

27 November 2018

Eyeopener

Rise of unemployment

Ukraine-Russia tensions limit CEE fx upside potential
 Złoty stable vs. the euro, EURUSD slightly lower
 Yields in Poland and on core markets somewhat higher
 Today Polish Statistical Bulletin, US consumer sentiment, more central banks speeches

Global market sentiment was pretty positive at the beginning of the new week, thanks to a rebound of the tech stocks (that suffered before the weekend), successful EU summit and signals from Italy that deficit for 2019 could be set lower. German Ifo index disappointed but that did not initiate any meaningful euro depreciation after the last week's poor PMIs. Core bond yields were on the rise amid lower demand for risky assets. ECB's Mario Draghi said yesterday that the euro zone economy has decelerated somewhat but not enough to change the central bank's plan to limit the monetary stimulus. Donald Trump said that next tariffs on China are planned but this comment did not spur any noticeable reaction just a few days before his meeting with Chinese president at the G20 summit.

Labor force survey data for 3Q showed the unemployment rate at 3.8% and so a streak of nine consecutive quarters with declining unemployment rates (non-seasonally-adjusted) has been terminated. A rise of the unemployment rate in 3Q is generally an unusual phenomenon, and in the last 20 years it occurred only in 1999 and 2009. However, this does not mean that we should view it as an unwelcome feature. It seems that the strength of the economy and the strong position of employees and candidates in the labour market are pulling people, that previously preferred to stay economically inactive, into the market. This should ease wage pressures and help maintain sound economic performance. In 3Q18, the participation rate rose to 56.8% (up 0.3pp q/q and 0.1pp y/y), and the improvement was greater among women than men and among the pre-retirement age group. The previous three readings of the participation rate were lower in y/y terms and were characterized by a stable level of inactive workers. This time the number of inactive workers decreased by 0.8% y/y (112k), while the number of unemployed was down 19.1% y/y (156k). The number of employed workers went up by 0.6% y/y (107k), slightly faster than in the previous three quarters. The number of economically active rose 97k q/q but was 49k lower than in 3Q17.

Fitch rating agency said that concession made by the Polish government in the EU conflict over the rule of law, ease some short-term tensions. However, in the medium term there is still risk of losing the EU funds as their payout could be linked to the compliance with the EU values. At the same time, the agency underlined Poland's solid macroeconomic fundamentals and economic framework that support the current rating (A-).

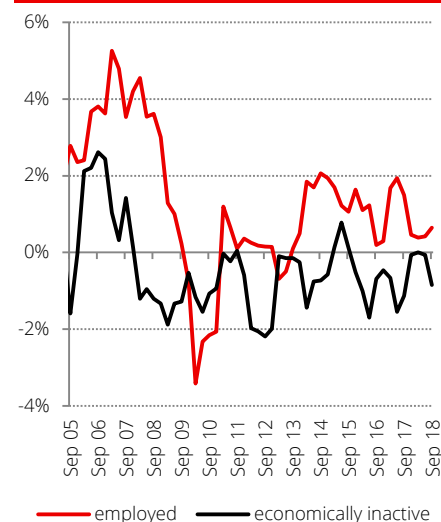
MPC's Kamil Zubelewicz said that the November NBP inflation projection, with the higher inflation path, is not conservative (as described by governor Głapiński who suggested it reflects an exaggerated impact of higher energy prices) but pretty realistic. According to Zubelewicz, CPI could leave the range of allowed fluctuations around the target even if energy prices hikes are spread over time, and the economic slowdown assumed in the projection may not generate a down pressure on inflation. He did not support the monetary policy guidelines for 2019 because in his view the current 2.5% inflation target should be lower by at least 0.5pp.

EURUSD neutralized the upside move seen during the Monday's Asian trading hours and at the end of the Polish session was back near 1.134. Important US data are on the agenda today in the afternoon and some more comments of the central bankers (from the ECB and Fed) should be expected.

Yesterday **EURPLN** stayed relative stable and hovered around 4.29. USDPLN rebounded from 3.77 to 3.785. Other CEE currencies negatively reacted to seizure of Ukrainian vessels by Russian naval forces and declaration of martial law by Kiev. The ruble recorded the biggest depreciation against USD since the first decade of November. The Hungarian forint and Czech koruna stayed also under pressure. Yesterday the zloty did not gain vs. EUR despite the excellent mood on the global markets, the crucial reason was the drop of EURUSD. It looks like today PLN may be under influence of signals from the global markets and EURUSD reaction.

Yields of Polish t-bonds inched up by c2bp, fueled by core markets bonds weakening. Today Bunds and US Treasuries may be hit by US data and central bankers remarks, and the Polish sovereign bonds market may follow.

Labour market changes, LFS data (% y/y)



Source: GUS, Santander Bank Polska

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FX market

Today's opening

EURPLN	4.2965	CZKPLN	0.1657
USDPLN	3.7972	HUFPLN*	1.3245
EURUSD	1.1315	RUBPLN	0.0569
CHFPLN	3.7980	NOKPLN	0.4416
GBPPLN	4.8431	DKKPLN	0.5758
USDCNY	6.9500	SEKPLN	0.4171

*for 100HUF

Last session in the FX market 26/11/2018

	min	max	open	close	fixing
EURPLN	4.275	4.321	4.292	4.297	4.2883
USDPLN	3.767	3.814	3.785	3.790	3.7701
EURUSD	1.133	1.138	1.134	1.134	-

Interest rate market 26/11/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1020 (2L)	1.57	0	26 paź 18	OK0720	1.456
PS0424 (5L)	2.59	16	26 paź 18	PS0424	2.604
WS0428 (10L)	3.17	0	26 paź 18	WS0428	3.179

IRS on the interbank market**

Rates on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.78	1	2.91	1	-0.24	0
2L	1.94	1	3.02	2	-0.14	0
3L	2.13	2	3.03	2	0.01	0
4L	2.28	2	3.03	2	0.16	0
5L	2.40	1	3.04	1	0.31	0
8L	2.66	0	3.09	1	0.70	1
10L	2.80	0	3.13	1	0.91	1

WIBOR rates

Term	%	Change (bps)
O/N	1.55	5
T/N	1.55	5
SW	1.55	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	1.74	0
6x9	1.78	0
9x12	1.82	0
3x9	1.81	-1
6x12	1.86	-1

Measures of fiscal risk

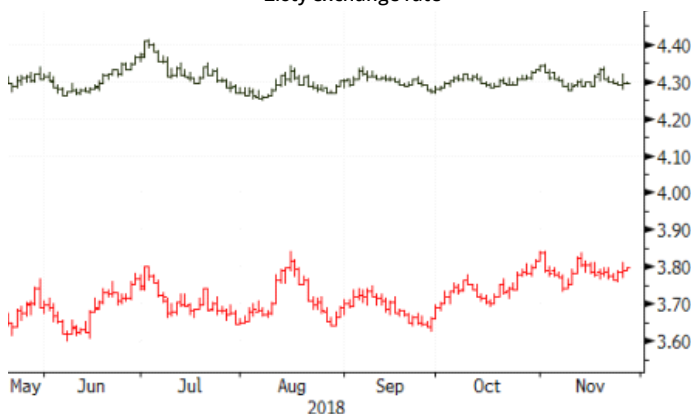
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.83	2
France	25	1	0.38	0
Hungary	116	1	2.93	2
Spain	65	4	1.21	1
Italy	221	8	2.94	3
Portugal	64	0	1.54	2
Ireland	25	0	0.64	1
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

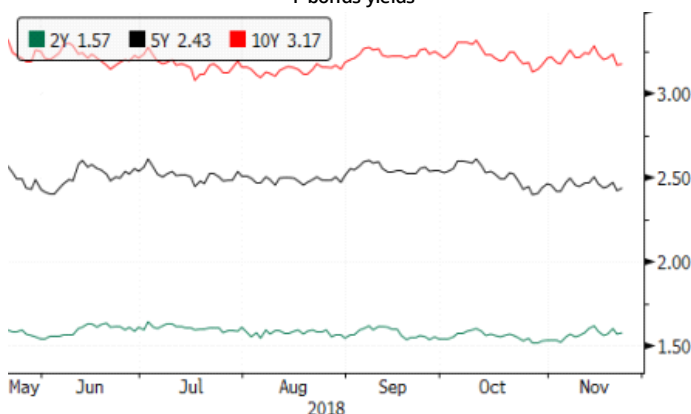
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

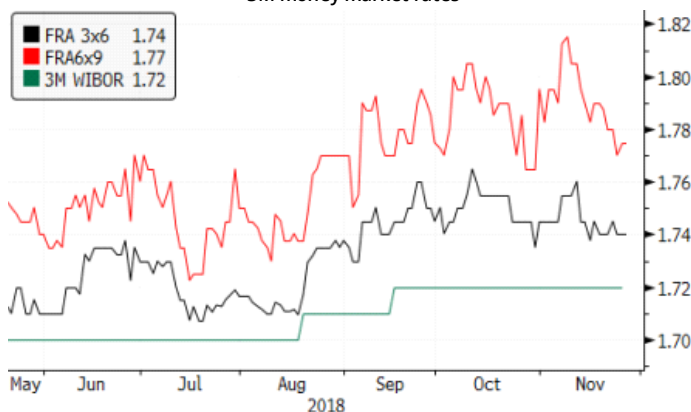
Zloty exchange rate



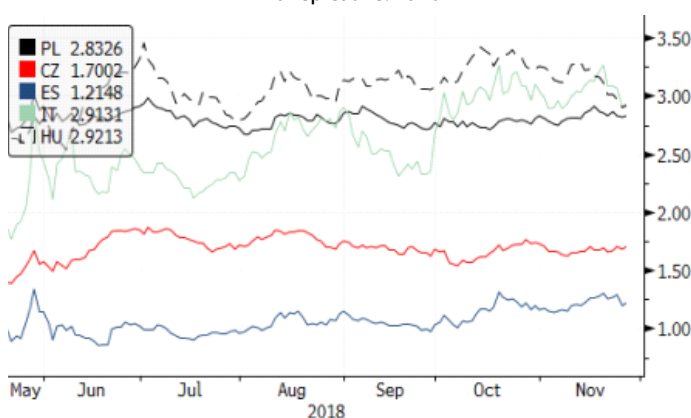
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL	LAST
CET					MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (23 November)								
08:00	DE	GDP WDA	3Q	% y/y	1.1	-	1.1	1.1
09:30	DE	Flash Germany Manufacturing PMI	Nov	pts	52.2	-	51.6	52.2
09:30	DE	Flash Markit Germany Services PMI	Nov	pts	54.5	-	53.3	54.7
10:00	EZ	Flash Eurozone Manufacturing PMI	Nov	pts	52.0	-	51.5	52.0
10:00	EZ	Flash Eurozone Services PMI	Nov	pts	53.5	-	53.1	53.7
14:00	PL	Money Supply M3	Oct	% y/y	7.8	7.9	8.3	7.9
MONDAY (26 November)								
10:00	DE	IFO Business Climate	Nov	pts	-	-	102.0	102.9
TUESDAY (27 November)								
10:00	PL	Unemployment Rate	Oct	%	-	5.7		5.7
16:00	US	Consumer Conference Board	Nov	pts	136.2	-		137.9
WEDNESDAY (28 November)								
14:30	US	GDP Annualized	3Q	% Q/Q	3.6	-		3.5
16:00	US	New Home Sales	Oct	% m/m	5.3	-		-5.5
THURSDAY (29 November)								
11:00	PL	Bond auction						
11:00	EZ	ESI	Nov	pct.	-	-		109.8
14:00	DE	HICP	Nov	% m/m	-	-		0.1
14:30	US	Initial Jobless Claims	week	k	215.0	-		216.0
14:30	US	Personal Spending	Oct	% m/m	0.4	-		0.4
14:30	US	Personal Income	Oct	% m/m	0.4	-		0.2
14:30	US	PCE Deflator SA	Oct	% m/m	0.2	-		0.1
16:00	US	Pending Home Sales	Oct	% m/m	1.0	-		0.5
20:00	US	FOMC Meeting Minutes						
FRIDAY (30 November)								
09:00	CZ	GDP SA	3Q	% y/y	-	-		2.3
10:00	PL	Flash CPI	Nov	% y/y	1.5	1.5		1.8
10:00	PL	GDP	3Q	% y/y	5.1	5.1		5.1
11:00	EZ	Flash HICP	Nov	% y/y	-	-		2.2
11:00	EZ	Unemployment Rate	Oct	%	-	-		8.1

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

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