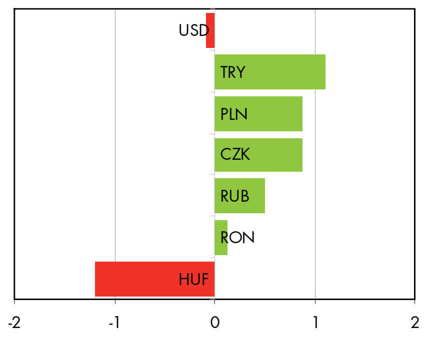
CEE Weekly
Bond Markets Outlook

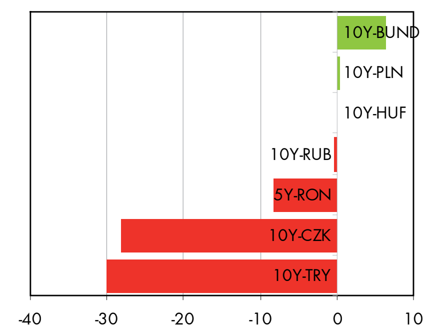
Issue 29/2010 — *23 July 2010*

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	4.10	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	284.5	275	275	285
1m-rate	5.3	5.0	5.0	4.8
5y bond	7.2	6.8	6.8	6.5
10y bond	7.2	7.0	7.0	6.8
Czech Rep.				
CZK	25.2	25.5	25.0	24.8
1m-rate	0.7	0.7	0.7	1.0
5y bond	2.6	3.0	3.4	3.5
10y bond	3.8	4.3	4.4	4.4
Russia				
RUB	30.5	30.0	30.7	31.7
1m-rate	3.3	3.5	4.2	4.0
5y bond	6.7	6.5	6.8	7.0
10y bond	7.1	7.0	8.0	7.8
USD	1.29	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*** – The postponement of the negotiations on the next tranche of the package from 2008 for Hungary has set EUR/PLN under pressure on Monday. In the meantime the market calmed down and with improving risk sentiment PLN increased again to 4.07 vs. EUR. Nevertheless, we put our recommendation for Polish bonds back to "Neutral", from "Buy" as the risk of contagion from the Hungarian budget issue remains high at least until the negotiations will resume in September.
- ***Hungary*** – We see politics a bit shaky and project increased volatility in the coming weeks/month. But as the Parliament ends the summer session today, the newsflow might dry up. Thus, we reduce our recommendation of 10y HGB to NEUTRAL. Nonetheless, our HUF forecast is unchanged for September (EUR/HUF 275).
- ***Czech Republic*** – The Czech market has been boosted by the ambitious fiscal plans of the new coalition government. The Czech koruna (CZK) appreciated to EUR/CZK 25.10 and prices of government bonds continued to rise. The CZK market even appeared to be immune to the market jittery that was caused by the tensions between the Hungarian government and the IMF and EU.
- ***Romania*** – We think that it is too early to say that the government will start to pay more to raise funds. In our baseline scenario, we look for higher yields in the next months, but not too far from the current level. For time being, we keep our neutral recommendation on RON bonds.

Key upcoming events and data releases

Country	Time	Indicator	Period	Forecast	Range	Last
26-Jul						
HU	09:00	Retail sales, % yoy	May	-3.8	n.a.	-5
TR	15:30	Capacity utilisation, %	Jul	74	n.a.	73.6
TR	15:30	Manufacturing confidence	Jul	110.0	n.a.	111.7
28-Jul						
HU	09:00	Unemployment rate, %	Jun	11.2	n.a.	11.4
29-Jul						
HU	09:00	PPI, % yoy	Jun	6.7	n.a.	5.5
30-Jul						
TR	09:00	Trade balance, USD bn	Jun	n.a.	n.a.	-4.8
HR	n.a.	Retail trade, % yoy	Jun	-1.5	n.a.	-3.7
HR	n.a.	Imports, EUR mn	Jun	1368	n.a.	1296
HR	n.a.	Exports, EUR mn	Jun	747	n.a.	831

Raiffeisen RESEARCH
RZB Group

- ***Croatia*** – In the week ahead trading on the domestic FX market should be carried out between 7.22 and 7.25 kuna per euro level. The seasonal inflow of euros in the peak tourist season suggest that the FX rate may not go much higher, thus keeping the kuna relatively strong.
- ***Russia*** – Unexpectedly, industrial output growth in June slowed to only 9.7% yoy vs. the 12.6% growth observed in May. Investment activity is suffering from protracted weakness underpinned by slower credit growth and volatile capital markets. Thus, domestic household consumption remains nearly the only factor driving the economy. Whereas Russia's economic recovery is on track there is a credible risk of an investment-less recovery translating into a weaker growth pattern over the coming months.
- ***Turkey*** – Capacity utilisation for July might still inch up from its June level of 73.6%, but may stagnate in coming months as economic dynamics are expected to decelerate in H2. Industrial confidence already lost momentum and may decrease even more, as especially the forward-looking components of the leading indicator have already been declining for 2 months now. The markets may continue to ignore negative local factors as the escalation of the PKK insurgence and the decision to postpone the introduction of a fiscal rule.

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
SELL BASKET/RUB (long RUB)	06/07/10	34.7169	13/07/10	34.35	1.11%	Target Reached
Buy RON T-Bond 10/2012 (ISN RO0912DBN076)	22/04/10	111.1	07/05/10	109.5	-1.0%	Stopped out
Buy RUB T-Bond 11/2021 RU46018 (ISN RU000A0D0G29)	23/04/10	100.45	06/05/10	98.6	-1.1%	Early stop-out
Buy HUF T-Bond 06/2019 (ISIN HU0000402433)	08/06/10	91.4	19/07/10	94.13	3.7%	Suspension of talks between Hungary and IMF/EU on EUR 20 bn deal
Buy PLN T-Bond 10/2020 (ISIN PL0000106126)	09/07/10	95.7	19/07/10	95.3	-0.3%	Suspension of talks between Hungary and IMF/EU on EUR 20 bn deal

Local currency bonds
Market overview

CEE local currency bond market snapshot

23/07/2010	Maturity	Coupon %	Ask price	YTM %	Spread to bunds (bp)	MDuration
			Poland			
PLN 2y Gov. Bond	25/ Oct 12	0.00	90.20	4.70	395	2.3
PLN 5y Gov. Bond	25/ Apr 15	5.50	100.50	5.37	370	4.3
PLN 10y Gov. Bond	25/ Oct 20	5.25	95.55	5.84	314	7.8
PLN 20y Gov. Bond	25/ Apr 29	5.75	97.00	6.02	268	11.7
			Hungary			
HUF 3y Gov. Bond	24/ Oct 13	7.50	101.33	7.01	598	2.9
HUF 5y Gov. Bond	12/ Feb 16	5.50	92.56	7.16	549	4.8
HUF 10y Gov. Bond	12/ Nov 20	7.50	102.15	7.19	450	7.2
HUF 15y Gov. Bond	24/ Nov 23	6.00	90.28	7.15	380	8.9
			Czech Republic			
CZK 2y Gov. Bond	18/ Oct 12	3.55	104.20	1.61	86	2.1
CZK 5y Gov. Bond	11/ Apr 15	3.80	104.75	2.71	89	4.4
CZK 10y Gov. Bond	12/ Sep 20	3.75	99.50	3.81	111	8.3
CZK 15y Gov. Bond	25/ May 24	5.70	116.45	4.12	76	10.2
			Croatia			
HRK 5y Gov. Bond	15/ Dec 15	5.25	98.71	5.53	386	4.7
HRK 10y Gov. Bond	5/ Mar 20	6.75	103.46	6.26	357	7.2
			Romania			
RON 3y Gov. Bond	25/ Oct 12	11.25	107.90	7.28	626	2.0
RON 5y Gov. Bond	5/ Mar 14	11.00	111.27	7.30	563	3.1
			Russia			
RUB 2y Gov. Bond	19/ Sep 12	10.80	110.50	5.65	490	1.9
RUB 5y Gov. Bond	17/ Dec 14	11.20	117.80	6.68	501	3.6
RUB 10y Gov. Bond	29/ Aug 18	8.00	101.70	6.73	403	4.1
RUB 30y Gov. Bond	6/ Feb 36	6.90	94.90	7.49	413	11.5
			Turkey			
TRY 2y Gov. Bond	25/ Apr 12	0.00	87.06	8.21	746	1.8
TRY 5y Gov. Bond	17/ Jun 15	10.00	105.80	8.71	704	4.1
TRY 10y Gov. Bond	15/ Jan 20	10.50	112.00	8.80	610	6.3

Source: Thomson Thomson Reuters, Raiffeisen RESEARCH

Bond auctions

Bond auctions		ISIN	Coupon	Maturity	Volume
26-Jul					
TR	3y Fixed coupon bond (tap)	n.a.	n.a	10 Apr 2013	n.a.
27-Jul					
TR	1y Zero coupon bond	n.a.	0.0%	20 Jul 2011	
TR	7y Floating rate note	n.a.	n.a.	19 Jul 2017	

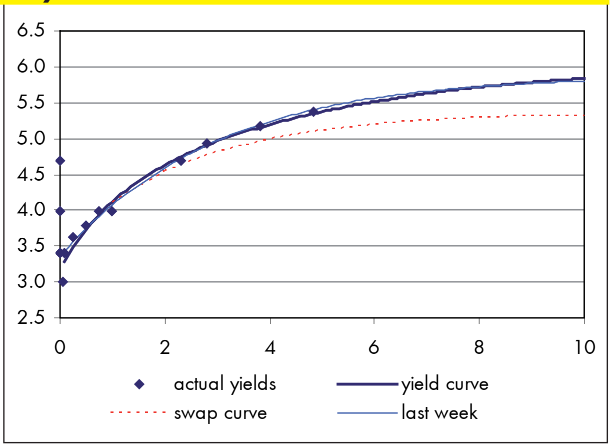
Poland

Yields little changed after economic data

(P)review of key economic figures/events

16 Jul 10	Employment, % yoy	Jun 1.1 (May 0.5)
19 Jul 10	Industrial output, % yoy	Jun 14.5 (May 14)
23 Jul 10	Retail sales, % yoy	Jun 6.4 (May 4.3)

PL yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

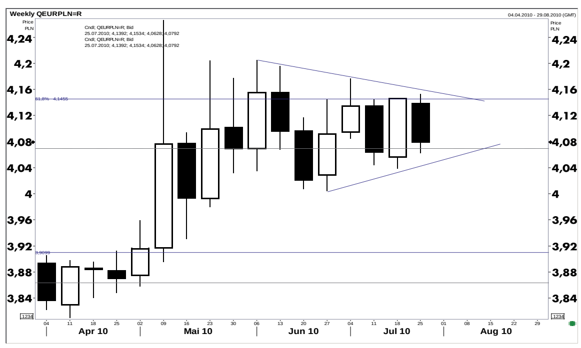
Money market focus

MM rates	***1m***	***3m***	***6m***	***12m***
Actual	***3.40***	***3.62***	***3.79***	***4.03***
Change from last week	-0.04	-0.02	-0.01	-0.01
Forecast Sep-10	3.60	3.80	3.89	3.90
Forward rates	***3x6***	***6x9***	***9x12***	
	3.98	4.38	4.09	
Change from last week	0.00	0.05	-0.07	

Bond market focus

	2y	***5y***	***10y***	***20y***
Actual	***4.69***	***5.37***	***5.84***	***6.07***
Change from last week	-0.04	0.00	0.03	0.01
Forecast Sep-10	4.40	4.95	5.50	5.60
Spread to bunds	***399.4***	***375.6***	***319.8***	***277.0***
Change from last week	1.6	4.5	2.8	5.1
Spread to swaps	***-11.4***	***-20.7***	***-45.7***	

EUR/PLN



Last: 4.08 position: neutral
Triangle still is being formed, but 4.22 -> 4.30 less likely than re-testing of 4.00 -> 3.90.

Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral PLN T-bonds

Market comment

The Polish bond market did not benefit much from the improving risk sentiment, nor form the incoming economic data. Today retail sales data for June were published and as in the case of industrial production, retail sales grew faster than expected with 6.4% yoy. Combining these data with the industrial production figures, we see a good chance for GDP having grown at a rate of 3.2% yoy in Q2. The switch-tender on Wednesday where the MoF exchanged bonds maturing this year for bonds with maturity in 2020 turned out to be a non-event. The MoF sold PLN 1.67 bn of the new bonds. Finally, on Monday after the weekend the Hungary vs. EU/IMF negotiations breakdown has had only a minor impact on bond yields.

Market outlook

The postponement of the negotiations on the next tranche of the package from 2008 for Hungary has set EUR/PLN under pressure on Monday. In the meantime the market calmed down and with improving risk sentiment PLN increased again to 4.07 vs. EUR. Nevertheless, we put our recommendation for Polish bonds back to "Neutral", from "Buy" as the risk of contagion from the Hungarian budget issue remains high at least until the negotiations will resume in September. The recent economic data reveal that Poland is on track with the economic recovery. We see no need so far for increasing interest rates in Poland, in spite of the inflation surprise in June. We expect the MPC to leave the key interest rates unchanged at the next rate setting meeting in August.

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

Exchange rate focus

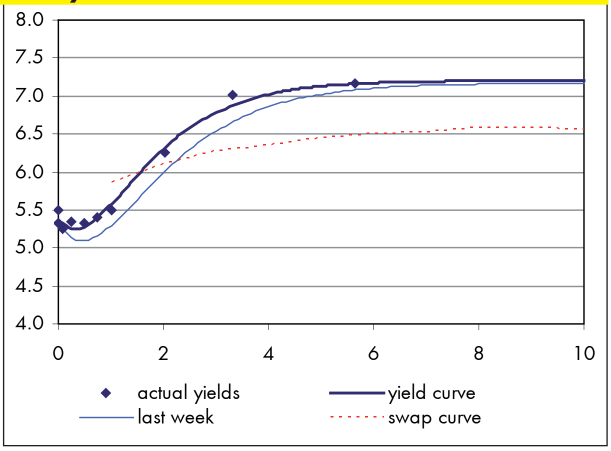
	actual	***Sep-10***	***Dec-10***	***Mar-11***
EUR/PLN	***4.10***	***4.00***	***3.85***	***3.85***
Change from last week	-1.0%			
USD/PLN	***3.19***	***3.20***	***3.21***	***3.35***
Change from last week	-0.6%			

Hungary
IMF/EU negotiations stopped

(P)review of key economic figures/events

26 Jul 10	Retail sales, % yoy	May -3.8 (Apr -5)
28 Jul 10	Unemployment rate, %	Jun 11.2 (May 11.4)
29 Jul 10	PPI, % yoy	Jun 6.7 (May 5.5)

HUF yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

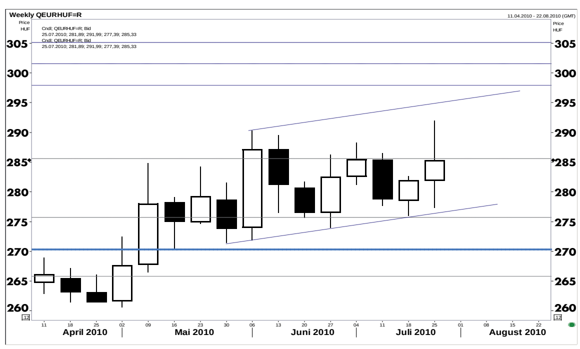
Money market focus

MM rates	1m	3m	6m	12m
Actual	**5.25**	**5.31**	**5.36**	**5.46**
Change from last week	0.00	0.04	0.08	0.08
Forecast Sep-10	**5.0**	**5.0**	**5.1**	**4.9**

Bond market focus

	3y	5y	10y	15y
Actual	**7.01**	**7.16**	**7.19**	**7.15**
Change from last week	0.28	0.10	0.01	0.00
Forecast Sep-10	6.3	6.8	7.0	7.0
Spread to bunds	**603.3**	**554.5**	**454.6**	**379.0**
Change from last week	30.6	14.8	5.8	0.0

EUR/HUF



Last: 285.33 *buy*
target: 297
Might head sideways until end of August, but still looks bullish (Triangle).

Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral 10y HUF T-bonds

Market comment

Similarly to what we saw at the beginning of June (when politicians said Hungary had a slim chance of avoiding a Greek-like debt situation), the market quickly deteriorated after the IMF/EU announced that negotiations had ended without success on Saturday. But Mr. Orban stepped in quickly again to calm the markets by pledging once again to meet the deficit target of 3.8% of GDP for this year. Investor sentiment did ease: the forint reversed losses after Monday's 1-year low, and long-end yields sank back to last week's level. Nevertheless, the disappointing bidding activity on this week's T-bill auctions (b/c ratio was 1.17x on 3-m bills, and 1.5x on 12-m bills) indicates rising rate-hike speculation due to elevated risk (NBH Governor Simor hinted after Monday's rate-setting meeting that a sustained increase in risk premia may make it necessary to raise the base rate).

Market outlook

The IMF/EU negotiations will continue in September, and in our view they must end in an agreement. On the other hand, recent statements from government officials and the IMF as well point to a slim chance of achieving that without a change in attitude. The government is reported to have the intention to loosening up next year's deficit target of 2.8%. Additionally, there are also signs that they might cancel the request for a new "precautionary" credit line, as the relationship seem to have deteriorated. We see politics a bit shaky and project increased volatility in the coming weeks/month. But as the Parliament ends the summer session today, the newsflow might dry up. Thus, we reduce our recommendation of 10y HGB to NEUTRAL. Nonetheless, our HUF forecast is unchanged for September (EUR/HUF 275).

Analysts: Adam Keszeg (+36 148 44343)

Exchange rate focus

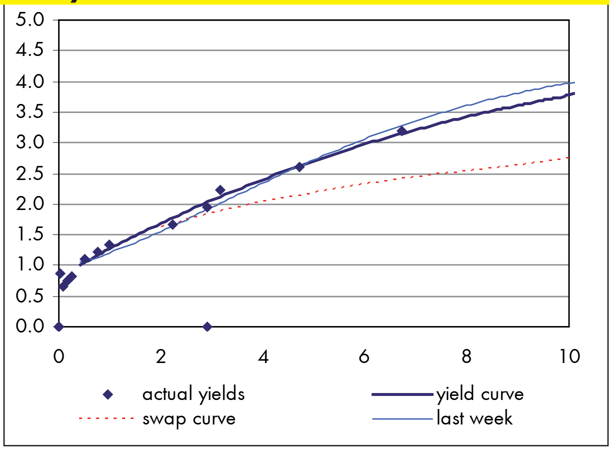
	actual	Sep-10	Dec-10	Mar-11
EUR/HUF	**284.46**	**275.0**	**275.0**	**285.0**
Change from last week	-2.0%			
USD/HUF	**221.49**	**220.0**	**229.2**	**247.8**
Change from last week	-1.6%			

Czech Republic
So far so good

(P)review of key economic figures/events

15 Jul 10	PPI, % yoy	Jun 2.0 (May 1.5)	Somewhat faster increase than expected

CZK yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

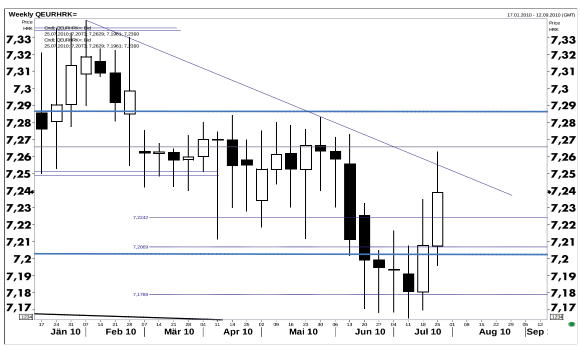
Money market focus

MM rates	1m	3m	6m	12m
Actual	*0.65*	*0.83*	*1.11*	*1.34*
Change from last week	-0.01	-0.02	-0.03	-0.02
Forecast Sep-10	0.7	0.8	1.0	1.4
Forward rates	*1x2*	*3x6*	*6x9*	*9x12*
	0.83	1.39	1.44	1.70
Change from last week	0.01	-0.04	0.00	-0.02

Bond market focus

	2y	5y	10y	15y
Actual	*1.66*	*2.61*	*3.77*	*4.22*
Change from last week	0.24	-0.05	-0.18	-0.10
Forecast Sep-10	2.0	3.0	4.3	4.5
Spread to bunds	*95.8*	*100.2*	*112.3*	*86.0*
Change from last week	31.9	-2.5	-12.8	-10.4
Spread to swaps	*8.6*	*-30.7*	*-87.6*	*n.a.*

EUR/CZK



Last: 25.15 sell target: 24.80 - 23.60
Bearish Rectangular Triangle, 24,50 -> 23,71 - 22,90 is likely though, stop 25.60

Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral CZK T-bonds

Market comment

After the successful formation of the new coalition government investors seem to love Czech assets. The Czech koruna (CZK) appreciated to EUR/CZK 25.10 and prices of government bonds continued to rise. The CZK market even appeared to be immune to the market jittery that was caused by the tensions between the Hungarian government and the IMF and EU. The rating agency Moody's stated that it could improve the rating of the Czech Republic if the new government was to keep its promises to consolidate public finances. A positive factor was also the auction of government bonds with 9 years of remaining maturity at an amount of CZK 9.2 bn. The auction reached a bid-to-cover ratio of 2.71 compared to 1.5 at the previous auction of the same bond in May and the average yield dropped to 3.818 from 4.04.

Market outlook

There are no major new domestic macroeconomic data releases for the remainder of July. Therefore, the key driver of the Czech market will probably be the overall sentiment both towards the region in general and the Czech Republic in particular. In particular the latter has been boosted by the ambitious fiscal plans of the new coalition government. This can prevail for some time and we could see Czech bond yields to go even somewhat lower. On the other hand, there is still some risk of a disappointment and the market will have to absorb a strongly increasing supply of government bonds in H2 2010. All in all, we stick to our short-term neutral 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	*25.18*	*25.5*	*25.0*	*24.8*
Change from last week	1.1%			
USD/CZK	*19.58*	*20.4*	*20.8*	*21.6*
Change from last week	2.3%			

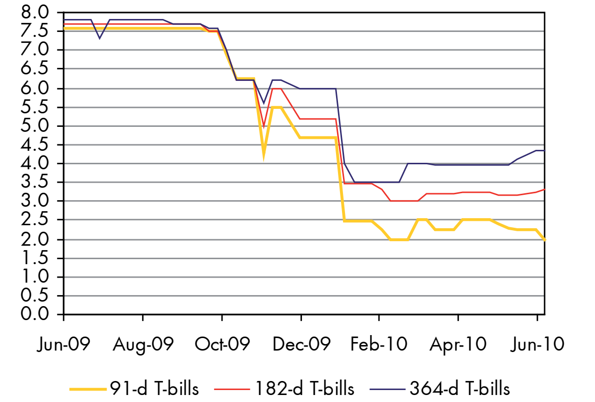
Croatia

Industrial production down for the 4th month

(P)review of key economic figures/events

30 Jul 10	Retail trade, % yoy	Jun -1.5 (May -3.7)
30 Jul 10	Imports, EUR mn	Jun 1368 (May 1296)
30 Jul 10	Exports, EUR mn	Jun 747 (May 831)

Interest rates on T-bills



Source: Thomson Reuters, Raiffeisen RESEARCH

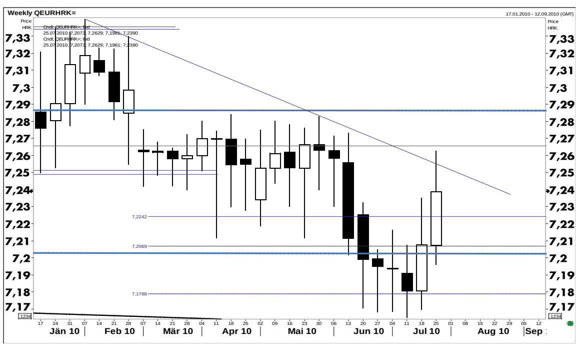
Money market focus

	1m	3m	6m	12m
ZIBOR actual	***1.87***	***2.50***	***3.35***	***4.07***
Change from last week	0.05	-0.03	0.00	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	***7.229***	***7.29***	***7.32***	***7.30***
Change from last week	0.4%			
USD/HRK	***5.63***	***5.83***	***6.10***	***6.35***
Change from last week	-0.6%			

EUR/HRK



Last: 7.24 position: neutral
Bullish signal at 27.70 -> 7.2810 not off odds, but stop 7.22 -> 7.20 recommendable.

Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral EUR/HRK

Market comment

Industrial production declined for the fourth month in a row in June. The decrease of 4% yoy and 2.7% mom was much stronger than expected (consensus -1.2% yoy). Despite a positive base effect and an accumulation of inventories, industrial output has continued to fall and will have a negative impact on overall GDP. Industrial production is still based on low technological intensity and low value added. In contrast to the export-oriented countries in Central Europe, the recovery of foreign demand alone, without an increase of the domestic component, will not suffice to reverse the negative trend. During the rest of the year only a small positive growth in industrial production is probable. At the end of Q1 2010 gross external debt slightly decreased relative to year-end 2009, primarily due to a reduction in central government debt. As expected, weak domestic demand, which had been financed by borrowing from abroad for many years, and limited business opportunities for domestic enterprises contribute to less demand for external financing. Due to high refinancing needs of the government, we expect an increase in external borrowing towards the end of the year.

Market outlook

After a relatively calm start of the week at trading levels around 7.22 kuna (HRK) per euro, driven by the increased supply of foreign currency from the banking sector and institutional investors, the HRK weakened in the second half of the week to 7.24. In the week ahead the HRK should be trading in a range between 7.22 and 7.25 kuna per euro. The seasonal inflow of euros at the peak of the tourist season – together with weaker import activity – suggests that the exchange rate may not weaken much, thus keeping the kuna at relatively strong levels.

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

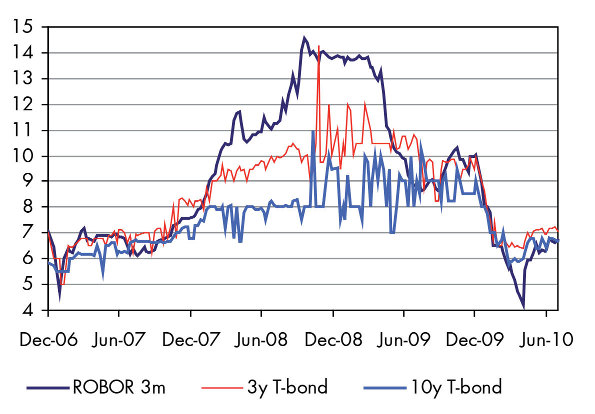
Romania

Domestic bond in EUR in pipeline

(P)review of key economic figures/events

12 Jul 10	Foreign trade balance, EUR bn, ytd	May -2.78 (Apr -2.01)
12 Jul 10	CPI, % yoy	Jun 4.4 (May 4.4)
13 Jul 10	Current account balance, EUR bn, ytd	May -2.87 (Apr -2.13)

ROBOR 3m & T-bond yields (%)



Source: Thomson Reuters, Raiffeisen RESEARCH

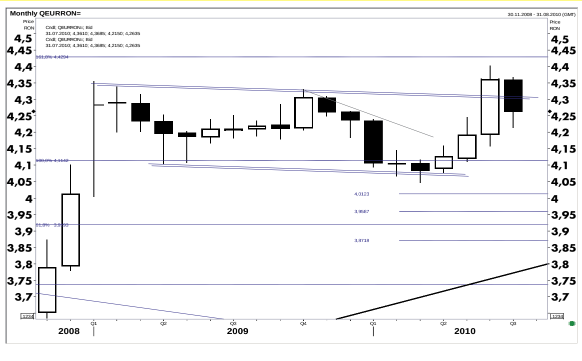
Money market focus

MM rates	***1m***	***3m***	***6m***	***12m***
Actual	***6.13***	***6.71***	***6.73***	***6.73***
Change from last week	0.08	0.08	0.04	0.03
Forecast Sep-10	7.0	7.1	7.1	7.4
Implicit forward rates	***3x6***	***6x9***	***9x12***	
	6.81	6.67	6.56	
Change from last week	0.00	0.01	0.03	

Bond market focus

	2y	***3y***	***5y***	***10y***
Actual	***6.89***	***7.30***	***7.36***	***6.35***
Change from last week	0.18	0.03	0.08	-0.40
Forecast Sep-10	7.70	7.90	7.90	7.40
Spread to bunds	***621.7***	***633.2***	***575.3***	***370.9***
Change from last week	27.7	12.4	-39.9	-34.5

EUR/RON



Last: 4.26 buy 4.43 target: 4.75 - 5.02
Whipsaw due to actions taken at 4.30 not off adds, so we place a stop at 4.20 -> 4.10 . 4.07.

Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral RON T-bonds

Market comment

Last week, the Finance Ministry announced that on 28 July it would issue a new 1-year T-bond on the local market denominated in euro. The Finance Ministry intends to borrow EUR 400 mn and to pay a yield of 5%. Clearly, the potential buyers of the bonds are local banks. It seems that there is some liquidity surplus in foreign currency in the local market. In March 2009, foreign banks agreed not to reduce their exposure in Romania (Vienna Initiative) during the life of the Stand-By Agreement with the IMF (March 2009-March 2011). The banks largely met this requirement in the last year, but complained many times about the lack of investing opportunities as demand for loans from the private sector is very weak. So, we expect the bond to be largely subscribed by local banks.

Market outlook

Market participants still require high risk premiums for longer terms and it is difficult especially for the government to raise funds on the local market at "acceptable yields". In recent months, the government refused to pay more than 7% at the auctions both for T-bills and T-bonds. But the supply of funds was low at this price, and substantially below the government's demand. On Thursday, the government agreed to pay an average yield of 7.1% in a 7-year T-bond auction, but the amount effectively borrowed (RON 103 mn) was still lower than the amount initially announced (RON 400 mn). However, we think that it is too early to say that the government will start to pay more to raise funds. In our baseline scenario, we look for higher yields in the next months, but not too far from the current level. For time being, we keep our neutral recommendation on RON bonds.
Analyst: Nicolae Covrig (+40 21 30 61000)

Exchange rate focus

	actual	***Sep-10***	***Dec-10***	***Mar-11***
EUR/RON	***4.27***	***4.40***	***4.30***	***4.40***
Change from last week	-0.2%			
USD/RON	***3.33***	***3.52***	***3.58***	***3.83***
Change from last week	0.1%			

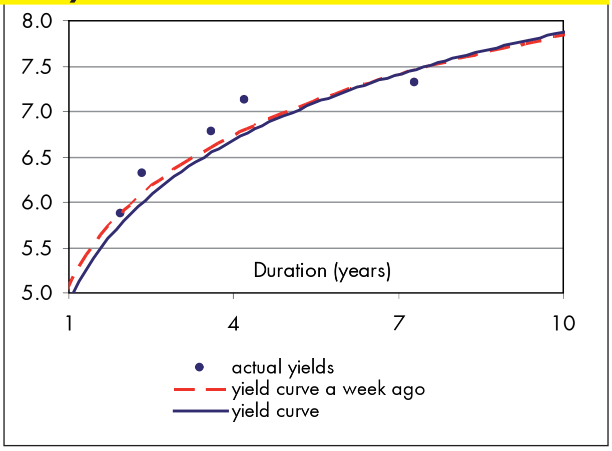
Russia

Volatile economic recovery

(P)review of key economic figures/events

No important data or market releases next week

RUB yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

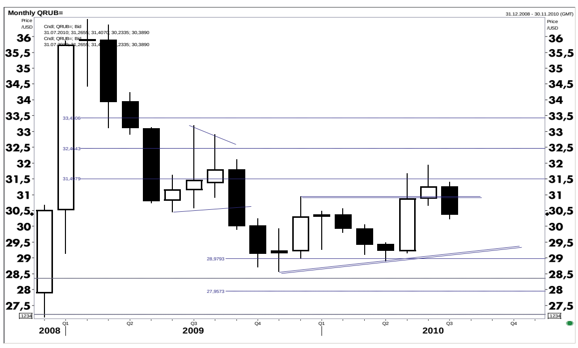
Money market focus

MM rates	***1m***	***3m***	***6m***	***12m***
Actual	***4.12***	***4.84***	***5.56***	***6.95***
Change from last week	-0.08	-0.14	-0.20	-0.10
Forecast Mar-10	***3.50***	***4.00***	***4.50***	***n.a.***
Forward rates	***1x2***	***3x6***	***6x9***	***9x12***
	4.93	6.35	n.a.	n.a.
Change from last week	0.03	-0.24	n.a.	n.a.

Bond market focus

	1y	***2y***	***5y***	***15y***
Actual	***4.29***	***5.87***	***6.78***	***7.31***
Change from last week	-0.76	0.01	-0.77	-0.03
Forecast Mar-10	***5.20***	***5.80***	***6.50***	***n.a.***

USD/RUB



Last: 30.38 sell 30.15 target: 29.15
A drop to the support line is not off odds, but in before it needed to rebound towards 31 - 31.50.

Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

The rouble may have been boosted by soaring domestic equity prices and stabilising oil. However, the decision of the finance ministry to cancel the 2015 year OFZ auction means there might be more rouble liquidity waiting on the market sidelines. The rouble is trading at 34.30 vs. the dual currency basket while our short-term outlook for the currency remains neutral.

Market comment

Unexpectedly, industrial output growth in June slowed to only 9.7% yoy vs. the 12.6% growth observed in May. The output figure was well below the market consensus estimate of 11.9%, while the monthly output index also fell by 0.4%. Whilst we attribute part of slower economic activity in June to a seasonal pattern, there are additional factors pointing to a fragile economic recovery in Russia. First of all, investment activity is suffering from protracted weakness underpinned by slower credit growth and volatile capital markets. Capital investment growth in June was nearly three times lower at 7.4% yoy, compared to 19.9% growth in May. In a situation where credit availability remains scarce while companies need to allocate more cash to working capital, there are slimmer hopes for higher investment activity. Thus, domestic household consumption remains nearly the only factor driving the economy, speaking of which better consumer sentiment in Russia could be fostered by stable wage growth and still falling unemployment. Real wages in June gained 5.5% yoy, whereas the jobless rate fell from 7.3 to 6.8%. Yet, June retail sales growth picked up only marginally rising by 5.8% in real terms vs. 5.1% in May. All of the above suggest to us that whereas Russia's economic recovery is on track there is a credible risk of an investment-less recovery translating into a weaker growth pattern over the coming months. The economy ministry estimates GDP growth at 4.2% yoy in H1 2010, while the next quarters may see no significant improvement which will bring overall growth to just 4% for 2010 instead of the previously expected 5%.

Analyst: Gintaras Shlizhyus (+43 1 71707 1343)

Exchange rate focus

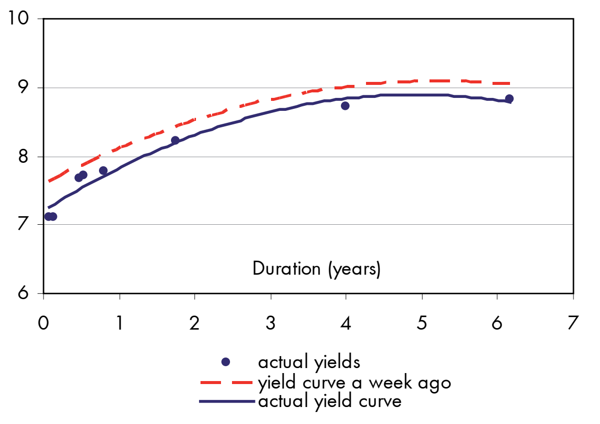
	actual	***Sep-10***	***Dec-10***	***Mar-11***
EUR/RUB	***39.15***	***37.53***	***36.88***	***36.41***
Change from last week	-0.1%			
USD/RUB	***30.38***	***30.02***	***30.73***	***31.66***
Change from last week	0.9%			

Turkey
In the sun

(P)review of key economic figures/events

26 Jul 10	Capacity utilisation, %	Jul 74 (Jun 73.6)
26 Jul 10	Manufacturing confidence	Jul 110 (111.7)
30 Jul 10	Trade balance, USD bn	Jun n.a. (-4.8)

TRY yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Money market focus

MM rates	**1m**	**3m**	**6m**	**12m**
Actual	**7.00**	**7.30**	**7.90**	**8.40**
Change from last week	0.00	0.00	-0.11	-0.24
Forecast Sep-10	**7.30**	**7.60**	**8.20**	**8.00**
Implied forward rates	**1x2**	**3x6**	**6x9**	**9x12**
	7.26	8.35	8.59	8.35
Change from last week	0.00	-0.21	-0.64	-0.07

Bond market focus

	1m	**1y**	**2y**	**5y**
Actual	**7.12**	**7.77**	**8.21**	**8.72**
Change from last week	-0.85	-0.26	-0.20	-0.29
Forecast Sep-10	**n.a.**	**8.00**	**8.40**	**8.90**

EUR/TRY

Last: 1.96 buy target: 1.97
It might now recover, even to 1.99, but the sell-limit,i .e. 1.94 -> 1.93 - 1.92 has to be kept attention to.

Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral TRY T-bonds

Market comment

Turkish assets continued to rally this week as global markets regained confidence: On Thursday, the ISE 100 equity index broke through 60,000 (marking an all time high!), the lira appreciated to below 1.52 and Turkish government yields (2y benchmark) continued to decrease to 8.20%. As slight decrease in inflation expectations in the latest CB survey by 4pp to 7.69% (yoy for end-2010) might have reassured the markets that interest rate hikes are far off. On 27 July, the CB will publish its inflation report, and possibly shift its targeted period for initial rate hikes to 2011. Also, investors seem attracted by Turkey's comparably robust recovery, well-capitalised banks and the favourable economic outlook.
In its notes to last week's interest rate decision (no rate change), the CB did not modify its wording of "maintain[ing] policy rates at current levels for some time, and keep[ing] them at low levels for a long period."

Market outlook

Next week's data includes capacity utilisation, manufacturing confidence and the trade balance. Capacity utilisation for July might still inch up from its June level of 73.6%, but may stagnate in coming months as economic dynamics are expected to decelerate in H2. Industrial confidence already lost momentum and may decrease even more, as especially the forward-looking components of the leading indicator have already been declining for 2 months now.
The markets may continue to ignore negative local factors as the escalation of the PKK insurgence and the decision to postpone the introduction of a fiscal rule.

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	-0.2%			
USD/TRY	**1.52**	**1.50**	**1.50**	**1.45**
Change from last week	-1.0%			

Summary
Ratings & macro data

Country ratings: CEE, SEE, CIS

	S&P LCY	S&P FCY	S&P Outlook	Moody's LCY	Moody's FCY	Moody's Outlook	Fitch LCY	Fitch FCY	Fitch 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	Unem-ploy-ment, %	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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