

EMEA Daily

Review

- **Baltic worries have clearly moved to the top of the agenda in EMEA markets with devaluation fears escalating rapidly during the past week.** Concerns regarding a devaluation of the Latvian lat increased further yesterday after Latvian Prime Minister Dombrovskis in comments to local media ruled out a devaluation of the lat while going on to say that *if* a devaluation were to occur it would be of the order of 30% rather than 10-15%. **Devaluation concerns rose again when a government bond auction attracted no bids.**
- In an interview with CNBC **Mr. Dombroskis** said yesterday night that Latvia needed to reach an agreement with the IMF and EU quickly and that “fears of a domino effect in [the] region to a certain extent [are] justified”. Mr. Dombroskis also said he expected an announcement on progress with the IMF at the beginning or middle of next week.
- Turkish inflation continues to decline. We received further confirmation of this yesterday when CPI and PPI data for May were published. CPI declined to 5.2% y/y in May from 6.1% y/y – below our expectation of 5.5% y/y. Lower than expected Turkish inflation left the door open for further monetary easing by the country’s authorities in coming months.

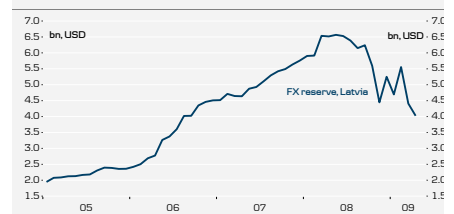
Preview

- With little macroeconomic data scheduled for release in the region today, markets are likely to continue to focus on the Latvian situation. We would focus especially on any hints by the country’s officials regarding a possible devaluation, and on news from Stockholm concerning whether the Swedish government and central bank comment on the situation in Latvia. Further, any news from the IMF, currently visiting in Riga, is likely to be very important for CEE markets. We think it worrying that neither the Swedish government nor the IMF have made any serious attempts to allay market concerns regarding a possible devaluation in Latvia.
- Today is an historic anniversary in Poland marking the 20th anniversary of the country’s first free elections. (See our overview of the past 20 years in Poland including its freedom and economic transition *here*).

Trading update

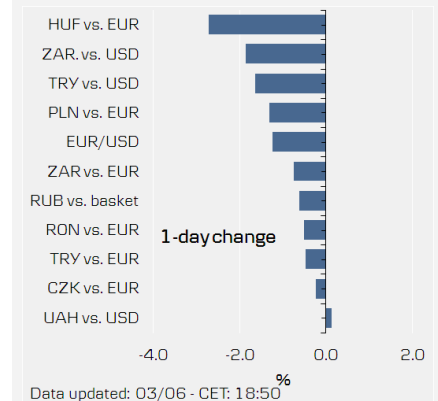
- Increasing concerns regarding a possible devaluation in Latvia yesterday spilled over into other countries in CEE. Although the direct link between the Baltic markets and others such as Poland, Hungary and Romania is very limited it is only natural that concerns over the situation in Baltic States triggers renewed concerns regarding the position in Central and Eastern Europe where many countries to a greater or lesser extent face problems similar to those in the Baltics. Those most at risk from negative spill-over effects are Latvia’s neighbours Estonia and Lithuania although we would expect contagion to affect countries in the region most like Latvia in terms of macroeconomic imbalances such as Romania and Bulgaria.
- **Given significantly increased event risk in the CEE we generally recommend exercising considerable caution in all CEE markets** and would expect both negative and positive news from Latvia to drive all CEE fixed income and FX markets in the coming days. In other words, don’t be surprised if further bad news from Latvia weakens the forint, leu and zloty yet further.

Running out of money?



Source: Danske Markets, World Bank

Latvian worries hit the forint



Data updated: 03/06 - CET: 18:50

Source: Reuters EcoWin and Danske Markets

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