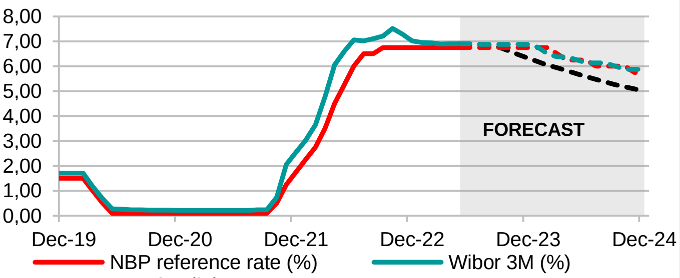
This week

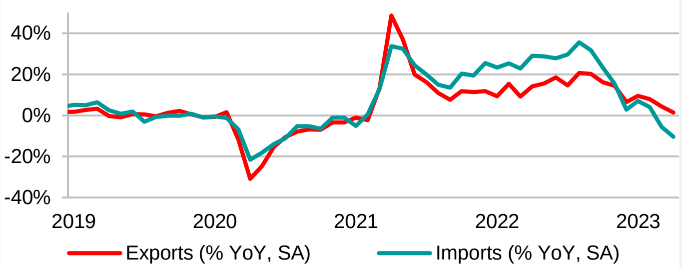
- **The key event this week will be the MPC meeting planned for Tuesday.** We expect the MPC to keep the interest rates unchanged (NBP reference rate: 6.75%). The status quo scenario for the monetary policy is supported by the NBP Governor's statements made at the press conference following the May's meeting, where the Governor said it was "much too early" to consider any interest rate reductions. We do not expect the press release after tomorrow's meeting to change much comparing to the one published in May. A decision to keep the interest rates unchanged will be consistent 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 President's usual press conference, which will shed more light on Poland's monetary policy prospects. Given the stronger-than-expected core inflation drop in May (see below), the topic of the possible date of the first interest rate cut might be raised again during the press conference. In our opinion, should A. Glapiński suggest that the MPC may begin to reduce interest rates as early as in Q4 2023, it will have a negative impact on the PLN and yields on Polish bonds.



Source: Reuters, Credit Agricole

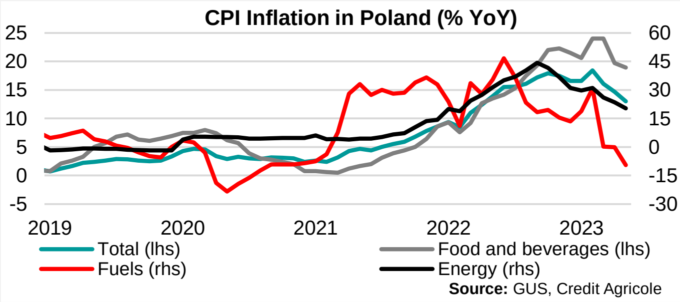
- **China's foreign trade figures will be released on Wednesday.** We expect that China's trade balance grew to USD 96.3bn in May from USD 90.2bn in April. We forecast that the exports growth slowed down from 8.5% YoY in April to 0.3% in May due to last year's high base effects. We expect the imports growth to go up slightly, from -7.9% YoY in April to -7.5% in May, which would suggest the internal demand in China is gradually recovering. We believe that the data from China will be neutral for financial markets.

- **Important data on German economy has been published today.** Foreign trade balance in April went up to EUR 18.4bn comparing to EUR 14.9bn in March. April saw growth acceleration in both exports (1.2% MoM in April vs. -6.0% in March) and imports (-1.7% vs. -5.5%). Despite the growth, the April data shows that German foreign trade is still affected by the global economic slowdown. Inventories being adjusted to meet the demands of a less favourable situation are the factor that curbs the activity in global trade and affects the German industry, which showed through the GDP data for the world's biggest economies revealing a downward contribution of inventories towards growth. In our opinion, today's data on trade balance is neutral for the PLN and yields on Polish bonds. This week is also yet to see the release of data on industrial production and industry orders for Germany.

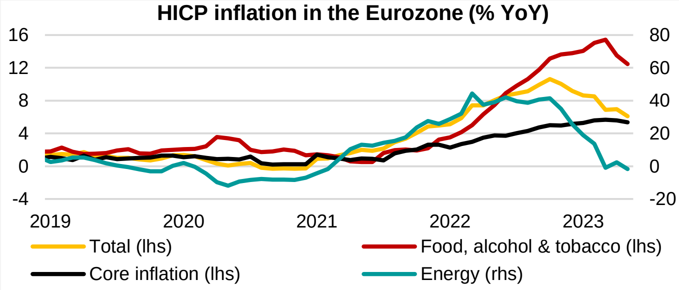


Source: Datastream, Credit Agricole

Last week



- **In accordance with the flash estimate, CPI inflation in Poland fell to 13.0% YoY in May from 14.7% in April, running below the market consensus (13.2%) but above our forecast (12.7%).** 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 commodities" and "fuels". Inflation drop was seen in all categories mentioned above: "food and non-alcoholic beverages" (18.9% YoY in May vs. 19.7% in April), "energy" (20.4% vs. 23.5%) and "fuels" (-9.5% vs. -0.1%). Inflation was also driven down by core inflation, which we estimate to have fallen from 12.2% YoY in April to 11.4% in May, which suggests that inflation pressure is gradually getting weaker (see MACROpulse of 31/05/2023). Last week's data carry a slight downside risk to our forecast, in which inflation is to fall to 11.8% in 2023 vs. 14.3% in 2022.
- **Poland's manufacturing PMI increased to 47.0 pts in May vs. 46.6 pts in April, running above market consensus (45.9 pts) and our forecast (46.0 pts).** This means that the index has remained below the 50-point level separating growth from contraction for thirteen consecutive months. An upward contribution towards the index value came from employment, new orders and current output. Lower contributions from delivery times and inventories had the opposite impact. The future output index also went down, but nonetheless, May was the seventh consecutive month to see it run above the 50-point level. This indicates that the enterprises are treating the decline in current output and new orders as transitional. In our opinion, restructuring processes, which were launched by numerous enterprises with the aim of improving their efficiency and reducing energy consumption, combined with the moderate slowdown of economic growth in Poland still make the enterprises optimistic about their future operations (see MACROpulse of 01/06/2023). PMI survey results for the Polish manufacturing sector support our "soft landing" scenario for the Polish economy. In that scenario, GDP growth in Poland in 2023 will remain positive despite a significant slowdown, which nonetheless will not be accompanied by a significant unemployment growth.
- **In accordance with the final estimate, Poland's GDP growth slowed down from 2.3% YoY in Q4 2022 to -0.3% YoY in Q1 2023, running slightly below the flash estimate figure (-0.2%), but above the market consensus (-0.8%) and our forecast (-0.5%).** Seasonally-adjusted quarterly GDP growth accelerated to 3.8% QoQ in Q1 2023 comparing to a 2.3% drop in Q4 2022, which indicates that the GDP growth was strong and the Polish economy has avoided the so-called technical recession understood as the seasonally-adjusted GDP declining for at least two consecutive quarters. A significantly lower contribution of inventories was the main factor slowing the year-on-year economic growth down between Q4 2022 and Q1 2023 (see MACROpulse of 31/05/2023), while a higher contribution of net exports was the main factor curbing that slowdown in Q1. Downward contributions of consumption and inventories drove the domestic demand growth down, which was reflected in a decline in imports. At the same time, the exports growth remained clearly positive, boosted among others by higher export sales in the automotive industry. We maintain our forecast, in which the economic activity is to accelerate at a greater rate in H2 2023, which will be consistent with our "soft landing" scenario for the Polish economy (see below).

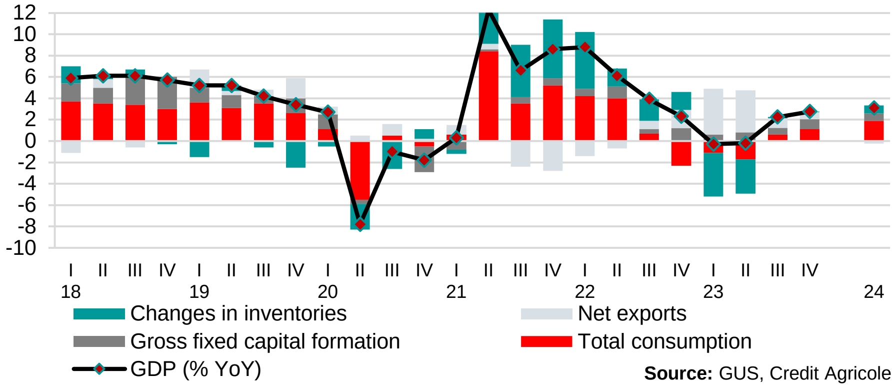


Source: Datastream, Credit Agricole

- **In accordance with the flash estimate, inflation in the Eurozone fell to 6.1% YoY in May from 7.0% in April, running below the market consensus (6.8%) and our forecast (6.6%).** Inflation drop was reported across all reported categories, with a lower dynamics of energy prices having the greatest impact on price growth deceleration. Core inflation fell, too, going down from 5.6% YoY in April to 5.3% in May. Nonetheless, it still remains on an elevated level, which is indicative of persistent, strong inflationary pressure in the Eurozone. We continue to believe that inflation in the Eurozone reached its peak in Q4 2022 and will be falling in the months to come (see MACROmap of 02/01/2023). However, in our opinion, core inflation will remain elevated, and will run above 5% until the end of Q3 2023.
- **Some significant data on the US economy was released last week.** Non-farm payrolls rose by 339k in May vs. 294k in April (upward revision from 253k), running markedly above market expectations (190k). The strongest increases in employment were seen in education and health services (+97.0k), professional and business services (+64.0k), and in the government sector (+56.0k). In contrast, the sharpest fall in employment was in information (-9.0k) and manufacturing (-2.0k). The unemployment rate rose to 3.7% in May from 3.4% in April, running above market expectations (3.5%). It is worth recalling that the data on the change in employment and the unemployment rate come from two different surveys, which, as in the case of the May data, may lead to short-term divergences between their results (a strong increase in employment and a simultaneous increase in the unemployment rate). At the same time, hourly wage growth accelerated in April to 4.3% YoY, compared to 4.4% in April, running above market expectations (4.4%), which indicates continued strong wage pressures in the US economy. Business survey results were also released last week. A downturn in manufacturing was indicated by the ISM index, which fell to 46.9pts in May from 47.1pts in April, running slightly below market expectations (47.0pts). The index was driven down by lower contributions of 3 out of its 5 components (new orders, delivery times, and inventories), with an opposite impact coming from higher contributions of current output and employment. Noteworthy in the data is the strong fall in the price of intermediate goods used in the production process, another sign of weakening cost pressures in US manufacturing. In contrast, the Conference Board index indicated a deterioration in US consumer sentiment as it decreased in May to 102.3 pts from 103.7 pts, running above market expectations (99.1 pts). The decline in the index was due to a drop in its components for current situation and expectations. We expect annualized US GDP growth to slow to 0.7% in Q2 2023 vs. 1.3% in Q1.
- **China's Caixin manufacturing PMI increased to 50.9 pts in May vs. 49.5 pts in April, which was clearly above market expectations (49.5 pts).** Thus, the Caixin PMI, after a one-month break, returned above the 50-point threshold separating growth from decline in activity. The increase in the index resulted from higher contributions of 3 out of its 5 components (current output, new orders and inventories), while lower contributions of delivery times and employment had the opposite effect. What is particularly worth noting about the data is a strong increase in the current output component, standing at the highest level since May 2022. The recovery in production is supported by an increase in incoming new orders, as well as the realisation of production backlogs from previous months. In contrast, a different trend in Chinese manufacturing was signalled by the CFLP PMI published last week, which declined to 48.8 pts in May from 49.2 pts in April. The results of the Chinese manufacturing survey support our forecast that China's GDP growth rate will accelerate to 5.4% 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

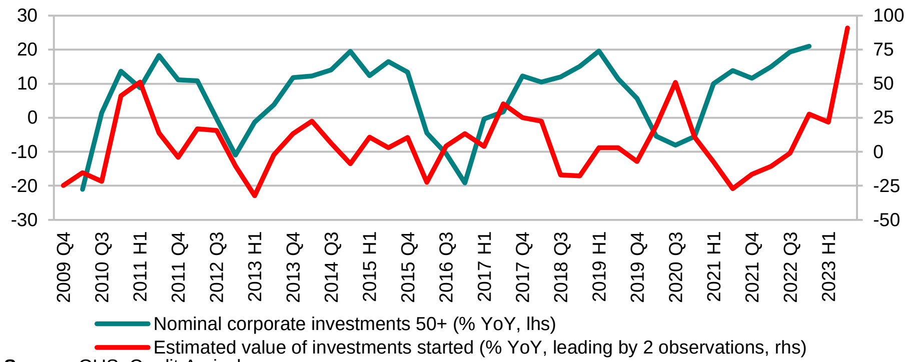
(see MACROmap of 23/01/2023). This rate of growth will be consistent with the Chinese government's stated target for GDP growth rate of 'around 5%'.

Forecasts for 2023-2024

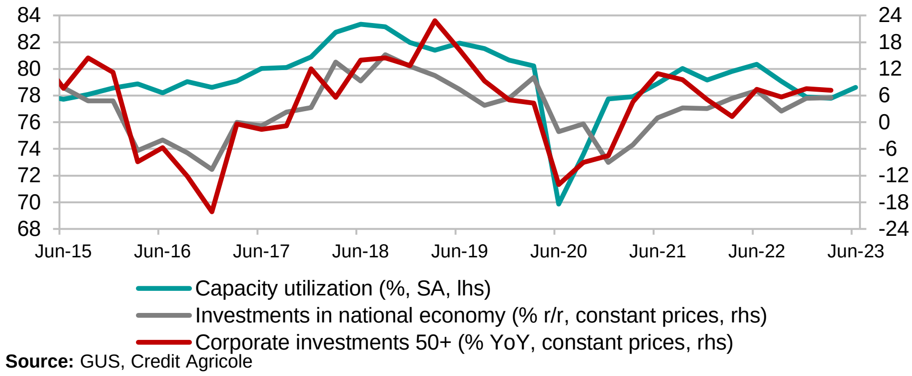


Source: GUS, Credit Agricole

Below we present our macroeconomic scenario taking into account recent data on real economy, as well as the trends signalled by business surveys (see table on page 7). Our forecasts for average annual growth rates in 2023 and 2024 are unchanged at 1.2% YoY and 3.1% respectively. They still point to a 'soft landing' scenario for the Polish economy.



Source: GUS, Credit Agricole



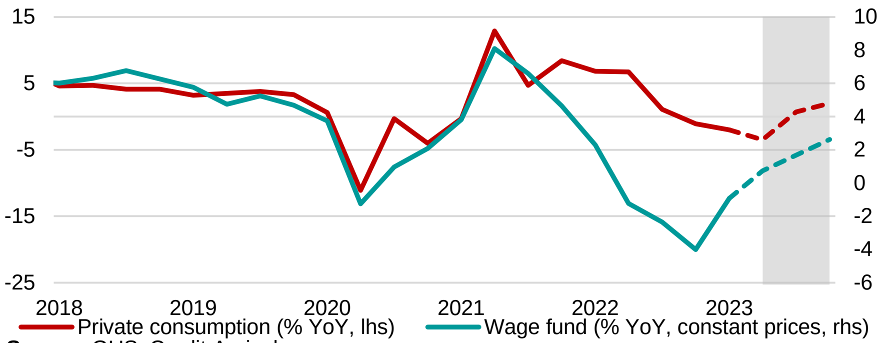
Source: GUS, Credit Agricole

However, our forecast has changed in terms of economic growth breakdown. First of all, we have revised upwards our forecast for gross fixed capital formation. GDP data published last week indicated that total investment growth in Q1 was significantly higher than previously expected (see MACROpulse of 31/05/2023). We believe that business investment was mainly responsible for the rapid increase in gross fixed capital formation in Q1. Our assessment is supported by the GUS data, according to which growth in gross fixed capital formation in businesses with at least 50 employees slowed only slightly in Q1 to 7.2% YoY vs. 7.6% in Q4. We expect business investment growth to slow markedly in Q2 due to high base effects, but to accelerate again in H2 2023. The total estimated value of investments started, which is a leading indicator for businesses' gross fixed capital formation, increased markedly in Q4 2022. We believe this will be a supporting factor for the recovery in corporate investment till the end of 2023 (see chart and MACROmap of 11 April 2023). At the same time, one should bear in mind that, according to the GUS data, capacity utilisation in manufacturing is still relatively low compared to historical levels (see chart). 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. Thus, this will be a limiting factor in the scale of the investment recovery we expect in H2 2023.

In our forecast, we have also taken into account the launch of the 2% Safe Loan programme by raising the expected path of household investment (i.e. mainly primary market housing purchases). We reiterate our view expressed in the previous forecast that in the coming months, public finance sector units will seek to utilise and settle EU funds available under the previous EU multiannual financial perspective (2014-2020), which will be a factor supporting public investment growth. In summary, we forecast that total gross fixed capital formation will increase by 4.0% in 2023 (1.7% before revision) compared to 5.0% in 2022.

We also revised upwards the contribution of net exports - mainly taking into account Q1 GDP data. Imports fell significantly more sharply in Q1 than our expectations, pushing the contribution of net exports to GDP growth markedly up between Q4 and Q1. We expect the decline in imports to be recorded also in Q2 due to the deepening of the decline in consumption (see below) and the deceleration in investment growth pushing domestic demand down. Our expected export growth path has not changed significantly from the previous forecast. Its growth rate was close to our expectations in Q1. In the following quarters, we expect a continued gradual recovery in exports as Poland's main trading partners' situation improves (see MACROmap of 29/05/ 2023). 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.

However, the rise in the expected path of the contribution of investment and net exports was offset by a downward revision of the forecast contribution of inventory changes. As of mid-2021, the contribution of inventories to GDP growth remained clearly positive. In the MACROmap of 15/05/2023 we pointed out that inventory growth as the source of GDP growth would slowly be exhausted. However, the Q1 GDP data signalled that such a trend is materialising faster than expected. The contribution of inventory change to GDP growth decreased by as much as 5.8 pp between Q4 and Q1. We expect this component of GDP to turn negative in Q2 as well, and to be close to zero in H2 2023. Given the current slowdown in global economic activity, more and more firms are reporting the problem of excess inventory (accumulated during the pandemic period and after the start of Russia's invasion of Ukraine) and are choosing to reduce them. Such a trend is encouraged by the receding supply constraints. Furthermore, in an environment of falling orders, businesses are increasingly fulfilling them by selling off previously accumulated inventories while reducing current production.



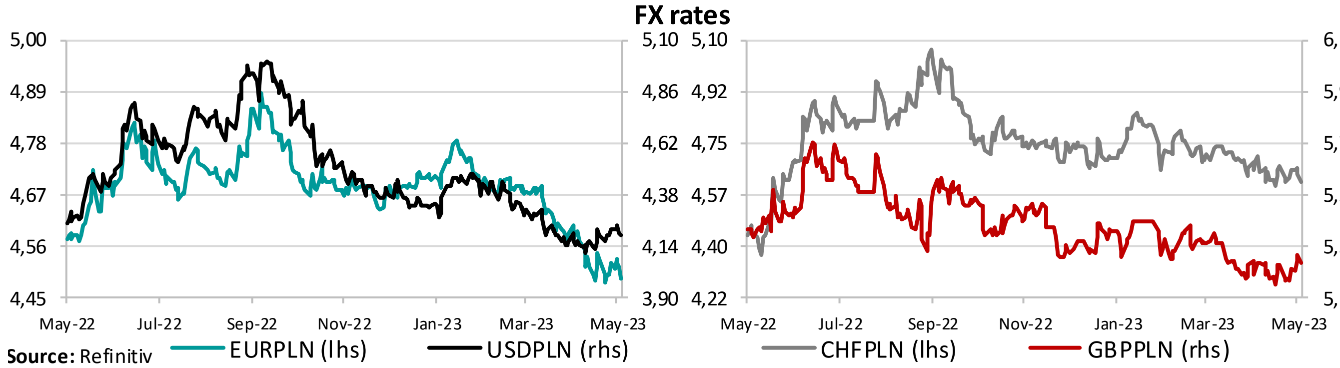
Source: GUS, Credit Agricole

Our internal data on customer payment card transactions signals continued real retail sales growth (which shows a high correlation with the private consumption growth rate) markedly below zero in May. Given the significant drop in retail sales also in April, we have decided to lower our forecast for consumption growth in Q2. We expect the decline in private consumption to deepen from 2.0% YoY in Q1 to 3.5% YoY. Private consumption growth will be further constrained by the effects of the high base of a year ago related to demand from refugees from Ukraine. High household demand for services realised in part using previously accumulated savings will be a limiting factor for the decline in private consumption. As inflation falls, the growth rate of the real wage fund will increase in H2 2023, contributing to a renewed YoY increase in consumption. In summary, we expect consumption to decline in real terms by 0.7% YoY in 2023, compared to growth of 3.3% in 2022.

In 2024, with the Eurozone and global trade recovery we expect, we forecast that Poland's GDP growth rate will moderately accelerate. An additional factor supporting growth in 2024 will be the effects of the low 2023 base. In contrast, the fall in inflation we expect will push consumption up. We continue to assume that the implementation of projects under the National Recovery Plan will be delayed until late

2023 and early 2024, which will be an important factor in supporting investment growth and GDP growth in 2024.

Tone of NBP governor's press conference may weaken the PLN



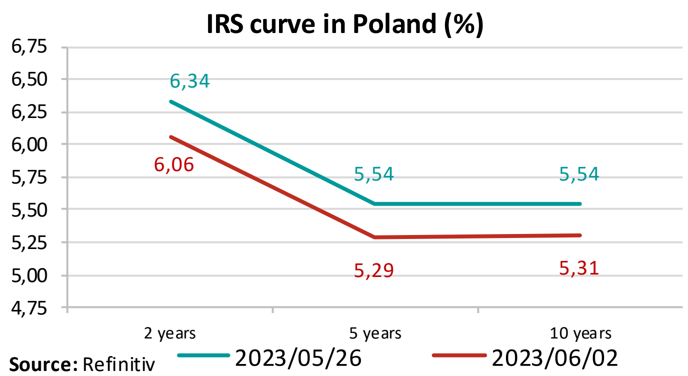
Source: Refinitiv

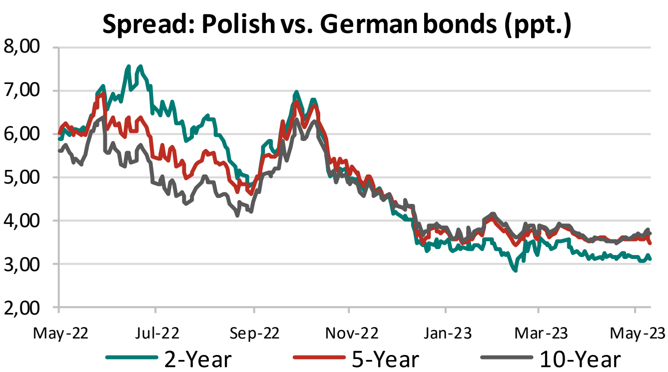
Last week, the EURPLN rate dropped to 4.4917 (the PLN strengthened by 0.8%). Throughout last week, the EURPLN exchange rate was in a sideways trend remaining close to the 4.50 level. We also experienced low volatility in the EURHUF exchange rate. The publication of numerous domestic data, including flash inflation figures, did not have a significant impact on the PLN.

In contrast, the EURUSD remained in a mild downtrend at the beginning of last week, as it did two weeks ago, supported by investors' expectations that the Fed had not yet completed its interest rate hike cycle. Thursday saw a slight correction and an increase in the EURUSD, but the EUR nevertheless failed to make up for the losses of the first part of the week. The release of US non-farm payroll data did not have a significant impact on the EURUSD.

This week, the MPC meeting to be held on Tuesday will be crucial for the Polish currency. Although we do not expect it to have a significant impact on the PLN, any statements by the NBP governor at the customary press conference suggesting that the first interest rate cut may occur in Q4 would be negative for the PLN. Other data releases from the global economy scheduled for this week will also be neutral for the PLN in our opinion.

NBP governor's conference may affect IRS rates





Source: Refinitiv

Last week the 2-year IRS rates decreased to 6.06 (down by 28bp), 5-year rates to 5.29 (down by 25bp), and 10-year rates to 5.31 (down by 23bp). Last week saw a drop in IRS rates across the curve following the core markets. The decline in bond yields in the core markets was helped by a reduction in expectations among some investors for further interest rate rises by the major central banks, also due to lower-than-expected flash inflation data in the Eurozone, signalling waning inflationary pressures. The publication of lower-than-consensus domestic inflation data was also a local factor pushing IRS rates lower.

This week the MPC meeting is going to be in the spotlight. However, we do not believe it will have an impact on the curve. IRS rates, on the other hand, may be negatively affected by the NBP governor's statements at the customary press conference. Data releases from the global economy scheduled for this week will be neutral for the curve in our opinion.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland

Indicator	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	Jun-23
NBP reference rate (%)	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	**6,75**
EURPLN*	4,58	4,70	4,73	4,72	4,85	4,71	4,67	4,69	4,71	4,70	4,68	4,59	4,53	**4,55**
USDPLN*	4,27	4,48	4,63	4,70	4,95	4,77	4,48	4,38	4,33	4,45	4,31	4,16	4,23	**4,23**
CHFPLN*	4,45	4,69	4,86	4,80	5,01	4,76	4,74	4,72	4,70	4,72	4,71	4,66	4,64	**4,67**
CPI inflation (% YoY)	13,9	15,5	15,6	16,1	17,2	17,9	17,5	16,6	16,6	18,4	16,1	14,7	**12,7**	
Core inflation (% YoY)	8,5	9,1	9,3	9,9	10,7	11,0	11,4	11,5	11,7	12,0	12,3	12,2	**11,9**	
Industrial production (% YoY)	14,9	10,4	7,1	10,9	9,8	6,6	4,4	0,9	1,8	-1,0	-3,1	-6,4	**-3,0**	
PPI inflation (% YoY)	24,7	25,6	25,5	25,5	24,6	23,1	21,1	20,5	20,1	18,2	10,3	6,8	**4,0**	
Retail sales (% YoY)	23,6	19,9	18,4	21,5	21,9	18,3	18,4	15,5	15,1	10,8	4,8	3,4	**2,3**	
Corporate sector wages (% YoY)	13,5	13,0	15,8	12,7	14,5	13,0	13,9	10,3	13,5	13,6	12,6	12,1	**12,7**	
Employment (% YoY)	2,4	2,2	2,3	2,4	2,3	2,4	2,3	2,2	1,1	0,8	0,5	0,4	**0,5**	
Unemployment rate* (%)	5,4	5,2	5,2	5,2	5,1	5,1	5,1	5,2	5,5	5,5	5,4	5,2	**5,0**	
Current account (M EUR)	-1373	-273	-1070	-2847	-2208	-416	262	-2530	2133	1410	1643	**1391**		
Exports (% YoY EUR)	27,5	22,4	20,9	28,1	26,5	23,2	24,2	10,6	13,1	13,5	15,5	**5,2**		
Imports (% YoY EUR)	33,8	28,1	21,7	29,6	31,4	24,1	18,3	11,3	5,1	2,3	-3,0	**-7,5**		

*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	-0,3	-0,2	2,3	2,8	5,1	1,2	3,1
Private consumption (% YoY)	6,8	6,7	1,1	-1,1	-2,0	-3,5	0,7	2,0	3,3	-0,7	3,0
Gross fixed capital formation (% YoY)	5,4	7,1	2,5	5,4	5,5	2,2	4,0	4,4	5,0	4,0	4,0
Export - constant prices (% YoY)	5,6	6,4	9,0	3,9	3,2	3,0	3,9	5,0	6,2	3,8	3,8
Import - constant prices (% YoY)	8,7	8,2	7,7	0,7	-4,6	-3,1	2,5	4,0	6,2	-0,1	4,3
GDP growth contributions: Private consumption (pp)	4,0	3,8	0,6	-0,5	-1,0	-2,1	0,4	1,0	1,8	-0,4	1,7
Investments (pp)	0,7	1,1	0,4	1,2	0,6	0,3	0,6	0,9	0,9	0,7	0,7
Net exports (pp)	-1,4	-0,7	0,8	1,7	4,3	3,9	0,9	0,7	0,2	2,4	-0,1
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	5,0	5,1	5,5	5,2	5,5	5,4
Non-agricultural employment (% YoY)	2,3	0,6	-0,9	0,3	1,5	1,0	0,5	0,0	0,6	0,7	-1,0
Wages in national economy (% YoY)	9,7	11,8	14,6	12,3	14,3	12,8	11,4	9,9	12,1	12,1	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	6,90	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	4,55	4,57	4,54	4,69	4,54	4,45
USDPLN**	4,19	4,48	4,95	4,38	4,31	4,17	4,19	4,13	4,38	4,13	4,24

* quarterly average
** end of period
***cumulative for the last 4 quarters

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST*	
					CA	CONSENSUS**
		Monday 06/05/2023				
8:00	Germany	Trade balance (bn EUR)	Apr	16,7		16,3
10:00	Eurozone	Services PMI (pts)	May	55,9	55,9	55,9
10:00	Eurozone	Final Composite PMI (pts)	May	53,3	53,3	53,3
10:30	Eurozone	Sentix Index (pts)	Jun	-13,1		-15,1
11:00	Eurozone	PPI (% YoY)	Apr	5,9		1,5
16:00	USA	Factory orders (% MoM)	Apr	0,9	1,0	0,8
16:00	USA	ISM Non-Manufacturing Index (pts)	May	51,9	52,8	52,2
		Tuesday 06/06/2023				
8:00	Germany	New industrial orders (% MoM)	Apr	-10,7		3,5
11:00	Eurozone	Retail sales (% MoM)	Apr	-1,2		0,2
	Poland	**NBP rate decision (%)**	**Jun**	**6,75**	**6,75**	**6,75**
		Wednesday 06/07/2023				
8:00	Germany	Industrial production (% MoM)	Apr	-3,4		0,5
	China	Trade balance (bn USD)	May	90,2	96,3	
		Thursday 06/08/2023				
11:00	Eurozone	Employment (% YoY)	Q1	1,7		1,7
11:00	Eurozone	Revised GDP (% QoQ)	Q1	0,0	0,0	0,0
11:00	Eurozone	Final GDP (% YoY)	Q1	1,8	1,2	1,2
16:00	USA	Wholesale inventories (% MoM)	Apr	-0,2		
16:00	USA	Wholesale sales (% MoM)	Apr	-2,1		
		Friday 06/09/2023				
3:30	China	PPI (% YoY)	May	-3,6		
3:30	China	CPI (% YoY)	May	0,1		
14:00	**Poland**	**MPC Minutes**	**Jun**			

*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