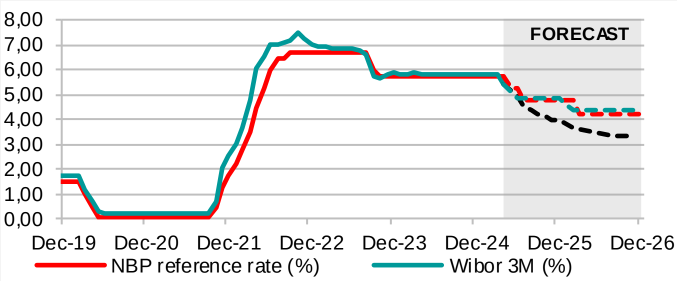
Pessimism grows in Poland's manufacturing sector

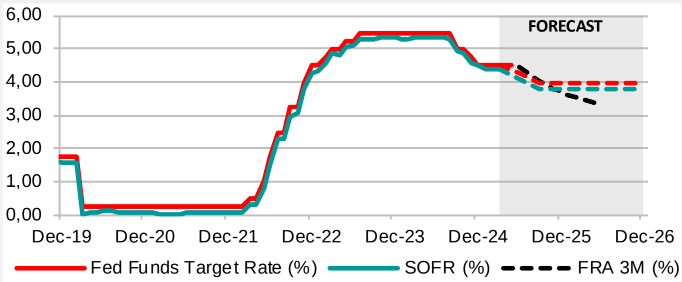
This week

- **The most important event this week will be the Monetary Policy Council's meeting scheduled for Wednesday.** We expect the MPC to cut interest rates by 50bp, and thus the NBP reference rate will reach at 5.25%. This would be the first cut since October 2023. Our forecast of monetary policy easing this week is underpinned by the NBP Governor's statements made after the April meeting of the MPC. He said the Council was inclined to make interest rate cuts, and was awaiting the release of the April data. At the same time, the inflation data published since then (see below) as well as those on retail sales, industrial production and construction and assembly production turned out to be worse than expected by the market, which will be an argument for lowering the interest rates this week. A decision to cut the rates by 50bp this week would be consistent with market consensus, and thus it should be neutral for the PLN and yields on Polish bonds. The NBP Governor's usual press conference will be held on Thursday, so it will shed more light on Poland's monetary policy prospects. Information on the prospects for continuation of the monetary policy easing, including the dates and scale of further rate cuts will be of particular interest. We believe that the conference may add to volatility in PLN exchange rates and yields on Polish bonds.



Source: Reuters, Credit Agricole

- **Another important event this week will be the FOMC meeting planned for Wednesday.** Fed representatives have hinted recently that the target range for Federal Reserve funds is most likely to be kept at [4.25%; 4.50%], which would be the third consecutive pause after the total rate cut of 100bp in H2 2024. We believe that the tone of the conference after the meeting will be similar to what we heard in March, and any substantial changes to the FOMC stance will be put on hold until the publication of the new macroeconomic forecast in June. On the one hand, we expect the Fed to be aware of the elevated uncertainty and the downside risk to the economic growth prospects, but on the other hand, J. Powell is most likely to repeat that the economy is "in a good place" and emphasise the risk of price growth in the wake of changes to the tariff policy. The Fed Chairman will most probably leave some room for maneuver as regards future decisions, and will emphasise that there is no need to rush into monetary policy easing. Therefore, we expect the conference after the FOMC meeting to add to volatility in financial markets.



Source: Refinitiv, Credit Agricole

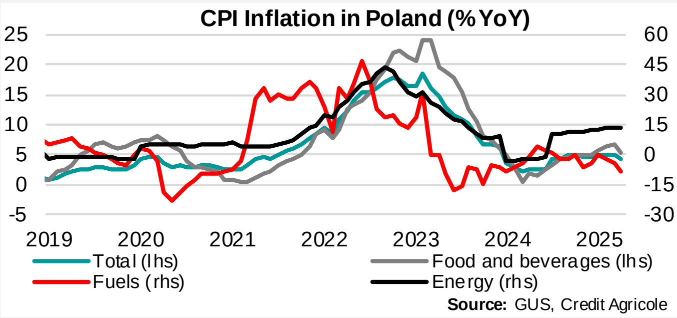
- **Some data on German economy will be released this week.** Data on new orders in the industry will be published on Wednesday. The market expects the growth in new orders to have accelerated from 0.0% MoM in February to 1.3% in March. Industrial production data will be released on Thursday. The consensus is for the seasonally-adjusted MoM industrial production growth rate to have gone up from -1.3% in February to 0.8% in March. Data on German foreign trade will also be published on Thursday. The consensus is that its balance increased from EUR 17.7bn in February to EUR 18.9bn in March. The March data will be consistent with improvement in German manufacturing signalled by PMIs. We believe that data from Germany will be neutral for financial markets.
- **China's foreign trade figures will be released on Friday.** In accordance with market consensus, the trade balance went down to USD 85.5bn in April, from USD 102.6bn in March. The market

expects imports to slow from -4.3% in March to -6.0% in April, with exports slumping from 12.4% YoY in March to 0.5% in April, largely due to the series of tariff increases launched by the Trump administration, with US tariffs on Chinese goods reaching at 145% on 9 April 2025 as a result. Consequently, the April data will show the first effects of the marked escalation of trade war between the US and China. We believe that data from China will be neutral for financial markets.

- **The publication of an update of Poland's long-term debt rating by Standard & Poor's is scheduled for Friday.** In November 2024, S&P affirmed Poland's long-term credit rating of A- with a stable outlook. In its report, the agency noted the positive fact that the access to EU funds has been unlocked. S&P noted that the stable rating outlook reflected the balance between the optimistic outlook for Poland's medium-term economic growth and the short-term risk factors arising from higher fiscal deficit and a quickly growing debt amid heightened external risks. The agency noted that Poland's creditworthiness rating may be upgraded if the improvement in Poland's rule-of-law and institutional framework situation helps maintain the inflow of EU funds and direct foreign investments, underpinning the medium-term outlook for GDP growth. On the contrary, the rating could be downgraded if Poland's debt increased more than S&P expects or if medium-term GDP growth prospects for Poland substantially deteriorated (probably as a result of external shocks). We expect S&P to affirm both Poland's rating and the outlook this week, which will be neutral for both the PLN and the yields on bonds.

Last week

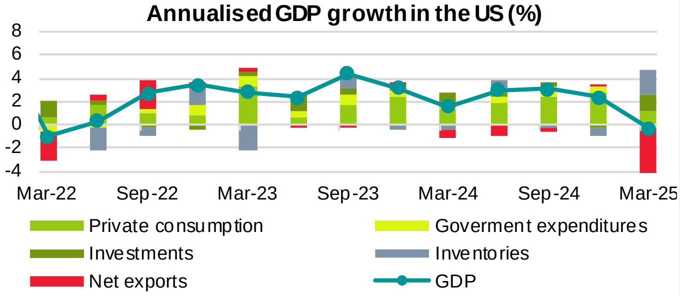
- **Given the weak data on industrial and construction-and-assembly production for February-March, we have decided to revise our economic growth forecast for Q1 downwards.** We expect the GDP growth to slow from 3.4% YoY in Q4 2024 to 2.8% in Q1 2025 vs. 3.1% in our previous forecast. Taking into consideration unfavourable global trends, particularly the escalation of tensions in global trade, we have also adjusted our economic growth forecast for subsequent quarters of 2025. Consequently, we expect the average annual GDP growth to drop to 3.1% in 2025 vs. 3.5% in our previous forecast. At the same time, we have made no change to our economic growth forecast for 2026 (3.3% YoY).
- **We have revised our monetary policy scenario for the Eurozone.** We think the ECB will cut interest rates by 25bp in June 2025, so the deposit rate will come in at 2.00%. In our view, the economic situation in the Eurozone will improve in the coming months, and thus the ECB will have no reason to make further interest rate cuts. Our monetary policy scenario assumes that the US government will take no steps to escalate the tensions in the global policy any further, and that the German government will implement the fiscal package without any significant delay (see MACROmap of 31/03/2025). We expect the deposit rate to be kept at 2.00% until the end of 2026, and then a slight monetary policy tightening cycle will begin. We think there is a risk, though, that the ECB will cut the rates by additional 25bp in September 2025, so the deposit rate would then fall at 1.75%.
- **According to the flash estimate, CPI inflation in Poland dropped from 4.9% in March to 4.2% in April, printing in line with our forecast and below the market consensus (4.3%).** GUS released partial data on the inflation breakdown, including information about price growth in the "food and non-alcoholic beverages", "energy", and "fuels" categories. Inflation was primarily driven down by slower growth in the prices of food and non-



alcoholic beverages, largely following from high base effects associated with the reinstatement of the 5% VAT rate on basic food products in April 2024. Additional downward pressure came from lower growth in the "fuels" category, as well as a decline in core inflation, which, according to our estimates, edged down to 3.4% YoY in April vs. 3.6% in March. We still expect headline inflation to fall to 4.4% YoY in Q2 from 4.9% in Q1, so it will remain markedly above the upper band for deviations from the inflation target (2.5% +/- 1 pp). We anticipate another major fall in inflation, to 3.2%, in Q3. Consequently, we forecast that annual average inflation for 2025 will come in at 3.9% compared with 3.6% for 2024.

- **Last week, the Caixin PMI for Chinese manufacturing was released, showing a decrease from 51.2 pts in March to 50.4 pts in April, printing slightly above the market consensus (49.8 pts).** The index was driven down by lower contributions from 4 out of its 5 sub-indices (employment, new orders, output and stocks of purchases), with a higher contribution of the suppliers' delivery times sub-index having the opposite effect. Notably, new export orders declined sharply, falling to their lowest level since July 2023. Also published last week was the NBS PMI for Chinese manufacturing, which dropped from 50.5 pts in March to 49.0 pts in April, printing slightly below market expectations of 49.8 pts. In the coming months, we expect a further deterioration of the situation in China's manufacturing, due to the likely sharp drop in exports to the US following the introduction of high tariffs, as well as a potential slowdown in global trade linked to concerns over a US recession. We also expect the Chinese authorities to loosen both the monetary and fiscal policy in an effort to partially offset the negative impact of weaker demand for Chinese goods in the US on China's economic growth. Nevertheless, we see a downside risk to our forecast which assumes GDP growth in China will expand by 4.6% in 2025, down from 5.0% in 2024. A key factor in sustaining economic activity in China will be further stimulation of domestic demand (see MACROmap of 24/03/2025).
- **Last week, important data from the US economy was released.** In accordance with the first estimate, annualised US GDP growth fell to -0.3% in Q1, down from 2.4% in Q4, coming in below market expectations (0.2%) and our forecast (0.8%). The main driver of the contraction was a sharp decline in the contribution of net exports associated with increased imports ahead of the anticipated implementation of tariffs in April. This was also reflected in the substantial increase in the inventory change component. Weaker growth in consumption and government spending further weighed on GDP growth, while growth in investment activity had the opposite effect. Last week also saw the release of PCE inflation data showing a decrease to 2.3% YoY in March from 2.7% in February (upward revision from 2.5%), in line with our forecast and above market expectations of 2.2%. At the same time, core inflation fell from 3.0% in February to 2.6% in March (upward revision from 2.8%). Nonetheless, seasonally-adjusted core price growth decreased to 0.0% in March, down from 0.5% in February (upward revision from 0.4%). Non-farm payrolls rose by 177k in April vs. 233k in March (downward revision from 228k), printing above market expectations (120k) and our forecast (150k). The largest gains in employment were seen in education and health services (+70.0k), transport and warehousing management (+29.0k) and leisure and hospitality (+24.0k). Meanwhile, the sharpest drop in employment was seen in retail trade (-1.8k), manufacturing (-1.0k) and other services (-1.0k). The unemployment rate did not change between March and April, standing at 4.2%, in line with both market expectations and our forecast. Thus, the unemployment rate in the US has remained slightly above the Fed's estimated natural rate of 4.2%. The labour force participation rate edged up from 62.5% in February to 62.6% in March,

Annualised GDP growth in the US (%)

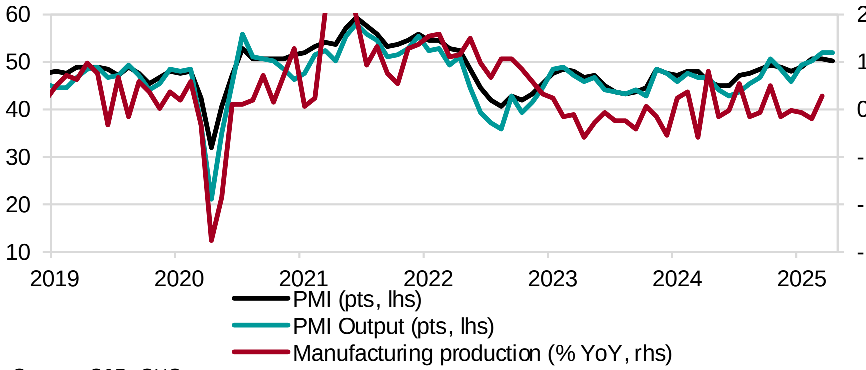


Source: Datastream, Credit Agricole

but still remains below pre-pandemic levels (63.3%). Hourly wage growth held steady between April and March at 3.8% YoY, signalling that wage pressures in the US economy are still elevated. Also published last week was the ADP non-farm employment change report, showing a gain of 62k jobs in April in the private sector, down from 147k in March, a reading well below market expectations of 103k. Last week also saw the release of business survey results. The ISM index for US manufacturing slipped from 49.0 pts in March to 48.7 pts in April, running above market expectations (48.0 pts). The index was driven down by lower contributions from 2 out of its 5 sub-indices (output and stocks of purchases), while a higher contribution from new orders, employment and suppliers' delivery times had the opposite impact. It is worth noting that the output component dropped to its lowest level since May 2020 and, excluding the early lockdown period, its lowest since April 2009. The Conference Board Consumer Confidence Index dropped to 86.0 pts from 93.9 pts in March, hitting its lowest level since August 2020. The decrease was due to a modest decline in the Present Situation Index and sharp drop in the Expectations Index, which fell to their lowest level since 2011. We see a downside risk to our forecast which assumes GDP growth will slow to 1.7% YoY in 2025, down from 2.8% in 2024, before recovering to 2.2% in 2026.

- **In accordance with the flash estimate, inflation in the Eurozone remained stable between April and March, holding at 2.2% YoY, slightly above the market consensus which was consistent with our forecast (2.1%).** The stabilisation in headline inflation reflected lower energy price growth (-3.5% YoY vs -1.0%), offset by higher core inflation (2.7% vs 2.4%) and an uptick in food price growth (3.0% vs. 2.9%). Notably, the prices of services have been persistently growing at a high rate (3.9% YoY vs. 3.5% in March), which remains a key driver keeping core inflation at an elevated level. We expect that in the coming months core inflation will decline gradually, though slowly, approaching 2% only in Q1 2026.
- **In accordance with the flash estimate, quarterly GDP growth in the Eurozone rose to 0.4% in Q1, up from 0.2% in Q4, exceeding the market consensus which was consistent with our forecast (0.2%).** Year-on-year GDP growth in the Eurozone stood at 1.2% in Q1, matching the growth recorded in Q4 2024. Among the major economies, a rebound in GDP growth was recorded in Germany (0.2% QoQ in Q1 vs -0.2% in Q4, with a market consensus of 0.2%), in France (0.1% vs. -0.1%, with a market consensus of 0.1%) and Italy (0.3% vs. 0.2%, with a market consensus of 0.2%). Meanwhile, Spain's GDP growth slowed to 0.6% QoQ in Q1, down from 0.8% in Q4 (market consensus of 0.7%). The data is preliminary and does not include GDP growth breakdown details. We stand by our forecast that the Eurozone's GDP will grow by 1.0% YoY in 2025, up from 0.9% in 2024.

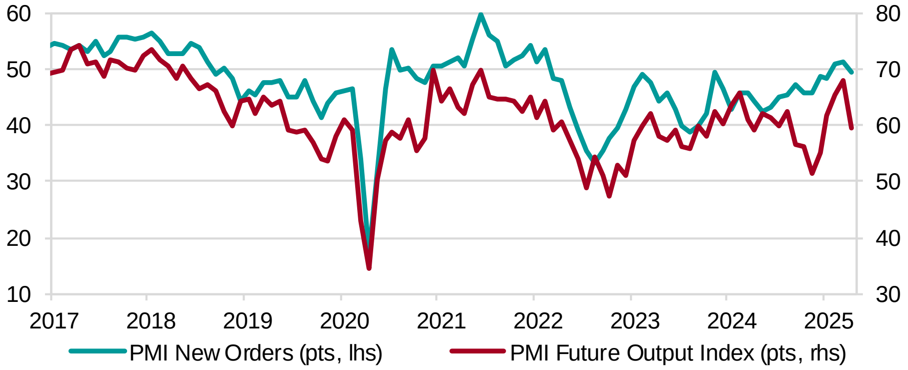
Pessimism grows in Poland's manufacturing sector



Source: S&P, GUS

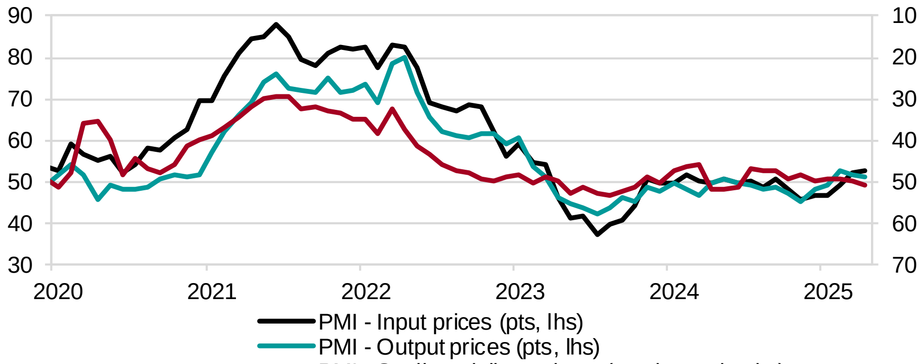
Poland's manufacturing PMI fell to 50.2 pts in April, down from 50.7 pts in March, printing well below market expectations (50.3 pts) and our forecast (50.9 pts). Despite the decline, the index remained above the 50-point mark, separating growth from contraction, for the third month running. The index contracted due to lower contributions from 3 out of its 5 sub-indices (new orders, stocks of purchases and suppliers' delivery times), with higher contributions from the output and employment sub-indices having the opposite effect.

Notably, output rose again, marking the fastest pace of growth since February 2022, accompanied by the first increase in production backlogs in nearly three years, potentially signalling that businesses are beginning to struggle with higher capacity utilisation. However, unlike the improvement seen in March, in April the number of new total orders contracted, marking a return to the downward trend seen in the last three years, with the drop extending to both new total orders and export orders. As a result, the acceleration in production seen in April appears to be temporary, given the lack of support from increased new orders.



Source: S&P, Credit Agricole

It is also worth noting that despite the improvement in output, manufacturers expressed clear pessimism about the future in April. The index value for production expected in a 12-month horizon (Future Output Index) fell to its lowest level since December 2024. This was also the third-largest month-on-month drop in this index history (i.e. since 2012). According to respondents, the drop in optimism was attributable to the economic slowdown, fewer new orders, uncertainty, higher costs and the likelihood of declining exports to the US.

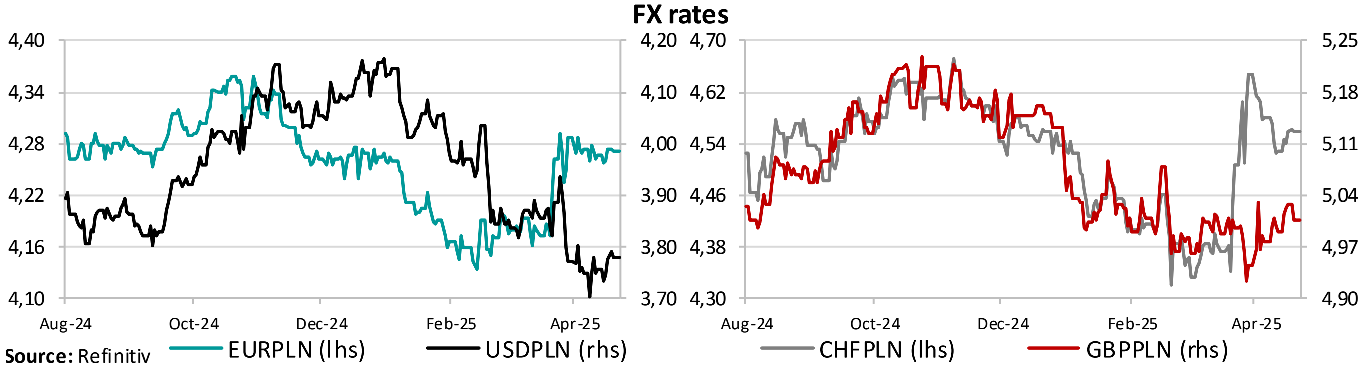


Source: S&P, Credit Agricole

The rise in output translated to increased purchasing activity, which rose for the second month in a row. Still, the faster production growth led to a drop in inventories of purchased goods, suggesting that companies consumed more intermediate goods than they were able to stockpile. Stronger purchasing activity and rising demand for raw materials also contributed to greater cost pressures. Average input costs rose for the second consecutive month, at the fastest pace since March 2023. Businesses hiked output prices for the third month running, though the pace of growth was slower than in February and March. Both input and output prices remained below their long-term averages, indicating that overall inflationary pressures in the manufacturing sector remain limited.

The average PMI reading in Q1 amounted to 50 pts and April's figure remained only slightly above this value. This supports our revised scenario, which assumes only a limited rebound in GDP growth in Q2 (see above). We forecast that GDP growth will increase to 2.9% YoY in Q2 from 2.8% in Q1.

MPC and FOMC meetings in the spotlight

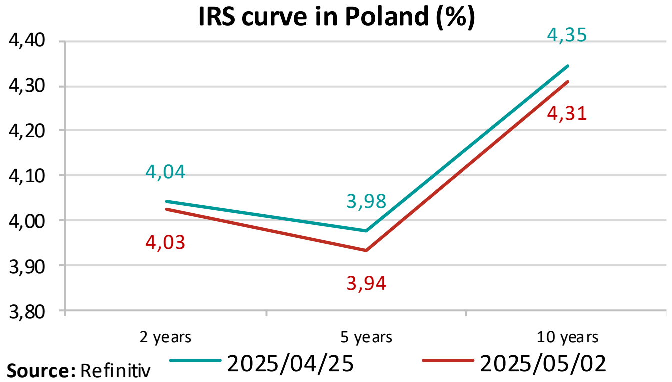


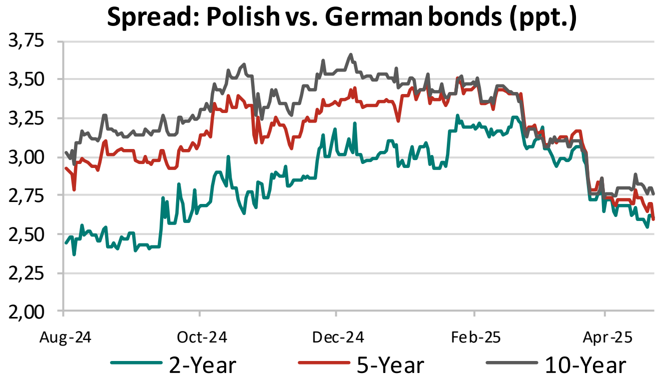
Source: Refinitiv

Last week, the EURPLN rate rose to 4.2709 (0.3% depreciation of the PLN). Last week, the EURPLN showed low volatility compared to recent weeks due to the May long weekend and reduced activity among domestic investors. Meanwhile, the EURUSD pair trended slightly downward from Monday through Thursday. The USD strengthened against the EUR, supported by better-than-expected US manufacturing PMI readings, robust financial performance from US listed companies and the optimism signalled by US government officials regarding trade negotiations. However, Friday saw a correction and the EUR rallied against the USD.

Key for investors this week will be the developments concerning global trade tensions. Significant uncertainty in this regard is expected to add to volatility in the currency market. This week, the market’s focus will also be on Wednesday’s FOMC meeting, which could lead to increased fluctuations in the PLN. A similar effect may come from the usual press conference held by the NBP Governor A. Glapiński. Friday's update of Poland’s rating by S&P will be announced after the close of European markets, thus its potential impact on the PLN exchange rate will not materialise until next week.

IRS rates declined slightly





Source: Refinitiv

Last week, 2-year IRS rates fell to 4.03 (down by 1bp), 5-year rates dropped to 3.94 (down by 4bp) and 10-year rates decreased to 4.31 (down by 4bp). Last week, IRS rates exhibited reduced volatility due to the May long weekend. Domestic and international data releases had a limited impact on the curve.

Considerable uncertainty around global trade policy is expected to add to volatility in the debt market this week. This week, the market’s focus will be on the FOMC meeting, which may add to the volatility of IRS rates. A similar effect may come from the usual press conference held by the NBP Governor A. Glapiński.

Friday's update of Poland's rating by S&P will be announced after the close of European markets, thus its potential impact on IRS rates will not materialise until next week.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland

Indicator	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-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	5,25
EURPLN*	4,33	4,27	4,30	4,29	4,28	4,28	4,35	4,30	4,27	4,21	4,19	4,19	4,27	4,27
USDPLN*	4,06	3,94	4,02	3,96	3,87	3,85	4,00	4,06	4,13	4,06	4,04	3,87	3,77	3,77
CHFPLN*	4,41	4,36	4,47	4,50	4,56	4,54	4,64	4,60	4,54	4,46	4,46	4,38	4,56	4,57
CPI inflation (% YoY)	2,4	2,5	2,6	4,2	4,3	4,9	5,0	4,7	4,7	4,9	4,9	4,9	4,2	
Core inflation (% YoY)	4,1	3,8	3,6	3,8	3,7	4,3	4,1	4,3	4,0	3,7	3,6	3,6	3,4	
Industrial production (% YoY)	7,8	-1,6	0,0	5,3	-1,3	-0,5	4,7	-1,3	0,3	-0,9	-1,8	2,6	-1,8	
PPI inflation (% YoY)	-8,5	-7,0	-5,8	-5,1	-5,5	-6,2	-5,1	-3,8	-2,7	-1,0	-1,3	-1,1	-1,4	
Retail sales (% YoY)	4,3	5,4	4,7	5,0	3,2	-2,2	2,3	3,4	2,7	6,1	0,6	0,6	2,4	
Corporate sector wages (% YoY)	11,3	11,4	11,0	10,6	11,1	10,3	10,2	10,5	9,8	9,2	7,9	7,7	8,1	
Employment (% YoY)	-0,4	-0,5	-0,4	-0,4	-0,5	-0,5	-0,5	-0,5	-0,6	-0,9	-0,9	-0,9	-0,9	
Unemployment rate* (%)	5,1	5,0	4,9	5,0	5,0	5,0	4,9	5,0	5,1	5,4	5,4	5,3	5,2	
Current account (M EUR)	922	-468	-142	-491	-2276	-1160	1510	313	-1119	558	-220	-436		
Exports (% YoY EUR)	8,3	-5,3	-6,6	5,8	-2,3	1,5	2,6	-2,6	0,4	0,2	-1,4	1,1		
Imports (% YoY EUR)	6,0	1,4	1,9	9,7	5,5	5,6	6,2	-0,8	3,4	8,9	2,3	7,7		

*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)		2,2	3,2	2,8	3,4	2,8	2,9	3,0	3,2	2,9	3,1	3,3
Private consumption (% YoY)		4,3	4,5	0,2	3,5	2,5	2,1	2,0	1,8	3,1	2,2	2,9
Gross fixed capital formation (% YoY)		3,6	3,9	-4,3	-6,9	3,0	5,7	8,0	7,3	-2,2	6,4	7,3
Export - constant prices (% YoY)		3,3	4,5	0,0	0,2	1,5	4,3	4,0	4,5	2,0	3,5	5,5
Import - constant prices (% YoY)		2,9	7,6	3,1	3,5	2,8	4,5	4,3	3,9	4,2	3,8	4,6
GDP growth contributions	Private consumption (pp)	2,6	2,6	0,1	1,7	1,5	1,2	1,2	0,9	1,7	1,3	1,7
	Investments (pp)	0,5	0,6	-0,7	-1,7	0,4	0,9	1,2	1,6	-0,4	1,1	1,2
	Net exports (pp)	0,4	-1,3	-1,6	-1,6	-0,6	0,1	0,0	0,4	-1,1	0,0	0,7
Current account (% of GDP)***		1,6	1,3	0,5	0,2	0,3	0,3	0,2	0,2	0,2	0,2	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	0,4	-0,2	-0,5	-0,5	-0,5	0,7	-0,4	-0,5
Wages in national economy (% YoY)		14,4	14,7	13,4	12,4	10,1	8,3	7,1	6,5	13,7	8,0	6,0
CPI Inflation (% YoY)*		2,8	2,5	4,5	4,8	4,9	4,4	3,2	3,2	3,6	3,9	2,8
Wibor 3M (%)**		5,88	5,85	5,85	5,84	5,84	4,85	4,85	4,85	5,84	4,85	4,36
NBP reference rate (%)**		5,75	5,75	5,75	5,75	5,75	5,25	4,75	4,75	5,75	4,75	4,25
EURPLN**		4,29	4,30	4,28	4,27	4,19	4,20	4,20	4,20	4,27	4,20	4,16
USDPLN**		3,97	4,02	3,85	4,13	3,87	3,89	3,82	3,75	4,13	3,75	3,78

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

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST*	
					CA	CONSENSUS**
		Monday 05/05/2025				
10:30	Eurozone	Sentix Index (pts)	May	-19,5		-12,5
16:00	USA	ISM Non-Manufacturing Index (pts)	Apr	50,8	50,3	50,2
		Tuesday 05/06/2025				
10:00	Eurozone	Services PMI (pts)	Apr	49,7	49,7	49,7
10:00	Eurozone	Final Composite PMI (pts)	Apr	50,1	50,1	50,1
11:00	Eurozone	PPI (% YoY)	Mar	3,0		2,5
		Wednesday 05/07/2025				
8:00	Germany	New industrial orders (% MoM)	Mar	0,0		1,3
11:00	Eurozone	Retail sales (% MoM)	Mar	0,3		0,0
20:00	USA	FOMC meeting (%)	May	4,50	4,50	4,50
	Poland	**NBP rate decision (%)**	**May**	**5,75**	**5,25**	**5,25**
		Thursday 05/08/2025				
8:00	Germany	Industrial production (% MoM)	Mar	-1,3		0,8
8:00	Germany	Trade balance (bn EUR)	Mar	17,7		18,9
13:00	UK	BOE rate decision (%)	May	4,50		4,25
14:30	USA	Initial jobless claims (k)	w/e	241		
16:00	USA	Wholesale inventories (% MoM)	Mar	0,5		0,5
16:00	USA	Wholesale sales (% MoM)	Mar	2,4		
		Friday 05/09/2025				
14:00	**Poland**	**MPC Minutes**	**May**			
	China	Trade balance (bn USD)	Apr	102,6		94,3

*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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