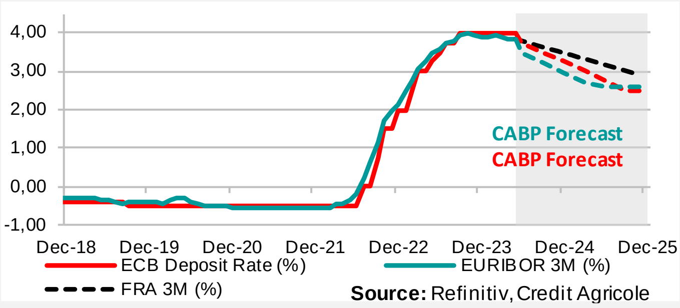
Surprising downturn in Polish manufacturing

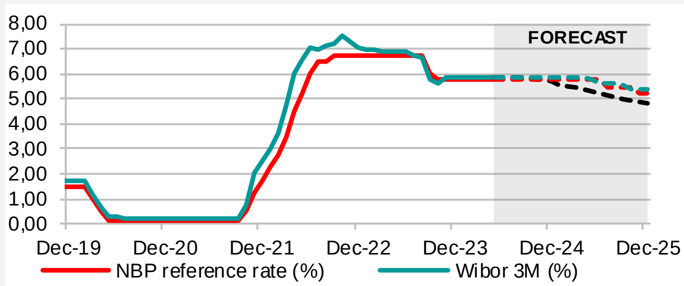
This week

- **The key event this week will be an ECB meeting planned for Thursday.** We expect the ECB to cut interest rates by 25bp. Thus, we expect the main interest rate to stand at 4.25%, and the deposit rate at 3.75%. The topics discussed at the conference will probably include further monetary policy easing: the timing and pace of further rate cuts. We do not expect the ECB to outline a specific scenario, but to emphasize that decisions will be taken based on incoming macroeconomic data. This week will also see the release of the latest ECB macroeconomic projections. We expect the projected core inflation path to be revised up in 2024. Other than that, we do not expect significant revisions to the March projections. We expect the ECB to go ahead with further rate cuts this year totalling 50bp (25bp in September and 25bp in December). We expect the ECB's press conference to add to market volatility.



Source: Refinitiv, Credit Agricole

- **Another important event this week will be a MPC meeting, scheduled for Wednesday.** We expect the MPC to keep the interest rates unchanged (with the NBP's reference rate standing at 5.75%). Our expectation that the MPC will keep the status quo in monetary policy is supported by comments made by the NBP Governor at his press conference following the MPC meeting in May to the effect that the MPC is not ready to go ahead with rate cuts this year. The MPC's decision to keep the interest rates unchanged would be consistent with the market consensus, and thus it should be neutral for the PLN and yields on Polish bonds. Thursday will see the NBP Governor's press conference, which will shed more light on Poland's monetary policy outlook. An important point in this context will be the lower-than-expected rise in inflation in May (see below). The conference may add to volatility in PLN exchange rates and bond yields.



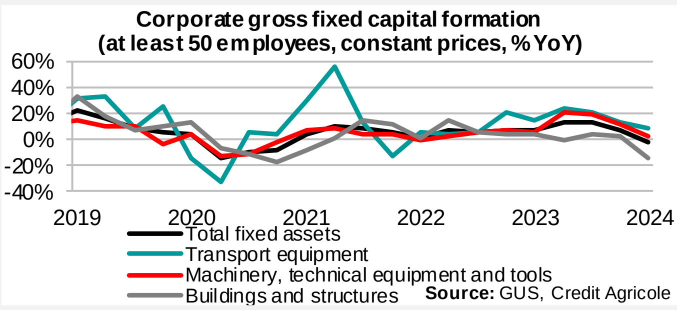
Source: Reuters, Credit Agricole

- **The final estimate of Poland's Q1 GDP estimate, including its breakdown, will be released today.** We expect GDP growth to be in line with the flash reading and to stand at 1.9% YoY vs. 1.0% for Q4. In our opinion, GDP growth between Q1 and Q4 was driven primarily by a higher contribution of consumption combined with a rise in households' real incomes. We believe that another GDP growth driver in Q1 was a less steep decline in inventories due in part to a slowdown in reducing excessive buffer inventories in manufacturing accumulated during the pandemic and after the outbreak of the war in Ukraine. These growth drivers were probably partially offset by lower investment and net export contributions. We do not expect the release of GDP figures to have any significant impact on the PLN or bond yields.
- **Some significant data on the US economy will be released this week.** Of key importance will be the release of US non-farm payroll figures on Friday. The market expects non-farm payrolls to have increased by 180k in May vs. 175k in April, with the rate of unemployment stabilized at 3.9%. Before the Friday release of payroll figures, some additional data on the labour market will be provided in the ADP report on private sector employment (the market expects a 140k rise in May vs. 192k in April). The ISM manufacturing index will be released today. According to

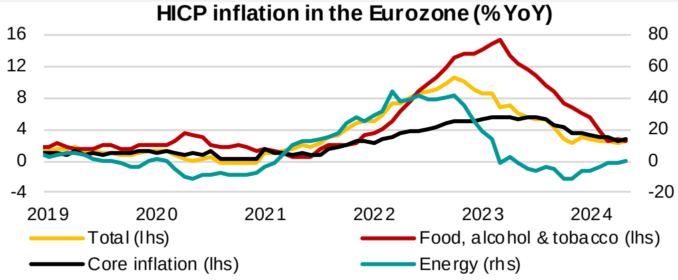
consensus, the index rose to 49.8 pts from 49.2 pts in April, which would be in line with May's rise in the US manufacturing PMI. In our opinion, this week's US data releases will be neutral for financial markets.

- **Business survey results for China's manufacturing have been released today.** China's Caixin PMI rose to 51.7 pts in May vs. 51.4 pts in April, well above market expectations (51.5 pts). Thus, May was the 7th month in a row with the index above the 50-point mark that separates growth from contraction. The index hit the highest level since June 2022. The rise in the index is accounted for by higher contributions from the output and employment components, partially offset by lower contributions from new orders and delivery times. The inventories contribution remained flat between April and May. The breakdown of data shows that the main factor behind the slowdown in new orders was weaker foreign demand, while domestic demand remained strong. However, this does not change our assessment that expects global trade recovery to drive faster growth in foreign orders in China's manufacturing in the coming quarters. Prospects of further recovery in China's manufacturing are signalled by the index for output expected over a 12-moth horizon, which, following a temporary drop in April, rose in May. However, a downturn in China's manufacturing was indicated by the NBS PMI released last week, which fell to 49.5 pts in May from 50.4 pts in April, running below market expectations (50.5 pts). The discrepancies between the NBS and Caixin indices suggest that light manufacturing sectors, which are focused to a large extent on consumers and domestic demand and which represent a majority of Caixin respondents, probably are still doing better than the manufacturing sector as whole (surveyed to a larger extent by the NBS index). We forecast that China's GDP will grow by 4.7% in 2024 compared with 5.2% in 2023. However, more support from the Chinese government will be needed, in particular more stimulus measures aimed to boost the housing market, to achieve such a growth rate.
- **Poland's manufacturing PMI fell to 45.0 pts in May from 45.9 pts in April, running well below market consensus (47.1 pts) and our forecast (47.0 pts); see below.**

Last week



- **According to the flash estimate, CPI inflation in Poland rose to 2.5% YoY in May from 2.4% in April, running well below market consensus (2.9%) and our forecast (2.8%).** GUS released partial data on the inflation breakdown, including information about price growth in the 'food and non-alcoholic beverages', 'energy' and 'fuels' categories. The rise in Inflation was driven by faster growth in the prices of 'fuels' (3.6% in May vs. -1.2% in April) and 'energy' (-1.8% vs. -2.2%), partially offset by slower growth in the 'food and non-alcoholic beverages' category (1.6% vs. 1.9%) and a drop in core inflation, which, according to our estimates, fell to 3.8% YoY in May from 4.1% in April. What is most surprising about the data is slower growth in the prices of food and non-alcoholic beverages. In our opinion, this suggests that the transmission of the restored 5% VAT added to retail food prices is limited. A fuller analysis of the surprisingly low price growth in this category will only be possible after detailed inflation figures for May are released. Last week's flash inflation figures represent a significant downside risk to our scenario, which expects an annual average inflation rate of 3.3% in 2024 compared with 11.6% in 2023.

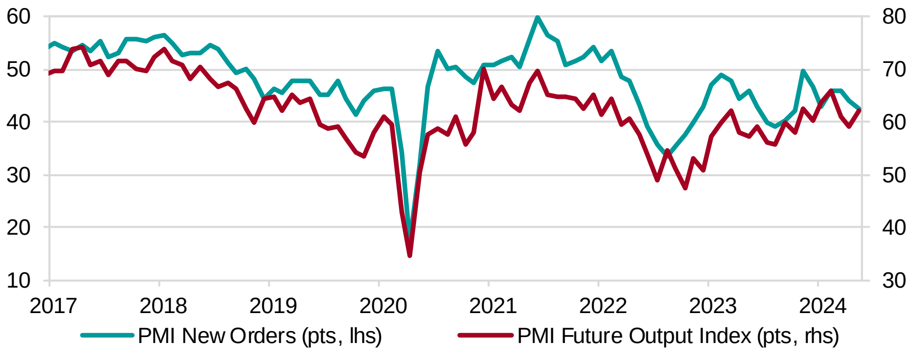


Source: Datastream, Credit Agricole

- **According to the flash estimate, the Eurozone's inflation rose to 2.6% in May from 2.4% in April, running above market consensus and our forecast (2.5%).** The rise in inflation was driven by higher growth in energy prices(0.3% YoY in May vs. -0.6% in April) and a rise in core inflation (2.9% vs. 2.7%), partially offset by slower growth in food prices (2.6% vs. 2.8%). What is worth noting about the data are high inflationary pressures in services and weaker pressures in goods. We expect core inflation to fall gradually over the coming months. However, core inflation will be falling very slowly, and we do not expect it to fall to ca. 2% before Q2 2025.
- **The Ifo index, reflecting business confidence in German manufacturing, construction, trade and services sectors did not change between April and May, and remained pinned at 89.3 pts, printing below the market expectations (90.4 pts).** The index remained stable, with poorer assessment of current conditions having been offset by a rise in expectations. The sectoral breakdown showed an improvement in manufacturing, construction and trade, but also a downturn in services. Bearing in mind the preliminary PMI results for Germany published two weeks ago (see MACROmap of 27/05/2024), we can see an upside risk to our forecast in which German GDP is to rise by 0.1% in 2024 comparing to a 0.1% decline in 2023.
- **Some significant data on the US economy was released last week.** In accordance with the second estimate, US annualised GDP growth in Q1 was revised downwards, to 1.3% vs. 1.6% in the first estimate. Lower contributions of private consumption, inventories and net exports were the reason behind the revision. The second estimate confirmed that private consumption was once again the main driver of economic growth in Q1, just as it was the case in Q4 2023. Last week's data showed that PCE inflation remained pinned at 2.8%, meaning there was no change between March and April, which was consistent with market consensus. Seasonally-adjusted core inflation dropped to 0.2% MoM, from 0.3% in March, reaching the lowest value since December 2023, but it does not alter our conclusion that the inflationary pressure in the US remains strong. The Conference Board index went up from 97.5 pts in April to 102.0 pts in May, printing ahead of market expectations (96.0 pts), and showing that households' sentiments in the US have improved. The index went up, reflecting the increase in both "current condition" and "expectations" components. We expect the annualised US GDP growth rate to go down from 1.3% 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.
- **In accordance with the data published by Statistics Poland, real investments carried out by companies employing at least 50 people shrank by 2.2% YoY in Q1 comparing to a 7.9% growth, which represented their slowest growth since Q4 2020.** It is definitely worth noting a broad-based slowdown of capital expenditure growth in Q1, which stems from the investment data breakdown. Expressed in terms of constant prices, the growth slowed down in both "buildings and structures" (-14.2% YoY vs. +2.0% in Q4) and "machinery, technical equipment and tools" (2.8% vs. 11.3%) and "transportation means" (8.7% vs. 13.5%) categories. In our opinion, investment activity in the enterprise sector was primarily curbed by the unfavourable situation in Poland and abroad, and by the still low level of use of production capacities. The significant decline in expenditures in the "buildings and structures" category is likely to have been caused by a reduced activity of foreign companies (see MACROmap of 13/05/2024). We expect the companies' investments to accelerate in the coming quarters, which will be consistent with a markedly greater optimism demonstrated by the enterprises in the April edition of the "Quick Monitoring" survey of business sentiment carried out by the NBP. Nonetheless, the data on

investments carried out in Q1 by enterprises with at least 50-strong workforces carries a downside risk to our total investment forecast for 2024 (1.2% YoY vs. 13.1% in 2023).

Surprising downturn in Polish manufacturing



Source: S&P, Credit Agricole

PMI for Polish manufacturing dropped to 45.0 pts in May from 45.9 pts in April, running markedly below market expectations (47.1 pts) and our forecast (47.0 pts). This means the index in May reached its lowest value since October 2023 and remained below the 50-point mark separating growth from contraction for the 25th month running. The decline resulted from lower contributions of 4 out of its 5 components (new orders, current output, employment and delivery times), while a higher contribution of inventories had the opposite effect. We believe that the difficulties related to the seasonal adjustment of data for the so-called “longer weekends” in May could be the reason behind such a surprising reading.

What is most notable about the data breakdown is a markedly stronger decline in the number of new orders, which was largely connected with a stronger decline in the new export orders. As regards the latter, the surveyed companies pointed to a weaker demand on key European markets, i.e. Germany and France. It is somewhat surprising given the upturn in manufacturing seen in the Eurozone in May, and in particular in Germany (see MACROmap of 27/05/2024). At the same time, in May, the rate of reduction of production backlogs dropped, which may suggest that the buffer composed of orders that have not been completed yet is slowly becoming empty. Consequently, May saw a marked acceleration in current output decline, the strongest since October 2023.

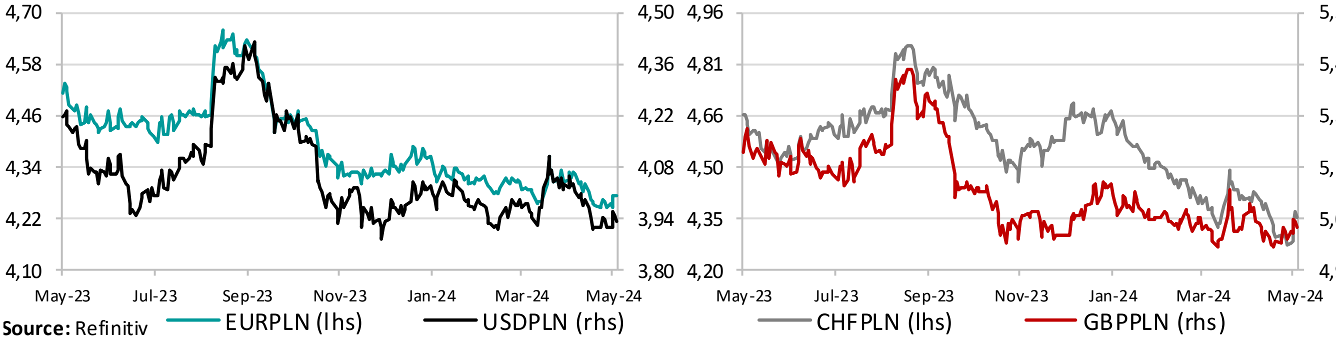
Restructuring processes in the Polish manufacturing sector accelerated amidst the weakening demand in May. The index for employment reached the lowest level since October 2023, yet it is worth noting that the decline in both intermediate and final goods’ inventories clearly slowed down in May. However, given the decline in the number of the new orders seen in the previous month, it may indicate that some companies overshot the demand. Nonetheless, it is worth noting that 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 increased in May, and remains well above the 50-point mark.

May saw the prices of final goods go up for the first time since March 2023. The prices of intermediate goods went up, too, but the delivery times shortened. This, however, does not alter our conclusion saying that the pricing pressure in the Polish manufacturing sector will remain only slight, with demand continuing to be weak.

Data on Polish economy released over the last couple of weeks was indicative of an upside risk to our forecast of GDP growth in 2024 (2.8% YoY vs. 0.2% in 2023).With today’s PMI survey results, the risk is becoming slightly lower. However, we will be able to assess the economic growth outlook more precisely only after we have seen the final GDP estimate for Q1, which is planned to be released today.

ECB and NBP press conferences may increase the volatility of the EURPLN rate

FX rates

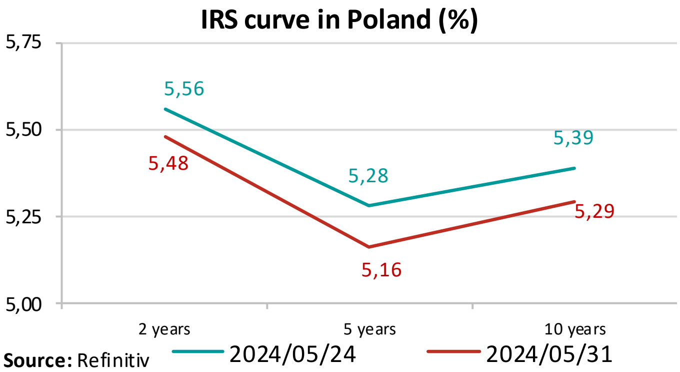


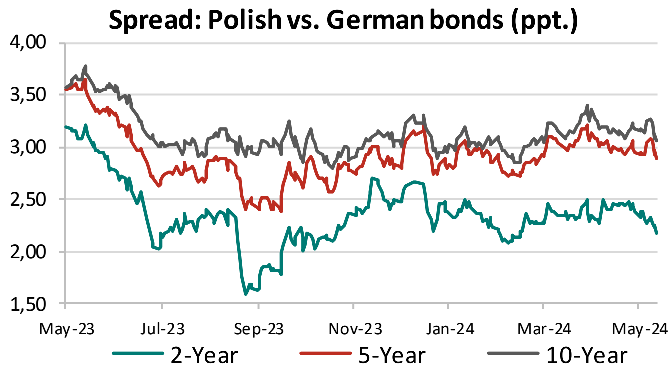
Source: Refinitiv

Last week, the EURPLN rate increased to 4.2717 (the PLN weakened by 0.6%). In the first half of the week, the PLN was relatively stable due to a reduced activity of domestic investors during the so-called "longer weekend". The Polish currency dropped on Thursday following the USD appreciation against the EUR. After the Friday's adjustment, the PLN made up for some of the losses suffered the day before.

In our opinion, today's publication of the PMI results for Polish manufacturing sector is slightly negative for the PLN. The ECB meeting planned for Thursday will be of key importance for the PLN, and it may increase the volatility of the Polish currency. NBP Governor's usual press conference, which is planned to be held on Thursday as well, may have a similar effect. We believe that other publications from the Polish and global economies planned for this week will be neutral for the PLN.

ECB and NBP meetings in the spotlight





Source: Refinitiv

Last week the 2-year IRS rates decreased to 5.48 (down by 8bp), 5-year rates to 5.16 (down by 12bp), and 10-year rates to 5.29 (down by 10bp). Last week saw a decline in IRS rates across the curve following the core markets. Yields on bonds in the core markets were driven down by growing expectations that the main central banks will cut the interest rates. Among the factors driving the yields down was the publication of the US PCE inflation data, which was interpreted by some investors as a signal that the inflationary pressure is gradually easing.

In our opinion, today's publication of the PMI results for Polish manufacturing sector is slightly negative for the yields on Polish bonds. This week, spotlights will be turned on the ECB and NBP meetings as they can be conducive to increased volatility of IRS rates. We believe that other publications from the Polish and global economies will be neutral for the curve.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland														
Indicator	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	Jun-24
NBP reference rate (%)	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	**5,75**
EURPLN*	4,53	4,43	4,40	4,47	4,63	4,45	4,35	4,33	4,32	4,31	4,29	4,33	4,27	**4,28**
USDPLN*	4,23	4,06	4,00	4,12	4,37	4,21	4,00	3,93	4,00	3,99	3,97	4,06	3,94	**4,00**
CHFPLN*	4,64	4,52	4,59	4,66	4,78	4,62	4,56	4,64	4,64	4,52	4,40	4,41	4,36	**4,37**
CPI inflation (% YoY)	13,0	11,5	10,8	10,1	8,2	6,6	6,6	6,2	3,7	2,8	2,0	2,4	**2,5**	
Core inflation (% YoY)	11,5	11,1	10,6	10,0	8,4	8,0	7,3	6,9	6,2	5,4	4,6	4,1	**3,8**	
Industrial production (% YoY)	-3,3	-1,6	-2,7	-2,2	-3,3	2,0	-0,3	-3,5	3,0	3,2	-5,7	7,9	**1,9**	
PPI inflation (% YoY)	2,8	0,3	-2,1	-2,9	-2,7	-4,2	-5,1	-6,9	-10,6	-10,0	-9,9	-8,6	**-7,2**	
Retail sales (% YoY)	1,8	2,1	2,1	3,1	3,6	4,8	2,6	0,5	4,6	6,7	6,0	4,3	**7,2**	
Corporate sector wages (% YoY)	12,2	11,9	10,4	11,9	10,3	12,8	11,8	9,6	12,8	12,9	12,0	11,3	**11,6**	
Employment (% YoY)	0,4	0,2	0,1	0,0	0,0	-0,1	-0,2	-0,1	-0,2	-0,2	-0,2	-0,4	**-0,4**	
Unemployment rate* (%)	5,1	5,1	5,0	5,0	5,0	5,0	5,0	5,1	5,4	5,4	5,3	5,1	**4,9**	
Current account (M EUR)	-257	4087	55	587	1184	2151	1352	199	1742	511	325	**1545**		
Exports (% YoY EUR)	4,6	4,3	0,2	-2,1	-4,0	2,1	-2,0	-6,2	-4,5	0,5	-9,5	**9,0**		
Imports (% YoY EUR)	-4,2	-5,0	-6,4	-10,9	-13,8	-7,1	-7,2	-10,6	-5,3	0,9	-8,3	**3,7**		

*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)***	1,2	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)	-0,2	-0,2	-0,2	-0,3	-0,4	-0,5	-0,5	-0,5	0,8	-0,2	-0,5
Wages in national economy (% YoY)	14,4	15,5	14,8	15,0	12,1	9,9	8,3	7,8	12,8	14,9	9,5
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	FORECAST* CONSENSUS**
		Monday 06/03/2024				
3:45	China	Caixin Manufacturing PMI (pts)	May	50,2		51,5
9:00	**Poland**	**Manufacturing PMI (pts)**	**May**	**45,9**	**47,0**	**47,1**
9:55	Germany	Final Manufacturing PMI (pts)	May	45,4	45,4	45,4
10:00	**Poland**	**Final GDP (% YoY)**	**Q1**	**1,0**	**1,9**	**1,9**
10:00	Eurozone	Final Manufacturing PMI (pts)	May	47,4	47,4	47,4
15:45	USA	Flash Manufacturing PMI (pts)	May	50,9		
16:00	USA	ISM Manufacturing PMI (pts)	May	49,2		49,6
		Tuesday 06/04/2024				
16:00	USA	Factory orders (% MoM)	Apr	1,6		0,6
		Wednesday 06/05/2024				
10:00	Eurozone	Services PMI (pts)	May	53,3	53,3	53,3
10:00	Eurozone	Final Composite PMI (pts)	May	52,3	52,3	52,3
11:00	Eurozone	PPI (% YoY)	Apr	-7,8		-5,1
14:15	USA	ADP employment report (k)	May	192		173
16:00	USA	ISM Non-Manufacturing Index (pts)	May	49,4		50,5
	Poland	**NBP rate decision (%)**	**Jun**	**5,75**	**5,75**	**5,75**
		Thursday 06/06/2024				
8:00	Germany	New industrial orders (% MoM)	Apr	-0,4		0,5
11:00	Eurozone	Employment (% YoY)	Q1	1,0		
14:15	Eurozone	EBC rate decision (%)	Jun	4,50	4,25	4,25
		Friday 06/07/2024				
8:00	Germany	Trade balance (bn EUR)	Apr	22,3		
8:00	Germany	Industrial production (% MoM)	Apr	-0,4		0,2
11:00	Eurozone	Revised GDP (% QoQ)	Q1	0,3	0,3	0,3
11:00	Eurozone	Final GDP (% YoY)	Q1	0,4	0,4	0,4
14:30	USA	Unemployment rate (%)	May	3,9		3,9
14:30	USA	Non-farm payrolls (k MoM)	May	175		190
16:00	USA	Wholesale inventories (% MoM)	Apr	0,2		
16:00	USA	Wholesale sales (% MoM)	Apr	-1,3		

*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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