



Central European Daily

Tuesday, 19 April 2016

Headlines

Despite the first yuan bond issue, Hungary will continue to prefer HUF's denominated bonds

The forint strengthened substantially in the last two days and started to test the 310 level. The NBH was not happy with the HUF appreciation in the previous months. The vice-governor of the NBH made verbal intervention in order to weaken the currency several times, but so far it looks like that even the restart of rate cut cycle was not enough to depreciate the HUF. Maximum it was enough to counterbalance the ECB monetary easing, but it also suggests and confirms our view that the NBH may cut the base rate by 15bp again next Tuesday.

The Debt Management Agency (AKK) issued a yuan bond last Thursday, but the amount (EUR140m) was rather symbolic and it doesn't play an important role in this year's financing. The interest rate of the bond was 6.25%, which means roughly 2-2.5% euro interest rate after the cross currency swap, so it was slightly more expensive than it would have been issued on euro or USD market. The messages of this issuance were: 1) stepping first on the yuan market from the region, 2) expand the financing opportunities. **The AKK is still focusing on HUF financing, so it doesn't plan to issue more foreign currency bond in this year. The original issuance plan was that Hungary may sell EUR1bn foreign denominated bond on the market. Thanks to the low budget deficit, the decreasing public and external debt, the expected upgrade of Hungarian rating, the increasing role of domestic financing both from households and banking sector pushed the Hungarian yield curve below the Polish level, so AKK has no problem to issue HUF denominated bond in this year.** The financing plan calculated with HUF5843bn (EUR18.9bn) issuance of forint denominated securities (HUF1875bn of T-bond, HUF1061bn of T-bill and HUF2752bn of retail bonds), but thanks to the strong demand the T-bill issuance might be cut back substantially in 2H16. Additionally the AKK may start to focus on next years, so more buy back auctions may come in the autumn time. We still see some value in Hungarian bonds as the rate cut cycle may push slightly down the yield curve in the following weeks.

Currencies		% chng
EUR/CZK	27.01	0.0
EUR/HUF	310.7	0.0
EUR/PLN	4.31	0.3
EUR/USD	1.13	0.3
EUR/CHF	1.09	-0.1

FX Correlation Matrix

	EUR/PLN	EUR/HUF	EUR/USD	EUR/CHF
EUR/CZK	0.26	0.24	-0.02	0.09
EUR/PLN		0.42	-0.19	-0.10
EUR/HUF			-0.11	0.08
EUR/USD				0.31

correlations of 30 min changes
over past 5 sessions

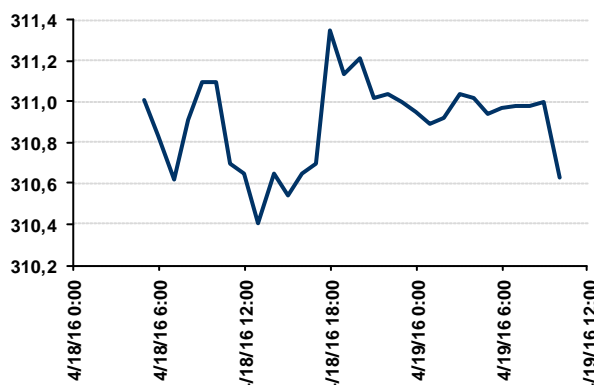
FRA 3x6	%	bps chng
CZK	0.27	1
HUF	0.86	-1
PLN	1.63	0
EUR	-0.25	0

GB	%	bps chng
Czech Rep. 10Y	0.48	1
Hungary 10Y	3.00	-1
Poland 10Y	2.96	0
Slovakia 10Y	0.74	3

CDS 5Y	%	bps chng
Czech Rep.	43	0
Hungary	151	0
Poland	88	0
Slovakia	42	0

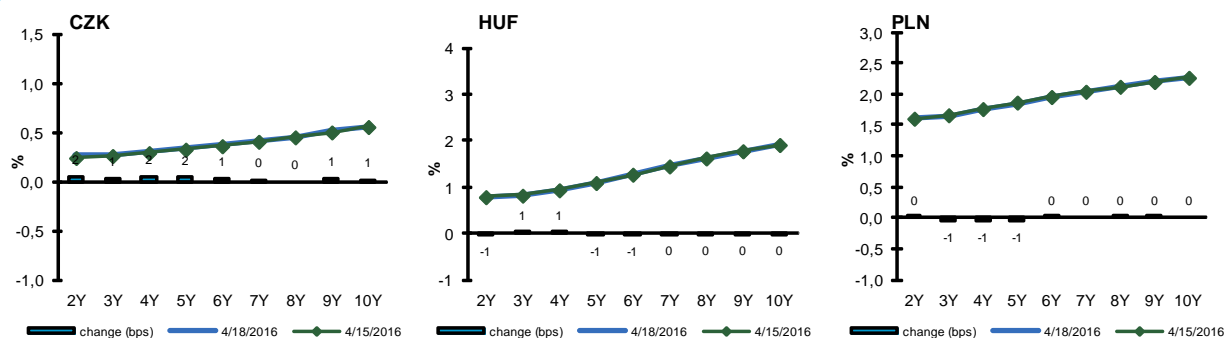
Source: Reuters

EUR/HUF



The EUR/HUF is testing 310 level again.

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
PL	14:00	Industrial output	%	03/01/2016					10.4	3.9	6.8	6.7
PL	14:00	PPI	%	03/01/2016					0	-1.4	-0.3	-1.4
PL	14:00	Retail sales	%	03/2016					17.1	3.4	0.9	3.9

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