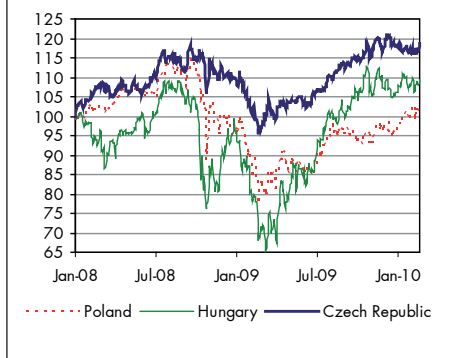


# CEE Weekly Bond Markets Outlook

Issue 7/2010

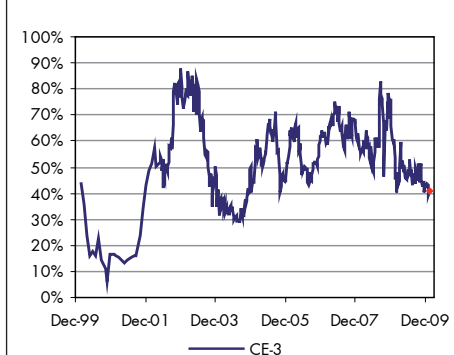
19 February 2010

## Performance of 7-10y bond indices



Source: EFFAS, Bloomberg, Raiffeisen RESEARCH

## RZB Convergence Index



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

## Forecast

	current	Mar-10	Jun-10	Sep-10
<b>Poland</b>				
PLN	3.99	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
<b>Hungary</b>				
HUF	271.4	285.0	285.0	275.0
1m-rate	6.0	5.9	5.8	5.7
5y bond	7.0	7.6	7.5	6.6
10y bond	7.4	8.0	7.9	7.0
<b>Czech Rep.</b>				
CZK	25.7	25.8	25.4	24.8
1m-rate	1.0	1.2	1.1	1.3
5y bond	3.2	3.3	3.3	3.7
10y bond	4.2	4.2	4.1	4.4
<b>Romania</b>				
RON	4.13	4.15	4.10	4.05
1m-rate	6.4	7.1	6.4	6.3
5y bond	7.2	7.9	7.4	7.2
10y bond	7.2	7.6	7.3	7.2
<b>USD</b>	1.35	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 latest industrial production data confirmed that Polish economic growth is gathering pace. Nevertheless, we do not expect the data to have an impact on next week's MPC rate decision. The most likely scenario is thus that the reference rate remains unchanged at 3.5%.
- Hungary** – The week ahead is going to start with the Monetary Council's rate-setting meeting. We anticipate another 25bp rate cut, which would bring the key rate to a historically low level of 5.75%. The Council is expected to adopt a somewhat more dovish tone.
- Czech Republic** – Preliminary GDP data for Q4 2009 showed a quarter-on-quarter decline of 0.6%, which brings the year-on-year GDP decline to 4.2% (4.1% in Q3). The market had expected a 0.6% qoq increase (-2.8% yoy). Although the figure was definitely a negative surprise for the market, it is not so bad after some consideration.

## Key upcoming events and data releases

Country	Indicator	Period	Forecast	Range	Last
22-Feb					
HU	Monetary council meeting	Feb	5.8 %	5.75/5.75/6.0	6.0
HR	CPI, mom	Jan	1.0 %	n.a.	-0.6
HR	CPI, yoy	Jan	1.6 %	n.a.	1.9
TR	Capacity utilisation	Feb	n.a.	n.a.	67.8
TR	Manufacturing confidence	Feb	n.a.	n.a.	102.0
23-Feb					
PL	Retail sales, yoy	Jan	2.1 %	1.9/5.3/9.5	7.2
PL	Unemployment	Jan	12.8 %	12.4/12.8/12.8	11.9
24-Feb					
PL	NBP rate decision	Jan	3.5 %	3.5/3.5/3.5	3.5
HU	Retail trade, yoy	Dec	-8.0 %	n.a.	-7.8
26-Feb					
HU	Unemployment	Jan	10.6 %	n.a.	10.5
HR	Imports	Jan	1036.0 EUR mn	n.a.	1194.0
HR	Exports	Jan	519.0 EUR mn	n.a.	626.5
TR	Trade balance	Jan	n.a. USD bn	n.a.	-4.9

## Bond auctions

		ISIN	Coupon	Maturity	Volume
25-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

# Local currency bonds

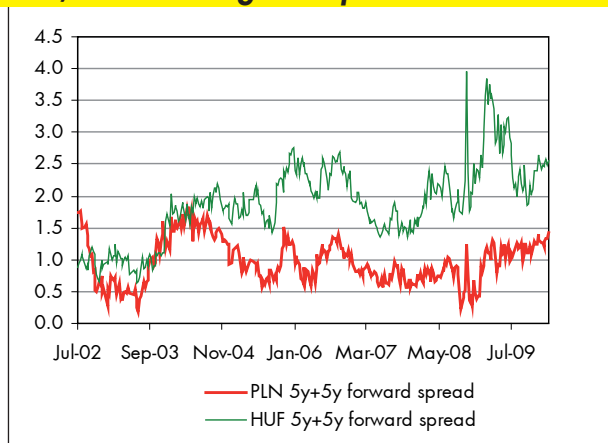
## Market overview

### CEE local currency bond market snapshot

18/02/2010	Maturity	Coupon %	Ask price	YTM %	Spread to bunds (bp)	MDuration
<b>Poland</b>						
PLN 2y Gov. Bond	25/ Jul 12	0.00	89.10	4.89	392	2.4
PLN 5y Gov. Bond	25/ Apr 15	5.50	100.16	5.46	321	4.5
PLN 10y Gov. Bond	25/ Oct 19	5.50	95.80	6.08	286	7.6
PLN 20y Gov. Bond	25/ Apr 29	5.75	96.35	6.08	208	11.4
<b>Hungary</b>						
HUF 3y Gov. Bond	24/ Oct 13	7.50	102.73	6.62	518	3.3
HUF 5y Gov. Bond	12/ Feb 15	8.00	104.03	7.01	477	4.3
HUF 10y Gov. Bond	24/ Jun 19	6.50	94.03	7.40	418	6.9
HUF 15y Gov. Bond	24/ Nov 23	6.00	88.60	7.34	354	9.3
<b>Czech Republic</b>						
CZK 2y Gov. Bond	5/ Oct 11	6.55	108.54	1.18	22	1.6
CZK 5y Gov. Bond	11/ Apr 15	3.80	102.55	3.25	103	4.6
CZK 10y Gov. Bond	11/ Apr 19	5.00	105.70	4.23	102	7.3
CZK 15y Gov. Bond	25/ May 24	5.70	107.15	4.99	118	9.9
<b>Slovakia</b>						
SKK 2y Gov. Bond	4/ May 12	0.00	95.96	1.90	93	2.2
SKK 5y Gov. Bond	11/ Feb 14	4.90	107.89	2.77	55	3.7
SKK 10y Gov. Bond	12/ May 19	5.30	110.28	3.95	73	7.4
<b>Croatia</b>						
HRK 5y Gov. Bond	11/ Jul 13	4.50	100.03	4.49	201	3.1
HRK 10y Gov. Bond	8/ Feb 17	4.75	96.13	5.43	221	6.1
<b>Romania</b>						
RON 3y Gov. Bond	25/ Oct 10	6.00	100.12	5.76	432	0.7
RON 5y Gov. Bond	5/ Mar 12	6.50	98.90	7.10	487	1.9
<b>Turkey</b>						
TRY 2y Gov. Bond	16/ Nov 11	0.00	86.23	8.89	793	1.7
TRY 5y Gov. Bond	6/ Aug 14	11.00	102.90	10.43	820	3.6
TRY 10y Gov. Bond	15/ Jan 20	10.50	99.20	10.89	767	6.5

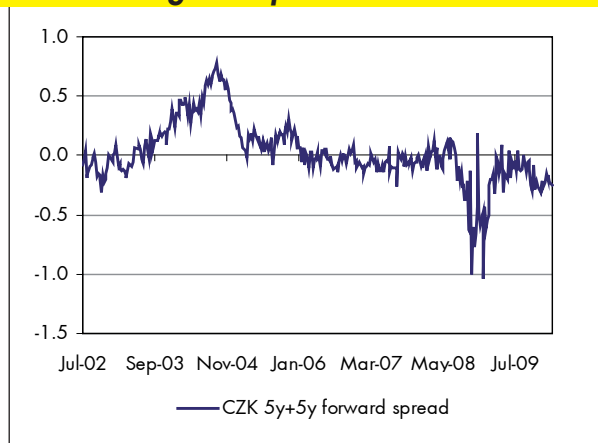
Source: Thomson Thomson Reuters, Raiffeisen RESEARCH

### PLN, HUF convergence spread



Source: Thomson Thomson Reuters, Raiffeisen RESEARCH

### CZK convergence spread



Source: Thomson Thomson Reuters, Raiffeisen RESEARCH

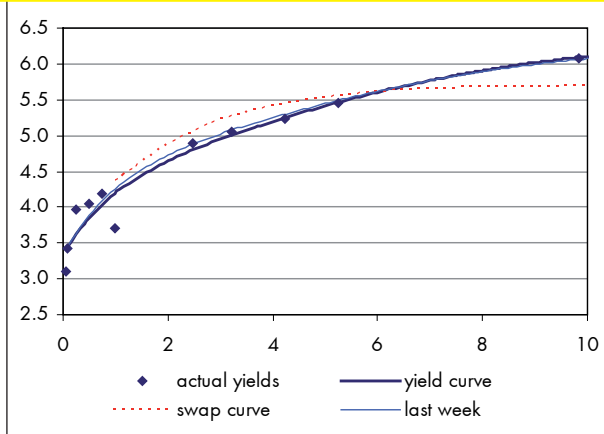
# Poland

## Positive industrial production data

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

<b>23 Feb 10</b>	Retail sales, % yoy	Jan 2.1 (Dec 7.2)
<b>23 Feb 10</b>	Unemployment, %	Jan 12.8 (Dec 11.9)
<b>24 Feb 10</b>	NBP rate decision, %	Feb 3.5 (Jan 3.5)

### PLN yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

### Money market focus

MM rates	1m	3m	6m	12m
<b>Actual</b>	<b>3.42</b>	<b>3.96</b>	<b>4.05</b>	<b>4.26</b>
Change from last week	0.00	-0.01	-0.02	-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>	
Change from last week	-0.03	-0.02	-0.02	

### Bond market focus

	2y	5y	10y	20y
<b>Actual</b>	<b>4.89</b>	<b>5.46</b>	<b>6.08</b>	<b>6.08</b>
Change from last week	0.00	-0.04	0.00	-0.04
Forecast Mar-10	5.20	5.70	6.50	6.40
<b>Spread to bunds</b>	<b>392.1</b>	<b>321.4</b>	<b>286.4</b>	<b>207.8</b>
Change from last week	9.2	0.7	0.1	-6.5
<b>Spread to swaps</b>	<b>1.5</b>	<b>13.1</b>	<b>-33.7</b>	

### EUR/PLN



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market strategy

Neutral PLN T-bonds

### Market comment

Demand for Polish bonds on the primary market remains strong. On Wednesday the MoF issued 10 year bonds worth PLN 2.5 bn with demand exceeding supply 2.5 times. The issuance had little impact on secondary market yields, which did not move much during the whole week. Industrial production data published on Thursday surprised on the upside with an 8.5% yoy growth. Seasonally adjusted values showed that in mom-terms industrial production was even up by 2.5% from December. The numbers came in above analysts' expectations.

### Market outlook

The industrial production figures show that the economic improvement in Poland is accelerating, though there are still large base effects present in the figures. Manufacturing sector output growth was 10.1% yoy which most likely reflects an increasing export demand. The data is not (yet) relevant for the bond market, but could become important in the near future if growth rates around 10% yoy (which could have been reached already in February) become a rule rather than the exception. So far we believe that inflation should decline in the coming months to reach levels below 2% around mid-year. We expect the first rate hikes by the NBP at the end of Q3 and do not think that the economic data from this week will have an impact on the MPC rate decision due next week.

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>3.99</b>	<b>4.20</b>	<b>3.80</b>	<b>3.75</b>
Change from last week	1.7%			
<b>USD/PLN</b>	<b>2.94</b>	<b>2.90</b>	<b>2.53</b>	<b>2.59</b>
Change from last week	0.5%			

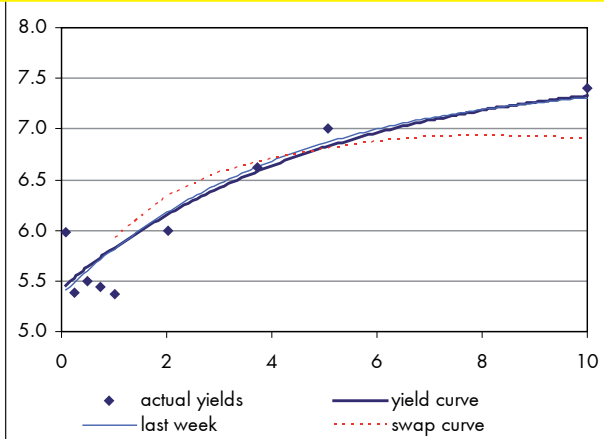
# Hungary

## The last cut ?

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

<b>22 Feb 10</b>	Monetary council meeting	Feb 5.75 (Jan 6.0)	The last cut in rates for the coming months
<b>24 Feb 10</b>	Retail trade, % yoy	Dec -8.0 (Nov -7.8)	
<b>26 Feb 10</b>	Unemployment, %	Jan 10.6 (Dec 10.5)	

### HUF yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market strategy

Sell HUF T-bonds

### Market comment

While its regional peers (PLN and CZK) appreciated to key levels against the EUR, the Hungarian forint was unaffected by this trend and remained rather stable in the 270–273 range. According to the first estimate of the Hungarian Statistics Office, economic contraction eased to 4.1% yoy in Q4 2009 – slightly better than expected following the 7.1% yoy decline in Q3. The exact details are not yet available, but we believe that domestic demand continued to slide massively in Q4, while net exports remained solidly in positive territory. GDP declined by 6.3% for 2009 as a whole, the most severe recession since the economic shock in 1991 after the regime change. The previous week also brought the updated IMF programme evaluation. We share the view of the IMF officials, who noticed significant risks to the 3.8% deficit target for 2010. Later on in the week, the budget's HUF 100 bn stability reserve was frozen by the government due to the cancellation of the real estate tax and the overestimated tax revenues.

### Money market focus\*

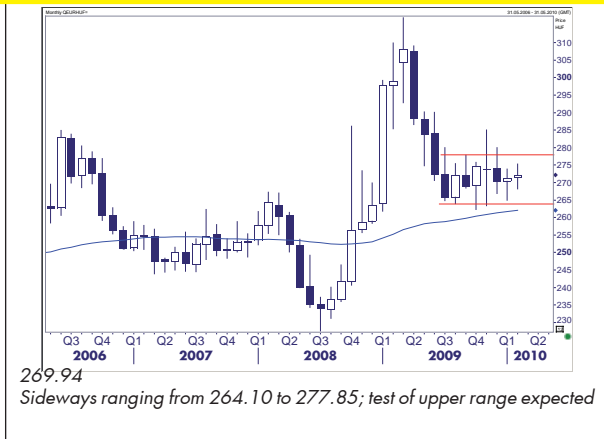
MM rates	1m	3m	6m	12m
Actual	5.98	5.93	5.90	5.82
Change from last week	-0.02	-0.06	-0.05	-0.03
Forecast Mar-10	5.9	5.8	5.7	5.8

### Bond market focus\*

	3y	5y	10y	15y
Actual	6.62	7.01	7.40	7.34
Change from last week	-0.06	-0.08	-0.11	-0.11
Forecast Mar-10	7.2	7.6	8.0	7.9
Spread to bunds	518.4	476.5	418.2	353.5
Change from last week	0.8	-2.8	-10.1	-15.0

\* under revision

### EUR/HUF



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market outlook

The week ahead is going to start with the Monetary Council's rate-setting meeting. We anticipate another 25bp rate cut, which would bring the key rate to a historically low level of 5.75%. The Council is expected to adopt a somewhat more dovish tone as the problems concerning Greece and the southern European countries will not fade any time soon. We see very limited room to cut the key rate any further and therefore expect that the rate cut cycle has come to an end, although another 25bp easing cannot be ruled out should the global risk environment allow it. We recommend selling Hungarian government bonds (especially the 2–3-year segment).

Analysts: Matyas Kovacs (+36 148 44 874)

### Exchange rate focus

	actual	Mar-10	Jun-10	Sep-10
EUR/HUF	271.40	285.0	285.0	275.0
Change from last week	0.0%			
USD/HUF	199.94	196.6	190.0	189.7
Change from last week	-1.3%			

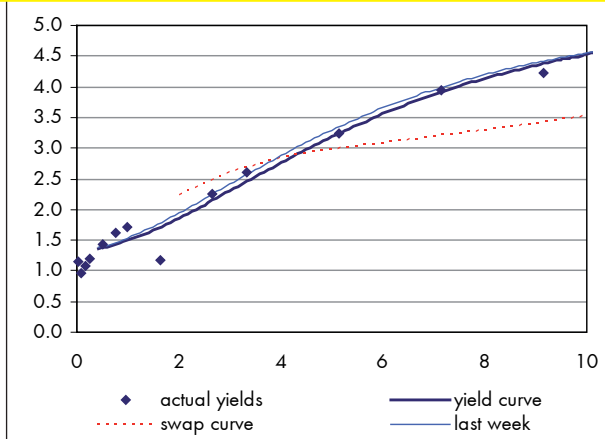
# Czech Republic

## GDP drops again

### (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 unexpectedly shrunk in Q4 quarter-on-quarter
15 Feb 10	Retail trade, % yoy	Dec -1.9 (Nov -4.9)	Weak consumption

### CZK yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

### Money market focus

MM rates	1m	3m	6m	12m
<b>Actual</b>	<b>0.96</b>	<b>1.20</b>	<b>1.44</b>	<b>1.71</b>
Change from last week	-0.01	-0.02	0.01	0.00
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	-0.05	0.04	-0.02	0.00

### Bond market focus

	2y	5y	10y	15y
<b>Actual</b>	<b>1.18</b>	<b>3.25</b>	<b>4.23</b>	<b>4.99</b>
Change from last week	-0.31	-0.03	-0.13	-0.08
Forecast Mar-10	1.8	3.3	4.2	4.7
<b>Spread to bunds</b>	<b>21.7</b>	<b>102.5</b>	<b>101.5</b>	<b>118.0</b>
Change from last week	-22.6	0.7	-12.2	-11.7
<b>Spread to swaps</b>	<b>112.8</b>	<b>-17.2</b>	<b>-57.0</b>	<b>n.a.</b>

### EUR/CZK



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market strategy

Buy CZK T-bonds 10y or more

### Market comment

Preliminary GDP data for Q4 2009 showed a quarter-on-quarter decline of 0.6%, which brings the year-on-year GDP decline to 4.2% (4.1% in Q3). The market had expected a 0.6% qoq increase (-2.8% yoy). Although the figure was definitely a negative surprise for the market, it is not so bad after some consideration. The Czech Statistical Office noted that the GDP decline in Q4 was due to taxes on products. At the same time, gross value added increased by 0.2% qoq in Q4, which provides a still weak but much better picture. For 2009 as a whole, GDP declined by 4.3% yoy. The big picture for the Czech economy shows that after the sharp contraction in Q1 2009, there has been a weak but steady recovery of gross value added. We expect GDP growth of 1.0% yoy for 2010. Czech National Bank board member E. Zamrazilova said the weak result could indicate a delay in the economic recovery. On the other hand, another board member M. Hampl said that unless there is some sudden surprising event, the interest rates were at the bottom and it is just a matter of time until the interest rates start rising.

### Market outlook

The domestic calendar for next week is almost empty. The Czech currency and domestic bonds will likely follow the global and regional market sentiment. Should the current brief respite on the financial market continue, the CZK could gain further. However, we are maintaining our EUR/CZK forecast at 25.80 for March and 25.40 for June. We also reiterate our short-term buy recommendation for Czech government debt with long maturities.

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>25.72</b>	<b>25.8</b>	<b>25.4</b>	<b>24.8</b>
Change from last week	1.1%			
<b>USD/CZK</b>	<b>18.95</b>	<b>17.8</b>	<b>16.9</b>	<b>17.1</b>
Change from last week	0.0%			

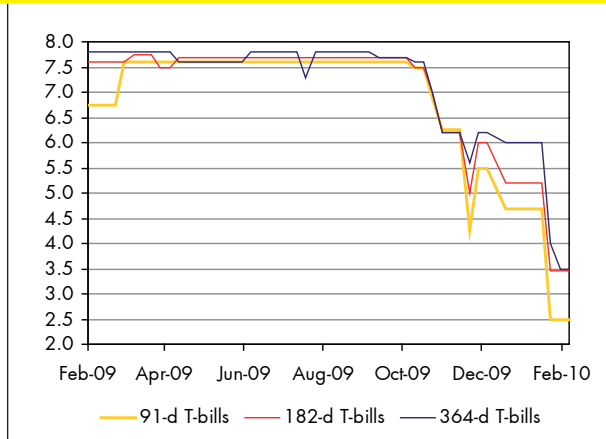
# Croatia

## Facing the challenges in tourism in 2010

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

22 Feb 10	CPI, % yoy	Jan 1.6 (Dec 1.9)
26 Feb 10	Imports, EUR mn	Jan 1036 (Dec 1194)
26 Feb 10	Exports, EUR mn	Jan 519 (Dec 626.5)

### Interest rates on T-bills



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market strategy

Neutral EUR/HRK

### Market comment

The cyclical indicators for the last tourist season, especially its peak in July and August, proved to be much more favourable than indicated by the forecasts from the beginning of the year. In 2009, 10.9 mn tourists visited Croatia (-2.9% yoy) and generated a total of 56.3 mn overnight stays (-1.4% yoy). However, data show that tourism revenues fell by 15.7% in the third quarter. Since tourism revenues and FDI, both of which were poorer last year, are significant sources of financing for the balance of payments deficit, the government will have to resort to alternative means of financing. A decline in tourism revenues was expected after retail trade saw a double-digit decrease even during the summer months. Furthermore, the average number of tourist overnight stays per arrival went down, and prices of services were cut at the same time to attract tourists. While some of Croatia's comparative advantages (reachable by automobile and cheaper accommodation) contributed to relatively good results in 2009, this year will be somewhat more challenging. The competition is bound to be more aggressive this year, and much more will have to be done to attract guests. In 2010, we expect tourist overnight stays to grow by some 2.5% and revenues from tourism to go up by 6.8% on an annual basis.

### Money market focus

	1m	3m	6m	12m
ZIBOR actual	1.05	1.69	2.40	3.75
Change from last week	-0.08	0.07	0.10	0.13
T-bills actual	n.a.	2.48	3.45	3.50

### Exchange rate focus

	actual	Mar-10	Jun-10	Sep-10
EUR/HRK	7.297	7.36	7.40	7.40
Change from last week	-0.3%			
USD/HRK	5.31	5.08	4.93	5.10
Change from last week	0.0%			

### EUR/HRK



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market outlook

Since the supply of euros is obviously at a high level, appreciation pressures on the kuna could continue in the coming week, but the rate should not fall significantly because we can expect the CNB to take action if the appreciation pressures do continue. Since we assume that the government already has sufficient euros to handle its foreign liabilities, foreign debt maturing at the end of this and the beginning of the next month should not have a strong impact on the FX rate at a monthly level.

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

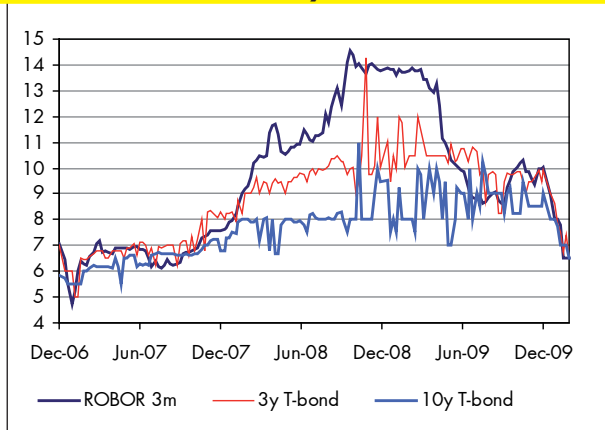
# Romania

## Low current account deficit in 2009

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

12 Feb 10	GDP, % yoy	Q4 09 -6.6 (Q3 09 -7.1)
12 Feb 10	Current account balance, EUR bn, ytd	Dec -5.1 (Nov -4.6)
12 Feb 10	FDI inflows, EUR bn, ytd	Dec 4.9 (Nov 4.9)

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



Source: Thomson Reuters, Raiffeisen RESEARCH

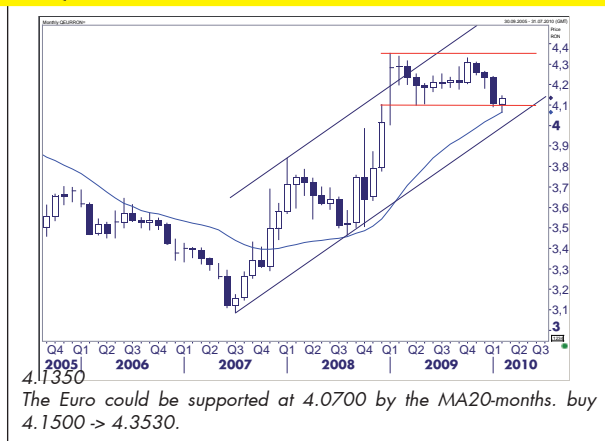
### Money market focus

MM rates	1m	3m	6m	12m
<b>Actual</b>	<b>6.27</b>	<b>6.52</b>	<b>6.59</b>	<b>6.58</b>
Change from last week	-0.01	0.01	-0.02	-0.03
Forecast Mar-10	7.1	7.3	7.4	7.6
<b>Implicit forward rates</b>	<b>3x6</b>	<b>6x9</b>	<b>9x12</b>	
	6.72	6.50	6.42	
Change from last week	-0.05	-0.05	-0.03	

### Bond market focus

	2y	3y	5y	10y
<b>Actual</b>	<b>6.50</b>	<b>6.50</b>	<b>6.50</b>	<b>6.50</b>
Change from last week	-0.90	-0.90	-0.50	-0.50
Forecast Mar-10	7.80	7.90	7.90	7.60
<b>Spread to bunds</b>	<b>553.5</b>	<b>506.4</b>	<b>425.5</b>	<b>328.2</b>
Change from last week	-81.3	-44.8	-50.0	-49.1

### EUR/RON



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market strategy

Buy RON T-bonds

### Market comment

The current account deficit amounted to only EUR 5.1 bn in 2009, down from EUR 16.2 bn in 2008 (-68.7% yoy). According to our estimates, it stood at only 4.3% of GDP in 2009, down from 11.6% of GDP in 2008. FDI inflows, which totalled EUR 4.9 bn, covered 97% of the current account deficit in 2009. Consumption and investments are still weak and will remain so for the time being, which is keeping imports at a low level. This is why we expect the current account deficit to remain low in the next period as well (close to 4.3% of GDP in 2010). On the other hand, short-term external debt decreased substantially in 2009 and stood at only EUR 14.4 bn at the end of the year, down from EUR 20.5 bn at the end of 2008. Both the lower current account deficit and the lower level of short-term external debt point to lower external funding needs in 2010. We expect total external debt service to be at around 24% of GDP in 2010, down from 37.4% of GDP in 2009. We think that lower external funding needs will mean less pressure on the exchange rate, and therefore more room for interest rate cuts during this year.

### Market outlook

Interbank interest rates decreased over the past week as liquidity conditions in the market improved. Yields for bonds also decreased marginally in the primary and secondary markets. We maintain our projection of lower bond yields by the end of the year, as we expect the central bank to cut the monetary policy rate further at its next monetary policy meetings.

Analyst: Ionut Dumitru (+40 37 2211269)

### Exchange rate focus

	actual	Mar-10	Jun-10	Sep-10
<b>EUR/RON</b>	<b>4.13</b>	<b>4.15</b>	<b>4.10</b>	<b>4.05</b>
Change from last week	-0.5%			
<b>USD/RON</b>	<b>3.04</b>	<b>2.86</b>	<b>2.73</b>	<b>2.79</b>
Change from last week	-1.8%			

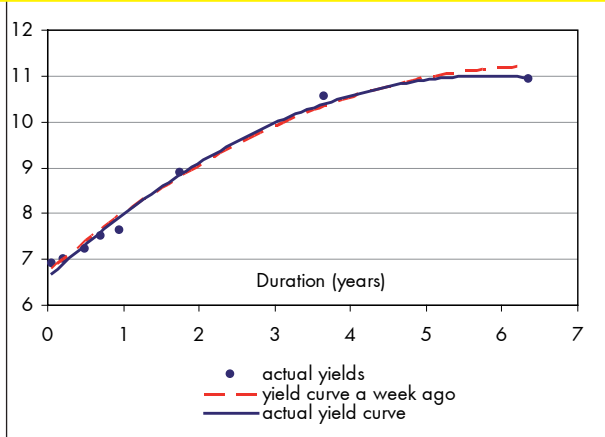
# Russia

## Significant rouble rally calls for a fresh rate cut

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

No important data or market releases next week

#### RUB yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

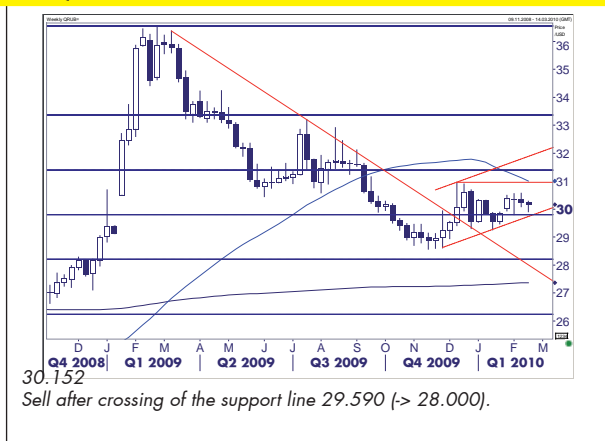
#### Money market focus

MM rates	1m	3m	6m	12m
Actual	6.10	6.85	8.00	8.33
Change from last week	0.30	0.26	0.22	-0.19
Forecast Dec-09	4.68	4.97	5.39	n.a.
Forward rates	1x2	3x6	6x9	9x12
	7.03	9.30	n.a.	n.a.
Change from last week	0.23	-0.64	n.a.	n.a.

#### Bond market focus

	1y	2y	5y	15y
Actual	6.65	6.66	7.54	8.01
Change from last week	-0.12	-0.24	-0.14	0.07
Forecast Dec-09	6.65	6.66	7.20	n.a.

#### USD/RUB



Source: Thomson Reuters, Raiffeisen RESEARCH

#### Market strategy

The rouble might rally to reach 34.85 against the basket, after which we expect small profit taking. We recommend a long position on the rouble against the basket for portfolio investors with a target of 29.44 roubles against the basket in the next three to six months.

#### Market outlook

The rouble hit a fresh 13-month high of 34.93 against the dual currency basket on 18 February. According to local dealers, the central bank (CBR) on Thursday moved the floating rouble band boundary from 35.00 to 34.95 versus the dollar-euro basket after purchasing USD 700 mn worth of foreign currency. The bank allegedly bought USD 1.4 bn of foreign currency in interventions against the rouble this week. We foresee the possibility of the rouble strengthening towards 34.85 against the basket, after which a mild level of profit taking might ensue on the market. In our opinion, the rapid appreciation of the rouble is also making further interest rate cuts imminent. Foreign capital outflows reached USD 13 bn in January alone according to a CBR estimate. The bank has bought around USD 2 bn in additional foreign currency since the beginning of February. Just as we wrote this weekly report the central bank cut the key refinance rate by 25bp to 8.5% effective from February 24. The rate cut was a logical step taking into account benign inflation outlook and rallying rouble market putting unwanted appreciation pressure on the rouble. However, the amount of the rate cut was twice smaller than we forecast and is unlikely to have significant impact on the rouble market. The bank also said its next decision on key rates will be due in March. We expect a pause in the rouble rally once the tax payment period comes to an end next week. However, the rouble outlook remains very strong thanks to rallying commodities and the Rouble speculations may continue for the time being unless the central bank delivers an additional rate cut ahead of its March meeting.

Analyst: Gintaras Shlizhyus (+43 1 71707 1343)

#### Exchange rate focus

	actual	Mar-10	Jun-10	Sep-10
EUR/RUB	40.88	40.24	41.56	40.91
Change from last week	0.5%			
USD/RUB	29.97	29.81	29.27	29.43
Change from last week	0.7%			

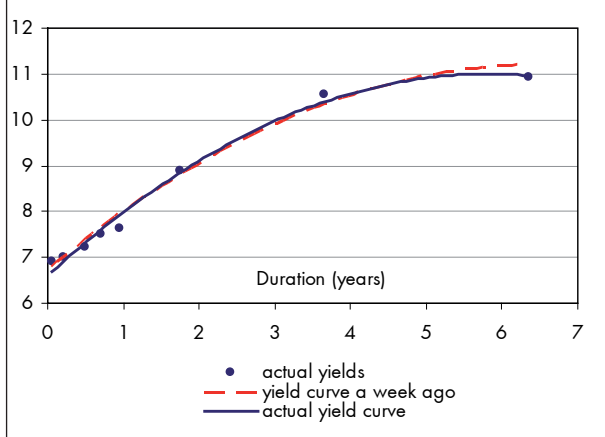
# Turkey

## Political tensions on the rise

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

<b>22 Feb 10</b>	Capacity utilisation	Feb n.a. (Jan 67.8)	Seen by the central bank to remain low for some time
<b>22 Feb 10</b>	Manufacturing confidence	Feb n.a. (Jan 102.0)	Potential moderation as hike in January was large (+10 points)
<b>26 Feb 10</b>	Trade balance, USD bn	Jan n.a. (Dec -4.9)	January Trade balance deficit usually lower than in December

### TRY yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market strategy

Underweight TRY bonds relative to the benchmark index

### Market comment

Unsurprisingly, the Central Bank (CBRT) did not alter the overnight borrowing rate of 6.50 for a third consecutive time and reemphasised the necessity to keep policy rates "at a low level for a long period of time". As expressed in previous statements, the CBRT also expects the CPI to rise significantly in February and stay above target for some time, while core inflation is projected to increase until mid-year. We stick to our scenario of the CBRT keeping rates unchanged in H1, and beginning to hike rates in H2 (by 100–150bp in total) once inflationary pressures and an economic rebound set in. The three-month average unemployment rate (Oct–Dec) increased slightly to 13.1% (from 13.0% a month earlier), while consumer confidence showed only a minor improvement of 0.6 points to 79.24. The trade balance figures at the end of the week will likely show a lower deficit compared to December, given traditionally lower trade imbalances at the beginning of the year.

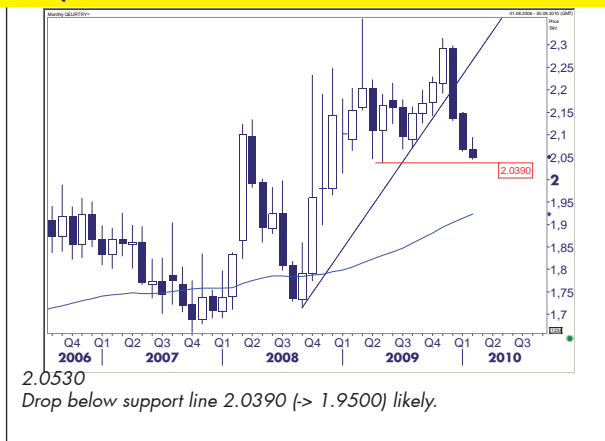
### Money market focus

MM rates	1m	3m	6m	12m
<b>Actual</b>	<b>6.35</b>	<b>6.75</b>	<b>7.15</b>	<b>7.65</b>
Change from last week	-0.25	0.05	0.05	0.15
<b>Forecast Mar-10</b>	<b>6.74</b>	<b>6.89</b>	<b>7.36</b>	<b>7.93</b>
<b>Forward rates</b>	<b>1x2</b>	<b>3x6</b>	<b>6x9</b>	<b>9x12</b>
	6.87	7.63	7.83	7.93
Change from last week	0.12	0.05	-0.05	0.31

### Bond market focus

	1m	1y	2y	5y
<b>Actual</b>	<b>6.89</b>	<b>7.64</b>	<b>8.95</b>	<b>10.70</b>
Change from last week	-0.06	-0.02	0.10	0.22
<b>Forecast Mar-10</b>	<b>n.a.</b>	<b>7.93</b>	<b>8.90</b>	<b>10.36</b>

### EUR/TRY



### Market outlook

The lira hovered between 1.51 and 1.52 to the USD for most of the time, but opened weaker on Friday. Political risk may play a more pronounced role in the coming days as Turkey's government, which has roots in political Islam, once more clashes with the secularist judiciary. A prosecutor was arrested on Wednesday on charges of involvement in a plot to overthrow the government. On Thursday senior judges intervened in defence of the prosecutor, provoking government officials to criticise the judges of playing politics. The markets are being reminded of the 2008 bid to shut down the ruling AKP party, and may be sensitive to negative news-flow with regard to the matter.

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

### Exchange rate focus

	actual	Mar-09	Jun-09	Sep-09
<b>EUR/TRY</b>	<b>2.05</b>	<b>2.03</b>	<b>1.97</b>	<b>2.05</b>
Change from last week	-0.3%			
<b>USD/TRY</b>	<b>1.52</b>	<b>1.50</b>	<b>1.46</b>	<b>1.52</b>
Change from last week	1.0%			

### 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 Retzl 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 Cavojeec 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: Joan Canaj Tel: +355 42 275 510 1122

### 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

This report was completed on 19 February 2010.

### Head of Raiffeisen RESEARCH:

Peter Brezinschek (1517)

This document does not constitute an offer or invitation to subscribe for or purchase any securities and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. This document is being furnished to you solely for your information and may not be reproduced or redistributed to any other person. Any investment decision with respect to any securities of the respective company must be made on the basis of an offering circular or prospectus approved by such company and not on the basis of this document. RZB may have effected an own account transaction in any investment mentioned herein or related investments and may have a position or holding in such investments as a result. RZB may have been, or might be, acting as a manager or co-manager of a public offering of any securities mentioned in this report or in any related security. Information contained herein is based on sources, including annual reports and other material which might have been made available by the entity which is the subject of this document. RZB believes all the information to be reliable, but no representations are made as to their accuracy and completeness. Unless otherwise stated, all views (including statements and forecasts) are solely those of RZB and are subject to change without notice. Investors in emerging markets need to be aware that settlement and custodial risk may be higher than in markets where there is a long established infrastructure and that stock liquidity may be impacted by the numbers of market makers which may therefore impact upon the reliability of any investments made as a result of acting upon information contained in this document. Special regulations for the Republic of Austria: This document does not constitute either a public offer in the meaning of the Kapitalmarktgesetz („KMG“) nor a prospectus in the meaning of the KMG or of the Börsegesetz. Furthermore this document does not intend to recommend the purchase or the sale of securities or investments in the meaning of the Wertpapieraufsichtsgesetz. This document shall not replace the necessary advice concerning the purchase or the sale of securities or investments. For any advice concerning the purchase or the sale of securities or investments kindly contact your RAIFFEISENBANK. Special regulations for the United Kingdom of Great Britain, Northern Ireland (UK) and Jersey (Channel Islands): Raiffeisen Zentralbank. This publication has been either approved or issued by Raiffeisen Zentralbank Österreich AG (RZB) in order to promote its investment business. RZB London Branch is authorised by the Austrian Financial Market Authority (FMA) and subject to limited regulation by the Financial Services Authority (FSA). Details on the extent of the London branch's regulation by the Financial Services Authority are available on request. This publication is not intended for investors who are Retail Customers within the meaning of the FSA rules and should therefore not be distributed to them. Neither the information nor the opinions expressed herein constitute or are to be construed as an offer or solicitation of an offer to buy (or sell) investments. RZB may have effected an Own Account Transaction within the meaning of FSA rules in any investment mentioned herein or related investments and may have a position or holding in such investments as a result. RZB may have been, or might be, acting as a manager or co-manager of a public offering of any securities mentioned in this report or in any related security. The RZB Jersey marketing representative office is not regulated by the Jersey Financial Services Commission as it does not perform any financial services activity in Jersey as defined by the Financial Services (Jersey) Law 1998 (FSJL). Special regulations for the United States of America (USA) and Canada: This document or any copy hereof may not be taken or transmitted or distributed, in the USA or Canada or their respective territories or possessions nor may it be distributed to any USA-person or person resident in Canada by any means other than via a US Broker Dealer. Any failure to comply with these restrictions may constitute a violation of USA or Canadian securities laws.

