

EMEA Weekly

Hungary is heading for deflation

The headline for this EMEA Weekly could seem highly unlikely for most people that have been following the Hungarian economy in post-communist times, as the Hungarian central bank has for years overshot its official 3% inflation target and inflation has remained well above the inflation level also in other central and eastern European economies.

However, deflation in Hungary now looks quite likely. Our inflation models indicate that it could even turn negative in January, but more likely in March-April. Furthermore, even though we expect a slight pick-up in inflation in the second half of 2014, we expect it to average only 0.2% during 2014. This is well below the Hungarian central bank's official 3% inflation target.

We are seeing a similar disinflationary situation in the other core central and eastern European countries. Hence, inflation is very subdued in Poland and the Czech Republic and could even fall further in coming months and the impact of particularly lower global commodity prices feeds through to the economies. In both Poland and the Czech Republic, inflation is like to remain around or just below 1.0% during 2014 and therefore also below the official inflation targets in both countries (2.5% in Poland and 2% in the Czech Republic).

Even though the recent decline in inflation in the CEE3 is mostly due to lower commodity prices, the underlining inflation picture is also one of weak domestic demand and hence one of weak domestic inflation pressures. Therefore, further monetary easing from all three central banks would seem justified. The Hungarian central bank seems to be continuing its 'mini cuts' of 20bp and this is likely to continue for some time to come – particularly if the forint remains fairly stable – and in the Czech Republic the central bank (CNB) has recently started using the exchange rate as a policy instrument to ease monetary policy as the interest rate is effectively stuck at 0%. We expect the CNB to actively further weaken the currency in coming months to ease monetary conditions. The 'outlier' is the Polish central bank (NBP), which has been reluctant to ease monetary policy further to curb deflationary pressures in the Polish economy. This was further confirmed by this week's meeting of the NBP's monetary policy council. The Council did not announce any plans for further monetary easing and instead continues to sound upbeat about the Polish economy.

We find this somewhat odd given that the NBP's own forecast continues to show that inflation will remain very subdued in the coming one to two years and is likely to stay below the NBP's inflation target of 2.5% in the coming three years. However, given the outlook for continued very low inflation in Poland, we do expect the NBP to react to this sooner or later and cut its key policy rate further – if not, then the deflationary pressures in the Polish economy are likely to deepen.

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RUB weakness is set to stay

The Russian rouble has lost 7.6% year-to-date (YTD) against the US dollar and 10.3% against the euro. The oil price impact on the rouble has vanished at current price levels as Brent has gained around 7% YTD, posting USD105.6/bbl YTD on average. The main driver for FX rates in emerging economies and Russia comes from US labour data, which is weighing on the Fed's QE tapering expectations. However, the weaker-than-expected growth in the Russian economy in 2013 (DBM 1.5%) and lowering official forecasts for 2014 and 2015 combined with continuing elevated inflation and weak performance in fixed investments have created negative sentiment for the RUB. As November 2013 CPI accelerated to 6.5% y/y, we expect Bank Rossii to continue its hawkish stand over Q1 14, but to provide abundant rouble liquidity, which is also RUB negative. Seasonal effects continue to weigh on the RUB as it got pressure in November-early December 2013 from traditional extra spending of budget money. In Q1 14, we expect support for the RUB to come from expanding surplus in current account. We reiterate our expectations for USDRUB to stay under 34.00 in H2 13 and for RUBBASK under 39.00. As EURRUB broke 45.00 on the strong EUR rather than on the too weak RUB, we expect the pair to challenge continuously the 45.00 level in December 2013.

Calendar

EMEA Data and Events in Week 50

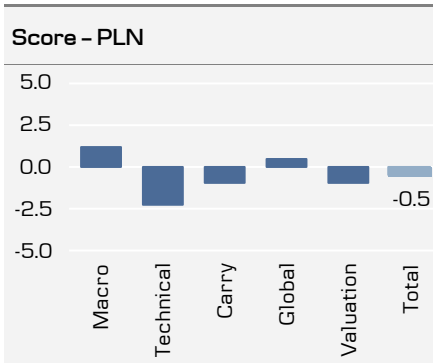
Monday, December 9, 2013				Period	Danske Bank	Consensus	Previous
HUF	9:00	Trade balance	m. EUR	Oct		695.0	830.3
CZK	9:00	CPI	y/y	Nov	1.1%	1.1%	0.9%
CZK	9:00	Shared of unemployed 15-65	y/y	Nov	7.6%	7.6%	7.6%
LVL	12:00	CPI	y/y	Nov			0.0%
Tuesday, December 10, 2013				Period	Danske Bank	Consensus	Previous
CZK	9:00	Trade balance	CZK bn.	Oct		37.7	35.1
RON	9:00	Industrial production	y/y	Oct			7.1%
TRY	9:00	GDP	y/y	3rd quarter	4.7%		4.4%
ZAR	12:00	Manufacturing production nsa	y/y	Oct			-3.3%
Wednesday, December 11, 2013				Period	Danske Bank	Consensus	Previous
HUF	9:00	CPI	y/y	Nov	0.9%	0.7%	0.9%
ZAR	9:00	CPI	y/y	Nov	5.5%		5.5%
RON	9:00	CPI	y/y	Nov		2.2%	1.9%
TRY	9:00	Current account	USD bn.	Oct			-3.28
ZAR	12:00	Retail sales	y/y	Oct			0.2%
Thursday, December 12, 2013				Period	Danske Bank	Consensus	Previous
Friday, December 13, 2013				Period	Danske Bank	Consensus	Previous
CZK	10:00	Current account	CZK bn.	Oct		0.60	-2.94
PLN	14:00	Current account	Euro mil	Oct	-595	-586	-1024
PLN	14:00	Trade balance	EUR mil	Oct	521	534	673
PLN	14:00	CPI	y/y	Nov	0.7%	0.9%	0.8%

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

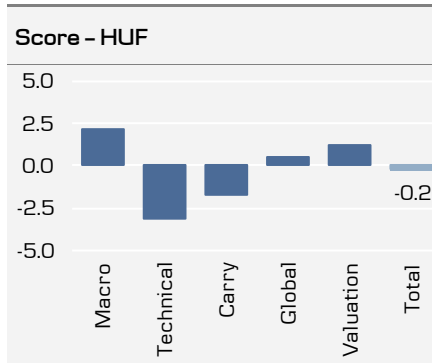
All release times are CET

Source: Danske Bank Markets

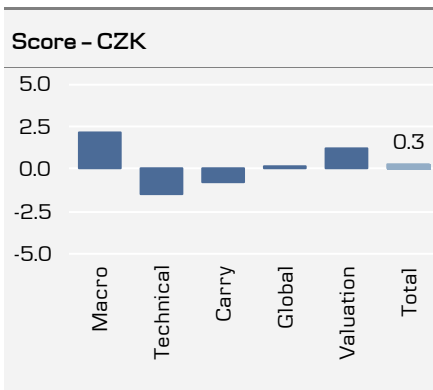
EMEA FX scorecard overview



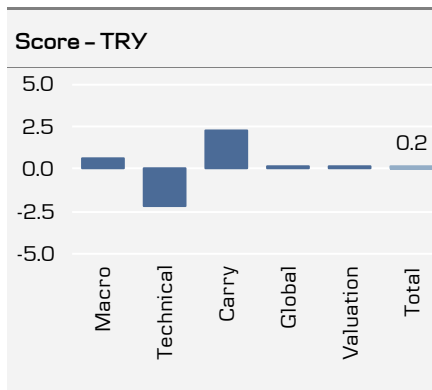
Source: Danske Bank Markets calculations



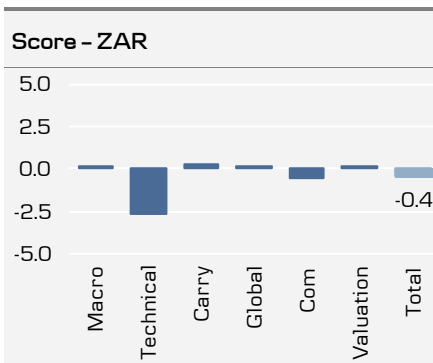
Source: Danske Bank Markets calculations



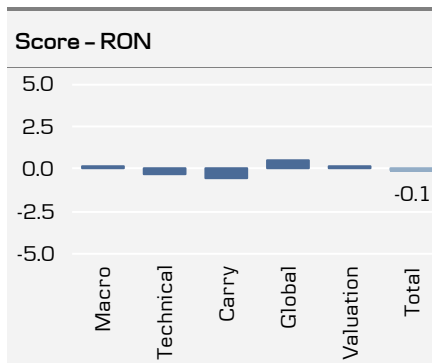
Source: Danske Bank Markets calculations



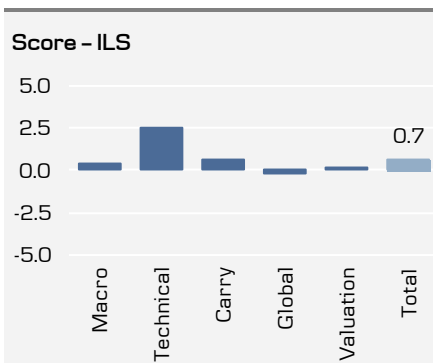
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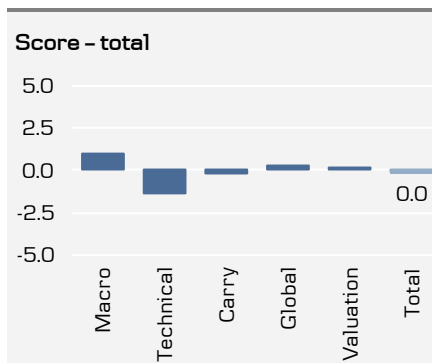
Source: Danske Bank Markets calculations



Source: Danske Bank Markets calculations



Source: Danske Bank Markets calculations



Source: Danske Bank 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 versus EUR or USD three-month rates and spread versus 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 forecasts, EMEA

Dec 5, 2013		EUR	USD	SEK	NOK	DKK
USD	Actual	1.36	-	651	617	547
	+3m	1.32	-	667	614	565
	+6m	1.30	-	662	608	574
	+12m	1.26	-	667	619	592
PLN	Actual	4.19	3.07	212	201	178
	+3m	4.25	3.22	207	191	176
	+6m	4.30	3.31	200	184	173
	+12m	4.30	3.41	195	181	173
HUF	Actual	302	221	2.94	27.85	2.47
	+3m	300	227	2.93	2.70	2.49
	+6m	300	231	2.87	2.63	2.49
	+12m	300	238	2.80	2.60	2.49
CZK	Actual	27.4	20.1	32.4	30.7	27.2
	+3m	27.2	20.6	32.4	29.8	27.4
	+6m	27.5	21.2	31.3	28.7	27.1
	+12m	28.5	22.6	29.5	27.4	26.2
LVL	Actual	0.70	0.52	1263	1198	1061
	+3m	0.70	0.53	1257	1157	1066
	+6m	0.70	0.54	1229	1129	1066
	+12m	0.70	0.56	1200	1114	1066
LTL	Actual	3.45	2.53	257	244	216
	+3m	3.45	2.61	255	235	216
	+6m	3.45	2.65	249	229	216
	+12m	3.45	2.74	243	226	216
RON	Actual	4.47	3.28	199	188	167
	+3m	4.45	3.37	198	182	168
	+6m	4.45	3.42	193	178	168
	+12m	4.45	3.53	189	175	168
BGN	Actual	1.96	1.43	454	430	381
	+3m	1.96	1.48	450	414	381
	+6m	1.96	1.50	440	404	381
	+12m	1.96	1.55	429	399	381
TRY	Actual	2.79	2.05	318	302	267
	+3m	2.65	2.01	332	306	282
	+6m	2.63	2.02	327	300	284
	+12m	2.64	2.10	318	295	283
RUB	Actual	45.06	33.0	19.7	18.7	16.6
	+3m	43.4	32.9	20.3	18.7	17.2
	+6m	44.4	34.2	19.4	17.8	16.8
	+12m	44.8	35.5	18.8	17.4	16.7
UAH	Actual	11.20	8.22	79.3	75.1	66.6
	+3m	11.62	8.80	75.8	69.7	64.2
	+6m	11.70	9.00	73.5	67.5	63.8
	+12m	11.47	9.10	73.3	68.0	65.1
ZAR	Actual	14.31	10.49	62.0	58.8	52.2
	+3m	13.46	10.20	65.4	60.2	55.4
	+6m	13.39	10.30	64.2	59.0	55.7
	+12m	13.29	10.55	63.2	58.7	56.1
ILS	Actual	4.80	3.52	185.0	175.2	155.5
	+3m	4.62	3.50	190.5	175.3	161.5
	+6m	4.62	3.55	186.3	171.2	161.6
	+12m	4.54	3.60	185.2	172.0	164.5

Source: Bloomberg, Danske Bank Markets

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