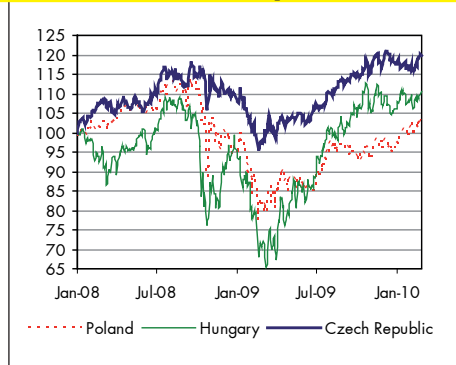


CEE Weekly Bond Markets Outlook

Issue 8/2010

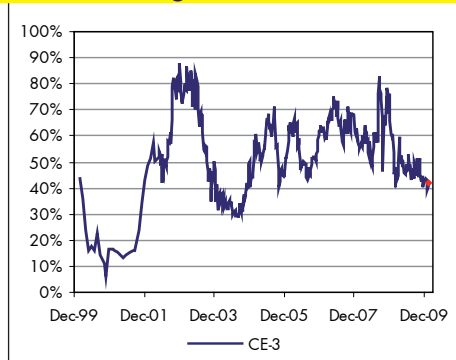
26 February 2010

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
Poland				
PLN	3.99	4.20	3.80	3.75
1m-rate	3.4	3.6	3.6	3.8
5y bond	5.4	5.7	5.7	5.9
10y bond	6.0	6.5	6.2	6.3
Hungary				
HUF	270.1	285.0	285.0	275.0
1m-rate	5.8	5.9	5.8	5.7
5y bond	6.8	7.6	7.5	6.6
10y bond	7.3	8.0	7.9	7.0
Czech Rep.				
CZK	25.9	25.8	25.4	24.8
1m-rate	0.9	1.2	1.1	1.3
5y bond	3.2	3.3	3.3	3.7
10y bond	4.1	4.2	4.1	4.4
Romania				
RON	4.13	4.15	4.10	4.05
1m-rate	6.1	7.1	6.4	6.3
5y bond	7.2	7.9	7.4	7.2
10y bond	6.8	6.8	6.7	6.6
USD	1.36	1.35	1.42	1.39

Currencies per 1 EUR

Source: Thomson Reuters, Raiffeisen RESEARCH

Recommendations (1-month horizon)

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

Highlights

- Poland** – As expected, the MPC did not change its key interest rates. It also continues to see the inflation risks balanced at the moment. We expect this scenario to continue in the coming months. In our view, first rate hikes become probable at the end of Q3 2010.
- Hungary** – The Monetary Council lowered the key interest rate by another 25bp this week. It was the eighth cut in a row in the rate cutting cycle that started in July 2009 – totalling 375bp. As we see it, there is no room for a further cut.
- Czech Republic** – Government bond yields at 4.2% reached our prognosis for March. Issuance of domestic bonds in H1 will be lower due to the planned Eurobond issues. There are no inflationary pressures, and increases in the key policy rate are far off in future.

Key upcoming events and data releases

Country	Indicator	Period	Forecast	Range	Last
01-Mar					
PL	PMI	Feb	50.8	pts. 51.2/52/52.8	51.0
HU	PPI, yoy	Jan	n.a.	% n.a.	1.3
TR	Manufacturing PMI	Feb	n.a.	pts. n.a.	53.0
02-Mar					
PL	GDP, yoy	Q4	3.0	% 1.6/3.0/3.2	1.7
RO	PPI, yoy	Jan	n.a.	% n.a.	4.2
03-Mar					
HR	Industrial output, yoy	Jan	-4.5	% n.a.	-5.8
HR	Retail trade, yoy	Jan	-10.3	% n.a.	-12.1
TR	Consumer prices, yoy	Feb	9.3	% n.a./9.4/n.a.	8.2
TR	Consumer prices, mom	Feb	0.7	% n.a./0.75/n.a.	1.9
TR	Producer prices, yoy	Feb	n.a.	% n.a.	6.3
TR	Producer prices, mom	Feb	n.a.	% n.a.	0.6
04-Mar					
RO	Retail sales, yoy	Jan	n.a.	% n.a.	-3.3
RU	Consumer prices, mom	Feb	0.8	% n.a.	1.6
RU	Consumer prices, yoy	Feb	7.1	% n.a.	8.1
05-Mar					
HU	Budget balance	Feb	n.a.	HUF bn n.a.	31.3

Bond auctions

		ISIN	Coupon	Maturity	Volume
02-Mar					
TR	2y T-bond (reopen)	TRT161111T14	0.00%	16 Nov 2011	n.a.
TR	5y CPI-Linked bond (reopen)	TRT110215T16	9.00%	11 Feb 2015	n.a.
03-Mar					
CZ	10y T-bond (reopen)	CZ0001002471	5.00%	11 Apr 2019	CZK 6 bn

Local currency bonds

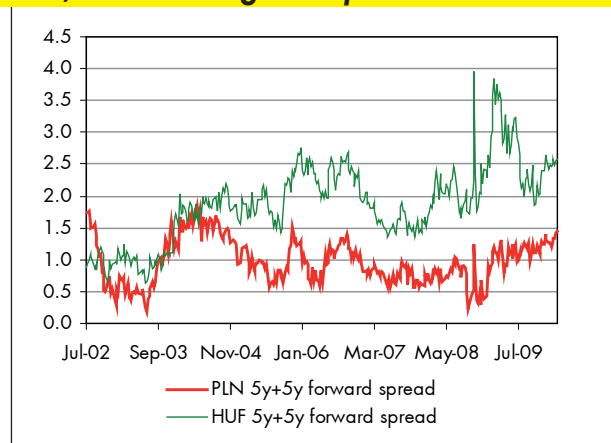
Market overview

CEE local currency bond market snapshot

26/02/2010	Maturity	Coupon %	Ask price	YTM %	Spread to bunds (bp)	MDuration
Poland						
PLN 2y Gov. Bond	25/ Jul 12	0.00	89.28	4.84	402	2.4
PLN 5y Gov. Bond	25/ Apr 15	5.50	100.29	5.43	331	4.4
PLN 10y Gov. Bond	25/ Oct 19	5.50	96.37	6.00	289	7.6
PLN 20y Gov. Bond	25/ Apr 29	5.75	96.95	6.02	214	11.4
Hungary						
HUF 3y Gov. Bond	24/ Oct 13	7.50	103.17	6.48	519	3.3
HUF 5y Gov. Bond	12/ Feb 15	8.00	104.90	6.80	468	4.3
HUF 10y Gov. Bond	24/ Jun 19	6.50	94.80	7.28	417	6.9
HUF 15y Gov. Bond	24/ Nov 23	6.00	89.31	7.25	357	9.3
Czech Republic						
CZK 2y Gov. Bond	5/ Oct 11	6.55	108.50	1.12	30	1.5
CZK 5y Gov. Bond	11/ Apr 15	3.80	102.95	3.16	105	4.6
CZK 10y Gov. Bond	11/ Apr 19	5.00	107.00	4.06	95	7.3
CZK 15y Gov. Bond	25/ May 24	5.70	108.50	4.86	118	9.9
Slovakia						
SKK 2y Gov. Bond	4/ May 12	0.00	96.21	1.80	98	2.2
SKK 5y Gov. Bond	11/ Feb 14	4.90	108.12	2.70	59	3.7
SKK 10y Gov. Bond	12/ May 19	5.30	109.74	4.01	90	7.3
Croatia						
HRK 5y Gov. Bond	11/ Jul 13	4.50	100.11	4.46	211	3.1
HRK 10y Gov. Bond	8/ Feb 17	4.75	96.11	5.43	232	6.0
Romania						
RON 3y Gov. Bond	25/ Oct 10	6.00	99.60	6.57	528	0.7
RON 5y Gov. Bond	5/ Mar 12	6.50	100.00	6.50	439	1.8
Turkey						
TRY 2y Gov. Bond	16/ Nov 11	0.00	86.23	8.99	817	1.7
TRY 5y Gov. Bond	6/ Aug 14	11.00	102.70	10.49	838	3.6
TRY 10y Gov. Bond	15/ Jan 20	10.50	99.20	10.89	778	6.5

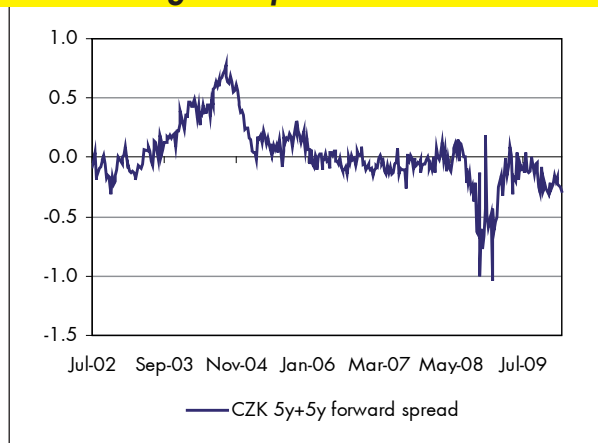
Source: Thomson Thomson Reuters, Raiffeisen RESEARCH

PLN, HUF convergence spread



Source: Thomson Thomson Reuters, Raiffeisen RESEARCH

CZK convergence spread



Source: Thomson Thomson Reuters, Raiffeisen RESEARCH

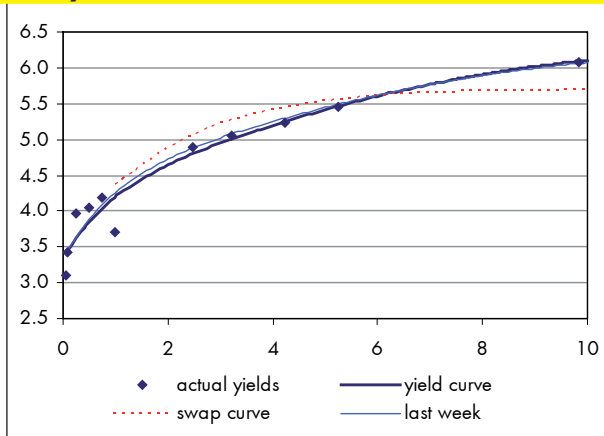
Poland

MPC sees balanced inflation risks

(P)review of key economic figures/events

24 Feb 10	NBP rate decision, %	Feb 3.5 (Jan 3.5)	unchanged interest rates as expected
01 Mar 10	PMI	Feb 50.8 (Jan 52)	
02 Mar 10	GDP, real, % yoy	Q4 3.0% (Q3 1.7%)	preliminary 2009 figures imply 3% yoy growth in Q4

PLN yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Money market focus

MM rates	1m	3m	6m	12m
Actual	3.42	3.94	4.04	4.24
Change from last week	0.00	-0.02	-0.01	-0.02
Forecast Mar-10	3.60	4.15	4.20	4.50
Forward rates	3x6	6x9	9x12	
	4.16	4.38	4.42	
Change from last week	0.00	-0.04	-0.02	

Bond market focus

	2y	5y	10y	20y
Actual	4.84	5.43	6.00	6.02
Change from last week	0.06	-0.03	-0.08	-0.05
Forecast Mar-10	5.20	5.70	6.50	6.40
Spread to bunds	402.1	330.7	289.2	213.5
Change from last week	9.8	9.4	-8.0	5.6
Spread to swaps	11.9	17.4	-26.9	

EUR/PLN



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral PLN T-bonds

Market comment

This week, yields on Polish 10-year bonds fell by approximately 10bp towards 6%. Data on retail sales (+2.5% yoy, worse than expected) and unemployment (12.7%, in-line with expectations) for January showed a mixed picture, although seasonal effects have been quite strong this time due to unfavourable weather conditions. The MPC's decision not to change key interest rates was no surprise to the market. There was a chance that this time the "new" MPC might change its assessment of inflation risks, shifting towards a higher probability of CPI inflation rising above the target rate over the medium term. The MPC, however, did not change its wording and continues to regard mid-term inflation risks as "balanced".

Market outlook

The inflation projections published by the MPC in the comment on the rate decision show that the MPC expects inflation to stay within the target band during 2010 and 2011. Only in 2012 is the central projection around the upper target band of 3.5% yoy. With monetary policy being still "neutral" the pressure on long-term bonds may have eased with the rate decision. However, we think that this year the MPC will revise its assessment of mid-term inflation risks upwards and raise key interest rates at the end of Q3 2010. For this reason, we expect bond yields to rise from the current levels during 2010. For next week's release of Q4 GDP figures we expect a growth rate of around 3% yoy, which is what the previously published preliminary numbers for 2009 would imply. The potential for surprises in this regard is quite low, in our view.

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	3.99	4.20	3.80	3.75
Change from last week	-0.2%			
USD/PLN	2.96	3.11	2.68	2.70
Change from last week	-0.8%			

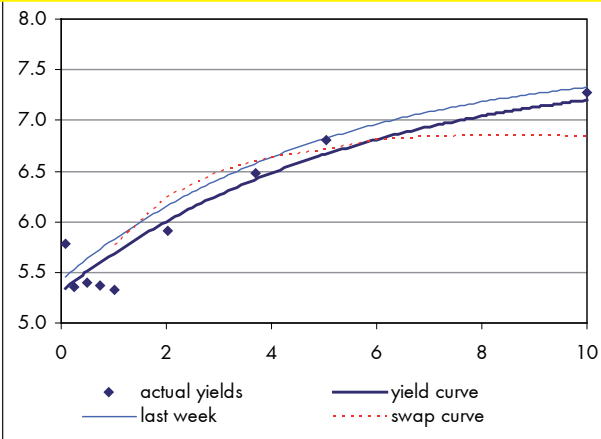
Hungary

375 – was that it ?

(P)review of key economic figures/events

22 Feb 10	Monetary council meeting	Feb 5.75 (Jan 6.0)	We see no more interest rate cuts in the next months
24 Feb 10	Retail trade, % yoy	Dec -7.4 (Nov -7.8)	
26 Feb 10	Unemployment, %	Jan 10.8 (Dec 10.5)	

HUF yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Sell HUF T-bonds

Market comment

The Monetary Council lowered the key interest rate by another 25bp this week, thus bringing the rate to a historically low level (5.75%). It was the eighth cut in a row in the rate cutting cycle that started in July 2009 – totalling 375bp. The Hungarian forint reacted positively to the monetary easing: EUR/HUF dipped below the 270 level again. Since then, volatility seems to have disappeared from EUR/HUF, whereas the regional currencies (PLN and CZK) remained relatively active.

Market outlook

As we see it, there is really no room for further cut(s) because of the following reasons: 1. We argue that the latest inflation data (January inflation was 6.4% yoy, up from 5.6% in December) point towards higher inflation than previously forecasted – also meaning that we do not expect that the 3% inflation target will be met over a 12-18 month horizon. 2. In our view, the current relatively positive evaluation of Hungary will be dented by fiscal news in the period ahead. The centre-right opposition party Fidesz, the most likely winner of the elections in April, announced that instead of the 3.8% public budget deficit target of the current government it is more realistic to expect a 7-7.5% deficit. In our reading, fiscal concerns are going to rise steeply around election time (probably afterwards) pointing towards a weaker HUF and rising risk premium on HUF assets. Therefore, it appears to us more sensible not to cut any more in order to avoid a forced hike when things turn bad. The recent drop in yields on medium and long HGB's prompts us to SELL these segments as we expect a correction in the short run.

Analyst: Matyas Kovacs (+36 148 44 874)

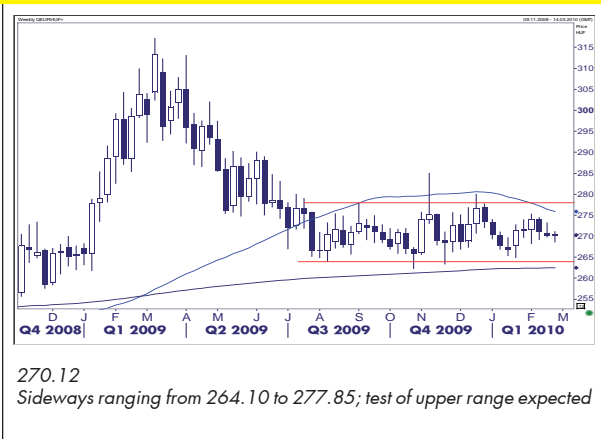
Money market focus

MM rates	1m	3m	6m	12m
Actual	5.78	5.77	5.76	5.74
Change from last week	-0.20	-0.16	-0.14	-0.08
Forecast Mar-10	5.9	5.8	5.7	5.8

Bond market focus

	3y	5y	10y	15y
Actual	6.48	6.80	7.28	7.25
Change from last week	-0.15	-0.20	-0.13	-0.10
Forecast Mar-10	7.2	7.6	8.0	7.9
Spread to bunds	518.5	467.7	417.0	357.3
Change from last week	-1.5	-7.7	-2.3	0.6

EUR/HUF



Source: Thomson Reuters, Raiffeisen RESEARCH

Exchange rate focus

	actual	Mar-10	Jun-10	Sep-10
EUR/HUF	270.10	285.0	285.0	275.0
Change from last week	0.5%			
USD/HUF	200.27	211.1	200.7	197.8
Change from last week	-0.2%			

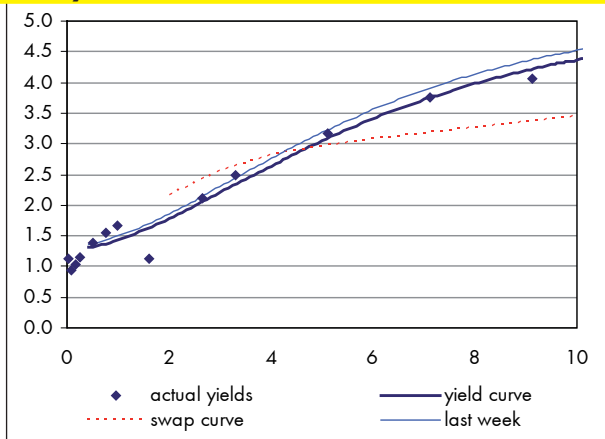
Czech Republic

Demand for CZK government bonds strong

(P)review of key economic figures/events

24 Feb 10	5y T-bond auction	Strong demand for 5y government bond
03 Mar 10	10 T-bond auction	Volume of CZK 6 bn to be offered in reopening of April/2019 issue

CZK yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral CZK T-bonds

Market comment

Investors bid for almost three times what was on offer at an auction of a new 5-year Czech government bond last week. A slight decline in risk aversion and government plans for foreign bond issuance together with the general shortage of such a bond on the domestic market made the paper attractive. Czech minister of finance E. Janota announced the Czech Republic will issue Eurobonds when market conditions are suitable and this might be in H1. Czech bond yields continued to decline.

Market outlook

Government bond yields at 4.2% reached our prognosis for March. Issuance of domestic bonds in H1 will be lower due to the planned Eurobond issues. There are no inflationary pressures, and increases in the key policy rate are far off in future (we expect a 25-bp rate hike in Q3). Thus, we do not expect any wild increases in bond yields over the short term. On the other hand, there is a risk of a renewed rise in risk aversion due to the debt problems in south and south-eastern Europe. Taking into account the RZB sell recommendation for the German benchmarks, we opt to take profits and change our recommendation on Czech government bonds from buy to HOLD.

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

Money market focus

MM rates	1m	3m	6m	12m
Actual	0.94	1.14	1.39	1.66
Change from last week	-0.02	-0.06	-0.05	-0.05
Forecast Mar-10	1.2	1.3	1.4	1.8
Forward rates	1x2	3x6	6x9	9x12
Change from last week	-0.06	-0.04	-0.08	-0.02

Bond market focus

	2y	5y	10y	15y
Actual	1.12	3.16	4.06	4.86
Change from last week	-0.07	-0.09	-0.17	-0.13
Forecast Mar-10	1.8	3.3	4.2	4.7
Spread to bunds	30.0	105.1	95.3	117.9
Change from last week	8.1	2.5	-6.3	-2.3
Spread to swaps	111.0	-11.1	-45.8	n.a.

EUR/CZK



25.825
The price has crossed its support line -> drop towards 24.700.

Source: Thomson Reuters, Raiffeisen RESEARCH

Exchange rate focus

	actual	Mar-10	Jun-10	Sep-10
EUR/CZK	25.94	25.8	25.4	24.8
Change from last week	0.0%			
USD/CZK	19.23	19.1	17.9	17.8
Change from last week	-1.8%			

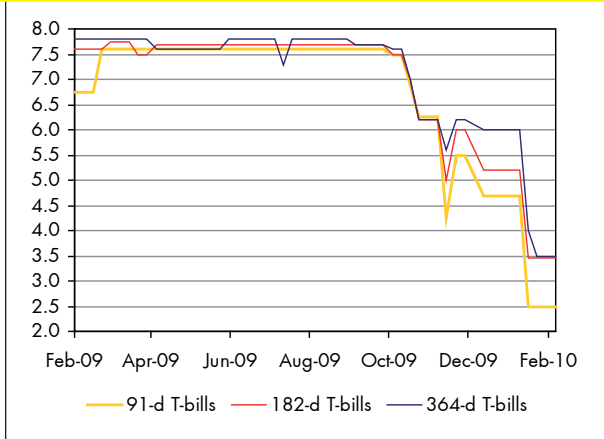
Croatia

Still low inflationary pressures

(P)review of key economic figures/events

26 Feb 10	GDP, real, % yoy	Q4 -5.4 (Q3 -5.7)
03 Mar 10	Industrial output, % yoy	Jan -4.5 (Dec -5.8)
03 Mar 10	Retail trade, % yoy	Jan -10.3 (Dec -12.1)

Interest rates on T-bills



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral EUR/HRK

Market comment

In January, annual inflation in Croatia slowed to 1.1%, down from 1.9% in December due to last year's higher base. At a monthly level, prices fell 0.5%, driven mainly by higher price for gas and liquid fuels. This year's increase in the VAT rate has not yet had the expected impact on prices, since slack demand is putting downward pressure on prices. In the period ahead, we expect that the announced increase in electricity prices will exacerbate inflationary pressures. Higher electricity prices will have a relatively strong direct impact by increasing housing prices and also have an indirect impact on increases in the prices of goods and services for personal consumption via higher production costs. However, the announced price hike was expected, as the main raw material for the production of electricity in Croatia is natural gas, the price of which rose in January. Besides, administratively set prices (such as electricity prices) are still below real market prices, which is why in the next two years, as part of Croatia's EU accession process, they will have to be aligned with those in European Union. On Tuesday, the CBRD announced the results of the auction for 200 bn kunas as part of the government's programme of funding measures for the economic recovery. A total of 16 banks participated in the auction, which offered 357.15 bn kunas. Six banks were granted loans. The funds are to be used for providing cheaper credit to healthy companies experiencing temporary liquidity problems.

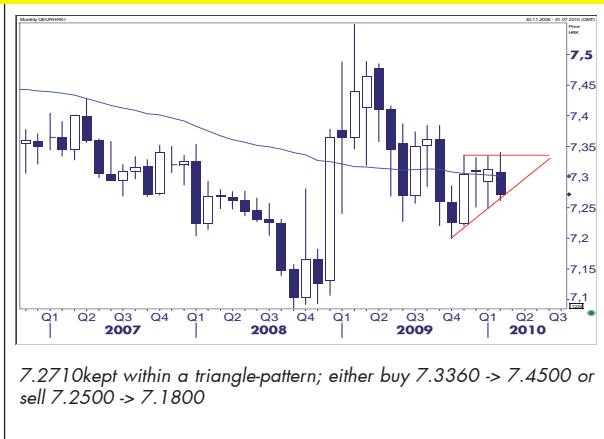
Money market focus

	1m	3m	6m	12m
ZIBOR actual	1.07	1.63	2.28	3.29
Change from last week	0.02	-0.06	-0.12	-0.46
T-bills actual	n.a.	2.48	3.45	3.50

Exchange rate focus

	actual	Mar-10	Jun-10	Sep-10
EUR/HRK	7.281	7.36	7.40	7.40
Change from last week	-0.2%			
USD/HRK	5.37	5.08	4.93	5.10
Change from last week	1.1%			

EUR/HRK



Source: Thomson Reuters, Raiffeisen RESEARCH

Market outlook

Next week, we expect that EUR/HRK could go lower as a government bond matures at the beginning of March. However, the rate should not go much lower since a reaction by the CNB might be anticipated if appreciation pressures continue. At the monthly level, the rate should return to the levels around 7.30.

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

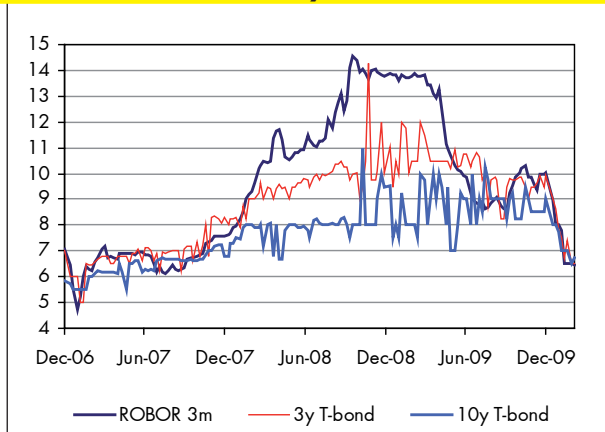
Romania

IMF disburses EUR 2.4 bn

(P)review of key economic figures/events

02 Mar 10	PPI, % yoy	Jan n.a. (Dec 4.2)	
02 Mar 10	GDP, real, % yoy	Q4 -5.5 (Q3 -7.1)	Details on GDP components
04 Mar 10	Retail sales, % yoy	Jan n.a. (Dec -3.3)	

ROBOR 3m & T-bond yields (%)



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Buy RON T-bonds

Market comment

At the beginning of this week, Romania received the third and fourth instalments (EUR 2.4 bn) from the IMF loan agreed in 2009. The IMF approved disbursement of the funds as most of the quantitative targets set for the end of 2009 were met (only the target regarding the size of government's arrears was missed). With the money received now, the total amount of funds disbursed from the IMF loan rose to EUR 9.3 bn from a total of EUR 13 bn. The targets to be met in the next period became known once the new letter of intention was made public. Romania pledged to reduce the budget deficit to 5.9% of GDP by the end of this year from 7.3% of GDP in 2008, with intermediate quarterly targets set at 1.5% of GDP at the end of Q1 and 2.9% of GDP at the end of Q2. Beside this, the fiscal responsibility law should be approved by the end of Q1, the pension law should be approved by end of Q2, and new rules to implement the unitary wage law should be approved by the end of Q3. Also, the government should reduce its deficit and limit the losses of several state-owned companies. We think that reaching the targets set for the end of Q1 is feasible, and we expect the IMF and the EC to approve disbursements of new funds at that moment.

Money market focus

MM rates	1m	3m	6m	12m
Actual	6.22	6.47	6.49	6.49
Change from last week	-0.05	-0.05	-0.10	-0.09
Forecast Mar-10	7.1	7.3	7.3	7.6
Implicit forward rates	3x6	6x9	9x12	
	6.56	6.44	6.33	
Change from last week	-0.15	-0.07	-0.09	

Bond market focus

	2y	3y	5y	10y
Actual	6.50	6.50	7.21	6.75
Change from last week	0.00	0.00	0.71	0.25
Forecast Mar-10	7.80	7.90	7.90	6.80
Spread to bunds	568.3	520.5	508.7	364.0
Change from last week	14.6	82.8	25.0	35.6

EUR/RON



4.1195

The Euro could be supported at 4.0700 by the MA20-months. buy 4.1500 -> 4.3530.

Source: Thomson Reuters, Raiffeisen RESEARCH

Market outlook

Last week, yields for governmental bonds decreased slightly both in the primary and secondary market. We expect them to stabilise at the current levels over the short term, but we see room for additional decreases by the end of this year, in line with the expected cuts in the key rate of NBR, and we keep our buy recommendation open.

Analyst: Ionut Dumitru (+40 37 2211269)

Exchange rate focus

	actual	Mar-10	Jun-10	Sep-10
EUR/RON	4.13	4.15	4.10	4.05
Change from last week	0.1%			
USD/RON	3.06	3.07	2.89	2.91
Change from last week	-0.6%			

Raiffeisen
RESEARCH

RZB Group

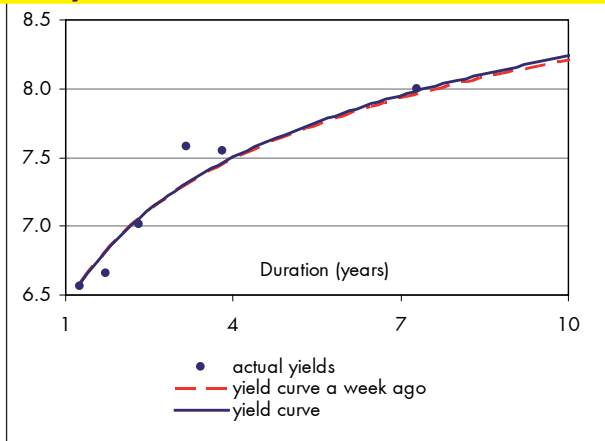
Russia

Growth rebounds, rouble rally continues

(P)review of key economic figures/events

04 Feb 10	CPI, % mom	Feb 0.8 (Jan 1.6)
04 Feb 10	CPI, % yoy	Feb 7.1 (Jan 8.1)

RUB yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

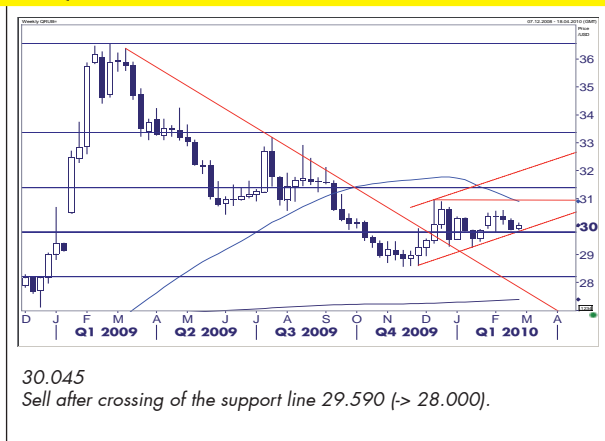
Money market focus

MM rates	1m	3m	6m	12m
Actual	5.91	6.80	7.97	8.18
Change from last week	-0.19	-0.12	-0.05	-0.03
Forecast Mar-10	4.68	4.97	5.39	n.a.
Forward rates	1x2	3x6	6x9	9x12
	6.98	9.29	n.a.	n.a.
Change from last week	-0.05	-0.01	n.a.	n.a.

Bond market focus

	1y	2y	5y	15y
Actual	6.56	6.66	7.55	7.99
Change from last week	-0.09	0.00	0.01	-0.02
Forecast Mar-10	6.65	6.66	7.20	n.a.

USD/RUB



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

After breaking the 34.85 level against the dual currency basket, the rouble set a new record of 34.80. We see the rouble poised for another wave of appreciation towards 34.50 in a month's time.

Market outlook

According to Russia's economy ministry, the national economy grew at a rate of 0.3% mom in January, and 5.2% yoy. January saw ongoing improvement in investment and output, confirming the ministry's estimate of national GDP growth. The ministry calculates its own monthly series, estimating Russia's GDP growth based on the statistics for major economic indicators. Market forecasters expect Russia's economy to grow 3-6% this year. We plan to revise our growth target for Russia up from 3.5% to 5.5% for 2010, whereas we may lower our 2011 forecast from 5.5% to 4.5%. Accordingly, the economy might reach its medium-term growth potential of 5-6% in 2010 already, but may fall back a bit due to the weaker external environment and rouble appreciation slamming the brakes on domestic production.

Market outlook

The ministry of economy estimates February inflation at 0.8% which matches our own forecast. Falling inflation and rouble appreciation will continue to exert pressure on the central bank to lower interest rates. In February, the Bank cut key rates by 25bp, which was not enough in our opinion to reflect monetary conditions and prevent further appreciation of the rouble. Thus far, we project altogether 50bp of rate cuts for March, with easing to be delivered in two steps of 25bp each. Meanwhile, the rouble has been able to benefit from Eurozone market troubles and rising commodity prices reflecting weaker positions of major world reserve currencies. As a result, we foresee the rouble reaching 34.50 against the basket in Q1 and 33.50-34.00 by the end of 2010.

Analyst: Gintaras Shlizhyus (+43 1 71707 1343)

Exchange rate focus

	actual	Mar-10	Jun-10	Sep-10
EUR/RUB	40.66	40.24	41.56	40.91
Change from last week	0.5%			
USD/RUB	30.02	29.81	29.27	29.43
Change from last week	-0.2%			

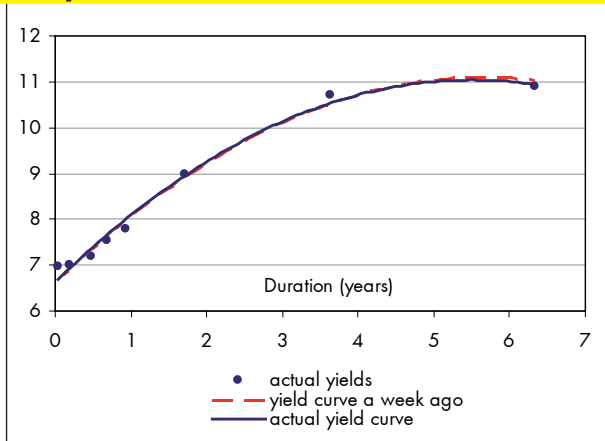
Turkey

Markets hit by political clashes

(P)review of key economic figures/events

26 Feb 10	Trade balance, USD bn	Jan -3.6 (Dec -4.9)	Lower than Reuters expected deficit of USD 5.0 bn
01 Mar 10	Manufacturing PMI	Feb n.a. (Jan 53.0)	Slightly downbeat expectation
03 Mar 10	Consumer Prices, % yoy	Feb 9.3 (Jan 8.2)	% mom: Feb 0.7 (Jan 1.9), Inflation to remain elevated in H1

TRY yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Underweight TRY bonds relative to the benchmark index

Market comment

This week, Turkish markets were hit by the double whammy of worsening global sentiment and a mounting local political confrontation between the ruling AK party, which has roots in political Islam, and the country's secularist elites. Since last Friday's closing, the lira lost 2.2% to the US dollar, and equity markets dived by over 8%. Government bond, however, were less affected, with the 2y bond yield only slightly up. Also, politics overshadowed last Friday's rating upgrade by S&P, which lifted the country's rating one notch to BB with a positive outlook. Fitch said that an intensification of the political tensions could hit the rating. Turkish assets slumped, as the government detained 50 military officers (including former chiefs of the navy and the air force) this week over an alleged 2003 plot to overthrow the government. However, on Friday markets rose again, as three retired military generals were released, which points to an easing of the tensions.

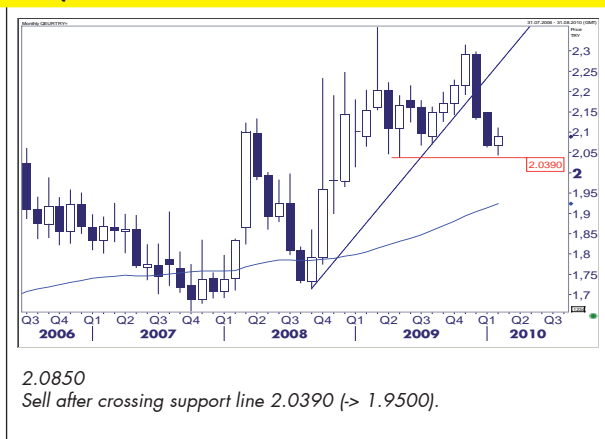
Money market focus

MM rates	1m	3m	6m	12m
Actual	6.45	6.54	7.00	7.70
Change from last week	0.10	-0.21	-0.15	0.05
Forecast Mar-10	6.87	7.14	7.36	7.98
Implied forward rates	1x2	3x6	6x9	9x12
	6.65	7.54	8.32	8.25
Change from last week	-0.34	-0.09	0.31	0.20

Bond market focus

	1m	1y	2y	5y
Actual	6.96	7.79	8.99	10.70
Change from last week	0.07	0.15	0.04	0.00
Forecast Mar-10	n.a.	7.98	8.99	10.44

EUR/TRY



Market outlook

Fears of political instability, but also hopes of further easing of the political confrontation, will likely dominate the next week as well. The concrete outcome of the current events is hard to predict, but it seems to us, that both sides are hardly inclined to back down or find a compromise. Thus, some de-escalation might be obtained, but confrontation might quickly heat up again. We are slightly downbeat regarding the PMI figure to be released on Monday, as perceived Euro zone weakness might have affected the survey. February inflation figures will most likely increase headline CPI to above 9% yoy, which is widely expected by market participants and thus will be of no surprise.

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	2.10	2.03	1.97	2.06
Change from last week	2.0%			
USD/TRY	1.54	1.50	1.46	1.52
Change from last week	1.3%			

*forecasts under revision

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This report was completed on 26 February 2010.

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