

Wednesday, 03 October 2012

Headlines

Currencies		% chng
EUR/CZK	25.02	-0.2
EUR/HUF	286.2	0.1
EUR/PLN	4.11	0.2
EUR/USD	1.29	0.2
EUR/CHF	1.21	0.0

FX Correlation Matrix

	EUR/PLN	EUR/HUF	EUR/USD	EUR/CHF
EUR/CZK	0.16	-0.03	0.02	-0.06
EUR/PLN		0.19	-0.21	-0.19
EUR/HUF			-0.46	-0.16
EUR/USD				0.39

correlations of 30 min changes
over past 5 sessions

FRA 3x6	%	bps chng
CZK	0.54	0
HUF	6.19	-1
PLN	4.43	-4
EUR	0.19	-2

GB	%	bps chng
Czech Rep. 10Y	2.38	0
Hungary 10Y	7.48	5
Poland 10Y	4.70	-1
Slovakia 8Y	2.70	-4

CDS 5Y	%	bps chng
Czech Rep.	90	0
Hungary	374	0
Poland	115	0
Slovakia	148	0

Source: Reuters

The NBP ready to reverse its hike in May by today's cut

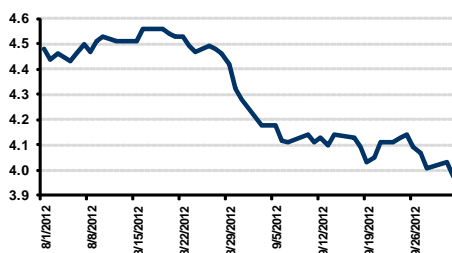
The forint under modest pressure

CE Forex and fixed-income markets were mostly calm yesterday. Some modest losses were seen in the Hungarian forex market, as the forint does not like news, which indicate that the government will probably increase its target for the 2013 budget deficit (to still modest 2.8% of GDP), while it is not willing to make concessions to the IMF/EU on several budget issues.

Like most of the market, we expect the MPC is going cut rates 25 bps to 4.5%. The dovish camp should strengthen in reaction to the latest round of pessimistic macro-data including much weaker PMIs. Furthermore the inflation is finally below 4% again and the zloty is near one year highs. Nevertheless we do not bet on start of pro-longed cutting cycle as inflation is still above NBP target and it is only few months from the last NBP hike.

We believe that the 25 bps has already been mostly priced in, so the NBP move should not be a big surprise both for the zloty and the fixed-income market. Nevertheless afternoon's press conference of Governor Belka should be closely watched.

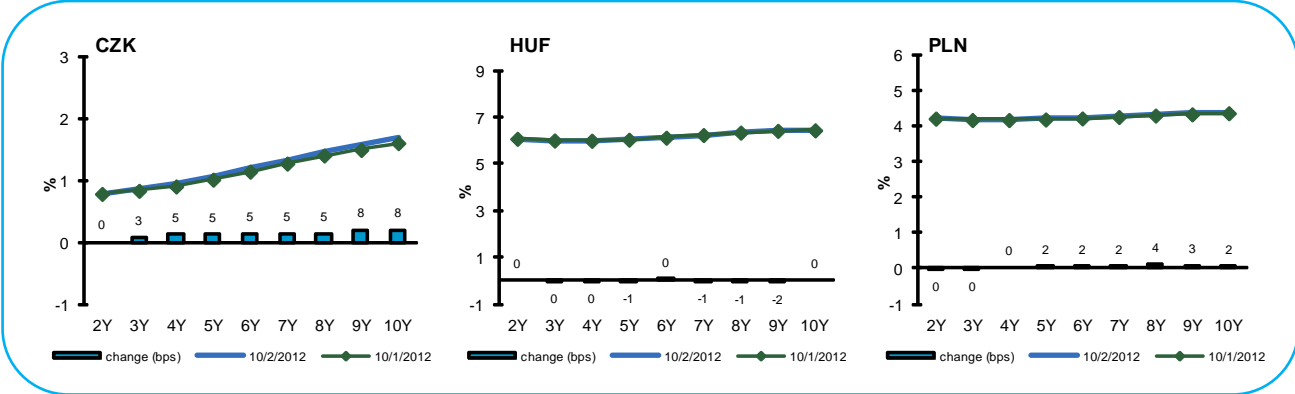
PLN FRA 6x9



PLN FRA 6x9, last 50 days. Source: Reuters

Polish FRA rates have already priced in a 25bps rate cut.

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	NBP meeting	%	10/01/2012	4.5			4.5		4.75	

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