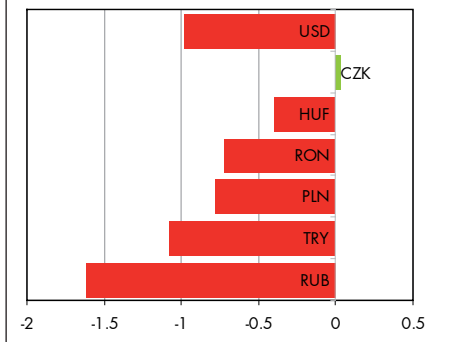


CEE Weekly Bond Markets Outlook

Issue 26/2010

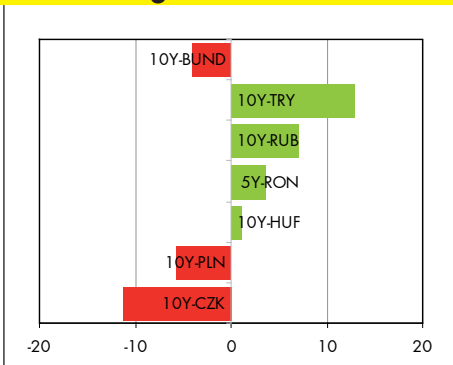
2 July 2010

LCY changes vs. EUR*



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

Yield changes*



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

Recommendations

For detailed recommendations please see page 2.

Highlights

- Poland** – Despite the more hawkish wording by the MPC on Wednesday, we do not expect any rate increases this year. The comments were not as clear as we would expect, if rate increases were near. Most likely, the October inflation report will be more important concerning any signs and size of possible rate hikes. Our short-term LCY bond recommendation remains “neutral”.
- Hungary** – Clarification on the bank tax was postponed by the government as banks were given a reprieve to digest the numbers. Both domestic and international statements made it clear that the burden of the levy is too heavy, but nevertheless Mr. Orban is sticking to the HUF 200 bn. Details will probably arrive at the weekend. Some interesting macro news is expected in the coming days. The budget is expected to come in close to the full-year target.
- Czech Republic** – President Klaus appointed Kamil Janacek as a new central bank board member to fill the gap after the resignation of CNB governor Tuma. It is worth noting that Janacek is a close friend of the president. That means that the new CNB board is a bit more euro-sceptical now and is likely to

Forecast

	current	Sep-10	Dec-10	Mar-11
Poland**				
PLN	4.15	3.75	3.65	3.50
1m-rate	3.4	3.6	3.8	4.0
5y bond	5.4	4.8	4.9	5.0
10y bond	5.9	5.3	5.4	5.5
Hungary**				
HUF	286.3	275	275	270
1m-rate	5.3	4.9	5.0	5.0
5y bond	7.3	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	4.0	4.4	4.6	4.8
Russia *				
RUB	31.4	29.8	29.8	30.6
1m-rate	3.4	3.9	3.9	3.9
5y bond	7.0	6.4	6.1	5.6
10y bond	7.2	6.7	6.2	6.3
USD	1.25	1.25	1.20	1.15

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

Key upcoming events and data releases

Country	Time	Indicator	Period	Forecast	Range	Last
05-Jul						
HU	n.a.	Budget balance, HUF bn	Jan-Jun	-850.0	n.a.	-736.0
RO	n.a.	Retail sales, % yoy	May	n.a.	n.a.	-5.1
TR	09:00	Consumer prices, % yoy	May	8.9	n.a.	9.1
RU	n.a.	Services PMI (index)	Jun	n.a.	n.a.	55.9
RU	n.a.	Consumer prices, % mom	Jun	0.4	0.3/0.4/0.6	0.5
RU	n.a.	Consumer prices, % yoy	Jun	5.7	5.5/7.0/8.6	5.9
07-Jul						
HU	09:00	Industrial output, % yoy	May	9.7	n.a.	9.7
CZ	09:00	Foreign trade balance, CZK bn	May	12.0	6.5/14.0/16.5	15.4
CZ	09:00	Retail sales, % yoy	May	2.0	-2.6/1.0/4.6	-4.5
08-Jul						
CZ	09:00	Industrial output, % yoy	May	18.5	11.6/15.0/19.5	10.9
RO	n.a.	Industrial output, % yoy	May	4.8	n.a.	3.1
TR	09:00	Industrial output, % yoy	May	n.a.	n.a.	17
09-Jul						
HU	09:00	Trade balance, EUR mn	May	n.a.	n.a.	505
HR	n.a.	PPI, % mom	Jun	0.1	n.a.	0.5
HR	n.a.	PPI, % yoy	Jun	4.4	n.a.	4.9



**Raiffeisen
RESEARCH**

RZB Group

strongly oppose EU regulation of the financial system. From the point of view of monetary policy, Janacek is likely to be more of a dove rather than a hawk.

- **Romania** – The inflation outlook has changed completely after the hike in VAT. Although we do not expect full pass-through of the hike in VAT to final consumer prices, the impact should be substantial. Moreover, the floods in the last two weeks add to risks of seeing food prices go higher. With the sharp rise in the inflation rate, there is no room for interest rates to go down (as we had previously expected).
- **Croatia** – The final data for real GDP released by the CBS confirmed the flash estimate. Hence, in Q1 2010 the economy contracted by 2.5% yoy. As we expected, the decline in personal consumption and investment in fixed capital contributed the most to the contraction. In Q2, we expect that the negative trends will continue, while the first signs of recovery could be expected in H2 at the earliest.

- **Russia** – As expected, this week the central bank's monetary policy council left all key interest rates unchanged at 7.75%. Despite the fairly good inflation outlook for June (estimating inflation down from 0.5% in May to 0.4% in June), some central bank members stepped up their rhetoric concerning future inflation risks.
- **Turkey** – Bond yields already fell by 30bp during the last week, as the market is lowering its interest rate expectations. We think, that the current level is already relatively low, but could still fall slightly in the short term. The lira will mostly depend on changes in global sentiment, but we see some potential for a return to stronger levels in the current year.

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	89.6	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 (ISIN RO0912DBN076)	22/04/2010	111.1	07/05/2010	109.5	-1.0%	Stopped out
Buy RUB T-Bond 11/2021 RU46018 (ISIN RU000A0D0G29)	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

Local currency bonds

Market overview

CEE local currency bond market snapshot

01/07/2010	Maturity	Coupon %	Ask price	YTM %	Spread to bunds (bp)	MDuration
Poland						
PLN 2y Gov. Bond	25/ Oct 12	0.00	89.81	4.77	4	2.3
PLN 5y Gov. Bond	25/ Apr 15	5.50	100.57	5.36	5	4.3
PLN 10y Gov. Bond	25/ Oct 20	5.25	94.75	5.94	5	7.9
PLN 20y Gov. Bond	25/ Apr 29	5.75	96.60	6.06	6	11.7
Hungary						
HUF 3y Gov. Bond	24/ Oct 13	7.50	101.41	6.99	6	2.9
HUF 5y Gov. Bond	12/ Feb 16	5.50	91.91	7.30	6	4.9
HUF 10y Gov. Bond	12/ Nov 20	7.50	99.94	7.50	7	7.2
HUF 15y Gov. Bond	24/ Nov 23	6.00	87.69	7.48	7	8.9
Czech Republic						
CZK 2y Gov. Bond	18/ Oct 12	3.55	104.60	1.48	2	2.2
CZK 5y Gov. Bond	11/ Apr 15	3.80	104.90	2.69	4	4.4
CZK 10y Gov. Bond	12/ Sep 20	3.75	98.30	3.96	4	8.4
CZK 15y Gov. Bond	25/ May 24	5.70	114.20	4.32	5	10.2
Croatia						
HRK 5y Gov. Bond	11/ Jul 13	4.50	98.31	5.11	331	2.8
HRK 10y Gov. Bond	8/ Feb 17	4.75	93.41	5.97	341	5.7
Romania						
RON 3y Gov. Bond	25/ Oct 10	6.00	99.61	7.17	630	0.3
RON 5y Gov. Bond	5/ Mar 12	6.50	99.19	7.00	553	1.6
Russia						
RUB 2y Gov. Bond	19/ Sep 12	10.80	111.15	5.47	481	2.0
RUB 5y Gov. Bond	17/ Dec 14	11.20	117.20	6.88	541	3.6
RUB 10y Gov. Bond	29/ Aug 18	8.00	105.97	5.73	316	4.3
RUB 30y Gov. Bond	6/ Feb 36	6.90	95.00	7.48	422	11.6
Turkey						
TRY 2y Gov. Bond	25/ Jan 12	0.00	87.80	8.66	800	1.6
TRY 5y Gov. Bond	6/ Aug 14	11.00	105.70	9.51	804	3.2
TRY 10y Gov. Bond	15/ Jan 20	10.50	106.00	9.74	717	6.3

Source: Thomson Thomson Reuters, Raiffeisen RESEARCH

Bond auctions

Bond auctions		ISIN	Coupon	Maturity	Volume
07-Jul					
PL	2y T-bond	PL0000106100	0.0%	25 Oct 2012	PLN 3-5 bn

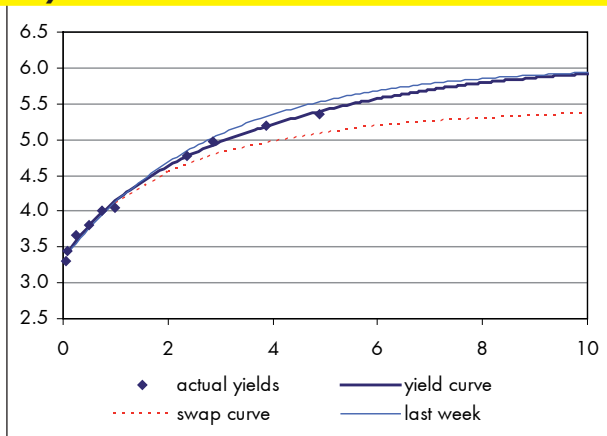
Poland

Monetary policy stance changes slightly

(P)review of key economic figures/events

18 Jun 10	Industrial output, % yoy	May 14 (Apr 9.9)	
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 increase as expected

PL yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Money market focus*

MM rates	1m	3m	6m	12m
Actual	3.44	3.67	3.81	4.05
Change from last week	0.01	0.02	0.02	0.01
Forecast Sep-10	3.60	3.70	3.78	3.70
Forward rates	3x6	6x9	9x12	
Change from last week	0.02	0.02	-0.02	

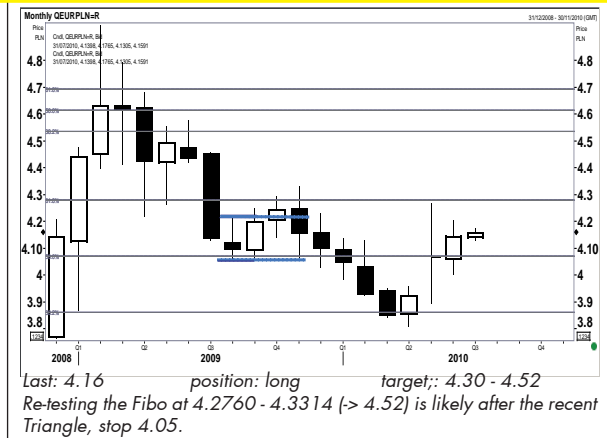
* forecasts under revision

Bond market focus*

	2y	5y	10y	20y
Actual	4.77	5.36	5.94	6.06
Change from last week	0.00	-0.13	-0.02	-0.04
Forecast Sep-10	4.20	4.75	5.30	5.60
Spread to bunds	410.8	386.2	337.5	282.6
Change from last week	-20.1	-12.0	-1.6	5.3
Spread to swaps	-16.2	-17.6	-50.9	

* forecasts under revision

EUR/PLN



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral PLN T-bonds

Market comment

The MPC did not change the key interest rates, but the press release on the monetary policy meeting together with the inflation projection and the comments by new governor Marek Belka in the press conference show some bias of the MPC towards a more hawkish monetary stance. The central projection of the inflation rate shows increasing inflation until 2012, but still remaining within the monetary policy target range. On Sunday, the presidential elections will go into the second round. Opinion polls show that Komorowski has a good chance to win the race, but his margin is too low to make a certain prediction. Thus, there remains a possibility of a Kaczynski victory. The MoF announced that it will sell PLN 15-26 bn in Q3.

Market outlook

The range of the debt supply for Q3 is quite large, but the maximum planned value is still below what the MoF sold in Q2. The head of the MoF's debt department said that 59% of the PLN 197 bn financing requirement for 2010 has already been met at the end of June. Given that the budget deficit will be lower than planned this year, this number could be even larger than 59%. Moreover, the MoF still plans to issue Eurobonds in Q3, depending on market conditions. Overall, there is a fairly good chance that the supply of local currency bonds will be less than the PLN 26 bn maximum value for Q3. Despite the more hawkish wording by the MPC on Wednesday, we do not expect any rate increases this year. The comments were not as clear as we would expect, if rate increases were near. Most likely, the October inflation report will be more important concerning any signs and size of possible rate hikes.

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

Exchange rate focus*

	actual	Sep-10	Dec-10	Mar-11
EUR/PLN	4.15	3.75	3.65	3.50
Change from last week	-1.6%			
USD/PLN	3.38	3.00	3.04	3.04
Change from last week	-1.4%			

* forecasts under revision

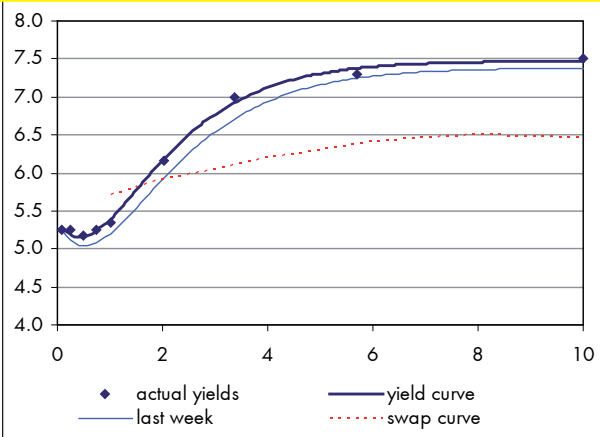
Hungary

Unemployment seems to have peaked

(P)review of key economic figures/events

30 Jun 10	Current account balance, EUR mn	Q1 340 (Q4 450)	Better than expected current account figures in Q1 10
05 Jul 10	Budget balance, HUF bn	Jan-Jun -850 (Jan-May -736)	Budget deficit expected close to full-year target
07 Jul 10	Industrial output, % yoy	May 9.7 (Apr 9.7)	

HUF yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Buy 10y HUF T-bonds

Market comment

Recent weeks have been generally quiet. Once again, the slight rise in yields and HUF weakening reflects the gloomy international market sentiment. Activity is still extremely weak, and most domestic players are staying on the sidelines, which is mostly a seasonal effect enhanced by the World Cup. Clarification on the bank tax was postponed by the government as banks were given a reprieve to digest the numbers. Both domestic and international statements made it clear that the burden of the levy is too heavy, but nevertheless Mr. Orban is sticking to the HUF 200 bn. Details will probably arrive at the weekend.

On the bright side, unemployment decreased unexpectedly quickly in May. Unemployment seems to have been peaked out in Q2, and other statistics show that hiring has speeded up in the manufacturing sector in recent months. We expect unemployment to ease at a more gradual pace during H2, as the economic outlook is clouded by austerity programmes all around Europe.

Money market focus*

MM rates	1m	3m	6m	12m
Actual	5.25	5.28	5.29	5.37
Change from last week	0.00	0.03	0.04	0.12
Forecast Sep-10	4.9	5.0	5.0	5.0

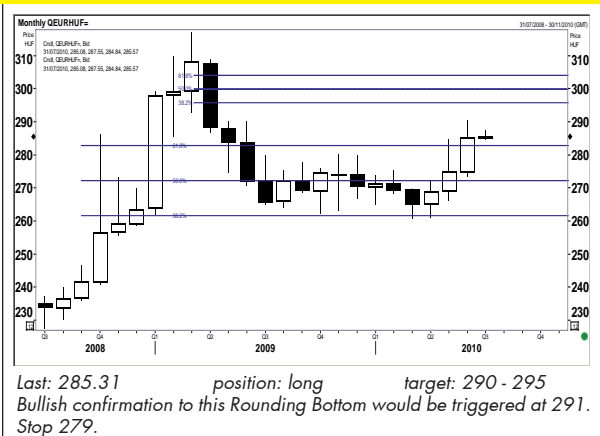
* forecasts under revision

Bond market focus*

	3y	5y	10y	15y
Actual	6.99	7.30	7.50	7.48
Change from last week	0.21	0.20	0.05	0.08
Forecast Sep-10	5.8	6.2	6.8	6.8
Spread to bunds	612.0	580.5	493.4	409.7
Change from last week	0.1	20.6	9.1	14.5

* forecasts under revision

EUR/HUF



Source: Thomson Reuters, Raiffeisen RESEARCH

Market outlook

Some interesting macro news is expected in the coming days. The budget is expected to come in close to the full-year target. This notwithstanding, we still only forecast a marginal overshoot by the end of the year. The NBH minutes might affirm that MPC has shifted to a less dovish stance. BUYING 10Y Hungarian government bonds is recommended as we still think market is too pessimistic and expect pressure on HUF to ease. We stand by our prognosis 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	286.26	275.0	275.0	270.0
Change from last week	-1.7%			
USD/HUF	232.73	220.0	229.2	234.8
Change from last week	-1.5%			

* forecasts under revision

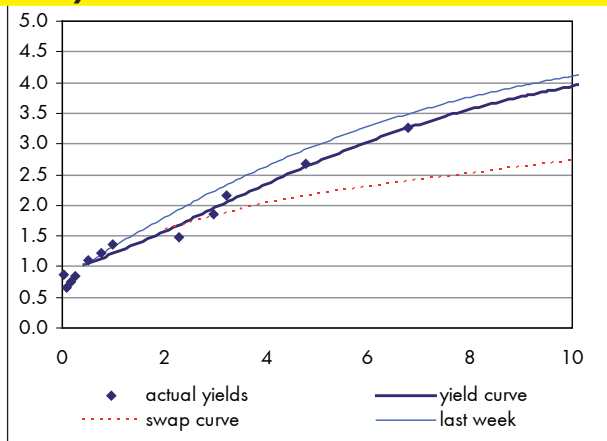
Czech Republic

Shape of new government disclosed

(P)review of key economic figures/events

07 Jul 10	Foreign trade balance, CZK bn	May 12.0 (Apr 15.4)	Robust foreign demand
07 Jul 10	Retail sales, % yoy	May 2.0 (Apr -4.5)	
08 Jul 10	Industrial output, % yoy	May 18.5 (Apr 10.9)	

CZK yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Money market focus*

MM rates	1m	3m	6m	12m
Actual	0.66	0.84	1.11	1.35
Change from last week	0.00	-0.01	-0.02	0.00
Forecast Sep-10	1.2	1.3	1.4	1.7
Forward rates	1x2	3x6	6x9	9x12
	0.82	1.38	1.47	1.71
Change from last week	0.00	-0.03	0.01	0.03

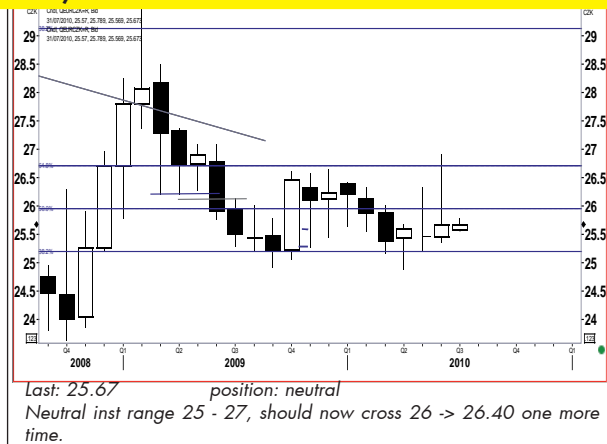
* forecasts under revision

Bond market focus*

	2y	5y	10y	15y
Actual	1.48	2.69	3.96	4.32
Change from last week	-0.39	-0.15	-0.18	-0.15
Forecast Sep-10	1.5	3.5	4.4	4.8
Spread to bunds	81.8	121.3	138.9	93.5
Change from last week	-50.0	-12.9	-14.3	-8.9
Spread to swaps	24.1	-39.9	-107.7	n.a.

* forecasts under revision

EUR/CZK



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral CZK T-bonds

Market comment

President Klaus appointed Kamil Janacek as a new central bank board member to fill the gap after the resignation of CNB governor Tuma. It is worth noting that Janacek is a close friend of the president. That means that the new CNB board is a bit more euro-sceptical now and is likely to strongly oppose EU regulation of the financial system. From the point of view of monetary policy, Janacek is likely to be more of a dove rather than a hawk. According to his own words, monetary policy is now well set and rates at the current level (0.75%) are not hurting the economy. While the new governor Mr. Singer is known for his pro-active approach, the newly appointed board member Janacek said he did not believe that a very pro-active policy would be good for the economy. The Czech parties agreed on the shape of the new government. New PM Petr Necas announced that the goal of the new government would be to keep the budget deficit under 4.6% of GDP. This would be slightly more ambitious was the intention of the last care-taker cabinet.

Market outlook

The factors outlined above suggest there will not likely be any rush to hike interest rates and that financing needs for the coming years could be lower, due to the government efforts to cut spending. This is positive for CZK bonds; but we would reiterate that the amount of government bond issuance will rise significantly in H2 2010. For the time being, we leave our short-term recommendation on Czech government bonds on HOLD.

Analysts: Michal Brozka (+420 221 141 498)

Exchange rate focus*

	actual	Sep-10	Dec-10	Mar-11
EUR/CZK	25.76	24.8	25.0	24.6
Change from last week	-0.1%			
USD/CZK	20.89	19.8	20.8	21.4
Change from last week	0.3%			

* forecasts under revision



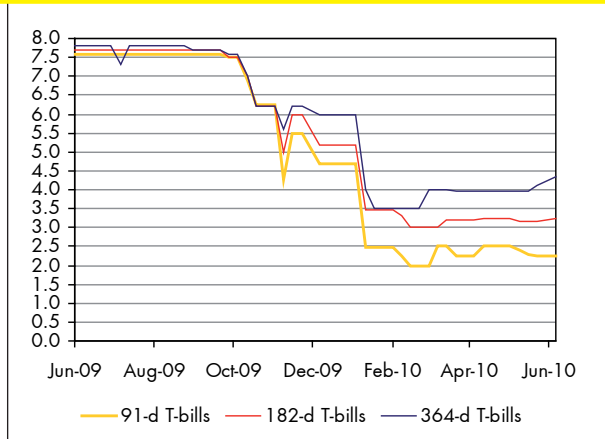
Croatia

Foreign trade starting to recover?

(P)review of key economic figures/events

02 Jul 10	Retail trade, % yoy	May -4.7 (Apr -8.0)
09 Jul 10	PPI, % mom	Jun 0.1 (May 0.5)
09 Jul 10	PPI, % yoy	Jun 4.4 (May 4.9)

Interest rates on T-bills



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral EUR/HRK -

Market comment

Croatia's foreign trade in goods intensified significantly in May. Compared to April, export of goods rose by 21% while import of goods recorded an increase of 3%. On an annual level, after falling constantly for 19 months, import of goods recorded an increase of 1.1%, which is partly the consequence of the extremely low base last year (when import of goods fell 28.8% yoy), but nevertheless it is a long-awaited positive sign of recovery in domestic demand. As expected, exports of goods continued on a positive trend, increasing by 29.2% yoy. The much stronger rise in exports compared to imports resulted in a further decline in the trade deficit of 27.2% yoy (annual decline for the nineteenth consecutive month) and an increase in import coverage to 64.1%. During the rest of the year we expect that exports will continue to grow faster than imports, which will have a positive impact on the balance of payments. The final data for real GDP released by the CBS confirmed the flash estimate. Hence, in Q1 2010 the economy contracted by 2.5% yoy. As we expected, the decline in personal consumption and investment in fixed capital contributed the most to the contraction. In Q2, we expect that the negative trends will continue, while the first signs of recovery could be expected in H2 at the earliest, taking into account a successful tourist season, repeal of the crisis tax, an expected increase in FDI (as the process of joining the EU approaches the final phase) and implementation of stabilisation measures for economic recovery.

Money market focus*

	1m	3m	6m	12m
ZIBOR actual	1.49	2.59	3.34	4.05
Change from last week	-0.04	0.11	0.02	-0.08
T-bills actual	n.a.	2.25	3.25	4.35

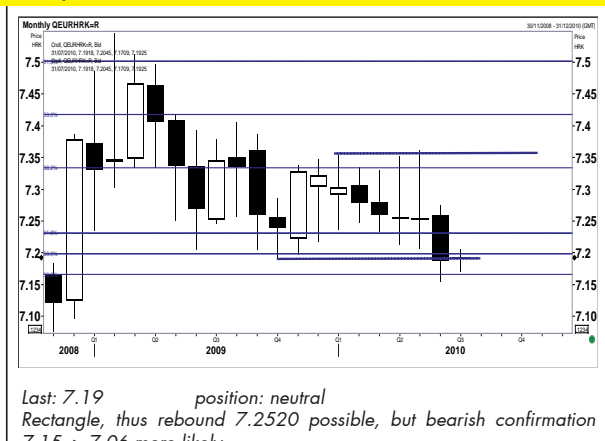
* forecasts under revision

Exchange rate focus*

	actual	Sep-10	Dec-10	Mar-11
EUR/HRK	7.189	7.30	7.32	7.35
Change from last week	-0.1%			
USD/HRK	5.87	5.84	6.10	6.39
Change from last week	0.1%			

* forecasts under revision

EUR/HRK



Source: Thomson Reuters, Raiffeisen RESEARCH

Market outlook

To prevent further strengthening of appreciation pressures, the CNB carried out another FX intervention on Tuesday purchasing EUR 118.7 mn at EUR/HRK 7.20. Since the trading is still conducted on the levels below 7.20, one more intervention cannot be ruled out. In the week ahead, we expect that the rate will stabilise and trading on the domestic FX market should be carried out between 7.20 and 7.22. In the one month period, we should see constant appreciation pressures on HRK as the main tourist season is approaching.

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

Zrinka Zivkovic-Matijevic (+385 1 61 74338)

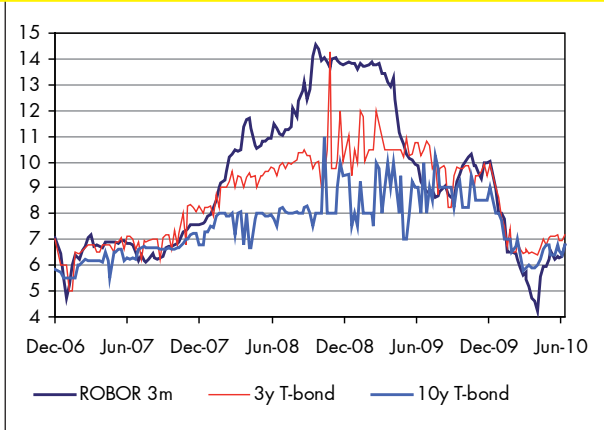
Romania

VAT hiked to 24% from 19%

(P)review of key economic figures/events

30 Jun 10	Monetary policy meeting, %	Jun 6.25 (May 6.25)
05 Jul 10	Retail sales, % yoy	May n.a. (Apr -5.1)
08 Jul 10	Industrial output, % yoy	May 4.8 (Apr 3.1)

ROBOR 3m & T-bond yields (%)



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral RON T-bonds

Market comment

One week ago, the Constitutional Court said that pensions cannot be cut by 15% as this contravenes the principles stated in country's fundamental law. In this context, the government decided to work around this with an increase in value added tax (VAT) from 19% to 24%. The measure is aimed at generating additional revenues to offset the inability to lower public spending by cutting pensions and it is effective as of 1 July. The Constitutional Court and government's decisions were largely unexpected by the market and they were followed by leu depreciation.

Money market focus*

MM rates	1m	3m	6m	12m
Actual	6.32	6.77	6.70	6.71
Change from last week	0.24	0.44	0.37	0.38
Forecast Sep-10	5.5	5.6	5.6	5.8
Implicit forward rates	3x6	6x9	9x12	
	6.68	6.67	6.54	
Change from last week	0.30	0.39	0.36	

* forecasts under revision

Bond market focus*

	2y	3y	5y	10y
Actual	6.80	7.19	7.28	6.77
Change from last week	0.00	0.22	0.23	0.39
Forecast Sep-10	6.40	6.50	6.60	6.00
Spread to bunds	610.8	631.5	576.3	417.5
Change from last week	-14.2	21.2	39.2	40.6

* forecasts under revision

EUR/RON



Source: Thomson Reuters, Raiffeisen RESEARCH

Market outlook

The inflation outlook has changed completely after the hike in VAT. Although we do not expect full pass-through of the hike in VAT to final consumer prices, the impact should be substantial. Moreover, the floods in the last two weeks add to risks of seeing food prices go higher. With the sharp rise in the inflation rate, there is no room for interest rates to go down (as we had previously expected). On the contrary, the risks are that the monetary policy rate, interbank interest rates and bond yields will be observed on an upward trend in the following months. How much they would increase would depend on the ability of the government to make the fiscal adjustment. If the government succeeds in implementing the austerity measures and reducing the budget deficit, then the confidence of foreign investors should improve and pressures for leu depreciation would be low. With lower pressures for leu depreciation, the increase in interest rates and bond yields should be limited. Unfortunately, the risks are on the negative side (pressures for leu depreciation, higher interest rates).

Analyst: Ionut Dumitru (+40 37 2211269)

Exchange rate focus*

	actual	Sep-10	Dec-10	Mar-11
EUR/RON	4.35	4.05	3.95	3.90
Change from last week	-2.8%			
USD/RON	3.54	3.24	3.29	3.39
Change from last week	-2.8%			

* forecasts under revision

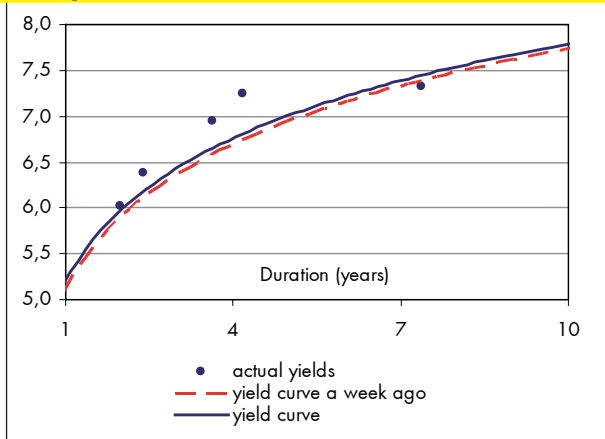
Russia

Rates steady but rouble future looks stronger

(P)review of key economic figures/events

05 Jul 10	Services PMI (index)	Jun n.a. (May 55.9)
05 Jul 10	CPI, % mom	Jun 0.4 (May 0.5)
05 Jul 10	CPI, % yoy	Jun 5.7 (May 5.9)

RUB yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

We see the rouble staying within the 34.15-34.65 trading range and assign a neutral outlook for the rouble for the week ahead.

Market comment

As expected, this week the central bank's monetary policy council left all key interest rates unchanged at 7.75%. Despite the fairly good inflation outlook for June (estimating inflation down from 0.5% in May to 0.4% in June), some central bank members stepped up their rhetoric concerning future inflation risks. As a consequence, the bank might prefer to keep the rates on hold signalling the end of the rate-cutting cycle. Nevertheless, we see the possibility for one more rate cut of 25bp taking into account the monthly average inflation dynamics and the declining annual inflation trend which will be interrupted only in October-December, due to the lower statistical base effect of 2009. Fundamentally, we see fewer reasons for inflation to increase in the coming months, unless oil prices go up exerting upward pressure on main monetary aggregates, taking into account the likely resistance of the central bank to allowing rouble appreciation. In this particular regard, this week the IMF issued a statement in which it called on Russia to allow for more rouble appreciation to help it curb inflation and also to withdraw fiscal stimulus which can negatively impact domestic prices.

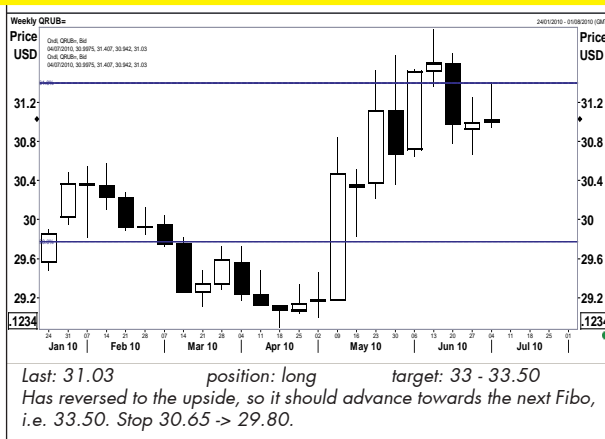
Money market focus

MM rates	1m	3m	6m	12m
Actual	4,18	5,04	5,78	7,16
Change from last week	-0,98	-0,83	-0,68	-0,90
Forecast Mar-10	3,86	4,16	4,51	n.a.
Forward rates	1x2	3x6	6x9	9x12
	5,14	6,60	n.a.	n.a.
Change from last week	-0,71	-1,15	n.a.	n.a.

Bond market focus

	1y	2y	5y	15y
Actual	4,70	6,03	6,95	7,32
Change from last week	-0,02	0,10	0,08	-0,01
Forecast Mar-10	4,86	5,50	6,10	n.a.

USD/RUB



Source: Thomson Reuters, Raiffeisen RESEARCH

Market outlook

We assume the central bank is likely to remain opposed to the idea of more rouble appreciation and might even decide to step up its currency interventions should the rouble come in for rapid appreciation. Our quarterly rouble targets reflect this approach of the bank, assuming rather mild appreciation of the rouble vs. the basket. However, a stronger appreciation move cannot be ruled out if the bank keeps its hands off of the intervention "steering wheel".

Analyst: Gintaras Shlizhyus (+43 1 71707 1343)

Exchange rate focus

	actual	Sep-10	Dec-10	Mar-11
EUR/RUB	38,91	36,52	36,00	35,12
Change from last week	0,4%			
USD/RUB	31,13	29,21	30,00	30,54
Change from last week	-0,1%			

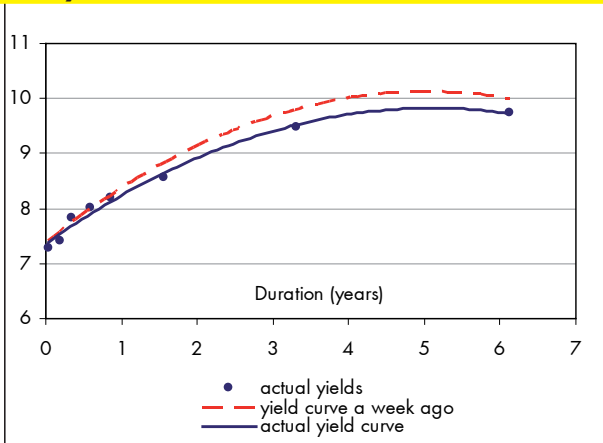
Turkey

Growth deceleration in H2

(P)review of key economic figures/events

30 Jun 10	GDP, % yoy	Q1 11.7 (Q4 6.0)	qoq sa: Q1 0.1 (Q4 2.3), almost stagnation, upward revision possible
05 Jul 10	Consumer prices, % yoy	June 8.9 (May 9.1)	mom: June 0 (May -0.4), traditionally low inflation in summer
08 Jul 10	Industrial output, % yoy	May n.a. (April 17.0)	lower growth in mom terms after +0.8% mom sa in April

TRY yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral TRY T-bonds

Market comment

Recent data confirmed our view of decelerating economic growth (prospects): first, seasonally adjusted quarter-on-quarter GDP growth virtually stagnated in Q1. While the yearly growth rate was high at 11.7% yoy (due to a weak statistical base in Q1 2009), real GDP was only 0.1% higher than in the previous quarter. Second, the June PMI survey posted its first decline since February – by 3.2 points to 53.2. Output as well as new orders (together 60% of the PMI index) decreased sharply. New export orders (not included in the headline PMI) declined for the third month; in June even faster than in May.

Money market focus*

MM rates	1m	3m	6m	12m
Actual	7.03	7.30	8.10	8.74
Change from last week	0.00	-0.04	0.00	0.00
Forecast Sep-10	7.30	7.60	8.40	8.50
Implied forward rates	1x2	3x6	6x9	9x12
	7.33	8.74	9.28	8.57
Change from last week	0.00	0.04	-0.05	0.05

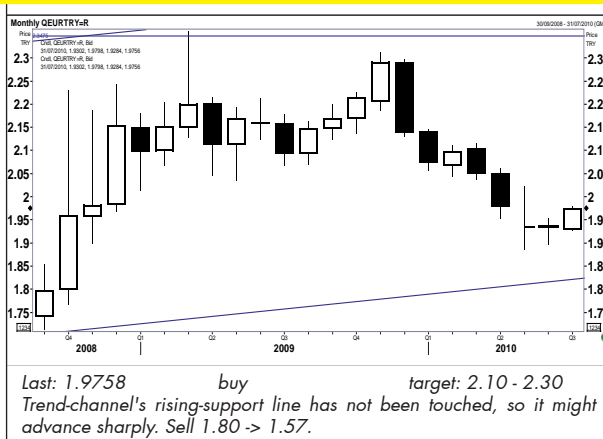
* forecasts under revision

Bond market focus*

	1m	1y	2y	5y
Actual	7.29	8.21	8.57	9.49
Change from last week	-0.05	-0.13	-0.29	-0.19
Forecast Sep-10	n.a.	8.50	8.90	9.90

* forecasts under revision

USD/TRY



Source: Thomson Reuters, Raiffeisen RESEARCH

Market outlook

Given the GDP and PMI data, we expect still strong figures for Q2, but a slow-down of industrial production and GDP growth rates beginning from Q3. With inflation and growth rates to decline in H2, the Turkish Central bank will feel comfortable at the current interest rate level for quite a while. So far the bank plans to start interest rate increases in Q4 2010, but it might postpone the date even more. Bond yields already fell by 30bp during the last week, as the market is lowering its interest rate expectations. We think, that the current level is already relatively low, but could still fall slightly in the short term. The lira will mostly depend on changes in global sentiment, but we see some potential for a return to stronger levels in the current year. Inflation figures in June are traditionally low – on average near zero. Therefore, another month of falling prices – after May's decline in consumer prices by 0.4% – seems possible. Industrial production for May will likely decelerate in yoy terms, while the seasonally adjusted monthly growth rate should still be slightly positive.

Analyst: Andreas Schwabe (+43 1 71707 1389)

Exchange rate focus*

	actual	Sep-10	Dec-10	Mar-11
EUR/TRY	1.97	1.88	1.80	1.67
Change from last week	1.1%			
USD/TRY	1.58	1.50	1.50	1.45
Change from last week	-0.3%			

* forecasts under revision

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