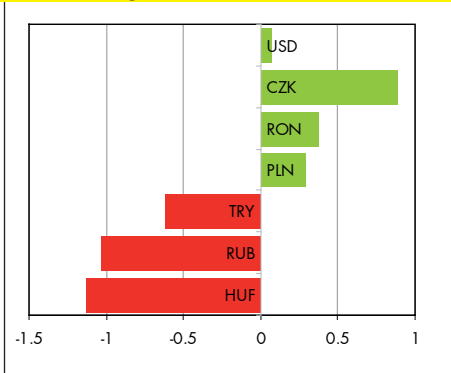


# CEE Weekly Bond Markets Outlook

Issue 15/2011

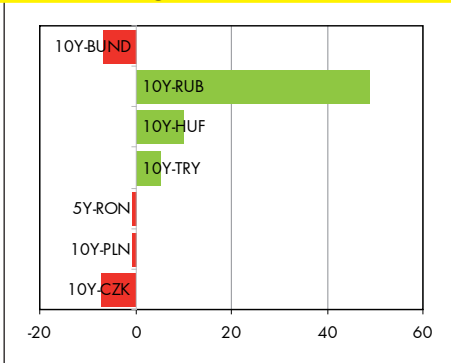
15 April 2011

## LCY changes vs. EUR\*



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

## Yield changes\*



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

## Forecast

	current	Jun-11	Sep-11	Dec-11
<b>Poland</b>				
PLN	3.95	3.90	3.85	3.75
1m-rate	3.9	4.5	4.6	4.6
5y bond	5.8	5.8	6.0	5.9
10y bond	6.1	6.3	6.2	6.2
<b>Hungary</b>				
HUF	266.4	275	270	270
1m-rate	6.0	6.1	6.1	6.1
5y bond	6.7	7.0	6.9	6.7
10y bond	6.9	7.3	7.1	6.9
<b>Czech Rep.</b>				
CZK	24.3	24.4	24.2	24.0
1m-rate	0.7	0.7	0.9	1.2
5y bond	3.0	3.4	3.4	3.5
10y bond	4.0	4.3	4.3	4.4
<b>Russia</b>				
RUB*	28.2	26.4	27.0	28.1
1m-rate	3.4	4.0	4.2	4.3
5y bond	6.9	7.6	8.0	8.0
10y bond	7.8	8.0	8.4	8.4
<b>USD</b>	1.45	1.47	1.45	1.35

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

## Recommendations

For detailed recommendations please see page 2.

## Highlights

- Poland** – The decision to raise interest rates by 25bp and especially the hawkish wording thereafter helped EUR/PLN to strengthen towards 3.95. The monetary council seems to favour more monetary tightening in the coming months, supporting our interest rate outlook of 4.5% by year-end 2011. Latest CPI data was above consensus estimate at 4.3% yoy sparking discussion about a possible 50bp interest rate hike in May.
- Hungary** – CPI inflation for March (4.5% yoy) surprised on the upside, due to rising energy and food prices. It is still an open question how the price increases will spill over to other products in the coming months. The Monetary Council members should press the hold button next Monday and the following months as well, while monitoring price developments in the upcoming period.
- Czech Republic** – The government coalition fell into a deep crisis. Prime Minister Petr Necas of the Civic Democrats (ODS) proposed that President Klaus should dismiss Public Affairs party (VV) ministers Radek John (interior, VV chair) and Josef Dobs (education), Minister Barta resigned and a resignation was offered by Minister Alexandr Vondra (defence, ODS).
- Romania** – The monthly inflation rate was high in March (+0.6% mom), coming in above market expectations (+0.4% mom in the Reuters poll), with higher food prices (+1.2% mom) and fuel prices (+2.3% mom) as the main drivers. Leu appreciation

## Key upcoming events and data releases

Country	Time	Indicator	Period	Forecast	Range	Last
<b>18-Apr</b>						
TR	09:00	Consumer confidence	Mar	n.a.	n.a.	93.6
PL	14:00	Employment, %	Mar	4.4	4.3/4.3/4.5	4.1
PL	14:00	Average gross wages, % yoy	Mar	4.5	2.2/4.2/8.8	4.1
HU	14:00	Monetary council meeting, %	Apr	6.0	6.0/6.0/6.0	6.0
<b>19-Apr</b>						
PL	14:00	Industrial output, % yoy	Mar	7.3	7.3/9.6/11.2	10.7
PL	14:00	PPI, % yoy	Mar	8.2	7.5/8.3/10.1	7.3
HU	09:00	Average gross wages, % yoy	Feb	6.5	2.1/5.8/9.1	1.6
<b>21-Apr</b>						
HR	11:00	Unemployment rate, %	Mar	n.a.	n.a.	19.6
RU	10:00	Retail sales, % yoy	Mar	4.5	2.1/3.3/5.9	3.3
RU	10:00	Capital investment, % yoy	Mar	6.5	-3.5/2.3/9.0	-0.4
TR	13:00	CBT repo rate, %	Apr	6.25	6.25/6.25/6.25	6.25
<b>22-Apr</b>						
HU	09:00	Retail trade, % yoy	Feb	0.0	-0.6/0.7/1.0	0.1

pushed down phone tariffs (-1.8% mom), thereby limiting the advance in the overall CPI. The annual rate of inflation climbed to 8% yoy in March.

- **Croatia** – Consumer price growth continues to accelerate: in March, prices rose 2.6% yoy and 0.8% mom, pushed mainly by cost inflation, while domestic demand remains slack. Apart from components directly linked to higher oil prices, the strongest driver of inflationary pressures is food and beverages. In the months ahead, we expect further acceleration of consumer price growth.
- **Russia** – The IMF experts forecast Russia's fiscal deficit to narrow to 1.6% of GDP this year. The original budget law for 2011 puts the deficit at 3.6% of GDP. Earlier, Russia's finance minister expressed similar optimism expecting the budget

deficit to drop to 1.0-1.4% of GDP, provided that the oil price remains at 105 USD/bbl. Rouble market profit-taking was mainly linked to bearish European stock markets and the desire of local stock market players to cash profits. However, we expect the market correction to be short-lived.

- **Turkey** – Next Thursday on April 21, the central bank will hold its next monetary council meeting and decide on the benchmark rate, which is currently 6.25%. We think that the rate will be left unchanged. In addition, the term of central bank governor Yilmaz ends quite soon, on April 18. Turkish president has already approved the nomination of CBT deputy head Erdem Basci as a successor. Basci is seen as a good choice and we do not expect much change in monetary policy. Markets did not react much to the nomination.

## Short-term trading ideas: fixed income\*

Recommendation	Entry date	Entry level	Current level	Target	Stop	Carry (% p.a.)	Comments
Buy PLN T-Bond 10y	13/01/11	92.3	93.55	93.9	90.4		

\* 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 EUR/PLN (long PLN)	29/11/10	4.0286	29/11/10	4.1	-1.77%	Stopped out
Sell EUR/HUF (long HUF)	29/11/10	280.42	18/01/11	273.42	3.12%	Closed early
Sell EUR/PLN (long PLN)	25/03/11	3.98	15/03/11	4.06	-2.01%	Stopped out
Sell EUR/PLN (long PLN)	25/03/11	4.06	08/04/11	3.955	2.59%	Closed early

# Local currency bonds

## Market overview

### CEE local currency bond market snapshot

14/04/2011	Maturity	Coupon %	Ask Price	YTM %	Spread to Bunds; bp	MDur.
<b>Poland</b>						
PLN 2y Gov. Bond	25/01/2013	0.00	91.58	5.09	327	1.8
PLN 5y Gov. Bond	25/04/2016	5.00	96.59	5.80	306	4.3
PLN 10y Gov. Bond	25/10/2020	5.25	93.61	6.15	277	7.5
PLN 20y Gov. Bond	25/04/2029	5.75	93.10	6.41	253	10.8
<b>Hungary</b>						
HUF 3y Gov. Bond	24/10/2013	7.50	102.80	6.24	409	2.3
HUF 5y Gov. Bond	12/02/2016	5.50	95.32	6.66	391	4.3
HUF 10y Gov. Bond	12/11/2020	7.50	103.00	7.05	367	7.0
HUF 15y Gov. Bond	24/11/2023	6.00	91.76	7.00	337	8.8
<b>Czech Republic</b>						
CZK 2y Gov. Bond	18/10/2012	3.55	102.85	1.60	-22	1.5
CZK 5y Gov. Bond	26/01/2016	6.95	117.55	2.95	20	4.2
CZK 10y Gov. Bond	29/09/2021	3.85	98.35	4.05	66	8.6
CZK 15y Gov. Bond	25/05/2024	5.70	116.00	4.10	47	9.5
<b>Romania</b>						
RON 3y Gov. Bond	05/03/2014	11.00	109.64	7.16	501	2.6
RON 5y Gov. Bond	17/08/2015	7.49	100.99	7.20	445	3.7
<b>Russia</b>						
RUB 2y Gov. Bond	27/03/2013	12.00	112.00	5.59	377	1.8
RUB 5y Gov. Bond	03/08/2016	6.90	98.90	7.28	453	4.4
RUB 10y Gov. Bond	24/11/2021	8.00	96.05	7.68	430	7.4
RUB 30y Gov. Bond	06/02/2036	6.90	89.90	7.99	414	11.7
<b>Turkey</b>						
TRY 2y Gov. Bond	20/02/2013	0.00	85.67	9.02	720	1.9
TRY 5y Gov. Bond	27/01/2016	9.00	100.00	8.99	624	4.0
TRY 10y Gov. Bond	15/01/2020	10.50	108.24	9.11	573	6.1

Source: Thomson Thomson Reuters, Raiffeisen RESEARCH

### Bond auctions

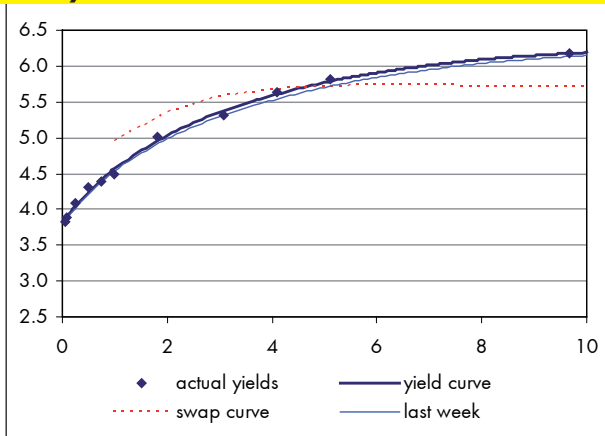
Bond auctions		ISIN	Coupon	Maturity	Volume
<b>21 Apr 11</b>					
HU	3y T-bond	HU0000402516	6.75%	22 Aug 14	HUF 20 bn
HU	5y T-bond	HU0000402375	6.75%	24 Feb 17	HUF 15 bn
HU	15y T-bond	HU0000402532	6.75%	22 Oct 28	HUF 10 bn

## Poland 2012 budget draft in May

### (P)review of key economic figures/events

18 Apr 11	Avg. gross wages	Mar 4.2 (Feb 4.1)
19 Apr 11	Industrial output, % yoy	Mar 9.6 (Feb 10.7)
19 Apr 11	PPI, % yoy	Mar 8.3 (Feb 7.3)

### PLN yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

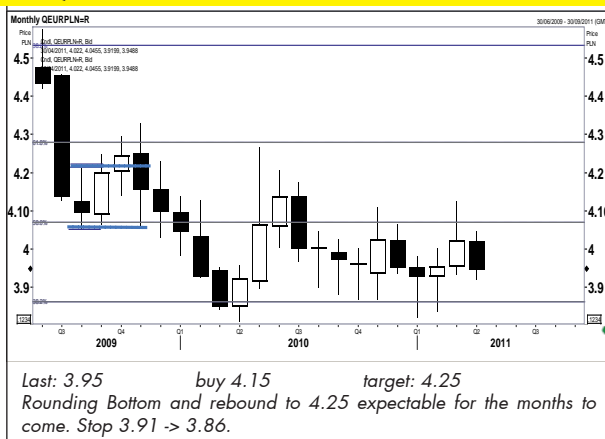
### Money market focus

MM rates	1m	3m	6m	12m
<b>Actual</b>	<b>3.89</b>	<b>4.09</b>	<b>4.30</b>	<b>4.46</b>
Change from last week	0.03	0.04	0.05	0.05
Forecast Jun-11	4.50	4.55	4.66	5.15
<b>Forward rates</b>	<b>3x6</b>	<b>6x9</b>	<b>9x12</b>	
Change from last week	4.54	4.55	4.60	
Change from last week	0.06	0.02	0.08	

### Bond market focus

	2y	5y	10y	20y
<b>Actual</b>	<b>5.09</b>	<b>5.80</b>	<b>6.15</b>	<b>6.41</b>
Change from last week	0.04	0.06	0.00	0.06
Forecast Jun-11	5.20	5.80	6.25	6.50
<b>Spread to bunds</b>	<b>326.6</b>	<b>305.6</b>	<b>276.8</b>	<b>252.6</b>
Change from last week	20.5	4.4	0.3	12.5
<b>Spread to swaps</b>	<b>0.3</b>	<b>-1.5</b>	<b>19.0</b>	

### EUR/PLN



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market strategy

Buy PLN T-bonds

### Market comment

The decision to raise interest rates by 25bp and especially the hawkish wording thereafter helped EUR/PLN to strengthen towards 3.95. The monetary council seems to favour more monetary tightening in the coming months, supporting our interest rate outlook of 4.5% by year-end 2011. Yields in the 10-year segment already retreated prior to the interest rate decision in the first week of April and declined from 6.3% to below 6.2%. Latest CPI data was above consensus estimate at 4.3% yoy sparking discussion about a possible 50bp interest rate hike in May.

### Market outlook

Deputy Finance Minister Ludwik Kotecki talked about the Q1 2011 GDP growth rate, which is expected to be 4.2% yoy. The official release will be come on 31 May. Kotecki also talked about the budget draft for 2012 being released in early May. The government should then approve the budget in late May or early June and it could then be sent on to parliament. While Poland has pledged to cut the deficit to 3% of GDP in 2012 we expect the 3% criteria to be marginally missed, especially as elections in the autumn should hinder any very radical fiscal measures. On the other hand, the market – in our view – is too negative on the outlook for public finances. Recent worries about the revision of the current account data for 2010 have eased as according to the statistical department the revision was unlikely to affect the GDP data. The revision of the current account is due in June and could raise the current account deficit for 2010 by more than 1% of GDP to 4.4% or more. We remain with our buy recommendation for Polish government bonds.

Analyst: Wolfgang Ernst (+43 171707 1500)

### Exchange rate focus

	actual	Jun-11	Sep-11	Dec-11
<b>EUR/PLN</b>	<b>3.95</b>	<b>3.90</b>	<b>3.85</b>	<b>3.75</b>
Change from last week	3.8%			
<b>USD/PLN</b>	<b>2.75</b>	<b>2.65</b>	<b>2.66</b>	<b>2.78</b>
Change from last week	-0.1%			

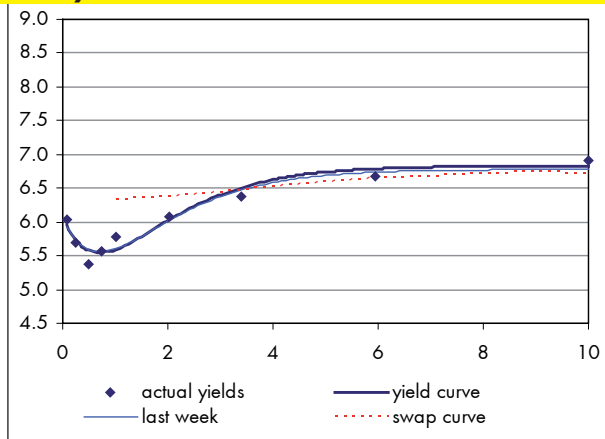
# Hungary

## No change in rates expected

### (P)review of key economic figures/events

<b>18 Apr 11</b>	Monetary council meeting, %	Apr 6.0 (Mar 6.0)	No interest rate change expected
<b>19 Apr 11</b>	Average gross wages, % yoy	Feb 6.5 (Jan 1.6)	
<b>22 Apr 11</b>	Retail trade, % yoy	Feb 0.0 (Jan 0.1)	Weak domestic demand

### HUF yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market strategy

Neutral HUF T-bonds

### Market comment

After hitting a yearly low last week, EUR/HUF started its upside technical correction from oversold levels without any domestic fundamental trigger. The correction may continue towards 270, in our view, although the medium-term outlook for Hungarian assets is still positive. The Economy Minister unfolded some details of the convergence report before submitting it to the European Commission, but did not mention any substantial novelties. The convergence plan aims to deliver a decreasing deficit and debt levels, thus helping to keep domestic assets attractive for investors. According to media reports, the government is organising an appointment with investors on Monday, before a possible additional Eurobond issuance. This would mean that Hungary's total foreign funding needs (EUR 4 bn) could be fulfilled before long.

### Money market focus

MM rates	1m	3m	6m	12m
<b>Actual</b>	<b>6.04</b>	<b>6.10</b>	<b>6.10</b>	<b>6.16</b>
Change from last week	0.01	0.00	0.00	0.02
<b>Forecast Jun-11</b>	<b>6.1</b>	<b>6.1</b>	<b>6.1</b>	<b>6.2</b>

### Bond market focus

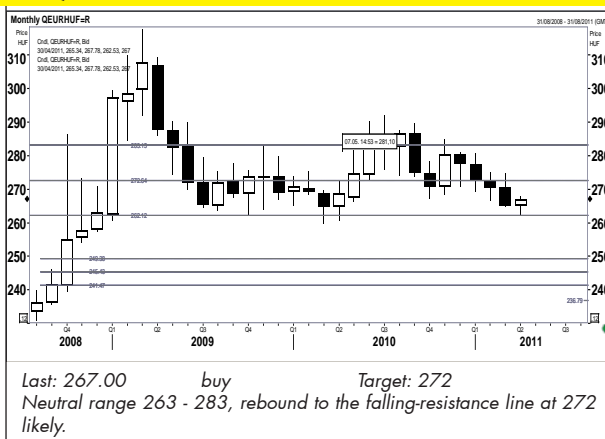
	3y	5y	10y	15y
<b>Actual</b>	<b>6.24</b>	<b>6.66</b>	<b>7.05</b>	<b>7.00</b>
Change from last week	0.06	0.21	0.22	0.15
Forecast Jun-11	6.8	7.0	7.3	7.4
<b>Spread to bunds</b>	<b>409.3</b>	<b>391.4</b>	<b>366.7</b>	<b>337.3</b>
Change from last week	2.9	19.1	28.5	20.6

### Market outlook

CPI inflation for March (4.5% yoy) surprised on the upside, due to rising energy and food prices. It is still an open question how the price increases will spill over to other products in the coming months. The Monetary Council members should press the hold button next Monday and the following months as well, while monitoring price developments in the upcoming period. On the other hand, some speculation already emerged (before announcing the CPI data) that the base rate may start to decrease in light of the recent HUF strength. The CPI numbers dashed these hopes and brought back the question of the necessity of further monetary tightening.

Analysts: *Matyas Kovacs (+36 148 448 74)*  
*Wolfgang Ernst (+43 171707 1500)*

### EUR/HUF



Source: Thomson Reuters, Raiffeisen RESEARCH

### Exchange rate focus

	actual	Jun-11	Sep-11	Dec-11
<b>EUR/HUF</b>	<b>267.50</b>	<b>275.0</b>	<b>270.0</b>	<b>270.0</b>
Change from last week	-1.3%			
<b>USD/HUF</b>	<b>186.09</b>	<b>187.1</b>	<b>186.2</b>	<b>200.0</b>
Change from last week	-1.5%			

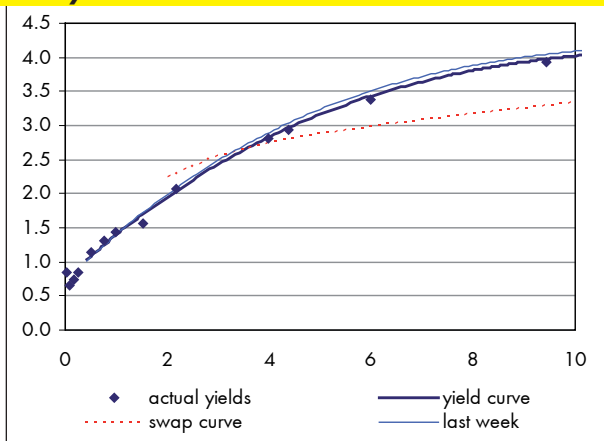
# Czech Republic

## Government faces a crisis

### (P)review of key economic figures/events

11 Apr 11	CPI, % yoy	Mar 1.7 (Feb 1.8)	
13 Apr 11	Current account balance, CZK bn	Feb 15.95 (Jan -0.3)	Solide performance of trade balance
15 Apr 11	PPI, % yoy	Mar 6.3 (Feb 5.4)	

### CZK yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

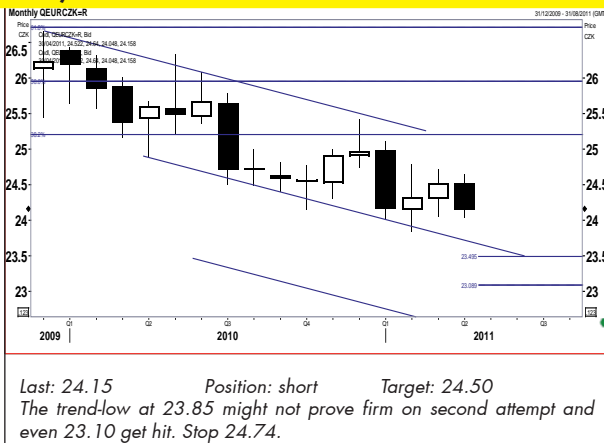
### Money market focus

MM rates	1m	3m	6m	12m
<b>Actual</b>	<b>0.99</b>	<b>1.21</b>	<b>1.56</b>	<b>1.83</b>
Change from last week	0.00	0.00	0.00	0.01
Forecast Jun-11	0.7	0.8	1.0	1.5
<b>Forward rates</b>	<b>1x2</b>	<b>3x6</b>	<b>6x9</b>	<b>9x12</b>
	1.20	1.92	2.01	2.18
Change from last week	-0.02	0.00	0.00	0.04

### Bond market focus

	2y	5y	10y	15y
<b>Actual</b>	<b>1.60</b>	<b>2.95</b>	<b>4.05</b>	<b>4.10</b>
Change from last week	-0.07	-0.18	-0.04	-0.03
Forecast Jun-11	1.7	3.4	4.3	4.4
<b>Spread to bunds</b>	<b>-21.6</b>	<b>20.1</b>	<b>66.3</b>	<b>47.0</b>
Change from last week	-2.7	-19.7	3.0	2.8
<b>Spread to swaps</b>	<b>-0.2</b>	<b>34.0</b>	<b>21.2</b>	<b>n.a.</b>

### EUR/CZK



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market strategy

Neutral CZK T-bonds

### Market comment

The government that emerged from last May's elections has an unprecedented majority of 118 votes in the 200-seat Chamber of Deputies. That would be more than enough to implement the reforms that are so greatly needed and expected. Sadly, after the exposure of the scandal links between the Public Affairs party (VV) and the security company ABL, owned by the family of Transport Minister Vit Barta (VV), the government coalition fell into a deep crisis. Prime Minister Petr Necas of the Civic Democrats (ODS) proposed that President Klaus should dismiss VV ministers Radek John (interior, VV chair) and Josef Dobeš (education), Minister Barta resigned and a resignation was offered by Minister Alexandr Vondra (defence, ODS). Although the disruption of the coalition between the ODS, TOP 09 and VV as well as the fall of the cabinet cannot be ruled out, we expect a reshuffle of the cabinet and a calming of the situation over the coming weeks.

### Market outlook

The government crisis has not affected the prices of Czech government bonds or the Czech koruna so far. It is normal for CZK not to react to Czech political excesses. However, the bad thing about the crisis is that it endangers future reforms. Remember that shortly after the election last year, given the prospect of reforms, the rating agencies started to mention that there might be a good chance for a rating upgrade. Nevertheless, the market seems to be more focused on the low supply of government bonds over the short term. Therefore, our general short-term recommendation for Czech government bonds remains HOLD.

Analyst: Michal Brozka (+420 234 40 1489)

### Exchange rate focus

	actual	Jun-11	Sep-11	Dec-11
<b>EUR/CZK</b>	<b>24.26</b>	<b>24.4</b>	<b>24.2</b>	<b>24.0</b>
Change from last week	0.6%			
<b>USD/CZK</b>	<b>16.88</b>	<b>16.6</b>	<b>16.7</b>	<b>17.8</b>
Change from last week	0.4%			



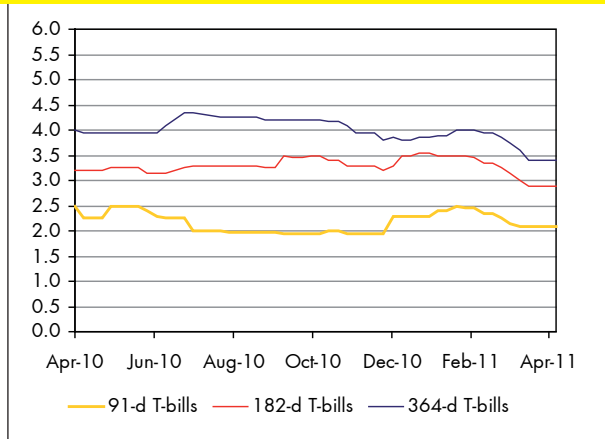
# Croatia

## T-bills auctions on hold

### (P)review of key economic figures/events

08 Apr 11	PPI, % yoy	Mar 8.2 (Feb 8.0)
14 Apr 11	CPI, % yoy	Mar 2.6 (Feb 2.2)
21 Apr 11	Unemployment rate, %	Mar n.a. (Feb 19.6)

### Interest rates on T-bills



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market strategy

Neutral EUR/HRK

### Market comment

Consumer price growth continues to accelerate: in March, prices rose 2.6% yoy and 0.8% mom, pushed mainly by cost inflation, while domestic demand remains slack. Apart from components directly linked to higher oil prices, the strongest driver of inflationary pressures is food and beverages. In the months ahead, we expect further acceleration of consumer price growth.

In the absence of a Treasury Bill auction (for the second consecutive week), liquidity is flowing into the domestic bond market, especially into pure HRK bonds, which continued to record price increases. On the other hand, Croatian Eurobonds fell significantly, and spreads above the benchmark securities widened further (by around 20bp compared to the end of last week). This was expected due to rather strong spread narrowing seen a few weeks before. Since the system is full of liquidity and there is a lack of investment possibilities, anything with attractive yield and moderate risk is very appealing to investors. Therefore, demand for Croatian corporate bonds remains relatively high, for example this week for HEP's bonds (Croatian electricity company).

### Money market focus

	1m	3m	6m	12m
ZIBOR actual	0.86	2.04	2.98	3.64
Change from last week	0.04	-0.16	-0.04	-0.16
T-bills actual	n.a.	2.10	3.00	3.40

### Exchange rate focus

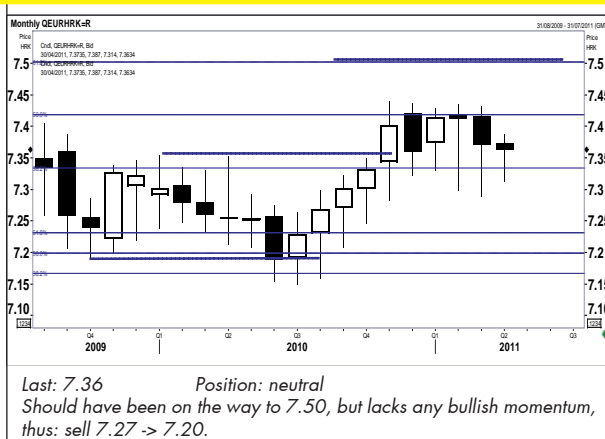
	actual	Jun-11	Sep-11	Dec-11
EUR/HRK	7.363	7.30	7.38	7.42
Change from last week	0.0%			
USD/HRK	5.08	4.97	5.09	5.50
Change from last week	-1.3%			

### Market outlook

Next week, only HRK 40 mn and EUR 1.1 mn of T-bills mature. Therefore, it is possible that we will not see a T-bill auction next week as well. In the past few weeks without auctions, the government's short-term debt decreased by HRK 530 mn and EUR 33.2 mn, in line with announced public debt management strategy which implies a decreasing short-term debt ratio. It could also mean that at the time being the government has enough funds from previous auctions and bonds issuances. Furthermore, the dynamics of future auctions is a bit harder to anticipate now since MoF plans to tap the international market once more by the end of June. Consequently, demand for domestic bonds will continue to depend largely on T-bills auctions.

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

### EUR/HRK



Source: Thomson Reuters, Raiffeisen RESEARCH

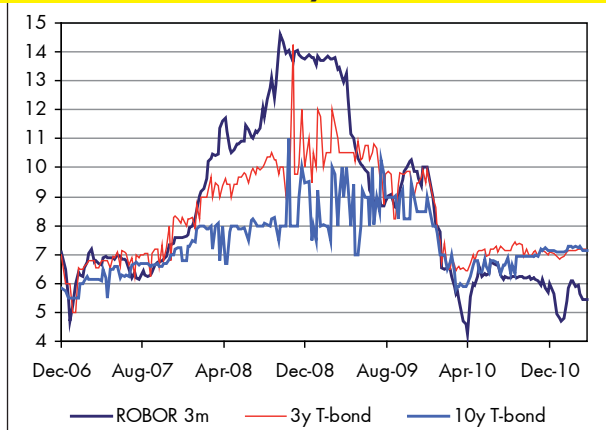
# Romania

## Food prices drive inflation up

### (P)review of key economic figures/events

11 Apr 11	CPI, % yoy	Mar 8.0 (Feb 7.6)
11 Apr 11	Foreign trade balance, EUR mn	Feb -280 (Jan -200)
13 Apr 11	Current account balance, EUR mn	Mar -150 (Feb -250)

### ROBOR 3m & T-bond yields (%)



Source: Thomson Reuters, Bloomberg, Raiffeisen RESEARCH

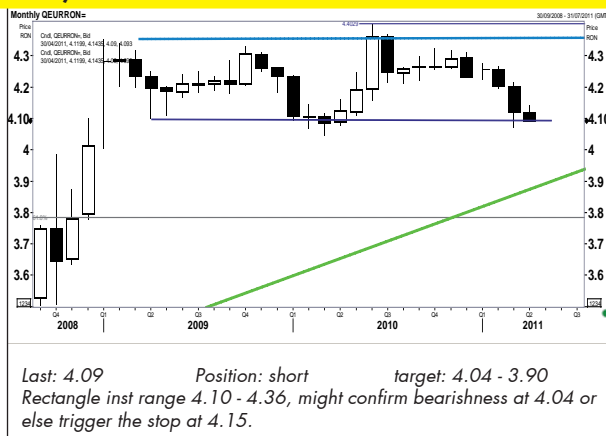
### Money market focus

MM rates	1m	3m	6m	12m
<b>Actual</b>	<b>4.20</b>	<b>5.43</b>	<b>6.16</b>	<b>6.38</b>
Change from last week	0.05	0.00	0.00	0.02
Forecast Jun-11	5.2	5.8	5.9	6.7
<b>Implicit forward rates</b>	<b>3x6</b>	<b>6x9</b>	<b>9x12</b>	
	6.97	6.57	6.44	
Change from last week	0.00	0.03	0.05	

### Bond market focus

	2y	3y	5y	10y
<b>Actual</b>	<b>7.08</b>	<b>7.16</b>	<b>7.20</b>	<b>7.14</b>
Change from last week	0.63	-0.02	0.01	0.01
Forecast Jun-11	6.85	7.05	7.10	7.10
<b>Spread to bunds</b>	<b>526.1</b>	<b>501.3</b>	<b>445.3</b>	<b>375.7</b>
Change from last week	67.5	-1.3	1.1	7.7

### EUR/RON



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market strategy

Neutral RON T-bonds

### Market comment

The monthly inflation rate was high in March (+0.6% mom), coming in above market expectations (+0.4% mom in the Reuters poll), with higher food prices (+1.2% mom) and fuel prices (+2.3% mom) as the main drivers. Leu appreciation pushed down phone tariffs (-1.8% mom), thereby limiting the advance in the overall CPI. The annual rate of inflation climbed to 8% yoy in March. This is above our expectations at the end of 2010 of 7% yoy. It is also well higher than the most recent forecast of the central bank in February of 6.8% yoy. The high level of inflation is mainly the result of adverse supply side shocks. Unfortunately, we expect these kinds of shocks to continue in the coming period, and we are looking for the inflation rate to climb towards 8.5%-8.7% yoy by June. We have revised up the end-2011 inflation forecast to 5.3% yoy, from 4.5% yoy previously. Also, in May we expect the central bank to substantially revise up the end-2010 inflation forecast from 3.6% yoy (set in February) towards 4.8-5% yoy.

### Market outlook

Investor interest in RON government securities remains high. The government borrowed considerable sums of money in the last two weeks, paying even marginally lower yields. Fears about an increase in yields are not very high among investors. We also share this opinion. But given the high inflation rate, we see no room for a decrease in yields, which means no capital gains in the coming period. Furthermore, we think that there is not very much room for the leu to appreciate in the upcoming period, which will not help non-resident players too much. Consequently, we maintain our neutral view on RON bills and bonds.

Analyst: Nicolae Covrig (+40 21 306 1262)

### Exchange rate focus

	actual	Jun-11	Sep-11	Dec-11
<b>EUR/RON</b>	<b>4.10</b>	<b>4.15</b>	<b>4.15</b>	<b>4.10</b>
Change from last week	0.3%			
<b>USD/RON</b>	<b>2.85</b>	<b>2.82</b>	<b>2.86</b>	<b>3.04</b>
Change from last week	0.0%			



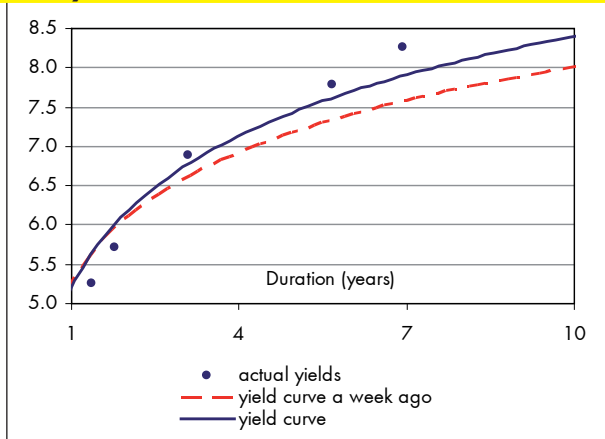
# Russia

## Higher oil prices mean stronger budget

### (P)review of key economic figures/events

15 Apr 11	Industrial output, % yoy	March 8.0 (Feb 5.8)
21 Apr 11	Retail sales, % yoy	March 4.5 (Feb 3.3)
21 Apr 11	Capital investment, % yoy	March 6.5 (Feb -0.4)

### RUB yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

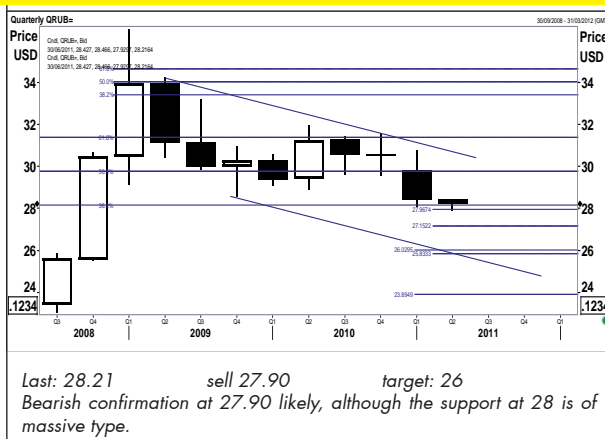
### Money market focus

MM rates	1m	3m	6m	12m
<b>Actual</b>	<b>3.87</b>	<b>4.35</b>	<b>5.06</b>	<b>6.09</b>
Change from last week	-0.01	-0.03	-0.04	-0.05
<b>Forecast Jun-11</b>	<b>4.00</b>	<b>4.20</b>	<b>4.50</b>	<b>n.a.</b>
<b>Forward rates</b>	<b>1x2</b>	<b>3x6</b>	<b>6x9</b>	<b>9x12</b>
	4.42	5.83	n.a.	n.a.
Change from last week	-0.04	-0.06	n.a.	n.a.

### Bond market focus

	1y	2y	5y	15y
<b>Actual</b>	<b>3.39</b>	<b>5.25</b>	<b>6.89</b>	<b>8.26</b>
Change from last week	-0.47	0.11	0.22	0.52
<b>Forecast Jun-11</b>	<b>5.00</b>	<b>6.40</b>	<b>7.60</b>	<b>n.a.</b>

### USD/RUB



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market strategy

We see the rouble correction reflecting weaker oil prices. However, we are optimistic about a recovery in the rouble market and recommend buying roubles at current levels against the dual currency basket.

### Market comment

The IMF experts forecast Russia's fiscal deficit to narrow to 1.6% of GDP this year. The original budget law for 2011 puts the deficit at 3.6% of GDP. Earlier, Russia's finance minister expressed similar optimism expecting the budget deficit to drop to 1.0-1.4% of GDP, provided that the oil price remains at 105 USD/bbl. The 2011 budget is based on an average oil price of 75 USD/bbl, which is extremely conservative given that the Brent price is currently hovering around USD 120 and the political crisis in Middle East is keeping oil prices at elevated levels. Since oil prices have exceeded our own forecasts, we plan to upgrade Russia's 2011 fiscal balance forecast from minus 3% of GDP to just minus 1.5%. Meanwhile, the non-oil budget deficit (reflecting structural imbalances) is unlikely to drop below 8% of GDP, as the government keeps on pushing up social and defence spending in the election year.

### Market outlook

Tomorrow, we expect the release of industrial production figure to be fairly good in comparison to prior months. We forecast output growth to be at or above 8% yoy. Should our expectations materialise this will give the central bank additional ammunition for hiking key interest rates by 50bp in April. Otherwise, weaker output can put the bank on hold for a longer time and prompt a revision of our rouble strategy which estimates 75-100bp in rate hikes for the remainder of 2011. Rouble market profit-taking was mainly linked to bearish European stock markets and the desire of local stock market players to cash profits. However, we expect the market correction to be short-lived. See our rouble recommendation in Strategy section.

Analyst: Gintaras Shlizhyus (+43 1 71707 1343)

### Exchange rate focus

	1y	2y	5y	15y
<b>Actual</b>	<b>3.39</b>	<b>5.25</b>	<b>6.89</b>	<b>8.26</b>
Change from last week	-0.47	0.11	0.22	0.52
<b>Forecast Jun-11</b>	<b>5.00</b>	<b>6.40</b>	<b>7.60</b>	<b>n.a.</b>
Change from last week	-0.9%			

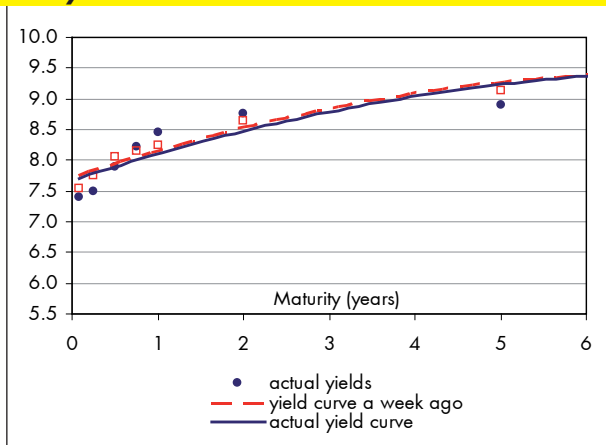
# Turkey

## Deputy Basci named new CBT head

### (P)review of key economic figures/events

15 Apr 11	Unemployment (3m avg), %	Jan 11.9 (Dez 11.4)
18 Apr 11	Consumer confidence	Mar n.a. (Feb 93.6)
21 Apr 11	CBT repo rate, %	Apr 6.25 (Mar 6.25)

### TRY yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market strategy

Buy TRY T-bonds

### Market comment

Turkish industrial production in February declined somewhat (by 1.7% mom) and yearly growth decelerated from 19% to 14%. However, we would not overrate the development, given a cumulated increase of 6% in the previous two months. Also, the balance of payments was released for February, with the current account deficit of USD 6.1 bn, slightly below analysts' expectations. Nevertheless, the combined January-February deficit of USD 12.1 bn is twice the previous year's amount for the same period.

Markets didn't change much in recent days: the lira is trading slightly above the USD/TRY 1.50 mark while the 2y benchmark yield decreased slightly towards 8.7%. On Tuesday, the new 2y zero coupon bonds due Feb 20 2013 was issued at a yield 8.88%.

### Money market focus

MM rates	1m	3m	6m	12m
Actual	7.45	7.75	8.00	8.40
Change from last week	0.05	0.00	0.00	0.00
Forecast Jun-11	7.60	8.00	8.20	n.a.
Implied forward rates	1x2	3x6	6x9	9x12
	7.50	8.09	8.41	8.33
Change from last week	-0.05	0.00	0.00	0.00

### Bond market focus

	1m	1y	2y	5y
Actual	7.40	8.45	8.76	8.90
Change from last week	-0.15	0.20	0.13	-0.24
Forecast Jun-11	n.a.	8.90	8.90	9.10

### EUR/TRY



Source: Thomson Reuters, Raiffeisen RESEARCH

### Market outlook

Next Thursday on April 21, the central bank will hold its monetary council meeting and decide on the benchmark rate, which is currently 6.25%. The lower-than-expected CPI release on March (4% yoy) may have taken some pressure off the central bank to raise key rates – despite the temporary nature of the low inflation rate, the high current account deficit and still rampant credit growth. Thus, we think that the rate will be left unchanged. In addition, the term of central bank governor Yilmaz ends quite soon, on April 18. Turkish president has already approved the nomination of Erdem Basci as a successor. Basci, currently deputy governor of the central bank, is seen as a good choice and we do not expect much change in monetary policy. Markets did not react much to the nomination.

Analyst: Andreas Schwabe (+43 1 71707 1389)

### Exchange rate focus

	actual	Jun-11	Sep-11	Dec-11
EUR/TRY	2.20	2.35	2.25	2.09
Change from last week	1.5%			
USD/TRY	1.52	1.60	1.55	1.55
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
<b>CEE</b>									
Poland	A	A-	stable	A2	A2	stable	A	A-	stable
Czech	A+	A	positive	A1	A1	stable	AA-	A+	positive
Hungary	BBB-	BBB-	negative	Baa3	Baa3	negative	BBB	BBB-	negative
Slovakia *	A+	A+	stable	A1	A1	stable	A+	A+	stable
Slovenia *	AA	AA	negative	Aa2	Aa2	stable	AA	AA	stable
<b>SEE</b>									
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-	stable
<b>CIS</b>									
Belarus	B+	B	negative	B1	B1	stable	nr	nr	-
Kazakhstan	BBB+	BBB	stable	Baa2	Baa2	stable	BBB	BBB-	positive
Russia	BBB+	BBB	stable	Baa1	Baa1	stable	BBB	BBB	positive
Ukraine	BB-	B+	stable	B2	B2	stable	B	B	stable
Turkey	BB+	BB	positive	Ba2	Ba2	positive	BB+	BB+	positive

\* 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	-7.2	50.9	33.2	-2.2	59.5	28.4	6.3
	2010	3.8	2.6	12.1	807	-7.8	53.4	34.7	-3.3	58.9	33.3	6.5
	2011e	4.0	3.7	11.0	890	-5.3	55.2	33.6	-3.3	52.8	34.9	6.3
Hungary	2009	-6.7	4.2	9.9	713	-4.4	78.3	63.4	-0.5	111.0	29.0	6.5
	2010	1.2	4.9	11.2	736	-4.3	81.2	72.5	0.8	109.2	31.3	6.1
	2011e	2.5	3.7	11.2	769	2.0	74.9	77.1	0.1	104.2	29.1	5.1
Czech Rep.	2009	-4.0	1.0	8.1	892	-5.8	35.3	56.1	-3.2	43.8	48.1	4.7
	2010	2.2	1.5	9.0	947	-5.5	39.8	65.7	-3.8	46.4	47.6	4.1
	2011e	1.5	2.0	8.6	995	-5.2	43.5	72.7	-3.3	43.9	51.8	3.8
Romania	2009	-7.1	5.6	6.3	435	-8.5	23.5	24.7	-4.2	69.1	34.9	9.4
	2010	-1.3	6.1	7.6	449	-7.3	29.8	30.5	-4.2	74.4	35.7	9.0
	2011e	1.5	6.8	6.0	481	-5.4	33.3	38.1	-4.8	71.3	34.0	6.7
Croatia	2009	-6.0	2.4	14.9	1051	-4.1	35.2	16.9	-5.5	97.7	23.3	8.3
	2010	-1.2	1.1	17.6	1054	-5.3	41.3	19.8	-1.4	99.8	23.3	8.5
	2011e	1.0	3.0	18.5	1055	-5.8	44.6	21.4	-2.9	97.8	24.2	8.8
Russia	2009	-7.9	11.8	8.4	425	-6.3	8.5	24.6	4.1	38.5	84.6	24.7
	2010	4.0	6.9	7.2	541	-4.1	9.4	26.4	6.1	32.8	92.8	22.6
	2011e	5.0	9.3	7.0	671	-2.7	9.9	25.5	6.9	29.2	104.3	24.4
Turkey	2009	-4.7	6.3	13.7	312	-5.5	48.9	17.9	-2.3	43.8	26.4	6.2
	2010	8.0	8.6	12.0	366	-3.7	45.6	16.4	-6.6	38.7	28.3	5.4
	2011e	5.0	6.0	11.0	352	-3.0	43.6	17.8	-6.6	39.4	27.4	5.4

\* 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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