Monday, June 28, 2010

KBC Banking & Insurance

Central European Weekly

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Czech Republic

Czech National Bank meeting without surprises, even as new governor makes his entry

Poland

Polish retail points to solid growth in real consumption in the second quarter

The Week Ahead

Poles go for the second round of the presidential elections during the weekend

Overview

	Last	Change 1W	Outlook 1W ahead	Outlook 1M ahead
EUR/CZK	25,73	-0,13%	→	↘
EUR/PLN	4,114	1,11%	→	↘
EUR/HUF	283,8	1,24%	→	↘
3M PRIBOR	1,20	-0,03	→	→
3M WIBOR	3,85	0,01	→	→
3M BUBOR	5,25	0,00	→	→
10Y CZK	4,14	-0,07	→	→
10Y PLN	5,98	0,16	→	↘
10Y HUF	7,49	0,03	→	↘
3M EURIBOR	0,85	0,07	→	↗
10Y EMU	2,60	-0,10	→	↗

Last values from Friday15:30 CET

What is behind the sale of Hungarian and Polish bonds?

While the Greek credit-default-swaps are hitting all-time highs, Czech, Polish and Hungarian CDS' remain relatively stable. Therefore, it is unlikely to represent a serious source of contagion from the eurozone for Central European markets. Surprisingly, this applies to a lesser extent to domestically issued government bonds, the prices of which have declined quite significantly in Hungary and Poland recently. Why?

The usual explanation for a sale of relatively high-yielding Hungarian or Polish government bonds is the increase in risk aversion on global markets. This is often the case, but doesn't tell the whole story this time.

First, let us look into the domestic factors that contributed to the rise in yields in Hungary. As reported previously, it was the new Hungarian government that recently poured fuel on the fire, by comparing Hungary's debt to that of Greece, thus triggering a huge sale of bonds in early June. Hungarian bond prices have recovered somewhat since, but not entirely.

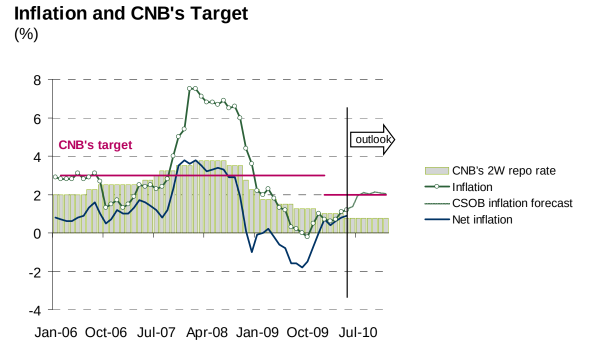
As far as Poland is concerned, the local bond market had to accept two rather unfavourable news items. Firstly, the outcome of the first round of the presidential election, which stepped up the campaign ahead of the second round, when Minister of Finance Rostowski frightened voters by his statement that if the brother of deceased President Kaczynski were to win the second round, it would be a disaster for public finances. The sale of bonds was subsequently fuelled by fairly strong figures from the domestic economy, which suggests that growth will be stronger than the market anticipated, encouraging bets on a rate hike by the NBP.

Although we do not wish to underestimate the domestic factors that triggered the sale-off the Hungarian and Polish markets, we primarily consider them to be temporary negative effects, which should soon peter out and interrupt the negative trend of recent weeks. The reason is that government bond yields in Hungary and Poland are still relatively high, while an official rate hike is relatively far off, and thus the yields will again attract buyers sooner or later.

Czech Republic

Macro review

The CNB Board met expectations and decided to leave rates unchanged at its June meeting. The base rate (i.e., the two-week repo rate) continues to be at the all-time low of 0.75%, to which the CNB cut it at its previous meeting. While inflation has been on the rise in recent months (1.2% y/y in May) and will continue to do so, it will be close to the inflation target within the monetary policy horizon. In addition, the CNB states that the risks of its forecast are balanced and that the new information from the economy is in line with this CNB forecast. The CNB currently considers the exchange rate of the koruna to be the main upside risk to inflation, while it regards developments abroad and on the labour market as downside risks to inflation. We believe that the CNB will not need to change its base rate in the months to come though. Thus the first monetary tightening is unlikely to occur until the first half of next year. We still consider the possible deceleration of the European economy in the second half of this year to be the main risk to the developments in the Czech Republic. This would curb inflation even more and thus continue to extend the period of interest rates at their all-time lows. The upside risks to inflation will include the government's potential measures to boost state budget revenue, such as the increases in a VAT rate, excise duties, etc.; however, in setting its rates, the CNB need not take account of the inflationary impacts of those measures to any great extent, all the more so because by themselves they will curb demand.



Currency

The Czech koruna weakened slightly last week, although the week was fairly calm for the currency. The EUR/CZK currency pair opened the week at EUR/CZK 25.70, and remained within narrow bounds below EUR/CZK 25.85 the entire period. The week was free of new major statistics, with the CNB meeting having no effect on the exchange rate of the koruna either. Concern about the development of the global economy and the possible problems of other EU countries prevented the koruna from strengthening.
The koruna should similarly to the rest of the region focus on the global scene. We are going to see interesting figures from the US this week (including Fridays payrolls), which should give the overall emerging markets as well as the koruna clues for further direction. The key barriers lie at 25.50 and 26.10 EUR/CZK.

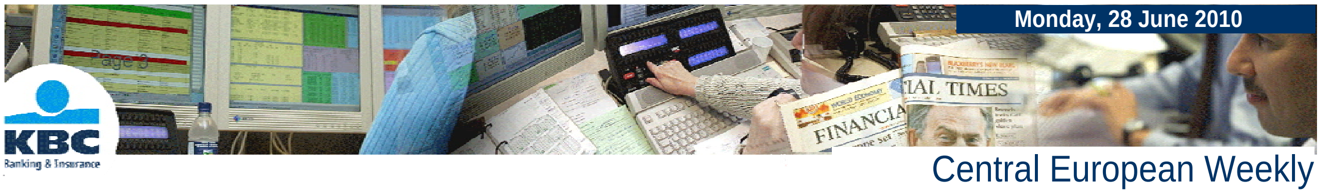
EUR/CZK technical picture

(25.8600) Rebound from year low failed to regain the broken Uptrendline off low (see graph).
1st support area at 25.6100 (rising weekly Medium Term Moving Average), with next levels at 25.4800/ .4200 (June 14 low/ May 31 low), ahead of 25.3000 (May 12 low) and 25.2420/ .2220 (weekly Bollinger bottom/ April break-up daily), where pause favored. If wrong, next levels at 25.0150 (year low) and 24.9750 (Sept 2009 low): tough on 1st attempts.
Resistance area at 25.8800/ .8880 (breakdown hourly/ daily), ahead of 25.9550 (weekly Bollinger top) and 26.0800/ .0940 (June 07 high + medium term breakdown hourly/ 5th wave off 25.3000 on hourly charts), where pause favored.
Failure to cap would see next levels at 26.3000 (current recovery high off 25.0150) and 26.3330 (Feb 08 high): tough on 1st attempts.

DAILY CHARTS:

Fixed income

Czech bond prices went up last week, with the yield curve falling along the full length and flattening somewhat; it went down by 6 bps at the short end and by slightly more than 8 bps at the long end. The market fluctuations were primarily influenced by the approaching end of the first half of the year, when investors used the last opportunities to adjust their positions. On Friday, June 25, the Prague Securities Centre (SCP) will cease its securities settlement operations, with more securities settlement operations unlikely to begin before July 7, 2010, when the Central Securities Depository (CDCP) will assume that role.



Poland

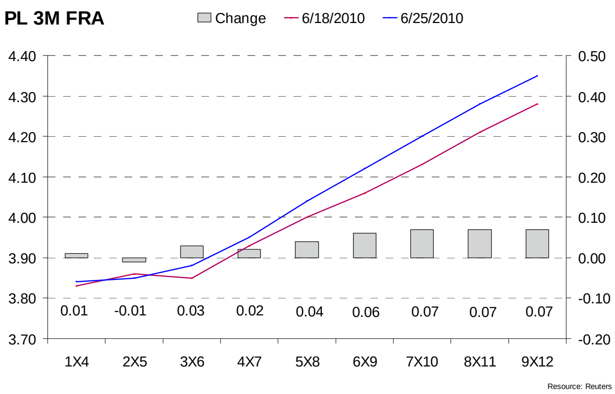
Currency

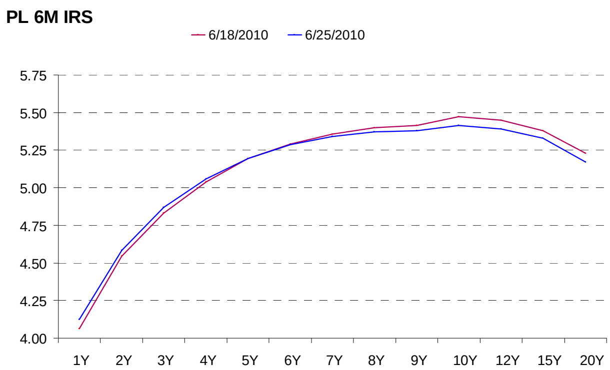
The Polish zloty failed to break below 4.00 EUR/PLN as global sentiment deteriorated. That was mainly due to worse figures from US housing markets that contributed to the mounting fears of a global double dip. Positive domestic figures were more or less ignored. The retail figures surprised the market positively as we expected. We especially appreciate pretty healthy growth in car sales (6.9% y/y in May versus -7.6% y/y in April), that significantly contributed to 4.3% nominal growth. Putting healthy nominal sales together with declining inflation, we see solid potential for accelerating real domestic consumption in the second quarter of the year. Especially in case we see continuing fast seasonal hiring in agriculture and construction, as we saw in May.
For the week ahead we do not expect much from the NBP meeting. Although there has been some hawkish talk recently, we believe most of the board to stick to its neutral stance for the months ahead.
The markets may be a bit nervous ahead of second round of Polish election. Nevertheless even if the market-friendly Komorowski loses leading position, we would not consider that to be a tragedy worth any dramatic reaction.
The zloty should more focus on the global scene. We are going to see interesting figures from US this week (including Fridays payrolls), which should give the overall emerging markets as well as the zloty clues for further direction. Currently we seem to be stacked in the 4.00-4.15 EUR/PLN.

EUR/PLN technical picture

(4.1300): Rebound off 3.8225 retested the neckline of the long term Double Top (4.2250: see graph).
1st Support area at 4.0750 (break-up hourly), with next levels at 4.0230/ .0120 (rising weekly Medium Term Moving Average/ June 21 low), where pause favored.
If unable to hold, next levels at 3.9823/ .9700 (weekly Bollinger midline/ break-up daily May 13): tough on 1st attempts.
1st Resistance comes in at 4.1450/ .1529 (reaction high hourly/ 61.8% 4.2400 to 4.0120), where pause favored.
If wrong, next level at 4.1850/ .1861 (weekly Bollinger top/ 76.4% 4.2400 to 4.0120).
4.2050/ .2060 = May 20 high/ June 04 high: tough on 1st attempts.

DAILY CHARTS:





CE Weekly Preview

WED 14:00 **NBP rate (in %)**

	This meeting	Last change
rate level	**3.50**	6/2009
change in bps	**0**	-25

NBP: Rates and comments unchanged

Notwithstanding the series of strong domestic data, the National Bank of Poland is unlikely to change the existing neutral tenor of its statements. Although some hawkish comments are slowly emerging (Zielinska-Glebocka, Glapinski), we believe that the new man at the helm of the central bank, as well as most members of the Monetary Policy Council, will not wish to change rates until the end of the year, due to the significant uncertainties associated with the global recovery. Naturally, the monetary policy might also be tightened by the strengthening of the Polish currency.

Calendar

	Date	Time	Indicator	Period	Forecast		Consensus		Previous	
					m/m	y/y	m/m	y/y	m/m	y/y
HU	29.6.2010	09:00	Unemployment rate (%)	05/2010			11.6		11.8	
HU	**30.6.2010**	**08:30**	**Current account (HUF B)**	**1Q/2010**			**128**		**456**	
HU	30.6.2010	09:00	PPI (%)	05/2010					1.6	-0.1
CZ	30.6.2010	11:00	Money supply M2 (%)	05/2010						5.2
PL	30.6.2010	14:00	Current account (EUR M)	1Q/2010			-1 158		-2 728	
PL	**30.6.2010**	**14:00**	**NBP meeting (%)**	**06/2010**	**3.50**		**3.50**		**3.50**	
CZ	1.7.2010	14:00	Budget balance (CZK B)	06/2010					-95.4	
HU	2.7.2010	09:00	Trade balance (EUR M)	04/2010 *F					526.4	

m/m - monthly change; y/y - yearly change; s.a. - seasonally adjusted; n.s.a. - non-seasonally adjusted; P - preliminary; F - final
EMU, USA, UK, JPY - figures seasonally adjusted, if not stated otherwise; Central Europe - figures seasonally non-adjusted, if not stated otherwise
Government Bond Auction: period = auction settlement date; m/m = total bids; y/y = supply

Our forecast

Official interest rates (end of the period)

		Current	IX.10	XII.10	III.11	VI.11	Last change	
Czech Rep.	2W repo rate	*0,75*	0,75	0,75	1,00	1,25	-25 bps	6.5.2010
Hungary	2W deposite r.	*5,25*	5,00	5,00	5,00	5,00	-25 bps	23.2.2010
Poland	2W inter. rate	*3,50*	3,50	3,50	3,75	4,00	-25 bps	25.6.2009

*Short-term interest rates 3M *IBOR (end of the period)*

		Current	IX.10	XII.10	III.11	VI.11
Czech Rep.	PRIBOR	*1,20*	1,15	1,22	1,35	1,60
Hungary	BUBOR	*5,25*	5,10	5,00	5,00	5,00
Poland	WIBOR	*3,85*	3,90	4,10	4,30	4,30

Long-term interest rates 10Y IRS (end of the period)

	Current	IX.10	XII.10	III.11	VI.11
Czech Rep.	*2,87*	3,45	3,65	3,80	3,95
Hungary	*6,455*	6,00	6,00	6,00	6,00
Poland	*5,425*	5,40	5,60	5,60	5,80

Exchange rates (end of the period)

		Current	IX.10	XII.10	III.11	VI.11
Czech Rep.	EUR/CZK	*25,7*	24,8	24,8	23,8	25,5
Hungary	EUR/HUF	*284*	270	265	265	260
Poland	EUR/PLN	*4,11*	3,90	3,60	3,90	3,60

GDP (y/y)

	Q2 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011
Czech Rep.	*1,7*	1,4	1,7	2,3	2,6
Hungary	*-5,3*	-1,5	0,5	1,0	2,0

Inflation (CPI y/y, end of the period)

	VI.10	XII.10	III.11	VI.11	IX.11
Czech Rep.	*1,4*	2,1	2,0	1,9	1,9
Hungary	*5,9*	4,2	3,5	3,5	3,5

Current Account as % of GDP

	2009	2010
Czech Rep.	-1,0	-0,7
Hungary	-1,0	-0,5

Public finance balance as % of GDP (in ESA95 standards)

	2009	2010
Czech Rep.	-5,9	-5,5
Hungary	-3,9	-5,5

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