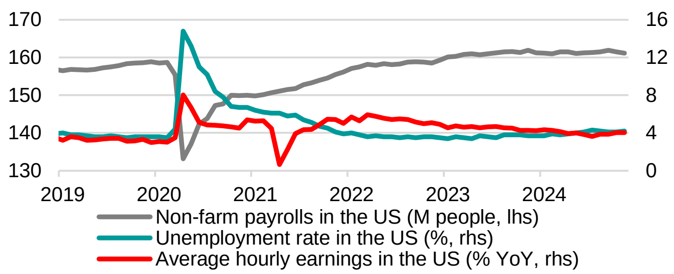
Spain set to be Eurozone's bright spot?

This week

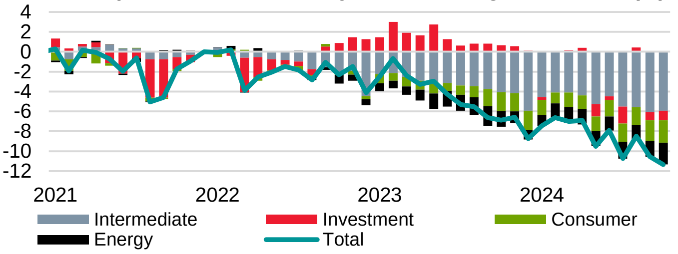
- **Minutes of the December's FOMC meeting will be released on Wednesday.** During the press conference held after the meeting, J. Powell said that the FOMC is "at or near" a point at which it will be appropriate to slow the pace of monetary policy easing (see MACROmap of 23/12/2024). This means that the Minutes are likely to provide some important details of the discussion on a potential pause in the cutting cycle, including when such a pause could happen. We still believe that the Federal Reserve will cut interest rates by a total of 50bp in 2025 (in March and June, each time by 25bp). In our view, the publication of the Minutes will add to volatility in financial markets.
- **The flash HICP inflation estimate for the Eurozone will be published today.** We expect the annual inflation to have risen from 2.2% YoY in November to 2.4% in December, driven by a stronger growth in energy prices, with the opposite impact coming from a slower growth in the prices of food. In our view, core inflation will be shown to have stood at 2.7% YoY as before. The flash HICP inflation estimate for Germany released yesterday (up from 2.4% YoY in November to 2.9% in December and above our forecast consistent with the market consensus of 2.6%) carries an upside risk to our forecast. We expect the inflation rise in Germany to have been broad-based, and so it will be seen in food, energy and core inflation alike. The release of inflation figures for the Eurozone will be neutral for the PLN and the debt market in our view.
- **Important data from the US will be published this week.** US non-farm payrolls data to be released on Friday will be the most important data release. We expect the payroll to have expanded by 145k in December comparing to a 227k expansion in November, with unemployment rate stabilising at 4.2%. It is worth noting that non-farm payroll data has been subject to high volatility over the last couple of months given the impact of hurricanes and strikes (see MACROmap of 09/12/2024). Before the Friday publication, some additional data on the labour market will be provided in the ADP report on non-farm private sector employment (the market expects a 140k growth in December vs. 146k in November). We think that the preliminary reading of the University of Michigan index (74.0 pts, no change vs. December) will show that the household sentiment has not changed. In our opinion, this week's data from the US will be neutral for financial markets.



Source: Datastream, Credit Agricole

- **Some data on German economy will be released this week.** Data on new orders in the industry will be published on Wednesday. The market expects the growth in new orders to have accelerated from -1.5% MoM in October to 0.0% in November. The market also expects the trade balance to have grown from EUR 13.4bn in October to EUR 15.1bn in November. The consensus is that both exports and imports went up between October and November, from -2.8% MoM to 2.0% MoM and from -0.1% MoM to 0.7% MoM, respectively. Industrial production data will be released on Thursday. The consensus is for the seasonally-adjusted MoM industrial production to have picked up to 0.4% in November from -1.0% in October. The data for November will generally

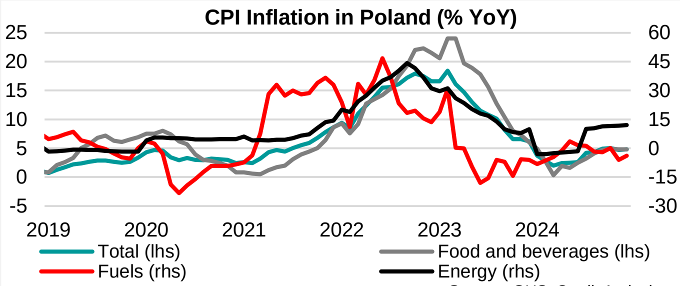
Industrial production in Germany relative change vs XII 2020 (%)*



Source: Datastream, Credit Agricole *with industry breakdown mirror the continuing downturn in the German manufacturing sector and pessimistic PMI survey results. We believe that data from Germany will be neutral for financial markets.

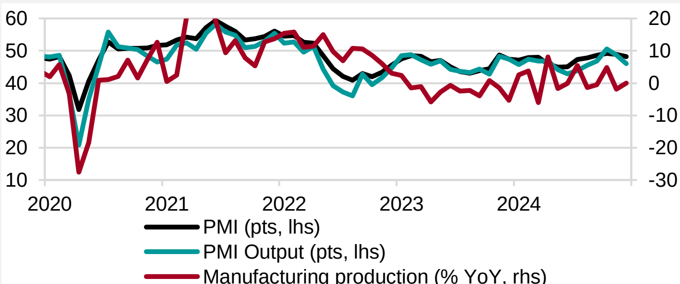
Last week

- **In accordance with the flash estimate, CPI inflation in Poland went up to 4.8% YoY in December vs. 4.7% in November, printing below our forecast that was consistent with market consensus (5.0%).** The GUS published partial data on the inflation breakdown, including information about price growth in the 'food and non-alcoholic beverages', 'energy', and 'fuels' categories. Inflation was driven up by a stronger price growth in the "fuels" (-3.9% YoY in December vs. -6.0% in November) and "energy" (12.0% vs. 11.7%) categories. The rate of growth in the "food and non-alcoholic beverages" category did not change between November and December (4.8%). Consequently, monthly price growth in this category printed markedly below its seasonal pattern (0.2% MoM vs. 0.6%), which came as a huge surprise given the growing prices of agricultural commodities. In our view, the continuing, strong pricing competition between retail store chains, which is additionally boosted by households' recently-increased propensity to save, was a significant inhibitor of price growth in the "food and non-alcoholic beverages" category. According to our estimates, core inflation did not change, either, and it stood at 4.3% YoY in December like it had done the month before. Monthly core inflation in December stood at 0.2%, slightly above its seasonal pattern (ca. +0.1% MoM for a December). In our opinion, this shows that inflationary pressures in the Polish economy remain elevated. The strong growth in the prices of services remains a key factor sustaining high core inflation. We expect the headline inflation to hover around the 5% mark in the coming months, with a significant decline only starting in H2 2025. Consequently, we expect annual average inflation for 2024 to stand at 4.4% compared with 3.7% for 2024, and then to fall to 3.1% in 2026.



Source: GUS, Credit Agricole

- **The PMI for Polish manufacturing dropped to 48.2 pts in December from 48.9 pts in November, falling below market expectations (48.6 pts) and our forecast (48.9 pts).** This means the index has remained below the 50-point mark separating growth from contraction for 32 consecutive months. The PMI declined on the back of lower contributions from 4 out of its 5 sub-indices (output, stocks of purchases, employment and suppliers' delivery times), while a higher contribution from new orders had the opposite impact. The data notably shows the slowest decline in total new orders since November 2023, accompanied by an acceleration in the decline of new export orders. According to the underlying release, this points to a recovery in domestic demand, with foreign demand remaining weak, largely due to reduced orders from Germany. December also saw a sharp drop in the stocks of finished goods. Amid first signs of recovery, the low level of stocks of finished goods may support an increase in output in the coming months (see MACROpulse of 02/01/2025). The PMI in Q4 printed markedly above its average value for Q3 (48.8 pts vs 47.9

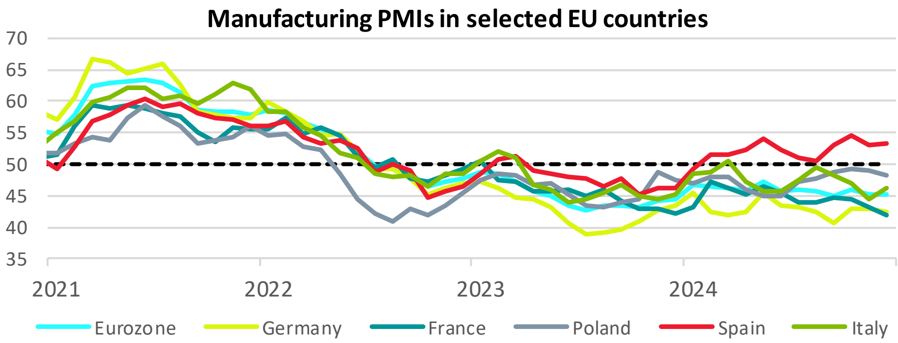


Source: S&P, GUS

pts), but this has no impact on our scenario of a slight GDP growth slowdown in Q4 (to 2.5% YoY vs. 2.7% in Q3).

- **The Caixin PMI for Chinese manufacturing was released last week. It decreased to 50.5 pts in December from 51.5 pts in November, printing well below of the market consensus (51.7 pts).** The index was driven down by lower contributions from 4 out of its 5 sub-indices (output, new orders, stocks of purchases and suppliers' delivery times), with a higher contribution of the employment sub-index having the opposite effect. What is particularly noteworthy about the data is the strong slowdown in new orders and the associated marked deceleration in output growth, largely because of falling export orders. Thus, there are many indications that November's sharp rise in export orders was temporary, driven by elevated demand for Chinese goods in anticipation of tariff hikes by the D. Trump administration, with a slump persisting in global trade. Also notable in the data is the continued sharp rise in stocks of purchases of both intermediate and finished goods. According to the report, these are buffer stocks, likely reflecting businesses' concerns over supply chain continuity amid escalating global trade tensions. Last week also saw the release of the NBS PMI, which declined to 50.1 pts in December from 50.3 pts in November, slightly below market forecasts of 50.3 pts. We expect the Chinese GDP to grow by 4.5% YoY in Q4 compared to a 4.6% growth in Q3, and by 4.8% in 2024 vs. 5.2% in 2023.
- **Some important data from the US was released last week.** The ISM index for manufacturing increased to 49.3 pts in December from 48.4 pts in November, running above market expectations (48.4 pts). The index grew on the back of higher contributions of 4 out of its 5 sub-indices (output, new orders, stocks of purchases and suppliers' delivery times), with a lower contribution of the employment sub-index having the opposite effect. Notably, new orders have been rising for two consecutive months, driving the output sub-index above the 50-point threshold in December for the first time since May 2024, signaling improving activity outlook for US manufacturing. Conversely, yesterday's data on durable goods orders showed a 1.2% MoM decline in November, after a 0.8% rise in October, printing slightly below market expectations (-1.1%). Excluding transportation, monthly growth in durable goods orders decreased to -0.2% in November vs. 0.2% in October. At the same time, growth in orders for non-military capital goods increased to 0.8% YoY in November from 0.7% in October, showing a slight improvement in investment prospects in the US. We expect the annualised US GDP growth to slow to 2.2% in Q4 compared to 3.1% in Q3, and to grow by 2.7% in 2024 vs. 2.9% in 2023.

Spain set to be Eurozone's bright spot?



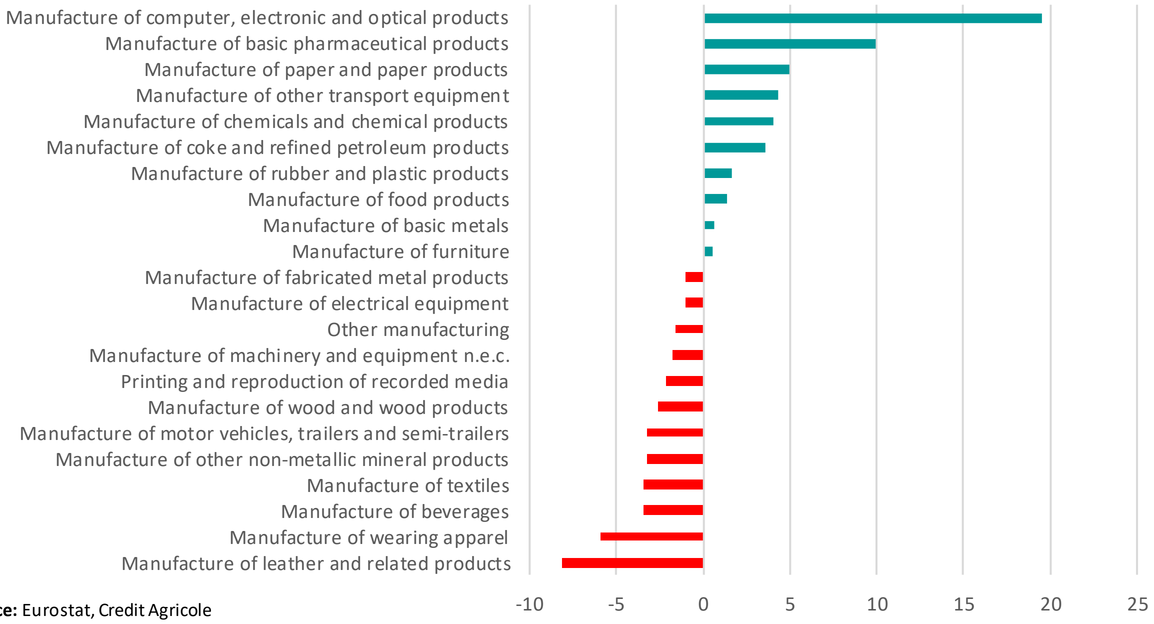
Source: S&P, Credit Agricole

The Spanish manufacturing PMI increased to 53.3 pts in December from 53.1 pts in November. This means the index has remained above the 50-point mark separating growth from contraction for 11 consecutive months. Spain is currently the only major Eurozone economy to see manufacturing activity growth in 2024. This analysis aims to explain why Spanish manufacturing has been demonstrating surprising resilience to recessionary trends in Eurozone manufacturing.

We started by reviewing the breakdown of growth of the Spanish manufacturing PMI. Data shows that Spanish manufacturing activity growth is balanced, with all sub-indices (output, new orders, employment, stocks of purchases and suppliers' delivery times) showing consistent activity growth over the previous months. Notably, in 2024 the output sub-index averaged 52.6 pts, while other major economies recorded values well below the 50-point mark, signaling declining output.

Because of this, in the second step we analysed the breakdown of production in Spain's manufacturing. The monthly Eurostat data used by us concern the volume of Spain's industrial production and are seasonally- and calendar-adjusted. To understand what is driving the sharp rise in manufacturing production in Spain, we compared Spanish production volumes from January to October 2024 (most recent available data) with the corresponding period in 2023. The results were presented in the graph below:

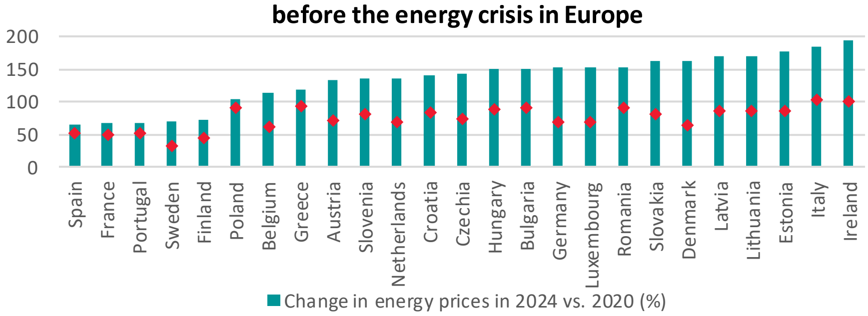
Change in industrial production index in Spain (%, I-X 2024 vs. I-X 2023, SA)



Source: Eurostat, Credit Agricole

The data show production growth in only 10 of 22 analysed sectors. Relatively substantial growth has occurred in "paper and paper products" (+5.0% YoY), "chemicals and chemical products" (+4.0% YoY) and "coke and refined petroleum products" (+3.5% YoY), i.e. energy-intensive sectors. Rising production in these sectors is supported by Spain's relatively high price competitiveness, as it boasts some of the lowest energy prices in the EU. Spain's low energy prices stem from a substantial share of renewable energy sources in total energy production, significantly boosting the country's resilience to the EU energy market shock prompted by Russia's aggressive energy policy and the outbreak of the war in Ukraine. In 2024, energy prices on Spain's wholesale market were on average 67% higher than in 2020, i.e. one year before Russia began manipulating gas prices in the EU through a targeted reduction of gas reserves in the European Union. This marked the lowest energy price increase in the EU. However, we believe the low energy prices do not fully account for the resilience of Spanish manufacturing to the recession in the Eurozone's

Change in competitiveness in the EU electricity market compared to levels before the energy crisis in Europe

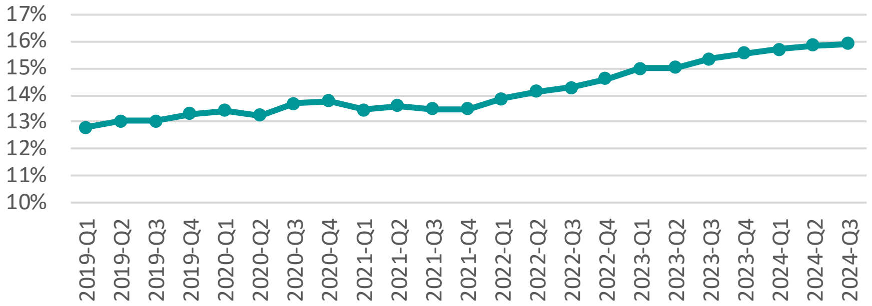


Source: EMBER, Credit Agricole

manufacturing. This assessment is supported by the poor performance of France's manufacturing sector despite similar energy prices to Spain.

Thus, particularly noteworthy is growth in such sectors as "computer, electronic and optical products" (+19.5 YoY), "pharmaceutical products" (+9.9 YoY), and "other transport equipment" (+4.3%). The first category's surge is attributable to strong growth of Spain's ICT market in recent years. In the case of the pharmaceutical sector, Spain has been demonstrating its competitive advantages for years. Announced in December 2024, the Spanish government's strategy for the pharmaceutical industry for 2024-2028, which includes increased R&D spending, highlights the sector's importance. In "other transport equipment", Spain has recently strengthened its competitive advantages in rail and aviation. In aviation, Spain has been playing a prominent role in international value chains.

Share of foreigners in total employment in Spain



Source: Eurostat, Credit Agricole

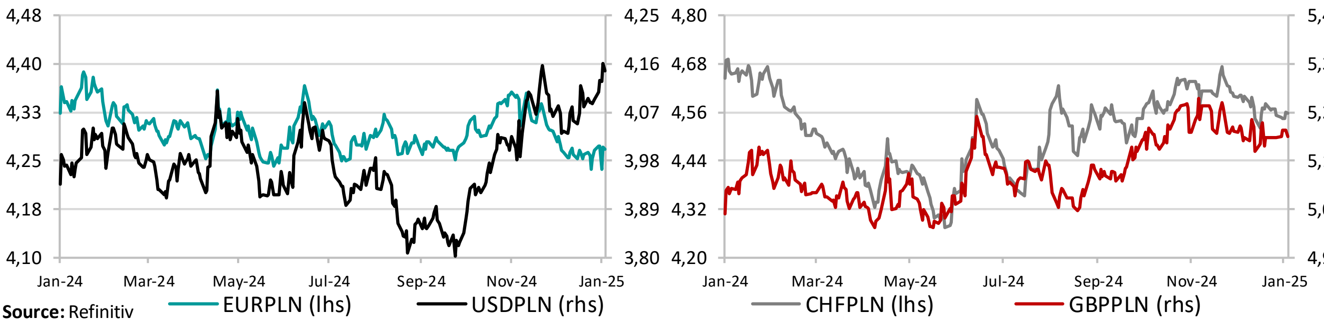
Rising immigration is also a significant factor improving Spanish manufacturing competitiveness in recent years. It has substantially accelerated after 2022, which was not only attributable to an influx of refugees from Ukraine, but also to increase immigration from South America (among others, Colombia, Venezuela, Peru) and Morocco. Consequently, the share of foreigners in total employment in Spain's economy expanded from 13.9% in Q1 2022 to 15.9% in Q3 2024 and continues to show clear upward momentum.

In summary, Spanish manufacturing's robust resilience to Eurozone recessionary trends in manufacturing include relatively low energy prices and strong competitiveness in sectors like "computer, electronic and optical products", "pharmaceutical products" and "other transport equipment", which are currently showing demand recovery. This suggests that the resilience factors are primarily internal, making it unlikely that other Eurozone countries will follow a similar recovery path in the coming quarters.

Given the permanent nature of these resilience factors, we expect the resilience of Spain's manufacturing to the recessionary trends seen in Eurozone manufacturing to persist over the coming years. We forecast that Spain's GDP will expand by 2.4% YoY in 2025 vs. 3.1% in 2024 and 1.8% in 2026. The main drivers of Spanish GDP growth over the forecast horizon will be private consumption and investment supported by an inflow of EU funds. Thus we project that in 2025-2026 Spain will have the highest economic growth rate among major Eurozone economies.

Rise in EURUSD rate supported by Germany's inflation data

FX rates

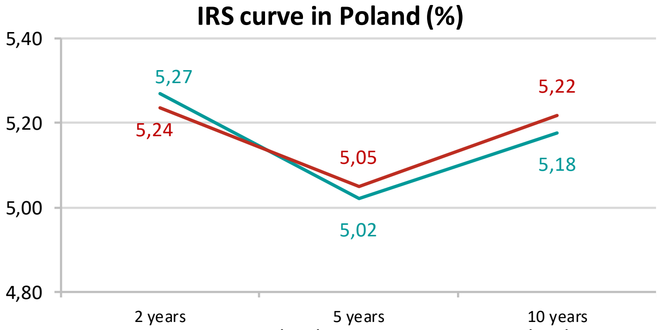


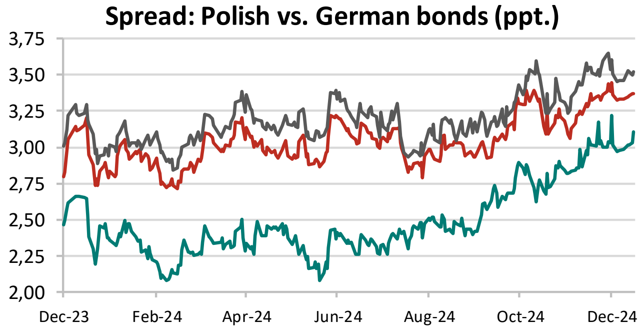
Source: Refinitiv

Last week the EURPLN stood at 4.2691 (no change relative to the level from two weeks ago). The EURPLN was characterised by relatively low volatility, standing at 4.27. However, the USD appreciated against the EUR, supported by rising expectations of some investors of a reduction in the Fed's pace of interest rates cuts.

Early in the week, the EUR strengthened against the USD, supported by the release of higher-than-expected inflation data in Germany. This week the spotlight will be on the publication of Minutes from the FOMC's December meeting scheduled for Wednesday. We believe it may add to the volatility of the PLN. Other data releases from the Polish and global economies will only have a limited impact on the PLN, in our opinion. Further developments in the Middle East and Ukraine will remain a key factor for the PLN. Should the tension grow stronger, this may drive the EURPLN rate up.

Publication of FOMC Minutes may add to IRS rate volatility





Source: Refinitiv

Last week the 2-year IRS rates decreased to 5.24 (down by 3bp), 5-year rates increased to 5.05 (up by 3bp), while 10-year rates went up to 5.22 (up by 4bp). Last week, IRS rates showed relatively low volatility, supported by reduced investor activity coupled with a rather poor macroeconomic event calendar.

The beginning of the week may bring a rise in IRS rates following the German market, which saw a rise in yields following the release of higher-than-expected inflation data. This week the publication of Minutes from the FOMC's December meeting scheduled for Wednesday will be a key factor for the curve as it may spur increased IRS rate volatility. In our opinion, other data releases from the Polish and global economies scheduled for this week will be neutral for IRS rates. However, further developments in the Middle East and Ukraine will remain a key factor for the curve. Should the tension grow stronger, this may drive the IRS rates up.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland														
Indicator	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25
NBP reference rate (%)	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	**5,75**
EURPLN*	4,33	4,32	4,31	4,29	4,33	4,27	4,30	4,29	4,28	4,28	4,35	4,30	4,27	**4,30**
USDPLN*	3,93	4,00	3,99	3,97	4,06	3,94	4,02	3,96	3,87	3,85	4,00	4,06	4,13	**4,16**
CHFPLN*	4,64	4,64	4,52	4,40	4,41	4,36	4,47	4,50	4,56	4,54	4,64	4,60	4,54	**4,59**
CPI inflation (% YoY)	6,2	3,7	2,8	2,0	2,4	2,5	2,6	4,2	4,3	4,9	5,0	4,7	**4,8**	
Core inflation (% YoY)	6,9	6,2	5,4	4,6	4,1	3,8	3,6	3,8	3,7	4,3	4,1	4,3	**4,3**	
Industrial production (% YoY)	-3,5	3,0	3,2	-5,7	7,8	-1,6	0,0	5,3	-1,3	-0,5	4,7	-1,5	**3,0**	
PPI inflation (% YoY)	-6,9	-10,6	-10,0	-9,9	-8,5	-7,0	-5,8	-5,1	-5,5	-6,2	-5,1	-3,7	**-2,5**	
Retail sales (% YoY)	0,5	4,6	6,7	6,0	4,3	5,4	4,7	5,0	3,2	-2,2	2,3	3,4	**2,1**	
Corporate sector wages (% YoY)	9,6	12,8	12,9	12,0	11,3	11,4	11,0	10,6	11,1	10,3	10,2	10,5	**12,9**	
Employment (% YoY)	-0,1	-0,2	-0,2	-0,2	-0,4	-0,5	-0,4	-0,4	-0,5	-0,5	-0,5	-0,5	**-0,5**	
Unemployment rate* (%)	5,1	5,4	5,4	5,3	5,1	5,0	4,9	5,0	5,0	5,0	4,9	5,0	**5,1**	
Current account (M EUR)	-102	1575	1752	1239	658	-605	441	-649	-2494	-1133	1064	**-33**		
Exports (% YoY EUR)	-6,3	-3,1	2,0	-8,7	8,1	-5,4	-6,7	5,3	-2,7	1,0	1,5	**-3,3**		
Imports (% YoY EUR)	-9,3	-4,1	2,1	-7,2	5,6	0,9	1,4	9,8	5,5	5,7	6,6	**1,7**		

*end of period

Forecasts of the quarterly macroeconomic indicators

Main macroeconomic indicators in Poland													
Indicator		2024				2025				2024	2025	2026
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Gross Domestic Product (% YoY)		2,1	3,2	2,7	**2,5**	**3,1**	**3,3**	**3,4**	**3,6**	**2,6**	**3,5**	**3,3**
Private consumption (% YoY)		4,4	4,6	0,3	**2,5**	**2,5**	**2,1**	**2,0**	**1,8**	**2,9**	**2,2**	**2,9**
Gross fixed capital formation (% YoY)		1,9	3,2	0,1	**-5,8**	**5,6**	**7,7**	**8,9**	**8,8**	**-1,2**	**8,1**	**7,3**
Export - constant prices (% YoY)		2,1	2,9	-0,7	**1,8**	**4,6**	**5,7**	**4,3**	**7,1**	**1,6**	**5,3**	**5,5**
Import - constant prices (% YoY)		2,3	5,7	1,9	**3,5**	**4,9**	**5,3**	**4,3**	**3,9**	**3,3**	**4,5**	**4,6**
GDP growth contributions	Private consumption (pp)	2,7	2,6	0,2	**1,3**	**1,5**	**1,2**	**1,2**	**0,9**	**1,7**	**1,3**	**1,7**
	Investments (pp)	0,2	0,5	0,0	**-1,4**	**0,7**	**1,2**	**1,4**	**2,0**	**-0,2**	**1,4**	**1,2**
	Net exports (pp)	0,0	-1,3	-1,5	**-0,7**	**0,1**	**0,5**	**0,1**	**1,8**	**-0,9**	**0,6**	**0,7**
Current account (% of GDP)***		1,6	1,3	0,5	**1,0**	**1,0**	**0,9**	**0,8**	**0,8**	**1,0**	**0,8**	**0,1**
Unemployment rate (%)**		5,3	4,9	5,0	**5,1**	**5,3**	**4,9**	**4,9**	**4,9**	**5,1**	**4,9**	**4,8**
Non-agricultural employment (% YoY)		-0,2	0,9	1,5	**0,5**	**-0,4**	**-0,5**	**-0,5**	**-0,5**	**0,7**	**-0,5**	**-0,5**
Wages in national economy (% YoY)		14,4	14,7	13,4	**12,8**	**10,1**	**8,3**	**7,1**	**6,5**	**13,8**	**8,0**	**6,0**
CPI Inflation (% YoY)*		2,8	2,5	4,5	**4,8**	**5,2**	**5,1**	**3,6**	**3,6**	**3,7**	**4,4**	**3,1**
Wibor 3M (%)**		5,88	5,85	5,85	5,85	**5,85**	**5,60**	**5,48**	**5,35**	**5,85**	**5,35**	**4,35**
NBP reference rate (%)**		5,75	5,75	5,75	5,75	**5,75**	**5,75**	**5,50**	**5,25**	**5,75**	**5,25**	**4,25**
EURPLN**		4,29	4,30	4,28	4,27	**4,40**	**4,35**	**4,30**	**4,25**	**4,27**	**4,25**	**4,21**
USDPLN**		3,97	4,02	3,85	4,12	**4,19**	**4,18**	**4,10**	**3,97**	**4,12**	**3,97**	**3,83**

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

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST* CA	FORECAST* CONSENSUS**
		Monday 01/06/2025				
10:00	Eurozone	Services PMI (pts)	Dec	51,4	51,4	51,4
10:00	Eurozone	Final Composite PMI (pts)	Dec	49,5	49,5	49,5
10:30	Eurozone	Sentix Index (pts)	Jan	-17,5		-17,5
14:00	Germany	Preliminary HICP (% YoY)	Dec	2,4	2,6	2,5
16:00	USA	Factory orders (% MoM)	Nov	0,2		-0,3
		Tuesday 01/07/2025				
11:00	Eurozone	Preliminary HICP (% YoY)	Dec	2,2	2,4	2,4
11:00	Eurozone	Unemployment rate (%)	Nov	6,3		6,3
16:00	USA	ISM Non-Manufacturing Index (pts)	Dec	52,1	53,5	53,1
		Wednesday 01/08/2025				
8:00	Germany	New industrial orders (% MoM)	Nov	-1,5		0,0
11:00	Eurozone	Business Climate Indicator (pts)	Dec	-0,77		
11:00	Eurozone	PPI (% YoY)	Nov	-3,2		-1,2
14:15	USA	ADP employment report (k)	Dec	146		140
16:00	Eurozone	Consumer Confidence Index (pts)	Jan	0,0		
20:00	USA	FOMC Minutes	Dec			
		Thursday 01/09/2025				
2:30	China	PPI (% YoY)	Dec	-2,5		-2,4
2:30	China	CPI (% YoY)	Dec	0,2		0,2
8:00	Germany	Industrial production (% MoM)	Nov	-1,0		0,5
8:00	Germany	Trade balance (bn EUR)	Nov	13,4		15,1
11:00	Eurozone	Retail sales (% MoM)	Nov	-0,5		0,5
16:00	USA	Wholesale inventories (% MoM)	Nov	-0,2		
16:00	USA	Wholesale sales (% MoM)	Nov	-0,1		
		Friday 01/10/2025				
14:30	USA	Unemployment rate (%)	Dec	4,2	4,2	4,2
14:30	USA	Non-farm payrolls (k MoM)	Dec	227	145	150
16:00	USA	Initial U. of Michigan Sentiment Index (pts)	Jan	74,0	74,0	74,0

*The forecasts of macroeconomic indicators for Poland were prepared by Credit Agricole Bank Polska S.A. The forecasts of foreign indicators were prepared by Crédit Agricole Corporate and Investment Bank

** Refinitiv

MACRO MAP

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