

22 May 2019

Eyeopener

Faster wages, slower employment

Wages surprise to the upside in April
 Złoty weaker despite stability in the CEE region
 Polish bonds stable, while core market yields rise
 Today Poland's industrial output and PPI inflation

On Tuesday we got to see data on wage growth in April, which surprised to the upside. Euro zone data on consumer confidence was above expectations, while US home sales surprised to the downside. Equity markets were trimming losses, oil prices went down, EURUSD stabilised, while bond yields rose globally. PM Theresa May presented a new draft bill on Brexit, which takes into account some proposals put forward by its critics. Additionally, the bill includes a possibility of holding a second referendum. The release was temporarily positive for the pound. St. Louis Fed's Bullard said that the FOMC may have "slightly overdone it" by raising rates in December, but it is premature to talk about rate cuts.

OECD raised its GDP forecasts for Poland to 4.2% from 4.0% in 2019 and to 3.5% from 3.3% in 2020. The organisation expects CPI inflation at 1.9% in 2019 and 3.0% in 2020.

April data from Polish corporate sector brought a positive surprise in **wage growth**: 7.1% y/y vs 6.5% market consensus and our 6.7% call. GUS revealed that the mining sector saw substantial wage increases in April (of c18% y/y) – more than we assumed for this category, and this more or less explains the positive gap between the outcome and our forecast. **Employment data** came weaker than expected: 2.9% y/y vs 3.0% consensus and our 3.1% forecast. We should observe further slowdown of employment growth in the following months given the tight labour market in Poland. The surprise in wages caused a rebound in real wage bill in April, from 7.1% y/y to 7.9% which should support private consumption.

On Tuesday, the **EURUSD** fluctuated in a narrow range between 1.1140 and 1.1170, but without any distinct trend. Neither the slightly better-than-expected data on consumer confidence, nor disappointing data on new home had an impact on the valuation of EURUSD. Also, the correction of the Monday's equity market losses was not reflected in increase of the EURUSD rate. As a result, the pair ended the day at 1.1160, i.e. close to the opening level. Today, we are also expecting low volatility, which should be supported by the lack of publication of any major data.

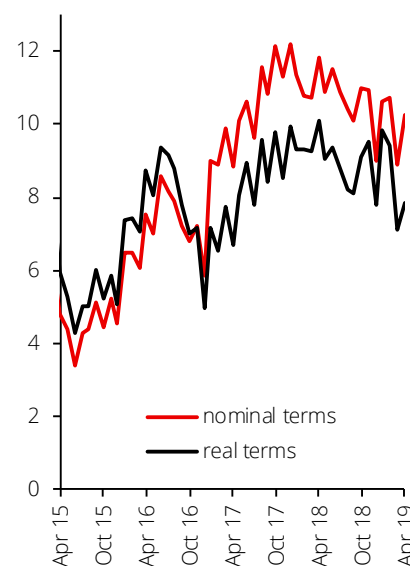
EURPLN corrected Monday's decline by rising from 4.2960 to 4.3080 and catching up with other CEE currencies. USDPLN followed suit, climbing from 3.8490 to 3.8600. The złoty weakening was not halted by the release of better than expected wage data. Today we expect to see slight strengthening of the złoty in reaction to solid data about industrial production and its prices, which are likely surprise to the upside.

In case of other CEE currencies, EURHUF started from 326.60, climbed temporarily to 327.50 (the highest level since September 2018), only to return to the starting point at the end of the day. EURCZK was hovering between 25.77 and 25.81. USDRUB decreased from 64.60 to 64.40, despite slight decrease of the crude oil price.

On the domestic debt market yields were hovering in a narrow range without any clear trend, despite the yield increases on the core markets. Only the POLGB10Y was affected by core markets and recorded a yield rise by 1bp. IRS curve shifted up by 1-2bps. Today we are expecting the yields to increase, owing to the solid domestic industrial production data, but the scale of changes is likely to be marginal.

Today at 10:00CET the stat office will release data about Poland April industrial output and PPI. Our forecast of output growth is above consensus and this release should confirm that deceleration of an economic growth is only gradual and Poland remains resilient to the slower growth in Europe.

Wage bill in corporate sector, % y/y



Source: GUS, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
 email: ekonomia@santander.pl
 website: skarb.santander.pl
 Piotr Bielski +48 22 534 18 87
 Marcin Łuziński +48 22 534 18 85
 Grzegorz Ogonek +48 22 534 19 23
 Konrad Soszyński +48 22 534 18 86
 Marcin Sulewski, CFA +48 22 534 18 84

FX market

Today's opening

EURPLN	4.3084	CZKPLN	0.1672
USDPLN	3.8628	HUFPLN*	1.3200
EURUSD	1.1153	RUBPLN	0.0599
CHFPLN	3.8183	NOKPLN	0.4404
GBPPLN	4.9035	DKKPLN	0.5769
USDCNY	6.9117	SEKPLN	0.4001

*for 100HUF

Last session in the FX market 21/05/2019

	min	max	open	close	fixing
EURPLN	4.296	4.310	4.299	4.307	4.3055
USDPLN	3.847	3.867	3.850	3.859	3.8625
EURUSD	1.114	1.119	1.117	1.116	-

Interest rate market 21/05/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
OK0521 (2L)	1.65	0	21 mar 19	OK0521	1.633
PS0424 (5L)	2.27	1	21 mar 19	PS0424	2.209
DS1029 (10L)	2.91	2	21 mar 19	DS1029	2.877

IRS on the interbank market**

Rates on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.74	0	2.47	2	-0.26	0
2L	1.84	0	2.31	3	-0.24	0
3L	1.91	1	2.24	3	-0.19	0
4L	1.99	1	2.22	3	-0.11	0
5L	2.07	1	2.23	2	-0.02	1
8L	2.28	2	2.32	2	0.26	1
10L	2.41	2	2.38	2	0.45	1

WIBOR rates

Term	%	Change (bps)
O/N	1.61	0
T/N	1.61	0
SW	1.59	0
2W	1.60	0
1M	1.64	0
3M	1.72	0
6M	1.79	0
9M	1.81	0
1Y	1.87	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.72	0
3x6	1.72	0
6x9	1.74	0
9x12	1.75	1
3x9	1.79	0
6x12	1.81	0

Measures of fiscal risk

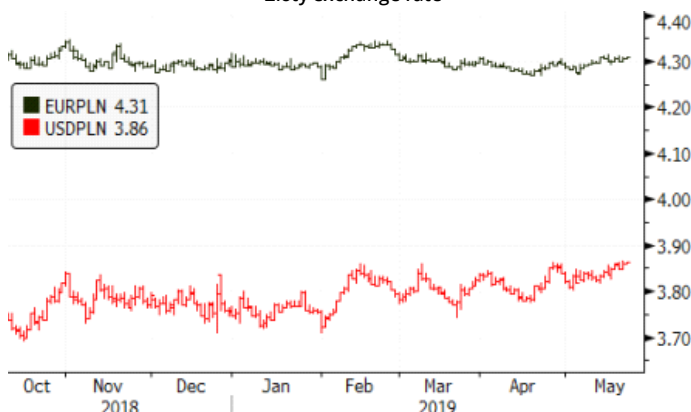
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.98 3
France	30 0	0.39 0
Hungary		3.30 4
Spain	55 -1	0.94 0
Italy	215 -2	2.70 0
Portugal	62 -1	1.09 0
Ireland	33 0	0.61 3
Germany	12 0	- -

* 10Y treasury bonds over 10Y Bunds

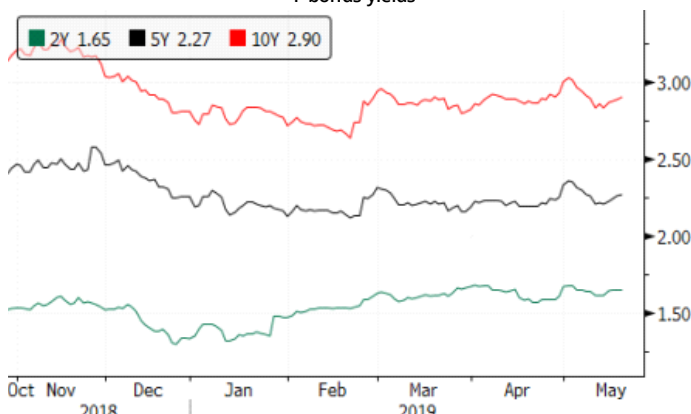
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

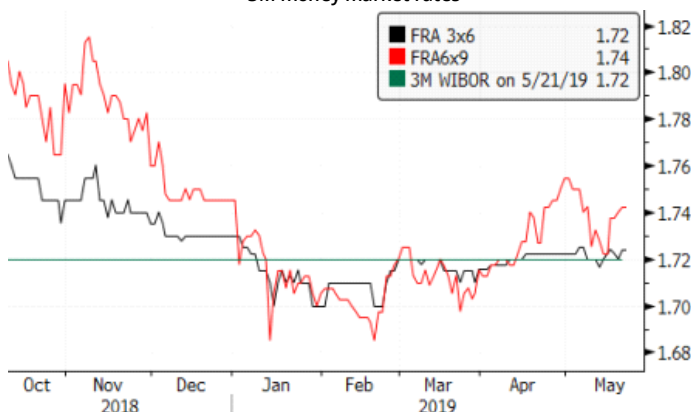
Zloty exchange rate



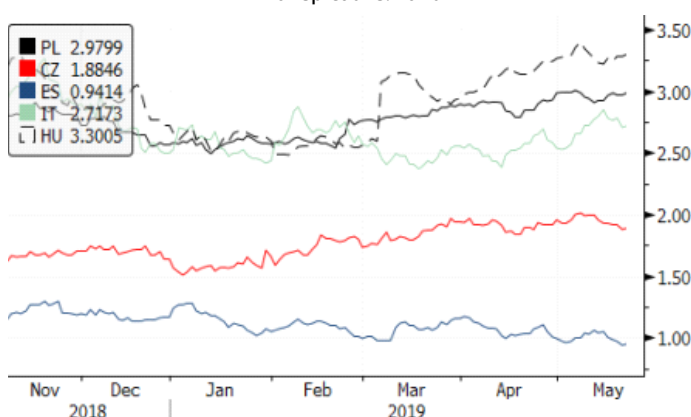
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST
				MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (17 May)							
11:00	EZ	HICP	Apr	% y/y	1.7	-	1.4
16:00	US	Michigan index	May	pts	97.15	-	97.2
MONDAY (20 May)							
No important events							
TUESDAY (21 May)							
10:00	PL	Employment in corporate sector	Apr	% y/y	3.0	3.1	2.9
10:00	PL	Average Gross Wages	Apr	% y/y	6.5	6.7	7.1
16:00	US	Existing Home Sales	Apr	% m/m	2.7	-0.4	-4.9
WEDNESDAY (22 May)							
10:00	PL	Sold Industrial Output	Apr	% y/y	8.7	8.7	-
10:00	PL	PPI	Apr	% y/y	2.6	2.7	-
20:00	US	FOMC Meeting Minutes	May.19		-	-	0.0
THURSDAY (23 May)							
08:00	DE	GDP WDA	1Q	% y/y	0.7	-	0.7
09:30	DE	Germany Manufacturing PMI	May	pts	44.8	-	44.4
09:30	DE	Markit Germany Services PMI	May	pts	55.4	-	55.7
10:00	DE	Ifo Business Climate	May	pts	99.2	-	99.2
10:00	EZ	Eurozone Manufacturing PMI	May	pts	48.2	-	47.9
10:00	EZ	Eurozone Services PMI	May	pts	53.0	-	52.8
10:00	PL	Construction Output	Apr	% y/y	18.3	17.4	-
10:00	PL	Retail Sales Real	Apr	% y/y	8.5	9.2	-
11:30	PL	Bond Switch Auction			-		
14:30	US	Initial Jobless Claims	May.19	k	220.0	-	212.0
16:00	US	New Home Sales	Apr	% m/m	-2.24	-	4.5
FRIDAY (24 May)							
14:00	PL	Money Supply M3	Apr	% y/y	10.1	10.2	-
14:30	US	Durable Goods Orders	Apr	% m/m	-2.0	-	2.8

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated **estimate after inflation data

This publication has been prepared by Santander Bank Polska S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Santander Bank Polska S.A. its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Santander Bank Polska S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Santander Bank Polska S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@santander.pl, http://www.santander.pl.