

CEE Macro/Fixed Income Daily - 27-Aug-13

FX and MM rates

Exchange rates	spot	% change (close)	
		d/d	w/w
EUR/CZK	25,68	0,0	-0,4
EUR/HUF	299,0	0,2	-0,1
EUR/PLN	4,239	0,2	0,2
EUR/RON	4,435	0,0	-0,1
EUR/HRK	7,554	0,0	0,2
EUR/RSD	114,23	0,1	-0,1
USD/TRY	2,005	0,5	2,8
EUR/USD	1,337	-0,1	-0,4

Note: negative changes mean appreciation of LCY

3M offer rate (fixing)	last	change (bps)	
		d-d	w-w
CZK	0,46	0	0
HUF	3,95	0	0
PLN	2,61	0	1
RON	3,48	1	0
HRK	1,68	0	1
TRY	8,35	0	62
EUR	0,23	0	0

Bond Yields and CDS spreads

YTM (mid)	current	d-d	w-w
CZ4YGB	1,05	-3	0
CZ8YGB	2,27	-4	4
SK3YGB	1,04	1	17
SK7YGB	2,05	0	6
HU4YGB	5,54	-2	27
HU9YGB	6,31	-4	6
PL3YGB	3,24	-5	2
PL8YGB	4,36	-4	0
RO4YGB	4,70	5	25
HR3YGB	4,11	0	5
HR4YGB	4,40	-5	-5

Source: Bloomberg

CDS (bid, bps)	current	d-d	w-w
Czech Republic	60	0	-1
Hungary	318	3	-2
Poland	89	0	-1
Romania	204	-2	-5
Croatia	328	1	-4
Slovakia	91	1	0
Turkey	229	-1	-3

Source: Bloomberg (Intra LN)

Analysts' Views:

HU Rates: Today, we expect the central bank to cut the policy rate by 10bps, to 3.90%. The small size is underpinned by the press conference of the governor in July, where he indicated a slowdown in the easing cycle. The growth and inflation outlook still support monetary easing but the state of capital markets is less convincing than a month ago. We perceive some upward risks to our call for the 2013 year-end base rate. A decline of asset purchases by the US Fed is approaching and the ongoing discussions about another FX debt relief program are pressuring the currency.

TR Politics: The U.S. Secretary of State, John Kerry, hinted at a possible military intervention in Syria. The Turkish Minister of Foreign Affairs, Ahmet Davutoglu, hinted that Turkey could take part in such an operation even in the absence of a UN decision. Syria shares a border with Turkey and a cross-border operation would be negative for Turkey in the short-term, amplifying the pressure on the yields and FX rates.

PL Macro: The unemployment rate dropped slightly to 13.1% and retail sales came in at 4.3% y/y in July, surprising the market on the upside. These are more good figures (following the higher than expected industrial output growth last week), fitting our scenario of a recovering economy over the course of the second half of the year. As we expect the upward trends in the real economy to continue, we see space for the zloty to strengthen toward 4.15 vs EUR by the end of the year.

CZ Macro: Consumer confidence improved further to levels not seen since March 2011; another indication that consumers continue to slowly regain confidence even though tangible improvements (employment, higher wages, etc.) are few and far between. Since low confidence was one of the primary causes of the dismal performance of household consumption during the recession that only ended in 2Q13, the recovery of confidence is a positive sign. But it only takes us so far – we are not going to see meaningful growth until 2015 when the labour market improves. The CZK continues to strengthen, briefly hitting 25.60 vs EUR yesterday morning. This is in line with our long-term view of a recovery and associated abatement of the FX intervention threat. We see the CZK at around 25.20-25.30 at year-end.

Traders' Comment:

CEE Fixed Income: The overwhelming majority of analysts asked by Bloomberg expect the MNB to cut rates again today. Key rates are currently 4% and the median estimate amongst analysts is that a small cut of around 10 bps is the most likely outcome at today's rate setting meeting. The lowest estimate is for a cut of 25 bps. The yield on the HGB 7.75% 2015 was not far off 4% for an extended period this year after falling from 5.5% at the beginning of the year but has turned upwards in August and is currently around 4.6%. The 10y2y IRS curve has steepened from 40 bps to 180 bps ytd. Both seem to indicate that rate cuts are indeed coming to an end. An extension of the conflict in Syria will likely result in higher oil prices and a general rise in risk aversion amongst investors, at least in the short term, which is also not particularly positive for HGBs.

Selected government bonds

Benchmark bonds	Domestic					Eurobond					
	Rating	Description	Current (mid)	change (bps)		Rating	Description		Current (mid)	change (bps)	
				d-d	w-w					d-d	w-w
Czech Republic	A1	CZGB 2 3/4 03/31/14	0,15	1	1	A1	CZECH 4 1/2 11/05/14	EUR	0,29	-11	-2
	A1	CZGB 4 04/11/17	1,05	-3	0	A1	CZECH 5 06/11/18	EUR	1,23	-14	-6
	A1	CZGB 3.85 09/29/21	2,27	-4	4						
Slovakia	A2	SLOVGB 4.9 02/11/14	0,42	-5	8	A2	SLOVAK 4 3/8 01/21/15	EUR	0,61	-2	1
	A2	SLOVGB 3 1/2 02/24/16	1,04	1	17	A2	SLOVAK 4 3/8 05/15/17	EUR	1,09	-3	6
	A2	SLOVGB 4 04/27/20	2,05	0	6						
Hungary	Ba1	HGB 6 3/4 08/22/14	4,54	-4	14						
	Ba1	HGB 6 3/4 11/24/17	5,54	-2	27						
	Ba1	HGB 7 06/24/22	6,31	-4	6	Ba1	REPHUN 4 3/8 07/04/17	EUR	4,09	-18	-11
						Ba1	REPHUN 5 3/4 06/11/18	EUR	5,00	-7	11
					Ba1	REPHUN 3 7/8 02/24/20	EUR	4,93	1	7	
Poland	A	POLGB 0 01/25/14	2,35	-5	-12						
	A	POLGB 5 04/25/16	3,24	-5	2	A2	POLAND 3 3/4 03/29/17	EUR	1,23	-1	13
	A	POLGB 5 3/4 10/25/21	4,36	-4	0	A2	POLAND 4.2 04/15/20	EUR	2,31	-2	8
						A2	POLAND 5 1/4 01/20/25	EUR	3,40	1	8
Romania		ROMGB 6 10/19/13	4,05	0	0						
		ROMGB 6 04/30/15	4,20	0	0	Baa3	ROMANI 5 03/18/15	EUR	1,94	-6	0
		ROMGB 6 3/4 06/11/17	4,70	5	25	Baa3	ROMANI 6 1/2 06/18/18	EUR	3,67	2	12
Croatia						BB+	CROATI 5 04/15/14	EUR	1,11	12	-26
	BB+	CROATE 5 3/4 07/22/16	4,11	0	5	BB+	CROATI 6 1/2 01/05/15	EUR	2,43	-4	-7
		CROATE 6 1/4 11/25/17	4,40	-5	-5	BB+	CROATI 5 7/8 07/09/18	EUR	4,55	5	20
		CROATE 5 1/4 07/10/18	4,65	0	0						
		CROATE 6 3/4 03/05/20	5,23	0	0						

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