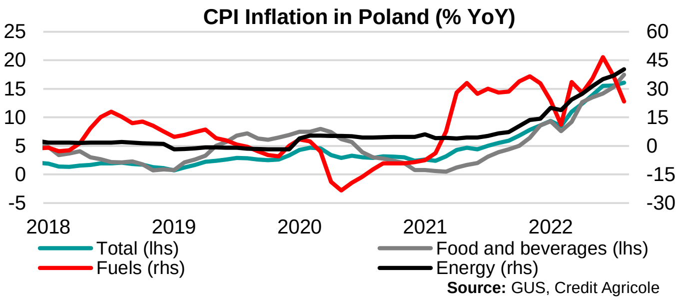
Decline in Eurozone manufacturing orders goes deeper

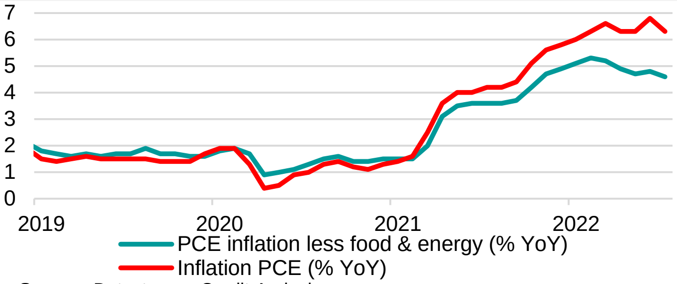
This week

- **The publication of inflation data for Poland, which is planned for Friday, will be the most important event this week.** In our opinion, inflation has risen to 16.3% YoY in September from 16.1% in August. We believe that the September inflation rise will be a result of a faster growth in the prices of food and energy. Our forecast is below the market consensus (16.5%), thus, its materialization will be slightly negative for the PLN and yields on Polish bonds.



Source: GUS, Credit Agricole

- **Some significant data on US economy will be released this week.** The publication of the final Q2 GDP estimate is planned for Thursday. We do not expect the annualised GDP growth to be revised comparing to the second estimate, so it will stand at -0.6% in Q2 vs. -1.6% in Q1. We forecast that the headline PCE inflation fell from 6.3% in July to 6.0% in August, while core inflation rose to 4.8% YoY in August vs. 4.6% in July. We expect the preliminary orders for durable goods to have decreased by 0.5% MoM in August vs. a 0.1% drop in July. In our opinion, data on new home sales (525k in August vs. 511k in July) will confirm that the activity on the US real estate market is low. We believe that the Conference Board index (104.5 pts in September vs. 103.2 pts in August) and the final University of Michigan index (59.5 pts vs. 58.2 pts) will indicate at a slight improvement in households' sentiment in September due to a good situation in the labour market and a drop in the prices of fuels. We believe this week's US data will be neutral for financial markets.



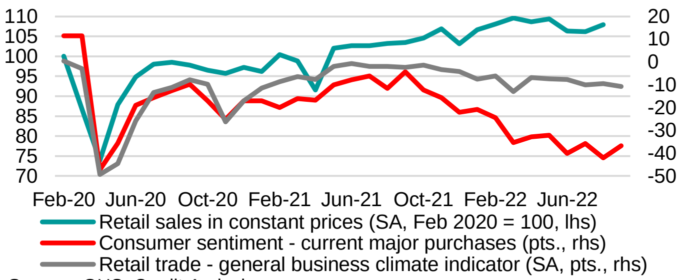
Source: Datastream, Credit Agricole

- **The flash HICP inflation estimate for the Eurozone will be published on Friday.** We expect the annualised growth in prices to have picked up to 9.6% YoY in September from 9.1% in August, driven to a large extent by the further rise in core inflation. Germany's flash HICP inflation figure, to be released on Thursday, will provide more information about inflation in the Eurozone. We expect that HICP inflation in Germany rose to 10.3% YoY in September from 8.8% in August. In our opinion, the publication of data on inflation will be neutral for the PLN and the prices of Polish bonds.
- **Business survey results for China's manufacturing will be released this week.** The market is not expecting the CFLP PMI index to have changed between August and September, so it will stay at 49.4 pts. The risk of spread of the COVID-19 pandemic and the related restrictions have a negative impact on the sentiment among businesses. We believe that data from China will be neutral for financial markets.
- **Today, the Ifo index will be published, reflecting the sentiment of German businesses in the manufacturing, construction, trade, and services sectors.** The market is expecting the index to have fallen from 88.5 pts in August to 87.0 pts in September. This forecast is supported by a drop in Germany's Composite PMI (see below). We believe that the publication of the index will be neutral for financial markets.
- **The publication of an update of Poland's long-term debt rating by Standard & Poor's is scheduled for Friday.** In April 2022, S&P affirmed Poland's long-term credit rating of A- with a stable outlook. In the then-published report, the agency noted that the war in Ukraine would

have a significant negative impact on Poland's economic situation. However, the agency also noted that a flexible economic policy and transfers of EU funds would be able to help mitigate the impact of the shock. In S&P's opinion, it would be possible to raise Poland's rating if Poland was able to maintain its economic growth without creating external imbalances once the impact of the war in Ukraine is over. On the other hand, the rating could be lowered if the negative impact of the war in Ukraine was stronger and longer-lasting than expected, which would cause a strong economic slowdown in the medium term. Furthermore, in the agency's opinion, the rating could also be lowered if the transfers of EU funds were reduced in the wake of tensions between Poland and the EU. None of those factors has materialized since the last rating review, so we expect S&P to affirm Poland's rating and outlook. S&P's decision will be announced after the European markets close, so we cannot expect any reaction of the FX market or the debt market to the decision before next week.

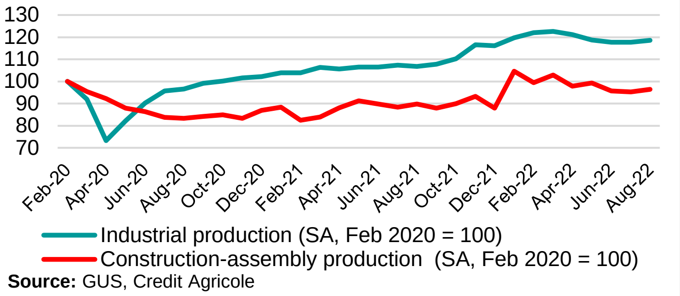
Last week

- **Nominal retail sales dynamics in Poland increased to 21.5% YoY in August comparing to 18.4% in July, running above the market consensus (20.0%) and our forecast (18.2%).** Retail sales in constant prices grew by 4.2% YoY in August vs. 2.0% in July. Seasonally-adjusted retail sales in constant prices increased by 1.6% MoM in August, growing for the first time after two months of falling. Retail sales in constant prices grew in most categories. In our opinion, the recovery in retail trade was largely driven up by favourable calendar effects. Nonetheless, it should be noted that real retail sales expressed on a year-on-year basis continued to fall in such categories as "motor vehicles, motorcycles, parts", "furniture, electronic goods and household appliances" and "other sales in specialised stores", which is indicative of a weaker demand on durable goods among households. Furthermore, consumer sentiment survey results are showing that the outlook for retail sales is quite pessimistic (see MACROpulse of 21/09/2022). Consequently, the retail sales growth can be expected to slow down in the coming months.



Source: GUS, Credit Agricole

- **Industrial production dynamics in Poland increased to 10.9% YoY in August comparing to 7.1% in July, running above the market consensus (9.9%) and below our forecast (11.5%).** Industrial production growth between July and August was driven up by the statistical effect of a favourable difference in the number of business days. Seasonally-adjusted industrial production increased by 0.7% MoM in August vs. a 0.5% growth in July. All three main industry segments contributed to the increase in production growth between July and August: export industries, construction-related ones, and other categories (see MACROpulse of 20/09/2022). Last week, data was also released on construction and assembly production, which grew by 6.1% YoY in August vs. 4.2% in July, running above the market consensus (4.3%) and our forecast (4.9%). Construction and assembly production growth between July and August was driven up by the statistical effect of a favourable difference in the number of business days mentioned above. Seasonally-adjusted construction and assembly



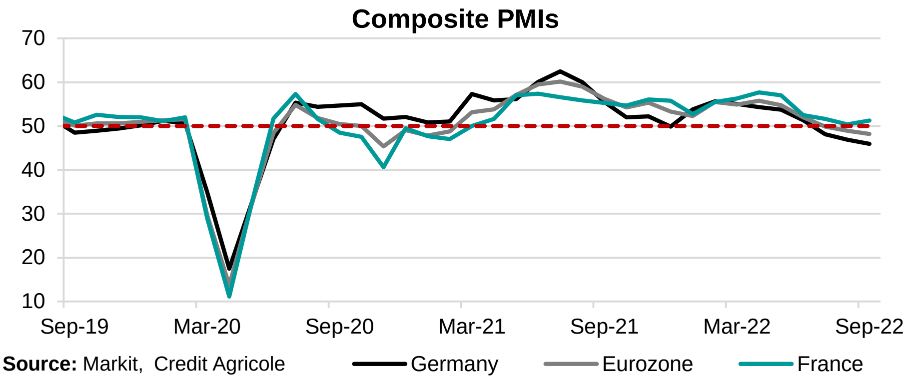
Source: GUS, Credit Agricole

production increased in August by 1.1% MoM. A strong growth in the "construction of buildings" category is particularly noteworthy when it comes to the production structure, and we believe it to be a result of completion of private investment projects, particularly the housing ones, which had been started in previous quarters (see MACROpulse of 21/09/2022). The data on industrial production and construction and assembly production combined with the data on retail sales (see above) indicate that the probability of the so-called technical recession occurrence in Poland in Q2 and Q3 2022, understood as a decline in seasonally-adjusted GDP growth for at least two consecutive quarters, is falling. An aggregate growth in seasonally-adjusted activity between July and August was seen in the three segments of economy that were mentioned above, which means that seasonally-adjusted GDP most probably will not fall in Q3 2022.

- **Nominal wage growth in Poland's business sector fell to 12.7% YoY in August from 15.8% in July, running below the market consensus (13.5%) and our forecast (13.8%).** The slowdown in nominal wages is to a large extent accounted for by the fade-out of one-off effects (bonus payments), which markedly added to wage growth in August (see MACROpulse of 20/09/2022). Employment growth in the enterprise sector increased to 2.4% YoY in August vs. 2.3% in July, running in line with the market consensus (2.4%) and slightly below our forecast (2.5%). In monthly terms, the number of employed fell by 5.7k. A stronger growth in employment combined with a slowdown of wage growth in the enterprise sector resulted in a decrease in the real wage fund growth rate in the enterprise sector, the rate being the product of employment and average wage adjusted for changes in prices, to -0.7% YoY in August vs. 2.5% in July and 2.1% in Q2. We believe that the slowdown of the employment growth will continue in the months to come due to a lower demand for workforce related to the economic growth slowdown that we expect.
- **At its last week's meeting, the Fed raised the Federal Funds Target Range by 75pb to [3.00%; 3.25%], in line with our forecast and market expectations.** However, the market's attention was focused primarily on the release of the Fed's latest macroeconomic projections. As expected, the GDP growth path was revised significantly downwards relative to the June projection, while the unemployment rate path was raised. The paths of total PCE inflation and core PCE inflation were also revised upwards, as well as the median for the level of US interest rates expected by the FOMC members. They now expect the Federal Funds Target Range to be [4.25%; 4.50%] at the end of 2022 (up by 100bp as compared to the June projection), [4.50%; 4.75%] at the end of 2023 (up by 87.5bp), [3.75%; 4.00%] at the end of 2024 (up by 50bp) and [2.75%; 3.00%] at the end of 2025. Thus, until the end of this year, FOMC members are still pricing in hikes totaling 125bp and one move of 25bp in 2023, which will conclude the Fed's interest rate cycle. At the same time, the September FOMC projection shows that the Fed will start lowering interest rates in 2024. During the press conference after the meeting, Federal Reserve chair J. Powell pointed out that the latest Fed macroeconomic projections indicate that the "soft landing" scenario may be difficult to achieve (the September FOMC projection assumes that GDP in 2022 will grow by 0.2% YoY vs. 1.7% in the June projection). The results of the FOMC projection pose an upside risk to our scenario, according to which interest rates will be raised by 50bp in November, by 25bp in December, followed by another 25bp move in Q1 2023 which will conclude the monetary tightening cycle. Thus, at the end of Q1 2023, the Federal Funds Target Range will be [4,00%; 4.25%]. We believe that the Fed will be discouraged from tightening the monetary policy by the significant deterioration in the US economic growth outlook.
- **Last week, vital US data was released.** Data on building permits (1,517k in August vs. 1,685k in July), housing starts (1,575k vs. 1,404k) and existing-home sales (4.80m vs. 4.82m) pointed to the continued drop in activity in the US real estate market primarily associated with rising mortgage costs. Last week's data from the US economy is consistent with our forecast, according to which the US GDP will expand by 1.7% in 2022, compared to a growth of 5.7% in 2021, and in 2023 will increase by 0.5% (see MACROmap from 12/09/2022).

- **Last week, a meeting of the Swiss National Bank (SNB) was held.** The SNB hiked its policy rate by 75bp to 0.50%, in line with market expectations. The statement issued after the meeting indicated that the hike was aimed at counteracting the build-up of inflationary pressure. At the same time, the SNB noted that it did not rule out further interest rate hikes should these be necessary to ensure mid-term price stability. The SNB also reiterated its readiness to make foreign currency interventions if they become necessary and published its latest macroeconomic projections. The SNB lowered its GDP growth forecast for 2022 to 2.0% vs. 2.5% in the June projection, citing the deteriorating global economic growth outlook. On the other hand, due to faster food and energy price growth, the inflation path was revised to 3.0% in 2022 (2.8% in the June projection), 2.4% in 2023 (1.9%) and 1.7% in 2024 (1.6%). Last week's decision poses an upside risk to our CHFPLN forecast (5.16 at the end of 2022 and 4.65 at the end of 2023).
- **According to flash data, the composite PMI (for manufacturing and the services sector) in the Eurozone contracted to 48.2 pts in September vs. 48.9 pts in August, in line with market expectations.** The index fell on the back of a drop in its components for both business activity in services and current output in manufacturing. In September, these components were below the 50-point threshold, separating growth from contraction in activity (see below).
- **We have revised our FX forecasts.** The Fed's hawkish attitude, including the increased scale of interest rate hikes, signalled in the September FOMC members' projection (see above), prompted us to revise our forecast for the EURUSD rate downwards. The ongoing war in Ukraine and growing market concerns about the negative economic consequences of the energy shock will also be a negative factor for the EUR exchange rate. We forecast that the EURUSD rate will stand at 0.97 and 1.07 in late 2022 and 2023, respectively. The above factors prompted us to raise our EURPLN forecast (4.90 at the end of 2022 and 4.65 at the end of 2023). Considering the evolution of EURUSD and EURPLN rates, we forecast that the USDPLN rate will amount to 5.05 at the end of this year and 4.35 at the end of 2023 (see quarterly table).

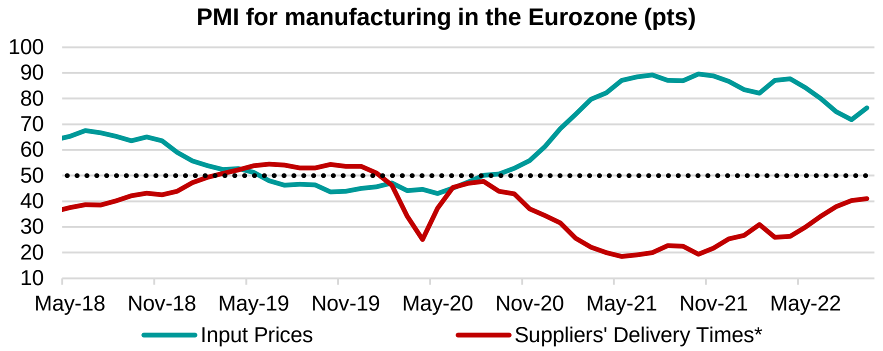
Decline in Eurozone manufacturing orders grows deeper



Source: Markit, Credit Agricole

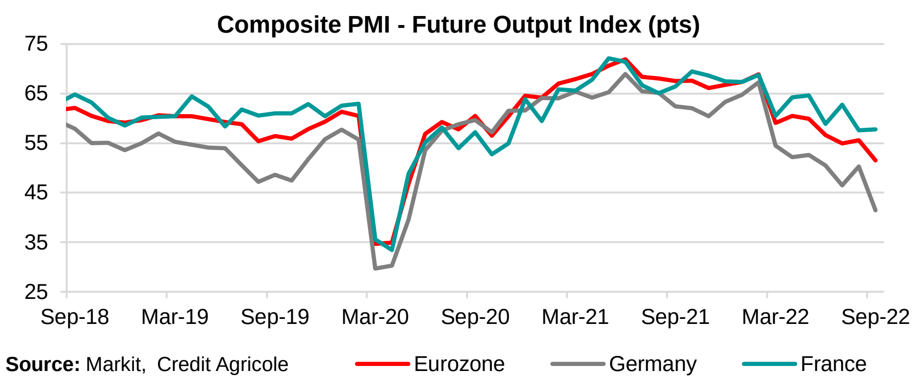
According to flash data, the composite PMI (for manufacturing and the services sector) in the Eurozone contracted to 48.2 pts in September vs. 48.9 pts in August, in line with market expectations. Disregarding the disruptions related to the COVID-19 pandemic in 2020-2021, this marked the index's lowest level since 2013. The composite PMI fell on the back of a decline in the component for business activity in services and for current output in manufacturing. The deterioration of the composite PMI was geographically wide-reaching. An improvement was recorded only in France, while Germany and other Eurozone economies surveyed showed worsening sentiment. The average value of the aggregate PMI index in the Eurozone was substantially lower in Q3 than in Q2 (49.0 pts vs. 54.2 pts). According to estimates provided by Markit, the company responsible for the PMI survey, such values indicate a contraction of Eurozone GDP of 0.1% QoQ in Q3 compared to 0.8% in Q2. This poses a slight downward risk to our GDP growth forecast for Q3 of 0.2% QoQ.

Decline in Eurozone manufacturing orders goes deeper



Source: Markit, Credit Agricole *the lower the index value, the higher intensity of problem

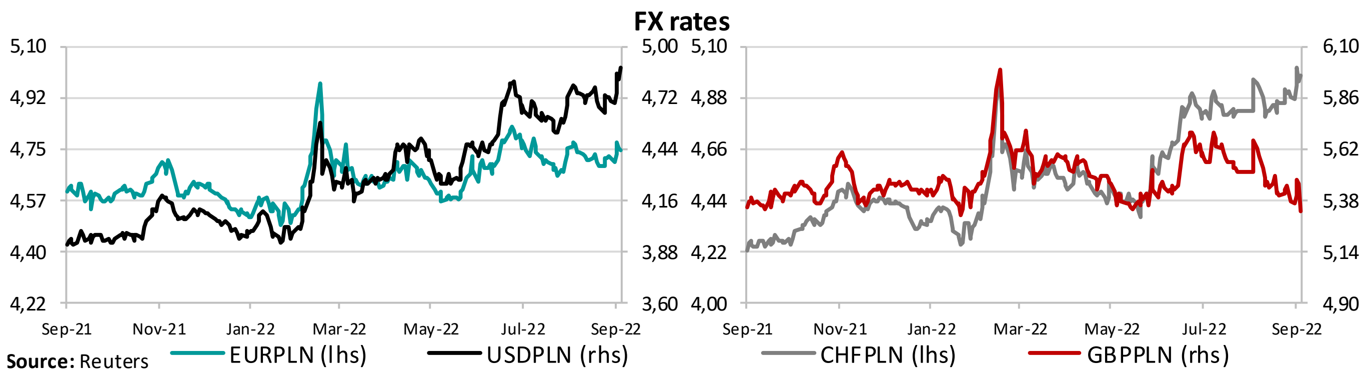
In September, the decline in manufacturing activity in the Eurozone was faster than in the services sector. According to the PMI report, manufacturing companies reported fewer issues with shortages of semi-finished products, components and raw materials due to the improving situation in transportation. For this reason, the increase in suppliers' delivery times in September was the lowest since October 2020. However, some businesses pointed out that the current situation in the energy market curbed their production and contributed to rising prices. The rise in input and output prices picked up again in September after four months of slowdown. It is also worth noting that supply bottlenecks are not the only source of the slowdown in Eurozone manufacturing as it is mainly attributable to lower demand. Total new orders in Eurozone manufacturing declined month-on-month for the third consecutive month at the fastest pace since the first wave of the COVID-19 pandemic in spring 2020. As a result, due to the weakening of demand, we are seeing a drop in production backlogs and an increase in inventories of finished products.



Source: Markit, Credit Agricole

The outlook for the economic situation in the Eurozone looks quite grim. In September, businesses cited concerns about the negative impact of strong energy price increases and headline inflation on their cost situation and consumer demand as the main drivers of deterioration in sentiment. Businesses also pointed to interest rate hikes, the war in Ukraine, and disruptions in the continuity of supply chains as risk factors. Consequently, in September the 12-month outlook for output in both manufacturing and services fell, causing the future output index for the entire economy to contract to the lowest level since 2020. The expected continued deterioration of business sentiment in the Eurozone supports our forecast of a slowdown of economic growth in Poland in the coming quarters (see quarterly table).

Domestic inflation data may weaken PLN



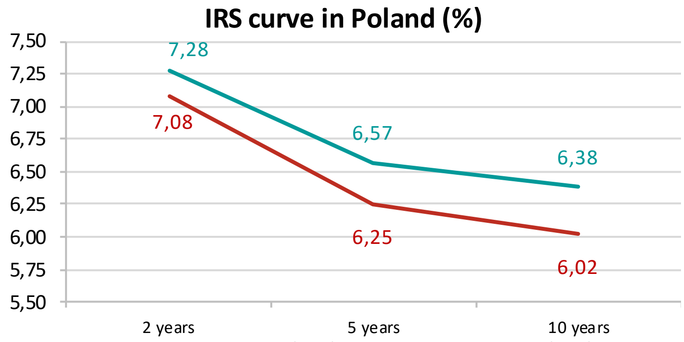
Source: Reuters

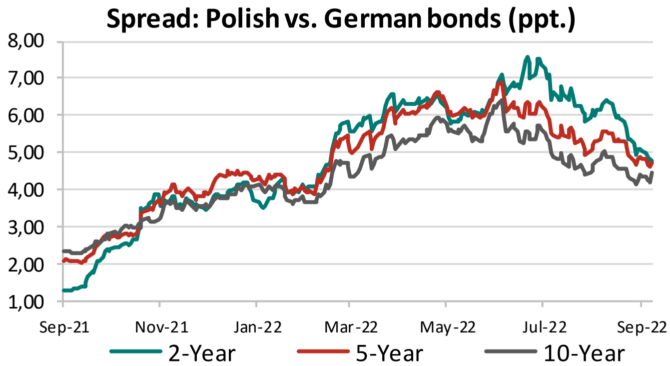
Last week, the EURPLN exchange rate increased to 4.7427 (weakening of the PLN by 0.6%). Last week saw an increase in the EURPLN rate, with the EURHUF currency pair following a similar trend. The main factors contributing to the weakening of currencies in the region were the Fed interest rate hike and the publication of the FOMC's hawkish macroeconomic projection. Late Friday, there was a correction which was supported by comments from MPC member J. Tyrowicz who said that the Council could raise interest rates by 200-400bp.

Last week, the USD also appreciated against the EUR spurred by the hawkish tone of the FOMC meeting. As a result, the EURUSD rate fell significantly below parity, where it had been hovering in the previous weeks. Early last week, the CHF appreciated against the EUR on the back of the SNB's anticipated interest rate hike. After the SNB's decision, Thursday saw a correction and an increase in the EURCHF rate as some investors expected a larger hike. Due to a fall of EURUSD and EURCHF exchange rates, coupled with the increase in the EURPLN rate, last week the PLN depreciated substantially against the USD and the CHF.

This week, the market will focus on the release of flash domestic inflation data, which may contribute to a slight decline in the PLN rate. We believe publications from the global economy scheduled for this week will not significantly affect the PLN exchange rate. The Friday update of Poland's rating by S&P will be announced after the European markets close. Thus its impact on the PLN will not materialise before next week. At the same time, information affecting the risk of stoppages in production due to a gas shock in Europe, which would significantly weaken the economic growth outlook in the Eurozone and Poland, will remain a major factor determining the PLN rate.

Domestic inflation data in market's spotlight





Source: Reuters

Last week, 2-year IRS rates grew to 7.28 (up by 20bp), 5-year to 6.57 (up by 32bp), and 10-year to 6.38 (up by 36bp). Last week saw a sharp rise in IRS rates following the core markets. IRS rates in the core markets grew on the back of decisions of key central banks (Fed, SNB, Bank of England) to hike interest rates. Locally, the factor spurring IRS rates to grow in Poland was also the comment made by MPC member J. Tyrowicz on Friday, who said that the Council could raise interest rates by 200-400bp.

This week, the key factor for IRS rates will be the publication of flash domestic inflation data in September scheduled for Friday, which may contribute to a drop in IRS rates. We believe other data releases from the global economy scheduled for this week will not significantly impact IRS rates. The Friday update of the Polish rating by S&P will be announced after the close of the European markets, thus its potential impact on IRS rates will materialise only next week. At the same time, information affecting the risk of stoppages in production due to a gas shock in Europe, which would significantly weaken the economic growth outlook in the Eurozone and Poland, will remain a major factor determining the curve.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland

Indicator	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	Sep-22
NBP reference rate (%)	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	6,75
EURPLN*	4,52	4,60	4,60	4,65	4,58	4,58	4,69	4,64	4,67	4,58	4,70	4,73	4,72	**4,80**
USDPLN*	3,83	3,98	3,98	4,10	4,03	4,08	4,18	4,19	4,43	4,27	4,48	4,63	4,70	**4,90**
CHFPLN*	4,18	4,27	4,35	4,47	4,42	4,40	4,56	4,54	4,55	4,45	4,69	4,86	4,80	**4,95**
CPI inflation (% YoY)	5,5	5,9	6,8	7,8	8,6	9,4	8,5	11,0	12,4	13,9	15,5	15,6	16,1	
Core inflation (% YoY)	3,9	4,2	4,5	4,7	5,3	6,1	6,7	6,9	7,7	8,5	9,1	9,3	9,9	
Industrial production (% YoY)	13,1	8,7	7,6	14,9	16,3	18,0	17,3	15,4	12,3	14,9	10,4	7,7	10,9	
PPI inflation (% YoY)	9,6	10,3	12,0	13,6	14,4	16,1	16,1	21,9	24,1	24,7	25,6	24,9	25,5	
Retail sales (% YoY)	10,7	11,1	14,4	21,2	16,9	20,0	16,5	22,0	33,4	23,6	19,9	18,4	21,5	
Corporate sector wages (% YoY)	9,5	8,7	8,4	9,8	11,2	9,5	11,7	12,4	14,1	13,5	13,0	15,8	12,7	
Employment (% YoY)	0,9	0,6	0,5	0,7	0,5	2,3	2,2	2,4	2,8	2,4	2,2	2,3	2,4	
Unemployment rate* (%)	5,8	5,6	5,5	5,4	5,4	5,5	5,5	5,4	5,2	5,1	4,9	4,9	4,8	
Current account (M EUR)	-527	-1817	-1368	-1269	-2685	-1046	-3787	-4010	-3476	-1485	-1468	-1735		
Exports (% YoY EUR)	23,9	9,4	8,9	7,4	26,6	19,9	11,2	18,7	7,9	27,2	25,8	19,9		
Imports (% YoY EUR)	33,6	22,4	24,2	23,9	35,1	35,0	22,1	38,2	24,5	36,4	31,5	23,5		

*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	5,5	0,6	0,2	-0,3	0,8	2,9	3,9	5,9	3,4	1,9
Private consumption (% YoY)		6,6	6,4	0,0	0,5	1,0	1,5	0,7	1,3	6,1	3,3	1,1
Gross fixed capital formation (% YoY)		4,3	7,1	1,2	0,2	-0,7	-0,3	3,0	3,8	3,8	2,6	1,8
Export - constant prices (% YoY)		2,0	5,2	4,5	3,5	1,8	0,5	2,9	4,5	11,8	3,8	2,4
Import - constant prices (% YoY)		8,8	7,8	2,2	1,1	0,7	-1,3	5,1	7,0	15,9	4,7	2,7
GDP growth contributions	Private consumption (pp)	3,9	3,6	0,0	0,2	0,6	0,9	0,4	0,7	3,4	1,8	0,6
	Investments (pp)	0,6	1,1	0,2	0,0	-0,1	0,0	0,5	0,8	0,7	0,4	0,3
	Net exports (pp)	-3,8	-1,2	1,4	1,4	0,7	1,2	-1,2	-1,3	-1,2	-0,3	-0,1
Current account (% of GDP)***		-2,8	-3,9	-3,9	-4,0	-3,8	-3,4	-3,7	-4,3	-0,7	-4,0	-4,3
Unemployment rate (%)**		5,4	4,9	4,7	5,0	5,3	5,0	4,7	5,0	5,4	5,0	5,0
Non-agricultural employment (% YoY)		2,3	0,6	2,0	2,2	2,2	1,2	0,7	0,3	1,8	1,8	1,1
Wages in national economy (% YoY)		9,7	11,8	10,3	10,2	11,1	9,4	9,2	8,5	8,9	10,5	9,6
CPI Inflation (% YoY)*		9,6	13,9	16,2	17,0	14,6	9,9	7,1	4,4	5,1	14,2	9,0
Wibor 3M (%)**		4,77	7,05	7,13	7,13	7,13	7,13	6,63	6,01	2,54	7,13	6,01
NBP reference rate (%)**		3,50	6,00	6,75	7,00	7,00	7,00	7,00	6,25	1,75	7,00	6,25
EURPLN**		4,64	4,70	4,80	4,90	4,90	4,85	4,70	4,65	4,58	4,90	4,65
USDPLN**		4,19	4,48	4,90	5,05	4,95	4,80	4,48	4,35	4,03	5,05	4,35

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

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST*	
					CA	CONSENSUS**
		Monday 09/26/2022				
10:00	Germany	Ifo business climate (pts)	Sep	88,5		87,0
		Tuesday 09/27/2022				
10:00	Eurozone	M3 money supply (% MoM)	Aug	5,5		5,4
14:30	USA	Durable goods orders (% MoM)	Aug	-0,1		-0,3
15:00	USA	Case-Shiller Index (% MoM)	Jul	0,4		
16:00	USA	New home sales (k)	Aug	511	525	499
16:00	USA	Richmond Fed Index	Sep	-8,0		
16:00	USA	Consumer Confidence Index	Sep	103,2	104,5	104,0
		Thursday 09/29/2022				
11:00	Eurozone	Business Climate Indicator (pts)	Sep	0,83		
14:00	Germany	Preliminary HICP (% YoY)	Sep	8,8	10,3	9,8
14:30	USA	Final GDP (% YoY)	Q2	-0,6	-0,6	-0,6
		Friday 09/30/2022				
3:30	China	Caixin Manufacturing PMI (pts)	Sep	49,4		49,4
3:45	China	Caixin Manufacturing PMI (pts)	Sep	50,2		
10:00	**Poland**	**Flash CPI (% YoY)**	**Sep**	**16,1**	**16,3**	**16,5**
11:00	Eurozone	Preliminary HICP (% YoY)	Sep	9,1	9,6	9,6
11:00	Eurozone	Unemployment rate (%)	Aug	6,6		6,6
14:30	USA	Real private consumption (% MoM)	Aug	0,2		
14:30	USA	PCE Inflation (% YoY)	Aug	6,3	6,0	6,0
14:30	USA	PCE core inflation (% YoY)	Aug	4,6	4,8	4,7
15:45	USA	Chicago PMI (pts)	Sep	52,2		51,8
16:00	USA	Final U. of Michigan Sentiment Index (pts)	Sep	59,5	59,5	59,5

*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