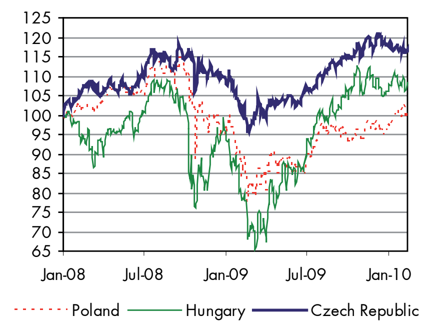
CEE Weekly
Bond Markets Outlook

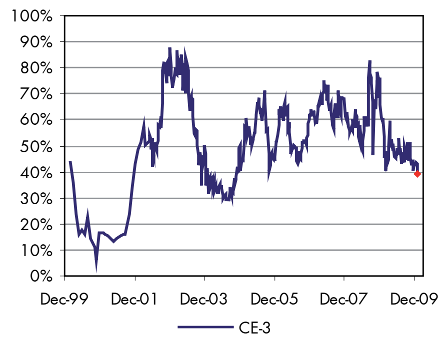
Issue 6/2010 12 February 2010

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
Poland				
PLN	4.05	4.20	3.80	3.75
1m-rate	3.4	3.6	3.6	3.8
5y bond	5.5	5.7	5.7	5.9
10y bond	6.1	6.5	6.2	6.3
Hungary				
HUF	271.3	285.0	285.0	275.0
1m-rate	6.0	5.9	5.8	5.7
5y bond	7.1	7.6	7.5	6.6
10y bond	7.5	8.0	7.9	7.0
Czech Rep.				
CZK	26.0	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	4.11	4.15	4.10	4.05
1m-rate	6.3	7.1	6.4	6.3
5y bond	6.9	7.9	7.4	7.2
10y bond	7.0	7.6	7.3	7.2
USD	1.36	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*** – The short-term development will continue to depend strongly on the global markets. Our expectations of further weakening stock markets makes us cautious on Polish bonds in the short run.
- ***Hungary*** – According to news reports, the IMF detected a gap of 1–1.2% of GDP in the 2010 budget (this fits with our view that in the base case, the deficit is around 5% of GDP).
- ***Czech Republic*** – Consumer price inflation unexpectedly decelerated to 0.7% yoy in January, down from 1% yoy in December 2009. In a month-on-month comparison, prices increased by 1.2% driven by tax changes and administrative prices.

Key upcoming events and data releases

Country	Indicator	Period	Forecast		Range	Last
12-Feb						
PL	Current account	Dec	-843	EUR mn	-1592/-922/-330	-1272
PL	M3 money supply, yoy	Jan	8.7	%	4.5/7.8/8.5	8.1
HU	CPI, yoy	Jan	6.4	%	5.5/5.8/6.1	5.6
HU	GDP, yoy	Q4	-4.0	%	-3.9/-5.0/-6.8	-7.1
15.Feb						
PL	CPI, yoy	Jan	3.4	%	3.3/3.5/4.0	3.5
CZ	PPI, mom	Jan	0.1	%	-0,1/0,4/1,1	0.1
CZ	PPI, yoy	Jan	-1.8	%	-2,0/-1,5/-0,7	-0.8
CZ	Retail sales, yoy	Dec	-3.0	%	-7,0/-3,0/0,0	-4.9
TR	Unemployment rate	Nov	n.a.	%	n.a.	13.0
RU	Industrial production, yoy	Jan	7.5	%	1.0/6.3/10.2	2.7
16-Feb						
PL	Employment, yoy	Jan	-2.8	%	n.a.	-1.8
PL	Corporate sector wages, yoy	Jan	3.4	%	0.6/2.7/5.1	6.5
TR	Consumer confidence	Jan	n.a.		n.a.	78.8
TR	CBRT key rate decision	Feb	6.5	%	6.5/6.5/6.5	6.5
18-Feb						
PL	Industrial production, yoy	Jan	6.6	%	-1.1/6.2/13.5	7.4
PL	PPI, yoy	Jan	0.6	%	-0.5/0.9/3.2	2.1
19-Feb						
HU	Gross wages, yoy	Dec	-2.0	%	n.a.	-3.0

Bond auctions

		ISIN	Coupon	Maturity	Volume
15-Feb					
TR	182d T-bill	n.a. (new)	0.00%	18 Aug 2010	n.a.
TR	New CPI linked bond	n.a. (new)	n.a.	11 Feb 2015	n.a.
16-Feb					
TR	2y T-bond (tap)	TRT161111T14	0.00%	16 Nov 2011	n.a.
TR	Floating rate note (tap)	TRT040117T14	n.a.	04 Jan 2017	n.a.

Raiffeisen RESEARCH
RZB Group

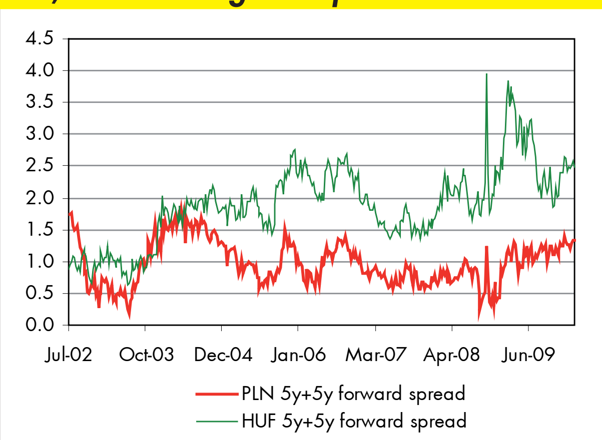
Local currency bonds
Market overview

CEE local currency bond market snapshot

12/02/2010	Maturity	Coupon %	Ask price	YTM %	Spread to bunds (bp)	MDuration
			Poland			
PLN 2y Gov. Bond	25/ Jul 12	0.00	89.09	4.86	383	2.4
PLN 5y Gov. Bond	25/ Apr 15	5.50	100.05	5.48	321	4.5
PLN 10y Gov. Bond	25/ Oct 19	5.50	95.79	6.08	285	7.6
PLN 20y Gov. Bond	25/ Apr 29	5.75	96.50	6.06	214	11.4
			Hungary			
HUF 3y Gov. Bond	24/ Oct 13	7.50	102.55	6.68	518	3.3
HUF 5y Gov. Bond	12/ Feb 15	8.00	103.72	7.09	479	4.3
HUF 10y Gov. Bond	24/ Jun 19	6.50	93.33	7.51	428	6.9
HUF 15y Gov. Bond	24/ Nov 23	6.00	87.73	7.45	369	9.3
			Czech Republic			
CZK 2y Gov. Bond	5/ Oct 11	6.55	108.30	1.37	44	1.6
CZK 5y Gov. Bond	11/ Apr 15	3.80	102.40	3.28	102	4.6
CZK 10y Gov. Bond	11/ Apr 19	5.00	104.70	4.36	114	7.3
CZK 15y Gov. Bond	25/ May 24	5.70	106.35	5.06	130	9.9
			Slovakia			
SKK 2y Gov. Bond	4/ May 12	0.00	95.77	1.97	77	2.2
SKK 5y Gov. Bond	11/ Feb 14	4.90	107.45	2.89	63	3.7
SKK 10y Gov. Bond	12/ May 19	5.30	110.59	3.91	68	7.4
			Croatia			
HRK 5y Gov. Bond	11/ Jul 13	4.50	100.01	4.50	202	3.2
HRK 10y Gov. Bond	8/ Feb 17	4.75	96.01	5.45	223	6.1
			Romania			
RON 3y Gov. Bond	25/ Oct 10	6.00	99.09	7.33	586	0.7
RON 5y Gov. Bond	5/ Mar 12	6.50	98.52	7.30	505	1.9
			Turkey			
TRY 2y Gov. Bond	16/ Nov 11	0.00	86.18	8.83	781	1.8
TRY 5y Gov. Bond	6/ Aug 14	11.00	102.95	10.42	817	3.6
TRY 10y Gov. Bond	15/ Jan 20	10.50	97.90	11.12	791	6.5

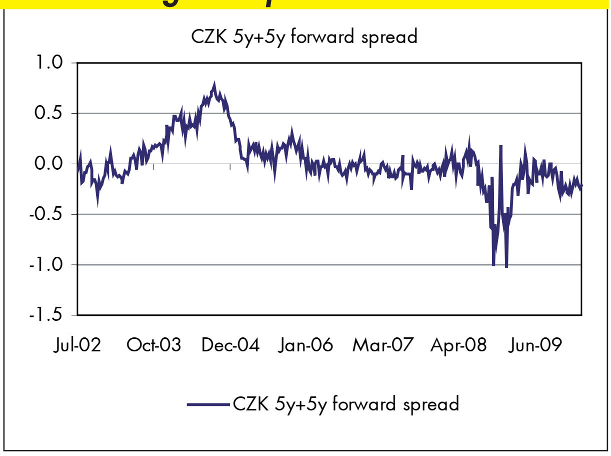
Source: Thomson Thomson Reuters, Raiffeisen RESEARCH

PLN, HUF convergence spread



Source: Thomson Thomson Reuters, Raiffeisen RESEARCH

CZK convergence spread



Source: Thomson Thomson Reuters, Raiffeisen RESEARCH

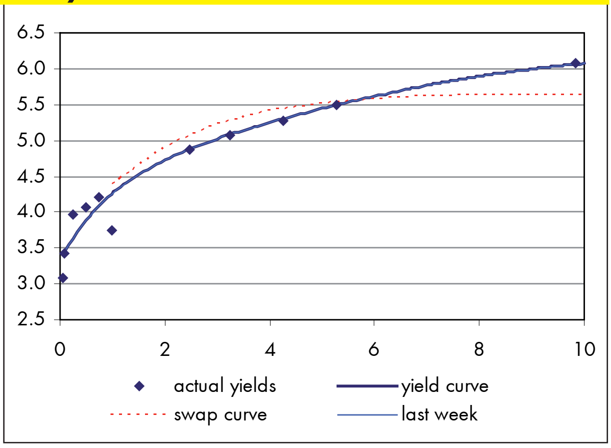
Poland

More optimistic euro convergence plan

(P)review of key economic figures/events

12 Feb 10	Current account, EUR mn	Dec -843 (Nov -1272)
16 Feb 10	Employment, % yoy	Jan -2.8 (Dec -1.8)
18 Feb 10	Industrial production, % yoy	Jan 6.6 (Dec 7.4)

PLN yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

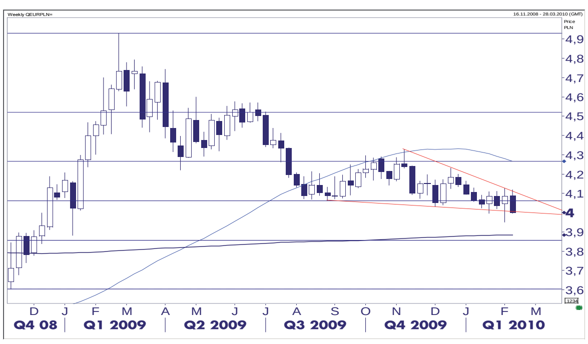
Money market focus

MM rates	***1m***	***3m***	***6m***	***12m***
Actual	***3.42***	***3.97***	***4.07***	***4.28***
Change from last week	-0.01	-0.03	-0.03	-0.01
Forecast Mar-10	3.60	4.15	4.20	4.50
Forward rates	***3x6***	***6x9***	***9x12***	
	4.19	4.44	4.45	
Change from last week	-0.03	0.00	0.02	

Bond market focus

	2y	***5y***	***10y***	***20y***
Actual	***4.88***	***5.50***	***6.08***	***6.12***
Change from last week	-0.02	-0.02	0.01	0.06
Forecast Mar-10	5.20	5.70	6.50	6.40
Spread to bunds	***382.9***	***320.7***	***285.4***	***214.3***
Change from last week	2.3	-4.9	0.6	5.9
Spread to swaps	***2.4***	***6.2***	***-39.9***	

EUR/PLN



3.9996
Further drop towards the retracement 3.8573 possible.

Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral PLN T-bonds

Market comment

Polish bonds moved more or less sideways compared to Friday of last week with the exception of the 10-year benchmark bond, whose yield increased by roughly 10bp. The finalised euro convergence plan did not bring much insight beyond what was already known through the media coverage. The government outlined GDP growth rates above 4% yoy in 2011 and 2012 and wants to push the budget deficit to 3% of GDP in 2012. Although the country will meet the Maastricht criteria in 2012, the government has not issued a new Eurozone entry date. Nevertheless, EUR/PLN headed towards 4.00 at the end of the week.

Market outlook

The euro convergence plan had no impact on bond yields or EUR/PLN, as investors are aware that the document is mostly oriented towards public relations. The budget draft assumed a growth rate of 1.2% yoy for 2010, whereas 3% yoy has been pencilled in for the convergence plan. Domestically, the government will continue selling positive surprises concerning the budget outcome and the prospective debt level for 2010 to the public. This should, of course, leave the financial markets untouched, as there is no real new information in the statements, given that growth will be substantially higher than previously assumed. The short-term development will continue to depend strongly on the global markets. Our expectations of further weakening stock markets makes us cautious on Polish bonds in the short run.

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Exchange rate focus

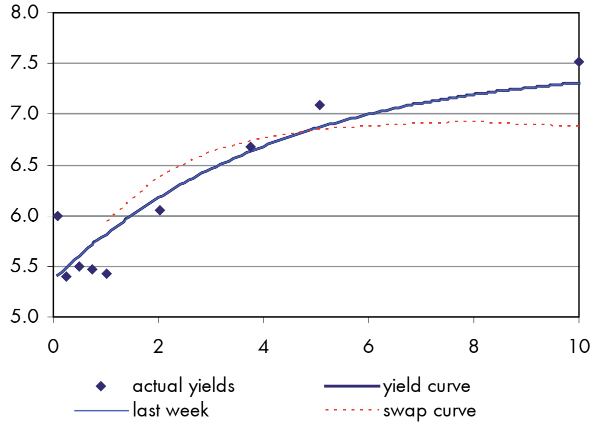
	actual	***Mar-10***	***Jun-10***	***Sep-10***
EUR/PLN	***4.05***	***4.20***	***3.80***	***3.75***
Change from last week	-0.7%			
USD/PLN	***2.95***	***2.90***	***2.53***	***2.59***
Change from last week	-1.5%			

Hungary
Uncertain budget outlook

(P)review of key economic figures/events

12 Feb 10	CPI, % yoy	Jan 6.4 (Dec 5.6)	Inflation to fall in the coming months
12 Feb 10	GDP, % yoy	Q4 -4.0 (Q3 -7.0)	Q4 GDP better than expected, full year GDP at 6.3% yoy
19 Feb 10	Gross wages, % yoy	Dec -2.0 (Nov -3.0)	

HUF yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Money market focus*

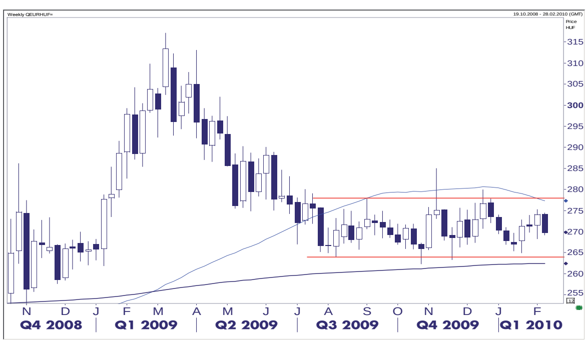
MM rates	1m	3m	6m	12m
Actual	**6.00**	**5.99**	**5.95**	**5.85**
Change from last week	0.00	0.00	0.00	0.00
Forecast Mar-10	**5.9**	**5.8**	**5.8**	**5.8**

Bond market focus*

	3y	5y	10y	15y
Actual	**6.68**	**7.09**	**7.51**	**7.45**
Change from last week	-0.04	0.16	0.10	0.10
Forecast Mar-10	7.2	7.6	8.0	7.9
Spread to bunds	**517.6**	**479.3**	**428.3**	**368.5**
Change from last week	-0.6	12.6	6.2	16.3

* under revison

EUR/HUF



269.94
Sideways ranging from 264.10 to 277.85.

Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Sell HUF T-bonds

Market comment

The local FI and FX market is predominantly being driven by the general global sentiment towards the EMU, sparked by the news about Greece. We have seen some market consolidation, with EUR/HUF approaching 270 again (meaning that HUF strengthened by approximately 1% in one week).
The trade balance for 2009 was a EUR 4.5 bn surplus – export dynamics already turned positive in December. For 2010, we predict that the trade balance will increase further.

Market outlook

The week ahead will bring an updated evaluation by the IMF. According to news reports, the IMF detected a gap of 1–1.2% of GDP in the 2010 budget (this fits with our view that in the base case, the deficit is around 5% of GDP instead of the 3.8% target – not counting the debt consolidation needed by state-owned transport companies). Nevertheless, the feasibility of the 2010 budget is a highly political issue. We believe that after the elections in April, the new government will renegotiate – i.e. increase – the 2010 (and also the 2011) deficit target with the IMF. The budget buzz will therefore ease in the meantime, before it really hits the markets sometime in Q2. Unless nervousness increases regarding Greece, we still see more than a 50% chance of a 25bp rate cut in February (25 Feb.). We continue to recommend selling Hungarian government bonds over the next 1–2 months (the 2–3 year segment in particular appears to be overpriced).

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Exchange rate focus

	actual	Mar-10	Jun-10	Sep-10
EUR/HUF	**271.34**	**285.0**	**285.0**	**275.0**
Change from last week	0.5%			
USD/HUF	**197.34**	**196.6**	**190.0**	**189.7**
Change from last week	-0.2%			

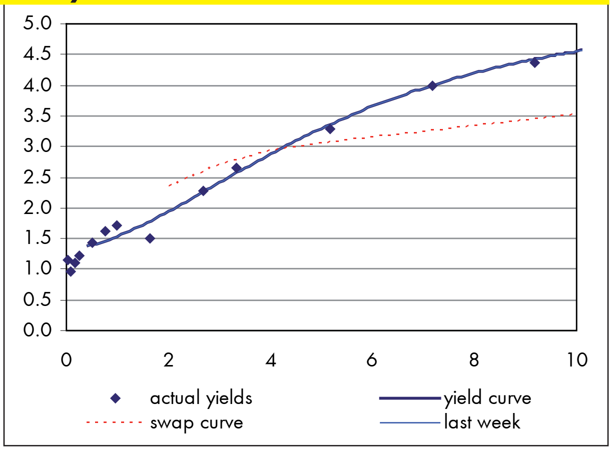
Czech Republic

Inflation starts lower then expected in 2010

(P)review of key economic figures/events

09 Feb 10	CPI, % yoy	Jan 0.7 (Dec 1.0)	No inflationary pressure from demand side
12 Feb 10	GDP flash estimate, % yoy real	Q4 -4.2 (Q3 -4.1)	Q4 GDP unexectedly shrunk in Q4 quarter-on-quarter#

CZK yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Money market focus

MM rates	*1m*	*3m*	*6m*	*12m*
Actual	*0.97*	*1.22*	*1.43*	*1.71*
Change from last week	0.00	-0.01	-0.02	-0.02
Forecast Mar-10	1.2	1.3	1.4	1.8
Forward rates	*1x2*	*3x6*	*6x9*	*9x12*
	1.26	1.65	1.97	2.00
Change from last week	-0.02	-0.03	0.01	-0.05

Bond market focus

	2y	*5y*	*10y*	*15y*
Actual	*1.50*	*3.28*	*4.36*	*5.06*
Change from last week	0.10	0.00	-0.01	0.02
Forecast Mar-10	1.8	3.3	4.2	4.7
Spread to bunds	*44.3*	*101.8*	*113.7*	*129.7*
Change from last week	16.9	-1.1	-4.6	8.2
Spread to swaps	*99.8*	*-10.4*	*-66.7*	*n.a.*

EUR/CZK

25.949
Sideways within the rectangle from 25.83 to 26.62.

Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Buy CZK T-bonds 10y or more

Market comment

Investors jumped at the auction of the 15-year Czech government bond, with the bid/cover ratio reaching a high level of 4.51. However, the average yield increased to 5.16% from 4.80% at the auction of the same bond two months ago. Thus, the Ministry of Finance decided to sell only a part of the initial offer under the current market conditions. Consumer price inflation unexpectedly decelerated to 0.7% yoy in January, down from 1% yoy in December 2009. In a month-on-month comparison, prices increased by 1.2% driven by tax changes (higher VAT rates and exercise taxes on tobacco and car fuel) and administrative prices (particularly rents). The market expected a 1.5% mom increase to 1% yoy. Also the Czech National Bank (CNB) had expected slightly higher inflation around 0.9% yoy.

Market outlook

The inflation data for January confirmed that there are no signs of demand driven pressures on prices and inflation remains subdued. Therefore, the CNB is under no time pressure to raise its key interest rate. However, during summer inflation is expected to speed up to 2% yoy and later even above this level, which is the midpoint of the new CNB inflation target range. At that time the CNB is likely to start a new cycle of rate hikes. For the full year 2010 we expect average annual inflation to reach 1.5% yoy, slightly up from 1% in 2009. CPI inflation should be around 2.5% yoy by the end of 2010. As a reaction to the inflation data Czech government bond yields went slightly down, while the koruna did not react much. We stick to our short-term buy recommendation for Czech government bonds with long maturities.

Analysts: Michal Brozka (+420 221 141 498)
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Exchange rate focus

	actual	*Mar-10*	*Jun-10*	*Sep-10*
EUR/CZK	*26.01*	*25.8*	*25.4*	*24.8*
Change from last week	0.4%			
USD/CZK	*18.96*	*17.8*	*16.9*	*17.1*
Change from last week	-0.5%			

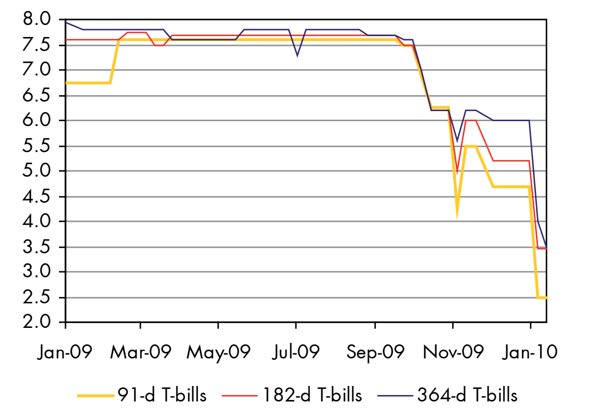
Croatia

Retail trade declines by 15.3% in 2009

(P)review of key economic figures/events

09 Feb 10	Retail trade, % yoy	Dec -12.1 (Nov (-15.8)
10 Feb 10	PPI, % mom	Jan 1.3 (Dec 0.0)
10 Feb 10	PPI, % yoy	Jan 3.0 (Dec 1.6)

Interest rates on T-bills



Source: Thomson Reuters, Raiffeisen RESEARCH

Money market focus

	1m	3m	6m	12m
ZIBOR actual	***1.13***	***1.62***	***2.30***	***3.62***
Change from last week	-0.03	-0.06	-0.27	-0.31
T-bills actual	***n.a.***	***2.48***	***3.45***	***3.49***

Exchange rate focus

	actual	Mar-10	Jun-10	Sep-10
EUR/HRK	***7.319***	***7.36***	***7.40***	***7.40***
Change from last week	0.1%			
USD/HRK	***5.31***	***5.08***	***4.93***	***5.10***
Change from last week	1.6%			

EUR/HRK

7.3200
Price kept within a rectangle -> buy 7.3360 -> 7.4500.

Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral EUR/HRK

Market comment

In line with our expectations, the decline in retail trade slowed at the end of the year, coming in at 12.1% yoy in real terms (11.1% nominally). However, in 2009, the fall in retail trade turnover hit 15.3% yoy in real terms (14.1% nominally) due to weaker household purchasing power as a result of negative trends on the labour market and the increased fiscal burden on wages, which reduced disposable household income. Since we expect the negative outlook for the labour market to continue in H1 2010, retail trade results should be modest, although the decline should be much slower than in 2009. Moreover, household income will be exposed to higher inflationary pressures (higher energy prices). And finally, this brings us once again to the conclusion that structural reforms are needed to encourage investment, production and exports, since the economy is too dependent on consumption. In January, producer prices increased by 3.0% yoy and 1.3% mom, with energy prices contributing the most. In 2010, we expect producer prices to continue rising due to the increase in raw material prices and last year's lower base.

Market outlook

Things were calm this week on the domestic FX market, with the EUR/HRK FX rate hovering constantly around EUR/HRK 7.32. The demand and supply of euros in the corporate and banking sectors were in balance, thus exerting no significant pressure on the kuna. In the week ahead, we do not expect to see major changes on the domestic FX market, since neither supply nor demand are significant enough to have a strong influence on the FX rate. In monthly terms, EUR/HRK could probably rise slightly due to corporate foreign debt coming due and increased liquidity in the system as a result of the CNB's decision to cut the reserve requirement rate. However, liquidity has been at a high level for months now, and no major depreciation pressures were recorded on the kuna.

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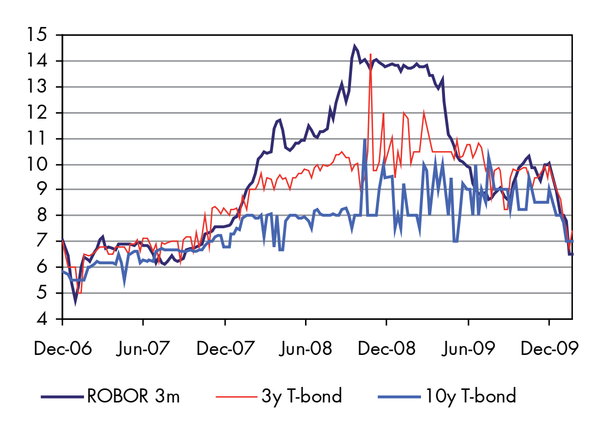
Romania

Economic activity bottoms out

(P)review of key economic figures/events

12 Feb 10	GDP, % yoy	Q4 09 -6.6 (Q3 09 -7.1)
12 Feb 10	Industrial production, % yoy	Dec 8.3 (Nov 3.0)
12 Feb 10	CPI, % yoy	Jan 5.2 (Dec 4.7)

ROBOR 3m & T-bond yields (%)



Source: Thomson Reuters, Raiffeisen RESEARCH

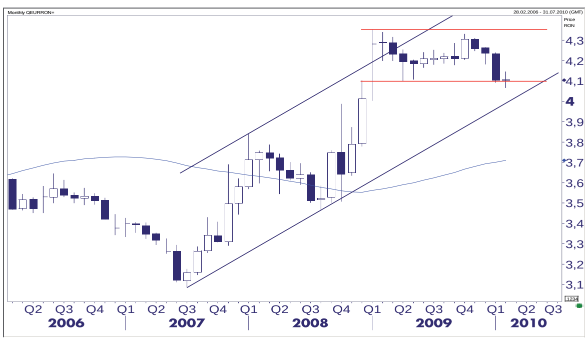
Money market focus

MM rates	***1m***	***3m***	***6m***	***12m***
Actual	***6.28***	***6.51***	***6.61***	***6.61***
Change from last week	-0.17	-0.03	-0.02	-0.02
Forecast Mar-10	7.1	7.3	7.4	7.6
Implicit forward rates	***3x6***	***6x9***	***9x12***	
	6.77	6.55	6.45	
Change from last week	-0.01	-0.02	-0.02	

Bond market focus

	2y	***3y***	***5y***	***10y***
Actual	***7.40***	***7.40***	***7.00***	***7.00***
Change from last week	0.66	0.66	-0.30	0.00
Forecast Mar-10	7.80	7.90	7.90	7.60
Spread to bunds	***634.8***	***589.6***	***470.3***	***377.3***
Change from last week	72.3	-33.6	0.0	-3.8

EUR/RON



4.1060
Support-zone 4.0150 - 4.1000: buy 4.1700 -> move back towards 4.3000.

Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Buy RON T-bonds

Market comment

The monthly inflation rate remained high in January (+1.7% mom), fuelled by the increase in tobacco prices (14% mom), electricity tariffs (4.2% mom) and fuel prices. The increase in tobacco and fuel prices resulted from the hike in excise taxes. However, underlying inflationary pressures remained weak, as the CORE 3 measure of inflation (total CPI excluding administered, volatile, and fuel and tobacco prices) continued to advance slowly. The flash estimate for real GDP in Q4 2009 showed that economic activity has contracted in the last quarter of 2009, as well. Real GDP shrank by 1.5% qoq in Q4 (-0.6% qoq in Q3). The annual rate improved from -7.1% yoy in Q3 2009 to -6.6% yoy in Q4 2009. All in all the economy contracted by 7.2% yoy in 2009. The dynamics of the GDP components will be detailed on 3 March. Based on the available data, we think that net exports (on the demand side) and industry (on the supply side) remain the main drivers of GDP. At the same time, domestic demand (consumption and investments) has remained weak, given that both retail sales and the value of imports fell in Q4 (-3.7% qoq and -2.8% qoq, respectively).

Market outlook

Recent data do not alter our expectations regarding additional cuts in the key interest rate at the next monetary policy meeting. High inflation rates in recent months were due mainly to the hike in excise taxes, which was a one-off shock and did not alter inflation expectations. We therefore expect to see low monthly inflation rates again starting in February. Real GDP remains substantially below its potential level, which also argues for additional easing of the monetary policy.

Analyst: Ionut Dumitru (+40 37 2211269)

Exchange rate focus

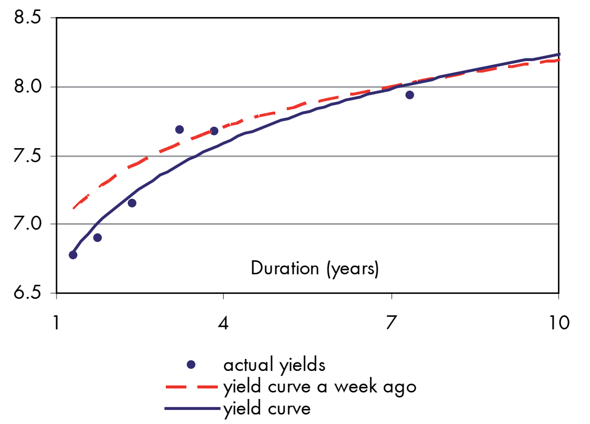
	actual	***Mar-10***	***Jun-10***	***Sep-10***
EUR/RON	***4.11***	***4.15***	***4.10***	***4.05***
Change from last week	0.3%			
USD/RON	***2.98***	***2.86***	***2.73***	***2.79***
Change from last week	-0.3%			

Russia
Budget surplus and stronger rouble

(P)review of key economic figures/events

15 Feb 10	Industrial production, % yoy	Jan 7.5 (Dec 2.7)

RUB yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

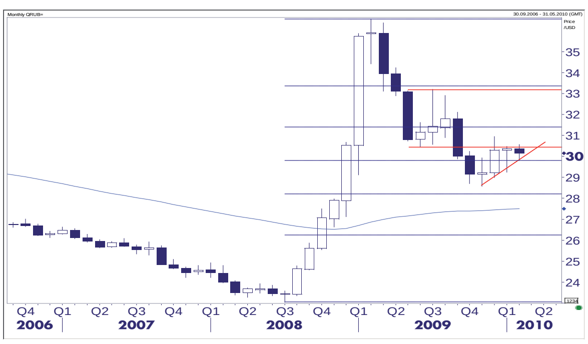
Money market focus

MM rates	1m	3m	6m	12m
Actual	5.80	6.63	8.19	8.46
Change from last week	-0.93	-1.51	-2.09	-1.98
Forecast Dec-09	5.32	5.80	6.21	n.a.
Forward rates	1x2	3x6	6x9	9x12
	6.80	9.94	n.a.	n.a.
Change from last week	-2.22	-1.92	n.a.	n.a.

Bond market focus

	1y	2y	5y	15y
Actual	6.78	6.90	7.68	7.94
Change from last week	-0.50	-0.31	0.07	-0.09
Forecast Dec-09	6.84	7.21	7.86	n.a.

USD/RUB



30.152
Sell after crossing of the support line 29.590 (-> 28.000).

Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

We see the rouble ceiling at 35.10 against the dual currency basket, after which we expect mild profit taking.

Market comment

Russia's central government balance recorded a surplus of 2.4% of GDP in January according to the finance ministry's preliminary report. Fiscal revenue reached 10.6% of the planned amount for 2010, while spending barely scratched 6.8%. The strong fiscal result was no surprise to us since the central government collects a substantial amount of Q4 2009 taxes in January. We expect the surplus to disappear in February–March, when spending will accelerate according to the plan. However, we expect the budget deficit in 2010 to be a bit lower than the government plan of minus 6.8% of GDP. In another story this week, we received confirmation that interest rate cuts could continue this year. Inflation slowed to just 0.2% in the first week of February as the effect of hikes in regulated energy tariffs on prices began to fade. Despite earlier comments from the central bank alleging a longer pause in monetary easing, we believe the bank will resume rate cuts at the end of February or in early March. Market consensus expects 100bp in rate cuts for 2010 as a whole, whereas we believe 150bp would be possible considering the benign inflation outlook and slow credit growth.

Market outlook

The rouble rally could pause at 35.20 vs. the basket as more dollar appreciation against the euro may trigger a decline in commodity prices. However, prospects of RUB rate cuts should support the currency outlook in the medium term. The rouble gained 2.5% in real terms this January, whereas it lost 3.9% in 2009. We expect rouble appreciation vs. the basket in 2010, and we have higher expectations for Q1 and Q2.

Analyst: Gintaras Shlizhyus (+43 1 71707 1343)

Exchange rate focus

	actual	Mar-10	Jun-10	Sep-10
EUR/RUB	41.08	42.93	42.12	41.72
Change from last week	1.2%			
USD/RUB	30.17	29.60	28.08	28.77
Change from last week	0.0%			

Raiffeisen RESEARCH
RZB Group

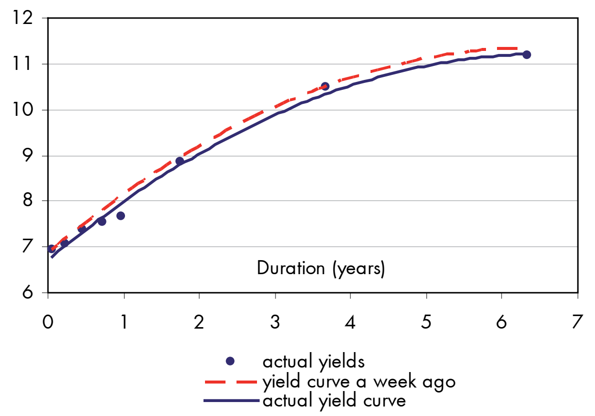
Turkey

Key rate on hold

(P)review of key economic figures/events

15 Feb 10	Unemployment rate, % avg	Oct-Dec n.a. (Sep-Nov 13.0)	
16 Feb 10	Consumer confidence	Jan n.a. (78.8)	
16 Feb 10	CBRT key rate decision	Feb 6.5 (Jan 6.5)	In H2 rate hikes of 100-150 bp expected

TRY yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Underweight TRY bonds in a portfolio against the benchmark index

Market comment

Industrial production figures for December offered an upside surprise, coming in at 25.2% yoy and 8.7% mom, while consensus expected "just" 18% yoy. The high figure was related to a very low base from December 2008 industrial production (-15% mom). In seasonally adjusted terms, production increased by 0.7 mom, which is a bit less than the 1.0% seen on average in the previous six months. Thus, output figures also point to a (slightly slower) continuation of the economic recovery in the fourth quarter of 2009. In addition, positive industrial output development throughout Q4 suggests positive growth of overall GDP in the period as well; thus, the slump in GDP in 2009 will likely be less than -6%.

Money market focus

MM rates	1m	3m	6m	12m
Actual	***6.60***	***6.70***	***7.10***	***7.50***
Change from last week	0.00	0.10	0.30	0.10
Forecast Mar-10	***6.74***	***6.90***	***7.36***	***7.93***
Forward rates	***1x2***	***3x6***	***6x9***	***9x12***
	6.76	7.58	7.89	7.62
Change from last week	0.62	0.52	0.41	-0.16

Market outlook

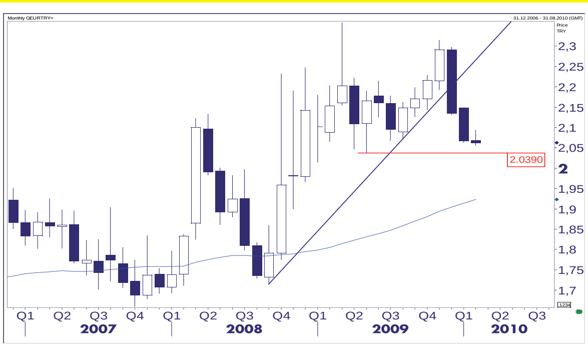
The Central Bank of the Republic of Turkey (CBRT) will hold its monetary policy meeting on Tuesday, 16 February. There is widely held consensus that the current key interest rate of 6.5% will not be touched. The CBRT recently increased its inflation expectations for 2009 by 1.5% to 6.9% and indicated a hold on interest rate cuts for the immediate future. Since no surprises are expected with regard to monetary policy, the market will likely be driven by market sentiment next week. After a slump in early February, both Turkish securities markets and the lira regained some of the lost ground over the week. The lira inched back from almost USD/TRY 1.54 to 1.51 and the yield for the most traded (2-year) T-bond fell by 22bp to 8.85%. If fears regarding the fiscal situation of the southern Eurozone countries taper off to some extent, this recent positive trend on the Turkish markets may well continue in the short run.

Bond market focus

	1m	1y	2y	5y
Actual	***6.95***	***7.66***	***8.85***	***10.48***
Change from last week	0.04	-0.15	-0.22	-0.08
Forecast Mar-10	***n.a.***	***7.93***	***8.87***	***10.37***

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

EUR/TRY



2.0613
Drop below support line 2.0390 (-> 1.9500) likely.

Exchange rate focus

	actual	Mar-09	Jun-09	Sep-09
EUR/TRY	***2.06***	***2.05***	***1.99***	***2.07***
Change from last week	-0.7%			
USD/TRY	***1.51***	***1.50***	***1.46***	***1.52***
Change from last week	-0.7%			

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