

EMEA Daily

Review

- **The Czech central bank (CNB) kept its key policy unchanged at 1.50%. See [comment](#).**
- **The South African central bank kept its key rate on hold at 7.50%. See [comment](#).**
- **Polish retail sales data for May advanced 1.1% y/y – much better than our expectation of -2.2% y/y and the consensus expectation of -0.5% y/y.** We are somewhat puzzled that the Polish consumers are holding up this well given the general economic slowdown in the region and in Poland.
- **Public finances in Latvia deteriorated much more than assumed in the official budget forecast, mainly due to the weaker macroeconomic conditions.** In response to this and enforced by international lenders, Latvia's government recently agreed on significant fiscal consolidation measures of around LVL 500m. However, the IMF hasn't "accepted" the latter tightening, probably in expectation of a more reliable medium-term budgetary strategy.
- **In Serbia fiscal concerns are also looming. Serbia applied to Russia for a EUR 400m loan for its budget,** after falling tax revenue threatened its EUR 3bn loan deal with the IMF, on which Serbia drew the first EUR 800m tranche in mid-May. We see this picture of strongly deteriorating public finances spreading across the wider CEE region – also to countries that have recently received international loans (**Ukraine, Hungary, Latvia** etc.).

Trading update

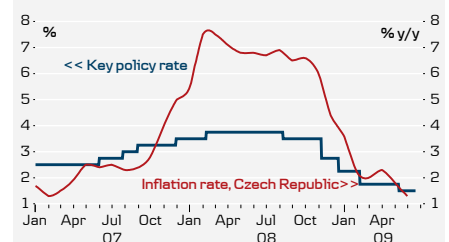
- **Most watchers had expected a 25bp cut yesterday** from the Czech central bank (CNB) meeting given the worsening of the economic situation and minimal inflation pressure. Furthermore, the recent strengthening of the Czech koruna (CZK) lifted expectations of a 25bp cut. **However four board members voted for keeping rates flat, one opted for a 25bp cut, and two members were absent.** The hold follows a series of aggressive cuts that put the key rate to a record low of 1.50%. Governor Tuma's comments were fairly balanced at the following press conference. He indicated a deeper than expected economic recession, but was hoping that the worst was past. He is looking for a balanced inflation outlook, in line with expectations
- Going forward **the inflation report in August will be decisive** for whether the CNB delivers a 25bp cut to 1.25% at the August 6 meeting. Further if the economy does not improve, we would not be surprised to see another cut. **Today's market reaction:** Two-year swap rates are up 10bp and 10-year are up 5bp, CZK appreciated 0.5% against EUR. **We look for lower short-term rates in the coming days as the markets might start pricing risks of another cut at the August meeting.**

Polish consumers holding up well



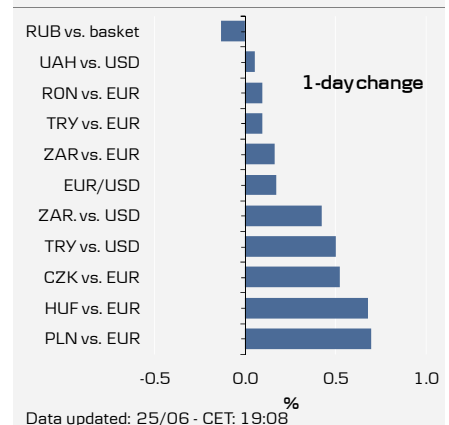
Source: EcoWin Reuters and Danske Markets

CNB stays on hold



Source: EcoWin Reuters

Slightly positive markets



Data updated: 25/06 - CET: 19:08

Source: EcoWin Reuters and Danske Markets

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Calendar

Friday, June 26, 2009						
			Period	Danske Bank	Consensus	Previous
EEK	8:00	Trade balance	bn. CZK	Apr		-1.6
LTL	10:00	Retail trade	y/y	May	-25.1%	-29.7%

Source: Danske Markets

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All EM research is available on Bloomberg DDEM

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First date of publication

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