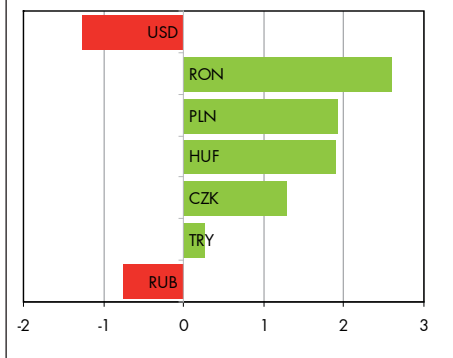


CEE Weekly Bond Markets Outlook

Issue 27/2010

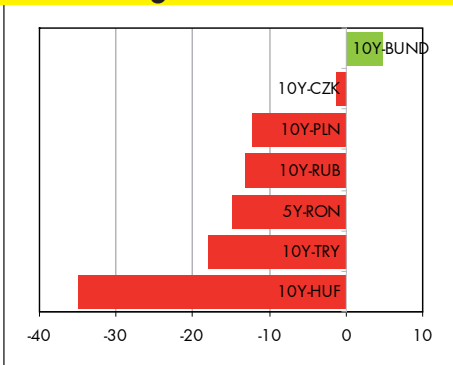
9 July 2010

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	4.08	4.00	3.85	3.85
1m-rate	3.4	3.6	3.8	4.0
5y bond	5.3	5.0	5.1	5.3
10y bond	5.8	5.5	5.7	5.9
Hungary				
HUF	282.3	275	275	285
1m-rate	5.3	5.0	5.0	4.8
5y bond	7.0	6.8	6.8	6.5
10y bond	7.2	7.0	7.0	6.8
Czech Rep.				
CZK	25.4	25.5	25.0	24.8
1m-rate	0.7	0.7	0.7	1.0
5y bond	2.7	3.0	3.4	3.5
10y bond	3.9	4.3	4.4	4.4
Russia				
RUB	30.9	30.0	30.7	31.7
1m-rate	3.4	3.5	4.2	4.0
5y bond	6.8	6.5	6.8	7.0
10y bond	7.1	7.0	8.0	7.8
USD	1.27	1.25	1.20	1.15

Currencies per 1 EUR
Source: Thomson Reuters. Raiffeisen RESEARCH

Recommendations

For detailed recommendations please see page 2.

Highlights

- Poland** – We change our short-term recommendation for Polish bonds to “Buy”, as we expect positive sentiment to be backed by economic data in Q3 and the government to present a credible budget plan. The scope for a fast zloty increase might be somewhat limited by possible interventions of the NBP, but the trend is still to the upside.
- Hungary** – EUR/HUF is moving closer to the 280 level (strengthening over 1.5% HUF within a week) and HGB yields are slowly heading south. Recent industry data was quite robust: in April output grew by 13.7% yoy. Trade and employment data are also encouraging: apparently, the Hungarian economy is coming out of the lengthy crisis period, and Q2 GDP may well surprise on the upside.
- Czech Republic** – President V. Klaus announced the appointment of the coalition cabinet of P. Necas (ODS) for Tuesday 13 July. The finance minister in the cabinet will be M. Kalousek of

Key upcoming events and data releases

Country	Time	Indicator	Period	Forecast	Range	Last
12-Jul						
CZ	09:00	CPI, % mom	Jun	0.1	-0.1/0.2/0.2	0.1
CZ	09:00	CPI, % yoy	Jun	1.3	1.1/1.3/1.4	1.2
CZ	09:00	Unemployment, %	Jun	8.6	8.5/8.6/8.9	8.7
RO	n.a.	Trade balance, EUR mn	May	n.a.	n.a.	-580
TR	09:00	Current account, USD bn				
13-Jul						
PL	14:00	CPI, % yoy	Jun	n.a.	n.a.	2.2
PL	14:00	Current account, EUR mn	May	n.a.	n.a.	-424.0
HU	09:00	CPI, % yoy	Jun	5.2	4.8/5.1/5.3	5.1
CZ	10:00	Current account balance, CZK bn	May	-4.0	-19.0/-10.0/-3.0	12.4
14-Jul						
PL	14:00	M3 money supply, % yoy	Jun	n.a.	n.a.	7.6
15-Jul						
CZ	09:00	PPI, % mom	Jun	0.0	0.0/0.3/0.4	0.7
CZ	09:00	PPI, % yoy	Jun	1.5	1.5/1.8/1.9	1.5
RU	n.a.	Industrial output, % yoy	Jun	12.0	2.3/11.9/14.8	12.6
RU	n.a.	PPI, % mom	Jun	2.0	0.2/1.5/3.5	2.7
TR	09:00	Unemployment (3m avg), %	Apr	13.4	n.a.	13.7
TR	18:00	CBT repo rate, %	Jul	7.0	n.a.	7.0
16-Jul						
PL	14:00	Employment, % yoy	Jun	n.a.	n.a.	0.5
PL	14:00	Corporate sector wages, % yoy	Jun	n.a.	n.a.	4.8
HU	09:00	Gross wages, % yoy	May	n.a.	n.a.	1.1
TR	09:00	Consumer confidence	Jun	n.a.	n.a.	86.6



**Raiffeisen
RESEARCH**

RZB Group

TOP 09; this party will also control the Ministry of Labour and Social Affairs and the Ministry of Health which are the key ministries as concerns the planned welfare reforms. The members of the new cabinet announced the intention to bring the public deficit below 3% of GDP by 2013, with ambition to achieve balanced consolidated budgets by 2015 - 2016.

- **Romania** – The overall picture suggest that economic activity in the second quarter improved as compared with the previous quarter. We are looking for a quarterly GDP growth rate close to 0%, but we do not rule out even a positive quarterly growth rate. There was also a positive surprise from developments in unemployment. According to our in-house seasonally adjusted data, the number of persons receiving unemployment benefits decreased both in May and in June.
- **Croatia** – In Q1 2010, the C/A deficit amounted EUR 1.4 bn, down 23.9% compared to Q1 2010. The ratio of the C/A deficit to GDP was 4.4%, the lowest level since 2004 reflecting thereby a considerable decrease in economic activity.

As usual, a negative influence on the C/A movements came from the goods account, with the deficit amounting to EUR 1.3 bn. In 2010, the C/A deficit should remain relatively low (compared to previous years) as a result of increasing exports and decreasing imports.

- **Russia** – According to VTB's monthly GDP indicator series, Russian economic growth accelerated in June to 2.4% yoy, compared with 2.0% in May. In June, the improvement was driven by the manufacturing sector. Next week, industrial output data will be reported. We expect a 12% growth against the 11.9% consensus forecast.
- **Turkey** – Next week's local data releases include the current account for May, the average unemployment rate for March to May and the consumer confidence indicator. Also, on 15 July, the CBT will hold its monthly meeting on the key rate – the one-week repo rate of 7.0% is not to be touched. On 27 July, CBT's inflation report is to be released, which will give us more information on monetary policy for the rest of 2010 and 2011.

Short-term trading ideas*

Recommendation	Entry date	Entry level	Current level	Target	Stop	Carry (% p.a.)	Comments
SELL BASKET/RUB (long RUB)	06/07/10	34.72	34.5	34.35	34.95	2.97	rising oil prices
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
Buy PLN T-Bond 10/2020 (ISIN PL0000106126)	09/07/10	95.72	95.6	98	94		Return of risk appetite, positive election outcome

*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 USD/TRY (long TRY)	13/04/10	1.492	28/04/10	1.51	-0.93%	Stopped out
SELL BASKET/RUB (long RUB)	06/04/10	33.81	06/05/10	34.1	-0.86%	Stopped out
SELL EUR/PLN (long PLN)	10/05/10	4.023	11/05/10	4.05	-0.66%	Stopped out
SELL BASKET/RUB (long RUB)	10/05/10	34.1812	21/05/10	34.67	-1.43%	Stopped out
SELL EUR/RON (long RON)	14/06/10	4.23	25/06/10	4.27	-0.76%	Stopped out
SELL EUR/PLN (long PLN)	05/07/10	4.138	08/07/10	4.07	1.67%	Target Reached
Buy RON T-Bond 10/2012 (ISIN RO0912DBN076)	22/04/10	111.1	07/05/10	109.5	-1.0%	Stopped out
Buy RUB T-Bond 11/2021 RU46018 (ISIN RU000A0D0G29)	23/04/10	100.45	06/05/10	98.6	-1.1%	Early stop-out

Local currency bonds

Market overview

CEE local currency bond market snapshot

08/07/2010	Maturity	Coupon %	Ask price	YTM %	Spread to bunds (bp)	MDuration
Poland						
PLN 2y Gov. Bond	25/ Oct 12	0.00	90.04	4.69	4	2.3
PLN 5y Gov. Bond	25/ Apr 15	5.50	101.14	5.22	5	4.3
PLN 10y Gov. Bond	25/ Oct 20	5.25	96.19	5.75	6	7.9
PLN 20y Gov. Bond	25/ Apr 29	5.75	97.75	5.95	6	11.7
Hungary						
HUF 3y Gov. Bond	24/ Oct 13	7.50	101.90	6.82	6	2.9
HUF 5y Gov. Bond	12/ Feb 16	5.50	92.60	7.14	7	4.8
HUF 10y Gov. Bond	12/ Nov 20	7.50	101.79	7.24	7	7.2
HUF 15y Gov. Bond	24/ Nov 23	6.00	89.70	7.22	7	9.0
Czech Republic						
CZK 2y Gov. Bond	18/ Oct 12	3.55	104.10	1.69	2	2.2
CZK 5y Gov. Bond	11/ Apr 15	3.80	104.77	2.71	3	4.4
CZK 10y Gov. Bond	12/ Sep 20	3.75	97.65	4.04	4	8.4
CZK 15y Gov. Bond	25/ May 24	5.70	113.55	4.38	5	10.2
Croatia						
HRK 5y Gov. Bond	11/ Jul 13	4.50	98.71	4.97	311	2.8
HRK 10y Gov. Bond	8/ Feb 17	4.75	93.71	5.92	332	5.7
Romania						
RON 3y Gov. Bond	25/ Oct 10	6.00	99.63	7.18	626	0.3
RON 5y Gov. Bond	5/ Mar 12	6.50	99.20	7.00	548	1.6
Russia						
RUB 2y Gov. Bond	19/ Sep 12	10.80	110.25	5.85	517	2.0
RUB 5y Gov. Bond	17/ Dec 14	11.20	117.50	6.79	526	3.6
RUB 10y Gov. Bond	29/ Aug 18	8.00	100.63	7.01	441	4.1
RUB 30y Gov. Bond	6/ Feb 36	6.90	94.74	7.50	422	11.5
Turkey						
TRY 2y Gov. Bond	25/ Jan 12	0.00	88.32	8.34	766	1.6
TRY 5y Gov. Bond	17/ Jun 15	10.00	104.30	9.10	758	4.1
TRY 10y Gov. Bond	15/ Jan 20	10.50	108.50	9.34	674	6.3

Source: Thomson Thomson Reuters, Raiffeisen RESEARCH

Bond auctions

Bond auctions		ISIN	Coupon	Maturity	Volume
13-Jul					
TR	2y T-Bond (new)	n.a.	0%	25.04.2012	n.a.
14-Jul					
PL	5y T-bond	PL0000105953	5.5%	25 Apr 2015	PLN 1.5-3.5 bn
CZ	5y T-bond reopening	CZ0001002737	3.4%	01 Sep 2015	CZK 7 bn
15-Jul					
HU	3y T-bond	HU0000402466	7.5%	24 Oct 2013	HUF 25 bn
HU	5y T-bond	HU0000402318	5.5%	12 Feb 2016	HUF 15 bn
HU	10y T-bond	HU0000402235	7.5%	12 Nov 2020	HUF 10 bn

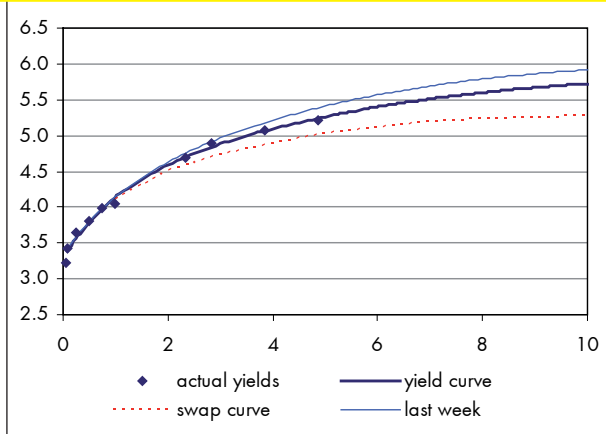
Poland

"Buy" on elections, positive sentiment

(P)review of key economic figures/events

13 Jul 10	Current account balance, EUR mn	May n.a. (Apr -424)
13 Jul 10	CPI, % yoy	Jun n.a. (May 2.2)
16 Jul 10	Employment, % yoy	Jun n.a. (May 0.5)

PL yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Buy PLN T-bonds

Market comment

International investor sentiment has clearly improved over the past couple of days and Polish 10y bond yields came back from levels of 6% to 5.78% on Thursday. The bond auction on Wednesday at which Poland sold nearly PLN 6 bn worth of 2y paper with demand in excess of PLN 11 bn is another demonstration of returning risk appetite. To utilise the positive sentiment, the MoF decided to issue a USD 1.5 bn 5y Eurobond at 215bp over the comparable US Treasury curve. The MoF also presented the macroeconomic assumptions for next year's budget. The MoF assumes GDP growth of 3.5% and an inflation rate of 2.3%. The budget deficit is seen around PLN 40 bn, but details on expenditures and revenues assumptions will be presented at the end of this month.

Money market focus

MM rates	1m	3m	6m	12m
Actual	3.43	3.65	3.80	4.04
Change from last week	-0.01	-0.02	-0.01	-0.01
Forecast Sep-10	3.60	3.80	3.88	3.90
Forward rates	3x6	6x9	9x12	
	3.97	4.36	4.13	
Change from last week	0.00	-0.01	-0.01	

Bond market focus

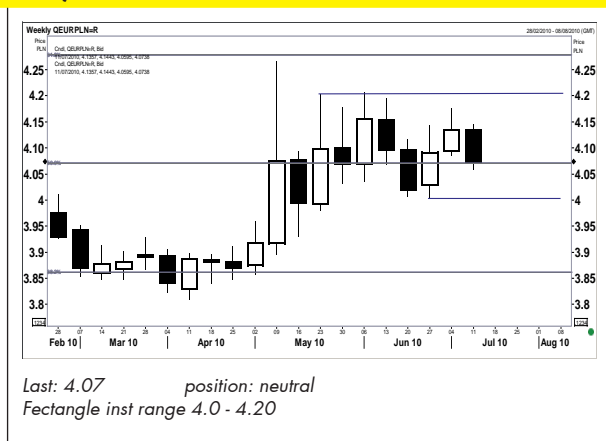
	2y	5y	10y	20y
Actual	4.69	5.22	5.75	5.95
Change from last week	-0.06	-0.14	-0.19	-0.11
Forecast Sep-10	4.40	4.95	5.50	5.60
Spread to bunds	401.5	368.8	315.1	270.9
Change from last week	-9.3	-18.4	-19.4	-11.8
Spread to swaps	-14.2	-12.2	-39.8	

Market outlook

After the presidential elections, the government will have to present the budget plans for 2011. The assumptions already published are, in our view, realistic and can by no means be called "conservative". Additionally, a budget deficit of below PLN 40 bn alone would not be a big deal, as there is a high chance that the budget deficit 2010 will already be around or even below this level. We change our short-term recommendation for Polish bonds to "Buy", as we expect positive sentiment to be backed by economic data in Q3 and the government to present a credible budget plan. The scope for a fast zloty increase might be somewhat limited by possible interventions of the NBP, but the trend is still to the upside. We emphasise that in case the MoF does not deliver a credible budget, the improvement of the risk sentiment on established markets might be too little to pull Polish yields and EUR/PLN further down.

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

EUR/PLN



Source: Thomson Reuters, Raiffeisen RESEARCH

Exchange rate focus

	actual	Sep-10	Dec-10	Mar-11
EUR/PLN	4.13	4.00	3.85	3.85
Change from last week	0.6%			
USD/PLN	3.29	3.20	3.21	3.35
Change from last week	2.8%			



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RZB Group

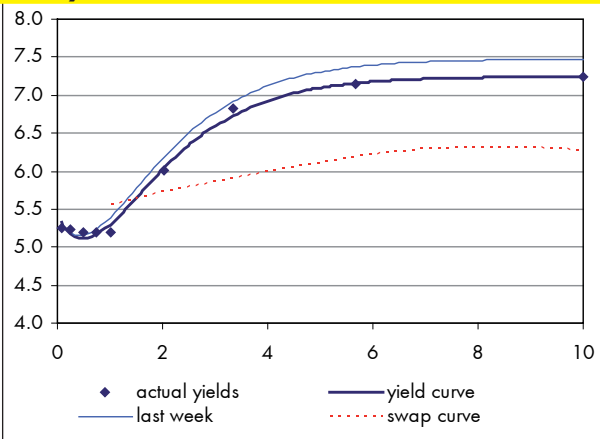
Hungary

Robust economic data

(P)review of key economic figures/events

05 Jul 10	Budget balance, HUF bn	Jan-Jun -1022 (Jan-May -729)	Budget deficit at 119% of full year target
07 Jul 10	Industrial output, % yoy	May 13.7 (Apr 9.7)	Industrial output was better than expected
13 Jul 10	CPI, % yoy	Jun 5.2 (Apr 5.1)	

HUF yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Buy 10y HUF T-bonds

Market comment

HUF has begun slowly strengthening against EUR (and also against CHF and USD), allaying country-wide fears about fragility caused by the extremely large FX loan exposure. EUR/HUF is moving closer to the 280 level (strengthening over 1.5% HUF within a week) and HGB yields are slowly heading south. Recent industry data was quite robust: in April output grew by 13.7% yoy. Trade and employment data are also encouraging: apparently, the Hungarian economy is coming out of the lengthy crisis period, and Q2 GDP may well surprise on the upside.

Money market focus

MM rates	1m	3m	6m	12m
Actual	5.25	5.26	5.29	5.37
Change from last week	0.00	-0.02	0.00	0.00
Forecast Sep-10	5.0	5.0	5.0	4.9

Bond market focus

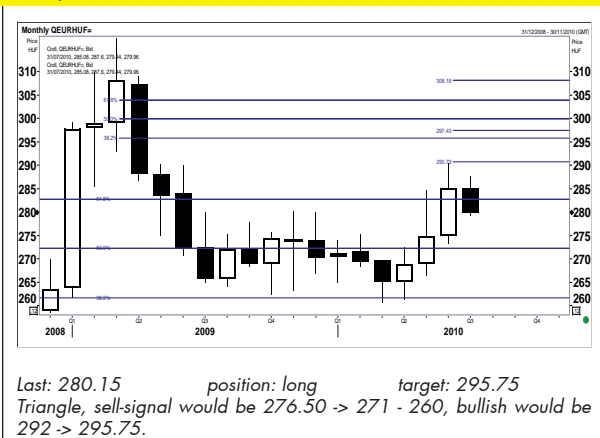
	3y	5y	10y	15y
Actual	6.82	7.14	7.24	7.22
Change from last week	-0.17	-0.16	-0.26	-0.26
Forecast Sep-10	6.3	6.8	7.0	7.0
Spread to bunds	590.8	560.9	464.4	388.6
Change from last week	-22.3	-20.6	-29.2	-19.6

Market outlook

In the week ahead, June inflation data will be published. This is going to be the last high inflation figure (we expect 5.2%) as in July the 2009 VAT hike base effect will play a key role in pushing down inflation. In H2 inflation is seen to oscillate around 3.5%. With the market gathering more strength (i.e. EUR/HUF stabilising below 280 – our target is 275 for September) rate cut speculation will re-emerge. We still expect one 25-bp rate cut in Q3 (most likely not in July yet though). Therefore, we keep our call and recommend 10Y HGB to BUY.

Analysts: Zoltán Török (+36 148 44 843)
Wolfgang Ernst (+43 1 717 07 1500)

EUR/HUF



Source: Thomson Reuters, Raiffeisen RESEARCH

Exchange rate focus

	actual	Sep-10	Dec-10	Mar-11
EUR/HUF	285.28	275.0	275.0	285.0
Change from last week	0.3%			
USD/HUF	226.95	220.0	229.2	247.8
Change from last week	2.5%			

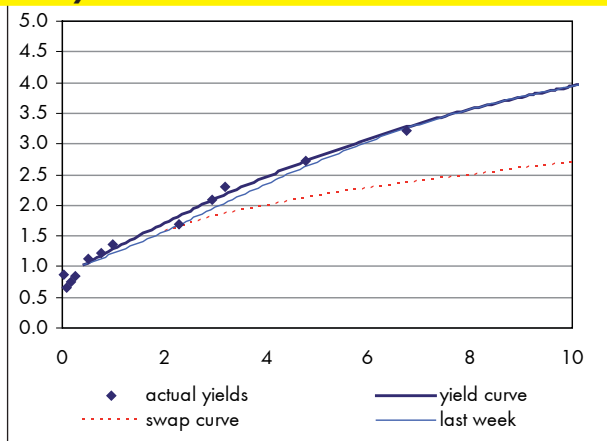
Czech Republic

Shape of new a government disclosed

(P)review of key economic figures/events

08 Jul 10	Industrial output, % yoy	May 16.9 (Apr 10.9)	27.2% yoy increase of new orders
12 Jul 10	CPI, % yoy	Jun 1.3 (May 1.2)	
13 Jul 10	Current account balance, CZK bn	May -4.0 (Apr 12.4)	

CZK yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

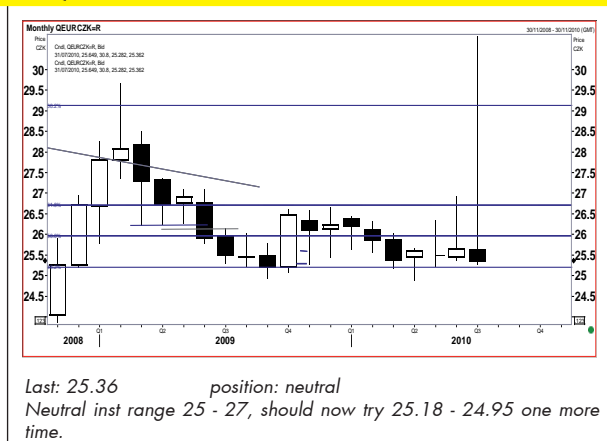
Money market focus

MM rates	1m	3m	6m	12m
Actual	0.66	0.84	1.13	1.35
Change from last week	0.00	0.00	0.02	0.00
Forecast Sep-10	0.7	0.8	1.0	1.4
Forward rates	1x2	3x6	6x9	9x12
	0.82	1.42	1.43	1.71
Change from last week	0.00	0.04	-0.04	0.00

Bond market focus

	2y	5y	10y	15y
Actual	1.69	2.71	4.04	4.38
Change from last week	0.21	0.03	0.08	0.06
Forecast Sep-10	2.0	3.0	4.3	4.5
Spread to bunds	100.8	118.8	143.9	104.1
Change from last week	19.0	-2.2	4.8	12.1
Spread to swaps	-4.7	-48.0	-120.0	n.a.

EUR/CZK



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral CZK T-bonds

Market comment

The new Czech National Bank (CNB) governor Miroslav Singer confirmed his euro-skeptic stance with quotes like: "the debate on the Czech Republic's Eurozone entry is just folklore". Meanwhile, the recent domestic economic data (CZK 12.3 bn trade balance surplus and +3.1% yoy retail sales both for May) confirmed once more the muted export-driven recovery of the Czech economy. Exports and imports grew by about 25% yoy in May – with that exports have more or less reached the level before the recession. The very good German industry data published this week also provides a good short-term basis for a continuation of the recovery in the Czech industry. This provides a moderate but visible support for CZK appreciation.

Market outlook

President Vaclav Klaus announced the appointment of the coalition cabinet of Petr Necas (ODS) for Tuesday 13 July. The Finance Minister in the cabinet will be Miroslav Kalousek of TOP 09; this party will also control the Ministry of Labour and Social Affairs and the Ministry of Health, which are the key ministries as concerns the planned welfare reforms. The members of the new cabinet announced the intention to get the public deficit below 3% of GDP by 2013, with the ambition to get balanced consolidated budgets by 2015 - 2016. This is positive for CZK bonds; however, we repeat that the amount of government bond issuance will rise significantly in H2 2010. For the time being, we maintain our neutral short-term recommendation for Czech government bonds.

Analysts: Michal Brozka (+420 221 141 498)
Walter Demel (+43 1 717 07 1526)

Exchange rate focus

	actual	Sep-10	Dec-10	Mar-11
EUR/CZK	25.55	25.5	25.0	24.8
Change from last week	0.8%			
USD/CZK	20.33	20.4	20.8	21.6
Change from last week	2.8%			

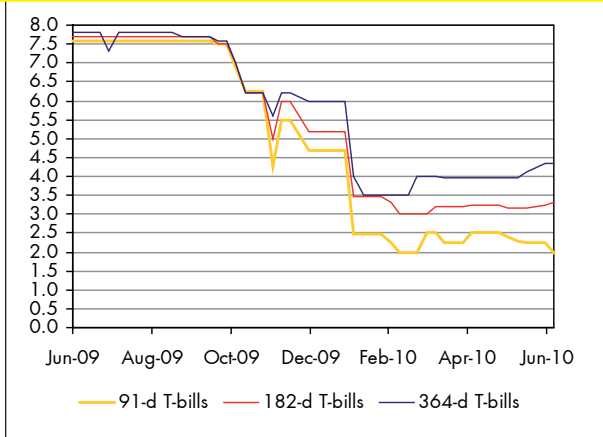
Croatia

C/A deficit 4.4% of GDP

(P)review of key economic figures/events

09 Jul 10	PPI, % yoy	Jun 4.4 (May 4.9)
09 Jul 10	CPI, % mom	Jun 0.1 (May 0.2)
09 Jul 10	CPI, % yoy	Jun 0.8 (May 0.8)

Interest rates on T-bills



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral EUR/HRK

Market comment

In Q1 2010, the C/A deficit amounted EUR 1.4 bn, down 23.9% compared to Q1 2009. The ratio of the C/A deficit to GDP was 4.4%, the lowest level since 2004 reflecting thereby a considerable decrease in economic activity. As usual, a negative influence on the C/A movements came from the goods account, with the deficit amounting to EUR 1.3 bn. In 2010, the C/A deficit should remain relatively low (compared to previous years) as a result of increasing exports and decreasing imports.

Negative trends in retail trade slowed down in May. According to the CBS's first release, retail trade turnover fell by 3.7% yoy in real terms (3.5% yoy nominally), which represents an annual fall for the twentieth consecutive month. First positive movements can be expected in H2 2010. A successful tourist season would surely contribute to a recovery in retail trade, while the repeal of the so-called crisis tax could have a favourable psychological effect on consumers. On the other hand, previously announced increases in administrative prices (especially prices of electricity) could nullify the positive impact of repealing the crisis tax. Stabilisation measures that the government adopted will prompt a recovery in the domestic economy, but their impact is expected with a certain time lag. Considering all of the above, for the whole year we expect the fall in retail trade to exceed 2.5%.

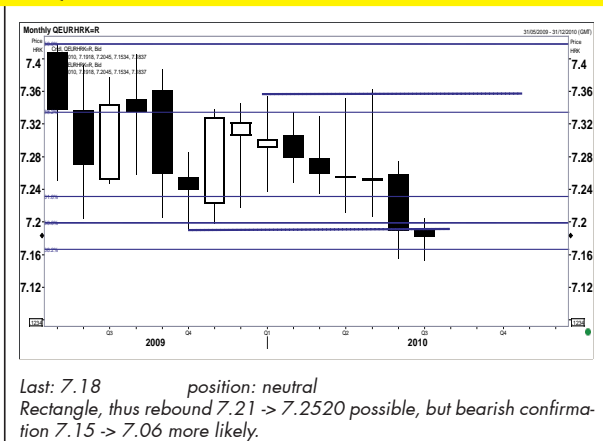
Money market focus

	1m	3m	6m	12m
ZIBOR actual	1.50	2.44	3.33	4.05
Change from last week	0.01	-0.15	-0.01	0.00
T-bills actual	n.a.	2.00	3.30	4.35

Exchange rate focus

	actual	Sep-10	Dec-10	Mar-11
EUR/HRK	7.191	7.29	7.32	7.30
Change from last week	0.0%			
USD/HRK	5.72	5.83	6.10	6.35
Change from last week	-2.4%			

EUR/HRK



Source: Thomson Reuters, Raiffeisen RESEARCH

Market outlook

EUR/HRK fell below 7.19, as expectations that the government might issue a bond on the domestic market appeared. After issuance of the bond, we expect that the rate will return to levels above 7.20, but the increase in EUR/HRK will be limited by inflow of euros from tourism, low merchandise imports and finally from lower corporate borrowing abroad. Thus, before the autumn months we do not see any significant depreciation pressures on the kuna.

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

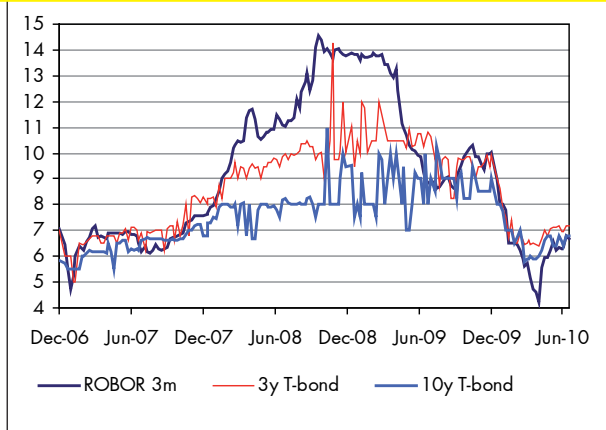
Romania

Positive dynamics of short-term indicators

(P)review of key economic figures/events

05 Jul 10	Retail sales, % yoy	May -3.4 (Apr -5.1)
08 Jul 10	Industrial output, % yoy	May 4.0 (Apr 2.8)
12 Jul 10	Foreign trade balance, EUR mn	May n.a. (Apr -580)

ROBOR 3m & T-bond yields (%)



Source: Thomson Reuters, Raiffeisen RESEARCH

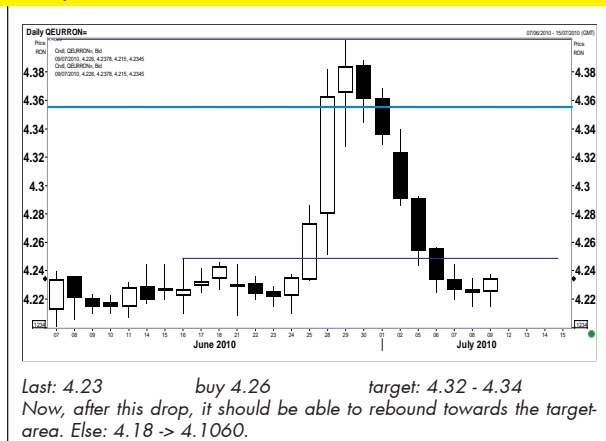
Money market focus

MM rates	1m	3m	6m	12m
Actual	6.24	6.68	6.68	6.72
Change from last week	-0.08	-0.09	-0.02	0.01
Forecast Sep-10	7.0	7.1	7.1	7.4
Implicit forward rates	3x6	6x9	9x12	
	6.73	6.74	6.55	
Change from last week	0.05	0.07	0.01	

Bond market focus

	2y	3y	5y	10y
Actual	6.72	7.26	7.28	6.75
Change from last week	-0.08	0.07	0.00	-0.02
Forecast Sep-10	7.70	7.90	7.90	7.40
Spread to bunds	603.8	635.1	575.1	415.4
Change from last week	-13.5	-5.9	-1.8	-4.0

EUR/RON



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral RON T-bonds

Market comment

In May, output in the manufacturing sector increased by 0.3% mom. This was the third monthly gain in a row. We recall that the dynamics of industrial output surprised on the negative side in Q1 2010, but the development between March and May suggests that the trend remains positive. Retail sales increased by 1% mom in May, while turnover for market services rendered to the population inched up by 1.5% mom. Output in the construction sector continued to fall, but at a much slower pace compared with the other months in the past. The overall picture suggest that economic activity in the second quarter improved as compared with the previous quarter. We are looking for a quarterly GDP growth rate close to 0%, but we do not rule out even a positive quarterly growth rate. There was also a positive surprise from developments in unemployment. According to our in-house seasonally adjusted data, the number of persons receiving unemployment benefits decreased both in May and in June. Also, the unemployment rate fell marginally in June. Based on past evolutions and on the experience of other countries, we know that the unemployment rate is lagging indicators and it starts to grow only after the economic activity has bottomed out. So, the unemployment trends are somewhat puzzling at this moment.

Market outlook

The leu appreciated rapidly over the last week and completely recovered the losses incurred after Constitutional Court's decision to reject the cut in pensions. No important moves were perceived in the case of interbank interest rates and yields which were not too much affected by the above decision. However, there is some upward pressure on yields at the moment.

Analyst: Ionut Dumitru (+40 37 2211269)

Exchange rate focus

	actual	Sep-10	Dec-10	Mar-11
EUR/RON	4.23	4.40	4.30	4.40
Change from last week	2.9%			
USD/RON	3.37	3.52	3.58	3.83
Change from last week	5.3%			

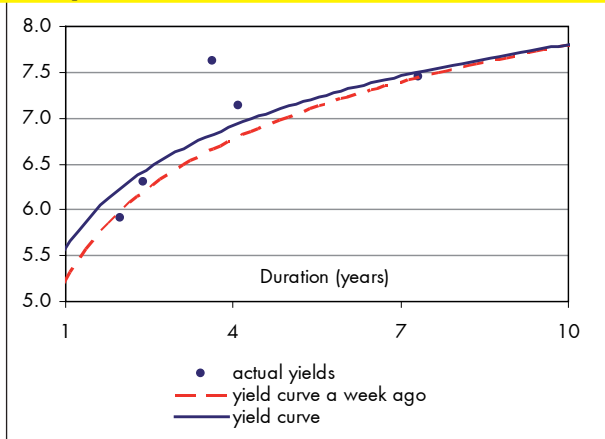
Russia

Signs of strengthening economic recovery

(P)review of key economic figures/events

15 Jul 10	Industrial output, % yoy	Jun 12.0 (May 12.6)
15 Jul 10	PPI, % mom	Jun 2.0 (May 2.7)

RUB yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

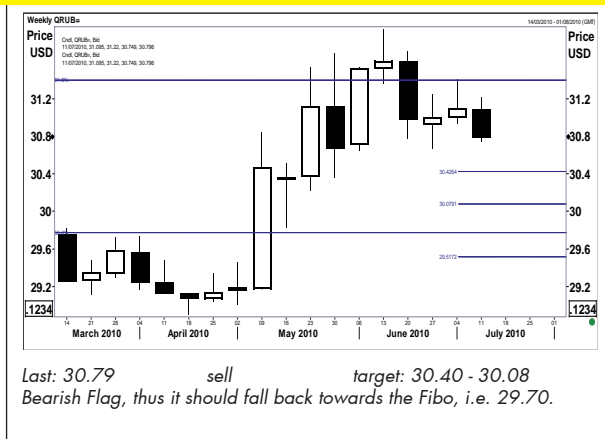
Money market focus

MM rates	1m	3m	6m	12m
Actual	4.13	5.01	5.76	7.30
Change from last week	-1.03	-0.87	-0.71	-0.92
Forecast Mar-10	3.86	4.16	4.51	n.a.
Forward rates	1x2	3x6	6x9	9x12
	5.11	6.59	n.a.	n.a.
Change from last week	-0.74	-1.16	n.a.	n.a.

Bond market focus

	1y	2y	5y	15y
Actual	5.37	5.92	7.63	7.45
Change from last week	0.68	-0.11	0.67	0.13
Forecast Mar-10	4.86	5.50	6.10	n.a.

USD/RUB



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

The rouble strengthened a bit against the dual currency basket, confirming our short-term speculative buy recommendation we issued at the beginning of this week. We will take profits at 34.40.

Market comment

According to VTB's monthly GDP indicator series, Russian economic growth accelerated in June to 2.4% yoy, compared with 2.0% in May. In June, the improvement was driven by the manufacturing sector. Growth was the strongest in the last twelve months, pointing to a stronger economic recovery in 2010. The pace of the recovery, however, remains uncertain due to sluggish credit growth and lagging investment growth. Domestic demand depends on government spending and household income which may become unsustainable, since the government is likely to begin withdrawal of fiscal stimulus while the labour market and income relationship might change and put pressure on employers to limit wage increases. Some economists are worried that a purely demand-driven recovery may also lead to higher inflation in the future if the income increases are not matched with productivity gains. However, June inflation came in as expected at 0.4% mom, compared to 0.5% in May. The latest inflation report points to low accumulated inflation pressure and the likelihood of the disinflation trend strengthening in August-September. Next week, industrial output data will be reported. We expect a 12% growth against the 11.9% consensus forecast.

Market outlook

Russia's central bank bought USD 1.66 bn and EUR 417 mn in so-called target interventions in June. With oil prices inching higher and equity markets in a better mood, we see better prospects for the rouble in coming week.

Analyst: Gintaras Shlizhyus (+43 1 71707 1343)

Exchange rate focus

	actual	Sep-10	Dec-10	Mar-11
EUR/RUB	39.12	37.53	36.88	36.41
Change from last week	-0.1%			
USD/RUB	30.79	30.02	30.73	31.66
Change from last week	1.0%			

Turkey

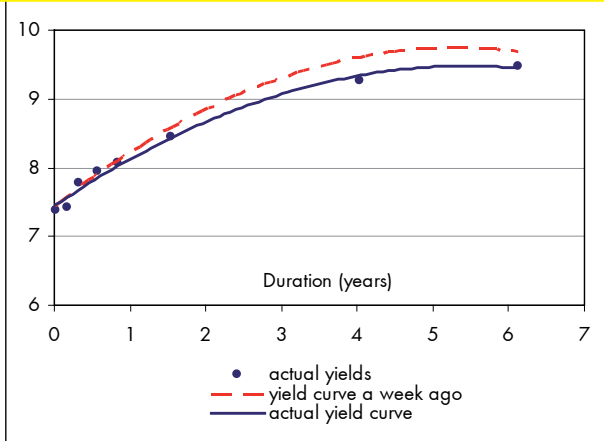
Strong growth in May

(P)review of key economic figures/events

12 Jul 10	Current account, USD bn	May n.a. (Apr -4.4)
15 Jul 10	CBT repo rate, %	Jul 7.0 (Jun 7.0)
16 Jul 10	Consumer confidence	Jun n.a. (May 86.6)

with decreasing inflation hike not earlier than in Q4
could profit from lower unemployment

TRY yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral TRY T-bonds

Market comment

Backed by falling inflation expectations (the June CPI came in at -0.6% mom, and the latest CBT survey for end-2010 CPI was down 0.28pp to 7.73% yoy) and a benign global environment, bond yields continued to decrease. The yield to maturity for the 2y benchmark bond has now fallen below 8.5%. The market also took the decision of the constitutional court positively. The court's ruling accepted most of the parts of the constitutional reform package (a popular referendum is planned for 12 September). Early elections in autumn now seem to be off the agenda, while general elections are scheduled for 2011.

In the economic sphere, the release of seasonally adjusted industrial production surprised on the upside, with an increase of 1.9% mom in May after 0.9% the month before (while the yoy seasonally unadjusted figure decreased slightly to 15.6% as expected). Assuming another uptick in industrial production in June, we see Q2 GDP rather strong at above 7.5% yoy. However, leading indicators point to a slow-down in H2.

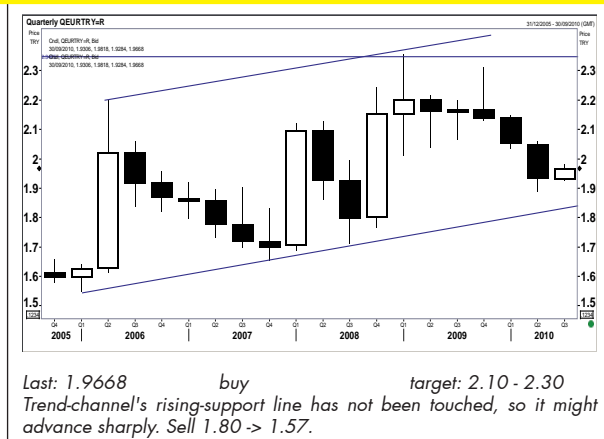
Money market focus

MM rates	1m	3m	6m	12m
Actual	7.02	7.30	8.03	8.69
Change from last week	-0.02	0.00	-0.07	-0.06
Forecast Sep-10	7.30	7.60	8.30	8.30
Implied forward rates	1x2	3x6	6x9	9x12
	7.34	8.59	9.23	8.55
Change from last week	0.02	-0.14	-0.06	-0.01

Bond market focus

	1m	1y	2y	5y
Actual	7.38	8.08	8.45	9.26
Change from last week	0.09	-0.17	-0.13	-0.22
Forecast Sep-10	n.a.	8.30	8.70	9.40

USD/TRY



Source: Thomson Reuters, Raiffeisen RESEARCH

Market outlook

Next week's local data releases include the current account for May (likely to remain in the red around last month's USD -4.4 bn, as tourism inflows have yet to kick in), the average unemployment rate for March to May (to continue on its downward trend) and the consumer confidence indicator, which could profit from improvements on the labour market. Also, on 15 July, the CBT will hold its monthly meeting on the key rate – the one-week repo rate of 7.0% is not to be touched. On 27 July, CBT's inflation report is to be released, which will give us more information on monetary policy for the rest of 2010 and 2011.

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	0.1%			
USD/TRY	1.55	1.50	1.50	1.45
Change from last week	-1.9%			

Summary

Ratings & macro data

Country ratings: CEE, SEE, CIS

	S&P			Moody's			Fitch		
	LCY	FCY	Outlook	LCY	FCY	Outlook	LCY	FCY	Outlook
CEE									
Poland	A	A-	stable	A2	A2	stable	A	A-	stable
Czech	A+	A	stable	A1	A1	stable	AA-	A+	positive
Hungary	BBB-	BBB-	stable	Baa1	Baa1	negative	BBB+	BBB	negative
Slovakia *	A+	A+	stable	A1	A1	stable	A+	A+	stable
Slovenia *	AA	AA	stable	Aa2	Aa2	stable	AA	AA	stable
SEE									
Bulgaria	BBB	BBB	stable	Baa3	Baa3	positive	BBB	BBB-	negative
Croatia	BBB	BBB	negative	Baa3	Baa3	stable	BBB+	BBB-	negative
Romania	BBB-	BB+	stable	Baa3	Baa3	stable	BBB-	BB+	stable
Serbia	BB-	BB-	stable	nr	nr	-	BB-	BB-	negative
CIS									
Belarus	BB	B+	negative	B1	B1	stable	nr	nr	-
Kazakhstan	BBB	BBB-	stable	Baa2	Baa2	stable	BBB	BBB-	stable
Russia	BBB+	BBB	stable	Baa1	Baa1	stable	BBB	BBB	stable
Ukraine	B+	B	stable	B2	B2	negative	B	B	stable
Turkey	BB+	BB	positive	Ba2	Ba2	stable	BB+	BB+	stable

* Eurozone (Euro currency) members; Source: Rating agencies websites
Source: rating agencies websites

Main macro data & forecasts*

Country	Year	GDP, % avg. yoy	CPI, % avg. yoy	Unemployment, %	Nominal wages, EUR	Fiscal balance, % GDP	Public debt, % GDP	Export*, % GDP	C/A, % GDP	Ext. debt, % GDP	FXR** % ext. debt	Import cover, months
Poland	2009	1.8	3.5	11.0	721	-7.1	50.9	32.7	-1.6	59.3	28.5	6.4
	2010	3.0	2.5	11.9	806	-6.9	53.7	30.6	-2.4	50.1	34.7	7.2
	2011	3.2	2.3	10.6	871	-5.3	52.8	29.1	-3.2	48.0	31.6	6.8
Hungary	2009	-6.3	4.2	10.3	713	-4.0	78.3	63.8	0.2	111.0	29.0	6.5
	2010	1.0	4.5	11.7	754	-4.1	77.7	68.5	0.0	107.6	27.9	5.7
	2011	2.5	3.0	10.5	783	-4.4	77.7	70.8	-2.3	109.0	26.4	5.2
Czech Rep.	2009	-4.0	1.0	8.1	892	-5.9	35.4	57.8	-1.0	43.8	48.1	4.8
	2010	1.0	1.7	9.0	945	-5.4	39.4	61.9	0.0	44.4	49.6	4.6
	2011	2.0	2.4	9.2	1020	-4.7	42.0	64.0	-0.5	44.0	50.4	4.5
Romania	2009	-7.1	5.6	6.3	446	-8.3	23.7	25.0	-4.5	69.2	35.3	9.5
	2010	-3.0	6.3	8.8	451	-8.0	31.5	29.5	-5.2	75.8	34.1	8.7
	2011	2.0	6.9	8.8	484	-6.0	35.5	31.7	-5.9	77.7	29.5	7.1
Croatia	2009	-5.8	2.4	14.9	1051	-4.3	50.4	16.9	-5.2	98.3	23.3	8.3
	2010	-1.0	1.8	17.5	1063	-4.4	53.6	17.0	-5.5	102.9	22.7	8.6
	2011	2.0	3.5	16.5	1092	-3.6	53.7	17.9	-5.0	102.3	23.0	8.5
Russia	2009	-7.9	11.8	8.4	425	-6.2	8.3	24.7	4.0	38.8	84.1	24.7
	2010	4.0	6.1	7.9	561	-5.0	8.8	27.0	6.0	35.4	90.8	23.5
	2011	3.5	6.1	7.4	668	-3.0	8.6	28.0	5.0	36.0	93.7	22.2
Turkey	2009	-4.7	6.3	13.7	367	-5.6	46.8	17.9	-2.3	45.5	24.3	5.8
	2010	7.0	9.0	12.5	427	-3.0	47.5	16.4	-4.1	39.6	21.3	4.4
	2011	5.0	6.5	11.0	514	-2.5	47.4	17.6	-5.0	38.0	20.6	3.7

* only for countries included in CEE bond market weekly, ** Export of Goods only, *** FXR - Foreign exchange reserves
Source: Thomson Reuters, National Statistics



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