



Central European Daily

Monday, 05 October 2015

Headlines

Does Polish zloty already feel pre-election uncertainty?

Not only the Polish zloty but also Polish shares have under-performed their regional PEERS in recent days. One reason is that the macroeconomic data of recent days and weeks have tended to be weaker (September's PMI drop almost below the 50 level) while another reason is domestic politics. Parliamentary elections will be held in this country in three weeks, and this is an event to which Polish markets are not generally immune.

Just as during the spring presidential election, the question is how the market-friendly ruling liberal Civic Platform (OP) will perform and how much the Christian conservatives represented by the Law and Justice (PiS) party will succeed. Opinion polls ahead of the elections indicate that the PiS will win, but now it will be important whether the party will achieve an absolute majority in Parliament, which would probably require gaining more than 40% of the votes. In that event the PiS could fully implement its economic programme, several sections of which are based on tax increases and structural reforms that are not exactly 'pro-market'. Therefore, Polish markets may be more nervous in the next three weeks, and it is clear that the global developments in equity markets and emerging markets will not significantly help Polish assets either.

On the other hand Polish government bonds can feel fairly safe, currently being encouraged by two important bullish factors: firstly, Polish inflation fell even more into the red and thus the NBP will tend to welcome easing of monetary conditions; secondly, the very positive developments on global markets in government bonds are also an advantage. Nevertheless, here we should warn again that if the zloty were to weaken really significantly ahead of the elections, it may also adversely affect the market in Polish government bonds. Still, in that bearish scenario for the zloty either the Ministry of Finance or the NBP would probably take advantage of the situation and stabilise the forex market by selling euros, thus getting rid of their huge FX reserves accumulated in recent past.

Currencies		% chng
EUR/CZK	27.14	0.0
EUR/HUF	311.9	-0.2
EUR/PLN	4.24	-0.1
EUR/USD	1.12	0.1
EUR/CHF	1.09	-0.5

FX Correlation Matrix

	EUR/PLN	EUR/HUF	EUR/USD	EUR/CHF
EUR/CZK	-0.12	-0.08	-0.04	0.06
EUR/PLN		0.61	0.24	0.04
EUR/HUF			0.39	-0.04
EUR/USD				0.17

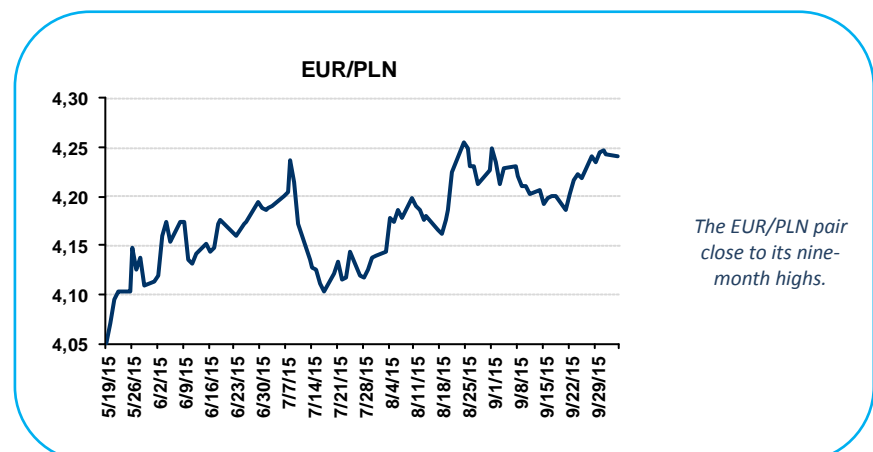
correlations of 30 min changes
over past 5 sessions

FRA 3x6	%	bps chng
CZK	0.26	0
HUF	1.30	-3
PLN	1.71	3
EUR	-0.06	-1

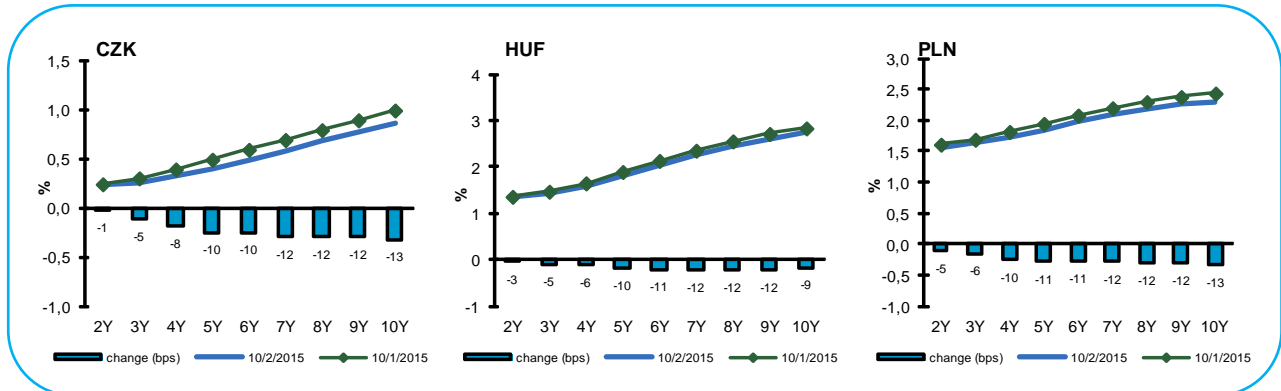
GB	%	bps chng
Czech Rep. 10Y	0.64	-2
Hungary 10Y	3.31	-3
Poland 10Y	2.67	-10
Slovakia 10Y	0.84	-4

CDS 5Y	%	bps chng
Czech Rep.	51	0
Hungary	168	0
Poland	76	0
Slovakia	52	0

Source: Reuters



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	Retail sales	%	08/01/2015			4.7		6.4		7

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