

Mizuho Central and Eastern Europe Monthly FX Outlook

January, 2024

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Private and confidential

MIZUHO

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Currency Forecasts & Overview

Mizuho CEEC FX Forecasts (as of 31 January)

	Spot	2024 Mar	Jun	Sep	Dec	2025 Mar
EUR/PLN	4.33	4.35	4.40	4.36	4.32	4.28
EUR/CZK	24.82	25.0	25.2	25.4	25.6	25.8
EUR/HUF	384	390	395	400	405	410
EUR/RON	4.98	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. Rising political tension and fiscal deterioration will weigh on PLN.

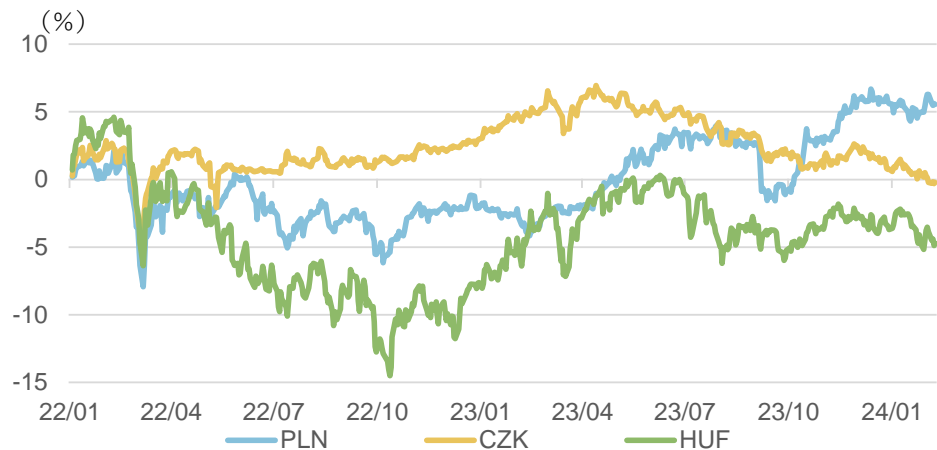
CZK: Rate differential between Czech and Euro zone will shrink in 2024. But we believe the market expectations of CNB's rate cuts are too aggressive. There are plenty room for setback. It will make EURCZK relatively stable, compared to other CEE currencies.

HUF: Deteriorating carry trade attractiveness poses a risk to HUF stability. Despite the EU decision on unblocking €10bn of funding for Hungary in December, and the deal on Ukraine aid at the special EU summit on 1st February, the deteriorating relationship with the EU is still a concern.

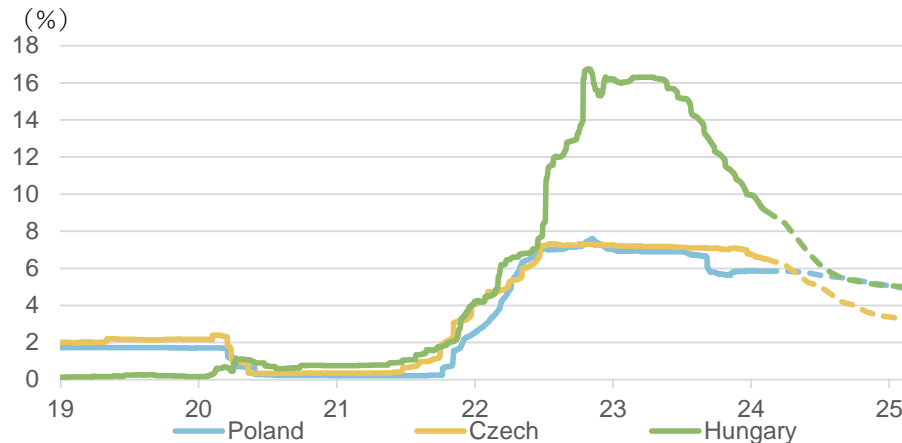
RON: RON will continue to trade in a tight range against EUR.

Market developments (as of 7 February 2024)

Currency performance vs EUR since end of 2021

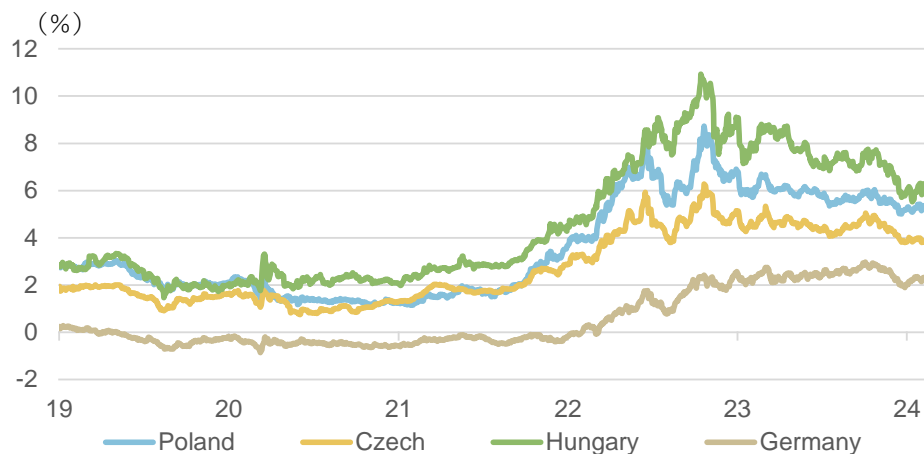


3 month interbank rate



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

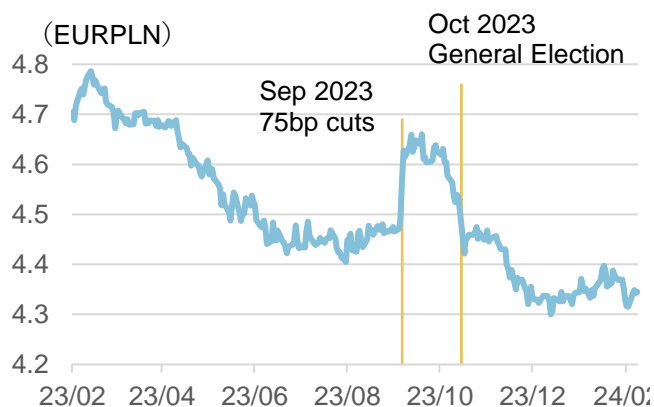
Key issues for Polish Zloty

The victory of the Pro-EU opposition in the 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. We now expect the rate differential between Poland and the Euro Area to widen again through end of 2024. The market welcomed these regime changes in Poland, but the deteriorating fiscal situation and political tensions will cast a shadow on market enthusiasm.

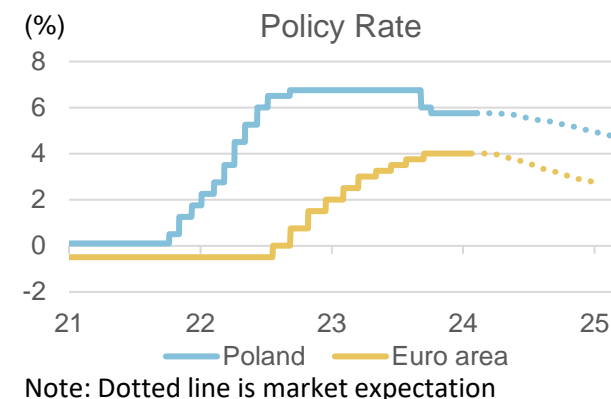
General Election Results

	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

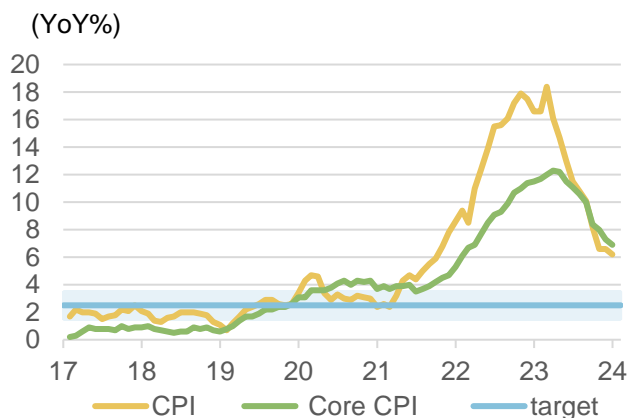
PLN rallies after election



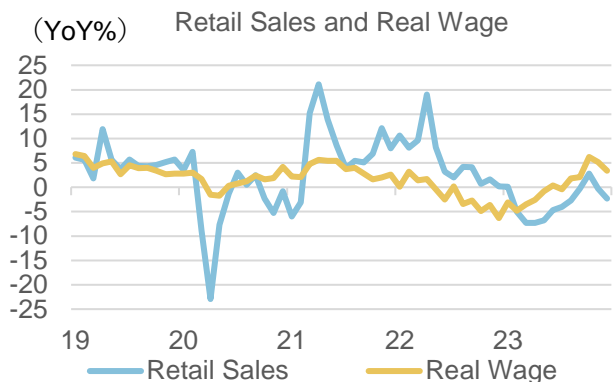
Rate differential with Euro area will widen



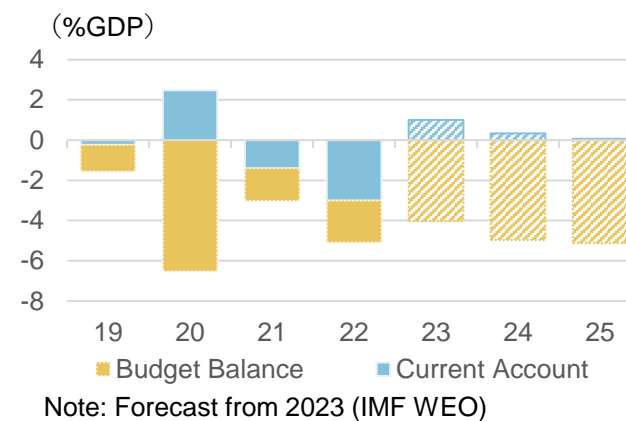
CPI Inflation is easing but sticky



Consumption growth is recovering



Higher expenditure ahead of 2023 election

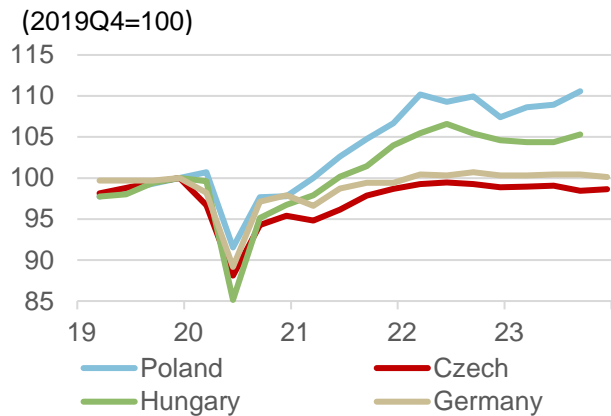


CZK: CNB cuts will be cautious

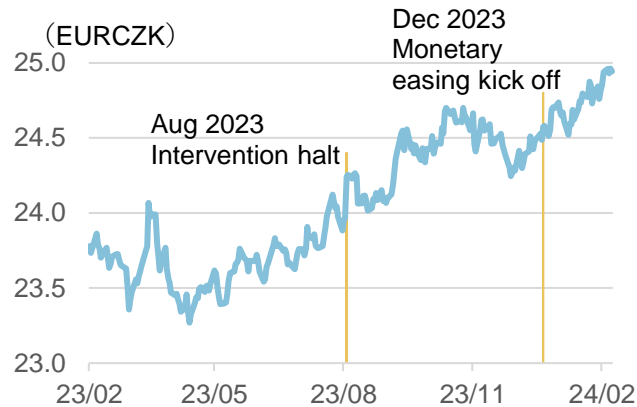
Key issues for Czech Koruna

The Czech National Bank (CNB) started monetary easing at the December 2023 meeting. We believe the CNB will continue easing beyond 2024. But considering the CNB's hawkish stance on inflation, wages and current CZK depreciation, the CNB cuts will be cautious.

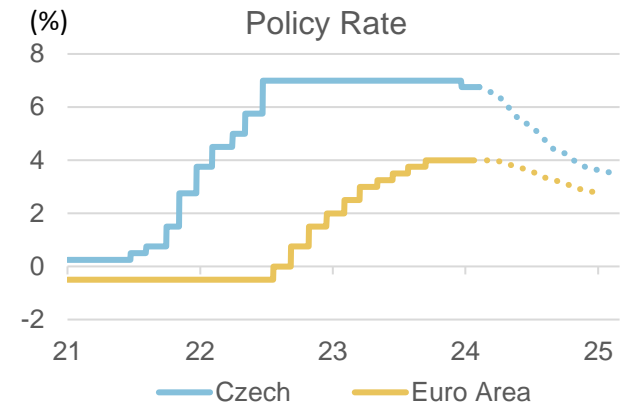
Czech Growth momentum is weak



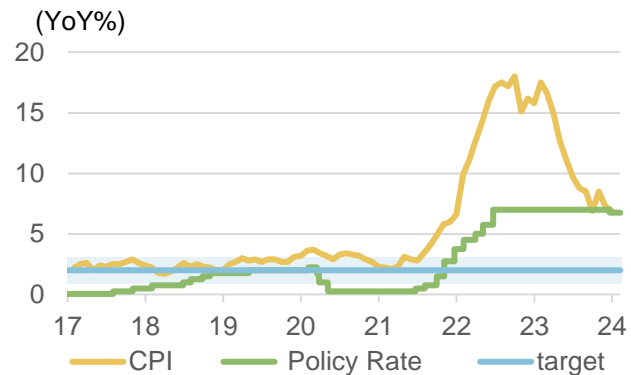
CNB is under pressure since May



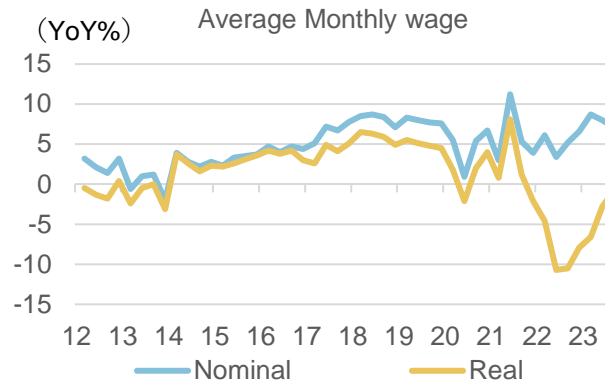
Markets have priced in aggressive rate cuts



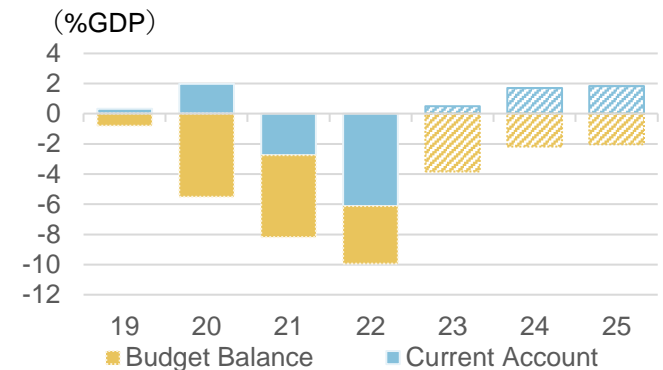
Inflation rate is easing but sticky



Wage pressure is persistent



Current Account will return to surplus



Note: Forecast from 2023 (IMF WEO)

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

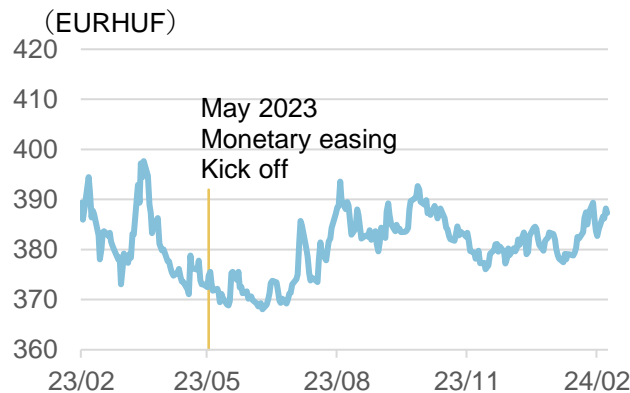
Key issues for Hungarian Forint

The National Bank of Hungary (NBH) started its monetary easing cycle in May 2023, 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 reach single-digits in February 2024. Despite the recent EU decision on unblocking €10bn of funding for Hungary in December, and the deal on Ukraine aid at the special EU summit on 1st February, the deteriorating relationship with the EU is still concern.

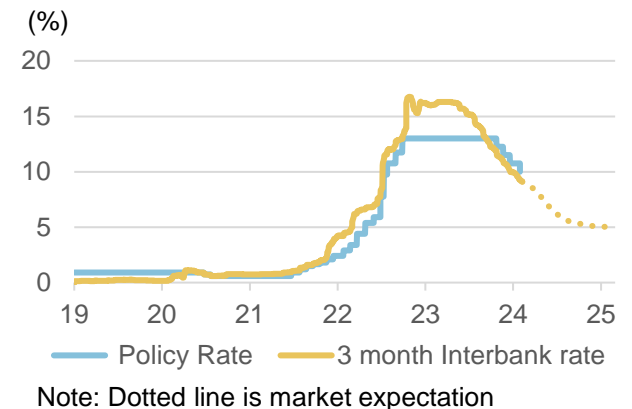
NBH's emergency tightening in Oct 2022

After NBH 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 NBH 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.

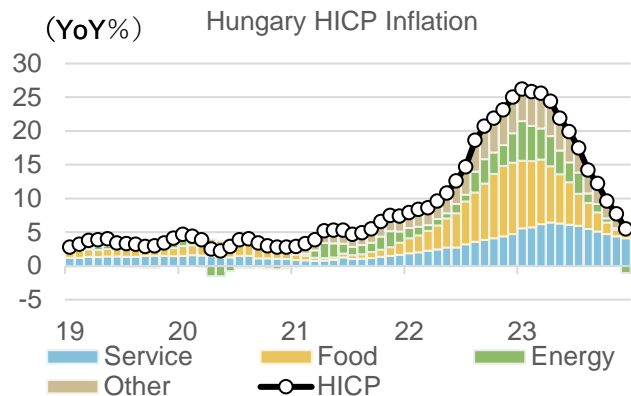
HUF has softened since May



High carry will deteriorate rapidly



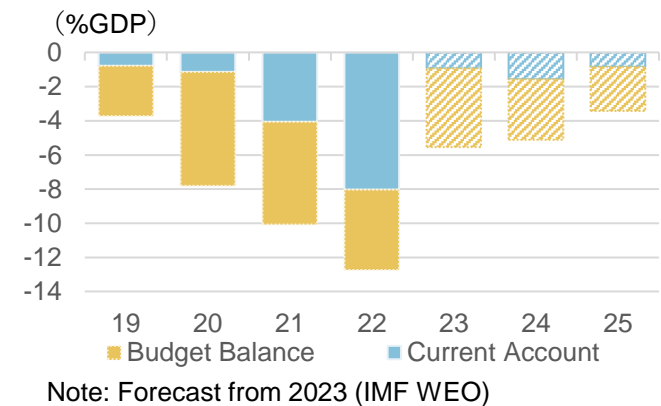
Inflation rate is declining rapidly



Real wage growth turned positive



Twin deficits will narrow but persist



RON: FX Risk is not zero

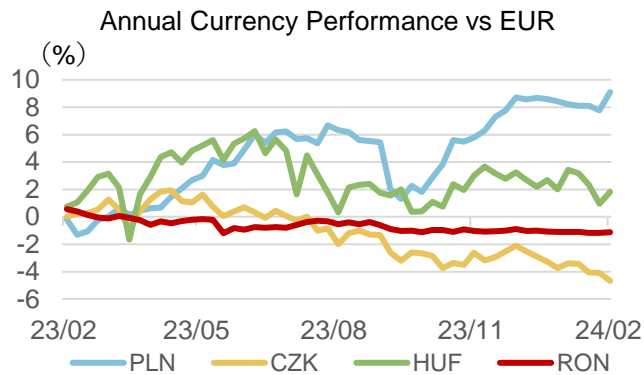
Key issues for Romanian Leu

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.

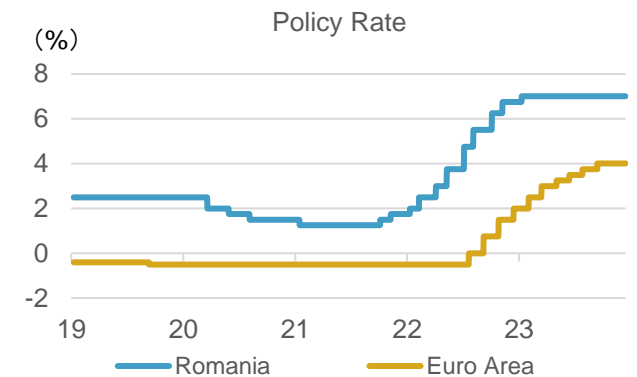
Currencies strictly anchored to EUR

	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

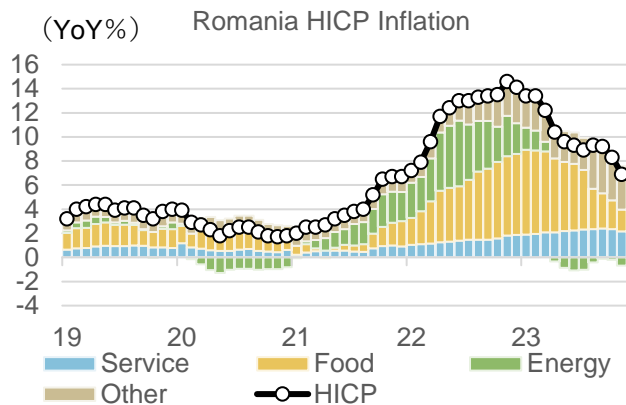
EURRON is moving in a tight range



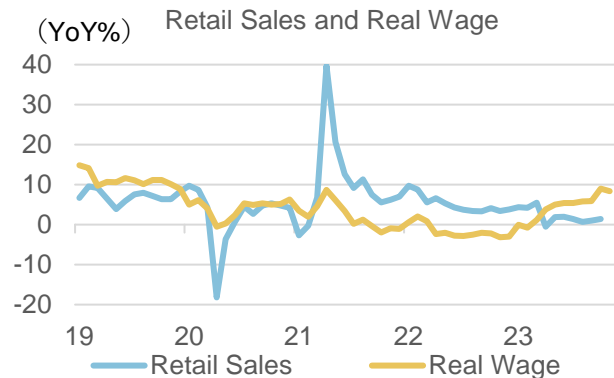
NBR will keep rate differential wide



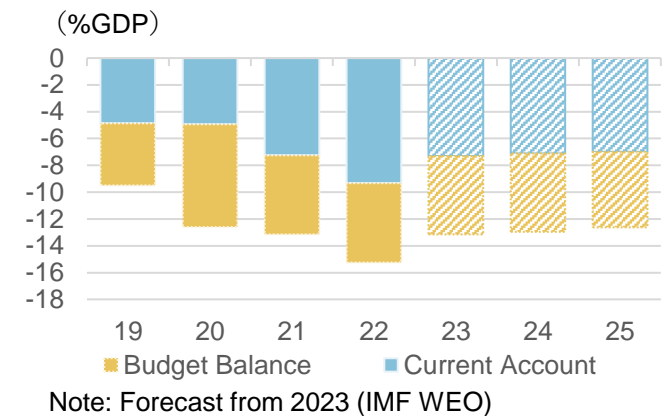
Inflation rate is easing but sticky



Real wage growth rate is picking up



Twin deficits are huge



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