FX Monthly Report–
PLN HUF CZK

February 2024

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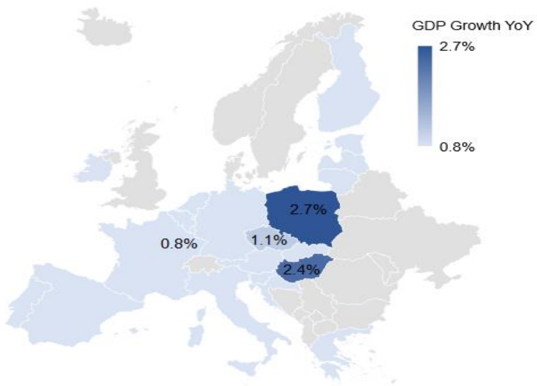
PLN HUF CZK

As attention focuses on major economies' central banks for signs of the onset of monetary easing, significant activity is unfolding in Central Europe, where policymakers have already begun to lower borrowing costs. These shifts in monetary policy are mirrored in currency fluctuations against the euro, with the Polish Zloty (PLN) emerging as the top performer against the euro over the past six weeks. Meanwhile, the Czech Koruna (CZK) and Hungarian Forint (HUF) have been among the weakest. With market forecasts anticipating the European Central Bank's initial interest rate reduction in June, what does the next month hold for the currencies of the Visegrad Group countries?

Predictions for GDP growth in 2024 in Poland, Czech Republic, Hungary, and the Eurozone

Polish economy is expected to be one of the fastest growing in the region.



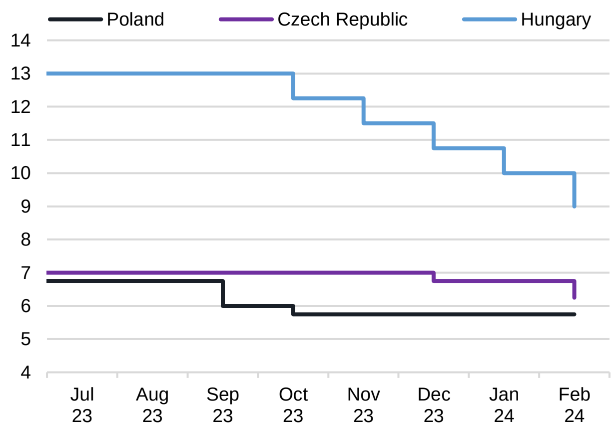
Source: European Commission

PLN

The past few months have seen a significant shift in Poland's political landscape. After eight years of governance, the populist Law and Justice party was unseated in the parliamentary elections of October 2023. The formation of a new government under the leadership of Donald Tusk, the former President of the European Council, has influenced investor confidence, raising expectations for improved relations with the European Union. Following the publication of the results, the Polish zloty appreciated by 1.8% against the euro, reaching 4.44, while Poland's blue-chip index, the WIG20, surged by nearly 5%. Since that time, data emerging from the Polish economy have consistently bolstered support for the zloty. The European Commission forecasts that the country's economy is poised to grow by 2.7% this year, potentially positioning it as a growth leader in the region. This expansion is expected to be primarily fuelled by an increase in consumption, driven by rising wages. In January, the average salary in the enterprise sector saw a 12.8% YoY increase, while inflation stood at 3.9% YoY. Consequently, the purchasing power of wages surged by almost 9.0% YoY, marking the highest increase in over 15 years. In 2024, the minimum wage rose by 18%, reaching almost €985/month, ranking it as the ninth highest in Europe. Surveys conducted by the Polish Central Statistical Office indicate that this increase has significantly influenced consumer sentiment and their propensity to make substantial purchases, thereby stimulating economic growth. In February, consumer confidence remained at -12.6, the highest level since March 2020, as households continue to observe improvements in their financial situations. The data fits into the scenario of a solid rebound in consumer demand, which dominates economists' forecasts. Since the October 2022 low (-45.5 points), consumer confidence has jumped by almost 33 points, more than ever before in such a short period of time.

Benchmark Interest Rates

While Poland was the first to start interest rate cuts in this monetary cycle, we do not expect further cuts until Q4 2024.



Source: National Bank of Poland, National Bank of Hungary, Czech National Bank

Inflation has shown a significant reduction at the beginning of 2024, with a decrease from 6.2% YoY in December to 3.9% in January. This reduction is primarily due to high base effects from the preceding year's price levels and the stabilization of energy costs, which have mitigated the overall increase in prices. Nonetheless, the potential reinstatement of a 5% VAT on foodstuffs, presently exempt until the end of March, and the complete removal of energy price caps, effective until the end of June, might make it harder for inflation to softer further in the second half of the year. The rise in nominal wages could also intensify demand pressures in the economy. In this context, the National Bank of Poland (NBP) has limited flexibility to cut interest rates. The policymakers surprised the markets in September with a 75bps cut despite the country's double-digit inflation rate. Since then, they came forward with one more 25bps cut. At their most recent meeting in February, the NBP maintained rates at 5.75%, adopting a more cautious approach. Considering the optimistic economic forecast as well as the potential for inflation to rise again, it is anticipated that rates will remain steady until at least the fourth quarter of 2024. With the NBP's decision to keep interest rates steady, Poland's stance will be particularly noticeable against the backdrop of major central banks anticipated to begin monetary loosening in the second half of 2024. We expect the zloty to maintain its strength, with EURPLN hovering around 4.3 in the coming months.

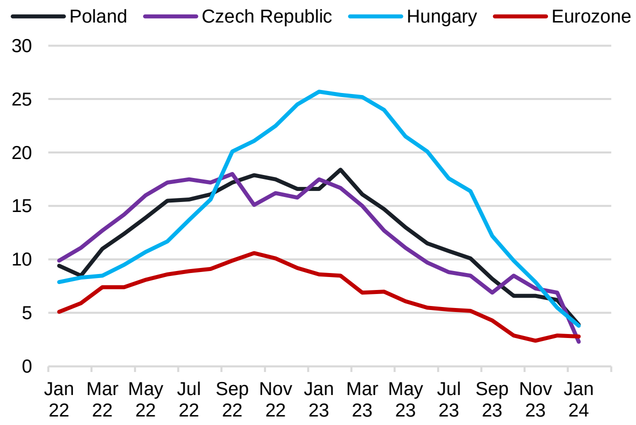
HUF

The historically robust partnership between Poland and Hungary, bolstered by collaboration between Victor Orban and the previous Polish government, began to falter following the outbreak of the war in Ukraine and diverging perspectives on Russia. With the emergence of the new Polish government aiming to revitalise relations with the EU, the gap between the two nations continued to widen. In December 2023, a disagreement arose over the approval of a €50 million EU aid package for Ukraine, sparking concerns that the bloc might take measures to weaken the Hungarian economy and suspend European funding to Budapest. Hungary's economy heavily relies on the single market, with intra-EU trade constituting 78% of the country's exports. Consequently, dwindling investor confidence led to a 3% depreciation of the forint against the euro in January, reaching levels last Observed in October. Although Viktor Orban ultimately acquiesced to pressure from fellow leaders, resulting in the approval of financial support for Ukraine in early February, the currency failed to rebound to its pre-dispute levels.

Ongoing political uncertainty surrounding Hungary's relationship with the EU continues to exert downward pressure on the forint, exacerbated by lacklustre economic indicators. According to the Hungarian Central Statistical Office, the economy contracted by 0.8% YoY in 2023, primarily due to declining investment and household consumption. This downturn is partly due to weakened demand within the country and reduced export activity to European markets, which has negatively impacted industrial output. This contraction in the manufacturing sector is highlighted by the drop in the Manufacturing Purchasing Managers' Index (PMI) to 49.9 in January from 52.8 in the preceding month. While household income has received a substantial boost from the 15% minimum wage hike in December (approx. €709) and the unemployment rate has remained low at 4.2%, high borrowing costs continue to discourage consumers from big purchases. The National Bank of Hungary (NBH) cut its key interest rate by less than expect to 10% in January, maintaining the pace of easing seen since October. Although inflation has been broad-based, with the headline CPI declining to 3.8% YoY last month, the forint's vulnerable position due to the dispute with the EU led the policymakers to adopt a more cautious approach. At their latest meeting in February, however, the NBH cut the interest further to 9%, leading the EURHUF pair to breach 390 level. As the markets anticipate another cut of this magnitude in March, we expect the EURHUF pair to appreciate further, approaching 395 level.

Headline CPI YoY

Inflation has softened significantly from the highs seen last year.



Source: National Bank of Poland, National Bank of Hungary, Czech National Bank

CZK

During the pandemic's global disruption, the Czech Republic was the first country to implement monetary tightening to address rising inflationary pressures. Starting in June 2021, the Czech National Bank (CHB) raised the benchmark rate to 7%, a level not seen since 1999. However, in contrast to regional counterparts Poland and Hungary, the CNB's easing measures were initiated later, with the first reduction of 25bps taking place in December 2023. At the beginning of February 2024, the policymakers exceeded expectations accelerating the scale of reductions to 0.5 percentage points, bringing the benchmark rate to 6.25% and leading the EURCZK pair to surge, reaching 25.4, a level not seen since March 2022. This adjustment was driven by a significant easing in inflation, with the CPI in January dropping from 6.9% YoY to 2.3% YoY, which falls within the CNB inflationary target range. Diminished inflationary pressures have granted policymakers room to stimulate an economy that has endured 6 quarters of stagnation, making it the only EU country whose economic output has not yet returned to pre-pandemic levels. Looking ahead, the potential for economic rebound in 2024 is supported by several positive indicators, including one of the EU's highest household saving rates at around 18%, which may boost consumption and investment in the environment of lower inflation and falling interest rates. Nevertheless, the Czech economy, remains vulnerable to external trade shocks, particularly in the light of its economic interdependencies with Germany, which is currently navigating through its own economic challenges. As economic growth remains muted, the CNB is set to continue with a dovish stance and implement another 50bps interest rate cut in March. In such an environment, we expect the koruna to depreciate further, bringing the EURCZK pair closer to 26.

Our Outlook

EURPLN

EURHUF

EURCZK

Source: Sucden Financial

Desk Comments

GBP

The main driver in FX continues to be the scaling back of rate cut expectations. At the start of the year, the market had 50bp of cuts fully priced in by June but has now scaled back to a 50% chance of the BOE cutting by 25bp. This is due to persistent price pressures. Service inflation and earnings continue to stoke inflation although Bailey acknowledged that inflation does not need to fall below its 2% target before policymakers back a rate cut.

The Bank of England (BoE) decided to keep the Bank Rate unchanged at 5.25% last month. The vote split indicated a continued split committee, as 6 members voted for an unchanged decision, 2 for a 25bp hike and 1 for a 25bp cut so it's not unreasonable to expect the pivot by end of Q2.

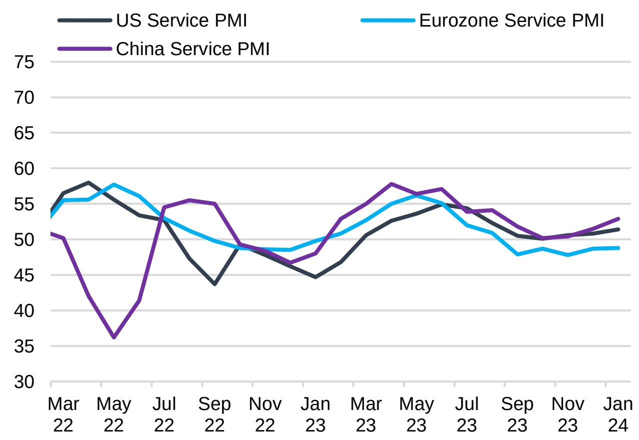
Another concern to reaching the 2% target rate is the UK housing market showing signs of building momentum again. This is in part due to the less restrictive rate outlook as buyers are entering the market again. It was also noted that Nationwide Building Society gave support to just 8,000 borrowers via the mortgage charter through December. The overall take up has been low partly because of low unemployment and strong earnings data. The average two- and five-year mortgage deals have also been on the decline after the initial spike, and we expect prices to remain resilient after they fell just 1.4% last year.

Geopolitical risk in the middle east may also increase price pressures. A British Chambers of Commerce survey showed UK exporters are experiencing higher shipping costs because of the attacks on cargo ships in the red sea.

The flow dynamic remains the same as last month. Both GBPUSD and EURGBP remain range bound. We still favour selling EURGBP rallies due to the divergence in PMI data in the UK compared to EU. Vols are realising at the lowest levels we've seen in years. Not seen these levels since end of 2021. Technical levels remain the same as last month. Break of 200 week moving average and 1.2800 resistance may lead to an increase in vol and an extended move higher.

Global Service PMIs Performance

The Eurozone diverges from other major economies.



Source: S&P Global

EUR

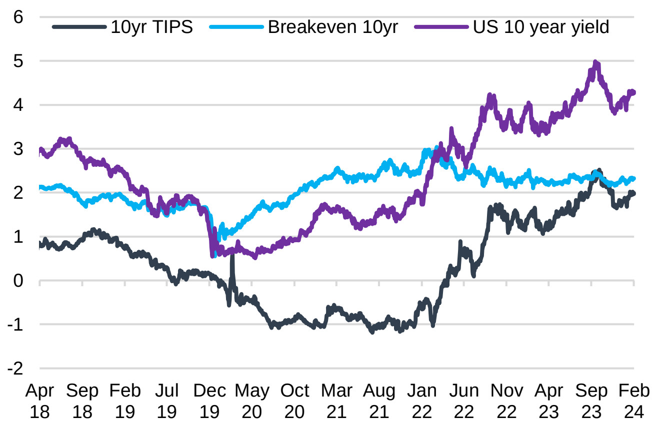
There has been substantial progress in reducing inflation in the euro area, which has been achieved without a technical recession. The stagnation in the final quarter of last year means the bloc avoided a recession as firmer growth in Italy and Spain was offset with weak data in Germany. The GDP in the region's biggest economy declined by 0.3%.

The economic growth divergence across the region shows the greater difficulty the ECB has to deal with than the FED and BOE. The fragmentation in the euro area's banking system means the pivot in rates is even more difficult to ascertain. Euro area inflation numbers are released this week in Spain, Italy, France, and Germany. We expect the headline numbers to fall further, with a rise in energy costs being offset by a decline from other areas namely food and services.

We expect EUR to continue to trade in a range with a large deviation from expectations in the headline data needed to start a new directional trend. JP morgan G7 vol indicator shows vols have declined from a high of 13.45 in 2022 to a current low of 6.6. As a result, we favour selling EUR gamma and delta vs EM to benefit from the yield differential in a low vol environment.

10yr TIPS vs 10yr Breakeven vs 10yr Yield

Breakeven yield is drifting higher as US nominal yield strengthens, rising back above 4.00%.



Source: Federal Reserve

USD

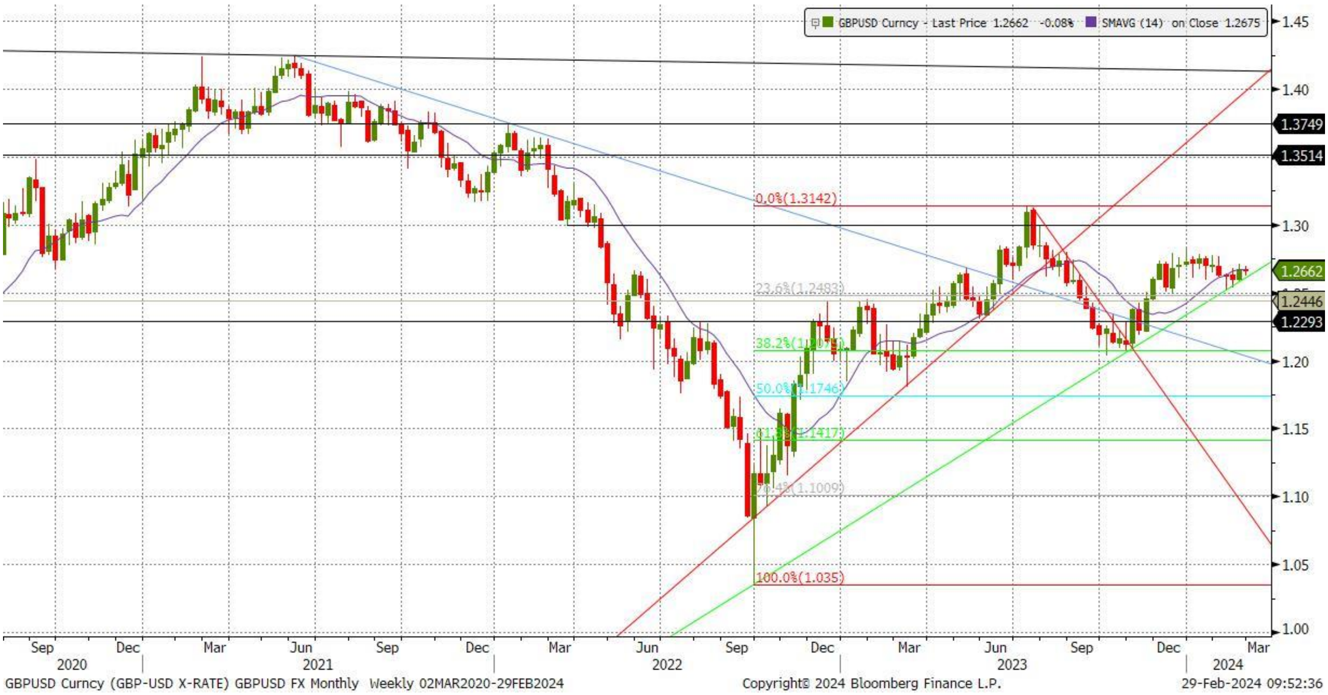
The US Dollar over the last month has been subdued with economic data adding some noise, but nothing more as USD strength on the back of markets scaling back rate expectations appear to have run its course.US economic data during Feb has been stronger than expected, while inflation also surprised to the upside in Feb. FOMC minutes showed most officials expressed caution against moving too quickly on rate cuts amid risks of persistent inflation. Market had a timid reaction as cautious stance was no surprise and already priced in. The USD OIS is now pricing 75 basis point cuts compared to about 135 Bp end of Jan and 165 Bp end 2023, we expect any further pull back on rates unlikely unless economic data persistently shows growth.

Our view from our last report remains unchanged, we believe the currently 75basis point priced in the market likely to be minimum scenario, with the Fed likely to deliver more cuts than currently expected by the markets. First cuts are expected in June / July this year which we are currently in agreement with, but as mentioned last month the desk believe when cuts do begin, they are likely to be more aggressive then the anticipated 25 basis points, a common occurrence when you look through history, a view reinforced this month given Feds continued cautious stance.

We expect the dollar to remain in a broad range next few months and then weaken towards end of Q2 against other Majors. USD's performance against EM will be determined on the magnitude of slowdown in the US at time monetary policy starts easing. In the short run dollar movements likely to be dictated by Equity markets and risk appetite. Recent positive risk appetite on the back of strong economic has taken equity markets to all-time highs and a reversal could see USD appreciate to the top of the current range very quickly.

Technical Analysis

GBPUSD



GBPUSD tested and failed to break the white Trend line and has continued consolidating in a small range and lacking direction. On the upside, a close above the 200-week moving average likely to lead to retest of 2023 highs at 1.3142, with a break above could see the cross target 2022 highs @ 1.3749. On the downside, a break below white trendline and 1.25 support level would likely lead to further declines to green trendline, a close below could pave the way for a move down to 1.18, with support beyond there coming at 1.1420 (61.8% fib)

EURUSD

EURUSD briefly tested 61.8% fib level and Red trend line but continues to trade in its recent range. We expect the market to continue consolidating with a breakout of the 2 Red trendlines indicating next direction. On the upside, a break above Red trendline/200day Ma could see market test highs from July @ 1.1276, with resistance beyond there coming at 1.1495/1.1500. On the downside, close below the triangle could see the retest 1.05 / 1.0448(lows from Sep), with a break below likely to lead to further declines to 1.02 (61.8% Fib).

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