



Central European Daily

Monday, 30 November 2015

Headlines

ECB will set the bar for regional central banks

The countdown until the next crucial ECB meeting has begun. **Thursday's ECB meeting will be important not only for the euro area but also for central banks and consequently markets in Central Europe.**

The Czech National Bank – whose replication of the policy of the euro area's central bank through a quasi-fixed exchange rate is probably closest to the ECB – is likely to pay the greatest attention to the ECB meeting. The ECB's decision will be very important for the CNB – after all, this was also confirmed by future Governor Rusnok last week. The CNB Board will be most interested in whether and until when the ECB will extend the timing of the end of its quantitative easing policy. **If the ECB policy (QE) is extended beyond 2016, the CNB will have to act accordingly, i.e., it will also have to extend its intervention policy up to 2017.** In other words, it will be clear that the EUR/CZK spot exchange rate will not drop below the 2016 level in 27.0 either.

For the National Bank of Poland and the National Bank of Hungary it will be primarily important whether the ECB will surprise markets from the quantitative perspective. If the ECB cuts its deposit rate by 20 or more basis points and possibly raises the volumes of bonds it buys by EUR 20 bn a month or even more, the short-term impacts on the zloty, the forint and Central European markets will be clearly positive. Nevertheless, we strongly doubt whether the rise in asset prices in Hungary and Poland, implied by more aggressive expansion by the ECB, may immediately (i.e., until the end of the year) influence the policy of the NBP and the NBH. As concerns the beginning of next year, the NBH may only follow the example of the ECB if the forint sustainably strengthens by a few percent. For the NBP the composition of its Monetary Policy Council after the great replacement of its members scheduled for early next year will be decisive.

Regarding the fresh November inflation figures released in Poland, it came out in line with our expectations at -0.5 % Y/Y. Even though it is the best result in more than 12 months from the perspective of the central bank, inflation still remains well below the inflation target (2.5 %). The main reason for the falling prices continues to be cheaper oil in particular. By contrast, food prices probably grew slightly by 0.8% y/y.

Currencies		% chng
EUR/CZK	27.02	0.0
EUR/HUF	311.7	0.0
EUR/PLN	4.27	0.0
EUR/USD	1.06	-0.2
EUR/CHF	1.09	0.5

FX Correlation Matrix

	EUR/PLN	EUR/HUF	EUR/USD	EUR/CHF
EUR/CZK	0.18	0.19	0.22	-0.02
EUR/PLN		0.32	0.20	-0.06
EUR/HUF			0.24	0.00
EUR/USD				0.12

correlations of 30 min changes over past 5 sessions

FRA 3x6	%	bps chng
CZK	0.18	-1
HUF	1.34	0
PLN	1.62	1
EUR	-0.23	0

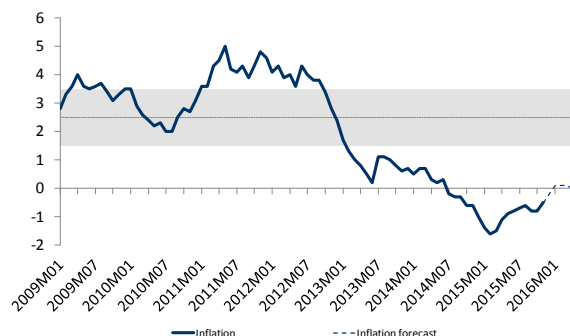
GB	%	bps chng
Czech Rep. 10Y	0.53	-3
Hungary 10Y	3.36	0
Poland 10Y	2.62	-3
Slovakia 10Y	0.69	-2

CDS 5Y	%	bps chng
Czech Rep.	51	0
Hungary	156	0
Poland	72	0
Slovakia	51	0

Source: Reuters

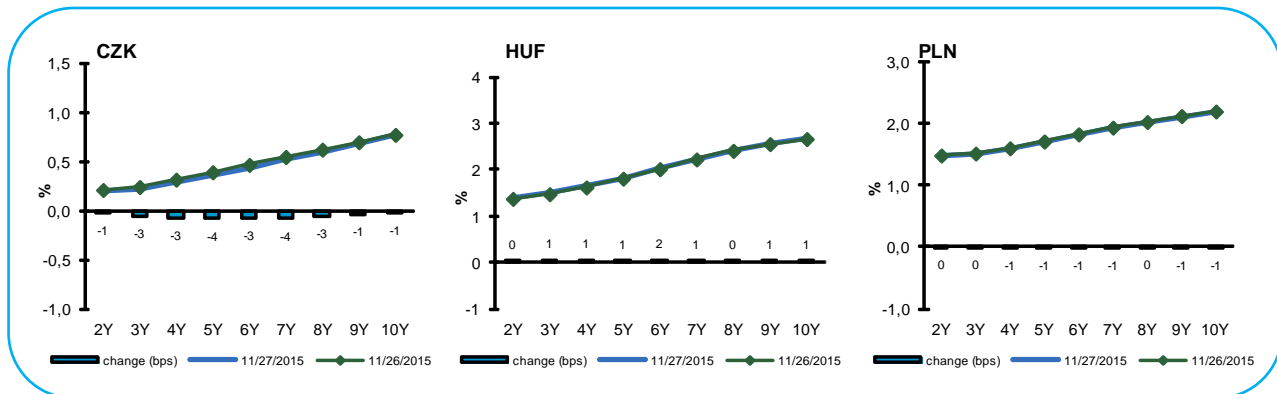
PL: Inflation

Y/Y in %; NBP tolerance band is grey, inflation target is orange dotted line



Polish inflation hit a one-year high in November... (Source: Bloomberg, CSOB)

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
HU	9:00	PPI	% 10/01/2015			-0.8	-1.3			-0.5	-1.5
PL	10:00	GDP	% 3Q/2015 *F			0.9	3.5			0.9	3.4
CZ	10:00	Money supply M2	% 10/2015				8.2				7.7
PL	10:00	CPI	% 11/2015 *P	0.1	-0.5	0	-0.5	0.1	-0.4	0.1	-0.7

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