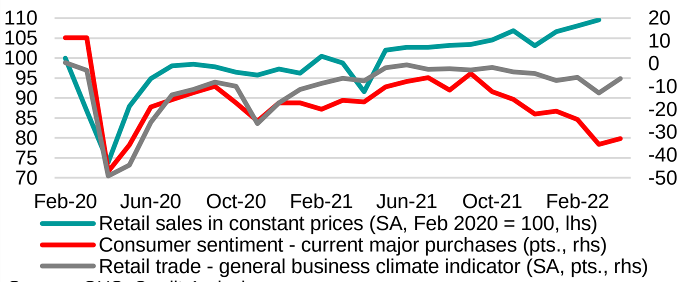
This week

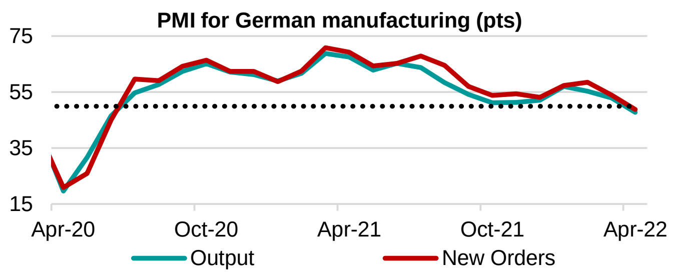
- **This week's most important event will be the publication of Poland's retail sales data scheduled for today.** We expect nominal retail sales to have increased by 37.4% YoY in April compared with a 22.0% growth in March. Among other factors, higher sales were spurred by the influx of refugees from Ukraine, which was a strong driver of consumer demand, a trend reflected in the card transaction data of our bank's customers. Moreover, April saw an improvement in consumer sentiment and the general business climate in retail trade (see the chart). Nominal sales growth was also supported by rapidly rising commodity prices. Our forecast is well above the market consensus (30.6%), and thus its materialisation will be slightly positive for the PLN and yields on Polish bonds.



Source: GUS, Credit Agricole

- **Another major event this week will be the publication of Minutes from the March FOMC meeting scheduled for Wednesday.** 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. An important part of the Minutes will thus 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.

- **On Tuesday, preliminary results of economic surveys in major European economies will be published.** We expect that in May the aggregate PMI in the Eurozone contracted to 55.0 pts, down from 55.8 pts in December, with the activity rate being slowed down by the continuation of the war in Ukraine. Sanctions against Russia as well as military action in Ukraine added to uncertainty, exacerbated disruptions in supply chains and curbed the growth of new orders. Investors also expect the PMI for German manufacturing to decline even further (to 54.0 pts in May from 54.6 pts in April). Today, the Ifo index, which reflects the sentiment of German businesses in the manufacturing, construction, trade, and services sectors, will be published. According to the consensus, the index value did not change significantly (91.4 pts in May vs. 91.8 pts in April). We believe that the publication of the index will be neutral for the financial markets.



Source: Markit, Credit Agricole

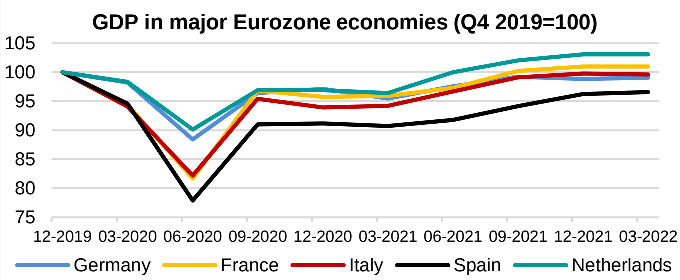
- **This week, important data from the US will be published.** The release of the second GDP estimate for Q1 is scheduled for Thursday. We expect the annualised GDP change to be revised slightly upwards to -1.3% compared with -1.4% in the flash reading, primarily reflecting increased contribution from consumption. We believe that PCE inflation decreased to 6.3% in April, down from 6.6% in March, with core inflation falling to 5.0% from 5.2% in March. We forecast that preliminary orders for durable goods expanded in April by 0.8% MoM, down from a 1.1% increase in March on the back of lower orders in the transport industry. We expect that the final University of Michigan index (59.1 pts in May vs. 65.2pts in April) will show deterioration in household sentiment amid persistently high inflation. In our view, the US data releases should not have a major impact on the financial markets.

Last week

- **In line with the GUS flash estimate, GDP growth increased to 8.5% YoY in Q1, up from 7.6% YoY in Q4 2021, running above the market consensus (8.3%) and our forecast (8.1%).** In our opinion, GDP growth accelerated on the back of higher contributions from net exports (effect of faster export growth relative to Q4 with stabilisation of import growth) and consumption (effect of increased expenses related to the influx of refugees from Ukraine, release of pent-up household demand, tax changes introduced by the Polish Deal and last year's low base related to the impact of restrictions). We estimate that in Q1 the contribution of the increase in inventories to GDP, related mainly to the continued build-up of buffer inventories by businesses, remained significant, although its level decreased compared to Q4. We also estimate that the contribution of investments to economic growth in Q1 contracted on the back of slower growth in corporate investments and a deepening decline in household housing investments due to rising interest rates (see MACROpulse of 17/05/2022). Seasonally-adjusted quarterly GDP growth climbed to 2.4% in Q1 relative to 1.8% in Q4, showing that economic growth has accelerated. The annual seasonally-adjusted GDP growth in Q1 (9.1%YoY) was significantly higher than the growth expected in the NBP's March projection (6.8%). This strongly supports our scenario anticipating that the MPC will continue to tighten the monetary policy in the coming months and that the reference rate hike cycle will end in Q3 at 7.0%.
- **Industrial production expanded by 13.0% YoY in April compared with a gain of 17.3% in March, running below market expectations (17.8%) and our forecast (16.2%).** Adjusted for seasonal factors, industrial production contracted by 0.4% MoM in April (first drop on a MoM basis since December 2021). The main factor contributing to the slowdown in overall production growth between March and April (by 3.4 pp) was the unexpected deceleration in the "Electricity, gas and water production and supply" category from 77.4% YoY in March to 29.5% in April. We believe that strong fluctuations in this category may be related to the GUS' difficulties with estimating the deflator (i.e. change in prices) in the current environment of soaring energy prices (see MACROpulse of 20/05/2022). Data on industrial production are the first signal of the slowdown in Poland's GDP in Q2 (to 3.1% YoY from 8.5% in Q1) that we anticipate.
- **The nominal wage growth rate in the Polish enterprises sector increased to 14.1% YoY (strongest growth since April 2000) from 12.4% in March, running well above our forecast (12.5%) and the market consensus (12.6%).** The wage rises in April had a very broad scope. An increase in the annual growth rate of nominal wages between March and April was observed in 11 out of 15 sectors listed in the GUS press release. Moreover, for the third month running, 'wage rises' were explicitly named in the GUS press release as the driver of the wage growth, confirming that mounting wage pressure was a key factor contributing to the acceleration of wage growth in the enterprise sector (see MACROpulse of 20/05/2022). April wage growth data signal an upside risk to our wage growth forecast for the entire economy in 2022 (9.6%). Employment in the enterprise sector expanded to 2.8% YoY in April, up from 2.4% in March, outperforming the consensus estimate of 2.7%, which was consistent with our forecast. In monthly terms, employment grew by 11.7k. The robust employment growth was partly attributable to the influx of refugees from Ukraine to Poland. The acceleration in employment and real wage growth in the enterprise sector contributed to an increase in the real growth rate of the wage fund in the enterprise sector (product of employment and average wages after adjustments made to account for changes in prices) to 4.4% YoY relative to 3.8% in March. We maintain our forecast anticipating a slight slowdown in consumption in Q2 (to 5.8% YoY from 7.5% in Q1). The main

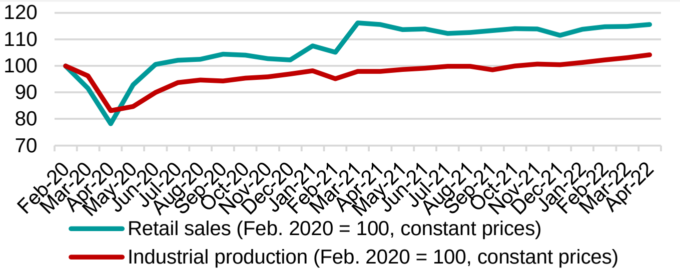
factor driving down the real growth of private consumption will be the further increase in inflation we are expecting.

- **Another flash GDP estimate for the Eurozone was published last week.** Quarterly GDP growth in the single currency area did not change in Q1 relative to Q4 standing at 0.3% (5.1% YoY in Q1 vs. 4.7% in Q4), running above the flash estimate (0.2% QoQ and 5.0% YoY). Consequently, in real terms, the Eurozone GDP for Q1 2022 was 0.5% higher than in Q4 2019, i.e. prior to the pandemic. The factors contributing to stabilised GDP growth in the Eurozone included accelerated GDP growth in, among others, Germany, and slower growth in certain other countries, including France, Italy, Spain and the Netherlands. Due to the war in Ukraine, we see a downside risk to our forecast projecting that GDP in the common currency area will rise by 2.9% and 2.4% in 2022 and 2023, respectively.



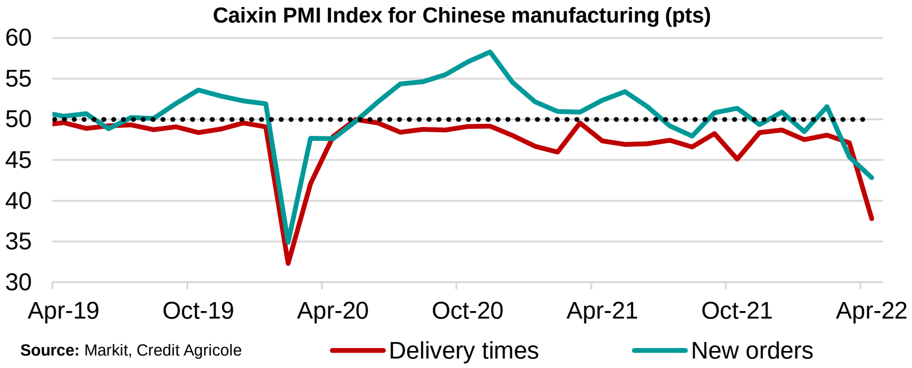
Source: Eurostat, Credit Agricole

- **Last week, vital US data was published.** Industrial production expanded by 1.1% MoM in April, up from 0.9% in March, exceeding market expectations (0.5%). The reading improved due to higher production growth in the supply of utilities, lower growth in mining and stabilisation in manufacturing. Production capacity utilisation climbed to 79.0% relative to 78.2% in March, reaching the highest level since December 2018. Last week also saw the release of data on retail sales showing a decline in its nominal monthly growth rate to 0.9% in April, down from 1.4% in March, consistent with market expectations. Excluding cars, monthly sales growth slipped to 0.6% in April from 2.1% in March with a decline in growth being recorded across most categories. Last week, data on building permits (1,819k in April vs. 1,879k in March), housing starts (1,724k vs. 1,728k) and existing home sales (5.61m vs. 5.75m) was published, showing a slight slowdown in activity on the US real property market. On the other hand, the downturn in manufacturing was signalled by the regional NY Empire State Index (-11.6 pts in May against 24.6pts in April) and the Philadelphia Fed Index (2.6 pts against 17.6 pts). Last week's data from the US economy does not alter our scenario expecting 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 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%].



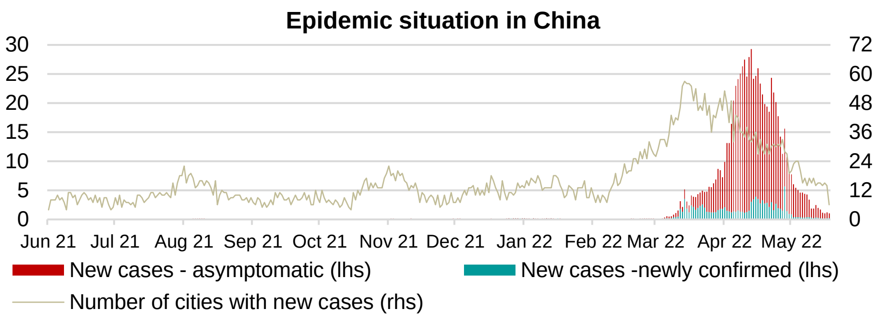
Source: Datastream, Credit Agricole

Chinese economy showing signs of improvement



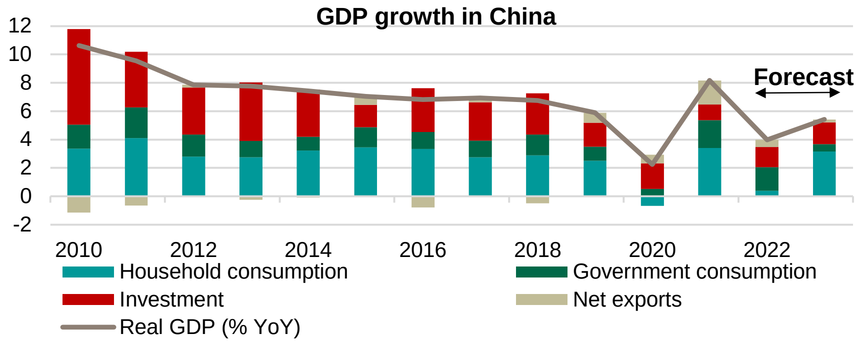
Source: Markit, Credit Agricole

The epidemic situation in China deteriorated significantly in March and April. Due to the "zero COVID" policy pursued by the Chinese government, since March administrative restrictions have been extended to over 50 cities that are key to Chinese industry and trade, including Shanghai, accounting in total for around 40% of Chinese GDP. This had a strong, negative impact on economic activity in China, a trend particularly visible in data on retail sales, industrial production and foreign trade (see, among others, MACROmap of 16/05/2022). China's deteriorating epidemic situation also aggravated global supply chain issues (see MACROmap of 09/05/2022). The nature of the Covid shock recorded in March and April in the Chinese economy is both demand-side (reduced demand due to lower mobility) and supply-side (production pauses and broken supply chains). This is well illustrated by the results of economic surveys in Chinese manufacturing, which showed both a decline in orders and longer delivery times.



Source: CEIC, Wind, Crédit Agricole CIB

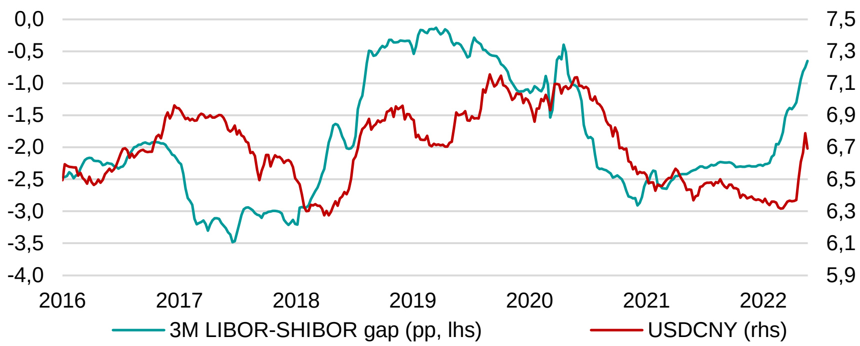
However, recent weeks saw an improvement in China's epidemic situation, accompanied by a gradual easing of administrative restrictions and ongoing increase in economic activity. Such an assessment is supported by data on the growing mobility of the Chinese population (including data on traffic and transport), which is slowly returning to levels observed before the introduction of the restrictions. In our scenario, we assume that this trend will continue in the coming weeks, supporting recovery of economic activity in China. However, the pace of restriction easing will be limited by the aforementioned "zero COVID" policy pursued by the Chinese government. In our opinion, the policy will remain in place at least until late October/early November, i.e. until the 20th Congress of the Chinese Communist Party. We believe that the congress may decide to gradually move away from this policy in order to reduce the economic costs of the pandemic, supported by the progress of the Chinese pharmaceutical industry in developing COVID-19 drugs and mRNA vaccines and rising population vaccination rates.



Source: CEIC, Crédit Agricole CIB

The improvement in the epidemic situation in China supports our economic growth scenario for that country. In our scenario, we assume that Chinese economic growth will slow down in Q2 to 1.5% YoY, down from 4.8% in Q1. Then, as the epidemic situation improves, it will accelerate to reach 4.5% and 5.0% in Q3 and Q4, respectively. Consequently, throughout 2022, GDP growth will slip to 4.0% as compared to 8.1% in 2021, and in 2023 will amount to 5.5%. Thus, we believe that the target for China's economic growth in 2022, set at around 5.5%, will be challenging even given the Chinese government's active economic policy.

As regards China's monetary policy, we believe the People's Bank of China will maintain its dovish stance focused on supporting new lending. Last week, the People's Bank of China also decided to cut the 5Y LPR rate (the benchmark for mortgage loans) by 15bp due to plummeting housing demand in the domestic market. In the coming months, we forecast a further monetary easing (by the end of 2022, we expect a reduction of the 1Y LPR – Loan Prime Rate, i.e. the 1-year interest rate for short-term loans granted to customers with the highest rating, by 10bp and a reduction in the mandatory reserve rate by 25-50bps). It is also worth noting that China's monetary policy is more sectoral in nature, meaning that it involves more relaxation in areas of the economy that are strategic for China's economic policy (e.g. manufacturing, transport, energy, environmental protection, agriculture, construction apartments for rent, urban and industrial infrastructure, digitisation). As far as the fiscal policy goes, we also expect an acceleration in infrastructure investments, tax breaks for sectors hit by the pandemic, and local subsidies for households. With regard to the real property market, we anticipate continued efforts designed to support demand for properties for own housing purposes (including preferential financing for people buying their first apartment or reduction of down payment), as well as assistance for developers in terms of access to financing, as well as debt restructuring and consolidation. The goal of the calibration of monetary, macroprudential and fiscal policies in the real estate market is to, on the one hand, prevent a debt crisis in this sector caused by strong speculative demand in previous years and, on the other hand, to facilitate purchases/rental of properties for households' own housing purposes.

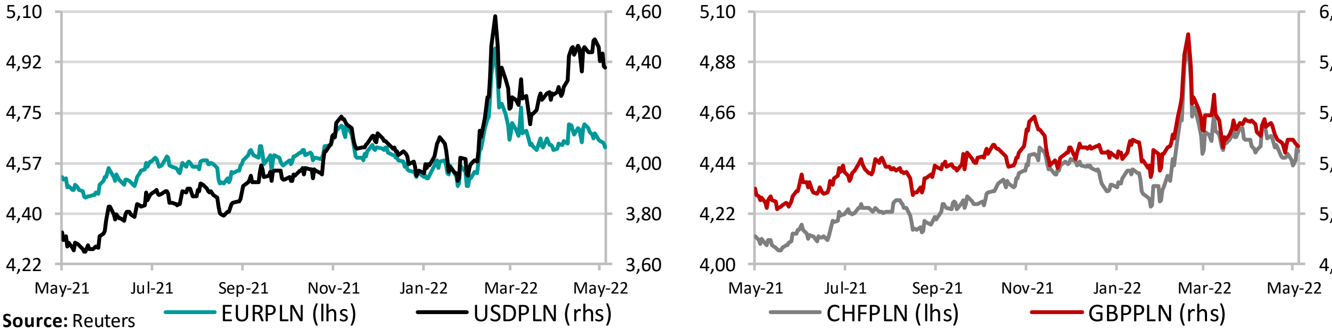


Source: Bloomberg, Crédit Agricole CIB

Due to divergent directions of monetary policy in China and the USA, the interest rate disparity between China and the USA is growing. This is a factor influencing the outflow of capital from China to the US, which limits the room for a decline in the USDCNY rate as the epidemic situation in China improves. As a consequence, we forecast that at the end of 2022 the USDCNY exchange rate will stand at 6.70 to fall to 6.50 at the end of 2023. The decline in the USDCNY rate in 2023 will be supported by the improvement of China's economic growth outlook. Considering the strengthening of the PLN against the USD that we expect, this means that at the end of 2022 the PLNCNY rate will stand at 1.66, to climb to 1.70 at the end of 2023.

Domestic retail sales data may strengthen PLN

FX rates



Source: Reuters

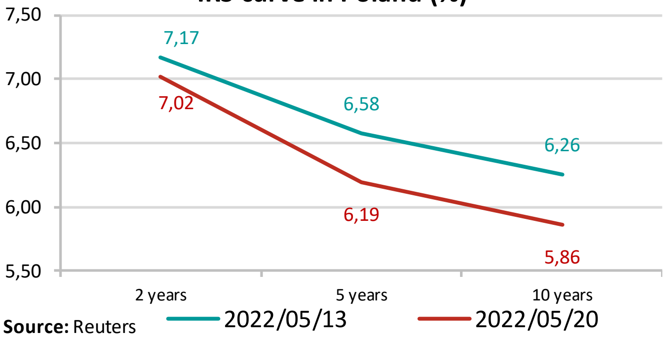
Last week, the EURPLN exchange rate fell to 4.6285 (appreciation of the PLN by 1.1%). For several weeks the EURPLN rate followed a slightly downward trend. The appreciation of the PLN is supported by lower risk aversion. The lack of any substantial news pointing to Russia's progress in the war in Ukraine is a factor supporting reduced uncertainty on the market. The publication of higher-than-expected GDP data had no significant impact on the PLN exchange rate.

Diminished risk aversion, caused by Russia's failure to achieve major progress in the war in Ukraine, was conducive to the USD's depreciation against the EUR last week. We believe, however, that the room for further increases of the EURUSD rate is limited by the prospects of a more aggressive monetary policy tightening in the US (see MACROmap of 16/05/2022).

This week, the key factor for the PLN will be today's publication of domestic retail sales data, which may contribute to its strengthening. On the other hand, the publication of the Minutes scheduled for Wednesday may add to the volatility of the PLN. In our view, the remaining data from the Polish and global economy 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.

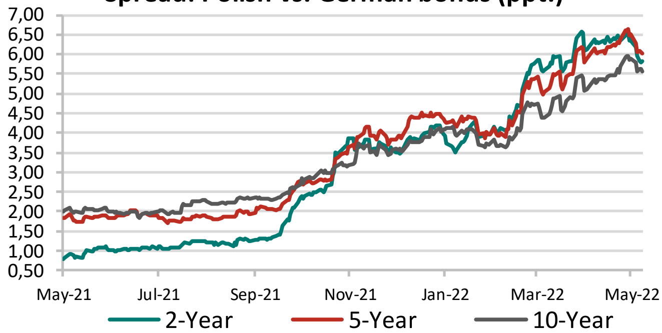
Publication of FOMC Minutes may add to IRS volatility

IRS curve in Poland (%)



Source: Reuters

Spread: Polish vs. German bonds (ppt.)



Last week, 2-year IRS rates dropped to 7.02 (down by 17bp), 5-year to 6.19 (down by 39bp), and 10-year to 5.86 (down by 40bp). The previous week saw a decline of IRS rates along the entire length of the curve, following the core markets, marking a correction after the trend seen in the 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. Consequently, a particularly sharp fall of IRS rates was recorded at the long end of the curve.

This week, investors will focus on today’s publication of domestic retail sales data, which may support a rise in IRS rates. On the other hand, the publication of the Minutes scheduled for Wednesday may add to the volatility of the IRS rates. We believe that the remaining data from the Polish and global economy will be neutral for IRS rates. At the same time, they 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	13,0	
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	23,3	
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	14,1	
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	2,8	
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	8,5	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	-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 05/23/2022				
10:00	**Poland**	**Retail sales (% YoY)**	**Apr**	**22,0**	**37,4**	**30,6**
10:00	Germany	Ifo business climate (pts)	May	91,8		91,4
		Tuesday 05/24/2022				
9:30	Germany	Flash Manufacturing PMI (pts)	May	54,6		54,0
10:00	Eurozone	Flash Services PMI (pts)	May	57,7		57,5
10:00	Eurozone	Flash Manufacturing PMI (pts)	May	55,5		54,9
10:00	Eurozone	Flash Composite PMI (pts)	May	55,8		55,3
14:00	**Poland**	**M3 money supply (% YoY)**	**Apr**	**7,9**	**8,4**	**8,6**
15:45	USA	Flash Manufacturing PMI (pts)	May	59,2		57,9
16:00	USA	Richmond Fed Index	May	14,0		
16:00	USA	New home sales (k)	Apr	763	745	750
		Wednesday 05/25/2022				
8:00	Germany	Final GDP (% QoQ)	Q1	0,2	0,2	0,2
10:00	**Poland**	**Registered unemplyment rate (%)**	**Apr**	**5,4**	**5,2**	**5,3**
14:30	USA	Durable goods orders (% MoM)	Apr	1,1	0,8	0,6
20:00	USA	FOMC Minutes	May			
		Thursday 05/26/2022				
14:30	USA	Initial jobless claims (k)	w/e	218		
14:30	USA	Second estimate of GDP (% YoY)	Q1	-1,4	-1,3	-1,4
		Friday 05/27/2022				
10:00	Eurozone	M3 money supply (% MoM)	Apr	6,3		6,3
14:30	USA	Real private consumption (% MoM)	Apr	0,2		
14:30	USA	PCE Inflation (% YoY)	Apr	6,6	6,3	
14:30	USA	PCE core inflation (% YoY)	Apr	5,2	5,0	4,9
16:00	USA	Final U. of Michigan Sentiment Index (pts)	May	59,1	59,1	59,1

*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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