



# Central European Daily

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## Headlines

**Currencies:** The CNB will present its EUR/CZK projection for the first time  
**Fixed Income:** The CNB to cut rates by 50 bps rate cut and turn more balanced

## Currencies

Yesterday, the Czech koruna recouped some of Tuesday's losses. This correction was probably due to EUR/CZK profit taking before today's CNB meeting and partly as well by gains of the Hungarian forint.

Today the Czech FX market will watch mainly the central banks meeting. Regarding the CNB meeting, the rate decision should not bring a big surprise. A 50 bps cut is the market consensus and also our main scenario. More interesting will be the new economic prognosis which should for the first time include forecasts of the koruna exchange rates. We expect that the CNB will deliver a big surprise in the respect (we expect the estimated EUR/CZK rate will be definitely lower than the current spot rate). Anyway, the development of the Czech koruna will be more dependent on global sentiment which should influence the Czech currency rather negatively.

Currencies	Close	change
EUR/CZK	28.43	-0.5%
EUR/HUF	297.5	-1.8%
EUR/PLN	4.661	0.9%
USD/PLN	3.548	0.0%
EUR/SKK	30.13	0.0%
EUR/USD	1.284	-1.2%
USD/JPY	89.7	0.5%



EURCZK: awaiting the CNB decision

The **Hungarian forint** had a good day finally and recovered below the EUR/HUF 300 level. The move was supported by a little bit better emerging market sentiment and

market also talked about intervention after a sharp intraday move from 302 to 298. The daily top was reached at 294 and the currency reversed to 298 in the afternoon.

The short-end of the curve priced out most of the expected rate cuts for this year. So, the question now is whether the current higher yield environment will be enough for stabilizing the currency or not.

Unlike its regional peers the **Polish zloty** found little respite on Wednesday from the weakening spell that has weighed on the market this year. The EUR/PLN pair treaded water in the 4.6150-4.6950 range, with little conviction to head lower as risk aversion remained elevated. However, the most violent phase of the slide seems to be over for now and given yesterday's modest recovery from the HUF and stronger performance from the CZK some stabilization below 4.70 seems likely early today. The ECB rate decision and the barrage of US data will be eyed closely later on in the session. The latter will be more important, we think, with global growth remaining on of the primary concerns for markets.

## Fixed income

Bonds 2Y	Close	change
Czech Rep.	3.14	0.14
Hungary 3Y	11.38	0.74
Poland	5.10	0.17
Slovakia	2.76	-0.17
Eurozone	1.48	-0.04
USA	0.97	0.01

Bonds 10Y	Close	change
Czech Rep.	4.60	-0.02
Hungary	10.20	0.36
Poland	5.67	-0.02
Slovakia	4.85	0.25
Eurozone	3.37	0.02
USA	2.92	0.05

The **Hungarian bonds** remained broadly stable as the currency recovered and next question could be whether yields will have to go further or not to anchor the currency. The key 5y5y forward spread over the euro improved slightly to 310bp from 320bp and earlier experiences showed that a stable forward spread at the long-end could be the first signal fro a more stable currency. This is usually followed by an adjustment and fine-tuning of the short-end rates.

The **Czech yield curve** steepened again yesterday. Yields rose around 10 basis points at the long end of the curve. The short and the middle segment remained around unchanged levels.

The event of the day will be evidently the CNB meeting (though ECB press conference will be important too). According to our view the Czech national bank will in line with the market consensus cut rates by 50 basis points. There are fundamental reasons for cutting rates even more, given the fact that the inflation development is more positive than the central bank has expected and the Czech economy is facing recession - industrial production fell in November by 17% due to falling demand from abroad, which posed a high risk on the economic outlook of the whole economy. On the other hand, as some CNB board members announced, the actually weaker koruna can act against cuts. Nevertheless we expect negative net inflation (excluding regulated prices and tax changes) and headline inflation below the CNB's target for the whole year 2009. The new central bank's prognosis which will be on table should justify a further rate cut without regard to weaker koruna.

Following days of strong resistance **Polish bonds** eventually succumbed to the rapidly weakening zloty on Wednesday - yields shot higher by up to 20 bps in the 2-5Y segment following the weak primary tender, which worked as the trigger. Our long-standing impression that the short end of the curve offers more risk-weighted value remains unchanged. We would look for signs of a recovery from the zloty though before stepping into the market to capitalize on the upcoming rate cuts and lower inflation. Today core markets will be eyed closely with respect primarily to the zloty.

## Tables of rates

IBOR 3M	Close	change	FRA 3x6	Close	change	Central Bank Rate	last chng	
<b>Czech Rep.</b>	2.67	0.01	<b>Czech Rep.</b>	1.98	0.03	<b>Czech Rep.</b>	2.25 -50	
<b>Hungary</b>	9.48	0.02	<b>Hungary</b>	9.35	0.10	<b>Hungary</b>	9.50 -50	
<b>Poland</b>	4.76	-0.02	<b>Poland</b>	3.84	0.13	<b>Poland</b>	4.25 -75	
<b>Eurozone</b>	2.05	-0.01	<b>Eurozone</b>	1.75	-0.05	<b>Slovakia</b>	2.00 -50	
<b>USA</b>	1.24	-0.01	<b>USA</b>	1.26	-0.01	<b>Eurozone</b>	2.00 -50	
						<b>USA</b>	0.25 -75	
						weco		
IRS 2Y	Close	change	IRS 10Y	Close	change	STOCKS	close	change
<b>Czech Rep.</b>	2.31	0.11	<b>Czech Rep.</b>	3.42	0.20	<b>PX</b>	749.4	-0.4%
<b>Hungary</b>	9.10	-0.10	<b>Hungary</b>	8.43	-0.07	<b>BUX</b>	11890.7	1.5%
<b>Poland</b>	4.55	0.17	<b>Poland</b>	5.19	0.16	<b>WIG</b>	23236	1.0%
<b>Eurozone</b>	2.19	-0.06	<b>Eurozone</b>	3.75	-0.03	<b>Eurostoxx</b>	2018.24	2.1%
<b>USA</b>	1.66	0.00	<b>USA</b>	1.26	0.05	<b>DAX</b>	4492.8	2.7%
						<b>S&amp;P</b>	832	-0.7%

## Calendar

	Date	Time	Indicator	Period	Forecast		Consensus		Previous	
					m/m	y/y	m/m	y/y	m/m	y/y
CZ	5.2.2009	09:00	Trade balance (CZK B)	12/2008						-0.5
CZ	5.2.2009	12:30	CNB meeting (%)	02/2009	1.75		1.75			2.25
HU	6.2.2009	09:00	Industrial output (%)	12/2008						-12.0

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