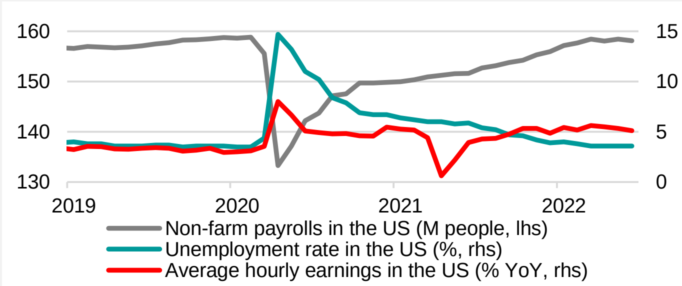
Further deterioration of situation in Polish manufacturing

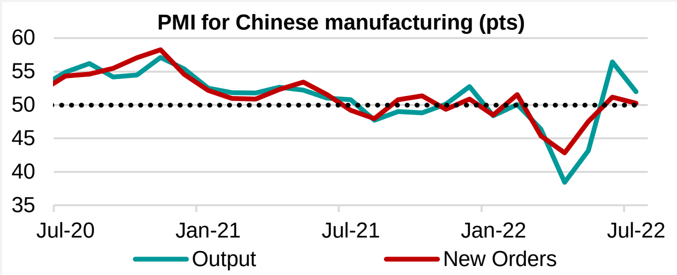
This week

- **Some important data from the US will be released this week.** Data on the labour market is scheduled to be released on Friday. We expect non-farm payrolls to have increased by 240k in July vs. 372k in June, with the rate of unemployment stabilized at 3.6%. The ISM manufacturing index will be released today. We expect the index to have fallen to 51.5 pts in July from 53.0 in June, in line with a drop in the manufacturing PMI. We believe that the data from the US will be neutral for financial markets.



Source: Datastream, Credit Agricole

- **Poland's manufacturing PMI fell to 42.1 pts in July from 44.4 pts in June, running well below the market consensus (43.6 pts) and our forecast (42.9 pts), see below.**
- **Today saw the release of business sentiment surveys in Chinese manufacturing.** The Caixin PMI index declined to 50.4 pts in July from 51.7 pts in June, which was substantially below market expectations (51.5 pts). The index slipped on the back of lower contributions from three out of five components (output, new orders, employment), with stocks of purchases and suppliers' delivery times having the opposite effect. It is worth noting that a significant decline was also recorded in the new export orders component, which indicates that the slowdown in economic growth observed in key economies is beginning to translate to lower activity in global trade. Similar trends were also signaled by the Korean manufacturing PMI, which is also considered to be a leading indicator for the world trade. Last week, a deterioration in Chinese manufacturing was also suggested by the CFLP PMI as it contracted to 49.0 pts in July from 50.2 pts in June. We forecast that throughout 2022, China's GDP growth will slow down to 3.4% relative to 8.1% in 2021, and in 2023 will stand at 5.3%. 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.



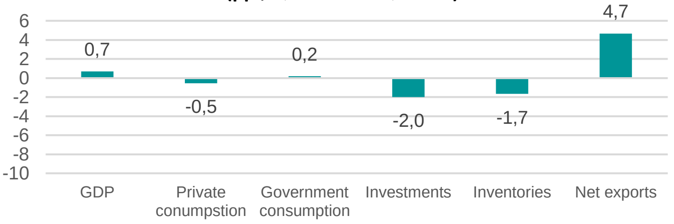
Source: Markit, Credit Agricole

Last week

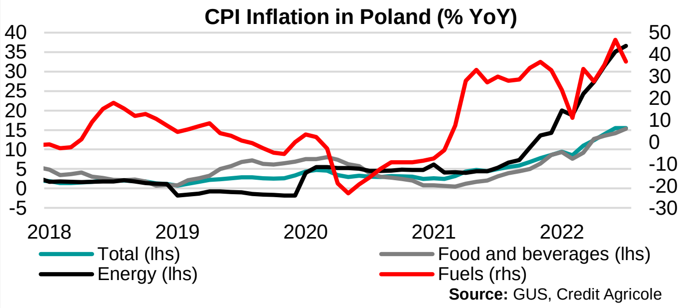
- **At its last week's meeting, the Fed increased the target range for federal funds by 75bp, to [2.25%; 2.50%], which was in line with market consensus and our forecast.** The FOMC decision was unanimous. At the same time, the Fed said it would continue reducing the size of its balance sheet in accordance with the plan announced at its May meeting. The plan is to reduce the Fed's assets between June and August by USD 47.5bn per month, of which USD 30bn is to be accounted for by treasuries and USD 17.5bn by mortgage-backed securities. In September, the pace of reducing the Fed's balance sheet will be doubled: the Fed's assets will be reduced by USD 95bn per month (USD 60bn worth of treasuries and USD 35bn worth of mortgage-backed securities). This means that in 2022 the size of the Fed's balance sheet will be reduced by USD 523bn, and in 2023 by USD 1.14trn (see MACROmap of 09/05/2022). At the press conference following the meeting, the Fed Chairman J. Powell said that the Fed's decision on whether or not to carry out another unusually large interest rate increase would depend on incoming data, however, it likely would become appropriate to slow the pace of increases at a certain moment. At the same time, J. Powell reiterated that FOMC will be looking for ‘compelling evidence’ that inflation is moving down. He also noted that due to the fact that there is significantly more uncertainty now, the Fed will not be providing the kind of clear guidance that they had usually provided with regard to future interest rate decisions; such decisions will be made meeting by meeting, based on incoming data. J. Powell also said that although he expects further rate increases in 2023, FOMC’s last economic projection of what rates will be next year should be taken ‘with a grain of salt’. We expect the Fed to deliver two 50bp hikes, in September and November, and another 25bp hike in December. In consequence, the target range for federal funds at the end of 2022 will be [3.50%; 3.75%]. At the same time, we believe that the December hike will end the cycle of interest rate hikes in the US. We believe that data indicating a gradual decline in inflation amidst deteriorating economic growth prospects will prevent the Fed from further interest rate hikes. In this context, last week’s comments from J. Powell translate into a slight upward risk to our 2023 interest rate scenario.

Some significant data on the US economy was released last week. In accordance with the first estimate, annualized US GDP growth rate rose to -0.9%% in Q2 from -1.6% in Q1, running well below market expectations (0.5%) and our forecast (0.8%). Thus, the US economy shrank for the second quarter in a row, which means that in Q1 the US economy fell into technical recession. GDP growth between Q1 and Q2 was driven primarily by a higher contribution of net exports, offset chiefly by lower contributions of investments and inventories. Net exports were the main source of economic growth in Q2; in Q1 growth was driven primarily by investments. Last week saw the release of preliminary data on durable goods orders, which rose by 1.9% MoM in June, compared to a 0.8% growth in May, well above market expectations (-0.4%). The marked acceleration in growth in durable goods orders is accounted for by a rise in military aircraft orders. Excluding transport equipment, MoM growth in durable goods orders fell to 0.3% in June from 0.5% in May. At the same time, average growth in orders for non-military capital goods dropped to 8.6% YoY in Q2 from 11.2% in Q1, which in our opinion indicates a slight deterioration in investment prospects in the US. Last week also saw the release of data on new home sales (590k in June vs 642k in May), which confirms that the slowdown in the US housing market seen in recent months continues, mainly due to higher costs of mortgage loans. PCE inflation figures were also released last week: PCE inflation rose to 6.8% YoY in June from 6.3% in May. Core PCE inflation also picked up, to 4.8% from 4.7%, which shows that inflationary pressure in the US economy continues to rise. Continued poor consumer sentiment in the US is evidenced by the Conference Board index (95.7 pts in July vs. 98.4 pts in June) and the final University of Michigan index (51.5 pots in July vs. 50.0 pts in June and 51.1 pts in the preliminary estimate). Q2 GDP figures represent a downside risk to our scenario of US GDP growing by 2.6% in 2022 compared to 5.7% in 2021.

Change in US GDP growth and contributions of its components (pp., Q2 2022 vs. Q1 2022)

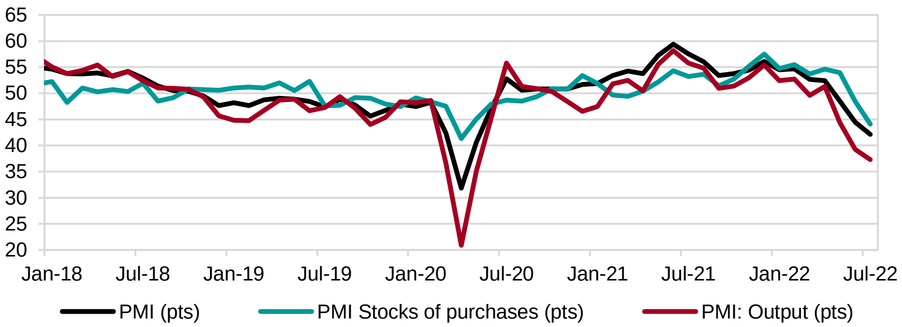


Source: Datastream, Credit Agricole



- **According to the flash estimate, CPI inflation in Poland remained stable between July and June at 15.5% YoY, in line with the market consensus and slightly below our forecast (15.6%).** Thus, it remains at the highest level since March 1997. GUS published partial data on the structure of inflation, including information on the pace of price growth in the "food and non-alcoholic beverages", "energy" and "fuel" categories. Inflation stabilised on the back of a higher growth rate in the prices of food and non-alcoholic beverages (15.3% YoY in July vs. 14.2% in June) and energy (36.6% vs. 35.1%) offset by lower fuel price growth (36.8% vs. 46.7%) and core inflation, which, according to our estimates, did not change in July relative to June and stood at 9.1%. The data supports our scenario according to which inflation in Poland will reach its local maximum in Q3 2022 and in the coming quarters will follow a slightly downward trajectory (see MACROmap of 04/07/2022).
- **According to the flash estimate, inflation in the Eurozone rose to 8.9% YoY in July from 8.6% in June, exceeding both the market consensus (8.6%) and our forecast (8.8%).** Thus, inflation in the Eurozone hit a new all-time high. Inflation grew on the back of higher price growth in the "food", "services" and "industrial goods" categories, as well as rising core inflation (4.0% YoY in July vs. 3.7% in June, a new record) with a slowdown of price growth in the "energy" category. The data represents an upside risk to our scenario projecting inflation of 8.3% for 2022 in the Eurozone vs. 2.6% in 2021, with a drop to 6.4% in 2023. In our scenario, we assume that inflation in the Eurozone will reach its maximum in September at approximately 10%. We expect the ECB to hike interest rates by 50bp in September, followed by moves of 50bp in October, 25bp in December, and of 25bp in March 2023, thus ending the tightening cycle with a deposit rate of 1.50%.
- **GDP growth in the Eurozone increased to 0.7% in Q2 from 0.5% in Q1 (4.0% YoY in Q2 vs. 5.4% in Q1) exceeding substantially market expectations (0.1%) and our forecast (-0.2%).** At the same time, quarterly GDP growth in Germany fell to 0.0% in Q2 compared with 0.8% in Q1 (with our forecast equal to 0.2%), in France increased to 0.5% relative to -0.2% (0.3%), in Spain climbed to 1.1% from 0.2% (0.2%) and in Italy increased to 1.0% from 0.1% (-0.1%). The published data is only preliminary and does not contain information on the structure of economic growth. The next GDP estimate for the Eurozone will be released on 17 August. Due to the significant risk of a gas deficit in Europe, despite better-than-expected readings, we see a downward risk to our forecast, projecting that throughout 2022 GDP in the Eurozone will increase by 2.5% YoY as compared to an increase of 5.3% in 2021.
- **The Ifo index, reflecting the sentiment of German businesses representing the manufacturing, construction, trade and services sectors, contracted to 88.6 pts in July vs. 92.2 pts in June, running well below market expectations of 90.2 pts.** The index's drop was attributable to a decrease in two components: assessment of the current situation and expectations. In sectoral terms, a deterioration in the economic situation was recorded across all surveyed industries: manufacturing, services, trade and construction. According to the press release, businesses pointed to rising energy prices and the risk of a gas shortage in the coming months as the main drivers of deteriorating sentiment. The publication of the July Ifo index, coupled with the PMIs released two weeks ago (see MACROmap of 25/07/2022), poses a downward risk to our forecast, according to which Germany's quarterly GDP growth will increase to 0.3% in Q3, up from 0.0% in Q2.

Further deterioration of situation in Polish manufacturing



Source: Markit

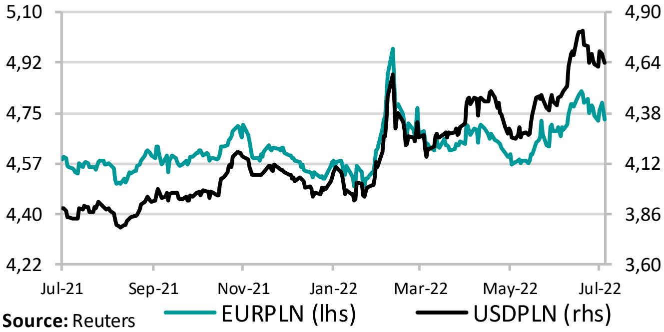
Poland's manufacturing PMI fell to 42.1 pts in July from 44.4 pts in June, running well below the market consensus (43.6 pts) and our forecast (42.9 pts). This marks the third consecutive month where the index remained below the 50-point threshold, which separates expansion from contraction of activity. At the same time, the index reached its lowest level since May 2020, i.e. since the first wave of the COVID-19 pandemic and the ensuing lockdown. The index decreased on the back of lower contributions from four out of five of its components: new orders, output, stocks of purchases and suppliers' delivery times, with a slightly higher contribution from employment having the opposite effect.

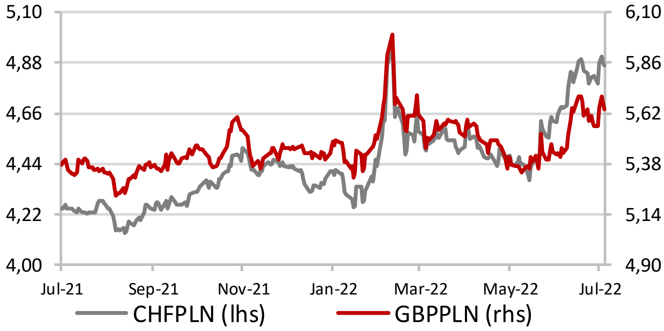
New orders contributed the most to the PMI's contraction as it plummeted to 35.6 pts, down from 39.1 pts (the lowest level since May 2020). Such a reading indicates that July was the fifth month running where a decrease in new orders was recorded on a month-on-month basis, with the decline expanding with every month. According to the PMI report, the slowdown in new orders was driven by higher inflation and geopolitical uncertainty. The drop in total orders is accompanied by dwindling foreign orders, indicative of a decline in global trade activity. Lower new orders are reflected in lower output. As a result, companies are reducing their production backlogs at the fastest pace since May 2020. In this context, the lower purchasing activity of the surveyed businesses and a reduction in inventories of semi-finished goods used in the production process also deserve attention. Weaker demand is also conducive to easing of inflationary pressure, which, however, remains high. The growth of both input and output prices has slowed down relative to recent months.

In July, the component for expected output in the 12-month horizon fell below the 50-point threshold for the first time since April 2020, which indicates that the surveyed businesses are concerned about a recession. This is consistent with our scenario of economic growth in Poland, according to which in Q2 Poland entered a so-called technical recession (see MACROmap of 18/07/2022).

Polish manufacturing PMI negative for PLN

FX rates





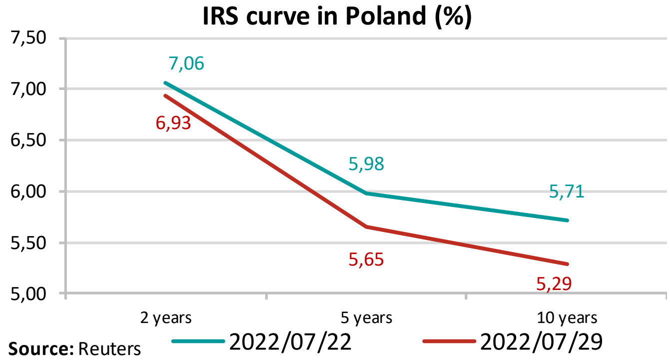
Source: Reuters

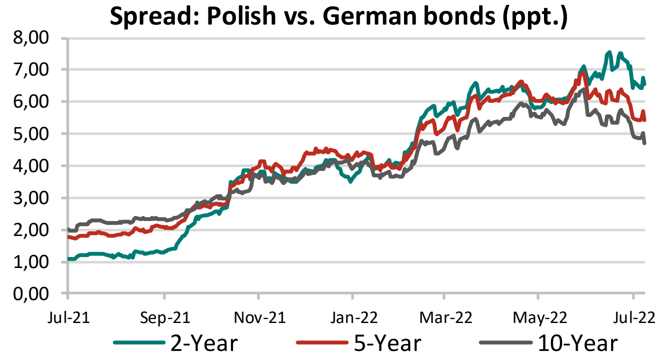
Last week, the EURPLN exchange rate fell to 4.7266 (appreciation of the PLN by 0.3%). The EURPLN rate increased slightly last week, with the EURHUF currency pair following a similar trend. Late last week saw a correction and appreciation of the PLN, additionally supported by the publication of Poland's inflation data, raising some investors' expectations for its gradual decline in the coming months.

The FOMC meeting last Wednesday added to the volatility of the EURUSD rate. Since some investors anticipated a 100bp hike (see MACROmap of 25/07/2022), the Fed's decision led to a short-lived weakening of the USD against the EUR. Last week also saw a decline of the EUR against the CHF, supported by the SNB's statement indicating that, if justified, the central bank may also opt to change the monetary policy between its meetings. As a result, the EURCHF exchange rate fell last week to its lowest level since January 2015, when the SNB abolished the cap on the CHF exchange rate.

In our opinion, the July PMI for Polish manufacturing released this morning is negative for the PLN. We believe other publications from the global economy scheduled for this week will not significantly affect the PLN exchange rate. At the same time, information regarding the risk of a gas shock in Europe, which would substantially weaken the economic growth outlook in the Eurozone and Poland, will remain an important factor in determining the exchange rate of the PLN

Global economic growth outlook in spotlight





Source: Reuters

Last week, 2-year IRS rates dropped to 6.93 (down by 13bp), 5-year to 5.65 (down by 33bp), and 10-year to 5.29 (down by 42bp). Last week saw a sharp decline in IRS rates, particularly visible at the long end of the curve, following the core markets. The main factor contributing to the reduction in IRS rates was growing investor concerns regarding the global economic growth outlook, exacerbated by the publication of significantly weaker-than-expected US GDP data.

In our opinion, the July PMI for Polish manufacturing released this morning may be conducive to a fall in IRS rates. We believe the remaining data releases from the global economy scheduled for this week will not significantly impact IRS rates, which will be influenced by investors' concerns regarding the global economic growth outlook. In this context, information regarding the risk of a gas shock in Europe, which would significantly weaken the economic growth outlook in the Eurozone and Poland, will remain an important factor determining the curve.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland														
Indicator	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	Aug-22
NBP reference rate (%)	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	**6,50**
EURPLN*	4,56	4,52	4,60	4,60	4,65	4,58	4,58	4,69	4,64	4,67	4,58	4,70	4,73	**4,78**
USDPLN*	3,84	3,83	3,98	3,98	4,10	4,03	4,08	4,18	4,19	4,43	4,27	4,48	4,64	**4,73**
CHFPLN*	4,24	4,18	4,27	4,35	4,47	4,42	4,40	4,56	4,54	4,55	4,45	4,69	4,87	**4,89**
CPI inflation (% YoY)	5,0	5,5	5,9	6,8	7,8	8,6	9,4	8,5	11,0	12,4	13,9	15,5	**15,6**	
Core inflation (% YoY)	3,7	3,9	4,2	4,5	4,7	5,3	6,1	6,7	6,9	7,7	8,5	9,1	**9,2**	
Industrial production (% YoY)	9,6	13,1	8,7	7,6	14,9	16,3	18,0	17,3	15,4	12,3	14,9	10,4	**7,1**	
PPI inflation (% YoY)	8,4	9,6	10,3	12,0	13,6	14,4	16,1	16,1	21,9	24,1	24,7	25,6	**25,3**	
Retail sales (% YoY)	8,9	10,7	11,1	14,4	21,2	16,9	20,0	16,5	22,0	33,4	23,6	19,9	**20,3**	
Corporate sector wages (% YoY)	8,7	9,5	8,7	8,4	9,8	11,2	9,5	11,7	12,4	14,1	13,5	13,0	**12,7**	
Employment (% YoY)	1,8	0,9	0,6	0,5	0,7	0,5	2,3	2,2	2,4	2,8	2,4	2,2	**2,2**	
Unemployment rate* (%)	5,9	5,8	5,6	5,5	5,4	5,4	5,5	5,5	5,4	5,2	5,1	4,9	**4,8**	
Current account (M EUR)	-1017	-527	-1817	-1368	-1269	-2685	-1046	-3787	-4010	-3476	-1909	**-3275**		
Exports (% YoY EUR)	9,2	23,9	9,4	8,9	7,4	26,6	19,9	11,2	18,7	7,9	26,4	**20,6**		
Imports (% YoY EUR)	16,3	33,6	22,4	24,2	23,9	35,1	35,0	22,1	38,2	24,5	35,8	**31,8**		

*end of period

Forecasts of the quarterly macroeconomic indicators

Main macroeconomic indicators in Poland											
Indicator	2022				2023				2021	2022	2023
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Gross Domestic Product (% YoY)	8,5	5,4	0,9	0,1	-0,2	1,0	2,7	3,8	5,9	3,4	1,9
Private consumption (% YoY)	6,6	6,5	0,6	0,5	1,0	1,5	0,7	1,3	6,1	3,4	1,1
Gross fixed capital formation (% YoY)	4,3	0,7	-0,8	-0,8	0,3	2,5	3,8	4,8	3,8	0,4	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	3,7	0,3	0,2	0,6	0,9	0,4	0,7	3,4	1,9	0,6
GDP growth contributions: Investments (pp)	0,6	0,1	-0,1	-0,2	0,0	0,3	0,6	1,0	0,7	0,1	0,5
GDP growth contributions: 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)***	-2,8	-3,3	-3,5	-3,6	-3,8	-3,4	-3,7	-4,3	-0,7	-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	13,9	15,9	14,7	13,9	8,7	6,1	5,0	5,1	13,6	8,4
Wibor 3M (%)**	4,77	7,05	7,38	7,38	7,38	7,38	6,63	6,01	2,54	7,38	6,01
NBP reference rate (%)**	3,50	6,00	7,00	7,25	7,25	7,25	7,25	6,25	1,75	7,25	6,25
EURPLN**	4,64	4,70	4,77	4,75	4,75	4,73	4,70	4,65	4,58	4,75	4,65
USDPLN**	4,19	4,48	4,42	4,32	4,32	4,26	4,16	4,04	4,03	4,32	4,04

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

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST*	
					CA	CONSENSUS**
		Monday 08/01/2022				
3:45	China	Caixin Manufacturing PMI (pts)	Jul	50,2		51,5
9:00	**Poland**	**Manufacturing PMI (pts)**	**Jul**	**44,4**	**42,9**	**43,6**
9:55	Germany	Final Manufacturing PMI (pts)	Jul	49,2	49,2	49,2
10:00	Eurozone	Final Manufacturing PMI (pts)	Jul	49,6	49,6	49,6
11:00	Eurozone	Unemployment rate (%)	Jun	6,6		6,6
15:45	USA	Flash Manufacturing PMI (pts)	Jul	52,3		
16:00	USA	ISM Manufacturing PMI (pts)	Jul	53,0	51,5	52,0
		Wednesday 08/03/2022				
8:00	Germany	Trade balance (bn EUR)	Jun	-1,0		0,2
10:00	Eurozone	Services PMI (pts)	Jul	50,6	50,6	50,6
10:00	Eurozone	Final Composite PMI (pts)	Jul	49,4	49,4	49,4
11:00	Eurozone	PPI (% YoY)	Jun	36,3		35,7
11:00	Eurozone	Retail sales (% MoM)	Jun	0,2		0,1
16:00	USA	Factory orders (% MoM)	Jun	1,6		1,2
16:00	USA	ISM Non-Manufacturing Index (pts)	Jul	55,3	52,5	53,5
		Thursday 08/04/2022				
8:00	Germany	New industrial orders (% MoM)	Jun	0,1		-0,7
13:00	UK	BOE rate decision (%)	Aug	1,25		1,50
14:30	USA	Initial jobless claims (k)	w/e	256		
		Friday 08/05/2022				
8:00	Germany	Industrial production (% MoM)	Jun	0,2		-0,4
14:30	USA	Unemployment rate (%)	Jul	3,6	3,6	3,6
14:30	USA	Non-farm payrolls (k MoM)	Jul	372	240	250

*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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