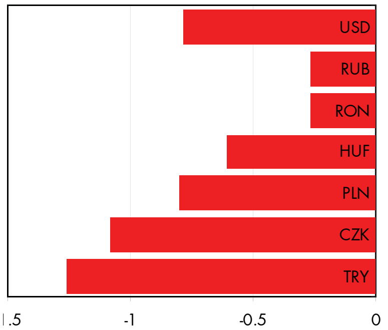
CEE Weekly Bond Markets Outlook

Issue 6/2012 | 10 February 2012

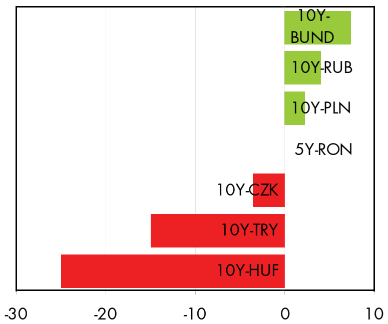
Raiffeisen RESEARCH

LCY changes vs. EUR*



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

Yield changes*



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

Forecast

	current*	Mar-12	Jun-12	Sep-12
Poland[3]				
PLN	4.18	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	5.6	5.8	5.6	5.3
Hungary				
HUF	290.9	305	300	295
1m-rate	7.2	7.1	7.1	7.1
5y bond	8.3	8.4	7.8	7.6
10y bond	8.3	8.6	8.0	7.8
Czech Rep.				
CZK	25.0	25.2	24.7	24.4
1m-rate	0.6	0.5	0.5	0.5
5y bond	2.1	2.4	2.1	2.2
10y bond	3.1	3.8	3.4	3.4
Russia				
RUB[2]	29.7	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	**1.33**	**1.30**	**1.32**	**1.35**

** Prices as of 10 February 2012 11:04 a.m. CET; Currencies per 1 EUR; 2 RUB per 1 USD; 3 under revision*
Source: Thomson Reuters. Raiffeisen RESEARCH

Recommendations

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

Highlights

- **Poland** – As expected, the reference rate remained unchanged (4.5%). The MPC still sounded rather hawkish. Nevertheless, looking at strong data published after the January MPC meeting, the statement after the rate decision was surprisingly dovish. Next week, the CPI release will be the most important data release. If we get a reading below the avg. market estimate of 4.2% the Polish yield curve may flatten somewhat. From a short-term perspective, EUR/PLN may inch back to 4.20-4.25. However, we consider such levels as well supported. In the mid-term horizon we still assume a downward trend in the CPI (with strong downward movement in March) and a weakening economy will result in the first of two 25bp cuts as early as the 3rd quarter.
- **Hungary** – The week ahead will be loaded with heavyweight macroeconomic data. Inflation (Tuesday) is expected to have jumped to 5% yoy in January due to indirect tax hikes and the weak exchange rate. Nevertheless, uncertainty is particularly high as depressed domestic demand may have offset some of the spillover effects, and thus the later data will show the full picture. On Wednesday, the first reading of GDP statistics will be published. We are somewhat more pessimistic than market consensus (+1% yoy), but a slowdown is almost guaranteed.
- **Czech Republic** – Next week will be interesting due to several new data releases. In particular, the first GDP estimate for Q4 2011 and the CPI inflation for the first month of 2012 will attract attention. Although exports developed much better than we expected in Q4, other segments of the economy

Key upcoming events and data releases

Country	Time	Indicator	Period	Forecast	Range	Last
13 Feb						
CZ	10:00	Current account balance, CZK bn	Dec	-4.0	-7.5/-3.3/8.0	6.6
RO	09:00	CPI, % yoy	Jan	2.8	2.8/3.0/3.1	3.1
TR	09:00	Current account, USD bn	Dec	n.a.	-6.9/-6.5/-6.2	-5.2
14 Feb						
HU	09:00	CPI, % yoy	Jan	4.9	4.7/4.9/5.6	4.1
15 Feb						
PL	14:00	CPI, % yoy	Jan	4.2	3.5/4.2/4.4	4.6
HU	09:00	GDP, % yoy	Q4	0.5	0.5/1.1/1.5	1.4
CZ	09:00	GDP, % yoy	Q4	0.6	0.5/0.6/1.1	-0.1
RO	09:00	GDP, % yoy	Q4	2.3	1.9/2.5/3.8	4.4
15-16 Feb						
RU	07:00	Industrial output, % yoy	Jan	3.5	1.8/2.5/4.1	2.5
16 Feb						
CZ	09:00	CPI, % yoy	Jan	2.9	2.9/3.2/3.3	2.4
TR	09:00	Consumer confidence	Jan	n.a.	88.0/88.0/88.0	92.0
16-20 Feb						
RU	07:00	Retail sales, % yoy	Jan	7.0	4.5/7.6/10.5	9.5
RU	07:00	Capital investment, % yoy	Jan	6.0	-2.7/7.0/30.0	8.9
17 Feb						
HR	11:00	PPI, % yoy	Jan	5.5	n.a.	5.2

remain weak. We estimate GDP to have dropped by 0.1% qoq in Q4 and to only rise by 0.6 % yoy. This would confirm that a recession started in Q3. Considering the usual statistical deviation, we should speak about stagnation.

- **Romania** – On Monday, Prime Minister Emil Boc resigned. President Traian Basescu appointed Justice Minister Catalin Predoiu as interim Prime Minister and nominated Mihai Razvan Ungureanu, Head of the Foreign Intelligence Service, to form the new government. On Thursday, the Parliament approved the new government proposed by Ungureanu. The Democratic Liberal Party (PD-L) sees the government reshuffle as a required step in order to regain the confidence of the public before this year's local elections (probably in June) and parliamentary elections (probably in November).

- **Croatia** – At this week's T-bill auction, the MoF issued a total of HRK 1.33 bn in pure HRK bills and EUR 38.7 mn of EUR-linked instruments. Investors' interest (especially institutional investors) was concentrated on the 2-year HRK bill. Yields were unchanged at 5.85%, which indicates much more relaxed situation than at the end of 2008 when a bill with the same maturity was issued with a yield of 8.5%. Furthermore, the yield achieved on the 2-year T-bill is reasonably low compared to 1-year ZIBOR and bonds on similar maturities.

- **Russia** – Russia's capital markets are flying these days as foreign investors turn increasingly bullish on Russia. It appears that investors are disregarding political risk, since Vladimir Putin is nearly certain to win the presidential elections. Another factor boosting investor appetite is relative cheapness of Russia's assets, in particular stocks, and the fairly rewarding rouble yields at 6-8% in the rouble appreciation environment. We believe market players are preparing to test and break the 34.00 level which can set new targets for rouble appreciation and consequently may prompt us to revise our rouble forecast.

- **Turkey** – The TRY and the 2y benchmark extended their YTD gains last Friday amid still high levels of global risk appetite with the yield even falling as low as 9.10% in intraday trading. However, this week some moderate profit-taking took place. The December C/A data due on Monday are expected to confirm the gradual narrowing trend. Any unfavourable departure from the expectations could negatively affect the environment for this week's bond auctions. Anyway, we recommend staying on the sidelines, as our baseline scenario projects a rise in funding market pressures and still highlights the fundamental vulnerabilities of the economy to a reversal of capital flows.

Local currency bonds market overview

CEE local currency bond market snapshot

10/02/2012	Maturity	Coupon %	Ask Price	YTM %	Spread to Bunds; bp	MDur.
			Poland			
PLN 2y Gov. Bond	25/01/2014	0.00	91.46	4.69	443	2.0
PLN 5y Gov. Bond	25/10/2016	4.75	98.83	5.03	409	4.3
PLN 10y Gov. Bond	25/10/2021	5.75	101.43	5.55	354	7.6
			Hungary			
HUF 3y Gov. Bond	22/08/2014	6.75	96.77	8.19	773	2.3
HUF 5y Gov. Bond	24/11/2017	6.75	93.15	8.28	734	4.9
HUF 10y Gov. Bond	24/06/2022	7.00	91.13	8.30	629	7.2
HUF 15y Gov. Bond	22/10/2028	6.75	87.09	8.19	566	9.8
			Czech Republic			
CZK 2y Gov. Bond	16/09/2013	2.80	102.54	1.18	92	1.6
CZK 5y Gov. Bond	26/01/2016	6.95	118.38	2.05	112	3.6
CZK 10y Gov. Bond	29/09/2021	3.85	105.73	3.15	114	8.2
CZK 15y Gov. Bond	25/05/2024	5.70	123.34	3.35	81	9.2
			Croatia			
HRK 5y Gov. Bond	15/12/2015	5.25	95.81	6.50	556	3.5
HRK 10y Gov. Bond	05/03/2020	6.75	96.00	7.42	540	6.0
			Romania			
RON 3y Gov. Bond	25/10/2014	6.25	99.05	6.63	617	2.5
RON 5y Gov. Bond	30/04/2016	6.00	96.77	6.90	596	3.7
			Russia			
RUB 2y Gov. Bond	16/10/2013	6.55	100.73	6.23	598	1.6
RUB 5y Gov. Bond	03/08/2016	6.90	99.00	7.29	635	3.9
RUB 10y Gov. Bond	24/11/2021	8.00	94.00	7.90	589	7.0
RUB 30y Gov. Bond	06/02/2036	6.90	94.50	7.54	490	12.0
			Turkey			
TRY 2y Gov. Bond	04/12/2013	10.00	101.34	9.17	892	1.7
TRY 5y Gov. Bond	27/01/2016	9.00	99.15	9.26	832	3.5
TRY 10y Gov. Bond	12/01/2022	9.50	100.75	9.38	737	6.8

Prices as of 10 February 2012,09:23 a.m. CET
Source: Thomson Thomson Reuters, Raiffeisen RESEARCH

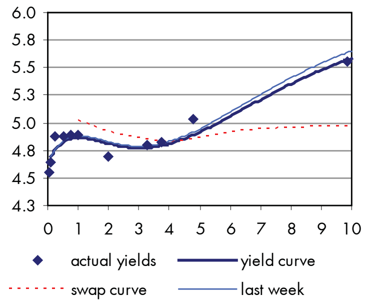
Bond auctions

		ISIN	Coupon	Maturity	Volume
13 Feb-12					
TR	4y T-bond	TRT270116T18	9.0%	27 Jan 16	n.a. TRY
TR	1y T-bond	TRT200313T16	0.0%	20 Mar 13	n.a. TRY
14 Feb-12					
TR	2y T-bond	TRT041213T23	10.0%	04 Dec 13	n.a. TRY
TR	9y T-bond	n.a	CPI linked	21 Jul 21	n.a. TRY
TR	10y T-bond	TRT120122T17	9.5%	12 Jan 22	n.a. TRY
15 Feb-12					
CZ	5y T-bond	CZ0001000822	4.6%	10 Jul 05	n.a.

Poland: NBP slightly less hawkish than data may suggest

(P)review of key economic figures/events			
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 as expected; rather hawkish stance prevailed
15 Feb-12	CPI, % yoy	Jan 4.2 (Dec 4.6)	Inflation may came in slightly below 4.2%

PLN yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Money market focus*

MM rates	1m	3m	6m	12m
Actual	**4.54**	**4.78**	**4.78**	**4.79**
Change (% wow)	-0.01	0.00	-0.01	0.00
Forecast Mar-12	4.55	4.60	4.50	4.45
Forward rates		**3x6**	**6x9**	**9x12**
		4.81	4.78	4.70
Change (% wow)		-0.02	0.02	0.00

**under revision*
Prices as of 10 February 2012,09:23 a.m. CET

EUR/PLN

Last: 4.2084 *Position: neutral*
09:04,10.02.2012 CET
It seems to reverse at the RSL, thus a buy would be triggered at 4.2650 -> 4.2967 - 4.3200, stop 4.1250 -> 4.0745.

Source: Thomson Reuters, Raiffeisen RESEARCH

Market comment

The most important event on the Polish markets was the MPC meeting this week. As expected, the reference rate remained unchanged at 4.5%. All in all, the MPC still sounded rather hawkish and stressed its readiness for further monetary policy adjustments in the case of deteriorating inflation perspectives. Yesterday, one (hawkish) MPC member stressed that he will file a motion to increase the reference rate if GDP continues to expand around 4% and inflation remains around 4.5%. Nevertheless, looking at the surprisingly strong data published after the January MPC meeting (GDP, PMI), the official statement after the recent rate decision was surprisingly dovish. However, a major change that happened after the January meeting was the strong PLN appreciation, which – if it can be sustained – will help to reduce inflation. However, the MPC underlined the high volatility on the FX market as hanging a question mark over the sustainability of this move. In recent days PLN lost some ground against EUR as uncertainty regarding the further developments in Greece increased once again.

Market outlook

Next week, the CPI release will be the most important data release. If we get a CPI reading below the average market estimate of 4.2% the Polish yield curve may flatten somewhat from the current levels. We think that the CPI reading may come in slightly below consensus. Looking at the future decisions, the MPC pointed at the importance of the upcoming March Inflation Report. We think that the new inflation projection will support the dovish group of MPC members. However, in our opinion, future PLN moves may be of much higher importance for the MPC's views on monetary policy. From a short-term perspective, EUR/PLN may inch back to 4.20-4.25 territory. However, we consider such levels as well supported. In the mid-term horizon we still assume that a downward trend in the CPI (with strong downward movement in March) and a weakening economy will result in the first of two 25bp cuts as early as the 3rd quarter.
Analyst: Gunter Deuber (+431 71707 5707)

Bond market focus*

	2y	5y	10y	20y
Actual	**4.69**	**5.03**	**5.55**	**5.69**
Change (% wow)	0.02	0.03	0.03	0.00
Forecast Mar-12	4.70	5.00	5.80	5.75
Spread to bunds	**443.4**	**409.4**	**353.8**	**299.2**
Change (% wow)	-3.7	-12.9	3.1	-17.9

**under revision*
Prices as of 10 February 2012,09:23 a.m. CET

Exchange rate focus*

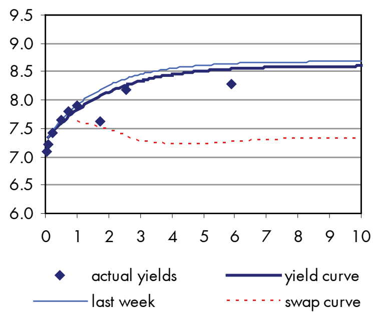
	10-Feb	Mar-12	Jun-12	Sep-12
EUR/PLN	**4.21**	**4.45**	**4.30**	**4.15**
Change (% wow)	-0.1%			
USD/PLN	**3.17**	**3.42**	**3.26**	**3.07**
Change (% wow)	0.7%			

**under revision*
Prices as of 10 February 2012,09:23 a.m. CET

Hungary: Economic slowdown in Q4 likely

(P)review of key economic figures/events			
06 Feb-12	Industrial output, % yoy	Dec 6.7 (Nov 3.5)	Preliminary data
14 Feb-12	CPI, % yoy	Jan 5.0 (Dec 4.1)	Higher inflation due to indirect taxes and weak exchange rate
15 Feb-12	GDP, % yoy	Q4 0.5 (Q3 1.4)	Slowdown in economy expected

HUF yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Money market focus

MM rates	1m	3m	6m	12m
Actual	**7.22**	**7.43**	**7.64**	**7.90**
Change (% wow)	-0.01	-0.05	-0.07	-0.05
Forecast Mar-12	7.1	7.1	7.2	7.7
Forward rates	**1x2**	**3x6**	**6x9**	**9x12**
	7.67	7.93	8.02	8.01
Change (% wow)	-0.07	-0.09	-0.01	-0.05

Prices as of 10 February 2012,09:23 a.m. CET

EUR/HUF

Last : 292.40 Position: neutral
Target: 284.00 - 281.40
08:46, 10.02.2012CET
The Rectangle could be a bearish consolidation, sell 287.00-> 282.70-278.50, instead, a reversal is not off odds, buy 297.00-> 300.00 - 305.56.

Source: Thomson Reuters, Raiffeisen RESEARCH

Market comment

We had a quiet week in Hungary as HUF stabilised around 290 against the euro. On Wednesday, it rose to new three-month high, but could not move further. The main reason for this is probably that there has been no news regarding the negotiations with the EU and IMF. Currently, experts are working in the background – with no public information being released. HGB yields on the other hand were on a slope, although trading volume was low. Demand at this week's auction was surprisingly weak as the b/c ratio on 3-year and 5-year bonds was lower than 1.5.

Market Outlook

The week ahead will be loaded with heavyweight macroeconomic data. Inflation (Tuesday) is expected to have jumped to 5% yoy in January due to indirect tax hikes and the weak exchange rate. Nevertheless, uncertainty is particularly high as depressed domestic demand may have offset some of the spillover effects, and thus the later data will show the full picture. On Wednesday, the first reading of GDP statistics will be published. We are somewhat more pessimistic than market consensus (+1% yoy), but a slowdown is almost guaranteed. The manufacturing industry – still one of the main engines – might show decent growth of about 3% yoy, but will be almost completely offset by construction and the service sector. Later on Wednesday the central bank will publish the minutes of the last rate-setting meeting, where the MPC decided to hold rates steady against expectations. According to Governor Simor, it was a close call.
Negative surprises on the Hungarian data front may be countered by favourable newsflow on Greece. However we do not expect any major appreciation from these points. Therefore, we suggest staying NEUTRAL on Hungarian assets.

Analyst: Zoltán Török (+36 1 484 4400)

Bond market focus

	3y	5y	10y	15y
Actual	**8.19**	**8.28**	**8.30**	**8.19**
Change (% wow)	-0.18	-0.24	-0.34	-0.41
Forecast Mar-12	8.3	8.4	8.6	8.6
Spread to bunds	**773.0**	**734.4**	**628.7**	**565.5**
Change (% wow)	-26.3	-39.9	-50.5	-58.5

Prices as of 10 February 2012,09:23 a.m. CET

Exchange rate focus

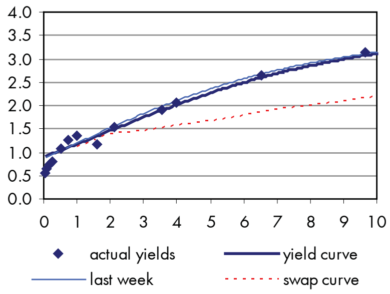
	10-Feb	Mar-12	Jun-12	Sep-12
EUR/HUF	**292.55**	**305.0**	**300.0**	**295.0**
Change (% wow)	0.0%			
USD/HUF	**220.77**	**234.6**	**227.3**	**218.5**
Change (% wow)	0.9%			

Prices as of 10 February 2012,09:23 a.m. CET

Czech Republic: GDP probably close to 0 % in Q4

(P)review of key economic figures/events			
13 Feb-12	Current account balance, CZK bn	Dec -4.0 (Nov 6.6)	Trade balance was better than expected
15 Feb-12	GDP, % yoy	Q4 0.6 (Q3 1.2)	0.1 qoq decline expected
16 Feb-12	CPI. % yoy	Jan 2.9 (Dec 2.4)	Due to VAT hike and regulated price increases

CZK yield curve



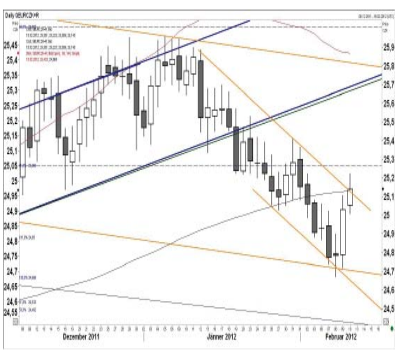
Source: Thomson Reuters, Raiffeisen RESEARCH

Money market focus

MM rates	**1m**	**3m**	**6m**	**12m**
Actual	**0.95**	**1.18**	**1.48**	**1.75**
Change (% wow)	0.00	0.00	-0.01	0.00
Forecast Mar-12	0.5	0.6	0.8	1.2
Forward rates	**1x2**	**3x6**	**6x9**	**9x12**
	1.18	1.79	1.96	2.07
Change (% wow)	0.00	-0.02	0.02	0.00

Prices as of 10 February 2012,09:23 a.m. CET

EUR/CZK



Last: 25.177 Position: neutral 08:23, 10.02.2012 CET
The rebound at the FSL could turn out to be a reversal if it crossed the Fibo at 25.412 -> 25.670, stop 24.650-> 24.390.

Source: Thomson Reuters, Raiffeisen RESEARCH

Market comment

The data releases last week (industrial production and foreign trade balance) surprised on the upside. The data show that the GDP result for Q4 2011 will probably not be so bad.

Market Outlook

Next week will be interesting due to several new data releases. In particular, the first GDP estimate for Q4 2011 and the CPI inflation for the first month of 2012 will attract attention. Although exports developed much better than we expected in Q4, other segments of the economy remain weak. We estimate GDP to have dropped by 0.1% qoq in Q4 and to only rise by 0.6 % yoy. This would confirm that a recession started in Q3. However, that is not a big issue as – statistically speaking – the economy has been balancing on the brink of recession or expansion. Considering the usual statistical deviation, we should speak about stagnation. The result may be significantly influenced by the VAT rate hike from the beginning of 2012, as consumers may have increased their purchases and construction companies may have invoiced their work preemptively at the end of 2011. The fact is that whatever the result was in Q4, the monthly data point to a clear GDP decline in Q4. On the other hand, recent developments in the Eurozone, especially in Germany, show that the overall GDP result for 2012 may eventually be better than we forecast (-1.2%). From a monetary point of view, the CPI for January will be interesting. Inflation probably moved to nearly 3% due to the VAT hike and regulated prices. The market also believes – and we agree – that the CPI increase in Q4 was caused by preemptive price rises due to the expected VAT hike. If this was not true, there will probably be at least one CNB member voting for a rate hike at the next CNB meeting. Our baseline scenario still calls for 1.2% GDP contraction in 2012 and a policy rate cut to 0.50%. We stick to our Neutral recommendation for Czech government bonds.

Analyst: Michal Brozka (+420 234 40 1489)

Bond market focus

	2y	**5y**	**10y**	**15y**
Actual	**1.18**	**2.05**	**3.15**	**3.35**
Change (% wow)	0.01	0.09	0.08	0.05
Forecast Mar-12	1.7	2.4	3.8	4.2
Spread to bunds	**92.0**	**111.8**	**113.6**	**81.3**
Change (% wow)	-5.6	-6.5	-8.7	-12.8

Prices as of 10 February 2012,09:23 a.m. CET

Exchange rate focus

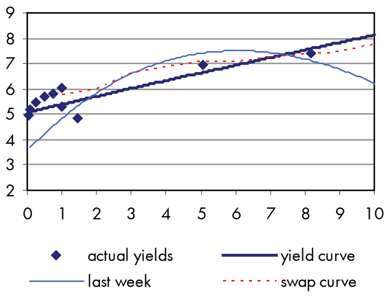
	10-Feb	**Mar-12**	**Jun-12**	**Sep-12**
EUR/CZK	**25.20**	**25.2**	**24.7**	**24.4**
Change (% wow)	-0.5%			
USD/CZK	**19.02**	**19.4**	**18.7**	**18.1**
Change (% wow)	0.4%			

Prices as of 10 February 2012,09:23 a.m. CET

Croatia: Money market rates increase

(P)review of key economic figures/events		
17 Feb-12	PPI, % yoy	Jan 5.5 (Dec 5.8)
17 Feb-12	PPI, % mom	Jan 0.4 (Dec -0.2)

HRK yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Money market focus

MM rates	1m	3m	6m	12m
Actual	**5.19**	**5.47**	**5.72**	**6.05**
Change (% wow)	0.34	0.15	0.13	0.17
Forecast Mar-12	4.6	4.9	5.6	6.0
Forward rates		**3x6**	**6x9**	**9x12**
		6.02	6.04	6.55
Change (% wow)		0.11	0.22	0.19

Prices as of 10 February 2012,09:23 a.m. CET

EUR/HRK

Last: 7.5850 buy 7.6200
Target 7.6372 08:42, 10.02.2012 CET
Although it looks quite bulish, buy 7.6200 -> 7.6372, a throwback into the trend-channel is not ruled out, stop 7.5430->7.5110.

Source: Thomson Reuters, Raiffeisen RESEARCH

Market comment

At this week's T-bill auction, the MoF issued a total of HRK 1.33 bn in pure HRK bills and EUR 38.7 mn of EUR-linked instruments. Investors' interest (especially institutional investors) was concentrated on the 2-year HRK bill. Yields were unchanged at 5.85%, which indicates much more relaxed situation than at the end of 2008 when a bill with the same maturity was issued with a yield of 8.5%. Furthermore, the yield achieved on the 2-year T-bill is reasonably low compared to 1-year ZIBOR and bonds on similar maturities. By the end of Q1 a large amount of T-bills will fall due: more precisely HRK 4.86 bn and EUR 191.5 mn. Therefore, we think that there is room for a slight increase in yields.

Consequently, as yields on domestic HRK bonds seem rather attractive, demand rose pushing prices up. Trading volumes on the domestic bond market are modest. Favourable sentiment from international markets was reflected in Croatian Eurobonds as spreads compared to benchmark securities widened. Moreover, positive sentiment was reflected in the CDS as well as the 5y USD CDS fell to 466bp, while only a month ago it was around 550bp.

Market Outlook

On the domestic MM, the new reserve requirements maintenance period started with elevated interest rates, as we expected. O/N ZIBOR jumped from around 1.3% to almost 5%. The increase in interest rates on the shortest maturities is usual at the beginning of the new maintenance period, but as the allocation of HRK progresses, interest rates should fall back. However, during the last two weeks interest rates on all maturities rose. Even the 1-year ZIBOR, which was mostly unchanged since September, rose to 6.3%. Higher interest rates probably reflect lower liquidity as the consequence of two FX interventions and the rise in the reserve requirement rate, along with uncertainty regarding the FX market. If depreciation pressures on HRK continue, the market expects another measure from the CNB, which pledges to preserve exchange rate stability.

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

Bond market focus

	2y	5y	10y
Actual	**4.86**	**6.95**	**7.42**
Change (% wow)	0.22	0.01	0.00
Forecast Mar-12	6.30	7.65	7.75
Spread to bunds	**460.0**	**601.6**	**540.5**
Change (% wow)	15.3	0.2	-16.3

Prices as of 10 February 2012,09:23 a.m. CET

Exchange rate focus

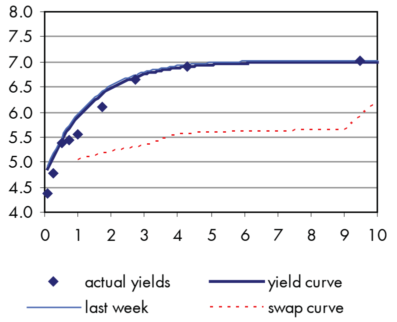
	10-Feb	Mar-12	Jun-12	Sep-12
EUR/HRK	**7.59**	**7.55**	**7.52**	**7.57**
Change (% wow)	0.0%			
USD/HRK	**5.19**	**5.81**	**5.70**	**5.61**
Change (% wow)	0.0%			

Prices as of 10 February 2012,09:23 a.m. CET

Romania: Parliament approves new government

(P)review of key economic figures/events		
10 Feb-12	Industrial output, % yoy	Dec n.a. (Nov 3.1)
13 Feb-12	CPI, % yoy	Jan 2.8 (Dec 3.1)
15 Feb-12	GDP, % yoy	Q4 2.3 (Q3 4.4)

RON yield curve



Source: Thomson Reuters, Bloomberg, Raiffeisen RESEARCH

Money market focus*

MM rates	1m	3m	6m	12m
Actual	**4.38**	**4.79**	**5.39**	**5.55**
Change (% wow)	-0.42	-0.24	-0.25	-0.27
Forecast Mar-12	5.0	5.3	5.3	6.1
Forward rates		**3x6**	**6x9**	**9x12**
		6.05	5.54	5.74
Change (% wow)		-0.26	-0.31	-0.26

** forecast under revision*
Prices as of 10 February 2012,09:23 a.m. CET

EUR/RON

Last:4.3522 Position: neutral
09:08,10.02.2012 CET
The sideways movement continues within the long-term Congestion area, buy 4.3650 -> 4.3840, on the contrary, a sell would be triggered at 4.3290-> 4.3084-4.2925.

Source: Thomson Reuters, Raiffeisen RESEARCH

Market comment

On Monday, Prime Minister Emil Boc resigned. President Traian Basescu appointed Justice Minister Catalin Predoiu as interim Prime Minister and nominated Mihai Razvan Ungureanu, Head of the Foreign Intelligence Service, to form the new government. On Thursday, the Parliament approved the new government proposed by Ungureanu. The ruling coalition between the Democratic Liberal Party (PD-L), the parties of Hungarian minorities and of other minorities, and the party of independents secured the required majority to approve the new government in Parliament. The Democratic Liberal Party (PD-L) sees the government reshuffle as a required step in order to regain the confidence of the public before this year's local elections (probably in June) and parliamentary elections (probably in November). Accordingly, all ministers appointed by PD-L in the old government were replaced by new faces (also members of PD-L). We think that the new government will ensure continuity with the key policies pursued by the old government. From a macroeconomic point of view, we see no room for the new government to adopt populist measures without jeopardising the precautionary agreements with the IMF and the EC, and without losing the confidence of foreign investors. There were talks about the possibility of an increase in pensions and public wages later this year, but no clear promises were made.

Market outlook

Interbank interest rates decreased last week after the NBR cut the key interest (by 25bp to 5.5% on 2 February) and in the context of good liquidity conditions in the money market. Yields on short-term governments bonds also fell, but only marginally (with the decline much more visible in case very short-term tenors). We think that government bond yields should stabilise around the current levels in the coming month. The next monetary policy meeting is due on 29 March. Chances are that the NBR will cut the key rate again at that meeting, provided no major tensions arise on external markets.

Analyst: Nicolae Covrig (+40 21 306 1262)

Bond market focus*

	2y	3y	5y	10y
Actual	**6.10**	**6.63**	**6.90**	**7.00**
Change (% wow)	-0.20	-0.09	-0.01	-0.01
Forecast Mar-12	6.50	6.90	7.10	7.20
Spread to bunds	**584.5**	**617.0**	**596.4**	**498.7**
Change (% wow)	-26.5	-17.0	-1.0	-17.5

** forecast under revision*
Prices as of 10 February 2012,09:23 a.m. CET

Exchange rate focus

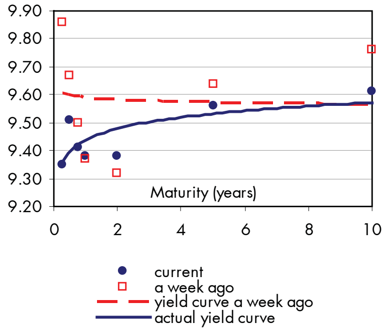
	10-Feb	Mar-12	Jun-12	Sep-12
EUR/RON	**4.35**	**4.40**	**4.35**	**4.30**
Change (% wow)	-0.1%			
USD/RON	**3.28**	**3.38**	**3.30**	**3.19**
Change (% wow)	0.7%			

Prices as of 10 February 2012,09:23 a.m. CET

Turkey: Funding offensive by the Treasury

(P)review of key economic figures/events			
03 Feb-12	CPI, % yoy	Jan 10.6 (Dec 10.5)	As expected; hawkish CB stance justified; mom CPI at 0.6%
13 Feb-12	Current account, USD bn	Dec n.a. (Nov -5.2)	Gradual narrowing set to continue, bringing FY CAD to 10% of GDP
16 Feb-12	Consumer confidence	Jan n.a. (Dec 92.0)	Moderate deterioration expected

TRY yield curve



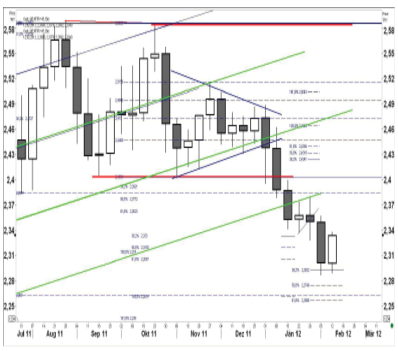
Source: Thomson Reuters, Raiffeisen RESEARCH

Money market focus

MM rates	3m	1y	2y	5y
Actual	**9.35**	**9.38**	**9.38**	**9.56**
Change (% wow)	-0.51	0.01	0.06	-0.08
Forecast Mar-12	**n.a.**	**11.0**	**11.0**	**11.1**
Implied forward rates	**1x2**	**3x6**	**6x9**	**9x12**
	10.26	10.09	9.98	9.83
Change (% wow)	0.01	-0.07	0.07	0.01

Prices as of 10 February 2012 , 09:42 a.m. CET

EUR/TRY



Last: 2.3350 Position: neutral 09:17, 10.02.2012 CET
Up to now the current increase does not confirm a bottom, thus buy 2.3580-> 2.3840-2.4040 or sell 2.2860-> 2.2737-2.2560.

Source: Thomson Reuters, Raiffeisen RESEARCH

Market comment

The Turkish lira and the 2y benchmark bond extended their year-to-date gains last Friday after favourable U.S non-farm payroll numbers kept global risk appetite at elevated levels. The local currency was additionally supported by slightly higher-than-expected inflation data, reinforcing expectations that monetary policy will be kept tight (until mid-2012 in our view). In an attempt to cushion the bond-unfriendly news, the central bank (TCMB) increased the amount of liquidity it provided at 5.75% in a one-week repo auction on the same day. Successfully, in fact, as the benchmark yield even fell as low as 9.10% in intraday trading. The occasional loosening of its generally tight monetary policy stance – the January turn in markets has proven this unorthodox policy to be appropriate – reduced banks' funding costs (for bond purchases) when compared to the significantly more costly one-month repo instrument. However, at the beginning of this week some moderate profit-taking took place, but local bond market sentiment was boosted again around mid-week following the Treasury's announcement to reopen its September 2022 USD-denominated bond. By tapping the market by USD 1 bn, more than planned, at a rate of 5.75% on Thursday, Ankara has already raised half the amount of the USD 5 bn it hopes to borrow on the Eurobond market this year.

Market outlook

The December current account data due on Monday are expected to confirm the gradual narrowing trend we have seen in the month before. Any unfavourable departure from the expectations could negatively affect the environment for two bond auctions later on Monday, and, in turn, for the other three auctions the following day (see table p.3). Overall, despite the clever use of the window of opportunity by the Treasury our baseline scenario projects a rise in funding market pressures and still highlights the fundamental vulnerabilities of the economy to a reversal in capital flows. This forms exactly the basis of our careful view, against the backdrop of an uncertain external environment, i.e. our doubts surrounding the EMU crisis. Hence, we recommend staying on the sidelines and waiting for more attractive opportunities following the expected correction in the short term.

Analyst: Stephan Imre (+43 1 71707 6757)

Bond market focus

	3m	1y	2y	5y
Actual	**9.35**	**9.38**	**9.38**	**9.56**
Change (% wow)	-0.51	0.01	0.06	-0.08
Forecast Mar-12	**n.a.**	**11.0**	**11.0**	**11.1**

Prices as of 10 February 2012, 09:42 a.m. CET

Exchange rate focus

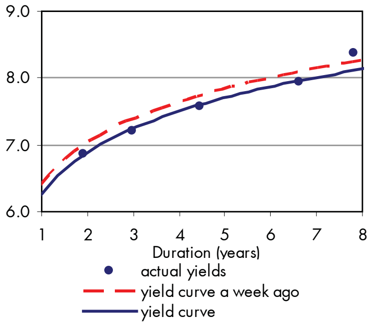
	actual	Mar-11	Jun-11	Sep-11
EUR/TYR	**2.33**	**2.47**	**2.51**	**2.50**
Change (% wow)	1.0%			
USD/TYR	**1.76**	**1.90**	**1.90**	**1.85**
Change (% wow)	0.0%			

Prices as of 10 February 2012 ,09:42 a.m. CET

Russia: Powerful market rally

(P)review of key economic figures/events		
15-16 Feb-12	Industrial output, % yoy	Jan 3.5 (Dec 2.5)
16-20 Feb-12	Retail sales, % yoy	Jan 7.0 (Dec 9.5)
16-20 Feb-12	Capital investment, % yoy	Jan 6.0 (Dec 8.9)

RUB yield curve



Source: Thomson Reuters, Raiffeisen RESEARCH

Money market focus

MM rates	**1m**	**3m**	**6m**	**12m**
Actual	**6.02**	**7.05**	**7.44**	**8.52**
Change (% wow)	-0.25	-0.21	-0.17	-0.17
Forecast Mar-12	6.45	6.90	7.05	n.a.
Forward rates	**1x2**	**3x6**	**6x9**	**9x12**
	7.24	7.92	n.a.	n.a.
Change (% wow)	-0.18	-0.17	n.a.	n.a.

Prices as of 10 February 2012 ,09:51 a.m. CET

EUR/RUB

Last: 29.9403 Position: neutral
09:12, 10.02.2012 CET
The decline was stopped at the trend-low, therefore a recovery should be expected, buy 30.5425 -> 30.7325 - 31.2210, stop 29.5000-> 29.1740.

Source: Thomson Reuters, Raiffeisen RESEARCH

Market comment

The powerful rouble rally prompted the central bank to sell USD 200 mn in February, as the rouble broke through the earlier resistance level at 34.15 to the dual currency basket and approached 34.10. However, market correction pushed the rouble back to 34.30 against the basket this Friday. Inflation came in at an expected 0.5% mom in January and the annual inflation rate dropped to 4.2% yoy, but regulated tariffs will go up in June and the low base effect may push annual inflation higher in Q3.

Market outlook

Russia's capital markets are flying these days as foreign investors turn increasingly bullish on Russia. It appears that investors are disregarding political risk, since Vladimir Putin is nearly certain to win the presidential elections. Another factor boosting investor appetite is relative cheapness of Russia's assets, in particular stocks, and the fairly rewarding rouble yields at 6-8% in the rouble appreciation environment. The Russian Finance Ministry sold nearly all of the nine-year OFZ treasury bonds on offer at an auction on February 8, with the firming rouble and competitive yields boosting demand to more than double the amount on offer. Currently, the rouble government debt curve displays bullish steepening with 1-5 year notes benefiting from the rouble rally. However, if the rally remains on track for one more week we can expect yields in 10-20 year segment to come down by another 25bp. The rouble rally is attracting new buyers willing to exploit highly positive carry opportunities in the Russian market and reap the benefits of the appreciating currency at the same time. We believe market players are preparing to test and break the 34.00 level which can set new targets for rouble appreciation and consequently may prompt us to revise our rouble forecast. All in all, we believe that current rally is riding on the tails of rouble appreciation and political risk reassessment in Russia, while the uncertain situation in the Euro market pushes more cross-over funds into non-Euro markets, among which Russia scores pretty well. Echoing market optimism, Russia's finance ministry announced its plan to tap the Eurobond market after the presidential elections with a roadshow scheduled for mid-March. Russia is most likely to offer a US dollar benchmark bond and will go for a minimum 10-year paper. Russia's budget allows the government to borrow up to USD 7 bn from international markets in 2012.

Analyst: Gintaras Shlizhyus (+43 1 71707 1343)

Bond market focus

	1y	**2y**	**5y**	**15y**
Actual	**6.21**	**6.87**	**7.57**	**8.38**
Change (% wow)	-0.19	-0.27	0.00	0.03
Forecast Mar-12	6.45	7.40	8.40	n.a.

Prices as of 10 February 2012 ,09:51 a.m. CET

Exchange rate focus

	actual	**Mar-12**	**Jun-12**	**Sep-12**
EUR/RUB	**39.68**	**42.38**	**43.04**	**43.04**
Change (% wow)	0.3%			
USD/RUB	**29.90**	**32.60**	**32.60**	**31.88**
Change (% wow)	1.2%			

Prices as of 10 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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