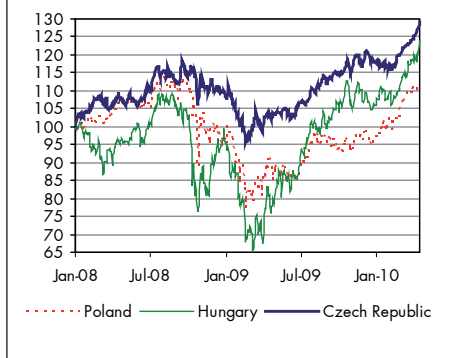


CEE Weekly Bond Markets Outlook

Issue 15/2010

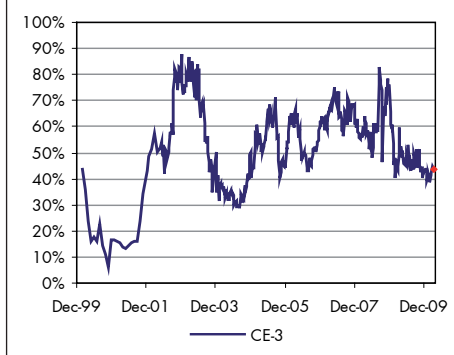
16 April 2010

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
Poland*				
PLN	3.86	3.80	3.75	3.65
1m-rate	3.4	3.6	3.8	4.3
5y bond	5.0	5.0	5.1	5.4
10y bond	5.5	5.3	5.3	5.7
Hungary				
HUF	263.6	275	275	270
1m-rate	5.5	5.2	4.9	5.0
5y bond	5.5	6.3	6.2	6.0
10y bond	6.3	7.0	6.8	6.6
Czech Rep.				
CZK	25.1	25.4	24.8	25.0
1m-rate	0.9	1.0	1.2	1.5
5y bond	2.5	3.3	3.5	3.8
10y bond	3.5	4.4	4.4	4.6
Romania				
RON	28.93	29.11	28.76	28.77
1m-rate	4.0	3.9	3.9	3.9
5y bond	6.5	6.4	6.1	5.6
10y bond	6.9	6.7	6.5	6.0
USD	1.36	1.35	1.42	1.35

* under revision

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** – With the FX intervention on Friday, the central bank demonstrated its strong commitment to take action against rapid appreciation of the zloty.
- **Hungary** – The opposition centre-right Fidesz won the general elections (11 April), taking 52.7% of the votes (on the party list). Fidesz will form the next Hungarian government alone, with Viktor Orbán as the new PM.
- **Czech Republic** – The governor of the CNB, Zdenek Tuma, unexpectedly announced that he will resign on 30 June 2010. The CNB is a stable and well functioning institution and the resignation of the governor does not imply any significant instability.

Key upcoming events and data releases

Country	Indicator	Period	Forecast	Range	Last
19-Apr					
PL	Employment, yoy	Mar	-0.7	% -0.3/-0.7/-1.0	-1.1
PL	Corp. sector wages, yoy	Mar	3.4	% 0.8/2.9/4.1	2.9
20-Apr					
PL	Industrial output, yoy	Mar	10.3	% 7.0/9.6/12.70	9.2
PL	PPI, yoy	Mar	-2.4	% -2.9/-2.5/0.50	-2.4
21-Apr					
HR	Industrial output, yoy	Mar	0.9	% n.a.	0.2
HR	Unemployment rate	Mar	n.a.	% n.a.	18.3
RU	Retail sales, yoy	Mar	6.0	% -1.4/2.5/6.2	1.3
RU	Fixed capital investment, yoy	Mar	-2.5	% -8.0/-5.0/0.0	-7.4
22-Apr					
TR	CPI survey (end 2010), yoy	Apr	n.a.	% n.a.	8.24
23-Apr					
HU	Retail sales, yoy	Feb	-3.0	% -3.0/-5.0/-6.0	-5.6

Bond auctions

Date	Country	Instrument	ISIN	Yield	Term	Amount
01-Apr	TR	7y Floater reopening	TRT040117T14	7.8%	04 Jan 2017	n.a.
21-Apr	PL	5y T-bond	PL0000105953	5.50%	25 Apr 2015	PLN 3 bn
	CZ	15y T-bond reopening	CZ0001002547	5.70%	25 May 2024	CZK 6 bn
22-Apr	HU	3y T-bond	HU0000402466	7.50%	24 Oct 2013	HUF 25 bn
	HU	5y T-bond	2016/C	5.50%	12 Feb 2016	HUF 15 bn
	HU	10y T-bond	HU0000402433	6.50%	24 Jun 2019	HUF 10 bn
22-Apr	RO	10y T-bond	RO1017DBN038	6.75%	11 Jun 2017	RON 700 mn

Local currency bonds

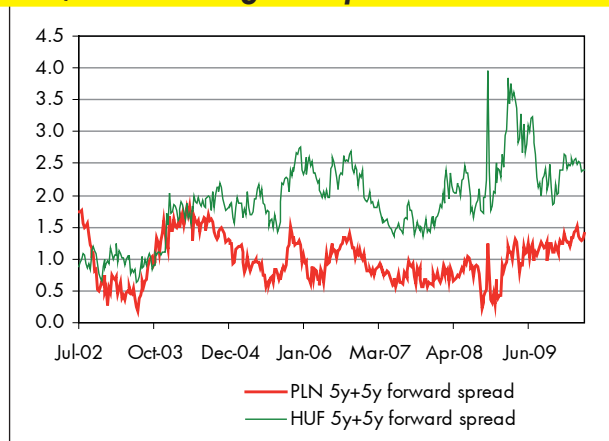
Market overview

CEE local currency bond market snapshot

16/04/2010	Maturity	Coupon %	Ask price	YTM %	Spread to bunds (bp)	MDuration
Poland						
PLN 2y Gov. Bond	25/ Jul 12	0.00	90.80	4.35	342	2.3
PLN 5y Gov. Bond	25/ Apr 15	5.50	101.97	5.05	286	4.3
PLN 10y Gov. Bond	25/ Oct 19	5.50	99.95	5.50	240	7.5
PLN 20y Gov. Bond	25/ Apr 29	5.75	99.59	5.79	197	11.4
Hungary						
HUF 3y Gov. Bond	24/ Oct 13	7.50	107.02	5.25	401	3.1
HUF 5y Gov. Bond	12/ Feb 15	8.00	110.19	5.53	335	4.2
HUF 10y Gov. Bond	24/ Jun 19	6.50	101.82	6.23	312	6.9
HUF 15y Gov. Bond	24/ Nov 23	6.00	98.07	6.21	244	9.4
Czech Republic						
CZK 2y Gov. Bond	5/ Oct 11	6.55	108.70	0.54	-39	1.4
CZK 5y Gov. Bond	11/ Apr 15	3.80	105.70	2.57	41	4.6
CZK 10y Gov. Bond	11/ Apr 19	5.00	111.00	3.55	44	7.5
CZK 15y Gov. Bond	25/ May 24	5.70	114.25	4.33	56	9.9
Croatia						
HRK 5y Gov. Bond	11/ Jul 13	4.50	98.51	5.00	263	3.0
HRK 10y Gov. Bond	8/ Feb 17	4.75	93.30	5.96	285	5.9
Romania						
RON 3y Gov. Bond	25/ Oct 10	6.00	99.71	6.50	526	0.5
RON 5y Gov. Bond	5/ Mar 12	6.50	100.15	6.40	425	1.8
Russia						
RUB 2y Gov. Bond	19/ Sep 12	10.80	111.35	5.81	488	2.2
RUB 5y Gov. Bond	17/ Dec 14	11.20	119.65	6.46	431	3.8
RUB 10y Gov. Bond	29/ Aug 18	8.00	102.15	6.70	359	4.4
RUB 30y Gov. Bond	6/ Feb 36	6.90	98.00	7.20	336	12.0
Turkey						
TRY 2y Gov. Bond	25/ Jan 12	0.00	85.81	8.98	805	1.8
TRY 5y Gov. Bond	6/ Aug 14	11.00	104.70	9.87	772	3.4
TRY 10y Gov. Bond	15/ Jan 20	10.50	100.60	10.65	754	6.4

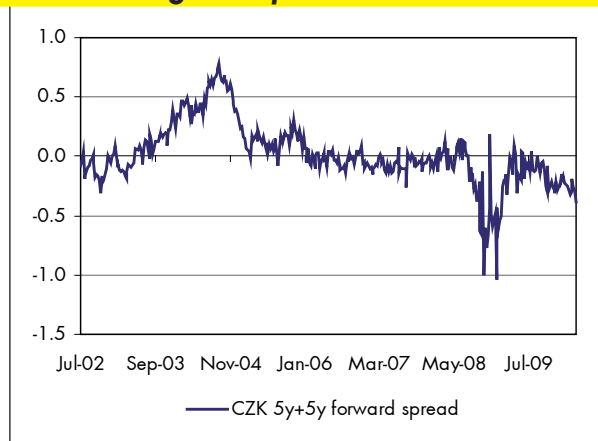
Source: Thomson Thomson Reuters, Raiffeisen RESEARCH

PLN, HUF convergence spread



Source: Thomson Thomson Reuters, Raiffeisen RESEARCH

CZK convergence spread



Source: Thomson Thomson Reuters, Raiffeisen RESEARCH

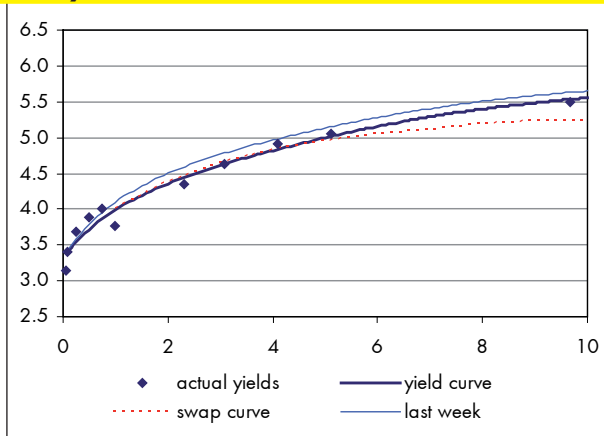
Poland

Interest rate hikes will be postponed

(P)review of key economic figures/events

19 Apr 10	Employment, % yoy	Mar -0.7 (Feb -1.1)
19 Apr 10	Corporate sector wages, % yoy	Mar 3.4 (Feb 2.9)
20 Apr 10	Industrial output, % yoy	Mar 10.3 (Feb 9.2)

PLN yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Money market focus*

MM rates	1m	3m	6m	12m
Actual	3.41	3.69	3.88	4.10
Change from last week	0.00	-0.11	-0.09	-0.07
Forecast Jun-10	3.60	4.20	4.30	4.50
Forward rates	3x6	6x9	9x12	
Change from last week	-0.07	-0.03	-0.07	

Bond market focus*

	2y	5y	10y	20y
Actual	4.35	5.05	5.50	5.79
Change from last week	-0.23	-0.14	-0.10	-0.01
Forecast Jun-10	4.70	5.00	5.30	5.80
Spread to bunds	341.8	286.2	239.5	196.6
Change from last week	-22.5	-19.1	-10.4	-3.1
Spread to swaps	5.3	-1.8	-15.9	

* under revision

EUR/PLN



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Buy PLN T-bonds

Market comment

After a minor correction, Polish yields resumed their downward trend along the entire yield curve. The tragic plane crash last weekend had no impact on the financial markets in Poland. Nor did yields react to the FX interventions last Friday, when the NBP sold zloty to slow down appreciation. Economic data showed that inflation is heading lower, as expected. At 2.6% yoy, inflation is now close to the NBP target of 2.5% yoy. The current account numbers on capital inflows (especially portfolio investments) once again showed that investors are still eager to buy Polish bonds. The auction of the 10-year government bonds on Wednesday had a bid-to-cover ratio of 2.28.

Market outlook

Before Friday of last week interventions were only verbal, with the MPC and the government stating on several occasions that a strong zloty might be harmful to the economy. With the FX intervention on Friday, the central bank demonstrated its strong commitment to take action against rapid appreciation of the zloty. Taking this into account, in the current environment it looks rather unlikely that the MPC will increase its interest rates at the end of Q3, as this would most likely lead to further strengthening of the zloty. We still think that at the end of 2011 the key interest rate will reach 4.5%, but expect the first rate hike at the beginning of next year, instead of the end of Q3 2010. With the postponement of the first interest rate hikes we also put our yield forecasts under revision. Our short-run "buy" recommendation remains valid.

Analyst: Marcin Kopazynski (+43 1 71707 1423)

Exchange rate focus

	actual	Jun-10	Sep-10	Dec-10
EUR/PLN	3.86	3.80	3.75	3.65
Change from last week	-0.3%			
USD/PLN	2.85	2.81	2.64	2.70
Change from last week	1.7%			

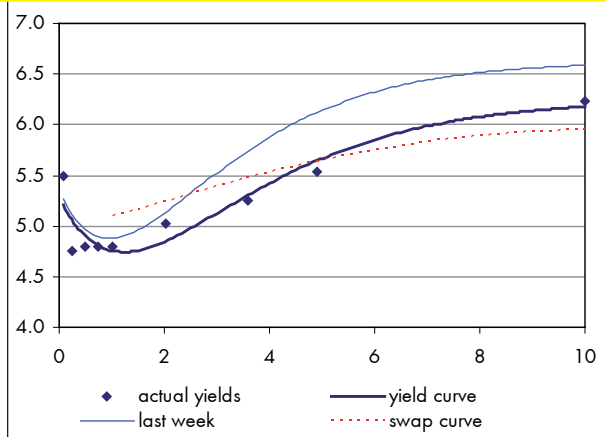
Hungary

Elections held - no surprises

(P)review of key economic figures/events

11 Apr 10	Parliamentary elections (first round)	Centre-right opposition Fidesz victory
16 Apr 10	Gross wages, % yoy	Feb 0.9 (Jan 6.5)
23 Apr 10	Retail sales, % yoy	Feb -3.0 (Jan -5.6)

HUF yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral HUF T-bonds

Market comment

The opposition centre-right Fidesz won the general elections (11 April), taking 52.7% of the votes (on the party list). The ruling MSZP, the socialist party managed only 19.3%. There will also be two newcomers in the new parliament: the radical-right Jobbik (16.7%) and the greenish LMP (7.4%).

Fidesz will form the next Hungarian government alone, with Viktor Orbán as the new PM. It is also still possible for Fidesz to secure a qualified (2/3) majority in the next parliament. In the first round of the elections, 119 individual constituencies were won by Fidesz candidates, while in most of the remaining 57 constituencies (where simple majority was not achieved by any candidate and therefore a second round will take place on 25 April) Fidesz candidates have fairly good chances to win.

Money market focus

MM rates	1m	3m	6m	12m
Actual	5.50	5.44	5.40	5.36
Change from last week	0.00	-0.02	-0.03	-0.03
Forecast Jun-10	5.2	5.0	5.0	4.9

Bond market focus

	3y	5y	10y	15y
Actual	5.25	5.53	6.23	6.21
Change from last week	-0.44	-0.47	-0.40	-0.42
Forecast Jun-10	6.0	6.3	7.0	6.9
Spread to bunds	400.9	334.7	312.3	244.2
Change from last week	-46.0	-51.9	-39.8	-40.0

EUR/HUF



Source: Thomson Reuters, Raiffeisen RESEARCH

Market outlook

As Hungary is still in the IMF programme, we expect the new government first to agree with the IMF on a new, higher 2010 budget deficit target (vs. the current unrealistic 3.8% target), and the framework and major directions of Hungary's new economic policy. This should contain several important institutional reforms, tax measures (mostly tax cuts) and possibly some direct growth-enhancing measures. The Hungarian election result has been taken positively by the markets, with sentiment also buoyed by the Greek rescue package. HUF strengthened again (EUR/HUF towards 260). The current optimism may last for a while, but eventually the deterioration in the budget deficit outlook may overshadow the promise of structural reforms, and therefore we suggest to stay on the sidelines and HOLD HGB.

Analysts: Zoltán Török (+36 148 44 843)

Exchange rate focus

	actual	Jun-10	Sep-10	Dec-10
EUR/HUF	263.63	275.0	275.0	270.0
Change from last week	1.7%			
USD/HUF	194.29	203.7	193.7	200.0
Change from last week	3.8%			

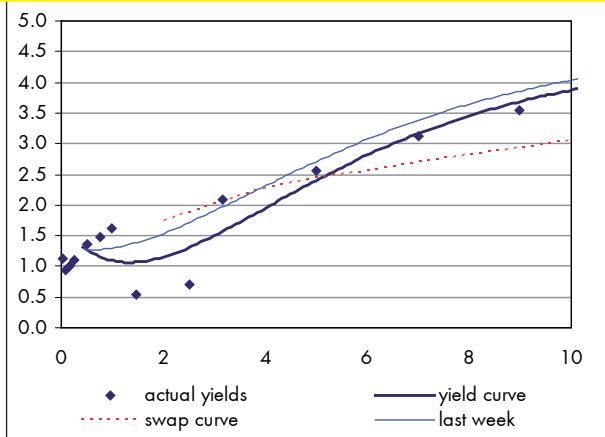
Czech Republic

CNB governor Tuma calls it quits

(P)review of key economic figures/events

13 Apr 10	Current account, CZK bn	Feb 10.3 (Jan 15.6)
15 Apr 10	PPI, % yoy	Mar -0.8 (Feb -0.2)

CZK yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

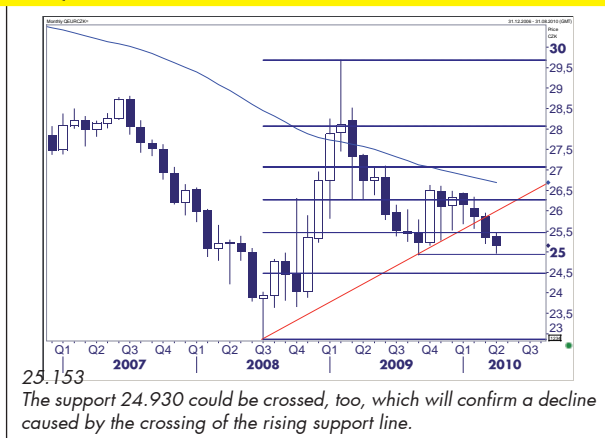
Money market focus

MM rates	1m	3m	6m	12m
Actual	0.93	1.10	1.35	1.62
Change from last week	-0.01	-0.01	-0.02	-0.01
Forecast Jun-10	1.0	1.1	1.3	1.6
Forward rates	1x2	3x6	6x9	9x12
Change from last week	-0.01	-0.03	0.01	-0.01

Bond market focus

	2y	5y	10y	15y
Actual	0.54	2.57	3.55	4.33
Change from last week	-0.23	-0.22	-0.24	-0.21
Forecast Jun-10	1.2	3.3	4.4	4.8
Spread to bunds	-39.3	41.4	44.0	56.0
Change from last week	-26.2	-25.2	-23.8	-19.1
Spread to swaps	133.3	-1.5	-31.9	n.a.

EUR/CZK



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral CZK T-bonds

Market comment

The governor of the Czech National Bank (CNB), Zdenek Tuma, unexpectedly announced that he will resign on 30 June 2010. His mandate would have otherwise ended on 12 February 2011. The CNB is a stable and well functioning institution and the resignation of the governor does not imply any significant instability. The governor asserts that there is currently no crisis situation and that the CNB is not facing any sort of crisis. Czech Finance Minister E. Janota said he believes there is a solid demand for the planned Czech Eurobond issue. He also added that the issue should not be done close to parliamentary election and soon after the election it would be risky. Thus, we can judge that the Eurobond will be issued soon at an amount of EUR 1-2 bn.

Market outlook

The resignation of a governor, who was, according to the Global Finance magazine, among the world's top seven central bankers, shortly before the upcoming parliamentary election can increase the degree of uncertainty and worsen market perception. Taking into account the almost neutral position of Tuma with regards to the euro adoption, and given the fact that the governor is named by president Vaclav Klaus, we can expect more euro skepticism in the future CNB board. The CZK dropped from 25.03 to 25.11 on the news. The recent drop of government bond yields and corresponding yields spread was bigger than we expected. We see limited room for further declines. On the other hand we do not see any strong impulse for the opposite move in the near time future. All in all, we will maintain our neutral recommendation on Czech government bonds.

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	25.05	25.4	24.8	25.0
Change from last week	0.6%			
USD/CZK	18.39	18.8	17.5	18.5
Change from last week	3.0%			

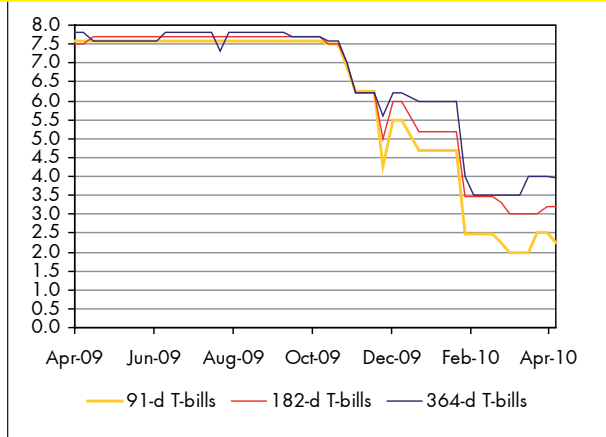
Croatia

Strong decline in FDI inflow

(P)review of key economic figures/events

09 Apr 10	PPI, % yoy	Mar 5.0 (Feb 2.7)
15 Apr 10	CPI, % yoy	Mar 0.9 (Feb 0.7)
21 Apr 10	Industrial output, % yoy	Mar 0.9 (Feb 0.2)

Interest rates on T-bills



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral EUR/HRK

Market comment

The latest CNB data showed that Croatia received EUR 1.9 bn of FDI in 2009, down 55.3% yoy. The strong decline in FDI inflow was largely anticipated, due to increased risk aversion. Once again, statistics showed lack of desirable greenfield investments as the largest investments were recorded in wholesale (EUR 734 mn) and the financial intermediation sector, i.e. banking sector (EUR 658 mn). Considering the country of origin of FDI, last year's biggest investor in Croatia was the Netherlands (EUR 1.1 bn), with Austria right behind (EUR 421 mn). Over the past 17 years, Austria has accounted for the largest share in total FDI (26%). In 2010, as the eurozone recovers and risk aversion continues to fall, we expect a mild increase in investor interest in Croatia. However, a lot depends on how fast structural reforms are implemented and how the accession process with the EU progresses.

March producer prices increased by 5% yoy, the strongest annual growth rate since November 2008 and certainly at least in part a result of the low last year's base. However, excluding energy prices, PPI actually fell by 0.3% yoy. Considering the economic recovery unfolding in the developed markets, in the period ahead energy prices will continue to exert pressure on PPI and, consequently, will spill over to the CPI.

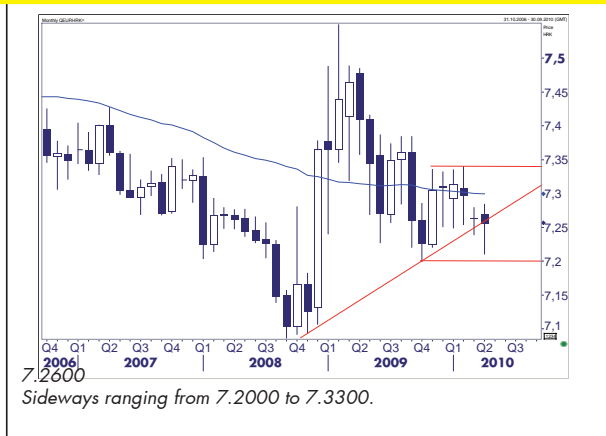
Money market focus

	1m	3m	6m	12m
ZIBOR actual	1.31	2.18	3.02	3.87
Change from last week	-0.02	0.04	0.12	0.13
T-bills actual	n.a.	2.25	3.20	3.95

Exchange rate focus

	actual	Jun-10	Sep-10	Dec-10
EUR/HRK	7.257	7.32	7.30	7.32
Change from last week	-0.1%			
USD/HRK	5.32	5.42	5.14	5.42
Change from last week	-2.0%			

EUR/HRK



Source: Thomson Reuters, Raiffeisen RESEARCH

Market outlook

Early in the week, EUR/HRK climbed over 7.27. But once again, this was short-lasting and the rate fell back to levels around 7.26. As there are plenty of euros in the system and demand for euros is slack due to weak goods imports, there is no real possibility for EUR/HRK to rise more significantly at the time. Hence, next week, the rate should stay at roughly the same level as this week; over a one-month horizon, some slight depreciation pressures on the kuna are possible.

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

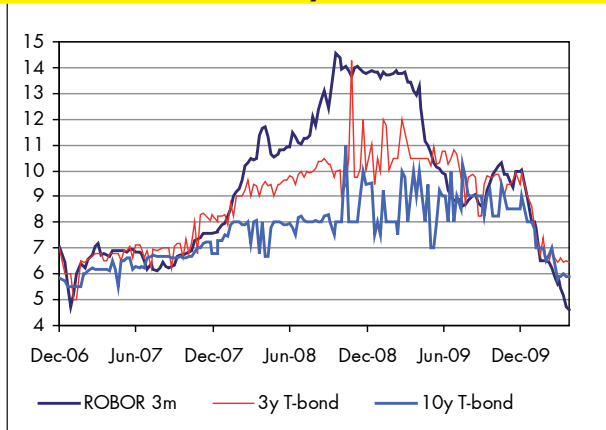
Romania

Inflation rate moves lower

(P)review of key economic figures/events

12 Apr 10	CPI, % yoy	Mar 4.2 (Feb 4.5)
13 Apr 10	Current account balance, EUR mn, ytd	Feb -754 (Jan -144)
13 Apr 10	FDI inflows, EUR mn, ytd	Feb 465 (Jan 277)

ROBOR 3m & T-bond yields (%)



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral RON T-bonds

Market comment

The monthly inflation rate came in at 0.2% mom in March, in line with market expectations. As a result, the annual rate of inflation fell from 4.5% yoy in February to 4.2% yoy in March, the lowest level since July 2007. The main driver of inflation was the increase in prices for fuels (+1.95% mom). For the time being, underlying inflationary pressures remain contained, while supply side shocks and administered prices are the main risks for inflation. For instance, the monthly inflation rate may be just as high again in April, due to increases in medicine prices. We expect the annual inflation rate to fluctuate between 4.0-4.5% by the end of June, while it might increase slightly in Q3, especially if the government decides to hike natural gas tariffs. Under these circumstances, we are looking for an additional cut of 25bp to 6.25% in the monetary policy rate at the next monetary policy meeting at the beginning of May. But after this cut, we think that central bank is likely to take a temporary pause to see how administered prices and volatile food prices actually develop.

Money market focus

MM rates	1m	3m	6m	12m
Actual	3.31	4.60	5.60	5.60
Change from last week	-0.20	-0.12	-0.03	-0.05
Forecast Jun-10	5.3	5.5	6.5	5.6
Implicit forward rates	3x6	6x9	9x12	
	6.69	5.56	5.48	
Change from last week	0.06	-0.09	-0.05	

Bond market focus

	2y	3y	5y	10y
Actual	6.00	6.45	6.59	5.90
Change from last week	-0.52	-0.07	-0.09	0.00
Forecast Jun-10	6.30	6.40	6.50	6.00
Spread to bunds	508.6	520.2	442.4	279.2
Change from last week	-53.4	-12.2	-0.1	-0.2

EUR/RON



Source: Thomson Reuters, Raiffeisen RESEARCH

Market outlook

Liquidity in the interbank market remains ample and this is keeping money market rates at a low level (ROBOR 1m is trading at 4%, substantially below the level of the monetary policy rate). Under these circumstances, the Finance Ministry can easily borrow money at reasonable yields. We do not expect to see major changes over the short term in the money market and bond market conditions. But given that we see some risks of tighter liquidity conditions in Q3 when inflation is likely to increase, we prefer to keep a "neutral" recommendation on RON bonds.

Analyst: Ionut Dumitru (+40 37 2211269)

Exchange rate focus

	actual	Jun-10	Sep-10	Dec-10
EUR/RON	4.14	4.10	4.05	3.95
Change from last week	-0.5%			
USD/RON	3.03	3.04	2.85	2.93
Change from last week	2.0%			

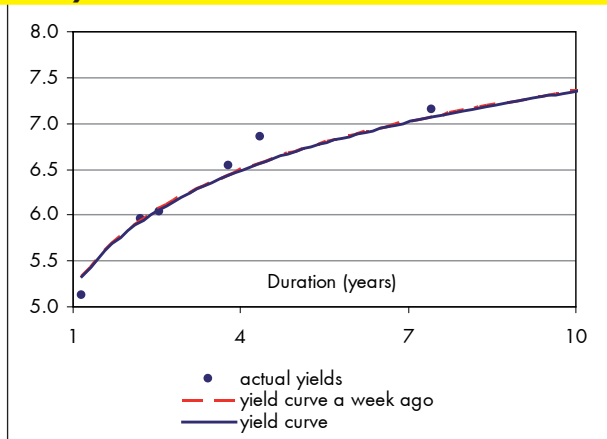
Russia

Better economy and a new Eurobond

(P)review of key economic figures/events

21 Apr 10	Retail sales, % yoy	Mar 6.0 (Feb 1.3)
21 Apr 10	Fixed capital investment, % yoy	Mar -2.5 (Feb -7,4)

RUB yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

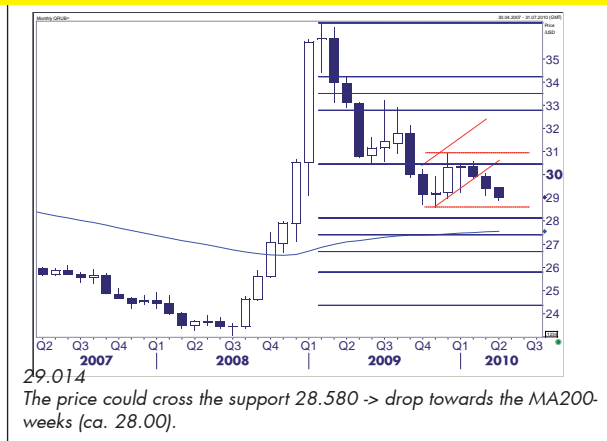
Money market focus

MM rates	1m	3m	6m	12m
Actual	5.03	5.70	7.13	8.15
Change from last week	0.07	0.03	-0.01	-0.02
Forecast Mar-10	3.91	4.21	4.56	n.a.
Forward rates	1x2	3x6	6x9	9x12
	5.83	8.71	n.a.	n.a.
Change from last week	-0.01	-0.03	n.a.	n.a.

Bond market focus

	1y	2y	5y	15y
Actual	5.13	5.96	6.54	7.16
Change from last week	-0.04	0.03	0.03	0.02
Forecast Mar-10	5.11	5.75	6.35	n.a.

USD/RUB



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

As we correctly predicted the powerful rouble rally, we maintain our buy recommendation on the rouble with a target level of 33.20 against the dual currency basket.

Market outlook

Russia's March industrial output figure rose to 5.7% yoy, beating the market consensus expectation of 3.3% but coming in close to our IP forecast of 5.0%. During the first three months of the year, industrial output expanded by 5.8% yoy, benefiting from the low base effect of early 2009. Although the largest 6.6% increase was observed in the mineral and mining sector, there were also credible signs of a fast pick-up in the production of consumer goods, indicating the acceleration of the economic recovery. We see industrial output trends being in line with our own expectations, forecasting 6.0% IP growth. We are cautious about the recovery, however, since the April-July numbers will be valued against the very low base from 2009. Nevertheless, a rapid increase in consumer goods output is a strong sign for us, suggesting that the recovery might be getting fully underway earlier than we expected.

Market outlook

From April 13 to April 21, Russia is roadshowing its first Eurobond since the 1998 crisis. According to Russian sources, the issue will be in US dollars 144A Reg, notional amount USD 3-5bn and a 10-30 year duration. Government sources said Russia will aim for tight pricing in 5% yield area without giving further details. The government might opt for two different strategies: the first would be to place the bond in two tranches - 10y and 30y, while the second option might be a single 30-year issue for a smaller amount of 3-4bn. We see 10y potentially being offered at 4.6-4.8% yield, with 20y-30y in the area of 5.50-5.75%. 8y.

Analyst: Gintaras Shlizhyus (+43 1 71707 1343)

Exchange rate focus

	actual	Jun-10	Sep-10	Dec-10
EUR/RUB	39.28	39.30	40.84	38.84
Change from last week	-0.1%			
USD/RUB	29.01	29.11	28.76	28.77
Change from last week	0.9%			



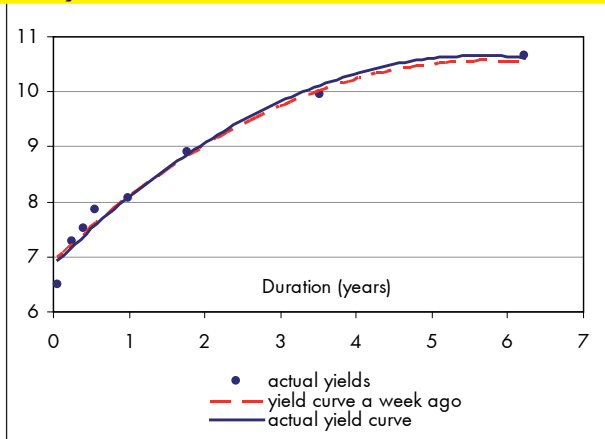
Turkey

CBT to keep rate stable "for some time"

(P)review of key economic figures/events

13 Apr 10	CBRT key rate decision	Apr 6.5 (Mar 6.5)	dovish statement of CBT: "current rate level for some time"
16 Apr 10	Consumer confidence	Mar 84.7 (Feb 81.8)	first significant increase since Q2 2009
22 Apr 10	CPI survey (end 2010), % yoy	Apr n.a. (Apr 8.24)	might still increase a bit, our year-end forecast: 8,7% yoy

TRY yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Underweight TRY bonds relative to the benchmark index

Market comment

On Tuesday evening, Turkey's central bank (CBT) left its benchmark borrowing rate unchanged at a record low of 6.5%. In a different document, the CBT shed some light on its measures to exit the liquidity measures introduced during the crisis. The bank also said it would replace the current overnight benchmark rates with one-week repo auctions at fixed interest rates (at 50bp above the current key rate). There were also changes in the wording: first, in the assessment of the economy the expression "moderate recovery" was replaced by simply "recovery", reflecting the recent favourable data. Second, the phrase "maintain policy rates at current levels for some time" was added to the usual "low levels for a long time".

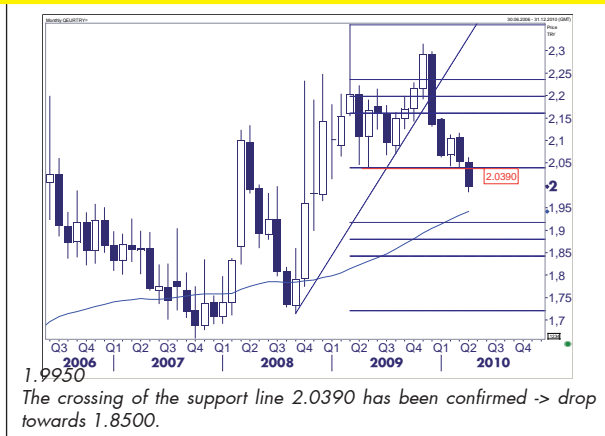
Money market focus

MM rates	1m	3m	6m	12m
Actual	6.60	6.59	7.10	7.50
Change from last week	-0.10	-0.21	0.10	-0.10
Forecast Jun-10	7.33	7.56	7.97	8.58
Implied forward rates	1x2	3x6	6x9	9x12
	6.28	7.70	8.26	7.29
Change from last week	-0.80	0.43	0.41	-1.01

Bond market focus

	1m	1y	2y	5y
Actual	6.49	8.07	8.91	9.96
Change from last week	-0.21	-0.08	0.03	0.07
Forecast Jun-10	n.a.	8.58	9.23	10.21

EUR/TRY



Source: Thomson Reuters, Raiffeisen RESEARCH

Market outlook

CBT's more explicit wording is a dovish signal to the market not to expect premature hikes over the short run. We think that a first hike of 50bp could be applied in late summer. By the end of the year cumulative interest rate hikes could amount to up to 200bp. There are not many data releases next week: on April 22, the bi-weekly survey by the central bank on CPI expectation is to be published. We do not expect much change, but are a bit sceptical about the central bank succeeding in stabilising inflation expectations. Regarding government bonds, the two-year Reuters benchmark changed with the week's bond auction to a new Jan 25 2012 zero-coupon bond - its yield at 8.91. The previous Nov 16 2011 benchmark trades currently at 8.88. The lira profited well from capital inflows to the equity market and the perception of declining political risk on the back of strong economic indicators. We stick to our target for USD/TRY 1.45 for June.

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	-0.1%			
USD/TRY	1.47	1.45	1.45	1.42
Change from last week	-1.0%			

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