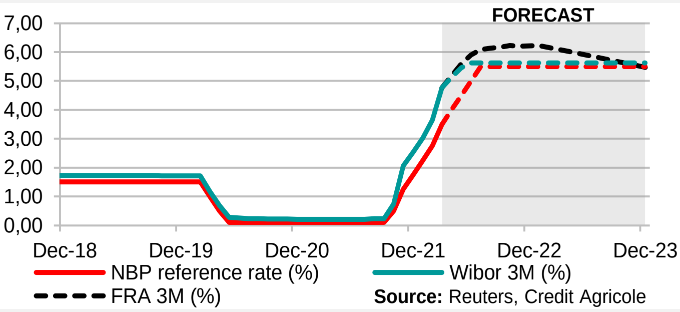
This week

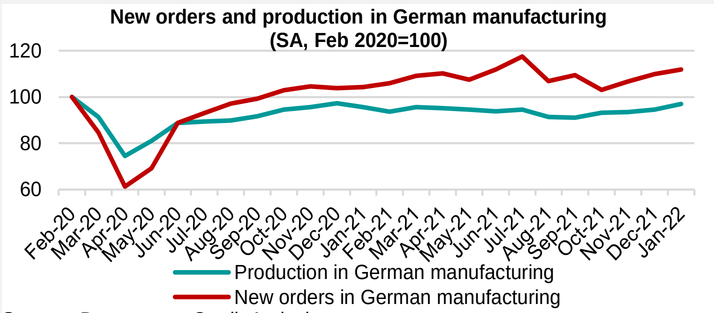
- **This week's most important event is the Monetary Policy Council meeting scheduled for Wednesday.** We expect the MPC to raise interest rates by 50bp, to 4.00%. The March interest rate hike of 75bp sought to counteract PLN depreciation pressure on the market. Since then, the situation in the financial markets has stabilised and thus we believe that the MPC will return to the pace of monetary policy tightening observed in the previous months. Such a decision would be consistent with the market consensus and would thus be neutral for the PLN exchange rate and yields on bonds. However, we see a risk that in response to a significantly higher than expected inflation reading in March (see below), the MPC may raise interest rates by 75bp. This week will also likely see the usual press conference of the NBP President, which will shed more light on the domestic monetary policy outlook. Considering our revised Fed and ECB monetary policy scenario (expected larger scale of monetary tightening, see below) and the mid-term inflation forecast for Poland, we revised our domestic interest rate projection. We now expect the MPC to hike interest rates by 50bp at each of the next four meetings bringing the reference rate to 5.50% in July 2022.



Source: Reuters, Credit Agricole

- **Another important event this week will be the publication of Minutes of the March FOMC meeting, scheduled for Wednesday.** During the conference after the meeting, the Fed Chair emphasised that the FOMC members appreciated the need to bring back price stability to the economy and were determined to do so by leveraging appropriate monetary policy tools. An important part of the Minutes will be information about differences in individual Fed members' expectations regarding the pace of monetary tightening, particularly implementing 50bp hikes. We believe that the publication of the Minutes will add to volatility in financial markets.

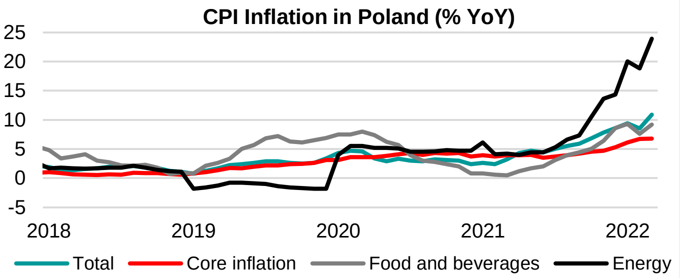
- **Today data on foreign trade in Germany was published.** The trade balance totalled EUR 11.5bn in February, up from EUR 8.8bn in January, with a concurrent increase in the growth rate of both exports (6.4 MoM vs. -3.0% January) and imports (4.5% vs. -4.0%). Despite robust February figures, it is worth noting that the coming months will see a decrease in German foreign trade activity related to the war in Ukraine. This week will also see the release of data on orders in the German industry (Wednesday) and industrial production (Thursday).



Source: Datastream, Credit Agricole

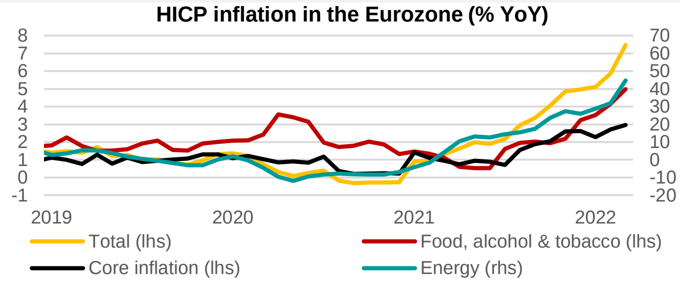
Last week

- **According to the preliminary estimate, CPI inflation in Poland reached 10.9% YoY in March vs. 8.5% in February, exceeding the market consensus that was consistent with our forecast (10.1%).** Thus, inflation reached its highest level since July 2000. GUS published partial data on the structure of inflation, including information on the pace of price growth in the "food and non-alcoholic beverages", "energy" and "fuel" categories. Inflation rose on the back of rising prices of fuels (33.5% YoY in March vs. 11.1% in February), energy (23.9% vs. 18.8%), food and non-alcoholic beverages (9.2% vs. 7.6%), as well as core inflation which, according to our estimates, climbed to 6.8% YoY in March compared with 6.7% in February. The growth of food prices in March, which was substantially higher than we expected, prompted us to revise our mid-term inflation forecast upwards. We currently anticipate that the growth rate of prices of food and non-alcoholic beverages in 2022 will increase to 11.4% YoY vs. 3.2% in 2021, to slow down to 6.3% in 2023. The main reasons underlying the revision include increased cost pressure in the agri-food sector (further hikes in the prices of basic commodities, fuels and fertilisers), the very strong rise in the purchase prices of pigs in the EU recorded in recent weeks (caused by a strong recovery in demand amid reduced supply and high prices of feed), as well as the persistent rainfall deficit in Poland, which, given a snowless winter, points to an growing risk of an agricultural drought in Poland. We believe total inflation will reach 10.8% YoY this year and 6.2% in 2023, assuming that the Anti-Inflation Shield will be extended until the end of 2023.



Source: GUS, Credit Agricole

- **The PMI index for Polish manufacturing contracted to 52.7 pts in March, down from 54.7 pts in February, performing below the market consensus that was consistent with our forecast (53.1 pts).** The index slipped on the back of higher contributions from 4 out of 5 of its components (new orders, output, stocks of purchases and employment), with higher contributions from suppliers' delivery times having the opposite effect. Russia's invasion of Ukraine had a major bearing on the results of the March PMI survey (see MAKROpulse of 01/04/2022). In the structure of the index, particularly noteworthy is the fast drop in export orders, which, based on information from businesses surveyed, is a result of the war in Ukraine and, consequently, drops in orders from the three countries involved in the conflict (Belarus, Russia, and Ukraine). The businesses surveyed in March pointed out more severe disruptions to supply chains (longer transportation times and lower availability of raw materials and components) primarily caused by the war in Ukraine. We stand by our forecast whereby Poland's GDP will increase to 3.5% YoY in 2022 vs. a 4.3% growth in 2021.
- **According to the flash estimate, inflation in the Eurozone rose to 7.5% YoY in March from 5.8% in February, exceeding both the market consensus (7.2%) and our forecast (6.5%).** Thus, inflation in the Eurozone hit a new all-time high. The rise in inflation was driven by higher price growth in all major categories: "services", "food", "energy" and "industrial goods" At the same time, core inflation increased to



Source: Datastream, Credit Agricole

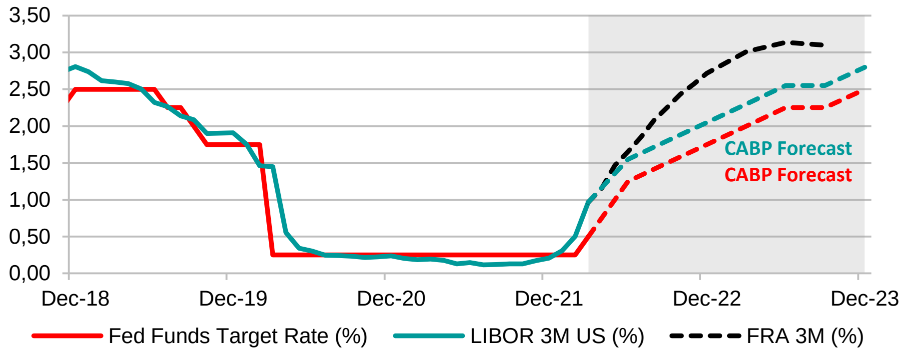
3.0% YoY in March from 2.7% in January, a new record high. The data represents an upside risk to our scenario projecting an inflation of 6.8% for 2022 in the Eurozone vs. 2.6% in 2021 with a drop to 3.4% in 2023.

- **Last week, vital data regarding the US economy was published.** Non-farm payroll grew by 431k in March compared with an increase of 750k in February (upward revision from 678k), running below market expectations (475k growth). The strongest expansion in employment was recorded in tourism and recreation (+112.0k), business services (+102.0k), and education and healthcare (+53.0k). In March, the unemployment rate diminished to 3.6% from 3.8% in February, running below market expectations (3.7%). At the same time, the economic activity rate climbed to 62.4%, up from 62.3% in February, thus coming close to pre-pandemic levels (approx. 63.3%). Last week also saw the release of the number of new jobless claims, which climbed to 202k vs. 188k two weeks prior, running slightly above market expectations (197k). In turn, the number of continued applications remained stable at 1.3 million. It is worth noting that these values are lower than those recorded immediately prior to the outbreak of the pandemic. Last week's data thus indicate that the situation in the US labour market is becoming increasingly tense, a trend conducive to a build-up of wage pressure. Moreover, last week the third estimate of US GDP was published, showing that the annualised rate of US GDP growth improved to 6.9% in Q4 compared with 2.3% in Q3 and 7.0% in the second estimate. The revisions of the GDP structure were only slight, with the data confirming that Q4 US GDP growth, similarly to Q3, was mainly driven by inventories. Last week also saw the release of PCE inflation data, which increased to 6.4% YoY in February relative to 6.0% in January with higher core PCE inflation (5.4% vs. 5.2% YoY) being a contributing factor. Thus, PCE inflation reached its highest level since January 1982. Last week, business survey results were also published. The ISM manufacturing index fell to 57.1 pts in January from 58.6 pts in February, running slightly below market expectations (58.6 pts). The index was driven down by 3 out of its 5 components (new orders, production and supplier deliveries), with the drop partially offset by a higher contribution of the employment and inventories components. What is particularly worth noting about the data is the marked acceleration in the growth of prices of intermediate goods used in production, suggesting an exacerbation of supply constraints, largely due to the war in Ukraine. On the other hand, the Conference Board index, which expanded to 107.2 pts in March vs. 105.7 pts in February, signalled a slight improvement in consumer sentiment. The index improved on the back of higher contribution from the assessment of the current situation component, with the expectations component having the opposite effect. Last week's data support our scenario projecting the US GDP to expand by 3.3% and 2.1 in 2022 and 2023, respectively.
- **Business survey results for China's manufacturing were released last week.** China's Caixin manufacturing PMI fell to 48.1 pts in March vs. 50.4 pts in February, performing well below market expectations (50.0 pts). The drop in the index resulted from lower contributions of 3 out of its 5 components (new orders, current output and inventories), while higher contributions from employment and delivery times had the opposite effect. Particularly noteworthy in the data is the very fast drop in current output and new orders. In both cases, the components reached their lowest levels since February 2020, i.e. since the outbreak of the pandemic. The main driver behind the substantial decline of activity in Chinese manufacturing was the significant deterioration of China's epidemic situation and the tightening of administrative restrictions that followed. The CFLP PMI index also signalled a decline in Chinese manufacturing activity as it fell to 49.5 pts in March, down from 50.2 pts in February. The data pose a downside risk to our scenario, according to which Chinese GDP is set to expand by 4.9% YoY in 2022 compared to an 8.1% increase in 2021, to reach 5.3% in 2023.
- **Last week, Standard & Poor's maintained** Poland's long-term rating at A- with a stable outlook. In its report, the agency pointed out that the war in Ukraine would have a significant negative impact on Poland's economic situation. Thus, the forecast of GDP growth in 2022 was revised to 3.6% YoY from 5.0%, and the projection for the public finance sector deficit was raised to 4.0%

of GDP from 3.0%. The agency also noted that a flexible economic policy and EU transfers would help mitigate the effects of this shock. According to S&P, Poland's rating could be raised if Poland maintained economic growth without creating external imbalances when the effects of the conflict subside. On the other hand, the rating could be downgraded if the negative impact of the war in Ukraine was more significant and longer-lasting than expected, resulting in a major economic slowdown in the medium term. Moreover, a rating downgrade would be possible in the case of smaller transfers of funds from the EU following Poland-EU tensions. The stabilisation of the rating is neutral for the PLN exchange rate and yields on bonds.

Fed and ECB policies set to increase upward interest rate pressures in Poland

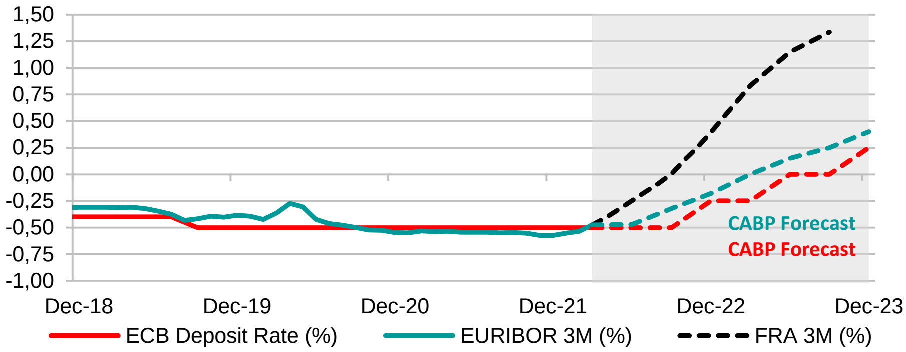
The outlook of the monetary policy pursued by the main central banks, i.e. the Fed and the EBC, is an important element of Poland's interest rate scenario. In its interest rate decision-making, the MPC has to consider the differences between their levels in Poland relative to the US and the Eurozone. Through the flow of speculative capital and, consequently, through the exchange rate channel, the aforementioned interest rate disparity may either strengthen or weaken the effects of the monetary policy pursued by the MPC. Hence, the analysis below focuses on assessing the US and Eurozone monetary policy outlook and presenting their implications for Poland's monetary policy.



Source: Reuters, Credit Agricole

We expect the Fed to hike interest rates by 50bp at its next meeting in May. This assessment is supported by the recent statements made by Federal Reserve Chair, J. Powell and FOMC members. J. Powell signalled that the Fed was willing to raise interest rates by more than 25bp "at a meeting or meetings" if the FOMC deemed it appropriate. Moreover, he signalled that the Fed was ready to move even more aggressively than dictated by normalisation only. Similarly, L. Mester, the Cleveland Fed President, commented that the Federal Reserve "will need to do some 50bp moves". On the other hand, the San Francisco Fed President, M. Daly, pointed out that a 50bp hike at the May meeting seems more likely than a more modest one in the current environment. She also emphasised that additional hikes of that size (50bp) remained on the table and the Fed would be making data-driven decisions on an ongoing basis. We believe that in June, the Fed will raise rates by another 25bp with a monetary tightening slowdown expected afterwards as inflationary pressures wane (we anticipate one interest rate hike in Q3 and one in Q4). In consequence, we forecast that in H2 2022, the Federal Reserve will hike interest rates by a total of 50bp to reach [1.50%-1.75%] in late 2022. In 2023, we expect the Fed to continue its monetary tightening. We believe that it will raise interest rates by a total of 100bp to reach [2.25% -2.50%] in late 2023.

In our opinion, the ECB will end its Asset Purchase Program (APP) in August 2022, thus creating space to kick off an interest rate cycle. Hence, we forecast that it will raise the deposit rate by 25bp to -0.25% this December. We expect further interest rate hikes (of 25bp each) in June 2023, December 2023 and June 2024. Consequently, the ECB's deposit rate will stand at 0.25% and 0.50% in late 2023 and late 2024, respectively. The main reason for the faster and stronger than previously expected monetary policy tightening is the continued increase in inflation in the Eurozone, which keeps breaking record after record (see above). At the same time, we believe that in 2023 the ECB will launch another round of the TLTRO program. In our opinion, TLTRO will serve as a tool for short-term monetary policy calibration whenever the ECB deems the pace of interest rate hikes to be excessive. Such a tool will also be a mechanism for reinvesting securities purchased under PEPP (Pandemic Emergency Purchase Program) and APP. As the ECB announced, PEPP securities would be reinvested at least until the end of 2024, while in the case of APP "for an extended period of time past the date" of the first interest rate hike.



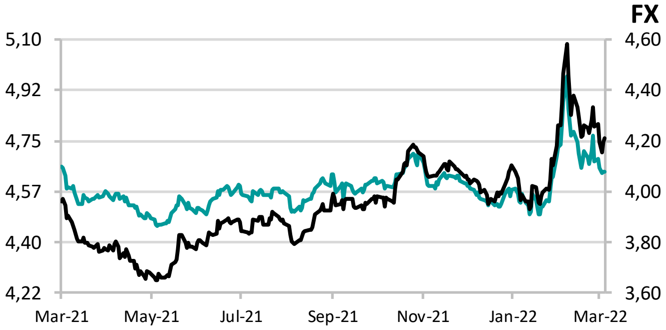
Source: Reuters, Credit Agricole

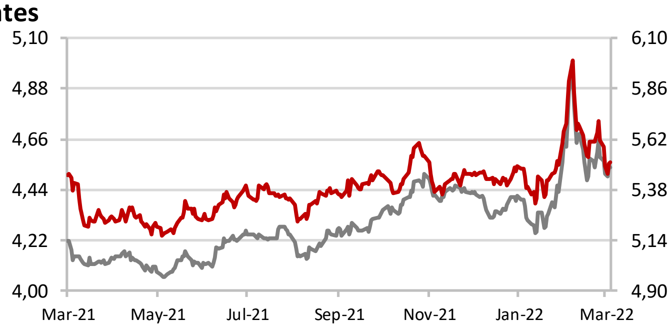
The marked differences in the pace of interest rate increases expected by us between the US and the Eurozone result primarily from differences in the macroeconomic situation in the two economies. In the US, the labour market is already close to equilibrium, which, coupled with the persistently high inflation, is conducive to a build-up of wage pressures. At the same time, the March FOMC projection shows that neither total PCE inflation nor core PCE inflation will return to the Fed's inflation target over the entire projection horizon (see MACROmap of 21/03/2022). In turn, in the Eurozone, the situation in the job market is not as tense; thus, despite sustained strong inflation growth, wage pressures remain limited. The macroeconomic differences between these economies are also reflected in FRA contracts, which in the US priced in larger interest rate hikes than in the Eurozone.

The Fed's and EBC's continued interest rate hike cycle in 2023 forecasted by us means that the MPC, after the end of the interest rate hike cycle assumed in our scenario targeting 5.50% in July 2022, will only have limited possibilities for their quick reduction. Potential cuts would reduce the interest rate disparity between Poland, the US and the Eurozone, favouring the depreciation of the PLN. A weakening of the PLN, amid continued strong inflationary pressures assumed by us in 2023 (see above), would create a risk for the inflation's return to the target in the medium term. Thus, this supports our revised scenario whereby following the end of the interest rate hike cycle at 5.50% in July 2022, the Monetary Policy Council will keep the interest rates unchanged until the end of 2023 (see above).

FOMC Minutes may add to PLN volatility

FX rates





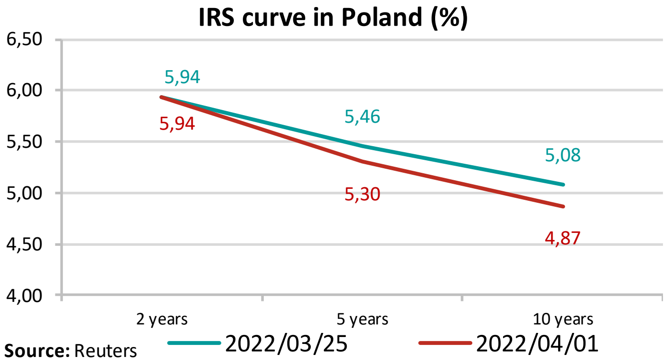
Source: Reuters

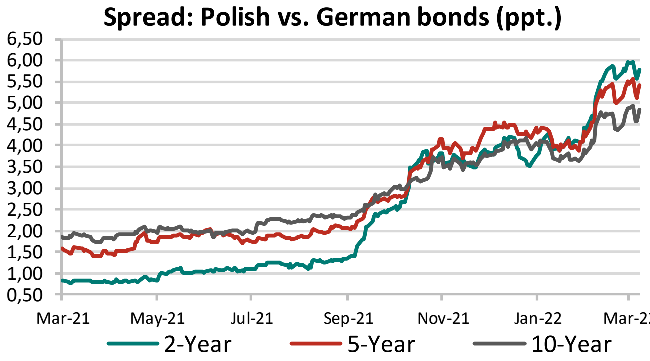
Last week, the EURPLN exchange rate fell to 4.6414 (appreciation of the PLN by 0.7%). Last week, the EURPLN rate followed along a slight downward trend, supported by the continued return to stability of the financial markets after the initial shock triggered by the outbreak of the war in Ukraine and sanctions imposed on Russia by Western countries. The publication of higher than expected domestic inflation data had a limited impact on the PLN exchange rate. S&P's Friday decision to uphold Poland's rating and its outlook was announced after the close of European markets and thus had no impact on the PLN exchange rate.

On the other hand, the EURUSD rate exhibited higher volatility. In the first part of last week, it followed an upward trajectory supported by releases of higher than expected inflation data for some Eurozone economies (including Germany and Spain). Although Thursday and Friday saw a correction, the USD failed to recoup all its losses against the EUR from the beginning of the week.

S&P's Friday decision reaffirming Poland's rating and its outlook is neutral for the PLN exchange rate. This week, the MPC meeting will be of key importance for the PLN, although, in our opinion, it will not have a significant impact on its exchange rate. However, the release of the Minutes from the FOMC's March meeting may add to the volatility of the PLN. In our opinion, the remaining data from the Polish and global economy will not have a significant bearing on the PLN rate.

MPC meeting in market spotlight





Source: Reuters

Last week, 2-year IRS rates stood at to 5.94 (no change), 5-year decreased to 5.30 (down by 16bp), and 10-year to 4,87 (down by 21bp). Early last week, there was a correction and drop in IRS rates along the entire length of the curve. However, the significantly higher than expected domestic inflation data released on Friday triggered a renewed rise in IRS rates, especially at the short end of the curve. S&P's Friday decision to uphold Poland's rating and its outlook was announced after the close of European markets and thus had no impact on the curve.

S&P's Friday decision reaffirming Poland's rating and its outlook is neutral for IRS rates. This week the MPC's interest rate decision will be in the market's spotlight, although we do not believe that it will have a significant impact on the curve. On the other hand, the publication of Minutes of the March FOMC meeting may spur IRS rate volatility. In our opinion, the remaining data from the global economy will not have a significant bearing on the curve.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland

Indicator	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	Apr-22
NBP reference rate (%)	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	**4,00**
EURPLN*	4,63	4,56	4,48	4,52	4,56	4,52	4,60	4,60	4,65	4,58	4,58	4,69	4,64	**4,65**
USDPLN*	3,95	3,79	3,66	3,81	3,84	3,83	3,98	3,98	4,10	4,03	4,08	4,18	4,19	**4,15**
CHFPLN*	4,18	4,15	4,07	4,12	4,24	4,18	4,27	4,35	4,47	4,42	4,40	4,56	4,54	**4,53**
CPI inflation (% YoY)	3,2	4,3	4,7	4,4	5,0	5,5	5,9	6,8	7,8	8,6	9,4	8,5	**10,9**	
Core inflation (% YoY)	3,9	3,9	4,0	3,5	3,7	3,9	4,2	4,5	4,7	5,3	6,1	6,7	**6,8**	
Industrial production (% YoY)	18,6	44,2	29,6	18,1	9,6	13,1	8,7	7,6	14,9	16,3	18,0	17,6	**13,0**	
PPI inflation (% YoY)	4,2	5,5	6,6	7,2	8,4	9,6	10,3	12,0	13,6	14,4	16,1	15,9	**16,3**	
Retail sales (% YoY)	17,1	25,7	19,1	13,0	8,9	10,7	11,1	14,4	21,2	16,9	20,0	16,5	**21,4**	
Corporate sector wages (% YoY)	8,0	9,9	10,1	9,8	8,7	9,5	8,7	8,4	9,8	11,2	9,5	11,7	**10,7**	
Employment (% YoY)	-1,3	0,9	2,7	2,8	1,8	0,9	0,6	0,5	0,7	0,5	2,3	2,2	**2,1**	
Unemployment rate* (%)	6,4	6,3	6,1	6,0	5,9	5,8	5,6	5,5	5,4	5,4	5,5	5,5	**5,3**	
Current account (M EUR)	71	1582	-38	-494	-1362	-1530	-651	-856	-628	-3957	-3957	**-1186**		
Exports (% YoY EUR)	27,7	66,6	41,4	23,4	12,0	18,1	12,7	9,7	16,3	19,4	19,4	**25,1**		
Imports (% YoY EUR)	23,6	55,6	52,7	36,6	20,8	30,7	21,8	20,9	29,5	35,9	35,9	**33,6**		

*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	5,3	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	9,6	12,1	11,6	9,8	5,1	10,8	6,2
	Wibor 3M (%)**	0,21	0,21	0,23	2,54	4,77	5,63	5,63	5,63	2,54	5,63	5,63
	NBP reference rate (%)**	0,10	0,10	0,10	1,75	3,50	5,00	5,50	5,50	1,75	5,50	5,50
	EURPLN**	4,63	4,52	4,60	4,58	4,64	4,75	4,55	4,50	4,58	4,50	4,40
	USDPLN**	3,95	3,81	3,98	4,03	4,19	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**
		Monday 04/04/2022				
8:00	Germany	Trade balance (bn EUR)	Feb	9,4		9,6
10:30	Eurozone	Sentix Index (pts)	Apr	-7,0		-9,7
16:00	USA	Factory orders (% MoM)	Feb	1,4		-0,6
		Tuesday 04/05/2022				
10:00	Eurozone	Services PMI (pts)	Mar	54,8	54,8	54,8
10:00	Eurozone	Final Composite PMI (pts)	Mar	54,5	54,5	54,5
16:00	USA	ISM Non-Manufacturing Index (pts)	Mar	56,5	58,0	58,5
		Wednesday 04/06/2022				
8:00	Germany	New industrial orders (% MoM)	Feb	1,8		-0,2
11:00	Eurozone	PPI (% YoY)	Feb	0,0		31,6
20:00	USA	FOMC Minutes	Mar			
	Poland	**NBP rate decision (%)**	**Apr**	**3,50**	**4,00**	**4,00**
		Thursday 04/07/2022				
8:00	Germany	Industrial production (% MoM)	Feb	2,7		-0,2
11:00	Eurozone	Retail sales (% MoM)	Feb	0,2		0,6
14:30	USA	Initial jobless claims (k)	w/e	202		
		Friday 04/08/2022				
14:00	**Poland**	**MPC Minutes**	**Apr**			
16:00	USA	Wholesale inventories (% MoM)	Feb	2,1		0,8
16:00	USA	Wholesale sales (% MoM)	Feb	4,0		

*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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