The Investment Institute
by UniCredit

Coffee Break

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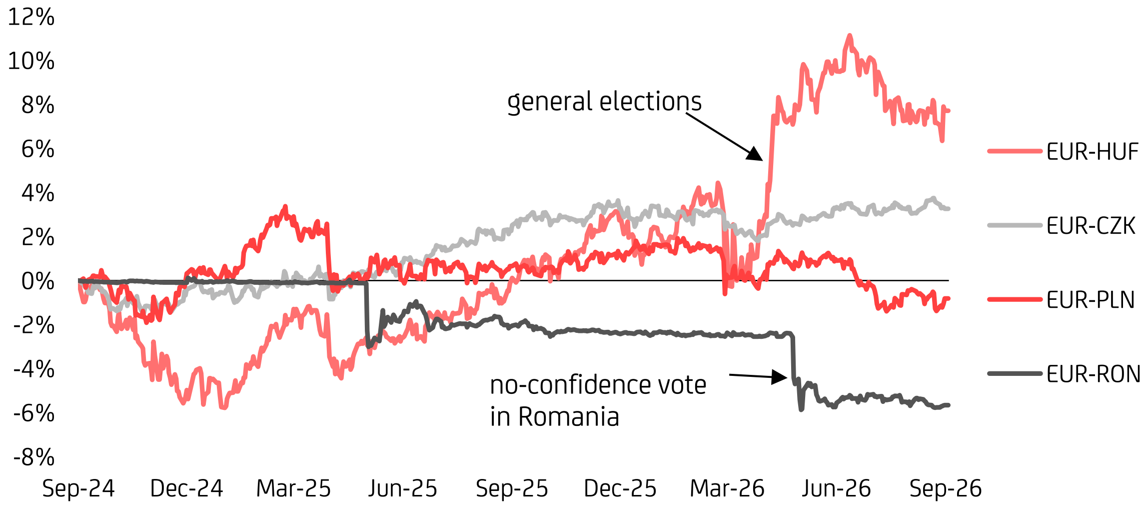
Implications for CEE FX of rising core market yields

8 September 2026

Rising core market yields, higher energy prices and deteriorating regional geopolitical risk perception have added to CEE FX volatility. The CZK remains best protected by a hawkish central bank, political risks may drive the PLN, fiscal plans and a cautious NBH could curb HUF volatility, while the persistence of the EUR-RON trading band hinges on political developments.

CEE CURRENCIES TWO-YEAR RELATIVE PERFORMANCE VERSUS THE EURO

A POSITIVE VALUE MARKS CEE FX APPRECIATION



Source: LSEG, The Investment Institute by UniCredit
Note: The chart was last updated on 7 September

THE CONTEXT

Rising inflation risks following a renewed surge in energy prices, together with fiscal concerns, have fuelled a global bond market sell-off that has spread to CEE markets, lifting yields across all tenors. Although a weaker USD tends to support CEE currencies against the euro, most CEE currencies have seen increased selling pressure over the past few weeks, showing greater sensitivity to the surge in European gas prices and heightened geopolitical tensions, including increased hybrid threats. This note summarises the updates to our CEE rates and FX forecasts following the latest revisions to our Fed and ECB policy-rate forecasts (see the latest issue of *The Bottom Line*).

THE DATA

EUR-HUF has been the best-performing CEE currency pair this year, even after the correction since mid-June, which was triggered by a narrowing of the HUF's carry advantage as the NBH began cutting rates while core market curves moved higher. Adjustments to crowded, leveraged long-HUF positions likely added to the currency's volatility as global risk sentiment soured. Among the three free-floating CEE currencies, the **CZK** has been the most stable against the EUR, protected by the CNB's initial rate hike in June, its sustained hawkish bias and the lack of fiscal and external imbalances. **EUR-PLN** ended a 15-month period of stability amid rising fiscal risks and heightened regional geopolitical concerns. In the meantime, the NBR has kept **EUR-RON** within a narrow band close to 5.25, which has been holding since the successful vote of no confidence in early May left Romania with an interim government.

OUR VIEW

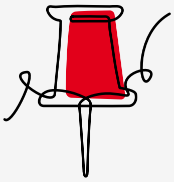
External factors will likely remain a source of volatility for CEE currencies amid weaker global risk sentiment ahead of US midterm elections and elevated energy prices. We expect CEE central banks to turn more cautious, which may offer some protection to currencies in the region. Political risks will be in focus in Poland and Romania, while policy adjustments in preparation for euro adoption may drive markets in Hungary.

EUR-HUF may remain exposed to higher volatility because leveraged positioning remains heavy. However, a less dovish NBH stance may help prevent further HUF weakness, consistent with plans to lower the official inflation target towards 2% in two stages as part of the euro adoption preparations. The government's medium-term fiscal plans, due in October, will face scrutiny from markets and rating agencies. They will need to set out a credible path for deficit reduction from 7.5% of GDP in 2026 to below 3% by 2030, thereby supporting plans for euro adoption. Based on the benign inflation outlook, we still see room for rate cuts in 4Q from the current 5.50% if fiscal plans support investor confidence. We expect **EUR-HUF** to trade in the 355-365 range over the next 12 months, as the NBH will have limited room to tolerate FX weakness with a reduced inflation target.

In Poland, the recent increase in energy prices limits the NBP's scope to cut rates from the current 3.75%. We expect **EUR-PLN** to remain stable around 4.30 until mid-2027 and political risks to lift the cross in the run up to general elections in autumn 2027. The potential outcomes for a ruling coalition look highly uncertain following the split of the conservative PiS party this year and the strengthening of radical right parties. The threat of a Eurosceptic ruling coalition represents a downside risk, while fiscal consolidation will be inevitable whoever wins the elections, as the deficit is expected to remain above 7% of GDP this year and next.

Political risks in Romania will also warrant close attention. Upcoming rating reviews and the 2027 budgeting process increase pressure to end the political deadlock. In the absence of parliamentary majority support for continuing fiscal consolidation, Romania may risk losing its investment grade status. With no rate cuts in sight before 2027, the NBR is likely to allow **EUR-RON** to move more freely within the 5.20-5.30 trading band, which we expect to prevail for the remainder of the year, although a credit-rating downgrade could prompt an overshoot.

CNB rate hikes and the limited fiscal loosening seen so far will likely keep **EUR-CZK** broadly stable in the 24.2-24.4 range this year and next, although moderate downside fiscal risks remain. We expect the CNB to deliver at least one additional 25bp hike this year, taking the policy rate to 4.0% and making it the only central bank in the region to follow the ECB's tightening moves.



OTHER THINGS TO NOTE

Federal government closes ranks after AfD surge

Overnight, no coalition breakthrough emerged in Saxony-Anhalt, but an AfD minority government remains a possibility. The BSW has continued to rule out a formal coalition, while keeping the door open for issue-by-issue cooperation. In Berlin, Chancellor Friedrich Merz and Finance Minister Lars Klingbeil have been closing ranks by separating the *need* for reform from the *politics* of reform. The federal coalition intends to stick to its core reform agenda: the substance of pension, labour-market and bureaucracy reforms remain on the table, but probably with more emphasis on social cushioning and a less confrontational political tone. (A. Rees)

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