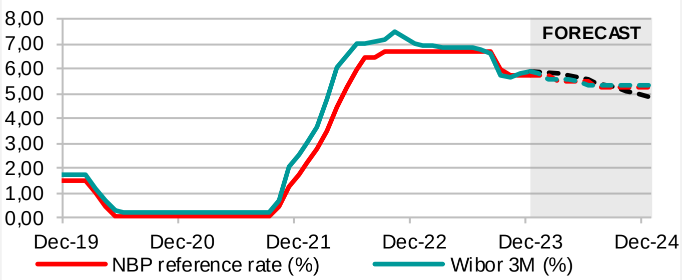
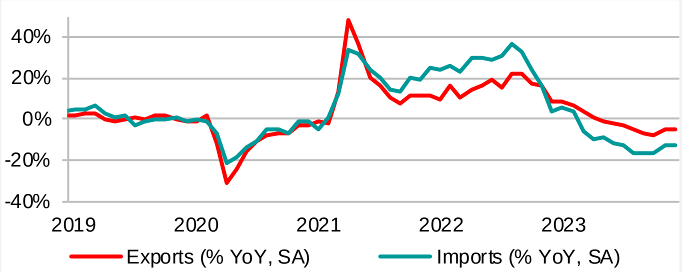
This week

- **The key event this week will be the MPC meeting planned for Wednesday.** We believe that interest rates will not change (current reference rate: 5.75%). The press release published after the January MPC meeting supports our status quo forecast for the monetary policy. The MPC quoted there, among others, the uncertainty regarding future fiscal and regulatory policies and their impact on inflation as the main reasons for stabilising the interest rates (see MACROpulse of 09/01/2024). Furthermore, at the press conference held after the January meeting, A. Glapiński said that the likelihood of interest rate cuts is low at the moment. A decision to keep the rates unchanged would be consistent with market consensus, and thus it should have no impact on the PLN rate and yields on Polish bonds. This week will probably also see the NBP Governor's usual press conference, which can shed more light on Poland's monetary policy prospects. Our scenario assumes that the first interest rate cut will take place in March 2024.



Source: Reuters, Credit Agricole

- **Foreign trade data for Germany has been released today.** Foreign trade balance went up from EUR 20.7bn in November to EUR 22.2bn in December (the consensus stood at EUR 18.8bn). Both exports and imports growth decelerated between November and December (-4.6% MoM in December vs. 3.5% in November and -6.7% MoM vs. 1.5%, respectively). We continue to believe that German foreign trade is still affected by the global economic slowdown. Inventories being adjusted to meet the demands of a less favourable situation are the factor that curbs the activity in global trade and affects the German industry. Industrial production and industry orders data for Germany will be released this week. In our opinion, the data from Germany will be neutral for financial markets.



Source: Datastream, Credit Agricole

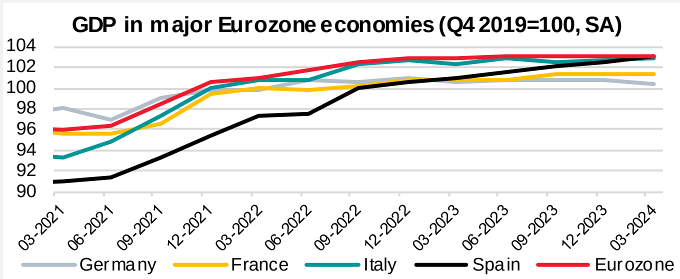
Last week

- **Poland's GDP expanded by 0.2% in 2023 vs. a 5.3% growth in 2022, printing markedly below market expectations (0.5%), which were consistent with our forecast.** The strong GDP growth slowdown seen last year resulted primarily from the reduction of excessive buffer inventories accumulated in manufacturing during the pandemic and after the outbreak of war in Ukraine, and from the decline in consumption, the latter having been curbed by high base effects and elevated inflation. Based on GUS data, we estimated that real GDP growth rate in Q4 2023 stood at 1.0% YoY vs. 0.5% in Q3, which is significantly worse than we expected (1.6%). Higher contributions coming from inventories and investments were the main driver of the economic growth acceleration between Q3 and Q4. At the same time, we estimate that the main reason behind the Q4 GDP growth forecast error was that consumption did not recover (contrary to our expectations), and consequently, the activity in the services sector did not accelerate (see MACROpulse of 31/01/2024). The data indicates that the economic recovery showing through a continuous growth in the seasonally-adjusted GDP (i.e. since Q1 2023) has slowed down strongly.

This is because the seasonally-adjusted, quarterly GDP growth in Q4 stood close to the 0% mark (in accordance with our assessment). However, there is a great deal of uncertainty connected with that assessment because, among other things, the data published earlier are highly likely to be revised. Official GDP growth data for Q4 will be published in two weeks. Based on the last week's GDP data for 2023, we have revised our macroeconomic scenario (see below).

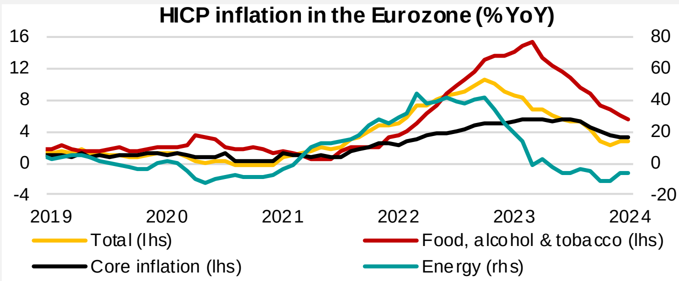
- **PMI for Polish manufacturing decreased from 47.4 pts in December to 47.1 in January, running markedly below market consensus (48.2 pts) and our forecast (48.0 pts).** The index was driven down by 2 out of its 5 components (new orders and current output), while an opposite impact came from higher contributions of components for employment, inventories and delivery times. What is most notable from the data is a stronger decline in the total number of new orders, incl. the export orders. In both categories, the components reached their lowest levels since October 2023, which indicates that the number of orders has dropped quickly. The data shows that the activity in the Polish manufacturing sector is curbed by the slowdown in the global trade. The declining number of orders translated into a stronger drop in current output. In the wake of the weakening demand, the stocks of finished goods also slightly diminished, and the stocks of purchases continued to shrink, with substantial acceleration having been seen when it comes to the decline in purchases of intermediate goods used in the production process. The decline in intermediate goods purchases gives rise to a particular concern as such declines usually show that the recovery in the manufacturing sector is becoming less likely. In our opinion, the decline in purchases of intermediate goods in January was caused, to some extent, by supply chain disruptions that appeared in the wake of stability having been undermined in the Red Sea region, which caused the overseas transport from Asia to Europe to become markedly longer (see MACROpulse of 01/02/2024). The PMI in January is showing that the activity in the Polish manufacturing sector will accelerate later than expected, and not earlier than in Q2. This conclusion is consistent with our revised macroeconomic scenario (see below).

- **In accordance with the flash estimate, quarterly GDP growth in the Eurozone accelerated from -0.1% in Q3 to 0.0% in Q4 (our forecast: 0.1%).** YoY GDP growth in the Eurozone went up from 0.0% in Q3 to 0.1% in Q4. As regards the main economies, the quarterly GDP growth slowed down in Germany (-0.3% QoQ in Q4 vs. 0.0% in Q3; our forecast: -0.1%). However, it accelerated in Spain (0.6% in Q4 vs. 0.4% in Q3; our forecast: 0.2%) and Italy (0.2% vs. 0.1%; our forecast: 0.1%). It did not change in France (0.0% in Q3 and Q4; our forecast: 0.2%). This is just preliminary data, and it contains no information about the economic growth structure. Given the business survey results for January (see MACROmap of 29/01/2024), we can see a substantial downside risk to our scenario in which the quarterly GDP growth in the Eurozone is to stand at 0.2% in Q1 2024.



Source: Eurostat, Credit Agricole

- **In accordance with the flash estimate, inflation in the Eurozone dropped to 2.8% YoY in January from 2.9% in December, running in line with the market consensus and above our forecast (2.5%).** The downward trend in inflation was driven by lower food price growth (5.7% YoY in January compared to 6.1% in December) and lower core inflation (3.3% compared to 3.4%). On the other hand, the increase in the growth rate of the energy prices (-6.3% vs. -6.7%) related to the expiry of the effects of the high base of the



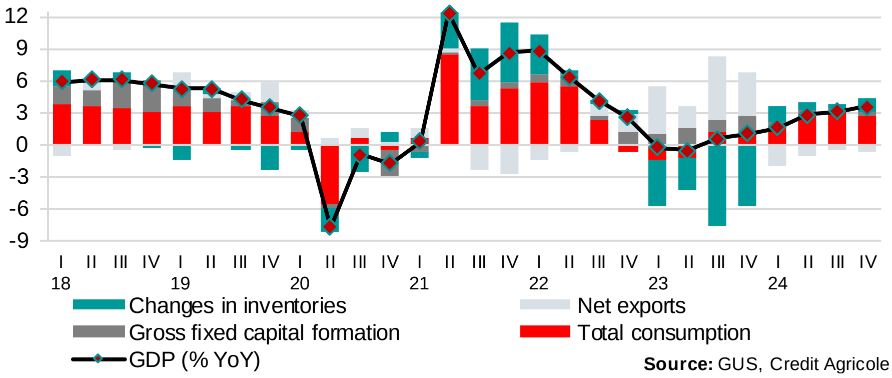
Source: Datastream, Credit Agricole

previous year had an opposite effect. We expect the coming months to bring a further gradual decline in core inflation. It is also worth noting the large discrepancies between inflation trends in the various Eurozone countries. A decline in inflation is observed in Germany and France, while inflation continues to rise in Italy, Spain and the Netherlands. Moreover, YoY inflation in individual Eurozone countries was generally higher in January than the base effects of the previous year would suggest. We believe that the ECB will start the interest rate cut cycle in September 2024 and will make a total of three cuts of 25bp each (in September, October and December). Consequently, at the end of 2024, the refinancing rate will be 3.75% and the deposit rate 3.25%.

- **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.** The tone of the communication was further softened compared to the December meeting. Specifically, the passage 'in determining the extent of any additional policy firming', was replaced by 'in considering any adjustments to the target range'. However, the release included a note that the FOMC did not expect it would be appropriate to cut rates until FOMC members gained greater confidence that inflation is moving towards the inflation target. Furthermore, during the press conference, Federal Reserve chief J. Powell stated that he believed an interest rate cut as early as the March meeting was unlikely. Mr Powell's statement supports our interest rate scenario, under which the Federal Reserve will cut interest rates by 25bp in Q3 and by 25bp in Q4 2024. We believe that the influx of data indicating a further decline in inflation could accelerate the timing of the first rate cut, which could come as early as May 2024.
- **Some significant data on the US economy was released last week.** Non-farm payrolls rose by 353k in January vs. 333k in December (upward revision from 216k), running markedly above market expectations (an increase of 180k). The strongest increases in employment were seen in education and health services (+112k), business services (+74k), and retail trade (+45.2k). In contrast, there was a decline in employment in mining and logging (-6.0k). The unemployment rate in January was unchanged compared to December at 3.7%, slightly below market expectations (3.8%). Thus, it still remains below the natural rate of unemployment, estimated by the Fed at 4.0%. In turn, the labour force participation rate was unchanged in January compared to December at 62.5%. At the same time, hourly wage growth increased slightly in December to 4.5% YoY, compared to 4.3% in November, largely due to the impact of the harsh winter on hours worked. It is worth noting, however, that even without this impact, wage pressures in the US economy remain strong. Last week also saw the release of sentiment survey results. The publication of significantly higher-than-expected data led to a strengthening of the USD. Improved sentiment in manufacturing was indicated by the ISM index, which increased to 49.1 pts in January from 47.1 pts in December, running above market expectations (47.0 pts). Higher contributions from 4 out of 5 components (for new orders, current output, inventories and delivery times) had an upward effect on the index, while a lower contribution from the employment component had the opposite effect. On the other hand the Conference Board index indicated an improvement in consumer sentiment, rising to 114.8 pts in January from 108.0 pts, with expectations at 115.0. The rise in the index is mainly accounted for by significant rise in its component for the assessment of the current situation. Similarly, the final University of Michigan index increased to 79.0 pts in January, compared to 69.7 pts in December and 78.8 pts in the preliminary estimate. The strong rise in the index is accounted for by significant rises in its components for both the assessment of the current situation and expectations. We expect the annualised US GDP growth rate to go down from 3.3% in Q4 to 1.3% in Q1. At the same time, according to our scenario, GDP in the US in 2024 will grow by 1.6%, compared to 2.4% growth in 2023.
- **Last week saw the release of business survey results for Chinese manufacturing.** The Caixin PMI index was unchanged in January compared to December at 50.8 pts, which was slightly above market expectations (50.7 pts). Thus, the index has been above the 50-point mark that separates

growth from contraction for 3 months. The stabilization in the index resulted from higher contributions of its components for inventories and employment and lower contributions of the components for new orders, delivery times and current output. Particularly noteworthy in the data is the strong increase in the index for new export orders, which occurred despite a decrease in the index for total new orders. Moreover, the index for new export orders was above the 50-point threshold for the first time since June 2023. According to the release, higher foreign orders were mainly for intermediate goods. It is worth noting that an increase in export orders (the first since July 2023) was also recorded in Korean manufacturing. This could indicate the first signs of a recovery in global trade. In contrast, a slight improvement in Chinese manufacturing was indicated by the NBS PMI published last week, which increased to 49.2 pts in January, up from 49.0 pts in December and in line with market expectations. We forecast China's GDP growth to accelerate to 4.4% YoY in 2024 from 5.2% in 2023.

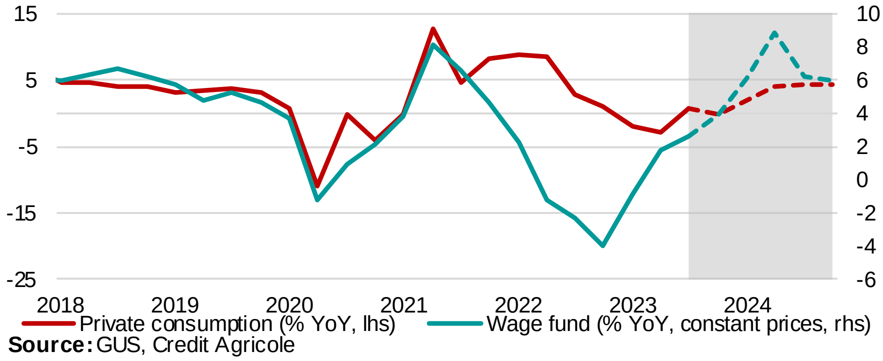
Forecasts for 2024-2025



Source: GUS, Credit Agricole

Below we present our macroeconomic scenario taking into account recent data on real economy, as well as the trends signalled by business surveys (see table on page 8). Our forecast concerning average annual economic growth rates for 2024 and 2025 has not changed, and we still expect them to be running at 2.8% YoY and 3.5% YoY, respectively.

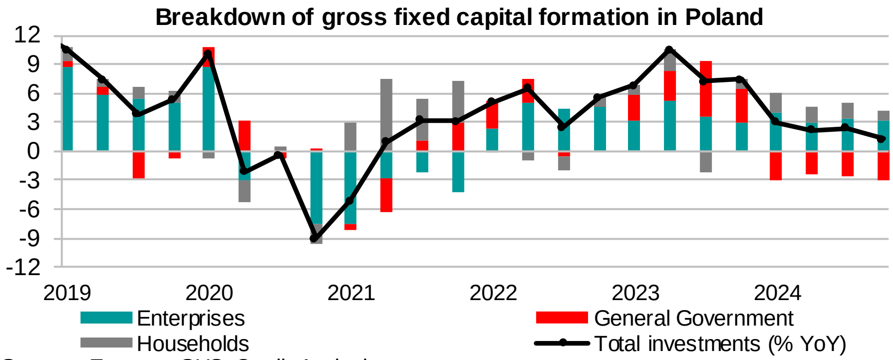
What has changed is our forecast for the economic growth structure. GDP growth data for 2023 suggests that consumption in Q4 2023 was markedly lower than we had expected (see MACROpulse of 31/01/2024). It dropped by 0.1% YoY comparing to a 0.8% growth in Q3. Consumption decline was consistent with weak retail sales data for November-December 2023. Bearing in mind the real wage fund growth acceleration, the said data is indicative of households' becoming markedly more inclined to accumulate savings. We admit that the private consumption data for Q4 can still be revised by the GUS and, if so, it will be an upward revision comparing to our expectations, just as it was the case in 2022. If our hypothesis of households' becoming more inclined to save is true, this will mean that private consumption growth will also be slower in the subsequent quarters of 2024. With inflation falling and wages growing quickly, the consumers will take advantage of the situation to rebuild their savings at the expense of current consumption.



Source: GUS, Credit Agricole

At the same time, our previous macroeconomic forecast did not take into consideration the impact of wage rises for teachers and state administration workers announced by the government. Based on the available information, we expect them to drive the total average annual wage growth in the national economy up by more than 2 pp. We expect the increased wages to be paid out (following the adjustment) from Q2 onwards, and to substantially boost consumption (by more than 1 pp.). The impact of those three factors, i.e. lower starting point, stronger propensity to saving, and the increased wages mentioned above has made us slightly revise our average annual consumption growth forecast for 2024.

The expected quicker YoY consumption growth was another factor behind the upward revision of domestic demand and import growth paths. Given the downward contribution of net exports, all these factors will be curbing the economic growth in the quarters to come. At the same time, we think the outlook for exports growth is becoming less optimistic than before. Our previous forecast already covered the negative impact of economic downturn outside Poland on Polish exports, but the impact is highly likely to be stronger than we initially thought, In accordance with the flash estimate, quarterly GDP growth in the Eurozone accelerated from -0.1% in Q3 to 0.0% in Q4, but in Germany it fell from -0.1% QoQ in Q3 to -0.3% in Q4. Both readings were below our expectations (0.1% and -0.1%, respectively). Furthermore, in January, the composite PMI for manufacturing and services in the Eurozone was below the 50-point mark that separates growth from contraction for the eighth month running. From the point of view of Polish exports, of particular importance are trends in Germany, where the PMI for the manufacturing sector has stayed markedly below the 50-point mark for over a year now, which is indicative of a recession trend. Consequently, we believe there is a downside risk to our economic growth forecast for Q1 in the Eurozone (0.2% QoQ) and Germany (-0.1%). The negative impact of slowdown outside Poland on the country’s economic situation was also showing through the results of the January PMI for Polish manufacturing (see above). What is most notable from the data is a stronger decline in the total number of new orders, incl. the export orders. In both categories, the components reached their lowest levels since October 2023, which indicates that the number of orders has dropped quickly. The data shows that the activity in the Polish manufacturing sector is curbed by a slowdown in the global trade and in economic activity seen in the EU countries including Germany, the Czech Republic, Austria and Hungary as reported by the surveyed enterprises. The PMI results for January are showing that the activity in the Polish manufacturing sector will accelerate later than expected, and not earlier than in Q2. Taking into consideration the trends outlined above, we have revised our exports forecast for 2024 downwards, and consequently, given the accelerating imports growth, we expect those factors to curb the economic growth.



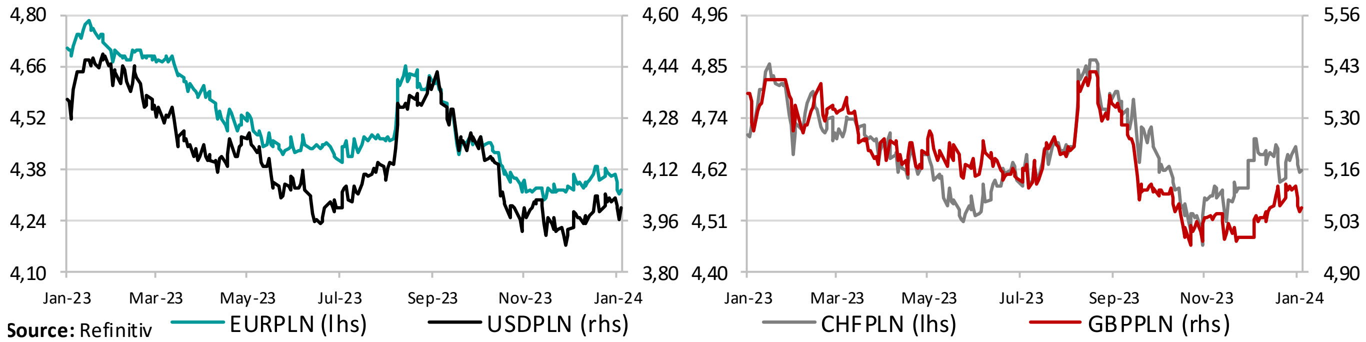
Source: Eurostat, GUS, Credit Agricole

We have also revised our forecast for total investment growth slightly downwards. Taking into account the cycle of absorption of EU funds (there will be a pause between two seven-year financial perspectives), gross fixed public capital formation will decline markedly in 2024. The previous pause (in 2016) could be used as a reference point here, with public investments decreasing by over 25% comparing to 2015. In 2024, the decline will be partially eased by projects carried out within the framework of the National Recovery Plan and by local government elections, but it will still be substantial. We are still quite optimistic about the enterprises' investment prospects, just as we were during the previous forecast round, and this optimism is consistent with the results of the enterprises' sentiment survey. They show that both domestic and foreign private companies intend to increase their investments during the year (NBP's Quick Monitoring, January 2024). Government's borrower support programmes will boost households' investments (purchases of apartments in the new property market).

To sum up, the lower starting point and not so favourable export and public investment trends will be compensated by the upward revision of the consumption path. Consequently, we still expect the scale of recovery to be moderate in 2024, just as we did before. In 2025, we expect the economic growth to keep on accelerating given stronger, positive trends in the area of private consumption, EU funds absorption as part of the new financial perspective, the cumulation of investment projects carried out as part of the National Recovery Plan (they must be settled in 2026), and an economic upturn that will be seen by Poland's main partners.

NBP Governor's conference important for EURPLN

FX rates



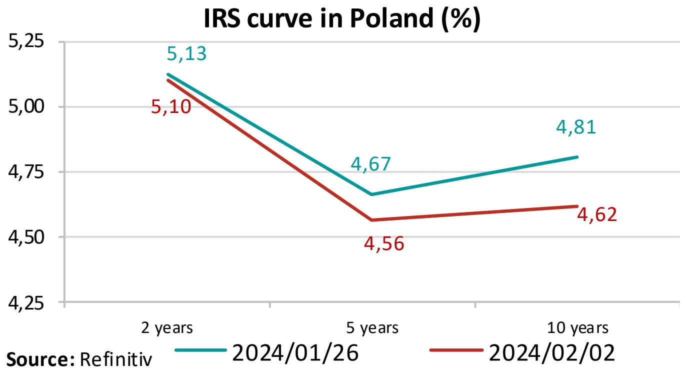
Source: Refinitiv

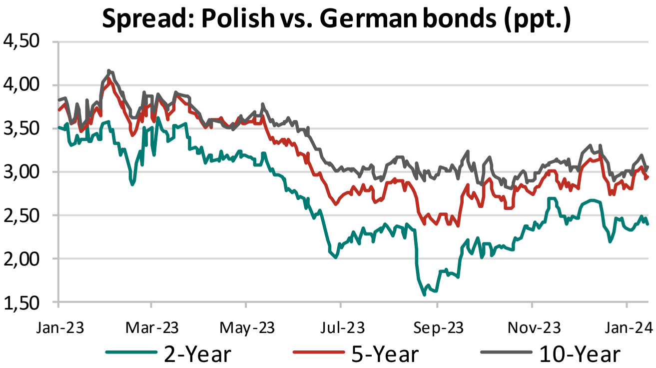
Last week, the EURPLN rate dropped to 4.3227 (the PLN strengthened by 0.9%). Throughout last week, the EURPLN exchange rate followed a clear downward trend. A similar trend was observed for the EURHUF exchange rate. This indicates that the main factor influencing the appreciation of the PLN was higher demand for assets in the region supported, inter alia, by the smaller-than-expected scale of interest rate cuts in Hungary as well as the EU's approval of a EUR 50bn aid package for Ukraine.

On the other hand, the EURUSD exchange rate experienced relatively high volatility. There was a temporary weakening of the USD against the EUR on Wednesday. Initially, the dovish tone of the Fed's meeting statement had an upward effect on the EURUSD. However, hawkish comments by Fed Chairman J. Powell led to a correction and a strengthening of the USD. From Thursday onwards, a renewed rise in the EURUSD was observed in anticipation of the release of US labour market data. In the end, it turned out to be significantly better than market expectations, which led to a correction and strengthening of the USD against the EUR.

This week's usual NBP Governor's press conference may be important for the PLN. In our view, it may encourage increased volatility in the EURPLN. We believe that data releases from the global economy scheduled for this week will be neutral for the PLN.

NBP Governor's press conference in the spotlight





Source: Refinitiv

Last week, 2-year IRS rates dropped to 5.10 (down by 3pb), 5-year rates to 4.56 (down by 11bp) and 10-year ones to 4.62 (down by 19bp). Last week saw a drop in IRS rates across the curve. This was supported by growing expectations of monetary easing by major central banks. On Friday, there was a correction and a rise in IRS rates in response to the release of markedly better-than-expected US labour market data.

This week, the usual press conference by the NBP Governor will be key for IRS rates and it may encourage their increased volatility. In our opinion, data releases from the global economy scheduled for this week will be neutral for the IRS rates.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland

Indicator	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	Feb-24
NBP reference rate (%)	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	**5,75**
EURPLN*	4,71	4,70	4,68	4,59	4,53	4,43	4,40	4,47	4,63	4,45	4,35	4,33	4,32	**4,37**
USDPLN*	4,33	4,45	4,31	4,16	4,23	4,06	4,00	4,12	4,37	4,21	4,00	3,93	4,00	**4,05**
CHFPLN*	4,70	4,72	4,71	4,66	4,64	4,52	4,59	4,66	4,78	4,62	4,56	4,64	4,64	**4,60**
CPI inflation (% YoY)	16,6	18,4	16,1	14,7	13,0	11,5	10,8	10,1	8,2	6,6	6,6	6,2	**4,1**	
Core inflation (% YoY)	11,7	12,0	12,3	12,2	11,5	11,1	10,6	10,0	8,4	8,0	7,3	6,9	**6,4**	
Industrial production (% YoY)	1,8	-1,0	-3,1	-6,0	-2,8	-1,1	-2,3	-1,9	-3,3	1,9	-0,3	-3,9	**1,0**	
PPI inflation (% YoY)	20,1	18,2	10,3	6,2	2,8	0,3	-2,1	-2,9	-2,7	-4,2	-5,1	-6,4	**-8,3**	
Retail sales (% YoY)	15,1	10,8	4,8	3,4	1,8	2,1	2,1	3,1	3,6	4,8	2,6	0,5	**3,6**	
Corporate sector wages (% YoY)	13,5	13,6	12,6	12,1	12,2	11,9	10,4	11,9	10,3	12,8	11,8	9,6	**10,5**	
Employment (% YoY)	1,1	0,8	0,5	0,4	0,4	0,2	0,1	0,0	0,0	-0,1	-0,2	-0,1	**-0,4**	
Unemployment rate* (%)	5,5	5,6	5,4	5,3	5,1	5,1	5,0	5,0	5,0	5,0	5,0	5,1	**5,4**	
Current account (M EUR)	2246	1467	1372	-230	589	1272	157	556	1176	2119	1325	**332**		
Exports (% YoY EUR)	19,2	14,8	16,1	1,8	4,3	4,0	0,0	-2,3	-4,2	2,3	-2,1	**-3,4**		
Imports (% YoY EUR)	10,4	-1,6	3,3	-9,6	-5,0	-5,8	-7,4	-11,9	-14,7	-7,7	-8,0	**-10,5**		

*end of period

Forecasts of the quarterly macroeconomic indicators

Main macroeconomic indicators in Poland

Indicator		2023				2024				2023	2024	2025
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Gross Domestic Product (% YoY)		-0,3	-0,6	0,5	1,0	1,5	2,8	3,1	3,5	0,2	2,8	3,5
Private consumption (% YoY)		-2,0	-2,8	0,8	-0,1	2,0	4,0	4,3	4,5	-1,0	3,7	3,5
Gross fixed capital formation (% YoY)		6,8	10,5	7,2	7,6	3,0	2,2	2,4	1,2	8,0	2,0	8,8
Export - constant prices (% YoY)		3,8	-3,2	-11,0	-5,8	1,0	3,8	5,3	6,0	-4,3	4,0	5,5
Import - constant prices (% YoY)		-3,2	-6,8	-20,3	-13,3	4,6	6,5	7,1	8,2	-11,2	6,6	7,0
GDP growth contributions	Private consumption (pp)	-1,3	-1,6	0,5	-0,1	1,2	2,3	2,5	2,2	-0,8	2,1	2,0
	Investments (pp)	0,9	1,5	1,2	1,7	0,4	0,3	0,4	0,3	1,8	0,4	1,5
	Net exports (pp)	4,6	2,1	5,9	4,3	-2,0	-1,2	-0,6	-0,7	5,4	-1,1	-0,5
Current account (% of GDP)***		-0,7	-0,1	0,6	0,8	1,0	0,5	-0,3	-1,0	0,8	-1,0	-0,5
Unemployment rate (%)**		5,4	5,1	5,0	5,1	5,2	4,9	4,8	5,0	5,1	5,0	5,0
Non-agricultural employment (% YoY)		1,5	1,1	1,4	0,7	0,0	-0,5	-0,6	-1,0	1,2	-0,5	-0,5
Wages in national economy (% YoY)		14,3	13,8	11,0	9,9	9,5	12,0	11,3	11,5	12,2	11,1	7,0
CPI Inflation (% YoY)*		17,0	13,1	9,7	6,5	3,2	2,3	4,2	4,2	11,6	3,5	4,0
Wibor 3M (%)**		6,89	6,90	5,77	5,88	5,63	5,38	5,38	5,38	5,88	5,38	4,88
NBP reference rate (%)**		6,75	6,75	6,00	5,75	5,50	5,50	5,25	5,25	5,75	5,25	4,75
EURPLN**		4,68	4,43	4,63	4,33	4,42	4,40	4,38	4,36	4,33	4,36	4,32
USDPLN**		4,31	4,06	4,37	3,93	4,09	4,11	4,13	4,15	3,93	4,15	3,86

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

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST* CA	FORECAST* CONSENSUS**
		Monday 02/05/2024				
8:00	Germany	Trade balance (bn EUR)	Dec	20,4		18,8
10:00	Eurozone	Services PMI (pts)	Jan	48,4	48,4	48,4
10:00	Eurozone	Final Composite PMI (pts)	Jan	47,9	47,9	47,9
10:30	Eurozone	Sentix Index (pts)	Feb	-15,8		-15,0
11:00	Eurozone	PPI (% YoY)	Dec	-8,8		-10,5
16:00	USA	ISM Non-Manufacturing Index (pts)	Jan	50,6	52,0	52,0
		Tuesday 02/06/2024				
8:00	Germany	New industrial orders (% MoM)	Dec	0,3		0,0
11:00	Eurozone	Retail sales (% MoM)	Dec	-0,3		-1,0
		Wednesday 02/07/2024				
8:00	Germany	Industrial production (% MoM)	Dec	-0,7		-0,1
	Poland	**NBP rate decision (%)**	**Feb**	**5,75**	**5,75**	**5,75**
		Thursday 02/08/2024				
2:30	China	PPI (% YoY)	Jan	-2,7		-2,6
2:30	China	CPI (% YoY)	Jan	-0,3		-0,5
16:00	USA	Wholesale inventories (% MoM)	Dec	0,4		
16:00	USA	Wholesale sales (% MoM)	Dec	0,0		

*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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