

EMEA Weekly

Wind beneath its wings, EMEA ship opens its sails

EMEA FX: Where to put your money

Following the rocky end to 2011, the start of the current year has seen a relief rally across the spectrum in the EMEA FX universe, while the implied option volatilities have eased considerably. Below, we look at three particular EMEA currencies: the Turkish lira, the Polish zloty and the Russian rouble, where we believe there is good potential for further gains (see pages 2-3 for details).

Czech and Romanian central banks taking the stage next week

We have two rate decisions coming up next week – in the Czech Republic and in Romania. Growth in the Czech economy remains very subdued and in our view it is impossible to see any inflationary pressures from the demand side of the economy. In fact, our own measure of “demand inflation” (the inflation resulting from monetary conditions) has remained deflationary since 2009. As a consequence we would argue that monetary easing is more warranted than monetary tightening.

Romania, on the other hand, has been somewhat of a star performer in terms of fulfilling the conditions for the country’s standby agreement with the IMF and in terms of fundamentals there clearly have been improvements over the past couple of years. However, the economy is basically not growing and the combination of austerity measures and the European crisis is certainly not helping in that sense (for details, see page 5).

Today’s key points

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Calendar

EMEA Data and Events in Week 5

Monday, January 30, 2012				Period	Danske Bank	Consensus	Previous
EEK	7:00	Retail trade	y/y	Dec			3.0%
LTL	10:00	GDP, preliminary	y/y	4th quarter	5.0%		6.7%
LVL	12:00	Retail trade	y/y	Dec			7.6%
Tuesday, January 31, 2012				Period	Danske Bank	Consensus	Previous
RUB	-	Annual GDP (2011)	y/y				4.0%
ZAR	7:00	Private sector credit	y/y	Dec			6.22%
ZAR	7:00	Money supply M3	y/y	Dec			7.23%
EEK	7:00	Industrial output	y/y	Dec	-3.3%		1.1%
HUF	9:00	Unemployment rate	%	Dec	10.6	10.8	10.6
HUF	9:00	Producer prices	y/y	Dec		7.4%	8.0%
TRY	9:00	Trade balance	USD bn.	Dec			-7.5
CZK	10:00	Money supply	y/y	Dec			5.1%
ZAR	13:00	Trade balance	ZAR bn.	Dec			-8.0
PLN	14:00	NBP Inflation expectations	y/y	Jan			4.8%
Wednesday, February 1, 2012				Period	Danske Bank	Consensus	Previous
CZK	-	Budget balance	CZK bn.	Jan			-142.8
EEK	-	Unemployment rate (1-10 Feb)	%	Jan			
HUF	-	PMI	Index	Jan	48.5		48.5
RUB	-	Weekly CPI	w/w				
RUB	-	Refinancing Rate (01-10 Feb)	%				8.00
ZAR	-	Unemployment (01-04 Feb)	%	4th quarter			25.0
TRY	9:00	Manufacturing PMI	Index	Jan	53.0		52.0
PLN	9:00	Manufacturing PMI	Index	Jan	49.8		48.8
HUF	9:00	Trade balance, final	m. EUR	Nov			666.0
CZK	9:30	Manufacturing PMI	Index	Jan	50.2		49.2
ZAR	10:00	Kagiso PMI	Index	Jan	50.4		49.4
Thursday, February 2, 2012				Period	Danske Bank	Consensus	Previous
RON	-	Central bank meeting (rate decision)	%				5.75
RON	9:00	PPI	y/y	Dec			7.9%
RON	9:00	Retail sales	y/y	Dec			1.9%
ZAR	11:00	Naamsa vehicle sales	y/y	Jan			11.0%
CZK	13:00	Monetary policy meeting (rate decision)	%				0.75
Friday, February 3, 2012				Period	Danske Bank	Consensus	Previous
RUB	-	CPI (03-08 Feb)	y/y	Jan			6.1%
TRY	9:00	CPI	y/y	Jan	10.9%		10.45%
TRY	9:00	PPI	y/y	Jan			13.33%
CZK	9:00	Retail sales	y/y	Dec	-0.3%		0.5%
LVL	12:00	Industrial output	y/y	Dec	8.1%		8.5%

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

Note that all releases are CET.

Danske Markets

EMEA FX: Where to put your money

Following the rocky end to 2011, the start of the current year has seen a relief rally across the spectrum in the EMEA FX universe, while the implied option volatilities have eased considerably. Below, we look at three particular EMEA currencies: the Turkish lira, the Polish zloty and the Russian rouble, where we believe there is good potential for further gains.

Going into 2012 we had highlighted the upside potential of both the lira as well as the zloty in our *FX Top Trades 2012* published on 14 December 2011. While both of these trades have so far performed very well – in particular with the zloty advancing around 7% over sterling since the inception of the strategy– we continue to believe that there is further scope for additional gains.

USD/TRY is already down by around 7% from the all-time record highs hit at the very end of 2011, while the lira has advanced against the euro since the start of the year also in the same range. On the monetary policy front, the Turkish central bank's (TCMB) latest rate decision delivered no surprises. While the TCMB remains cautious in its stance and looks to retain a good dose of flexibility, the overall bias is still hawkish as headline inflation is now in double-digit territory and looks set to remain elevated in Q1 12. While we expect lira trading conditions to remain volatile and for this volatility to be particularly high on the rates markets, our base scenario of Turkey avoiding a hard landing concurrently with external imbalances gradually correcting paints an overall lira supportive picture in 2012.

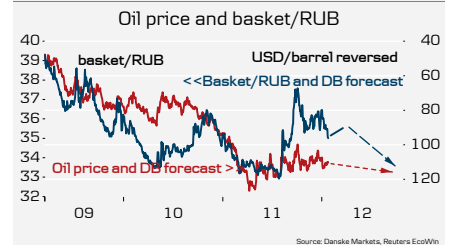
The Polish zloty has rallied over 7% since mid-December against the union currency, with EUR/PLN recently breaking below the key 4.30 mark. Given its comparatively good growth dynamics and the determined fiscally tighter stance of the Polish government post the elections in October, the zloty has been hit surprisingly and perhaps disproportionately hard by the ongoing European crisis.

While the latest rally has taken the zloty closer to levels we would consider fundamentally fair, we believe there remains good scope for further appreciation. A slightly less dovish stance from the NBP going forward combined with a decent growth outlook bode well for the zloty. Furthermore, the cautious return of investor confidence to the Hungarian markets with growing signs of the Hungarian government relenting on key issues that had led to the downgrade debt rating to junk status by all three major rating agencies, is also having a positive spill over effect on the Polish markets. We remain somewhat critical of these developments and await more concrete signs of a decisive turnaround in Hungarian interventionist policies. But given the encouraging developments, we would look to play them out in the zloty markets, rather than directly in forint crossings.

The rouble, for its part, has depreciated during the past months mostly due to the increase in global risk aversion. In addition to that, political risks have risen in Russia starting from the December parliamentary elections and during Q1 12 political uncertainty is likely to keep the rouble under pressure. However, the political risks are currently overemphasised, in our view and strong economic fundamentals in Russia are being ignored. Thus, we expect the rouble to strengthen during the last three quarters of 2012.

In particular, we expect oil prices to remain elevated and even rise during 2012. In addition to that, capital outflows are likely to moderate starting in Q2 due to expected results from the presidential elections in March and the finalised WTO membership. Moreover, domestic demand is likely to remain strong in Russia while inflation is historically low. The main risk for the rouble obviously lies in the oil price, as Russia's strong current account is fully dependent on energy exports.

Rouble poised for further gains



Further details on our forecasts for these three currencies and our latest fixed income positioning can be found in our *EM Briefer* published on 19 January 2012 and *EM Bond Snapshot* published on 25 January 2012, respectively.

EMEA Fixed Income Update

We have two rate decisions coming up next week – in the Czech Republic and in Romania.

Growth in the Czech economy remains very subdued and in our view it is impossible to see any inflationary pressures from the demand side of the economy. In fact our own measure of “demand inflation” (the inflation resulting from monetary conditions) has remained deflationary since 2009. As a consequence we would argue that monetary easing is more warranted than monetary tightening.

However, a number of Czech monetary policy makers seem to think that there is a need for monetary tightening rather than easing. We are quite puzzled by this – even more so when taking into account that headline inflation remains just around the Czech central bank’s inflation target of 2%. Despite some policy makers calling for rate hikes we expect the majority of the CNB board to remain in favour of unchanged interest rates at next week’s rate setting meeting. This is also the consensus expectation.

Romania has been somewhat of a star performer in terms of fulfilling the conditions for the country’s standby agreement with the IMF and in terms of fundamentals there clearly have been improvements over the past couple of years. However, the economy is basically not growing and the combination of austerity measures and the European crisis is certainly not helping in that sense.

Lately we have seen demonstrations against the government across Romania, which have occasionally turned rather violent. There is no doubt that the Romanian central bank is well aware of the very weak growth in the Romanian economy and at the last rate decision in early January the central bank decided to cut its key policy rate by 25bp. We expect an additional 25bp cut at next week’s rate setting meeting.

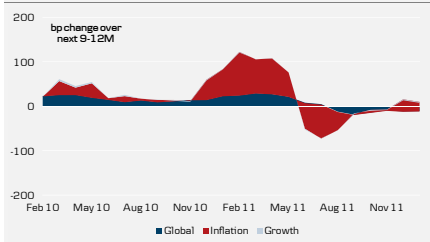
Baltic macro update

Next week we will be seeing the GDP flash estimate from Lithuania and industrial production for the other two Baltic countries. Below we cover each of the Baltic countries and their respective indicators. We expect Lithuanian GDP growth in Q4 11 to have decelerated only marginally to 5% y/y, down from 6.7% y/y in Q3 11. This would constitute 6% growth on average for the whole year. Due to a less favourable assessment of global trends and the increased risk in financial markets, Lithuanian economic development could slow to 2.7 % y/y on average this year.

We expect that the rise in Estonian industrial production (IP) will have slowed further and that December 2011 IP will have entered negative territory with a decline of 3.3% y/y. These trends are determined by a negative base effect and slowdown in key Estonian export markets. We also expect Latvian IP growth in December to have slowed but not so significantly, to 8.1% y/y down from 8.5% in November.

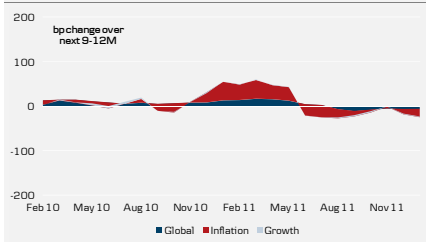
EMEA Monetary Policy Tracker

Poland



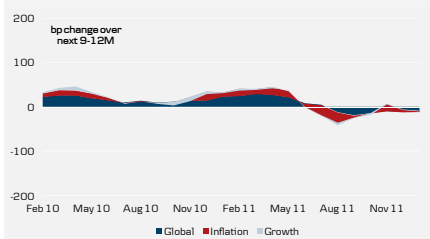
Source: Danske Markets calculations

Hungary



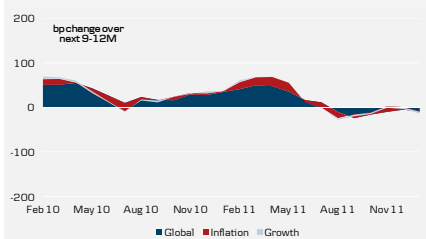
Source: Danske Markets calculations

Czech Republic



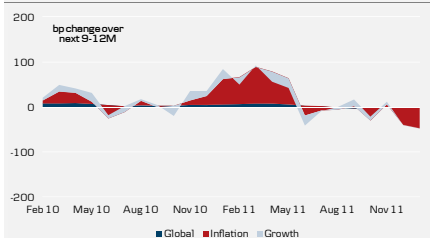
Source: Danske Markets calculations

Turkey



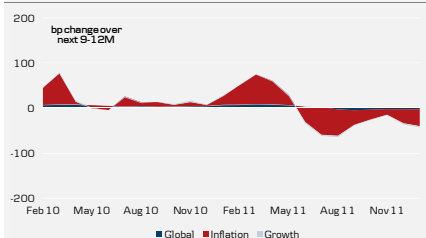
Source: Danske Markets calculations

South Africa



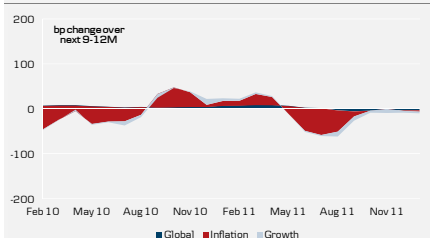
Source: Danske Markets calculations

Romania



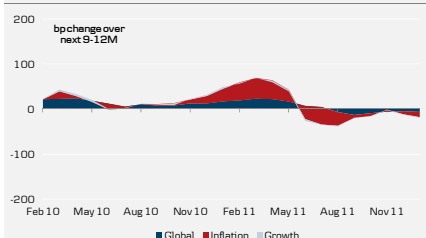
Source: Danske Markets calculations

Israel



Source: Danske Markets calculations

Total

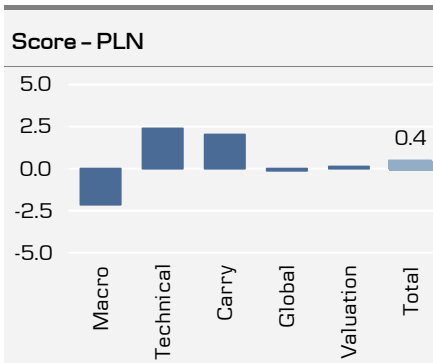


Source: Danske Markets calculations

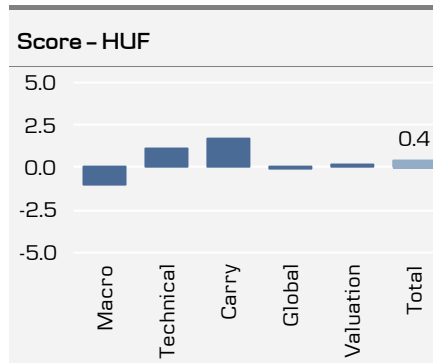
EMEA Monetary Policy Tracker

- 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.

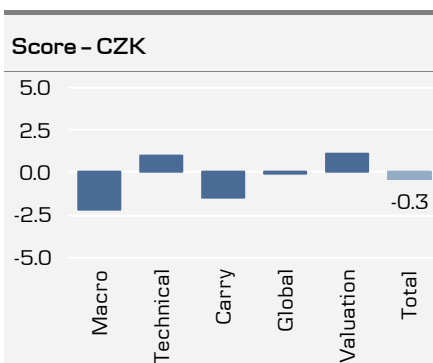
EMEA FX scorecard overview



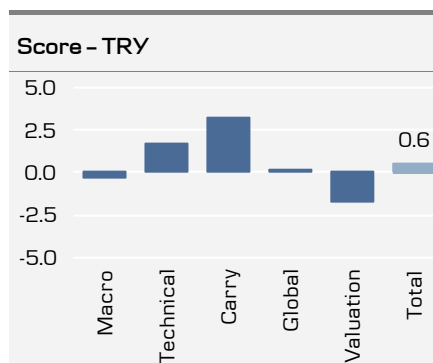
Source: Danske Markets calculations



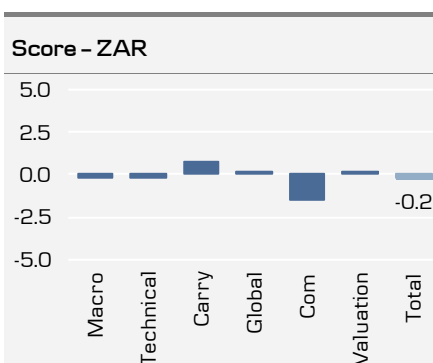
Source: Danske Markets calculations



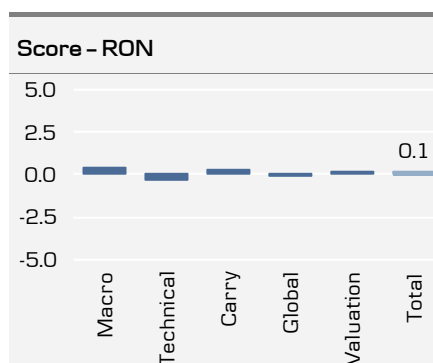
Source: Danske Markets calculations



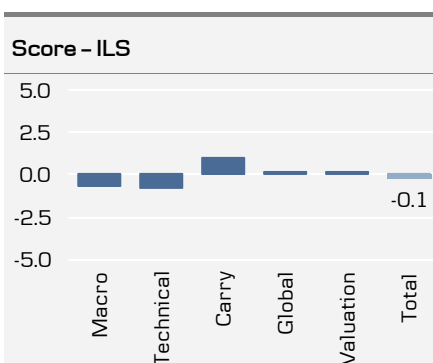
Source: Danske Markets calculations



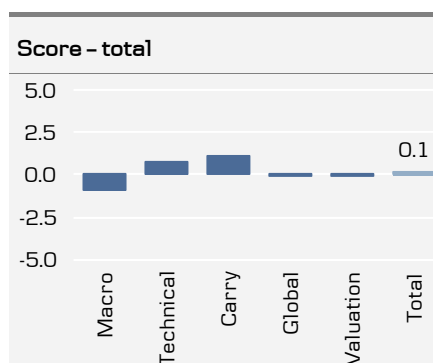
Source: Danske Markets calculations



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 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	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

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