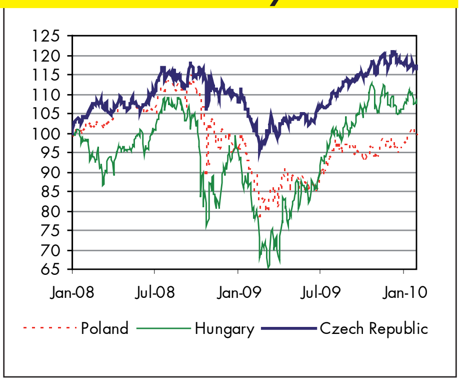
CEE Weekly
Bond Markets Outlook

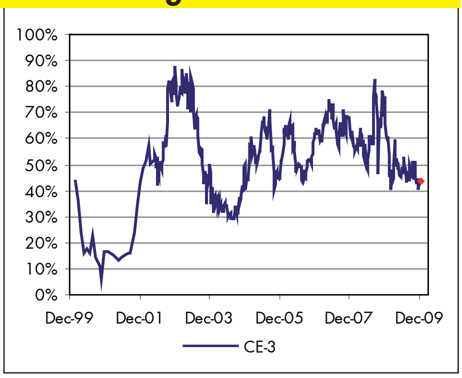
Issue 4/2010 | *29 January 2010*

Performance of 7-10y bond indices



Source: EFFAS, Bloomberg, Raiffeisen RESEARCH

RZB Convergence Index



Composite (GDP-weighted) index for PL, HU, CZ & SK
Source: Thomson Reuters, Raiffeisen RESEARCH

Recommendations (1-month horizon)

Neutral PLN bonds; Sell HUF bonds; Buy CZK bonds; Buy RON bonds

Highlights

- ***Poland*** – The worsening global market sentiment and our estimates for the EUR/PLN exchange rate by the end of Q1 led us to stick to our "neutral" recommendation for Polish bonds.
- ***Hungary*** – The successful USD-bond issuance means that investors still have trust in countries with elevated debt levels – such as Hungary and Greece – and are seeking out their riskier assets with high risk premia. Nevertheless, we expect the current positive sentiment towards Hungary to deteriorate towards the second half of 2010. This will occur at the same time as the worsening of the country's public finances, as we expect the 3.8% deficit target for this year to be drastically overshot.
- ***Czech Republic*** – Next Thursday the Czech National Bank will hold its regular monetary policy board meeting. Although no change of the key rate is expected, the meeting will still be in the center of market interest. The statement after the meeting could be important as some of the board members started to speak about future interest rate hikes in recent weeks.

Forecast

	current	Mar-10	Jun-10	Sep-10
Poland				
PLN	4.06	4.20	3.80	3.75
1m-rate	3.4	3.6	3.6	3.8
5y bond	5.6	5.7	5.7	5.9
10y bond	6.1	6.5	6.2	6.3
Hungary				
HUF	271.6	285.0	275.0	275.0
1m-rate	6.0	5.9	5.8	5.7
5y bond	7.1	6.8	6.6	6.4
10y bond	7.4	7.1	6.9	6.6
Czech Rep.				
CZK	26.2	25.8	25.4	24.8
1m-rate	1.0	1.2	1.1	1.3
5y bond	3.3	3.3	3.3	3.7
10y bond	4.4	4.2	4.1	4.4
Romania				
RON	4.1	4.3	4.3	4.2
1m-rate	7.8	7.1	6.4	6.3
5y bond	7.8	7.9	7.4	7.2
10y bond	7.5	7.6	7.3	7.2
USD	1.40	1.45	1.50	1.45

Currencies per 1 EUR
Source: Thomson Reuters. Raiffeisen RESEARCH

Key upcoming events and data releases

Country	Indicator	Period	Forecast		Range	Last
29-Jan						
HU	Unemployment	Dec	10.5	%	n.a.	10.5
HU	PPI, yoy	Dec	1.3	%	0..4/1.3/1.8	0.3
CZ	Industrial output, yoy	Dec	-1.5	%	n.a.	-0.1
HR	Imports	Dec	1160.0	EUR mn	n.a.	1289.0
HR	Exports	Dec	590.0	EUR mn	n.a.	650.3
02-Feb						
RO	PPI, yoy	Dec	5.0	%	n.a.	2.6
RU	Real GDP	2009	-8.5	5	n.a./-8.5/n.a.	5.6
03-Feb						
RO	Retail sales, yoy	Dec	0.0	%	n.a.	-9.1
RO	Monetary policy meeting	Feb	7.0	%	n.a.	7.5
TR	Consumer prices, mom	Jan	1.8	%	n.a./1.8/n.a.	0.5
04-Feb						
RU	Consumer prices, mom	Jan	1.8	%	n.a.	0.4
CZ	CNB monetary policy board meeting	Feb	1.0	%	n.a.	1.0
05-Feb						
HU	Industrial output, yoy	Dez	-2.0	%	n.a.	-7.0
HU	Budget balance	Jan	n.a.	HUF bn	n.a.	205.0

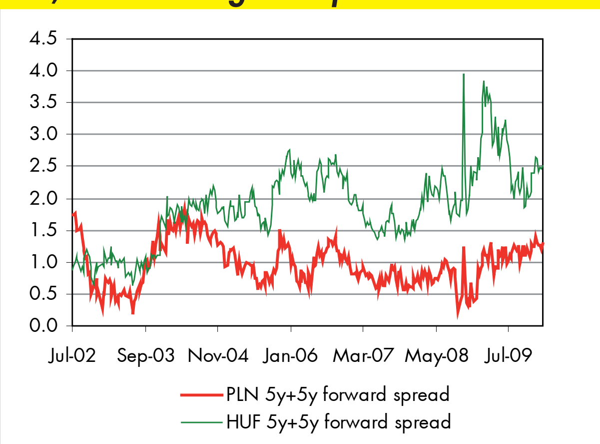
Local currency bonds
Market overview

CEE local currency bond market snapshot

28/01/2009	Maturity	Coupon %	Ask price	YTM %	Spread to bunds (bp)	MDuration
			Poland			
PLN 2y Gov. Bond	25/ Jul 12	0.00	88.72	4.95	382	2.5
PLN 5y Gov. Bond	25/ Apr 15	5.50	99.60	5.58	328	4.5
PLN 10y Gov. Bond	25/ Oct 19	5.50	95.75	6.09	288	7.6
PLN 20y Gov. Bond	25/ Apr 29	5.75	95.61	6.14	214	11.4
			Hungary			
HUF 3y Gov. Bond	24/ Oct 13	7.50	102.32	6.76	517	3.3
HUF 5y Gov. Bond	12/ Feb 15	8.00	103.86	7.06	476	4.1
HUF 10y Gov. Bond	24/ Jun 19	6.50	94.00	7.40	419	7.0
HUF 15y Gov. Bond	24/ Nov 23	6.00	88.50	7.35	351	9.4
			Czech Republic			
CZK 2y Gov. Bond	5/ Oct 11	6.55	108.60	1.32	18	1.6
CZK 5y Gov. Bond	11/ Apr 15	3.80	102.25	3.32	104	4.7
CZK 10y Gov. Bond	11/ Apr 19	5.00	105.05	4.32	111	7.4
CZK 15y Gov. Bond	25/ May 24	5.70	107.60	4.94	111	10.0
			Slovakia			
SKK 2y Gov. Bond	4/ May 12	0.00	95.67	1.99	85	2.3
SKK 5y Gov. Bond	11/ Feb 14	4.90	106.71	3.10	82	3.6
SKK 10y Gov. Bond	12/ May 19	5.30	111.25	3.83	62	7.4
			Croatia			
HRK 5y Gov. Bond	11/ Jul 13	4.50	97.54	5.29	278	3.2
HRK 10y Gov. Bond	8/ Feb 17	4.75	93.54	5.89	268	5.8
			Romania			
RON 3y Gov. Bond	25/ Oct 10	6.00	99.05	7.32	573	0.7
RON 5y Gov. Bond	5/ Mar 12	6.50	98.58	7.25	497	1.9
			Turkey			
TRY 2y Gov. Bond	16/ Nov 11	0.00	85.64	9.01	788	1.8
TRY 5y Gov. Bond	6/ Aug 14	11.00	103.60	10.24	796	3.6

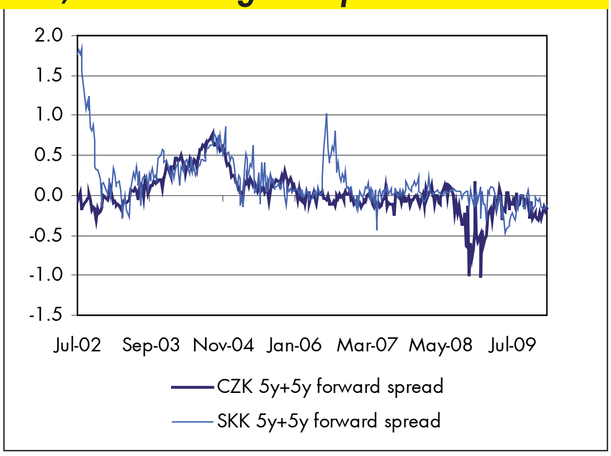
Source: Thomson Thomson Reuters, Raiffeisen RESEARCH

PLN, HUF convergence spread



Source: Thomson Thomson Reuters, Raiffeisen RESEARCH

CZK, SKK convergence spread



Source: Thomson Thomson Reuters, Raiffeisen RESEARCH

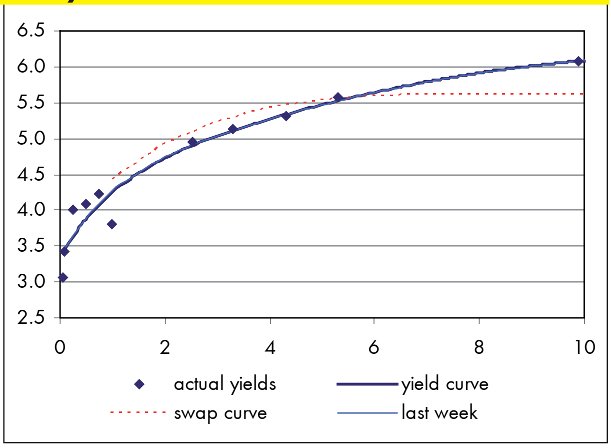
Poland

Solid GDP growth in 2009

(P)review of key economic figures/events

26 Jan 10	NBP rate decision	Jan 3.5 (Dec 3.5)	
26 Jan 10	Retail sales, % yoy	Dec 7.2 (Nov 6.3)	
28 Jan 10	preliminary GDP, % yoy	2009 1.7 (2008 5.0)	In line with expectations

PLN yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

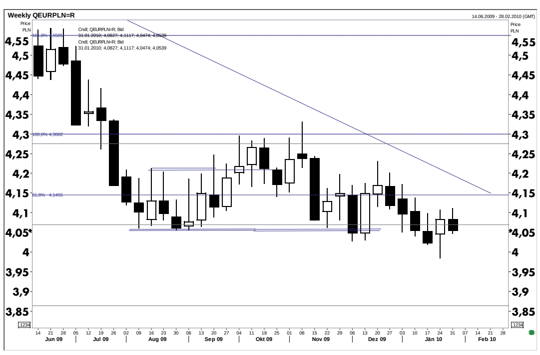
Money market focus

MM rates	1m	3m	6m	12m
Actual	***3.43***	***4.00***	***4.09***	***4.31***
Change from last week	0.01	-0.02	-0.05	-0.01
Forecast Mar-10	3.60	4.15	4.20	4.50
Forward rates	***3x6***	***6x9***	***9x12***	
	4.20	4.49	4.48	
Change from last week	-0.08	0.04	0.02	

Bond market focus

	2y	5y	10y	20y
Actual	***4.95***	***5.58***	***6.09***	***6.14***
Change from last week	0.01	0.00	0.02	0.06
Forecast Mar-10	5.20	5.70	6.50	6.40
Spread to bunds	***381.6***	***328.4***	***287.7***	***214.2***
Change from last week	-0.6	4.9	1.6	14.9
Spread to swaps	***-0.1***	***1.3***	***-41.4***	

EUR/PLN



Last: 4,05 sell 4.00 target;: 3.95 - 3.89
4.00 -> 3.93 - 3.85 almost has been triggered, stop 4.1180 -> 4.15 - 4.1760.

Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral PLN T-bonds

Market comment

Bond yields retreated slightly during the week, especially in the long-term segment, as global risk sentiment worsened. The GDP data for 2009 published on Thursday did not have any effect on bond yields. GDP grew by 1.7% in 2009 and was more or less in line with market expectations. Concerning Q4 GDP, the contribution of net exports was still substantial, although overall domestic demand grew by a positive rate for the first time in 2009. The National Bank of Poland's rate decision on Tuesday was, as expected, a non-event and did not have an effect on yields either.

Market outlook

The GDP figures give rise to optimism for H1 2010, as domestic demand recovered in Q4. The contribution of net exports to GDP growth will most likely decrease during the coming quarters, as imports will begin to pick up. We still expect GDP to grow by around 2% yoy in 2010. Growth rates that are higher than government expectations will certainly be positive for the budget balance and borrowing needs in 2010. In this respect, the government's consolidation plan due today could further improve the sentiment towards Polish bonds in the short run. However, the worsening global market sentiment and our estimates for the EUR/PLN exchange rate by the end of Q1 led us to stick to our "neutral" recommendation for Polish bonds.

Analysts: Marcin Grotek (+48 22 585 29 44)
Marcin Kopazynski (+43 1 71707 1423)

Exchange rate focus

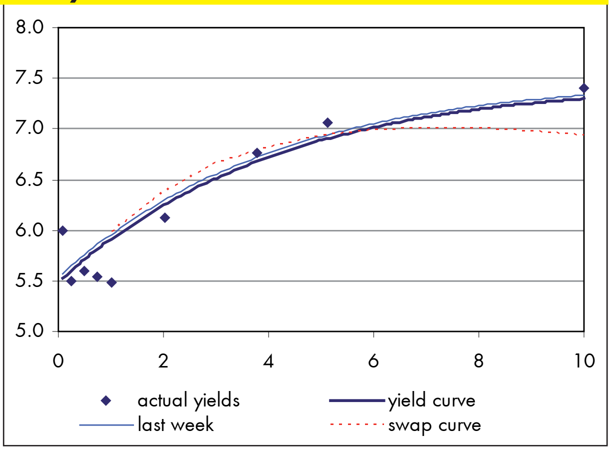
	actual	Mar-10	Jun-10	Sep-10
EUR/PLN	***4.06***	***4.20***	***3.80***	***3.75***
Change from last week	0.1%			
USD/PLN	***2.90***	***2.90***	***2.53***	***2.59***
Change from last week	-0.1%			

Hungary
Clouds on the horizon

(P)review of key economic figures/events

25 Jan 10	Monetary council meeting, %	Jan 6.0 (Dec 6.25)	25bp rate cut as expected, next cut likely in February
29 Jan 10	Unemployment, %	Dec 10.5 (Nov 10.5)	Unemployment remained unchanged in December
05 Feb 10	Industrial output, % yoy	Dec -2.0 (Nov -7.0)	

HUF yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

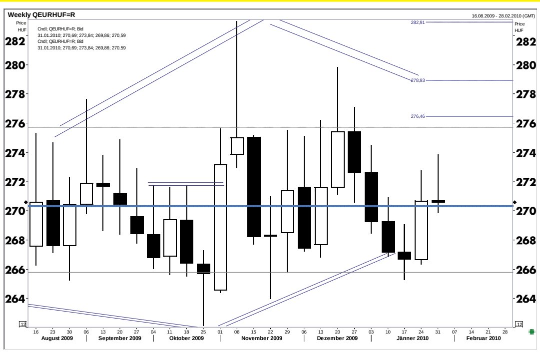
Money market focus

MM rates	***1m***	***3m***	***6m***	***12m***
Actual	***6.00***	***5.99***	***5.94***	***5.86***
Change from last week	-0.24	-0.16	-0.15	-0.13
Forecast Mar-10	***5.9***	***5.8***	***5.7***	***5.8***

Bond market focus

	3y	***5y***	***10y***	***15y***
Actual	***6.76***	***7.06***	***7.40***	***7.35***
Change from last week	-0.04	-0.03	-0.02	0.01
Forecast Mar-10	6.6	6.8	7.1	7.0
Spread to bunds	***517.3***	***476.0***	***419.0***	***351.4***
Change from last week	-1.5	1.9	1.8	7.3

EUR/HUF



Last: 270.59 position: long target: 276
Diamond-pattern and a bullish Pennant, but stop 269.25 -> 266 increasingly recommendable.

Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Sell HUF T-bonds

Market comment

Before stabilising in the 271–273 range, EUR/HUF recently trended higher towards the 200-day moving average, which has turned out to be a solid resistance point for the exchange rate so far. The previous week featured a great deal of domestic news and events, but these did not have any lasting impact on Hungarian assets. First of all, the Monetary Council cut the base rate by another 25bp on Monday (from 6.25% to 6%), which represents the seventh consecutive cut and the lowest interest rate level since 2006. The decision was supported by the majority, and a 50bp cut was also discussed. The second hot topic was the 10-year bond issuance in the amount of USD 2 bn with a 265bp spread over US Treasuries, which was received with heightened interest (USD 7 bn).

Market outlook

The successful USD-bond issuance means that investors still have trust in countries with elevated debt levels – such as Hungary and Greece – and are seeking out their riskier assets with high risk premia. Nevertheless, we expect the current positive sentiment towards Hungary to deteriorate towards the second half of 2010. This will occur at the same time as the worsening of the country's public finances, as we expect the 3.8% deficit target for this year to be drastically overshot. This will also block the national bank's rate cutting cycle, with the key rate bottoming out at 5.75% (one more 25bp cut). As far as the Hungarian government bond market is concerned, we are maintaining our recommendation to SELL the longer maturity papers (especially the 5-year segment) – in our view, the rate cuts will not have a positive influence on the yield level, and problems are accumulating, causing market sentiment to deteriorate.

Analyst: Matyas Kovacs (+36 148 44 874)

Exchange rate focus

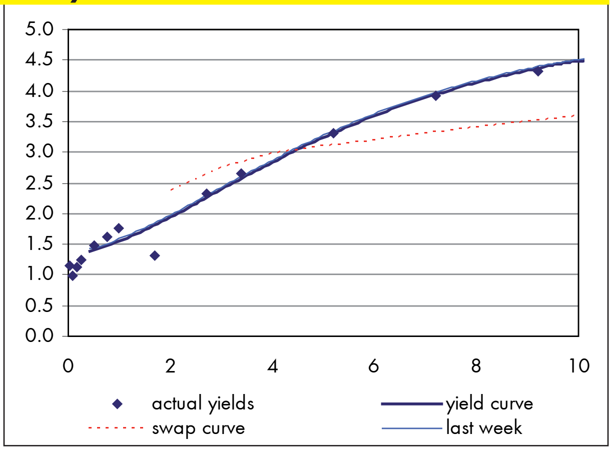
	actual	***Mar-10***	***Jun-10***	***Sep-10***
EUR/HUF	***271.56***	***285.0***	***275.0***	***275.0***
Change from last week	0.1%			
USD/HUF	***193.57***	***196.6***	***183.3***	***189.7***
Change from last week	-0.1%			

Czech Republic
Strong demand in 3y bond auction

(P)review of key economic figures/events

29 Jan 10	Flash estimate industrial putput, yoy	Dec -1.5 (Nov -0.1)	
04 Feb 10	CNB monetary policy board meeting	Feb 1.0 (Dec 1.0)	We expect first rate hike only in Q3 2010

CZK yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

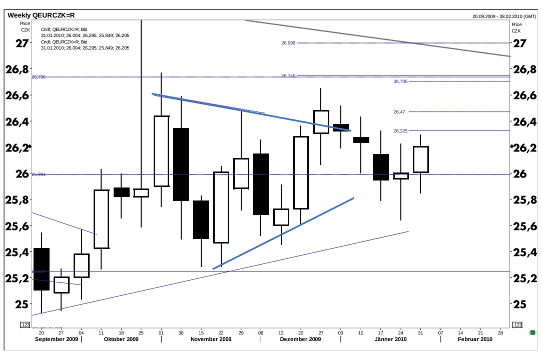
Money market focus

MM rates	*1m*	*3m*	*6m*	*12m*
Actual	***0.98***	***1.25***	***1.47***	***1.76***
Change from last week	0.00	0.00	-0.01	0.00
Forecast Mar-10	1.2	1.3	1.4	1.8
Forward rates	***1x2***	***3x6***	***6x9***	***9x12***
	1.27	1.70	1.95	2.14
Change from last week	0.00	-0.02	0.02	0.00

Bond market focus

	2y	*5y*	*10y*	*15y*
Actual	***1.32***	***3.32***	***4.32***	***4.94***
Change from last week	-0.27	-0.03	-0.03	0.04
Forecast Mar-10	1.8	3.3	4.2	4.7
Spread to bunds	***18.4***	***104.0***	***111.0***	***110.8***
Change from last week	-27.7	3.1	0.5	10.0
Spread to swaps	***119.5***	***-8.3***	***-55.7***	***n.a.***

EUR/CZK



Last: 26.20 buy 26.30 target: 26.60
Should rebound towards 26.60 after this High Wave, sell 25.90 -> 25.60 - 25.25.

Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Buy CZK T-bonds 10y or more

Market comment

The auction of the new 3-year Czech government bond attracted quite a strong demand. The bid to cover ratio reached 2.13, which contrasts with the recent 10-year bond auction in which the demand was rather weak. Overall government bond yields remained stable, while the yield spread between 10-year Czech bonds and the respective Euro benchmark declined by around 10 basis points due to the yield increase of the latter. Czech National Bank (CNB) board member Vladimir Tomsik was recently quoted as saying that an increase in the CNB's key rate might come in the third quarter 2010 at the earliest. He also mentioned that koruna gains kept a lid on inflation. It is worth mentioning that the CZK has been slightly weaker compared with the CNB's latest forecast.

Market outlook

Next Thursday the CNB will hold its regular monetary policy board meeting. Although no change of the key rate from its current all-time low of 1.0% is expected, the meeting will still be in the center of market interest. The official statement after the meeting could be important as some of the board members started to speak about future interest rate hikes in recent weeks. However, we still believe that the most likely time for a first rate hike is Q3 this year. For the time being we stick to our short-term buy recommendation for Czech government bonds with long maturities as we expect a decline in the risk premium against Euro benchmarks.

Analysts: Michal Brozka (+420 221 141 498)
Walter Demel (+43 1 71707 1526)

Exchange rate focus

	actual	*Mar-10*	*Jun-10*	*Sep-10*
EUR/CZK	***26.24***	***25.8***	***25.4***	***24.8***
Change from last week	-1.0%			
USD/CZK	***18.74***	***17.8***	***16.9***	***17.1***
Change from last week	-1.4%			

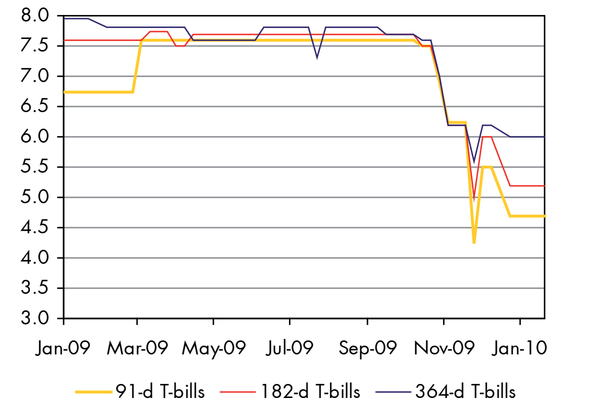
Croatia

Industrial production continues to fall

(P)review of key economic figures/events

21 Jan 10	Industrial output, % yoy	Dec -5.8 (Nov -8.6)
29 Jan 10	Imports, EUR mn	Dec 1160 (Nov 1289)
29 Jan 10	Exports, EUR mn	Dec 590 (Nov 650.3)

Interest rates on T-bills



Source: Thomson Reuters, Raiffeisen RESEARCH

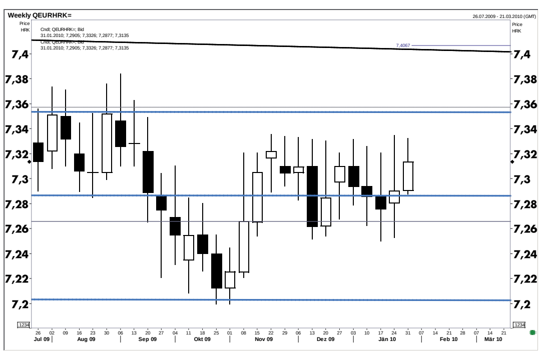
Money market focus

	1m	3m	6m	12m
ZIBOR actual	***1.36***	***2.31***	***3.58***	***4.50***
Change from last week	-0.14	-0.37	-0.86	-0.79
T-bills actual	***n.a.***	***4.70***	***5.20***	***5.99***

Exchange rate focus

	actual	Mar-10	Jun-10	Sep-10
EUR/HRK	***7.295***	***7.36***	***7.40***	***7.40***
Change from last week	0.1%			
USD/HRK	***5.19***	***5.08***	***4.93***	***5.10***
Change from last week	1.0%			

EUR/HRK



Last: 7.31 buy 7.34 target: 7.40
Measured Move should follow the above buy-signal, stop 7.2830 -> 7.2550.

Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral EUR/HRK

Market comment

According to the latest data announced by the CBS, the negative trend in industrial production continued for the 15th consecutive month in December, when industrial production fell by 5.8% yoy, representing a slowdown in the negative trend. This came primarily as a result of last year's low base, since industrial production declined by 1.5% in the same month of 2008, but also thanks to the recovery of external demand. For 2009 as a whole, the observed indicator was 9.2% lower than in the previous year. The recession showed that the problems in industrial production and its lack of competitiveness are structural issues, and that the solution to these problems will require the implementation of the necessary reforms. Sustainable economic growth will require dealing with the structural problems of the sectors with low technological intensity, such as shipbuilding and the textile industry, as well as promoting development in the segments that rely on new technology and knowledge while offering added value, i.e. promoting industries that will contribute to better productivity and higher employment. However, this requires adjusting the educational system to meet the needs of the real sector. We expect the decline in industrial production to continue in the first half of this year, while a recovery is not to be expected before the second half of 2010, when positive developments in foreign markets could have a stronger influence.

Market outlook

A more pronounced demand for euros on the part of the banking sector pushed the rate to above 7.30. The corporate sector became more active as well, leading EUR/HRK to peak at 7.32. In the week to come, we do not expect to see major changes on the domestic FX market since neither supply nor demand are significant enough to have a major influence on the FX rate. From a monthly perspective, there is a possibility that EUR/HRK will increase slightly.

Analysts: Ivana Juric (+385 1 61 74 349)
Zrinka Zivkovic-Matijevic (+385 1 61 74338)

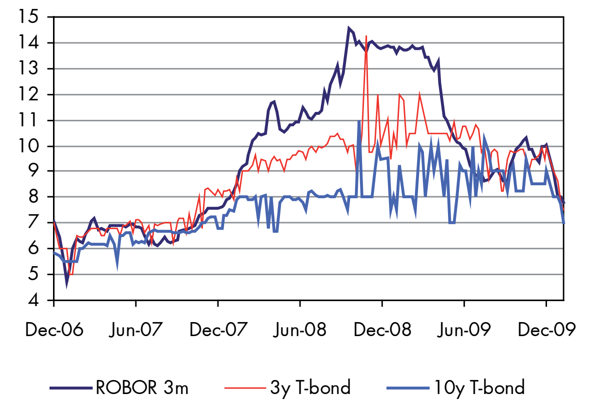
Romania

NBR to cut key interest rate again

(P)review of key economic figures/events

02 Feb 10	PPI, % yoy	Dec 5.0 (Nov 2.6)
03 Feb 10	Retail sales, % yoy	Dec 0.0 (Nov -9.1)
03 Feb 10	Monetary policy meeting, %	Feb 7.0 (Jan 7.5)

ROBOR 3m & T-bond yields (%)



Source: Thomson Reuters, Raiffeisen RESEARCH

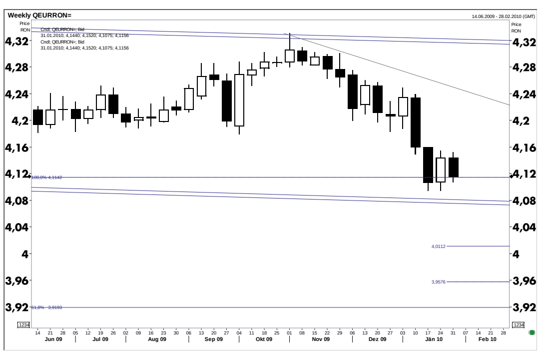
Money market focus

MM rates	***1m***	***3m***	***6m***	***12m***
Actual	***7.77***	***7.77***	***7.72***	***7.72***
Change from last week	-0.03	-0.23	-0.35	-0.36
Forecast Mar-10	7.1	7.3	7.3	7.6
Implicit forward rates	***3x6***	***6x9***	***9x12***	
	7.74	7.64	7.50	
Change from last week	-0.48	-0.37	-0.34	

Bond market focus

	2y	***3y***	***5y***	***10y***
Actual	***7.50***	***7.50***	***7.25***	***7.00***
Change from last week	-0.35	-0.35	-0.65	-0.75
Forecast Mar-10	7.80	7.90	7.90	7.60
Spread to bunds	***636.5***	***591.3***	***495.2***	***379.0***
Change from last week	-38.7	-66.1	-75.0	-76.4

EUR/RON



Last: 4.12 sell 4.07 target: 4.01 - 3.95
Still it might perform 4.1610 -> 4.21, but a RON's advance cannot be excluded.

Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Buy RON T-bonds

Market comment

The technical missions from the IMF and the European Commission (EC) delivered a positive evaluation of the policies pursued by Romanian authorities at the end of their visit to Romania on 27 January. The achievement of the budget deficit target for 2009 (7.3% of GDP) and Parliament's adoption of the budget plan for 2010, with a deficit target of 5.9% of GDP, had a lot to do with the decision by the technical missions to recommend the disbursement of new tranches from the external loan agreed on in 2009. So, Romania is set to receive EUR 2.3 bn from the IMF in February and EUR 1 bn from the EC in March. It seems that the IMF and the EC agreed to extend Romania's deadline by 1 year, to 2012, for lowering the budget deficit to below 3% of GDP. Also, the deadline for the government to pay all its arrears has been extended to April 2011. Meanwhile, the government has to strengthen its control over the deficits in several state-run companies, while Parliament has to approve the fiscal responsibility law (by March 2010) and the pension law (by June 2010). The next evaluation is scheduled for April-May.

Market outlook

The NBR's last decision on 5 January to cut the key interest by 50bp to 7.5% had a strong impact on the market, and was followed by a sharp fall in interest rates and bond yields. The NBR's decision suggests that it believes it has more room to focus on the falling inflation rate and the sharp decline in real GDP when setting the interest rate. A small move of 25bp at the next monetary policy meeting on 3 February is possible, but we expect to see a 50bp cut provided that sentiment on the leu remains positive until the time of the decision.

Analyst: Ionut Dumitru (+40 37 2211269)

Exchange rate focus*

	actual	***Mar-10***	***Jun-10***	***Sep-10***
EUR/RON	***4.13***	***4.30***	***4.25***	***4.20***
Change from last week	0.3%			
USD/RON	***2.95***	***2.97***	***2.83***	***2.90***
Change from last week	0.1%			

** under revison*

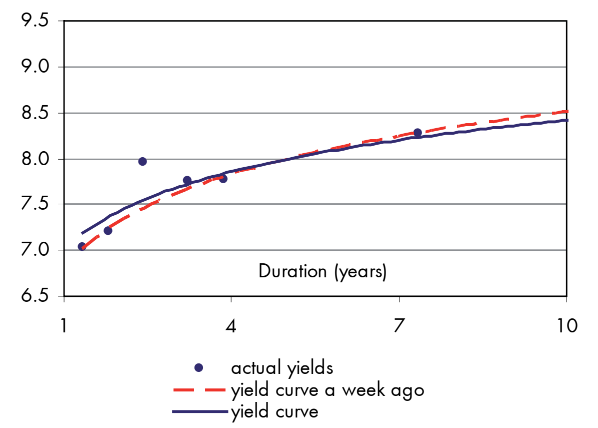
Russia

Hopes of recovery amidst mixed data

(P)review of key economic figures/events

02 Feb 10	Annual real GDP, % yoy	2009 -8.5 (2008 5.6)
04 Feb 10	Consumer prices, % mom	Jan 1.8 (Dec 0.4)
04 Feb 10	Consumer prices, % yoy	Jan 8.3 (Dec 8.9)

RUB yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

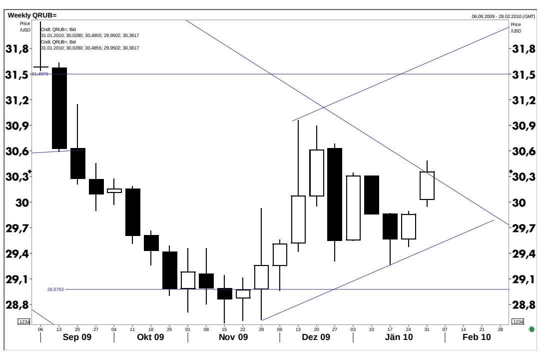
Money market focus

MM rates	***1m***	***3m***	***6m***	***12m***
Actual	***6.98***	***8.82***	***10.27***	***10.79***
Change from last week	-0.51	-0.74	-0.97	-0.88
Forecast Dec-09	***5.32***	***5.80***	***6.21***	***n.a.***
Forward rates	***1x2***	***3x6***	***6x9***	***9x12***
	9.13	11.97	n.a.	n.a.
Change from last week				

Bond market focus

	1y	***2y***	***5y***	***15y***
Actual	***7.03***	***7.21***	***7.78***	***8.28***
Change from last week	0.16	0.23	0.10	-0.01
Forecast Dec-09	***6.84***	***7.21***	***7.86***	***n.a.***

USD/RUB



Last: 30.36 buy 30.55 target: 31 - 31.80
The downward-trend might is beingt tested at 30.40 and should end, stop 30.19 -> 30 - 29.60

Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

The rouble remains under downward pressure from declining oil prices and capital outflows from the local equity market. The central bank's comment praising the weaker rouble has had no significant influence. The rouble is likely to remain within a range of 35.65–35.90; we recommend buying rouble in this weaker market.

Market comment

Russia's December 2009 economic statistics were once again a mixed bag. Industrial production recorded 2.7% yoy growth in December, following 1.5% growth in November. Nevertheless, industrial production for 2009 lost 10.8% compared to 2008. The low base effect combined with slowly increasing investment activity will continue to bolster industrial production in 2010, which should result in moderately positive growth of about 4–5% for the year as a whole. Market consensus sees 3.9% industrial production growth in 2010, whereas the economic ministry expects more modest growth of 2.8%. The recovery process also led to upbeat revisions of GDP growth for Russia in 2010. The IMF recently revised its 2010 GDP forecast for Russia from 1.5% to 3.6%, while the first deputy chief of the central bank predicted that Russia's GDP could rise by as much as 5% in 2010. Nevertheless, December retail sales and unemployment statistics suggest that the recovery might be slow in H1, while most economists agree on stronger H2 output. Capital expenditure remained at minus 8.9% yoy in December, although it shot up by 66.9% mom due to the incredibly low base. Finally, unemployment gave us a downside surprise, increasing to 8.2% in December, the highest level in the last five months. However, the surge in unemployment in December was to some extent the result of seasonal factors, which are expected to taper off over the coming months. Altogether, we see the economic recovery gaining momentum due to the low base effect and an improving investment climate, while consumer demand and confidence could hinder growth prospects in H1.

Analyst: Gintaras Shlizhyus (+43 1 71707 1343)

Exchange rate focus

	actual	***Mar-10***	***Jun-10***	***Sep-10***
EUR/RUB	***42.40***	***42.93***	***42.12***	***41.72***
Change from last week	0.5%			
USD/RUB	***30.35***	***29.60***	***28.08***	***28.77***
Change from last week	-3.0%			

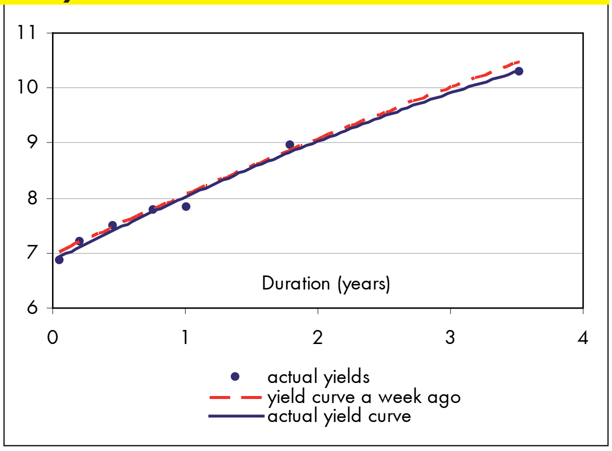
Turkey

Inflation outlook worsens rate prospects

(P)review of key economic figures/events

29 Jan 10	Trade balance, USD bn	Dec -4.9 (Nov -3.7)
03 Feb 10	Consumer prices, % mom	Jan 1.8 (Dec 0.5)
03 Feb 10	Consumer prices, % yoy	Jan 8.1 (Nov 6.5)

TRY yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

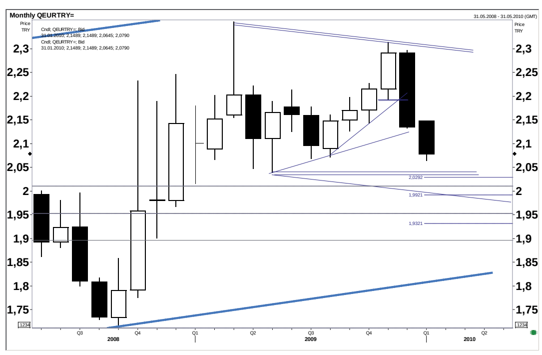
Money market focus

MM rates	1m	3m	6m	12m
Actual	***6.31***	***6.61***	***7.05***	***7.60***
Change from last week	-0.29	0.23	0.05	0.00
Forecast Mar-10	***6.25***	***6.40***	***6.90***	***7.48***
Forward rates	***1x2***	***3x6***	***6x9***	***9x12***
	6.21	6.20	6.74	7.26
Change from last week	-0.76	0.42	0.05	0.10

Bond market focus

	1m	1y	2y	5y
Actual	***6.86***	***7.82***	***8.95***	***10.30***
Change from last week	-0.05	-0.17	0.14	-0.19
Forecast Mar-10	***n.a.***	***7.48***	***8.10***	***9.55***

EUR/TRY



Last: 2.07 position: short target: 2.04 - 1.99
Triangle with 2.04 -> 1.99 - 1.90 likely, stop 2.12.

Market strategy

Underweight TRY bonds in a portfolio against the benchmark.

Market comment

In its first inflation report released this year, the Turkish Central Bank (CBRT) revised its inflation target upward. In a scenario in which "policy rates are kept constant for a long period followed by limited increases thereafter", the bank sees a 70% probability of 5.5–8.3% inflation at the end of 2010 (midpoint 6.9%), 3.4–7.0% in 2011 (midpoint 5.2%), while it sees slightly lower inflation of 4.9% in 2012. The bank attempted to assure the market that expected increases of annual inflation in the coming months will be of a temporary nature, triggered by higher food and oil prices, the low base effect and administered price hikes. The bank also said that a faster-than-expected economic recovery would lead to measured earlier monetary policy tightening. In another story this week, the government demonstrated an active debt management approach by launching a landmark 10-year lira bond, and it also sold TRY 985.9 mn of a 2016 bond in a debt swap targeting the outstanding 2010 issue. Remarkably, a 10.5% 10-year paper was placed with a yield of 11.24%, somewhat above the market expectations of 11.11%.

Market outlook

In our view, the deteriorating inflation outlook will put an end to the monetary easing cycle. The central bank is likely to keep interest rates on hold at least for the next two months. Moreover, we believe there is no room for further rate cuts, as inflation will likely continue to pick up until the middle of 2010. The bank may try to maintain the rates at the presently low level of 6.5% for as long as they can. If our inflation scenario is correct, however, the bank will be forced to initiate a measured tightening response by hiking key rates during H2.

Analysts: Andreas Schwabe (+43 1 71707 1389)
Gintaras Shlizhyus (+43 1 71707 1343)

Exchange rate focus

	actual	Mar-09	Jun-09	Sep-09
EUR/TRY	***2.08***	***2.11***	***2.06***	***2.14***
Change from last week	-0.3%			
USD/TRY	***1.49***	***1.50***	***1.46***	***1.52***
Change from last week	0.5%			

RZB Group

Raiffeisen Zentralbank Österreich AG (RZB Austria)

Raiffeisen Zentralbank Österreich AG, Vienna
Global Markets
Head of Sales: Stefan Weiser Tel: +43 1 71707 3974
Head of International Sales: Luca Scalzini Tel: +43 1 71707 3981
Head FI Sales (AUT/GE/LIE): Hans Rettl Tel: +43 1 71707 3300
Head of MM & FX Sales: Richard Quinn Tel: +43 1 71707 3904
Corporate Sales: Wolfgang Kalinka Tel: +43 1 71707 3959

Belgrade: Raiffeisenbank a.d. Serbia
Treasury: Branko Novakovic Tel: +381 11 2207 131

Bratislava: Tatra banka, a.s.
Treasury: Miroslav Paracka Tel: +421 2 5919 1386
Sales: Milan Cavojec Tel: +421 2 5919 1212

Bucharest: Raiffeisen Bank S.A.
Treasury: Cristian Sporis Tel: +40 21 306 1210
Sales: Razvan Szilagyi Tel: +40 21 306 1205

Budapest: Raiffeisen Bank Zrt.
Treasury:Gabor Liener Tel: +36 1 484 4304
Sales: Zsolt Matolcsi Tel: +36 1 484 4840

Kiev: Raiffeisen Bank Aval
Treasury: Vladimir Kravchenko Tel: +380 44 490 8808

Maribor: Raiffeisen Krekova banka d.d. Slovenia
Treasury: Thomas Schindl Tel: +386 1 475 7841

Minsk: Priorbank JSC Belarus
Treasury: Andrey Filazafivich Tel: +375 17 289 9312

Moscow: ZAO Raiffeisenbank Austria
Treasury: Sergei Monin Tel: +7 495 721 9922
Sales: Arsen Manoukian Tel: +7 495 721 9978

RZB London Branch
Sales: Stefan Gabriele Tel: +44 20 7933 8104

Raiffeisen Centrobank AG, Vienna
Equity Capital Markets
Head: Wilhelm Celeda Tel: +43 1 515 20 402
Sales: Klaus della Torre Tel: +43 1 515 20 472

Prague: Raiffeisenbank a.s.
Treasury: Vit Brdlik Tel: +420 221 141 145
Sales: Michal Michalov Tel: +420 221 141 830

Pristina: Raiffeisen Bank Kosovo JSC
Treasury: Berat Isa Tel: +381 38 226400 129

Sarajevo: Raiffeisen BANK d.d. Bosna i Hercegovina
Treasury: Sanja Korene Tel: +387 33 208 372

Sofia: Raiffeisenbank (Bulgaria) EAD
Treasury: Evelina Miltenova Tel: +359 2 91985 441

Tirana: Raiffeisen Bank Sh.a. Albania
Treasury: Adriana Jorgji Tel: +355 4 222 669 2545

Warsaw: Raiffeisen Bank Polska S.A.
Treasury: Miroslaw Winiarczyk Tel: +48 22 585 26 00
Sales: Adam Pers Tel: +48 22 585 26 26

Zagreb: Raiffeisenbank Austria d.d.
Treasury: Ivan Zizic Tel: +385 1 46 95 076

Editor:
Raiffeisen RESEARCH GmbH
A-1030 Vienna, Am Stadtpark 9
Tel.: +43 1 717 07-1521

Head of Raiffeisen RESEARCH:
Peter Brezinschek (1517)

This report was completed on 29 January 2010.