



Central European Daily

Wednesday, 10 February 2016

Headlines

Currencies		% chng
EUR/CZK	27.01	-0.1
EUR/HUF	311.7	0.3
EUR/PLN	4.44	-0.1
EUR/USD	1.13	0.9
EUR/CHF	1.10	-0.6

FX Correlation Matrix

	EUR/PLN	EUR/HUF	EUR/USD	EUR/CHF
EUR/CZK	-0.15	-0.09	0.09	0.09
EUR/PLN		0.49	0.31	0.09
EUR/HUF			0.24	-0.07
EUR/USD				0.24

correlations of 30 min changes
over past 5 sessions

FRA 3x6	%	bps chng
CZK	0.19	0
HUF	1.32	-1
PLN	1.55	2
EUR	-0.25	0

GB	%	bps chng
Czech Rep. 10Y	0.54	-1
Hungary 10Y	3.54	4
Poland 10Y	3.18	4
Slovakia 10Y	0.61	1

CDS 5Y	%	bps chng
Czech Rep.	46	0
Hungary	164	1
Poland	91	0
Slovakia	46	0

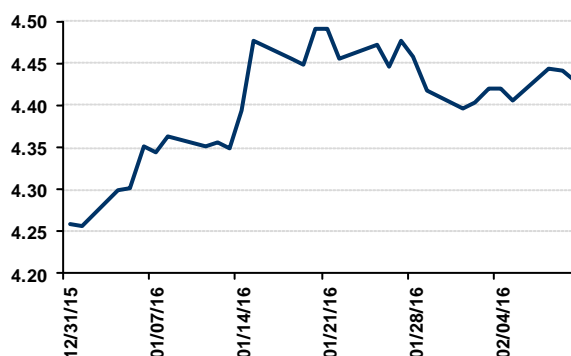
Source: Reuters

NBP warns that Polish banks might be mostly in loss, if president's proposal to convert FX loans materializes

While the Polish zloty remained under pressure yesterday, it has rebounded today as global risk sentiment improved this morning. Nevertheless there is a new domestic challenge for the Polish currency coming from the central bank. **According to the NBP report Polish president's proposal to convert foreign-currency loans into zloty could cost banks PLN 44bn and push 70% of lenders to net losses.** Furthermore, large-scale conversion of foreign-currency mortgages into zloty could lead to depreciation of the Polish currency, negatively affect public finances and reduce the sovereign's credit ratings. Polish banks would require some PLN 2.8bn in capital in the base-case scenario of stress tests, while in the shock scenario those needs would rise to PLN 13.9 bn. **According to the Polish central bank, banks should book all costs at once, while market currently expects the potential costs to be spread over a couple of next years. It would be definitely negative scenario for Polish banking sector and temporary for the zloty too.**

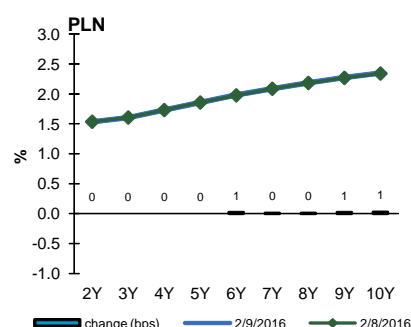
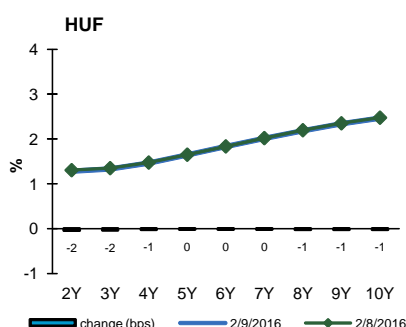
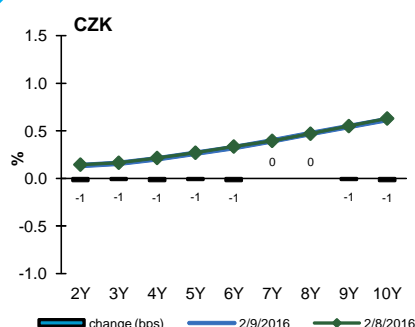
Today, all regional markets will definitely watch Fed Chair Janet Yellen's semi-annual report to the US House Financial Services Committee. It will define risk sentiment for the rest of the week. As concern the regional eco calendar - it is empty today, but there is January's inflation release in Hungary tomorrow morning. We expect some further inflation acceleration for January (up from 0.9% to 1.3% Y/Y). The reason behind is base effect (fuel price drop is less than a year) and also the relatively strong domestic consumption. But we see inflation to start to moderate from February again and might slow below 0.5% Y/Y in the middle of the year. The wages are increasing quite fast, so it suggests that consumption may accelerate in this year, so **if oil price stabilizes around the current level, the year-on-year inflation will go back to above 2% Y/Y in 4Q16 in Hungary. All-in-all, tomorrow's release of the January figure may not change NBH's view about monetary policy, so the base rate might be kept unchanged in the coming months.**

EUR/PLN



The Polish zloty has recovered slightly, but it faces another domestic challenge.

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	12:00	CZ bond auction 2016-18, 0.00%	CZK B 02/01/2016								
CZ	12:00	CZ bond auction 2015-30, 0.95%	CZK B 02/01/2016								

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