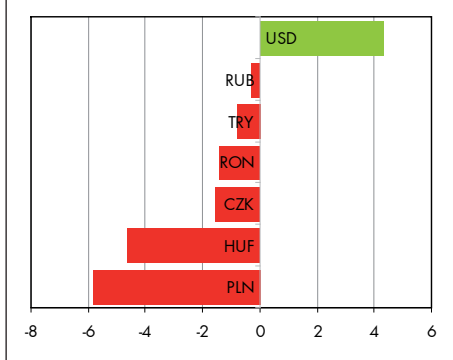


CEE Weekly Bond Markets Outlook

Issue 18/2010

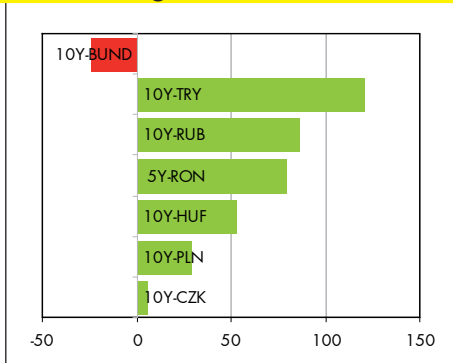
7 May 2010

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	4.18	3.80	3.75	3.65
1m-rate	3.4	3.6	3.6	3.8
5y bond	5.5	4.8	4.8	4.9
10y bond	5.8	5.3	5.3	5.4
Hungary				
HUF	282.0	275	275	270
1m-rate	5.3	5.2	4.9	5.0
5y bond	6.6	6.3	6.2	6.0
10y bond	7.0	7.0	6.8	6.6
Czech Rep.				
CZK	26.0	25.4	24.8	25.0
1m-rate	0.7	1.0	1.2	1.5
5y bond	2.6	3.3	3.5	3.8
10y bond	4.1	4.4	4.4	4.6
Russia *				
RUB	30.30	29.60	28.08	29.39
1m-rate	4.0	3.9	3.9	3.9
5y bond	7.7	6.4	6.1	5.6
10y bond	8.0	6.7	6.2	6.3
USD	1.27	1.27	1.35	1.25

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

Recommendations

For detailed recommendations please see page 2.

Highlights

- **Poland** – Volatility will most likely remain high as long as the debt problem of the peripheral European countries will not be addressed by the ECB. In spite of Poland's sound economic fundamentals, we remain "neutral" on Polish bonds.
- **Hungary** – Viktor Orbán, the next prime minister, revealed the structure of his new government (there will be only 8 ministries) and named the incoming ministers. While Fidesz politicians are clearly not satisfied with the central bank governor, the party's communication has become softer recently. Thus, it seems as if the tension between the new government and the central bank governor is easing.
- **Czech Republic** – Despite a market environment dominated by the uncertainty about the Greek debt situation and weakening regional currencies, the Czech National Bank surprisingly cut its key 2-week repo rate by another 25bp to 0.75%, i.e. below the ECB's key refi rate, on its monetary policy board meeting

Key upcoming events and data releases

Country	Time	Indicator	Period	Forecast	Range	Last
10-May						
HU	09:00	Foreign trade bal., EUR mn	Mar	577.0	510/577/700	373.0
CZ	09:00	CPI, % mom	Apr	0.4	0.2/0.3/0.4	0.3
CZ	09:00	CPI, % yoy	Apr	1.2	1.0/1.1/1.2	0.7
CZ	09:00	Unemployment rate, %	Apr	9.5	9.4/9.5/9.7	9.7
HR		PPI, % mom	Apr	0.3	n.a.	1.0
HR		PPI, % yoy	Apr	4.7	n.a.	5.0
TR	09:00	Industrial output, % yoy	Mar	22.0	15/21/25	18.1
TR	16:00	Cash Balance, USD bn	Apr	n.a.	n.a.	-4.3
11-May						
HU	09:00	CPI, % yoy	Apr	5.6	4.6/5.6/6	5.9
RO		CPI, % yoy	Apr	4.4	n.a.	4.2
TR	09:00	Current account, USD bn	Mar	-3.9	-3.4/-3.9/4.1	2.6
RU		Trade balance, USD bn	Mar	15.5	12.0/14.4/17.0	15.2
12-May						
HU	09:00	GDP, % yoy	Q1	-2.4	-3.3/-2.1/-0.3	-4.0
CZ	09:00	GDP flash estimate, % qoq	Q1			0.7
CZ	09:00	GDP flash estimate, % yoy	Q1			-3.1
RO		GDP, % yoy	Q1	-3.0	n.a.	-6.5
14-May						
PL	14:00	CPI, % yoy	Apr	2.3	n.a.	2.6
PL	14:00	M3, % yoy	Apr	7.3	n.a.	5.6
HR		CPI, % mom	Apr	0.4	n.a.	0.4
HR		CPI, % yoy	Apr	0.5	n.a.	0.9

yesterday. Today both the March data for industrial output (+10.2% yoy) and retail sales (+3.9% yoy) surprised on the upside.

- **Romania** – President Basescu recently announced that the budget deficit adjustment would be entirely on the expenditure side. The government would take radical measures and will cut the expenditure with personnel in the public sector by 25% (which means lay-offs and cut in wages), and will reduce pensions and unemployment benefits by 15%.
- **Croatia** – We expect the negative outlook for the labour market to continue in H1 2010, retail trade results will likely be modest. The announced repeal of the so-called crisis tax in H2 2010 could have a positive psychological impact on consumers' behaviour. Therefore, the recovery of retail trade could begin in H2 2010 assuming that developments on the labour market become more favourable and the tourism season is successful.

- **Russia** – In our opinion, the inflation outlook remains fairly benign. This must give the central bank additional incentive to cut interest rates. In April the bank lowered the key rate by 25bp to 8%, and we believe the bank could still deliver 50–75bp of rate cuts depending on the economic outlook. At the same time, the escalating crisis in Greece and lower oil prices knocked out our rouble recommendation.
- **Turkey** – Turkish assets will mostly depend on market developments related to the sovereign debt crisis in the EU. Inflation worries and politics may play a role for the markets as well. Thus, if market turmoil subsides at some point in the future, we would expect bond yields to remain rather elevated, while the lira would also have better chances of rebounding. However, further increases in USD/TRY will likely be seen as well in a volatile market.

Recently closed trades

Recommendation	Entry date	Entry level	Close date	Close level	Total return	Comment
SELL USD/TRY (long TRY)	13/04/10	1.492	28/04/10	1.51	-0.93%	Stopped out
SELL BASKET/RUB (long RUB)	06/04/10	33.81	06/05/10	34.1	-0.55%	Stopped out
Buy RON T-Bond 10/2012 (ISN RO0912DBN076)	22/04/10	111.1	07/05/10	109.5	-1.0%	Stopped out
Buy RUB T-Bond 11/2021 RU46018 (ISN RU000A0DOG29)	23/04/10	100.45	06/05/10	98.6	-1.1%	Early stop-out

Source: Thomson Reuters, Bloomberg

Local currency bonds

Market overview

CEE local currency bond market snapshot

06/05/2010	Maturity	Coupon %	Ask price	YTM %	Spread to bunds (bp)	MDuration
Poland						
PLN 2y Gov. Bond	25/ Oct 12	0.00	89.15	4.78	423	2.5
PLN 5y Gov. Bond	25/ Apr 15	5.50	100.50	5.38	361	4.5
PLN 10y Gov. Bond	25/ Oct 20	5.25	96.26	5.73	286	8.0
PLN 20y Gov. Bond	25/ Apr 29	5.75	98.49	5.88	234	11.9
Hungary						
HUF 3y Gov. Bond	24/ Oct 13	7.50	103.29	6.39	557	3.1
HUF 5y Gov. Bond	12/ Feb 16	5.50	94.70	6.63	485	5.0
HUF 10y Gov. Bond	24/ Jun 19	6.50	96.69	7.00	413	6.7
HUF 15y Gov. Bond	24/ Nov 23	6.00	91.38	7.00	341	9.2
Czech Republic						
CZK 2y Gov. Bond	18/ Oct 12	3.55	104.40	1.69	114	2.4
CZK 5y Gov. Bond	11/ Apr 15	3.80	105.75	2.54	77	4.6
CZK 10y Gov. Bond	12/ Sep 20	3.75	97.40	4.06	119	8.5
CZK 15y Gov. Bond	25/ May 24	5.70	113.65	4.38	79	9.8
Croatia						
HRK 5y Gov. Bond	11/ Jul 13	4.50	98.86	4.89	288	2.9
HRK 10y Gov. Bond	8/ Feb 17	4.75	93.71	5.89	302	5.8
Romania						
RON 3y Gov. Bond	25/ Oct 10	6.00	99.73	6.51	570	0.5
RON 5y Gov. Bond	5/ Mar 12	6.50	100.13	6.40	464	1.8
Russia						
RUB 2y Gov. Bond	19/ Sep 12	10.80	109.15	6.68	613	2.1
RUB 5y Gov. Bond	17/ Dec 14	11.20	115.70	7.37	560	3.7
RUB 10y Gov. Bond	29/ Aug 18	8.00	105.97	5.80	293	4.3
RUB 30y Gov. Bond	6/ Feb 36	6.90	96.15	7.37	378	11.7
Turkey						
TRY 2y Gov. Bond	25/ Jan 12	0.00	85.33	9.66	911	1.7
TRY 5y Gov. Bond	6/ Aug 14	11.00	102.90	10.39	862	3.4
TRY 10y Gov. Bond	15/ Jan 20	10.50	99.00	10.93	806	6.3

Source: Thomson Thomson Reuters, Raiffeisen RESEARCH

Bond auctions

12-May		ISIN	Coupon	Maturity	Volume
CZ	5y T-bond reopening	CZ00001002737	3.4%	01 Sep 2015	CZK 5 bn
PL	5y T-bond	PL0000105953	5.5%	25 Apr 2015	PLN 1.5 - 3 bn

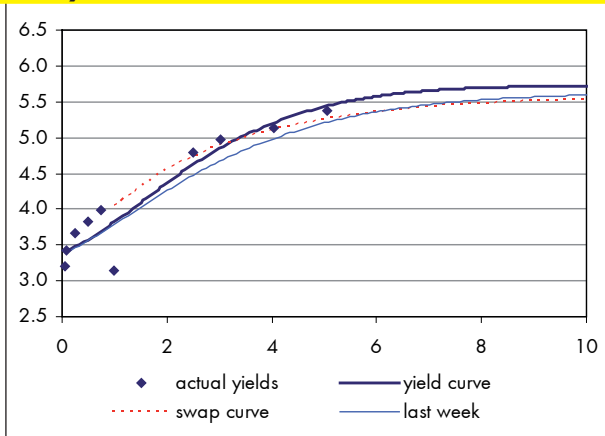
Poland

PLN slumps, yields up

(P)review of key economic figures/events

28 Apr 10	MPC rate decision, %	Apr 3.5 (Mar 3.5)
14 May 10	CPI, % yoy	Apr 2.3 (Mar 2.6)
14 May 10	M3 money supply, % yoy	Apr 7.3 (Mar 5.6)

PLN yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Money market focus

MM rates	1m	3m	6m	12m
Actual	3.42	3.67	3.82	4.07
Change from last week	0.01	0.01	0.00	0.01
Forecast Jun-10	3.60	3.70	3.78	3.70
Forward rates	3x6	6x9	9x12	
Change from last week	-0.01	0.03	0.01	

Bond market focus

	2y	5y	10y	20y
Actual	4.78	5.38	5.73	5.88
Change from last week	0.08	0.21	0.13	0.05
Forecast Jun-10	4.30	4.80	5.30	5.80
Spread to bunds	422.7	360.5	286.1	234.0
Change from last week	47.3	44.5	12.5	19.1
Spread to swaps	-18.3	-4.8	-12.8	

EUR/PLN



4.2096
The falling resistance line has been crossed -> buy 4.2670 -> 4.5205.

Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral PLN T-bonds

Market comment

During the US stock market session on Thursday, EUR/PLN exploded to a high of 4.24. The situation has improved slightly in the meantime, but EUR/PLN has only decreased marginally to levels slightly below 4.20. Yesterday's press conference by the ECB was a disappointment, as the market expected comments on the possibility of purchasing government bonds from the problem countries. Thus, the problem remains unresolved for the time being.

Market outlook

The change in our recommendation for Polish bonds to "neutral" even proved to be optimistic. The losses of PLN vs. EUR, in particular, are very unusual, and are more reminiscent of a panic reaction than rational behaviour. The dependence of countries like Poland on foreign capital is the main reason for such an exchange rate reaction. The next 5y T-Bond tender will show the extent to which the market is still willing to buy Polish bonds. The auction this week was successful, though demand was considerably lower than in the previous bond tenders. Volatility will most likely remain high as long as the debt problems in the peripheral European countries are not addressed by the ECB. In spite of the sound economic fundamentals, we remain with our "neutral" recommendation on Polish bonds.

Analyst: Marcin Kopaczynski (+43 1 71707 1423)

Exchange rate focus

	actual	Jun-10	Sep-10	Dec-10
EUR/PLN	4.08	3.80	3.75	3.65
Change from last week	-3.9%			
USD/PLN	3.18	2.99	2.78	2.92
Change from last week	-7.0%			

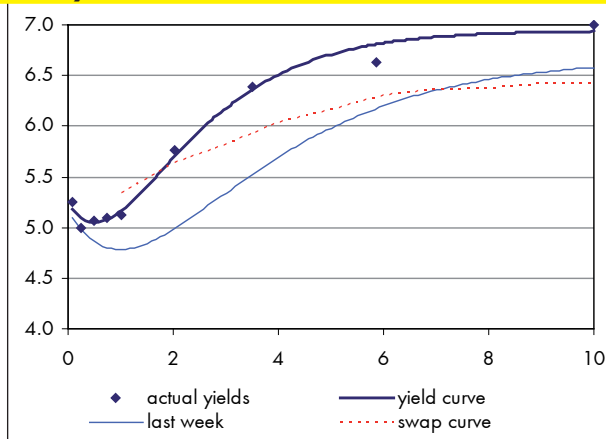
Hungary

Budget 2010 remains in focus

(P)review of key economic figures/events

10 May 10	Foreign trade balance, EUR mn	Mar 577 (Feb 373)
11 May 10	CPI, % yoy	Apr 5.6 (Mar 5.9)
12 May 10	GDP, % yoy	Q1 -2.4 (Q4 09 4.0)

HUF yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral HUF T-bonds

Market comment

The events surrounding Greece and the increasing risk aversion hit local markets hard – along with the rest of the world. EUR/HUF jumped above 280 (HUF depreciated by over 5% within a single week; the exchange rate hit an 11-month high) and yields on Hungarian government bonds increased further (by 30bp on the long end of the yield curve). Viktor Orbán, the next prime minister, revealed the structure of his new government (there will be only 8 ministries) and named the incoming ministers. The Ministry of Finance will be merged into the Ministry of Economic Affairs. Both Mr. Orbán and Gyorgy Matolcsy (the incoming minister in charge of economic policies) have promised tax cuts from July 2010. The government is expected to be sworn in in late May.

Money market focus

MM rates	1m	3m	6m	12m
Actual	5.25	5.24	5.21	5.16
Change from last week	-0.01	0.01	0.02	0.02
Forecast Jun-10	5.2	5.0	5.0	4.9

Bond market focus

	3y	5y	10y	15y
Actual	6.39	6.63	7.00	7.00
Change from last week	0.98	0.67	0.40	0.39
Forecast Jun-10	6.0	6.3	7.0	6.9
Spread to bunds	557.3	485.4	413.1	341.4
Change from last week	125.8	90.7	53.4	50.8

Market outlook

While Fidesz politicians are clearly not satisfied with the central bank governor (neither professionally, nor ethically), the party's communication has become softer recently. Thus, it seems as if the tension between the new government and the central bank governor is easing. Mr. Matolcsy recently said that he expects the budget deficit to come in at around 5–6% compared to the target of 3.8%. This is realistic in our view, and we assume that it will be acceptable for both the EU and the IMF. Local risk factors appear to have lessened, but external contamination is becoming more intense. Therefore, we suggest that investors stay on the sidelines and HOLD on Hungarian government bonds. We are keeping our June EUR/HUF forecast at 275.

Analyst: Zoltán Török (+36 148 44 843)

EUR/HUF



282.65
Breakout of the range 262.40 to 278.00 confirm -> test of the retracement 296.00 likely;

Source: Thomson Reuters, Raiffeisen RESEARCH

Exchange rate focus

	actual	Jun-10	Sep-10	Dec-10
EUR/HUF	277.47	275.0	275.0	270.0
Change from last week	-3.3%			
USD/HUF	216.47	216.5	203.7	216.0
Change from last week	-6.4%			

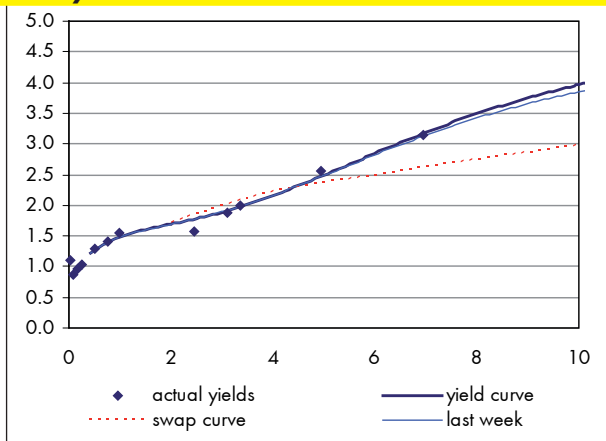
Czech Republic

CNB takes market by surprise

(P)review of key economic figures/events

10 May 10	CPI, % yoy	Apr 1.2 (Mar 0.7)
10 May 10	Unemployment, %	Apr 9.5 (Mar 9.7)
12 May 10	GDP flash estimate, % yoy	Q1 1.5 (Q4 2009 -3.1)

CZK yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Money market focus

MM rates	1m	3m	6m	12m
Actual	0.88	1.04	1.29	1.56
Change from last week	-0.01	0.00	0.00	-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	0.00	-0.06	0.02

Bond market focus

	2y	5y	10y	15y
Actual	1.69	2.54	4.06	4.38
Change from last week	0.11	-0.06	0.33	0.01
Forecast Jun-10	1.2	3.3	4.4	4.8
Spread to bunds	113.6	77.3	119.2	79.2
Change from last week	33.5	17.8	45.9	12.6
Spread to swaps	9.7	-6.4	-92.4	n.a.

EUR/CZK



26.250
Test of the resistance 26.620 (-> 27.075) likely.

Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral CZK T-bonds

Market comment

The Czech National Bank (CNB) surprisingly cut its key rate by 25bp to 0.75% on its monetary policy board meeting on Thursday this week. The move is quite surprising given the current market circumstances, such as higher risk aversion and a weaker Czech koruna (CZK). Since mid April the CZK lost around 4% against the EUR, and the market had already priced out its earlier bet on a further interest rate cut. The new forecast of the CNB provides some explanation for the rate decision as it now expects somewhat lower GDP growth (1.8 % in 2011), lower inflation and a somewhat stronger CZK (for details see: www.cnb.cz). According to CNB governor Zdenek Tuma the main argument for the lower interest rate outlook was the assumption of a lower Euribor.

Market outlook

Next week we will see the flash estimate for real GDP in Q1, which should confirm that the economy is going up. The Czech economy has shown visible signs of recovery and inflation will very likely head above the 2% inflation target in the foreseeable future. Given the current weakening of the CZK the rise of inflation could be even faster. Thus, we still think the CNB will increase the key interest rate this year and if the CZK remains weak this could come as soon as in Q3. Regarding the CZK development, global risk aversion will likely remain the key short-term driver, but the surprising cut can increase the volatility of the exchange rate. We confirm our neutral recommendation for Czech government bonds. If the global market calms down the yield spread of the Czech government bonds against German bunds will likely decrease.

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	26.02	25.4	24.8	25.0
Change from last week	-1.7%			
USD/CZK	20.44	20.0	18.4	20.0
Change from last week	-5.6%			

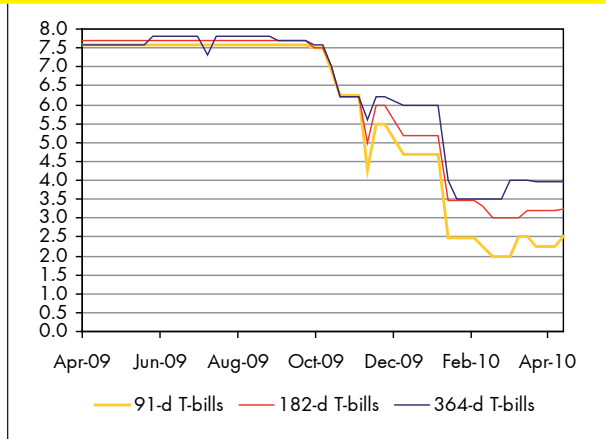
Croatia

Decline in retail trade slows

(P)review of key economic figures/events

10 May 10	PPI, % yoy	Apr 4.7 (Mar 5.0)
14 May 10	CPI, % mom	Apr 0.4 (Mar 0.4)
14 May 10	CPI, % yoy	Apr 0.5 (Mar 0.9)

Interest rates on T-bills



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral EUR/HRK

Market comment

According to the Central Bureau of Statistics' initial release, retail trade turnover declined by 2.9% yoy in real terms (2.2% yoy nominally) in March, which is a considerably milder decline than had been anticipated by the market and represents a slowdown in the negative trend. The milder fall is primarily the result of the high base from last year, as retail trade fell 17.4% in March 2009. Unfavourable trends are being supported by the lower available income among households and uncertainties on the labour market. Since we expect the negative outlook for the labour market to continue in H1 2010, retail trade results will likely be modest, although the rate of decline should be much lower than in 2009. The announced repeal of the so-called crisis tax in H2 2010 could have a positive psychological impact on consumers' behaviour. Therefore, the recovery of retail trade could begin in H2 2010 assuming that developments on the labour market become more favourable and the tourism season is successful.

Croatia's foreign trade in goods intensified in March. Both imports and exports of goods recorded monthly increases, while in yoy terms exports rose by 20.1% and imports fell by 9.4%. The trade deficit decreased by 33.5% yoy and the import-export coverage ratio rose to almost 60%. In the coming months we expect the export of goods to continue its annual growth thanks to the recovery of foreign demand, while persistently sluggish domestic demand is preventing the recovery of imports. However, this will have a positive impact on the balance of payments and GDP.

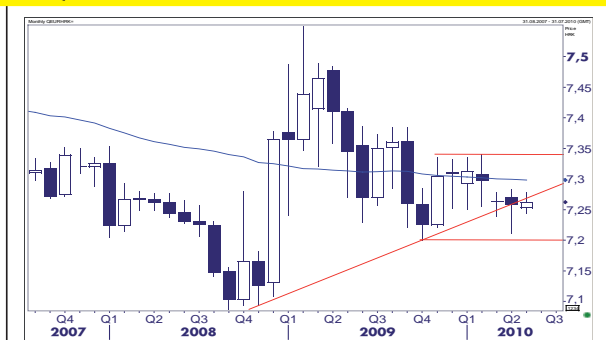
Money market focus

	1m	3m	6m	12m
ZIBOR actual	1.27	2.00	2.95	3.80
Change from last week	0.00	-0.14	-0.08	-0.12
T-bills actual	n.a.	2.50	3.25	3.95

Exchange rate focus

	actual	Jun-10	Sep-10	Dec-10
EUR/HRK	7.261	7.32	7.30	7.32
Change from last week	0.2%			
USD/HRK	5.59	5.76	5.41	5.86
Change from last week	1.6%			

EUR/HRK



7.2620
Sideways ranging from 7.2000 to 7.3300.

Source: Thomson Reuters, Raiffeisen RESEARCH

Market outlook

We expect EUR/HRK to stay at the level of 7.25 next week. The anticipated continuation of quasi-sovereign external borrowing and the resulting higher inflow of euros is supporting appreciation pressures on the kuna and preventing the increase in the EUR/HRK FX rate that would be justified based on fundamental data.

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

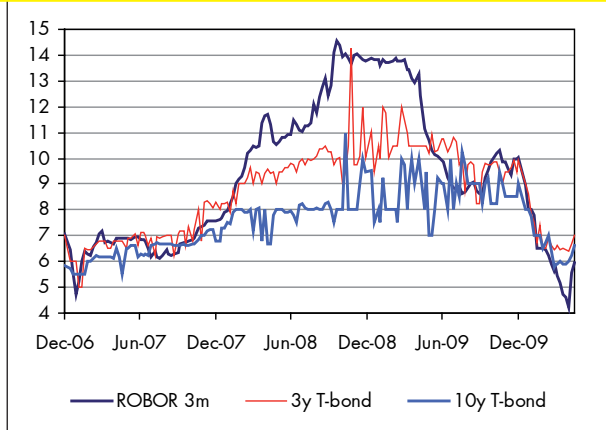
Romania

Large cut in public spending planned

(P)review of key economic figures/events

04 May 10	Monetary policy meeting, %	May 6.25 (Apr 6.5)	As expected
11 May 10	CPI, % yoy	April 4.4 (Mar 4.2)	
12 May 10	Real GDP, % yoy	Q1 -3.0 (Q4 -6.5)	

ROBOR 3m & T-bond yields (%)



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral RON T-bonds

Market comment

Negotiations with the technical missions from the IMF and the European Commission are proving to be more difficult than expected. The IMF mission has prolonged its stay in Romania by two days until 9 May. Although the deficit target for Q1 was met, the capacity of the authorities to further lower the budget deficit as previously assumed is very questionable. It has become clear that without any radical measures on the expenditure side, the budget deficit cannot be cut as quickly as initially planned. While being flexible enough at the previous reviews, this time the IMF and the European Commission want to be sure that Romanian authorities will really stick to the deficit targets set for 2010 and 2011. In this context, an increase in taxation has become a hot topic in the current negotiations between the Romanian authorities and the IMF mission. Local media presented several scenarios related to increases in the value added tax (VAT) and in personal income tax that were considered. However, President Basescu recently announced that the budget deficit adjustment would be entirely on the expenditure side. The government would take radical measures and will cut the expenditure with personnel in the public sector by 25% (which means lay-offs and cut in wages), and will reduce pensions and unemployment benefits by 15%.

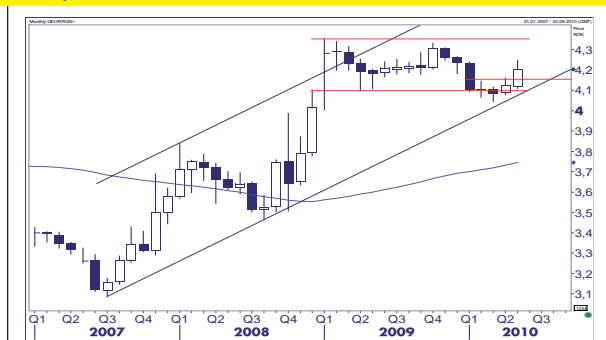
Money market focus

MM rates	1m	3m	6m	12m
Actual	6.04	5.98	5.89	5.91
Change from last week	0.53	0.42	0.41	0.42
Forecast Jun-10	5.3	5.5	5.4	5.6
Implicit forward rates	3x6	6x9	9x12	
	5.84	5.91	5.78	
Change from last week	0.40	0.46	0.37	

Bond market focus

	2y	3y	5y	10y
Actual	7.15	7.01	7.03	6.62
Change from last week	0.90	0.33	0.20	0.40
Forecast Jun-10	6.30	6.40	6.50	6.00
Spread to bunds	659.5	615.1	525.5	375.9
Change from last week	112.5	44.2	39.8	53.7

EUR/RON



4.2028
The resistance 4.1550 has been crossed. A further rise towards 4.3000 will be expected.

Source: Thomson Reuters, Raiffeisen RESEARCH

Market outlook

Uncertainty regarding the development of yields in the upcoming period has increased. At the moment, we do not see a substantial risk for yields increasing. Therefore, we are leaving our "neutral" view unchanged.

Analyst: Ionut Dumitru (+40 37 2211269)

Exchange rate focus

	actual	Jun-10	Sep-10	Dec-10
EUR/RON	4.18	4.10	4.05	3.95
Change from last week	-1.1%			
USD/RON	3.28	3.23	3.00	3.16
Change from last week	-4.7%			

Russia

Lower inflation, rate cuts considered

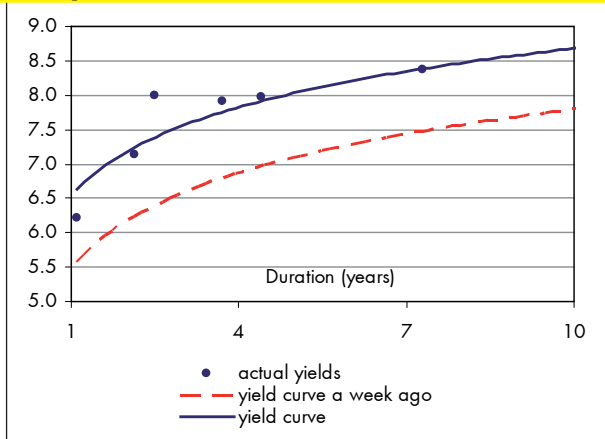
(P)review of key economic figures/events

11 May 10

Trade balance, USD bn

Mar 15.5 (Feb 15.2)

RUB yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

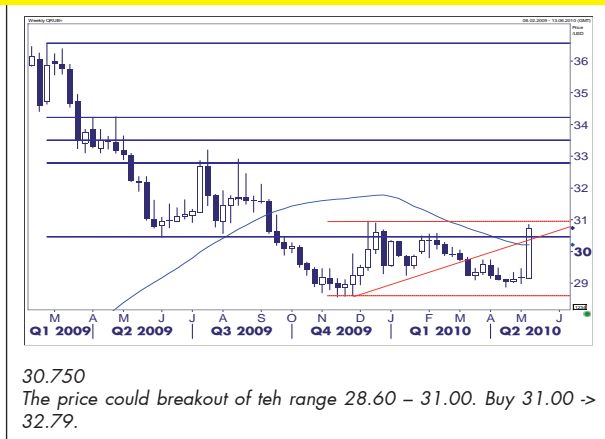
Money market focus

MM rates	1m	3m	6m	12m
Actual	4.93	5.62	6.98	8.16
Change from last week	-0.10	-0.07	-0.05	-0.03
Forecast Mar-10	3.91	4.21	4.56	n.a.
Forward rates	1x2	3x6	6x9	9x12
	5.74	8.48	n.a.	n.a.
Change from last week	-0.05	-0.01	n.a.	n.a.

Bond market focus

	1y	2y	5y	15y
Actual	6.21	7.13	7.92	8.37
Change from last week	1.04	0.76	0.91	0.77
Forecast Mar-10	5.11	5.75	6.35	n.a.

USD/RUB



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

The rouble is at risk of sliding to 34.50 due to lower oil prices and problems in the euro area. However, we would target buying rouble at 34.40 with a target of 33.50 assuming the situation on the oil market stabilises thanks to Chinese and South Asian demand.

Market comment

Russia's consumer price index rose by 0.3% mom in April after rising 0.6% in March. Inflation also fell to the lowest level seen in many years at 6.1% yoy. The last time inflation reached such a low level was in July 1998. The food inflation component saw the biggest drop in April, falling from 1.0% mom to just 0.3%. Meanwhile, the headline PMI rose to 52.1 in April, up from 50.2 in March. The most encouraging development was the fact that the employment index also rose to 51.2, marking the first monthly rise in employment since March 2008.

Market outlook

In our opinion, the inflation outlook remains fairly benign. Both 12-month rolling monthly inflation and 12-month compounded inflation show no increase until September and August, respectively. This must give the central bank additional incentive to cut interest rates. In April the bank lowered the key rate by 25bp to 8%, and we believe the bank could still deliver 50–75bp of rate cuts depending on the economic outlook. The market consensus takes a more cautious approach and is expecting just a single 25bp rate cut, after which the bank is expected to take a neutral policy stance. However, the speed of the economic recovery remains uneven and Q1 output was fairly weak, which might require more monetary easing. At the same time, the escalating crisis in Greece and lower oil prices knocked out our rouble recommendation. We already hit a stop-loss at 34.10 vs. the basket. However, we still believe that the rouble will resume its course of appreciation on the back of higher oil prices and positive capital inflows going forward.
Analyst: Gintaras Shlizhyus (+43 1 71707 1343)

Exchange rate focus

	actual	Jun-10	Sep-10	Dec-10
EUR/RUB	38.98	38.72	38.81	38.14
Change from last week	-0.7%			
USD/RUB	30.65	28.68	27.33	28.25
Change from last week	-5.0%			

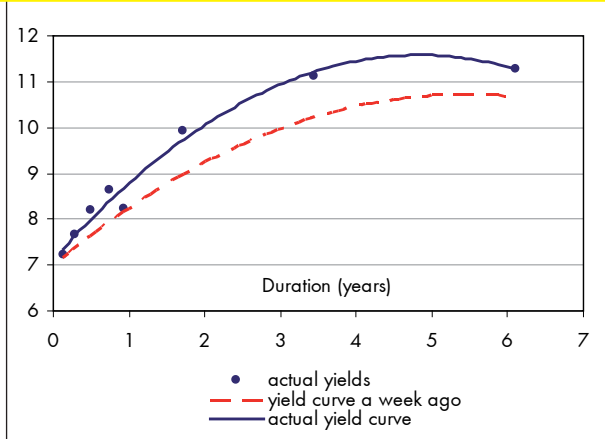
Turkey

On the other side of the Aegean Sea...

(P)review of key economic figures/events

10 May 10	Industrial output, % yoy	Mar 20 (Feb 18.1)	% mom, sa: Mar 0.7 (Feb 1.6), ongoing recovery
10 May 10	Cash Balance, USD bn	Apr n.a. (Mar -4.3)	
11 May 10	Current account, USD bn	Mar -3.9 (Feb 2.6)	Strong deficit of trade balance in March

TRY yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Underweight TRY bonds relative to the benchmark index

Market comment

Turkish assets took a strong beating, mainly provoked by increasing risk aversion, rising inflation fears in the face of a dovish Central Bank of Turkey and political tensions surrounding the constitutional amendments. Inflation figures this week were somewhat lower than anticipated, at 0.60% mom. Nevertheless, the yearly rate rose to slightly above 10%. Consequently, year-end inflation expectations as surveyed by the CBT went up by almost 0.4% to 8.57%. In the initial vote on constitutional amendments, the government failed to push through an article that would have made it more difficult to ban political parties. However, two other major articles were approved (first, an overhaul of the Constitutional Court; second, a reform of the Supreme Board of Judges and Prosecutors). As the government lacks the two-thirds majority needed to approve the package in a final vote, it's also preparing for a referendum in the summer (when it has good chances of finding popular support). The opposition is already set to appeal to the Constitutional Court, so we can expect some bumps in the (political) road ahead.

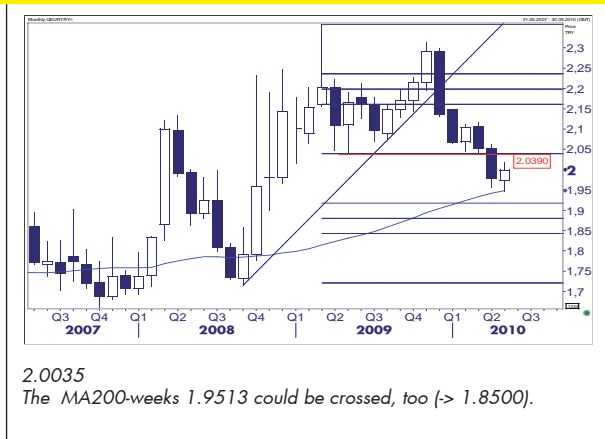
Money market focus

MM rates	1m	3m	6m	12m
Actual	7.00	7.35	8.03	8.95
Change from last week	0.30	0.55	0.43	0.65
Forecast Jun-10	6.80	7.20	7.90	8.80
Implied forward rates	1x2	3x6	6x9	9x12
	7.36	8.56	9.40	9.36
Change from last week	0.50	0.30	0.92	0.68

Bond market focus

	1m	1y	2y	5y
Actual	7.16	8.43	9.87	11.13
Change from last week	0.21	0.06	0.71	1.14
Forecast Jun-10	n.a.	8.80	9.70	10.60

EUR/TRY



Source: Thomson Reuters, Raiffeisen RESEARCH

Market outlook

Turkish assets will mostly depend on market developments related to the sovereign debt crisis in the EU. Inflation worries and politics may play a role for the markets as well. Thus, if market turmoil subsides at some point in the future, we would expect bond yields to remain rather elevated, while the lira would also have better chances of rebounding. However, further increases in USD/TRY will likely be seen as well in a volatile market. Finally, we believe that the economy is still performing well and will deliver strong figures for industrial production in March.
Analyst: Andreas Schwabe (+43 1 71707 1389)

Exchange rate focus

	actual	Jun-09	Sep-09	Dec-09
EUR/TRY	2.00	1.84	1.96	1.78
Change from last week	1.7%			
USD/TRY	1.57	1.45	1.45	1.42
Change from last week	6.1%			

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; Source: Rating agencies websites

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	1.8	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
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	-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 Reuters, National Statistics



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