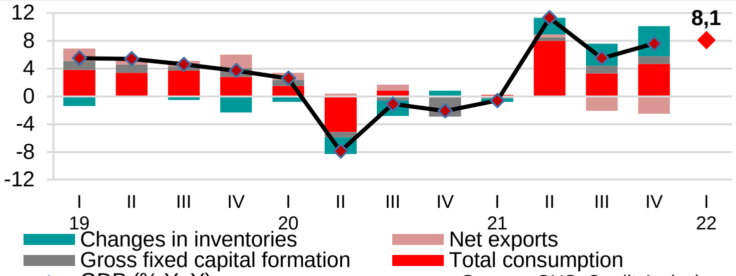
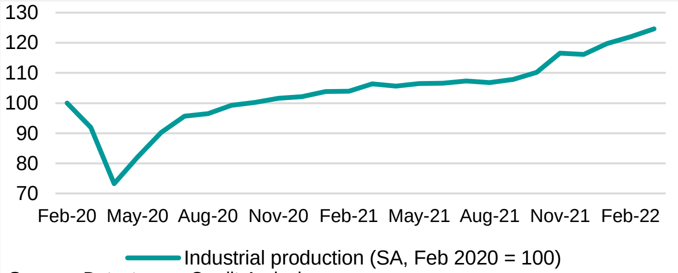
This week

- **This week's key event will be the release of Poland's flash GDP estimate in Q1 scheduled for Tuesday.** We forecast GDP to have expanded by 8.1% YoY vs. 7.6% in Q4 2021, with consumption as its primary driver between Q4 and Q1. Higher private consumption was supported by increased expenses related to the influx of refugees from Ukraine and the release of pent-up household demand. Our forecast is similar to the market consensus (8.3%). Thus if it materialises, its impact on the PLN and yields on Polish bonds will be neutral.



Source: GUS, Credit Agricole

- **This week, vital data from the US will be released.** We expect that nominal retail sales increased by 0.8% MoM in April compared with a 0.7% growth in March, spurred chiefly by improved sales in the automotive sector. We forecast industrial production growth to have slipped to 0.5% MoM in April from 0.9% in March, consistent with business climate surveys indicating a slowdown in manufacturing. We believe that data on housing starts (1,748k in April vs. 1,793k in March), building permits (1,795k vs. 1,870k), and existing home sales (5.60m vs. 5.77m) will point to a slight slowdown in the US real estate market. We believe that the impact of data from the US real estate market on the PLN and Polish bond yields will be limited.
- **Friday will see the release of Poland's industrial production data in April.** We forecast production growth to have risen to 17.8% YoY relative to 17.2% in March. Production accelerated on the back of the improved economic situation in the industry and Volkswagen factories resuming production following a two-week pause in March. Our forecast is above the market consensus (16.2%), and thus, if it materialises, it will have a slightly positive effect on the PLN and yields on Polish bonds.

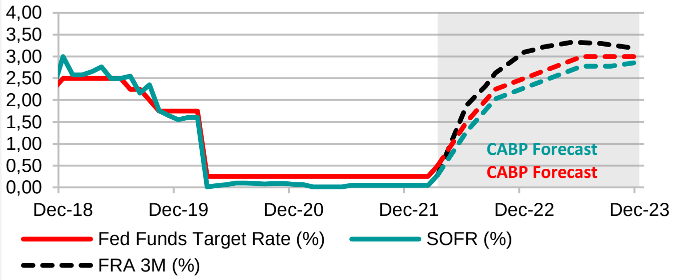


Source: Datastream, Credit Agricole

- **Data on employment and average wages in the corporate sector in Poland in October will be published on Friday.** We forecast employment growth to have increased to 2.7% YoY, up from 2.4% in March, due to last year's low base effects, with average wage growth remaining high in April (12.6% YoY vs 12.4% in March). The publication of data on employment and corporate sector wages, though important to the forecast of private consumption growth in Q2, will, in our opinion, be neutral for the PLN exchange rate and the debt market.
- **Important data from China was released today.** Data on industrial production (-2.9% YoY in April vs. 5.0% in March), retail sales (-11.1% vs. -3.5%) and urban investments (6.8% vs. 9.3%) was well below market expectations (0.5%, -6.1% and 7.1% respectively). The figures indicate that the Chinese economy remains under the strong negative effect of administrative restrictions introduced due to the deterioration of the epidemic situation in that country, a trend particularly visible in retail sales data. However, it is worth noting that in May, the epidemic situation in China began to improve, which will support an increase in economic activity in the Chinese economy in the near future. In our opinion, the Chinese data releases are neutral for the PLN and yields on Polish bonds.

Last week

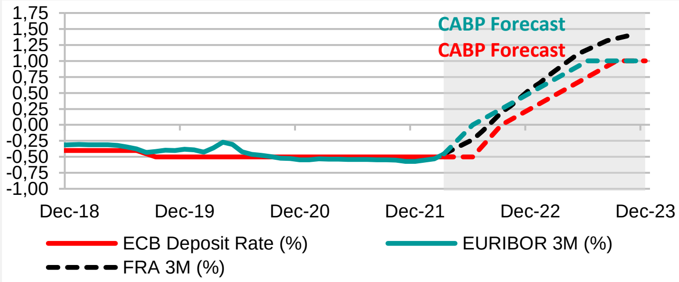
- **CPI inflation in Poland rose to 12.4% YoY in April from 11.0% in March, exceeding the market consensus that was consistent with our forecast (11.7%) and the GUS' flash estimate (12.3%).** Thus, inflation reached its highest level since May 1998 and has remained above the upper band for deviations from the NBP's inflation target (3.5% YoY) for 13 consecutive months. Inflation rose on the back of increasing prices of food and non-alcoholic beverages (12.7% YoY in April vs. 9.2% in March), energy (27.3% vs. 24.3%), as well as core inflation which, according to our estimates, climbed to 7.7% YoY in April from 6.9% in March. On the other hand, the slower growth of fuel prices (27.8% relative to 33.5%) had the opposite effect. The data structure points to strong inflationary pressure in the Polish economy (see MACROpulse of 13/05/2022). The significantly higher-than-expected inflation data in April prompted us to revise our inflation scenario and interest rate forecast (see below).
- **The Polish current account balance contracted to EUR -2,972m in March, down from EUR -2,663m in February, well below market expectations (EUR -2,750m) and our forecast (EUR -1,733m).** This marks the tenth month running with a deficit on the Polish current account. The contraction of the current account balance was attributable to a lower balance on goods and services (down by EUR 1,694m and EUR 208m, respectively, relative to February) with higher balances on primary and secondary income (up by EUR 1,014m and EUR 579m relative to February) having the opposite effect. At the same time, March saw the growth of both exports (16.2% YoY in March vs. 9.8% in February) and imports (34.3% vs. 20.2%). According to the NBP's statement, similarly to the previous months, the factor holding back exports is declining sales of cars and car parts, with import growth being spurred by rising prices of raw materials, in particular energy commodities. The NBP also pointed to the negative impact of the war in Ukraine and the sanctions imposed on Russia and Belarus on the value of Polish exports. We estimate that the cumulative current account balance for the last 4 quarters in relation to GDP declined to -2.2% in Q1 2022 compared with -0.3% in Q4 2021.
- **Last week, numerous data regarding the US economy was published.** CPI inflation decreased in April to 8.3% YoY vs. 8.5% in March, exceeding market expectations (8.1%) and marking the first drop in the US inflation since August 2021. Inflation decreased on the back of slower growth of energy prices and a drop in core inflation (6.2% YoY in April vs. 6.5% in March), with the faster growth of food prices having the opposite effect. The data supports our forecast 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. Last week also saw the release of the University of Michigan consumer sentiment survey results. The flash University of Michigan index fell to 59.1 pts in May vs. 65.2 pts in April, running well below market expectations (63.9 pts), reaching its lowest value since August 2011. The figures indicate that, despite the good situation in the labour market, the sentiment of American consumers remains strongly negatively influenced by concerns of a continued rise in inflation, additionally exacerbated by the outbreak of the war in Ukraine. Considering the recent comments made by Fed president J. Powell (see MACROmap of 09/05/2022), we have revised our US interest rate scenario upwards. We now expect the Fed to hike interest rates by 50bp at its June and July meetings, followed by 25bp moves at each of the three remaining meetings. Consequently, the Federal Funds Target Range at the end of 2022 will



Source: Reuters, Credit Agricole

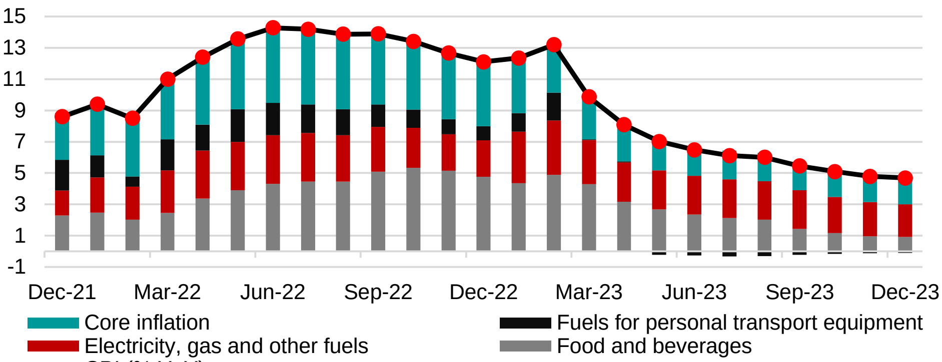
be [2.25%; 2.50%]. In 2023, we expect two more hikes of 25bp each (in Q1 and Q2). Thus, at the end of 2023, the Federal Funds Target Range will be [2.75%; 3.00%].

We have revised our Eurozone interest rate scenario. We now expect the ECB to hike the deposit rate three times by 25bp in 2022 (first hike in July) and another three times (by 25bp) in 2023. Consequently, the deposit rate will stand at 0.25% at the end of 2022 and 1.00% at the end of 2023. The underlying factor for upward revision of our interest rate path is the mid-term inflation outlook in the Eurozone, which is shaping up to significantly exceed the ECB's inflation target, a trend that will be confirmed by the results of the ECB's June projection. As a result, the ECB, fearing the de-anchoring of inflation expectations, will most likely opt for a faster and stronger than previously expected monetary policy tightening.



Source: Reuters, Credit Agricole

Higher inflation requires more aggressive interest rate hikes

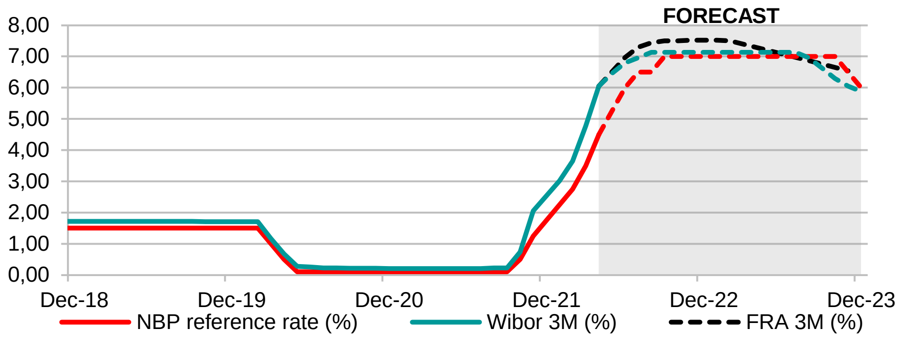


Source: GUS, Credit Agricole

Final inflation in April exceeded our prior forecast by 0.7 pp (see above), which prompted us to revise our mid-term inflation scenario. The cause underlying the error in April was the underestimation of the growth rate of food prices. Thus, we also revised our food and non-alcoholic beverage price path upwards. We currently anticipate that the growth rate of prices of food and non-alcoholic beverages will increase to 15.0% YoY vs. 3.2% in 2022, to slow down to 9.5% in 2023. At the same time, the growth rate of food and non-alcoholic beverage prices will reach its local maximum in Q4 at approx. 19% YoY. The first reason for the revision of our forecast is the substantial acceleration in the growth of meat prices (17.6% YoY in April vs. 9.7% in March), observed both in the case of poultry (46.7% YoY vs. 32.0%) and pork (15.6% vs. 5.9%), which exceeded our expectations. The price growth is supported by increased demand for meat and the waning of the pandemic, and the concurrent reduced supply of meat. Pig production in the recent quarters showed low profitability, prompting pig farmers to slow down production, while poultry production has not yet returned to levels seen before significant losses caused by the bird flu in 2021. Given a shortage of meat on the market, farmers are able to push the rising costs of feed further down the supply chain, spurring prices to rise further. The second reason for our upward revision of our food price path is the drought in Poland and in some of the world's key food-producing and -exporting regions and countries (including Western Europe, the USA and Brazil). The drought will drive up prices of cereals and oilseeds further and, consequently, also the prices of feed and meat. In turn, locally it will support the increase in the prices of fruit and vegetables.

We believe that core inflation will exceed our prior assumptions. The robust situation in the labour market, supporting the build-up of wage pressure and the partial de-anchoring of inflation expectations, will be conducive to an increase in core inflation in the coming months. We believe that it will reach the local maximum of 8.6% YoY this July, following which it will start to decline gradually. Nevertheless, it will only fall below the 7% YoY mark at the beginning of 2023. Our forecast for prices of fuel and other energy products has not changed in any way that would significantly impact the revision of the headline inflation profile. We stand by our assessment that in early 2023, we will see a significant increase in household electricity and gas tariffs, limiting the decline in the annual growth of energy prices over several quarters. It should be noted that the further course of inflation components is characterised by increased uncertainty.

In summary, we expect headline inflation to reach 12.4% YoY in 2022 and 7.4% in 2023. We forecast that inflation will peak this June at 14.3%. In our scenario, we assumed that the duration of the Anti-Inflation Shield will be extended until the end of 2023. If the shield is terminated earlier (in August 2022 or January 2023), then, according to our estimates, inflation will exceed 16% in the summer of 2022, with an annual average reading of 9% in 2023. Considering the parliamentary elections scheduled for 2023, we believe that the government will want to avoid such a scenario materialising,

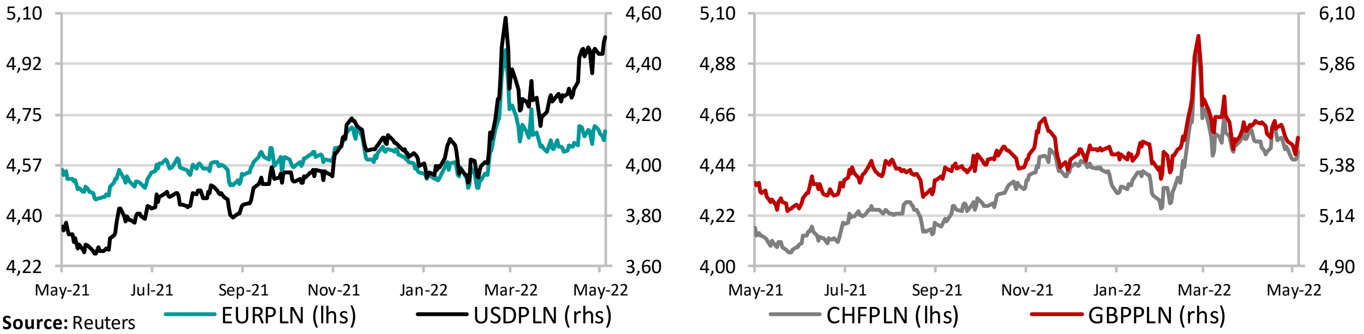


Source: Reuters, Credit Agricole

According to our revised forecast, the inflation peak is expected to be around 2 pp higher than we assumed earlier. Average annual inflation will also be higher by 1.7 pp and 1.2 pp in 2022 and 2023, respectively. Therefore, the inflation target will most likely not be achieved before 2025. In such an environment, a more aggressive reaction from the MPC will be necessary. We still believe that, in setting monetary policy parameters, the MPC will focus on supporting GDP growth, tolerating a significant overshoot of the inflation target for an extended period of time. Nevertheless, we expect the monetary policy tightening scale to be larger than previously assumed. We believe that the MPC will hike rates by 75bp, 50bp and 50bp at the next three meetings and conclude the hike cycle at that, thus bringing the reference rate to 7.00% in Q3 2022.

Domestic data on production may strengthen the PLN

FX rates



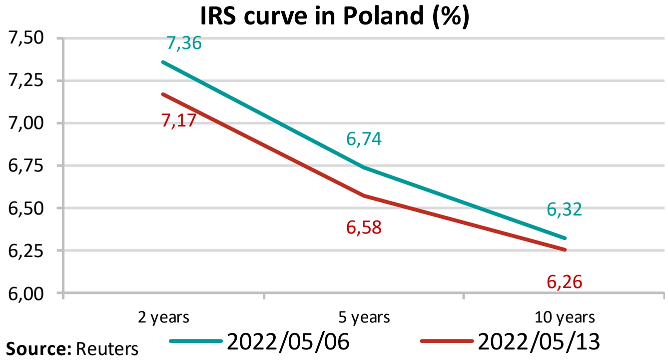
Source: Reuters

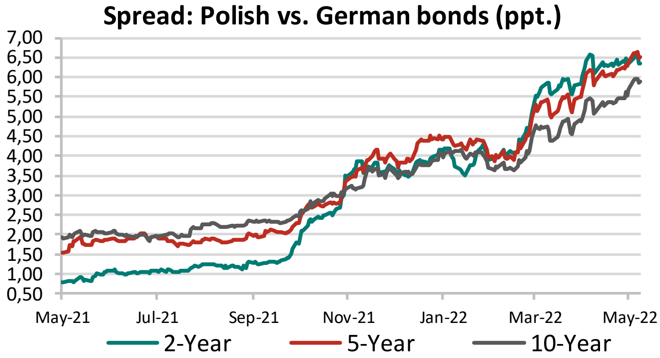
Last week, the EURPLN exchange rate fell to 4.6885 (appreciation of the PLN by 0.4%). Throughout last week, the EURPLN followed a slightly downward trend. The appreciation of the PLN was supported by lowered risk aversion, reflected in the contraction of the VIX index. Reduction of uncertainty on the market was supported by the lack of any substantial news pointing to Russia's progress in the war in Ukraine. On Friday, there was a correction and weakening of the PLN, additionally supported by the dovish comment made by MPC member P. Litwiniuk who said that the current rate of interest rate hikes in Poland was excessive.

Despite the aforementioned decline in global risk aversion, last week saw a strengthening of the USD against the EUR, supported by the prospects of a more aggressive monetary policy tightening in the US than in Eurozone (see above). As a consequence, we see a risk to our forecast predicting that the EURUSD rate will stand at 1.06. at the end of June.

In our opinion, the data from China released this morning is neutral for the PLN exchange rate. This week, data on industrial production in Poland will be of key importance for the PLN as it may contribute to its strengthening. In our view, the remaining data from the Polish and global economy, including the flash estimate of Poland's GDP, will not have a significant bearing on the PLN rate. At the same time, the war in Ukraine and the associated increased risk aversion in the region will remain an important factor determining the PLN exchange rate.

Domestic data on industrial production in market's spotlight





Source: Reuters

Last week, 2-year IRS rates dropped to 7.17 (down by 19bp), 5-year to 6.58 (down by 16bp), and 10-year to 6.26 (down by 6bp). The previous week saw a decline of IRS rates along the entire length of the curve, following the core markets, marking a correction after their strong rise observed in recent weeks. The decline in yields on bonds in the core markets was supported by increasing concerns of some investors regarding the global economic growth outlook.

In our opinion, the data from China released this morning is neutral for the curve. This week, investors will focus on the publication of domestic data on industrial production, which may contribute to an increase in IRS rates. In our opinion, the remaining data from the Polish and global economy will be neutral for IRS rates. At the same time, IRS rates will remain under the influence of the persistently elevated 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	12,4	
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	**7,7**	
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	-2491		
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	26,6		
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	35,5		

*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
GDP growth contributions: Investments (pp)	-0,2	0,5	1,1	1,1	0,5	0,4	0,3	1,2	0,7	0,6	1,2
GDP growth contributions: 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	-2,2	-1,6	-2,0	-2,5	-0,6	-2,5	-2,9
Unemployment rate (%)**	6,4	6,0	5,6	5,4	5,4	5,0	5,0	5,6	5,4	5,6	5,6
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	9,7	10,0	9,5	9,1	8,9	9,6	9,6
CPI Inflation (% YoY)*	2,7	4,5	5,5	7,7	9,6	13,4	14,0	12,7	5,1	12,4	7,4
Wibor 3M (%)**	0,21	0,21	0,23	2,54	4,77	6,80	7,13	7,13	2,54	7,13	5,88
NBP reference rate (%)**	0,10	0,10	0,10	1,75	3,50	6,00	7,00	7,00	1,75	7,00	6,00
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	4,48	4,21	4,09	4,03	4,09	3,83

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

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST* CA	FORECAST* CONSENSUS**
		Monday 05/16/2022				
4:00	China	Industrial production (% YoY)	Apr	5,0	0,5	0,4
4:00	China	Retail sales (% YoY)	Apr	-3,5	-6,2	-6,1
4:00	China	Urban investments (% YoY)	Apr	9,3	6,6	7,0
14:00	**Poland**	**Core inflation (% YoY)**	**Apr**	**6,9**	**7,7**	**7,7**
14:30	USA	NY Fed Manufacturing Index (pts)	May	24,6		14,5
		Tuesday 05/17/2022				
10:00	**Poland**	**Flash GDP (% YoY)**	**Q1**	**7,6**	**8,1**	**8,3**
11:00	Eurozone	Preliminary GDP (% QoQ)	Q1	0,2	0,2	0,2
11:00	Eurozone	GDP flash estimate (% YoY)	Q1	5,0	5,0	5,0
14:30	USA	Retail sales (% MoM)	Apr	0,5	0,8	0,9
15:15	USA	Industrial production (% MoM)	Apr	0,9	0,5	0,4
15:15	USA	Capacity utilization (%)	Apr	78,3		78,5
16:00	USA	Business inventories (% MoM)	Mar	1,5		1,8
		Wednesday 05/18/2022				
11:00	Eurozone	HICP (% YoY)	Apr	7,5	7,5	7,5
14:30	USA	Housing starts (k MoM)	Apr	1793	1748	1760
14:30	USA	Building permits (k)	Apr	1870	1793	1815
		Thursday 05/19/2022				
11:00	Eurozone	Current account (bn EUR)	Mar	20,8		
14:30	USA	Initial jobless claims (k)	w/e	3203		
14:30	USA	Philadelphia Fed Index (pts)	May	17,6		16,0
16:00	USA	Existing home sales (M MoM)	Apr	5,77	5,60	5,63
		Friday 05/20/2022				
10:00	**Poland**	**Employment (% YoY)**	**Apr**	**2,4**	**2,7**	**2,7**
10:00	**Poland**	**Corporate sector wages (% YoY)**	**Apr**	**12,4**	**12,5**	**12,6**
10:00	**Poland**	**PPI (% YoY)**	**Apr**	**20,0**	**21,0**	**20,4**
10:00	**Poland**	**Industrial production (% YoY)**	**Apr**	**17,3**	**17,8**	**16,2**
16:00	Eurozone	Consumer Confidence Index (pts)	May	-22,0		-21,5

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

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