



Central European Daily

Thursday, 28 April 2016

Headlines

Currencies		% chng
EUR/CZK	27.02	0.1
EUR/HUF	311.2	0.0
EUR/PLN	4.38	0.2
EUR/USD	1.13	0.2
EUR/CHF	1.10	0.0

FX Correlation Matrix

	EUR/PLN	EUR/HUF	EUR/USD	EUR/CHF
EUR/CZK	0.00	0.03	0.11	-0.04
EUR/PLN		0.27	0.09	0.18
EUR/HUF			0.02	0.02
EUR/USD				0.33

correlations of 30 min changes
over past 5 sessions

FRA 3x6	%	bps chng
CZK	0.28	0
HUF	0.84	1
PLN	1.63	0
EUR	-0.25	0

GB	%	bps chng
Czech Rep. 10Y	0.50	-4
Hungary 10Y	3.26	15
Poland 10Y	3.09	4
Slovakia 10Y	0.87	3

CDS 5Y	%	bps chng
Czech Rep.	42	0
Hungary	144	-3
Poland	86	0
Slovakia	41	0

Source: Reuters

Slightly more dovish FOMC and NHB's hawkish rhetoric – a case for a stronger forint

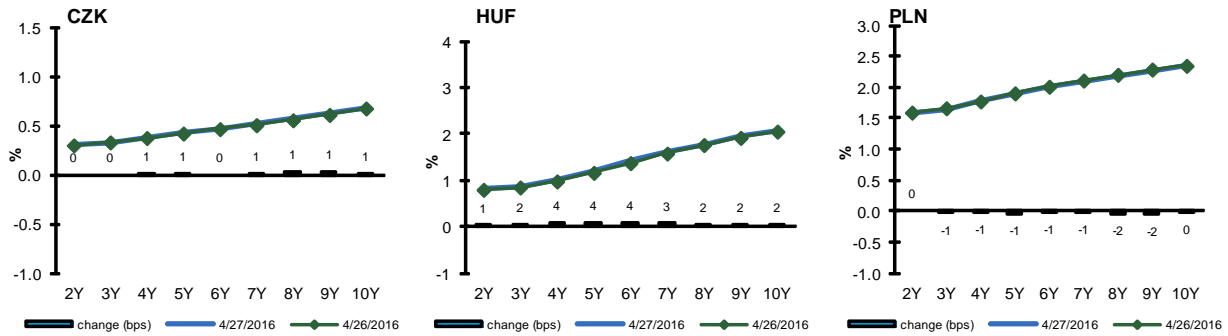
While yesterday's FOMC meeting and today's news coming from the Bank of Japan have been definitely important for forint, the EUR/HUF pair has actually reacted on the hawkish statement of NBH's vice-governor Mr. Nagy. He said that the rate-cut expectations were excessive and the key question is whether there will be a third rate cut in May or even a fourth in June. Let us remind that the NBH targets its base rate, which could be maintained for two years, so it means that they may cut smaller now, and may keep slightly below the optimal level later. Nagy also adduced on the looser fiscal policy, which requires than less loose monetary policy in the near future. The budget proposal contain 2.4% of GDP deficit for 2017, which means at least 0.4% of GDP looser fiscal policy in a time, when economy may accelerate from 2.4% Y/Y to 3.1% Y/Y growth.

Recall that Hungary will have parliamentary election in 2018, the government tries to increase its popularity, so they increase the spending in education and in healthcare, decrease the VAT of milk, eggs and poultry, gives subsidies for new homes, maintains the employment level in the public sector although it was promised earlier that there will be lay-off in that segment etc., so the government tries to collect votes. At a for glance the budget was planned on a conservative way, so we don't expect substantially higher deficit than the plan for 2017 and it still ensures the moderation of public debt, but it may not help to accelerate the upgrade of Hungarian debt by rating agencies.

In respect of the above news it is worth noting that important changes in the tone of Hungarian National Bank's statements, which brought the interest-rate-setting meeting, held on Tuesday. The statement already started to cool down the market's aggressive rate cut expectation with the sentence of '...in the Council's assessment, the sustainable achievement of the inflation target points to a further slight reduction in the policy rate' compared to the March statement of '...Interest rate cuts will continue as long as monetary conditions become consistent with the sustainable achievement of the inflation target'.

Hence the case for the stronger forint substantially increased and the market may re-test the EUR/HUF 307 levels soon, which was the bottom this year and NBH was quite unhappy at that times. Nevertheless, our views were confirmed by the new information, and we maintain our opinion that the NBH may cut base rate in May to 0.9% while the cycle may be finished in June.

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	Unemployment rate	%	03/01/2016		6		6.2		6.1	

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