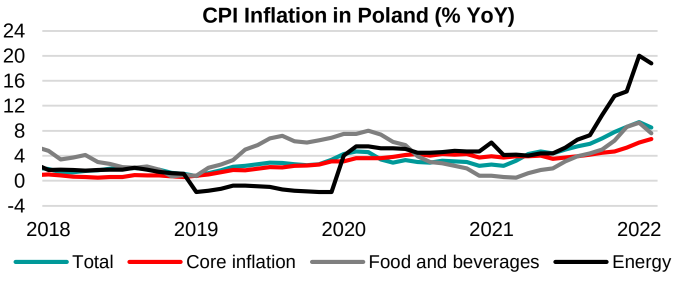
Economic situation in Eurozone affected by war in Ukraine

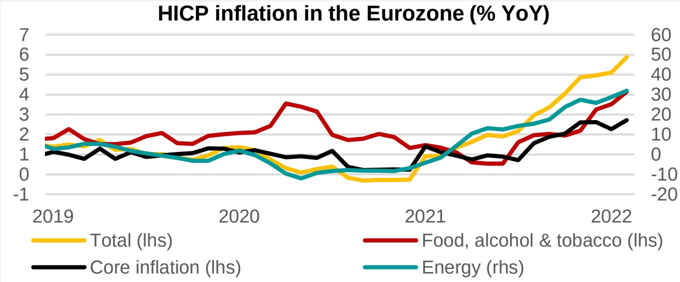
This week

- **Preliminary data on inflation in Poland will be published this Friday. We expect that inflation in Poland increased to 9.8% YoY in March from 8.5% in February.** We believe that the inflation rise in March will result primarily from a strong increase in the prices of fuels following a significant growth in the prices of oils in consequence of the outbreak of war in Ukraine. Our forecast is consistent with the consensus, and thus its materialization will be neutral for the PLN and yields on Polish bonds.



Source: GUS, Credit Agricole

- **Poland's manufacturing PMI data for March will be released on Friday.** We expect the PMI to drop to 53.7 pts in March from 54.7 pts in February, which will be consistent with a slight downturn seen in the Eurozone (see below). In our opinion, the PMI will be higher than the market expects (52.8 pts), so if our forecast materialises, it will have a slight positive effect on the PLN and the yields on Polish bonds.
- **HICP inflation flash estimate for the Eurozone will be published this Friday.** We expect the annual growth in prices to have picked up to 7.2% YoY in March from 5.9% in February, driven by higher core inflation and faster rises in food and energy prices. Preliminary HICP inflation estimate for Germany, which will be published this Tuesday, will be indicative for inflation in the Eurozone. We expect it to have risen to 7.2% YoY in March from 5.5% YoY in February. We predict that inflation in the Eurozone will be higher than the consensus (6.5%), so it will be conducive to the PLN depreciation and an increase in the yields on Polish bonds.



Source: Datastream, Credit Agricole

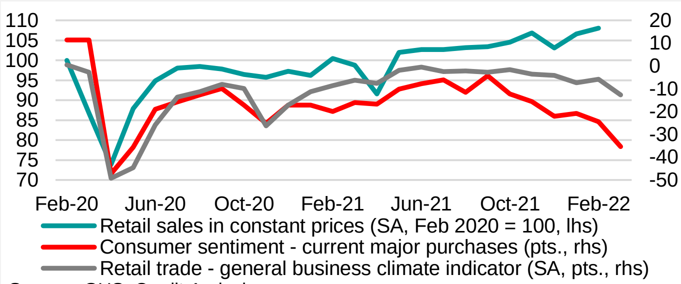
- **Some significant data on US economy will be released this week.** US non-farm payrolls data that will be released on Friday will be the most important publication. We expect non-farm payrolls to have increased by 500k in March vs. 678k in February, with the rate of unemployment falling to 3.7% in March from 3.8% in February. Before the Friday publication, some additional data on the labour market will be provided in the ADP report on non-farm private sector employment (the market expects a 450k growth in March vs. 475k in February). The ISM manufacturing index will be published on Friday as well. We expect it to have increased to 59.0 pts in March vs. 58.6 pts in February, which will be consistent with the results of regional business surveys. Tuesday will see the publication of the Conference Board index, which will show a deterioration in households' sentiments (107.0 pts in March vs. 110.5 pts in February). On Wednesday, we will see the third US GDP growth estimate for Q4 2021. We expect it to be consistent with the second estimate, which assumed that the annualised GDP growth rate rose to 7.0% in Q4 from 2.3% in Q3. PCE inflation data will be published on Thursday. We expect it to have risen to 6.5% YoY in February from 6.1% in January, driven by higher core inflation (5.5% vs. 5.2%) among other things. In our opinion, this week's data from the US will be neutral for the financial markets.
- **Business survey results for China's manufacturing will be released this week.** The market consensus is that Caixin PMI for Chinese manufacturing fell to 50.0 pts in March from 50.4 pts in February. Furthermore, we expect the CFLP PMI for Chinese manufacturing to fall to 49.8 pts in March from 50.2 pts in February due to supply chain disruptions connected with the

deterioration of the pandemic situation in China. In our opinion, the data from China will be neutral for financial markets.

- **Standard & Poor's plans to publish its updated long-term debt rating for Poland this Friday.** In October 2020, the agency kept Poland's long-term credit rating at "A-", with stable outlook. The agency has not published any new reports concerning Poland's rating since then. Justifying Poland's creditworthiness assessment in October 2020, S&P pointed to sustainable economic growth, educated workforce, EU membership, manageable public and private debt, solid foreign debt profile, prudent monetary policy, stable banking system, and relatively deep domestic capital market. During the last assessment process the agency saw no risks related to mid-term debt repayment, pointing to the level of debt being low comparing to other countries and having a favourable structure (including a low share of foreign investors). Among the factors that could have lowered the rating, S&P named a much poorer outlook for the economic growth in the mid-term perspective in the wake of the pandemic, which had a significant impact on the deterioration of the government's fiscal position. S&P also pointed to the risk related to a reduced inflow of EU funds caused, among others, by tensions between Poland and the EU. None of the factors mentioned above has materialised since the last rating date, and therefore we expect S&P to keep Poland's rating and its outlook unchanged. However, the press release may also contain statements emphasising the rule-of-law dispute between Poland and the EU, and the issue of funds disbursement under the National Recovery Plan in particular, as well as the impact of war in Ukraine on the Polish economy. In the context of the war in Ukraine, in early March, S&P revised its economic growth forecast for Poland for 2022 from 5.0% to 3.6%, which is consistent with our forecast. This means that S&P does not expect the economic growth slowdown caused by the war in Ukraine to threaten the stability of public finances in Poland. S&P's decision will be announced after the European markets close, so we cannot expect any reaction of the currency market or the debt market to the decision before next week.

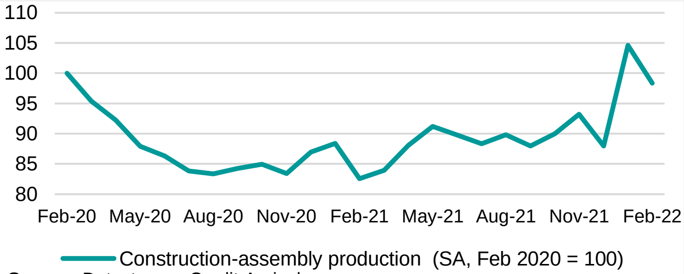
Last week

- **Nominal retail sales dynamics in Poland decreased to 16.5% YoY in February comparing to 20.0% in January, running close to the market consensus (16.7%) and below our forecast (17.4%).** Retail sales in constant prices grew by 8.1% YoY in February vs. 10.6% in January. Seasonally-adjusted retail sales in constant prices increased by 1.4% MoM in February. The structure of data shows that the outbreak of war in Ukraine contributed to a strong growth in sales in the "fuels" and "food, beverage and tobacco" categories and simultaneously exerted a negative impact on the dynamics of durable goods sales, which could be seen predominantly in "motor vehicles, motorcycles, parts" and "furniture, electronic goods and household appliances" categories (see MACROpulse of 21/03/2022). The data has no impact on our forecast, in which the consumption growth will slow down to 7.3% YoY in Q1 2022 vs. 7.9% in Q4 2021.



Source: GUS, Credit Agricole

- **Construction and assembly production growth increased to 21.1% YoY in February comparing to a 20.8% growth in January, running below the market consensus (23.1%) and above our forecast (15.0%).** Seasonally-adjusted construction-assembly production decreased in February by 6.0% MoM. A slight acceleration of the construction and assembly production growth between January and February resulted from a slowdown of growth in the "civil engineering works" category, acceleration in the "specialised construction activities" category, and stabilisation in the "construction of buildings" category (see MACROpulse of 21/03/2022). We expect the recovery in the construction sector to continue in the months to come, though the continuing, strong increase in the prices of construction materials, an increase in interest rates, and the outflow of Ukrainian employees (poorer supplies of workforce in the construction sector) will be significant downside risk factors for production. The data on construction and assembly production combined with data on industrial production published two weeks ago support our forecast, in which Polish GDP in Q1 2022 will increase by 6.1% YoY vs. 7.3% in Q4 2021.



Source: Datastream, Credit Agricole

- **The composite PMI (manufacturing and services) for the Eurozone decreased to 54.5 pts in March from 55.5 pts in February in line with preliminary data, running above the market consensus (53.3 pts).** The decrease in the composite PMI was connected with the decrease of its components for both business activity in the services sector and the current output in the manufacturing sector. Geography wise, some improvement in business sentiment was seen in France, while deterioration was seen in Germany and other Eurozone economies surveyed. The average composite PMI for the Eurozone has decreased to 54.1 pts in Q1 2022 from 54.3 pts in Q4 2021. Due to the war in Ukraine, we believe that there is a downside risk to our forecast, in which the quarterly GDP growth rate in Eurozone is to rise to 0.9% in Q1 2022 comparing to 0.3% in Q4 2021 (see below).
- **Some significant data on the US economy was released last week.** The number of orders for durable goods fell by 2.2% MoM in February comparing to a 1.6% growth in January, running below the market expectations (-0.5%). The monthly dynamics of orders for durable goods excluding the transportation equipment fell from 0.8% in January to -0.6% in February. The last week also saw the publication of data on new home sales (772k in February vs. 788k in January), which confirmed that the activity in the US real estate market remains high. However, the final University of Michigan index (59.4 pts in March vs. 62.8 pts in February) indicated at a further deterioration in sentiment among consumers in the US. The expectations component decrease was the main factor driving the index down. The data shows that the US consumers' sentiments remain under a strong impact of fears concerning further inflation rise, which were additionally increased by the outbreak of war in Ukraine. Last week's data on the US economy is consistent with our revised scenario, in which US GDP will grow by 3.3% and 2.1% in 2022 and 2023 respectively (3.8% and 2.3% before revision). We have also revised our scenario for interest rates in the United States. At present, we expect the Fed to raise interest rates by 125bps to [1.50%-1.75%] by the end of 2022. At the same time, we believe the Fed will raise interest rates by 50bps and 25bps in its meetings in May and June, respectively. The scale of hikes will then be reduced in subsequent months, reflecting the reduction in inflation pressure that we expect to take place. Mid-term interest rate prospects for the US will be discussed in our next MACROmap.
- **The Ifo index, reflecting the sentiments among German managers representing the manufacturing, construction, trade and services sectors fell to 90.8 pts in March from 98.5 pts in February, running markedly below the market expectations (94.1 pts).** The decline in the index was due to a drop of its components for both the assessment of the current situation and expectations, with the expectations component reaching the lowest level since May 2020. In accordance with the press release, the outbreak of war in Ukraine was the main reason behind a strong deterioration in German managers' sentiments. At the same time, a strong downturn was seen in all analysed sectors: manufacturing industry, construction, trade, and services. Due to the war in Ukraine, we believe that there is a downside risk to our forecast, in which German GDP is to rise by 4.2% in 2022 comparing to a 2.7% growth in 2021.

Last week, a meeting of the Swiss National Bank (SNB) was held. The SNB left its policy rate unchanged at -0.75%, in line with market expectations. The relevant press release highlighted that an expansionary monetary policy was necessary to stabilise prices and support economic recovery, especially against the backdrop of heightened uncertainty related to the war in Ukraine. At the same time, the SNB pointed out that the CHF exchange rate remained high. Consequently, the Swiss central bank is willing to intervene on the FX market to reduce CHF upward pressures. The SNB also published its latest macroeconomic projections. Due to the negative impact of the war in Ukraine on global economic growth prospects, the SNB expects the Swiss GDP to expand by approx. 2.5% in 2022, compared to approx. 3% in the December projection. In turn, due to rising commodity prices and worsening supply chain bottlenecks caused by the war in Ukraine, the inflation path has been revised upwards. In line with the March projection, inflation will amount to 2.1% in 2021 (1.0% in the December projection), 0.9% in 2023 (0.6%) and 0.9% in 2024. We project that in late 2022, the CHFPLN exchange will stand at 4.17, to fall to 3.89 in late 2023.

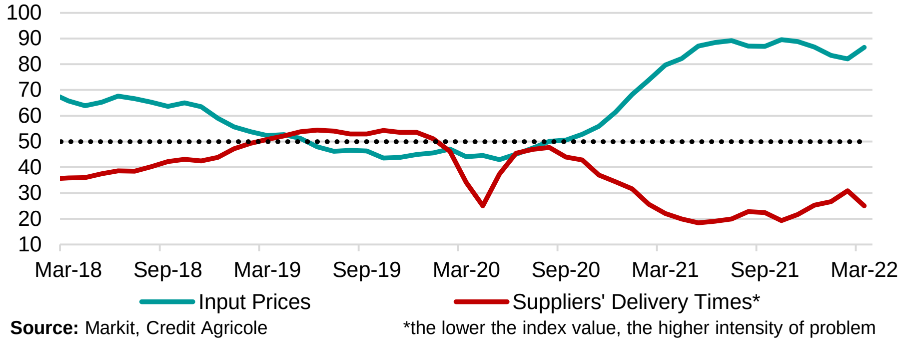
Economic situation in Eurozone affected by war in Ukraine

According to flash data, the composite PMI index (for manufacturing and the services sector) in the Eurozone contracted to 54.5 pts in March from 55.5 pts in February, running above market expectations (53.3 pts). The drop in the composite PMI index followed from the decline in both business activity in services and current manufacturing output. In geographical terms, the economy improved in France, with Germany and other surveyed Eurozone countries experiencing a downturn. The average reading of the composite PMI index for the Eurozone in Q1 fell to 54.1 pts, down from 54.3 points in Q4. Due to the war in Ukraine, we see a downside risk to our forecast projecting quarterly GDP growth in the Eurozone to rise to 0.9% in Q1, up from 0.3% in Q4.

According to the press release, the downturn in the Eurozone followed from two opposite factors: the negative impact of the war in Ukraine on activity in the single currency area and recovery of demand related to Europe's improving epidemic situation (see COVID Dashboard). The data structure indicates that the impact of the war in Ukraine on economic activity in the Eurozone materialises in several areas.

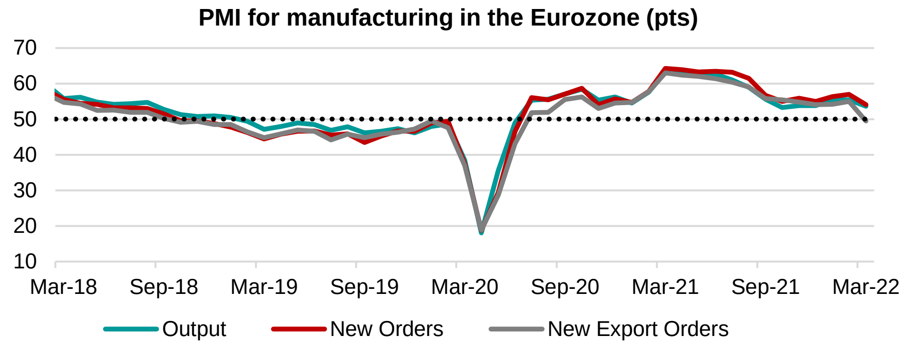
Firstly, March saw a substantial increase in the component for the prices of intermediate goods used in production. The component rose on the back of both the sharp increase in input prices observed in recent weeks, as well as supply chain disruptions caused by the war and Western sanctions imposed on Russia and Belarus.

PMI for manufacturing in the Eurozone (pts)



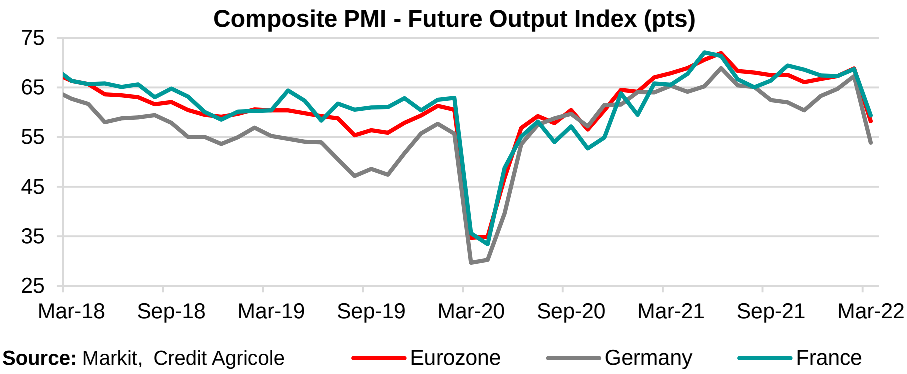
Source: Markit, Credit Agricole

*the lower the index value, the higher intensity of problem



Source: Markit, Credit Agricole

Secondly, rising prices of commodities, increased uncertainty, the war in Ukraine and Western sanctions imposed on Russia and Belarus all contributed to weakened internal and external demand, as evidenced by a decline in the component for new orders in manufacturing, including new export orders. Another component that saw contraction was current production.



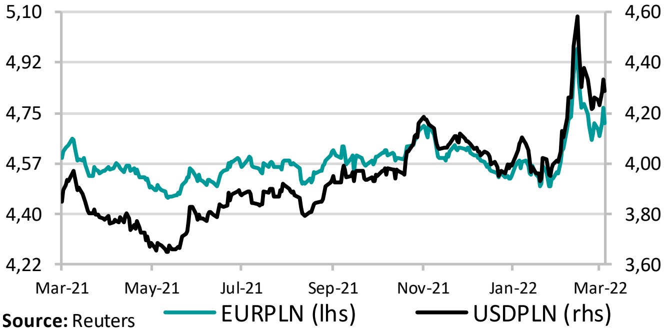
Source: Markit, Credit Agricole

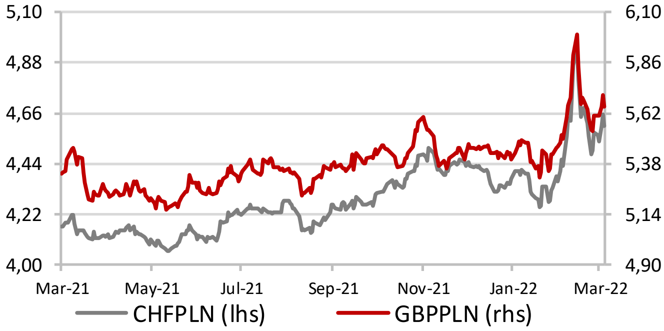
Thirdly, due to the increased uncertainty related to the war in Ukraine, March saw a marked deterioration in the expectations of surveyed companies as indicated by a decline in the future output index for 12 months to the lowest level since October 2020, a trend recorded both in the service and manufacturing sectors.

For the Polish economy, particularly noteworthy is the situation in German manufacturing, where the PMI index fell to 57.6 pts in March from 58.4 pts in February. This slip resulted from lower contributions from 4 out of 5 of its components (for new orders, production, employment and inventories), with the contribution from suppliers' delivery times having the opposite effect. However, it is worth noting that in this case, extended delivery times do not signal an improvement in the economic situation but are rather the consequence of supply chain disruptions caused by the war in Ukraine. Another important aspect is also the reduction of the component for new export orders, which dropped below the 50 pt mark, separating activity growth from contraction, for the first time since June 2020. According to the press release, this is due to the relatively high exposure of German manufacturing to disruptions related to the war in Ukraine. For this reason, we see a downward risk for our scenario, whereby in Q2 the growth rate of Polish exports will slow down to 7.0% YoY from 8.1% in Q1.

Eurozone inflation data negative for PLN exchange rate

FX rates





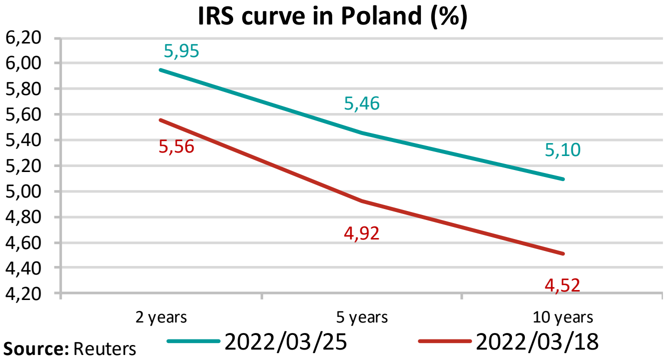
Source: Reuters

Last week, the EURPLN stood at 4.7127 (no changes relative to the level recorded two weeks ago). Last week, the EURPLN rate demonstrated low volatility compared to the previous weeks and was around 4.70. In our opinion, this indicates that there is no more space for further strengthening of the PLN resulting from stability returning to the financial markets after the initial shock triggered by the outbreak of the war in Ukraine and sanctions imposed on Russia by Western countries. The EURUSD rate also showed low volatility.

This week, the PLN will remain under the influence of the war in Ukraine. However, the publication of Eurozone inflation data will also be important for the PLN. If our forecast, which is higher than the market consensus, materialises, the data may lead to a weakening of the PLN. The publication of the PMI index for Polish manufacturing scheduled for Friday may have the opposite effect. In our opinion, the remaining data from the Polish and global economy will not have a significant bearing on the PLN rate. The Friday update of Poland's rating by S&P will be announced after the European markets close. Thus its impact on the PLN will not materialise before next week.

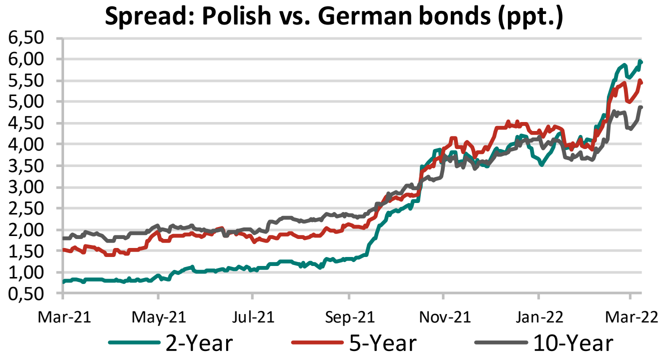
Spreads between Polish and German bonds reaching all-time highs

IRS curve in Poland (%)



Source: Reuters

Spread: Polish vs. German bonds (ppt.)



Last week, 2-year IRS rates grew to 5.95 (up by 39bp), 5-year to 5.46 (up by 54bp), and 10-year to 5.10 (up by 58bp). The passing week saw IRS rates rise along the entire length of the curve, following the core markets. Growing investor expectations of a monetary policy tightening by major central banks against the background of increasing global inflationary pressures, exacerbated by the war in Ukraine, were conducive to bond yields rising in the core markets. At the same time, spreads between Polish and German bonds continued to grow last week due to Poland's geographical location, reaching an all-time high. Another factor conducive to growing spreads was the government's announcement regarding the adjustment of the Polish Deal tax reform. This adjustment will negatively affect the public finance sector and, consequently, increase Poland's borrowing needs (according to the Regulatory Impact Assessment, leading to a decrease in the public finance sector balance of PLN 6.8bn and PLN 23.8bn in 2022 and 2023, respectively).

This week, IRS rates will remain under the influence of the war in Ukraine. In the context of IRS rates, another important event will be the release of flash inflation data in the Eurozone scheduled for Friday, which may contribute to an increase in IRS rates, particularly at the short end of the curve. Scheduled for Friday, the publication of the PMI index for Polish manufacturing may have the similar effect. Other data from the Polish and global economies will not have a significant impact on the curve, in our opinion. S&P's Friday update of Poland's rating will be announced after the close of the European markets. Thus its potential impact on IRS rates will materialise only next week.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland														
Indicator	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	Mar-22
NBP reference rate (%)	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	3,50
EURPLN*	4,52	4,63	4,56	4,48	4,52	4,56	4,52	4,60	4,60	4,65	4,58	4,58	4,69	**4,70**
USDPLN*	3,74	3,95	3,79	3,66	3,81	3,84	3,83	3,98	3,98	4,10	4,03	4,08	4,18	**4,29**
CHFPLN*	4,11	4,18	4,15	4,07	4,12	4,24	4,18	4,27	4,35	4,47	4,42	4,40	4,56	**4,60**
CPI inflation (% YoY)	2,4	3,2	4,3	4,7	4,4	5,0	5,5	5,9	6,8	7,8	8,6	9,4	8,5	
Core inflation (% YoY)	3,7	3,9	3,9	4,0	3,5	3,7	3,9	4,2	4,5	4,7	5,3	6,1	6,7	
Industrial production (% YoY)	2,5	18,6	44,2	29,6	18,1	9,6	13,1	8,7	7,6	14,9	16,3	19,2	17,6	
PPI inflation (% YoY)	2,2	4,2	5,5	6,6	7,2	8,4	9,6	10,3	12,0	13,6	14,4	14,8	15,9	
Retail sales (% YoY)	-2,7	17,1	25,7	19,1	13,0	8,9	10,7	11,1	14,4	21,2	16,9	20,0	16,5	
Corporate sector wages (% YoY)	4,5	8,0	9,9	10,1	9,8	8,7	9,5	8,7	8,4	9,8	11,2	9,5	11,7	
Employment (% YoY)	-1,7	-1,3	0,9	2,7	2,8	1,8	0,9	0,6	0,5	0,7	0,5	2,3	2,2	
Unemployment rate* (%)	6,6	6,4	6,3	6,1	6,0	5,9	5,8	5,6	5,5	5,4	5,4	5,5	5,5	
Current account (M EUR)	652	71	1582	-38	-494	-1362	-1530	-651	-856	-628	-3957	-3957		
Exports (% YoY EUR)	5,6	27,7	66,6	41,4	23,4	12,0	18,1	12,7	9,7	16,3	19,4	19,4		
Imports (% YoY EUR)	6,0	23,6	55,6	52,7	36,6	20,8	30,7	21,8	20,9	29,5	35,9	35,9		

*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	7,3	6,1	3,0	2,9	2,5	5,7	3,5	4,3
Private consumption (% YoY)		0,1	13,1	4,7	7,9	7,3	2,0	3,5	3,2	6,2	4,0	4,5
Gross fixed capital formation (% YoY)		1,7	5,6	9,3	11,7	6,9	4,8	5,8	5,8	8,0	5,8	7,0
Export - constant prices (% YoY)		7,3	29,2	8,6	6,0	8,1	7,0	6,2	5,4	12,0	6,6	7,6
Import - constant prices (% YoY)		10,3	34,5	15,2	13,2	12,0	10,8	11,1	10,3	17,4	11,0	10,5
GDP growth contributions	Private consumption (pp)	0,0	7,2	2,7	3,9	4,4	1,1	2,0	1,6	3,4	2,2	2,5
	Investments (pp)	0,2	0,9	1,5	2,5	0,9	0,7	0,9	1,3	1,3	0,9	1,2
	Net exports (pp)	-1,1	-0,3	-2,7	-3,2	-1,6	-1,7	-2,7	-2,7	-1,9	-2,2	-1,6
Current account (% of GDP)***		2,7	1,8	0,7	-0,9	-1,3	-1,4	-1,6	-1,7	-0,9	-1,7	-1,9
Unemployment rate (%)**		6,4	6,0	5,6	5,4	5,4	5,0	5,1	5,4	5,4	5,4	5,4
Non-agricultural employment (% YoY)		0,1	3,1	2,7	2,6	1,5	0,8	0,7	0,5	2,1	0,9	0,1
Wages in national economy (% YoY)		6,6	9,6	9,4	9,8	9,8	9,2	8,7	8,6	8,9	9,1	8,1
CPI Inflation (% YoY)*		2,7	4,5	5,5	7,7	9,2	10,2	9,5	7,7	5,1	9,2	5,6
Wibor 3M (%)**		0,21	0,21	0,23	2,54	4,63	5,13	4,96	4,80	2,54	4,80	3,55
NBP reference rate (%)**		0,10	0,10	0,10	1,75	3,50	5,00	5,00	4,75	1,75	4,75	3,75
EURPLN**		4,63	4,52	4,60	4,58	4,70	4,75	4,55	4,50	4,58	4,50	4,40
USDPLN**		3,95	3,81	3,98	4,03	4,29	4,28	4,06	3,91	4,03	3,91	3,64

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

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST*	
					CA	CONSENSUS**
		Tuesday 03/29/2022				
15:00	USA	Case-Shiller Index (% MoM)	Jan	1,5		1,3
16:00	USA	Consumer Confidence Index	Mar	110,5	107,0	107,0
		Wednesday 03/30/2022				
11:00	Eurozone	Business Climate Indicator (pts)	Mar	1,79		
14:00	Germany	Preliminary HICP (% YoY)	Mar	5,5	7,2	6,4
14:15	USA	ADP employment report (k)	Mar	475		450
14:30	USA	Final GDP (% YoY)	Q4	7,0	7,0	7,1
		Thursday 03/31/2022				
3:30	China	Caixin Manufacturing PMI (pts)	Mar	50,2	49,8	
11:00	Eurozone	Unemployment rate (%)	Feb	6,8		6,7
13:30	USA	Initial jobless claims (k)	w/e	187		
14:30	USA	Real private consumption (% MoM)	Feb	1,5		
14:30	USA	PCE Inflation (% YoY)	Feb	6,1	6,5	6,5
14:30	USA	PCE core inflation (% YoY)	Feb	5,2	5,5	5,5
15:45	USA	Chicago PMI (pts)	Mar	56,3		56,4
		Friday 04/01/2022				
3:45	China	Caixin Manufacturing PMI (pts)	Mar	50,2		
7:00	Germany	New industrial orders (% MoM)	Feb	1,8		
9:00	**Poland**	**Manufacturing PMI (pts)**	**Mar**	**54,7**	**53,7**	**52,8**
9:55	Germany	Final Manufacturing PMI (pts)	Mar	57,6	57,6	57,6
10:00	**Poland**	**Flash CPI (% YoY)**	**Mar**	**8,5**	**9,8**	**9,8**
10:00	Eurozone	Final Manufacturing PMI (pts)	Mar	57,0	57,0	57,0
11:00	Eurozone	Preliminary HICP (% YoY)	Mar	5,9	7,2	6,5
14:30	USA	Unemployment rate (%)	Mar	3,8	3,7	3,7
14:30	USA	Non-farm payrolls (k MoM)	Mar	678	500	488
15:45	USA	Flash Manufacturing PMI (pts)	Mar	58,5		
16:00	USA	ISM Manufacturing PMI (pts)	Mar	58,6	59,0	58,4

*The forecasts of macroeconomic indicators for Poland were prepared by Credit Agricole Bank Polska S.A. The forecasts of foreign indicators were prepared by Crédit Agricole Corporate and Investment Bank
** Reuters

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

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

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