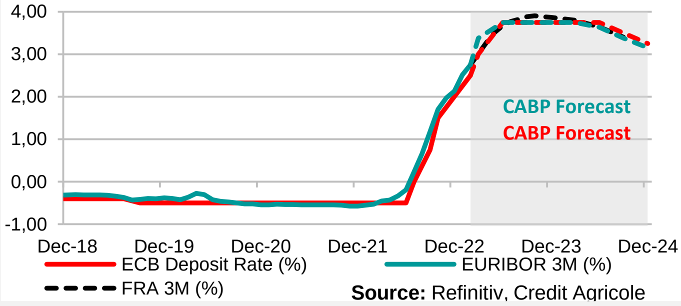
This week

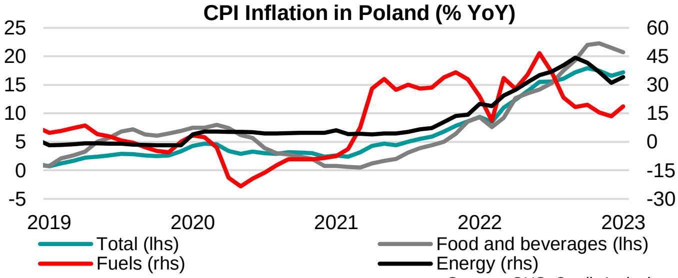
- **The key event this week will be the ECB meeting planned for Thursday.** We expect the ECB to raise interest rates by 50bp, which will be consistent with market consensus. We believe that Ch. Lagarde is likely to give some information at the conference following the ECB meeting about the extent of the monetary policy tightening in the coming months. With inflation still relatively high, she is likely to note that the monetary policy needs to be further tightened in the months to come. The ECB's March macroeconomic projection will also be released after the meeting. We believe that the economic growth projection for 2023 will be revised slightly upwards, while the medium-term inflation path will not change materially comparing to the December forecast. We maintain our scenario, in which the deposit rate will reach the target level of 3.75% in June, but in our opinion this forecast carries an upside risk. We believe that we will see an increased market volatility during the ECB conference.



Source: Refinitiv, Credit Agricole

- **Data on February inflation in Poland will be published this Wednesday.** At the same time, new weights for inflation basket categories will be published, and the inflation level for January will be revised. We expect the annualised inflation to have gone up to 18.8% comparing to 17.2% in January. Inflation was driven up by low base effects connected with the launching of the Anti-Inflation Shield in February 2022. Our forecast is close to market consensus (18.7%), so its materialisation will be neutral for the PLN and yields on Polish bonds.

CPI Inflation in Poland (% YoY)



Source: GUS, Credit Agricole

- **Some important data from the US will be released this week.** We expect the headline inflation to have fallen from 6.4% YoY in January to 6.1% in February, driven down by a drop in core inflation from 5.6% YoY in January to 5.5% in February. We expect nominal retail sales to have shrunk by 0.3% MoM in February comparing to a 3.0% growth in January due to last month's high base effects and poorer weather conditions. We do not expect the industrial production growth to have changed between January and February, and we believe that it stood at 0.0% MoM. Business indicators for manufacturing show a limited potential for growth in activity in the manufacturing sector, with ISM standing below the 50-point level for four consecutive months. We expect the data on housing starts (1,316k in February vs. 1,309k in January) and construction permits (1,346k vs 1,350k) to be indicative of a further, slight decrease in the activity in the US property market. We believe that the preliminary University of Michigan index will show that the household sentiment has stabilised (67.0 pts in February and March). On the one hand, the labour market situation is still relatively good (see below), but on the other hand, inflation is still high. We believe this week's US data will be neutral for financial markets.
- **Important data from China will be published on Wednesday.** We expect industrial production to have accelerated from 1.3% YoY in January to 2.0% in February and the retail sales dynamics to have gone up from -1.8% YoY in January to 1.5% in February, but we forecast that the pace of investment growth in urban areas slowed down slightly from 5.1% YoY in January to 4.8% in February. The data will thus confirm that the Chinese economy still remains under the positive impact of the lifting of administrative restrictions imposed with the aim of curbing the spread

of the COVID-19 pandemic. In our opinion, the data from China will be neutral for the PLN and the yields on Polish bonds.

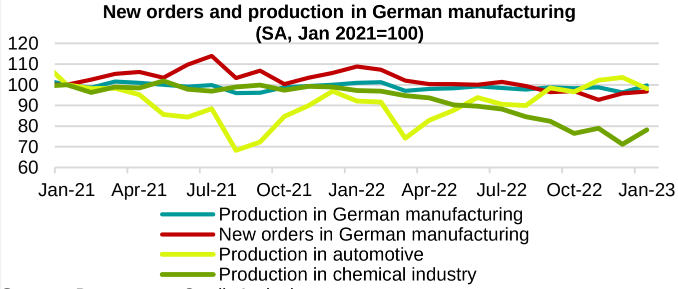
- **Poland's balance of payments figures for January will be released on Thursday.** We expect the current account balance to have increased to EUR 224M from EUR -2,526M in December, primarily as a result of a higher balance of trade in goods and balance of transfers from the EU. We expect the exports growth rate to have dropped to 9.9% YoY in January from 11.5% in December, and the imports growth rate to have increased from 12.1% YoY to 13.4%. In our opinion, the balance of payments figures will be neutral for the PLN and yields on Polish bonds.

Last week

- **Last week, the Monetary Policy Council took a decision to keep interest rates unchanged (with the NBP reference rate standing at 6.75%).** The Council's decision was consistent with market consensus and our forecast. Statements made by the NBP Governor and some of the MPC members, which suggested that they were reluctant to tighten the monetary policy despite high, persistent inflation, indicated that the rates were highly likely to remain unchanged. The results of the NBP's March economic projection were also published last week. They indicate that we will see a two-digit average annual inflation in 2023. 2024 will see the inflation still running markedly above the MPC's inflation target of 2.5%, and it will be only the second half of 2025 that will see the inflation return to the target. The projection also assumes that the economic growth in 2023 will stand at approx. 1%, and will gradually accelerate in the subsequent years. The lack of any monetary policy reaction to the March projection of inflation that indicates at a long-term persistence of inflation on a level that is markedly above the NBP inflation target and well beyond the monetary policy transmission horizon means that the Council still finds high inflation to be of secondary importance and that preventing the economic growth from slowing down too much in the coming quarters is still the main objective of the monetary policy. We continue to believe that the probability of the Council resuming interest rate hikes in the coming months is still low. Our conclusion is consistent with the NBP Governor A. Glapiński's statements at the Thursday's press conference saying that the *wait-and-see* approach has now been adopted towards monetary policy, and though the interest rate hiking cycle is not officially over, it is highly unlikely that rate hikes will be resumed. What is more, he said that there would be room for interest rate decrease if inflation followed a clear, lasting, downward trend. He said it could happen as early as in Q4 2023, but he emphasised that it was his private opinion, and it was not consulted with the Council. The press release following the last week's MPC meeting, the results of March inflation projection, and the statements made by the NBP Governor A. Glapiński support our scenario in which the NBP interest rates will not change before the end of 2023, and will be decreased for the first time in Q1 2024.
- **The Chinese trade balance increased to USD 116.9bn in January-February relative to USD 78.0bn in December, with market expectations of USD 81.8bn.** Export growth climbed to -6.8% YoY, from -9.9%, with import growth falling to -10.2%, down from -7.5%, running above and below market expectations, respectively (-9.4% for export growth and -5.5% for import growth). The data point to the continued negative impact of the slowdown in global trade on Chinese exports. In turn, the deceleration in import growth signals that the recovery in domestic demand is slower than previously expected, which we believe is attributable to disruptions related to rising infections amid China's departure from its 'zero COVID' policy, as well as Chinese New Year celebrations. In the coming months, we expect a gradual recovery in China's domestic demand, including due to the release of pent-up demand, which will support the growth of Chinese imports. At the same time, in our scenario, we assume a deterioration in the outlook for Chinese exports amid reduced demand for Chinese goods in the US and the EU. This group of countries accounts for about a third of China's exports, and at the same time, according to our forecast,

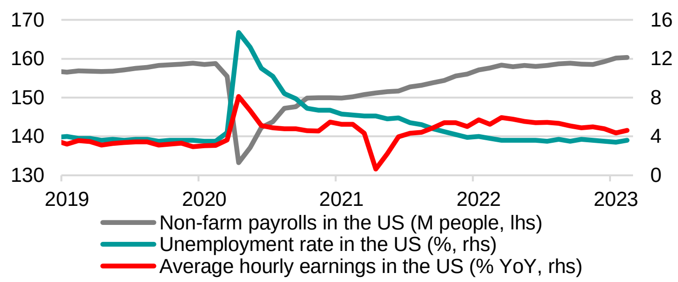
these economies should see a slowdown in economic activity over the coming quarters. This is consistent with our forecast, according to which China's GDP will grow by 5.0% YoY in 2023, up from 3.0% in 2022, consistent with the target set by the Chinese government for GDP growth of approx. 5% (see MACROmap of 06/03/2023).

Last week, vital data from the German economy was published. The growth rate of orders in manufacturing contracted to 1.0% MoM in January, down from 3.4% in December, running well above market expectations (-1.0%). Orders slowed down due to lower growth of domestic orders, partially offset by higher growth of foreign orders. Foreign orders expanded on the back increased non-Eurozone orders, with orders from within the single currency area decreasing. Last week also saw the release of data on industrial production, which expanded by 3.5% MoM in January, up from -2.4% in December, thus exceeding market expectations. An increase in production growth was recorded in all its main sectors: manufacturing, construction and energy. As regards individual sectors, particularly noteworthy are the first signs of recovery in the chemical industry, where activity has been significantly reduced in recent months due to high gas and energy prices. While the automotive industry saw a decline in production in January, the continued sharp increase in new orders (+5.6% MoM, the highest since February 2022) indicates that this trend is only temporary. Last week's data from the German economy pose a downside risk to our forecast, projecting a contraction of German GDP by 0.5% in 2022 compared with a decline of 0.4% in Q4.



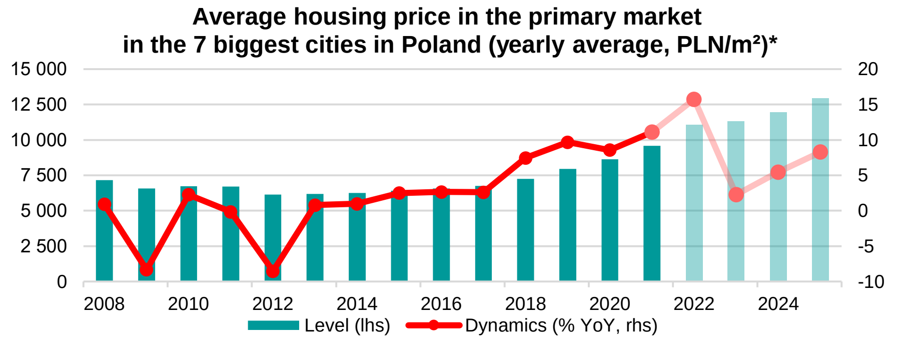
Source: Datastream, Credit Agricole

Last week, some vital data regarding the US economy was published. Non-farm payrolls grew by 311k in February compared with an increase of 504k in January (downward revision from 517k), running well above market expectations (growth of 205k). The strongest expansion in employment was recorded in leisure and hospitality (+105.0k), education and health services (+74.0k) and retail trade (+50.1k). In turn, the strongest drop in employment was seen in information (-25.0k), and transportation and warehousing (-21.5k). The unemployment rate climbed to 3.6% in February, up from 3.4% in January, exceeding market expectations (3.4%), which can be partly explained by an increase in labour market participation (62.5% in February vs. 62.4% in January). At the same time, the growth rate of hourly wages increased to 4.6% YoY in February from 4.4% in January, running slightly below market expectations (4.7%), which indicates continued strong wage pressures in the US economy. Further better-than-expected data from the US labour market pose an upside risk to our scenario of the Fed proceeding with two more 25bp rate hikes (in March and May) and ending the hike cycle with a Federal Funds Target Range of [5.00%, 5.25%]. Such an upward risk is also signalled by last week's statements by Fed chair J. Powell, who, during his testimony before Congress, said that the Fed is considering returning to 50bp hikes at the March meeting. He stressed, however, that this decision will depend on the data received in the coming days. At the same time, an opposing factor that may limit the Federal Reserve's resolve in tightening the monetary policy is the mounting pressure from the high-interest rate environment on the stability of the banking sector due to a decrease in the valuation of securities on the balance sheets of banks. Last week, this pressure materialized in the US, with the Silicon Valley Bank (SVB) losing liquidity, causing yields on bonds in core markets to plummet (see below).



Source: Datastream, Credit Agricole

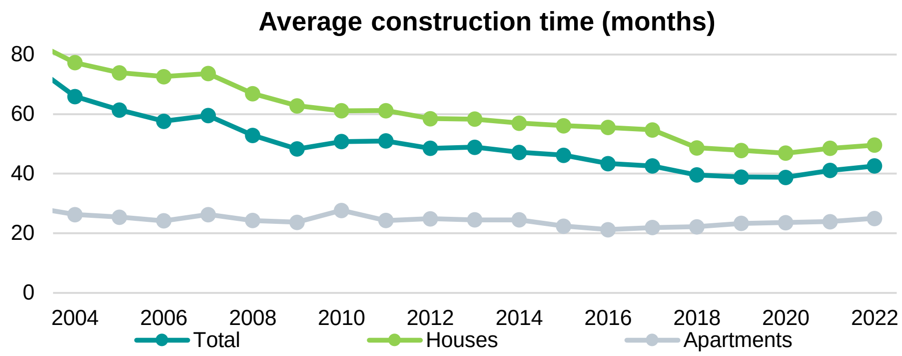
Housing prices increasingly likely to soar in 2024



Source: NBP, Credit Agricole *forecast beyond 2021

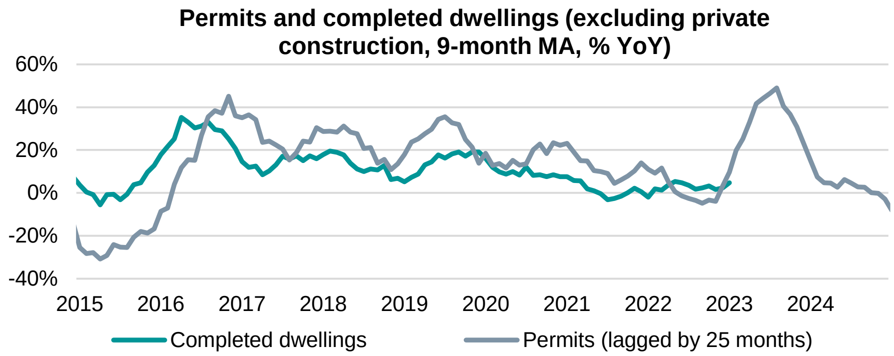
In the MACROmap of 28/11/2022, we presented our mid-term forecast for housing prices (see chart). Taking into account the econometric modelling results expert-adjusted downwards, we forecasted at that time that the prices of houses on the primary market seen in Q3 2022 would remain stable until the end of 2023. This forecast materialized in Q4 2022. According to NBP data, the average transaction price on the primary market for Poland's seven largest cities (Gdańsk, Gdynia, Łódź, Kraków, Poznań, Warsaw, Wrocław) fell by only 0.2% between Q3 and Q4 2022, standing at PLN 11,291/m^2.

Our econometric model mainly considers demand and price factors to determine the annual growth of housing prices. The explanatory variables include lagged price growth which represents the interia of the housing market. The second variable is the unemployment rate according to LFS, which in the model represents the impact of changes in households' housing demand on the evolution of housing prices. The third variable is building materials prices, which illustrate the supply side of the housing market, including housing construction costs reflected in the final property price. Our model is a simplification of reality and does not capture the wide range of factors affecting real property prices. These include reduced cash demand, a further slowdown in new lending consistent with the sharp decline in the number of mortgage applications observed in recent months, the persistent high-interest rate environment, which, combined with the Polish Financial Supervision Authority's (KNF) recommendation introduced in April 2022 (calculation of creditworthiness assuming a 5 pp interest rate hike), will contribute to a decrease in the creditworthiness of households.



Source: GUS, Credit Agricole

While we are not be revising our forecast of housing prices, we would like to point out another vital price-setting factor, i.e. the anticipated evolution of housing supply on the primary market. Housing supply, i.e. the number of completed apartments, in the mid-term can be estimated on the basis of the number of permits issued. According to the GUS data, the duration of the construction of apartments in multi-family buildings completed in Q1-Q3 2022 was 25 months (see chart). In the case of single-family housing, this time was approximately twice as long (49.6 months). Knowing the approximate build time of apartments, we can estimate to what extent (and with what lag) the issued permits will be reflected in the number of completed apartments, i.e. the supply of new apartments. Further in this analysis, we focus on data excluding private construction (mainly construction of houses for own use), as it has a negligible effect on the housing supply disclosed in NBP price statistics.

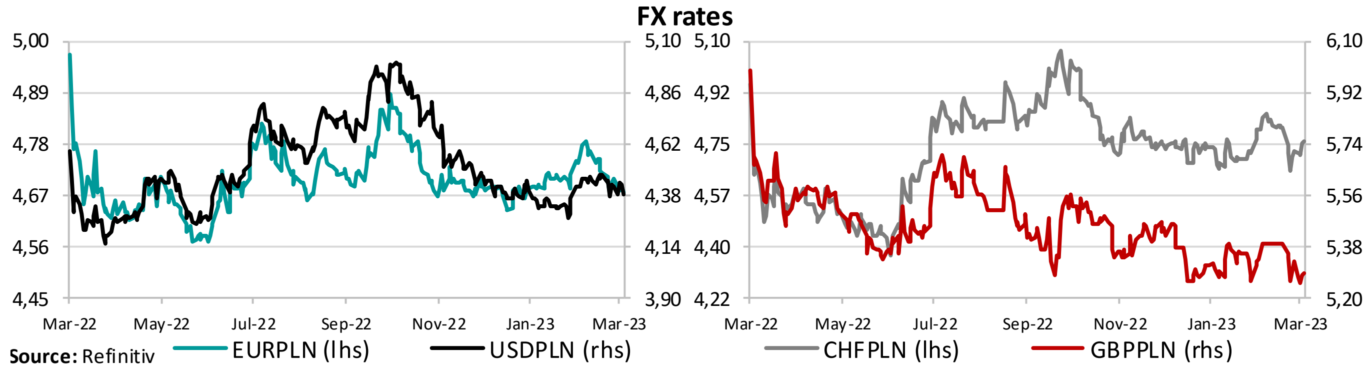


Source: GUS, Credit Agricole

The annual growth rate of building permits issued (lagging by 25 months) shows a strong positive correlation with the current growth rate of completed houses. In our analysis, we used 9-month averages to eliminate noise in the data. The correlation coefficient calculated on such smoothed indices has fluctuated around 0.75 in recent years. Based on the leading properties of the relationship mentioned above, it can be expected that the housing supply on the primary market will increase sharply this year. On the other hand, in 2024 the growth rate of completed houses will slow down substantially (see chart).

In the short term, the expected increase in housing supply will drive property prices down, considering that it will materialize against the backdrop of suppressed demand related to, among others, slow lending in the mortgage segment and an economic slowdown. It should be noted, however, that a large part of the houses completed this year was purchased several quarters back and now the units will only be handed over to buyers. This part of the increased supply will be neutral from the point of view of price processes. In turn, in 2024 we will see the opposite situation as we expect demand for houses to rebound amid a recovery in economic growth and a decline in interest rates. We also believe that regardless of the outcome of this year's parliamentary elections, a government program will be launched to support first-time home buyers, further boosting demand. The suppressed inflow of new houses to the primary market will be a factor conducive to a renewed increase in housing prices. Considering the trends above, we stand by our forecast, according to which the average transaction price on the primary market for the seven largest cities in Poland will not change significantly this year, while in 2024 it will rise further at several percent per year. It should be noted that this forecast is subject to high uncertainty. Uncertainty factors underlying our forecast include: prices of building materials, a potentially stronger economic slowdown and the final form and scale of the government program for first-time home buyers.

ECB meeting may add to PLN volatility

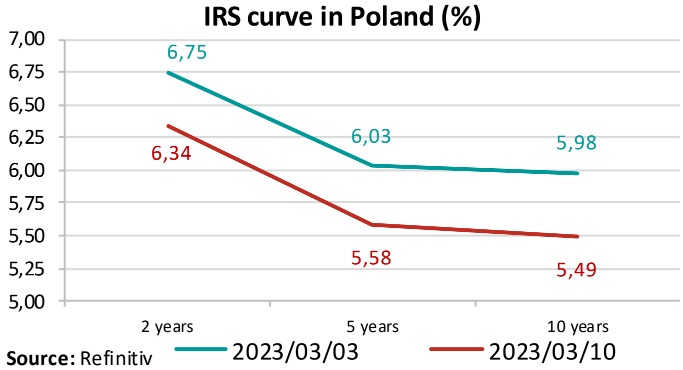


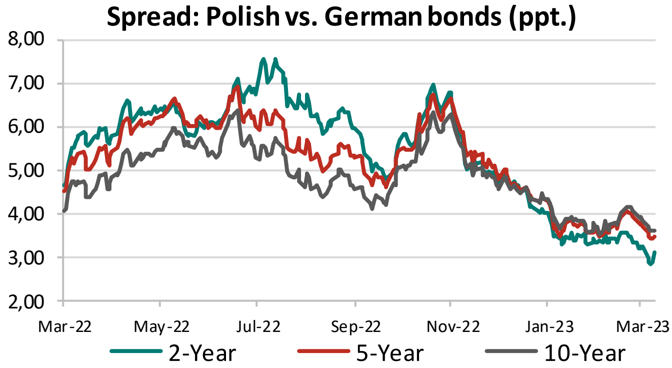
Last week, the EURPLN exchange rate fell to 4.6763 (appreciation of the PLN by 0.6%). Last week, the EURPLN was on a slightly downward trajectory, continuing the trends observed two weeks ago (see MACROmap of 06/03/2023). In line with our expectations, the highest EURPLN volatility was recorded on Tuesday on the back of Fed chair J. Powell's testimony before Congress. Friday's US labour market data release had a limited impact on the PLN exchange rate.

Early last week, the USD strengthened against the EUR, supported by the hawkish tone of J. Powell's testimony. In turn, on Friday the EUR rallied following the release of mixed data from the US labour market.

This week, further developments concerning SVB will be crucial for the PLN rate. Over the weekend, the US government decided that all deposits held with SVB would be guaranteed and that a liquidity line would be made available to the bank. Such a decision supports lower risk aversion, which is positive for the PLN. Another key event for the PLN this week will be the ECB meeting scheduled for Thursday. In our opinion, it may add to the volatility of the Polish currency. We believe that data releases from the global and Polish economies scheduled for this week will not have a major bearing on the PLN rate. Information on the course of military operations in Ukraine will remain an important driver of the PLN exchange rate.

ECB meeting in market's spotlight





Source: Refinitiv

Last week, 2-year IRS rates dropped to 6.34 (down by 41bp), 5-year to 5.58 (down by 45bp), and 10-year to 5.49 (down by 49bp). Last week saw a sharp decline in IRS rates along the entire length of the curve, following the core markets. The decline in yields on bonds in the core markets was supported by lowered expectations of further interest rate hikes by key central banks due to some investors' concerns about their impact on the banking sector's stability exacerbated by the collapse of SVB. This was reflected by the drop in FRA contracts for the Eurozone and the US.

This week, further developments regarding SVB will be crucial for the curve. Over the weekend, the US government decided that all deposits held with SVB would be guaranteed and that a liquidity line would be made available to the bank. Such a decision supports an increase in IRS rates. This week, the market will focus on the ECB meeting, which may add to IRS rates' volatility. In our opinion, other data releases from the Polish and global economies scheduled for this week will not significantly impact IRS rates. Information on the course of military operations in Ukraine will remain an important factor influencing 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				2023				2022	2023	2024
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
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**
GDP growth contributions: Investments (pp)	**0,6**	**1,0**	**0,3**	**1,0**	**-0,1**	**0,0**	**0,2**	**0,6**	**0,8**	**0,2**	**0,7**
GDP growth contributions: 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**	**-0,6**	**-0,5**	**-0,5**	**-0,5**	**0,6**	**-0,5**	**-1,0**
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	CONSENSUS**
		Tuesday 03/14/2023				
13:30	USA	CPI (% MoM)	Feb	0,5	0,5	0,4
13:30	USA	Core CPI (% MoM)	Feb	0,4	0,4	0,4
		Wednesday 03/15/2023				
3:00	China	Retail sales (% YoY)	Feb	-1,8	1,5	3,4
3:00	China	Urban investments (% YoY)	Feb	5,1	4,8	4,0
3:00	China	Industrial production (% YoY)	Feb	1,3	2,0	2,6
10:00	**Poland**	**CPI (% YoY)**	**Feb**	**17,2**	**18,8**	**18,7**
11:00	Eurozone	Industrial production (% MoM)	Jan	-1,1		0,5
13:30	USA	NY Fed Manufacturing Index (pts)	Mar	-5,8		-7,5
13:30	USA	Retail sales (% MoM)	Feb	3,0	-0,3	-0,1
15:00	USA	Business inventories (% MoM)	Jan	0,3		0,0
		Thursday 03/16/2023				
13:30	USA	Philadelphia Fed Index (pts)	Mar	-24,3		-16,0
13:30	USA	Building permits (k)	Feb	1339	1346	1340
13:30	USA	Housing starts (k MoM)	Feb	1309	1316	1305
14:00	**Poland**	**Core inflation (% YoY)**	**Jan**	**11,5**	**11,9**	**12,0**
14:00	**Poland**	**Core inflation (% YoY)**	**Feb**	**11,9**	**12,0**	
14:00	**Poland**	**Current account (M EUR)**	**Jan**	**-2526**	**224**	**-750**
14:15	Eurozone	EBC rate decision (%)	Mar	3,00	3,50	3,50
		Friday 03/17/2023				
11:00	Eurozone	Wages (% YoY)	Q4	2,1		
11:00	Eurozone	HICP (% YoY)	Feb	8,5		8,5
14:15	USA	Capacity utilization (%)	Feb	78,3		78,5
14:15	USA	Industrial production (% MoM)	Feb	0,0	0,0	0,4
15:00	USA	Initial U. of Michigan Sentiment Index (pts)	Mar	67,0	67,0	67,0

*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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