

EMEA Daily

Review

- Polish GDP grew 3.5% y/y in Q2, which beat consensus. We now expect GDP growth this year to be in the range of 3.0%-3.5%. Read more [here](#).
- Russian finance minister Kudrin sees inflation possibly reaching 7.5% in 2010, above the Economic ministry's forecast of 6-7%. However, he sees no need for the central bank to hike the refinancing rate. We believe that Kudrin's 7.5%-level, just below the current 7.75% refi rate, could perhaps have been used to justify the current monetary policy. We expect year-end 2010 inflation to reach 8%, with further acceleration in 2011.
- EU Commissioner **Olli Rehn was quoted** in the Hungarian Sunday paper Vasarnapi Hírek **as saying that Hungary must reduce its budget deficit below 3% of GDP next year to ensure sustainable growth**. From Rehn's comments it is quite clear that the EU is not willing to allow Hungary to run GDP deficit higher than 3% next year.
- Yet another Czech central bank (CNB) board member, Robert Holman, called for a rate hike in the Czech Republic. He stated in the weekly magazine Tyden "... in the end we'll move to lift [interest] rates to 1%. I don't know whether it'll be at the end of this year, or the start of next year." Holman is the third CNB board member who recently called for a rate hike.
- Estonian wages were up 1.2% y/y in Q2; the wage and salary recovery trend is significantly faster than we predicted (-1.1% y/y). According to Estonian statistics, the increase was influenced by the decrease in the number of persons on holiday without pay.
- The Latvian retail trade outcome in July was only marginally better than our expectation; retail trade declined by 2.0 % y/y. On the other hand, the stabilisation trend is obviously clear and is likely to continue further.

Preview

- We expect acceleration in Estonian IP recovery in July based on growing external demand. However, there is a clear downside risk to growth in IP going forward. PMI and the new orders index in the euro area indicate slowing, growth which may be a negative factor for the Estonian industrial and export outlook.

Trading update

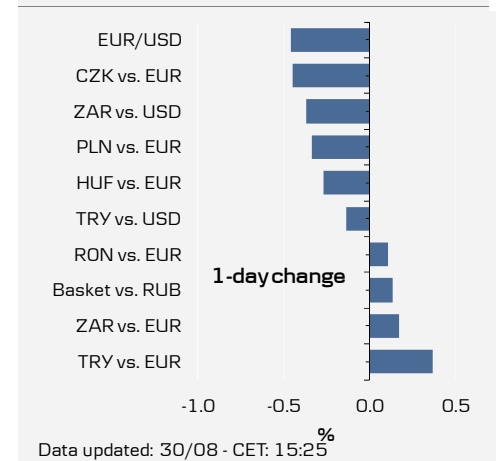
- Amid thin trading, EMEA currencies were fairly mixed yesterday. With a EUR/USD somewhat higher, some of the euro-sensitive currencies failed to benefit from positive local news. For instance, the Polish zloty did not react to better-than-expected Q2 GDP numbers. Also, the Czech koruna did not benefit from hawkish comments from CNB board member Holman.

EMEA swap rates

| | 2Y IRS | Mid level | 1D chg - bp |
|-----|--------|-----------|-------------|
| CZK | | 1.61 | -2 |
| HUF | | 6.28 | -2 |
| PLN | | 4.56 | 3 |
| RUB | | 5.45 | -2 |
| TRY | | 7.51 | 0 |
| ZAR | | 6.29 | 4 |
| | 5Y IRS | Mid level | 1D chg - bp |
| CZK | | 1.97 | -1 |
| HUF | | 6.53 | -1 |
| PLN | | 4.87 | 0 |
| RUB | | 6.73 | -8 |
| TRY | | 7.95 | 0 |
| ZAR | | 7.04 | 4 |

Source: Reuters Ecowin

EMEA FX markets



Source: Reuters Ecowin

Calendar

| Tuesday, August 31, 2010 | | | | | | |
|--------------------------|-------|-----------------------|----------|-------------|-----------|----------|
| | | | Period | Danske Bank | Consensus | Previous |
| EEK | 7:00 | Industrial production | y/y | Jul | 23.3% | 21.0% |
| EEK | 7:00 | Retail trade | y/y | Jul | -1.9% | -7.0% |
| ZAR | 8:00 | Private sector credit | y/y | Jul | 1.47% | 0.92% |
| HUF | 9:00 | Producer prices | y/y | Jul | | 6.9% |
| TRY | 9:00 | Trade balance | bln. USD | Jul | | -5.6 |
| LVL | 12:00 | Wages | y/y | 2nd quarter | -7.4% | -8.3% |
| ZAR | 14:00 | Trade balance | bln. ZAR | Jul | -0.2 | 5.6 |

Source: Danske Markets

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All EM research is available on Bloomberg DMEM

Disclosure

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