



Thursday, 04 October 2012

CENTRAL EUROPEAN DAILY

Headlines

Currencies		% chng
EUR/CZK	25.03	0.0
EUR/HUF	286.5	0.1
EUR/PLN	4.08	-0.7
EUR/USD	1.29	-0.1
EUR/CHF	1.21	0.2

FX Correlation Matrix

	EUR/PLN	EUR/HUF	EUR/USD	EUR/CHF
EUR/CZK	0.17	0.06	-0.11	-0.10
EUR/PLN		0.13	-0.16	-0.29
EUR/HUF			-0.49	-0.19
EUR/USD				0.40

correlations of 30 min changes
over past 5 sessions

FRA 3x6	%	bps chng
CZK	0.55	1
HUF	6.18	-1
PLN	4.51	8
EUR	0.18	-1

GB	%	bps chng
Czech Rep. 10Y	2.36	-2
Hungary 10Y	7.49	1
Poland 10Y	4.75	5
Slovakia 8Y	2.72	2

CDS 5Y	%	bps chng
Czech Rep.	88	0
Hungary	370	-3
Poland	113	0
Slovakia	146	0

Source: Reuters

NBP surprises with no change verdict, zloty strengthens

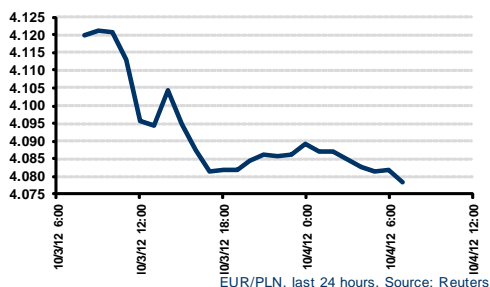
Interest rate cut will likely come in November

On Wednesday, the eye-catcher was the meeting of the National Bank of Poland (NBP). Although the market's and also our expectations were for an interest rate cut, the NBP decided to keep its base rate unchanged at 4.75% and thereby boosted the zloty which hit its three weeks high well below EUR/PLN 4.10.

Regarding the decision, NBP president Belka told the press conference that high inflation, which remains well above the NBP's target, was the main reason for keeping rates unchanged. Belka added that the desire to keep real interest rates above zero was one of NBP's policy criteria. However, the official press release admitted that the economic outlook for Poland remained gloomy; the Monetary Policy Council will be ready to act as early as at the next meeting (7th November) if the new inflation report confirms that economic slowdown is protracted and the risk of rising inflationary pressure limited.

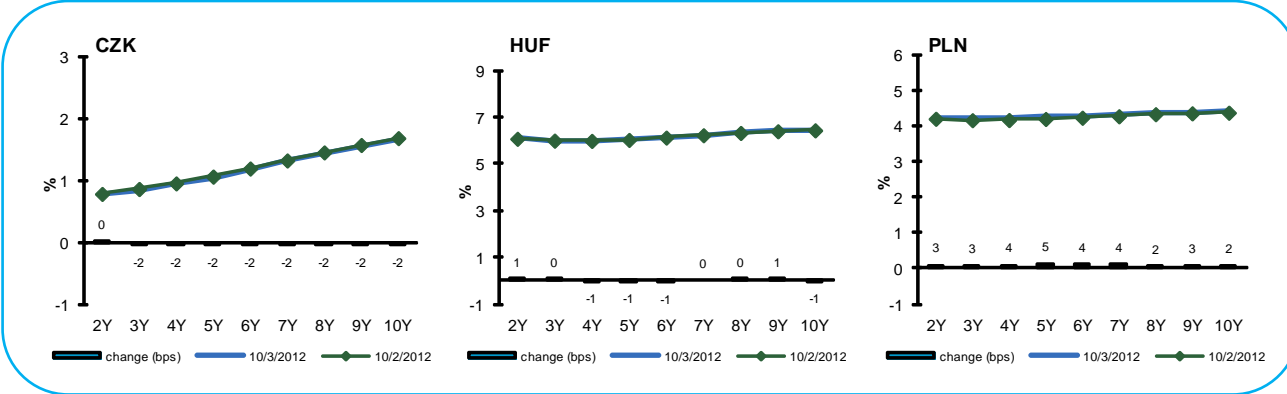
We continue to be pessimistic about Polish economy in the near term and believe the NBP should cut interest rates next month. The board only wants more evidence of economic and inflation slowdown and probably also wants to have new inflation forecast on the table. Nevertheless we continue to believe the easing cycle is going to be rather moderate this time. The bottom of the cycle may be reached in the 3-month horizon after two 25 bps rate cuts at 4.25%. Although investors have quickly priced out chances of a rate cut in the near term, they are still more aggressive in their bets on the bottom of the cycle (3-4 cuts in 9 month horizon). Looking at the zloty, we would consider as inappropriate from a fundamental point of view, if the currency broke through 4.00 EUR/PLN.

EUR/PLN



The zloty hit three weeks high after the NBP 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

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