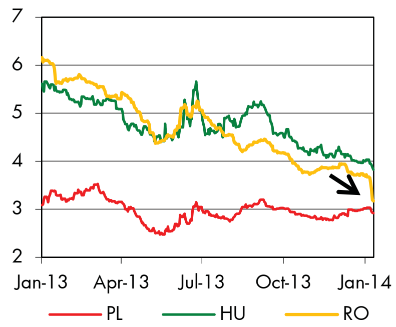
CEE Weekly
Issue 2/2014
10 January 2014

Raiffeisen RESEARCH

2y LCY yields recently down



Source: Bloomberg

CEE central banks change into higher gear in terms of MP easing

On the monetary policy front, the Romanian central bank surprised market participants. On top of the expected 25bp policy rate cut minimum reserve requirement ratios – both LCY and FCY – were lowered this week. The favorable reaction on the local debt market is a natural consequence of the improved liquidity conditions since local players will have more room to maneuver. It seems that the BNR – traditionally a more conservative central bank – wanted to see the Fed's road map with regards to tapering and the related core market reactions before easing monetary conditions more aggressively (we called for a more bold MP easing ever since).

Elsewhere, the Hungarian forint is put at additional risks through recent central bank statements claiming that the end of the current rate cutting cycle should be deeper than most analysts expected. Given the ultra-low inflationary pressures in the economy, the vice governor regards a policy rate at 2.5% as justified, which is 30bp lower than our forecasts.

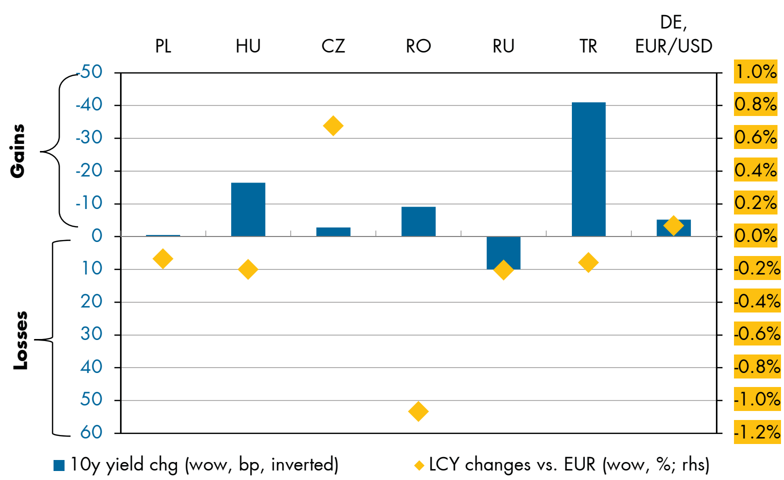
For the time being, CEE local currency debt markets across the board saw a very favorable start into 2014 demonstrated by well anchored curves and very successful auction results. Until rates in core markets will not rise significantly, the favorable perception of CEE local debt should prevail.

Market snapshot

	curr.*	Mar-14	Jun-14	Sep-14
Poland				
EUR/PLN	4.17	4.25	4.15	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	299.1	305	300	305
Key rate	3.00	2.80	2.80	2.80
10y bond	5.3	6.3	6.0	6.0
Czech Rep.				
EUR/CZK	27.4	27.3	27.2	27.0
Key rate	0.05	0.05	0.05	0.05
10y bond	2.5	2.3	2.7	2.9
Romania				
EUR/RON	4.54	4.45	4.50	4.50
Key rate	3.75	3.50	3.50	3.50
10y bond	5.1	5.5	5.5	5.6
Croatia				
EUR/HRK	7.63	7.65	7.55	7.60
Key rate	6.25	6.00	6.00	6.00
10y bond	5.2	5.6	5.7	5.7
Russia				
USD/RUB	33.3	33.7	34.8	34.8
Key rate	5.50	5.50	5.50	5.25
10y bond	7.9	8.0	8.1	8.2
Turkey				
USD/TRY	2.18	2.15	2.10	2.10
Key rate	7.75	8.25	8.75	8.75
10y bond	9.8	9.7	10.0	9.9
EUR/USD	1.36	1.35	1.30	1.30

** prices as of 10 January 2014, 10:53 a.m. CET*
Source: Thomson Reuters, Raiffeisen RESEARCH

Last week's changes



Source: Bloomberg, Raiffeisen RESEARCH

Content

Data highlights upcoming week

Date		Indicator	Period	est.	High	Mean	Low	Prev.
13-Jan	RO	CPI, % yoy	Dec	1.5	1.7	1.5	1.3	1.8
15-Jan	PL	CPI, % yoy	Dec	0.6	0.7	0.7	0.6	0.6
15-Jan	HU	CPI, % yoy	Dec	0.5	0.6	0.4	0.2	0.9
16-Jan	RS	Key rate, %	Jan	9.25	n.a.	n.a.	n.a.	9.50
16-20 Jan	RU	Industrial output, % yoy	Dec	-0.9	1.6	-0.1	-1.8	-1.0

Source: Bloomberg, Raiffeisen RESEARCH

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Data calendar and country coverage

This week, previous week: key data releases

Date	Indicator	Period	Actual	Prev.
06-Jan	CZ Trade balance, CZK bn	Nov	38.7	34.0
06-Jan	UA CPI, % yoy	Dec		0.2
07-Jan	RO PPI, % yoy	Nov	-0.3	-0.7
07-Jan	HR Retail trade, % yoy	Nov	1.0	-0.4
08-Jan	PL Key rate, % yoy	Jan	2.50	2.50
08-Jan	HU Industrial output, % yoy	Nov	5.8	6.0
08-Jan	RO Key rate, %	Jan	3.75	4.00
08-Jan	RO Retail sales, % yoy	Nov	0.1	1.7
08-Jan	BG Industrial output, % yoy	Nov	2.8	3.6
08-Jan	BG Retail sales, % yoy	Nov	6.2	6.9
08-Jan	RS PPI, % yoy	Dec	0.4	0.3
08-Jan	TR Industrial output, % yoy	Nov	4.7	0.7
09-Jan	RO Industrial sales, % yoy	Nov	2.5	3.2
09-Jan	HU Retail sales, % yoy	Nov	4.9	2.5
09-Jan	CZ Industrial output, % yoy	Nov	6.2	3.5
09-Jan	CZ CPI, % yoy	Dec	1.4	1.1
09-Jan	RU CPI, % yoy	Dec		6.5
10-Jan	CZ Retail sales, % yoy	Dec	6.1	-0.6

Upcoming week: key data releases

Date		Indicator	Period	est.	High	Mean	Low	Prev.
10-11 Jan	RU	Current account balance, USD bn	Q4	7.5	8.6	5.3	0.3	0.6
13-Jan	RO	CPI, % yoy	Dec	1.5	1.7	1.5	1.3	1.8
13-Jan	RO	Industrial output, % yoy	Nov	n.a.	n.a.	n.a.	n.a.	9.9
13-Jan	RS	CPI, % yoy	Dec	n.a.	n.a.	n.a.	n.a.	1.6
14-Jan	PL	Money supply (M3), % yoy	Dec	5.9	6.1	5.9	5.7	5.7
14-Jan	BG	CPI, % yoy	Dec	n.a.	n.a.	n.a.	n.a.	-1.5
14-Jan	TR	Current account balance, USD bn	Nov	n.a.	-2.6	-4.3	-4.4	-2.9
15-Jan	PL	CPI, % yoy	Dec	0.6	0.7	0.7	0.6	0.6
15-Jan	PL	Core CPI, % yoy	Dec	1.1	1.3	1.1	0.6	1.1
15-Jan	HU	CPI, % yoy	Dec	0.5	0.6	0.4	0.2	0.9
15-Jan	CZ	PPI, % yoy	Dec	1.4	1.6	1.3	1.1	0.7
15-Jan	HR	CPI, % yoy	Dec	0.7	n.a.	n.a.	n.a.	0.4
15-Jan	TR	Unemployment rate, %	Oct	n.a.	n.a.	n.a.	n.a.	9.9
16-Jan	RS	Key rate, %	Jan	9.25	n.a.	n.a.	n.a.	9.50
16-20 Jan	RU	Industrial output, % yoy	Dec	-0.9	1.6	-0.1	-1.8	-1.0
17-Jan	PL	Current account balance, EUR mn	Nov	-1150	-777	-1050	-1480	-466
17-Jan	CZ	Current account balance, CZK bn	Nov	8.0	14.5	7.7	1.0	7.8
17-Jan	UA	Industrial output, % yoy	Dec	n.a.	0.0	-3.3	-4.0	-4.7

Source: Bloomberg, Raiffeisen RESEARCH

Poland – Bonds started the new year bearish, except for shorter maturities. Still, on Thursday, the Ministry of Finance sold 5-year fixed rate bonds and 10-year floaters worth over PLN 6 bn at very successful auctions, suggesting that local debt remains attractive. In January especially, Polish pension funds may increase demand for Treasury bonds in order to increase the share in assets transferrable to ZUS to above 51.5%. This would allow them to keep at least some Treasury securities after the pension reform is introduced in February. Overall, however, we stay bearish on local debt for the longer term, and also expect to see narrowing of the 10-2 yield spread.

Paweł Radwański (+48 22 585 20 00)

Hungary – On Thursday, the Hungarian Debt Management Agency (GDMA) announced that the goal for this year was to lower the share of foreign debt. Therefore, GDMA is issuing less FX-debt than what is maturing (EUR 5.4 bn) and calculates that the share of foreign debt will sink to 38% by the end of the year. The state is planning to issue more retail securities (mostly HUF denominated) to fill the gap. GDMA is also trying to lengthen the duration of the outstanding debt by issuing more 5-year bonds than previously. Both goals are respectable and should serve the stability of the state financing in our view.

The highlight of next week will be publication of the December CPI figures. We expect a big drop to the lowest rate in at least 40 years, as household energy prices were cut by the government (by 11.1% – for the second time in 2013). We expect the low point in inflation to come in January, when most probably the statistical office will not record any inflation at all (i.e. a yoy figure not greater than 0%). Not surprisingly, the Vice Governor of the central bank stated yesterday that they might cut the main interest rate to 2.5% (lower than what market expects).

Adam Keszeg (+36 1 484 4313)

Czech Republic – The macro data released this week (industrial production, revised GDP for Q3 2013) confirmed our scenario of a continuing recovery of the Czech economy. In November, Czech industrial output growth accelerated to 8.8% yoy (seasonal adjusted), thanks to a 1.3% monthly gain. It was mainly car production that continued to bolster the excellent results, as this item generates one-third of total industrial output growth. Thanks to the very good performance in industrial production in Q4 2013, the annual average growth rate might return to positive territory. Rising foreign orders, good economic conditions in the country' main trading partner Germany, and a weaker EUR/CZK exchange rate promises further gains in Czech industrial production. GDP figures for Q3 2013 were ultimately revised from -0.5% qoq (flash estimate) to +0.2% qoq! This means that there was no setback in the fledgling recovery, as the preliminary figures had indicated.

Czech consumer price inflation jumped to 1.4% yoy from 1.1% in November. The November depreciation of the Czech koruna sent fuel prices up and likely supported seasonal price gains in groceries. It is too early to expect an ongoing upswing in consumer inflation, however, since energy prices declined at the beginning of this year. Also, the base effect will dampen the annual rate of inflation. In our view, consumer inflation might pick up later in 2014.

Vaclav France (+420 234 40 1729)

Romania – At the monetary policy meeting this week, the central bank decided to push ahead with the easing cycle on multiple fronts. It cut the key rate by 25bp to 3.75% and reduced the required reserve ratios by 3 pp for RON liabilities (from 15% to 12%) and by 2 pp for foreign currency liabilities (from 20% to18%). While the rate cut was widely expected by the market, the reduction of required reserve ratios was a surprise. Although it had been mentioned by high ranking central bank officials, the likelihood of this measure had looked small, as the already very low interest rates in the money market indicated a situation of large excess liquidity. The outlook for extra excess liquidity that will become effective starting from the last week of January put downward pressure on bond yields, with the curve falling by between 15bp for 10y and 50bp for 6m maturities since the end of last week. At yesterday's 6m T-bill auction, the Ministry of Finance (MoF) sold RON 1 bn, double the planned amount, paying a record low average yield at 2% (78bp lower than at the previous similar auction at the beginning of December) and meeting an impressive demand equal to seven times the planned amount. Inflation data to be released next week will probably show that consumer prices advanced by about 1.5% yoy in 2013 and that inflationary pressures remain low.

Gabriel Bobeica (+40 21 306 1369)

Croatia – As regards macroeconomic indicators, several figures were released, including the October foreign trade and the first results for November retail trade turnover. The foreign trade deficit narrowed to EUR 490 mn (10.8% yoy), with merchandise export declining by 15.8% yoy, whilst imports – which are still influenced by sluggish domestic demand – decreased by 14% yoy. The latest data on retail trade showed a return to a positive annual growth rate (+1.0% yoy), but retail trade remains negatively impacted by uncertainty in the labour market and high levels of consumer pessimism as confirmed by the latest negative movements in consumer confidence, expectations and the sentiment index. Next week's CPI release will confirm the continuation of mild annual inflationary pressures.

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

Serbia – The National Bank of Serbia will hold its rate-setting meeting next week (16 January), and the expectation is that the rate will be cut by 25bp to 9.25%, after three consecutive rate cuts (by 50bp). Along with falling inflation sentiment (Nov 2013: 1.6% yoy), the key rate cut will be focused on reviving the lending cycle due to expectations of economic slowdown amidst the fiscal package implementation. We still remain cautions as regards the speed of key rate cuts in 2014, given the present fiscal reforms risks, possible change in the Fed's monetary policy and renewed rumours about early elections this year. Altogether, this supports the belief that monetary policy easing ought to be vigilant, which is confirmed in the "Monetary Policy Programme for 2014", published by the NBS.

The Ministry of Finance Treasury published the debt auction schedule for Jan 2014, planning to raise RSD 23 bn and EUR 50 mn in new MinFin T-bills (total app EUR 250 mn vs. EUR 343 mn in Jan 2013), in order to refinance maturing debt (app EUR 267 mn). As no new volume will be raised, this could be an indication that the government is waiting for the United Arab Emirates loan (EUR 3 bn) and is not keen to raise public debt before that. We see a further fall in dinar yields supported by the key rate cut, weak inflation and the reform measures that will be deployed. Moreover, RSD T-bills issuance might support some EUR/RSD stabilisation, given weakening sentiment these few days in 2014 underpinned by slack economic activity which will be the case at least until mid January, due to holiday season.

Ljiljana Grubic (+381 11 2207178)

Russia – According to annual Rosstat data (published yesterday), CPI (yoy) came in at 6.5% in 2013, marking a very modest deceleration compared to 2012, when it reached 6.6%. The rising CPI in annual terms in recent months is mainly explained by its acceleration mom. The main reason for increasing inflationary pressure during that period was the unusually fast appreciation of fruit and vegetable prices, as well as the unusual hike in transport tariffs. As a result, at year-end annual inflation exceeded the CBR's target by 0.5 PP, despite the fact that the additional inflationary effect, in our view, is of temporary nature. We anticipate that this tendency may continue in Q1 2014. However, taking into account fundamental disinflationary factors, we are convinced that 2014 as a whole should become a turning point for the CPI downward trend thereafter. First, the government decision to freeze regulated utility prices for households in 2014 will play a key part in CPI deceleration, resulting in headline CPI possibly dropping to ~5% by end-2014. On the upside, the CBR's more effective interest rate policy and replenishment of the Reserve Fund should significantly limit inflationary pressure. It is also reasonable to expect lower CPI because of weaker economic activity. However, the liquidity shortage in the banking system creates a dilemma of more intensive liquidity provision vs. inflation control. Thus, we believe that the CBR will avoid direct interest rate cuts and choose more implicit easing measures instead.

Maria Pomelnikova (+7 495 221-9845)

Ukraine – Inflation accelerated only slightly in 2013 with an eop CPI growth rate of 0.5% yoy (from a 10-year low of -0.2% in 2012), given the persistent recessionary trend in the economy, tight administrative controls and the bountiful harvest.

Despite some acceleration at the end of the year, food prices declined by 0.7% yoy in 2013 (compared to -2.3% yoy in 2012). Alcohol and tobacco prices were the fastest growers last year – up 10.1% yoy – due to the increase in excise duties. At the same time, utility payments grew by a mere 0.3% yoy as the authorities were reluctant to increase retail gas and heating tariffs to cost-recovery level on political grounds. Other prices recorded minor changes as well. For instance, transport prices increased by 1.3% yoy, as the increase in transport services prices was compensated by a 3.6% decline in fuel prices (following global oil price trends). Producer price dynamics were similar to the CPI trend. This is primarily attributed to weak global commodity prices. For instance, chemical industry prices fell by 5.3% yoy, while steel prices declined by 2.7% yoy. As a result, eop PPI growth amounted to 1.7% yoy in 2013, accelerating marginally from 0.4% yoy in 2012

Dmytro Sologub (+380 44 49590-72)

Turkey – The ongoing "tapering stress" in conjunction with the severe political crisis since mid-December continue to weigh on Turkish assets. Nevertheless, last week brought some relief for Turkish local currency debt. The yield curve, however, is not anymore inverted, although since December 17 – the date when the political crisis erupted following an anti-corruption probe – 2y rates have jumped sharply surpassing Turkey's 10y yield temporarily. Compared the so-called "fragile five", i.e. those countries which showed the heftiest reactions to the tapering signal mainly due to their external vulnerabilities, Turkey's 2y benchmark yield is trading much higher than Brazil or India currently. Moreover, the market has started to price in rate hikes since it regards the current interest level as too low to compensate for Turkish risk. The reasons for the lira's unprecedented lows are a combination of the factors outlined above, but are also attributable to the fact that locals – usually the most active players in the local FX market – feel stress at the moment. We would note the fact that residents increased their FX deposits by around USD 20 bn in H2 2013 from USD 98 bn, a tendency that can only be arrested if the TCMB hikes rates. Overall, we cannot currently detect any drivers that could bring sustainable relief for the lira markets, since much depends on the central bank, which continues to explicitly refrain from rate hikes. Governance risks should, at the same time, accompany us in the weeks ahead since political stress is expected to remain elevated at least until the local elections in March. However, our baseline assumption is that the internal struggle within Erdogan's ruling AKP party should calm down with local elections coming closer, and the electoral damage to the AKP should be contained at this stage.

Stephan Imre (+43 1 71707 6757)

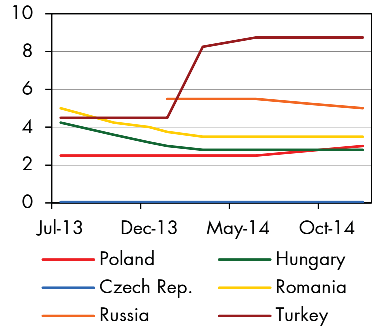
Monetary policy and money markets overview

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)	2.41	2.63	2.64	2.89	3.41
3m money market rate (%, eop)	2.50	2.72	2.84	3.15	3.65
6m money market rate (%, eop)	2.52	2.88	3.05	3.43	3.85
Hungary					
Key interest rate (%, eop)	3.00	2.80	2.80	2.80	2.80
1m money market rate (%, eop)	3.00	2.90	2.90	2.90	3.00
3m money market rate (%, eop)	2.99	3.10	3.10	3.10	3.30
6m money market rate (%, eop)	2.95	3.17	3.17	3.17	3.37
Czech Republic					
Key interest rate (%, eop)	0.05	0.05	0.05	0.05	0.05
1m money market rate (%, eop)	0.03	0.05	0.05	0.05	0.05
3m money market rate (%, eop)	0.05	0.10	0.20	0.20	0.20
6m money market rate (%, eop)	0.48	0.17	0.27	0.27	0.30
Romania					
Key interest rate (%, eop)	3.75	3.50	3.50	3.50	3.50
1m money market rate (%, eop)	1.00	2.50	2.80	2.85	3.00
3m money market rate (%, eop)	1.53	2.70	2.90	2.95	3.05
6m money market rate (%, eop)	1.95	2.65	2.75	2.95	3.00
Russia					
Key interest rate (%, eop)	5.50	5.50	5.50	5.25	5.00
1m money market rate (%, eop)	6.70	6.70	6.85	6.90	6.95
3m money market rate (%, eop)	7.04	7.00	7.15	7.20	7.25
6m money market rate (%, eop)	7.20	7.05	7.25	7.30	7.35
Turkey					
Key interest rate (%, eop)	7.75	8.25	8.75	8.75	8.75
1m money market rate (%, eop)	8.20	7.80	8.00	8.00	7.90
3m money market rate (%, eop)	8.75	8.00	8.20	8.20	8.10
6m money market rate (%, eop)	8.90	8.30	8.60	8.60	8.50
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)	0.07	0.25	0.25	0.25	0.25

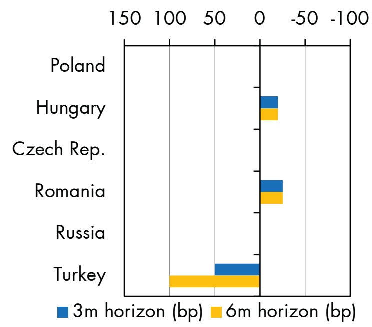
** Bid rates (for Hungary ask rates) as of 10 January 2014, 11:07 a.m. CET*
Source: Bloomberg, Raiffeisen RESEARCH

Key rate trends (%)



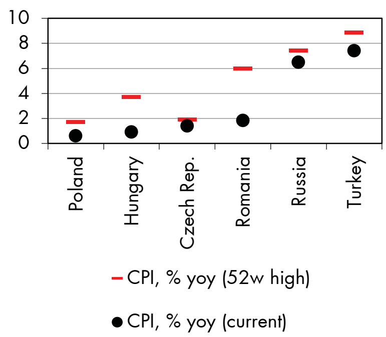
Source: Bloomberg

Key rate forecast (chg., bp)



Source: Raiffeisen RESEARCH

Inflation snapshot



Source: Bloomberg, Raiffeisen RESEARCH

Central bank watch

Poland (NBP)	No change of the key interest rate as expected
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, this strategy is likely to continue well into 2014
Romania (BNR)	25bp cut as expected - another one to come in the next months
Serbia (NBS)	Favourable inflationary development supports further rate cuts - 25bp expected
Russia (CBR)	New 3 months auction for secured loans expected in Jan, direct rate cuts unlikely in Feb.
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 and ongoing political uncertainties

Source: Bloomberg, Reuters, Raiffeisen RESEARCH

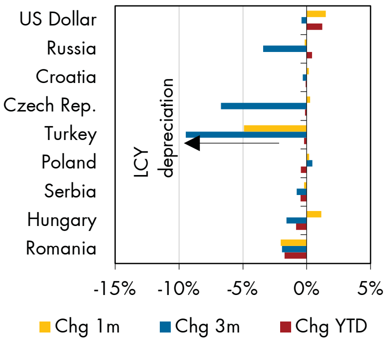
Rate setting meetings

	Jan	Feb
Poland (NBP)	8	5
Hungary (MNB)	21	18
Czech Rep. (CNB)		6
Romania (NBR)	8	4
Serbia (NBS)	16	13
Russia (CBR)		14
Turkey (TCMB)	21	18

Source: National Central Banks, Raiffeisen RESEARCH

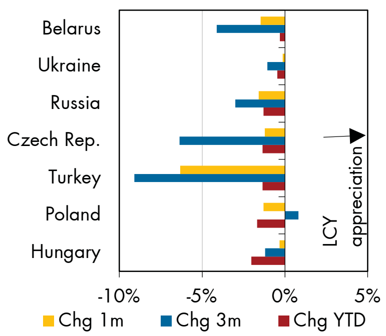
Foreign exchange market overview

Change of LCY value to EUR (%)



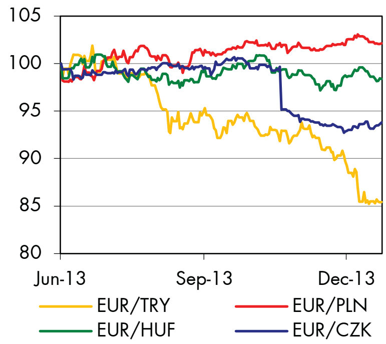
Source: Bloomberg

Change of LCY value to USD (%)



Source: Bloomberg

Exchange rate comparison



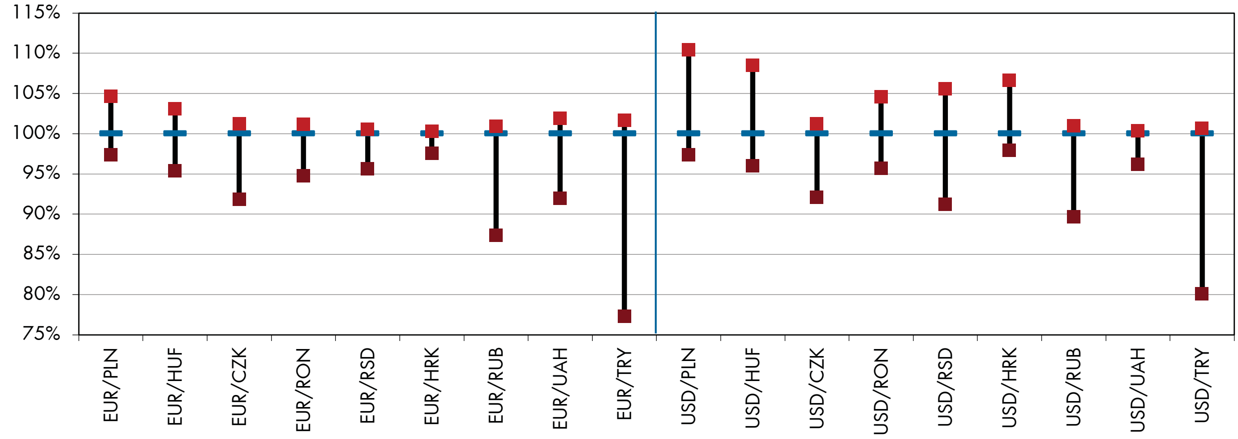
Indexed June 2013 = 100
Source: Bloomberg

FX forecasts

EUR vs	current[1]	Mar-14	Jun-14	Sep-14	Dec-14	Comment
PLN	4.17	4.25	4.15	4.05	4.00	EUR/PLN is likely to depreciate but the 4.2 resistance might hold in the short-term
HUF	299.6	305.0	300.0	305.0	305.0	EUR/HUD is getting closer to our quarterly forecast; only small moves are expected in the next couple of days
CZK	27.37	27.30	27.20	27.00	26.40	EUR/CZK appreciation due to positive economic news
RON	4.54	4.45	4.50	4.50	4.45	Limited appreciation potential, sideways trading most likely
HRK	7.63	7.65	7.55	7.60	7.65	After holidays we expect trading to intensify, EUR/HRK to trade in a range of 7.62-7.65
RSD	115.1	118.0	116.0	115.0	117.0	Depreciation pressures to intensify later in Q1 expected
RUB	45.27	45.49	45.24	45.24	46.65	see rouble basket below
UAH	11.26	11.21	10.79	10.92	11.75	see USD/UAH below
BYR	13,013	13,900	14,000	14,800	16,300	see USD/BYR below
TRY	2.96	2.90	2.73	2.73	2.84	see USD/TRY below
USD	1.36	1.35	1.30	1.30	1.35	Current strong EUR supports a lot of CEE currencies
USD vs	**current[1]**	**Mar-14**	**Jun-14**	**Sep-14**	**Dec-14**	**Comment**
RUB	33.29	33.69	34.80	34.80	34.56	see rouble basket below
UAH	8.28	8.30	8.30	8.40	8.70	Russian bailout removes threat of devaluation
BYR	9,570	10,300	10,800	11,400	12,100	We further increased our depreciation expectation on weakening fundamentals
TRY*	2.18	2.15	2.10	2.10	2.10	Lira under continued pressure due to Fed tapering, political uncertainties and the tendency that local players switch increasingly into hard currency
RUB basket	38.68	39.00	39.50	39.50	40.00	Rouble vulnerable with negative newsflow on economy and CBR not opposing depreciation

1 as of 10 January 2014, 11:07 a.m. CET
Source: Bloomberg, Raiffeisen RESEARCH

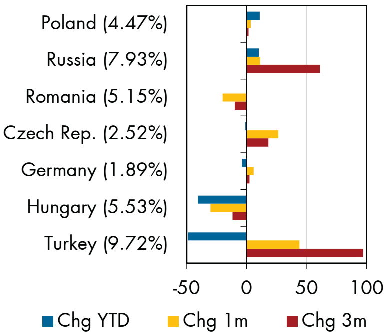
CEE FX trading range*



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

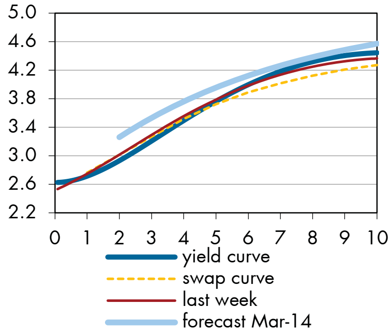
Local currency bond market overview*

Change of LCY 10y bond yields (bp)



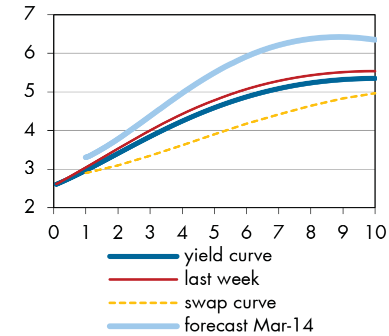
Source: Bloomberg

PLN yield curve



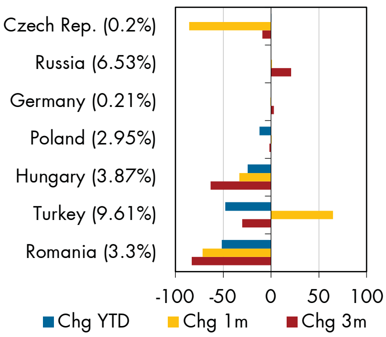
Source: Bloomberg

HUF yield curve



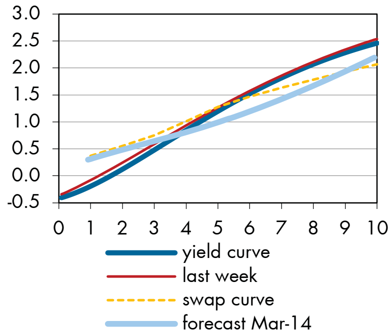
Source: Bloomberg

Change of LCY 2y bond yields (bp)



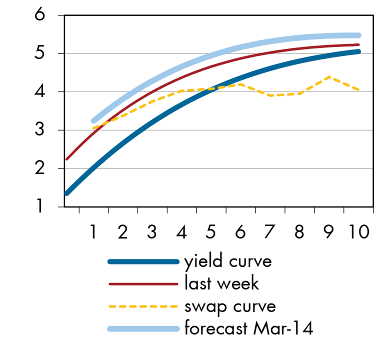
Source: Bloomberg

CZK yield curve



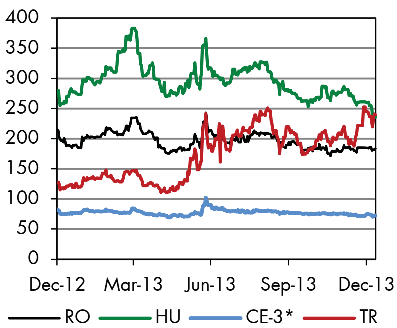
Source: Bloomberg

RON yield curve



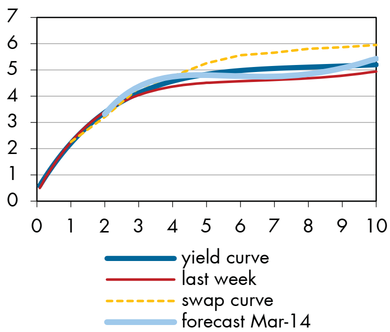
Source: Bloomberg

5y USD CDS spreads



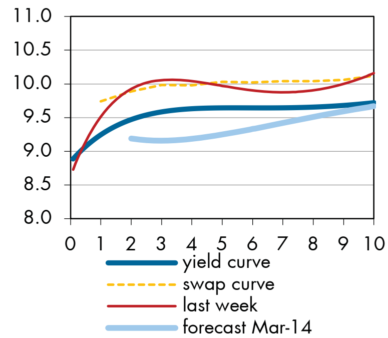
* *CE-3: CZ, PL, SK*
Source: Bloomberg, Raiffeisen RESEARCH

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	2.90	3.2	3.3	3.5	3.6	Poland	4.45	4.6	4.7	4.8	4.9
Hungary	3.85	3.7	3.7	3.7	3.9	Hungary	5.51	6.3	6.0	6.0	6.2
Czech Rep.	0.10	0.4	0.6	0.8	1.0	Czech Rep.	2.50	2.3	2.7	2.9	3.2
Romania	3.00	3.9	4.1	4.1	4.2	Romania	5.12	5.5	5.5	5.6	5.6
Croatia	4.55	3.4	3.7	4.0	4.1	Croatia	5.15	5.6	5.7	5.7	5.7
Russia	6.49	6.8	7.1	7.3	7.6	Russia	7.90	8.0	8.1	8.2	8.4
Turkey	9.24	9.2	9.5	9.4	9.3	Turkey	9.71	9.7	10.0	9.9	9.8
Eurozone	0.21	0.3	0.4	0.6	1.1	Eurozone	1.89	2.2	2.4	2.4	2.7
USA	0.43	0.5	0.8	1.0	1.3	USA	2.96	3.1	3.2	3.3	3.5

* *Ask yields as of 10 January 2014, 09:24 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	25.01.2016	0.00	94.37	2.90	269	2.0	Long-term yields are expected to rise, 10y-2y yield spread to narrow
PLN 5y Gov. Bond	25.07.2018	2.50	95.32	3.64	276	4.3	
PLN 10y Gov. Bond	25.10.2023	4.00	96.60	4.43	254	8.2	
Hungary							
HUF 3y Gov. Bond	22.12.2016	5.50	105.40	3.53	321	2.8	High demand at the latest bond auctions; yields to decline further in the short-term
HUF 5y Gov. Bond	20.12.2018	5.50	105.23	4.30	342	4.5	
HUF 10y Gov. Bond	24.11.2023	6.00	104.94	5.34	345	7.7	
Czech Republic							
CZK 2y Gov. Bond	11.04.2015	3.80	104.71	0.06	-14	1.2	Yields of 10y CZK T-bonds declined only slightly to 2.55%
CZK 5y Gov. Bond	18.08.2018	4.60	116.30	0.95	7	4.2	
CZK 10y Gov. Bond	25.05.2024	5.70	129.01	2.49	60	8.2	
Croatia							
HRK 5y Gov. Bond	10.07.2018	5.25	102.35	4.66	378	4.0	Activity moved to the shorter end of the curve (maturity up to 3 years) with declining yields
HRK 8y Gov. Bond	05.03.2020	6.75	108.30	5.15	326	5.0	
Romania							
RON 3y Gov. Bond	29.08.2016	4.75	103.31	3.40	308	2.5	Increase in liquidity excess provides additional support to short end of the yield curve
RON 5y Gov. Bond	26.07.2017	5.90	107.31	3.65	277	3.2	
Russia							
RUB 2y Gov. Bond	20.01.2016	7.35	101.80	6.49	629	1.8	OFZ market to come under pressure on expectations of US Fed tapering
RUB 5y Gov. Bond	03.08.2016	6.90	100.75	6.68	580	2.4	
RUB 10y Gov. Bond	24.11.2021	7.00	95.27	7.58	569	6.2	
Turkey							
TRY 2y Gov. Bond	07.10.2015	8.30	98.00	9.56	936	1.7	Intensifying rate hike speculations and political risks add to the already existing pressure on TRY debt stemming from the general tapering stress.
TRY 5y Gov. Bond	14.02.2018	6.30	88.90	9.63	875	3.5	
TRY 10y Gov. Bond	27.09.2023	8.80	93.60	9.83	794	6.7	

Prices as of 10 January 2014, 10:52 a.m. CET
Source: Bloomberg, Raiffeisen RESEARCH

Bond auctions

		ISIN	Coupon	Maturity	Volume
13 January 2014					
RO	7y T-bond	RO1121DBN032	5.95%	11 Jun-21	RON 500 mn
14 January 2014					
UA	5y T-bond	n.a.	n.a.	n.a.	n.a.
15 January 2014					
RU	OFZ bond	n.a.	n.a.	n.a.	n.a.
16 January 2014					
RO	13y T-bond	RO1227DBN011	5.80%	26 Jul-27	RON 100 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+	stable	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	-5.0	55.5	22.4	0.1	102.3	25.0	8.5
	2013e	-1.0	2.2	20.3	1043	-5.8	63.0	20.7	0.5	105.7	24.2	8.8
	2014f	0.0	1.6	21.0	1031	-5.8	65.3	19.8	0.0	103.6	25.0	9.2
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	-1.3	1.4	7.6	978	-2.9	48.8	69.0	-1.0	51.4	45.8	4.4
	2014f	2.3	1.3	7.3	959	-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	0.7	1.7	10.5	789	-2.9	78.5	83.8	2.9	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	72.7	29.8	6.5
	2013e	1.4	1.0	13.6	862	-4.1	57.1	39.7	-1.3	71.0	29.3	6.4
	2014f	2.9	2.0	13.1	926	-3.2	49.8	39.7	-2.8	67.8	29.6	6.0
Romania	**2012**	0.7	3.3	7.0	463	-3.0	37.9	34.2	-4.4	75.2	31.5	7.1
	2013e	2.7	4.0	7.3	490	-2.8	38.5	34.7	-1.0	69.2	33.7	7.5
	2014f	2.3	2.1	7.2	505	-2.5	39.0	36.5	-2.0	67.6	31.5	6.4
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	6.8	5.8	698	-0.5	12.0	24.3	3.4	33.0	67.2	16.4
	2014f	1.7	5.5	6.0	697	-0.2	13.0	24.7	2.4	36.1	61.6	15.5
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	38.5	35.6	-8.6	79.8	11.9	2.4
	2014f	0.0	5.0	7.0	340	-5.0	39.5	36.4	-6.5	80.6	11.7	2.4
Turkey	**2012**	2.2	8.9	9.2	749	-2.4	36.2	20.7	-6.2	42.8	29.6	5.3
	2013e	3.5	7.3	9.5	725	-1.5	36.0	19.8	-7.6	46.4	29.0	5.5
	2014f	3.5	6.7	9.5	740	-2.5	35.0	20.6	-6.4	50.8	27.4	5.9

** 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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