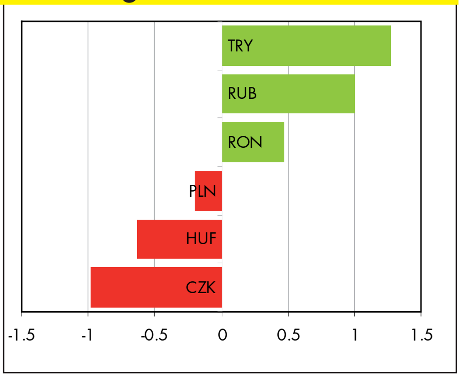
issue 16/2010

23 April 2010

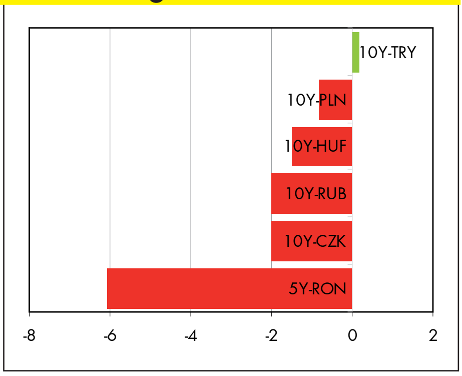
CEE Weekly
Bond Markets Outlook

LCY changes vs. EUR*



* in %, week-on-week
Source: Thomson Reuters

Yield changes*



* in bp, week-on-week
Source: Thomson Reuters

Forecast

	current	Jun-10	Sep-10	Dec-10
Poland				
PLN	3.87	3.80	3.75	3.65
1m-rate	3.4	3.6	3.6	3.8
5y bond	5.1	4.8	4.8	4.9
10y bond	5.5	5.3	5.3	5.4
Hungary				
HUF	263.6	275	275	270
1m-rate	5.5	5.2	4.9	5.0
5y bond	5.6	6.3	6.2	6.0
10y bond	6.3	7.0	6.8	6.6
Czech Rep.				
CZK	25.4	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	3.6	4.4	4.4	4.6
Russia*				
RUB	29.13	29.11	28.76	28.77
1m-rate	4.0	3.9	3.9	3.9
5y bond	7.0	6.4	6.1	5.6
10y bond	7.0	6.7	6.5	6.0
USD	1.33	1.35	1.42	1.35

Currencies per 1 EUR, * RUB vs. USD
Source: Thomson Reuters. Raiffeisen RESEARCH

Recommendations

For detailed recommendations please see page 2.

Highlights

- ***Poland*** – The minutes from the last MPC meeting revealed that some MPC members declared that the rising zloty might force the MPC to consider rate cuts in the future. We still think, however, that any key rate changes are off the table for this year.
- ***Hungary*** – The second round of the elections takes place on Sunday, 25 April (but only in 57 constituencies out of the total 176). The results cannot really change much and will only give the answer as to whether Fidesz will have a 2/3 (qualified) majority in the Parliament or not (probably they will).
- ***Czech Republic*** – Prevailing fears about Greece, the resulting appreciation of the USD, the early resignation of Czech National Bank (CNB) governor Zdenek Tuma and more dovish comments from the CNB board were all factors that contributed to a corrective move of the Czech koruna over the past days.
- ***Romania*** – The IMF technical mission will return to Romania on 27 April for the fourth review of the SBA. The visit is planed to end on 7 May when the conclusions will be presented. Government officials said the cash deficit target for the end of Q1 (RON 8.25 bn or 1.5% of GDP) was achieved, while the fiscal responsibility law was also approved by the Government.
- ***Croatia*** – The Government presented a new Economic Recovery Programme which is not only focused on short-term measures to climb out of the recession, but also intends to create a competitive economy and sustainable growth and development, by implementing active mid-term and long-term measures.

Key upcoming events and data releases

Country	Time	Indicator	Period	Forecast	Range	Last
26-Apr						
HU	14:00	Monetary council meeting, %	Apr	5.25	5.25/5.25/5.5	5.5
TR	15:30	Capacity utilisation, %	Apr	68.3	n.a.	67.9
TR	15:30	Manufacturing confidence	Apr	112.0	n.a.	110.6
28-Apr						
RO		Non-government credit, % yoy	Mar	n.a.	n.a.	-3.7
28-Apr						
PL		MPC rate decision, %	Apr	3.5	3.5	3.5
HU	09:00	Unemployment, %	Mar	11.5	n.a.	11.4
30-Apr						
HR		Imports, EUR mn	Mar	1310.0	n.a.	1056.0
HR		Exports, EUR mn	Mar	641.0	n.a.	585.0
HR		Retail trade, yoy	Mar	-8.8	n.a.	-7.3
TR	09:00	Trade balance, USD bn	Mar	-3.7	n.a.	-3.3

Raiffeisen RESEARCH
RZB Group

The coalition partners, the Croatian Employers' Association and the central bank supported the Government's programme.

- ***Russia*** – Russia successfully placed its first Eurobond in a decade at a coupon rate of 3.625% for the 5-year tranche and 5.0% for the 10-year tranche. However, we see no further tightening potential in Russia's new Eurobonds which were placed at very rich levels. In the rouble bond market, we initiate a buy recommendation on the 10-year RUB bond with a 6.8% target yield vs. the current 7.2%.
- ***Turkey*** – Capacity utilisation and manufacturing confidence releases could be supportive in the coming week as we anticipate some gains. Also, next Thursday, on 29 April, the CBT will publish its second inflation report for this year. Global market sentiment will likely be the main driver for the lira in the coming week (Greece!), but we think that the robust fundamentals should prevent any major weakening.

Short-term trading ideas*

Recommendation	Entry date	Entry level	Current level	Target	Stop	Carry (% p.a.)	Comments
Buy RON T-Bond 10/2012 (ISIN RO0912DBN076)	22/04/10	111.1	111.1	112.0	109.4	-	Interest rate cut; positive IMF assessment
Buy RUB T-Bond 11/2021 RU46018 (ISIN RU000A0D0G29)	23/04/10	100.5	100.5	103.5	98.2	-	Interest rate cuts underestimated by 25-50bp; RUB rally; oil prices
SELL BASKET/RUB (long RUB)	06/04/10	33.81	33.54	33.2	34.1	+3.74	high oil prices, monetary easing, higher economic growth
SELL USD/TRY (long TRY)	13/04/10	1.492	1.486	1.45	1.51	+6.73	economic recovery, rate hike speculation

**For LCY bond trading ideas the FX gains or losses are not taken into account. For FX trading ideas the carry is calculated as the differential between the 1 month money market rates of the respective markets.*
Source: Thomson Reuters, Bloomberg

Local currency bonds

Market overview

CEE local currency bond market snapshot

23/04/2010	Maturity	Coupon %	Ask price	YTM %	Spread to bunds (bp)	MDuration
			Poland			
PLN 2y Gov. Bond	25/ Jul 12	0.00	90.88	4.35	350	2.3
PLN 5y Gov. Bond	25/ Apr 15	5.50	102.00	5.04	297	4.3
PLN 10y Gov. Bond	25/ Oct 19	5.50	99.88	5.51	247	7.5
PLN 20y Gov. Bond	25/ Apr 29	5.75	99.25	5.82	205	11.4
			Hungary			
HUF 3y Gov. Bond	24/ Oct 13	7.50	106.74	5.32	415	3.1
HUF 5y Gov. Bond	12/ Feb 15	8.00	109.83	5.60	353	4.2
HUF 10y Gov. Bond	24/ Jun 19	6.50	101.33	6.30	326	6.8
HUF 15y Gov. Bond	24/ Nov 23	6.00	97.36	6.29	252	9.4
			Czech Republic			
CZK 2y Gov. Bond	5/ Oct 11	6.55	108.80	0.39	-46	1.4
CZK 5y Gov. Bond	11/ Apr 15	3.80	106.30	2.43	37	4.6
CZK 10y Gov. Bond	11/ Apr 19	5.00	110.90	3.56	52	7.5
CZK 15y Gov. Bond	25/ May 24	5.70	114.70	4.29	52	9.9
			Croatia			
HRK 5y Gov. Bond	11/ Jul 13	4.50	98.59	4.98	269	3.0
HRK 10y Gov. Bond	8/ Feb 17	4.75	93.99	5.83	280	5.9
			Romania			
RON 3y Gov. Bond	25/ Oct 10	6.00	99.72	6.50	534	0.5
RON 5y Gov. Bond	5/ Mar 12	6.50	100.14	6.40	434	1.8
			Russia			
RUB 2y Gov. Bond	19/ Sep 12	10.80	110.90	5.97	511	2.2
RUB 5y Gov. Bond	17/ Dec 14	11.20	118.30	6.77	470	3.8
RUB 10y Gov. Bond	29/ Aug 18	8.00	102.00	6.73	369	4.3
RUB 30y Gov. Bond	6/ Feb 36	6.90	100.00	7.02	324	11.9
			Turkey			
TRY 2y Gov. Bond	25/ Jan 12	0.00	85.78	9.16	831	1.8
TRY 5y Gov. Bond	6/ Aug 14	11.00	104.20	10.01	795	3.4
TRY 10y Gov. Bond	15/ Jan 20	10.50	100.40	10.68	764	6.4

Source: Thomson Thomson Reuters, Raiffeisen RESEARCH

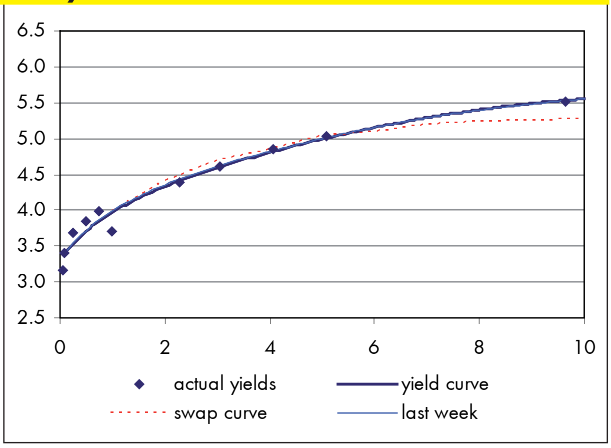
Poland

Minutes reveal discussion about rate cuts

(P)review of key economic figures/events

20 Apr 10	Industrial output, % yoy	Mar 12.3 (Feb 9.2)	above expectations
23 Apr 10	Retail sales, % yoy	Mar 8.7 (Feb 0.1)	
28 Apr 10	MPC rate decision, %	Apr 3.5 (Mar 3.5)	no rate change expected

PLN yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Money market focus

MM rates	***1m***	***3m***	***6m***	***12m***
Actual	***3.41***	***3.68***	***3.84***	***4.07***
Change from last week	0.00	-0.01	-0.04	-0.03
Forecast Jun-10	3.60	3.70	3.78	3.70
Forward rates	***3x6***	***6x9***	***9x12***	
	4.02	4.28	4.25	
Change from last week	-0.07	0.05	-0.09	

Bond market focus

	2y	***5y***	***10y***	***20y***
Actual	***4.35***	***5.04***	***5.51***	***5.82***
Change from last week	0.07	-0.01	0.01	0.03
Forecast Jun-10	4.30	4.80	5.30	5.80
Spread to bunds	***350.2***	***296.5***	***247.2***	***204.6***
Change from last week	6.3	8.8	0.9	7.9
Spread to swaps	***10.5***	***4.0***	***-14.2***	

EUR/PLN

3.8840

The Euro could have made a bottom. Buy 3.9120 -> 4.0000.

Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Buy PLN T-bonds

Market comment

This week, the statistics office published the industrial production data for March. Industrial production increased by 12.3% yoy, beating the consensus forecast. On Thursday, 2009 GDP growth was revised upwards to 1.8% yoy from 1.7% yoy. Moreover, Q4 2009 was also revised to 3.3% yoy, instead of 3.1% yoy. Also on Thursday the minutes from the last MPC meeting revealed that some MPC members declared that the monetary tightening effect of the rising zloty might force the MPC to consider rate cuts in the future. Finally, the MPC meeting on Monday did not bring any new insight on the profit calculation of the central bank. What is known so far is that the NBP management board and the MPC agreed to a recalculation of the 2009 NBP profit.

Market outlook

The most interesting economic release, industrial production, shows that economic activity is speeding up in Poland, although this strong increase is also due to the base effect. We think that the numbers support our forecast for Q1 GDP at 2.9% yoy. The minutes from the MPC meeting showing some members arguing for rate cuts in the future would be surprising before the PLN intervention, but now only underpin the decisiveness of the MPC to prevent rapid appreciation of the zloty. We think that rate changes are off the table for this year. We remain with our "buy" recommendation for Polish bonds as we see further potential for declining yields given improving risk attitude towards Poland, the low inflation and the postponement of rate hikes. It must be noted, however, that in spite of the mild impact of the Greek debt problem on the Polish market so far, prolongation of the Greek troubles could start affecting Polish bonds and the zloty negatively.

Analyst: Marcin Kopaczynski (+43 1 71707 1423)

Exchange rate focus

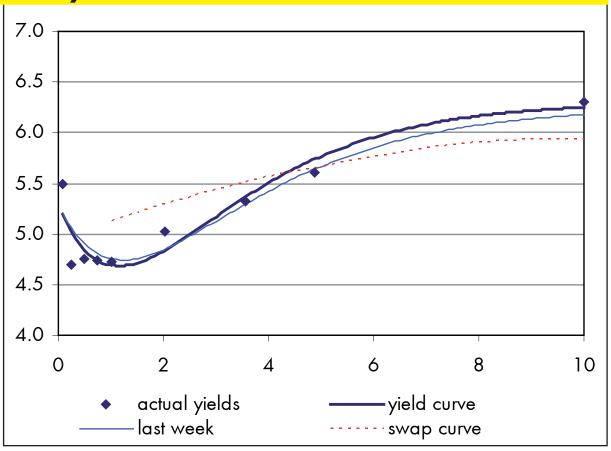
	actual	***Jun-10***	***Sep-10***	***Dec-10***
EUR/PLN	***3.87***	***3.80***	***3.75***	***3.65***
Change from last week	0.0%			
USD/PLN	***2.88***	***2.81***	***2.64***	***2.70***
Change from last week	-1.1%			

Hungary
Second round of elections

(P)review of key economic figures/events

23 Apr 10	Retail sales, % yoy	Feb -4.3 (Jan -5.6)	Data came in weaker than expected
26 Apr 10	Monetary council meeting, %	Apr 5.25 (Mar 5.5)	25bp interest rate cut expected
28 Apr 10	Unemployment, %	Mar 11.5 (Feb 11.4)	

HUF yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral HUF T-bonds

Market comment

EUR/HUF has been moving in a narrow range of 262-265, as demand for HGB's remained strong and yields crept southwards. The Greek story had a relatively small impact on local markets this time. The next government party, Fidesz, is slowly releasing certain plans – mostly only about the direction of its policies. No details yet. Fidesz would like to halve the number of MPs and the number of politicians sitting in municipal councils. These are only symbolic steps, but if this kind of streamlining occurs in the government bureaucracy it could be seen as a start of good governance.

Money market focus

MM rates	***1m***	***3m***	***6m***	***12m***
Actual	***5.50***	***5.42***	***5.38***	***5.34***
Change from last week	0.00	-0.02	-0.02	-0.02
Forecast Jun-10	***5.2***	***5.0***	***5.0***	***4.9***

Bond market focus

	3y	***5y***	***10y***	***15y***
Actual	***5.32***	***5.60***	***6.30***	***6.29***
Change from last week	0.07	0.07	0.07	0.08
Forecast Jun-10	6.0	6.3	7.0	6.9
Spread to bunds	***415.2***	***352.8***	***326.1***	***252.2***
Change from last week	14.9	16.6	14.1	8.9

EUR/HUF

265.35
Still sideways within the range from 262.40 to 278.00; either sell 260.00 (-> 250.00) or buy 267.00 (-> 257.00).

Source: Thomson Reuters, Raiffeisen RESEARCH

Market outlook

The second round of the elections takes place on Sunday, 25 April (but only in 57 constituencies out of the total 176). The results cannot really change much and will only give the answer as to whether Fidesz will have a 2/3 (qualified) majority in the Parliament or not (probably they will). We expect mostly positive first reactions as the next Hungarian government will definitely have a strong majority and sufficient authority to implement much-needed structural reforms. The monetary council is expected to move ahead with another 25bp rate cut on Monday, 26 April. So far so good, but risks are about to emerge over the 3-6 month horizon. Hungary is about to raise the 2010 budget target in the summer (which may damage the country's positive current assessment); the government-central bank relation is likely to get bumpy; the business interests of foreign owners of utility companies may well be injured; and the new government is expected to talk up the EUR/HUF (i.e. support a weaker HUF). In summary: after the initial market optimism, investor sentiment may sour later on.

Analysts: Zoltán Török (+36 148 44 843)

Exchange rate focus

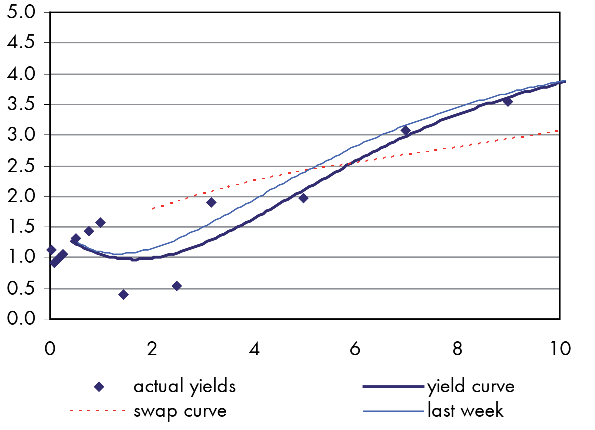
	actual	***Jun-10***	***Sep-10***	***Dec-10***
EUR/HUF	***263.55***	***275.0***	***275.0***	***270.0***
Change from last week	-0.1%			
USD/HUF	***196.46***	***203.7***	***193.7***	***200.0***
Change from last week	-1.8%			

Czech Republic
CZK retreats from peak

(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	***0.91***	***1.06***	***1.31***	***1.57***
Change from last week	-0.02	-0.04	-0.04	-0.05
Forecast Jun-10	1.0	1.1	1.3	1.6
Forward rates	***1x2***	***3x6***	***6x9***	***9x12***
	1.05	1.56	1.67	1.98
Change from last week	-0.04	-0.04	-0.04	-0.08

Bond market focus

	2y	5y	10y	15y
Actual	***0.39***	***2.43***	***3.56***	***4.29***
Change from last week	-0.15	-0.13	0.01	0.02
Forecast Jun-10	1.2	3.3	4.4	4.8
Spread to bunds	***-46.1***	***37.0***	***51.7***	***51.9***
Change from last week	-8.9	-3.5	8.0	-3.2
Spread to swaps	***139.6***	***0.0***	***-41.5***	***n.a.***

EUR/CZK

25.470
Buy 25.50 -> rebound towards 26.00 possible.

Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral CZK T-bonds

Market comment

Prevailing fears about Greece, the resulting appreciation of the USD, the early resignation of Czech National Bank (CNB) governor Zdenek Tuma and more dovish comments from the CNB board were all factors that contributed to a corrective move of the Czech koruna (CZK) over the past days. The CZK depreciated to 25.40 against the euro from a peak level of 25.0 one week ago. Government bond prices were not significantly affected and the yield curve even continued to edge lower still, a move that was also supported by the strong demand in the 15-year government bond auction.

Market outlook

Next week is empty of domestic macroeconomic data releases. Thus, the CZK and the Czech bond market will likely follow the global and regional market sentiment. For the time being the fears about Greece appear to dominate the markets. Regarding the risks stemming from the upcoming Czech parliamentary elections in May and the prospect of an increase in the issued volume of CZK denominated bonds in the coming quarters, we see the current prices for Czech government bonds as rather high. A part of the market is still speculating on the possibility of another CNB interest rate cut. We do not expect this, but we have to admit that this is far from certain and greatly depending on the exchange rate development in the coming weeks and months.

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	***25.37***	***25.4***	***24.8***	***25.0***
Change from last week	-1.3%			
USD/CZK	***19.01***	***18.8***	***17.5***	***18.5***
Change from last week	-3.3%			

Raiffeisen RESEARCH
RZB Group

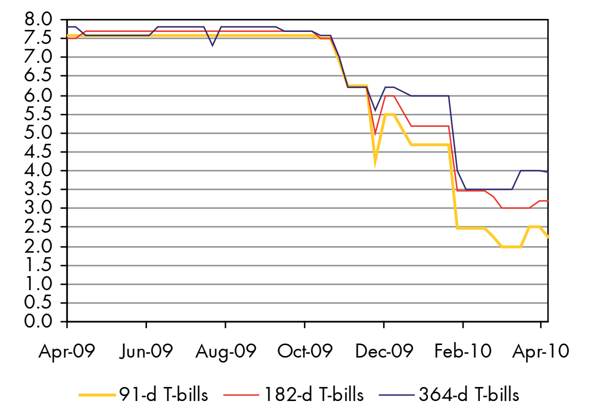
Croatia

First steps towards sustainable growth

(P)review of key economic figures/events

30 Apr 10	Imports, EUR mn	Mar 1310 (Feb 1056)
30 Apr 10	Exports, EUR mn	Mar 641 (Feb 585)
30 Apr 10	Retail trade, % yoy	Mar -8.8 (Feb -7.3)

Interest rates on T-bills



Source: Thomson Reuters, Raiffeisen RESEARCH

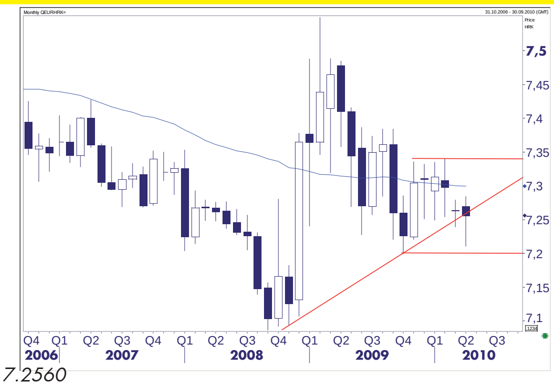
Money market focus

	1m	3m	6m	12m
ZIBOR actual	***1.34***	***2.20***	***3.03***	***3.86***
Change from last week	0.03	0.02	0.01	-0.01
T-bills actual	***n.a.***	***2.25***	***3.20***	***3.95***

Exchange rate focus

	actual	Jun-10	Sep-10	Dec-10
EUR/HRK	***7.258***	***7.32***	***7.30***	***7.32***
Change from last week	0.0%			
USD/HRK	***5.40***	***5.42***	***5.14***	***5.42***
Change from last week				

EUR/HRK



7.2560

Sideways ranging from 7.2000 to 7.3300.

Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral EUR/HRK

Market comment

The Government presented a new Economic Recovery Programme which is not only focused on short-term measures to climb out of the recession, but also intends to create a competitive economy and sustainable growth and development, by implementing active mid-term and long-term measures. The programme is particularly focused on cutting back the role of the state in the economy, and on tax relief (reducing the number and level of income tax rates, and reducing non-tax levies, such as water management levies, forestry management levies, etc.). It also targets encouraging direct investments by improving the investment climate, and solving problems such as insolvency, pushing forward with privatisation, continuing with judicial reform and finally reforming the social system and the labour market, and making the educational system more closely linked to real-sector requirements. Reducing the tax burden, especially direct taxes, should play an important role in improving the competitiveness of the economy, and boosting export results. The programme envisages a 5% personnel cut in public administration, as well as changes in territorial organisation, stiffer penalties for early retirement, cuts in privileged pensions and a host of other measures aimed at fiscal policy reform and the creation of a healthier economic environment. We believe that the proposed measures form a very good basis for implementing the necessary reforms in the economy, and it is very important that the proposed measures are elaborated and applied as soon as possible.

Market outlook

Low trading volumes, a stable exchange rate and the absence of fundamental (and perhaps justifiable) depreciation pressures on HRK can be expected in the coming period. Possible stronger demand for foreign currency will be balanced with an adequate volume of foreign currency on the foreign exchange market. Borrowing by public enterprises abroad allows for sufficient foreign currency inflows into the system.

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

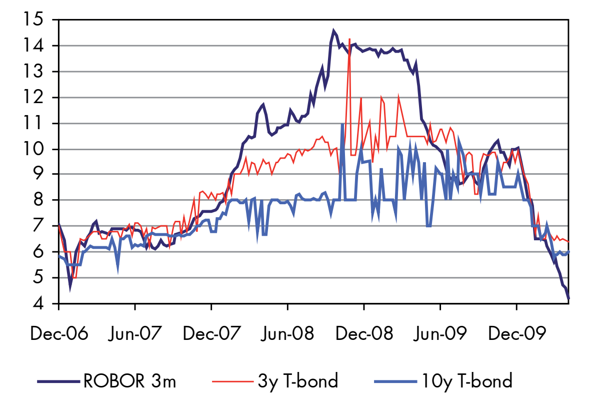
Romania

IMF to start the fourth review

(P)review of key economic figures/events

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)
27 Apr 10	Non-government credit, % yoy	Mar n.a. (Feb -3.7)

ROBOR 3m & T-bond yields (%)



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Buy RON T-bonds

Market comment

Computed according to ESA-95 methodology used by the European Commission, the consolidated budget deficit stood at 8.3% of GDP at the end of 2009, up from 5.4% of GDP in 2008. We recall that consolidated budget deficit based on cash methodology stood at 7.4% of GDP. While the ESA-95 figure is used by European Commission in the context of the excessive budget deficit procedure, the cash figure is used by the IMF to assess the performance of the Romanian authorities under the Stand-By Agreement (SBA) concluded in 2009. To a large extent, the large positive difference between the ESA-95 figure and the cash figure could be seen as reflecting outstanding obligations of the government. The IMF technical mission will return to Romania on 27 April for the fourth review of the SBA. The visit is planed to end on 7 May when the conclusions will be presented. Government officials said the cash deficit target for the end of Q1 (RON 8.25 bn or 1.5% of GDP) was achieved, while the fiscal responsibility law was also approved by the Government. Given these circumstances, we think the IMF will have a positive assessment even though the target for government arrears was very likely missed again. However, we expect the IMF to ask for additional measures to cut public spending.

Money market focus

MM rates	***1m***	***3m***	***6m***	***12m***
Actual	***3.06***	***4.25***	***4.96***	***5.13***
Change from last week	-0.25	-0.35	-0.64	-0.47
Forecast Jun-10	5.3	5.5	6.2	5.6
Implicit forward rates	***3x6***	***6x9***	***9x12***	
	5.73	5.45	5.03	
Change from last week	-0.96	-0.11	-0.45	

Bond market focus

	2y	***3y***	***5y***	***10y***
Actual	***6.55***	***6.42***	***6.62***	***6.00***
Change from last week	0.55	-0.03	0.03	0.10
Forecast Jun-10	6.30	6.40	6.50	6.00
Spread to bunds	***569.8***	***524.7***	***454.8***	***296.2***
Change from last week	61.1	12.4	10.0	17.1

EUR/RON

4.1435
The Euro seems to be supported by the MA20-months -> rise towards 4.3000.

Source: Thomson Reuters, Raiffeisen RESEARCH

Market outlook

Now that the end of the maintenance period for minimum reserves (23rd of the month) has come closer, excess liquidity in the money market has grown and money market interest rates moved lower. However, as we expected, this had no impact on bond yields which have remained almost flat in last weeks.

Analyst: Ionut Dumitru (+40 37 2211269)

Exchange rate focus

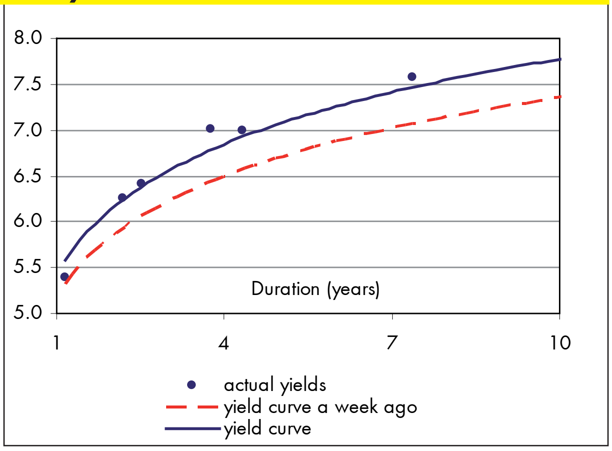
	actual	***Jun-10***	***Sep-10***	***Dec-10***
EUR/RON	***4.14***	***4.10***	***4.05***	***3.95***
Change from last week	-0.1%			
USD/RON	***3.10***	***3.04***	***2.85***	***2.93***
Change from last week	-2.3%			

Russia
New Eurobond well received

(P)review of key economic figures/events

No important data or market releases next week

RUB yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

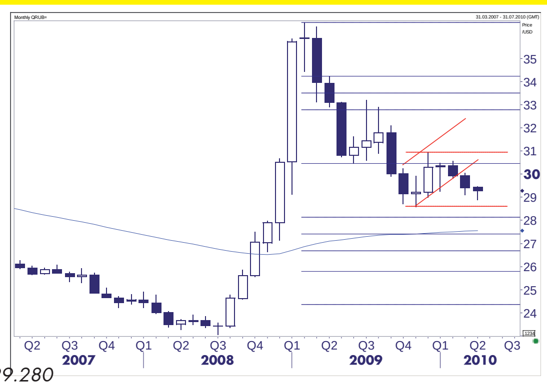
Money market focus

MM rates	1m	3m	6m	12m
Actual	4.97	5.66	6.96	7.99
Change from last week	-0.06	-0.05	-0.04	-0.17
Forecast Mar-10	3.91	4.21	4.56	n.a.
Forward rates	1x2	3x6	6x9	9x12
	5.78	8.40	n.a.	n.a.
Change from last week	-0.04	-0.31	n.a.	n.a.

Bond market focus

	1y	2y	5y	15y
Actual	5.39	6.25	7.02	7.57
Change from last week	0.26	0.29	0.47	0.42
Forecast Mar-10	5.11	5.75	6.35	n.a.

USD/RUB



29.280

The price could cross the support 28.580 -> drop towards the MA200-weeks (ca. 28.00).

Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

As the rouble market regained strength after some brief profit-taking earlier this week, we continue to recommend long rouble against the dual currency basket with a target of 33.20 vs. the current 33.56.

Market outlook

Russia successfully placed its first Eurobond in a decade at a coupon rate of 3.625% for the 5-year tranche and 5.0% for the 10-year tranche. The books were nearly five-fold oversubscribed with a total of USD 25 bn in bids from investors. However, Russia sold only USD 5.5 bn worth of bonds split between a USD 2 bn 5-year tranche and a USD 3.5 bn 10-year tranche. This strategy helped it to achieve tighter pricing conditions on the new bonds at below secondary market yields. The new bond yields went to 3.741% and 5.082% respectively, as the bond was placed slightly below its nominal value. Russia's finance ministry expressed great satisfaction with the placement results. The ministry also said Russia is unlikely to tap international markets again in 2010 and instead might concentrate on the domestic borrowing market. The main aim of the placement was to reduce the cost of borrowing for the corporate sector, and historically these were the lowest rates that Russia could have allowed itself.

Market outlook

We see little reason for Eurobond spread tightening on the sovereign curve, while we believe there might be some tactical profit-taking pushing the new bond yields a bit wider. We also move Russia from Overweight to Market weight in the portfolio, due to the large compression in Russia's risk-reward premium. In the rouble bond market, we initiate a buy recommendation on the 10-year RUB bond with a 6.8% target yield vs. the current 7.2%. We see the longer-end RUB bonds reaping more benefits from rate cuts and rouble appreciation, while we expect a cumulative 75-100bp in rate cuts by end-2010.

Analyst: Gintaras Shlizhyus (+43 1 71707 1343)

Exchange rate focus

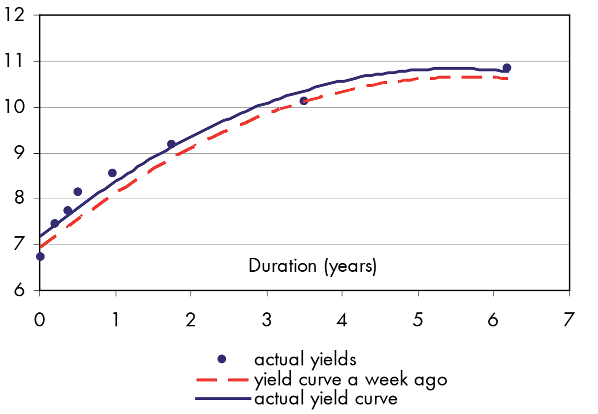
	actual	Jun-10	Sep-10	Dec-10
EUR/RUB	38.78	39.30	40.84	38.84
Change from last week	1.3%			
USD/RUB	29.24	29.11	28.76	28.77
Change from last week	-0.8%			

Turkey
Follow the market

(P)review of key economic figures/events

26 Apr 10	Capacity utilisation, %	Apr 68.3 (Mar 67.9)	finally some upward movement
26 Apr 10	Manufacturing confidence	Apr 112 (Mar 110.6)	less change after huge leap in March
30 Apr 10	Trade balance, USD bn	Mar -3.7 (Feb -3-3)	

TRY yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

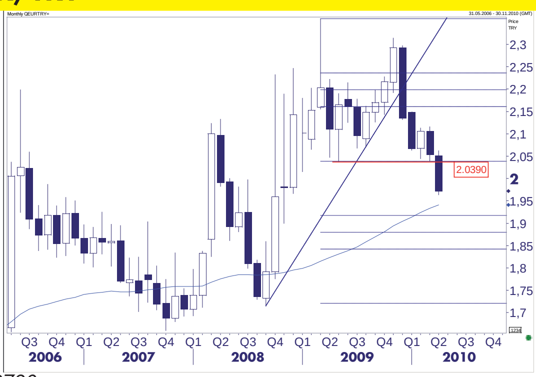
Money market focus

MM rates	**1m**	**3m**	**6m**	**12m**
Actual	**6.75**	**6.69**	**6.75**	**7.75**
Change from last week	0.15	0.10	-0.35	0.25
Forecast Jun-10	**7.33**	**7.67**	**8.11**	**8.70**
Implied forward rates	**1x2**	**3x6**	**6x9**	**9x12**
	6.29	6.87	8.22	9.07
Change from last week	0.01	-0.83	-0.04	1.77

Bond market focus

	1m	**1y**	**2y**	**5y**
Actual	**6.71**	**8.53**	**9.17**	**10.10**
Change from last week	0.22	0.46	0.26	0.14
Forecast Jun-10	**n.a.**	**8.70**	**9.52**	**10.36**

EUR/TRY



1.9720
The crossing of the support line 2.0390 has been confirmed -> drop below the MA200-weeks 1.9500 (-> 1.8500).

Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Underweight TRY bonds relative to the benchmark index

Market comment

Inflation expectations for year-end inched down by 0.1pp to 8.15%, according to the bi-weekly survey of the central bank (CBT). We had expected a small increase and see higher consumer price inflation of 8.7% yoy in December. The survey also showed a slight increase in estimated 2010 GDP growth to 4.5%, while the IMF increased its GDP forecast by 1.5pp to 5.2% "helped by the return of capital flows and the normalization of global trade". These figures could still prove too modest, as the statistical overhang from last year already provides for 4.5% growth in 2010 alone (yoy growth assuming 4 quarters of zero qoq growth). This prompts us to consider an upward revision of our own forecast of 5% to 6-7%.

Market outlook

Capacity utilisation and manufacturing confidence releases could be supportive in the coming week as we anticipate some gains, while the trade balance for March will likely reflect a bigger deficit than in February. Also, next Thursday, on 29 April, the CBT will publish its second inflation report for this year (April CPI numbers on 3 May). The bank itself only sees inflation returning to the target range in early 2011, which implies that it has already accepted missing its target of 6.9% for 2010. Global market sentiment will likely be the main driver for the lira in the coming week (Greece!), but we think that the robust fundamentals should prevent any major weakening. The yield on the 2-year bond will likely continue to hover around 9% and significantly rise only later in the year, when key interest rate hikes draw nearer.

Analyst: Andreas Schwabe (+43 1 71707 1389)

Exchange rate focus

	actual	**Jun-09**	**Sep-09**	**Dec-09**
EUR/TRY	**1.97**	**1.96**	**2.06**	**1.92**
Change from last week	-1.2%			
USD/TRY	**1.49**	**1.45**	**1.45**	**1.42**
Change from last week	1.0%			

Raiffeisen RESEARCH
RZB Group

Summary
Ratings & macro data

Country ratings: CEE, SEE, CIS

	S&P			Moody's			Fitch		
	LCY	FCY	Outlook	LCY	FCY	Outlook	LCY	FCY	Outlook
CEE									
Poland	A	A-	stable	A2	A2	stable	A	A-	stable
Czech	A+	A	stable	A1	A1	stable	AA-	A+	stable
Hungary	BBB-	BBB-	stable	Baa1	Baa1	negative	BBB+	BBB	negative
Slovakia *	A+	A+	stable	A1	A1	stable	A+	A+	stable
Slovenia *	AA	AA	stable	Aa2	Aa2	stable	AA	AA	stable
SEE									
Bulgaria	BBB	BBB	stable	Baa3	Baa3	positive	BBB	BBB-	negative
Croatia	BBB	BBB	negative	Baa3	Baa3	stable	BBB+	BBB-	negative
Romania	BBB-	BB+	stable	Baa3	Baa3	stable	BBB-	BB+	stable
Serbia	BB-	BB-	stable	nr	nr	-	BB-	BB-	negative
CIS									
Belarus	BB	B+	negative	B1	B1	stable	nr	nr	-
Kazakhstan	BBB	BBB-	stable	Baa2	Baa2	negative	BBB	BBB-	stable
Russia	BBB+	BBB	stable	Baa1	Baa1	stable	BBB	BBB	stable
Ukraine	B	B-	positive	B2	B2	negative	B-	B-	stable
ME									
Turkey	BB+	BB	positive	Ba2	Ba2	stable	BB+	BB+	stable

* Eurozone (Euro currency) members

Main macro data & forecasts*

Country	Year	GDP, % avg. yoy	CPI, % avg. yoy	Unem-ploy-ment, %	Nominal wages, EUR	Fiscal balance, % GDP	Public debt, % GDP	Export*, % GDP	C/A, % GDP	Ext. debt, % GDP	FXR** % ext. debt	Import cover, months
Poland	2009	1.7	3.5	11.0	721	-6.8	50.4	32.6	-1.6	57.5	29.4	6.4
	2010	2.7	2.7	12.6	823	-6.8	52.8	29.2	-2.3	50.3	29.6	6.2
	2011	3.2	2.3	10.7	936	-4.4	53.2	26.8	-2.9	48.4	27.9	6.0
Hungary	2009	-6.3	4.2	10.2	713	-4.0	78.0	63.8	0.2	113.9	28.2	6.5
	2010	0.0	4.3	11.0	758	-6.3	79.0	63.5	1.3	112.8	26.6	6.3
	2011	2.9	3.2	9.8	805	-4.6	77.0	62.7	0.4	110.7	25.3	5.9
Czech Rep.	2009	-4.1	1.0	8.1	892	-6.5	35.4	57.5	-0.7	37.5	56.2	4.8
	2010	1.0	1.5	10.0	949	-5.5	39.5	57.2	0.0	37.7	51.6	4.4
	2011	2.5	2.5	9.5	1029	-4.6	41.9	56.8	1.0	38.7	48.6	4.4
Romania	2009	-7.1	5.6	6.3	446	-8.1	22.0	25.0	-4.4	67.8	36.0	9.5
	2010	1.0	4.2	8.8	480	-6.5	26.0	26.9	-4.0	66.7	35.3	8.9
	2011	3.5	3.8	8.8	544	-5.0	28.0	26.9	-5.0	64.7	30.1	7.2
Croatia	2009	-5.8	2.4	14.9	1051	-3.7	48.4	16.7	-5.1	99.0	23.3	8.2
	2010	-0.9	3.0	17.5	1058	-4.4	50.7	17.2	-5.4	105.3	22.3	8.4
	2011	2.5	3.3	16.5	1085	-3.6	50.3	17.9	-4.8	107.8	21.9	8.2
Russia	2009	-7.9	12.6	8.4	425	-6.2	8.3	24.7	3.9	38.8	84.1	24.6
	2010	5.0	6.9	7.9	522	-4.5	8.3	25.7	6.0	33.2	89.5	22.2
	2011	4.5	7.8	6.8	646	-3.0	8.0	26.1	5.6	31.9	92.4	21.0
Turkey	2009	-6.0	6.3	14.0	367	-5.6	46.8	18.2	-2.3	45.5	24.3	5.8
	2010	5.0	9.7	12.5	427	-4.2	47.5	18.3	-3.6	39.6	25.8	5.4
	2011	6.0	6.7	11.7	514	-3.2	47.4	19.8	-4.0	38.0	26.9	4.8

* only for countries included in CEE bond market weekly, Export of Goods only; ** FXR - Foreign exchange reserves
Source: Rating agencies websites, Thomson Reuters, National Statistics

RZB Group

Raiffeisen Zentralbank Österreich AG (RZB Austria)

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 Rettl 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 Cavojec 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

Head of Raiffeisen RESEARCH:
Peter Brezinschek (1517)

This report was completed on 23 April 2010.

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