



# Central European Daily

Wednesday, 26 October 2016

## Headlines

| Currencies |       | % chng |
|------------|-------|--------|
| EUR/CZK    | 27.01 | 0.0    |
| EUR/HUF    | 308.6 | 0.1    |
| EUR/PLN    | 4.31  | 0.0    |
| EUR/USD    | 1.09  | 0.1    |
| EUR/CHF    | 1.08  | 0.2    |

### FX Correlation Matrix

|         | EUR/PLN | EUR/HUF | EUR/USD | EUR/CHF |
|---------|---------|---------|---------|---------|
| EUR/CZK | -0.03   | 0.23    | -0.12   | 0.01    |
| EUR/PLN |         | 0.17    | 0.08    | 0.02    |
| EUR/HUF |         |         | -0.01   | -0.06   |
| EUR/USD |         |         |         | 0.47    |

correlations of 30 min changes  
over past 5 sessions

| FRA 3x6 | %     | bps chng |
|---------|-------|----------|
| CZK     | 0.28  | 0        |
| HUF     | 0.68  | 0        |
| PLN     | 1.75  | 2        |
| EUR     | -0.29 | 1        |

| GB             | %    | bps chng |
|----------------|------|----------|
| Czech Rep. 10Y | 0.41 | 0        |
| Hungary 10Y    | 2.91 | 2        |
| Poland 10Y     | 3.00 | 3        |
| Slovakia 10Y   | 0.49 | 4        |

| CDS 5Y     | %   | bps chng |
|------------|-----|----------|
| Czech Rep. | 41  | 0        |
| Hungary    | 119 | -3       |
| Poland     | 76  | 0        |
| Slovakia   | 42  | 0        |

Source: Reuters

### NBH cuts required reserves...

#### ... and 3Y government bond yield hits an all-time low

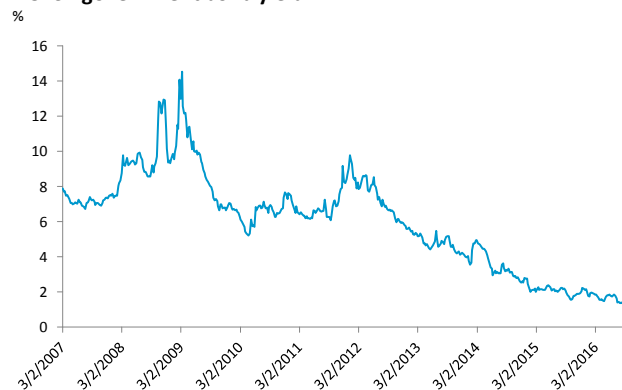
Yesterday, the National Bank of Hungary (NBH) kept its base (3M) interest rate unchanged as expected, but the meeting still yielded some surprises. Namely, apart from minor changes in interest rates (the NBH cut its O/N lending rate by 10 bps to 1.05 %), the main change was cut in required reserves ratio by one percentage point to 1% (this should take effect as of December 2016). The latter means approx. HUF170bn of "new" money should flow into money market.

Clearly, the NBH still aims at looser monetary conditions and in line with its previous statements it wants to employ unconventional measures rather than lower its base rate further. The fact that the NBH is still in "loosening mode" is also indicated by sentence that concludes the press release that says "[i]f subsequently warranted by the achievement of the inflation target, the Council will stand ready to ease monetary conditions further".

As for the market reaction, the forint weakened after the meeting and three-year government bond yield fell to a new all-time low (which is probably one of goals of the NBH).

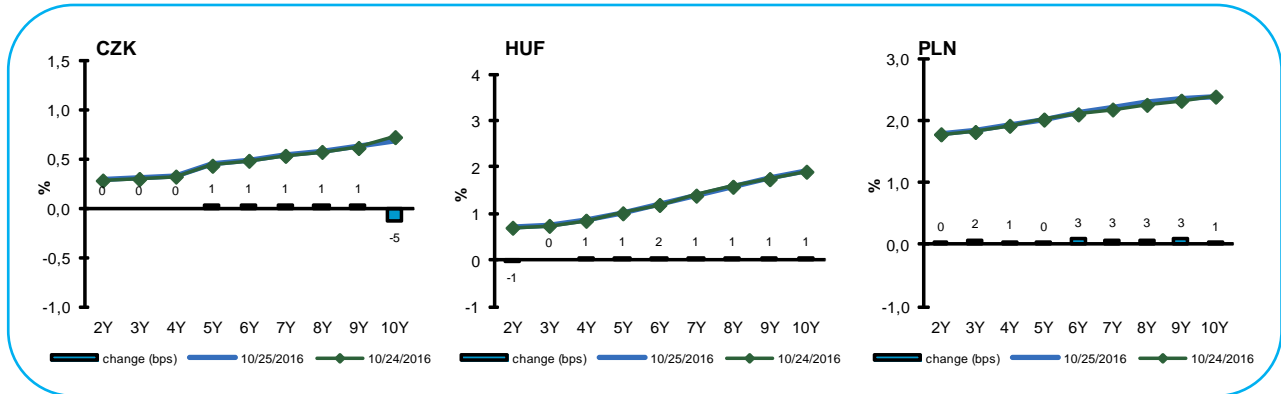
In the meantime, the Czech koruna remained tied to Czech National Bank's intervention floor (EUR/CZK 27.0). Despite the fact that volume of liquidity has been rising quite quickly in the recent weeks (which signals quite heavy interventions), EURCZK forward rates (for example 12M) have been rather stable lately.

### HU: 3Y government bond yield



*Hungary's  
government  
bond yield (3Y)  
hit a new all-  
time low  
yesterday...*

# 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      | 12:00 | CZ bond auction 2016-19, 0.00% | CZK B 10/01/2016 |          |     |        |     |           |     |          |     |
| CZ      | 12:00 | CZ bond auction 2014-25, 2.40% | CZK B 10/01/2016 |          |     |        |     |           |     |          |     |

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