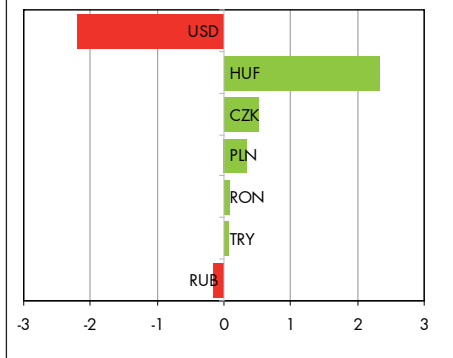


CEE Weekly Bond Markets Outlook

Issue 39/2010

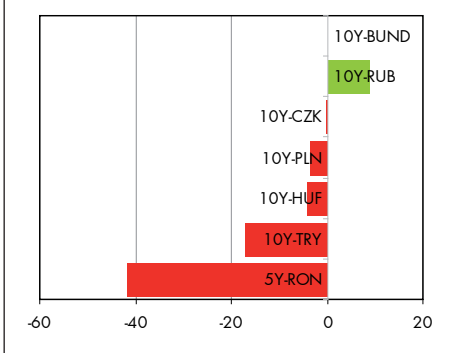
8 October 2010

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	5.0	5.2	5.4	5.6
10y bond	5.4	5.8	6.0	6.1
Hungary				
HUF	272.3	290	285	280
1m-rate	5.3	5.3	5.3	4.8
5y bond	6.4	7.4	6.9	6.4
10y bond	6.6	7.5	7.0	6.5
Czech Rep.				
CZK	24.5	25.0	25.2	25.0
1m-rate	0.7	0.7	0.7	0.7
5y bond	2.6	2.6	2.7	2.8
10y bond	3.3	3.4	3.5	3.6
Russia				
RUB*	29.6	29.3	30.2	30.4
1m-rate	3.2	3.5	4.2	4.0
5y bond	6.8	7.5	7.7	7.7
10y bond	7.5	8.0	8.2	8.2
USD	1.39	1.40	1.35	1.30

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

Recommendations

For detailed recommendations please see page 2.

Highlights

- Poland** – We think that the risk of downward drift in leading indicators in the USA will eventually have a negative impact on PLN and bond yields. In addition to that, consumer sentiment in Poland has been worsening in the last two months. We still do not see any catalysts for considerable upward movements in bond prices and leave our “Sell” recommendation unchanged.
- Hungary** – The Hungarian government started next year’s fiscal planning after the widely anticipated win in the municipal elections. According to a local newspaper, the main structure of the package is accepted with some PIT-easing accounting for HUF 400 bn, while on the other hand new extra taxes will be introduced on the energy and telecom sectors.
- Czech Republic** – Czech domestic data confirmed the relatively good condition of the Czech economy. Industrial output rose almost 13% yoy in August, driven by foreign orders, which also show a good chance for solid results in the near future. Industrial growth mirrors the growth in exports. On the other hand, strong imports from non-EU countries have been driving the foreign trade balance down. Growth in imports has out-paced export growth for six months in a row.

Key upcoming events and data releases

Country	Time	Indicator	Period	Forecast	Range	Last
11-Oct						
CZ	09:00	CPI, % yoy	Sep	2.0	1.7/1.9/2.0	1.9
RO	n.a.	CPI, % yoy	Sep	7.6	n.a.	7.6
RO	n.a.	Trade balance, EUR mn	Sep	n.a.	n.a.	450.0
HR	n.a.	PPI, % mom	Sep	0.1	n.a.	0.3
HR	n.a.	PPI, % yoy	Sep	4.1	n.a.	3.3
TR	09:00	Current account, USD bn	Aug	-2.6	-2.7/-2.4/-2.1	-3.4
12-Oct						
PL	14:00	Current account, EUR bn	Aug	-1.22	n.a.	-1.54
HU	09:00	CPI, % yoy	Sep	3.7	3.7/3.9/4.2	3.7
13-Oct						
PL	14:00	CPI, % yoy	Sep	2.1	n.a.	2.0
CZ	10:00	Current account, CZK bn	Aug	-4.5	-4.5/-12.4/-20	-32.5
14-Oct						
HU	09:00	Industrial output, % yoy	Aug	17.6	n.a.	11.5
TR	18:00	CBT repo rate, %	Oct	7.0	7.0/7.0/7.0	7.0
15-Oct						
HR	n.a.	CPI, % mom	Sep	0.2	n.a.	-0.2
HR	n.a.	CPI, % yoy	Sep	1.3	n.a.	0.9



**Raiffeisen
RESEARCH**

R Z B Group

- **Romania** – In August, industrial output was almost flat (+0.1% mom) after falling by 1% mom in July. As a result, the quarterly growth rate of industrial output in Q3 should be substantially lower than in Q2 (+3.7% qoq), which means also a lower contribution to total GDP. Construction output fell 1.3% mom in August, after plunging 27.6% mom in July. Accordingly, we think that real GDP contracted by around 1.5% qoq in Q3, but a better figure cannot be ruled out in the event of good agricultural output.
- **Croatia** – The C/A deficit fell to EUR 277.3 mn, which is historically the lowest deficit ever recorded in Q2. Compared to Q2 2009, the deficit fell 68.4%, primarily as a result of the better

position on the goods account, which usually contributes negatively to the C/A balance. The C/A deficit fell to 3.1% of GDP, compared to 5.4% at the end of 2009. In Q3, we expect a surplus on the C/A, which is usual for the Q3 amidst increased income from tourism during the main tourist season.

- **Turkey** – In the short term, we might see some profit taking after the good performance of recent days. However, above consensus employment data in the US could prolong the benign sentiment for risky assets. Also, we think that the Euro can still gain in coming weeks, which we see positive for the lira to the USD (but negative towards the Euro). In a 3-month perspective a declining inflation rate could further boost bond prices.

Short-term trading ideas: FX

Recommendation	Entry date	Entry level	Current level	Target	Stop	Carry (ann. %)	Comments
Buy EUR/PLN	20/08/2010	3.965	3.9843	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 Polish T-bond 10y (ISIN: PLO000106126)	20.08.2010	98.6	98.45	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/CZK	20/08/10	24.87	03/09/10	24.6	-1.10%	Stopped out
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
SELL BASKET/RUB (long RUB)	06/07/10	34.7169	13/07/10	34.35	1.11%	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
Sell Hungarian T-bond 10y (ISIN: HU0000402037)	20/08/10	100.5	10/09/10	97.3	3.2%	Expected rise in global risk aversion



Local currency bonds

Market overview

CEE local currency bond market snapshot

08/10/2010	Maturity	Coupon %	Ask Price	YTM %	Spread to Bunds; bp	MDur.
Poland						
PLN 2y Gov. Bond	25/ Oct 12	0.00	91.28	4.58	380	2.0
PLN 5y Gov. Bond	25/ Apr 15	5.50	101.90	5.01	357	4.1
PLN 10y Gov. Bond	25/ Oct 20	5.25	98.55	5.44	318	7.7
PLN 20y Gov. Bond	25/ Apr 29	5.75	101.73	5.59	269	11.6
Hungary						
HUF 3y Gov. Bond	12/ Feb 14	5.50	97.71	6.27	533	3.0
HUF 5y Gov. Bond	12/ Feb 16	5.50	96.04	6.39	494	4.6
HUF 10y Gov. Bond	12/ Nov 20	7.50	106.46	6.60	434	7.1
HUF 15y Gov. Bond	24/ Nov 23	6.00	95.32	6.54	402	8.9
Czech Republic						
CZK 2y Gov. Bond	18/ Oct 12	3.55	103.90	1.57	79	1.9
CZK 5y Gov. Bond	1/ Sep 15	3.40	103.50	2.62	118	4.6
CZK 10y Gov. Bond	12/ Sep 20	3.75	103.80	3.29	103	8.5
CZK 15y Gov. Bond	25/ May 24	5.70	122.70	3.57	104	10.1
Croatia						
HRK 5y Gov. Bond	15/ Dec 15	5.25	98.31	5.63	419	4.5
HRK 10y Gov. Bond	5/ Mar 20	6.75	102.09	6.45	419	7.0
Romania						
RON 3y Gov. Bond	25/ Oct 12	11.25	107.90	6.95	601	1.8
RON 5y Gov. Bond	5/ Mar 14	11.00	111.80	6.95	551	2.9
Russia						
RUB 2y Gov. Bond	19/ Sep 12	10.80	109.75	5.53	475	1.8
RUB 5y Gov. Bond	17/ Dec 14	11.20	117.37	6.60	516	3.5
RUB 10y Gov. Bond	29/ Aug 18	7.00	99.20	7.26	500	6.0
RUB 30y Gov. Bond	6/ Feb 36	6.90	93.40	7.63	474	11.6
Turkey						
TRY 2y Gov. Bond	25/ Apr 12	0.00	88.90	7.92	714	1.5
TRY 5y Gov. Bond	17/ Jun 15	10.00	106.80	8.39	695	3.9
TRY 10y Gov. Bond	15/ Jan 20	10.50	112.55	8.68	642	6.1

Source: Thomson Thomson Reuters, Raiffeisen RESEARCH

Bond auctions

		ISIN	Coupon	Maturity	Volume
12 Oct 10					
TR	3y T-Bond (new)	n.a.	n.a.	Apr 2013	n.a.
13 Oct 10					
PL	5y T-bond	n.a.	n.a.	Oct 2016	PLN 1.5-3 bn

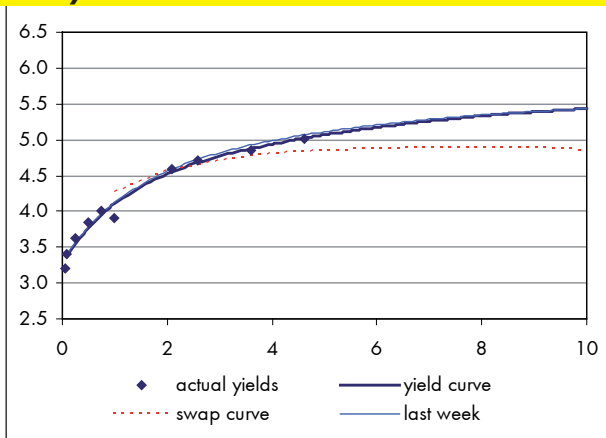
Poland

Successful 2y bond auction

(P)review of key economic figures/events

29 Sep 10	NBP rate decision, %	Sep 3.5 (Aug 3.5)
12 Oct 10	Current account, EUR bn	Aug -1.22 (Jul -1.54)
13 Oct 10	CPI, % yoy	Sep 2.1 (Aug 2.0)

PLN yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

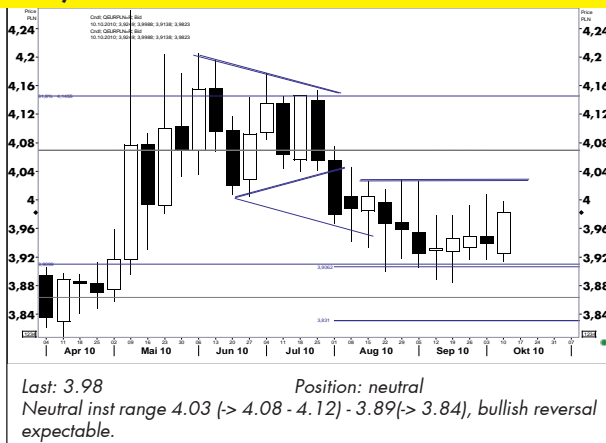
Money market focus

MM rates	1m	3m	6m	12m
Actual	3.41	3.63	3.84	4.05
Change from last week	0.00	-0.01	-0.01	-0.01
Forecast Dec-10	3.75	3.95	4.06	4.20
Forward rates	3x6	6x9	9x12	
	4.07	4.34	4.11	
Change from last week	-0.01	-0.01	-0.01	

Bond market focus

	2y	5y	10y	20y
Actual	4.58	5.01	5.44	5.59
Change from last week	0.00	-0.05	-0.05	-0.06
Forecast Dec-10	4.90	5.20	5.80	6.10
Spread to bunds	380.3	356.7	317.8	269.1
Change from last week	-4.8	-2.0	-4.6	-8.5
Spread to swaps	2.8	-11.4	-53.5	

EUR/PLN



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Sell PLN T-bonds

Market comment

Further improvement in global risk sentiment resulted in slightly declining yields along the entire yield curve this week. On the primary market, the MoF sold PLN 3 bn of 2y zero bonds with a bid-to-cover ratio of over 2.5. The Fitch downgrade of Ireland's sovereign debt had no impact on yields in Poland. At the start of the discussion on the budget draft for 2011 in the Polish parliament, Finance Minister Rostowski said that the general budget deficit according to ESA 95 will be 6.5% of GDP. The deficit would be brought to under 3% of GDP by the end of 2013. In spite of the recent increase in budget gap estimates for 2010, Moody's does not plan to change the rating of Polish debt until the parliamentary election in autumn next year. However, the agency made it clear that decisive budget consolidation steps will be necessary after the elections in order to maintain the current ratings.

Market outlook

The bond market is benefiting from the positive sentiment on global markets and the limited debt supply which was announced by the MoF for Q4. However, moves in yields are small at the moment and the downward trend in EUR/PLN seems to be losing steam. We think that the risk of downward drift in leading indicators in the USA will eventually have a negative impact on PLN and bond yields. In addition to that, consumer sentiment in Poland has been worsening in the last two months. The leading indicator for consumer confidence published on a monthly basis by the statistical office has been falling since August which may point to deceleration in private consumption. To sum up: we still do not see any catalysts for considerable upward movements in bond prices and leave our "sell" recommendation unchanged.

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	2.84	2.89	2.93	2.92
Change from last week	3.0%			

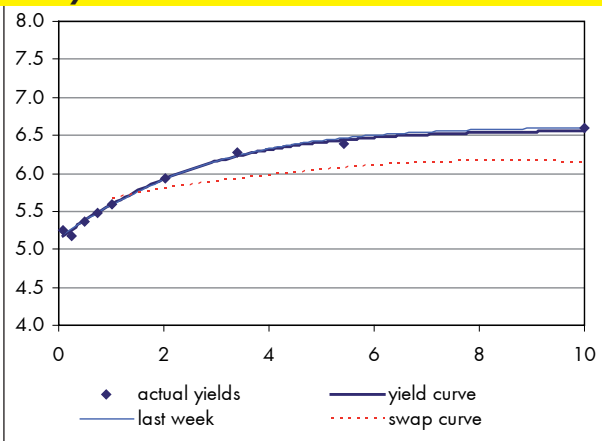
Hungary

Eyes on the budget plan 2011

(P)review of key economic figures/events

07 Oct 10	Budget balance, HUF bn, ytd	Sep -1089.0 (Aug -1081.4)	Deficit at 125% of full year 2010 target
12 Oct 10	CPI, % yoy	Sep 3.7 (Aug 3.7)	
14 Oct 10	Industrial output, % yoy	Aug 17.6 (Jul 11.5)	Final data

HUF yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral HUF T-bonds

Market comment

The Hungarian government started next year's fiscal planning after the widely anticipated win in the municipal elections. According to a local newspaper, the main structure of the package is accepted with some PIT-easing accounting for HUF 400 bn, while on the other hand new extra taxes will be introduced on the energy and telecom sectors. We believe the package was planned with the 3% deficit target in mind and is achievable.

Auctions this week were not as smooth as before: although 3-month bill was greeted with good demand, longer-term HGB-s faced decreasing amount of bids on Thursday.

Money market focus

MM rates	1m	3m	6m	12m
Actual	5.25	5.35	5.47	5.59
Change from last week	-0.01	-0.02	-0.02	-0.01
Forecast Dec-10	5.3	5.3	5.4	6.1

Bond market focus

	3y	5y	10y	15y
Actual	6.27	6.39	6.60	6.54
Change from last week	-0.02	0.01	-0.04	-0.07
Forecast Dec-10	7.3	7.4	7.5	7.5
Spread to bunds	533.4	494.4	433.7	401.5
Change from last week	0.9	3.9	-6.1	-16.1

EUR/HUF



Last: 274.16 Position: neutral 270 (-> 263 - 257) should prove firm even though the recent sell-signal at 274, so 276 -> 280 is not off odds.

Source: Thomson Reuters, Raiffeisen RESEARCH

Market outlook

The somewhat lower demand at this week's auctions is mostly thanks to the forint in our view. HUF outperformed its peers again for the most part of last week, and was overbought as the EUR/HUF, USD/HUF and even PLN/HUF rates have plummeted in the last 4 weeks without any significant correction. Some market participant probably stayed on the sidelines waiting for this correction. This would also imply that over a bit longer term investors are still confident about Hungarian markets.

Next week, we might see a lower-than-consensus result for inflation – according to our projections, which might send the forint lower. We advise a neutral position on the HGB markets.

Analyst: Adam Keszeg (+36 148 443 43)

Exchange rate focus

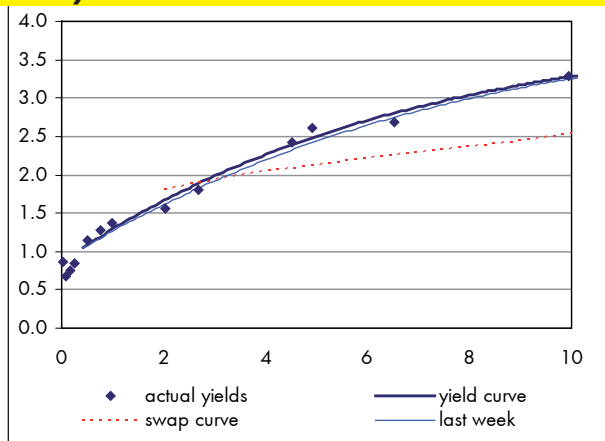
	actual	Dec-10	Mar-11	Jun-11
EUR/HUF	272.32	290.0	285.0	280.0
Change from last week	1.8%			
USD/HUF	195.00	207.1	211.1	215.4
Change from last week	4.3%			

Czech Republic Crown holds firm

(P)review of key economic figures/events

07 Oct 10	Industrial output, % yoy	Aug 12.9 (Jul 5.3)	Above forecast
11 Oct 10	CPI, % yoy	Sep 2.0 (Aug 1.9)	No inflationary pressure
13 Oct 10	Current account, CZK bn	Aug -4.5 (Jul -32.5)	Neutral for CZK

CZK yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

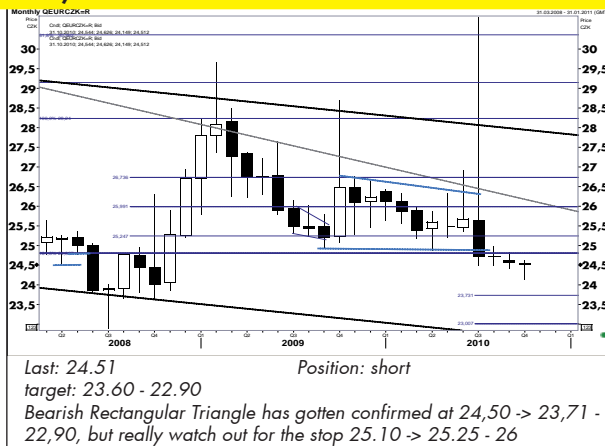
Money market focus

MM rates	1m	3m	6m	12m
Actual	0.67	0.85	1.15	1.38
Change from last week	0.00	0.01	0.02	0.00
Forecast Dec-10	0.7	0.8	1.0	1.4
Forward rates	1x2	3x6	6x9	9x12
	0.85	1.45	1.51	1.70
Change from last week	0.02	0.03	-0.04	0.00

Bond market focus

	2y	5y	10y	15y
Actual	1.57	2.62	3.29	3.57
Change from last week	0.08	0.10	-0.01	0.02
Forecast Dec-10	1.5	2.6	3.4	3.6
Spread to bunds	78.6	117.8	103.1	104.0
Change from last week	11.9	11.8	-2.8	-6.8
Spread to swaps	30.9	-39.9	-63.9	n.a.

EUR/CZK



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral CZK T-bonds

Market comment

The Czech koruna moved to a slightly stronger level at around EUR/CZK 24.45 as regional sentiment remained positive and the US dollar continued to fall. Czech domestic data confirmed the relatively good condition of the Czech economy. Industrial output rose almost 13% yoy in August, driven by foreign orders, which also show a good chance for solid results in the near future. Industrial growth mirrors the growth in exports. On the other hand, strong imports from non-EU countries have been driving the foreign trade balance down. Growth in imports has outpaced export growth for six months in a row. However, the domestic data remains solid. In the minutes of the last meeting of the Czech National Bank it was argued that the strengthening of the Czech koruna currency is not such a threat for the economy as in the past. A statement like this sounds worrying, unless the CNB wishes to strengthen the domestic currency.

Market outlook

Our key argument for a short-term correction of CZK against EUR to weaker levels remains the same; i.e. rising global risk aversion associated with deceleration of the main world economies. On the other hand, the perception of the CEE region remains positive and the continued depreciation of USD could significantly impede a correction to weaker levels for the koruna. Regarding the statements of the CNB as mentioned in the minutes, we believe that the real will to increase interest rates is rather weak. Assuming the ECB does not raise its key interest rate until the end of 2011, we think the CNB will start increasing the key rate in Q4 2011. We stick to our short-term recommendation to hold the Czech government bonds at all maturities.

Analyst: Michal Brozka (+420 221 141 498)

Exchange rate focus

	actual	Dec-10	Mar-11	Jun-11
EUR/CZK	24.51	25.0	25.2	25.0
Change from last week	0.4%			
USD/CZK	17.54	17.9	18.7	19.2
Change from last week	2.8%			



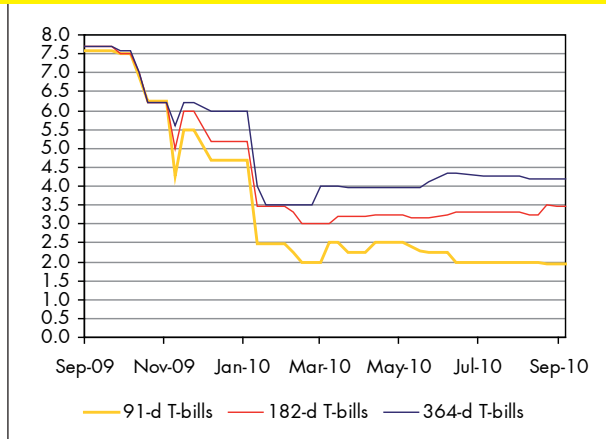
Croatia

C/A deficit falls to 3.1%

(P)review of key economic figures/events

11 Oct 10	PPI, % yoy	Sep 4.1 (Aug 3.3)
15 Oct 10	CPI, % mom	Sep 0.2 (Aug -0.2)
15 Oct 10	CPI, % yoy	Sep 1.3 (Aug 0.9)

Interest rates on T-bills



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral EUR/HRK

Market comment

In Q2, the C/A deficit fell to EUR 277.3 mn, which is historically the lowest deficit ever recorded in Q2. Compared to Q2 2009, the deficit fell 68.4%, primarily as a result of the better position on the goods account, which usually contributes negatively to the C/A balance. But this year exports of goods increased sharply in Q2 while at the same time imports of goods declined, and this had a favourable effect on the goods account deficit.

This rise in goods exports, however, stems mainly from the shipbuilding sector. Considering that this sector needs restructuring the most, it is highly questionable to what extent Croatia actually succeeded in seizing the opportunities of the foreign demand recovery, which once again points to the low competitiveness of domestic export sector. The C/A deficit fell to 3.1% of GDP, compared to 5.4% at the end of 2009.

In Q3, we expect a surplus on the C/A, which is usual for the Q3 amidst increased income from tourism during the main tourist season. Since the number of tourist arrivals and overnight stays rose in July and August more than expected, we believe that this year's revenues from tourism will exceed last year's by some 4.5%. Furthermore, since the growth in goods exports continued to easily outstrip goods imports in July and August, we still expect a decline on the goods account. Hence, this year should end with the C/A deficit below 4% of GDP.

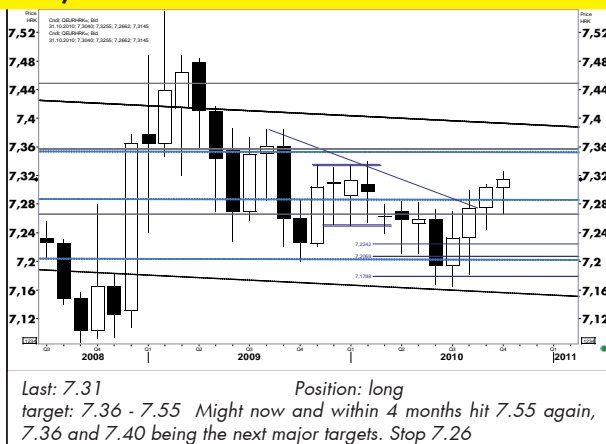
Money market focus

	1m	3m	6m	12m
ZIBOR actual	1.43	2.66	3.45	4.06
Change from last week	-0.04	0.03	0.03	-0.01
T-bills actual	n.a.	1.95	3.50	4.20

Exchange rate focus

	actual	Dec-10	Mar-11	Jun-11
EUR/HRK	7.299	7.32	7.30	7.30
Change from last week	0.1%			
USD/HRK	5.27	5.23	5.41	5.62
Change from last week	-1.8%			

EUR/HRK



Source: Thomson Reuters, Raiffeisen RESEARCH

Market outlook

Mild depreciation pressures are expected, and the rate could rise slightly above 7.32 (to around 7.325). Depreciation pressures should prevail for the rest of the year as well, supported by a pick-up in import activity. On the other hand, if speculation about the issuance of government bond indexed to euro on the domestic market becomes stronger, the rate may stay at the current levels.

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

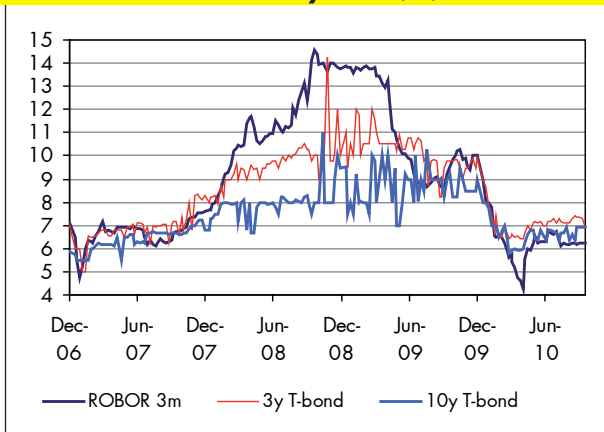
Romania

More clues to Q3 GDP growth

(P)review of key economic figures/events

07 Oct 10	Industrial output, % yoy	Aug 4.9 (Jul 2.1)
11 Oct 10	CPI, % yoy	Sep 7.6 (Aug 7.6)
11 Oct 10	Foreign trade balance, EUR mn	Sep n.a. (Aug 450)

ROBOR 3m & T-bond yields (%)



Source: Thomson Reuters, Raiffeisen RESEARCH

Money market focus

MM rates	1m	3m	6m	12m
Actual	4.89	6.21	6.44	6.46
Change from last week	-0.25	-0.05	0.00	0.00
Forecast Dec-10	6.8	7.0	7.2	7.2
Implicit forward rates	3x6	6x9	9x12	
	6.73	6.39	6.37	
Change from last week	0.05	0.00	0.00	

Bond market focus

	2y	3y	5y	10y
Actual	6.95	6.95	6.95	6.95
Change from last week	-0.36	-0.36	-0.36	0.00
Forecast Dec-10	7.50	7.70	7.80	7.30
Spread to bunds	616.9	601.4	550.4	468.7
Change from last week	-31.9	-33.0	0.0	-2.1

EUR/RON



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral RON T-bonds

Market comment

The statistical data released in recent days supported our expectations of a weak GDP figure for Q3. In August, industrial output was almost flat (+0.1% mom) after falling by 1% mom in July. As a result, the quarterly growth rate of industrial output in Q3 should be substantially lower than in Q2 (+3.7% qoq), which means also a lower contribution to total GDP. Construction output fell 1.3% mom in August, after plunging 27.6% mom in July. This is also bad news for Q3 GDP dynamics. Retail sales rebounded in August (+5.2% mom) in the wake of dismal performance in June (-10% mom). As a result, the cumulated dynamics for July-August remain largely negative. Good news came only from agriculture as cereal crops seems to be better this year compared to last year. Accordingly, we think that real GDP contracted by around 1.5% qoq in Q3, but a better figure cannot be ruled out in the event of good agricultural output.

Market outlook

Discussions about a new no-confidence vote being called against the government increased last week. However, the market has largely ignored the talk, and neither interest rates nor the exchange rate have reacted. While short-term interest rates are trading at a low level, while long-term tenors already include a high risk premium which accounts for this kind of "talk". The "status quo" will likely be maintained in coming period.

Analyst: Nicolae Covrig (+40 21 306 1262)

Exchange rate focus

	actual	Dec-10	Mar-11	Jun-11
EUR/RON	4.27	4.30	4.40	4.30
Change from last week	0.0%			
USD/RON	3.06	3.07	3.26	3.31
Change from last week	2.2%			

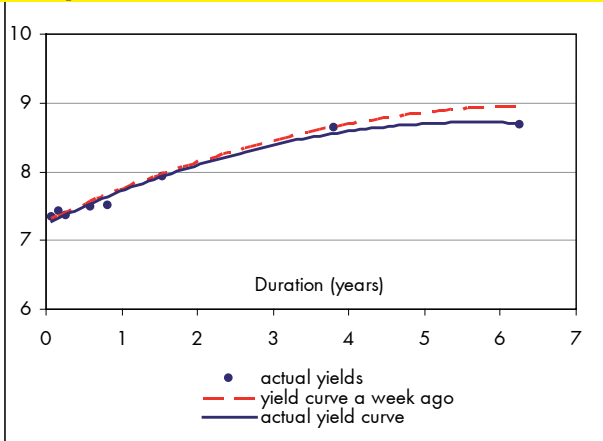
Turkey

After a good rally ...

(P)review of key economic figures/events

08 Oct 10	Industrial output, % yoy	Aug 11.0 (Jul 8.6)	better than consensus of 8.2% yoy; +2.7% mom sa
11 Oct 10	Current account, USD bn	Aug -2.6 (Jul -3.4)	
14 Oct 10	CBT repo rate, %	Oct 7.0 (Sep 7.0)	Rate hike end-Q1/beginning-Q2 2011 expected

TRY yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Market strategy

Neutral TRY T-bonds

Market comment

We see several reasons for the latest drop in government bond yields: a) supportive global sentiment and QE-expectations in the US; b) positive news flow on the Turkish real sector: healthy GDP in Q2, we expect now GDP growth of 8% yoy in 2010 up from 7% and still benign 4% yoy in 2011 – the IMF also hiked the 2010 GDP estimate to 7.8% yoy). Industrial production for August exceeded expectation (+2.7% mom sa!), despite declining leading indicators; c) improving (lower) inflation outlook, despite hike in September; d) decreased perception of political risk after the constitutional referendum; e) favourable statements from rating agencies (Moody's changed outlook to "positive").

At the same time, the lira not only gained to the USD due to capital inflows and increased activity of the TCB on the FX market, but also due to a weakening USD to the Euro.

Market outlook

In the short term, we might see some profit taking after the good performance of recent days. However, above consensus employment data in the US could prolong the benign sentiment for risky assets. Also, we think that the Euro can still gain in coming weeks, which we see positive for the lira to the USD (but negative towards the Euro).

In a 3-month perspective a declining inflation rate could further boost bond prices, as long as the central bank is not changing its monetary policy stance of maintaining policy rates "at current levels for some time". Given the forecast change for the EUR/USD from 1.40 to 1.20 for December and the recent strong appreciation we revise our USD/TRY forecast for December from 1.55 to 1.45.

Analyst: Andreas Schwabe (+43 1 71707 1389)

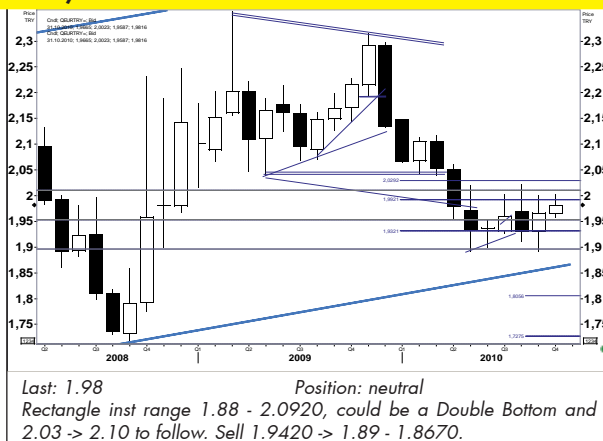
Money market focus

MM rates	1m	3m	6m	12m
Actual	7.00	7.25	7.75	8.17
Change from last week	-0.01	0.00	0.00	-0.01
Forecast Dec-10	7.10	7.40	7.90	7.70
Implied forward rates	1x2	3x6	6x9	9x12
	7.16	8.10	8.33	8.04
Change from last week	0.01	0.00	0.00	-0.02

Bond market focus

	1m	1y	2y	5y
Actual	7.34	7.51	7.93	8.63
Change from last week	-0.06	0.07	-0.10	-0.08
Forecast Dec-10	n.a.	7.70	8.10	8.50

USD/TRY



Source: Thomson Reuters, Raiffeisen RESEARCH

Exchange rate focus

	actual	Dec-10	Mar-11	Jun-11
EUR/TRY	1.98	2.03	2.03	1.89
Change from last week	0.4%			
USD/TRY	1.43	1.45	1.50	1.45
Change from last week	-1.2%			

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	positive
Ukraine	BB-	B+	stable	B2	B2	negative	B	B	stable
Turkey	BB+	BB	positive	Ba2	Ba2	positive	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	1.7	3.5	11.0	717	-7.1	50.9	32.7	-1.6	59.4	28.4	6.4
	2010	3.2	2.6	11.9	801	-7.2	53.6	32.8	-1.8	60.4	34.3	7.2
	2011	3.4	3.0	10.8	877	-5.6	56.0	31.2	-2.8	53.5	34.4	6.9
Hungary	2009	-6.3	4.2	10.3	713	-4.0	78.3	63.4	0.2	111.0	29.0	6.5
	2010	1.0	4.8	11.0	732	-4.0	79.7	70.8	0.0	108.4	31.6	6.3
	2011	2.5	3.0	10.0	741	-3.0	79.0	72.1	-2.3	106.3	31.0	5.9
Czech Rep.	2009	-4.0	1.0	8.1	892	-5.9	35.4	58.0	-1.0	43.8	48.1	4.8
	2010	1.7	1.5	9.0	952	-5.9	39.7	63.3	-1.9	42.8	50.8	4.4
	2011	1.5	2.1	9.5	989	-5.2	43.1	65.4	-0.8	41.5	54.3	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	6.1	8.0	457	-8.0	31.4	29.7	-6.0	77.9	36.1	9.5
	2011	2.0	6.2	8.5	477	-6.0	35.4	32.2	-6.8	77.7	33.7	8.0
Croatia	2009	-5.8	2.4	14.9	1051	-4.3	35.3	16.9	-5.4	98.3	23.3	8.3
	2010	-1.5	1.2	17.5	1060	-5.1	41.7	18.3	-3.9	102.0	23.2	8.8
	2011	1.5	3.5	16.5	1078	-3.8	42.8	18.5	-4.1	102.1	23.4	8.4
Russia	2009	-7.9	11.8	8.4	425	-6.3	8.9	24.6	4.1	38.8	83.8	24.7
	2010	4.0	6.8	7.2	544	-5.0	9.2	25.4	5.2	31.5	105.0	24.8
	2011	3.5	8.8	6.7	642	-3.0	11.5	24.9	3.7	31.4	109.0	24.1
Turkey	2009	-4.7	6.3	13.7	n.a.	-5.6	46.8	17.9	-2.3	43.7	n.a.	6.5
	2010	8.0	8.5	12.5	n.a.	-3.0	47.5	18.0	-5.2	39.0	n.a.	5.9
	2011	4.0	6.5	11.0	n.a.	-3.5	48.0	19.9	-5.1	38.2	n.a.	4.8

* 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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