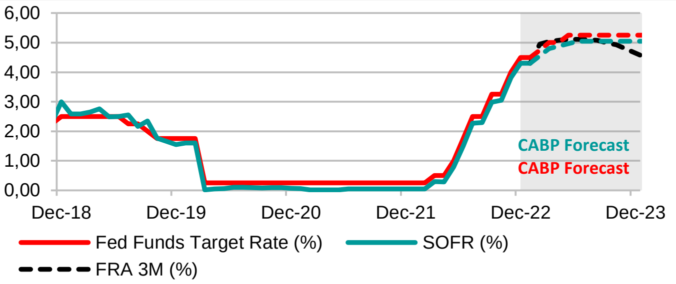
CRÉDIT AGRICOLE

Awaiting inflation peak in the region

MACRO MAP

This week

- **The key event this week will be the FOMC meeting scheduled for Wednesday.** We expect the Fed to go ahead with a 25bp rate hike, thus raising the federal funds target range to [4.50%, 4.75%]. Such a decision would be in line with market consensus and prices of future contracts. More important than the Fed's decision itself will be comments in the press release concerning the expected pace of monetary policy tightening in the coming months and the target level of interest rates (so-called forward guidance). We expect J. Powell to indicate that further rate hikes are necessary. A hawkish tone of the conference to follow the FOMC meeting will drive the PLN down and yields on Polish bonds up. In our scenario we expect the Fed to raise interest rates further, by 25bp in March and 25bp May, and thus we expect the federal funds target range to rise to [5.00%, 5.25%].

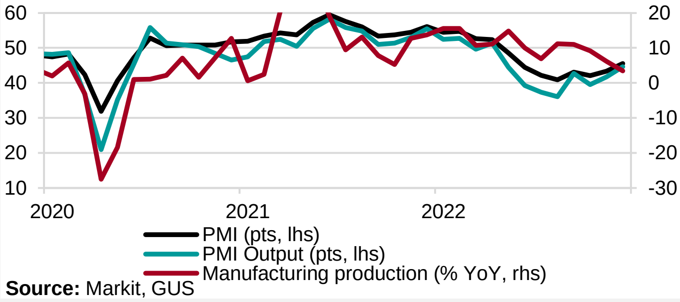


Source: Refinitiv, Credit Agricole

- **Another important event this week will be the ECB meeting scheduled for Thursday.** We expect the ECB to raise interest rates by 50bp, in line with market consensus. We expect Ch. Lagarde to signal that the ECB will continue its monetary policy tightening in the coming months. We believe that the conference to follow the ECB meeting will be hawkish in tone, and thus it will drive the PLN down and yields on Polish bonds up. We expect the ECB to hike interest rates further, by 50bp in March and May, and by 25bp in June. Thus, the main interest rate will reach its target rate of 4.25%, and the deposit rate of 3.75%.
- **Important data from the US labour market will be released on Friday.** We expect non-farm payrolls to have risen by 175k in January vs. 223k December, with the unemployment rate rising slightly, to 3.6% from 3.5% in December. Before the Friday release, some additional data on the labour market will be provided in the ADP report on non-farm private sector employment (the market expects a 170k rise in January vs. 235k in December). The ISM manufacturing index will be released on Wednesday. We expect the index to have dropped to 48.0 pts in January from 48.4 pts in December, which would be in line with regional business survey results. We believe that the Conference Board's consumer confidence index will show some deterioration in household sentiment (106.0 pts in January vs. 108.3 pts in December). In our opinion, this week's US data will be overshadowed by the Fed's decision and will be neutral for financial markets.
- **Significant data from the Eurozone will be released this week.** We expect QoQ GDP growth to have dropped to -0.3% in Q4 from 0.3% in Q3 (market consensus expects GDP to have stabilized in Q4). Business survey results (PMI) for the Eurozone released between October and December 2022 represent an upside risk to our forecast. The market also expects HICP inflation in the Eurozone to have fallen slightly, to 9.1% YoY in January from 9.2% in December, driven, among other things, by a further fall in core inflation. We believe that the release of data from the Eurozone will be neutral for the PLN and yields on Polish bonds.
- **This week will see the release of China's manufacturing PMI figures.** The market expects the Caixin PMI to have risen to 49.5 pts in January from 49.0 pts in December, and the CFLP PMI to have risen to 49.7 pts in January from 47.0 pts in December. The expected improvement is a result of a further economic recovery seen since China's government moved away from its 'zero COVID' policy. However, despite the expected improvement in January, PMI indices will still remain below the 50-point mark that separates growth from contraction. We believe that data from China will be neutral for financial markets.
- **Poland's GDP estimate for 2022 will be released today.** We expect GDP growth of 4.5% YoY vs. 6.8% in 2021. The slowdown in GDP growth is mainly accounted for by slower growth in

consumption due to the fading of the pent-up demand effect and an erosion of the real purchasing power of consumers amidst high inflation. Our GDP forecast is below market expectations (4.8%), and thus its materialization would be slightly negative for the PLN and yields on Polish bonds.

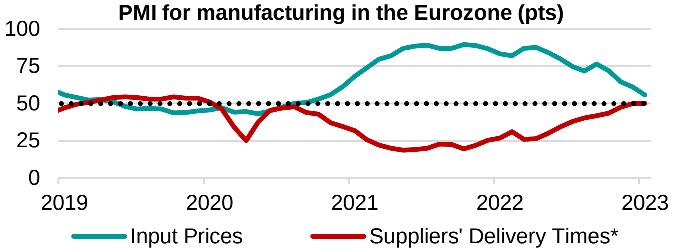
- **Poland's manufacturing PMI data for January will be released on Wednesday.** We expect the PMI to have dropped to 45.0 pts from 45.6 pts in December. Our forecast is supported by GUS data showing significant deterioration in business confidence. At the same time, we see an upside risk to our forecast due to an improvement in the Eurozone's manufacturing signalled by the December PMI figures (see below). Our forecast is below market consensus (46.2 pts), and thus its materialization would be slightly negative for the PLN and yields on Polish bonds.



Source: Markit, GUS

Last week

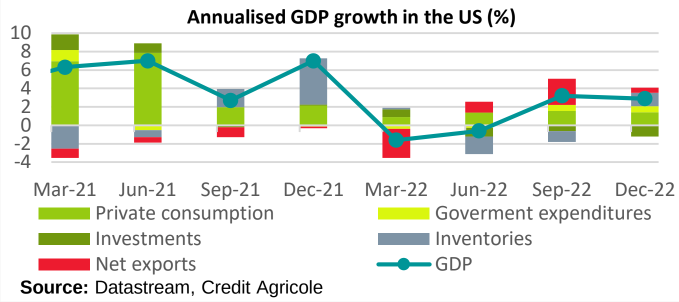
- **According to flash data, the Eurozone's composite PMI (for manufacturing and services) rose to 50.0 pts in January from 49.3 pts in December, which is above market expectations (49.8 pts).** The index rose above the 50-point mark that separates growth from contraction for the first time since June 2020. The rise in the composite PMI was driven by higher index components for business activity in services and current output in manufacturing. According to the release, the improvement in services was driven by technology, healthcare and pharmaceutical sectors, and industrial services. At the same time, the slowdown in the fall in manufacturing was driven by a further gradual easing of supply constraints, reflected in stabilization of delivery times and slower rises in input prices. Geography wise, some deterioration in business sentiment was seen in France, while improvement was seen in Germany and the other Eurozone economies surveyed. From the point of view of Polish exports, of particular importance are trends in Germany, where the manufacturing PMI dropped slightly, to 47.0 pts in January from 47.1 pts in December. The drop in the index is mainly accounted for by lower contributions from inventories and employment. What is particularly worth noting about data from Germany is that shortening of delivery times was seen for the third month in a row, accompanied by slower rises of input prices. Such a breakdown of data confirms the gradual easing of supply constraints noted in the report. We expect the Eurozone's GDP to drop by 0.5% in Q1 versus a drop of 0.6% in Q4 2022, although January business survey results signal a major upside risk to this forecast.

PMI for manufacturing in the Eurozone (pts)


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

- **The Ifo index, reflecting the sentiment among German managers representing the manufacturing, construction, and trade and services sectors, rose to 90.2 pts in January from 88.6 pts in December, in line with market expectations (90.5 pts).** The rise in the index was driven by a higher 'expectations' sub-index, partially offset by a lower 'current situation' sub-index. Improvement in business sentiment was seen in all sectors surveyed: manufacturing, services, trade, and construction. The Ifo index, combined with the January PMI survey, represents a slight upside risk to our forecast, which expects Germany's GDP growth to remain flat in Q1 from Q4 at -0.3% QoQ.

- **Some significant data on the US economy was released last week.** PCE inflation fell to 5.0% YoY in December from 5.5% in November. Core PCE inflation also fell, to 4.4% from 4.7%, which shows that inflationary pressures in the US economy are weakening. Durable goods orders grew by 5.6% MoM in December, compared to a drop of 1.7% in November, due to a higher volume of Boeing orders. Excluding transportation, MoM growth in durable goods orders dropped to -0.1% in December from 0.1% in November. At the same time, growth in orders for non-military capital goods dropped to 5.2% YoY in December from 5.5% in November. Slowdown was seen for the seventh month in a row, which in our opinion shows a deterioration in investment prospects in the US. Last week also saw the release of the first estimate of US GDP, showing that annualized GDP growth slowed to 2.9% in Q4 from 3.2% in Q3. The key drivers of the GDP growth slowdown between Q3 and Q4 were lower net exports and investments. However, the drops in these two components were to a large extent offset by a higher contribution from inventories. Thus, the economic growth in Q4 was driven mainly by growth in inventories, while in Q3 growth was driven primarily by net exports. Improvement in US consumer sentiment was confirmed by the final University of Michigan index (64.9 pts in January vs. 64.6 pts in December and 54.7 pts in the first estimate). We expect annualized US GDP growth to slow to 0.4% in Q1 2023.



Source: Datastream, Credit Agricole

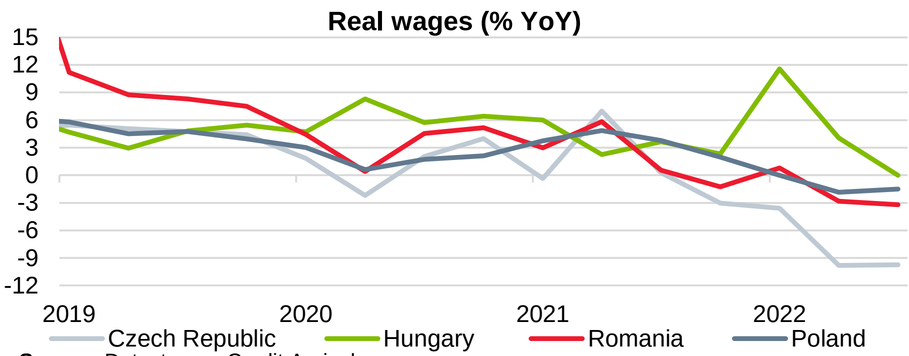
- **Growth in industrial production in Poland slowed to 1.0% YoY in December from 4.6% in November, which is below market consensus (1.4%) and our forecast (3.0%, see MACROpulse of 23/01/2023).** The slowdown in industrial production growth between November and December is to some extent accounted for by statistical effects in the form of unfavourable difference in the number of working days. Seasonally-adjusted industrial production grew by 0.7% MoM in December. The breakdown of December production shows relatively high resilience of export-driven sectors to downturns experienced by Poland's trading partners and the growing impact of a slowdown in domestic demand (consumption and investment) on those sectors that rely relatively strongly on the domestic market. The industrial production figures support our Q4 GDP forecast (1.1% YoY vs. 3.6% in Q3).
- **The construction-assembly production in Poland shrank by 0.8% YoY in December vs. an increase by 4.0% in November, which was clearly below the market consensus (2.7%) and our forecast (7.5%).** The slowdown in construction-assembly production between November and December is to some extent accounted for by statistical effects in the form of unfavourable difference in the number of working days. Seasonally-adjusted construction-assembly production shrank by 3.7% MoM in December. Particularly noteworthy in the December data is the continued year-on-year decline in production in the 'construction of buildings' category. It is in line with our scenario, in which high supply and demand barriers will lead to a gradual decline in residential and commercial construction activity in the coming months (see MACROpulse of 23/01/2023). In contrast, production in the 'civil engineering construction' category, which is largely related to public sector investment, showed relatively high resilience. We expect activity in this category to be a limiting factor for the decline in construction output in the coming months, which will be connected with the cycle in the absorption of EU funds. December construction-assembly output data supports our forecast of a decline in total investment in Q4 2022 (-1.8% YoY vs. a 2.0% YoY increase in Q3).

Nominal retail sales growth in Poland dropped to 15.5% YoY in December vs. 18.4% in November, running above the market consensus (17.8%) and our forecast (18.0%). Retail sales in constant prices grew by 0.2% YoY in December vs. 1.6% in November. Seasonally adjusted retail sales in constant prices decreased in December by 4.8% MoM. Data on sales indicated a weakening household demand for durable goods as a result of the decline in the purchasing power of household disposable income caused by persistently high inflation (see MACROpulse of 23/01/2023). The December retail sales data supports our forecast for consumption in Q4 (-2.0% YoY vs. 0.9% in Q3), the decline of which we believe was driven by a reduction in household demand for services.

Awaiting inflation peak in the region

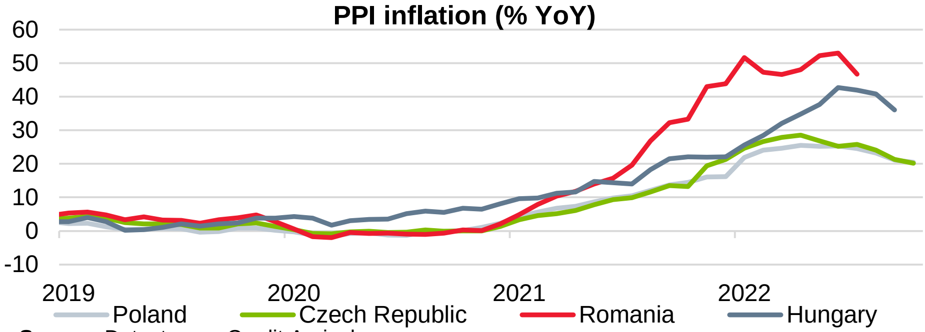
In medium-term macroeconomic scenarios, disinflation (falling inflation) is receiving increasing attention not only in Poland, but also globally. Below, we analyse inflation trends in the countries of the Central and Eastern Europe—Poland, the Czech Republic, Hungary and Romania (hereafter CE-4).

In all countries of the region, we have observed an increase in inflation in recent quarters. Strong cost and wage pressures, rapid increases in energy prices and disruptions to supply chains have all had a pro-inflationary effect. Apart from Hungary, according to the December data, every country has seen a decline in inflation. However, we do not believe that this is already a signal of a reversal of past trends and the end of inflation growth. In the case of the Czech Republic, the reduction in the rate of price increases in recent months was mainly due to the inclusion of the electricity compensation mechanism by the statistical office, which, according to the central bank's estimates, has pushed the inflation down by 3.5 pp. In January 2023, this mechanism was phased out, while a government cap on electricity and gas prices for households is to be introduced. The resultant of these two factors will be an increase in overall inflation in the Czech Republic. Similarly, in Poland, the withdrawal of the Anti-Inflation Shield and the simultaneous introduction of a new mechanism to limit energy price increases at the beginning of 2023 is pro-inflationary. In the case of Hungary, inflation was still on an upward trend in December due to the abolition of maximum prices for fuel, which contributed to an increase in inflation of around 2 pp vs. November. Given tax changes, businesses updating their price lists at the beginning of the year and changes in regulated prices, we believe that inflation will pick up in each of the four countries mentioned above in January 2023. As a result, we expect that it is only in Q1 2023 that we should see a peak in inflation in all CE-4 countries. We believe that it will be 15.0% YoY on average in January-March for the Czech Republic and Romania, 17.3% for Poland and 25.0% for Hungary.



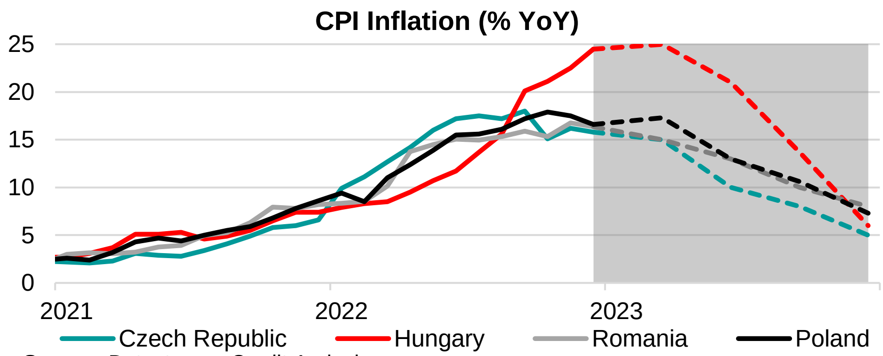
Source: Datastream, Credit Agricole

We forecast that inflation will follow a downward trend in all CE-4 countries in the following quarters of 2023. Among other factors, a fall in real wages, already recorded in Q3 2022 in all the economies mentioned, will have a negative impact on inflationary pressures. Particularly noteworthy is the Czech Republic, where the decline in real wages is the strongest in YoY terms and was close to 10% in Q2 and Q3 2022. A reduction in the real purchasing power of households will drive down consumer demand.



Source: Datastream, Credit Agricole

Declining supply constraints will be another factor supporting disinflation. According to the latest PMI survey for manufacturing, the PMI component for delivery times is close to 50 pts for the Czech Republic and Poland. This means that the delivery times of intermediate goods used in production have not changed. In the case of Germany, the main trading partner of the CE-4 countries, even a reduction in delivery times has already been observed since November 2022. This signals that global and domestic constraints in terms of accessibility of intermediate goods caused by disruption in supply chains are diminishing. Such trends contribute to a reduction in the output price growth rate, which was reflected in the decrease in the PMI component for finished goods prices in Poland and the Czech Republic recorded in December. A reduction in inflationary pressures has also been visible for some time in PPI inflation. It reached a local maximum for all CE-4 countries in mid-2022 and has been on a downward trend since then. A slower increase in producer prices will have an impact—with some lag—on reducing consumer inflation in the countries of the region.

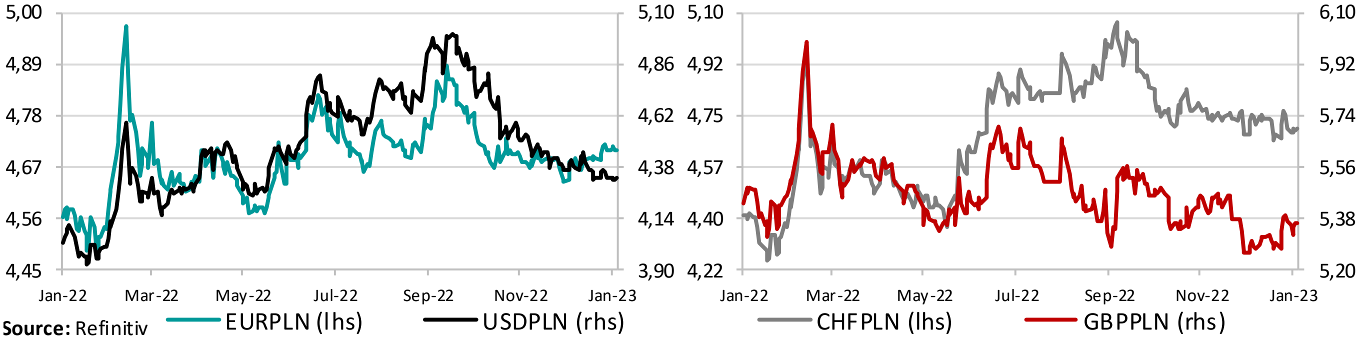


Source: Datastream, Credit Agricole

In the following months, inflation should decline in all CE-4 countries due to the anti-inflationary impact of the monetary tightening implemented in the previous quarters, the effects of the high base of 2022, the decline in core inflation in the Eurozone that we forecast (from 5.2% YoY in December 2022 to a level close to 3.0% YoY by the end of 2023), the marked decline in the prices of most agricultural and energy commodities on the global market in recent months, and declining supply constraints. The downward trajectory of inflation will, in our view, look similar for Poland, the Czech Republic and Romania (see chart). In contrast, the starting point for price dynamics in Hungary is shaping up significantly higher than for the other countries in the region, but the reduction in inflation we expect there will be faster, especially in H2 2022 due to the high base effects associated with the liberalisation of fuel and energy prices. Against the backdrop of continued disinflationary trends, we forecast inflation to decline to single-digit levels in Q4 2023 in all CE-4 countries. We forecast average annual inflation in 2023 will reach 9.5% YoY in the Czech Republic, 16.4% in Hungary, 11.5% in Romania and 12.1% in Poland.

Fed and ECB decisions key for the PLN

FX rates

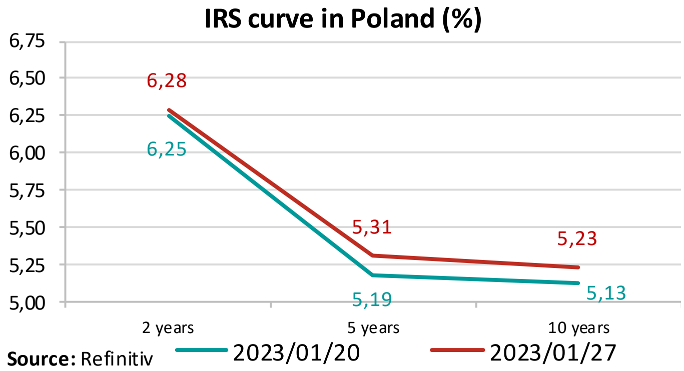


Source: Refinitiv

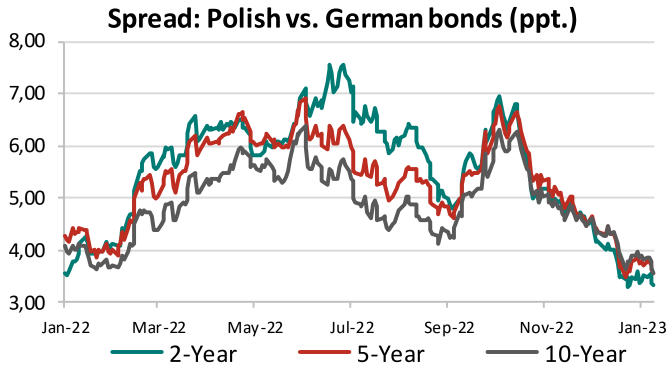
Last week the EURPLN exchange rate stood at 4.7047 (no change from the level two weeks ago). The EURPLN exchange rate was relatively stable throughout the week, fluctuating between 4.70 and 4.72. Monday's publication of domestic data from real economy, as well as Tuesday's Eurozone business survey results (PMI), did not have a significant impact on the PLN. The EURUSD also experienced relatively low volatility, helped by a scarce calendar of macroeconomic events in anticipation of central bank meetings in the US and the Eurozone.

This week the Fed (Wednesday) and the ECB (Thursday) meetings will be crucial for the PLN. In our view, they may push the PLN down. If our lower-than-market-consensus forecasts for the PMI index for Polish manufacturing and economic growth in 2022 are realised, we may see a slight depreciation of the PLN. We believe that other data releases from global economies planned for this week will not have a significant impact on the PLN. Information on the course of hostilities in Ukraine will remain an important determinant of the PLN.

Fed and EBC meetings in the spotlight



Source: Refinitiv



Last week, 2-year IRS rates increased to 6.28 (up by 3bp), 5-year rates to 5.31 (up by 12bp) and 10-year ones to 5.23 (up by 10bp). Like the PLN, IRS rates were characterised by low volatility last week. The stabilisation of domestic interest rates was supported by the lack of significant changes in IRS rates in the core markets in anticipation of this week's meetings of the main central banks.

This week, the Fed (Wednesday) and ECB (Thursday) meetings are key for IRS rates, and will push the rates higher. The market's focus will also be on the publication of preliminary data on Poland's GDP growth in 2022, scheduled for today, which may push the IRS rates down. The publication of the PMI index for Polish manufacturing, scheduled for Wednesday, may also have a negative impact. Other data releases from the global economy planned for this week will not have a significant impact on the IRS, in our opinion. Information on the course of hostilities in Ukraine will remain an important factor affecting the yield curve.

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	**4,71**
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	**4,33**
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	**4,70**
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	11,5	
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	1,0	
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	20,4	
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	15,5	
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	10,3	
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	2,2	
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	-2834	-1078	-499	-1206	-2743	-1839	-597	-422		
Exports (% YoY EUR)	25,0	27,4	20,3	11,9	17,6	26,8	21,5	20,3	27,6	26,5	24,4	20,3		
Imports (% YoY EUR)	39,6	38,7	29,7	31,4	36,0	32,7	27,1	21,8	29,4	30,1	25,3	17,7		

*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	0,3	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	-0,4	-0,5	0,4	1,2	1,6	0,2	1,7
GDP growth contributions: Investments (pp)	0,6	1,0	0,3	-0,4	-0,3	-0,1	0,2	0,6	0,3	0,1	0,7
GDP growth contributions: 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	-3,5	-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	17,3	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	4,38	4,55	4,42	4,31	4,23	4,38	4,23	4,29

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

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST* CA	FORECAST* CONSENSUS**
		Monday 01/30/2023				
10:00	Germany	Preliminary GDP (% QoQ)	Q4	0,4	-0,6	0,0
10:00	**Poland**	**Annual GDP (% YoY)**	**2022**	**5,7**	**4,5**	**4,8**
		Tuesday 01/31/2023				
2:30	China	Caixin Manufacturing PMI (pts)	Jan	47,0		49,7
11:00	Eurozone	Preliminary GDP (% QoQ)	Q4	0,3	-0,3	0,0
14:00	Germany	Preliminary HICP (% YoY)	Jan	9,6		10,0
16:00	USA	Consumer Confidence Index	Jan	108,3	106,0	109,0
		Wednesday 02/01/2023				
2:45	China	Caixin Manufacturing PMI (pts)	Jan	50,2		49,5
9:00	**Poland**	**Manufacturing PMI (pts)**	**Jan**	**45,6**	**45,0**	**46,2**
9:55	Germany	Final Manufacturing PMI (pts)	Jan	47,0	47,0	47,0
10:00	Eurozone	Final Manufacturing PMI (pts)	Jan	48,8	48,8	48,8
11:00	Eurozone	Preliminary HICP (% YoY)	Jan	9,2		9,1
11:00	Eurozone	Unemployment rate (%)	Dec	6,5		6,5
14:15	USA	ADP employment report (k)	Jan	235		170
15:45	USA	Flash Manufacturing PMI (pts)	Jan	46,8		
16:00	USA	ISM Manufacturing PMI (pts)	Jan	48,4	48,0	48,0
20:00	USA	FOMC meeting (%)	Feb	4,50		4,75
		Thursday 02/02/2023				
8:00	Germany	Trade balance (bn EUR)	Dec	10,8		9,0
13:00	UK	BOE rate decision (%)	Jan	3,50	4,00	4,00
14:15	Eurozone	EBC rate decision (%)	Feb	2,50	3,00	3,00
16:00	USA	Factory orders (% MoM)	Dec	-1,8	2,3	1,3
		Friday 02/03/2023				
10:00	Eurozone	Services PMI (pts)	Jan	50,7	50,7	50,7
10:00	Eurozone	Final Composite PMI (pts)	Jan	50,2	50,2	50,2
14:30	USA	Unemployment rate (%)	Jan	3,5	3,6	3,6
14:30	USA	Non-farm payrolls (k MoM)	Jan	223	175	185
16:00	USA	ISM Non-Manufacturing Index (pts)	Jan	49,6	50,8	50,2

*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
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