



Central European Daily

Monday, 08 February 2016

Headlines

Currencies		% chng
EUR/CZK	27.04	0.1
EUR/HUF	308.9	-0.4
EUR/PLN	4.41	-0.3
EUR/USD	1.12	-0.4
EUR/CHF	1.11	-0.7

FX Correlation Matrix

	EUR/PLN	EUR/HUF	EUR/USD	EUR/CHF
EUR/CZK	-0.12	-0.11	-0.02	0.02
EUR/PLN		0.42	0.31	0.09
EUR/HUF			0.28	0.11
EUR/USD				0.20

correlations of 30 min changes over past 5 sessions

FRA 3x6	%	bps chng
CZK	0.21	-3
HUF	1.33	-1
PLN	1.56	3
EUR	-0.28	0

GB	%	bps chng
Czech Rep. 10Y	0.55	-3
Hungary 10Y	3.50	6
Poland 10Y	3.12	-5
Slovakia 10Y	0.62	0

CDS 5Y	%	bps chng
Czech Rep.	46	0
Hungary	160	0
Poland	90	0
Slovakia	46	0

Source: Reuters

Czech koruna weakens as CNB's negative rates loom

Macro weekly highlights: GDP and January's inflation

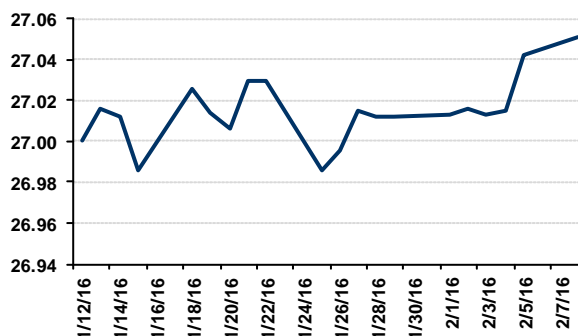
The Czech koruna weakened on Friday as CNB's vice-governor Tomsik said in his discussion with the analysts that the probability of negative interest rates has increased. Tomsik said that the CNB board 'seriously discussed' the implementation of negative interest rates on the last meeting. He added that although there was no vote on interest rate cut on Thursday, he did not rule out such a vote in the future.

This week, all Central European countries will release major macroeconomic data this week against a backdrop of important events abroad, which will be accompanied by an address delivered by Fed Chief Yellen before Congress and by GDP figures in the euro area. In addition to January's inflation, these releases will include economic growth figures in Hungary and Poland.

Regional year-on-year inflation should continue to rise (in January), although its rise will not be at all as visible as expected only recently. The favourable baseline index will be curbed by another drop in fuel prices, as already shown by figures from the euro area, after all. Regarding specifically Poland's inflation, **it will be interesting to see whether persisting deflation will be influenced by the weakened zloty (which weakened by 2.5% against the euro in January).**

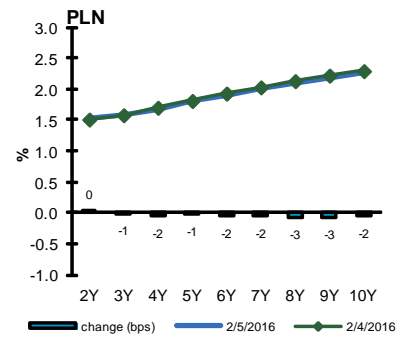
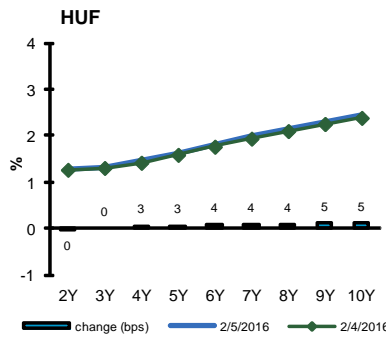
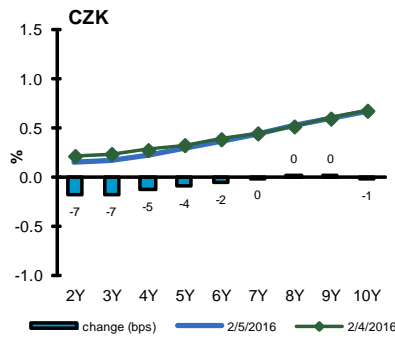
Growth in Poland and Hungary should remain fairly high. Private consumption should significantly contribute to growth in both countries, as we have already seen in strong retail sales. Therefore, for the year as a whole, both Hungarian and Polish growth should clearly exceed that of the euro area as well as Germany, thus reviving the real convergence story for Central European economies. Let us add that the Czech economy, which will report its GDP data for the fourth quarter and the whole of 2015 as late as on February 16, should stand out even better in this regard.

EUR/CZK



The EUR/CZK moved up from the intervention floor 27.00 as the CNB warned that negative official interest rates might come.

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
CZ	9:00	Construction output	% 12/01/2015		5		3.4				1.5
CZ	9:00	Trade balance (national)	CZK B 12/01/2015	0		0.5		-3.5			14.3
CZ	9:00	Industrial output	% 12/2015		4.4		0.7		5.9		5.7
CZ	9:00	Unemployment rate 15-64	% 01/01/2016	6.4		6.4		6.5			6.2
HU	9:00	Trade balance	EUR M 12/2015 *P			643		340			687
HU	16:00	Budget balance	HUF B 01/01/2016								-1219

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