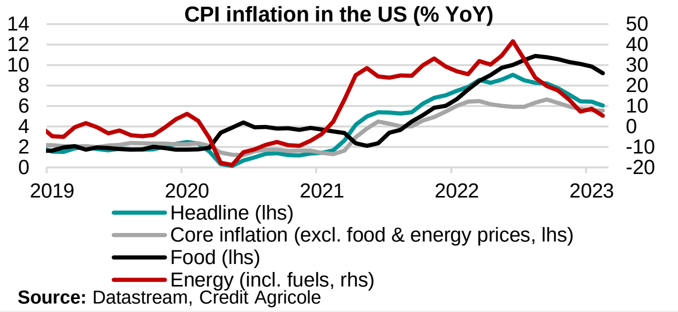
Strong increase in the estimated value of started investments

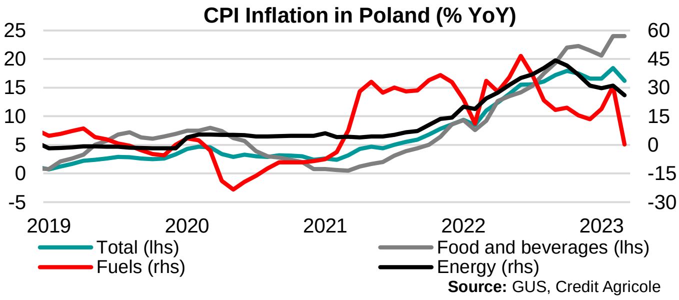
This week

- **The most important event this week will be the release of *Minutes* of FOMC's March meeting, scheduled for Wednesday.** An important part of the *Minutes* will be information about differences in individual Fed member's expectations regarding the pace of monetary policy tightening in the coming months. At the press conference following the March meeting, the Fed Chairman J. Powell implied that Fed's determination to bring inflation to its target was unconditional. He also referred to liquidity problems experienced by several US banks and said that the problems may lead to the US banking sector tightening its lending policy, which, in his opinion, could substitute for further rate hikes. It should be noted, however, that as concerns over the stability of the banking sector have eased since the March meeting, some of the FOMC members may have revised their opinions reflected in the *Minutes*. Nevertheless, we believe that the release of the *Minutes* will add to volatility in financial markets.
- **Some important data from the US will be released on Wednesday and Friday.** We expect headline inflation to have fallen to 5.1% YoY in March from 6.0% in February, driven, among other things, by a fall in core inflation and slower growth in fuel prices. We expect retail sales growth to have remained flat from February to March, standing at -0.4% MoM. One of the factors that drives sales down is the depletion of forced savings accumulated during the pandemic, which materializes amidst soaring prices and thus reduces the purchasing power of consumers. We expect industrial production to have grown by 0.3% MoM after being flat in February, in line with a rise in the US manufacturing PMI in March. Results of business surveys from the US will also be released. A preliminary reading of the University of Michigan index will be released on Friday. We expect the index to stabilize (63.0 pts in April vs. 62.0 pts in March). The main driver of improvement in household sentiment is an easing of concerns over the stability of the US banking sector. We believe that if our forecasts materialize, data from the US will not have any significant impact on the PLN or yields on Polish bonds.



Source: Datastream, Credit Agricole

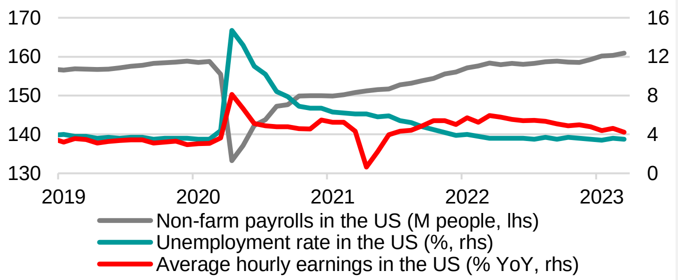
- **China's foreign trade figures will be released on Thursday.** We expect China's trade balance to have shrunk to USD 46.5bn in March from USD 116.9bn in January-February. We forecast that growth in exports dropped to -8.0% YoY in March from -6.8% in January-February, in line with a drop in the new export orders sub-index of China's Caixin manufacturing PMI. We expect growth in imports to have slowed to -10.5% YoY in March from -10.2% in January-February, reflecting a slight weakening of China's domestic demand. We believe that data from China will be neutral for financial markets.
- **Final data on inflation in Poland for March will be released on Friday.** We expect YoY price growth of 16.2% vs. 18.4% in February, in line with the flash estimate. The fall in inflation was driven by slower growth in the prices of fuels and energy. We believe that the release of inflation figures will be neutral for the PLN and yields on Polish bonds.



Source: GUS, Credit Agricole

- **Poland's balance of payments figures for February will be released on Thursday.** We expect the current account balance to have fallen to EUR -408m from EUR -1429m in January, primarily in consequence of a smaller trade balance. We forecast that growth in exports picked up slightly, from 10.8% YoY in January to 11.0% in February, while growth in imports picked up from 3.1% YoY to 5.0%. In our opinion, the balance of payments figures will be neutral for the PLN and yields on Polish bonds.

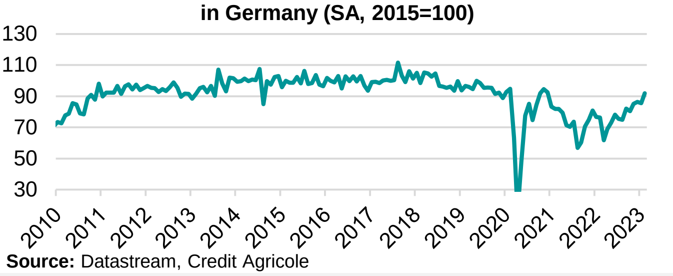
Last week



Source: Datastream, Credit Agricole

- **Some significant data on the US economy was released last week.** Non-farm payrolls rose by 236k in March vs. 326k in February (upward revision from 311k), running slightly below market expectations (240k). The strongest increases in employment were seen in leisure and hospitality (+72.0k), education and health services (+65k), and the government sector (+47.0k). The biggest falls in employment were seen in retail trade (-14.6k) and construction (-9.0k). Unemployment fell to 3.5% in March from 3.6% in February, running below market expectations (3.6%), despite the fact that the labour force participation rate rose to 62.6% in March from 62.5% in February. At the same time, hourly wage growth dropped to 4.2% YoY in March from 4.6% in February (the lowest level since June 2021), running slightly below market expectations (4.3%), which shows that wage pressure in the US economy is weakening. Data on the US labour market support our scenario, which expects the Fed to hike interest rates by another 25bp in May, as a result of which the federal funds target range will be [5.00%, 5.25%]. Business survey results were also released last week. The ISM index showed a deterioration in manufacturing: the index fell to 46.3 pts in March from 47.7 pts in February, running below market expectations (47.5 pts). The fall in the index is accounted for by lower contributions from new orders, employment, and delivery times, partially offset by the output component. It is worth noting that in March the input price sub-index fell again below the 50-point mark, which shows an easing of cost pressures in the US manufacturing. The ISM services index also fell, to 51.2 pts in March from 55.1 in February, running below market expectations (54.5 pts). The fall in the index is accounted for by lower contributions from all four of its components: new orders, business activity, employment, and delivery times. Much like in manufacturing, the input price sub-index plummeted again in March, hitting the lowest level since July 2020. It is worth noting, however, that the index continues to be well above the 50-point mark. This shows that cost pressures in services remain stronger than in manufacturing, due to stronger demand in that sector. We expect annualized US GDP growth to have slowed to 2.1% in Q1 2023 from 2.7% in Q4 2022.

Manufacture of motor vehicles, trailers, semi-trailers in Germany (SA, 2015=100)



Source: Datastream, Credit Agricole

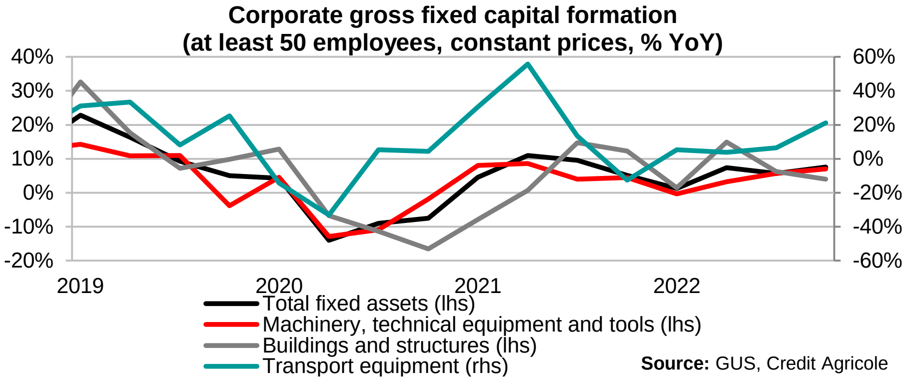
- **Some important data on the German economy was released last week.** Growth in manufacturing orders picked up to 4.8% MoM in February from 0.5% in January, running well above market expectations (0.3%). Faster growth in orders was driven by strongly growing domestic orders, while growth in international orders slowed slightly, though remained positive. Growth in international orders is accounted for by both growth in orders from Eurozone countries and in orders from countries outside the single currency area. Last week also saw the release of industrial production data, which shows that industrial production growth slowed to 2.0% MoM in February from 3.7% in January, running above market expectations. The slowdown in industrial production growth was driven by declines in energy and construction, partially offset by stronger growth in manufacturing. What is worth noting about the sectoral breakdown is that further signs of recovery are seen in the chemical industry, which plummeted sharply in recent months due to soaring gas and energy prices. Further strong recovery is also seen in the automotive industry, supported by improvement in availability of input goods and shorter delivery times. Germany's foreign trade balance figures were also released last week; the balance remained flat from January to February, standing at EUR 16.0bn. At the same time, February saw growth picking up both in imports (4.6% MoM in February vs. -1.4% in January) and in exports (4.0% vs. 2.5%), which is the first sign of recovery in Germany's foreign trade. Last week's data on the German economy signals un upside risk to our forecast, which expects Germany's QoQ GDP growth of -0.3% in Q1 compared to -0.4% in Q4.

- **At its meeting last week, the Monetary Policy Council decided to keep interest rates unchanged (the NBP reference rate is 6.75%).** The decision of the MPC was consistent with our forecast and market consensus. It did not come as a surprise either in light of statements by the NBP governor and some MPC members who had signalled their reluctance to tighten monetary policy, despite stubbornly high inflation. The Council maintained its earlier assessment that the previously strong tightening of the NBP's monetary policy will lead to a decline in inflation in Poland towards the NBP's inflation target. In this context, the results of the March NBP projection are noteworthy, indicating that inflation will remain significantly above the NBP target for a long time and well beyond the monetary policy horizon (see MACROpulse of 08/03/2023). This signals that high inflation is still of secondary importance to the Council and that the main objective of monetary policy is to prevent economic growth from slowing excessively in the coming quarters. Last week also saw a press conference at which NBP Governor A. Glapinski reiterated that the MPC had not yet completed the cycle of interest rate hikes. He assured that it was prepared to raise interest rates if inflation did not fall towards the inflation target. At the same time, he pointed out that a 'sharp downward movement in inflation' had begun, which is consistent with the NBP's March projection. It is worth noting that Governor Glapinski was somewhat more cautious about the possible timing of the first interest rate cut. While a month ago he claimed it could be as early as Q4 2023, last week he no longer indicated any specific date, saying it would happen 'at some point'. The statement after the MPC meeting, as well as statements by NBP Governor A. Glapinski, support our scenario that NBP interest rates will remain unchanged until the end of 2023.

Strong increase in the estimated value of started investments

According to data published by the Central Statistical Office (GUS), the real growth rate of investments of enterprises employing at least 50 people increased in Q4 2022 to 7.6% YoY vs. 5.7% in Q3 2022. The acceleration in investments of 50+ enterprises was a positive surprise and a major factor responsible for the economy-wide gross fixed capital formation growth rate above expectations in Q4 2022. Below we analyse the main trends within the investment activity of medium and large companies.

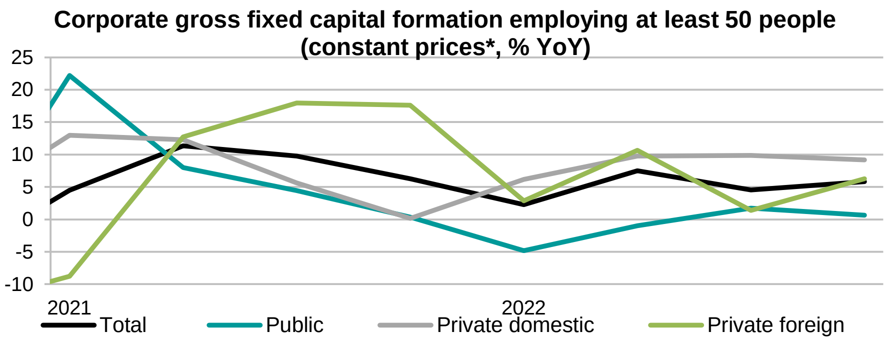
The increase in real growth rate of investments of enterprises was mainly due to higher investment contributions in the categories 'machinery, technical equipment and tools' and 'means of transport'. On the other hand, the 'buildings and structures' category was a factor that held back growth in total expenditure. In this context, the question arises as to whether the trends recorded in Q4 were the beginning of an investment recovery or whether the increase in investment in some industries was rather temporary. According to GUS data, seasonally-adjusted capacity utilisation in manufacturing was 77.6% in Q1, vs. 77.8% in Q4, and was the lowest since Q3 2020. This means that businesses are now not confronted with the barrier of high rates of capacity utilization, which in the past used to be the main driver for them to increase investment.



Source: GUS, Credit Agricole

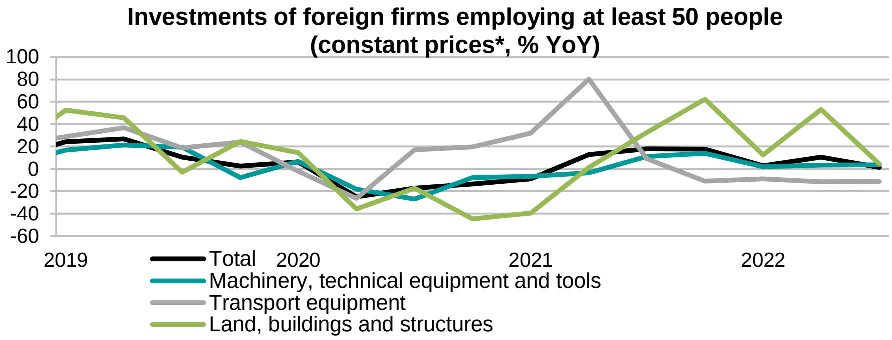
Apart from the figures quoted above, the rest of the investment data is given in nominal (i.e. current prices) rather than real (i.e. constant prices) terms. Due to the current rapid increase in the price of capital expenditure, such an approach makes it difficult to infer trends in investment activity. Thus, we have independently converted the raw nominal data into real data using the deflator for total investment. This approach is an approximation, but it reflects the actual situation better than inferring from nominal data. Analysing trends by industry, the recovery in real investment in Q4 2022 materialised mainly due to a higher contribution (by 1.6 pp) in the group of enterprises involved in 'electricity, gas, steam and hot water generation and supply', which, however, was partly linked to the effect of a low base from a year ago. Industries boosting total business investment growth between Q3 and Q4 2022 included services (up 1.0 pp) and construction (0.4 pp). In contrast, there has been a slowdown in investment growth in manufacturing, mining and water supply.

Assessing the trend in investment growth requires analysing gross fixed capital formation by form of enterprise ownership. For this purpose, we used data from the PONT Info database. The information contained in the database is based on full, official GUS data included in F-01 reports filled in by enterprises representing individual sectors of the economy. According to PONT Info data, the increase in the growth rate among 50+ enterprises in Q4 2022 was due to the recovery of investments of private foreign firms. At the same time, the contribution of investments of enterprises controlled by units of the public sector (firms with a dominant share of this sector in the enterprise capital) and domestic private enterprises decreased slightly from Q3 to Q4 2022. It is noteworthy that investment activity by domestic private enterprises continued to be high (annual growth rate above 9% in Q2-Q4 2022), but was not a driver of total investment growth.



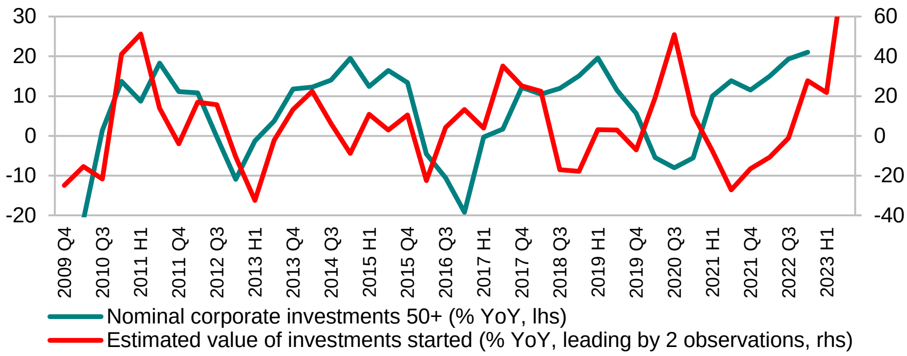
Source: PONT Info, Credit Agricole *adjusted using deflator of total corporate investments 50+

In the context of investment by foreign companies, trends in investment in land, buildings and structures are important. In the MACROmaps of 21/02/2022 and 14/03/2022, we highlighted the process of geographical reorientation of the production process by global European companies, among others, in order to increase the security of supply chains following the outbreak of the COVID-19 pandemic. This reorientation was beneficial for Polish businesses, which increased sales to existing clients or new ones, e.g. by partially taking over the role of component/material supplier from firms located in other countries. Significant investment in land acquisition, creation of storage space or construction of factories should be linked to such processes. Such a trend was indeed evident for investments by foreign 50+ companies in the 'land, buildings and structures' category. In the period Q3 2021 - Q2 2022, they increased at an annual rate of several dozen per cent. Last year's Q3 saw a marked slowdown in growth in this category. It is difficult to say unequivocally how these outlays developed in Q4 (we do not have this data at the moment). On the one hand, the expenditure incurred to date may have been sufficient to handle the new order streams. On the other hand, the ongoing war in Ukraine may have contributed to strengthening the reorientation of supply chains. In this context, it should also be mentioned that Poland remains an attractive location for foreign direct investment. According to the Refinitiv report, Poland was the country most frequently identified by European companies as a location for sourcing, nearshoring and reshoring (the survey asked about the attractiveness of a given location for moving the production process closer to the target market).



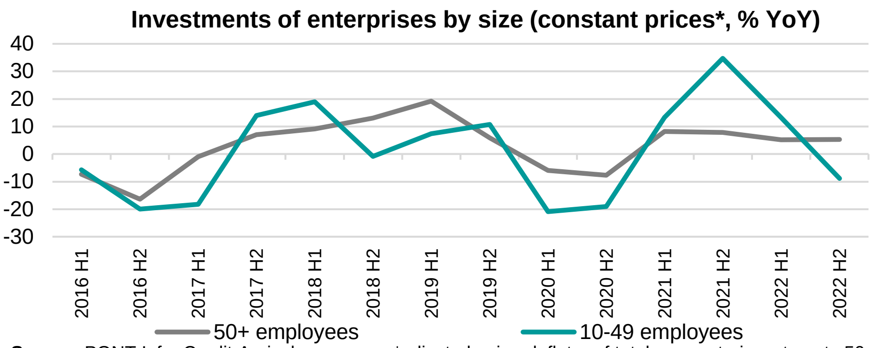
Source: PONT Info, Credit Agricole *adjusted using deflator for particular category of total investments

An indicator that is helpful in assessing future trends in investment outlays of enterprises is the so-called total estimated value of investments started. This is the value of fixed capital formation commenced in the reporting period resulting from design and cost estimate documentation. On the basis of historical data, it may be observed that the growth rate of the estimated value of investments started preceded changes in the growth rate of investments of enterprises 50+ by approximately two to three quarters. However, one should remember that this dependence has weakened in the last three years. In Q4 2022, the estimated value of investments started clearly increased (nominally by 90.9% YoY and 21.8% in Q3). We believe this will be a supporting factor for the recovery in corporate investment in H1 2023.



Source: GUS, Credit Agricole

However, we see two risk factors for the scenario of a marked recovery in corporate investment in 2023. Firstly, increased uncertainty regarding the development of the economic outlook at home and in Poland's main trading partners. Secondly, it should be noted that corporate investment in H2 2022 was driven mainly by outlays from larger entities (with at least 50 employees). The dynamics of outlays of smaller entities (with 10-49 employees) was negative (-8.8% YoY in H2 2022 vs. 13.3% in H1 2022). Although investments by large companies account for about two-thirds of total corporate outlays, the above data shows that the investment climate in smaller entities has not improved significantly. In formulating this assessment, we assume that due to, among other



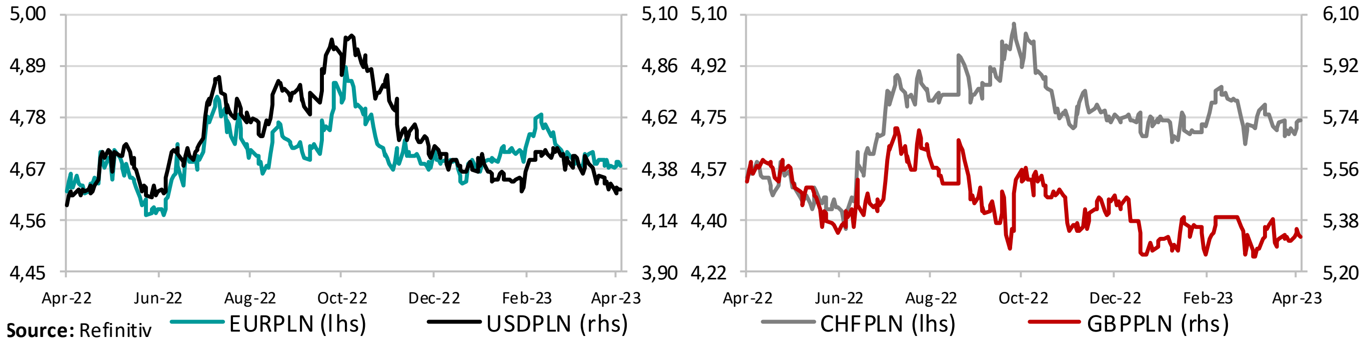
Source: PONT Info, Credit Agricole *adjusted using deflator of total corporate investments 50+

things, rising energy prices, investment activity in micro-firms (less than 10 employees) was even lower than in small businesses (10-49).

In summary, we believe that the acceleration of investment by 50+ enterprises recorded in Q4 2022, combined with the strong increase in the estimated value of investment, represents a slight upside risk to our total business investment path in 2023. A more accurate assessment of this risk will be possible once we know the results of the NBP's business survey on investment activity of enterprises, which will be published in April (so-called Quick Monitoring). Until then, we maintain our scenario that total investment growth will decline markedly in Q1 2023, with a gradual increase from Q2 onwards. For 2023 as a whole, we forecast a 1.2% increase, compared to a 4.5% increase in 2022.

Publication of FOMC Minutes crucial for the PLN

FX rates



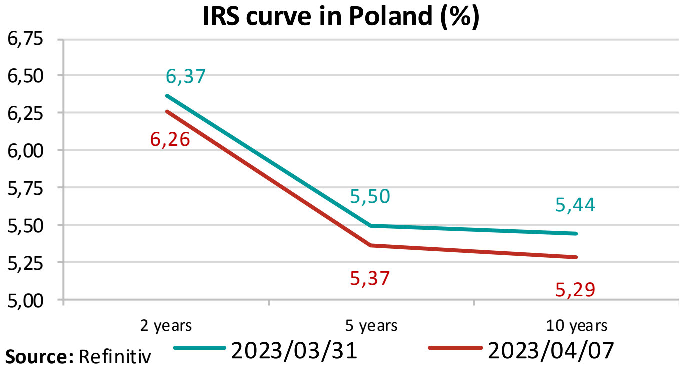
Source: Refinitiv

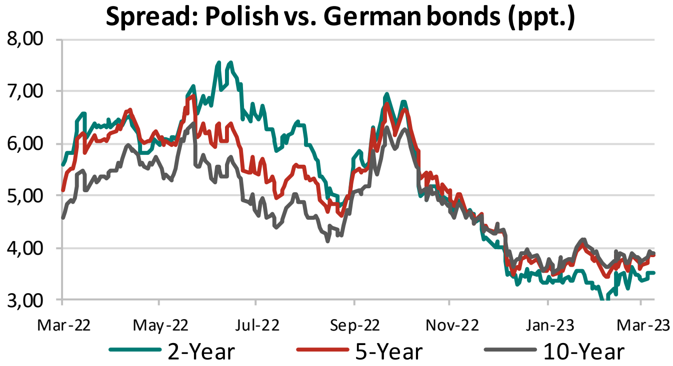
Last week the EURPLN exchange rate stood at 4.6753 (no change from the level two weeks ago). Last week, the EURPLN was characterised by low volatility compared to recent weeks, supported by a scarce calendar of macroeconomic events and reduced liquidity due to the upcoming Easter holiday. US non-farm payroll data released on Friday did not have a significant impact on the PLN.

Last week saw a further mild increase in the EURUSD, which was a continuation of the trends observed two weeks ago (see MACROmap of 03/04/2023). Friday's publication of US non-farm payroll data had a limited impact on the EURUSD.

This week, Wednesday's publication of the Minutes from the March FOMC meeting will be crucial for the PLN and it may lead to increased volatility in the PLN. We believe that other publications from the Polish and 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. Information on the stability of the global banking system will also be an important factor influencing the PLN.

FOMC Minutes in the spotlight





Source: Refinitiv

Last week, 2-letnie IRS rates dropped to 6.26 (down by 11pb), 5-letnie rates to 5.37 (down by 13bp) and 10-letnie ones to 5.29 (down by 15bp). Last week saw a slight drop in IRS rates across the curve following the core markets. We believe that the fall in yields in the core markets was due to a correction after their rise two weeks ago (see MACROmap of 03/04/2023). Friday's release of US labour market data had no significant impact on the curve.

This week, Wednesday's publication of the Minutes from the FOMC meeting will be in the spotlight and it may lead to increased volatility in IRS rates. Other data releases from the Polish and 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	4,68	**4,68**
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	4,31	**4,31**
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	4,71	**4,71**
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				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	5,4	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	6,89	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	4,68	4,73	4,70	4,65	4,69	4,65	4,50
USDPLN**	4,19	4,48	4,95	4,38	4,31	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 04/10/2023				
16:00	USA	Wholesale inventories (% MoM)	Feb	0,2		
16:00	USA	Wholesale sales (% MoM)	Feb	1,0		
		Tuesday 04/11/2023				
3:30	China	PPI (% YoY)	Mar	-1,4		
3:30	China	CPI (% YoY)	Mar	1,0		
10:30	Eurozone	Sentix Index (pts)	Apr	-11,1		-9,8
11:00	Eurozone	Retail sales (% MoM)	Feb	0,3		-0,8
		Wednesday 04/12/2023				
14:30	USA	CPI (% MoM)	Mar	0,4	0,2	0,3
14:30	USA	Core CPI (% MoM)	Mar	0,5	0,4	0,4
20:00	USA	FOMC Minutes	Mar			
		Thursday 04/13/2023				
11:00	Eurozone	Industrial production (% MoM)	Feb	0,7		1,0
14:00	**Poland**	**Current account (M EUR)**	**Feb**	**1429**	**-408**	**283**
	China	Trade balance (bn USD)	Mar	116,9	46,5	
		Friday 04/14/2023				
10:00	**Poland**	**CPI (% YoY)**	**Mar**	**18,4**	**16,2**	**16,2**
14:30	USA	Retail sales (% MoM)	Mar	-0,4	-0,4	-0,4
15:15	USA	Capacity utilization (%)	Mar	78,0		79,0
15:15	USA	Industrial production (% MoM)	Mar	0,0	0,3	0,2
16:00	USA	Business inventories (% MoM)	Feb	-0,1		0,3
16:00	USA	Initial U. of Michigan Sentiment Index (pts)	Apr	62,0	63,0	62,7

*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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