

21 August 2019

# Eyeopener

## Markets somewhat calmer

Resignation of Italian PM without much market response  
Wages accelerated, employment growth weakened  
Zloty stable, minor moves of EURUSD  
Polish debt stable, yields declined on core markets  
Today Polish production, FOMC minutes

European stock indexes gave up part of the Monday's gains and the correction was supportive for bonds that recovered slightly after the heavy sell-off recorded at the beginning of the week. Yesterday, we saw no new important data and so the trading on the FX market was rather calm. After the debate in the Italian parliament, PM Giuseppe Conte said he will submit a resignation but the risk that he will be replaced with someone more willing to rise deficit has not been priced immediately by the market – the Italian bonds lost only for a while and the euro depreciation vs the dollar was temporary. Today and yesterday, talks will be held at the president's office if the new government could be formed without running a general election. In the White House some ideas emerged for fiscal stimulus that could ease risk of a recession (lower personal and corporate taxes, changes in the capital gains tax) but there was no clear declaration that they would be actually introduced. The market is waiting – accompanied by a streak of Donald Trump tweets calling for large rate cuts – for this evening's release of the minutes from the last FOMC meeting that brought the "hawkish rate cut". The first fixing of the new Chinese benchmark interest rate did not spur much optimism and today Asian stocks fell moderately.

In July, **wages in the Polish corporate sector** rose 7.4% y/y vs 7.1% market consensus and our 7.2% call. As we expected, the previous surprisingly low reading of 5.3% y/y was just a one-off related to working day differences and the moving holiday effect (Corpus Christi). The July acceleration confirms the wage pressure coming from the labour market shortage and the sound economic growth. We forecast that in the whole 2H19 the average wage growth could be almost 8% y/y vs 6.8% recorded in 1H. **Employment** growth eased from 2.8% y/y to 2.7% and while in June the seasonal monthly increase was relatively strong, the July print, +3.4k, is the weakest for this month since 2013, similar to poor m/m growth in April and May. The rise of inflation is decreasing the real wage bill growth – which in July was 7.2% y/y vs more than 9% at the start of the year. Still, the incoming fiscal stimulus should significantly strengthen household incomes in the coming months.

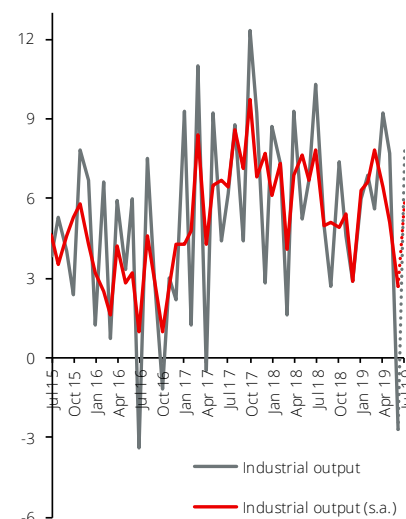
**EURUSD** declined yesterday below 1.11, but stayed close to the last week's low of 1.106. The negative impact of the news flow from Italian politics on the euro was only temporary. This could suggest that signals from the central banks will be crucial in the days to come. Today in the evening we will get to see minutes from the July FOMC meeting, when interest rates went down, but the general rhetoric was rather dovish. The message of this document is likely to fuel some rise in volatility, but in our view somewhat more persistent changes should be triggered by the speech of Fed head at the Jackson Hole conference starting at the end of the week.

Yesterday **EURPLN** traded close to 4.35 but remained above that level. USDPLN traded rangebound around 3.935. Regarding other regional currencies, HUF lost vs EUR, CZK remained stable vs EUR and RUB gained vs USD. Today there is industrial production data in Poland, our forecast is significantly above market consensus, and if we are right, the PLN might appreciate, provided favourable global risk appetite.

On the Polish **fixed income market** on Tuesday yields were lower by around 1-3bp, having increased significantly on Monday. On Tuesday the IRS curve moved lower by around 2-5bp and as a result the 10yr asset swap widened even further. Abroad we saw yields falling even more than in Poland – both 10-yr Bunds and Treasuries traded lower by 4-5bp. If the Polish industrial production surprises to the upside today, we may see some reaction on the Polish interest rate market, more so on the FRA curve than on the government bonds curve, which also depends heavily on the core markets.

**Today** at 10:00CET we will get to see July industrial output and construction. As in case of wages, we are expecting a marked improvement in annual growth rates versus June. The above-consensus print of wage growth is supporting our forecast of industrial output (8% y/y versus market expectations 6.5%).

Industrial output, %y/y



Source: GUS, Santander

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## FX market

### Today's opening

EURPLN	4.3602	CZKPLN	0.1691
USDPLN	3.9297	HUFPLN*	1.3315
EURUSD	1.1096	RUBPLN	0.0592
CHFPLN	4.0128	NOKPLN	0.4372
GBPPLN	4.7717	DKKPLN	0.5847
USDCNY	7.0565	SEKPLN	0.4057

\*for 100HUF

### Last session in the FX market 20/08/2019

	min	max	open	close	fixing
EURPLN	4.351	4.371	4.366	4.360	4.3656
USDPLN	3.925	3.945	3.936	3.928	3.9408
EURUSD	1.107	1.110	1.109	1.110	-

## Interest rate market 20/08/2019

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

Benchmark (term)	%	Change (bps)	Last auction	offer	Average yield
PS0721 (2L)	1.49	0	21 mar 19	OK0521	1.633
PS1024 (5L)	1.65	-3	21 mar 19	PS0424	2.209
DS1029 (10L)	1.84	-2	21 mar 19	DS1029	2.877

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

Risks on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.66	-1	1.77	-2	-0.51	-1
2L	1.60	-2	1.52	-3	-0.56	-1
3L	1.53	-3	1.43	-3	-0.57	-2
4L	1.50	-3	1.39	-3	-0.54	3
5L	1.49	-3	1.38	-4	-0.51	4
8L	1.50	-5	1.41	-4	-0.37	7
10L	1.54	-5	1.45	-4	-0.25	8

### WIBOR rates

Term	%	Change (bps)
O/N	1.59	1
T/N	1.58	0
SW	1.59	-1
2W	1.60	0
1M	1.64	0
3M	1.72	0
6M	1.79	0
9M	1.81	0
1Y	1.85	0

### FRA rates on the interbank market\*\*

Term	%	Change (bps)
1x4	1.72	0
3x6	1.69	-1
6x9	1.62	-3
9x12	1.55	-3
3x9	1.75	-2
6x12	1.66	-3

### Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.54	2
France	23	-1	0.28	0
Hungary			2.30	3
Spain	43	0	0.79	1
Italy	205	-6	2.04	2
Portugal	46	-1	0.81	1
Ireland	34	1	0.57	0
Germany	11	0	-	-

\* 10Y treasury bonds over 10Y Bunds

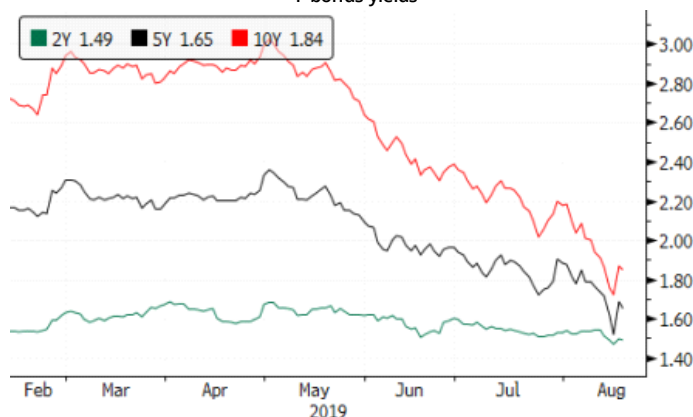
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

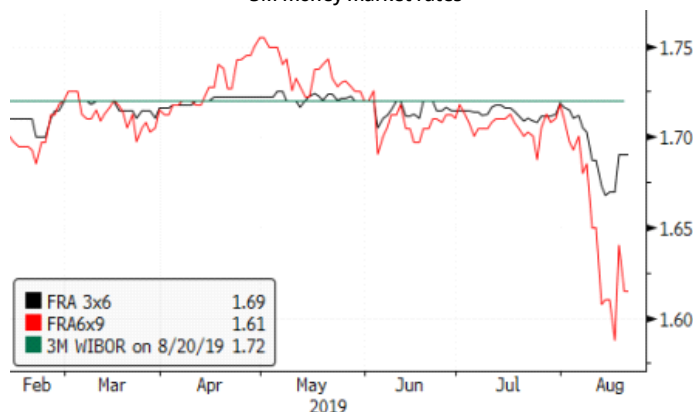
## Zloty exchange rate



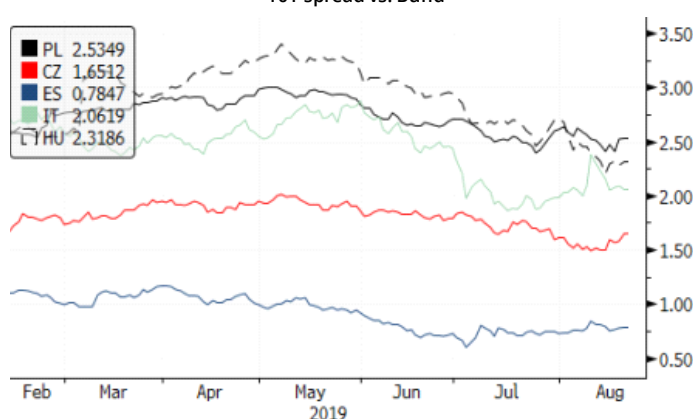
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic Calendar

TIME		COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST
CET					MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (16 August)								
14:00	PL	CPI Core	% y/y	2.1	2,1	2,2	1.9	
14:30	US	Housing Starts	% m/m	0.2	-	-4.0	-1.8	
16:00	US	Michigan index	pts	97.0	-	92,1	98.4	
MONDAY (19 August)								
11:00	EZ	HICP	Jul % y/y	1.1	-	1.0	1.3	
TUESDAY (20 August)								
10:00	PL	Employment in corporate sector	Jul % y/y	2.7	2.7	2.7	2.8	
10:00	PL	Average Gross Wages	Jul % y/y	7.1	7.2	7.4	5.3	
WEDNESDAY (21 August)								
10:00	PL	Sold Industrial Output	Jul % y/y	6.5	8.0		-2.7	
10:00	PL	Construction Output	Jul % y/y	5.3	5.3		-0.7	
10:00	PL	PPI	Jul % y/y	0.5	0.4		0.6	
16:00	US	Existing Home Sales	Jul % m/m	2.5	-		-1.7	
20:00	US	FOMC Meeting Minutes						
THURSDAY (22 August)								
09:30	DE	Flash Germany Manufacturing PMI	Aug pts	43.0	-		43.2	
09:30	DE	Flash Markit Germany Services PMI	Aug pts	54.0	-		54.5	
10:00	EZ	Flash Eurozone Manufacturing PMI	Aug pts	46.2	-		46.5	
10:00	EZ	Flash Eurozone Services PMI	Aug pts	53.0	-		53.2	
10:00	PL	Retail Sales Real	Jul % y/y	5.8	5.6		3.7	
14:30	US	Initial Jobless Claims	week k	216	-		220	
FRIDAY (23 August)								
14:00	PL	Money Supply M3	Jul % y/y	9.5	9.9	-	9.3	
16:00	US	New Home Sales	Jul % m/m	-0.2	-	-	7.0	

Source: Santander Bank Polska, Bloomberg, Parkiet

\* in the case of a revision the data is updated

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