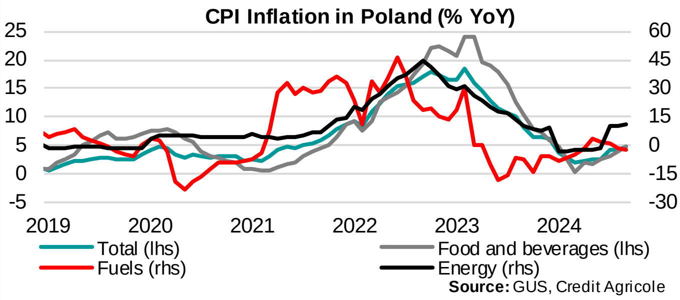
More weak signals from the Eurozone

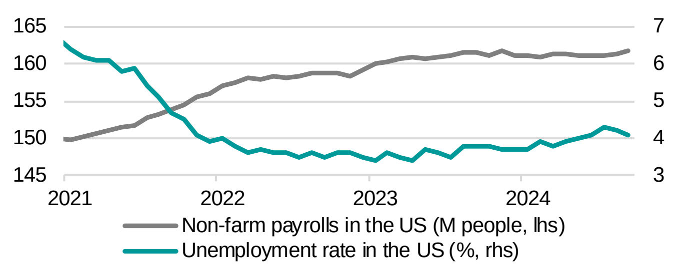
This week

- **The publication of preliminary October inflation data for Poland, which is planned for Thursday, will be the most important event this week.** In our opinion, inflation will rise from 4.9% YoY in September to 5.0% YoY in October, primarily due to the growth in the prices of fuels connected with last year's low base effects. We also think that core inflation will drop from 4.3% YoY in September to 4.2% in October. Our forecast is consistent with market consensus, and thus its materialisation will be neutral for the PLN and yields on Polish bonds.



Source: GUS, Credit Agricole

- **Significant data from the Eurozone and Germany will be published this week.** We expect quarterly GDP growth in the Eurozone to have accelerated to 0.4% in Q3 from 0.2% in Q2. The release of a flash estimate of Germany's GDP growth will provide more information on the economic growth in the Eurozone. We expect the GDP growth to accelerate from -0.1% QoQ in Q2 to 0.1% QoQ in Q3. We believe there is a substantial downside risk to our GDP growth forecasts arising from the PMI results, which are indicative of a downturn in the Q3. Preliminary HICP inflation data for the Eurozone will be released on Thursday. We expect the HICP inflation to rise from 1.7% YoY in September to 1.8% in October. Slight acceleration in price growth will be connected with a slower drop in energy prices. We expect the publication of GDP data for Germany and the Eurozone to be slightly negative for the PLN and the prices of Polish bonds. Inflation data for the Eurozone will be neutral for financial markets.
- **Important data from the US will be published this week.** US non-farm payrolls data that will be released on Friday will be the most important publication. We expect that non-farm payrolls rose by 110k in October vs. 254k in September, while unemployment rose from 4.1% to 4.2%. Employment growth was partially hampered by an adverse impact of hurricanes on economic activity, primarily in Florida. Before Friday's data release, some data on the labour market will be provided in the ADP report on employment in the private sector (the market expects a 112k rise in October vs. 143k in September). We forecast that both headline PCE and core inflation fell between August and September, from 2.2% YoY to 2.1% and from 2.7% YoY to 2.6%, respectively. The preliminary estimate of US Q3 GDP will be released on Tuesday. We expect the annualized GDP growth to have slowed from 3.0% in Q2 to 2.7% in Q3 due to a slight slowdown in consumption growth. Business survey results will also be released this week. The ISM manufacturing index will be published on Friday. We believe that it rose from 47.2 pts in September to 47.5 pts in October, remaining below the 50-point mark that separates growth from contraction for the seventh month running. We expect the Conference Board index to go up slightly, from 98.7 pts in September to 100.0 pts in October. The improvement in consumer sentiment will be consistent with the University of Michigan index results published last week (see below). We believe that the release of business survey results for the US will be neutral for financial markets.



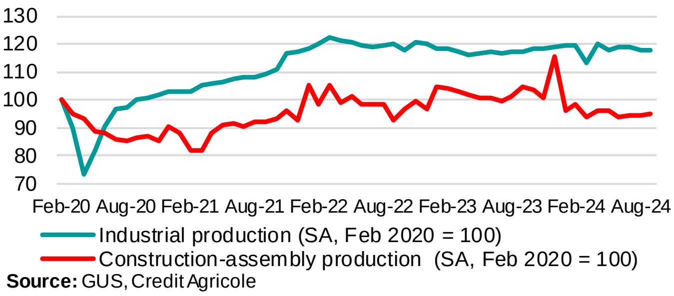
Source: Datastream, Credit Agricole

- **Business survey results for Chinese manufacturing will be published this week.** NBS PMI will be released on Thursday. The market expects it to go up from 49.8 pts in September to 50.1 pts in October. On Friday, we will also see the Caixin PMI reading, which is expected to go up from

49.3 pts in September to 49.5 pts in October. The improvement will result from a positive impact of stimulative measures adopted recently by the Chinese government. In our opinion, the data from China will be neutral for financial markets.

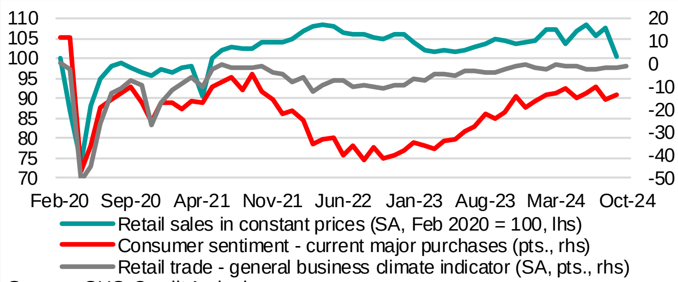
Last week

- **Industrial production in Poland decreased by 0.3% YoY in September compared with a drop of 1.2% YoY in August (upward revision from -1.5%), falling below our forecast (0.5%) and the market consensus (0.2%).** Positive for the industrial production growth was the statistical effect of a favourable difference in the number of working days between August and September. Seasonally-adjusted industrial production shrank by 0.2% MoM in September, marking a decline in production for the third consecutive month (cumulatively by 1.2%). In our opinion, its short-term prospects remain unfavourable, mainly due to lower activity in the manufacturing sector in the Eurozone, including Germany, which reduced demand for intermediate goods manufactured in Poland (see below). A good indicator of this trend was the decline in production across several export-oriented industries, which occurred in September despite favourable calendar effects (see MACROpulse of 21/10/2024). Construction and assembly production increased to -9.0% YoY in September from -9.6% in August, exceeding the market consensus (-9.5%) and our forecast (-10.2%). The construction and assembly production growth rate (without seasonal adjustment) between August and September was supported by the statistical effect of the favourable difference in the number of working days mentioned above. Seasonally-adjusted construction and assembly production expanded by 0.9% MoM in September. However, it has been on a downward trend since the beginning of the year. We continue to believe that housing construction will continue to stimulate activity in the construction sector in the coming months, the current activity being strongly hampered by the reduced absorption of EU funds. The impact of this factor will be increasingly boosted by projects delivered as part of the National Recovery Plan (see MACROpulse of 21/10/2024). September's industrial manufacturing and construction and assembly data support our forecast that GDP growth in Q3 will accelerate to 2.7% YoY from 3.2% in Q2. The main upside risk factor to our forecast remains the scale of recovery of activity in services.



Source: GUS, Credit Agricole

- **Poland's nominal retail sales growth slowed to -2.2% YoY in September from 3.2% in August, running below the market consensus (2.8%) and our forecast (3.2%).** The growth in retail sales at constant prices slowed to -3.0% YoY in September from 2.6% in August, a reading well below market consensus (2.1%) and our forecast (2.0%). Thus, it reached its lowest level since July 2023. Additionally, the decline in real retail sales growth was observed across all categories, with the exception of "clothing and footwear", signalling a broad weakening of consumer demand. Seasonally-adjusted retail sales at constant prices decreased by 6.7% MoM in September. We believe that the drop in retail turnover is largely attributable to the flood as it directly contributed to a substantial decline in sales in the

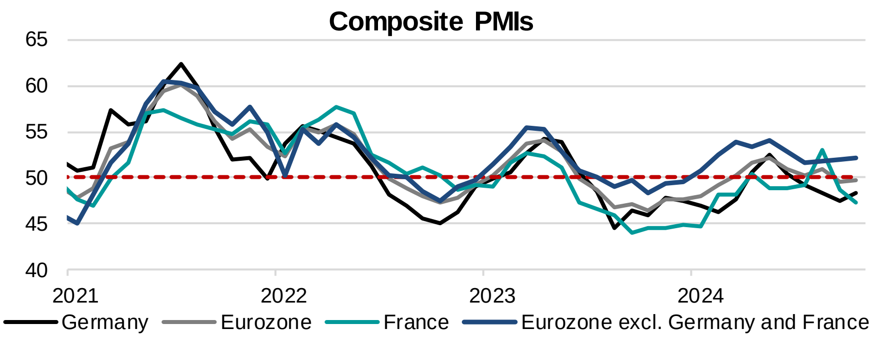


Source: GUS, Credit Agricole

affected areas. However, it also eroded consumer sentiment in the remainder of the country, increasing the propensity to save (see MACROpulse of 22/10/2024). Apart from the flood, retail sales in September remained under the negative influence of a series of fundamental factors such as the slowdown in the growth of real wages, rising inflation and consumer sentiment stagnation. Nevertheless we believe that the flood was the dominant factor here. Thus, as its influence wanes, we anticipate a gradual recovery of retail sales in October.

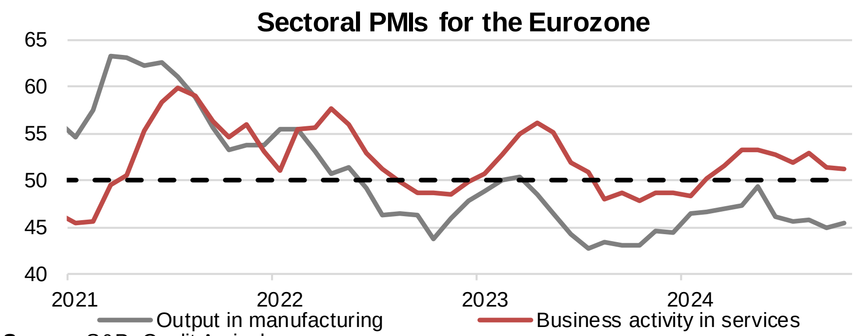
- **Nominal wage growth in Poland's enterprise sector declined to 10.3% YoY in September from 11.1% in August, printing below the market consensus (10.9%) and our forecast (11.1%).** In real terms, wage growth in businesses declined to 5.2% YoY in September from 6.6% YoY in August. In contrast, employment in the business sector did not change between August and September, and stood at -0.5%, in line with market expectations and our forecast. Compared to August, employment decreased by 7.6k people, marking the largest drop recorded in September since 2000. This decline, similarly to recent months, was mainly attributable to manufacturing (-4.5k), which is connected with continued restructuring processes in this sector (see MACROpulse of 21.10.2024). As a result, we noted a decline in the real growth rate of the wage fund in the enterprise sector (calculated as the product of employment and the average wage adjusted for price changes) to 4.6% YoY in September, compared to 6.0% in August and 5.5% in Q3 vs. 8.1% in Q2. Data on employment and average wages in the enterprise sector, combined with retail sales figures (see above), support our existing scenario assuming a gradual drop in consumption growth in the upcoming quarters (3.3% YoY in Q3 and 2.9% in Q4 vs. 4.7% in Q2).
- **Some significant data on the US economy was released last week.** Durable goods orders remained stable between September and August at -0.8% MoM, exceeding market expectations of -1.1%. Excluding transportation, MoM growth in durable goods orders fell to 0.4% in September from 0.6% in August. At the same time, the growth in orders for non-military capital goods increased to 0.1% YoY in September vs. -0.1% in August. Last week also saw the release of data on new home sales (738k in September vs. 709k in August) and existing home sales (3.84m vs. 3.88m) showing sustained reduced activity in the US property market. In contrast, the final University of Michigan index increased to 70.5 pts in September, compared to 70.1 pts in August and 68.9 pts in the flash estimate. The rise in the index was driven by a higher current situation sub-index, partially offset by a lower expectations sub-index. We expect annualized US GDP growth to slow down to 2.7% in Q3 from 3.0% in Q2 (see above). At the same time, our scenario expects US GDP to grow by 2.5% over the whole of 2024 compared with 2.9% for 2023.
- **Flash data shows that the Eurozone composite PMI (covering manufacturing and services) increased to 49.7 pts in October from 49.6 pts in September, coming in slightly below market expectations of 49.9 pts.** The business survey results pose a downside risk to our forecast, which anticipates that quarterly GDP growth in the Eurozone will stand at 0.3% in Q4, down from 0.4% in Q3, with GDP for the whole of 2024 amounting to 0.8%, up from 0.5% in 2023 (see below).

More weak signals from the Eurozone



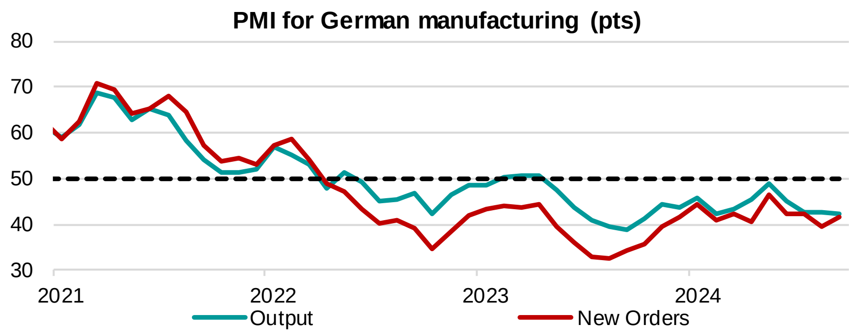
Source: S&P, Credit Agricole

Preliminary data shows that the composite PMI (manufacturing and services) for the Eurozone rose from 49.6 pts in September to 49.7 pts in October, running slightly below the market expectations (49.9 pts). This means that it has stayed below the 50-point mark that separates growth from contraction for 2 consecutive months. The slight increase mentioned above was caused by an increase in the current output index in manufacturing, while a decrease in the business activity index in services had the opposite effect. Geography-wise, business sentiment in France deteriorated, but Germany and other Eurozone economies surveyed saw some improvement in this regard.



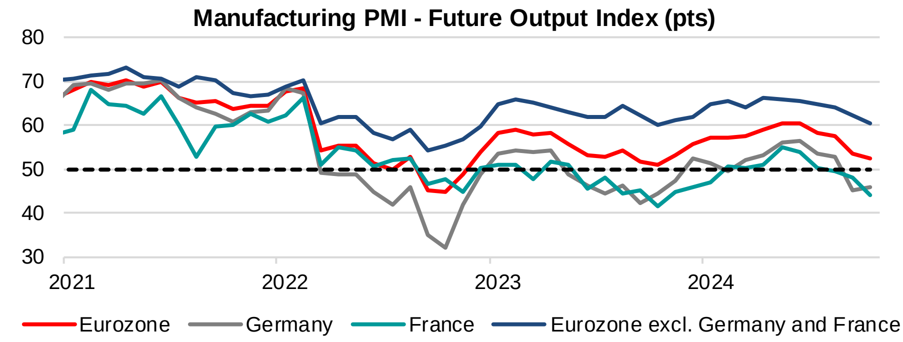
Source: S&P, Credit Agricole

The press release has emphasised that sentiments still vary quite substantially between services and manufacturing sectors when it comes to the assessment of the situation. On the one hand, the activity in the manufacturing sector has been declining invariably since July 2022, but on the other hand, there has been a continuous growth in activity in the services sector since February 2024. In our opinion, it is not possible for things to continue like that in a long run. We believe that the situation in the services sector may change for worse if the activity in the manufacturing sector does not improve. In fact, we can see some worrying signals indicating that the risk of materialisation of that scenario is growing, and namely a decrease in the number of incoming orders in the services sector observed over the last two months combined with the accelerated reduction of production backlogs.



Source: S&P, Credit Agricole

For this reason, in order to assess the outlook for the Eurozone, one needs to take a close look at the German manufacturing sector, where PMI rose from 40.6 pts in September to 42.6 pts in October. The increase resulted from higher contributions of 4 out of its 5 components (new orders, current output, inventories and employment), while a lower contribution of delivery times had the opposite effect. It is worth noting that the decline in new orders, including the new export orders, slowed down quite substantially in October. In accordance with the press release, the increased uncertainty surrounding the macroeconomic environment and a poor demand in the automotive industry still exert their adverse impact on new orders. Such slower decline in the number of new orders also curbed the decline in purchases of raw materials and intermediate and final goods.



Source: S&P, Credit Agricole

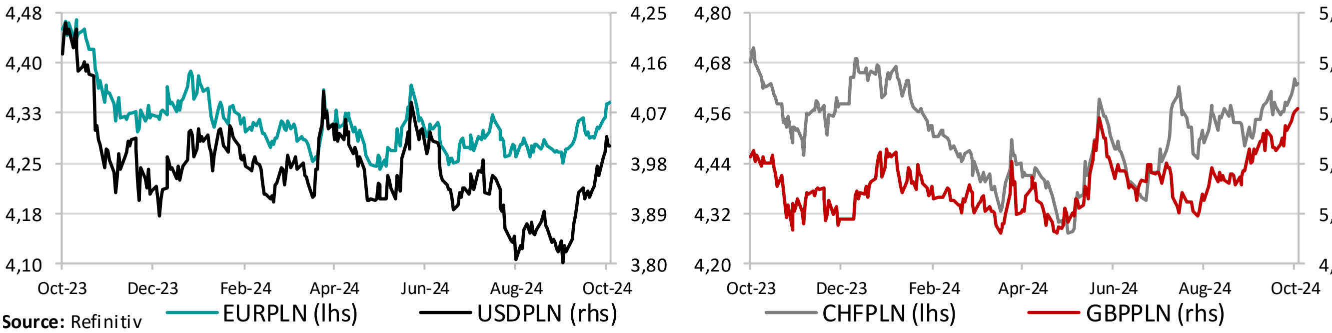
Despite a slight growth in German manufacturing PMI, its key components are indicative of the continuing, substantial slowdown in activity in that sector. At the same time, we cannot say that any of the reported indicators actually suggests that the situation could markedly improve. Our opinion is consistent with the reading of the index for production expected in a 12-month horizon, which has remained well below the 50-point mark for the last two months. At the same time, a clear downward trend regarding the expected future output can also be seen in France and other Eurozone economies that have been surveyed.

The Ifo index reflecting business confidence in Germany in the manufacturing, construction, trade and services sectors, which has risen from 85.4 pts in September to 86.5 pts in October, thus running above market expectations (85.6 pts) has also shed some light on the situation in the German economy. The index was driven up by higher values of both assessment of current situation and expectations components. The sectoral breakdown showed an improvement in manufacturing, trade, and services, but also a downturn in the construction sector. However, it is worth noting that in manufacturing, trade and construction sectors the replies that were indicative of sentiment depression greatly outnumber the ones suggesting improvement, which in our opinion substantially weakens the positive overtone of better-than-expected data.

Given the business survey results, we can see a downside risk to our forecast in which the quarterly GDP growth in the Eurozone is to go down from 0.4% in Q3 to 0.3% in Q4, and to accelerate by 0.8% YoY in 2024 vs. 0.5% in 2023. Poorer economic growth outlook for the Eurozone combined with the inflation drop and ECB's surprising decision to cut interest rates in its October meeting (see MACROmap of 21/10/2024) have made us revise our ECB interest rate scenario. We think the Governing Council's confidence that fall in inflation is sustainable is growing, as are the ECB's concerns about the outlook for economic growth. That being the case, we believe that the reaction function of ECB has changed, and they will keep on easing the monetary policy in the meetings to come, and will cut their interest rates by 25bp at each next meeting, until they ultimately reach their target level in April 2025 (2.25% for the deposit rate).

Rising tensions in Middle East weigh on PLN

FX rates



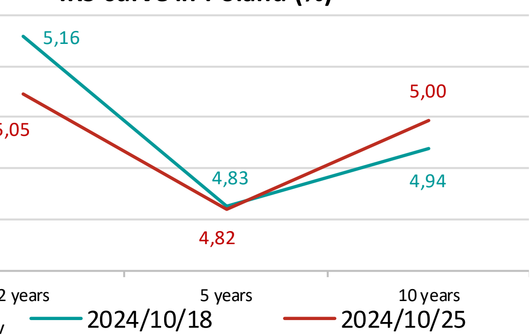
Source: Refinitiv

Last week, the EURPLN rate rose to 4.3444 (a 0.9% weakening of the PLN). The EURPLN exchange rate continued to increase last week, extending the trend seen over the two previous weeks (see MACROmap of 24/10/2024). In our view, the recent depreciation of the PLN is fuelled by the uncertainty surrounding the upcoming US presidential elections. Consequently, the first part of the week also saw a decline in the EURUSD exchange rate. However, a correction later in the week allowed the EUR to regain some losses against the USD. Domestic data releases did not have a significant impact on the PLN.

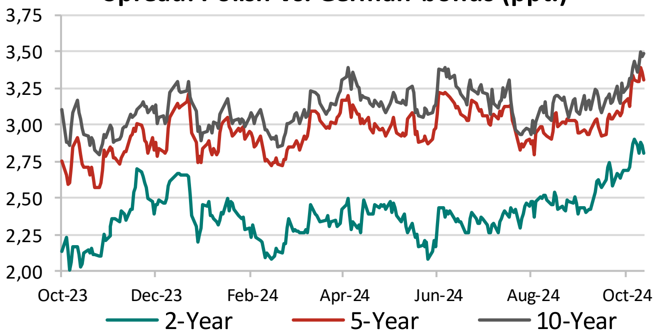
This week, the key event for investors will be the publication of GDP data in the Eurozone, including Germany. If our forecasts, which are higher than the consensus, materialise, they may push the PLN down. We believe that other publications from the Polish and global economies planned for this week will be neutral for the PLN. However, further developments in the Middle East, in particular Iran's possible reaction to Israel's retaliatory attack on the country at the weekend, may be important for the Polish currency. A further increase in tension in the region may have a weakening effect on the PLN. The heightened uncertainty surrounding the upcoming presidential elections will also add to the volatility in the FX market.

GDP data in the Eurozone important for debt market

IRS curve in Poland (%)



Spread: Polish vs. German bonds (ppt.)



Source: Refinitiv

Last week, the 2-year IRS rates decreased to 5.05 (down by 11bp), 5-year rates fell to 4.82 (down by 1bp), and 10-year rates increased to 5.00 (up by 6bp). Last week, IRS rates on the shorter end of the curve declined following the German market, a movement further amplified by the release of poor Eurozone business survey results. The drop in IRS rates is supported by rising expectations of interest rate cuts by the ECB.

This week, the market’s spotlight will be on the publication of GDP data in the Eurozone, including Germany, scheduled for Tuesday, which may drive IRS rates up. We believe that other data releases from the Polish and global economies scheduled for this week will be neutral for the curve. However, further developments in the Middle East will remain an important factor for the curve. Iran's possible response to Israel's retaliatory attack on the country at the weekend would act to further escalate tensions in the Middle East and could lead to an increase in IRS rates. Similarly, the upcoming US presidential elections may spur increased rate volatility.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland

Indicator	Sep.23	Oct.23	Nov.23	Dec.23	Jan.24	Feb.24	Mar.24	Apr.24	May.24	Jun.24	Jul.24	Aug.24	Sep.24	Oct.24
NBP reference rate (%)	6,00	5,75	5,75	5,75	5,75	5,75	5,75	5,75	5,75	5,75	5,75	5,75	5,75	5,75
EURPLN*	4,63	4,45	4,35	4,33	4,32	4,31	4,29	4,33	4,27	4,30	4,29	4,28	4,28	**4,32**
USDPLN*	4,37	4,21	4,00	3,93	4,00	3,99	3,97	4,06	3,94	4,02	3,96	3,87	3,85	**3,99**
CHFPLN*	4,78	4,62	4,56	4,64	4,64	4,52	4,40	4,41	4,36	4,47	4,50	4,56	4,54	**4,60**
CPI inflation (% YoY)	8,2	6,6	6,6	6,2	3,7	2,8	2,0	2,4	2,5	2,6	4,2	4,3	4,9	
Core inflation (% YoY)	8,4	8,0	7,3	6,9	6,2	5,4	4,6	4,1	3,8	3,6	3,8	3,7	4,3	
Industrial production (% YoY)	-3,3	2,0	-0,3	-3,5	3,0	3,2	-5,7	7,8	-1,6	0,0	5,3	-1,3	-0,3	
PPI inflation (% YoY)	-2,7	-4,2	-5,1	-6,9	-10,6	-10,0	-9,9	-8,5	-7,0	-5,8	-5,1	-5,5	-6,3	
Retail sales (% YoY)	3,6	4,8	2,6	0,5	4,6	6,7	6,0	4,3	5,4	4,7	5,0	3,2	-2,2	
Corporate sector wages (% YoY)	10,3	12,8	11,8	9,6	12,8	12,9	12,0	11,3	11,4	11,0	10,6	11,1	10,3	
Employment (% YoY)	0,0	-0,1	-0,2	-0,1	-0,2	-0,2	-0,2	-0,4	-0,5	-0,4	-0,4	-0,5	-0,5	
Unemployment rate* (%)	5,0	5,0	5,0	5,1	5,4	5,4	5,3	5,1	5,0	4,9	5,0	5,0	5,0	
Current account (M EUR)	1700	2121	1182	-102	1575	1752	1239	623	-451	485	-1116	-2827		
Exports (% YoY EUR)	-5,2	2,1	-2,0	-6,3	-3,1	2,0	-8,7	7,5	-6,0	-7,3	4,7	-3,3		
Imports (% YoY EUR)	-12,8	-6,0	-6,1	-9,3	-4,1	2,1	-7,2	4,7	0,1	0,6	9,1	4,9		

*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)	2,0	3,2	**2,7**	**2,5**	**3,1**	**3,3**	**3,4**	**3,6**	0,1	**2,6**	**3,5**
Private consumption (% YoY)	4,6	4,7	**3,3**	**2,9**	**2,5**	**2,1**	**2,0**	**1,8**	-0,3	**3,9**	**2,2**
Gross fixed capital formation (% YoY)	-1,8	2,7	**-4,1**	**-5,8**	**5,5**	**7,5**	**8,4**	**8,7**	12,6	**-2,9**	**7,7**
Export - constant prices (% YoY)	0,5	3,4	**1,5**	**2,5**	**5,3**	**5,7**	**4,3**	**7,1**	3,7	**2,0**	**5,5**
Import - constant prices (% YoY)	-0,1	5,4	**4,9**	**4,7**	**5,1**	**5,3**	**4,3**	**3,9**	-1,5	**3,7**	**4,6**
GDP growth contributions											
Private consumption (pp)	2,7	2,7	**1,9**	**1,4**	**1,5**	**1,2**	**1,2**	**0,9**	-0,2	**2,2**	**1,3**
Investments (pp)	-0,2	0,4	**-0,7**	**-1,4**	**0,7**	**1,2**	**1,3**	**2,0**	2,1	**-0,5**	**1,3**
Net exports (pp)	0,4	-0,8	**-1,6**	**-0,9**	**0,4**	**0,5**	**0,2**	**1,8**	3,2	**-0,8**	**0,7**
Current account (% of GDP)***	1,5	1,4	**1,2**	**1,0**	**1,0**	**0,9**	**0,8**	**0,8**	1,6	**1,0**	**0,8**
Unemployment rate (%)**	5,3	4,9	5,0	**5,0**	**5,3**	**4,9**	**4,9**	**4,9**	5,1	**5,0**	**4,9**
Non-agricultural employment (% YoY)	-0,2	0,9	**0,3**	**0,1**	**-0,4**	**-0,5**	**-0,5**	**-0,5**	0,8	**0,3**	**-0,5**
Wages in national economy (% YoY)	14,4	14,7	**14,3**	**14,2**	**10,1**	**8,3**	**7,1**	**6,5**	12,8	**14,4**	**8,0**
CPI Inflation (% YoY)*	2,8	2,5	4,5	**4,8**	**5,2**	**4,9**	**3,5**	**3,5**	11,6	**3,7**	**4,3**
Wibor 3M (%)**	5,88	5,85	5,85	**5,85**	**5,85**	**5,60**	**5,48**	**5,35**	5,88	**5,85**	**5,35**
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	4,30	4,28	**4,28**	**4,25**	**4,24**	**4,23**	**4,22**	4,33	**4,28**	**4,22**
USDPLN**	3,97	4,02	3,85	**3,96**	**3,94**	**3,89**	**3,85**	**3,77**	3,93	**3,96**	**3,77**

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

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST*	
					CA	CONSENSUS**
		Tuesday 10/29/2024				
14:00	USA	Case-Shiller Index (% MoM)	Aug	0,3		0,3
15:00	USA	Consumer Confidence Index	Oct	98,7	100,0	99,3
		Wednesday 10/30/2024				
10:00	Germany	Preliminary GDP (% QoQ)	Q3	-0,1	0,1	-0,1
11:00	Eurozone	Preliminary GDP (% QoQ)	Q3	0,2	0,4	0,2
11:00	Eurozone	Business Climate Indicator (pts)	Oct	-0,76		
13:15	USA	ADP employment report (k)	Oct	143		112
13:30	USA	Preliminary estimate of GDP (% YoY)	Q3	3,0	2,7	3,0
14:00	Germany	Preliminary HICP (% YoY)	Oct	1,8	1,90	2,10
		Thursday 10/31/2024				
2:30	China	NBS Manufacturing PMI (pts)	Oct	49,8		50,1
10:00	**Poland**	**Flash CPI (% YoY)**	**Oct**	**4,9**	**5,0**	**5,0**
11:00	Eurozone	Preliminary HICP (% YoY)	Oct	1,7	1,8	1,9
11:00	Eurozone	Unemployment rate (%)	Sep	6,4		6,4
13:30	USA	PCE Inflation (% YoY)	Sep	2,2	2,1	2,1
13:30	USA	PCE core inflation (% YoY)	Sep	2,7	2,6	2,6
13:30	USA	Real private consumption (% MoM)	Sep	0,1		
14:45	USA	Chicago PMI (pts)	Oct	46,6		
		Friday 11/01/2024				
2:45	China	Caixin Manufacturing PMI (pts)	Oct	50,2		49,5
13:30	USA	Unemployment rate (%)	Oct	4,1	4,2	4,1
13:30	USA	Non-farm payrolls (k MoM)	Oct	254	110	125
15:00	USA	ISM Manufacturing PMI (pts)	Oct	47,2	47,5	47,5
15:45	USA	Flash Manufacturing PMI (pts)	Oct	47,8		

*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

MACRO MAP

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