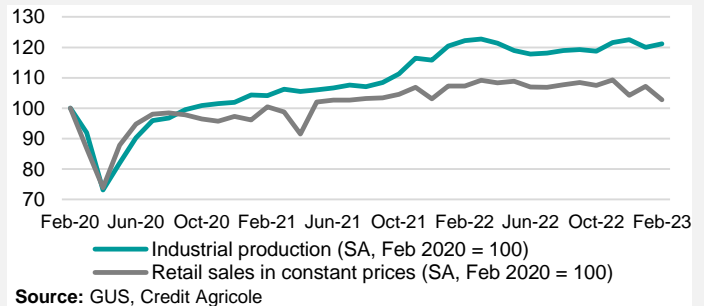## This week

✓ **The publication of data on industrial production and retail sales in Poland in March, which is planned for today, will be the most important event this week.** We forecast that industrial production growth picked up to -0.7% YoY from -1.2% in February. Production decline was slowed down by an upturn in the

Source: GUS, Credit Agricole

industrial manufacturing sector that was reported in the GUS survey. We expect the growth in nominal retail sales to have slowed down from 10.8% YoY in February to 6.6% in March. Sales growth was driven down by poorer consumer sentiment and slower growth in retail prices. Our industrial production growth forecast is above market consensus (-1.9%), and thus its materialisation would be slightly positive for the PLN and yields on Polish bonds. The publication of data on retail sales, however, will be neutral for financial markets.

✓ **The publication of preliminary inflation data for Poland for April will be another important event this week.** In our opinion, inflation dropped to 15.0% YoY vs. 16.1% in March. The drop in inflation in April will result primarily from the last year's high base effects (mainly with regard to the prices of food and liquid

Source: GUS, Credit Agricole
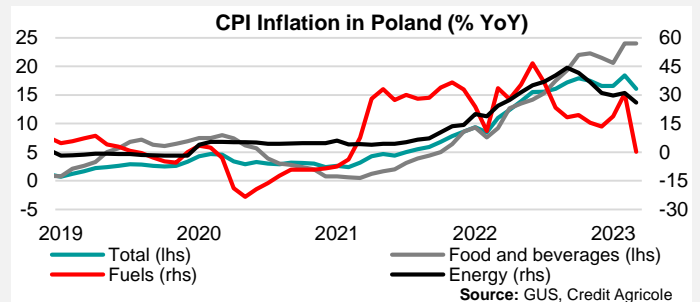
and solid fuels) connected with the outbreak of war in Ukraine. In our opinion, core inflation in April would be similar to that reported for March (12.3% YoY), which suggests that the high inflation pressure is still persistent. Our forecast is consistent with the market consensus, and thus its materialisation will be neutral for the PLN and yields on Polish bonds.
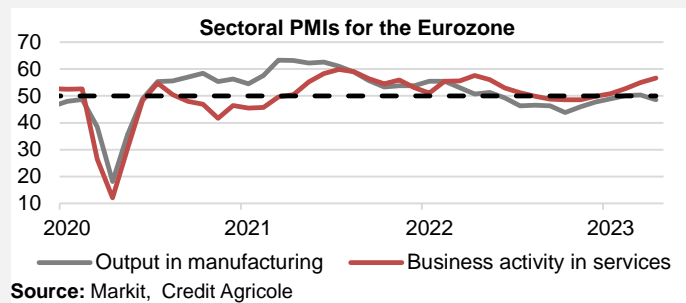
✓ **Some significant data on US economy will be released this week.** PCE inflation data will be published on Friday. In our opinion, it fell from 5.0% YoY in February to 4.1% March, which resulted from the combined effect of the slower growth in energy prices and the drop of core inflation (4.5% YoY vs. 4.6% in February). The preliminary estimate of US GDP for Q1 2023 will be released on Thursday. We expect the annualised GDP growth rate to have shrunk to 2.2% in Q1 2023 from 2.6% in Q4 2022. The slowdown resulted primarily from the lower contribution of inventories. We expect the orders for durable goods in March to have increased by 0.8% MoM comparing to a 1.0% drop in February. We believe that the orders were driven up by a higher demand on consumer goods. We expect the data on new homes sales (627k in March vs. 640k in February) similarly as other data concerning the situation in the property market in March (see below) to show a slight decline in activity in this market. We expect both the Conference Board index (104.0 pts in April vs. 104.2 pts in March) and the final University of Michigan index (63.5 pts vs. 62.0 pts in March) to confirm that the households' sentiments are still relatively poor due to the concerns regarding the scale of the expected economic slowdown in the US. We believe this week's US data will be neutral for financial markets.

✓ **Significant data from the Eurozone and Germany will be published this week.** We expect quarterly GDP growth in the Eurozone to have dropped to -0.1% in Q1 2023 from 0.0% in Q4 2022. The release of a flash estimate of Germany's GDP growth will provide more information on GDP growth in the Eurozone. We forecast that GDP growth rose to -0.3% QoQ in Q1 2023 from -0.4% in Q4 2022. We believe there is a significant upside risk for those forecasts due to the economic upturn seen in the PMI results for Q1 2023 (see below). HICP inflation data for

Germany will be released on Friday. The consensus has it that it shrank from 7.8% YoY in March to 7.7% in April. The Ifo index reflecting the sentiment of German businesses in the manufacturing, construction, trade, and services sectors will be published today. The market expects the index to increase from 93.3 pts in March to 93.4 pts in April. We believe that the publication of GDP data for the Eurozone and Germany will be slightly positive for the PLN and the prices of Polish debt, while other publications will be neutral for financial markets.
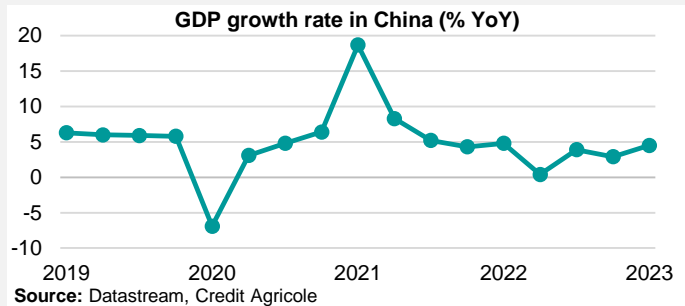
Last week

✔ **Preliminary data shows that the composite PMI (manufacturing and services) for the Eurozone increased from 53.7 pts in March to 54.4 pts in April, running above market consensus (53.9 pts).** Therefore, it was the fourth consecutive month when the index remained above the 50-point level that separates growth from contraction. Just like in the previous month, the increase in the composite PMI is accounted for by a higher contribution of the 'business activity in services' component, while a lower 'current manufacturing output' had the opposite impact. In accordance with the press release, the economic upturn is unbalanced. April has seen the fastest growth in activity in services since May 2022 and the most rapid drop in the manufacturing output since December 2022, even though the latter had been growing in the previous two months. Consequently, in April, the difference in terms of activity growth between the services and the manufacturing sectors as shown in the PMI data has reached the highest value since 2009. Geography wise, some improvement in business sentiment was seen in Germany, France, and other Eurozone economies surveyed. From the point of view of Polish exports, of particular importance are trends in Germany, where the manufacturing PMI fell from 44.7 pts in March to 44.0 pts in April, running below market expectations (45.5 pts). The drop in the index is accounted for by lower contributions of 4 out of its 5 components (current output, employment, inventories, and delivery times), while a higher contribution of new orders had the opposite effect. As regards the data structure, particularly noteworthy is further, significant shortening of delivery times, which shows that the supply barriers are decreasing. This conclusion is supported by the input prices, which are falling increasingly quickly. It is interesting, though, that even though the output prices component is falling, too, driven down by poor demand, it still remains above the 50-point level. This means that the companies are making use of falling input prices to increase their margins. The index value for the production expected in a 12-month horizon has not changed between March and April, and it has remained above the 50-point level for four months. Last week's business survey results for the Eurozone carry an upside risk for our forecast, in which GDP growth in the Eurozone would shrink from 3.5% in 2022 to 0.6% in 2023, and then grow to 1.2% in 2024 (see MACROmap of 17/04/2023).

Sectoral PMIs for the Eurozone

— Output in manufacturing   — Business activity in services

Source: Markit, Credit Agricole

✔ **Important data from China was released last week.** GDP expanded by 4.5% YoY in Q1 compared to growth of 2.9% in Q4 (2.2% QoQ in Q1 vs. 0.6% in Q4 – an upward revision from 0.0%), performing above market expectations (4.0% YoY and 2.2% QoQ, respectively) and our forecast (3.6% YoY and 2.1% QoQ, respectively). On the other hand, data on industrial production (3.9% YoY in March vs. 2.4% in January-February, against expectations of 4.7%) and urban investments

(5.1% vs. 5.5%; 5.8%) was weaker than market expectations, while retail sales data was clearly above market consensus (10.6% vs. 3.5%; 8.0%). Thus, retail sales growth reached its highest level since July 2021. An important factor influencing this growth was the strong increase in retail sales in catering, which was helped by the

GDP growth rate in China (% YoY)

Source: Datastream, Credit Agricole

effects of the low base from a year ago. Also noteworthy is the slower-than-expected growth in industrial production, which is limited by the slowdown in mining activity. Last week's data indicates that China's recovery is still in its early stages, hence we see room for an acceleration of growth in Q2, especially taking into account the effects of the low base from a year ago. The strong credit growth recorded in Q1 and the improving labour market situation will also be factors supporting growth. Last week's data is consistent with our forecast that GDP growth in China will increase to 5.0% YoY in 2023 vs. 3.0% in 2022, which will be consistent with the Chinese government's target for GDP growth of 'around 5%' (see MACROmap of 06/03/2023).

- **Some significant data on the US economy was released last week.** Data on new building permits (1.413k in March vs. 1.550k in February), housing starts (1.420k vs. 1.432k) and existing-home sales (4.44M vs. 4.55M) confirmed our assessment that the recovery in the US property market recorded in February was short-lived (see MACROmap of 17/04/2023). Last week's data from the US economy does not change our forecast that the annualised US economic growth rate slowed to 2.2% in Q1 2023 vs. 2.7% in Q4 2022.

- **Nominal wage growth in the Polish sector of enterprises decreased from 13.6% YoY in February to 12.6% in March, running above the market consensus (12.4%) and our forecast (12.9%).** In real terms, after adjusting for price changes, wages in businesses dropped by 3.0% YoY in March vs. a 4.1% drop in February. The data on the structure of wage growth in March indicate that the main source of its decline was lower wage growth in 'mining and quarrying', which in our view was due to the cessation of the effect of bonuses paid in February in the mining industry (see MACROpulse of 21/04/2023). Employment growth in the enterprise sector went down to 0.5% YoY in March compared to 0.8% in February, which is much below the market consensus that was consistent with our forecast (0.7%). Compared to February, employment decreased by 9.5k in March, which was the sharpest decline recorded in March since 2020. The largest YoY decrease in employment took place in the 'construction' and 'industrial manufacturing' divisions, which – we believe – reflects intensifying restructuring processes in these industries. The slowdown in employment growth and the slower drop in real wages in the enterprise sector translated into an increase in real wage fund growth (the product of employment and average wage adjusted for changes in prices) in this sector to -2.5% YoY in March vs. -3.3% in February. Consequently, for Q1 2023 as a whole, real wage fund growth fell to -2.5% YoY vs. -2.0% in Q4 2022. The data is thus consistent with our forecast for a real consumption growth drop (to -2.0% YoY in Q1 vs. -1.5% in Q4).

What does the good trade balance data show?

Current account balance (M EUR)
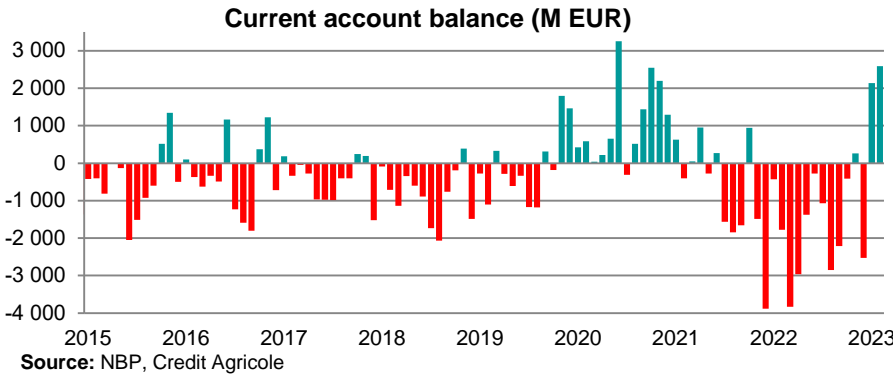
Source: NBP, Credit Agricole

According to data from the NBP, the balance on the Polish current account (hereafter: CA) increased in February to EUR 2,586M compared to EUR 2,133M in January. February was thus the second consecutive month in which Poland recorded a CA surplus. At the same time, it is worth noting that – historically – a positive balance on CA has rarely been observed for Poland. The longest string of surpluses was recorded at the start of the COVID-19 pandemic in 2020, driven by a good foreign trade balance.
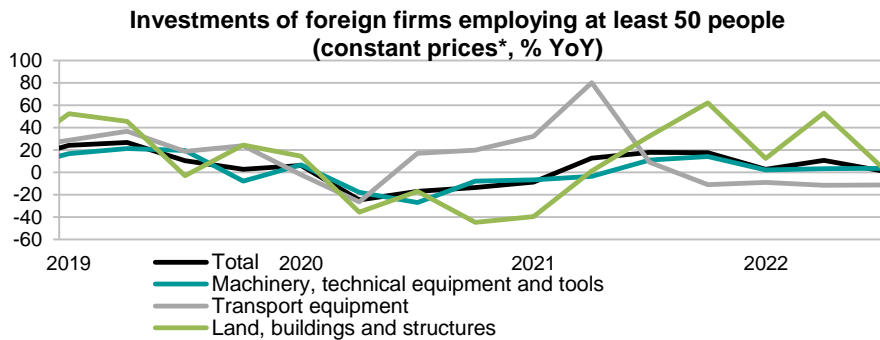

■ Balance on goods (bn EUR, rhs) — Exports (% YoY, 3MA, lhs)
— Imports (% YoY, 3MA, lhs)
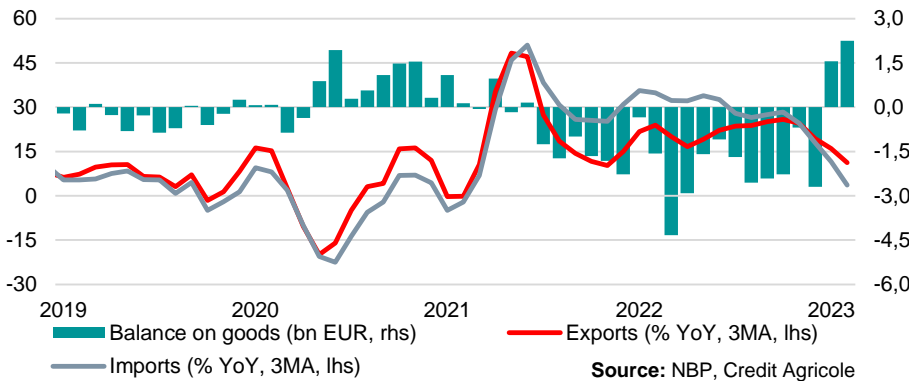
Source: NBP, Credit Agricole

The beginning of 2023 has brought a similar situation – an increase in the balance on the Polish CA linked to increased balance of trade in goods, which in February reached its highest value ever (EUR 2,243M). NBP data on CA are given in nominal terms (i.e. in current prices). What contributed to the increase in the nominal trade balance were the differences in the evolution of export and import prices (so called terms-of-trade). According to the NBP press release, a deceleration in price growth has been observed for both indicators, but the prices of exports continue to rise faster than imports, driving the balance of trade in goods up. February saw a smaller decline in the nominal growth rate of exports (10.0% YoY in February vs. 13.1% in January) than imports (-5.4% vs. 5.1%). According to the NBP press release, in real terms (i.e. after eliminating the impact of price changes), exports increased compared to February 2022, while imports fell.

The decline in imports is the result of weaker domestic demand reflected in lower imports of both consumer and intermediate goods (e.g. iron, steel, plastic intermediates). According to the NBP press release, the value of imports was also limited by lower imports of agricultural products from Ukraine, nevertheless, in our opinion, the importance of this factor was limited. On the other hand, higher foreign sales in the automotive sector, mainly automotive parts, lithium-ion batteries and cars, were mainly responsible for the recovery in exports. It is worth noting that the higher exports in the categories mentioned may have been in part re-exports. According to the NBP press release, February saw a large increase in imports in the category including means of transport, linked to continued high growth in exports.

**Investments of foreign firms employing at least 50 people
(constant prices*, % YoY)**

Total
Machinery, technical equipment and tools
Transport equipment
Land, buildings and structures

**Source:** PONT Info, Credit Agricole   *calculated using deflator for corporate investments 50+

We believe that the favourable trends in the development of the trade balance will continue in the coming months. Exports will be driven by the expected economic recovery in Poland's main trading partners (see MACROmap of 17/04/2023), in particular Germany. The first signs of such a recovery have been visible in Germany's industrial production data (see MACROmap of 11/04/2023). Sector-wise, noteworthy are further signs of recovery in the German chemical industry, where activity has been severely reduced in recent months due to high gas and energy prices. There is also continued strong growth in automotive activity, supported by greater availability of intermediate goods and shorter delivery times. A factor further supporting the growth of exports from Poland in the medium term will be the sustained inflow of foreign direct investment to Poland that we expect (see MACROmap of 11/04/2023). In recent quarters, the growth rate of investment by foreign 50+ enterprises in the 'land, buildings and structures' category remained high, and accelerated again in Q4 2022 (see chart). We believe that the high investment activity of foreign firms in this category is directly linked to the process of geographic reorientation of the production by global European companies, among others, in order to increase the security of supply chains after the outbreak of the COVID-19 pandemic. This reorientation, which – we believe – will be realised in the coming quarters, is going to be beneficial for Polish businesses, which will increase 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. Such investment processes will lead to a sustainable increase in exports from Poland. At the same time, we expect that due to the weakening of domestic demand, import growth will remain at a reduced level in H1 2023, accelerating only in H2.

Given the trends outlined above, contributing to a high trade balance, we have revised upwards our forecast for the CA balance and the contribution of net exports to GDP (see quarterly table). We expect the cumulative balance on CA for the last four quarters as a share of GDP to increase to -1.1% in 2023, compared to -3.0% in 2022, and to decrease slightly to -2.3% in 2024. Given the increase in imports that we expect (relative to the YoY decline currently observed), surpluses on the trade balance and CA will turn into deficits again in H2 2023. Nevertheless, the development of the CA balance at a higher level than our previous expectations will pose a downside risk to our EURPLN exchange rate forecast until the end of 2023. However, given the heightened uncertainty surrounding the development of global economic and market conditions, we are not revising our EURPLN exchange rate forecast for the time being.

GDP data in the Eurozone and Germany may strengthen the PLN

FX rates

Source: Refinitiv — EURPLN (lhs) — USDPLN (rhs) — CHFPLN (lhs) — GBPPLN (rhs)
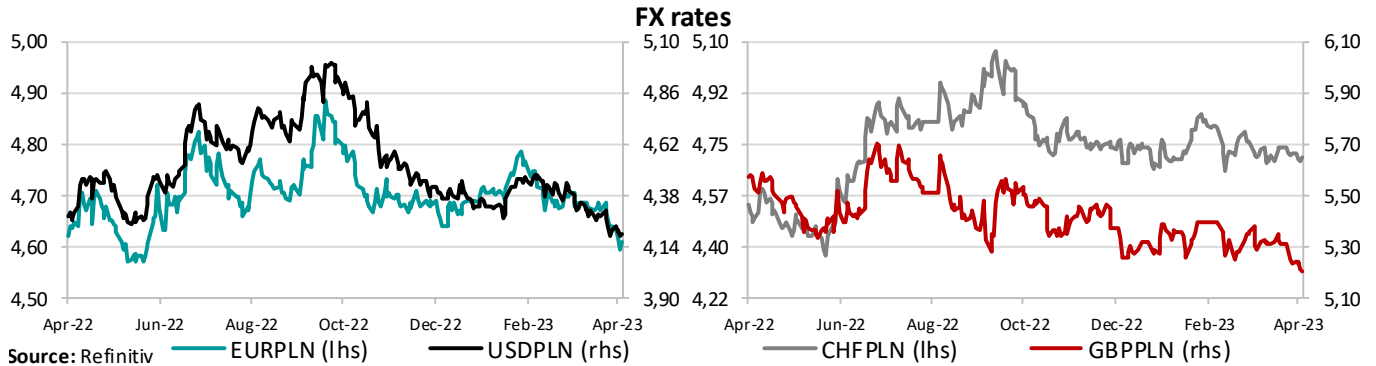
Last week, the EURPLN rate dropped to 4.6102 (the PLN strengthened by 0.6%). Last week, the EURPLN exchange rate followed a clear downward trend following the rising EURUSD, a continuation of the trends seen two weeks ago. The strengthening of the EUR against the USD was supported by a decline in global risk aversion linked to, among other things, a reduction in investor concerns about the stability of the global banking system. Friday's publication of preliminary PMIs for the Eurozone had no significant impact on the currency market.

This week, the publications of preliminary GDP data in the Eurozone and Germany, scheduled for Friday, will be crucial for the PLN exchange rate. If our – lower than market consensus – forecasts materialise, the data may favour the strengthening of the PLN. Today's publication of domestic industrial production data may also be positive for the PLN. Domestic inflation data in Poland will also be in the spotlight for investors, although we do not expect it to have a significant impact on the market. 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.

Domestic industrial production data positive for IRS rates

IRS curve in Poland (%)

Source: Refinitiv — 2023/04/14 — 2023/04/21

Spread: Polish vs. German bonds (ppt.)

— 2-Year — 5-Year — 10-Year
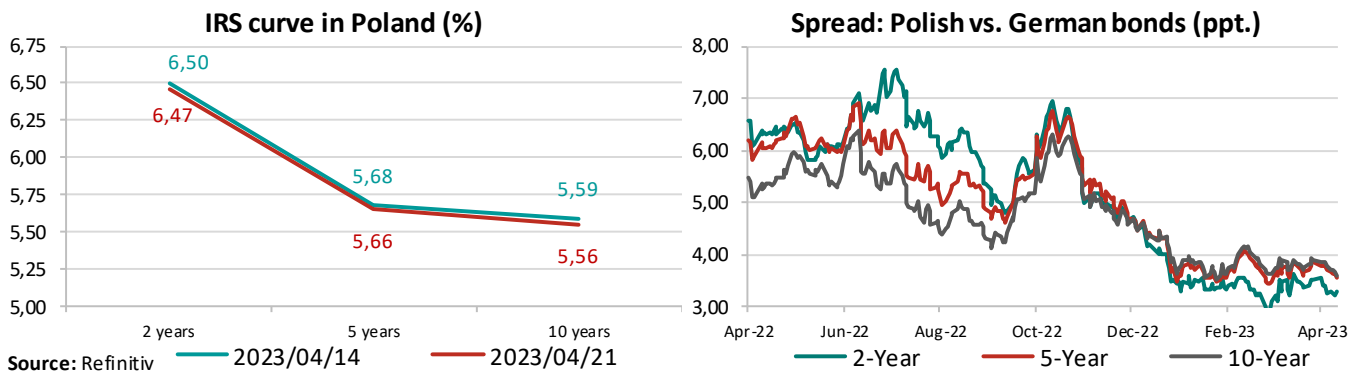
Last week, 2-year IRS rates dropped to 6.47 (down by 3pb), 5-year rates to 5.66 (down by 2bp) and 10-year ones to 5.56 (down by 3bp). Last week, the IRS rates were characterised by low volatility compared to recent weeks, which was supported by a relatively scarce calendar of macroeconomic events. Friday's two debt auctions (main and supplementary) saw the Ministry of Finance sell 2-, 5-, 10-, and 25-year bonds for PLN 9.6bn with demand at PLN 11.8bn. The auctions had no significant impact on the curve.

This week, the publications of preliminary GDP data in the Eurozone and Germany scheduled for Friday will be in the spotlight, which may favour a drop in IRS rates. On the other hand, today's publication of domestic industrial production data may have an opposite effect. Poland's flash inflation data, if our forecast (which is in line with the market consensus) is realised, will be curve neutral. 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	**4,60**
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	**4,19**
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	**4,69**
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	16,1	
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	12,3	
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	12,6	
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	0,5	
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)	-3828	-2963	-1373	-273	-1070	-2847	-2208	-416	262	-2530	2133	2586		
Exports (%YoY EUR)	13,3	16,7	27,5	22,4	20,9	28,1	26,5	23,2	24,2	10,6	13,1	10,0		
Imports (%YoY EUR)	31,8	35,9	33,8	28,1	21,7	29,6	31,4	24,1	18,3	11,3	5,1	-5,4		

*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	5,1	1,2	3,1
Private consumption (%YoY)	6,7	6,4	0,9	-1,5	-2,0	-1,0	0,5	2,0	3,3	-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	5,0	1,2	4,0
Export - constant prices (%YoY)	4,2	5,2	6,9	2,0	2,8	3,5	3,7	4,8	6,2	3,7	3,8
Import - constant prices (%YoY)	9,4	6,9	6,0	0,2	-1,5	0,1	2,5	4,0	6,2	1,4	4,3
GDP growth contributions — Private consumption (pp)	4,0	3,6	0,5	-0,7	-1,2	-0,6	0,3	1,0	1,8	-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	0,9	0,2	0,7
GDP growth contributions — Net exports (pp)	-2,7	-0,7	0,6	0,9	2,6	2,2	0,8	0,5	0,2	1,5	-0,2
Current account (% of GDP)***	-2,5	-3,3	-3,4	-3,0	-1,2	-0,8	-0,9	-1,1	-3,0	-1,1	-2,3
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	17,0	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	CONSENSUS**
Monday 04/24/2023						
10:00	**Poland**	**Industrial production (% YoY)**	**Mar**	**-1,2**	**-0,7**	**-1,9**
10:00	**Poland**	**PPI (% YoY)**	**Mar**	**18,4**	**11,1**	**11,0**
10:00	**Poland**	**Retail sales (% YoY)**	**Mar**	**10,8**	**6,0**	**7,4**
10:00	Germany	Ifo business climate (pts)	Apr	93,3		94,0
Tuesday 04/25/2023						
14:00	**Poland**	**M3 money supply (% YoY)**	**Mar**	**7,4**	**7,0**	**7,2**
15:00	USA	Case-Shiller Index (% MoM)	Feb	-0,4		
16:00	USA	New home sales (k)	Mar	640	627	630
16:00	USA	Richmond Fed Index	Apr	-5,0		
16:00	USA	Consumer Confidence Index	Apr	104,2	104,0	104,2
Wednesday 04/26/2023						
10:00	**Poland**	**Registered unemployment rate (%)**	**Mar**	**5,5**	**5,4**	**5,4**
14:30	USA	Durable goods orders (% MoM)	Mar	-1,0	0,8	0,8
Thursday 04/27/2023						
11:00	Eurozone	Business Climate Indicator (pts)	Apr	0,70		
14:30	USA	Initial jobless claims (k)	w/e	269		
14:30	USA	Preliminary estimate of GDP (% YoY)	Q1	2,6	2,2	2,0
Friday 04/28/2023						
10:00	Germany	Preliminary GDP (% QoQ)	Q1	-0,4	-0,3	0,2
10:00	**Poland**	**Flash CPI (% YoY)**	**Apr**	**16,1**	**15,0**	**15,0**
11:00	Eurozone	Preliminary GDP (% QoQ)	Q1	0,0	-0,1	0,2
14:00	Germany	Preliminary HICP (% YoY)	Apr	7,8		7,7
14:30	USA	PCE Inflation (% YoY)	Mar	5,0	4,1	
14:30	USA	PCE core inflation (% YoY)	Mar	4,6	4,5	4,5
14:30	USA	Real private consumption (% MoM)	Mar	-0,1		
15:45	USA	Chicago PMI (pts)	Apr	43,8		43,5
16:00	USA	Final U. of Michigan Sentiment Index (pts)	Apr	63,5	63,5	63,5

*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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