

# EMEA Weekly

## Slow recovery and deflation worries

Next week will be rich week in terms of economic data in the CEE region. Besides inflation data for January, the preliminary release of Q4 13 GDP data for Poland, Hungary, Czech Republic and Romania are due. Hence, we will get a clearer picture on whether the recovery strengthened at the end of 2013.

While looking at the development in consumer prices in the CEE, the overall picture remains the same – deflationary pressures in most of the economies remain intact. The biggest risk of deflation remains in Hungary. Even though the risk of outright deflation reduces the recent sell-off in the forint somewhat, nonetheless our inflation model clearly points to deflation perhaps later in the year. Inflation in January, which is due for release next week, is likely to have dropped as low as to 0.2% y/y – down from December's 0.4% y/y. Also, in Poland inflation is set to inch lower from December's 0.7% y/y, to 0.5% y/y in January, according to our forecast. Probably the sharpest drop in headline inflation will be seen in the Czech Republic, where falling regulated prices will be behind the sharp drop, while at the same time, demand inflation pressures remain totally absent.

Amid non-existent inflation from the supply side of the economies, subdued inflation also comes from the demand side of the economies as private consumption remains poor within CEE countries. This will still be visible in Q4 GDP, due for release next week in Poland, Hungary, Czech Republic and Romania. While we expect the Czech economy to remain in the red, it should show some improvement and have contracted 0.2% y/y in Q4 13, up from a contraction of 1.2% y/y in Q3 13. We expect Polish Q4 13 GDP growth of 1.8% y/y, slightly down from 1.9% y/y in Q3 13. The biggest improvement in growth is expected in Hungary, where we expect the Q4 GDP to rise 2.5% y/y in Q4 13, up from 1.8% y/y in Q3 13.

To sum up, the CEE economies remain weak and we expect them to operate below potential for at least the coming two years. Also, inflation in the region is likely to remain below official inflation targets going forward.

### Contents

Calendar .....	2
EMEA FX scorecard overview .....	3
Currency forecasts, EMEA .....	4

GDP growth in CEE region remains low



Source: Macrobond

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# Calendar

## EMEA Data and Events in Week 7

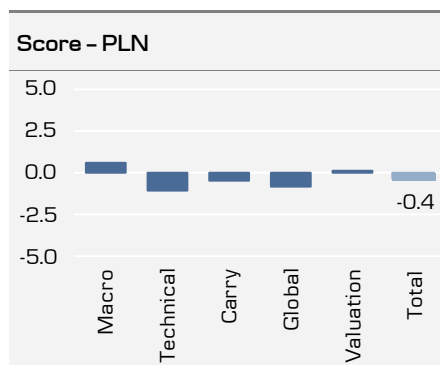
Monday, February 10, 2014				Period	Danske Bank	Consensus	Previous
CZK	9:00	Share of unemployed (15-65)	y/y	Jan	8.4%	8.6%	8.2%
TRY	9:00	Industrial production	y/y	Dec			4.7%
Tuesday, February 11, 2014				Period	Danske Bank	Consensus	Previous
RUB	-	Trade balance	USD bn.	Dec		14.2	16.6
ZAR	12:00	Manufacturing production nsa	y/y	Dec			0.3%
Wednesday, February 12, 2014				Period	Danske Bank	Consensus	Previous
CZK	9:00	CPI	y/y	Jan	0.4%	0.3%	1.4%
RON	9:00	CPI	y/y	Jan			1.6%
RON	9:00	Industrial production	y/y	Dec			9.9%
CZK	10:00	Current account	CZK bn.	Dec		-19.1	-7.26
ZAR	12:00	Retail sales	y/y	Dec			4.2%
PLN	14:00	Current account	Euro mil	Dec			-984
PLN	14:00	Trade balance	EUR mil	Dec			7
Thursday, February 13, 2014				Period	Danske Bank	Consensus	Previous
TRY	9:00	Current account	USD bn.	Dec			-3.93
Friday, February 14, 2014				Period	Danske Bank	Consensus	Previous
HUF	9:00	CPI	y/y	Jan	0.2%	0.3%	0.4%
HUF	9:00	GDP (preliminary)	y/y	4th quarter	2.5%	2.4%	1.8%
CZK	9:00	GDP (preliminary)	y/y	4th quarter	-0.2%	-0.2%	-1.2%
RON	9:00	GDP (preliminary)	y/y	4th quarter			4.1%
PLN	10:00	GDP (preliminary)	y/y	4th quarter	1.8%		1.9%
PLN	14:00	CPI	y/y	Jan	0.5%		0.7%

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

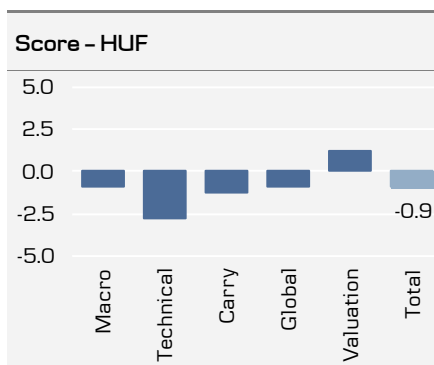
All release times are CET

Source: Danske Bank Markets

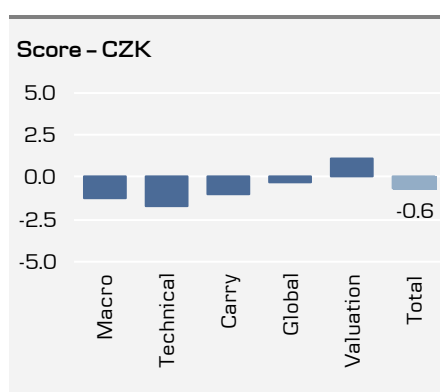
# EMEA FX scorecard overview



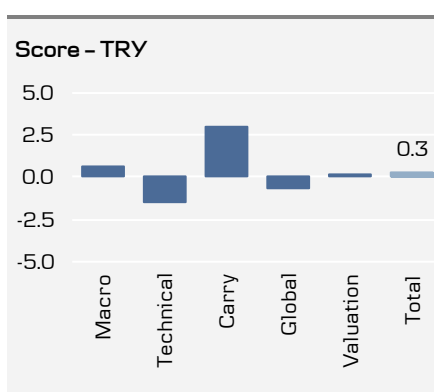
Source: Danske Bank Markets calculations



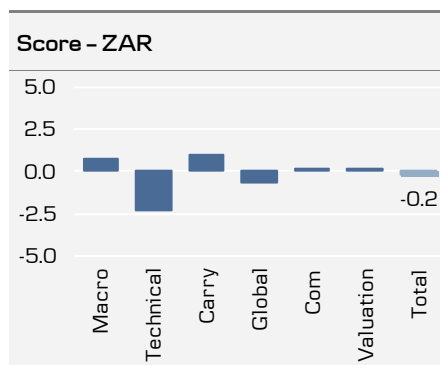
Source: Danske Bank Markets calculations



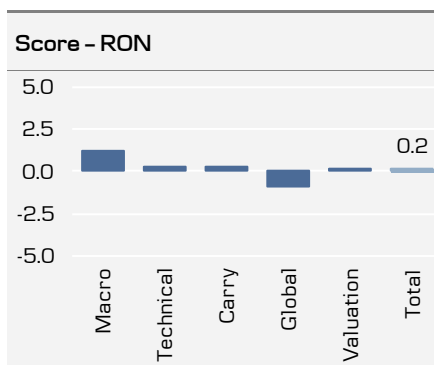
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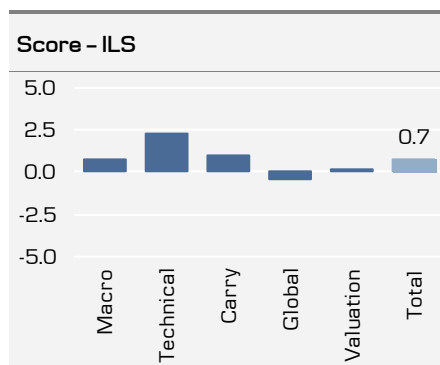
Source: Danske Bank Markets calculations



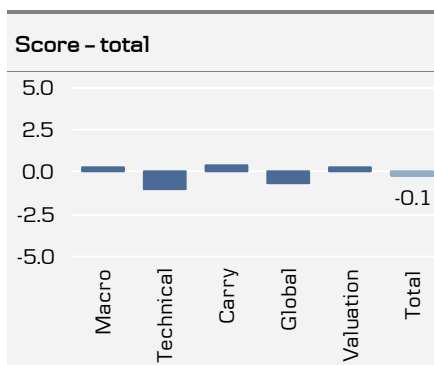
Source: Danske Bank Markets calculations



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

Currency forecasts, EMEA						
Feb 6. 2014		EUR	USD	SEK	NOK	DKK
USD	Actual	1.36	-	649	620	548
	+3m	1.33	-	662	620	561
	+6m	1.30	-	669	623	574
	+12m	1.26	-	675	635	592
PLN	Actual	4.24	3.11	209	200	176
	+3m	4.15	3.12	212	199	180
	+6m	4.20	3.23	207	193	178
	+12m	4.20	3.33	202	190	178
HUF	Actual	311	229	2.84	27.23	2.39
	+3m	300	226	2.93	2.75	2.49
	+6m	300	231	2.90	2.70	2.49
	+12m	295	234	2.88	2.71	2.53
CZK	Actual	27.6	20.3	32.0	30.7	27.0
	+3m	27.7	20.8	31.8	29.8	26.9
	+6m	28.0	21.5	31.1	28.9	26.6
	+12m	28.5	22.6	29.8	28.1	26.2
LVL	Actual	0.70	0.52	1257	1209	1061
	+3m	0.70	0.53	1257	1179	1066
	+6m	0.70	0.54	1243	1157	1066
	+12m	0.70	0.56	1214	1143	1066
LTL	Actual	3.45	2.54	256	246	216
	+3m	3.45	2.59	255	239	216
	+6m	3.45	2.65	252	235	216
	+12m	3.45	2.74	246	232	216
RON	Actual	4.51	3.32	196	188	165
	+3m	4.50	3.38	196	183	166
	+6m	4.50	3.46	193	180	166
	+12m	4.50	3.57	189	178	166
BGN	Actual	1.96	1.44	452	433	381
	+3m	1.96	1.47	450	422	381
	+6m	1.96	1.50	445	414	381
	+12m	1.96	1.55	435	409	381
TRY	Actual	3.09	2.27	286	274	241
	+3m	2.86	2.15	308	288	261
	+6m	2.86	2.20	304	283	261
	+12m	2.84	2.25	299	282	263
RUB	Actual	47.78	35.1	18.5	17.7	15.6
	+3m	45.7	34.4	19.3	18.1	16.3
	+6m	46.6	35.8	18.7	17.4	16.0
	+12m	46.9	37.2	18.1	17.1	15.9
UAH	Actual	11.53	8.49	76.6	73.5	64.7
	+3m	11.70	8.80	75.2	70.5	63.7
	+6m	11.70	9.00	74.4	69.2	63.8
	+12m	11.47	9.10	74.1	69.8	65.1
ZAR	Actual	15.32	11.27	57.7	55.3	48.7
	+3m	14.50	10.90	60.7	56.9	51.5
	+6m	14.30	11.00	60.8	56.6	52.2
	+12m	14.24	11.30	59.7	56.2	52.4
ILS	Actual	4.75	3.49	186.0	178.5	157.1
	+3m	4.59	3.45	191.8	179.8	162.6
	+6m	4.55	3.50	191.2	178.0	164.0
	+12m	4.47	3.55	190.0	178.9	166.8

Source: Bloomberg, Danske Bank Markets

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