



Central European Daily

Friday, 14 June 2013

Headlines

Czech markets stable despite high-level anti-crime raids

The Polish year-on-year inflation slides down to 0.5%

The Czech koruna and government bonds have remained stable, or even have firmed slightly yesterday despite a fresh political turmoil in the country. Position of current coalition government deteriorated sharply after news about large-scale anti-corruption raids in several institutions including the PM office had penetrated the public. According to the latest news the Czech police have accused Ondrej Palenik, former military counter-intelligence head, his successor Milan Kovanda, along with a mixed group of top politicians, lobbyists and state officials of a variety of crimes, precise nature of which remains to be detailed yet. Although PM Nečas has declared that he was not prepared to resign, his government's position has been shattered. If accusations prove to be well-grounded, the cabinet may lose support in the parliament and early parliamentary elections can be held as soon as in late summer.

Another headline macro news from the region was a release of the May inflation in Poland. It undershot expectations as the year-on-year change decelerated to 0.5%, thus ending up only 0.2% above the all-time low of April 2003. Month-on-month prices were down by 0.1%. As far as the structure is concerned, a significant decline in the transport index (-2.3% m/m), which includes petrol prices, surprised us most. Likewise, another fairly significant decline in the prices of communication services also sprang a surprise – these prices went down by 10% y/y and have fallen by a huge 6% since the beginning of this year. Last month, inflation thus continued to go down below the NBP target and provided doves on the MPC with more trumps ahead of the July meeting, where a new forecast will also be available. The main risks to the MPC decision on a rate cut continue to be the developments in key core markets, which have recently led to the significant depreciation of the zloty, making the NBP intervene in favour of the PLN for the first time in eighteen months.

Currencies		% chng
EUR/CZK	25.65	0.4
EUR/HUF	292.6	-1.4
EUR/PLN	4.22	-0.7
EUR/USD	1.34	0.3
EUR/CHF	1.23	0.4

FX Correlation Matrix

	EUR/PLN	EUR/HUF	EUR/USD	EUR/CHF
EUR/CZK	-0.04	0.10	-0.16	0.09
EUR/PLN		0.53	-0.14	-0.17
EUR/HUF			-0.27	-0.04
EUR/USD				-0.41

correlations of 30 min changes over past 5 sessions

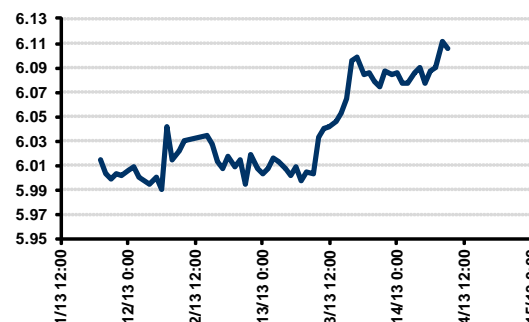
FRA 3x6	%	bps chng
CZK	0.49	0
HUF	4.09	-11
PLN	2.58	-9
EUR	0.25	0

GB	%	bps chng
Czech Rep. 10Y	2.02	-10
Hungary 10Y	6.18	2
Poland 10Y	3.86	-7
Slovakia 10Y	2.56	0

CDS 5Y	%	bps chng
Czech Rep.	64	0
Hungary	295	-17
Poland	90	0
Slovakia	89	0

Source: Reuters

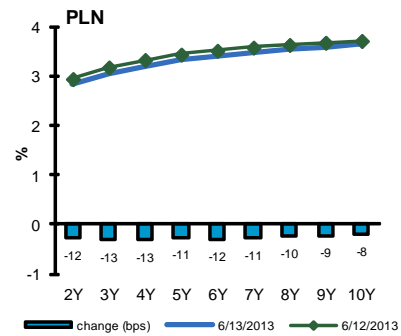
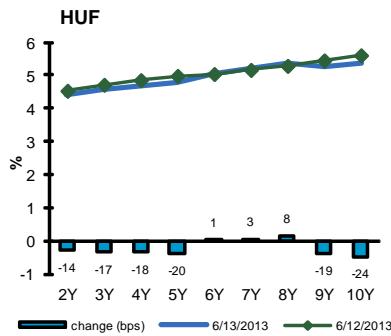
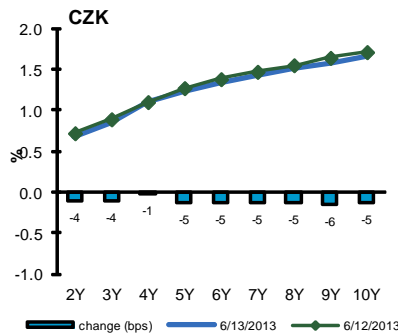
PLN/CZK



The Polish zloty has partly recouped its losses against the Czech koruna despite new inflation low, which make another NBP's rate cut likely.

PLN/CZK, last 60 hours. 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
HU	9:00	Industrial output	%	04/2013 *F							
PL	14:00	Core CPI	%	05/01/2013						0.6	1.1
PL	14:00	Money supply M3	%	05/2013						0.1	

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