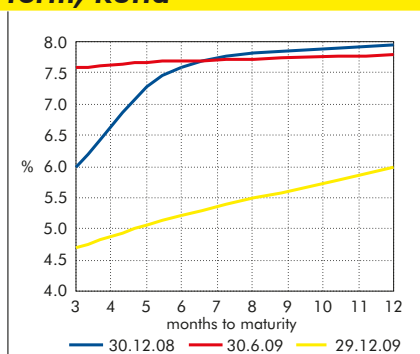


Raiffeisen Weekly Report

January 18th, 2010 • RBA Croatia Weekly Report no. 2/2010

High liquidity supports demand

Yield curve – short term, kuna



Sources: Ministry of Finance, CNB

Yield curve – bonds



Sources: Raiffeisen Research, Bloomberg

Last Week's Overview

Emerging market sentiment received a further boost of optimism. As a result, demand remained strong on local markets making pressures on yields. The strong demand for Polish local currency bonds came most likely from the Polish banking sector, which has a high level of excess liquidity. Especially, the short end of the yield curve could benefit further from this fact. Moreover, Polish yields seem to be still attractive and the risk assessment of Polish bonds is currently favorable for foreign investors. Relatively strong demand come back on the local market in Hungary, leading to further strengthening of HUF and the decreasing Hungarian government bond yields. On the other hand, not very successful bond auction in Czech Republic pushed the 10-year bond yield around 4.4%. Even this week on the domestic bond market we registered almost the same situation; moderately high demand for government bonds due to the good liquidity and low interest rates on the MM, rise of prices (pronounced at longer maturities) and further narrowing of spreads compared to benchmark German bonds.

This Week's Expectations

Continuation of market optimism and reduced risk aversion could support demand on CEE markets. Announcement of the Polish government to issue another Eurobond could create pressures on yields. Hungary is about to tap the international financial markets with a Eurobond issue – its roadshow will start next week. Central bank in Czech Republic could be “among the first” to start the rate hiking cycle. The domestic market is expected to continue a period of good liquidity and moderate demand for government bonds.

Government bonds in domestic market

Indexed to foreign currency (eur/hrk)	Coupon	Maturity date	Price*		Ytm		Change**		Spread BUND	Spread EUROWAP
			Bid	Ask	Bid	Ask	Price-Ask	Yield-Ask		
RHMF-O-125A	6.875	23.5.2012	104.30	105.30	4.90	4.46	0.65	-0.30	351	310
RHMF-O-142A	5.500	14.6.2014	101.30	102.30	5.16	4.91	1.00	-0.26	309	269
RHMF-O-157A	4.250	14.7.2015	95.50	97.50	5.20	4.77	1.50	-0.33	267	232
RHMF-O-19BA	5.375	29.11.2019	99.00	102.00	5.51	5.11	1.00	-0.13	222	202
Domestic currency										
RHMF-O-103A	6.750	8.3.2010	100.45	100.80	3.28	0.73	0.15	-1.38	-	-
RHMF-O-13CA	4.500	11.7.2013	95.45	96.45	5.97	5.64	0.55	-0.18	-	-
RHMF-O-15CA	5.250	15.12.2015	95.85	96.85	6.10	5.89	1.35	-0.28	-	-
RHMF-O-172A	4.750	8.2.2017	91.95	92.95	6.18	5.99	1.00	-0.18	-	-

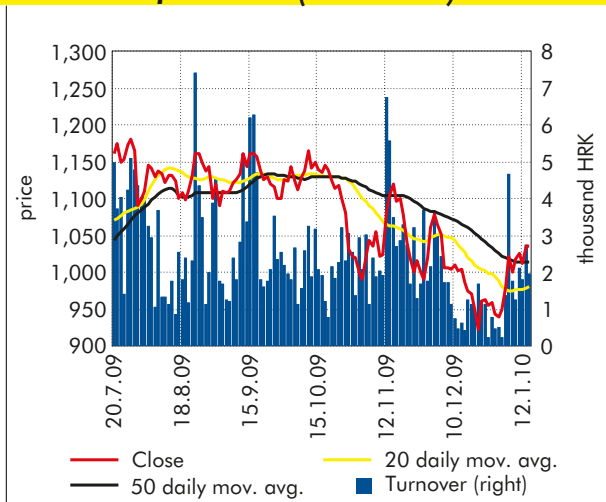
* Raiffeisen Research; ** in comparison with end of last week



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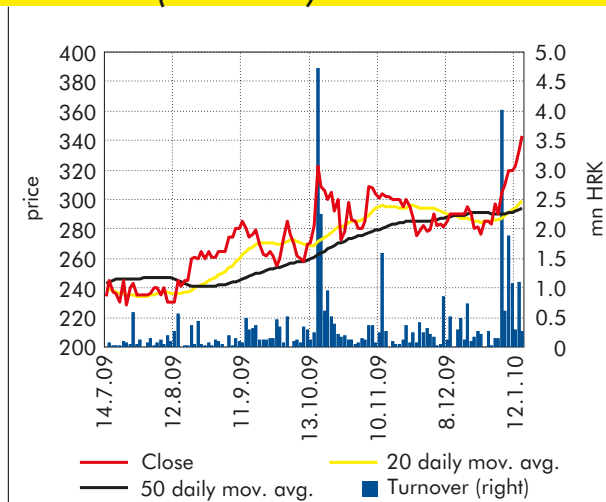
Government decided to tackle the crisis

Atlantska plovidba (6 months)



Sources: ZSE, Raiffeisen research

Podravka (6 months)



Sources: ZSE, Raiffeisen research

Trading in the week behind was again on low volumes and investors focused mainly on the most liquid issues. The sentiment continued to be positive throughout the week with the exception on Tuesday when global pessimism prevailed. Finally, CROBEX added 4% during the week closing at 2,158 points. The most important news in the week was the Government decision to help the companies to deal with crisis. Measures are related to financing the projects in cooperation with banks, HBOR and through establishment of the economic cooperation funds. Measures are designed, among others, to improve liquidity. Corporate representatives welcomed the measures but also expressed concern about deflation threat. Still, measures caused growth of domestic equity market on Friday.

Generally, there were only few announcements of domestic companies. **Magma** informed they became the wholesaler of Tomy, kids brand encompassing baby equipment, toys and social games for the whole SEE region. **Atlantska plovidba** signed the letter of intent with Jiangsu Eastern Heavy Industries Co. Ltd to build two ships type panamax of 79,800 tons dwt each. The ships delivery is set for September, 2012. Atlantska plovidba and the shipyard already have a history of cooperation on similar orders. **Podravka** continues to count losses from the Spice affair. The newly discovered damage of HRK 10 mn arising from the attempt of Podravka's ex managers to help SMS to repay its loan with Podravka's money, according to Novi list. Three imprisoned managers resigned on all positions in the company without taking the right to get hefty severance packages, which is positive for Podravka.

Market performance

Index	1 w %	ytd %	Value on 15.1.10
ATX (AT)	3.35	52.79	2,675
BELEX15 (RS)	3.70	21.79	688
BETI (RO)	3.04	80.36	5,232
BUX (HU)	1.48	84.00	22,525
CROBEX (HR)	4.02	39.15	2,158
PX (CZ)	2.45	38.15	1,186
RTSI (RU)	7.99	146.89	1,560
SBI20 (SI)	-0.78	12.03	4,140
SOFIX (BG)	1.16	21.52	436
SASX10 (BH)	-1.19	-15.63	1,041
NTX (SEE,CE,EE)	2.08	43.95	1,230
WIG20 (PL)	-0.19	36.10	2,435.81

Source: Bloomberg

Top/Flop – CROBEX index

Share	1 w %	Price on 15.1.10	Share	1 w %	Price on 15.1.10
Tehnika	20.93	1,820	HT	3.68	296
Viadukt	10.72	346	Dom holding	3.30	44
Viro TŠ	9.68	412	Atlantska plov.	3.20	1,050
Podravka	8.75	348	Luka Ploče	3.05	1,620
Ingra	7.16	43	Tankerska plov.	2.85	1,640
Đuro Đaković H.	6.94	37	Adris grupa (P)	2.65	271
Dalekovod	6.17	353	Jadroplov	2.58	184
Končar	5.55	470	IGH	2.39	2,830
Zagrebačka b.	4.02	270	Petrokemija	2.24	143
Ledo	3.96	6,602	INA	2.01	1,780
Ericsson NT	3.93	1,429	Atlantic Grupa	0.63	686
Uljanik plovidba	3.90	665	PBZ	-1.73	565

Source: ZSE, Raiffeisen research

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Abbreviations

GDP – Gross Domestic Product
 kn, HRK – Kuna
 EUR – Euro
 USD – Dollar
 DZS – Croatian Bureau of Statistics

HNB – Croatian National Bank
 ECB – European Central Bank
 FED – Federal Reserve System
 IMF – International Monetary Fund
 MoF – Ministry of Finance

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