

21 February 2024

Eyeopener

Strong wages, weaker output and low PPI

Today, domestic construction production, consumer sentiment, and US FOMC minutes
 Wage growth in January above expectations, industrial production growth below
 Slight strengthening of the zloty against a weaker dollar amid China's rate cut
 Market rate declines in domestic and in core markets

Today, January construction output will be released. In line with the market consensus, we expect them to show a normalisation of the output growth rate to 5.5% y/y, down from 14.0% y/y in December. Together with the construction output data, we will also receive February readings of the GUS consumer sentiment indicators and January residential construction data. In addition, in the evening, minutes of the January FOMC meeting will flow in from the US.

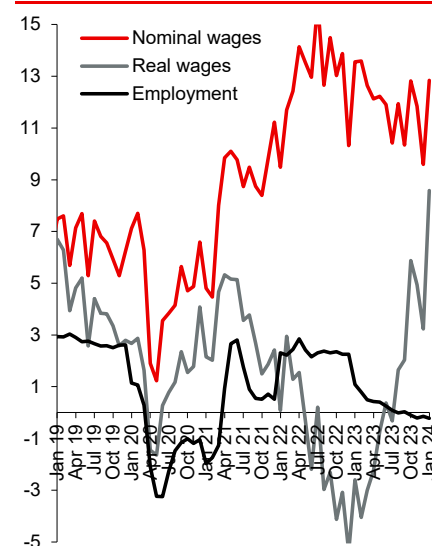
First part of January data from Polish economy showed much stronger than expected wage growth, weaker industrial output growth and deeper decline of producer prices. Wage growth rebounded to 12.8% from 9.6% (8.6% y/y in real terms – the fastest growth since 1H08) with strong growth especially in sectors with a high share of minimum wage earners. Output recovered to 1.6% r/r from -3.5% r/r in December (-0.2% m/m sa) mainly on working days effect, but the rebound was weaker than presumed. Detailed breakdown suggests data was a bit better than the headline would suggest. PPI growth went deeper into negative territory to -9% y/y mainly due to revision for December. We expect wage growth to remain in double digits throughout the year, giving clear support to consumer income and spending. We presume the output will likely recover and would need stronger growth in the euro zone for more upbeat numbers. PPI inflation will likely remain negative nearly till year end and may reduce pressure on CPI. In our view wage data will be key argument for hawkish MPC members and it supports our view for no rate cuts this year. MPC member **I. Dabrowski** wrote yesterday on Platform X that rising real wage dynamics may translate into a weakening of disinflationary processes in the face of weaker labor productivity growth. Read more in our [Economic Comment](#).

EC Vice President Vera Jourova assessed after yesterday's meeting of the General Affairs Council that the plan presented by Justice Minister Adam Bodnar to restore the rule of law in Poland has received a positive response from member states and is a step that could lead to the end of the Article 7 procedure of the EU Treaty against Poland. Jourova added, however, that much work remains to be done. We may learn more about further developments in Poland's relations with the EC on Friday, when, as EC spokesman Eric Mamer announced yesterday, EC Chairwoman Ursula von der Leyen and Belgian Prime Minister Alexander De Croo will visit Poland to meet with Prime Minister Donald Tusk.

The zloty stronger on weaker US dollar and a rate cut in China. The dollar was losing ground against the euro since the start of the session and moved to around 1.082, partly in response to the decision to ease monetary policy in China. China's central bank cut the 5-year mortgage rate by 25 bps to 3.95%, the strongest since its introduction in 2019, in a bid to support property market conditions across the economy, which also improved the outlook for the global economy and risk appetite. Yesterday's session was negative for equity markets and also for emerging market currencies. Against this backdrop, the zloty and the Czech koruna stood out positively, gaining around 0.2% against the euro. The zloty gained slightly after the publication of the local data although it is difficult to say whether this was the direct reason, especially as declines prevailed in the domestic rates market. We see potential for further gradual strengthening of the zloty.

Market rate falls. Yesterday's session saw a drop in market rates, with FRA rates falling by 8-13bp, IRS by around 9bp and bond yields by around 7-10bp. Although, in our view, the data on wages were key yesterday, the market reacted to data publications by lower rates, which is suggesting that either market participants paid more attention to the PPI and manufacturing data, or the data did not materially change the macroeconomic picture and the movement was determined by market momentum and reaction to changes in the core markets. Yesterday, German bond yields fell by 3-4bp and US yields fell by 7-3bp, more at the front end of the curve. Today core markets will focus on the Fed minutes, while in Poland the construction production data will be interesting, but the debt auction will certainly be more important. Market momentum suggests that a further drop in market rates is possible. Tomorrow's retail sales data could also be important. If the data surprises to the upside, which is possible after yesterday's strong wage numbers, there is a chance of a temporary halt to the downward trend.

Wages and employment, % y/y



Source: GUS, Santander

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FX market

Today's opening			
EURPLN	4.3147	CZKPLN	0.1697
USDPLN	3.9907	HUFPLN*	1.1030
EURUSD	1.0810	RUBPLN	0.0432
CHFPLN	4.5279	NOKPLN	0.3805
GBPPLN	5.0391	DKKPLN	0.5787
USDCNY	7.1861	SEKPLN	0.3851

*for 100HUF

Last session in the FX market					20/02/2024
	min	max	open	close	fixing
EURPLN	4.3135	4.3324	4.3233	4.3173	4.3186
USDPLN	3.9841	4.0189	4.0157	3.9913	3.9994
EURUSD	1.0765	1.0838	1.0766	1.0811	

Interest rate market

20/02/2024

T-bonds on the interbank market**		
Benchmark (term)	%	Change (bps)
DS0725 (2Y)	4.99	-5
WS0428 (5Y)	5.22	-9
DS1033 (10Y)	5.43	-9

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	5.69	-4	5.29	-2	3.57	-3
2L	5.20	-8	4.76	-4	3.15	-3
3L	4.89	-8	4.50	-3	2.92	-4
4L	4.74	-10	4.30	-8	2.81	-3
5L	4.71	-9	4.28	-3	2.75	-3
8L	4.72	-10	4.18	-3	2.71	-3
10L	4.78	-9	4.19	-1	2.73	-3

WIRON rate

Term	%	Change (bps)
WIRON	5.11	-14

WIBOR rates

Term	%	Change (bps)
O/N	5.64	16
T/N	5.77	0
SW	5.82	0
1M	5.80	-5
3M	5.87	1
6M	5.86	0
1Y	5.85	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	5.85	1
3x6	5.73	-2
6x9	5.48	-7
9x12	5.16	-10
3x9	5.69	-2
6x12	5.41	-12

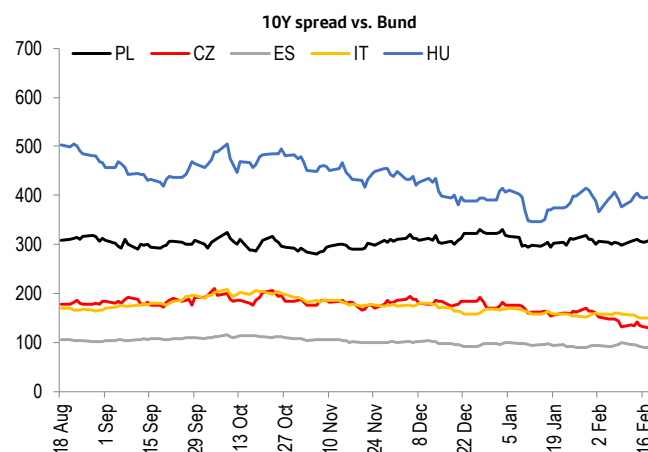
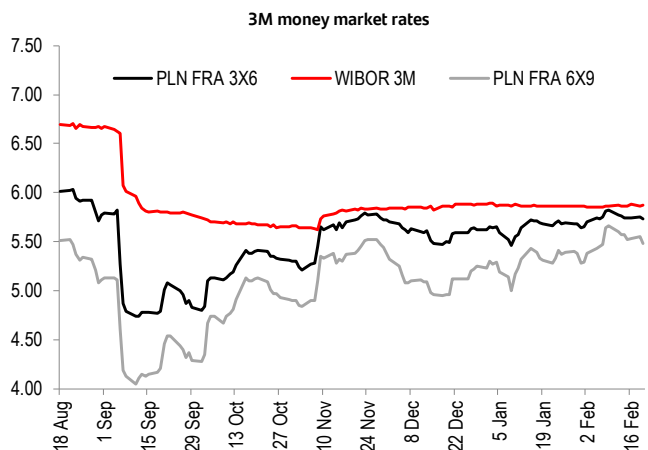
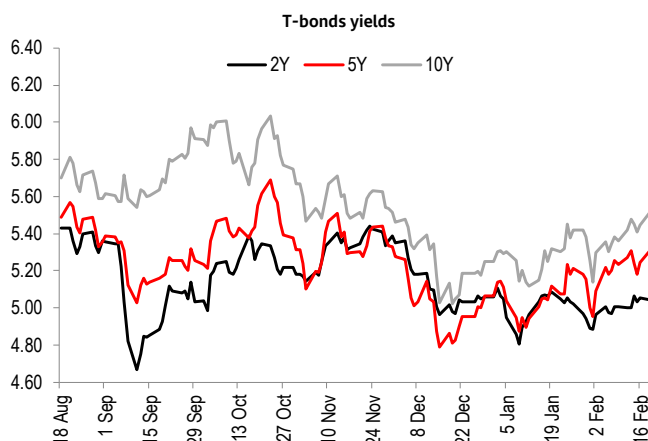
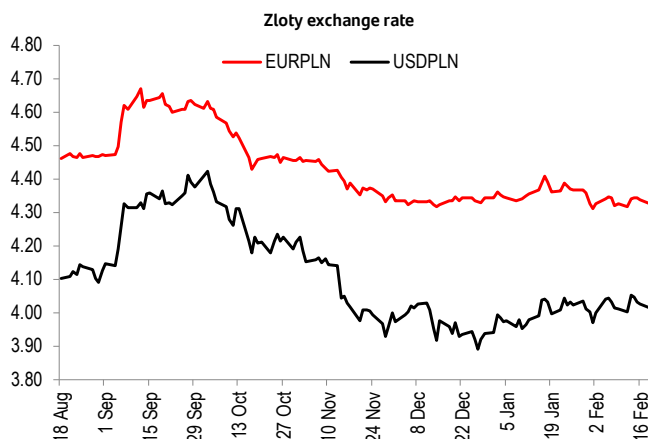
CDS rates and 10Y yield spread vs. German Bund

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	68	0	310	6
France	11	0	47	0
Hungary	125	0	399	5
Spain	41	0	90	0
Italy	29	0	149	1
Portugal	30	0	66	-1
Ireland	16	0	42	0
Germany	10	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



Calendar of events and publications

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
					MARKET	SANTANDER		
FRIDAY (16 February)								
14:30	US	Housing Starts	Jan	% m/m	1.3	-	-14.8	3.3
16:00	US	Michigan index	Feb	pts	80.0	-	79.6	79.0
MONDAY (19 February)								
US holiday								
TUESDAY (20 February)								
10:00	PL	Employment in corporate sector	Jan	% y/y	-0.2	-0.3	-0.2	-0.1
10:00	PL	Sold Industrial Output	Jan	% y/y	3.1	3.1	1.6	-3.5
10:00	PL	PPI	Jan	% y/y	-8.3	-8.6	-9.0	-6.9
10:00	PL	Average Gross Wages	Jan	% y/y	11.2	10.5	12.8	9.6
WEDNESDAY (21 February)								
10:00	PL	Construction Output	Jan	% y/y	5.5	5.5	-	14.0
20:00	US	FOMC Meeting Minutes	Jan					
THURSDAY (22 February)								
09:30	DE	Germany Manufacturing PMI	Feb	pts	46.5	-	-	45.5
09:30	DE	Markit Germany Services PMI	Feb	pts	48.5	-	-	47.7
10:00	PL	Retail Sales Real	Jan	% y/y	1.4	1.0	-	-2.3
10:00	EZ	Eurozone Manufacturing PMI	Feb	pts	47.0	-	-	46.6
10:00	EZ	Eurozone Services PMI	Feb	pts	48.7	-	-	48.4
11:00	EZ	HICP	Jan	% y/y	2.8	-	-	2.8
13:30	EZ	ECB Meeting Minutes	Jan					
14:00	PL	Money Supply M3	Jan	% y/y	8.0	7.9	-	8.5
14:30	US	Initial Jobless Claims		k	220	-	-	212
16:00	US	Existing Home Sales	Jan	% m/m	4.9	-	-	-1.1
FRIDAY (23 February)								
08:00	DE	GDP WDA	4Q	% y/y	-0.2	-	-	-0.2
10:00	DE	IFO Business Climate	Feb	pts	85.8	-	-	85.2
10:00	PL	Unemployment Rate	Jan	%	5.4	5.4	-	5.1

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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