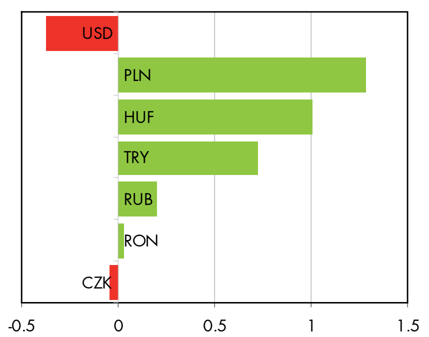
CEE Weekly Bond Markets Outlook

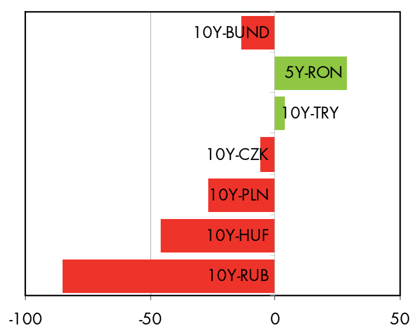
Issue 33/2010 20 August 2010

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
Poland				
PLN	3.95	4.00	4.05	3.95
1m-rate	3.4	3.5	3.8	4.0
5y bond	5.0	5.2	5.2	5.4
10y bond	5.4	5.7	5.8	6.0
Hungary				
HUF	277.2	285	285	285
1m-rate	5.3	5.3	5.3	5.3
5y bond	6.3	6.4	6.8	6.5
10y bond	6.5	6.6	7.0	6.6
Czech Rep.				
CZK	24.8	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	3.4	4.3	4.4	4.4
Russia				
RUB*	30.5	30.6	30.7	31.7
1m-rate	3.3	3.5	4.2	4.0
5y bond	6.9	6.5	6.8	7.0
10y bond	7.2	7.0	8.0	7.8
USD	1.28	1.25	1.20	1.15

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

Recommendations

For detailed recommendations please see page 2.

Highlights

- ***Poland*** – We expect risk aversion to rise due to weak economic data from the Eurozone and the US. Moreover, we think that the euphoria on the FX and bond side is exaggerated, as Poland faces public debt risks should an external shock occur. Consequently, we change our recommendation to "Sell".
- ***Hungary*** – Next week is going to start off with the monetary council's rate-setting meeting on Monday (23 August). We do not expect any rate changes in August or September, as concerns about fiscal discipline still prevail. We would still bet on the rate coming down next year, but this obviously depends on international risk appetite and also on domestic developments. No rate cut can be expected before October, as this month is going to answer a lot of questions (2011 deficit target, continuation of negotiations with the IMF, 2011 budget, municipal elections).
- ***Czech Republic*** – Though the Czech Republic is often been called a safe heaven it should be rather put only to the context of the region. In case of rise of risk aversion the CZK and Czech government bonds are likely to perform better then the rest of the region but will likely loose against EUR, USD or CHF. The current environment remains supportive for the Czech govies and in the mid-term we expect some decline of the yield spread vis-ŕ-vis German Bunds. But for the coming months we see a room for correction especially if the risk aversion increases.
- ***Romania*** – The government approved this year's first budget revision. The government estimates that budget revenue will reach RON 165.4 bn in 2010, down from the previously plan-

Key upcoming events and data releases

Country	Time	Indicator	Period	Forecast	Range	Last
20-Aug						
PL	14:00	Net inflation, % yoy	Jul	1.3	1.1/1.3/1.8	1.5
23-Aug						
HU	14:00	Monetary council meeting, %	Aug	5.3	5.25/5.25/5.25	5.3
24-Aug						
PL	10:00	Retail sales, % yoy	Jul	4.0	3/4.3/6.9	6.4
PL	10:00	Unemployment rate, %	Jul	11.5	11.3/11.5/11.6	11.6
PL	n.a.	NBP rate decision, %	Aug	3.5	3.5/3.5/3.75	3.5
25-Aug						
HU	09:00	Retail sales, % yoy	Jun	-3.5	n.a.	-4.7
27-Aug						
HU	09:00	Unemployment rate, %	Jul	11.1	n.a.	11.1
HR	n.a.	Industrial output, % yoy	Jul	-3.8	n.a.	-2.6

Raiffeisen RESEARCH
RZB Group

ned figure of RON 168.9 bn. Budget expenditure is expected to total roughly RON 200.1 bn this year, a reduction of RON 714 mn compared to the previous estimate. The consolidated budget deficit is projected to come in at 6.8% of GDP.

- ***Croatia*** – Inflationary pressures continued to intensify in July, and the annual inflation rate finally reached 1%. Nevertheless, the figure is still rather low, mostly as a result of weak domestic demand. The biggest contribution to the price increase is still coming from higher energy prices and the prices of associated goods and services, such as transport.

- ***Russia*** – Russia's GDP grew by 5.2% yoy in the second quarter compared to the market expectations of 5.6% growth. Despite growth accelerating from 2.9% in the first quarter, we remain concerned about the overall speed and quality of the economic recovery. Industrial output growth slowed during the summer months. Still, if we look at past years, summer output results were not very representative in comparison. The impact of the drought on output remains to be seen and is perhaps somewhat overrated.

Short-term trading ideas: FX

Recommendation	Entry date	Entry level	Current level	Target	Stop	Carry (ann. %)	Comments
Buy EUR/HUF	20/08/10	278	278.5	285	274	-4.612	rising risk aversion due to renewed US recession fears
Buy EUR/CZK	20/08/10	24.87	24.82	25.5	24.6	-0.197	rising risk aversion due to renewed US recession fears
Buy EUR/PLN	20/08/10	3.965	3.965	4.05	3.9	-2.872	rising risk aversion due to renewed US recession fears

Source: Thomson Reuters, Bloomberg

*Short-term trading ideas: fixed income**

Recommendation	Entry date	Entry level	Current level	Target	Stop	Carry (% p.a.)	Comments
Sell Hungarian T-bond 10y (ISIN: HU0000402037)	20.08.2010	100.5	100.52	96.0	101.5	-	Expected rise in global risk aversion
Sell Polish T-bond 10y (ISIN: PL0000106126)	20.08.2010	98.6	98.55	95.0	100.5	-	Expected rise in global risk aversion

** Fixed Income trades assume that currency risk is hedged; hedging costs are accounted for in the cost of carry*
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

Local currency bonds
Market overview

CEE local currency bond market snapshot

20/08/2010	Maturity	Coupon %	Ask Price	YTM %	Spread to Bunds; bp	MDur.
			Poland			
PLN 2y Gov. Bond	25. Okt 12	0.00	90.55	4.68	403	2.2
PLN 5y Gov. Bond	25. Apr 15	5.50	101.44	5.14	378	4.2
PLN 10y Gov. Bond	25. Okt 20	5.25	97.70	5.55	322	7.8
PLN 20y Gov. Bond	25. Apr 29	5.75	98.50	5.88	288	11.7
			Hungary			
HUF 3y Gov. Bond	12. Feb 14	5.50	97.71	6.24	543	3.2
HUF 5y Gov. Bond	12. Feb 16	5.50	96.39	6.29	494	4.7
HUF 10y Gov. Bond	12. Nov 20	7.50	107.49	6.47	415	7.2
HUF 15y Gov. Bond	24. Nov 23	6.00	96.04	6.45	385	9.0
			Czech Republic			
CZK 2y Gov. Bond	18. Okt 12	3.55	104.05	1.62	97	2.1
CZK 5y Gov. Bond	1. Sep 15	3.40	103.45	2.65	133	4.6
CZK 10y Gov. Bond	12. Sep 20	3.75	101.90	3.52	120	8.3
CZK 15y Gov. Bond	25. Mai 24	5.70	120.20	3.79	118	10.2
			Croatia			
HRK 5y Gov. Bond	15. Dez 15	5.25	98.24	5.64	431	4.6
HRK 10y Gov. Bond	5. Mär 20	6.75	102.49	6.40	407	7.2
			Romania			
RON 3y Gov. Bond	25. Okt 12	11.25	107.98	7.13	632	1.9
RON 5y Gov. Bond	5. Mär 14	11.00	113.38	6.60	528	3.0
			Russia			
RUB 2y Gov. Bond	19. Sep 12	10.80	110.10	5.68	503	1.9
RUB 5y Gov. Bond	17. Dez 14	11.20	117.40	6.71	539	3.5
RUB 10y Gov. Bond	29. Aug 18	8.00	100.29	7.07	474	4.0
RUB 30y Gov. Bond	6. Feb 36	6.90	94.30	7.54	453	11.8
			Turkey			
TRY 2y Gov. Bond	25. Apr 12	0.00	87.72	8.11	746	1.7
TRY 5y Gov. Bond	17. Jun 15	10.00	105.30	8.82	750	4.0
TRY 10y Gov. Bond	15. Jän 20	10.50	109.80	9.12	680	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.

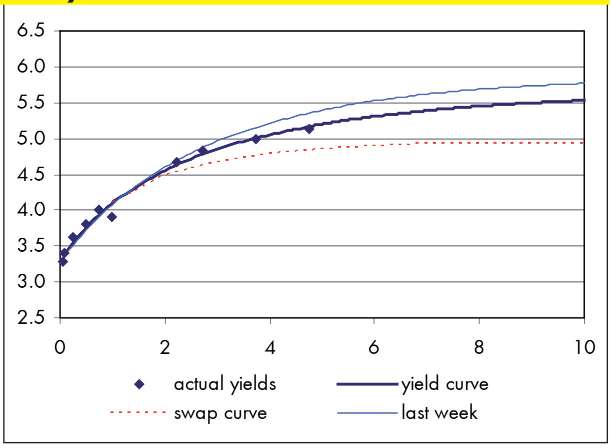
Poland

Yields at lowest levels since April – Sell!

(P)review of key economic figures/events

18 Aug 10	Industrial output, % yoy	Jul 10.3 (Jun 14.5)
24 Aug 10	Retail sales, % yoy	Jul 4.0 (Jun 6.4)
24 Aug 10	NBP rate decision, %	Aug 3.5 (Jun 3.5)

PLN yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

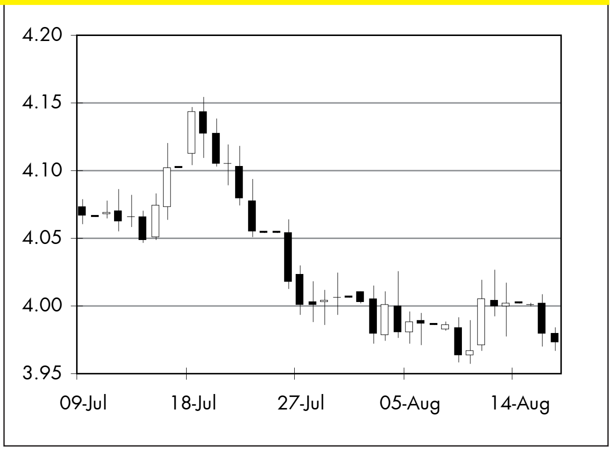
Money market focus

MM rates	**1m**	**3m**	**6m**	**12m**
Actual	**3.41**	**3.62**	**3.80**	**4.04**
Change from last week	0.01	0.01	0.01	0.01
Forecast Sep-10	3.50	3.70	3.79	4.10
Forward rates	**3x6**	**6x9**	**9x12**	
	4.00	4.39	4.10	
Change from last week	0.01	0.04	-0.02	

Bond market focus

	2y	**5y**	**10y**	**20y**
Actual	**4.53**	**5.01**	**5.38**	**5.79**
Change from last week	-0.13	-0.31	-0.41	-0.24
Forecast Sep-10	4.75	5.15	5.65	6.00
Spread to bunds	**386.6**	**366.7**	**306.5**	**283.0**
Change from last week	-31.6	-28.3	-41.3	-6.3
Spread to swaps	**-4.6**	**-20.2**	**-57.3**	

EUR/PLN



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Sell PLN T-bonds

Market comment

After a streak of better-than-expected economic data, this week's releases were poorer than expected. Industrial output rose by "only" 10.3% yoy in July and was 1.5 percentage points below our forecast. Moreover, nominal gross corporate earnings grew by 2.1% yoy, missing our projection of plus 4.0% yoy. With inflation falling to 2.0% in July, real wages barley increased in yoy terms. Combined with the positive risk sentiment in the global markets, these data triggered a substantial drop in yields, especially at the long end of the curve. Ten-year bond yields dropped by nearly 30bp, and EUR/PLN fell to 3.92, levels last seen in April before the Greece troubles began.

Market outlook

As our yield targets have nearly been reached and we already argued in our Focus FX publication that there is potential for revisions due to our somewhat weaker economic outlook for Q4 and Q1, we are revising our forecasts for the coming quarters. We expect risk aversion to rise due to weak economic data from the Eurozone and the US. Moreover, we think that the euphoria on the FX and bond side is exaggerated, as Poland faces public debt risks should an external shock occur. Also, despite the latest weaker-than-expected economic data, we think that rate hikes loom in Q1 2011, and that will have a negative impact on bond prices sooner rather than later. In our new forecast, we expect the spread of 2y to 10y Polish bond yields to increase compared to Bunds in Q4, which will reflect the increasing risk and liquidity premium for Polish vs. German bonds. We also expect the recent slump in the 10y to 2y Polish nominal spread to prevail next year, but increase slightly in Q4. We are changing our recommendation to "Sell".

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

Exchange rate focus

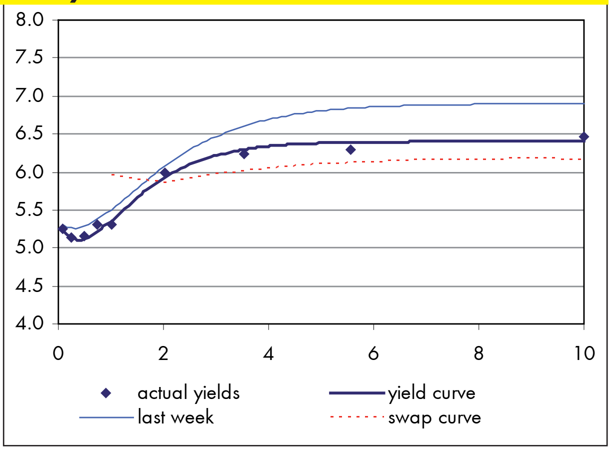
	actual	**Sep-10**	**Dec-10**	**Mar-11**
EUR/PLN	**3.95**	**4.00**	**4.05**	**3.95**
Change from last week	3.8%			
USD/PLN	**3.08**	**3.20**	**3.38**	**3.43**
Change from last week	1.2%			

Hungary
No change in rates expected

(P)review of key economic figures/events

23 Aug 10	Monetary council meeting, %	Aug 5.25 (Jun 5.25)	No change in interest rates expected
25 Aug 10	Retail sales, % yoy	Jun -3.5 (May -4.7)	Slow recovery in retail sales
27 Aug 10	Unemployment rate, %	Jul 11.1 (Jun 11.1)	

HUF yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Sell 10y HUF T-bonds

Market comment

This week's lacklustre market sentiment helped the HUF reach a new two-month high (276.3). Foreign investors were net buyers of Hungarian government bonds, and there was strong demand in the T-bill auctions last week. The government debt management agency sold HUF 60 bn instead of the originally planned 50 bn in the 3-month bill auction, where yields were down by 5 bp, and sold HUF 50 bn in 12-month T-bills, where yields fell by 22 bp. It seems that the market has started to price out the previously anticipated rate hikes in the coming months.

Money market focus

MM rates	*1m*	*3m*	*6m*	*12m*
Actual	***5.25***	***5.33***	***5.39***	***5.51***
Change from last week	-0.02	0.00	0.00	-0.02
Forecast Sep-10	***5.3***	***5.3***	***5.4***	***5.4***

Bond market focus

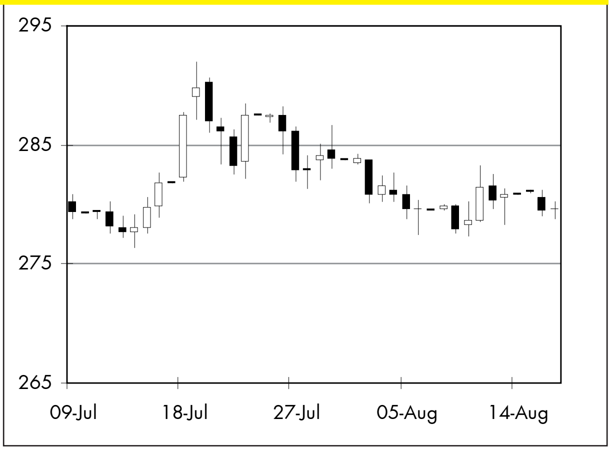
	3y	*5y*	*10y*	*15y*
Actual	***6.24***	***6.29***	***6.47***	***6.45***
Change from last week	-0.45	-0.44	-0.46	-0.47
Forecast Sep-10	6.3	6.4	6.6	6.6
Spread to bunds	***542.9***	***493.5***	***414.5***	***384.6***
Change from last week	-44.1	-42.5	-37.4	-36.5

Market outlook

Next week is going to start off with the monetary council's rate-setting meeting on Monday (23 August). We do not expect any rate changes in August or September, as concerns about fiscal discipline still prevail. We would still bet on the rate coming down next year, but this obviously depends on international risk appetite and also on domestic developments. No rate cut can be expected before October, as this month is going to answer a lot of questions (2011 deficit target, continuation of negotiations with the IMF, 2011 budget, municipal elections). As Hungarian government bond yields have fallen significantly to the lowest levels seen in months, we would recommend taking profits on long issues (SELL LONG HUNGARIAN GOVERNMENT BONDS), and we close our short-term recommendation to buy 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

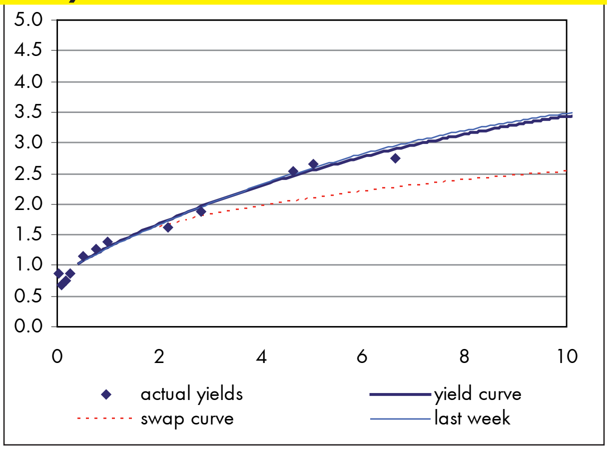
	actual	*Sep.10*	*Dez.10*	*Mär.11*
EUR/HUF	***277.23***	***285.0***	***285.0***	***285.0***
Change from last week	1.7%			
USD/HUF	***216.30***	***228.0***	***237.5***	***247.8***
Change from last week	1.5%			

Czech Republic
Safe haven Czech Republic

(P)review of key economic figures/events

05 Aug 10	Monetary council meeting, %	Aug 0.75 (Jul 0.75)	No change in interest rates
13 Aug 10	GDP, % qoq	Q2 0.8 (Q1 1.2)	Strong GDP growth in Q2 2010
16 Aug 10	PPI, % yoy	Jul 2.3 (Jun 2.0)	Slightly below consensus estimate

CZK yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

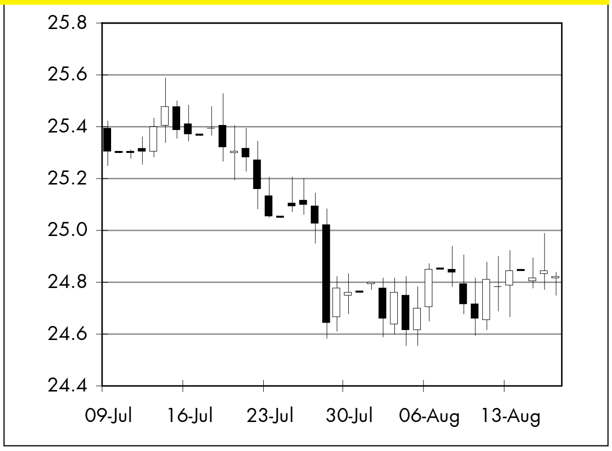
Money market focus

MM rates	1m	3m	6m	12m
Actual	***0.67***	***0.86***	***1.14***	***1.38***
Change from last week	0.00	0.00	0.01	0.01
Forecast Sep-10	0.7	0.8	1.0	1.4
Forward rates	***1x2***	***3x6***	***6x9***	***9x12***
	0.83	1.42	1.50	1.73
Change from last week	0.00	0.02	0.01	0.01

Bond market focus

	2y	5y	10y	15y
Actual	***1.62***	***2.65***	***3.52***	***3.79***
Change from last week	-0.02	-0.02	0.03	-0.03
Forecast Sep-10	2.0	3.0	4.3	4.5
Spread to bunds	***96.6***	***132.6***	***119.8***	***118.3***
Change from last week	-8.9	1.7	11.5	7.8
Spread to swaps	***17.5***	***-42.9***	***-85.1***	***n.a.***

EUR/CZK



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral CZK T-bonds

Market comment

Czech government bonds registered further slight gains. One supportive factor was the strong demand at the auction for the 14y T-bond. Some market participants and commentators are emphasising the positive effect of the expected fiscal consolidation. While this is certainly a positive factor, the recent gains posted by Czech government debt are mainly being driven by rising prices for the German benchmark bonds. In fact, the yield spread between 10-year Czech government bonds and German Bunds has actually slightly increased since the end of July as the volatility on the markets picked up.

Market outlook

Although the Czech Republic has often been called a safe haven, this must be limited to the context of the region. In the case of a rise in risk aversion, the CZK and Czech government bonds would likely perform better than the rest of the region but would probably lose against EUR, USD and CHF. The current environment remains supportive for Czech govies, and in the medium term we expect a certain decline in the yield spread against German Bunds. However, we see room for a correction in the coming months, especially if risk aversion increases. We are therefore sticking to our short-term "Neutral" recommendation for all maturities of 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
EUR/CZK	***24.80***	***25.5***	***25.0***	***24.8***
Change from last week	0.4%			
USD/CZK	***19.32***	***20.4***	***20.8***	***21.6***
Change from last week	0.7%			

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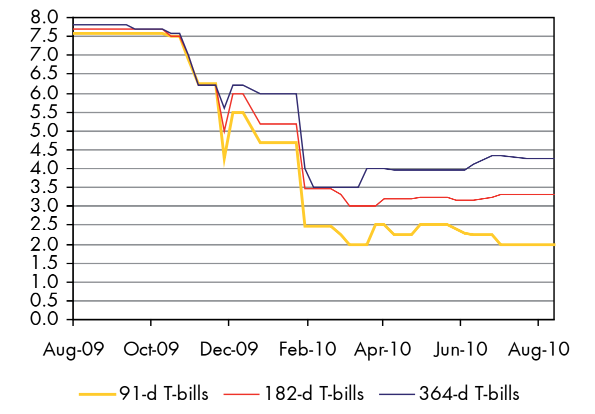
Croatia

Inflationary pressures intensify

(P)review of key economic figures/events

16 Aug 10	CPI, % mom	Jul -0.4 (Jun -0.1)
16 Aug 10	CPI, % yoy	Jul 1.0 (Jun 0.7)
27 Aug 10	Industrial output, % yoy	Jul -3.8 (Jun -2.6)

Interest rates on T-bills



Source: Thomson Reuters, Raiffeisen RESEARCH

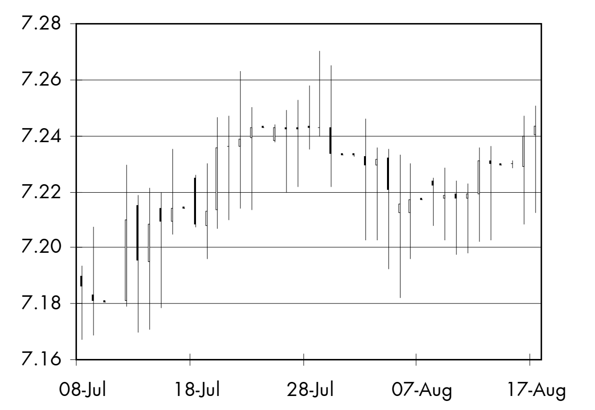
Money market focus

	1m	3m	6m	12m
ZIBOR actual	***2.09***	***2.58***	***3.36***	***4.12***
Change from last week	-0.22	-0.01	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	***7.245***	***7.29***	***7.32***	***7.30***
Change from last week	0.3%			
USD/HRK	***5.62***	***5.83***	***6.10***	***6.35***
Change from last week	1.5%			

EUR/HRK



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral EUR/HRK

Market comment

Inflationary pressures continued to intensify in July, and the annual inflation rate finally reached 1% (after remaining below this mark for the last five months). Nevertheless, the figure is still rather low, mostly as a result of weak domestic demand. The biggest contribution to the price increase is still coming from higher energy prices and the prices of associated goods and services, such as transport. On the other hand, food prices saw virtually no increase compared to last year. On the contrary, they have recorded a negative growth rate (-1.1% yoy), but are expected to rise again in the fall.
The most important factor for demand, available income, is not expected to increase by the end of the year. Therefore, pressure on prices from the demand side will remain low. However, by year's end we will most likely see a further intensification of inflationary pressures and a mild increase in the inflation rate due to the anticipated start of the recovery in the real sector, relatively low base and the announced price increases. The increase in administratively set prices, and in particular the price hike for electricity that has already been announced, will most likely lead to rising prices for other goods and services, as well. We expect the average inflation rate for 2010 to be slightly below 2%.

Market outlook

In line with our expectations, depreciation pressures on the kuna are prevailing as the main tourist season comes to an end. The increase in the exchange rate was driven by the demand for euro in the corporate and banking sector. In the upcoming week, we could see a continuation of depreciation pressures on kuna, but we do not expect the rate to rise above 7.30. By the end of the year, the rate could move slightly above this mark, rising to levels that are more justified based on the fundamentals (around EUR/HRK 7.32).

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

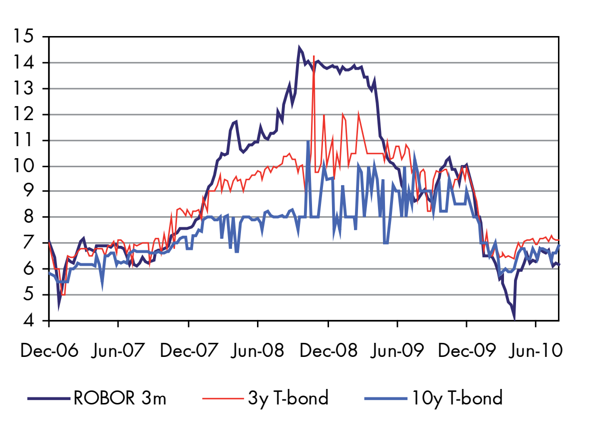
Romania

First budget revision

(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

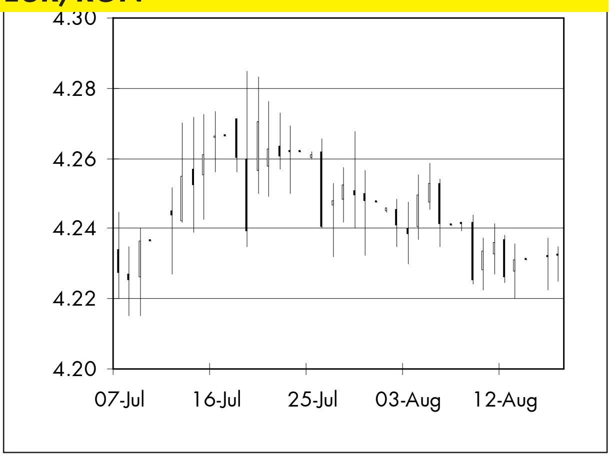
Money market focus

MM rates	***1m***	***3m***	***6m***	***12m***
Actual	***5.27***	***6.20***	***6.41***	***6.42***
Change from last week	-0.07	-0.03	-0.04	-0.04
Forecast Sep-10	7.0	7.1	7.3	7.4
Implicit forward rates	***3x6***	***6x9***	***9x12***	
	6.68	6.39	6.27	
Change from last week	-0.05	-0.01	-0.07	

Bond market focus

	2y	***3y***	***5y***	***10y***
Actual	***7.13***	***7.12***	***7.16***	***6.89***
Change from last week	0.62	-0.02	-0.01	0.24
Forecast Sep-10	7.70	7.90	7.90	7.40
Spread to bunds	***647.8***	***630.7***	***580.6***	***456.9***
Change from last week	54.6	0.4	24.4	33.0

EUR/RON



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral RON T-bonds

Market comment

On Wednesday, the government approved this year's first budget revision. The government estimates that budget revenue will reach RON 165.4 bn in 2010, down from the previously planned figure of RON 168.9 bn. Budget expenditure is expected to total roughly RON 200.1 bn this year, a reduction of RON 714 mn compared to the previous estimate. The consolidated budget deficit is projected to come in at 6.8% of GDP. The budget revision is based on the assumption of a decrease in real GDP of 1.9% this year (down from +1.3% previously), an average annual inflation rate of 5.9% and an average EUR/RON rate of 4.24. The budget plan is in line with the agreements recently reached with the IMF and the European Commission. We see risks for fulfilling this year's budget deficit target of 6.8% of GDP. Given the expected deterioration of economic activity, the revenues planned to be collected in the second half of the year seem optimistic.

Market outlook

The Ministry of Public Finance continues to use a 7% cap on the yields for both T-bill and T-bond auctions. Accordingly, at an auction for nine-month T-bills on Monday the Public Ministry of Finance only succeeded in borrowing RON 283 mn although its target was RON 800 mn. On Thursday, it had to reject all investors' bids at a five-year T-bond auction. We do not expect to see any major changes over the summer months. We believe that the increase in the inflation rate and uncertainties related to government policies will be enough to keep yields higher in the coming weeks and months.

Analyst: Nicolae Covrig (+40 21 306 1000)

Exchange rate focus

	actual	***Sep.10***	***Dez.10***	***Mär.11***
EUR/RON	***4.23***	***4.40***	***4.30***	***4.40***
Change from last week	0.2%			
USD/RON	***3.30***	***3.52***	***3.58***	***3.83***
Change from last week	0.1%			

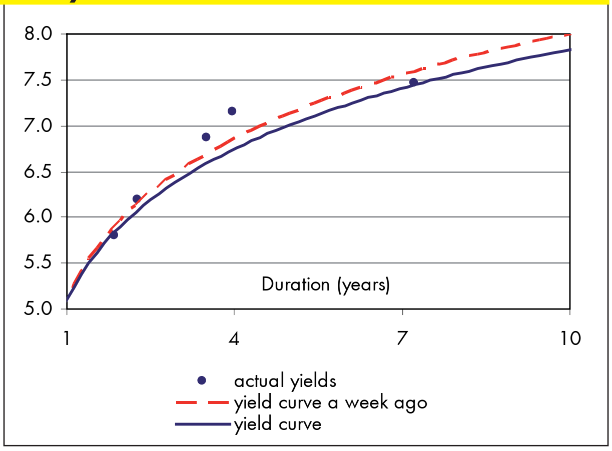
Russia

Growth weakens, but only temporarily

(P)review of key economic figures/events

No important data or market releases next week

RUB yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

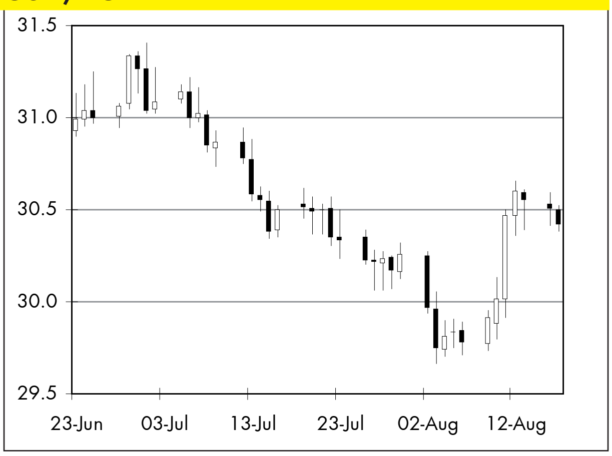
Money market focus

MM rates	1m	3m	6m	12m
Actual	**4.10**	**4.76**	**5.41**	**6.65**
Change from last week	0.06	0.08	0.10	0.11
Forecast Mar-10	**3.50**	**4.00**	**4.50**	**n.a.**
Forward rates	**1x2**	**3x6**	**6x9**	**9x12**
	4.85	6.12	n.a.	n.a.
Change from last week	0.10	0.12	n.a.	n.a.

Bond market focus

	1y	2y	5y	15y
Actual	**4.54**	**5.81**	**6.87**	**7.47**
Change from last week	0.16	0.02	0.03	0.04
Forecast Mar-10	**5.20**	**5.80**	**6.50**	**n.a.**

USD/RUB



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

The rouble remains within the range of 34.20–34.60, which we have been predicting for a few weeks now. We recommend a neutral outlook on the rouble in this situation due to the increased volatility on the global markets and the downward revisions of oil price forecasts.

Market comment

Russia's GDP grew by 5.2% yoy in the second quarter compared to the market expectations of 5.6% growth. Despite growth accelerating from 2.9% in the first quarter, we remain concerned about the overall speed and quality of the economic recovery. Industrial output growth slowed during the summer months. In July, output came in at just 5.9% yoy compared to 9.7% growth in June, which was the weakest output reading in the last eight months. Still, cumulative output growth reached 9.6% yoy in the first seven months of 2010. The slower growth raises a valid question about the quality and speed of the recovery. Capital investment, which was previously the backbone of economic growth, remains rather weak at the moment. Meanwhile, consumer spending and household income growth, which are driving Russia's recovery, will remain volatile and may have limited power beyond 2010 without a solid investment base and robust external demand supporting higher oil prices. The manufacturing sector, especially food processing and agro production, posted the worst result, growing by only 0.4% yoy in July. Severe hot weather and drought impacted output in July, and the figures for August may be even worse. Still, if we look at past years, summer output results were not very representative in comparison. The impact of the drought on output remains to be seen and is perhaps somewhat overrated. We expect output growth to quicken from September onwards, as the impact of the heat wave and the drought will largely be over by then. We are not rushing to downgrade our growth forecast for Russia, so we maintain a modest forecast of 4% growth in 2010.

Analyst: Gintaras Shlizhyus (+43 1 71707 1343)

Exchange rate focus

	actual	Sep-10	Dec-10	Mar-11
EUR/RUB	**39.11**	**38.20**	**36.88**	**36.41**
Change from last week	-0.4%			
USD/RUB	**30.50**	**30.56**	**30.73**	**31.66**
Change from last week	0.1%			

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 Rep.	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
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	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	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	-1.5	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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This report was completed on 20 August 2010.