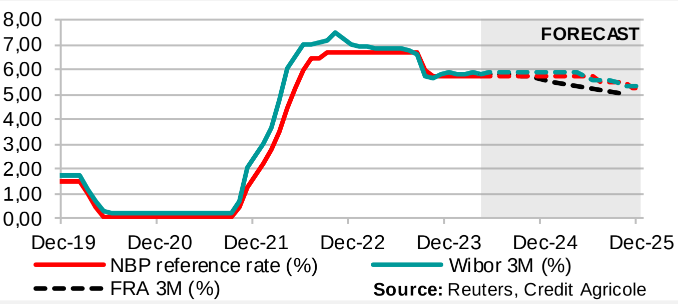
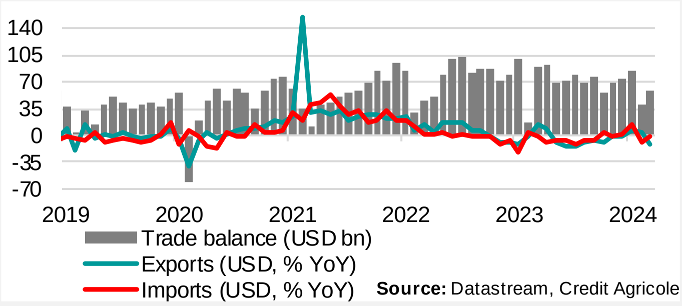
This week

- **This week's most important event is the meeting of the Monetary Policy Council scheduled for Thursday.** We expect that the MPC will maintain interest rates at their current levels, with the NBP reference rate remaining at 5.75%. The projected status quo in monetary policy is supported by the NBP Governor's comments made at the press conference following the Council's April meeting. In April, he stated that the MPC had no reason to discuss raising interest rates, while also emphasizing that the Council would not hastily lower interest rates. We expect that the press release after the meeting will not deviate significantly from the April statement. This week's decision to keep interest rates unchanged will be in line with the market consensus and should have a neutral impact on the PLN exchange rate and yields on Polish bonds. On Friday, the NBP Governor will hold a press conference, which may lead to increased volatility in the PLN exchange rate and yields on Polish bonds.



- **On Thursday, data on China's foreign trade will be published.** We expect China's trade balance to have grown to USD 81.8bn in April compared with USD 58.6bn in March. We forecast that Chinese exports grew by 1.0% YoY in April, up from -7.5% in March, with imports growth expanding to 3.0% YoY from -1.9%. Favourable calendar effects contributed to the acceleration of both export and import growth rates. The growth of both indicators will be consistent with the improvement in economic conditions signalled by the April PMIs (see below). The data will also shed more light on the scale of China's economic recovery and trends in international trade. In our opinion, the Chinese data releases will have a neutral impact on the financial markets.

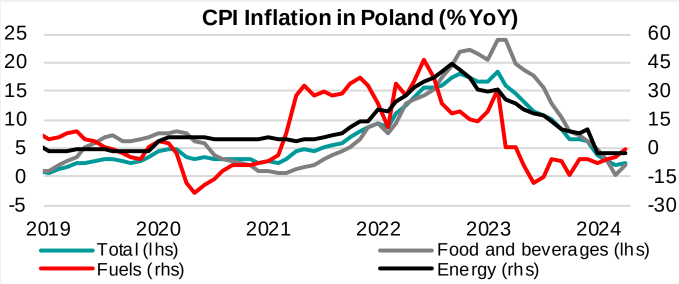


- **Friday will see the release of US consumer sentiment surveys.** We forecast that the flash reading of the University of Michigan consumer sentiment index will show a slight deterioration in the sentiment of American households (76.5 pts in May vs. 77.2 pts in April). The main factor contributing to the decline in the index will be the rise of fuel prices in the USA. In our opinion, the publication of the index will have a neutral impact on financial markets.
- **On Friday Fitch and Standard & Poor's will release their updated long-term debt ratings for Poland.** Last November, Fitch maintained Poland's long-term credit rating at A- with a Stable Outlook. In its rationale for the decision, Fitch noted that the rating reflected a diversified economy, relatively low public debt levels, and robust economic fundamentals supported by EU membership. However, indicators such as those related to the rule of law and GDP per capita, as developed by the World Bank, remained relatively low compared to other A-rated countries. Additionally, inflation volatility in Poland was relatively higher. Meanwhile, in December 2023, S&P also upheld Poland's long-term rating at A- with a Stable Outlook. Their report highlighted the need for the new opposition government to swiftly unlock access to EU funds, which would bolster investments in 2024 and beyond. S&P suggested that an upgrade in Poland's rating would be contingent upon sustained improvements in institutional and rule of law frameworks,

leading to a steady inflow of EU funds and foreign direct investments, alongside better-than-forecasted public finance conditions. We anticipate both agencies affirming Poland's rating and outlook this week, which should have a neutral impact on the PLN exchange rate and yields on bonds.

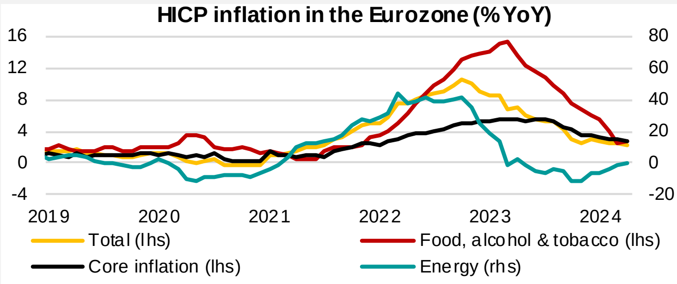
Last week

- **According to the flash estimate, CPI inflation in Poland increased to 2.4% YoY in April from 2.0% in March, slightly below the market consensus, which aligns with our forecast (2.5%).** The GUS published partial data on the inflation structure, including figures on the pace of price growth in the 'food and non-alcoholic beverages', 'energy' and 'fuels' categories. The main driver of inflation was the higher growth of prices of food and non-alcoholic beverages (1.9% YoY in April vs. 0.3% in March), attributed to the restoration of the 5% VAT rate on food. This aligns with our scenario, where the effects of the higher VAT will be fully reflected in prices only in May, due to promotions introduced by major retail chains (see MACROmap of 18/03/2024). Also contributing to inflation was higher growth of prices in the 'energy' (-2.3% YoY vs. -2.5%) and 'fuels' (-1.2% vs. -4.5%) categories. However, lower core inflation had the opposite effect as, according to our estimates, it decreased to 4.0% YoY in April from 4.6% in March. We estimate that on a monthly basis, core prices increased by 0.6% MoM, indicating a growth above the seasonal pattern (+0.5% MoM). In our opinion, this suggests that inflationary pressures in the Polish economy remain moderately strong. We expect a continued gradual increase in inflation in the coming months, largely due to the phasing out of protective measures related to energy prices. Consequently, we predict that inflation will average 3.3% in 2024, compared to 11.6% in 2023, and will rise to 3.6% in 2025.



Source: GUS, Credit Agricole

- **According to the flash estimate, inflation in the Eurozone remained unchanged in April compared to March, at 2.4%, in line with market consensus and our forecast.** The stabilization of inflation was driven by higher price growth for food (2.8% YoY in April vs. 2.6% in March) and energy (-0.6% vs. -1.8%), with the decline in core inflation (2.7% YoY in April compared to 2.9% in March) having the opposite effect. Noteworthy in the data is the sustained high inflationary pressures on service prices and its weakening on goods prices. We expect the coming months to bring a gradual further decline in core inflation. However, this decline will be very slow, with core inflation only reaching around 2% in Q2 2025.



Source: Datastream, Credit Agricole

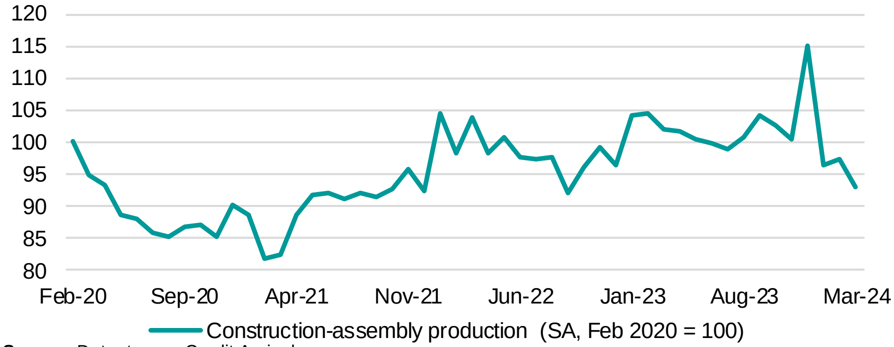
- **According to the flash estimate, the quarterly GDP growth in the Eurozone increased in Q1 to 0.3% compared to 0.0% in Q4 2023 (our forecast was 0.2%).** In annual terms, the Eurozone's GDP increased by 0.4% YoY in Q1 compared to 0.1% in Q4. Among the major economies, a decrease in quarterly GDP growth was noted in Germany (0.2% QoQ in Q1 vs. -0.5% in Q4, our forecast was 0.0%), France (0.2% vs. 0.1%, our forecast was 0.2%), and Italy (0.3% vs. 0.1%, our forecast was 0.2%), while the GDP growth rate in Spain remained unchanged in Q1 compared to Q4 at 0.7% (we expected a decline to 0.4%). The data is only preliminary and does not provide details on the structure of economic growth. We see an upside risk to our scenario, according to which GDP in the Eurozone will increase by 0.7% YoY in 2024, compared to a growth of 0.5% in 2023.

- **Business survey results for China's manufacturing were released last week. The Caixin PMI index expanded to 51.4 pts in April, up from 51.1 pts in May, exceeding market expectations of 51.0 pts.** This marks the sixth consecutive month where the index has remained above the 50-point threshold, which separates expansion from contraction, and its highest level since February 2023. This trend resulted from higher contributions from 3 out of 5 of its components (for current output, new orders and supplier delivery times), with lower contributions from stocks of purchases and employment having the opposite effect. Noteworthy in the data structure is the sustained robust growth in new orders, including new export orders, which in April reached their highest values since May 2023 and September 2020, respectively. Surveyed businesses pointed out elevated demand, particularly for investment goods. The prospect for further recovery in Chinese manufacturing is signalled by the Future Output Index (i.e. expected production in the 12-month horizon), which, despite a decline in April, remains well above the 50-point threshold. Conversely, the NBS PMI declined to 50.4 pts in April from 50.8 pts in March, slightly above market expectations (50.3 pts). Last week, we revised our GDP forecast for China. Currently, we expect Chinese GDP to increase by 4.7% in 2024 (up from 4.4% before the revision), compared to 5.2% growth in 2023. The change in our forecast largely stems from a higher starting point after the release of data for the first quarter (see MACROmap of 22/04/2024). We also anticipate an increase in the scale of stimulus measures by the Chinese government, particularly those aimed at stimulating activity in the real estate market. Therefore, we believe it is increasingly likely that the country will be able to achieve the economic growth target for 2024 set by the Chinese government at around 5%.
- **At last week's meeting, the Fed maintained the target range for the federal funds rate at [5.25%; 5.50%], which was in line with our forecast and the consensus.** The press release noted that FOMC members do not see progress in bringing inflation down to the inflation target. Meanwhile, at the post-meeting press conference, Federal Reserve Chairman J. Powell stated that the FOMC would most likely need more time to ensure that inflation was on a sustainable path back to the inflation target, noting that he did not know how long this might take. However, he emphasized that he believed it was unlikely that the next rate change would be an increase. The content of the statement following last week's FOMC meeting, as well as J. Powell's remarks, pose an upside risk to our interest rate scenario, according to which the Federal Reserve would cut interest rates by 25bp in July, followed by a 25bp reduction in Q4 2024. The market is currently pricing in a total rate cut of about 35bp in the US by the end of 2024.
- **Some significant data on the US economy was released last week.** Non-farm payrolls rose by 175k in April vs. 315k in March (upward revision from 303k), running markedly below market expectations (245k). The strongest rise in employment figures was seen in private education and health services (+95.0k), transportation and warehousing (+21.8k) and retail trade (+20.1k) sectors. Figures, however, went down in information (-8.0k), professional and business services (-4.0k) and mining and logging (-3.0k) sectors. The unemployment rate increased from 3.8% in March to 3.9% in April, printing above market expectations (3.8% pts). Nonetheless, the rate is still below the natural unemployment rate, which has been assessed by the Fed to stand at 4.0%. At the same time, the labour force participation rate did not change between March and April (62.7%), but it still remains below the pre-Covid level (63.3%). The hourly wage growth slowed from 4.1% YoY in March to 3.9% in April. In our opinion, it indicates that the wage pressure in the US economy is easing. The release of markedly worse-than-expected data on non-farm payrolls in the US caused the USD to weaken temporarily against the EUR. Last week also saw the release of business survey results. The ISM index for manufacturing dropped to 49.2 pts in April from 50.3 pts in March, running below market expectations (50.0 pts), and showing that the business sentiment in the manufacturing sector has worsened. The index was driven down by lower

contributions of 3 out of its 5 components (delivery times, new orders and current output), with an opposite impact coming from a higher contribution of employment. The inventories component did not change between March and April. The ISM index for services dropped to 49.4 pts in April from 51.4 pts in March, running below market expectations (52.0 pts), and showing that the business sentiment in the sector has worsened. The index was driven down by lower contributions of 3 out of its 4 components (business activity, new orders and employment), with an opposite impact coming from a higher contribution of delivery times. What is noteworthy about the data breakdown is that the prices of intermediate goods have gone up more strongly again (the strongest growth since January 2024), which indicates that the pricing pressure in the US services sector is still strong. The Conference Board index, which went down from 103.1 pts in March to 97.0 pts in April, with market expectations standing at 104.0 pts, has shown that the consumer sentiments have worsened. The decline in the index was due to a drop of its components for both the assessment of the current situation and expectations. We expect the annualised US GDP growth rate to go down from 1.6% YoY in Q1 to 1.1% YoY in Q2. At the same time, in our scenario, US GDP will grow by 1.8% in 2024 comparing to a 2.5% growth in 2023.

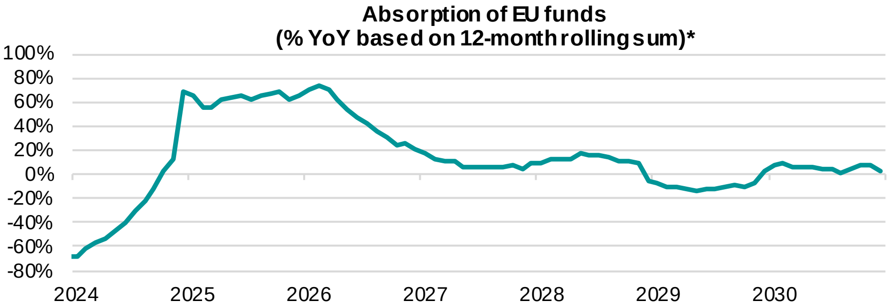
- **PMI for Polish manufacturing dropped to 45.9 pts in April from 48.0 pts in March, running markedly below market expectations (47.8 pts) and our forecast (47.1 pts).** This means the index in April reached its lowest value since October 2023 and remained below the 50-point mark separating growth from contraction for the 24th month running. The PMI decline resulted from lower contributions of 4 out of its 5 components (new orders, employment, delivery times and inventories), while the current output component value did not change between March and April. Restructuring processes in the Polish manufacturing sector accelerated amidst the weakening demand in April (see MACROpulse of 02/05/2024). The employment index reached the lowest level since November 2023. Moreover, the companies strongly reined in the purchases of intermediate goods used in the manufacturing process, and further accelerated the reduction of their stocks. April also saw the stocks of final goods decreasing once again after a transitional increase in March. However, it is worth noting that the companies' expectations regarding their future output remain optimistic despite the continuation of restructuring processes. Our conclusion is supported by the index value for the production expected in a 12-month horizon, which remains well above the 50-point mark despite reaching the lowest value since October 2023 in April. The business survey results for the Polish manufacturing sector carry a downside risk to our scenario, in which GDP growth in Poland is to accelerate from 1.5% YoY in Q1 to 2.7% in Q2.

Recovery in the construction sector coming soon



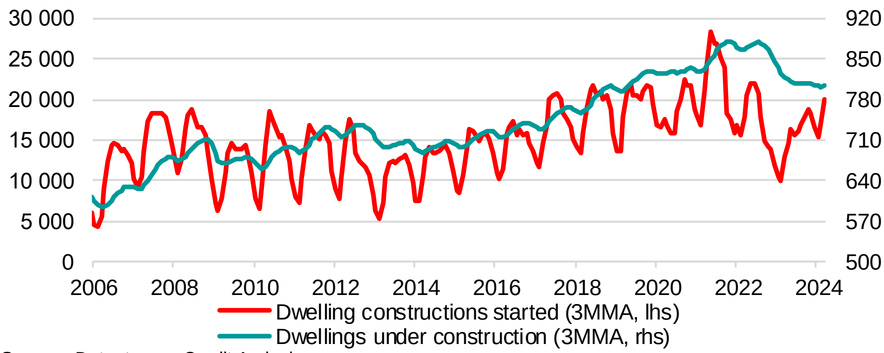
Source: Datastream, Credit Agricole

In accordance with the GUS data, construction and assembly production growth slowed down from -4.9% YoY in February to -13.3% in March, running markedly below expectations. Construction and assembly production growth was largely driven down by the statistical effect of an unfavourable difference in the number of working days between February and March. Nonetheless, seasonally-adjusted construction and assembly production shrank by 4.3% MoM in March. Consequently, the seasonally-adjusted production dropped to the lowest level since September 2022 (see diagram).



* requests for payment within 2007-2013 and 2014-2020 Cohesion Funds, excluding domestic part of financing, only EU funds; horizontal axis is shifted forward by 7 years
Source: Portal Funduszy Europejskich, GUS, Credit Agricole

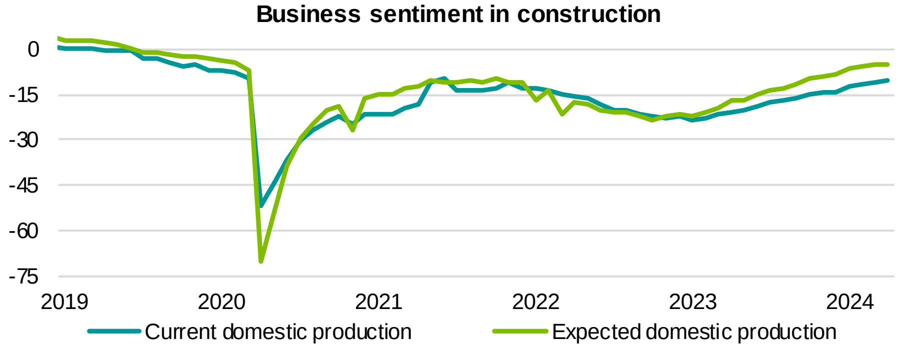
At the first glance, the figures shown above seem to suggest that the construction sector has been hit heavily, but after a closer look, things look more optimistic. Over the last couple of months, production was largely driven down by a slower growth in the "civil engineering works" category. The breakdown of data shows that the demand in the construction sector is currently strongly curbed by a reduced absorption of EU funds (see MACROmap of 25/03/2024). This is because those funds have a huge share in public investment financing (including the investments in infrastructure). In previous EU financial perspectives, the growth in the total amount of funds applied for from the Cohesion Fund was strongly correlated with the growth in the "civil engineering works" category and in the construction and assembly production in general. Judging on the basis of funds' utilisation cycles, we expect the EU funds absorption to deteriorate strongly between 2023 and 2024, and, consequently, we will see a strong slowdown in construction and assembly production. This is because the funds available as part of the Financial Perspective for 2014-2020 could only be settled until the end of 2023, while in early 2024, the absorption of funds as part of the Perspective for 2021-2027 will still be limited. The absorption of EU funds will markedly accelerate only in the quarters to come. Therefore, it should be later in 2024 that production growth in the "civil engineering works" category will begin to go up from the current, low level.



Source: Datastream, Credit Agricole

Construction and assembly production recovery in the months to come will also be stimulated by the recovery in the housing constructions sector. The boom in the mortgage loan sector observed over the last couple of months and stimulated by the *2% Safe Loan* programme has only had a moderate impact on the current activity in the construction sector so far. The "dwellings under construction" figure oscillated around 810k over the last year (see diagram). However, the first signs of recovery in the housing market can be seen when we take a look at "dwelling constructions started", which reached the highest level since June 2022 in March (23.8k). Those projects that have already begun will have an increasing impact on growth in the "construction of buildings" and "specialised construction activities" categories of construction and assembly production in the months to come.

The upward trends that we expect to see as outlined above are also reflected in business survey results. The expected domestic production indicator runs above the one for current production, which suggests that the enterprises are quite optimistic about the future. Furthermore, in April, the expected production indicator for the construction sector reached the highest value since February 2020, which was the last period of time without the negative impact of the COVID-19 pandemic and subsequent lockdowns on the economic activity. In accordance with the results of the so-called "Quick Monitoring" survey of business

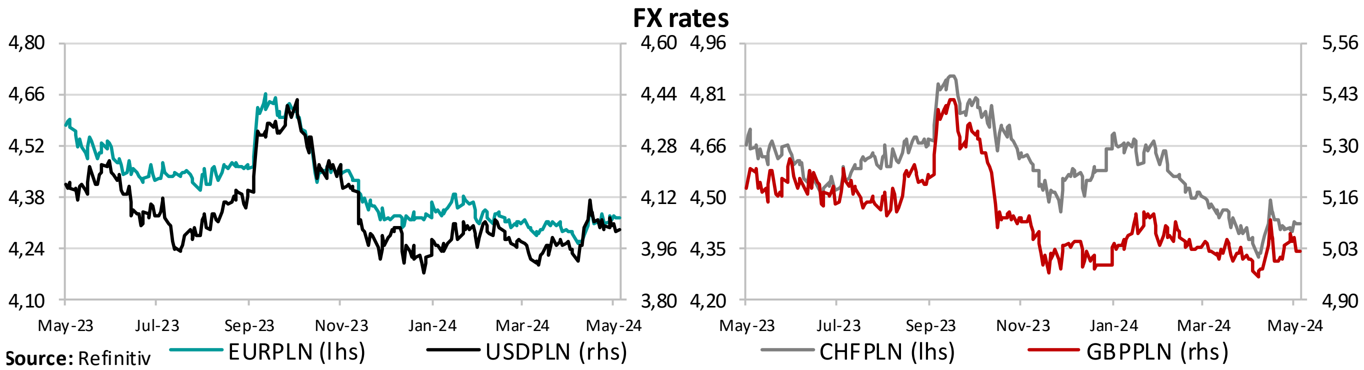


Source: GUS, Credit Agricole

sentiment carried out by the NBP, the outlook for the construction sector is also good. In the April edition of the survey, the demand expected in the construction sector went up above the long-term average level. What is more, the construction companies' demand forecasts in the 12-month horizon were more optimistic than those provided by companies operating in other sectors covered by the survey.

To sum up, we believe that the current decline in activity in the construction sector is transitional. In the quarters to come, we will see the construction and assembly production going markedly up. This upward trend in the construction sector supports our GDP growth forecast (2.8% YoY in 2024 vs. 0.2% in 2023).

NBP Governor's statements in the spotlight

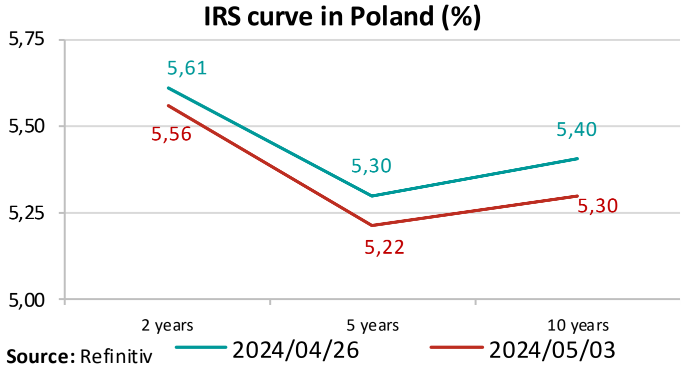


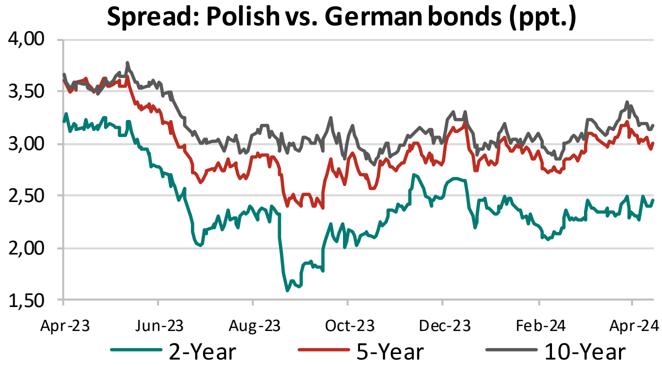
Source: Refinitiv

Last week, the EURPLN rate increased to 4.3221 (the PLN weakened by 0.4%). EURPLN's last week's volatility was low comparing to that seen over the past couple of weeks due to the so-called long weekend in May and domestic investors' reduced activity. In turn, the EURUSD exchange rate experienced greater volatility. On Wednesday morning, the USD appreciated against the EUR ahead of the FOMC meeting. However, the rate was adjusted after the meeting, and consequently, the EURUSD fell. On Friday, the USD transitionally weakened against the EUR following the release of worse-than-expected data for the US labour market.

As regards this week, the usual press conference that is to be held by the NBP Governor on Friday will be of key importance for the PLN as it might turn out to be conducive to the currency's increased volatility. We expected the global economy data and the MPC decision that are to be released this week to be neutral for the PLN. Friday's update of the Polish rating by Fitch and S&P will be announced after the closure of European markets, hence their impact on the PLN will not materialize until next week.

NBP Governor's statements may be conducive to increased volatility of IRS rates





Source: Refinitiv

Last week the 2-year IRS rates decreased to 5.56 (down by 5bp), 5-year rates to 5.22 (down by 8bp), and 10-year rates to 5.30 (down by 10bp). IRS rates' volatility last week was lower due to the so-called long weekend in May. The release of numerous domestic data had a limited impact on the curve.

We believe that the spotlights will be turned on the NBP Governor's usual press conference, which may be conducive to an increased volatility of IRS rates. In our opinion, data releases from the global economy and the MPC decision will be neutral for the curve. Friday's update of the Polish rating by Fitch and S&P will be announced after the closure of European markets, hence their impact on the IRS rates will not materialize until next week.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland

Indicator	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	May-24
NBP reference rate (%)	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	**5,75**
EURPLN*	4,59	4,53	4,43	4,40	4,47	4,63	4,45	4,35	4,33	4,32	4,31	4,29	4,33	**4,31**
USDPLN*	4,16	4,23	4,06	4,00	4,12	4,37	4,21	4,00	3,93	4,00	3,99	3,97	4,06	**4,03**
CHFPLN*	4,66	4,64	4,52	4,59	4,66	4,78	4,62	4,56	4,64	4,64	4,52	4,40	4,41	**4,40**
CPI inflation (% YoY)	14,7	13,0	11,5	10,8	10,1	8,2	6,6	6,6	6,2	3,7	2,8	2,0	**2,5**	
Core inflation (% YoY)	12,2	11,5	11,1	10,6	10,0	8,4	8,0	7,3	6,9	6,2	5,4	4,6	**4,1**	
Industrial production (% YoY)	-6,5	-3,3	-1,6	-2,7	-2,2	-3,3	2,0	-0,3	-3,5	3,0	3,2	-5,9	**5,5**	
PPI inflation (% YoY)	6,2	2,8	0,3	-2,1	-2,9	-2,7	-4,2	-5,1	-6,9	-10,6	-10,0	-9,6	**-8,5**	
Retail sales (% YoY)	3,4	1,8	2,1	2,1	3,1	3,6	4,8	2,6	0,5	4,6	6,7	6,0	**3,5**	
Corporate sector wages (% YoY)	12,1	12,2	11,9	10,4	11,9	10,3	12,8	11,8	9,6	12,8	12,9	12,0	**11,6**	
Employment (% YoY)	0,4	0,4	0,2	0,1	0,0	0,0	-0,1	-0,2	-0,1	-0,2	-0,2	-0,2	**-0,3**	
Unemployment rate* (%)	5,3	5,1	5,1	5,0	5,0	5,0	5,0	5,0	5,1	5,4	5,4	5,3	**5,2**	
Current account (M EUR)	-2248	-257	4087	55	587	1184	2151	1352	199	1742	465	**1131**		
Exports (% YoY EUR)	2,0	4,6	4,3	0,2	-2,1	-4,0	2,1	-2,0	-6,2	-4,5	0,4	**-11,2**		
Imports (% YoY EUR)	-8,8	-4,2	-5,0	-6,4	-10,9	-13,8	-7,1	-7,2	-10,6	-5,3	0,9	**-12,3**		

*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)		1,2	2,7	3,5	3,5	5,0	4,7	4,2	4,5	0,2	2,8	4,6
Private consumption (% YoY)		3,5	4,3	3,1	2,9	3,4	1,9	2,8	2,2	-1,0	3,4	2,7
Gross fixed capital formation (% YoY)		0,5	2,1	1,6	0,7	8,4	9,2	10,2	10,3	13,1	1,2	9,8
Export - constant prices (% YoY)		2,8	0,6	4,9	7,8	7,9	5,7	4,3	7,1	3,4	4,0	6,6
Import - constant prices (% YoY)		-0,4	2,3	8,8	9,2	8,9	7,3	5,4	7,3	-2,0	4,9	7,6
GDP growth contributions	Private consumption (pp)	2,1	2,5	1,8	1,5	2,1	1,1	1,7	1,1	-0,5	1,9	1,5
	Investments (pp)	0,1	0,3	0,3	0,2	1,1	1,5	1,7	2,3	2,1	0,2	1,7
	Net exports (pp)	2,0	-0,9	-1,7	-0,3	0,2	-0,5	-0,4	0,2	3,3	-0,2	-0,1
Current account (% of GDP)***		1,4	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 05/06/2024				
10:00	Eurozone	Services PMI (pts)	Apr	52,9	52,9	52,9
10:00	Eurozone	Final Composite PMI (pts)	Apr	51,4	51,4	51,4
10:30	Eurozone	Sentix Index (pts)	May	-5,9		-5,0
11:00	Eurozone	PPI (% YoY)	Mar	-8,3		-7,7
		Tuesday 05/07/2024				
8:00	Germany	New industrial orders (% MoM)	Mar	0,2		0,5
8:00	Germany	Trade balance (bn EUR)	Mar	21,4		22,4
		Wednesday 05/08/2024				
8:00	Germany	Industrial production (% MoM)	Mar	2,1		
16:00	USA	Wholesale inventories (% MoM)	Mar	-0,4		-0,4
16:00	USA	Wholesale sales (% MoM)	Mar	2,3		
		Thursday 05/09/2024				
13:00	UK	BOE rate decision (%)	Apr	5,25		5,25
	Poland	**NBP rate decision (%)**	**May**	**5,75**	**5,75**	**5,75**
	China	Trade balance (bn USD)	Apr	58,6	81,8	76,7
		Friday 05/10/2024				
16:00	USA	Initial U. of Michigan Sentiment Index (pts)	May	77,2	76,5	76,0
		Saturday 05/11/2024				
3:30	China	PPI (% YoY)	Apr	-2,8		-2,3
3:30	China	CPI (% YoY)	Apr	0,1		0,1

*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

Jakub BOROWSKI
Chief Economist
tel.: 600 457 021
jakub.borowski@credit-agricole.pl

Krystian JAWORSKI
Senior Economist
tel.: 512 191 822
krystian.jaworski@credit-agricole.pl

Jakub OLIPRA
Senior Economist
tel.: 518 003 696
jakub.olipra@credit-agricole.pl