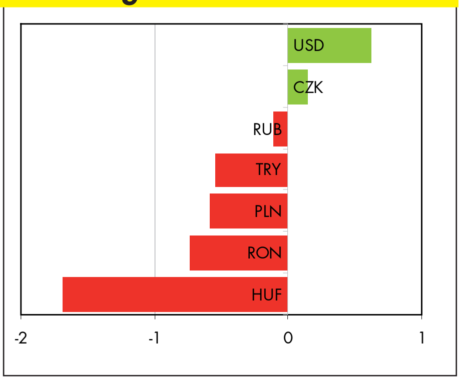
CEE Weekly
Bond Markets Outlook

Issue 22/2010

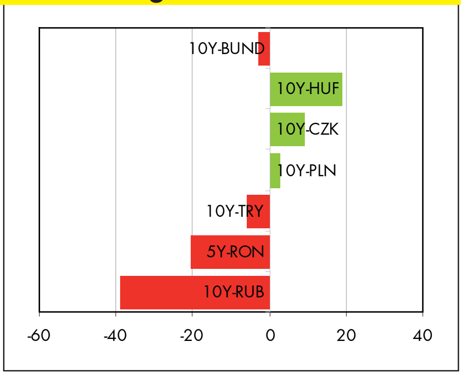
4 June 2010

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	4.11	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	274.0	275	275	270
1m-rate	5.3	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	25.8	25.4	24.8	25.0
1m-rate	0.7	1.0	1.2	1.5
5y bond	2.8	3.3	3.5	3.8
10y bond	4.0	4.4	4.4	4.6
Russia *				
RUB	30.9	30.5	29.2	30.0
1m-rate	3.6	3.9	3.9	3.9
5y bond	7.2	6.4	6.1	5.6
10y bond	7.2	6.7	6.2	6.3
USD	1.22	1.20	1.25	1.20

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

Recommendations (1-month horizon)

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

Highlights

- ***Poland*** – The GDP data for Q1 were in line with the market forecasts, with a growth rate of 3% yoy for the Polish economy. The structure of growth, however, did bring some surprises: one positive signal came from domestic demand, which was much stronger than expected, growing by 2.2% yoy in the first three months of 2010.
- ***Hungary*** – The new government is officially in power starting this week, although we still do not know the details of its economic program. The room for manoeuvre available to the new government will depend on the status of the budget, which is under investigation by a group of experts who are going to publish their preliminary report in the coming days. In the current global environment, there is no room for additional fiscal loosening, but overshooting this year's deficit target is not an option.
- ***Czech Republic*** – As we wrote in our comment earlier this week, the election result was quite surprising and allows for

Key upcoming events and data releases

Country	Time	Indicator	Period	Forecast	Range	Last
04-Jun						
RU	n.a.	CPI, % mom	May	0.3	0.3/0.4/0.5	0.3
RU	n.a.	CPI, % yoy	May	5.7	5.7/5.8/5.9	6.1
07-Jun						
PL	14:00	FX reserves, EUR bn	May	n.a.	n.a.	66.5
CZ	09:00	Foreign trade balance, CZK bn	Apr	13.0	n.a.	18.3
CZ	09:00	Retail sales, % yoy	Apr	-2.5	n.a.	3.9
CZ	09:00	Industrial output, % yoy	Apr	8.5	n.a.	10.2
08-Jun						
HU	09:00	Trade balance, EUR mn	Apr	590	n.a.	653
CZ	09:00	Unemployment, %	May	8.8	n.a.	9.2
RO	n.a.	Industrial output, % yoy	Apr	n.a.	n.a.	5.3
09-Jun						
HU	09:00	GDP	Q1	0.1	n.a.	-4.0
CZ	09:00	CPI, % mom	May	0.0	n.a.	0.3
CZ	09:00	CPI, % yoy	May	1.1	n.a.	1.1
CZ	09:00	Real GDP, % yoy	Q1	1.2	n.a.	-3.1
RU	n.a.	Trade balance, USD bn	Apr	14.0	10.5/14.6/16.0	15.0
10-Jun						
RO	n.a.	CPI, % yoy	May	4.4	n.a.	4.3
HR	n.a.	PPI, % mom	May	0.2	n.a.	0.6
HR	n.a.	PPI, % yoy	May	4.7	n.a.	5.1
11-Jun						
HU	09:00	CPI, % yoy	May	5.0	4.4/5.2/5.6	5.7

Raiffeisen RESEARCH
RZB Group

the formation of a strong center-right coalition government (ODS, TOP 09, Public Affairs). The news was positive for the Czech koruna (CZK). The coalition talks could, however, take weeks or even months.

- ***Romania*** – In Q1 2010, real GDP fell by 0.3% compared to Q4 2009 and by 2.6% compared to Q1 2009. Domestic private demand remained very weak. Household expenditure fell by 1.7% qoq and by 4.8% yoy. Gross fixed capital formation (investments) was 28.9% below its level one year ago. The statistical office's estimates showed that investments increased by 1.2% compared to Q4 2009.
- ***Croatia*** – Negative trends in retail trade intensified again in April: according to the CBS's first release, retail trade turnover fell by 8% yoy in real terms (7.8% yoy nominally), which represents a decline in the annual rate for the nineteenth month in a row. To some extent this came as a surprise for the market, which expected more favourable results considering high last year's base (retail trade fell 14.5% yoy in April 2009).
- ***Russia*** – Russia's central bank lowered its refinance rate and other key rates by another 25bp from 8% to 7.75% effective from 1 June, in a quest to stimulate lending activity. This was the fourth rate cut since the beginning of 2010. The bank praised lower inflation and the benign inflation outlook for the year as allowing it to move ahead with additional monetary easing, while citing the uncertain pace of the economic recovery and low credit growth as being the major reasons for the action.
- ***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
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 RU000A0D0G29)	23/04/10	100.45	06/05/10	98.6	-1.1%	Early stop-out
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

Source: Thomson Reuters, Bloomberg

Local currency bonds
Market overview

CEE local currency bond market snapshot

04/06/2010	Maturity	Coupon %	Ask price	YTM %	Spread to bunds (bp)	MDuration
			Poland			
PLN 2y Gov. Bond	25/ Oct 12	0.00	89.75	4.65	417	2.4
PLN 5y Gov. Bond	25/ Apr 15	5.50	100.97	5.27	370	4.4
PLN 10y Gov. Bond	25/ Oct 20	5.25	95.89	5.78	313	8.0
PLN 20y Gov. Bond	25/ Apr 29	5.75	98.12	5.92	258	11.9
			Hungary			
HUF 3y Gov. Bond	24/ Oct 13	7.50	103.74	6.22	557	3.0
HUF 5y Gov. Bond	12/ Feb 16	5.50	94.08	6.78	522	4.9
HUF 10y Gov. Bond	24/ Jun 19	6.50	95.20	7.24	458	6.6
HUF 15y Gov. Bond	24/ Nov 23	6.00	89.42	7.25	385	9.1
			Czech Republic			
CZK 2y Gov. Bond	18/ Oct 12	3.55	103.90	1.84	136	2.3
CZK 5y Gov. Bond	11/ Apr 15	3.80	104.35	2.82	128	4.5
CZK 10y Gov. Bond	12/ Sep 20	3.75	96.00	4.24	158	8.4
CZK 15y Gov. Bond	25/ May 24	5.70	112.30	4.49	109	10.2
			Croatia			
HRK 5y Gov. Bond	11/ Jul 13	4.50	99.04	4.84	307	2.8
HRK 10y Gov. Bond	8/ Feb 17	4.75	94.09	5.83	317	5.8
			Romania			
RON 3y Gov. Bond	25/ Oct 10	6.00	99.92	6.11	546	0.4
RON 5y Gov. Bond	5/ Mar 12	6.50	100.45	6.20	465	1.7
			Russia			
RUB 2y Gov. Bond	19/ Sep 12	10.80	110.28	6.02	554	2.1
RUB 5y Gov. Bond	17/ Dec 14	11.20	117.49	6.87	533	3.6
RUB 10y Gov. Bond	29/ Aug 18	8.00	100.70	7.01	436	4.2
RUB 30y Gov. Bond	6/ Feb 36	6.90	93.50	7.62	426	11.5
			Turkey			
TRY 2y Gov. Bond	25/ Jan 12	0.00	87.13	8.75	827	1.6
TRY 5y Gov. Bond	6/ Aug 14	11.00	106.60	9.27	772	3.3
TRY 10y Gov. Bond	15/ Jan 20	10.50	102.20	10.37	771	6.3

Source: Thomson Thomson Reuters, Raiffeisen RESEARCH

Bond auctions

Bond auctions		ISIN	Coupon	Maturity	Volume
09-Jun					
CZ	3y T-bond reopening	CZ0001002729	2.8%	16 Sep 2013	CZK 5 bn

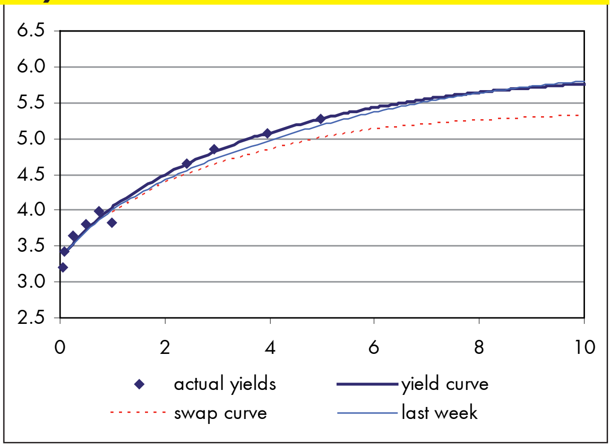
Poland

GDP grew by 3.0% yoy

(P)review of key economic figures/events

25 May 10	NBP rate decision, %	May 3.5 (Apr 3.5)
31 May 10	GDP, % yoy	Q1 3.0 (Q4 3.3)
07 Jun 10	FX reserves, EUR bn	May n.a. (Apr 66.5)

PL yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

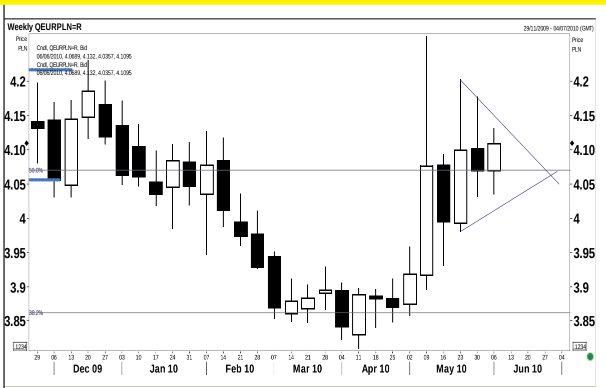
Money market focus

MM rates	***1m***	***3m***	***6m***	***12m***
Actual	***3.43***	***3.65***	***3.81***	***4.05***
Change from last week	0.01	0.00	0.01	0.00
Forecast Jun-10	3.60	3.70	3.78	3.70
Forward rates	***3x6***	***6x9***	***9x12***	
	3.99	4.31	4.20	
Change from last week	0.02	-0.02	0.00	

Bond market focus

	2y	***5y***	***10y***	***20y***
Actual	***4.65***	***5.27***	***5.78***	***5.92***
Change from last week	0.07	0.04	-0.03	-0.02
Forecast Jun-10	4.30	4.80	5.30	5.80
Spread to bunds	***416.6***	***370.2***	***312.6***	***257.5***
Change from last week	7.6	0.3	-3.3	-1.1
Spread to swaps	***-20.4***	***-17.2***	***-36.9***	

EUR/PLN



Last: 4.10 buy 4.15 target: 4.28 - 4.32
Triangle might result in a buy-signal, stop 4.0 -> 3.98 - 3.85.

Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral PLN T-bonds

Market comment

The GDP data for Q1 published on Monday were in line with the market forecasts, with a growth rate of 3% yoy for the Polish economy. The structure of growth, however, did bring some surprises: one positive signal came from domestic demand, which was much stronger than expected, growing by 2.2% yoy in the first three months of 2010. On the other hand, the influence of net exports (which was a significant growth driver in the previous quarters) diminished, as it only increased the Q1 result by 0.7pp. A major downside surprise came from investments, which decreased by 12.4% yoy, and apart from some of the fall explained by bad weather conditions, the data signal a cautious stance of Polish entrepreneurs. However, the overall outlook for the Polish economy remains positive, supporting our forecast of 2.9% yoy growth in 2010 as a whole.

Market outlook

This Wednesday, the Ministry of Finance held another successful auction of 2-year bonds. Once again demand outstripped supply by more than double. However, yields along the whole curve returned to higher levels compared to the April lows. With the nervousness on the market still at high levels and the zloty volatile due to higher risk aversion, our short-term "neutral" recommendation for Polish bonds remains unchanged.

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

Exchange rate focus

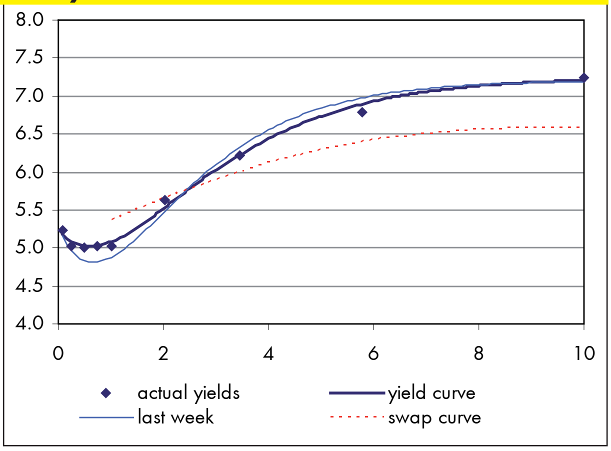
	actual	***Jun-10***	***Sep-10***	***Dec-10***
EUR/PLN	***4.11***	***3.80***	***3.75***	***3.65***
Change from last week	-0.1%			
USD/PLN	***3.36***	***3.17***	***3.00***	***3.04***
Change from last week	-0.5%			

Hungary
New government in power

(P)review of key economic figures/events

08 Jun 10	Trade balance, EUR mn	Apr 590 (Mar 653)	Detailed data
09 Jun 10	GDP, % yoy	Q1 10 0.1 (Q4 09 -4.0)	
11 Jun 10	CPI, % yoy	May 5.0 (Apr 5.7)	

HUF yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral HUF T-bonds

Market comment

The Monetary Council of the National Bank of Hungary left the base rate unchanged – in line with our expectations – after cutting the key rate for ten consecutive months. According to the central bank's governor, Andras Simor, the decision was supported by a convincing majority, although a 25 bp rate cut was also considered. The verdict was argued by the council amidst a deteriorating risk assessment and inflation outlook in Hungary. The NBH also published its quarterly inflation report this week, forecasting 0.9% GDP growth for 2010 and rapidly accelerating economic performance for the coming years – 3.2% in 2011 and 3.9% in 2012. Nevertheless, the NBH's CPI forecast was revised upwards to 4.9% this year and 3% next year, which is closer to our forecasts (4.6% in 2010 and 3.7% in 2011).

Money market focus

MM rates	***1m***	***3m***	***6m***	***12m***
Actual	***5.24***	***5.23***	***5.20***	***5.21***
Change from last week	0.00	0.00	0.02	0.03
Forecast Jun-10	***5.2***	***5.0***	***5.0***	***4.9***

Market outlook

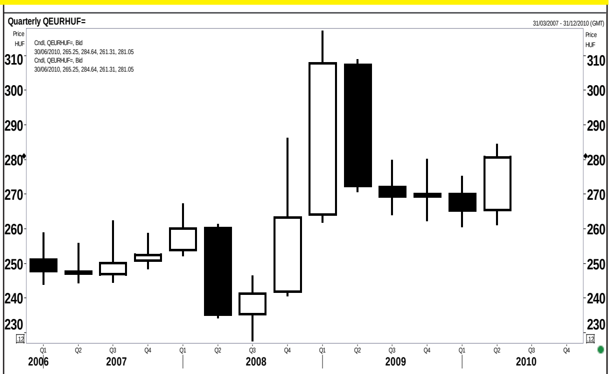
The new government is officially in power starting this week, although we still do not know the details of its economic program. The room for manoeuvre available to the new government will depend on the status of the budget, which is under investigation by a group of experts who are going to publish their preliminary report in the coming days. In the current global environment, there is no room for additional fiscal loosening, but overshooting this year's deficit target is not an option. As a result, the domestic risk environment is deteriorating, making our view on the HUF and Hungarian government bond market less than optimistic, and we would suggest staying on the sidelines for the time being.

Bond market focus

	3y	***5y***	***10y***	***15y***
Actual	***6.22***	***6.78***	***7.24***	***7.25***
Change from last week	-0.08	-0.06	-0.01	0.01
Forecast Jun-10	6.0	6.3	7.0	6.9
Spread to bunds	***557.1***	***521.6***	***458.3***	***384.6***
Change from last week	-7.2	-9.3	0.5	-6.0

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

EUR/HUF



Last: 281.25 buy 285 target: 305
Looks like a bullish reversal, stop 260 -> 250.

Source: Thomson Reuters, Raiffeisen RESEARCH

Exchange rate focus

	actual	***Jun-10***	***Sep-10***	***Dec-10***
EUR/HUF	***274.03***	***275.0***	***275.0***	***270.0***
Change from last week	1.1%			
USD/HUF	***222.82***	***229.2***	***220.0***	***225.0***
Change from last week	1.5%			

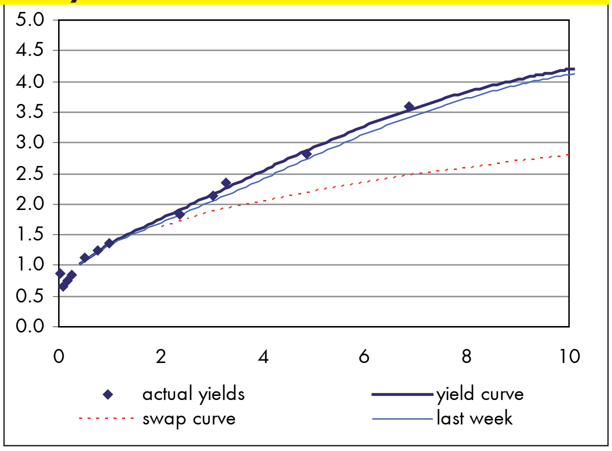
Czech Republic

New government could be close

(P)review of key economic figures/events

28-29 May	Elections to the Lower House of Parliament		Surprisingly clear victory of centre-right parties
07 Jun 10	Foreign trade balance, CZK bn	Apr 13.0 (Mar 18.3)	
09 Jun 10	CPI, % yoy	May 1.1 (Apr 1.1)	

CZK yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Money market focus*

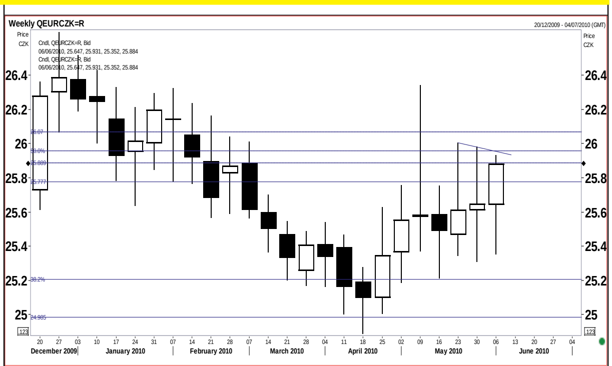
MM rates	***1m***	***3m***	***6m***	***12m***
Actual	***0.65***	***0.85***	***1.13***	***1.35***
Change from last week	-0.02	0.00	0.00	0.00
Forecast Jun-10	1.0	1.1	1.3	1.6
Forward rates	***1x2***	***3x6***	***6x9***	***9x12***
	0.83	1.41	1.46	1.67
Change from last week	0.00	0.00	0.00	0.00

Bond market focus*

	2y	***5y***	***10y***	***15y***
Actual	***1.84***	***2.82***	***4.24***	***4.49***
Change from last week	0.09	0.04	0.06	0.03
Forecast Jun-10	1.2	3.3	4.4	4.8
Spread to bunds	***136.1***	***127.5***	***158.0***	***109.0***
Change from last week	4.0	1.3	7.8	-3.6
Spread to swaps	***-15.2***	***-53.9***	***-129.5***	***n.a.***

** forecasts under revision*

EUR/CZK



Last: 25.88 buy 26.00 target: 26.34
Triangle, buy-signal might get triggered, stop 25.70 -> 25.40.

Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral CZK T-bonds

Market comment

As we wrote in our comment earlier this week, the election result was quite surprising and allows for the formation of a strong center-right coalition government (ODS, TOP 09, Public Affairs). The news was positive for the Czech koruna (CZK). The coalition talks could, however, take weeks or even months. Therefore uncertainty about the actual measures that will be implemented by the new government is still high, in part because there will probably be 2 newly created political parties in the coalition (TOP 09 and Public Affairs). Should the coalition talks be successful and bring forward credible plans for fiscal and other reforms, that should give a boost to the CZK and Czech government. However, with regards to the bond market the time of higher borrowing requirements has come closer. For the third quarter 2010 the Ministry of Finance announced an issuing plan amounting to CZK 52 bn, which is close to the volume issued in the whole first half of this year.

Market outlook

The growing amount of CZK government bond supply could push bond yields higher. However, current level of bond yields and spreads to German bunds do not seem favorable for selling in the short-term, as the global risk aversion is already quite high and the domestic political development could be rather supportive for the bond market. Therefore, 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	***25.76***	***25.4***	***24.8***	***25.0***
Change from last week	-0.8%			
USD/CZK	***21.00***	***21.2***	***19.8***	***20.8***
Change from last week	-1.1%			

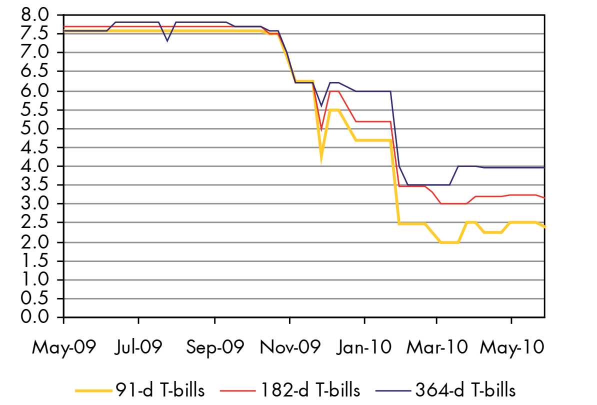
Croatia

Retail trade still far from recovery

(P)review of key economic figures/events

31 May 10	Foreign trade balance, EUR mn	Apr -598 (Mar -521)
10 Jun 10	PPI, % mom	May 0.2 (Apr 0.6)
10 Jun 10	PPI, % yoy	May 4.7 (Apr 5.1)

Interest rates on T-bills



Source: Thomson Reuters, Raiffeisen RESEARCH

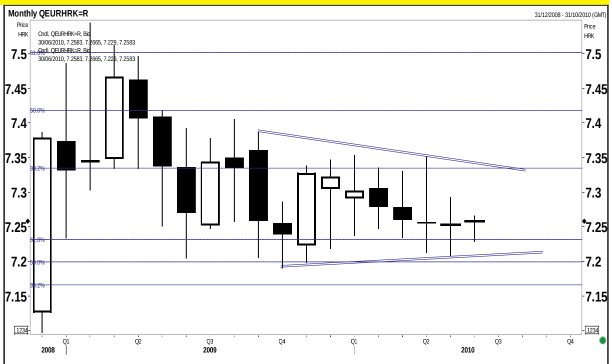
Money market focus

	1m	3m	6m	12m
ZIBOR actual	***1.30***	***2.32***	***3.21***	***4.00***
Change from last week	-0.01	0.02	0.05	0.05
T-bills actual	***n.a.***	***2.40***	***3.15***	***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	0.1%			
USD/HRK	***5.99***	***6.10***	***5.84***	***6.10***
Change from last week	1.7%			

EUR/HRK



Last: 7.25 buy 7.30 target: 7.34
Triangle, falling-resistance line of which should get tested, sell 7.18 -> 7.1650 - 7.10.

Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral EUR/HRK

Market comment

Negative trends in retail trade intensified again in April: according to the CBS's first release, retail trade turnover fell by 8% yoy in real terms (7.8% yoy nominally), which represents a decline in the annual rate for the nineteenth month in a row. To some extent this came as a surprise for the market, which expected more favourable results considering high last year's base (retail trade fell 14.5% yoy in April 2009). But unfavourable developments on the labour market prevailed, causing more consumer pessimism and an even bigger fall in retail trade.

In the months ahead, we still do not expect a recovery in retail trade. Consumers have adjusted their habits to the uncertainty of future incomes, resulting in the postponement of purchases of durable goods. Some initial positive movements can be expected in H2 2010. Because a successful tourist season would surely contribute to a recovery in retail trade, while the repealing of the so-called crisis tax could have a favourable psychological effect on consumers. On the other hand, the already announced increases in administratively set prices (especially the price of electricity) could nullify the positive impact of repealing the crisis tax. The government's stabilisation measures will prompt a recovery in the domestic economy, but their impact is expected to unfold with a certain time lag. Considering all of the aforementioned factors, for the whole year we expect the decline in retail trade to amount to more than 2.5%.

Market outlook

EUR/HRK should remain between 7.25 and 7.27. At a monthly level, we expect the appreciation pressures on kuna to prevail, especially as the main tourist season is approaching, but seasonal effects will not be as strong as in previous years. Appreciation pressures should also be supported by the inflow of euros from expected quasi-sovereign external borrowing.

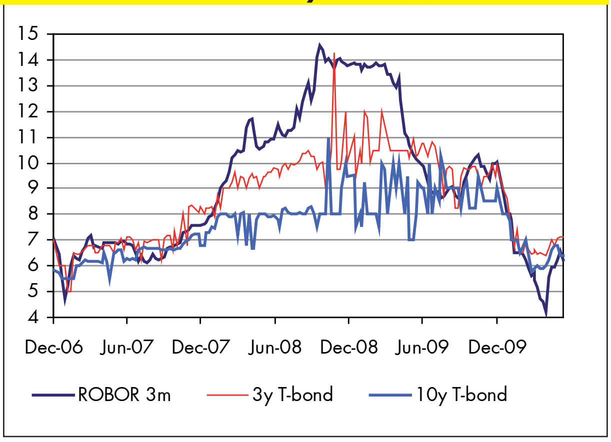
Analysts: Ivana Juric (+385 1 61 74 349)
Zrinka Zivkovic-Matijevic (+385 1 61 74338)

Romania
Consumption shrinking

(P)review of key economic figures/events

03 Jun 10	GDP, % yoy	Q1 -2.6 (Q4 -6.5)	Breakdown by components
08 Jun 10	Industrial output, % yoy	Apr n.a. (Mar 5.3)	
10 Jun 10	CPI, % yoy	May 4.4 (Apr 4.3)	

ROBOR 3m & T-bond yields (%)



Source: Thomson Reuters, Raiffeisen RESEARCH

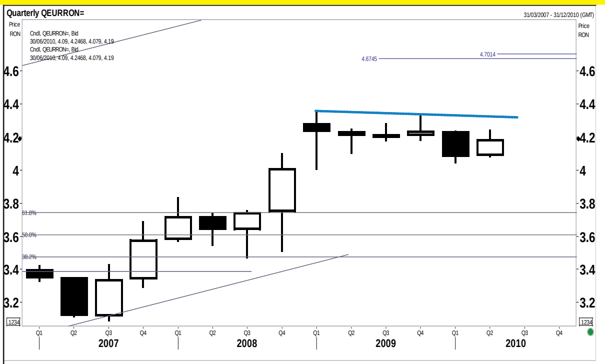
Money market focus

MM rates	***1m***	***3m***	***6m***	***12m***
Actual	***6.11***	***6.26***	***6.34***	***6.35***
Change from last week	-0.47	-0.31	-0.18	-0.17
Forecast Jun-10	5.3	5.5	5.6	5.6
Implicit forward rates	***3x6***	***6x9***	***9x12***	
	6.47	6.32	6.20	
Change from last week	-0.05	-0.12	-0.19	

Bond market focus

	2y	***3y***	***5y***	***10y***
Actual	***5.55***	***7.11***	***7.12***	***6.39***
Change from last week	-0.20	-0.03	-0.08	-0.01
Forecast Jun-10	6.30	6.40	6.50	6.00
Spread to bunds	***506.9***	***646.4***	***555.9***	***373.1***
Change from last week	-25.0	-11.4	-1.3	0.2

EUR/RON



Last: 4.19 buy target: 4.30 - 4.70
Main resistance at 4.30 should get crossed, the all-time high at 4.3530 either, unless action is taken.

Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral on RON Bonds

Market comment

The flash GDP data released last month were confirmed by second estimates released yesterday. In Q1 2010, real GDP fell by 0.3% compared to Q4 2009 and by 2.6% compared to Q1 2009. The dynamics of the main components were largely in line with our expectations. Domestic private demand remained very weak. Household expenditure fell by 1.7% qoq and by 4.8% yoy. Gross fixed capital formation (investments) was 28.9% below its level one year ago. The statistical office's estimates showed that investments increased by 1.2% compared to Q4 2009. Given that construction output (which accounts for around 40% of total investments) fell by 5.9% qoq, the positive quarterly growth rate of investments can only be attributed to an increase in investments in equipment and machinery (the second major component). Negative quarterly growth rates were recorded for industry (-0.2% qoq), construction (-5.9% qoq) and agriculture (-4.3% qoq). Surprisingly, the gross value added in the services sector advanced by 1.1% qoq (with the main drivers being financial intermediation and the retail and wholesale segments). Looking forward, the news is not very good. Retail sales fell again in April (-1.6% mom), while household confidence fell sharply in May. This points to low consumption in Q2 as well, which is negative for GDP. In addition, the cuts in pensions and wages in the public sector will likely have a negative impact on GDP in the last two quarters of the year.

Market outlook

We do not expect any important moves on the bond market over the short term. However, the no-confidence vote against the government expected for next week should be closely monitored.

Analyst: Ionut Dumitru (+40 37 2211269)

Exchange rate focus

	actual	***Jun-10***	***Sep-10***	***Dec-10***
EUR/RON	***4.19***	***4.10***	***4.05***	***3.95***
Change from last week	-0.8%			
USD/RON	***3.41***	***3.42***	***3.24***	***3.29***
Change from last week	-0.7%			

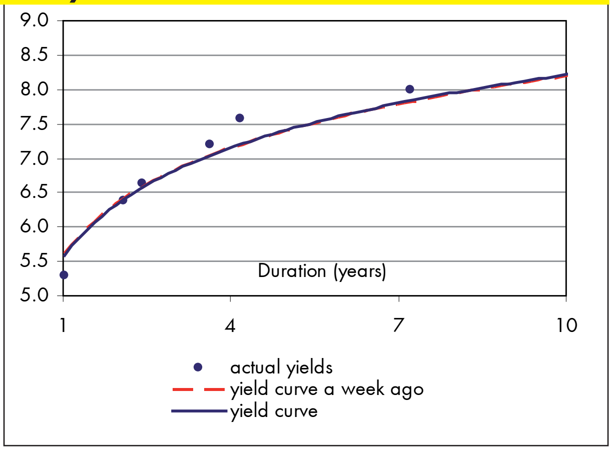
Raiffeisen RESEARCH
RZB Group

Russia
Rate cuts continue

(P)review of key economic figures/events

04 Jun 10	CPI, % mom	May 0.3 (Apr 0.3)
04 Jun 10	CPI, % yoy	May 5.7 (Apr 6.1)
09 Jun 10	Trade balance, USD bn	Apr 14.0 (Mar 15.0)

RUB yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

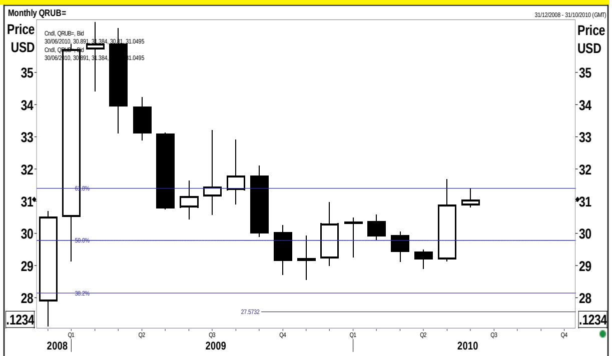
Money market focus

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	***5.30***	***6.39***	***7.20***	***7.99***
Change from last week	-0.02	-0.08	0.08	0.12
Forecast Mar-10	***5.11***	***5.75***	***6.35***	***n.a.***

USD/RUB



Last: 31.04 sell target: 30.60
Triangle at the Fibo, i.e. 31.40, so it might fall back to 30.60 - 30.30 or either trigger a buy at 32 -> 33.40.

Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Weakness in the global equity markets and increased purchases of FX in local market exerted more downward pressure on the rouble. We expect the rouble to stay within 33.80-34.15 vs. the basket, but cannot exclude further rouble weakening to 34.50-34.65, if the equity markets go down more.

Market comment

Russia's central bank lowered its refinance rate and other key rates by another 25bp from 8% to 7.75% effective from 1 June, in a quest to stimulate lending activity. This was the fourth rate cut since the beginning of 2010. The bank praised lower inflation and the benign inflation outlook for the year as allowing it to move ahead with additional monetary easing, while citing the uncertain pace of the economic recovery and low credit growth as being the major reasons for the action. Last week, the bank said it had lowered the 2010 forecast for credit growth in Russia from 15% to just 5%, blaming local banks for their inability to boost credit availability to the real sector. The bank maintained the dovish tone in its policy statement, leaving room for further rate cuts.

Market outlook

The rouble extended its earlier losses against the dual currency basket, while government market yields saw little change. The mild market reaction is logical considering that the market was already expecting a 25bp rate cut in the short-term perspective, while market consensus sees a maximum of another 25bp rate cut, after which the bank will be expected to end its easing stance by taking a long pause. However, a few foreign bank forecasters including ourselves believe that positive inflation developments and certain economic risks in Russia may force the central bank to lower key rates to 7.00-7.25%, meaning an additional 25-50bp in rate cuts down the road. We expect a gradual removal of monetary easing only at the beginning of 2011 and a neutral bias in Q4 2010.

Analyst: Gintaras Shlizhyus (+43 1 71707 1343)

Exchange rate focus

	actual	***Jun-10***	***Sep-10***	***Dec-10***
EUR/RUB	***38.02***	***37.60***	***37.90***	***36.74***
Change from last week	2.7%			
USD/RUB	***31.08***	***29.60***	***28.08***	***29.39***
Change from last week	0.0%			

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

RZB Group
Raiffeisen Zentralbank Österreich AG (RZB Austria)

Raiffeisen Zentralbank Österreich AG, Vienna
Global Markets
Head of Sales: Stefan Weiser Tel: +43 1 71707 3974
Head of International Sales: Luca Scalzini Tel: +43 1 71707 3981
Head FI Sales (AUT/GE/LIE): Hans Rettl Tel: +43 1 71707 3300
Head of MM & FX Sales: Richard Quinn Tel: +43 1 71707 3904
Corporate Sales: Wolfgang Kalinka Tel: +43 1 71707 3959

Belgrade: Raiffeisenbank a.d. Serbia
Treasury: Branko Novakovic Tel: +381 11 2207 131

Bratislava: Tatra banka, a.s.
Treasury: Miroslav Paracka Tel: +421 2 5919 1386
Sales: Milan Cavojec Tel: +421 2 5919 1212

Bucharest: Raiffeisen Bank S.A.
Treasury: Cristian Sporis Tel: +40 21 306 1210
Sales: Razvan Szilagyi Tel: +40 21 306 1205

Budapest: Raiffeisen Bank Zrt.
Treasury:Gabor Liener Tel: +36 1 484 4304
Sales: Zsolt Matolcsi Tel: +36 1 484 4840

Kiev: Raiffeisen Bank Aval
Treasury: Vladimir Kravchenko Tel: +380 44 490 8808

Maribor: Raiffeisen Krekova banka d.d. Slovenia
Treasury: Thomas Schindl Tel: +386 1 475 7841

Minsk: Priorbank JSC Belarus
Treasury: Andrey Filazafivich Tel: +375 17 289 9312

Moscow: ZAO Raiffeisenbank Austria
Treasury: Sergei Monin Tel: +7 495 721 9922
Sales: Arsen Manoukian Tel: +7 495 721 9978

RZB London Branch
Sales: Luca Scalzini Tel: +43 1 71707 3981

Raiffeisen Centrobank AG, Vienna
Equity Capital Markets
Head: Wilhelm Celeda Tel: +43 1 515 20 402
Sales: Klaus della Torre Tel: +43 1 515 20 472

Prague: Raiffeisenbank a.s.
Treasury: Vit Brdlik Tel: +420 221 141 145
Sales: Michal Michalov Tel: +420 221 141 830

Pristina: Raiffeisen Bank Kosovo JSC
Treasury: Berat Isa Tel: +381 38 226400 129

Sarajevo: Raiffeisen BANK d.d. Bosna i Hercegovina
Treasury: Lejla Kurtovic Tel: +387 33 287 144
Sales: Haris Mustafic Tel +387 33 287 127

RZB Singapore Branch
Sales: Thomas Neidhardt Tel. +65 6305 6108

Sofia: Raiffeisenbank (Bulgaria) EAD
Treasury: Evelina Miltenova Tel: +359 2 91985 441

Tirana: Raiffeisen Bank Sh.a. Albania
Treasury: Joan Canaj Tel: +355 42 275 510 1122

Warsaw: Raiffeisen Bank Polska S.A.
Treasury: Miroslaw Winiarczyk Tel: +48 22 585 26 00
Sales: Adam Pers Tel: +48 22 585 26 26

Zagreb: Raiffeisenbank Austria d.d.
Treasury: Ivan Zizic Tel: +385 1 46 95 076

Editor:
Raiffeisen RESEARCH GmbH
A-1030 Vienna, Am Stadtpark 9
Tel.: +43 1 717 07-1521

Head of Raiffeisen RESEARCH:
Peter Brezinschek (1517)

This report was completed on 4 June 2010.

Turkey

(P)review of key economic figures/events

TRY yield curve

Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Underweight TRY bonds relative to the benchmark index

Market comment

Market outlook

Analyst: Andreas Schwabe (+43 1 71707 1389)

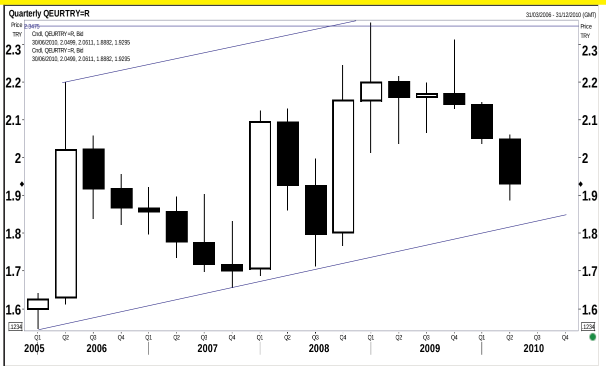
Money market focus

MM rates	1m	3m	6m	12m

Bond market focus

	1m	1y	2y	5y

EUR/TRY



Last: 1.93 sell 1.88 target: 1.82
Sell-signal has gotten triggered at 1.97 -> 1.90 - 1.85, stop 1.95 -> 2.0.

Source: Thomson Reuters, Raiffeisen RESEARCH

Exchange rate focus

	actual	Jun-09	Sep-09	Dec-09