

20 November 2018

# Eyeopener

## Zloty still under pressure

Polish bonds recover  
Wages grow faster  
Zloty gets weaker  
Today Poland output data and decision of the Hungarian central bank

On Monday, the data on wages in corporate sector in Poland was released (it surprised to the upside). Meanwhile, sentiment in the US real estate sector fell surprisingly. The liquidity situation of smaller banks in Poland was in the spotlight for most of the day which positively impacted bonds, however the zloty remained under pressure. At the end of the day, the debt was supported by core markets where stock prices fell and concerns about the real estate market in USA pushed yields down (and weakened the US dollar).

In October, **Polish wage growth** in the corporate sector accelerated from 6.7% y/y to 7.6% vs. market expectations of 6.7%. We expected 6.9%. This is a big positive surprise after three months of sub-consensus releases. Employment growth stayed at 3.2% y/y, in line with the consensus, while we saw it moving to 3.1%. The data confirm that the labour market remains tight and wage growth might move even higher. Real wage bill bounced back from 8.1% y/y to 9.1%..

In an interview for Bloomberg, **Rafał Sura from the Monetary Policy Council** said that before the Council considers any changes in the policy, they need to verify CPI data to check whether "some vague trends will be more visible" which was indicated by the November NBP's projections. In his opinion, the inflation may temporarily exceed 3.5% y/y, however only continuing overrun of the target would result in interest rate going up. This is how we understand the current MPC's approach and it leads to a conclusion that interest rates may be raised in late 2019 at the earliest. During the recent MPC's press conference, Sura said that we should wait through the uncertain energy price hikes until a 2019 and have a closer look at inflation trends not earlier than in the March projections (as they will cover 2021).

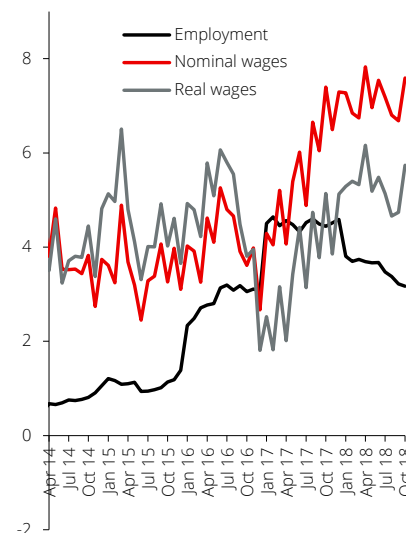
**EURUSD** continued to rise (albeit less than on Friday) in reaction to new fears about US-China trade relations and surprisingly weak US real estate data. As a consequence, the exchange rate went from 1.141 to 1.145. The rebound observed since the second decade of November is the largest upside move in the downward wave lasting since mid-September. This may be a clue for investors that the balance of power is changing on this market and the euro could be recovering in the following weeks. Today we expect EURUSD to rise some more on poor sentiment in equity trade and possible further negative readings from the US real estate market.

**EURPLN** rose on Monday for the second session in a row amid perturbations in the domestic banking sector and no clarity about how the Brexit case might end. As a result, the exchange rate bounced from 4.315 to 4.335. EURPLN approached quickly the upper end of the consolidation range (4.34) in which it moves since August. We expect a lower scale of changes from now. The mood on stock exchanges was somewhat poor at the today's opening, and we could see today's release of Polish industrial output disappointing the market so EURPLN might stay elevated. The upside potential may be limited by further rise of EURUSD.

**Domestic bonds** prices rose on Monday after the last week's sell-off. The better-than-expected data on wages (and employment coming as expected) did not prevent bonds from strengthening. The decline of Polish yields was in line with the move on the core markets. As a result the domestic yield curve dropped by 3-5bp. Today we expect the decline of yields to continue, but at a smaller scale than yesterday.

**Industrial output for October** may surprise negatively in our view, confirming that the strong flash 3Q GDP print was a swan song and the growth path has made a turn to the downside. We think production growth was at c6% y/y.

Employment and wages in corporate sector, % y/y



Source: GUS, Santander Bank Polska

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## FX market

### Today's opening

EURPLN	4.3296	CZKPLN	0.1663
USDPLN	3.7787	HUFPLN*	1.3480
EURUSD	1.1458	RUBPLN	0.0576
CHFPLN	3.8074	NOKPLN	0.4464
GBPPLN	4.8615	DKKPLN	0.5801
USDCNY	6.9426	SEKPLN	0.4196

\*for 100HUF

### Last session in the FX market 19/11/2018

	min	max	open	close	fixing
EURPLN	4.298	4.335	4.320	4.334	4.3242
USDPLN	3.765	3.794	3.787	3.783	3.784
EURUSD	1.139	1.146	1.141	1.146	-

## Interest rate market 19/11/2018

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

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1020 (2L)	1.58	-3	26 paź 18	OK0720	1.456
DS1023 (5L)	2.47	-4	26 paź 18	PS0424	2.604
WS0428 (10L)	3.23	-5	26 paź 18	WS0428	3.179

### IRS on the interbank market\*\*

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.79	0	2.87	-3	-0.24	0
2L	1.98	0	2.97	-4	-0.13	0
3L	2.19	-1	2.99	-4	0.02	0
4L	2.35	-1	3.00	-4	0.18	0
5L	2.49	-1	3.01	-4	0.32	0
8L	2.77	-1	3.07	-3	0.72	0
10L	2.90	-2	3.12	-3	0.93	-1

### WIBOR rates

Term	%	Change (bps)
O/N	1.56	-1
T/N	1.56	-2
SW	1.56	0
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	1.79	0
9x12	1.86	0
3x9	1.82	0
6x12	1.89	0

### Measures of fiscal risk

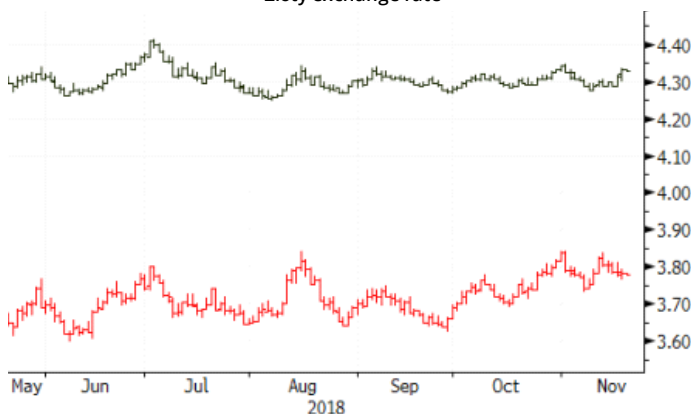
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.86	-5
France	25	1	0.40	-1
Hungary	116	1	3.16	0
Spain	65	4	1.27	-1
Italy	221	8	3.22	0
Portugal	64	0	1.61	0
Ireland	25	0	0.64	0
Germany	11	0	-	-

\* 10Y treasury bonds over 10Y Bunds

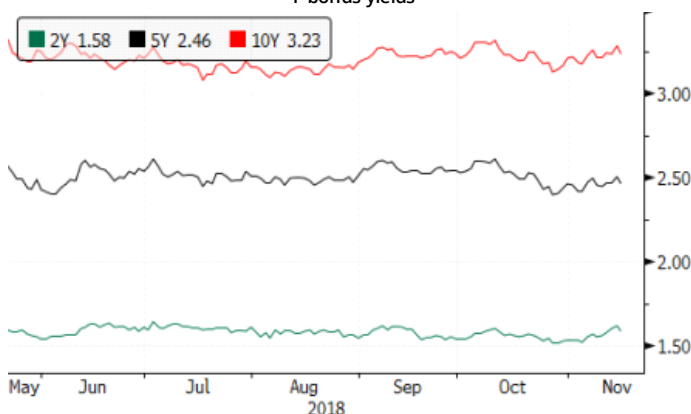
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

## Zloty exchange rate



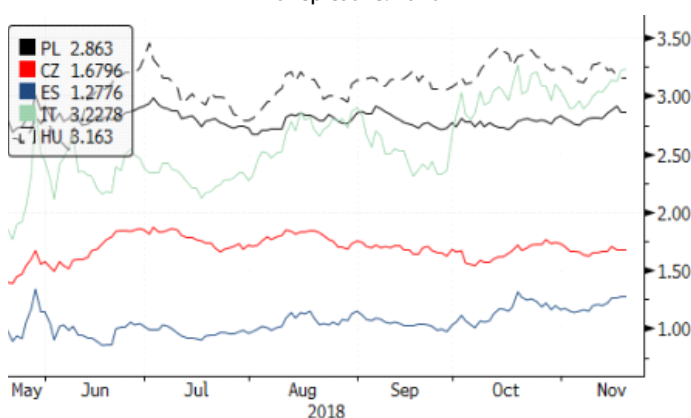
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST
				MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (16 November)							
11:00	EZ	HICP	Oct	% y/y	2.2	-	2.2
15:15	US	Industrial Production	Oct	% m/m	0.2	-	0.1
MONDAY (19 November)							
10:00	PL	Employment in corporate sector	Oct	% y/y	3.2	3.2	3.2
10:00	PL	Average Gross Wages	Oct	% y/y	6.5	6.9	7.6
TUESDAY (20 November)							
10:00	PL	Sold Industrial Output	Oct	% y/y	6.6	6.0	2.8
10:00	PL	Construction Output	Oct	% y/y	21.0	25	16.4
10:00	PL	PPI	Oct	% y/y	3.0	3.0	2.9
14:00	HU	Central Bank Rate Decision		%	0.9	-	0.9
14:30	US	Housing Starts	Oct	% m/m	1.8	-	-5.3
WEDNESDAY (21 November)							
14:30	US	Durable Goods Orders	Oct	% m/m	-1.95	-	0.7
14:30	US	Initial Jobless Claims	week	k	213	-	216
16:00	US	Michigan index	Nov	pts	98.3	-	98.3
16:00	US	Existing Home Sales	Oct	% m/m	0.97	-	-3.38
THURSDAY (22 November)							
10:00	PL	Retail Sales Real	Oct	% y/y	5.6	5.4	3.6
FRIDAY (23 November)							
08:00	DE	GDP WDA	3Q	% y/y	1.1	-	1.1
09:30	DE	Germany Manufacturing PMI	Nov	pts	52.0	-	52.2
09:30	DE	Markit Germany Services PMI	Nov	pts	54.4	-	54.7
10:00	EZ	Eurozone Manufacturing PMI	Nov	pts	51.7	-	52.0
10:00	EZ	Eurozone Services PMI	Nov	pts	53.5	-	53.7
14:00	PL	Money Supply M3	Oct	% y/y	8.0	7.95	7.9

Source: Santander Bank Polska, Bloomberg, Parkiet

\* in case of the revision the data is updated

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