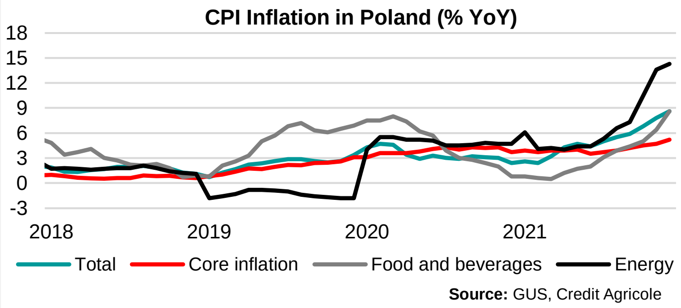
ECB less dovish, NBP president more hawkish

This week

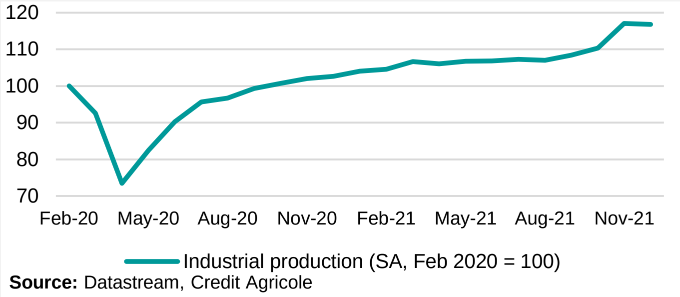


Source: GUS, Credit Agricole

- **The key event this week will be the publication of Poland's flash inflation figures, planned for Tuesday. We expect inflation to have risen to 9.2% YoY in January from 8.6% in December.** However, the uncertainty around our forecast is higher than usual and there is an upward risk to it. The higher inflation is accounted for by stronger rises in energy prices (driven by increases in electricity and gas prices) and food prices, as well higher core inflation. At the same time, the scale of the rise in inflation was curbed by the launch of the Anti-Inflation Shield (see MACROmap of 17/01/2022). Our forecast is below the market consensus (9.5%), thus, its materialization would be conducive to a slight weakening of the PLN and a drop in yields on Polish bonds.
- **Another important event this week will be the publication of the Minutes of the January FOMC meeting.** An important part of the Minutes will be information about differences in individual Fed member's expectations regarding the pace of monetary policy tightening, including in particular the timing of the first hike after the end of the quantitative easing programme in March this year. However, given the January inflation surprise (see below), some of the expectations presented in the Minutes may have already changed in favour of the first hike to be seen in March. We believe that the publication of the Minutes will add to volatility in financial markets.
- **This week, some important data on the US economy and business survey results will be released.** We expect growth in industrial production to have picked up to 0.6% MoM in January from -0.1% MoM in December, in line with the rise in employment in manufacturing seen in January. We forecast that retail sales grew by 2.0% MoM in January vs. a drop of 1.9% in December due to higher sales in the automotive industry. We expect data on housing starts (1,720k in January vs. 1,702k in December), building permits (1,750k vs. 1,885k) and existing home sales (6.10m vs. 6.18m) will signal slight slowdown in activity in the US housing market. We believe that the overall impact of US economy figures on financial markets will be limited.
- **Data on Poland's balance of payments for December 2021 will be released today.** We expect the current account balance to have dropped to EUR -2,464m from EUR -1,112m in November 2021, primarily as a result of a lower balance on trade in goods. We forecast that growth in exports picked up from 14.2% YoY in November to 17.9% in December, while growth in imports rose from 29.0% YoY to 29.4%. What added to growth in both exports and imports was a favourable difference in the number of working days. In our opinion, data on the balance of payments will be neutral for the PLN and yields on Polish bonds.
- **On Tuesday, we will see a preliminary estimate of Poland's GDP for Q4 2021.** Based on GUS data on GDP for 2020 published two weeks ago (see MACROpulse of 21/01/2022), we estimate that GDP picked up to 7.2% YoY in Q4 from 5.3% in Q3 last year. The acceleration in economic growth was driven by higher contributions of private consumption, net investments and change in inventories, and a lower contribution of net exports. The publication of GDP data should not meet with significant market reaction.
- **January figures on employment and average wage in Poland's business sector will be released on Friday.** GUS's annual revision of the number of employees of microbusinesses (businesses employing less than 10 employees) will result in a MoM increase in the number of employees in businesses employing at least 10 employees. At the same time, January 2021 saw a drop in employment driven by the negative impact of the COVID-19 pandemic. As a result, we forecast that growth in employment picked up markedly, to 1.5% YoY from 0.5% in December last year.

At the same time, growth in average wage dropped to 9.8% YoY in January from 11.2% in December due to high base effects. We believe that the publication of data on employment and average wage in the business sector, although important for the private consumption growth forecast for Q1, will be neutral for the PLN and the debt market.

- **Friday will see the release of Poland's industrial production figures for January.** We forecast the growth in industrial production dropped to 12.9% YoY from 16.7% in December. Industrial production growth was driven down by unfavourable calendar effects and last year base effects. Our forecast is supported by Poland's manufacturing PMI figure for January, published at the beginning of the month, which was worse than had been expected (see MACROpulse of 01/02/2022). Our industrial production growth forecast is below the consensus (13.6%), thus, its materialization would be negative for the PLN and yields on Polish bonds.



Source: Datastream, Credit Agricole

- **The publication of an update on Poland's long-term debt rating by Fitch is scheduled for Friday.** In August 2021, Fitch affirmed Poland's long-term credit rating of A- with a stable outlook. The reasons for its decision given by Fitch include, among other things, the resilience of the Polish economy to the pandemic shock and the agency's expectation that the situation in the public finance sector will improve in 2021. According to the agency, the factors the limit room for a rating upgrade remain Poland's relatively low, compared with A-rated countries, GDP per capita figures and low levels of the World Bank's rule of law indicators. Important in this context will be the judgement of the Court of Justice of the European Union on the conditionality mechanism, which links EU funding to respect for the rule of law. The judgement will be announced on 16 February, so there is no certainty that it will be factored into Fitch's rating to be published on Friday. We expect Fitch to affirm Poland's rating and outlook this week, noting good foundations of the Polish economy. We can see slight risk that the outlook for the rating may be revised to negative. The decision will be announced after the European markets close, thus we cannot expect any reaction of the FX and the debt markets before next week.

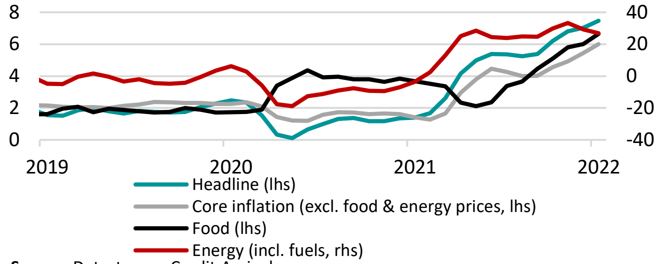
Last week

- **The Monetary Policy Council decided last week to raise interest rates once again.** The NBP reference rate rose from 2.25% to 2.75%. The scale of the 50bp hike was in line with the consensus and lower than our forecast (75bp). At the same time, the MPC decided to raise the reserve requirement rate from 2.00% to 3.50%, which can be interpreted as a normalization of monetary policy parameters to the conditions prevailing before the outbreak of the COVID-19 pandemic. The statement after the meeting included a passage stating that the appreciation of the PLN would be consistent with the direction of monetary policy. The statement also reiterated that the NBP may continue to intervene in the foreign exchange market, and the timing and scale of its actions will depend on market conditions. The Council also maintained the declaration that its decisions in the coming months will continue to be aimed at reducing inflation to a level consistent with the NBP inflation target in the medium term, while taking into account economic conditions, so as to ensure medium-term price stability and at the same time support sustainable economic growth after the global pandemic shock. The Council, as in January, made the monetary policy tightening scale contingent on the incoming information on perspectives for inflation and economic growth, including situation in the labour market. Last week, NBP

President A. Glapiński held a press conference. He announced that the NBP would do everything to "stifle inflation" and strengthen the PLN. He also expressed the view that the 4% reference rate would not harm the economy. At the same time A. Glapiński suggested that the NBP could stop exchanging EU funds denominated in EUR into PLN. In this situation, the Ministry of Finance would have to exchange these funds in the foreign exchange market, which would be a positive factor for the PLN. The press release following the MPC meeting and statements by NBP President A. Glapiński at last week's press conference support our scenario that the Council will continue its monetary policy tightening cycle in the coming months. We believe that the reference rate will increase to 4.25% in Q2 and remain at this level until Q2 2023.

A number of data on US economy was released last week. CPI inflation rose to 7.5% YoY in January vs. 7.0% in December, running above market expectations (7.3%). This was the highest level of inflation in the US since February 1982. The increase in inflation was driven by higher core inflation (6.0% YoY in January vs. 5.5% in December – the highest level since August 1982) 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 pressure in the US economy. For this reason, we have decided to revise our US inflation forecast upwards. We now expect it to average 5.8% YoY in 2022 (4.8% before the revision) and to decline to 2.6% (2.4%) in 2023. Core inflation, on the other hand, will settle at 5.0% (4.5%) in 2022 and fall to 3.0% (2.6%) in 2023. Last week we also learned the results of business surveys. The preliminary University of Michigan index declined to 61.7 pts in February from 67.2 pts in January, running well below market expectations (67.5 pts). A decrease was recorded for both the component for assessment of the current situation and the expectations component. The data shows that US consumer sentiment remains strongly negatively impacted by rising inflation. According to the release, US consumers also have declining expectations regarding the effectiveness of J. Biden's economic policies, which in our view can be linked to the protracted work on passing Biden's new package. Last week's inflation data poses a significant upside risk to our US interest rate path (100bp total rate hikes in 2022, including the first 25bp rate hike in March). We see a growing probability of a scenario in which the Fed, taking into account the very good situation in the US labour market and stronger-than-expected inflation growth, decides to raise interest rates in March by 50bp. This assessment is supported by last week's statement by the head of the Saint Louis Fed, FOMC voting member J. Bullard, who believes that the federal funds rate should be raised by 100bp in H1. At the same time, he hinted that in the face of stronger-than-expected inflation growth, the Federal Reserve should not wait until the March meeting to raise the first rate, but should call an extraordinary meeting to start the hiking cycle as soon as possible. Ahead of the March FOMC meeting, we are yet to hear CPI inflation data for February, which will be helpful in determining whether the Fed decides to hike by 25bp or 50bp in March.

CPI inflation in the US (% YoY)

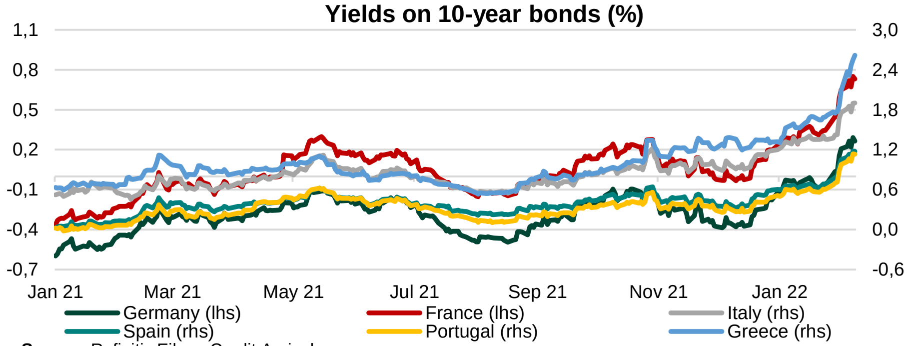


Source: Datastream, Credit Agricole

ECB less dovish, NBP president more hawkish

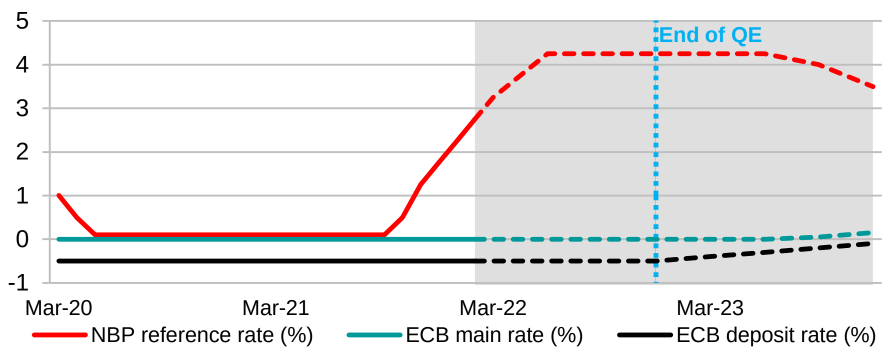
In recent weeks we have seen a change in the attitude of some central banks to a more hawkish stance. This has been particularly visible in the case of the European Central Bank. During the press conference after the meeting held two weeks ago, ECB President Ch. Lagarde made it clear that the Governing Council was concerned about the strong increase in inflation (see MACROmap of 7/2/2022). In accordance with the flash estimate, inflation in the Eurozone went up to 5.1% YoY in January vs. 5.0% in December, running clearly above the market consensus (4.4%). This surprise will probably contribute to a marked upward revision of the inflation path in the ECB's March projection compared to that presented in the December document. Thus, the ECB conference was maintained in a hawkish tone and the ECB President did not reiterate her earlier statement that ECB rate hikes in 2022 were unlikely.

Yields on 10-year bonds (%)



Source: Refinitiv Eikon, Credit Agricole

The ECB's change of approach has contributed to a significant increase in bond yields of the Eurozone countries. Compared to levels immediately before the meeting, 10-year bond yields in Germany and France are now 20bp and 27bp higher respectively. Spain and Portugal saw increases of around 40bp, Italy – almost 50bp, while Greece – over 80bp. We believe that these increases will continue. Indeed, in our baseline scenario, we assume that the ECB will end the APP (Asset Purchase Programme) quantitative easing programme in December this year, paving the way for the first interest rate hike. We believe that the deposit rate will be raised by 10bp in March 2023 and the ECB's main interest rate will be raised in Q3 2023 (see chart). At the same time, one should bear in mind that our scenario is more dovish than the one priced by the markets (first rate hike as early as H2 2022), and thus we may observe a correction in the market in the meantime.



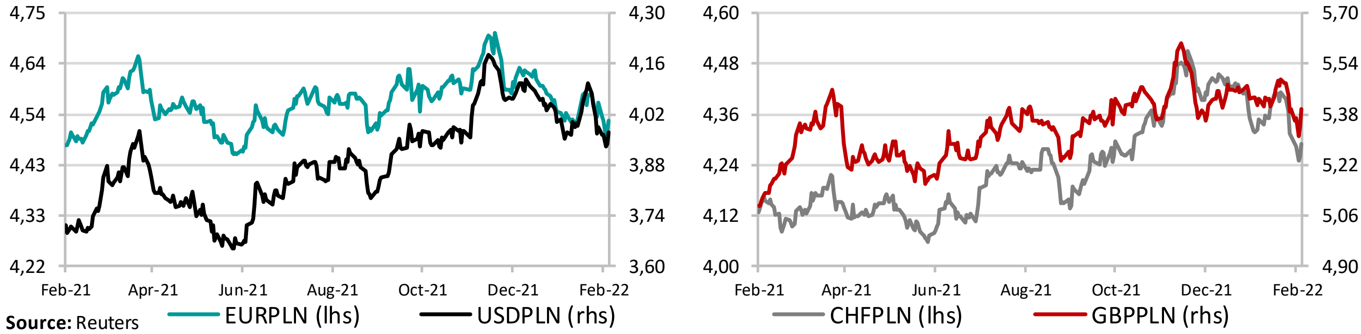
Source: Refinitiv Eikon, Credit Agricole

Growing market expectations for monetary policy tightening by the ECB have an impact not only on prices of Eurozone assets, but also on the PLN, limiting its potential for appreciation. Given the strong emphasis placed (during last week's conference) by the NBP President on the issue of the PLN's appreciation (see above), the expected ECB monetary policy supports our scenario that the MPC will continue its monetary policy tightening cycle in the coming months. In line with our revised forecast, we expect interest rates to be raised in three steps of 50bp each (in March, April and May) to 4.25%. The main argument for the continuation of the cycle will be the high inflation in January and the hawkish tone of the latest inflation projection to be published in March.

We have also revised our EURPLN rate forecast. During the conference of the NBP President, the PLN strengthened considerably, as a result of which we reduced our forecast for the EURPLN exchange rate to 4.44 at the end of March. However, we still believe that the potential for further significant appreciation of the Polish currency is limited. The main factors that will hold back the PLN's appreciation are the protracted dispute between the EU and Poland, delaying the launch of the National Recovery Plan, the crisis in Ukraine, as well as growing market expectations for monetary policy tightening by the Fed and the ECB. Thus, we forecast that the EURPLN exchange rate will be 4.40 at the end of 2022 and 4.35 at the end of 2023.

Domestic inflation and industrial production data may weaken the zloty

FX rates

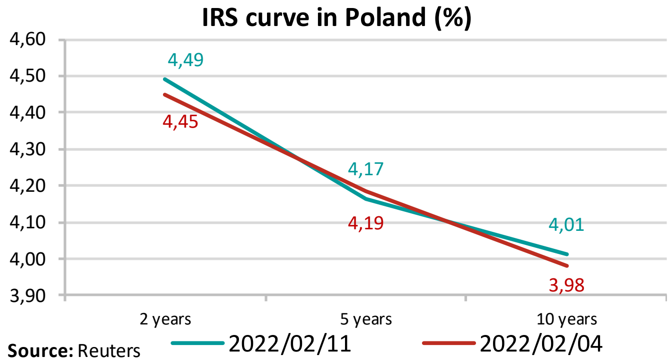


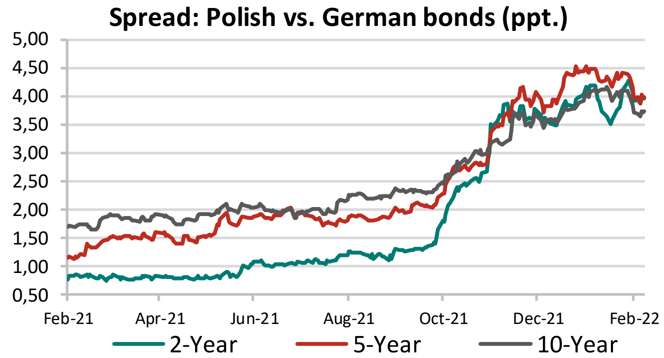
Source: Reuters

Last week, the EURPLN rate dropped to 4.5247 (the PLN strengthened by 0.8%). From Monday to Thursday, the EURPLN exchange rate followed a mild downward trend, which was supported by a decrease in global risk aversion reflected by a drop in the VIX index. Tuesday saw increased volatility in the PLN due to the MPC meeting. On Wednesday the strengthening of the PLN was supported by a hawkish tone of the statement after the meeting of the MPC and the press conference of the NBP President A. Glapiński. Friday saw a slight correction and increase in the EURPLN exchange rate, which was supported by an increase in global risk aversion related to the publication of higher-than-expected inflation data in the US. It increased investors' expectations for interest rate hikes in the US (FRA contracts currently price a total of about 50bp rate hikes in March this year) and led to a temporary strengthening of the USD against the EUR.

This week, the release of domestic inflation data scheduled for Tuesday will be crucial for the PLN. Our forecast is slightly below the market consensus, hence its materialisation would be slightly negative for the PLN. We believe that Friday's industrial production data may also contribute to the weakening of the Polish currency. On the other hand, increased volatility in the PLN exchange rate may be fostered by Wednesday's publication of the Minutes of the January FOMC meeting. Other data from the Polish and global economies will not have a significant impact on the PLN, in our opinion. Friday's update of the Polish rating by Fitch will be announced after the closure of European markets, hence its impact on the PLN will not materialize until next week.

Domestic inflation and industrial production data in the spotlight





Source: Reuters

Last week, 2-year IRS rates increased to 4.49 (up by 4 bp), 5-year rates decreased to 4.19 (down by 2 bp) and 10-year ones increased to 4.01 (up by 3 bp). 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 US. 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. The MPC's decision to raise interest rates by 50bp was negative for IRS rates at the short end of the curve, suggesting that investors were expecting a larger scale of monetary tightening. On the other hand, the hawkish tone of NBP President A. Glapiński's press conference had a positive influence on the growth of IRS rates at the long end of the curve.

This week, the market will focus on the publication of domestic inflation data, which we believe may contribute to a slight decline in IRS rates at the short end of the curve. The publication of domestic industrial production data scheduled for Friday may also have a similar impact. Wednesday may see increased volatility in IRS rates due to the publication of the Minutes from the January FOMC meeting. Other data from the Polish and global economies will not have a significant impact on the curve, in our opinion. Friday's update of the Polish rating by Fitch will be announced after the closure of European markets, hence its impact on the IRS rates will not materialize until next week.

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	2,75
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	**4,50**
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	**3,94**
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	**4,25**
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	9,8	9,8	8,9	8,4	8,3	8,9	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	4,21	4,38	4,38	4,38	2,54	4,38	3,55
NBP reference rate (%)**		0,10	0,10	0,10	1,75	3,25	4,25	4,25	4,25	1,75	4,25	3,50
EURPLN**		4,63	4,52	4,60	4,58	4,44	4,42	4,41	4,40	4,58	4,40	4,35
USDPLN**		3,95	3,81	3,98	4,03	3,89	3,84	3,80	3,73	4,03	3,73	3,60

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

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST* CA	FORECAST* CONSENSUS**
		Monday 02/14/2022				
14:00	**Poland**	**Current account (M EUR)**	**Dec**	**-1112**	**-2464**	**-2130**
		Tuesday 02/15/2022				
10:00	**Poland**	**Flash GDP (% YoY)**	**Q4**	**5,3**	**7,2**	**7,2**
10:00	**Poland**	**CPI (% YoY)**	**Jan**	**8,6**	**9,2**	**9,5**
11:00	Eurozone	Preliminary GDP (% QoQ)	Q4	0,3	0,3	0,3
11:00	Eurozone	GDP flash estimate (% YoY)	Q4	4,6	4,6	4,6
11:00	Germany	ZEW Economic Sentiment (pts)	Feb	51,7		53,5
14:30	USA	NY Fed Manufacturing Index (pts)	Feb	-0,7		10,0
		Wednesday 02/16/2022				
2:30	China	PPI (% YoY)	Jan	10,3		9,4
2:30	China	CPI (% YoY)	Jan	1,5		1,0
11:00	Eurozone	Industrial production (% MoM)	Dec	2,3		0,3
14:30	USA	Retail sales (% MoM)	Jan	-1,9	2,0	1,6
15:15	USA	Industrial production (% MoM)	Jan	-0,1	0,6	0,4
15:15	USA	Capacity utilization (%)	Jan	76,5		76,7
16:00	USA	Business inventories (% MoM)	Dec	1,3		1,8
20:00	USA	FOMC Minutes	Jan			
		Thursday 02/17/2022				
14:30	USA	Initial jobless claims (k)	w/e	223		
14:30	USA	Housing starts (k MoM)	Jan	1702	1720	1702
14:30	USA	Building permits (k)	Jan	1885	1750	1785
14:30	USA	Philadelphia Fed Index (pts)	Feb	23,2		21,0
		Friday 02/18/2022				
10:00	Eurozone	Current account (bn EUR)	Dec	23,6		
10:00	**Poland**	**Employment (% YoY)**	**Jan**	**0,5**	**1,5**	**1,9**
10:00	**Poland**	**Corporate sector wages (% YoY)**	**Jan**	**11,2**	**9,8**	**10,4**
10:00	**Poland**	**PPI (% YoY)**	**Jan**	**14,2**	**14,5**	**14,5**
10:00	**Poland**	**Industrial production (% YoY)**	**Jan**	**16,7**	**12,9**	**13,6**
16:00	USA	Existing home sales (M MoM)	Jan	6,18	6,10	6,12
16:00	Eurozone	Consumer Confidence Index (pts)	Feb	-8,5		-8,0

*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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