



Central European Daily

Tuesday, 09 February 2016

Headlines

Currencies		% chng
EUR/CZK	27.04	0.0
EUR/HUF	310.8	0.6
EUR/PLN	4.44	0.9
EUR/USD	1.12	0.3
EUR/CHF	1.10	0.0

FX Correlation Matrix

	EUR/PLN	EUR/HUF	EUR/USD	EUR/CHF
EUR/CZK	-0.07	0.03	0.06	0.10
EUR/PLN		0.50	0.27	0.10
EUR/HUF			0.25	0.12
EUR/USD				0.26

correlations of 30 min changes
over past 5 sessions

FRA 3x6	%	bps chng
CZK	0.19	-2
HUF	1.32	0
PLN	1.54	0
EUR	-0.25	3

GB	%	bps chng
Czech Rep. 10Y	0.54	-1
Hungary 10Y	3.50	0
Poland 10Y	3.14	2
Slovakia 10Y	0.60	-2

CDS 5Y	%	bps chng
Czech Rep.	46	0
Hungary	163	3
Poland	93	0
Slovakia	46	0

Source: Reuters

The zloty hit again by global sell-off of risky assets

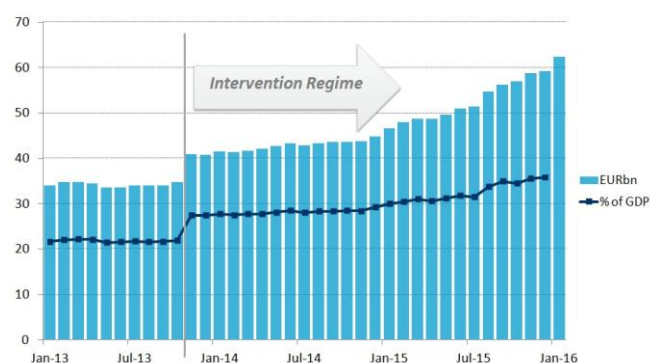
CNB's forex reserves continue to grow quickly

On Monday, global markets slipped again in outright risk-off modus and the Polish has become a victim of this sell-off among currencies in Central Europe. The EUR/PLN traded at the 4.47 level yesterday, hence if the risk mode intensifies the pair will probably re-test the 4.51 level (which is a five-year high).

According to the latest detailed statistics on FX reserves, the CNB had to buy an additional €1.5bn in December. Thus, for the whole year, its direct purchases of euros on the forex market have climbed to almost €9bn, and nearly €16.5bn since the exchange rate policy was put in place. In addition, the preliminary aggregate statistics for January indicate that the CNB has also been active on the forex market this year – these data indicate an increase in FX reserves by an additional €3.2bn. Although the entire amount may not necessarily be attributable to interventions (client operations carried out by the CNB for the Ministry of Finance may make up part of the amount), the rising trend of FX reserves has been very robust in recent weeks. Over the last year their level grew by €15.8bn, thus totalling €62.5bn (it stand at over 36% of GDP).

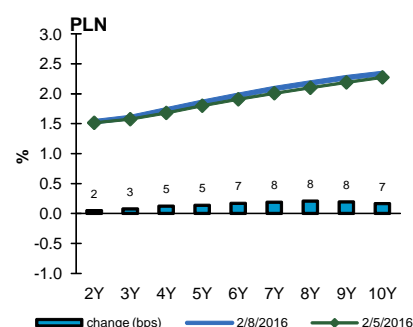
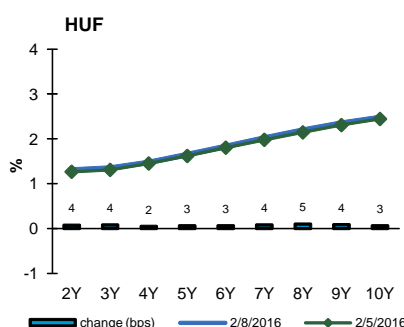
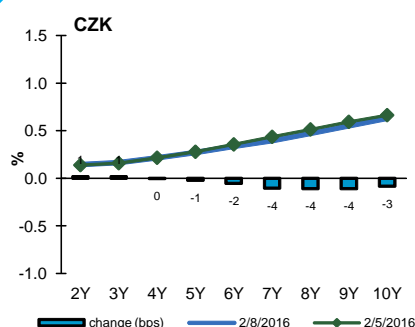
The huge forex interventions (against the CZK) have led to a strong increase in the banking sector's liquidity, and thus also in bank deposits with the central bank. This liquidity has increased by more than CZK 100bn to CZK 1,100bn since the beginning of the year. And, it seems, the central bank is stopping being as apathetic to that increase as it has appeared to be so far. **This is exactly the direction of discussions about the introduction of negative rates by the CNB, which the CNB Board discussed at its last meeting, although it has not voted on them so far. Hence, the likelihood that the CNB will also set its deposit rate at a negative level is growing significantly.**

CZ: FX Reserves



The CNB forex reserves have already reached more than 36% of the Czech GDP.

Interest-rate Swap Curves



Calendar

Country	Time	Indicator	Period	Forecast		Actual		Consensus		Previous	
				m/m	y/y	m/m	y/y	m/m	y/y	m/m	y/y
PL	0:00	Earnings Bank Pekao	PLN 4Q/2015								

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