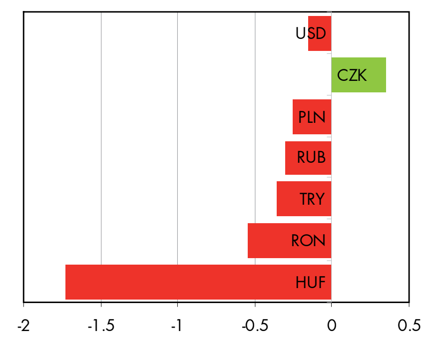
CEE Weekly
Bond Markets Outlook

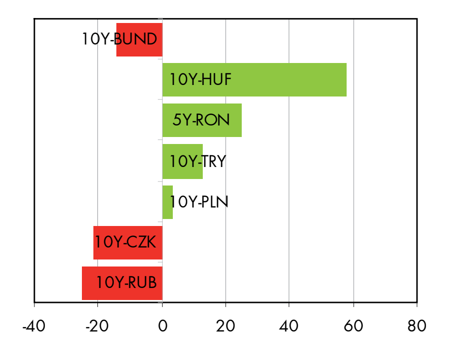
Issue 34/2010 | 27 August 2010

LCY changes vs. EUR*



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

Yield changes*



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

Forecast

	current	Dec-10	Mar-11	Jun-11
Poland				
PLN	3.99	4.05	3.95	3.80
1m-rate	3.4	3.8	4.0	4.4
5y bond	5.0	5.2	5.4	5.6
10y bond	5.4	5.8	6.0	6.1
Hungary				
HUF	283.0	285	285	280
1m-rate	5.3	5.3	5.3	4.8
5y bond	7.1	6.8	6.5	6.0
10y bond	7.1	7.0	6.6	6.1
Czech Rep.				
CZK	24.9	25.0	24.8	24.5
1m-rate**	0.7	0.7	1.0	1.2
5y bond**	2.5	3.4	3.5	3.7
10y bond**	3.2	4.4	4.4	4.5
Russia				
RUB*	30.8	31.2	31.4	31.0
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	1.27	1.20	1.15	1.20

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

Recommendations

For detailed recommendations please see page 2.

Highlights

- ***Poland*** – The key factor for the bond market will be the release of second quarter GDP growth, which is scheduled for 30 August. We expect 3.2% yoy, with some room for an upside surprise. This could swing the balance among the MPC's views back towards a more hawkish stance.
- ***Hungary*** – Monday's rate-setting meeting resulted in no change, but as Governor Simor stated afterwards, the MPC was split three ways (there were votes for a hike and a cut, too). In addition, the NBH published the latest inflation report, in which economic forecasts were amended. There has been some speculation in recent days that Hungary will ask for a new credit line, after the Ministry of Economy stated that negotiations with the IMF/EU will continue.
- ***Czech Republic*** – Without paying much attention to the domestic news, Czech government bonds gained a bit further over the last week. Next week, the Czech Ministry of Finance will release its plan for government bond issues for Q4. The question is to what extent the ministry will rely upon the appetite of the domestic market and to what extent it will look towards the demand for CZK bonds among foreign investors.
- ***Romania*** – On 1 September, the statistical office is scheduled to release the details regarding the dynamics of the GDP components in Q2 2010. The figures for household expenditures and

Key upcoming events and data releases

Country	Time	Indicator	Period	Forecast	Range	Last
30-Aug						
PL	14:00	GDP, real, % yoy	Q2	3.2	2.9/3.2/3.9	3.0
31-Aug						
HR	n.a.	Retail trade, % yoy	Jul	-2.5	n.a.	-1.5
HR	n.a.	Imports, EUR mn	Jul	1267.0	n.a.	1301
HR	n.a.	Exports, EUR mn	Jul	845.0	n.a.	692
TR	09:00	Trade balance, USD bn	Jul	n.a.	-6.33/-5.7/-5.4	-5.6
01-Sep						
PL	09:00	PMI	Aug	n.a.	52/52.5/53	52.1
HU	09:00	Trade balance, EUR mn	Jun	567.0	n.a.	424
HU	n.a.	PMI	Aug	n.a	n.a.	53.5
RO	n.a.	GDP, real, % yoy	Q2	-0.5	n.a.	-2.6
02-Sep						
RO	n.a.	PPI, % yoy	Jul	n.a.	n.a.	6.2
03-Sep						
RO	n.a.	Retail sales, % yoy	Jul	n.a.	n.a.	3.2
TR	09:00	Manufacturing PMI	Aug	n.a.	n.a.	52.8
TR	09:00	Consumer prices, % yoy	Aug	8.0	n.a.	7.6

Raiffeisen RESEARCH
RZB Group

gross fixed capital formation should receive the most attention. Indicators referring to the period following the introduction of the austerity measures are starting to be released. The first of these will be the retail sales figure on 3 September.

- ***Croatia*** – The continued substantial reduction in budget revenues caused by the prolonged recession contributed to the first budget revision being used as an instrument to curb unplanned deficit growth. It had already become apparent that a budget revision would be necessary back in July, when the budget deficit reached HRK 7.2 bn, while the planned deficit for the whole year was HRK 8.5 bn.

- ***Turkey*** – Given the shakier global environment and the expected moderation of the domestic recovery, we expect a generally weaker TRY (against USD) in the coming months. In addition to global risk sentiment and the monetary policy stance of the central bank, Turkish markets will soon turn their attention towards a constitutional referendum that will take place on 12 September. A positive result for the ruling AK party in the referendum could boost the value of Turkish assets, including the currency, in the short run.

Short-term trading ideas: FX

Recommendation	Entry date	Entry level	Current level	Target	Stop	Carry (ann. %)	Comments
Buy EUR/CZK	20/08/10	24.87	24.728	25.5	24.6	-0.19	rising risk aversion due to renewed US recession fears
Buy EUR/PLN	20/08/10	3.965	3.9783	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	97.11	96.0	101.5	-	Expected rise in global risk aversion
Sell Polish T-bond 10y (ISIN: PL0000106126)	20.08.2010	98.6	99.07	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
Buy EUR/HUF	20/08/10	278	24/08/10	285	2.52%	Target Reached
SELL USD/TRY (long TRY)	13/04/10	1.492	28/04/10	1.51	-0.93%	Stopped out
SELL BASKET/RUB (long RUB)	06/04/10	33.81	06/05/10	34.1	-0.86%	Stopped out
SELL EUR/PLN (long PLN)	10/05/10	4.023	11/05/10	4.05	-0.66%	Stopped out
SELL BASKET/RUB (long RUB)	10/05/10	34.1812	21/05/10	34.67	-1.43%	Stopped out
SELL EUR/RON (long RON)	14/06/10	4.23	25/06/10	4.27	-0.76%	Stopped out
SELL EUR/PLN (long PLN)	05/07/10	4.138	08/07/10	4.07	1.67%	Target Reached
Buy RON T-Bond 10/2012 (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
Buy HGB T-bill 3m (ISIN: HU0000517677)	06/08/10	98.1	20/08/10	98.3	0.2%	Expectation of rising risk aversion

Local currency bonds
Market overview

CEE local currency bond market snapshot

27/08/2010	Maturity	Coupon %	Ask Price	YTM %	Spread to Bunds; bp	MDur.
			Poland			
PLN 2y Gov. Bond	25/ Oct 12	0.00	90.89	4.54	393	2.2
PLN 5y Gov. Bond	25/ Apr 15	5.50	101.80	5.05	382	4.2
PLN 10y Gov. Bond	25/ Oct 20	5.25	99.12	5.36	323	7.8
PLN 20y Gov. Bond	25/ Apr 29	5.75	100.34	5.72	305	11.7
			Hungary			
HUF 3y Gov. Bond	12/ Feb 14	5.50	95.75	6.91	616	3.2
HUF 5y Gov. Bond	12/ Feb 16	5.50	93.05	7.07	584	4.7
HUF 10y Gov. Bond	12/ Nov 20	7.50	103.16	7.05	492	7.1
HUF 15y Gov. Bond	24/ Nov 23	6.00	91.19	7.04	476	8.9
			Czech Republic			
CZK 2y Gov. Bond	18/ Oct 12	3.55	104.10	1.58	97	2.0
CZK 5y Gov. Bond	1/ Sep 15	3.40	104.00	2.53	131	4.6
CZK 10y Gov. Bond	12/ Sep 20	3.75	104.40	3.23	110	8.3
CZK 15y Gov. Bond	25/ May 24	5.70	124.00	3.47	119	10.2
			Croatia			
HRK 5y Gov. Bond	15/ Dec 15	5.25	98.12	5.67	445	4.6
HRK 10y Gov. Bond	5/ Mar 20	6.75	102.23	6.43	430	7.1
			Romania			
RON 3y Gov. Bond	25/ Oct 12	11.25	111.22	5.55	480	1.9
RON 5y Gov. Bond	5/ Mar 14	11.00	114.15	6.35	513	3.0
			Russia			
RUB 2y Gov. Bond	19/ Sep 12	10.80	109.82	5.77	516	1.8
RUB 5y Gov. Bond	17/ Dec 14	11.20	117.00	6.80	558	3.5
RUB 10y Gov. Bond	29/ Aug 18	8.00	105.97	5.66	352	4.0
RUB 30y Gov. Bond	6/ Feb 36	6.90	94.10	7.56	492	11.8
			Turkey			
TRY 2y Gov. Bond	25/ Apr 12	0.00	87.83	8.13	752	1.7
TRY 5y Gov. Bond	17/ Jun 15	10.00	105.20	8.84	762	4.0
TRY 10y Gov. Bond	15/ Jan 20	10.50	110.45	9.02	689	6.2

Source: Thomson Thomson Reuters, Raiffeisen RESEARCH

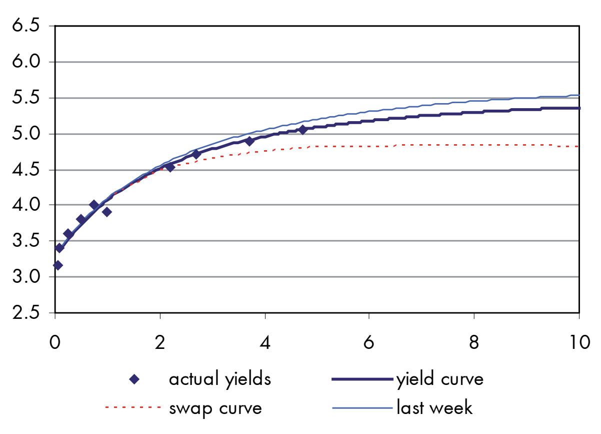
Poland

Key rate unchanged

(P)review of key economic figures/events

24 Aug 10	Retail sales, % yoy	Jul 3.9 (Jun 6.4)
24 Aug 10	NBP rate decision, %	Aug 3.5 (Jun 3.5)
30 Aug 10	GDP, real, % yoy	Q2 10 3.2 (Q1 10 3.0)

PLN yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

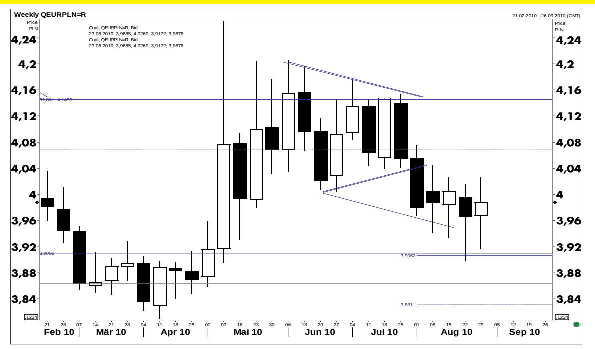
Money market focus

MM rates	***1m***	***3m***	***6m***	***12m***
Actual	***3.40***	***3.61***	***3.80***	***4.04***
Change from last week	-0.01	-0.01	0.00	0.00
Forecast Dec-10	3.75	3.95	4.05	4.20
Forward rates	***3x6***	***6x9***	***9x12***	
	4.01	4.39	4.10	
Change from last week	0.01	0.00	0.00	

Bond market focus

	2y	***5y***	***10y***	***20y***
Actual	***4.54***	***5.05***	***5.36***	***5.72***
Change from last week	0.00	0.04	-0.02	-0.07
Forecast Dec-10	4.90	5.20	5.80	6.10
Spread to bunds	***393.1***	***382.1***	***322.8***	***304.6***
Change from last week	6.5	15.4	-1.6	21.6
Spread to swaps	***-5.2***	***-20.2***	***-51.7***	

EUR/PLN



Last: 3.98 *Position: neutral*
Neutral inst range 4.05 (-> 4.08 - 4.12) - 3.89(-> 3.84)

Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Sell PLN T-bonds

Market comment

Last week brought further declines among yields on Polish government bonds. The country's 5y paper has now stabilised just above the 5% level, while 2y is close to 4.55. The first phase of declines was correlated with PLN strengthening and suggests a rise in demand on the part of foreign investors. An additional factor that potentially supported this movement was the continuation of lower-than-consensus data, such as retail sales, which grew by just 3.9% yoy in July. On Tuesday, the Polish MPC decided to leave interest rates unchanged, a move that was in line with expectations.

Market outlook

Even with a weaker second half of the year Turkish GDP will still grow by around 6% in 2010. However, the growth rate in 2011 will be seriously affected by the expected slowdown. Concerns regarding the sustainability of fiscal policy and the size of the government budget deficit will not have a significant impact on markets in the short term (more likely an issue in 2011). Given the shakier global environment and the expected moderation of the domestic recovery we expect a generally weaker TRY (to USD) in the coming months. Risks are augmented by strong currency inflows in H1 2009 ("hot money"), which could reverse in the future. In addition to global risk sentiment and the monetary policy stance of the central bank, Turkish markets will soon turn their eye on a constitutional referendum, which will take place on 12 September. A positive result of the referendum for the ruling AK party might boost the value of Turkish assets including the currency in the short run.

Analyst:
Marta Petka-Zagajewska (+48 22 585 2461)

Exchange rate focus

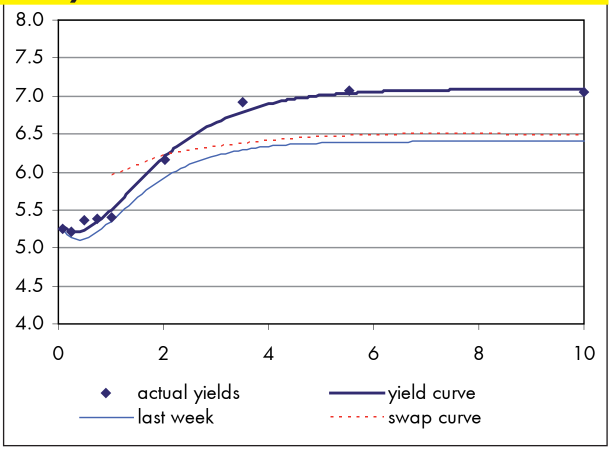
	actual	***Dec-10***	***Mar-11***	***Jun-11***
EUR/PLN	***3.99***	***4.05***	***3.95***	***3.80***
Change from last week	2.7%			
USD/PLN	***3.15***	***3.38***	***3.43***	***3.17***
Change from last week	-1.9%			

Hungary
Uncertainty over IMF talks

(P)review of key economic figures/events

23 Aug 10	Monetary council meeting, %	Aug 5.25 (Jun 5.25)	No change in interest rates
25 Aug 10	Retail sales, % yoy	Jun -3.5 (May -4.7)	
01 Sep 10	Trade balance, EUR mn	Jun 567 (May 424)	

HUF yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

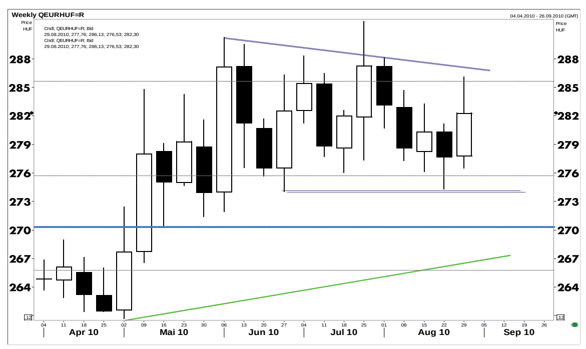
Money market focus

MM rates	*1m*	*3m*	*6m*	*12m*
Actual	***5.25***	***5.34***	***5.41***	***5.53***
Change from last week	0.00	0.01	0.02	0.02
Forecast Dec-10	***5.3***	***5.3***	***5.4***	***5.5***

Bond market focus

	3y	*5y*	*10y*	*15y*
Actual	***6.91***	***7.07***	***7.05***	***7.04***
Change from last week	0.67	0.78	0.58	0.59
Forecast Dec-10	6.6	6.8	7.0	7.0
Spread to bunds	***615.6***	***584.3***	***491.6***	***475.5***
Change from last week	73.0	89.4	77.4	90.6

EUR/HUF



Last: 282.40 sell 280 target: 276 - 274
Triangle, sell 280 -> 276 - 274 expectable, bullish indication would be the crossing of 288

Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Sell 10y HUF T-bonds

Market comment

Monday's rate-setting meeting resulted in no change, but as Governor Simor stated afterwards, the MPC was split three ways (there were votes for a hike and a cut, too). In addition, the NBH published the latest inflation report, in which economic forecasts were amended. The average inflation projection for 2010 was lowered by 0.2% to 4.7% (due to the freeze on regulatory prices), while for 2011 it was raised by 0.4% to 3.5%.

None of these moves had any real effect on the domestic markets, but global risk awareness drove EUR/HUF up to nearly a one-month high at 286. Risk awareness can also be seen in the fact that peripheral financing is once again crawling back into the focus. Thursday's HGB auctions did not go very well, with low bid-to-cover ratios and soaring average bid yields. However, Hungary was able to sell the intended debt volume successfully.

Market outlook

There has been some speculation in recent days that Hungary will ask for a new credit line, after the Ministry of Economy stated that negotiations with the IMF/EU will continue and that the parties are likely to reach an agreement. While the Ministry denied that the statement meant this, we still believe a new precautionary credit might be signed in October.

On the monetary side, as hawkish as this week's news might seem, with the NBH constantly stressing that risks on both growth and inflation, we do not believe that a rate hike can be expected. Over the medium term, we would still bet on one or more rate cuts in the upcoming year, but this obviously greatly depends on the domestic fiscal developments and the international risk environment as well.

Analysts: Adam Keszeg (+36 148 44343)

Exchange rate focus

	actual	*Dec-10*	*Mar-11*	*Jun-11*
EUR/HUF	***283.02***	***285.0***	***285.0***	***280.0***
Change from last week	-2.0%			
USD/HUF	***222.92***	***237.5***	***247.8***	***233.3***
Change from last week	-3.0%			

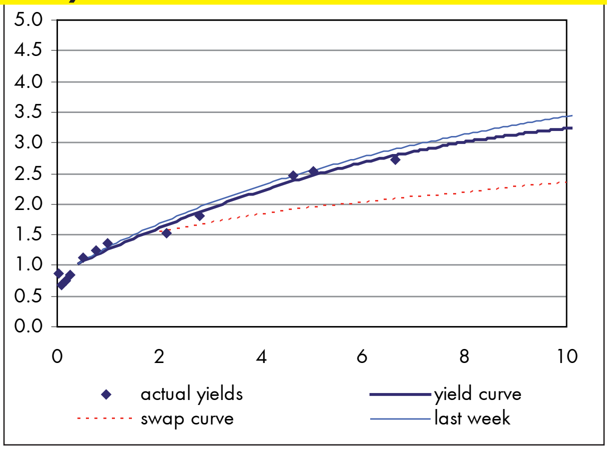
Czech Republic

How high will bonds go?

(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***	***0.85***	***1.12***	***1.36***
Change from last week	0.00	-0.01	-0.02	-0.02
Forecast Dec-10	0.7	0.8	1.0	1.5
Forward rates	***1x2***	***3x6***	***6x9***	***9x12***
	0.83	1.39	1.51	1.68
Change from last week	0.00	-0.03	0.01	-0.05

Bond market focus*

	2y	*5y*	*10y*	*15y*
Actual	***1.58***	***2.53***	***3.23***	***3.47***
Change from last week	-0.04	-0.12	-0.29	-0.29
Forecast Dec-10	2.1	3.4	4.4	4.6
Spread to bunds	***96.6***	***131.0***	***109.6***	***118.6***
Change from last week	1.6	-0.2	-9.9	3.0
Spread to swaps	***3.2***	***-52.4***	***-78.0***	***n.a.***

** forecasts under revision*

EUR/CZK

Last: 24.87 Position: short target: 23.60 - 22.90
Bearish Rectangular Triangle could get confirmed at 24,50 -> 23,71 - 22,90, but now really watch out for the stop 25.10 -> 25.25 - 26

Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral CZK T-bonds

Market comment

Without paying much attention to the domestic news, Czech government bonds gained a bit further over the last week. Yields on Czech 10-year government bonds fell to as low as 3.4%, a value last seen in early 2006. The Czech Ministry of Finance denied market speculation that it would lower its 2010 borrowing target. The gross borrowing requirement is expected to total CZK 280 bn in 2010. Taking into account the favourable conditions on the CZK bond market, the ministry should take the advantage of the opportunity and sell the planned issues sooner rather than later. The two members of the Czech National Bank mentioned that there is a need to start talks about future interest rate hikes. The market did not react and we did not change our expectation of a key interest rate hike in Q1 2011 at the earliest. The wording used by the central bankers was more strategic than analytical.

Market outlook

Next week, the Czech Ministry of Finance will release its plan for government bond issues for Q4. The question is to what extent the ministry will rely upon the appetite of the domestic market and to what extent it will look towards the demand for CZK bonds among foreign investors. Selling EUR 3 bn would imply a need to sell around CZK 50 bn of government bonds in Q4, which is the same amount as in Q3. At this point, it seems likely that the market would easily absorb the EUR 3 bn of EUR-denominated bonds. However, the question is how much longer the environment will remain friendly for the bond market. We are sticking to our short-term "Neutral" recommendation. Nevertheless, we are putting our yield and interest rate forecast under revision.

Analysts: Michal Brozka (+420 221 141 498)

Exchange rate focus

	actual	*Dec-10*	*Mar-11*	*Jun-11*
EUR/CZK	***24.86***	***25.0***	***24.8***	***24.5***
Change from last week	-0.2%			
USD/CZK	***19.58***	***20.8***	***21.6***	***20.4***
Change from last week	-1.3%			

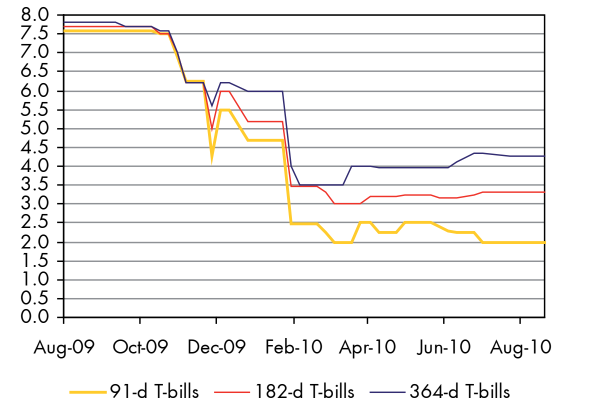
Croatia

Budget revision without structural changes

(P)review of key economic figures/events

27 Aug 10	GDP, real, % yoy	Q2 -2.8 (Q1 -2.5)
31 Aug 10	Retail trade, % yoy	Jul -2.5 (Jun -1.5)
31 Aug 10	Exports, EUR mn	Jul 845 (Jun 692)

Interest rates on T-bills



Source: Thomson Reuters, Raiffeisen RESEARCH

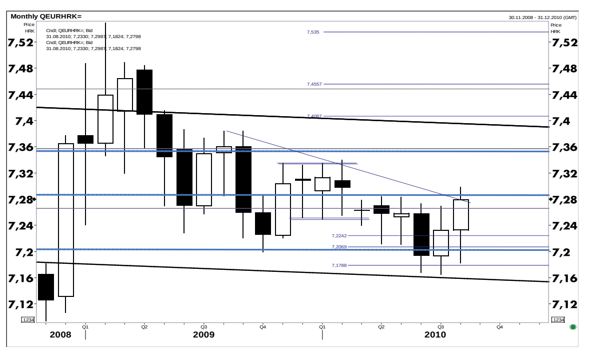
Money market focus

	1m	3m	6m	12m
ZIBOR actual	***2.15***	***2.88***	***3.42***	***4.23***
Change from last week	0.06	0.30	0.06	0.11
T-bills actual	***n.a.***	***1.98***	***3.30***	***4.25***

Exchange rate focus

	actual	Dec-10	Mar-11	Jun-11
EUR/HRK	***7.274***	***7.32***	***7.30***	***7.30***
Change from last week	0.5%			
USD/HRK	***5.74***	***6.10***	***6.35***	***6.08***
Change from last week	2.2%			

EUR/HRK



Last: 7.27 sell 7.2490 target: 7.21 - 7.16
Whipsaw at 7.29, so it might fall back to 7.16. Buy 7.30 -> 7.3580

Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral EUR/HRK

Market comment

The continued substantial reduction in budget revenues caused by the prolonged recession contributed to the first budget revision being used as an instrument to curb unplanned deficit growth. It had already become apparent that a budget revision would be necessary back in July, when the budget deficit reached HRK 7.2 bn, while the planned deficit for the whole year was HRK 8.5 bn. The budget revision cut expected revenues for 2010 by HRK 4.5 bn due to weaker economic activity than previously expected. So far this year, revenues from income and contributions have fallen significantly as a result of growing unemployment. Although some cutbacks were announced on the expenditure side, they actually increased by HRK 898 mn, putting the planned budget deficit for this year at HRK 14 bn, which is somewhere around 4.2% of expected GDP.
The proposed minor savings in the form of spending cuts and an increase in excise duties for tobacco products and petrol are only short-term "cosmetic" changes, since the government once again decided not to make structural changes this time around. Furthermore, it became clear that additional borrowing will be necessary in the amount of around EUR 1 bn. Therefore, public debt will continue to rise above 40% of GDP (excluding guarantees and CBRD). Since borrowing conditions on the international market are not very favourable and there is a high level of liquidity on the domestic market, the government will most likely look for domestic financing.

Market outlook

This week's trading on the domestic market proceeded calmly. At the beginning of the week, there were only minor appreciation pressures on kuna, which pushed EUR/HRK to 7.265 kuna per euro. Trading was stable throughout the rest of the week, with the rate moving between 7.27 and 7.28 kuna per euro. Next week, trading will likely stay at roughly the same levels as this week. However, we expect some depreciation pressures on kuna and a rise in the FX rate to 7.30 kuna per euro over the next month.
Analyst: Ivana Juric (+385 1 61 74 349)

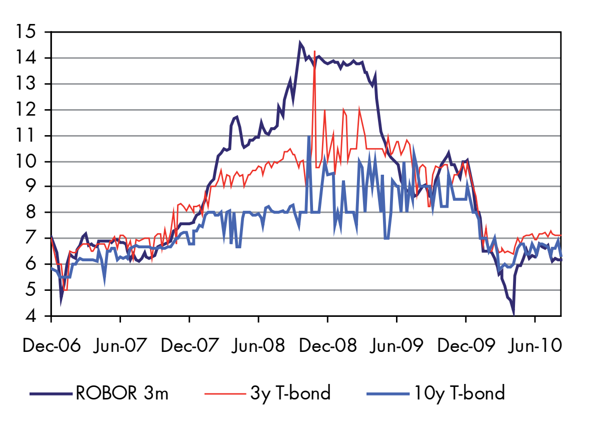
Romania

Lending activities remained weak in July

(P)review of key economic figures/events

01 Sep 10	GDP, real, % yoy	Q2 -0.5 (Q1 -2.6)	Details for GDP components
02 Sep 10	PPI, % yoy	Jul n.a. (Jun 6.2)	
03 Sep 10	Retail sales, % yoy	Jul n.a. (Jun 3.2)	

ROBOR 3m & T-bond yields (%)



Source: Thomson Reuters, Raiffeisen RESEARCH

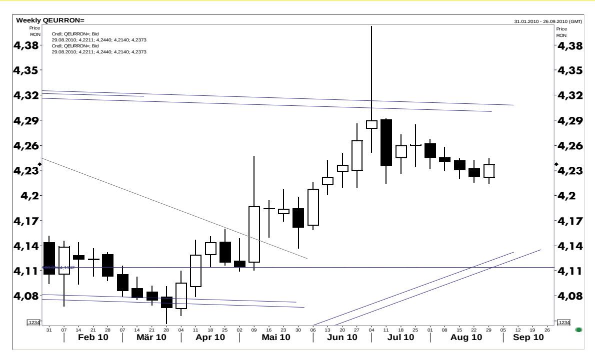
Money market focus

MM rates	***1m***	***3m***	***6m***	***12m***
Actual	***5.13***	***6.20***	***6.46***	***6.46***
Change from last week	-0.14	0.00	0.05	0.04
Forecast Dec-10	6.8	7.1	7.4	7.2
Implicit forward rates	***3x6***	***6x9***	***9x12***	
	6.78	6.44	6.27	
Change from last week	0.10	0.05	0.01	

Bond market focus

	2y	***3y***	***5y***	***10y***
Actual	***5.55***	***7.13***	***7.18***	***6.35***
Change from last week	-1.58	0.01	0.02	-0.54
Forecast Dec-10	7.50	7.70	7.80	7.30
Spread to bunds	***494.1***	***637.3***	***595.6***	***421.7***
Change from last week	-152.1	13.6	-54.3	-34.9

EUR/RON



Last: 4.23 *Position: neutral*
Stop kept at 4.20 -> 4.12, bullish signal will be the crossing of 4.3070 - and this is more likely

Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral RON T-bonds

Market comment

Lending activities remain fragile for the time being, with July showing signs of weakness compared with the previous months (+0.2% mom for outstanding loans in RON and -0.4% for outstanding loans in FCY in EUR terms). Lending to companies appears to be much more dynamic than lending to households. In the case of RON loans, outstanding loans to companies increased by 2% yoy, while outstanding loans to individuals fell by 5.3% yoy. In the case of FCY loans, outstanding loans to companies rose by 8.7% yoy, while outstanding loans for individuals were up by 7% yoy. We believe that the increase in the level of outstanding corporate loans over the last year is related to the recovery of activity in certain economic sectors (e.g. industry). In the case of household loans, the increase was driven entirely by the housing segment (+23.7% yoy for outstanding laons in FCY) and can be attributed to the government's "Prima casa" programme. Outstanding consumer loans remain on a downward trend. Recent austerity measures point to weak lending activities in the coming period, especially in the household segment.

Market outlook

On 1 September, the statistical office is scheduled to release the details regarding the dynamics of the GDP components in Q2 2010. The figures for household expenditures and gross fixed capital formation should receive the most attention. Indicators referring to the period following the introduction of the austerity measures are starting to be released. The first of these will be the retail sales figure on 3 September.

Analyst: Nicolae Covrig (+40 21 306 1000)

Exchange rate focus

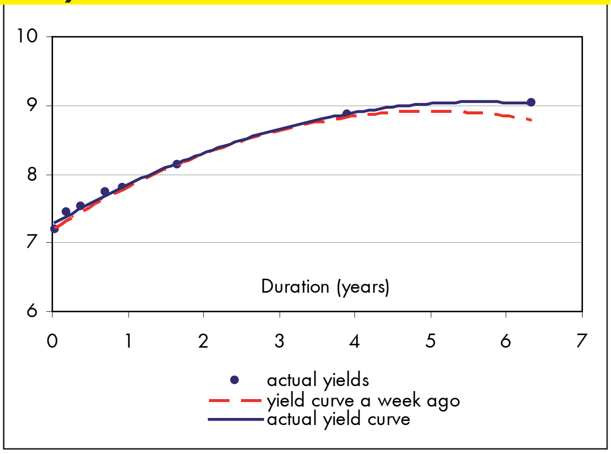
	actual	***Dec-10***	***Mar-11***	***Jun-11***
EUR/RON	***4.25***	***4.30***	***4.40***	***4.30***
Change from last week	-0.4%			
USD/RON	***3.34***	***3.58***	***3.83***	***3.58***
Change from last week	-1.3%			

Turkey
Data points to slowdown in H2

(P)review of key economic figures/events

31 Aug 10	Trade balance, USD bn	Jul -5.7 (Jun -5.6)	We increase the C/A deficit estimate from 4% to 5% of GDP
03 Sep 10	Manufacturing PMI	Aug n.a. (Jul 52.8)	second drop expected
03 Sep 10	Consumer prices, % yoy	Aug 8.0 (Jul 7.6)	% mom: Aug 0.1 (Jul -0.5); end of deflationary phase

TRY yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

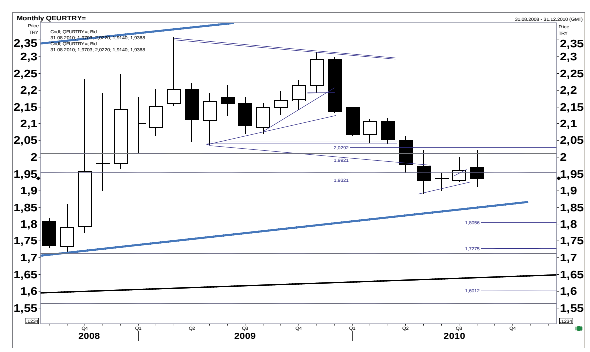
Money market focus

MM rates	1m	3m	6m	12m
Actual	***7.00***	***7.26***	***7.80***	***8.15***
Change from last week	0.00	-0.04	-0.10	-0.10
Forecast Dec-10	***7.20***	***7.50***	***8.00***	***8.00***
Implied forward rates	***1x2***	***3x6***	***6x9***	***9x12***
	7.16	8.20	8.37	7.82
Change from last week	0.00	-0.16	0.05	-0.23

Bond market focus

	1m	1y	2y	5y
Actual	***7.19***	***7.80***	***8.14***	***8.87***
Change from last week	0.07	-0.21	-0.16	-0.08
Forecast Dec-10	***n.a.***	***8.00***	***8.30***	***9.00***

EUR/TRY



Last: 1.94 Position: short target: 1.85
Should test the upward-trend at 1.85 (-> 1.8050 - 1.70)

Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral TRY T-bonds

Market comment

In August, capacity utilisation fell by 1.3 percentage points to 73.4%, while confidence in the manufacturing sector declined by 1.7 points to 111. This confirms our view of a deceleration in real sector growth in H2 2010. The industrial production index started heading downward in June, and leading indicators had already reversed in May. At the same time, we think that Q2 GDP (to be released on 14 September) will still show strong growth of more than 7% yoy and around 2% qoq (seasonally adjusted). The lira is being influenced by renewed pessimism regarding the economic outlook in the US and the Eurozone, while yields on the local government bond market stayed as low as 8.05% (2y T-bond), profiting from lower inflation expectations and the "dovish" monetary policy stance of the Turkish central bank (no interest rate hikes until Q1 2011 or even later).

Market outlook

Even with a weaker second half of the year, Turkish GDP will still grow by around 6% in 2010. However, the growth rate in 2011 will be seriously affected by the expected slowdown. Given the shakier global environment and the expected moderation of the domestic recovery, we expect a generally weaker TRY (against USD) in the coming months. Risks are augmented by strong currency inflows in H1 2009 ("hot money"), which could reverse in the future.
In addition to global risk sentiment and the monetary policy stance of the central bank, Turkish markets will soon turn their attention towards a constitutional referendum that will take place on 12 September. A positive result for the ruling AK party in the referendum could boost the value of Turkish assets, including the currency, in the short run.

Analyst: Andreas Schwabe (+43 1 71707 1389)

Exchange rate focus*

	actual	Dec-10	Mar-11	Jun-11
EUR/TRY	***1.93***	***1.86***	***1.73***	***1.74***
Change from last week	-0.8%			
USD/TRY	***1.52***	***1.55***	***1.50***	***1.45***
Change from last week	0.6%			

* under revision

Summary
Ratings & macro data

Country ratings: CEE, SEE, CIS

	S&P			Moody's			Fitch		
	LCY	FCY	Outlook	LCY	FCY	Outlook	LCY	FCY	Outlook
CEE									
Poland	A	A-	stable	A2	A2	stable	A	A-	stable
Czech	A+	A	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	789	-6.9	53.7	30.6	-2.4	50.1	34.7	7.2
	2011	3.2	2.3	10.6	862	-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
Turky	**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	17.1	-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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