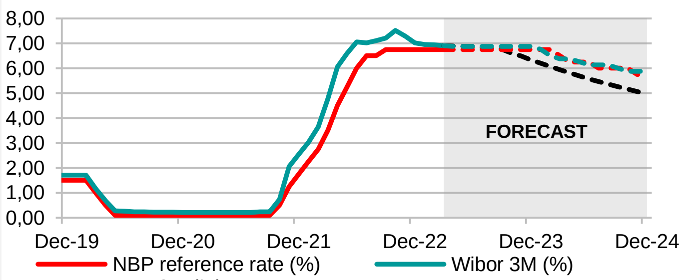
Improvement in manufacturing prospects despite a fall in PMI

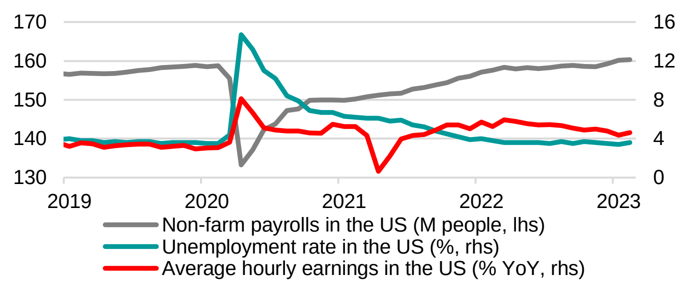
This week

- **The key event this week will be the MPC meeting scheduled for Wednesday.** We expect the MPC to keep interest rates unchanged (with the NBP reference rate standing at 6.75%). Our expectation that the MPC will keep the *status quo* in monetary policy is supported by comments made by the NBP Governor at his press conference following the MPC' s meeting in March to the effect that the MPC is taking a wait-and-see approach to monetary policy; although the rate hike cycle has not officially ended, its continuation is rather unlikely. We expect that the message of the press release after the meeting will not change significantly from the March one. This week's decision to keep interest rates unchanged will be in line with market consensus, and thus it should be neutral for the PLN and yields on Polish bonds. This week will probably also see the NBP Governor's usual press conference, which will shed more light on Poland's monetary policy prospects.



Source: Reuters, Credit Agricole

- **Some significant data on the US economy will be released this week.** Data on the labour market is scheduled to be released on Friday. We expect non-farm payrolls to have increased by 250k in March vs. 311k in February, with unemployment stabilized at 3.6%. Before the Friday data release, some additional data on the labour market will be provided in the ADP report on employment in the private sector (the market expects a 200k increase in March vs. 242k in February). The ISM manufacturing index will be released today; we expect the index to have fallen to 47.5 pts in March from 47.7 pts in February, which will be in line with regional business survey results. We believe that if the employment data released is in line with our forecast, it will drive up market expectations of a 25bp rate hike at the May meeting. Given that currently the market puts the probability of such a decision at ca. 52% (compared to 48% for probability of rates staying flat), materialization of our non-farm payrolls forecast would be slightly negative for the PLN and the prices of Polish bonds.



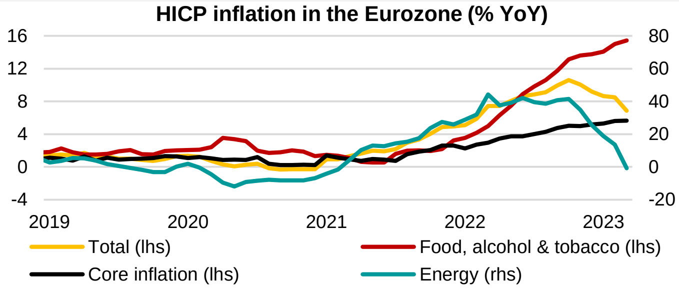
Source: Datastream, Credit Agricole

- **Business survey results for China's manufacturing have been released today.** The Caixin PMI fell to 50.0 pts in March from 51.6 pts in February, running well below market expectations (51.7 pts). Thus, our assessment from a month ago to the effect that the sharp PMI rise seen in February was not likely to be permanent has proven correct (see MACROmap of 06/03/2023). The fall in the index is accounted for by lower contributions from 3 out of its 5 components (output, new orders, and employment), partially offset by a higher delivery times contribution. The inventories contribution did not change significantly between February and March. It is worth noting that although big drops were seen in the output and new orders components, they stay above the 50-point mark that separates growth from contraction. This shows that the recovery in China's manufacturing continues with relatively good prospects. At the same time, the new export orders component dipped below the 50-point mark, which reflects weak external demand. Continuing recovery prospects for China's manufacturing are also confirmed by the index for output expected over a 12-moth horizon, which despite having dropped in March continues at a relatively high level compared with past data. China's CFLP manufacturing

PMI also fell in March, to 51.9 pts from 52.6 pts, running above market expectations (51.6 pts). In our opinion, today's data from China is slightly negative for the PLN.

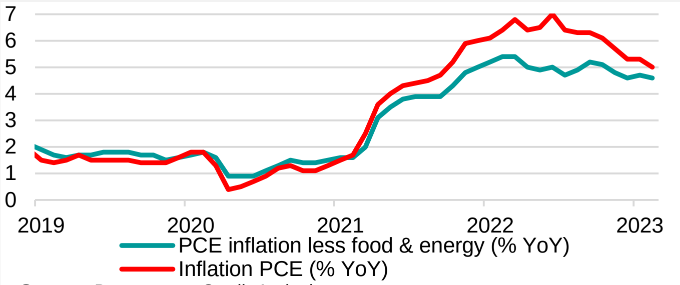
- **Today has also seen the release of Poland's manufacturing PMI data for March.** The PMI fell to 48.3 pts in March from 48.5 pts in February, running slightly above market expectations (48.2 pts) and below our forecast (48.5 pts, see below).

Last week



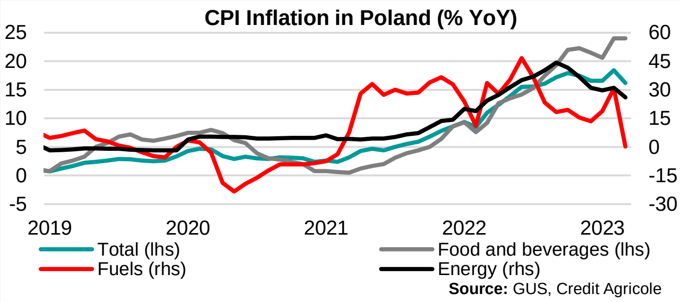
Source: Datastream, Credit Agricole

- **In accordance with the flash estimate, the Eurozone's inflation fell to 6.9% YoY in March from 8.5% in February, running below market consensus (7.2%) and slightly above our forecast (6.8%).** The fall in inflation was driven primarily by slower rises in energy prices. A the same time, core inflation rose to 5.7% YoY in March from 5.6% in February, which shows that inflationary pressures in the Eurozone remain strong. However, the data does not change our assessment that the Eurozone's inflation has already reached its maximum (see MACROmap of 02/01/2023). We expect the ECB to raise interest rates by another 50bp in May and by 25bp in June. Then, the main interest rate will reach its target of 4.25% and the deposit rate will stand at 3.75%.



Source: Datastream, Credit Agricole

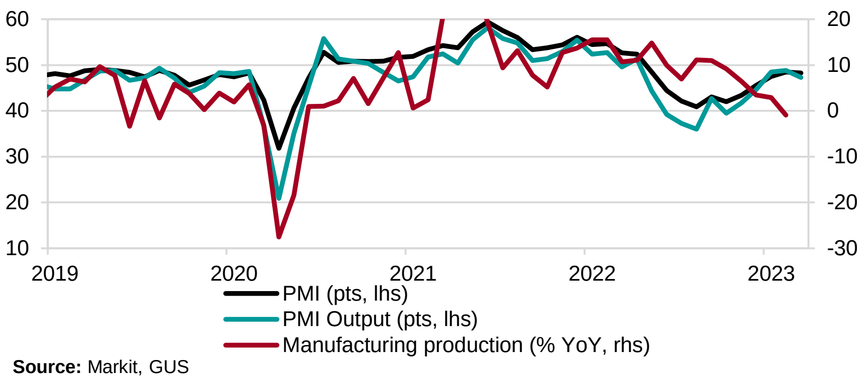
- **Some significant data on the US economy was released last week.** PCE inflation fell to 5.0% YoY in February from 5.3% in January. Core PCE inflation also fell, to 4.6% from 4.7%. Despite the YoY fall, an analysis of MoM core inflation changes shows that inflationary pressures in the US economy continue. Last week also saw the release of the third estimate of US Q4 GDP, showing that annualized GDP growth had been revised down to 2.6% from the second estimate of 2.7%. The downward revision is accounted for by lower contributions from private consumption and net exports and higher contributions from government investment and expenditure. The third estimate confirmed that in Q4 US GDP was driven primarily by growth in inventories, while in Q3 the main driver was net exports. Improvement in US consumer sentiment was shown by the Conference Board index, which rose to 104.2 pts in March from 103.4 pts in February, running above market expectations (101.0 pts). The rise in the index was driven by a higher 'expectations' sub-index, partially offset by a lower 'current situation' sub-index. At the same time, the final University of Michigan index showed deterioration in US consumer sentiment: 62.0 pts in March vs. 67.0 pts in February and the preliminary reading of 63.4 pts. We expect annualized US GDP growth to have slowed to 2.1% in Q1 2023.
- **In accordance with the flash estimate, CPI inflation in Poland dropped to 16.2% YoY in March from 18.4% in February, running above the market consensus (16.1%) and our forecast (15.8%).** The data supports our assessment that inflation reached its local maximum in February 2023 and will follow a downward trend in the coming months (see MACROpulse of 15/03/2023). GUS published partial data on the inflation breakdown, which contained information about price growth rates for the following categories: 'food and non-alcoholic beverages', 'energy' and 'fuels'. The main source of the reduction in inflation was the strong fall in price growth in the



'fuel' category (0.2% YoY in March, compared with 30.8% in February), which was mainly due to the high base effect from a year ago related to the increase in fuel prices due to the outbreak of war in Ukraine. The slower growth of the prices of energy (26.0% vs. 31.1%) also had a downward effect on inflation, while the opposite effect was exerted by higher core inflation, which, according to our estimates, increased to 12.2% YoY in March vs. 12.0% in February. Price growth in the 'food and non-alcoholic beverages' category did not change in March compared to February, at 24.0%. The lack of a decrease in the price growth in this category comes as a surprise to us and was most likely due to a stronger increase in vegetable prices than we had expected, which offset the slower rate of price increases in the other food categories. Last week's data poses an upside risk to our forecast that inflation will fall to 13.1% YoY in Q2, compared to 17.1% in Q1, and fall to 11.8% in 2023 as a whole, vs. 14.3% in 2022.

- **Real growth rate of investments in the Polish sector of enterprises employing 50 people or more increased to 7.6% YoY in Q4 2022, up from 5.7% in Q3.** Its increase was due to higher investment contributions in the categories 'machinery, technical equipment and tools', 'means of transport' and 'buildings and structures'. Particularly noteworthy in the data is the strong acceleration of investment in the 'means of transport' category (21.2% in Q4 vs. 6.5% in Q3), which we believe can be linked to the greater availability of vehicles together with weakening supply barriers in the automotive sector. Despite the recovery in investment by 50+ enterprises recorded in Q4, we believe that this is temporary. Therefore, we are not changing our forecast, in which the total growth in investments will go down from 4.9% in Q4 2022 to -0.5% in Q1 2023.
- **The Ifo index, reflecting the sentiment among German managers representing the manufacturing, construction, trade and services sectors, rose to 93.3 pts in March vs. 91.1 pts in February, which was slightly below market expectations (91.4 pts).** The rise in the index was driven by rises in its components for both the assessment of the current situation and expectations. Improvement in business sentiment was seen in all sectors surveyed: manufacturing, services, trade, and construction. The Ifo index combined with the March PMI survey (see MACROmap of 27/03/2023) supports our forecast that Germany's quarterly GDP growth will increase to -0.3% in Q1, up from -0.4% in Q4.

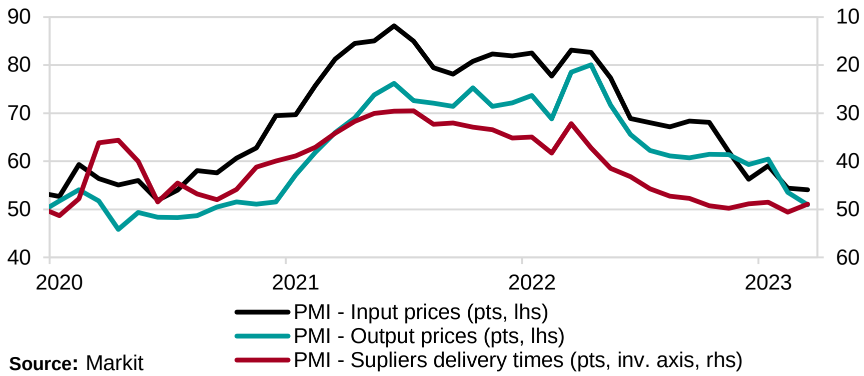
Improvement in manufacturing prospects despite a fall in PMI



Source: Markit, GUS

The PMI for Polish manufacturing dropped to 48.3 pts in March vs. 48.5 pts in February, which was slightly above market expectations (48.2 pts) and below our forecast (48.5 pts). This means that the index has remained below the 50-point level separating growth from contraction for eleven consecutive months. The index was driven down by 2 out of its 5 sub-indices (new orders and current output), while the opposite impact came from higher contributions of its components for inventories, employment and delivery times.

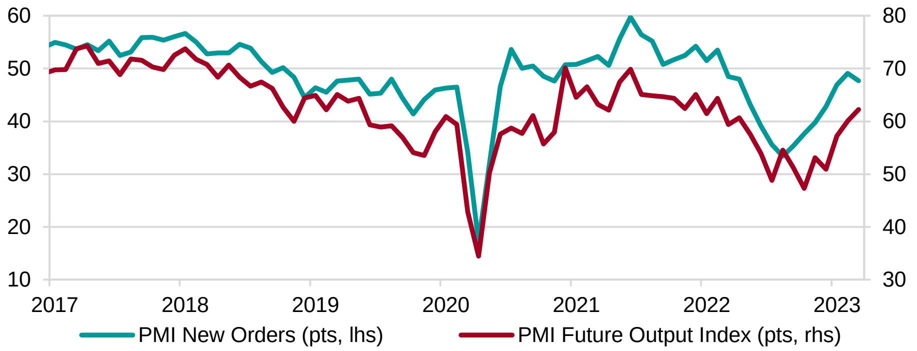
In March, the slowdown in output contraction, which had lasted since October 2022, was reversed. The component for current output fell from 48.8 pts in February to 47.3 pts in March (the lowest level since December 2022). The acceleration of output contraction was driven by weak demand. Drops were seen in the volumes of both domestic and foreign orders. According to the release, firms reported lack of demand for their products, especially in neighbouring European markets.



Source: Markit

The weakening of demand was conducive to the receding inflationary pressures. March saw a further reduction in the growth rate of both input and output prices. This trend is consistent with our assessment that the following months will bring a further weakening of price pressures in Polish manufacturing, which will support the gradual reduction in inflation in Poland that we forecast.

In an environment of declining current production as well as new orders, firms continued restructuring processes, adapting the scale of their operations to current market conditions. According to the PMI survey, for the tenth consecutive month, employment decreased on a month-on-month basis. However, this was not due to redundancies but, according to the release, firms 'decided not to replace departing employees'. In addition, the firms interviewed signalled that the current capacity is sufficient to cope with the overall workload. Some businesses also reported productivity gains in factories. As a result, production backlogs fell for the tenth consecutive month, at the fastest pace since November 2022.



Source: Markit

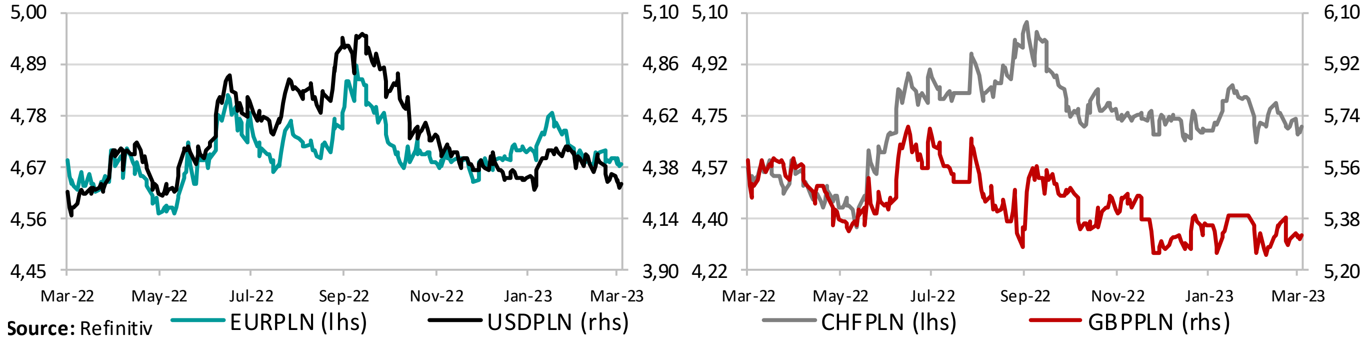
March saw a further increase in the index for expected production at a 12-month horizon, which rose to its highest level since February 2022 and has remained above the 50-point threshold for five months. This signals that the decline in current production and slower inflow of order are being treated by businesses as something temporary. Restructuring processes launched in many firms, aimed at increasing productivity and reducing energy consumption, as well as the mild nature of the slowdown in economic growth in Poland, are prompting companies to formulate more optimistic assessments of their future activity.

The business survey results for the Polish manufacturing support our scenario of a 'soft landing' of the Polish economy. According to this scenario, Poland's GDP growth will slow markedly in 2023 (to 1.2% vs. 4.9% in 2022), but it will remain positive and the slowdown in economic growth will not be accompanied by a significant increase in unemployment.

In our opinion, today's data is neutral for the PLN and the yields on Polish bonds.

Data from the US labour market data may weaken the PLN

FX rates



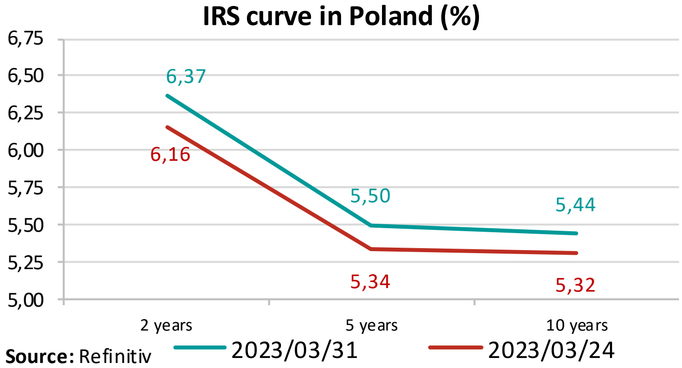
Source: Refinitiv

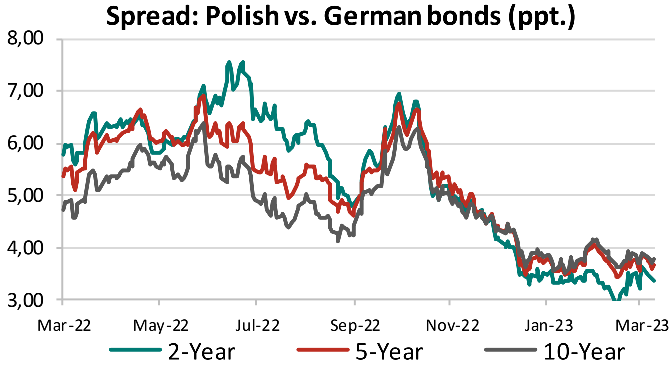
Last week, the EURPLN rate dropped to 4.6778 (the PLN strengthened by 0.2%). Throughout last week, the EURPLN exchange rate followed a mild downward trend. What contributed to the strengthening of the PLN was a reduction in global risk aversion, which was reflected in a decline in the VIX index. Higher demand for risky assets was driven by a reduction in concerns among some investors about the stability of the global banking system.

Given the drop in global risk aversion, the EUR also strengthened against the USD last week. The publication of lower-than-expected inflation data in the Eurozone and the US did not have a significant impact on the EURUSD exchange rate.

The PMI for Chinese manufacturing published this morning was slightly negative for the PLN while the data on the Polish PMI is neutral for the PLN in our view. This week's MPC meeting will be crucial for the Polish currency's exchange rate, although in our view its impact will be limited. On the other hand, the release of US non-farm payrolls data scheduled for Friday may contribute to the increase in EURPLN exchange rate. 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. Information on the stability of the global banking system will also be an important factor influencing the PLN.

MPC meeting in the spotlight





Source: Refinitiv

Last week, 2-year IRS rates increased to 6.37 (up by 21bp), 5-year rates to 5.50 (up by 16bp) and 10-year ones to 5.44 (up by 12bp). Last week saw a rise in IRS rates across the curve following the core markets. The increase in yields in the core markets was supported by a reduction in risk aversion, due to fewer concerns among some investors about the stability of the global banking system. Fewer concerns about the liquidity situation of banks, in turn, intensified expectations of further interest rate rises by the major central banks, as reflected in the increase in FRA contracts for both the US and the Eurozone. It is noteworthy that the intensification of expectations of interest rate rises by the major central banks came despite the publication of lower-than-consensus inflation data in the Eurozone and the US.

The Polish manufacturing PMI published this morning is neutral for the curve, in our view. This week the MPC meeting planned for Wednesday is going to be in the spotlight. However, we do not expect it to affect IRS rates. On the other hand, the release of non-farm payrolls in the USA on Friday may have an upward effect on IRS rates. 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. Information on the stability of the global banking system will also be an important factor influencing IRS rates.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland

Indicator	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	Apr-23
NBP reference rate (%)	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	**6,75**
EURPLN*	4,64	4,67	4,58	4,70	4,73	4,72	4,85	4,71	4,67	4,69	4,71	4,70	4,67	**4,67**
USDPLN*	4,19	4,43	4,27	4,48	4,63	4,70	4,95	4,77	4,48	4,38	4,33	4,45	4,29	**4,30**
CHFPLN*	4,54	4,55	4,45	4,69	4,86	4,80	5,01	4,76	4,74	4,72	4,70	4,72	4,69	**4,69**
CPI inflation (% YoY)	11,0	12,4	13,9	15,5	15,6	16,1	17,2	17,9	17,5	16,6	16,6	18,4	**16,2**	
Core inflation (% YoY)	6,9	7,7	8,5	9,1	9,3	9,9	10,7	11,0	11,4	11,5	11,7	12,0	**12,2**	
Industrial production (% YoY)	15,4	12,3	14,9	10,4	7,1	10,9	9,8	6,6	4,4	0,9	1,8	-1,2	**-0,7**	
PPI inflation (% YoY)	21,9	24,1	24,7	25,6	25,5	25,5	24,6	23,1	21,1	20,5	20,1	18,4	**11,1**	
Retail sales (% YoY)	22,0	33,4	23,6	19,9	18,4	21,5	21,9	18,3	18,4	15,5	15,1	10,8	**6,0**	
Corporate sector wages (% YoY)	12,4	14,1	13,5	13,0	15,8	12,7	14,5	13,0	13,9	10,3	13,5	13,6	**12,9**	
Employment (% YoY)	2,4	2,8	2,4	2,2	2,3	2,4	2,3	2,4	2,3	2,2	1,1	0,8	**0,7**	
Unemployment rate* (%)	5,8	5,6	5,4	5,2	5,2	5,2	5,1	5,1	5,1	5,2	5,5	5,5	**5,4**	
Current account (M EUR)	-4206	-2834	-1078	-499	-1206	-2743	-1839	-597	313	-2526	-2526	**-408**		
Exports (% YoY EUR)	11,9	17,6	26,8	21,5	20,3	27,6	26,5	24,4	25,2	11,5	11,5	**11,0**		
Imports (% YoY EUR)	31,4	36,0	32,7	27,1	21,8	29,4	30,1	25,3	20,3	12,1	12,1	**5,0**		

*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	5,4	5,2	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	17,1	13,1	10,1	7,1	14,3	11,8	4,9
Wibor 3M (%)**		4,77	7,05	7,21	7,02	6,90	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	4,67	4,73	4,70	4,65	4,69	4,65	4,50
USDPLN**		4,19	4,48	4,95	4,38	4,30	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 04/03/2023				
3:45	China	Caixin Manufacturing PMI (pts)	Mar	50,2		51,7
9:00	**Poland**	**Manufacturing PMI (pts)**	**Mar**	**48,5**	**48,5**	**48,2**
9:55	Germany	Final Manufacturing PMI (pts)	Mar	44,4	44,4	44,4
10:00	Eurozone	Final Manufacturing PMI (pts)	Mar	47,1	47,1	47,1
15:45	USA	Flash Manufacturing PMI (pts)	Mar	49,3		
16:00	USA	ISM Manufacturing PMI (pts)	Mar	47,7	47,5	47,5
		Tuesday 04/04/2023				
8:00	Germany	Trade balance (bn EUR)	Feb	16,7		17,0
11:00	Eurozone	PPI (% YoY)	Feb	15,0		13,5
16:00	USA	Factory orders (% MoM)	Feb	-1,6	-0,7	-0,3
		Wednesday 04/05/2023				
8:00	Germany	New industrial orders (% MoM)	Feb	1,0		0,4
10:00	Eurozone	Services PMI (pts)	Mar	55,6	55,6	55,6
10:00	Eurozone	Final Composite PMI (pts)	Mar	54,1	54,1	54,1
14:15	USA	ADP employment report (k)	Mar	242		200
16:00	USA	ISM Non-Manufacturing Index (pts)	Mar	55,1	54,3	54,5
	Poland	**NBP rate decision (%)**	**Apr**	**6,75**	**6,75**	**6,75**
		Thursday 04/06/2023				
8:00	Germany	Industrial production (% MoM)	Feb	3,5		0,1
		Friday 04/07/2023				
14:00	**Poland**	**MPC Minutes**	**Apr**			
14:30	USA	Unemployment rate (%)	Mar	3,6	3,6	3,6
14:30	USA	Non-farm payrolls (k MoM)	Mar	311	250	240

*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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