



# Central European Daily

Thursday, 13 June 2013

## Headlines

### Forint and zloty recover but remain vulnerable

#### Polish inflation stays low

CEE currencies corrected some of their recent loses yesterday. The forint, which had shortly broken through the technical barrier at 300 EUR/HUF on Tuesday, strengthened back to 296 EUR/HUF yesterday. Also the zloty rebounded to 4.25 EUR/PLN. The Czech koruna reconfirmed its role of a safe haven and remained stable with minor fluctuations slightly above 25.6 EUR/CZK. As the recovery of zloty and forint was not supported by positive changes in fundamentals, both currencies continue to be fairly sensitive to global risk sentiment. In these days, the focus is on Fed's weakening of monetary stimuli.

Current FX vulnerability has had implications for anticipation of central bank policies by markets. Although the Minutes of the Hungarian central bank published yesterday revealed that the decision to cut rates by 25 bps last month was unanimous, markets' expectations regarding future rate cuts has changed profoundly during the last couple of weeks. Current values of forward rate agreements show that further base rate cuts have been almost completely priced out. The Minutes have not shed more light on future monetary policy of the central bank, either. The NBH announced earlier that its future decision would depend on CPI inflation and financial market sentiment. Leaning on the statement, we believe that the NBH will reduce its base rate by another 50 bps by the end of this year. Whether the rate cut will be delivered as soon as at the next NBH meeting (June 25) or later will highly depend on the forint's development.

In Poland, situation is similar; also in this country volatility of local currency worries the central bank. Today, data on Polish inflation in May will be published, which should remain low (according to our forecast: 0.8% y/y) and likely stay subdued throughout the summer with the bottom at 0.5-0.6% y/y, due to energy prices cuts planned in June. Low inflation together with worse than expected GDP growth argue in favour of a rate cut, the definitive fate of monetary easing, however, will largely depend also on zloty development. It seems that the level 4.32 EUR/PLN is critical for the NBP.

Currencies		% chng
EUR/CZK	25.56	-0.1
EUR/HUF	296.6	0.1
EUR/PLN	4.25	-0.4
EUR/USD	1.33	0.2
EUR/CHF	1.23	-0.3

#### FX Correlation Matrix

	EUR/PLN	EUR/HUF	EUR/USD	EUR/CHF
EUR/CZK	-0.11	-0.03	-0.13	-0.03
EUR/PLN		0.60	-0.05	-0.16
EUR/HUF			-0.24	-0.12
EUR/USD				-0.35

correlations of 30 min changes  
over past 5 sessions

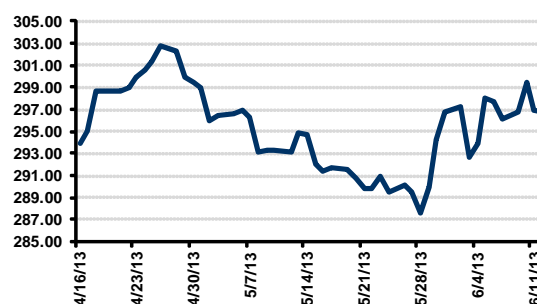
FRA 3x6	%	bps chng
CZK	0.49	-1
HUF	4.20	-7
PLN	2.67	-3
EUR	0.26	-3

GB	%	bps chng
Czech Rep. 10Y	2.13	-7
Hungary 10Y	6.16	-34
Poland 10Y	3.93	-6
Slovakia 10Y	2.56	4

CDS 5Y	%	bps chng
Czech Rep.	64	0
Hungary	320	-6
Poland	90	0
Slovakia	89	0

Source: Reuters

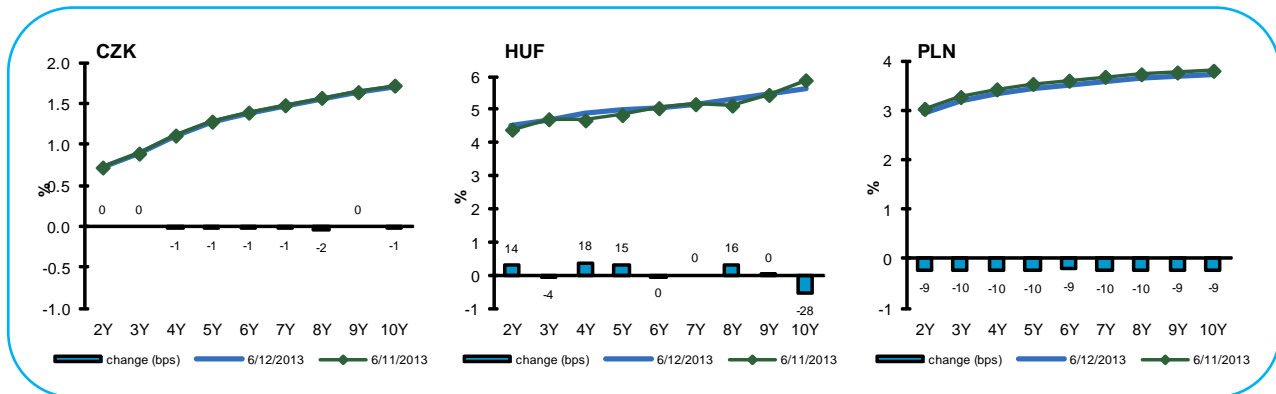
#### EUR/HUF



*Hungarian forint  
remains very  
volatile.*

EUR/HUF, last 50 days. Source: Reuters

# 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
PL	14:00	CPI	%	05/01/2013						0.4	0.8

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