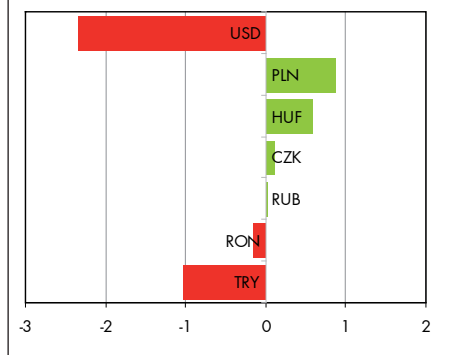


# CEE Weekly Bond Markets Outlook

Issue 24/2010

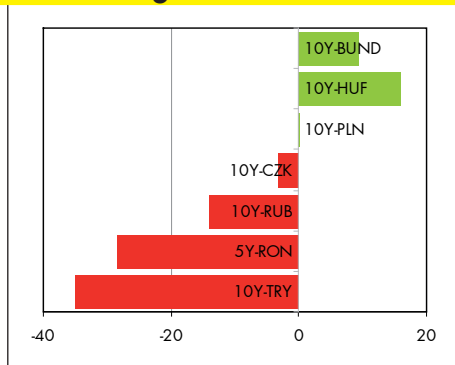
18 June 2010

## 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	4.08	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	280.2	275	275	270
1m-rate	5.3	4.9	5.0	5.0
5y bond	7.1	6.2	6.0	6.0
10y bond	7.5	6.8	6.6	6.6
<b>Czech Rep.*</b>				
CZK	25.7	24.8	25.0	24.6
1m-rate	0.7	1.2	1.5	1.5
5y bond	3.0	3.5	3.8	4.0
10y bond	4.2	4.4	4.6	4.8
<b>Russia *</b>				
RUB	30.9	29.8	29.8	30.6
1m-rate	3.4	3.9	3.9	3.9
5y bond	6.8	6.4	6.1	5.6
10y bond	7.1	6.7	6.2	6.3
<b>USD</b>	1.24	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** – We do not expect any impact from the Polish presidential elections to be due this weekend. The most likely outcome is that Komorowski and Kaczynski will be struggling for the presidential seat in a second round on 4 July.
- Hungary** – On Monday's NBH rate setting meeting a decision to keep interest rates on hold is widely expected. Neither risk-pricing nor the inflation outlook allows monetary policy to ease conditions yet. In the medium term, however, we believe that altogether the government's fiscal plans are pointing to the right direction. Right now there are many misty parts, but as more and more details will be known we think some room will open for NBH to cautiously lower interest rates (25 bp is expected in 3Q 2010).
- Czech Republic** – The CNB monetary policy board meeting next week is not likely to bring any surprises. The key rate should stay at the very low level of 0.75%. It could be rather interesting to listen the subsequent comments on the latest data, which has been moving in a rather pro-inflationary direction, such as a PPI inflation increase and the decline in unemployment.
- Romania** – Although the government succeeded in surviving the no-confidence vote, there was no impact on the financial

## Key upcoming events and data releases

Country	Time	Indicator	Period	Forecast	Range	Last
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	Average gross wages, % yoy	Apr	n.a.	n.a.	9.4
21-Jun						
HU	14:00	Monetary council meeting, %	Jun	5.25	5.25/5.25/5.25	5.25
22-Jun						
PL	14:00	Net inflation, % yoy	May	1.8	1.7/1.8/1.8	1.9
23-Jun						
CZ	n.a.	CNB monetary policy meeting, %	Jun	0.75	0.75/0.75/0.75	0.75
RU	n.a.	Retail sales, % yoy	May	6.0	2.7/4.5/6.0	4.2
RU	n.a.	Capex, % yoy	May	6.0	2.9/4.4/7.1	2.3
24-Jun						
HU	09:00	Retail sales, % yoy	Apr	-2.0	n.a.	-4.0
HR	n.a.	Industrial output, % yoy	May	-3.0	n.a.	-6.6
TR	15:30	Capacity utilisation, index	Jun	74.0	n.a.	73.4
TR	15:30	Manufacturing confidence, index	Jun	n.a.	n.a.	115.1



**Raiffeisen  
RESEARCH**

RZB Group

markets. The leu failed to gain after the vote, and yields made no visible moves. We think that developments on the external markets will remain the key drivers of movements in the leu exchange rate and bond yields in the period ahead.

- **Russia** – Russia’s industrial output rose 12.6% yoy in May, and was up 1.4% in month-on-month seasonally adjusted terms. The output data confirms our earlier scenario of quickening economic growth in Q2–Q3, as both the index and its seasonally adjusted series indicate a visible acceleration of economic activity.
- **Croatia** – Inflationary pressures remained weak as unfavourable movements in the real sector and on the labour market continued to hobble de-

mand. The latest data show that annualised inflation in Croatia amounted to 0.8% in May, while prices increased 0.2% in monthly terms. The rise in prices was primarily due to higher energy prices, especially for liquid fuels.

- **Turkey** – Next week’s data releases include capacity utilisation, which only recently began to move. So we see still some room for further improvement, but do not expect another big leap upward. Turkish assets may continue to profit from falling risk aversion, as seen in recent days. Government bonds are also seeing support from the expectedly stable key interest rates for the coming months and a more positive view of Turkey’s fiscal position.

## Short-term trading ideas\*

Recommendation	Entry date	Entry level	Current level	Target	Stop	Carry (% p.a.)	Comments
Sell EUR/RON (long RON)	14/06/10	4.23	4.2415	4.15	4.27	6.2	Positive impact on budget cuts and surviving the no-confidence vote
Buy HUF T-Bond 06/2019 (ISIN HU0000402433)	08/06/10	91.4	89.6	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
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 RU000AODOG29)	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

18/06/2010	Maturity	Coupon %	Ask price	YTM %	Spread to bunds (bp)	MDuration
<b>Poland</b>						
PLN 2y Gov. Bond	25/ Oct 12	0.00	89.93	4.64	4	2.4
PLN 5y Gov. Bond	25/ Apr 15	5.50	101.00	5.26	5	4.4
PLN 10y Gov. Bond	25/ Oct 20	5.25	95.70	5.81	5	7.9
PLN 20y Gov. Bond	25/ Apr 29	5.75	97.00	6.02	6	11.8
<b>Hungary</b>						
HUF 3y Gov. Bond	24/ Oct 13	7.50	102.04	6.78	6	3.0
HUF 5y Gov. Bond	12/ Feb 16	5.50	92.63	7.12	6	4.9
HUF 10y Gov. Bond	24/ Jun 19	6.50	93.86	7.46	7	6.6
HUF 15y Gov. Bond	24/ Nov 23	6.00	88.05	7.43	7	9.0
<b>Czech Republic</b>						
CZK 2y Gov. Bond	18/ Oct 12	3.55	103.50	1.99	2	2.2
CZK 5y Gov. Bond	11/ Apr 15	3.80	103.90	2.92	4	4.5
CZK 10y Gov. Bond	12/ Sep 20	3.75	96.10	4.23	4	8.4
CZK 15y Gov. Bond	25/ May 24	5.70	111.90	4.53	5	10.2
<b>Croatia</b>						
HRK 5y Gov. Bond	11/ Jul 13	4.50	98.76	4.94	321	2.8
HRK 10y Gov. Bond	8/ Feb 17	4.75	93.66	5.92	326	5.7
<b>Romania</b>						
RON 3y Gov. Bond	25/ Oct 10	6.00	99.78	6.54	590	0.4
RON 5y Gov. Bond	5/ Mar 12	6.50	100.11	6.40	489	1.7
<b>Russia</b>						
RUB 2y Gov. Bond	19/ Sep 12	10.80	110.75	5.73	522	2.0
RUB 5y Gov. Bond	17/ Dec 14	11.20	117.70	6.79	527	3.6
RUB 10y Gov. Bond	29/ Aug 18	8.00	101.25	6.87	421	4.1
RUB 30y Gov. Bond	6/ Feb 36	6.90	95.90	7.39	400	11.6
<b>Turkey</b>						
TRY 2y Gov. Bond	25/ Jan 12	0.00	87.44	8.72	821	1.6
TRY 5y Gov. Bond	6/ Aug 14	11.00	106.00	9.43	792	3.3
TRY 10y Gov. Bond	15/ Jan 20	10.50	106.50	9.66	700	6.3

Source: Thomson Thomson Reuters, Raiffeisen RESEARCH

### Bond auctions

Bond auctions		ISIN	Coupon	Maturity	Volume
21-Jun					
TR	CPI-linked bond (tap)	TRT290415T14	4%	29 Apr 2015	
22 Jun					
TR	Zero coupon bond (tap)	TRT250112T14	0%	25 Jan 2012	
TR	Fixed rate bond	n.a.	n.a.	17 Jun 2015	

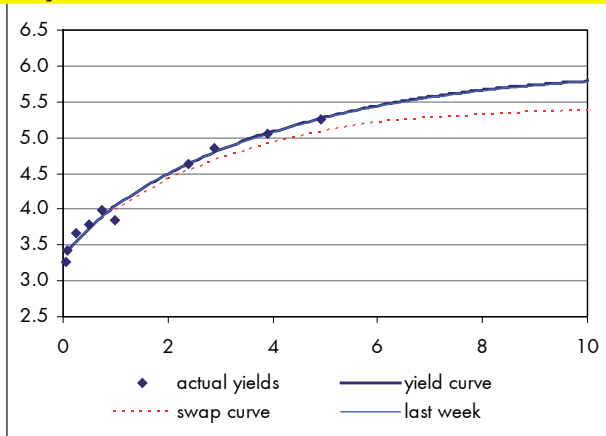
# Poland

## Low demand in the 10y bond auction

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

14 Jun 10	Current account, EUR bn	Apr -424 (Mar -559)
18 Jun 10	Industrial output, % yoy	May 7.9 (Apr 9.9)
22 Jun 10	Net inflation, % yoy	May 1.8 (Apr 1.9)

### PL yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

### Money market focus\*

MM rates	1m	3m	6m	12m
<b>Actual</b>	<b>3.43</b>	<b>3.66</b>	<b>3.79</b>	<b>4.04</b>
Change from last week	0.01	0.01	-0.01	0.00
Forecast Sep-10	3.60	3.70	3.78	3.70
<b>Forward rates</b>	<b>3x6</b>	<b>6x9</b>	<b>9x12</b>	
Change from last week	-0.03	0.05	-0.03	

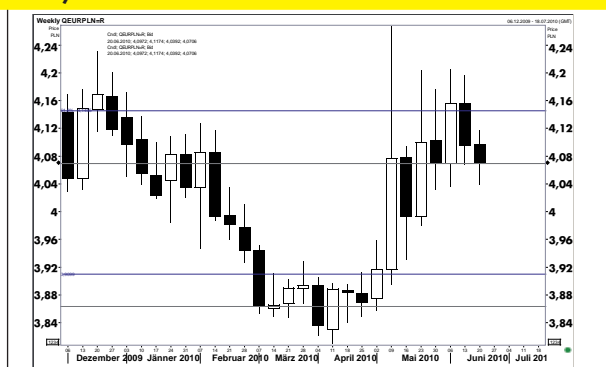
\* forecasts under revision

### Bond market focus\*

	2y	5y	10y	20y
<b>Actual</b>	<b>4.64</b>	<b>5.26</b>	<b>5.81</b>	<b>6.02</b>
Change from last week	0.05	0.05	0.00	0.00
Forecast Sep-10	4.20	4.75	5.30	5.60
<b>Spread to bunds</b>	<b>412.0</b>	<b>373.6</b>	<b>314.9</b>	<b>265.0</b>
Change from last week	-1.3	3.0	-0.2	-5.0
<b>Spread to swaps</b>	<b>-16.6</b>	<b>-8.9</b>	<b>-34.5</b>	

\* forecasts under revision

### EUR/PLN



Last: 4.07 sell 4.0250 target: 3.97 - 3.93  
4.14 is being tested-out and a Triangle being formed, but 4.22 -> 4.30 less likely than re-testing of 3.80.

Source: Thomson Reuters, Raiffeisen RESEARCH

### Market strategy

Neutral PLN T-bonds

### Market comment

On Wednesday, the MoF sold PLN 2.43 bn in 10-year government bonds at an average yield of 5.791, roughly 20bp higher than in the previous auction. Moreover, demand for the bonds was significantly lower than in the previous auctions at only PLN 2.97 bn. The data on the economy came in more or less as expected, with gross corporate wages growing at an annual rate of 4.8% and modest 2.2% yoy inflation in May. Today's figures on industrial output should be another sign of a healthy recovery and accelerating growth in Poland. We expect industrial output to increase by 7.9% yoy in May. Finally, Poland requested the prolongation of the Flexible Credit Line (FCL) with the IMF worth USD 20.5 bn.

### Market outlook

The low demand at the bond auction on Wednesday was surprising on the one hand as the MoF had become accustomed to bid-cover-ratios above 2 in the months before. On the other hand, even though global market sentiment has improved since the Greece debt problem and prices for risky assets have declined, risk indicators are still higher than at the beginning of the year. Moreover, while the current account data for April again showed strong portfolio capital inflows into the Polish debt securities sector, data from the MoF show that foreign holdings of Polish bonds levelled out at the end of April. We therefore think that in the short-run there will be hardly any potential for significant positive returns in the Polish bond market or in the zloty. We do not expect the Polish presidential elections to have any impact. The most likely outcome is that Komorowski and Kaczynski will be struggling for the presidential seat in a second round in July.

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

### Exchange rate focus\*

	actual	Sep-10	Dec-10	Mar-11
<b>EUR/PLN</b>	<b>4.08</b>	<b>3.75</b>	<b>3.65</b>	<b>3.50</b>
Change from last week	1.3%			
<b>USD/PLN</b>	<b>3.31</b>	<b>3.00</b>	<b>3.04</b>	<b>3.04</b>
Change from last week	3.6%			

\* forecasts under revision

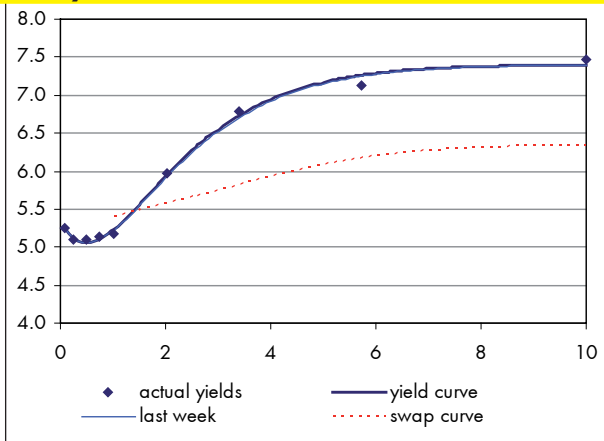
# Hungary

## No cut yet

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

18 Jun 10	Average gross wages, % yoy	Apr 1.1 (Mar 9.4)	No interest rate cut expected
21 Jun 10	Monetary council meeting, %	Jun 5.25 (May 5.25)	
24 Jun 10	Retail sales, % yoy	Apr -2.0 (Mar -4.0)	

### HUF yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market strategy

Buy 10y HUF T-bonds

### Market comment

Market still eagerly waits for details of the new government plans revealed last week. Nevertheless Mr. Orban's 29 measures did have a calming effect: according to Reuters poll economists greatly lowered their budget deficit forecasts, consensus sank from over 5% to 4.1% (which would be lower than any eurozone member's deficit). Against this backdrop – as tension mounted in Southern-Europe (esp. in Spain) – Hungarian yields reversed gains of last week.

### Market outlook

On Monday's NBH rate setting meeting a decision to keep interest rates on hold is widely expected (by us and market as well). Neither risk-pricing nor the inflation outlook allows monetary policy to ease conditions yet. In the medium term, however, we believe that altogether the government's fiscal plans are pointing to the right direction. Right now there are many misty parts, but as more and more details will be known we think some room will open for NBH to cautiously lower interest rates (25 bp is expected in 3Q 2010). Market is not pricing in any monetary easing for the year, thus we still recommend buying 10Y Hungarian Government Bonds and stick to our forecast of EUR/HUF 275 for September.

### Money market focus\*

MM rates	1m	3m	6m	12m
Actual	5.25	5.25	5.24	5.25
Change from last week	0.00	0.00	0.01	0.02
Forecast Sep-10	4.9	5.0	5.0	5.0

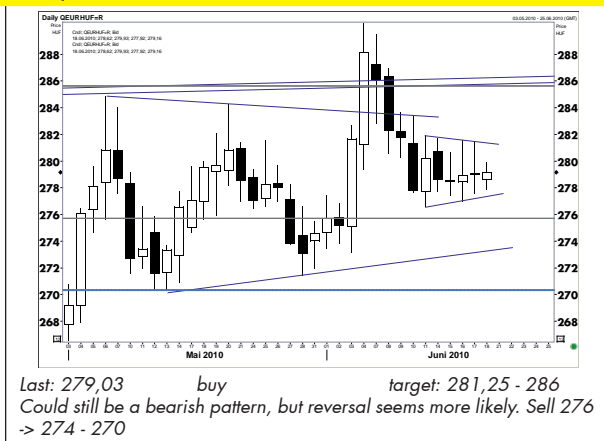
\* forecasts under revision

### Bond market focus\*

	3y	5y	10y	15y
Actual	6.78	7.12	7.46	7.43
Change from last week	0.06	-0.08	0.04	0.02
Forecast Sep-10	5.8	6.2	6.8	6.8
Spread to bunds	614.4	560.0	479.9	396.0
Change from last week	4.6	-9.6	-0.4	-1.7

\* forecasts under revision

### EUR/HUF



Source: Thomson Reuters, Raiffeisen RESEARCH

Analysts: Adam Keszeg (+36 148 44343)  
Wolfgang Ernst (+43 1 717 07 1500)

### Exchange rate focus\*

	actual	Sep-10	Dec-10	Mar-11
EUR/HUF	280.21	275.0	275.0	270.0
Change from last week	0.7%			
USD/HUF	227.24	220.0	229.2	234.8
Change from last week	3.0%			

\* forecasts under revision

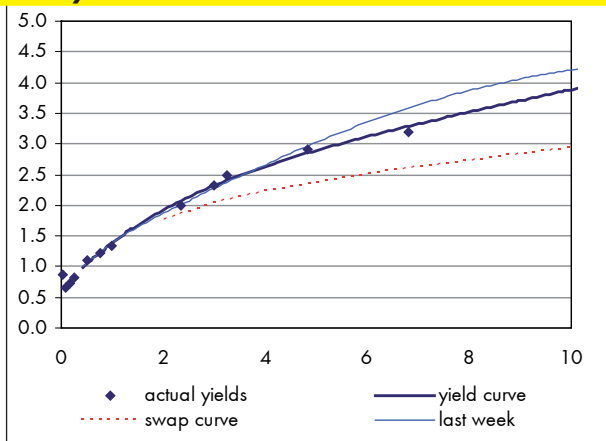
# Czech Republic

## CZK is moving sideways

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

15 Jun 10	PPI, % yoy	May 1.5 (Apr 0.4)	
16 Jun 10	Current account, CZK bn	Apr 12.4 (Mar -9.3)	Surprisingly high surplus, very low dividend payments
23 Jun 10	CNB monetary policy meeting, %	Jun 0.75 (May 0.75)	

### CZK yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

### Money market focus\*

MM rates	1m	3m	6m	12m
<b>Actual</b>	<b>0.66</b>	<b>0.83</b>	<b>1.11</b>	<b>1.34</b>
Change from last week	-0.01	-0.01	-0.03	-0.01
Forecast Sep-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>
	0.80	1.39	1.47	1.67
Change from last week	-0.03	-0.05	0.03	-0.01

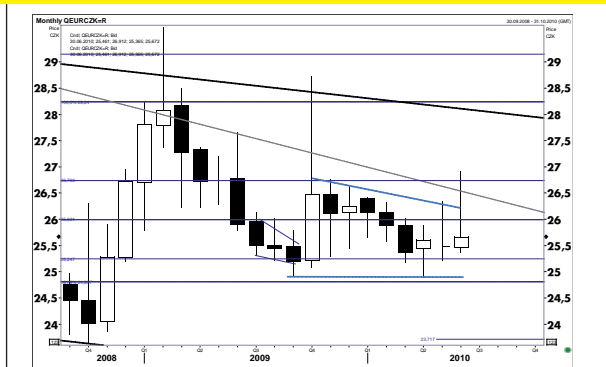
\* forecasts under revision

### Bond market focus\*

	2y	5y	10y	15y
<b>Actual</b>	<b>1.99</b>	<b>2.92</b>	<b>4.23</b>	<b>4.53</b>
Change from last week	0.29	-0.01	-0.02	0.02
Forecast Sep-10	1.5	3.5	4.4	4.8
<b>Spread to bunds</b>	<b>147.3</b>	<b>140.2</b>	<b>156.5</b>	<b>105.8</b>
Change from last week	27.6	-5.5	-9.9	-0.9
<b>Spread to swaps</b>	<b>-17.5</b>	<b>-44.6</b>	<b>-114.1</b>	<b>n.a.</b>

\* forecasts under revision

### EUR/CZK



Last: 25.67 position: neutral  
 Bearish Rectangular Triangle, 24,50 -> 23,71 - 22,90 is possible though, bullish not as long as it hasn't closed in beyond of 27 -> 28.

Source: Thomson Reuters, Raiffeisen RESEARCH

### Market strategy

Neutral CZK T-bonds

### Market comment

As demand was relatively strong at the last auction for 15-year CZK government bonds, the ministry sold more than planned. So it is no wonder that the supply for H2 will be high. The potential ODS-TOP09-VV coalition talks continue and look promising so far. Current finance minister E. Janota announced a series of budget cuts and also slight tax hikes that should keep the budget deficit at the target of 4.8% next year. It of course remains to be seen what the new government's attitude about the budget will be, but so far the party leaders have pledged to cut the budget deficit soon. The EUR/CZK rate is moving sideways, but the unexpectedly high current account surplus and the balance of payments for April argue against a weaker CZK.

### Market outlook

The CNB monetary policy board meeting next week is not likely to bring any surprises. The key rate should stay at the very low level of 0.75%. It could be rather interesting to listen the subsequent comments on the latest data, which has been moving in a rather pro-inflationary direction, such as a PPI inflation increase and the decline in unemployment. We reiterate that the current level of bond yields does not seem to be favourable for selling in the short term, as global risk aversion is already quite high and domestic political developments could be rather supportive for the bonds. We leave our short-term recommendation for Czech government bonds at HOLD.

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

### Exchange rate focus\*

	actual	Sep-10	Dec-10	Mar-11
<b>EUR/CZK</b>	<b>25.71</b>	<b>24.8</b>	<b>25.0</b>	<b>24.6</b>
Change from last week	0.7%			
<b>USD/CZK</b>	<b>20.80</b>	<b>19.8</b>	<b>20.8</b>	<b>21.4</b>
Change from last week	3.7%			

\* forecasts under revision

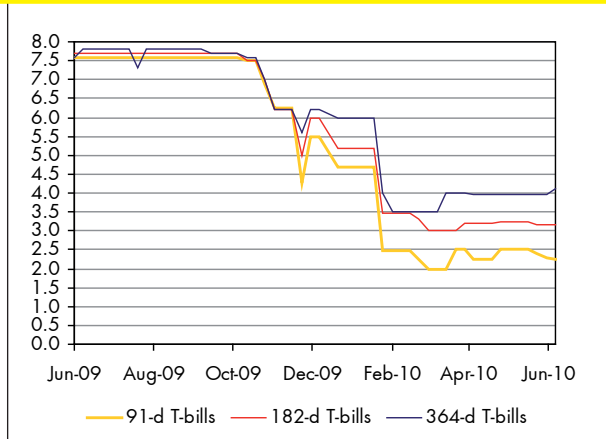
# Croatia

## Still no inflation fears

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

10 Jun 10	PPI, % yoy	May 4.9 (Apr 5.1)
15 Jun 10	CPI, % yoy	May 0.8 (Apr 0.6)
24 Jun 10	Industrial output, % yoy	May -3.0 (Apr -6.6)

### Interest rates on T-bills



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market strategy

Neutral EUR/HRK

### Market comment

In line with our expectations, inflationary pressures remained weak as unfavourable movements in the real sector and on the labour market continued to hobble demand. The latest data show that annualised inflation in Croatia amounted to 0.8% in May, while prices increased 0.2% in monthly terms. The rise in prices was primarily due to higher energy prices, especially for liquid fuels. The prices of food and non-alcoholic beverages are still exerting downward pressure on the overall price level as major food chains are frequently cutting prices and extending special offers to draw customers.

In the upcoming months, inflationary pressures will remain very weak because of poor domestic demand. However, increased demand for crude oil on foreign markets has been exerting upward pressure on energy prices in Croatia since the beginning of the year. Moreover, as the real sector starts to recover, which we expect to happen in the second half of the year, inflationary pressures should be more pronounced. Increases in administered prices, especially the announced electricity price hike, could also cause the prices of other goods and services to rise.

### Money market focus\*

	1m	3m	6m	12m
ZIBOR actual	1.45	2.44	3.23	4.10
Change from last week	0.05	0.08	0.00	0.09
T-bills actual	n.a.	2.25	3.15	4.10

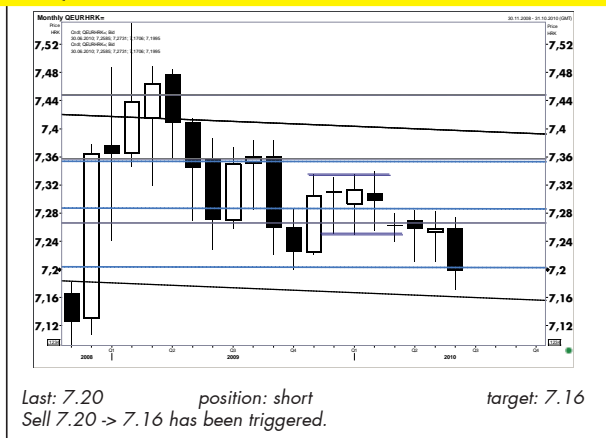
\* forecasts under revision

### Exchange rate focus\*

	actual	Sep-10	Dec-10	Mar-11
EUR/HRK	7.216	7.30	7.32	7.35
Change from last week	-0.4%			
USD/HRK	5.87	5.84	6.10	6.39
Change from last week	-3.2%			

\* forecasts under revision

### EUR/HRK



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market outlook

Speculations on the market that the government might issue a bond indexed to the euro led to an increase in the supply of euros from the banking sector and triggered appreciation pressures on the kuna. In the coming week, we expect that the rate will remain at similar levels as last week. At the monthly level, the start of the main tourist season should create appreciation pressures on the kuna, but seasonal effects will be less pronounced than in previous years. We do not expect that the rate will fall below EUR/HRK 7.20 since the CNB can be expected to react in this event.

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

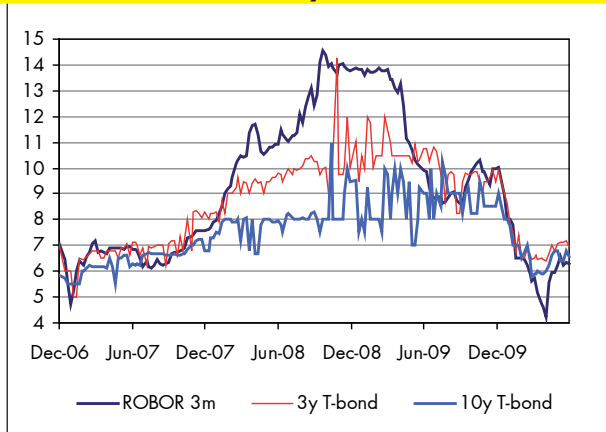
# Romania

## Government survives the no-confidence vote

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

09 Jun 10	Foreign trade balance, EUR mn	Apr -580 (Mar -705)
16 Jun 10	Current account, EUR mn	Apr -600 (Mar -840)
16 Jun 10	FDI inflows, EUR bn, ytd	Apr 1.14 (Mar 0.97)

### ROBOR 3m & T-bond yields (%)



Source: Thomson Reuters, Raiffeisen RESEARCH

### Money market focus\*

MM rates	1m	3m	6m	12m
<b>Actual</b>	<b>6.01</b>	<b>6.28</b>	<b>6.38</b>	<b>6.39</b>
Change from last week	-0.26	-0.04	0.02	0.03
Forecast Sep-10	5.5	5.6	5.6	5.8
<b>Implicit forward rates</b>	<b>3x6</b>	<b>6x9</b>	<b>9x12</b>	
	6.53	6.36	6.24	
Change from last week	0.08	0.05	0.03	

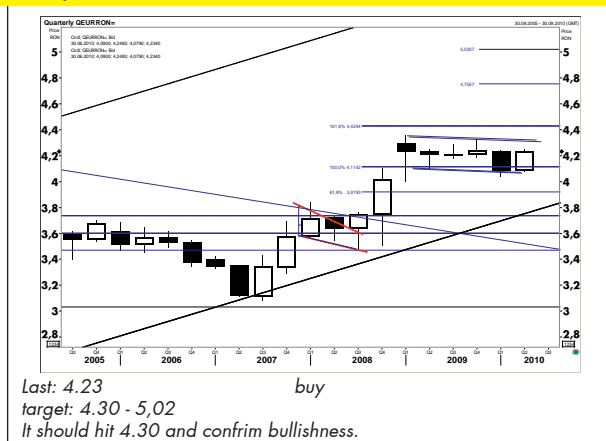
\* forecasts under revision

### Bond market focus\*

	2y	3y	5y	10y
<b>Actual</b>	<b>5.98</b>	<b>6.96</b>	<b>7.03</b>	<b>6.58</b>
Change from last week	-1.22	-0.22	-0.25	-0.24
Forecast Sep-10	6.40	6.50	6.60	6.00
<b>Spread to bunds</b>	<b>546.4</b>	<b>632.1</b>	<b>551.3</b>	<b>391.5</b>
Change from last week	-124.8	-26.1	-24.3	-28.8

\* forecasts under revision

### EUR/RON



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market strategy

Neutral RON T-bonds

### Market comment

As we expected, the government survived the opposition's no-confidence motion on Tuesday. There were 228 votes for the no-confidence motion (against the government), but 236 would have been needed for it to pass. As a result, the laws aimed at a 25% cut in public sector wages and a 15% cut in social transfers (pensions, unemployment benefits) are effectively approved by parliament. The opposition parties asked the constitutional court to decide if the two laws are in line with country's fundamental law. The constitutional court will discuss the challenge on 24 June. While there is still some uncertainty about how the constitutional court will decide, we think that it will uphold the new laws.

### Market outlook

Although the government succeeded in surviving the no-confidence vote, there was no impact on the financial markets. The leu failed to gain after the vote, and yields made no visible moves. We think that developments on the external markets will remain the key drivers of movements in the leu exchange rate and bond yields in the period ahead. While we anticipate that the leu will strengthen slightly, we think that yields will continue to trade in the vicinity of their current levels. The finance ministry is trying to keep yields under control. In an interview with the newspaper Ziarul Financiar at the beginning of the week, Finance Minister Vladescu explained that the investors' bids were rejected during the last government securities auctions because of the very high yields which they demanded. From the ministry's point of view, there was no reason for an increase in yields over the past weeks given that the monetary policy rate and the country's rating had remained unchanged.

Analyst: Ionut Dumitru (+40 37 2211269)

### Exchange rate focus\*

	actual	Sep-10	Dec-10	Mar-11
<b>EUR/RON</b>	<b>4.24</b>	<b>4.05</b>	<b>3.95</b>	<b>3.90</b>
Change from last week	-0.4%			
<b>USD/RON</b>	<b>3.42</b>	<b>3.24</b>	<b>3.29</b>	<b>3.39</b>
Change from last week	2.2%			

\* forecasts under revision

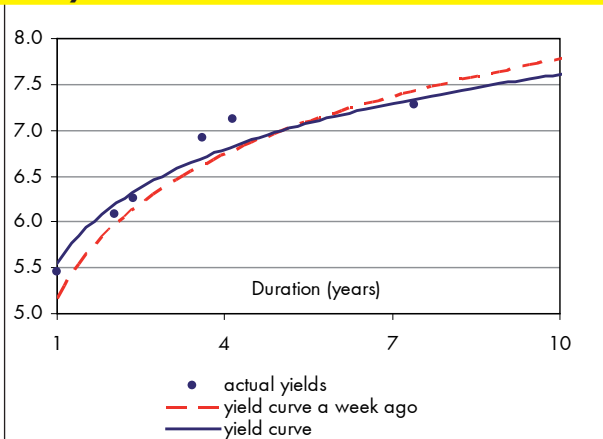
# Russia

## Very good economic output data

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

23 Jun 10	Retail sales, % yoy	May 6.0 (Apr 4.2)
23 Jun 10	Capex, % yoy	May 6.0 (Apr 2.3%)

### RUB yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market strategy

The rouble market consolidation might be creating an opportunity for savvy investors betting on more rate cuts in Russia to “buy into the weakness”. We expect an additional 25–50bp in rate cuts this year.

### Market comment

Russia’s industrial output rose 12.6% yoy in May, and was up 1.4% in month-on-month seasonally adjusted terms. The statistics service, or Rosstat, has also revised its industrial output data from 2006. It now says output fell by 9.3% last year, less than an earlier estimate of 10.8%. The latest figure came in slightly above the market’s consensus projection range, which forecast a maximum output increase of 12.5% in May. The output data confirms our earlier scenario of quickening economic growth in Q2–Q3, as both the index and its seasonally adjusted series indicate a visible acceleration of economic activity. However, the recent PMI survey indicates a certain degree of reversal despite the PMI index remaining well above 50. We attribute this situation to a summer seasonal pattern developing in May–June. Overall, the industrial production report is fairly positive and gives us reason to believe that the economy might be on the way to recovery despite weaker-than-expected investment activity in the prior months. We maintain a 5% GDP growth forecast for Russia. In related news, the World Bank recently announced that it was cutting Russia’s 2010 GDP forecast from 5.0%–5.5% to 4.5%, while the IMF upped its forecast from 4.0% to 4.25% for this year.

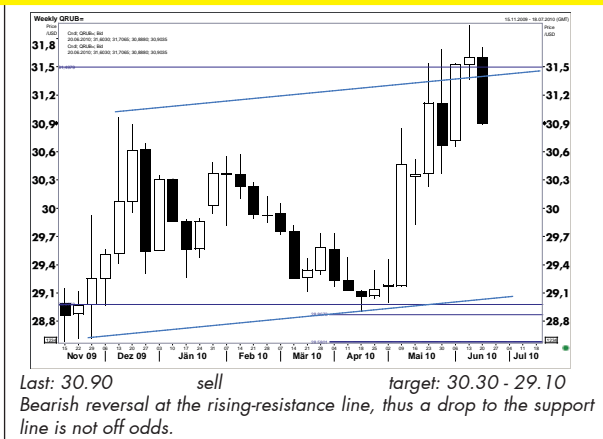
### Money market focus

MM rates	1m	3m	6m	12m
Actual	4.24	5.18	5.95	7.26
Change from last week	-0.92	-0.73	-0.54	-0.73
Forecast Mar-10	3.86	4.16	4.51	n.a.
Forward rates	1x2	3x6	6x9	9x12
	5.29	6.80	n.a.	n.a.
Change from last week	-0.56	-0.95	n.a.	n.a.

### Bond market focus

	1y	2y	5y	15y
Actual	5.46	6.08	6.91	7.28
Change from last week	0.72	0.10	0.00	-0.04
Forecast Mar-10	4.86	5.50	6.10	n.a.

### USD/RUB



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market outlook

The rouble market is in a consolidation phase. The rouble basket rate has reached 34.20, the stronger end of the current 34.15–34.65 trading range. Rouble interest rates are likely to drop a bit as the inflation report revealed very low price growth in the first two weeks of June.

Analyst: Gintaras Shlizhyus (+43 1 71707 1343)

### Exchange rate focus

	actual	Sep-10	Dec-10	Mar-11
EUR/RUB	38.20	36.52	36.00	35.12
Change from last week	2.2%			
USD/RUB	30.83	29.21	30.00	30.54
Change from last week				

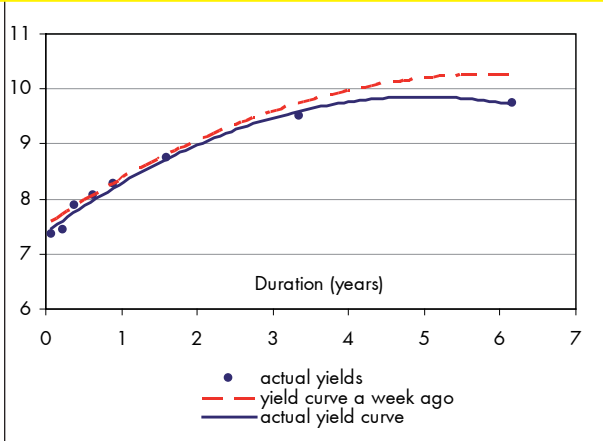
# Turkey

## 7 percentage points

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

17 Jun 10	CBT repo rate, %	June 7.0 (May 7.0)	fixed 1w repo auction rate to replace former borrowing rate
24 Jun 10	Capacity utilisation	June 74 (May 73.4)	
24 Jun 10	Manufacturing confidence	June n.a. (May 115.10)	

### TRY yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market strategy

Neutral TRY T-bonds

### Market comment

As expected, the central bank kept the key interest unchanged at its June meeting. The bank also repeated its wording of "policy rates at current levels for some time" and "low level for a long period". Recent data releases support our view of a strong H1 in Turkey. The three-month average unemployment rate decreased more than we expected, by 0.7% to 13.7%, consumer confidence climbed again to reach 86.6, and the state budget posted a surplus of TRY 5.8 bn in May. The budget surplus – the first in 21 months – was driven by a 32% yoy rise in revenues.

### Money market focus\*

MM rates	1m	3m	6m	12m
Actual	7.00	7.35	8.10	8.79
Change from last week	-0.01	0.00	0.00	-0.05
Forecast Sep-10	7.30	7.70	8.50	8.80
Implied forward rates	1x2	3x6	6x9	9x12
	7.36	8.69	9.35	8.66
Change from last week	0.01	0.00	-0.02	-0.17

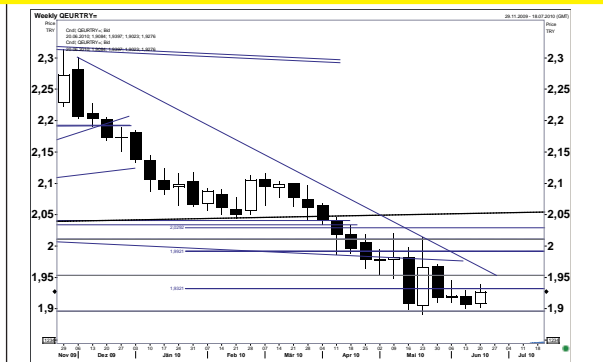
\* forecasts under revision

### Bond market focus\*

	1m	1y	2y	5y
Actual	7.37	8.28	8.74	9.51
Change from last week	-0.07	-0.07	-0.11	-0.11
Forecast Sep-10	n.a.	8.80	9.30	10.00

\* forecasts under revision

### EUR/TRY



Last: 1.92 buy 1.9450 target: 1.9520 - 1.9620  
 Sell-signal has gotten triggered at 1.97 -> 1.90 - 1.85, but currently it looks like a rebound towards even 1.9620 might follow.

Source: Thomson Reuters, Raiffeisen RESEARCH

### Market outlook

Given the (geographically) uneven and sluggish recovery in the Eurozone, we anticipate some negative impact on economic growth in Turkey. However, the strong domestic dynamics will likely prevail and result in robust growth of 6–7% this year (including a strong base effect of 4.5%). In such a "positive" scenario, the central bank may raise interest rates as planned from Q4 2010, if inflation slows in Q4 to levels only slightly above the target rate of 6.5% (say around 7.5%).

Next week's data releases include capacity utilisation, which only recently began to move. So we see still some room for further improvement, but do not expect another big leap upward.

Turkish assets may continue to profit from falling risk aversion, as seen in recent days. Government bonds are also seeing support from the expectedly stable key interest rates for the coming months and a more positive view of Turkey's fiscal position. Three bond market auctions are also scheduled for the coming week: A CPI-linked bond, a zero-coupon bond and a coupon-paying bond.

Analyst: Andreas Schwabe (+43 1 71707 1389)

### Exchange rate focus\*

	actual	Sep-10	Dec-10	Mar-11
EUR/TRY	1.93	1.88	1.80	1.67
Change from last week	0.8%			
USD/TRY	1.56	1.50	1.50	1.45
Change from last week	-1.4%			

\* forecasts under revision

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