

19 December 2019

Eyeopener

Wage growth decelerates

Employment a bit stronger, weakening wages
Zloty trimmed part of earlier gains amid lower EURUSD
Bond yields higher in Poland and abroad
Today Polish industrial production and US data

On Wednesday, the most considerable changes were recorded on the FI market with bond yields going up. Meanwhile, volatility on the equity and FX markets were insignificant. German Ifo index climbed for the second month in a row and rebounded from the August trough.

In November Polish **employment in the corporate sector** rose by 2.6% y/y, a notch higher than expected and than in October. The m/m rise of 12k is actually quite high for November and contrast with the previous monthly releases which looked poor compared to the same months of the previous years. The reading does not change our forecast of a further slowdown in employment growth in the following months. **Wages** grew by only 5.3% y/y vs both expectations and the previous result at 5.9%. Wage growth in the final months of the year tends to be quite volatile due to varying period when some industries or firms pay out their bonuses, so the November print should be treated with caution until industry-level data are released later this month. The implied real wage bill growth estimate, based on corporate sector data, was 5.3% y/y, the lowest in three years. In general, we think the annual average wage growth in the corporate sector will fall from c6.6% in 2019 to c6% in 2020 (of which around 1pp will come from the large hike of the minimum wage) and private consumption can return above 4% y/y in 4Q and the following quarters vs 3.9% recorded in 3Q19.

In December, **consumer confidence indicators** continued to decline. The current assessment index is now the lowest this year, the expectations index turned negative for the first time this year. Indexes regarding present and next year's economic situation are going down faster than the ones covering households' financial situation. The last time the joint two-month decline of economic situation expectations was as large as now was eight years ago. Unemployment worries also kept rising and are already the highest in three years. At the same time the gauge of openness to major purchases is still close to the record high from September this year.

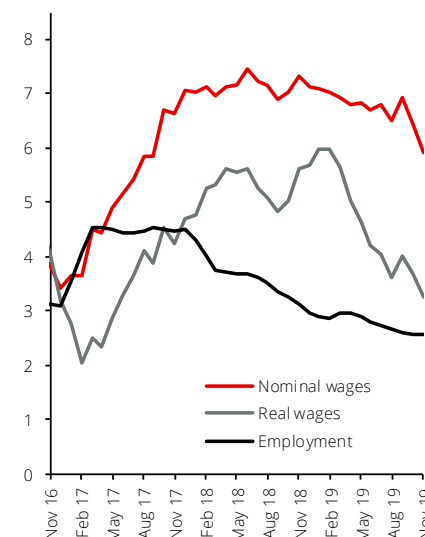
EURUSD trimmed its two-days rise and closed the session near 1.112. The exchange rate is still holding close to its local peak from mid-October and in the upside trend that started in December. Numerous US data will be released in the remaining days of this week that could trigger some market reaction.

Yesterday **EURPLN** climbed to 4.27 from 4.256 and USDPLN to 3.84 from 3.82 due to falling EURUSD and no positive impulses from the global stock markets. Yesterday PLN depreciation was the most considerable one-day move in December, which does not change the fact that EURPLN is moving in line with seasonal pattern, making the zloty gain regularly in the final month of the year. In our view, after a series of quite positive information from the last week the market moods will allow the EURPLN exchange rate to stay above 4.25 in the short term. Today we will get to see industrial output data: generally it is unlikely to look great, confirming the economic slowdown, but our forecast is well above the consensus, so we are not expecting a negative zloty reaction.

In case of the **other CEE currencies**, the forint and koruna lost vs the euro while the ruble remained stable vs the dollar. The Czech central bank left interest rates unchanged but just like we expected there was a motion for a hike. Apparently, some investors hoped that monetary policy could be tightened and this was behind the koruna depreciation (that started yet before the decision was announced). Governor of the Czech central bank Jiri Rusnok said that rates could go up next year if the euro zone economy improves.

On the **domestic interest rate market** bond yields and IRS rose by 2-3bp amid similar in scale weakening on the core debt market. As a result, Polish 10Y bond yield left the narrow trading range in which it has been holding since late November. It closed the day at c 2.03% and the next target could be 2.10%. We assume that volatility on the Polish market could be falling since the year is coming to an end.

Employment and wages in corporate sector, % y/y, 3M mov. av.



Source: GUS, Santander

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FX market

Today's opening

| | | | |
|--------|--------|---------|--------|
| EURPLN | 4.2677 | CZKPLN | 0.1675 |
| USDPLN | 3.8341 | HUFPLN* | 1.2898 |
| EURUSD | 1.1131 | RUBPLN | 0.0613 |
| CHFPLN | 3.9133 | NOKPLN | 0.4263 |
| GBPPLN | 5.0300 | DKKPLN | 0.5711 |
| USDCNY | 7.0043 | SEKPLN | 0.4078 |

*for 100HUF

Last session in the FX market 18/12/2019

| | min | max | open | close | fixing |
|--------|-------|-------|-------|-------|--------|
| EURPLN | 4.257 | 4.275 | 4.261 | 4.271 | 4.2644 |
| USDPLN | 3.819 | 3.845 | 3.821 | 3.842 | 3.8302 |
| EURUSD | 1.111 | 1.115 | 1.115 | 1.112 | - |

Interest rate market 18/12/2019

T-bonds on the interbank market**

| Benchmark (term) | % | Change (bps) | Last auction | per offer | Average yield |
|------------------|------|--------------|--------------|-----------|---------------|
| DS1021 (2L) | 1.43 | 1 | 21 mar 19 | OK0521 | 1.633 |
| PS1024 (5L) | 1.77 | 3 | 21 mar 19 | PS0424 | 2.209 |
| DS1029 (10L) | 2.03 | 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 | 1.68 | 0 | 1.79 | 2 | -0.34 | 0 |
| 2L | 1.71 | 1 | 1.71 | 3 | -0.32 | 0 |
| 3L | 1.67 | 1 | 1.70 | 3 | -0.28 | 1 |
| 4L | 1.67 | 2 | 1.71 | 4 | -0.22 | 2 |
| 5L | 1.69 | 2 | 1.74 | 4 | -0.16 | 3 |
| 8L | 1.72 | 3 | 1.82 | 5 | 0.03 | 4 |
| 10L | 1.75 | 3 | 1.88 | 5 | 0.15 | 4 |

WIBOR rates

| Term | % | Change (bps) |
|------|------|--------------|
| O/N | 1.49 | -10 |
| T/N | 1.53 | -6 |
| SW | 1.57 | -2 |
| 2W | 1.60 | 0 |
| 1M | 1.63 | 0 |
| 3M | 1.70 | 0 |
| 6M | 1.79 | 0 |
| 9M | 1.80 | 0 |
| 1Y | 1.84 | 0 |

FRA rates on the interbank market**

| Term | % | Change (bps) |
|------|------|--------------|
| 1x4 | 1.69 | 0 |
| 3x6 | 1.68 | 0 |
| 6x9 | 1.66 | 0 |
| 9x12 | 1.63 | 0 |
| 3x9 | 1.77 | 0 |
| 6x12 | 1.75 | 1 |

Measures of fiscal risk

| Measures of risk | | | | |
|------------------|------------|--------------|-------------|--------------|
| Country | CDS 5Y USD | | 10Y spread* | |
| | Level | Change (bps) | Level | Change (bps) |
| Poland | | | 2.26 | 1 |
| France | 18 | 1 | 0.30 | 0 |
| Hungary | | | 2.10 | -2 |
| Spain | 41 | 1 | 0.68 | 0 |
| Italy | 123 | -3 | 1.60 | 1 |
| Portugal | 38 | -1 | 0.62 | -1 |
| Ireland | 22 | 1 | 0.32 | 0 |
| Germany | 9 | 2 | - | - |

* 10Y treasury bonds over 10Y Bunds

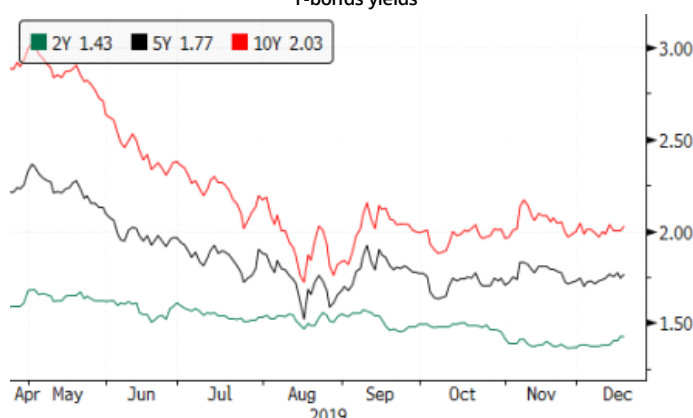
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

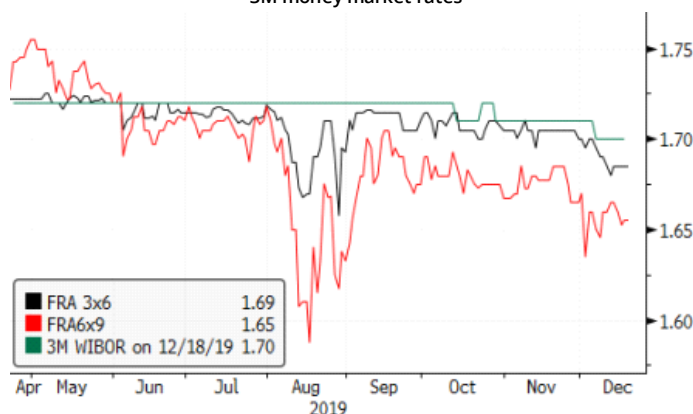
Zloty exchange rate



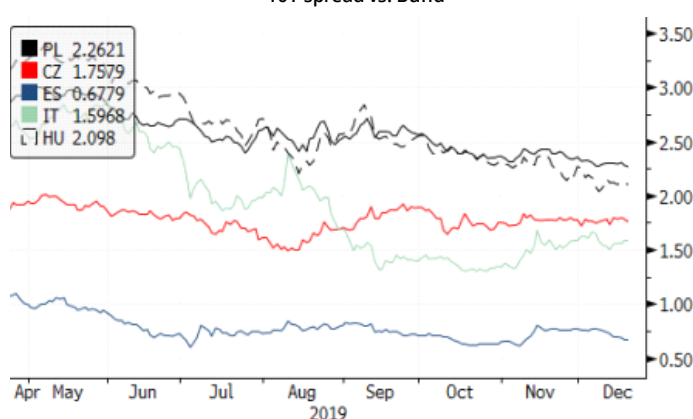
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

| TIME | COUNTRY | INDICATOR | PERIOD | FORECAST | | ACTUAL | LAST |
|--------------------------------|---------|-----------------------------------|--------|----------|-----------|--------|--------|
| | | | | MARKET | SANTANDER | | |
| CET | | | | | | VALUE | VALUE* |
| FRIDAY (13 December) | | | | | | | |
| 10:00 | PL | CPI | Nov | % y/y | - | 2.6 | 2.6 |
| 14:30 | US | Retail Sales Advance | Nov | % m/m | 0.5 | - | 0.2 |
| MONDAY (16 December) | | | | | | | |
| 09:30 | DE | Flash Germany Manufacturing PMI | Dec | pts | 44.7 | - | 43.4 |
| 09:30 | DE | Flash Markit Germany Services PMI | Dec | pts | 52.0 | - | 51.7 |
| 10:00 | EZ | Flash Eurozone Manufacturing PMI | Dec | pts | 47.2 | - | 45.9 |
| 10:00 | EZ | Flash Eurozone Services PMI | Dec | pts | 52.0 | - | 51.9 |
| 14:00 | PL | CPI Core | Nov | % y/y | 2.5 | 2.6 | 2.4 |
| 14:00 | PL | Current Account Balance | Oct | €mn | 358 | 702 | 529 |
| 14:00 | PL | Trade Balance | Oct | €mn | 556 | 585 | 440 |
| 14:00 | PL | Exports | Oct | €mn | 22 000 | 21 755 | 21 791 |
| 14:00 | PL | Imports | Oct | €mn | 21 648 | 21 170 | 21 351 |
| TUESDAY (17 December) | | | | | | | |
| 14:00 | HU | Central Bank Rate Decision | | % | 0.90 | - | 0.90 |
| 14:30 | US | Housing Starts | Nov | % m/m | 1.9 | - | 3.2 |
| 15:15 | US | Industrial Production | Nov | % m/m | 0.8 | - | 1.1 |
| WEDNESDAY (18 December) | | | | | | | |
| 10:00 | DE | IFO Business Climate | Dec | pts | 95.5 | - | 96.3 |
| 10:00 | PL | Employment in corporate sector | Nov | % y/y | 2.5 | 2.5 | 2.6 |
| 10:00 | PL | Average Gross Wages | Nov | % y/y | 5.9 | 5.9 | 5.3 |
| 11:00 | EZ | HICP | Nov | % y/y | 1.0 | - | 1.0 |
| 13:00 | CZ | Central Bank Rate Decision | | % | 2.0 | - | 2.0 |
| THURSDAY (19 December) | | | | | | | |
| 10:00 | PL | Sold Industrial Output | Nov | % y/y | 0.3 | 1.6 | 3.5 |
| 10:00 | PL | PPI | Nov | % y/y | 0.2 | 0.4 | -0.1 |
| 14:30 | US | Initial Jobless Claims | week | k | 225 | - | 252 |
| 14:30 | US | Index Philly Fed | Dec | pts | 8.0 | - | 10.4 |
| 16:00 | US | Existing Home Sales | Nov | % m/m | -0.4 | - | 1.9 |
| FRIDAY (20 December) | | | | | | | |
| 10:00 | PL | Retail Sales Real | Nov | % y/y | 3.9 | 4.3 | 4.6 |
| 14:30 | US | GDP Annualized | 3Q | % Q/Q | 2.1 | - | 2.1 |
| 16:00 | US | Michigan index | Dec | pts | 99.2 | - | 99.2 |
| 16:00 | US | Personal Spending | Nov | % m/m | 0.4 | - | 0.3 |
| 16:00 | US | Personal Income | Nov | % m/m | 0.3 | - | 0.0 |
| 16:00 | US | PCE Deflator SA | Nov | % m/m | 0.2 | - | 0.2 |

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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