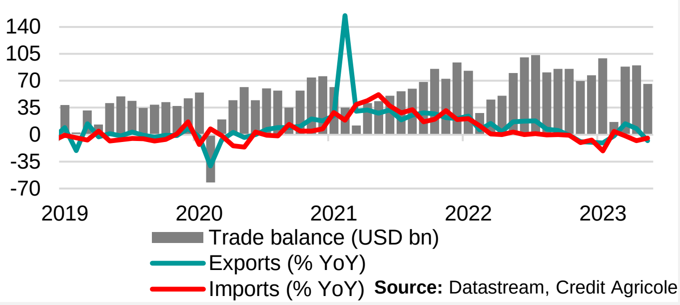
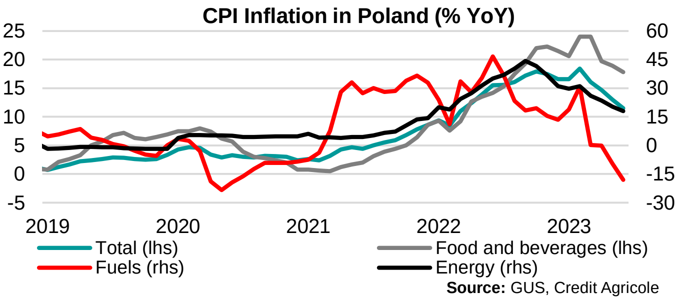
This week

- **Some important data from the US will be released this week.** We expect headline inflation to have dropped to 3.0% YoY in June from 4.0% in May, with the drop driven by slower growth in energy prices and a fall in core inflation, to 4.9% YoY from 5.3% in May. We believe that the preliminary University of Michigan index will be relatively flat in July (65.0 pts vs. 64.4 pts in June), still being adversely affected by households' concerns over an expected economic downturn. We forecast inflation to be below consensus (3.1%). If our forecast proves correct, market expectations of an interest rate hike at the July FOMC meeting will be lower, which will be slightly positive for the PLN and the prices of Polish bonds.
- **China's foreign trade figures will be released on Thursday.** We expect China's trade balance to have grown to USD 78.2bn in June from USD 65.8bn in May. We forecast a slowdown in export growth, to -9.3% YoY in June from -7.5% in May, due to weaker demand from developed economies signalled in business surveys. We expect decline in imports to have accelerated slightly, to -4.8% YoY in June from -4.5% in May, showing continuing weak domestic demand in China. We believe that data from China will be neutral for financial markets.



Source: Datastream, Credit Agricole

- **Data on Poland's balance of payments for May will be released on Friday.** We expect the current account surplus to have risen to EUR 474M from EUR 359M in April, driven primarily by a higher trade balance. We forecast that growth in exports picked up from 2.4% YoY in April to 3.5% in May, and at the same time we expect that decline in imports decelerated from -8.8% YoY to -3.3%, both accounted for by favourable calendar effects. 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 Friday.** We expect inflation to be in line with the flash estimate, at 11.5% YoY in June vs. 13.0% in May. In our opinion, the fall in inflation is broad-based and will be seen in all the main categories: 'core inflation', 'food and non-alcoholic beverages', 'energy', and 'fuels'. We believe that the release of inflation figures will be neutral for the PLN and yields on Polish bonds.



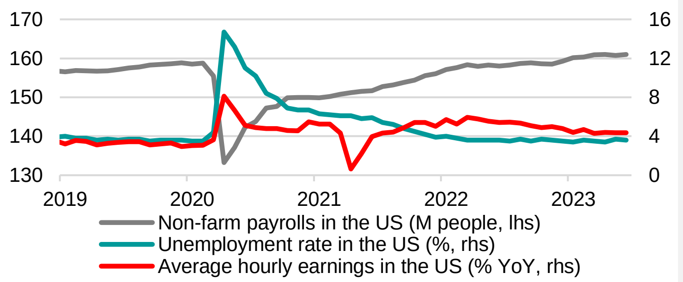
Source: GUS, Credit Agricole

Last week

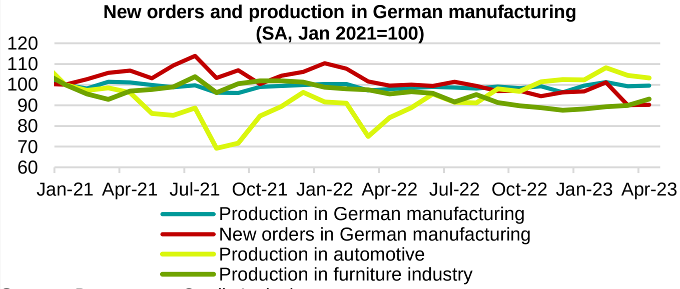
- **At its meeting last week, the Monetary Policy Council decided to keep interest rates unchanged (with the NBP reference rate standing at 6.75%).** The MPC's decision is in line with our forecast and market consensus. In the press release following the meeting, the MPC commented on the fall in inflation in June, and thus an expected fall in core inflation. At the same time, the MPC believes that the effects that the supply shocks caused by the pandemic and the war in Ukraine have had on inflation are fading. Last week also saw the release of the NBP's July projections. The near-term inflation path projection was revised substantially downward vs. the projection presented in March. Moreover, the projections show that in 2024 and 2025, inflation will be markedly above the MPC's inflation target (2.5%), which we believe is an argument for monetary policy tightening. No reaction from the MPC to the projected above-target inflation supports our assessment that medium-term inflation prospects continue to be of secondary importance to the MPC, while the main monetary policy objective is to prevent excessive slowdown in economic growth in the coming quarters. At the NBP Governor's usual press conference last week, A. Glapiński announced that the MPC had ended its interest rate hike cycle. He also repeated his declaration from a month ago that a rate cut would be possible if inflation fell to a single-digit figure and there was certainty that it would continue falling in the coming quarters. He said that if both these conditions were met, than the first cut could be seen even in September. A. Glapiński also expressed his expectation that inflation would be falling faster than indicated by the NBP's projection. In accordance with our revised inflation projection (see below), in response to inflation falling further in the coming months, the MPC will cut interest rates at its meetings in October and November by a total of 50bp.

- **Minutes of the June FOMC meeting were released last week.** According to the Minutes, some FOMC members were for a rate hike in June (finally the Fed did not go head with a rate hike at the June meeting – see MACROmap of 19/06/2023). At the same time 'almost all' FOMC members agreed that further rate hikes would be appropriate to curb inflation. Most FOMC members agreed that due to uncertainty about the outlook for the economy additional information would be valuable from the point of view of taking further decisions. The Minutes and the Fed's recent shift to a more hawkish policy stance seen in FOMC members' comments represent a significant upside risk to our scenario that expects the Fed to have ended its rate hike cycle in June.

- **Some significant data on the US economy was released last week.** Non-farm payrolls rose by 209k in June vs. 306k in May (downward revision from 239k), running below market expectations (225k). The strongest increases in employment were seen in education and health services (+73.0k), the government sector (+60.0k), and construction (+23.0k). The biggest falls in employment were seen in retail trade (-11.2k), transport and storage (-3.6k) and wholesale trade (-3.6k). The unemployment rate decreased to 3.6% in June, vs. 3.7% in May, developing in line with market expectations. At the same time, hourly wage growth in June was unchanged compared to May at 4.4% YoY, indicating continued moderately 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 46.0 pts in June from 46.9 pts in May, running below market expectations (47.1 pts). The index was driven down by lower contributions of 3 out of its 5 components (current output, employment and inventories), with an opposite impact coming from higher contributions of new orders and delivery times. Noteworthy in the data is the continued strong fall in the input prices, another sign of weakening cost pressures in US manufacturing. In contrast, the ISM index for services recorded growth from 50.3 pts in May to 53.9 pts in June, running above market expectations (51.0 pts). The growth resulted from higher contributions of 3 out of its 4 components (business activity, new orders and employment), while lower contribution of delivery times component had the opposite effect. As with the ISM manufacturing index, noteworthy is the further decline in the component for input prices, which fell to its lowest level since March 2020, the first phase of the pandemic. We expect annualized US GDP growth to slow to 1.8% in Q2 2023 vs. 2.0% in Q1. At the same time, we see upside risk to our scenario of a slight recession in the US in H2 2023 (-1.3% in Q3 and -0.8% in Q4).



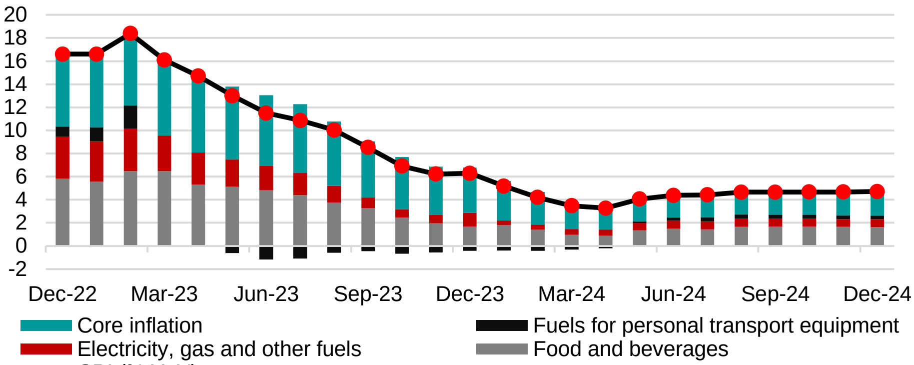
Source: Datastream, Credit Agricole



Source: Datastream, Credit Agricole

Some important data on the German economy was released last week. Industrial production growth slowed to -0.2% MoM in May from 0.3% in April, running below market expectations (0.0%). Reductions in production growth rates were recorded in all its main divisions: manufacturing, construction and energy. Sector-wise, it is noteworthy that production continued to increase in the automotive sector, although it is still clearly below the trend observed before the outbreak of the pandemic. A recovery can also be observed in the chemical industry, largely due to the fall in gas prices. A further recovery in production can also be seen in the 'furniture' category. 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, whose growth rate increased in May to 6.4% MoM from 0.2% in April, running clearly above market expectations (1.2%). The increase in orders was recorded for both foreign orders (both from the Eurozone and from outside the single currency area) and domestic orders. Sector-wise, the strongest increase in orders was recorded in the ‘other transport equipment’ (+137.1% MoM) and it was this category that was the source of the significantly higher-than-expected increase in orders. Although the situation in the German automotive industry is indeed improving, one should bear in mind that orders in the category of "other transport equipment" are characterised by very high volatility, hence the data for June will most likely show a clear drop in orders on a monthly basis. Germany's foreign trade balance data was also published last week; the trade balance dropped to EUR 14.4bn in May from EUR 16.5bn in April. In May, there was an increase in the growth rate of imports (1.7% MoM in May vs. -0.1% in April) and a decrease in the growth rate of exports (-0.1% vs. 1.0%). 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. May data from the German economy is consistent with our forecast for German GDP growth in Q2 (0.1% QoQ vs. -0.3% in Q1).

Lower inflation and lower interest rates



Source: GUS, Credit Agricole

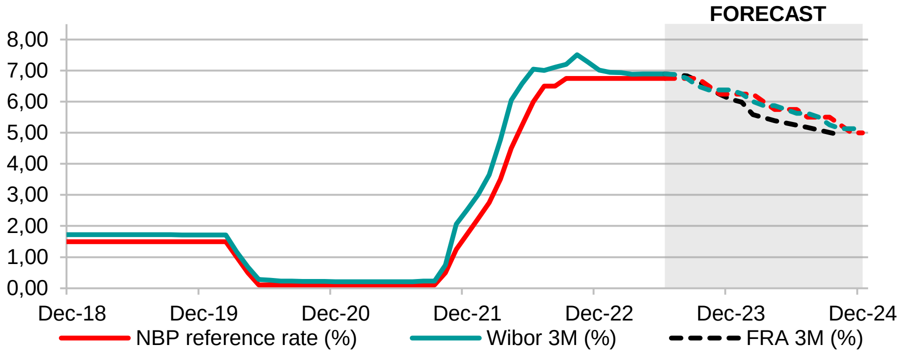
Recent incoming data has prompted us to revise our inflation scenario. We forecast headline inflation to be 11.6% YoY in 2023 (vs. 11.8% before the revision) and 4.4% in 2024 (previously 4.9%). Below is our revised inflation scenario and its implications for interest rates.

According to the GUS data, core inflation was below our expectations in May and June. In addition, MoM growth rates, which in previous months were significantly higher compared to the historical seasonal pattern, in May and June came strongly close to values in line with the seasonal profile. Although core inflation in YoY terms continues to reach double-digit levels, its MoM developments signal waning inflationary pressures. We believe that this will gradually fade and that core inflation will reach levels close to 7% by the end of 2023. Core inflation, clearly lower in recent months than our earlier expectations – due to a lower starting point – leads to lowering the overall path of the projected price growth rate in 2023.

We have also revised our price path for food and non-alcoholic beverages. We now forecast it to be 15.8% YoY in 2023 (14.6% before the revision) and to decline to 5.4% in 2024 (5.6% before the revision). The main source of the revision to our forecast is the drought observed in Europe and the US, which has led to a correction in the global grains and oilseed market. As a result, cost pressures in the agri-food sector are weakening more slowly than we had previously expected. Locally, the drought will also have a negative impact on the supply of fruit and vegetables driving up their prices. Our forecast assumes that the restoration of the 5% VAT rate on food will occur in 2024, however this will be a process spread over the entire year.

In addition, due to the development of oil prices on the global market significantly below our earlier expectations and the significant strengthening of the PLN recorded in recent months, we have revised our forecast for fuel price growth rate downwards.

Our inflation scenario for 2024 has not changed significantly. We expect disinflationary trends to continue, although the development of energy tariffs at the beginning of 2024 remains an important risk factor. Our forecast is for headline inflation to decline to a local minimum of 3.3% YoY in April 2024. Then, due to the acceleration we expect in food and fuel prices, we assume a slight increase in CPI inflation to 4.7% YoY in Q4 2024. At the same time, we assume that core inflation will gradually decline and stabilise in the range of 3.5-3.8% YoY in H2 2024.

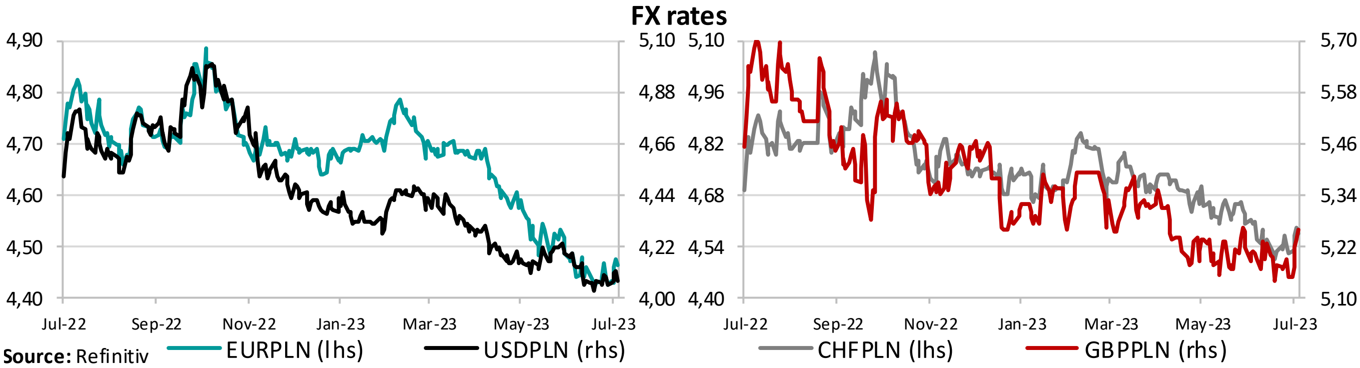


Source: Reuters, Credit Agricole

According to our revised scenario, a faster-than-expected decline in inflation in the coming months will prompt the Council to cut interest rates at its meetings in October and November (by 50 bp in total). This scenario is in line with the condition formulated by the NBP Governor at the press conference after the June MPC meeting for a rate cut (a fall in inflation to single-digit levels and the certainty of further declines in subsequent quarters). We believe that this condition will be met in October, allowing the MPC to cut rates before the parliamentary elections.

The rationale for the rate cut formulated by the NBP Governor confirms that a return of inflation to the MPC's target (2.5%) in the medium term is not currently the MPC's overriding objective. This rationale allows the government's economic policy to be supported by interest rate cuts even in an environment of elevated inflation and its very distant return to target, delayed by the expected economic recovery in 2024. In our view, this means that there have been changes in the central bank's reaction function that make monetary policy less transparent and less understandable to the environment, and consequently less predictable.

US inflation data may strengthen the PLN



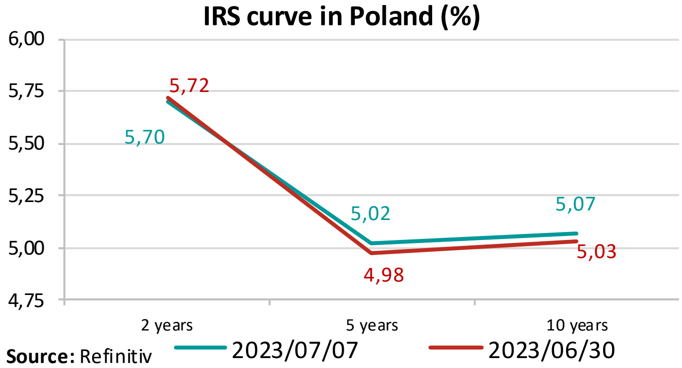
Source: Refinitiv

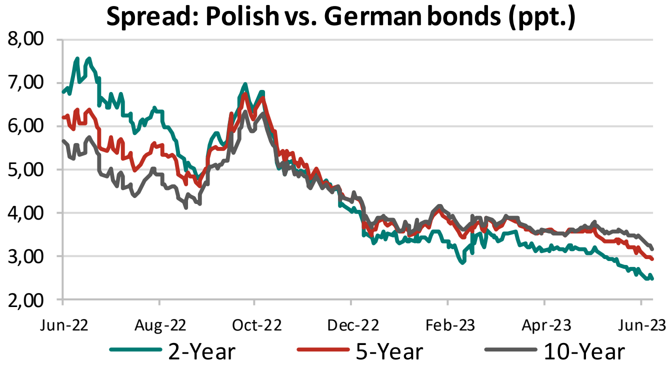
Last week, the EURPLN rate increased to 4.4357 (the PLN weakened by 0.1%). Last week saw a weakening of the PLN and other regional currencies. In our view, this was due to the realisation of profits by some investors. In addition, the increase in global risk aversion, which was reflected in the increase in the VIX index, also had an impact on the weakening of the zloty and other currencies of the region. Friday saw a correction and strengthening of the PLN towards the end of the day, supported by the publication of weaker-than-expected US non-farm payroll data.

On the EURUSD exchange rate, the first part of the week saw the USD strengthen against the EUR in anticipation of the publication of the Minutes from the June FOMC meeting. The USD corrected and weakened on Thursday, but clearly better-than-expected data on business sentiment from the US services sector helped to strengthen it again. Weaker-than-expected US labour market data published on Friday led to a rise in the EURUSD.

This week, the release of US inflation data planned for Wednesday will be crucial for the PLN. Our forecast is below the market consensus, hence its realisation may contribute to the strengthening of the PLN. Other data releases from the Polish and global economies scheduled for this week will also be neutral for the PLN in our opinion.

US inflation data in the spotlight





Source: Refinitiv

Last week the 2-year IRS rates decreased to 5.70 (down by 2bp), 5-year rates increased to 5.02 (up by 4bp), and 10-year rates to 5.07 (up by 4bp). Last week saw a rise in IRS rates across the curve following the core markets. The rise in bond yields in the core markets was supported by an increase in expectations among some investors of further interest rate hikes by the major central banks, further strengthened by the publication of the Minutes of the June Fed meeting, according to which FOMC members are inclined to continue the cycle of interest rate hikes in the US. The dovish tone of Friday's press conference by the NBP Governor led to a marked fall in IRS rates.

This week, investors will focus on the publication of the US inflation data scheduled for Wednesday, which we believe may contribute to a drop in IRS rates at the short end of the curve. Other data releases from the Polish and global economies 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	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	Jul-23
NBP reference rate (%)	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	6,75
EURPLN*	4,70	4,73	4,72	4,85	4,71	4,67	4,69	4,71	4,70	4,68	4,59	4,53	4,43	**4,46**
USDPLN*	4,48	4,63	4,70	4,95	4,77	4,48	4,38	4,33	4,45	4,31	4,16	4,23	4,06	**4,09**
CHFPLN*	4,69	4,86	4,80	5,01	4,76	4,74	4,72	4,70	4,72	4,71	4,66	4,64	4,52	**4,58**
CPI inflation (% YoY)	15,5	15,6	16,1	17,2	17,9	17,5	16,6	16,6	18,4	16,1	14,7	13,0	**11,5**	
Core inflation (% YoY)	9,1	9,3	9,9	10,7	11,0	11,4	11,5	11,7	12,0	12,3	12,2	11,5	**11,4**	
Industrial production (% YoY)	10,4	7,1	10,9	9,8	6,6	4,4	0,9	1,8	-1,0	-3,1	-6,0	-3,2	**-1,0**	
PPI inflation (% YoY)	25,6	25,5	25,5	24,6	23,1	21,1	20,5	20,1	18,2	10,3	6,2	3,1	**0,2**	
Retail sales (% YoY)	19,9	18,4	21,5	21,9	18,3	18,4	15,5	15,1	10,8	4,8	3,4	1,8	**2,1**	
Corporate sector wages (% YoY)	13,0	15,8	12,7	14,5	13,0	13,9	10,3	13,5	13,6	12,6	12,1	12,2	**11,9**	
Employment (% YoY)	2,2	2,3	2,4	2,3	2,4	2,3	2,2	1,1	0,8	0,5	0,4	0,4	**0,4**	
Unemployment rate* (%)	5,2	5,2	5,2	5,1	5,1	5,1	5,2	5,5	5,5	5,4	5,2	5,1	**5,0**	
Current account (M EUR)	-273	-1070	-2847	-2208	-416	262	-2530	2133	1410	1643	359	**474**		
Exports (% YoY EUR)	22,4	20,9	28,1	26,5	23,2	24,2	10,6	13,1	13,5	15,5	2,4	**3,5**		
Imports (% YoY EUR)	28,1	21,7	29,6	31,4	24,1	18,3	11,3	5,1	2,3	-3,0	-8,8	**-3,3**		

*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	9,8	6,5	14,3	11,6	4,4
Wibor 3M (%)**		4,77	7,05	7,21	7,02	6,89	6,90	6,51	6,38	7,02	6,38	5,13
NBP reference rate (%)**		3,50	6,00	6,75	6,75	6,75	6,75	6,75	6,25	6,75	6,25	5,00
EURPLN**		4,64	4,70	4,85	4,69	4,68	4,43	4,48	4,46	4,69	4,46	4,42
USDPLN**		4,19	4,48	4,95	4,38	4,31	4,06	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**
		Monday 07/10/2023				
3:30	China	PPI (% YoY)	Jun	-4,6		-5,0
3:30	China	CPI (% YoY)	Jun	0,2		0,2
10:30	Eurozone	Sentix Index (pts)	Jul	-17,0		-18,0
16:00	USA	Wholesale inventories (% MoM)	May	-0,1		-0,1
16:00	USA	Wholesale sales (% MoM)	May	0,2		
		Tuesday 07/11/2023				
11:00	Germany	ZEW Economic Sentiment (pts)	Jul	-8,5		-10,0
		Wednesday 07/12/2023				
14:30	USA	CPI (% MoM)	Jun	0,1	0,1	0,3
14:30	USA	Core CPI (% MoM)	Jun	0,4	0,2	0,3
		Thursday 07/13/2023				
11:00	Eurozone	Industrial production (% MoM)	May	1,0		0,3
	China	Trade balance (bn USD)	Jun	65,8	78,2	
		Friday 07/14/2023				
10:00	**Poland**	**CPI (% YoY)**	**Jun**	**13,0**	**11,5**	**11,5**
14:00	**Poland**	**Current account (M EUR)**	**May**	**359**	**474**	**856**
16:00	USA	Initial U. of Michigan Sentiment Index (pts)	Jul	64,4	65,0	65,5

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

MACRO MAP

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