

EMEA Daily

Review

- The event risk has risen sharply in the Baltic markets and we advise outmost caution.** Yesterday, the Swedish central bank Riksbanken said it will increase its currency reserve by SEK 100 bn through a loan from the Swedish debt agency. Investors seem to believe that this is a buffer to deal with potential problems arising from the Baltic crisis.
- Yesterday, Statistics **South Africa published inflation numbers for April**. Inflation **dropped only moderately to 8.4% y/y**, down from March's 8.5% y/y, confirming that inflation remains sticky despite the plunge in consumer demand and low petrol prices – see [comment](#).
- Yesterday, the **Polish central bank (NBP) announced it was keeping the key policy rate on hold at 3.75%**. Furthermore, the NBP decided to cut the reserve requirement to 3.0% in order to boost liquidity – see [comment](#).
- Data showed that average monthly gross wages in Lithuania increased by 1.9% y/y in Q1 09. **In general the wages trend is downward in the Baltics and Q1 figures are positive only due to the 6.4% y/y rise in public sector wages versus the 1.2% y/y decline in private sector wages.** In the coming quarters we expect a more pronounced adjustment due to the expected significant cut in both public and private sector wages, especially in H2 09.

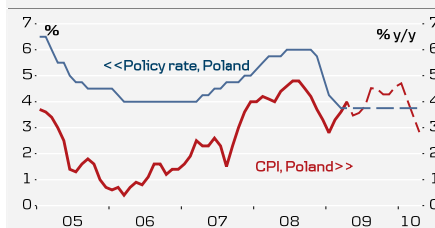
Preview

- The key event today will be the MPC meeting in South Africa. Although inflation in April came out higher than expected and is stubbornly high, concerns over the weakness of the South African economy are outweighing price worries, and the **SARB is likely to deliver yet another 100bp rate cut** to stimulate the struggling economy. This would bring the **key policy rate to 7.50%**.
- Lithuanian retail trade data due to be released on today.** The Consumer confidence indicator (CCI) calculated by the Lithuanian statistics office improved only marginally in April to -50 from -51 in March. However, European Commission CCI based on seasonally-adjusted data show a further decline in consumer confidence from -54 in March to -55 in April. Thus, we expect **retail trade to drop further by 31.6% y/y in April**.

Trading update

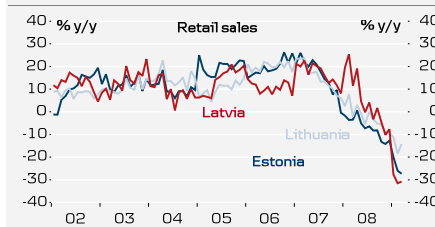
- With worries over the Baltic situation on the rise there is a significant risk of negative spill-over to other markets in CEE. Therefore we see clear downside risk on the CEE currencies and a risk of a sharp sell-off in the CEE fixed income markets in the coming days. We especially see value in buying USD/HUF, but potentially also USD/PLN on an escalation of the Baltic crisis.

Key policy rate on hold



Source: Reuters EcoWin and Danske Markets

Retail sales in Baltics plummet



Source: Reuters EcoWin

Calendar

Thursday, May 28, 2009				Period	Danske Bank	Consensus	Previous
ZAR	-	Monetary Policy Council Meeting	%		7.50%	7.75%	8.50%
HUF	9:00	Unemployment	%	Apr		10.0%	9.7%
LTL	10:00	GDP (2nd estimate)	y/y	1st quarter	-12.6%		-2.24%
LTL	10:00	Retail trade	y/y	Apr	-31.8%		-30.8%
ZAR	11:30	Producer prices	y/y	Apr	4.2%	4.0%	5.3%

Source: Danske Markets

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All EM research is available on Bloomberg DDEM

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