

EMEA Weekly

Return of double-dip fears

Market movers: A busy week ahead

Several important economic releases are on the agenda for next week. On Monday we are due to get data on July's PMIs for the entire EMEA region. Overall, we expect the PMIs to drop slightly compared with last month's figures. On Tuesday we are scheduled to receive numbers on Turkish inflation in July. We expect the numbers to show that Turkish inflation has eased slightly. On Wednesday there is a rate decision in Romania. We expect the central bank to keep rates unchanged. This is also the case for the Czech rate decision on Thursday.

Fixed income outlook: Keep an eye on Turkish inflation

On Wednesday next week we get data on Turkish inflation. This figure will reveal if the dovish stance from the Turkish central bank (TCMB) is justifiable or not. We expect inflation to have dropped to 8.3% y/y in July, down from 8.4% y/y in June. Hence, this reading should give TCMB – and maybe also the market – some confidence that inflation is no longer accelerating up.

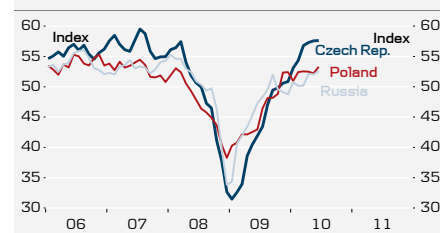
FX outlook: Will macro momentum continue to fall?

According to the signals from our EMEA FX Scorecard the macro sub-scores have trended down in recent weeks. This is an indication that the macro momentum in the EMEA region is losing steam and that the currencies therefore can no longer find much support in accelerating growth. Next week we are due to receive data on PMIs in the entire region, but also data on industrial production and retail sales in some countries. It will be quite interesting to follow these releases as they will give a clear indication as to whether macro momentum in the EMEA region will continue down.

Scorecard-based trade of the week Buy CZK/ZAR

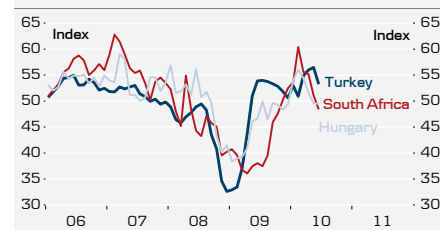
For a third week in a row trade Scorecard based trade of the week is CZK/ZAR and the Czech koruna is still the highest scoring currency in our EMEA FX Scorecard and the rand is the lowest scoring currency in the Scorecard. Over the past couple of weeks this cross has been remarkably stable, but the trend remains upward, with CZK continuing to outperform ZAR over the past week.

PMIs on the agenda for next week...



Source: Danske Markets

...we expect the PMIs to drop slightly



Source: Danske Markets

Turkish inflation has stopped accelerating



Source: Danske Markets

Calendar

EMEA Data and Events in Week31

Monday, August 2, 2010				Period	Danske Bank	Consensus	Previous
HUF	-	Manufacturing PMI	Index	Jul	47.5		49.5
RUB	6:00	Manufacturing PMI	Index	Jul	52.6		52.6
PLN	9:00	Manufacturing PMI	Index	Jul	53.0		53.3
TRY	9:00	Manufacturing PMI	Index	Jul	53.1		53.2
CZK	9:30	Manufacturing PMI	Index	Jul	57.3		57.6
ZAR	11:00	Manufacturing PMI	Index	Jul	47.8	48.0	48.4
Tuesday, August 3, 2010				Period	Danske Bank	Consensus	Previous
RON	9:00	PPI	y/y	Jun			6.5%
TRY	9:00	CPI	y/y	Jul	8.3%	7.7%	8.4%
TRY	9:00	PPI	y/y	Jul		8.5%	7.6%
ZAR	11:00	Naamsa vehicle sales	y/y	Jul			20.7%
LVL	12:00	Industrial production	y/y	Jun	10.4%		13.3%
Wednesday, August 4, 2010				Period	Danske Bank	Consensus	Previous
RUB	-	CPI	y/y	Jul			5.8%
RON	-	Central bank meeting (rate decision)	%		6.25%	6.25%	6.25%
RON	9:00	Retail sales	y/y	Jun			-3.4%
Thursday, August 5, 2010				Period	Danske Bank	Consensus	Previous
HUF	9:00	Industrial production, preliminary	y/y	Jun	11.6%		13.7%
RON	9:00	Industrial production	y/y	Jun			14.4%
TRY	10:00	Foreign Tourist Arrivals	y/y	Jun			15.8%
CZK	13:00	Monetary policy meeting	%		0.75%	0.75%	0.75%
Friday, August 6, 2010				Period	Danske Bank	Consensus	Previous
EEK	7:00	CPI	y/y	Jul	2.9%		3.5%
HUF	9:00	Trade balance, preliminary	m. EUR	Jun			
CZK	9:00	Trade balance	M. CZK	Jun			12.3
CZK	9:00	Industrial production	y/y	Jun	13.0%		16.9%
CZK	9:00	Retail sales	y/y	Jun	1.0%		3.1%
LTL	10:00	PPI	y/y	Jul			9.2%

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

Note that all releases are CET.

Danske Markets

Source: Danske Markets

Fixed income market update

Review: Turkish yields rise – when will TCMB hike?

It has been relatively calm on the EMEA fixed income markets over the past week, with yields and rates in general inching up slightly across the region.

As we noted in last week's edition we thought that Turkish yields have dropped too much and rather inexplicably. That now seems to have become the market view as Turkish yields have increased quite a bit during the week.

The overall driver for Turkish yields is clearly the expectation about when and if the Turkish central bank will hike interest rates. Until now the Turkish central bank (TCMB) has remained rather dovish and the TCMB does not seem to be in any hurry to hike interest rates despite the fact that inflation remains well-above the TCMB's inflation target of 6.5% and the recovery in the Turkish economy is quite strong. So why is the TCMB so dovish? We see two reasons. First, even though inflation is too high the upward momentum in inflation we saw earlier in the year appears to have eased so inflation is no longer accelerating. Furthermore, with both the ECB and the Federal Reserve being firmly on hold on monetary cycle there is no real "outside" pressures on the TCMB to hike. So that means that the TCMB for now will probably be sitting on their hands and wait for hiking interest rates. Until now we have thought that the rate hike would come in the second half of the year, but we admit that the indications increasingly are that the TCMB will wait until 2011 before hiking. Especially after the TCMB published its inflation report this week and revised down its inflation forecast for the end of 2011 to 7.5% from 8.4% earlier.

Preview: Turkish inflation to have inched down

Next week we are due to receive further information as to whether TCMB's dovish stance is justifiable or not, with Turkish inflation data for July. We expect inflation to have eased to 8.3% y/y in July down from 8.4% y/y in June.

Hence, the inflation should give TCMB – and maybe also the market – some confidence that inflation no longer is accelerating up and that therefore there is some justification to TCMB's dovish stance. Furthermore, looking further ahead we no longer expect double-digit inflation in Turkey and while we are not quite as optimistic that inflation will drop as much as the TCMB's inflation report predicts we nonetheless expect inflation to remain relatively stable around 8.5-9% for the remainder of the year.

Czech central bank keeps rates on hold

Another central bank that is in no hurry to tighten monetary policy is the Czech central bank (CNB) and the CNB is very likely to maintain its key policy rate unchanged at next week's CNB Board meeting.

Even though the Czech economy continues to recover, inflationary pressures are basically non-existent in the Czech Republic and we expect Czech inflation to remain just below or around the CNB's inflation target of 2% well into 2011. Furthermore, the CNB often shadows the direction of the ECB on monetary policy and with the ECB on hold it is difficult to see why the CNB will become more hawkish at the moment. Hence, next week's rate decision is not likely to be overly exciting as the CNB is likely to maintain a balanced view on inflationary risk and not hint at rate hikes. That said, on a 12-month horizon we might get one single 25 basis points rate hike from the CNB, but that's certainly not on the agenda in 2010. Furthermore, if the newly elected Czech government goes ahead with the planned fiscal tightening then that would reduce the need for the CNB to hike rates going forward.

EMEA swap rate performance

2Y IRS	Mid level	1W chg - bp
CZK	1.63	-3
HUF	6.23	-13
PLN	4.60	0
RUB	5.45	9
TRY	7.49	10
ZAR	6.51	-12
5Y IRS	Mid level	1W chg - bp
CZK	2.23	-2
HUF	6.59	-8
PLN	5.14	-1
RUB	6.70	-1
TRY	7.94	7
ZAR	7.31	-7

Data updated: 30/07 - CET: 11:11

Source: Reuters Ecowin and Danske Markets

FX Market update

Review: It's difficult not to be bullish on CZK

Over the past week calm has been maintained in the EMEA FX markets with a generally positive global risk sentiment initially helping the EMEA currencies and with no Hungary-like shocks to move the markets.

The Czech koruna undoubtedly is the EMEA currency that we are most bullish on – both short-term and long-term. During the week the koruna hit the strongest level against the euro in 20 months. We believe this is fully justified given relatively strong Czech fundamentals and optimism about Czech economic reforms. We therefore continue to recommend investors to stay long in the Czech koruna against its EMEA peers, the US dollar and the euro.

Preview: Worrying slowdown in macro momentum

The global risk sentiment seems rather ‘schizophrenic’ one week it is “risk on” and another week “risk off”. However, our real concern both for the EMEA markets and globally is that the markets make a more decisive decision that it is time to reduce risk and risk aversion rises because fears of a global double-dip increases. Here our EMEA FX Scorecard can help us track the developments through two of the sub-score in the Scorecard and is the sub-score for (local) macroeconomic conditions and the sub-score for global condition.

The global score, which measures among other things the momentum in G3 growth, has already turned negative – indicating that the global economic recovery has been losing momentum. That should be a warning sign to investors that globally we could be heading toward a correction in risk appetite and this could naturally also hit the EMEA currencies.

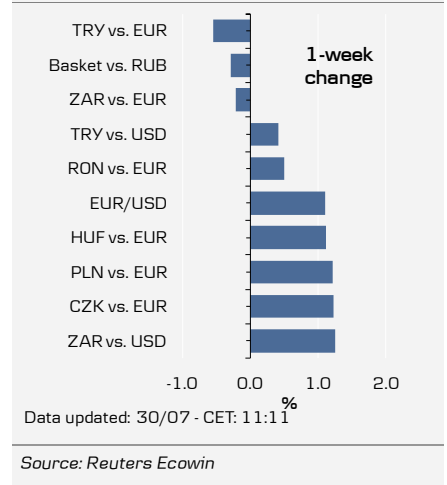
However, until recently despite the loss of momentum in G3 growth – the indicator for local EMEA macroeconomic growth momentum – has overall remained positive for the seven EMEA currencies. This week’s updated Scorecard shows that the macro momentum remains slightly positive, but the downtrend in the macro momentum has continued. Furthermore, it is especially notable that for Poland, which has been one of the strongest macro stories in the region, the macro score is now in fact negative. That could potentially spell problems for the zloty down the road.

Overall, it is too early to see whether we are going back into recession in some of the EMEA countries (and globally for that matter), but the loss of macroeconomic growth momentum is obviously of concern and an indication investors should be careful with risk taking. Furthermore, if growth momentum continues to slow it would probably only be a matter of time before we start to see the market pricing out rate hike expectations in countries such as: Turkey and Poland, which would send our sub-score for “carry” in a further negative direction.

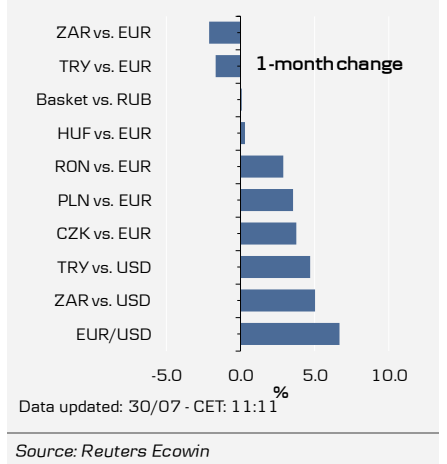
Hence, the picture is a bit worrying: the loss of global growth momentum is beginning to drag down growth momentum in the EMEA region and monetary tightening cycle in the region might be coming to an end before it started and further erode “carry support” for the EMEA currencies. That to us could be the trend to worry about for the EMEA currencies in H2 10.

Next week we are due to receive a set of economic data across the region that should be especially helpful in terms of assessing whether we continue to see a slowdown in growth momentum in region. Hence, we are expecting the PMIs in general continue to inch down across the region and hence follow the trend that we have seen globally. However, overall we do not expect the PMI data to have any strong impact on the EMEA currencies’ performance next week (they rarely have...), but it will nonetheless be interesting for the long-term performance of the EMEA currencies. So keep an eye on the PMI data.

FX performance – one week



FX performance – one month



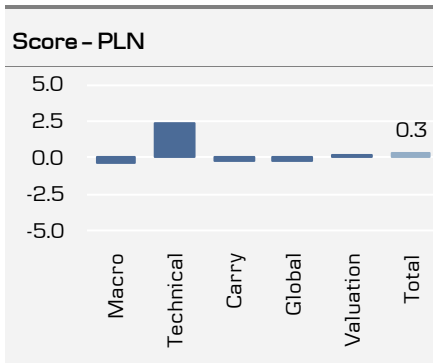
Furthermore, we are due to get industrial production numbers for Romania and the Czech Republic for June next week. While we don't expect any major negative surprises it will nonetheless add to the picture of how strong the loss of growth momentum is in the region.

Scorecard-based trade of the week Buy CZK/ZAR

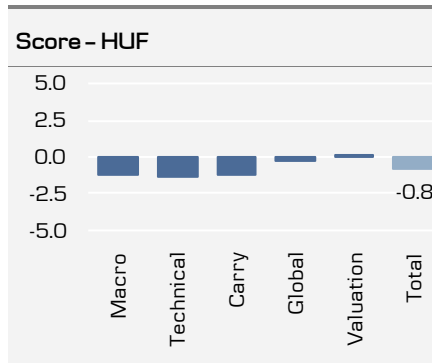
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Overall, even though this recommendation is short-term (weekly) we also believe that this cross could perform quite well in the longer run, as the Czech koruna is fundamentally the most undervalued currency among the seven currencies covered by the Scorecard, while the opposite is the case for the South African rand which we believe is the most overvalued EMEA currency.

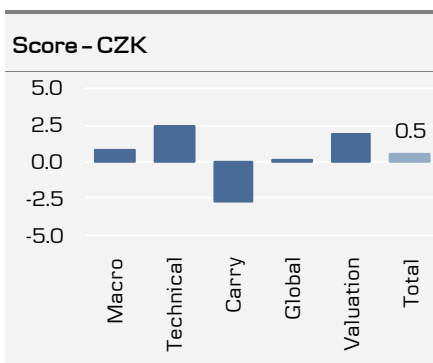
FX Scorecard overview



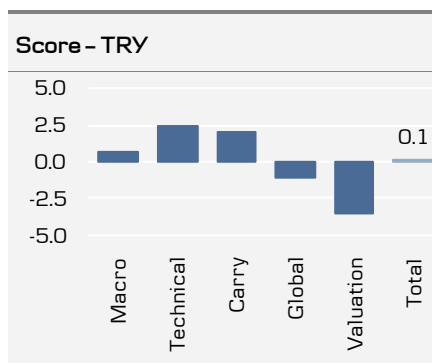
Danske Markets calculations



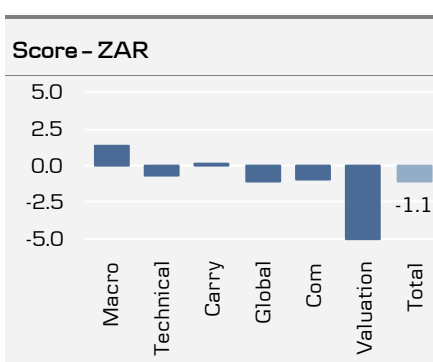
Danske Markets calculations



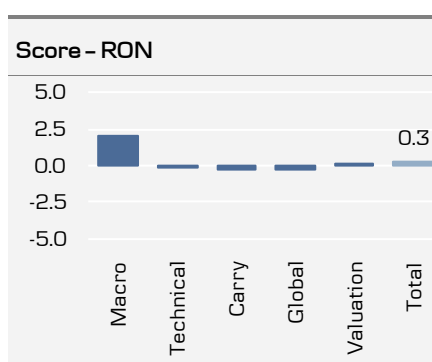
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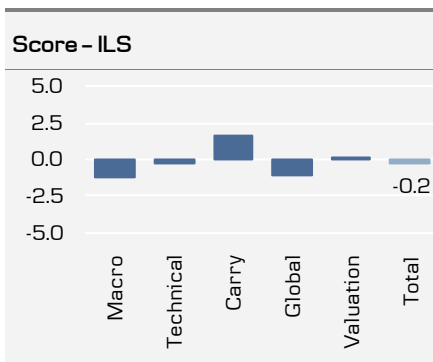
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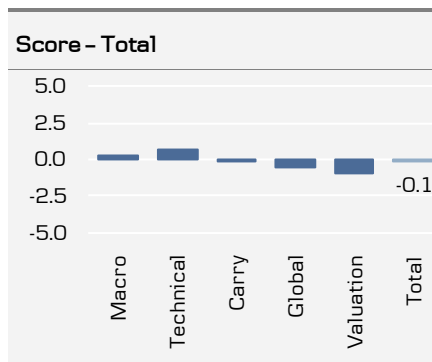
Danske Markets calculations



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Danske Markets calculations

EMEA FX Scorecard outline

- All scores are computed on a scale from +5 to -5. The score measures how far from a mean point the indicator is, measured by standard deviation. A score is then combined from 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 relative strength index.
- **Carry:** calculates the momentum in local three-month rates, carry-to-risk, spread against EUR or USD three-month rates and spread against peers.
- **Global:** consists of a global growth score based on leading global indicators and hard macro data, a liquidity score based on the momentum in G3 real rates and a sentiment score based on performance in the global equity market 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 the FX.

Special: Lithuanian macro outlook

This week we received data on Q2 GDP growth in Lithuania. The data showed that GDP increased by 1.1% y/y in Q2 from minus 2.8% y/y in Q1 – see our *Flash Comment*. The Lithuanian economy has begun to grow following the sharp economic downturn. Based on this and the recent economic releases for May and June we have updated the outlook on the Lithuanian economy. To see the full analysis, see *Macro Monitor Lithuania*. Below we present a short summary of our expectations.

We expect the economy to pick up further in the second half of this year and GDP for the whole year to rise to 1.2% y/y and grow by up to 3.6% y/y in 2011. The latest GDP data confirm that the relatively strong growth is based on the recovery in export-related activities, while activities dependent on domestic demand continue to fall, albeit much more slowly.

The recovery in the eurozone and Russia will have a positive impact on outlook for Lithuanian exports. Exports have already begun moving up strongly and industrial production should improve further as well.

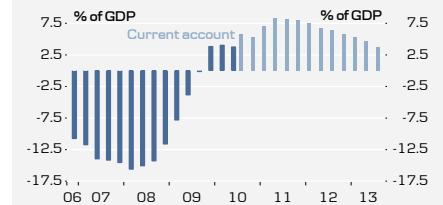
However, the export recovery will not produce a stronger positive stimulus to investment than consumption recovery. Domestic demand is expected to be mostly supported by relatively strong inventory growth. We expect private consumption to move up in the next year, at the earliest, as the continued need of fiscal tightening and high unemployment will further limit consumer spending.

Lithuanian economy is growing



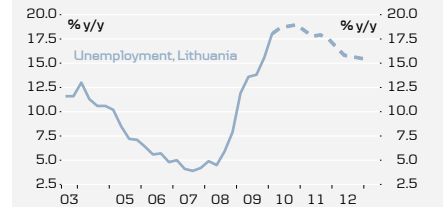
Source: Reuters Ecowin and Danske Markets

Weak domestic demand moved C/A into large surplus



Source: Reuters Ecowin and Danske Markets

Unemployment close to peaking



Source: Reuters Ecowin and Danske Markets

Inflation to remain low



Source: Reuters Ecowin and Danske Markets

Macro forecasts

Year	Gdp ¹	Private cons ¹	Fixed Inv ¹	Export ¹	Import ¹
2009	-14.8	-16.8	-39.0	-14.0	-29.0
2010	1.2	-2.8	-17.4	15.6	6.3
2011	3.6	2.0	8.0	13.2	6.0
2012	4.2	4.0	6.9	8.3	8.7

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

Source: Reuters Ecowin and Danske Markets

Macro forecasts

Year	Trade Balance ^{2,4}	Current acc. ^{2,4}	Industrial prod. ¹	Unemployment ³	Wages ¹	Inflation ¹
2009	-2.9	3.8	-14.4	15.6	-4.3	4.5
2010	-0.8	5.3	6.0	19.0	-5.7	1.0
2011	0.9	8.0	12.3	17.6	-1.8	1.1
2012	-0.8	5.8	9.1	15.6	1.7	1.5

Source: Reuters Ecowin and Danske Markets

Currency forecast, EMEA

Currency Forecast, New Europe/EMEA						
Jul 30, 2010		EUR	USD	SEK	NOK	DKK
USD	Actual	1.31	-	724	610	571
	+3m	1.25	-	752	612	595
	+6m	1.20	-	767	633	620
	+12m	1.27	-	724	598	587
PLN	Actual	4.00	3.07	236	199	186
	+3m	4.05	3.24	232	189	184
	+6m	4.05	3.38	227	188	184
	+12m	4.00	3.15	230	190	186
HUF	Actual	285	218	3.32	2.80	2.62
	+3m	285	228	3.30	2.68	2.61
	+6m	285	238	3.23	2.67	2.61
	+12m	280	220	3.29	2.71	2.66
CZK	Actual	24.8	19.0	38.1	32.2	30.1
	+3m	24.8	19.8	37.9	30.8	30.0
	+6m	24.4	20.3	37.7	31.1	30.5
	+12m	23.6	18.6	39.0	32.2	31.6
EEK	Actual	15.6	12.0	60.4	50.9	47.6
	+3m	15.7	12.5	60.1	48.9	47.5
	+6m	15.7	13.0	58.8	48.6	47.5
	+12m	15.7	12.3	58.8	48.6	47.6
LVL	Actual	0.71	0.54	1334	1125	1053
	+3m	0.70	0.56	1343	1093	1063
	+6m	0.70	0.58	1314	1086	1063
	+12m	0.70	0.55	1314	1086	1064
LTL	Actual	3.45	2.65	274	231	216
	+3m	3.45	2.76	272	222	216
	+6m	3.45	2.88	267	220	216
	+12m	3.45	2.72	267	220	216
RON	Actual	4.24	3.25	223	188	176
	+3m	4.50	3.60	209	170	165
	+6m	4.50	3.75	204	169	165
	+12m	4.55	3.58	202	167	164
BGN	Actual	1.96	1.50	483	407	381
	+3m	1.96	1.56	481	391	381
	+6m	1.96	1.63	471	389	381
	+12m	1.96	1.54	471	389	381
TRY	Actual	1.97	1.51	479	404	378
	+3m	1.75	1.40	537	437	425
	+6m	1.85	1.54	497	411	402
	+12m	2.11	1.66	436	360	353
RUB	Actual	39.5	30.2	23.9	20.2	18.9
	+3m	41.0	32.8	22.9	18.7	18.1
	+6m	36.6	30.5	25.1	20.8	20.3
	+12m	36.2	28.5	25.4	21.0	20.6
UAH	Actual	10.3	7.89	91.7	77.3	72.3
	+3m	10.6	8.50	88.5	72.0	70.0
	+6m	9.5	7.90	97.0	80.2	78.5
	+12m	8.6	6.80	106.5	88.0	86.3
ZAR	Actual	9.6	7.33	98.7	83.3	77.9
	+3m	9.9	7.95	94.6	77.0	74.9
	+6m	9.9	8.25	92.9	76.8	75.2
	+12m	11.2	8.80	82.3	68.0	66.7

Source: Reuters Ecowin and Danske Markets

Macro Forecast, EMEA

	Year	Gdp ¹	Private. Cons ¹	Fixed Inv ¹	Export ¹	Import ¹	Trade Balance ^{2,4}	Current acc. ^{2,4}	Industrial prod. ¹	Unem- ploy ³	Infla- tion ¹
Czech Republic	2009	-4.1	-0.3	-9.2	-14.2	-15.3	5.0	-1.1	-13.2	9.1	1.1
	2010	0.5	0.2	-3.1	12.3	7.7	7.1	1.3	10.7	10.1	1.5
	2011	2.4	0.7	6.4	14.7	11.1	8.1	2.1	9.4	10.7	2.0
Estonia	2009	-14.1	-18.8	34.4	-11.3	-26.7	-4.1	4.6	-26.2	15.5	-0.1
	2010	0.3	-2.9	-2.6	20.8	15.0	-5.4	1.6	15.4	20.6	2.5
	2011	2.0	0.9	5.7	13.5	12.8	-9.1	-1.3	20.5	17.9	3.3
Hungary	2009	-6.3	-7.6	-6.3	-8.9	-15.2	4.3	0.2	-17.8	10.8	4.2
	2010	-1.9	-2.0	-2.2	12.1	11.2	5.7	1.8	9.5	13.6	5.2
	2011	3.0	2.6	4.1	8.9	7.3	5.6	1.3	9.0	14.7	4.6
Latvia	2009	-18.3	-24.7	-38.0	-15.7	-36.1	-	3.0	-	17.3	3.7
	2010	-4.7	-3.4	1.3	-0.5	3.5	-	4.5	-	20.0	-0.9
	2011	1.6	2.1	7.0	7.5	11.9	-	0.4	-	18.0	0.8
Lithuania	2009	-14.8	-16.8	-39.0	-14.0	-29.0	-2.9	3.8	-14.4	15.6	4.5
	2010	1.2	-2.8	-17.4	15.6	6.3	-0.8	5.3	6.0	19.0	1.0
	2011	3.6	2.0	8.0	13.2	6.0	0.9	8.0	12.3	17.6	1.1
Poland	2009	1.7	2.3	-0.5	-10.6	-14.2	-1.0	-1.6	-3.6	11.9	3.5
	2010	3.0	4.7	-10.6	4.4	3.1	-0.6	-1.1	12.6	12.4	2.6
	2011	4.0	3.5	8.5	6.9	5.5	0.2	-0.5	10.0	12.4	3.0
Russia	2009	-7.9	-7.8	-15.9	-4.2	-29.8	7.4	3.8	-10.9	8.2	11.7
	2010	3.6	4.5	1.0	24.0	19.0	7.5	4.5	5.2	7.9	7.0
	2011	4.1	5.9	7.0	13.0	22.0	6.9	3.1	3.6	7.3	9.2
Turkey	2009	-4.7	-2.0	-18.8	-5.3	-13.2	-4.0	-2.2	-8.9	-	6.3
	2010	7.9	6.7	17.9	6.6	12.6	-5.3	-4.7	10.5	-	9.0
	2011	5.9	5.7	8.6	14.0	11.2	-4.7	-3.4	4.0	-	7.8

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 - Hungary, June 25

Macro Monitor - Czech Republic, June 25

Macro Monitor - Turkey, July 14

Macro Monitor - Poland, June 25

Macro Monitor - Estonia, July 21

Macro Monitor - Lithuania, July 28

Source: Danske Markets

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All EM research is available on Bloomberg DMEM

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