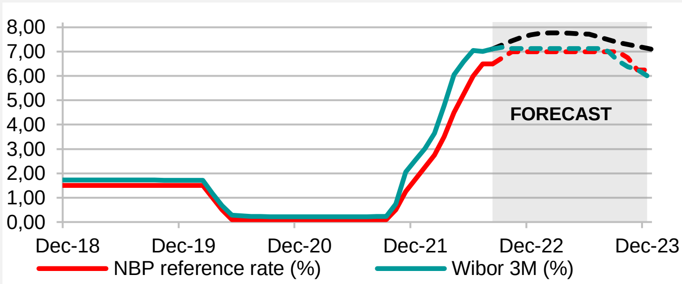
Polish manufacturing affected by cost pressure and weakening demand

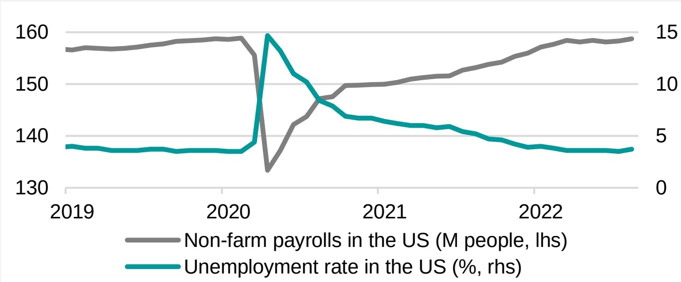
This week

- **The key event this week will be the MPC meeting planned for Wednesday.** We expect the MPC to raise interest rates by 25bp, to 7.00%. The main argument for continuing the monetary policy tightening cycle is higher-than-expected inflation in September (see below). The 25pb interest rate hike will be in line with market consensus, and thus it should be neutral for the PLN and yields on Polish bonds. This week will probably also see the NBP President's usual press conference, which will shed more light on Poland's monetary policy prospects.



Source: Reuters, Credit Agricole

- **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 270k in September vs. 315k in August, with the unemployment rate stabilized at 3.7%. Before Friday's data release, some data on the labour market will be provided in the ADP report on employment in the private sector (the market expects a 200k rise in August vs. 132k in July). The ISM manufacturing index will be released on Thursday; we expect the index to have fallen to 52.5 pts in September from 52.8 pts in August, which will be in line with regional business survey results. The release of data from the US should be neutral for financial markets.

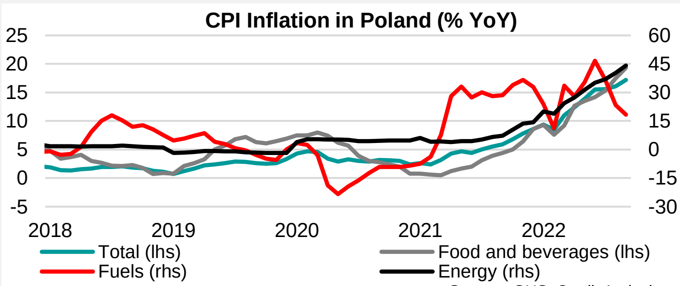


Source: Datastream, Credit Agricole

- **Poland's manufacturing PMI data for September has been released today.** The PMI index rose to 43.0 pts in September from 40.9 pts in August, running well above market consensus (40.1 pts) and our forecast (40.0 pts) – see below.

Last week

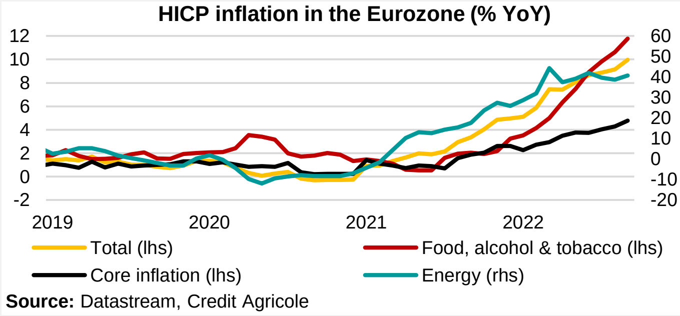
- **In accordance with the flash estimate, CPI inflation in Poland rose to 17.2% YoY in September from 16.1% in August, running well above market consensus and our forecast (16.5%).** Thus, inflation hit its highest level since February 1997. GUS published partial data on the inflation breakdown, which contains information about the pace of price rises in the following categories: 'food and non-alcoholic beverages', 'energy', and 'fuels'. The rise in inflation was driven by higher rises in the prices of food and non-alcoholic beverages' (19.3% YoY in September vs. 17.5% in August), energy (44.2% vs. 40.3%) and a rise in core inflation, which in accordance with our estimates stood at 10.7-10.8% YoY in September vs. 9.9% in August. These rises were partially offset by a slower growth in the prices of fuels, which



Source: GUS, Credit Agricole

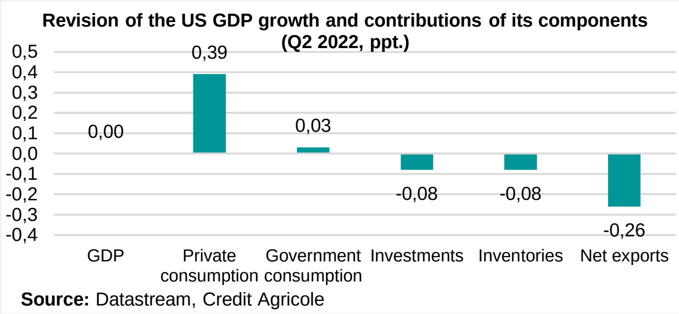
dropped to 18.3% YoY from 23.3%. Last week's data poses an upside risk to our scenario, which expects annual average inflation in Poland to pick up to 14.2% from 5.1% in 2021, and then to fall to 9.0% in 2023. We will present our revised macroeconomic scenario in the next MACROmap.

- **The Ifo index, reflecting business confidence in Germany in the manufacturing, construction, trade and services sectors, fell to 84.3 pts in September from 88.6 pts in August, well below market expectations (87.0 pts).** The fall in the index is accounted for by drops in its components both for the assessment of the current situation and for expectations. The sectoral breakdown shows deterioration in business confidence in all categories (manufacturing, services, trade, and construction). The release of the September Ifo index, combined with the PMI indices released two weeks ago (see MACROmap of 26/09/2022), poses a significant downside risk to our forecast expecting that Germany's quarterly GDP growth will drop to 0.0% in Q3 from 0.1% in Q2.
- **In accordance with the flash estimate, HICP inflation in the Eurozone rose to 10.0% YoY in September from 9.1% in August, running above market consensus and our forecast (9.6%).** Thus, inflation in the Eurozone hit an all-time high. The rise in inflation was driven by higher price rises in all main categories: 'food', 'industrial goods', 'energy', and by higher core inflation (4.8% YoY in September vs. 4.3% in August – a new record). The data poses an upside risk to our scenario, which expects inflation in the Eurozone to stand at 7.8% YoY over 2022 as a whole compared to 2.6% in 2021.



Source: Datastream, Credit Agricole

- **Some significant data on the US economy was released last week.** In accordance with the final estimate, annualized growth rate of US GDP increased from -1.6% in Q1 to -0.6% in Q2 (unchanged compared to the second estimate). Thus, the final estimate confirmed that Q2 2022 was the second consecutive quarter of GDP contraction, meaning that the US entered a technical recession in Q1 2022. The contribution of private consumption to economic growth in Q2 was revised upwards, offset by lower contributions from net exports, investment and inventories. Last week, we also saw preliminary data on durable goods orders, which dropped to -0.2% MoM in August vs. -0.1% in July, running above market expectations (-0,5%). Excluding transportation, monthly growth in durable goods orders remained unchanged in August compared to July, at 0.2%. At the same time, the growth rate of orders for civilian durable goods stabilised at 8.5% YoY, which in our view indicates a high probability of a continuation of the US investment recovery in H2 2022. Last week also saw the release of PCE inflation data, which dropped to 6.2% YoY in August from 6.4% in July. On the contrary, core PCE inflation picked up (4.9% vs. 4.7%), which shows that inflationary pressure in the US economy continues to rise. The improvement in US consumer sentiment was indicated by both the University of Michigan's final index (58.6 pts in September vs. 58.2 pts in August, 59.5 pts in preliminary estimate) and the Conference Board index (108.0 pts in September vs. 103.6 pts in August). Last week's data from the US economy supports our scenario that US GDP will expand by 1.7% in 2022, compared to 5.9% growth in 2021.



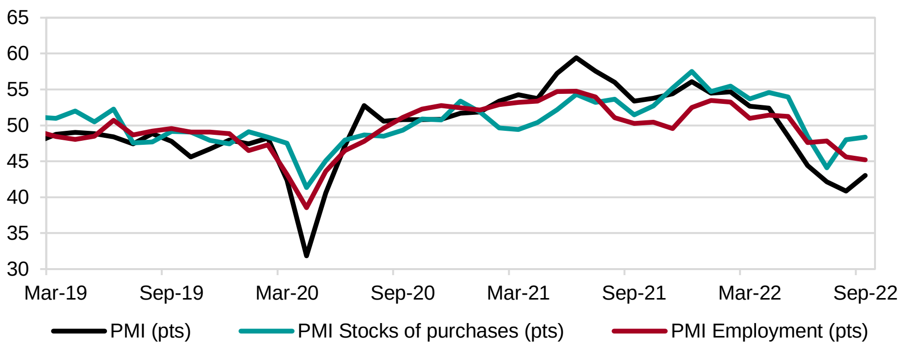
Source: Datastream, Credit Agricole

- **Last week saw the release of business survey results for Chinese manufacturing.** The CFLP PMI index indicated an increase in activity in Chinese manufacturing in September (50.1 pts, up from

49.4 pts in August). Caixin manufacturing PMI dropped to 48.1 pts in September from 49.5 in August, running well below market expectations (49.5 pts). The drop in the index is accounted for by lower contributions of 4 out of its 5 components (current output, new orders, inventories and employment), while higher delivery times contribution had the opposite effect. What is particularly noteworthy in the data is the first decline in current production since May 2022. According to the report, this was the result of government restrictions imposed due to the COVID-19 pandemic outbreak, temporary plant closures and reduced demand. Due to fears of the impact of the pandemic, businesses were pessimistic about their prospects. The index of expected production at a 12-month horizon fell in September to its lowest level since November 2019. We forecast that the Chinese government will step up its economic policy measures aimed at boosting growth in the coming months. Nevertheless, we forecast China's GDP growth to slow to 3.0% in 2022 from 8.1% in 2021.

- **Standard & Poor's has affirmed Poland's long-term rating at A- with a stable outlook.** In the report, the agency noted that the war in Ukraine and the associated stagflationary shock had hit the Polish economy hard. At the same time, the agency noted that Poland's competitive and diversified economy, as well as its low debt and sound public finances, would help mitigate the risks posed by the war. In the baseline scenario, S&P assumes that the Polish government will eventually reach an agreement with the European Commission and the National Reconstruction Plan will be launched, but this will probably not happen until late 2023. According to S&P, an upgrade of Poland's rating would be possible if, after the effects of the war in Ukraine have subsided, Poland maintains rapid economic growth and the situation in public finances turns out to be better than the agency's forecasts. S&P expects the general government deficit to be 4.5% of GDP in 2022 and 5.8% of GDP in 2023. On the other hand, the rating could be downgraded if the negative impact of the war in Ukraine is greater and more prolonged than expected, resulting in a significant economic slowdown in the medium term. In addition, a downgrade would be possible in the event of lower transfers of EU funds following Polish-EU tensions. The rating stabilisation is neutral for the PLN and bond yields.

Polish manufacturing affected by cost pressure and weakening demand



Source: Markit

PMI for Polish manufacturing increased from 40.9 pts in August to 43.0 pts in September, running clearly above market consensus (40.1 pts) and our forecast (40.0 pts). This means that the index has remained below the 50-point level separating growth from contraction for five consecutive months. The increase in the index resulted from higher contributions of 3 out of its 5 components (current output, new orders and inventories), while lower contributions of delivery times and employment had the opposite effect.

Particularly noteworthy in the data structure is further decline in the employment component, which has remained below the 50-point threshold for four months and in September recorded its lowest value since

May 2020, i.e. the first wave of the pandemic. According to the Markit report, the continuing reduction in employment in Polish manufacturing is due to increasing cost pressures amid a worsening economic outlook. Businesses' concerns are also reflected in the decline in the component for expected production at a 12-month horizon, which is already only slightly above the 50-point level.

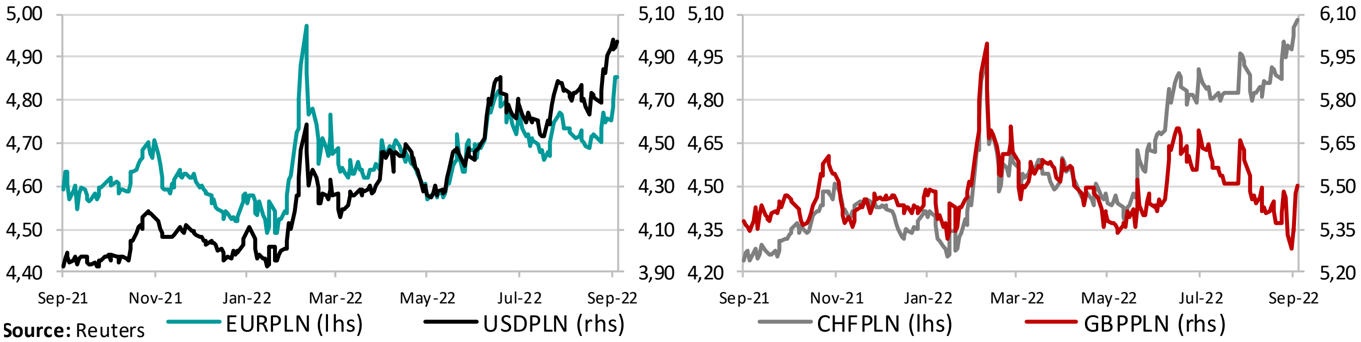
Also worth noting in the data is the continued high rate of decline in the production backlogs. This is due to the fact that businesses, in an environment of sharply reduced demand, are seeking to utilise capacity by realising previously accumulated backlogs. In addition, there was also a further increase in stocks of finished goods in September. This indicates that businesses are most likely to further reduce their output, adjusting it to the declining demand.

The data also points to continuing cost pressures in Polish manufacturing. What supports this assessment is a renewed increase in the component for the input prices after 5 months in a row of decline. As a result, the component for output prices decreased only slightly in September vs. its August value.

Today's data on sentiment in the manufacturing sector poses an upside risk to our scenario in which the quarterly GDP growth in Q3 2022 will be negative, which means that Poland would go into the so-called technical recession understood as a decline in seasonally-adjusted GDP growth for at least two consecutive quarters. Our revised macroeconomic forecasts will be presented in the next MACROmap. In our opinion, today's data is slightly positive for the PLN and the yields on Polish bonds.

A. Glapiński's press conference crucial for the PLN

FX rates

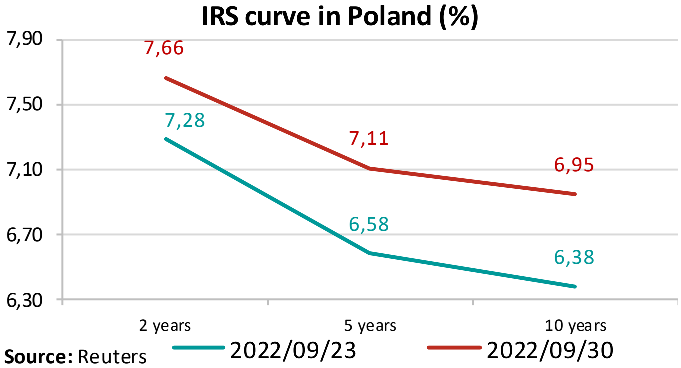


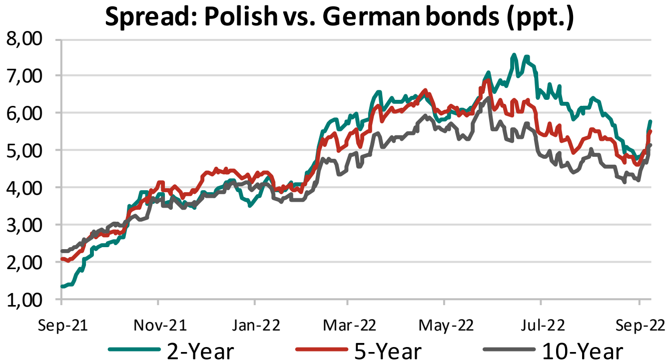
Source: Reuters

Last week, the EURPLN rate increased to 4.8529 (the PLN weakened by 1.9%). Throughout last week, the EURPLN exchange rate followed an upward trend. As a result, it exceeded the 4.88 level for the first time since the outbreak of the war in Ukraine. The weakening of the PLN was influenced by an increase in global risk aversion reflected by the rise in the VIX index. What contributed to the deterioration in market sentiment last week were the mobilisation of military forces in Russia and Belarus, the destruction of the Nord Stream pipelines and a bond sell-off in the UK. Following the publication of higher-than-expected domestic inflation data on Friday, the PLN continued its depreciation. The increase in risk aversion pushed the PLN down not only against the EUR, but also against other major currencies (USD, GBP and CHF).

S&P's Friday decision to affirm Poland's rating and its outlook is neutral for the Polish currency. In contrast, today's publication of Polish manufacturing PMI data is slightly positive for the PLN. This week's MPC meeting will be crucial for the PLN, although in our view it will not have a significant impact on its exchange rate. On the other hand, the press conference of the NBP governor, which will probably take place the day after the MPC meeting, may contribute to increased volatility of the Polish currency. We believe that the publication of US labour market data scheduled for this week will not have a significant impact on the exchange rate of the Polish currency. At the same time, information affecting the assessment of the risk of a gas shock in Europe will remain a factor determining the PLN exchange rates as it may significantly weaken the prospects for economic growth in the Eurozone and Poland.

MPC decision in the spotlight





Source: Reuters

Last week, 2-year IRS rates increased to 7.66 (up by 38bp), 5-year rates to 7.11 (up by 53bp) and 10-year ones to 6.95 (up by 57bp). IRS rates increased sharply last week. The main factor pushing IRS rates up was the rise in risk aversion (see above), which was reflected in the rising spread between the yields of Polish and German bonds. An additional factor contributing to the rise in IRS rates was the intensification of market expectations of interest rate rises in Poland. The FRA contract market is still pricing increases of around 90bp.

S&P‘s Friday decision to affirm Poland's rating and its outlook is neutral for IRS rates. On the other hand, today's Polish manufacturing PMI data may favour a rise in IRS rates. This week the MPC's decision on interest rates will be in the spotlight, although we do not believe it will have a significant impact on the curve. The traditional speech by the NBP governor, on the other hand, may lead to an increased volatility in IRS rates. Other data from the global economies will not have a significant impact on the curve, in our opinion. Information affecting the assessment of the risk of a gas shock in Europe will remain an important factor shaping the curve as it may significantly weaken the prospects for economic growth in the Eurozone and Poland.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland

Indicator	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	Oct-22
NBP reference rate (%)	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	**7,00**
EURPLN*	4,60	4,60	4,65	4,58	4,58	4,69	4,64	4,67	4,58	4,70	4,73	4,72	4,85	**4,86**
USDPLN*	3,98	3,98	4,10	4,03	4,08	4,18	4,19	4,43	4,27	4,48	4,63	4,70	4,97	**5,01**
CHFPLN*	4,27	4,35	4,47	4,42	4,40	4,56	4,54	4,55	4,45	4,69	4,86	4,80	5,08	**5,09**
CPI inflation (% YoY)	5,9	6,8	7,8	8,6	9,4	8,5	11,0	12,4	13,9	15,5	15,6	16,1	**17,2**	
Core inflation (% YoY)	4,2	4,5	4,7	5,3	6,1	6,7	6,9	7,7	8,5	9,1	9,3	9,9	**10,7**	
Industrial production (% YoY)	8,7	7,6	14,9	16,3	18,0	17,3	15,4	12,3	14,9	10,4	7,1	10,9	**9,7**	
PPI inflation (% YoY)	10,3	12,0	13,6	14,4	16,1	16,1	21,9	24,1	24,7	25,6	25,5	25,5	**25,4**	
Retail sales (% YoY)	11,1	14,4	21,2	16,9	20,0	16,5	22,0	33,4	23,6	19,9	18,4	21,5	**19,9**	
Corporate sector wages (% YoY)	8,7	8,4	9,8	11,2	9,5	11,7	12,4	14,1	13,5	13,0	15,8	12,7	**12,5**	
Employment (% YoY)	0,6	0,5	0,7	0,5	2,3	2,2	2,4	2,8	2,4	2,2	2,3	2,4	**2,5**	
Unemployment rate* (%)	5,6	5,5	5,4	5,4	5,5	5,5	5,4	5,2	5,1	4,9	4,9	4,8	**4,7**	
Current account (M EUR)	-1817	-1368	-1269	-2685	-1046	-3787	-4010	-3476	-1485	-1468	-1735	**-1156**		
Exports (% YoY EUR)	9,4	8,9	7,4	26,6	19,9	11,2	18,7	7,9	27,2	25,8	19,9	**16,1**		
Imports (% YoY EUR)	22,4	24,2	23,9	35,1	35,0	22,1	38,2	24,5	36,4	31,5	23,5	**18,0**		

*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
GDP growth contributions: Investments (pp)	0,6	1,1	0,2	0,0	-0,1	0,0	0,5	0,8	0,7	0,4	0,3
GDP growth contributions: 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	16,3	17,0	14,6	9,9	7,1	4,4	5,1	14,2	9,0
Wibor 3M (%)**	4,77	7,05	7,18	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	4,85	4,90	4,90	4,85	4,70	4,65	4,58	4,90	4,65
USDPLN**	4,19	4,48	4,97	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	FORECAST* CONSENSUS**
		Monday 10/03/2022				
9:00	**Poland**	**Manufacturing PMI (pts)**	**Sep**	**40,9**	**40,0**	**40,1**
9:55	Germany	Final Manufacturing PMI (pts)	Sep	48,3	48,3	48,3
10:00	Eurozone	Final Manufacturing PMI (pts)	Sep	48,5	48,5	48,5
15:45	USA	Flash Manufacturing PMI (pts)	Sep	51,8		
16:00	USA	ISM Manufacturing PMI (pts)	Sep	52,8	52,5	52,3
		Tuesday 10/04/2022				
11:00	Eurozone	PPI (% YoY)	Aug	37,9		43,2
16:00	USA	Factory orders (% MoM)	Aug	-1,0		0,3
		Wednesday 10/05/2022				
8:00	Germany	Trade balance (bn EUR)	Aug	5,4		4,0
10:00	Eurozone	Services PMI (pts)	Sep	48,9	48,9	48,9
10:00	Eurozone	Final Composite PMI (pts)	Sep	48,2	48,2	48,2
14:15	USA	ADP employment report (k)	Sep	132		200
16:00	USA	ISM Non-Manufacturing Index (pts)	Sep	56,9	56,5	56,0
	Poland	**NBP rate decision (%)**	**Oct**	**6,75**	**7,00**	**7,00**
		Thursday 10/06/2022				
8:00	Germany	New industrial orders (% MoM)	Aug	-1,1		-0,7
11:00	Eurozone	Retail sales (% MoM)	Aug	0,3		-0,4
		Friday 10/07/2022				
8:00	Germany	Industrial production (% MoM)	Aug	-0,3		-0,5
14:00	**Poland**	**MPC Minutes**	**Oct**			
14:30	USA	Unemployment rate (%)	Sep	3,7	3,7	3,7
14:30	USA	Non-farm payrolls (k MoM)	Sep	315	270	250
16:00	USA	Wholesale inventories (% MoM)	Aug	1,3		1,1
16:00	USA	Wholesale sales (% MoM)	Aug	-1,4		

*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

MACRO MAP

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