

Mizuho Central and Eastern Europe Monthly FX Outlook

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Private and confidential

MIZUHO

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Currency Forecasts & Overview

Mizuho CEEC FX Forecasts (as of 24 November)

	Spot	2023 Dec	2024 Mar	Jun	Sep	Dec
EUR/PLN	4.37	4.35	4.30	4.35	4.40	4.45
EUR/CZK	24.45	24.0	23.5	23.0	23.5	24.0
EUR/HUF	381	384	388	392	396	400
EUR/RON	4.97	5.01	5.02	5.03	5.04	5.05

PLN: Expectations of improving relationship with EU and a more hawkish monetary policy stance will push up PLN. But all the good news mentioned above may already be reflected in FX markets.

CZK: CNB repeatedly denies market expectation of an early rate cut. December rate cut is now unlikely (Markets have already priced in aggressive rate cuts). We think there is room for CZK appreciation.

HUF: Deteriorating carry trade attractiveness poses a risk to HUF stability.

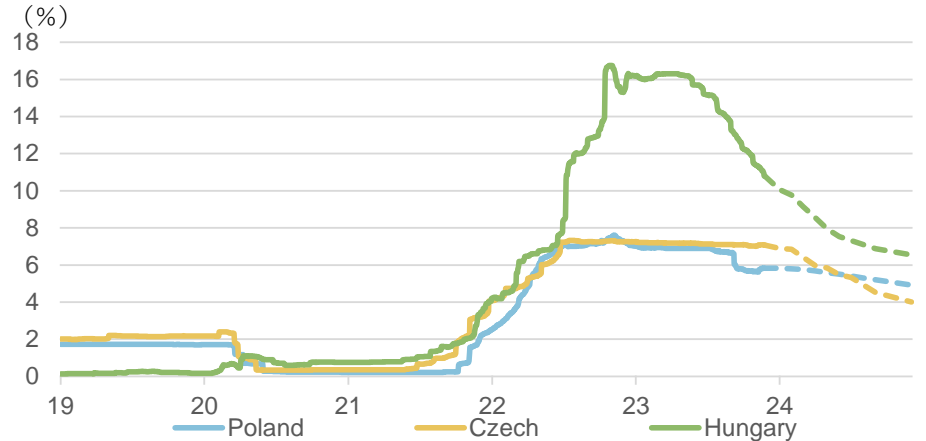
RON: RON, as one of the most strictly anchored currencies against EUR, will continue to trade in a tight range.

Market developments (as of 24 November 2023)

Currency performance vs EUR since end of 2021

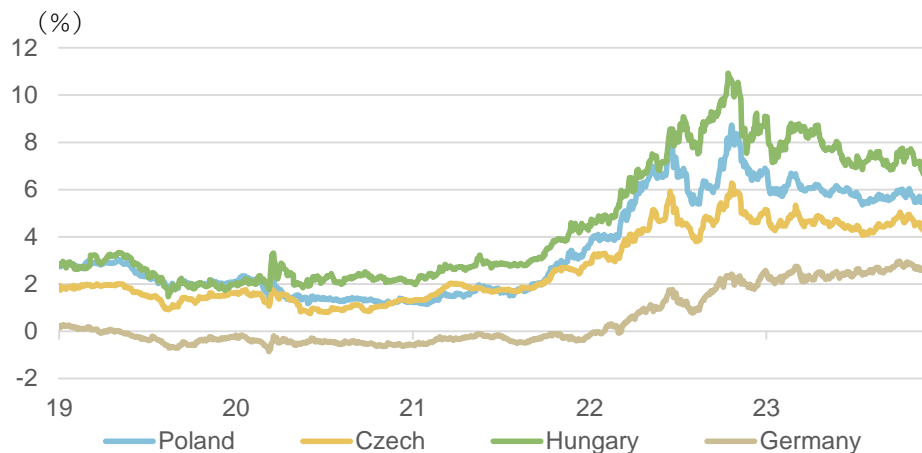


3 month interbank rate

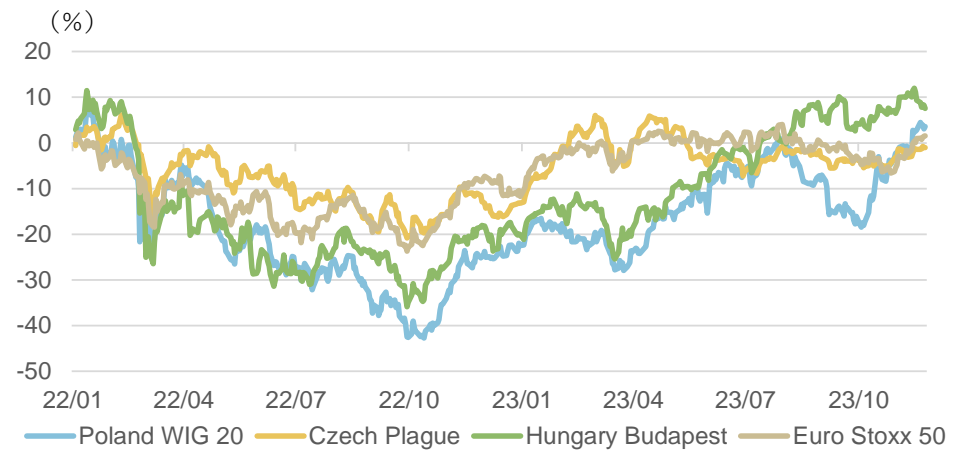


Note: Dot line is market expectation derived from forward agreements.

10 year government bond yields



Equity performance since end of 2021



Note: Each Index performance are calculated after covered to EUR

PLN: Rally after election

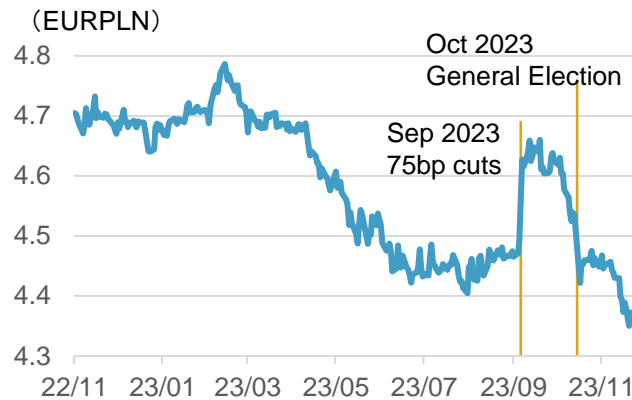
Key issues for Polish Zloty

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.

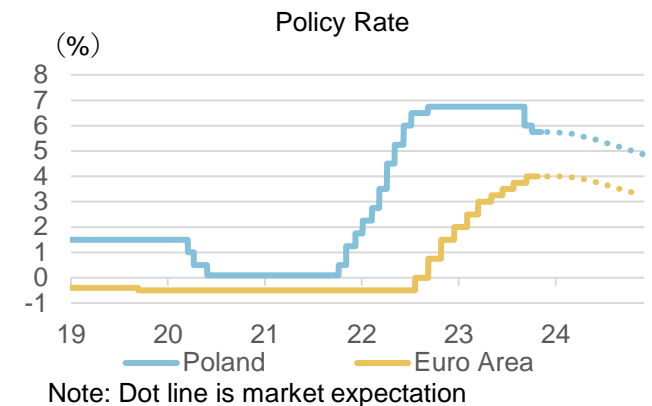
General Election Results

	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

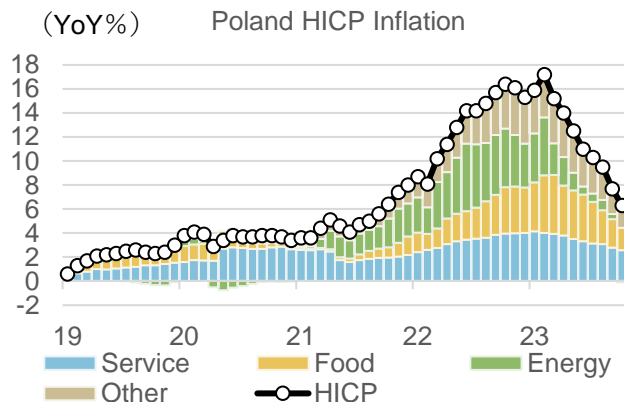
PLN rallies after election



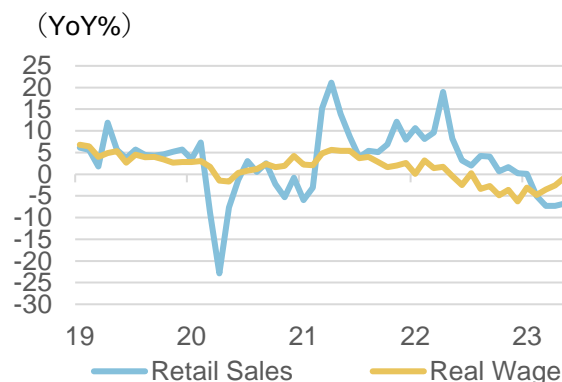
Markets expect a more hawkish NBP



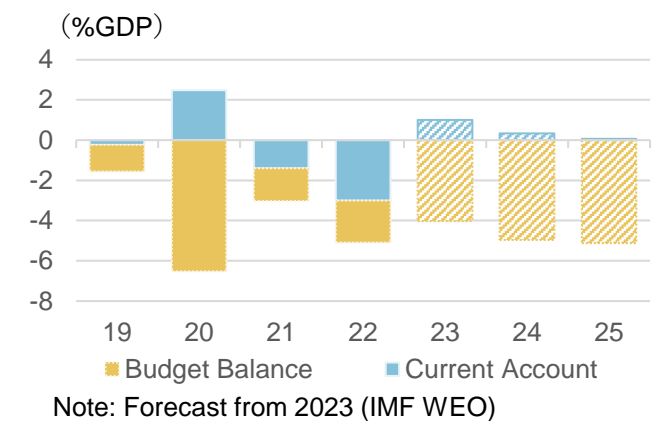
Inflation rate is decreasing



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

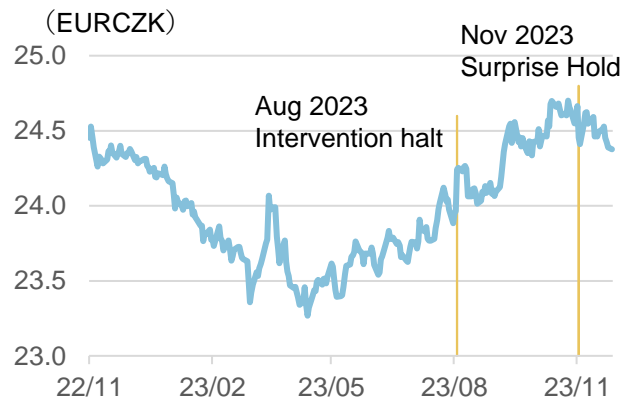
The Czech National Bank (CNB) surprised markets by keeping its policy rate at 7.00% on 2 November. Market expected the CNB to kick off monetary easing with a 25bp rate cut. The statement remained hawkish. CNB governor Michl outlined a sticky core inflation outlook and the possibility that inflation expectations could become unanchored as reasons why CNB held rates. Due to sticky inflation and wage pressure, we expect CNB to keep its policy rates again at the 21 December meeting.

Background of growth deterioration

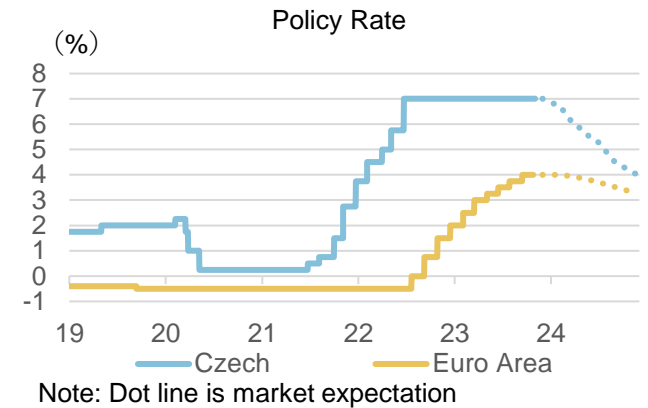
Since exports account for more than 70% of its GDP, the risk of a slowdown in the euro zone, which is a major export partner, and Germany in particular, is becoming worrisome.

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.

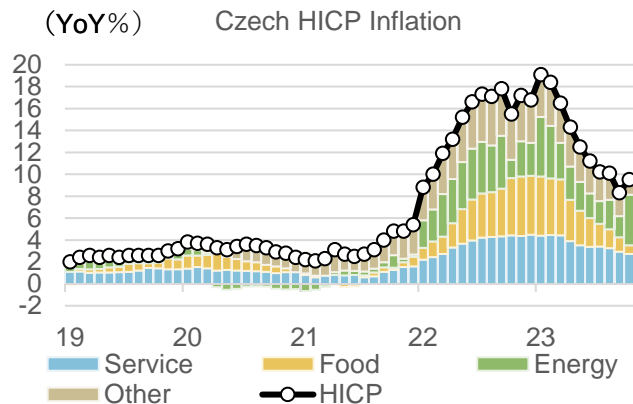
CNB is under pressure since May



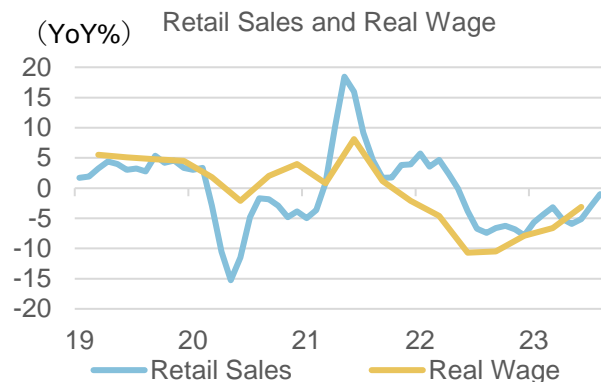
Markets have priced in aggressive rate cuts



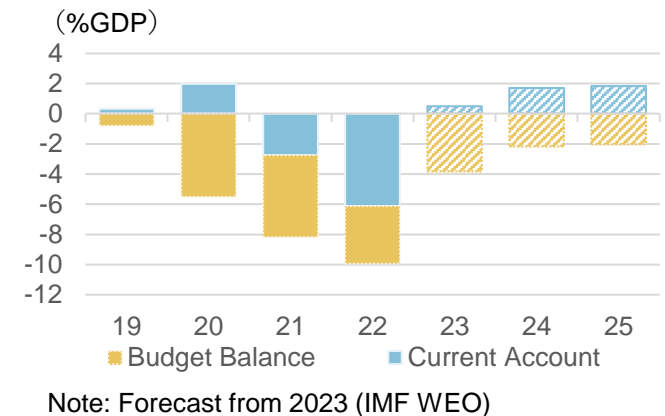
Inflation picked up in October



Domestic demand remains subdued



Czech has no twin deficit problem



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

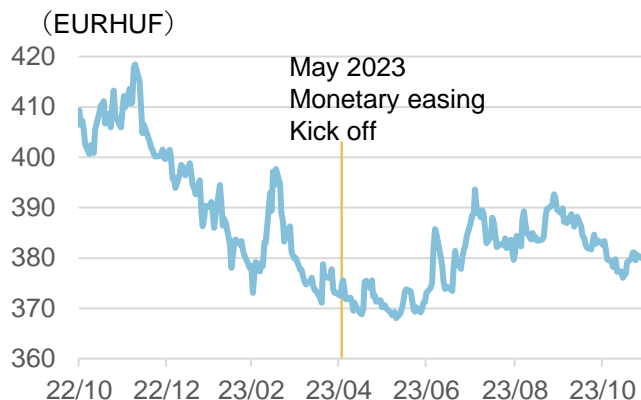
Key issues for Hungarian Forint

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. The deteriorating relationship with the EU has been a concern for a long time, although there are hopes that EU may release some of its funds.

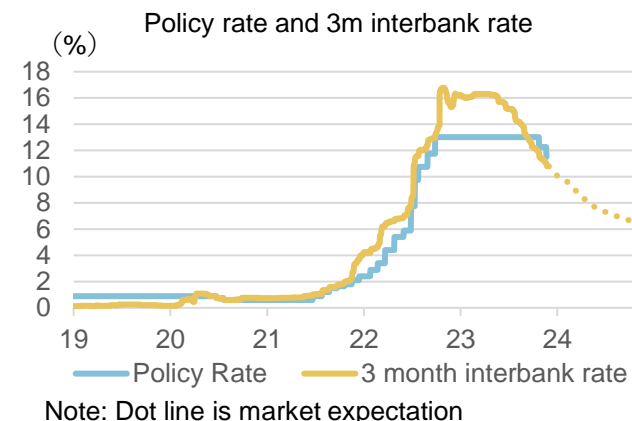
MNB's emergency tightening in Oct 2022

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 has also raised the upper limit of the interest rate by 9.5 percentage points to 25.0%, giving the market much more room to manoeuvre.

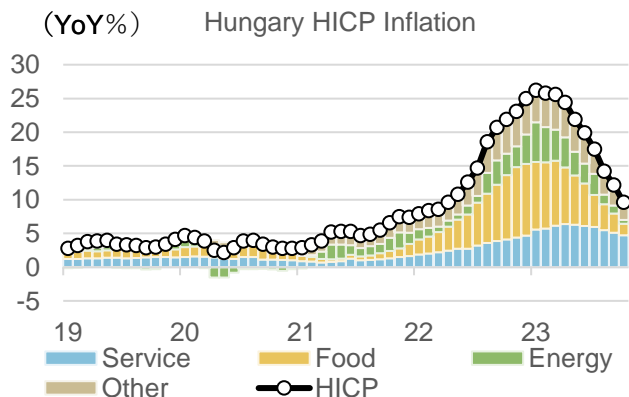
HUF has edged lower since May



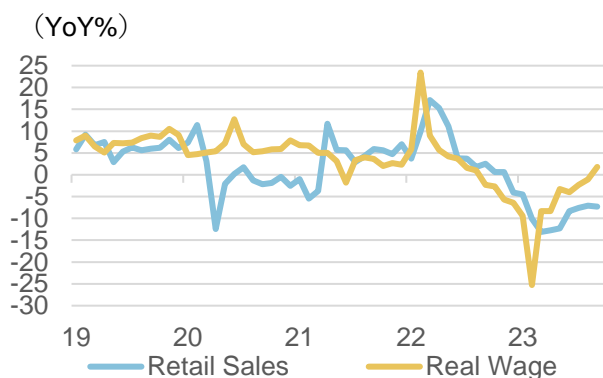
High carry will deteriorate rapidly



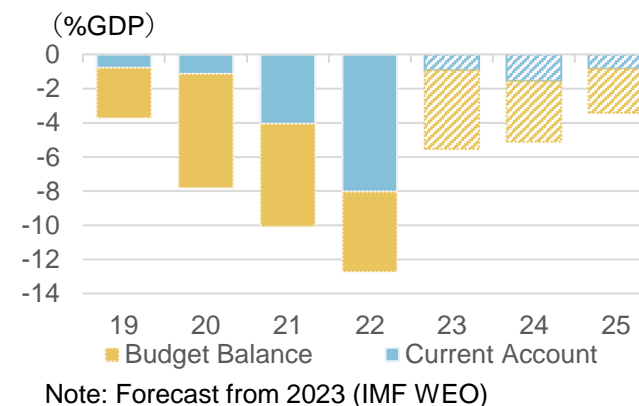
Inflation rate decline rapidly



Real wage growth turned to positive



Twin deficit will narrow but persist



RON: FX Risk is not zero

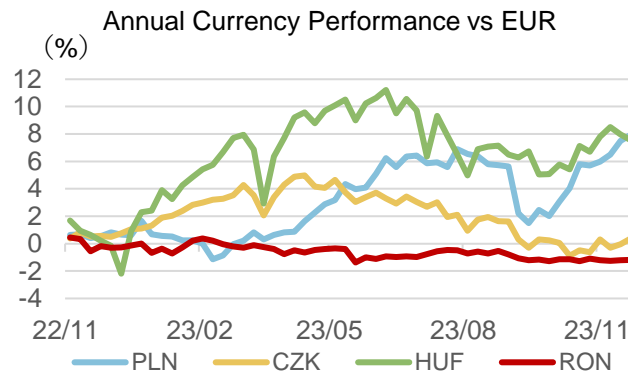
Key issues for Romanian Leu

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 lei volatility to increase.

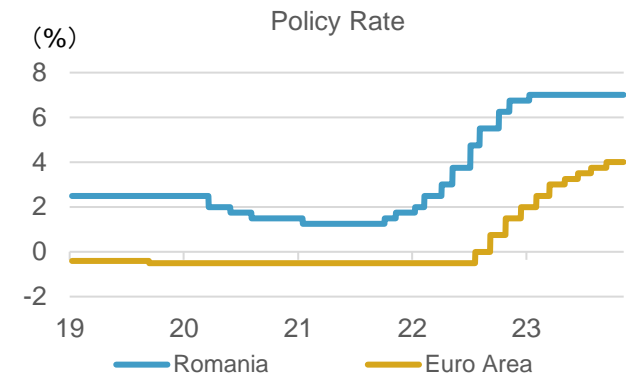
Currencies strictly anchored to EUR

	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

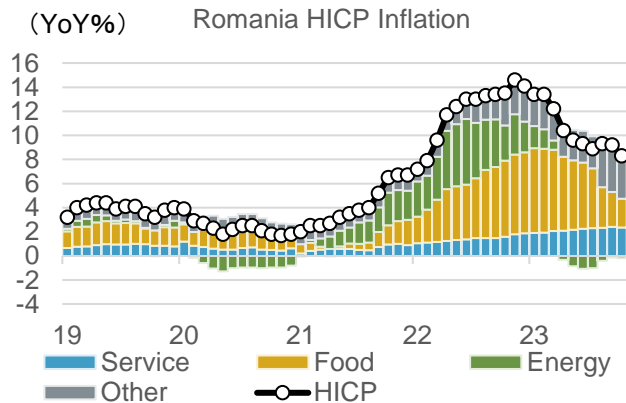
EURRON is moving in a tight range



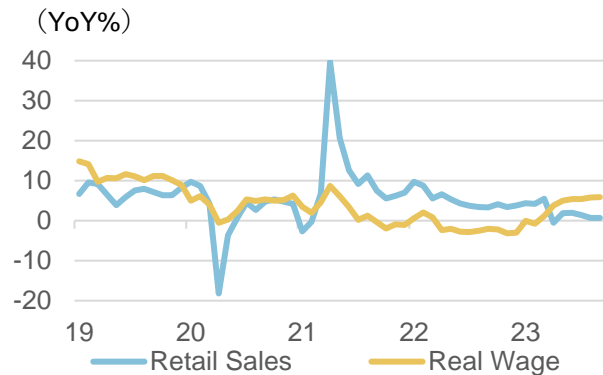
NBH will keep rate differential wide



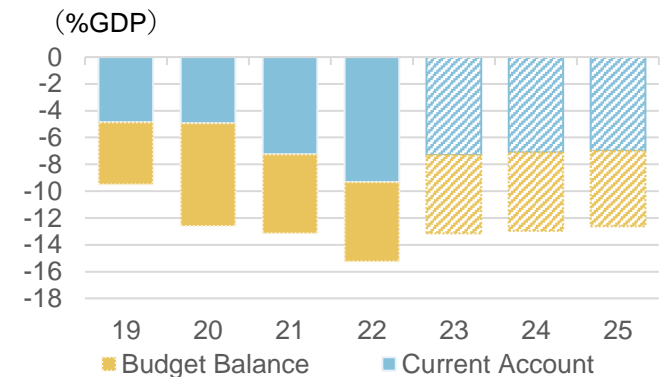
Inflation is decreasing but sticky



Consumption growth remain subdued



Twin deficits are huge



Note: Forecast from 2023 (IMF WEO)

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