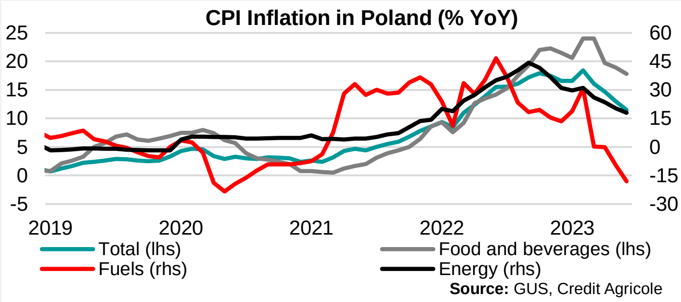
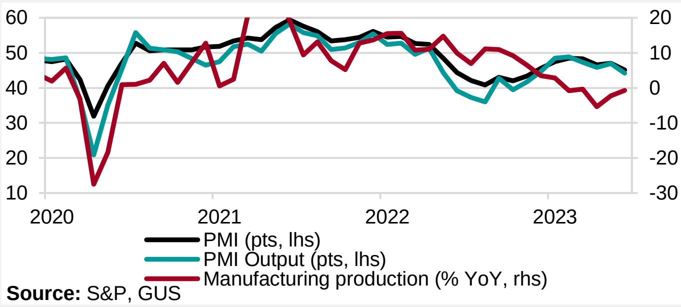
This week

- **The key event this week will be the release of Poland's flash inflation figures scheduled for today.** We expect inflation to have fallen to 10.9% YoY in July from 11.5% in June. We believe that the fall in inflation in July will be accounted for by slower rises in food and energy prices, and a drop in core inflation. At the same time, we expect to see an increase in YoY fuel price dynamics between June and July due to last year high base effects. Our forecast is close to consensus (11.0%), and thus its materialization would be neutral for the PLN and yields on Polish bonds.



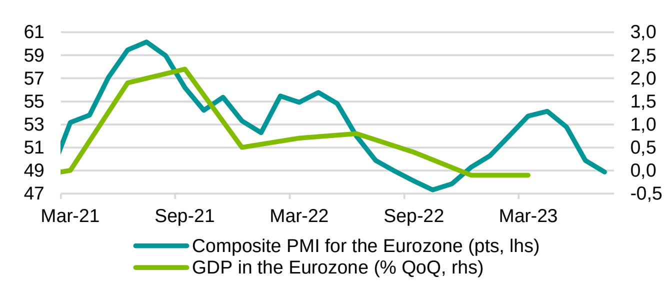
- **Significant data on the US economy will be released this week.** Of key importance will be US non-farm payroll data to be released on Friday. We expect non-farm payrolls to have increased by 190k in July vs. 209k in June, with the rate of unemployment stabilized at 3.6%. Before the Friday release, some additional data on the labour market will be provided by the ADP report on employment in the private sector (the market expects a 190k rise in July vs. 497k in June). Also, the ISM manufacturing index will be released on Tuesday. We expect the index to have risen to 47.0 pts in July from 46.0 pts in June, which would be in line with regional business surveys. We believe that this week's US data will be neutral for financial markets.
- **Business survey results for China's manufacturing will be released this week.** China's NBS manufacturing PMI has been released today; the index went up slightly, to 49.3 pts in July from 49.0 pts (consensus: 49.2 pts). Despite the rise in the index, it remained below the 50-point mark for the fourth month in a row, which confirms that recession trends in China's manufacturing continue. The Caixin PMI will be released tomorrow; consensus expects the index to have dropped to 50.3 pts in July from 50.5 pts in June. We believe that data from China will be neutral for financial markets.
- **Poland's manufacturing PMI data for July will be released on Tuesday.** We expect the PMI to have dropped to 45.0 pts in July from 45.1 pts in June, in line with a deterioration in business conditions in the Eurozone (see below). Our forecast is above market consensus (44.5 pts), and thus its materialization would be slightly positive for the PLN and yields on Polish bonds.



- **Today will see the release of important Eurozone data.** We expect QoQ GDP growth to have picked up to 0.3% in Q2 from 0.1% in Q1, in line with an improvement in business conditions seen in O2 PMI surveys and with Q2 GDP flash estimates for individual Eurozone countries (see below). We also expect the Eurozone's HICP inflation to have fallen to 5.3% YoY in July from 5.5% in June, with core inflation stabilized at 5.5% YoY. We believe that the release of inflation figures will be neutral for the PLN and yields on Polish bonds.

Last week

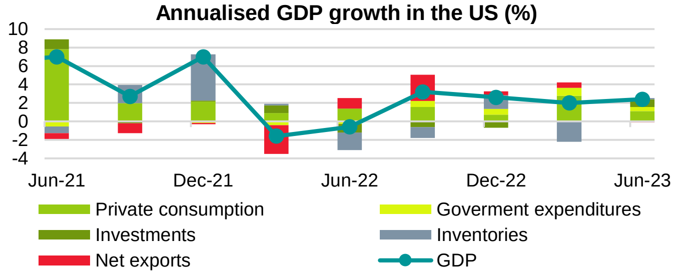
- **At its last week's meeting, the Fed raised the target range for federal funds by 25bp to [5.25%; 5.50%], in line with our forecast and market expectations.** The Fed's press release did not change much compared to that issued after the June meeting. The Fed declared to continue to monitor the implications of incoming information on the US economy for the economic outlook. At the press conference following the meeting, the Fed Chairman J. Powell made a comment that the Fed's policy had not been restrictive enough to achieve desired effects. He also repeated that the Fed's further decision would depend on incoming data. He indicated that the process of disinflation required that economic activity should remain at lower levels for some time. Consequently, stronger GDP growth leading to more inflationary pressures may prompt further monetary policy tightening. We maintain our scenario, which expects the July rate hike in the US to end the US's monetary policy tightening.
- **The European Central Bank met last week and decided raise its interest rates by 25bp.** The ECB's decision was in line with our expectations and market consensus. As a result, the ECB's refinancing rate is now 4.25%, and the deposit rate is 3.75%. The press release continues to include a comment that 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 dynamics of underlying inflation, and the strength of monetary policy transmission. At last week's meeting, the ECB also reduced the interest rate on commercial banks' minimum reserves kept at the ECB to 0% (previously the rate was equal to the deposit rate). According to the ECB's press release, this is aimed at ensuring the effectiveness of monetary policy transmission. We estimate that the cost of this solution to banks will be ca. EUR 6.2bn a year (based on the assumption that the deposit rate will be 3.75%). Thus, the ECB's decision may be interpreted as an attempt to reduce the share of profits from funds deposited with the central bank in total profits. At the press conference following the meeting, the ECB President Ch. Lagarde repeated that the ECB's further decisions would depend on incoming information, including macroeconomic projections. She also noted that there was both the possibility of a rate hike and the possibility of a pause in September. She also indicated she did not believe that further monetary policy tightening was necessary at that stage. The dovish tone of Ch' Lagarde's comments resulted in a weakening of the EUR against the USD and a fall in yields on German bonds. We expect the June projections of headline inflation and core inflation paths to be revised up in the ECB's September projection, which will prompt the Governing Council to raise interest rates by another 25bp. At the same time, we believe this would be the last rate hike in this monetary policy tightening cycle.
- **According to flash data, the composite PMI (for manufacturing and services) for the Eurozone fell to 48.9 pts in July from 49.9 pts in June, running well below market expectations (49.7 pts).** Thus, July is the second month in a row with the index below the 50-point mark that separates growth from contraction. The fall in the composite PMI is accounted for by drops both in business activity in services and in manufacturing output. Geography wise, some deterioration in business sentiment was seen in Germany and France, as well as in the other Eurozone economies surveyed. What is particularly worth noting about the composite PMI data is a further weakening in demand. While earlier the weakening was driven by lower orders in manufacturing, July has seen a drop in new orders in services, for the first time since December 2022. Total new orders (in manufacturing and in



Source: Datastream, S&P, Credit Agricole services) in the Eurozone are falling more sharply than output (the difference between these two components is the biggest since March 2009), which results from the fact that businesses support their operations by fulfilling backlog orders. In consequence, total production backlogs in the Eurozone are falling at the fastest rate since the outbreak of the pandemic. July has also seen a deterioration in businesses' expectations regarding overall future production (manufacturing and services) over 12 month's horizon. Although businesses still expect growth in production, the index has hit the lowest level since November 2022. From the point of view of Polish exports, of particular importance are the trends in Germany, where the manufacturing PMI dropped to 42.7 pts in July from 43.4 pts in June, running well below market expectations (43.5 pts). The drop in the index is accounted for by lower contributions from four out of its five components (new orders, inventories, employment, and output), partially offset by a higher contribution from delivery times. What is particularly worth noting about the data is a deeper decline in total orders, with the July drop being the biggest since the outbreak of the pandemic. The weakening in demand is reflected in an accelerating fall in both input prices and finished goods prices. What is worrying about the data is a further decline in the index measuring Germany's manufacturing output expected over a 12-moth horizon. The index has remained below the 50-point mark that separates growth from contraction for the third month in a row, which means that more and more businesses are beginning to believe that the current downturn in activity will last longer than previously expected. The data shows there is a significant downside risk to our Eurozone economic growth forecast for Q3 (0.3% QoQ vs. 0.3% in Q2) and signals that the expected recovery in the Eurozone may start one or two quarters later than expected.

- **The Ifo index, reflecting the sentiment of German businesses in the manufacturing, construction, trade and services sectors, fell to 87.3 pts in July from 88.6 pts in June, running below market expectations (88.0 pts).** The fall in the index is accounted for by drops in its components both for the assessment of the current situation and for expectations. Deterioration in business sentiment was seen in all the sectors surveyed: manufacturing, services, trade, and construction. Given the PMI figures released last week, we see a significant downside risk to our scenario, which expects Germany's QoQ GDP growth to pick up to 0.2% in Q3 from 0.0% in Q2.
- **Last week saw the release of flash GDP estimates for some Eurozone economies.** QoQ GDP growth picked up in Germany (0.0% OoQ in Q2 vs. -0.3% in Q1, compared with our forecast of 0.1%), and in France (0.5% vs. 0.2%; 0.1%), while a drop was seen in Spain (0.4% vs. 0.5%; 0.3%). This data is of a preliminary nature and does not include economic growth breakdown data. We forecast that the Eurozone's QoQ GDP growth picked up to 0.3% in Q2 from -0.1% in Q1.
- **Some significant data on the US economy was released last week.** PCE inflation in June stood at 3.0% YoY, down from 3.8% in May. PCE core inflation also fell, from 4.6% to 4.1%. It is also worth noting that seasonally-adjusted monthly price growth accelerated in the case of both total prices (0.2% MoM in June vs. 0.1% in May) and core prices (0.3% vs. 0.4%), which is indicative of the continuing, elevated inflation pressure in the US economy. The first estimate of the US GDP in Q2 was also published last week. The annualized rate of GDP growth increased from 2.0% in Q1 to 2.4%. This means that the growth was stronger than the market had expected (1.6%) or we had forecast (1.9%). The acceleration resulted from an upward contribution of inventories and investments, while a downward contribution came from private consumption, government expenses and net exports. Like in Q1, also in Q2 private consumption was the main driver of economic growth. Last week saw the release of data on durable goods orders, which rose by 4.7% MoM in June, compared to a 2.0% growth in May, which was markedly above the market expectations (1.0%). The strong

Annualised GDP growth in the US (%)



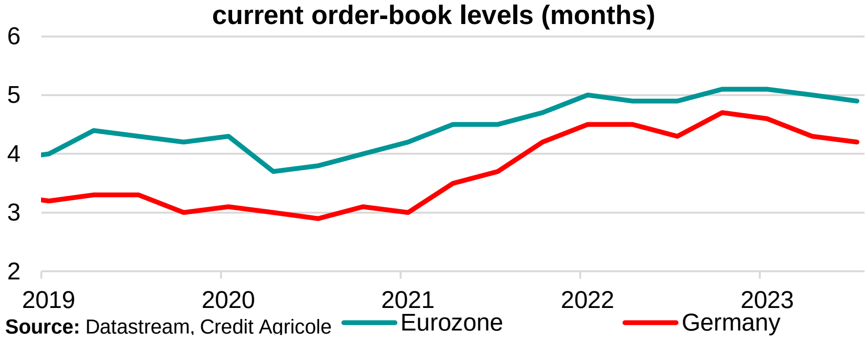
Source: Datastream, Credit Agricole

increase in orders was driven by orders for planes at Boeing. Excluding transport equipment, MoM growth in durable goods orders fell to 0.6% in June from 0.7% in May. At the same time, the growth in orders for non-military capital goods slowed down in June to 1.9% YoY vs. 2.0% in May. Its three-month moving average still follows a clear downward trend, which in our opinion suggests a further deterioration of the outlook for investments in the US. Last week also saw a publication of data on new homes sales: 697k in June vs. 715k in May. Taking into consideration the construction permits, housing starts and existing-home sales figures published two weeks ago, the data is indicative of a slowdown in activity in the US property market. Last week also saw the release of sentiment survey results. The Conference Board index went up from 110.1 pts in June to 117.0 pts in July, suggesting that US households' sentiments have strongly improved. The increase in the index was due to an increase in its components for both the assessment of the current situation and expectations. The final University of Michigan index (71.6 pts in July vs. 64.4 pts in June and 72.6 pts in the preliminary estimate) also indicated at an improvement in US consumer sentiment. Last week's data on US economy carries an upside risk to our forecast of a shallow recession in the US in H2 2023 (in our scenario, we are predicting that annualised US GDP growth will go down to -1.3% in Q3, and then increase to -0.8% in Q4).

Forecasts for 2023-2024

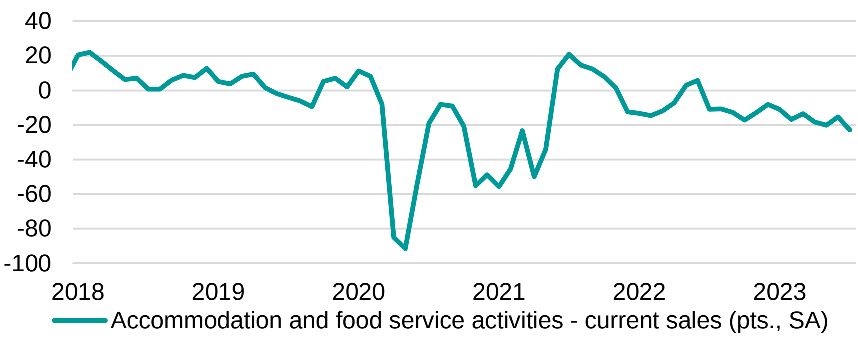
Below we present our macroeconomic scenario taking into account recent data on real economy, as well as the trends signalled by business surveys (see table on page 8). We are forecasting that the annual average economic growth in 2023 will stand at 0.8% (1.2% before the revision). We have kept our GDP growth forecast for Q2 (-0.2% YoY), but revised the growth forecast for H2 2023 downwards. The main reason behind the downward revision is the unfavourable situation outside Poland. In July, the composite PMI for the Eurozone was markedly below expectations, and July was the second consecutive month to see it run below the 50-point level that separates growth from contraction in activity (see above). Furthermore, in July, the future output index for 12 months has reached its lowest value since November 2022 (for both services and manufacturing). This data suggests a downside risk to our economic growth forecast for the Eurozone in Q3 (0.3% QoQ vs. 0.3% in Q2) and indicates that the recovery that we expect to take place in the Eurozone might be seen a quarter or two later than we thought.

Duration of production assured by current order-book levels (months)



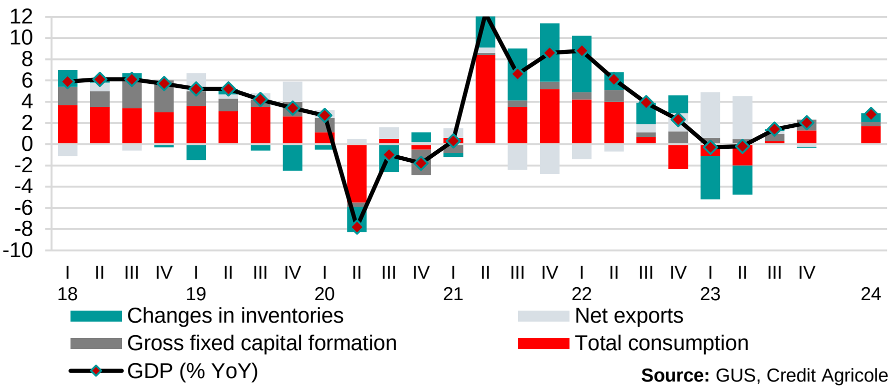
Source: Datastream, Credit Agricole

From the point of view of Polish exports, of particular importance are the trends in the German manufacturing sector, where the PMI component for new orders showed that July had seen the most rapid decline in the number of those orders since the outbreak of the pandemic, and the index value for the production expected in a 12-month horizon fell again, running below the 50-point level for three consecutive months. Production backlogs reduction will be curbing the current output decline in Germany and the entire Eurozone in the months to come, but their potential for stabilising the ongoing activity amidst the reduced number of new orders is slowly disappearing. In accordance with the manufacturing business survey results published by the European Commission, the duration of production assured given the current portfolios of domestic and foreign orders has been continuously declining in the Eurozone (and particularly in Germany) since the turn of 2022 and 2023, and currently it stands at less than 5 months (see the diagram). With production backlogs in the European manufacturing being reduced at a record rate, the safety buffer mentioned above will continue to shrink. However, we do not think we will see any production breakdown in the Eurozone's manufacturing sector. The inflation drop that we forecast for the Eurozone will drive the consumption demand, and consequently the activity in the manufacturing sector up. Nonetheless, the trends that we outlined above have made us revise the exports path for H2 2023 downwards. To sum up, we expect the contribution of net exports to be clearly positive in 2023 despite poorer domestic demand in Poland, but it will not be as strong as we previously expected.



Source: GUS, Credit Agricole

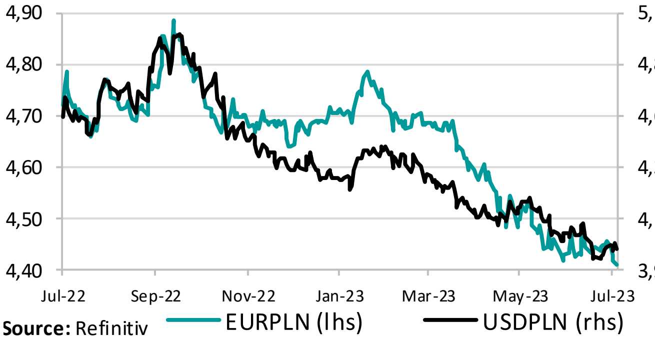
A slower consumption growth, particularly in Q3, will be another factor having a negative impact on the GDP path. The incoming information on the occupancy of tourist accommodation establishments shows that Poles' expenses on summer holidays will be markedly lower than in the previous year. This conclusion is supported by the results of the business survey published by the GUS. Following the slump in activity in the "accommodation and catering" category during the pandemic, we could see a rebound in that sector in the summer months of 2021 and 2022 (see the diagram). The data is seasonally-adjusted, which means that expenses on tourism in the summer of 2021 and 2022 were higher than usually, which could mean that they were covered with the so-called forced savings accumulated during the pandemic. No such rebound was observed in 2023, and in July, the "current sales" index of the "accommodation and catering" category has reached its lowest value since 2003 (except the pandemic period of 2020 and 2021). For this reason we have revised out Q3 consumption forecast downwards. At the same time, in our opinion, the negative impact of a lower interest in holidays in Poland on the GDP growth has not been offset by tourists from abroad or Poles' holidays abroad. In the national accounts the latter is classified as consumption on the one hand, but also as the import of services on the other hand, and therefore its impact on GDP growth is largely neutral.

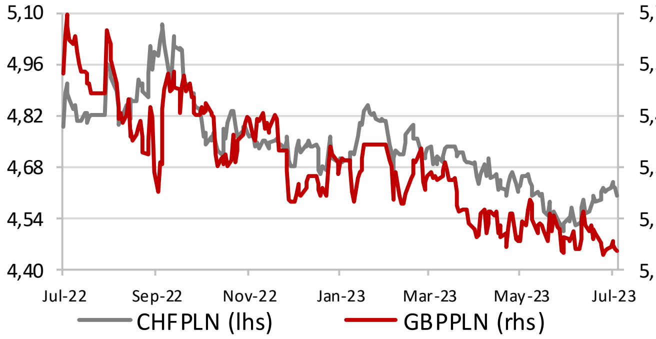


We expect to see the delayed upturn in the Eurozone and in global trade in 2024, and therefore we predict that the GDP growth in Poland will accelerate moderately in that year. 2023 low base effects will be an additional factor supporting the economic growth in 2024. The inflation drop that we expect to take place will drive consumption up. Consumption will be driven up further by an upward adjustment of the benefit paid under the *Family 500+* programme to PLN 800. Nonetheless, we have reduced our GDP growth forecast for 2024 to 2.8% (vs. 3.1%) due to the trends that we expect to see in public investments. Taking into consideration the cycle of absorption of EU funds, the increase in gross fixed capital formation in the public sector will slow down significantly in 2024. Furthermore, we believe that the probability of further delays in the commencement of projects under the National Recovery Plan (even until H2 2024) has increased significantly due to the continuing dispute between Poland and the EU, which will have a negative impact on the economic activity.

The publication of the PMI for the Polish manufacturing sector may strengthen the PLN

FX rates





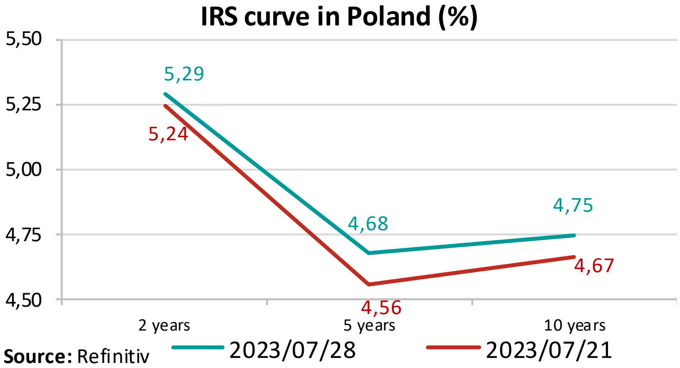
Source: Refinitiv

Last week, the EURPLN rate dropped to 4.4120 (the PLN strengthened by 1.0%). Throughout last week, the EURPLN exchange rate followed a mild upward trend as the EURUSD was declining. A dovish tone of the press conference after the ECB meeting, the publication of much-weaker-than-expected business survey results for the Eurozone, and the publication of higher-than-expected data on US GDP were all conducive to the appreciation of the USD against the EUR. The Fed's meeting did not have a significant impact on the FX market.

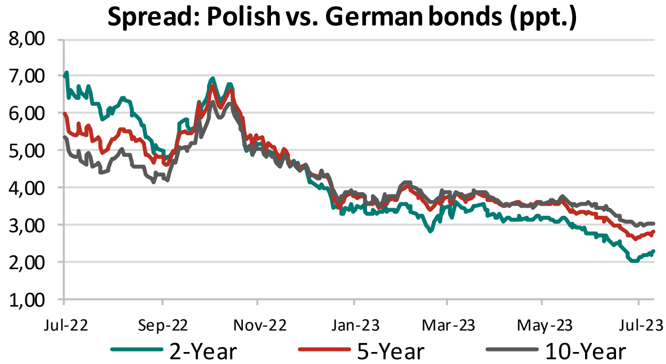
This week, the publication of the PMI index for Polish manufacturing is going to be of key importance for the PLN. If our forecast, which is higher than market consensus, materialises, it may drive the EURPLN rate down. We believe that other publications from the Polish and global economies planned for this week will be neutral for the PLN.

PMI publication in the spotlight

IRS curve in Poland (%)



Spread: Polish vs. German bonds (ppt.)



Source: Refinitiv

Last week, 2-year IRS rates increased to 5.29 (up by 5 bps), 5-year rates to 4.68 (up by 12 bps) and 10-year ones to 4.75 (up by 8 bps). Last week saw a slight rise in IRS rates across the curve following the US market. Increasing expectations regarding further rate hikes by the Fed had a positive impact on the yield on US bonds. The Eurozone had seen quite the opposite trends due to a relatively dovish tone of the ECB meeting.

This week, investors will focus on the PMI for Polish manufacturing, which might cause the IRS rates to rise at the short end of the curve. In our opinion, other data releases from the Polish and global economies scheduled for this week will be neutral for the curve.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland														
Indicator	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	Aug-23
NBP reference rate (%)	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	**6,75**
EURPLN*	4,73	4,72	4,85	4,71	4,67	4,69	4,71	4,70	4,68	4,59	4,53	4,43	4,41	**4,43**
USDPLN*	4,63	4,70	4,95	4,77	4,48	4,38	4,33	4,45	4,31	4,16	4,23	4,06	4,00	**4,06**
CHFPLN*	4,86	4,80	5,01	4,76	4,74	4,72	4,70	4,72	4,71	4,66	4,64	4,52	4,60	**4,60**
CPI inflation (% YoY)	15,6	16,1	17,2	17,9	17,5	16,6	16,6	18,4	16,1	14,7	13,0	11,5	**10,9**	
Core inflation (% YoY)	9,3	9,9	10,7	11,0	11,4	11,5	11,7	12,0	12,3	12,2	11,5	11,1	**10,7**	
Industrial production (% YoY)	7,1	10,9	9,8	6,6	4,4	0,9	1,8	-1,0	-3,1	-6,0	-2,8	-1,4	**-1,2**	
PPI inflation (% YoY)	25,5	25,5	24,6	23,1	21,1	20,5	20,1	18,2	10,3	6,2	2,8	0,5	**-1,2**	
Retail sales (% YoY)	18,4	21,5	21,9	18,3	18,4	15,5	15,1	10,8	4,8	3,4	1,8	2,1	**1,2**	
Corporate sector wages (% YoY)	15,8	12,7	14,5	13,0	13,9	10,3	13,5	13,6	12,6	12,1	12,2	11,9	**10,4**	
Employment (% YoY)	2,3	2,4	2,3	2,4	2,3	2,2	1,1	0,8	0,5	0,4	0,4	0,2	**0,1**	
Unemployment rate* (%)	5,2	5,2	5,1	5,1	5,1	5,2	5,5	5,5	5,4	5,2	5,1	5,0	**5,0**	
Current account (M EUR)	-1070	-2847	-2208	-439	283	-2635	2381	1738	1355	529	1392	**886**		
Exports (% YoY EUR)	20,9	28,1	26,5	23,2	24,2	10,6	15,7	14,7	18,1	2,6	3,3	**4,8**		
Imports (% YoY EUR)	21,7	29,6	31,4	24,1	18,3	11,3	7,4	3,9	-1,4	-8,9	-6,2	**-1,5**		

*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	1,4	2,0	5,1	0,8	2,8
Private consumption (% YoY)		6,8	6,7	1,1	-1,1	-2,0	-3,7	0,2	2,2	3,3	-0,8	3,0
Gross fixed capital formation (% YoY)		5,4	7,1	2,5	5,4	5,5	3,1	4,4	4,7	5,0	4,4	2,7
Export - constant prices (% YoY)		5,6	6,4	9,0	3,9	3,2	2,8	2,5	3,5	6,2	3,0	3,8
Import - constant prices (% YoY)		8,7	8,2	7,7	0,7	-4,6	-3,5	2,1	4,0	6,2	-0,3	4,3
GDP growth contributions	Private consumption (pp)	4,0	3,8	0,6	-0,5	-1,0	-2,2	0,1	1,1	1,8	-0,4	1,7
	Investments (pp)	0,7	1,1	0,4	1,2	0,6	0,5	0,7	1,0	0,9	0,7	0,4
	Net exports (pp)	-1,4	-0,7	0,8	1,7	4,3	4,1	0,3	-0,2	0,2	2,0	-0,1
Current account (% of GDP)***		-2,5	-3,3	-3,4	-3,0	-1,2	-0,1	-0,1	-0,5	-3,0	-0,5	-1,6
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 07/31/2023				
3:30	China	NBS Manufacturing PMI (pts)	Jul	49,0	49,2	49,2
10:00	**Poland**	**Flash CPI (% YoY)**	**Jul**	**11,5**	**10,9**	**11,0**
11:00	Eurozone	Preliminary GDP (% QoQ)	Q2	-0,1	0,3	0,2
11:00	Eurozone	Preliminary HICP (% YoY)	Jul	5,5	5,3	5,3
15:45	USA	Chicago PMI (pts)	Jul	41,5		43,0
		Tuesday 08/01/2023				
3:45	China	Caixin Manufacturing PMI (pts)	Jul	50,2		50,3
9:00	**Poland**	**Manufacturing PMI (pts)**	**Jul**	**45,1**	**45,0**	**44,5**
9:55	Germany	Final Manufacturing PMI (pts)	Jul	38,8	38,8	38,8
10:00	Eurozone	Final Manufacturing PMI (pts)	Jul	42,7	42,7	42,7
15:45	USA	Flash Manufacturing PMI (pts)	Jul	49,0		
16:00	USA	ISM Manufacturing PMI (pts)	Jul	46,0	47,0	46,8
		Wednesday 08/02/2023				
14:15	USA	ADP employment report (k)	Jul	497		190
		Thursday 08/03/2023				
8:00	Germany	Trade balance (bn EUR)	Jun	14,4		15,0
10:00	Eurozone	Services PMI (pts)	Jul	51,1	51,1	51,1
10:00	Eurozone	Final Composite PMI (pts)	Jul	48,9	48,9	48,9
11:00	Eurozone	PPI (% YoY)	Jun	-1,5		-3,1
13:00	UK	BOE rate decision (%)	Aug	5,00		5,25
14:30	USA	Initial jobless claims (k)	w/e	269		
16:00	USA	Factory orders (% MoM)	Jun	0,3		1,9
16:00	USA	ISM Non-Manufacturing Index (pts)	Jul	53,9	52,4	53,0
		Friday 08/04/2023				
8:00	Germany	New industrial orders (% MoM)	Jun	6,4		-1,5
14:30	USA	Unemployment rate (%)	Jul	3,6	3,6	3,6
14:30	USA	Non-farm payrolls (k MoM)	Jul	209	190	200

*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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MACRO MAP

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