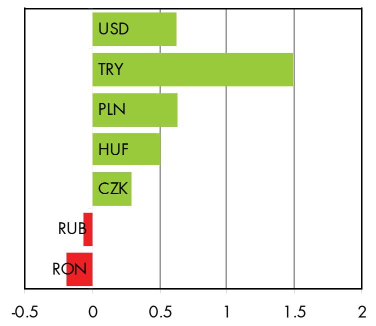
CEE Weekly Bond Markets Outlook

Issue 5/2012 — 03 February 2012

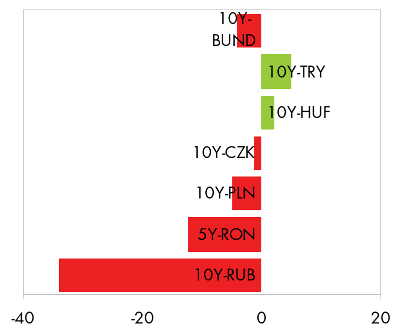
Raiffeisen RESEARCH

LCY changes vs. EUR*



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

Yield changes*



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

Recommendations

Neutral: PLN T-bonds, HUF T-bonds, RON T-bonds, CZK T-bonds, TRY T-bonds

Highlights

- **Poland** – Recent economic data releases put the National Bank of Poland (NBP) in a challenging position. The real economy is churning along nicely and inflation expectations are still on the rise. Given the trends, the MPC meeting next week will be a non-event. The hawkish stance should prevail, while no change in rates can be expected for now. With the recent rally and the rather unclear interest rate path, we perceive the local bond market as already rather expensive and would recommend a neutral position here.
- **Hungary** – The week ahead features important macro figures: the December trade balance and industrial output data, and in January the public budget will be released. Hungarian manufacturing did not produce a negative surprise in Q4 last year, and therefore decent growth of around 3% likely continued in the last month of the year. The January budget might give some guidance as to the feasibility of the government's 2012 budget plans and the implementation phase of structural reforms.
- **Czech Republic** – Although the CNB prognosis admits a further interest rate cut in the future, such a move is far from a done deal. On the contrary, it seems that the central bankers are very satisfied with the current interest rate level. One decisive point will be release of CPI inflation for January slated for 16 February. We estimate the CPI level close to 3.0% which should not frighten the CNB. The inflation is higher due to the VAT hike and regulated price increases which the CNB cannot influence.

Forecast

	current*	Mar-12	Jun-12	Sep-12
Poland				
PLN	4.20	4.45	4.30	4.15
1m-rate	4.6	4.6	4.3	4.1
5y bond	5.0	5.0	4.9	4.5
10y bond	5.5	5.8	5.6	5.3
Hungary				
HUF	292.6	305	300	295
1m-rate	7.2	7.1	7.1	7.1
5y bond	8.6	8.4	7.8	7.6
10y bond	8.6	8.6	8.0	7.8
Czech Rep.				
CZK	25.2	25.2	24.7	24.4
1m-rate	0.6	0.5	0.5	0.5
5y bond	2.0	2.4	2.1	2.2
10y bond	3.2	3.8	3.4	3.4
Russia				
RUB**	30.2	32.6	32.6	31.9
1m-rate	5.8	6.5	6.4	6.5
5y bond	7.6	8.4	8.3	8.5
10y bond	7.9	9.1	8.9	9.1
USD	**1.32**	**1.30**	**1.32**	**1.35**

** Prices as of 03 February 2012 10:56 a.m. CET; Currencies per 1 EUR, **RUB per 1 USD*
Source: Thomson Reuters, Raiffeisen RESEARCH

Key upcoming events and data releases

Country	Time	Indicator	Period	Forecast	Range	Last
03 Feb						
CZ	09:00	Retail sales, %yoy	Dec	1.6	-0.7/0.5/1.3	0.5
TR	09:00	Consumer prices, % yoy	Jan	10.6	10.5/10.7/10.9	10.5
06 Feb						
CZ	09:00	Industrial output, % yoy	Dec	2.4	0.5/1.5/3.1	5.4
07 Feb						
HU	09:00	Industrial output, % yoy	Dec	3.2	n.a.	3.5
HU	16:00	Trade balance, EUR mn	Dec	410	n.a.	663
HU	16:00	Budget balance, HUF bn	Jan	n.a.	n.a.	-1734
CZ	09:00	Foreign trade balance, CZK bn	Dec	6.0	3.0/4.2/8.5	18.4
06-07 Feb						
RU	07:00	CPI, % mom	Jan	0.5	0.4/0.6/0.7	0.4
RU	07:00	CPI, % yoy	Jan	4.2	4.1/4.3/4.4	6.1
08 Feb						
PL		MPC meeting, base rate % yoy	Feb	4.5	4.5/4.5/4.5	4.5
TR	09:00	Industrial output, % mom	Dec	n.a.	n.a.	-2.5
09 Feb						
RO	09:00	Foreign trade balance, EUR mn	Dec	n.a.	n.a.	-320.0
10 Feb						
RO	09:00	Industrial output, % yoy	Dec	n.a.	n.a.	3.1

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- **Romania** – The central bank cut the monetary policy rate by 25bp to 5.5%. Weak domestic demand, rapidly declining inflation rate, and expectations that inflation rate will remain inside the central bank's inflation target band (2%-4%) in the coming 12-18 months were the main reasons behind the central bank's move. We see chances that the easing cycle might continue in the coming months (key rate moving to 5.0-5.25%).
- **Croatia** – Lower liquidity and speculation about the issuance of EUR-linked 2-year T-bills have reduced trading in the domestic bond market to a minimum. The Ministry of Finance has finally announced the issuance of a 2-year T-bill worth HRK 1 bn in the next week. We expect a solid demand, mostly from institutional investors.
- **Russia** – According to Rosstat's preliminary estimate, Russia's GDP grew by 4.3% yoy in 2011. In more detail, household consumption remained the main source of growth, adding 6.4% in 2011 compared to 5.1% a year earlier. Excluding inventories investment remained virtually flat at 6% yoy compared to 5.8% in 2010. Going forward, we expect little change in economic conditions and expect growth patterns to be very similar to 2011. However, we expect GDP to slow down to 3.2% in 2012 mainly due to cooling consumption and abysmal export performance.
- **Turkey** – In tandem with the easing lira last Thursday the yield on Turkey's benchmark also rose a bit from its lowest level since 2011 October. After gaining more than 17% or around 200bp YTD, some profit taking slowed the pace of the current rally. In the very short term, the January inflation data due today bear the biggest upside risks for the Turkish yield curve, while we rather believe that ongoing profit taking should be the main driver behind the slightly upward pressure on yields in the days ahead.

Local currency bonds market overview

CEE local currency bond market snapshot

03/02/2012	Maturity	Coupon %	Ask Price	YTM %	Spread to Bunds; bp	MDur.
			Poland			
PLN 2y Gov. Bond	25/01/2014	0.00	91.44	4.66	447	2.0
PLN 5y Gov. Bond	25/10/2016	4.75	98.95	5.00	422	4.3
PLN 10y Gov. Bond	25/10/2021	5.75	101.66	5.52	367	7.6
			Hungary			
HUF 3y Gov. Bond	22/08/2014	6.75	96.36	8.37	799	2.4
HUF 5y Gov. Bond	24/11/2017	6.75	92.12	8.52	774	4.9
HUF 10y Gov. Bond	24/06/2022	7.00	88.98	8.64	679	7.2
HUF 15y Gov. Bond	22/10/2028	6.75	83.85	8.60	624	9.7
			Czech Republic			
CZK 2y Gov. Bond	16/09/2013	2.80	102.58	1.17	98	1.6
CZK 5y Gov. Bond	26/01/2016	6.95	118.87	1.96	118	3.6
CZK 10y Gov. Bond	29/09/2021	3.85	106.40	3.07	122	8.2
CZK 15y Gov. Bond	25/05/2024	5.70	123.95	3.30	94	9.2
			Croatia			
HRK 5y Gov. Bond	15/12/2015	5.25	95.70	6.53	575	3.6
HRK 10y Gov. Bond	05/03/2020	6.75	96.00	7.42	557	6.1
			Romania			
RON 3y Gov. Bond	25/10/2014	6.25	98.83	6.72	634	2.5
RON 5y Gov. Bond	30/04/2016	6.00	96.72	6.91	613	3.7
			Russia			
RUB 2y Gov. Bond	16/10/2013	6.55	100.70	6.25	606	1.6
RUB 5y Gov. Bond	03/08/2016	6.90	98.60	7.40	662	3.9
RUB 10y Gov. Bond	24/11/2021	8.00	94.70	7.79	594	7.1
RUB 30y Gov. Bond	06/02/2036	6.90	89.00	8.10	564	10.8
			Turkey			
TRY 2y Gov. Bond	04/12/2013	10.00	101.45	9.11	892	1.7
TRY 5y Gov. Bond	27/01/2016	9.00	98.60	9.43	865	3.5
TRY 10y Gov. Bond	12/01/2022	9.50	100.00	9.50	765	6.8

Prices as of 03 February 2012,09:23 a.m. CET
Source: Thomson Thomson Reuters, Raiffeisen RESEARCH

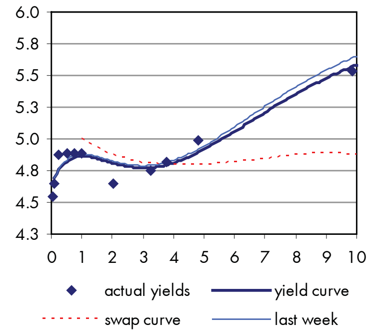
Bond auctions

		ISIN	Coupon	Maturity	Volume
06 Feb-12					
PL	2y T-bond	n.a.	n.a.	n.a.	PLN 3-6 bn
PL	5y T-bond	n.a.	n.a.	n.a.	PLN 3-6 bn
09 Feb-12					
HU	n.a.	n.a.	n.a.	n.a.	n.a.

Poland: Sustainable PLN and LCY bond rally?

(P)review of key economic figures/events			
31 Jan-12	NBP Inflation Expectations, % yoy	Jan 5.2 (Dec 4.8)	Rise in inflation expectations unlikely to be sustained
01 Feb-12	PMI, points	Feb 52.2 (Dec 48.8)	Positive surprise on the upside
08 Feb-12	MPC meeting, base rate % yoy	Feb 4.5 (Jan 4.5)	No change expected; degree of "hawkishness" will be key

PLN yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Money market focus

MM rates	1m	3m	6m	12m
Actual	**4.55**	**4.78**	**4.79**	**4.79**
Change (% wow)	0.00	0.00	-0.02	-0.02
Forecast Mar-12	4.55	4.60	4.51	4.45
Forward rates		**3x6**	**6x9**	**9x12**
		4.83	4.76	4.70
Change (% wow)		-0.04	-0.02	-0.02

Prices as of 03 February 2012,09:23 a.m. CET

EUR/PLN

Last: 4.1964 Position: neutral
08:40, 03.02.2012 CET
Although the current sideways-movement might turn out to be a bearish continuation, sell 4.1500-> 4.1285 - 4.4125, a recovery is not excluded, because of stong supports, buy 4.2660-> 4.3036.

Source: Thomson Reuters, Raiffeisen RESEARCH

Market comment

The Polish real economy and local financial markets (FX and LCY bonds) continue to have a good time. At 4.3% yoy, the final 2011 GDP reading reached a three-year high and thus exceeded expectations. The January PMI surpassed the 50 level, following two readings below 50 in November and December. EUR/PLN broke through 4.20, while the most recent 10-year sovereign placement (yield level of 5.511%) on local markets was very well received (bid-to-cover ratio at around 1.63). Thus, the sovereign continues with its aggressive issuance without damaging yields.

Market outlook

Recent economic data releases put the National Bank of Poland (NBP) in a challenging position. The real economy is churning along nicely and inflation expectations are still on the rise. Surveyed 12-month inflation expectations reached a three-year high at 5.2% yoy in January – well above the inflation target. Thus, the current hawkish stance of the MPC may prevail for some weeks to come. However, inflation should start on a downtrend in the coming months (driven by base effects and recent PLN strength) and some slowing in the Polish economy (from current strong levels) seems inevitable. The question remains if a moderate downtrend in inflation and the economy will be sufficient to deliver rate cuts going forward. Currently, we still have 50bp in rate cuts in our baseline scenario. Depending on the upcoming decline in economic activity (indicators), we may change our rate call to stable rates throughout 2012 or just 25bp in rate cuts (the latter is our current bias, in case we have to adapt our forecasts in the coming weeks). Given the trends, the MPC meeting next week will be a non-event as the hawkish stance should prevail, while no change in rates can be expected for now. With the recent rally and the rather unclear interest rate path, we perceive the local bond market as already rather expensive and would recommend a neutral position here.

Analyst: Gunter Deuber (+431 71707 5707)

Bond market focus

	2y	5y	10y	20y
Actual	**4.66**	**5.00**	**5.52**	**5.69**
Change (% wow)	-0.01	-0.04	-0.08	-0.06
Forecast Mar-12	4.70	5.00	5.80	5.75
Spread to bunds	**447.1**	**422.4**	**367.2**	**317.2**
Change (% wow)	-0.5	0.7	-8.2	2.8

Prices as of 03 February 2012,09:23 a.m. CET

Exchange rate focus

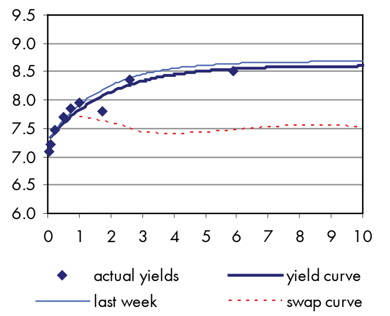
	03-Feb	Mar-12	Jun-12	Sep-12
EUR/PLN	**4.20**	**4.45**	**4.30**	**4.15**
Change (% wow)	0.6%			
USD/PLN	**3.20**	**3.42**	**3.26**	**3.07**
Change (% wow)	0.5%			

Prices as of 03 February 2012,09:23 a.m. CET

Hungary: No news is good news

(P)review of key economic figures/events		
25 Jan-12	Retail trade, % yoy	Nov 0.6 (Oct 1.1)
06 Feb-12	Industrial output, % yoy	Dec 3.2 (Nov 3.5)
07 Feb-12	Trade balance, EUR mn	Dec 410 (Nov 663)

HUF yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Money market focus

MM rates	1m	3m	6m	12m
Actual	**7.23**	**7.48**	**7.71**	**7.95**
Change (% wow)	-0.01	-0.03	-0.03	-0.08
Forecast Mar-12	7.1	7.1	7.3	7.7
Forward rates	**1x2**	**3x6**	**6x9**	**9x12**
	7.75	8.03	8.03	8.05
Change (% wow)	-0.03	-0.03	-0.12	-0.14

Prices as of 03 February 2012,09:23 a.m. CET

EUR/HUF

Last : 292.10 sell 286.00
Target: 284.00 - 281.40 08:57, 03.02.2012 CET; The decline should proceed within the bearish trend-channel, sell 286.00 ->284.00-281.40, but a rebound at the Fibo is not ruled out, stop 292.02->295.56.

Source: Thomson Reuters, Raiffeisen RESEARCH

Market comment

Upbeat international sentiment and the limited newsflow on Hungary's relations with the international institutions stabilised HGB yields last week. At the same time, HUF has strengthened massively, as EUR/HUF dropped from 300 to 290 – a level not seen since mid-October.

As for the negotiations with the EU and IMF, experts are currently working in the background – with no public information being released. The good news is that politicians did not have any bad news: at the EU summit, PM Orbán gave a clear and straightforward Yes on Hungary's participation in the new pact on fiscal discipline (in contrast to his earlier reserved stance). December employment data were released: unemployment was 10.7% and the labour statistics were only marginally better in 2011 than in 2010; the number of unemployed was largely unchanged, while employment has increased by 30,000 (by 0.8%).

Market outlook

The week ahead features important macro figures: the December trade balance and industrial output data, and in January the public budget will be released. Hungarian manufacturing did not produce a negative surprise in Q4 last year, and therefore decent growth of around 3% likely continued in the last month of the year. The January budget might give some guidance as to the feasibility of the government's 2012 budget plans and the implementation phase of structural reforms. If the macro data remain supportive, European market sentiment remains bullish and no negative news comes from the IMF-EU relations, we should witness a relatively successful bond auction on Thursday (9 February). EUR/HUF is seen to stabilise around 290, and HGB yields might move downwards by 20-40bp. Nevertheless, sooner or later the current market optimism may fade, giving room for some correction. Therefore, we suggest staying NEUTRAL on Hungarian assets.

Analyst: Zoltán Török (+36 1 484 4400)

Bond market focus

	3y	5y	10y	15y
Actual	**8.37**	**8.52**	**8.64**	**8.60**
Change (% wow)	-0.07	-0.16	-0.10	-0.02
Forecast Mar-12	8.3	8.4	8.6	8.6
Spread to bunds	**799.3**	**774.4**	**679.2**	**624.0**
Change (% wow)	-3.7	-11.7	-0.7	5.8

Prices as of 03 February 2012,09:23 a.m. CET

Exchange rate focus

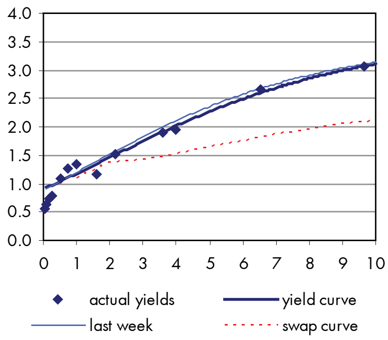
	03-Feb	Mar-12	Jun-12	Sep-12
EUR/HUF	**292.52**	**305.0**	**300.0**	**295.0**
Change (% wow)	0.7%			
USD/HUF	**222.67**	**234.6**	**227.3**	**218.5**
Change (% wow)	0.6%			

Prices as of 03 February 2012,09:23 a.m. CET

Czech Republic: CNB sees future rate cut

(P)review of key economic figures/events			
03 Feb-12	Retail sales, % yoy	Dec 1.6 (Nov 0.5)	
06 Feb-12	Industrial output, % yoy	Dec 2.4 (Nov 5.4)	Correction after strong November
07 Feb-12	Foreign trade balance, CZK bn	Dec 6.0 (Nov 18.4)	Seasonally weaker foreign trade

CZK yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Market comment

As widely expected, the Czech National Bank left the key interest rate unchanged at 0.75%. The decision was unanimous. However, for some market players the new CNB forecast may be surprising. Compared to the old one, in the new forecast the CNB sees CZK weaker by 8% at EUR/CZK 24.90 in 2012 and 24.30 in 2013. Despite this, the implied trajectory shows stability of interest rates over the near term (1-2 quarters) and a small decline afterwards. The CNB cut the GDP forecast for 2012 to 0.0% from 1.2% and to 1.9% from 2.7% for 2013. The bond market and CZK did not react significantly to the rather dovish forecast. On the other hand, the Czech koruna continued to appreciate closer to EUR/CZK 25.0. Just to remind, one month ago the EUR/CZK was at 25.80.

Market outlook

Although the CNB prognosis admits a further interest rate cut in the future, such a move is far from a done deal. On the contrary, it seems that the central bankers are very satisfied with the current interest rate level. One decisive point will be release of CPI inflation for January slated for 16 February. We estimate the CPI level close to 3.0% which should not frighten the CNB. The inflation is higher due to the VAT hike and regulated price increases which the CNB cannot influence. Also if, as we expect, more and more data confirm that the Czech economy is weakening while the Czech koruna does not depreciate significantly the CNB might decide to cut interest rates sooner than implied by the CNB's forecast. However, especially the CZK exchange rate remains now highly conditional on the debt crisis development in the Eurozone and represents a risk to both sides of the inflation target. Our baseline scenario still remains at 1.2% GDP contraction in 2012 and policy rate cut to 0.50%. We stick to our HOLD recommendation for the Czech government bonds.

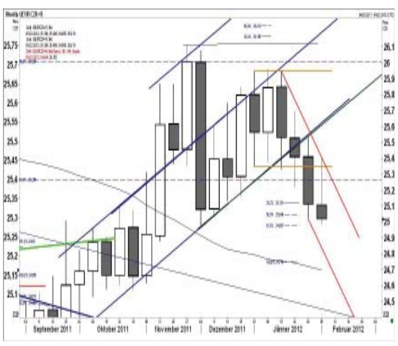
Analyst: Michal Brozka (+420 234 40 1489)

Money market focus

MM rates	1m	3m	6m	12m
Actual	**0.95**	**1.18**	**1.49**	**1.75**
Change (% wow)	-0.01	0.00	0.00	0.01
Forecast Mar-12	0.5	0.6	0.8	1.2
Forward rates	**1x2**	**3x6**	**6x9**	**9x12**
	1.18	1.81	1.94	2.07
Change (% wow)	0.01	0.00	0.00	0.04

Prices as of 03 February 2012,09:23 a.m. CET

EUR/CZK



Last: 25.017 sell 24.970 Target: 24.750 08:23, 03.02.2012 CET
The donwtrend is expected to continue to the Fibonacci-Retracement, sell 24.970->24.750, stop 25.180->25.270.

Source: Thomson Reuters, Raiffeisen RESEARCH

Bond market focus

	2y	5y	10y	15y
Actual	**1.17**	**1.96**	**3.07**	**3.30**
Change (% wow)	-0.07	-0.17	-0.05	0.00
Forecast Mar-12	1.7	2.4	3.8	4.2
Spread to bunds	**97.6**	**118.4**	**122.3**	**94.2**
Change (% wow)	-8.4	-13.1	4.1	8.2

Prices as of 03 February 2012,09:23 a.m. CET

Exchange rate focus

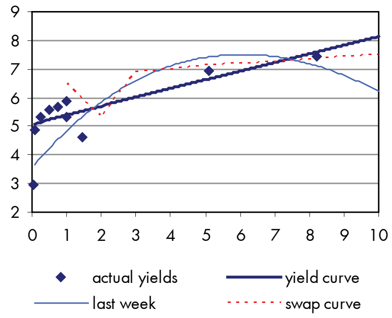
	03-Feb	Mar-12	Jun-12	Sep-12
EUR/CZK	**25.07**	**25.2**	**24.7**	**24.4**
Change (% wow)	0.4%			
USD/CZK	**19.09**	**19.4**	**18.7**	**18.1**
Change (% wow)	0.2%			

Prices as of 03 February 2012,09:23 a.m. CET

Croatia: HRK remains under depreciation pressure

(P)review of key economic figures/events		
31 Jan-12	Export of goods, EUR mn	Dec 1011.9 (Nov 900.9)
31 Jan-12	Import of goods, EUR mn	Dec 1359.6 (Nov 1653.5)
03 Feb-12	Retail trade, % yoy	Dec 0.4 (Nov 1.0)

HRK yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Money market focus

MM rates	1m	3m	6m	12m
Actual	**4.85**	**5.32**	**5.59**	**5.88**
Change (% wow)	3.26	0.63	0.34	0.23
Forecast Mar-12	4.6	4.9	5.6	6.0
Forward rates		**3x6**	**6x9**	**9x12**
		5.91	5.82	6.36
Change (% wow)		0.04	0.00	0.22

Prices as of 03 February 2012,09:23 a.m. CET

EUR/HRK

Last: 7.5820
buy 7.6000 Target
7.6372 08:27, 03.02.2012 CET
The increase succeeded to cross through the RRL of the bullish trend-channel, therefore, buy 7.6000-> 7.6372, stop 7.5423-> 7.5203.

Source: Thomson Reuters, Raiffeisen RESEARCH

Market comment

The CNB's decision to increase the reserve requirement rate from 14% to 15% was able to halt the increase in EUR/HRK at least for a while, but did not manage to push down the FX rate. Consequently, EUR/HRK is trading at around 7.58, which is about the same level as before the CNB's decision. Moreover, the T-bill auction resulted in stronger issuance of EUR-linked bills than the amount which fell due, which also had a balancing effect on the FX market. However, in the situation of permanent demand for EUR and scarce EUR inflows, we expect that depreciation pressures on HRK will continue at least until the beginning of the tourist season, but the CNB is going to stay committed to the stable EUR/HRK. The draining out of liquidity did not influence the money market significantly. Money market rates jumped immediately upon announcement of the CNB's decision, but the rates already pulled back the next day. Next week, the new reserve requirement period begins with a likely slight rise of the MM rates on shorter maturities.

Market outlook

Lower liquidity and speculation about the issuance of EUR-linked 2-year T-bills have reduced trading in the domestic bond market to a minimum. The Ministry of Finance has finally announced the issuance of a 2-year T-bill worth HRK 1 bn in the next week. We expect a solid demand, mostly from institutional investors. The Minister of Finance also hinted that we might also see a bond issuance on the foreign market, but this should not happen before the mid-March since the budget has yet to be adopted. This announcement coincided with positive sentiment in the region which has pushed up prices of Croatian Eurobonds in the last few days. The IMF mission was in Zagreb in this week talking to the CNB and major banks, while in the weeks to come we also expect representatives from the three major rating agencies. Their decision is quite uncertain since the government did announce some spending cuts in the proposed measures for the 2012 budget, but the question is will it be enough to keep the investment rating.

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

Bond market focus

	2y	5y	10y
Actual	**4.64**	**6.95**	**7.42**
Change (% wow)	-0.01	0.01	0.00
Forecast Mar-12	6.30	7.65	7.75
Spread to bunds	**444.7**	**616.9**	**556.8**
Change (% wow)	-1.9	0.1	9.4

Prices as of 03 February 2012,09:23 a.m. CET

Exchange rate focus

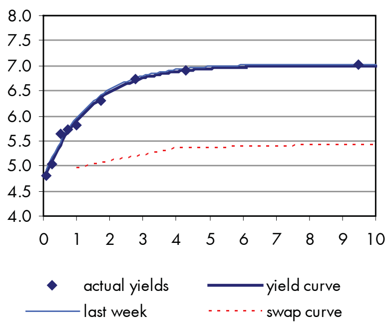
	03-Feb	Mar-12	Jun-12	Sep-12
EUR/HRK	**7.58**	**7.55**	**7.52**	**7.57**
Change (% wow)	-0.2%			
USD/HRK	**5.19**	**5.81**	**5.70**	**5.61**
Change (% wow)	0.0%			

Prices as of 03 February 2012,09:23 a.m. CET

Romania: Key rate cut by 25bp to 5.5%

(P)review of key economic figures/events		
02 Feb-12	Monetary Policy meeting, %	Feb 5.50 (Jan 5.75)
09 Feb-12	Foreign trade balance, EUR mn	Dec n.a. (Nov -320)
10 Feb-12	Industrial output, % yoy	Dec n.a. (Nov 3.1)

RON yield curve



Source: Thomson Reuters, Bloomberg, Raiffeisen RESEARCH

Money market focus*

MM rates	1m	3m	6m	12m
Actual	**4.80**	**5.03**	**5.64**	**5.82**
Change (% wow)	-0.08	-0.11	-0.02	-0.04
Forecast Mar-12	5.0	5.3	5.3	6.1
Forward rates		**3x6**	**6x9**	**9x12**
		6.32	5.84	6.00
Change (% wow)		0.07	-0.08	-0.04

** forecast under revision*
Prices as of 03 February 2012,09:23 a.m. CET

EUR/RON

Last:4.3439
Position: neutral 08:42, 03.02.2012 CET ; It still struggles to perform a breakout from the long-term congestion area at 4.3650 -> 4.3840,instead, a sell would be triggered at 4.3290-> 4.3084-4.2925.

Source: Thomson Reuters, Raiffeisen RESEARCH

Market comment

In a surprisingly quick move, the Finance Ministry decided to tap external financial markets again. On Tuesday, Romania borrowed USD 1.5 bn in a 10-year USD-denominated Eurobond. Average yield was 6.875%. The issue was part of the Euro Medium Term Notes Program approved last year (EUR 7 bn borrowing target in 3 years). At the end of last year, the program was changed to allow issues of bonds in USD to attract US investors. On 2 February, the central bank cut the monetary policy rate by 25bp to 5.5%. The move was in line with our projections and the market's expectations. This was the third cut in a row. We think that weak domestic demand, rapidly declining inflation rate, and expectations that inflation rate will remain inside the central bank's inflation target band (2%-4%) in the coming 12-18 months were the main reasons behind the central bank's move. While we previously expected the key rate to bottom out at 5.5%, we see now chances that the easing cycle might continue in the coming months (key rate moving to 5.0-5.25%). However, the NBR's statement following the monetary policy meeting was not very dovish as in January, with more stress on the external and domestic risks. On 7 February, the NBR will publish its new inflation forecast and the Inflation Report, providing more clues on its view on inflation, financial markets and the real sector.

Market outlook

After issuing a large amount of debt in government securities in January (RON 9.9 bn), the Finance Ministry wants to borrow another RON 5 bn in February. Moreover, the Finance Ministry wants to test the local markets with a 15-year T-bond (RON 300 mn), which is a long tenor not seen in last year's auctions. The Finance Ministry borrowed RON 1.3 bn in a 3-year T-bond at an average yield of 6.8%. Initial target was of RON 750 mn. Following the new rate cut, yields on RON government securities might move to lower levels in the coming period, although we think that the decline will be limited.
Analyst: Nicolae Covrig (+40 21 306 1262)

Bond market focus*

	2y	3y	5y	10y
Actual	**6.30**	**6.72**	**6.91**	**7.01**
Change (% wow)	-0.10	-0.01	-0.10	0.00
Forecast Mar-12	6.50	6.90	7.10	7.20
Spread to bunds	**611.0**	**634.3**	**613.4**	**516.2**
Change (% wow)	-11.3	-5.7	0.0	9.3

** forecast under revision*
Prices as of 03 February 2012,09:23 a.m. CET

Exchange rate focus

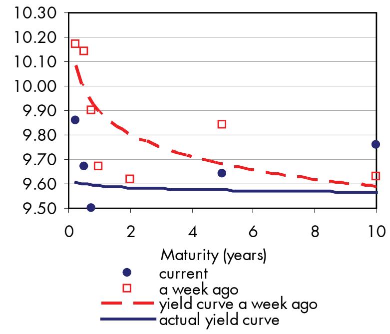
	03-Feb	Mar-12	Jun-12	Sep-12
EUR/RON	**4.35**	**4.40**	**4.35**	**4.30**
Change (% wow)	-0.2%			
USD/RON	**3.31**	**3.38**	**3.30**	**3.19**
Change (% wow)	-0.3%			

Prices as of 03 February 2012,09:23 a.m. CET

Turkey: Enter TRY market after the expected backlash

(P)review of key economic figures/events			
31 Jan-12	Trade balance, USD bn	Dec -8.1 (Nov -7.5)	Better than expected lending support to the expected C/A narrowing
03 Feb-12	Consumer prices, % yoy	Jan 10.6 (Dec 10.5)	Base effect to keep yearly CPI inflation in double digits until mid-2012
08 Feb-12	Industrial output, % mom	Dec n.a. (Nov -2.5)	Industry to calm down gradually in line with overall economic cooling

TRY yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Money market focus

MM rates	1m	3m	6m	12m
Actual	**10.26**	**10.35**	**10.38**	**10.45**
Change (% wow)	-0.89	-0.84	-0.82	-0.78
Forecast Mar-12	**11.60**	**11.70**	**11.70**	**n.a.**
Implied forward rates	**1x2**	**3x6**	**6x9**	**9x12**
	10.25	10.16	9.92	9.83
Change (% wow)	-0.90	-0.75	-0.79	-0.51

Prices as of 03 February 2012 , 09:42 a.m. CET

EUR/TRY

Last: 2.3100 Position: neutral
08:52, 03.02.2012 CET
The Doji-Star signals a recovery, buy 2.3390-> 2.3550- 2.3825, but the pattern might become a bearish Pennant too, sell 2.9000-> 2.2810-2.2675.

Source: Thomson Reuters, Raiffeisen RESEARCH

Market comment

In tandem with the easing lira (TRY pulled back somewhat from a 3m high against USD last Thursday), the yield on Turkey's benchmark also rose a bit from its lowest level since 2011 October. After gaining more than 17% or around 200bp year-to-date, some profit-taking slowed the pace of the current rally, which already started at the beginning of this year. Earlier this week, the central bank's announcement that it was revising up its inflation forecast – basically bad news for the domestic bond market – was counterbalanced by the connected statement to follow their flexible monetary policy strategy. With the interest corridor remaining the key policy tool, the bank's tightening bias will prevail for "a while". On the basis of our 7% end-2012 CPI inflation projection, it was rather a question of time to us when the TCMB would adjust its 5.2% yoy forecast. Now, they expect 6.5% yoy for YE 2012, but the likelihood to be successful depends to a huge extent on the performance of the local currency, not least in light of its estimated 5 pp contribution to the 2011-YE inflation figure of 10.5%.

Market outlook

Recent events are exactly in line with our expectations, as we anticipated the need to keep the monetary reigns tight at least until the middle of this year. In conjunction with our expectation of gradually fading risk appetite on another wave of Eurozone jitters, we are waiting for a temporary upward correction in Turkish yields in the weeks to come. Depending on the extent of this it remains uncertain if the upcoming issuances of the Treasury – planned borrowing of TRY 39.3 bn in the course of the next three months; rollover ratio of 78.9% – will already offer prudent entry levels. However, in the very short term, the January inflation data due today bear the biggest upside risks for the Turkish yield curve, but we tend to believe that ongoing profit-taking should be the main driver behind the slightly upward pressure on yields in the days ahead.

Analyst: Stephan Imre (+43 1 71707 6757)

Bond market focus

	3m	1y	2y	5y
Actual	**9.86**	**9.37**	**9.32**	**9.64**
Change (% wow)	-0.31	-0.30	-0.30	-0.20
Forecast Mar-12	**n.a.**	**11.2**	**11.0**	**11.2**

Prices as of 03 February 2012, 09:42 a.m. CET

Exchange rate focus

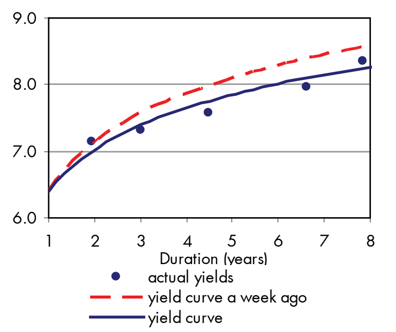
	03-Feb	Mar-11	Jun-11	Sep-11
EUR/TYR	**2.31**	**2.47**	**2.51**	**2.50**
Change (% wow)	-1.3%			
USD/TYR	**1.76**	**1.90**	**1.90**	**1.85**
Change (% wow)	-1.8%			

Prices as of 03 February 2012 ,09:42 a.m. CET

Russia: Positive growth, conservative policy

(P)review of key economic figures/events		
06-07 Feb-12	CPI, % mom	Jan 0.5 (Dec 0.4)
06-07 Feb-12	CPI, % yoy	Jan 4.2 (Dec 6.1)

RUB yield curve



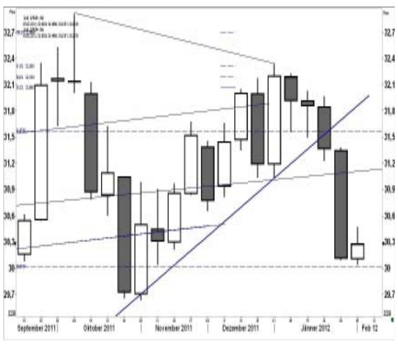
Source: Thomson Reuters, Raiffeisen RESEARCH

Money market focus

MM rates	1m	3m	6m	12m
Actual	**6.27**	**7.22**	**7.61**	**8.64**
Change (% wow)	-0.21	-0.15	-0.08	-0.01
Forecast Mar-12	6.45	6.90	7.05	n.a.
Forward rates	**1x2**	**3x6**	**6x9**	**9x12**
	7.42	8.09	n.a.	n.a.
Change (% wow)	-0.08	0.06	n.a.	n.a.

Prices as of 03 February 2012 ,09:51 a.m. CET

EUR/RUB



Last: 30.2810 sell 29.93
Target: 29.6480 - 29.3535 08:46, 03.02.2012 CET
The consolidation close by the Fibonacci-Retracement looks like a bearish Pennant which indicates another decline, stop 30.7000-> 31.084.

Source: Thomson Reuters, Raiffeisen RESEARCH

Market comment

According to Rosstat's preliminary estimate, Russia's GDP grew by 4.3% yoy in 2011. In more detail, household consumption remained the main source of growth, adding 6.4% in 2011 compared to 5.1% a year earlier. Capital formation including both capital investment and stock of inventories went up 22.4% in 2011, whereas excluding inventories investment remained virtually flat at 6% yoy compared to 5.8% in 2010. The larger increase in capital formation occurred mainly due to the accounting re-evaluation of stock inventories' in the course of 2011. Government spending posted a marginal increase, coming in at about 0.8%. Rapid growth in imports in 2011 offset the export contribution and thus net export turned out to be negative for the whole year. Going forward, we expect little change in economic conditions and expect growth patterns to be very similar to 2011. However, slower growth in household incomes and a possible increase in unemployment from the current low levels represent risks which may undermine consumer confidence. On the investment front, we expect positive synergies from rising government consumption as Russia finalises construction for the Sochi 2014 Winter Olympics and readies itself for the 2018 World Soccer Cup. Net exports may see some improvement due to slower import growth in 2012. As a result, we expect GDP to slow down to 3.2% in 2012 mainly due to cooling consumption and abysmal export performance whereas in 2013-2014 growth may quicken to 4% - 4.5%.

Market outlook

Russia's central bank sees no need to change its monetary policy and feels comfortable about the current interest rate corridor. The bank uses its overnight deposit rate, now at 4%, as a floor, and the 6.25% fixed repo rate as a ceiling. It says near-term inflation risks are acceptable, but inflation pressures will rise in Q3 2012. The bank also did not rule out the possibility of further widening of the FX corridor for the rouble against the dual currency basket which is currently set at 32.20 - 38.20. Nevertheless, the regulator is not prepared for inflation targeting and rouble free float in 2012, so most likely the policy reform will target 2013-2014.

Analyst: Gintaras Shlizhyus (+43 1 71707 1343)

Bond market focus

	1y	2y	5y	15y
Actual	**6.40**	**7.14**	**7.58**	**8.35**
Change (% wow)	0.00	0.10	-0.36	-0.44
Forecast Mar-12	6.45	7.40	8.40	n.a.

Prices as of 03 February 2012 ,09:51 a.m. CET

Exchange rate focus

	03-Feb	Mar-12	Jun-12	Sep-12
EUR/RUB	**39.79**	**42.38**	**43.04**	**43.04**
Change (% wow)	0.1%			
USD/RUB	**30.25**	**32.60**	**32.60**	**31.88**
Change (% wow)	0.5%			

Prices as of 03 February 2012 ,09:51 a.m. CET

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	AA	AA-	stable	A1	A1	stable	AA-	A+	stable
Hungary	BB+	BB+	negative	Ba1	Ba1	negative	BBB-	BB+	negative
Slovakia *	A+	A+	negative	A1	A1	stable	A+	A+	stable
Slovenia *	AA-	AA-	negative	A1	A1	negative	AA-	AA-	negative
SEE									
Bulgaria	BBB	BBB	stable	Baa2	Baa2	stable	BBB	BBB-	stable
Croatia	BBB-	BBB-	negative	Baa3	Baa3	stable	BBB	BBB-	negative
Romania	BB+	BB+	stable	Baa3	Baa3	stable	BBB	BBB-	stable
Serbia	BB	BB	stable	nr	nr	-	BB-	BB-	stable
CIS									
Belarus	B-	B-	negative	B3	B3	negative	nr	nr	-
Kazakhstan	BBB+	BBB+	stable	Baa2	Baa2	stable	BBB+	BBB	positive
Russia	BBB+	BBB	stable	Baa1	Baa1	stable	BBB	BBB	stable
Ukraine	B+	B+	stable	B2	B2	negative	B	B	stable
Turkey	BBB-	BB	positive	Ba2	Ba2	positive	BB+	BB+	stable

**Eurozone (Euro currency) members*
Source: rating agencies websites

Main macro data & forecasts*

Country	Year	GDP, % avg. yoy	CPI, % avg. yoy	Unem-ployment, %	Nominal wages, EUR	Fiscal balance, % GDP	Public debt, % GDP	Export**, % GDP	C/A, % GDP	Ext. debt, % GDP	FXR*** % ext. debt	Import cover, months
Poland	**2010**	3.9	2.6	12.1	808	-7.9	53.4	34.5	-4.1	66.4	29.7	6.5
	2011e	4.3	4.3	12.4	822	-5.4	55.9	36.2	-3.9	70.1	30.0	6.5
	2012f	2.2	2.5	12.4	809	-5.0	56.5	37.5	-4.0	76.0	29.8	6.8
Hungary	**2010**	1.3	4.9	11.2	735	-4.2	81.3	73.5	1.1	139.4	24.9	6.1
	2011e	1.5	3.9	11.1	759	0.0	74.6	79.7	0.9	133.9	25.8	5.7
	2012f	-2.0	5.0	11.7	745	-3.5	77.4	83.5	1.3	139.1	27.0	6.1
Czech Rep.	**2010**	2.7	1.5	9.0	947	-4.8	37.6	63.9	-3.1	47.8	44.8	4.1
	2011e	1.9	1.9	8.6	995	-4.3	40.3	68.8	-1.8	45.9	41.2	3.5
	2012f	-1.2	2.6	9.0	1021	-4.9	44.8	67.6	-2.9	47.3	41.4	3.6
Romania	**2010**	-1.9	6.1	7.6	452	-6.9	31.0	30.6	-4.1	75.8	35.1	9.0
	2011e	2.5	5.8	5.3	470	-4.6	32.9	33.9	-3.8	74.1	32.7	7.6
	2012f	0.5	3.5	5.0	481	-3.0	34.1	35.9	-4.0	75.7	30.4	6.9
Croatia	**2010**	-1.2	1.1	17.4	1054	-4.9	41.2	19.8	-1.1	101.3	22.9	8.5
	2011e	0.5	2.3	18.0	1048	-5.5	45.0	20.3	-0.5	102.6	24.5	9.4
	2012f	-1.0	2.0	18.5	1053	-4.5	52.4	20.5	0.0	104.1	24.8	9.9
Russia	**2010**	4.0	6.9	7.2	538	-4.1	9.4	26.4	6.1	32.8	92.8	22.6
	2011e	3.8	8.6	6.7	600	0.5	10.2	29.4	4.8	33.3	94.5	19.6
	2012f	3.2	6.2	7.0	625	-1.5	12.0	27.5	2.3	32.8	84.7	17.2
Turkey	**2010**	8.9	8.6	11.7	366	-3.7	45.9	16.5	-6.6	39.1	27.9	5.4
	2011e	8.0	6.4	10.0	342	-1.5	41.2	18.4	-9.9	45.3	25.5	4.6
	2012f	1.5	9.5	10.5	340	-3.0	40.6	21.3	-8.3	45.1	20.3	3.3

** only for countries included in CEE bond market weekly (under revision), ** Export of Goods only, *** FXR - Foreign exchange reserves*
Source: Thomson Financial Datastream, National Statistics

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