

18 July 2019

Eyeopener

Wage growth slowed by calendar

Correction of moods, US data disappointed
 Wage growth below, employment above expectations
 Zloty trimming Tuesday's gains, EURUSD slightly higher
 Bond yields a bit lower
 Today, industrial output and PPI data for June

After a rise of volatility during the Tuesday's session in reaction to the German and US data, the FX was rather calm since the beginning of the Wednesday's session. The euro stabilized vs the dollar and the pace of the pound depreciation faded. Somewhat more noticeable changes were recorded in case of the CEE currencies out of which the majority lost amid weaker market sentiment on the European equity market. Lower risk appetite supported bonds. The US housing market data released in the afternoon disappointed, particularly the number of building permits, and fitted the trend of the global mood deterioration and falling bond yields. During the today's Asian session stock indexes continued the decline amid, among others, negative surprises in corporate earnings and concerns about the global trade (tensions in Japan-South Korea relations, no agreement between the US and China on the horizon).

Wage growth in corporate sector slowed in June to 5.3% y/y, well below expectations (near 7%), while employment growth accelerated to 2.8% y/y, slightly more than predicted. We do not have enough details yet to say for sure what was the reason for wage growth deceleration, but two main suspects are: (1) calendar effect, as in June there were two working days less than in 2018, and (2) delay in bonus payments in some sectors. Both factors would imply that a slowdown was only temporary and next months should see re-acceleration of wage growth. And this is what we expect to see, as the labour shortage is quite evident, in our view, and if employment growth is still there (even faster than expected), companies would have to continue offering higher pay to attract new workers. Anyway, at this stage the data is clearly dovish and will probably reassure the central bank in its view that there is no significant risk of evolving price-wage spiral in Poland.

The slowdown in wage growth and rising inflation implies that the purchasing power of households' labour income has been eroded somehow. According to our estimate, the real wage bill growth slowed in June to 5.4% y/y, its lowest since late 2016. Nevertheless, Polish consumers remain quite optimistic, which bodes well for the private consumption outlook. In July **consumer confidence** deteriorated slightly both as regards the assessment of the current and future situation. However, both indicators are still close to record high levels. Moreover, households' expectations regarding their future financial situation even improved to the new record. Thus in our view the data do not change the overall optimistic outlook for private consumption, which will be strongly supported in the coming quarters by a boost in social transfers.

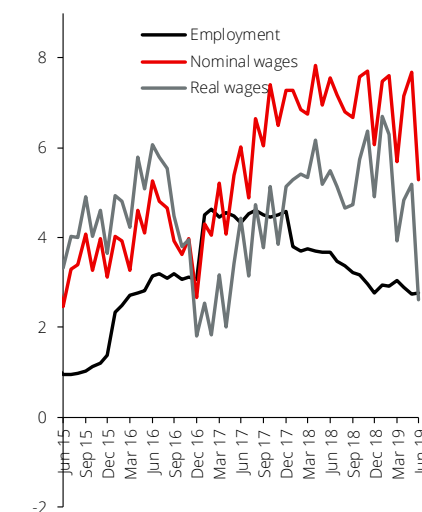
Today at 10:00CET the stat office will release Poland June industrial output data that could help to assess the scale of the slowdown that we believe Polish economy recorded in 2Q. The June industrial output might look very bad at the first glance (only +0.2% y/y, according to our forecast) but this will largely be due to the negative effect of the number of working days (-2 vs June last year). Noticeable deceleration in wages growth suggests that the lower number of working days might have had a biggest impact on the economic activity and so we see the risk that the industrial output might have even contracted in y/y terms in the final month of 2Q.

EURUSD was rising slowly after it neared 1.12 on Tuesday after the German and US data. The US real estate numbers were below-consensus which added pressure on the dollar and at the end of the day the exchange rate was close to 1.123 (today in morning is trading near 1.124).

EURPLN rebounded slightly, to 4.264 from 4.254 after the Tuesday decline, while USDPLN remained stable around 3.80. Yesterday the zloty gave away its gains against the euro recorded on the day before, which may have been due to a stop in upward tendencies on the European stock market. The forint and the koruna also lost, while the ruble benefitted from rising oil prices. In our view, the slowdown of industrial output growth in June was more pronounced than expected by the market so the morning data may prove PLN-negative.

On the **domestic interest rate market**, bond yields and IRS rates fell but the scale of changes did not exceed 2bps across the curves. The Polish debt underperformed Bunds, Treasuries and euro zone peripheral bonds. Weak data from the manufacturing sector will be supportive for lower yields today.

Wage and employment growth, %y/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.2651	CZKPLN	0.1665
USDPLN	3.7952	HUFPLN*	1.3058
EURUSD	1.1238	RUBPLN	0.0604
CHFPLN	3.8498	NOKPLN	0.4416
GBPPLN	4.7196	DKKPLN	0.5711
USDCNY	6.8788	SEKPLN	0.4053

*for 100HUF

Last session in the FX market 17/07/2019

	min	max	open	close	fixing
EURPLN	4.256	4.267	4.258	4.261	4.2644
USDPLN	3.794	3.806	3.798	3.796	3.8038
EURUSD	1.120	1.123	1.121	1.123	-

Interest rate market 17/07/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0721 (2L)	1.54	-1	21 mar 19	OK0521	1.633
PS0424 (5L)	1.89	-1	21 mar 19	PS0424	2.209
DS1029 (10L)	2.25	-1	21 mar 19	DS1029	2.877

IRS on the interbank market**

RIS on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.72	0	2.06	0	-0.41	-1
2L	1.74	-1	1.87	-2	-0.43	-1
3L	1.75	0	1.81	-3	-0.40	-2
4L	1.78	-1	1.81	-3	-0.34	-2
5L	1.83	-1	1.82	-4	-0.27	-3
8L	1.97	-2	1.93	-5	-0.02	-4
10L	2.06	-1	2.00	-5	0.14	-4

WIBOR rates

Term	%	Change (bps)
O/N	1.60	-4
T/N	1.61	-3
SW	1.60	0
2W	1.60	0
1M	1.64	0
3M	1.72	0
6M	1.79	0
9M	1.81	0
1Y	1.86	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.72	0
3x6	1.72	0
6x9	1.71	0
9x12	1.69	0
3x9	1.79	0
6x12	1.78	0

Measures of fiscal risk

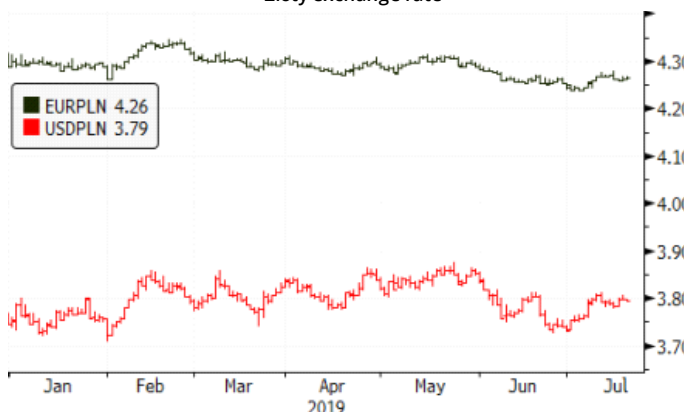
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.56 0
France	23 -1	0.25 0
Hungary		2.71 0
Spain	39 -1	0.74 1
Italy	156 2	1.89 1
Portugal	39 -1	0.81 1
Ireland	28 -1	0.44 0
Germany	11 0	- -

* 10Y treasury bonds over 10Y Bunds

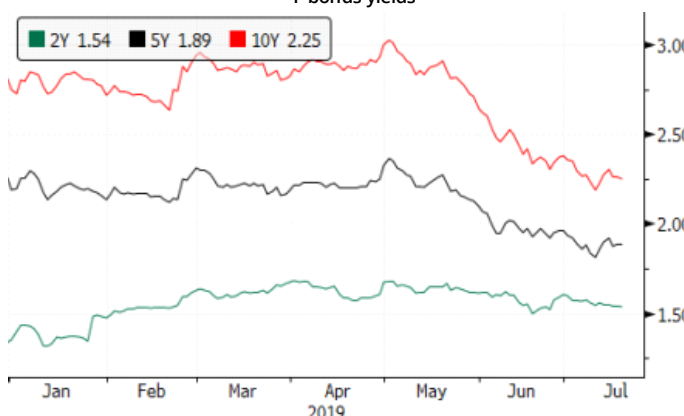
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

Zloty exchange rate



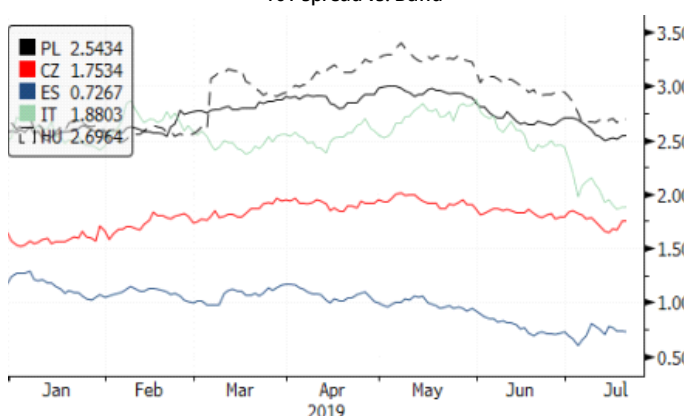
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

Economic calendar					FORECAST		ACTUAL	LAST
TIME	COUNTRY	INDICATOR	PERIOD		MARKET	SANTANDER	VALUE	VALUE*
CET								
FRIDAY (12 July)								
11:00	EZ	Industrial Production SA	May	% m/m	0.2	-	0.9	-0.4
MONDAY (15 July)								
10:00	PL	CPI	Jun	% y/y	2.6	2.6	2.6	2.6
14:00	PL	Current Account Balance	May	€mn	390	548	1 006	720
14:00	PL	Trade Balance	May	€mn	167	-238	96	279
14:00	PL	Exports	May	€mn	19 167	19 082	19 703	19 411
14:00	PL	Imports	May	€mn	19 300	19 320	19 607	19 132
TUESDAY (16 July)								
11:00	DE	ZEW Survey Current Situation	Jul	pts	5.0	-	-1.1	7.8
14:00	PL	CPI Core	Jun	% y/y	1.9	1.9**	1.9	1.7
14:30	US	Retail Sales Advance	Jun	% m/m	0.2	-	0.4	0.4
15:15	US	Industrial Production	Jun	% m/m	0.1	-	0.0	0.4
WEDNESDAY (17 July)								
10:00	PL	Employment in corporate sector	Jun	% y/y	2.6	2.6	2.8	2.7
10:00	PL	Average gross wages	Jun	% y/y	7.1	7.0	5.3	7.7
11:00	EZ	HICP	Jun	% y/y	1.2	-	1.3	1.2
14:30	US	Housing Starts	Jun	% m/m	-0.7	-	-0.9	-0.4
14:30	US	Building permits	Jun	% m/m	0.1	-	-6.1	0.7
20:00	US	Fed's Beige Book						
THURSDAY (18 July)								
10:00	PL	Sold Industrial Output	Jun	% y/y	2.0	0.2		7.7
10:00	PL	PPI	Jun	% y/y	0.7	0.7		1.4
14:30	US	Initial Jobless Claims	week	k	216	-		209
14:30	US	Index Philly Fed	Jul	pts	5.0	-		0.3
FRIDAY (19 July)								
10:00	PL	Retail Sales Real	Jun	% y/y	3.9	3.6		5.6
16:00	US	Michigan index	Jul	pts	98.3	-		98.2

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated **estimate after CPI data

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