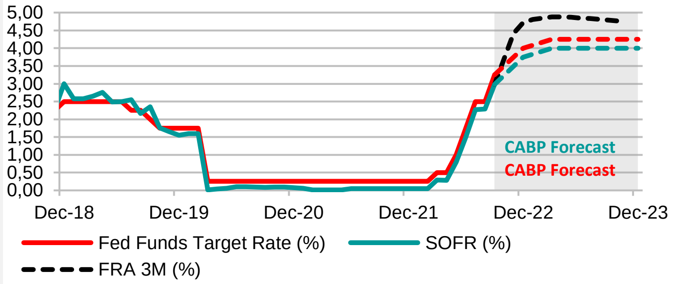
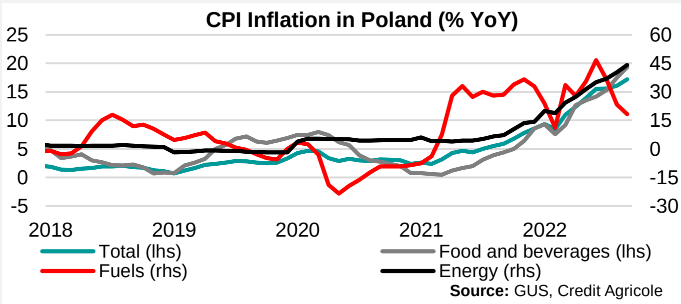
This week

- **The key event this week will be the publication of *Minutes* of the last FOMC meeting, planned for Wednesday.** An important part of the *Minutes* will be information about differences in individual Fed member's expectations regarding the pace of monetary policy tightening, including in particular further 75bp hikes. At the press conference following the last meeting, the Fed Chairman J. Powell noted that the Fed's most recent macroeconomic forecasts showed that 'a soft landing' scenario might by hard to achieve. The cost of lowering inflation in the form of an economic slowdown will probably be an important point discussed by the FOMC members in the *Minutes*. We believe that the release of the *Minutes* will add to volatility in financial markets.



Source: Reuters, Credit Agricole

- **This week will see the release of some important data on the US economy and business survey results.** We expect headline inflation to have dropped to 8.1% YoY in September from 8.3% in August, driven by slower growth in energy prices. At the same time, we expect to see a rise in core inflation in September (to 6.5% YoY from 6.3% in August) due to low base effects and continuing inflationary pressure. We forecast nominal retail sales to have grown by 0.3% MoM in September (at the same rate that was seen in August). 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 deterioration in household sentiment (58.0 pts in October vs. 58.6 pts in September) driven by rising inflation. We believe that the overall impact of US economy figures on financial markets will be limited.
- **China's foreign trade figures will be released on Friday.** We expect China's trade balance to have grown to USD 81.3bn in September from 79.4bn in August. We forecast that growth in exports slowed to 4.7% YoY in September from 7.1% in August, while growth in imports picked up to 0.5% YoY from 0.3% in August. This data will be important in the context of impacts of disruptions in energy supplies and the epidemic situation in China on disruptions in global supply chains. We believe that data from China will be neutral for financial markets.
- **Poland's final inflation figures for September will be released on Friday.** We expect YoY price growth of 17.2%, in line with the flash estimate, compared to 16.1% in August. The rise in inflation was driven by higher contributions of food and energy prices, and by core inflation. What will be particularly interesting about the data is an answer to the question about which categories account for the strong rise in core inflation, from 9.8% YoY in August to 10.7-10.8% (our estimate) in September. We believe that the release of inflation figures will be neutral for the PLN and yields on Polish bonds.



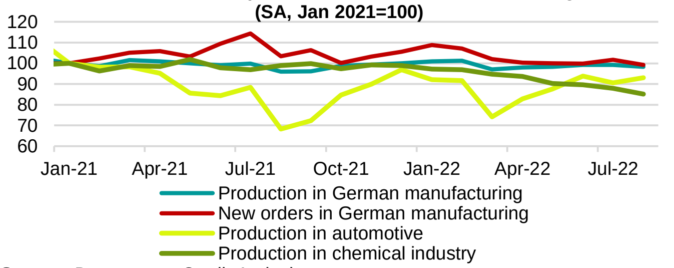
Source: GUS, Credit Agricole

- **Data on Poland's balance of payments for August will be released on Friday.** We expect the current account deficit to have shrunk to EUR 1156m from EUR 1735m in July, driven primarily by a higher balance of trade in goods. We forecast that growth in exports fell from 19.9% YoY in July to 16.1% in August, and growth in imports slowed from 23.5% YoY to 18.0% due to high base effects. In our opinion, the balance of payments figures will be neutral for the PLN and yields on Polish bonds.

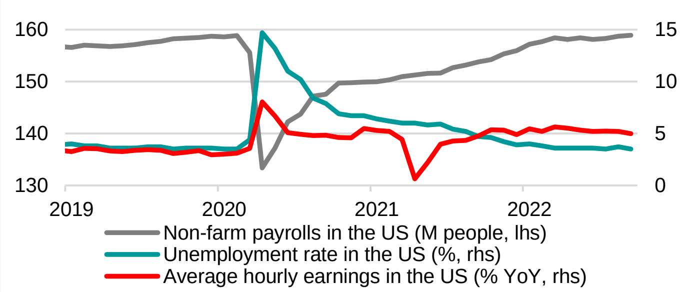
Last week

- **The MPC made a surprising decision last week to keep interest rates unchanged (the NBP reference rate kept at 6.75%).** Both we and market consensus had expected a 25bp hike. The tone of the press release following the October MPC meeting did not change much compared to the September press release. The MPC repeated that a further slowdown of GDP growth was forecast for the coming quarters, while the economic outlook was subject to significant uncertainty. The MPC again said that further decisions of the MPC would depend on incoming information regarding perspectives for inflation and economic activity, including the impact of the Russian military aggression against Ukraine on the Polish economy. The MPC also added that due to the scale and persistence of current shocks, beyond monetary policy control, return of inflation towards inflation target would be gradual. In our opinion, the press release suggests that last week's decision of the MPC should not be seen as the end of the monetary policy tightening cycle, as the door remains open for another hike (see MACROpulse of 05/10/2022). This was confirmed by the NBP Governor A. Glapiński at his press conference on Thursday saying that the decision did not mean the end of the rate hike cycle, and that the MPC adopted a 'wait and see' strategy until the release of the NBP's November inflation report. Last week's decision of the MPC reflects the reluctance to keep on tightening monetary policy declared by the NBP Governor and some MPC members despite persistently high inflation, which is unlikely to go back to the inflation target in the monetary policy transmission horizon. We believe that further steep rises in inflation in the coming months driven by a combination of energy price rises, their subsequent inflationary effects, and loose monetary (including the weakening of the PLN) and fiscal policies will prompt the MPC to go ahead with further rate hikes. In our revised scenario, we expect the MPC to hike interest rates twice more, by 25bp in November and 25bp in December, and to end the rate hike cycle with the reference rate of 7.25% (see below).
- **Some important data on German economy was released last week.** Industrial production slowed to -0.8% MoM in August, compared to 0.0% in July, driven by lower production growth in energy and construction while higher production growth in manufacturing had the opposite effect. What is noteworthy in the data is the continued sharp decline in the production of chemical products over the past few months, which we believe is largely the result of high gas prices. The growth of orders in manufacturing also slowed, to -2.4% MoM in August, vs. -1.9% in July, running clearly below market expectations (-0.8%). A drop in orders was recorded both for domestic and foreign orders. The reduction in export orders was due to lower orders from Eurozone countries, while orders from outside the single currency area increased. Taking into account the September PMI for German manufacturing, the decline in orders can be expected to continue in the coming months (see MACROmap of 26/09/2022). Last week, we also learnt about Germany's foreign trade balance data, which fell to EUR 1.2bn in August, compared to EUR 3.4bn in July. At the same time, both import and export growth accelerated in August, 3.4% MoM in August vs. 0.1% in July for imports and 1.6% vs. -1.6% for exports. Last week's data, combined with business survey results, supports our forecast that Germany's quarterly GDP growth would slow to -0.2% in Q3 vs. 0.1% in Q2 and further to -0.4% in Q4. Thus, we assume that the German economy has entered a technical recession in Q3.

New orders and production in German manufacturing (SA, Jan 2021=100)



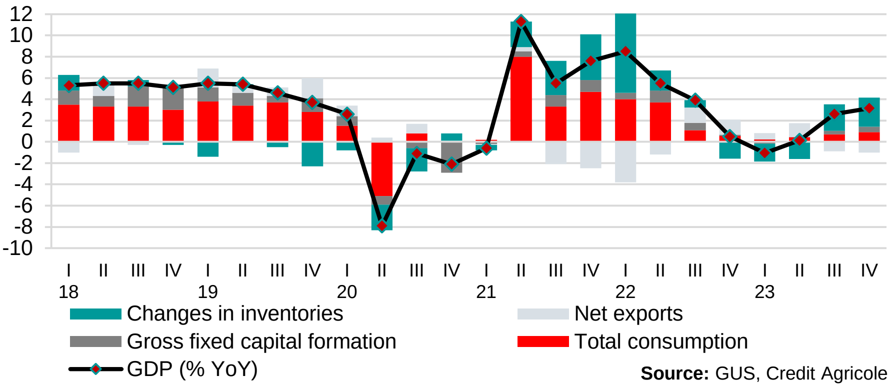
Source: Datastream, Credit Agricole



Source: Datastream, Credit Agricole

Some significant data on the US economy was released last week. Non-farm payrolls rose by 263k in September vs. 315k in August, running slightly above market expectations (250k). The strongest increases in employment were seen in education and health services (+90.0k), leisure and hospitality (+83.0k), and in professional and business services (+46.0k). Unemployment fell to 3.5% in September from 3.7% in August, running markedly below market expectations (3.7%). At the same time, the labour force participation rate decreased in September to 62.3% compared to 62.4% in August, which partly explains the unexpected drop in the unemployment rate. Hourly wage growth slowed to 5.0% YoY in September vs. 5.2% in August, which may suggest that wage pressures in the US economy are starting to ease. Last week also saw the release of business surveys results. The deterioration in manufacturing was indicated by the ISM index, which fell to 50.9 pts in September vs. 52.8 pts in August. The index was driven down by lower contributions new orders, employment and delivery times, with an opposite impact coming from higher contributions of current output and inventories components. Particularly noteworthy in the data is the further slowdown in growth in input prices, which in September hit its lowest level since June 2022. This indicates expiring cost pressures in US manufacturing. The ISM services index also dropped, to 56.7 pts in September from 56.9 pts in August. The drop resulted from lower contributions of 3 out of its 4 components (for business activity in services, new orders and delivery times) while higher employment component had the opposite effect. Last week's data from the US economy, in particular the non-farm payroll figures, support our scenario that US GDP will expand by 1.7% in 2022, compared to 5.9% growth in 2021.

Forecasts for 2022-2023



Source: GUS, Credit Agricole

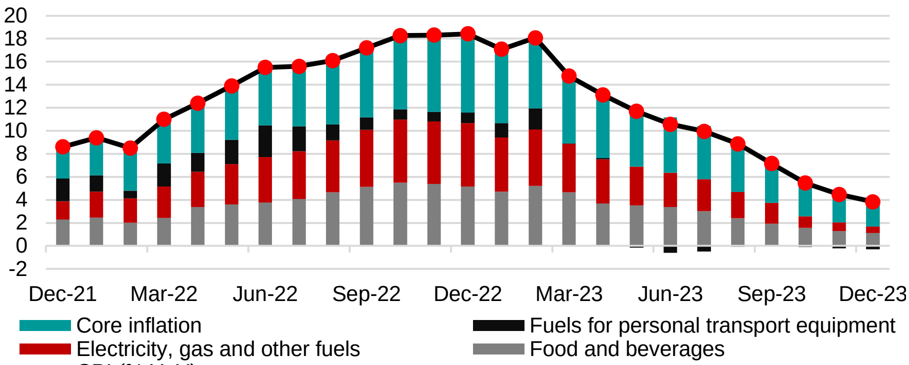
In view of recent data on the real economy, as well as trends visible in economic business surveys results, we have revised our macroeconomic scenario (see table on p. 8). We forecast that the annual average economic growth in 2022 will stand at 4.3% (3.4% before the revision) and 1.2% in 2023 (previously 1.9%).

Better-than-expected retail sales, industrial production and construction and assembly production data for July and August were the main argument in favour of the upward revision of the expected economic growth figures for 2022. 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 did not fall in Q3 2022. Therefore, in our opinion, in Poland in period Q2 - Q3 2022 there was no so-called technical recession understood as a decline in seasonally-adjusted GDP growth for at least two consecutive quarters. Furthermore, the coming data and business survey results show that consumption demand is currently stronger than we expected. Consequently, we have revised our consumption forecast for Q3. Furthermore, we have revised our forecast for growth in gross expenditures on fixed assets in H2 2022 slightly upwards based on the data on capital goods production.

However, despite the fact the situation has currently improved, the medium-term outlook for economic growth is still pessimistic. Potential disruptions in gas supplies in Poland and abroad remain the main risk factor. This factor carries a significant degree of uncertainty as it is difficult to estimate how quickly the companies will be able to switch to other energy sources than gas. The scale of the shock will also depend on meteorological conditions during the heating season. The final texts of acts aimed at curbing the growth in prices for enterprises and local government units also remain unknown.

Given the continuing tensions between Poland and the European Union, we do not think that the National Recovery Plan (NRP) will be launched in 2023. We expect some of the projects intended to be launched as part of the NRP to be financed with domestic funds (such NRP pre-financing is already taking place), but the positive stimulus for investments and economic growth will not be so strong as we previously forecasted. We do not think the government will adopt the tax on excessive gains, but nonetheless the increased uncertainty regarding the economic outlook (including the developments of the war in Ukraine and the prices of energy) will make some enterprises postpone their investment projects. To sum up, we have decided to revise our public and corporate investments forecast for 2023 downwards. We expect the growth in gross expenditures on fixed assets to stand at 1.1% YoY in 2023 vs. 3.5% in 2022.

Our consumption forecast has also been revised downwards due to higher inflation expected in 2023 (see below). A year-on-year drop in real wage fund in the national economy (being the product of employment and average wage adjusted for price growth), which we expect to take place until Q2 2023, will be driving the consumption growth down to slightly above zero. With parliamentary elections planned for the next year, we believe that the government will launch new social transfers (such as 14th and 15th pensions or revalorisation of the *Family 500+* programme), which will drive the disposable income and private consumption up. Therefore, we expect the real consumption growth to stand at 0.4% YoY in 2023 vs. 3.5% in 2022). Otherwise, it could fall below zero in 2023.



Source: GUS, Credit Agricole

We have revised our inflation forecast upwards based on the preliminary inflation data for September (see above). We expect the headline inflation to stand at 14.5% YoY in 2022 and 10.4% in 2023 (14.2% and 9.0% respectively before revision). We estimate core inflation to have gone up strongly between August and September. Since this data is only preliminary, we cannot say precisely which categories were behind the growth. However, we believe that inflation pressure was wide, and was primarily related to the increase in the costs of companies' operations (including the growing energy prices). In our opinion, this cost and pricing pressure will continue to be seen in the coming months, and it will be driving the core inflation up. Like in the previous forecasting round, we still believe that the government will adopt measures to curb the growth in energy prices in the households' inflation basket, and therefore we have not made any significant revisions with respect to our price forecast for this category. We assume that the electricity price for households consuming less than 2000 kWh per year will be frozen in accordance with the government's proposal, while for consumers going above that threshold the electricity prices will go up by 30% on average. Due to the PLN depreciation, we have revised the fuel price growth path upwards.

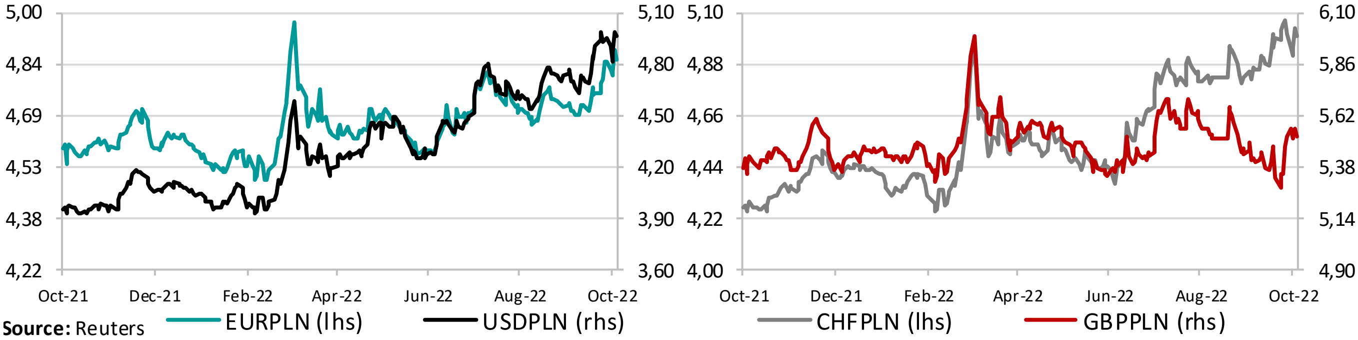
We have slightly revised our food price path too. On the one hand, the September figures turned out to be lower than we had expected, but on the other hand, due to the growing cost pressure, the growth in the prices of food in 2023 may not slow down as much as we initially expected. Consequently, we forecast the growth in the prices of food and non-alcoholic beverages to go up to 14.9% YoY in 2022 (15.0% before revision) vs. 3.2% in 2021, while in 2023 it will fall to 11.5% (11.2%). At the same time, we continue to believe that the growth in the prices of food and non-alcoholic beverages will reach its local peak in Q4 2022, and stand above 20% YoY. The main upside risk for our food price path is the potential gas shock in Europe. To sum up, we believe that the headline inflation will reach its local peak in December at 18.4% YoY, and then it will start going down gradually. In our scenario, we have assumed that the Anti-inflationary Shield will be extended until the end of 2023. If the Shield programme was to be terminated earlier, then, in accordance with our calculations, the average annual inflation would go up above 12%. We think the government is likely to wish to avoid such a scenario given the parliamentary elections planned for 2023.

We also believe that further, significant inflation growth that we expect to take place in the coming months as a result of the combined impact of growth in energy prices, the second-round inflation effects of such growth, and loose monetary (including PLN depreciation) and fiscal policy will make the Council raise interest rates once again in November. This scenario is supported by data published by the GUS last week, which showed that the GDP growth in 2021 was significantly stronger. The data indicates that the positive demand gap and the related inflation pressure may persist longer than we expected, which will increase the price dynamics expected in the inflation projection that is to be published by the NBP in November. We expect the MPC to raise interest rates in its November and December meetings, each time by 25bps, and end the monetary policy tightening cycle with the reference rate reaching its target level of 7.25%. Such a scenario would be consistent with the NBP Governor’s statements made in his press conference last week (see above).

We maintain our forecast for the PLN exchange rate presented in MACROmap of 26/09/2022. Given Fed's hawkish attitude, including the increased scale of interest rate hikes signalled in the September FOMC members’ projection, the war in Ukraine, growing market concerns about negative economic consequences of the energy shock, and the MPC’s dovish attitude, we expect the EURPLN to go up to 4.90 at the end of 2022. We forecast the EURPLN to go down to 4.65 at the end of 2023.

Publication of FOMC Minutes may induce higher volatility of the PLN

FX rates



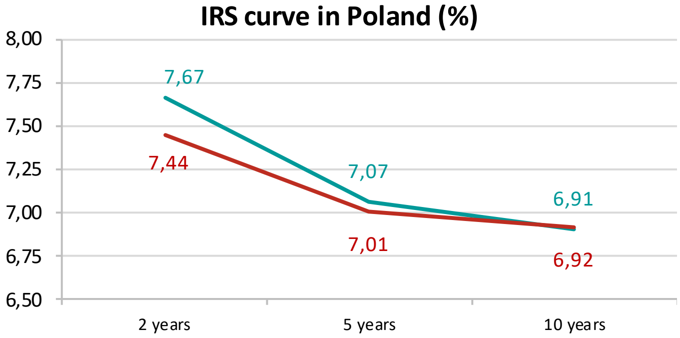
Source: Reuters

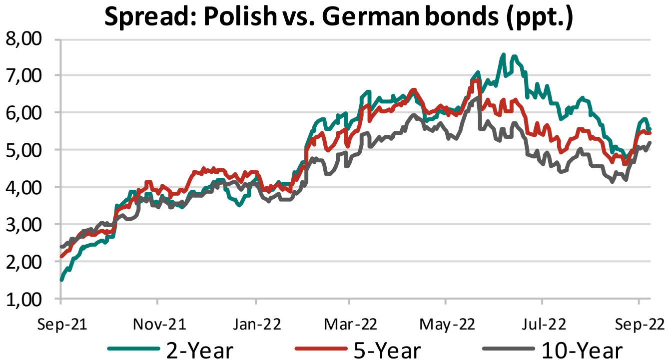
Last week, the EURPLN rate increased to 4.8592 (the PLN weakened by 0.1%). In the first part of the week we saw EURPLN exchange rate stabilize in anticipation of the MPC meeting. The decision to keep interest rates unchanged led to a weakening of the PLN. Tone of Thursday's press conference by NBP Governor A. Glapiński, which was perceived by some investors as dovish, was also negative for the PLN.

For the greater part of last week, the EURUSD exchange rate was characterised by relatively low volatility due to the poor calendar of macroeconomic events. Better-than-expected US non-farm payroll data published on Friday led to a slight strengthening of the USD against the EUR.

This week, Wednesday's publication of the Minutes from the September FOMC meeting will be in the spotlight and it may lead to increased volatility in the PLN. We believe that publications from the Polish and global economies planned for this week will not have a significant impact on the PLN. On the other hand, heightened uncertainty about Russia's possible reaction to the damage to the Crimean Bridge may weaken the PLN. Information influencing the assessment of the risk of production disruptions as a result of the gas shock in Europe will remain an important determinant for the PLN as it could significantly weaken the growth prospects in the Eurozone and Poland.

FOMC Minutes in the spotlight





Source: Reuters

Last week the 2-year IRS rates decreased to 7.44 (down by 23bp), 5-year rates to 7.01 (down by 6bp), and 10-year rates increased to 6.92 (up by 1bp). Last week saw a decline in IRS rates in Poland visible particularly at the short end of the curve, despite a simultaneous rise in yields in the core markets. This was due to the MPC's unexpected decision to keep interest rates unchanged. The tone of Thursday's conference by NBP Governor A. Glapiński, which reduced the expectations of some investors for further interest rate rises, also pushed IRS rates down.

This week, Wednesday's publication of the Minutes from the September FOMC meeting will be crucial for IRS rates, as it could cause increased volatility in IRS rates. Data releases from the global economy planned for this week will not have a significant impact on the IRS, in our opinion. On the other hand, heightened uncertainty about Russia's possible reaction to the damage to the Crimean Bridge may push IRS rates up. Information influencing the assessment of the risk of production disruptions as a result of the gas shock in Europe will remain an important factor shaping the curve as it could significantly weaken the growth prospects 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	6,75
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	**4,83**
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	4,95	**4,98**
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	5,01	**5,02**
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	**10,8**	
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	3,9	0,5	-1,0	0,1	2,6	3,2	6,8	4,3	1,2
Private consumption (% YoY)	6,6	6,4	1,1	0,5	0,2	0,4	0,5	0,5	6,3	3,5	0,4
Gross fixed capital formation (% YoY)	4,3	7,1	4,2	0,6	-1,4	0,2	1,9	2,4	2,1	3,5	1,1
Export - constant prices (% YoY)	2,0	5,2	4,5	3,3	1,6	0,5	2,9	4,5	12,5	3,8	2,3
Import - constant prices (% YoY)	8,8	7,8	2,2	0,9	0,7	-1,5	4,7	6,5	16,1	4,6	2,4
GDP growth contributions: Private consumption (pp)	3,9	3,6	0,6	0,2	0,1	0,2	0,3	0,2	3,5	2,0	0,2
Investments (pp)	0,6	1,1	0,7	0,1	-0,2	0,0	0,3	0,5	0,4	0,6	0,2
Net exports (pp)	-3,8	-1,2	1,4	1,4	0,6	1,3	-0,9	-1,0	-1,0	-0,3	0,0
Current account (% of GDP)***	-2,7	-3,5	-3,9	-4,0	-3,8	-3,4	-3,7	-4,3	-1,4	-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	10,8	10,6	11,1	9,4	9,2	8,5	8,9	10,7	9,6
CPI Inflation (% YoY)*	9,6	13,9	16,3	18,3	16,6	11,8	8,7	4,6	5,1	14,5	10,4
Wibor 3M (%)**	4,77	7,05	7,21	7,38	7,38	7,38	7,26	6,26	2,54	7,38	6,26
NBP reference rate (%)**	3,50	6,00	6,75	7,25	7,25	7,25	7,25	6,50	1,75	7,25	6,50
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	4,95	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 10/10/2022				
10:30	Eurozone	Sentix Index (pts)	Oct	-31,8		-34,7
		Wednesday 10/12/2022				
11:00	Eurozone	Industrial production (% MoM)	Aug	-2,3		0,5
20:00	USA	FOMC Minutes	Sep			
		Thursday 10/13/2022				
14:30	USA	CPI (% MoM)	Sep	0,1	0,2	0,2
14:30	USA	Core CPI (% MoM)	Sep	0,6	0,4	0,5
		Friday 10/14/2022				
3:30	China	PPI (% YoY)	Sep	2,3		1,0
3:30	China	CPI (% YoY)	Sep	2,5		2,8
10:00	**Poland**	**CPI (% YoY)**	**Sep**	**16,1**	**17,2**	**17,2**
14:00	**Poland**	**Current account (M EUR)**	**Aug**	**-1735**	**-1156**	**-1573**
14:30	USA	Retail sales (% MoM)	Sep	0,3	0,3	0,2
16:00	USA	Business inventories (% MoM)	Aug	0,6		0,9
16:00	USA	Initial U. of Michigan Sentiment Index (pts)	Oct	58,6	58,0	58,9
	China	Trade balance (bn USD)	Sep	79,4	81,3	81,3

*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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