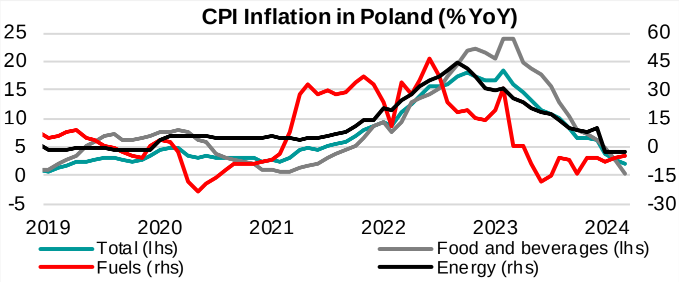
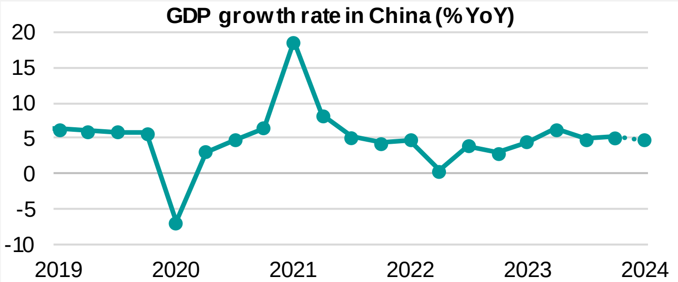
This week

- **Final data on inflation in Poland will be released today.** We expect inflation to align with the flash reading, at 1.9% YoY in March compared with 2.8% in February. 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 2/04/2024). The drop was partially offset by a higher growth of energy and fuel prices. We believe that this week's release of inflation figures will be neutral for the PLN and yields on Polish bonds.



Source: GUS, Credit Agricole

- **The key event this week will be the release of data from China scheduled for Tuesday.** We expect GDP to have grown by 4.8% YoY in Q1 compared with 5.2% in Q4, with market expectations of 4.6%. Monthly data from the Chinese economy will also show a slight decline in the growth rate of activity. We forecast that industrial production growth slowed down to 5.8% in March compared with 7.0% (with a consensus of 5.4%). At the same time, we expect retail sales growth to have slipped to 5.0% vs. 5.5% (4.5%) with urban investments remaining stable between March and February at 4.2% (with the market expecting a growth of 4.3%). Our forecasts in general exceed market expectations, hence their materialisation would be positive for the PLN exchange rate.



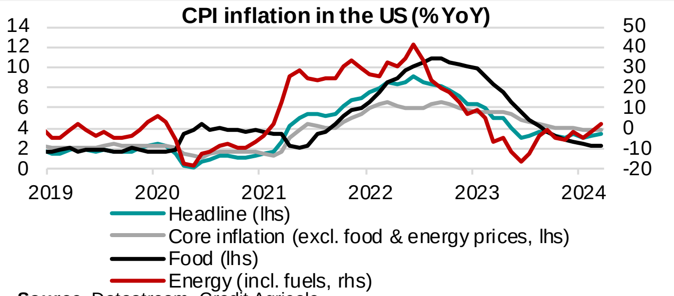
Source: Datastream, Credit Agricole

- **This week, important data from the US will be published.** We expect nominal retail sales to have grown by 0.3% MoM in March compared with 0.6% growth in February. A decline in retail sales growth would be consistent with our assessment that consumer demand in the US will gradually weaken in the coming quarters. We expect industrial production growth to have increased slightly in March to 0.2% MoM, up from 0.1% in February. This week will also see the release of figures from the US housing market. We expect data on new building permits (1,500k vs. 1,524k), housing starts (1,491k vs. 1,521k), and existing home sales (4.20M vs. 4.38M) to indicate a decline in activity on the US housing market. In our opinion, this week's US data releases will be neutral for the financial markets.

- **On the night of April 13 to 14, Iran launched an attack on Israel.** Iran launched over 300 drones and missiles at Israel, the majority of which were intercepted. This was in retaliation for the bombing of the Iranian consulate in Damascus, an act Iran attributes to Israel. Although Iran stated after the attack that "the matter can be considered resolved," implying it had achieved its objectives, the critical aspect for financial markets will be Israel's reaction. If hostilities escalate further, it could lead to increased risk aversion, potentially weakening the PLN and driving up yields on bonds.

Last week

- **Last week saw the publication of the Minutes from the March FOMC meeting.** According to the Minutes, FOMC members generally agree that uncertainty about the inflation outlook remains high. At the same time, recent data have not increased their confidence that inflation is on a sustainable path back to the inflation target. The US inflation data published last week (see below) pose an upside risk to our scenario assuming that the Federal Reserve will lower interest rates by 25bp in July, followed by another 25bp cut in Q4 2024.
- **The European Central Bank also convened last week, deciding to maintain its interest rates at current levels, with the policy rate at 4.50% and the deposit facility rate at 4.00%.** This decision aligned with our predictions and the consensus. The ECB's post-meeting press release suggested that "if the Governing Council's updated assessment of the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission were to further increase its confidence that inflation is converging to the target in a sustained manner, it would be appropriate to reduce the current level of monetary policy restriction". It was also reiterated that interest rate decisions would continue to follow a data-dependent and meeting-by-meeting approach and the Governing Council would not pre-commit to any particular rate path. During the press conference after the meeting, ECB President Ch. Lagarde emphasized that ECB's decisions are independent of other central banks' policies, including the Fed, though they take into account the broader economic context. This references the decreasing market expectations for Fed rate cuts. The wording of the press release issued after the meeting, as well as the statements made by Ch. Lagarde support our scenario where the ECB is expected to start reducing interest rates in the Eurozone from June 2024, with a total reduction of 75bp over the year.
- **Important data from the US was released last week.** CPI inflation in March increased to 3.5% YoY, up from 3.2% in February and above consensus (3.4%). Inflation was driven by higher energy price growth, while annual food price growth and core inflation were unchanged in March compared to February at 2.2% and 3.8% respectively. Noteworthy is the continued strong increase in core prices on a monthly basis (0.4% MoM), rising at this rate for the third consecutive month. This was due to an increase in the prices of services, while the prices of goods decreased. Higher-than-expected inflation data led to weaker expectations of interest rate cuts by the Fed. The market is currently pricing in a full 25bp cut as late as November (in our baseline scenario we assume this will happen in July). As a result, the USD strengthened against the EUR and US bond yields increased following this publication. Last week the preliminary University of Michigan index was also published; the index dropped in April to 77.9 pts vs. 79.4 pts in March, running below market expectations (79.0 pts). The fall in the index is accounted for by drops in its components both for the assessment of the current situation and for expectations. The median expected inflation over a one-year horizon, released together with the University of Michigan index, increased in April to 3.1% vs. March at 2.9%, thus reaching its highest value since December 2023. This indicates, in our view, that inflation expectations of US households remain elevated. We are forecasting that the annualized growth rate of US GDP will fall to 1.5% in Q1 2024 from 3.4% in Q4 2023.

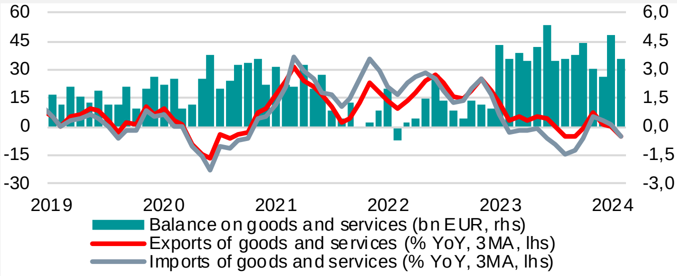


Source: Datastream, Crédit Agricole

- **China's trade balance declined to USD 58.6bn in March vs. USD 125.2bn in January-February, against market expectations of USD 70.0bn.** Exports growth rate slowed to -7.5% YoY vs. 7.1%

and imports growth rate to -1.9% vs. 3.5%, running below market expectations (-3.0% and 1.2% respectively). The sharp reduction in exports growth is indicative of continued low activity in global trade. On the other hand, the decline in imports reflects weak domestic demand in China. In the coming months, we expect a gradual recovery in China's foreign trade due to the increase in global trade activity we forecast.

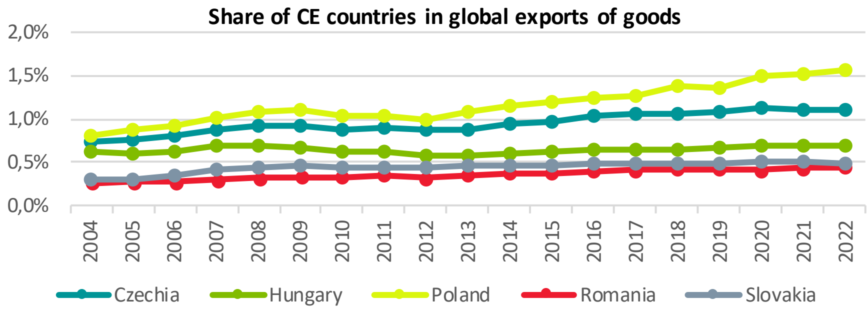
Poland's current account balance dropped to EUR 465M in February vs. EUR 1,742M in January, running below market expectations (EUR 894M) and our forecast (EUR 800M). The decline in the current account balance is accounted for by lower balances of trade in goods, services, and secondary incomes (down by EUR 987M, EUR 295M, and EUR 127M, respectively, from January) partially offset by a higher primary income balance (up by EUR 132M). At the same time, February saw growth in exports pick up (to -0.4% YoY in February from -4.5% in January), while growth in imports slowed (to 0.9% from -5.3%). Favourable calendar effects pushed the foreign trade turnover growth rate up in February. According to the NBP press release, the decline in exports was broad-based and, as in the previous month, was recorded in all its main categories. The NBP's release highlighted a deepening decline in exports of transport equipment, helped by a further reduction in sales of electric batteries. The press release also noted that for imports, as in previous months, the strongest reductions in sales occurred in the 'fuels' and 'intermediate goods' categories, with the magnitude of these declines being the smallest in 12 months. Last week's data represents a downside risk to our forecast, which expects the cumulative current account balance for the last four quarters as a percentage of GDP to rise to 1.8% in Q1 2024 from 1.6% in Q4 2023.



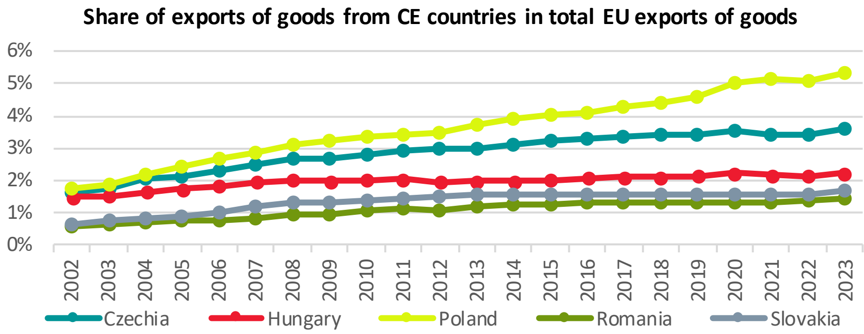
Source: NBP, Credit Agricole

20 years of Poland in the EU – how has Poland's role in the global exports of goods changed?

May marks 20 years since Poland's accession to the EU. In our previous MACROmap, we analysed how Poland's convergence to the wealthier EU economies has progressed over the past 20 years and what its prospects look like in the next decade (see MACROmap of 08/04/2024). In this week's topic, we present how Poland's role in global and EU exports of goods has changed over the last 20 years.

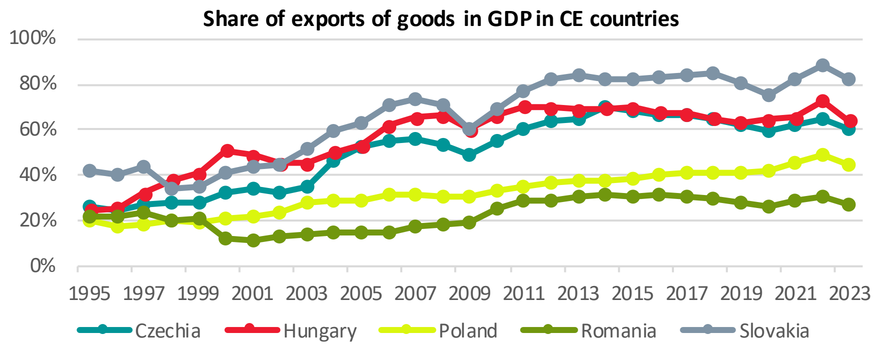


Source: UN Comtrade, Credit Agricole
*values for 2021 were interpolated due to missing data



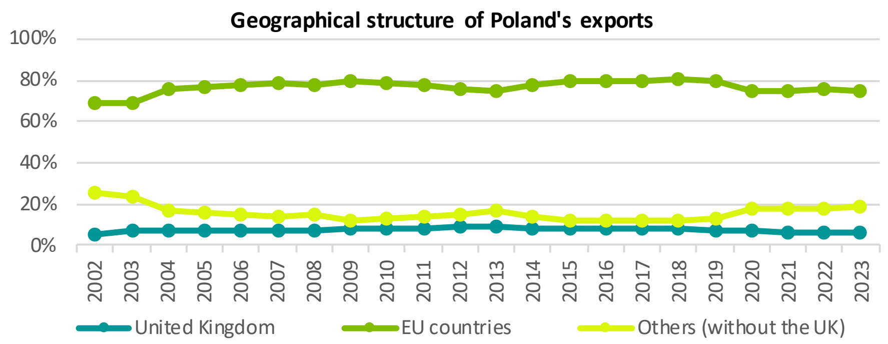
Source: Eurostat, Credit Agricole

According to UN Comtrade data, Poland's share in global exports of goods increased from 0.8% in 2004 to 1.6% in 2023. It is important to note that Poland has significantly strengthened its position in global exports of goods compared to other CE countries. This is evident when compared to Czechia, whose share in global exports of goods in 2004 stood at 0.1 pp lower than Poland's, whereas in 2022, this difference had grown to 0.5 pp. Similar trends are observed in the share of individual CE countries in EU exports of goods. In 2004, the shares of Poland, Czechia, and Hungary were similar, standing at 1.7%, 1.6%, and 1.5% respectively, while in 2023, they increased to 5.3%, 3.6%, and 2.2% respectively. Particularly noteworthy is the rapid increase in Poland's share in both the global and EU exports of goods compared to other CE countries over the past 5 years, suggesting that Polish exporters have navigated global trade disruptions from the pandemic and the Ukraine conflict most effectively.



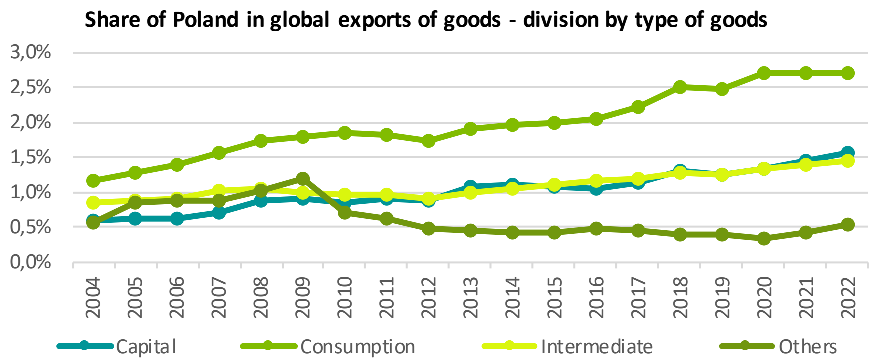
Source: Eurostat, Credit Agricole

Eurostat data indicates that the share of goods exports in Poland's GDP rose from 28% in 2004 to 45% in 2023, reflecting an increasing openness of the Polish economy. However, this percentage remains relatively low compared to other CE countries, where it generally exceeds 60%, Romania being the exception. However, it should be noted that a limiting factor for the share of exports of goods in GDP in Poland, compared to other countries in the region, is the significantly larger domestic market.



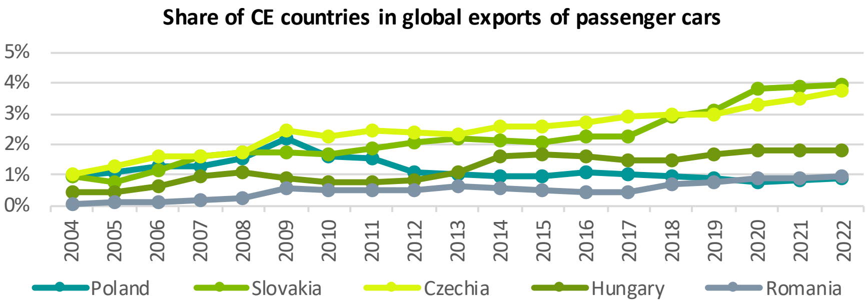
Source: Eurostat, Credit Agricole

Following Poland's EU accession, the proportion of EU countries in Polish goods exports jumped from 69% in 2003 to 76% in 2004. Interestingly, this share has remained relatively stable since, peaking at 81% in 2018. This proportion declined notably to 75% in 2020, and levels still have not returned to pre-pandemic figures. Additionally, the decrease in the share of EU countries in the structure of Polish exports was broad-based and was recorded across most categories analysed, suggesting two influencing factors. Firstly, the pandemic-induced shortening of supply chains, with Poland progressing in global value chains to become a more direct supplier of final goods, where previously it was only a component supplier. This way, Poland began exporting final goods directly to their recipients, including non-EU countries. Secondly, the war in Ukraine positioned Poland as a primary supplier for goods previously sourced from Russia, Belarus and other countries through the Black Sea. This shift is particularly apparent in the 'fuels' category, where Ukraine's share in Polish exports surged from 0.0% in 2021 to 87.1%. Additionally, the UK continues to hold a significant share in the structure of Polish goods exports, even post-Brexit.



Source: UN Comtrade, Credit Agricole
*values for 2021 were interpolated due to missing data
**the others category includes passenger cars, fuels and goods not elsewhere classified which cannot be clearly assigned to any of the categories. For example, a passenger car may be used as a consumer good in a household, whereas in a company it will be used as a capital good.

The changing commodity structure of Polish goods exports also deserves attention. Over the last 20 years, there has been a significant increase in Poland's share in all major categories, with the strongest growth observed in the global and EU export of consumer goods. From 2004 to 2022, Poland's share in global consumer goods exports increased by 1.6 pp, with food exports accounting for 0.6 pp of this growth, confirming the high competitiveness of the Polish food industry. Other consumer goods categories followed, including non-durable (accounting for 0.4 pp of the mentioned growth), semi-durable (0.3 pp), and durable goods (0.2 pp), although the classification used in our calculations does not allow for greater disaggregation of these categories. Additionally, in the last 5 years, Poland's share in global exports of consumer and capital goods has grown faster than in the case of intermediate goods, supporting our hypothesis about Poland's rise in global value chains.



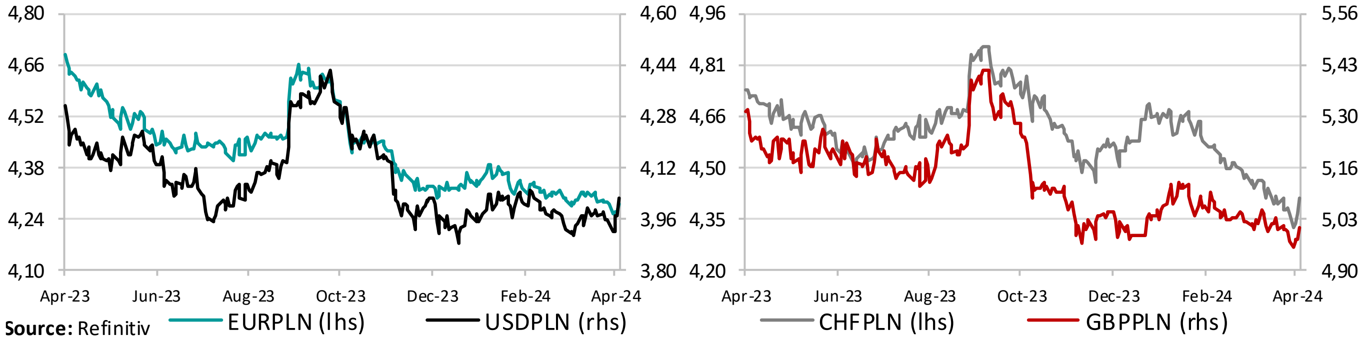
Source: UN Comtrade, Credit Agricole
*values for 2021 were interpolated due to missing data

The decline in the share of Polish exports in the 'others' category in global exports of goods observed after 2009 warrants a separate comment. It was attributable to the strong decline in the share of Polish passenger car exports in global exports. We assess that this was largely due to Poland's often unsuccessful competition with other CE countries to attract car manufacturing plants from international automotive corporations, which more frequently opted for Czechia and Slovakia. As a result, the share of passenger car exports in Poland's total goods exports diminished from 7.4% in 2009 to 2.0% in 2023. During the same period, Slovakia saw an increase from 11.0% to 26.6%, and Czechia from 9.2% to 12.4%. It is notable that the Polish automotive sector predominantly exports intermediate goods, making up about 13.8% of Poland's total exports, similar to levels observed in other countries of the region. Although the decrease in Poland's share of the global car export market might appear solely negative, reflecting lesser competitiveness relative to its neighbours, it ultimately contributed to maintaining a diversified structure of Polish exports of goods. We believe this diversification has been one of the key factors in the resilience of the Polish economy against external shocks such as the pandemic and the outbreak of war in Ukraine.

To sum up, the data presented above highlights that the past two decades have marked a substantial growth in Poland's role in global exports of goods. Poland's EU membership has been instrumental in enhancing its position by integrating it into international production processes. Moreover, Poland's steady rise in global value chains, which gained momentum post-2020, is particularly significant. While the automotive sector remains an exception as Poland's exports in this industry are focused on intermediate goods, the relatively low share of passenger cars in the structure of Poland's exports has been crucial in shielding the economy against recent external shocks.

Data from China may strengthen PLN

FX rates



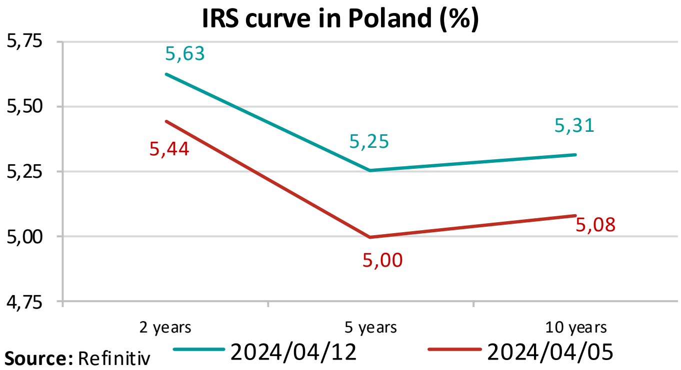
Source: Refinitiv

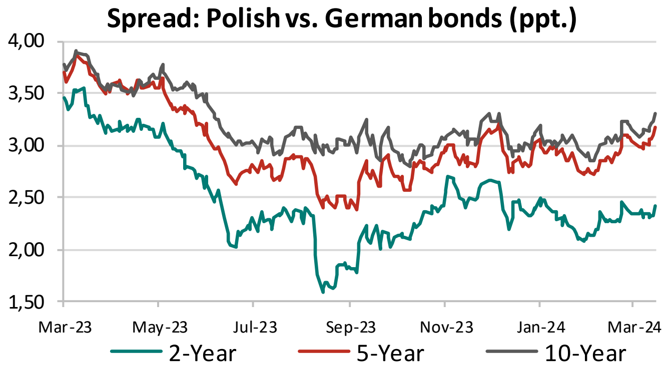
Last week the EURPLN exchange rate stood at 4.2818 (no change from the level two weeks ago). On Monday, we saw a strengthening of the PLN, continuing the trend of two weeks ago (see MACROmap of 08/04/2024). In the following days, the EURPLN exchange rate was relatively stable around the level of 4.26, the lowest level since February 2020. Friday saw a correction and the EURPLN rate returned to the levels of Monday's opening. We believe that the weakening of the PLN was driven by increased risk aversion related to the situation in the Middle East.

The EURUSD exchange rate experienced greater volatility. On Wednesday, the USD strengthened markedly against the EUR in response to the publication of higher-than-expected US inflation data. The EURUSD fell further later in the week, helped by the dovish tone of Thursday's ECB meeting.

This week, the key for the PLN will be the developments concerning crisis in the Middle East. If tensions escalate, the PLN may depreciate further. We believe that the inflation figures from Poland and data from the Chinese economy will remain overshadowed by the increased risk aversion related to the Iran-Israel conflict and its potential market implications.

Inflation data in the US led to a rise in IRS rates





Source: Refinitiv

Last week, 2-year IRS rates increased to 5.63 (up by 19bp), 5-year rates to 5.25 (up by 25bp) and 10-year ones to 5.31 (up by 23bp). Last week saw a rise in IRS rates across the curve following the core markets. The rise in IRS rates in the core markets resulted from the publication of higher-than-expected inflation data in the US. The dovish tone of Thursday's ECB meeting led to a fall in the Eurozone yields. As a result, the spread between Polish and German bonds increased significantly. It is worth noting, however, that the increased risk aversion related to tensions in the Middle East had a limited impact on IRS rates.

We believe that the data releases from the Polish and global economies scheduled for this week will be neutral for the IRS rates. However, yields on bonds may rise if tensions between Iran and Israel escalate further.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland

Indicator	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24
NBP reference rate (%)	6,75	6,75	6,75	6,75	6,75	6,75	6,00	5,75	5,75	5,75	5,75	5,75	5,75	5,75
EURPLN*	4,68	4,59	4,53	4,43	4,40	4,47	4,63	4,45	4,35	4,33	4,32	4,31	4,29	**4,28**
USDPLN*	4,31	4,16	4,23	4,06	4,00	4,12	4,37	4,21	4,00	3,93	4,00	3,99	3,97	**3,98**
CHFPLN*	4,71	4,66	4,64	4,52	4,59	4,66	4,78	4,62	4,56	4,64	4,64	4,52	4,40	**4,39**
CPI inflation (% YoY)	16,1	14,7	13,0	11,5	10,8	10,1	8,2	6,6	6,6	6,2	3,7	2,8	**1,9**	
Core inflation (% YoY)	12,3	12,2	11,5	11,1	10,6	10,0	8,4	8,0	7,3	6,9	6,2	5,4	**4,6**	
Industrial production (% YoY)	-3,7	-6,5	-3,3	-1,6	-2,7	-2,2	-3,3	2,0	-0,3	-3,5	3,0	3,3	**-3,0**	
PPI inflation (% YoY)	10,3	6,2	2,8	0,3	-2,1	-2,9	-2,7	-4,2	-5,1	-6,9	-10,6	-10,1	**-9,7**	
Retail sales (% YoY)	4,8	3,4	1,8	2,1	2,1	3,1	3,6	4,8	2,6	0,5	4,6	6,7	**7,3**	
Corporate sector wages (% YoY)	12,6	12,1	12,2	11,9	10,4	11,9	10,3	12,8	11,8	9,6	12,8	12,9	**11,9**	
Employment (% YoY)	0,5	0,4	0,4	0,2	0,1	0,0	0,0	-0,1	-0,2	-0,1	-0,2	-0,2	**0,0**	
Unemployment rate* (%)	5,4	5,3	5,1	5,1	5,0	5,0	5,0	5,0	5,0	5,1	5,4	5,4	**5,3**	
Current account (M EUR)	1607	-2248	-257	4087	55	587	1184	2151	1352	199	1742	465		
Exports (% YoY EUR)	16,1	2,0	4,6	4,3	0,2	-2,1	-4,0	2,1	-2,0	-6,2	-4,5	0,4		
Imports (% YoY EUR)	3,0	-8,8	-4,2	-5,0	-6,4	-10,9	-13,8	-7,1	-7,2	-10,6	-5,3	0,9		

*end of period

Forecasts of the quarterly macroeconomic indicators

Main macroeconomic indicators in Poland

Indicator	2024				2025				2023	2024	2025
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Gross Domestic Product (% YoY)	1,5	2,7	3,5	3,5	5,0	4,7	4,2	4,5	0,2	2,8	4,6
Private consumption (% YoY)	3,0	4,3	3,1	2,9	3,4	1,9	2,8	2,2	-1,0	3,3	2,7
Gross fixed capital formation (% YoY)	2,3	2,1	1,6	0,7	8,4	9,2	10,2	10,3	8,4	1,5	9,8
Export - constant prices (% YoY)	2,8	0,6	4,9	7,8	7,9	5,7	4,3	7,1	-1,9	4,0	6,6
Import - constant prices (% YoY)	-0,4	2,3	8,8	9,2	8,9	7,3	5,4	7,3	-8,3	4,9	7,6
GDP growth contributions: Private consumption (pp)	1,8	2,5	1,8	1,5	2,1	1,1	1,7	1,1	-0,6	1,9	1,5
Investments (pp)	0,3	0,3	0,3	0,2	1,1	1,5	1,7	2,3	1,4	0,3	1,7
Net exports (pp)	2,0	-0,9	-1,7	-0,3	0,2	-0,5	-0,4	0,2	3,9	-0,2	-0,1
Current account (% of GDP)***	1,8	2,1	1,7	1,6	1,3	1,1	1,0	1,1	1,6	1,6	1,1
Unemployment rate (%)**	5,3	4,9	4,8	4,9	5,2	4,8	4,7	4,8	5,1	4,9	4,8
Non-agricultural employment (% YoY)	0,4	0,0	0,0	-0,1	-0,3	-0,5	-0,5	-0,6	0,8	0,1	-0,5
Wages in national economy (% YoY)	10,5	13,0	12,3	12,5	10,7	7,9	7,6	7,0	12,8	12,1	8,3
CPI Inflation (% YoY)*	2,8	2,7	3,9	3,9	4,5	3,8	3,0	3,3	11,6	3,3	3,6
Wibor 3M (%)**	5,88	5,88	5,88	5,88	5,88	5,63	5,51	5,38	5,88	5,88	5,38
NBP reference rate (%)**	5,75	5,75	5,75	5,75	5,75	5,75	5,50	5,25	5,75	5,75	5,25
EURPLN**	4,29	4,28	4,26	4,24	4,23	4,22	4,21	4,20	4,33	4,24	4,20
USDPLN**	3,97	4,00	4,02	4,04	3,95	3,87	3,83	3,75	3,93	4,04	3,75

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

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST*	
					CA	CONSENSUS**
		Monday 04/15/2024				
10:00	**Poland**	**CPI (% YoY)**	**Mar**	**2,8**	**1,9**	**1,9**
11:00	Eurozone	Industrial production (% MoM)	Feb	-3,2		0,8
14:30	USA	Retail sales (% MoM)	Mar	0,6	0,3	0,3
14:30	USA	NY Fed Manufacturing Index (pts)	Apr	-20,9		-7,5
16:00	USA	Business inventories (% MoM)	Feb	0,0		0,4
		Tuesday 04/16/2024				
4:00	China	GDP (% YoY)	Q1	5,2	4,8	4,6
4:00	China	Retail sales (% YoY)	Mar	5,5	5,0	4,6
4:00	China	Urban investments (% YoY)	Mar	4,2	4,2	4,1
4:00	China	Industrial production (% YoY)	Mar	7,0	4,8	6,0
11:00	Germany	ZEW Economic Sentiment (pts)	Apr	31,7		35,0
14:00	**Poland**	**Core inflation (% YoY)**	**Mar**	**5,4**	**4,6**	**4,6**
14:30	USA	Building permits (k)	Mar	1524	1500	1516
14:30	USA	Housing starts (k MoM)	Mar	1521	1491	1488
15:15	USA	Capacity utilization (%)	Mar	78,3		78,5
15:15	USA	Industrial production (% MoM)	Mar	0,1	0,2	0,4
		Wednesday 04/17/2024				
11:00	Eurozone	HICP (% YoY)	Mar	2,4	2,4	2,4
		Thursday 04/18/2024				
10:00	Eurozone	Current account (bn EUR)	Feb	39,4		
14:30	USA	Philadelphia Fed Index (pts)	Apr	3,2		2,0
16:00	USA	Existing home sales (M MoM)	Mar	4,38	4,20	4,20

*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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