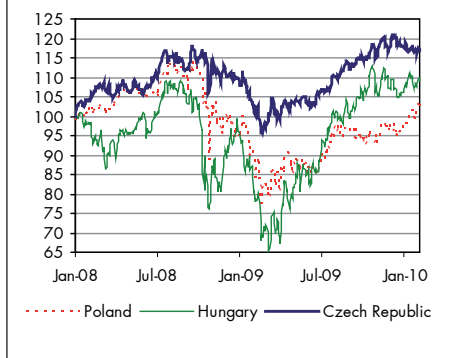


# CEE Weekly Bond Markets Outlook

Issue 5/2010

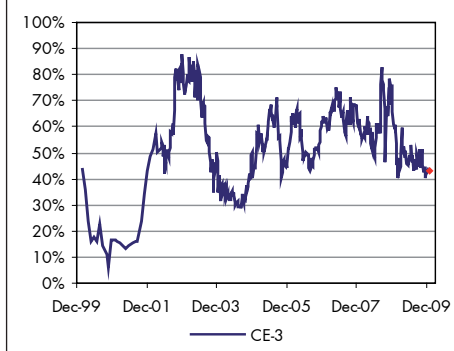
5 February 2010

## 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

## Forecast

	current	Mar-10	Jun-10	Sep-10
<b>Poland</b>				
PLN	4.03	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
<b>Hungary</b>				
HUF	272.8	285.0	275.0	275.0
1m-rate	6.0	5.9	5.8	5.7
5y bond	6.9	6.8	6.6	6.4
10y bond	7.4	7.1	6.9	6.6
<b>Czech Rep.</b>				
CZK	26.1	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
<b>Romania</b>				
RON	4.1	4.3	4.3	4.2
1m-rate	6.7	7.1	6.4	6.3
5y bond	7.5	7.9	7.4	7.2
10y bond	7.0	7.6	7.3	7.2
<b>USD</b>	1.37	1.45	1.50	1.45

Currencies per 1 EUR

Source: Thomson Reuters, Raiffeisen RESEARCH

## Recommendations (1-month horizon)

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

## Highlights

- **Poland** – We think that the market has already discounted upside surprises regarding public debt and believe that in the short run, weak international markets will dominate the scene and push yields and EUR/PLN up further.
- **Hungary** – The week ahead will see the first GDP estimate for Q4 2009. Market consensus is predicting a decline of 4.1% yoy, while we are a bit more pessimistic and anticipate a 4.8% setback in the last quarter of the year.
- **Czech Republic** – As generally expected the Czech National Bank (CNB) left its key 2-week repo rate unchanged at 1.0% in a unanimous decision at its monetary policy board meeting on Thursday.

## Key upcoming events and data releases

Country	Indicator	Period	Forecast	Range	Last	
05-Feb						
HU	Industrial output, yoy	Dez	1.0	%	n.a.	-7.0
HU	Budget balance	Jan	n.a.	HUF bn	n.a.	205.0
08-Feb						
CZ	Foreign trade balance	Dec	6.5	CZK bn	-2.5/3.5/15.0	14.5
CZ	Unemployment rate	Jan	9.6	%	9.4/9.7/10.0	9.2
TR	Industrial output, yoy	Dec	15.0	%	10.10/18.05/22	-2.2
09-Feb						
HU	Trade balance	Dec	199.7	EUR mn	200/262/300	409.5
CZ	CPI, mom	Jan	1.4	%	1.0/1.5/1.9	0.2
CZ	CPI, yoy	Jan	0.9	%	0.5/1.0/1.4	1.0
RO	Trade balance	Dec	n.a.	EUR mn	n.a.	487.0
11-Feb						
CZ	Industrial output, yoy	Dec	1.3	%	n.a.	-0.1
TR	Current account	Dec	n.a.	USD bn	n.a./-3.5/n.a.	-1.6
RU	Trade balance	Dec	11.2	USD bn	7.0/11.3/15.0	11.6
12-Feb						
PL	Current account	Dec	-843	EUR mn	n.a.	-1272
HU	CPI, yoy	Jan	5.6	%	5.5/5.8/6.1	5.6
HU	GDP, yoy	Q4	-4.8	%	-3.9/-5.0/-6.8	-7.1
CZ	GDP flash estimate, yoy	Q4	-1.5	%	n.a.	-4.1

## Bond auctions

		ISIN	Coupon	Maturity	Volume
10-Feb					
CZ	15y T-bond reopening	CZ0001002547	5.70%	25 May 2024	CZK 6 bn
11-Feb					
HU	3y T-bond	HU0000402466	7.50%	24 Oct 2013	HUF 25 bn
HU	5y T-bond	HU0000402268	8.00%	12 Feb 2015	HUF 15 bn
HU	10y T-bond	HU0000402433	6.50%	24 Jun 2019	HUF 10 bn



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# Local currency bonds

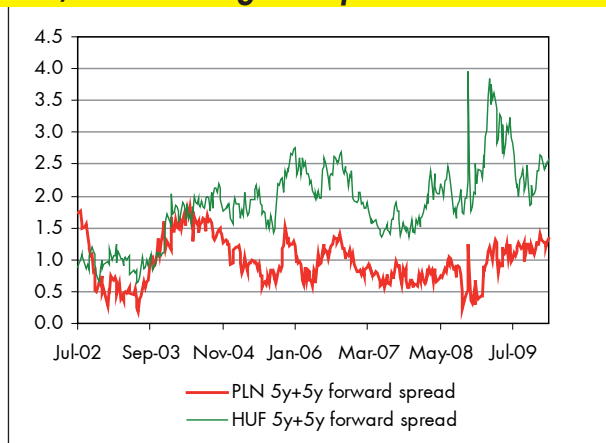
## Market overview

### CEE local currency bond market snapshot

04/02/2010	Maturity	Coupon %	Ask price	YTM %	Spread to bunds (bp)	MDuration
<b>Poland</b>						
PLN 2y Gov. Bond	25/ Jul 12	0.00	88.86	4.92	386	2.5
PLN 5y Gov. Bond	25/ Apr 15	5.50	99.89	5.52	326	4.5
PLN 10y Gov. Bond	25/ Oct 19	5.50	95.74	6.09	290	7.6
PLN 20y Gov. Bond	25/ Apr 29	5.75	96.46	6.06	209	11.5
<b>Hungary</b>						
HUF 3y Gov. Bond	24/ Oct 13	7.50	102.44	6.72	520	3.3
HUF 5y Gov. Bond	12/ Feb 15	8.00	104.40	6.93	467	4.0
HUF 10y Gov. Bond	24/ Jun 19	6.50	93.95	7.41	422	7.0
HUF 15y Gov. Bond	24/ Nov 23	6.00	88.50	7.35	353	9.4
<b>Czech Republic</b>						
CZK 2y Gov. Bond	5/ Oct 11	6.55	108.38	1.39	33	1.6
CZK 5y Gov. Bond	11/ Apr 15	3.80	102.42	3.28	104	4.7
CZK 10y Gov. Bond	11/ Apr 19	5.00	104.65	4.37	118	7.3
CZK 15y Gov. Bond	25/ May 24	5.70	106.55	5.04	122	9.9
<b>Slovakia</b>						
SKK 2y Gov. Bond	4/ May 12	0.00	95.86	1.91	85	2.2
SKK 5y Gov. Bond	11/ Feb 14	4.90	106.78	3.08	83	3.6
SKK 10y Gov. Bond	12/ May 19	5.30	111.80	3.76	58	7.4
<b>Croatia</b>						
HRK 5y Gov. Bond	11/ Jul 13	4.50	100.14	4.45	197	3.2
HRK 10y Gov. Bond	8/ Feb 17	4.75	96.03	5.44	225	5.8
<b>Romania</b>						
RON 3y Gov. Bond	25/ Oct 10	6.00	99.41	6.82	530	0.7
RON 5y Gov. Bond	5/ Mar 12	6.50	99.52	6.75	450	1.9
<b>Turkey</b>						
TRY 2y Gov. Bond	16/ Nov 11	0.00	85.85	8.96	790	1.8
TRY 5y Gov. Bond	6/ Aug 14	11.00	103.15	10.37	812	3.6

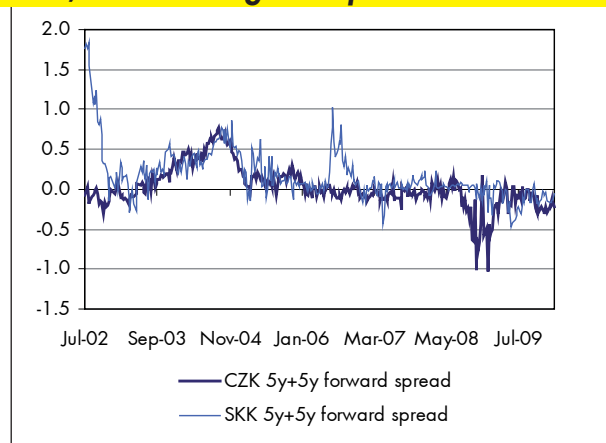
Source: Thomson Thomson Reuters, Raiffeisen RESEARCH

### PLN, HUF convergence spread



Source: Thomson Thomson Reuters, Raiffeisen RESEARCH

### CZK, SKK convergence spread



Source: Thomson Thomson Reuters, Raiffeisen RESEARCH

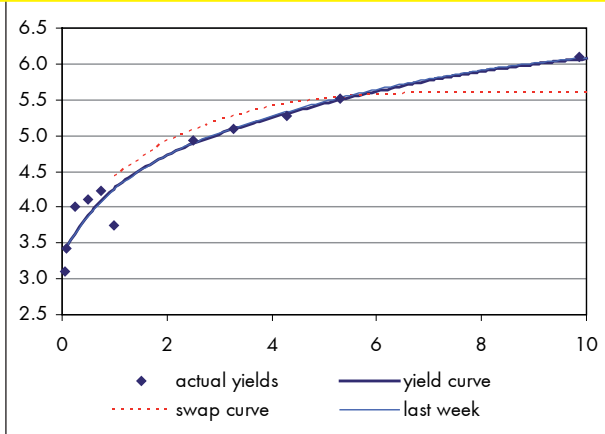
# Poland

## Bond yields up again after strong decline

### (P)review of key economic figures/events

01 Feb 10	PMI	Jan 51 (Dec 52.4)	below expectations
12 Feb 10	Currenc account, EUR mn	Dec -843 (Nov -1272)	
12 Feb 10	M3 money supply, % yoy	Jan 8.7 (Dec 8.1)	

### PLN yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market strategy

Neutral PLN T-bonds

### Market comment

After reaching levels of around 6.03%, ten-year bond yields fell back to around 6.16% again. The **budget consolidation plan** presented by Polish PM Donald Tusk on Friday has revealed some "recommendations" for bringing the budget back on track over the next two years. Although significant reforms are still missing from the paper, measures such as more efficient liquidity management in the public sector and accelerated privatisation procedures will most likely reduce the government's borrowing needs in the short run.

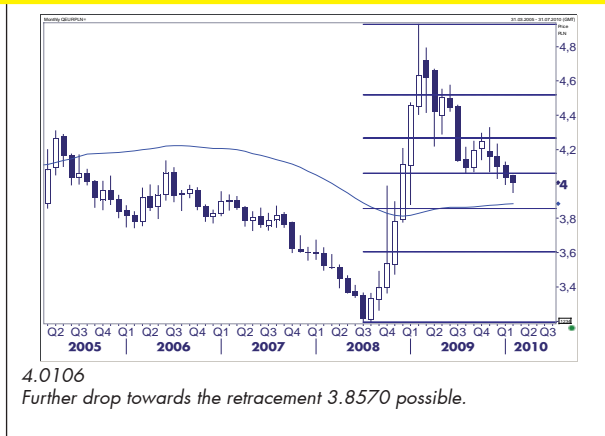
### Money market focus

MM rates	1m	3m	6m	12m
<b>Actual</b>	<b>3.43</b>	<b>4.00</b>	<b>4.10</b>	<b>4.29</b>
Change from last week	0.00	0.00	0.01	-0.02
Forecast Mar-10	3.60	4.15	4.20	4.50
<b>Forward rates</b>	<b>3x6</b>	<b>6x9</b>	<b>9x12</b>	
	4.22	4.44	4.43	
Change from last week	0.02	-0.05	-0.05	

### Bond market focus

	2y	5y	10y	20y
<b>Actual</b>	<b>4.92</b>	<b>5.52</b>	<b>6.09</b>	<b>6.06</b>
Change from last week	-0.02	-0.06	0.01	-0.04
Forecast Mar-10	5.20	5.70	6.50	6.40
<b>Spread to bunds</b>	<b>386.0</b>	<b>325.5</b>	<b>290.1</b>	<b>208.7</b>
Change from last week	7.1	-2.4	0.9	-2.9
<b>Spread to swaps</b>	<b>0.2</b>	<b>6.0</b>	<b>-43.4</b>	

### EUR/PLN



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market outlook

At the moment, the government is playing two different roles on two different stages: On the international stage, it seems to be trying to sell the updated euro convergence plan to the EU, which includes growth forecasts of 3.0% yoy for 2010 (according to the media). On the domestic stage, the budget forecasts of 1% inflation and 1.2% GDP growth for 2010 are less optimistic. In this respect, it is not surprising that the 2009 budget outcome was PLN 23.8 bn instead of PLN 27.2 bn, with increased budget revenues as a result of stronger growth than expected by the government. It is also not surprising that news is starting to come in regarding borrowing needs for 2010: The Polish Press Agency reported this week that, according to unnamed sources at the MoF, **net borrowing needs could be 30% lower in 2010** than previously envisaged. Although this news is positive, we think that the market has already discounted upside surprises regarding public debt. We believe that in the short run, weak international markets will dominate the scene and push yields and EUR/PLN up further.

Analysts: Marcin Grotek (+48 22 585 29 44)

Marcin Kopzynski (+43 1 71707 1423)

### Exchange rate focus

	actual	Mar-10	Jun-10	Sep-10
<b>EUR/PLN</b>	<b>4.03</b>	<b>4.20</b>	<b>3.80</b>	<b>3.75</b>
Change from last week	0.9%			
<b>USD/PLN</b>	<b>2.91</b>	<b>2.90</b>	<b>2.53</b>	<b>2.59</b>
Change from last week	-0.4%			

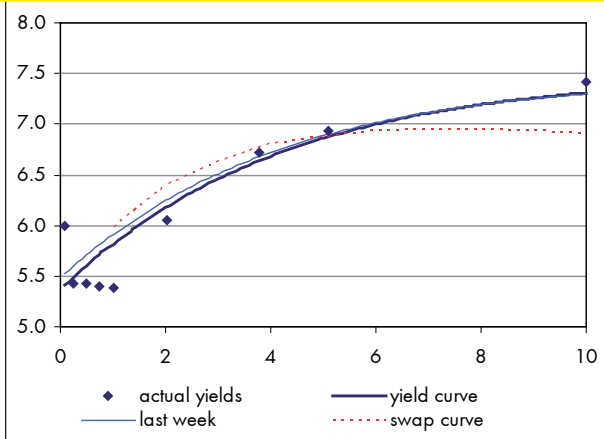
# Hungary

## Q4 GDP coming up

### (P)review of key economic figures/events

09 Feb 10	Trade balance, EUR mn	Dec 199.7 (Nov 409.5)	
12 Feb 10	CPI, % yoy	Jan 5.6 (Dec 5.6)	Inflation to fall in the coming months
12 Feb 10	GDP, % yoy	Q4 -4.8 (Q3 -7.0)	Slow economic improvement

### HUF yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market strategy

Sell HUF T-bonds

### Market comment

The recent ups and downs in international investor sentiment had the **EUR/HUF** exchange rate bouncing between 269 and 273 last week. This meant that the 200-day moving average proved to be a resistance point once again this week, although we still expect further HUF weakening on the 3- and 6-month horizon. In the meantime, Hungary's **CDS** level has reached new highs since September 2009 on the back of the news coming out of Greece and Portugal. However, Hungarian government bond yields plummeted another 10–20bp recently, leading us to reiterate our recommendation to **SELL** long Hungarian government bonds, as we expect some correction corresponding to the end of the rate-cutting cycle in Hungary.

### Money market focus\*

MM rates	1m	3m	6m	12m
Actual	6.00	5.99	5.95	5.85
Change from last week	0.00	0.00	0.01	-0.01
Forecast Mar-10	5.9	5.8	5.7	5.8

### Bond market focus\*

	3y	5y	10y	15y
Actual	6.72	6.93	7.41	7.35
Change from last week	-0.04	-0.13	0.01	0.00
Forecast Mar-10	6.6	6.8	7.1	7.0
Spread to bunds	520.3	466.6	422.2	352.8
Change from last week	3.0	-9.1	3.5	2.3

\* under revision

### EUR/HUF



272.55  
Sideways ranging from 264.10 to 277.85.

Source: Thomson Reuters, Raiffeisen RESEARCH

### Market outlook

The week ahead will see the first **GDP** estimate for Q4 2009. Market consensus is predicting a decline of 4.1% yoy, while we are a bit more pessimistic and anticipate a 4.8% setback in the last quarter of the year. The CPI inflation figures for January will also be published next Friday. We expect that consumer price inflation peaked at 5.6% yoy at around the turn of the year. Towards the second half of 2010, we estimate that the **CPI** will fall below the National Bank of Hungary's target of 3% due to prolonged domestic recessionary conditions. In spite of easing inflationary pressure, we see only limited room for the NBH to go on with its **rate cuts** – one more 25bp cut in February – as the parliamentary elections near and news of the growing budget deficit comes to light.

Analyst: Matyas Kovacs (+36 148 44 874)  
Wolfgang Ernst (+43 1 71707 1555)

### Exchange rate focus

	actual	Mar-10	Jun-10	Sep-10
EUR/HUF	272.78	285.0	285.0	275.0
Change from last week	-0.4%			
USD/HUF	197.01	196.6	190.0	189.7
Change from last week	-1.7%			

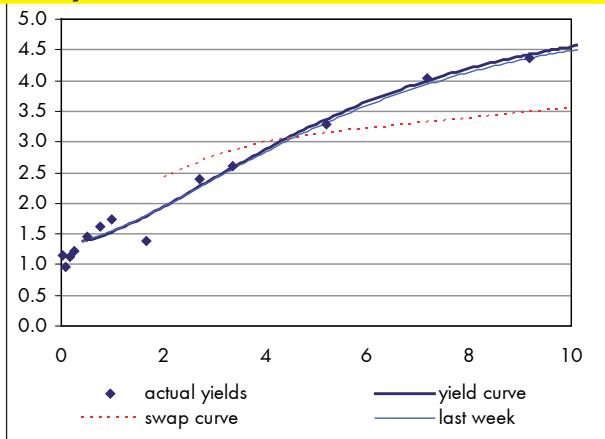
# Czech Republic

## CNB expects rate hikes in H2 (as do we)

### (P)review of key economic figures/events

09 Feb 10	CPI, % yoy	Jan 0.9 (Dec 1.0)	No inflationary pressure from demand side
12 Feb 10	GDP flash estimate, % yoy real	Q4 -1.5 (Q3 -4.1)	Support from foreign trade and inventory cycle

### CZK yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

### Money market focus

MM rates	1m	3m	6m	12m
<b>Actual</b>	<b>0.97</b>	<b>1.23</b>	<b>1.45</b>	<b>1.73</b>
Change from last week	-0.01	-0.02	-0.02	-0.03
Forecast Mar-10	1.2	1.3	1.4	1.8
<b>Forward rates</b>	<b>1x2</b>	<b>3x6</b>	<b>6x9</b>	<b>9x12</b>
Change from last week	0.01	-0.02	0.01	-0.09

### Bond market focus

	2y	5y	10y	15y
<b>Actual</b>	<b>1.39</b>	<b>3.28</b>	<b>4.37</b>	<b>5.04</b>
Change from last week	0.07	-0.04	0.11	0.10
Forecast Mar-10	1.8	3.3	4.2	4.7
<b>Spread to bunds</b>	<b>32.8</b>	<b>103.5</b>	<b>118.4</b>	<b>122.1</b>
Change from last week	13.3	1.1	13.5	12.2
<b>Spread to swaps</b>	<b>116.7</b>	<b>-2.9</b>	<b>-66.0</b>	<b>n.a.</b>

### EUR/CZK



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market strategy

Buy CZK T-bonds 10y or more

### Market comment

As generally expected the Czech National Bank (CNB) left its key 2-week repo rate unchanged at 1.0% in a unanimous decision at its monetary policy board meeting on Thursday. The CNB also published its updated economic forecast, although the differences to the previous one are rather small. The new CNB forecast now foresees a slightly faster appreciation of the Czech crown against the euro. On the other hand, the forecast for interest rate hikes was slightly postponed. The CNB now assumes stable interest rates in H1 2010 followed by a gradual rise thereafter. Although the CNB acknowledged the improved outlook of the external economic environment, nevertheless, its forecast for the Czech GDP growth remained almost unchanged at 1.4% and 2.1% for 2010 and 2011 respectively.

### Market outlook

Next week will be full of new domestic economic data releases. As usually, the GDP flash estimate will definitely attract big attention, but the CPI data for January could even be more appealing. Taking into account the aftermath of the recession and the continuing rise of unemployment, it will be interesting to see the changes in price lists at the beginning of the year and the increases of house rents after a further liberalisation of regulated prices. 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.

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

### Exchange rate focus

	actual	Mar-10	Jun-10	Sep-10
<b>EUR/CZK</b>	<b>26.12</b>	<b>25.8</b>	<b>25.4</b>	<b>24.8</b>
Change from last week	0.4%			
<b>USD/CZK</b>	<b>18.86</b>	<b>17.8</b>	<b>16.9</b>	<b>17.1</b>
Change from last week				

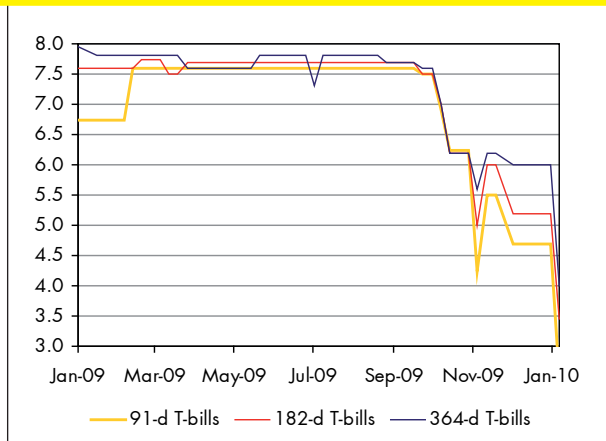
# Croatia

## Waiting for foreign trade to recover

### (P)review of key economic figures/events

09 Feb 10	Retail trade, % yoy	Dec -15.1 (Nov -15.8)
10 Feb 10	PPI, % mom	Jan 0.5 (Dec 0.0)
10 Feb 10	PPI, % yoy	Jan 2.1 (Dec 1.6)

### Interest rates on T-bills



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market strategy

Neutral EUR/HRK

### Market comment

The latest data show that the Croatian **trade deficit** continued to decline in yoy terms for the 14th month in a row in December. For 2009 as a whole, goods exports fell by 21.6% yoy, while goods imports experienced an even sharper decline of 26.9% yoy. Due to the strong decrease in imports starting at the end of 2008, Croatia's trade deficit totalled EUR 7.7 bn in 2009 (EUR 3.5 bn less than in 2008). In addition, the import/export coverage ratio reached 52.5% at the end of 2009, compared to 48.3% at the end of 2008. The decline in export activity is primarily due to unfavourable trends amongst our most important trading partners, while the decrease in domestic personal consumption (as a result of less disposable income and negative trends on the domestic labour market) is the main reason for the decline in import activity. We expect foreign trade to recover in 2010, although favourable movements in the first few months will primarily be the result of last year's low base, since both goods exports and imports fell considerably at the beginning of 2008. Because we expect an equalisation of import and export growth rates, the import/export coverage ratio should deteriorate.

### Money market focus

	1m	3m	6m	12m
ZIBOR actual	1.16	1.68	2.57	3.93
Change from last week	-0.20	-0.63	-1.01	-0.57
T-bills actual	n.a.	2.48	3.45	4.00

### Exchange rate focus

	actual	Mar-10	Jun-10	Sep-10
EUR/HRK	7.312	7.36	7.40	7.40
Change from last week	0.2%			
USD/HRK	5.22	5.08	4.93	5.10
Change from last week	0.7%			

### EUR/HRK



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market outlook

In the coming week, we expect **EUR/HRK** to remain above 7.30. As previously announced, the CNB decided on Wednesday to cut the reserve requirement rate from 14% to 13%, which will increase liquidity to HRK 2.9 bn. This decision was made in coordination with the government, the CBRD and the banking sector, and is aimed at increasing banks' lending abilities and thus boosting the economic recovery. In monthly terms, it could cause mild depreciation pressures on the kuna, but significant changes are not expected.

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



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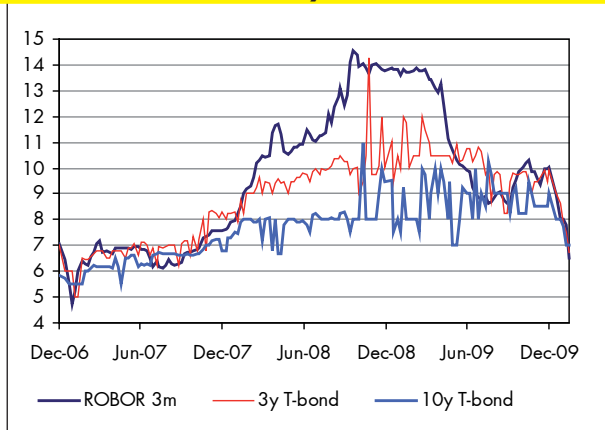
## Romania

## NBR cuts key rate by 50bp to 7%

## (P)review of key economic figures/events

03 Feb 10	Retail sales, % yoy	Dec -6.1 (Nov -10.0)
03 Feb 10	Monetary policy meeting, %	Feb 7.0 (Jan 7.5)
09 Feb 10	Foreign trade balance, EUR mn	Dec n.a. (Nov 487)

## ROBOR 3m &amp; T-bond yields (%)



Source: Thomson Reuters, Raiffeisen RESEARCH

## Money market focus

MM rates	1m	3m	6m	12m
Actual	6.45	6.54	6.63	6.63
Change from last week	-1.32	-1.23	-1.09	-1.09
Forecast Mar-10	7.1	7.3	7.4	7.6
Implicit forward rates	3x6	6x9	9x12	
	6.78	6.57	6.47	
Change from last week	-0.96	-1.07	-1.03	

## Bond market focus

	2y	3y	5y	10y
Actual	6.74	6.74	7.30	7.00
Change from last week	-0.76	-0.76	0.05	0.00
Forecast Mar-10	7.80	7.90	7.90	7.60
Spread to bunds	567.9	522.5	503.8	381.2
Change from last week	-69.7	8.9	0.0	2.5

## EUR/RON



Source: Thomson Reuters, Raiffeisen RESEARCH

## Market strategy

Buy RON T-bonds

## Market comment

On Wednesday, the central bank decided to cut the **monetary policy rate** by 50bp to 7%. The NBR said that the disinflation process would continue, despite a temporary rise in inflation in January under the impact of the exogenous shock resulting from excise duties on tobacco. The NBR discussed "the persistent deficit of aggregate demand" again and also mentioned the strengthening of the leu due to foreign investors' improved sentiment towards Romania thanks to the resumption of the agreements with the IMF and the EC. These were the main factors supporting the NBR's decision. The NBR also used more mild wording, saying it would ensure only "adequate management of liquidity" in the banking system, following its use of the word "firm" to describe liquidity management in January. This means that it will most likely allow more liquidity into the market, especially if sentiment towards the leu remains positive. More information should be provided at the presentation of the inflation report, when the NBR should also announce the schedule for its monetary policy meetings over the next 12 months.

## Market outlook

Money market interest rates are already trading at around the new monetary policy rate level. A large adjustment was recorded over the last month, especially in the case of interest rates for longer maturities (ROBOR 12M fell by 300bp) and bond yields (5-year yields fell by 250bp, while 10-year yields fell by 150bp). We expect the **NBR to cut the monetary policy rate further** at the coming monetary policy meetings, which means that interbank interest rates and bond yields should fall again by year-end.

Analyst: Ionut Dumitru (+40 37 2211269)

## Exchange rate focus\*

	actual	Mar-10	Jun-10	Sep-10
EUR/RON	4.12	4.30	4.25	4.20
Change from last week	0.3%			
USD/RON	2.97	2.97	2.83	2.90
Change from last week	-0.8%			

\* under revision

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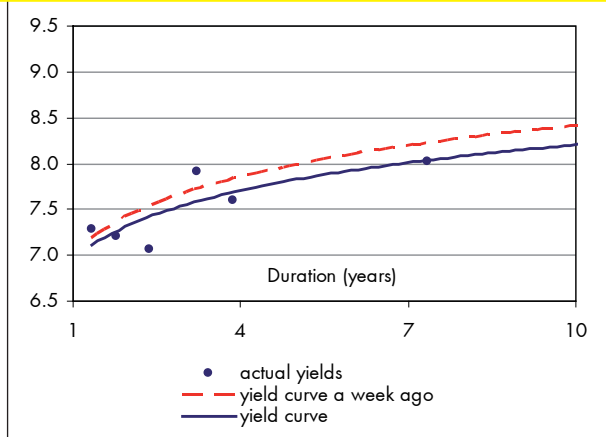
## Russia

### Lower inflation, new Eurobond planned

#### (P)review of key economic figures/events

11 Feb 10	Trade balance, USD bn	Dec 11.2 (Nov 11.6)
11 Feb 10	Trade balance, USD bn	2009 110.6 (2008 179.7)

#### RUB yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

#### Money market focus

MM rates	1m	3m	6m	12m
Actual	6.73	8.72	10.17	10.74
Change from last week	-0.25	-0.18	-0.10	-0.10
Forecast Dec-09	5.32	5.80	6.21	n.a.
Forward rates	1x2	3x6	6x9	9x12
	9.02	11.87	n.a.	n.a.
Change from last week	-0.11	-0.10	n.a.	n.a.

#### Bond market focus

	1y	2y	5y	15y
Actual	7.28	7.20	7.60	8.02
Change from last week	0.25	0.00	-0.17	-0.26
Forecast Dec-09	6.84	7.21	7.86	n.a.

#### USD/RUB



Source: Thomson Reuters, Raiffeisen RESEARCH

#### Market strategy

We predict a 35.40–35.70 trading range for the rouble against the basket. We would recommend buying the rouble at 35.80 or above against the basket, and selling it at 35.20.

#### Market comment

In January, **consumer prices increased** by 1.6% due to the hike in regulated energy tariffs, which traditionally occurs in January each year. The result was below the official estimate and the market expectation. Meanwhile, **12-month rolling yoy inflation** continued to decline, reaching **just 8.1%** – a new record low in Russia's modern history. Logically, prices for market services posted the largest increase of 3.9% on the previous month, while food price inflation nearly doubled to 1.4% in January. However, since the hikes' effect will be nearly exhausted in coming months, we expect average monthly inflation and annual inflation to be relatively low, which should lend support to the central bank cutting interest rates. Thus far **we believe it is possible that the bank will axe the key rates by 50bp already in February.**

#### Market outlook

According to the finance ministry, **Russia might place a 30-year Eurobond in April 2010** as part of its USD 17.8 bn external borrowing plan. This will be Russia's first sovereign Eurobond issue since the 1999 debt swap with London Club. Russia is rated BBB by S&P and Fitch, and Baa1 by Moody's. Recently, both Fitch and S&P changed their outlooks on Russia from negative to stable. According to our information, Russia could place up to USD 5 bn in the first issue, but we believe that the government might limit the amount of the first issue to a more modest USD 3 bn. **We project excessive demand** on the part of institutional investors **for a new benchmark.**

Analyst: Gintaras Shlizhyus (+43 1 71707 1343)

#### Exchange rate focus

	actual	Mar-10	Jun-10	Sep-10
EUR/RUB	41.57	42.93	42.12	41.72
Change from last week	2.0%			
USD/RUB	30.18	29.60	28.08	28.77
Change from last week	0.6%			

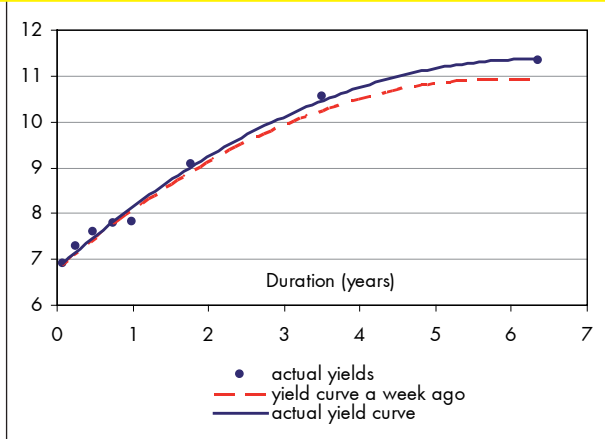
# Turkey

## Inflation outlook worsens rate prospects

### (P)review of key economic figures/events

03 Feb 10	Consumer prices, % yoy	Jan 8.1 (Nov 6.5)	Administrative prices, tax hikes and energy pushed inflation
08 Feb 10	Industrial output, % yoy	Dec 15.0 (Dec -2.2)	Weak PMI in Dec points to flat IP in mom terms, rebound in Jan
11 Feb 10	Current account, USD bn	Dec -3.5 (Nov -1.6)	

### TRY yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market strategy

Underweight TRY bonds in a portfolio against the benchmark index

### Market comment

At 1.85%, **CPI inflation** for January was relatively high in mom terms, pushing the yearly inflation rate up from 6.5% to 8.1%. The bank also expressed its expectations of a continued rise in headline inflation in February, due to tobacco, processed food and energy price components. On Monday, 8 February, the **industrial production** index for December will be released. We are slightly more pessimistic with regard to this indicator, expecting only 15% yoy and rather flat mom figures (consensus is at 18% yoy). The Turkish PMI indicator and leading indicators for Turkey's main trading partner, the Eurozone, were disappointing in December, indicating subpar economic activity and weak exports during the month. However, we expect output to rebound significantly in January due to the more favourable **Turkish PMI** reading of 53.0 for the month (+2.4 points).

### Money market focus

MM rates	1m	3m	6m	12m
Actual	6.60	6.60	6.80	7.40
Change from last week	0.29	-0.01	-0.25	-0.20
Forecast Mar-10	6.24	6.40	6.86	7.47
Forward rates	1x2	3x6	6x9	9x12
	6.14	7.07	7.48	7.78
Change from last week	-0.07	0.86	0.73	0.53

### Bond market focus

	1m	1y	2y	5y
Actual	6.91	7.81	9.07	10.56
Change from last week	0.05	-0.01	0.12	0.26
Forecast Mar-10	n.a.	7.47	8.43	9.82

### EUR/TRY



2.0710  
Sell after crossing support line 2.0390 -> 1.9500

### Market outlook

The central bank's comments regarding inflation along with the rebound in the PMI in January underpin our view that (headline) inflation pressure will continue to rise in the coming months. The central bank will be forced to **hold the key rate** at its low level of 6.5 %, but might start to increase the key rate beginning in H2 2010. In the meantime, the bond market and TRY came under pressure after a statement by Economy Minister Ali Babacan, mentioning a **delay in the IMF deal** until May. This situation, coupled with instability on the Eurozone markets, drove yields on the most highly traded 2y benchmark bond up to 9.07 %, while the lira weakened. The inability of Turkey to conclude the IMF deal and instability on the global markets will continue to exert pressure on Turkish markets.

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### Exchange rate focus

	actual	Mar-09	Jun-09	Sep-09
EUR/TRY	2.08	2.08	2.02	2.10
Change from last week	-0.4%			
USD/TRY	1.52	1.50	1.46	1.52
Change from last week	1.9%			

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