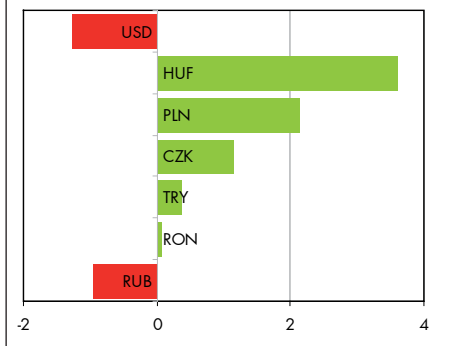


# CEE Weekly Bond Markets Outlook

Issue 23/2010

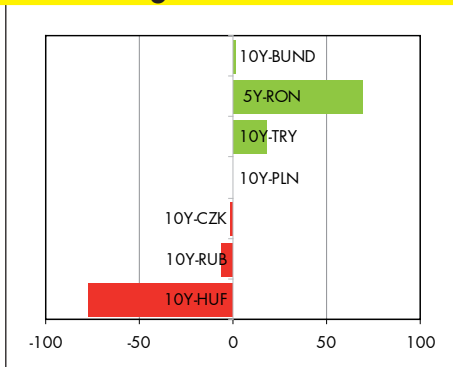
11 June 2010

## LCY changes vs. EUR\*



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

## Yield changes\*



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

## Forecast

	current	Sep-10	Dec-10	Mar-11
<b>Poland**</b>				
PLN	4.13	3.75	3.65	3.50
1m-rate	3.4	3.6	3.8	4.0
5y bond	5.3	4.8	4.9	5.0
10y bond	5.8	5.3	5.4	5.5
<b>Hungary**</b>				
HUF	282.3	275	275	270
1m-rate	5.3	4.9	5.0	5.0
5y bond	7.2	6.2	6.0	6.0
10y bond	7.4	6.8	6.6	6.6
<b>Czech Rep.**</b>				
CZK	26.0	24.8	25.0	24.6
1m-rate	0.7	1.2	1.5	1.5
5y bond	2.9	3.5	3.8	4.0
10y bond	4.2	4.4	4.6	4.8
<b>Russia *</b>				
RUB	31.6	29.8	29.8	30.6
1m-rate	3.5	3.9	3.9	3.9
5y bond	7.0	6.4	6.1	5.6
10y bond	7.3	6.7	6.2	6.3
<b>USD</b>	1.21	1.25	1.20	1.15

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

## Recommendations

For detailed recommendations please see page 2.

## Highlights

- Poland** – Deputy finance minister Ludwik Kotecki said on Thursday that savings from the fiscal policy rule announced at the beginning of this year will be PLN 3 bn in 2011 (instead of PLN 10 bn envisaged at the beginning of this year). The rule stipulates that the flexible budget expenditures should grow by 1% plus the inflation rate each year.
- Hungary** – Hungary's PM revealed the new government plans. We believe that the government's fiscal plans are pointing in the right direction and if properly implemented, would serve the two goals of restoring market confidence in Hungary, while stimulating the domestic economy. We keep our EUR/HUF forecast at 275, and recommend BUYING 10y Hungarian Government Bonds.
- Czech Republic** – Party talks about formation of a strong center-right government coalition continue and look promising. The rating agency Fitch even raised its rating outlook to positive for Czech government debt shortly after the elections. However, the potential positive effect was more than offset by the rise in risk aversion following the unlucky words of Hungarian politicians comparing the state of Hungarian public finances with the Greek debt situation.

## Key upcoming events and data releases

Country	Time	Indicator	Period	Forecast	Range	Last
14-Jun						
PL	14:00	Current account, EUR bn	Apr	-525	n.a.	-559
15-Jun						
PL	14:00	CPI, % yoy	May	2.2	n.a.	2.4
CZ	09:00	PPI, % mom	May	-0.2	-0.2/0.2/0.8	0.7
CZ	09:00	PPI, % yoy	May	0.6	0.6/1.0/1.6	0.4
HR	n.a.	CPI, % yoy	May	0.9	n.a.	0.6
RU	n.a.	PPI, % yoy	May	n.a.	12.6/18.4/20.0	17.9
TR	09:00	Unemployment (3m avg), %	Mar	14.0	n.a.	14.4
16-Jun						
CZ	09:00	Current account, CZK bn	Apr	0.0	-16.8/-8.0/3.0	-12.6
RU	n.a.	Industrial output, % yoy	May	n.a.	7.3/10/12.5	10.4
TR	09:00	Consumer confidence	May	n.a.	n.a.	85.8
17-Jun						
PL	14:00	Corp. Sector wages, % yoy	May	4.6	n.a.	3.2
PL	14:00	Employment, % yoy	May	0.4	n.a.	0.0
TR	18:00	CBT repo rate, %	Jun	7.0	7.0/7.0/7.0	7.0
18-Jun						
PL	14:00	Industrial output, % yoy	May	7.9	n.a.	9.9
PL	14:00	PPI, % yoy	May	0.1	n.a.	-0.5
HU	09:00	Avg. gross wages, % yoy	Apr	n.a.	n.a.	9.4



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- **Romania** – The no-confidence vote against government on Tuesday is the most important event next week. We expect the government to survive the vote, so there should be no impact from this on bond yields.
- **Croatia** – After intensifying in March, Croatian foreign trade in goods slowed again in April. Compared to March, exports of goods fell by 17.6% while imports of goods recorded a decline of 4.8%. At the annual level, exports continue to increase (+2.2%) while imports are decreasing (-6.0%). This is a result of the recovery in foreign demand, with domestic demand still lagging far behind.
- **Turkey** – The lira is volatile, but already depreciated by almost 10%. Thus, some strengthening seems possible, given no further spike in global risk aversion. We see government bonds trading sideways and would be surprised to see any substantial decline over the short term. However, inflation rates are traditionally lower in summer months, which is likely received positively by markets.

## Short-term trading ideas\*

Recommendation	Entry date	Entry level	Current level	Target	Stop	Carry (% p.a.)	Comments
Buy HUF T-Bond 06/2019 (ISIN HU0000402433)	08/06/10	91.4	89.8	99.0	85.1	-	Normalisation of yields after economically unfounded statements

\*For LCY bond trading ideas the FX gains or losses are not taken into account. For FX trading ideas the carry is calculated as the differential between the 1 month money market rates of the respective markets.

Source: Thomson Reuters, Bloomberg

## Recently closed trades

Recommendation	Entry date	Entry level	Close date	Close level	Total return	Comment
SELL BASKET/RUB (long RUB)	06/04/10	33.81	06/05/10	34.1	-0.86%	Stopped 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	-0.014300259	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

04/06/2010	Maturity	Coupon %	Ask price	YTM %	Spread to bunds (bp)	MDuration
<b>Poland</b>						
PLN 2y Gov. Bond	25/ Oct 12	0.00	89.89	4.62	413	2.4
PLN 5y Gov. Bond	25/ Apr 15	5.50	101.20	5.21	371	4.4
PLN 10y Gov. Bond	25/ Oct 20	5.25	95.68	5.81	320	7.9
PLN 20y Gov. Bond	25/ Apr 29	5.75	97.00	6.02	270	11.8
<b>Hungary</b>						
HUF 3y Gov. Bond	24/ Oct 13	7.50	102.22	6.72	610	3.0
HUF 5y Gov. Bond	12/ Feb 16	5.50	92.27	7.20	570	4.9
HUF 10y Gov. Bond	24/ Jun 19	6.50	94.09	7.42	480	6.6
HUF 15y Gov. Bond	24/ Nov 23	6.00	88.20	7.41	398	9.0
<b>Czech Republic</b>						
CZK 2y Gov. Bond	18/ Oct 12	3.55	103.60	1.96	120	2.3
CZK 5y Gov. Bond	11/ Apr 15	3.80	103.80	2.94	146	4.5
CZK 10y Gov. Bond	12/ Sep 20	3.75	95.90	4.25	166	8.4
CZK 15y Gov. Bond	25/ May 24	5.70	112.00	4.52	107	10.2
<b>Croatia</b>						
HRK 5y Gov. Bond	11/ Jul 13	4.50	98.41	5.07	336	2.8
HRK 10y Gov. Bond	8/ Feb 17	4.75	93.51	5.95	333	5.7
<b>Romania</b>						
RON 3y Gov. Bond	25/ Oct 10	6.00	99.77	6.53	592	0.4
RON 5y Gov. Bond	5/ Mar 12	6.50	100.11	6.41	491	1.7
<b>Russia</b>						
RUB 2y Gov. Bond	19/ Sep 12	10.80	110.30	5.98	549	2.0
RUB 5y Gov. Bond	17/ Dec 14	11.20	117.69	6.80	531	3.6
RUB 10y Gov. Bond	29/ Aug 18	8.00	105.97	5.75	314	4.3
RUB 30y Gov. Bond	6/ Feb 36	6.90	96.48	7.34	401	11.7
<b>Turkey</b>						
TRY 2y Gov. Bond	25/ Jan 12	0.00	87.17	8.82	834	1.6
TRY 5y Gov. Bond	6/ Aug 14	11.00	105.70	9.53	803	3.3
TRY 10y Gov. Bond	15/ Jan 20	10.50	102.60	10.30	768	6.3

Source: Thomson Thomson Reuters, Raiffeisen RESEARCH

### Bond auctions

Bond auctions		ISIN	Coupon	Maturity	Volume
16-Jun					
CZ	15y T-bond reopening	CZ0001002547	5.70%	25 May 2024	CZK 5 bn
17-Jun					
HU	3y T-bond	HU0000402466	7.50%	24 Oct 2013	HUF 25 bn
HU	5y T-bond	HU0000402318	5.50%	12 Feb 2016	HUF 15 bn
HU	10y T-bond	HU0000402235	7.50%	12 Nov 2020	HUF 10 bn

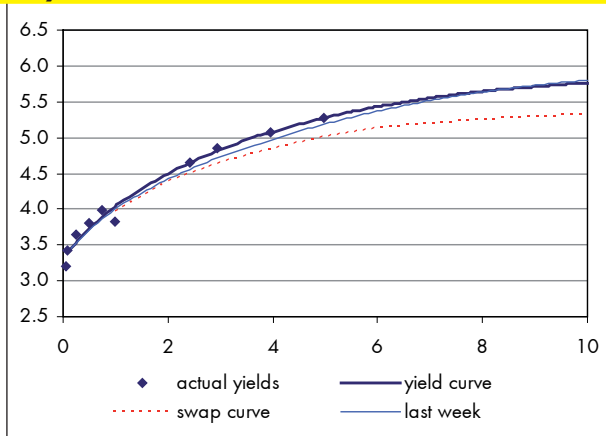
# Poland

## Belka new NBP governor

### (P)review of key economic figures/events

14 Jun 10	Current account, EUR bn	Apr -525 (Mar -559)
15 Jun 10	CPI, % yoy	May 2.2 (Apr 2.4)
18 Jun 10	Industrial output, % yoy	May 7.9 (Apr 9.9)

### PL yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

### Money market focus\*

MM rates	1m	3m	6m	12m
<b>Actual</b>	<b>3.42</b>	<b>3.65</b>	<b>3.80</b>	<b>4.04</b>
Change from last week	-0.01	0.00	-0.01	-0.01
Forecast Jun-10	3.60	3.70	3.78	3.70
<b>Forward rates</b>	<b>3x6</b>	<b>6x9</b>	<b>9x12</b>	
	3.97	4.30	4.19	
Change from last week	-0.02	-0.01	-0.01	

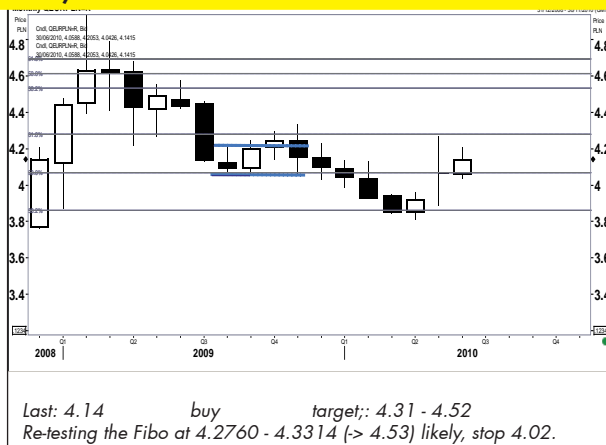
\* forecasts under revision

### Bond market focus\*

	2y	5y	10y	20y
<b>Actual</b>	<b>4.62</b>	<b>5.21</b>	<b>5.81</b>	<b>6.02</b>
Change from last week	-0.03	-0.06	0.03	0.10
Forecast Jun-10	4.20	4.75	5.30	5.60
<b>Spread to bunds</b>	<b>413.3</b>	<b>370.6</b>	<b>319.5</b>	<b>270.0</b>
Change from last week	-3.0	-0.1	2.9	13.1
<b>Spread to swaps</b>	<b>-20.0</b>	<b>-7.8</b>	<b>-41.6</b>	

\* forecasts under revision

### EUR/PLN



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market strategy

Neutral PLN T-bonds

### Market comment

On Thursday, the Polish parliament approved former PM Marek Belka as the new governor of the central bank. Belka most recently headed the European desk in the International Monetary Fund and was appointed by Komorowski, who assumed the president's duties after the plane crash in Smolensk. Bond yields climbed slightly compared to last week, but sentiment is gradually improving. On Wednesday, the state-owned bank BGK sold more than PLN 3 bn of road bonds with demand reaching PLN 5.5 bn.

### Market outlook

Deputy finance minister Ludwik Kotecki said on Thursday that savings from the fiscal policy rule announced at the beginning of this year will be PLN 3 bn in 2011. The rule stipulates that the flexible budget expenditures should be 1% plus the inflation rate each year. The savings of PLN 3 bn for 2011 are lower than the previously envisaged PLN 10 bn by the MoF at the beginning of the year. Though the idea goes in the right direction concerning budget consolidation, the rule itself is rather weak as it only affects one third of total budget outlays. Moreover, so far the plan is still missing the hard facts which will be most likely presented with the budget plan for 2011. In light of the recent improvement in market sentiment, Polish bond yields look attractive. We think, however, that the potential for yields to drop further is still limited. With the persistently high volatility of PLN we think that over the short run only a "Neutral" recommendation is justified at the moment.  
Analyst: Marcin Kopaczynski (+43 1 717 07 1423)

### Exchange rate focus\*

	actual	Jun-10	Sep-10	Dec-10
<b>EUR/PLN</b>	<b>4.13</b>	<b>3.75</b>	<b>3.65</b>	<b>3.50</b>
Change from last week	-0.7%			
<b>USD/PLN</b>	<b>3.43</b>	<b>3.00</b>	<b>3.04</b>	<b>3.04</b>
Change from last week	-2.0%			

\* forecasts under revision

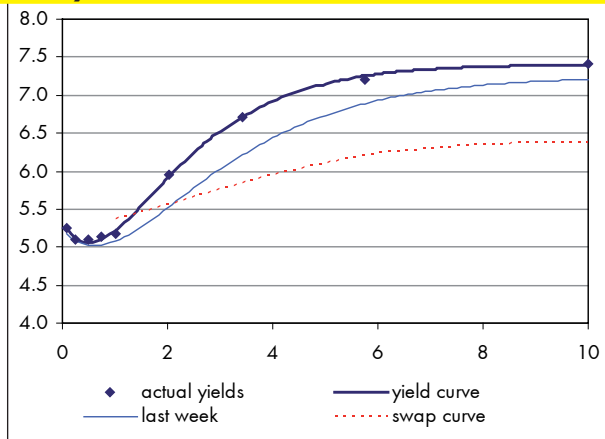
# Hungary

## New fiscal plans

### (P)review of key economic figures/events

08 Jun 10	Trade balance, EUR mn	Apr 526.4 (Mar 653.3)
11 Jun 10	CPI, % yoy	May 5.1 (Apr 5.7)
18 Jun 10	Average gross wages, % yoy	Apr n.a. (Mar 9.4)

### HUF yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market strategy

Buy 10y HUF T-bonds

### Market comment

After last week's communication offensive (i.e. incautious words on default fears on Thursday and Friday vs. sticking to the original deficit target on Saturday), Hungary's PM revealed the new government plans this week. The key messages are: 1) Hungary is sticking to the deficit targets (3.8% budget deficit in 2010; 2.9% in 2011) agreed with the IMF and the EU; 2) In order to keep the budget deficit on target the government will impose an extra tax on the financial sector (banks, insurance companies, mutual funds etc.) and cut the public sector wage bill by 15%; 3) Tax cuts: there will be a flat 16% personal income tax introduced from 2011, plus more companies will be eligible for the 10% corporate income tax.

### Money market focus\*

MM rates	1m	3m	6m	12m
Actual	5.25	5.25	5.23	5.23
Change from last week	0.01	0.02	0.03	0.02
Forecast Jun-10	4.9	5.0	5.0	5.0

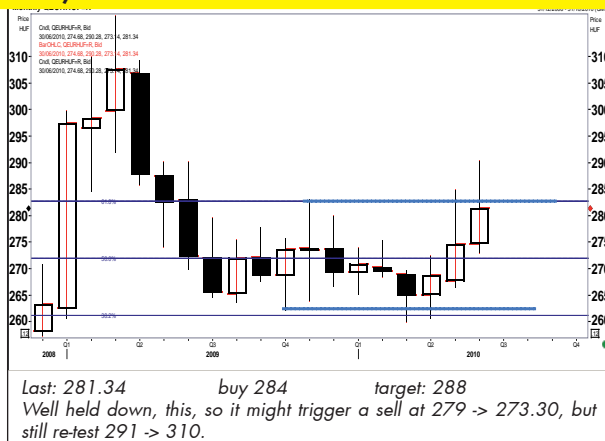
\* forecasts under revision

### Bond market focus\*

	3y	5y	10y	15y
Actual	6.72	7.20	7.42	7.41
Change from last week	0.50	0.42	0.18	0.16
Forecast Jun-10	5.8	6.2	6.8	6.8
Spread to bunds	609.8	569.6	480.3	397.7
Change from last week	52.5	47.5	22.4	14.2

\* forecasts under revision

### EUR/HUF



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market outlook

Altogether we believe that the government's fiscal plans are pointing in the right direction and if properly implemented, would serve the two goals of restoring market confidence in Hungary, while stimulating the domestic economy. Nevertheless, there is still some clarification needed, especially as far as the revenue boosting (banking tax) and expenditure cutting (15% cut of the public sector wage bill) measures are concerned. Without fast and feasible actions, the budget deficit improvements may fall short of expectations. The issue of state-owned companies' debt consolidation needs has not been raised – nevertheless, there is a time-bomb ticking with this problem as well. We keep our EUR/HUF forecast at 275, and recommend BUYING 10y Hungarian Government Bonds.

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

### Exchange rate focus\*

	actual	Jun-10	Sep-10	Dec-10
EUR/HUF	282.26	275.0	275.0	270.0
Change from last week	-2.9%			
USD/HUF	234.16	220.0	229.2	234.8
Change from last week	-4.8%			

\* forecasts under revision

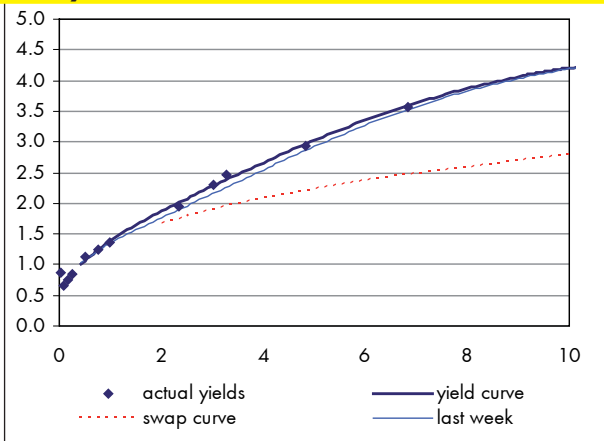
# Czech Republic

## Czech recovery continues

### (P)review of key economic figures/events

07 Jun 10	Foreign trade balance, CZK bn	Apr 15.4 (Mar 17.6)
09 Jun 10	CPI, % yoy	May 1.2 (Apr 1.1)
16 Jun 10	Current account, CZK bn	Apr 0.0 (Mar -12.6)

### CZK yield curve



Source: Thomson Reuters. Raiffeisen RESEARCH

### Money market focus\*

MM rates	1m	3m	6m	12m
<b>Actual</b>	<b>0.67</b>	<b>0.84</b>	<b>1.14</b>	<b>1.35</b>
Change from last week	0.02	-0.01	0.01	0.00
Forecast Jun-10	1.2	1.3	1.4	1.7
<b>Forward rates</b>	<b>1x2</b>	<b>3x6</b>	<b>6x9</b>	<b>9x12</b>
	0.83	1.44	1.44	1.67
Change from last week	0.00	0.03	-0.02	0.00

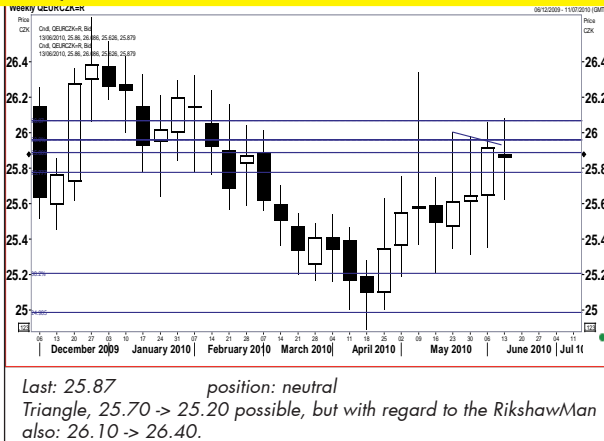
\* forecasts under revision

### Bond market focus\*

	2y	5y	10y	15y
<b>Actual</b>	<b>1.70</b>	<b>2.93</b>	<b>4.25</b>	<b>4.51</b>
Change from last week	-0.14	0.11	0.01	0.02
Forecast Jun-10	1.5	3.5	4.4	4.8
<b>Spread to bunds</b>	<b>119.7</b>	<b>145.7</b>	<b>166.4</b>	<b>106.7</b>
Change from last week	-16.4	18.2	8.4	-2.3
<b>Spread to swaps</b>	<b>0.0</b>	<b>-60.9</b>	<b>-129.7</b>	<b>n.a.</b>

\* forecasts under revision

### EUR/CZK



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market strategy

Neutral CZK T-bonds

### Market comment

Party talks about formation of a strong center-right government coalition continue and look promising. The rating agency Fitch even raised its rating outlook to positive for Czech government debt shortly after the elections. However, the potential positive effect was more than offset by the rise in risk aversion following the unlucky words of Hungarian politicians comparing the state of Hungarian public finances with the Greek debt situation. As a result Czech government bond yields ticked higher and the Czech koruna (CZK) fell to 26.0 against the EUR. Recent domestic economic data was quite interesting. The CPI increased only marginally by 0.1% mom in May. The economic recovery was confirmed by detailed GDP data for Q1 2010, with somewhat stronger than expected household consumption demand, and monthly data for the Czech industry. Furthermore, the unemployment rate fell to 8.7% in May from 9.2% in April, which was once again a much stronger than anticipated drop.

### Market outlook

The ongoing recovery will likely result in the need of tightening monetary conditions in the second half of the year. However, this recovery has been driven mainly by foreign demand. Thus, the future path of the recovery in the Eurozone, and particularly in Germany, will be the key variable also for the decision of the Czech National Bank. We repeat that the current level of bond yields does 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.

Analysts: Michal Brozka (+420 221 141 498)

Walter Demel (+43 1 71707 1526)

### Exchange rate focus\*

	actual	Jun-10	Sep-10	Dec-10
<b>EUR/CZK</b>	<b>25.90</b>	<b>24.8</b>	<b>25.0</b>	<b>24.6</b>
Change from last week	-0.6%			
<b>USD/CZK</b>	<b>21.56</b>	<b>19.8</b>	<b>20.8</b>	<b>21.4</b>
Change from last week	-2.6%			

\* forecasts under revision



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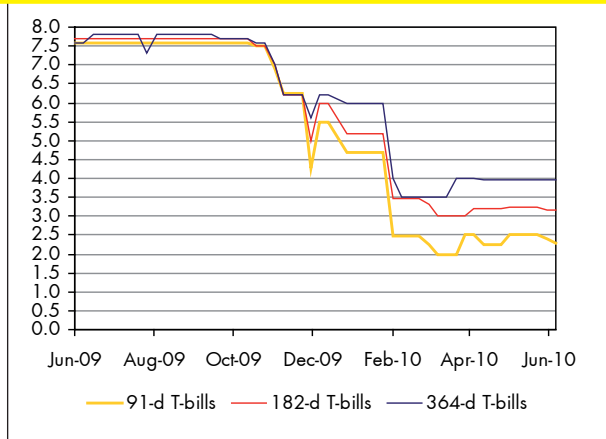
# Croatia

## Foreign trade slows again

### (P)review of key economic figures/events

10 Jun 10	PPI, % yoy	May 4.9 (Apr 5.1)
15 Jun 10	CPI, % mom	May 0.4 (Apr 0.4)
15 Jun 10	CPI, % yoy	May 0.9 (Apr 0.6)

### Interest rates on T-bills



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market strategy

Neutral EUR/HRK

### Market comment

After intensifying in March, Croatian foreign trade in goods slowed again in April. Compared to March, exports of goods fell by 17.6% while imports of goods recorded a decline of 4.8%. At the annual level, exports continue to increase (+2.2%) while imports are decreasing (-6.0%). This is a result of the recovery in foreign demand, with domestic demand still lagging far behind. It appears that the positive trends in foreign trade (trade deficit fell by 13.7% yoy) are merely the consequence of cyclical momentum in the economy, and not the structural reforms and increased competitiveness of exports. For the rest of the year, we expect that the trend of rising export of goods and falling import of goods (on yoy basis) will continue, which will have a positive impact on the balance of payments.

As expected, during May the number of unemployed continued falling, which is the result of seasonal employment. Consequently, the unemployment rate fell to 17.2%. Despite the decline in the number of unemployed recorded in the last two months, the labour market is still far from recovering. This is confirmed by the fact that the number of unemployed persons grew by 15.7% yoy. Since a recovery on the labour market can only be expected after a recovery in the real sector, positive movements can be expected at the beginning of 2011 at the earliest.

### Money market focus\*

	1m	3m	6m	12m
ZIBOR actual	1.40	2.36	3.23	4.01
Change from last week	0.10	0.04	0.02	0.01
T-bills actual	n.a.	2.30	3.15	3.95

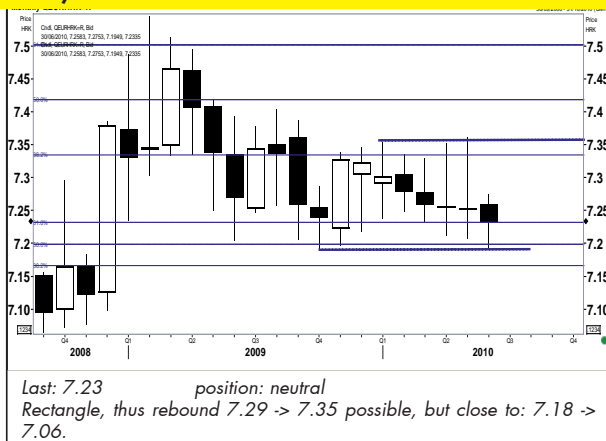
\* forecasts under revision

### Exchange rate focus\*

	actual	Jun-10	Sep-10	Dec-10
EUR/HRK	7.248	7.30	7.32	7.35
Change from last week	-0.3%			
USD/HRK	6.06	5.84	6.10	6.39
Change from last week	1.2%			

\* forecasts under revision

### EUR/HRK



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market outlook

This week saw stronger appreciation pressures on the kuna, as EUR/HRK fell from 7.26 to slightly below 7.24, amidst an increased supply of euros especially from the banking sector and the last auction of Treasury Bills indexed to the euro. Next week, we expect that the rate will stay at similar levels. We do not think that the rate will fall much lower, since a reaction by the CNB could be expected in that case. At the monthly level, appreciation pressure on kuna should prevail since the main tourist season is approaching. However, seasonal effects will be far less pronounced than in previous years.

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

Zrinka Zivkovic-Matijevic (+385 1 61 74338)

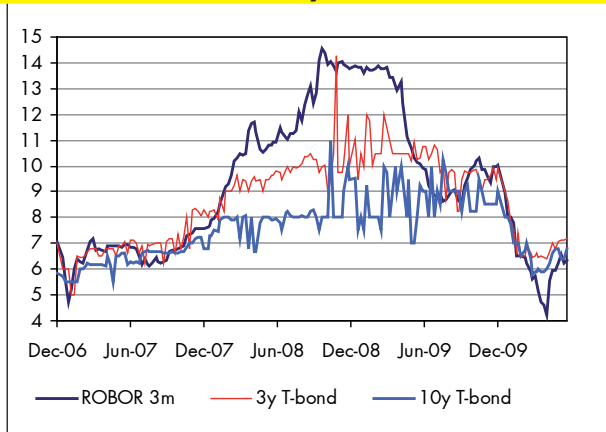
# Romania

Some good news...

## (P)review of key economic figures/events

08 Jun 10	Industrial output, % yoy	Apr 3.1 (Mar 6.1)
09 Jun 10	Foreign trade balance, EUR mn	Apr -580 (Mar -705)
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
<b>Actual</b>	<b>6.27</b>	<b>6.32</b>	<b>6.36</b>	<b>6.36</b>
Change from last week	0.16	0.06	0.02	0.01
Forecast Jun-10	5.5	5.6	5.6	5.8
<b>Implicit forward rates</b>	<b>3x6</b>	<b>6x9</b>	<b>9x12</b>	
	6.45	6.31	6.21	
Change from last week	-0.02	-0.01	0.01	

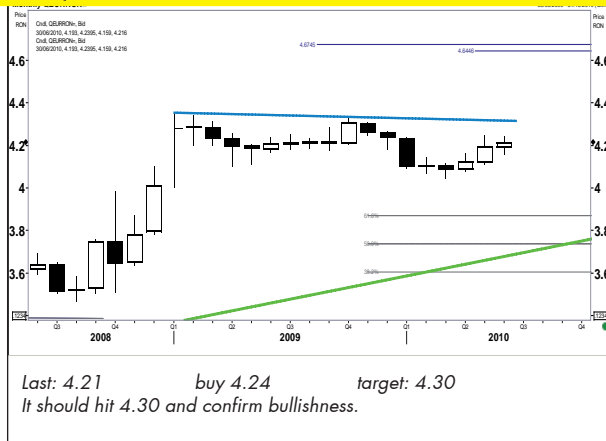
\* forecasts under revision

## Bond market focus\*

	2y	3y	5y	10y
<b>Actual</b>	<b>7.20</b>	<b>7.17</b>	<b>7.28</b>	<b>6.82</b>
Change from last week	1.65	0.06	0.16	0.43
Forecast Jun-10	6.40	6.50	6.60	6.00
<b>Spread to bunds</b>	<b>671.2</b>	<b>656.5</b>	<b>577.4</b>	<b>420.3</b>
Change from last week	164.3	21.5	43.1	47.2

\* forecasts under revision

## EUR/RON



Source: Thomson Reuters, Raiffeisen RESEARCH

## Market strategy

Neutral RON T-bonds

## Market comment

Industrial output expanded by 0.7% mom in April, after increasing by 4.4% mom in March. The gains erased a large part of the losses recorded between December and February. Exports jumped also in April, rising by around 6% mom, which was the highest monthly growth rate since they started to recover in Feb 2009. Unemployment rate remained flat in May at around 8%. Construction output fell only by 0.8% mom in April, which is positive news rather than negative taking into account developments in the previous months. Very likely, industry and exports will perform much better in Q2 as compared with Q1. Accordingly, we think that the GDP figure for Q2 has a good chance to be better than in Q1. A quarterly GDP growth rate close to 0% seems reasonable at this moment. However, the austerity measures announced by government, which will be implemented in the second half of the year, will have a strong negative impact on household expenditures, and so on overall GDP. Also, the inflation rate remained low in May, as consumer prices inched up only by 0.15% mom. We expect it to remain low in June as well, in spite of the recent depreciation of the leu.

## Market outlook

On Monday, the Finance Ministry had to reject all investors' bids in a 12-month auction in T-bills, as yields required by investors were higher than it wanted to pay. No moves were recorded in the secondary market, where yields have been trading almost flat in recent weeks. The no-confidence vote against government on Tuesday is the most important event next week. We expect the government to survive the vote, so there should be no impact from this on bond yields.

Analyst: Ionut Dumitru (+40 37 2211269)

## Exchange rate focus\*

	actual	Jun-10	Sep-10	Dec-10
<b>EUR/RON</b>	<b>4.22</b>	<b>4.05</b>	<b>3.95</b>	<b>3.90</b>
Change from last week	-0.8%			
<b>USD/RON</b>	<b>3.50</b>	<b>3.24</b>	<b>3.29</b>	<b>3.39</b>
Change from last week	-2.5%			

\* forecasts under revision



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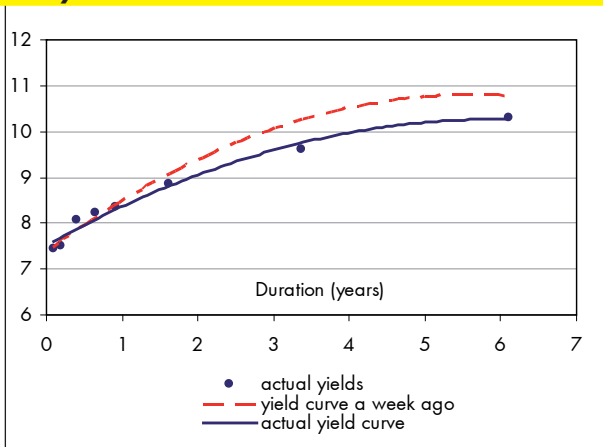
# Turkey

## Low rates and high USD/TRY

### (P)review of key economic figures/events

15 Jun 10	Unemployment (3m avg), %	Feb-Apr 14.0 (Jan-Mar 14.4)	seasonal reduction + recovery setting in
16 Jun 10	Consumer confidence	May n.a. (Apr 85.8)	
17 Jun 10	CBT repo rate, %	June 7.0 (May 7.0)	fixed 1w repo auction rate to replace former borrowing rate

### TRY yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

### Money market focus\*

MM rates	1m	3m	6m	12m
Actual	7.01	7.35	8.10	8.84
Change from last week	0.01	0.00	0.00	-0.16
Forecast Sep-10	7.30	7.60	8.40	9.20
Implied forward rates	1x2	3x6	6x9	9x12
	7.35	8.69	9.37	8.83
Change from last week	-0.01	0.00	0.00	-0.61

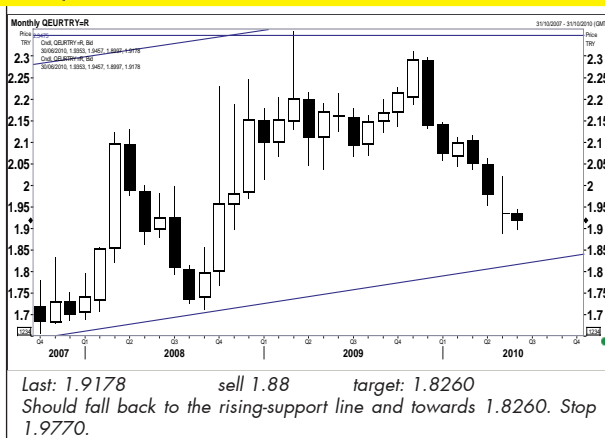
\* forecasts under revision

### Bond market focus\*

	1m	1y	2y	5y
Actual	7.44	8.35	8.85	9.62
Change from last week	0.10	-0.04	-0.17	-0.58
Forecast Sep-10	n.a.	9.20	9.20	9.90

\* forecasts under revision

### EUR/TRY



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market strategy

Underweight TRY bonds relative to the benchmark index

### Market comment

The CPI figure for May surprised on the downside – in comparison to April, the price level decreased by 0.4%, while an increase of the same size was expected by analysts. A sharp drop in food prices of 4.4% mom was responsible for the development, even overcompensating for an 11% mom hike in the clothing component. The annual headline CPI rate fell by 1% to 9.1% and could decline to 7%-8% by the end of the year. This gives some comfort to the central bank, which said it would increase rates only in the fourth quarter. While the lira rate weakened further versus USD up to 1.59-1.60, the 2y government bond continued to trade at below 9% yield. We explain the strong bond performance by three factors: liquidity support to local banks by CBT, a comparably strong macro story and most recently the decrease in inflation, which relieves CBT of pressure to hike the key rate.

### Market outlook

Nobody expects the CBT to change interest rates on Friday, 17 June. However, a formal, technical change took place last month. The previous O/N deposit rate of 6.5% ("borrowing rate") was replaced by a fixed 1-week repo auction rate of currently 7.0% as the key rate of monetary policy. However, external developments will most likely remain the main driver of Turkish asset developments. The lira is volatile, but already depreciated by almost 10%. Thus, some strengthening seems possible, given no further spike in global risk aversion. We see government bonds trading sideways and would be surprised to see any substantial decline over the short term. However, inflation rates are traditionally lower in summer months, which is likely received positively by markets.

Analyst: Andreas Schwabe (+43 1 71707 1389)

### Exchange rate focus\*

	actual	Jun-09	Sep-09	Dec-09
EUR/TRY	1.91	1.88	1.80	1.67
Change from last week	-0.3%			
USD/TRY	1.58	1.50	1.50	1.45
Change from last week	0.7%			

\* forecasts under revision

## Summary Ratings & macro data

### Country ratings: CEE, SEE, CIS

	S&P			Moody's			Fitch		
	LCY	FCY	Outlook	LCY	FCY	Outlook	LCY	FCY	Outlook
<b>CEE</b>									
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
<b>SEE</b>									
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
<b>CIS</b>									
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	Unem- ployment, %	Nominal wages, EUR	Fiscal balance, % GDP	Public debt, % GDP	Export*, % GDP	C/A, % GDP	Ext. debt, % GDP	FXR** % ext. debt	Import cover, months
Poland	1.8	3.5	11.0	721	-7.1	51.0	32.0	-1.6	57.5	29.4	6.4	
	2.7	2.7	12.6	823	-6.8	52.8	29.2	-2.3	50.3	29.6	6.2	
	3.2	2.3	10.7	936	-4.4	53.2	26.8	-2.9	48.4	27.9	6.0	
Hungary	-6.3	4.2	10.2	713	-4.0	78.0	63.8	0.2	113.9	28.2	6.5	
	1.0	4.3	11.0	758	-6.3	79.0	63.0	1.3	112.8	26.6	6.3	
	3.5	3.2	9.8	805	-4.6	77.0	61.8	0.4	110.7	25.3	5.9	
Czech Rep.	-4.1	1.0	8.1	892	-5.9	35.4	57.8	-1.0	43.8	48.0	4.8	
	1.0	1.5	9.5	949	-5.2	39.2	57.5	0.0	41.8	46.6	4.4	
	2.5	2.5	9.2	1029	-4.6	41.7	57.1	1.0	41.3	45.6	4.3	
Romania	-7.1	5.6	6.3	446	-8.1	22.0	25.0	-4.4	67.8	36.0	9.5	
	0.0	4.2	8.8	480	-6.5	26.0	26.9	-4.0	66.7	35.3	8.9	
	3.5	3.8	8.8	544	-5.0	28.0	26.9	-5.0	64.7	30.1	7.2	
Croatia	-5.8	2.4	14.9	1051	-3.7	48.4	16.6	-5.2	98.3	23.3	8.2	
	-0.9	3.0	17.5	1058	-4.4	50.7	17.0	-5.4	104.4	22.3	8.4	
	2.5	3.3	16.5	1085	-3.6	50.3	17.8	-4.8	107.5	21.9	8.2	
Russia	-7.9	12.6	8.4	425	-6.2	8.3	24.7	3.9	38.8	84.1	24.6	
	5.0	6.9	7.9	540	-4.5	8.3	25.8	6.0	33.3	93.2	23.1	
	4.5	7.8	6.8	674	-3.0	8.0	26.5	5.7	32.3	90.9	20.6	
Turkey	-6.0	6.3	14.0	367	-5.6	46.8	18.2	-2.3	45.5	24.3	5.8	
	5.0	9.7	12.5	427	-4.2	47.5	18.3	-3.6	39.6	25.8	5.4	
	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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