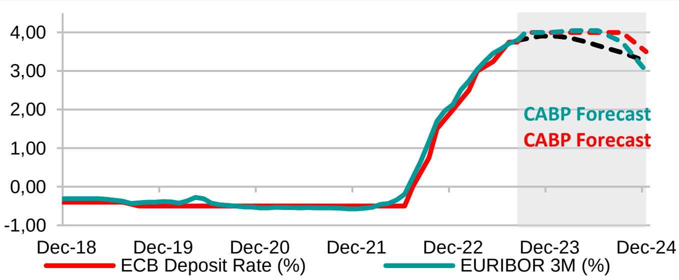
MPC writes a new scenario for PLN exchange rate and interest rates

This week

- **The key event this week will be the ECB meeting planned for Thursday.** We expect the ECB to raise interest rates by 25bp. Thus, we expect the main interest rate to go up to 4.50%, and the deposit rate to 4.00%. The key argument for the rate hike will be the latest ECB macroeconomic projections. We believe that the rate of GDP growth and the medium-term inflation path will not change significantly from the June forecast. However, we expect the inflation projection to still be above the ECB's 2% inflation target over the projection horizon. Economists' expectations for the ECB's decision vary widely: some expect a rate hike while others expect no change. However, consensus (the median of those expectations) expects the *status quo* in monetary policy to continue. If our rate hike forecast materializes, we may expect a slight weakening of the PLN and a rise in yields on Polish bonds. We also acknowledge the risk that the ECB will keep interest rates unchanged this week due to deteriorating prospects for economic growth in the Eurozone. If this scenario materializes, we may see an appreciation of the PLN and a fall in yields on Polish bonds. The ECB's decision and the press conference after the meeting will also be important in the context of the EURUSD exchange rate prospects. We acknowledge a downside risk to our EURUSD exchange rate forecast (1.10 at the end of the year), if the Eurozone's economic growth prospects continue to deteriorate relative to the US, and the ECB shifts its stance to a less hawkish one.

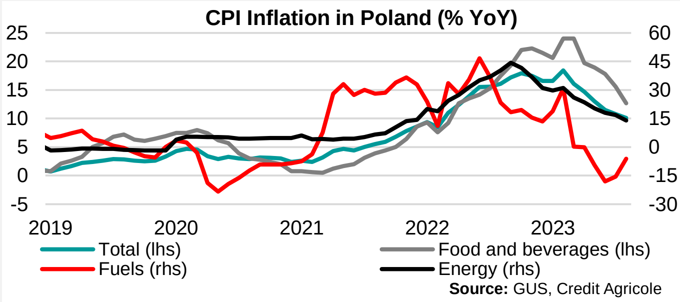


Source: Refinitiv, Credit Agricole

- **Some important data from the US will be released this week.** We expect headline inflation to have risen to 3.7% YoY in August from 3.2% in July, driven by soaring energy prices. At the same time, we expect core inflation to have fallen to 4.3% YoY in July from 4.7% in June. We expect nominal retail sales to have remained flat between July and August, compared with 0.7% growth in July, due to a gradual weakening in consumer demand seen in recent months. We forecast that industrial production growth slowed to 0.1% MoM in August from 1.0% in July, which would be consistent with a slowdown in manufacturing signalled in business surveys. We expect the preliminary University of Michigan index to fall to 68.0 pts in September from 69.5 pts in August due to households' concerns about the deteriorating economic situation. We believe that this week's US data will be neutral for financial markets.
- **Friday will see the release of significant data from China.** We forecast that industrial production growth picked up to 3.9% YoY in August from 3.7% in July, which would be in line with rises in China's manufacturing PMIs in August. We expect retail sales growth to have picked up to 3.0% YoY from 2.5% in July due to the normalization of weather conditions (compared with the very hot summer) and higher sales in the motor vehicle industry. At the same time, we expect urban investment growth to have slowed slightly, to 3.2% YoY in August from 3.4% in July, due the continuing housing slump in China. Overall, we expect data to confirm that the recovery in China is still limited and we have to wait a few more months to see effects of the economic growth stimulus measures taken recently by the Chinese government. 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 July will be released on Wednesday.** We expect the current account balance to have fallen to EUR -120M from EUR 3,431M in June, the fall being accounted for primarily by a lower trade and services balances. We forecast that growth in exports fell from 1.7% YoY in June to 0.7% in July, while the slowdown in imports decelerated from -5.8% YoY to -3.0%. The slowdown in exports will be in line with the slowdown in export-driven sectors shown by the July industrial production figures, while the slowdown deceleration

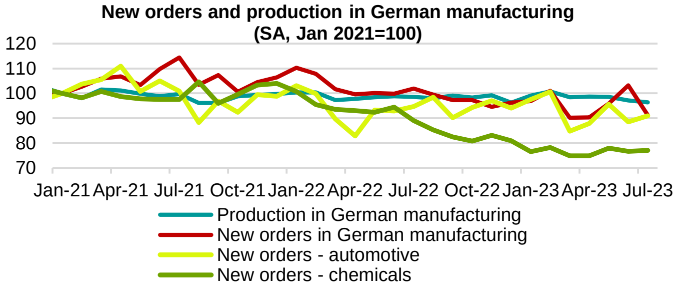
in imports will be accounted for by base effects. Our balance of payments forecast is well below market consensus (EUR 1,215M), still, we believe that the release of data will be neutral for the PLN and yield on Polish bonds.

- **Final data on inflation in Poland will be released on Friday.** We expect inflation to be in line with the flash estimate, at 10.1% YoY in August vs. 10.8% in July. In line with the flash data, the fall in inflation is broad-based, accounted for by slower growth in food and energy prices and by a drop in core inflation, to 10.1% YoY from 10.6% in July according to our estimate. At the same time, inflation was driven up by faster growth of fuel prices. We believe that the release of inflation figures will be neutral for the PLN and yields on Polish bonds.



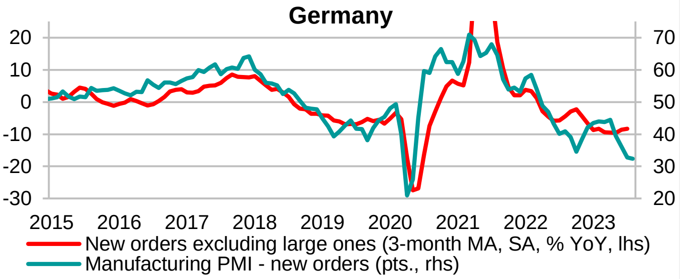
Last week

- **The Monetary Policy Council took a surprising decision last week to cut interest rates by 75bp.** The reference rate is now 6.00%. In the opinion of the MPC, demand pressures in the Polish economy are lower than expected, and thus inflation is expected to return to the NBP's inflation target faster. The MPC sees that as the main argument for a rate cut and calls it an 'adjustment' conducive to meeting the NBP inflation target in the medium term. The scale of last week's monetary policy easing was bigger than expected both by us and by market consensus (25bp), in consequence of which we had to revise our interest rate scenario (see below).
- **China's trade balance fell to USD 68.4bn in August from USD 80.6bn in July, running below market expectations (USD 73.9bn).** The slowdown in in exports decelerated to -7.3% YoY from -12.4%, and the slowdown in imports to -8.8% from -14.5%. Both figures are above market expectations (-9.2% for exports and -9.0% for imports). Thus, August saw some improvement in foreign trade, however, it was mainly accounted for by base effects. Foreign demand (in particular from the US and the EU) remained at low levels. At the same time, detailed data on imports signalled an improvement in domestic demand, especially in the raw materials segment. We believe the coming months will see a gradual recovery in China's domestic demand, which will drive growth in imports. To some extent, this will be an effect of the recent stimulus measures taken by the Chinese government to boost the housing market. In our opinion, a gradual slowdown in the global inventory reduction trend will drive China's exports up. These two factors combined will result in a further reduction in China's foreign trade surplus. Such a scenario is in line with our forecast, which expects China's GDP growth to pick up to 5.1% YoY in 2023 from 3.0% in 2022, which is in line with the Chinese government's GDP growth target of 'ca. 5%'.



Source: Datastream, Credit Agricole

Some important data on German economy was released last week. Industrial production growth accelerated to -0.8% in July from -1.4% in June, running below market expectations (-0.5%). Industrial production growth was driven up by a stronger growth in the energy and construction sectors, while a slower growth in the manufacturing sector had the opposite impact. Sector-wise, it is important to note the production decline in the “furniture” category, which has been continuing since April 2023 (seasonally-adjusted furniture production in July reached the lowest level since April 2020). This factor inhibits the activity in the Polish furniture industry, the Polish companies being large suppliers of intermediary goods to Germany. Last week we also saw data on orders in manufacturing, which decreased in July to -11.7% MoM from 7.6% in June, running markedly below market expectations (-4.0%). In accordance with the press release published by the German statistical office, the strong, monthly decline in orders in July was predominantly related to June’s high base effect. In that month large orders were placed in the aviation and space industry classified into the “other transport equipment” category (+72.4% MoM in June vs. -54.5% in July). Total new orders excluding large contracts increased by 0.3% MoM in July comparing to a 2.8% drop in June. Given the continuing downturn showing through the PMI results (see the chart and MACROmap of 04/09/2023), we expect the orders figures to keep falling in the coming months. Our conclusion is supported by a broad-based fall in demand for the products of the German manufacturing sector. In July, the decline was reported in terms of both foreign (in and outside the Eurozone) and domestic orders. Last week also saw the release of data on foreign trade balance in Germany, which fell from EUR 18.8bn in June to EUR 15.9bn in July. The exports growth slowed down (-0.9% MoM in July vs. +0.2 in June), accompanied by a marked acceleration of the imports growth (1.4% vs. -3.2%). The July 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. The July data concerning the German economy carries a downside risk to our GDP growth forecast for Germany in Q3 (0.2% QoQ vs. 0.0% in Q2).

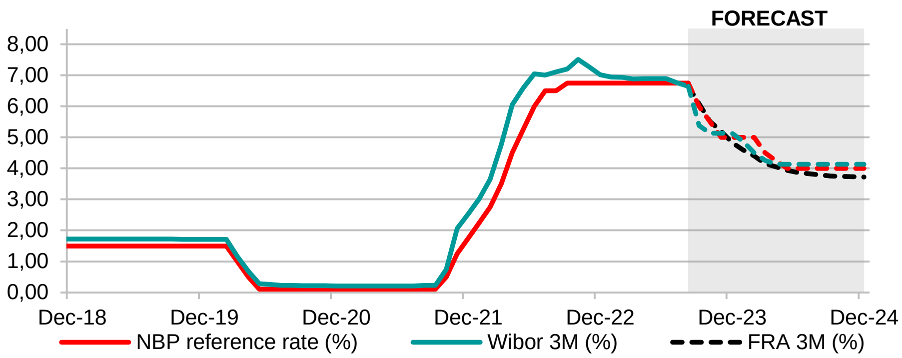


Source: Datastream, S&P, Credit Agricole

MPC writes a new scenario for PLN exchange rate and interest rates

Last week, the Monetary Policy Council announced a surprising decision to cut interest rates by 75bp. This meant a much greater easing of the monetary policy than we and the market had expected (25bp). Below we present our revised scenario for interest rates and the PLN exchange rate.

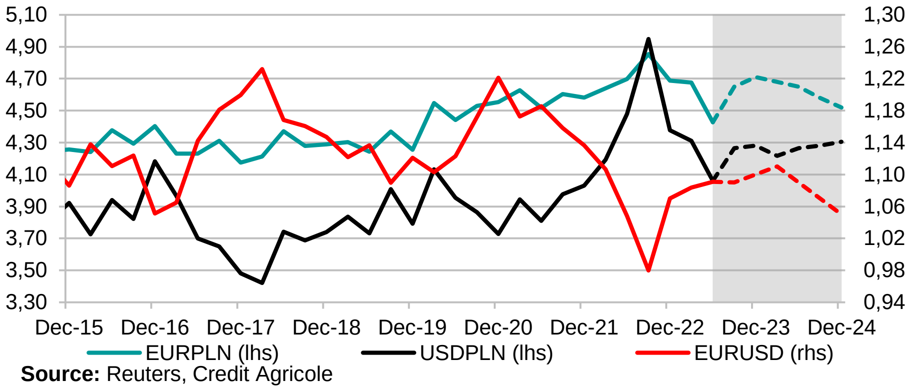
In the press release following the meeting, the Council mentioned the weakening of global economic conditions, and expected the conditions in the Eurozone to deteriorate further in Q3. The MPC also noted that year-on-year producer prices in Poland had fallen. In the Council's opinion, it confirms that external supply shocks are fading and the cost pressure is easing, which, together with the activity growth decline, will be driving inflation down in the quarters to come. The Council also noted that inflation expectations were decreasing, contributing to an increase in the real interest rates and consequently, in the Council's opinion, to an increase in the restrictiveness of monetary policy. The MPC placed a strong emphasis on the deterioration of the economic outlook in its press release. The MPC's last week's decision conveys an impression of the Council wanting to provide a strong and quick support to the government's economic policy despite inflation being highly unlikely to return to its target in 2025. At the same time, we still think that the function of the central bank's reaction has changed in such a way that the monetary policy is becoming less transparent and comprehensive, and consequently, less predictable. We also need to note that we do not agree with the MPC's argumentation supporting interest rate cuts because the inflation's return to the NBP target will be further delayed amidst the accelerating recovery in 2024-2025. Our revised interest rate forecast reflects a significant change in the approach to the monetary policy that was signalled by the NBP Governor last week.



Source: Reuters, Credit Agricole

We believe that inflation will drop below 10% in September and will keep on falling to reach 6.3% YoY in December 2023. At the same time, macroeconomic data for August, which will be released in the coming weeks, will show a further deterioration of economic conditions. We believe the Council will interpret the data as arguments favouring further easing of the monetary policy. Furthermore, during the last week's conference, A. Glapiński emphasised many times the negative impact of a strong increase in real interest rates (caused by a quickly dropping inflation) on the economic conditions. We believe the MPC will take steps to prevent the further growth of real interest rates amidst the continuing inflation drop. Therefore, we expect the Council to cut interest rates in October and November in response to the incoming data, each time by 50bp. As a result, the reference rate will stand at 5.00%. In our opinion, the data that will be released in Q4 will indicate a gradual acceleration of GDP growth. Therefore, we believe that in December 2023 there will be a pause in the monetary policy easing cycle and the MPC will adopt the *wait-and-see* approach. The rate cuts cycle will be resumed in Q1 2024 in response to the inflation drop. We expect the reference rate to go down by another 100bp in H1 2024, and reach 4.00%. In accordance with our forecast (see MACROmap of 04/09/2023), inflation will begin to rise in H2 2024. Combined with the economic recovery that we expect to accelerate, it will be an important argument for the MPC to put the monetary policy easing cycle on hold at least until the end of 2024.

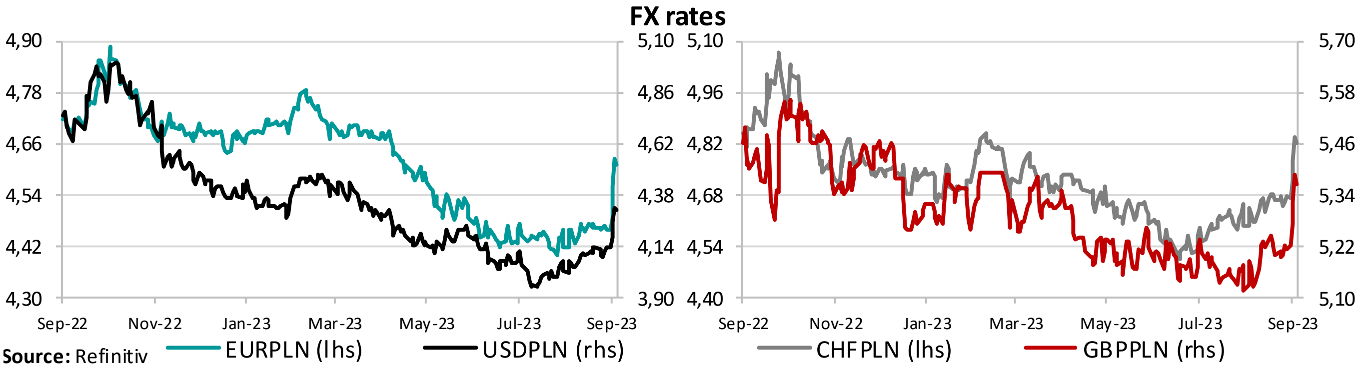
MPC writes a new scenario for PLN exchange rate and interest rates



Source: Reuters, Credit Agricole

Last week saw a significant depreciation of the PLN taking place in the wake of the MPC's surprising decision. We believe that the EURPLN will run around the present level until the end of September, when it will stand at 4.65. Further interest rate cuts in Q4 2023 will be conducive to a further depreciation of the PLN against the EUR. If our monetary policy scenario materialised, the Polish interest rates in November would go below the rates level seen in the US (with the NBP reference rate standing at 5.00% and the target range for Federal Reserve funds rate set at [5.25%, 5.50%]. This factor would facilitate the outflow of portfolio capital from Poland, and drive the EURPLN up. We expect the EURPLN to stand at 4.71 at the end of December 2023 amidst increased volatility in the period around Christmas and the New Year's Day. In 2024 we expect a slight appreciation of the PLN supported by economic recovery in Poland and abroad, an increase in the EURUSD that we forecast, the pause in the MPC's monetary policy easing cycle, and the beginning of the ECB's and Fed's interest rate cut cycles. Consequently, we expect the EURPLN to drop to 4.52 at the end of 2024.

EBC's interest rate hike to exert a negative impact on the PLN

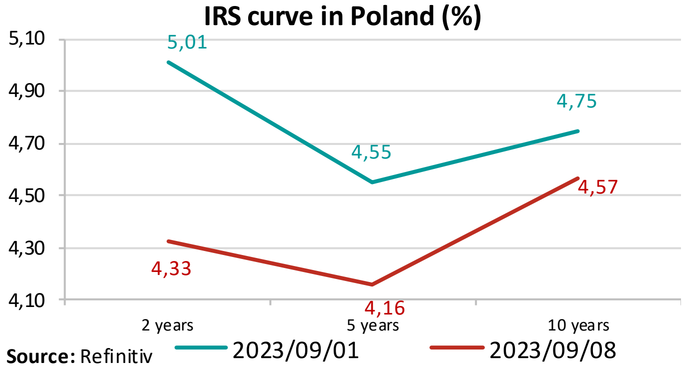


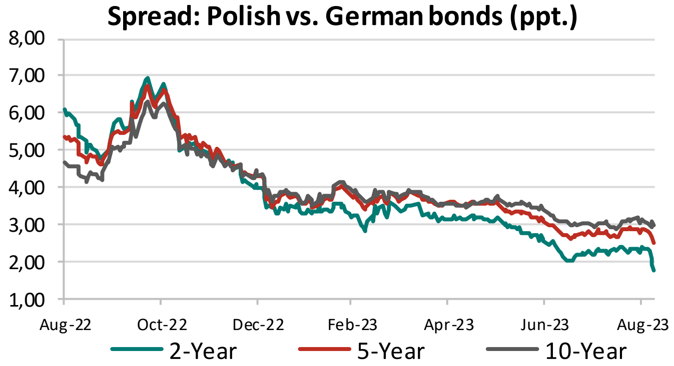
Source: Refinitiv

Last week, the EURPLN rate increased to 4.6100 (the PLN weakened by 3.3%). Throughout the last week, the EURPLN exchange rate followed an upward trend. The PLN fell by leaps after the announcement of the MPC's decision on Wednesday and then during A. Glapiński's press conference on Thursday. Friday saw the EURPLN stabilising at 4.61-4.62, but nonetheless, last week the EURPLN reached its lowest level since April 2023.

This week, the EBC meeting, which is to be held on Thursday will be crucial for the Polish currency. The interest rate hike that we expect will drive the EURPLN up, and the press conference following the Thursday's meeting of the ECB may increase the volatility of the PLN exchange rate. The remaining data from Poland and abroad, which are planned to be released this week, are likely to be neutral for the PLN, in our view.

A strong drop in IRS rates following the MPC's decision





Source: Refinitiv

Last week the 2-year IRS rates decreased to 4.33 (down by 68bp), 5-year rates to 4.16 (down by 39bp), and 10-year rates to 4.57 (down by 18bp). The key factors driving the IRS rates strongly down (particularly at the short end of the curve) were the scale of the MPC's interest rate cuts, which was larger than the market had expected, and the NBP Governor's press conference indicative of a high likelihood of further easing of the monetary policy in the months to come. Last week's releases of macroeconomic data did not have any significant impact on the curve.

This week the ECB meeting is going to be in the spotlight. We think it will be conducive to IRS rates increase. In our opinion, other data scheduled for this week will be neutral for the curve.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland

Indicator	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	Sep-23
NBP reference rate (%)	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	6,00
EURPLN*	4,72	4,85	4,71	4,67	4,69	4,71	4,70	4,68	4,59	4,53	4,43	4,40	4,47	**4,65**
USDPLN*	4,70	4,95	4,77	4,48	4,38	4,33	4,45	4,31	4,16	4,23	4,06	4,00	4,12	**4,27**
CHFPLN*	4,80	5,01	4,76	4,74	4,72	4,70	4,72	4,71	4,66	4,64	4,52	4,59	4,66	**4,79**
CPI inflation (% YoY)	16,1	17,2	17,9	17,5	16,6	16,6	18,4	16,1	14,7	13,0	11,5	10,8	**10,1**	
Core inflation (% YoY)	9,9	10,7	11,0	11,4	11,5	11,7	12,0	12,3	12,2	11,5	11,1	10,6	**10,1**	
Industrial production (% YoY)	10,9	9,8	6,6	4,4	0,9	1,8	-1,0	-3,1	-6,0	-2,8	-1,1	-2,7	**-1,7**	
PPI inflation (% YoY)	25,5	24,6	23,1	21,1	20,5	20,1	18,2	10,3	6,2	2,8	0,3	-1,7	**-3,2**	
Retail sales (% YoY)	21,5	21,9	18,3	18,4	15,5	15,1	10,8	4,8	3,4	1,8	2,1	2,1	**2,1**	
Corporate sector wages (% YoY)	12,7	14,5	13,0	13,9	10,3	13,5	13,6	12,6	12,1	12,2	11,9	10,4	**12,4**	
Employment (% YoY)	2,4	2,3	2,4	2,3	2,2	1,1	0,8	0,5	0,4	0,4	0,2	0,1	**0,1**	
Unemployment rate* (%)	5,2	5,1	5,1	5,1	5,2	5,5	5,5	5,4	5,2	5,1	5,0	5,0	**5,0**	
Current account (M EUR)	-2847	-2208	-439	283	-2635	2381	1738	1355	529	1479	2431	**-120**		
Exports (% YoY EUR)	28,1	26,5	23,2	24,2	10,6	15,7	14,7	18,1	2,6	3,3	1,7	**0,7**		
Imports (% YoY EUR)	29,6	31,4	24,1	18,3	11,3	7,4	3,9	-1,4	-8,9	-6,3	-5,8	**-3,0**		

*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	-0,6	0,5	1,9	5,1	0,5	2,8
Private consumption (% YoY)	6,8	6,7	1,1	-1,1	-2,0	-2,7	0,2	2,3	3,3	-0,5	3,0
Gross fixed capital formation (% YoY)	5,4	7,1	2,5	5,4	5,5	7,9	6,6	6,1	5,0	6,5	2,7
Export - constant prices (% YoY)	5,6	6,4	9,0	3,9	3,2	-2,7	1,1	3,7	6,2	1,3	3,8
Import - constant prices (% YoY)	8,7	8,2	7,7	0,7	-4,6	-8,1	-3,0	4,3	6,2	-2,6	4,3
GDP growth contributions: Private consumption (pp)	4,0	3,8	0,6	-0,5	-1,0	-1,5	0,1	1,1	1,8	-0,3	1,7
GDP growth contributions: Investments (pp)	0,7	1,1	0,4	1,2	0,6	1,2	1,0	1,3	0,9	1,1	0,4
GDP growth contributions: Net exports (pp)	-1,4	-0,7	0,8	1,7	4,3	3,1	2,5	-0,3	0,2	2,4	-0,1
Current account (% of GDP)***	-2,5	-3,3	-3,4	-3,0	-1,2	0,1	0,6	0,8	-3,0	0,8	-1,0
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	1,1	0,5	0,0	0,6	0,8	-1,0
Wages in national economy (% YoY)	9,7	11,8	14,6	12,3	14,3	13,8	11,4	9,9	12,1	12,3	7,5
CPI Inflation (% YoY)*	9,6	13,9	16,3	17,3	17,0	13,1	9,8	6,3	14,3	11,6	4,4
Wibor 3M (%)**	4,77	7,05	7,21	7,02	6,89	6,90	5,38	5,13	7,02	5,13	4,13
NBP reference rate (%)**	3,50	6,00	6,75	6,75	6,75	6,75	6,00	5,00	6,75	5,00	4,00
EURPLN**	4,64	4,70	4,85	4,69	4,68	4,43	4,65	4,71	4,69	4,71	4,52
USDPLN**	4,19	4,48	4,95	4,38	4,31	4,06	4,27	4,28	4,38	4,28	4,30

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

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST*	
					CA	CONSENSUS**
		Tuesday 09/12/2023				
11:00	Germany	ZEW Economic Sentiment (pts)	Sep	-12,3		-15,0
		Wednesday 09/13/2023				
11:00	Eurozone	Industrial production (% MoM)	Jul	0,5		-0,7
14:00	**Poland**	**Current account (M EUR)**	**Jul**	**2431**	**-120**	**1215**
14:30	USA	CPI (% MoM)	Aug	0,2	0,6	0,6
14:30	USA	Core CPI (% MoM)	Aug	0,2	0,2	0,2
		Thursday 09/14/2023				
14:15	Eurozone	EBC rate decision (%)	Sep	4,25	4,50	4,25
14:30	USA	Retail sales (% MoM)	Aug	0,7	0,0	0,2
16:00	USA	Business inventories (% MoM)	Jul	0,0		0,1
		Friday 09/15/2023				
4:00	China	Retail sales (% YoY)	Aug	2,5	3,0	2,8
4:00	China	Urban investments (% YoY)	Aug	3,4	3,2	3,3
4:00	China	Industrial production (% YoY)	Aug	3,7	3,9	4,0
10:00	**Poland**	**CPI (% YoY)**	**Aug**	**10,1**	**10,1**	**10,1**
11:00	Eurozone	Wages (% YoY)	Q2	4,6		
14:30	USA	NY Fed Manufacturing Index (pts)	Sep	-19,0		-10,0
15:15	USA	Capacity utilization (%)	Aug	79,3		79,3
15:15	USA	Industrial production (% MoM)	Aug	1,0	0,1	0,1
16:00	USA	Initial U. of Michigan Sentiment Index (pts)	Sep	69,5	68,0	69,2

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

** Refinitiv

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