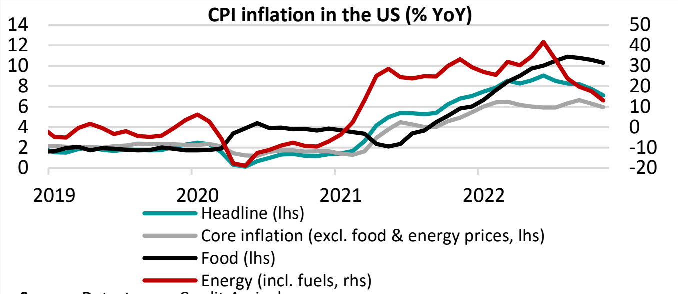
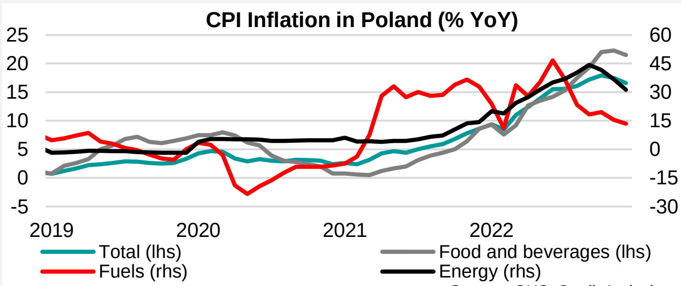
This week

- **Some important data from the US will be released this week.** We expect headline inflation to have dropped to 6.6% YoY in December from 7.1% in November, with the drop driven by a fall in core inflation, to 5.7% YoY in December from 6.0% in November. At the same time, the preliminary reading of the University of Michigan index will rise to 61.0 pts in January from 59.7 pts in December, signalling some slight improvement in US household sentiment, driven by falling inflation. We believe that this week's US data will be neutral for financial markets.



Source: Datastream, Credit Agricole

- **Final data on inflation in Poland for December will be released on Friday.** We expect a YoY price growth of 16.6%, in line with the flash estimate, vs. 17.5% in November. The drop in inflation was driven by smaller rises in the prices of food and non-alcoholic beverages, fuels, and energy, partially offset by a rise in core inflation. We believe that the release of inflation figures will be neutral for the PLN and yields on Polish bonds.

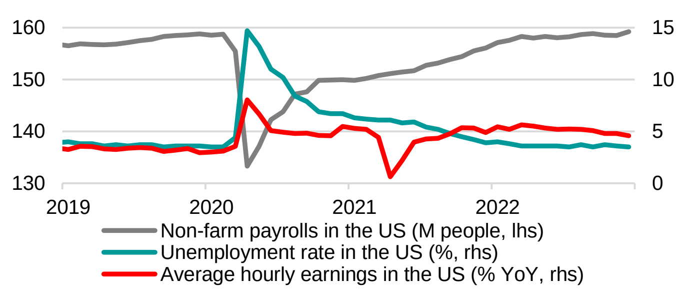


Source: GUS, Credit Agricole

- **Data on Poland's balance of payments for November will be published on Friday.** We expect the current account deficit to have widened to EUR 1084m from EUR 549m in October, primarily due to a lower trade balance. We forecast that growth in exports slowed from 23.7% YoY in October to 19.5% in November, while growth in imports dropped from 24.6% YoY to 21.5%, in line with the industrial production slowdown seen in November. In our opinion, the balance of payments figures will be neutral for the PLN and yields on Polish bonds.
- **China's foreign trade figures will be released on Friday.** In accordance with consensus, China's trade balance grew to USD 76.2bn in December from USD 69.84bn in November. The market expects growth in exports to have slowed to -10.0% YoY in December from -8.7% in November, and imports to have dropped by 9.6% in December compared to a drop of 10.6% in November. Thus, the data will confirm a negative impact of a rise in COVID-19 infections on China's domestic demand. At the same time, export figures will signal a slowdown in global trade. We believe that data from China will be neutral for financial markets.
- **The release of an update of Poland's long-term debt rating by Fitch is scheduled for Friday.** In July 2022, Fitch affirmed Poland's long-term credit rating of A- with a stable outlook. When describing the key rating drivers, Fitch noted that Poland's rating balanced a diversified economy, a relatively low public debt level, and strong economic fundamentals against governance indicators, as measured by the World Bank, and GDP per capita, which were lower compared with 'A-' rated peers. We expect Fitch to affirm Poland's rating and its outlook, noting Poland's strong economic fundamentals. However, the press release may include comments to the effect that the continued dispute between Poland and the European Union and the resulting suspension of EU funds for the National Recovery Plan have a negative impact on Poland's credit rating. The decision will be announced after the European markets close, thus we cannot expect any reaction of the foreign exchange market and the debt market before next week.

Last week

- ***Minutes* of the December FOMC meeting were published last week.** The *Minutes* do not include any significant new information from the point of view of US monetary policy prospects. According to the *Minutes,* FOMC members need substantially more evidence of progress to be confident that inflation is on a sustained downward path. Moreover, FOMC members generally believe that a restrictive policy stance should be maintained until the incoming data provides confidence that inflation is on a sustained downward path to its target level, which is likely to take some time. A number of FOMC members also emphasized that a slowing in the pace of rate hikes in December was not an indication of any weakening of the Fed's resolve to restore price stability or a judgment that inflation was already on a persistent downward path. The *Minutes* are in line with our scenario, which expects the Fed to hike rates two more times, by 50bp in February and by 25bp in March, and thus to end the interest rate hike cycle with the target range for federal funds of [5.00%; 5.25%]. At the same time, we believe that in 2024 the Fed will begin a rate reduction cycle and that rates will be cut by a total 100bp over the whole of 2024.
- **Some significant data on the US economy was released last week.** Non-farm payrolls rose by 223k in December vs. 256k in November (downward revision from 263k), running above market expectations (200k). The strongest increases in employment were seen in education and health services (+78.0k), leisure and hospitality (+67.0k), and in construction (+28.0k). At the same time, the biggest drops in employment were seen in professional and business services (-6.0k) and in information (-5.0k). Unemployment fell to 3.5% in December from 3.6% in November, running below market expectations (3.7%). At the same time, the labour force participation rate rose to 62.3% in December from 62.2% in November. Hourly wage growth dropped to 4.6% YoY in December from 4.8% in November, which shows a weakening of pay pressure in the US economy. The ISM index showed a deterioration in manufacturing; the index dropped to 48.4 pts in December from 49.0 pts in November, running slightly below market expectations (48.5 pts). The drop in the index was accounted for by lower contributions from 3 out of its 5 components (new orders, output, and delivery times), partially offset by higher contributions from employment and inventories. What is particularly worth noting about the data is a further drop in input prices (with the component being well below the 50 pts mark), which shows an easing of cost pressures in the US manufacturing. The ISM services index also dropped, to 49.6 pts in December from 56.5 pts in November. The drop was driven by marked falls in all 4 components of the index: business activity in services, new orders, employment, and delivery times. We maintain our scenario which expects US GDP to have grown by 1.9% in 2022, compared to 5.7% in 2021, and to grow by 0.5% in 2023.



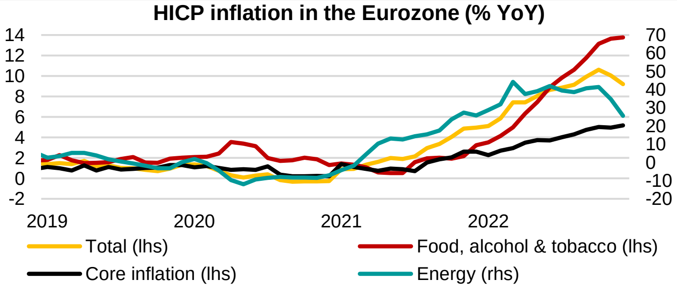
Source: Datastream, Credit Agricole

- **At its meeting last week, the Monetary Policy Council decided to keep interest rates unchanged (the NBP reference rate is 6.75%).** The decision of the MPC was consistent with our forecast and market consensus. The lack of significant changes in the January press release compared to the December one indicates that high inflation is still of secondary importance for the Council and the main objective of monetary policy is to prevent excessive slowdown in economic growth in the coming quarters (see MACROpulse of 04/01/2023). As in previous months, the content of the press release suggests that the Council has not concluded the monetary tightening cycle. However, we continue to believe that the likelihood of the Council returning to a cycle of hikes in the coming months remains low. This assessment is supported by the statements of NBP

Governor A. Glapiński, who indicated at last week's press conference that the NBP believes inflation will reach a single-digit level by the end of the year. The MPC's decision, as well as A. Glapiński's statements, are consistent with our forecast that NBP interest rates will remain unchanged until the end of 2023, despite our projection of a temporary increase in inflation in Q1 2023 due to modifications to the Inflation Shield.

- **In accordance with flash estimate, the CPI inflation in Poland fell to 16.6% YoY in December vs. 17.5% in November, standing well below the market consensus, which was consistent with our forecast (17.3%).** Thus, inflation declined for the second month in a row. GUS published partial data on the inflation structure, which contained information about price growth rates for the following categories: 'food and non-alcoholic beverages', 'energy' and 'fuels'. Lower price growth in the 'energy' (31.2% YoY in December vs. 36.8% in November), 'food and non-alcoholic beverages' (21.5% vs. 22.3%) and 'fuels' (13.5% vs. 15.5%) categories contributed to the reduction in inflation, while the opposite impact came from higher core inflation, which, according to our estimates, increased to 11.6% YoY in December vs. 11.4% in November. The main source of surprise in the data in the context of our forecast is the stronger-than-expected decline in price dynamics in the 'energy' category (see MACROmap of 02/01/2023). Last week's data, combined with the lack of fuel price rises at petrol stations despite the modification of the Anti-Inflation Shield since January 2023, has led us to revise our inflation scenario. We now expect price growth to settle at 17.3% YoY in Q1 (18.3% before revision), 13.0% in Q2 (13.5%), 10.6% in Q3 (10.1%) and 7.3% in Q4 (6.4%). Despite the revision of the quarterly inflation path, we maintain our scenario that Poland's average annual inflation rate will be 12.1% in 2023 against 14.3% in 2022, and will decline to 4.8% in 2024.
- **In accordance with the flash estimate, inflation in the Eurozone dropped to 9.2% YoY in December vs. 10.1% in November, running clearly below the market consensus (9.7%).** The drop in inflation resulted from slower price growth in the ‘energy’ category. We believe that inflation in the Eurozone has already reached its peak; nevertheless, its drop in the coming months is going to be slow. The prospect of inflation remaining elevated for an extended period of time supports our Eurozone interest rate scenario, under which the ECB will raise rates by 50bp in February, 50bp in March, 50bp in May and 25bp in June, thus completing a cycle of increases with the main rate at 4.25% and the deposit rate at 3.75%.

HICP inflation in the Eurozone (% YoY)



Source: Datastream, Credit Agricole

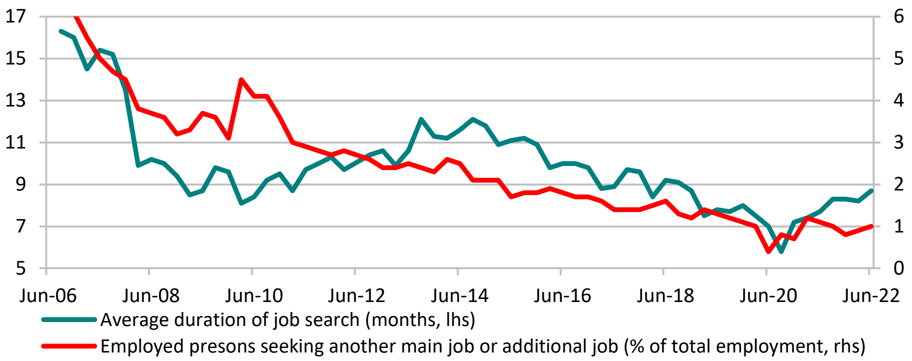
- **Some important data on German economy was released last week.** The growth of orders in manufacturing slowed to -5.3% MoM in November, vs. +0,6% in October, running clearly below market expectations (-0.6%). A decrease in orders was recorded mostly for foreign orders (-8.1% MoM), while domestic orders dropped only slightly (-1.1%). The reduction in export orders was due to lower orders both from the Eurozone countries and from outside the single currency area. Taking into account the December PMI for German manufacturing, the decline in orders can be expected to continue in the coming months (see MACROmap of 19/12/2022). Last week Germany's foreign trade balance data was also published; it increased in November to EUR 10.8bn compared to EUR 6.9bn in October. At the same time, both imports and exports declined in November (-3.3% MoM in November vs. -2,4% in October the former and -0.3% vs. 0.8% the latter), indicating a further reduction in German foreign trade activity. And today German industrial production data was released, whose monthly growth rate increased to 0.2% in November vs. -0.4% in October (downward revision from -0.1%), thus running in line with market expectations. It was boosted by higher production growth in manufacturing (0.5% MoM in November) and energy (3.0%) and lower production growth in construction (-2.2%). Last week’s data supports our forecast that the quarterly growth of German GDP dropped to -0.6% in Q4 2022, vs. 0.4% in Q3 2022.

- **The Caixin PMI for Chinese manufacturing dropped to 49.0 pts in December from 49.4 pts in November, running slightly below market expectations (48.8 pts).** The index was driven down by lower contributions of 3 out of its 5 components (new orders, inventories and delivery times), with an opposite impact coming from higher contributions of current output and employment components. What draws attention in the data is the increasing rate of decline in new orders, including export orders. This is both a result of weaker domestic demand in China and a slowdown in global trade. A negative factor for activity in Chinese manufacturing is the strong increase in infections associated with China's reeling from its zero-COVID policy. We believe that a significant improvement in the epidemic situation in China can only be expected in March/April 2023. This is consistent with our forecast that China's GDP growth will increase to 5.0% YoY in 2023, up from 3.0% in 2022, and will settle at 4.8% in 2024.

The risk of a wage-price spiral remains low

Wages are characterised by relatively high 'stickiness'. This means that, although prices in the economy generally rise year on year, we do not experience massive attempts by employees to renegotiate wages. Nonetheless, under conditions of persistently high inflation over a prolonged period, households' inflationary expectations may get unanchored, resulting in a so-called wage-price spiral. The phenomenon is that, due to permanently higher inflation, workers begin to feel the real value of their wages fall and try to renegotiate them in order to maintain their current level of consumption. Wage increases, in turn, lead to increased costs for businesses, which try to pass these on to the prices of the products they offer. This leads to a further increase in inflation and a repetition of the whole mechanism. In the analysis below we aim to identify selected causes of limited wage pressure and the associated low risk of a wage-price spiral in the Polish economy.

Employees can have their pay increased in two ways. The first is to renegotiate their salary with their current employer. This is generally easier in a highly unionised labour market. The second way to increase salary is to change jobs and negotiate a higher rate with the new employer. However, it is important to bear in mind that changing jobs involves taking risks and only some employees choose this solution. At the same time, it is worth emphasising that this option is the most pro-inflationary one. In order to take the risk and change jobs, the employee must receive a sufficiently high bonus in the form of a salary increase. And the employee's existing employer, in order to fill the vacancy, will most likely also have to raise the wage rate. For this reason, when analysing the risk of a wage-price spiral in the Polish economy, in our analysis we focused primarily on determining the proportion of employees who are willing to change jobs in the current situation.



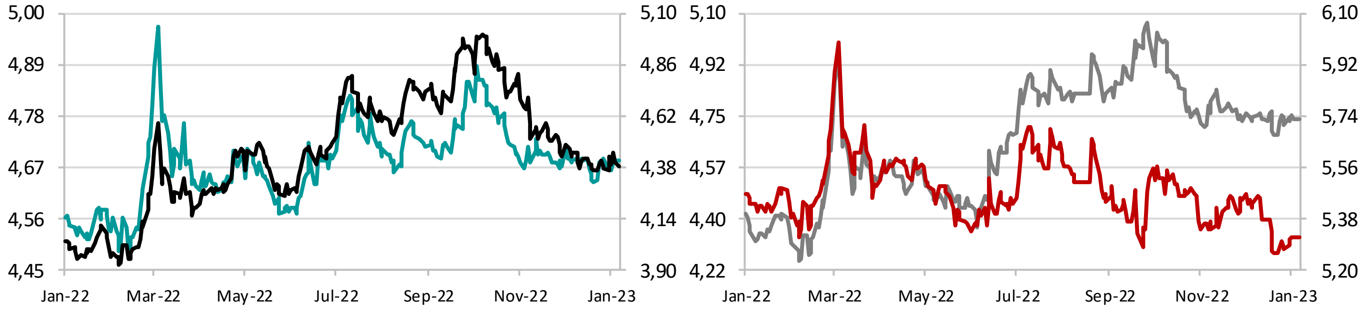
Source: GUS, Credit Agricole

According to LFS data, workers looking for another main or secondary job accounted for only 1.0% of total employment in Q2 2022. At the same time, taking into account the development of this indicator in previous quarters, it has still not returned to the levels observed before the outbreak of the pandemic. One can therefore get the impression that, in the conditions of the pandemic, the war in Ukraine and the associated increased volatility of economic growth, employees are characterised by higher risk aversion and are less likely to change jobs. What supports this assessment is the lengthening average job search time, which, according to GUS data, in Q2 2022 was 8.7 months and was at its highest level since Q4 2018. In our view, this indicates that employees, due to their higher risk aversion, are more cautious when looking for a new job and the whole process takes longer.

In our view, the LFS data quoted above indicate that, despite the continuing good situation in the labour market, and high inflation, the risk of a large-scale wage-price spiral in the Polish economy remains low. While this phenomenon may be visible in some sectors, we do not believe that it will occur at the level of the economy as a whole. Thus, we reiterate our forecast that wage growth in the national economy will not accelerate in 2023 vs. 2022, standing at 12.3% YoY vs. 12.5%, and will decline to 7.5% in 2024.

US inflation data crucial for the PLN

FX rates



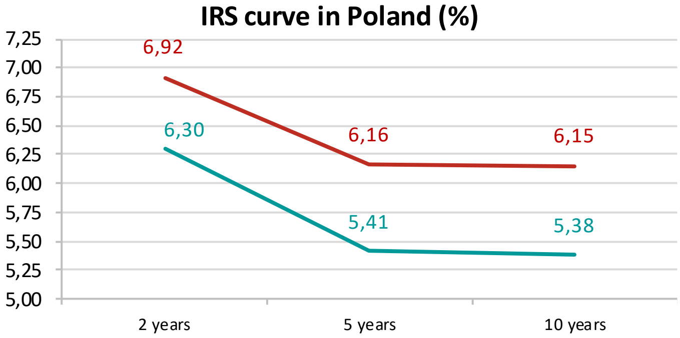
Source: Refinitiv

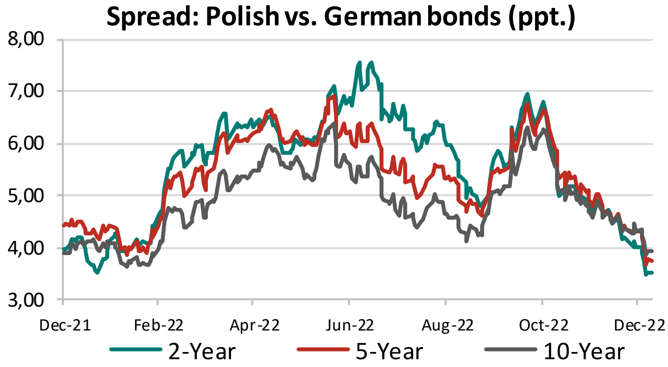
Last week the EURPLN exchange rate stood at 4.6870 (no change from the level two weeks ago). At the beginning of last week the EURPLN exchange rate was quite stable and stayed close to the 4.67 level. The lowered volatility of the EURPLN exchange rate was supported by a relatively scarce calendar of macroeconomic events, as well as lower domestic investor activity due to the Epiphany holiday. The publication of higher-than-expected domestic inflation data had no significant impact on the PLN.

On the other hand, the EURUSD exchange rate experienced greater volatility. The USD strengthened against the EUR on Tuesday following the publication of lower-than-expected German inflation data. On the other hand, on Thursday, the EURUSD's decline was supported by the publication of the ADP report indicating the continuing very good situation in the US labour market, which some investors perceived as an increase in the likelihood of stronger interest rate rises in the US.

This week, the publication of US inflation data scheduled for Thursday will be crucial for the PLN, but we believe that it will not have a significant impact on the PLN's exchange rate. We believe that other publications from the Polish and global economies planned for this week will not have a significant impact on the PLN. Information suggesting a possible change in the monetary policy stance of the Federal Reserve and the ECB, as well as information relating to the course of hostilities in Ukraine will remain an important factor determining the PLN exchange rate. Friday's update of the Polish rating by Fitch will be announced after the closure of European markets, hence its impact on the PLN will not materialize until next week.

Significant drop in yields in response to strong reduction in inflation in Poland





Source: Refinitiv

Last week, 2-year IRS rates dropped to 6.30 (down by 62bp), 5-year rates to 5.41 (down by 75bp) and 10-year ones to 5.38 (down by 77bp). Last week saw a strong correction in IRS rates across the curve. Initially, IRS rates fell in line with the fall in yields in the core markets. On Thursday, IRS rates dropped further strongly in reaction to the publication of significantly lower-than-expected domestic inflation data. The market is pricing in the first interest rate cut in Q4 2023.

This week, Thursday's release of US inflation data will be crucial for IRS rates, although in our view it will have a limited impact on the curve. Other data releases from the Polish and global economies planned for this week will not have a significant impact on the IRS, in our opinion. Information suggesting a possible change in the monetary policy stance of the Federal Reserve and the ECB, as well as information relating to the course of hostilities in Ukraine will remain an important factor affecting the yield curve. Friday's update of the Polish rating by Fitch will be announced after the closure of European markets, hence its impact on the debt market will not materialize until next week.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland

Indicator	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23
NBP reference rate (%)	1,75	2,25	2,75	3,50	4,50	5,25	6,00	6,50	6,50	6,75	6,75	6,75	6,75	6,75
EURPLN*	4,58	4,58	4,69	4,64	4,67	4,58	4,70	4,73	4,72	4,85	4,71	4,67	4,69	**4,70**
USDPLN*	4,03	4,08	4,18	4,19	4,43	4,27	4,48	4,63	4,70	4,95	4,77	4,48	4,38	**4,39**
CHFPLN*	4,42	4,40	4,56	4,54	4,55	4,45	4,69	4,86	4,80	5,01	4,76	4,74	4,72	**4,82**
CPI inflation (% YoY)	8,6	9,4	8,5	11,0	12,4	13,9	15,5	15,6	16,1	17,2	17,9	17,5	**16,6**	
Core inflation (% YoY)	5,3	6,1	6,7	6,9	7,7	8,5	9,1	9,3	9,9	10,7	11,0	11,4	**11,6**	
Industrial production (% YoY)	16,3	18,0	17,3	15,4	12,3	14,9	10,4	7,1	10,9	9,8	6,6	4,5	**3,0**	
PPI inflation (% YoY)	14,4	16,1	16,1	21,9	24,1	24,7	25,6	25,5	25,5	24,6	23,1	20,8	**19,3**	
Retail sales (% YoY)	16,9	20,0	16,5	22,0	33,4	23,6	19,9	18,4	21,5	21,9	18,3	18,4	**18,0**	
Corporate sector wages (% YoY)	11,2	9,5	11,7	12,4	14,1	13,5	13,0	15,8	12,7	14,5	13,0	13,9	**12,4**	
Employment (% YoY)	0,5	2,3	2,2	2,4	2,8	2,4	2,2	2,3	2,4	2,3	2,4	2,3	**2,3**	
Unemployment rate* (%)	5,8	5,9	5,9	5,8	5,6	5,4	5,2	5,2	5,2	5,1	5,1	5,1	**5,2**	
Current account (M EUR)	-3883	-1091	-2032	-4206	-2844	-1340	-541	-1887	-3332	-1561	-549	**-1084**		
Exports (% YoY EUR)	25,0	27,4	20,3	11,9	18,2	26,9	21,3	19,0	26,7	25,5	23,7	**19,5**		
Imports (% YoY EUR)	39,6	38,7	29,7	31,4	36,4	32,5	26,6	20,6	28,7	28,9	24,6	**21,5**		

*end of period

Forecasts of the quarterly macroeconomic indicators

Main macroeconomic indicators in Poland

Indicator		2022				2023				2022	2023	2024
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Gross Domestic Product (% YoY)		8,6	5,8	3,6	1,1	-1,0	0,0	2,5	3,2	4,5	1,2	3,1
Private consumption (% YoY)		6,7	6,4	0,9	-2,0	-0,7	-0,9	0,7	2,5	2,9	0,0	3,0
Gross fixed capital formation (% YoY)		4,7	6,6	2,0	-1,8	-2,4	-0,3	1,4	2,8	2,1	0,8	4,0
Export - constant prices (% YoY)		4,2	5,2	6,9	4,5	2,3	1,0	3,3	4,6	5,2	2,8	3,8
Import - constant prices (% YoY)		9,4	6,9	6,0	2,3	0,3	-1,0	3,1	4,0	5,9	1,6	4,3
GDP growth contributions	Private consumption (pp)	4,0	3,6	0,5	-1,0	-0,9	-0,9	0,4	1,2	1,6	0,0	1,7
	Investments (pp)	0,6	1,0	0,3	-0,4	-0,3	-0,1	0,2	0,6	0,3	0,1	0,7
	Net exports (pp)	-2,7	-0,7	0,6	1,3	1,2	1,3	0,2	0,4	-0,2	0,8	-0,2
Current account (% of GDP)***		-2,7	-3,5	-3,7	-4,0	-3,9	-3,8	-3,7	-3,6	-4,0	-3,6	-3,0
Unemployment rate (%)**		5,8	5,2	5,1	5,2	5,6	5,4	5,3	5,5	5,2	5,5	5,4
Non-agricultural employment (% YoY)		2,3	0,6	-0,9	-0,5	-0,5	-0,5	-0,5	-0,5	0,4	-0,5	0,1
Wages in national economy (% YoY)		9,7	11,8	14,6	14,0	14,5	13,2	11,4	9,9	12,5	12,3	7,5
CPI Inflation (% YoY)*		9,6	13,9	16,3	17,5	17,3	13,0	10,6	7,3	14,3	12,1	4,8
Wibor 3M (%)**		4,77	7,05	7,21	7,02	6,88	6,88	6,88	6,88	7,02	6,88	5,76
NBP reference rate (%)**		3,50	6,00	6,75	6,75	6,75	6,75	6,75	6,75	6,75	6,75	5,75
EURPLN**		4,64	4,70	4,85	4,69	4,78	4,73	4,70	4,65	4,69	4,65	4,50
USDPLN**		4,19	4,48	4,95	4,39	4,78	4,59	4,43	4,27	4,39	4,27	4,29

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

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST*	
					CA	CONSENSUS**
		Monday 01/09/2023				
8:00	Germany	Industrial production (% MoM)	Nov	-0,1		0,1
10:30	Eurozone	Sentix Index (pts)	Jan	-21,0		-18,0
11:00	Eurozone	Unemployment rate (%)	Nov	6,5		6,5
		Tuesday 01/10/2023				
16:00	USA	Wholesale inventories (% MoM)	Nov	1,0		1,0
16:00	USA	Wholesale sales (% MoM)	Nov	0,4		
		Thursday 01/12/2023				
2:30	China	PPI (% YoY)	Dec	-1,3		-0,1
2:30	China	CPI (% YoY)	Dec	1,6		1,8
14:30	USA	CPI (% MoM)	Dec	0,1	0,0	0,0
14:30	USA	Core CPI (% MoM)	Dec	0,2	0,3	0,3
		Friday 01/13/2023				
10:00	Germany	Preliminary GDP (% YoY)	2022	2,6	1,8	1,9
10:00	**Poland**	**CPI (% YoY)**	**Dec**	**17,5**	**16,6**	**16,6**
11:00	Eurozone	Industrial production (% MoM)	Nov	-2,0		
13:00	**Poland**	**Current account (M EUR)**	**Nov**	**-549**	**-1084**	**-820**
16:00	USA	Initial U. of Michigan Sentiment Index (pts)	Jan	59,7	61,0	60,0
	China	Trade balance (bn USD)	Dec	69,8		76,2

*The forecasts of macroeconomic indicators for Poland were prepared by Credit Agricole Bank Polska S.A. The forecasts of foreign indicators were prepared by Crédit Agricole Corporate and Investment Bank

** Refinitiv

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