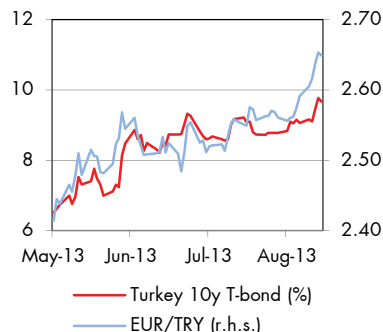




Turkish markets under pressure



Source: Bloomberg, Raiffeisen RESEARCH

Market snapshot

	curr.*	Sep-13	Dec-13	Jun-14
Poland				
EUR/PLN	4.24	4.20	4.15	4.00
Key rate	2.50	2.50	2.50	2.50
10y bond	4.5	3.6	3.7	3.9
Hungary				
EUR/HUF	298.9	295	300	305
Key rate	4.00	3.80	3.50	3.50
10y bond	6.3	5.6	5.7	5.9
Czech Rep.				
EUR/CZK	25.7	25.7	25.5	25.1
Key rate	0.05	0.05	0.05	0.05
10y bond	2.3	2.1	2.2	2.5
Romania				
EUR/RON	4.43	4.45	4.40	4.45
Key rate	4.50	4.25	4.00	4.00
10y bond	4.9	4.8	4.7	4.6
Croatia				
EUR/HRK	7.55	7.55	7.60	7.48
Key rate	6.25	6.00	6.00	6.00
10y bond	4.9	5.5	5.5	5.6
Russia				
USD/RUB	33.1	32.9	33.0	32.4
Key rate	8.25	8.00	8.00	8.00
10y bond	7.7	7.8	8.0	8.0
Turkey				
USD/TRY	1.99	1.90	1.90	1.85
Key rate	4.50	4.50	4.50	5.00
10y bond	9.6	9.2	9.5	8.7
EUR/USD	1.33	1.31	1.30	1.35

* prices as of 23 August 2013, 09:30 a.m. CET
Source: Thomson Reuters, Raiffeisen RESEARCH

Open positions

CEE LCY bonds: long RON 2y; long SI 5y

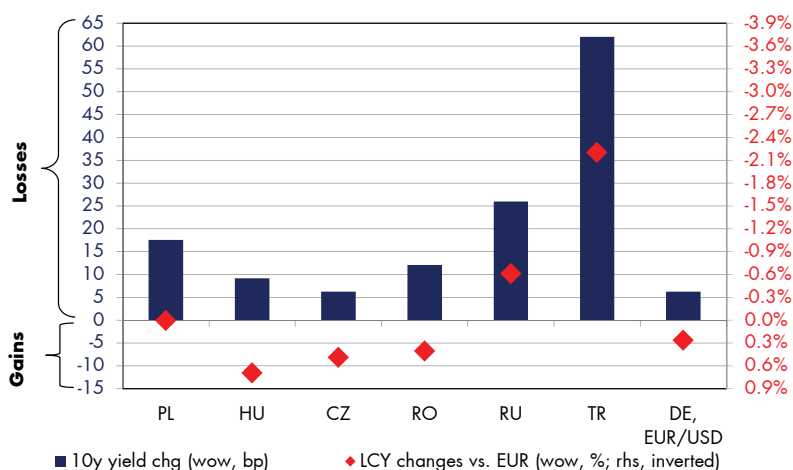
CEE FX: currently no open FX trading idea

Highlights – Bond yields and currencies under pressure

Yields continued to rise throughout CEE as fears about the US Fed starting to remove liquidity from markets prevails. This in return had its toll on FX rates as well, with the Russian rouble and Turkish lira showing considerable depreciation. We still expect some short-term appreciation in the Turkish lira as we regard the current phase of weakening overdone, but then this should only be seen as a technical reaction after the strong depreciation. Likewise the Eurobond market does not inspire much confidence and we find short-term risks being skewed to the downside (for more information on the Eurobond market trends see our focus on page 2).

Next week the remaining CEE countries Croatia and Slovenia will release their preliminary GDP data for the second quarter 2013. Both countries are likely to remain in recession and show ongoing decline in economic activity for whole of 2013. The Hungarian Monetary Council will meet next week to discuss the continuation of the interest rate cutting cycle. As indicated after the last meeting we expect the speed of rate cuts to diminish with only a 10bp cut this time.

Last week's changes



* prices as of 23 August 2013, 11:07 a.m. CET
Source: Bloomberg, Raiffeisen RESEARCH

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Data highlights upcoming week

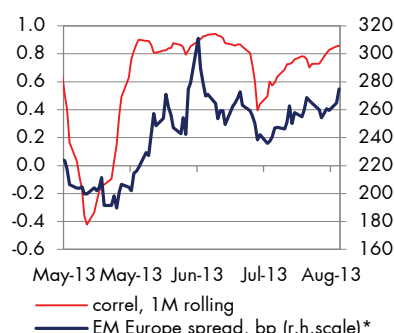
Date	Indicator	Period	est.	High	Mean	Low	Prev.
26-Aug	PL Retail sales, % yoy	Jul	3.8	4.5	3.1	1.50	1.8
27-Aug	HU Key rate, %	Aug	3.9	3.9	3.9	3.75	4.0
30-Aug	SI GDP, real, % yoy	Q2	-2.2	n.a.	n.a.	n.a.	-4.8
30-Aug	HR GDP, real, % yoy	Q2	-1.0	n.a.	n.a.	n.a.	-1.5

Source: Bloomberg, Raiffeisen RESEARCH



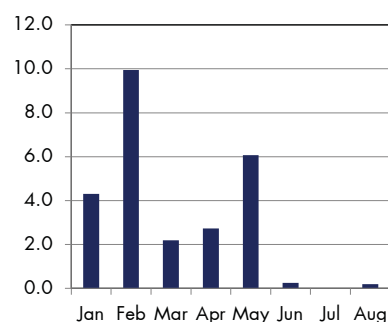
Focus on: Sovereign Eurobond market trends

Perfect correlation returned *



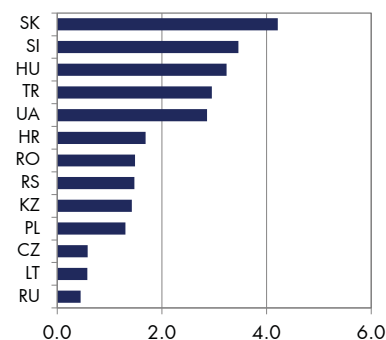
* 1M - 1 month rolling, EMBIG Europe yield minus 10Y UST yield
Source: Thomson Reuters, Raiffeisen RESEARCH

CEE primary market timeline*



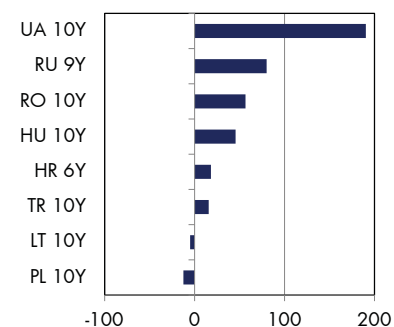
* USD bn 2013, arranged by country, figures are year to date, including state & state agencies
Source: BondRadar, Bloomberg, Raiffeisen RESEARCH

CEE primary market geography*



* USD bn 2013, arranged by country, figures are year to date, including state & state agencies
Source: BondRadar, Bloomberg, Raiffeisen RESEARCH

Basis (Z-spread basis) bp *



* Z-spread basis constant maturity, basis - difference between CDS spread and bond spread
Source: Bloomberg, Raiffeisen RESEARCH

The CEE Eurobond market came under renewed pressure in August, owing to the growing risk that the US Fed will start tapering of its quantitative easing in September already. In line with our earlier expectation, the tail risks from the US Treasury market for CEE increased dramatically. Since June 2013, the one-month rolling correlation index between 10-year UST yield and EMBIG Europe spread has peaked above 0.9, reflecting the high impact of the UST yield rise for the CEE cost of borrowing on international markets. Moreover, this high correlation is likely to hold as we are about to enter the second phase of market adjustment to the Fed policy risk. Furthermore, the difficult economic conditions have led to softening of the Emerging Markets' fundamentals, while at the same time bond market supply risks have increased. The economic slowdown was particularly visible in the CEE region, where a few economies – including Hungary and Czech Republic – have struggled to overcome the recession, whilst countries like Poland and Russia saw their growth rates plunge much lower. At the same time, refinancing risks increased. Overall, the market outlook for the CEE region remains negative, as many governments in the region still plan to tap the primary market later this autumn whereas the investor appetite for the EM risk will be smaller with more funds going into developed markets now. The Primary Eurobond market also does not inspire much confidence. CEE governments are still the largest borrower in the Eurobond market, accounting for about 65% of all EM sovereign placements in 2013. Although many CEE issuers managed to place bonds in Q1, the rapid deterioration in market conditions in Q2 and especially in Q3 led to a substantial decline in placement volumes. In Q2 sovereign placements only reached 50% of Q1 and amounted to just USD 9 bn. Interestingly Slovakia, Slovenia, Hungary, Turkey and Ukraine were the main issuers in H1, while out of these five only Slovakia did not have credit-specific problems. We are especially concerned about the risk profile of Ukraine and Turkey, since both these sovereigns are under pressure to borrow from international markets to close the residual financing gap which remains fairly sizable. We note that primary market activity has been declining steadily since April, with not one single sovereign placement from CEE seen since June. Still, a number of CEE governments are planning Eurobond placements for this year, including active issuers like Turkey, Ukraine and a few others. Unfortunately, we have also seen more investment fund outflows from EM debt markets in July and August, which contributes to the deteriorating technical picture in the EM Eurobond market. Since we expect more sovereigns to tap Eurobond market amid shrinking interest from investors, this may create a crowding-in impact for primary markets and negatively impact pricing conditions for CEE. As a result, we see supply risks increasing in the CEE marketplace leading to technically weaker market picture. Whilst the recent spread widening has created some attractive levels in CEE marketplace, we see the short-term risks skewed to the downside. Indeed, shaky global markets, Fed policy and new issue supply risks speak against taking new positions in EM debt and CEE in particular. Therefore, we concentrate on relative value trades using a bond basis calculated as the spread difference between the relevant country CDS and matching maturity Eurobond. So far, we see Russia and Ukraine basis spreads sticking out in a positive way, which would warrant going long their risk. However, we only feel confident about Russia, where basis spread looks toppish so we recommend selling Russia CDS vs. buying Eurobond. On the contrary, Ukrainian risk appears excessive which speaks against taking long position right now. For outright long positions, we prefer Romania and Poland where economic and policy risks seem to be lower by comparison. However, we expect more investment opportunities to emerge once the market stabilises closer to October.

Gintaras Shlizhyus (+431 71707 1343)

Data calendar and country section

This week, previous week: key data releases					Upcoming week: key data releases							
Date	Indicator	Period	Actual	Prev.	Date	Indicator	Period	est.	High	Mean	Low	Prev.
16-Aug	UA Retail trade, % yoy	Jul	10.6	11.2	26-Aug	PL Retail sales, % yoy	Jul	3.8	4.5	3.1	1.50	1.8
19-Aug	PL Avg. gross wages, % yoy	Jul	3.5	1.4	26-Aug	PL Unemployment, %	Jul	13.1	14.1	13.1	12.9	13.2
19-Aug	PL Employment, % yoy	Jul	-0.7	-0.8	27-Aug	HU Unemployment, %	Jul	10.1	10.1	10.1	10.0	10.3
19-Aug	RU Real wages, % yoy	Jul	6.6	6.0	27-Aug	HU Key rate, %	Aug	3.9	3.9	3.9	3.75	4.0
19-Aug	RU Retail sales, % yoy	Jul	4.3	3.5	29-Aug	TR Trade balance, TRY bn	Aug	n.a.	n.a.	n.a.	n.a.	-8.6
19-Aug	RU Investment, % yoy	Jul	2.5	-3.7	29-Aug	HR Real wages, % yoy	Jun	n.a.	n.a.	n.a.	n.a.	-0.5
19-Aug	UA Industrial output, % yoy	Jul	-4.9	-5.7	30-Aug	HU PPI, % yoy	Jul	2.2	2.2	1.7	1.4	0.6
20-Aug	PL Industrial output, % yoy	Jul	6.3	3.0	30-Aug	SI GDP, real, % yoy	Q2	-2.2	n.a.	n.a.	n.a.	-4.8
20-Aug	PL PPI, % yoy	Jul	-0.8	-1.3	30-Aug	SI CPI, % yoy	Aug	n.a.	n.a.	n.a.	n.a.	2.6
20-Aug	TR 1w repo rate, %	Aug	4.5	4.5	30-Aug	SI Retail sales, % yoy	Jul	n.a.	n.a.	n.a.	n.a.	-3.6
20-Aug	TR overnight borrowing rate, %	Aug	3.5	3.5	30-Aug	BG PPI, % yoy	Jul	n.a.	n.a.	n.a.	n.a.	0.0
20-Aug	TR overnight lending rate, %	Aug	7.75	7.25	30-Aug	HR GDP, real, % yoy	Q2	-1.0	n.a.	n.a.	n.a.	-1.5
20-Aug	RS Current account, EUR mn	Aug	-126.9	-6.0	30-Aug	RS Industrial output, % yoy	Jul	n.a.	n.a.	n.a.	n.a.	3.7
22-Aug	HR Unemployment, %	Jul	18.5	18.6	30-Aug	RS Retail sales, % yoy	Jul	n.a.	n.a.	n.a.	n.a.	-6.1

Source: Bloomberg, Raiffeisen RESEARCH

Poland – Yields stabilised last week, reflecting movements in core markets. Amongst the domestic developments, only the data on industrial output – which grew by 6.3% yoy – had an effect on bonds pulling down yields and EUR/PLN. The government's proposed budget revision (with the deficit higher by PLN 16 bn in 2013) was anticipated and did not move the market, which now will eye the detailed GDP figures. The official flash estimate showed growth of 0.8% yoy, and one key aspect now will be whether or not internal demand is regaining strength. We expect some improvement in private consumption, which may be also confirmed by the retail sales data on Monday.

Analyst: Paweł Radwański (+48 22 585 20 00)

Hungary – Hungary's central bank is expected to cut rates again next Tuesday. Nevertheless, this time the size of cut is expected to be smaller. After the previous meeting, the Monetary Council noted that they see a case for smaller steps, because of the volatile conditions in financial markets. Therefore, we expect the Council to cut 10bp to 3.9%. This pace may continue through the rest of the year, and thus we project 3.5% base interest rate by the end of the year. Also, on Tuesday HSCO will release the unemployment report which we expect to show improving labour market conditions. The projected 10.1% unemployment rate might be the lowest since mid-2009. The markets will also react to possible news on the government's plans for the FX mortgage scheme: the Banking Association and the government are to sit down at the negotiating table on Tuesday.

Analyst: Adam Keszeg (+36 1 484 4313)

Czech Republic – Czech MPs voted to dissolve parliament, paving the way for early elections, which are expected to be held by the end of October. The decision to dissolve parliament and force early elections was widely expected, and consequently the financial market did not react to this news. We do not expect that the market will react to political developments in the near future. One key aspect in the future will be the result of the elections: the leftist CSSD leads in the polls, but the situation is very turbulent now, making any predictions about the Czech Republic's future government very difficult.

Analyst: Michal Brozka (+420 234 40 1489)

Romania – RON yields felt some upside pressure this week, but the magnitude of the move looks smaller than those in the regional peers. The front end of the bond curve inched up by 5bp, while 5-10y yields moved some 15bp from the August lows. The correction seems more related to the deteriorating appetite for EM assets rather than to local factors. Liquidity conditions remain loose and prospects for monetary policy easing might mitigate some of the upside pressure generated by global market sentiment. The funding buffer amounts to EUR 6 bn (EUR 5 bn in cash and a EUR 1 bn credit line from the World Bank), almost unchanged from the EUR 6.2 bn amount noted by Prime Minister Ponta in mid-April. The auction calendar for September is likely to be released next week. Given the unfavourable global environment, the focus could remain on short tenors (1y-3y), while the planned amount might be smaller than the size of redemptions (RON 2.9 bn).

Analyst: Ana-Maria Morarescu (+40 21 306 1265)

Croatia – Next week features the first release of GDP data for Q2. After declining by 1.5% yoy in Q1, we also expect to see a decline in Q2, but at a slower pace. We expect a negative contribution from investments, due to a contraction in industrial production and construction output. However, the decline in GFCF was most likely mitigated by Government consumption thanks to increased investment activity. Moreover, the foreign trade deficit widened considerably in Q2 as export of goods declined and imports increased, especially in June. Therefore, net exports could also contribute negatively, but higher tourist overnights should contribute to a higher surplus on the services account. We expect a mildly positive contribution from household consumption as retail sales rose in Q2 (mostly due to the base effect). After a decline in H1, Q3 may see mild GDP growth thanks to a good tourist season and the spillover of positive effects to other sectors. However, GDP is expected to decline in 2013 (for the fifth year in a row).

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

Serbia – The government reshuffle that was announced in late July, when the Serbian Progressive Party (SNS) and Socialist Party of Serbia (SPS) agreed to continue the ruling coalition without outgoing finance and economy minister Mladjan Dinkic's United Regions of Serbia (UPS) is heating up. Deputy Prime Minister Vucic is resolved to include in the government a number of foreign experts, including some former prime ministers of developed countries. Negotiations are underway on the potential engagement of Austria's former chancellor Alfred Gusenbauer (to provide advice to the government on the country's efforts to become a member of the EU) and ex-IMF chief Dominique Strauss Kahn (with a consulting role in state finance system restructuring and public debt, as well as proposing measures to stimulate the country's economic growth). So far, only the names of the Finance Minister and Defence Minister are known, and other ministers' names will be unveiled by the end of this week. The parliament should debate the reshuffle on Monday, 26 August. According to the first address of the Finance Minister, Mr. Lazar Krstic (associate principal at McKinsey & Company in New York and Yale University qualifications), the first task is the timely delivery of the law on the 2014 budget, which would cut the deficit from this year's 6.5% of GDP (new estimate not officially mentioned so far in the fiscal strategy nor budget Law) to no more than 4% of GDP in 2014.

After the sale of the national carrier JAT to Etihad in the United Arab Emirates, the next company in the restructuring programme to be offered for sale is bus manufacturer Ikarbus. Negotiations on a strategic partnership with Mercedes-Benz are underway, and the partnership could result in the state selling its stake to Mercedes-Benz in a few years. Also, Telekom privatisation is being mulled again. Hyundai is eyeing the market and is ready to invest USD 400 mn in a waste processing plant. Temporary EUR/RSD depreciation is supported somewhat by dividends payments (EUR 32 mn) by the oil company NIS, and this should be followed by some small appreciation once the process is finished.

Analyst: Ljiljana Grubic (+381 11 2207178)

Russia – Even for the short OFZ there is no high demand. Yesterday the Ministry of Finance managed to place OFZ 25082 only in the amount of 64% of the proposed RUB 10 bn. And the yield was determined by the upper end of the YTM 6.32%. We believe that the principal buyers were local investors with an excess of cheap liquidity. The lack of strong demand for short OFZ indicates low inflation expectations in response to the reduction in the repo rate of the Central Bank, the positive effect of which, in our opinion, will be fully offset by the start of folding QE. The low yield on the OFZ market (relative to global emerging markets in terms of real interest rates) are due mainly to the lack of new supply (net issuance in January-July amounted to RUB 85 bn). It should be noted that the Finance Ministry is far behind its plan to borrow in the domestic market: in H1 2013 from the planned RUB 606 bn realized it was only RUB 362 bn, with OFZ were repaid in the amount of RUB 348 bn. In this context, the issue of financing the budget deficit is unlikely to be resolved without breaking the budget rules.

Analyst: Denis Poryvay (+7 495 221 9843)

Ukraine – The decline in the industry continues, but the pace of the fall in July fell slightly due to the statistical base effect and a recovery in production in the steel industry. The volume of industrial production in July fell by 4.9% compared to the same period last year (June decline of 5.7% yoy). In the seven months of this year, industrial production fell by 5.3% in annual terms. In July, industrial dynamics showed some improvement in many sectors – including in the mining and manufacturing industries, as well as in the energy sector. In particular, manufacturing decreased by 7.5%, while the drop in June amounted to 8.4%. Most notable was the dramatic change in the dynamics in metallurgy – a fall of 6.3% in June, replaced by growth of 1.3% in July, with positive growth rates were recorded for the first time since October 2011. Apparently, the domestic manufacturers of steel products increased production volumes based on the expected growth in demand for steel in the world market in the next 6-12 months. Ukrainian Prime Minister Mykola Azarov said the other day that according to preliminary data the State Statistics Committee, GDP growth in July was 2.5% in annual terms. In our view, this assessment seems a bit high, since the second quarter GDP fell by 1.1%, while the July data for individual sectors of the economy does not show a significant improvement in economic dynamics. Thus, rapid growth in the agricultural sector and retail trade con-

tinue to steadily decline, while the decline in construction remained at the same level (-17.8% in January-July). According to our estimates, GDP growth in the 3rd quarter will really be a plus, but will not exceed 1.0 - 1.5%.

Analyst: Dmytro Sologub (+380 44 495 9072)

Turkey – Despite the hike in the o/n lending rate at last Tuesday's monetary policy meeting, the relief for the Turkish lira was only temporary: in our view, the first reason for this is that the 50bp hike in the ceiling of the o/n interest rate corridor was only half-hearted. Moreover, banks are only forced to use the o/n lending facility at 7.75% on extraordinary days (and effectively feel the tightening), i.e. when the central bank (TCMB) does not allow primary dealers (PD) to borrow through the PD facility (which remained unchanged at 6.75%) and no lira funding is provided at the 4.5% one-week repo rate (also unchanged). With the lira heading from one all-time high to another most recently (both versus USD and EUR), the TCMB declared that we are now exactly in these extraordinary days (since the beginning of August there was only one extraordinary day, i.e. no funding through the 4.5% main policy rate). If the lira does not manage to stabilise during these extraordinary days, which are additionally flanked by USD selling auctions, then we would not rule out adjustment of the 4.5% policy rate and/or another hike to the upper end of the corridor, as FX reserves remain relatively limited to defend the currency over a prolonged period of time (needless to say that MP in Turkey is currently extremely exchange rate focused). Apart from the bond-market-unfriendly, tighter monetary environment, the increased likelihood of the Fed tapering case – the second reason explaining the ineffectiveness of the latest MP steps – will also continue to prevent local currency bonds from the expected recovery in the short to medium term.

Analyst: Stephan Imre (+43 1 71707 6757)

Trading ideas

Short-term trading ideas

Recommendation	Entry date	Entry level	Target	Stop	Comments
Buy SI T-bond 5y (ISIN: XS0292653994)	28/06/2013	95.26	100	90	Back to start because of global sell-off, good risk/reward for recovery once global panic calms over summer
Buy RON T-bond 2y (ISIN: RO1214DBN068)	21/06/2013	100.60	102.0	98.0	Some mild recovery expected following the latest overshooting

Source: Thomson Reuters, Bloomberg

Recently closed trading ideas

Recommendation	Entry date	Entry level	Closing date	Close	Total return	Comments
Buy TRY Sell EUR	19/08/2013	2.61	22/08/2013	2.66	-1.9%	Stopped out
Buy TRY Sell EUR	25/06/2013	2.54	31/07/2013	2.58	-1.5%	Stopped out
Buy CZK Sell HUF	28/06/2013	8.85	31/07/2013	8.60	2.9%	Target reached
Buy PLN Sell EUR	21/06/2013	4.29	21/07/2013	4.35	2.2%	Closed early
Buy RUB Sell EUR	21/06/2013	43.46	09/07/2013	42.49	2.2%	Closed early
Buy RON T-bond 3y (ISIN: RO1215DBN073)	21/06/2013	101.3	06/08/2013	102.5	1.2%	Target reached
Buy 10y TRY T-bond (TRT080323T10)	23/07/2013	90.60	25/07/2013	87.40	-3.5%	Stopped out
Buy TRY T-bond 10y (ISIN: TRT080323T10)	17/05/2013	108.5	31/05/2013	103	-5.1%	Stopped out
Buy TRY T-bond 5y (ISIN: TRT140218T10)	17/05/2013	103.608	31/05/2013	99	-4.4%	Stopped out
Buy SI T-bond 5y (ISIN: XS0292653994)	29/03/2013	94.56	17/05/2013	97.685	3.30%	Closed early
Buy RON T-bond 2y (ISIN: RO1214DBN068)	11/01/2013	100.27	10/05/2013	101.782	1.5%	Closed early
Buy TRY T-bond 10y (ISIN: TRT080323T10)	29/03/2013	100.65	09/04/2013	103	2.5%	Target reached

Note: This list contains only the strongest trading ideas for the markets that we cover. Therefore not every market forecast that implies a buy recommendation is also listed as a trading idea! Trading ideas may also differ from our quarterly forecasts, as the time horizon can be different. The time horizon of the trade is at least two weeks, but not more than 3 months.

Monetary policy and money markets overview

CEE key interest and money markets outlook

Poland	current*	Sep-13	Dec-13	Mar-14	Jun-14
Key interest rate (% eop)	2.50	2.50	2.50	2.50	2.50
1m money market rate (% eop)	2.42	2.55	2.60	2.60	2.65
3m money market rate (% eop)	2.50	2.60	2.70	2.70	2.85
6m money market rate (% eop)	2.51	2.70	2.80	2.80	3.00
Hungary					
Key interest rate (% eop)	4.00	3.80	3.50	3.50	3.50
1m money market rate (% eop)	4.00	3.90	3.60	3.60	3.70
3m money market rate (% eop)	3.95	4.00	3.80	3.80	3.90
6m money market rate (% eop)	3.95	4.10	3.93	3.93	4.03
Czech Republic					
Key interest rate (% eop)	0.05	0.05	0.05	0.05	0.05
1m money market rate (% eop)	0.05	0.05	0.05	0.05	0.05
3m money market rate (% eop)	0.13	0.20	0.20	0.20	0.20
6m money market rate (% eop)	0.59	0.28	0.30	0.33	0.33
Romania					
Key interest rate (% eop)	4.50	4.25	4.00	4.00	4.00
1m money market rate (% eop)	3.09	3.65	3.40	3.10	3.20
3m money market rate (% eop)	3.26	3.70	3.40	3.20	3.30
6m money market rate (% eop)	3.36	3.70	3.45	3.05	3.15
Russia					
Key interest rate (% eop)	8.25	8.00	8.00	8.00	8.00
1m money market rate (% eop)	6.49	6.80	7.00	6.65	6.80
3m money market rate (% eop)	6.86	7.30	7.50	7.15	7.25
6m money market rate (% eop)	7.14	7.55	7.65	7.35	7.40
Turkey					
Key interest rate (% eop)	4.50	4.50	4.50	4.50	5.00
1m money market rate (% eop)	7.45	7.30	7.40	7.00	7.20
3m money market rate (% eop)	7.55	7.50	7.60	7.20	7.40
6m money market rate (% eop)	7.60	7.60	7.70	7.30	7.50
Benchmark key rates (% eop)					
ECB key interest rate (% eop)	0.50	0.50	0.50	0.50	0.50
Fed key interest rate (% eop)	0.10	0.25	0.25	0.25	0.25

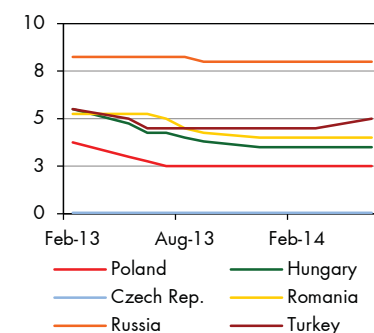
* Bid rates (for Hungary ask rates) as of 23 August 2013, 09:36 a.m. CET
Source: Bloomberg, Raiffeisen RESEARCH

Central bank watch

Poland (NBP)	Recent economic data supports the MPC stance that rate cut cycle is finished
Hungary (MNB)	Interest rate cutting cycle to continue, but at lower speed and possibly with 10bp steps
Czech Republic (CNB)	No change in interest rates expected in 2013, threat of FX intervention by central bank prevails but we do not expect it to materialise
Romania (BNR)	Surprisingly larger rate cut of 50bp, another 50bp cut in two steps likely until year-end, while more easing not excluded
Serbia (NBS)	Elevated risks to the present fiscal consolidation keep key rate at 11%
Russia (CBR)	Rate cuts in September became more likely due to sharp deceleration of GDP growth, but latest indicators again stronger
Turkey (TCMB)	Following second consecutive hike to ceiling, o/n rate corridor now at 3.5%-7.75%. If TRY weakness persists, additional tightening likely, including the 1w repo rate

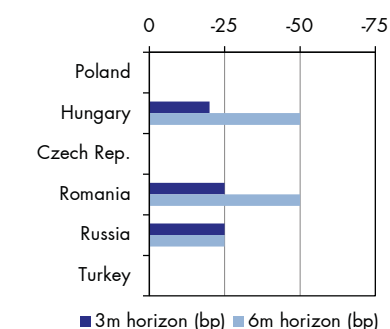
Source: Bloomberg, Reuters, Raiffeisen RESEARCH

Key rate trends (%)



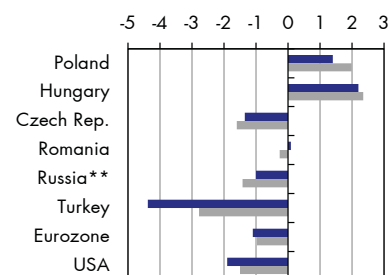
Source: Bloomberg

Key rate forecast (chg., bp)



*under revision
Source: Bloomberg

Real key interest rates (%)*



■ Current real interest rate (%)*
■ Real interest rate (last 6 months, %)*

* Key rate deflated by CPI

** Russia Central Bank Overnight Direct Auction Repo Announcement

Source: Thomson Reuters, Raiffeisen RESEARCH

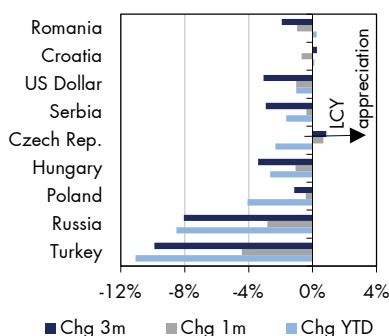
Rate setting meetings

	Aug	Sep
Poland (NBP)		4
Hungary (MNB)	27	24
Czech Rep. (CNB)	1	26
Romania (BNR)	5	30
Serbia (NBS)	8	12
Russia (CBR)	9	1st half
Turkey (TCMB)	20	17

Source: National Central Banks, Raiffeisen RESEARCH

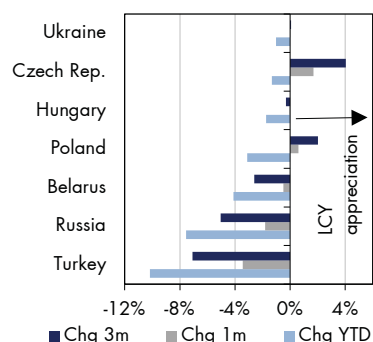
Foreign exchange market overview

Change of LCY value to EUR (%)



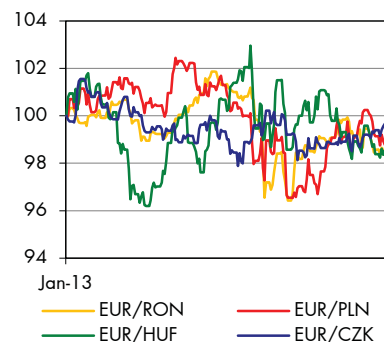
Source: Bloomberg

Change of LCY value to USD (%)



Source: Bloomberg

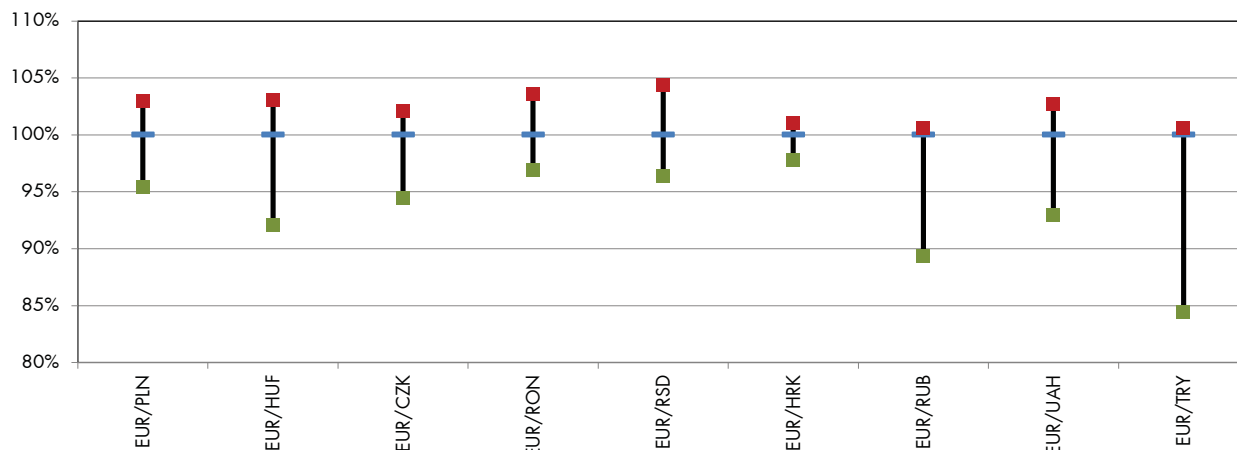
Exchange rate comparison



Indexed March 2005 = 100

Source: Bloomberg

CEE FX trading range*



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

Source: Bloomberg

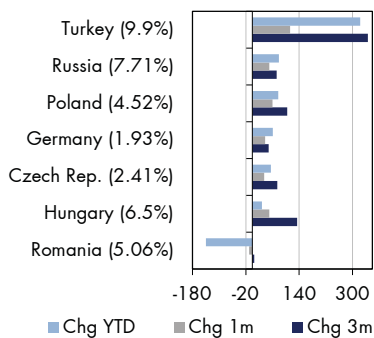
FX forecasts

EUR vs	current ¹	Sep-13	Dec-13	Mar-14	Jun-14	Comment
PLN	4.24	4.20	4.15	4.10	4.00	EUR/PLN may stay under upward pressure, but the 4.26 resistance still seems strong
HUF	299.1	295.0	300.0	305.0	305.0	EUR/HUF trades at psychologically important level of 300 and remains regional underperformer
CZK	25.69	25.70	25.50	25.40	25.10	EUR/CZK expected to stay close to 25.8 for the near future
RON	4.43	4.45	4.40	4.40	4.45	EUR/RON to trade sideways
HRK	7.55	7.55	7.60	7.57	7.48	EUR/HRK to strengthen slightly
RSD	114.3	115.0	115.0	113.0	112.0	EUR/RSD weakening to continue
RUB	44.10	43.11	42.95	42.54	43.74	see rouble basket below
UAH	10.85	10.74	10.66	10.74	11.21	see USD/UAH below
BYR	11,916	12,200	12,700	13,100	n.a.	see USD/BYR below
TRY	2.65	2.49	2.47	2.46	2.50	see USD/TRY below
USD	1.33	1.31	1.30	1.31	1.35	Outlook for Fed exiting expansionary policy earlier than ECB negative for EUR
USD vs						
RUB	33.05	32.91	33.04	32.47	32.40	see rouble basket below
UAH	8.13	8.20	8.20	8.20	8.30	Depreciation deferred by two years after next presidential election. However, substantially high risk of accidental depreciation earlier.
BYR	8,938	9,300	9,800	10,000	10,300	Large surplus demand for FX in July highlights depreciation risks.
TRY	1.99	1.90	1.90	1.88	1.85	Additional monetary policy tightening to come – finally stabilising TRY
RUB basket	38.03	37.50	37.50	37.00	37.50	Record weakness triggers verbal interventions

¹ as of 23 August 2013, 08:54 a.m. CET
Source: Bloomberg, Raiffeisen RESEARCH

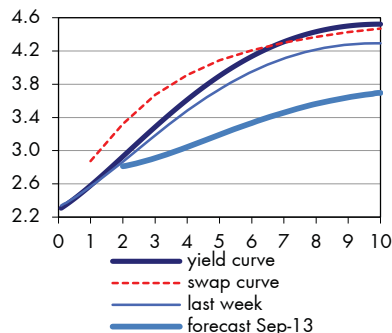
Local currency bond market overview

Change of LCY 10y bond yields (bp)



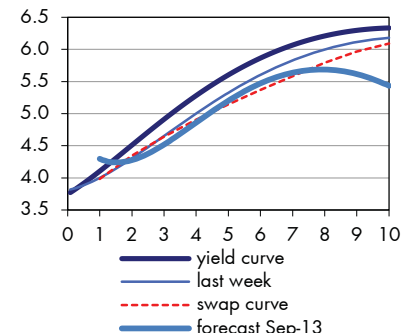
Source: Bloomberg

PLN yield curve



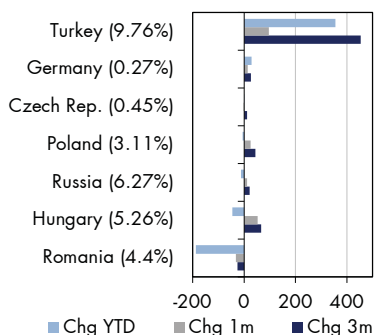
Source: Bloomberg

HUF yield curve



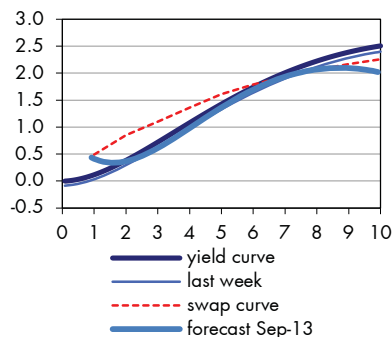
Source: Bloomberg

Change of LCY 2y bond yields (bp)



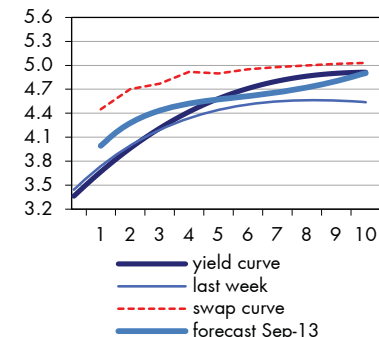
Source: Bloomberg

CZK yield curve



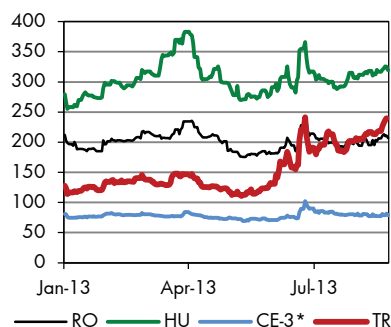
Source: Bloomberg

RON yield curve



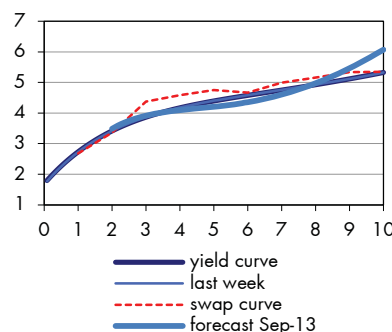
Source: Bloomberg

CDS spreads (bp)*



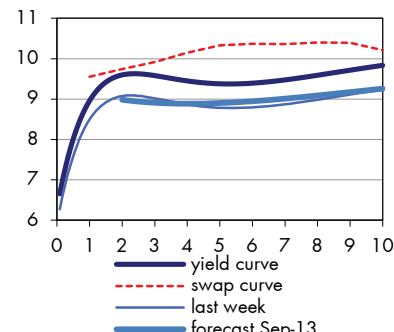
*5y USD credit default swaps
Source: Bloomberg

HRK yield curve



Source: Bloomberg

TRY yield curve



Source: Bloomberg

Yield forecasts

2y T-bond yields (%)						10y T-bond yields (%)					
	current*	Sep-13	Dec-13	Mar-14	Jun-14		current*	Sep-13	Dec-13	Mar-14	Jun-14
Poland	3.05	2.8	2.8	2.9	3.1	Poland	4.51	3.6	3.7	3.8	3.9
Hungary	5.16	4.4	4.4	4.4	4.5	Hungary	6.39	5.6	5.7	5.8	5.9
Czech Rep.	0.35	0.3	0.3	0.4	0.6	Czech Rep.	2.38	2.1	2.2	2.3	2.5
Romania	4.15	4.3	4.0	3.9	3.9	Romania	4.90	4.8	4.7	4.6	4.6
Croatia	4.12	3.4	3.5	3.5	3.6	Croatia	4.94	5.5	5.5	5.6	5.6
Russia	6.09	6.3	6.3	6.3	6.3	Russia	7.68	7.8	8.0	8.0	8.0
Turkey	9.35	9.0	9.1	8.5	8.7	Turkey	9.67	9.2	9.5	9.3	8.7
Eurozone	0.27	0.2	0.2	0.3	0.5	Eurozone	1.92	1.6	1.8	1.9	2.1
USA	0.39	0.4	0.5	0.6	0.7	USA	2.88	2.8	2.9	3.0	3.2

* Ask yields as of 23 August 2013, 9:19 a.m. CET
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	25.07.2015	0.00	94.45	3.03	276	1.9	Domestic data will be eyed, but the market direction still dependson core markets and decisions on QE
PLN 5y Gov. Bond	25.07.2018	2.50	94.15	3.83	295	4.7	
PLN 10y Gov. Bond	25.10.2023	4.00	96.14	4.48	255	8.2	
Hungary							
HUF 3y Gov. Bond	22.12.2016	5.50	101.51	4.99	453	3.0	Government bond yields are following global trends, this is likely to continue
HUF 5y Gov. Bond	20.12.2018	5.50	99.68	5.56	468	4.6	
HUF 10y Gov. Bond	24.11.2023	6.00	97.75	6.30	437	7.6	
Czech Republic							
CZK 2y Gov. Bond	11.04.2015	3.80	105.99	0.10	-17	1.6	Even as Thursday's auction was well received, yields went upwards markedly
CZK 5y Gov. Bond	18.08.2018	4.60	115.32	1.39	51	4.6	
CZK 10y Gov. Bond	12.09.2022	4.70	119.08	2.33	40	7.4	
Croatia							
HRK 5y Gov. Bond	10.07.2018	5.25	103.52	4.44	356	4.4	Eurobond yields increase in line with benchmark bonds; adjustment of domestic curve to Eurobond curve expected
HRK 8y Gov. Bond	05.03.2020	6.75	110.00	4.94	301	5.4	
Romania							
RON 3y Gov. Bond	29.08.2016	4.75	101.24	4.30	384	2.8	External developments weigh on RON yields; easing prospects and loose liquidity to help
RON 5y Gov. Bond	26.07.2017	5.90	105.46	4.35	347	3.6	
Russia							
RUB 2y Gov. Bond	15.07.2015	6.88	101.55	6.09	582	1.8	OFZ market remained volatile closely reflecting external market sentiment
RUB 5y Gov. Bond	03.08.2016	6.90	101.70	6.36	548	2.8	
RUB 10y Gov. Bond	24.11.2021	7.00	97.00	7.27	534	6.2	
Turkey							
TRY 2y Gov. Bond	13.05.2015	5.00	93.25	9.32	905	1.7	Tangible debt market recovery postponed until bond-market unfriendly monetary policy tightening on the local scene bears fruits and market participants stomach likely Fed tapering better
TRY 5y Gov. Bond	08.03.2017	9.00	98.50	9.50	862	3.1	
TRY 10y Gov. Bond	08.03.2023	7.10	84.40	9.63	770	6.8	

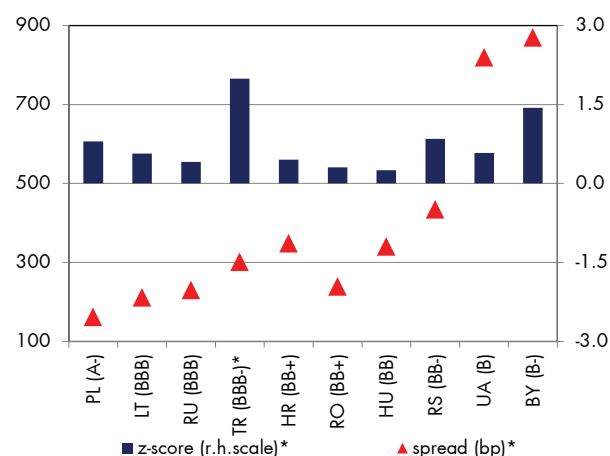
Prices as of 23 August 2013, 08:57 a.m. CET
Source: Bloomberg, Raiffeisen RESEARCH

Bond auctions

		ISIN	Coupon	Maturity	Volume
27 August 2013					
TR	1y T-bond	n.a.	0.00%	19 Nov-14	n.a.
TR	7y T-bond	n.a.	variable	11 Mar-20	n.a.
UA	T-bond	n.a.	n.a.	n.a.	n.a.
28 August 2013					
RU	OFZ bond	n.a.	n.a.	n.a.	n.a.

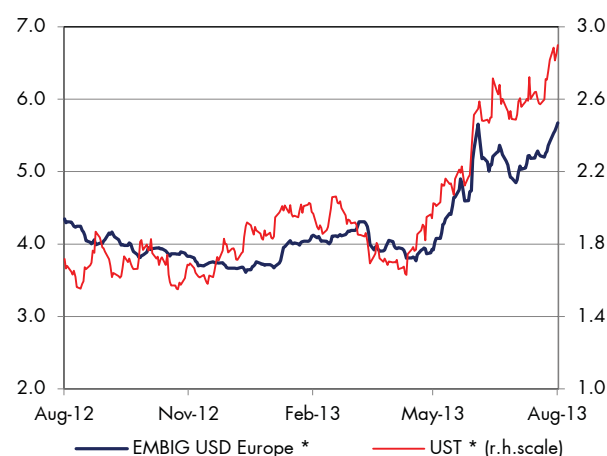
Eurobond market overview

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

Issuer/rate/due	Market Price					YTM mid.	Spread vs.	Mdur.	ISIN
	Bid	Ask	w/w %	52w max	52w min	% p. a.	Bmk, bp	years	—
EUR									
BGARIA 4 1/4 07/09/17	106.7	107.0	-0.38	110.5	105.5	2.38	173	3.5	XS0802005289
CROATI 6 1/2 01/05/15	105.0	105.5	-0.21	112.7	104.9	2.49	227	1.3	XS0431967230
CROATI 5 7/8 07/09/18	105.3	105.9	-1.12	111.3	103.2	4.57	365	4.2	XS0645940288
REPHUN 3 1/2 07/18/16	99.7	100.5	-0.79	100.6	92.5	3.46	304	2.7	XS0240732114
REPHUN 5 3/4 06/11/18	102.7	103.5	0.20	108.1	96.8	5.00	409	4.1	XS0369470397
REPHUN 6 01/11/19	104.0	105.5	-0.01	109.3	97.4	4.97	395	4.4	XS0625388136
LITHUN 4.85 02/07/18	108.3	108.8	-0.58	113.0	106.0	2.77	195	3.9	XS0327304001
POLAND 3 5/8 02/01/16	106.6	106.9	-0.20	108.8	106.3	0.81	46	2.3	XS0242491230
POLAND 1 5/8 01/15/19	98.7	99.4	-0.63	102.3	98.0	1.81	79	5.1	XS0874841066
POLAND 3 3/4 01/19/23	106.9	107.6	-1.38	113.1	104.5	2.86	98	7.8	XS0794399674
POLAND 3 3/8 07/09/24	101.0	101.8	-1.09	107.4	99.3	3.22	118	9.0	XS0841073793
ROMANI 5 1/4 06/17/16	107.2	107.7	-0.35	109.2	102.8	2.48	207	2.6	XS0638742485
ROMANI 4 7/8 11/07/19	103.8	104.3	-0.73	109.4	99.0	4.12	293	5.1	XS0852474336
TURKEY 5 7/8 04/02/19	108.1	108.7	-1.79	119.4	108.3	4.16	309	4.7	XS0285127329
TURKEY 5 1/8 05/18/20	102.5	103.5	-3.17	115.9	102.9	4.58	329	5.5	XS0503454166
USD									
BGARIA 8 1/4 01/15/15	109.5	109.7	-0.19	116.4	109.7	1.23	99	1.3	XS0145623624
BELRUS 8 3/4 08/03/15	99.1	100.4	-0.51	106.1	98.2	8.89	849	1.7	XS0529394701
BELRUS 8.95 01/26/18	95.1	96.3	-0.87	111.2	94.6	10.19	873	3.5	XS0583616239
CROATI 6 3/8 03/24/21	102.0	102.6	-1.26	118.5	101.5	6.00	355	5.8	XS0607904264
CROATI 5 1/2 04/04/23	95.4	95.9	-1.22	109.0	93.9	6.11	329	7.1	XS0908769887
REPHUN 5 3/8 02/21/23	93.8	94.4	-1.54	106.0	93.0	6.21	341	7.2	US445545AH91
REPHUN 7 5/8 03/29/41	101.8	102.1	-2.67	125.3	97.0	7.45	370	11.2	US445545AF36
LITHUN 7 3/8 02/11/20	118.4	118.7	-1.30	131.0	118.1	4.08	190	5.2	XS0485991417
LITHUN 6 5/8 02/01/22	113.7	114.3	-1.65	128.9	113.7	4.60	199	6.5	XS0739988086
LATVIA 2 3/4 01/12/20	91.9	92.6	-1.17	101.2	91.3	4.15	200	5.7	XS0863522149
LATVIA 5 1/4 06/16/21	105.2	105.9	-1.07	117.4	105.2	4.40	191	6.3	XS0638326263
POLAND 3 7/8 07/16/15	105.1	105.5	-0.21	107.8	104.2	1.03	65	1.8	US731011AS13
POLAND 6 3/8 07/15/19	114.6	115.1	-0.77	125.9	114.3	3.55	156	4.9	US731011AR30
POLAND 3 03/17/23	87.9	88.4	-1.73	101.3	87.4	4.54	173	8.0	US731011AT95
ROMANI 6 3/4 02/07/22	111.2	111.6	-0.78	124.4	107.6	5.07	246	6.5	US77586TAA43
ROMANI 4 3/8 08/22/23	93.5	93.9	-1.31	105.5	90.4	5.20	230	7.9	US77586TAC09
RUSSIA 4 1/2 04/04/22	100.2	100.3	-1.79	116.2	98.8	4.46	183	6.9	XS0767472458
RUSSIA 7 1/2 03/31/30	115.2	115.4	-0.99	128.7	114.6	4.43	122	4.7	XS0114288789
RUSSIA 5 5/8 04/04/42	99.0	99.3	-3.33	125.0	97.6	5.68	188	13.8	XS0767473852
SERBIA 5 1/4 11/21/17	97.9	98.6	0.24	107.1	95.9	5.71	433	3.7	XS0856951263
SERBIA 4 7/8 02/25/20	91.0	91.5	-0.56	99.0	89.5	6.55	437	5.4	XS0893103852
TURKEY 6 1/4 09/26/22	103.7	104.2	-2.84	127.3	103.2	5.68	296	6.7	US900123B227
TURKEY 6 7/8 03/17/36	100.4	101.4	-3.60	139.9	100.3	6.79	329	11.1	US900123AY60
TURKEY 6 3/4 05/30/40	99.0	99.4	-4.27	139.7	97.3	6.81	310	12.1	US900123BG46
UKRAIN 7 3/4 09/23/20	88.6	89.4	-5.83	108.1	87.4	9.96	761	5.0	XS0543783194
UKRAIN 7.8 11/28/22	86.8	87.5	-1.61	107.0	85.7	9.95	720	6.1	XS0858358236
UKRAIN 7 1/2 04/17/23	85.7	86.4	-0.97	101.8	83.6	9.77	694	6.3	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 23 August 2013, 08:27 a.m. CET
Source: Bloomberg, Raiffeisen RESEARCH

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+	stable	Baa3	Baa3	negative	BBB	BBB-	stable
Bulgaria	BBB	BBB	stable	Baa2	Baa2	stable	BBB	BBB-	stable
Croatia	BB+	BB+	negative	Ba1	Ba1	stable	BBB	BBB-	negative
Serbia	BB-	BB-	negative	not rated	not rated	not rated	BB-	BB-	negative
CIS									
Russia	BBB+	BBB	stable	Baa1	Baa1	stable	BBB	BBB	stable
Ukraine	B	B	negative	B3	B3	negative	B	B	negative
Belarus	B-	B-	positive	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

* Eurozone (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	Unemployment, %	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	1048	-4.1	53.7	22.3	-0.1	102.3	25.0	-8.5
	2013e	-0.5	2.5	19.8	1027	-4.2	59.9	22.2	-0.3	102.0	24.7	8.7
	2014f	1.0	2.7	19.5	1024	-3.8	62.7	22.1	-0.6	99.8	24.7	8.6
Czech Rep.	2012	-1.2	3.3	6.8	1000	-4.4	45.9	67.2	-2.5	49.8	44.7	4.2
	2013e	-0.7	1.6	7.4	998	-2.9	48.3	68.9	-2.0	50.7	46.0	4.3
	2014f	1.9	1.6	7.4	1053	-2.9	49.5	71.4	-1.7	50.3	45.2	4.1
Hungary	2012	-1.7	5.7	10.9	771	-1.9	79.2	82.7	1.9	126.8	27.6	5.5
	2013e	0.5	2.1	10.6	783	-2.9	78.7	84.2	2.6	119.2	25.9	4.8
	2014f	1.5	2.9	10.0	805	-2.9	77.1	84.2	2.8	110.2	25.5	4.4
Poland	2012	1.9	3.7	12.8	842	-3.9	55.6	38.2	-3.5	72.3	29.9	6.5
	2013e	1.2	1.1	14.0	866	-4.1	57.3	39.5	-2.6	73.1	30.5	6.7
	2014f	2.5	2.0	13.6	926	-3.8	56.0	38.8	-4.0	70.3	30.3	6.3
Romania	2012	0.7	3.3	7.0	467	-2.9	37.8	34.2	-3.8	75.2	31.5	7.2
	2013e	2.5	4.4	7.3	495	-2.8	38.3	33.8	-1.9	70.1	31.5	7.0
	2014f	2.0	2.5	7.2	519	-2.5	38.7	35.1	-2.7	68.2	30.1	6.3
Russia	2012	3.4	5.1	5.7	671	0.4	10.5	26.4	3.7	30.3	78.0	17.0
	2013e	2.0	6.6	6.0	693	0.4	11.0	24.4	2.8	32.2	72.0	17.3
	2014f	2.0	5.3	6.0	720	-0.5	11.5	23.2	2.0	33.3	64.1	16.0
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	0.5	7.5	320	-4.0	37.5	38.6	-6.5	75.7	14.7	2.8
	2014f	1.5	5.0	7.0	360	-5.0	39.0	37.8	-6.5	72.5	14.4	2.6
Turkey	2012	2.2	9.0	9.1	362	-2.4	36.8	20.7	-6.1	44.3	27.7	5.2
	2013e	3.5	6.0	9.2	372	-2.2	35.0	21.0	-6.7	45.3	23.1	4.4
	2014f	4.5	6.7	8.5	403	-2.5	33.0	20.9	-6.6	46.4	18.3	3.7

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

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