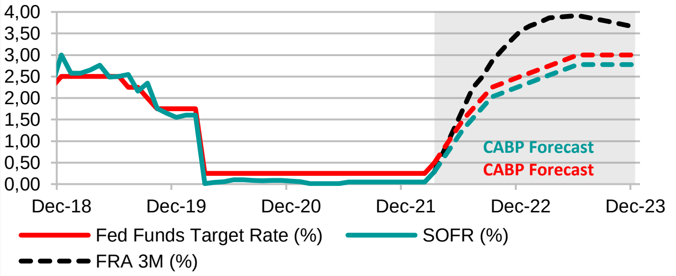
This week

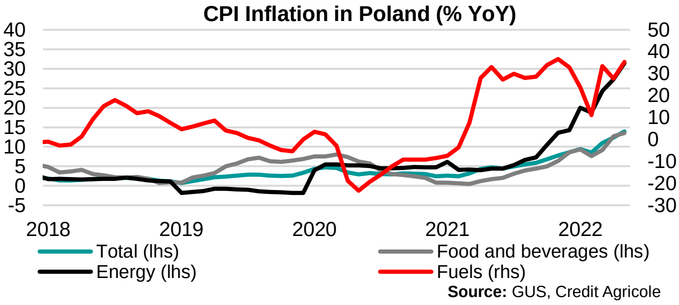
- **The most important event this week will be the FOMC meeting planned for Wednesday.** We expect the Fed to raise interest rates by 50bps, and therefore the federal funds target range will be equal to 1.25% to 1.50%. We expect the tone of the press release and conference after the FOMC meeting to be relatively hawkish. The press release will still contain the so-called forward guidance indicating at the need to continue tightening the monetary policy in further meetings. At the same time, J. Powell will point to the uncertainty concerning the macroeconomic outlook, which makes it more difficult to take the monetary policy decisions. The results of the new macroeconomic projection will be published after the meeting. We expect the inflation path to be revised upwards versus the March projection. The median of FOMC members' expectations presented in the June projection will indicate that the interest rates will be raised to 2.50% at the end of the year, which is consistent with our scenario. We believe that if the inflation remains higher than the Fed expects, the monetary policy tightening may accelerate in H2 2022. Following the Friday publication of above-consensus data on US inflation (see below), the market participants' expectations of a 75-basis-point interest rate hike this week have increased. According to the the futures market pricing, the probability that such a decision will be taken is approx. 23% at the moment, while the probability of a 50-basis-point hike stands at 77%. Therefore, if our scenario of Fed raising the interest rates by 50bps this week materialises, it will be slightly negative for the USD, slightly positive for the PLN, and negative for the yields on Polish bonds.



Source: Reuters, Credit Agricole

- **Hard data on the US real economy and business survey results will be released this week.** We expect the industrial production growth to have dropped to 0.8% MoM in May from 1.1% MoM in April, which will be in line with manufacturing business survey results. We expect the nominal retail sales to have increased by 0.1% MoM in May vs. 0.9% in April due to poorer sales in the automotive industry. We expect the data on housing starts (1,681k in May vs. 1,724k in April) and new construction permits (1,768k vs. 1,823k) to be indicative of the continuing slowdown in the activity on the US property market. We believe that the total impact of data on the US economy on financial markets will be limited.
- **Data from China will be published this Tuesday.** We expect the industrial production growth to have increased to -0.7% YoY in May from -2.9% in April, and the retail sales growth to have increased to -8.0% YoY from -11.1% in April. The slower decline of those indicators year on year will result from the improving epidemiological situation in China and a gradual easing of restrictions aimed at curbing the spread of the COVID-19 pandemic. Furthermore, we expect the pace of the investment growth in urban areas to stabilise at 6.4% YoY in May vs. 6.8% in April. We believe that the publication of data from China will be neutral for the PLN and the prices of Polish debt.
- **Data on Poland's balance of payments for April will be published today.** We expect the current account balance deficit to have decreased to EUR 278m vs. EUR 2,972m in March, primarily as a result of a higher balance on goods. We expect the exports growth rate to have decreased from 16.2% YoY in March to 9.0% in April, with the imports growth rate falling from 34.3% YoY to 18.2% due to last year's high base effects. In our opinion, the data on the balance of payments will be neutral for the PLN and for the yields on Polish bonds.

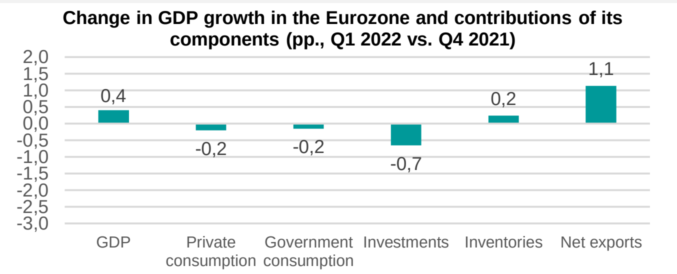
- **Final data on inflation in Poland in May is going to be published on Friday.** We expect the annual inflation to have run in line with the flash estimate at 13.9% YoY vs. 12.4% in April. Inflation was driven up by higher contributions of all of its components (the prices of food, fuel and other energy commodities as well as the core inflation). We believe that the publication of data on inflation will be neutral for the PLN and the yields on Polish bonds.



Source: GUS, Credit Agricole

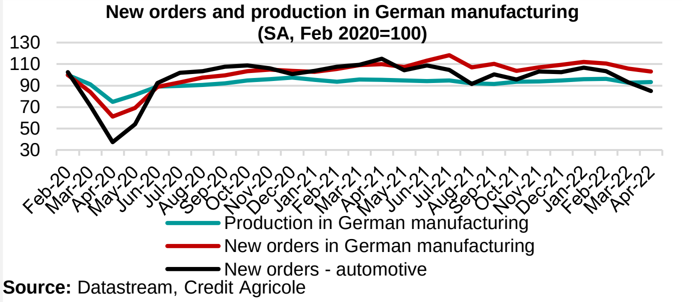
Last week

- **The ECB met last week.** As we had expected, the ECB interest rates were kept unchanged: the deposit rate is -0.50% (see below).
- **Last week, the Monetary Policy Council took a decision to increase the interest rates once again. The NBP reference rate rose from 5.25% to 6.00%.** The 75-basis-point rate hike was consistent with the market consensus and our forecast. In the press release, apart from the supply-side factors that were boosting inflation, the Council also pointed to robust demand enabling the enterprises to pass rising costs on to the final prices. The Council has once again declared that further decisions of the Council will depend on incoming information regarding perspectives for inflation and economic activity, including the impact of the Russian military aggression against Ukraine on the Polish economy (see MACROpulse of 08/06/2022). We believe that the publication of results of the July inflation projection will be an important argument in favour of further interest rate hikes amid the expectations for the price growth path to be revised significantly upwards versus the March scenario. The projection will indicate at a significant inflation target overshooting in a several-quarters horizon. During the press conference after the MPC meeting, the NBP President A. Glapiński said “we are closer to the end rather than the beginning” of the interest rate hikes, and, in his opinion, we can expect the interest rates to be lowered for the first time towards the end of 2023. The press release after the MPC meeting and the NBP President's statements support our scenario of the MPC raising the interest rates by 50 bps at its next two meetings (the reference rate will reach 7.00% in Q3 2022), and the monetary policy tightening cycle will come to an end.
- **In accordance with the final estimate, German GDP increased by 0.6% QoQ in Q1 2022 vs. 0.2% in Q4 2021 (5.4% YoY in Q1 2022 vs. 4.7% in Q4 2021), running markedly above the previous estimate (0.3%).** An increase in stocks was the main GDP growth driver in Q1. This could be indicative of German companies accumulating intermediate goods to maintain production continuity amid the growing problems with supply barriers resulting from the war in Ukraine and COVID-related restrictions in China. Due to the negative impact of the war in Ukraine on German exports to the countries involved in the conflict and the supply chain disruptions caused by the outbreak of war and the deterioration of epidemiological situation in China, we believe there is a downside risk to our forecast for the quarterly GDP growth in Germany, which we thought would fall to 0.4% in Q2.



Source: Datastream, Credit Agricole

- **Last week we learned important data from the German economy.** Industrial production grew by 0.7% MoM in April, compared to a 3.7% fall in March. The increase in industrial production growth was due to higher production growth in manufacturing and energy, while the opposite effect was caused by lower production growth in construction. Growth was also recorded in orders in manufacturing, which increased to -2.7% MoM in April from -4.2% in March, as a result of higher growth of both domestic and export orders. However, it is worth noting that despite the increase in growth, both domestic and foreign orders declined on a monthly basis. In the case of foreign orders, the decline was broadly geographic and was recorded for orders from both the Eurozone and outside the single currency area. On a sectoral basis, there was a further strong decline in orders in the German automotive industry. Last week's data indicated that the war in Ukraine and the sanctions Western countries imposed on Russia, as well as the administrative restrictions in China imposed due to the worsening of the epidemic situation in that country, had affected the continuity of the supply chain in the German industry. At the same time, increased uncertainty has led to weaker domestic demand. In our view the coming months will bring an increase in activity in German industry along with the gradual lifting of administrative restrictions in China (see MACROmap of 23.05.2022). Nonetheless, we see a downside risk to our forecast that GDP in Germany will grow by 2.5% in 2022 vs. 2.9% growth in 2021.

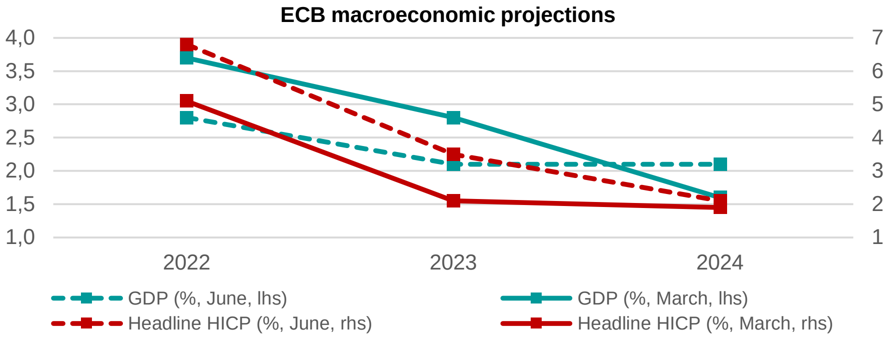


Source: Datastream, Credit Agricole

- **Last week saw the publication of numerous data from the US economy.** CPI inflation rose to 8.6% YoY in May from 8.3% in April, above our forecast (8.4%) and market expectations (8.3%). Hence, after a temporary drop in April, inflation in May reached its highest value since December 1981. The higher inflation was fuelled by higher energy and food prices, while the opposite was true for core inflation (6.0% YoY in May vs. 6.5% in April). Last week we also saw the results of business surveys. The preliminary index of the University of Michigan decreased in June to 50.2 pts from 58.4 pts in May, clearly below market expectations (58.1 pts). This is also the lowest value of the index in history. The data indicates that consumer sentiment in the US, in spite of a good situation on the labour market, remains under a strong negative influence of concerns about further inflation growth, additionally intensified by the outbreak of war in Ukraine. The inflation data provides support for our scenario that the Fed will increase interest rates by 50bp each at its June and July meetings, followed by 25bp rate increases at each of the three remaining meetings. As a consequence, at the end of 2022, the target range for the Federal Reserve's funds rate volatility will be [2.25%; 2.50%]. In 2023, we expect two more increases of 25bp each (in Q1 and Q2). As a consequence, at the end of 2023, the target range for the volatility of the Federal Reserve funds rate will be [2.75%; 3.00%].
- **China's trade balance increased in May to USD 78.8bn vs. USD 51.1bn in April, clearly above market expectations (USD 58.0bn).** At the same time, export growth accelerated to 16.9% YoY in May from 3.9% in April, and import grew to 4.1% from 0.0%. The higher activity in China's foreign trade is a result of the improving epidemic situation in the country, which is reflected in the gradual lifting of administrative restrictions (see MACROmap of 23.05.2022). This is especially visible in the strong growth in export, which indicates that Chinese exporters are now catching up with previous months. 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%. As a result, we are of the opinion, that China's growth target for 2022, which has been set at around 5.5%, will be difficult to be achieved even under the active economic policy pursued by the Chinese government.

ECB starts a cycle of interest rate hikes

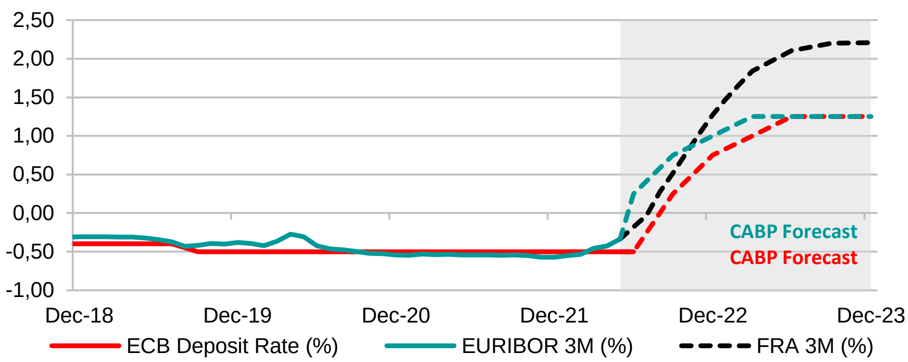
The European Central Bank held its meeting last week. As we expected, ECB interest rates were kept unchanged (the deposit rate is -0.50%). At the same time, the ECB announced the end of its Asset Purchase Programme (APP) on 1 July this year. However, the statement maintained that the ECB intends to continue to reinvest, in full, the principal payments from maturing securities purchased under the APP for a substantial time after it starts raising interest rates. It also reiterated that the ECB intends to reinvest principal payments from maturing securities purchased under the Pandemic Emergency Purchase Programme (PEPP), which ended in March, at least until the end of 2024.



Source: Credit Agricole, ECB

The ECB also published its June macroeconomic projection. In line with our expectations, the inflation path was significantly revised upwards relative to the March projection. It is worth noting that, according to the latest projection, inflation will approach the ECB's inflation target (2%) only in 2024. The GDP path, in turn, has been significantly revised downwards relative to the March projection.

In its statement following the meeting, the ECB set out its assessment that the macroeconomic situation in the Eurozone justified the start of a cycle of interest rate hikes. At the same time, the ECB statement set out the likely path of interest rates in the coming months (forward guidance). According to the statement, the Governing Council intends to raise the key ECB interest rates by 25bp at its meeting in July. The next interest rate increase is planned by the Governing Council for September, with the scale of the increase depending on the "updated medium-term inflation outlook", i.e. the ECB's September macroeconomic projection. The statement notes that "if the medium-term inflation outlook persists or deteriorates, a larger increment will be appropriate at the September meeting”. According to the statement, the Governing Council expects that beyond September “a gradual but sustained path of further increases in interest rates will be appropriate”.



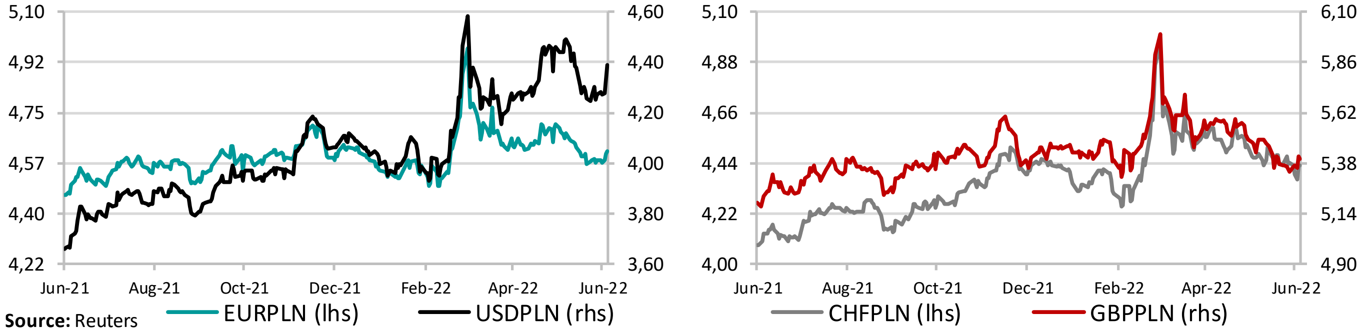
Source: Reuters, Credit Agricole

The ECB's clear shift to a more hawkish rhetoric has prompted us to revise upwards our scenario for interest rates in the Eurozone. We now expect the ECB to increase interest rates by 25bp in July, by 50bp in September (driven by our expectation of another upward revision of the ECB's projected inflation path) and by 25bp in October and December. This means that in total in 2022 the ECB will increase interest rates by 125bp. We expect that in 2023, the ECB will make two more rate hikes of 25bp each (in March and June) and complete the hike cycle. Previously, we expected the ECB to make three deposit rate hikes of 25bp each in 2022 (the first hike in July) and another three hikes of 25bp each in 2023.

Our forecast of a higher pace and scale of interest rate hikes in the Eurozone supports our scenario for interest rates in Poland, according to which the MPC will raise rates by 50bp at the next two meetings, and thus the reference rate will reach 7.00% in Q3 of this year, and the monetary policy tightening cycle will be completed. We are of the opinion that the expected narrowing of the interest rate spread between Poland and the Eurozone will limit the Council's room for manoeuvre in monetary policy.

FOMC meeting may favour higher PLN volatility

FX rates



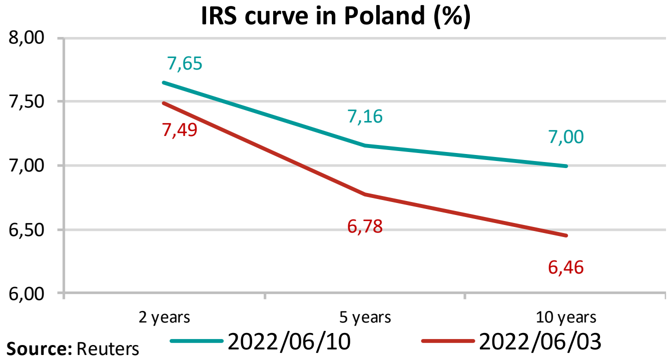
Source: Reuters

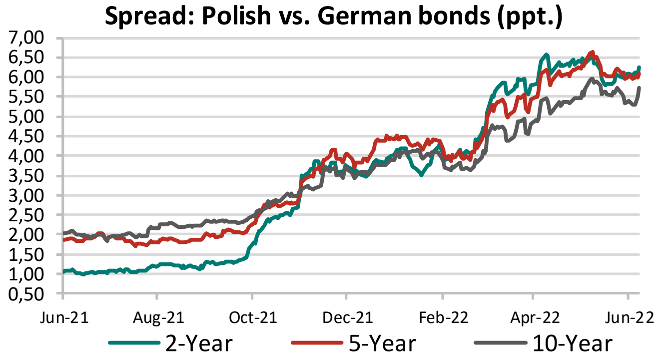
Last week the EURPLN exchange rate rose to 4.6184 (a 0.8% weakening of the zloty). Last week the zloty lost value, which was fostered by increased risk aversion reflected by the rise in the VIX index. Higher uncertainty in the market was driven by information indicating Russia's progress in the war in Ukraine, as well as investors' concerns about further inflation increase, which were further intensified by higher-than-expected US inflation data. Locally, the zloty was weakened by last week's dovish statement by NBP President, A. Glapiński, who said that "we are closer to the end than to the beginning" of interest rate hikes, and there may be room for interest rate cuts towards the end of next year.

The EURUSD also fell last week due to increased global risk aversion. As a consequence, we see a downward risk to our forecast that the EURUSD will be at 1.06 at the end of June.

This week, the FOMC meeting will be of key importance for the zloty, which may contribute to its slight strengthening. The publications from the Polish and global economies scheduled for this week will not, in our opinion, have a significant impact on zloty's exchange rate. At the same time, the war in Ukraine and the related elevated risk aversion in the region will continue to be an important factor determining the exchange rate of the Polish currency.

FOMC meeting in the spotlight





Source: Reuters

Last week, 2-year IRS rates rose to 7.65 (up by 16bp), 5-year rates to 7.16 (up by 38bp) and 10-year rates to 7.00 (up by 54bp). Last week, IRS rates continued to rise across the curve in line with underlying markets, particularly at the long end of the curve. The hawkish tone of last week's ECB meeting as well as the publication of higher-than-expected inflation data in the US had an impact on the rise in IRS rates. A stronger increase in yields at the long end of the curve suggests that some investors have begun to fear that rising inflation will force major central banks to keep interest rates elevated for longer than previously expected. Locally, the temporary drop in IRS rates was caused by Thursday's dovish statement by NBP President, A. Glapiński, who said that "we are closer to the end rather than the beginning" of interest rate hikes, and perhaps there will be room for rate cuts at the end of next year.

This week, investors will focus on the FOMC meeting, which may be conducive to a drop in IRS rates. In our view, the Polish and global economic data releases scheduled for this week 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	**13,9**	
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	**8,5**	
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**
		Monday 06/13/2022				
14:00	**Poland**	**Current account (M EUR)**	**Apr**	**-2972**	**-278**	**-2150**
		Tuesday 06/14/2022				
11:00	Germany	ZEW Economic Sentiment (pts)	Jun	-34,3		-27,5
		Wednesday 06/15/2022				
4:00	China	Industrial production (% YoY)	May	-2,9	-0,7	-0,5
4:00	China	Retail sales (% YoY)	May	-11,1	-8,0	-7,3
4:00	China	Urban investments (% YoY)	May	6,8	6,4	6,0
10:00	**Poland**	**CPI (% YoY)**	**May**	**12,4**	**13,9**	**13,9**
11:00	Eurozone	Industrial production (% MoM)	Apr	-1,8		0,5
14:30	USA	NY Fed Manufacturing Index (pts)	Jun	-11,6		5,0
14:30	USA	Retail sales (% MoM)	May	0,9	0,1	0,2
16:00	USA	Business inventories (% MoM)	Apr	2,0		1,3
20:00	USA	FOMC meeting (%)	Jun	1,00	1,50	1,50
		Thursday 06/16/2022				
9:30	Switzerland	SNB rate decision %)	Q2	-0,75		
11:00	Eurozone	Wages (% YoY)	Q1	1,5		
13:00	UK	BOE rate decision (%)	Jun	1,00		1,25
14:30	USA	Initial jobless claims (k)	w/e	229		
14:30	USA	Housing starts (k MoM)	May	1724	1681	1700
14:30	USA	Building permits (k)	May	1823	1768	1788
14:30	USA	Philadelphia Fed Index (pts)	Jun	2,6		5,5
		Friday 06/17/2022				
11:00	Eurozone	HICP (% YoY)	May	8,1	9,1	8,1
14:00	**Poland**	**Core inflation (% YoY)**	**May**	**7,7**	**8,5**	**8,5**
15:15	USA	Industrial production (% MoM)	May	1,1	0,8	0,4
15:15	USA	Capacity utilization (%)	May	79,0		79,2

*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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