Morning Briefing: Hungarian Mortgage Plan Outcome Awaited

Thursday, 26 May 2011

Regional investors await details Thursday of a Hungarian plan to bring stability to the rocky market of mortgages denominated in foreign-currencies.

The Hungarian government and the Banking Association are expected to announce a plan to aid foreign-currency mortgage holders, whose debt burden has increased significantly with the strengthening of the Swiss franc against the forint.

The scheme is expected to include a fixing of the exchange rate of the franc at 180 against the forint for such mortgage holders. The government has said that any scheme should also encourage banks to boost lending to small and medium-size enterprises.

Rules for lifting an eviction moratorium and a reported prolongation of the financial sector tax for 2013 and 2014 will be eyed closely.

Hungary’s state debt management agency or AKK will hold a briefing about government financing in the first four months of 2011, with special highlight on the country’s foreign currency bond issues. Hungary issued euro-denominated, as well as dollar-denominated bonds in January through April, raising the sought after level of foreign currency bonds for 2011.

FOREX

Global risk aversion and worries over Greece will likely remain the driving force Thursday, with the recent weakening trend of regional currencies likely to continue.

Amid a slow news flow in most of the region, the currency markets will be focusing on the joint announcement by the Hungarian government and the banking sector on aiding household mortgage holders indebted in foreign currency.

The scheme won’t directly impact the forint’s exchange rate, but Hungarian households have significant exposure to foreign-denominated loans and the plan is meant to bolster confidence in the country’s economy and its assets.

The zloty and koruna will both trail regional developments, and neither is expected to correct for recent losses amid euro zone skittishness.

FIXED INCOME

HUNGARIAN BOND YIELDS – The three-year benchmark bond yield was 6.63% late Wednesday from 6.58% Tuesday afternoon. The five-year yield was 7.00% against 6.91%; and the 10-year was 7.16% compared with 7.10%.

POLISH BOND YIELDS – The average yield on two-year bonds was 5.05% late Wednesday from 5.03% late Tuesday; the 5-year at 5.61%, from 5.60%; the 10-year at 6.06%, from 6.05%.

CZECH BOND YIELD – The yield on the benchmark 10-year paper was at 3.89% late Wednesday from 3.92% late Tuesday.

Polish Treasury bonds may continue to weaken Thursday, but all will depend on possible comments coming from the Monetary Policy Council members, a local trader said. That’s because after robust April retail sales, which rose by 18.6%, the market may start to price in another rate increase in June.

Hungarian bonds remain dependant on the international mood amid renewed concerns over euro zone debt, one trader said, adding that details of the mortgage pact are unlikely to bring any further significant news to the market–therefore not likely to move bond yields.

STOCKS

In Warsaw, brokers said the market is clearly tired of the recent trend, trying to achieve some distance above 2800 support. “The index should climb toward 2900 and reach this level in June,” a CDM Pekao analyst says.

OTHER NEWS

POLAND: The Polish government will back the candidacy of French Finance Minister Christine Lagarde for managing director of the International Monetary Fund, Poland’s Finance Minister Jan Vincent-Rostowski said, according to state-owned newswire PAP.

POLAND: EFG Eurobank Ergasias SA (EUROB.AT), Greece’s second-largest lender by assets, Wednesday reported a surprise EUR74 million first-quarter net profit, buoyed by the recent sale of its Polish operations.

CZECH REPUBLIC: Creditors and shareholders of insolvent Czech lottery company Sazka AS–the first corporate default on euro bonds this year–meet Thursday to either save or forsake the one time cash cow.

CZECH REPUBLIC: The Czech government approved a plan to raise value added taxes, or VAT, as expected to finance the overhaul of the state-run pension system, the CTK news agency reported Wednesday.

SLOVAKIA: Slovakia is ready to participate in the collective European effort to bail out Greece, but if Athens doesn’t fulfill its pledges for deeper fiscal and social reforms, a default would be in order, Slovakia’s Prime Minister Iveta Raidcova said Wednesday.

HUNGARY: Hungary on Wednesday agreed to support Japan in its bid for a free trade agreement with the European Union, Kyodo News reported Wednesday, citing Japanese officials.

HUNGARY: The Hungarian government won’t need to make a mandatory public offer for all outstanding MOL (MOL.BU) shares even if its stake in the Hungarian oil and gas company rises above 25%, Development Minister Tamas Fellegi said Wednesday, Hungarian state news agency reported.

ROMANIA: Romania’s consolidated budget posted a surplus of 829 million lei (EUR200.1 million) in April, fueled by higher revenue, the Finance Ministry said Wednesday, news agency Mediafax reported.

BULGARIA: Bulgarian Prime Minister Boyko Borisov distanced himself Wednesday from the far-right Ataka party, a key supporter, following its involvement in two anti-Muslim incidents in recent days. Borisov even suggested that early elections “cannot be ruled out” if Ataka decided to withdraw its support for his minority right-wing government.

(Margit Feher & Veronika Gulyas in Budapest, Malgorzata Halaba in Warsaw contributed to the briefing.)

(The Wall Street Journal)