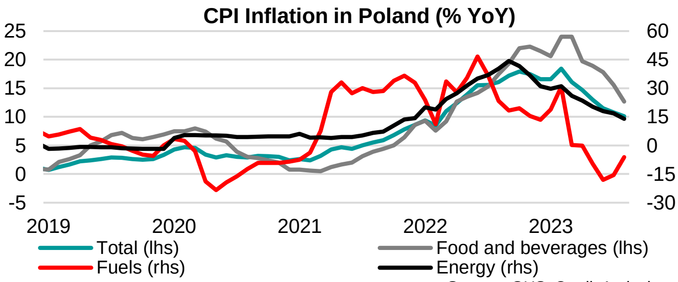
Economic outlook in Eurozone slightly less pessimistic

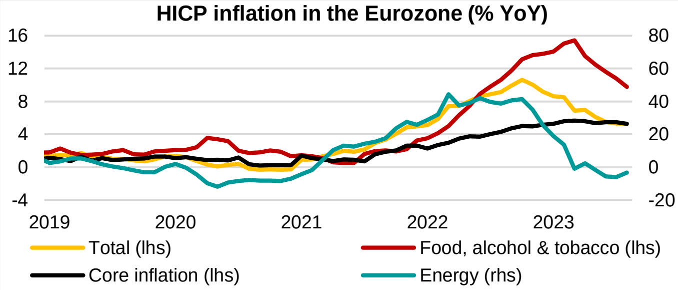
This week

- **The publication of inflation data for Poland, which is scheduled for Friday, will be the most important event this week.** In our opinion, inflation has gone down to 8.3% YoY in September from 10.1% in August. We believe that lower inflation in September will result from the decrease in all of its main components (the prices of foods, fuels, energy, and core inflation). Our forecast is below the market consensus (8.6%), thus, its materialisation would be slightly negative for the PLN and yields on Polish bonds.



Source: GUS, Credit Agricole

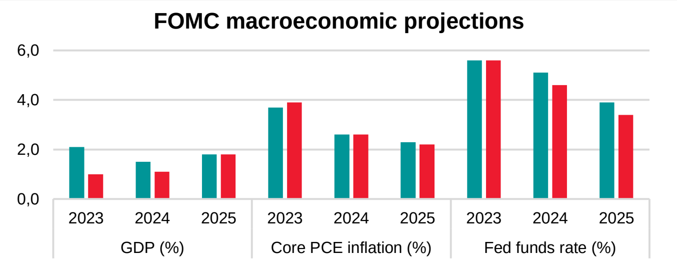
- **The flash HICP inflation estimate for the Eurozone will be published on Friday.** We believe the inflation to have fallen from 5.2% YoY in August to 4.4% in September, driven down by a downward contribution from all of its components including core inflation (4.5% in September vs. 5.3% in August). Germany's flash HICP inflation figure, to be released on Thursday, will provide more information about inflation in the Eurozone. We expect that HICP inflation in Germany went down to 4.3% YoY in September from 6.4% in August. We expect inflation in the Eurozone to run only slightly below the market expectations (4.5%), so if our forecast materialises, it should not have any significant impact on the PLN and yields on Polish bonds.



Source: Datastream, Credit Agricole

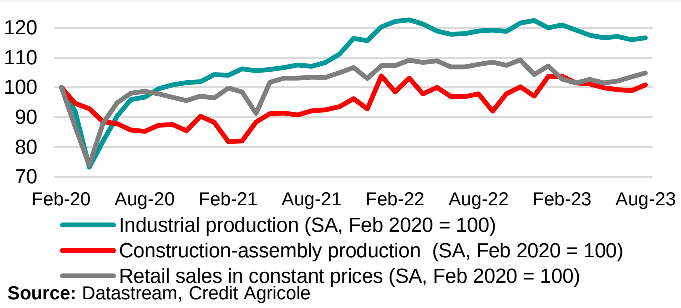
- **Some significant data on US economy will be released this week.** PCE inflation data will be published on Friday. We believe that it went up from 3.3% YoY in July to 3.6% in August, driven up by a stronger growth in energy prices. However, we also believe that the core inflation went down from 4.2% YoY in July to 3.9% in August. The final estimate of US Q2 GDP will be released on Thursday. We assume that the year-on-year economic growth will not be revised versus the second estimate, and so it will stay at 2.1%. We expect the orders for durable goods to have decreased by 1.8% MoM in August vs. a 5.2% drop in July. We believe that the slowdown in decline resulted primarily from a higher number of orders for consumption goods. We expect the data on new homes sales (693k in August vs. 714k in July) and the data on housing starts (see below) to show a decline in activity in the US property market. We expect both the Conference Board index (105.0 pts in September vs. 106.1 pts in August) and the final University of Michigan index (67.5 pts in September vs. 69.5 pts in August) to show a deterioration in US households' sentiments. We believe this week's US data will be neutral for financial markets.
- **Today, the Ifo index will be published, reflecting the sentiment of German businesses in the manufacturing, construction, trade, and services sectors.** The market is expecting the index to have fallen from 85.7 pts in August to 85.2 pts in September. The PMIs for Germany published last week (see below) represent an upward risk to our forecast. We believe that the release of business survey results for Germany will be neutral for financial markets.

Last week



Source: FOMC, Credit Agricole

- **At its last week's meeting, the Fed kept the target range for Federal Reserve funds at [5.25%; 5.50%], which was in line with market consensus and our forecast.** As regards the press release after the meeting, there were no significant modifications comparing to July. The Fed confirmed that it will be monitoring the incoming data on US economy and their implications for the monetary policy outlook. During the press conference, the Fed Chair J. Powell referred to the Fed's current approach to the monetary policy as restrictive. He also noted that the risks of over- and under-tightening of the monetary policy have become more equal recently. Last week saw the release of the FOMC members' new macroeconomic projections. The median of FOMC members' expectations concerning the Federal Reserve funds rate at the end of 2023 has not changed comparing to the June projection, and was indicative of one more 25-basis-point hike that is expected to take place in 2023. Medians for 2024 and 2025, however, went up by 50bp, which was above of market expectations. It suggests that interest rates in the US will remain elevated in a longer run, and no significant cuts should be expected anytime soon. Investors have seen this as a hawkish tone, and consequently, the USD strengthened against the EUR. At the same time, GDP growth forecasts for 2023-2024 have been revised significantly up (to 2.1% and 1.5% vs. 1.0% and 1.1% in the June projection, respectively) amidst the forecasts of lower unemployment and slightly higher PCE inflation path. In spite of the results of the September projection suggesting that there will be one more interest rate hike in 2024, we maintain our scenario in which the Fed completed the monetary policy hiking cycle in July 2023.
- **Some significant data on the US economy was released last week.** Data on new construction permits (1,543k vs. 1,443k; markedly above the market consensus of 1,440k), housing starts (1,283k vs. 1,447k in July; markedly below the consensus of 1,440k) and existing-home sales (4.04m vs. 4.07m) provided mixed signals from US property market. We expect the YoY US GDP growth rate to go up from 2.1% YoY in Q2 to 2.8% YoY in Q3.



Source: Datastream, Credit Agricole

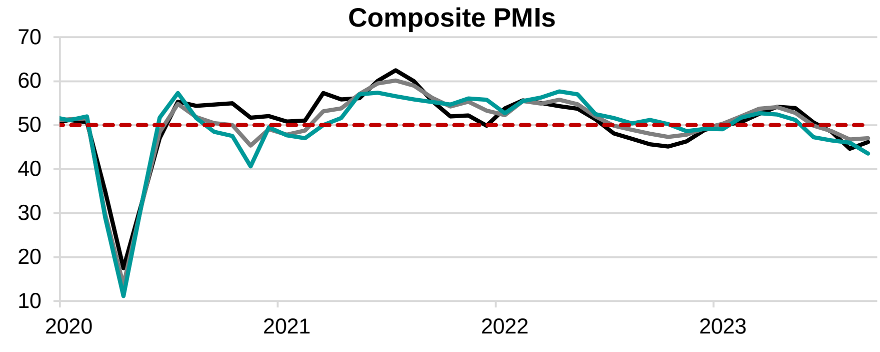
- **Industrial production growth in Poland accelerated from -2.3% YoY in July to -2.0% in August, running below the market consensus consistent with our forecast (-1.7% YoY).** Seasonally-adjusted industrial production increased by 0.6% MoM in August. Total annual industrial production growth between July and August was driven up primarily by "mining and quarrying" and "electricity, gas, steam and air conditioning supply". This is because the total contribution of those two categories made the industrial production go up by approx. 0.5 pp. between July and August (see MACROpulse of 20/09/2023). Like in July, also in August, the main factor driving the YoY industrial production further down was the slowdown in activity in those sectors that sell most of their production abroad. However, production growth in non-export-oriented sectors in August reached the highest level since January 2023. This means that our scenario, in which the inflation drop driving real wages and consumption up combined with the increase in housing investments and investments co-financed with EU funds drives the activity up in the sectors where production is sold mainly on the domestic market is materialising. Construction and assembly production increased to 3.5% YoY in August comparing to a 1.1% growth in July, running above the market consensus (1.1%) and our forecast (0.2%). Seasonally-adjusted total construction and assembly production increased in August by 2.0% MoM, rising for the first time since February 2023. Construction and assembly production growth between July and August was driven up by growth in "specialised construction activities" and "construction of buildings" categories, while production dynamics in the "civil engineering works" category did not change. We expect the activity in the construction sector to keep on growing in the coming months. Construction and assembly production will be supported by the public investments co-financed with the EU funds mentioned above, which will be coming towards an end, as well as a gradual recovery in the housing construction sector (see MACROpulse of 21/09/2023). Data on industrial production and construction and assembly production for August are consistent with our scenario in which the annual GDP growth will strongly accelerate, from -0.6% YoY in Q2 to 0.5% in Q3.

- **Nominal retail sales dynamics in Poland increased to 3.1% YoY in August comparing to 2.1% in July, running above the market consensus (1.8%) and our forecast (2.1%).** Seasonally adjusted retail sales in constant prices rose for the third month running in August, up by 1.3% MoM. Annual retail sales growth in constant prices went up from -4.0% YoY in July to -2.7% in August, reaching its highest level since January 2023. A marked increase in real wage fund growth, which reached its highest level since July 2022, contributed towards the acceleration in real retail sales growth between July and August (see below). Improving consumer sentiments also stimulated retail sales in August (see MACROpulse of 22/09/2023). Last week's data supports our conclusion saying that seasonally-adjusted retail sales reached their local minimum in Q2, and will be growing from Q3, supported by further improvement in consumer sentiment, the easing of last year's high base effects connected with the inflow of refugees from Ukraine, and the real wage fund growth acceleration that we expect to continue.
- **Nominal wage growth in the Polish sector of businesses increased from 10.4% YoY in July to 11.9% YoY in August, running above the market consensus (11.8%) and below our forecast (12.4%).** In real terms, after the adjustments made to take into consideration the changes in prices, wages in companies rose by 1.7% YoY in August comparing to a 0.3% growth in July, and it was their strongest real growth since February. The easing of last year's high base effects was the main factor driving nominal YoY wage growth up between July and August. We expect the nominal annual wage growth to follow a mild downward trend in the quarters to come, and we also believe the same will apply to average wages across the entire economy. A significant inflation drop, which we expect to take place, combined with the related wage pressure ease in the enterprises will be the main factor slowing the nominal growth in wages down in the quarters to come. The employment growth in the enterprise sector went down to 0.0% YoY in August vs. 0.1% in July. This means that it was below the market consensus consistent with our forecast (+0.1%). At the same time, it is worth noting that even though the rounded-up annualised employment growth stood at 0.0%, the actual number of employed went down by 500 YoY, declining for the first time since March 2021. The number of employed went down by 11.6k comparing to July. Like in the previous months, workforce cuts in the manufacturing sector remain the main factor curbing the employment growth, which confirms that the restructuring processes running in this sector are still in progress. Employment growth stabilisation combined with real wage growth in the enterprise

sector resulted in an increase in the real wage fund growth rate in the enterprise sector, the rate being the product of employment and average wage adjusted for changes in prices, to 1.7% YoY in August vs. -0.3% YoY in July. This means that real wage fund growth between July and August was stronger than in Q2 (+0,7%% vs. -0.5%). The wage fund data is consistent with our consumption growth forecast (+0.2% YoY in Q3 vs. -2.7% in Q2).

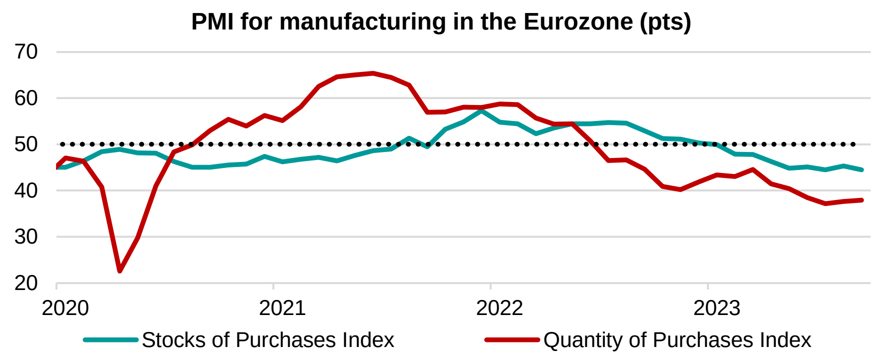
- **Last week, a meeting of the Swiss National Bank (SNB) was held.** Contrary to market expectations of a 25bp hike to 2.0%, the SNB chose to maintain the policy rate at 1.75%. This decision was justified by the observation that recent significant interest rate increases have effectively curbed inflationary pressures. However, the central bank stressed that, given the current outlook, further monetary tightening remains on the table to guarantee medium-term price stability. The SNB reiterated its commitment to closely observing inflation trends in the upcoming months and expressed its readiness to conduct foreign currency interventions when deemed necessary. In addition, the SNB unveiled its most recent macroeconomic forecasts. The GDP growth projection for 2023 remains unaltered at approximately 1% YoY. While the inflation predictions for 2023-2024 stand firm at 2.2%, the estimate for 2025 has been revised down by 0.2 pp to 1.9%. The SNB's decision aligns with our anticipated exchange rates for EURCHF (0.98 by the end of 2023 and 0.95 by the close of 2024) and CHFPLN (4.81 by the end of 2023 and 4.76 by the close of 2024).
- **Flash data indicates that the composite PMI (for manufacturing and the services sector) in the Eurozone climbed to 47.1 pts in September, up from 46.7 pts in August, surpassing market expectations of 46.3 pts.** The Eurozone's average composite PMI fell to 47.5 pts in Q3 from 52.3 pts in Q2, posing a substantial downside risk to our prediction. We had projected that the Eurozone's quarterly GDP growth would rise to 0.3% in Q3 from 0.1% in Q2.
- **Last week, A. Glapiński was interviewed by the Polish Press Agency.** The NBP President revealed that since the July forecast new data emerged suggesting potential near-future deviations for both GDP growth and inflation from the projected figures. He noted that this prompted the Council to make significant adjustments to interest rates in September in response to altered future inflation expectations. While A. Glapiński acknowledged that the room for further interest rate cuts has significantly diminished post-adjustment, he suggested that more data could still influence future decisions. Nonetheless, he emphasized in the interview that considering the drop in inflation forecasts, real interest rates currently stand higher than they did a few months back. This served as a major rationale for the Monetary Policy Council's rate cut in September (see the MACROpulse of 06/09/2023). The NBP President's recent statements signal a risk that interest rate cuts may be less substantial than our initial estimate of a 50bp reduction for both October and November. Such an outcome would also put downward pressure on our EURPLN exchange rate forecast, which we have penciled in at 4.71 by year's end.
- **We have updated our EURUSD rate projection.** Recent macroeconomic figures and economic survey results highlight ongoing significant disparities in the economic growth rates of the US and the Eurozone. Given the notably stronger economic situation in the US, we expect the USD to gain strength in the ensuing months. Thus, we now predict the EURUSD rate to be 1.08 by the end of the year and 1.09 by Q1 2024, a shift from our previous forecasts of 1.10 and 1.11, respectively. We maintain our projection of the EURUSD rate dipping to 1.05 by the end of 2024. Considering the EURPLN rate, we project the USDPLN rate to be around 4.36 by the end of this year and 4.30 by the end of 2024 (refer to the quarterly table).
- **Last week, Moody's did not publish a new report on Poland's rating, thus maintaining the long-term A2 rating with a stable outlook.** This rating stabilization is expected to have a neutral impact on the PLN exchange rate and bond yields.

Economic outlook in Eurozone slightly less pessimistic



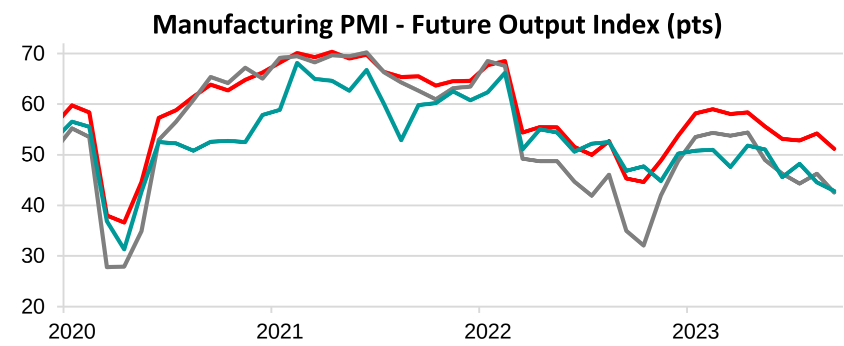
Source: S&P, Credit Agricole

According to flash data, the composite PMI index (for manufacturing and the services sector) in the Eurozone expanded to 47.1 pts in September from 46.7 pts in August, surpassing market expectations of 46.3 pts. The composite PMI grew on the back of an increase in the component for business activity in services, with the reading for current output in manufacturing remaining stable. Geographically, Germany saw an improvement in economic activity, whereas France experienced its most significant decline since November 2020. For other Eurozone nations covered in the PMI survey, there was a marginal decline in activity for the second consecutive month, with the aggregate PMI index registering 49.9 pts, up from 49.1 pts in August. Weak demand remains the main factor holding back economic activity in the common currency area, reflected in a decline in total new orders and export orders. The total new orders component has been on a downward trend for five months, with September marking its lowest point since November 2020. A factor stabilizing economic activity was the clearing of production backlogs. These have been consistently decreasing since June 2022, with the rate of decline intensifying in September compared to August.



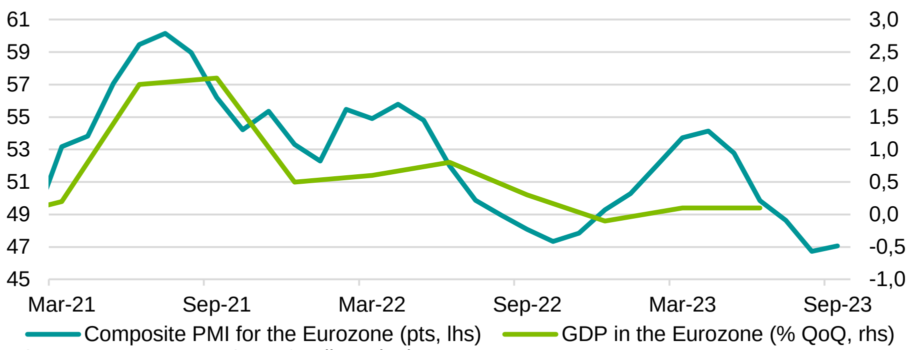
Source: S&P, Credit Agricole

Amidst stifled demand and easing supply bottlenecks, manufacturing companies in the Eurozone marginally hastened their pace in reducing stocks of purchases. However, the recently observed hesitancy in making new purchases has slightly waned. As per the PMI commentary, this might hint at the onset of stabilization of stocks of purchases in manufacturing and a shift towards revival in manufacturing activity. The reduction in stocks of purchases is not solely confined to the Eurozone but is a global phenomenon. PMI studies suggest that the percentage of global firms buying inputs to maintain higher inventory buffers has dramatically decreased in recent quarters, touching one of its historical lows.



Source: S&P, Credit Agricole

Considering trends in Germany, vital for Polish exports, the manufacturing PMI climbed to 39.8 pts in September from 39.1 pts in August, exceeding market predictions of 39.5 pts. The index's growth was driven by higher contributions from new orders and supplier delivery times, with current production, employment, and stocks of purchases having the opposite effect. Particularly noteworthy in the data structure is the increase in the component for new orders, including new export orders. Nevertheless, the indicator for expected production in manufacturing over a 12-month horizon in September descended to its lowest level since November 2022, signifying prevailing pessimism among the surveyed businesses.

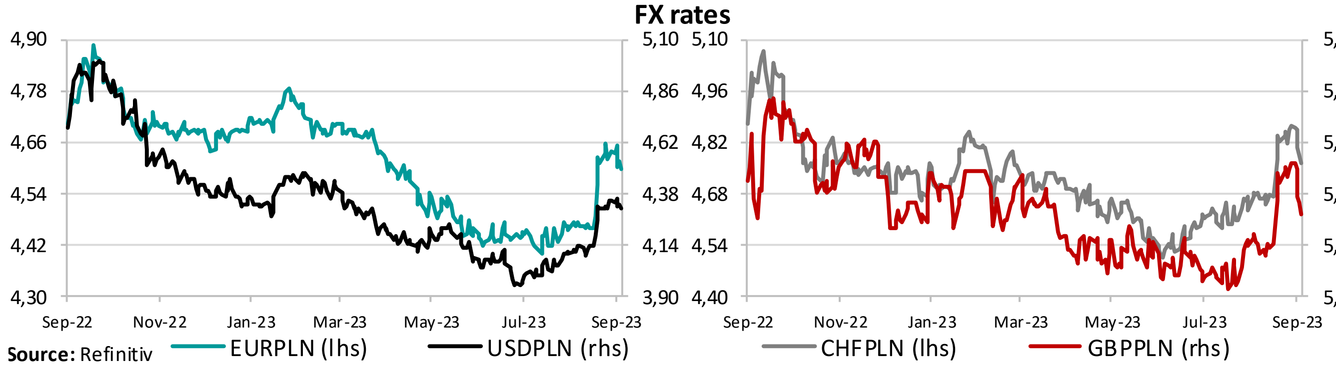


Source: Datastream, S&P, Credit Agricole

In Q3, the average aggregate PMI index value in the Eurozone was lower than in Q2 (47.5 pts vs. 52.3 pts). According to S&P's commentary published together with the data, the decline in economic activity reflected in the PMI indicators corresponds to a GDP growth rate of approximately -0.4% QoQ in the Eurozone. This poses a notable risk to our forecast, which had predicted an average GDP growth of +0.3% QoQ in Q3, compared to 0.1% QoQ in Q2. We have already accounted for the sluggish economic growth in Poland's external environment. It aligns with our "soft landing" scenario for the Polish economy, which predicts a significant decline in GDP growth for Poland in 2023 (0.5% YoY) compared to 2022 (5.1%). Despite the economic slowdown, we do not anticipate a marked increase in unemployment.

NBP President's statement strengthens PLN

FX rates

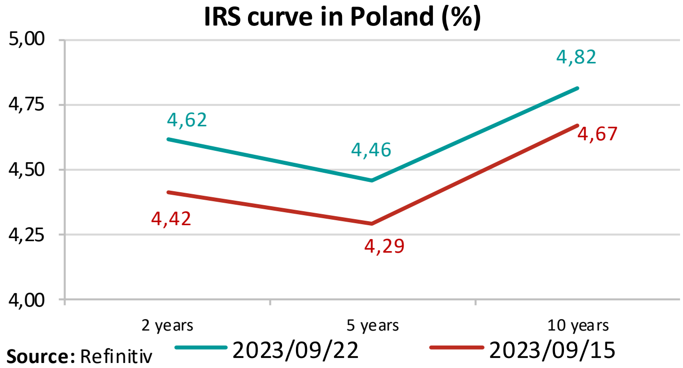


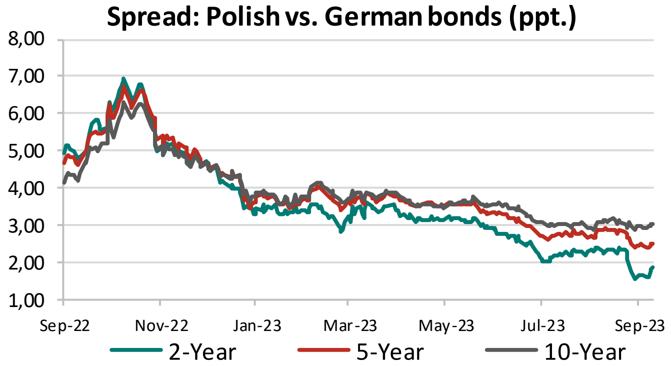
Source: Refinitiv

Last week, the EURPLN exchange rate dipped to 4.5983, marking a 0.9% appreciation of the PLN. The early part of the week saw the EURPLN rate rise in the lead-up to the FOMC meeting. A statement on Wednesday from A. Glapiński, the NBP President, indicating limited room for further interest rate cuts in Poland, prompted an adjustment and subsequent strengthening of the PLN. In the days that followed, the EURPLN rate maintained its relatively low levels, even in light of the FOMC's hawkish September projection, which significantly bolstered the USD against the EUR.

Friday's assessment by Moody's of Poland's credit rating is neutral for the PLN. This week, the preliminary inflation data from Poland, set for release on Friday, will play a pivotal role in influencing the PLN exchange rate. Should the figures be in line with our forecast, they could contribute to the erosion of the Polish currency. Nonetheless, we anticipate that this week's global economic data releases will not significantly impact the PLN exchange rate.

Publication of FOMC projection drives up IRS rates





Source: Refinitiv

Last week, 2-year IRS rates rose to 4.62 (up by 20bp), 5-year to 4.46 (up by 17bp), and 10-year to 4.82 (up by 48bp). Throughout the week, IRS rates surged across the entire curve, following the trends in the core markets. The primary driver for the uptick in yields within the core markets was the hawkish September FOMC projection, suggesting that US interest rates would remain elevated for an extended period (as mentioned above). Domestically, the statement from the NBP President, A. Glapiński, also played a role in the rise of IRS rates as he highlighted that there was limited room for further interest rate cuts in Poland.

Friday's assessment by Moody's regarding Poland's credit rating is neutral for the curve. This week, the anticipated release of preliminary inflation data in Poland could result in a slight decrease in IRS rates. We expect that other global economic data releases scheduled for this week will not significantly impact 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	**4,35**
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	10,0	
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	-2,0	
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	-2,8	
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	3,1	
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	11,9	
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	0,0	
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	566		
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	1,3		
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	-8,9		

*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
	Investments (pp)	0,7	1,1	0,4	1,2	0,6	1,2	1,0	1,3	0,9	1,1	0,4
	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	4,35	4,36	4,38	4,36	4,30

* quarterly average

** end of period

***cumulative for the last 4 quarters

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST* CA	FORECAST* CONSENSUS**
		Monday 09/25/2023				
10:00	**Poland**	**Registered unemplyment rate (%)**	**Aug**	**5,0**	**5,0**	**5,0**
10:00	Germany	Ifo business climate (pts)	Sep	85,7		85,2
		Tuesday 09/26/2023				
15:00	USA	Case-Shiller Index (% MoM)	Jul	0,9		0,6
16:00	USA	Richmond Fed Index	Sep	-7,0		
16:00	USA	New home sales (k)	Aug	714	693	700
16:00	USA	Consumer Confidence Index	Sep	106,1	105,0	105,6
		Wednesday 09/27/2023				
10:00	Eurozone	M3 money supply (% MoM)	Aug	-0,4		-1,0
14:30	USA	Durable goods orders (% MoM)	Aug	-5,2	-1,8	-0,4
		Thursday 09/28/2023				
11:00	Eurozone	Business Climate Indicator (pts)	Sep	-0,33		
14:00	Germany	Preliminary HICP (% YoY)	Sep	6,4	4,3	4,7
14:30	USA	Final GDP (% YoY)	Q2	2,1	2,1	2,3
		Friday 09/29/2023				
10:00	**Poland**	**Flash CPI (% YoY)**	**Sep**	**10,1**	**8,3**	**8,6**
11:00	Eurozone	Preliminary HICP (% YoY)	Sep	5,2	4,4	4,5
14:30	USA	PCE Inflation (% YoY)	Aug	3,3	3,6	3,5
14:30	USA	PCE core inflation (% YoY)	Aug	4,2	3,9	3,9
14:30	USA	Real private consumption (% MoM)	Aug	0,6		
15:45	USA	Chicago PMI (pts)	Sep	48,7		47,6
16:00	USA	Final U. of Michigan Sentiment Index (pts)	Sep	67,7	67,5	67,7

*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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