

17 October 2018

Eyeopener

Polish labour market loses steam

Poland wages, employment and core CPI below forecasts
Zloty and its CEE peers gain
Polish yields down amid stronger bonds in Europe and emerging markets
Today, Polish output data, in the evening FOMC minutes

On Tuesday, the data on Polish wages, employment and core inflation were released. Germany published the ZEW index which surprised to the downside (resulting from the fears about the trade wars effects), whereas the U.S. industrial output data were above the consensus. EURUSD kept growing and the zloty appreciated benefiting from a slight mood improvement. Domestic yields dropped, following the European bonds and responding to debt strengthening on some of the emerging markets.

In September, employment in corporate sector grew 3.2% y/y. In m/m terms, we saw a decrease of 4.2k jobs, which is the weakest result for September since 2012 and reflects the tightness of the labor market. This is the third negative surprise in employment data in a row. Wage growth also showed the third negative surprise in a row, slowing to 6.7% y/y. In September, the supply side of the real estate market remained solid. The number of homes completed and building permits stayed near all-time highs; the 12-month sum of housing starts and buildings under construction are the highest ever.

The main core inflation measure, CPI ex-food and energy, came in at 0.8% y/y in September vs. 0.9% y/y in the previous month, below market consensus. Among the various measures of underlying consumer price trends, two readings went up, reaching 8- and 9-month highs, while the third, CPI ex-administered prices, eased from 2.2% y/y to 1.9%. Detailed CPI data showed varying behavior in services prices in September, but we assume that the inflationary environment created by strong economic growth, a tight labor market, and higher commodity prices will push core CPI to 1% y/y (or slightly higher) in the remaining months of 2018, and to c2.5% in 2019.

Today at 10:00CET we will see next Polish data. Our forecasts for today's **industry and construction** is considerably below market consensus. In our view, industry may begin to suffer from weaker growth in global trade and follow disappointing August results of German industry and exports. Construction, on the other hand, will be under growing pressure of lack of qualified workforce.

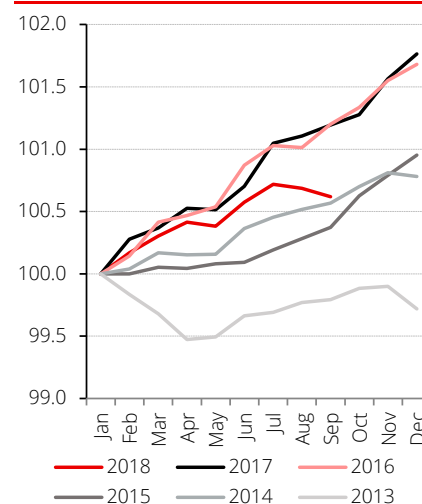
EURUSD fluctuated around 1.158 to climb temporarily to 1.162. The dollar depreciated intraday as a risk of deadlock in the Congress after the elections in November was reported. The U.S. industrial output release turned out to be neutral for the exchange rate. EURUSD has been fluctuating around 1.155 in the horizontal trend since the end of last week and we do not expect that situation to change today while waiting for the minutes of the last FOMC meeting.

EURPLN was falling for the better part of the day despite the negative surprise in Polish and German data (ZEW). The zloty was supported by good sentiment on equities and still solid demand for the emerging market currencies. As a result, EURPLN dropped for the fourth session in a row and it approached Tuesday's low at 4.282. In our opinion, today below-consensus data of Polish industry could pressure the zloty but EURPLN should stay below 4.29.

As regards the other CEE currencies, EURCZK oscillated around 25.82, while EURHUF declined to 321.8 from 322.7 thanks to help from the Hungarian central bank, which again suggested its ready to normalise the monetary policy. USDRUB was falling throughout the day (to 65.40), supported by higher oil prices and general improvement in sentiments towards emerging markets.

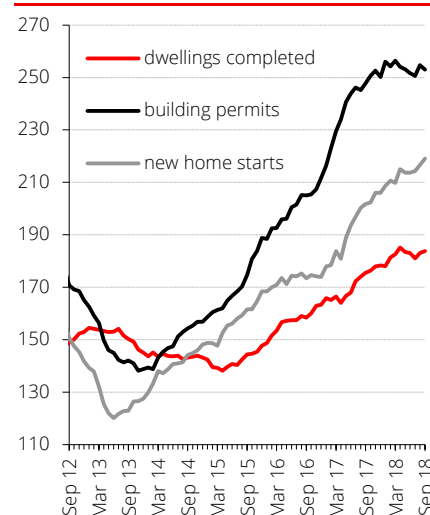
On Wednesday, the domestic bonds gained (yields dropped by 1-2bp), following the rising debt prices on the part of the emerging markets, falling yields on the European market sovereign bonds and discounting the redemption of OK1018 bonds (scheduled for next week). The nice background for the drop of POLGB's yields were the weaker than expected core inflation and wages data. Today we expect the price of domestic bonds to improve, which should be supported by September domestic industrial sector data release (that in our view will disappoint).

Employment in the corporate sector (Jan=100)



Source: Stats Office, Santander Bank Polska

Housing market tendencies (12M moving sum, thousands)



Source: GUS, Santander Bank Polska

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FX market

Today's opening

EURPLN	4.2879	CZKPLN	0.1660
USDPLN	3.7077	HUFPLN*	1.3315
EURUSD	1.1565	RUBPLN	0.0568
CHFPLN	3.7401	NOKPLN	0.4546
GBPPLN	4.8874	DKKPLN	0.5747
USDCNY	6.9220	SEKPLN	0.4154

*for 100HUF

Last session in the FX market 16/10/2018

	min	max	open	close	fixing
EURPLN	4.283	4.296	4.292	4.285	4.2919
USDPLN	3.690	3.713	3.705	3.699	3.7036
EURUSD	1.157	1.162	1.158	1.158	-

Interest rate market 16/10/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1020 (2L)	1.56	-1	4 paź 18	OK0720	1.517
DS1023 (5L)	2.52	-2	4 paź 18	PS0424	2.732
WS0428 (10L)	3.20	-3	4 paź 18	WS0428	3.303

IRS on the interbank market**

Risks on the interbank market						
Term	PL			US		EZ
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.79	0	2.84	0	-0.24	0
2L	2.05	0	3.06	1	-0.11	-1
3L	2.29	0	3.13	1	0.07	-1
4L	2.47	0	3.15	2	0.24	-1
5L	2.61	-1	3.15	2	0.41	-1
8L	2.90	-1	3.19	2	0.82	-1
10L	3.05	-1	3.22	2	1.03	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.59	2
T/N	1.59	2
SW	1.59	0
2W	1.60	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	1.76	-2
6x9	1.80	-1
9x12	1.85	0
3x9	1.84	-2
6x12	1.90	0

Measures of fiscal risk

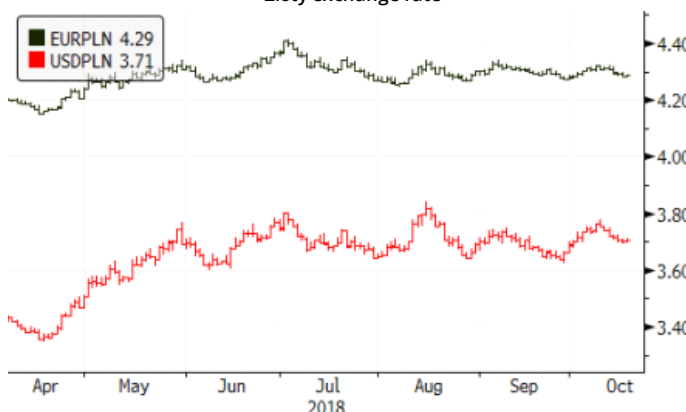
Measures of financial risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.72	-2
France	25	1	0.35	0
Hungary	116	1	3.36	0
Spain	65	4	1.14	-1
Italy	221	8	2.91	-5
Portugal	64	0	1.44	-1
Ireland	25	0	0.55	-2
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

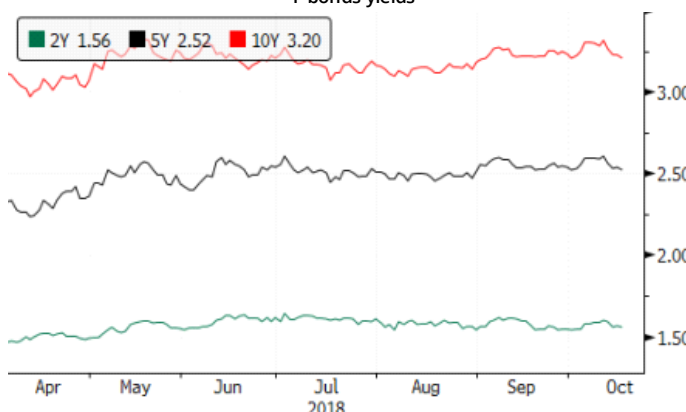
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

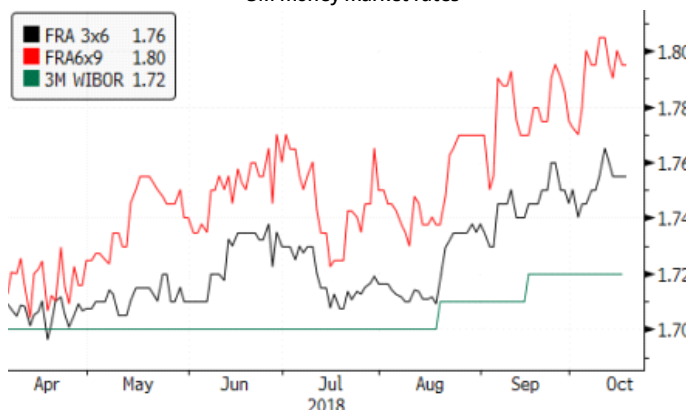
Zloty exchange rate



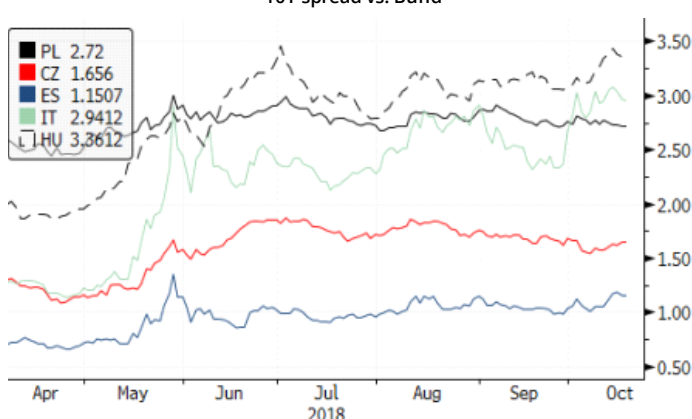
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL	LAST VALUE*
					MARKET	SANTANDER		
FRIDAY (12 October)								
	PL	Fitch Rating Review						
	PL	S&P Rating Review						
08:00	DE	HICP	Sep	% m/m	0.4	-	0.4	0.4
11:00	EZ	Industrial Production SA	Aug	% m/m	0.5	-	1.0	-0.8
16:00	US	Michigan index	Oct	pts	100.5	-	99.0	100.1
MONDAY (15 October)								
10:00	PL	CPI	Sep	% y/y	-	1.8	1.9	1.8
14:00	PL	Current Account Balance	Aug	€mn	-396	-287	-549	-809
14:00	PL	Trade Balance	Aug	€mn	-321	-415	-329	-432
14:00	PL	Exports	Aug	€mn	16 944	16 874	17 195	17 115
14:00	PL	Imports	Aug	€mn	17 254	17 289	17 524	17 547
14:30	US	Retail Sales Advance	Sep	% m/m	0.7	-	0.1	0.1
TUESDAY (16 October)								
10:00	PL	Employment in corporate sector	Sep	% y/y	3.4	3.4	3.2	3.4
10:00	PL	Average Gross Wages	Sep	% y/y	7.1	6.9	6.7	6.8
11:00	DE	ZEW Survey Current Situation	Oct	pts	74.3	74.4	70.1	76.0
14:00	HU	Central Bank Rate Decision		%	0.90	0.90	0.90	0.90
14:00	PL	CPI Core	Sep	% y/y	0.8	0.9	0.8	0.9
15:15	US	Industrial Production	Sep	% m/m	0.2	-	0.3	0.41
WEDNESDAY (17 October)								
10:00	PL	Sold Industrial Output	Sep	% y/y	4.5	2.3		5.0
10:00	PL	Construction Output	Sep	% y/y	18.5	15.8		20.0
10:00	PL	PPI	Sep	% y/y	2.8	2.9		3.0
11:00	EZ	HICP	Sep	% y/y	2.1	-		2.1
14:30	US	Housing Starts	Sep	% m/m	-5.0	-		9.2
20:00	US	FOMC Meeting Minutes						
THURSDAY (18 October)								
14:30	US	Initial Jobless Claims	week	k	207	-		214
14:30	US	Index Philly Fed	Oct		21.0	-		22.9
FRIDAY (19 October)								
10:00	PL	Retail Sales Real	Sep	% y/y	6.2	6.5		6.7
16:00	US	Existing Home Sales	Sep	% m/m	-0.5	-		0.0

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

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