



Central European Daily

Tuesday, 12 July 2016

Headlines

Forint ignores Moody's decision to keep stable rating Czech inflation stagnates

The Hungarian forint easily digested what could have been perceived as a slight disappointment by some market players - we talk about Moody's decision to keep Hungarian sovereign rating stable on Friday - and strengthened on Monday. The truth is that CE government bond yields followed core markets and declined after the Brexit. On the contrary, the zloty was under some pressure and weakened against the euro yesterday as Polish statistical office kept inflation estimate for June stable at -0.8% Y/Y.

Regarding inflation, the Czech Statistical Office released figures on inflation today in the morning. The figures showed inflation again reached 0.1% in June (both M/M and Y/Y) which is the same result as in May. On the one hand, fuel prices increased in line with expectations (the result of rising oil prices) and so did prices of vacations (which is normal ahead of the main holiday season). On the other hand, prices of food and clothes seasonally declined in June.

All in all, inflation remains a touch above the latest forecast of the Czech National Bank (CNB). Although we see inflation will stay close to current levels in months ahead, we do not expect any policy reaction. The CNB should be quite happy with the economy as inflation is more or less in line with the forecast and the latest figures also showed some pick-up in wage dynamics. Positive labour market development was also confirmed by unemployment rate reading for June (also released today). The decision about exit from the intervention regime will probably to a great extent eventually depend on the external environment, namely on the duration of ECB's quantitative easing programme.

Currencies		% chng
EUR/CZK	27.03	0.1
EUR/HUF	313.3	-0.1
EUR/PLN	4.43	0.4
EUR/USD	1.11	0.0
EUR/CHF	1.09	0.0

FX Correlation Matrix

	EUR/PLN	EUR/HUF	EUR/USD	EUR/CHF
EUR/CZK	0.03	0.04	-0.14	-0.33
EUR/PLN		0.24	0.15	-0.11
EUR/HUF			0.24	0.05
EUR/USD				0.37

correlations of 30 min changes over past 5 sessions

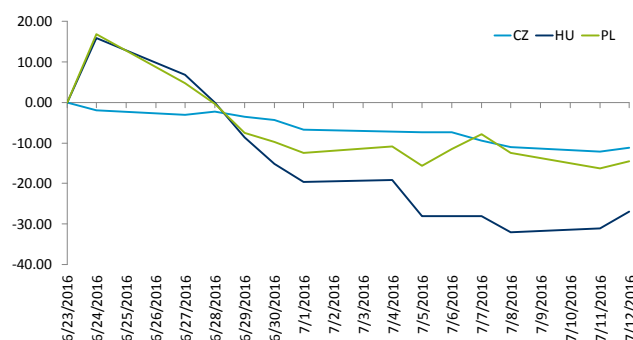
FRA 3x6	%	bps chng
CZK	0.25	0
HUF	0.91	0
PLN	1.65	-3
EUR	-0.33	0

GB	%	bps chng
Czech Rep. 10Y	0.40	2
Hungary 10Y	2.91	-6
Poland 10Y	2.85	-3
Slovakia 10Y	0.49	0

CDS 5Y	%	bps chng
Czech Rep.	41	0
Hungary	156	-2
Poland	98	0
Slovakia	42	0

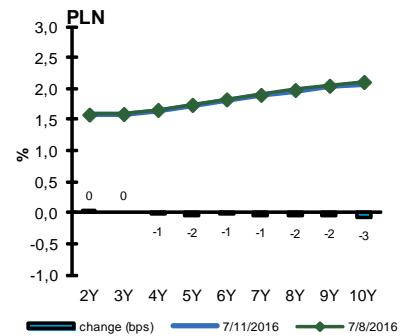
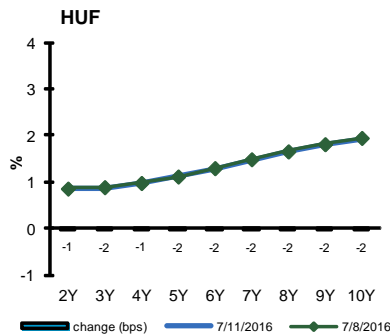
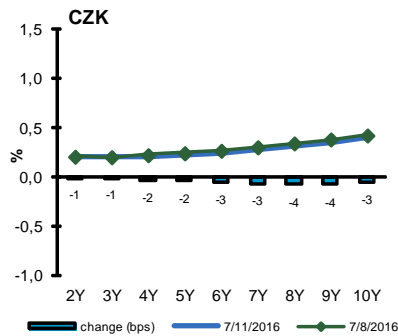
Source: Reuters

CE: government bond yield (10Y, change in bps)



CE government bond yields fell after the Brexit.

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	Unemployment rate 15-64	% 06/01/2016	5.2		5.2		5.3		5.4	
CZ	9:00	CPI	% 06/01/2016	0.2	0.2	0.1	0.1	0.1	0.1	-0.2	0.1
PL	14:00	Core CPI	% 06/2016					0.1	-0.3	0	-0.4

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