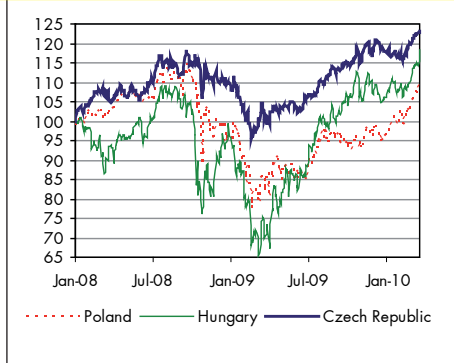


CEE Weekly Bond Markets Outlook

Issue 11/2010

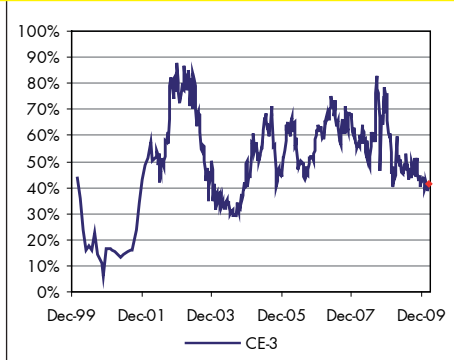
19 March 2010

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	Jun-10	Sep-10	Dec-10
Poland*				
PLN	3.87	3.80	3.75	3.65
1m-rate	3.4	3.6	3.8	4.2
5y bond	5.2	5.7	5.9	6.0
10y bond	5.6	6.2	6.3	6.4
Hungary*				
HUF	261.6	285.0	275.0	275.0
1m-rate	5.7	5.8	5.7	5.8
5y bond	6.1	7.5	6.6	6.6
10y bond	6.8	7.9	7.0	6.9
Czech Rep.				
CZK	25.3	25.4	24.8	25.0
1m-rate	0.9	1.1	1.3	1.8
5y bond	3.1	3.3	3.7	3.8
10y bond	4.0	4.1	4.4	4.5
Romania*				
RON	4.08	4.10	4.05	3.95
1m-rate	5.1	6.4	6.3	6.0
5y bond	6.6	7.4	7.2	6.9
10y bond	6.0	6.7	6.6	6.5
USD	1.36	1.35	1.42	1.35

* under revision

Currencies per 1 EUR

Source: Thomson Reuters, Raiffeisen RESEARCH

Recommendations (1-month horizon)

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

Highlights

- Poland** – Positive sentiment on Poland remains strong, as yields on 10-year bonds dropped again this week, falling to levels last seen in January 2009. On the primary market, demand is also very strong: On Wednesday Poland sold a floating-rate bond worth PLN 3 bn, maturing in 2021 with a bid-cover-ratio of 5.17.
- Hungary** – Hungarian forward rate agreements are pricing in more rate cuts in the coming months, which seems to be an achievable scenario in the current risk environment, in our view. The optimistic sentiment on Hungary and recent HUF strengthening point to another 25bp cut already at the next rate decision (29 March).
- Czech Republic** – We continue to expect EUR/CZK around 25.40 by mid-year and 24.80 in September. Over the near term, we may see some negative pressure on CZK due to the parliamentary election in May. Due to this factor it is likely that the ministry of finance will issue the Eurobonds earlier rather than later as conditions on the market are currently friendly.

Key upcoming events and data releases

Country	Indicator	Period	Forecast		Range	Last
19-Mar						
HU	Gross wages, yoy	Jan	6.5	%	n.a.	0.0
RU	Retail sales, yoy	Feb	2.0	%	-3.0/2.9/4.0	0.3
RU	Fixed capital investment, yoy	Feb	-4.5	%	-10.0/-7.0/2.5	-8.7
22-Mar						
PL	Net inflation, yoy	Feb	2.0	%	n.a.	n.a.
23-Mar						
HU	Retail trade, yoy	Jan	-3.0	%	n.a.	-7.4
24-Mar						
PL	Retail trade, yoy	Feb	3.1	%	1.3/3.9/7.1	2.5
PL	Unemployment rate	Feb	13.0	%	12.8/13/13.3	12.7
HR	Industrial output, yoy	Feb	0.5	%	n.a.	1.5
TR	Capacity utilisation	Mar	69.0	points	n.a.	67.8
TR	Manufacturing confidence	Mar	108.0	%	n.a.	105.4
25-Mar						
CZ	CNB policy meeting	Mar	1.0	%	n.a.	1.0

Bond auctions

		ISIN	Coupon	Maturity	Volume
25 Mar					
10					
HU	3y T-bond	HU0000402466	7.50%	24 Oct 2013	HUF 2.5bn
HU	5y T-bond	HU0000402268	8.00%	12 Feb 2015	HUF 1.5bn
HU	5y T-bond	n.a.	floaters	22 Dec 2015	HUF 1bn



**Raiffeisen
RESEARCH**

RZB Group

Local currency bonds

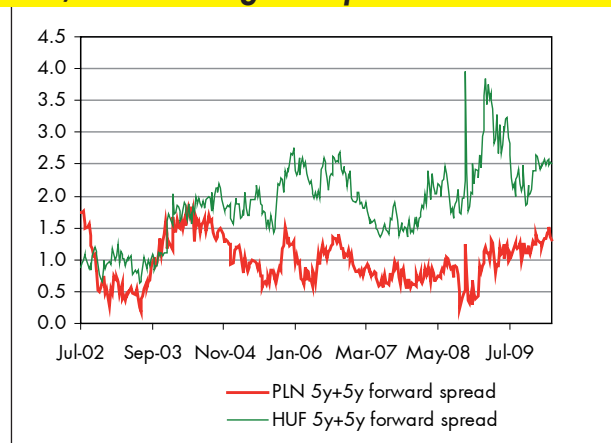
Market overview

CEE local currency bond market snapshot

18/03/2010	Maturity	Coupon %	Ask price	YTM %	Spread to bunds (bp)	MDuration
Poland						
PLN 2y Gov. Bond	25/ Jul 12	0.00	89.90	4.65	380	2.4
PLN 5y Gov. Bond	25/ Apr 15	5.50	101.49	5.16	302	4.4
PLN 10y Gov. Bond	25/ Oct 19	5.50	99.81	5.52	241	7.6
PLN 20y Gov. Bond	25/ Apr 29	5.75	99.25	5.82	192	11.5
Hungary						
HUF 3y Gov. Bond	24/ Oct 13	7.50	105.22	5.83	454	3.2
HUF 5y Gov. Bond	12/ Feb 15	8.00	107.90	6.08	395	4.2
HUF 10y Gov. Bond	24/ Jun 19	6.50	97.95	6.80	369	6.9
HUF 15y Gov. Bond	24/ Nov 23	6.00	93.06	6.79	298	9.4
Czech Republic						
CZK 2y Gov. Bond	5/ Oct 11	6.55	108.40	1.00	15	1.5
CZK 5y Gov. Bond	11/ Apr 15	3.80	103.10	3.13	104	4.6
CZK 10y Gov. Bond	11/ Apr 19	5.00	107.10	4.05	94	7.3
CZK 15y Gov. Bond	25/ May 24	5.70	110.05	4.71	97	9.9
Slovakia						
SKK 2y Gov. Bond	4/ May 12	0.00	96.32	1.79	93	2.1
SKK 5y Gov. Bond	11/ Feb 14	4.90	108.38	2.60	50	3.6
SKK 10y Gov. Bond	12/ May 19	5.30	110.97	3.85	74	7.3
Croatia						
HRK 5y Gov. Bond	11/ Jul 13	4.50	98.91	4.86	250	3.1
HRK 10y Gov. Bond	8/ Feb 17	4.75	93.37	5.94	283	6.0
Romania						
RON 3y Gov. Bond	25/ Oct 10	6.00	99.92	6.07	478	0.6
RON 5y Gov. Bond	5/ Mar 12	6.50	100.22	6.37	427	1.9
Turkey						
TRY 2y Gov. Bond	16/ Nov 11	0.00	86.47	9.14	829	1.7
TRY 5y Gov. Bond	6/ Aug 14	11.00	102.00	10.69	859	3.5
TRY 10y Gov. Bond	15/ Jan 20	10.50	100.50	10.67	756	6.5

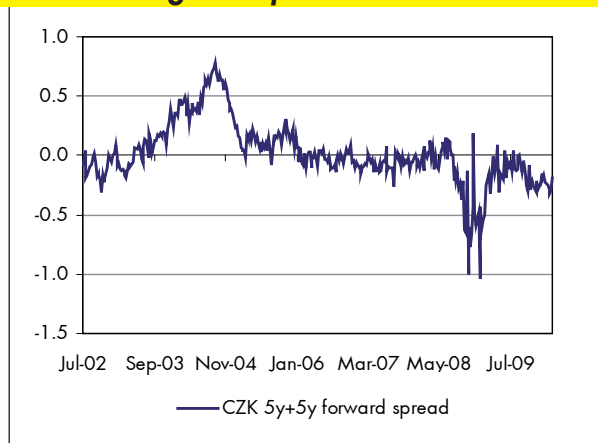
Source: Thomson Thomson Reuters, Raiffeisen RESEARCH

PLN, HUF convergence spread



Source: Thomson Thomson Reuters, Raiffeisen RESEARCH

CZK convergence spread



Source: Thomson Thomson Reuters, Raiffeisen RESEARCH

Poland

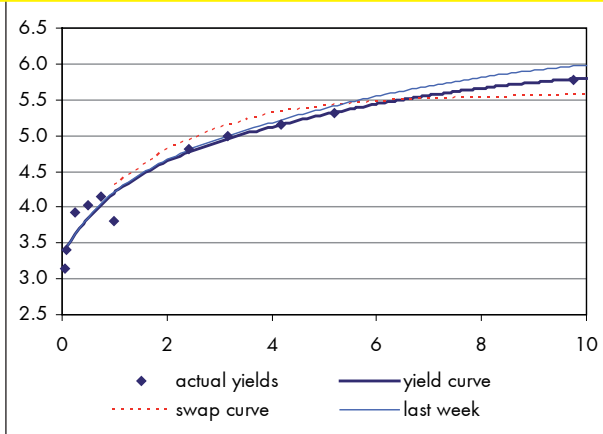
Bond demand remains strong

(P)review of key economic figures/events

17 Mar 10	Industrial output, % yoy
24 Mar 10	Retail sales, % yoy
24 Mar 10	Unemployment rate, %

Feb 9.2 (Jan 8.5)
Feb 3.1 (Jan 2.5)
Feb 13.0 (Jan 12.7)

PLN yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Money market focus*

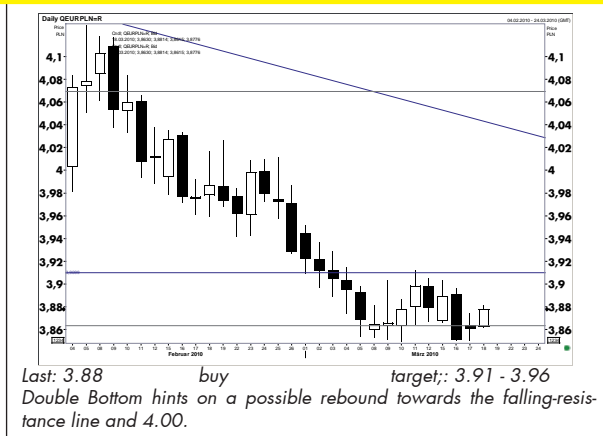
MM rates	1m	3m	6m	12m
Actual	3.43	3.93	4.03	4.24
Change from last week	0.02	0.00	0.00	0.01
Forecast Jun-10	3.60	4.20	4.25	4.50
Forward rates	3x6	6x9	9x12	
Change from last week	4.15	4.34	4.48	
	0.00	0.00	0.04	

Bond market focus*

	2y	5y	10y	20y
Actual	4.65	5.16	5.52	5.82
Change from last week	-0.13	-0.15	-0.26	-0.07
Forecast Jun-10	5.30	5.70	6.20	6.20
Spread to bunds	379.6	302.2	241.3	192.2
Change from last week	-11.0	-7.7	-26.3	-2.0
Spread to swaps	7.2	15.9	-2.1	

* under revision

EUR/PLN



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral PLN T-bonds

Market comment

Sentiment on Poland remains positive, as yields on 10-year bonds dropped again this week, falling to levels last seen in January 2009. On the primary market, demand is also very strong: on Wednesday Poland sold a floating-rate bond worth PLN 3 bn, maturing in 2021 with a bid-cover-ratio of 5.17. The economic data this week gave even more reason to believe that Poland's fundamental position is very strong. February industrial production rose by 9.2% yoy and 3.1% mom. Export-related sectors registered the strongest growth in year-on-year terms. Inflation came in lower than expected, at 2.9% in February. Adjustment of CPI weights had only a marginal effect on the revised January figures.

Market outlook

As mentioned in previous releases, there are many signs that Poland's public debt position will be better than expected. Figures on industrial production are supporting expectations of faster growth and a lower budget deficit, reducing the risk premium on bonds and PLN. Moreover, as inflation is heading south, there may still be potential for long-term bond yields to move towards lower levels in the short-term. The looming rate increases by the NBP will, however, trigger yield increases on the short end of the curve leading to a drop of the 10-year to 2-year spread which is currently at elevated levels. Moreover, later in the year growth expectations and potential for rising inflation expectations might also start putting pressure on long-term bonds. In spite of the recent rally, we reiterate our "neutral" recommendation for the moment.

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

Exchange rate focus

	actual	Jun-10	Sep-10	Dec-10
EUR/PLN	3.87	3.80	3.75	3.65
Change from last week	0.7%			
USD/PLN	2.83	2.68	2.70	2.70
Change from last week	1.0%			

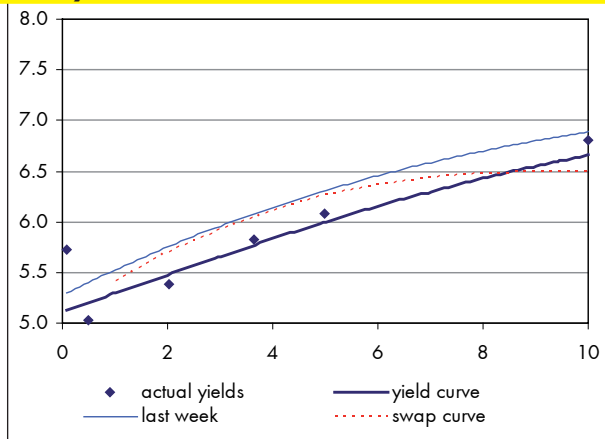
Hungary Big appetite

(P)review of key economic figures/events

17 Mar 10	Industrial output, % yoy	Jan 5.7 (Dec -1.4)
19 Mar 10	Gross wages, % yoy	Jan 6.5 (Dec 0.0)
23 Mar 10	Retail sales, yoy	Jan -3.0 (Dec -7.4)

Figure was slightly below our estimate
Only slow improvement seen

HUF yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Buy HUF 10y T-bonds

Market comment

Hungarian assets proved to be among the most favourable as international risk appetite rose even further last week. The forint was the second best currency of the week, appreciating 2% and reaching a 15-month high versus the euro. Hungarian government bonds continued their rally with another decline of 15-30bp in yields. According to the minutes of the Monetary Council meeting in February, one of the deputy governors already voted for unchanged rates (which has not occurred since last July), while six members supported a 25bp cut and the two most dovish members voted for a 50bp rate cut.

Money market focus*

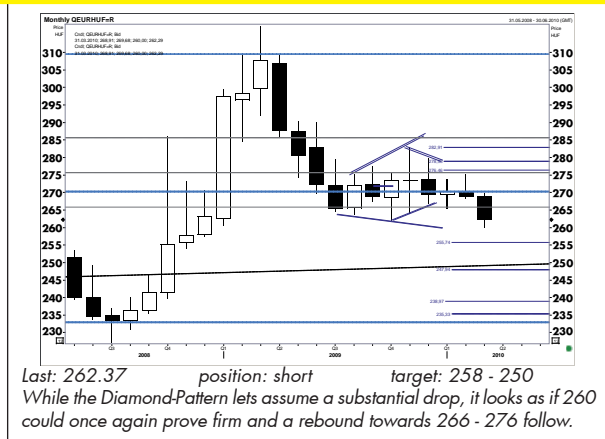
MM rates	1m	3m	6m	12m
Actual	5.73	5.72	5.68	5.63
Change from last week	-0.01	-0.02	-0.05	-0.06
Forecast Jun-10	5.8	5.8	5.7	5.8

Bond market focus*

	3y	5y	10y	15y
Actual	5.83	6.08	6.80	6.79
Change from last week	-0.31	-0.30	-0.21	-0.19
Forecast Jun-10	7.4	7.5	7.9	7.8
Spread to bunds	453.7	394.5	369.2	298.3
Change from last week	-24.1	-22.5	-13.1	-22.8

* under revision

EUR/HUF



Source: Thomson Reuters, Raiffeisen RESEARCH

Market outlook

Hungarian forward rate agreements are pricing two or three 25bp rate cuts in the coming months, which seems to be an achievable scenario in the current risk environment, in our view. The optimistic sentiment on Hungary and recent HUF strengthening point to another 25bp cut already at the next rate decision (29 March), and this has been backed by comments from Monetary Council members in the recent days. The Hungarian Government Debt Agency announced its plans and is going to be a net negative issuer in Q2 2010. This factor along with the positive sentiment on Hungary is pointing to increased demand. Therefore we would recommend buying long HGB's for the time being.

Analyst: Matyas Kovacs (+36 148 44 874)
Wolfgang Ernst (+43 1 71707 1500)

Exchange rate focus*

	actual	Jun-10	Sep-10	Dec-10
EUR/HUF	261.60	285.0	275.0	275.0
Change from last week	2.0%			
USD/HUF	191.09	200.7	197.8	203.7
Change from last week	2.2%			

* under revision



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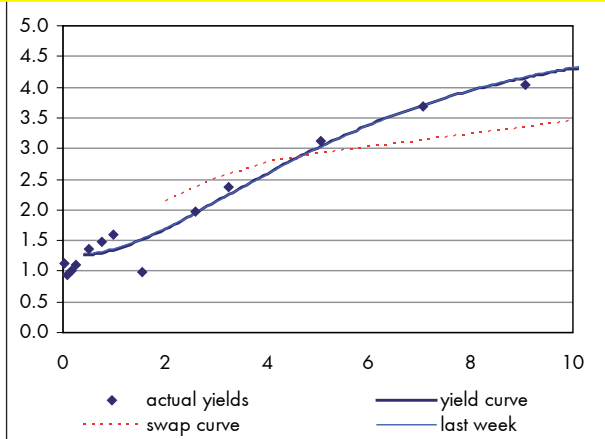
Czech Republic

Run koruna run!

(P)review of key economic figures/events

15 Mar 10	PPI, % yoy	Feb -2.0 (Jan -1.5)	Consumption to remain weak in 2010 No change expected
16 Mar 10	Retail sales, % yoy	Jan -5.0 (-1.9)	
25 Mar 10	CNB policy meeting, %	Mar 1.0 (Feb 1.0)	

CZK yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Sell CZK T-bonds up to 2y maturities

Market comment

The Czech koruna profited from the lower risk aversion and appreciated to 25.24 against EUR from 25.50 a week ago. The Czech government yield curve steepened slightly over the last week as the CZK/EUR spread increased. Demand at the auction of the 5-year government bonds was not as strong as in the previous auction for the same instrument (bid-cover ratio at 1.4 compared to 2.9 in February). The average yield reached 3.283, which is just a notch down compared to the last auction.

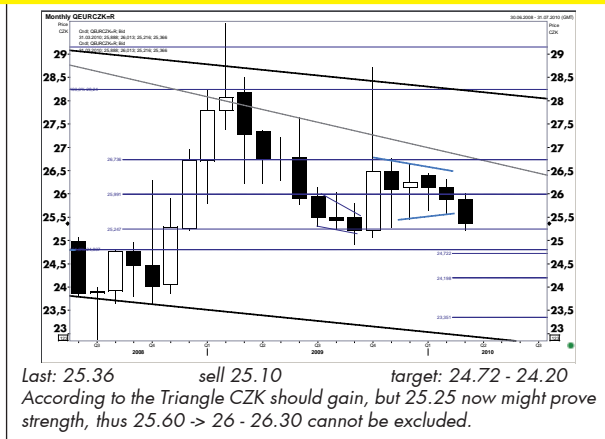
Money market focus

MM rates	1m	3m	6m	12m
Actual	0.94	1.10	1.35	1.60
Change from last week	0.00	-0.03	-0.02	-0.01
Forecast Jun-10	1.1	1.2	1.3	1.7
Forward rates	1x2	3x6	6x9	9x12
Change from last week	0.00	-0.01	-0.02	0.02

Bond market focus

	2y	5y	10y	15y
Actual	1.00	3.15	4.05	4.78
Change from last week	-0.06	-0.02	0.01	-0.06
Forecast Jun-10	1.9	3.3	4.1	4.9
Spread to bunds	14.5	104.1	93.9	96.6
Change from last week	0.7	9.1	9.1	-3.6
Spread to swaps	124.9	-12.0	-44.1	n.a.

EUR/CZK



Source: Thomson Reuters, Raiffeisen RESEARCH

Market outlook

Next week, the Czech National Bank will most likely keep the main interest rate unchanged and the subsequent speech of its governor will be the highlight of the event. If CZK remains on the currently strong appreciation path, we might hear some words on the koruna, in the sense that CZK is somewhat stronger compared to the CNB's prognosis. A stronger koruna would probably mean that expectations of rate hikes would be postponed. We continue to expect EUR/CZK around 25.40 by mid-year and 24.80 in September. Over the near term, we may see some negative pressure on CZK due to the parliamentary election in May. Due to this factor it is likely that the ministry of finance will issue the Eurobonds earlier rather than later as conditions on the market are currently quite friendly. With the low level of yields on the short end of the yield curve, we stick with our SELL recommendation on Czech government bonds with time to maturity up to 2 years.

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

Exchange rate focus

	actual	Jun-10	Sep-10	Dec-10
EUR/CZK	25.40	25.4	24.8	25.0
Change from last week	1.1%			
USD/CZK	18.46	17.9	17.8	18.5
Change from last week	1.1%			

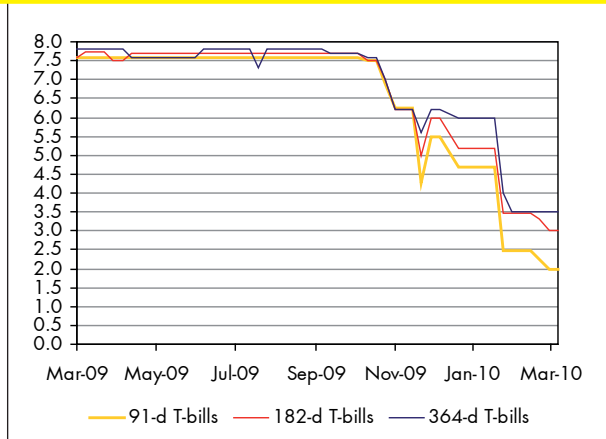
Croatia

Unemployment – major problem in 2010

(P)review of key economic figures/events

15 Mar 10	CPI, % mom	Feb 0.2 (Jan 0.5)
15 Mar 10	CPI, % yoy	Feb 0.7 (Jan 1.1)
24 Mar 10	Industrial output, % yoy	Feb 0.5 (Jan 1.5)

Interest rates on T-bills



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral EUR/HRK

Market comment

In line with our expectations, unfavourable developments on the labour market continued in February as the number of unemployed reaching 317,000. The registered unemployment rate should rise to 18.2%, which is the highest unemployment rate in the last four years. We can expect the negative trends to continue throughout 2010. More favourable developments will come after a recovery in the real sector, i.e. at the end of Q1 2011.

In February, annual inflation in Croatia slowed down to 0.7% from 1.1% in January, due to last year's higher base and weak demand pressures from both the household and the corporate sector. Last year's increase in the VAT rate has not yet had the foreseen impact on prices, as slack demand is putting downward pressure on prices. In the upcoming period, we expect that announced increase in the prices of electricity will strengthen inflationary pressures. However, still fragile domestic demand influenced mostly by negative trends on the labour market is bound to keep inflationary pressures in check. Moreover, the recovery on the foreign markets is still not strong enough to create more pressure for rising energy prices, so prices of liquid fuels should remain stable. In H1 2010, inflationary pressures should be more pronounced as a recovery in demand is expected.

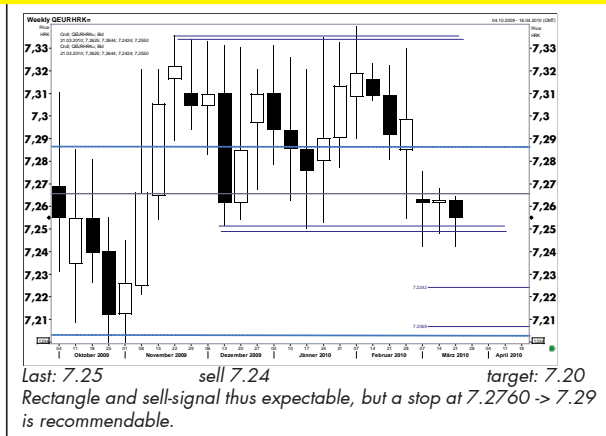
Money market focus

	1m	3m	6m	12m
ZIBOR actual	1.22	1.79	2.75	3.59
Change from last week	-0.02	-0.09	0.05	0.08
T-bills actual	n.a.	2.00	3.00	3.50

Exchange rate focus

	actual	Jun-10	Sep-10	Dec-10
EUR/HRK	7.249	7.28	7.35	7.32
Change from last week	-0.1%			
USD/HRK	5.26	5.39	5.18	5.42
Change from last week	-1.5%			

EUR/HRK



Source: Thomson Reuters, Raiffeisen RESEARCH

Market outlook

Given the current market conditions, i.e. enough euros in the system, we expect the rate to stay at roughly the same level next week. At a monthly level, mild depreciation pressures can be expected, and EUR/HRK could move towards 7.30. Before the start of the main tourist season HRK could feel some mild depreciation pressure, but should not cross 7.35, as monetary policy will remain true to its main objective of protecting price and exchange rate stability. Hence, this year EUR/HRK should move between 7.25 and 7.35, and the average EUR/HRK exchange rate could remain below 7.35 for 2010 as a whole.

Analysts: Ivana Juric (+385 1 61 74 349)

Zrinka Zivkovic-Matijevic (+385 1 61 74338)

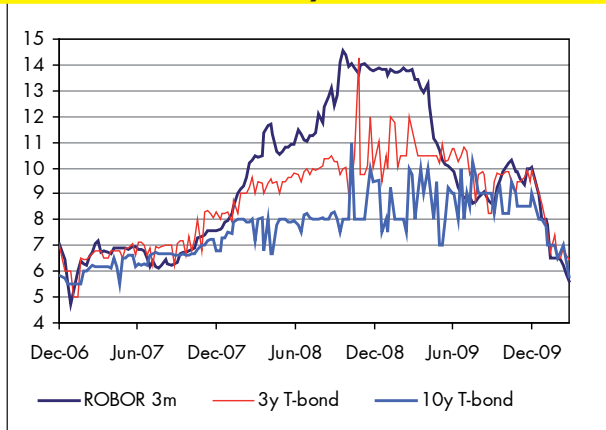
Romania

Low level of interest rates

(P)review of key economic figures/events

12 Mar 10	Foreign trade balance, EUR mn	Jan -312 (Dec -281)
12 Mar 10	Current account balance, EUR mn	Jan -124 (Dec -182)
12 Mar 10	FDI inflows, EUR mn	Jan 302 (Dec 381)

ROBOR 3m & T-bond yields (%)



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Buy RON T-bonds

Market comment

Interest rates in the money market were at very low levels in recent weeks. For instance, during the last two weeks O/N rates have been near the interest rate the central bank is paying on the permanent deposit facility (3%). Also, ROBOR 1M fell recently to below 5.5%. The low interest rates indicate that the money market is flooded with liquidity. Most likely, public spending and related inflows in the market from the Treasury account is the main source of this liquidity. As the low level of interbank rates and the abundant liquidity in the market had no adverse impact on the exchange rate (which, on the contrary, even appreciated slightly over the last week), the central bank did not take any measure to drain the excess of the liquidity from the market. In fact, we think that the central bank is content with the current situation, as the low interbank rates and higher liquidity in the market are expected to speed up the decline in lending and deposit interest rates in the economy. Now, the key question is how large the cut in the key interest rate (currently at 7%) will be at the next monetary policy meeting on 29 March: 25 or 50bp?

Money market focus*

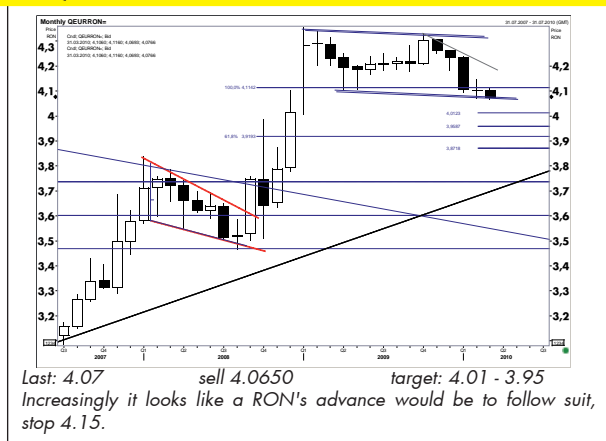
MM rates	1m	3m	6m	12m
Actual	4.97	5.64	6.01	6.02
Change from last week	-0.15	-0.24	-0.18	-0.17
Forecast Jun-10	6.4	6.5	6.9	6.6
Implicit forward rates	3x6	6x9	9x12	
	6.44	5.99	5.89	
Change from last week	-0.12	-0.18	-0.13	

Bond market focus*

	2y	3y	5y	10y
Actual	6.41	6.44	6.55	5.80
Change from last week	0.43	-0.19	-0.13	-0.57
Forecast Jun-10	7.30	7.40	7.40	6.70
Spread to bunds	555.2	515.1	441.1	269.3
Change from last week	48.5	-5.1	-57.4	-49.5

*forecasts under revision

EUR/RON



Source: Thomson Reuters, Raiffeisen RESEARCH

Market outlook

Abundant liquidity in the interbank market had a favourable impact on prices of local bonds which advanced further in the last week. There has been a rally in bond prices since the beginning of the year, and non-resident players also gained from leu strengthening. Yields are currently trading substantially below the level we expected one or two months ago. We think that following the important gains in the recent months, the potential for additional gains in the near term has decreased substantially.

Analyst: Ionut Dumitru (+40 37 2211269)

Exchange rate focus

	actual	Jun-10	Sep-10	Dec-10
EUR/RON	4.08	4.10	4.05	3.95
Change from last week	0.5%			
USD/RON	2.98	2.89	2.91	2.93
Change from last week	0.7%			

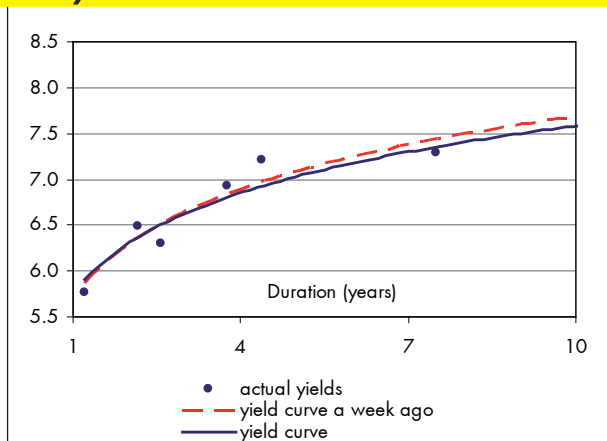
Russia

Output weak amid stronger rouble

(P)review of key economic figures/events

19 Mar 10	Retail sales, % yoy	Feb 2.0 (Jan 0.3)
19 Mar 10	Fixed capital investment	Feb -4.5 (Jan -8.7)

RUB yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

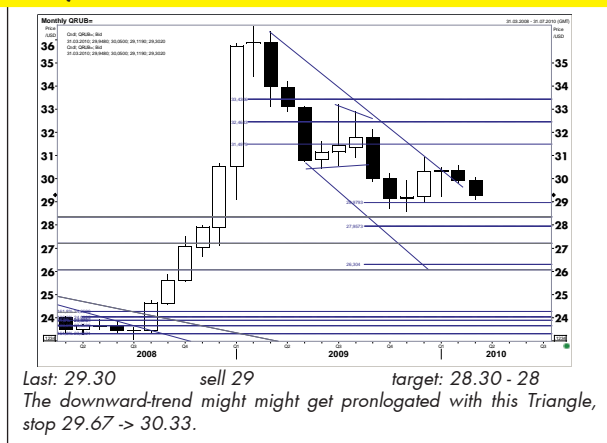
Money market focus

MM rates	1m	3m	6m	12m
Actual	5.20	5.82	7.22	8.11
Change from last week	-0.27	-0.32	-0.37	-0.29
Forecast Mar-10	3.34	3.41	3.72	n.a.
Forward rates	1x2	3x6	6x9	9x12
	5.95	8.77	n.a.	n.a.
Change from last week	-0.39	-0.21	n.a.	n.a.

Bond market focus

	1y	2y	5y	15y
Actual	5.76	6.49	6.94	7.30
Change from last week	0.04	0.19	-0.07	-0.12
Forecast Mar-10	5.22	5.80	6.81	n.a.

USD/RUB



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

We recommend selling into this rally, since the current market strength hangs on temporary demand for roubles from taxpayers and equity investment inflows amid higher oil prices. We see the market failing to break the 34.00 level against the basket, which will lead to profit-taking pushing the rouble back to 34.50.

Market outlook

Weak industrial output data in February confirmed our earlier concerns about the slow speed of economic recovery in Russia. February output just barely scratched 1.9% yoy, whereas market consensus was 7.7%. Mining and utilities growth plummeted by 7.3% and 9.6% respectively (mom), whereas manufacturing growth was twice as weak compared to February 2009. We assume that the winter season and the stagnant market for Russia's natural gas negatively impacted the whole economy. However, we have to wait for March data before drawing conclusions since the two first months of the year exhibit a strong seasonality pattern.

Market outlook

The continued rally prompted the central bank to move its floating boundary to 34.00-37.00 roubles against the basket from 34.05-37.05 previously. The bank also intervened in the FX market. We would caution investors against buying into this last leg of the rouble rally since the profit-taking mood is growing fast in Moscow. Meanwhile, local banks must be mega-short on dollar and euro, and thus even the slightest reversal in the oil price and the equity market may send the rouble shooting back to 34.50 against the basket. In a related story, the central bank will be reviewing its interest rate policy in the coming two weeks. We expect the bank to axe interest rates by 50bp in response to excessive rouble appreciation. The March inflation figure is expected to be under 1% mom compared to 1.3% inflation in March 2009.

Analyst: Gintaras Shlizhyus (+43 1 71707 1343)

Exchange rate focus

	actual	Jun-10	Sep-10	Dec-10
EUR/RUB	39.85	39.77	40.61	39.07
Change from last week	1.1%			
USD/RUB	29.25	29.46	28.60	28.94
Change from last week	0.8%			

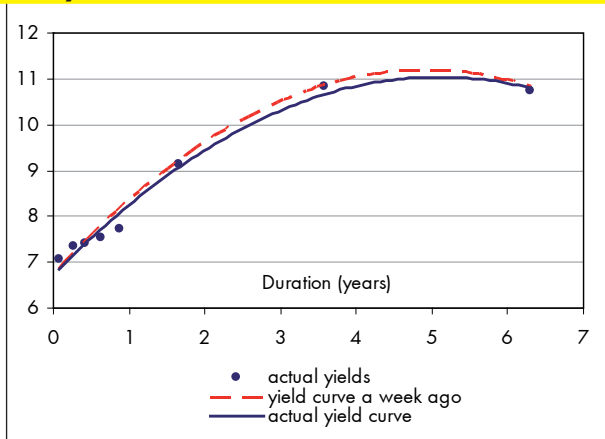
Turkey

Still 6.5% – but for how long?

(P)review of key economic figures/events

18 Mar 10	CBRT key rate decision	Mar 6.5 (Feb 6.5)	despite higher inflation CBRT still in wait & see mode
24 Mar 10	Capacity utilisation	Mar 69.0 (Feb 67.8)	moderate recovery, might surprise to the upside
24 Mar 10	Manufacturing confidence	Mar 108.0 (Feb 105.4)	100 points divides pessimism from optimism

TRY yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Underweight TRY bonds relative to the benchmark index

Market comment

As expected, the central bank did not alter the key rate, which was left at 6.5% in a decision on Thursday evening. However, as inflation will remain elevated for most of 2010 and GDP growth is likely to surpass the 3.5% government forecast, some investors fear that the central bank may remain dovish for too long. In our opinion, the central bank will start to hike rates beginning from H2 2010. Latest data releases were largely positive: consumer confidence increased by 0.6 points to 81.9, while budget revenues improved by 9% yoy (tax revenues +17% yoy) in February. Only the (usually lagging) average unemployment rate still rose in Nov-Jan by 0.4 pp to 13.5% in comparison to the Oct-Dec average. We think that the upcoming statistical releases will increasingly reflect a recovery in the Turkish economy.

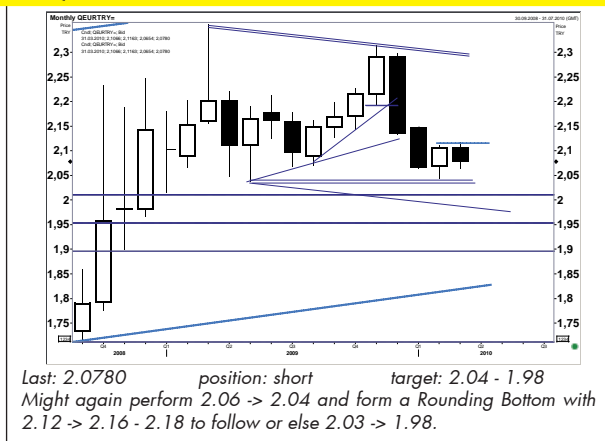
Money market focus

MM rates	1m	3m	6m	12m
Actual	6.70	6.66	7.20	7.80
Change from last week	0.39	0.12	0.10	0.30
Forecast Jun-10	6.94	7.12	7.44	8.03
Implied forward rates	1x2	3x6	6x9	9x12
	6.26	7.83	8.36	8.19
Change from last week	-0.48	0.08	0.10	0.90

Bond market focus

	1m	1y	2y	5y
Actual	7.08	7.72	9.14	10.83
Change from last week	-0.02	-0.24	-0.10	-0.22
Forecast Jun-10	n.a.	8.03	9.09	10.70

EUR/TRY



Source: Thomson Reuters, Raiffeisen RESEARCH

Market outlook

Markets were pushed around by a mix of political fears, considerations regarding fiscal discipline, and last but not least (external) market sentiment. Politics once again played a negative role as conflicts may heat up with a planned constitutional referendum in early summer. A plan by the government to send a bill on fixed fiscal rules (targets and benchmarks for budget and public debt) to parliament has not yet calmed investors' fears that fiscal policy might loosen without an IMF deal (and approaching elections in 2011). Nevertheless, despite all the worries, the most traded 2011 government bond inched down by 10bp to a yield of 9.14 and might continue to do so for some time. However, price increases may prove rather unsustainable, given the outlook for interest rates.

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Exchange rate focus*

	actual	Jun-09	Sep-09	Dec-09
EUR/TRY	2.08	1.99	2.07	2.10
Change from last week	-0.6%			
USD/TRY	1.53	1.46	1.52	1.54
Change from last week	-0.7%			

*forecasts under revision

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