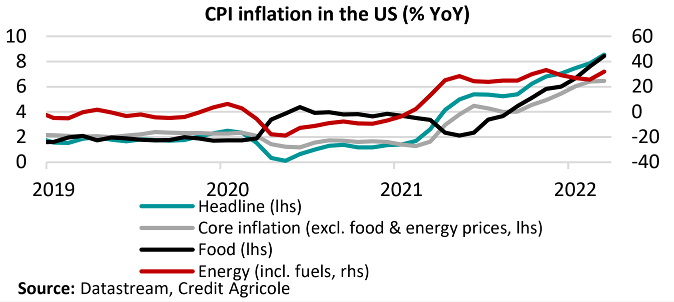
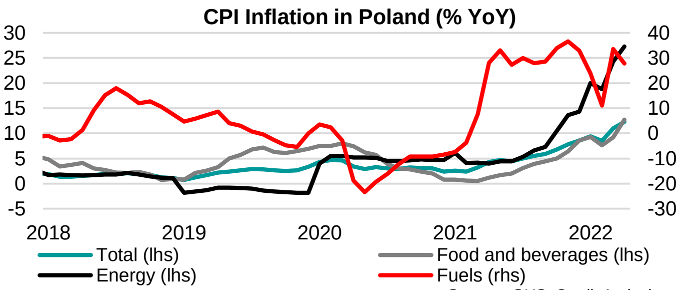
This week

- **This week, important data from the US will be released.** In our opinion, headline inflation fell to 8.2% YoY in April from 8.5% in March, supported by a decline in core inflation (to 6.1% YoY from 6.5% in March) and slowing fuel price growth. Thus, we believe that headline inflation has reached its local maximum in March and will gradually decline in the following months, reaching 6.7% YoY in Q4 2022 and 3.5% in Q4 2023. This week will also see the publication of economic sentiment surveys from the USA, with the flash University of Michigan index release scheduled for Friday. We expect the index to stabilise (65.0 pts in May vs. 65.2 pts in April) with economic sentiment chiefly deteriorating on the back of high inflation. We believe that if our forecasts materialise, US data will not significantly impact the PLN rate and yields on Polish bonds.



Source: Datastream, Credit Agricole

- **Friday will see the publication of final inflation data for Poland for April.** We expect the annual price growth rate to be consistent with the preliminary estimate at 12.3% YoY relative to 11.0% in March. The main factors conducive to rising inflation were the higher growth of food prices and core inflation. In our opinion, the release of Eurozone inflation data will be neutral for the PLN exchange rate and yields on Polish bonds.



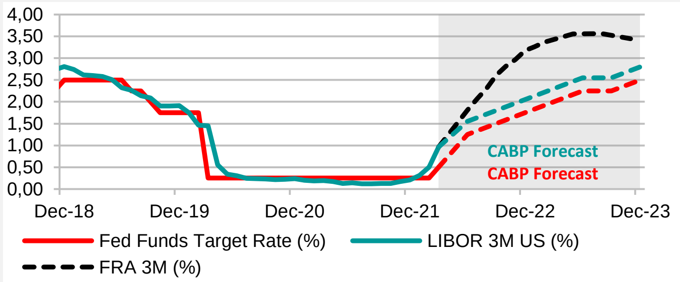
Source: GUS, Credit Agricole

- **Poland's balance of payments data for March set to be released on Friday.** We expect the current account deficit to have contracted to EUR 1,733m, down from EUR 2,871m in February, primarily on the back of a higher balance of trade in goods. We forecast that exports grew by 23.9% YoY in March (up from 10.4% in February) with imports expanding by 30.6% (up from 21.6%), marking a return to the trend observed in the previous months. In our view, the data on the balance of payments will be neutral for the PLN exchange rate and yields on Polish bonds.
- **Today, data on China's foreign trade was released. China's trade balance grew to USD 51.1bn in April compared with USD 47.4bn in March.** At the same time, exports slowed down (3.9% YoY in April vs. 14.7% in March), while imports remained relatively stable (0.0% YoY in April vs. -0.1% in March). The main driver of China's foreign trade slump is disruptions caused by the deterioration of China's epidemic situation. Due to China's zero-COVID policy, Shanghai, a key logistics and production hub, has been on total lockdown since 1 March, leading to substantial global supply chain disruptions. The Chinese administration announced that the restrictions would remain in place until the virus is completely eliminated. We believe that the Chinese data release is neutral for the financial markets.

Last week

- **Last week, the Monetary Policy Council decided to raise interest rates again.** The NBP reference rate rose from 4.50% to 5.25%. The 75bp hike was lower than our forecast (100bp), consistent with the market consensus. In our opinion, the main factor underlying the strong monetary tightening was the significant and higher-than-expected increase in inflation recorded in April, which according to the preliminary estimate, stood at 12.3% YoY, up from 11.0% in March (see MACROmap of 02/05/2022). Consequently, considering the further expected increase in prices over the coming months, inflation in Q2 2022 will most likely be significantly higher than assumed in the NBP's March projection (10.3%). The MPC reiterated that its further decisions would depend on incoming information about the inflation and economic activity outlook, including the impact of Russia's military aggression against Ukraine on the Polish economy. At the same time, just like in April, the Council emphasised that the interest rate hike will reduce the risk of inflation running above the NBP inflation target in the monetary policy transmission horizon (see MACROpulse of 05/05/2022). In our opinion, the fact that the statements cited above were repeated suggests that the monetary policy tightening cycle will be continued in the months to come. This assessment is also supported by NBP President A. Glapiński's statement at the Friday press conference announcing that the MPC would keep raising interest rates until inflation is reduced permanently. We also believe that last week's lower-than-expected hike strongly supports our assessment whereby the NBP reference rate hike cycle is coming to an end. We stand by our forecast that in June and July there will be further significant increases in the reference rate (to 6.50% in July; see MACROmap of 02/05/2022), which at the same time will mark the end of this tightening cycle.

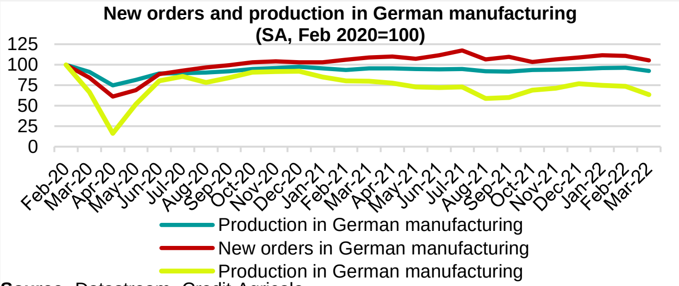
- **At its last week's meeting, the Fed raised the Federal Funds Target Range by 50pb to [0.75%; 1.00%], in line with our forecast and market expectations.** The Fed also announced that starting from 1 June, it will launch the process of reducing its balance sheet. From June to August, it will offload assets at a rate of USD 47.5bn per month, of which USD 30bn will be in treasury bonds and USD 17.5bn in mortgage-backed securities (MBS). Starting from September, the pace will be doubled to USD 95bn per month (USD 60bn in treasury bonds, USD 35bn in MBS). This means that the Fed's balance sheet will shrink by USD 523bn and USD 1.14tn in 2022 and 2023, respectively. We expect the Federal Reserve to continue reducing its balance sheet until it reaches around USD 5tn. We believe that this will not happen before H1 2025. At the press conference after the meeting, Federal Reserve Chair J. Powell said that additional interest rate hikes of 50bp "remain on the table" for "a few next meetings", with more modest moves of 25bp expected afterwards. At the same time, he stressed that the Fed is not considering hikes of 75bp at the moment. Thus, if the Fed opts for 50bp hikes at its June and July meetings and then raises interest rates by 25bp at each of the other three meetings, the Federal Funds Target Range at the end of 2022 will be [2.25%; 2.50%]. Thus, J. Powell's comments pose a significant upside risk to our scenario assuming that at the end of 2022 the Federal Funds Target Range will be [1.50%; 1.75%].



Source: Reuters, Credit Agricole

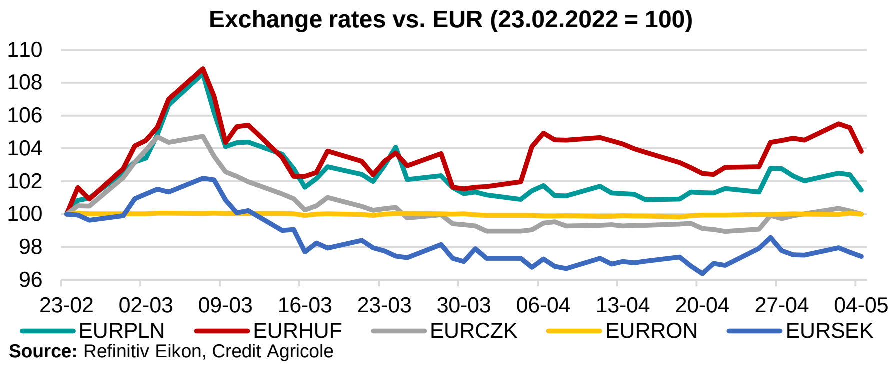
- **Last week, vital data regarding the US economy was published.** Non-farm payroll grew by 428k in April compared with an increase of 428k in March (downward revision from 431k), running above market expectations (growth by 385k). The strongest expansion in employment was recorded in leisure and recreation (+78.0k), education and healthcare (+59.0k) and manufacturing (+55.0k). The unemployment rate did not change in April relative to March and stood at 3.6%, exceeding market expectations of 3.5%. At the same time, the economic activity rate slipped to 62.2% in April from 62.4% in March and thus remains close to pre-pandemic levels (approx. 63.3%). Last week also saw the release of new jobless claims figures showing an increase to 200k vs. 181k two weeks prior, running above market expectations (180k). In turn, the number of continued claims remained stable at 1.4m. Interestingly, these values are lower than those recorded directly 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. Last week also saw the release of the University of Michigan consumer sentiment survey results. The ISM manufacturing index fell to 55.4 pts in April, down from 57.1 pts in March, running slightly below market expectations (57.6 pts). The index slipped on the back of lower contributions from 4 out of 5 of its components (employment, stocks of purchases, output, new orders), with suppliers' delivery times having the opposite effect. Although the growth rate of input prices slowed down slightly in April, it remains high relative to historical values. In our opinion, such a structure of data indicates an exacerbation of the issue of supply bottlenecks, primarily due to the war in Ukraine and administrative restrictions in China related to the deterioration of the epidemic situation in that country. The ISM non-manufacturing index also declined to 57.1 pts in April vs. 58.3 pts in March, running below market expectations (58.5 pts). In the data structure, most noteworthy is the further growth in the index for the prices of intermediate goods, which in our opinion also reflects the aggravation of supply bottlenecks in the global economy. We see a downside risk to our scenario, according to which throughout 2022 US GDP will expand by 3.3% vs. a 5.7% growth in 2021.

Last week saw the publication of vital data from the German economy. Industrial production contracted by 3.9% MoM in March compared with a 0.1% growth in February. Industrial manufacturing declined on the back of lower production growth in manufacturing (including in the automotive industry) and the energy sector with higher production growth in construction having the opposite effect. A drop was also recorded in new orders in manufacturing, which fell by 4.7% MoM in March, vs. a 0.8% decline in February, due to reduced domestic and export orders. Export orders declined on the back of lower orders from non-Eurozone countries, with orders from the single currency area increasing. In terms of individual sectors, a continued sharp decline in new orders was recorded in the German automotive industry. Last week saw the release of Germany's foreign trade data. The trade balance amounted to EUR 3.2bn in March, down from EUR 11.1bn in February with a concurrent contraction in the growth rate of both exports (-3.3% MoM in March vs. 6.2% in February) and imports (3.4% vs. 4.7%). At the same time, in March the value of German exports to Russia fell by 62.3% MoM. Last week's data show that the war in Ukraine and the sanctions imposed by Western countries on Russia, as well as administrative restrictions introduced in China due to the deterioration of the epidemic situation in that country, disrupted the continuity of the supply chain in German industry. At the same time, increased uncertainty stifled domestic demand. It can be expected that diminished internal and external demand will hold back activity in the German industry in the coming months. Consequently, this poses a downside risk to our forecast according to which German GDP will rise by 2.5% in 2022 compared with an increase of 2.9% in 2021.



Source: Datastream, Credit Agricole

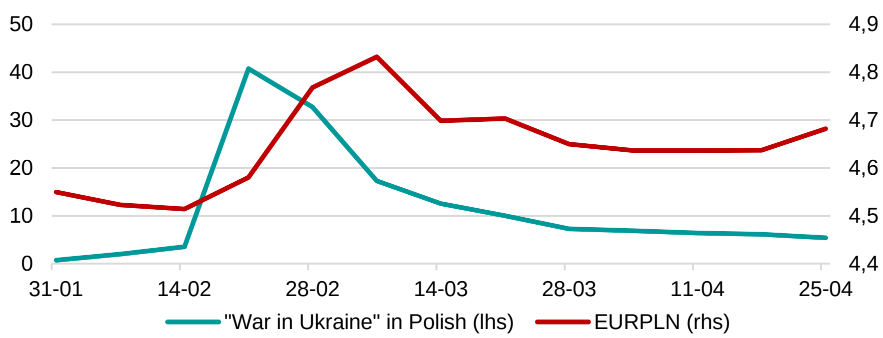
What is the impact of the war in Ukraine on the PLN exchange rate?



Source: Refinitiv Eikon, Credit Agricole

Immediately after Russia's invasion of Ukraine, a depreciation of the currencies of non-Eurozone EU member states with a floating exchange rate regime was observed. A relatively substantial depreciation was recorded in Poland and Hungary. Within two weeks, the EURPLN and EURHUF rates grew by almost 9% compared to the levels seen before the war in Ukraine (24 February 2022). The reaction of other currencies was much less pronounced. The Czech koruna depreciated by less than 5%, the Swedish krona by less than 2%, and the Romanian leu exchange rate practically did not react to Russia's invasion of Ukraine (see chart). It is also worth noting that the exchange rates of the Swedish and Czech currencies have already returned to the levels observed before the outbreak of the war in Ukraine, while the EURPLN and EURHUF rates are still above these levels.

The diversified response of individual EU currencies does not necessarily mean that the outbreak of the war in Ukraine was an asymmetric shock for the respective economies. The observed exchange rate fluctuations have many underlying factors: the effect of the above shock, fluctuations in global sentiment in the financial markets, domestic monetary policy measures, risk premium resulting from, among others, the domestic fiscal policy, and currency interventions. For example, the lack of significant fluctuations in the EURRON exchange rate is related to the regular interventions of the central bank and the general shallowness of the financial market in this country. In turn, the depreciation of the Swedish krona was limited because Sweden is a developed market and is therefore less susceptible to fluctuations in global risk aversion. Consequently, it is difficult to accurately isolate and quantify the impact of the war in Ukraine on individual exchange rates. Doing so would require using advanced econometric methods, allowing for the decomposition of exchange rate volatility into unobservable factors of various origin (global, regional, national).

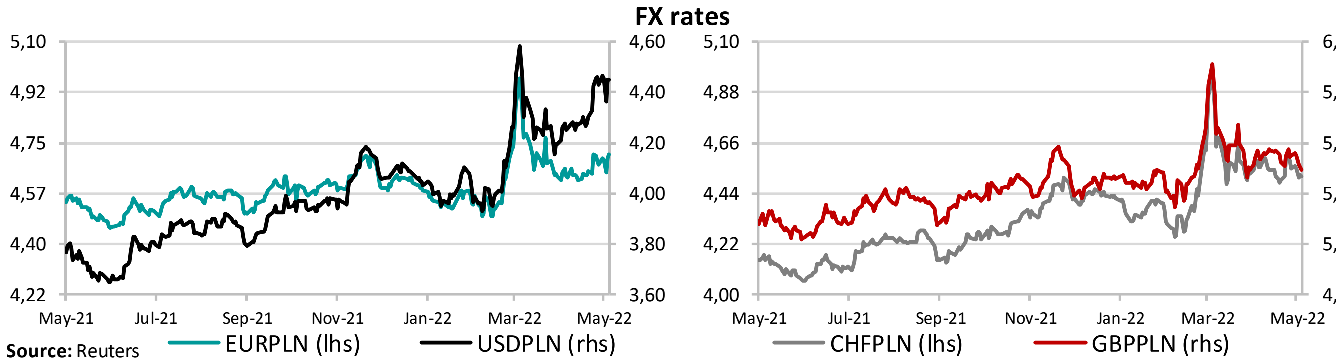


Source: Google Trends, Refinitiv Eikon, Credit Agricole

This analysis can also be carried out in a simplified way using information indicating how substantial of a problem the war in Ukraine was for individual EU countries. For this purpose, we used the Google Trends tool, which shows how often a given phrase was searched for in the Google search engine. The EURPLN rate showed a moderate positive correlation with the frequency of searches for "war in Ukraine" in Google. The chart shows the average popularity of the search term during the week. The values on the left axis of the graph represent the relative popularity of searches for the phrase "war in Ukraine" relative to its highest popularity. 100 represents the highest popularity of the phrase (recorded on the day the war in Ukraine broke out, i.e. 24 February 2022). A value of 50 means that the phrase's popularity was twice as low. Low values indicate little interest relative to the peak. It is also worth noting that the term "war in Ukraine" (in Polish) was much more frequently searched for in Poland than the corresponding phrase in the languages of other countries in the region (Czech Republic, Romania, Hungary, Sweden). This may indicate a more pronounced negative impact of the outbreak of the war on the Polish currency than the exchange rates of the other relevant currencies.

Clear confirmation of the above hypothesis will require using the above-mentioned econometric techniques. However, the experiences of these countries would indicate that, if our scenario assuming the de-escalation of the conflict in Q3 this year materialises and thus its negative impact on the exchange rate of the Polish currency wanes, a gradual appreciation of the PLN against the EUR can be expected. Thus, we forecast that the EURPLN rate will stand at 4.50 in late 2022 and 4.40 in late 2023. At the same time, we believe that the PLN will appreciate relative to the currencies of other countries in the region due to the relatively strong positive impact of the end of the war in Ukraine on the PLN exchange rate.

PLN rate remains under influence of increased uncertainty spurred by war



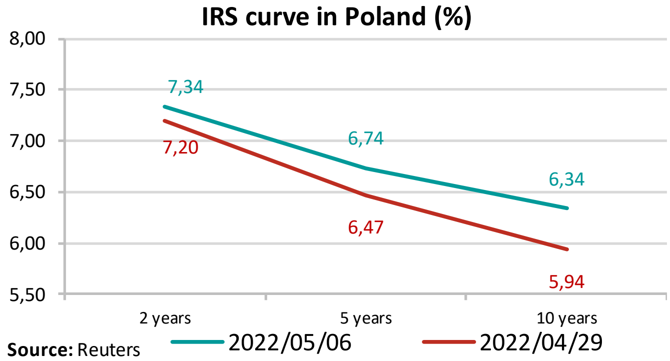
Source: Reuters

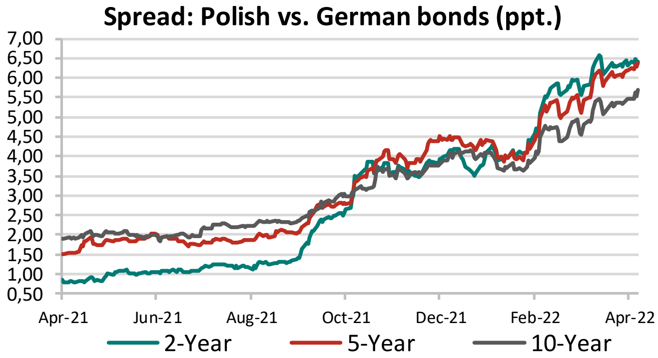
Last week, the EURPLN exchange rate climbed to 4.7096 (weakening of the PLN by 0.8%). In the first part of the week, the EURPLN rate exhibited low volatility, which was supported by lower market turnover due to the long weekend. On Wednesday evening, the PLN strengthened against the EUR, supported by what some investors perceived as a dovish statement of Fed chairman J. Powell who announced that the Federal Reserve is not considering 75bp interest rate hikes. The MPC's decision on a lower-than-expected interest rate hike led to the depreciation of the PLN.

This statement by J. Powell spurred the USD to depreciate slightly against the EUR. However, it is worth noting that the room for further increases of the EURUSD rate is limited by the prospect of a more substantial monetary policy tightening in the US than in the Eurozone (see MACROmap of 04/04/2022).

This week will see the release of final domestic inflation data, but we believe that it will be neutral for the Polish currency. In our view, the remaining data from the Polish and global economy will not have a significant bearing on the PLN rate either. At the same time, the war in Ukraine and the associated increased risk aversion in the region will remain a key factor determining the PLN exchange rate.

IRS rates continue to rise





Source: Reuters

Last week, 2-year IRS rates grew to 7.34 (up by 14bp), 5-year to 6.74 (up by 27bp), and 10-year to 6.34 (up by 40bp), the highest levels since 2008. Last week saw a continued rise in IRS rates along the entire length of the curve, following the core markets. Increased yields in the core markets are supported by rising expectations of interest rate hikes by major central banks amid persistently strong inflation growth. The MPC's lower-than-expected interest rate hike led to a temporary decline in IRS rates. The FOMC meeting was neutral for the curve.

This week, due to a rather uneventful macroeconomic calendar, IRS rates will be mainly influenced by investors' rising expectations of a monetary tightening by major central banks, as well as persistently increased risk aversion in the region related to the war in Ukraine.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland

Indicator	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	May-22
NBP reference rate (%)	0,10	0,10	0,10	0,10	0,10	0,10	0,50	1,25	1,75	2,25	2,75	3,50	4,50	5,25
EURPLN*	4,56	4,48	4,52	4,56	4,52	4,60	4,60	4,65	4,58	4,58	4,69	4,64	4,67	**4,70**
USDPLN*	3,79	3,66	3,81	3,84	3,83	3,98	3,98	4,10	4,03	4,08	4,18	4,19	4,43	**4,43**
CHFPLN*	4,15	4,07	4,12	4,24	4,18	4,27	4,35	4,47	4,42	4,40	4,56	4,54	4,55	**4,56**
CPI inflation (% YoY)	4,3	4,7	4,4	5,0	5,5	5,9	6,8	7,8	8,6	9,4	8,5	11,0	**12,3**	
Core inflation (% YoY)	3,9	4,0	3,5	3,7	3,9	4,2	4,5	4,7	5,3	6,1	6,7	6,9	**7,5**	
Industrial production (% YoY)	44,2	29,6	18,1	9,6	13,1	8,7	7,6	14,9	16,3	18,0	17,3	17,2	**17,8**	
PPI inflation (% YoY)	5,5	6,6	7,2	8,4	9,6	10,3	12,0	13,6	14,4	16,1	16,1	20,0	**21,0**	
Retail sales (% YoY)	25,7	19,1	13,0	8,9	10,7	11,1	14,4	21,2	16,9	20,0	16,5	22,0	**37,4**	
Corporate sector wages (% YoY)	9,9	10,1	9,8	8,7	9,5	8,7	8,4	9,8	11,2	9,5	11,7	12,4	**12,5**	
Employment (% YoY)	0,9	2,7	2,8	1,8	0,9	0,6	0,5	0,7	0,5	2,3	2,2	2,4	**2,7**	
Unemployment rate* (%)	6,3	6,1	6,0	5,9	5,8	5,6	5,5	5,4	5,4	5,5	5,5	5,4	**5,2**	
Current account (M EUR)	1282	491	-464	-1017	-527	-1817	-1166	-1077	-2491	-2491	-2491	**-1733**		
Exports (% YoY EUR)	78,9	38,3	15,8	9,2	23,9	9,4	8,9	7,4	26,6	26,6	26,6	**23,9**		
Imports (% YoY EUR)	69,6	46,4	29,2	16,3	33,6	22,4	24,2	24,3	35,5	35,5	35,5	**30,6**		

*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)		-0,6	11,3	5,5	7,6	8,1	3,1	3,0	2,6	5,9	4,1	3,3
Private consumption (% YoY)		-0,2	13,0	4,7	8,0	7,5	5,8	4,4	3,9	6,1	5,4	3,9
Gross fixed capital formation (% YoY)		-1,3	3,0	6,6	5,2	4,2	2,4	2,1	5,8	3,8	3,9	7,3
Export - constant prices (% YoY)		7,4	29,8	7,3	6,1	8,3	7,0	7,3	5,6	11,8	7,0	8,9
Import - constant prices (% YoY)		8,6	33,8	12,5	12,2	12,5	10,5	10,8	10,3	15,9	11,0	12,0
GDP growth contributions	Private consumption (pp)	-0,2	7,2	2,8	3,9	4,5	3,3	2,5	1,9	3,4	3,0	2,2
	Investments (pp)	-0,2	0,5	1,1	1,1	0,5	0,4	0,3	1,2	0,7	0,6	1,2
	Net exports (pp)	-0,1	0,4	-2,1	-2,5	-1,7	-1,5	-1,8	-2,5	-1,2	-1,9	-1,6
Current account (% of GDP)***		2,8	1,9	0,9	-0,6	-1,3	-1,6	-2,0	-2,5	-0,6	-2,5	-2,9
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	10,2	10,0	9,5	9,1	8,9	9,7	9,5
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	6,63	6,63	6,63	2,54	6,63	5,63
NBP reference rate (%)**		0,10	0,10	0,10	1,75	3,50	6,00	6,50	6,50	1,75	6,50	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 05/09/2022				
10:30	Eurozone	Sentix Index (pts)	May	-18,0		-20,8
16:00	USA	Wholesale inventories (% MoM)	Mar	2,3		2,3
16:00	USA	Wholesale sales (% MoM)	Mar	1,7		
	China	Trade balance (bn USD)	Apr	47,4		50,7
		Tuesday 05/10/2022				
11:00	Germany	ZEW Economic Sentiment (pts)	May	-41,0		-42,5
		Wednesday 05/11/2022				
3:30	China	PPI (% YoY)	Apr	8,3		7,8
3:30	China	CPI (% YoY)	Apr	1,5		1,9
14:30	USA	CPI (% MoM)	Apr	1,2	0,3	0,2
14:30	USA	Core CPI (% MoM)	Apr	0,3	0,5	0,4
		Thursday 05/12/2022				
14:30	USA	Initial jobless claims (k)	w/e	200		
		Friday 05/13/2022				
10:00	**Poland**	**CPI (% YoY)**	**Apr**	**11,0**	**12,3**	**12,3**
11:00	Eurozone	Industrial production (% MoM)	Mar	0,7		-1,0
14:00	**Poland**	**Current account (M EUR)**	**Mar**	**-2871**	**-1733**	**-2792**
16:00	USA	Initial U. of Michigan Sentiment Index (pts)	May	65,2	65,0	63,6

*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

MACRO MAP

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