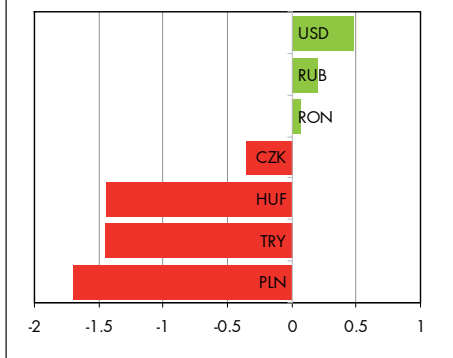


CEE Weekly Bond Markets Outlook

Issue 25/2010

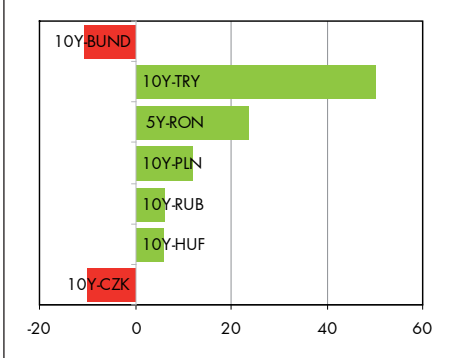
25 June 2010

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
Poland**				
PLN	4.09	3.75	3.65	3.50
1m-rate	3.4	3.6	3.8	4.0
5y bond	5.5	4.8	4.9	5.0
10y bond	6.0	5.3	5.4	5.5
Hungary**				
HUF	281.4	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	7.5	6.8	6.6	6.6
Czech Rep.**				
CZK	25.8	24.8	25.0	24.6
1m-rate	0.7	1.2	1.5	1.5
5y bond	2.8	3.5	3.8	4.0
10y bond	3.9	4.4	4.6	4.8
Russia *				
RUB	31.0	29.8	29.8	30.6
1m-rate	3.4	3.9	3.9	3.9
5y bond	6.9	6.4	6.1	5.6
10y bond	7.2	6.7	6.2	6.3
USD	1.23	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** – Current risks for the PLN and bond prices mainly stem from the global environment and the presidential elections on 4 July. The market ignored Komorowski's narrow margin over Kaczynski, but now might have priced in a possible Kaczynski victory, which would in turn put a drag on public finance reforms.
- Hungary** – The NBH held interest rates at 5.25% on Monday as widely expected. According to Governor Simor, the MPC was divided yet again, but the majority for holding rates steady was "overwhelming". Nevertheless, the MPC shifted communication to being less dovish, as Simor said he can't give any signals for the rate trajectory in the future.
- Czech Republic** – The Czech National Bank (CNB) left its key 2-week repo rate unchanged at 0.75% as generally expected on its monetary policy board meeting on Tuesday this week. Corresponding comment by the outgoing governor Zdenek Tuma stressed that inflationary and disinflationary pressures are roughly balanced, and the new data did not deviate significantly from the CNB forecast.
- Romania** – The government took additional measures in order to reduce the budget deficit. On Wednesday, it amended the Tax Code, broadening the taxation base. Starting with 1 July, the interest income on bank deposits and luncheon vouchers

Key upcoming events and data releases

Country	Time	Indicator	Period	Forecast	Range	Last
29-Jun						
HU	09:00	Unemployment, %	May	11.6	n.a.	11.5
30-Jun						
HU	08:30	Current account balance, EUR mn	Q1	128	-60/300/800	456
TR	09:00	Trade balance, USD bn	May	n.a.	-6.3/-5.6/-4.7	-5.5
TR	09:00	GDP, % yoy	Q1	12	11.0/11.5/12.8	6
30-Jun						
PL	n.a.	NBP rate decision, %	Jun	3.5	3.5/3.5/3.5	3.5
RO	n.a.	Monetary policy meeting, %	Jun	6.3	n.a.	6.3
HR	n.a.	GDP, % yoy	Q1	-2.5	n.a.	-4.5
HR	n.a.	Current account balance, EUR bn	Q1	-1.5	n.a.	-1.4
HR	n.a.	Imports, EUR mn	May	1399.0	n.a.	1256.0
HR	n.a.	Exports, EUR mn	May	670.0	n.a.	598.0
01-Jul						
PL	09:00	Manufacturing PMI	Jun	n.a.	n.a.	52.2
TR	09:00	Manufacturing PMI	Jun	n.a.	n.a.	56.0



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will be taxed at standard 16% rate instead of 0% previously. Capital gains on market securities held more than 1 year will be tax at 16% instead of 1%.

- **Croatia** – Industrial production fell by 3.4% yoy and 0.3% mom in May. Therefore, despite the base effect and accumulation of inventories, industrial activity has continued to contract and will have a negative impact on GDP. The negative output trends are the result of extremely sluggish domestic demand, while foreign demand – which pushed industry forward in the first quarter – has still not yet fully recovered.

- **Russia** – According to a statement by the economy minister, Russia's GDP rose 5.8% in May yoy and was up 0.4% on the month in seasonally adjusted terms. Most surprisingly, Russia's unemployment dropped from 8.2% in April to just 7.3% in May. The labour market statistic was perhaps the biggest and the most positive surprise for us. Overall, our prediction of a faster pace of economic recovery in Q2 and especially during Q3 is beginning to materialise.

- **Turkey** – The market may view the high GDP growth in Q1 positively. Due to the base effect, the yearly rate will likely come in at 11–12%. The trade balance deficit for May will likely increase again, while the PMI survey result for June could show the first decline since February. Government bond yields are already low, so we don't see

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-Jun-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
Buy RON T-Bond 10/2012 (ISN RO0912DBN076)	22/04/2010	111.1	07/05/2010	109.5	-1.0%	Stopped out
Buy RUB T-Bond 11/2021 RU46018 (ISIN RU000A0DOG29)	23/04/2010	100.45	06/05/2010	98.6	-1.1%	Early stop-out
SELL USD/TRY (long TRY)	13/04/2010	1.492	28/04/2010	1.51	-0.93%	Stopped out
SELL BASKET/RUB (long RUB)	06/04/2010	33.81	06/05/2010	34.1	-0.86%	Stopped out
SELL EUR/PLN (long PLN)	10/05/2010	4.023	11/05/2010	4.05	-0.66%	Stopped out
SELL BASKET/RUB (long RUB)	10/05/2010	34.18	21/05/2010	34.67	-1.43%	Stopped out
SELL EUR/RON (long RON)	14/06/2010	4.23	25/06/2010	4.27	-0.76%	Stopped out

Source: Thomson Reuters, Bloomberg

Local currency bonds

Market overview

CEE local currency bond market snapshot

24/06/2010	Maturity	Coupon %	Ask price	YTM %	Spread to bunds (bp)	MDuration
Poland						
PLN 2y Gov. Bond	25/ Oct 12	0.00	89.55	4.86	4	2.3
PLN 5y Gov. Bond	25/ Apr 15	5.50	100.05	5.48	5	4.3
PLN 10y Gov. Bond	25/ Oct 20	5.25	94.63	5.96	5	7.9
PLN 20y Gov. Bond	25/ Apr 29	5.75	96.14	6.10	6	11.7
Hungary						
HUF 3y Gov. Bond	24/ Oct 13	7.50	102.03	6.78	6	2.9
HUF 5y Gov. Bond	12/ Feb 16	5.50	92.73	7.10	6	4.9
HUF 10y Gov. Bond	24/ Jun 19	6.50	93.93	7.45	7	7.0
HUF 15y Gov. Bond	24/ Nov 23	6.00	88.29	7.40	7	9.0
Czech Republic						
CZK 2y Gov. Bond	18/ Oct 12	3.55	103.75	1.87	2	2.2
CZK 5y Gov. Bond	11/ Apr 15	3.80	104.25	2.84	4	4.5
CZK 10y Gov. Bond	12/ Sep 20	3.75	96.80	4.14	4	8.4
CZK 15y Gov. Bond	25/ May 24	5.70	112.50	4.47	5	10.2
Croatia						
HRK 5y Gov. Bond	11/ Jul 13	4.50	98.74	4.95	323	2.8
HRK 10y Gov. Bond	8/ Feb 17	4.75	93.74	5.91	329	5.7
Romania						
RON 3y Gov. Bond	25/ Oct 10	6.00	99.79	6.54	588	0.3
RON 5y Gov. Bond	5/ Mar 12	6.50	100.11	6.40	490	1.6
Russia						
RUB 2y Gov. Bond	19/ Sep 12	10.80	110.60	5.77	521	2.0
RUB 5y Gov. Bond	17/ Dec 14	11.20	117.43	6.84	534	3.7
RUB 10y Gov. Bond	29/ Aug 18	8.00	101.88	6.71	409	4.2
RUB 30y Gov. Bond	6/ Feb 36	6.90	95.90	7.39	404	11.6
Turkey						
TRY 2y Gov. Bond	25/ Jan 12	0.00	87.53	8.75	819	1.6
TRY 5y Gov. Bond	6/ Aug 14	11.00	105.75	9.50	800	3.2
TRY 10y Gov. Bond	15/ Jan 20	10.50	105.50	9.82	720	6.3

Source: Thomson Thomson Reuters, Raiffeisen RESEARCH

Bond auctions

Bond auctions		ISIN	Coupon	Maturity	Volume
01-Jul					
HU	3y T-bond	HU0000402466	7.5%	24 Oct 2013	HUF 25bn
HU	5y T-bond	HU0000402318	5.5%	12 Feb 2016	HUF 15bn
HU	5y T-bond	HU0000402482	floaters	22 Dec 2015	HUF 10bn

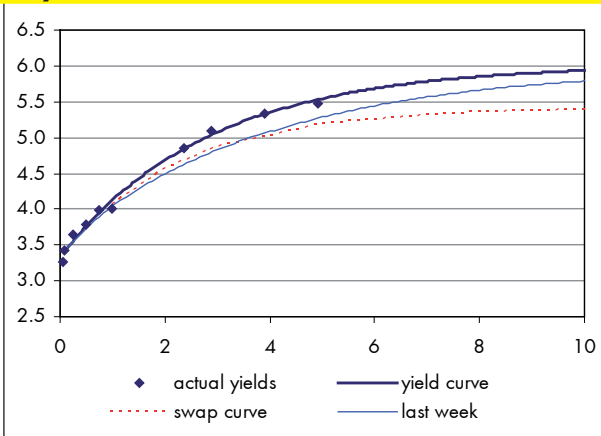
Poland

Yields up on risk aversion, rate hike fears

(P)review of key economic figures/events

18 Jun 10	Industrial output, % yoy	May 14 (Apr 9.9)	Surprisingly strong growth
24 Jun 10	Retail sales, % yoy	May 4.3 (Apr -1.6)	
30 Jun 10	NBP rate decision, %	Jun 3.5 (May 3.5)	No rate cuts in near future expected

PL yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Money market focus*

MM rates	1m	3m	6m	12m
Actual	3.43	3.65	3.79	4.04
Change from last week	0.00	-0.01	0.00	0.00
Forecast Sep-10	3.60	3.70	3.78	3.70
Forward rates	3x6	6x9	9x12	
	3.95	4.35	4.16	
Change from last week	0.01	0.00	0.00	

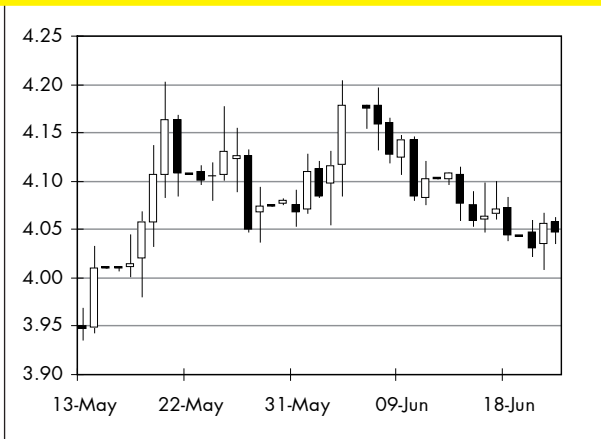
* forecasts under revision

Bond market focus*

	2y	5y	10y	20y
Actual	4.86	5.48	5.96	6.10
Change from last week	0.14	0.23	0.15	0.08
Forecast Sep-10	4.20	4.75	5.30	5.60
Spread to bunds	430.2	397.2	333.9	276.6
Change from last week	18.2	24.1	14.7	12.9
Spread to swaps	-25.4	-22.6	-49.6	

* forecasts under revision

EUR/PLN



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral PLN T-bonds

Market comment

Increasing risk aversion on the global markets and some comments by central bankers which indicate that rate hikes might be closer than expected drove 10-year yields up to 6% this week. Economic data released this week sparked some speculation on rate hikes after industrial production growth for May came in at 14% yoy, nearly double the market consensus. Moreover, employment figures and retail sales data for May were also better than expected. Although Komorowski beat out Kaczynski in the presidential elections, the margin between both candidates was narrower than expected. Both candidates will struggle for the presidential seat in a second round.

Market outlook

Although economic data releases again confirmed the good state of the Polish economy, we do not think any rate hikes are on the agenda at the moment. First, domestic demand will grow at a moderate rate despite the strong industrial output growth, which makes inflation pressures rather muted from this side. Moreover, with the slow recovery of the labour market, wage growth is still moderate compared to productivity gains, and unit labour costs are therefore manageable. Both factors will put pressure on prices in the future if the speed of economic growth increases, but there is still a long way to go before a point is reached where mid-term inflation risks increase enough to make the NBP change its policy mode. Current risks for the PLN and bond prices mainly stem from the global environment and the presidential elections on 4 July. The market ignored Komorowski's narrow margin over Kaczynski, but now might have priced in a possible Kaczynski victory, which would in turn put a drag on public finance reforms.

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

Exchange rate focus*

	actual	Sep-10	Dec-10	Mar-11
EUR/PLN	4.09	3.75	3.65	3.50
Change from last week	-0.2%			
USD/PLN	3.33	3.00	3.04	3.04
Change from last week	-0.6%			

* forecasts under revision



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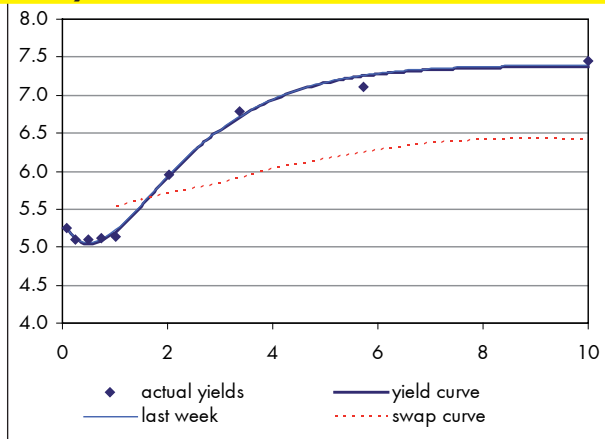
Hungary

No cut, but a shift in communication

(P)review of key economic figures/events

21 Jun 10	Monetary council meeting, %	Jun 5.25 (May 5.25)	No interest rate cut as expected
29 Jun 10	Unemployment, %	May 11.6 (Apr 11.5)	
30 Jun 10	Current account balance, EUR mn	Q1 128 (Q4 456)	

HUF yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Buy 10y HUF T-bonds

Market comment

The NBH held interest rates at 5.25% on Monday as widely expected. According to Governor Simor, the MPC was divided yet again, but the majority for holding rates steady was "overwhelming". Nevertheless, the MPC shifted communication to being less dovish, as Simor said he can't give any signals for the rate trajectory in the future. So far, MPC was for further cuts as risk-pricing eases. Another new interesting development after Monday's meeting was that Simor took up the government's gauntlet and answered the attacks, saying government cannot meddle in NBH salaries. Bickering is getting louder and certainly does no good for market sentiment especially since tension is mounting once again in Southern Europe. Against this background, Hungarian yields were broadly flat over the last couple of days on the back of some successful auctions.

Money market focus*

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

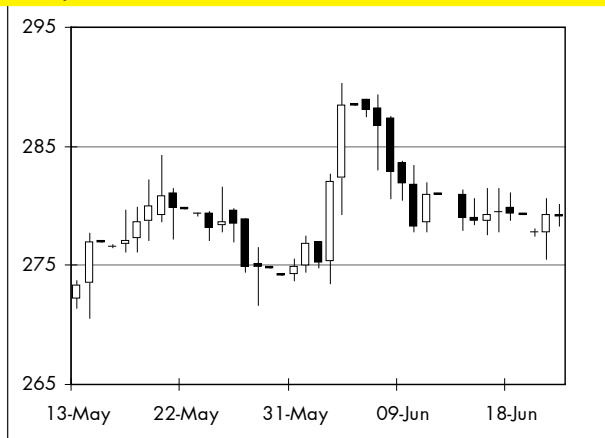
* forecasts under revision

Bond market focus*

	3y	5y	10y	15y
Actual	6.78	7.10	7.45	7.40
Change from last week	0.00	-0.02	-0.01	-0.03
Forecast Sep-10	5.8	6.2	6.8	6.8
Spread to bunds	612.2	558.9	483.2	393.9
Change from last week	-2.2	-0.6	3.2	-1.5

* forecasts under revision

EUR/HUF



Source: Thomson Reuters, Raiffeisen RESEARCH

Market outlook

Nearing the end of Q2 volatility might rise mildly. Nevertheless, the market these days is characterised by extremely low activity due to the season and the football World Cup, so big moves cannot be expected. Over the mid-term we still think the new government's program aimed at meeting the deficit targets could contribute to a lower risk-premium and thus open room for NBH to cut interest rate by another 25bp in Q3 2010. BUYING 10Y Hungarian Government Bonds are recommended and we remain with our forecast of EUR/HUF 275 for September.

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	281.38	275.0	275.0	270.0
Change from last week	-0.4%			
USD/HUF	229.21	220.0	229.2	234.8
Change from last week	-0.9%			

* forecasts under revision

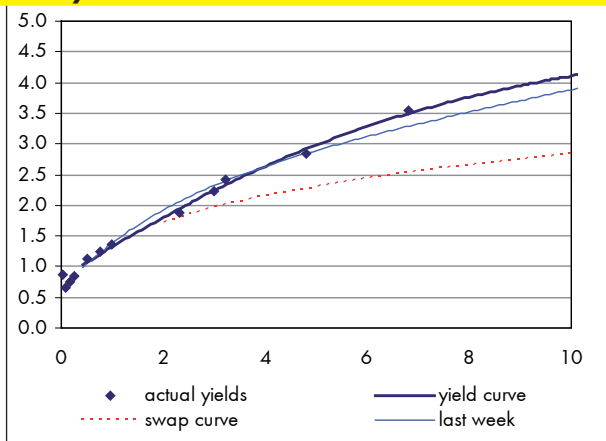
Czech Republic

Stringent budget allows lower rates

(P)review of key economic figures/events

23 Jun 10	CNB monetary policy meeting, %	Jun 0.75 (May 0.75)	Vice-Governor Miroslav Singer to follow Zdenek Tuma as Governor
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CZK yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Money market focus*

MM rates	1m	3m	6m	12m
Actual	0.66	0.85	1.13	1.35
Change from last week	0.00	0.02	0.02	0.01
Forecast Sep-10	1.2	1.3	1.4	1.7
Forward rates	1x2	3x6	6x9	9x12
Change from last week	0.82	1.41	1.46	1.67
Change from last week	0.02	0.02	-0.01	0.01

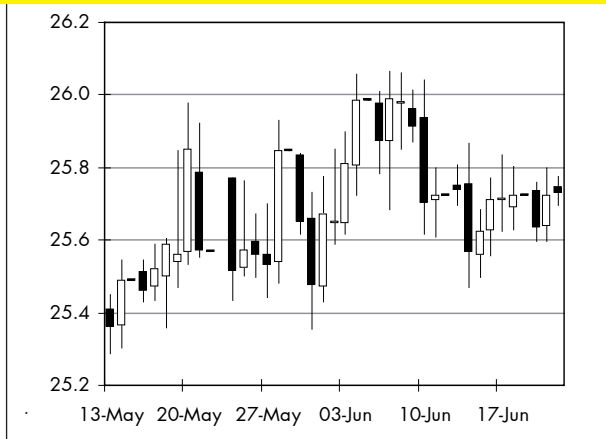
* forecasts under revision

Bond market focus*

	2y	5y	10y	15y
Actual	1.87	2.84	4.14	4.47
Change from last week	-0.12	-0.08	-0.09	-0.06
Forecast Sep-10	1.5	3.5	4.4	4.8
Spread to bunds	131.1	133.0	152.1	101.1
Change from last week	-16.2	-7.0	-4.5	-4.1
Spread to swaps	-5.5	-42.5	-115.5	n.a.

* forecasts under revision

EUR/CZK



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral CZK T-bonds

Market comment

The Czech Ministry of Finance announced that it will issue a Eurobond of around EUR 1 bn when market conditions improve. According to the ministry, the country is also considering other currencies for other issues. As widely expected, the Czech National Bank (CNB) left the key rate unchanged at 0.75%. Corresponding comment by the outgoing governor Zdenek Tuma stressed that inflationary and disinflationary pressures are roughly balanced, and the new data not deviate significantly from the CNB forecast. To sum up, compared to the CNB forecast we see lower unemployment, a slightly weaker CZK and higher inflation. On the other hand, the outlook for the Eurozone is far from clear and the emerging government provides greater chance of a more stringent budget policy which is an argument for no rate change. Czech President Klaus appointed Miroslav Singer as new CNB governor. Naming one of the vice-governors was the most expected option. Singer is a fan of a rather pro-active monetary policy and is likely to be more willing to move the interest rate more often.

Market outlook

Next week features no domestic data releases. The market perceives the May election outcome as positive and expects efforts to cut the budget deficit. So far the coalition talks seem promising. Efforts to cut the budget deficit could decelerate economic growth by roughly 50bp in 2011. This is positive for CZK bonds, but the amount of bond issuance will rise significantly in H2 2010.

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

Exchange rate focus*

	actual	Sep-10	Dec-10	Mar-11
EUR/CZK	25.73	24.8	25.0	24.6
Change from last week	-0.1%			
USD/CZK	20.96	19.8	20.8	21.4
Change from last week	-0.8%			

* forecasts under revision

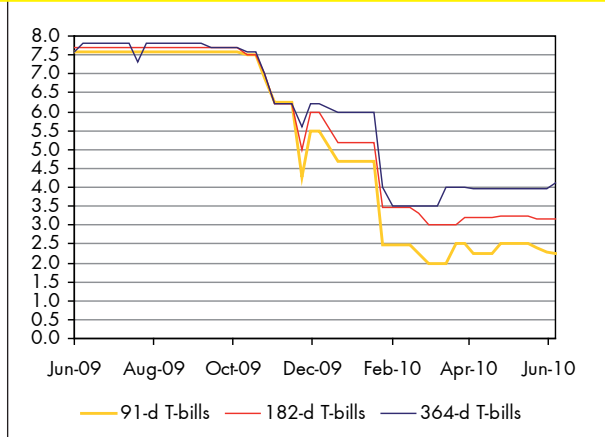
Croatia

Further decline of industry

(P)review of key economic figures/events

24 Jun 10	Industrial output, % yoy	May -3.4 (Apr -6.6)
30 Jun 10	GDP, real, % yoy	Q1 -2.5 (Q4 -4.5)
30 Jun 10	Current account, EUR bn	Q1 -1.5 (Q4 -1.4)

Interest rates on T-bills



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral EUR/HRK

Market comment

In line with our expectations industrial production fell by 3.4% yoy and 0.3% mom in May. Therefore, despite the base effect and accumulation of inventories, industrial activity has continued to contract and will have a negative impact on GDP. The negative output trends are the result of extremely sluggish domestic demand, while foreign demand – which pushed industry forward in the first quarter – has still not yet fully recovered and hence its impact on domestic economy is faltering. Moreover, lack of competitive, export-oriented industry became an obvious problem, which requires the implementation of much-needed reforms to be solved. Sustainable economic growth requires dealing with structural problems in sectors with low technological intensity, such as shipbuilding and the textile industry, as well as promoting development in segments that rely on new technology and knowledge with added value, i.e. promoting industries that will contribute to better productivity and higher employment. Industry might start to recover in H2 with a more visible revival of domestic demand (depending primarily on the results of the main tourist season) but the growth rate of industrial production for the whole year will stay below 1%.

Money market focus*

	1m	3m	6m	12m
ZIBOR actual	1.53	2.48	3.32	4.13
Change from last week	0.08	0.04	0.09	0.03
T-bills actual	n.a.	2.25	3.15	4.10

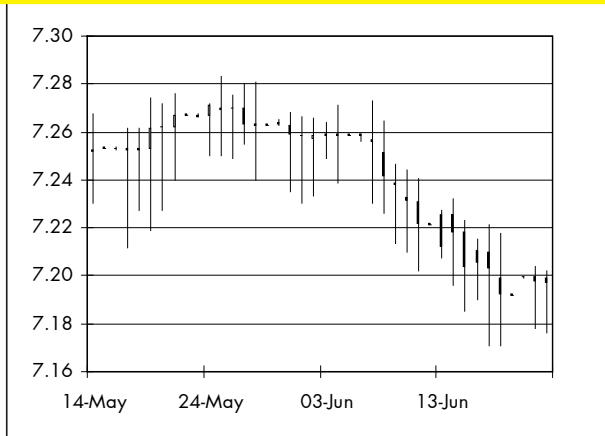
* forecasts under revision

Exchange rate focus*

	actual	Sep-10	Dec-10	Mar-11
EUR/HRK	7.198	7.30	7.32	7.35
Change from last week	-0.3%			
USD/HRK	5.86	5.84	6.10	6.39
Change from last week	-0.1%			

* forecasts under revision

EUR/HRK



Source: Thomson Reuters, Raiffeisen RESEARCH

Market outlook

On the domestic FX market this week saw intensification of appreciation pressures on kuna. From the stable trading levels of EUR/HRK 7.20 early in the week, the rate fell below 7.19 in the second half of the week, as a result of a stronger supply of euros from the banking sector and institutional investors. To prevent further appreciation pressures on HRK, CNB carried out an FX intervention (the first intervention since December of last year). In the week ahead, we do not expect significant changes in the exchange rate, as trading should remain in a range of 7.20 to 7.22. At a monthly level, the beginning of the tourist season might create further appreciation pressures on HRK, but seasonal influences could be less pronounced than in previous years.

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

Zrinka Zivkovic-Matijevic (+385 1 61 74338)

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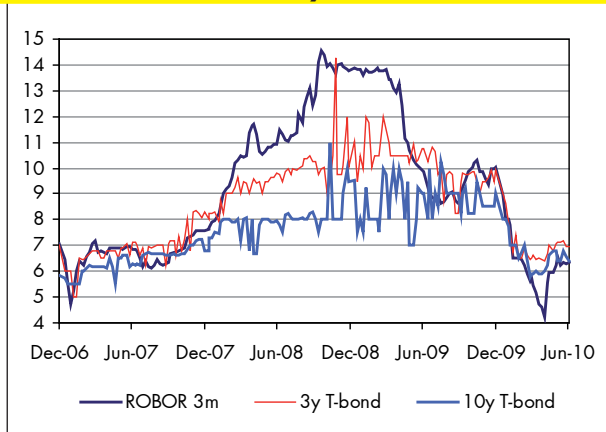
Romania

New measures to reduce budget deficit

(P)review of key economic figures/events

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)
30 Jun 10	Monetary policy meeting, %	Jun 6.25 (May 6.25)

ROBOR 3m & T-bond yields (%)



Source: Thomson Reuters, Raiffeisen RESEARCH

Money market focus*

MM rates	1m	3m	6m	12m
Actual	6.08	6.33	6.33	6.33
Change from last week	0.07	0.05	-0.05	-0.06
Forecast Sep-10	5.5	5.6	5.6	5.8
Implicit forward rates	3x6	6x9	9x12	
	6.38	6.28	6.18	
Change from last week	-0.16	-0.08	-0.06	

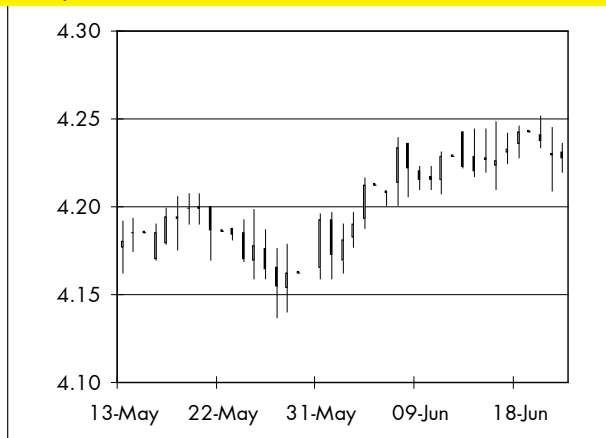
* forecasts under revision

Bond market focus*

	2y	3y	5y	10y
Actual	6.80	6.97	7.05	6.38
Change from last week	0.82	0.01	0.02	-0.20
Forecast Sep-10	6.40	6.50	6.60	6.00
Spread to bunds	624.3	631.2	554.1	375.8
Change from last week	77.9	3.3	-20.0	-15.8

* forecasts under revision

EUR/RON



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral RON T-bonds

Market comment

This week the government took additional measures in order to reduce the budget deficit. On Wednesday, it amended the Tax Code, broadening the taxation base. Starting with 1 July, the interest income on bank deposits and luncheon vouchers will be taxed at standard 16% rate instead of 0% previously. Capital gains on market securities held more than 1 year will be tax at 16% instead of 1%. Also, deductibility of expenses in the case of individuals gaining income from intellectual property rights has been reduced. The measures are expected to increase public budget revenues by around 0.12% of GDP this year. Also, the government decided on a 20% cut in the expenses with good and services in the public sector and in state-owned companies. The Constitutional Court has postponed for today the verdict on the austerity measures approved by the Parliament (cut in public wages by 25% and in pensions and other social transfers by 15%): are they or not in line with country's fundamental law? We are looking for a favourable answer. In this case, there is a strong chance that the IMF Board will discuss Romania's letter of intent at its next meeting on 28 June and disbursement of an additional instalment from the external financing package agreed in 2009 could be approved.

Market outlook

We expect the central bank to keep the key interest rate unchanged at 6.25%. On the external markets, risk aversion and uncertainty remains elevated. On the domestic market, there is also some uncertainty related to inflation dynamics and government policies. Given these circumstances, we expect the NBR to remain prudent.

Analyst: Ionut Dumitru (+40 37 2211269)

Exchange rate focus*

	actual	Sep-10	Dec-10	Mar-11
EUR/RON	4.23	4.05	3.95	3.90
Change from last week	0.1%			
USD/RON	3.44	3.24	3.29	3.39
Change from last week	-0.7%			

* forecasts under revision



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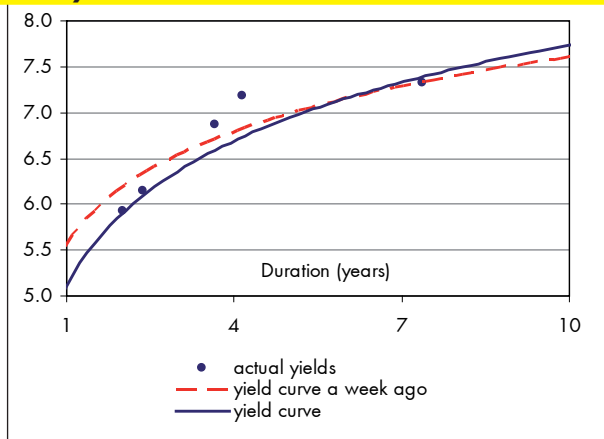
Russia

Economic revival continues

(P)review of key economic figures/events

No important data or market releases next week

RUB yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

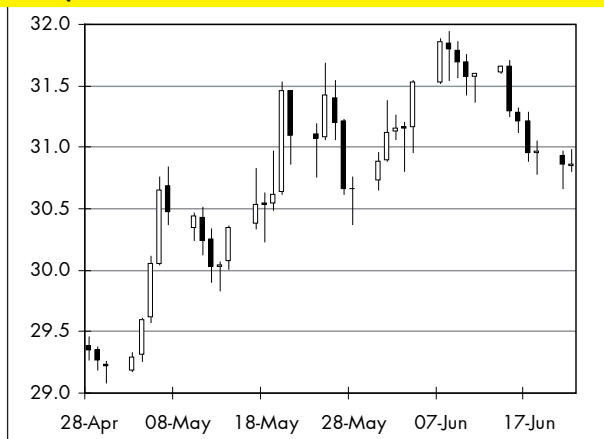
Money market focus

MM rates	1m	3m	6m	12m
Actual	4.22	5.09	5.82	7.24
Change from last week	-0.94	-0.79	-0.63	-0.86
Forecast Mar-10	3.86	4.16	4.51	n.a.
Forward rates	1x2	3x6	6x9	9x12
	5.19	6.63	n.a.	n.a.
Change from last week	-0.65	-1.12	n.a.	n.a.

Bond market focus

	1y	2y	5y	15y
Actual	4.72	5.92	6.87	7.33
Change from last week	-0.74	-0.15	-0.04	0.04
Forecast Mar-10	4.86	5.50	6.10	n.a.

USD/RUB



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Russia's rouble did not hold against the sliding market and lower oil prices. Further rouble weakness and an apparent surge in volatility speak against taking long rouble positions right now. Over the medium term, we still expect the rouble to reach 33.5 against the basket compared to the current 34.30.

Market comment

Russia's economic newsflow remains fairly encouraging. According to a statement by the economy minister, Russia's GDP rose 5.8% in May yoy and was up 0.4% on the month in seasonally adjusted terms. That was a clear improvement from April's 5.5% yoy growth. Meanwhile, all major economic indicators for May revealed substantial positive development. Retail sales growth accelerated to 5.1% yoy in May up from 4.4% in April, while month-on-month growth jumped to 2.1% in May compared to just 0.4% for April. Capital investment surged from 2.3% yoy in April to 5.5% in May and the monthly growth rate jumped by 19.2% thanks to stronger base effect from the last year. Perhaps most surprisingly, Russia's unemployment dropped from 8.2% in April to just 7.3% in May. Despite fewer details on labour statistic we assume that the summer season is helping to temporarily reduce unemployment via more seasonal jobs and less people filling their jobless claims during the summer vacation season. Still, the labour market statistic was perhaps the biggest and the most positive surprise for us. Overall, our prediction of a faster pace of economic recovery in Q2 and especially during Q3 is beginning to materialise, but we have some concerns about Q4 when positive effect of the restocking process might fade.

Market outlook

The rouble nosedived to 34.30 against the dual currency basket, returning into the older trading range of 34.15-34.65. The finance ministry managed to place about USD 274mn in rouble OFZ bonds at an average yield of 6.98%.

Analyst: Gintaras Shlizhyus (+43 1 71707 1343)

Exchange rate focus

	actual	Sep-10	Dec-10	Mar-11
EUR/RUB	38.30	36.52	36.00	35.12
Change from last week	2.0%			
USD/RUB	31.08	29.21	30.00	30.54
Change from last week	0.0%			

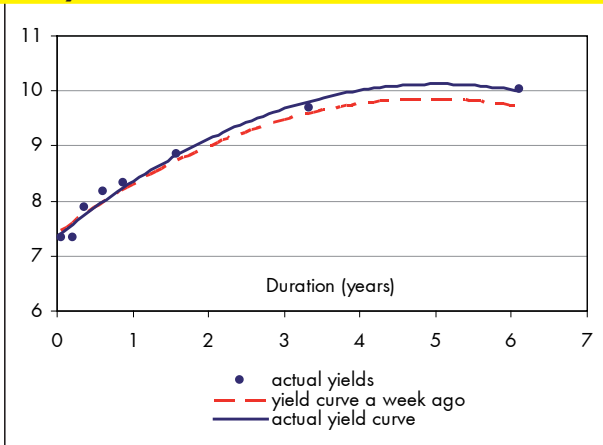
Turkey

Double-digit GDP growth

(P)review of key economic figures/events

30 Jun 10	Trade balance, USD bn	May n.a. (Apr -5.5)	qoq sa: Q1 1.0 (Q4 2.3), strong base effect in yoy figure slight decrease expected, as manufacturing confidence turned
30 Jun 10	GDP, % yoy	Q1 12.0 (Q4 6.0)	
01 Jul 10	Manufacturing PMI	June n.a. (May 56.0)	

TRY yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral TRY T-bonds

Market comment

Thursday's data releases pointed to a deceleration of the economic recovery towards the end Q2, likely stemming from the negative impacts of Eurozone woes. First, capacity utilisation remained virtually stagnant at 73.6% (+0.2 pp). Second, manufacturing confidence gave ground for the second month in a row, falling by 3.4 points to 111.7 (the high was at 118.8). In particular, most of the changes in forward-looking components (three-months-ahead questions) were strongly negative by 6–10 points.

Last week's bond auctions went very well, being oversubscribed 3 times (2012 benchmark zero bond at 8.79%) and 5.6 times (2015 inflation-linked bond). Overall, government bond yields remained relatively low as decreasing inflation expectations shifted interest rate hikes to some later point in time. Also, the central bank's announcement that it would continue with bond purchases of TRY 3 bn this year supported the market (the bank wants to buy TRY 200 mn at a 2012 benchmark bond auction later this month).

Money market focus*

MM rates	1m	3m	6m	12m
Actual	7.03	7.34	8.10	8.74
Change from last week	0.02	-0.01	0.00	-0.04
Forecast Sep-10	7.30	7.70	8.50	8.80
Implied forward rates	1x2	3x6	6x9	9x12
	7.33	8.70	9.33	8.51
Change from last week	-0.03	0.01	-0.02	-0.15

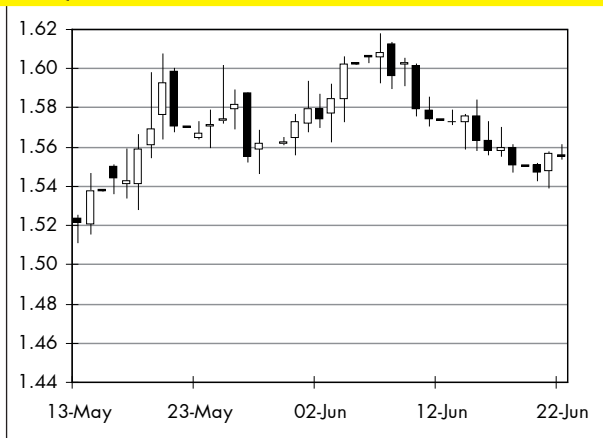
* forecasts under revision

Bond market focus*

	1m	1y	2y	5y
Actual	7.34	8.34	8.86	9.68
Change from last week	-0.03	0.06	0.12	0.17
Forecast Sep-10	n.a.	8.80	9.30	10.00

* forecasts under revision

USD/TRY



Source: Thomson Reuters, Raiffeisen RESEARCH

Market outlook

There will not be many data releases next week. The market may view the high GDP growth in Q1 positively. Due to the base effect, the yearly rate will likely come in at 11–12%, while the seasonally adjusted qoq growth rate is expected to decrease from the 2.3% posted in Q4 2009. In Q2, GDP growth may amount to around 7% yoy. The trade balance deficit for May will likely increase again, while the PMI survey result for June could show the first decline since February. Government bond yields are already low, so we don't see much downward potential. The lira remains quite vulnerable, especially in a negative global risk environment.

Analyst: Andreas Schwabe (+43 1 71707 1389)

Exchange rate focus*

	actual	Sep-10	Dec-10	Mar-11
EUR/TRY	1.95	1.88	1.80	1.67
Change from last week	1.0%			
USD/TRY	1.58	1.50	1.50	1.45
Change from last week	1.6%			

* forecasts under revision

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