

21 January 2019

Eyeopener

Production and wages lower than expected

Złoty stabilised despite stronger dollar
Domestic data disappointed, probably due to calendar effect
Yields increase losing momentum amid weaker data
Today, UK's "Plan B" for Brexit, lack of important data releases

Nearly all data published on Friday in Poland (production, wages, PPI) was disappointing which halted the upward trend in domestic yields. Meanwhile, the US industrial production data in December has been the most favourable for 10 months and there were rumours in media that chances for a compromise in trade talks between China and USA were growing. It was followed by gains on stock markets and rise in US bond yields. At the weekend, Donald Trump proposed a compromise to end the government shutdown, however it was criticised by the Democrats and some Republicans. In turn, Chinese data published today confirmed the GDP slowdown to 6.4% y/y in 4Q18, but also some positive surprise from production and retail sales in December.

Polish industrial output in December was weaker than expected (2.8% y/y vs 5% market expectations), but in our view it was mostly due to a calendar effect. While the nominal number of working days was the same as in December 2017, the pattern of holidays encouraged to go on leave just before year-end, which could have resulted in lower activity in manufacturing companies. Thus, we view these numbers as one-off negative deviation from the trend of moderate slowdown. Especially that export-driven sectors recorded a positive performance, confirming the message of the November strong data on foreign trade turnover: in November exports advanced by 7.1% y/y despite very weak performance of German industry and Chinese trade in that very month. December's **data on construction** (slowdown to 12.2% y/y) showed slowing growth in civil engineering and specialised works, which are closely correlated with public investment, but also here the calendar effect might have been reflected.

Wage growth surprised to the downside, showing 6.1% y/y in December versus our forecast at 7.0% y/y. However, this disappointment does not change our expectations for a strong wage growth in 2019. In our view, the major slowdown vs November (7.7% y/y) was mostly due to earlier payment of bonuses in mining. Simultaneous slowdown in employment growth (to 2.8% y/y) was in line with our forecast and we expect the jobs creation to continue decelerating this year.

On Friday, **EURUSD** continued the down move despite poor Michigan sentiment index; the dollar was boosted by robust US industrial output data and media reporting progress in the US-China trade talks. As a result, EURUSD eased to 1.136 from 1.14. Today in the morning the exchange rate is near 1.138 and we expect the market to stabilize amid lack of important data releases.

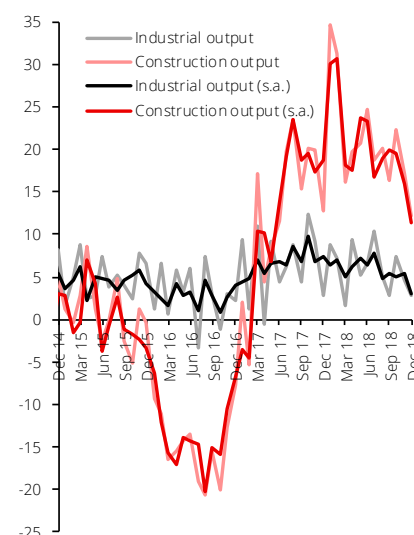
EURPLN rose in the first part of the day and returned to the opening level later on. In the morning, the zloty was pressured by the disappointing Polish data while in the afternoon benefited from rising stock indexes. Today we expect the zloty to gain slightly amid decent start of the week on the equity markets.

Friday morning on the **domestic debt market** yields tried to climb, but domestic data releases (which surprised negatively) broke this move. Moreover the increase was halted by reversal of upward trend of the German yields. As a result domestic yields and IRS rates returned to the opening levels. Today we expect the yields to increase, following the rising yields on the core markets and some rebound on the stock market.

As regards **CEE currencies**, EURHUF fell (for a third day in a row) from 319.50 to 318.70, while the market was waiting for normalisation of the monetary policy in Hungary. EURCZK moved in the opposite direction as it went up from 25.54 to 25.58 as part of profit taking, after nearly a week of significant increases. USDRUB fell slightly from 66.40 to 66.30, despite strong oil price rises. Even the information about possible upgrade of rating perspective for Russia by S&P, and release of embargo imposed on enterprises from aluminium sector, did not translate into more significant ruble strengthening.

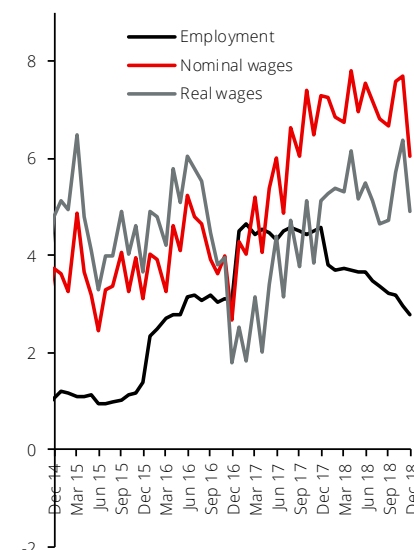
This week in Poland, there will be several new publications: retail sales, unemployment, GUS leading indicators, money supply, GUS Statistical Bulletin. We do not expect them to have a material impact on the market, but for us this will be a set of interesting clues about the economic outlook for the coming months. Retail sales growth should be quite solid (7.3% y/y in constant prices), thanks to, among others, an expected rebound in car sales before the end of the year. The sentiment indicators from the stats office, which showed a nice improvement in the final months of 2018, could now send less optimistic signals. The unemployment rate is going to rise slightly in our view, to 5.9%, more less in line with the seasonal pattern.

Output growth, % y/y



Source: GUS, NBP, Eurostat, Santander

Employment and wages in corporate sector, % y/y



Source: GUS, NBP, Eurostat, Santander

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FX market

Today's opening

EURPLN	4.2904	CZKPLN	0.1677
USDPLN	3.7681	HUFPLN*	1.3491
EURUSD	1.1386	RUBPLN	0.0568
CHFPLN	3.7870	NOKPLN	0.4406
GBPPLN	4.8500	DKKPLN	0.5747
USDCNY	6.7915	SEKPLN	0.4187

*for 100HUF

Last session in the FX market 18/01/2019

	min	max	open	close	fixing
EURPLN	4.284	4.297	4.288	4.289	4.2964
USDPLN	3.761	3.779	3.766	3.774	3.7694
EURUSD	1.135	1.141	1.139	1.136	-

Interest rate market 18/01/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1020 (2L)	1.37	1	10 sty 19	OK0521	1.547
PS0424 (5L)	2.22	2	10 sty 19	PS0424	2.251
WS0428 (10L)	2.84	3	10 sty 19	WS0428	2.821

IRS on the interbank market**

Rates on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.72	-1	2.79	2	-0.22	0
2L	1.79	0	2.77	5	-0.15	1
3L	1.87	0	2.72	6	-0.04	2
4L	1.97	0	2.71	7	0.08	2
5L	2.07	-1	2.71	7	0.21	2
8L	2.32	0	2.77	6	0.59	2
10L	2.45	0	2.82	6	0.81	2

WIBOR rates

Term	%	Change (bps)
O/N	1.54	2
T/N	1.54	0
SW	1.55	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	1.71	0
3x6	1.71	0
6x9	1.71	-1
9x12	1.71	0
3x9	1.78	-1
6x12	1.77	-1

Measures of fiscal risk

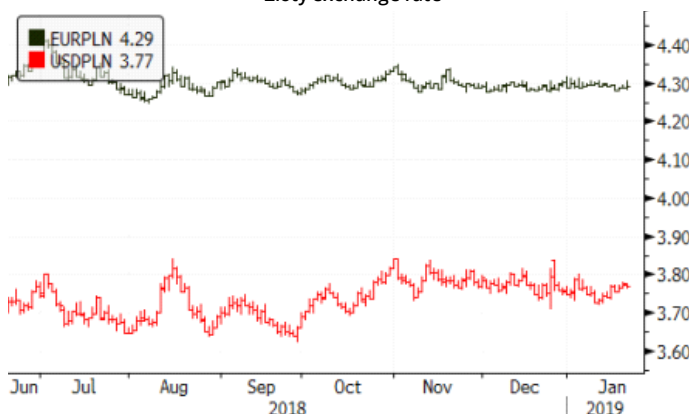
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.58 3
France	25 1	0.39 0
Hungary	116 1	2.60 1
Spain	65 4	1.09 0
Italy	221 8	2.48 1
Portugal	64 0	1.46 0
Ireland	25 0	0.74 0
Germany	11 0	- -

* 10Y treasury bonds over 10Y Bunds

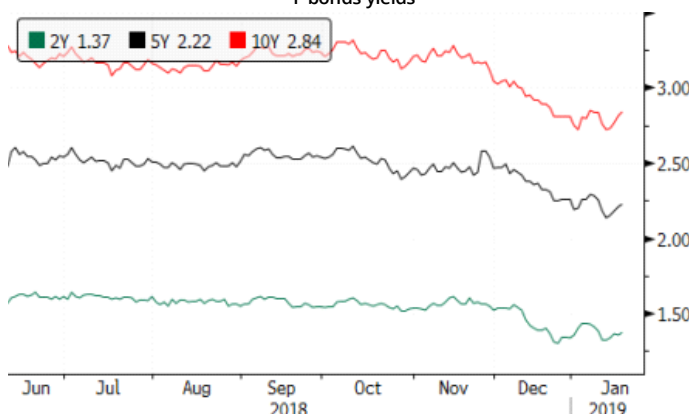
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

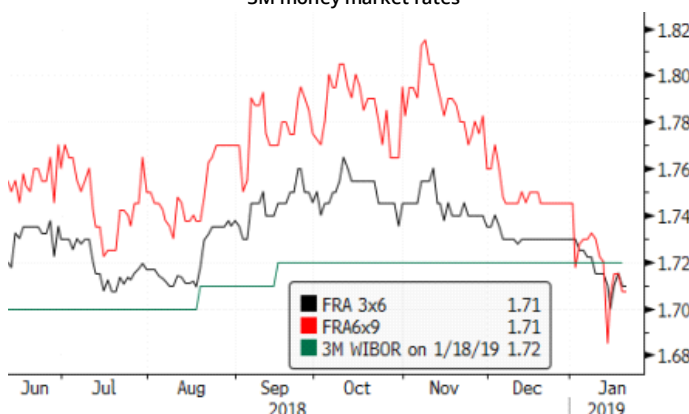
Zloty exchange rate



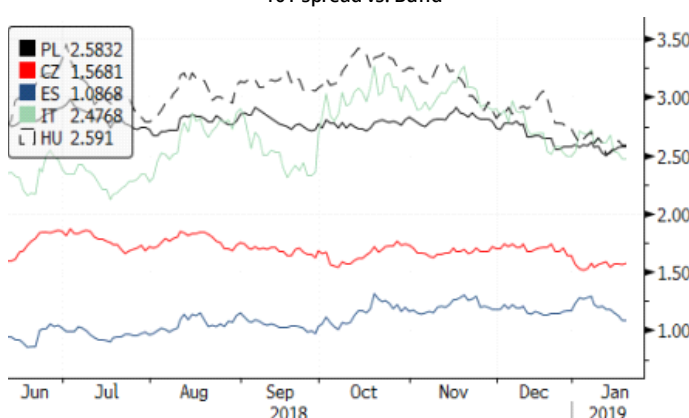
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST	
				MARKET	SANTANDER	VALUE	VALUE*	
FRIDAY (18 January)								
10:00	PL	Employment in corporate sector	Dec	% y/y	2.8	2.8	2.8	3.0
10:00	PL	Sold Industrial Output	Dec	% y/y	5.0	5.0	2.8	4.7
10:00	PL	Construction Output	Dec	% y/y	15.1	15.6	12.2	17.1
10:00	PL	PPI	Dec	% y/y	2.5	2.6	2.2	2.7
10:00	PL	Average Gross Wages	Dec	% y/y	7.3	7.0	6.1	7.7
15:15	US	Industrial Production	Dec	% m/m	0.2		0.3	0.61
16:00	US	Michigan index	Jan	pts	96.8		90.7	98.3
MONDAY (21 January)								
No important events								
TUESDAY (22 January)								
10:00	PL	Retail Sales Real	Dec	% y/y	7.4	7.3	-	6.9
11:00	DE	ZEW Survey Current Situation	Jan	pts	42.8		-	45.3
16:00	US	Existing Home Sales	Dec	% m/m	-0.94		-	1.92
WEDNESDAY (23 January)								
14:00	PL	Money Supply M3	Dec	% y/y	8.6	8.9	-	8.8
THURSDAY (24 January)								
09:30	DE	Germany Manufacturing PMI	Jan	pts	51.5		-	51.5
09:30	DE	Markit Germany Services PMI	Jan	pts	52.5		-	51.8
10:00	EZ	Eurozone Manufacturing PMI	Jan	pts	51.3		-	51.4
10:00	EZ	Eurozone Services PMI	Jan	pts	51.8		-	51.2
10:00	PL	Unemployment Rate	Dec	%	5.8	5.9	-	5.7
13:45	EZ	ECB Main Refinancing Rate	Jan-19	%	0.0		-	0.0
14:30	US	Initial Jobless Claims		k	220.0		-	216.0
FRIDAY (25 January)								
	PL	Central Budget Cumul.	Dec	mn PLN	-		-	11 060.1
10:00	DE	IFO Business Climate	Jan	pts	100.9		-	101.0
11:30	PL	Bond Auction	PLN4-8bn					

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

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