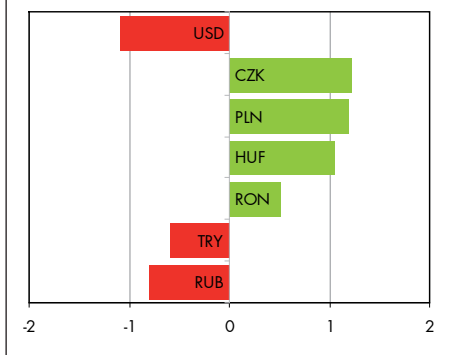


CEE Weekly Bond Markets Outlook

Issue 31/2010

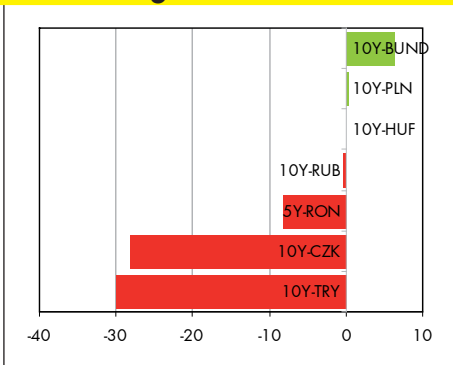
6 August 2010

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	3.99	4.00	3.85	3.85
1m-rate	3.4	3.6	3.8	4.0
5y bond	5.4	5.0	5.1	5.3
10y bond	5.8	5.5	5.7	5.9
Hungary				
HUF	281.1	275	275	285
1m-rate	5.3	5.0	5.0	4.8
5y bond	6.9	6.8	6.8	6.5
10y bond	7.0	7.0	7.0	6.8
Czech Rep.				
CZK	24.8	25.5	25.0	24.8
1m-rate	0.7	0.7	0.7	1.0
5y bond	2.8	3.0	3.4	3.5
10y bond	3.7	4.3	4.4	4.4
Russia				
RUB*	29.9	30.6	30.7	31.7
1m-rate	3.3	3.5	4.2	4.0
5y bond	6.7	6.5	6.8	7.0
10y bond	7.1	7.0	8.0	7.8
USD	1.32	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** – As long as market sentiment remains upbeat and growth continues to pick up, budget the measures, which still have to be published officially, will be sufficient to keep public debt below 55% of GDP, at least in 2011. We maintain our “Neutral” recommendation for Polish bonds for the time being.
- Hungary** – We believe that the focus will probably shift away from the IMF conflict in the coming week, which might help to calm things down. The market is undoubtedly pricing in a cycle of rate hikes by the NBH starting at the end of Q3, but we believe that expectations are exaggerated. That would mean that the short end of the HGB market is mispriced. We therefore recommend buying T-bills.
- Czech Republic** – As widely expected the Czech National Bank (CNB) left its key 2-week repo rate unchanged at 0.75% on its monetary policy board meeting this week. The CNB now expects stable interest rates until mid-2011.
- Romania** – The joint EC, IMF and WB mission concluded on Wednesday that the prerequisites for the third tranche from the European Commission amounting to EUR 1.2 bn have been fulfilled, since the fiscal consolidation measures discussed at the previous meeting in May–June have been implemented.

Key upcoming events and data releases

Country	Time	Indicator	Period	Forecast	Range	Last
09-Aug						
RO	n.a.	Industrial output, % yoy	Jun	n.a.	n.a.	4.1
RU	n.a.	Trade balance, USD bn	Jun	11.0		12.2
TR	09:00	Industrial output, % yoy	Jun	n.a.	10.0/10.9/12.2	15.6
10-Aug						
HR	n.a.	PPI, % mom	Jul	0.2	n.a.	0.4
HR	n.a.	PPI, % yoy	Jul	4.0	n.a.	4.4
11-Aug						
PL	14:00	C/A, EUR mn	Jun	-473.0	n.a.	-268
HU	09:00	CPI, % yoy	Jul	3.6	n.a.	5.3
CZ	10:00	C/A, CZK bn	Jun	-10.0	-25.0/-14.6/-1.9	-24.0
RO	n.a.	CPI, % yoy	Jul	n.a.	n.a.	4.4
TR	09:00	Current account, USD bn	Jun	n.a.	-3.2/-3.5/-3.6	3.0
13-Aug						
PL	14:00	M3 money supply, % yoy	Jul	8.1	n.a.	7.1
PL	14:00	CPI, % yoy	Jul	2.2	n.a.	2.3
CZ	09:00	Real GDP flash estimate, % yoy	Q2	2.5	n.a.	1.1
RU	n.a.	PPI, % mom	Jul	0.5	-2.0/0.3/3.7	-3.1



**Raiffeisen
RESEARCH**

RZB Group

- Croatia** – The negative trends in retail trade slowed down in June. According to the Central Bureau of Statistics' first release, retail trade turnover decreased by 1.5% yoy in real terms (1.7% yoy in nominal terms). The start of the main tourist season and seasonal employment have surely contributed to a slight improvement in retail trends compared to previous months.
- Russia** – Russian inflation came in at 0.4% mom in July, exactly in line with market expectations. However, a critical factor is about to change the inflation outlook. Extremely hot weather conditions have brought about a severe drought in the central regions of Russia and are having a strong impact on the prices of wheat and barley on both the Russian and international markets. We have revised our inflation forecast for 2010 accordingly from 6.5% to 8.0%.
- Turkey** – Uncertainty regarding the fiscal rule will not have a strong negative effect in the short-term, but has potential to unsettle investors later with the approach of mid-2011 parliamentary elections. Slightly higher yearly inflation rates in the next two months might drive up yields a bit. However, given the outlook of key rates "at current levels for some time" our yield outlook is neutral. The lira already reached our 3-month target of USD/TRY 1.50 for September; nevertheless we still see some potential for strengthening.

Short-term trading ideas*

Recommendation	Entry date	Entry level	Current level	Target	Stop	Carry (% p.a.)	Comments
Buy HGB T-bill 3m (ISIN: HU0000517677)	06/08/10	98.1	98.1	100.0	97.0	-	Market seems to have priced in rate hikes which we do not expect

*For LCY bond trading ideas the FX gains or losses are not taken into account. For FX trading ideas the carry is calculated as the differential between the 1 month money market rates of the respective markets.
Source: Thomson Reuters, Bloomberg

Recently closed trades

Recommendation	Entry date	Entry level	Close date	Close level	Total return	Comment
SELL USD/TRY (long TRY)	13/04/10	1.492	28/04/10	1.51	-0.93%	Stopped out
SELL BASKET/RUB (long RUB)	06/04/10	33.81	06/05/10	34.1	-0.86%	Stopped out
SELL EUR/PLN (long PLN)	10/05/10	4.023	11/05/10	4.05	-0.66%	Stopped out
SELL BASKET/RUB (long RUB)	10/05/10	34.1812	21/05/10	34.67	-1.43%	Stopped out
SELL EUR/RON (long RON)	14/06/10	4.23	25/06/10	4.27	-0.76%	Stopped out
SELL EUR/PLN (long PLN)	05/07/10	4.138	08/07/10	4.07	1.67%	Target Reached
SELL BASKET/RUB (long RUB)	06/07/10	34.7169	13/07/10	34.35	1.11%	Target Reached

Local currency bonds

Market overview

CEE local currency bond market snapshot

05/08/2010	Maturity	Coupon %	Ask price	YTM %	Spread to bunds (bp)	MDuration
Poland						
PLN 2y Gov. Bond	25/ Oct 12	0.00	90.30	4.72	398	2.2
PLN 5y Gov. Bond	25/ Apr 15	5.50	100.55	5.36	376	4.2
PLN 10y Gov. Bond	25/ Oct 20	5.25	95.97	5.78	318	7.8
PLN 20y Gov. Bond	25/ Apr 29	5.75	97.12	6.01	274	11.6
Hungary						
HUF 3y Gov. Bond	24/ Oct 13	7.50	101.89	6.81	579	2.8
HUF 5y Gov. Bond	12/ Feb 16	5.50	93.66	6.91	531	4.8
HUF 10y Gov. Bond	12/ Nov 20	7.50	103.23	7.04	444	7.2
HUF 15y Gov. Bond	24/ Nov 23	6.00	91.80	6.96	409	9.0
Czech Republic						
CZK 2y Gov. Bond	18/ Oct 12	3.55	104.20	1.58	84	2.1
CZK 5y Gov. Bond	1/ Sep 15	3.40	102.60	2.83	124	4.6
CZK 10y Gov. Bond	12/ Sep 20	3.75	100.60	3.68	108	8.3
CZK 15y Gov. Bond	25/ May 24	5.70	117.50	4.02	115	10.2
Croatia						
HRK 5y Gov. Bond	15/ Dec 15	5.25	98.26	5.63	404	4.7
HRK 10y Gov. Bond	5/ Mar 20	6.75	102.41	6.41	381	7.2
Romania						
RON 3y Gov. Bond	25/ Oct 12	11.25	109.44	6.50	548	1.9
RON 5y Gov. Bond	5/ Mar 14	11.00	113.85	6.50	491	3.1
Russia						
RUB 2y Gov. Bond	19/ Sep 12	10.80	110.31	5.66	492	1.9
RUB 5y Gov. Bond	17/ Dec 14	11.20	117.90	6.62	503	3.6
RUB 10y Gov. Bond	29/ Aug 18	8.00	100.40	7.05	445	4.0
RUB 30y Gov. Bond	6/ Feb 36	6.90	94.70	7.51	423	11.4
Turkey						
TRY 2y Gov. Bond	25/ Apr 12	0.00	87.05	8.39	765	1.7
TRY 5y Gov. Bond	17/ Jun 15	10.00	104.80	8.96	737	4.1
TRY 10y Gov. Bond	15/ Jan 20	10.50	110.40	9.04	644	6.2

Source: Thomson Thomson Reuters, Raiffeisen RESEARCH

Bond auctions

Bond auctions		ISIN	Coupon	Maturity	Volume
10-Aug					
TR	5y CPI linked bond (new)	n.a.	n.a.	05 Aug 2015	n.a.
12-Aug					
HU	3y T-bond	HU0000402193	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

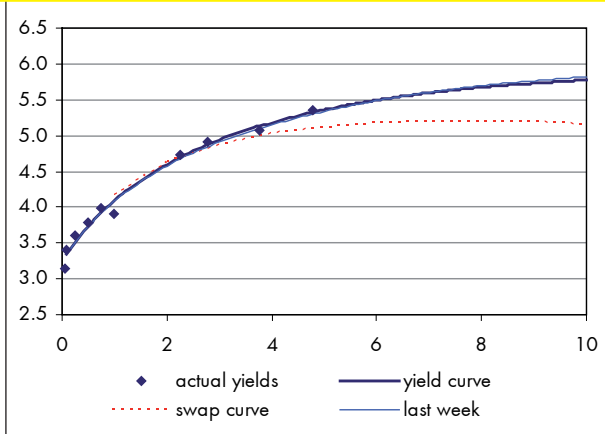
Poland

VAT hike instead of structural reforms

(P)review of key economic figures/events

11 Aug 10	Current account balance, EUR mn	Jun -473 (May -268)
13 Aug 10	M3 money supply, % yoy	Jul 8.1 (Jun 7.1)
13 Aug 10	CPI, % yoy	Jul 2.2 (Jun 2.3)

PL yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

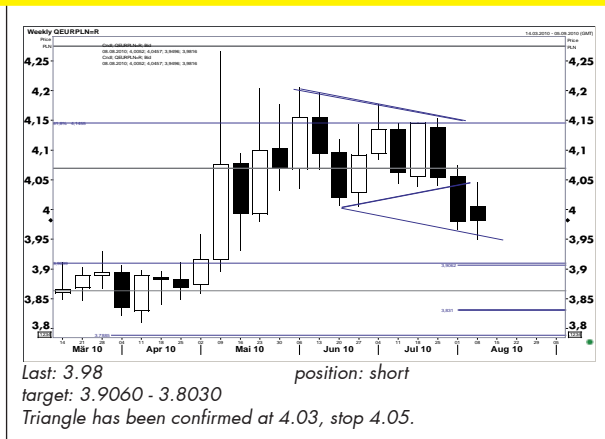
Money market focus

MM rates	1m	3m	6m	12m
Actual	3.40	3.61	3.79	4.03
Change from last week	0.00	-0.01	0.00	-0.01
Forecast Sep-10	3.60	3.80	3.89	3.90
Forward rates	3x6	6x9	9x12	
Change from last week	0.01	0.00	-0.04	

Bond market focus

	2y	5y	10y	20y
Actual	4.72	5.36	5.78	6.01
Change from last week	0.08	0.03	-0.05	-0.04
Forecast Sep-10	4.40	4.95	5.50	5.60
Spread to bunds	398.3	375.9	317.9	274.2
Change from last week	10.6	11.7	-5.0	8.2
Spread to swaps				

EUR/PLN



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral PLN T-bonds

Market comment

The Polish government will increase VAT by 1 percentage point for three years beginning in 2011. This has been confirmed following a slew of information published by Reuters about the financial plan for 2010 to 2013. According to reports, the 2011 budget deficit is planned at PLN 45 bn. The public sector deficit is expected to reach 5% of GDP, with public debt still remaining below the 55% threshold. Privatisation proceeds worth PLN 55 bn for 2010 to 2013 are also envisaged and should prevent public debt from surpassing the second safety level. In addition, there are plans to introduce the expenditure rule that has already been announced.

Market outlook

The financial plan has not been published officially yet, and there is still no timeline available for the upcoming steps. No details have been made available regarding other items on the expenditure side of the budget balance. Given the information at hand, the government is not planning any significant reforms. Instead, it hopes for strong growth to act as the main factor contributing to a decline in the public sector deficit combined with a few minor, temporary measures. Additionally, we believe that the lack of serious cutbacks in government spending will lead to another VAT hike, most likely next year. In summary, we are not surprised that there are no serious reform steps planned for the coming years, since there is not much incentive for reform, with strong economic growth expected and parliamentary elections coming up next year. As long as market sentiment remains upbeat and growth continues to pick up, such measures will be sufficient. We maintain our "Neutral" recommendation for Polish bonds for the time being.

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

Exchange rate focus

	actual	Sep-10	Dec-10	Mar-11
EUR/PLN	3.99	4.00	3.85	3.85
Change from last week	2.9%			
USD/PLN	3.03	3.20	3.21	3.35
Change from last week	1.2%			

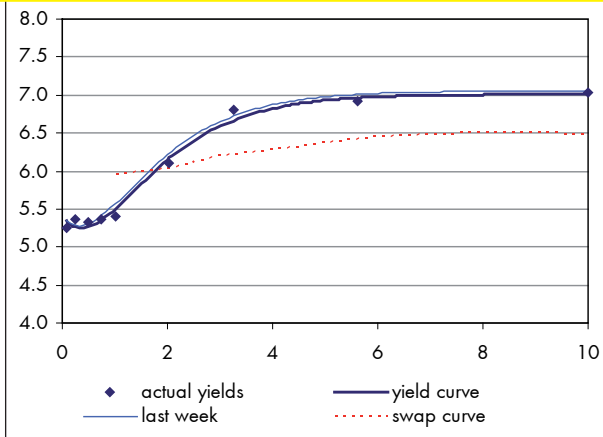
Hungary

Focus shifting from IMF conflict

(P)review of key economic figures/events

05 Aug 10	Industrial output, % yoy	Jun 12.6 (May 13.7)
06 Aug 10	Trade balance, EUR mn	Jun 567 (May 524)
11 Aug 10	CPI, % yoy	Jul 3.6 (Jun 5.3)

HUF yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Buy 3m HUF T-bills

Market comment

As anticipated, as soon as the Hungarian newsflow dried up, investors calmed down. Yields on the HGB market sank by around 5–10 basis points this week and auctions surprised observers with buoyant demand once again. The Hungarian government surpassed the planned issue amount by HUF 5 billion at Tuesday's 3-month T-bill auction, with the debt agency using the relatively optimistic environment to boost issue volume (over the last two weeks, issues have surpassed plans by a total of HUF 12.5 billion). EUR/HUF withdrew support at 280, with the forint appreciating by as much as 2% over the past couple of days.

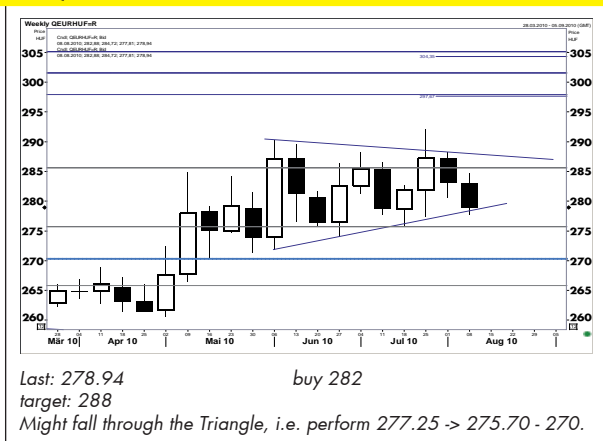
Money market focus

MM rates	1m	3m	6m	12m
Actual	5.26	5.33	5.36	5.49
Change from last week	0.01	0.01	0.00	0.02
Forecast Sep-10	5.0	5.0	5.0	4.9

Bond market focus

	3y	5y	10y	15y
Actual	6.81	6.91	7.04	6.96
Change from last week	-0.04	-0.10	-0.03	-0.02
Forecast Sep-10	6.3	6.8	7.0	7.0
Spread to bunds	578.7	531.1	443.9	408.6
Change from last week	2.8	-1.2	5.8	44.9

EUR/HUF



Source: Thomson Reuters, Raiffeisen RESEARCH

Market outlook

International market sentiment is clearly supportive these days. Nevertheless, columnists are still giving increased coverage to Hungary in the major international business papers (WSJ, NYT, etc.), and most of them are taking a negative tone, pointing out that politics are on shakier ground than before. We believe that the focus will probably shift away from the IMF conflict in the coming week, which might help to calm things down.

The market is undoubtedly pricing in a cycle of rate hikes by the NBH starting at the end of Q3, but we believe that expectations are exaggerated. Even if market sentiment turns, we anticipate that the NBH will remain on the sidelines until the negotiations are settled with the international agencies and next year's budget deficit target is unveiled. That would mean that the short end of the HGB market is mispriced. We therefore recommend buying T-bills. Our forecast remains unchanged for September (EUR/HUF 275).

Analysts: Adam Keszeg (+36 148 44343)

Wolfgang Ernst (+43 1 717 07 1500)

Exchange rate focus

	actual	Sep-10	Dec-10	Mar-11
EUR/HUF	281.05	275.0	275.0	285.0
Change from last week	0.9%			
USD/HUF	213.48	220.0	229.2	247.8
Change from last week	1.6%			

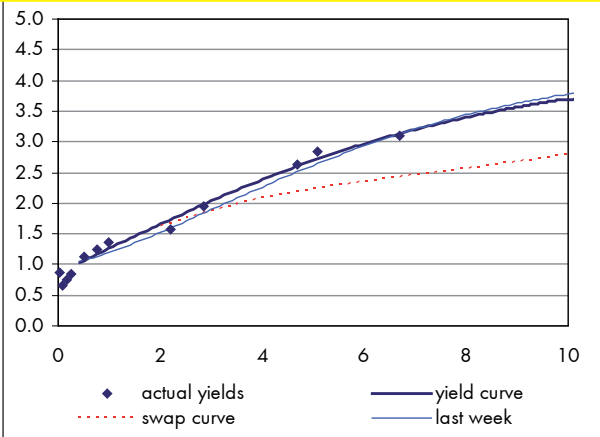
Czech Republic

CNB stays put – hints at stability

(P)review of key economic figures/events

05 Aug 10	CNB monetary policy board meeting		No change of key rate (0.75%) as generally expected
09 Aug 10	CPI, % yoy	Jul 1.9 (May 1.2)	
09 Aug 10	Unemployment rate, %	Jul 8.7 (May 8.5)	

CZK yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

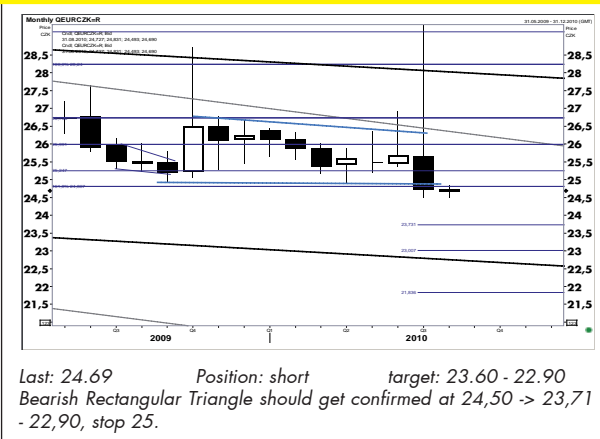
Money market focus

MM rates	1m	3m	6m	12m
Actual	0.66	0.85	1.12	1.36
Change from last week	0.00	0.00	-0.01	0.00
Forecast Sep-10	0.7	0.8	1.0	1.4
Forward rates	1x2	3x6	6x9	9x12
	0.84	1.39	1.51	1.68
Change from last week	0.02	-0.02	0.05	-0.03

Bond market focus

	2y	5y	10y	15y
Actual	1.58	2.83	3.68	4.02
Change from last week	-0.01	0.24	-0.08	-0.07
Forecast Sep-10	2.0	3.0	4.3	4.5
Spread to bunds	84.1	124.0	107.6	114.7
Change from last week	4.6	33.2	0.4	40.3
Spread to swaps	13.8	-52.3	-74.8	n.a.

EUR/CZK



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral CZK T-bonds

Market comment

As widely expected the Czech National Bank (CNB) left its key 2-week repo rate unchanged at 0.75% on its monetary policy board meeting this week. According to its official statement it now sees the risks to inflation on the downside. The key factors for its mid-term forecast are the appreciation of the Czech koruna (CZK), the expected fiscal consolidation and, on the other hand, higher commodity prices. Some market participants had expected the CNB to say stronger words about the recent fast CZK appreciation. However, CNB governor Miroslav Singer was rather prosaic, noting that the CZK is not dramatically far from its trend, but a faster appreciation at this pace could change the inflation outlook. The CNB now expects stable interest rates until mid-2011.

Market outlook

The Czech Republic once again solidified its position as a safe haven in the CEE region with the ambitious fiscal consolidation plans of the new government. If the coalition delivers on its promises, then there will be a real possibility for a rating upgrade of the Czech Republic. These are positive factors that together with the improving global market sentiment pushed bond yields lower. Nevertheless, there are two to three factors that could turn the current trend around. First, the global market sentiment can change quickly as the fiscal problems in many countries are far from solved. Second, the volume of the new debt issuance will increase significantly. Third, the so far good cooperation within the coalition could eventually turn sour. The current positive environment suggests that the Ministry of Finance should not wait with issuing the foreign bond too long.

Analysts: Michal Brozka (+420 221 141 498)

Walter Demel (+43 1 717 07 1526)

Exchange rate focus

	actual	Sep-10	Dec-10	Mar-11
EUR/CZK	24.74	25.5	25.0	24.8
Change from last week	0.1%			
USD/CZK	18.72	20.4	20.8	21.6
Change from last week	1.1%			

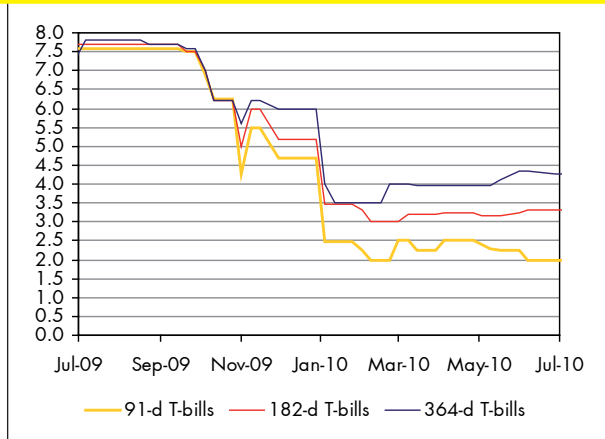
Croatia

Negative trends in retail slow down

(P)review of key economic figures/events

10 Aug 10	PPI, % mom	Jul 0.2 (Jun 0.4)
10 Aug 10	PPI, % yoy	Jul 4.0 (Jun 4.4)

Interest rates on T-bills



Source: Thomson Reuters, Raiffeisen RESEARCH

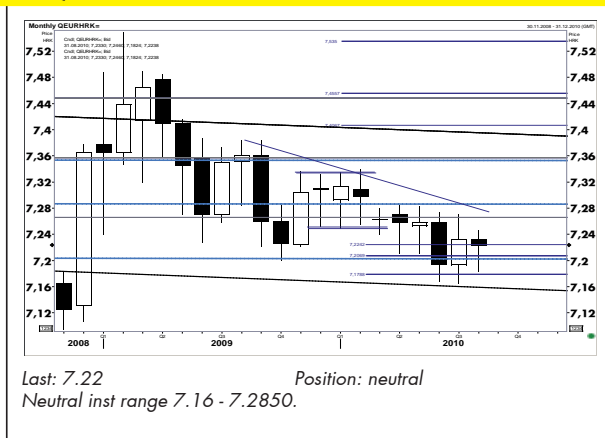
Money market focus

	1m	3m	6m	12m
ZIBOR actual	2.21	2.55	3.36	4.12
Change from last week	0.22	0.05	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	7.232	7.29	7.32	7.30
Change from last week	-0.1%			
USD/HRK	5.48	5.83	6.10	6.35
Change from last week	-1.7%			

EUR/HRK



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral EUR/HRK

Market comment

The negative trends in retail trade slowed down in June. According to the Central Bureau of Statistics' first release, retail trade turnover decreased by 1.5% yoy in real terms (1.7% yoy in nominal terms). The reported decline, which is the smallest since September 2008, is mostly the result of the base effect (in light of the 15.2% real annual fall in June 2009) rather than an increase in available income and growing optimism among consumers. However, the start of the main tourist season and seasonal employment have surely contributed to a slight improvement in retail trends compared to previous months. We expect retail trade to recover in H2 2010, but with only modest growth rates. Although the stabilisation measures adopted by the government will trigger the recovery of the domestic economy, they are expected to have a delayed impact. In light of all this, we expect the decline in retail trade to exceed 2.5% for the year as a whole.

Compared to May, goods exports declined by 16.6%, while goods imports recorded an increase of 1%. After a pause in the negative yoy trend in May, goods imports declined again in June (-2.5% yoy), reflecting the fact that domestic demand remains sluggish. As expected, goods exports continued their positive trend, posting an increase of 19.8% yoy amidst the ongoing recovery of foreign demand. The rise in exports accompanied by the fall in imports resulted in a further decline of the trade deficit to 19.5% yoy (annual decline for the twentieth consecutive month). For the remainder of the year, we expect domestic demand to start to recover, but the larger increase in exports compared to imports will be what brings about a positive change in the balance of payments.

Market outlook

In the week ahead, we expect trading to occur at levels around EUR/HRK 7.22. With the main tourist season coming to an end, we predict that depreciation pressures on the kuna will intensify in mom terms.

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

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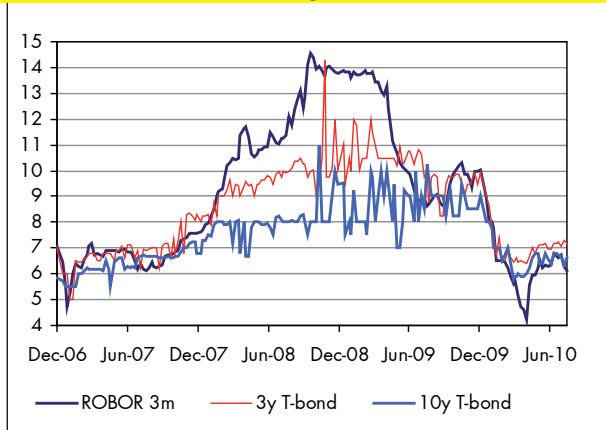
Romania

Third tranche from EC concluded

(P)review of key economic figures/events

04 Aug 10	Monetary policy interest rate, %	Aug 6.25 (Jul 6.25)
09 Aug 10	Industrial output, % yoy	Jun n.a. (May 4.1)
11 Aug 10	CPI, % yoy	Jul n.a. (Jun 4.4)

ROBOR 3m & T-bond yields (%)



Source: Thomson Reuters, Raiffeisen RESEARCH

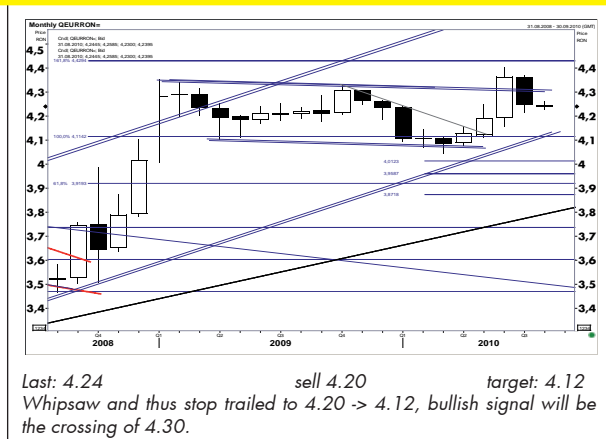
Money market focus

MM rates	1m	3m	6m	12m
Actual	5.19	6.12	6.45	6.46
Change from last week	-0.31	-0.16	-0.07	-0.07
Forecast Sep-10	7.0	7.1	7.4	7.4
Implicit forward rates	3x6	6x9	9x12	
	6.85	6.43	6.31	
Change from last week	0.02	-0.04	-0.10	

Bond market focus

	2y	3y	5y	10y
Actual	6.50	7.20	7.25	6.65
Change from last week	-0.39	-0.10	-0.11	0.30
Forecast Sep-10	7.70	7.90	7.90	7.40
Spread to bunds	576.0	617.6	565.4	404.9
Change from last week	-37.2	-4.1	29.9	37.1

EUR/RON



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral RON T-bonds

Market comment

The joint EC, IMF and WB mission concluded on Wednesday that the prerequisites for the third tranche from the European Commission amounting to EUR 1.2 bn have been fulfilled, since the fiscal consolidation measures discussed at the previous meeting in May-June have been implemented. According to the outcome of the mission, the measures implemented so far by the government, as well as those remaining to be enforced in the second half of 2010, seem to be sufficient to bring the budget deficit within the agreed targets. The National Bank of Romania left its main interest rate unchanged at 6.25% on Wednesday. The central bank expects inflation to re-enter a downward trend as a result of persistent weak demand. The central bank estimates year-end inflation at 7.8% for 2010 and anticipates a decrease in inflation towards the 3% target in 2011. However, the outcome on inflation depends largely on the magnitude of the second-round effects.

Market outlook

The mission's outcome should have a positive impact on the market, easing the upward pressure on yields. RON liquidity increased on the money markets last week, driving down average interest rates. The Ministry of Finance continued to reject yields above 7% on Monday, as it sold RON 475 mn in one-year treasury bills – less than the planned RON 800 mn – with an average accepted yield of 7%. In addition, the Ministry of Finance plans to establish a Euro Medium Term Note Programme with an indicative amount of EUR 7 bn, starting in 2010 and offering maturities of up to five years on the foreign exchange markets. In this context, yields will most likely remain stable over the short term.

Analyst: Romulus Mircea (+40 21 306 1672)

Exchange rate focus

	actual	Sep-10	Dec-10	Mar-11
EUR/RON	4.25	4.40	4.30	4.40
Change from last week	0.0%			
USD/RON	3.22	3.52	3.58	3.83
Change from last week	0.9%			

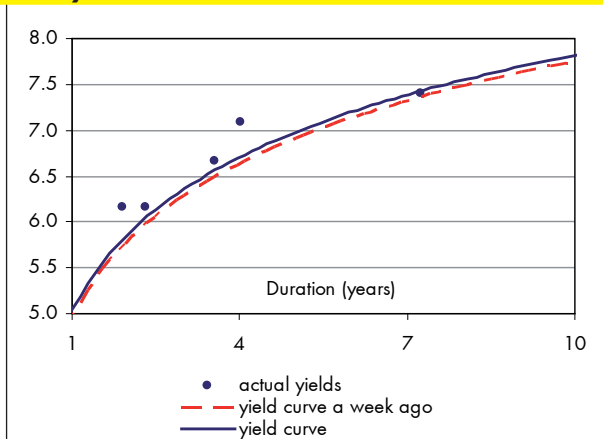
Russia

Severe drought worsens inflation outlook

(P)review of key economic figures/events

09 Aug 10	Trade balance, USD bn	Jun 11.0 (May 12.2)
13 Aug 10	PPI, % mom	Jul 0.5 (Jun -3.1)

RUB yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Money market focus

MM rates	1m	3m	6m	12m
Actual	4.08	4.72	5.39	6.65
Change from last week	0.06	0.02	-0.03	-0.17
Forecast Mar-10	3.50	4.00	4.50	n.a.
Forward rates	1x2	3x6	6x9	9x12
	4.81	6.13	n.a.	n.a.
Change from last week	-0.03	-0.32	n.a.	n.a.

Bond market focus

	1y	2y	5y	15y
Actual	4.34	6.17	6.67	7.40
Change from last week	-0.09	0.45	0.03	0.03
Forecast Mar-10	5.20	5.80	6.50	n.a.

USD/RUB



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

The rouble experienced mild appreciation vs. the dual currency basket, rising from 34.25 to 34.13 this week. This appreciation comes on the heels of higher oil prices. We are still maintaining a Neutral outlook on the rouble but might revise this to "Buy" in the coming weeks.

Market comment

Russian inflation came in at 0.4% mom in July, exactly in line with market expectations. Food price inflation was lower, at 0.3% mom vs. 0.5% a month ago, while service prices rose slightly from 0.4% in June to 0.6% in July. However, a critical factor is about to change the inflation outlook. Extremely hot weather conditions have brought about a severe drought in the central regions of Russia and are having a strong impact on the prices of wheat and barley on both the Russian and international markets. The central regions are the main suppliers of wheat and grains to the rest of Russia and also for export. Russian retailers have already reported that food suppliers are currently demanding 15–20% more money for new supplies, while wheat and grain prices have already gone up some 50–80%. In this extreme situation, the Russian government has had to resort to drastic measures, including a ban on wheat exports abroad. The ban also affects existing contracts. Altogether, 25 regions in Russia are affected by drought and wildfires. In this situation, we believe that the severe drought, which may turn out to be the worst since the 1930s, will push inflation up. Current estimates put the inflation increase at 1.5–2.0% for this year, which may cause full-year CPI inflation to rise to 7.5–8.0%. A spike in food inflation is most likely to occur in September or October. Food accounts for 38% of Russia's CPI basket. We have revised our inflation forecast for 2010 accordingly from 6.5% to 8.0%, while upgrading our 2011 forecast from 7.5% to 7.0% to reflect the possible impact of the high base effect from 2010.

Analyst: Gintaras Shlizhyus (+43 1 71707 1343)

Exchange rate focus

	actual	Sep-10	Dec-10	Mar-11
EUR/RUB	39.35	38.20	36.88	36.41
Change from last week	0.3%			
USD/RUB	29.82	30.56	30.73	31.66
Change from last week	1.1%			

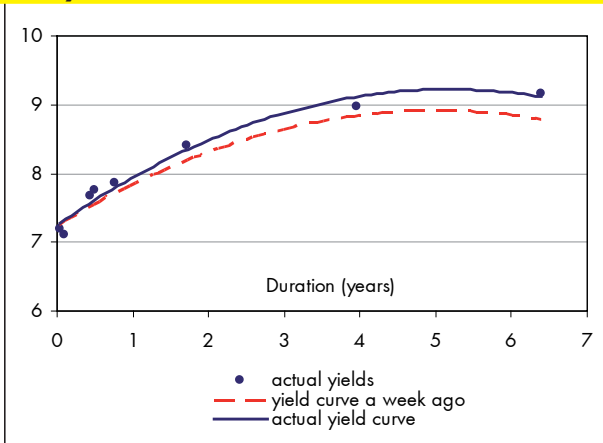
Turkey

Fiscal rule – but when?

(P)review of key economic figures/events

03 Aug 10	Consumer prices, % yoy	Jul 7.6 (Jun 8.4)	mom: Jul -0.5 (Jun -0.6), third month of deflation! leading indicators point to turnaround of index (s.adj)
09 Aug 10	Industrial output, % yoy	Jun 10.5 (May 15.6)	
11 Aug 10	Current account, USD bn	Jun -3.5 (May -3.0)	

TRY yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral TRY T-bonds

Market comment

This week the strong rally of Turkish assets which we observed throughout July came to a halt. The lira now hovers around USD/TRY 1.50, while the yield on the 2y benchmark government bond bounced back to 8.40 and the ISE100 equity index retreated. Most importantly, the schedule for the introduction of the fiscal rule (which should restrict the fiscal deficit and public debt levels in coming years) became again a issue. Finance Minister Mehmet Simsek's statement that he cannot give an exact date for adopting the rule by the parliament was negatively received by investors. However, given good budget performance in H1 2010, the minister reassured markets, that targets will be met in this year. In another story, the publication of the inflation report of the central bank did not surprise, so there was not much of a market reaction. As expected, given favourable inflation developments in Q2, the first rate hike was shifted to 2011 (albeit the timing in 2011 remains quite vague).

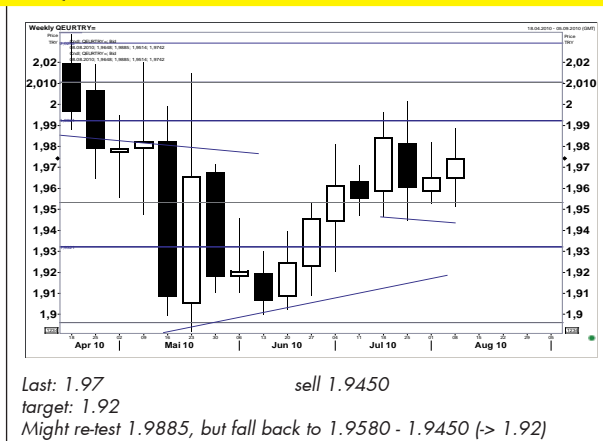
Money market focus

MM rates	1m	3m	6m	12m
Actual	7.00	7.30	7.90	8.30
Change from last week	0.00	0.00	0.00	-0.10
Forecast Sep-10	7.10	7.40	8.00	8.00
Implied forward rates	1x2	3x6	6x9	9x12
	7.26	8.35	8.32	8.25
Change from last week	0.00	0.00	-0.27	-0.11

Bond market focus

	1m	1y	2y	5y
Actual	7.12	7.87	8.41	8.93
Change from last week	0.00	0.10	0.20	0.21
Forecast Sep-10	n.a.	8.00	8.50	9.00

EUR/TRY



Source: Thomson Reuters, Raiffeisen RESEARCH

Market outlook

We think that the uncertainty regarding the fiscal rule will not have a strong negative effect in the short-term, but has potential to unsettle investors later with the approach of mid-2011 parliamentary elections. Slightly higher yearly inflation rates in the next two month (followed by some stabilisation/decline in Q4) might drive up yields a bit. However, given the outlook of key rates "at current levels for some time" our yield outlook is neutral. The lira already reached our 3-month target of USD/TRY 1.50 for September; nevertheless we still see some potential for strengthening.

Analyst: Andreas Schwabe (+43 1 71707 1389)

Exchange rate focus

	actual	Sep-10	Dec-10	Mar-11
EUR/TRY	1.97	1.88	1.80	1.67
Change from last week	0.3%			
USD/TRY	1.50	1.50	1.50	1.45
Change from last week	-1.5%			

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	stable	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	Unemployment, %	Nominal wages, EUR	Fiscal balance, % GDP	Public debt, % GDP	Export*, % GDP	C/A, % GDP	Ext. debt, % GDP	FXR** % ext. debt	Import cover, months
Poland	2009	1.8	3.5	11.0	721	-7.1	50.9	32.7	-1.6	59.3	28.5	6.4
	2010	3.0	2.5	11.9	806	-6.9	53.7	30.6	-2.4	50.1	34.7	7.2
	2011	3.2	2.3	10.6	871	-5.3	52.8	29.1	-3.2	48.0	31.6	6.8
Hungary	2009	-6.3	4.2	10.3	713	-4.0	78.3	63.8	0.2	111.0	29.0	6.5
	2010	1.0	4.5	11.7	754	-4.1	77.7	68.5	0.0	107.6	27.9	5.7
	2011	2.5	3.0	10.5	783	-4.4	77.7	70.8	-2.3	109.0	26.4	5.2
Czech Rep.	2009	-4.0	1.0	8.1	892	-5.9	35.4	57.8	-1.0	43.8	48.1	4.8
	2010	1.0	1.7	9.0	945	-5.4	39.4	61.9	0.0	44.4	49.6	4.6
	2011	2.0	2.4	9.2	1020	-4.7	42.0	64.0	-0.5	44.0	50.4	4.5
Romania	2009	-7.1	5.6	6.3	446	-8.3	23.7	25.0	-4.5	69.2	35.3	9.5
	2010	-3.0	6.3	8.8	451	-8.0	31.5	29.5	-5.2	75.8	34.1	8.7
	2011	2.0	6.9	8.8	484	-6.0	35.5	31.7	-5.9	77.7	29.5	7.1
Croatia	2009	-5.8	2.4	14.9	1051	-4.3	50.4	16.9	-5.2	98.3	23.3	8.3
	2010	-1.0	1.8	17.5	1063	-4.4	53.6	17.0	-5.5	102.9	22.7	8.6
	2011	2.0	3.5	16.5	1092	-3.6	53.7	17.9	-5.0	102.3	23.0	8.5
Russia	2009	-7.9	11.8	8.4	425	-6.2	8.3	24.7	4.0	38.8	84.1	24.7
	2010	4.0	6.1	7.9	561	-5.0	8.8	27.0	6.0	35.4	90.8	23.5
	2011	3.5	6.1	7.4	668	-3.0	8.6	28.0	5.0	36.0	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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