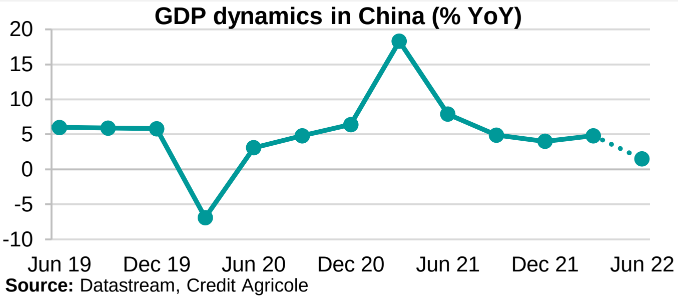
This week

- **The key event this week will be the release of Chinese GDP growth figures for Q2 Scheduled for Friday.** We expect China's GDP to have shrunk by 2.0% QoQ compared to 1.3% growth seen in Q1 (1.5% YoY vs. 4.8% in Q1) due to government restrictions imposed to curb the spread of the COVID-19 pandemic.

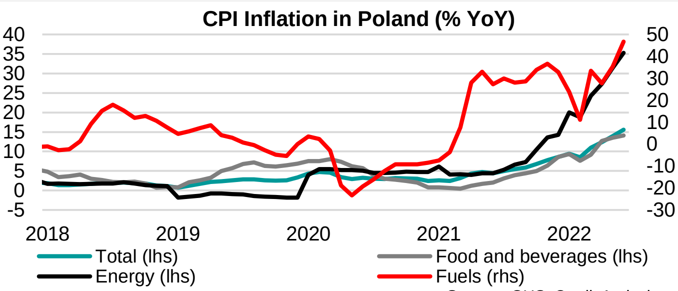


Source: Datastream, Credit Agricole

June figures will show an acceleration in China's business activity driven by an improvement in the epidemic situation in China and the easing of the restrictions. We forecast industrial production growth to have picked up to 4.5% YoY in June from 0.7% in May, and retail sales growth to 1.0% YoY from -6.7% in May. We expect urban investment growth to have stabilized (6,0% YoY in June vs. 6.2% in May). Wednesday will see the release of Chinese trade balance figures. We expect the trade balance to have risen to USD 79.3bn in June from USD 78.8bn in May with a simultaneous slowdown in exports and imports. Our forecasts of China's macroeconomic indicators (GDP and monthly figures) are above market expectations, and thus their materialization would be slightly positive for the PLN.

- **This week will see the release of some important data on the US economy and business survey results.** We expect headline inflation to have risen to 8.8% YoY in June from 8.6% in May, driven by soaring prices of food fuels and other energy products. At the same time, we expect to see a second consecutive drop in core inflation in June, to 5.7 YoY from 6.0% in May). We expect to see industrial production growth to have picked up to 0.3% MoM in June from 0.1% MoM in May, which will be consistent with manufacturing business survey results. We forecast nominal retail sales to have grown by 1.1% MoM in June vs. a drop of 0.3% in May, driven by higher sales volumes in the automotive industry. 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 to see a slight rise in the index (51.0 pts in July vs. 50.0 pts), which will be a reversal after the index was seen to slump to an all-time low in June. We believe that the overall impact of US economy figures on financial markets will be limited.

- **Poland's final inflation figures for June will be released on Friday.** We expect YoY price growth of 15.6%, in line with the flash estimate, compared to 13.9% in April. The rise in inflation was driven by higher contributions from all its components (the prices of food, fuels and other energy products, and core inflation). We believe that the release of inflation figures will be neutral for the PLN and yields on Polish bonds.

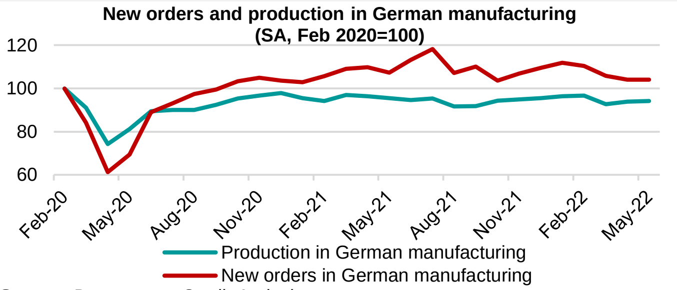


Source: GUS, Credit Agricole

- **Poland's balance of payments figures for May will be released on Thursday.** We expect the current account deficit to have shrunk to EUR 3788M from EUR 3924M in April, driven primarily by a higher balance of trade in goods. We forecast export growth to have picked up from 6.7% YoY in April to 22.2% in May, and import growth from 22.6% YoY to 36.8% due to positive calendar effects. In our opinion, the balance of payments figures will be neutral for the PLN and yields on Polish bonds.

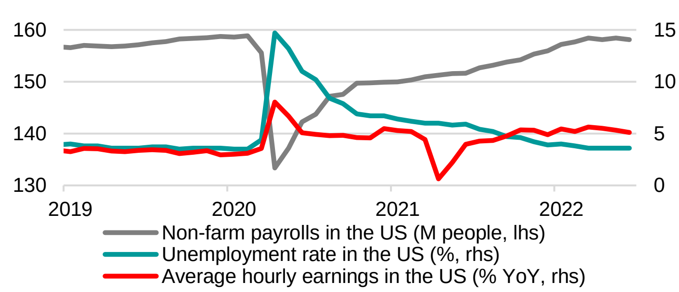
Last week

- **The Monetary Policy Council announced another interest rate hike last week.** The NBP reference rate rose from 6.00% to 6.50%. The 50bp hike was below our forecast and market consensus (+75bp), and lower than each of the previous four hikes. In our opinion, the main reason behind the further monetary policy tightening was the NBP's latest inflation projection. The near-term inflation path projection was revised substantially upward vs. the projection presented in March. Such an expected inflation path shows that the years 2022-2023 will see two-digit annual-average inflation rates, and 2024 will see inflation well above the MPC's inflation target (2.5%). Last week's decision of the MPC, combined with the July inflation projection, shows that limiting the scale of economic slowdown in 2023 has become the MPC's priority. This was also confirmed by the NBP Governor' press conference held on Friday, at which A. Glapiński noted that the MPC's decision not to go ahead with a 75bp hike had been driven by macroeconomic indicators signalling economic growth slowdown. A. Glapiński also made comments to the effect that Poland is likely to experience a technical recession, and the scale of slowdown in the coming quarters may be very significant. The Governor also added that 'today we believe that we are nearing the end of the monetary policy tightening cycle, though we may not have reached the end yet'. A. Glapiński said that if inflation kept on rising, the MPC would be carrying out further interest rate hikes. The press release following the MPC meeting and the comments from the NBP Governor signal a marked downside risk to our interest rate forecast (the NBP reference rate rising gradually to reach 7.75% in October this year) and an upside risk to the EURPLN exchange rate path expected by us (dropping gradually to reach 4.62 at the end of the year).
- **Some important data on German economy was released last week.** Industrial production grew by 0.2% MoM in May compared to 1.3% in April. The reduction in industrial production growth was driven production slowdown in manufacturing and in the energy sector, partially offset by faster production growth in construction. At the same time, growth in manufacturing orders picked up to 0.1% MoM in May from -1.8% in April, driven by faster growth in export orders accompanied by a drop in domestic orders. It is worth noting that growth in export orders was driven by higher demand from non-Eurozone countries, while a drop was seen in orders in the Eurozone. Last week's data show that activity in Germany continues to slow down, which will be driving down economic growth in Poland We see a downside risk to our forecast of economic growth in Germany continuing in Q2 at the rate of 0.2% QoQ seen in Q1.



Source: Datastream, Credit Agricole

- **Some significant data on the US economy was released last week.** Non-farm payrolls rose by 372k in June vs. 384k in April (downward revision from 390k), running markedly above market expectations (270k). The strongest increases in employment were seen in education and health services (+96.0k), professional and business services (+74.0k), and in leisure and hospitality (+67.0k). The unemployment rate remained unchanged from May, standing at 3.6%, in line with market



Source: Datastream, Credit Agricole

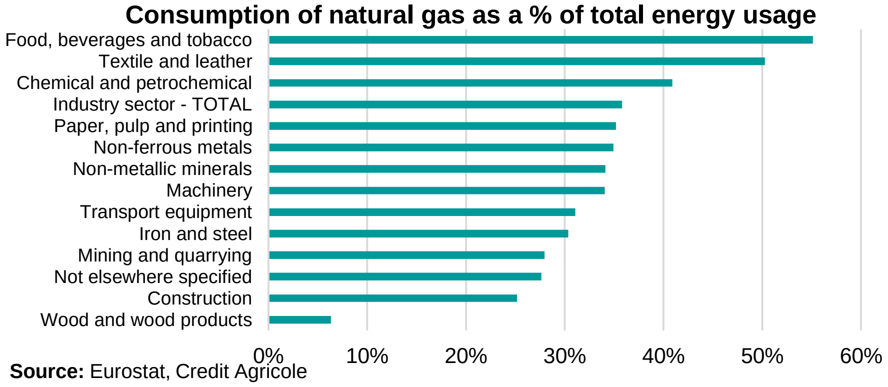
expectations. At the same time, the employment activity rate dropped slightly, to 62.2% in June from 62.3% in May. Wage growth slowed for the third month in a row (to 5.1% YoY in June from 5.3% in May) hitting the lowest level since December 2021, which may signal that wage pressures in the US economy are weakening. Last week, the ISM services index was published, too, which dropped to 55.3 pts in June from 55.9 pts in May, running above market expectations (54.3 pts). The drop in the index was accounted for by drops in two of its four components (employment and new orders), while rises were seen in the business activity and delivery time components). What is more, the employment component dropped below the 50-point mark that separates growth from contraction. Last week's US economy figures do not change our scenario of annualized GDP growth standing at 3.5% in Q2 vs. a drop of 1.5% in Q1

- **Minutes of the June FOMC meeting were published last week.** According to the Minutes, FOMC members believe that elevated inflation presents a major risk the US economy. Some of the Fed representative are afraid that inflation will continue at an elevated level if society stops believing in the Fed's determination to stabilize prices (inflation expectations will become unanchored). FOMC members noted that monetary policy tightening will be driving GDP growth down and they believe that risks to the outlook for economic growth were skewed to the downside. At the same time, they expressed their readiness to further tighten monetary policy decisively, due to high inflation. The tone of the Minutes is consistent with the FOMC president's testimony to Congress two weeks ago (see MACROmap of 27/06/2022). He noted that the Fed was facing a difficult task of lowering inflation while at the same time maintaining a good situation in the labour market, and that a recession in the US was likely. The Minutes support our scenario of a 75bp interest rate hike being decided at the FOMC meeting in July and an increase in the target range for federal funds to [3.50%; 3.75%] at the end of the year.

What will be the impact of the German 'gas shock' on the Polish economy?

At present, a significant risk factor for the economic outlook in Germany and the Eurozone is the potential occurrence of gas supply disruptions. According to Bundesbank (German central bank) estimates, this risk is concentrated in Q4 2022 - Q2 2023, and could contribute to a recession in Germany. In this context, the question arises to what extent the decline in economic activity in Germany caused by these disruptions will contribute to a slowdown in economic growth in Poland, which is an important supplier of semi-finished goods and components (so-called intermediate goods) to Germany. Below are the results of our analysis.

Consumption of natural gas as a % of total energy usage



Source: Eurostat, Credit Agricole

According to Eurostat data (see chart), 35.8% of total energy consumption in German industry comes from gas. Gas consumption as an energy source varies by industry, ranging from 6% in wood and wood products to 55% in food, beverages and tobacco. However, these percentages are not directly proportional to the sensitivity of individual industries to gas supply disruptions. It must be noted that some categories of manufacturing use gas only to generate electricity, which can be relatively easily substituted from other sources. For such businesses, once prepared, gas supply disruptions will not be a significant barrier to operate. In other manufacturing industries, on the other hand, gas substitution is not possible due to the nature of the technological process. This is because it serves as a raw material in the production process (e.g. the chemical industry) or as fuel to power equipment (e.g. the metallurgical industry). For these industries, disruptions in gas supply would involve a large drop in production.

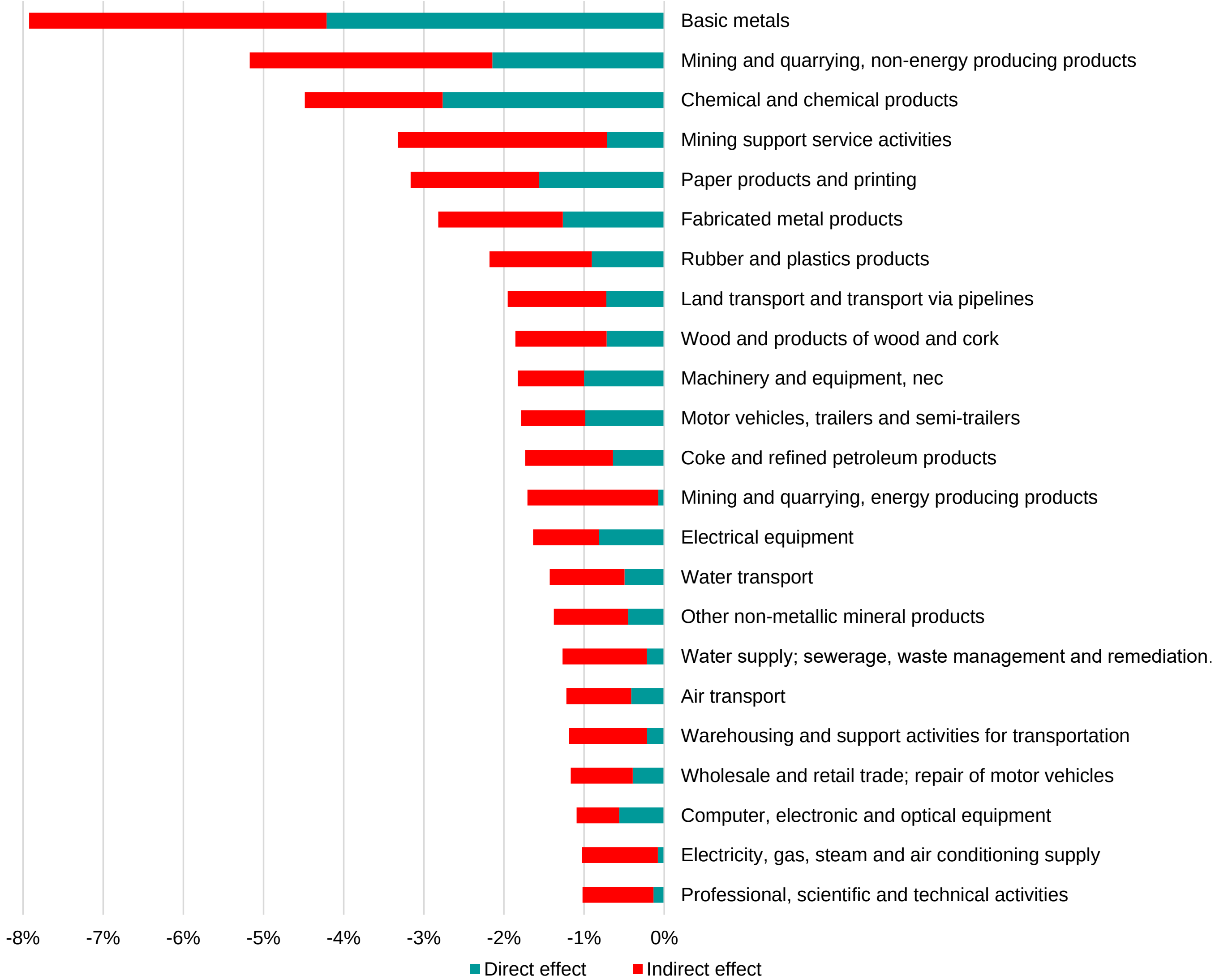
After consulting with industry experts, we have selected categories of German manufacturing that are particularly sensitive to the 'gas shock'. For the purposes of our analysis, we assume that we will see a 50% decline in production in industries such as 'basic metals', 'fabricated metal products', 'chemicals and chemical products', and 'paper and paper products'. We assume that production will decline by 30% in the categories of 'textiles, apparel, footwear and leather' and 'manufacturing of coke and refined petroleum products'. We assume that in the other manufacturing categories (excluding food production) and construction, output will decline by 10%. We believe that the German government will take measures to maintain the continuity of food production. We have assumed that gas supply disruptions will not directly contribute to a decline in activity in services. Nevertheless, activity in the services sector will also suffer due to secondary effects associated with the decline in production in other industries to which services are provided. We believe that the above-described decline in output in selected segments of the economy will occur in Germany in Q4 2022 and will last until Q1 of 2023. The scale of the shock is subject to significant uncertainty – it is difficult to assess how quickly businesses will be able to switch to energy sources alternative to gas. The scale of the shock will also depend on meteorological conditions during the heating season and the German government's support measures. It should be noted that in the following analysis we present the consequences of gas supply disruptions and production declines only in Germany. Gas supply disruptions could contribute to a decline in activity in other countries as well (e.g., Italy, Austria), which would compound the magnitude of the negative shock on the economic growth rate in Poland.

In order to estimate the impact of the 'gas shock' on the Polish economy, we used the input-output table developed by the OECD for 2018. It includes the values of transactions between 45 industries in 71 countries, which allows for a very detailed analysis of the spillover of Germany's 'gas shock' to different countries and sectors. Our analysis seeks an answer to the question of to what extent the decline in production in Germany will reduce demand for intermediate goods produced in Poland, and thus their production. We can divide the effects of the German 'gas shock' into:

- **direct effects,** which represent the direct impact of the decline in production in Germany on the activity of Polish industries that are direct suppliers of components and semi-finished products for German manufacturing. These effects will materialize in Poland immediately after the drop in production in Germany.
- **indirect effects,** which represent the secondary effects of the 'gas shock'. These include a decline in production in Polish businesses that supply intermediate goods to other Polish firms that are direct suppliers to German businesses. Indirect effects also include a decline in production in Polish businesses that cooperate with foreign firms that are suppliers to German businesses. Due to the extensive network of (often international) ties, indirect effects may materialize in full with some delay after the occurrence of gas supply disruptions in Germany.

The relative magnitude of direct and indirect effects varies strongly from industry to industry. In some, direct effects dominate – for example, the production of chemicals and chemical products has a large exposure to German industries, which will be hit hard by gas supply disruptions. Indirect effects, on the other hand, dominate for 'Electricity, gas, steam, hot water generation and supply." The decline in production in Germany directly has little effect on activity in this industry. However, given the decline in production in other categories of Polish manufacturing, this industry will also see a decline in activity due to reduced energy demand.

Decline of output in Poland due to "gas shock" in Germany*



Source: Credit Agricole

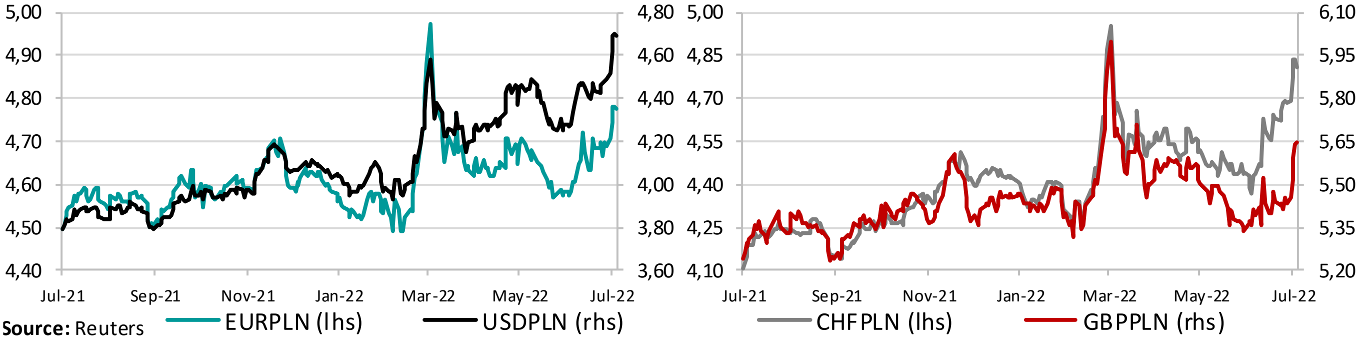
* in one quarter; chart shows only categories with output drop larger than 1%

Our analysis indicates that collectively, within the direct and indirect effects, the 'gas shock' in Germany would contribute to a significant decline in production in Poland in categories such as 'basic metals' (by 7.9%), 'mining and quarrying, non -energy producing products' (by 5.2%), 'chemicals and chemical products' (4.5%), 'mining support service activities' (3.3%) and 'paper and paper products' (3.2%). In the remaining Polish industries, our estimate of the production decline does not exceed 3% (see chart). According to our assumptions, the reduction in production in Poland that we have calculated would materialize in Poland in Q4 of 2022 and Q1 of 2023.

Based on our estimates we can conclude that within the whole economy, the total value added in Q4 2022 - Q1 2023 will be 1.5% lower compared to the scenario without the 'gas shock'. Given the genesis of the shock and the trade links between Poland and Germany, the shock will be concentrated in manufacturing. We expect value added in manufacturing to decline by 3.5% during this period. We estimate that the 'gas shock' will reduce Poland's average annual GDP growth by 0.4 pp in 2022 and by 0.3 pp in 2023. The impact of gas supply disruptions in Germany has been partially taken into account in our revised macroeconomic scenario (see MACROmap of 27/6/2022). Nevertheless, the actual scale of the decline in German activity is currently difficult to estimate and depends on a number of factors, and thus the 'gas shock' poses a downside risk to our forecast for economic growth 2022 (4.1% YoY) and 2023 (3.3%).

Changes in global risk aversion key to the PLN exchange rate

FX rates



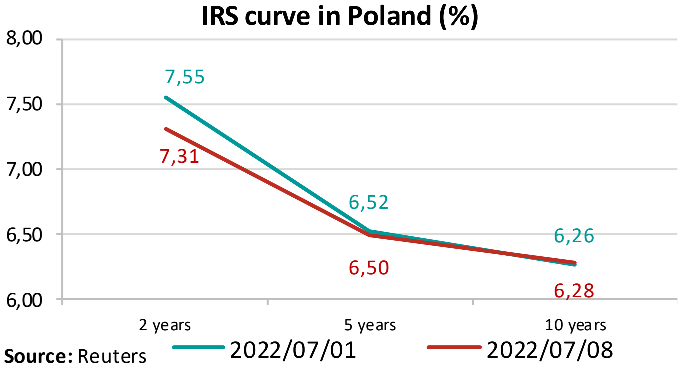
Source: Reuters

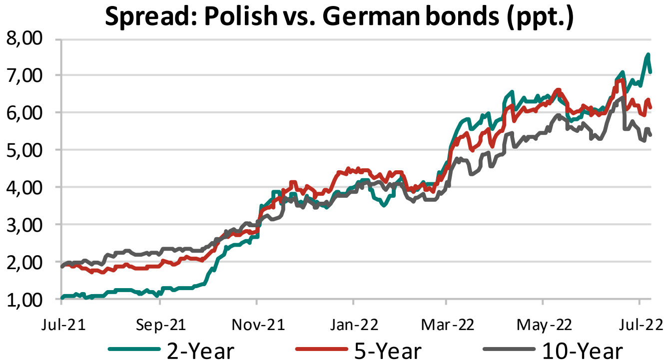
Last week, the EURPLN rate increased to 4.7779 (the PLN weakened by 1.9%). The PLN depreciated last week, helped by intensifying investor concerns about the onset of a recession in Europe. In addition, a smaller-than-expected interest rate hike by the MPC (see above) was conducive to weaker PLN. On Thursday, following the announcement of the MPC's decision, the PLN exchange rate temporarily exceeded the 4.80 level. This level was also tested on Friday. The NBP Governor's conference caused increased volatility in the EURPLN exchange rate.

Last week, due to an increase in global risk aversion, there was also a further decline in the EURUSD. As a result, on Friday the market tested the USD's parity with the EUR (the EURUSD exchange rate equalling 1.00), but in the afternoon we saw a correction and a renewed strengthening of the EUR. Nevertheless, the EURUSD exchange rate last week reached its lowest level since the end of 2002. Taking into account the development of the EURUSD and EURPLN exchange rates, the USDPLN exchange rate last week reached its highest level in the available history of the series.

Changes in global risk aversion and market expectations of a recession in Europe will remain important determinants of the Polish currency this week. Over the weekend, Canadian authorities gave the go-ahead for the Nord Stream 1 pipeline turbine to be sent back to Russia, which could act to ease market concerns about the cut-off of gas supplies to Germany (see above) and be positive for the PLN. Data from China (GDP, trade balance, industrial production, retail sales, urban investments) will, in our opinion, act towards a slight strengthening of the PLN. We believe that Polish data (inflation, balance of payments) and US data (inflation, retail sales, industrial production, preliminary University of Michigan index) will also be neutral for the PLN.

US and Polish inflation data in the spotlight





Source: Reuters

Last week the 2-year IRS rates decreased to 7,305 (down by 25bp), 5-year rates to 6,495 (down by 2bp), and 10-year rates increased to 6.28 (up by 2bp). Last week saw a drop in IRS rates at the short end of the curve as market expectations for monetary tightening by the MPC diminished which was illustrated by a drop in the futures (FRA) market. This trend was reinforced by a smaller-than-expected interest rate hike at Thursday's MPC meeting and the relatively dovish tone of Friday's press conference by A. Glapinski. After a relative stabilization in the first part of the week, IRS rates with longer maturities also declined on Thursday and Friday.

Changing market expectations regarding the scale of monetary tightening by the MPC will be important for IRS rates this week. Reduced market fears of a recession in Germany (due to the Canadian authorities' agreement to send back the turbine for the Nord Stream 1 pipeline, see above) will slightly push German bond yields and IRS rates in Poland up. Publications of numerous data from China (GDP, trade balance, industrial production, retail sales, urban investments will most likely be neutral for the curve. In our opinion IRS rates will not be significantly affected by data from Poland (inflation, balance of payments) and most US data (inflation, retail sales, industrial production, preliminary University of Michigan index), either.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland

Indicator	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	Jul-22
NBP reference rate (%)	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	6,50
EURPLN*	4,52	4,56	4,52	4,60	4,60	4,65	4,58	4,58	4,69	4,64	4,67	4,58	4,70	4,70
USDPLN*	3,81	3,84	3,83	3,98	3,98	4,10	4,03	4,08	4,18	4,19	4,43	4,27	4,48	4,48
CHFPLN*	4,12	4,24	4,18	4,27	4,35	4,47	4,42	4,40	4,56	4,54	4,55	4,45	4,69	4,73
CPI inflation (% YoY)	4,4	5,0	5,5	5,9	6,8	7,8	8,6	9,4	8,5	11,0	12,4	13,9	15,6	
Core inflation (% YoY)	3,5	3,7	3,9	4,2	4,5	4,7	5,3	6,1	6,7	6,9	7,7	8,5	9,2	
Industrial production (% YoY)	18,1	9,6	13,1	8,7	7,6	14,9	16,3	18,0	17,3	15,4	12,3	15,0	9,1	
PPI inflation (% YoY)	7,2	8,4	9,6	10,3	12,0	13,6	14,4	16,1	16,1	21,9	24,1	24,7	24,6	
Retail sales (% YoY)	13,0	8,9	10,7	11,1	14,4	21,2	16,9	20,0	16,5	22,0	33,4	23,6	19,8	
Corporate sector wages (% YoY)	9,8	8,7	9,5	8,7	8,4	9,8	11,2	9,5	11,7	12,4	14,1	13,5	13,3	
Employment (% YoY)	2,8	1,8	0,9	0,6	0,5	0,7	0,5	2,3	2,2	2,4	2,8	2,4	2,1	
Unemployment rate* (%)	6,0	5,9	5,8	5,6	5,5	5,4	5,4	5,5	5,5	5,4	5,2	5,1	5,0	
Current account (M EUR)	-464	-1017	-527	-1817	-1166	-1077	-2491	-638	-2663	-2972	-3924	-3788		
Exports (% YoY EUR)	15,8	9,2	23,9	9,4	8,9	7,4	26,6	20,0	9,8	16,2	6,7	22,2		
Imports (% YoY EUR)	29,2	16,3	33,6	22,4	24,2	24,3	35,5	37,4	20,2	34,3	22,6	36,8		

*end of period

Forecasts of the quarterly macroeconomic indicators

Main macroeconomic indicators in Poland

Indicator		2022 Q1	2022 Q2	2022 Q3	2022 Q4	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2021	2022	2023
Gross Domestic Product (% YoY)		8,5	4,9	1,1	0,2	-0,2	1,0	2,7	3,8	5,9	3,4	1,9
Private consumption (% YoY)		6,6	7,4	0,6	0,5	1,0	1,5	0,7	1,3	6,1	3,7	1,1
Gross fixed capital formation (% YoY)		4,3	-0,2	-0,8	-0,8	0,3	2,5	3,8	4,8	3,8	0,2	3,2
Export - constant prices (% YoY)		2,0	2,0	3,1	3,2	1,8	0,5	2,9	4,5	11,8	2,6	2,4
Import - constant prices (% YoY)		8,8	4,9	0,4	0,9	0,7	-1,3	5,1	7,0	15,9	3,5	2,9
GDP growth contributions	Private consumption (pp)	3,9	4,2	0,3	0,2	0,6	0,9	0,4	0,7	3,4	2,1	0,6
	Investments (pp)	0,6	0,0	-0,1	-0,2	0,0	0,3	0,6	1,0	0,7	0,0	0,5
	Net exports (pp)	-3,8	-1,5	1,6	1,4	0,7	1,1	-1,3	-1,3	-1,2	-0,5	-0,3
Current account (% of GDP)***		-2,2	-3,3	-3,5	-3,6	-3,8	-3,4	-3,7	-4,3	-0,6	-3,6	-4,3
Unemployment rate (%)**		5,4	5,0	4,7	5,0	5,3	5,0	4,7	5,0	5,4	5,0	5,0
Non-agricultural employment (% YoY)		2,3	1,5	2,0	2,2	2,2	1,2	0,7	0,3	2,0	2,0	1,1
Wages in national economy (% YoY)		9,7	11,7	10,3	10,2	10,0	8,3	7,5	6,9	8,9	10,5	8,2
CPI Inflation (% YoY)*		9,6	14,0	15,9	14,7	13,9	8,7	6,1	5,0	5,1	13,6	8,4
Wibor 3M (%)**		4,77	7,05	7,88	7,88	7,88	7,88	7,13	6,88	2,54	7,88	6,88
NBP reference rate (%)**		3,50	6,00	7,25	7,75	7,75	7,75	7,75	6,75	1,75	7,75	6,75
EURPLN**		4,64	4,70	4,63	4,62	4,61	4,58	4,56	4,55	4,58	4,62	4,55
USDPLN**		4,19	4,48	4,29	4,20	4,19	4,13	4,04	3,96	4,03	4,20	3,96

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

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST* CA	FORECAST* CONSENSUS**
		Tuesday 07/12/2022				
11:00	Germany	ZEW Economic Sentiment (pts)	Jul	-28,0		-38,0
		Wednesday 07/13/2022				
11:00	Eurozone	Industrial production (% MoM)	May	0,4		0,2
14:30	USA	CPI (% MoM)	Jun	1,0	1,2	1,0
14:30	USA	Core CPI (% MoM)	Jun	0,6	0,5	0,6
	China	Trade balance (bn USD)	Jun	78,8	79,3	75,7
		Thursday 07/14/2022				
14:00	**Poland**	**Current account (M EUR)**	**May**	**-3924**	**-3788**	**-3525**
		Friday 07/15/2022				
4:00	China	GDP (% YoY)	Q2	4,8	1,5	1,0
4:00	China	Industrial production (% YoY)	Jun	0,7	4,5	3,5
4:00	China	Retail sales (% YoY)	Jun	-6,7	1,0	0,4
4:00	China	Urban investments (% YoY)	Jun	6,2	6,0	6,0
10:00	**Poland**	**CPI (% YoY)**	**Jun**	**13,9**	**15,6**	**15,6**
14:30	USA	NY Fed Manufacturing Index (pts)	Jul	-1,2		-1,3
14:30	USA	Retail sales (% MoM)	Jun	-0,3	1,1	0,8
15:15	USA	Industrial production (% MoM)	Jun	0,1	0,3	0,2
15:15	USA	Capacity utilization (%)	Jun	79,0		80,0
16:00	USA	Initial U. of Michigan Sentiment Index (pts)	Jul	50,0	51,0	49,4
16:00	USA	Business inventories (% MoM)	May	1,2		1,2

*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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