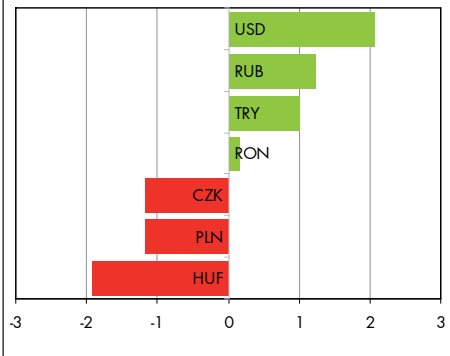


CEE Weekly Bond Markets Outlook

Issue 17/2010

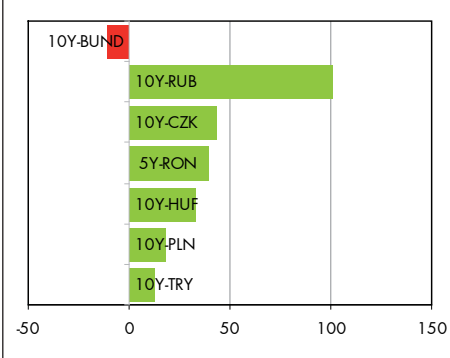
30 April 2010

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	3.90	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	5.6	5.3	5.3	5.4
Hungary				
HUF	266.3	275	275	270
1m-rate	5.3	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
Czech Rep.				
CZK	25.6	25.4	24.8	25.0
1m-rate	0.9	1.0	1.2	1.5
5y bond	2.6	3.3	3.5	3.8
10y bond	3.7	4.4	4.4	4.6
Russia				
RUB	29.15	29.11	28.76	28.77
1m-rate	4.1	3.9	3.9	3.9
5y bond	7.1	6.4	6.1	5.6
10y bond	7.1	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** – At the moment, the current yield levels combined with a weakened zloty appear to be attractive, but we are changing our short-term recommendation to “neutral” as the situation is still unsettled and there is downside risk on PLN and Polish bonds.
- Hungary** – Centre-right Fidesz will have 263 MPs in the new parliament – this equals 68% of the seats (which means the new government will have a qualified majority). The symbolic meaning of the qualified majority is that, with such an authority, there are no obstacles in the way of much needed structural reforms. Good governance got the green light from the voters.
- Czech Republic** – The first week of the month is traditionally full of new domestic data releases and the Czech National Bank also holds its monetary policy meeting, which will attract most attention. We expect no change of its key 2-week repo rate from the current 1.0%, although we cannot fully exclude the possibility of a rate cut.
- Romania** – On 4 May, the central bank’s board will meet in order to make a new decision on the key interest rate. The central bank is also expected to announce a new inflation forecast

Key upcoming events and data releases

Country	Time	Indicator	Period	Forecast	Range	Last
03-May						
TR	09:00	Consumer prices, % yoy	Apr	10.5	10.4/10.5/10.7	9.6
TR	09:00	Producer prices, % yoy	Apr	n.a.	8.2/8.9/9.3	8.6
TR	09:00	Manufacturing PMI	Apr	n.a.	n.a.	54.9
04-May						
RO		Monetary policy meeting, %	May	6.25	n.a.	6.50
RO		PPI, % yoy	Mar	3.5	n.a.	2.9
RU	06:00	Manufacturing PMI	Apr	n.a.	n.a.	50.2
05-May						
RO		Retail sales, % yoy	Mar	-7.0	n.a.	-8.0
RU		Consumer prices, % mom	Apr	0.3	0.3/0.4/0.7	0.6
RU		Consumer prices, % yoy	Apr	6.1	6.1/6.2/6.5	6.5
06-May						
HU	09:00	Industrial production, % yoy	Mar	-4.5	n.a.	8.4
CZ		CNB monetary policy board meeting, %	Mar	1.0	n.a.	1.0
RU	06:00	Service PMI	Apr	n.a.	n.a.	53.6
07-May						
CZ	09:00	Industrial output, % yoy	Mar	11.0	n.a.	7.0
CZ	09:00	Foreign trade balance, CZK bn	Mar	27.0	n.a.	15.3
CZ	09:00	Retail sales, % yoy	Mar	3.0	n.a.	-2.1

sometime next week. So far this year, the NBR has cut the key interest rate by 50bp at each of its three meetings. This time, we are expecting a cut of 25bp to 6.25%.

- **Croatia** – The industrial production declined once again in March, falling by 0.6% yoy despite the relatively low base. However, the average annual growth rate for the first quarter was mildly positive (0.3%) due to the recovery of foreign demand, since domestic demand is still very low. In the upcoming period, we expect slightly more favourable developments in industrial production.
- **Russia** – The central bank's decision to cut its refinancing and main lending rates by 25bp came as no surprise since the market was expecting a 50bp easing including April's rate cut. Present

market consensus believes that there might not be any more rate cuts. So far, we are lowering our rate cut expectations from 100–125bp to 50–75bp for this year excluding the latest rate cut, but we tend to believe that the market consensus is concentrating too much on inflation risks.

- **Turkey** – In its second inflation report this year, Turkey's central bank (CBT) raised its inflation forecast for end-2010 from 6.9% to 8.4% (our forecast is 8.8%). Turkish bonds rose after the central bank said that it does not envisage moderate interest rate hikes until the fourth quarter, which is later than previously believed. The CBT risks a further deterioration of inflation expectations, which have already increased significantly since the beginning of the year.

Short-term trading ideas*

Recommendation	Entry date	Entry level	Current level	Target	Stop	Carry (% p.a.)	Comments
SELL BASKET/RUB (long RUB)	06/04/2010	33.81	33.5	33.2	34.1	3.7	high oil prices, monetary easing, higher economic growth
Buy RON T-Bond 10/2012 (ISN RO0912DBN076)	22/04/2010	110.0	110.0	111.8	109.3	-	Interest rate cut; positive IMF assessment
Buy RUB T-Bond 11/2021 RU46018 (ISN RU000A0DOG29)	23/04/2010	100.5	100.5	103.5	98.2	-	Interest rate cuts underestimated by 25-50bp; RUB rally; oil prices

*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

Recently closed trades

Recommendation	Entry date	Entry level	Close date	Close level	Total return	Comment
SELL USD/TRY (long TRY)	13/04/2010	1.492	28.04.2010	1.51	-0.93%	Stopped out

Source: Thomson Reuters, Bloomberg

Local currency bonds

Market overview

CEE local currency bond market snapshot

29/04/2010	Maturity	Coupon %	Ask price	YTM %	Spread to bunds (bp)	MDuration
Poland						
PLN 2y Gov. Bond	25/ Oct 12	0.00	89.60	4.53	374	2.5
PLN 5y Gov. Bond	25/ Apr 15	5.50	101.40	5.17	315	4.5
PLN 10y Gov. Bond	25/ Oct 20	5.25	97.21	5.61	260	8.1
PLN 20y Gov. Bond	25/ Apr 29	5.75	99.00	5.84	215	12.0
Hungary						
HUF 3y Gov. Bond	24/ Oct 13	7.50	106.43	5.41	431	3.1
HUF 5y Gov. Bond	12/ Feb 15	8.00	108.25	5.96	394	4.1
HUF 10y Gov. Bond	24/ Jun 19	6.50	99.30	6.60	359	6.8
HUF 15y Gov. Bond	24/ Nov 23	6.00	94.60	6.61	289	9.3
Czech Republic						
CZK 2y Gov. Bond	18/ Oct 12	3.55	104.70	1.58	79	2.4
CZK 5y Gov. Bond	11/ Apr 15	3.80	105.50	2.60	59	4.6
CZK 10y Gov. Bond	12/ Sep 20	3.75	100.10	3.74	73	8.6
CZK 15y Gov. Bond	25/ May 24	5.70	113.75	4.37	65	9.9
Croatia						
HRK 5y Gov. Bond	11/ Jul 13	4.50	98.86	4.89	265	2.9
HRK 10y Gov. Bond	8/ Feb 17	4.75	94.23	5.79	278	5.9
Romania						
RON 3y Gov. Bond	25/ Oct 10	6.00	100.27	5.32	422	0.5
RON 5y Gov. Bond	5/ Mar 12	6.50	100.14	6.40	439	1.8
Russia						
RUB 2y Gov. Bond	19/ Sep 12	10.80	111.00	5.89	510	2.2
RUB 5y Gov. Bond	17/ Dec 14	11.20	117.25	7.00	499	3.7
RUB 10y Gov. Bond	29/ Aug 18	8.00	100.60	7.07	406	4.3
RUB 30y Gov. Bond	6/ Feb 36	6.90	96.50	7.33	364	11.6
Turkey						
TRY 2y Gov. Bond	25/ Jan 12	0.00	85.84	9.17	838	1.7
TRY 5y Gov. Bond	6/ Aug 14	11.00	104.10	10.04	803	3.4
TRY 10y Gov. Bond	15/ Jan 20	10.50	100.05	10.74	773	6.3

Source: Thomson Thomson Reuters, Raiffeisen RESEARCH

Bond auctions

05-May						
TR	Zero Coupon Bond (tap)	TRT250112T14	0%	25 Jan 2012	n.a.	
TR	Fixed Coupon Bond (tap)	n.a.	n.a.	10 Apr 2013	n.a.	
06-May						
HU	3y T-bond	HU0000402466	7.5%	24 Oct 2013	HUF 25 bn	
HU	5y T-bond	HU0000402318	5.5%	12 Feb 2016	HUF 15 bn	
HU	15y T-bond	HU0000402383	6.0%	24 Nov 2023	HUF 10 bn	

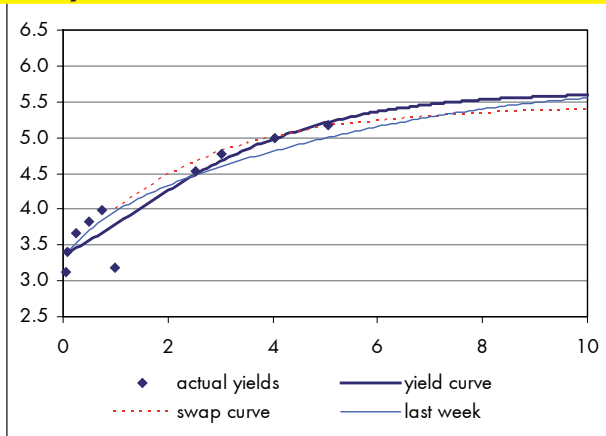
Poland

MPC leaves interest rates unchanged

(P)review of key economic figures/events

20 Apr 10	Industrial output, % yoy	Mar 12.3 (Feb 9.2)
23 Apr 10	Retail sales, % yoy	Mar 8.7 (Feb 0.1)
28 Apr 10	MPC rate decision, %	Apr 3.5 (Mar 3.5)

PLN yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Money market focus

MM rates	1m	3m	6m	12m
Actual	3.41	3.66	3.82	4.06
Change from last week	0.00	-0.02	-0.02	-0.01
Forecast Jun-10	3.60	3.70	3.78	3.70
Forward rates	3x6	6x9	9x12	
	4.00	4.29	4.24	
Change from last week	-0.02	0.01	-0.01	

Bond market focus

	2y	5y	10y	20y
Actual	4.53	5.17	5.61	5.84
Change from last week	0.06	0.14	0.09	0.02
Forecast Jun-10	4.30	4.80	5.30	5.80
Spread to bunds	374.0	315.4	259.6	214.6
Change from last week	23.8	18.9	9.4	10.0
Spread to swaps	-1.8	2.6	-13.2	

EUR/PLN



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral PLN T-bonds

Market comment

This week, the debt problems in Greece finally reached the Polish bond market, with yields increasing in all maturity segments by 10 to 15bp. Additionally, EUR/PLN increased to 3.95 temporarily, but returned to levels around 3.90 at the end of the week. The MPC meeting ended with the widely expected decision to leave the key interest rates unchanged. The comments accompanying the decision were rather neutral with regard to inflation risks. The MPC did not make any specific comments on the PLN exchange rate or FX interventions. The 2009 NBP financial report was also approved by the MPC, which should end the dispute over the profits, 95% of which (PLN 3.96 bn) will be directed to the state budget. Moreover, the MoF estimates that the budget deficit for the first four months of the year will come in at PLN 26.5–28 bn.

Market outlook

The MPC's key rate decision came as no surprise. We still believe that the earliest rate movements will come at the beginning of Q1 2011 and view rate cuts as highly unlikely. The debt problems of the southern Eurozone countries have started feeding through to CEE currencies, which will make the PLN in particular vulnerable to negative newsflow related to this issue. Poland's good fundamentals and improving budget performance (the MoF planned a deficit of PLN 32 bn for the period from January to April) will be of little help if negative newsflow returns. At the moment, the current yield levels combined with a weakened zloty appear to be attractive, but we are changing our short-term recommendation to "neutral" as the situation is still unsettled and there is downside risk on PLN and Polish bonds.

Analyst: Marcin Kopaczynski (+43 1 71707 1423)

Exchange rate focus

	actual	Jun-10	Sep-10	Dec-10
EUR/PLN	3.92	3.80	3.75	3.65
Change from last week	-1.3%			
USD/PLN	2.96	2.81	2.64	2.70
Change from last week				

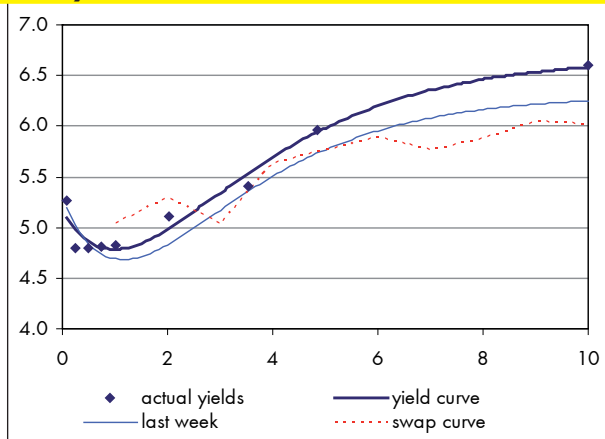
Hungary

A qualified majority

(P)review of key economic figures/events

26 Apr 10	Monetary council meeting, %	Apr 5.25 (Mar 5.5)	25bp interest rate cut as expected
28 Apr 10	Unemployment, %	Mar 11.8 (Feb 11.4)	
06 May 10	Industrial output, % yoy	Mar -4.5 (Febr 8.4)	

HUF yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral HUF T-bonds

Market comment

Centre-right Fidesz will have 263 MPs in the new parliament – this equals 68% of the seats. The symbolic meaning of the qualified majority is that, with such an authority, there are no obstacles in the way of much needed structural reforms. Good governance got the green light from the voters. It is the task of the new government to deliver on the promises they have made. Fidesz leaders have announced their key priorities: strengthening the police, cutting taxes, redesigning the municipality system and streamlining the state administration. On the same day, the monetary council delivered the expected 25bp rate cut (the key rate is now 5.25% p.a.). Nevertheless, local markets got a strong push from the events in Greece – EUR/HUF quickly moved above 270 temporarily, while yields on Hungarian government bonds jumped up by 20–40bp.

Money market focus

MM rates	1m	3m	6m	12m
Actual	5.26	5.23	5.19	5.14
Change from last week	-0.24	-0.19	-0.19	-0.20
Forecast Jun-10	5.2	5.0	5.0	4.9

Bond market focus

	3y	5y	10y	15y
Actual	5.41	5.96	6.60	6.61
Change from last week	0.09	0.36	0.30	0.32
Forecast Jun-10	6.0	6.3	7.0	6.9
Spread to bunds	430.6	394.1	359.1	288.5
Change from last week	15.4	41.3	33.0	36.3

EUR/HUF



266.20

Still sideways within the range from 262.40 to 278.00; either sell 260.00 (> 250.00) or buy 267.00 (> 275.00).

Source: Thomson Reuters, Raiffeisen RESEARCH

Market outlook

Hungary will deliver both positive and negative newsflow in the upcoming period. The beginning of good governance (in the form of structural reforms) will be welcome. Nevertheless, the conflicts between the central bank and the government, the potential damages to some foreign investors' business interests (in the utility sector) and the definitely higher than planned budget deficit for 2010 add to the concerns. Note that Hungary – despite reducing its budget deficit from near-Greek levels in 2006 to 4% in 2008–2009 – still has the fourth largest public debt/GDP ratio in the EU at 78.3%. Debt sustainability issues are getting pushed into the limelight, and attention may shift towards Hungary once again. Therefore, we suggest that you stay on the sidelines and HOLD on Hungarian government bonds. .

Analysts: Zoltán Török (+36 148 44 843)

Exchange rate focus

	actual	Jun-10	Sep-10	Dec-10
EUR/HUF	268.45	275.0	275.0	270.0
Change from last week	-1.8%			
USD/HUF	202.70	203.7	193.7	200.0
Change from last week	-3.1%			

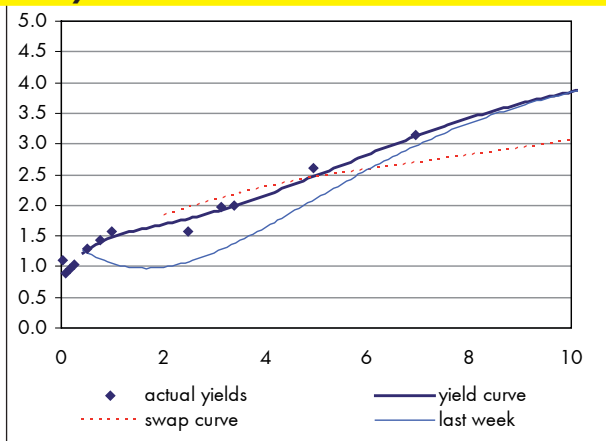
Czech Republic

Czech bonds cheaper on Greece

(P)review of key economic figures/events

06 May 10	CNB monetary policy board meeting	Mar. 1.0 (Feb 1.0)	We expect no change in the key 2-week repo rate
07 May 10	Industrial output, % yoy	Mar 11.0 (Feb 7.0)	
07 May 10	Foreign trade balance, CZK bn	Mar 27.0 (Feb 15.3)	

CZK yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral CZK T-bonds

Market comment

The market panic after the downgrades of Greece and Portugal by S&P, Czech government bond prices also fell. For example the yield of the 10-year Czech benchmark increased from 3.7% to around 4.1%. Minister of Finance E. Janota said that the event delayed the issue of a Czech Eurobond. Otherwise it would most likely be on the market already, said. Mr. Janota also mentioned that the conditions for the issue would not be favorable shortly before or after the upcoming parliamentary election. Logically, the ministry will be waiting with the Eurobond until the market has calmed down. However, so far the government has only issued less than 20% of the gross financing need for this year. Therefore, the time could be playing against the ministry.

Money market focus

MM rates	1m	3m	6m	12m
Actual	0.89	1.04	1.29	1.57
Change from last week	-0.02	-0.02	-0.02	0.00
Forecast Jun-10	1.0	1.1	1.3	1.6
Forward rates	1x2	3x6	6x9	9x12
Change from last week	1.05	1.54	1.71	1.98
Change from last week	0.00	-0.02	0.04	0.00

Bond market focus

	2y	5y	10y	15y
Actual	1.58	2.60	3.74	4.37
Change from last week	1.19	0.16	0.18	0.08
Forecast Jun-10	1.2	3.3	4.4	4.8
Spread to bunds	78.7	58.8	72.7	64.5
Change from last week	124.8	21.8	21.0	12.6
Spread to swaps	31.6	-4.7	-52.5	n.a.

EUR/CZK



Source: Thomson Reuters, Raiffeisen RESEARCH

Market outlook

The first week of the month is traditionally full of new domestic data releases and the Czech National Bank also holds its monetary policy meeting, which will attract most attention. We expect no change of its key 2-week repo rate from the current 1.0%, although we cannot fully exclude the possibility of a rate cut. One board member will be missing. Two other members voted already for a rate cut on the last meeting and from the four remaining board members two more raised hands could eventually be found. However, the recent market developments and the weakening of the CZK could induce the undecided board members to prefer interest rate stability. Although we were looking for selling opportunities, the recent rise of bond yields seems to be overreaction with a chance for a short-term correction. Thus, we stick to 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
EUR/CZK	25.57	25.4	24.8	25.0
Change from last week	-0.8%			
USD/CZK	19.31	18.8	17.5	18.5
Change from last week	-1.5%			

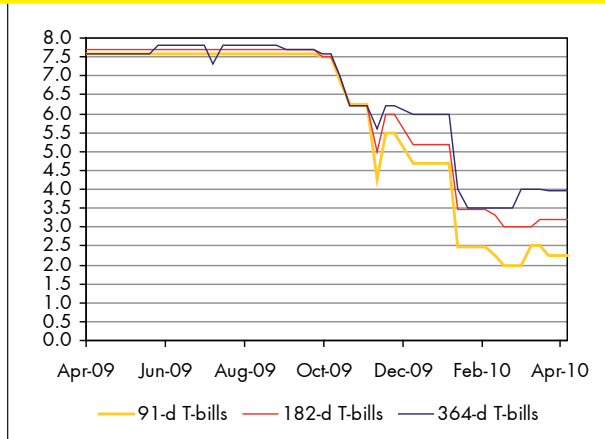
Croatia

Industrial production falling again

(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

Market strategy

Neutral EUR/HRK

Market comment

Following the reversal of the negative trend in industrial production in January and February, industrial production declined once again in March, falling by 0.6% yoy despite the relatively low base. However, the average annual growth rate for the first quarter was mildly positive (0.3%) due to the recovery of foreign demand, since domestic demand is still very low. In the upcoming period, we expect slightly more favourable developments in industrial production. If the new government measures aimed at stimulating the economy are implemented as announced, we can expect serious structural changes in domestic industry, which will surely contribute to an increase in the competitiveness of Croatia's economy.

Croatia's gross foreign debt amounted to EUR 44.0 bn at the end of January 2010, which is slightly lower than the amount recorded at the end of 2009. The decline is primarily the result of lower indebtedness in the banking and corporate sectors, while the government has continued to increase its debt. The annual growth rate is still falling and is below 10% for the first time since September 2005. In H1 2010 we expect the annual growth rates to remain moderate, while growth will be generated mainly by the rise in quasi-sovereign external debt.

Money market focus

	1m	3m	6m	12m
ZIBOR actual	1.27	2.14	3.03	3.92
Change from last week	-0.07	-0.06	0.00	0.06
T-bills actual	n.a.	2.25	3.20	3.95

Exchange rate focus

	actual	Jun-10	Sep-10	Dec-10
EUR/HRK	7.250	7.32	7.30	7.32
Change from last week	-0.1%			
USD/HRK	5.50	5.42	5.14	5.42
Change from last week	1.9%			

EUR/HRK



Source: Thomson Reuters, Raiffeisen RESEARCH

Market outlook

This week mild appreciation pressures on the kuna prevailed due to the inflow of euros from quasi-sovereign external borrowings. Consequently, the CNB's middle rate fell below 7.25, which is the lowest level in more than a month. Over the next week, we expect the rate to stay at roughly the same level, while over a one-month horizon, the domestic currency is expected to face weak depreciation pressure, although the rate will not likely exceed 7.265 kuna per euro.

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

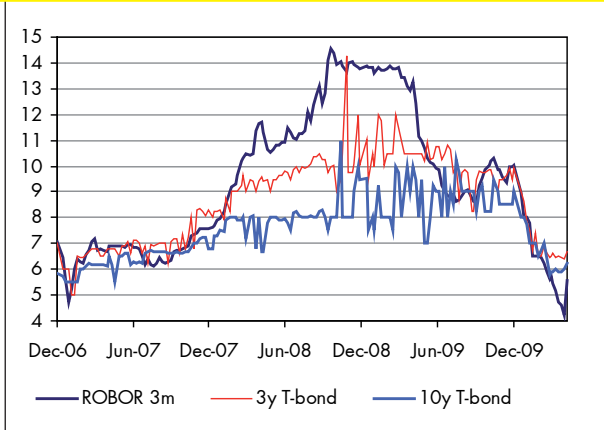
Romania

NBR to cut key interest rate again

(P)review of key economic figures/events

04 May 10	Monetary policy meeting, %	May 6.25 (Apr 6.5)
04 May 10	PPI, % yoy	Mar 3.5 (Feb 2.9)
05 May 10	Retail sales, % yoy	Mar -7.0 (Feb -8.0)

ROBOR 3m & T-bond yields (%)



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral RON T-bonds

Market comment

On 4 May, the central bank's board will meet in order to make a new decision on the key interest rate. The central bank is also expected to announce a new inflation forecast sometime next week. So far this year, the NBR has cut the key interest rate by 50bp at each of its three meetings. This time, we are expecting a cut of 25bp to 6.25%. The very weak economic activity and the inflation rate (4.2% yoy) will likely remain the main factors behind the central bank's decision to lower the monetary policy rate. However, we think that the NBR will become more prudent starting at Tuesday's monetary policy meeting. The uncertainty regarding inflation dynamics in the next six months has risen, with an increasing likelihood of changes in administered prices and in volatile food prices causing downside surprises. In our opinion, the inflation rate will most likely remain above March's level of 4.2% yoy over the next six months (in a range of 4.2%–4.9%). Under these circumstances, it would be more difficult for the central bank to lower the monetary policy rate. In fact, we expect it to remain on hold at 6.25% until Q4 2010, when the annual inflation rate will once again enter a downward trend.

Money market focus

MM rates	1m	3m	6m	12m
Actual	5.51	5.56	5.48	5.49
Change from last week	2.45	1.31	0.52	0.36
Forecast Jun-10	5.3	5.5	5.4	5.6
Implicit forward rates	3x6	6x9	9x12	
	5.43	5.44	5.41	
Change from last week	-0.30	0.00	0.38	

Bond market focus

	2y	3y	5y	10y
Actual	6.25	6.68	6.83	6.23
Change from last week	-0.30	0.26	0.21	0.22
Forecast Jun-10	6.30	6.40	6.50	6.00
Spread to bunds	545.6	557.8	480.7	321.6
Change from last week	-24.2	25.9	22.4	25.4

EUR/RON



4.1300
The resistance 4.1550 could be tested and crossed again (> 4.2000 – 4.2500).

Source: Thomson Reuters, Raiffeisen RESEARCH

Market outlook

Interbank interest rates climbed higher in response to the recent increase in risk aversion on the external markets, moving from 3.5%–4% towards 6.0%. Bond yields also increased by 20–30bp, while the leu depreciated marginally. In the upcoming period, we expect yields to move in line with the development of sentiment on the external markets. However, we believe that any deviations from the current level will be minimal.

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	3.12	3.04	2.85	2.93
Change from last week	-0.6%			



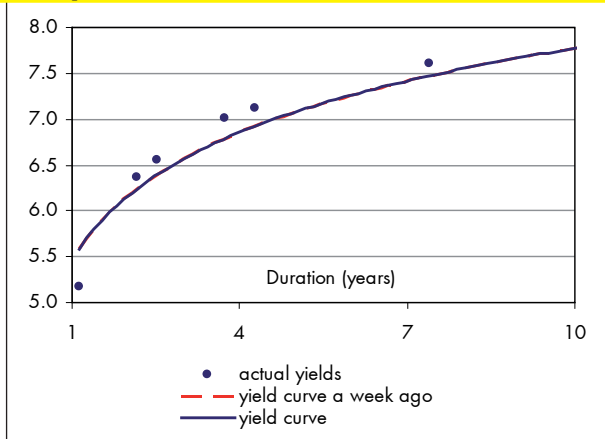
Russia

Central bank cuts refinance rate

(P)review of key economic figures/events

05 May 10	Consumer prices, % mom	Apr 0.3 (Mar0.6)
05 May 10	Consumer prices, % yoy	Apr 6.1 (Mar 6.5)

RUB yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

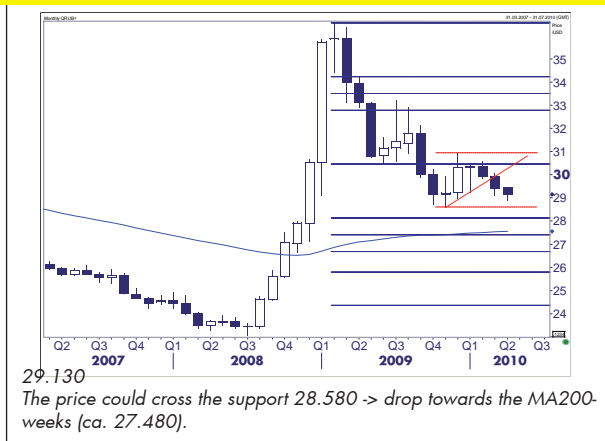
Money market focus

MM rates	1m	3m	6m	12m
Actual	5.03	5.67	7.01	8.14
Change from last week	0.06	0.03	0.01	0.05
Forecast Mar-10	3.91	4.21	4.56	n.a.
Forward rates	1x2	3x6	6x9	9x12
	5.79	8.49	n.a.	n.a.
Change from last week	0.01	0.09	n.a.	n.a.

Bond market focus

	1y	2y	5y	15y
Actual	5.17	6.37	7.01	7.60
Change from last week	-0.22	0.12	0.00	0.03
Forecast Mar-10	5.11	5.75	6.35	n.a.

USD/RUB



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

The appreciation of the rouble has resumed after a brief correction on the back of lower oil prices. We are maintaining our rouble target at 33.20 against the dual currency basket, and are hoping to close this trade with a profit soon.

Market outlook

The central bank's decision to cut its refinance and main lending rates by 25bp came as no surprise since the market was expecting a 50bp easing including April's rate cut. What has apparently changed, however, are the market expectations. Present market consensus believes that there might not be any more rate cuts, as rates have already been cut to very low levels, while inflation risks could increase going into the second half of 2010. The central bank's language can be seen as a pre-text for a move in this direction, since the bank did not mention the strong rouble, but did cite the risk of increasing inflation for H2 2010, which would determine the bank's policy response.

Market outlook

While we feel more cautious about our own outlook for the key interest rate now, we still see the possibility for more rate cuts, which could surpass the cumulative expectations. First of all, growth factors rest mostly on mining output and oil price dynamics, while the investment process is lagging behind our expectations. Secondly, the bank's policy does not focus on inflation targeting, but instead concentrates on rouble exchange rate management. Finally, domestic credit accessibility for lower ranked companies and households remains scarce, and the rise in inflation in H2 will be mostly driven by the low base effect from H2 2009. So far, we are lowering our rate cut expectations from 100–125bp to 50–75bp for this year excluding the latest rate cut, but we tend to believe that the market consensus is concentrating too much on inflation risks while ignoring economic capacity load and current credit conditions.

Analyst: Gintaras Shlizhyus (+43 1 71707 1343)

Exchange rate focus

	actual	Jun-10	Sep-10	Dec-10
EUR/RUB	38.72	38.72	38.81	38.14
Change from last week	0.2%			
USD/RUB	29.12	28.68	27.33	28.25
Change from last week	0.4%			

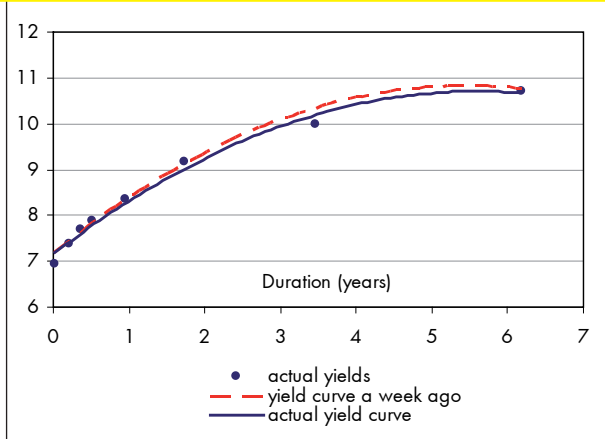
Turkey

No interest hikes until Q4

(P)review of key economic figures/events

30 Apr 10	Trade balance, USD bn	Mar -5.0 (Feb -3.4)	Deficit much stronger than expected as imports recover
03 May 10	Consumer prices, % yoy	Apr 10.5 (Mar 9.6)	% mom: Apr 0.9 (Mar 0.6)
03 May 10	Producer prices, % yoy	Apr n.a. (Mar 8.6)	% mom: Apr 0.9 (Mar 1.9)

TRY yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Underweight TRY bonds relative to the benchmark index

Market comment

Capacity utilisation and manufacturing confidence provided upside surprises, as the utilisation rate showed its first significant jump by 4.3% to 72.2% after stagnating for nine months. This supports our expectation of strong Q1 growth. In its second inflation report this year, Turkey's central bank (CBT) raised its inflation forecast for end-2010 from 6.9% to 8.4% (our forecast is 8.8%). The bank again pointed to the temporary nature of the currently high inflation of around 10% (tax hikes, food prices, base effect). Turkish bonds rose after the central bank said that it does not envisage moderate interest rate hikes until the fourth quarter, which is later than previously believed. Assets were hit earlier in the week by concerns about the Eurozone, and bond prices fell due to fears that the central bank was draining liquidity faster than it had promised.

Money market focus

MM rates	1m	3m	6m	12m
Actual	6.70	6.80	7.60	8.30
Change from last week	-0.05	0.11	0.85	0.55
Forecast Jun-10	7.33	7.67	8.11	8.70
Implied forward rates				
	1x2	3x6	6x9	9x12
	6.86	8.26	8.48	8.68
Change from last week	0.75	1.56	0.50	-0.09

Bond market focus

	1m	1y	2y	5y
Actual	6.95	8.37	9.16	9.99
Change from last week	0.24	-0.16	-0.01	-0.11
Forecast Jun-10	n.a.	8.70	9.52	10.36

EUR/TRY



Source: Thomson Reuters, Raiffeisen RESEARCH

Market outlook

The CBT risks a further deterioration of inflation expectations, which have already increased significantly since the beginning of the year. Thus, we still see a possibility that the bank might react earlier; however, based on the explicit statement, this is much less likely. Cumulative rate hikes will now most likely be less than the 200bp we had expected up to now, more likely coming in at around 100bp. As seen this week, the bank is still committed to providing liquidity if needed. CWe expect the bond market to remain at the current yield level for some time (around 9–9.50 for the 2y bond), until interest rates hikes draw nearer. Our long USD/TRY trading idea was stopped out when the lira briefly passed the 1.51 mark. However, we are maintaining our FX forecast of USD/TRY 1.45 for June and 1.42 in December.
Analyst: Andreas Schwabe (+43 1 71707 1389)

Exchange rate focus

	actual	Jun-09	Sep-09	Dec-09
EUR/TRY	1.96	1.96	2.06	1.92
Change from last week	-0.5%			
USD/TRY	1.48	1.45	1.45	1.42
Change from last week	-0.6%			

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	stable	BBB	BBB-	stable
Russia	BBB+	BBB	stable	Baa1	Baa1	stable	BBB	BBB	stable
Ukraine	B	B-	positive	B2	B2	negative	B-	B-	stable
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	Unemployment, %	Nominal wages, EUR	Fiscal balance, % GDP	Public debt, % GDP	Export*, % GDP	C/A, % GDP	Ext. debt, % GDP	FXR** % ext. debt	Import cover, months
Hungary	2009	1.8	3.5	11.0	721	-7.1	51.0	32.0	-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
Poland	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	-5.9	35.4	57.8	-1.0	43.8	48.0	4.8
	2010	1.0	1.5	9.5	949	-5.2	39.2	57.5	0.0	41.8	46.6	4.4
	2011	2.5	2.5	9.2	1029	-4.6	41.7	57.1	1.0	41.3	45.6	4.3
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: Thomson Financial Datastream, National Statistics

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