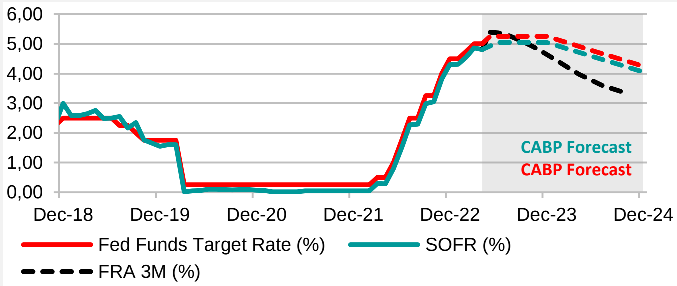
Manufacturing sees first drop in input prices since 2016

This week

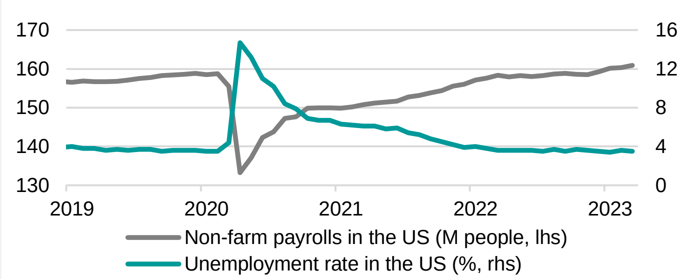
- **The key event this week will the FOMC meeting planned for Wednesday.** We expect the Fed to go ahead with a 25bp rate hike, thus raising the target range for federal funds to [5.00%, 5.25%]. We believe this will be the last hike in this monetary policy tightening cycle. The expected economic growth slowdown (including technical recession), the forecasted inflation drop, and the concerns regarding an unfavourable impact of higher interest rates on the stability of the US banking sector will be the main arguments in favour of keeping the rates unchanged in the months to come. There is likely to be a hint about a pause in the cycle in the press release following the FOMC meeting. At the same time, Fed members will note that further rate hikes cannot be ruled out and could be adopted if necessary (for example, if core inflation fell more slowly than expected). A 25bp hike this week would be consistent with market consensus and valuation of contracts futures. Nonetheless, the tone of the press release and conference after the meeting will be rather hawkish. Consequently, we expect the FOMC decision to be slightly negative for the PLN and the prices of the Polish debt.

- **Another important event this week will be the ECB meeting planned for Thursday.** We expect the ECB to raise interest rates by 50bp. Our forecast carries a significant risk, though, given the recent statements made by ECB representatives, and some huge differences between them arising from those statements with regard to how much the monetary policy was to be tightened in the May's meeting. 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, including the information on how far away the rates are from reaching the target level. Our forecast is above the consensus: the market is expecting a 25bp hike this week. The materialisation of our forecast would thus be slightly negative for the PLN and yields on Polish bonds. 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.



Source: Refinitiv, Credit Agricole

- **Some significant data on US economy will be released this week.** Data on the labour market is scheduled to be released on Friday. We expect that non-farm payrolls rose by 175k in April vs. 236k in March, while unemployment fell to 3.5% in April from 3.6% in March. Before the Friday publication, some additional data on the labour market will be released in the ADP report on employment in the private sector (the market expects a 135k rise in April vs. 145k in March). The ISM index for manufacturing was published yesterday, and we can see that it increased from 46.3 pts in March to 47.1 pts in April, running above the market expectations (46.7 pts). The index increase resulted from higher contributions of 3 out of its 5 components (new orders, current output and employment), while lower contributions of inventories and delivery times had the opposite effect. It is worth noting, though, that despite the upturn the new orders and current output components still remain below the 50-point level that separates growth from contraction. We believe that data on



Source: Datastream, Credit Agricole

employment will be overshadowed by the FOMC meeting, and that it will be neutral for the PLN and yields on Polish bonds.

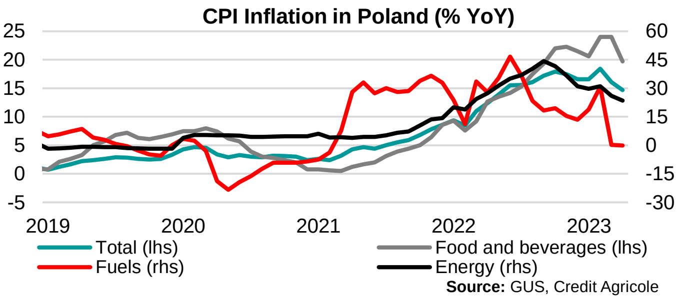
- **Flash HICP inflation estimate for the Eurozone will be published today.** We expect it to have increased from 6.9% YoY in March to 7.1% in April due to last year's low base effects observed in the case of energy prices. The contribution of other inflation components should be lower. We expect the core inflation to have dropped from 5.7% YoY in March to 5.5% in April. We believe there is a downside risk to our headline inflation forecast given the inflation figure for Germany published last week, which was lower than we had expected (see below). In our opinion, the publication of data for the Eurozone will be neutral for financial markets.
- **Business survey results for China's manufacturing will be released on Thursday (their publication was postponed due to the Labour Day celebrations).** According to consensus, Caixin PMI went up to 50.3 pts in April vs. 50.0 pts in March, which confirms that the recovery in the Chinese manufacturing sector continues. However, the last week's drop in CFLP PMI from 51.9 pts to 49.2 pts is a risk factor for a slight growth in Caixin PMI. In our opinion, this data will not have any significant impact on the market.
- **Poland's manufacturing PMI data for April has been released today.** PMI for Polish manufacturing dropped to 46.6 pts in April from 48.3 pts in March, running below market expectations (47.9 pts) and our forecast (48.0 pts, see below).

Last week

- **Industrial production in Poland fell by 2.9% YoY in March vs. a 1.0% drop in February, running below the market consensus (-1.9%) and our forecast (-0.7%).** Seasonally-adjusted industrial production shrank by 1.0% MoM in March. Export-oriented sectors were the only industry segment to be driving the total production up. This indicates that export-oriented branches are relatively resilient to the downturn seen by Poland's main trade partners (see MACROpulse of 24/04/2023). At the same time, annualised production decline in companies related to the construction sector and in other sectors deteriorated even further, which reflects a poor demand in Poland. Construction and assembly production decreased by 1.5% YoY in March comparing to a 6.7% growth in February, running markedly below the market consensus (0.9%) and our forecast (2.5%). Last year's high base effect was the main factor driving the construction and assembly production growth down. Nonetheless, it is worth noting that even seasonally-adjusted construction and assembly production shrank by 2.0% MoM in March, showing that the decline in activity was significant. Despite worse-than-expected data on industrial production and construction and assembly production, we have decided to raise our GDP growth forecast for Q1 2023 (from -0.8% YoY to -0.5%) due to the situation improvement in the services sector, which was stronger than we had expected.
- **Poland's nominal retail sales growth slowed down to 4.8% YoY in March vs. 10.8% in February, running below the market consensus (7.4%) and our forecast (6.0%).** Retail sales in constant prices decreased by 7.3% YoY in March vs. a 5.0% drop in February, which represents the strongest drop since May 2020, i.e. since the first lockdown connected with the outbreak of the COVID-19 pandemics. Seasonally-adjusted retail sales in constant prices in March decreased by 1.3% MoM. Annualised retail sales in constant prices dropped across many categories in March, the drop having been seen in 7 out of 8 reported categories. In our opinion, it is a consequence of households' purchasing power decreasing as a result of high inflation. Furthermore, sales were also driven down by last year's high base effect connected with the inflow of refugees from Ukraine and the households building their stocks in relation to the outbreak of war in Ukraine (see MACROpulse of 24/04/2023). The data on retail sales, which are indicative of a significant decline, are consistent with our scenario in which consumption will slow down significantly in H1

2023. Worse-than-expected retail sales data for Q1 2023 has made us revise our consumption growth expectations for Q1 (-3.5% YoY now vs. -2.0% before the revision).

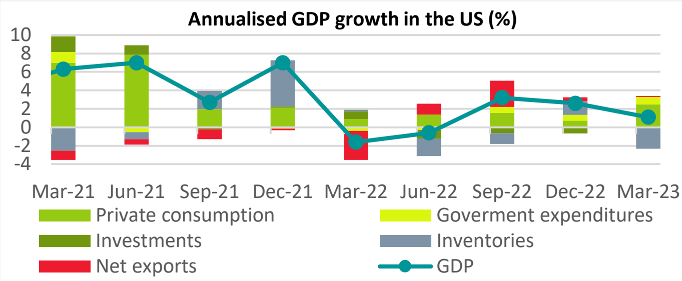
- **In accordance with the flash estimate, CPI inflation in Poland dropped to 14.7% YoY in April from 16.1% in March, running below the market consensus, which was consistent with our forecast (15.0%).** The data supports our assessment, in which inflation reached its local peak in February 2023, and it will follow a downward trend in the coming months (see MACROpulse of 15/03/2023). GUS published partial data on the inflation structure, which contained information about price growth rates for the following categories: “food and non-alcoholic beverages”, “energy” and “fuels”. A strong slowdown of price growth in the “food and non-alcoholic beverages” category (19.7% YoY in April vs. 24.0% in March), resulting primarily from last year’s high base effect connected with the outbreak of the war in Ukraine was the main reason behind the inflation drop. Inflation was also driven down by a slower growth in the prices of energy (23.5% YoY in April vs. 26.0% in March) and fuels (-0.1% YoY vs. 0.2%), and by a drop in core inflation, which we estimate to have gone down from 12.3% YoY in March to 12.2% in April. Last week’s data carries a slight downside risk to our forecast, in which inflation will go down from 17.0% YoY in Q1 to 13.1% in Q2, and from 14.3% in 2022 to 11.8% in 2023.



Source: GUS, Credit Agricole

- **The Ifo index, which reflects the sentiment of German businesses across manufacturing, construction, trade, and services sectors, rose to 93.6 pts in March compared to 93.2 pts, exceeding market expectations of 94.0 pts.** The index grew on the back of an improved reading of its business expectations component, with the perception of the current business situation component having the opposite effect. Economic sentiment improved in manufacturing and construction, while conditions in services and trade sectors deteriorated. The Ifo index, along with the March PMI reading (see MACROmap of 24/04/2023), supports our forecast that quarterly GDP growth in Germany will rise to 0.1% in Q2 compared to 0.0% in Q1.

- **Last week, vital data concerning the US economy was released.** PCE inflation dropped to 4.2% YoY in March from 5.1% in February, with core PCE inflation also declining (4.6% vs. 4.7%, revised upward from 4.6%). Despite the decline in annual terms, a monthly analysis of core inflation changes suggests persistent inflationary pressures within the US economy. Moreover, last week the first estimate of US GDP in Q1 was released, showing that the annualised rate of US GDP growth fell to 1.1% compared to 2.6%. This decrease in GDP growth resulted from lower contributions from inventories and net exports and increased contributions from private consumption, investments, and government spending. Thus, the main driver of US GDP growth in Q1 was private consumption, while in Q4 it was chiefly spurred by inventories. Last week also saw the release of data on durable goods orders, showing a 3.2% MoM increase in March, compared to a 1.2% decrease in February - surpassing market expectations (+0.8%). Excluding transportation, the growth rate of durable goods orders improved to 0.3% MoM in March, up from -0.3% in February. However, orders for non-military capital goods fell to 3.6% YoY in March from 4.0% in February, with its three-month moving average showing a distinct downward trend. In our opinion, this suggests a further

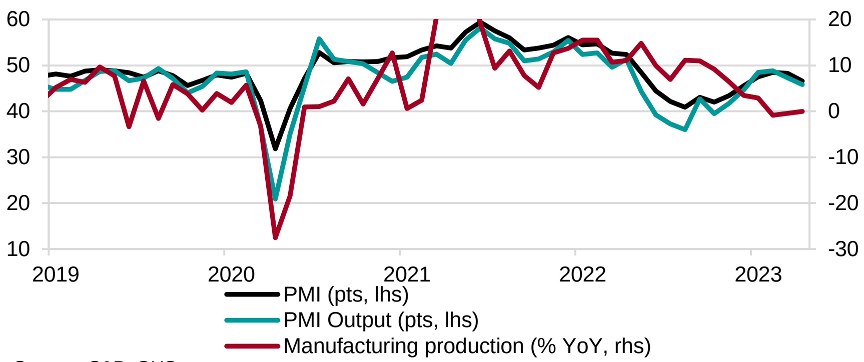


Source: Datastream, Credit Agricole

deterioration in the US investments outlook. Last week data on new home sales was also published, showing an increase of 683k in March, up from 623k in February. However, taking into account the data on building permits, housing starts, and existing home sales released two weeks ago, we do not believe this data signifies a lasting uptick in activity within the US real estate market (see MACROmap of 24/04/2023). Conversely, the Conference Board index revealed a decline in US consumer sentiment, dropping to 101.3 pts in April from 104.0 pts in March, falling short of market expectations (104.0 pts). This decrease can be attributed to waning consumer expectations, while their assessment of the current business environment had the opposite impact. In turn, the final University of Michigan index (63.5 pts in April vs. 62.0 pts in March, with no changes relative to the flash estimate) indicated an improvement in US consumer sentiment. We forecast that the annualized economic growth rate in the US will decelerate to 0.7% in Q2 2023.

- **According to the flash estimate, the Eurozone's quarterly GDP growth rose to 0.1% in Q1, up from 0.0% in Q4, (1.3% YoY in Q1 vs. 1.8% in Q4), falling short of market expectations (0.2%) but exceeding our forecast (-0.1%).** Notably, all major Eurozone economies experienced faster growth in Q1, including Germany (0.0% QoQ in Q1 vs. -0.5% in Q4), France (0.2% vs. 0.0%), Italy (0.5% vs. -0.1%), and Spain (0.5% vs. 0.4%). The data is only preliminary and does not provide details on the structure of economic growth. Nonetheless, it aligns with our "soft landing" scenario for the Polish economy, which assumes a significant decline in GDP growth for Poland in 2023, though it will remain positive (1.2% YoY in 2023 compared to 5.1% in 2022). Furthermore, despite the economic slowdown, we do not anticipate a marked increase in unemployment.

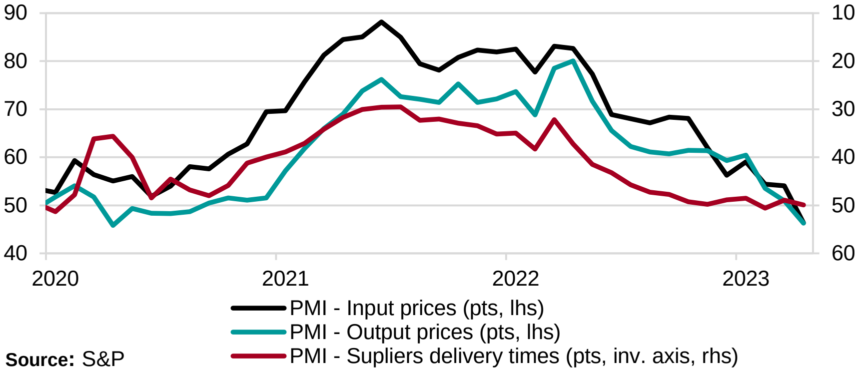
Manufacturing sees first drop in input prices since 2016



Source: S&P, GUS

The PMI for Polish manufacturing fell to 46.6 pts in April compared to 48.3 pts in March, surpassing both market consensus (47.9 pts) and our forecast (48.0 pts). This marks the twelfth consecutive month where the index remained below the 50-point threshold, which separates expansion from contraction of activity. The index decreased on the back of lower contributions from all of its five components: new orders, output, suppliers' delivery times, stocks of purchases and employment.

Particularly notable is the deepening decrease in both current output and new orders, including new export orders. According to the press release accompanying the data release, businesses cite high prices and persistent uncertainty as the primary drivers of weaker demand. Some also mentioned reduced orders in Europe.



Source: S&P

The lack of demand contributed to easing inflationary pressures, reflected in the further decline in both output and input prices. Notably, in April, they fell below the 50-point mark for the first time since August 2020 and April 2016, respectively. The price trends observed in Polish manufacturing will be conducive to the gradual reduction of inflation in Poland, a trend consistent with our forecast.

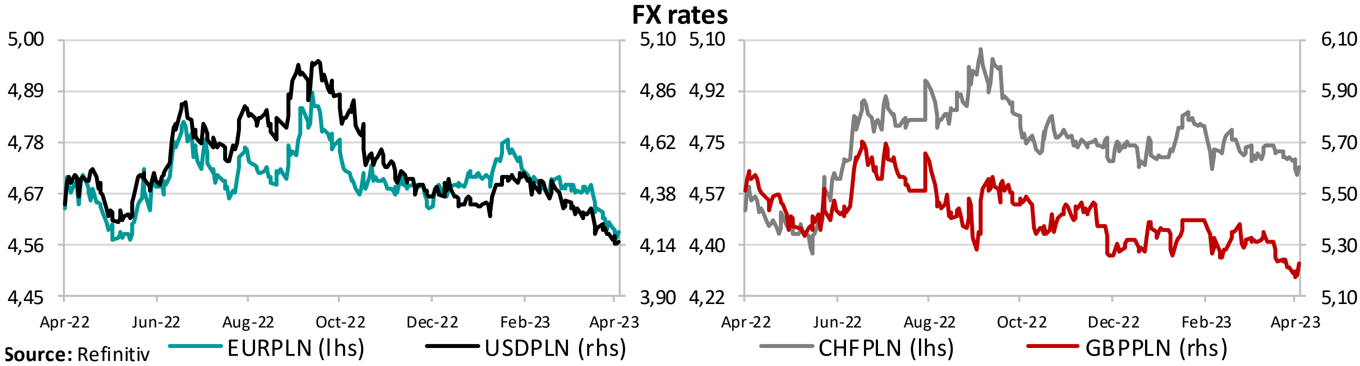
Amid declining output and new orders, businesses continued restructuring processes, adjusting their operations to the current market environment. According to the PMI survey results, employment decreased for eleven consecutive months. Nevertheless, the press release indicates that businesses were able to reduce production backlogs to the largest extent since November 2022. Companies also scaled back their inventories of intermediate goods due to weak demand, while inventories of finished goods increased.

In April, the index for expected output within a 12-month horizon dropped but has remained above the 50-point mark for six months. This suggests that companies view the decline in current output and the slower influx of orders as temporary trends. The ongoing restructuring processes in many companies, aimed at increasing efficiency and reducing energy consumption, combined with the mild nature of the slowdown in Poland's economic growth, encourage companies to maintain optimistic assessments of their future activity.

The results of business climate surveys in Polish manufacturing pose a downward risk to our GDP growth forecast for Q4 (0.2% YoY vs. -0.5% in Q1). However, they do not change our "soft landing" scenario for the Polish economy. In this scenario, Poland's GDP growth in 2023 will slow down significantly (to 1.2% YoY vs. 5.1% in 2022) but will remain positive, and reduced GDP growth will not coincide with a substantial rise in unemployment.

In our opinion, today's data is slightly negative for the PLN exchange rate and yields on Polish bonds.

ECB and Fed decisions may weaken PLN



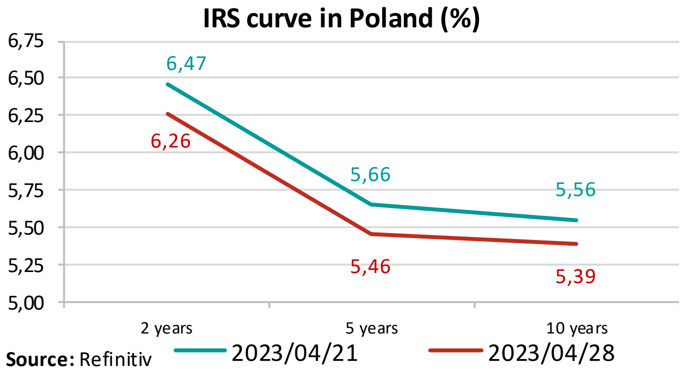
Source: Refinitiv

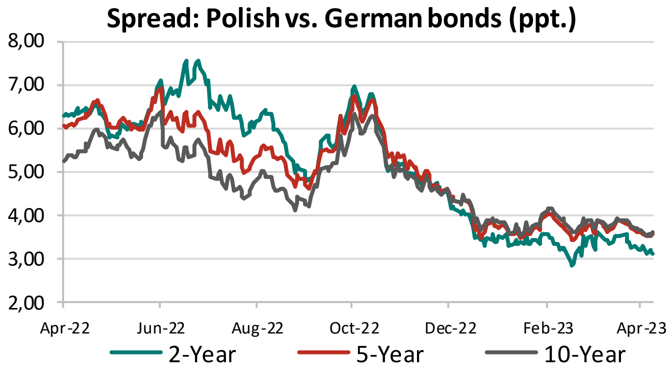
Last week, the EURPLN exchange rate fell to 4.5881, representing a 0.5% appreciation of the PLN. The EURPLN followed a slightly downward trajectory, in line with recent trends (see MACROmap of 24/04/2023). The PLN's appreciation was supported by reduced global risk aversion, as evidenced by the decline in the VIX index. Friday's flash domestic inflation data release did not significantly impact the Polish currency.

At the same time, after weeks of growth, the EURUSD stabilized. The weaker-than-expected Eurozone GDP data bolstered the USD against the EUR, while US inflation data had the opposite effect.

In our opinion, the PMI index for Polish manufacturing, published this morning, are slightly negative for the PLN. This week, the ECB meeting scheduled for Thursday will be crucial for the Polish currency's exchange rate. We believe that under our scenario, assuming a 50bp interest rate hike instead of 25bp, the PLN may depreciate. The FOMC meeting may also contribute to PLN depreciation. Data releases from the global and Polish economies scheduled for this week are unlikely to affect the PLN rate significantly.

ECB and FOMC meetings in market's spotlight





Source: Refinitiv

Last week, 2-year IRS rates fell to 6.26 (down by 21bp), 5-year rates dropped to 5.46 (down by 20bp), and 10-year rates declined to 5.39 (down by 17bp). IRS rates decreased across the entire curve, following the core markets. The decline in bond yields in core markets was driven by dampened expectations among some investors regarding interest rate hikes by key central banks.

The business climate survey results for Polish manufacturing, published this morning, are slightly negative for IRS rates. This week, the market will focus on the ECB meeting scheduled for Thursday, which may lead to a rise in IRS rates. The FOMC meeting may have a similar impact. In our opinion, data releases from the Polish and global economies scheduled for this week will not significantly affect IRS rates.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland

Indicator	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	May-23
NBP reference rate (%)	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	**6,75**
EURPLN*	4,67	4,58	4,70	4,73	4,72	4,85	4,71	4,67	4,69	4,71	4,70	4,68	4,59	**4,60**
USDPLN*	4,43	4,27	4,48	4,63	4,70	4,95	4,77	4,48	4,38	4,33	4,45	4,31	4,16	**4,22**
CHFPLN*	4,55	4,45	4,69	4,86	4,80	5,01	4,76	4,74	4,72	4,70	4,72	4,71	4,66	**4,73**
CPI inflation (% YoY)	12,4	13,9	15,5	15,6	16,1	17,2	17,9	17,5	16,6	16,6	18,4	16,1	**15,0**	
Core inflation (% YoY)	7,7	8,5	9,1	9,3	9,9	10,7	11,0	11,4	11,5	11,7	12,0	12,3	**12,2**	
Industrial production (% YoY)	12,3	14,9	10,4	7,1	10,9	9,8	6,6	4,4	0,9	1,8	-1,0	-2,9	**-3,0**	
PPI inflation (% YoY)	24,1	24,7	25,6	25,5	25,5	24,6	23,1	21,1	20,5	20,1	18,2	10,1	**6,7**	
Retail sales (% YoY)	33,4	23,6	19,9	18,4	21,5	21,9	18,3	18,4	15,5	15,1	10,8	4,8	**3,8**	
Corporate sector wages (% YoY)	14,1	13,5	13,0	15,8	12,7	14,5	13,0	13,9	10,3	13,5	13,6	12,6	**11,6**	
Employment (% YoY)	2,8	2,4	2,2	2,3	2,4	2,3	2,4	2,3	2,2	1,1	0,8	0,5	**0,2**	
Unemployment rate* (%)	5,6	5,4	5,2	5,2	5,2	5,1	5,1	5,1	5,2	5,5	5,5	5,4	**5,3**	
Current account (M EUR)	-2963	-1373	-273	-1070	-2847	-2208	-416	262	-2530	2133	2586	**546**		
Exports (% YoY EUR)	16,7	27,5	22,4	20,9	28,1	26,5	23,2	24,2	10,6	13,1	10,0	**15,1**		
Imports (% YoY EUR)	35,9	33,8	28,1	21,7	29,6	31,4	24,1	18,3	11,3	5,1	-5,4	**-1,6**		

*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)	8,8	6,1	3,9	2,3	-0,5	0,2	2,1	2,7	5,1	1,2	3,1
Private consumption (% YoY)	6,8	6,7	1,1	-1,1	-3,5	-1,0	0,5	2,0	3,3	-0,5	3,0
Gross fixed capital formation (% YoY)	5,4	7,1	2,5	5,4	2,0	0,2	1,4	2,6	5,0	1,7	4,0
Export - constant prices (% YoY)	5,6	6,4	9,0	3,9	2,8	3,5	3,7	4,8	6,2	3,7	3,8
Import - constant prices (% YoY)	8,7	8,2	7,7	0,7	-1,5	0,1	2,5	4,0	6,2	1,4	4,3
GDP growth contributions: Private consumption (pp)	4,0	3,8	0,6	-0,5	-2,1	-0,6	0,3	1,0	1,8	-0,3	1,7
GDP growth contributions: Investments (pp)	0,7	1,1	0,4	1,2	0,2	0,0	0,2	0,6	0,9	0,3	0,7
GDP growth contributions: Net exports (pp)	-1,4	-0,7	0,8	1,7	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	FORECAST* CONSENSUS**
		Monday 05/01/2023				
15:45	USA	Flash Manufacturing PMI (pts)	Apr	50,4		
16:00	USA	ISM Manufacturing PMI (pts)	Apr	46,3	46,5	46,8
		Tuesday 05/02/2023				
9:00	**Poland**	**Manufacturing PMI (pts)**	**Apr**	**48,3**	**48,0**	**47,9**
9:55	Germany	Final Manufacturing PMI (pts)	Apr	44,0	44,0	44,0
10:00	Eurozone	M3 money supply (% MoM)	Mar	2,9		2,4
10:00	Eurozone	Final Manufacturing PMI (pts)	Apr	45,5	45,5	45,5
11:00	Eurozone	Preliminary HICP (% YoY)	Apr	6,9	7,1	7,0
16:00	USA	Factory orders (% MoM)	Mar	-0,7	1,2	1,1
		Wednesday 05/03/2023				
11:00	Eurozone	Unemployment rate (%)	Mar	6,6		6,6
14:15	USA	ADP employment report (k)	Apr	145		150
16:00	USA	ISM Non-Manufacturing Index (pts)	Apr	51,2	52,0	51,8
20:00	USA	FOMC meeting (%)	May	5,00	5,25	5,25
		Thursday 05/04/2023				
3:45	China	Caixin Manufacturing PMI (pts)		50,0		50,3
8:00	Germany	Trade balance (bn EUR)	Mar	16,0		16,1
10:00	Eurozone	Services PMI (pts)	Apr	56,6	56,6	56,6
10:00	Eurozone	Final Composite PMI (pts)	Apr	54,4	54,4	54,4
11:00	Eurozone	PPI (% YoY)	Mar	13,2		6,2
14:15	Eurozone	EBC rate decision (%)	May	3,50	4,00	3,75
		Friday 05/05/2023				
8:00	Germany	New industrial orders (% MoM)	Mar	4,8		-2,2
11:00	Eurozone	Retail sales (% MoM)	Mar	-0,8		0,0
14:30	USA	Unemployment rate (%)	Apr	3,5	3,6	3,6
14:30	USA	Non-farm payrolls (k MoM)	Apr	236	175	180

*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

Jakub BOROWSKI
Chief Economist
tel.: 22 573 18 40
jakub.borowski@credit-agricole.pl

Krystian JAWORSKI
Senior Economist
tel.: 22 573 18 41
krystian.jaworski@credit-agricole.pl

Jakub OLIPRA
Senior Economist
tel.: 22 573 18 42
jakub.olipra@credit-agricole.pl