



Central European Daily

Written by CSOB Prague, CSOB Bratislava, Kredyt Bank Warsaw and K&H Budapest

Headlines

- Currencies: CEE currencies eye ECB
- Fixed Income: Weak outcome of the Czech 10-year auction

Currencies

The **Hungarian forint** seems to have passed the key 239.00 level overnight on the fifth attempt in a week as sentiment turned negative on emerging markets and domestic politics does not seem to be calming anytime soon. Cabinet minister Mr Peter Kiss said today on a press conference that "replacing the PM is not on the table, yet". Whether "yet" is the message of this statement or not, is the main question in this debate as his remark that "it would be odd to replace the PM and carry out the same program" can be understood twofold. It seems to be defending the PM, but also opening up the possibility that a different program from the Socialists could bring a new PM. The fact that Mr Kiss is saying these words suggests that he could be the most likely candidate for the position. Not a technocrat government scenario, but a new agreement between SzDSz and MSzP, either in the form of a new coalition or keeping the current state with ad hoc support from the liberals. How to keep the budget deficit on track and cut taxes? Liberals want tax reductions, while Socialists do not want to cut expenditures, thus agreement does not seem viable now. Persistent uncertainty will be bad news for markets, so we may eye levels above the 240.00.

Currencies	Close	change
EUR/CZK	24.81	0.4%
EUR/HUF	239.0	0.6%
EUR/PLN	3.367	0.5%
USD/PLN	2.340	1.0%
EUR/SKK	30.29	0.0%
EUR/USD	1.446	-0.5%
USD/JPY	108.6	-0.3%

EURHUF ↑ 239.02 - .25 BGN 238.93/239.12 BGN CurrencyG
 At 8:49 Op 239.26 Hi 239.90 Lo 238.67 Close 239.27 Value 9/ 8/08
 EURHUF BGN Currency Edit Options Bookmarks G 4 - Graph 4



EUR/HUF: test key resistance

The **Polish zloty** had a tough session on Wednesday as the EUR/PLN pair inched higher into the 3.37 range in early trade buoyed by the strengthening dollar. The zloty returned below EUR/PLN 3.36 for a brief while just before the closing as the greenback retreated into the EUR/USD 1.44-1.45, only to come under renewed pressure in illiquid offshore trading. Currently the pair is testing bids at 3.3750, where some resistance should be seen. The regional sentiment remains shaky though with both CE4 and emerging markets bearing the brunt of the drop in oil prices and the dollar upsurge, which is why we stick to our view that the short term risks for the EUR/PLN remain to the upside. At the same time given that rate hike expectations are still very much alive, we expect the PLN will have the capability to outperform its regional peers in the near term.

The **Czech koruna** stayed in a rather narrow range below 24.90 EUR/CZK on Wednesday, which was partly due to the technical exhaustion of the weakening trend and partly due to the lack of important news. Even further gains of US dollar were ignored. Today, we believe that foreign trade may confirm resilience of the Czech exporters in the current deteriorating environment. That could partly offset any attempts to weaken the koruna even in the case of further dollar strengthening.

The **Slovak koruna** stayed unchanged yesterday close to its longer established level of EUR/SKK 30.30. Looking at the data, Q2 GDP growth was confirmed at 7.6%. The economy was again driven by domestic demand, but household consumption was not the most important driver as in Q1. Also investments contributed significantly, which is positive news for the future development. Disappointment came from net exports making only marginal contributions to growth. We cannot exclude that lower than expected exports could have its reason in lower euro zone demand. For the year as a whole, GDP growth should reach 7.5% Y/Y.

Fixed income

Bonds 2Y	Close	change
Czech Rep.	3.76	-0.10
Hungary 3Y	9.19	0.01
Poland	6.36	0.04
Slovakia	4.80	0.02
Eurozone	4.11	0.01
USA	2.27	-0.05

Bonds 10Y	Close	change
Czech Rep.	4.54	-0.01
Hungary	8.17	0.01
Poland	6.05	0.00
Slovakia	4.81	0.00
Eurozone	4.15	0.00
USA	3.72	-0.06

Hungarian bonds rose further with the currency and 10-year yield reached levels a tad above 8.00%, which we have not seen for 3-months. The market is naturally mirroring the currency, so no quick turnaround is expected here, but probably more losses will come.

Polish bonds soared lower in yields across the curve in the run up to the 5Y benchmark tender yesterday, before giving back some of the gains in the second half of the session. The auction went well, with PLN 2.64 bn worth of bonds sold at the primary and top-up tenders and roughly PLN 10.7 bn of bids. However, prices were less impressive though in the light of the spectacular demand, as the average yield came in close to the secondary market level.

Today the ECB rate decision will be the eye-catcher. Since we expect a rather hawkish outcome we should see the potential for further gains capped for now, particularly if core European markets sell off following the press conference. The barrage of US data will come into focus as well and might set the tone ahead of the US payrolls tomorrow..

On Wednesday, **Czech bonds** profited from falling stocks. Yields fell slowly along the whole curve, but most at the short and long end (2-3 bps.), while the drop in the middle was rather modest. Bonds were not hit by the 4%/2017 bond auction which was not very successful. The Czech Finance Ministry retained 3.3 bn CZK worth of the bond from the overall amount of 8 bn. CZK with the average yield of 4.560 %. Today, the Czech economic calendar is empty, thus the focus will be on ECB meeting and Czech bonds will probably follow its European counterparts.

Tables of rates

IBOR 3M	Close	change	FRA 3x6	Close	change	Central Bank Rate	last chng	
Czech Rep.	3.75	-0.01	Czech Rep.	3.67	-0.02	Czech Rep.	3.50	-25
Hungary	8.58	0.00	Hungary	8.54	0.02	Hungary	8.50	25
Poland	6.50	-0.01	Poland	6.52	-0.03	Poland	6.00	25
Slovakia	4.28	0.00	Slovakia	4.50	0.03	Slovakia	4.25	-50
Eurozone	4.96	0.01	Eurozone	5.08	0.01	Eurozone	4.25	25
USA	2.81	0.00	USA	2.97	0.00	USA	2.00	-25

IRS 2Y	Close	change	IRS 10Y	Close	change	STOCKS	close	change
Czech Rep.	3.74	-0.04	Czech Rep.	4.13	-0.07	PX	1452.1	-1.3%
Hungary	8.46	0.02	Hungary	7.56	0.01	BUX	20265.4	-2.2%
Poland	6.18	-0.03	Poland	5.74	-0.03	WIG	41152	-0.6%
Slovakia	4.69	0.03	Slovakia	4.62	0.62	Eurostox	3382.60	-0.9%
Eurozone	4.83	0.02	Eurozone	4.66	0.00	DAX	6496.1	-0.2%
USA	3.27	-0.02	USA	2.97	-0.04	S&P	1274	-1.4%

Calendar

	Date	Time	Indicator	Period	Forecast		Consensus		Previous	
					m/m	y/y	m/m	y/y	m/m	y/y
CZ	4.9.2008	09:00	Trade balance (CZK B)	07/2008	2.3				13.9	
HU	5.9.2008	09:00	Trade balance (EUR M)	07/2008 *P	-150		-87,5		100.3	
HU	5.9.2008	09:00	GDP (%)	Q2/2008 *F		2.4		2.4		2.2
HU	5.9.2008	09:00	Industrial output (%)	07/2008 *P					-0.3	-1.6

m/m - monthly change; y/y - yearly change; s.a. - seasonally adjusted; n.s.a. - non-seasonally adjusted; P - preliminary; F - final
 EMU, USA, UK, JPY - figures seasonally adjusted, if not stated otherwise; Central Europe - figures seasonally non-adjusted, if not stated otherwise
 Government Bond Auction: period = auction settlement date; m/m = total bids; y/y = supply

Brussels Research (KBC)	Global Sales Force
Piet Lammens +32 2 417 59 41	
Peter Wuyts +32 2 417 32 35	Brussels
Didier Hanesse +32 2 417 59 43	Corporate Desk +32 2 417 45 82
Bob Maes +32 2 417 51 94	Commercial Desk +32 2 417 53 23
	Institutional Desk +32 2 417 46 25
Dublin Research (IIB)	
Austin Hughes +353 1 6646892	London +44 207 256 4848
Prague Research (CSOB)	Frankfurt +49 69 756 19372
Jan Cermak +420 2 6135 3578	Paris +33 153 89 83 15
Zdenek Safka +420 2 6135 3570	New York +1 212 541 06 97
Jan Bures +420 2 6135 3574	Singapore +65 533 34 10
Bratislava Research (CSOB)	
Marek Gabris +421 2 5966 8400	Prague +420 2 6135 3535
Silvia Cechovicova +421 2 5966 8405	Bratislava +421 2 5966 8436
Warsaw Research (Kredybank)	Budapest +36 1 328 99 63
Piotr Radzewicz +48 22 6345 946	Warsaw +48 22 634 5210
Budapest Research (K&H)	
Gyorgy Barcza +36 1 328 99 89	

Our reports are also available on: www.kbc.be/dealingroom

This non-exhaustive information is based on short-term forecasts for expected developments on the financial markets. KBC Bank cannot guarantee that these forecasts will materialize and cannot be held liable in any way for direct or consequential loss arising from any use of this document or its content. The document is not intended as personalized investment advice and does not constitute a recommendation to buy, sell or hold investments described herein. Although information has been obtained from and is based upon sources KBC believes to be reliable, KBC does not guarantee the accuracy of this information, which may be incomplete or condensed. All opinions and estimates constitute a KBC judgment as of the date of the report and are subject to change without notice.