06 November 2009

New Europe Weekly

The correction is not over yet

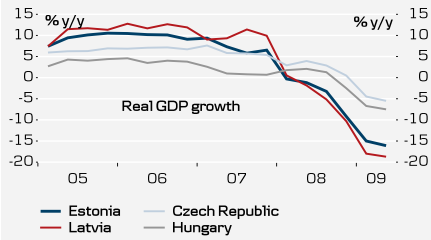
Focus on inflation and GDP

In the coming week the macroeconomic calendar is dominated by inflation numbers for October and GDP numbers for Q3, for a number of countries across the region. While we expect to see some stabilisation in the GDP numbers for the Czech Republic and Hungary, the Estonian and Lithuanian data are likely to show a continued deterioration in the macroeconomic environment.

In terms of inflation, we are likely to see inflation continue to inch down across the region. That said, the disinflationary process is coming to an end in certain countries in the region – most notably in Turkey, where we already have the October inflation numbers – a reading of 5.1% y/y probably is the bottom for inflation.

Despite a relatively busy macroeconomic calendar next week we do not believe the data will do much to change sentiment in the EMEA markets as global sentiment is likely to continue to overshadow the news on regional macro data.

GDP stabilising in Czech and Hungary



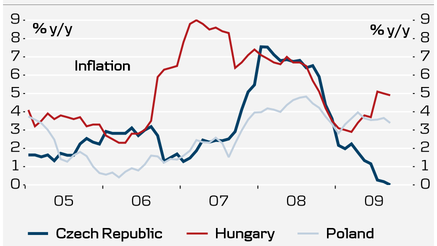
Source: Reuters Ecowin and Danske Markets

Fixed income outlook: FX sell-off short cuts the easing cycle

Going into next week the regional fixed markets are likely to continue to take the lead from the EMEA FX markets. The action in the regional fixed income markets are likely to become somewhat less synchronised than it has been the case over the past week and local macro data could blur the picture.

Looking ahead we believe that there is a good chance that the easing cycle has come, or is in the process of coming, to an end across the region. Most notably we believe that the Turkish central bank (TCMB) is close to ending its easy cycle and we forecast only one more 25 basis point rate cut from the TCMB. However, further currency weakness in the coming one to two weeks could easily short-cut the Turkish easing cycle. That could also be the case for Romania and Hungary.

CEE inflation to head a little lower



Source: Reuters Ecowin and Danske Markets

FX outlook: More weakness to come, sell the rand

Our EMEA FX Scorecard is still signalling further weakness in EMEA currencies. It is still primarily the technical scores and the carry scores that is weighing on the overall score. However, it is also notable that global conditions have turned less supportive in recent weeks and the score could turn negative in the coming weeks if the weakness in the global stock markets continues.

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Calendar

EMEA Data and Events in Week46

Monday, November 9, 2009				Period	Danske Bank	Consensus	Previous
RUB	-	Foreign trade	bln. USD	Sep		*10.0*	
EEK	8:00	Trade balance	bln. EEK	Sep			
CZK	9:00	Unemployment rate	%	Oct	8.6%	*8.6%*	8.6%
CZK	**9:00**	**CPI**	**y/y**	**Oct**	**-0.1%**	***-0.1%***	**0.0%**
RON	9:00	Industrial production	y/y	Sep	-8.1%		-5.9%
RON	9:00	Retail sales	y/y	Sep	-14.0%		-12.1%
TRY	9:00	Industrial production	y/y	Sep	-7.5%	*-7.1%*	-6.3%
LTL	**10:00**	**CPI**	**y/y**	**Oct**	**1.7%**		**2.7%**
LTL	10:00	Trade balance	bln. LTL	Sep			-0.53
LVL	**12:00**	**CPI**	**y/y**	**Oct**	**-0.8%**		**0.5%**
LVL	12:00	Trade balance	mln. LVL	Sep			-81.1
LVL	**12:00**	**GDP**	**y/y**	**3rd quarter**	**-19.6%**		**-18.7%**

Tuesday, November 10, 2009				Period	Danske Bank	Consensus	Previous
TRY	-	Current account	bln. USD	Sep			0.1
ZAR	12:00	Manufacturing production nsa	y/y	Sep			-15.0%
PLN	14:00	Current account	Euro mil	Sep	-520		-69
PLN	14:00	Trade balance	EUR mil	Sep	-600		-481

Wednesday, November 11, 2009				Period	Danske Bank	Consensus	Previous
LTL	-	Current account	mln. EUR	Sep			37.8
RON	**9:00**	**CPI**	**y/y**	**Oct**	**4.5%**		**4.9%**
CZK	9:00	Industrial production (final)	y/y	Sep	-11.9%		-8.4%
CZK	9:00	Construction	y/y	Sep			0.6%
HUF	**9:00**	**CPI**	**y/y**	**Oct**	**4.8%**	***5.0%***	**4.9%**
CZK	10:00	Current account	bln. CZK	Sep		*-5.5*	-8.4
LVL	12:00	Current account	mln. LVL	Sep			76.6

Thursday, November 12, 2009				Period	Danske Bank	Consensus	Previous
EEK	-	Current account	bln.EEK	Sep			0.4

Friday, November 13, 2009				Period	Danske Bank	Consensus	Previous
EEK	**-**	**GDP**	**y/y**	**3rd quarter**	**-16.5%**		**-16.1%**
RUB	-	PPI	y/y	Oct		*1.6%*	-5.5%
HUF	**9:00**	**GDP**	**y/y**	**3rd quarter**	**-6.5%**	***-6.4%***	**-7.5%**
CZK	9:00	Retail sales	y/y	Sep	-6.5%	*-5.8%*	-3.5%
CZK	**9:00**	**GDP**	**y/y**	**3rd quarter**	**-4.9%**	***-4.6%***	**-5.5%**
PLN	**14:00**	**CPI**	**y/y**	**Oct**	**3.1%**		**3.4%**

The editors do not guarantee the accurateness of figures, hours or dates stated above
Note that all releases are CET.

Danske Markets

Source: Danske Markets

Fixed income market update

Review: FX sell-off might have short cut the easing cycle

The sell-off the EMEA currency markets have continued into this week and that exerted some upward pressure on market rates and yields across the region.

Adding to the sentiment in the regional fixed income markets have been higher than expected inflation numbers in Turkey and increased political concerns in Romania, the Ukraine and Latvia. The continued negative political news flow out of Romania forced the Romanian central bank to keep its key policy rate unchanged at 8% this week – contrary to the expectation of some market participants. Also the Czech central bank (CNB) kept its key interest rate unchanged at 1.25%. While this was in line with the consensus expectation, we had looked for a cut of 25bp. Three board members – out of seven – voted for a rate cut. Furthermore, it should be noted that “non-rate easing tools” was debated – indicating that some CNB board members see deflationary risks. Overall, we believe the door is still open for rate cuts in the Czech Republic – especially if the Czech koruna (CZK) remains stable. Czech market rates are roughly 5bp higher over the week.

The only notable outlier in the region’s fixed income markets has been South Africa where yields have dropped markedly. In our view, the outperformance in the South African fixed income market reflects that the currency rebounded 3% over the week.

EMEA swap rate performance

2Y IRS	Mid level	1W chg - bp
CZK	2.44	6
HUF	6.65	-11
PLN	5.02	2
RUB	8.65	10
TRY	8.90	-3
ZAR	7.59	-12
5Y IRS	**Mid level**	**1W chg - bp**
CZK	3.22	6
HUF	6.77	-4
PLN	5.63	3
RUB	8.80	-3
TRY	10.19	-1
ZAR	8.47	-12

Data updated: 06/11 - CET: 12:41

Source: Reuters Ecowin and Danske Markets

Preview: EMEA fixed income markets to remain under pressure

Going into next week the regional fixed markets are likely to continue to take the lead from the EMEA FX markets and given our EMEA FX Scorecard continues to point toward weaker regional currencies we would in general be positioned for higher rates and yields. That said the action in the regional fixed income markets are likely to become somewhat less synchronised than it has been the case over the past week and local macro data could blur the picture.

The focus of attention for October will be on inflation and Q3 GDP numbers. Most interesting, in our view, will be the Hungarian GDP and inflation numbers – out on Friday and Wednesday respectively. We are looking for moderate downside surprises relative to the consensus expectation on both numbers, and this could spur downside pressures on Hungarian markets rates and yields during the second half of next week. Hence, although we believe that Hungarian rates and yields fundamentally should be heading higher and continued negative market sentiment in the EMEA FX markets could push yields upward the macro data next week points in the opposite direction and we recommend being neutral on the Hungarian fixed income market going into next week.

Policy rate outlook

	Spot	+3M	+6M	+12M
EUR	1.00	1.00	1.00	1.50
PLN	3.50	3.50	3.50	3.50
CZK	1.25	1.00	1.00	1.00
HUF	7.00	6.75	6.75	6.75
TRY	6.75	6.50	6.50	6.50
ZAR	7.00	7.00	7.00	7.50
RUB	9.50	9.00	8.50	8.50

Source: Reuters Ecowin and Danske Markets

Looking further ahead we believe that there is a good chance that easing cycle has come, or is in the process of coming, to an end across the region. Most notably we believe that the Turkish central bank (TCMB) is close to ending its easy cycle and we forecast only one more 25bp rate cut from the TCMB. However, further currency weakness in the coming one-two weeks could easily short-cut the Turkish easing cycle. That could also be the case for Romania and Hungary as well.

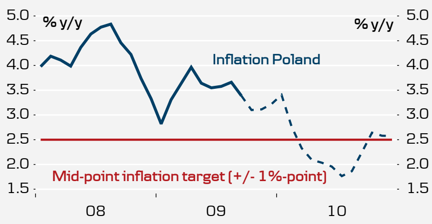
Russian rates could head lower

In Russia October inflation fell into single-digit territory for the first two times for more than two years and our expectation is that it will fall even lower due to a slumping economy. Hence we expect inflation to inch down to 7% by end-Q1 10. Hence market rates could fall a little further in the coming weeks – given the oil prices stay around current levels. However, we note that rates could come some under pressure during December due to seasonal and public budgetary effects.

Fixed Income market update – II

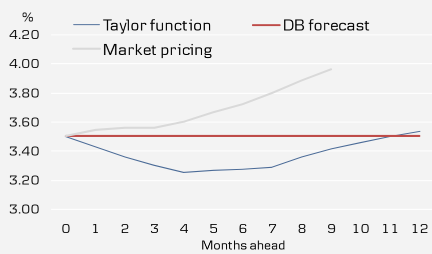
Poland

Polish inflation outlook



Source: Reuters Ecowin and Danske Markets

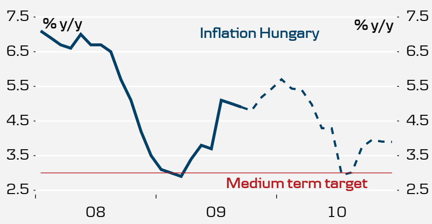
Policy rate outlook and pricing



Source: Reuters Ecowin and Danske Markets

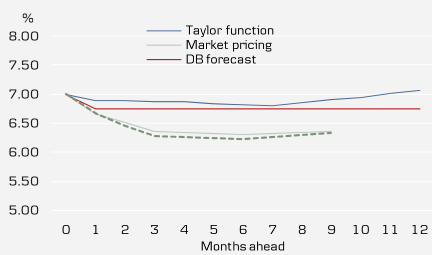
Hungary

Hungarian inflation outlook



Source: Reuters Ecowin and Danske Markets

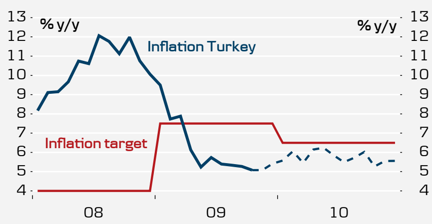
Policy rate outlook and pricing



Source: Reuters Ecowin and Danske Markets

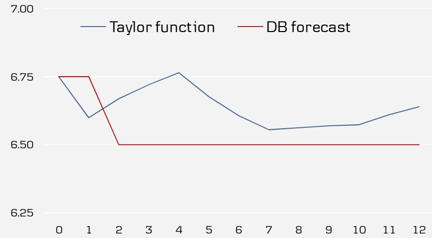
Turkey

Turkish inflation outlook



Source: Reuters Ecowin and Danske Markets

Policy rate outlook



Source: Reuters Ecowin and Danske Markets

FX market update

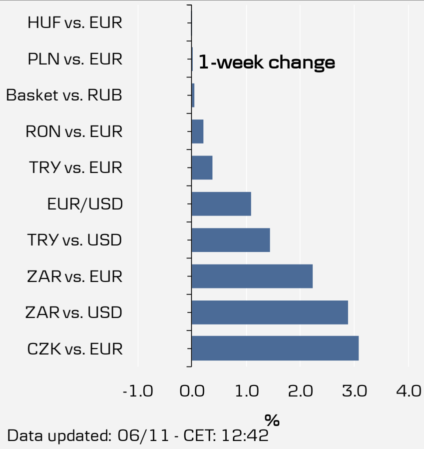
Review: Correction has continued

The correction that started in the EMEA FX markets last week has to some extent continued going in to this week. However, during the week the sell-off faded and some currencies have in fact started to strengthen – most notably the rand which have rallied on surging gold prices.

Even though there have been some signs of stabilisation the markets are clearly still in a "corrective mode" and nervousness clearly still persists. Furthermore, it has been notable that positive US GDP numbers for Q3 (see *comment*) last week and a positive reading on ISM for October (see *comment*) failed to do much to lift sentiment in the EMEA markets, but this time around the impact on the EMEA currencies has been extremely small and short-lived. This is a clear indication that the markets are already priced for a relatively strong US recovery and more is needed to increase risk appetite – especially as we are heading toward year-end.

We continue to believe that the global financial and economic conditions are extremely important for the performance of the EMEA currencies; but it is also clear that a recovery in the US economy is no longer enough to lift the EMEA markets – more is needed.

FX performance – one-week



Source: Reuters Ecowin

Preview: Stay position for regional FX weakness

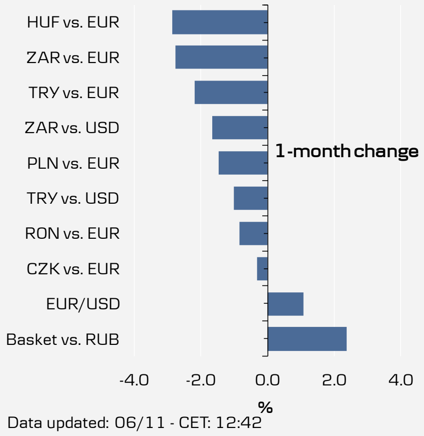
Our EMEA FX Scorecard is still indicating further weakness in EMEA currencies. It is still primarily the technical scores and the carry scores that is weighing on the overall score. However, it is also notable that global conditions have turned less supportive in recent weeks and the score could turn negative in the coming weeks if the weakness in the global stock markets continues.

The scores are now negative for HUF, TRY and ZAR, around zero for PLN and slightly positive for CZK (+0.7). The scores are most negative for HUF and ZAR and we continue to expect these two currencies to underperform the other currencies in the region going forward.

We believe it is especially notable that the score for rand is the most negative – despite the recent surge in gold prices – and we therefore believe that the rally in the rand we have seen this week is likely to be short-lived and we could soon see USD/ZAR heading again and find it likely that the recent high on USD/ZAR of around 8.00 will be tested – especially if the rally in gold starts to lose steam and/or the EUR/USD start to move down. Furthermore, we would stress that the recent news flow out of South Africa has indicated that the South African government under the leadership president Zuma is moving increasingly to the left under pressure from South Africa's powerful unions. That could sooner or later unsettle investors and put pressure on the rand. That said, for now South African politics is unlikely to be a key mover in the South African markets.

Concluding, we see little reason to turn bullish on the EMEA currencies yet also taking into account the significant "local risks" – especially the given the political risks in the regions "trouble spots" – Romania, Latvia and the Ukraine.

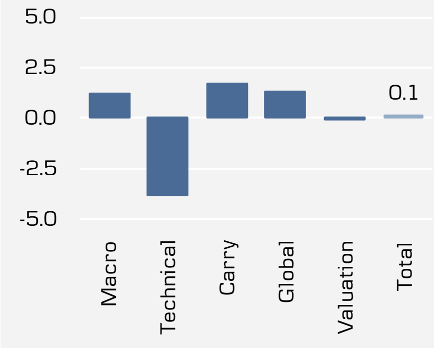
FX performance – one-month



Source: Reuters Ecowin

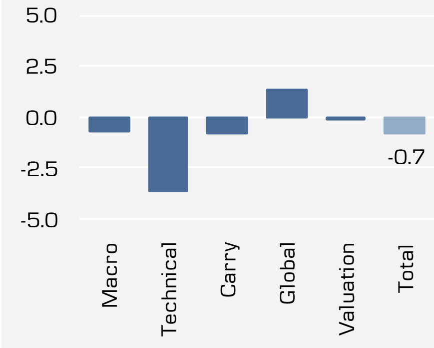
FX Score Card overview

Score – PLN



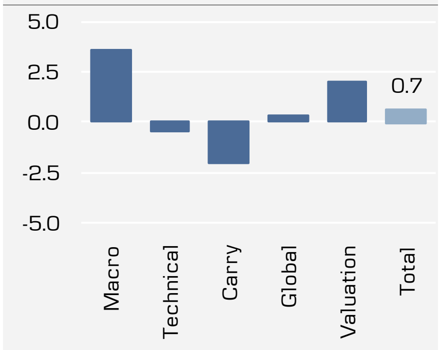
Danske Markets calculations

Score – HUF



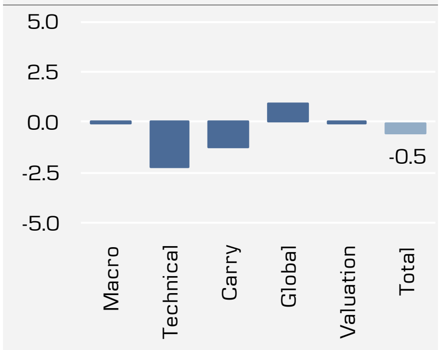
Danske Markets calculations

Score – CZK



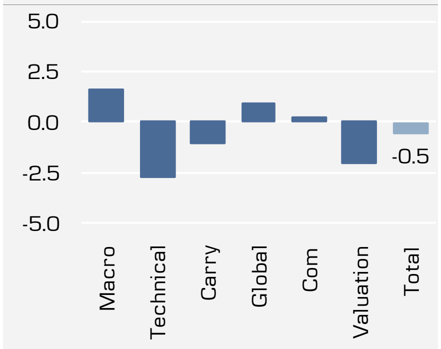
Danske Markets calculations

Score – TRY



Danske Markets calculations

Score – ZAR



Danske Markets calculations

EMEA FX scorecard outline

- All scores are computed so they score from +5 to -5. The score measures how far from a mean point the indicator is measured in standard deviation. A score is combined of different sub-scores.
- **Macro:** Calculates the growth momentum in different monthly macro indicators.
- **Technical:** Calculates the momentum in different volatility measures, short- and longer term moving averages and the level of relative strength index.
- **Carry:** Calculates the momentum in local three-month rates, carry-to-risk, spread against EUR or USD three-month rates and spread against peers.
- **Global:** Consists of a global growth score based on leading global indicators and hard macro data, a liquidity score based on the momentum in G3 real rates, a sentiment score based on performance in the global equity market and traditional funding currencies.
- **Valuation:** Calculates whether currencies are over/under valued compared with the long-term trend in the real effective exchange rate (REER). The trend is adjusted for external imbalances – i.e. an imbalance-adjusted REER. The scores are calibrated to reflect short-term impact of the valuation on the FX.

EM FX trading performance

Performance sheet

Danske EM FX Trading Recommendations

Open	Start date	Level	Now	Target	Stop	P/L (incl carry)	Comment

Recently closed	Start date	Level	Exit date	Level	P/L (incl carry)	Comment
Buy EUR/HUF	*27/10/09*	*268.75*	*29/10/09*	*272.00*	*1.17%*	29/10 - stop raised to 272
Buy USD/ZAR	*27/10/09*	*7.58*	*29/10/09*	*7.72*	*1.81%*	29/10 - stop raised to 7.72

Hist. Performance			
# of trades since 2007	30	# of trades in 2009	6
- average net gain	0.58%	- average net gain	-0.05%
- batting average	0.60	- batting average	0.50

Source: Danske Markets

Currency forecast, EMEA

Currency Forecast, New Europe/EMEA						
Nov 6. 2009		EUR	USD	SEK	NOK	DKK
USD	Actual	1.49	-	698	567	500
	+3m	1.55	-	652	529	481
	+6m	1.50	-	653	540	497
	+12m	1.45	-	662	552	514
PLN	Actual	4.25	2.85	245	199	175
	+3m	4.10	2.65	246	200	182
	+6m	4.05	2.70	242	200	184
	+12m	4.00	2.76	240	200	187
HUF	Actual	275	185	3.79	3.07	2.71
	+3m	275	177	3.67	2.98	2.71
	+6m	280	187	3.50	2.89	2.66
	+12m	280	193	3.43	2.86	2.66
CZK	Actual	25.7	17.3	40.4	32.8	29.0
	+3m	26.2	16.9	38.5	31.3	28.4
	+6m	25.7	17.1	38.1	31.5	29.0
	+12m	25.4	17.5	37.8	31.5	29.4
EEK	Actual	15.6	10.5	66.4	53.9	47.6
	+3m	15.7	10.1	64.5	52.4	47.6
	+6m	15.7	10.4	62.6	51.8	47.6
	+12m	15.7	10.8	61.3	51.1	47.7
LVL	Actual	0.71	0.48	1467	1191	1050
	+3m	0.70	0.45	1443	1171	1064
	+6m	0.70	0.47	1400	1157	1064
	+12m	0.70	0.48	1371	1143	1066
LTL	Actual	3.45	2.32	301	244	216
	+3m	3.45	2.23	293	238	216
	+6m	3.45	2.30	284	235	216
	+12m	3.45	2.38	278	232	216
RON	Actual	4.29	2.89	242	196	173
	+3m	4.35	2.81	232	189	171
	+6m	4.45	2.97	220	182	167
	+12m	4.60	3.17	209	174	162
BGN	Actual	1.96	1.31	531	431	381
	+3m	1.96	1.26	517	419	381
	+6m	1.96	1.30	501	414	381
	+12m	1.96	1.35	491	409	382
TRY	Actual	2.21	1.48	471	382	337
	+3m	2.20	1.42	459	373	339
	+6m	2.15	1.43	456	377	347
	+12m	2.10	1.45	457	381	355
RUB	Actual	42.9	28.8	24.2	19.7	17.3
	+3m	45.3	29.2	22.3	18.1	16.5
	+6m	45.5	30.3	21.6	17.8	16.4
	+12m	46.7	32.2	20.6	17.1	16.0
UAH	Actual	12.1	8.13	85.9	69.7	61.5
	+3m	14.0	9.00	72.4	58.8	53.4
	+6m	15.0	10.00	65.3	54.0	49.7
	+12m	16.0	11.00	60.2	50.2	46.8
ZAR	Actual	11.2	7.55	92.5	75.1	66.2
	+3m	11.6	7.50	86.9	70.5	64.1
	+6m	11.7	7.80	83.8	69.2	63.7
	+12m	11.6	8.00	82.8	69.0	64.3

Source: Reuters Ecowin and Danske Markets

Macro Forecast, EMEA

Macro forecast, EMEA	Year	Gdp(1)	Private. cons(1)	Fixed Inv(1)	Export(1), (4)	Import(1), (4)	Trade Balance(2), (4)	Current acc.(2), (4)	Industrial prod.(1)	Unem- ploym(3)	Infla- tion(1)
Czech Republic	2008	2.6	3.4	-1.0	0.2	1.0	2.1	-4.1	-1.5	5.9	6.4
	2009	-4.4	1.5	-8.2	-14.9	-19.4	5.1	-1.1	-14.1	9.2	1.0
	2010	0.1	1.0	-1.0	4.2	1.8	6.4	0.2	1.1	10.7	0.2
Estonia	2008	-3.6	-4.8	-12.1	-0.7	-8.7	-11.7	-10.1	-1.4	4.7	10.4
	2009	-15.0	-18.0	-30.0	-15.0	-28.0	-	3.0	-	15.0	-0.2
	2010	-2.7	-1.3	0.1	2.4	3.1	-	1.0	-	18.0	0.7
Hungary	2008	0.7	-0.4	-2.8	7.6	7.4	-0.1	-7.7	-0.6	8.4	6.1
	2009	-6.5	-5.9	-6.3	-18.7	-26.6	6.1	-4.1	-20.9	10.3	4.3
	2010	-2.0	-0.9	-5.1	5.8	3.3	7.8	-4.1	-5.1	11.1	4.4
Latvia	2008	-4.2	-11.0	-13.2	-1.3	-13.6	-17.6	-12.6	-3.7	7.0	15.4
	2009	-19.0	-20.0	-39.0	-22.0	-30.0	-	3.0	-	16.0	3.0
	2010	-6.0	-7.0	-3.8	-0.8	0.7	-	4.5	-	20.0	-0.9
Lithuania	2008	3.0	4.7	-6.1	113.0	10.0	-11.2	-12.2	7.1	5.8	11.1
	2009	-19.0	-20.0	-38.0	-19.0	-27.0	-	0.7	-	15.0	4.0
	2010	-6.0	-6.4	-5.8	-0.7	0.3	-	1.0	-	20.0	-0.8
Poland	2008	5.0	5.4	9.6	14.9	18.2	-4.9	-5.0	3.0	9.5	4.2
	2009	0.2	2.3	-3.1	-21.0	-27.5	-1.7	-1.5	-5.3	12.0	3.5
	2010	0.4	2.9	-7.2	0.1	4.7	-3.0	-2.7	3.4	13.8	2.6
Russia	2008	6.0	10.5	9.0	33.1	31.0	36.7	6.2	2.0	7.7	14.1
	2009	-8.0	-7.0	-13.0	-36.9	-33.3	-42.9	3.7	-8.0	7.5	11.9
	2010	1.5	2.0	-1.0	14.3	18.8	5.9	2.7	1.0	7.4	7.8
Turkey	2008	1.1	0.3	-6.5	25.7	21.3	-9.5	-7.7	-0.6	-	10.4
	2009	-6.9	-1.4	-22.6	-24.7	-29.7	-6.4	-3.2	-10.2	-	6.0
	2010	2.9	3.8	-0.4	1.8	13.0	-7.7	-5.9	6.8	-	5.7

1) Average % y/y 2) % of GDP 3) % of total work force 4) Export and import prices, USD

Source: Reuters Ecowin and Danske Markets

Macro Monitors

Macro Monitor: Poland, Oct 12

Macro Monitor: Hungary, Oct 12

Macro Monitor: Czech Republic, Oct 15

Macro Monitor: Turkey, Oct 19

Source: Danske Markets

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All EM research is available on Bloomberg DDEM

Disclosure

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