



Central European Daily

Wednesday, 16 May 2012

Headlines

As contagion intensifies sell-off in Central Europe too CNB is heading for rate cut already in June

Broad sell-off intensified in Central Europe as markets got to know that Greeks to head back to polls after talks fail. While the biggest currency loser has been the Polish zloty as the EUR/PLN hit 4.40 level, on the fixed-income side it was the Hungarian bond market, which suffered the most (yields moved up by around 20 bps). We think that contagion from the Euro-zone is far from over, so more losses are probably ahead us in regional markets. The only exception could be the Czech bond market, which might benefit from rate-cut expectations (see the last paragraph).

It seems that the Czech National Bank is ready to cut its repo rate already in June. Yesterday, we could read the first reaction to a weak GDP figure for the first quarter (-1.0% q/q), which came from Bank Board member Mojmir Hampl. He said that the next step of the CNB should be easing, so given the fact that Hampl voted for rate stability on the last meeting that's a clear signal that a 25 bps cut could be delivered already in June (and not in August as we previously thought).

Meanwhile, talks between the Hungarian government and the EU had another round. The Hungarian government modified the Constitution and cancelled the paragraph that enabled the merger of the central bank and the Financial Supervisor. The EU Commissioner's spokesman said that the five party talks between experts from the EU/IMF/ECB/Govt/MNB had a good spirit, but did not detail further what this could mean for the future.

It is important to see that there remained several open questions about the central bank law including the oath on the new Constitution, the salary cap, the appointment of two new Council members and a new Vice President. It will also be important how the EU sees the upcoming Convergence Program that includes the measures to meet next year's 2.2% of GDP deficit target. In order to minimise the risk of failure, PM Mr Orban will meet Mr Barroso on the 23rd of April and the program will be submitted only afterwards.

Currencies		% chng
EUR/CZK	25.62	1.1
EUR/HUF	293.5	0.5
EUR/PLN	4.36	0.8
EUR/USD	1.27	-0.7
EUR/CHF	1.20	0.0

FX Correlation Matrix

	EUR/PLN	EUR/HUF	EUR/USD	EUR/CHF
EUR/CZK	0.40	0.29	-0.38	-0.08
EUR/PLN		0.63	-0.53	-0.03
EUR/HUF			-0.56	0.01
EUR/USD				0.08

correlations of 30 min changes
over past 5 sessions

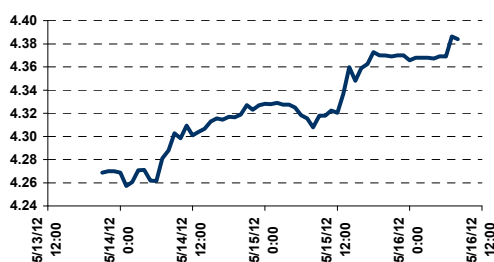
FRA 3x6	%	bps chng
CZK	1.07	3
HUF	7.08	-7
PLN	5.16	-3
EUR	0.67	-1

GB	%	bps chng
Czech Rep. 10Y	3.30	-3
Hungary 10Y	8.31	1
Poland 10Y	5.47	1
Slovakia 9Y	5.94	5

CDS 5Y	%	bps chng
Czech Rep.	125	2
Hungary	550	10
Poland	229	0
Slovakia	265	10

Source: Reuters

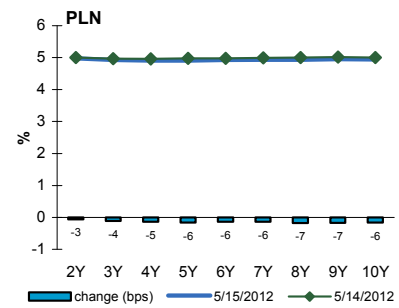
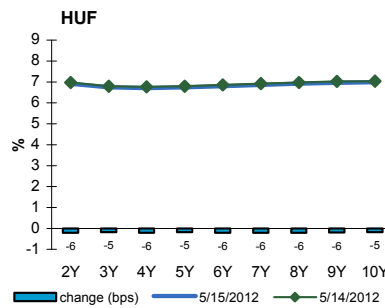
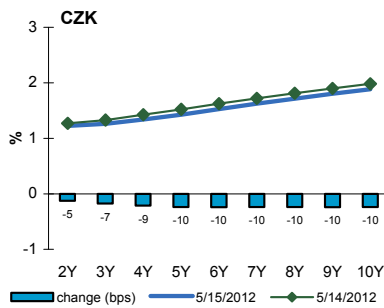
EUR/PLN



EUR/PLN, last 60 hours. Source: Reuters

As the Polish zloty feels the heat from the Euro-zone the EUR/PLN has already touched the 4.40 level.

Interest-rate Swap Curves



Calendar

Country	Time	Indicator	Period	Forecast		Actual		Consensus		Previous	
				m/m	y/y	m/m	y/y	m/m	y/y	m/m	y/y
CZ	10:00	Current account	CZK B 03/2012	9				12.1		18.33	
PL	14:00	Trade balance	EUR M 03/2012					-872		-838	
PL	14:00	Current account	EUR M 03/2012					-1237		-1585	

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