

20 October 2021

Eyeopener

Weakening employment growth

Positive company results push stock markets higher
 Employment growth is fading in Poland, wage growth slightly lower
 EURPLN and EURUSD unchanged on a daily basis
 Long unseen stability despite rising US and German bond yields
 Today Polish industrial output and PPI, Eurozone HICP inflation

On Tuesday stock indices ended up in green after continuation of better than expected 3Q results from the US corporates. UST 10Y yield moved up 2bp to 1.61%, while Bund yield, normally moving less than UST, moved up 5bp to -0.11%. In the Eurozone the August construction output fell to -1.6% y/y (-1.3% m/m) from 3.3% y/y (0.1% m/m). In the US the housing starts in September slightly disappointed (-1.6% m/m vs 0.0% m/m expected) similarly as building permits (-7.7% m/m vs -2.4% expected) due to not enough workers. Recent disappointments in US macroeconomic data might result in lower 3Q21 GDP growth expectations. Fed's Tom Barkin noted that employers looking for workers are increasing wages, especially those of low skilled workers. Christopher Waller said that if it turns out that inflation could remain above 2% well into 2022, then he is likely to support a rate increase earlier than he is supporting now.

ECB economist Philip Lane said that looking at the current market pricing of interest increases in the Eurozone it is difficult to reconcile them with the current ECB forward guidance (markets are expecting too much hikes). Talking about stagflation and the maximum employment in the medium term he said that ECB is able to look through the temporarily higher inflation. He reminded that the medium-term ECB inflation forecast are below, and not above, the ECB target.

On Tuesday the **European Parliament** discussed the ruling of the Polish Constitutional Court regarding EU law primacy. EC head Ursula von der Leyen said that the ruling is against foundations of the EU and that the Commission considers using vs Poland tools such as: EU law infringement procedure (legal tool), conditionality mechanism (financial pressure), Article 7-based suspension of voting rights (political tool). Tomorrow starts the EU summit where the matter will also be discussed. The EC also named actions Poland has to do to ease the tension: scrap the Disciplinary Chamber for judges and restore the judges who lost jobs in unlawful manner.

NBP informed that on 19 October it stopped offering bill discount credit to banks, one of the tools created early in the pandemic. NBP signalled earlier that utilisation of the credit is almost none.

Average **employment in corporate sector** rose in September by 0.6% y/y (-0.1% m/m) and average wage increased 8.7% y/y (0% m/m). The data were roughly in line with market consensus, and not particularly impressive. It seems that after a very rapid recovery in the labour market seen earlier this year, the trend has clearly lost momentum. The stagnating employment could be reflecting the slowdown in manufacturing in 3Q resulting from the widespread disruptions in supply chains, shortage of key components and downtime in some sectors (e.g. automotive). The very similar reasons could be also underlying the **slowdown in wage growth** (from nearly 10% y/y in 2Q). We think that the labour market situation will keep improving in the coming quarters, after the rapid economic growth resumes, and the labour shortage will persist as the domestic labour force keeps declining. However, nearest few months could be still quite muted, as the supply chain problems will not disappear overnight.

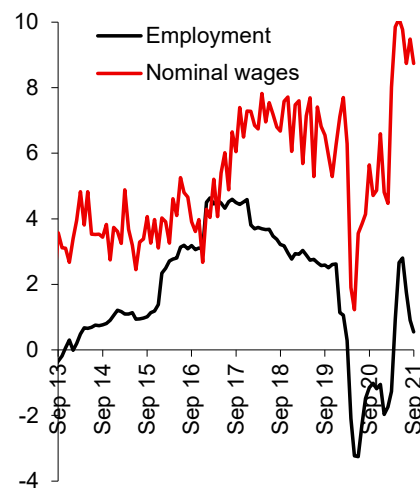
EURUSD rose a bit for the second day running and closed around 1.1640.

Yesterday **EURPLN** started the session at 4.5850 and then fell to 4.57. In the second part of the day the FX pair rebounded to 4.586. We are expecting today's data on industrial output to miss expectations, while PPI will accelerate towards 10% (German PPI released today reached 14.2% y/y versus expectations at 12.8%).

As regards **other CEE currencies**, EURHUF fell to 360.0 (from 362.0) but in the second part of the day rebounded to 362.0 again. The Hungarian central bank (MNB) hiked rates by 15bp to 1.80%, in line with expectations. MNB deputy governor Barnabás Virág said he expected inflation to climb further and supply shocks intertwined with rising wages were creating a "dangerous situation". The MNB is to fight actively with inflation and second round effects, rate hikes will continue every month even into 2022. In parallel, the MNB will continue to decrease HUF liquidity with FX swap contracts. EURCZK climbed by 0.4% to 25.5. USDRUB was oscillating around 71.0

On the domestic **interest rate market** both curves (bond and IRS) took a breather and remained quite stable. The Finance Ministry informed it will buy three series of bonds (PS0422, OK0722, WS0922) and sell five series (OK0724, PS1026, WZ1126, WZ1131, DS0432).

Corporate sector data, %/r



Source: GUS, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
 email: ekonomia@santander.pl
 website: santander.pl/en/economic-analysis
 Piotr Bielski +48 22 534 18 87
 Marcin Luzziński +48 22 534 18 85
 Wojciech Mazurkiewicz +48 22 534 18 86
 Grzegorz Ogonek +48 22 534 18 84

FX market

Today's opening			
EURPLN	4.5808	CZKPLN	0.1793
USDPLN	3.9352	HUFPLN*	1.2525
EURUSD	1.1639	RUBPLN	0.0555
CHFPLN	4.2570	NOKPLN	0.4706
GBPPLN	5.4268	DKKPLN	0.6155
USDCNY	6.3887	SEKPLN	0.4562

*for 100HUF

Last session in the FX market						19/10/2021
	min	max	open	close	fixing	
EURPLN	4.567	4.587	4.581	4.580	4.572	
USDPLN	3.917	3.944	3.932	3.939	3.921	
EURUSD	1.163	1.167	1.164	1.163	-	

Interest rate market 19/10/2021

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	1.80	-2
DS0726 (5Y)	2.29	-2
DS0432 (10Y)	2.74	-1

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.68	1	0.24	0	-0.49	1
2L	2.18	1	0.56	-2	-0.34	1
3L	2.39	1	0.85	-2	-0.22	2
4L	2.49	1	1.07	-2	-0.13	2
5L	2.56	0	1.22	-1	-0.05	2
8L	2.69	2	1.51	1	0.16	3
10L	2.76	2	1.63	4	0.27	3

WIBOR rates

Term	%	Change (bps)
O/N	0.29	-3
T/N	0.39	1
SW	0.50	0
2W	0.51	0
1M	0.58	1
3M	0.69	0
6M	0.87	1
1Y	1.16	1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.10	-1
3x6	1.59	2
6x9	2.01	0
9x12	2.43	7
3x9	1.76	0
6x12	2.22	2

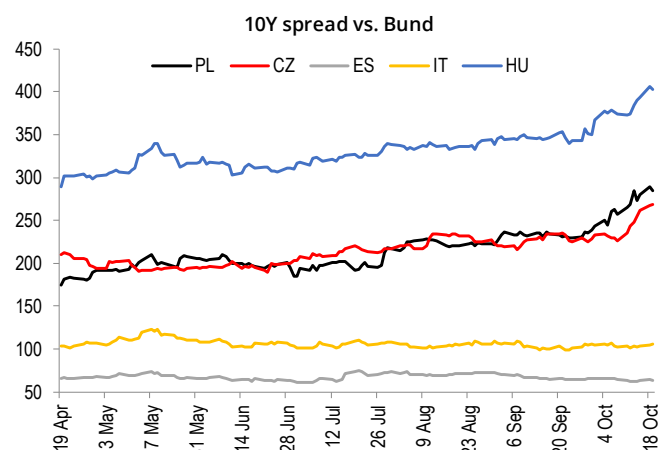
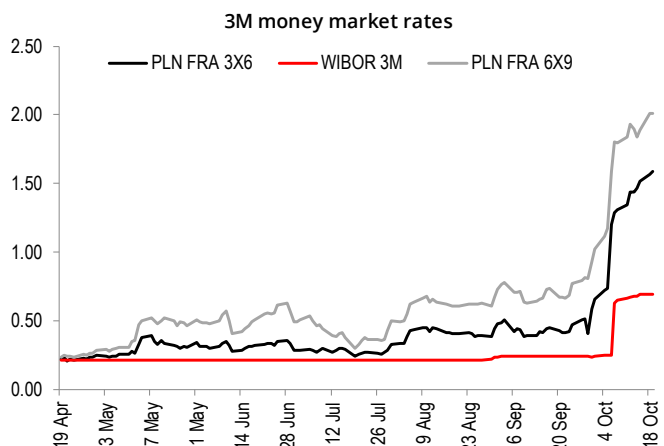
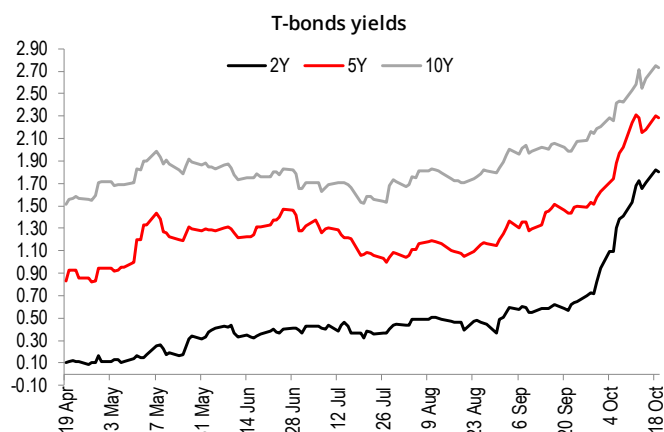
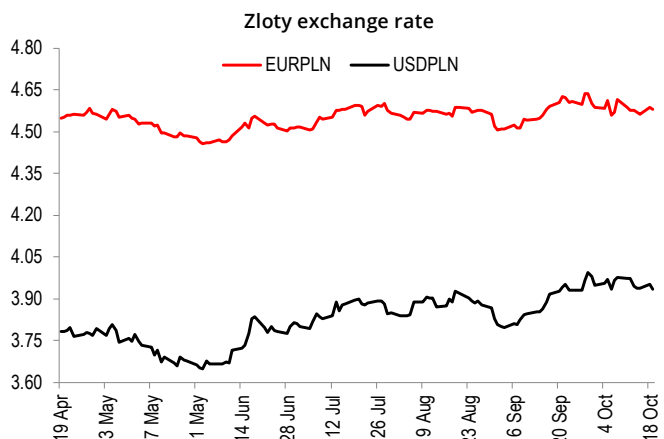
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	53	2	285	-5
France	10	0	34	0
Hungary	60	1	402	-3
Spain	30	0	64	0
Italy	43	0	105	1
Portugal	20	0	52	-1
Ireland	11	1	38	1
Germany	8	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Refinitiv, Datastream



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	SANTANDER		
FRIDAY (15 October)								
10:00	PL	CPI	Sep	% y/y	5.8		5.9	5.8
14:30	US	Retail Sales Advance	Sep	% m/m	-0.2		0.7	0.7
16:00	US	Michigan index	Oct	pts	73.0		71.4	72.8
MONDAY (18 October)								
14:00	PL	CPI Core	Sep	% y/y	4.1	4.2	4.2	3.9
15:15	US	Industrial Production	Sep	% m/m	0.1		-1.3	-0.1
TUESDAY (19 October)								
10:00	PL	Employment in corporate sector	Sep	% y/y	0.7	0.5	0.6	0.9
10:00	PL	Average Gross Wages	Sep	% y/y	8.7	9.0	8.7	9.5
14:00	HU	Central Bank Rate Decision	Oct/21	%	1.80		1.80	1.65
14:30	US	Housing Starts	Sep	% m/m	0.0		-1.6	3.9
WEDNESDAY (20 October)								
10:00	PL	Sold Industrial Output	Sep	% y/y	8.2	7.6	-	13.2
10:00	PL	PPI	Sep	% y/y	10.0	9.9	-	9.5
11:00	EZ	HICP	Sep	% y/y	3.4		-	3.4
THURSDAY (21 October)								
10:00	PL	Construction Output	Sep	% y/y	8.2	6.8	-	10.2
10:00	PL	Retail Sales Real	Sep	% y/y	5.5	6.2	-	5.4
14:30	US	Initial Jobless Claims		k	320.0		-	293.0
14:30	US	Index Philly Fed	Oct		24.0		-	30.7
16:00	US	Existing Home Sales	Sep	% m/m	2.83		-	-2.0
FRIDAY (22 October)								
09:30	DE	Germany Manufacturing PMI	Oct	pts	56.8		-	58.4
09:30	DE	Markit Germany Services PMI	Oct	pts	55.0		-	56.2
10:00	EZ	Eurozone Manufacturing PMI	Oct	pts	57.3		-	58.6
10:00	EZ	Eurozone Services PMI	Oct	pts	55.5		-	56.4
14:00	PL	Money Supply M3	Sep	% y/y	8.6	9.1	-	9.1

Source: Santander Bank Polska, Bloomberg, Parkiet
* in the case of a revision the data is updated

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Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@santander.pl, http://www.santander.pl.