

19 September 2018

Eyeopener

Wages grow slower

Lower growth of wages and employment in Poland
China retaliation to US tariffs with not big market effect
Zloty gains, Polish bonds pressured by higher risk appetite
Today Poland output and PPI data

On Tuesday, we saw weaker-than-expected Polish labour market data. China said it will impose tariffs on US imports worth USD60bn after the Trump administration announced new tariffs on China imports. This information was rather ignored by the market (higher tariffs on bigger value of trade were expected). As a result, yields on the core markets increased similarly as equities while the EM currencies strengthened. The zloty benefited from these trends and the domestic 5-10Y bonds were under pressure.

On Tuesday EURUSD oscillated in a pretty wide horizontal trend around 1.168, only temporarily climbing above 1.17. At the late afternoon, the strong start of the US stock market supported the dollar pushing EURUSD down to 1.165. EURUSD still oscillates below the resistance at c1.175 and is waiting for the impulse. We expect a stronger move could take place only at the end of the week in reaction to the flash PMI data.

EURPLN fell to 4.284 thanks to the rising risk appetite. The zloty ignored the weaker data from Poland. EURPLN reached the minimum set in the first week of September and in our view potential for further zloty appreciation is limited in the short term. In our view, any rise of EURPLN could be fueled by today's data on industrial output, which we expect to be weaker than previously.

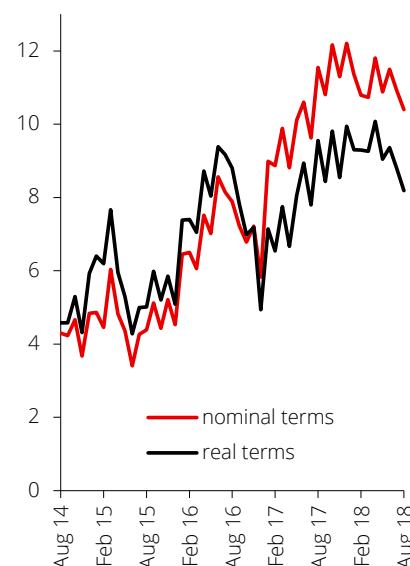
The other CEE currencies also gained. EURCZK benefited from better sentiment and perspective of another interest rate hike as it declined from 25.45 to 25.43. Drop of EURHUF from 324.9 to 323.7 was a result of central bank's comment. MNB kept rates unchanged but suggested willingness of slow going away from ultra-dovish monetary policy. The ruble also gained thanks to better sentiment with USDRUB dropping from 68.2 to 67.4 amid rising oil prices.

On the domestic interest rate market, Tuesday morning saw a drop of the domestic bond yields in response to the below-consensus Polish labour market data. At midday the trend reversed after the growth of the U.S. yields accelerated, including 10Y, which rose above 3.0% more noticeably. As a result, the domestic 5-10Y curve went back to the opening levels and the short end went down by 2bp. Paired with changes in the IRS market, the asset swap spreads narrowed in that segment by 4bp. The domestic debt did not react to another wave of falling yields of the Italian sovereign bonds. Today, we are expecting the downward pressure on domestic T-bonds to return in the segment as a result of industrial output release being weaker than in July.

Corporate sector employment rose 3.4% y/y in August as we expected, (consensus saw 3.5%). Wages were growing slower than in July, 6.8% y/y vs 7.2% previously, partly due to trading day differences. We thought the slowdown would reach 6.9%, consensus pointed at 7%. We could see an acceleration to close to 9% by year-end. Wage bill in the corporate sector corrected for inflation rose 8.2% y/y in August, the slowest pace since July 2017. However, we expect the wage bill growth to pick up in the months to come to above 10% y/y still in 2018. These are not readings that could affect the MPC or make us change our view on labour market outlook.

According to Bloomberg agency, in 2Q18, we ranked 1st place in the EURPLN (we maintained the first position won in 1Q18) and USDCZK forecasts. Furthermore, we ranked 2nd place in EURCZK forecasts (the same as in 1Q18) and 3rd place in the USDPLN forecasts.

Wage bill in corporate sector, % y/y



Source: Stats Office, Santander Bank Polska

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FX market

Today's opening

| | | | |
|--------|--------|---------|--------|
| EURPLN | 4.2881 | CZKPLN | 0.1686 |
| USDPLN | 3.6709 | HUFPLN* | 1.3250 |
| EURUSD | 1.1681 | RUBPLN | 0.0547 |
| CHFPLN | 3.8063 | NOKPLN | 0.4506 |
| GBPPLN | 4.8308 | DKKPLN | 0.5748 |
| USDCNY | 6.8553 | SEKPLN | 0.4127 |

*for 100HUF

Last session in the FX market 18/09/2018

| | min | max | open | close | fixing |
|--------|-------|-------|-------|-------|--------|
| EURPLN | 4.287 | 4.305 | 4.300 | 4.292 | 4.303 |
| USDPLN | 3.665 | 3.688 | 3.676 | 3.681 | 3.6817 |
| EURUSD | 1.166 | 1.172 | 1.170 | 1.166 | - |

Interest rate market 18/09/2018

T-bonds on the interbank market**

| Benchmark (term) | % | Change (bps) | Last auction | per offer | Average yield |
|------------------|------|--------------|--------------|-----------|---------------|
| DS1020 (2L) | 1.56 | -4 | 6 wrz 18 | OK0720 | 1.610 |
| DS1023 (5L) | 2.55 | 0 | 6 wrz 18 | PS0123 | 2.462 |
| WS0428 (10L) | 3.22 | 0 | 6 wrz 18 | WS0428 | 3.249 |

IRS on the interbank market**

| RIS on the interbank market | | | | | | |
|-----------------------------|------|--------------|------|--------------|-------|--------------|
| Term | PL | | US | | EZ | |
| | % | Change (bps) | % | Change (bps) | % | Change (bps) |
| 1L | 1.78 | 0 | 2.74 | 0 | -0.25 | 0 |
| 2L | 1.97 | 0 | 2.95 | 0 | -0.14 | 0 |
| 3L | 2.16 | 0 | 3.01 | 1 | 0.02 | 0 |
| 4L | 2.33 | 0 | 3.03 | 2 | 0.19 | 1 |
| 5L | 2.49 | -1 | 3.04 | 2 | 0.35 | 0 |
| 8L | 2.80 | -1 | 3.07 | 3 | 0.75 | 1 |
| 10L | 2.97 | -1 | 3.09 | 4 | 0.96 | 1 |

WIBOR rates

| Term | % | Change (bps) |
|------|------|--------------|
| O/N | 1.46 | -4 |
| T/N | 1.49 | -3 |
| SW | 1.54 | -1 |
| 2W | 1.59 | 0 |
| 1M | 1.64 | 0 |
| 3M | 1.72 | 0 |
| 6M | 1.79 | 0 |
| 9M | 1.82 | 0 |
| 1Y | 1.87 | 0 |

FRA rates on the interbank market**

| Term | % | Change (bps) |
|------|------|--------------|
| 1x4 | 1.73 | 0 |
| 3x6 | 1.75 | 0 |
| 6x9 | 1.78 | 1 |
| 9x12 | 1.82 | 0 |
| 3x9 | 1.84 | 0 |
| 6x12 | 1.88 | 0 |

Measures of fiscal risk

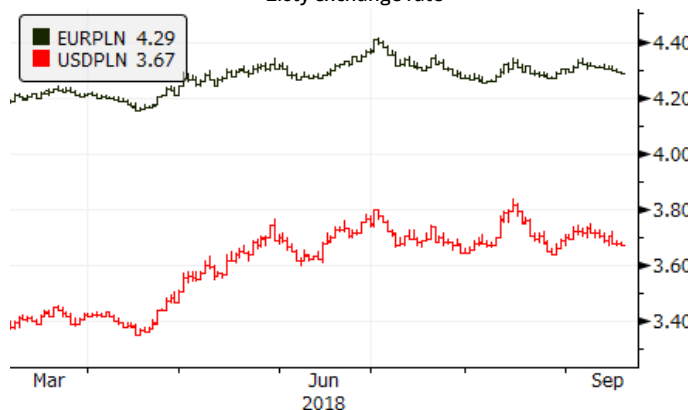
| Country | CDS 5Y USD | 10Y spread* |
|----------|--------------------|--------------------|
| | Level Change (bps) | Level Change (bps) |
| Poland | | 2.74 0 |
| France | 24 0 | 0.31 0 |
| Hungary | 116 1 | 3.20 -2 |
| Spain | 61 0 | 1.02 -1 |
| Italy | 213 -8 | 2.27 -3 |
| Portugal | 64 0 | 1.36 -1 |
| Ireland | 25 0 | 0.47 1 |
| Germany | 10 0 | - - |

* 10Y treasury bonds over 10Y Bunds

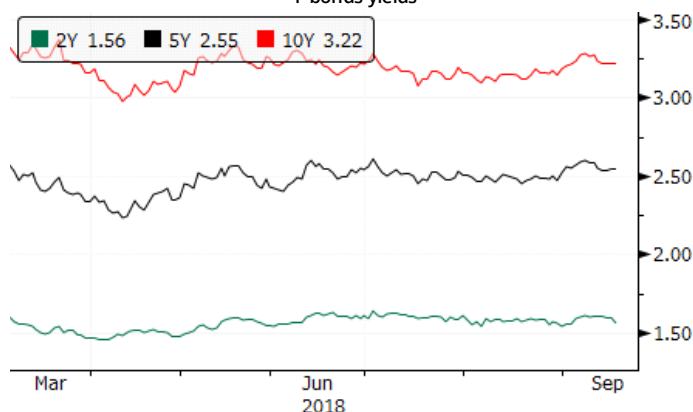
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

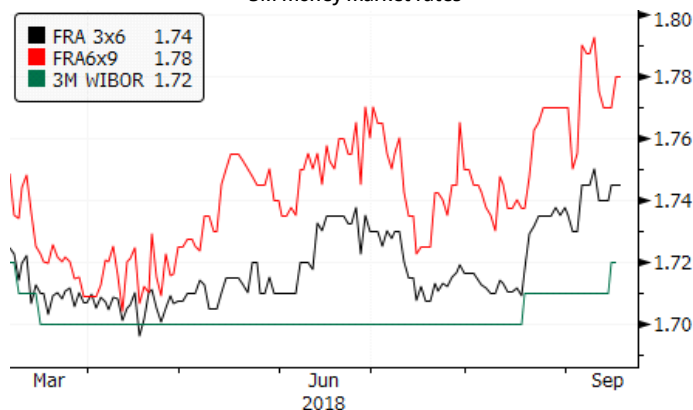
Zloty exchange rate



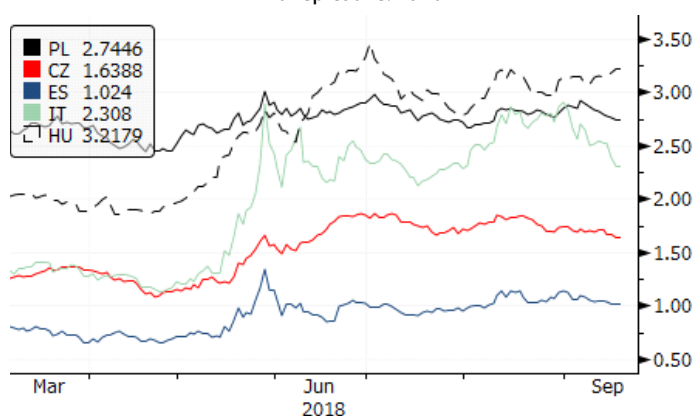
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

| Economic Calendar | | | | | FORECAST | | ACTUAL VALUE | LAST |
|--------------------------|----|--------------------------------|--------|-------|----------|-----------|--------------|-------|
| TIME | | INDICATOR | PERIOD | | MARKET | SANTANDER | | VALUE |
| CET | | | | | | | | |
| FRIDAY (14 September) | | | | | | | | |
| 14:00 | PL | CPI Core | Aug | % y/y | 0.8 | 0.8 | 0.9 | 0.6 |
| 14:30 | US | Retail Sales Advance | Aug | % m/m | 0.6 | - | 0.1 | 0.5 |
| 15:15 | US | Industrial Production | Aug | % m/m | 0.4 | - | 0.4 | 0.1 |
| 16:00 | US | Michigan Index | Sep | pts | 96.2 | - | 100.8 | 96.2 |
| PL | | Rating Review Moody's | | | | | | |
| MONDAY (17 September) | | | | | | | | |
| 11:00 | EZ | HICP | Aug | % y/y | 2.0 | | 2.0 | 2.0 |
| TUESDAY (18 September) | | | | | | | | |
| 10:00 | PL | Employment in corporate sector | Aug | % y/y | 3.5 | 3.4 | 3.4 | 3.5 |
| 10:00 | PL | Average Gross Wages | Aug | % y/y | 7.0 | 6.9 | 6.8 | 7.2 |
| 14:00 | HU | Central Bank Rate Decision | | % | 0.9 | | 0.9 | 0.9 |
| WEDNESDAY (19 September) | | | | | | | | |
| 10:00 | PL | Sold Industrial Output | Aug | % y/y | 5.0 | 5.2 | - | 10.3 |
| 10:00 | PL | Construction Output | Aug | % y/y | 18.5 | 19.0 | - | 18.7 |
| 10:00 | PL | PPI | Aug | % y/y | 3.0 | 2.8 | - | 3.4 |
| 14:30 | US | Housing Starts | Aug | % m/m | 5.82 | | - | 0.9 |
| THURSDAY (20 September) | | | | | | | | |
| 14:30 | US | Initial Jobless Claims | week | k | 210.0 | | - | 204.0 |
| 14:30 | US | Index Philly Fed | Sep | | 16.0 | | - | 11.9 |
| 16:00 | US | Existing Home Sales | Aug | % m/m | 0.75 | | - | -0.74 |
| FRIDAY (21 September) | | | | | | | | |
| 09:30 | DE | Germany Manufacturing PMI | Sep | pts | 55.7 | | - | 55.9 |
| 09:30 | DE | Markit Germany Services PMI | Sep | pts | 55.0 | | - | 55.0 |
| 10:00 | EZ | Eurozone Manufacturing PMI | Sep | pts | 54.5 | | - | 54.6 |
| 10:00 | EZ | Eurozone Services PMI | Sep | pts | 54.4 | | - | 54.4 |
| 10:00 | PL | Retail Sales Real | Aug | % y/y | 7.0 | 6.4 | - | 7.1 |

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

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