



# Central European Daily

Monday, 17 June 2013

## Headlines

### Czech Prime minister Nečas and his cabinet resign

### Czech koruna and government bonds stay calm

The Czech Republic has respected a rule over the past few years which state the following: whenever we find ourselves in the eye of the leading global financial dailies such as the Wall Street Journal or Financial Times, the consequences are always on the whole negative. Things are no different this morning, when the WSJ informs us that the Czech Prime Minister Nečas is resigning in reaction to a scandal surrounding Nagyová the chief of staff in the office of the government.

The whole affair leading to the resignation of the prime minister is certainly a tasty media titbit, but we will reduce it down to three questions, the answers to which should be of interest to us. Firstly, what at the other alternatives for government; secondly, will the government's economic policy be changing in any way in the foreseeable future and thirdly, with a view to the above, can we expect any reaction on the part of the Czech financial markets - i.e. primarily the koruna and government bonds?

As far as the answer to question number one is concerned – three alternatives of a government cabinet, which could take up the reigns after the Nečas government, present themselves. Firstly, this could be a cabinet built on the pattern of the current centre-right coalition. However, a solution like this has several drawbacks – the collation will for example have to, not only alone, but also with the President, agree on a new Prime Minister, whereas the new government needs the support of 101 votes (out of 200) in the Chamber of Deputies, which again means placing their bets on (currently) . Secondly, we have the alternative of early elections, which the opposition (Soc-Dem and Communists) of course look for. But there would have to be even greater agreement on this, as 120 (out of 200) votes are required for early dissolution of the Chamber of Deputies. And finally, we have the alternative of a caretaker government created by new President Zeman.

It is difficult at this moment in time to say which of the alternatives is most likely. Nevertheless, whatever solution is chosen, it is on the whole clear that a change in government will exhibit itself at least over the short term with regards to economic policy. For example, the opposition wants the current government to follow through work in the area of flood damage. The situation is similar with regards to the state budget for 2014 – the framework of which must be set within a matter of weeks, which means that it will be the same budget with the signature of the outgoing Nečas government. This is one of the reasons why the Czech markets should remain calm and focus (as is almost always the case) on events on core markets or on Wednesday's FOMC meeting respectively.

Currencies		% chng
EUR/CZK	25.73	0.3
EUR/HUF	290.4	-0.7
EUR/PLN	4.24	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	0.00	0.04	-0.18	0.15
EUR/PLN		0.63	-0.12	-0.17
EUR/HUF			-0.21	-0.20
EUR/USD				-0.41

correlations of 30 min changes  
over past 5 sessions

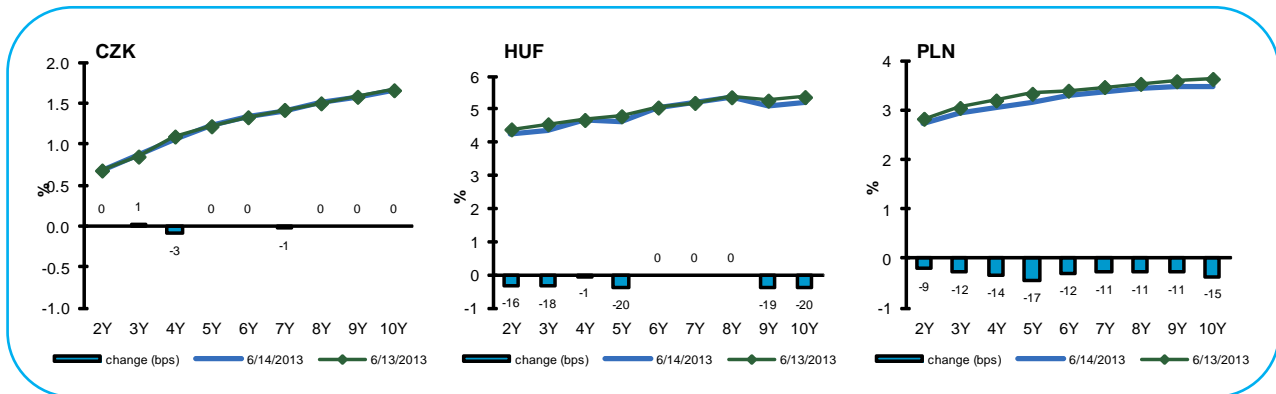
FRA 3x6	%	bps chng
CZK	0.50	1
HUF	3.98	-11
PLN	2.52	-6
EUR	0.24	-2

GB	%	bps chng
Czech Rep. 10Y	2.01	-1
Hungary 10Y	5.83	-35
Poland 10Y	3.71	-15
Slovakia 10Y	2.51	-5

CDS 5Y	%	bps chng
Czech Rep.	64	0
Hungary	286	-10
Poland	86	0
Slovakia	88	-1

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
CZ	9:00	PPI	% 05/01/2013	-0.1	0.4	-0.3	0.3	-0.1	0.4	-0.5	0.5
CZ	10:00	Current account	CZK B 04/01/2013	-3.2				3.75		-35.8	
PL	14:00	Current account	EUR M 04/2013					-150		-200	
PL	14:00	Trade balance	EUR M 04/01/2013					69		-273	
PL	15:00	Budget balance	PLN M 05/01/2013							-31746	

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