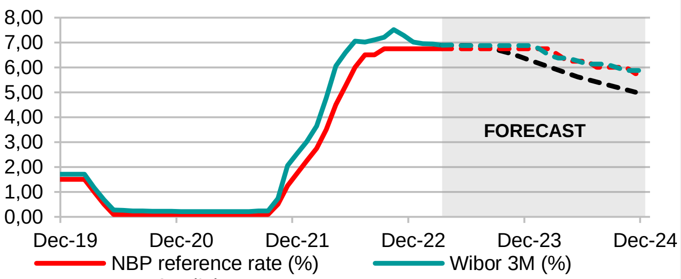
This week

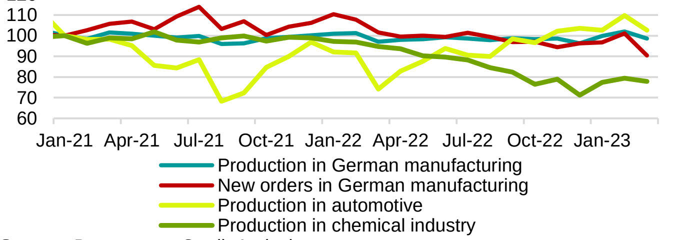
- **The key event this week will be the MPC meeting scheduled for Wednesday.** We expect the MPC to keep interest rates unchanged (with the NBP reference rate standing at 6.75%). Our expectation that the MPC will keep the *status quo* in monetary policy is supported by comments made by the NBP Governor at his press conference following the MPC' s meeting in April to the effect that the MPC is taking a wait-and-see approach to monetary policy and implying that although the rate hike cycle has not officially ended, its continuation is rather unlikely (see MACROmap of 11/04/2023). We expect that the message of the press release after the meeting will not change significantly from the April one. This week's decision to keep interest rates unchanged would 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. Comments made recently by some MPC members, including I. Dąbrowski, G. Masłowska, and H. Wnorowski, suggest that the timing of the first rate cut may be mentioned during the press conference. We believe that A. Glapiński's comments to the effect that the MPC may start cutting rates in Q4 this year would drive the PLN and yields on Polish bonds down.



Source: Reuters, Credit Agricole

- **Some important data from the US will be released on Wednesday and Friday.** We expect headline inflation to have remained flat from March to April, standing at 5.0% YoY, with core inflation having fallen to 5.4% YoY in April from 5.6% in March. Thus, we expect the data to show that inflationary pressures in the US economy remain strong. 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 fall to 63.0 pts in May from 63.5 pts in April due to persistently high inflation adversely affecting US household sentiment. 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.
- **China's foreign trade figures will be released on Tuesday.** We expect China's trade balance to have fallen to USD 59.8bn in April from USD 88.2bn in March. We forecast that growth in exports slowed to 5.5% YoY in April from 14.8% in March, in line with business survey results for China's manufacturing. We expect growth in imports to have picked up to 2.0% YoY in April from -1.4% in March, showing gradual recovery in China's domestic demand. We believe that data from China will be neutral for financial markets.
- **Some important data on the German economy has been released today.** Industrial production growth slowed to -3.4% MoM in March from 2.1% in February, running below market expectations (-1.3%). The slowdown in industrial production growth was driven by declines in manufacturing and construction, partially offset by stronger growth in energy. The sectoral breakdown shows big declines in production in 'motor vehicles, trailers and semi-trailers' (-6.5% MoM) and in 'manufacture of other non-metallic mineral products' (-6.5%), with the declines being to a large

New orders and production in German manufacturing (SA, Jan 2021=100)

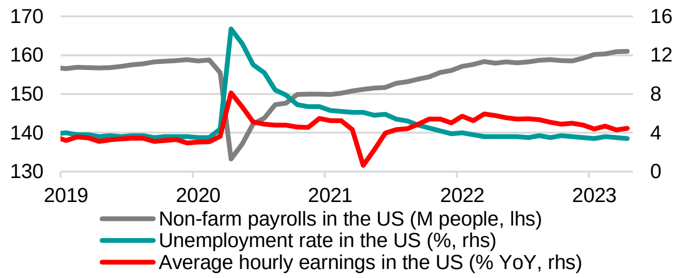


Source: Datastream, Credit Agricole

extent accounted for by last month high base effects. Last week saw the release of data on manufacturing orders, which shows that growth in orders dropped to -10.7% MoM in March from 4.5% in February, running well below market expectations (-2.1%). Drops were seen in both domestic and foreign orders (from the Eurozone and from countries outside the single currency area). The drops were driven by declines in intermediary and capital goods (with the decline in capital goods accounted for by last month high base effects), while consumer goods orders grew. The sectoral breakdown shows the biggest drops in 'other transport equipment' (-47.4% MoM due to last month high base effects), 'motor vehicles, trailers and semi-trailers' (-12.2%), 'computers, electronic and optical products' (-8.7%), and in 'manufacture of basic metals' (-7.8%). Germany's foreign trade balance data was also published last week; the trade balance rose to EUR 16.7bn in March from EUR 16.0bn in February. March saw slowdowns both in imports (-6.4% MoM in March from 4.4% in February) and in exports (-5.2% vs. 4.0%), which are further signs of a slowdown in Germany's foreign trade (see MACROmap of 24/05/2023). Germany's industrial production is affected by the levels of inventories being matched to weaker demand, which leads to a slowdown in global trade. We will discuss this topic in more detail in our next MACROmap. Today's data on industrial production is, in our opinion, slightly positive for the PLN and negative for yields on Polish bonds. At the same time, the data on the German economy for March represents a downside risk to our forecast for Germany's GDP growth in Q2 (0.1% QoQ vs. 0.0% in Q1).

Last week

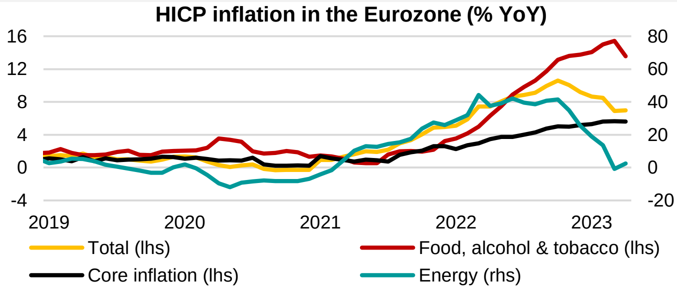
- **At its last week's meeting, the Fed raised the target range for federal funds by 25bp to [4.75%; 5.00%], in line with our forecast and market expectations.** The Fed now notes that 'in determining the extent to which additional policy firming may be appropriate to return inflation to 2 percent over time, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments', removing the language that 'some additional policy firming may be appropriate'. This means that given persistently high inflation and a robust labour market, the Fed does not want to declare that they will put on hold or end the rate hiking cycle. At the press conference following the meeting, the Fed Chairman J. Powell referred to that comment and noted that decisions concerning future monetary policy have not been made yet and will be data dependent. J. Powell admitted that a pause had been discussed, but not for the May meeting, while also stressing that the Fed was 'prepared to do more' if needed. We maintain our scenario which expects the Fed to have ended the rate hiking cycle in May. However, we believe that an alternative scenario cannot be excluded where the Fed would go ahead with one more 25bp hike at its meeting in June, depending on incoming data on inflation and the labour market (between the May and June meetings the Fed will receive two reports on non-farm payrolls and CPI inflation figures for April and May) and situation in US banking system.
- **Some significant data on the US economy was released last week.** Non-farm payrolls rose by 253k in April vs. 165k in March (downward revision from 236k), running markedly above market expectations (180k). The strongest increases in employment were seen in education and health services (+77.0k), professional and business services (+43.0k), and in



Source: Datastream, Credit Agricole

leisure and hospitality (+31.0k). Employment also increased in manufacturing (+11.0k). In contrast, employment declined in wholesale trade (-2.2k). Unemployment fell to 3.4% in April from 3.5% in March, running below market expectations (3.5%). At the same time, hourly wage growth accelerated in April to 4.4% YoY, compared to 4.3% in March, running above market expectations (4.2%), which indicates continued strong wage pressures in the US economy. Business survey results were also released last week. The ISM index indicated improvement in services, increasing to 51.9 pts in April, up from 51.2 pts in March and running slightly above market expectations (51.8 pts). The increase in the index resulted from higher contributions of its components for new orders and delivery times, while lower contributions of employment and inventory had the opposite effect. It is worth noting that the index for input prices increased slightly in April and is still clearly above the 50-point threshold. This indicates that cost pressures in services remain strong. Last week's data from the US economy supports our upwardly revised forecast that the annualised US economic growth rate will accelerate to 1.8% in Q2 2023 vs. 1.1% in Q1.

- **The European Central Bank met last week and decided to increase its interest rates by 25bp.** The ECB decision was in line with market expectations and lower than our forecast (we expected a 50bp hike – see MACROmap of 02/05/2023). As a result, the ECB's main interest rate is now 3.75% and the deposit rate is 3.25%. According to the Governing Council's statement, subsequent interest rate decisions will be taken on the basis of an assessment of the inflation outlook in the context of incoming economic and financial data, the pace of change in inflation and the strength of monetary policy transmission. During a press conference, ECB chief Ch. Lagarde said that the reduction in the scale of interest rate hikes (the ECB raised rates by 50bp at its previous meeting in March) does not mean a break in the hiking cycle. She said 'there is more ground to cover'. In our revised scenario, we expect two more interest rate hikes of 25bp each (in June and July). At that point, the main interest rate will reach its target level of 4.25% and the deposit rate of 3.75% (thus, we maintain our previously forecasted interest rate target).



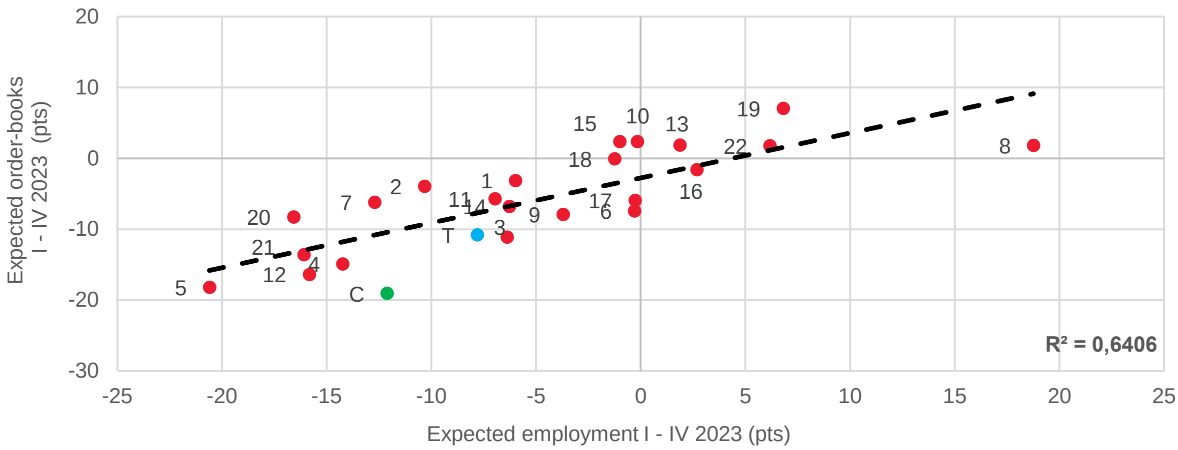
Source: Datastream, Credit Agricole

- **In accordance with the flash estimate, inflation in the Eurozone rose to 7.0% YoY in April from 6.9% in March, running in line with the market consensus and slightly below our forecast (7.1%).** The increase in inflation was mainly due to the higher price growth of energy, driven by the effects of the low base of a year ago. Core inflation, on the other hand, fell to 5.6% YoY in April, down from 5.7% in March, its first decline since January 2022. In our view, however, this does not indicate a weakening of inflationary pressures, as evidenced by the acceleration in services price growth recorded in April. In our view, this was due to higher price growth for tourism and leisure-related services. The April increase in inflation does not change our assessment that it has already reached its peak in Q4 2022 and that a decline will be observed in the following months (see MACROmap of 02/01/2023). However, we believe that core inflation will remain elevated, running above 5% until the end of Q3 2023.
- **The Caixin PMI for Chinese manufacturing dropped to 49.5 pts in April from 50.0 pts in March, running clearly below market expectations (50.3 pts).** Similar trends were signalled by the previously published CFLP PMI (see MACROmap of 02/05/2023). The drop in the index was accounted for by lower contributions from 3 out of its 5 components (new orders, output, and delivery times), partially offset by higher contributions from employment and inventories. Thus, the index for new orders returned below the 50-point threshold separating expansion from contraction in activity. This indicates that China's manufacturing recovery is only at a fragile early stage, while the services sector is doing much better, with the Caixin PMI index at 56.4 pts in

April, compared to 57.8 pts in March. An important source of recovery in China's service sector is tourism and catering. During the five-day Labour Day holiday (29 April - 3 May), the number of people who opted for tourism was 274M, an increase of 70.8% YoY and 119.0% on the last year before the outbreak of pandemic. At the same time, Alipay data shows that consumer spending using the platform tripled these days compared to 2022 and increased by 70% compared to 2019. The results of the Chinese manufacturing survey support our forecast that China's GDP growth rate will accelerate to 5.2% in 2023 from 3.0% in 2022, mainly driven by the strong recovery in consumption we expect, supported by the realisation of pent-up demand (see MACROmap of 23/01/2023). This rate of growth will be consistent with the Chinese government's stated target for GDP growth rate of 'around 5%'.

The peak of restructuring processes in Polish businesses is already behind us

Recent data indicating a decline in employment in manufacturing and construction are evidence of ongoing restructuring processes in these sectors (see inter alia MACROpulse of 21/04/2023 and MACROmap of 02/05/2023). Below, we provide an in-depth analysis of these trends, together with a discussion of the employment outlook in the coming quarters.

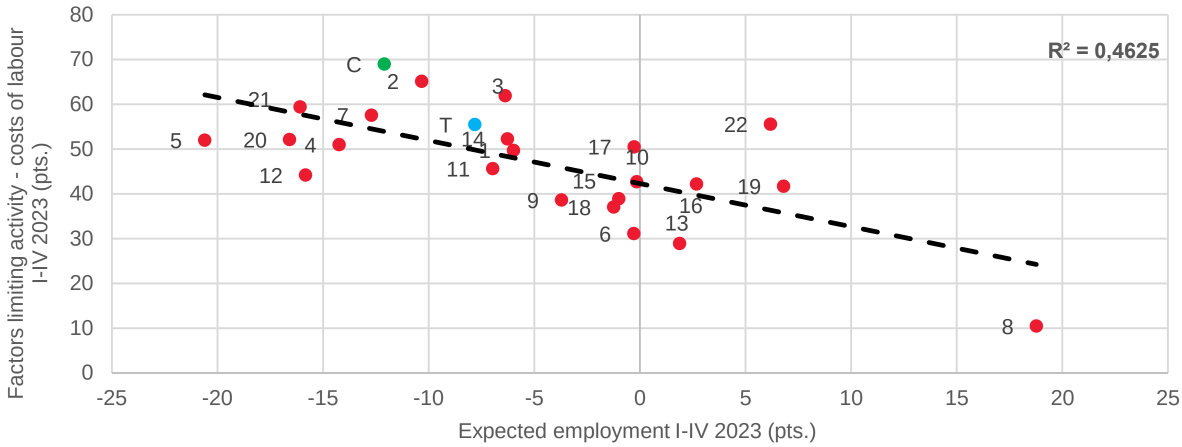


T – Total, C – Construction, 1 – Manufacture of food products, beverages, tobacco products, 2 – Manufacture of textiles, 3 – Manufacture of wearing apparel, 4 – Manufacture of leather and related products, 5 – Manufacture of products of wood, cork, straw and wicker, 6 – Manufacture of paper and paper products, 7 – Printing and reproduction of recorded media, 8 – Manufacture of coke and refined petroleum products, 9 – Manufacture of chemicals and chemical products, 10 – Manufacture of pharmaceutical products, 11 – Manufacture of rubber and plastic products, 12 – Manufacture of other non-metallic mineral products, 13 – Manufacture of metals, 14 – Manufacture of metal products, 15 – Manufacture of computer, electronic and optical products, 16 – Manufacture of electrical equipment, 17 – Manufacture of machinery and equipment n.e.c., 18 – Manufacture of motor vehicles, trailers and semi-trailers, 19 – Manufacture of other transport equipment, 20 – Manufacture of furniture, 21 – Other manufacturing, 22 – Repair, maintenance and installation of machinery and equipment

Source: GUS, Credit Agricole

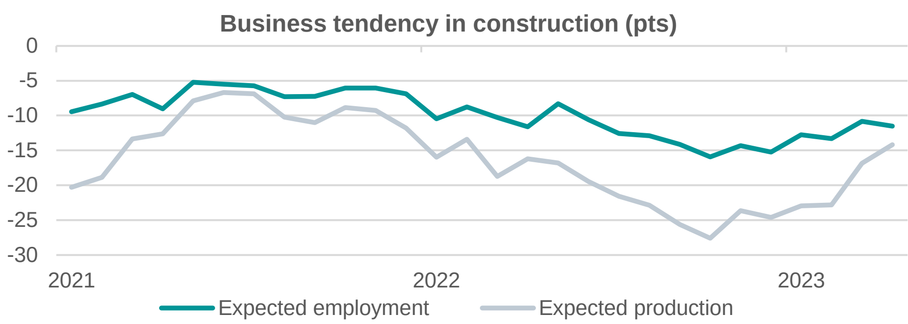
We started the analysis by comparing the results of the Central Statistical Office's (GUS) survey of expected orders (both domestic and foreign) and expected employment over a three-month horizon. This confirmed the intuitive relationship that the worse the outlook for new orders, the slower employment growth. The data shows that as many as 17 of the 23 categories analysed (22 processing + construction categories) are expected to experience slower employment growth. The weakest estimates for new orders and, consequently, the weakest estimates for future employment are observed in the following sections: 'manufacture of products of wood and cork, except furniture; manufacture of products of straw and wicker', 'manufacture of furniture', 'other manufacturing' and 'manufacture of other non-metallic mineral products'. It is worth noting that most of these sections are directly or indirectly linked to the construction industry, where the indicators for expected orders and expected employment are also at a relatively low level, compared to the other sections.

Secondly, we collated the results of the GUS's business survey on barriers to activity in the form of employment costs and expected employment. The data confirmed the relationship that the more acute the barrier to activity in the form of employment costs, the slower the anticipated employment growth. The strongest labour cost problems were reported by the aforementioned sections: 'manufacture of products of wood and cork, except furniture; manufacture of products of straw and wicker', manufacture of furniture', 'other manufacturing' and 'manufacture of other non-metallic mineral products'. This suggests that, in an environment of falling new orders, they are having trouble maintaining existing employment levels, i.e. so called labour hoarding. Hence, they are forced to carry out restructuring and to lower employment. However, employment in these sections is reduced primarily by maintaining vacancies after employees have left by not hiring new people, rather than carrying out redundancies, as signalled, among other things, by interviews with businesses conducted as part of the PMI survey (see MACROmap of 03/04/2023).



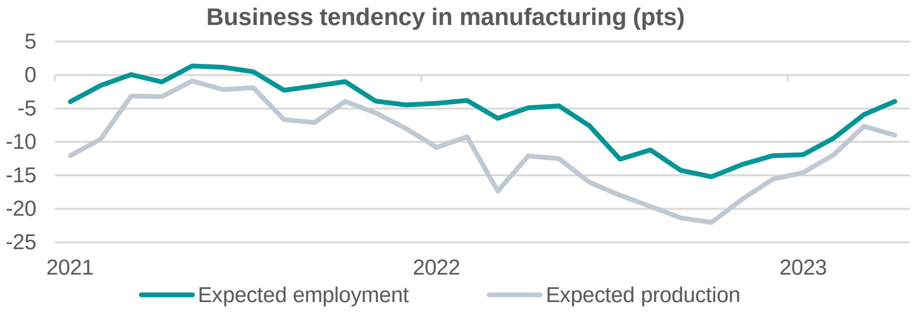
T – Total, C – Construction, 1 – Manufacture of food products, beverages, tobacco products, 2 – Manufacture of textiles, 3 – Manufacture of wearing apparel, 4 – Manufacture of leather and related products, 5 – Manufacture of products of wood, cork, straw and wicker, 6 – Manufacture of paper and paper products, 7 – Printing and reproduction of recorded media, 8 – Manufacture of coke and refined petroleum products, 9 – Manufacture of chemicals and chemical products, 10 – Manufacture of pharmaceutical products, 11 – Manufacture of rubber and plastic products, 12 – Manufacture of other non-metallic mineral products, 13 – Manufacture of metals, 14 – Manufacture of metal products, 15 – Manufacture of computer, electronic and optical products, 16 – Manufacture of electrical equipment, 17 – Manufacture of machinery and equipment n.e.c., 18 – Manufacture of motor vehicles, trailers and semi-trailers, 19 – Manufacture of other transport equipment, 20 – Manufacture of furniture, 21 – Other manufacturing, 22 – Repair, maintenance and installation of machinery and equipment

Source: GUS, Credit Agricole



Source: GUS, Credit Agricole

Thirdly, we looked at the results of the GUS's business survey presented above in dynamic terms in order to draw conclusions about the employment outlook. To this end, we collated indicators for expected production and expected employment for total manufacturing and construction in recent quarters. The business

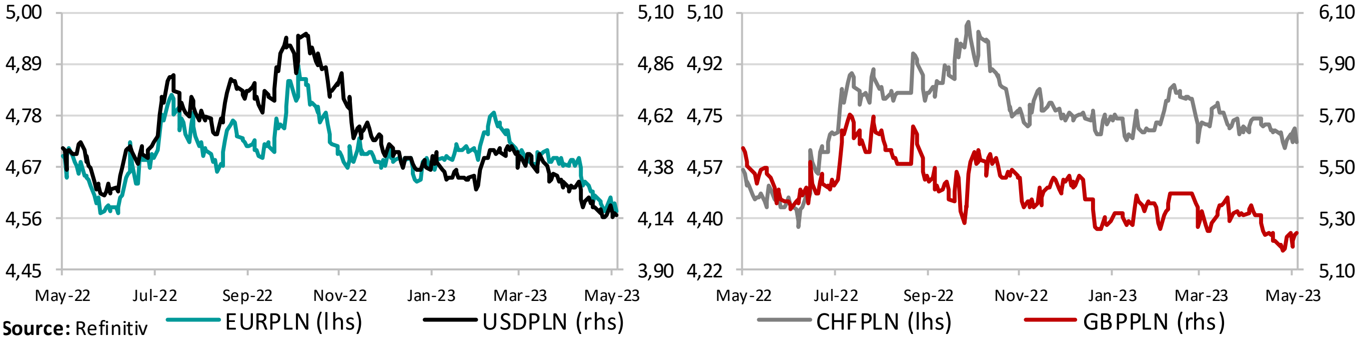


Source: GUS, Credit Agricole

survey results suggest that businesses are formulating increasingly optimistic assessments of future production levels, which will support employment in the coming quarters. Thus, we believe that the peak of the restructuring processes is already behind us and the scale of job cuts will decrease in the coming months. This supports our 'soft landing' scenario for the Polish economy. According to this scenario, Poland's GDP growth will slow markedly in 2023 (to 1.2% vs. 5.1% in 2022), but it will remain positive and the slowdown in economic growth will not be accompanied by a significant increase in unemployment.

NBP Governor A. Glapiński's conference may favour weakening of the PLN

FX rates

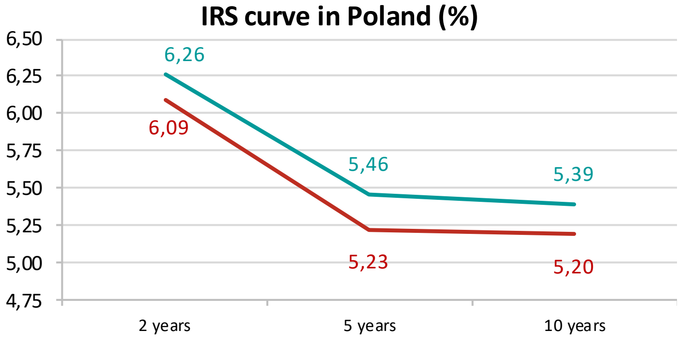


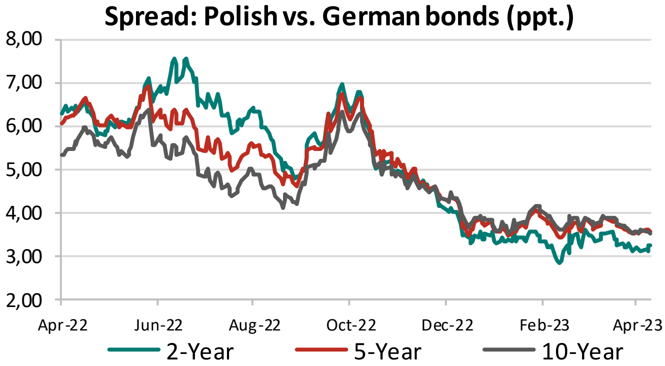
Source: Refinitiv

Last week, the EURPLN rate dropped to 4.5766 (the PLN strengthened by 0.2%). Last week, the EURPLN exchange rate was characterised by relatively low volatility due to the long weekend and reduced liquidity in the market. The EURUSD exchange rate, which was in a clear upward trend in the first part of the week in anticipation of the ECB meeting, experienced more significant changes. The tone of the meeting was perceived by investors as dovish, leading to a correction and strengthening of the USD against the EUR on Thursday. Friday's US non-farm payrolls data contributed to a further decline in the EURUSD.

We consider the German industrial production data published this morning to be slightly positive for the PLN. This week, the MPC meeting to be held on Wednesday will be crucial for the Polish currency. While the meeting itself will not, in our opinion, have a significant impact on the exchange rate of the PLN, the statements of NBP Governor A. Glapiński at the customary press conference may favour its weakening. The data releases from global economies planned for this week will not have a significant impact on the PLN.

NBP Governor A. Glapiński's conference in the spotlight





Source: Refinitiv

Last week, 2-year IRS rates dropped to 6.09 (down by 17bp), 5-year rates to 5.23 (down by 23bp) and 10-year ones to 5.20 (down by 19bp). Last week saw a drop in IRS rates across the curve following the core markets. The decline in bond yields on the core markets was supported by weakening expectations among some investors for interest rate hikes by the major central banks, continuing the trend seen for the past two weeks (see MACROmap of 02/05/2023).

German industrial production data published this morning is negative IRS rates. We believe that the MPC meeting scheduled for Wednesday will not have a significant impact on IRS rates. In contrast, the market's focus will be on the customary press conference by NBP Governor A. Glapiński, which may favour a drop in 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.

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				2023				2022	2023	2024
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
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	CONSENSUS**
		Monday 05/08/2023				
8:00	Germany	Industrial production (% MoM)	Mar	2,0		-1,3
10:30	Eurozone	Sentix Index (pts)	May	-8,7		-8,0
16:00	USA	Wholesale inventories (% MoM)	Mar	0,1		
16:00	USA	Wholesale sales (% MoM)	Mar	0,4		
		Tuesday 05/09/2023				
	China	Trade balance (bn USD)	Apr	88,2	59,8	74,3
		Wednesday 05/10/2023				
14:30	USA	CPI (% MoM)	Apr	0,1	0,4	0,4
14:30	USA	Core CPI (% MoM)	Apr	0,4	0,3	0,4
	Poland	**NBP rate decision (%)**	**May**	**6,75**	**6,75**	**6,75**
		Thursday 05/11/2023				
3:30	China	PPI (% YoY)	Apr	-2,5		
3:30	China	CPI (% YoY)	Apr	0,7		
13:00	UK	BOE rate decision (%)	May	4,25		4,50
		Friday 05/12/2023				
14:00	**Poland**	**MPC Minutes**	**May**			
16:00	USA	Initial U. of Michigan Sentiment Index (pts)	May	63,5	63,0	63,0

*The forecasts of macroeconomic indicators for Poland were prepared by Credit Agricole Bank Polska S.A. The forecasts of foreign indicators were prepared by Crédit Agricole Corporate and Investment Bank

** Refinitiv

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