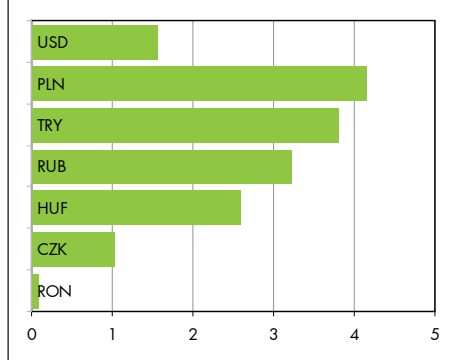


CEE Weekly Bond Markets Outlook

Issue 19/2010

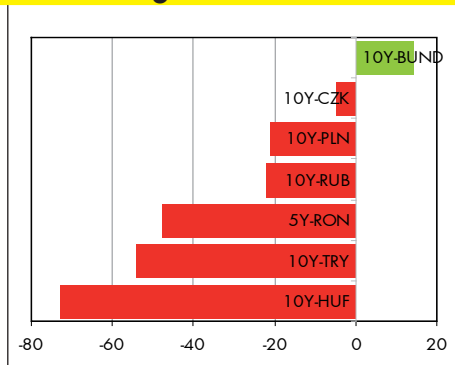
14 May 2010

LCY changes vs. EUR*



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

Yield changes*



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

Recommendations (1-month horizon)

Neutral PLN bonds; Neutral HUF bonds; Neutral CZK bonds; Neutral RON bonds; Neutral TRY Bonds

Highlights

- Poland** – The week ahead features a hefty portion of macroeconomic data. We expect the current account data to show a deficit in March, mainly due to an increase in imports. The labour market data should be moderate in terms of the market impact. The outlook for the bond market for now is a further, gradual drop i
- Hungary** – Q1 GDP grew by 0.1% yoy in Hungary, according to the flash estimate. This figure comes as a major positive surprise as the consensus estimate was -2.1% yoy. Moreover, the Central Statistical Office revised the quarterly statistics. Therefore, having registered growth in the past two quarters, the Hungarian economy has emerged from the recession.
- Czech Republic** – Recent macroeconomic data releases, including the GDP flash estimate for Q1 (+0.2% qoq, +1.2% yoy), confirm the economy's modest upward trajectory. Among the data that was released over the past days, the surprisingly strong decline in unemployment to 9.2% in April and the strong growth of retail sales by 3.9% yoy in March are clearly in contrast with the recent interest rate cut by the Czech National Bank.

Forecast

	current	Jun-10	Sep-10	Dec-10
Poland				
PLN	3.96	3.80	3.75	3.65
1m-rate	3.4	3.6	3.6	3.8
5y bond	5.2	4.8	4.8	4.9
10y bond	5.6	5.3	5.3	5.4
Hungary				
HUF	273.0	275	275	270
1m-rate	5.3	5.2	4.9	5.0
5y bond	6.3	6.3	6.2	6.0
10y bond	6.6	7.0	6.8	6.6
Czech Rep.**				
CZK	25.4	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	3.8	4.4	4.4	4.6
Russia *				
RUB	29.9	29.6	28.1	29.4
1m-rate	4.0	3.9	3.9	3.9
5y bond	7.1	6.4	6.1	5.6
10y bond	8.0	6.7	6.2	6.3
USD	1.25	1.27	1.35	1.25

Currencies per 1 EUR; * RUB vs. USD; ** forecasts under revision; Source: Thomson Reuters. Raiffeisen RESEARCH

Key upcoming events and data releases

Country	Time	Indicator	Period	Forecast	Range	Last
17-May						
PL	14:00	Current account, EUR bn	Mar	-702	-1138/-513/230	106
CZ	9:00	PPI, % mom	Apr	0.2	0.0/0.2/0.4	0.1
CZ	9:00	PPI, % yoy	Apr	-0.1	-0.3/-0.2/0.1	-0.8
CZ	10:00	Current account, CZK bn	Mar	18.0	-20.0/6.0/18.0	10.3
TR	9:00	Consumer confidence	Apr	n.a.	n.a.	84.7
TR	9:00	Unemployment (3m avg), %	Feb	14.8	n.a.	14.5
RU	n.a.	GDP, % yoy	Q1	4.5	-2.8/4.5/8.0	-3.8
18-May						
HU	9:00	Average gross wages, % yoy	Mar	1.7	n.a.	0.9
TR	18:00	CBT key rate decision	May	6.5	n.a.	6.5
RU	n.a.	Industrial output, % yoy	Apr	8.0	4.5/6.5/8.9	5.7
19-May						
PL	14:00	Corp. sector wages, % yoy	Apr	2.9	n.a.	4.8
PL	14:00	Employment, % yoy	Apr	-0.1	-0.6/-0.2/0	-0.6
20-May						
PL	14:00	Industrial output, % yoy	Apr	10.4	8.1/10.1/14.2	12.3
PL	14:00	PPI, % yoy	Apr	-1.5	-2/-1.4/0.4	-2.4
21-May						
HR	n.a.	Industrial output, % yoy	Apr	-2.8	n.a.	-0.6



**Raiffeisen
RESEARCH**

RZB Group

- **Romania** – The flash estimate released on Wednesday by the National Statistical Office showed that real GDP contracted further in Q1 2010, declining by 0.3% from Q4 2009 (seasonally adjusted data). Real GDP fell also by 2.6% from Q1 2009. The data were marginally better than our expectations (-3% yoy and -0.5% qoq), but came in well below what the market was expecting three months ago.
- **Croatia** – Although slightly lower than in previous months, the expected unemployment rate of 17.8% is the highest since March 2006. Approaching the main tourist season, we expect stronger demand for seasonal workers, but the negative trends on the annual level will continue.
- **Russia** – The positive turnaround on the global equity markets and higher oil price generated bullish sentiment on the rouble. Russia's government said it expected the rouble to strengthen throughout the year. The government is also looking to create strong incentives for foreign investors to

commit their capital for long-term investment in excess of 3 years. An ample trade surplus, which was reported at USD 46 bn or 144% higher in Q1 compared to the same period of a year ago, also ensures substantial currency inflows into the rouble FX market.

- **Turkey** – Next week another meeting on the key rate will be held. We do not expect a rate change from the central bank. We welcome the idea of the fiscal rule, which, however, has to be backed by sanctions to function properly. Given the moderate current debt level of 45% of GDP, assuming potential GDP growth of around 4% and consistent primary budget surpluses, Turkey has a realistic chance of decreasing its debt-to-GDP ratio in the years to come.

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	98.2	-1.5%	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	89.89	4.47	400	2.4
PLN 5y Gov. Bond	25/ Apr 15	5.50	101.59	5.13	342	4.5
PLN 10y Gov. Bond	25/ Oct 20	5.25	97.26	5.60	269	8.0
PLN 20y Gov. Bond	25/ Apr 29	5.75	99.22	5.82	217	12.0
Hungary						
HUF 3y Gov. Bond	24/ Oct 13	7.50	104.74	5.92	517	3.1
HUF 5y Gov. Bond	12/ Feb 16	5.50	96.44	6.25	454	5.0
HUF 10y Gov. Bond	24/ Jun 19	6.50	99.05	6.64	374	6.8
HUF 15y Gov. Bond	24/ Nov 23	6.00	94.27	6.65	303	9.2
Czech Republic						
CZK 2y Gov. Bond	18/ Oct 12	3.55	104.40	1.67	120	2.3
CZK 5y Gov. Bond	11/ Apr 15	3.80	105.60	2.57	87	4.6
CZK 10y Gov. Bond	12/ Sep 20	3.75	99.92	3.76	85	8.5
CZK 15y Gov. Bond	25/ May 24	5.70	115.17	4.24	62	9.9
Croatia						
HRK 5y Gov. Bond	11/ Jul 13	4.50	98.84	4.90	294	2.9
HRK 10y Gov. Bond	8/ Feb 17	4.75	93.99	5.84	294	5.8
Romania						
RON 3y Gov. Bond	25/ Oct 10	6.00	99.74	6.52	576	0.4
RON 5y Gov. Bond	5/ Mar 12	6.50	100.13	6.40	470	1.7
Russia						
RUB 2y Gov. Bond	19/ Sep 12	10.80	110.68	5.96	549	2.1
RUB 5y Gov. Bond	17/ Dec 14	11.20	117.00	7.04	534	3.7
RUB 10y Gov. Bond	29/ Aug 18	8.00	100.50	7.08	417	4.2
RUB 30y Gov. Bond	6/ Feb 36	6.90	97.45	7.25	355	11.7
Turkey						
TRY 2y Gov. Bond	25/ Jan 12	0.00	85.95	9.31	884	1.7
TRY 5y Gov. Bond	6/ Aug 14	11.00	103.30	10.27	857	3.3
TRY 10y Gov. Bond	15/ Jan 20	10.50	100.60	10.65	775	6.3

Source: Thomson Thomson Reuters, Raiffeisen RESEARCH

Bond auctions

		ISIN	Coupon	Maturity	Volume
20-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	10y T-bond	HU0000402433	6.5%	24 Jun 2019	HUF 10 bn

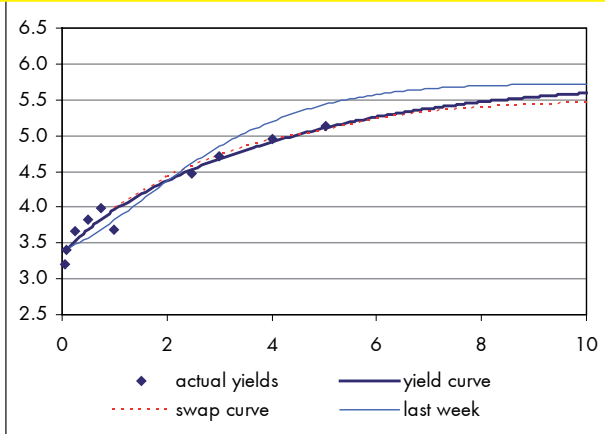
Poland

PLN slumps, yields up

(P)review of key economic figures/events

14 May 10	CPI, % yoy	Apr 2.3 (Mar 2.6)
17 May 10	Current account, % yoy	Mar -702 (Feb +106)
20 May 10	Industrial output, % yoy	Apr 10.1 (Mar 12.3)

PLN yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

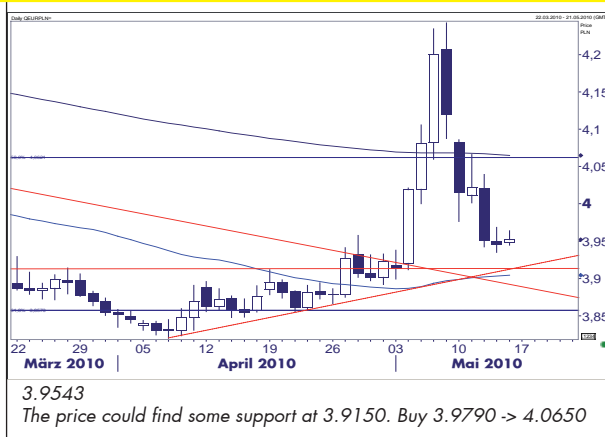
Money market focus

MM rates	1m	3m	6m	12m
Actual	3.41	3.66	3.82	4.07
Change from last week	-0.01	-0.01	0.00	0.00
Forecast Jun-10	3.60	3.70	3.78	3.70
Forward rates	3x6	6x9	9x12	
	4.00	4.32	4.25	
Change from last week	0.01	0.00	0.00	

Bond market focus

	2y	5y	10y	20y
Actual	4.47	5.13	5.60	5.82
Change from last week	-0.18	-0.26	-0.13	-0.07
Forecast Jun-10	4.30	4.80	5.30	5.80
Spread to bunds	399.5	341.8	269.4	216.9
Change from last week	-23.2	-18.7	-13.1	-17.1
Spread to swaps	-5.6	0.2	-4.2	

EUR/PLN



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral PLN T-bonds

Market comment

As a result of the stabilisation plan introduced by the Eurozone members, the IMF and the ECB last weekend, market tensions eased substantially on Monday providing a relief for the Polish currency. PLN managed to appreciate during the week to below 4.0 against the single currency. We expect that the calmer conditions will enable more local factors to influence the moves on the Polish market and therefore count on a return to the downtrend on EUR/PLN.

Market outlook

Although the risks of another surge in market anxiety are still present, we expect yields on Polish bonds to continue to retreat after last week's rise. The successful bond auction this week supports the expectations of robust demand on the Polish debt market. The Polish government managed to sell PLN 2.99 bn of 5-year bonds with the demand reaching 7.2 bn. The yield was slightly higher compared to the April auction, but this was not surprising given the recent surge along the whole curve after the rise in risk aversion in the market.

The week ahead features a hefty portion of macroeconomic data. We expect the current account data to show a deficit in March, mainly due to an increase in imports. The labour market data should be moderate in terms of the market impact. The outlook for the bond market for now is a further, gradual drop in yields, but risks in the Eurozone will continue to weigh on the volatility and the pace of this movement.

Analyst: Dorota Strauch (+48 22 585 29 44)

Exchange rate focus

	actual	Jun-10	Sep-10	Dec-10
EUR/PLN	3.96	3.80	3.75	3.65
Change from last week	3.0%			
USD/PLN	3.15	2.99	2.78	2.92
Change from last week	1.0%			

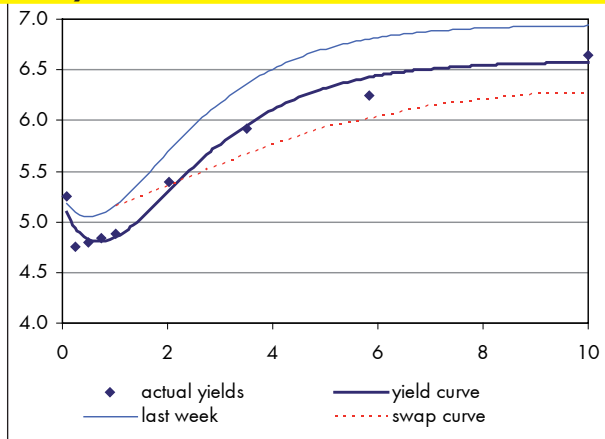
Hungary

Out of recession

(P)review of key economic figures/events

11 May 10	CPI, % yoy	Apr 5.7 (Mar 5.9)	
12 May 10	GDP, % yoy	Q1 0.1 (Q4 09 4.0)	GDP figures came in better than expected
18 May 10	Average gross monthly wages, % yoy	Mar 1.7 (Feb 0.9)	

HUF yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral HUF T-bonds

Market comment

Q1 GDP grew by 0.1% yoy in Hungary, according to the flash estimate. This figure comes as a major positive surprise as the consensus estimate was -2.1% yoy. The Hungarian economy grew by 0.9% compared to the previous quarter. Moreover, the Central Statistical Office revised the quarterly statistics: the new figures reveal that the quarter-on-quarter GDP decline was milder than previously reported as early as in Q3 2009 (-0.6% vs. -1.2% published previously), and in Q4 2009 instead of contracting, the economy started to grow (+0.2% vs. -0.4% published previously). Therefore, having registered growth in the past two quarters, the Hungarian economy has emerged from the recession.

Money market focus

MM rates	1m	3m	6m	12m
Actual	5.25	5.23	5.19	5.17
Change from last week	0.00	-0.01	-0.02	0.01
Forecast Jun-10	5.2	5.0	5.0	4.9

Bond market focus

	3y	5y	10y	15y
Actual	5.92	6.25	6.64	6.65
Change from last week	-0.47	-0.38	-0.36	-0.35
Forecast Jun-10	6.0	6.3	7.0	6.9
Spread to bunds	516.8	454.3	373.5	303.0
Change from last week	-40.6	-30.7	-39.8	-35.9

EUR/HUF



Source: Thomson Reuters, Raiffeisen RESEARCH

Market outlook

What are the drivers of economic growth? For the time being no details are available yet for Q1, but we can surely identify the recovery in manufacturing exports as the most important growth factor. Industrial output grew by almost 5% yoy in Q1, while export growth was 17% yoy (in EUR terms). In light of the positive data we revise our GDP forecast of 0% growth for 2010 to 1%. EUR/HUF may inch lower in the coming days as long as international market sentiment remains supportive, but one must bear in mind that the forint proves to be one of the most vulnerable currencies if the global environment deteriorates. Therefore, we would bet on a pause in the rate-cutting cycle of the National Bank of Hungary in May. We keep our EUR/HUF 275 target for June and September and maintain our HOLD recommendation on HGB's.

Analyst: Matyas Kovacs (+ 36 1 484 4874)

Exchange rate focus

	actual	Jun-10	Sep-10	Dec-10
EUR/HUF	272.96	275.0	275.0	270.0
Change from last week	1.7%			
USD/HUF	216.98	216.5	203.7	216.0
Change from last week	-0.2%			



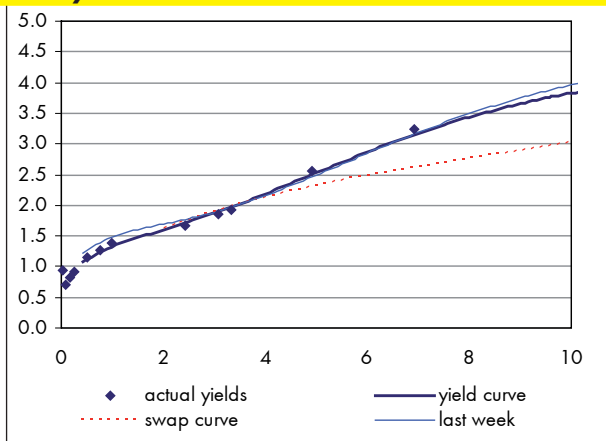
Czech Republic

Data provides evidence of recovery

(P)review of key economic figures/events

10 May 10	Unemployment, %	Apr 9.2 (Mar 9.7)	Surprisingly sharp drop in unemployment
12 May 10	GDP flash estimate, % yoy	Q1 1.2 (Q4 2009 -3.1)	0.2% qoq growth slightly below expectations
17 May 10	Current account, CZK bn	Mar 18.0 (Feb 10.3)	

CZK yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral CZK T-bonds

Market comment

After the announcement of the Euro stabilisation package the market has been calming down and the Czech koruna (CZK) appreciated back to 25.40 against EUR, which is precisely our forecast target for mid 2010. According to the flash estimate of the Czech Statistical Office, real GDP increased by 0.2% quarter-on-quarter and 1.2% year-on-year in Q1 2010. This was just slightly below market expectations and given the rather high uncertainty of the estimate (which can be revised significantly with the official release), it can be said to be in line with expectations. The important part of the story is that the economic recovery continues and that is driven mostly by the export oriented industrial sector.

Money market focus*

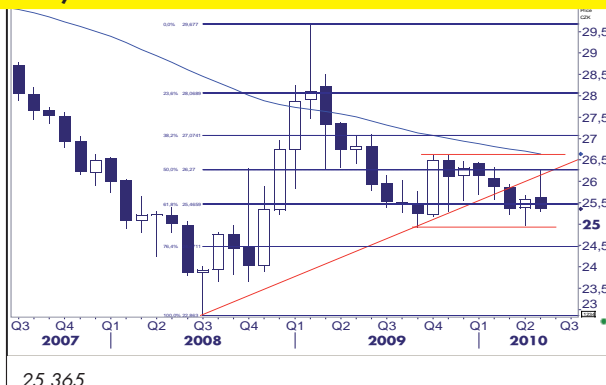
MM rates	1m	3m	6m	12m
Actual	0.71	0.92	1.14	1.39
Change from last week	-0.17	-0.12	-0.15	-0.17
Forecast Jun-10	1.0	1.1	1.3	1.6
Forward rates	1x2	3x6	6x9	9x12
Change from last week	-0.13	-0.18	-0.15	-0.23

Bond market focus*

	2y	5y	10y	15y
Change from last week	-0.01	0.03	-0.30	-0.14
Forecast Jun-10	1.2	3.3	4.4	4.8
Spread to bunds	120.1	86.9	85.3	62.2
Change from last week	8.7	10.1	-34.1	-14.5
Spread to swaps	5.2	-12.4	-56.3	n.a.
Spread to swaps				

* forecasts under revision

EUR/CZK



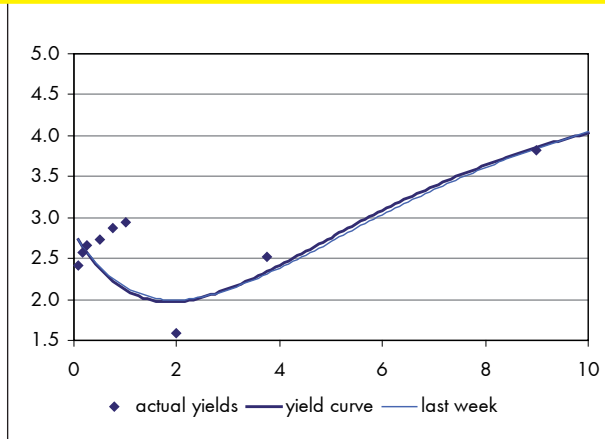
Croatia

Decline in retail trade slows

(P)review of key economic figures/events

14 May 10	CPI, % mom	Apr 0.4 (Mar 0.4)
14 May 10	CPI, % yoy	Apr 0.5 (Mar 0.9)
21 May 10	Industrial output, % yoy	Apr -2.8 (Mar -0.6)

Interest rates on T-bills



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral EUR/HRK

Market comment

In line with our expectations, the rise in unemployment ended in April. The number of unemployed fell by almost 10,000 and employment increased by nearly 17,000. But these favourable movements are the result of rising seasonal employment, which is usual for this time of the year, and do not represent an actual recovery on the labour market. This is confirmed by the annual increase in the number of unemployed persons, at a relatively high rate of 17%. Although slightly lower than in previous months, the expected unemployment rate of 17.8% is the highest since March 2006. Approaching the main tourist season, we expect stronger demand for seasonal workers, but the negative trends on the annual level will continue. A recovery on the labour market is expected after a rebound in the real sector, which means most likely at the beginning of 2011. April producer prices surged to a growth rate of 5.1% yoy. This is partially the result of last year's low base, as producer prices fell 0.1% in April 2009, but also stems from the increase in energy prices. Excluding energy prices, the PPI actually fell by 0.1% yoy. Considering the economic recovery in the developed markets, energy prices will continue to exert pressure on the PPI in the period ahead and will consequently spill over to the CPI.

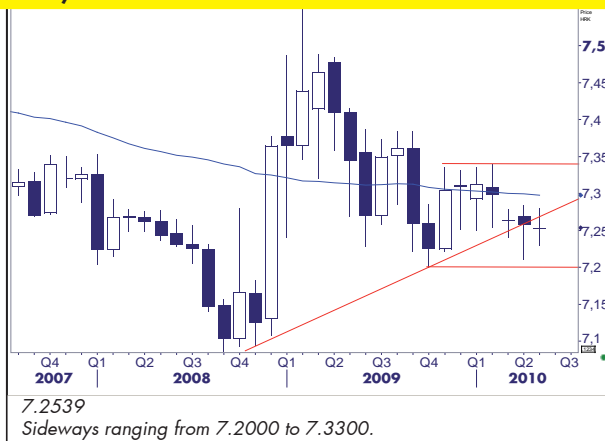
Money market focus

	1m	3m	6m	12m
ZIBOR actual	1.44	2.05	2.96	3.85
Change from last week	0.17	0.05	0.01	0.05
T-bills actual	n.a.	2.50	3.25	3.95

Exchange rate focus

	actual	Jun-10	Sep-10	Dec-10
EUR/HRK	7.267	7.32	7.30	7.32
Change from last week	0.1%			
USD/HRK	5.73	5.76	5.41	5.86
Change from last week	2.5%			

EUR/HRK



Source: Thomson Reuters, Raiffeisen RESEARCH

Market outlook

EUR/HRK hovered between 7.26 and 7.262. Since liquidity is at a high level and the supply of euros is relatively good, in the week ahead we do not expect to see significant changes in EUR/HRK. On the other hand, should the announced quasi-sovereign external borrowing actually be realised, the inflow of euros could occasionally create appreciation pressures on kuna over the one-month period, which will undercut the fundamentally justified increase in the EUR/HRK rate. Therefore, even at the monthly level, the rate should remain around the levels seen during this week.

Analysts: Ivana Juric (+385 1 61 74 349)

Zrinka Zivkovic-Matijevic (+385 1 61 74338)

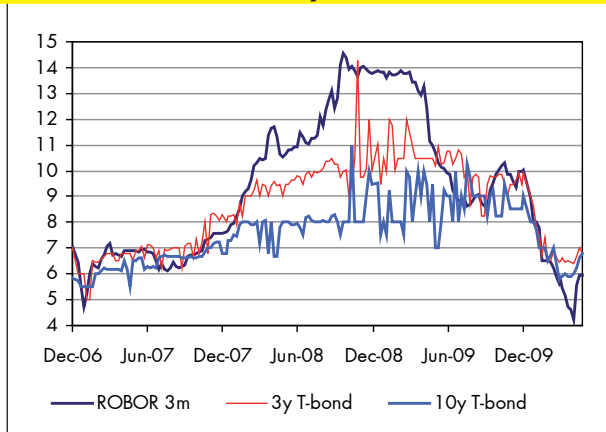
Romania

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 4.3 (Mar 4.2)	
12 May 10	Real GDP, % yoy	Q1 -2.6 (Q4 -6.5)	

ROBOR 3m & T-bond yields (%)



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral RON bonds

Market comment

The flash estimate released on Wednesday by the National Statistical Office showed that real GDP contracted further in Q1 2010, declining by 0.3% from Q4 2009 (seasonally adjusted data). Real GDP fell also by 2.6% from Q1 2009. The data were marginally better than our expectations (-3% yoy and -0.5% qoq), but came in well below what the market was expecting three months ago. Back then, the market (including ourselves) expected to see a slightly positive quarterly growth rate in Q1 2010. But recent data revealed that the economic recovery is much more difficult than expected. Industrial output, retail sales and construction output were quite disappointing in January and February, although some improvement was seen in March. Moreover, the austerity measures announced last week by the government (25% cut in wages in public sector, 15% cut in pensions, unemployment benefits, and other social transfers) will have an additional negative impact on economic growth this year. In this context, we decided to adjust down our GDP forecast for 2010 from +1% to 0%. However, more negative growth rates in 2010 cannot be ruled out. For the time being, we leave our GDP forecast for 2011 unchanged at 3.5%.

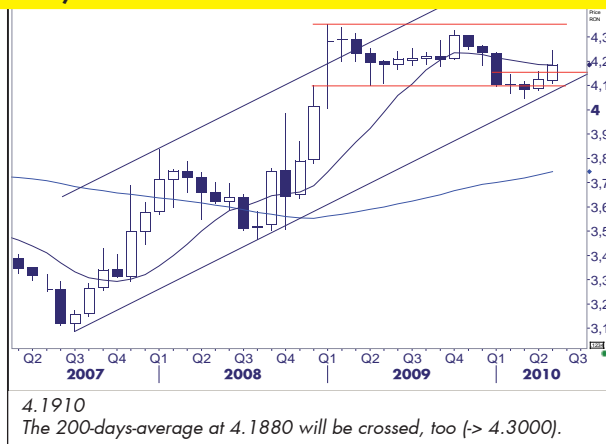
Money market focus

MM rates	1m	3m	6m	12m
Actual	5.68	5.94	6.21	6.25
Change from last week	-0.36	-0.04	0.32	0.34
Forecast Jun-10	5.3	5.5	5.8	5.6
Implicit forward rates	3x6	6x9	9x12	
	6.54	6.28	6.11	
Change from last week	0.70	0.38	0.32	

Bond market focus

	2y	3y	5y	10y
Actual	5.47	6.79	6.84	6.77
Change from last week	-1.68	-0.22	-0.19	0.15
Forecast Jun-10	6.30	6.40	6.50	6.00
Spread to bunds	498.7	603.2	512.7	387.0
Change from last week	-158.4	-11.2	14.9	11.1

EUR/RON



Source: Thomson Reuters, Raiffeisen RESEARCH

Market outlook

Following the improvement in investor sentiment on the external markets, the leu erased part of the losses incurred at the end of last week and interbank interest rates decreased as well. Bond prices, however, did not recover the losses from the previous week. We think that the uncertainty related to the capacity of the government to go forward with the fiscal consolidation plan just announced is one important reason behind this.

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	0.1%			
USD/RON	3.32	3.23	3.00	3.16
Change from last week	-1.4%			

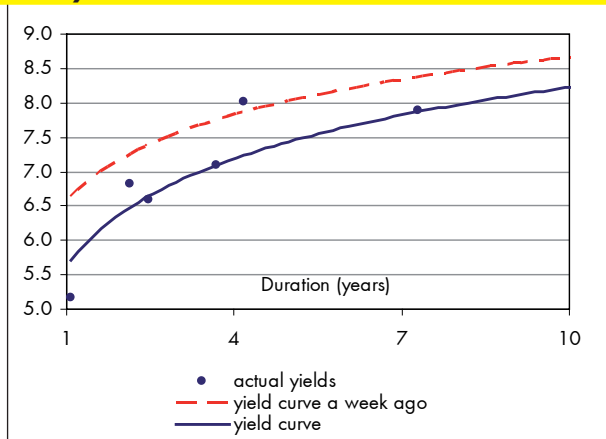
Russia

Rouble stronger, outlook positive

(P)review of key economic figures/events

17 May 10	Real GDP, % yoy	Q1 4.5 (Q4 -3.8)
18 May 10	Industrial output, % yoy	Apr 8.0 (Mar 5.7)

RUB yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

We used the positive market momentum to reinstate our rouble recommendation. We bought rouble at 34.18 vs. the basket with a 33.35 target and a stop-loss at 34.67. Currently, the rouble is trading at 33.51 to the basket being close to our target.

Market comment

The rouble posted its first gains in a week after the market sell-off. The positive turnaround on the global equity markets and higher oil price generated bullish sentiment on the rouble. Comments by Russian government officials on the sidelines of the BRIC conference in London also gave positive impetus to the rouble market. In particular, first deputy prime-minister Igor Shuvalov expected the rouble to strengthen throughout the year, although he also said that excessive appreciation might create problems for domestic producers. In another remark, Shuvalov said the government is looking to create strong incentives for foreign investors to commit their capital for long-term investment in excess of 3 years. Market rumours about Shuvalov mentioning possible rouble controls on short-term capital did not find any confirmation later. However, it was the IMF which urged Russia in a published report to consider all macroeconomic and prudential measures to prevent excess capital inflows, not excepting capital controls. We believe there is no risk of capital controls in Russia at this stage, while the IMF's credibility in Russia remains pretty low after the 1998 crisis.

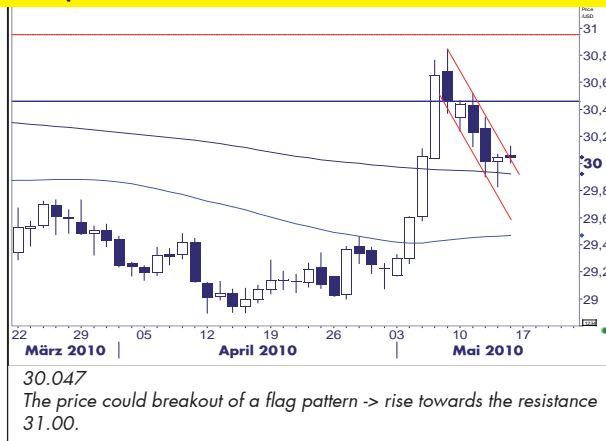
Money market focus

MM rates	1m	3m	6m	12m
Actual	4.94	5.56	6.91	7.82
Change from last week	0.01	-0.03	-0.06	-0.07
Forecast Mar-10	3.91	4.21	4.56	n.a.
Forward rates	1x2	3x6	6x9	9x12
	5.68	8.40	n.a.	n.a.
Change from last week	-0.06	-0.08	n.a.	n.a.

Bond market focus

	1y	2y	5y	15y
Actual	5.17	6.82	7.10	7.89
Change from last week	-1.03	-0.31	-0.83	-0.47
Forecast Mar-10	5.11	5.75	6.35	n.a.

USD/RUB



Source: Thomson Reuters, Raiffeisen RESEARCH

Market outlook

The rouble appreciation might continue supported by stabilisation on the global markets and the upcoming tax payment week. An ample trade surplus, which was reported at USD 46 bn or 144% higher in Q1 compared to the same period of a year ago, also ensures substantial currency inflows into the rouble FX market.

Analyst: Gintaras Shlizhyus (+43 1 71707 1343)

Exchange rate focus

	actual	Jun-10	Sep-10	Dec-10
EUR/RUB	37.66	37.60	37.90	36.74
Change from last week	3.5%			
USD/RUB	30.12	29.60	28.08	29.39
Change from last week	1.8%			

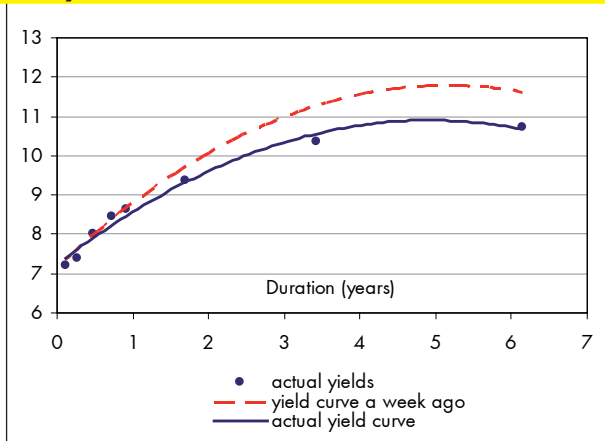
Turkey

One rule to bind them

(P)review of key economic figures/events

17 May 10	Consumer confidence	Apr n.a. (Mar 84.7)	
17 May 10	Unemployment (3m avg), %	Jan-Mar 14.8 (Dec-Feb 14.5)	moderate seasonal increase
18 May 10	CBT key rate decision	Apr 6.5 (Mar 6.5)	key rate hike only in late Q3 expected

TRY yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Underweight TRY bonds relative to the benchmark index

Market comment

As expected, the Turkish President approved a constitutional reform bill, which passed parliament last Friday. This opens the way to a popular referendum to be held, most likely in July. The opposition wants to appeal to the constitutional court. Thus, politics will remain a factor in the coming weeks and months. The week's economic data releases pointed to a robust economic recovery with industrial production growth at 21.1% yoy and the C/A deficit widening to almost USD 4 bn, due to rapidly rising import demand and higher energy costs (Q1: USD -10 bn or annualised -5.5% of 2010e GDP). In another story, the economic minister came out with a long-anticipated proposal for a "fiscal rule", which should limit the budget deficit to 1% of GDP over the medium and long term. However, the law does not specify any sanctions if the target is breached. Markets fear, that without the anchor of an IMF programme and with the approaching parliamentary elections in 2011, the government might not be committed enough to effectively cut the budget deficit (which reached 5.5% of GDP in 2009). Turkish assets gained broadly after the EU/IMF rescue package was announced.

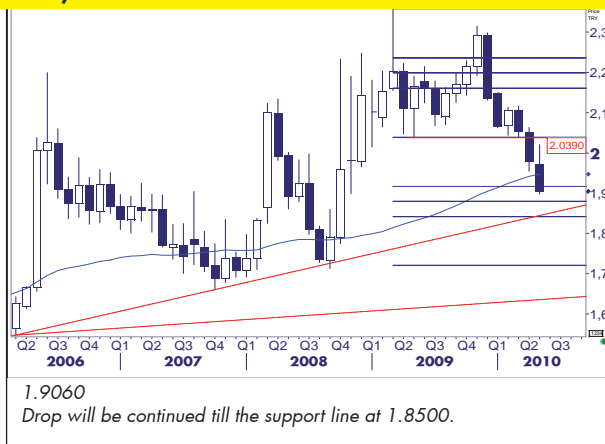
Money market focus

MM rates	1m	3m	6m	12m
Actual	7.00	7.35	8.01	8.91
Change from last week	0.00	0.00	-0.02	-0.04
Forecast Jun-10	7.00	7.40	8.10	9.00
Implied forward rates	1x2	3x6	6x9	9x12
	7.36	8.52	9.42	9.21
Change from last week	0.00	-0.04	0.02	-0.15

Bond market focus

	1m	1y	2y	5y
Actual	7.22	8.63	9.38	10.36
Change from last week	0.06	0.20	-0.49	-0.77
Forecast Jun-10	n.a.	9.00	9.50	10.50

EUR/TRY



Source: Thomson Reuters, Raiffeisen RESEARCH

Market outlook

Next week another meeting on the key rate will be held. We do not expect a rate change from the central bank. We welcome the idea of the fiscal rule, which, however, has to be backed by sanctions to function properly. Given the moderate current debt level of 45% of GDP, assuming potential GDP growth of around 4% and consistent primary budget surpluses, Turkey has a realistic (!) chance of decreasing its debt-to-GDP ratio in the years to come.

Analyst: Andreas Schwabe (+43 1 71707 1389)

Exchange rate focus

	actual	Jun-09	Sep-09	Dec-09
EUR/TRY	1.91	1.84	1.96	1.78
Change from last week	-4.5%			
USD/TRY	1.53	1.45	1.45	1.42
Change from last week	-2.6%			

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; Source: Rating agencies websites
Source: rating agencies websites

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
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	1.0	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	540	-4.5	8.3	25.8	6.0	33.3	93.2	23.1
	2011	4.5	7.8	6.8	674	-3.0	8.0	26.5	5.7	32.3	90.9	20.6
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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