

20 February 2019

Eyeopener

Wages surprised positively, so can production

Wage and employment growth accelerated in January
Higher EURUSD fluctuations in reaction to ECB deputy president's comment
Debt gained amid growing worries about growth in Europe
Today, industrial production in Poland, FOMC minutes

On Tuesday German ZEW data were released and surprised negatively. During the day the fx and debt markets were moved by a remark from ECB's vice-governor Luis de Guindos, that a disorderly Brexit could be a shock for the weakened European economy. In response, EURUSD declined temporarily, the złoty lost vs the euro and bonds gained. In the second half of the day, hopes grew that the threat of hard Brexit are decreasing (today Theresa May starts a series of meetings in Brussels), supporting the euro and the pound.

January data from the labour market surprised to the upside, with wage growth accelerating to 7.5% y/y and employment growth of 2.9% y/y. Wage growth in constant prices reached 6.5% y/y, its highest in the last decade (since July 2008). We expect that salaries will continue to grow rapidly, as the labour shortage is deepening, the domestic labour force is shrinking, and the inflow of immigrants seems to be slowing. Employment data for January are hard to interpret, as they are distorted by the sample change, so we will have to wait for data in the coming months to see what happens with labour demand. In general, the data support expectations for strong private consumption this year, which should help the economy to weather (at least partially) the storm coming from the slowdown in Europe.

On Tuesday, **EURUSD** was hovering in a wider range. First, EURUSD fell in reaction to comment of ECB Vice-President Luis de Guindos who stated that unorderly Brexit would come as a shock for the weaker European economy. Further in the day, the euro trimmed its morning losses, returned to 1.1330 and then in the evening reached even 1.1360. Today we are expecting EURUSD to stabilise given no important data releases in the European trading hours and investors waiting for the release of FOMC minutes in the evening.

EURPLN climbed to 4.332 in late afternoon as the US stocks did not perform well at the session opening. Polish wages and employment data released in the morning surprised to the upside but did not influence the market. Today we will see Poland January industrial output data. The above-consensus wages data make output positive surprise more likely, in our view, which could support the złoty slightly.

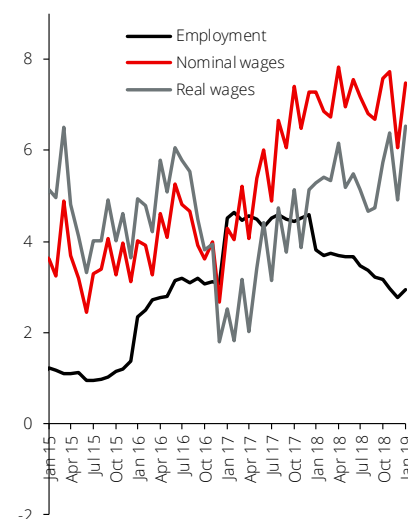
Among the **other CEE currencies**, EURHUF and EURCZK fell to 318.3 from 319.9 and to 25.86 from 25.88, respectively. The forint continued to be supported by the Monday information about a drop of the state debt. USDRUB fell to 65.9 from 66.3 amid high oil prices.

On Tuesday on the **domestic debt market** yield curve declined by 1-3bp, fuelled by core markets bond and ECB vice-president remarks. Unexpectedly strong domestic wage and employment data were ignored by the investors. Today we anticipate the yield curve to stay low. In our opinion the domestic industrial production reading (we expect reading above consensus) will not have a significant impact on the market.

At **Thursday's switch tender**, the Ministry of Finance will offer bond series OK0521, PS0424, WZ0524, WZ0528, and DS1029, and will buyback OK0419 (outstanding amount: PLN13.5bn), PS0719 (PLN19.6bn), DS1019 (PLN16.7bn) and WZ1020 (PLN20.6bn). We still expect strong demand from the banking sector (owing to overliquidity in the banking sector) and limited supply due to the high level of coverage of gross borrowing needs by the Ministry of Finance (47% of the annual plan).

Today at 10:00CET the data on industrial production and PPI will be released. After severely disappointing December readings, we expect a rebound of industrial output in January. Our forecast is 5.5% y/y, the market consensus is 4% y/y. Positive surprise with wage growth in our view increases chances for a strong reading of output.

Labour market data, corporate sector, % y/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.3324	CZKPLN	0.1687
USDPLN	3.8215	HUFPLN*	1.3646
EURUSD	1.1337	RUBPLN	0.0580
CHFPLN	3.8144	NOKPLN	0.4455
GBPPLN	4.9860	DKKPLN	0.5806
USDCNY	6.7224	SEKPLN	0.4105

*for 100HUF

Last session in the FX market 19/02/2019

	min	max	open	close	fixing
EURPLN	4.326	4.338	4.330	4.331	4.3303
USDPLN	3.814	3.846	3.828	3.817	3.8311
EURUSD	1.128	1.136	1.131	1.135	-

Interest rate market 19/02/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0421 (2L)	1.54	0	7 lut 19	OK0521	1.493
PS0424 (5L)	2.14	-2	7 lut 19	PS0424	2.158
WS0428 (10L)	2.67	-2	7 lut 19	DS1029	2.820

IRS on the interbank market**

RIS on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.71	-1	2.67	-3	-0.22	0
2L	1.75	-1	2.62	-3	-0.17	-1
3L	1.80	-2	2.57	-4	-0.08	-1
4L	1.88	-2	2.54	-3	0.02	-1
5L	1.98	-3	2.55	-3	0.12	-1
8L	2.19	-3	2.61	-3	0.45	-1
10L	2.31	-3	2.67	-3	0.65	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.58	-1
T/N	1.59	0
SW	1.55	0
2W	1.57	-1
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	1.72	0
3x6	1.71	0
6x9	1.69	0
9x12	1.69	0
3x9	1.78	0
6x12	1.76	0

Measures of fiscal risk

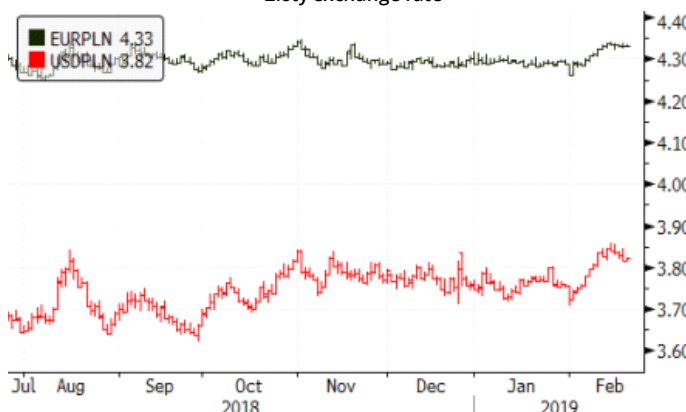
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.56 -2
France	37 0	0.43 0
Hungary		2.61 0
Spain	77 0	1.10 0
Italy	221 2	2.68 0
Portugal	89 -2	1.40 0
Ireland	41 0	0.74 -2
Germany	13 0	- -

* 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



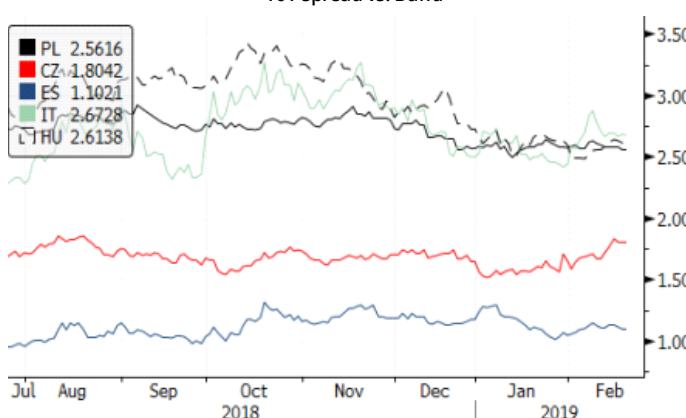
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST
				MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (15 February)							
09:00	CZ	GDP SA	4Q	% y/y	2.4	2.9	2.4
10:00	PL	CPI	Jan	% y/y	1.0	0.9	1.1
15:15	US	Industrial Production	Jan	% m/m	0.1	-0.6	0.1
16:00	US	Michigan index	Feb	pts	93.5	95.5	91.2
MONDAY (18 February)							
No important events							
TUESDAY (19 February)							
10:00	PL	Employment in corporate sector	Jan	% y/y	1.75	1.5	2.9
10:00	PL	Average Gross Wages	Jan	% y/y	6.65	6.9	7.5
11:00	DE	ZEW Survey Current Situation	Feb	pts	-	15.0	27.6
WEDNESDAY (20 February)							
10:00	PL	Sold Industrial Output	Jan	% y/y	3.8	5.5	-
10:00	PL	PPI	Jan	% y/y	2.1	1.9	-
20:00	US	FOMC Meeting Minutes	Jan/19		-	-	0.0
THURSDAY (21 February)							
08:00	DE	HICP	Jan	% m/m	0.0	-	-1.0
09:30	DE	Germany Manufacturing PMI	Feb	pts	0.0	-	49.7
09:30	DE	Markit Germany Services PMI	Feb	pts	0.0	-	53.0
10:00	EZ	Eurozone Manufacturing PMI	Feb	pts	50.5	-	50.5
10:00	EZ	Eurozone Services PMI	Feb	pts	51.4	-	51.2
10:00	PL	Construction Output	Jan	% y/y	5.5	9.0	-
10:00	PL	Retail Sales Real	Jan	% y/y	4.9	5.7	-
11:30	PL	Bond Switch Auction			-		
14:30	US	Durable Goods Orders	Dec	% m/m	1.65	-	0.7
14:30	US	Initial Jobless Claims		k	225.0	-	239.0
14:30	US	Index Philly Fed	Feb		14.5	-	17.0
16:00	US	Existing Home Sales	Jan	% m/m	0.2	-	-6.38
FRIDAY (22 February)							
	PL	Central Budget Cumul.	Jan	mn PLN	-	7000.0	-10417.8
08:00	DE	GDP WDA		% y/y	0.7	-	0.6
10:00	DE	IFO Business Climate	Feb	pts	99.0	-	99.1
11:00	EZ	HICP	Jan	% y/y	1.4	-	1.4
14:00	PL	Money Supply M3	Jan	% y/y	9.4	9.4	-

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

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