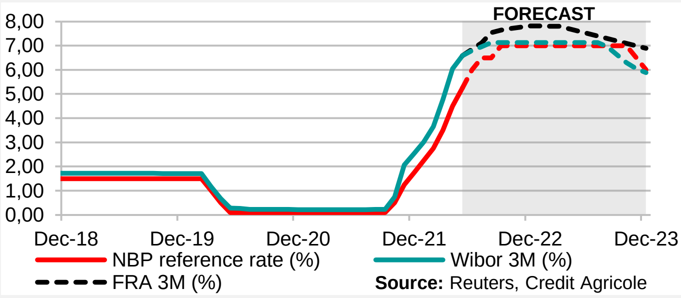
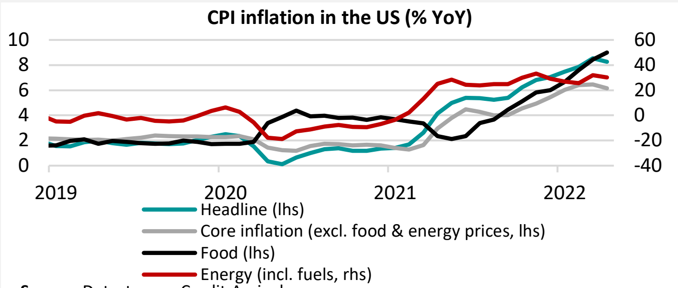
This week

- **The key event this week will be the MPC meeting planned for Wednesday.** We expect the MPC to raise interest rates by 75bp, to 6.00%. This scenario is supported by higher-than-expected inflation readings in May (see below). At the same time, we believe that weaker real economy figures seen in recent weeks will be an argument against a stronger monetary policy tightening. The 75pb interest rate hike will be in line with market consensus, and thus it should be neutral for the PLN and yields on Polish bonds. This week will probably also see the NBP President's usual press conference, which will shed more light on Poland's monetary policy prospects.



Source: Reuters, Credit Agricole

- **Another important event this week will be the ECB meeting planned for Thursday.** We expect the ECB to keep interest rates in the Eurozone unchanged. We expect the conference after the meeting to add to volatility in financial markets. Of key importance will be information relevant to the pace of monetary policy tightening in the coming months. We believe that Ch. Lagarde will point to the war in Ukraine as a major uncertainty factor and an argument for delaying decisions regarding changes to monetary policy. In the ECB's macroeconomic projection to be released this week, the inflation path will be revised up, and the expected economic growth will be revised down. The March projection did not take into account the impacts of the war in Ukraine on macroeconomic prospects in the Eurozone. We maintain our scenario of the ECB ending its Asset Purchase Programme (APP) altogether in late June / early July. We believe that the deposit rate will be raised by 25bp, to -0.25% in July.
- **Some important data from the US will be released this week.** We expect headline inflation to have risen to 8.4% YoY in May from 8.3% in February, driven by soaring prices of food, fuels and other energy products. Results of business surveys from the US will also be released. A preliminary reading of the University of Michigan index will be released on Friday. We expect the index to stabilize (58.5 pts in June vs. 58.4 pts in May). High inflation continues to be the main factor adversely impacting sentiment. Our US inflation forecast is above market consensus (8.2% YoY), thus, its materialization would be slightly negative for the PLN and yields on Polish bonds.



Source: Datastream, Credit Agricole

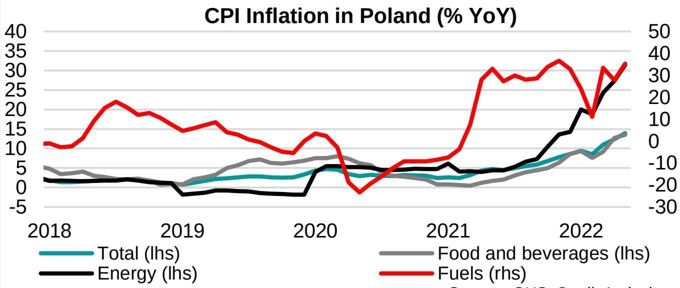
- **China's foreign trade figures will be released on Thursday.** In accordance with consensus, China's trade balance grew to USD 57.8bn in May from USD 51.1bn in April. These figures will be of key importance in the context of an assessment of the impacts of the epidemic situation in China on disruptions in global supply chains. We believe that the data from China will be neutral for financial markets.

Last week

- **Poland's GDP growth picked up to 8.5% YoY in Q1 from 7.6% YoY in Q4, in line with the earlier flash estimate.** Seasonally adjusted quarterly GDP growth rose to 2.5% in Q1 from 1.8% in Q4,, which shows that GDP growth is picking up. The single driver of the GDP growth acceleration was change in inventories. In our opinion, the strong growth in inventories seen in Q1 was, just like in H2 2021, to a large extent accounted for by buffer inventories that businesses continued to build up due to soaring input prices and the need to ensure business continuity amid supply chain disruptions caused by the war in Ukraine and a surge in COVID-19 cases in in China (see MACROpulse of 31/05/2022). Lower contributions of net exports, consumption, and investments had opposite effects. Last week's data support our path of GDP growth in Poland that reflects our expectation of GDP growth slowing to 4.1% 2022 from 5.9% in 2021, and to 3.3% in 2023 (see below).

- **Poland's manufacturing PMI fell to 48.5 pts in May from 52.4 pts in April, running markedly below market consensus and our forecast (52.0 pts).** Thus, the index dropped below the 50-point mark that separates growth from contraction for the first time since June 2020. The drop in the index was accounted for by lower contributions of all five of its components (current output, new orders, delivery times, inventories, and employment). What is particularly worth noting about the data is a slower pace of growth in inventories, which is a reversal of the trend seen in recent months. May also saw an accelerated drop in stocks of finished goods. This, combined with the breakdown of Poland's GDP data for Q1 (see below), indicates that declining inventories will be a factor driving down economic growth in Poland.

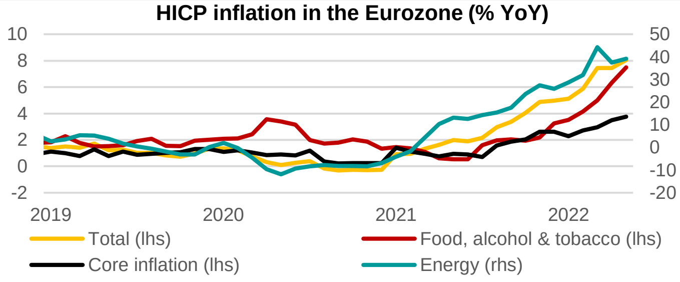
- **According to the flash estimate, CPI inflation in Poland rose to 13.9% YoY in May from 12.4% in April, clearly above the market consensus (13.5%) and our forecast (13.7%).** At the same time, this is the highest level of inflation since March 1998. GUS published partial data on the structure of inflation, including information on the price growth rate in the categories of 'food and non-alcoholic beverages', 'energy' and 'fuels'. The increase in inflation was driven by higher rises in the prices of food and non-alcoholic beverages (13.5% YoY in May vs. 12.7% in April), energy (31.4% vs. 27.3%) and fuels (35.4% vs. 27.8%), as well as higher core inflation, which we estimate to be at 8.5% YoY in May vs. 7.7% in April. According to our revised scenario, CPI inflation in Poland will increase to 13.3% in 2022, up from 5.1% in 2021, and will settle at 8.1% in 2023 (see below).



Source: GUS, Credit Agricole

- **Last week brought important data from the US economy.** Non-farm payroll employment increased by 390k in May compared to an increase of 436k in April (upward revision from 428k) and was above market expectations (320k) and our forecast (300k). The strongest employment growth was recorded in tourism and recreation (+84.0k), business services (+75.0k) and education and health services (+74.0k). The unemployment rate did not change in May compared to April and stood at 3.6%, above market expectations (3.5%). At the same time, the activity rate increased in May to 62.3% compared to 62.2% in April, and is now close to the levels observed before the outbreak of the pandemic (around 63.3%). Last week we also saw the number of applications for unemployment benefits fall to 200k from 211k two weeks ago, below market expectations (200k). In turn, the number of continued applications remained unchanged at 1.3m. It is worth noting that these figures are lower than those recorded immediately before the outbreak of the pandemic. Last week's data suggests then that the situation on the US labour market is becoming increasingly tense, which contributes to increasing wage pressure. Last week we also saw the results of business surveys. The ISM index for manufacturing rose to 56.1 pts in May from 55.4 pts in April and was above market expectations (54.5 pts). The increase in the index was due to higher contributions from 3 of its 5 components (for stocks, output, new orders), while the opposite effect was due to lower contributions from the components for delivery times and employment. Although the rate of increase in the prices of intermediate goods used in production decelerated slightly in May, it remains high by historical levels. This structure of data indicates, in our view, a persistent problem of supply constraints, although its severity should diminish in the coming months as the epidemic situation in China improves and logistical bottlenecks in the country ease. On the other hand, ISM index for services fell to 55.9 pts in May from 57.1 pts in April, below market expectations (56.4 pts). It is worth noting in the structure of the data, as in the case of the ISM index for manufacturing, a slower pace of growth in the prices of intermediate goods. In turn, the Conference Board index pointed to a worsening in consumer sentiment, dropping to 106.4 pts from 108.6 pts. Its decline was due to a drop in its components for both the assessment of the current situation and expectations. A negative factor for the sentiment of American consumers remains the persistently high inflation in the US. Taking into account Q1 GDP data (see MACROmap of 30.05.2022), we can see downside risks to our scenario, according to which US GDP will grow by 2.7% in 2022 vs. a 5.7% growth in 2021.

- **According to the preliminary estimate, inflation in the Eurozone rose to 8.1% YoY in May from 7.5% in April, above the market consensus (7.7%) and our forecast (7.9%).** Hence, inflation in the Eurozone reached a new all-time high. The rise in inflation was driven by higher price dynamics in all its categories: "food", "services", "energy " and "industrial goods", as well as a rise in core inflation (3.8% YoY in May against 3.5% in April - a new record). The data provides support for our upwardly revised scenario of 7.7% YoY inflation in the Eurozone for the whole of 2022, compared to 2.6% in 2021, before falling to 4.6% in 2023.



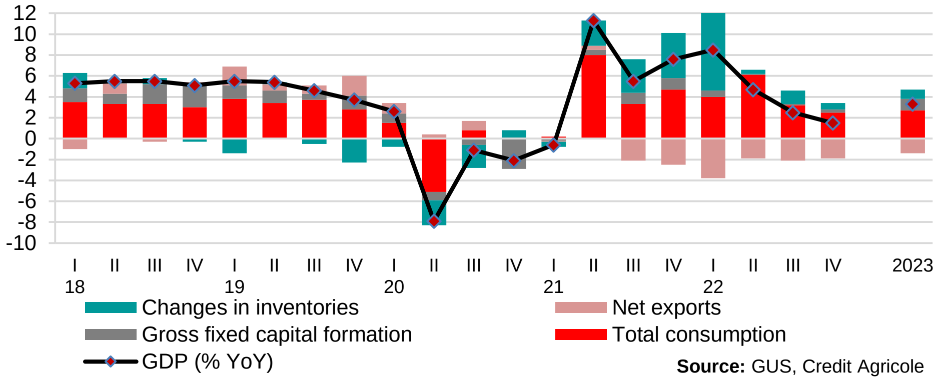
Source: Datastream, Credit Agricole

- **Last week saw the results of the Chinese manufacturing survey.** The Caixin PMI rose to 49.6 pts in May from 47.4 pts in April, above market expectations (49.1 pts). The increase in the index resulted from higher contributions from 3 of its 5 components (for output, new orders and stocks), while the opposite effect was driven by lower contributions from the components for delivery times and employment. The structure of the data (a slower increase in delivery times and a significantly smaller decline in output and new orders than a month ago) indicates that the source of a better situation in Chinese manufacturing is the improving epidemic situation in China and the related gradual lifting of administrative restrictions (see MACROmap of 23.05.2022). Last week, an improvement in Chinese manufacturing was also indicated by the CFLP PMI, which rose to 49.6 pts in May from 47.4 pts in April. We forecast that China's GDP growth will slow down to 4.0% in 2022 as a whole, compared to 8.1% in 2021, and in 2023 it will be 5.5% (see MACROmap of 23.05.2022). Consequently, we are of the opinion that China's growth target for 2022, which has been set at around 5.5%, will be difficult to achieve even under the active economic policies pursued by the Chinese government.

Forecasts for 2022-2023

Below we present our macroeconomic scenario, which takes into account recent data on the real economy and trends indicated by business surveys (see table on page 8). Our projections for average annual economic growth in 2022 and 2023 remain unchanged at 4.1% YoY and 3.3%, respectively. They still point to a "soft landing" scenario for the Polish economy.

However, the structure of economic growth we have forecast has changed. First of all, we have revised downwards our forecast for gross fixed capital formation. Available data on corporate investment activity indicates that real investment dynamics of companies employing at least 50 persons slowed down in Q1 to a level close to zero. We are of the opinion that total investment growth will remain at a reduced level in subsequent quarters. Such a scenario is supported by a clear deterioration in business sentiment indicators reflecting the readiness of companies to carry out new investment projects, as well as an increase in interest rates contributing to a further decline in residential investment. An important factor supporting public fixed capital expenditure and GDP growth will be the implementation of investment projects under the EU reconstruction fund. Nevertheless, our previous forecasts have assumed that the National Recovery Plan (NRP) will finally be launched in H2 this year, and thus its approval last week by the European Commission does not change the outlook for economic growth in a material way. In our view, the National Recovery Plan will have a significant contribution to accelerating public investment only in H2 2023 and 2024.



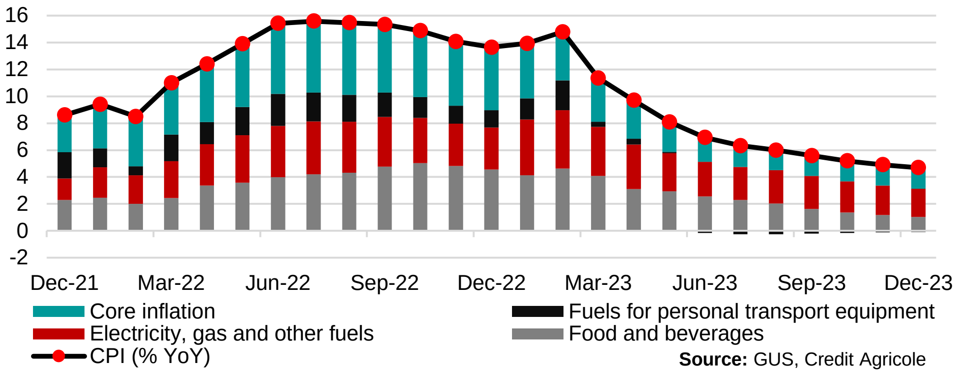
Source: GUS, Credit Agricole

The April retail sales data and our internal data on customer card transactions have led us to significantly raise our private consumption forecast for Q2, which will partially offset the negative impact of the lowered investment path on economic growth. We expect real consumption to grow by 10% YoY in Q2 vs. 6.6% growth in Q1. In our opinion, an increased demand associated with the influx of refugees from Ukraine to Poland remains an important positive factor for private consumption growth. A negative factor for consumption will be the continued strong increase in inflation, which reduces buying power of households and leads to deterioration in consumer sentiment. Hence, our forecast for consumption growth in the coming quarters has not changed significantly and still points to a gradual slowdown.

We expect that the high contribution of stocks growth to GDP dynamics observed in Q1 (7.7 pp) will not be sustained in the following quarters, which will result in a clear slowdown in GDP growth. Nevertheless, given the significant scale of investments in warehouse space (see MACROmap of 21.02.2022), we are of the opinion that the contribution of stocks to GDP growth will remain above zero. Moreover, given the weak manufacturing situation in Poland's main trading partners (see MACROmap of 30.05.2022), we have slightly lowered our export forecast for the subsequent quarters. However, we maintain our assessment that, as the bottlenecks in Polish and global manufacturing gradually ease, we will observe an upturn in exports.

We have also revised our inflation forecast. We expect it to reach 13.3% YoY this year and 8.1% in 2023 (previously 12.4% and 7.4%, respectively). We believe that core inflation will be at a higher level than previously assumed (largely due to its higher-than-expected reading in May). A good situation in the labour market and the rapid growth of inflation contribute to increasing wage pressures and will drive core inflation higher in the coming months. In our view, it will reach a local peak of 9.5% YoY in August, after which it will gradually decrease. Nevertheless, it will not fall below the 7% YoY mark until early 2023. Our forecast for fuel price dynamics has also been raised due to the introduction of an embargo on Russian oil imports by EU countries. Moreover, due to the ongoing shortages in coal yards, we will see a further increase in coal prices in the coming months, which will drive up the price dynamics of energy. We maintain our assessment that we will see a significant increase in household tariffs for electricity and gas supply at the beginning of 2023, which will limit the decline in the annual dynamics of energy prices over a horizon of several quarters.

Forecasts for 2022-2023



Source: GUS, Credit Agricole

We have revised the price path of food and non-alcoholic beverages. We now expect price dynamics in this category to increase to 14.3% in 2022 compared to 3.2% in 2021, and to decline to 9.7% in 2023 (15.0% YoY and 9.5% before the revision, respectively). At the same time, we maintain our assessment that food and non-alcoholic beverages price dynamics will reach its local peak in Q4 at around 18% YoY. The main reasons for the revision of our forecast are a lower-than-expected increase in food and non-alcoholic beverages prices in May, as well as an improvement of the agro-meteorological situation in Poland recorded in recent weeks.

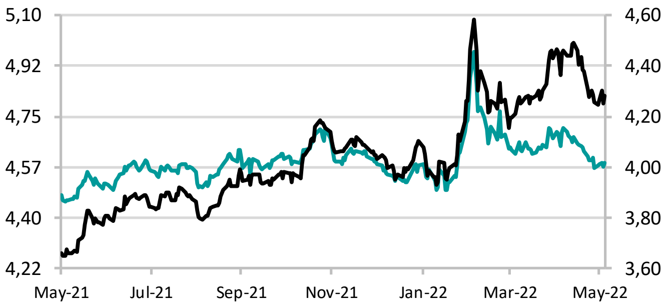
We forecast that the peak in inflation will be reached in July this year at 15.6%. It should be noted that the further course of these indicators is characterised by increased uncertainty. In our scenario, we have assumed that the duration of the Anti-Inflation Shield would be extended until the end of 2023. If the shield were to be ended earlier (in August this year or in January 2023), then according to our estimates, inflation would exceed 17% in the summer of 2022 and would be around 10% on average in 2023. We are of the opinion that the government will want to avoid the materialisation of such a scenario given the parliamentary elections scheduled for 2023.

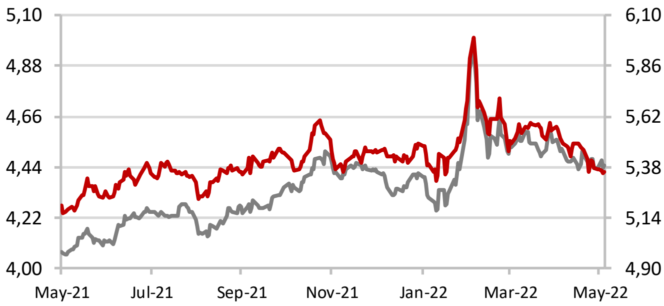
We maintain our monetary policy scenario. We expect the MPC to increase rates by 75bp in June and by 50bp each at the two following meetings, thus ending the monetary policy tightening cycle. The reference rate will therefore be 7.00% in Q3 this year. In Q3, inflation will already start to decline and at the same time the slowdown in economic growth will become more pronounced, which will be an important argument for the MPC against further increases.

The European Commission's approval of the NRP and the reduced intensity of military operations by Russian forces in Ukraine have already been partially discounted by the markets, which has led to a strengthening of the PLN exchange rate in recent weeks. We have therefore lowered our forecast for the EURPLN exchange rate. We expect it to reach 4.56 at the end of June. We forecast that the EURPLN exchange rate will be 4.47 at the end of this year and 4.40 at the end of 2023. The appreciation of the zloty will be limited by the monetary policy tightening expected by the Fed and the ECB.

US inflation data may weaken zloty

FX rates





Source: Reuters

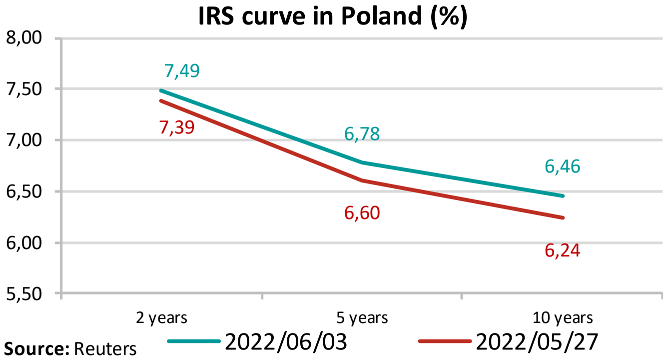
Last week the EURPLN exchange rate rose to 4.5891 (the zloty weakened by 0.4%). Last week the EURPLN exchange rate was characterised by low volatility compared to recent weeks and fluctuated around the level of 4.58. However, the progressing desynchronisation of the EURPLN and EURHUF exchange rates, which was further exacerbated by the European Commission's decision to approve Poland's National Recovery Plan, deserves special attention. Based on this, we are of the opinion that while in previous years the zloty and the forint were currencies included by investors in the same currency basket, currently the forint is treated as a riskier currency due to Hungary's growing conflict with the EU and the European Commission's activation of the conditionality mechanism in the EU budget in relation to this country. Another negative factor for the forint is the new sectoral tax on so-called extraordinary profits, introduced by the Hungarian government, covering, among others, banks, insurance companies, retail chains and energy companies.

Last week saw a halt to the upward trend in the EURUSD exchange rate over the past three weeks. This is consistent with our assessment that the room for a significant increase in the EURUSD exchange rate is limited due to the perspective of stronger monetary policy tightening in the US than in the Eurozone (see MACROmap of 16.05.2022).

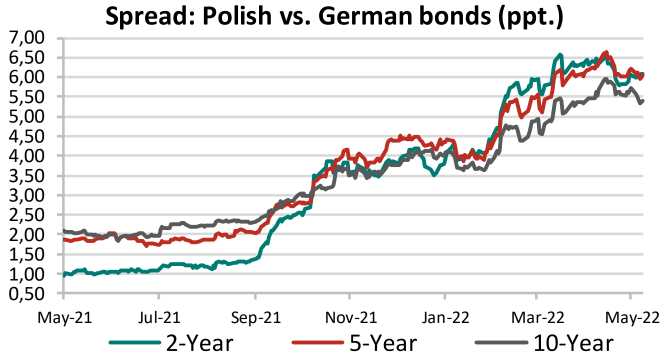
This week, the publication of data on inflation in the US, which in the case of materialisation of our higher-than-market consensus forecast may contribute to its weakening, will be of key importance for the Polish currency. On the other hand, the ECB meeting may affect the zloty in the direction of increased volatility. The MPC meeting as well as other data from the Polish and global economies will not, in our opinion, have a significant impact on the zloty exchange rate. At the same time, the war in Ukraine and the related elevated risk aversion in the region will remain an important factor determining the exchange rate of the Polish currency.

ECB meeting in the spotlight

IRS curve in Poland (%)



Spread: Polish vs. German bonds (ppt.)



Source: Reuters

Last week, 2-year IRS rates rose to 7.49 (up by 10bp), 5-year rates rose to 6.78 (up by 18bp) and 10-year rates rose to 6.46 (up by 22bp). Last week saw an increase in IRS rates across the curve following the underlying markets. The rise in yields in underlying markets is supported by intensifying expectations of interest rate hikes by major central banks amid persistently strong inflation growth. One of the factors contributing to the intensification of these expectations was the publication of preliminary inflation data in the Eurozone, which were higher than the market consensus. Locally, a positive factor for IRS rates was domestic preliminary inflation data, which also turned out to be higher than market expectations.

The ECB meeting will be in the spotlight of investors' attention this week, which may foster increased volatility in IRS rates. On the other hand, the publication of US inflation data may contribute to IRS rate increases, particularly at the short end of the curve. Other data from the Polish and global economies, in our opinion, will be neutral for IRS rates. At the same time, IRS rates will remain under the influence of 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	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	Jun-22
NBP reference rate (%)	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	**6,00**
EURPLN*	4,48	4,52	4,56	4,52	4,60	4,60	4,65	4,58	4,58	4,69	4,64	4,67	4,58	**4,56**
USDPLN*	3,66	3,81	3,84	3,83	3,98	3,98	4,10	4,03	4,08	4,18	4,19	4,43	4,27	**4,30**
CHFPLN*	4,07	4,12	4,24	4,18	4,27	4,35	4,47	4,42	4,40	4,56	4,54	4,55	4,45	**4,38**
CPI inflation (% YoY)	4,7	4,4	5,0	5,5	5,9	6,8	7,8	8,6	9,4	8,5	11,0	12,4	**12,3**	
Core inflation (% YoY)	4,0	3,5	3,7	3,9	4,2	4,5	4,7	5,3	6,1	6,7	6,9	7,7	**7,5**	
Industrial production (% YoY)	29,6	18,1	9,6	13,1	8,7	7,6	14,9	16,3	18,0	17,3	15,4	12,9	**18,0**	
PPI inflation (% YoY)	6,6	7,2	8,4	9,6	10,3	12,0	13,6	14,4	16,1	16,1	21,9	23,3	**24,1**	
Retail sales (% YoY)	19,1	13,0	8,9	10,7	11,1	14,4	21,2	16,9	20,0	16,5	22,0	33,4	**30,2**	
Corporate sector wages (% YoY)	10,1	9,8	8,7	9,5	8,7	8,4	9,8	11,2	9,5	11,7	12,4	14,1	**14,4**	
Employment (% YoY)	2,7	2,8	1,8	0,9	0,6	0,5	0,7	0,5	2,3	2,2	2,4	2,8	**2,6**	
Unemployment rate* (%)	6,1	6,0	5,9	5,8	5,6	5,5	5,4	5,4	5,5	5,5	5,4	5,2	**5,0**	
Current account (M EUR)	491	-464	-1017	-527	-1817	-1166	-1077	-2491	-2491	-2491	-2491	**-278**		
Exports (% YoY EUR)	38,3	15,8	9,2	23,9	9,4	8,9	7,4	26,6	26,6	26,6	26,6	**9,0**		
Imports (% YoY EUR)	46,4	29,2	16,3	33,6	22,4	24,2	24,3	35,5	35,5	35,5	35,5	**18,2**		

*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	4,7	2,5	1,5	5,9	4,1	3,3
	Private consumption (% YoY)	-0,2	13,0	4,7	8,0	6,6	10,0	4,6	4,1	6,1	6,3	2,5
	Gross fixed capital formation (% YoY)	-1,3	3,0	6,6	5,2	4,3	0,6	0,8	1,2	3,8	1,5	6,7
	Export - constant prices (% YoY)	7,4	29,8	7,3	6,1	2,0	4,2	5,3	4,5	11,8	4,0	8,5
	Import - constant prices (% YoY)	8,6	33,8	12,5	12,2	8,8	8,0	9,3	8,0	15,9	8,5	11,0
GDP growth contributions	Private consumption (pp)	-0,2	7,2	2,8	3,9	3,9	5,6	2,7	2,0	3,4	3,5	1,4
	Investments (pp)	-0,2	0,5	1,1	1,1	0,6	0,1	0,1	0,3	0,7	0,2	1,1
	Net exports (pp)	-0,1	0,4	-2,1	-2,5	-3,8	-1,9	-2,1	-1,9	-1,2	-2,3	-1,4
	Current account (% of GDP)***	2,8	1,9	0,9	-0,6	-2,2	-1,9	-2,3	-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	2,3	0,8	0,7	0,5	2,1	1,1	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	13,9	15,5	14,2	5,1	13,3	8,1
	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	4,56	4,53	4,47	4,58	4,47	4,40
	USDPLN**	3,95	3,81	3,98	4,03	4,19	4,30	4,19	4,06	4,03	4,06	3,83

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

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST*	
					CA	CONSENSUS**
		Tuesday 06/07/2022				
8:00	Germany	New industrial orders (% MoM)	Apr	-4,7		0,5
10:30	Eurozone	Sentix Index (pts)	Jun	-22,6		-20,0
		Wednesday 06/08/2022				
8:00	Germany	Industrial production (% MoM)	Apr	-3,9		1,0
11:00	Eurozone	Final GDP (% YoY)	Q1	5,1	5,1	5,1
11:00	Eurozone	Revised GDP (% QoQ)	Q1	0,3	0,3	0,3
11:00	Eurozone	Employment (% YoY)	Q1	2,6		2,6
16:00	USA	Wholesale inventories (% MoM)	Apr	2,1		2,1
16:00	USA	Wholesale sales (% MoM)	Apr	1,7		
	Poland	**NBP rate decision (%)**	**Jun**	**5,25**	**6,00**	**6,00**
		Thursday 06/09/2022				
13:45	Eurozone	EBC rate decision (%)	Jun	0,00	0,00	0,00
14:30	USA	Initial jobless claims (k)	w/e	200		
	China	Trade balance (bn USD)	May	51,1		57,8
		Friday 06/10/2022				
3:30	China	PPI (% YoY)	May	8,0		
3:30	China	CPI (% YoY)	May	2,1		
14:00	**Poland**	**MPC Minutes**	**Jun**			
14:30	USA	CPI (% MoM)	May	0,3	0,9	0,7
14:30	USA	Core CPI (% MoM)	May	0,6	0,6	0,5
16:00	USA	Initial U. of Michigan Sentiment Index (pts)	Jun	58,4	58,5	58,1

*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

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

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

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