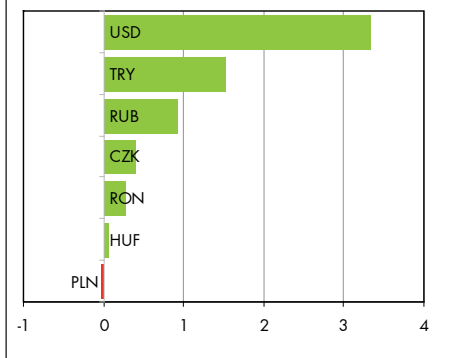


# CEE Weekly Bond Markets Outlook

Issue 32/2010

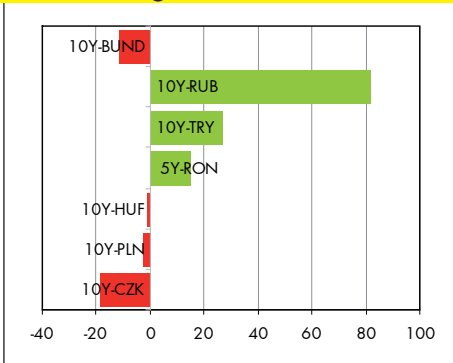
13 August 2010

## LCY changes vs. EUR\*



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

## Yield changes\*



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

## Forecast

|                   | current     | Sep-10      | Dec-10      | Mar-11      |
|-------------------|-------------|-------------|-------------|-------------|
| <b>Poland</b>     |             |             |             |             |
| PLN               | 4.01        | 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         |
| <b>Hungary</b>    |             |             |             |             |
| HUF               | 282.1       | 275         | 275         | 285         |
| 1m-rate           | 5.3         | 5.0         | 5.0         | 4.8         |
| 5y bond           | 6.7         | 6.8         | 6.8         | 6.5         |
| 10y bond          | 6.9         | 7.0         | 7.0         | 6.8         |
| <b>Czech Rep.</b> |             |             |             |             |
| CZK               | 24.9        | 25.5        | 25.0        | 24.8        |
| 1m-rate           | 0.7         | 0.7         | 0.7         | 1.0         |
| 5y bond           | 2.5         | 3.0         | 3.4         | 3.5         |
| 10y bond          | 3.5         | 4.3         | 4.4         | 4.4         |
| <b>Russia</b>     |             |             |             |             |
| RUB*              | 30.4        | 30.6        | 30.7        | 31.7        |
| 1m-rate           | 3.3         | 3.5         | 4.2         | 4.0         |
| 5y bond           | 7.0         | 6.5         | 6.8         | 7.0         |
| 10y bond          | 8.0         | 7.0         | 8.0         | 7.8         |
| <b>USD</b>        | <b>1.29</b> | <b>1.25</b> | <b>1.20</b> | <b>1.15</b> |

Currencies per 1 EUR, \* RUB per 1 USD  
Source: Thomson Reuters. Raiffeisen RESEARCH

## Recommendations

For detailed recommendations please see page 2.

## Highlights

- Poland** – Next week's plethora of data releases should continue to show improvement on the labour market, with employment expected to rise by 1.6% yoy and nominal average monthly wages to increase by 4% yoy. We expect industrial output to increase by nearly 12% yoy and thus confirm the strong export demand for Polish goods.
- Hungary** – Preliminary GDP data for the second quarter disappointed a bit with 1% yoy and only 0% qoq. Even though no details have been released on GDP development the domestic demand most likely once more hindered stronger GDP growth. Last week there were rumors from government sources that the negotiations between Hungary and the IMF may continue in autumn.
- Czech Republic** – According to the flash estimate for GDP data for Q2, the Czech economy performed well, rising by 0.8% qoq and 2.2% yoy. This is a significant acceleration that was most likely driven by the industrial sector, which is profiting from foreign demand. The coming quarters are likely to bring some deceleration in the Czech GDP, as foreign demand is expected to slow.
- Romania** – We expect inflationary pressures arising from the VAT increase to gradually fade away in the coming months,

## Key upcoming events and data releases

| Country | Time  | Indicator                | Period | Forecast | Range       | Last |
|---------|-------|--------------------------|--------|----------|-------------|------|
| 13-Aug  |       |                          |        |          |             |      |
| PL      | 14:00 | M3 money supply, % yoy   | Jul    | 8.1      | n.a.        | 7.1  |
| PL      | 14:00 | CPI, % yoy               | Jul    | 2.2      | n.a.        | 2.3  |
| 16-Aug  |       |                          |        |          |             |      |
| HR      | n.a.  | CPI, % mom               | Jul    | -0.2     | n.a.        | -0.1 |
| HR      | n.a.  | CPI, % yoy               | Jul    | 1.1      | n.a.        | 0.7  |
| TR      | 09:00 | Consumer confidence      | Jul    | n.a.     | n.a.        | 88   |
| TR      | 09:00 | Unemployment (3m avg), % | May    | n.a.     | n.a.        | 12   |
| 17-Aug  |       |                          |        |          |             |      |
| PL      | 14:00 | Employment, % yoy        | Jul    | 1.6      | n.a.        | 1.1  |
| PL      | 14:00 | Corporate wages, % yoy   | Jul    | 4.0      | 3/3.7/4.8   | 3.5  |
| 18-Aug  |       |                          |        |          |             |      |
| PL      | 14:00 | Industrial output, % yoy | Jul    | 11.8     | 6.6/12/15.6 | 14.5 |
| PL      | 14:00 | PPI, % yoy               | Jul    | 3.9      | 1/3.2/3.9   | 1.9  |
| 19-Aug  |       |                          |        |          |             |      |
| HU      | 09:00 | Gross wages, % yoy       | Jun    | 0.8      | n.a.        | -0.9 |
| TR      | 18:00 | CBT repo rate, %         | Aug    | 7.0      | n.a.        | 7    |
| 20-Aug  |       |                          |        |          |             |      |
| PL      | 14:00 | Net inflation, % yoy     | Jul    | 1.3      | 1.1/1.3/1.8 | 1.5  |



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RESEARCH**

RZB Group

depending on the timing and size of the second round effects. Our forecast for 2010 year-end inflation is currently 8.5%. In this context, there is a good chance that we will see a hike in the monetary policy interest rate by the end of the year.

- **Croatia** – We expect inflationary pressures arising from the VAT increase to gradually fade away in the coming months, depending on the timing and size of the second round effects. Our forecast for 2010 year-end inflation is currently 8.5%. In this context, there is a good chance that we will see a hike in the monetary policy interest rate by the end of the year.

- **Turkey** – Interest rates will not be changed at the rate setting meeting on 19 August, consumer confidence may rise a bit, and unemployment for April–June will most likely decrease. The market will not pay too much attention to these (rather trailing) indicators. Therefore, global sentiment will once again be the most influential factor for Turkish assets.

## Short-term trading ideas\*

| Recommendation                            | Entry date | Entry level | Current level | Target | Stop | Carry (% p.a.) | Comments   |
|---|------------|-------------|---------------|--------|------|----------------|--|
| Buy HGB T-bill 3m<br>(ISIN: HU0000517677) | 06.08.2010 | 98.1        | 98.2          | 100.0  | 97.0 | -              | Market seems to have priced in rate hikes which we do not expect |

\*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 |
| SELL BASKET/RUB (long RUB) | 06/07/10   | 34.7169     | 13/07/10   | 34.35       | 1.11%        | Target Reached |
| 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    |
| SELL EUR/PLN (long PLN)    | 05/07/2010 | 4.138       | 08/07/2010 | 4.07        | 1.67%        | Target Reached |
| SELL BASKET/RUB (long RUB) | 06/07/2010 | 34.72       | 13/07/2010 | 34.35       | 1.11%        | Target Reached |

# Local currency bonds

## Market overview

### CEE local currency bond market snapshot

| 05/08/2010            | Maturity   | Coupon % | Ask price | YTM % | Spread to bunds (bp) | MDuration |
|-----------------------|------------|----------|-----------|-------|----------------------|-----------|
| <b>Poland</b>         |            |          |           |       |                      |           |
| PLN 2y Gov. Bond      | 25. Okt 12 | 0,00     | 90,31     | 4,76  | 418                  | 2,2       |
| PLN 5y Gov. Bond      | 25. Apr 15 | 5,50     | 100,70    | 5,32  | 395                  | 4,2       |
| PLN 10y Gov. Bond     | 25. Okt 20 | 5,25     | 95,90     | 5,79  | 338                  | 7,8       |
| PLN 20y Gov. Bond     | 25. Apr 29 | 5,75     | 96,85     | 6,03  | 289                  | 11,6      |
| <b>Hungary</b>        |            |          |           |       |                      |           |
| HUF 3y Gov. Bond      | 12. Feb 14 | 5,50     | 96,35     | 6,69  | 588                  | 3,2       |
| HUF 5y Gov. Bond      | 12. Feb 16 | 5,50     | 94,46     | 6,73  | 536                  | 4,7       |
| HUF 10y Gov. Bond     | 12. Nov 20 | 7,50     | 104,04    | 6,93  | 452                  | 7,2       |
| HUF 15y Gov. Bond     | 24. Nov 23 | 6,00     | 92,14     | 6,92  | 420                  | 8,9       |
| <b>Czech Republic</b> |            |          |           |       |                      |           |
| CZK 2y Gov. Bond      | 18. Okt 12 | 3,55     | 104,05    | 1,63  | 106                  | 2,1       |
| CZK 5y Gov. Bond      | 1. Sep 15  | 3,40     | 103,35    | 2,67  | 131                  | 4,6       |
| CZK 10y Gov. Bond     | 12. Sep 20 | 3,75     | 102,15    | 3,49  | 108                  | 8,3       |
| CZK 15y Gov. Bond     | 25. Mai 24 | 5,70     | 119,90    | 3,81  | 109                  | 10,2      |
| <b>Croatia</b>        |            |          |           |       |                      |           |
| HRK 5y Gov. Bond      | 15. Dez 15 | 5,25     | 98,24     | 5,64  | 427                  | 4,6       |
| HRK 10y Gov. Bond     | 5. Mär 20  | 6,75     | 102,49    | 6,40  | 398                  | 7,2       |
| <b>Romania</b>        |            |          |           |       |                      |           |
| RON 3y Gov. Bond      | 25. Okt 12 | 11,25    | 109,35    | 6,51  | 570                  | 1,9       |
| RON 5y Gov. Bond      | 5. Mär 14  | 11,00    | 113,77    | 6,51  | 514                  | 3,0       |
| <b>Russia</b>         |            |          |           |       |                      |           |
| RUB 2y Gov. Bond      | 19. Sep 12 | 10,80    | 110,20    | 5,67  | 509                  | 1,9       |
| RUB 5y Gov. Bond      | 17. Dez 14 | 11,20    | 117,35    | 6,74  | 538                  | 3,5       |
| RUB 10y Gov. Bond     | 29. Aug 18 | 8,00     | 100,32    | 7,06  | 465                  | 3,9       |
| RUB 30y Gov. Bond     | 6. Feb 36  | 6,90     | 94,63     | 7,51  | 436                  | 11,8      |
| <b>Turkey</b>         |            |          |           |       |                      |           |
| TRY 2y Gov. Bond      | 25. Apr 12 | 0,00     | 87,30     | 8,32  | 774                  | 1,7       |
| TRY 5y Gov. Bond      | 17. Jun 15 | 10,00    | 105,10    | 8,87  | 751                  | 4,0       |
| TRY 10y Gov. Bond     | 15. Jän 20 | 10,50    | 109,50    | 9,17  | 676                  | 6,2       |

Source: Thomson Thomson Reuters, Raiffeisen RESEARCH

### Bond auctions

| Bond auctions |                           | ISIN | Coupon | Maturity    | Volume |
|---------------|---------------------------|------|--------|-------------|--------|
| 16 Aug 10     |                           |      |        |             |        |
| TR            | 1y Zero coupon bond (tap) | n.a. | 0.0%   | 20 Jul 2011 | n.a.   |
| TR            | 3y T-bond (tap)           | n.a. | n.a.   | 10 Apr 2013 | n.a.   |
| 17 Aug 10     |                           |      |        |             |        |
| TR            | 2y Zero coupon bond (tap) | n.a. | 0.0%   | 25 Apr 2012 | n.a.   |
| TR            | Floating rate notes (tap) | n.a. | n.a.   | 19 Jul 2017 | n.a.   |

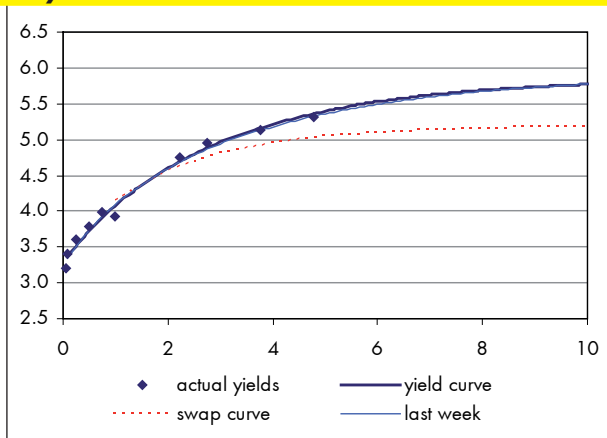
# Poland

## Yields unchanged ahead of economic data

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

|                  |                          |                     |
|------------------|--------------------------|---------------------|
| <b>13 Aug 10</b> | CPI, % yoy               | Jul 2.2 (Jun 2.3)   |
| <b>17 Aug 10</b> | Employment, % yoy        | Jul 1.6 (Jun 1.1)   |
| <b>18 Aug 10</b> | Industrial output, % yoy | Jul 11.8 (Jun 14.5) |

### PL yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

### Money market focus

| MM rates              | 1m          | 3m          | 6m          | 12m         |
|-----------------------|-------------|-------------|-------------|-------------|
| <b>Actual</b>         | <b>3.40</b> | <b>3.61</b> | <b>3.79</b> | <b>4.03</b> |
| Change from last week | 0.00        | 0.00        | 0.00        | 0.00        |
| Forecast Sep-10       | 3.60        | 3.80        | 3.89        | 3.90        |
| <b>Forward rates</b>  | <b>3x6</b>  | <b>6x9</b>  | <b>9x12</b> |             |
| Change from last week | 0.00        | -0.03       | 0.03        |             |

### Bond market focus

|                        | 2y           | 5y           | 10y          | 20y          |
|------------------------|--------------|--------------|--------------|--------------|
| <b>Actual</b>          | <b>4.76</b>  | <b>5.32</b>  | <b>5.79</b>  | <b>6.03</b>  |
| Change from last week  | -0.05        | -0.04        | 0.01         | 0.03         |
| Forecast Sep-10        | 4.40         | 4.95         | 5.50         | 5.60         |
| <b>Spread to bunds</b> | <b>418.2</b> | <b>394.6</b> | <b>337.8</b> | <b>289.3</b> |
| Change from last week  | 22.3         | 18.6         | 1.1          | 15.0         |
| <b>Spread to swaps</b> | <b>-13.1</b> | <b>-20.8</b> | <b>-54.8</b> |              |

### EUR/PLN



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market strategy

Neutral PLN T-bonds

### Market comment

There was little movement on the Polish bond market this week. In addition, EUR/PLN oscillated around the 4.00 level even after the correction on the US stock markets. The current account figures for June showed a larger deficit than expected, at EUR 1 bn. Moreover, the May deficit has been revised upwards to around EUR 900 mn. The fact that the German economy is in fairly good shape helped exports to increase by 28 % yoy, although the base effect made a bit of a contribution here as well. Imports also picked up by 24% yoy. In spite of the highest monthly value for the current account deficit this year, the trade deficit remained quite low. Thanks to the strong dynamics of exports, the negative contribution of net exports to GDP growth could be postponed until later quarters.

### Market outlook

Next week's plethora of data releases should continue to show improvement on the labour market, with employment expected to rise by 1.6% yoy and nominal average monthly wages to increase by 4% yoy. We expect industrial output to increase by nearly 12% yoy and thus confirm the strong export demand for Polish goods. Today's inflation figures will also be of interest. There is a high level of uncertainty as to how the flooding of Q2 will feed through to inflation. Moreover, the wild fires and the drought in Russia and Ukraine could have a negative impact on food prices in the future and there is at least a possibility of a negative impact on inflation from these factors. We are sticking to our forecast of the NBP raising interest rates in Q1 2011, although the governor of the NBP, Marek Belka, sees a possibility of increasing the key rates already this year. In any case, we see no catalysts for local currency bonds thus far in the near term.

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

### Exchange rate focus

|                       | actual      | Sep. 10     | Dez. 10     | Mär. 11     |
|-----------------------|-------------|-------------|-------------|-------------|
| <b>EUR/PLN</b>        | <b>4.01</b> | <b>4.00</b> | <b>3.85</b> | <b>3.85</b> |
| Change from last week | 2.2%        |             |             |             |
| <b>USD/PLN</b>        | <b>3.12</b> | <b>3.20</b> | <b>3.21</b> | <b>3.35</b> |
| Change from last week | -3.0%       |             |             |             |

# Hungary

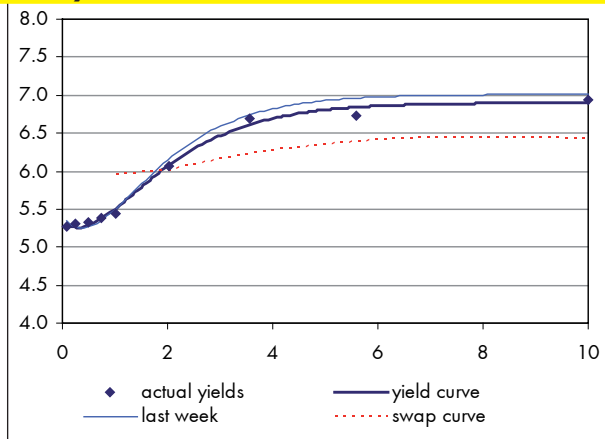
## Q2 GDP a bit disappointing

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

|           |                    |                    |
|-----------|--------------------|--------------------|
| 11 Aug 10 | CPI, % yoy         | Jul 4.0 (Jun 5.3)  |
| 13 Aug 10 | GDP, % qoq         | Q2 0.0 (Q1 0.6)    |
| 19 Aug 10 | Gross wages, % yoy | Jun 0.8 (May -0.9) |

Drop in CPI due to base effect  
Disappointing GDP qoq figure

### HUF yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market strategy

Buy 3m HUF T-bills

### Market comment

Preliminary GDP data for the second quarter disappointed a bit with 1% yoy and only 0% qoq. Even though no details have been released on GDP development the domestic demand most likely once more hindered stronger GDP growth. Before reaching a three-week high (277.6), HUF started to tumble against EUR in line with the deteriorating international market sentiment. The long end of the HGB yield curve edged up by only a few basis points. CPI inflation fell to 4% yoy in July, down from 5.3% yoy in June, after the VAT hike from last year dropped out of the base. We do not expect any change in the policy of the central bank's monetary council, and our previous expectation of a 25bp rate cut in Q3 has been postponed to Q4. The Government Debt Management Agency held successful auctions this week amidst high demand and issued more bonds than planned (HUF 54 bn instead of HUF 50 bn). This means that investors' trust in Hungary still persists, even in turbulent times.

### Money market focus

| MM rates              | 1m   | 3m   | 6m   | 12m  |
|-----------------------|------|------|------|------|
| Actual                | 5.27 | 5.33 | 5.39 | 5.53 |
| Change from last week | 0.01 | 0.00 | 0.03 | 0.04 |
| Forecast Sep-10       | 5.0  | 5.0  | 5.1  | 4.9  |

### Bond market focus

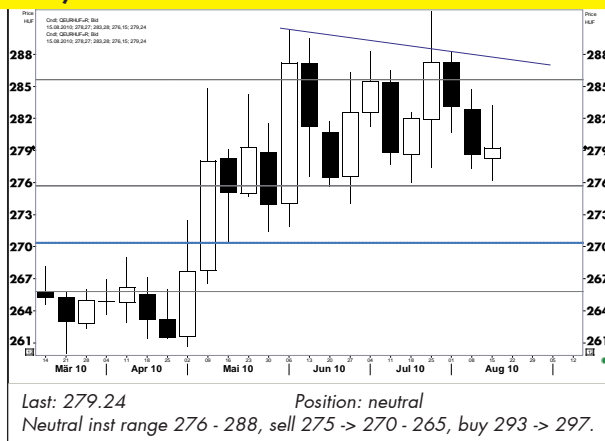
|                       | 3y    | 5y    | 10y   | 15y   |
|-----------------------|-------|-------|-------|-------|
| Actual                | 6.69  | 6.73  | 6.93  | 6.92  |
| Change from last week | -0.12 | -0.18 | -0.11 | -0.04 |
| Forecast Sep-10       | 6.3   | 6.8   | 7.0   | 7.0   |
| Spread to bunds       | 587.6 | 535.6 | 451.7 | 419.9 |
| Change from last week | 6.6   | 4.4   | 7.8   | 11.1  |

### Market outlook

Last week there were rumors from government sources that the negotiations between Hungary and the IMF may continue in autumn, although Prime Minister Orban has repeatedly emphasised that the country does not need a new agreement. We believe that there is still a chance that a new pact could be reached after the municipal elections on 3 October. The market is still pricing in rate hikes by the NBH, which we see as exaggerated. We expect rates to remain unchanged in the months to come, so we still recommend buying 3M T-Bills.

Analysts: Matyas Kovacs (+36 148 44343)  
Wolfgang Ernst (+43 1 717 07 1500)

### EUR/HUF



Source: Thomson Reuters, Raiffeisen RESEARCH

### Exchange rate focus

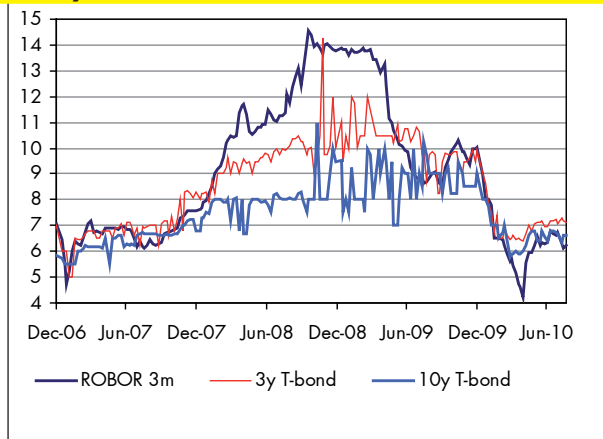
|                       | actual | Sep.10 | Dez.10 | Mär.11 |
|-----------------------|--------|--------|--------|--------|
| EUR/HUF               | 282.08 | 275.0  | 275.0  | 285.0  |
| Change from last week | -0.4%  |        |        |        |
| USD/HUF               | 219.45 | 220.0  | 229.2  | 247.8  |
| Change from last week | -2.7%  |        |        |        |

## Czech Republic Better outlook for the credit rating

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

|           |                      |                   |   |
|-----------|----------------------|-------------------|---|
| 09 Aug 10 | CPI, % yoy           | Jul 1.9 (May 1.2) | No change of key rate (0.75%) as generally expected |
| 09 Aug 10 | Unemployment rate, % | Jul 8.7 (May 8.5) |   |
| 13 Aug 10 | GDP, % qoq           | Q2 0.8 (Q1 1.2)   | Strong GDP growth in Q2 2010                        |

### CZK yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

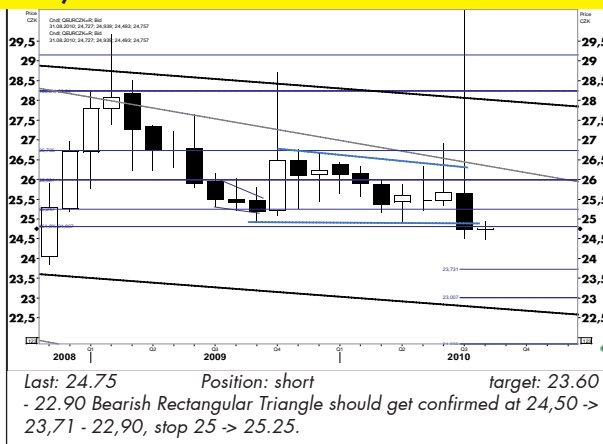
### Money market focus

| MM rates              | 1m          | 3m          | 6m          | 12m         |
|-----------------------|-------------|-------------|-------------|-------------|
| <b>Actual</b>         | <b>0.67</b> | <b>0.86</b> | <b>1.13</b> | <b>1.37</b> |
| Change from last week | 0.01        | 0.01        | 0.01        | 0.01        |
| Forecast Sep-10       | 0.7         | 0.8         | 1.0         | 1.4         |
| <b>Forward rates</b>  | <b>1x2</b>  | <b>3x6</b>  | <b>6x9</b>  | <b>9x12</b> |
|                       | 0.83        | 1.40        | 1.49        | 1.72        |
| Change from last week | -0.01       | 0.01        | -0.02       | 0.04        |

### Bond market focus

|                        | 2y           | 5y           | 10y          | 15y          |
|------------------------|--------------|--------------|--------------|--------------|
| <b>Actual</b>          | <b>1.63</b>  | <b>2.67</b>  | <b>3.49</b>  | <b>3.81</b>  |
| Change from last week  | 0.05         | -0.16        | -0.18        | -0.21        |
| Forecast Sep-10        | 2.0          | 3.0          | 4.3          | 4.5          |
| <b>Spread to bunds</b> | <b>105.5</b> | <b>130.6</b> | <b>108.1</b> | <b>109.3</b> |
| Change from last week  | 23.8         | 6.4          | 0.5          | -5.6         |
| <b>Spread to swaps</b> | <b>10.6</b>  | <b>-39.5</b> | <b>-70.1</b> | <b>n.a.</b>  |

### EUR/CZK



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market strategy

Neutral CZK T-bonds

### Market comment

Czech government bonds posted a rally last week, spurred by the government's fiscal plans and the gains of their German counterparts. The rating agency S&P improved the outlook on the Czech Republic's foreign currency rating from stable to POSITIVE and the Czech government approved a budget framework for 2011 one day after winning a mandate in parliament to carry out fiscal tightening plans. S&P said the positive outlook reflects its expectations of an upgrade within the next two years if the recently formed government can successfully implement its planned measures to alleviate the impact on public expenditures related to aging. According to the flash estimate for GDP data for Q2, the Czech economy performed well, rising by 0.8% qoq and 2.2% yoy. This is a significant acceleration that was most likely driven by the industrial sector, which is profiting from foreign demand. The coming quarters are likely to bring some deceleration in the Czech GDP, as foreign demand is expected to slow.

### Market outlook

The domestic environment remains supportive for Czech government bonds. If the globally improved sentiment towards government debt continues to improve, there could be even more room to gain for Czech govies. But there is also a considerable risk of a correction in the short term, and there will be a higher supply of Czech debt in the near future. All in all, we are sticking to our short-term HOLD recommendation on Czech government bonds.

Analysts: Michal Brozka (+420 221 141 498)  
Wolfgang Ernst (+43 1 717 07 1500)

### Exchange rate focus

|                       | actual       | Sep. 10     | Dez. 10     | Mär. 11     |
|-----------------------|--------------|-------------|-------------|-------------|
| <b>EUR/CZK</b>        | <b>24.89</b> | <b>25.5</b> | <b>25.0</b> | <b>24.8</b> |
| Change from last week | -0.6%        |             |             |             |
| <b>USD/CZK</b>        | <b>19.46</b> | <b>20.4</b> | <b>20.8</b> | <b>21.6</b> |
| Change from last week | -3.8%        |             |             |             |

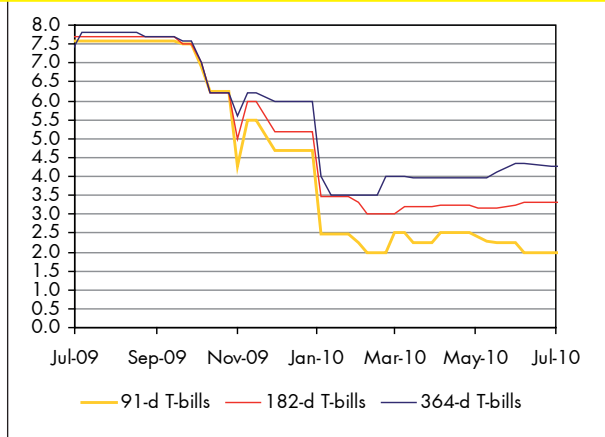
## Croatia

## Energy prices put pressure on PPI

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

|           |            |                     |
|-----------|------------|---------------------|
| 10 Aug 10 | PPI, % yoy | Jul 3.8 (Jun 4.4)   |
| 16 Aug 10 | CPI, % mom | Jul -0.2 (Jun -0.1) |
| 16 Aug 10 | CPI, % yoy | Jul 1.1 (Jun 0.7)   |

## Interest rates on T-bills



Source: Thomson Reuters, Raiffeisen RESEARCH

## Market strategy

Neutral EUR/HRK

## Market comment

Producer prices increased by 3.8% yoy in July. Although the growth rate is still relatively high, which is partially the result of the base effect (considering the negative annual growth rate in July of last year), the rise in producer prices has slowed down compared to the previous four months. On a structural basis, the increase in producer prices was completely driven by the rise in energy prices. In fact, excluding energy, the PPI was unchanged compared to July 2009. Considering the economic recovery of the developed markets, energy prices will continue to put pressure on the PPI going forward and, consequently, will spill over to the CPI.

According to the most recent data, the number of tourist arrivals and overnights in H1 2010 declined compared to the same period in 2009. Tourist arrivals fell by 1.9% yoy and overnights by 3.5% yoy, and the less favourable results are primarily the result of the drop in arrivals and overnights among domestic tourists, which was expected since the domestic economy is still far from a recovery. The good news is that the proportion of foreign tourists in the overall number of tourists increases substantially (over 90%) during the main tourist season, so we expect to see a rise in physical indicators. According to the initial, unofficial results, it seems that July erased all of the negative trends seen during the first half of the year, topping what was previously considered the most successful July of all time, July 2008.

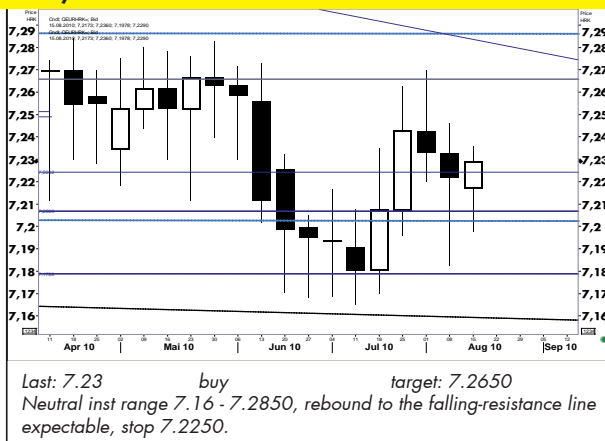
## Money market focus

|                       | 1m   | 3m   | 6m    | 12m   |
|-----------------------|------|------|-------|-------|
| ZIBOR actual          | 2.31 | 2.59 | 3.33  | 4.05  |
| Change from last week | 0.10 | 0.04 | -0.03 | -0.07 |
| T-bills actual        | n.a. | 1.98 | 3.30  | 4.25  |

## Exchange rate focus

|                       | actual | Sep-10 | Dec-10 | Mar-11 |
|-----------------------|--------|--------|--------|--------|
| EUR/HRK               | 7.217  | 7.29   | 7.32   | 7.30   |
| Change from last week | -0.2%  |        |        |        |
| USD/HRK               | 5.54   | 5.83   | 6.10   | 6.35   |
| Change from last week | 1.1%   |        |        |        |

## EUR/HRK



Source: Thomson Reuters, Raiffeisen RESEARCH

## Market outlook

Appreciation pressure was created by the inflow of euro from tourism, while the demand for euro from the corporate sector is still low. We do not expect to see major changes on the domestic FX market over the next week. However, we do expect to see more pronounced depreciation pressure on the kuna over the next month as the main tourist season comes to an end.

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

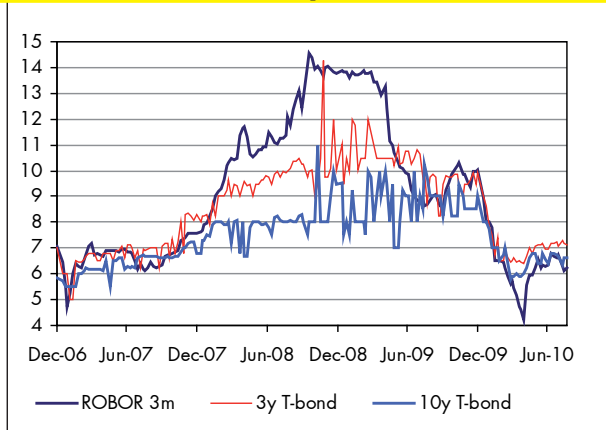
# Romania

## Successful T-bill auction

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

|           |                  |                   |
|-----------|------------------|-------------------|
| 11 Aug 10 | CPI, % yoy       | Jul 7.1 (Jun 4.4) |
| 13 Aug 10 | GDP, real, % yoy | Q2 -0.5 (Q1 -2.6) |
| 13 Aug 10 | GDP, real, % qoq | Q2 +0.3 (Q1 -0.3) |

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



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market strategy

Neutral RON T-bonds

### Market comment

Monthly inflation stood at 2.58% in July. The figure was in line with our expectations of a pass-through rate of 65-70% of the 5% VAT hike into final consumer prices, as companies incorporated part of this tax increase into their costs in the context of weak demand. We expect inflationary pressures arising from the VAT increase to gradually fade away in the coming months, depending on the timing and size of the second round effects. Our forecast for 2010 year-end inflation is currently 8.5%. In this context, there is a good chance that we will see a hike in the monetary policy interest rate by the end of the year. According to central bank data presented on Wednesday, the current account deficit widened 50% yoy to EUR 3.6 bn in the first half of the year. This increase was mainly fuelled by a sharp plunge in the net current transfers, which decreased by 50% yoy to EUR 1.1 bn. Most of this decline was the result of the dynamics in net transfers of the public administration, as the low absorption of EU funds resulted in significantly lower transfers from the EU budget as compared to the previous year.

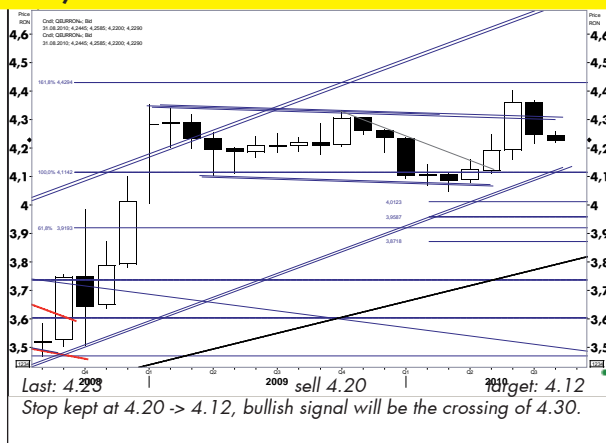
### Money market focus

| MM rates                      | 1m          | 3m          | 6m          | 12m         |
|-------------------------------|-------------|-------------|-------------|-------------|
| <b>Actual</b>                 | <b>5.34</b> | <b>6.23</b> | <b>6.45</b> | <b>6.46</b> |
| Change from last week         | 0.15        | 0.11        | 0.00        | 0.00        |
| Forecast Sep-10               | 7.0         | 7.1         | 7.3         | 7.4         |
| <b>Implicit forward rates</b> | <b>3x6</b>  | <b>6x9</b>  | <b>9x12</b> |             |
|                               | 6.73        | 6.40        | 6.34        |             |
| Change from last week         | -0.12       | -0.03       | 0.03        |             |

### Bond market focus

|                        | 2y           | 3y           | 5y           | 10y          |
|------------------------|--------------|--------------|--------------|--------------|
| <b>Actual</b>          | <b>6.51</b>  | <b>7.14</b>  | <b>7.17</b>  | <b>6.65</b>  |
| Change from last week  | 0.01         | -0.06        | -0.08        | 0.00         |
| Forecast Sep-10        | 7.70         | 7.90         | 7.90         | 7.40         |
| <b>Spread to bunds</b> | <b>593.2</b> | <b>632.4</b> | <b>579.8</b> | <b>423.7</b> |
| Change from last week  | 19.6         | 14.3         | 0.0          | 18.8         |

### EUR/RON



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market outlook

The Ministry of Public Finance managed to borrow RON 1.2 bn on Monday by selling six-month T-bills with a yield of 6.99%, which was more than it had planned, following a long period in which banks hesitated to finance the state at such low costs. Both increased market liquidity and the positive IMF review last week contributed to this outcome. Money market liquidity remained elevated over the past week, keeping interest rates at low levels. We expect a rather calm market in the weeks ahead, with yields hovering around current levels.

Analyst: Romulus Mircea (+40 21 306 1672)

### Exchange rate focus

|                       | actual      | Sep. 10     | Dez. 10     | Mär. 11     |
|-----------------------|-------------|-------------|-------------|-------------|
| <b>EUR/RON</b>        | <b>4.23</b> | <b>4.40</b> | <b>4.30</b> | <b>4.40</b> |
| Change from last week | 0.5%        |             |             |             |
| <b>USD/RON</b>        | <b>3.30</b> | <b>3.52</b> | <b>3.58</b> | <b>3.83</b> |
| Change from last week | -2.4%       |             |             |             |

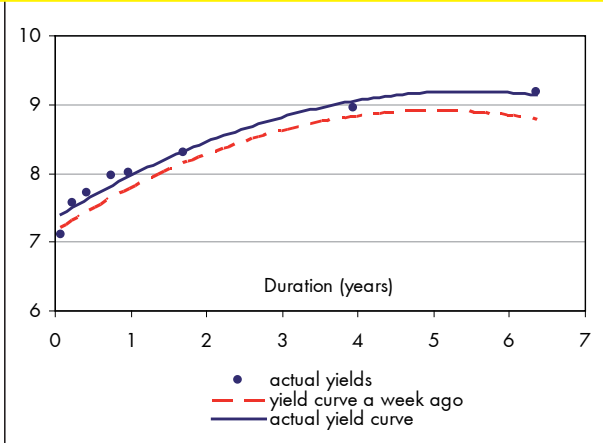
# Turkey

## Fiscal rule – not in 2011!

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

|           |                          |                     |                                     |
|-----------|--------------------------|---------------------|-------------------------------------|
| 16 Aug 10 | Consumer confidence      | Jul n.a. (Jun 88.0) | might still rise slightly           |
| 16 Aug 10 | Unemployment (3m avg), % | May n.a. (Apr 12.0) | improvement due to strong Q2 growth |
| 19 Aug 10 | CBT repo rate, %         | Aug 7.0 (Jul 7.0)   | no change until 2011 expected       |

### TRY yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market strategy

Neutral TRY T-bonds

### Market comment

The lira lost against the USD as a result of the rise in risk aversion in the middle of this week. However, the reaction of government bond yields was relatively muted, especially given the negative newsflow regarding the delay of the fiscal rule: The 2y yield increased by "just" 10–15bp and again dropped on Friday.

Turkish Minister of Industry Nihat Ergun said that the government will not implement a "fiscal rule" reform in 2011 and that next year's budget will not be based on such a reform. All three major rating agencies reacted by expressing their concerns regarding the country's fiscal credibility and the possibility of dilution resulting from implementing a policy rule later. We think that the issue will only begin to have a serious impact on the markets if fiscal indicators point to a more lax fiscal policy stance.

The industrial production index reversed directions, falling by 2.1% mom (seasonally adjusted) in June after cumulative gains of 5.3% in the previous 5 months since the beginning of the year. We should not read too much into one data release, but leading indicators had already been pointing to a deceleration of economic activity for some time. We expect growth to slow in H2, especially given weakening export demand from the EU (however, strong demand from Germany would have a positive impact).

### Money market focus

| MM rates              | 1m    | 3m    | 6m   | 12m   |
|-----------------------|-------|-------|------|-------|
| Actual                | 7.00  | 7.29  | 7.90 | 8.25  |
| Change from last week | 0.00  | -0.01 | 0.00 | -0.05 |
| Forecast Sep-10       | 7.10  | 7.40  | 8.00 | 8.00  |
| Implied forward rates | 1x2   | 3x6   | 6x9  | 9x12  |
|                       | 7.16  | 8.35  | 8.32 | 8.06  |
| Change from last week | -0.10 | 0.01  | 0.00 | -0.19 |

### Bond market focus

|                       | 1m   | 1y   | 2y    | 5y   |
|-----------------------|------|------|-------|------|
| Actual                | 7.12 | 8.01 | 8.30  | 8.95 |
| Change from last week | 0.00 | 0.14 | -0.11 | 0.02 |
| Forecast Sep-10       | n.a. | 8.00 | 8.50  | 9.00 |

### EUR/TRY



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market outlook

Interest rates will not be changed at the rate setting meeting on 19 August, consumer confidence may rise a bit, and unemployment for April–June will most likely decrease. The market will not pay too much attention to these (rather trailing) indicators. Therefore, global sentiment will once again be the most influential factor for Turkish assets.

Analyst: Andreas Schwabe (+43 1 71707 1389)

### Exchange rate focus

|                       | actual | Sep-10 | Dec-10 | Mar-11 |
|-----------------------|--------|--------|--------|--------|
| EUR/TRY               | 1.95   | 1.88   | 1.80   | 1.67   |
| Change from last week | -1.3%  |        |        |        |
| USD/TRY               | 1.51   | 1.50   | 1.50   | 1.45   |
| Change from last week | 0.9%   |        |        |        |

## Summary Ratings & macro data

### Country ratings: CEE, SEE, CIS

|            | S&P  |      |          | Moody's |      |          | Fitch |      |          |
|------------|------|------|----------|---------|------|----------|-------|------|----------|
|            | LCY  | FCY  | Outlook  | LCY     | FCY  | Outlook  | LCY   | FCY  | Outlook  |
| <b>CEE</b> |      |      |          |         |      |          |       |      |          |
| Poland     | A    | A-   | stable   | A2      | A2   | stable   | A     | A-   | stable   |
| Czech      | A+   | A    | positive | A1      | A1   | stable   | AA-   | A+   | positive |
| Hungary    | BBB- | BBB- | negative | 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   |
| <b>SEE</b> |      |      |          |         |      |          |       |      |          |
| 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 |
| <b>CIS</b> |      |      |          |         |      |          |       |      |          |
| 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    | positive | 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             | 6.6             | 7.9             | 560                | -5.0                  | 8.8                | 27.0           | 6.0        | 35.3             | 90.8              | 23.5                 |
|            | 2011 | 3.5             | 6.9             | 7.4             | 668                | -2.9                  | 8.6                | 27.8           | 5.0        | 35.8             | 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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