



Central European Daily

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Headlines

Currencies: Czech koruna decouples from PLN and HUF and firms strongly
Fixed Income: Polish wages surprise on downside and prompt rate cut hopes

Czech Republic

Currencies	Close	change
EUR/CZK	26.44	-0.9%
EUR/HUF	282.0	0.1%
EUR/PLN	4.539	0.3%
USD/PLN	3.255	0.2%
EUR/USD	1.393	-0.4%
USD/JPY	96.9	0.9%

The Czech koruna decoupled from other regional currencies and firmed strongly yesterday. The koruna gained more than a percent against the euro and the zloty too. Actually the koruna has become the second leading currency in the World this week (the only stronger currency has been the Chilean peso).

We think the main reason why the koruna has been so successful this week is hedging activity of Czech exporters. Six months ago they were hedged on too strong levels, which generated mark-to-market losses and they were not able to hedge new flows and support the koruna. Now it seems that exporters feel some relief and they start to hedge again, which fundamentally supports the koruna.

Today, the domestic calendar is empty, but technically speaking the EUR/CZK might continue to test the 26.32 support level, which has survived so far.



EUR/CZK tests first important support level.

The **Czech yield curve** steepened slightly in a bullish fashion as the stronger koruna supported the front end of the curve yesterday. Obviously the market will bet more on a rate cut next week, if the koruna is stronger.

We think that the end of this week should be quiet. Maybe the market might try to catch renew bearish sentiment in core bond markets. This might lead to a further steepening of the curve as yields at the long end might eventually move higher.

Hungary

Bonds 2Y	Close	change
Czech Rep.	2.62	-0.26
Hungary 3Y	10.43	0.00
Poland	5.35	-0.03
Slovakia	2.76	0.00
Eurozone	1.55	0.01
USA	1.25	0.09

The **Hungarian forint** had reacted positively to the better opening of US equity markets and the currency recovered the 1% loss it suffered in the morning and closed at 281.50. International sentiment is still the driving factor behind the market, thus the short-term outlook could depend on the future of the recently started global correction.

Today's wage data reaffirmed that the wage growth has slowed markedly, which could be important to calm down inflation fears after headline inflation rose sharply in recent months.

Bonds 10Y	Close	change
Czech Rep.	6.00	0.14
Hungary	10.46	0.00
Poland	6.45	0.09
Slovakia	5.29	0.06
Eurozone	3.58	0.07
USA	3.82	0.12

The **Hungarian bond** market followed the currency as usual these days and yields lowered slightly. The bond auctions of 3- 5- and 10-year papers attracted total demand of Ft60bn. AKK accepted a bit more of the 3-year bond than usual at Ft6.5bn, while it issued the regular Ft5bn of the others. Since buyback auctions showed only modest interest, the bond market had overall higher net demand during the week, which could be a positive sign about the government's financing outlook.

Poland

The **Polish zloty** stayed in a tight range for a second session in a row. The market was surprised by the going decline in wage growth. That provides a powerful argument for the Polish central bank to cut rates at the meeting next week. Furthermore the governor Skrzypek reiterated yesterday that the bank is maintaining an easing bias.

Today the industrial output should not surprise on the upside and we do not expect the zloty to profit from it. The pair should more rely on the indecisive development of the Eurodollar. Hence we would not be surprised if sideways mode prevails at the end of the week.

Tables of rates

IBOR 3M	Close	change
Czech Rep.	2.15	0.01
Hungary	9.64	-0.01
Poland	4.64	0.02
Eurozone	1.24	-0.01
USA	0.61	0.05

FRA 3x6	Close	change
Czech Rep.	2.03	-0.01
Hungary	9.10	0.15
Poland	4.33	0.03
Eurozone	1.17	-0.04
USA	0.83	0.05

Central Bank Rate	last chng
Czech Rep.	1.50 -25
Hungary	9.50 -50
Poland	3.75 -25
Slovakia	1.00 -25
Eurozone	1.00 -25
USA	0.25 -75

IRS 2Y	Close	change
Czech Rep.	2.64	-0.07
Hungary	8.97	0.06
Poland	5.01	0.05
Eurozone	1.96	0.01
USA	1.76	0.16

IRS 10Y	Close	change
Czech Rep.	3.96	-0.06
Hungary	8.47	0.04
Poland	5.74	0.06
Eurozone	3.80	0.06
USA	0.83	0.18

STOCKS	close	change
PX	922.2	0.0%
BUX	15370.0	0.6%
WIG	31081	-0.1%
Eurostoxx	2111.69	0.7%
DAX	4837.5	0.8%
S&P	918	0.8%

Calendar

	Date	Time	Indicator	Period	Forecast		Consensus		Previous	
					m/m	y/y	m/m	y/y	m/m	y/y
HU	19.6.2009	09:00	Wages (% ytd.)	04/2009		4.0				4.3
PL	19.6.2009	14:00	Industrial output (%)	05/2009			-0.4	-6.1	-7.1	-12.4
PL	19.6.2009	14:00	PPI (%)	05/2009			0.1	4.5	-0.6	5.1

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