

12 February 2020

Eyeopener

Wage growth decelerated

Market optimism tested on Tuesday
Wage growth slowed slightly in 4Q19
Zloty stronger, EURUSD stable, Polish debt weaker
Today, industrial production in the euro zone, inflation in India

On Tuesday, market sentiment was positive. There were no key macro releases so the market focused on information on the expansion of coronavirus (the pace seemed less than exponential, which was a good enough news to support risk appetite on the market). The yuan strengthened vs the dollar by 0.2% to 6.967 after China increased the local governments' quota for debt issuance in 2020 from CNY1000bn (1.15% GDP) to CNY1848bn (2.15% GDP). The positive sentiment extended to a vast majority of EM currencies, including the zloty, which gained 0.5% vs the dollar. Stock indexes rose in Asia, Europe and the USA, with the exception of Japan. Energy commodities prices went up a bit, Brent oil price rose by more than 2%. What is interesting, in the first half of the day gold price dropped by c0.5%, but in the second half it returned to the starting point – we take it as a signal that investments in risk assets should still be treated with caution.

Wages in the national economy rose by 6.9% y/y in 4Q19 as compared to 7.7% in 3Q19. This was the lowest reading since 1Q18, but on the other hand its deceleration was a bit smaller than in the enterprise sector (to 5.8% from 6.8% y/y). In real terms, wages rose by 3.9% y/y in 4Q19. In our view, 2020 wage growth will slow down to c.6% y/y (with minimum wage hike being responsible for c.1pp of this growth). Given the elevated inflation, the purchasing power of labour income will be slowing and this does not herald any acceleration in private consumption growth, which has been slowing for a couple of quarters already. Still, the consumer demand will remain the main driver of GDP growth this year.

According to GUS, **foreign trade balance** was close to zero in 2019 (€1.8bn). Exports in euro terms rose by 5.5% in the whole year and imports by 2.6% - which, assuming no revisions to the previous months, indicates December growth rates at 15.3% y/y and 6.7% y/y respectively. The assumption about no revisions is however most likely incorrect. Since late 2017, both exports and imports are steadily slowing and judging by the recent data from the euro zone from late 2019 we are still ahead of the turning point in this respect.

EURUSD was stable around 1.092 after a more pronounced declines on Monday. At the end of the day the rate broke through 1.09 (with a minimum at 1.0892), but quickly returned above this level. This is an important mark, last seen at the break of September and October 2019 and a break would open the way towards 1.06.

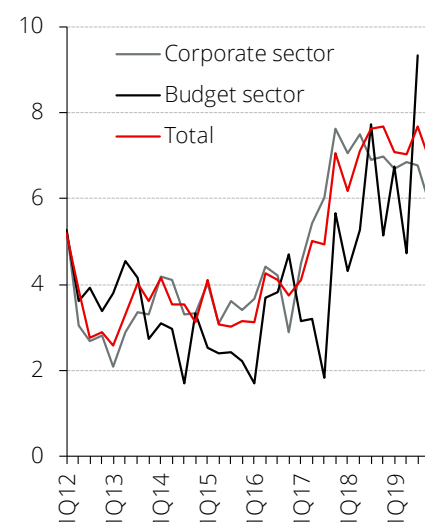
After being relatively stable on Monday, on Tuesday **EURPLN** declined by 0.4% thanks to a global market mood and tested the 4.25 level. We think zloty will be following global factors for around 2 more sessions and after that the local factors (trade data on Thursday, and CPI and GDP on Friday) will have a bigger chance of influencing the currency pair. We think it is unlikely for EURPLN to significantly decrease further before the data are published. USDPLN closed at 3.984, CHFPLN at 3.99 and GBPLN at 5.047.

The performance of **other CEE currencies** has varied. EURHUF has not changed versus a previous day and trading with a low realized volatility closed the day at 388.2. In the meantime EURCZK continued its march lower which started last week after unexpected CNB rate hike. EURCZK declined by 0.2% to slightly below 25.0. There is a significant technical level at 24.87 which might slow the EURCZK declines in the near future. Russian ruble being strongly correlated to oil prices (which were rising on Tuesday) had one of the best days in recent history – USDRUB declined by 1.15% to 63.45.

On the **domestic interest rate market** yields were on the rise on Tuesday – the bond curve shifted 3bp up and in case of the IRS the front end moved 2bp up and long end by 4bp (2-10 spread rose 2bp to 12bp). The Bund and UST curves did not change much (the latter only 1bp up). Thus, the 10Y PL-DE spread widened by 3bp to 249bp.

Today the data releases calendar is still fairly light. We will only see euro zone industrial output data, while in Asia investors will be waiting for India inflation where the market consensus is quite high (7.4% y/y) given the recent rally of the vegetable prices.

Average wage growth, % y/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.2542	CZKPLN	0.1706
USDPLN	3.9009	HUFPLN*	1.2561
EURUSD	1.0906	RUBPLN	0.0619
CHFPLN	3.9955	NOKPLN	0.4222
GBPPLN	5.0536	DKKPLN	0.5693
USDCNY	6.9664	SEKPLN	0.4048

*for 100HUF

Last session in the FX market 11/02/2020

	min	max	open	close	fixing
EURPLN	4.249	4.272	4.272	4.257	4.2609
USDPLN	3.891	3.915	3.915	3.898	3.9041
EURUSD	1.089	1.093	1.091	1.092	-

Interest rate market 11/02/2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	offer	Average yield
PS0422 (2L)	1.52	0	21 mar 19	OK0521	1.633
PS1024 (5L)	1.78	4	21 mar 19	PS0424	2.209
DS1029 (10L)	2.11	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	1.71	1	1.58	3	-0.37	-1
2L	1.76	3	1.45	4	-0.37	0
3L	1.77	4	1.41	4	-0.35	0
4L	1.78	3	1.40	4	-0.32	1
5L	1.80	4	1.41	4	-0.28	1
8L	1.86	6	1.48	4	-0.14	2
10L	1.88	5	1.54	4	-0.03	2

WIBOR rates

Term	%	Change (bps)
O/N	1.50	-1
T/N	1.52	0
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	1.71	0
3x6	1.70	0
6x9	1.69	0
9x12	1.67	2
3x9	1.78	0
6x12	1.78	1

Measures of fiscal risk

Measures of financial risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.47	2
France	17	-2	0.25	0
Hungary			2.36	0
Spain	35	-1	0.70	-1
Italy	101	-2	1.35	-2
Portugal	32	-1	0.69	-1
Ireland	21	0	0.28	1
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

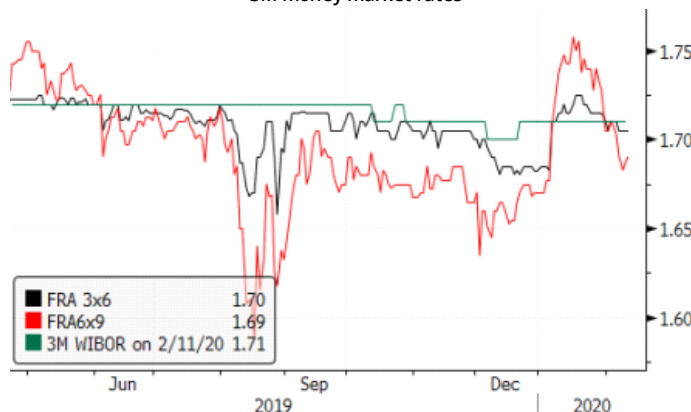
Zloty exchange rate



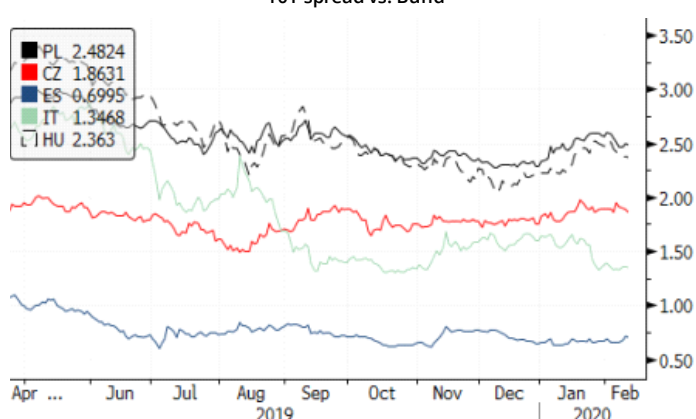
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	SANTANDER			
FRIDAY (7 February)								
08:00	DE	Exports SA	Dec	% m/m	0.5	-	0.1	-2.3
08:00	DE	Industrial Production SA	Dec	% m/m	-0.15	-	-3.5	1.1
14:30	US	Change in Nonfarm Payrolls	Jan	k	165	-	225	147
14:30	US	Unemployment Rate	Jan	%	3.5	-	3.6	3.5
MONDAY (10 February)								
No important data releases								
TUESDAY (11 February)								
No important data releases								
WEDNESDAY (12 February)								
11:00	EZ	Industrial Production SA	Dec	% m/m	-0.5	-		0.2
THURSDAY (13 February)								
08:00	DE	HICP	Jan	% m/m	-0.8	-		-0.8
09:00	HU	CPI	Jan	% y/y	4.4	-		4.0
14:00	PL	Current Account Balance	Dec	€mn	-571	-551		1 457
14:00	PL	Trade Balance	Dec	€mn	-775	-811		829
14:00	PL	Exports	Dec	€mn	16 710	16 712		20 238
14:00	PL	Imports	Dec	€mn	17 690	17 523		19 409
14:30	US	CPI	Jan	% m/m	0.2	-		0.2
14:30	US	Initial Jobless Claims	week	k	215	-		202
FRIDAY (14 February)								
08:00	DE	GDP WDA	4Q	% y/y	0.4	-		0.5
09:00	CZ	GDP SA	4Q	% y/y	2.0	-		2.5
09:00	CZ	CPI	Jan	% y/y	3.1	-		3.2
09:00	HU	GDP	4Q	% y/y	4.25	-		5.0
10:00	PL	CPI	Jan	% y/y	4.1	4.1		3.4
10:00	PL	Flash GDP	4Q	% y/y	3.0	3.0		3.9
11:00	EZ	GDP SA	4Q	% y/y	1.0	-		1.0
14:30	US	Retail Sales Advance	Jan	% m/m	0.3	-		0.3
15:15	US	Industrial Production	Jan	% m/m	-0.3	-		-0.3
16:00	US	Michigan index	Feb	pts	98.9	-		99.8

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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