



Central European Daily

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Headlines

Currencies: CE currencies weaken on global equity sell off

Fixed Income: Neutral outcome for the 50Y bond Czech benchmark auction

Currencies

Currencies	Close	change
EUR/CZK	26.78	0.4%
EUR/HUF	256.4	0.6%
EUR/PLN	3.689	0.4%
USD/PLN	2.492	0.2%
EUR/SKK	33.42	0.7%
EUR/USD	1.483	0.3%
USD/JPY	108.5	-1.4%

The **Polish zloty** tracked the region lower on a fresh bout of risk aversion on Wednesday. The EUR/PLN has found 3.69 difficult to tackle so far though and we expect this level will continue to provide strong resistance for the pair in the nearest future. If broken, we would look for a move to above 3.70-3.71 to signal an extension to the recent corrective move.

In the longer term perspective, the market seems to be entering the end of the year phase already, and we expect this means more profit taking for the zloty in the coming weeks as foreign banks start clearing their books. Local players should take over later in December though, taking advantage of the higher EUR/PLN levels to buy into the zloty. (Low) liquidity will become an additional issue next month, which is one reason why we expect the pair will eventually head south into the 3.60-3.65 area before the end of the year.

The **HUF** reached a new high at 257 during yesterday's session as the market took a straight way up after breaking the 255 level. During the afternoon session, the market was stabilizing in the range of 256-257 and we may see this continuing today as US accounts will be away due to Thanksgiving.

The **Czech koruna** started to take into account the continuous growth in global risk aversion more seriously and depreciated slightly more rapidly on Wednesday. Hence the EUR/CZK touched crucial resistances at 26.84.

Today, both the domestic calendar and the calendar in core markets are light (with a US holiday on schedule). Short-term, we believe the negative sentiment could improve slightly for a moment. Nevertheless in the upcoming session it might be decisive whether the koruna stays below 26.84 even in case of further a sell off on the global equity markets. If we break through that barrier we may easily see the koruna above 27.00 for limited period soon.

The **Slovak forex market** moved in line with the general regional weakening trend. EUR/SKK spiked to a one-month high against the euro or a loss of one percent. But



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the Slovak currency was not the single victim of the new risk aversion wave and moved together with zloty, forint and the Czech koruna. It is too early to consider the risk aversion game is over, even if Wednesday's dip looks a bit overdone. The local economic calendar is empty again. As US markets are closed, we bet for a more quiet trading day and expect that the level of EUR/SKK 33,500 will hold for now.

EURHUF ↓ 256.47 - .49 ANON 256.40/256.54 LBWX
At 8:14 Op 256.89 Hi 256.99 Lo 256.42 Prev 256.96 Value 11/26/07



EUR/HUF: HUF loses ground



Fixed income

Bonds 2Y	Close	
Czech Rep.	4.10	-0.02
Hungary 3Y	7.44	0.09
Poland	5.99	0.07
Slovakia	4.52	0.07
Eurozone	3.66	-0.07
USA	3.01	-0.20

Bonds 10Y	Close	
Czech Rep.	4.51	0.00
Hungary	7.06	0.11
Poland	5.83	0.05
Slovakia 7Y	4.63	-0.12
Eurozone	4.03	-0.04
USA	4.01	-0.10

Just like the zloty, **Polish bonds** slipped lower on Wednesday - yields were up by 4-5 bps., at 6.0%, 6.03% and 5.83% for the 2, 5 and 10Y benchmarks respectively, in a move triggered by the weak results of the 5Y primary auction. PLN 2.2 bn of bonds was sold, but with the bid/cover ratio of roughly 1.2 demand was poor.

Each and every time we are tempted to say that Polish yields have peaked we are caught wrong footed as it turns out there is still some room for bonds to extend the losses either on risk aversion or inflation fears. Hence we remain cautious for all maturities and particularly for the short end of the curve. The sentiment remains negative short term, opening room for convergence play further out in time, as inflation fears soar and the market speculates on a 50 basis points rate hike next week.

Hungarian bonds lost some further value. Especially the medium-part of the curve was considerably hurt, as the market is anticipating the consequences of a higher inflation path together with global risk aversion. Today's 5Y and 10Y bond auctions could be important to see how much demand has left after the steep rise in yields over the past two weeks. Markets could react to this after the announcement of the results at 12:00CET, but for the medium-term, central bank's Monday meeting will be the most influential factor.

The **Czech yield curve** flattened in a bearish fashion yesterday as the short end of the curve suffered from the weakening koruna while instruments at the long end of the curve benefited from developments in core bond markets and from a neutral outcome of a government bond auction.

Regarding the auction, recall that the MinFin offered a new 50Y bond benchmark. The Ministry offered CZK 8bn worth of bonds, while it sold CZK 4.74 bn. The average yield reached 4.85 %. We assess the outcome of the auction as neutral as demand in the auction was rather weak while the pricing was relatively favourable.

Today's trading will be primarily about the sentiment on equity markets and the Czech Forex market. Should the session be a bit calmer the koruna might stabilize and this might be the case for the front end of the Czech curve, too.



Tables of rates

IBOR 3M			Close			FRA 3x6			Close			Central Bank Rate		
Czech Rep.	3.74	0.00	Czech Rep.	3.86	0.00	Czech Rep.	3.25	25						
Hungary	7.44	0.01	Hungary	7.37	0.03	Hungary	7.50	-25						
Poland	5.42	0.03	Poland	5.79	0.02	Poland	4.75	25						
Slovakia	4.35	0.00	Slovakia	4.42	0.47	Slovakia	4.25	-25						
Eurozone	4.65	0.02	Eurozone	4.44	0.02	Eurozone	4.00	25						
USA	5.02	0.01	USA	4.30	-0.17	USA	4.50	-25						

IRS 2Y			Close			IRS 10Y			Close			STOCKS			close		
Czech Rep.	4.10	0.00	Czech Rep.	4.40	-0.01	PX	1728.2	-2.2%									
Hungary	7.36	0.05	Hungary	6.83	0.03	BUX	25310.3	-2.4%									
Poland	6.08	0.02	Poland	5.80	0.03	WIG	54618.9	-1.6%									
Slovakia	4.51	-0.03	Slovakia	4.67	-0.02	Eurostoxx	4203.24	-1.4%									
Eurozone	4.33	-0.05	Eurozone	4.51	-0.02	DAX	7528.1	-0.9%									
USA	4.05	-0.11	USA	4.30	-0.04	S&P	1429.1	-1.2%									

Closing or snapped values at 16:30 CET, change is over previous day, last change in bps

Calendar

	Date	Time	Indicator	Period	Forecast		Consensus		Previous	
					m/m	y/y	m/m	y/y	m/m	y/y
HU	22.11.2007	12:00	GB bond auction, 5Y (HUF B)	11.28.2007		25				
HU	22.11.2007	12:00	GB bond auction, 10Y (HUF B)	11.28.2007		30				
HU	23.11.2007	09:00	Retail sales (%)	09/2007						-3.6
PL	23.11.2007	14:00	Core CPI (%)	10/2007		1.3				1.2

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