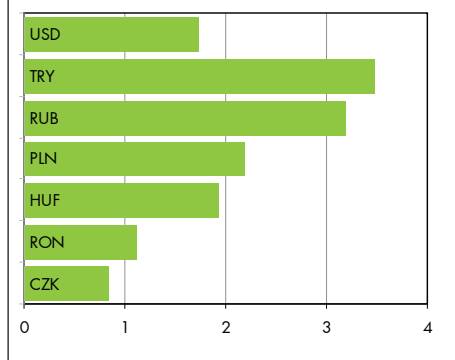


CEE Weekly Bond Markets Outlook

Issue 21/2010

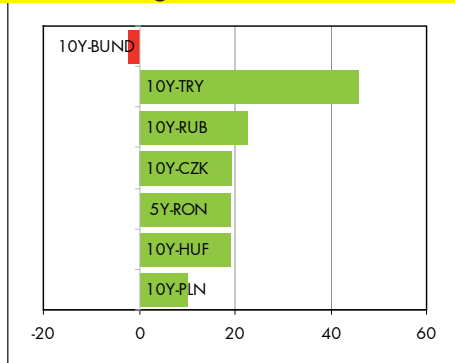
28 May 2010

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** – We think that the current yield levels may be a good buying opportunity, but with the exchange rate risk being high, we prefer to remain with our short-term “neutral” recommendation for Polish bonds.
- Hungary** – We expect that the rate-cutting cycle of the National Bank of Hungary for last 10 months is going end next Monday (31. May) as global sentiment has deteriorated rapidly in the recent past, causing higher HUF volatility and weakening. However, another 25bp cut cannot be ruled out and we can be sure that some dovish Monetary Council members are going to vote for further loosening.
- Czech Republic** – Parliamentary elections will be held on 28-29 May. The last polls show the Social Democrats holding a clear lead. However, given the uncertain results of a number of smaller parties the question if there will be a majority left or right of the centre cannot be answered and even another stalemate like after the 2006 elections cannot be ruled out.
- Romania** – The government approved the letter of intent to be sent to the IMF for approval. Among the key measures, the government pledged to reduce public sector wages by 25%

Forecast

	current	Jun-10	Sep-10	Dec-10
Poland				
PLN	4.10	3.80	3.75	3.65
1m-rate	3.4	3.6	3.6	3.8
5y bond	5.3	4.8	4.8	4.9
10y bond	5.8	5.3	5.3	5.4
Hungary				
HUF	277.0	275	275	270
1m-rate	5.2	5.2	4.9	5.0
5y bond	6.8	6.3	6.2	6.0
10y bond	7.2	7.0	6.8	6.6
Czech Rep.**				
CZK	25.6	25.4	24.8	25.0
1m-rate	0.7	1.0	1.2	1.5
5y bond	2.7	3.3	3.5	3.8
10y bond	4.2	4.4	4.4	4.6
Russia *				
RUB	30.9	30.5	29.2	30.0
1m-rate	4.0	3.9	3.9	3.9
5y bond	7.1	6.4	6.1	5.6
10y bond	7.7	6.7	6.2	6.3
USD	1.24	1.20	1.25	1.20

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
28-29 May						
CZ	n.a.	Elections to the Lower House of Parliament	n.a.	n.a.	n.a.	n.a.
31-May						
PL	10:00	GDP, % yoy	Q1	2.9	n.a.	3.3
HU	14:00	Monetary council meeting	May	5.3	5.0/5.25/5.25	5.3
HR	n.a.	Imports, EUR mn	Apr	1294.0	n.a.	1311.0
HR	n.a.	Exports, EUR mn	Apr	643.0	n.a.	782.0
HR	n.a.	Retail sales, % yoy	Apr	-5.3	n.a.	-2.8
TR	09:00	Trade balance, USD bn	Apr	5.5	4.8/5.3/6.5	5.0
01-Jun						
PL	09:00	PMI	May	n.a.	51/53/54	52.5
RO	n.a.	Official FX reserves, EUR bn	May	n.a.	n.a.	32.4
02-Jun						
RO	n.a.	PPI, % yoy	Apr	4.7	n.a.	4.5
03-Jun						
RO	n.a.	GDP, % yoy	Q1	-2.6	n.a.	-6.5
TR	09:00	Consumer prices, % yoy	May	10.3	n.a.	10.2
TR	09:00	Producer prices, % yoy	May	n.a.	n.a.	10.4
04-Jun						
HU	09:00	Industrial output, % yoy	Apr	9.3	n.a.	2.8



**Raiffeisen
RESEARCH**

RZB Group

and social transfers (including pensions) by 15%. Next week, the government is expected to take responsibility in Parliament for the two draft laws which implement these measures.

- **Croatia** – After the mild increase in industrial production in Q1 2010 (0.3%yoy), hopes for a further recovery suffered a setback with the latest data for April, as industrial output declined more than the market expected, falling 6.6% yoy, despite last year's relatively high base. Structurally, the biggest drop was recorded in the production of intermediary products. On a monthly basis, industrial production fell by 1.9%.
- **Russia** – The rouble market is set to stabilise around 34.20-34.50 vs. the dual currency basket. We expect government rouble yields to inch

down in the coming days, especially in the belly of the curve (2s10s). However, oil price volatility and global stock markets continue to set the mood for the rouble. Thus, the risk of the rouble slipping to above 34.80 vs. the basket again remains credible in the present market.

- **Turkey** – The lira was harder hit than we expected (as the situation with the Eurozone also developed more adversely). In a renewed wave of risk aversion, the level of USD/TRY 1.60 may be easily tested again and government bond yields could soar again. The Turkish banking sector is likely to prove resilient (as in the 2008/2009 crisis). Contagion via lower exports to Europe is a potential threat, but it has yet to be seen if and how much Eurozone growth will be affected.

Recently closed trades

Recommendation	Entry date	Entry level	Close date	Close level	Total return	Comment
SELL EUR/PLN (long PLN)	10/05/10	4.023	11/05/10	4.05	-0.66%	Stopped out
SELL BASKET/RUB (long RUB)	10/05/10	34.1812	21/05/10	34.67	-1.43%	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

27/05/2010	Maturity	Coupon %	Ask price	YTM %	Spread to bunds (bp)	MDuration
Poland						
PLN 2y Gov. Bond	25/ Oct 12	0.00	89.92	4.52	409	2.4
PLN 5y Gov. Bond	25/ Apr 15	5.50	101.13	5.23	370	4.4
PLN 10y Gov. Bond	25/ Oct 20	5.25	95.64	5.82	315	8.0
PLN 20y Gov. Bond	25/ Apr 29	5.75	97.92	5.94	259	11.9
Hungary						
HUF 3y Gov. Bond	24/ Oct 13	7.50	103.53	6.30	565	3.0
HUF 5y Gov. Bond	12/ Feb 16	5.50	93.80	6.84	531	5.0
HUF 10y Gov. Bond	24/ Jun 19	6.50	95.12	7.25	458	6.7
HUF 15y Gov. Bond	24/ Nov 23	6.00	89.49	7.24	391	9.1
Czech Republic						
CZK 2y Gov. Bond	18/ Oct 12	3.55	104.15	1.75	132	2.3
CZK 5y Gov. Bond	11/ Apr 15	3.80	104.55	2.79	127	4.5
CZK 10y Gov. Bond	12/ Sep 20	3.75	96.50	4.17	151	8.5
CZK 15y Gov. Bond	25/ May 24	5.70	112.70	4.46	113	10.3
Croatia						
HRK 5y Gov. Bond	11/ Jul 13	4.50	98.85	4.90	317	2.9
HRK 10y Gov. Bond	8/ Feb 17	4.75	94.00	5.85	318	5.8
Romania						
RON 3y Gov. Bond	25/ Oct 10	6.00	99.75	6.52	587	0.4
RON 5y Gov. Bond	5/ Mar 12	6.50	100.12	6.40	489	1.7
Russia						
RUB 2y Gov. Bond	19/ Sep 12	10.80	109.80	6.28	585	2.1
RUB 5y Gov. Bond	17/ Dec 14	11.20	116.50	7.13	561	3.7
RUB 10y Gov. Bond	29/ Aug 18	8.00	99.50	7.32	465	4.1
RUB 30y Gov. Bond	6/ Feb 36	6.90	94.00	7.57	420	11.5
Turkey						
TRY 2y Gov. Bond	25/ Jan 12	0.00	86.61	9.03	854	1.7
TRY 5y Gov. Bond	6/ Aug 14	11.00	103.75	10.12	860	3.3
TRY 10y Gov. Bond	15/ Jan 20	10.50	100.25	10.71	804	6.3

Source: Thomson Thomson Reuters, Raiffeisen RESEARCH

Bond auctions

Bond auctions		ISIN	Coupon	Maturity	Volume
03-Jun					
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

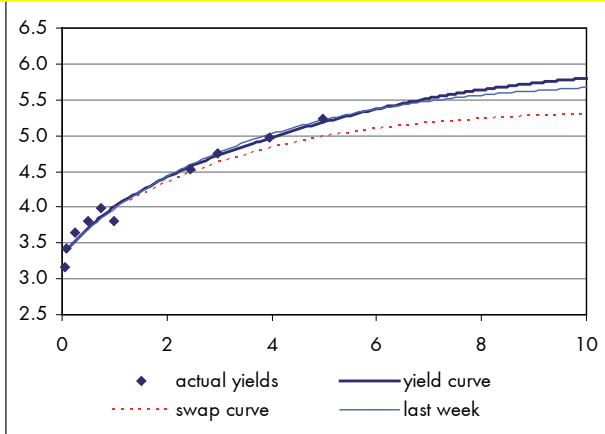
Poland

No surprises from the MPC

(P)review of key economic figures/events

25 May 10	NBP rate decision, %	May 3.5 (Apr 3.5)
26 May 10	Retail sales, % yoy	April -1.6 (Mar 8.7)
31 May 10	GDP, % yoy	Q1 2.9 (Q4 3.3)

PL yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

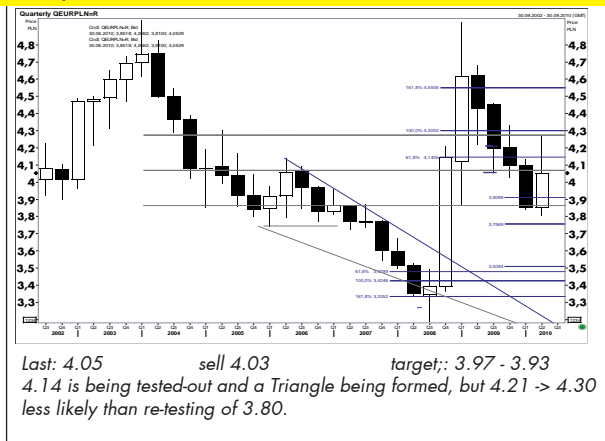
Money market focus

MM rates	1m	3m	6m	12m
Actual	3.42	3.65	3.80	4.05
Change from last week	0.01	0.00	0.00	-0.01
Forecast Jun-10	3.60	3.70	3.78	3.70
Forward rates	3x6	6x9	9x12	
	3.97	4.33	4.20	
Change from last week	0.00	0.00	-0.04	

Bond market focus

	2y	5y	10y	20y
Actual	4.52	5.23	5.82	5.94
Change from last week	-0.12	-0.05	0.16	0.03
Forecast Jun-10	4.30	4.80	5.30	5.80
Spread to bunds	408.9	370.4	314.7	258.6
Change from last week	1.4	-6.7	15.6	8.3
Spread to swaps	-15.7	-17.2	-42.7	

EUR/PLN



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral PLN T-bonds

Market comment

The rate decision by the MPC did not come as a surprise, as key interest rates remained unchanged again. The comments by the MPC accompanying the decision were more or less the same as after the previous rate-setting meetings. Inflation risks are still balanced according to the MPC, thus confirming again the informal neutral monetary policy stance. This time, there was no comment in the statement on the recent zloty volatility, but Jan Winiecki the interim head of the MPC, said that the current zloty weakness can be seen as "favourable". April figures for retail sales disappointed this time with -1.6% yoy growth, the first negative reading since 2005.

Market outlook

We think that the dip in retail sales is rather temporary and has to do with the Smolensk catastrophe and the week afterwards. We expect positive year-on-year growth rates in the months ahead. The discussion about exchange rate management by the NBP and the MoF intensified this week. The accepted corridor of 3.80 – 3.85 and 4.20, suggested by an MPC member and implying a managed float, was denied by others. The discussion only reveals the split opinions on the current exchange movements among MPC members and will most likely continue as long as zloty volatility prevails. We think that the current yield levels may be a good buying opportunity, but with the exchange rate risk being high, we prefer to remain with our short-term "neutral" recommendation for Polish bonds.

Analyst: Marcin Kopaczynski (+43 1 717 07 1423)

Exchange rate focus

	actual	Jun-10	Sep-10	Dec-10
EUR/PLN	4.10	3.80	3.75	3.65
Change from last week	0.4%			
USD/PLN	3.34	3.17	3.00	3.04
Change from last week	-0.8%			

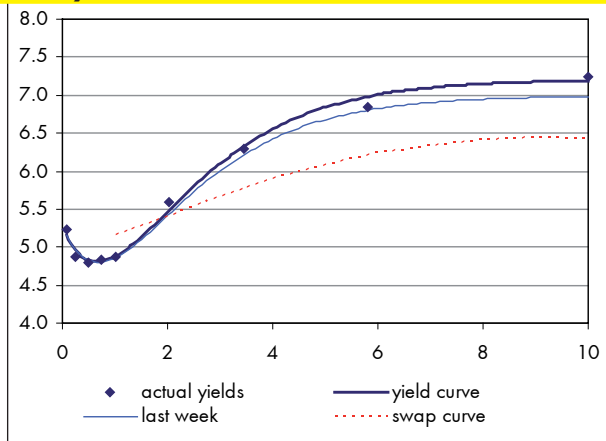
Hungary

End of the rate cutting cycle?

(P)review of key economic figures/events

27 May 10	Unemployment rate, %	Apr 11.8 (Mar 11.8)	
31 May 10	Monetary council meeting, %	May 5.25 (Apr 5.25)	No interest rate cut expected
04 Jun 10	Industrial output, % yoy	Apr 9.3 (Mar 2.8)	

HUF yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral HUF T-bonds

Market comment

International market tensions resulted in temporary forint weakness in May, but the calming in general sentiment sent EUR/HUF towards our June and September target of 275. The short end of the HGB yield curve remained almost unchanged while the long end crawled up slightly by some 10bp. According to the latest statements of the prospective economic minister (Matolcsy), there is no room for fiscal loosening this year and the aim is to reduce the debt levels of Hungary, which is a positive message to the market. At the same time, raising this year's deficit target (3.8%) is out of question and this is going to be a risk factor for Hungary, if the global environment deteriorates. We are still lacking the specific measures of the new government's economic programme, as we only know the directions and are waiting for details coming in the next months.

Money market focus

MM rates	1m	3m	6m	12m
Actual	5.24	5.23	5.18	5.18
Change from last week	-0.01	0.00	-0.01	0.00
Forecast Jun-10	5.2	5.0	5.0	4.9

Bond market focus

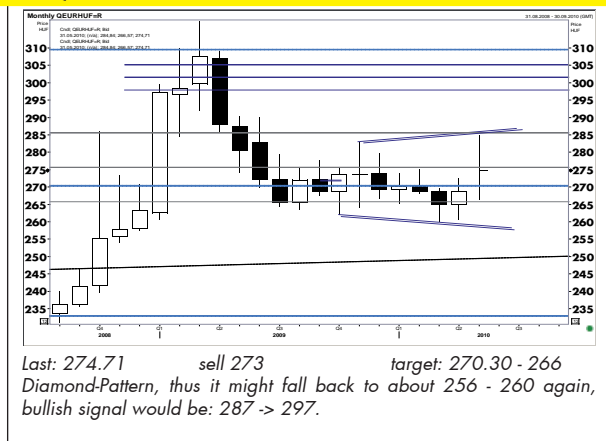
	3y	5y	10y	15y
Actual	6.30	6.84	7.25	7.24
Change from last week	0.13	0.12	0.24	0.21
Forecast Jun-10	6.0	6.3	7.0	6.9
Spread to bunds	564.9	531.4	458.1	391.1
Change from last week	10.7	10.8	24.8	25.0

Market outlook

We expect that the rate-cutting cycle of the National Bank of Hungary for last 10 months is going end next Monday (31. May) as global sentiment has deteriorated rapidly in the recent past, causing higher HUF volatility and weakening. However, another 25-bp cut cannot be ruled out and we can be sure that some dovish Monetary Council members are going to vote for further loosening. The upcoming economic minister would like to see the base rate at 4.5% (another 75bp cut), but we anticipate only 25-bp cut in Q3, thus, the key rate closing the year at 5%. We stick to our neutral recommendation for HGBs and have a neutral view on EUR/HUF.

Analyst: Mátyás Kovács (+ 36 148 44874)
Wolfgang Ernst (+43 1 717 07 1500)

EUR/HUF



Source: Thomson Reuters, Raiffeisen RESEARCH

Exchange rate focus

	actual	Jun-10	Sep-10	Dec-10
EUR/HUF	277.01	275.0	275.0	270.0
Change from last week	1.1%			
USD/HUF	226.06	229.2	220.0	225.0
Change from last week	-0.1%			

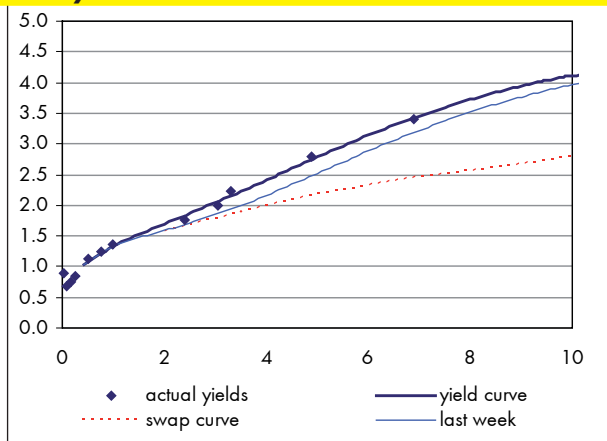
Czech Republic

Difficult political negotiations ahead

(P)review of key economic figures/events

17 May 10	Current account balance, CZK bn	Mar -12.6 (Feb 10.3)	Strong dividend outflows and negative balance of services
28-29 May	Elections to the Lower House of Parliament		High uncertainty about possible coalition options

CZK yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Money market focus*

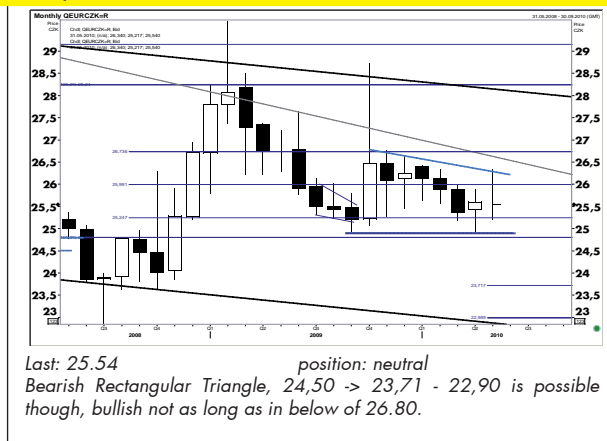
MM rates	1m	3m	6m	12m
Actual	0.67	0.85	1.13	1.35
Change from last week	-0.03	-0.02	0.01	-0.01
Forecast Jun-10	1.0	1.1	1.3	1.6
Forward rates	1x2	3x6	6x9	9x12
	0.83	1.41	1.46	1.67
Change from last week	-0.05	0.04	-0.02	-0.04

Bond market focus*

	2y	5y	10y	15y
Actual	1.75	2.79	4.17	4.46
Change from last week	0.22	0.27	0.12	0.08
Forecast Jun-10	1.2	3.3	4.4	4.8
Spread to bunds	132.0	126.8	150.5	113.1
Change from last week	20.2	25.4	12.6	12.0
Spread to swaps	-2.0	-46.6	-123.0	n.a.

* forecasts under revision

EUR/CZK



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral CZK T-bonds

Market comment

Over the past days the Czech koruna (CZK) mostly followed the regional sentiment as did government bond yields. The rating agencies Moody's and Fitch both stated that the risks of a downgrade of their sovereign rating for the Czech Republic is approximately the same as the chance for an upgrade. The latter should be the goal for the next government. Moody's also said it would want to see a credible plan for improving the perspective of public finances. The recent government bond auction (9-year maturity) attracted solid demand of CZK 10.5 bn with a bid-cover ratio of 1.5.

Market outlook

The outcome of the parliamentary election on 28-29 May will be the key domestic topic for the Czech market over the coming weeks. There are many possible scenarios depending on the result of the new parties (Public Affairs and Top 09) that are likely to win seats in parliament. Also it remains to be seen if the Christian Democrats and the Greens will be able to get over the 5% threshold. Social Democrats have held a clear lead in the polls ahead of ODS. However, Social Democrats might not be able to secure the necessary majority. Also the probability of another stalemate similar to the 2006 elections is high. From the market point of view there are two scenarios that would likely be perceived as bad. The first is a stalemate followed by an extended period of uncertainty. The second is a minority government of Social Democrats tolerated by the Communists. Other scenarios would likely be perceived a positive for the CZK and government bonds. Given the high uncertainty about the outcome we maintain our neutral short-term recommendation for Czech government bonds.

Analysts: Michal Brozka (+420 221 141 498)
 Walter Demel (+43 1 71707 1526)

Exchange rate focus

	actual	Jun-10	Sep-10	Dec-10
EUR/CZK	25.56	25.4	24.8	25.0
Change from last week	1.4%			
USD/CZK	20.76	21.2	19.8	20.8
Change from last week	1.2%			

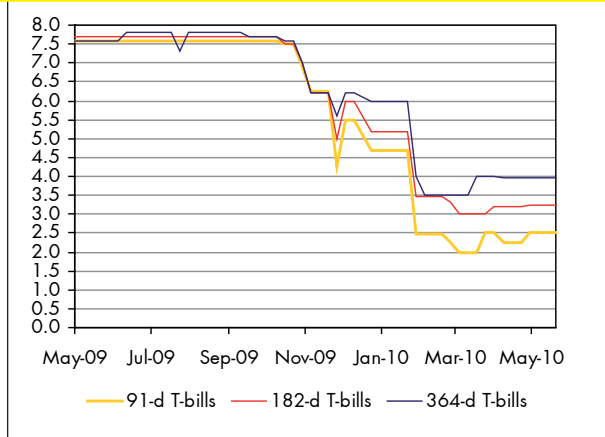
Croatia

Industry heading for a downturn again

(P)review of key economic figures/events

31 May 10	Imports, EUR bn	Apr 1294 (Mar 1311)
31 May 10	Exports, EUR bn	Apr 643 (Mar 782)
31 May 10	Retail sales, % yoy	Apr -5.3 (Mar -2.8)

Interest rates on T-bills



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral EUR/HRK

Market comment

After the mild increase in industrial production in Q1 2010 (0.3%yoy), hopes for a further recovery suffered a setback with the latest data for April, as industrial output declined more than the market expected, falling 6.6% yoy, despite last year's relatively high base. Structurally, the biggest drop was recorded in the production of intermediary products. On a monthly basis, industrial production fell by 1.9%. The renewed negative trends in industry are the result of extremely sluggish domestic demand, while foreign demand, which pushed the industry in the first quarter, has still not fully recovered and hence its impact on the domestic economy is negative. Industry might start to recover in H2 2010 with a more visible revival of domestic demand (depending primarily on the results of the main tourist season), but industrial production growth for the whole year will remain below 1%.

For this Friday the CNB announced the first release of Croatian GDP for Q1 2010. After the fall of 4.5% yoy in Q4 2009 we expect the negative trends to continue in Q1. Our expectations are supported by the continuation of the negative trends in retail trade, further contraction of construction, weak improvement in industry and a very probable decline in government consumption.

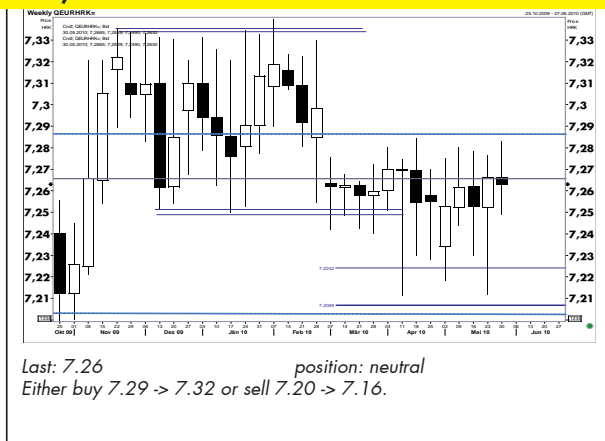
Money market focus

	1m	3m	6m	12m
ZIBOR actual	1.31	2.30	3.16	3.95
Change from last week	-0.13	-0.02	-0.07	-0.01
T-bills actual	n.a.	2.50	3.25	3.95

Exchange rate focus

	actual	Jun-10	Sep-10	Dec-10
EUR/HRK	7.265	7.32	7.30	7.32
Change from last week	0.2%			
USD/HRK	5.89	6.10	5.84	6.10
Change from last week	-1.0%			

EUR/HRK



Source: Thomson Reuters, Raiffeisen RESEARCH

Market outlook

The mood on the domestic FX market was calm this week. EUR/HRK was very stable, but at slightly higher levels than in the previous weeks, hovering steadily around 7.27. Relatively low trading volumes contributed to the stability. At the weekly level, the rate should stay at the present levels with the possibility of falling only slightly, towards 7.26. Over a one-month period, the expected inflow of euro from quasi-sovereign external borrowing should create appreciation pressures on the kuna. Nevertheless, the high need for refinancing of external liabilities will keep the rate from falling below 7.25.

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

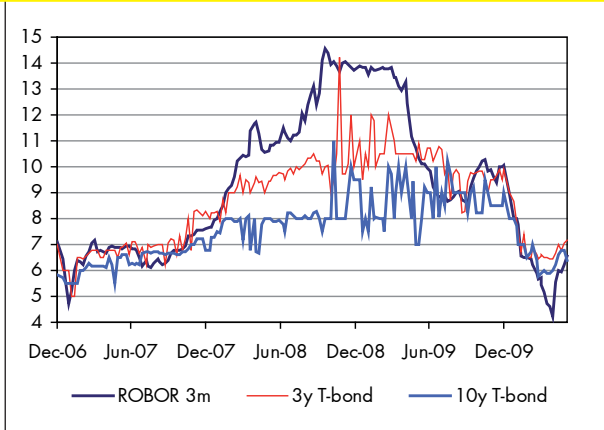
Romania

Waiting for the no-confidence vote

(P)review of key economic figures/events

01 Jun 10	Official FX reserves, EUR bn	May n.a. (Apr 32.4)	
02 Jun 10	PPI, % yoy	Apr 4.7 (Mar 4.5)	
03 Jun 10	GDP, % yoy	Q1 -2.6 (Q4 -6.5)	Breakdown by components

ROBOR 3m & T-bond yields (%)



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral RON T-bonds

Market comment

On Wednesday, the government approved the letter of intent to be sent to the IMF for approval. Among the key measures, the government pledged to reduce public sector wages by 25% and social transfers (including pensions) by 15%. Next week, the government is expected to take responsibility in Parliament for the two draft laws which implement these measures. It is sure that the two opposition parties will call for a no-confidence vote on the government. Labour unions in the public sector also announced major protests next week. Although the government is backed by a slight majority in the Parliament, passing the austerity laws could prove not to be easy. We think next week's developments should receive increasing attention. Details on the dynamics of GDP components in the first quarter are also expected to be made public on 3 June.

Money market focus

MM rates	1m	3m	6m	12m
Actual	6.58	6.57	6.52	6.52
Change from last week	0.33	0.32	0.21	0.20
Forecast Jun-10	5.3	5.5	5.5	5.6
Implicit forward rates	3x6	6x9	9x12	
	6.52	6.43	6.39	
Change from last week	0.10	0.15	0.22	

Bond market focus

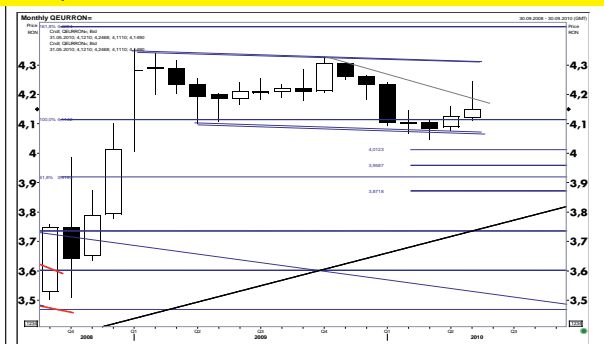
	2y	3y	5y	10y
Actual	5.75	7.14	7.20	6.40
Change from last week	-0.25	0.06	-0.08	-0.36
Forecast Jun-10	6.30	6.40	6.50	6.00
Spread to bunds	531.8	648.8	567.8	373.2
Change from last week	-26.2	-9.5	-36.5	-35.7

Market outlook

Developments on the external markets were the main drivers of the exchange rate, interest rates and bond yields in recent weeks. Improvement in sentiment on the external markets eased the pressures which had accumulated previously. This was seen especially in case of the exchange rate, which appreciated in recent days. However, uncertainty related to the ability of the government to implement the recently announced fiscal consolidation plan is high enough to justify the current higher level of bond yields. Accordingly, we don't expect the yields to fall in the coming period even though sentiment continues to improve on the external markets.

Analyst: Ionut Dumitru (+40 37 2211269)

EUR/RON



Last: 4.14 sell target: 4.1060 - 4.07
It should hit 4.30 and confirm bullishness, but it looks like it fell back to re-test its trend-channel at 4.07.

Source: Thomson Reuters, Raiffeisen RESEARCH

Exchange rate focus

	actual	Jun-10	Sep-10	Dec-10
EUR/RON	4.15	4.10	4.05	3.95
Change from last week	1.1%			
USD/RON	3.38	3.42	3.24	3.29
Change from last week	0.3%			

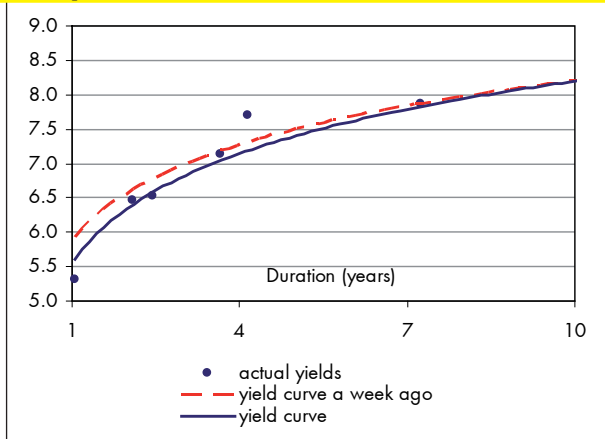
Russia

Growth strengthening, but investment weak

(P)review of key economic figures/events

No important data or market releases next week

RUB yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

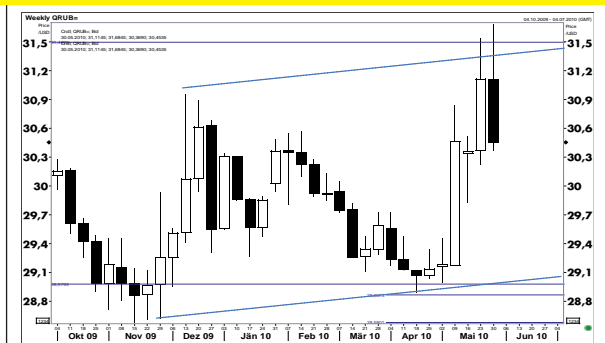
Money market focus

MM rates	1m	3m	6m	12m
Actual	4.71	5.13	6.63	7.67
Change from last week	-0.45	-0.52	-0.59	-0.05
Forecast Mar-10	3.91	4.21	4.56	n.a.
Forward rates	1x2	3x6	6x9	9x12
	5.23	8.27	n.a.	n.a.
Change from last week	-0.62	0.52	n.a.	n.a.

Bond market focus

	1y	2y	5y	15y
Actual	5.32	6.46	7.13	7.87
Change from last week	-0.14	-0.45	-0.35	-0.02
Forecast Mar-10	5.11	5.75	6.35	n.a.

USD/RUB



Last: 30.45 sell 30.20 target: 29.85 - 29.10
 Bearish reversal at the rising-resistance line, thus a drop to the support line is not off odds.

Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

We took losses on our rouble long trade vs. the basket at 34.67 which was our ultimate stop-loss limit. Extreme market volatility and the high dominance of external factors, i.e. oil price developments and world stock indices, make it impossible to maintain an investment recommendation, while we continue to believe in rouble appreciation to 32.50 vs. the basket, due to better fundamentals.

Market comment

Official statistics confirm our earlier prediction that the ongoing economic recovery is likely to speed up from Q2 onwards. According to Russia's Federal Statistical Services (Rosstat), April industrial output grew 10.4% yoy in its best showing since May 2006. The manufacturing sector led that trend with a 15.7% yoy expansion. April unemployment also dropped to 8.2% compared with 8.6% a month earlier. Real (inflation adjusted) average wages grew 6% yoy in April after just 3% growth in March. However the recovery process is not all smooth as indicated by slower investment activity in April. Housing completions in April added only 5.6% mom after a whopping 25.2% increase in March, and capital investment grew only 3.7% mom vs. 21% a month ago. Despite the strong seasonal pattern in the construction industry, we also tend to see the problem of sluggish lending. Recently, the Central Bank downgraded its forecast for loan growth in Russia from 15% to just 5%, blaming this drop on unexpectedly slow lending activity. While we expect substantially better growth in Q2 and Q3, the risk of slow investment growth may impose constraints on the economic recovery in Q4 2010 and beyond. So far our growth forecast for Russia reflects this paradigm with 5% growth for 2010 vs. 4.5% for 2011.

Market outlook

The rouble market is set to stabilise around 34.20-34.50 vs. the dual currency basket. We expect government rouble yields to inch down in the coming days, especially in the belly of the curve (2s10s).
 Analyst: Gintaras Shlizhyus (+43 1 71707 1343)

Exchange rate focus

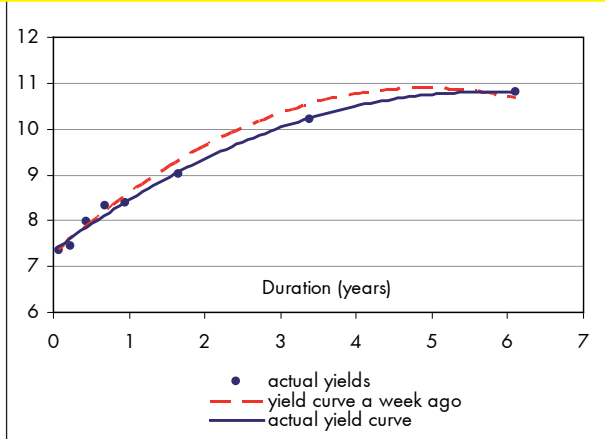
	actual	Jun-10	Sep-10	Dec-10
EUR/RUB	37.77	37.60	37.90	36.74
Change from last week	3.4%			
USD/RUB	30.48	29.60	28.08	29.39
Change from last week	2.0%			

Turkey Risk it!

(P)review of key economic figures/events

31 May 10	Trade balance, USD bn	Apr 5.5 (Mar 5.03)	
03 Jun 10	Consumer prices, % yoy	May 10.3 (Apr 10.2)	% mom: May 0.7 (Apr 0.6)
03 Jun 10	Producer prices, % yoy	May n.a. (Apr 10.4)	% mom: May n.a. (Apr 2.35)

TRY yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

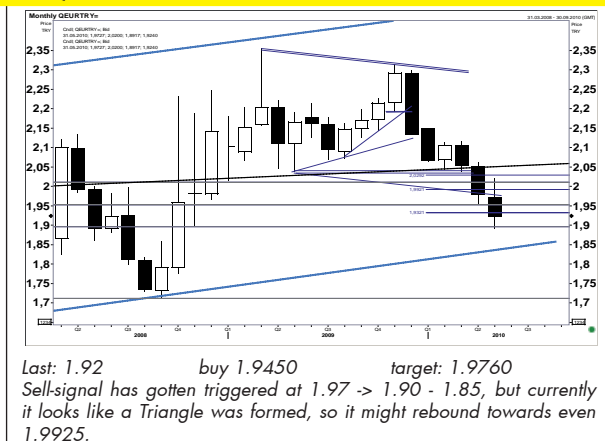
Money market focus

MM rates	1m	3m	6m	12m
Actual	7.00	7.35	8.10	9.00
Change from last week	0.00	0.00	0.09	0.09
Forecast Jun-10	7.00	7.40	8.10	9.00
Implied forward rates	1x2	3x6	6x9	9x12
	7.36	8.69	9.37	9.44
Change from last week	0.00	0.17	-0.05	0.23

Bond market focus

	1m	1y	2y	5y
Actual	7.34	8.39	9.02	10.20
Change from last week	0.12	-0.24	-0.36	-0.16
Forecast Jun-10	n.a.	9.00	9.50	10.50

EUR/TRY



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Underweight TRY bonds relative to the benchmark index

Market comment

Real sector indicators for May lost some momentum: after the 4pp increase last month capacity utilisation improved only 1.2pp to 73.4%. The CBT's real sector confidence indicator showed a drop of 3.1% to 115.1 points, but this is coming off a 3-year high. The sub-index for the next three months of output and export orders dropped the most, by 8.4% and 6.3% respectively. Thus, we think that the May PMI on 1 June will do likewise and drop a bit from April's level of 56 points. Nevertheless, the industrial production index for April (released on 8 June) will still show some (seasonally adjusted) monthly growth. Markets continued to be volatile, and the lira traded between 1.56 and 1.60, while the yield on 2y benchmark bonds came back to 9%. The ISE 100 equity index, which lost 10% since the begin of May, regained some territory towards the end of this week.

Market outlook

Regarding the contagion of the "Eurozone crisis" we see three channels: (short-term) capital, banking and real economy/trade channel. Given Turkey's open financial market, the first one is currently the most relevant. The lira was harder hit than we expected (as the situation with the Eurozone also developed more adversely). In a renewed wave of risk aversion, the level of USD/TRY 1.60 may be easily tested again and government bond yields could soar again. The Turkish banking sector is likely to prove resilient (as in the 2008/2009 crisis). Contagion via lower exports to Europe is a potential threat, but it has yet to be seen if and how much Eurozone growth will be affected. Generally, we still see the lira fundamentally stronger and would rather see some appreciation of the Turkish currency, given abating risk aversion.

Analyst: Andreas Schwabe (+43 1 71707 1389)

Exchange rate focus

	actual	Jun-09	Sep-09	Dec-09
EUR/TRY	1.92	1.84	1.96	1.78
Change from last week	0.6%			
USD/TRY	1.57	1.45	1.45	1.42
Change from last week	2.5%			

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	stable	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	63.0	1.3	112.8	26.6	6.3
	2011	3.5	3.2	9.8	805	-4.6	77.0	61.8	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	0.0	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	16.6	-5.2	98.3	23.3	8.2
	2010	-0.9	3.0	17.5	1058	-4.4	50.7	17.0	-5.4	104.4	22.3	8.4
	2011	2.5	3.3	16.5	1085	-3.6	50.3	17.8	-4.8	107.5	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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