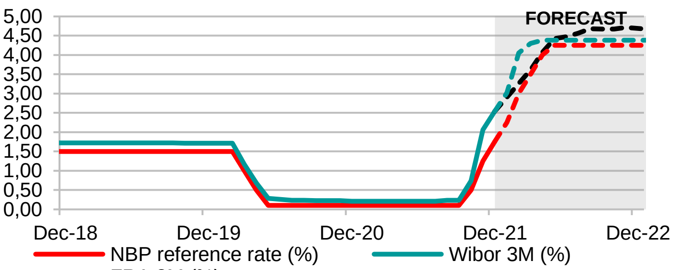
This week

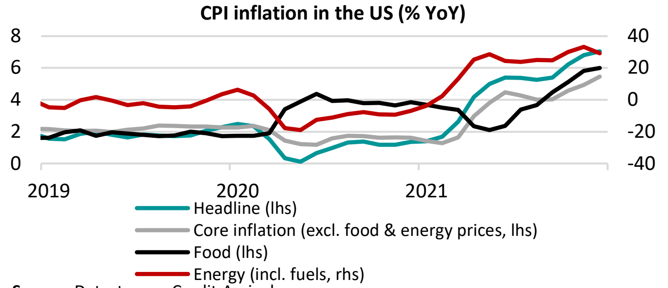
- **The key event this week will be the MPC meeting planned for Tuesday.** We expect the MPC to raise interest rates by 75bp, to 3.00%. The scenario of monetary policy tightening is supported by, among other things, last week's comments by the NBP President, who believes that the PLN should appreciate. Three weeks ago, A. Glapiński also commented that interest rates should rise by more than what was then expected by the market (see MACROmap of 24/01/2022). We believe that the press release following the meeting will be structured in such a way so that it does not markedly weaken expectations of further interest rate hikes, which will depend on economic growth and inflation prospects. Our forecast of the scale of an interest rate rise at this week's meeting (75bp) is above market expectations (50bp). Such a rise, if our forecast materializes, will be conducive to an appreciation of the PLN and a rise in yields on Polish bonds at the short end of the curve.



Source: Reuters, Credit Agricole

- **Some important data from the US will be released this week.** We expect headline inflation to have risen to 7.3% YoY in January from 7.1% in December, driven by a sharp rise in core inflation. Results of business surveys from the US will also be released. A preliminary reading of the University of Michigan index will be released on Friday. We expect the index to have risen slightly, to 68.5 pts in February from 67.2 pts in January, reflecting a weakening negative impact of the pandemic on consumer confidence. We believe that if our forecasts materialize, data from the US will not have any significant impact on the PLN or yields on Polish bonds.

CPI inflation in the US (% YoY)



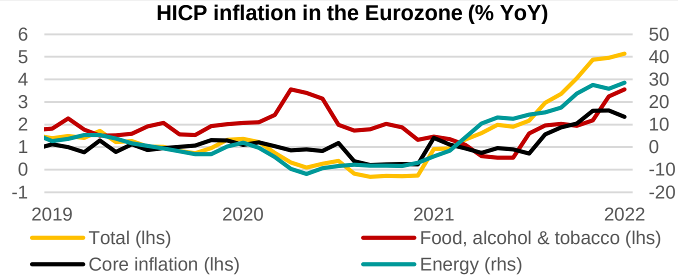
Source: Datastream, Credit Agricole

- **Important data on the German economy has been published in recent days.** Industrial production shrank by 0.3% MoM in December vs. growth of 0.3% in November, running markedly below market expectations (+0.4%). Thus, industrial production in Germany in December was 11.0% lower than right before the outbreak of the pandemic (i.e. in February 2020). The decline in industrial production growth was driven by a slowdown in construction, partly offset by higher industrial production growth in manufacturing and the energy sectors. What is worth noting about the data is growth in industrial production in the 'motor vehicles, trailers and semi-trailers' category, seen for four months. This segment was particularly heavily affected by supply constraints, and therefore we believe that continuing growth in this category shows an easing of supply constraints. Last week saw the release of data on new orders in manufacturing in Germany, which grew by 2.8% in December vs. 3.6% in November, thus exceeding market expectations (0.5%). The rise in orders was driven by an increase in domestic orders, while export orders fell. Drops in foreign orders were seen both in the Eurozone and in countries outside the single currency area. Industry wise, relatively strong growth in orders continues to be reported in manufacture of electronics, pharmaceuticals and chemicals, while orders in the automotive industry dropped. We can see a downward risk to our forecast that German GDP will grow by 1.3% QoQ in Q1 vs. a drop of 0.7% in Q4 2021.

Last week

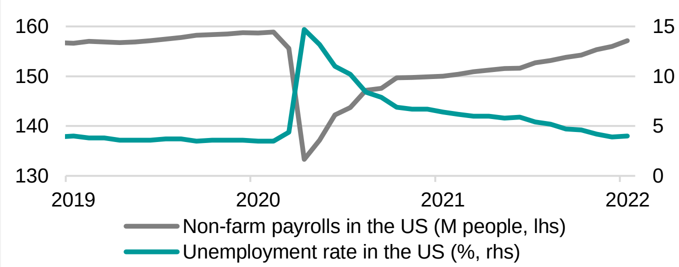
- **The ECB met last week.** As we had expected, the ECB interest rates were kept unchanged (the deposit rate is -0.50%). The other parameters of the ECB's monetary policy were kept unchanged, too, including no changes to the planned end of the Pandemic Emergency Purchase Programme (PEPP) in March 2022 and the planned reinvestment of maturing principal payments from securities purchased under the PEPP at least until the end of 2024. At the press conference following the meeting, the ECB President Ch. Lagarde implied that the Governing Council of the ECB was concerned about the sharp rise in inflation (see below). At the same time, she noted that the March inflation projection will be revised up sharply vs. the December projection. She also emphasized that the coming projections (in March and in June) will be of key importance from the point of view of the ECB's monetary policy prospects. Thus, she indicated that the ECB would calibrate its monetary policy based on the projections taking into account the upward revision of the inflation path. Given the hawkish tone of the conference following the ECB meeting as well as our Eurozone inflation projection (see below) we have revised up our scenario for the ECB's monetary policy. Currently, our baseline scenario assumes that the ECB will end its Asset Purchase Programme (APP) in December 2022, which will make room for the first interest rate hike of 10bp in March 2023. However, we also notice the likelihood of an alternative scenario which assumes the ECB ending its APP already in September 2022 and the first interest rate hike in December 2022.

HICP inflation in the Eurozone (% YoY)



Source: Datastream, Credit Agricole

- **In accordance with the flash estimate, inflation in the Eurozone rose to 5.1% YoY in January from 5.0% in December, running markedly above market consensus (4.4%) and our forecast (4.9%).** Thus, inflation in the Eurozone has hit an all-time high. Inflation was driven up by higher rises in energy and food prices, partly offset by lower core inflation, which dropped to 2.3% YoY in January from 2.6% in December. We believe that inflation in the Eurozone will reach its peak in Q1 2022, and then will be on a slight downward trend in the coming quarters. According to our revised scenario, we expect YoY inflation of 4.6% for 2022 vs. 2.6% for 2021, and a drop to 1.6% in 2023. We believe that Eurozone inflation will not fall below 3% YoY until late 2022.



Source: Datastream, Credit Agricole

- **Some significant data on the US economy was released last week.** Non-farm payrolls rose by 475k in January vs. 510k in December (upward revision from 199k), running markedly above market expectations (an increase of 150k). The strongest increases in employment were seen in leisure and hospitality (+151.0k), professional and business services (+86.0k), and retail trade (61.4k). The unemployment rate rose to 4.0% in January from 3.9% in December, running above market expectations (3.9%). The increase in unemployment was due to growth in labour force being stronger than growth in employment. This shows that due to improvement in the labour market, some people, economically inactive so far, decide to enter the labour market. In consequence, activity rate rose to 62.2% in January from 61.9% in December, thus nearing pre-pandemic levels (ca. 63.3%). The jobless claims figures were also released last week. The number of new jobless claims dropped to 238k from 261k two weeks ago, running slightly below market expectations (245k). At the same time, the number of continued claims fell from 1.7m to 1.6m. It is worth noting that the figures are close to the levels right before the outbreak of the pandemic. Thus, last week's data indicates that the US labour market is already close to its equilibrium. Last week also saw the release of business survey results. The ISM manufacturing index fell to 57.6 pts in January from 58.8 pts in December, running slightly above market expectations (57.5 pts). The index was driven down by 4 out of its 5 components (delivery times, inventories, current output, and new orders), with the drop partially offset by a higher contribution of employment component. What is particularly worth noting about the data is that growth in input prices has picked up again, while drops were recorded in the last two months. Thus, although recent months have seen numerous signs that supply constraints are easing (e.g. from Germany and China), they continue to be an important factor adversely affecting activity in manufacturing. The ISM services index also dropped, to 59.9 pts in January from 62.3 pts in December. The breakdown of data shows that deterioration of situation in this sector was driven primarily by the growing severity of the pandemic in the US (see COVID Dashboard). Taking into account very good data from the US labour market and the recent change in the Fed's rhetoric to more hawkish (see MACROmap of 31/01/2022), we have revise up our US interest rates scenario. Currently, we expect the Fed to make interest rate hikes in 2022 totalling 100bp, with the first hike in March (previously we expected interest rates hikes totalling 75bp with the first one in Q2).

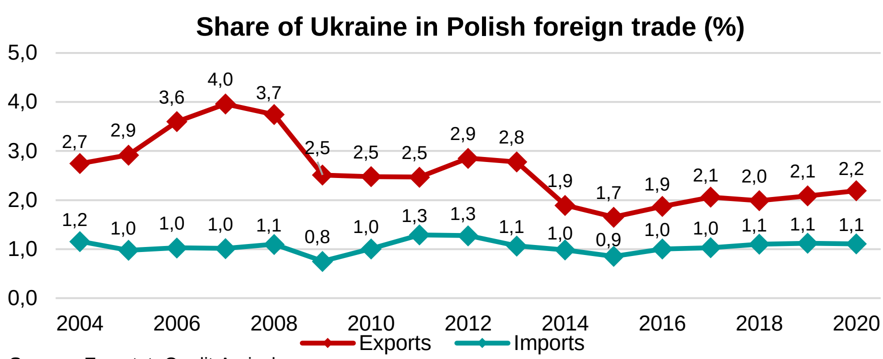
- **Poland's GDP expanded by 5.7% in 2021 against a 2.5% contraction in 2020, which was in line with our forecast and above market expectations (5.5%).** The GDP data reflect an increase in economic activity driven by, among other things, the realisation of deferred demand by households and a recovery in global trade. At the same time, economic growth rate last year was pushed up by low-base effects associated with the outbreak of the COVID-19 pandemic in 2020 (see MACROpulse of 31/1/2022). Based on GUS data, we estimated that real GDP growth rate stood at 7.2% YoY in Q4 2021 vs. 5.3% in Q3. Higher contributions from private consumption, inventories and investment had an upward effect on economic growth, while a lower contribution from net exports had the opposite effect. We believe that rapid economic growth in Q4 will be a factor boosting the average annual GDP growth in 2022. At the same time, we see downside risks to our 2022 economic growth forecast (4.3%) due to significantly lower than our expectations investment growth in Q4 2021 as well as a protracted EU-Poland dispute that delays the launch of the National Recovery Plan.
- **PMI for Polish manufacturing decreased from 56.1 pts in December to 54.5 in January, running clearly below market consensus (56.4 pts) and slightly below our forecast (54.9 pts).** The index was driven down by lower contributions of 3 out of its 5 components (current output, new orders and inventories), with an opposite impact coming from higher contributions of employment and delivery times components. What is worth noting in the data is further increase in delivery times with simultaneous acceleration in the price growth of both intermediate goods used in production and final goods. This structure of data is indicative of a growing supply constraints, which remain a limiting factor for activity in Polish manufacturing. At the same time, it comes as a bit of a surprise in light of the Eurozone business survey results published two weeks ago, which indicated decreasing supply constraints (see MACROmap of 31/1/2022). Also noteworthy in the data is the decline in the index for expected output at a 12-month horizon, which was at its lowest level since November 2020 in January. According to the report, the deterioration in expectations for future production is mainly due to the increasing cost pressures faced by the surveyed businesses. In an environment of rising operating costs, businesses are faced with the need to increase the prices of their final products, which may be detrimental to their competitiveness (see MACROpulse of 1/2/2022). Taking into account data coming from the Eurozone, China and the US indicating a gradual reduction of supply constraints, we believe that they will also be reflected in higher activity in Polish manufacturing in the coming months.

However, this does not change our forecast of a marked slowdown in Poland's GDP growth in Q1 (to 4.4% YoY vs. our estimate of 7.2% in Q4).

We have revised our GDP forecasts (see quarterly table). The average annual growth rates for 2022 and 2021 remain unchanged (4.3% and 4.0%, respectively). However, we have revised the structure of growth, which is linked to the publication of flash GDP data for 2021 (see below). The implied growth rate of total investment in Q4 2021 turned out to be significantly below our expectations, which, due to a lower starting point, contributed to a lower path of outlays also for the whole of 2022. In addition, recent incoming information (including the reopening of the Supreme Court's Disciplinary Chamber) points to an escalation of the Poland-EU dispute. The legislative initiative of President A. Duda announced last week, aimed at resolving the issue of the Disciplinary Chamber, was coolly received by the representatives of the United Right, which is another signal indicating a low probability of a quick end to the legal dispute between Poland and the EU and the related unblocking of the National Recovery Plan (NRP). Thus, we have assumed that significant funds under the NRP will not flow to Poland in 2022, and therefore we have revised downwards the investment growth rate in H2 2022 compared to our previous forecast. At the same time, we have raised our consumption forecast. Data on payment card spending by our bank's customers points to continued strong household demand despite high inflation and deteriorating consumer sentiment. Over a horizon of several quarters, private consumption will be supported by an improving labour market situation, including strong wage growth.

How strong are Poland's trade links with Ukraine?

Continuing tensions between Ukraine and Russia and the growing risk of a military conflict between these countries have been leading to increased risk aversion, which has a negative impact on the valuation of assets from emerging markets, including Poland. This is one of the factors limiting the potential for the PLN to strengthen, despite the gradual tightening of domestic monetary policy. However, the consequences of the hypothetical scenario of a military conflict between Russia and Ukraine would not only be limited to the financial markets, but would also have a negative impact on the real sphere of the Polish economy. We outline these determinants below, focusing on Poland-Ukraine foreign trade links.



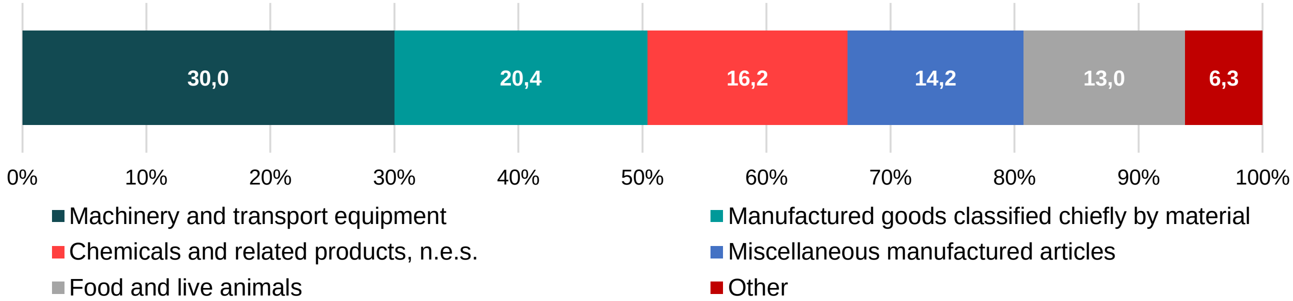
Source: Eurostat, Credit Agricole

According to Eurostat data, Ukraine is the fourteenth largest destination of goods exported from Poland. At the same time, it ranks eighteenth in terms of the value of goods imported into Poland. The shares of Poland's trade exchange with Ukraine in total exports and imports of goods are limited and constitute 2.19% and 1.11% respectively (EUR 5.2bn and EUR 2.5bn, see chart).

Polish exports to Ukraine include "machinery and transport equipment" (30% of the total), "manufactured goods classified chiefly by material" (i.e. mainly processed commodities and materials, 20.4%), "chemicals and related products" (16.2%), "miscellaneous manufactured articles" (14.2%) and "food and live animals"

(13.0%). Only in the case of "animal and vegetable oils, fats and waxes" and "chemicals and related products" is Ukraine an important (compared to other countries of the world) recipient of Polish exports. Exports to Ukraine account for 5.1% and 3.7% of Poland's total exports under these categories respectively. In the case of other product groups, these percentages are small and do not exceed 3% of total exports from Poland in a given category.

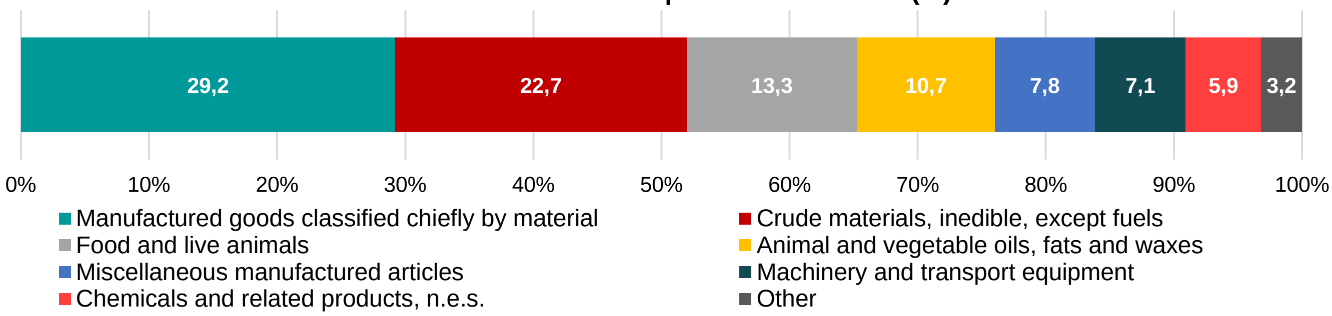
Structure of Polish exports to Ukraine (%)



Source: Eurostat, Credit Agricole

The structure of Polish imports from Ukraine is also highly diversified. “Manufactured goods classified chiefly by material” constitute the largest part of it (29.2%). “Crude materials, inedible, except fuels” account for about a quarter. Categories such as "food and live animals", "animal and vegetable oils, fats and waxes", "miscellaneous industrial articles" and "chemicals and related products" individually account for about 10% of the total import of goods from Ukraine to Poland. In the case of most categories, Ukraine is not a key supplier of goods to Poland - it accounts for less than 2% of total imports within individual product groups. However, it is an important trade partner in two categories. In the case of "animal and vegetable oils, fats and waxes", Ukraine provides 25.8% of the total value of products imported by Poland within this product group, and in the case of "crude materials, inedible, except fuels" (i.e. mainly raw materials and materials used in the production process) this percentage is 9.0%. As far as the first category is concerned, Polish imports from Ukraine are dominated by vegetable oils such as sunflower, soybean and rapeseed oil. In the second category, over 60% of the value of Polish imports are metal ores and metal scrap.

Structure of Polish imports from Ukraine (%)



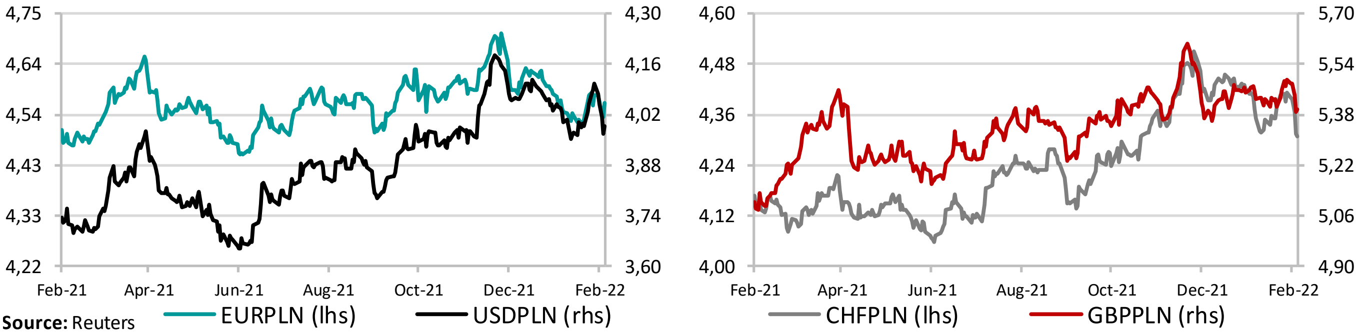
Source: Eurostat, Credit Agricole

In light of the data presented above, it should be noted that a potential military conflict between Russia and Ukraine, which could lead to a decrease in Poland's trade with Ukraine, would have a limited impact on the economic situation in Poland. Indeed, even a complete end to Polish goods exports to Ukraine would reduce the GDP growth in Poland by 1.0 pp in the first year after the shock. This impact has been estimated simplistically as the ratio of Polish exports to Ukraine and Polish GDP, and is therefore overstated. One should bear in mind that at the same time we would also have a fall in imports, which would limit the negative impact of reduced exports on the contribution of net exports to GDP growth. In addition, we would also see a geographical reorientation of exports.

Possible disruptions in the supply of imported goods could be severe only in the case of the two categories mentioned above – “animal and vegetable oils, fats and waxes” and “crude materials, inedible, except fuels”. For other product groups, Poland could relatively easily replace Ukraine with another supplier. The escalation of the Russia-Ukraine conflict, however, remains a downside risk to our forecast for economic growth this year (4.3% YoY) and an upside risk to our forecast for the EURPLN exchange rate (4.50 at the end of 2022). However, it is worth noting that the structure of Polish imports from Ukraine does not reflect the importance of Ukraine in the global food market. Both Ukraine and Russia are major exporters of cereals and oilseeds. Consequently, a conflict between these countries and the associated potential production losses and logistical difficulties would push up cereal and oilseeds prices on the world market. This would thus pose an upward risk to our food price path.

The MPC's decision may strengthen the PLN

FX rates



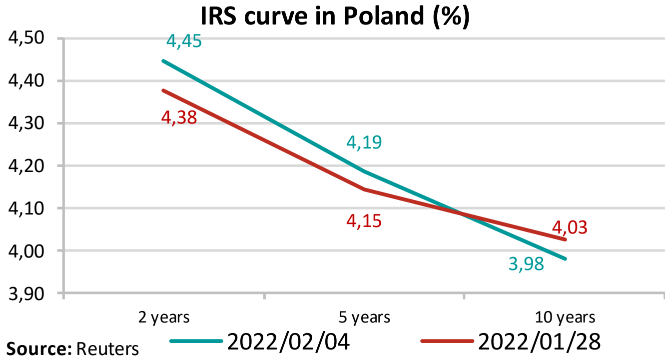
Source: Reuters

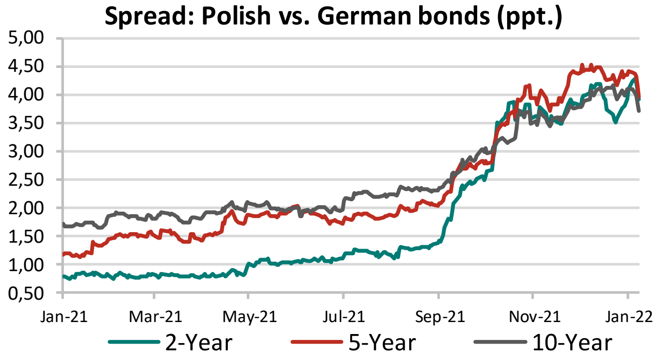
Last week, the EURPLN rate dropped to 4.5640 (the PLN strengthened by 0.3%). Last week, the EURPLN exchange rate followed a clear downward trend, which was supported by a decrease in global risk aversion reflected by a drop in the VIX index. Locally, the positive factors for the PLN included a statement by NBP President A. Glapiński indicating that the strengthening of the Polish currency would be consistent with the direction of monetary policy pursued by the NBP, as well as President A. Duda's proposal to abolish the Supreme Court's Disciplinary Chamber, which raised expectations among some investors for a reduction in tension between Poland and the EU. The PLN weakened on Friday in reaction to clearly better-than-expected data on non-farm payrolls in the US.

Last week also saw a marked rise in the EURUSD. The main reason for the strengthening of the EUR against the USD was the hawkish tone of the press conference after the ECB meeting, which increased investor expectations for interest rate hikes in the Eurozone. Clearly better-than-expected US non-farm payroll data was negative for the EURUSD. Despite this, the USD failed to make up for its losses against the EUR from the first part of the week.

This week the MPC meeting scheduled for Tuesday will be crucial for the PLN. If our scenario assuming a larger scale of interest rate hike than the market expects (by 75bp vs. 50bp) materialises, the decision may lead to the strengthening of the PLN. Data releases from the global economy planned for this week will not have a significant impact on the PLN, in our opinion.

MPC meeting in the spotlight





Source: Reuters

Last week the 2-year IRS rates increased to 4.45 (up by 7bp), 5-year rates to 4.19 (up by 4bp), and 10-year rates decreased to 3.98 (down by 5bp). Last week yields continued to increase at the short end of the curve while they fell at the long end. The same trends were also observed in the core markets. The rise in IRS rates at the short end of the curve resulted from the publication of significantly higher-than-expected inflation data in the Eurozone. On the other hand, IRS rates at the long end of the curve were driven down by investors' growing concerns about the long-term prospects for economic growth amid expectations of strong monetary policy tightening by major central banks.

This week the MPC meeting is going to be in the spotlight. If our scenario (that assumes a stronger interest rate hike than the market expects) materializes, IRS rates could rise, particularly at the short end of the curve. Data releases from the 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	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	Feb-22
NBP reference rate (%)	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	**3,00**
EURPLN*	4,52	4,52	4,63	4,56	4,48	4,52	4,56	4,52	4,60	4,60	4,65	4,58	4,58	**4,57**
USDPLN*	3,72	3,74	3,95	3,79	3,66	3,81	3,84	3,83	3,98	3,98	4,10	4,03	4,08	**4,03**
CHFPLN*	4,18	4,11	4,18	4,15	4,07	4,12	4,24	4,18	4,27	4,35	4,47	4,42	4,40	**4,35**
CPI inflation (% YoY)	2,6	2,4	3,2	4,3	4,7	4,4	5,0	5,5	5,9	6,8	7,8	8,6	**9,2**	
Core inflation (% YoY)	3,9	3,7	3,9	3,9	4,0	3,5	3,7	3,9	4,2	4,5	4,7	5,3	**5,5**	
Industrial production (% YoY)	0,7	2,5	18,6	44,2	29,6	18,1	9,6	13,1	8,7	7,6	14,9	16,7	**12,9**	
PPI inflation (% YoY)	1,0	2,2	4,2	5,5	6,6	7,2	8,4	9,6	10,3	12,0	13,6	14,2	**14,5**	
Retail sales (% YoY)	-6,0	-2,7	17,1	25,7	19,1	13,0	8,9	10,7	11,1	14,4	21,2	16,9	**16,1**	
Corporate sector wages (% YoY)	4,8	4,5	8,0	9,9	10,1	9,8	8,7	9,5	8,7	8,4	9,8	11,2	**9,8**	
Employment (% YoY)	-2,0	-1,7	-1,3	0,9	2,7	2,8	1,8	0,9	0,6	0,5	0,7	0,5	**1,5**	
Unemployment rate* (%)	6,5	6,6	6,4	6,3	6,1	6,0	5,9	5,8	5,6	5,5	5,4	5,4	**5,6**	
Current account (M EUR)	2034	652	71	1582	-38	-494	-1362	-1530	-651	-856	-1112	**-2464**		
Exports (% YoY EUR)	1,0	5,6	27,7	66,6	41,4	23,4	12,0	18,1	12,7	9,7	14,2	**17,9**		
Imports (% YoY EUR)	-3,7	6,0	23,6	55,6	52,7	36,6	20,8	30,7	21,8	20,9	29,0	**29,4**		

*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	7,2	4,4	4,4	4,3	4,3	5,7	4,3	3,8
Private consumption (% YoY)		0,1	13,1	4,7	8,0	7,0	3,8	3,7	3,3	6,2	4,4	3,8
Gross fixed capital formation (% YoY)		1,7	5,6	9,3	11,8	8,2	7,8	9,1	8,8	8,0	8,6	6,8
Export - constant prices (% YoY)		7,3	29,2	8,6	8,9	11,4	12,2	11,4	9,9	12,8	11,2	8,1
Import - constant prices (% YoY)		10,3	34,5	15,2	16,8	15,1	13,2	13,5	11,8	18,4	13,3	9,3
GDP growth contributions	Private consumption (pp)	0,0	7,2	2,7	3,9	4,2	2,2	2,2	1,6	3,4	2,5	2,1
	Investments (pp)	0,2	0,9	1,5	2,5	1,0	1,2	1,5	1,9	1,3	1,4	1,2
	Net exports (pp)	-1,1	-0,3	-2,7	-3,3	-1,3	0,2	-0,9	-0,7	-1,9	-0,7	-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	4,30	4,38	4,38	4,38	2,54	4,38	3,55
NBP reference rate (%)**		0,10	0,10	0,10	1,75	3,50	4,25	4,25	4,25	1,75	4,25	3,50
EURPLN**		4,63	4,52	4,60	4,58	4,55	4,53	4,51	4,50	4,58	4,50	4,40
USDPLN**		3,95	3,81	3,98	4,03	3,99	3,94	3,89	3,81	4,03	3,81	3,64

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

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST*	
					CA	CONSENSUS**
		Monday 02/07/2022				
8:00	Germany	Industrial production (% MoM)	Dec	-0,2		0,4
10:30	Eurozone	Sentix Index (pts)	Feb	14,9		15,2
		Tuesday 02/08/2022				
	Poland	**NBP rate decision (%)**	**Feb**	**2,25**	**3,00**	**2,75**
		Wednesday 02/09/2022				
8:00	Germany	Trade balance (bn EUR)	Dec	10,9		10,4
16:00	USA	Wholesale inventories (% MoM)	Dec	2,1		2,0
16:00	USA	Wholesale sales (% MoM)	Dec	1,3		
		Thursday 02/10/2022				
14:00	**Poland**	**MPC Minutes**	**Feb**			
14:30	USA	CPI (% MoM)	Jan	0,5	0,5	0,5
14:30	USA	Core CPI (% MoM)	Jan	0,6	0,6	0,5
14:30	USA	Initial jobless claims (k)	w/e	269		
		Friday 02/11/2022				
16:00	USA	Initial U. of Michigan Sentiment Index (pts)	Feb	67,2	68,5	67,5

*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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