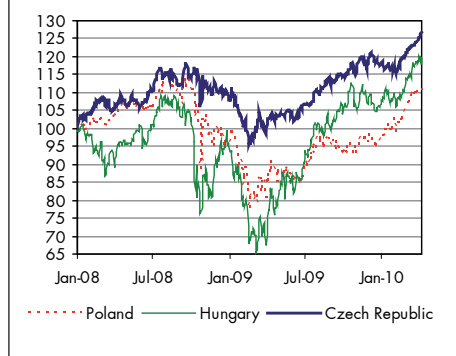


# CEE Weekly Bond Markets Outlook

Issue 14/2010

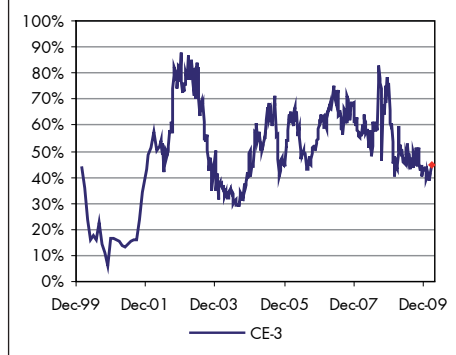
9 April 2010

## 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
<b>Poland</b>				
PLN	3.85	3.80	3.75	3.65
1m-rate	3.4	3.6	3.8	4.3
5y bond	5.2	5.0	5.1	5.4
10y bond	5.6	5.3	5.3	5.7
<b>Hungary</b>				
HUF	268.1	275	275	270
1m-rate	5.5	5.2	4.9	5.0
5y bond	6.0	6.3	6.2	6.0
10y bond	6.6	7.0	6.8	6.6
<b>Czech Rep.</b>				
CZK	25.2	25.4	24.8	25.0
1m-rate	0.9	1.0	1.2	1.5
5y bond	2.8	3.3	3.5	3.8
10y bond	3.8	4.4	4.4	4.6
<b>Romania</b>				
RON	4.11	4.10	4.05	3.95
1m-rate	3.5	5.3	5.5	5.4
5y bond	6.3	6.5	6.6	6.5
10y bond	6.0	6.0	6.0	6.0
<b>USD</b>	1.34	1.35	1.42	1.35

Currencies per 1 EUR

Source: Thomson Reuters, Raiffeisen RESEARCH

## Recommendations (1-month horizon)

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

## Highlights

- **Poland** – The internal NBP dispute over the calculation of FX provisions has gone into the next round. On 30 March, the MPC approved a draft which would have the effect of lowering the NBP's provisions for exchange rate risks for 2009.
- **Hungary** – The first round of the parliamentary elections will occur this Sunday (11 April). The question is really not who will win the elections, but rather whether Fidesz can secure an absolute (50%) or a qualified (2/3) majority.
- **Czech Republic** – The release of the industrial output growth data of 7% yoy in February and the unexpected decline of the unemployment rate from 9.9% to 9.7% are examples of signs of recovery of the Czech economy. The annual inflation rate remains low at the level of 0.7%.

## Key upcoming events and data releases

Country	Indicator	Period	Forecast	Range	Last
12-Apr					
CZ	Current account balance	Feb	16.0	CZK bn -2.2/12.5/22.0	15.6
RO	CPI, mom	Mar	0.1	% n.a.	0.2
TR	Current account balance	Feb	n.a.	USD bn -3.3/-2.6/-2.3	-3.0
13-Jan					
PL	Current account balance	Feb	-463.0	EUR mn n.a.	-710.0
HU	CPI, yoy	Mar	5.8	% 4.9/5.6/5.9	5.7
RO	Current account balance	Feb	n.a.	EUR mn n.a.	-123.0
TR	CBRT key rate decision	Apr	6.5	% 6.5/6.5/6.5	6.5
14-Apr					
RU	Industrial output, yoy	Mar	5.0	% 1.0/3.3/5.4	1.9
15-Apr					
PL	CPI, yoy	Mar	n.a.	% n.a.	2.9
CZ	PPI, mom	Mar	0.3	% -0.4/0.2/0.4	-0.3
CZ	PPI, yoy	Mar	-0.6	% -1.4/-0.7/-0.5	-0.2
HR	CPI, mom	Mar	0.4	% n.a.	0.2
HR	CPI, yoy	Mar	0.9	% n.a.	0.7
TR	Unemployment (3 month avg), %	Feb	13.8	% n.a.	13.5
16-Apr					
HU	Gross wages, yoy	Feb	4.7	% n.a.	6.5

## Bond auctions

		ISIN	Coupon	Maturity	Volume
12-Apr					
TR	1y T-bond (new)	n.a.	0.00%	08 Jun 2011	n.a.
TR	3y T-bond (new)	n.a.	n.a.	10 April 2013	n.a.
13-Apr					
TR	2y T-bond (new)	n.a.	0.00%	25 Jan 2012	n.a.
TR	10y CPIlinked bond	n.a.	n.a.	01 Apr 2020	n.a.



**Raiffeisen  
RESEARCH**

RZB Group

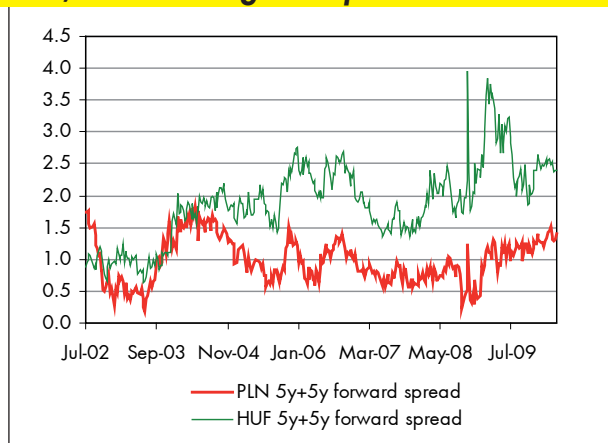
## Local currency bonds Market overview

### CEE local currency bond market snapshot

09/04/2010	Maturity	Coupon %	Ask price	YTM %	Spread to bunds (bp)	MDuration
<b>Poland</b>						
PLN 2y Gov. Bond	25/ Jul 12	0.00	90.35	4.55	363	2.3
PLN 5y Gov. Bond	25/ Apr 15	5.50	101.35	5.19	305	4.3
PLN 10y Gov. Bond	25/ Oct 19	5.50	99.20	5.61	249	7.5
PLN 20y Gov. Bond	25/ Apr 29	5.75	99.50	5.79	199	11.4
<b>Hungary</b>						
HUF 3y Gov. Bond	24/ Oct 13	7.50	105.60	5.69	447	3.2
HUF 5y Gov. Bond	12/ Feb 15	8.00	108.16	6.00	386	4.2
HUF 10y Gov. Bond	24/ Jun 19	6.50	99.09	6.63	352	6.9
HUF 15y Gov. Bond	24/ Nov 23	6.00	94.42	6.63	284	9.3
<b>Czech Republic</b>						
CZK 2y Gov. Bond	5/ Oct 11	6.55	108.43	0.77	-14	1.4
CZK 5y Gov. Bond	11/ Apr 15	3.80	104.65	2.79	66	4.5
CZK 10y Gov. Bond	11/ Apr 19	5.00	109.10	3.79	68	7.2
CZK 15y Gov. Bond	25/ May 24	5.70	111.90	4.54	75	9.9
<b>Slovakia</b>						
SKK 2y Gov. Bond	4/ May 12	0.00	96.57	1.71	80	2.1
SKK 5y Gov. Bond	11/ Feb 14	4.90	107.96	2.68	55	3.6
SKK 10y Gov. Bond	12/ May 19	5.30	110.83	3.86	75	7.2
<b>Croatia</b>						
HRK 5y Gov. Bond	11/ Jul 13	4.50	98.93	4.86	250	3.0
HRK 10y Gov. Bond	8/ Feb 17	4.75	93.73	5.88	277	5.9
<b>Romania</b>						
RON 3y Gov. Bond	25/ Oct 10	6.00	99.70	6.50	527	0.5
RON 5y Gov. Bond	5/ Mar 12	6.50	100.15	6.40	427	1.8
<b>Turkey</b>						
TRY 2y Gov. Bond	16/ Nov 11	0.00	87.20	8.90	799	1.6
TRY 5y Gov. Bond	6/ Aug 14	11.00	104.70	9.87	774	3.4
TRY 10y Gov. Bond	15/ Jan 20	10.50	100.85	10.61	750	6.4

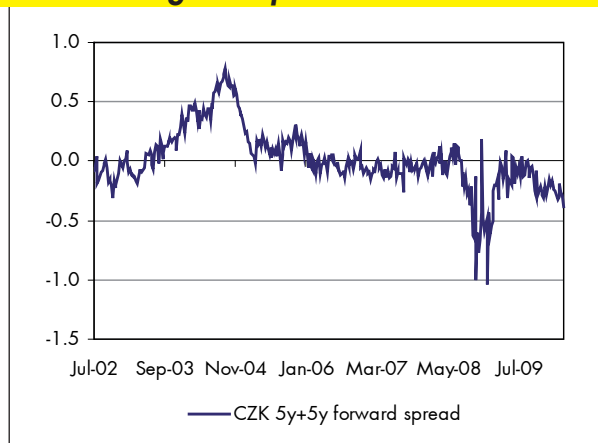
Source: Thomson Thomson Reuters, Raiffeisen RESEARCH

### PLN, HUF convergence spread



Source: Thomson Thomson Reuters, Raiffeisen RESEARCH

### CZK convergence spread



Source: Thomson Thomson Reuters, Raiffeisen RESEARCH

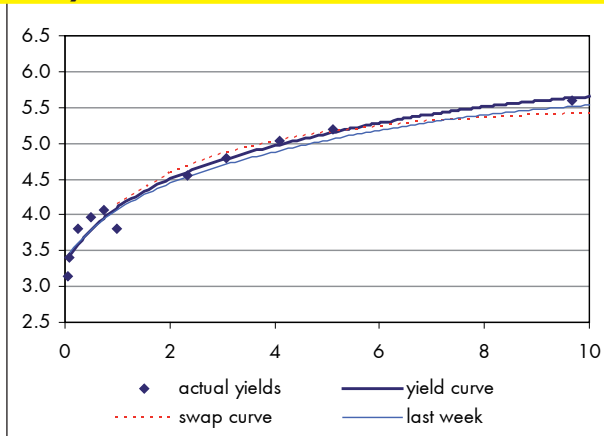
# Poland

## Next round of the NBP vs. MPC conflict

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

31 Mar 10	NBP rate decision, %	Mar 3.5 (Feb 3.5)
13 Apr 10	Current account balance, EUR mn	Feb -463 (Jan -710)
15 Apr 10	CPI, % yoy	Mar n.a. (Feb 2.9)

### PLN yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

### Money market focus

MM rates	1m	3m	6m	12m
<b>Actual</b>	<b>3.41</b>	<b>3.80</b>	<b>3.97</b>	<b>4.17</b>
Change from last week	-0.01	-0.05	-0.02	-0.01
Forecast Jun-10	3.60	4.20	4.29	4.50
<b>Forward rates</b>	<b>3x6</b>	<b>6x9</b>	<b>9x12</b>	
	4.16	4.25	4.41	
Change from last week	0.01	-0.02	0.02	

### Bond market focus

	2y	5y	10y	20y
<b>Actual</b>	<b>4.55</b>	<b>5.19</b>	<b>5.61</b>	<b>5.79</b>
Change from last week	0.12	0.09	0.12	0.02
Forecast Jun-10	4.70	5.00	5.30	5.80
<b>Spread to bunds</b>	<b>363.2</b>	<b>304.9</b>	<b>249.4</b>	<b>198.5</b>
Change from last week	9.2	9.0	12.1	1.5
<b>Spread to swaps</b>	<b>8.7</b>	<b>3.7</b>	<b>-10.5</b>	

### EUR/PLN



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market strategy

Buy PLN T-bonds

### Market comment

With the lack of economic data, the internal conflict between the management board of the National Bank of Poland and the MPC took the headlines this week. The conflict seems to be intensifying as an MPC member, Andrzej Bratkowski, publicly declared this week that he would resign from the MPC if the government confirms the management board's method of calculating provisions for exchange rate risk. On 30 March, the MPC approved a draft which would have the effect of lowering the NBP's provisions for exchange rate risks for 2009 and thus considerably increase the central bank's profit. Ultimately, 95% of the NBP profit is transferred to the state budget. Due to this story and resurgent worries about Greece, bond yields in all segments increased at the end of this week.

### Market outlook

The internal NBP dispute over the calculation of FX provisions has gone into the next round. We have to bear in mind that the government started the discussion about NBP profits back in 2009, when the fiscal year had not even ended yet. In our opinion, the conflict shows that there is more politics in the NBP and the MPC. With the intensification and prolongation of the dispute, a credibility issue might arise for the NBP and the MPC. We think that both bodies are aware of this problem and therefore we expect the conflict to settle soon and maintain our "buy" recommendation for Polish long-term bonds.

Analyst: Marcin Kopazynski (+43 1 71707 1423)

### Exchange rate focus

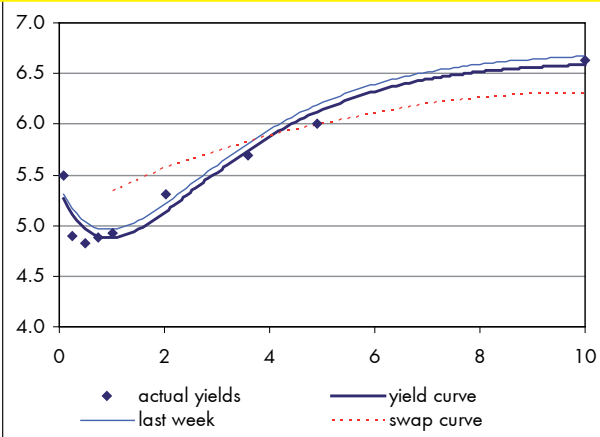
	actual	Jun-10	Sep-10	Dec-10
<b>EUR/PLN</b>	<b>3.85</b>	<b>3.80</b>	<b>3.75</b>	<b>3.65</b>
Change from last week	-0.2%			
<b>USD/PLN</b>	<b>2.90</b>	<b>2.81</b>	<b>2.64</b>	<b>2.70</b>
Change from last week	-1.6%			

## Hungary Elections

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

07 Apr 10	Industrial output, % yoy	Feb 8.4 (Jan 3.4)	Preliminary figures
13 Apr 10	CPI, % yoy	Mar 5.8 (Feb 5.7)	
16 Apr 10	Gross wages, % yoy	Feb 4.7 (Jan 6.5)	

### HUF yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market strategy

Neutral HUF T-bonds

### Market comment

The Greece story dragged on the local markets, as EUR/HUF suddenly weakened and jumped past 268 – setting a 1-month record. Recent industrial production data was robust (+8.4% growth yoy in February), reflecting the impact of both the miserable base figure and healthier export developments. The foreign trade balance remained in the black in February (EUR +374 mn). Nevertheless, both export and import growth was around 18% (EUR terms yoy). In Q1, the public budget deficit is already at 69% of the full-year target. The budget deficit will be certainly be overshoot in 2010: the only question is by how much – but the new government will be the one providing the answer.

### Money market focus

MM rates	1m	3m	6m	12m
Actual	5.50	5.46	5.43	5.39
Change from last week	0.00	-0.02	-0.01	-0.01
Forecast Jun-10	5.2	5.0	5.0	4.9

### Bond market focus

	3y	5y	10y	15y
Actual	5.69	6.00	6.63	6.63
Change from last week	-0.11	-0.07	-0.08	-0.08
Forecast Jun-10	6.0	6.3	7.0	6.9
Spread to bunds	446.5	386.2	351.8	283.8
Change from last week	-8.5	-7.5	-10.3	-13.9

### EUR/HUF



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market outlook

The first round of the parliamentary elections will occur this Sunday (11 April). The question is really not who will win the elections (it will be centre-right opposition Fidesz for sure), but rather whether Fidesz can secure an absolute (50%) or a qualified (2/3) majority in the next Parliament. Other important questions are how strong the radical Jobbik will become and how weak the ruling Socialist Party will be and whether the conservative MDF and the greenish LMP can get into the Parliament or not (opinion polls say No for MDF and Yes for LMP). While the markets would be mostly reassured by a 2/3 majority for Fidesz, if market sentiment remains spoiled by the Greeks, any election outcome may tend to fuel rising concerns towards Hungary. We keep our NEUTRAL stance on HGBs and forecast further HUF weakening (our EUR/HUF target price is 275 for June and Sept).

Analysts: Zoltán Török (+36 148 44 843)  
Wolfgang Ernst (+43 1 71707 1500)

### Exchange rate focus

	actual	Jun-10	Sep-10	Dec-10
EUR/HUF	268.13	275.0	275.0	270.0
Change from last week	-1.2%			
USD/HUF	201.68	203.7	193.7	200.0
Change from last week	-2.6%			



**Raiffeisen  
RESEARCH**

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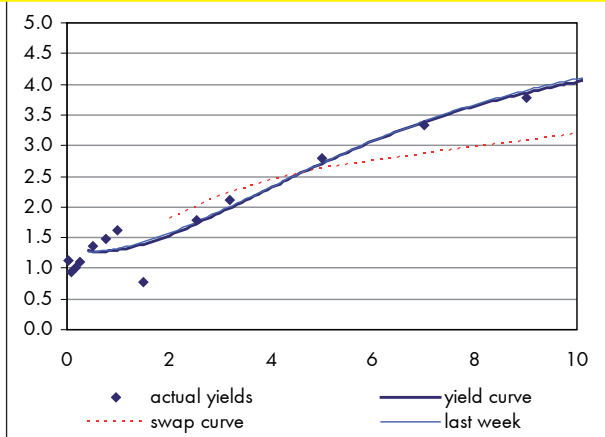
# Czech Republic

## Doves are out again

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

09 Apr 10	CPI, % yoy	Mar 0.7 (Feb 0.6)
09 Apr 10	Industrial output, % yoy	Feb 7.0 (Jan 5.3)

### CZK yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

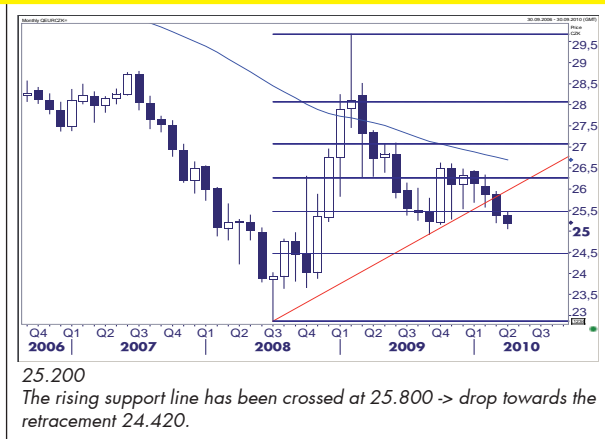
### Money market focus

MM rates	1m	3m	6m	12m
<b>Actual</b>	<b>0.94</b>	<b>1.11</b>	<b>1.37</b>	<b>1.63</b>
Change from last week	0.00	0.00	0.01	0.00
Forecast Jun-10	1.0	1.1	1.3	1.6
<b>Forward rates</b>	<b>1x2</b>	<b>3x6</b>	<b>6x9</b>	<b>9x12</b>
Change from last week	0.02	0.02	-0.02	0.00

### Bond market focus

	2y	5y	10y	15y
<b>Actual</b>	<b>0.77</b>	<b>2.79</b>	<b>3.79</b>	<b>4.54</b>
Change from last week	-0.03	-0.14	-0.15	-0.06
Forecast Jun-10	1.2	3.3	4.4	4.8
<b>Spread to bunds</b>	<b>-14.2</b>	<b>65.9</b>	<b>67.5</b>	<b>74.7</b>
Change from last week	-1.5	-14.6	-17.7	-12.3
<b>Spread to swaps</b>	<b>111.4</b>	<b>-10.0</b>	<b>-44.1</b>	<b>n.a.</b>

### EUR/CZK



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market strategy

Neutral CZK T-bonds

### Market comment

The minutes from the last Czech National Bank (CNB) monetary policy board meeting showed Miroslav Singer and Vladimir Tomsik as the two board members who voted for a rate cut. Mr. Singer is well known to prefer a more flexible monetary policy. It is also possible that the recent benign inflation data and hints about changes for the CNB's upcoming forecast revision influenced these board members. It is more than likely that the new inflation forecast will be far from hawkish. On the other hand, we do not believe that it should be dovish enough to persuade the majority of the CNB board to cut the key rate on the meeting at the beginning of May. Retail sales for February posted a 2.1% year-on-year decline, which was better than expected. Nevertheless, the picture of weak household consumption demand prevails. More of a recovery is being felt in other sectors, however. For example the trade balance in February posted a CZK 15.3 bn surplus.

### Market outlook

The data releases for the next week like PPI and the balance of payments are unlikely to move the market sentiment. If there is no significant correction on the global equity markets, the Czech koruna could strengthen even further and the Czech bond market could remain supported. On the other hand, given the current yield level we would not recommend buying into Czech government debt. On the opposite, during Q2 we will be looking for the right timing to sell Czech government bonds. For the time being we will stick with our neutral recommendation.

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

### Exchange rate focus

	actual	Jun-10	Sep-10	Dec-10
<b>EUR/CZK</b>	<b>25.19</b>	<b>25.4</b>	<b>24.8</b>	<b>25.0</b>
Change from last week	1.0%			
<b>USD/CZK</b>	<b>18.94</b>	<b>18.8</b>	<b>17.5</b>	<b>18.5</b>
Change from last week	-0.4%			

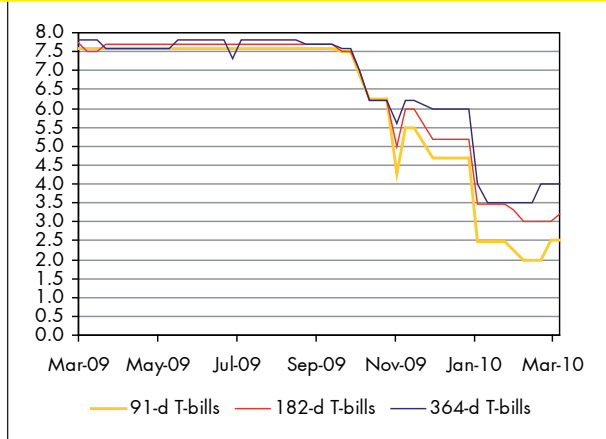
# Croatia

## Retail trade fell 17th month in a row

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

09 Apr 10	PPI, % yoy	Mar 3.9 (Feb 2.7)
15 Apr 10	CPI, % mom	Mar 0.4 (Feb 0.2)
15 Apr 10	CPI, % yoy	Mar 0.9 (Feb 0.7)

### Interest rates on T-bills



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market strategy

Neutral EUR/HRK

### Market comment

According to the first release, retail sales dropped 7.3% yoy in real terms (6.9% yoy nominally) in February. Despite the slowing downward trend, this is the 17th month in a row that retail sales fell on an annual basis. The milder fall is primarily the result of high last year's base, considering that retail sales plunged 19.1% in February 2009. These unfavourable trends are driven by lower disposable income of households, with additional downward pressure on household consumption stemming from consumer pessimism, due to the growing uncertainty on the labour market. Since we expect the negative outlook for the labour market to continue in H1 2010, retail sales results should be modest, although the rates of decline should be much lower than in 2009. If higher foreign demand causes an increase in energy prices, household income will also be hit by higher inflationary pressures. A recovery in retail trade may begin in H2 2010, assuming that the movements on the labour market are more favourable and the tourist season goes well.

The latest data show that the Croatian trade deficit continued its annual drop, but in February the rate of decline was the smallest in the last 13 months. After gaining 14.7% yoy in January, exports of goods recorded a decline of 19.4% yoy in February. At the same time, imports of goods fell by 13.5% yoy, thus reversing the trend of bigger decreases in imports than exports. For this year, we expect a rebound in foreign trade, which will depend on the revival in domestic and foreign demand.

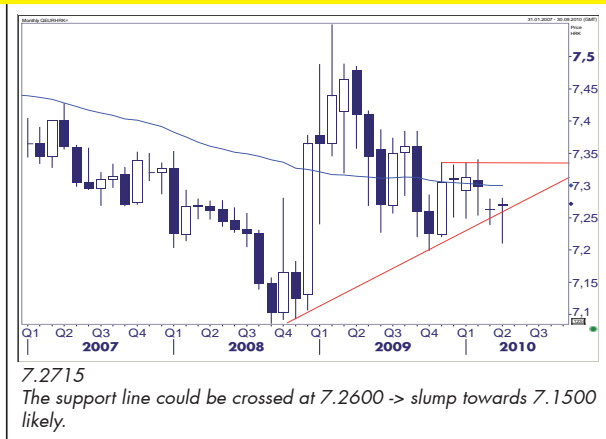
### Money market focus

	1m	3m	6m	12m
ZIBOR actual	1.33	2.14	2.90	3.74
Change from last week	0.02	0.14	0.03	0.07
T-bills actual	n.a.	2.50	3.20	4.00

### Exchange rate focus

	actual	Jun-10	Sep-10	Dec-10
EUR/HRK	7.266	7.32	7.30	7.32
Change from last week	0.1%			
USD/HRK	5.43	5.42	5.14	5.42
Change from last week	0.6%			

### EUR/HRK



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market outlook

There was some mild depreciation pressure on the kuna, pushing the EUR/HRK to 7.27. We expect that EUR/HRK will stay at levels slightly below 7.27 next week, while over a one-month horizon depreciation pressures should become more pronounced and the rate could move towards 7.30.

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

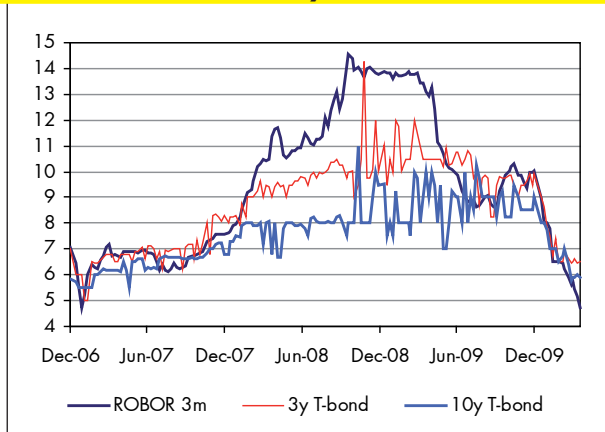
# Romania

## Industry shows signs of weaknesses

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

08 Apr 10	Industrial output, % yoy	Feb 1.4 (Jan 7.1)
12 Apr 10	CPI, % mom	Mar 0.1 (Feb 0.2)
13 Apr 10	Current account balance, EUR mn	Feb n.a. (Jan -123)

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



Source: Thomson Reuters, Raiffeisen RESEARCH

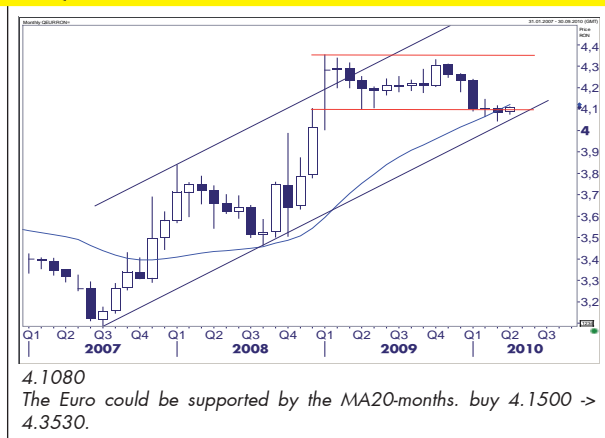
### Money market focus

MM rates	1m	3m	6m	12m
Actual	3.51	4.72	5.63	5.65
Change from last week	-0.71	-0.46	-0.13	-0.11
Forecast Jun-10	5.3	5.5	6.4	5.6
Implicit forward rates	3x6	6x9	9x12	
	6.62	5.65	5.53	
Change from last week	0.21	-0.07	-0.11	

### Bond market focus

	2y	3y	5y	10y
Actual	6.52	6.52	6.68	5.90
Change from last week	0.13	0.04	0.15	-0.10
Forecast Jun-10	6.30	6.40	6.50	6.00
Spread to bunds	560.9	529.7	454.2	279.0
Change from last week	14.1	15.0	-10.0	-12.3

### EUR/RON



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market strategy

Neutral RON T-bonds

### Market comment

Data published by the National Institute of Statistics on 7 April showed that in February 2010 the turnover of retail trade companies (except retail sales of automobiles) decreased by 0.4% mom, seasonally adjusted, and by 8.0% yoy. Retail sales of fuel contracted by 0.9% mom, while food and non-food retail sales recorded a slight increase of 0.4% mom and 1.1% mom, respectively. Weak demand on the back of torpid consumer morale fuelled by uncertainties on the labour market and by concerns about their future financial situation will continue to weigh on retail sales during the first part of 2010. In this context, demand for new loans from the household sector should remain at low levels in the coming months. Also, in February industrial production contracted by 2.5% mom, while posting an increase of 1.4% yoy. In terms of the structure, the sharpest declines were recorded in the manufacturing of intermediary and durable goods, with decreases of 3.9% mom and 3.5% mom, respectively. After a consistent comeback in 2009, industrial production, which is among the few drivers with potential to bring economic growth in the positive territory in 2010, is again showing signs of weaknesses, as the economic recovery in Eurozone struggles to gain traction. Given these results, we think that there are high chances for real GDP quarterly growth in Q1 to remain in negative territory.

### Market outlook

On the back of weak demand and poor results in the real economy, the low interest rate environment should continue to persist, at current levels, with the central bank continuing its monetary policy easing process.

Analyst: Ionut Dumitru (+40 37 2211269)

### Exchange rate focus

	actual	Jun-10	Sep-10	Dec-10
EUR/RON	4.11	4.10	4.05	3.95
Change from last week	-0.1%			
USD/RON	3.09	3.04	2.85	2.93
Change from last week	-1.5%			

# Russia

## Economic recovery strengthens

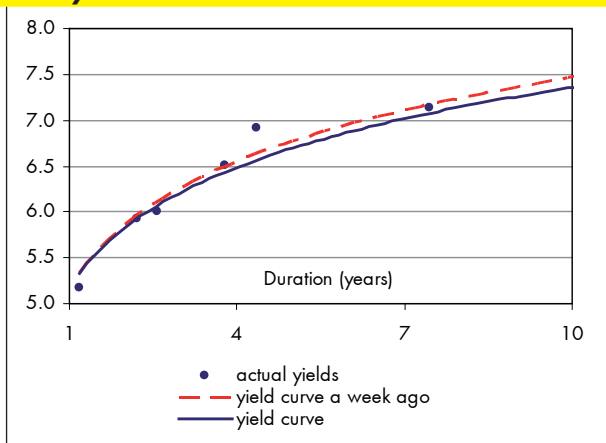
### (P)review of key economic figures/events

14 Apr 10

Industrial output, % yoy

Mar 5.0 (Feb 1.9)

### RUB yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market strategy

We buy rouble against the dual currency basket at 33.80-34.00, targeting appreciation to 33.20. Increasing portfolio inflows into the local equity market, the strengthening global growth outlook and a powerful rally in the oil market should lend enough support for the rouble.

### Market outlook

The economic recovery is growing stronger, confirming our views. Russian consumer confidence rose to a 1-1/2 year high in Q1 2010, as people were more upbeat about the economic prospects. The Federal Statistics Service said its confidence index rose 10 points quarter-on-quarter to -10, the best reading since Q3 2008, before the crisis fully erupted. However, it still remains well below the +1 to -5 range seen from mid-2006 to mid-2008, before Russia's economy was knocked back by the crisis. At the same, the indicator derived from VTB's surveys of manufacturing and service sector purchasing managers (PMIs) rose to 53.7, pointing to gross domestic product growth of 1.1% yoy, thanks largely to an improved service sector. The recovery in the manufacturing sector remained subdued, but unemployment fell in both sectors in March.

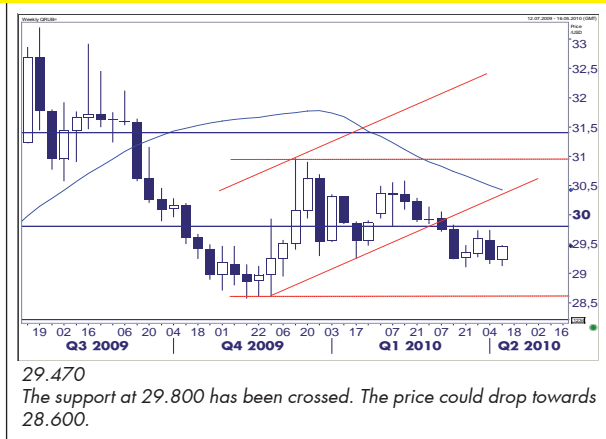
### Money market focus

MM rates	1m	3m	6m	12m
Actual	4.96	5.71	7.15	8.17
Change from last week	-0.07	0.00	0.07	0.13
Forecast Mar-10	3.91	4.21	4.56	n.a.
Forward rates	1x2	3x6	6x9	9x12
	5.84	8.74	n.a.	n.a.
Change from last week	0.07	0.20	n.a.	n.a.

### Bond market focus

	1y	2y	5y	15y
Actual	5.17	5.93	6.51	7.14
Change from last week	0.00	-0.06	-0.06	-0.03
Forecast Mar-10	5.11	5.75	6.79	n.a.

### USD/RUB



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market outlook

The latest growth and confidence numbers confirm our earlier hypothesis that the economic recovery will speed up in Q2-Q3, although we were slightly surprised to see a weaker rebound in the manufacturing sector compared to services. March industrial production data will be reported on April 14. We forecast industrial production growth of 5% yoy, which will be closer to the 5.4% maximum range of market consensus forecast. In the rouble market, we expect the rally to resume to around 34.00 against the basket and continue to expect a 25-bp rate cut in April given low inflation in March and the rapid appreciation of the rouble.

Analyst: Gintaras Shlizhyus (+43 1 71707 1343)

### Exchange rate focus

	actual	Jun-09	Sep-09	Dec-09
EUR/RUB	39.23	39.30	40.84	38.84
Change from last week	0.6%			
USD/RUB	29.28	29.11	28.76	28.77
Change from last week	-0.1%			

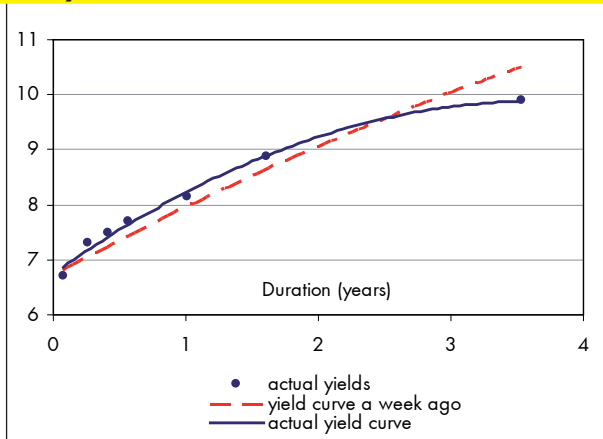
# Turkey

## Exit in sight

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

12 Apr 10	Current account balance, USD bn	Feb n.a. (Jan -3.0)	Recovery should weight on deficit
13 Apr 10	CBRT key rate decision	Apr 6.5 (Mar 6.5)	CBT releases exit strategy on April 14
15 Apr 10	Unemployment (3 month avg), %	Dec-Feb 13.8 (Nov-Jan 13.5)	Unemployment slightly up as it lags recovery

### TRY yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

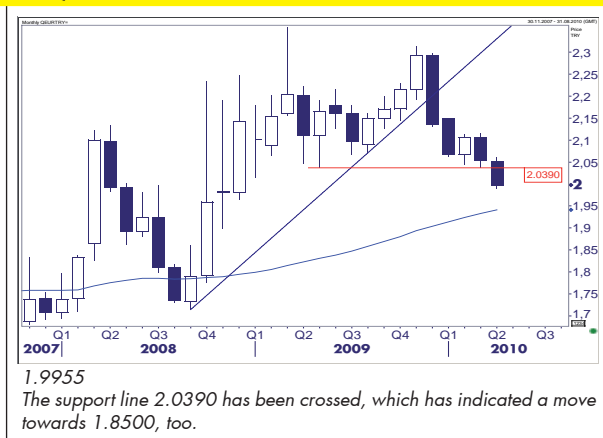
### Money market focus

MM rates	1m	3m	6m	12m
Actual	6.70	6.80	7.00	7.60
Change from last week	0.10	0.42	-0.40	-0.20
Forecast Jun-10	7.33	7.56	7.97	8.58
Implied forward rates	1x2	3x6	6x9	9x12
	7.08	7.27	7.85	8.31
Change from last week	0.00	-1.28	-0.09	0.12

### Bond market focus

	1m	1y	2y	5y
Actual	6.70	8.15	8.88	9.89
Change from last week	-0.21	0.41	0.03	-0.59
Forecast Jun-10	n.a.	8.58	9.23	10.21

### EUR/TRY



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market strategy

Underweight TRY bonds relative to the benchmark index

### Market comment

The industrial output figure for February came in at 18.2% yoy, just beating consensus and underlining the better-than-expected recovery. We are upbeat regarding the output figure for March as well, given the four-point increase in the PMI that month. Strong industrial growth will also translate into nearly double-digit yearly GDP growth rates for Q1 (nevertheless, in qoq terms growth may slowdown a bit to 1.5-2%). Headline consumer prices in March increased less than in Jan-Feb, bringing inflation back to 9.6% yoy. But a sizable drop in inflation can only be expected in Q4. And there are other worries for the Central Bank as well, as the core rate of inflation also began to pick up, rising by 1.4pp to 5.4% yoy. Year-end CPI expectations also rose as reflected in the Central Bank's last survey (+0.18 to 8.24% yoy).

### Market outlook

Pressure on the central bank to exit its loose monetary policy is clearly mounting. We are even thinking about shifting our expectation for an initial 50bp rate hike from the 3rd quarter to the end of Q2. However, at this month's rate-setting meeting on 13 April the market unanimously expects no change in the key rate of 6.5%. On 14 April, the Central bank will present its exit strategy, which is more interesting. The announcement will likely give us a better understanding of the timing of Central bank measures (liquidity management, reserve requirement, etc.).

The looming prospects of tighter monetary policy may finally lead to some yield increases for local government bonds. At the same time, signs of a robust recovery and the potential for further rises on the local equity market should support the lira, driving it towards USD/TRY 1.45 in the next couple of months.  
Analyst: Andreas Schwabe (+43 1 71707 1389)

### Exchange rate focus

	actual	Jun-09	Sep-09	Dec-09
EUR/TRY	2.00	1.96	2.06	1.92
Change from last week	-2.7%			
USD/TRY	1.49	1.45	1.45	1.42
Change from last week	-1.9%			



### 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 Cavoječ 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: Luca Scalzini Tel: +43 1 71707 3981

### 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

### RZB Singapore Branch

Sales: Thomas Neidhardt Tel: +65 6305 6108

### 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

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### Head of Raiffeisen RESEARCH:

Peter Brezinschek (1517)

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