



Central European Daily

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Headlines

Currencies: CE currencies give up part of their recent gains
Fixed Income: The CNB Minutes show Board concerns about high core inflation

Czech Republic

Currencies	Close	change
EUR/CZK	25.87	0.5%
EUR/HUF	271.0	0.5%
EUR/PLN	4.359	-0.3%
USD/PLN	3.075	0.0%
EUR/USD	1.401	-0.6%
USD/JPY	95.9	-0.9%

The Czech koruna gave up all of its Wednesday's gains yesterday as market sentiment turned negative after a release of the US payrolls report. As a result the EUR/CZK rebounded back towards the 26 level.

Today, the only item on the domestic agenda is the CNB Minutes from the latest Bank Board meeting where the Board left its rates unchanged. In our view the Minutes sounded broadly neutral. What could be surprising is the fact that the Board really discussed the effects of a weak(er) koruna on core inflation. All in all, this kind of information won't be a big item for today's trading. We expect very a quite market as there is a holiday in the US today and the Czech Republic is heading for the long weekend.

Bonds 2Y	Close	change
Czech Rep.	2.95	0.07
Hungary 3Y	9.50	-0.26
Poland	5.44	0.02
Slovakia	2.65	-0.07
Eurozone	1.23	-0.12
USA	0.99	-0.07

Bonds 10Y	Close	change
Czech Rep.	5.81	-0.04
Hungary	9.46	-0.34
Poland	6.27	-0.01
Slovakia	5.15	-0.07
Eurozone	3.33	-0.07
USA	3.50	-0.04



EUR/HUF: forint rally stalls after US payrolls report

The Czech yields fell across the board yesterday. Given the lack of domestic market movers t positive price action was exclusively a result of bullish developments in core bond markets.



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Today, the eye-catcher is obviously the CNB Minutes from the latest Bank Board meeting. The text shows that the Board saw (in our view very weak) inflationary factors - the unexpectedly high growth in household consumption and the slight upswing in adjusted inflation excluding fuels (in fact core inflation), which according to the Board might have been a result of the weaker exchange rate at the start of this year. We think that both threats will quickly fade away from Board members' minds in the upcoming month and that the CNB will be forced to cut rates one more (though probably the last) time.

Hungary

Yesterday, the Hungarian markets were affected by conflicting factors. Early in the session, the forint extended the gains from the previous sessions. On top of that, the positive sentiment towards the country was confirmed by a very successful auction of Hungarian government bonds. This combination of a rising currency and rising bond prices indicated that markets came to the conclusion the Hungary might have entered some kind of positive, self-reinforcing spiral that might open the way for rate cuts in the near future. The Government debt agency also indicated that it may raise the amounts offered at the next bond auctions, if demand remains strong. However, the tide turned after the publication of the weaker than expected labour market report in the US. A spike in global risk aversion also hit the Hungarian currency and EUR/HUF even returned above the 270 mark.

Recently, the forint had a strong run on the positive domestic developments. However, if the global market context were to turn again more negative, this will cap the ascent of the forint and might even cause some further (moderate) profit taking. The technical picture remains forint constructive as long as the EUR/HUF pair holds below the 275 resistance area.

Poland

The **Polish zloty** gave up part of the gains on Thursday as the sentiment on the global markets deteriorated after worse than expected US payrolls. Beside that also the stronger US dollar could have contributed to a nearly 1% loss of the Polish currency. The comments by the Finance Minister indicating that the budget deficit should not top recently revised 27 billions zloty were widely ignored as well as his remarks on green shoots in the economy.

Today the calendar is once again empty. Beside that also the US Holidays should contribute to the calm trading ahead of weekend. The zloty should stay in wait and see mode ahead of the start of the US earning season, which may be decisive for the sentiment on the global emerging markets.

Tables of rates

IBOR 3M	Close	change	FRA 3x6	Close	change	Central Bank Rate	last chng	
Czech Rep.	2.09	-0.01	Czech Rep.	2.09	0.00	Czech Rep.	1.50	-25
Hungary	9.66	0.00	Hungary	8.70	-0.05	Hungary	9.50	-50
Poland	4.41	-0.02	Poland	4.36	-0.01	Poland	3.75	-25
Eurozone	1.07	-0.01	Eurozone	1.05	-0.09	Slovakia	1.00	-25
USA	0.58	-0.03	USA	0.71	-0.03	Eurozone	1.00	-25
USA	0.58	-0.03	USA	0.71	-0.03	USA	0.25	-75

IRS 2Y	Close	change	IRS 10Y	Close	change	STOCKS	close	change
Czech Rep.	2.68	0.00	Czech Rep.	3.93	0.00	PX	866.5	-3.6%
Hungary	8.54	-0.01	Hungary	8.05	-0.01	BUX	15099.6	-2.1%
Poland	4.90	-0.04	Poland	5.49	-0.03	WIG	30525	-0.5%
Eurozone	1.68	-0.12	Eurozone	3.60	-0.04	Eurostoxx	2075.97	-2.8%
USA	1.45	-0.03	USA	0.71	-0.03	DAX	4718.5	-3.8%
USA	1.45	-0.03	USA	0.71	-0.03	S&P	896	-2.9%

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