New Europe Weekly

26-30 January 2009

Investment research

Key events in the coming week

- The Polish central bank (NBP) is likely to continue its monetary easing. In line with consensus, we expect the NBP to cut the key policy rate to 4.50% on Tuesday, cf. page 3.
- We expect Polish Q4 GDP growth to slow to 2.0% y/y, down from 6.5% y/y in Q3, cf. page 3.
- Russian central bank (CBR) sticks to managed float exchange rate system but widens corridor. Read more on page 5.
- South African inflation continues to decelerate. We expect the December CPIX figure to drop to 11.4% y/y, down from 12.1% y/y in November, cf. page 6.

Macro and monetary indicators, Russia 2009-10

		2006	2007	2008*	2009*	2010*
Macro indicators						
GDP, av. for the period	% y/y	7.4	8.1	6.1	-3.0	0.0
GDP, nominal	USD bn	1,001	1,310	1,609	1,154	1,151
Fixed investment	% y/y	13.7	21.1	9.0	-5.0	-1.0
Household consumption	% y/y	11.3	13.1	10.5	-2.0	2.0
Industrial production	% y/y	6.3	6.3	2.0	-7.0	1.0
Exports	USD bn	304	354	453	310	343
Imports	USD bn	164	223	289	260	244
C/A balance, ann. total	% of GDP	9.4	5.8	5.0	-2.0	1.8
Fiscal balance, ann total	% of GDP	7.4	5.4	6.5	-8.5	-7.1
Monetary indicators						
Fx-reserves, year-end	USD bn	304	478	438	280	215
Inflation, year-end	% y/y	9.0	11.9	13.5	12.5	10.0
USD/RUB	Year-end	26.3	24.6	30.5	39.0	43.0
EUR/RUB	Year-end	34.7	35.9	41.2	50.0	55.0
Urals oil, av. for the period	USD per bbl	60	76	89	54	69

Sources: IMF, Reuters EcoWin, CBR, Danske Bank Research,
** Projections*

Russian GDP to drop 3% in 2009

New macro forecast: We downgrade our growth forecasts for Russia for 2009-10 on the back of the recent deterioration in the economic and financial situation there. We lower our 2009 GDP growth forecast to -3.0% from -1.0%, and keep our zero growth projection for 2010. Inflation should decline only gradually.

A combination of lower oil prices and the escalation of the credit crunch in Q4 08 have accelerated capital outflows in the midst of financial de-leveraging. This has had a markedly negative impact on the economic and financial environment in Russia over the past couple of quarters.

We expect domestic demand to decline in 2009, led by lower consumption and investment. Industrial production is expected to decline 11% y/y in December and this should contribute to weaker labour market conditions - higher unemployment and declining wage pressure.

We expect exports to decline by more than 30% in 2009 – based on an average price for Ural oil of USD54/barrel in 2009. Imports are expected to decline 10% due to lower domestic demand. Public finances are likely to deteriorate and the budget should turn negative during 2009. We project the fiscal balance to average -8.5% of GDP in 2009 as the economy heads into recession.

Financial conditions have tightened significantly and are visible in higher interest rates and a declining money supply. The rouble has weakened sharply in recent months, and we believe more is to come due to declining external balances. Data shows that FX reserves are declining rapidly, increasing the pressure for a weaker rouble. The currency could drop by another 20% against the basket, with further downside risks if oil prices do not improve.

Danske Bank

Calendar – week 5

EMEA Data and Events in Week5

Monday, January 26, 2009				Period	Danske Bank	Consensus	Previous
RUB	-	Industrial production	y/y	Dec	-11.0%	-10.0%	-8.7%
HUF	9:00	Retail trade	y/y	Nov	-4.0%	-2.2%	-1.4%
CZK	9:00	Business confidence	Index	Jan			-6.4
CZK	9:00	Consumer confidence	Index	Jan			-26.3
PLN	10:00	Retail sales	y/y	Dec	2.0%	5.5%	2.7%
PLN	10:00	Unemployment	%	Dec	9.5%	9.4%	9.1%

Tuesday, January 27, 2009				Period	Danske Bank	Consensus	Previous
PLN	**-**	**Monetary Policy Council meets**			**4.50%**	**4.50%**	**5.00%**
LTL	**10:00**	**GDP**	**y/y**	**4th quarter**	**0.0%**		**2.9%**
LTL	10:00	Retail trade	y/y	Dec	-7.6%		-11.7%

Wednesday, January 28, 2009				Period	Danske Bank	Consensus	Previous
RUB	-	Unemployment	%	Dec	7.1%	7.0%	6.6%
RUB	-	PPI	y/y	Dec	-1.8%	-1.5%	4.2%
RUB	-	Real wages	y/y	Dec	3.0%	3.2%	7.2%
RUB	-	Retail sales	y/y	Dec	3.2%	4.5%	8.0%
SKK	9:00	Producer prices	y/y	Dec			6.7%
ZAR	**10:30**	**CPIX (metro&urban)**	**y/y**	**Dec**	**11.4%**	**10.7%**	**12.1%**
ZAR	10:30	CPI (core rate)	y/y	Dec		10.6%	12.6%

Thursday, January 29, 2009				Period	Danske Bank	Consensus	Previous
PLN	**10:00**	**Gross domestic product**	**y/y**	**4th quarter**	**2.0%**	**3.3%**	**6.5%**
ZAR	10:30	Producer prices	y/y	Dec	12.2%	12.0%	12.6%

Friday, January 30, 2009				Period	Danske Bank	Consensus	Previous
ZAR	7:00	Private sector credit	y/y	Dec		15.50%	15.30%
EEK	8:00	Retail trade	y/y	Dec	-13.6%		-9.0%
HUF	9:00	Unemployment	y/y	Dec			7.8%
HUF	9:00	Producer prices	y/y	Dec	6.3%	6.4%	7.1%
LVL	12:00	Retail trade	y/y	Dec	19.7%		-15.1%
ZAR	13:00	Trade balance	bn. ZAR	Dec	-4.5		-12.2
TRY	16:00	Trade balance	bn. USD	Dec	-2.9	-3.7	-2.7

The editors do not guarantee the accurateness of figures, hours or dates stated above
Note that all releases are CET.

Danske Bank

CEE

Poor economic performance triggers another NBP rate cut

Poland

- We expect the week to bring more bad news on the Polish economy. On Thursday we will get numbers for GDP growth in Q4 08. The indications from Polish industrial production, retail sales and exports indicate a sharp slowdown in economic activity. Hence, we expect GDP growth to have slowed to 2.0% y/y in Q4 from 6.5% y/y in Q3. Despite the fact that consensus expects GDP to have grown 3% y/y, we see mostly downside risks to our 2% forecast. Furthermore, we think it likely that GDP growth will turn negative in Q1 09. Therefore, for now we maintain our view that GDP will drop by 0.5% in 2009.
- A negative surprise on the Q4 GDP numbers is likely to put further pressure on the Polish zloty, which has already taken a significant beating. Despite the fact that the zloty no longer can be said to be fundamentally overvalued, we continue to see risks of further weakening. Therefore, we are also likely to change our zloty forecast in the coming weeks.
- We expect the Polish central bank to ease monetary policy further when its Monetary Policy Council meets next week. Hence, the sharp slowdown in growth and the clear downward trend in inflation keep the door open for a 50bp rate cut to 4.50%. However, we would not rule out an even more aggressively cut and we continue to see downside risks to rates relative to market expectations.

Czech Republic

- The Czech economy is deteriorating on all fronts. The evidence is not only coming from the supply side of the economy (industrial production was down by 17.4% y/y in November), but, in addition, the latest retail sales figures (-6.3% y/y in November vs October's -3.3% y/y) prove that Czech consumer spending is also taking a beating. This confirms our expectations that GDP growth this year will very likely be negative.
- The first member of the Czech central bank (CNB) to admit that the growth of the Czech economy could be negative this year was Vice-Governor Miroslav Singer. He said, "There could be negative growth in the first half of the year and then the question is whether the second half will reverse it or not".
- It is clear that the CNB is now more or less sure that GDP growth this year will be worse than its negative scenario forecasted in the latest inflation report from October, which saw 2009 GDP growth at 0.5%. This, together with the expectation of faster decelerating inflation, creates room for fairly aggressive monetary easing. Regarding the koruna's recent weakness, Mr. Singer said "the crown is somewhere where it is not only making no problems for the economy, but it helps it a bit without endangering the inflation target dramatically".

Baltic States

Baltic consumers are struggling to make ends meet

Estonia

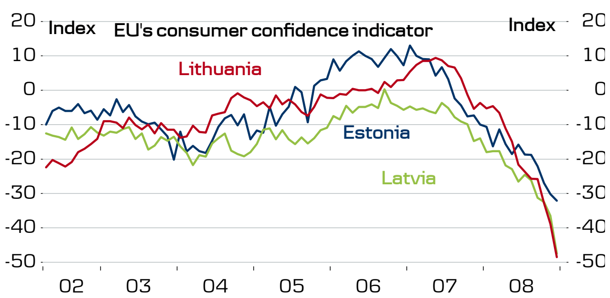
- The Estonia consumer confidence indicator showed a slight recovery in January from a record low of -32 in December. However, it is too early to draw any conclusion about a sustainable improvement in consumer confidence and our expectations regarding private consumption remain negative. We generally agree with the European Commission's recently published forecast for the Estonian economy and expect GDP to drop by more than 4% y/y in 2009 - mostly due to weak domestic demand
- The good news is that inflation pressures have eased and inflation expectations have declined as well; a decelerating inflation rate positively contributes to consumer confidence indicators. We expect retail trade to slump further, to -13.6% y/y in December from -9.0% y/y in November. Some improvement could be visible in January, mainly based on a positive base effect and further corrections in consumer prices.

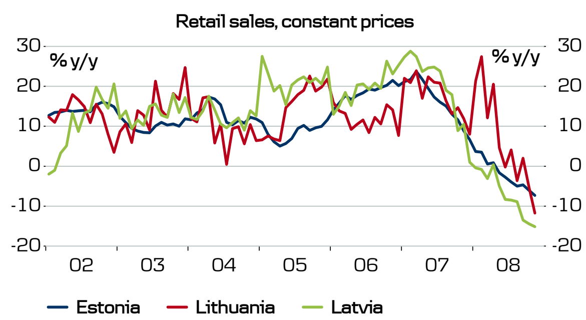
Lithuania

- Retail trade developments in Lithuania now follow the trends seen in other Baltic countries. Hence, we expect retail trade output to have dropped by 7.6% y/y in December from a decline of almost 12% y/y in November. However, a more significant deterioration is expected in 2009 due to higher indirect taxes and more pessimistic expectations regarding future income growth.
- The Lithuanian economy is slowing very sharply; we now expect GDP growth to have declined to 0% y/y during Q4 08 from 2.9% y/y in Q3, and most risks to our forecast are on the downside. The European Commission expected GDP growth to turn negative already in the last quarter of 2008.

Latvia

- Latvian retail trade data since the end of 2007 has shown a remarkable deterioration and to date there has been no improvement; we expect retail sales to have dropped 19.7% y/y in December from -15.1% in November. We do not expect any sustainable improvement in the coming months, but a positive base effect could help the year-on-year growth rates slightly.





Source: Ecowin, Reuters

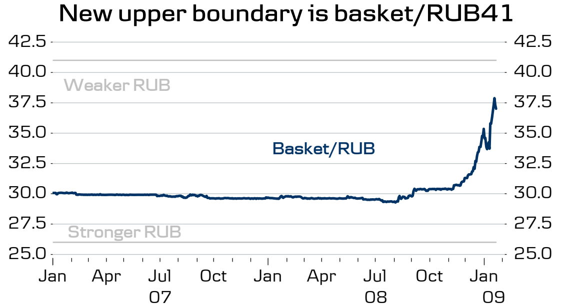
CIS

CBR sticks to managed float but widens corridor

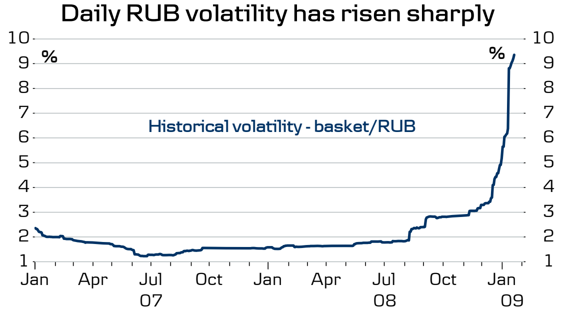
Russia

- Russian central bank Chairman Ignatiev said yesterday that the Russian central bank (CBR) is sticking to the managed float exchange rate system. According to the CBR, the new upper boundary is basket/RUB41 – 10% higher than yesterday's level of around basket/RUB37. Some watchers had been speculating that the CBR would announce a more significant change in FX policy, such as a move to a free float.
- **Background:** Since the beginning of December the CBR has accelerated the widening of the basket/RUB trading band, and this has led to a significant weakening of the rouble against the bi-currency basket (55% USD and 45% EUR) and to a noticeable rise in the daily basket/RUB. The adjustment in the Russian FX rate reflects lower oil prices and the escalation of the credit crunch during Q4 08. These factors have led to a reversal of capital flows, which have turned net negative and drained FX reserves by more than 33% in just five months.
- Going forward, the CBR wants to retain some control of the rouble even though Mr Ignatiev announced a readiness to accept a rouble 10% weaker than the basket – going to basket/RUB 41. Market participants are likely to try to test the new upper boundary in the coming weeks, which could create more volatility. Even though the CBR has managed to stop the weakening of the rouble in recent days, pressure for a weaker currency is still strong. A weekly USD30bn drop in FX reserves is not sustainable for long.
- The outlook for the rouble remains bleak, and a weak balance of payments outlook also calls for a weaker Russian currency. The question is, what happens when basket/RUB reaches RUB41, which we think is highly likely, and FX reserves continue to plunge on more capital flight? Then the CBR will face the same situation as now, and it may have to widen the corridor further as it searches for the 'equilibrium' rate and drains FX reserves. The CBR said that it may reconsider the basket boundary (RUB41) if oil falls to USD30/barrel – and is therefore not completely ruling out more rouble weakening. We are concerned about the pace of the decline in FX reserves, which would most likely be slowed if the CBR were to move towards a freely floating currency. Eventually there may be a free float with an inflation-targeting policy; we believe the CBR may find it useful to speed up the adoption of such a regime.
- We still see a lot of downside for the rouble over the coming three-six months, even beyond the RUB41 basket/RUB level. This new upper boundary draws attention to Kazakhstan, where expectations are rising that the new central bank governor will announce a similar move. **Uneasy CIS markets may cause a negative spill-over effect into CEE FX markets in the coming weeks**.

New upper boundary is basket/RUB41



Daily RUB volatility has risen sharply



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Source: Ecowin, Reuters

EMEA

South African inflation in the spotlight

Turkey

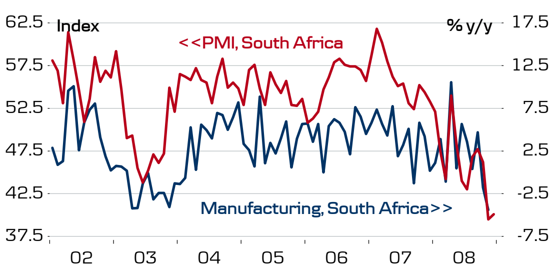
- On Friday, data on Turkish trade in December will be released. It is our expectation that the trade balance has worsened from a deficit of USD2.7bn in November to USD2.9bn in December. Although declining oil prices and a slowdown in domestic demand are likely to have a positive impact on the trade balance, Turkish exports are being hurt by the global credit crisis.

South Africa

- Next week is busy in terms of economic numbers, with inflation being one of the most important items on the agenda. A slowdown in domestic demand and the sharp drop in world oil prices have eased inflationary pressures in the South African economy and we think December's inflation figure will very likely confirm this trend. We expect December CPIX inflation to drop to 11.4% y/y from November's 12.1%. Consensus expects an even greater drop to 10.7% y/y. The actual figure will be particularly important as it should give us a hint about the size of the next rate cut from the South African central bank (SARB).
- We have no doubt that the SARB will ease monetary policy significantly this year. The South African economic outlook is deteriorating markedly and the global economic downturn, accompanied by softening global demand, has resulted in a plunge in commodity prices including those of metals, South Africa's most important exports. This strong drop in exports, combined with frozen consumer spending - due to high interest rates and high indebtedness of South African households, means that negative GDP numbers are just around the corner. Following the extremely weak Q3 08 GDP numbers (real GDP was up just 0.2% on an annualised, seasonally adjusted basis) we will very likely see a further deterioration in GDP growth in Q4, with negative numbers being very possible. This means that there will be strong pressure on the SARB to ease monetary conditions in order to stimulate the economy.

TRY is very sensitive to all news

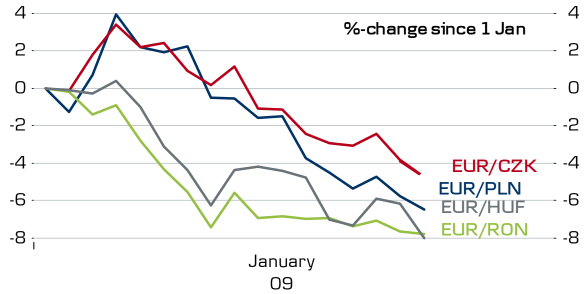
SA economy slowing dramatically



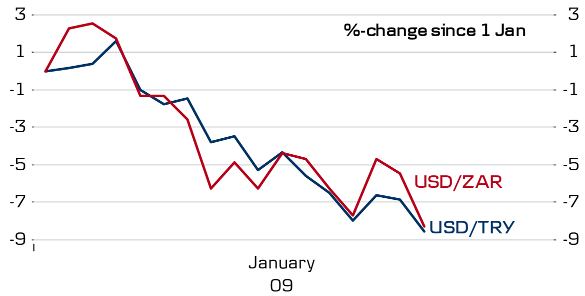
Source: Ecowin, Reuters

FX update

CEE currencies under strong pressure



But MEA currencies suffers as well



Source: Ecowin, Reuters – updated 23-January 2009

Russian devaluation trigger sell-off in CEE FX

CEE

Yesterday's announcement by the Russian central bank to allow for a further 10% weakening of the Rouble against the basket has triggered a wider sell-off in the CEE currencies and the situation is increasingly becoming worrisome for a number for CEE markets. Hence, EUR/PLN is now around 4.40 - that weakest level since 2004. RON and HUF are trading close to the weakest levels ever against the euro, while EUR/CZK now is above 28 - the weakest level since 2007.

Most CEE currencies are now trading at weaker levels, when comparing with our already quite bearish FX-forecasts (3M, 6M and 12M). However, this does not mean that we are now becoming bullish on the CEE currencies. Rather we fear that panic is setting in the CEE markets. The situation increasingly resembles the development amid the Asia-crisis that broke out in July 1997. We are seeing a "sudden stop" to the funding of the current account deficits in CEE – the main reason for the sharp sell-off in the CEE currencies. Next week will adjust our CEE FX forecast in a significantly more negative direction as we are taking into account an "Asian style" crisis in the CEE markets.

MEA

The TRY and the ZAR are reflecting the global risk sentiment. The ZAR could move on inflation numbers, due next week. Both currencies are likely to remain fragile going forward.

CIS

The RUB headed for new lows amid a record drop in FX reserves. The central bank announced that it will not, contrary to some observers' expectations, abandon the managed currency peg. Instead it is widening the basket/RUB trading corridor by a further 10%. We are looking for more rouble weakness in the coming weeks – see page 5.

This news draws attention to Kazakhstan, where expectations are rising that the new central bank governor will announce a similar move. Uneasy CIS markets may have a negative spill-over effect into CEE FX markets in the coming weeks.

Technical Trading Points – FX rates

23/01/2009 10:29

EURPLN 4.391

Technical View	Target	Stop	Time
SHORT	4.017	4.485	4W
Ratio	8.53%	2.13%	

Could short-term reach resistance level around 4.43-4.48

Technical Trend Model	
Daily	Trend higher toward Resistance: 4.4849
Weekly	Trend higher toward Resistance: 4.523
Monthly	Trading in exhausted zone

Support/Resistance			
Key levels	4.038	4.344	4.383
Resistance	4.484	4.929	
Support	4.316	3.870	3.592

RSI	D	W	M
14 period	73.16	71.86	69.95
Bollinger Bands	**D**	**W**	**M**
BANDWIDTH	11.41	33.79	
PERCENTAGE	0.95	0.97	

EURTRY 2.141

Technical View		Entry	Target	Stop	Time
RANGE					
Go Long	>	2.195	2.250	2.159	
Go Short	<	2.020	1.950	2.053	

Technical Trend Model	
Daily	Range: 2.1333 - 2.1799
Weekly	Range: 2.0218 - 2.2697
Monthly	Trend higher toward Resistance: 2.278

Support/Resistance			
Key levels	2.118	2.144	2.144
Resistance	2.283	2.412	2.706
Support	1.989	1.825	1.531

RSI	D	W	M
14 period	54.14	61.97	63.04
Bollinger Bands	**D**	**W**	**M**
BANDWIDTH	5.50	25.22	
PERCENTAGE	0.64	0.77	

EURHUF 286.80

Technical View		Entry	Target	Stop	Time
RANGE					
Go Long	>	288.50	298.5	283.00	
Go Short	<	279.50	270.00	284.00	

Technical Trend Model	
Daily	Range: 279.89 - 288.29
Weekly	Trading in exhausted zone
Monthly	Trend higher toward Resistance: 312.19

Support/Resistance			
Key levels	263.943	284.600	285.927
Resistance	291.203		
Support	277.573	271.597	257.967

RSI	D	W	M
14 period	67.76	70.42	67.62
Bollinger Bands	**D**	**W**	**M**
BANDWIDTH	11.26	19.96	
PERCENTAGE	0.88	0.96	

USDZAR 10.257

Technical View		Entry	Target	Stop	Time
RANGE			9.075	10.280	3W
Go Long	>	10.380	10.860	10.210	
Go Short	<	9.820	9.480	9.970	

Technical Trend Model	
Daily	Range: 9.9166 - 10.377
Weekly	Range: 9.2155 - 10.7906
Monthly	Range: 11.8722 - 11.8722

Support/Resistance			
Key levels	9.812	10.184	10.196
Resistance	10.409	11.293	12.775
Support	8.928	8.331	6.850

RSI	D	W	M
14 period	59.27	61.14	72.39
Bollinger Bands	**D**	**W**	**M**
BANDWIDTH	13.52	35.51	
PERCENTAGE	0.86	0.68	

EURCZK 28.145

Technical View	Target	Stop	Time
SHORT	26.950	28.800	3.W
Ratio	4.25%	2.33%	

Major resistance 28.250

Technical Trend Model	
Daily	Trend higher toward Resistance: 28.559
Weekly	Trading in exhausted zone
Monthly	Trading in exhausted zone

Support/Resistance			
Key levels	26.234	27.912	28.095
Resistance	28.332	30.430	
Support	27.591	25.493	24.136

RSI	D	W	M
14 period	72.82	73.61	59.13
Bollinger Bands	**D**	**W**	**M**
BANDWIDTH	8.85	17.82	
PERCENTAGE	1.01	1.07	

EURRON 4.336

Technical View		Entry	Target	Stop	Time
RANGE			4.137	4.353	
Go Long	>	4.355	4.400	4.285	
Go Short	<	4.250	4.000	4.319	

Technical Trend Model	
Daily	Range: 4.2585 - 4.3529
Weekly	Trading in exhausted zone
Monthly	Trading in exhausted zone

Support/Resistance			
Key levels	3.968	4.316	4.336
Resistance	4.587		
Support	4.278	4.154	3.844

RSI	D	W	M
14 period	74.04	80.65	73.52
Bollinger Bands	**D**	**W**	**M**
BANDWIDTH	11.57	22.29	
PERCENTAGE	0.79	1.05	

Source: Bloomberg and Technical Analysis, Danske Markets

FX forecasts

Currency Forecast, New Europe/EMEA						
Jan - 23 , 2009		EUR	USD	SEK	NOK	DKK
USD	Actual	1.28	-	838.5	707.4	580.8
	+3m	1.24	-	847	734	601
	+6m	1.24	-	815	710	602
	+12m	1.28	-	750	664	583
PLN	Actual	4.39	3.42	244.8	206.6	169.6
	+3m	4.19	3.38	251	217	178
	+6m	4.22	3.40	239	209	177
	+12m	4.25	3.32	226	200	176
HUF	Actual	286.4	223.2	3.76	3.17	2.60
	+3m	280	226	3.75	3.25	2.66
	+6m	285	230	3.54	3.09	2.62
	+12m	290	227	3.31	2.93	2.57
CZK	Actual	28.1	21.9	38.2	32.3	26.5
	+3m	27.7	22.3	37.9	32.9	26.9
	+6m	28.0	22.6	36.1	31.4	26.6
	+12m	28.2	22.0	34.0	30.1	26.5
EEK	Actual	15.6	12.2	68.8	58.0	47.64
	+3m	15.7	12.6	67.1	58.1	47.6
	+6m	15.7	12.6	64.5	56.2	47.7
	+12m	15.7	12.2	61.3	54.3	47.7
LVL	Actual	0.70	0.55	1528.4	1289.4	1058.6
	+3m	0.70	0.56	1500	1300	1064
	+6m	0.70	0.56	1443	1257	1066
	+12m	0.70	0.55	1371	1214	1066
LTL	Actual	3.45	2.69	311.6	262.9	215.8
	+3m	3.45	2.78	304	264	216
	+6m	3.45	2.78	293	255	216
	+12m	3.45	2.70	278	246	216
RON	Actual	4.33	3.38	248.2	209.4	171.9
	+3m	4.40	3.55	239	207	169
	+6m	4.50	3.63	224	196	166
	+12m	4.60	3.59	209	185	162
BGN	Actual	1.96	1.52	550.2	464.2	381.1
	+3m	1.96	1.58	537	465	381
	+6m	1.96	1.58	517	450	382
	+12m	1.96	1.53	491	435	382
TRY	Actual	2.15	1.67	501.6	423.2	347.4
	+3m	2.20	1.77	477	414	339
	+6m	2.25	1.81	449	391	332
	+12m	2.35	1.84	409	362	317
RUB	Actual	42.3	32.9	25.5	21.5	17.6
	+3m	46.4	37.4	22.6	19.6	16.1
	+6m	47.1	38.0	21.4	18.7	15.8
	+12m	49.9	39.0	19.2	17.0	14.9
UAH	Actual	10.08	7.86	106.7	90.1	73.9
	+3m	10.54	8.50	100	86	71
	+6m	11.16	9.00	91	79	67
	+12m	12.80	10.00	75	66	58
ZAR	Actual	13.18	10.27	81.7	68.9	56.6
	+3m	13.64	11.00	77	67	54.6
	+6m	13.95	11.25	72	63	53.5
	+12m	14.72	11.50	65	58	50.7

Source: Bloomberg and Danske research forecasts.

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New Europe/EMEA Research

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