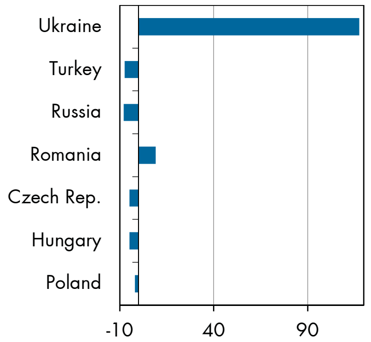
CEE Weekly

Issue 49/2013

13 December 2013

Raiffeisen RESEARCH

Ukraine uncertainty mirrored in CDS*



** 5Y USD CDS (BP change over MTD)*
Source Bloomberg

Market snapshot**

	curr.*	Mar-14	Jun-14	Sep-14
Poland				
EUR/PLN	4.18	4.10	4.00	4.05
Key rate	2.50	2.50	2.50	2.75
10y bond	4.5	4.6	4.7	4.8
Hungary				
EUR/HUF	303.2	305	300	305
Key rate	3.20	2.80	2.80	2.80
10y bond	5.8	6.3	6.7	6.8
Czech Rep.				
EUR/CZK	27.5	27.0	27.0	26.0
Key rate	0.05	0.05	0.05	0.05
10y bond	2.2	2.8	3.1	3.2
Romania				
EUR/RON	4.45	4.45	4.50	4.50
Key rate	4.00	3.50	3.50	3.50
10y bond	5.2	5.0	5.1	5.2
Croatia				
EUR/HRK	7.64	7.57	7.48	7.52
Key rate	6.25	6.00	6.00	6.00
10y bond	4.9	5.6	5.6	5.6
Russia				
USD/RUB	32.8	32.5	33.2	33.3
Key rate	5.50	5.25	5.25	5.25
10y bond	7.8	7.0	7.3	7.2
Turkey				
USD/TRY	2.04	2.00	2.10	2.05
Key rate	4.50	8.25	8.75	8.75
10y bond	9.4	9.7	10.0	9.9
EUR/USD	1.38	1.31	1.29	1.28

** prices as of 13 December 2013, 10:06 a.m. CET*
***under revision*
Source: Thomson Reuters, Raiffeisen RESEARCH

Content

Last rate setting meetings finalize 2013

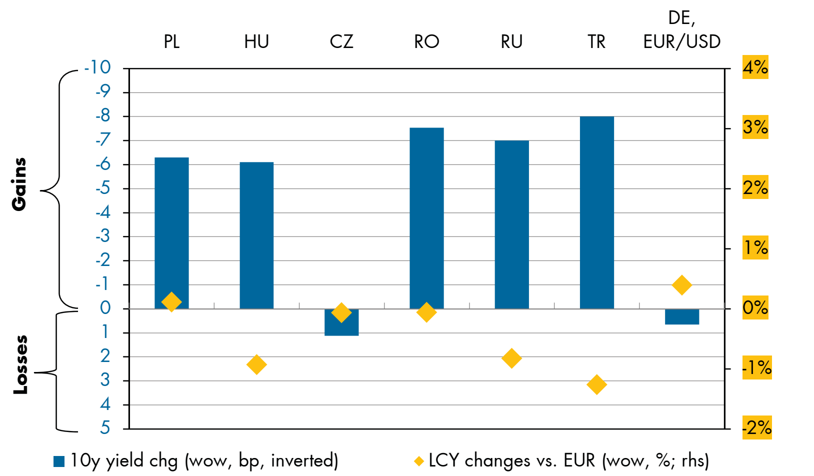
The last rate setting meetings of this year are scheduled for next week, all one day ahead of the top event of the week – the FOMC meeting in the US. The Czech Republic simply does not have any room for further interest rate cuts with the base rate already at practically zero (0.05%). Turkey is also expected to leave its interest rate unchanged at its December rate setting meeting, but we still believe that the TCMB will have to hike rates once Fed tapering materializes in Q1 2014. In contrast, Hungary is likely to continue with its interest rate cutting cycle to 3% next week (-20bp), whilst Serbia is also likely to continue its cautious easing cycle and cut its policy rate by 25bp to 9.75%. As indicated above, trading in CEE will be dominated by speculations of an earlier than expected announcement of Fed tapering, which, however, is not our baseline scenario.

Next year's data publications will start with the PMIs for Central Europe and Russia. With the exception of Russia, the November PMI data were well above the 50 mark and we project the overall positive economic sentiment to continue.

S&P downgraded the outlook on Bulgaria's sovereign rating to negative from stable while leaving its longterm rating unchanged at BBB. The agency cited constrained investment growth and domestic demand, and unstable political climate possibly slowing down reforms.

We wish you Merry Christmas and a Happy New Year!
The next CEE Weekly will be published on Friday, 3 January 2014 (with updated forecasts).

Last week's changes



Source: Bloomberg, Raiffeisen RESEARCH

Data highlights upcoming week

Date		Indicator	Period	est.	High	Mean	Low	Prev.
17-Dec	HU	Key rate, % yoy	Dec	3.0	3.0	3.0	3.0	3.2
17-Dec	CZ	Key rate, % yoy	Dec	0.05	0.05	0.05	0.05	0.05
17-Dec	RS	Key rate, % yoy	Dec	9.75	10.0	9.75	9.25	10.0
02-Jan	PL	PMI, points	Dec	54.5	n.a.	n.a.	n.a.	54.4
02-Jan	HU	PMI, points	Dec	n.a.	n.a.	n.a.	n.a.	52.6
02-Jan	CZ	PMI, points	Dec	n.a.	n.a.	n.a.	n.a.	55.4
02-Jan	RU	PMI, points	Dec	n.a.	n.a.	n.a.	n.a.	49.4

Source: Bloomberg, Raiffeisen RESEARCH

Raiffeisen RESEARCH

Data calendar and country coverage

This week, previous week: key data releases

Date	Indicator	Period	Actual	Prev.
06-Dec	HU Industrial output, % yoy	Oct	6.0	3.1
06-Dec	CZ Current account balance, EUR mn	Q3	-1127	-569
06-Dec	RO Industrial sales, % yoy	Oct	3.2	6.1
06-Dec	UA Official reserve assets, USD bn	Nov	18.8	20.6
06-Dec	UA CPI, % mom	Nov	0.2	0.4
06-Dec	UA CPI, % yoy	Nov	0.2	-0.1
09-Dec	BG Industrial output, % yoy	Oct	4.1	0.8
09-Dec	BG Retail sales, % yoy	Oct	6.9	6.2
09-Dec	TR Industrial output, % yoy	Oct	0.7	6.4
09-Dec	HU Trade balance, EUR mn	Oct	781	830
09-Dec	CZ Industrial output, % yoy	Oct	3.5	7.2
09-Dec	CZ CPI, % yoy	Nov	1.1	0.9
09-Dec	BG Trade balance, BGN bn	Oct	-0.6	-0.8
10-Dec	TR GDP, % yoy	Q3	4.4	4.4
10-Dec	CZ Trade balance, CZK bn	Oct	33.3	36.3
10-Dec	HR GDP, % yoy	Q3	-0.6	-0.7
10-Dec	RO Industrial output, % yoy	Oct	3.2	6.1
10-Dec	RO Trade balance, EUR mn	Oct	-643	-415
10-Dec	RU GDP, % yoy	Q3	1.2	1.2
10-Dec	UA GDP, % yoy	Q3	-1.3	-1.5
11-Dec	HR PPI, % yoy	Nov	-2.5	-2.8
11-Dec	TR Current account balance, TRY bn	Oct	-2.9	-3.4
11-Dec	HU CPI, % yoy	Nov	0.9	0.9
11-Dec	RO CPI, % yoy	Nov	1.8	1.9
12-Dec	RS CPI, % yoy	Nov	1.6	2.20
13-Dec	PL M3, % yoy	Nov	n.a.	5.9
13-Dec	PL Current account balance, EUR mn	Oct	n.a.	-1024
13-Dec	PL CPI, % yoy	Nov	n.a.	0.8
13-Dec	RU One-week auction rate, %	Dec	5.5	5.5
13-Dec	BG CPI, % yoy	Nov	-1.5	-1.4

Upcoming week: key data releases

Date	Indicator	Period	est.	High	Mean	Low	Prev.
16-Dec	PL CPI Core, % yoy	Nov	1.4	1.5	1.4	1.3	1.4
16-Dec	CZ PPI, % yoy	Nov	0.2	-0.2	0.1	0.2	0.0
16-Dec	HR CPI, % mom	Nov	0.4	n.a.	n.a.	n.a.	-0.4
16-Dec	HR CPI, % yoy	Nov	0.5	0.6	0.5	0.4	0.2
16-17 Dec	RU Industrial output, % yoy	Nov	-0.3	1	-0.3	-1	-0.1
17-Dec	HU Key rate, % yoy	Dec	3.0	3.0	3.0	3.0	3.2
17-Dec	CZ Key rate, % yoy	Dec	0.05	0.05	0.05	0.05	0.05
17-Dec	RS Key rate, % yoy	Dec	9.75	10.00	9.75	9.25	10.00
17-Dec	TR Benchmark repo rate, %	Dec	4.50	4.50	4.50	4.50	4.50
17-Dec	TR O/N borrowing rate, %	Dec	3.50	3.50	3.50	3.50	3.50
17-Dec	TR O/N lending rate, %	Dec	7.75	7.75	7.75	7.75	7.75
17-18 Dec	UA Industrial output, % yoy	Nov	n.a.	-0.7	-5.2	-6	-4.9
18-Dec	PL Industrial output, % yoy	Nov	0	5.3	1.7	-2.4	4.4
19-20 Dec	RU Real wages, % yoy	Nov	n.a.	6	4.3	2.4	4.1
19-20 Dec	RU Retail sales, % yoy	Nov	3.7	4.3	3.3	2.6	3.5
19-20 Dec	RU Unemployment rate, %	Nov	5.5	5.7	5.5	5.3	5.5
19-20 Dec	RU Investment, % yoy	Nov	1.3	3	-0.7	-2.9	-1.9
20-Dec	HR Unemployment rate, %	Nov	21.1	n.a.	n.a.	n.a.	20.3
23-Dec	PL Retail sales, % yoy	Nov	4.1	5.8	3.2	1.1	3.2
23-Dec	HU Current account, EUR mn	Q3	1157	n.a.	n.a.	n.a.	612
30-Dec	HR Industrial output, % yoy	Nov	n.a.	n.a.	n.a.	n.a.	-3.4
30-Dec	RS Industrial output, % yoy	Nov	n.a.	n.a.	n.a.	n.a.	5.2
30-31 Dec	RU GDP, % yoy	Q3	n.a.	n.a.	n.a.	n.a.	1.2
02-Jan	PL PMI, points	Dec	54.5	n.a.	n.a.	n.a.	54.4
02-Jan	HU PMI, points	Dec	n.a.	n.a.	n.a.	n.a.	52.6
02-Jan	CZ PMI, points	Dec	n.a.	n.a.	n.a.	n.a.	55.4
02-Jan	CZ Budget balance, CZK bn	Dec	n.a.	n.a.	n.a.	n.a.	-79.4
02-Jan	RU PMI, points	Dec	n.a.	n.a.	n.a.	n.a.	49.4
02-07 Jan	TR CPI, % yoy	Dec	n.a.	n.a.	n.a.	n.a.	7.3
03-Jan	HU Unemployment rate, %	Nov	9.9	9.9	9.9	9.7	9.8

Source: Bloomberg, Raiffeisen RESEARCH

Poland – EUR/PLN saw some modest gains this week as the negative trend on the LCY bond market was partially reversed. For the next 1-2 weeks the incoming data for the domestic economy (industrial production, retail sales and the PMI at the beginning of January) will be important for the financial markets. Stronger-than-expected economic data (consensus is not very optimistic) may once again boost the uptrend in yields and hence lead to some EUR/PLN softening. All in all, we still think that the Polish bond market has already entered a bearish trend which may continue throughout 2014. The beginning of January (8 January) will also feature the MPC meeting. We do not expect meaningful changes here. Nevertheless, the wording in terms of the strength of the domestic recovery will be interesting to watch.

Gunter Deuber (+431 71707 5707)

Hungary – The central bank will most probably cut rates by 20 basis points once again next Tuesday to 3%. We are nearing the end of the rate-cutting cycle, and market consensus is that the Council will stop here. Our forecast is, however, that the base rate will sink below 3% in the first quarter of next year and will stop there.
Next week, there may be some newsflow on the government's FX-debt plans, as the Supreme Court decides on the uniform application of laws on Monday. We do not expect any specifics from the court, but speakers of Fidesz or the government might add new info to the picture.

Adam Keszeg (+36 1 484 4313)

Czech Republic – The macro data released this week show that the recovery of the Czech economy continues as industrial output expanded by 1.7% mom in October. Industrial orders saw a substantial rise as well, with external orders growing faster than domestic orders. This indicates that the recovery is still driven by external demand. Disinflationary pressures continue despite FX intervention as consumer prices fell by 0.1% mom in November.

Social Democrats, Christian Democrats, and the ANO movement have successfully completed coalition talks. As regards tax changes, the only significant change will be the introduction of a third VAT rate of 5% for medicine, books, etc. The introduction of a banking tax seems unlikely.

Vaclav France (+420 234 40 1729)

Slovenia – Results of the banking stress test were made public yesterday in Slovenia. According to the central bank the Slovenian banking sector needs EUR 4.8 bn in total, with the biggest 3 banks having refinancing needs of EUR 3.12 bn. Slovenia is likely to raise the amount needed for banking recapitalization without having to ask for external financial aid. Slovenian bonds reacted positively on the news.

Wolfgang Ernst (+43 1 71707 1500)

Croatia – The European Commission set the deadline for Croatia to correct the excessive deficit and adjust its fiscal position by 2016. According to the Excessive Deficit Procedure (EDP) scenario, Croatia is required to achieve a headline general government target of 4.6% of GDP for 2014, 3.5% of GDP in 2015 and 2.7% of GDP in 2016. To accomplish the structural budget proposals, Croatia is advised to deliver additional consolidation measures of 2.3pp of GDP in 2014, 1pp of GDP in 2015 and 2016. Croatia was given a deadline of end-April 2014 to take effective action and to report in detail the consolidation strategy envisaged to achieve the targets. Furthermore, the Commission invites Croatia to implement structural reforms, notably as regards addressing labour market rigidities and an unfavourable business environment and improving the quality of public administration, with a view to raising potential GDP growth. As regards economic data, the final data confirmed the first release which showed real GDP contraction of 0.6% yoy in Q3 2013, underlining the continued decline on an annual basis for the 8th consecutive quarter, although the contraction was a bit less pronounced than in Q2 2013. The breakdown by components (expenditure approach) shows that the GDP contraction is the result of negative contribution of net exports and government spending while other components recorded annual growth rates.

Elizabeta Sabolek-Resanovic (+385 1 46 95 099)

Serbia – After several high-ranking officials in the ruling Serbian Progressive Party (SNS), made remarks in public concerning the work of First Deputy Prime Minister and SNS leader Aleksandar Vucic, in particular relating to the fight against corruption (namely corruption among local tycoons), the party decided to hold early party elections on 25 January 2014 for the party leadership. We believe the elections will confirm Mr. Vucic's leadership, while several SNS officials who are the CEOs of public companies will be replaced as well as some local majors in Serbia. Furthermore, the elections will bring more unity within the party concerning the public sector reform agenda and the fight against corruption.
Following the bankruptcy of the three state-owned banks whose assets/liabilities have been transferred to the state-owned Postanska Stedionica, the NBS will take control over privately-owned Univerzal Banka, whose capital adequacy is below the prescribed 12% minimum. In the case of the bank's closure, we do not see a risk to the banking system as the bank's total assets accounted for 1% of total banking assets as of 30 September 2013. In order to maintain and strengthen financial system stability, the government, the National Bank of Serbia, the Deposit Insurance Agency, and the Securities Commission established the Financial Stability Committee which will have an advisory role.
The top two exporters revealed their business plans for 2014. The top exporter FIAT automobile Srbije announced its plan to start producing a liquefied petroleum gas (LPG)-fuelled version of its 500L in Q1 2014. As per the management, the factory fulfilled its plans for 2013, i.e. making between 100,000 to 120,000 cars, with 20% of the produced volume exported to the US market. The second largest exporter, the oil and gas producer NIS (in majority ownership of Gazprom) revealed that it will leave its investments volumes unchanged in 2014 (approximately EUR 500 mn) which will be largely channelled into exploration projects and the production of oil and natural gas.

Ljiljana Grubic (+381 11 2207178)

Russia – After a series of rather weak government bond auctions, this Wednesday MinFin saw strong demand for its 5.5- and 10-year paper (1.96x oversubscription for RUB 25 bn offered). With only one auction left this year, we estimate that net government debt placement in 2013 will reach RUB 562 bn, which fully covers the expected federal budget deficit (RUB 378 bn, or 0.6% of GDP, the official forecast) and creates an opportunity for a transfer of the balance to the Reserve Fund.

Anastasia Baykova (+7 495 225-9114)

Ukraine – This week the mass demonstrations in Kyiv continued. Over half a million people gathered in downtown Kyiv last Sunday protesting against President Yanukovych's decision to halt European integration and against the brutal crackdown of protests by police forces a week earlier. On Tuesday, President Yanukovych met three ex-presidents of Ukraine to discuss the possible ways of resolving the political crisis. The political crisis took a turn for the worse in the night before Wednesday when riot police – unsuccessfully – tried to clear protesters from the central square of Kyiv. Foreign powers (EU and USA)

once again urged the Ukrainian administration and opposition to find a compromise, but also warned officials on the inappropriateness of forcefully ending the protests.
The stalemate is still going on, with both the President and the opposition/protesters not willing to give in – but also not strong enough to force a decision. Not surprisingly, financial markets were strained (CDS and Eurobond yields up). On the currency side, the central bank tightened liquidity, securing the stability of the currency for now (the slight appreciation at mid-week was short lived).
As discussed in our special note (short version also published in the previous CEE weekly), we see the political outlook as highly uncertain with the most likely scenario being that the "status quo" will continue for some time. The repeated use of police against the protesters heightened tensions and increases the danger of escalation, making a peaceful solution to the crisis less likely. We expect downward pressure on Ukrainian assets to remain intense for the time being.

Andreas Schwabe (+43 1 71707 1389), Dmytro Sologub (+380 44 49590-72

Turkey – Whilst this week's GDP figures are favourable news for the fundamental picture in Turkey, the current account data, and especially the related comments by central bank governor Basci, were not. With Q3 GDP of 4.4% yoy (0.9% qoq in s.a. terms) significantly surpassing the market expectation of 4.1% (for the third quarter in a row, bringing Jan-Sept 2013 growth to 4% currently), the risks to our full-year GDP forecast of 3.5% are now tilted to the upside. We put our forecasts under revision and will present the new ones (+0.3 to 0.4 pp) in our quarterly report coming out at the beginning of next year. With regards to growth structure, credit-fuelled private consumption contributed the most again, whilst the biggest surprise came from the positive contribution of capital formation (for the first time in the last 2 years). Another favourable aspect is declining government consumption. Turning to Turkey's main vulnerability – the C/A deficit – we received numbers which were in line with our views and the market's expectations. Basci's comments, however, that the structurally high deficit hurts Turkey's growth prospects, were hardly something new, but they hit the lira markets, as EUR/TRY reached another all-time high above 2.80. Next week we will watch the MPC meeting where we expect no changes to rates, especially given the fact that the next day the FOMC will meet (and possibly announce tapering!). We still believe that liquidity-sensitive economies such as Turkey will suffer from the start of USD liquidity tightening. Since we see the TCMB remaining behind the curve in terms of providing sufficient carry for investors, our baseline scenario calls for a cumulative 100bp hike to the o/n rate in reaction to the Fed's tapering (which is more likely to occur in Q1 2014 than at the 18 Dec 2013 FOMC meeting).

Stephan Imre (+43 1 71707 6757)

Monetary policy and money markets overview

CEE key interest and money markets outlook**

Poland	current*	Mar-14	Jun-14	Sep-14	Dec-14
Key interest rate (%, eop)	2.50	2.50	2.50	2.75	3.00
1m money market rate (%, eop)	2.40	2.63	2.64	2.88	3.15
3m money market rate (%, eop)	2.45	2.75	2.80	3.10	3.45
6m money market rate (%, eop)	2.50	2.90	3.00	3.35	3.72
Hungary					
Key interest rate (%, eop)	3.20	2.80	2.80	2.80	2.80
1m money market rate (%, eop)	3.20	2.90	2.90	2.90	3.00
3m money market rate (%, eop)	3.17	3.10	3.10	3.10	3.30
6m money market rate (%, eop)	3.14	3.37	3.40	3.47	3.73
Czech Republic					
Key interest rate (%, eop)	0.05	0.05	0.05	0.05	0.25
1m money market rate (%, eop)	0.03	0.05	0.05	0.05	0.20
3m money market rate (%, eop)	0.06	0.20	0.20	0.20	0.35
6m money market rate (%, eop)	0.49	0.33	0.33	0.33	0.50
Romania					
Key interest rate (%, eop)	4.00	3.50	3.50	3.50	3.50
1m money market rate (%, eop)	1.39	2.70	2.80	2.85	3.00
3m money market rate (%, eop)	2.04	2.90	2.90	2.95	3.05
6m money market rate (%, eop)	2.30	2.75	2.75	2.95	3.00
Russia					
Key interest rate (%, eop)	5.50	5.25	5.25	5.25	n.a.
1m money market rate (%, eop)	6.77	6.50	6.65	6.75	n.a.
3m money market rate (%, eop)	7.01	6.95	7.10	7.20	n.a.
6m money market rate (%, eop)	7.19	7.15	7.35	7.45	n.a.
Turkey					
Key interest rate (%, eop)	7.75	8.25	8.75	8.75	8.75
1m money market rate (%, eop)	7.65	7.80	7.90	7.90	7.90
3m money market rate (%, eop)	7.96	8.10	8.20	8.20	8.20
6m money market rate (%, eop)	8.15	8.20	8.30	8.30	8.30
Benchmark key rates (% eop)	**current***	**Mar-14**	**Jun-14**	**Sep-14**	**Dec-14**
ECB key interest rate (% eop)	0.25	0.25	0.25	0.25	0.25
Fed key interest rate (% eop)	0.08	0.25	0.25	0.25	0.50

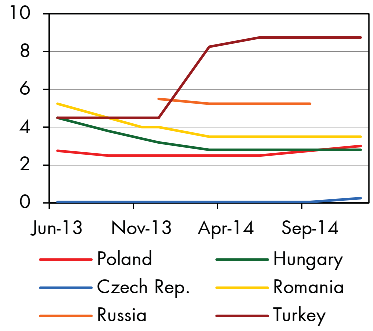
** Bid rates (for Hungary ask rates) as of 13 December 2013, 10:18 a.m. CET; ** under revision*
Source: Bloomberg, Raiffeisen RESEARCH

Central bank watch

Poland (NBP)	No near-term change in inofficial forward guidance expected, but wording on strength of recovery in Jan interesting to watch
Hungary (MNB)	Interest rate cutting cycle to continue to below 3% in Q1 2014
Czech Republic (CNB)	FX intervention used as additional tool for monetary policy
Romania (BNR)	Latest 25bp rate cut ends interest rate cutting cycle for 2013. Continuation in Q1 2014 expected with two more 25bp cuts
Serbia (NBS)	Favourable inflationary development supports further rate cuts - 25bp expected
Russia (CBR)	New auctions for secured loans or rate cuts for swaps with the CBR more likely than direct rate cuts
Turkey (TCMB)	New key interest rate tool, the overnight lending rate, expected to be hiked in Q1/Q2 2014, triggered by materialisation of Fed tapering in April 2014

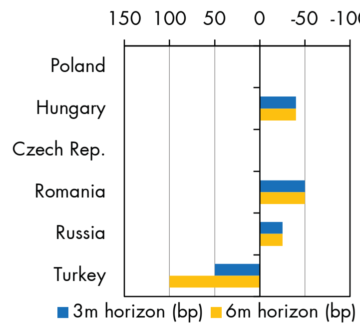
Source: Bloomberg, Reuters, Raiffeisen RESEARCH

Key rate trends (%)



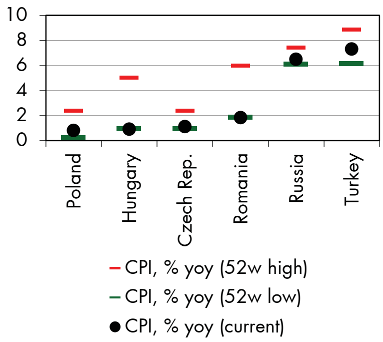
Source: Bloomberg

Key rate forecast (chg., bp)



Source: Raiffeisen RESEARCH

Inflation snapshot



Source: Bloomberg, Raiffeisen RESEARCH

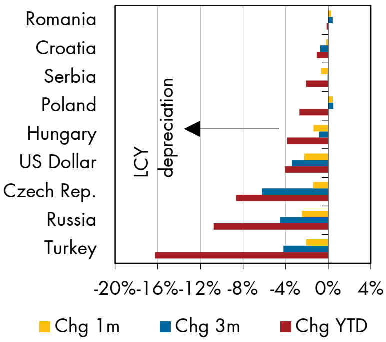
Rate setting meetings

	Dec	Jan
Poland (NBP)	4	8
Hungary (MNB)	17	26
Czech Rep. (CNB)	17	
Romania (NBR)		8
Serbia (NBS)	17	
Russia (CBR)	1st half	9
Turkey (TCMB)	17	

Source: National Central Banks, Raiffeisen RESEARCH

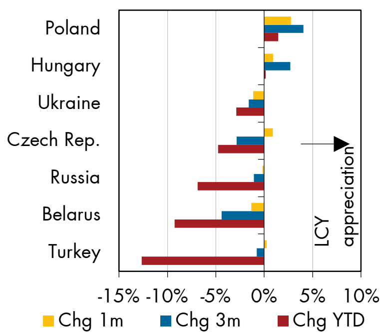
Foreign exchange market overview

Change of LCY value to EUR (%)



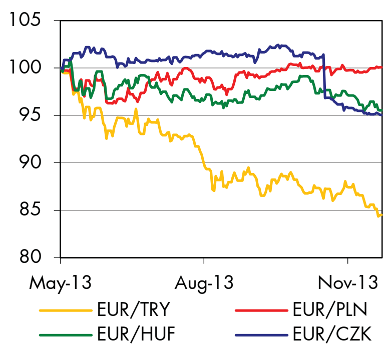
Source: Bloomberg

Change of LCY value to USD (%)



Source: Bloomberg

Exchange rate comparison



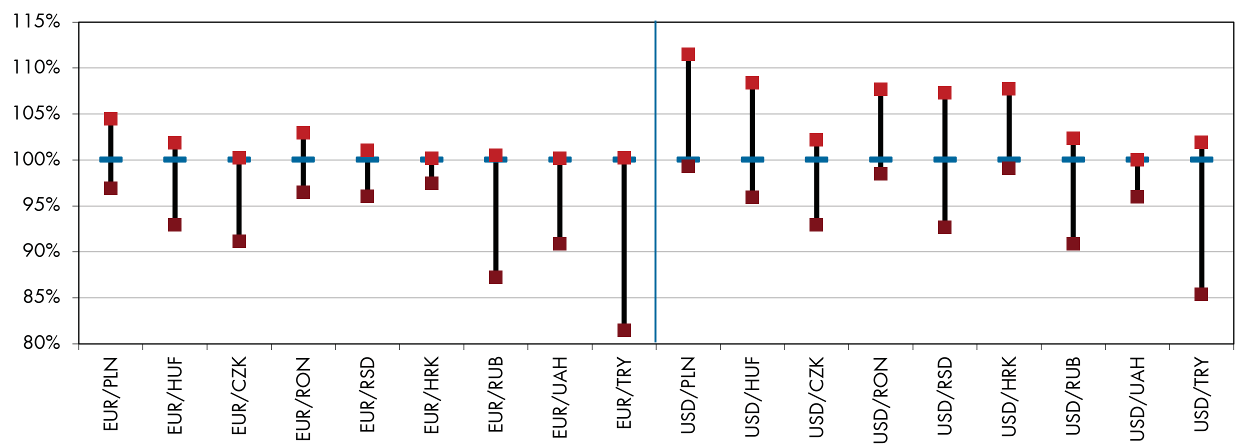
Indexed May 2013 = 100
Source: Bloomberg

FX forecasts*

EUR vs	current[1]	Mar-14	Jun-14	Sep-14	Dec-14	Comment
PLN	4.18	4.10	4.00	4.05	4.00	LCY bond market moves still driving EUR/PLN, with some strength recently
HUF	303.2	305.0	300.0	305.0	305.0	EUR/HUF traded well above the 300 level, we expect it to stabilize at this level.
CZK	27.49	26.97	26.97	26.00	26.00	EUR/CZK fluctuates between 24.4 and 27.5
RON	4.45	4.45	4.50	4.50	4.45	Limited appreciation potential, sideways trading most likely
HRK	7.64	7.57	7.48	7.52	7.55	Trading between 7.63 and 7.65 expected
RSD	114.6	113.0	112.0	114.0	115.0	Some depreciation pressure in the last weeks of the year
RUB	45.18	42.54	42.79	42.63	43.69	see rouble basket below
UAH	11.41	10.74	10.71	10.75	11.40	see USD/UAH below
BYR	12,991	13,500	13,900	14,600	15,900	see USD/BYR below
TRY	2.81	2.62	2.71	2.62	2.70	see USD/TRY below
USD	1.38	1.31	1.29	1.28	1.31	Current strong EUR supports a lot of CEE currencies
USD vs	**current[1]**	**Mar-14**	**Jun-14**	**Sep-14**	**Dec-14**	**Comment**
RUB	32.83	32.47	33.17	33.30	33.35	see rouble basket below
UAH	8.28	8.20	8.30	8.40	8.70	Political crisis increases devaluation risk, but still <50% probability; tighter liquidity could not prevent current spike
BYR	9,445	10,300	10,800	11,400	12,100	We further increased our depreciation expectation on weakening fundamentals
TRY	2.04	2.00	2.10	2.05	2.10	Lira under continued pressure; bearish medium to long term view to be expressed in revised forecasts soon
RUB basket	38.39	37.00	37.50	37.50	38.00	Rouble vulnerable with negative newsflow on economy and CBR not opposing depreciation

*1 as of 13 December 2013, 10:187a.m. CET ; *under revision*
Source: Bloomberg, Raiffeisen RESEARCH

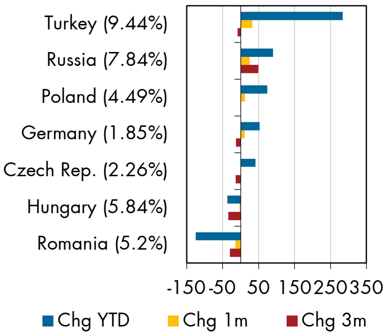
CEE FX trading range*



** 365 day high and low, 100% is current value; value of above 100% is depreciation, below 100% appreciation*
Source: Bloomberg

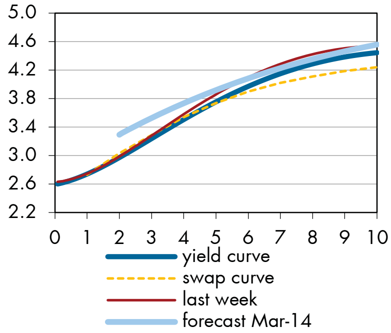
Local currency bond market overview

Change of LCY 10y bond yields (bp)



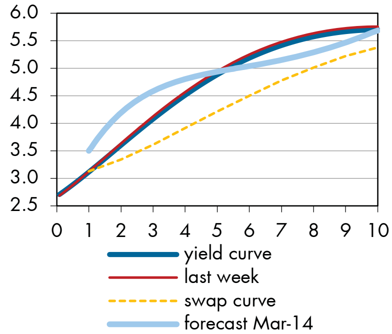
Source: Bloomberg

PLN yield curve



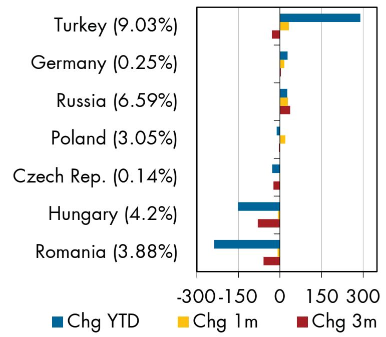
Source: Bloomberg

HUF yield curve



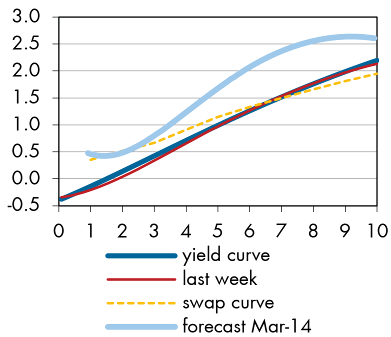
Source: Bloomberg

Change of LCY 2y bond yields (bp)



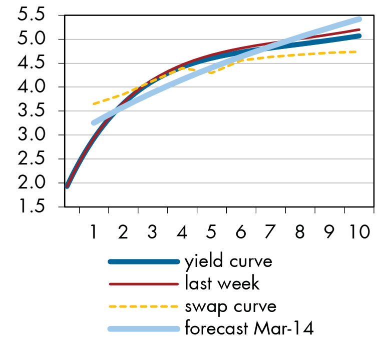
Source: Bloomberg

CZK yield curve



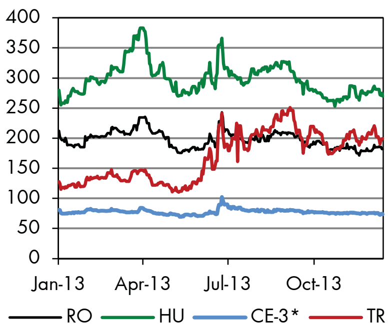
Source: Bloomberg

RON yield curve



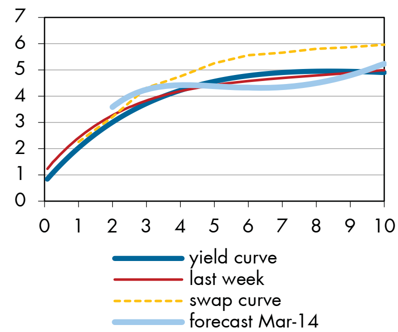
Source: Bloomberg

5y USD CDS spreads



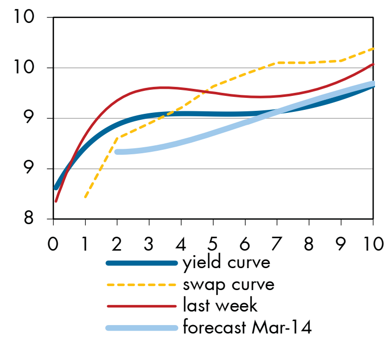
** CE-3: CZ, PL, SK*
Source: Bloomberg, Raiffeisen RESEARCH

HRK yield curve



Source: Bloomberg

TRY yield curve



Source: Bloomberg

Yield forecasts**

2y T-bond yields (%)						**10y T-bond yields (%)**					
	current*	Mar-14	Jun-14	Sep-14	Dec-14		current*	Mar-14	Jun-14	Sep-14	Dec-14
Poland	3.00	3.4	3.5	3.6	3.8	Poland	4.47	4.6	4.7	4.8	4.9
Hungary	4.10	4.4	4.6	4.8	5.2	Hungary	5.74	6.3	6.7	6.8	7.0
Czech Rep.	0.03	0.4	0.6	0.8	1.0	Czech Rep.	2.23	2.8	3.1	3.2	3.3
Romania	3.70	3.9	3.9	3.9	4.0	Romania	5.24	5.0	5.1	5.2	5.2
Croatia	4.03	3.5	3.6	3.7	3.8	Croatia	4.94	5.6	5.6	5.6	5.6
Russia	6.53	6.0	6.3	6.0	n.a.	Russia	7.81	7.0	7.3	7.2	7.2
Turkey	8.71	9.3	9.2	9.0	9.0	Turkey	9.39	9.7	10.0	9.9	9.8
Eurozone	0.25	0.3	0.4	0.6	1.1	Eurozone	1.85	2.2	2.4	2.4	2.7
USA	0.33	0.5	0.8	1.0	1.3	USA	2.88	3.1	3.2	3.3	3.5

** Ask yields as of 13 December 2013, 10:17 a.m. CET; **under revision*
Source: Bloomberg, Raiffeisen RESEARCH

Local currency bond market overview

CEE local currency bond market snapshot*

	Maturity	Coupon, %	Ask Price	YTM, %	Spread to Bunds, bp	MDur.	Comment
				Poland			
PLN 2y Gov. Bond	25.01.2016	0.00	93.97	3.00	275	2.1	Temporary correction of yield uptrend, market positioning in terms of key rate outlook will be key in the weeks ahead
PLN 5y Gov. Bond	25.07.2018	2.50	95.16	3.66	283	4.4	
PLN 10y Gov. Bond	25.10.2023	4.00	96.40	4.46	261	8.3	
				Hungary			
HUF 3y Gov. Bond	22.12.2016	5.50	104.02	4.05	372	2.7	Even though HUF depreciated, lang-dated bonds stood stable, which is unusual. It remains true that above key levels (6% for ten-year yield) there exists a decent demand.
HUF 5y Gov. Bond	20.12.2018	5.50	103.54	4.69	386	4.3	
HUF 10y Gov. Bond	24.11.2023	6.00	101.42	5.81	396	7.8	
				Czech Republic			
CZK 2y Gov. Bond	11.04.2015	3.80	104.95	0.04	-21	1.3	Czech government bond prices remained flat
CZK 5y Gov. Bond	18.08.2018	4.60	117.54	0.76	-7	4.3	
CZK 10y Gov. Bond	25.05.2024	5.70	132.63	2.17	33	8.3	
				Croatia			
HRK 5y Gov. Bond	10.07.2018	5.25	103.30	4.44	362	4.1	Further demand for domestic bonds with focus on long-end EUR-linked bonds expected
HRK 8y Gov. Bond	05.03.2020	6.75	109.60	4.94	309	5.1	
				Romania			
RON 3y Gov. Bond	29.08.2016	4.75	102.50	3.75	342	2.6	Scenario of high liquidity continuing to support short end of the yield curve
RON 5y Gov. Bond	26.07.2017	5.90	104.88	4.40	357	3.3	
				Russia			
RUB 2y Gov. Bond	20.01.2016	7.35	101.79	6.53	628	1.9	Upside surprise with inflation could drive yields upwards
RUB 5y Gov. Bond	03.08.2016	6.90	101.00	6.58	575	2.4	
RUB 10y Gov. Bond	24.11.2021	7.00	96.23	7.40	556	6.3	
				Turkey			
TRY 2y Gov. Bond	07.10.2015	8.30	99.10	8.83	858	1.7	After materialization of Fed tapering in Q1 2014, elevated pressure on the long-end of the yield curve expected; medium-term outlook for TRY bonds, however, favorable
TRY 5y Gov. Bond	14.02.2018	6.30	90.89	8.95	812	3.6	
TRY 10y Gov. Bond	27.09.2023	8.80	96.10	9.41	757	6.8	

*Prices as of 13 December 2013, 10:01 a.m. CET; *under revision*
Source: Bloomberg, Raiffeisen RESEARCH

Bond auctions

		ISIN	Coupon	Maturity	Volume
16 December 2013					
RO	1y T-bill	RO1314CTN0G2	-	17 Dec-14	RON 1.1 bn
18 December 2013					
RU	OFZ-bond	n.a.	n.a.	n.a.	n.a.
19 December 2013					
RO	3y T-bond	RO1316DBN053	4.75%	29 Aug-16	RON 600 mn

Summary: Ratings & macro data

Country ratings: CE, SEE, CIS

	S&P			Moody's			Fitch		
	LCY	FCY	Outlook	LCY	FCY	Outlook	LCY	FCY	Outlook
CE									
Poland	A	A-	stable	A2	A2	stable	A	A-	positive
Hungary	BB	BB	negative	Ba1	Ba1	negative	BBB-	BB+	stable
Czech Republic	AA	AA-	stable	A1	A1	stable	AA-	A+	stable
Slovakia *	A	A	stable	A2	A2	negative	A+	A+	stable
Slovenia *	A-	A-	stable	Ba1	Ba1	negative	BBB+	BBB+	negative
SEE									
Romania	BB+	BB+	positive	Baa3	Baa3	negative	BBB	BBB-	stable
Bulgaria	BBB	BBB	**negative**	Baa2	Baa2	stable	BBB	BBB-	stable
Croatia	BB+	BB+	negative	Ba1	Ba1	stable	BBB-	BB+	stable
Serbia	BB-	BB-	negative	B1	B1	stable	BB-	BB-	negative
CIS									
Russia	BBB+	BBB	stable	Baa1	Baa1	stable	BBB	BBB	stable
Ukraine	B-	B-	negative	Caa1	Caa1	negative	B-	B-	negative
Belarus	B-	B-	stable	B3	B3	negative	not rated	not rated	not rated
Kazakhstan	BBB+	BBB+	stable	Baa2	Baa2	stable	A-	BBB+	stable
Turkey	BBB	BB+	stable	Baa3	Baa3	stable	BBB	BBB-	stable

** Euro area (Euro currency) members; positive rating/outlook changes (in previous week) in green, negative changes in red*
Source: rating agencies websites

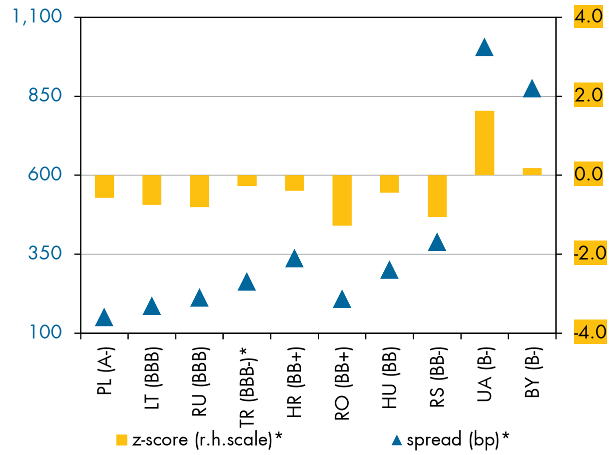
Main macro data & forecasts*

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
Croatia	**2012**	-2.0	3.4	19.1	1047	-4.1	53.7	22.3	0.0	102.3	25.0	8.5
	2013e	-0.5	2.5	19.8	1027	-4.5	61.8	20.6	-0.7	103.1	24.5	8.7
	2014f	0.0	2.7	19.5	1024	-3.6	65.4	19.5	-0.9	99.8	24.7	8.8
Czech Rep.	**2012**	-0.9	3.3	6.8	1000	-4.4	46.2	66.9	-2.4	50.5	44.0	4.2
	2013e	-1.0	1.4	7.6	978	-2.9	48.6	69.0	-1.0	51.4	45.8	4.4
	2014f	2.3	1.3	7.3	977	-2.9	49.8	71.5	-0.7	50.2	48.8	4.4
Hungary	**2012**	-1.7	5.7	10.9	775	-1.9	79.2	82.6	1.9	126.8	27.6	5.5
	2013e	0.5	1.7	10.5	789	-2.9	78.7	83.8	2.6	119.0	28.4	5.3
	2014f	1.5	1.4	9.7	807	-2.9	77.4	84.6	3.3	111.1	30.0	5.2
Poland	**2012**	1.9	3.7	12.8	842	-3.9	55.6	38.4	-3.5	72.4	29.9	6.5
	2013e	1.2	1.2	14.0	860	-4.1	57.1	39.5	-1.3	73.1	30.5	6.7
	2014f	2.5	2.0	13.1	926	-3.8	57.6	39.1	-2.8	70.9	30.3	6.3
Romania	**2012**	0.7	3.3	7.0	463	-3.0	37.9	34.2	-4.4	75.2	31.5	7.1
	2013e	2.5	4.1	7.3	489	-2.8	38.5	34.5	-1.0	70.9	33.0	7.3
	2014f	2.0	2.2	7.2	508	-2.5	38.9	36.2	-2.0	69.6	30.6	6.2
Russia	**2012**	3.4	5.1	5.7	671	0.4	10.5	26.3	3.7	30.9	76.3	17.0
	2013e	1.5	6.7	6.0	685	-0.5	11.0	24.0	2.8	32.3	67.2	16.4
	2014f	2.0	5.5	6.0	726	-0.2	11.5	23.3	2.0	33.9	61.6	15.7
Ukraine	**2012**	0.2	0.6	7.7	290	-5.5	36.8	40.0	-8.5	76.3	17.0	2.9
	2013e	-1.0	-0.2	7.5	310	-4.0	37.5	37.2	-6.6	77.3	11.9	2.3
	2014f	1.5	5.0	7.0	350	-5.0	39.0	38.4	-6.5	76.5	11.7	2.2
Turkey	**2012**	2.2	9.0	9.2	749	-2.4	36.8	19.4	-6.1	45.2	27.7	5.0
	2013e	3.5	6.0	9.5	701	-2.2	35.0	19.0	-6.7	46.3	19.7	3.6
	2014f	3.5	6.7	9.3	700	-2.5	33.0	18.8	-6.6	49.5	17.4	3.6

** 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

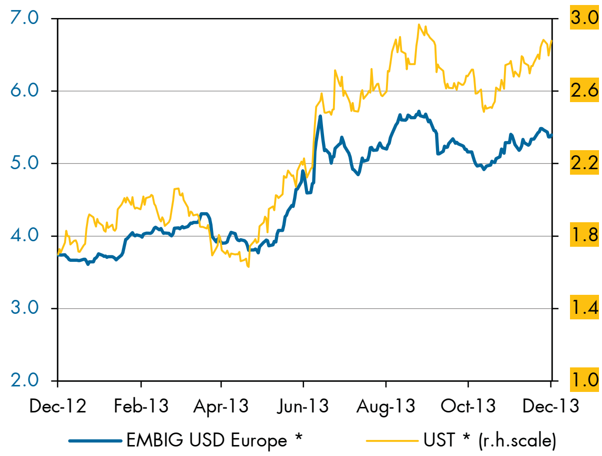
Eurobond market overview

CEE USD EMBIG spread valuation*



* z-score - EMBIG USD country spread deviation from mean normalised by 1 standard deviation, score at or below minus 1 = expensive, at or above 1 = cheap
Source: Thomson Reuters, Raiffeisen RESEARCH

CEE EMBIG USD vs. UST YTM*



* YTM - yield to maturity EMBI Global USD, UST - 10-year US Treasury note
Source: Thomson Reuters, Raiffeisen RESEARCH

			Market Price			YTM mid.	Spread vs.	Mdur.	ISIN
Issuer/rate/due	Bid	Ask	w/w %	52w max	52w min	% p. a.	Bmk, bp	years	–
EUR									
BGARIA 4 1/4 07/09/17	108.6	108.7	0.18	110.5	106.7	1.73	123	3.3	XS0802005289
CROATI 6 1/2 01/05/15	104.6	104.8	-0.01	108.0	104.5	1.89	166	1.0	XS0431967230
CROATI 5 7/8 07/09/18	108.0	108.5	0.88	111.3	103.6	3.85	309	3.9	XS0645940288
REPHUN 3 1/2 07/18/16	102.8	103.4	0.50	103.1	96.4	2.24	193	2.4	XS0240732114
REPHUN 5 3/4 06/11/18	108.1	108.8	1.30	108.7	99.9	3.66	293	3.8	XS0369470397
REPHUN 6 01/11/19	108.5	109.2	0.94	109.3	100.8	4.04	316	4.2	XS0625388136
LITHUN 4.85 02/07/18	110.4	110.6	0.01	113.0	107.5	2.18	154	3.6	XS0327304001
POLAND 3 5/8 02/01/16	106.3	106.8	0.07	108.7	105.9	0.51	24	2.0	XS0242491230
POLAND 1 5/8 01/15/19	100.7	100.9	-0.02	102.3	98.0	1.46	59	4.8	XS0874841066
POLAND 3 3/4 01/19/23	108.1	108.9	-0.04	113.1	104.5	2.68	94	7.5	XS0794399674
POLAND 3 3/8 07/09/24	104.1	104.8	-0.13	107.4	99.3	2.88	95	8.7	XS0841073793
ROMANI 5 1/4 06/17/16	107.4	107.7	-0.10	109.2	105.9	2.12	182	2.3	XS0638742485
ROMANI 4 7/8 11/07/19	105.9	106.2	0.67	109.4	99.7	3.72	270	5.1	XS0852474336
TURKEY 5 7/8 04/02/19	110.4	111.4	-0.08	119.4	107.5	3.57	266	4.4	XS0285127329
TURKEY 5 1/8 05/18/20	106.3	107.0	0.08	115.9	102.4	3.93	279	5.3	XS0503454166
USD									
BGARIA 8 1/4 01/15/15	107.8	108.1	-0.15	116.4	108.1	0.81	66	1.0	XS0145623624
BELRUS 8 3/4 08/03/15	97.6	99.5	-0.38	106.1	94.3	9.71	945	1.4	XS0529394701
BELRUS 8.95 01/26/18	95.8	97.8	-0.67	111.2	90.0	9.93	876	3.2	XS0583616239
CROATI 6 3/8 03/24/21	103.9	104.7	0.37	116.9	101.4	5.64	333	5.7	XS0607904264
CROATI 5 1/2 04/04/23	96.0	96.6	0.62	109.0	93.9	6.03	328	7.1	XS0908769887
REPHUN 5 3/8 02/21/23	97.8	98.3	0.99	106.0	93.0	5.65	293	7.0	US445545AH91
REPHUN 7 5/8 03/29/41	106.4	107.3	0.58	121.3	97.0	7.06	330	11.7	US445545AF36
LITHUN 7 3/8 02/11/20	120.3	121.2	0.08	131.0	118.0	3.58	162	5.0	XS0485991417
LITHUN 6 5/8 02/01/22	116.6	117.5	-0.13	128.9	113.7	4.13	164	6.3	XS0739988086
LATVIA 2 3/4 01/12/20	94.8	95.7	0.17	101.2	91.3	3.63	170	5.4	XS0863522149
LATVIA 5 1/4 06/16/21	107.4	108.4	0.05	117.4	105.2	4.02	166	6.2	XS0638326263
POLAND 3 7/8 07/16/15	104.7	105.2	0.13	107.6	104.2	0.72	46	1.5	US731011AS13
POLAND 6 3/8 07/15/19	116.9	117.1	-0.14	125.6	114.3	3.03	128	4.7	US731011AR30
POLAND 3 03/17/23	90.7	91.2	0.24	101.0	87.4	4.19	145	7.8	US731011AT95
ROMANI 6 3/4 02/07/22	113.5	114.0	0.47	124.4	108.4	4.70	220	6.2	US77586TAA43
ROMANI 4 3/8 08/22/23	96.5	96.9	0.44	105.5	90.4	4.80	197	7.7	US77586TAC09
RUSSIA 4 1/2 04/04/22	101.1	101.9	0.40	116.2	97.7	4.28	175	6.8	XS0767472458
RUSSIA 7 1/2 03/31/30	116.7	116.8	0.05	128.7	114.6	4.15	95	4.8	XS0114288789
RUSSIA 5 5/8 04/04/42	98.9	99.8	0.47	124.8	95.6	5.67	186	13.9	XS0767473852
SERBIA 5 1/4 11/21/17	100.1	101.1	0.25	107.1	95.9	5.07	398	3.5	XS0856951263
SERBIA 4 7/8 02/25/20	93.6	95.1	0.01	99.0	89.3	5.97	400	5.1	XS0893103852
TURKEY 6 1/4 09/26/22	107.1	108.3	0.79	126.1	102.4	5.14	251	6.7	US900123BZ27
TURKEY 6 7/8 03/17/36	104.0	104.5	0.80	137.3	98.4	6.51	301	11.4	US900123AY60
TURKEY 6 3/4 05/30/40	103.1	104.2	1.84	137.2	97.2	6.46	275	12.5	US900123BG46
UKRAIN 7 3/4 09/23/20	84.4	86.1	0.22	108.1	83.1	10.88	870	4.9	XS0543783194
UKRAIN 7.8 11/28/22	83.6	84.3	0.04	107.0	81.8	10.63	796	6.0	XS0858358236
UKRAIN 7 1/2 04/17/23	83.6	84.9	0.67	101.8	81.2	10.15	740	6.2	XS0917605841

* w/w - week on week, 52w - 52 week, YTM mid - yield to maturity based on mid market price, Bmk - benchmark, Mdur - modified duration, ISIN - international security identification number; prices as of 13 December 2013, 07:32 a.m. CET
Source: Bloomberg, Raiffeisen RESEARCH

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