



CENTRAL EUROPEAN WEEKLY

APRIL 24, 2007

Notice to our readers: next CE Weekly will be released on Monday, May 7th

- **Czech Republic**
Market waits for new CNB's inflation forecast
- **Slovakia**
The NBS may cut rates again
- **Poland**
Euro 2012 in exchange for... the euro in 2012?
- **Hungary**
We are sorry for the temporary interruption of the country's coverage

HIGHLIGHTS

Another week in Central Europe will be dominated by central banks. This time, it may prove to be very interesting, because the latest price and wage developments provide central bankers with reasons to act, or at least to think about rate action in near-term future.

The week began quite sharply, right on Monday in Hungary. **Although the NBH left its base rate unchanged, the Monetary Council referred for the first time to a rate cut. On the other hand, the Council sounded a bit less dovish than expected as the NBH had not been satisfied with wage and inflation expectations developments.**

Another central bank meeting will be that of the National Bank of Poland, scheduled for Wednesday. Under the assumption that the Monetary Policy Council moderates go along with the line of thinking they have conveyed to markets over the last several weeks the concept of a pre-emptive rate hike will gain majority during this week's policy meeting. Recall that expectations for a rate hike from the MPC this week were cemented by surge in a wage growth and that is ULC in March. On the other hand we think that until the trend in rising ULC is confirmed in the subsequent data moderate rate setters will refer to the March information somewhat more reservedly and may be reluctant to explicitly

suggest that more tightening (than the pre-emptive April hike)

Then, a Czech National Bank meeting will be held on Thursday. Although the CNB is not expected to change rates, the meeting will be interesting for two reasons. Firstly, the Governor's hawkish comment dramatised the meeting at the last moment. Secondly, the CNB Board will discuss a new inflation forecast. Although the forecast is likely to be neutral in terms of the inflation outlook, there is a risk of the Governor's interpretation making the forecast more hawkish. Especially, if the Governor can use the argument of swiftly improving domestic demand.

The week of central bank meetings will be unusually concluded by the National Bank of Slovakia (NBS) on Friday. Given the favourable inflation data and the koruna, which is still quite strong, the market anticipates a 25 bps cut in the official rate. Although the likelihood of this scenario has increased significantly, we believe that prudence (in terms of inflation) should eventually prevail at the central bank, and therefore the bank will postpone its repo rate cut by a month. Thus, the central bank might prefer yet more appreciation of the koruna to risking Slovakia's failure to comply with the inflation criterion required for adopting the euro (for which the NBS is actually responsible...).





CZECH REPUBLIC

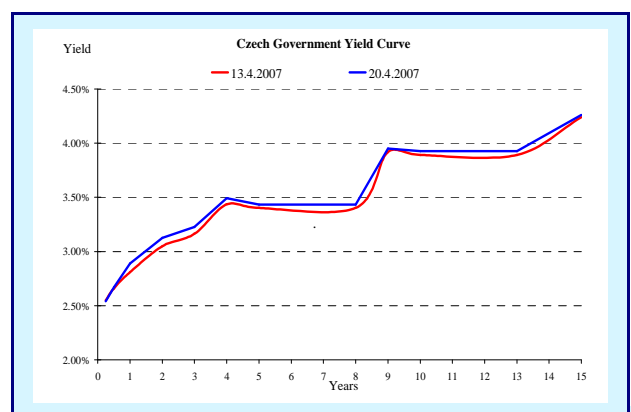
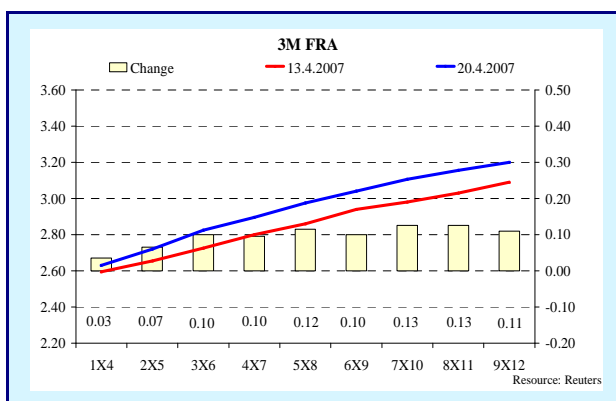
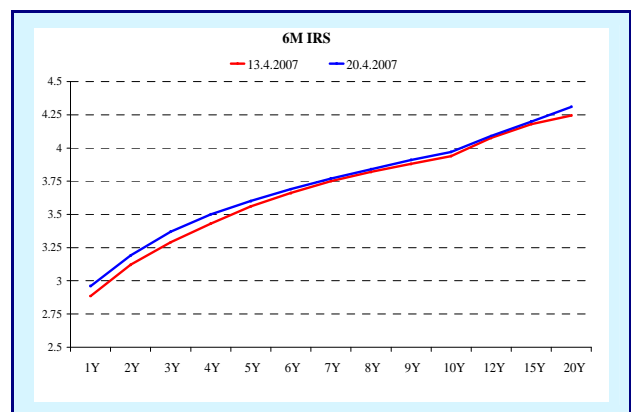
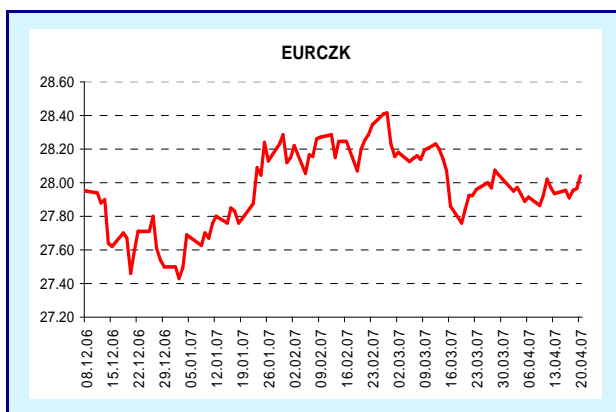
The **Czech koruna** again weakened to more than CZK 28.00 per EUR last week. Attempts at appreciation in the beginning of last week always eventually halted at the EUR/CZK 27.90/27.850 barrier. In the second half of the week, the koruna developed completely against the regional developments, and weakened in spite of the strong appreciation of the zloty. This again bears out our assumptions that korunas are heavily used in financing investments in other Central European assets. What is more, neither the surprising hawkish statement by Governor Tůma, nor the rise in rates on the money market, managed to encourage the Czech currency.

The Czech forex market should be shaped by the series of Central European central bank meetings this week. We believe that stable rates in Hungary, and the first rate hike in Poland in more than a year, will encourage the good sentiment in most Central European forex markets. The good start of the profit season in key foreign markets after the first quarter is also encouraging this mood. If Central European currencies fare well, it may be another signal for the Czech koruna to continue to depreciate. We believe that the CNB, which will discuss the new April macroeconomic forecast at its meeting, is unlikely to help the koruna very much either.

The yield curve steepened, with short-term yields falling by up to 5 bps, while long-term yields rose by approximately 2 bps. In the first half of the week, the domestic market completely mirrored Eurozone developments, where the demand for bonds encouraged a rise in prices. In addition, the 3.25%/2009 bond was successfully subscribed in Wednesday's auction. However, the market became uncertain, and the trend was reversed by Thursday's hawkish comments of the CNB Governor Tuma,

This week includes few statistical releases, and therefore Thursday's CNB Board meeting will draw increased attention. No rate change is expected at the moment, and thus the accompanying comment, and a new inflation forecast, will be more in the forefront after the Governor's statement made last week. It seems that yields will rise rather than fall afterwards, particularly now that a rate hike is also anticipated in the Eurozone.

A new 10Y bond issue will be supplied in Wednesday's auction, this time for CZK 8 bn in the 4.00%/2017 bond. According to forecasts, demand should be again healthy.



Comparative table for Czech government bonds

Title	Price 20.04.07	Yield 20.04.07	Price change (bps.) to 13.04.07	Yield change (bps.) to 13.04.07	Modif. Duration 20.04.07
GOV/ 2.3 / 26.09.08	98.86	3.13	-4	4	1.4
GOV/ 3.8 / 22.03.09	101.04	3.23	-18	9	1.8
GOV/ 2.6 / 18.10.10	96.95	3.49	-3	1	3.2
GOV/ 6.6 / 05.10.11	112.62	3.43	-7	0	3.8
GOV/ 3.7 / 16.06.13	99.74	3.75	8	-1	5.2
GOV/ 3.8 / 11.04.15	98.98	3.95	4	-1	6.7
GOV/ 7 / 26.01.16	122.01	3.93	5	-1	6.7
GOV/ 4.6 / 18.08.18	103.98	4.15	11	-1	8.5
GOV/ 3.8 / 12.09.20	94.85	4.26	13	-1	10.0
GOV/ 4.2 / 04.12.36	95.43	4.48	-6	0	16.2

EXPECTED DATA

■ Thursday, April 26

CNB Board Meeting

No Rate Change

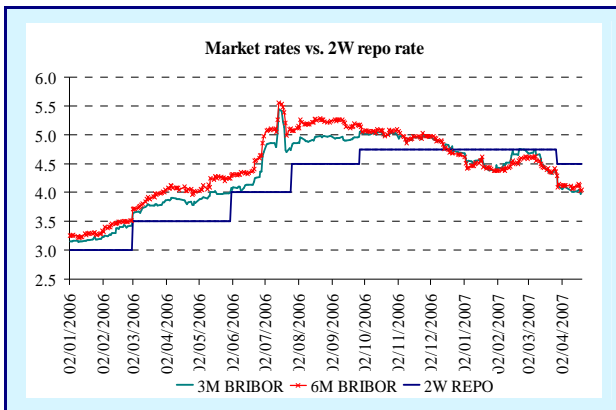
The CNB Board will discuss its inflation forecast at its forthcoming meeting. Unlike the latest (January) forecast, this forecast should be based on the new CPI basket, and thus be technically closer to reality. The moderate tone we have heard from the CNB headquarters, so far, was interrupted by the Governor last week, who spoke of increased inflation risks and a rate hike. This is not the first time that the CNB's rhetoric became anti-inflationary a short time before the bank's monetary policy meeting. Something like that occurred in September last year, when the Czech National Bank surprisingly raised rates by 25 basis points. Not only that the price infection stemming from oil soon disappeared, the increased rates even helped the Czech currency push its highs to new levels several times, over the remainder of the year. Today's situation is nearly similar. Inflation is still low (less than 2%) and

particularly generated by deregulations and excise taxes on cigarettes; however, it is almost certain that inflation will head for 3% in the second half of the year, and that it will again be cigarettes, in particular, that will push inflation up. In addition, a rise in food prices is also obvious, stemming from cost factors (higher prices of energy and fuel, etc., in agriculture) and last year's poor crop. The fluctuating fuel prices need not even be mentioned. Although the koruna is not as strong as in December, its downside effect on inflation has yet to peter out. On the other hand, rapid economic growth and the cyclical rise in consumer demand, which, however, still fails to generate visible demand-pull inflation, indicate that rates ought to be raised. Inflation is and will probably continue to be based on cost inflation in particular. Hence, we expect the CNB to raise rates in the autumn rather than now. (Given last year's experience, however, we cannot rule anything out.)



SLOVAKIA

Last week lacked major figures, and market trading reflected this. Inflation, measured by the HICP index (see the previous CEW for details), was favourable, and thus **the question of another rate cut by the National Bank of Slovakia has arisen.** The bank cut its base rate by 25 bps to 4.50% in late March. The bank was compelled to do so by the market, through the appreciation of the koruna. The low inflation rate could present an argument for another rate cut. The bank said last month that it cut rates because “it identified no new inflation risks”. We see risks particularly in wage growth and the rise in oil prices. So far, however, these risks have not proved to pose an acute danger for complying with the inflation criterion. Even so, 9.1% real wage growth in industry is a potential risk for inflation. And so are the oil prices, which rose rapidly throughout the first quarter of the year. According to another statement, made by NBS Board Member Peter Ševčovic, a problem for the bank may not arise until the average price of oil exceeds US\$75 per barrel. Therefore, we have to wait and see how the situation on the black gold market will continue to develop. This year’s inflation (HICP) has headed towards all-time lows of less than 2%, thus far.



We believe that the central bank resisted a rate cut in the first quarter of the year because of concern about failing to hit the Maastricht limit, though the likelihood of missing the target was small. Given the current EUR/SKK exchange rate, the bank may feel more relaxed. The strong koruna has done the central bank’s work in tightening the monetary conditions. Hence, the NBS is likely to prefer slow, gradual progress in approaching the ECB level, which might be 4% in early June. Ódor, another NBS Board Member, does not see a problem in inflation either. He reiterated at an economic conference this week that the inflation criterion would most likely be met, but he failed to comment on the exchange rate of the koruna. However, Finance Minister Počiatek did. He said that the koruna was “slightly overvalued”, referring to analyses from the Ministry and the central bank. This is interesting, because, at the time of the parity revaluation a month ago, the bank estimated the equilibrium at SKK 35.44 per EUR. The current exchange rate differs from the parity by 5.5% now (on the stronger

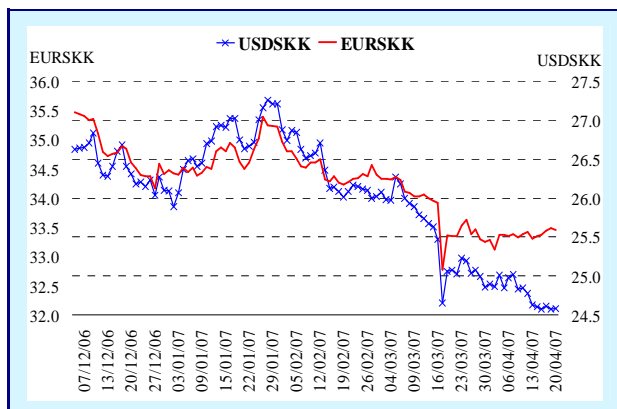
side of the range). Did the central bank therefore change its position on the koruna, only a month after that statement? Our opinion is that it did not, and Minister Počiatek expressed only the Ministry’s stance, rather than that of the central bank. The bank will also release its new quarterly forecast on Tuesday, and this increases the likelihood of an interest rate change, because the bank usually changes rates at the time of releasing new forecasts.

The preliminary public finance deficit reached 3.39% of GDP in 2006, the Slovak Statistical Office said. That was less than originally planned 4.2% and also less than the recent forecast of Finance Ministry (3.6% GDP). The estimate for 2007 is 2.94% of GDP and PM Fico also confirmed this intention of government during the speech at the university. However, he said that he felt some fatigue in the EU over further expansion of the euro zone. “We have to fight this fatigue, because it can happen that they will say enough, we are not going further, and political reasons, not economic or financial reasons, will prevent Slovakia from using the common European currency in January 2009,” prime minister Fico said during the talk with students of Law.

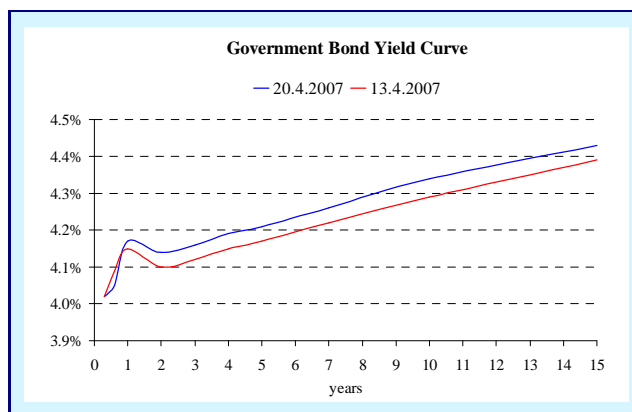
The koruna moved within the bounds of SKK 33.32-33.585 per EUR. The Slovak currency tended to depreciate, with temporary corrections, throughout the week. The market paid no heed to good news. It reacted neither to the fall in the unemployment rate to an all-time low of less than 9%, nor to the planned investments by U.S.-based Lear (USD 93 m) and PSA Peugeot (EUR 100 m). Peugeot decided to increase the amount of its investment in Slovakia because of a new vehicle model. Another piece of news was the acquisition by Germany’s Continental, for an estimated EUR 100-200 m. Continental is buying the Slovak tyre manufacturer Matador. On the other hand, the names of entities selling korunas in large volumes are appearing on the market. This is probably based on the outflow of foreign entities’ dividends. However, there is strong demand for the koruna at around SKK 33.50 per EUR, and this limits a further depreciation of the domestic currency. The key factor for the whole of this week will be Tuesday’s decision by the NBS. The market anticipates a rate cut by 25 bps. A month ago, the market reacted to such a rate cut by appreciation, because, given the strong koruna and the previous massive interventions, it speculated on a cut of up to 50 bps. The exchange rate is now more stable, and a 25 bps cut is probably also the basic scenario of the forex and money market. Thus, the koruna may not react significantly to the move. Nonetheless, Governor’s comment at the press conference, and the data from the new inflation forecast, will be important. The new forecast is likely to indicate increased chances of complying with the Maastricht inflation limit. This will be a clearly positive signal for the Slovak currency; however, dividend outflow (our expectation), and the threat of a central bank intervention,



will counteract koruna bulls. Hence, we do not believe that the currency will break through SKK 33.0 per EUR. The last two central bank interventions occurred at SKK 33.10 per EUR and SKK 32.70 per EUR. Furthermore, a repo auction is to be held on Tuesday, and the forex market sentiment will depend on the auction result.



The yield curve went down by approximately 3-5 basis points at the short end, while the long end stagnated or went up slightly, for the whole of the week. The market is awaiting Tuesday's central bank meeting. According to the latest poll conducted by Reuters, 8 of 11 responding analysts expect a 25 bps rate cut. However, the central bank's moves at its regular repo tender will be important. The bank has stressed several times that the rejection of bids in repo tenders is a temporary instrument used before the upcoming central bank meeting. If the bank cuts rates, it should resume accepting bids in repo auctions. This would in fact mean that money market rates should go up slightly. The average auction yield is currently significantly different from the central bank's official repo rate.



Indicative yields of government bonds

	Coupon	Maturity	Issue volume	Bid	Ask
SD191	5.0	5.3.2008	SKK 15.0 bn	4.00	3.72
SD203	4.8	14.4.2009	SKK 40.0 bn	4.05	3.73
SD189	4.9	5.2.2010	SKK 15.00 bn	4.05	3.70
SD174	7.5	13.3.2012	SKK 8.31 bn	n.a.	n.a.
SD188	5.0	22.1.2013	SKK 15.0 bn	4.30	4.11
SD199	4.8	2.7.2013	SKK 6.8 bn	n.a.	n.a.
SD202	4.9	11.2.2014	SKK 24.7 bn	4.27	4.15
SD204	5.3	18.5.2019	SKK 34.4 bn	4.45	4.25
SD205	0.0	5.4.2012	SKK 11.7 bn	4.10	3.95

Source: Bratislava Stock Exchange, CSOB

Interest rate fixing on the money market

% p.a.	O/N	1W	2W	1M	2M	3M	6M	9M	12M
16/04/2007	2.33/2.93	2.96/3.44	3.08/3.56	3.32/3.80	3.56/3.96	3.62/4.03	3.68/4.11	3.70/4.13	3.74/4.16
23/04/2007	2.38/3.06	3.04/3.66	3.33/3.86	3.49/3.93	3.56/3.98	3.66/4.08	3.68/4.11	3.71/4.14	3.74/4.17

EXPECTED DATA

■ **Tuesday, April 24**

NBS Board Meeting no change as base line scenario

The NBS is expected to cut rates by 25 bps at its Tuesday meeting, with 8 of 11 responding analysts predicting this. We are one of the 3 who believe that rates will remain unchanged; although, we must admit that there is a great chance of a rate cut, which is favoured by good inflation data. On the other hand, the bank resisted a rate cut

throughout the first quarter of the year, and did not give in until it was pressed by the koruna. Now the exchange rate is fairly stable (or slightly depreciating). Our scenario envisages a rate cut a month later; however, given the above factors, we would not even be surprised if rates were cut a month earlier.

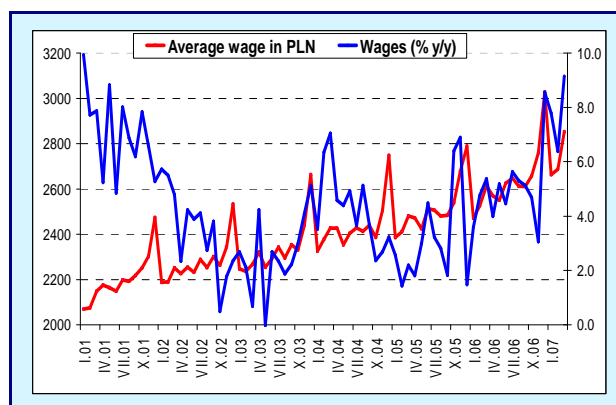


POLAND

Apart from the first tier economic data **Poland and Ukraine's successful UEFA Euro 2012 bid** was no doubt the most important news headline of the week. The stock market reacted frantically the information – the WIG index soared to fresh highs above 60 thousand points led by construction and hotel companies some of which recorded up to 30% mid day gains on Wednesday, before retreating to pre-decision levels as the enthusiasm slowly faded. The zloty's reaction was far more subdued from the start. Despite the positive effect the decision might have on the overall economic sentiment in the coming years as well as the expected direct impact of euro-related investments on growth in the run up to the tournament investors were, not surprisingly, far more cautious in their judgments. First of all, the tournament is still 5 years away from now, and that is certainly not the time frame most market players have in mind. Secondly, even though it's a reasonable assumption, that the project may speed up the utilization of funding on infrastructural development (which would be positive both in terms of current pace of growth as well as the economy's potential in the longer run), economic expansion is running at full speed and the tight labor market conditions (particularly in construction) are already becoming a concern. The increased demand for labor is likely to keep wage pressure (at least in certain sectors) elevated and could pose a major inflationary risk if it transpires to the rest of the economy, and along with the more expansive fiscal policy, could push interest rates further up in the foreseeable future. According to rough estimates roughly EUR 20 bn worth of public spending will be needed to co-finance and finance the necessary investments over the 5 year period, which will be an additional burden on the central and local government budgets in the coming years. Even though we are far less concerned by this than by the other spending plans the government has for the coming years it must be said that the EMU deficit requirements have not yet been met even once (despite the surprisingly strong performance from the real economy). Moreover, even though we believe that fundamentally the long term risks to price stability (and hence our CPI path as well) are still fairly modest, inflation is already close to breaking above the Maastricht criterion which could mean that Poland may have just made a trade-off between the football euro 2012 and ... adopting the euro in 2012.

Expectations for a rate hike from the MPC this week were basically cemented after Polish **corporate wage growth surged to 9.1% y/y in March**, which was a significantly better result than the 6.5% y/y expected by the market and the highest annual growth rate since the beginning of 2000. In recent months, there was only a comparably strong increase in salaries in December 2006, when the Central Statistical Office were data disturbed by one-off bonus payments in the mining sector. An equally strong, but less clearly accented surprise was the increase in employment, which reached an all time high in March. The number of people in jobs increased by 4.5% to almost 5.1 million

people, which is the best reflection of the strong demand for work generated by the booming economy. The strong growth in real payroll confirms our convictions that economic growth in the first quarter, being driven both by investments and private consumption, accelerated to more than 7% y/y. This was reaffirmed later in the week by the March industrial output data - production came in at 11.3% y/y, a tad on the upside of the consensus and in line with our expectations.



Nevertheless along with the strong rise in wages and employment the somewhat softer y/y output growth points to a deterioration of labor productivity and increase in unit labor costs, and even though we believe this won't be enough to push the MPC into giving away any suggestions regarding further monetary vigilance, the data should get ample attention from the Council during its monthly meeting which starts tomorrow. Entrepreneurs can currently afford to cover the additional costs from the record high profits (past and current), although, if a similar trend (of the increase in labour costs) continues over the coming months / quarters, eventually they will be forced to transfer some of the additional costs onto the consumer in the form of price rises. Therefore, even though the data for March confirm our convictions that the MPC will increase the cost of money by 25 bp this week, we also believe that until the trend in rising ULC is confirmed in the subsequent data (because it cannot be completely discarded that the surprisingly strong increase in salaries arose from a one-time disturbance, unexpected payments of profit-related bonuses in some companies for example), moderate rate setters will refer to the March information somewhat more reservedly and may be reluctant to explicitly suggest that more tightening (than the pre-emptive April hike) will be needed just yet. This could push the short end of the curve down slightly later in the week since the market is now fully pricing in two hikes till the end of the year and a 20% chance of another 25 bp. move within the next 12 months.

At first glance, the weekly chart of the **EUR/PLN** exchange rate could suggest that the successful Euro 2012 bid not have a significant impact on the zloty's behaviour.

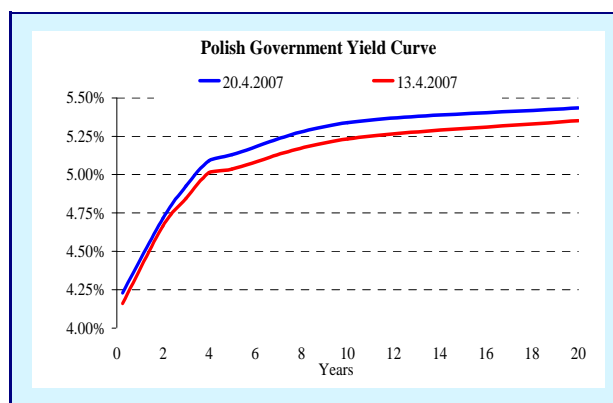
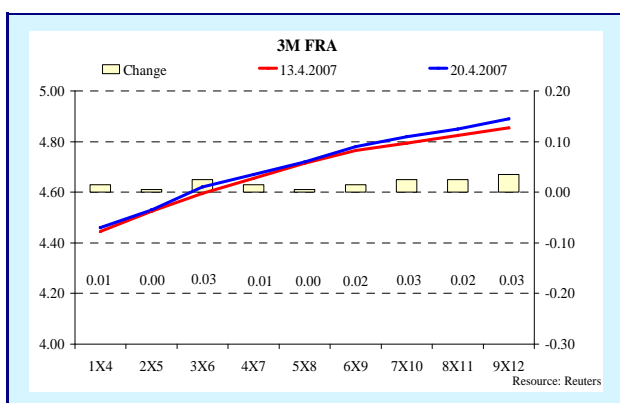
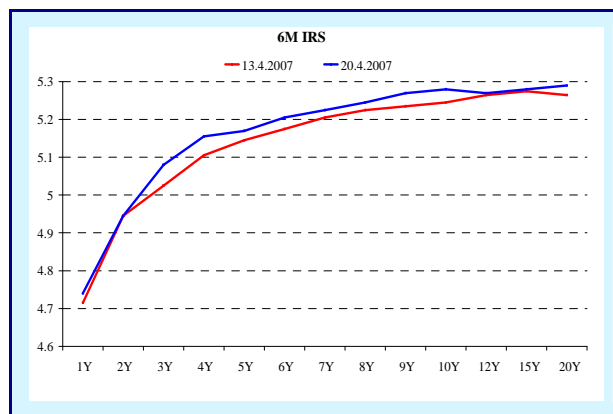
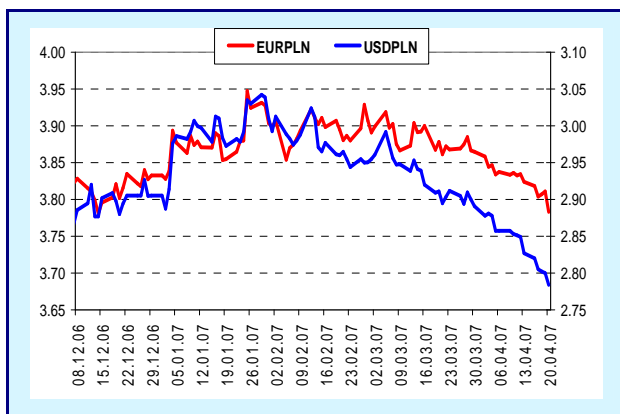


However, given the softer performance across the region the flat trend should be considered a sign of the strength of the Polish currency, which continued to draw support from sound economic foundations (now even more exuberant due to the Euro 2012 decision) and rate hike expectations, which were cemented early in the week by the surprisingly strong wage and employment figures. In consequence, the zloty strengthened by almost 0.5% and found itself close to the key support at a level of EUR/PLN 3.80. Fresh buyers returned to the marketplace on Friday and, not surprisingly, it was the zloty which led the regional rebound. The EUR/PLN pair eventually ended the week testing bids at 3.78.

This week, the fate of the zloty lies largely in the hands of the MPC. If the Council raises interest rates by the 25 bp expected by the market and simultaneously maintains the relatively hawkish attitude in the statement to the decision (less extensive than in previous months because of the first publication of the minutes planned for May), the maintenance of the gently appreciating trend of the Polish currency can be expected (which could open the road to EUR/PLN 3.75). It is worth emphasising that, in this situation, the MPC will be forced to distance itself (this time in the opposite direction to that of previous months) from the relatively optimistic inflation projection. Were the council to keep on hold (something we think would be an apparent communicational glitch and hence is highly unlikely), the value of the zloty would almost certainly decline, although the scale of the weakening would largely depend on whether the Council would simply postpone the hike by a month or two or gave a clear sign that its still too early for any tightening whatsoever.

Stability of yields on the core markets, in combination with the strengthening of the zloty, meant that Polish bond prices held to tight ranges last week, despite the surprisingly strong data from the labour market and rising concerns after UEFA's decision to organise the European Championships in football in Poland and the Ukraine that the Polish economy might eventually show signs of overheating. The value of FRA contracts suggests that the market is currently expecting at least two interest rate hikes, each of a quarter of a percent over the coming 6 months (the first being this week) and is discounting a 20% probability of the next hike within the coming 12 months. Importantly, investors (as usual) revised their expectations regarding the extent of the approaching cycle of the tightening of monetary policy more aggressively than analysts (who still expect two hikes up to a level of 4.5%).

The coming days will almost certainly not give an unambiguous response to the question of who is right, but we believe that a relatively restrictive bias will remain in place in the commentary to the MPC decision (the Council will almost certainly increase rates by 25 bp on Wednesday), which should support expectations of a continuation of the cycle and keep the upward pressure on yields. However, since this would be hardly surprising in terms of market reaction the risk seems to lie to the downside. Were the statement to be materially softer than in the recent months, expectations of additional tightening in the coming quarters would diminish just as quickly as they reappeared in recent weeks, sending prices higher and steepening the yield curve.





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Comparative table for Polish government bonds

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GOV/ 4 / 24.05.11	96.96	5.09	-8	2.65	3.50
GOV/ 5 / 25.04.12	98.36	5.13	-13	3.23	4.34
GOV/ 5 / 25.10.17	99.27	5.34	-14	1.80	7.71
GOV/ 6 / 23.09.22	103.19	5.44	-10	0.93	9.85

EXPECTED DATA

■ Wednesday, 25 April, 10:00

Retail sales (March) **18.0% y/y**

We believe that the strong real wage fund growth in the enterprise sector (of over 11% y/y) continued to underpin consumption in March and in the entire Q1. Recent data on wages and employment even suggest there might be some upside to our (optimistic) retail sales growth estimate of 18.0% y/y.

Rate of unemployment (March) **14.4% y/y**

From the latest data of the Ministry of Labour and Social Policy, it transpires that the rate of unemployment declined to 14.4% last month from 14.9% in February. The slightly better result than usual at this time of year was due to the continued high level of demand for labour as well as the exceptionally mild weather conditions.

■ Wednesday, 25 April

MPC meeting **+25 bps.**

Under the assumption that the Monetary Policy Council moderates go along with the line of thinking they have conveyed to markets over the last several weeks the concept of a pre-emptive rate hike will gain majority during this week's policy meeting. However it is worth emphasising that the Council will have a slight problem at hand this month because of the new inflation projection, which will no doubt be softer than in January. To avoid procuring the second communicational glitch this year the MPC will once again need to distance itself from the official forecasts (at least from the drop in the inflation path in the subsequent disclosure of the projection) by highlighting the potential threats to price stability in the medium term as a result of the faster economic growth and potential pressure from the labour market. Nevertheless policy makers would no doubt also like to distance themselves from current data (which point to a sharp rise in ULC) and may be reluctant to explicitly suggest that more tightening (than the April hike) will be needed just yet. Nevertheless we believe that the with growth running visibly above potential and inflation risks on the upside from the March meeting the Council will keep its restrictive bias in place for now.



April 24, 2007

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FOREX

TECHNICALS

▪ **EUR/CZK: (28.0300)**

DAILY CHARTS:

Pair back above the channel top off Oct 2004 high and currently toying back with the neckline of ST Double Top off 28.0400 (see graph: 2nd target at 27.5980).

Currently trying to extend above the LT weekly channel off Jan 2004 (top at 27.9840): 1st support area at 27.9410 (weekly envelope bottom), with next levels at 27.9000 (last week low), ahead of 27.8650 (April 09 low): tough on 1st tests.

If wrong on that call, next levels at 27.7760 (previous Medium Term reaction low hourly), ahead of 27.6100/ .5980 (March 19 low/ see above), where pause favored to set in.

1st Resistance area at 28.0600 (last week high), with next levels at 28.0880/ .1000 (March 28 high/ Medium Term breakdown daily): ideal area to stay below to keep better tone for CZK.



▪ **EUR/PLN (3.7800)**

The pair is trying to extend below the Downtrendline off 4.1350 after the break of the bearish Flag bottom off Dec 2006 low (see graph): 1st Support area at 3.7775 (Dec 2006 low), with next levels at 3.7611/ .7596 (weekly projection band bottom/ weekly envelope bottom) and 3.7488 (2006 low): tough on 1st tests.

1st Resistance comes in at 3.7921 (weekly envelope top), with next levels at 3.8190 (weekly Short Term Moving Average), ahead of 3.8300/ .8380 (last week high (see above/ previous Medium Term reaction low): ideal area to stay below to keep trying Medium Term downside attempts in €.



▪ **EUR/HUF (245.20)**

Below neckline of Triple tops (see graph): 1st Resistance area at 246.25 (weekly Short Term Moving Average), with next levels at 246.97 (weekly envelope top), ahead of 248.08 (last week high).

249.85/ 250.29 (March 28 high/ broken weekly channel bottom off 2005 low): ideal area to stay below to keep ST current mood intact on HUF.

Support at 244.77 (last week low), with next levels at 244.35/ .31 (March 19 low/ 2nd target of Triple Tops: see graph), ahead of 244.05 (weekly envelope bottom).

243.42/ 242.83 = 3rd target/ broken Long Term Weekly Downtrendline off Dec 2003 high: tough on 1st attempts.





■ EUR/SKK (33.5000)

New historic low on revaluation approached Long Term channel bottom off 2006 high (see graph), but rebound with help of Central Bank.

1st Resistance at 33.5300 (weekly projection band top), with next levels at 33.5850 (last week high).

33.7300 = reaction high off 32.7100 + weekly envelope top: ideal area to stay below to keep current SKK mood intact.

Failure to do so would have new levels at 33.8000 (previous low), ahead of 33.8530/ .9000 (weekly Medium Term Moving Average ↓ / Medium Term gap daily): tough on 1st tests.

Support area at 33.3330/ .3200 (last week low/ April 13 low), with next levels at 33.260 (weekly envelope bottom).

33.1000 (break-up daily + April 04 low and CB intervention): tough on 1st tests.





TABLES

Official interest rates (end of the period)

		Current	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Last change	
Czech Rep.	2W repo rate	2.50	2.50	2.75	2.75	3.00	3.00	25 bps	27/09/2006
Hungary	2W deposit r.	8.00	8.00	7.50	7.25	7.00	6.75	25 bps	24/10/2006
Poland	2W inter. rate	4.00	4.25	4.50	4.50	4.50	4.50	-25 bps	28/02/2006
Slovakia	2W repo rate	4.50	4.25	4.00	4.00	4.00	4.00	-25 bps	27/03/2007

Short-term interest rates 3M *IBOR (end of the period)

		Current	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08
Czech Rep.	PRIBOR	2.62	2.73	2.83	3.08	3.10	3.19
Hungary	BUBOR	7.83	7.70	7.40	7.10	6.80	6.65
Poland	WIBOR	4.35	4.50	4.70	4.70	4.70	4.70
Slovakia	BRIBOR	4.08	4.20	3.90	3.90	4.00	4.00

Long-term interest rates 10Y IRS (end of the period)

		Current	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08
Czech Rep.		3.97	4.00	3.98	4.00	4.05	4.09
Hungary		6.64	6.60	6.50	6.45	6.40	6.30
Poland		5.25	5.35	5.45	5.45	5.45	5.50
Slovakia		4.47	4.25	4.25	4.30	4.35	4.35

Exchange rates (end of the period)

		Current	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08
Czech Rep.	EUR/CZK	28.03	28.20	27.60	27.20	26.90	26.50
Hungary	EUR/HUF	245.7	245.0	247.0	246.0	243.0	245.0
Poland	EUR/PLN	3.783	3.800	3.800	3.775	3.780	3.750
Slovakia	EUR/SKK	33.60	33.80	33.30	32.30	31.50	31.50

GDP

		Q4 2006	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008
Czech Rep.		5.8	5.5	5.1	4.5	3.9	4.0
Hungary		3.2	2.9	2.6	2.3	2.3	2.3
Poland		6.4	6.7	6.1	5.4	5.2	4.8
Slovakia		8.0	8.2	8.4	7.2	6.8	6.5

Inflation (CPI y/y, end of the period)

		Dec-06	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08
Czech Rep.		1.9	2.0	2.4	3.1	3.2	2.9
Hungary		9.0	8.4	5.7	4.9	4.4	n.a.
Poland		2.5	1.9	1.5	2.1	2.5	2.5
Slovakia		2.7	2.3	2.4	2.0	1.8	1.9

Current Account as % of GDP

		2006	2007
Czech Rep.		-4.2	-3.8
Hungary		-5.8	-5.3
Poland		-2.1	-2.1
Slovakia		-7.9	-4.4

Public finance balance as % of GDP (in ESA95 standards)

		2006	2007
Czech Rep.		-2.95	-3.8
Hungary		-9.8	-6.8
Poland		-3.6	-3.4
Slovakia		-3.6	-2.9



CALENDAR

			Period	Actual figure	Consensus	Previous
Monday - 16.April						
09:00	CZ	PPI m/m	March 07	0.5	0.3	0.5
09:00	CZ	PPI y/y	March 07	3.6	3.4	3.2
09:00	SK	HICP m/m	March 07	0.1	0.1	0.1
09:00	SK	HICP y/y	March 07	2.1	2.1	2
09:00	SK	T-bond auction SD207				
14:00	PL	Budget Deficit PLN bn	March 07	4.35	4.2	3.03
Tuesday - 17.April						
09:00	CZ	Retail sales y/y	February 07	6.3	6.5	7.7
09:15	SK	MinFin Pociatek speaks at the economic conference				
14:00	PL	Wages y/y	March 07	6.5	6.5	6.4
Wednesday - 18.April						
09:00	SK	NBS board member Odor speaks at economic conference				
12:00	CZ	T-bond Auction (3Y, 3.25%, CZK 6bn)				
12:00	PL	5Y T-bonds auction (bln PLN)	-	1,5-2,5	-	-
Thursday - 19.April						
09:00	HU	Wages (gross nominal, y/y)	February 07			
Friday - 20.April						
14:00	PL	Industrial Production y/y	March 07	11.5	10.7	12.9
14:00	PL	PPI y/y	March 07	3.5	3.4	3.6
14:00	PL	PPI m/m	March 07	0.6	0.5	0.6
Monday - 23.April						
09:00	HU	Retail sales y/y	February 07			
14:00	PL	Manufacturing Climate Index	April 07	-	-	24
14:00	PL	Core inflation y/y	March 07	1.7	1.7	1.6
14:00	HU	Monetary council NBH (base rate)				
			Period	CSOB	Consensus	Previous
Wednesday - 25.April						
10:00	PL	Unemployment rate	March 07	14.4	14.4	14.9
10:00	PL	Retail sales y/y	March 07	18	16.8	17.5
12:00	CZ	T-bond Auction (10Y, CZK 8bn)				
-	PL	MPC Meeting	April 07	+25 bps.	+25 bps.	0 bps.
Thursday - 26.April						
09:00	HU	Unemployment rate (%)	March 07			
11:00	HU	T-bond Auction (3-year)				
11:00	HU	T-bond Auction (15-year)				
15:30	SK	PM Fico speaks at economic conference				
	CZ	CNB Board Meeting		0bps		0bps
Friday - 27.April						
09:00	HU	PPI y/y	March 07			
09:00	HU	PPI m/m	March 07			
09:00	HU	Foreign trade (EUR mn), details	February 07			
09:00	SK	PPI y/y	March 07	3.4	3.5	3.8
11:00	SK	NBS rate decision		0	0	-0.25
11:00	SK	NBS new quarterly prognosis				
11:00	SK	T-bond auction SD206 4.50%/2026				
11:30	SK	NBS governor Sramko speaks at econ conference				
Wednesday - 2.May						
09:00	SK	State budget (SKK bn; cumulative)	April 06			-11.9
	CZ	State budget (CZK bn)	April 07	-18		11.3
Friday - 4.May						
09:00	CZ	CNB Minutes	April 07			
09:00	CZ	CNB's Inflation Report	April 07			

(Figures are in % and not seasonally adjusted: m/m-month on month rise; y/y-year on year rise; r-revised; p-preliminary)



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