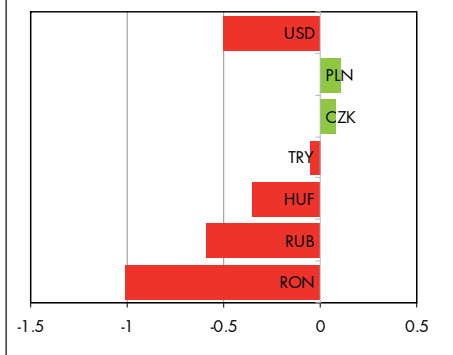


CEE Weekly Bond Markets Outlook

Issue 35/2010

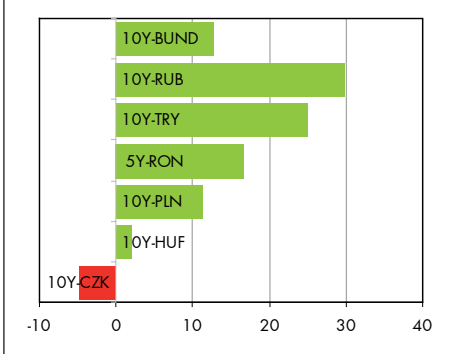
3 September 2010

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	3.97	4.05	3.95	3.80
1m-rate	3.4	3.8	4.0	4.4
5y bond	5.2	5.2	5.4	5.6
10y bond	5.5	5.8	6.0	6.1
Hungary				
HUF	284.5	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	7.2	7.0	6.6	6.1
Czech Rep.				
CZK	24.7	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*	30.7	30.7	31.7	30.7
1m-rate	3.3	3.5	4.2	4.0
5y bond	6.8	6.5	6.8	7.0
10y bond	7.5	7.0	8.0	7.8
USD	1.28	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** – In spite of the positive GDP data and sound economic fundamentals we regard Polish bonds as too risky for long positions at the moment, given our scenario of deteriorating economic data in coming months in the western countries. We stick to our “Sell” recommendation as we think there is still room for yield increases and a weaker EUR/PLN.
- Hungary** – In spite of the comments by the NBH and the rate hike priced in by HGB yields, we expect the NBH will stick to a wait-and-see stance, before the Government submits the 2011 budget to the Parliament by the end of October. However, HUF volatility can be expected in the coming weeks, as budget uncertainties will still prevail; the absence of the IMF safety net and the record appreciation of CHF also worsens the risk profile of Hungary.
- Czech Republic** – Next week will be rich in new data. We might see some deceleration in industrial output and a decline in the foreign trade surplus for July (we even expect a slightly negative result). However, this should not be moving information for the market. The domestic variables remain bond-friendly.

Key upcoming events and data releases

Country	Time	Indicator	Period	Forecast	Range	Last
06-Sep						
CZ	09:00	Foreign trade balance, CZK bn	Jul	-1.0	-1.0/7.0/11.0	10.4
CZ	09:00	Industrial output, % yoy	Jul	5.0	3.1/7.5/15.0	9.7
CZ	09:00	Retail sales, % yoy	Jul	1.5	-4.5/0.0/5.0	6.6
RU	n.a.	CPI, % mom	Aug	0.7	0.4/0.7/0.8	0.4
RU	n.a.	CPI, % yoy	Aug	6.3	5.9/6.3/6.4	5.5
07-Sep						
HU	09:00	Trade balance, EUR mn	Jul	533.0	n.a.	564
TR	09:00	Industrial output, % yoy	Jul	n.a.	n.a.	10.4
08-Sep						
CZ	09:00	Real GDP, % yoy	Q2	2.2	n.a.	1.1
CZ	09:00	Unemployment, %	Aug	8.7	8.5/8.7/8.9	8.7
HU	09:00	Real GDP, % yoy	Q2	1.0	n.a.	0.1
HU	09:00	Industrial output, % yoy	Jul	10.2	n.a.	12.6
RO	n.a.	Industrial output, % yoy	Jul	-8.6	n.a.	2.9
09-Sep						
CZ	09:00	CPI, % yoy	Aug	1.9	1.9/2.0/2.1	1.9
10-Sep						
PL	14:00	Current account balance, EUR mn	Jul	-563	n.a.	-1004
HU	09:00	CPI, % yoy	Aug	4.1	3.6/4.0/4.2	4
RU	n.a.	Trade balance, USD bn	Jul	12.8	9.5/11.6/20.0	12.5



**Raiffeisen
RESEARCH**

RZB Group

- Romania** – A government reshuffle took place on Thursday. Finance Minister Sebastian Vladescu lost his job during the move. While the government reshuffle is not cause for concern, developments on the political stage together with governmental policies remain the main risk factors for the exchange rate and interest rates in the period ahead.
- Croatia** – In July, retail trade turnover increased by 0.7% yoy in real terms, which represents the first positive growth rate after a continuous decline for 21 months. These favourable developments were partially the result of the base effect (retail trade fell by 14.5% yoy in July 2009), but good results from tourism in July (+11.9% in arrivals and +5.2% in overnights) also contributed to the rise.
- Turkey** – Markets are in wait-and-see mode before the constitutional reform referendum on 12 September, and trading volumes are thin. Markets will welcome an AKP-positive result, while asset prices may slump in the opposite case. Besides this major event, changes in global risk sentiment could drive the TRY in a range of 1.50 to 1.55 to the dollar. Bond yields may remain around the current levels.
- Russia** – The Russian Finance Ministry sold just 16% of the OFZ treasury bonds on offer on Wednesday, despite offering a small market premium. Inflation fears and a subdued rouble exchange rate crimped investor demand. At the same time, Russia's government is mulling a Eurobond issue in roubles which could come late this year. If issued it will become the first rouble sovereign Eurobond to be offered on the international markets.

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	24.712	25.5	24.6	-0.19	rising risk aversion due to renewed US recession fears
Buy EUR/PLN	20/08/10	3.965	3.9627	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	96.786	96.0	101.5	-	Expected rise in global risk aversion
Sell Polish T-bond 10y (ISIN: PL0000106126)	20.08.2010	98.6	97.55	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
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 PLO000106126)	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

02/09/2010	Maturity	Coupon %	Ask Price	YTM %	Spread to Bunds; bp	MDur.
Poland						
PLN 2y Gov. Bond	25/ Oct 12	0.00	90.68	4.69	409	2.1
PLN 5y Gov. Bond	25/ Apr 15	5.50	101.10	5.22	391	4.2
PLN 10y Gov. Bond	25/ Oct 20	5.25	98.22	5.48	320	7.7
PLN 20y Gov. Bond	25/ Apr 29	5.75	99.50	5.79	295	11.7
Hungary						
HUF 3y Gov. Bond	12/ Feb 14	5.50	95.45	7.02	620	3.1
HUF 5y Gov. Bond	12/ Feb 16	5.50	93.07	7.07	576	4.7
HUF 10y Gov. Bond	12/ Nov 20	7.50	101.93	7.22	494	7.1
HUF 15y Gov. Bond	24/ Nov 23	6.00	90.42	7.14	464	8.8
Czech Republic						
CZK 2y Gov. Bond	18/ Oct 12	3.55	104.00	1.61	101	2.0
CZK 5y Gov. Bond	1/ Sep 15	3.40	104.10	2.51	120	4.7
CZK 10y Gov. Bond	12/ Sep 20	3.75	104.80	3.18	90	8.3
CZK 15y Gov. Bond	25/ May 24	5.70	123.90	3.48	98	10.2
Croatia						
HRK 5y Gov. Bond	15/ Dec 15	5.25	98.09	5.67	437	4.6
HRK 10y Gov. Bond	5/ Mar 20	6.75	102.09	6.45	417	7.1
Romania						
RON 3y Gov. Bond	25/ Oct 12	11.25	109.17	6.49	567	1.9
RON 5y Gov. Bond	5/ Mar 14	11.00	110.48	7.45	615	3.0
Russia						
RUB 2y Gov. Bond	19/ Sep 12	10.80	109.68	5.81	521	1.8
RUB 5y Gov. Bond	17/ Dec 14	11.20	117.15	6.74	544	3.5
RUB 10y Gov. Bond	29/ Aug 18	8.00	100.00	7.13	485	3.9
RUB 30y Gov. Bond	6/ Feb 36	6.90	93.80	7.59	474	11.7
Turkey						
TRY 2y Gov. Bond	25/ Apr 12	0.00	87.94	8.14	754	1.6
TRY 5y Gov. Bond	17/ Jun 15	10.00	104.85	8.93	763	4.0
TRY 10y Gov. Bond	15/ Jan 20	10.50	109.88	9.11	683	6.2

Source: Thomson Thomson Reuters, Raiffeisen RESEARCH

Bond auctions

Bond auctions		ISIN	Coupon	Maturity	Volume
09 Sep 10					
PL	5y T-bond	PL0000105953	5.5%	25 Apr 2015	PLN 1-5 bn
09 Sep 10					
HU	3y T-bond	HU0000402139	5.5%	12 Feb 2014	HUF 20 bn
HU	5y T-bond	HU0000402318	5.5%	12 Feb 2016	HUF 15 bn
HU	10y T-bond	HU0000402235	7.5%	12 Nov 2020	HUF 15 bn

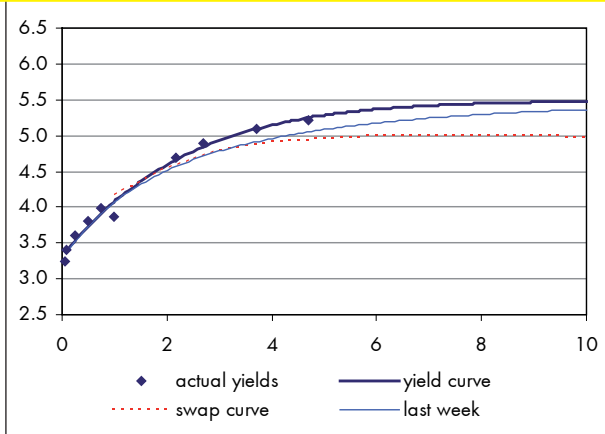
Poland

GDP growth accelerates

(P)review of key economic figures/events

30 Aug 10	GDP, real, % yoy	Q2 10 3.5 (Q1 10 3.0)	Stronger growth than expected
01 Sep 10	PMI	Aug 53.8 (Jul 52.1)	
10 Sep 10	Current account balance, EUR mn	Jul -563 (Jun -1004)	

PLN yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

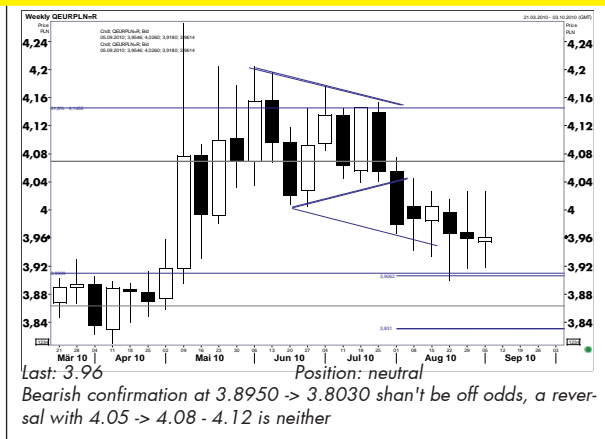
Money market focus

MM rates	1m	3m	6m	12m
Actual	3.41	3.61	3.80	4.04
Change from last week	0.01	0.00	0.00	0.00
Forecast Dec-10	3.75	3.95	4.05	4.20
Forward rates	3x6	6x9	9x12	
Change from last week	4.01	4.36	4.13	
Change from last week	0.00	-0.03	0.03	

Bond market focus

	2y	5y	10y	20y
Actual	4.69	5.22	5.48	5.79
Change from last week	0.10	0.17	0.12	0.07
Forecast Dec-10	4.90	5.20	5.80	6.10
Spread to bunds	409.4	390.8	320.3	295.1
Change from last week	16.3	9.1	12.0	-10.1
Spread to swaps	-7.8	-21.1	-46.7	

EUR/PLN



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Sell PLN T-bonds

Market comment

Once again, the data on GDP came in better than expected: real GDP grew by 3.5% yoy and 1.1% qoq (seasonally adjusted) in Q2 2010. The composition of GDP clearly shows a shift from external demand-led growth to growth driven by domestic demand. Within the latter, total final consumption and inventory investment were the two pillars contributing positively to the year-on-year growth rate with 1.5pp and 2.1pp, respectively. Investment in fixed capital remained muted compared to last year with a decline of 1.7% yoy, but a jump of 12.9% in qoq terms (after a very weak Q1). The 2y bond auction was a non-event with the bid-to-cover ratio at 1.65. The MoF sold PLN 4 bn and there was no top-up tender this time. Next week the Ministry wants to raise funds via another tranche of the 5y bond maturing in April 2015.

Market outlook

The GDP figures were slightly above our expectations of 3.2% yoy and underpin the strength of the Polish economy. The shift in growth factors is also positive and shows that domestic demand is beginning to dominate GDP growth. We think that this trend will continue in the coming quarters with the consequence that the negative contribution of net exports will continue to rise, as well. We project that GDP will grow by 3.4% yoy in Q3 and 3.0% yoy in Q4 2010, with the large contribution of inventory investment during the past two quarters slowly fading. Despite the positive data and sound economic fundamentals, we regard Polish bonds as too risky for long positions at the moment, given our scenario of deteriorating economic data in coming months. We therefore stick to our "Sell" recommendation as we think there is still room for yield increases and a weaker EUR/PLN.

Analyst: Marcin Kopaczynski (+43 1 71707 1423)

Exchange rate focus

	actual	Dec-10	Mar-11	Jun-11
EUR/PLN	3.97	4.05	3.95	3.80
Change from last week	3.4%			
USD/PLN	3.10	3.38	3.43	3.17
Change from last week	1.6%			

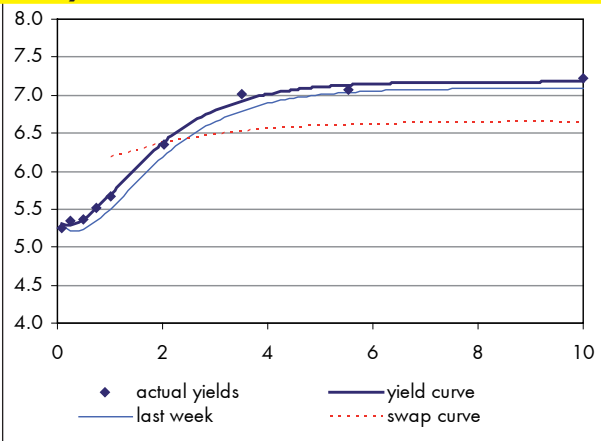
Hungary

More volatility

(P)review of key economic figures/events

08 Sep 10	Real GDP, % yoy	Q2 1.0 (Q1 0.1)	Details for GDP components
08 Sep 10	Industrial output, % yoy	Jul 10.2 (Jun 12.6)	
10 Sep 10	CPI, % yoy	Aug 4.1 (Jul 4.0)	

HUF yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Sell 10y HUF T-bonds

Market comment

HUF proved to be one of the most volatile currencies again this week, amidst fluctuating market sentiment: the fast weakening (to 287.8 vs. EUR) was followed by a quick recuperation (to EUR/HUF 283.8). HGB yields also moved higher: the short end of the yield curve is up by 20-30bp, thus pricing in a 25-bp rate hike by the NBH already in September, while the long end climbed by some 70-80bp. The central bank stated this week that a rate hike may occur, should market sentiment deteriorate, and also commented that renewal of the IMF credit line may also be needed. Government politicians responded quickly to the NBH comments, reiterating that there is no need for a new IMF-loan.

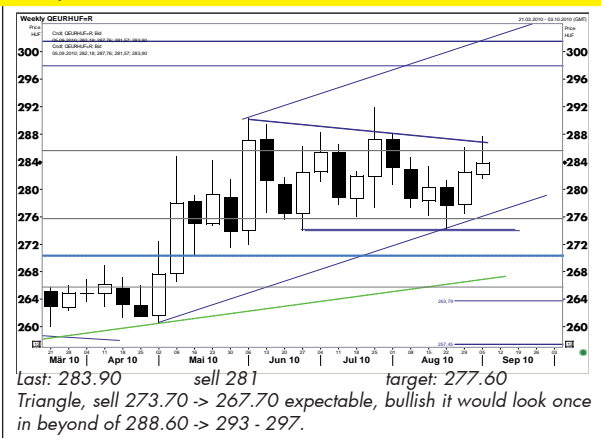
Money market focus

MM rates	1m	3m	6m	12m
Actual	5.26	5.36	5.45	5.58
Change from last week	0.01	0.02	0.04	0.05
Forecast Dec-10	5.3	5.3	5.4	5.5

Bond market focus

	3y	5y	10y	15y
Actual	7.02	7.07	7.22	7.14
Change from last week	0.11	0.00	0.17	0.10
Forecast Dec-10	6.6	6.8	7.0	7.0
Spread to bunds	619.7	575.9	494.1	464.3
Change from last week	4.3	-8.0	2.5	-11.2

EUR/HUF



Source: Thomson Reuters, Raiffeisen RESEARCH

Market outlook

In spite of the comments by the NBH and the rate hike priced in by HGB yields, we do not expect any move by the National Bank. In our view, the NBH will stick with a wait-and-see stance in September and October, before the Government submits the 2011 budget to the Parliament by the end of October. However, HUF volatility can be expected in the coming weeks again, as budget uncertainties will still prevail; moreover, the absence of the IMF safety net and the record appreciation of CHF also worsens the risk profile of Hungary. We remain with our sell recommendation, and thus would wait for better entry points after a correction.

Analysts: Matyas Kovacs (+36 148 44874)
Wolfgang Ernst (+43 1 71707 1500)

Exchange rate focus

	actual	Dec-10	Mar-11	Jun-11
EUR/HUF	284.49	285.0	285.0	280.0
Change from last week	-0.5%			
USD/HUF	221.88	237.5	247.8	233.3
Change from last week	0.5%			

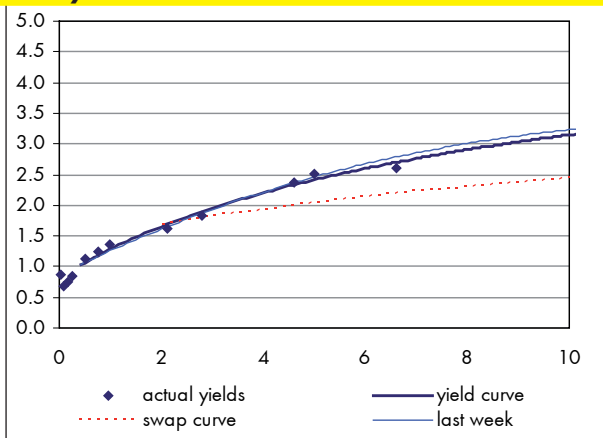
Czech Republic

Hold CZGBs all maturities

(P)review of key economic figures/events

06 Sep 10	Industrial output, % yoy	Jul 5.0 (Jun 9.7)	Negative seasonal effect and higher base
08 Sep 10	GDP, % yoy	Q2 2.2 (Q1 1.1)	Details for GDP components
09 Sep 10	CPI, % yoy	Aug 1.9 (Jul 1.9)	No visible price pressure

CZK yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Money market focus*

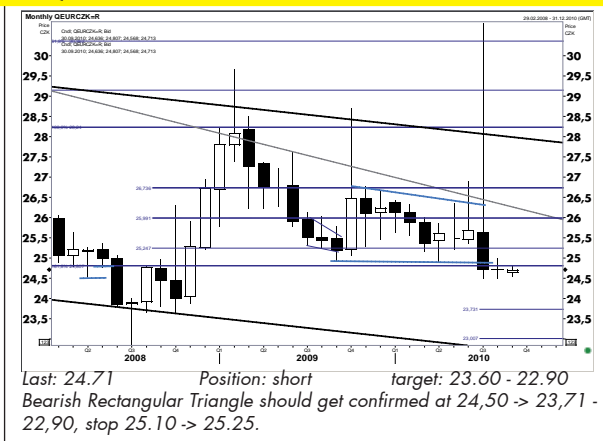
MM rates	1m	3m	6m	12m
Actual	0.67	0.84	1.12	1.35
Change from last week	0.00	-0.01	0.00	-0.01
Forecast Dec-10	0.7	0.8	1.0	1.5
Forward rates	1x2	3x6	6x9	9x12
	0.83	1.40	1.51	1.64
Change from last week	0.00	0.01	0.00	-0.04

Bond market focus*

	2y	5y	10y	15y
Actual	1.61	2.51	3.18	3.48
Change from last week	0.03	-0.02	-0.05	0.01
Forecast Dec-10	2.1	3.4	4.4	4.6
Spread to bunds	101.2	120.4	90.4	98.1
Change from last week	4.6	-10.3	-19.2	-20.5
Spread to swaps	19.8	-37.9	-60.4	n.a.

* forecasts under revision

EUR/CZK



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral CZK T-bonds

Market comment

The Czech Ministry of Finance announced plans to issue CZK 30 bn of CZK government bonds and CZK 25 bn of Treasury Bills. The window for issuing the Eurobond remains opened. Looking at current market conditions, we expect the market would absorb such an amount quite easily. One might ask why the Ministry is relying on Treasury Bills so much. Bond yields next year are likely to go higher and the re-financing risk will increase. The Ministry of Finance introduced a first draft of the budget for next year, featuring a deficit of CZK 135 bn. There is plenty of room for analysis and discussion. At any rate, given the announced restrictive measures, at first sight it seems that the Ministry might have overly optimistic expectations about household consumption. CNB vice-governor Vladimír Tomsík said he did not expect to raise interest rates before H2 2011. This is in sharp contrast to recent hawkish statements by three members of the Czech National Bank, who expressed that the CNB should be thinking about an increase in interest rates as early as this year.

Market outlook

Next week will be rich in new data. We might see some deceleration in industrial output and a decline in the foreign trade surplus for July (we even expect a slightly negative result). However, this should not be moving information for the market. The domestic variables remain bond-friendly. The Ministry of Finance might sell the Eurobond soon, and as we believe the demand for it will be solid, CZK bond yields will have another reason to stay low. All in all, we stick to our HOLD recommendation on Czech government bonds of all maturities.

Analysts: Michal Brozka (+420 221 141 498)

Exchange rate focus

	actual	Dec-10	Mar-11	Jun-11
EUR/CZK	24.71	25.0	24.8	24.5
Change from last week	0.6%			
USD/CZK	19.28	20.8	21.6	20.4
Change from last week	1.6%			

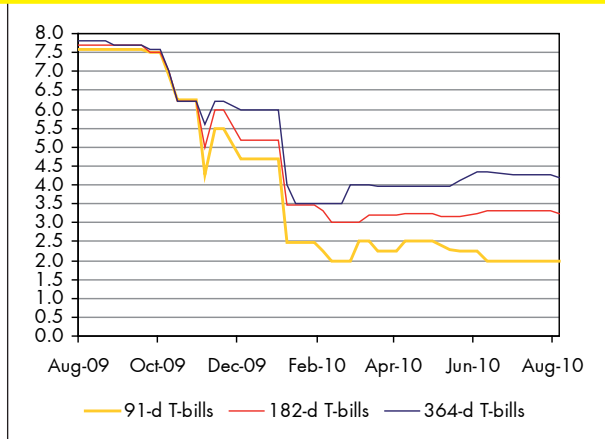
Croatia

Is retail heading for a recovery? Not yet...

(P)review of key economic figures/events

27 Aug 10	GDP, real, % yoy	Q2 -2.5 (Q1 -2.5)
31 Aug 10	Imports, EUR mn	Jul 1324 (Jun 1306)
31 Aug 10	Exports, EUR mn	Jul 697 (Jun 751)

Interest rates on T-bills



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral EUR/HRK

Market comment

The last data on retail trade came as a positive surprise: in July, retail trade turnover increased by 0.7% yoy in real terms (1.0% yoy nominally), which represents the first positive growth rate after a continuous decline for 21 months. These favourable developments were partially the result of the base effect (retail trade fell by 14.5% yoy in July 2009), but good results from tourism in July (+11.9% in arrivals and +5.2% in overnights) also contributed to the rise. Moreover, the lower of two so-called "crisis tax" rate was abolished in July which primarily influenced consumer optimism. In August, we expect similar developments as in July, while the outlook for the rest of the year is highly uncertain. Some measures, such as the repealing of the higher rate of the "crisis tax" and the postponement of the rise in electricity prices, will probably have a positive impact. But since the key factor of consumer spending is the labour market, the unfavourable trends that are expected to intensify in autumn will hold back any recovery in retail trade.

Amid a recovery on the country's main export markets, exports of goods (in euros) continued to rise, up 6.2% yoy in July. Imports of goods in euros recorded a mild increase (0.6%), but expressed in kuna terms it reveals that the negative trends are continuing for the 22nd month. For the rest of the year we expect that domestic demand will start to recover, but the stronger rise in exports compared to imports will have a positive impact on the balance of payments.

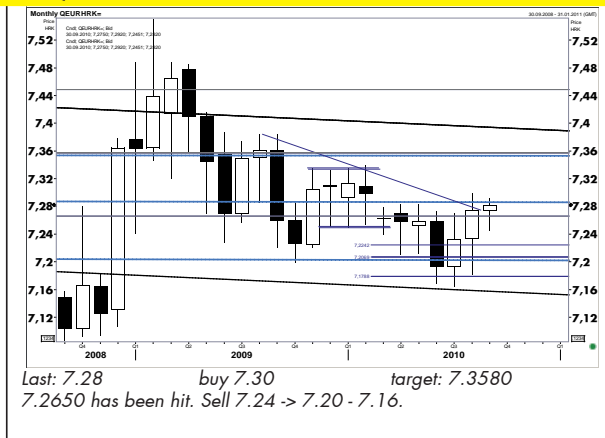
Money market focus

	1m	3m	6m	12m
ZIBOR actual	1.97	2.98	3.50	4.00
Change from last week	-0.18	0.10	0.08	-0.23
T-bills actual	n.a.	1.98	3.25	4.20

Exchange rate focus

	actual	Dec-10	Mar-11	Jun-11
EUR/HRK	7.274	7.32	7.30	7.30
Change from last week	0.1%			
USD/HRK	5.69	6.10	6.35	6.08
Change from last week	-0.9%			

EUR/HRK



Source: Thomson Reuters, Raiffeisen RESEARCH

Market outlook

This week, EUR/HRK remained at roughly the same levels as last week. Trading was stable, as the rate moved in a narrow range of 7.265 to 7.277. While we do not expect major changes at a weekly level, EUR/HRK should hold in a band of 7.25 and 7.35 until the end of the year.

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

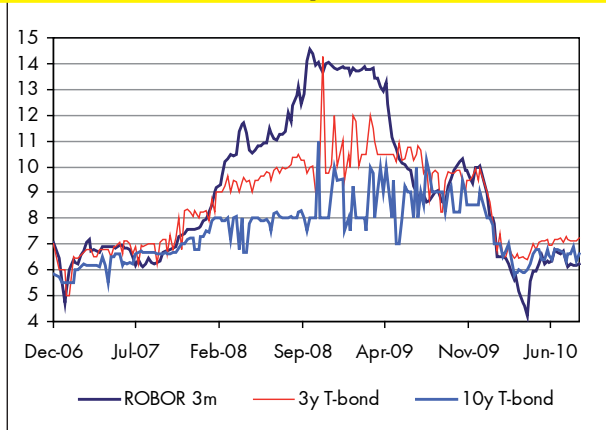
Romania

Government reshuffled

(P)review of key economic figures/events

01 Sep 10	GDP, real, % yoy	Q2 -0.5 (Q1 -2.6)
03 Sep 10	Retail sales, % yoy	Jul -8.6 (Jun 2.9)
08 Sep 10	Industrial output, % yoy	Jul n.a. (Jun 4.7)

ROBOR 3m & T-bond yields (%)



Source: Thomson Reuters, Raiffeisen RESEARCH

Money market focus

MM rates	1m	3m	6m	12m
Actual	5.59	6.23	6.46	6.46
Change from last week	0.46	0.03	0.00	0.00
Forecast Dec-10	6.8	7.1	7.3	7.2
Implicit forward rates	3x6	6x9	9x12	
	6.75	6.41	6.31	
Change from last week	-0.03	-0.03	0.03	

Bond market focus

	2y	3y	5y	10y
Actual	6.49	7.27	7.48	6.63
Change from last week	0.94	0.14	0.30	0.27
Forecast Dec-10	7.50	7.70	7.80	7.30
Spread to bunds	589.3	644.3	617.3	434.6
Change from last week	95.2	22.1	27.4	12.9

EUR/RON



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral RON T-bonds

Market comment

In Q2 2010, real GDP advanced by 0.3% from Q1 2010 but dropped by 0.5% compared to Q2 2009. On the supply side, industry was the main GDP driver (+4.2% qoq), while construction and services contracted, but only marginally (-0.1% qoq and -0.8% qoq, respectively). On the uses side, household expenditures increased slightly (+0.8% qoq), while gross fixed capital formation fell by 4.4% qoq. We think that investments in machinery and equipments recovered slightly, but this was not enough to offset the decline in investments in new construction works. Domestic private demand improved marginally in Q2 compared to Q1, after decreasing rapidly in the previous quarters, but remained at an extremely low level. However, the improvement is likely to be only temporary given that the austerity measures applied starting 1 July are expected to trigger a substantial decrease in real disposable income with negative consequences on household expenditures and overall GDP in the second half of the year. Taking into account the expected decline in consumption, the overall year contraction for GDP should be higher than in H1, at around 2.5-3.0% according to our current expectations.

Market outlook

As previously announced, a government reshuffle took place on Thursday. Finance Minister Sebastian Vladescu lost his job during the move. While the government reshuffle is not cause for concern, developments on the political stage together with governmental policies remain the main risk factors for the exchange rate and interest rates in the period ahead.

Analyst: Nicolae Covrig (+40 21 306 1000)

Exchange rate focus

	actual	Dec-10	Mar-11	Jun-11
EUR/RON	4.26	4.30	4.40	4.30
Change from last week	-0.4%			
USD/RON	3.32	3.58	3.83	3.58
Change from last week	0.6%			

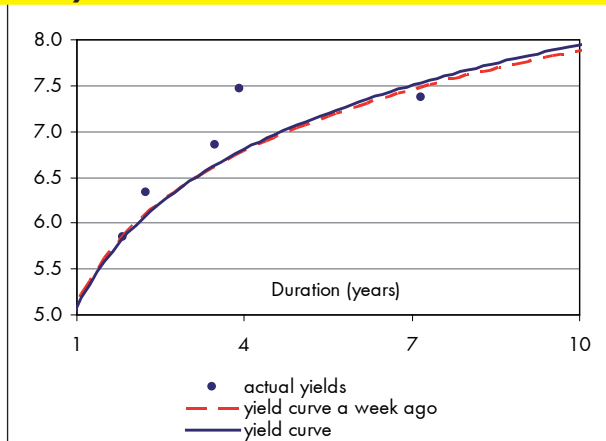
Russia

Drought brings inflation

(P)review of key economic figures/events

06 Sep 10	CPI, % mom	Aug 0.7 (Jul 0.4)
06 Sep 10	CPI, % yoy	Aug 6.3 (Jul 5.5)
09 Sep 10	Trade balance, USD bn	Jul 12.8 (Jun 12.5)

RUB yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

We recommend a neutral position now, but will accumulate roubles at levels above 34.80 vs. the basket. Our medium-term rouble outlook remains modestly bullish.

Market comment

In the last week of August, weekly inflation slowed from 0.2% to 0.1%. The August inflation report will be released on 6 September. We expect monthly inflation to reach 0.6%-0.7% mom. The inflation surge is likely to subside in September, after which monthly inflation will decline. However, annual inflation will climb higher to 7.0%-7.5% by the end of the year, owing to the lower statistical base effect and the August price shock. The price shock will last at least for about three to four months. Here, our opinion corresponds with the opinion of Russia's Central Bank which predicts 2010 inflation at 7% or slightly higher, while expecting the price shock to last for the next 3-6 months. In its statement, the Bank also mentioned that it feels comfortable about current level of rouble interest rates, meaning no rate change in the foreseeable future. The Bank said that its policy of intervening within the rouble's floating trading band had proven effective and that the era of easy carry-trade bets on the Russian currency was over. In the present environment, we tend to agree with the Central Bank. However the Bank must have a direct interest in rouble appreciation, which can partly mitigate the rising inflation.

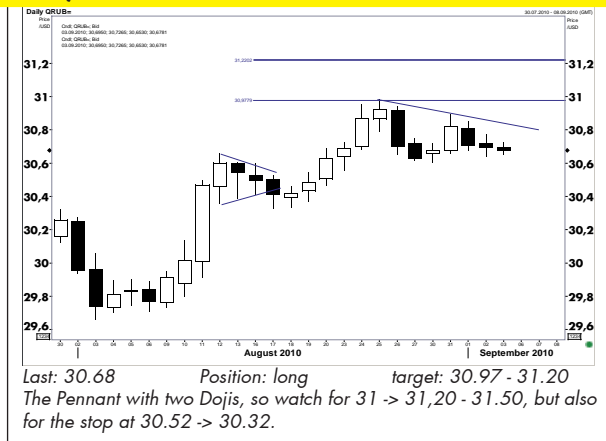
Money market focus

MM rates	1m	3m	6m	12m
Actual	4.05	4.66	5.42	6.65
Change from last week	-0.02	-0.04	-0.06	0.00
Forecast Mar-10	3.50	4.00	4.50	n.a.
Forward rates	1x2	3x6	6x9	9x12
	4.74	6.25	n.a.	n.a.
Change from last week	-0.06	0.06	n.a.	n.a.

Bond market focus

	1y	2y	5y	15y
Actual	4.27	5.86	6.79	7.38
Change from last week	-0.14	-0.01	-0.11	0.02
Forecast Mar-10	5.20	5.80	6.50	n.a.

USD/RUB



Source: Thomson Reuters, Raiffeisen RESEARCH

Market outlook

The Russian Finance Ministry sold just 16% of the OFZ treasury bonds on offer on Wednesday, despite offering a small market premium. Inflation fears and a subdued rouble exchange rate cramped investor demand. At the same time, Russia's government is mulling a Eurobond issue in roubles which could come late this year. If issued, it will become the first rouble sovereign Eurobond to be offered on the international markets.

Analyst: Gintaras Shlizhyus (+43 1 71707 1343)

Exchange rate focus

	actual	Sep-10	Dec-10	Mar-11
EUR/RUB	39.34	38.20	36.88	36.41
Change from last week	-0.5%			
USD/RUB	30.69	30.56	30.73	31.66
Change from last week	-0.2%			

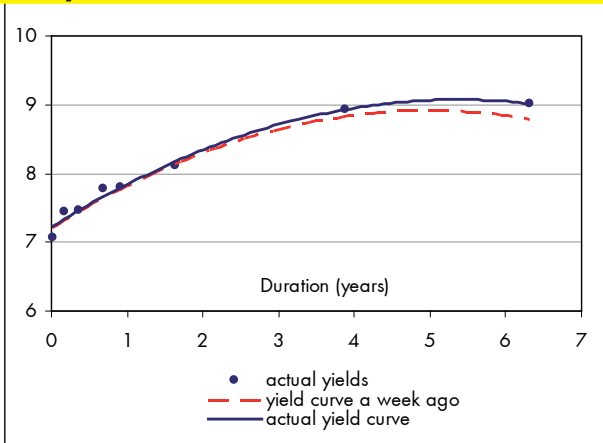
Turkey

PMI down again

(P)review of key economic figures/events

03 Sep 10	Consumer prices, % yoy	Aug 8.3 (Jul 7.6)	% mom: Aug 0.4 (Jul -0.5); end of deflationary phase
03 Sep 10	Producer prices, % yoy	Aug 9.0 (Jul 8.2)	% mom: Aug 1.2 (Jul -0.2)
07 Sep 10	Industrial output, % yoy	Jul n.a. (Jun 10.2)	

TRY yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

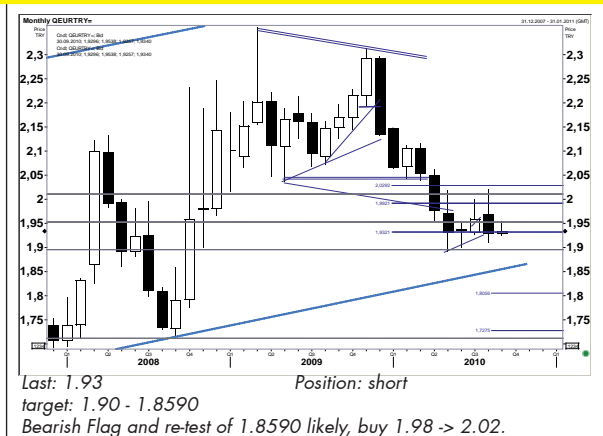
Money market focus

MM rates	1m	3m	6m	12m
Actual	7.00	7.25	7.80	8.15
Change from last week	0.00	-0.01	0.00	0.00
Forecast Dec-10	7.10	7.40	8.00	7.90
Implied forward rates	1x2	3x6	6x9	9x12
	7.16	8.20	8.37	7.82
Change from last week	0.00	0.01	0.00	0.00

Bond market focus

	1m	1y	2y	5y
Actual	7.07	7.80	8.11	8.93
Change from last week	-0.12	0.00	-0.03	0.06
Forecast Dec-10	n.a.	7.90	8.30	9.10

EUR/TRY



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral TRY T-bonds

Market comment

As in the last week, the rapid succession of local data continued to point to some deceleration in economic activity in H2. The manufacturing PMI for August sank another 1.5 points to 51.3 (the non-seasonally adjusted PMI declined even more – falling slightly below the 50-point line, which separates expansion from contraction). The output and new orders components were responsible for 80% of the slump, while the (lagging) employment component was relatively stable. New export orders decreased by 1.3 points. The PMI gives also a hint for future price developments: input prices, export prices and output price components all increased, indicating a possibility of higher inflation ahead.

Market outlook

We think that this third decline in a row for the PMI will be reflected in the industrial output series as well. Output may fall again, after the 2.1% decrease in June. However, the closely linked German IFO has performed strongly in the past two months, which gives us some hope for Turkish production as well. Reportedly, markets are in wait-and-see mode before the constitutional reform referendum on 12 September, and trading volumes are thin. Markets will welcome an AKP-positive result, while asset prices may slump in the opposite case. Besides this major event, changes in global risk sentiment could drive the TRY in a range of 1.50 to 1.55 to the dollar. Bond yields may remain around the current levels. Talk of a new easing cycle by the central bank (see latest comments on the key rate decision) may depress yields, but we do not expect a major shift in the short run.

Analyst: Andreas Schwabe (+43 1 71707 1389)

Exchange rate focus*

	actual	Dec-10	Mar-11	Jun-11
EUR/TRY	1.95	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	0.0%			

* 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	A	A-	stable	A2	A2	stable	A	A-	stable
Poland	A+	A	positive	A1	A1	stable	AA-	A+	positive
Czech	BBB-	BBB-	negative	Baa1	Baa1	negative	BBB+	BBB	negative
Hungary	A+	A+	stable	A1	A1	stable	A+	A+	stable
Slovakia *	AA	AA	stable	Aa2	Aa2	stable	AA	AA	stable
Slovenia *									
SEE	BBB	BBB	stable	Baa3	Baa3	positive	BBB	BBB-	negative
Bulgaria	BBB	BBB	negative	Baa3	Baa3	stable	BBB+	BBB-	negative
Croatia	BBB-	BB+	stable	Baa3	Baa3	stable	BBB-	BB+	stable
Romania	BB-	BB-	stable	nr	nr	-	BB-	BB-	negative
Serbia									
CIS	BB	B+	negative	B1	B1	stable	nr	nr	-
Belarus	BBB	BBB-	stable	Baa2	Baa2	stable	BBB	BBB-	stable
Kazakhstan	BBB+	BBB	stable	Baa1	Baa1	stable	BBB	BBB	stable
Russia	BB-	B+	stable	B2	B2	negative	B	B	stable
Ukraine	BB+	BB	positive	Ba2	Ba2	stable	BB+	BB+	stable
Turkey									

* 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
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	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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