



# Central European Daily

Monday, 25 July 2016

## Headlines

Currencies		% chng
EUR/CZK	27.02	0.0
EUR/HUF	313.2	-0.2
EUR/PLN	4.36	0.1
EUR/USD	1.10	-0.5
EUR/CHF	1.08	-0.3

### FX Correlation Matrix

	EUR/PLN	EUR/HUF	EUR/USD	EUR/CHF
EUR/CZK	0.01	0.15	-0.27	-0.30
EUR/PLN		0.55	0.01	-0.16
EUR/HUF			0.06	-0.13
EUR/USD				0.11

correlations of 30 min changes over past 5 sessions

FRA 3x6	%	bps chng
CZK	0.30	1
HUF	0.79	-2
PLN	1.70	1
EUR	-0.31	1

GB	%	bps chng
Czech Rep. 10Y	0.40	0
Hungary 10Y	3.03	2
Poland 10Y	2.92	-2
Slovakia 10Y	0.53	-1

CDS 5Y	%	bps chng
Czech Rep.	41	0
Hungary	153	0
Poland	97	0
Slovakia	42	0

Source: Reuters

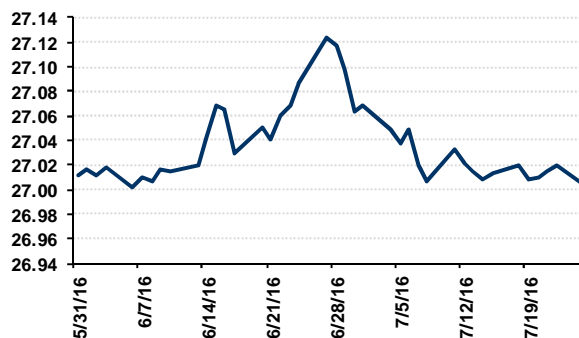
### Limited impact of the Brexit vote on business sentiment in EMU reduces like hood the CNB will extend its FX policy

Following the Brexit vote the EUR/CZK pair has hovered just above the intervention floor set by the Czech National Bank (EUR/CZK 27.00). So in fact the Czech currency has been trading at the strongest levels allowed by the central bank FX policy. There are two reasons explaining the strength of the CZK: first, Czech fundamentals remain strong and secondly, financial and economic contagion from the Brexit vote has been negligible so far.

Recall that according to the preliminary estimate, the euro zone composite PMI weakened only marginally in July, from 53.1 to 52.9. The outcome was well above the market consensus of 52.5. The same picture has delivered the German Ifo this morning as it has confirmed that the business sentiment deteriorated less than market expected in June. So overall, it seems the German/euro area economy continues to grow at a moderate pace at the start of the third quarter, suggesting that the UK decision to leave the EU is having limited impact on activity for now.

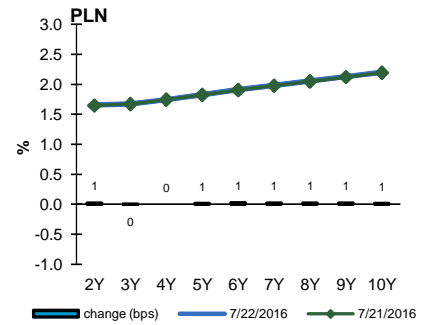
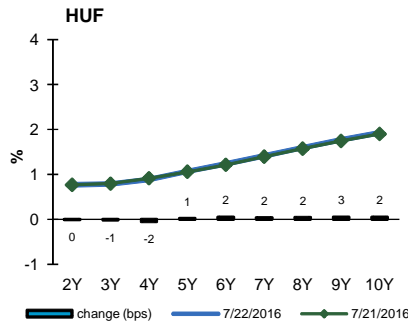
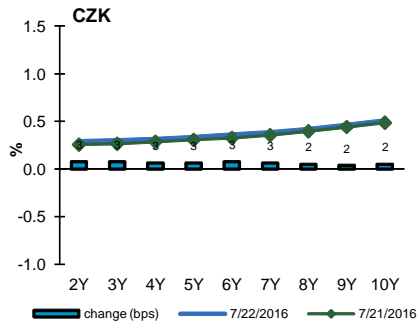
Hence, the recent business sentiment reports prove some resilience of the Eurozone. Based on the resilience, the ECB does not need to start thinking about imminent expansion of monetary easing, which **in the Czech case implies that the likelihood that the CNB decides to extend its FX interventions commitment (to defend the EUR/CZK floor) has been reduced. We assume the probability that the CNB commitment will be extended beyond the mid of 2017 to be around 30% at the moment.**

### EUR/CZK



The EUR/CZK pair has sat at the 27.0 level following the Brexit vote.

# Interest-rate Swap Curves



# Calendar

Country	Time	Indicator	Period	Forecast		Actual		Consensus		Previous	
				m/m	y/y	m/m	y/y	m/m	y/y	m/m	y/y
PL	10:00	Unemployment rate	%	06/01/2016				8.7		9.1	

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