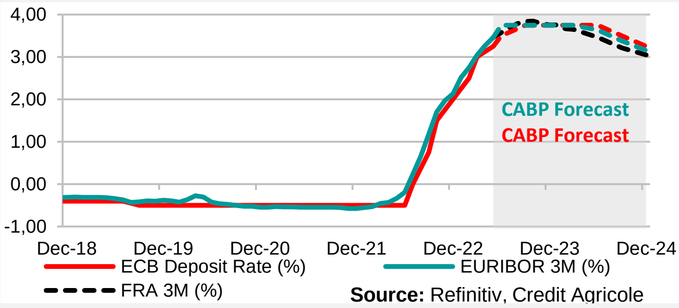
This week

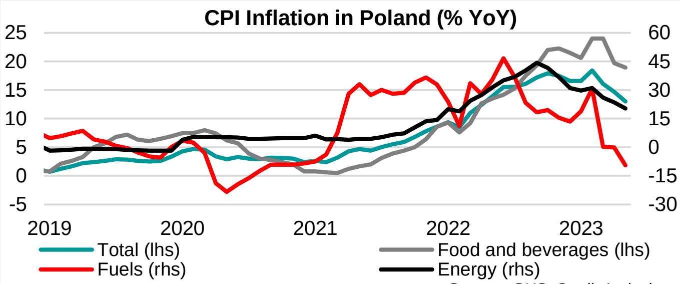
- **The key event this week will be the FOMC meeting planned for Wednesday.** We expect the Fed to keep interest rates unchanged in line with the guidance made at the press conference following the FOMC meeting in May that the Fed may pause interest rate hikes (with the target range for federal funds at [5.00%, 5.25%]). Stabilization of interest rates would be in line with market consensus. The tone of the press release and of the conference following the meeting will be much more important than the decision itself. We expect the tone to be hawkish, signalling the possibility of resuming the hiking cycle soon, if needed. We maintain our baseline scenario, which expects no further changes to the target range for the US federal funds. However, given good incoming data and hawkish comments from some FOMC members, we see an upside risk to that scenario (possibility of a 25bp hike in July). More information will be provided by the FOMC members' upcoming macroeconomic projections. Of key importance will be the expected target range for interest rates, which may be revised up by 25bp from the March projection, to [5.25%, 5.50%]. We expect the tone of the press release and of the conference following the FOMC meeting to be slightly negative for the PLN and Poland's debt prices.
- **Another important event this week will be the ECB meeting scheduled for Thursday.** We expect the ECB to raise interest rates by 25bp, the main interest rate to 4.00%, and the deposit rate to 3.50%. Under the spotlight at the conference will be signals relevant to the scale of further monetary policy tightening in the Eurozone, including the target level for interest rates. We believe that Ch. Lagarde will be careful in her comments about the ECB's possible decisions in July and September, noting the need to monitor incoming data. The ECB's June macroeconomic projections will be released after the meeting. We do not expect the rate of economic growth or the medium-term inflation path to change markedly compared to the March projections. Our expectations regarding the ECB's decisions to be taken this week are in line with market consensus. Still, the conference to follow the ECB's meeting, including signals about its future decisions, if any, will add to market volatility.



- **Some important data from the US will be released this week.** We expect headline inflation to have dropped to 4.0% YoY in May from 4.9% in April, with the drop driven by a fall in core inflation, to 5.2% YoY from 5.5% in April. We expect nominal retail sales to have dropped by 0.3% MoM in May compared to a 0.4% growth in April due to lower sales of fuels and in the automotive industry. We forecast industrial production growth to have slowed to 0.1% MoM in May from 0.5% in April, in line with a slowdown in industrial production signalled by business survey results. We expect the preliminary University of Michigan index to remain relatively stable (60.0 pts vs. 59.2 pts in May), still adversely affected by households' concerns over deteriorating economic conditions. We believe that this week's releases of US data will be overshadowed by the FOMC meeting, and will be neutral for financial markets.
- **Wednesday will see the release of significant data from China.** We expect industrial production growth to have slowed to 3.0% YoY in May from 5.6% in April, retail sales growth to have dropped to 15.0% YoY from 18.4% in April, and urban investment growth to have slowed slightly, to 4.3% YoY in May from 4.7% in April. The slowdowns are partly accounted for by last year high base effects. However, the data will confirm that the recovery in China continues to be relatively

weak, which increases the likelihood that the Chinese government will use tools to boost economic growth (see MACROmap of 22/05/2023). We believe that data from China will be neutral for the PLN and yields on Polish bonds.

- **Data on Poland's balance of payments for April will be released on Tuesday.** We expect the current account surplus to have dropped to EUR 1,391M from EUR 1,643M in March, driven primarily by lower balances of trade in goods and transfers from the EU. We forecast that growth in exports slowed from 15.5% YoY in March to 5.2% in April, while slowdown in imports deepened from -3.0% YoY to -7.5%. The slowdowns are accounted for by high base effects and will be in line with weak data on industrial production and retail sales for April. In our opinion, the balance of payments figures will be neutral for the PLN and yields on Polish bonds.
- **Final data on inflation in Poland will be released on Thursday.** We expect inflation to be in line with the flash estimate, at 13.0% YoY in May compared to 14.7% in April. According to preliminary data, falls in inflation were seen in a wide range of categories, including the main ones: 'food and non-alcoholic beverages', 'energy', and 'fuels'. Inflation was also driven down by a fall core inflation, which, according to our estimates, fell to 11.4% in May from 12.2% in April. We believe that the release of inflation figures will be neutral for the PLN and yields on Polish bonds.

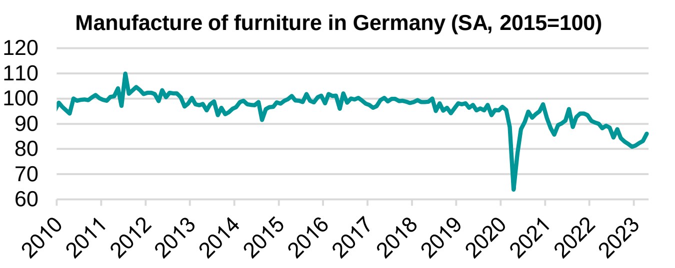


Source: GUS, Credit Agricole

Last week

- **China's trade balance shrank to USD 65.8bn in May from USD 90.2bn in April, running well below market expectations (USD 92.0bn).** Growth in exports slowed to -7.5% YoY from 8.5%, while growth in imports picked up to -4.5% from -7.9%, running below and above, respectively, market expectations (-0.4% and -8.0%, respectively). Such a marked deterioration in China's exports is in line with our assessment from previous months to the effect that believe that the prospects for export growth remain poor due to a weakening of external demand, in particular from the US and the EU, which account for ca. one-third of China's exports. At the same time, data showing that growth in imports is picking up is in line with our scenario that expects China's imports to reach positive values, supported by gradual recovery in domestic demand. However, we believe that the recovery in China's domestic demand will be seen primarily in services, and thus we do not expect it to strongly boost imports of goods. Therefore, we forecast that despite the domestic demand recovery prospects, with weaker foreign demand, China's foreign trade surplus will remain high. Such a scenario is in line with our forecast, which expects China's GDP growth to pick up to 5.4% YoY in 2023 from 3.0% in 2022, in line with the Chinese government's GDP growth target of 'ca. 5%' (see MACROmap of 06/03/2023).
- **The US ISM non-manufacturing index fell to 50.3 pts in May from 51.9 pts in April, running below market expectations (52.3 pts).** The fall in the index is accounted for by lower contributions from all of its four components: business activity, new orders, employment, and delivery times. What is particularly worth noting about the data is a fall in the index for input goods used in US services to the lowest level since May 2020, i.e. since the first wave of the pandemic. Although the index continues to be well above the 50-point mark that separates growth from contraction, we believe that it signals a weakening of inflationary pressures in the US economy. Business survey results for the US services sector support our scenario that expects US annualized GDP growth to slow to 0.7% in Q2 2023 from 1.3% in Q1.

Source: Datastream, Credit Agricole



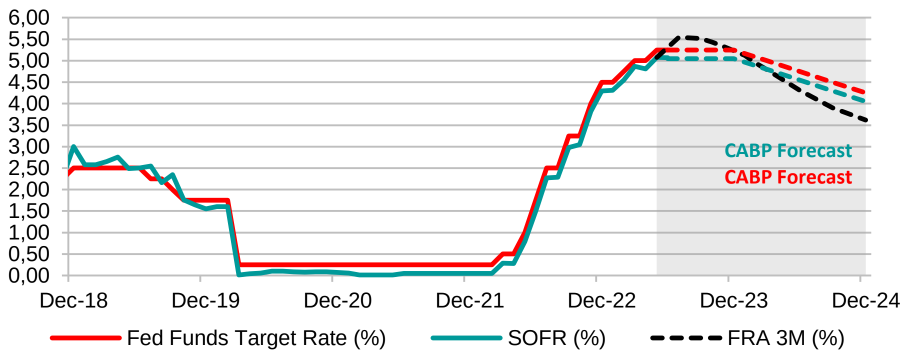
Source: Datastream, Credit Agricole

- **Some important data on the German economy was released last week.** Industrial production growth increased to 0.3% MoM in April, compared to -2.1% in March (upward revision from -3.4%), running below market expectations (0.5%). Industrial production growth was boosted by its higher growth rates in manufacturing and construction, while its decline in energy had the opposite effect. Sector-wise, it is noteworthy that production in the 'furniture' category continued to increase (seasonally adjusted production in this category reached its highest level since August 2022). This will support activity in the Polish furniture industry, which is an important supplier of intermediate goods to Germany. Last week we saw data on orders in manufacturing, which increased in April to -0.4% MoM from -10.9% in March, running clearly below market expectations (3.0%). A decrease in orders was recorded for foreign orders (both from the Eurozone and from outside the single currency area), while domestic orders increased. Sector-wise, the sharpest falls in orders were recorded in the 'other transport equipment' (-34.0% - due to high base effects generated in previous months), 'machinery and equipment' (-6.2% MoM), 'basic pharmaceuticals and medicines' (-5.9%) and 'fabricated metal products, except machinery and equipment' (-5.0%). Germany's foreign trade balance data was also published last week; the trade balance rose to EUR 18.4bn in April from EUR 14.9bn in March. In March, there was an increase in both import growth rate (-1.7% MoM in April vs. -5.5% in March) and exports (1.2% vs. -6.0%), which in our view can hardly yet be interpreted as the first signs of a recovery in German foreign trade. Germany's industrial production is still being affected by the levels of inventories being matched to weaker demand, which leads to a slowdown in global trade. April data from the German economy are consistent with our forecast for German GDP growth in Q2 (0.1% QoQ vs. -0.3% in Q1).
- **Last week, the Monetary Policy Council decided to keep interest rates unchanged (with the NBP reference rate standing at 6.75%).** The MPC's decision was in line with our forecast and market consensus. Like in previous months the press release shows that high inflation in Poland is of secondary importance to the MPC and that its main goal is to prevent an excessive slowdown in economic growth the coming quarters. We believe that as core inflation continues to fall (also noted in last week's announcement), the likelihood of the MPC signalling the end of the rate hiking cycle is growing. Such a change, reflected in a marked change in the tone of the press release following the MPC's meeting and of the NBP' Governor's comments, may occur in July 2023 and will be determined by the publication of June inflation data and the results of the July NBP projection (see MACROpulse of 06/06/2023). The usual press conference was held on Wednesday, with NBP President A. Glapinski noting the strong fall in inflation in May 2023. At the same time, he said that if inflation falls below the 10% level and if it is certain that it will also fall in the coming quarters, there will be an opportunity to cut interest rates. In our scenario, we assume that inflation will reach single-digit levels in September 2023. We maintain our forecast that NBP interest rates will remain unchanged until the end of 2023. This is consistent with our scenario that inflation will follow a mild downward trend in the following months, reaching 7.0% YoY in December 2023. In our view, amid the economic recovery expected to occur in H2 2023 and to intensify in 2024 pushing wage and inflationary pressures up, the room for interest rate

cuts in H2 2023 will be very limited. However, we see a risk of an interest rate cut at the November 2023 meeting in the event of the publication of an inflation projection indicating that prices are declining faster than the NBP's earlier expectations.

How big will the fall in the USDPLN exchange rate be?

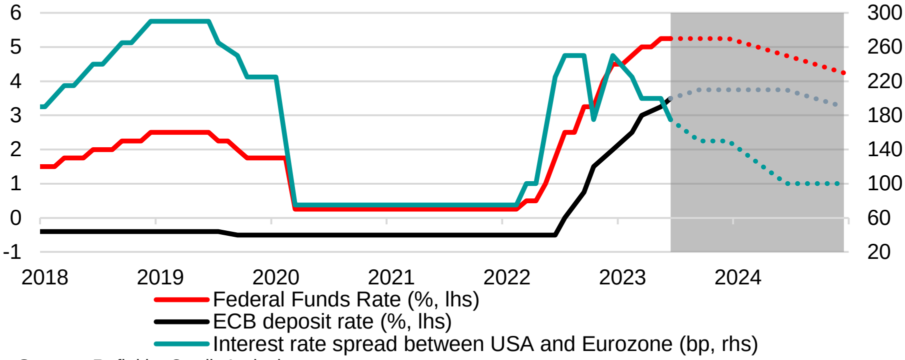
After a wave of marked weakening of the USD against the EUR in March and April, the EURUSD exchange rate fell significantly again in May. The main drivers of the USD's strengthening in May were the increasing likelihood of an agreement on raising the US debt limit (finally reached in early June) and the intensification of market expectations for US interest rate hikes. At the beginning of May, the scenario priced in by the markets was the end of the monetary tightening cycle (with interest rates in the 5.00%-5.25% range). Meanwhile, markets began to price the probability of another interest rate hike at the July meeting at around 65%. As a result, the EURUSD reached 1.07 at the end of May (the lowest since mid-March 2023). Below we present our scenario for the EURUSD and USDPLN exchange rates for the coming quarters.



Source: Reuters, Credit Agricole

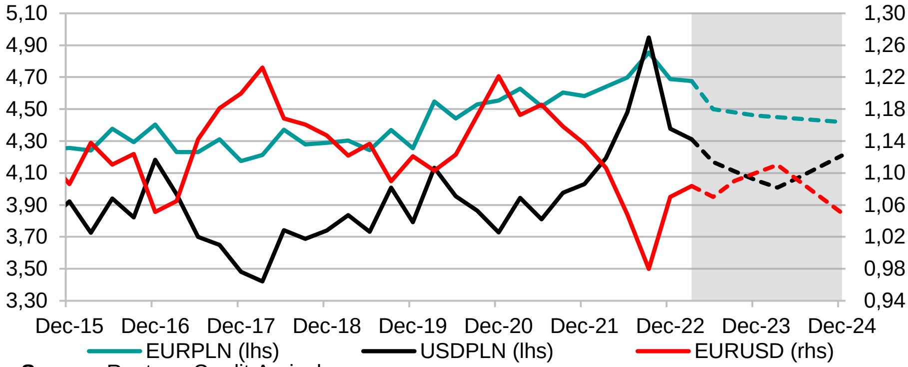
Historically, the USD exchange rate had a seasonal tendency to strengthen in May. This year, the USD's May appreciation was stronger than usual due to the factors mentioned above. In contrast, in June the USD shows a seasonal tendency to weaken. Therefore, the potential for further strengthening of the USD in the short term is limited in our view. Nevertheless, the key element shaping the EURUSD exchange rate will be changing market expectations in the context of the FOMC decision. In our baseline scenario, we assume that interest rates in the US will remain at current levels until the end of 2023. We believe that the tone of the conference following the June FOMC meeting and the latest macroeconomic forecasts of FOMC members published at that time will confirm such a scenario. If this is the case, market expectations of further interest rate hikes in the US should weaken, which will be a factor pushing the EURUSD higher in the short term. At the same time, we see a risk that the tone of the conference after the June meeting will be more hawkish than our expectations (inter alia in response to better-than-expected May US labour market data) and at the same time signal the possibility of further monetary tightening in the US. The materialisation of such an alternative scenario will be a factor supporting further appreciation of the USD against the EUR. We expect that a significant increase in bond supply the US government will be an additional factor supporting an increase in US bond yields and a strengthening of the USD in the short term. The issue of debt will be carried out in order to rebuild the liquidity buffer that has been depleted in recent weeks to finance current public spending amid protracted negotiations on raising the debt limit. In summary, we maintain our end-June EURUSD forecast of 1.07 (with a slight downward risk), which is close to its current levels.

We expect the US economy to fall into a technical recession in H2 2023. GDP will decline in our view (in SAAR terms) by 1.3% in Q3 and 0.8% in Q4. Analysing episodes of previous US recessions, it can be seen that the USD exchange rate weakened or remained relatively stable during the first six months of each recession since 1980 (with the exception of the one in 2001). We expect the aforementioned historical trends to be an influencing factor pushing the EURUSD up in H2 2023. An additional factor influencing the



Source: Refinitiv, Credit Agricole

weakening of the USD against the EUR will be the narrowing spread between interest rate levels in the US and the Eurozone (see chart). We forecast that interest rates in the US will not rise again, while we believe that the ECB will increase interest rates in the Eurozone by a total of 50 bps more in the coming months. This narrowing gap between the US and Eurozone rates will encourage capital outflows from the US, which will lead to a depreciation of the USD. Given the trends outlined above, we expect EURUSD to rise to 1.10 by the end of 2023.

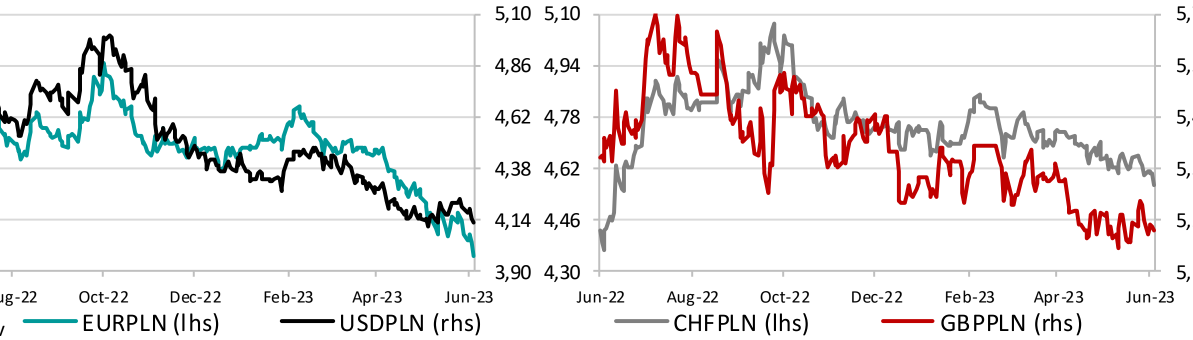


Source: Reuters, Credit Agricole

We expect the US economy to improve markedly from the beginning of 2024. At the same time, we believe that market concerns about the sustainability of the Eurozone recovery may surface again in Q4 2024. Increased demand for energy in winter will have the effect of pushing up energy prices and worsening economic growth prospects in the single currency area. The divergence in the pace of economic growth in the US and the Eurozone will act to strengthen the USD again against the EUR. As a result, we forecast the EURUSD exchange rate to decline to 1.05 at the end of 2024. Taking into account our forecast for the EURPLN exchange rate (revised slightly downwards due to the recent appreciation of the PLN, see quarterly table), we expect the USD exchange rate to reach 4.05 at the end of 2023 and 4.21 at the end of 2024 (see chart and quarterly table).

The tone of the conference after the FOMC meeting may weaken the PLN

FX rates

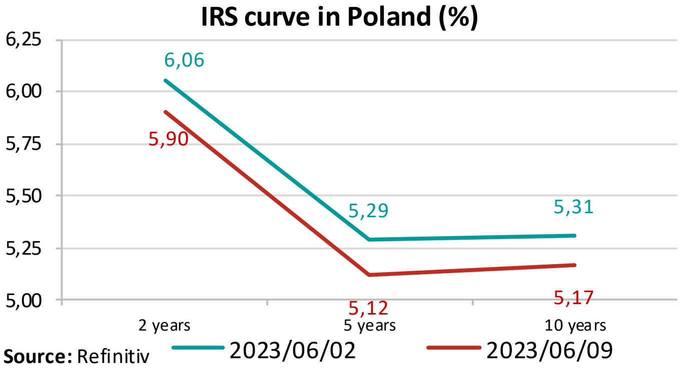


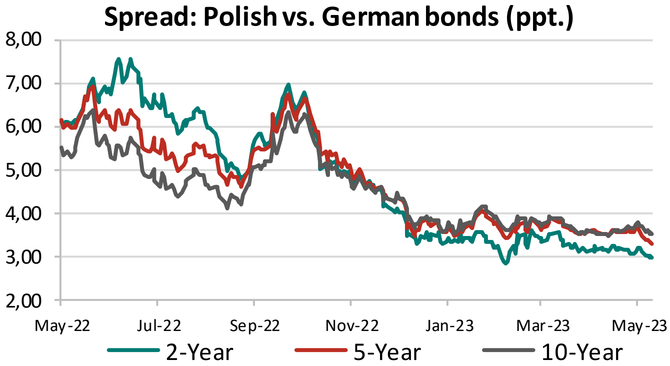
Source: Refinitiv

Last week, the EURPLN rate dropped to 4.4360 (the PLN strengthened by 1.1%). Throughout last week, the EURPLN exchange rate followed a mild downward trend alongside the rising EURUSD. The strengthening of the EUR against the USD was supported by a reduction in global risk aversion, which was reflected in the decline of the VIX index. The MPC meeting, as well as the statements made by the NBP Governor during the press conference, did not have a significant impact on the PLN's exchange rate. The PLN strengthened again on Thursday and Friday amid limited activity from domestic investors due to the long weekend. As a result, the EURPLN exchange rate broke through the 4.44 level, the lowest since late 2020.

This week, the FOMC meeting to be held on Tuesday will be crucial for the Polish currency. A hawkish tone of the conference after the meeting will be slightly negative for the PLN. On the other hand, the conference following Thursday's ECB meeting will increase volatility of the Polish currency. Other data releases from the domestic and global economy scheduled for this week will be neutral for the PLN in our opinion.

FOMC and ECB meetings in the spotlight





Source: Refinitiv

Last week the 2-year IRS rates decreased to 5.90 (down by 1bp), 5-year rates to 5.12 (down by 17bp), and 10-year rates to 5.17 (down by 14bp). 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 a reduction in expectations among some investors for further interest rate hikes by the major central banks, a continuation of the trend from two weeks ago strengthened by the publication of lower-than-expected inflation data in the Eurozone (see MACROmap of 05/06/2023). The MPC meeting, as well as the statements made by the NBP Governor during the press conference, did not have a significant impact on the curve. IRS rates continued their decline on Friday.

This week the FOMC and ECB meetings are going to be in the spotlight. We believe that the former will have an upward impact on IRS rates while the latter may contribute to increased market volatility. Other data releases 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	**4,50**
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	**4,21**
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	**4,62**
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
GDP growth contributions: Investments (pp)	0,7	1,1	0,4	1,2	0,6	0,3	0,6	0,9	0,9	0,7	0,7
GDP growth contributions: 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	4,50	4,48	4,46	4,69	4,46	4,42
USDPLN**	4,19	4,48	4,95	4,38	4,31	4,21	4,11	4,05	4,38	4,05	4,21

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

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST*	
					CA	CONSENSUS**
		Tuesday 06/13/2023				
11:00	Germany	ZEW Economic Sentiment (pts)	Jun	-10,7		-13,1
14:00	**Poland**	**Current account (M EUR)**	**Apr**	**1643**	**1391**	**1537**
14:30	USA	CPI (% MoM)	May	0,4	0,1	0,2
14:30	USA	Core CPI (% MoM)	May	0,4	0,3	0,4
		Wednesday 06/14/2023				
11:00	Eurozone	Industrial production (% MoM)	Apr	-4,1		0,8
20:00	USA	FOMC meeting (%)	Jun	5,25	5,25	5,25
		Thursday 06/15/2023				
4:00	China	Retail sales (% YoY)	May	18,4	15,0	13,7
4:00	China	Urban investments (% YoY)	May	4,7	4,3	4,4
4:00	China	Industrial production (% YoY)	May	5,6	3,0	3,8
10:00	**Poland**	**CPI (% YoY)**	**May**	**13,0**	**13,0**	**13,0**
14:15	Eurozone	EBC rate decision (%)	Jun	3,75	4,00	4,00
14:30	USA	Initial jobless claims (k)	w/e	269		
14:30	USA	NY Fed Manufacturing Index (pts)	Jun	-31,8		-15,6
14:30	USA	Retail sales (% MoM)	May	0,4		-0,1
14:30	USA	Philadelphia Fed Index (pts)	Jun	-10,4		-14,0
15:15	USA	Capacity utilization (%)	May	79,7		79,7
15:15	USA	Industrial production (% MoM)	May	0,5	0,1	0,1
16:00	USA	Business inventories (% MoM)	Apr	-0,1		0,2
		Friday 06/16/2023				
11:00	Eurozone	Wages (% YoY)	Q1	5,1		
11:00	Eurozone	HICP (% YoY)	May	6,1	6,1	6,1
14:00	**Poland**	**Core inflation (% YoY)**	**May**	**12,2**	**11,4**	**11,5**
16:00	USA	Initial U. of Michigan Sentiment Index (pts)	Jun	59,2	60,0	60,0

*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

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