

Mizuho Central and Eastern Europe Monthly FX Outlook

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Private and confidential

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Currency Forecasts & Overview

Mizuho CEEC FX Forecasts (as of 14 December)

	Spot	2024 Mar	Jun	Sep	Dec	2025 Mar
EUR/PLN	4.32	4.30	4.34	4.38	4.42	4.46
EUR/CZK	24.42	24.0	24.2	24.4	24.6	24.8
EUR/HUF	379	370	380	390	400	410
EUR/RON	4.97	4.97	4.98	4.99	5.00	5.01

PLN: Expectations of improving relationship with EU and a more hawkish monetary policy stance pushed up PLN significantly. But all the good news mentioned above may already be reflected in FX. We believe the market focus will shift to the deteriorating fiscal outlook.

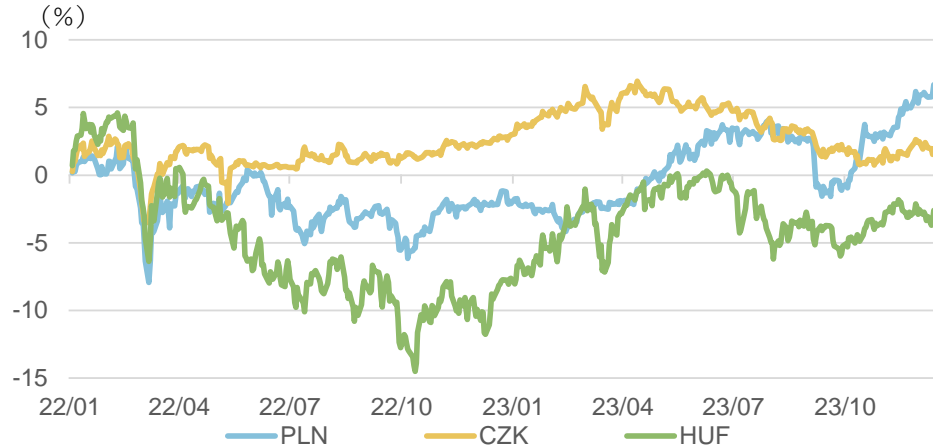
CZK: Rate differential between Czech and Euro zone will shrink in 2024. But we believe the market expectations of CNB's rate cuts are too aggressive. There are plenty room for setback. It will make EURCZK relatively stable, compared to other CEE currencies.

HUF: Deteriorating carry trade attractiveness poses a risk to HUF stability. Despite the EU decision on unblocking €10bn of funding for Hungary, the deteriorating relationship with the EU is still a concern.

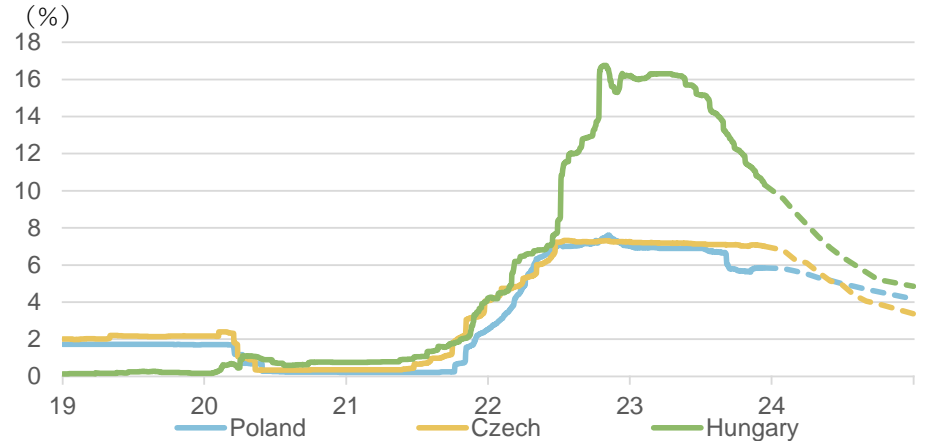
RON: RON will continue to trade in a tight range against EUR.

Market developments (as of 14 December 2023)

Currency performance vs EUR since end of 2021

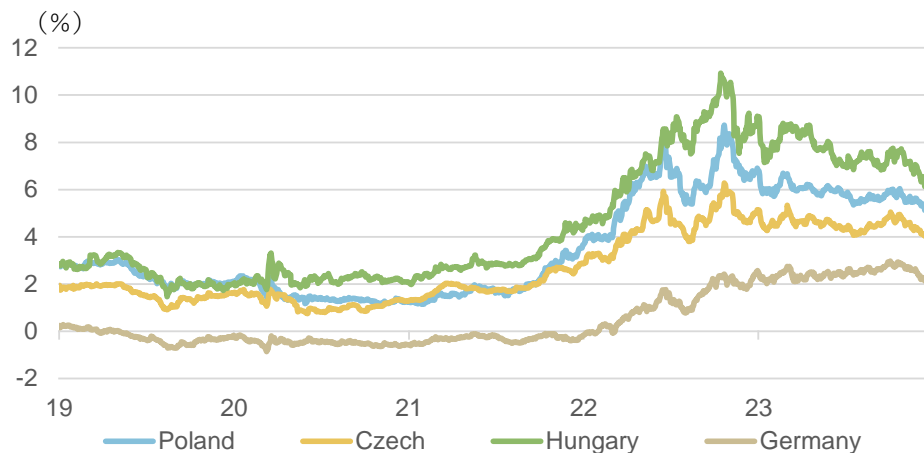


3 month interbank rate

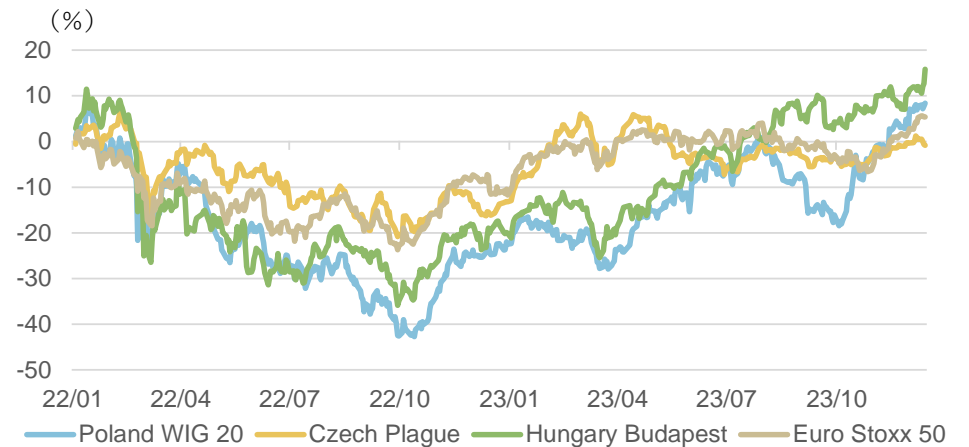


Note: Dot line is market expectation derived from forward agreements.

10 year government bond yields



Equity performance since end of 2021



Note: Each Index performance are calculated after converted to EUR

PLN: Rally after election

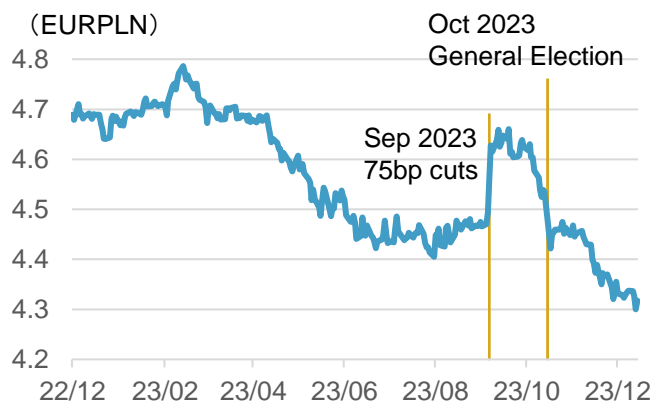
Key issues for Polish Zloty

The victory of the Pro-EU opposition in the 15 October general election buoyed market expectations that the relationship between Poland and the EU will improve and that EU will release more than €30 billion of funds for Poland. In addition, the market's expectation of a more hawkish National Bank of Poland (NBP) also lifted PLN. In September, NBP surprised the market with a 75bp cut, 3x times bigger than markets expected. In November, the NBP surprised markets again, but by keeping its policy rate on hold. We now expect the rate differential between Poland and the Euro Area to be unchanged through end of 2024. The market welcomed these regime changes in Poland, but the deteriorating fiscal situation will cast a shadow on market enthusiasm.

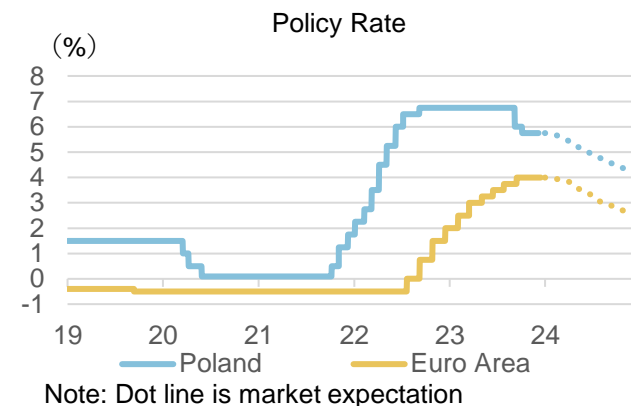
General Election Results

	100% of ballots	Seats
Civic Coalition (KO)	30.7	157
Third Way	14.4	65
New Left	8.61	26
KO-Third Way-Left	53.71	248
Law and Justice (PiS)	35.38	194
Konfederacja	7.16	18
Total	100	460

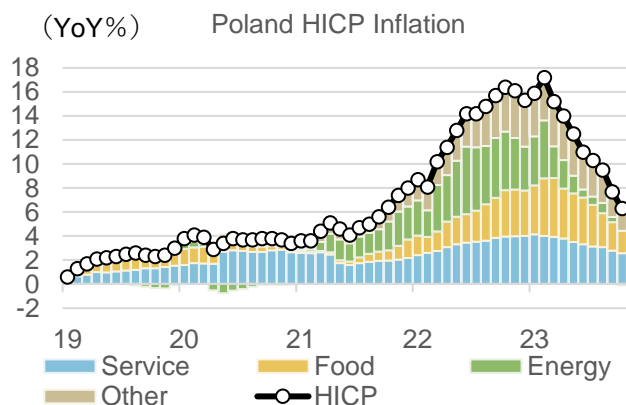
PLN rallies after election



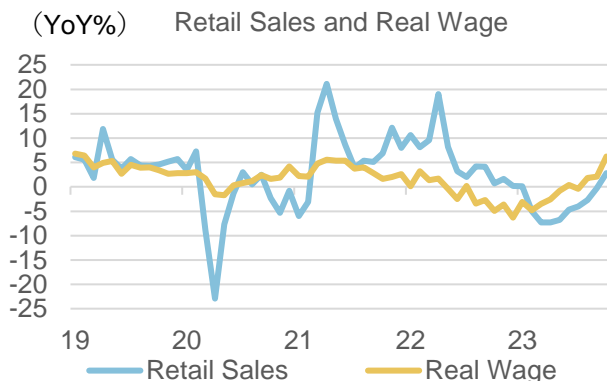
Rate differential will remain unchanged



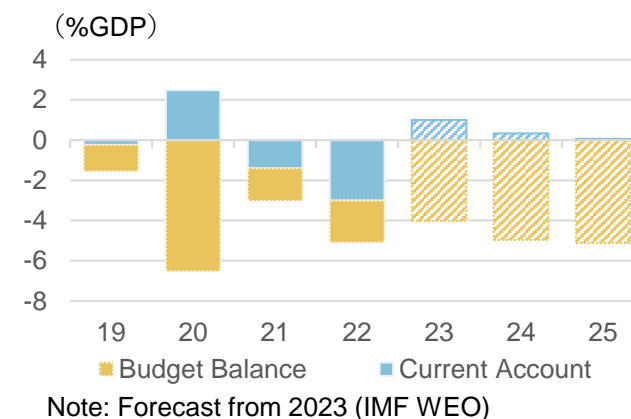
Inflation rate is easing



Consumption growth is recovering



Higher expenditure ahead of 2023 election



CZK: CNB repeatedly denies market expectation for early rate cut

Key issues for Czech Koruna

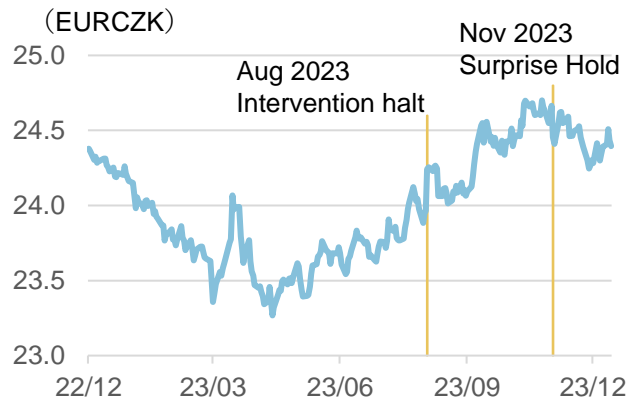
The Czech National Bank (CNB) surprised markets by keeping its policy rate at 7.00% on 2 November. Markets expected the CNB to kick off monetary easing with a 25bp rate cut. The statement remained hawkish. CNB governor Michl outlined a sticky core inflation outlook and the possibility that inflation expectations could become unanchored as reasons why CNB held rates. Due to sticky inflation and wage pressure, we expect CNB to keep its policy rate unchanged again at the 21 December meeting. We believe market expectations of CNB rate cuts are too aggressive. There is plenty of room for a set back.

Background of growth deterioration

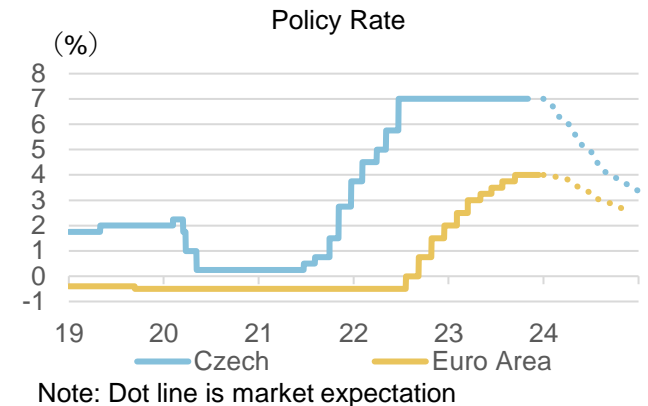
Since exports account for more than 70% of its GDP, the risk of a slowdown in the euro zone, which is a major export partner, and Germany in particular, is becoming worrisome.

In addition, the real estate market has been booming in recent years. The sector has been driving wage growth of late. However, the risk of a slowdown in the sector has intensified. Housing starts are falling on the back of CNB monetary tightening.

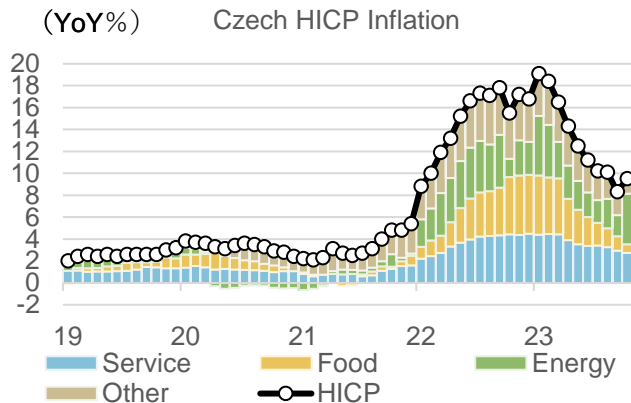
CNB is under pressure since May



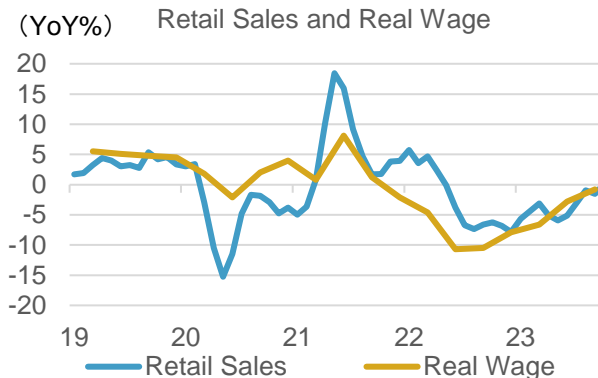
Markets have priced in aggressive rate cuts



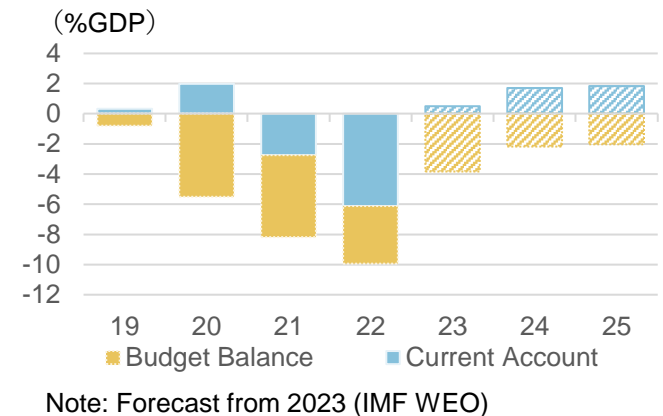
Inflation rate is easing but sticky



Wage pressure is persistent



Current Account will return to surplus



HUF: Deteriorating carry trade attractiveness poses risks to HUF stability.

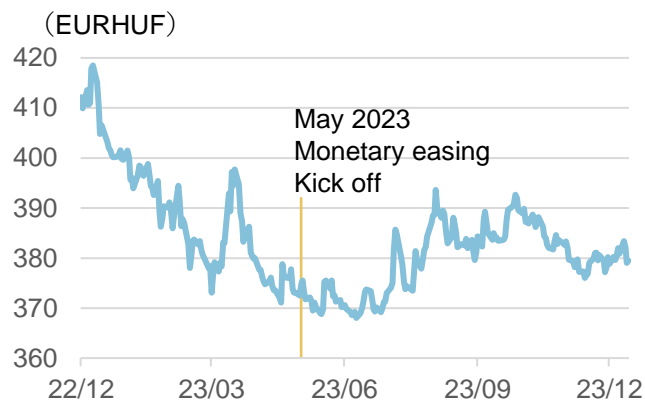
Key issues for Hungarian Forint

The National Bank of Hungary (NBH) started its monetary easing cycle in May, and in September, NBH had fully reversed the emergency tightening which was installed in October 2022. After that, NBH continued to cut its policy rates by 75bp in both October and November. Deputy Governor Virag suggested that easing is likely to continue. He also implied that the policy rate could fall below 11% in December and reach single-digits in February 2024. Despite the recent EU decision on unblocking €10bn of funding for Hungary, the deteriorating relationship with the EU is still concern.

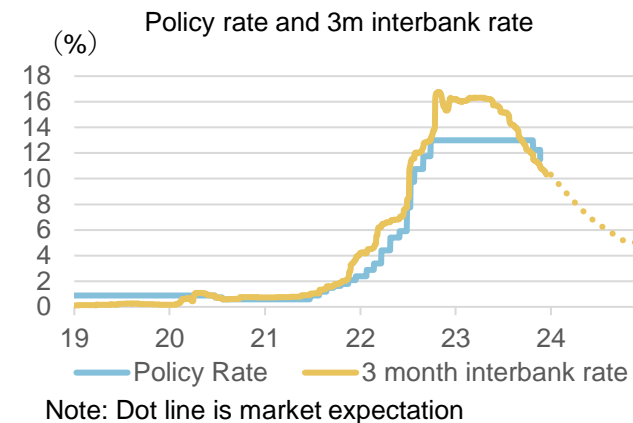
MNB's emergency tightening in Oct 2022

After MNB announced at its September 2022 meeting that it would stop raising interest rates, the forint plunged and on October 14, 2022 the Hungarian central bank introduced a one-day deposit facility as an emergency measure. It said it would accept all bids from banks, and its applied interest rate (18.00%, which was 5% higher than the base rate at the time of its introduction) would play an important role in curbing currency depreciation. In addition, the MNB also raised the upper limit of the interest rate by 9.5% percentage points to 25.0%, giving the market much more room for manoeuvre.

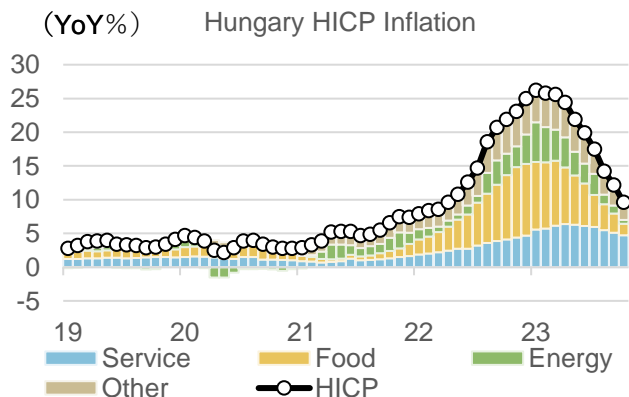
HUF has softened since May



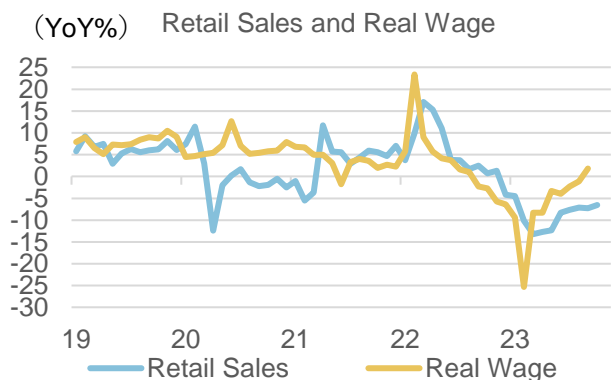
High carry will deteriorate rapidly



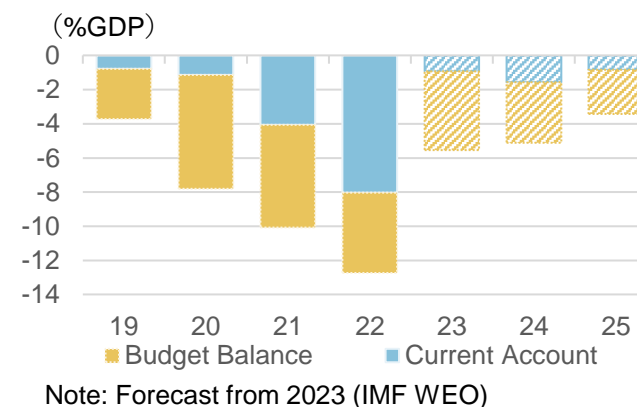
Inflation rate is declining rapidly



Real wage growth turned positive



Twin deficits will narrow but persist



RON: FX Risk is not zero

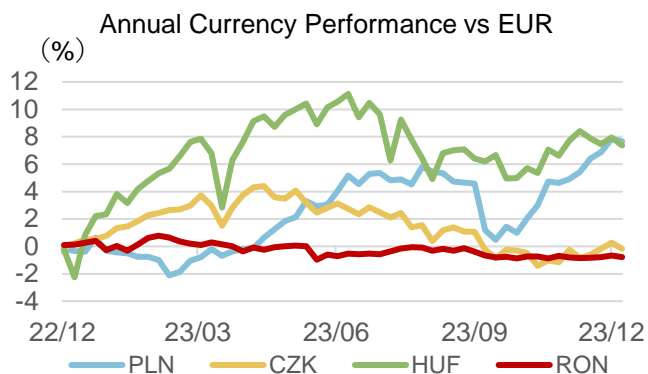
Key issues for Romanian Leu

EURRON is moving in a tight range. But Central Bank of Romania (NBR) Governor Ernesto Izalescu said at a press conference on May 12, 2023 that more flexibility was being considered. The Romanian lei recorded a new all-time low against the euro the following week, which could signal a policy shift by the NBR toward allowing leu volatility to increase.

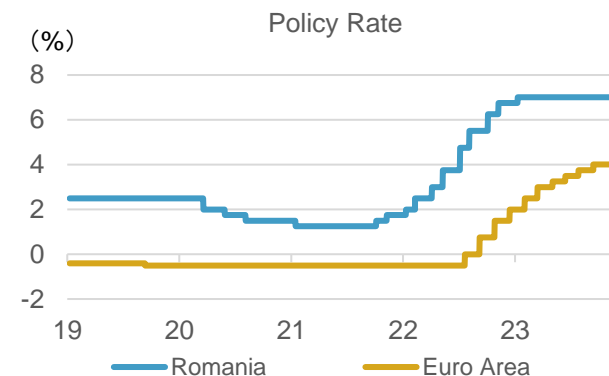
Currencies strictly anchored to EUR

	IMF de facto Classification	IMF de jure classification
Bulgarian lev	Currency board	Currency board
Danish krone	Conventional peg	Conventional peg
Serbian dinar	Stabilised arrangement	Floating
Romanian leu	Crawl-like arrangement	Managed floating

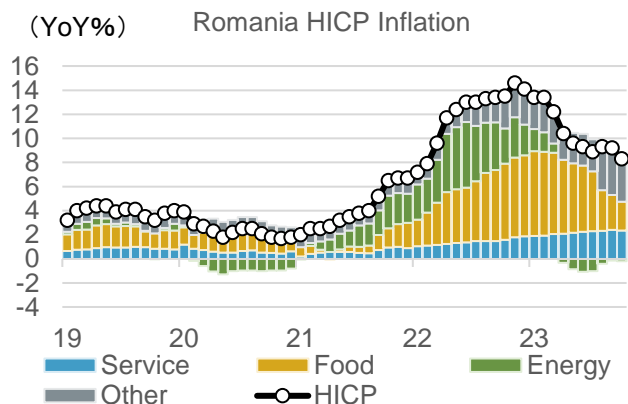
EURRON is moving in a tight range



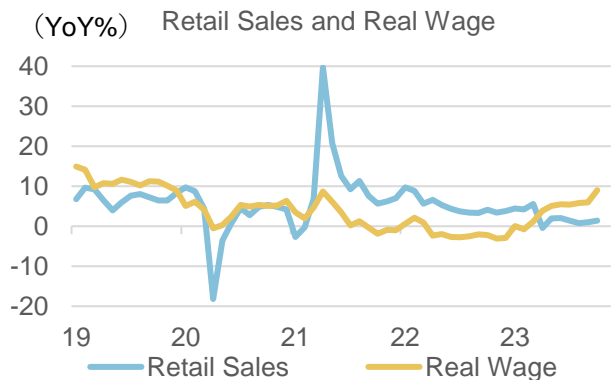
NBR will keep rate differential wide



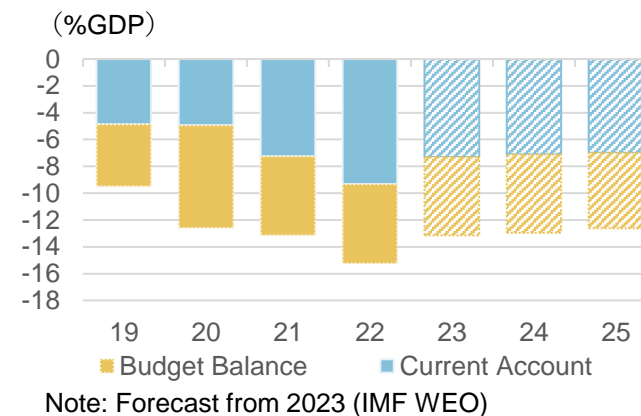
Inflation rate is easing but sticky



Real wage growth rate is picking up



Twin deficits are huge



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