

# EYEOPENER

20 November 2017

## Sharp wage growth acceleration in October

- Breakdown of German coalition talks hit the euro
- Strong rise of Polish wage growth in October
- The zloty strengthened on domestic data
- Today in Poland data on output and retail sales

During the weekend, the German party FDP announced that it pulled out from coalition talks. The news has negatively impacted the euro. The next step is up to Angela Merkel - will she decide to build a minority government or will she ask the president to announce new elections? Actually, there is also an option for CDU to start talks with the partner from the previous government, yet just after the September elections SPD announced its will to move to opposition.

Wages in the enterprise sector rose in October by 7.4% y/y, which is a significantly stronger pace than the market assumed (6.6%, our forecast was 6.4%). This is the strongest reading of wage growth in y/y terms since January 2009. Employment increased in October by 4.4% y/y or by 5k m/m, more less in line with our expectations. In our view the acceleration of wages vs. September (6% y/y) came from three factors: the positive working days effect (adding c0.5pp), rising wage pressure and one-off effects like bonus payments. We expect that wage growth will increase even more in the coming quarters. The number of employed is growing due to strong labour demand, but at the same time enterprises signal rising difficulties in finding qualified personnel. We think pace of employment growth will decelerate in the coming quarters and shortage of labour supply will curb potential GDP growth. Strong labour market suggests private consumption could rise further in 4Q17. October's wage growth is well above NBP forecasts presented last week in the new Inflation Report and in our view could be an important argument for hawkish members of the MPC. Several of them have already signaled recently that 1Q18 could be a good time to submit a motion for a hike. In our view, this has become more likely after today's data. However, we think that only in 2H18 there will be a majority to support such motion.

On the German debt market, Friday saw an improvement in the pricing of bunds driven by falling chances for concluding coalition talks on time. As a result, on Friday Bund yields fell 1bp across the curve despite some morning weakness. The US curve continued to flatten, given 1bp increase at the short end and the 2bp decrease on the long end. This move was fuelled by expectations of a rate hike by the FOMC in December and declines at the opening of stock markets.

On Friday, the domestic yield curve has moved up by 1-2 bp in the 5Y-10Y segment and remained stable in the 2Y segment, sluggishly reacting to the October's high wage growth release.

Today we expect a correction of Friday's yield increases at the belly and the long end of the curve if industrial production shows a high reading. In the end of the week, we expect a widening of 5Y-10Y spread. There should be a reaction to Thursday's auction debt distribution by maturity. We think that at the auction MinFin will try to offer a bigger share of bonds with longer maturity.

In the morning EURUSD increased to 1.1810 from 1.1770. In the second part of the day, EURUSD decreased a bit and ended the day at 1,1800. The intraday rise was driven by Mario Draghi's comments on the wages growth outlook. The afternoon euro depreciation was fueled by rising risk of a collapse of German coalition talks. EURUSD slid again in the night trading, after the information that FDP pulled out from coalition talks.

EURPLN was falling after the morning rise to 4.245 and was near 4.235 at the end of the day. Polish currency was boosted by the Polish wage data.

On Friday, EURHUF fell to 311.8 from 312.4 thanks to information that debt/GDP ratio fell and Moody's improved Hungarian economic outlook. EURCZK rose marginally to 25.58. USDRUB eased to 59.2 from 59.6 as the Brent oil price rose to \$62.7/bbl from \$61.1/bbl.

If it was not for the collapse of German coalition talks, we would expect the zloty to gain today after the Polish industrial output data. We think that recent positive news-flow from Poland has already been largely priced-in and we do not see much room for EURPLN to decline further.

This week we will get to see flash PMI data from Europe. They are amongst crucial numbers as regards expectations about ECB policy normalization, recently fueled by positive data from the Euro zone. Currently the market is expecting some downward correction, so better reading can be a real market mover. In Poland, data on real activity are due for release. In our view, these numbers will be positive, further supporting expectations for rate hikes in Poland and bringing up yields on the shorter end of Polish end curve. Moreover, we expect the Finance Ministry to offer mostly longer maturity securities on Thursday auction, so also the longer end may be under pressure in the second half of the week. Still, domestic factors should remain positive for the Polish currency, yet the market reaction may be limited given large scale of strengthening witnessed recently.

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## FX market

## Today's opening

EURPLN	4.2376	CZKPLN	0.1657
USDPLN	3.6049	HUFPLN*	1.3571
EURUSD	1.1755	RUBPLN	0.0608
CHFPLN	3.6434	NOKPLN	0.4370
GBPPLN	4.7721	DKKPLN	0.5695
USDCNY	6.6337	SEKPLN	0.4274

\*for 100HUF

## Last session in the FX market

17/11/2017

	min	max	open	close	fixing
EURPLN	4.231	4.245	4.238	4.235	4.2419
USDPLN	3.585	3.604	3.600	3.592	3.5965
EURUSD	1.176	1.182	1.177	1.179	-

## Interest rate market

17/11/2017

## T-bonds on the interbank market\*\*

Bond (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0419 (2Y)	1.59	0	11/9/17	OK0720	1.899
PS0422 (5Y)	2.61	2	11/9/17	PS0123	2.750
DS0727 (10Y)	3.41	2	11/9/17	DS0727	3.380

## IRS on the interbank market\*\*

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.81	2	1.72	0	-0.26	0
2L	2.04	1	1.88	0	-0.20	-1
3L	2.22	1	1.99	-1	-0.07	0
4L	2.38	1	2.05	-1	0.06	0
5L	2.53	1	2.11	-1	0.20	-1
8L	2.85	1	2.25	-1	0.60	-1
10L	3.00	1	2.33	-2	0.83	-1

## WIBOR rates

Term	%	Change (bps)
O/N	1.58	2
T/N	1.58	1
SW	1.60	0
2W	1.62	0
1M	1.66	0
3M	1.73	0
6M	1.81	0
9M	1.83	0
1Y	1.85	0

## FRA rates on the interbank market\*\*

Term	%	Change (bps)
1x4	1.73	0
3x6	1.76	0
6x9	1.81	3
9x12	1.91	0
3x9	1.83	0
6x12	1.88	0

## Measures of fiscal risk

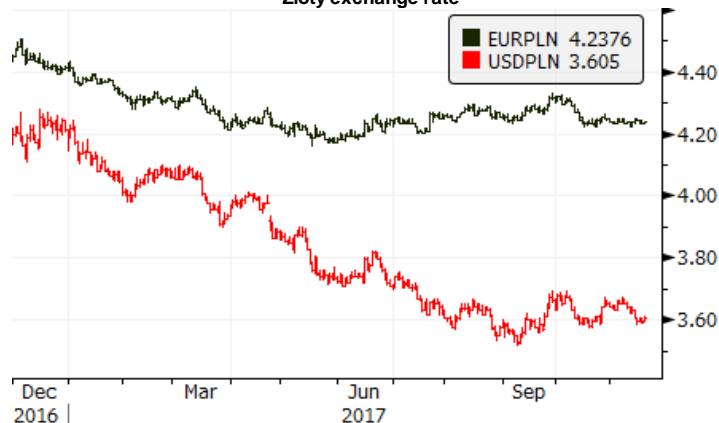
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			3.05	3
France	17	-2	0.35	0
Hungary	116	1	1.90	0
Spain	69	-1	1.19	0
Italy	122	-1	1.48	1
Portugal	108	-1	1.62	1
Ireland	31	-1	0.21	0
Germany	10	0	-	-

\* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

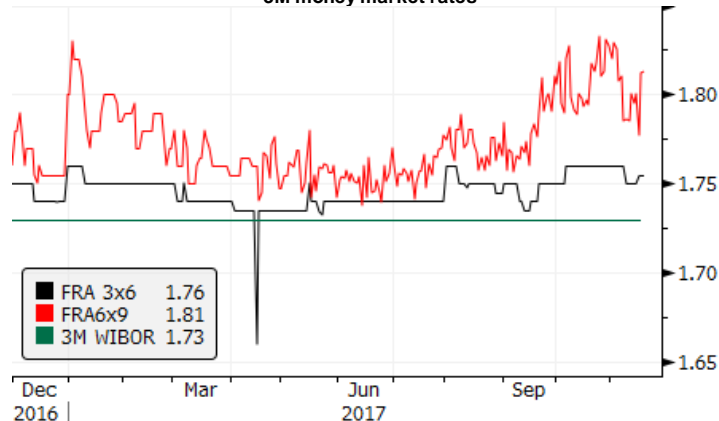
## Zloty exchange rate



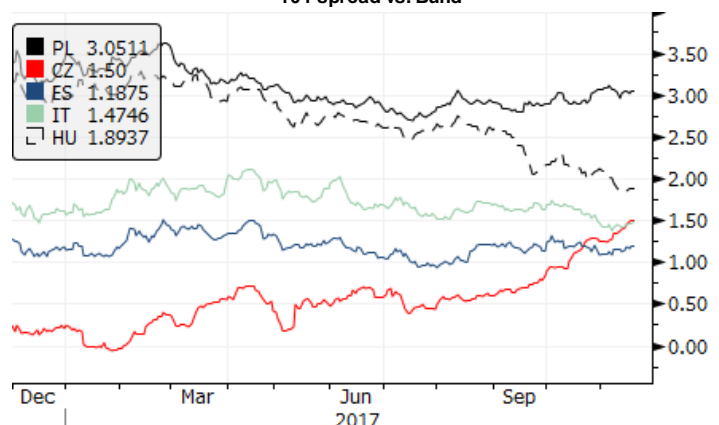
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic calendar

Economic calendar								
TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	BZWBK			
FRIDAY (17 November)								
14:00	PL	Wages in corporate sector	Oct	% y/y	6.5	6.4	7.4	6.0
14:00	PL	Employment in corporate sector	Oct	% y/y	4.5	4.5	4.4	4.5
14:30	US	Housing starts	Nov	% m/m	5.6	-	13.7	-4.7
14:30	US	Building permits	Nov	% m/m	2.0	-	5.9	-3.7
MONDAY (20 November)								
14:00	PL	Industrial output	Oct	% y/y	9.9	11.3		4.3
14:00	PL	Construction and assembly output	Oct	% y/y	23.6	25.7		15.5
14:00	PL	PPI	Oct	% y/y	2.8	2.7		3.1
14:00	PL	Real retail sales	Oct	% y/y	7.2	7.2		7.5
TUESDAY (21 November)								
14:00	HU	Central bank decision		%	0.90	-		0.90
14:00	PL	Corporate sector financial results	3Q					
16:00	US	Home sales	Oct	% m/m	0.19	-		0.75
WEDNESDAY (22 November)								
14:30	US	Durable goods orders	Oct	% m/m	0.3	-		2.0
14:30	US	Initial jobless claims	week	k	235	-		249
16:00	US	Michigan index	Nov	pts	98.2	-		97.8
20:00	US	FOMC minutes						
THURSDAY (23 November)								
9:30	DE	Flash PMI – manufacturing	Nov	pts	60.3	-		60.6
9:30	DE	Flash PMI – services	Nov	pts	55.0	-		54.7
10:00	EZ	Flash PMI – manufacturing	Nov	pts	58.2	-		58.5
10:00	EZ	Flash PMI – services	Nov	pts	55.2	-		55
10:00	EZ	Flash PMI – manufacturing	Nov	pts	58.2	-		58.5
11:00	PL	Bond auction						
14:00	PL	MPC minutes						
14:00	PL	Money supply M3	Oct	% y/y	5.5	5.6		5.4
FRIDAY (24 November)								
10:00	DE	Ifo	Nov	pts	116.5	-		116.7
10:00	PL	Unemployment rate	Oct	%	6.7	6.6		6.8

Source: BZ WBK, Reuters, Bloomberg

\* in case of the revision the data is updated

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