



Central European Daily

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Headlines

Currencies: Czech industry posts another sharp decline
 Fixed Income: Hungary passes key tax reform

Czech Republic

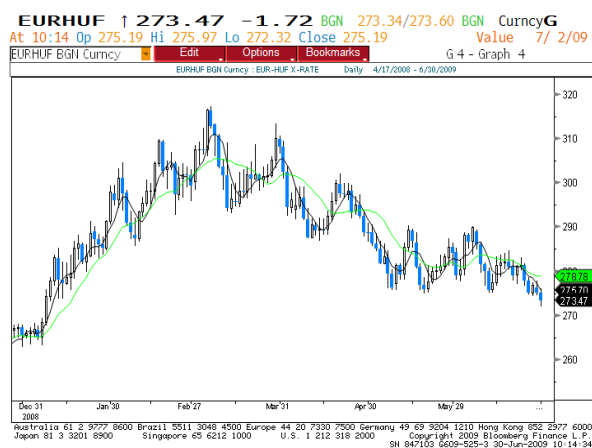
The **Czech koruna** dipped back below the EUR/CZK 26.00 level as better sentiment in global equity markets supported all currencies in Central Europe.

Currencies	Close	change
EUR/CZK	25.96	-0.4%
EUR/HUF	273.5	-1.2%
EUR/PLN	4.474	-0.9%
USD/PLN	3.165	-1.0%

EUR/USD	1.411	0.7%
USD/JPY	95.5	0.3%
Bonds 2Y	Close	change
Czech Rep.	2.88	-0.06
Hungary 3Y	10.15	-0.04
Poland	5.37	0.03
Slovakia	2.69	-0.05
Eurozone	1.39	0.06
USA	1.14	0.04

Bonds 10Y	Close	change
Czech Rep.	5.85	-0.04
Hungary	10.23	0.01
Poland	6.32	-0.12
Slovakia	5.10	-0.30
Eurozone	3.39	0.00
USA	3.51	-0.02

Today, the Czech Statistical Office has already released its flash estimate for the industrial production in May and the figures were again very poor. The IP fell 21.7 % y/y, which means that the month-on-month figure (which is not available) was again deeply negative. So, we still do not see any green shoots in the Czech economy despite the obviously positive impact of German scrap subsidy on the Czech auto industry. The IP figures are clearly a disappointing signal for the koruna, which is facing a strong barrier at the EUR/CZK 25.85 level.



EUR/HUF: forint extends gains after approval of tax bill

The **Czech yield** curve flattened in a bullish fashion in a thin trading. Interestingly, the most visible decline was seen at the long end of the swap curve, which widened the already extended asset-swap spreads.

The significant drop in the May industrial production is definitely a bullish signal for the Czech fixed-income market, which might once again start to bet on another rate cut. On the other hand, we are more cautious on the outlook for the long end of the bond curve, because of additional budget cost due to the recent floods in the country (they have been estimated at CZK 5 bn so far).

Hungary

Yesterday, the Hungarian parliament approved a tax bill for 2010, which is considered as a cornerstone of the country's attempts to boost competitiveness and comply with conditions for the IMF package. The passing of the law averts the risk of early elections. Prime Minister Gordon Bajnai said he would stay in his post as long as Socialists and the Free Democrats supported his programme. The tax law will cut personal income taxes and social contributions paid by employers to the government, but will launch a real-estate tax next year and increase one of the country's value-added taxes. The next test for the government will be passing the 2010 budget.

The **Hungarian forint** strengthened slightly after the tax bill approval in parliament. EUR/HUF closed the session at 275.19, somewhat below the opening level of 276.46. This morning, the forint extended its upward trend after the release of the current account data. In the first quarter, the current account deficit narrowed sharply due to a rising trade surplus, lower profit repatriations and high European Union financial support.

Poland

The **Polish zloty** started the week on the positive note and attacked 4.50 EUR/PLN. The Hungarian tax vote helped to boost the regional sentiment as well as the news that European Commission would disburse a further 1.2 billion euros to the Latvia.

Domestic calendar of events is more or less empty this week. Hence the zloty should follow the global sentiment towards risky assets and carry trades. If the pair breaks below 4.50 EUR/PLN, we may see further gains in the near term. Nevertheless this may be true only as long as the US dollar remains weak and the global equities strong.

Tables of rates

IBOR 3M	Close	change	FRA 3x6	Close	change	Central Bank Rate	last chng	
Czech Rep.	2.11	0.00	Czech Rep.	2.24	0.01	Czech Rep.	1.50	-25
Hungary	9.66	0.02	Hungary	8.90	-0.10	Hungary	9.50	-50
Poland	4.45	-0.02	Poland	4.39	0.04	Poland	3.75	-25
						Slovakia	1.00	-25
Eurozone	1.11	-0.01	Eurozone	1.14	0.00	Eurozone	1.00	-25
USA	0.60	0.01	USA	0.79	0.01	USA	0.25	-75
IRS 2Y	Close	change	IRS 10Y	Close	change	STOCKS	close	change
Czech Rep.	2.69	-0.02	Czech Rep.	3.96	-0.08	PX	891.9	-0.3%
Hungary	8.73	-0.12	Hungary	8.24	-0.11	BUX	15782.8	2.4%
Poland	5.02	0.05	Poland	5.69	0.01	WIG	30526	0.9%
						Eurostoxx	2124.20	1.7%
Eurozone	1.83	0.05	Eurozone	3.67	0.00	DAX	4885.1	2.3%
USA	1.52	0.05	USA	0.79	0.00	S&P	927	0.9%

Calendar

	Date	Time	Indicator	Period	Forecast		Consensus		Previous	
					m/m	y/y	m/m	y/y	m/m	y/y
HU	30.6.2009	08:30	Current account (HUF B)	1Q/2009	-1 500				-2 584	
HU	30.6.2009	09:00	PPI (%)	05/2009					-1.9	7.2
CZ	30.6.2009	11:00	Money supply M2 (%)	05/2009						7.9
PL	30.6.2009	14:00	Current account (EUR M)	1Q/2009	-79				-5 124	
CZ	1.7.2009	14:00	Budget balance (CZK B)	06/2009						-71.4

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