



Central European Daily

Tuesday, 03 November 2015

Headlines

Deflation period in Poland is likely to extend into 2016

The Polish zloty gave up early gains (posted on better than expected manufacturing PMI) later in the day on Monday and weakened after the Statistical Office released flash inflation estimate for October. In the meantime, regional government bonds were under small pressure and 10-year yields went up as a result of a similar move in the euro zone.

Regarding the Polish inflation, the flash estimate showed prices were falling by 0.8 % Y/Y which was a slight negative surprise both for us and the market. Although the details will be published in two weeks, we suspect that low commodity prices were the main reason of weaker inflation. While bets on further monetary policy easing remained virtually unchanged and markets still price in one 25 bps rate cut in 6 - 9 month horizon, the zloty slightly weakened.

Yesterday's inflation figures indicate that the extension of deflation period into the first quarter of 2016 seems to be likely now which is an interesting piece of information with respect to the meeting of the National Bank of Poland that starts today (and will conclude tomorrow).

Meanwhile, the Hungarian forint hit a one-month low against the euro while the koruna was only little changed yesterday. In this respect it is worth adding that **the Hungarian central bank (NBH) indicated that it would extend its Lending for Growth program by 600 billion forint into 2016.** According to initial news the half of the amount could be used for FX lending and the other for HUF lending. Regarding this measure the NBH will hold a press conference today at 2 p.m.

Currencies		% chng
EUR/CZK	27.07	0.0
EUR/HUF	312.7	0.8
EUR/PLN	4.26	0.3
EUR/USD	1.10	0.1
EUR/CHF	1.09	0.0

FX Correlation Matrix

	EUR/PLN	EUR/HUF	EUR/USD	EUR/CHF
EUR/CZK	0.17	0.11	-0.03	-0.17
EUR/PLN		0.39	0.03	0.21
EUR/HUF			0.15	0.03
EUR/USD				0.33

correlations of 30 min changes over past 5 sessions

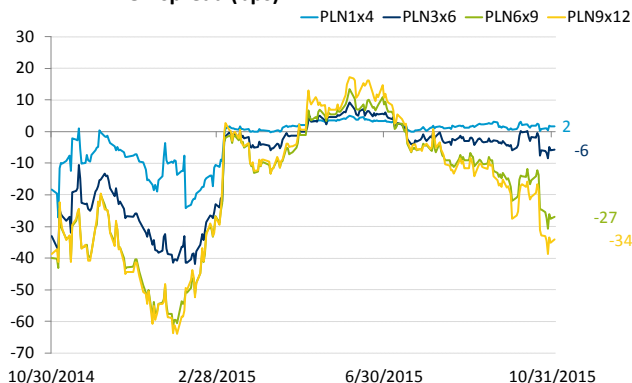
FRA 3x6	%	bps chng
CZK	0.25	1
HUF	1.33	4
PLN	1.67	-1
EUR	-0.12	0

GB	%	bps chng
Czech Rep. 10Y	0.56	6
Hungary 10Y	3.46	5
Poland 10Y	2.72	4
Slovakia 10Y	0.92	9

CDS 5Y	%	bps chng
Czech Rep.	50	0
Hungary	163	0
Poland	74	0
Slovakia	50	0

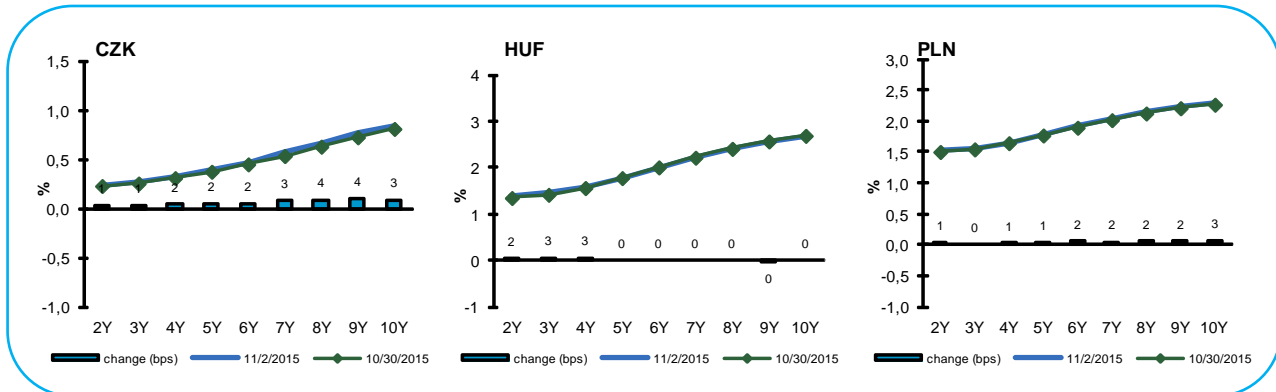
Source: Reuters

PL: FRA - WIBOR spread (bps)



Investors bet on a 25 bps rate cut in Poland in 6-9 months horizon.. (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

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