CEE Research

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Fixed Income and Foreign Exchange

CEE Insights

- **Croatia:** January credit growth remained robust
- **Czech Republic:** Central bank planning changes to inflation targeting
- **Hungary:** February CPI likely at 9% y/y
- **Poland:** Hawks have spoken - it is time to raise key rates
- **Slovakia:** CB intervened to weaken koruna

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Overview

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Croatia:

- January trade balance widened to 13.9% y/y
- Yields declined further
- Exchange rate bounced back
- January credit growth remained robust

Czech Republic:

- No surprise from February CPI data
- Unemployment fell to 7.7% in February
- Central bank planning changes to inflation targeting
- Next week to see fewer important data releases

Hungary:

- This week's macro figures had limited market impact
- February CPI likely at 9% y/y

Poland:

- Hawks have spoken - it is time to raise key rates
- Development of risk aversion still most important factor for Polish assets
- Markets to monitor current account and inflation data next week

Slovakia:

- Economy driven by both domestic and foreign demand
- CB intervened to weaken koruna
- We remain bearish on FX in 1H07
- Inflation should decelerate in February

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Market review		Current	w/w	m/m	ytd	Spreads vs. Euroland		
						current	- 1m	02/01/2007
Czech Republic	EUR/CZK	28.14	0.0%	0.1%	-1.9%			
	3Y (yield bp)	3.11	1	0	-10	-77	-81	-66
	10Y (yield bp)	3.72	1	-3	1	-21	-29	-23
Croatia	EUR/HRK	7.36	-0.1%	0.3%	-0.1%			
	3Y (yield bp)	3.84	-10	-45	-57	5	41	66
	10Y (yield bp)	4.60	-3	-26	n.a.	72	81	n.a.
Hungary	EUR/HUF	250.71	1.5%	1.1%	0.3%			
	3Y (yield bp)	7.63	-17	-17	8	375	387	368
	10Y (yield bp)	6.87	-10	-10	93	294	294	276
Poland	EUR/PLN	3.87	0.6%	0.0%	-1.0%			
	3Y (yield bp)	4.65	-5	4	0	77	68	78
	10Y (yield bp)	5.21	-2	-10	3	128	112	124
Romania	EUR/RON	3.37	0.7%	-0.2%	0.3%			
Slovakia	EUR/SKK	34.08	0.7%	1.4%	1.2%			
	3Y (yield bp)	4.32	0	5	-6	44	30	50
	12Y (yield bp)	4.38	-1	-1	7	46	33	38

Source: Reuters, Bloomberg (+ means strengthening / - means easing of the exchange rate)

Trading Ideas

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Positions

#	Recommendation	Date of opening	Instruments	Entry values	Today's values	flat P/L (%)	flat P/L inc. carry (%)	P/L p.a. inc. carry (%)	Target values	Target P/L flat inc. carry (%)	Target P/L p.a. (%)
			12m Euribor	4.10	4.09						
		27/02/07	12m Pribor	2.70	2.67	1.1%	1.0%	37%		3.6%	3.6%
10	short EUR/CZK		EUR/CZK	28.43	28.14				27.00		
	short CZ GB10Y, long	07/03/07	CZGB 3,8 04/15	100.59	100.42	0.17	0.5%	91.7%	97.63	4.10	8.18
11	PL GB10Y		PL GB10Y 5,25 10/17	100.22	100.23	0.32			101.18		

Rationale at inception

10) Our FX forecast sees CZK appreciating towards 27.20 in 12/07 and further in the beginning of 2008. The long term convergence pressures (catch-up of the tradable/ non-tradable ration or RER) will be assisted by favorable BoP developments in the medium term and weak USD in the short term.

11) We still see space for growth of the long end of the Czech yield curve and gradual closing of the negative spread against the EMU bonds. At the same time, risk spread on Polish debt should decrease trend-wise. We recommend to play this via taking short position in the short CZGB and long position in POLGB. The exchange rate risk is reduced thanks to the correlation of regional currencies.

Closed positions

#	Recommendation	opened	closed	P/L inc.carry
1	long: PLGB10y / 4m Euribor	16/09/2005	27/10/2005	-3%
2	short: CZGB15y / 6m PRIBID	16/09/2005	21/11/2005	5.97%
5	long: SKK/CZK	09/11/2005	20/01/2006	1.90%
3	short EUR/SKK	29/09/2005	07/02/2006	3.45%
4	EUR/PLN options	21/10/2005	28/07/2006	-2.69%
6	SKK/CZK long	23/03/2006	30/10/2006	2.16%
7	FRA 9*12 short	28/07/2006	08/11/2006	8bp
8	long HUGB 5y	13/10/2006	29/01/2006	5.70%
9	short CZGB/ long GDBR	09/01/2007	27/02/2007	1.80%

To be included in the trading ideas mailing list, please, mail to rainer.singer@erstebank.at, subject: trading ideas

Forecasts

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Capital markets forecasts

	Exchange Rate vs EUR												Intervention Rate					
	CZK	Forward	HRK	Forward	HUF	Forward	PLN	Forward	RON	Forward	SKK	Forward	CZ	HR	HU	PL	RO	SK
Spot	28.2	28.2	7.34	7.34	252	252	3.88	3.88	3.38	3.38	34.1	34.1	2.50	3.50	8.00	4.00	8.00	4.75
Jun-07	27.9	28.1	7.35	7.35	254	253	3.90	3.88	3.40	3.41	36.0	34.2	2.50	3.50	8.00	4.25	7.75	4.75
Sep-07	27.7	28.0	7.25	7.25	256	257	3.80	3.89	3.39	3.44	35.2	34.1	2.50	3.50	7.50	4.25	7.75	4.75
Dec-07	27.6	27.9	7.40	7.40	255	259	3.75	3.89	3.40	3.46	34.5	34.1	2.75	3.50	6.75	4.25	7.50	4.25
Mar-08	27.2	27.8	7.30	7.30	253	261	3.73	3.90	3.35	3.48	34.0	34.1	3.00	3.50	6.50	4.50	7.25	4.00

	3m Money Market Rate										10y Govt. Yield				
	CZ	Forward	HU	Forward	PL	Forward	RO	Forward	SK	Forward	CZ	HR	HU	PL	SK
Spot	2.57	2.57	8.13	8.13	4.21	4.21	7.32	7.32	4.73	4.73	3.72	4.60	6.90	5.21	4.38
Jun-07	2.55	2.71	7.90	8.14	4.35	4.37	7.75	7.00	4.55	4.32	4.15	4.70	6.50	5.25	4.55
Sep-07	2.63	2.80	7.50	7.79	4.35	4.57	7.55	6.90	4.40	4.22	4.20	4.85	6.30	5.10	4.55
Dec-07	2.88	2.92	6.90	7.46	4.55	4.70	7.40	6.75	4.20	4.21	4.25	4.95	6.10	4.90	4.60
Mar-08	3.13	2.94	6.60	7.28	4.70	4.64	7.15	6.55	4.05	n.a.	4.30	4.80	6.00	4.85	4.70

Long-term forecasts

GDP growth (%)	2005	2006e	2007f	2008f
Czech Republic	6.1	5.9	4.2	4.5
Croatia	4.3	4.8	4.5	4.6
Hungary	4.2	3.9	2.3	3.2
Poland	3.5	5.8	5.7	5.6
Romania	4.1	7.0	6.5	6.3
Slovakia	6.0	8.2	8.2	6.5

C/A (%GDP)	2005	2006e	2007f	2008f
Czech Republic	-2.0	-4.6	-4.1	-4.1
Croatia	-6.4	-8.0	-8.7	-9.8
Hungary	-6.8	-6.5	-5.6	-5.4
Poland	-1.4	-2.1	-2.8	-3.0
Romania	-8.7	-9.8	-9.2	-9.1
Slovakia	-8.6	-7.9	-4.3	-2.8

CPI (%), eoy	2005	2006e	2007f	2008f
Czech Republic	2.2	1.7	3.3	3.4
Croatia	3.6	2.0	3.0	3.0
Hungary	3.3	6.5	5.2	3.5
Poland	0.7	1.4	2.3	2.3
Romania	8.6	5.0	4.5	3.5
Slovakia	3.7	4.2	3.0	3.3

Budget Balance (%GDP)	2005	2006e	2007f	2008f
Czech Republic	-2.2	-3.3	-4.1	-3.8
Croatia	-4.2	-3.0	-2.8	-3.0
Hungary	-7.8	-9.8	-6.5	-5.0
Poland	-2.4	-1.2	-1.6	-1.2
Romania	-0.8	-1.5	-2.8	-2.7
Slovakia	-3.1	-2.4	-1.7	-1.7

Diaries

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Looking ahead

Country	Date	Release/event/figures	Our expectation	Consensus*
Czech Republic	Mar-13	Industrial Output 01/07	7.5%	6.00%
	Mar-14	Current Account (CZK)	4 bn.	3.75 bn.
	Mar-14	PPI 02/07 m/m	0.2 %	0.2%
Hungary	Mar-13	February CPI inflation	9% y/y	8.7% y/y
Poland	Mar-14	Current account, January	EUR -16mn	-
	Mar-14	CPI inflation	2.0% y/y	-
	Mar-15	Gross wages,corporate sector	-	-
Romania		CPI February (y/y)	3.9%	3.9%
		Trade deficit (FOB-FOB) - EUR million	635	-
Slovakia	Mar-13	February CPI inflation	2.7% y/y	2.7% y/y
	Mar-14	January foreign trade	SKK -3.4bn	SKK -2.3bn
	Mar-15	February EU-norm inflation	2.0% y/y	2.1% y/y

Sources: Bloomberg, Reuters

Auction diary

Country	Code	Auction-date	Pay-date	Maturity	Cupon	Offer	Forecast
Czech Republic		Mar-14	Mar-19	2036-Dec-4	4.20%	CZK 7 bn.	
Hungary		Mar-13	Mar-21	June-20-2007	-	HUF 25bn	8.00%
		Mar-14	Mar-21	June-12-2012	7.25%	HUF 45bn	7.40%
		Mar-14	Mar-21	Feb-24-2017	6.75%	HUF 40bn	6.90%
Poland		Mar-14	Mar-16	2022-Sept-23	5.75%	PLN 1.0-2.0bn	5.3%
Romania		Mar-12	Mar-14	12-March-08	-	RON 300 million	6%
Slovakia		No auction scheduled					

Major Markets

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Major markets

One final key rate hike in June

As was generally expected, the ECB Council raised interest rates at its March meeting by another 25 basis points. The tone of the press conference was more restrictive than usual after an interest rate hike. However, the use of the word "moderate" instead of "low" for the interest rate level indicates that the interest rate hiking process is coming to an end. The strong emphasis on the inflationary risks in connection with wage trends may be interpreted again as a warning to the unions not to be too excessive. Taken together, the probability of an interest rate hike has risen. We have therefore changed our forecast and now expect one further hike in June to a repo rate of 4%. Next week, the ZEW survey will be released on Tuesday. The figure will probably be distorted by the turbulence on the stock market (remember that the index comprises opinions of financial market participants), so we expect a drop in the expectation component and current assessment. This should not impress the market, as the reasons are quite obvious. On Thursday, Euroland consumer prices for February will be released and should be in line with the flash estimate of 1.8% y/y. As the sales season lasts into February, we do not expect to see additional effects from the German VAT hike already. These should only be visible in the March inflation data.

Calmer global markets waiting for today's US labor report

Today's US labor report will be decisive for market expectations, as usual. Market expectations for the non-farm payroll number are already low, so the chances of a disappointment are reduced. Recent indications from the labor market were mixed. The ADP report showed a further slowdown of job creation, while the Beige Book mentioned further expansion in labor markets in most districts. The situation on global markets has clamed down somewhat, but it is too early to call an end to the global turbulence. We believe that today's labor market data would have to deviate strongly on the negative side to trigger a renewed sell-off. The most important data next week will be retail sales on Tuesday, for which moderate growth can be expected, and consumer price inflation on Friday. Higher oil prices should have lifted the overall rate, while we expect steady development for the core rate. Second-tier data next week includes net foreign purchases of US securities on Thursday and both industrial production and the Univ. of Michigan index on Friday.

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Forecasts

	Intervention Rate		3m Money Market Rate				10y Govt. Yield		FX	
	EUL	USA	EUL	Forwards	USA	Forwards	EUL	USA	EUR/USD	Forwards
Spot	3.50	5.25	3.88		5.34		3.92	4.52	1.316	
Jun-07	4.00	5.00	4.15	4.06	4.90	5.13	4.30	4.50	1.350	1.321
Sep-07	4.00	4.75	4.10	4.08	4.60	4.90	4.30	4.50	1.330	1.324
Dec-07	4.00	4.50	4.10	4.08	4.40	4.77	4.40	4.60	1.330	1.327
Mar-08	4.00	4.25	4.10	3.97	4.30	4.78	4.40	4.70	1.300	1.329

Croatia

January trade balance widened to 13.9% y/y

Merchandise exports amounted to EUR 585mn (-3% y/y) in January, while imports rose 5% y/y to EUR 1,188mn. The deficit was thus EUR 603mn (13.9% y/y). This was the first year in which the January export-import coverage was below 50%. Fundamentally, trends in merchandise trade remained the same and, at present, everything indicates the possibility of the trade balance deficit widening further in 2007.

Yields declined further

The bond market put in another strong performance, as yields on pure kuna bonds declined further by approximately 5-10bps. Solid demand from domestic institutional investors and seasonal appreciation expectations were the most important market drivers. The bund market was also supportive in the last few weeks, although the link between yields is not as strong as that between Eurobonds and FX-linked bonds. Therefore, the effect on pure kuna bonds was limited.

Producer prices moderated from 2.2% y/y in January to 1.7% y/y in February, rising 0.2% m/m and showing a continuation of weak inflationary pressures. We expect February CPI to come in below 2% y/y, thus supporting our mildly optimistic CPI outlook for 2007 at 2.5% on average.

Exchange rate bounced back

The exchange rate has hovered around 7.35 during the last couple of weeks, recently moving slightly below that level. In the last few days, we saw a bounce back to levels slightly above 7.35, triggered by banks' FX demand resulting from the end of the 6-month adjustment period to comply with the earlier change in the regulatory framework (the CNB changed the basis for calculating the minimum 32% FX asset/liability ratio to include f/c-linked deposits, thus generating demand for FX assets among banks). This should result in mild depreciation pressure until the end of March. Still, at levels above 7.35, we also see the possibility of FX supply growth, leaving our forecast for the end of March unchanged at 7.35.

January credit growth remained robust

Despite the imposed limit on credit growth of 12% p.a., January monetary figures showed no moderation, as credit grew 0.9% m/m, thus leaving the y/y dynamics unchanged at 22.8%. Taking the usual seasonality into account, credit growth is proceeding at well above 12%. Hence, it will be interesting to watch the credit figures in the coming months to get a clearer view on the effectiveness of the CNB's latest measure.

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Czech Republic

No surprise from February CPI data

Last week was extremely rich in data. First of all, there was the release of CPI data for February. This was eagerly awaited by the market, given the surprisingly low January inflation and the impact another surprisingly low inflation reading would have had on central bank rate moves. However, no surprise materialized this time - inflation came in at 1.5% y/y (+0.3 m/m), exactly in line with our forecast. As expected, the major increase came in the price of cigarettes, where a fraction of last year's excise tax hike finally made it into the inflation reading. Inflation is still below the target (of ±1pp around the 3% target), even though it is already likely to have bottomed out in January, when it rose by 1.3% y/y.

Unemployment fell to 7.7% in February

In a related development, unemployment dipped 0.2pp to 7.7% in February and real wage growth reached 4.6% in 4Q06, marking the first time that the average gross wage exceeded CZK 20,000. At the same time, the economy advanced by a solid 5.8% in 4Q, even though some signs of potentially problematic developments surfaced (falling net exports and accelerating domestic demand, heightening the risk of rising demand inflation).

Central bank planning changes to inflation targeting

The Czech National Bank released its planned changes to its inflation targeting and communication strategy. The three major changes are the reduction of the inflation target to 2% as of 2010 and the disclosure (as of 2008) of the interest rate path implicit in CPI projections and the voting records of individual members. As for the first change, this will have no impact on rate projections for this year. However, given the transmission lag of monetary policy, it will influence the CNB's decisions as early as mid-2008. The lowering of the target will likely necessitate further hikes (beyond what has been anticipated so far) in the key rate, in order to bring "excess" inflation (due to the lower target) down, with the risk of moving towards 4.00% at the end of 2009 and beginning of 2010. Therefore, we see the possibility of a narrowing of CZ-EU bond spreads, especially in the middle of the yield curve, by approximately 20 basis points.

The Ministry of Finance said that its plan for reducing the deficit to 3% in 2008 will be ready by the end of March or the beginning of April. This theoretically should be important in terms of clarifying the EMU entry date. However, in reality, the plan is unlikely to say much about what the government will actually be able to do, given the deeply (and evenly) divided legislature.

Next week to see fewer important data releases

Next week is going to be rather uneventful compared to this one. The only data of importance to be released is the January current account (our expectation: CZK +4bn) and PPI for February, for which we expect growth of +0.2% m/m. However, given the recent failure of PPI to translate into CPI, the impact of the announcement is expected to be limited.

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Hungary

This week's macro figures had limited market impact

The Finance Ministry published a budget deficit of HUF 216.9bn for February, taking the cumulative budget deficit for the first two months of the year to HUF 413bn. Like in January, the monthly deficit proved to be lower than the ministry's earlier forecast of HUF 251.2bn. Due to the lower than projected January-February deficit figures, the Finance Ministry may revise somewhat downwards their current forecast of a deficit of HUF 852.7bn (54% of the full-year CF-based target) for the January-March 2007 period. After the January and February deficit figures, the budget seems to be on track for 2007. We think that the present turbulence around the so-called "reasonable tax" will not significantly affect this year's budget processes. Last week, the Constitutional Court rejected the reasonable tax, which was aimed at bringing continuously loss-making companies into the tax system and was expected to generate around HUF 55-60bn in revenue in 2007. The Finance Ministry said this week that it would freeze HUF 30bn from budget reserves and work out a new kind of payment obligation for businesses to make up for this lost revenue.

According to the CSO's preliminary working day-adjusted figure, industrial output was up 10.5% y/y in January, more or less in line with our forecast of 10%. The unadjusted data was also 10.5%. In monthly terms, output dropped slightly dropped (by 0.4%).

The CSO published 3.2% y/y GDP growth for 4Q06, in line with the flash estimate. Taking calendar effects into consideration, GDP was up by 3.4% y/y in October-December 2006 (GDP rose 3.9% y/y in FY06). As expected, the main driver of GDP growth in the last quarter of 2006 was again positive net exports. Exports were up 20.1% y/y, with imports rising 14.7% y/y. However, the contribution from domestic use to GDP growth remained negative, decreasing by 0.3% y/y. Investments dropped 4.6% y/y, while household consumption growth remained practically flat, rising just 0.1% y/y.

February CPI likely at 9% y/y

The CSO will release the February CPI inflation figure on Tuesday. The acceleration has continued; our projection for the 12-month index is 9% (after the 7.8% published for January). Administrative prices should have remained the key driver, as the majority of the gas price increase is likely to have been accounted for in February. Food price increases may have mitigated somewhat, while the effect of fuel prices should have been more or less neutral. Apart from the headline figures, the formation of the core CPI and price developments in the field of market services should also attract high interest.

Due to the more positive global sentiment and rebuilding of carry trades, the forint market has calmed down. Furthermore, the exchange rate again strengthened. Next week, CPI figures should again bring more interest in domestic fundamentals to the markets. As for the outlook, please remember that, due to a national holiday, domestic markets will be closed on Thursday and Friday. Thus, some market participants may close their positions before the long weekend. This could cause some weakening in the exchange rate next week.

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Poland

Hawks have spoken - it is time to raise key rates

Halina Wasilewska-Trenkner and Marian Noga, both of whom are viewed as strong hawks on the central bank's MPC, warned in separate interviews this week about a potential threat stemming from the delayed decision to tighten monetary policy. Obviously, both would prefer to raise the key interest rates in the first half of the year, in order to prevent inflation from exceeding the target. Should this not happen, they see a risk that the central bank would be forced to deliver a more pronounced hike later on, with negative implications for growth. However, it has to be stressed that the hawks are currently in the minority on the MPC (three out of ten members). Hence, with inflation still below the target, they might find it hard to find allies for a hike already in March. We thus stick to our prognosis of a first (and only) hike this year coming in the second quarter.

Development of risk aversion still most important factor for Polish assets

The situation on the Polish FI and FX market calmed down this week. The zloty did not weaken further, instead posting minor appreciation, and government papers registered gains in terms of spreads. Bonds did not react visibly to the statements from the two central bank hawks concerning the need to hike interest rates. Moreover, the political mini-turmoil going on in the background has failed to gain any serious attention from the market (so far). The Self-Defense party leader has threatened to join the move to recall the finance minister, should the issue of changes to the bio-fuel tax remain unresolved. Meanwhile, there were also reports (later denied) that the leader of the other junior coalition party, the League of Polish Families, might be dismissed, due to a rift with the prime minister. Given the development in preferences for the small coalition parties, they do not have a real interest in triggering early elections at the moment. In any case, due to the frequent reports of political infighting, the markets seem to have grown less sensitive to such news.

Markets to monitor current account and inflation data next week

In the coming week, global factors will remain the weightiest factor influencing Polish markets. The sensitivity of emerging markets to data coming from the US will likely continue, and a renewed spike in global risk aversion cannot be ruled out. Domestically, the markets will keep an eye on current account and inflation data. After the unexpectedly large current account deficit seen in December (EUR -915mn), it will be interesting to watch whether this was only a one-off event (which we think is the case; we therefore expect only a mild deficit of EUR 16mn in January). Should another high number come out, it would be bad news for the currency. The second closely watched figure will be CPI for February. We estimate that inflation has grown further to 2.0% y/y (from the 1.7% seen in January). However, the Statistical Office will publish a new consumer basket, and the January number might be re-calculated. Hence, there is room for a surprise in both directions, which could have an impact on the market's view of the rate outlook and the short end of the yield curve.

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Slovakia

Economy driven by both domestic and foreign demand

According to the Statistical Office, GDP growth reached 9.6% y/y in 4Q06 (a notch above the earlier flash estimate), which translates into 8.3% full-year growth. In the last quarter, the economy was driven by both domestic and foreign demand. Household consumption growth, interesting from the monetary policy point of view, slowed down slightly (to 6.1%, from the 6.5% y/y seen in 3Q06). The real wage growth of 3.9% was close to our estimate of 3.5% and was comfortably covered by productivity gains (at 7.2% y/y). Investment activity remained strong in the economy, as fixed investments increased by the expected 7.0% y/y. The export growth of 22% was close to our estimate, while imports in real terms increased by just 15.3%, less than we expected (possibly due to lower imports of inventories). This creates an upward risk to our estimate of 1Q GDP growth (at 8.5% y/y), on the back of better net exports. From the monetary policy point of view, we see the released data as neutral.

CB intervened to weaken koruna

The Slovak koruna had a successful week. After starting the week near 34.4 EUR/SKK, supportive factors such as the 17.5% annual growth of industrial production, Samsung's announcement that it picked Slovakia as the new location for its LCD panel plant and the more favorable sentiment towards regional markets led the koruna to historical highs. Once these were reached on Thursday, with no appearance by the CB (the last intervention came in late December at 34.06 EUR/SKK), the markets were pushing the koruna to see how far the CB would allow it to strengthen. The CB finally intervened at 33.80 EUR/SKK, as it views the koruna as too strong (it also approached the ERM-2 band of 32.69 EUR/SKK). The estimated volume was around EUR 400mn; the koruna was trading 1% weaker on Friday (at 34.15 EUR/SKK). Should the koruna firm swiftly, we expect the CB to enter the market again within 33.7-33.8 EUR/SKK. Should the appreciation be gradual, however, the next intervention level could be stronger. We believe that the central bank currently prefers interventions over other measures against the koruna (such as rate cuts).

We remain bearish on FX in 1H07

From the medium-term perspective, we expect the koruna to weaken towards 35-36 EUR/SKK by mid-2007. Yesterday's intervention supports our argument. The central bank added the koruna liquidity to the market, which means that the currency could become more vulnerable to an eventual sudden change of sentiment towards regional/ emerging markets (i.e. more short-term foreign capital means that, in the case of a mood change, more capital leaves and the impact on the currency is more significant). In the second half of the year, we expect a return of the unit to stronger levels (34.5 at year-end). A potential adjustment of the ERM-2 central parity is a risk to our scenario, as it would likely lead to koruna strengthening.

Inflation should decelerate in February

Next week, February inflation is out - CPI on Tuesday and HICP on Thursday. In the case of CPI, we expect a continued deceleration due to base effects (from the 3.0% seen in January to 2.7%), which is also in line with the market view. Monthly growth of 0.2% should reflect service prices and imputed rents, while the strengthening of the koruna should act in the opposite way. For HICP, we predict a slowdown from February's 2.2% to 2.0%. January foreign trade data is out on Wednesday. The market anticipates a mild trade deficit. Our forecast is SKK -3.4bn, but stronger than expected industrial production suggests that the outcome might be somewhat better.

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Appendix Charts

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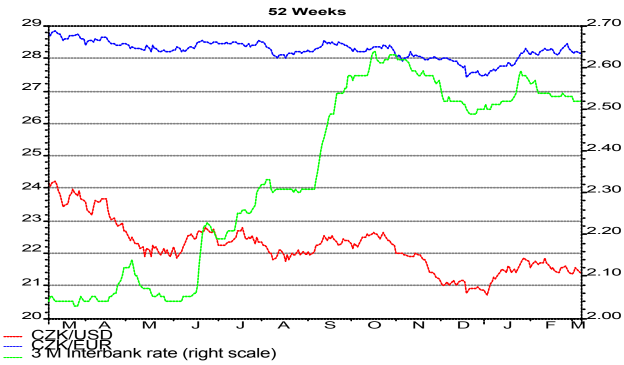
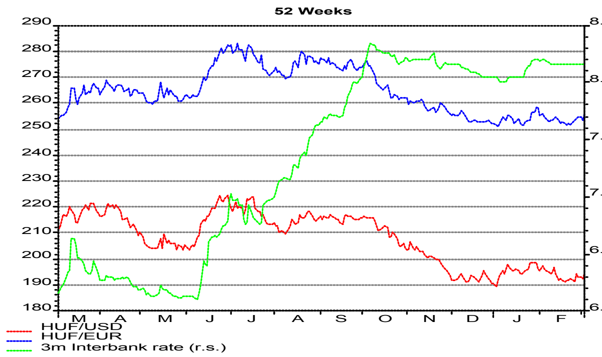
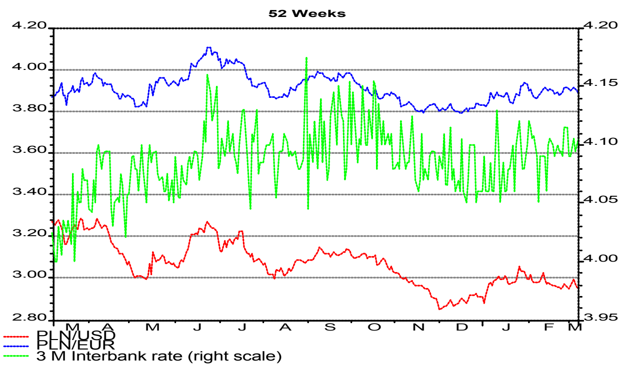
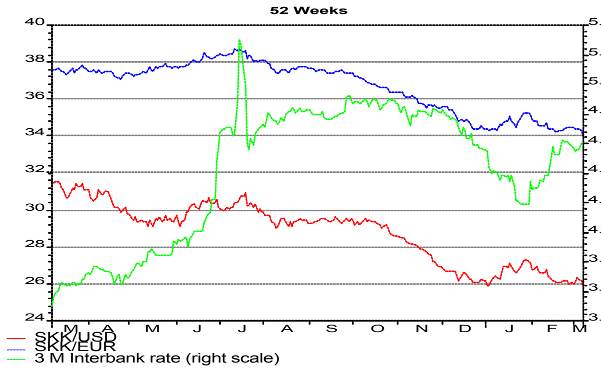
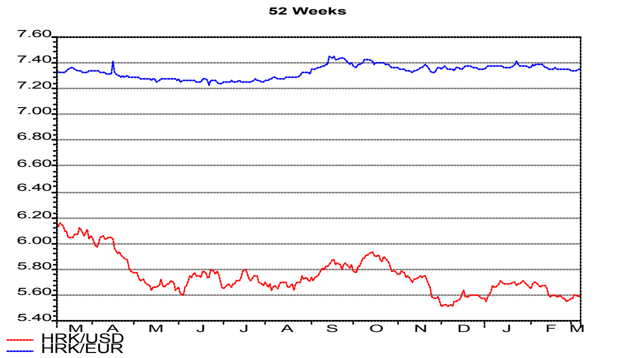
Exchange rates and interest rates (52 weeks)

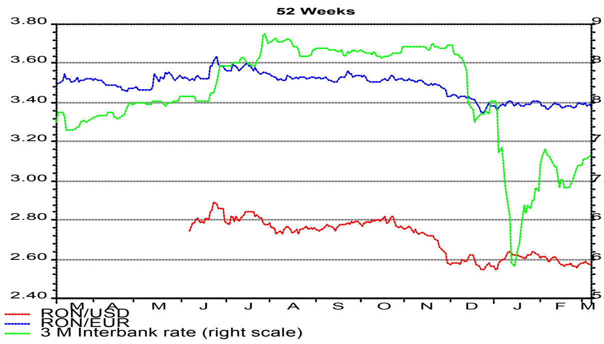








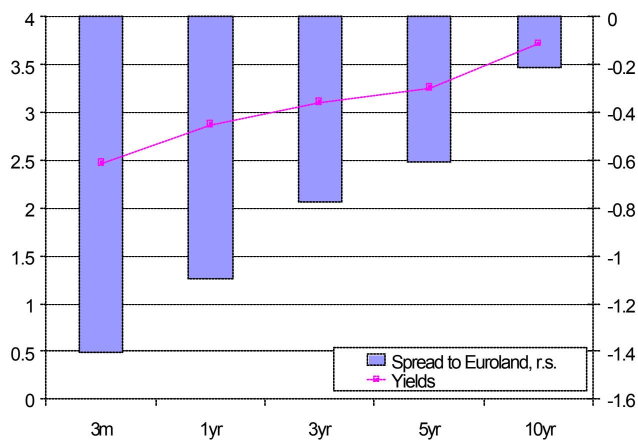




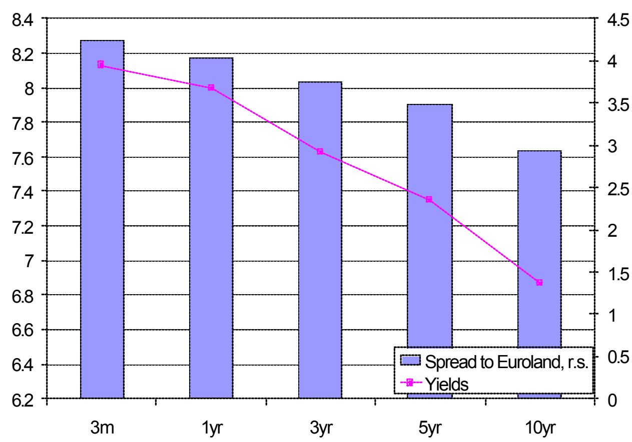
Charts are not updated due to technical problems. Source: Datastream

Benchmarks

Czech Republic



Hungary



Appendix Forwards

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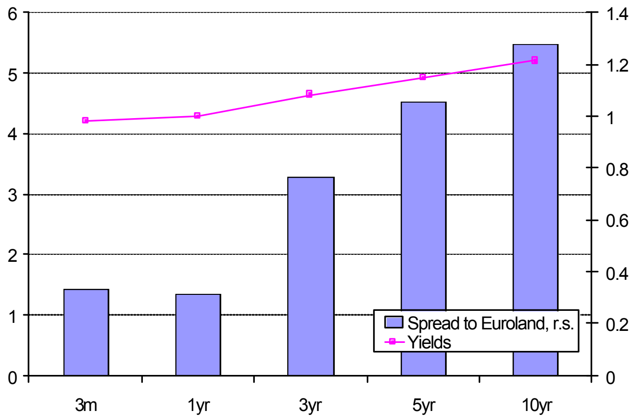
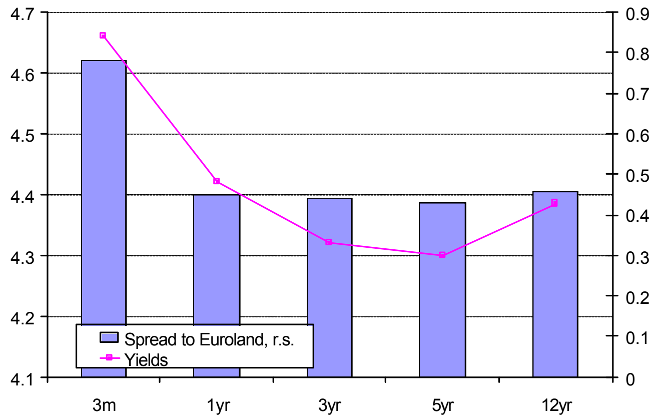
Poland



Slovakia



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