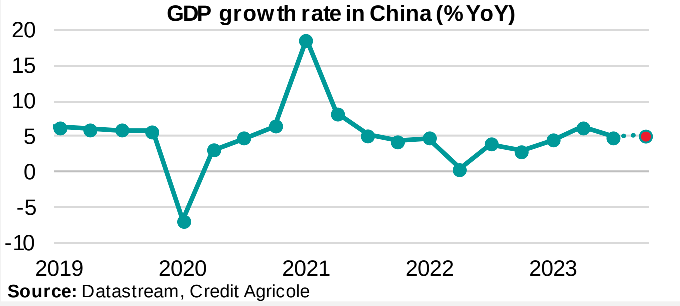
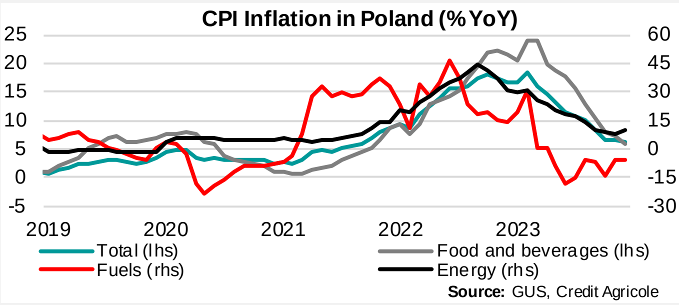
This week



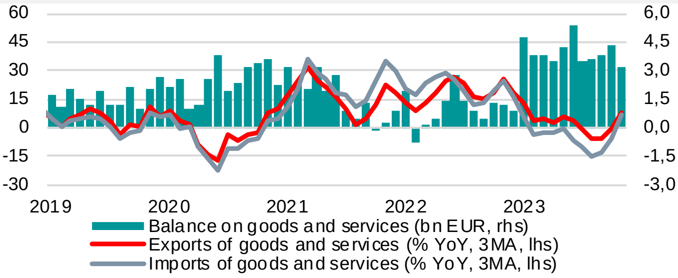
- **The key event this week will be the release of data from China scheduled for Wednesday.** We expect GDP to have grown by 5.2% YoY in Q4 compared with 4.9% in Q2. This would translate into annual average GDP growth of 5.2% YoY for 2023, in line with the Chinese government's target of 'ca. 5%". At the same time, QoQ GDP growth figures (1.0% for Q4 vs. 1.3% for Q3) will show a slowdown in economic activity in China. MoM figures for December will convey similar signals. We forecast that industrial production growth picked up to 6.8% YoY in December from 6.6% in November, mainly as a result of low base effects. At the same time, we expect urban investment growth to have slowed to 2.8% YoY in December from 2.9% in November, and retail sales growth to 8.2% from 10.1%. The marked slowdown in sales growth was driven by a fading of pent-up demand following the pandemic and the lack of signs of a marked recovery in the labour market. Our China's GDP growth forecast is in line with consensus, thus its materialization would be neutral financial markets.
- **Some important data from the US will be released this week.** We expect nominal retail sales to have grown by 0.4% MoM in December compared with 0.3% growth in November, driven to a large extent by higher growth in sales in the automotive industry. We forecast that industrial production growth dropped to -0.2% MoM in December from 0.2% in November, with the drop partially accounted for by a drop in the 'utilities production' category driven by better weather conditions. Business survey results will also be released this week. We expect the preliminary reading of the University of Michigan index (69.0 pts in January vs. 69.7 pts in December) to show a slight deterioration in US household sentiment. We believe the drop to be a correction following strong growth in the index in December. We expect data on new building permits (1,450k in December vs. 1,467k in November), housing starts (1.420k vs. 1560k), and existing home sales (3.84M vs. 3.82M), combined, to show low activity in the US housing market. In our opinion, this week's US data releases will be neutral for financial markets.



- **Final data on inflation in Poland will be released today.** We expect inflation to be in line with the flash reading, at 6.1% YoY in December compared with 6.6% in November. According to the flash data, the fall in inflation in December was broad-based, accounted for by slower growth in the prices of food and fuels, and – according to our estimate – by a drop in core inflation (see MACROmap of 8/01/2024). The fall was partially offset by higher rises in energy prices. We believe that this week's release of inflation figures will be neutral for the PLN and yields on Polish bonds.

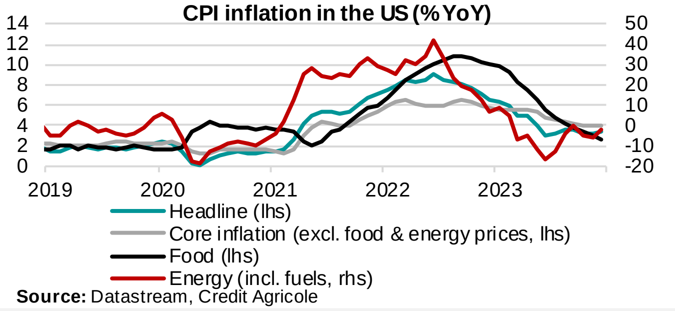
Last week

- **At its meeting last week, the Monetary Policy Council decided to keep interest rates unchanged (with the NBP reference rate standing at 5.75%).** The MPC's decision was in line with our forecast and market consensus. In accordance with the MPC's press release, the arguments for keeping interest rates unchanged included uncertainty about the impact of fiscal and regulatory policies, and of economic recovery, on inflation. The MPC also expressed their expectation that in the coming months annual CPI growth was likely to fall significantly, while the decline in core inflation would be slower (see MACROpulse of 09/01/2024). Last week also saw the NBP Governor A. Glapiński's usual press conference. He said that in March inflation would be at a level close to the inflation target, and then it would rise markedly in H2 of this year. He also made a comment to the effect that he did not expect a sustainable fall in inflation before the end of 2025. A. Glapiński also noted that the forecasts were subject to much uncertainty relating to the lack of new information about future shield measures (including the freezing of energy, gas, and heating prices, and zero VAT on basic food products) to be applied after March. In this context, he said that the possibility of a decision to hike rates could not be excluded, if March saw signals of a sharp rise in inflation in the future. However, he said he doubted that the situation in March would warrant hiking rates, which were quite high already. A. Glapiński also implied that the likelihood of rate cuts was currently low. He also assured that monetary policy was not currently in any cutting/hiking cycle, and that the MPC had adopted a wait-and-see approach to monetary policy. The MPC member I. Dąbrowski also made a comment last week implying that a rise in inflation driven by the discontinuation of the shield measures might prompt the MPC to hike rates or the NBP to start reducing the balance sheet (so-called tapering). He noted, however, that no discussion about such measures would start before March/April. Last week's comments from the NBP Governor and from the MPC member I. Dąbrowski represent an upside risk to our scenario, which expects the MPC to cut rates by 25bp in March and in July this year (see below). Another risk factor relating to our scenario is the possibility of the NBP Governor being brought before the State Tribunal (see below).
- **Poland's current account balance fell to EUR 1,325M in November from EUR 2,119M in October, running below market expectations (EUR 1,878M) and above our forecast (EUR 795M).** Thus, the revised data shows that November was the seventh month in a row with Poland reporting a current account surplus. The decline in the current account balance is primarily accounted for by lower trade and services balances, down by EUR 1,057M and EUR 153M, respectively, from October. The declines in these balances were partially offset by higher primary and secondary income balances, up by EUR 81M and EUR 335M, respectively, from October). At the same time, November saw drops both in export growth (-2.1% YoY in November from +2.3% in October) and in import growth (-8.0% from -7.7%). The decline in foreign trade in November is partially accounted for by unfavourable calendar effects. Moreover, in accordance with the NBP's press release, the declines in exports and imports were driven both by the continuing downturn in Poland's economy and by lower foreign trade price indices. In accordance with the NBP's press release, export growth was also adversely affected by an appreciation of the PLN. The data represents an upside risk to our scenario, which expects the cumulative current account balance for the last four quarters as a percentage of GDP to rise to 0.8% in Q4 2023 from 0.6% in Q3 2023. The current account surplus seen recently is a positive factor for the PLN.



Source: NBP, Credit Agricole

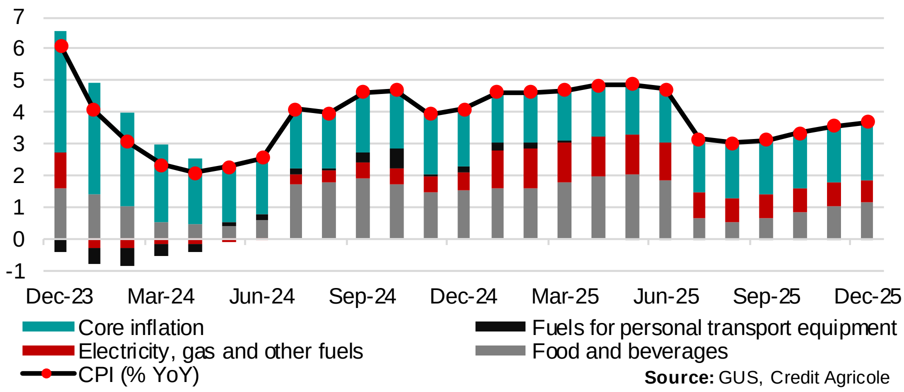
- **Monthly industrial production growth in Germany decelerated to -0.7% MoM in November from -0.3% in October, running markedly below market expectations (0.2%).** Growth in industrial production was driven down by energy and construction, while at the same time being driven up by the manufacturing sector. Particularly noteworthy is a marked rebound in the energy-consuming sectors, with production rising from -1.4% MoM in October to 3.1% in November. The largest increase in activity in those sectors was seen in the chemical (5.1% MoM) and coke and oil processing sectors (3.2%). Industrial production data combined with earlier data on new orders in the manufacturing sector and trade (see MACROmap of 08/01/2024) support our forecast, in which the quarterly GDP growth in Germany did not change between Q3 and Q4, and stood at -0.1%.
- **Important data from the US was released last week.** CPI inflation rose to 3.4% YoY in December from 3.1% in November, running above consensus (3.2%) and our forecast (3.3%). The rise in inflation was partially accounted for by low base effects in the 'energy' category, offset by slower growth in food prices and by core inflation, which fell to 3.9% YoY from 4.0% in November. What is worth noting about core inflation is a MoM fall in services inflation, to 0.3% MoM in December from 0.4% in November, driven to a large extent by lower growth in transports costs accompanied by stable rent costs. Nevertheless, MoM core inflation (0.3%) continues to run above the seasonal pattern, which suggests that inflationary pressures in the US economy remain strong. The data supports our US interest rates scenario, which does not expect the first rate cut before July this year and expects rate cuts in 2024 to total 50bp.



Source: Datastream, Crédit Agricole

- **China's trade balance widened in December to USD 75.3bn vs. USD 68.4bn in November, which is slightly below market expectations (USD 76.2bn).** Exports went up from 0.5% YoY in November to 2.3% in December, while imports rose from -0.6% YoY to 0.2%, which was above and below expectations (1.7% and 0.3%), respectively. The growth in imports, including industrial materials (iron ore, oil, coal) is a positive sign indicative of a gradual recovery of internal demand in the Chinese economy. However, we do not think the outlook for Chinese exports has become any brighter despite the growth seen in December due to the slowdown in economic activity seen by China's main trade partners. In a long-term perspective, China's trade turnover will also be curbed by the process of transferring production from China to other markets caused by geopolitical factors. Last week's data does not change our forecast that China's GDP grew by 5.2% in 2023 vs. a 3.0% growth in 2022.

Inflation will soon temporarily reach the inflation target



Source: GUS, Credit Agricole

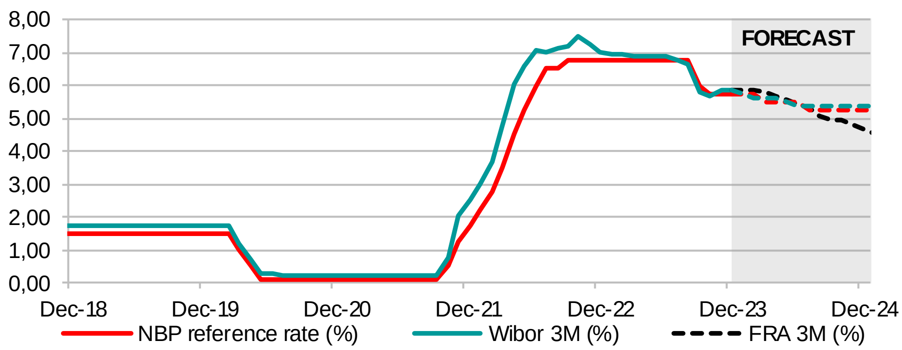
Recently published data have made us revise our inflation scenario. Although we have not changed our forecast, in which the average annual inflation is to drop from 11.6% YoY in 2023 to 3.5% YoY in 2024, and then rise to 4.0% in 2025, we have decided to slightly revise the expected inflation path for individual months. We are still of the opinion that inflation will keep on falling in the months to come, and will reach its local minimum in Q2 2024. However, we believe that the figure will be even a bit lower than we initially expected (2.3% vs. 2.4% in the previous forecast). We expect the inflation to start rising gradually from Q3 2024 onwards and reach a local peak of 4.8% YoY in Q2 2025 (4.7% before the revision), and then fall to reach 3.5% in Q4 2025 (3.6% before the revision). Below you will find our detailed inflation scenario broken down into individual components as well as its implications for the interest rates.

Given the preliminary data published by Statistics Poland (GUS), core inflation figures for December are likely to have been higher than we had expected (ca. 7.0% vs. our forecast of 6.8%). This would mean that month-on-month core inflation went up by approx. 0.4% in December, running above its historical seasonal pattern. We believe that in January it will also deviate upwards from its seasonal pattern. The deviation will be driven by companies revising their pricelists in an effort to compensate for a relatively strong growth in operating costs seen over the last couple of quarters. In 2023, companies were facing a continuing, strong pressure on wages and growing energy prices: in accordance with the data provided by PONT Info, the energy costs borne by enterprises with at least 50 employees went up by 6.5% YoY in Q1-Q3 2023 vs. a 164.7% growth in the same period of 2022. As regards the energy costs, it is worth noting that actions aimed at improving the energy efficiency were possible primarily in the manufacturing sector, while in other sectors, and particularly in services, they were limited. We expect the inflationary pressure to ease gradually in the months to come, while month-on-month core inflation will be running only slightly above its seasonal fluctuations pattern. It will be connected with the delay in economic recovery expected by Poland's main trade partners and with the recent PLN appreciation that was conducive to a decrease in the prices of imported goods. Consequently, core inflation will reach its local minimum of 2.9% in Q1 2025 (2.7% before the revision). Then we will see it grow again, driven by the progressing economic recovery that we expect to see in Poland and in the countries that are Poland's main trade partners. Consequently, we expect the average annual core inflation to go down to 3.9% in 2024 (3.4% before the revision) vs. 10.2% in 2023, and then to go down again to 3.2% (2.9%).

We have also revised our path for the prices of food and non-alcoholic beverages. At present we expect it to reach 4.5% YoY in 2024 (5.2% before the revision) vs. 15.4% in 2023, and then to go up to 4.8% in 2025 (no changes comparing to the previous forecast). We have decided to revise our forecast primarily because of the lower starting point arising from the impact, stronger than we expected, of the declining prices of agricultural commodities on retail prices of food, which could be linked to a relatively weak consumer demand. It is worth noting that the slower growth in the prices of food, which has been seen over the last couple of months, applies to a wide range of products, and can be observed in all of its main categories. We uphold the key assumption for our food price growth path, which says that the 5% VAT for food will be restored in July 2024.

We have slightly revised our fuels price path, too. At present we think that their average annual growth will accelerate from -2.7% in 2023 to 0.0% in 2024 (-0.1% before the revision), and 0.3% in 2025. Fuels price growth in 2024 will be driven up by the PLN depreciation against the USD that we expect to see, and by the growing global prices of oil (gradual rise to ca. USD 89/barrel in Q3 2024 followed by a slight decline to USD 88/barrel). In 2025, however, fuels price growth will be curbed by the PLN appreciation against the USD that we expect to see amidst the relative stability of oil prices (a slight decline in prices in H1 2025 followed by a slight rebound in the second half of that year).

As regards the energy prices, the revision we made was quite significant. We expect the price growth in this category to decelerate to 3.9% in 2024 (3.4% before the revision) vs. 10.2% in 2023, while in 2025 it will slow down further to 3.2% (2.9%). As regards the energy prices path, we have assumed that energy tariffs will not change in H1 2024. We expect gas and electricity prices to grow by 5% MoM in July 2024, while heat energy prices will be growing up gradually over H2 2024.

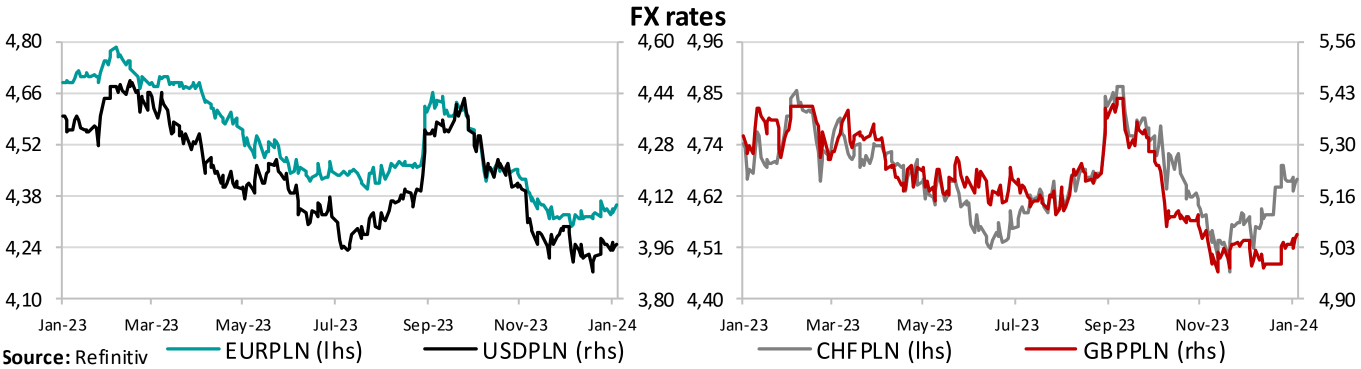


Source: Reuters, Credit Agricole

We still believe the headline inflation will fall below the inflation target of 2.5% YoY and stay there between March and May 2024. In our opinion, it will prompt the MPC to resume the monetary policy easing cycle. We believe that the MPC will cut interest rates in March and July 2024, each time by 25bp. Potential for further rate cuts is limited given the expected inflation rise in H2 2024. We believe that a similar scenario will be outlined in the NBP's March projection for inflation. Consequently, the MPC will be reluctant to cut interest rates in the quarters to come with inflation staying significantly above the target. Our scenario for Polish interest rates is consistent with the expected scenario for the ECB's monetary policy, which is believed to be eased for the first time in September 2024 (see MACROpulse of 09/01/2024).

However, last week's statement on the monetary policy outlook made by the NBP Governor A. Glapiński, who implied that the likelihood of interest rate cuts is very low at present (see above), is the main risk factor for our forecast. That risk is also visible in the last week's statement made by the MPC Member I. Dąbrowski, who implied that a rise in inflation driven by the discontinuation of the shield measures might prompt the MPC to hike rates or the NBP to start reducing the balance sheet (so-called tapering). A potential instigation of the procedure aimed at bringing the NBP Governor A. Glapiński before the State Tribunal also carries a certain risk to our interest rate forecast. Last week's judgment of the Constitutional Tribunal regarding bringing the NBP Governor A. Glapiński before the State Tribunal suggests that a majority of 3/5 of the Sejm's votes would be required for that purpose (before the judgment, it would have had to be an absolute majority). However, in the Friday interview for three television channels, Prime Minister D. Tusk expressed his doubts about the validity of that judgment. He also said: "(…) there are different ways to hold Glapiński responsible, and we will find those ways."

Data from China in the spotlight



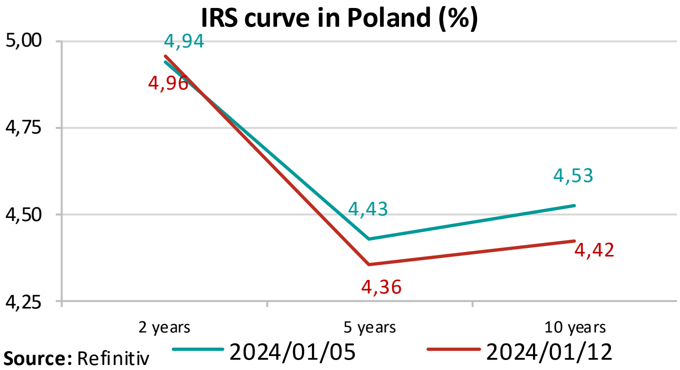
Source: Refinitiv

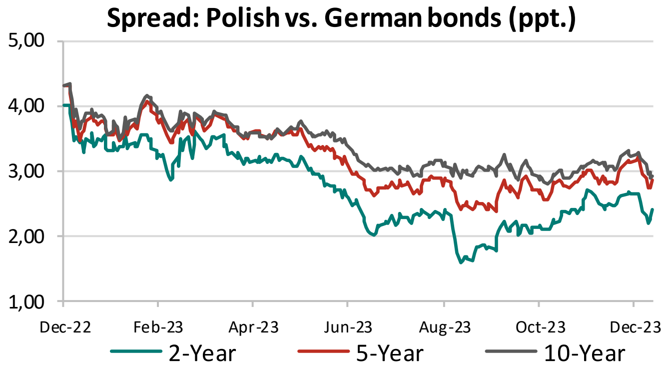
Last week, the EURPLN rate increased to 4.3540 (the PLN weakened by 0.2%). The week began with the PLN appreciation, which was a correction after its weakening a fortnight earlier (see MACROmap of 08/01/2024). The MPC meeting and the NBP Governor's statements had a limited impact on the EURPLN. The PLN then weakened again in the second half of the week.

EURUSD rose last week. The Thursday release of higher-than-expected inflation data for the US caused the USD to temporarily strengthen against the EUR, but failed to reverse the aforementioned trend.

The publication of data from China planned for Wednesday (GDP, industrial production, retail sales, investment in urban areas) may have an impact on the PLN this week. However, we do not expect that impact to be significant. We believe that other publications from the Polish and global economies planned for this week will be neutral for the PLN.

IRS rates keep declining following the core markets





Source: Refinitiv

Last week the 2-year IRS rates increased to 4.96 (up by 2bp) while 5-year rates decreased to 4.36 (down by 7bp) and 10-year rates to 4.42 (down by 11bp). Last week we saw IRS rates fall at the long end of the curve following the core markets. Yield on core markets was driven down by increasing interest rate cut expectations seen on main central markets, which did not decrease despite the publication of inflation data for the US, which printed ahead of consensus. The slightly rising IRS rates at the short term of the curve were driven up by the hawkish tone of last week's press conference held by the NBP Governor A. Glapiński (see above). It also showed through the increase of the FRA rates, which estimate the total scale of cuts in 2024 to stand at ca. 125bp.

In our opinion, other data releases from the Polish and global economies scheduled for this week will be neutral for the IRS rates.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland

Indicator	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24
NBP reference rate (%)	6,75	6,75	6,75	6,75	6,75	6,75	6,75	6,75	6,75	6,00	5,75	5,75	5,75	5,75
EURPLN*	4,69	4,71	4,70	4,68	4,59	4,53	4,43	4,40	4,47	4,63	4,45	4,35	4,33	**4,34**
USDPLN*	4,38	4,33	4,45	4,31	4,16	4,23	4,06	4,00	4,12	4,37	4,21	4,00	3,93	**3,96**
CHFPLN*	4,72	4,70	4,72	4,71	4,66	4,64	4,52	4,59	4,66	4,78	4,62	4,56	4,64	**4,60**
CPI inflation (% YoY)	16,6	16,6	18,4	16,1	14,7	13,0	11,5	10,8	10,1	8,2	6,6	6,6	**6,4**	
Core inflation (% YoY)	11,5	11,7	12,0	12,3	12,2	11,5	11,1	10,6	10,0	8,4	8,0	7,3	**6,8**	
Industrial production (% YoY)	0,9	1,8	-1,0	-3,1	-6,0	-2,8	-1,1	-2,3	-1,9	-3,3	1,9	-0,7	**-5,0**	
PPI inflation (% YoY)	20,5	20,1	18,2	10,3	6,2	2,8	0,3	-2,1	-2,9	-2,7	-4,2	-4,7	**-5,7**	
Retail sales (% YoY)	15,5	15,1	10,8	4,8	3,4	1,8	2,1	2,1	3,1	3,6	4,8	2,6	**5,2**	
Corporate sector wages (% YoY)	10,3	13,5	13,6	12,6	12,1	12,2	11,9	10,4	11,9	10,3	12,8	11,8	**12,4**	
Employment (% YoY)	2,2	1,1	0,8	0,5	0,4	0,4	0,2	0,1	0,0	0,0	-0,1	-0,2	**-0,2**	
Unemployment rate* (%)	5,2	5,5	5,6	5,4	5,3	5,1	5,1	5,0	5,0	5,0	5,0	5,0	**5,1**	
Current account (M EUR)	-1722	2246	1467	1372	-230	589	1272	157	556	1176	2119	1325		
Exports (% YoY EUR)	11,6	19,2	14,8	16,1	1,8	4,3	4,0	0,0	-2,3	-4,2	2,3	-2,1		
Imports (% YoY EUR)	14,6	10,4	-1,6	3,3	-9,6	-5,0	-5,8	-7,4	-11,9	-14,7	-7,7	-8,0		

*end of period

Forecasts of the quarterly macroeconomic indicators

Main macroeconomic indicators in Poland

Indicator		2023				2024				2022	2023	2024
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Gross Domestic Product (% YoY)		-0,3	-0,6	0,5	1,9	2,3	2,6	2,9	3,3	5,3	0,5	2,8
Private consumption (% YoY)		-2,0	-2,8	0,8	2,3	2,5	3,0	3,3	3,5	5,2	-0,4	3,1
Gross fixed capital formation (% YoY)		6,8	10,5	7,2	7,3	5,3	1,9	2,6	2,0	4,9	7,9	2,7
Export - constant prices (% YoY)		3,8	-3,2	-11,0	2,3	3,9	5,0	4,3	4,5	6,7	-2,1	4,4
Import - constant prices (% YoY)		-3,2	-6,8	-20,3	3,7	4,6	5,6	6,0	5,5	6,8	-6,6	5,4
GDP growth contributions	Private consumption (pp)	-1,3	-1,6	0,5	1,2	1,5	1,7	1,9	1,8	2,9	-0,2	1,7
	Investments (pp)	0,9	1,5	1,2	1,6	0,7	0,3	0,5	0,5	0,8	1,3	0,5
	Net exports (pp)	4,6	2,1	5,9	-0,8	-0,1	0,0	-0,5	-0,6	0,2	2,7	-0,3
Current account (% of GDP)***		-0,7	-0,1	0,6	0,8	1,0	0,5	-0,3	-1,0	-2,4	0,8	-1,0
Unemployment rate (%)**		5,4	5,1	5,0	5,1	5,2	4,9	4,8	5,0	5,2	5,1	5,0
Non-agricultural employment (% YoY)		1,5	1,1	1,4	0,7	0,0	-0,5	-0,6	-1,0	0,6	1,2	-0,5
Wages in national economy (% YoY)		14,3	13,8	11,0	9,9	9,5	8,6	8,8	9,0	12,1	12,2	9,0
CPI Inflation (% YoY)*		17,0	13,1	9,7	6,4	3,2	2,3	4,2	4,2	14,3	11,6	3,5
Wibor 3M (%)**		6,89	6,90	5,77	5,88	5,63	5,38	5,38	5,38	7,02	5,88	5,38
NBP reference rate (%)**		6,75	6,75	6,00	5,75	5,50	5,50	5,25	5,25	6,75	5,75	5,25
EURPLN**		4,68	4,43	4,63	4,33	4,42	4,40	4,38	4,36	4,69	4,33	4,36
USDPLN**		4,31	4,06	4,37	3,93	4,09	4,11	4,13	4,15	4,38	3,93	4,15

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

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST*	
					CA	CONSENSUS**
		Monday 01/15/2024				
9:00	Germany	Preliminary GDP (% YoY)	2023	1,8	-0,1	-0,3
10:00	**Poland**	**CPI (% YoY)**	**Dec**	**6,6**	**6,1**	**6,1**
11:00	Eurozone	Industrial production (% MoM)	Nov	-0,7		-0,3
		Tuesday 01/16/2024				
11:00	Germany	ZEW Economic Sentiment (pts)	Jan	12,8		12,7
14:00	**Poland**	**Core inflation (% YoY)**	**Dec**	**7,3**	**7,0**	**6,9**
14:30	USA	NY Fed Manufacturing Index (pts)	Jan	-14,5		-5,0
		Wednesday 01/17/2024				
3:00	China	GDP (% YoY)	Q4	4,9	5,2	5,2
3:00	China	Retail sales (% YoY)	Dec	10,1	8,2	8,0
3:00	China	Urban investments (% YoY)	Dec	2,9	2,8	2,9
3:00	China	Industrial production (% YoY)	Dec	6,6	6,8	6,8
11:00	Eurozone	HICP (% YoY)	Dec	2,9	2,9	2,9
14:30	USA	Retail sales (% MoM)	Dec	0,3	0,4	0,3
15:15	USA	Capacity utilization (%)	Dec	78,8		78,7
15:15	USA	Industrial production (% MoM)	Dec	0,2	-0,2	0,0
16:00	USA	Business inventories (% MoM)	Nov	-0,1		
		Thursday 01/18/2024				
10:00	Eurozone	Current account (bn EUR)	Nov	33,8		
14:30	USA	Building permits (k)	Dec	1467	1450	1478
14:30	USA	Housing starts (k MoM)	Dec	1560	1420	1450
14:30	USA	Philadelphia Fed Index (pts)	Jan	-10,5		-8,0
		Friday 01/19/2024				
10:00	**Poland**	**PPI (% YoY)**	**Dec**	**-4,7**	**-5,7**	**-5,7**
16:00	USA	Initial U. of Michigan Sentiment Index (pts)	Jan	69,7	69,0	69,0
16:00	USA	Existing home sales (M MoM)	Dec	3,82	3,84	3,83

*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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