



Central European Daily

Monday, 14 December 2015

Headlines

Contagion from emerging markets hits the zloty and forint

The countdown before the Fed's milestone meeting is fully underway, and is logically overshadowing numerous important regional events scheduled to take place before Christmas. These include the upcoming meetings of the National Bank of Hungary and the Czech National Bank.

Although a rate hike by the U.S. Fed was announced long ago and is anticipated, it is a restrictive event that will take place after nine long years, and thus it is no wonder that it makes global markets nervous. Naturally, this is twice as relevant for emerging markets, where forex markets especially are remaining under pressure and are even bringing moderate financial contagion to Central Europe.

The sell-off of the Russian rouble, Turkish lira or even Romanian leu cannot be ignored by the zloty and the forint, and thus even these currencies are weakening. The weakened currencies may influence decisions by monetary policy makers, as the phenomenon of the 'fear of floating' will become evident there again and will not allow the central banks concerned to ease their respective policies quite in the way they would like to. This may already happen to the NBH Monetary Council this Tuesday, because the bank may want to ease its monetary policy but this fear will not allow it to do so.

By contrast, the CNB need not fear anything, as it is troubled by a contrary problem: the koruna is still sitting at the intervention floor of EUR/CZK 27.0, while inflation remains close to zero (i.e., well below the inflation target) due to food prices and soon probably also petrol prices. Thus any depreciation of the koruna would certainly be welcome but this is beyond the Fed's power anyway. Perhaps this might only happen if Wednesday's communication by the FOMC were surprisingly hawkish and negative contagion from emerging markets were far stronger. Nevertheless, we do not envisage such a scenario.

Currencies		% chng
EUR/CZK	27.01	-0.1
EUR/HUF	317.3	0.0
EUR/PLN	4.36	0.4
EUR/USD	1.10	0.4
EUR/CHF	1.08	0.0

FX Correlation Matrix

	EUR/PLN	EUR/HUF	EUR/USD	EUR/CHF
EUR/CZK	0.04	-0.08	-0.11	0.09
EUR/PLN		0.31	0.35	0.00
EUR/HUF			0.18	0.00
EUR/USD				0.31

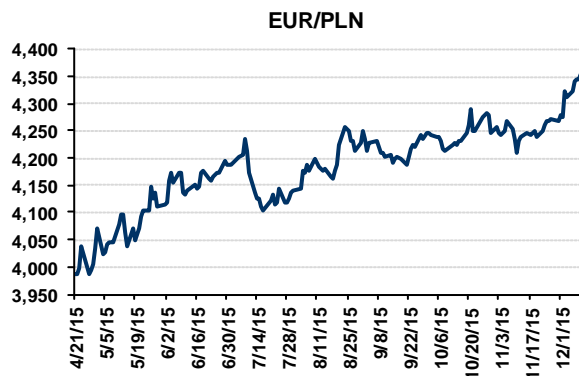
correlations of 30 min changes over past 5 sessions

FRA 3x6	%	bps chng
CZK	0.25	0
HUF	1.37	2
PLN	1.58	2
EUR	-0.15	0

GB	%	bps chng
Czech Rep. 10Y	0.57	0
Hungary 10Y	3.67	6
Poland 10Y	3.12	9
Slovakia 10Y	0.79	-3

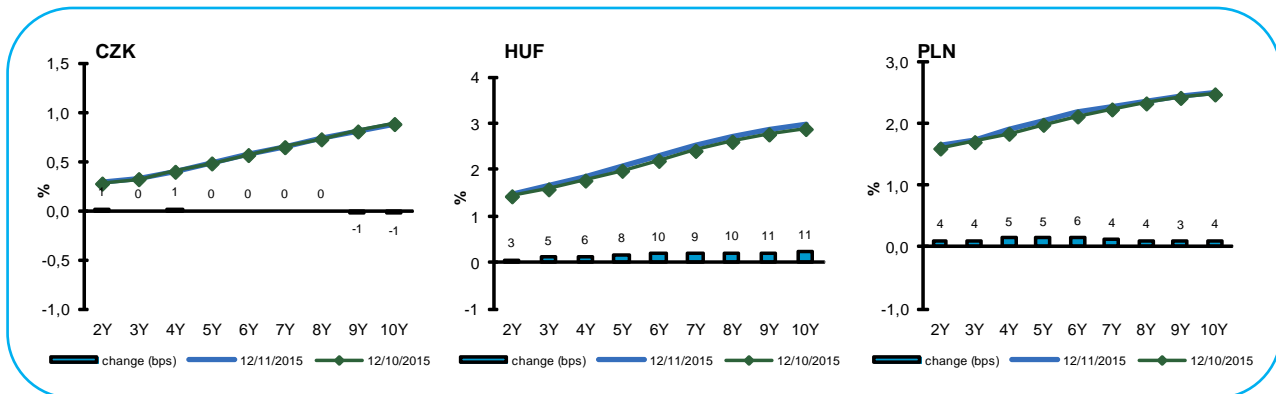
CDS 5Y	%	bps chng
Czech Rep.	51	0
Hungary	166	5
Poland	74	0
Slovakia	51	0

Source: Reuters



Zloty's sell-off has accelerated ahead of the upcoming FOMC meeting.

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	10:00	Current account	CZK B 10/01/2015					5.5		6.63	
PL	14:00	Money supply M3	% 11/01/2015					0.6	9.3	1.4	9.2
PL	14:00	Current account	EUR M 10/2015					-595		-959	
PL	14:00	Trade balance	EUR M 10/01/2015					-156		87	

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