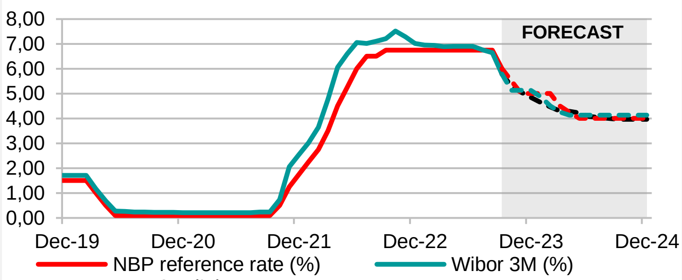
Further acceleration of restructuring processes in manufacturing

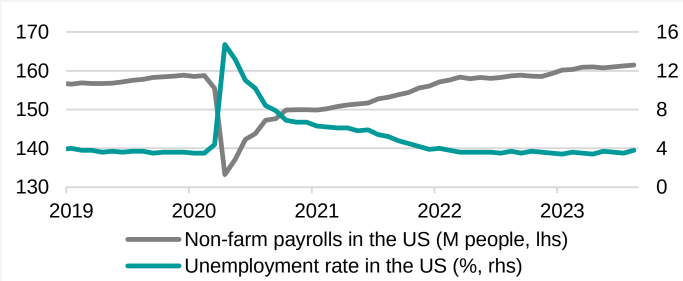
This week

- **The key event this week will be a MPC meeting scheduled for Wednesday.** We expect the MPC to cut interest rates by 50bp. The key argument for a further easing of monetary policy is a steep fall in inflation recorded in September (see below). However, we acknowledge the risk that the interest rate cut may be smaller than we expect, which would be in line with the NBP Governor's comments from two weeks ago (see MACROmap of 25/09/2023). He said then that following the adjustment of monetary policy in September, room for further interest rate cuts had considerably narrowed, although it would continue to do appear with incoming data. the consensus expects an interest rate cut of 25bp this week. Thus, if our expectation of a 50bp cut materializes, we may expect a weakening of the PLN and a drop in yields on Polish bonds. This week will probably also see the NBP Governor's usual press conference, which will shed more light on Poland's monetary policy prospects. We believe that the conference will add to the volatility of the PLN and debt prices.



Source: Reuters, Credit Agricole

- **Some significant data on the US economy will be released this week.** Of key importance will be the release of US non-farm payroll figures on Friday. We expect non-farm payrolls to have risen by 160k compared to a rise of 187k in August, and unemployment to have dropped to 3.7% from 3.8% in August. Before Friday's data release, some data on the labour market will be provided in the ADP report on employment in the private sector (the market expects a 140k rise in September vs. 177k in August). The ISM manufacturing index will be released today. We expect the index to have risen to 48.0 pts in September from 47.6 pts in August, in line with a rise in the US manufacturing PMI. We believe that this week's US data release will be neutral for financial markets.



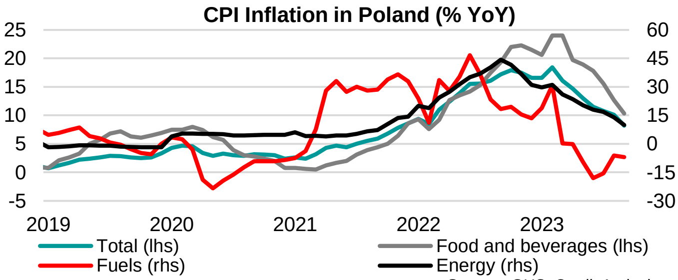
Source: Datastream, Credit Agricole

- **Poland's manufacturing PMI rose to 43.9 pts in September from 43.1 pts in August, running slightly above market expectations (43.7 pts) and well below our forecast (45.0 pts).** Thus, the index has been below the 50-point mark that separates growth from contraction for 17 months.

Last week

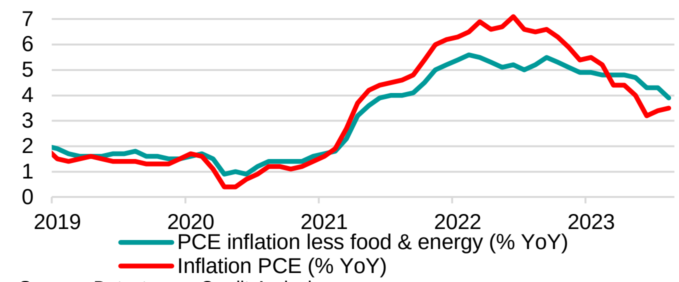
- **China's Caixin manufacturing PMI fell to 50.6 pts in September from 51.0 pts in August, running well below market expectations (51.1 pts).** Despite the fall recorded in September, the Caixin PMI has been above the 50-point mark that separates growth from contraction for four months. The fall in the index is accounted for by lower contributions from 2 out of its 5 components (employment and new orders), partially offset by higher contributions from output, inventories, and delivery times. What is particularly worth noting about the data is a big drop in the employment component, which reflects restructuring processes that are underway in China's manufacturing. The scale of restructuring is growing with businesses becoming more pessimistic about business prospects – future output expected over a 12-moth horizon has been on a downward trend in recent months hitting in September the lowest level since September 2022. At the same time, slight improvement in business sentiment was signalled by the NBS PMI, which rose to 50.2 pts in September from 49.7 pts in August, running above market expectations (50.1 pts). The results of China's manufacturing surveys do not change our forecast, which expects China's GDP growth to pick up to 5.1% in 2023 from 3.0% in 2022, driven mainly by a strong recovery in consumption supported by a release of pent-up demand. Such growth will be in line with the growth target of 'ca. 5%' set by the Chinese government. However, achieving that target will require more fiscal stimulation.

- **According to the flash estimate, CPI inflation in Poland fell to 8.2% YoY in September from 10.1% in August, running below market consensus (8.5%) and our forecast (8.3%).** GUS released partial data on the inflation breakdown, including information about price growth in the 'food and non-alcoholic beverages', 'energy' and 'fuels' categories. Inflation was driven down by slower price rises in 'food and non-alcoholic beverages' (10.3% YoY in September vs. 12.7% in August), 'energy' (9.9% vs. 13.9%), and 'fuels' (-7.0% vs. -6.1%), as well as by lower core inflation, which we expect to have fallen to 8.6% YoY in September from 10.0% in August, showing that inflationary pressures are gradually weakening. Despite inflation being lower than expected in September, we see a significant upside risk to our short-term inflation forecast and thus also to the pace of disinflation in the coming months. The risk is associated with the weakening of the PLN seen in recent weeks and a high probability of fuel price rising after parliamentary elections. In consequence, we also acknowledge an upside risk to our interest rate path.



Source: GUS, Credit Agricole

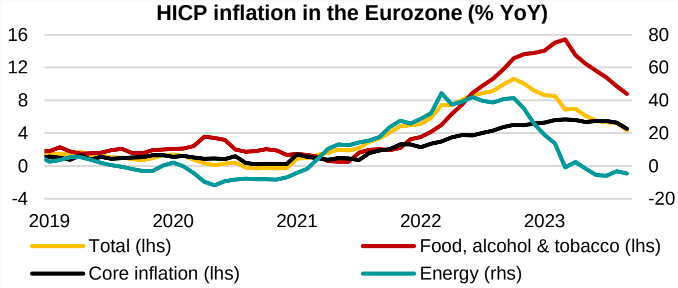
- **Some significant data on the US economy was released last week.** PCE inflation increased to 3.5% YoY in August, up from 3.4% in July, driven by higher energy price growth rate. By contrast, core PCE inflation fell (to 3.9% from 4.3%), indicating weakening inflationary pressures in the US economy. Last week we also learnt the final estimate of US GDP in Q2. The annualized growth rate, at 2.1%, was not revised compared to the second estimate. Last week, we also saw data on durable goods orders, which increased by 0.2% MoM in August, compared to a 5.6% drop in July, which was above market expectations (-0,5%). Excluding transportation, monthly growth in durable goods orders increased to 0.4% in August vs. 0.1% in July. At the same time, the growth rate of orders for non-military capital goods was unchanged in August compared to July, at 0.3% YoY. Its three-month moving average, however, remains in a clear downward trend, which in our view indicates a further deterioration in the US investment outlook. Last week new-home sales data was published; the sales declined to 675,000 in August from 739,000 in July. Taking into account the data on housing starts and existing-home sales published two weeks ago, this indicates a decline in activity in the US property market. Business survey results were also released last week. The Conference Board index declined to 103.0 pts in September, compared to 108.7 pts in August, indicating a strong deterioration in US household sentiment. The decline in the index was due to a decrease in its component for expectations, while the component for the assessment of the



Source: Datastream, Credit Agricole

current situation increased slightly relative to August. According to the data release, the deterioration in sentiment was linked to rising prices (primarily food and fuels), the political situation and high interest rates. The final University of Michigan index also showed deterioration in US consumer sentiment (68.1 pts in August vs. 69.5 pts in July and the preliminary estimate of 67.7 pts). Last week's data from the US economy support our scenario that the Federal Reserve completed its interest rate hike cycle in June.

According to the flash estimate, inflation in the Eurozone fell to 4.3% YoY in September from 5.2% in August, running below market consensus (4.5%) and our forecast (4.4%). Inflation was driven down by all of its components (see the chart), including lower core inflation (4.5% YoY in September vs. 5.3% in August). We maintain our assessment that expects headline inflation and core inflation to continue falling in the coming months, both rates to reach 3.7% in December this year. However, it is worth noting that the fall in inflation we forecast will slow markedly in 2024 and neither headline inflation nor core inflation will come back to the ECB's inflation target of 2% over the entire horizon of our scenario (i.e. until the end of 2025). Despite the persistence of inflation, we maintain our scenario that expects the monetary policy tightening cycle in the Eurozone to have already ended. The key argument for the ECB against further rate hikes will be poor incoming data on the Eurozone’s real economy.

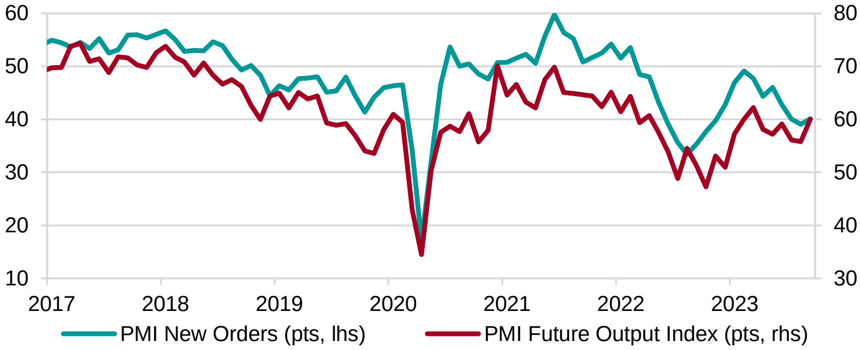


Source: Datastream, Credit Agricole

Further acceleration of restructuring processes in manufacturing

The PMI for Polish manufacturing rose to 43.9 pts in September vs. 43.1 pts in August, which was slightly above market expectations (43.7 pts) and markedly below our forecast (45.0 pts). This means that the index has remained below the 50-point level separating growth from contraction for 17 consecutive months. Higher contributions from 4 out of 5 components (for current output, new orders, inventories and delivery times) had an upward effect on the index, while a lower contribution from the employment component had the opposite effect.

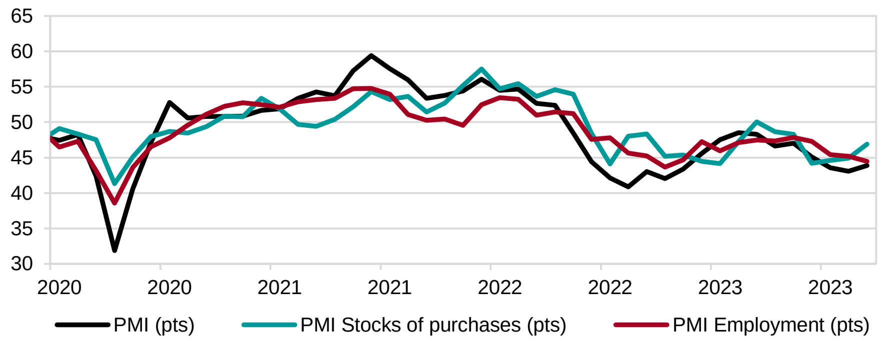
Despite the increase recorded in September, the components for current output and new orders, including export orders, remain clearly below the 50-point limit, indicating a continuing high rate of decline in manufacturing activity. To some extent, this activity is sustained by the realisation of the production backlog, which in September decreased for the 15th consecutive month. However, it is worth noting that the rate of their decline has been slowing steadily in recent months. On the one hand, this may indicate that this buffer is gradually being depleted. On the other hand, some companies, fearing a protracted decline in orders, may be more cautious in tapping into this buffer, wanting it to last longer.



Source: S&P

Noteworthy in the data is the increase in the component for expected output at a 12-month horizon to the highest level since March 2023. In our view, it is somewhat of a surprise, especially given the trends observed in the Eurozone, including Germany, where the PMIs for September indicated a further strong decline in manufacturing activity and pessimistic assessments of future output (see MACROmap of 25/09/2023).

Weakening activity in manufacturing is also reflected in the continued strong decline in both input and output prices, with its rate declining slightly in September. This is consistent with our scenario of a gradual weakening of inflationary pressures in Poland in the following months.



Source: S&P

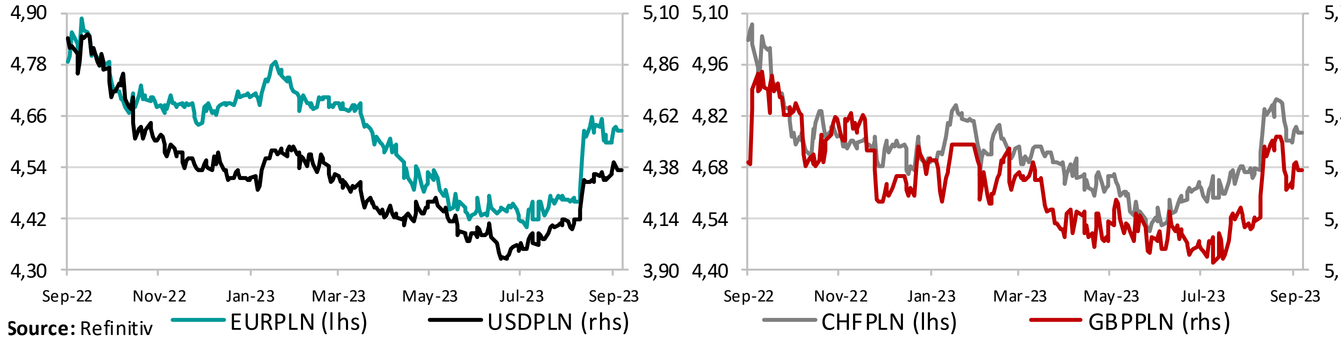
At the same time, the continuing high rate of decline in activity is encouraging an acceleration of restructuring processes. What supports this assessment is a further decline in the manufacturing employment component of the PMI, the rate of which in September was the highest since October 2022. Companies continued to reduce their input stocks in September, with the rate of decline slowing in recent months.

The average PMI for Poland’s manufacturing fell from 46.2 pts in Q2 to 43.5 pts in Q3. The data does not change our forecast for economic growth in Poland in Q3 (0.5% YoY vs. -0.6% in Q2).

In our opinion, today’s data is neutral for the PLN and the yields on Polish bonds.

MPC meeting crucial for the PLN

FX rates

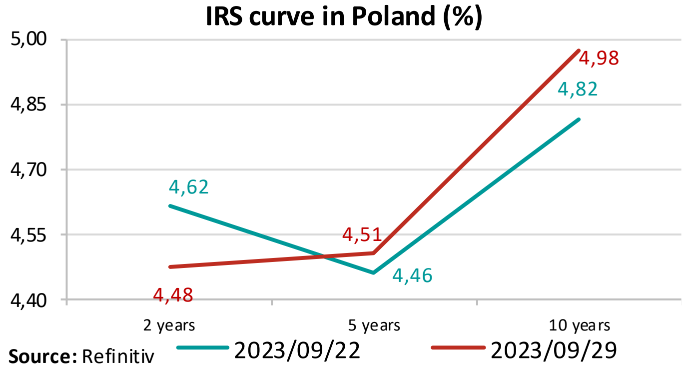


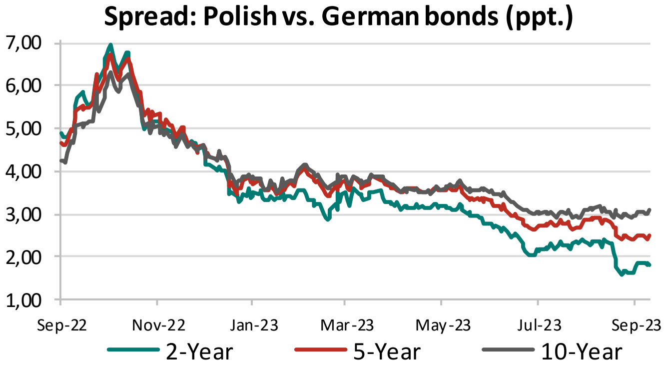
Source: Refinitiv

Last week, the EURPLN rate increased to 4.6241 (the PLN weakened by 0.6%). Throughout last week, the PLN's exchange rate was in a slight downward trend, as were the rates of the HUF and the RON. The weakening of the region's currencies was supported by a rise in market expectations for interest rates to stay higher for longer, following the hawkish Fed meeting two weeks ago. Domestic data on inflation had a limited impact on the PLN.

This week the MPC meeting will be crucial for the PLN. Our forecast that the MPC will cut interest rates by 50bp anticipates a larger scale of monetary easing than the market consensus (25bp), and thus its materialization will have an impact on weakening the PLN. On the other hand, the press conference of NBP Governor A. Glapiński may lead to increased volatility of the PLN. We believe that the remaining publications scheduled for this week will be neutral for the Polish currency.

NBP Governor's conference may increase IRS rate volatility





Source: Refinitiv

Last week the 2-year IRS rates decreased to 4.48 (down by 14bp), 5-year rates increased to 4.51 (up by 5bp), and 10-year rates increased to 4.98 (up by 16bp). In the first part of the week IRS rates increased across the curve following the core markets. On the other hand, on Friday we saw IRS rates fall in Poland following the publication of lower-than-expected inflation data in Germany, the Eurozone and Poland. The decline was mainly visible at the short end of the curve, which led to a steepening of the curve.

This week the MPC meeting planned for Wednesday is going to be in the spotlight. If our forecast of a 50bp interest rate cut materializes, it will push IRS rates down. On the other hand, the press conference of NBP Governor A. Glapiński may lead to increased volatility in IRS rates. Other data releases scheduled for this week will be neutral for the curve in our opinion.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland

Indicator	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	Oct-23
NBP reference rate (%)	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	**5,50**
EURPLN*	4,85	4,71	4,67	4,69	4,71	4,70	4,68	4,59	4,53	4,43	4,40	4,47	4,63	**4,65**
USDPLN*	4,95	4,77	4,48	4,38	4,33	4,45	4,31	4,16	4,23	4,06	4,00	4,12	4,37	**4,39**
CHFPLN*	5,01	4,76	4,74	4,72	4,70	4,72	4,71	4,66	4,64	4,52	4,59	4,66	4,78	**4,79**
CPI inflation (% YoY)	17,2	17,9	17,5	16,6	16,6	18,4	16,1	14,7	13,0	11,5	10,8	10,1	**8,3**	
Core inflation (% YoY)	10,7	11,0	11,4	11,5	11,7	12,0	12,3	12,2	11,5	11,1	10,6	10,0	**8,8**	
Industrial production (% YoY)	9,8	6,6	4,4	0,9	1,8	-1,0	-3,1	-6,0	-2,8	-1,1	-2,3	-2,0	**-3,0**	
PPI inflation (% YoY)	24,6	23,1	21,1	20,5	20,1	18,2	10,3	6,2	2,8	0,3	-2,1	-2,8	**-2,6**	
Retail sales (% YoY)	21,9	18,3	18,4	15,5	15,1	10,8	4,8	3,4	1,8	2,1	2,1	3,1	**4,0**	
Corporate sector wages (% YoY)	14,5	13,0	13,9	10,3	13,5	13,6	12,6	12,1	12,2	11,9	10,4	11,9	**10,8**	
Employment (% YoY)	2,3	2,4	2,3	2,2	1,1	0,8	0,5	0,4	0,4	0,2	0,1	0,0	**0,0**	
Unemployment rate* (%)	5,1	5,1	5,1	5,2	5,5	5,5	5,4	5,2	5,1	5,0	5,0	5,0	**5,0**	
Current account (M EUR)	-2208	-439	283	-2635	2381	1738	1355	529	1479	2431	566	**106**		
Exports (% YoY EUR)	26,5	23,2	24,2	10,6	15,7	14,7	18,1	2,6	3,3	1,7	1,3	**-1,5**		
Imports (% YoY EUR)	31,4	24,1	18,3	11,3	7,4	3,9	-1,4	-8,9	-6,3	-5,8	-8,9	**-11,5**		

*end of period

Forecasts of the quarterly macroeconomic indicators

Main macroeconomic indicators in Poland

Indicator	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2022	2023	2024
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	5,0	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	9,7	6,3	14,3	11,6	4,4
Wibor 3M (%)**	4,77	7,05	7,21	7,02	6,89	6,90	5,78	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	4,62	4,71	4,69	4,71	4,52
USDPLN**	4,19	4,48	4,95	4,38	4,31	4,06	4,37	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	CONSENSUS**
		Monday 10/02/2023				
9:00	**Poland**	**Manufacturing PMI (pts)**	**Sep**	**43,1**	**45,0**	**43,7**
9:55	Germany	Final Manufacturing PMI (pts)	Sep	39,8	39,8	39,8
10:00	Eurozone	Final Manufacturing PMI (pts)	Sep	43,4	43,4	43,4
11:00	Eurozone	Unemployment rate (%)	Aug	6,4		6,4
15:45	USA	Flash Manufacturing PMI (pts)	Sep	48,9		
16:00	USA	ISM Manufacturing PMI (pts)	Sep	47,6	48,0	47,7
		Wednesday 10/04/2023				
10:00	Eurozone	Services PMI (pts)	Sep	48,4	48,4	48,4
10:00	Eurozone	Final Composite PMI (pts)	Sep	47,1	47,1	47,1
11:00	Eurozone	PPI (% YoY)	Aug	-7,6		-11,6
11:00	Eurozone	Retail sales (% MoM)	Aug	-0,2		-0,3
14:15	USA	ADP employment report (k)	Sep	177		160
16:00	USA	Factory orders (% MoM)	Aug	-2,1		0,3
16:00	USA	ISM Non-Manufacturing Index (pts)	Sep	54,5	53,5	53,6
	Poland	**NBP rate decision (%)**	**Oct**	**6,00**	**5,50**	**5,75**
		Thursday 10/05/2023				
8:00	Germany	Trade balance (bn EUR)	Aug	15,9		15,8
		Friday 10/06/2023				
8:00	Germany	New industrial orders (% MoM)	Aug	-11,7		1,5
14:00	**Poland**	**MPC Minutes**	**Oct**			
14:30	USA	Unemployment rate (%)	Sep	3,8	3,7	3,7
14:30	USA	Non-farm payrolls (k MoM)	Sep	187	160	163

*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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