

22 January 2020

Eyeopener

Construction disappointed, will industry do so?

Correction of sentiments due to situation in China
 Polish labour market still in good shape, construction disappointed
 Zloty stronger, EURUSD still close to 1.11
 Polish bonds gained thanks to worse sentiments
 Today Poland's industrial output

Tuesday brought a deterioration of the global market sentiment because of fears related to the spread of the newfound coronavirus. Another reason for less upbeat sentiment might be the IMF's downward revisions to its global growth forecasts. As a result the bonds market were well supported. During the day the risk aversion softened, but better-than-expected German data were not able to change the market direction. Decent rebound of the ZEW current assessment and expectations indices raised hopes for better flash manufacturing and services PMIs due on Friday and might give more hope regarding Europe's growth prospects. US president Trump said during World Economic Forum in Davos that trade talks with the EU are going fine, but if the agreement cannot be reached, the tariffs for cars may be imposed.

Construction output fell in December by 3.3% y/y, while we expected a less pronounced decline by 1.6% y/y and consensus forecasted a small rise by 1.0% y/y. The negative trends in construction (with exception of housing) are likely to hold for some time, even despite the very favourable weather conditions. Construction will be undermined by weak activity in the public sector and by worsening investment sentiment in the private sector. Weak readings support our forecast of further deceleration of fixed investment, and thus of GDP growth in 4Q19 (3.7% y/y versus 3.9% y/y in 3Q19).

December **wage growth** was 6.2% y/y vs 6.1% market expectations and our 5.6% forecast. Note that the 3M moving average of wage growth kept going down, despite the rebound of the monthly reading vs November. We think wage growth goes up to almost 7% y/y in January, but the 2020 average could be close to 6%. December corporate employment growth remained at 2.6% y/y, in line with expectations. More in our [Economic Comment](#).

Today we will see Poland December industrial output data and PPI. We and the market expect some improvement vs November (1.4%) but our estimate (4.8%) is below the consensus (6.1%).

Fitch analyst for Poland Arvind Ramakrishnan said yesterday that the country rating upgrade could be possible in case of a persistent improvement of the foreign debt balance. In this category Poland underperforms the other countries in its reference group. He added that the agency is less optimistic than the government as far as some budget assumptions are concerned, particularly the tax collection.

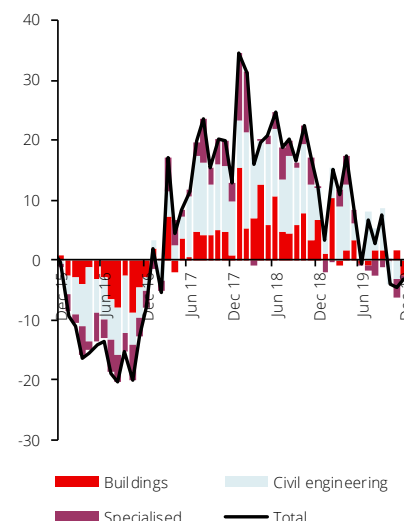
EURUSD rebounded yesterday slightly above 1.11 after the much better-than-expected data from Germany but did not manage to hold above that level for longer. Risk aversion that dominated the mood yesterday overshadowed decent data from Europe. In our view, the dollar may gain further in the short term.

EURPLN was hovering around 4.245 for the better part of the day and only in the afternoon it plummeted to 4.227. USDPLN was in the down trend for the whole day and was near 3.81 at the end of the Polish trading hours.

In case of the **other CEE currencies**, EURHUF neutralized roughly half of the Monday's strong drop, while USDRUB was on the rise for the second day in a row after it failed to break the support at 61.0 we mentioned on Monday. EURCZK fell below 25.05 intraday but was above that level at the end of the session.

On **the domestic interest rate market** IRS and bond yields fell by c5bp in response to the strengthening recorded abroad amid weaker global market mood. Polish 10Y bond yield fell slightly below 2.30% but just like in case of the other tenors and IRS, rates are still near their local peaks reached recently. The 10Y PL-DE bond yield spread narrowed somewhat yesterday but held above 250bp.

Breakdown of construction output, %/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.2299	CZKPLN	0.1685
USDPLN	3.8181	HUFPLN*	1.2651
EURUSD	1.1079	RUBPLN	0.0618
CHFPLN	3.9357	NOKPLN	0.4248
GBPPLN	4.9853	DKKPLN	0.5661
USDCNY	6.9067	SEKPLN	0.4009

*for 100HUF

Last session in the FX market 21/01/2020

	min	max	open	close	fixing
EURPLN	4.227	4.249	4.243	4.228	4.2459
USDPLN	3.809	3.832	3.828	3.812	3.8284
EURUSD	1.108	1.112	1.108	1.109	-

Interest rate market

21/01/2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	offer	Average yield
DS1021 (2L)	1.55	-1	21 mar 19	OK0521	1.633
PS1024 (5L)	1.93	-6	21 mar 19	PS0424	2.209
DS1029 (10L)	2.28	-5	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	1.75	-1	1.71	-2	-0.33	0
2L	1.86	-4	1.61	-2	-0.30	0
3L	1.90	-6	1.58	-3	-0.27	0
4L	1.94	-6	1.58	-3	-0.22	-1
5L	1.98	-7	1.60	-4	-0.17	-1
8L	2.03	-7	1.68	-4	-0.01	-2
10L	2.05	-8	1.74	-4	0.11	-3

WIBOR rates

Term	%	Change (bps)
O/N	1.53	2
T/N	1.54	3
SW	1.54	0
2W	1.58	0
1M	1.63	0
3M	1.71	0
6M	1.79	0
9M	1.80	0
1Y	1.84	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.72	0
3x6	1.73	0
6x9	1.74	-2
9x12	1.75	-4
3x9	1.83	0
6x12	1.85	-1

Measures of fiscal risk

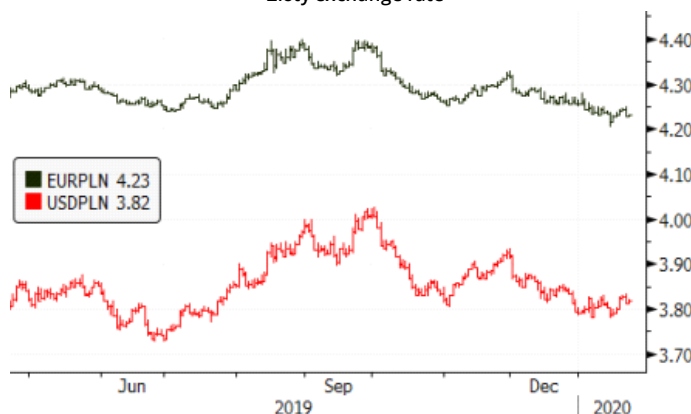
Measures of financial risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.52	-6
France	18	0	0.26	0
Hungary			2.43	-1
Spain	41	0	0.67	0
Italy	120	5	1.61	1
Portugal	37	0	0.72	1
Ireland	22	0	0.26	-4
Germany	9	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

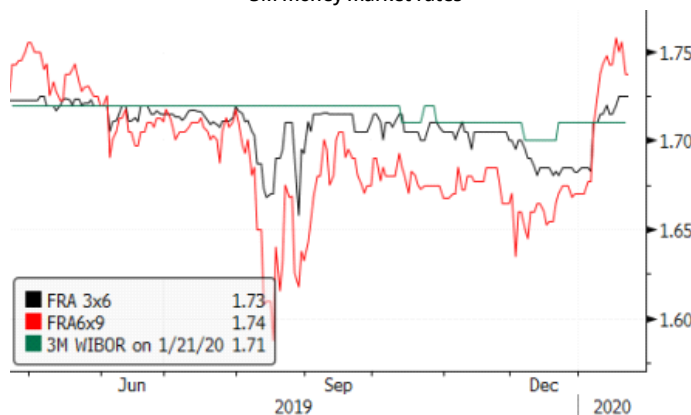
Zloty exchange rate



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 (17 January)								
11:00	EZ	HICP	Dec	% y/y	1.3	-	1.3	1.0
14:30	US	Housing Starts	Dec	% m/m	1.1	-	16.9	2.6
15:15	US	Industrial Production	Dec	% m/m	-0.2	-	-0.3	0.8
16:00	US	Michigan index	Jan	pts	99.3	-	99.1	99.3
TUESDAY (21 January)								
10:00	PL	Employment in corporate sector	Dec	% y/y	2.6	2.6	2.6	2.6
10:00	PL	Construction Output	Dec	% y/y	1.3	-1.6	-3.3	-4.7
10:00	PL	Average Gross Wages	Dec	% y/y	6.1	5.6	6.2	5.3
11:00	DE	ZEW Survey Current Situation	Jan	pts	-13.5	-	-9.5	-19.9
WEDNESDAY (22 January)								
10:00	PL	Sold Industrial Output	Dec	% y/y	6.1	4.8		1.4
10:00	PL	PPI	Dec	% y/y	0.9	1.0		-0.1
16:00	US	Existing Home Sales	Dec	% m/m	1.5	-		-1.65
THURSDAY (23 January)								
10:00	PL	Retail Sales Real	Dec	% y/y	6.6	5.7		5.2
13:45	EZ	ECB Main Refinancing Rate		%	0.0	-		0.0
14:30	US	Initial Jobless Claims	week	k	218	-		204
FRIDAY (24 January)								
09:30	DE	Germany Manufacturing PMI	Jan	pts	44.2	-		43.7
09:30	DE	Markit Germany Services PMI	Jan	pts	52.9	-		52.9
10:00	EZ	Eurozone Manufacturing PMI	Jan	pts	46.7	-		46.3
10:00	EZ	Eurozone Services PMI	Jan	pts	52.8	-		52.8
14:00	PL	Money Supply M3	Dec	% y/y	9.3	8.9		9.4

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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