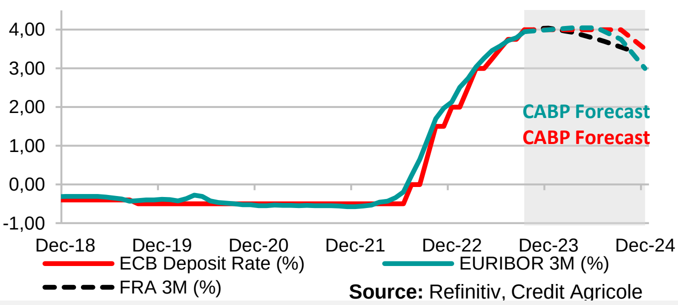
Pro-inflationary post-election calendar?

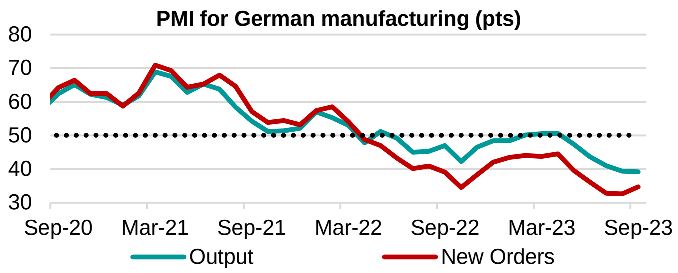
This week

- **The most important event this week will be the ECB meeting scheduled for Thursday**. We expect the ECB to leave interest rates unchanged (main rate of 4.50% and deposit rate of 4.00%). We anticipate that the ECB's balance sheet reduction process (so-called Quantitative Tightening) will also be addressed at Thursday's meeting. According to some ECB members, its current pace of reduction is insufficient for the effective transmission of restrictive monetary policy. In our view this process will accelerate at the beginning of 2024. While we do not expect further interest rate rises in the Eurozone in our baseline scenario, we see a risk of a resumption of the ECB's monetary policy tightening cycle in the future. The ECB's current forecasts for total inflation and core inflation at the end of 2025 (1.9% and 2.1% respectively) do not foresee inflation returning to the target (2.0%) over the monetary policy horizon, which is an important argument for maintaining a hawkish monetary policy stance. In our opinion, the cycle of rate cuts will not start until Q4 2024. Our forecast of an ECB rates stabilisation this week is consistent with market expectations and therefore its materialisation would be neutral for financial markets.



Source: Refinitiv, Credit Agricole

- **On Tuesday, we will find out the results of business surveys in the Eurozone and major European economies.** The market expects the preliminary composite PMI for the Eurozone to have increased to 47.4 pts in October, up from 47.2 pts in September. This would therefore be the second consecutive month in which the PMI has increased. The market expects that the improvement in both the manufacturing and services sectors contributed to the rise in the PMI in October. Investors are forecasting an increase in the German manufacturing PMI as well (up to 40.0 pts in October from 39.6 pts in September). Despite a slight upturn, the index will confirm the continuation of recessionary trends in German manufacturing. On Wednesday, the Ifo index reflecting the sentiment of German entrepreneurs representing the manufacturing, construction, trade and services sectors will be published. The market expects the index value to have decreased to 85.5 pts in October from 85.7 pts in September. In our view, the publication of the Eurozone and German results of business surveys will be neutral for the financial markets.



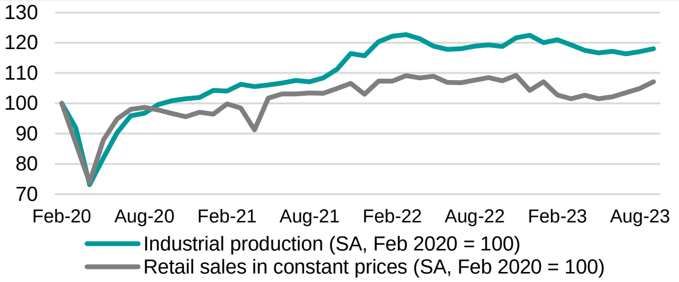
Source: Markit, Credit Agricole

- **Important data from the US economy will be released this week**. On Friday, PCE inflation data will be published. We expect core inflation to have decreased to 3.7% YoY in September, down from 3.9% in August. On Thursday, on the other hand, we will get to know the preliminary estimate of US Q3 GDP. We assume that the annualised economic growth rate will increase to 3.5% compared to 2.1% in Q2. In line with the market consensus, durable goods orders rose by 0.6% MoM in September compared to an increase of 0.1% in August. In line with market expectations, the final University of Michigan index will come in at 63.2 pts in October, compared to 68.1 pts in September, indicating a deterioration in US household sentiment. In our view, the US data releases this week will be neutral for the financial markets.
- **September construction and assembly production data in Poland will be released today**. We forecast that the annual growth rate of industrial production increased to 8.5% YoY in September, compared to 3.5% in August. We are of the opinion that the significant increase in

the growth rate of construction and assembly production was mainly influenced by the effects of a low base from a year ago, as well as the recovery in the construction industry. On the other hand, the statistical effect in the form of an unfavourable difference in the number of working days had an opposite effect. In our view, the construction and assembly production data will not have a significant impact on the zloty exchange rate and yields on Polish bonds.

Last week

- **Industrial production in Poland decreased by 3.1% YoY in September, compared to a 1.9% YoY decline in August, above the market consensus (-3.2%) and below our forecast (-3.0%).** The statistical effect of an unfavourable difference in the number of working days was an important factor explaining a drop in industrial production between August and September. Seasonally adjusted industrial production increased by 0.9% MoM in September, which is its second consecutive month of growth. As in August, the main factor influencing the deepening of the year-on-year decline in industrial production in September was a reduction in the production growth rate in industries where the dominant part of sales is directed towards exports. The main source of the decline in output in export industries observed in recent months is the continued reduced activity in manufacturing in the Eurozone, including Germany (see MACROpulse of 19.10.2023). The industrial production data, combined with last week's retail sales and employment data and average wages in the corporate sector (see below), support our “soft landing” scenario for the Polish economy, according to which Poland's GDP growth will clearly decline in 2023, but will remain positive (0.5% YoY on average), and the strong slowdown in economic growth will not be accompanied by a significant increase in unemployment.
- **Nominal retail sales growth in Poland rose to 3.6% YoY in September, up from 3.1% in August, above the market consensus (3.1%) and below our forecast (4.0%).** Seasonally adjusted retail sales at constant prices rose by 2.2% MoM in September, increasing for the fourth consecutive month. In contrast, annual retail sales growth at constant prices increased to -0.3% YoY in September, compared with -2.7% in August, which is its highest level since January 2023. Higher fuel sales growth contributed most to the increase in the actual retail sales growth between August and September (see MACROpulse of 20.10.2023). However, even after excluding fuel sales, retail sales have been on an upward trend in recent months, supported by rising real wage fund growth and improving consumer sentiment. Last week's data provides support for our scenario that the gradually receding effects of last year's high base related to the influx of refugees from Ukraine, as well as the further real wage fund growth that we expect, will work towards a continuation of the increase in annual sales growth at constant prices in the following months. As a result, we are of the opinion that the pace of real retail sales will settle above zero in October for the first time since January 2023.



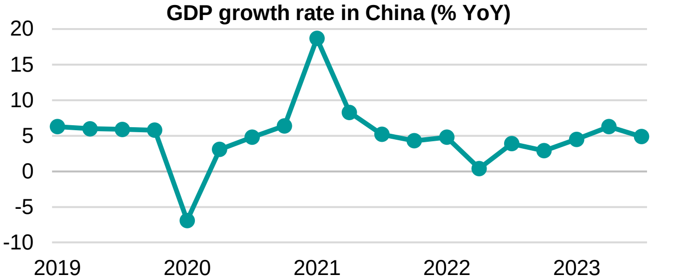
Source: GUS, Credit Agricole

- **Nominal wage growth in the Polish corporate sector slowed down in September to 10.3% YoY, compared to 11.9% in August, below the market consensus (10.9%) and our forecast (10.8%).** In real terms, after adjusting for price changes, corporate wages increased by 2.0% YoY in September, compared with a 1.7% increase in August. Hence, this was their strongest real growth since February 2022. The main factor influencing the reduction in annual nominal wage growth between August and September was the effect of a high base from a year ago. We expect nominal annual wage growth to follow a mild downward trend in the following quarters, which will also be observed for average wages in the overall economy. The main factor influencing the downward trend in nominal wage growth in the coming quarters will be the strong decline in inflation we expect and the associated reduction in corporate wage pressures. Employment growth in the corporate sector was unchanged in September compared to August, at 0.0%, and hence in line with the market consensus equal to our forecast. Compared with August, employment decreased by 6.0k people in September, which was mainly due to a relatively strong decline in employment in trade (-4.3k MoM). A certain surprise, especially in the light of the results of business surveys, is the significant increase in employment in manufacturing (+2.3k), although we do not consider this to be indicative of a slowdown in the restructuring processes observed in recent months in this sector (see MACROpulse of 19.10.2023). The increase in real wage growth rate and the stabilisation of employment in the corporate sector were reflected in an increase in the real growth of the corporate wage fund (the product of employment and average price-adjusted wages) to 2.0% YoY in September, compared to 1.7% in August. As a result, the average real growth of the payroll fund in Q3 was 1.1% YoY against -0.5% in Q2, which supports our forecast for consumption growth (+0.2% YoY in Q3 against -2.7% in Q2).

Last week, vital data from the US was released. The monthly industrial production grew by 0.3% MoM, an increase from 0.0% in August, exceeding the market expectations of 0.0%. The increase was spurred by higher output in mining and manufacturing with slower growth in utility output having the opposite effect. Concurrently, capacity utilization climbed to 79.7% in September from 79.5% in August. Last week also saw the release of data on retail sales showing a nominal monthly growth rate of 0.7% in September, a slight decrease from 0.8% in August but substantially outperforming the market expectations of 0.3%. Excluding cars, the monthly sales growth dwindled to 0.6% in September, compared to 0.9% in August. This decline was pervasive across most categories and was predominantly influenced by last month's high base effects. Retail sales data over the past few months signals that consumer demand in the US remains robust, largely attributed to the substantial buffer of household savings amassed during the COVID-19 pandemic (see MACROmap of 16/10/2023). Also released last week were figures on building permits (1,473 in September vs. 1,541 in August), housing starts (1,358 vs. 1,269) and existing home sales (3.96m vs. 4.04m), showing a subtle persistent downturn in the US real estate market's activity. Notably, the pronounced surge in housing starts is not indicative of an improvement in the outlook for this market, but rather reflects the execution of building permits granted prior to the substantial rise in mortgage interest rates. Mixed signals from the US manufacturing industry were provided by the regional economic survey results: NY Empire State (-4.6 pts in October vs. 1.9 pts in September) and Philadelphia Fed (-9.0 pts in October vs. -13.5 pts in September). Last week's data from the US economy support our forecast that the annualized US economic growth rate increased to 3.5% in Q3 2023, up from 2.1% in Q2. Although we expect a significant slowdown in economic growth in the US from Q4, we believe that there will be no recession in the US economy (see MACROmap of 16/10/2023).

Last week saw the publication of important data from China. The Chinese GDP expanded by 4.9% YoY in Q3 compared with a 6.3% increase in Q2 (1.3% QoQ in Q3 vs. 0.5% in Q2, downward revision from 0.8%), exceeding market expectations and our forecast (4.4% YoY and 0.9% QoQ, respectively). Lower contributions of investments and net exports impeded GDP growth, with higher contribution from consumption having the opposite effect. Last week also saw the release of monthly data from the Chinese economy. The industrial production growth rate remained stable between August and September at 4.5% YoY, surpassing market expectations of 4.3%, with retail sales growing by

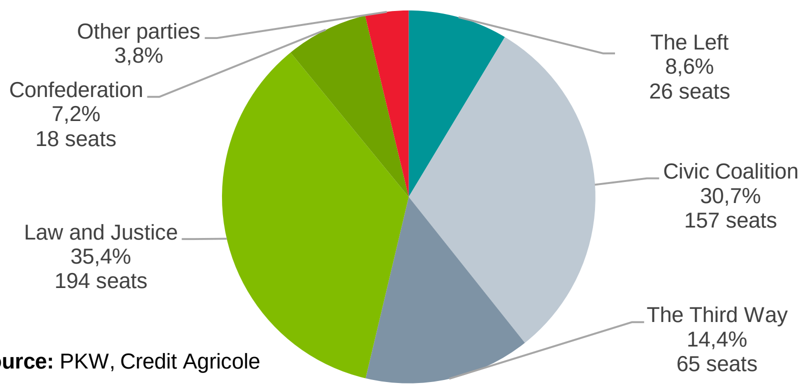
GDP growth rate in China (% YoY)



Source: Datastream, Credit Agricole

5.5% compared to 4.6% (4.9%). Conversely, only urban investments fell short of the market consensus (3.1% vs. 3.2%, with expectations of 3.2%). The industrial production's growth trajectory was tempered by a slowdown in manufacturing and mining, while the uptick in retail sales growth was supported by rebounding demand in the "food", "beverages", and "cars" categories. In turn, relatively low urban investments are attributable to the crisis on the Chinese real estate market. Although we still maintain that to achieve its economic growth target of "around 5%" will require an additional stimulus from the government, the encouraging Q3 GDP data suggests that it might not be as substantial as anticipated by the market. The data published last week aligns with our forecast, according to which GDP growth in China will expand to 5.1% YoY in 2023, compared to 3.0% in 2022.

Pro-inflationary post-election calendar?



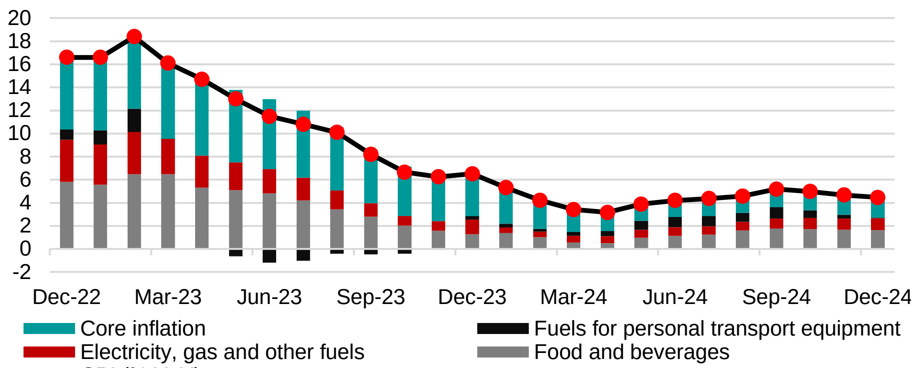
Source: PKW, Credit Agricole

According to the final results, the Law and Justice party has emerged victorious in the parliamentary elections, securing 35.4% of votes, which translates to 194 seats in the Sejm, the Polish parliament. The Civic Coalition garnered 30.7% of votes (157 seats), Third Way 13.5% (65 seats), The Left 8.6% (26 seats), and the Confederation 6.4% (18 seats). In our baseline scenario, we anticipate that the Civic Coalition, Third Way, and The Left will forge a coalition, commanding an absolute majority in the Sejm with 248 out of 460 seats. However, the pace with which the new government will be formed is currently uncertain, a factor key for short-term inflation prospects.

The pace of the government change will largely depend on the President's decisions. Pursuant to Article 109 of the Constitution of the Republic of Poland, the President convenes the first sessions of the Sejm and Senate within 30 days post-election day (i.e. by 13 November 2023 at the latest). Next, within 14 days following the inaugural sitting of the Sejm (i.e. by 28 November at the latest), the President nominates the Prime Minister alongside other members of the Council of Ministers. It is our belief, consistent with prior announcements, that the President will propose a Prime Ministerial candidate from the winning party, namely Law and Justice. The Prime Minister, within 14 days of the presidential appointment (i.e. by 12 December at the latest), is required to present the Council of Ministers' activity program to the Sejm, seeking a confidence vote. In our opinion, due to the Sejm's voting distribution, the PiS government will likely fall short of securing adequate support to win for a vote of confidence (requiring an absolute majority in the presence of at least half of the statutory number of members of parliament). In such a scenario, within the next 14 days (i.e. by 26 December at the latest), the Sejm will, with an absolute majority, elect the Prime Minister and the proposed Council of Ministers. The President then nominates the appointed Council of Ministers and takes their oath. We believe that this phase will culminate in the inauguration of a new government proposed by a coalition of three opposition parties, thereby assuming power just days before this year concludes.

In accordance with the current legal status, at the beginning of 2024, the standard VAT rate on food will be restored and protective measures regarding energy prices (electricity, gas and district heating) will be discontinued. If events unfold as we have projected regarding the new government's formation, the new Council of Ministers will have little chance to enact new legal regulations before this year concludes. Consequently, the beginning of the new year is likely to witness a substantial inflation surge due to the expiration of the existing protective measures.

In September, the Minister of Climate and Environment, A. Moskwa, declared that the resolution regarding the freezing of energy prices in 2024 would be made by late October. She also indicated that legal acts extending the protective measures pertaining to gas, heat, and electricity prices are ready for adoption. Given the opposition's electoral triumph, gauging the likelihood of the incumbent government implementing the aforementioned measures is currently challenging. Their potential adoption would play a role in curbing the inflation surge at the beginning of 2024.

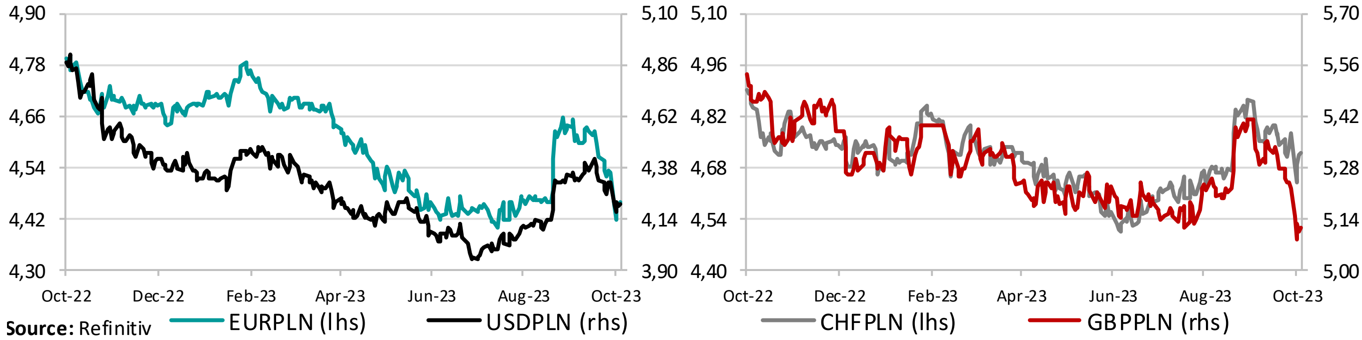


Source: GUS, Credit Agricole

We are presently forecasting that January will see a 5.3% YoY inflation, averaging 4.4% in 2024. This forecast assumes the preservation of protective measures on electricity prices, a marginal surge in gas and heat energy prices, and a phased reinstatement of the standard VAT rate on food (in three steps). Considering the probable trajectory of the new government's formation as outlined above, alongside the temporal constraints in enacting legal provisions for extending current protective measures, we see a substantial risk of inflation soaring in January by around 2 pp above our existing estimations. An inflation upsurge in the short term and its slower return to the inflation target, would likely shift the Monetary Policy Council's stance towards being more hawkish. Thus, we see a substantial upside risk concerning our interest rate trajectory. The anticipated extent of monetary policy relaxation in the upcoming months may be less manifest than we have previously projected. We will present our revised interest rate and PLN exchange rate scenario in the next MACROmap.

Marked strengthening of the PLN in response to the election results

FX rates



Source: Refinitiv

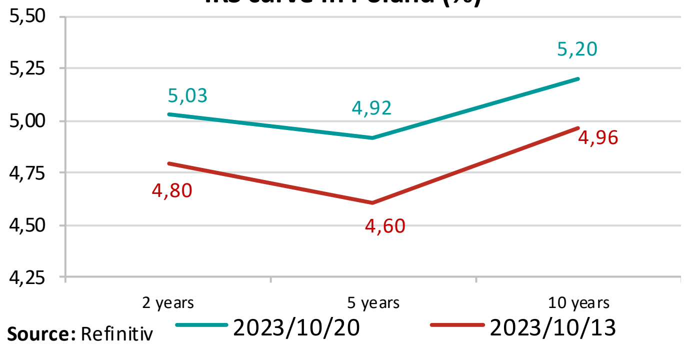
Last week, the EURPLN exchange rate fell to 4.4578 (appreciation of the PLN by 1.6%). On Monday, at the very opening, there was a significant strengthening of the PLN in the wake of the results of the parliamentary elections. With the arrival of partial electoral results confirming that the Civic Coalition, Third Way and The Left would have a sufficient number of seats, the EURPLN rate slipped further. However, a correction occurred on Wednesday, with the EURPLN rate rebounding to 4.45, where it stabilized for the remainder of the week.

Last week we also saw a further increase in the EURUSD rate following the rising yields on US bonds. Some investors attribute this to the rising costs tied to servicing US debt, which they believe could constrain the potential for the Fed to implement further interest rate hikes. Concurrently, rising geopolitical tensions in the Middle East also played a role in amplifying the volatility of the EURUSD rate.

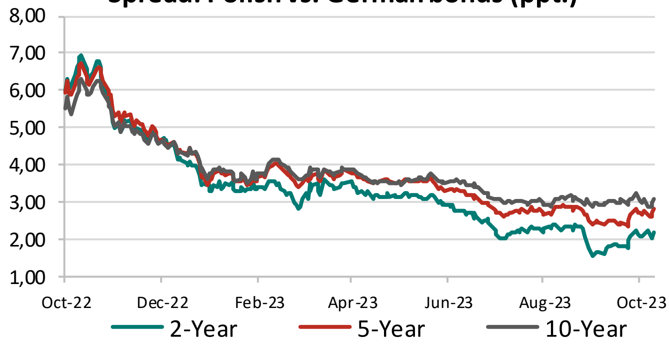
Key determinants for the PLN exchange rate this week include Thursday's ECB meeting and the release of US PCE inflation data scheduled for Friday. However, we believe that their impact on the PLN exchange rate will be limited. In our opinion, the remaining releases from the domestic and global economy slated for this week will also be neutral for the exchange rate of the Polish currency.

Investors are pricing in a change in RRP's stance to a more hawkish one

IRS curve in Poland (%)



Spread: Polish vs. German bonds (ppt.)



Source: Refinitiv

Last week, 2-year IRS rates climbed to 5.03 (up by 23bps), 5-year to 4.92 (up by 32bps), and 10-year to 5.20 (up by 24bps). The passing week saw a rise of IRS rates along the entire length of the curve. While similar trends were also observed in the core markets, in Poland they were mainly driven by the result of the parliamentary elections. Some investors began to price in a shift in the MPC's approach to a more hawkish stance, a sentiment reflected in rising FRA rates. Currently, they indicate two modest reductions of 25bp each by the end of 2023, and an additional four cuts of 25bp each throughout 2024.

This week, investors will focus on the ECB meeting scheduled for Thursday and the Friday release of US PCE inflation data. In our opinion, however, they will not have a significant impact on IRS rates. We believe that the remaining releases from the domestic and global economy scheduled for this week will be neutral for the curve.

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	5,75
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	8,2	
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	8,4	
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	-3,1	
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	-2,8	
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	3,6	
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	10,3	
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	-202		
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	-1,2		
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	-11,8		

*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	5,3	0,5	2,8
Private consumption (% YoY)	6,8	6,7	1,1	-1,1	-2,0	-2,7	0,2	2,3	5,2	-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	4,9	6,5	2,7
Export - constant prices (% YoY)	5,6	6,4	9,0	3,9	3,2	-2,7	1,1	3,7	6,7	1,3	3,8
Import - constant prices (% YoY)	8,7	8,2	7,7	0,7	-4,6	-8,1	-3,0	4,3	6,8	-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	2,9	-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	0,8	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	5,3	5,2	5,3	5,2
Non-agricultural employment (% YoY)	2,3	0,6	-0,9	0,3	1,5	1,1	0,5	0,0	0,6	0,8	-0,5
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	9,0
CPI Inflation (% YoY)*	9,6	13,9	16,3	17,3	17,0	13,1	9,7	6,6	14,3	11,6	4,4
Wibor 3M (%)**	4,77	7,05	7,21	7,02	6,89	6,90	5,77	5,38	7,02	5,38	4,63
NBP reference rate (%)**	3,50	6,00	6,75	6,75	6,75	6,75	6,00	5,25	6,75	5,25	4,50
EURPLN**	4,64	4,70	4,85	4,69	4,68	4,43	4,63	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 10/23/2023				
14:00	**Poland**	**M3 money supply (% YoY)**	**Sep**	**7,3**	**7,7**	**7,3**
16:00	Eurozone	Consumer Confidence Index (pts)	Oct	-17,8		-18,2
		Tuesday 10/24/2023				
9:30	Germany	Flash Manufacturing PMI (pts)	Oct	39,6		40,0
10:00	Eurozone	Flash Services PMI (pts)	Oct	48,7		48,7
10:00	Eurozone	Flash Manufacturing PMI (pts)	Oct	43,4		43,7
10:00	Eurozone	Flash Composite PMI (pts)	Oct	47,2		47,4
10:00	**Poland**	**Registered unemplyment rate (%)**	**Sep**	**5,0**	**5,0**	**5,0**
15:45	USA	Flash Manufacturing PMI (pts)	Oct	49,8		49,5
16:00	USA	Richmond Fed Index	Oct	5,0		
		Wednesday 10/25/2023				
10:00	Germany	Ifo business climate (pts)	Oct	85,7		85,9
10:00	Eurozone	M3 money supply (% MoM)	Sep	-1,3		-1,7
16:00	USA	New home sales (k)	Sep	675		675
		Thursday 10/26/2023				
14:15	Eurozone	EBC rate decision (%)	Oct	4,50	4,50	4,50
14:30	USA	Preliminary estimate of GDP (% YoY)	Q3	2,1	3,5	4,1
14:30	USA	Durable goods orders (% MoM)	Sep	0,1		1,0
		Friday 10/27/2023				
14:30	USA	PCE Inflation (% YoY)	Sep	3,5		3,4
14:30	USA	PCE core inflation (% YoY)	Sep	3,9	3,7	3,7
14:30	USA	Real private consumption (% MoM)	Sep	0,1		
16:00	USA	Final U. of Michigan Sentiment Index (pts)	Oct	63,0		63,2

*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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