

EMEA Weekly

Jastrzębie polują na gołębie

NBP likely to maintain hawkish rhetoric

Some hawkish members of the Polish central bank's monetary policy council (RPP) are likely to call for the need for rate hikes soon when the council meets next week. Within the past month, a number of RPP members have expressed a view that rate hikes now are more likely than rate cuts.

The sudden hawkish rhetoric is somewhat surprising given that both the Federal Reserve and the ECB in particular have moved in a more dovish direction. However, the hawkish tone from the Polish central bank undoubtedly has to be seen as a delayed response to the sharp sell-off in the zloty in the final quarter of last year and to a lesser extent to the continued elevated inflation level as headline inflation is still above the NBP's official target of 2.5%.

We find it somewhat problematic that the NBP has been focusing on the zloty rate rather than focusing on its inflation target. That said, inflation is still running above 4% and the sell-off in the zloty is likely to have generated some upward pressure on inflation. On the other hand, the zloty has rebounded dramatically in the first weeks of this year. As a consequence, we doubt that the NBP can maintain a very hawkish rhetoric in the coming months. In terms of next week's rate setting meeting, in line with consensus, we expect the policy rate to stay unchanged at 4.50%.

Russia's CPI hits historical low

Russia's inflation rate fell to 6.1% in 2011 – the lowest level in the post-Soviet era. During the 2000s, the rate often climbed to double-digit figures.

For January 2012, we expect inflation of 4.9% y/y, slowing from 6.1% y/y in December. We expect consumers to enjoy moderate price growth during H1 12. However, price increases are planned once the March presidential elections are over and a new government is formed. Our forecast for Russia's CPI in 2012 is 6.5%. As Russia's central bank has been moving towards inflation targeting, rate increases are possible during H2 12.

A big reason for the historically low inflation was a rich harvest (+16.1%) in 2011 which came after the disastrous summer of 2010 (-9.7%). Accelerated capital outflows, rising interest rates and squeezed liquidity helped the CPI to stay low. At the same time, domestic consumption drove GDP growth to 4.3% in 2011. Thus, in 2012, rocketing social payments and planned increases in government expenditure helped by high oil prices will feed domestic consumption and push prices up.

Concluding, the RPP is likely to sound relatively hawkish next week, but the easier monetary stance from the ECB (especially LTRO) and the rebound in the zloty mean that the RPP's rhetoric is likely to become more balanced in the coming months and that is likely to bring an end to the talk of imminent rate hikes, but next week the hawks are likely to be allowed to shine.

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Calendar

EMEA Data and Events in Week 6

Monday, February 6, 2012				Period	Danske Bank	Consensus	Previous
RUB	-	CPI (06-07 Feb)	y/y	Jan	4.9%		6.1%
CZK	9:00	Industrial output	y/y	Dec		1.0%	5.4%
Tuesday, February 7, 2012				Period	Danske Bank	Consensus	Previous
RUB	-	Trade balance (07-09 Feb)	USD bn.	Dec			17.4
EEK	7:00	CPI	y/y	Jan	4.3%		3.7%
HUF	9:00	Industrial production, preliminary	y/y	Dec			3.5%
CZK	9:00	Unemployment rate	%	Jan		9.1	8.6
CZK	9:00	Trade balance	CZK bn.	Dec		4.2	18.4
ZAR	10:30	Unemployment rate	%	4th quarter		24.8	25.0
Wednesday, February 8, 2012				Period	Danske Bank	Consensus	Previous
LVL	-	Unemployment rate (08-10 Feb)	%	Jan			11.5
PLN	-	Monetary Policy Council meets (rate decision)	%		4.50	4.50	4.50
RUB	-	Weekly CPI	w/w				
TRY	9:00	Industrial production	y/y	Dec			8.4%
HUF	9:00	Trade balance, preliminary	EUR m.	Dec			
RON	9:00	Net Wages	y/y	Dec			8.3%
RON	9:00	Industrial output	y/y	Dec			3.2%
LVL	12:00	CPI	y/y	Jan	3.3%		4.0%
Thursday, February 9, 2012				Period	Danske Bank	Consensus	Previous
EEK	7:00	Trade balance	EUR m.	Dec			-29.8
RON	9:00	Trade balance	EUR m.	Dec			-899.7
LTL	10:00	Trade Balance	LTL bn.	Dec			-0.80
ZAR	12:00	Manufacturing production	y/y	Dec	3.1%		2.6%
LVL	12:00	GDP, preliminary	y/y	4th quarter	3.7%		6.6%
LVL	12:00	Trade balance	LVL m.	Dec			-115.9
Friday, February 10, 2012				Period	Danske Bank	Consensus	Previous
LVL	-	Current Account	LVL m.	Dec			1.2
EEK	7:00	GDP, preliminary	y/y	4th quarter	4.4%		8.5%

The editors do not guarantee the accurateness of figures, hours or dates stated above

Note that all releases are CET.

Danske Markets

Source: Danske Markets

Strategy Update

Earlier this week, we published an update to our FX Top Trades 2012. These updates related primarily to EMEA currencies, and below we recap the main highlights from our update. For further details, please see *FX Top Trades Update*.

Zloty closer to fair value levels following rapid normalisation

Decent Polish growth prospects and robust economic readings, as again seen with this morning's January PMI release, have given the zloty an edge over its peer currencies in the CEE space. The rapid normalisation experienced in the zloty since mid-December has been further supported by the Polish central bank's tone that has had an overall hawkish bias.

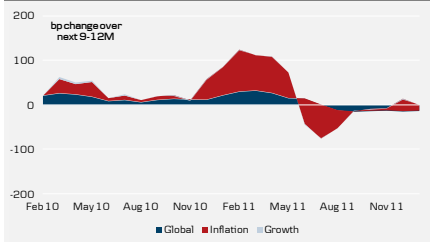
While the pace of zloty appreciation has certainly materialised at a faster pace than what we had anticipated at the onset of our strategy, it has also taken the Central European currency closer to the levels we would consider fundamentally fair.

Sterling, on the other hand, was a relative underperformer in the January risk rally in the G10 space and has for its part propelled our strategy for quick gains. We continue to see limited upside in EUR/GBP. On this, please see the latest *FX Forecast Update*.

We had initially set our target at 4.95 and continue to see scope for further zloty appreciation in the coming months. Given a rate decision in Poland next week and continued woes on the euro-area crisis, however, the risk factors for the strategy on the short-term horizon are notable. Moreover, the markets already expect the Bank of England to deliver an additional GBP50bn as part of its ongoing asset purchase target, thus limiting the near-term downside for sterling. As such, we did not feel the risk/reward ratio for the remaining short distance to our target to be compelling enough and thus exit our strategy here.

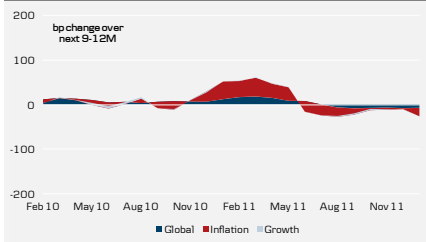
EMEA Monetary Policy Tracker

Poland



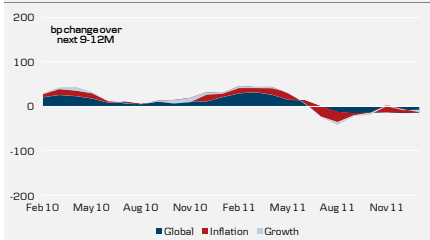
Source: Danske Markets calculations

Hungary



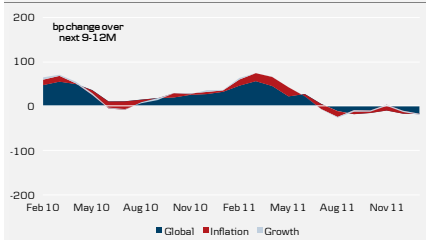
Source: Danske Markets calculations

Czech Republic



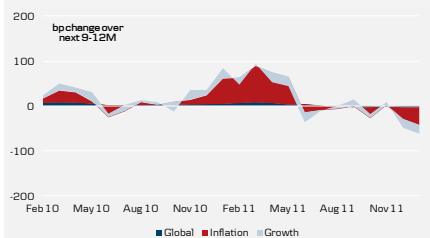
Source: Danske Markets calculations

Turkey



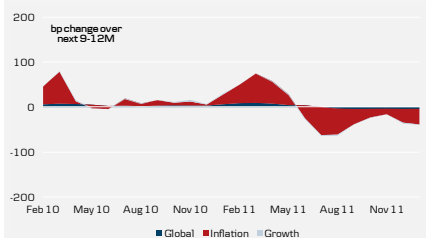
Source: Danske Markets calculations

South Africa



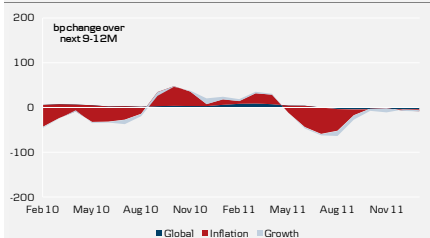
Source: Danske Markets calculations

Romania



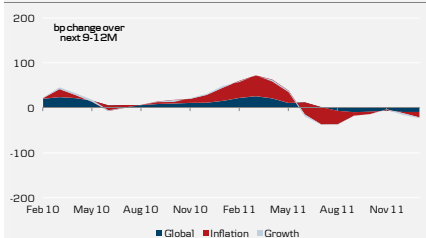
Source: Danske Markets calculations

Israel



Source: Danske Markets calculations

Total

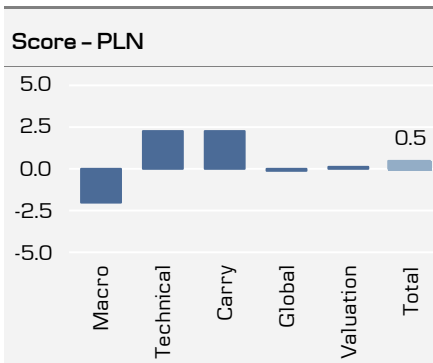


Source: Danske Markets calculations

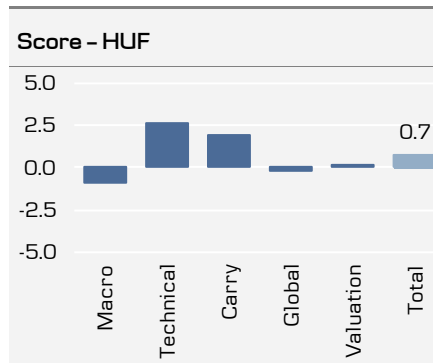
EMEA Monetary Policy Tracker

- The EMEA Monetary Policy Tracker (MPT) is illustrated by the charts on this page.
- The EMEA MPT shows expected rate changes on a 9-12M horizon based on three factors: inflation, growth and the global situation.
- The inflation factor measures whether a wide range of inflationary indicators (CPI, PPI, wages, oil price, etc) is accelerating or decelerating.
- The growth factor measures economic growth momentum based on a number of monthly indicators (PMI, exports, industrial production, unemployment, money supply, growth, etc) - i.e. whether growth is speeding up or slowing down.
- The global factor takes into account market expectations of monetary policy in the US and Euroland over the next year.
- The signals from the three factors are accumulated into an expected rate change over the next 9-12M. This is calibrated to fit the historical reactions of the central banks - as not all central banks react in the same way to, for example, inflationary surprises or a slowdown in growth.

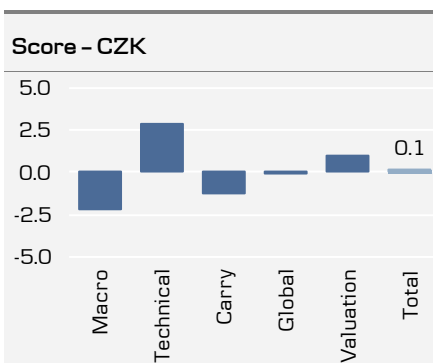
EMEA FX scorecard overview



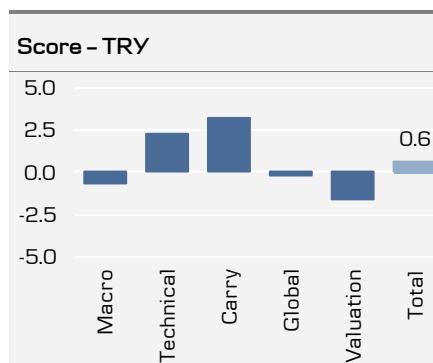
Source: Danske Markets calculations



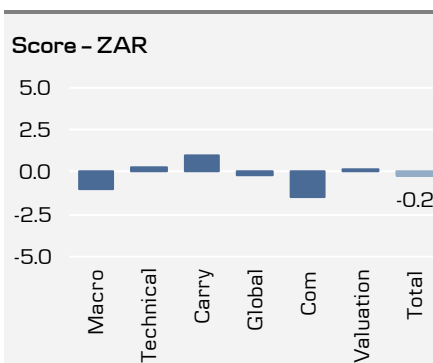
Source: Danske Markets calculations



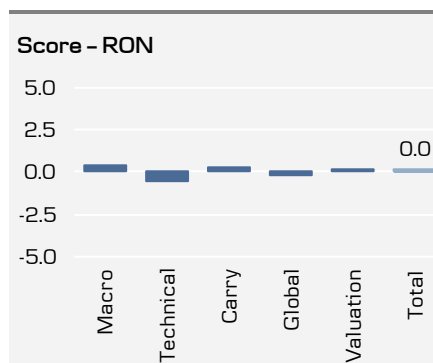
Source: Danske Markets calculations



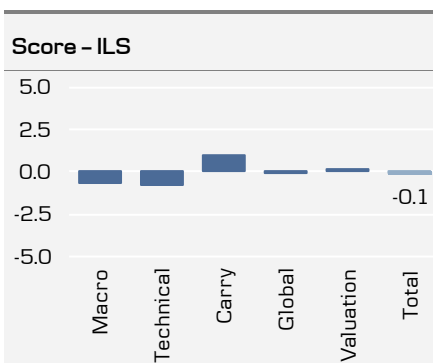
Source: Danske Markets calculations



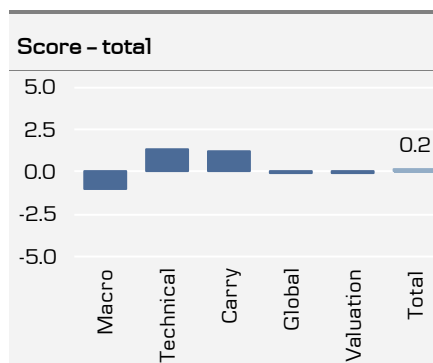
Source: Danske Markets calculations



Source: Danske Markets calculations



Source: Danske Markets calculations



Source: Danske Markets calculations

EMEA FX scorecard outline

- All scores are computed on a scale from +5 to -5. A score is then derived by combining the different sub-scores.
- **Macro:** calculates the growth momentum in different monthly macro indicators.
- **Technical:** calculates the momentum in different volatility measures, short- and longer term moving averages and the level of the relative strength index.
- **Carry:** calculates the momentum in local three-month rates, carry-to-risk, spread vs EUR or USD three-month rates and spread vs peers.
- **Global:** consists of a global growth score based on leading global indicators, a liquidity score based on G3 real rates and a sentiment score based on performance in global equity markets and traditional funding currencies.
- **Valuation:** calculates whether currencies are over/undervalued compared with the long-term trend in the real effective exchange rate (REER). The trend is adjusted for external imbalances, i.e. an imbalance-adjusted REER. The scores are calibrated to reflect the short-term impact of the valuation on FX.

Currency forecast, EMEA

Currency Forecast, New Europe/EMEA

Jan 26, 2012		EUR	USD	SEK	NOK	DKK
USD	Actual	1.31	-	674	584	567
	+3m	1.26	-	714	603	590
	+6m	1.30	-	669	581	572
	+12m	1.34	-	634	560	555
PLN	Actual	4.25	3.24	208	180	175
	+3m	4.40	3.49	205	173	169
	+6m	4.35	3.35	200	174	171
	+12m	4.30	3.21	198	174	173
HUF	Actual	295	225	3.00	2.60	2.52
	+3m	320	254	2.81	2.38	2.32
	+6m	315	242	2.76	2.40	2.36
	+12m	315	235	2.70	2.38	2.36
CZK	Actual	25.2	19.2	35.1	30.5	29.5
	+3m	26.0	20.6	34.6	29.2	28.6
	+6m	25.7	19.8	33.9	29.4	28.9
	+12m	25.1	18.7	33.9	29.9	29.6
LVL	Actual	0.70	0.53	1268	1099	1065
	+3m	0.70	0.56	1286	1086	1061
	+6m	0.70	0.54	1243	1079	1061
	+12m	0.70	0.52	1214	1071	1063
LTL	Actual	3.45	2.63	256	222	215
	+3m	3.45	2.74	261	220	215
	+6m	3.45	2.65	252	219	215
	+12m	3.45	2.57	246	217	216
RON	Actual	4.34	3.31	204	177	171
	+3m	4.35	3.45	207	175	171
	+6m	4.40	3.38	198	172	169
	+12m	4.45	3.32	191	169	167
BGN	Actual	1.96	1.49	452	392	380
	+3m	1.96	1.55	460	389	380
	+6m	1.96	1.50	445	386	380
	+12m	1.96	1.46	435	384	381
TRY	Actual	2.37	1.80	374	324	314
	+3m	2.27	1.80	396	335	327
	+6m	2.29	1.76	380	330	324
	+12m	2.35	1.75	362	319	317
RUB	Actual	39.90	30.4	22.2	19.2	18.6
	+3m	41.2	32.7	21.8	18.4	18.0
	+6m	40.0	30.8	21.7	18.9	18.6
	+12m	39.0	29.1	21.8	19.2	19.1
UAH	Actual	10.54	8.03	83.9	72.7	70.5
	+3m	10.14	8.05	88.7	74.9	73.3
	+6m	10.43	8.02	83.4	72.4	71.3
	+12m	10.72	8.00	79.3	70.0	69.4
ZAR	Actual	10.32	7.86	85.8	74.3	72.1
	+3m	10.40	8.25	86.6	73.1	71.5
	+6m	10.79	8.30	80.6	70.0	68.9
	+12m	11.26	8.40	75.5	66.6	66.1
ILS	Actual	4.92	3.75	179.8	155.8	151.1
	+3m	4.79	3.80	188.0	158.7	155.2
	+6m	4.91	3.78	177.0	153.6	151.2
	+12m	4.98	3.72	170.5	150.5	149.3

Source: Reuters EcoWin and Danske Markets

Fixed income forecast, EMEA

26/01/2012		Key interest rate
PLN	Actual	4.50
	+3m	4.50
	+6m	4.50
	+12m	4.50
HUF	Actual	7.00
	+3m	7.00
	+6m	6.50
	+12m	6.50
CZK	Actual	0.75
	+3m	0.75
	+6m	0.75
	+12m	0.75
TRY	Actual	5.75
	+3m	5.75
	+6m	5.75
	+12m	5.75
ZAR	Actual	5.50
	+3m	5.50
	+6m	5.50
	+12m	5.50
RON	Actual	5.75
	+3m	5.50
	+6m	5.50
	+12m	5.50
ILS	Actual	2.50
	+3m	2.50
	+6m	2.50
	+12m	2.50

Source: Danske Markets

Macro forecast, EMEA

	Year	Gdp ¹	Private. Cons ²	Fixed Inv ¹	Export ¹	Import ¹	Trade Balance ^{2,4}	Current acc. ^{2,4}	Industrial prod. ¹	Unem- p ³	Infla- tion ¹
Czech Republic	2010	2.2	0.0	-3.2	19.1	19.2	1.4	-3.2	10.2	9.6	1.5
	2011	1.9	0.6	1.8	14.6	13.8	1.3	-4.0	7.5	8.2	1.8
	2012	2.4	2.9	2.8	9.6	14.5	0.8	-4.1	2.0	8.8	1.9
	2013	2.3	2.6	3.4	9.4	13.5	2.4	-2.2	5.0	9.4	1.7
Estonia	2010	2.3	-1.6	-9.0	22.0	20.4	-1.7	3.6	20.7	13.6	3.0
	2011	7.5	4.9	14.4	28.7	30.8	-2.9	-0.6	25.3	12.1	5.1
	2012	3.9	3.8	7.1	11.3	13.7	-5.8	-3.5	15.5	10.7	3.5
	2013	3.7	3.7	6.5	7.0	9.0	-7.9	-5.5	13.6	9.7	2.9
Hungary	2010	1.3	-2.1	-9.3	14.3	12.8	3.3	1.1	11.9	11.2	4.9
	2011	1.5	0.2	-5.0	9.8	6.8	4.0	1.8	5.6	10.9	3.9
	2012	0.7	1.0	-2.4	10.7	8.7	2.5	0.1	0.7	11.4	4.5
	2013	-	-	-	-	-	-	-	-	-	-
Latvia	2010	-0.3	0.4	-13.2	11.3	11.3	-7.1	3.0	14.1	16.9	-1.1
	2011	3.9	3.7	13.8	14.6	17.4	-8.9	-1.1	9.4	15.0	4.5
	2012	2.9	3.0	4.0	6.2	7.4	-9.9	-2.8	8.8	13.8	2.9
	2013	3.3	3.6	4.9	3.5	5.8	-12.1	-5.5	10.3	13.5	3.1
Lithuania	2010	1.4	-4.9	-0.7	17.0	17.0	-4.3	1.8	6.6	17.1	1.3
	2011	5.9	5.9	20.1	10.9	11.8	-4.0	-0.8	9.7	14.2	4.4
	2012	3.8	3.6	9.1	6.0	7.7	-5.4	-1.6	9.3	13.8	3.9
	2013	3.6	3.5	8.9	4.8	7.0	-7.5	-3.7	9.3	13.8	2.5
Poland	2010	3.8	3.2	-2.1	10.1	11.6	-2.5	-4.6	11.1	12.4	2.6
	2011	3.9	3.4	7.2	9.6	7.1	-2.7	-4.5	6.1	12.5	4.1
	2012	2.8	2.8	4.6	9.8	9.7	-2.4	-4.5	2.5	12.4	3.3
	2013	2.2	2.3	2.1	10.3	11.3	-2.5	-4.5	4.9	12.9	3.1
Russia	2010	4.0	3.0	6.0	10.5	22.1	8.6	4.6	8.2	7.2	6.9
	2011	4.3	6.2	5.5	21.8	25.4	8.6	4.7	5.0	6.8	8.5
	2012	4.5	4.9	8.5	7.5	16.2	7.3	3.9	4.7	6.6	6.5
	2013	4.1	3.8	10.1	2.1	14.0	5.6	2.1	4.0	6.5	6.8
Turkey	2010	9.0	6.0	29.3	3.6	20.7	-7.6	-6.3	13.3	-	8.6
	2011	7.8	7.1	19.7	5.8	12.5	-12.2	-10.4	9.9	-	6.4
	2012	2.9	2.6	5.0	10.5	-1.4	-10.5	-8.9	12.8	-	8.4
	2013	3.5	3.0	7.5	8.5	4.4	-7.5	-6.0	7.3	-	7.5
South Africa	2010	2.8	4.4	-3.6	4.7	9.8	-1.1	-2.8	5.0	-	4.3
	2011	4.3	4.4	3.7	4.2	5.9	-0.4	-2.3	3.5	-	4.4
	2012	3.2	2.9	6.1	4.3	5.8	-2.9	-3.6	1.9	-	5.2
	2013	3.2	3.0	5.3	4.5	5.0	-3.2	-3.7	0.4	-	5.6

1) Average % y/y 2) % of GDP 3) % of total work force 4) Export and import prices

Source: Reuters EcoWin and Danske Markets

Macro Monitors

Macro Monitor – South Africa, 4 April

Macro Monitor – Lithuania, 5 July

Macro Monitor – Latvia, 7 July

Macro Monitor – Turkey, 20 July

Macro Monitor – Hungary, 4 August

Macro Monitor – Estonia, 13 October

Macro Monitor – Lithuania, 20 October

Macro Monitor – Czech Republic, 27 October

Macro Monitor – Latvia, 3 November

Macro Monitor – Poland, 14 December

Source: Danske Markets

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All EM research is available on Bloomberg DMEM

Disclosure

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