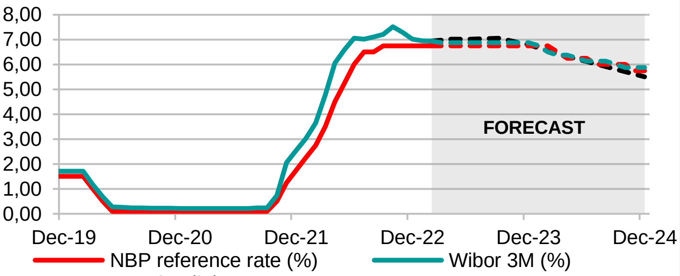
This week

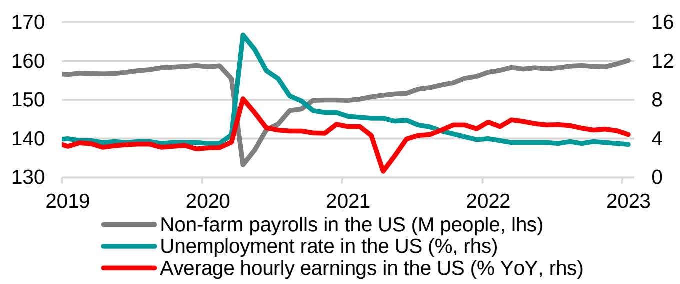
- **This week's most important event will be the Monetary Policy Council meeting scheduled for Tuesday.** We expect the MPC to keep interest rates unchanged (NBP reference rate at 6.75%). A monetary policy status quo is supported by statements made by the NBP President at the press conference following the February meeting, who stated that the MPC had initiated hikes at the right moment, continued them correctly and concluded them in due time. We expect that the press release after the meeting will not deviate significantly from the February statement. This week will see the release of the NBP's latest inflation projection. We believe that the mid-term inflation and economic growth trajectories will not change substantially relative to the November 2022 forecast. The projection will probably still show that inflation will fall below the upper band for deviations from the inflation target (i.e. 3.5% YoY) as late as H2 2025. The decision to keep interest rates unchanged this week will be consistent with the market consensus, and thus it should be neutral for the PLN exchange rate and yields on Polish bonds. This week will also likely see the customary press conference with the NBP president, which will shed more light on the domestic monetary policy outlook.



Source: Reuters, Credit Agricole

- **Fed Chair J. Powell will present a semi-annual monetary policy report to Congress on Tuesday and Wednesday.** Investors will closely follow J. Powell's comments on the outlook for economic growth, inflation and interest rates. The Fed Chair's comments on further monetary policy tightening plans will be of particular importance. During J. Powell's testimony, financial markets may see increased volatility.

- **On Friday, important data from the US labour market will be published.** We expect non-farm payrolls to have expanded by 260k in February, compared with a growth of 517k in January, with the unemployment rate stabilising at 3.4%. In the lead-up to Friday's publication, the ADP report on employment in the private sector will shed more light on the labour market (the market anticipates an expansion of 168k in February vs. 106k in January). Our forecasts for the labour market (both in terms of non-farm payrolls and the unemployment rate) are more optimistic than the consensus. If they materialize, this would lead to a weakening of the PLN and an increase in the profitability of Polish bonds.

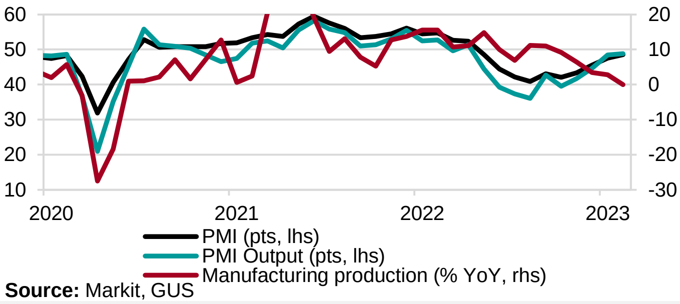


Source: Datastream, Credit Agricole

- **China's foreign trade figures are set to release on Tuesday.** According to the consensus, the Chinese trade balance expanded to USD 80.9bn between January and February, up from USD 78.0bn in December. The market expects China's exports slump to have increased slightly (-10.0% YoY in January-February vs. -9.9% in December), with the drop in imports slowing down (-5.3% versus -7.5%) on the back of recovering internal demand amid an easing of restrictions in China. We believe that the release of data from the Chinese economy will be neutral for the financial markets.

Last week

- **In accordance with the final estimate, Polish GDP increased by 2.0% YoY in Q4 2022 comparing to a 3.6% growth in Q3, in line with the GUS flash estimate.** Seasonally adjusted GDP decreased by 2.4% QoQ in Q4 compared with a gain of 1.0% QoQ in Q3. The main drivers of reduced GDP growth were lower contributions from private and public consumption and inventories, with higher contributions from gross fixed capital formation and net exports having the opposite effect (see MACROpulse of 28/02/2023). The GDP figures support our 'soft landing' scenario for Poland's economy. In this scenario, GDP growth in Poland in 2023 will slow down markedly (to 1.2% YoY vs. 4.9% in 2022), but will nevertheless remain positive and reduced GDP growth will not be accompanied by a substantial rise in unemployment. We expect to see a slight drop in seasonally adjusted GDP in Q1 compared to Q4, which will mark the bottom of the economic cycle. In the coming quarters, we expect to see an economic recovery, getting stronger in H2 2023 with falling inflation and faster economic growth seen by Poland's main trading partners.
- **The PMI for Polish manufacturing rose to 48.5 pts in February compared with 47.5 pts in January, outperforming both the market consensus (48.0 pts) and our forecast (48.2 pts).** Thus, the index has remained below the 50-point mark that separates growth from contraction for ten months in a row. The index grew on the back of higher contributions from 4 out of 5 of its components (new orders, stocks of purchases, employment and output), with lower contributions from suppliers' delivery times having the opposite effect (see MACROpulse of 01/03/2023). At the same time, it is worth noting that February saw a sharp rise in the index for expected output in the horizon of 12 months, which grew to its highest level since April 2022 and has remained above the 50-point mark for four months. This indicates that the restructuring processes launched in many companies aimed at increasing efficiency and reducing energy consumption, the fact that Poland is only seeing a mild slowdown in economic growth (see MACROpulse of 28/02/2023) and the improvement in the economic situation of Poland's main trading partners recorded in February (see MACROmap of 27/02/2023), prompted some companies to perceive future activity through a more optimistic lens. The economic sentiment survey results in Polish manufacturing support our scenario of a 'soft landing' for the Polish economy (see above).



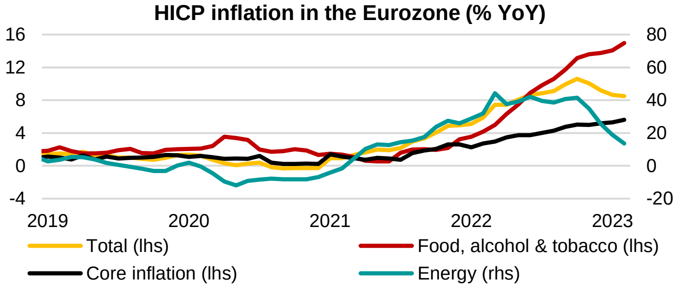
Source: Markit, GUS

- **China's Caixin manufacturing PMI climbed to 51.6 pts in February vs. 49.2 pts in January, running well above market expectations (50.2 pts).** Thus, the index breached the 50-point mark, which separates expansion from contraction, for the first time since July 2022. The index grew on the back of higher contributions from 4 out of 5 of its components (output, new orders, employment and stocks of purchases), with lower contribution from suppliers' delivery times having the opposite effect. The sharp rise in the PMI followed from a marked improvement in China's epidemic situation in the wake of the Chinese government's departure from the 'zero COVID' policy in December 2022, which led to a significant increase in infections. Particularly noteworthy in the data are the increased contributions from output and new orders, including export orders standing markedly above the 50-point threshold. This indicates an improvement in both internal and external demand, a trend reflected in rising output, as well as in longer suppliers' delivery times. At the same time, employment in Chinese manufacturing increased for the first time since March 2022, signaling improved outlook expectations. This assessment is supported by an increase in the index for production expected at a 12-month horizon, which in

February increased to the highest level since March 2021. In February, divergent price trends were recorded in Chinese manufacturing. Input price growth slowed down, while output prices rose for the first time since March 2022. This may suggest that companies are trying to rebuild their margins against the backdrop of rebounding demand. The CFLP PMI for Chinese manufacturing also grew as it rose to 52.6 pts in February, up from 50.1 pts in January, running well above market expectations (50.5 pts). The results of sentiment surveys in Chinese manufacturing support our forecast that in 2023 China's GDP growth rate will accelerate to 5.2%, compared with 3.0% in 2022, mainly due to the strong recovery in consumption that we expect, supported by the realization of pent-up demand (see MACROmap of 23/01/2023). This growth rate will be consistent with the Chinese government's target for GDP growth of 'approx. 5%'. It is worth noting, however, that such a substantial PMI growth may prove unstable, hence it will be vital to analyse data released in the coming months.

- **Last week, some vital data regarding the US economy was published.** Durable goods orders fell by 4.5% MoM in January, down from a gain of 5.1% in December, a trend attributable to reduced orders for planes. Excluding transportation, durable goods orders were up by 0.7% in January relative to -0.4% in December. At the same time, growth in orders for non-military capital goods fell to 4.3% YoY in January from 5.0% in December. This marked the eighth month running with a drop, which in our opinion, shows a deterioration in investment prospects in the US. The ISM index indicated a slight improvement in manufacturing as it expanded to 47.7 pts in February, up from 47.4 pts in January, running slightly below market expectations (48.0 pts). This increase was attributable to higher contributions from new orders, with lower contributions from output, employment, suppliers' delivery times and stocks of purchases having the opposite effect. It is worth noting that February saw the first hikes in input prices since September 2022, signaling that cost pressures in US manufacturing remain strong. On the other hand, the ISM index slipped to 55.1 pts in February from 55.2 pts in January, running above market expectations (54.5 pts). The index fell on the back of reduced contributions from 2 out of 4 of its components: business activity in services and suppliers' delivery times. At the same time, the Conference Board index signaled a deterioration in US consumer sentiment as it fell to 102.9 pts in February, down from 106.0 pts in January, running below market expectations (108.5 pts). The index fell due to an lower reading of its business expectations component, with the assesment of the current situation having the opposite effect. Last week's data do not affect our forecast, according to which the annualized economic growth rate in the US will slow down to 0.6% in Q1 2023 from 2.7% in Q4.

- **According to the flash estimate, inflation in the Eurozone fell to 8.5% YoY in February, down from 8.6% in January, well above the market consensus (8.2%).** Inflation fell primarily due to lower price growth in the 'energy' category. At the same time, core inflation increased in February to 5.6% YoY from 5.3% in January, indicating persistently strong inflationary pressures in the Eurozone. Nevertheless, the data do not alter our assessment, according to which inflation in the Eurozone has already reached its maximum (MACROmap of 02/01/2023). The prospect of inflation remaining at an elevated level for a prolonged period supports our scenario, according to which the ECB will continue the interest rate hike cycle in the coming months. We expect the ECB to raise interest rates by 50bp in March and May, followed by a 25bp move in June, thus bringing the policy rate to its target level of 4.25%, with the deposit rate standing at 3.75%.

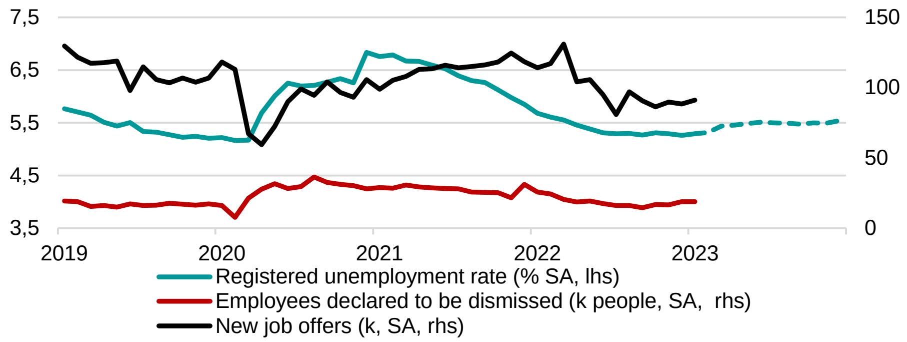


Source: Datastream, Credit Agricole

Was there a recession in Poland in 2022?

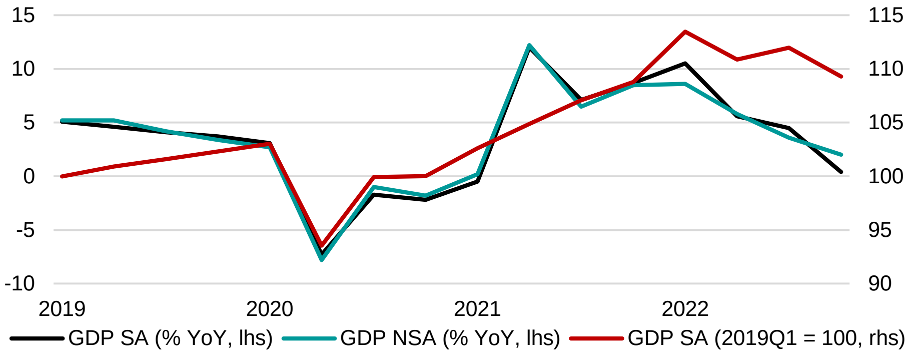
In accordance with the final estimate published by the GUS, Polish GDP increased by 2.0% YoY in Q4 2022 comparing to a 3.6% growth in Q3 (see MACROpulse of 28/02/2023). Seasonally adjusted GDP decreased by 2.4% QoQ in Q4 vs. +1.0% QoQ in Q3. Thus, the so-called technical recession, i.e. a decline in seasonally adjusted GDP for two consecutive quarters, was not recorded. This means that—taking into account the 2.3% QoQ seasonally adjusted GDP drop in Q2 2022—its level in Q4 2022 was 3.7% lower than in Q1 2022. This was, excluding the period of the first wave of the COVID-19 pandemic in 2020, the largest cumulative fall in GDP in three consecutive quarters in the history of the data we have (since 2002). Given the strong cumulative decline in economic activity, the question of whether Poland is currently in recession has been increasingly discussed in the media recently.

It is difficult to determine unequivocally whether a country is in recession. The concept of the technical recession mentioned above provides some guidance in this respect, but given the complexity of macroeconomic processes this is an overly simplistic approach. For example, in the case of the US, no automatic algorithms are used to define recession; it is the task of a panel of experts from the National Bureau of Economic Research. The NBER has a special unit, the Business Cycle Dating Committee, dedicated to determining the course of business cycles. This committee does not use the commonly accepted method of two consecutive quarters with negative GDP growth when determining periods of recession. It adopts a different definition: a recession is understood as a significant decline in economic activity across the country, lasting more than a few months, usually seen in a decline in real GDP, gross national product, employment, industrial production and retail sales.



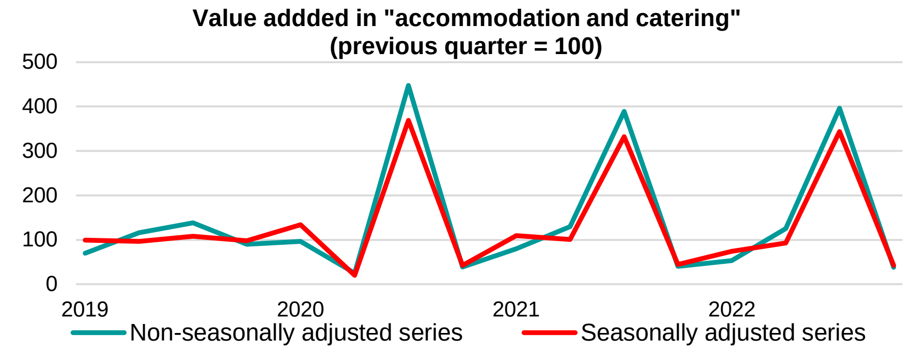
Source: GUS, MRPiPS, Credit Agricole

When defining a recession, we also look at a wide range of macroeconomic indicators, including those describing the labour market situation. We believe that the labour market will remain relatively immune to a slowdown in economic growth in the coming quarters. Firstly, the decline in activity will be short-lived which will reduce the propensity of employers to cut jobs, given the costs associated with the need to hire new employees during the economic recovery in the H2 of 2023 (the so-called labour hoarding). Secondly, there is currently high demand for labour from employers. The number of new job openings and the vacancy rate are at historically high levels. Thirdly, the tight labour market situation and the stabilisation of unemployment will be fostered by unfavourable demographic trends, including an ageing population. According to Eurostat projections, the labour supply (the number of people of working age) will decrease by around 5% in Poland over the horizon of the next decade. Given the favourable starting point and the significant inertia of the labour market, the situation in the labour market will not deteriorate quickly under conditions of a short-term slowdown in economic growth. Thus, in the absence of a realised or expected significant deterioration in the labour market, it is difficult to speak of a recession in Poland.



Source: GUS, Credit Agricole

In addition, it is important to note the technical issues that make it difficult to infer economic trends solely from GDP data. The first is the large discrepancy between seasonally adjusted and non-seasonally adjusted GDP growth in Q4 2022, which have typically followed a similar pattern (see chart). It is mainly due to the different ways in which GDP is price-adjusted (i.e. in which current prices are converted to constant prices) in the two approaches. The non-seasonally adjusted GDP growth rate is calculated based on the previous year's prices, while the seasonally adjusted growth rate is based on 2015 constant prices. We believe that, given the large differences in recent quarters in the price growth rates of some GDP components, the 2015 structure of nominal GDP reflects the current composition of GDP worse than that calculated using the previous year's prices. As a result, the decline in seasonally adjusted GDP in Q4 may have been overestimated relative to the actual decline in economic activity due to the GDP price-adjustment mechanism adopted. In the context of the trends outlined above, the reaction of the GUS to the divergence in GDP growth rates indicated above and the possible revision of past GDP data in subsequent publications is also an important factor of uncertainty.



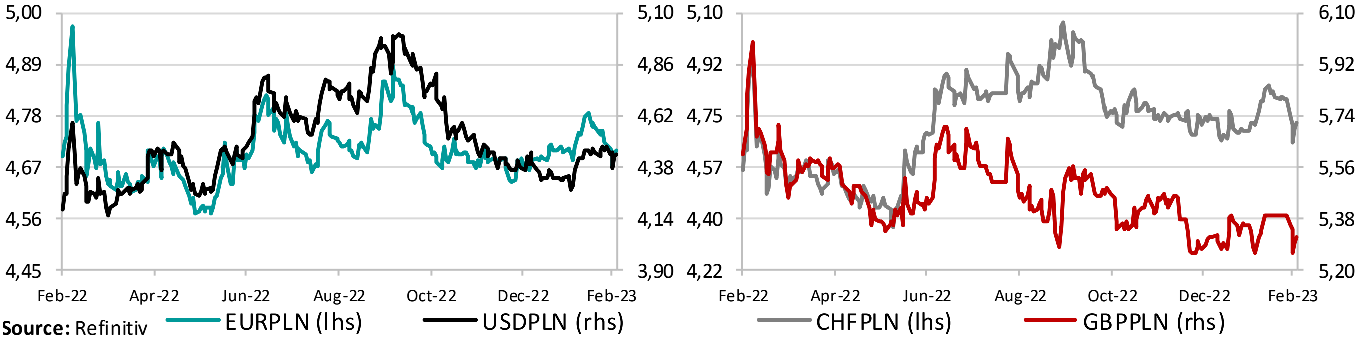
Source: GUS, Credit Agricole

Secondly, there are doubts about the very procedure the GUS applies to adjust GDP data seasonally. They are particularly justified in the case of added value in the 'Accommodation and catering' category. The raw (non-seasonally adjusted) data shows a significant seasonal increase in value added in Q3, which is linked to holiday trips during the summer months. However, according to the latest GUS data, such strong increases in value added in Q3 were also evident in seasonally adjusted data (see chart). This is a rather unusual situation historically, signalling problems in isolating seasonal variations in the raw data. Graphically, the seasonally adjusted series should have a flatter pattern and be devoid of 'peaks' in Q3 2021-2022 (Q3 2020 saw a strong increase in seasonally adjusted activity after the spring lockdown). Such problematic issues may also exist when adjusting seasonally the entire GDP volume, which makes it difficult to infer from it, and thus also to declare whether there was a recession in Poland or not.

To sum up, we expect the seasonally adjusted level of GDP in Q1 to decline slightly compared to Q4, marking the bottom of the business cycle. It would mean that the Polish economy has entered a so-called technical recession. Nevertheless, we expect economic recovery to come in the following quarters, intensifying in the H2 2023, together with a decline in inflation and acceleration of economic growth in Poland's main trading partners. We maintain our scenario of a 'soft landing' of the Polish economy, according to which, although the annual growth rate of Polish GDP in 2023 will clearly decline, it will remain positive (1.2% YoY vs. 4.9% in 2022). An important argument supporting the 'soft landing' scenario is the good labour market situation and the absence of the marked increase in the unemployment rate we expected. An additional factor of uncertainty in this respect is the possible revision of GDP data by the GUS.

Data from US labour market may weaken the PLN

FX rates



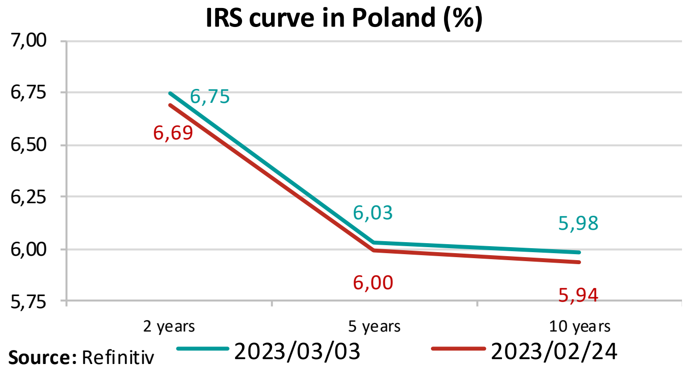
Source: Refinitiv

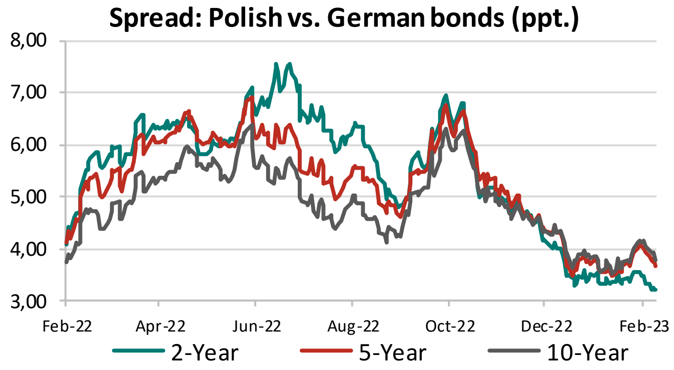
Last week, the EURPLN rate dropped to 4.7055 (the PLN strengthened by 0.3%). In the first part of the week, the EURPLN exchange rate was in a mild downward trend supported by a reduction in global risk aversion, which was also reflected in a decrease in the VIX index. On Wednesday, we saw a marked strengthening of the PLN in response to the publication of significantly better-than-expected Chinese manufacturing business survey results. Towards the end of the week there was a correction and the PLN weakened against the EUR, although its exchange rate did not return to the levels of the beginning of the week.

Last week also saw a strengthening of the EUR against the USD, which in our view was supported by rising expectations of interest rate hikes in the Eurozone, further strengthened by last week's publications of higher-than-expected Eurozone inflation data. This assessment is supported by the increase in the Eurozone FRA contracts recorded last week.

This week, the publication of US labour market data scheduled for Friday will be crucial for the PLN; we believe it could push the PLN down. This week, Fed Chairman J. Powell's speech before Congress will be in the spotlight; it may foster heightened volatility in the currency market. The MPC meeting scheduled for Wednesday will, in our view, be neutral for the PLN. We believe that other data releases from global economy 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.

J. Powell's speech to Congress in the spotlight





Source: Refinitiv

Last week, 2-year IRS rates increased to 6.75 (up by 6bp), 5-year rates to 6.03 (up by 3bp) and 10-year ones to 5.98 (up by 4bp). Last week saw further strong rise in IRS rates across the curve following the core markets. Increased bond yields in the core markets were supported by rising expectations of further interest rate hikes by the major central banks, which were further strengthened by the publication of higher-than-expected inflation data in the Eurozone.

This week, Fed Chairman J. Powell's speech before Congress will be in the spotlight; it may foster heightened volatility of IRS rates. On the other hand, the release of US labour market data scheduled for Friday could intensify expectations of interest rate hikes in the US and contribute to a rise in IRS rates. The MPC meeting scheduled for Wednesday will be curve-neutral in our view. 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	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23
NBP reference rate (%)	2,75	3,50	4,50	5,25	6,00	6,50	6,50	6,75	6,75	6,75	6,75	6,75	6,75	**6,75**
EURPLN*	4,69	4,64	4,67	4,58	4,70	4,73	4,72	4,85	4,71	4,67	4,69	4,71	4,70	**4,71**
USDPLN*	4,18	4,19	4,43	4,27	4,48	4,63	4,70	4,95	4,77	4,48	4,38	4,33	4,45	**4,44**
CHFPLN*	4,56	4,54	4,55	4,45	4,69	4,86	4,80	5,01	4,76	4,74	4,72	4,70	4,72	**4,76**
CPI inflation (% YoY)	8,5	11,0	12,4	13,9	15,5	15,6	16,1	17,2	17,9	17,5	16,6	17,2	**18,8**	
Core inflation (% YoY)	6,7	6,9	7,7	8,5	9,1	9,3	9,9	10,7	11,0	11,4	11,5	11,9	**12,0**	
Industrial production (% YoY)	17,3	15,4	12,3	14,9	10,4	7,1	10,9	9,8	6,6	4,4	0,9	2,6	**-0,9**	
PPI inflation (% YoY)	16,1	21,9	24,1	24,7	25,6	25,5	25,5	24,6	23,1	21,1	20,5	18,5	**17,7**	
Retail sales (% YoY)	16,5	22,0	33,4	23,6	19,9	18,4	21,5	21,9	18,3	18,4	15,5	15,1	**14,2**	
Corporate sector wages (% YoY)	11,7	12,4	14,1	13,5	13,0	15,8	12,7	14,5	13,0	13,9	10,3	13,5	**11,7**	
Employment (% YoY)	2,2	2,4	2,8	2,4	2,2	2,3	2,4	2,3	2,4	2,3	2,2	1,1	**0,9**	
Unemployment rate* (%)	5,9	5,8	5,6	5,4	5,2	5,2	5,2	5,1	5,1	5,1	5,2	5,5	**5,5**	
Current account (M EUR)	-2032	-4206	-2834	-1078	-499	-1206	-2743	-1839	-597	313	-2526	**224**		
Exports (% YoY EUR)	20,3	11,9	17,6	26,8	21,5	20,3	27,6	26,5	24,4	25,2	11,5	**9,9**		
Imports (% YoY EUR)	29,7	31,4	36,0	32,7	27,1	21,8	29,4	30,1	25,3	20,3	12,1	**13,4**		

*end of period

Forecasts of the quarterly macroeconomic indicators

Main macroeconomic indicators in Poland

	Indicator	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2022	2023	2024
	Gross Domestic Product (% YoY)	8,6	5,8	3,6	2,0	-0,8	0,2	2,4	2,9	4,9	1,2	3,1
	Private consumption (% YoY)	6,7	6,4	0,9	-1,5	-2,0	-1,0	0,5	2,0	3,0	-0,2	3,0
	Gross fixed capital formation (% YoY)	4,7	6,6	2,0	4,9	-0,5	0,2	1,4	2,6	4,5	1,2	4,0
	Export - constant prices (% YoY)	4,2	5,2	6,9	2,0	2,5	3,0	3,5	4,8	4,5	3,4	3,8
	Import - constant prices (% YoY)	9,4	6,9	6,0	0,2	-0,5	0,1	2,5	4,0	5,5	1,5	4,3
GDP growth contributions	Private consumption (pp)	4,0	3,6	0,5	-0,7	-1,2	-0,6	0,3	1,0	1,7	-0,1	1,7
	Investments (pp)	0,6	1,0	0,3	1,0	-0,1	0,0	0,2	0,6	0,8	0,2	0,7
	Net exports (pp)	-2,7	-0,7	0,6	0,9	0,9	1,3	0,6	0,5	-0,4	1,2	-0,2
	Current account (% of GDP)***	-2,7	-3,5	-3,5	-3,1	-3,3	-3,2	-3,5	-3,6	-3,1	-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	0,3	0,0	-0,5	-0,5	-0,5	0,6	-0,4	0,1
	Wages in national economy (% YoY)	9,7	11,8	14,6	12,3	14,0	12,8	11,4	9,9	12,1	12,0	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	5,88
	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	4,71	4,73	4,70	4,65	4,69	4,65	4,50
	USDPLN**	4,19	4,48	4,95	4,38	4,44	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 03/06/2023				
10:30	Eurozone	Sentix Index (pts)	Mar	-8,0		-6,5
11:00	Eurozone	Retail sales (% MoM)	Jan	-2,7		1,0
16:00	USA	Factory orders (% MoM)	Jan	1,8	-2,0	-1,5
		Tuesday 03/07/2023				
9:00	Germany	New industrial orders (% MoM)	Jan	3,2		-1,0
16:00	USA	Wholesale inventories (% MoM)	Jan	-0,4		
16:00	USA	Wholesale sales (% MoM)	Jan	0,0		
	China	Trade balance (bn USD)	Feb	78,0		80,9
		Wednesday 03/08/2023				
8:00	Germany	Industrial production (% MoM)	Jan	-3,1		1,5
11:00	Eurozone	Revised GDP (% QoQ)	Q4	0,1		
14:15	USA	ADP employment report (k)	Feb	106		185
	Poland	**NBP rate decision (%)**	**Mar**	**6,75**	**6,75**	**6,75**
		Thursday 03/09/2023				
2:30	China	PPI (% YoY)	Feb	-0,8		
2:30	China	CPI (% YoY)	Feb	2,1		
14:30	USA	Initial jobless claims (k)	w/e	269		
		Friday 03/10/2023				
14:00	**Poland**	**MPC Minutes**	**Mar**			
14:30	USA	Unemployment rate (%)	Feb	3,4	3,4	3,4
14:30	USA	Non-farm payrolls (k MoM)	Feb	517	260	200

*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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