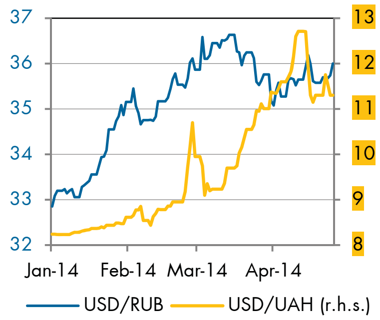
CEE Weekly

Raiffeisen RESEARCH

Issue 17/2014 25 April 2014

Ytd RUB and UAH comparison



Source: Bloomberg, Raiffeisen RESEARCH

Tense situation in Ukraine and S&P downgrade for Russia

Despite the Geneva agreement the situation surrounding Ukraine and Russia remained very tense in the past week with further escalation on Thursday. Rhetoric between Russia and the US is turning harsher. More information on the Ukraine/Russia crisis can be found in our 'Focus on' on page two of this weekly. The economic impact was once again visible today with the decision by S&P to downgrade Russia's long-term foreign currency credit rating from BBB to BBB- while keeping a negative outlook. The decision reflects the risk of marked deterioration in external financing according to S&P. The BBB- rating means Russia's credit rating is now just one notch away from a non-investment grade. In a response, the Russian central bank hiked its key rate by 50bp to compensate for the elevated risk premium on RUB markets.

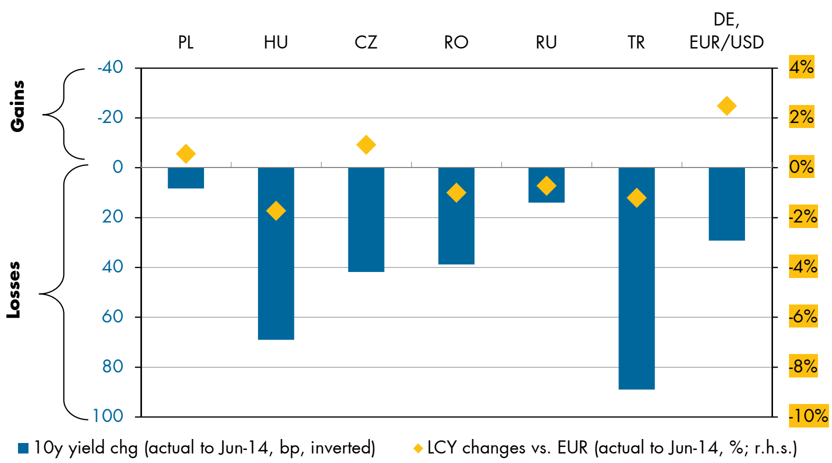
For Ukraine next week will likely feature the approval of the IMF package with a volume of USD 17 bn, thereby also unlocking the attached USD 10 bn from the EU and USA. After the Hungarian central bank announced changes to their monetary policy toolkit this week (for information see our short-note: MNB announces changes to monetary policy toolkit) the new week will feature a rate setting meeting on 29. April. We expect the central bank to continue with the interest rate cutting cycle that started in August 2012 and brought a cut in every month since then. A data highlight will then be on next Friday (2 May) with the release of April PMI data for a number of CE countries.

Market snapshot

	curr.*	Jun-14	Sep-14	Dec-14
Poland				
EUR/PLN	4.20	4.18	4.15	4.10
Key rate	2.50	2.50	2.50	2.75
10y bond	4.1	4.2	4.4	4.5
Hungary				
EUR/HUF	309.5	315	315	320
Key rate	2.60	2.40	2.40	2.40
10y bond	5.4	6.2	6.3	6.6
Czech Rep.				
EUR/CZK	27.5	27.2	27.0	26.4
Key rate	0.05	0.05	0.05	0.05
10y bond	1.9	2.3	2.5	3.0
Romania				
EUR/RON	4.45	4.50	4.55	4.50
Key rate	3.50	3.50	3.50	3.50
10y bond	5.1	5.4	5.6	5.7
Croatia				
EUR/HRK	7.62	7.58	7.64	7.68
Key rate	5.00	6.00	6.00	6.00
10y bond	4.4	5.5	5.5	5.5
Russia				
USD/RUB	36.0	37.2	37.4	36.3
Key rate	7.00	7.00	6.00	6.00
10y bond	9.4	9.5	8.7	8.8
Turkey				
USD/TRY	2.14	2.22	2.15	2.10
Key rate	10.00	10.00	10.00	10.00
10y bond	9.8	10.6	10.7	10.9
EUR/USD	1.38	1.35	1.30	1.35

** prices as of 25 April 2014, 09:58 a.m. CET*
Source: Thomson Reuters, Raiffeisen RESEARCH

Expected changes until June 2014



Source: Bloomberg, Raiffeisen RESEARCH

Content

Data highlights upcoming week

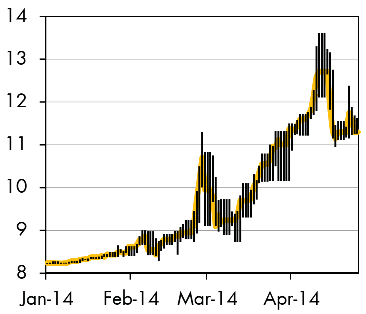
Date	Indicator	Period	est.	High	Mean	Low	Prev.
29-Apr	HU: Key rate, %	Apr	2.5	2.6	2.5	2.5	2.6
02-May	HU: PMI, points	Apr	n.a.	n.a.	n.a.	n.a.	53.7
02-May	PL: PMI, points	Apr	n.a.	n.a.	n.a.	n.a.	54.0
02-May	CZ: PMI, points	Apr	n.a.	n.a.	n.a.	n.a.	55.5
02-May	TR: PMI, points	Apr	n.a.	n.a.	n.a.	n.a.	51.7

Source: Bloomberg, Raiffeisen RESEARCH

Please note the risk notifications and explanations at the end of this document

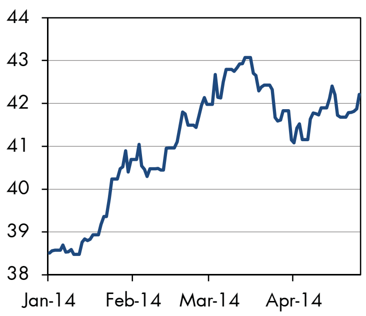
Focus on Russia-Ukraine: Balancing on the edge of disaster

USD/UAH calmed down*



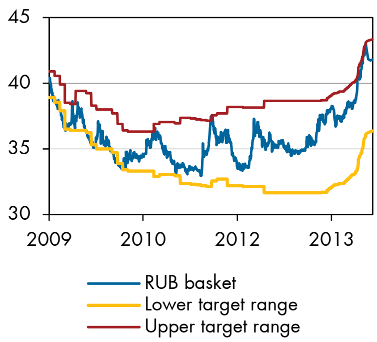
** daily movement span*
Source: Bloomberg, Raiffeisen RESEARCH

Rouble reaction to Ukraine crisis*



** Rouble to basket (55% USD and 45% EUR)*
Source: Bloomberg, Raiffeisen RESEARCH

Russian rouble and its target range



Source: Bloomberg, Russian Central Bank

This week did not bring the much-awaited stabilisation in Ukraine. The situation there remained tense and Russian as well as US rhetoric remains harsh. The latter clearly complicates any near-term de-escalation. How the West will respond if the situation does not stabilise is still unclear. However, another round of escalation in terms of economic sanctions on Russia cannot be ruled out. In particular, we would like to highlight the following issues:

Geneva negotiation results had no de-escalating effect. In contrast to initial hopes, the agreement between foreign ministers of Ukraine, Russia, the EU and the US did not help much to de-escalate the situation. Some observers even interpret the document as a Russian victory as it neither mentions Crimea explicitly (i.e. Ukraine/West has given up here), nor calls for a reduction of military forces amassed at the Ukrainian border. Strongly divergent interpretations of what is "illegal occupation" and "illegal armed persons" have essentially resulted in a deadlock. **Currently, one has to admit that the Geneva diplomatic initiative has failed so far.**

The situation in eastern Ukraine seriously escalated as Ukrainian military allegedly killed several separatists. Russian officials reacted with fierce rhetoric and the Russian military started exercises at the Ukrainian border, which indicates the ability to intervene quickly if Russia sees the necessity. Confronted with the threat of immediate Russian invasion, the Ukraine government seem to have stopped the "anti-terrorist operation' on Thursday evening, but continued on Friday.

Until Presidential elections in Ukraine (scheduled for 25 May) the situation will be highly instable. Moreover, there are risks to the orderly and timely conduct and recognition of legitimacy of the elections (in Eastern Ukraine, by Russia). In our base case scenario we expect Ukraine to have a new President by mid-June. Mr. Poroschenko is currently front running with 28% support in polls.

IMF decision on finalization of USD 17 bn support – expected for 30th of April – may bring some (short-term) relief. Moreover, IMF approval would unlock another USD 10 bn in aid promised by the US and Europe. In a recent press conference IMF clearly stated that IMF staff is used to operate under challenging (domestic) political conditions like in Ukraine. The de facto secession of Crimea itself is seen as no threat to the implementation of the IMF Stand-By-Agreement. However, prolonged tensions in the rest of the country may complicate the IMF package implementation not only in political terms but also in economic terms.

Standard and Poor's was the first to cut Russia's sovereign rating by one notch to BBB-, while keeping a negative outlook. The main rational for the S&P rating actions the fear of continued substantial capital outflows, if the tense geopolitical situation continues, weakening the external position of Russia and pushing economic growth below 1% in 2014. Moody's had put the Russian rating (Baa1) already on review for downgrade, but stopped short of a downgrade.

Sanction debate: Americans more assertive; Europeans hesitating so far. There seems to be a split in the policies of the West in recent days, as Washington became more assertive with respect to the introduction of new sanctions on Russia. We see sanctions on Russian financial institutions as the most likely possibility by the US to hurt Russia, given lack of substantial trade relations. So far, EU maintains its "phase 2" of sanctions (light economic sanctions in the form of asset freezes/travel bans) jointly with the USA, i.e. it did not introduce any financial or trade restrictions ("phase 3"). The USA will likely pressure the Europeans, which still prefer a diplomatic approach. Meanwhile, Russian President Putin admitted a limited negative effect on the Russian economy, in light of recent sovereign rating actions and increasing (re-)financing costs. Another Russian official warned

Western oil/gas companies that they would lose market access (later), if they decide to quit the Russian market now. If more sanctions are applied, Russian economic retaliation will probably become a topic – despite the fact that the Russian economy would likely be hurt by such Russian measures as well. Russia already pushed forward economic/trade sanctions targeting Polish agricultural product exports to Russia (Belarus and Kazakhstan). Although a direct connection to geopolitical issues is clearly denied here, there seems to be some linkage.

Russian markets only came again under pressure with the latest escalation/rating downgrade, forcing the Central Bank to hike the key rate by another 50bp to 7.50%. As the RUB FX rate against the dual currency basket stayed far below the upper boundary of the CBR`s corridor, the Russian Central Bank (the CBR) has not increased the amount for FX interventions with roughly USD 200 mn used to smooth rouble volatility on a daily basis recently. However, the CBR keeps the option open to increase interventions to USD 1.5 bn in case the FX rate reaches the border, which is assumed to curb excessive volatility if necessary. The Ukrainian hryvnia saw considerably stronger volatility reaching its weakest peak on 14 April at 12.7, before administrative measures by the central bank as well as a rate hike helped stabilise USD/UAH for the time being, with quotes at USD/UAH 11.20-11.75 in the course of this week. With regards to the latest financial market developments, the 10y RUB bond yield has climbed upwards to 9.3% in the past few days, following a temporary relief rally (1m low at 8.7%). Shorter-dated OFZ papers, by contrast, seem to be enjoying a more stable floor currently. This is also mirrored in the current CDS spread trends, which widened by 60bp and 320bp respectively to 280bp and 1200bp most recently, for the month-to-date. Due to the grown fears of military escalation, we assume that market pressure will persist in the near term. Russia's Ministry of Finance cancelled the auctions of OFZ papers for the seventh time out of the last eight weekly auctions. So far, MinFin is not under high pressure to issue, given the rising oil revenues in local currency due to the weaker rouble this year.

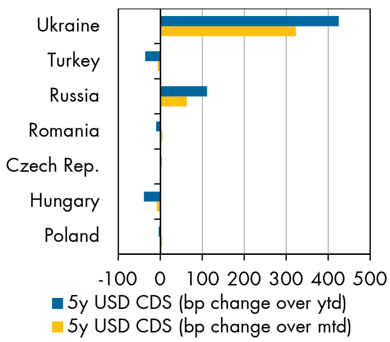
Finally, our key convictions on the economies:

Ukraine: Given political unpredictability economic uncertainty looms high, with risks to the downside. As a baseline scenario we expect the economy to contract by around 3-7% this year and inflation to increase to levels around 10-14% (from a level around 0 in 2013), while we expect recession to end in 2015 (partially supported by the recent exchange rate weakening). There are significant risks that the recession in 2014 will be deeper and more protracted than currently projected. In a more negative scenario a cumulative GDP drop by 10-15% over the next two years cannot be ruled out. Downsides to our current GDP forecast are clearly increasing on the back of the recent escalation in Eastern/South Eastern Ukraine. The provinces in these regions are the economic powerhouse of Ukraine, with share of 35-40% in Ukrainian GDP.

Russia: We cut our 2014 and 2015 GDP growth already in March to 1% (2014) and 1.5% (2015) and see still risks to the downside. Even the threat of sanctions has a huge impact on the economy. It adds to pressure to the already low level of business confidence in Russia (with the PMI remained below 50 mark in March). Many investment plans are likely put on hold and capital outflows increased substantially in Q1 to USD 50 bn (including transactions with the central bank the sum even higher over USD 60 bn; of which USD 19 bn was the outflow to FX cash) and could remain elevated. Moreover, access to foreign capital becomes more costly or even scarcer.

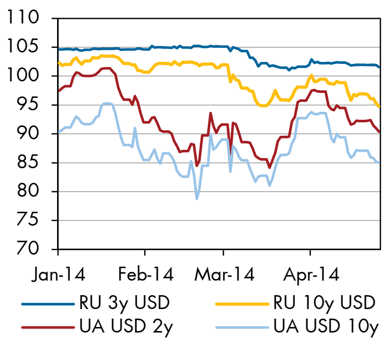
Financial analyst: Andreas Schwabe, CFA (+43 1 71707 1389),
Financial analyst: Gunter Deuber (+43 1 71707 5707),

5y USD CDS (bp changes)



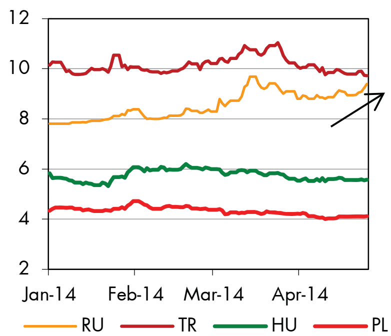
Source: Bloomberg

RU & UA Eurobonds under pressure



Source: Bloomberg

10y LCY bond yields (%)



Source: Bloomberg

Please note the risk notifications and explanations at the end of this document

Data calendar and country coverage

This week, previous week: key data releases

Indicator	Period	Actual	Forecast	Prev.
Wednesday, 23 April				
PL: Unemployment rate, %	Mar	13.5	13.6	13.9
PL: Retail sales, % yoy	Mar	3.1	1.7	7.0
Thursday, 24 April				
TR: Key rate, %	Apr	10.00	10.00	10.00
Friday, 25 April				
HU: Unemployment rate, %	Mar	8.3	8.5	8.6
RU: Key rate, %	Apr	7.50	7.00	7.00

Indicator	Period	est.	High	Mean	Low	Prev.
Tuesday, 29 April						
HU: Key rate, %	Apr	2.50	2.60	2.50	2.50	2.60
UA: GDP, % yoy	Q1	n.a.	-0.3	-1.6	-1.8	3.3
HR: Industrial output, % yoy	Mar	-0.2	n.a.	n.a.	n.a.	1.6
Wednesday, 30 April						
SI: Retail sales, % yoy	Mar	n.a.	n.a.	n.a.	n.a.	-1.0
SI: CPI, % yoy	Apr	n.a.	n.a.	n.a.	n.a.	0.6
RS: GDP, % yoy	Q1	n.a.	n.a.	n.a.	n.a.	2.7
RS: Retail sales, % yoy	Mar	n.a.	n.a.	n.a.	n.a.	0.2
RS: Industrial output, % yoy	Mar	n.a.	n.a.	n.a.	n.a.	1.1
Friday, 02 May						
HU: PMI, points	Apr	n.a.	n.a.	n.a.	n.a.	53.7
PL: PMI, points	Apr	n.a.	n.a.	n.a.	n.a.	54.0
CZ: PMI, points	Apr	n.a.	n.a.	n.a.	n.a.	55.5
TR: PMI, points	Apr	n.a.	n.a.	n.a.	n.a.	51.7
HR: Retail sales, % yoy	Mar	-0.9	n.a.	n.a.	n.a.	0.0

Source: Bloomberg, Raiffeisen RESEARCH

Croatia (HR) – This week was reserved for labour market data. The monthly decline in the number of unemployed in March was reflected in the lower registered unemployment rate for March (22.3%), in line with the usual seasonal trends. The monthly decrease in the unemployment rate mainly resulted from stronger seasonal employment. However, on an annual basis the number of unemployed and the unemployment rate are still higher than in the same period of the last year. Real monthly wages stagnated at the annual level, with the average real net wage rising by 0.2% yoy in February. Next week's releases of industrial production and retail trade for March are the highlights of the week. After two months of growth, we expect a slight decline in industrial production (-0.2% yoy) as a result of last year's high base and weak domestic demand. The gradual recovery in the economic environment is preventing a stronger decline in industrial production while, on the other hand, uncompetitive export industries and their low share limit a more significant recovery. As a result of the base effect and the continuation of negative trends in the labour market, we expect retail trade figures in negative territory (-0.9% yoy).

Financial analyst: Elizabeta Sabolek Resanovic (+385 1 4695 099), Raiffeisenbank Austria d.d., Zagreb

Czech Republic (CZ) – Next week, market activity will be weaker due to the national holiday on Thursday. The Czech Ministry of Finance successfully sold CZK 11 bn of debt due in 2019, 2025 and 2036, with investors bidding for CZK 19.6 bn. As the better-than-expected budget revenue brought the general budget deficit significantly lower than expected to only 1.5% in 2013, the outlook for public finances has also improved. Deputy Finance Minister said that MinFin forecasts the general government deficit to reach 1.8% of GDP this year, 2.3% next year and 2.0% in 2016. Given our GDP outlook – which is slightly more optimistic than the finance ministry's forecast – such figures should not be hard to fulfil unless political developments change the circumstances.

Financial analyst: Michal Brožka (+420 234 401 498), Raiffeisenbank a.s., Prague

Hungary (HU) – Yesterday, the Monetary Council announced changes in the monetary policy toolkit. The key measure is that the main policy instrument – the two-week central bank bill – will be replaced by a two-week deposit facility from 1 August 2014. The central bank also announced three new instruments all starting from 16 June 2014 in order to smooth the transition. As the central bank bill is marketable, whereas the two-week deposit facility is not, the liquidity of the instrument changes. Therefore a part of the money is expected to move out of the MNB's balance sheet, and will have to find its way into new markets, most probably the HGB market. This puts our forecasts at risk especially for longer-dated yields since Hungarian debt managers already stated they would try use the increased demand on the market to lengthen the maturity profile. Another part of the money leaving the central bank facility may cause depreciation of HUF, reinforcing our forecast of higher EUR/HUF.

The Monetary Council will lower key rate next Tuesday by 10 basis points according to our expectations to 2.5%. While we forecast additional token rate cuts to come (to 2.4%), we note that the uncertainty is high, and the Council may signal the end of the cycle.

Financial analyst: Ádám Keszeg (+36 1 484 43 13), Raiffeisen Bank Zrt., Budapest

Romania (RO) – JP Morgan said that would add another RON ISIN (RO1318DBN034 with maturity in Nov 2018) to its Emerging Market indexes of local currency-denominated Treasury securities starting with next rebalancing at the end of April. As a result, the share of RON T-bond securities in the GBI-EM Global Div Index was forecasted by JP Morgan to increase to 1.8% by the end of May from 1.5% at present. The move is likely to result in higher demand for RON T-securities from investors. The two auctions for RON government securities scheduled for this week witnessed good demand and the Finance Ministry paid lower yields than we expected. The first one was for an amount of RON 800 mn in T-bills with the maturity of around six months and resulted in an average yield of 2.73%, with a bid-to-cover ratio of 1.76. The second one was for RON 500 mn in T-bonds with a residual maturity of 7.1Y at which the average yield stood at 4.94% (bid-to-cover ratio was 3.84). Short-term money market rates (O/N, T/N and 1W) unexpectedly increased substantially at the beginning of the week. As a result, the central bank decided to inject liquidity in the banking system via an ad-hoc repo operation in which six participants borrowed RON 2 bn for a week. After the auction, money market interest rates retreated to lower levels.

Financial analyst: Anca Jelea (+40213061265), Raiffeisen BANK S.A., Bucharest

Russia (RU) – Earlier this week, the Ministry of Finance criticised the recently updated economic forecasts (primarily GDP forecasts) of the Ministry of Economic Development. Traditionally, MinFin considers them too optimistic as during the past several years their implementation in the budgeting process resulted in significant overestimation of revenues. More importantly, the current baseline forecast of the Ministry of Economic Development implies modification of the budget rule and significant acceleration of GDP growth (from 1.1% in 2014 to 2.6% in 2015-2016 and 3.7% in 2017). An increase in budget spending in the amount of 2% of GDP over the next 4 years is being discussed. MinFin fears that additional expenses could stimulate economic growth only in the short term and the support of such growth over the medium term could require more budget expenditure. Currently, the government lacks additional resources (except for borrowing from the State funds) while the effects of fiscal policy easing on the economy might be immaterial. MinFin refers to the example of 2012 when after budget expenses increased by 18% its effect on GDP already faded out in 2013 (GDP growth decelerated from 3.4% to 1.3%). We expect that the federal budget will remain under pressure during the next few years, despite currently favourable conditions in terms of opportunity for higher unplanned revenues. Additional oil and gas revenues due to higher oil price and RUB depreciation are estimated at RUB 900 bn this year. At the same time, Minfin estimates that the budget could lose RUB 1 trn (including RUB 700 bn of deficit coverage funds (Eurobonds and local market bonds), privatisation, dividends).

Financial analyst: Maria Pomelnikova (+7 495 221-9845), ZAO Raiffeisenbank, Moscow

Monetary policy and money markets overview

CEE key interest and money markets outlook

Poland	curr.*	Jun-14	Sep-14	Dec-14	5y high	5y low
Key interest rate (%, eop)	2.50	2.50	2.50	2.75	4.75	2.50
1m money market rate (%, eop)	2.42	2.61	2.61	2.86	4.82	2.40
3m money market rate (%, eop)	2.52	2.71	2.79	3.16	5.04	2.48
6m money market rate (%, eop)	2.54	2.76	2.97	3.35	5.07	2.51
Hungary						
Key interest rate (%, eop)	2.60	2.40	2.40	2.40	9.50	2.60
1m money market rate (%, eop)	2.60	2.50	2.50	2.60	9.60	2.60
3m money market rate (%, eop)	2.66	2.70	2.80	2.90	9.70	2.65
6m money market rate (%, eop)	2.74	2.90	2.97	3.10	9.77	2.74
Czech Republic						
Key interest rate (%, eop)	0.05	0.05	0.05	0.05	1.75	0.05
1m money market rate (%, eop)	0.03	0.05	0.05	0.05	1.84	0.03
3m money market rate (%, eop)	0.05	0.10	0.20	0.20	2.16	0.04
6m money market rate (%, eop)	0.44	0.20	0.20	0.30	2.65	0.44
Romania						
Key interest rate (%, eop)	3.50	3.50	3.50	3.50	10.00	3.50
1m money market rate (%, eop)	2.39	2.80	2.85	3.00	13.35	1.11
3m money market rate (%, eop)	2.52	2.90	2.95	3.05	13.44	1.69
6m money market rate (%, eop)	2.64	2.75	2.95	3.00	13.51	2.20
Russia						
Key interest rate (%, eop)	7.00	7.00	6.00	6.00	7.00	5.50
1m money market rate (%, eop)	8.77	9.20	8.75	8.85	13.71	3.23
3m money market rate (%, eop)	9.16	9.75	9.30	9.40	16.16	3.73
6m money market rate (%, eop)	9.29	9.80	9.30	9.50	17.96	4.12
Turkey						
Key interest rate (%, eop)	10.00	10.00	10.00	10.00	10.00	4.50
1m money market rate (%, eop)	10.30	11.40	11.00	10.50	11.99	4.61
3m money market rate (%, eop)	10.45	11.70	11.30	10.90	12.15	4.74
6m money market rate (%, eop)	10.50	11.80	11.50	11.10	12.48	5.12
Benchmark key rates (% eop)	**curr.***	**Jun-14**	**Sep-14**	**Dec-14**	**5y high**	**5y low**
ECB key interest rate (% eop)	0.25	0.25	0.25	0.25	1.50	0.25
Fed key interest rate (% eop)	0.08	0.25	0.25	0.25	0.31	0.01

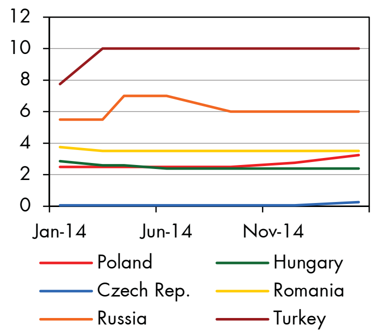
** Bid rates (for Hungary ask rates) as of 25 April 2014, 09:47 a.m. CET*
Source: Bloomberg, Raiffeisen RESEARCH

Central bank watch

Poland (NBP)	MPC member A. Bratkowski still sees possibility of interest rate hike in late Q4 2014.
Hungary (MNB)	MNB makes changes to its main policy toolkit. The currently overall favorable sentiment towards Hungary should allow for a 10 bp rate cut next week.
Czech Republic (CNB)	FX intervention used as additional tool for monetary policy. CNB is likely to exit its intervention regime at the end of 2014.
Romania (BNR)	NBR clearly indicated that it is finished with rate cuts despite low domestic inflationary pressure; however, more easing in the pipeline through the likely cut of MRR later this year
Serbia (NBS)	Rate cut cycle remained on hold last week, but after government formation by the end of April cautious continuation of rate cuts likely
Russia (CBR)	CBR kept key rate unchanged at its latest board meeting following the 150 bp emergency rate hike before. After calming of Ukrainian crisis, moderate relaxation of MP in H2 possible
Turkey (TCMB)	Central bank remined on hold recently, but the possibility of MP easing not only through macroprudential measures, but also through gradual rate cuts in early-H2 in line with decelerating inflationary dynamics is still on the table

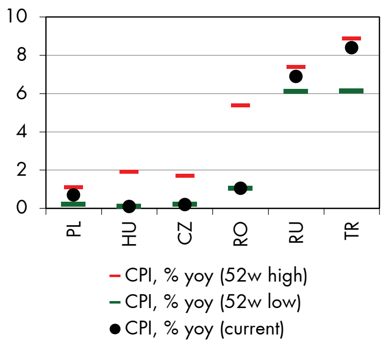
Source: Bloomberg, Reuters, Raiffeisen RESEARCH

Key rate trends (%)



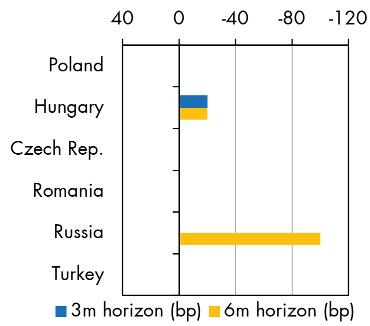
Source: Bloomberg, Raiffeisen RESEARCH

Inflation snapshot



Source: Bloomberg, Raiffeisen RESEARCH

Key rate forecast (chg., bp)



Source: Bloomberg, Raiffeisen RESEARCH

Rate setting meetings

	Apr	May
Poland (NBP)	9	7
Hungary (MNB)	29	27
Czech Rep. (CNB)		7
Romania (NBR)		
Serbia (NBS)	17	8
Russia (CBR)	25	-
Turkey (TCMB)	24	

Source: National Central Banks, Raiffeisen RESEARCH

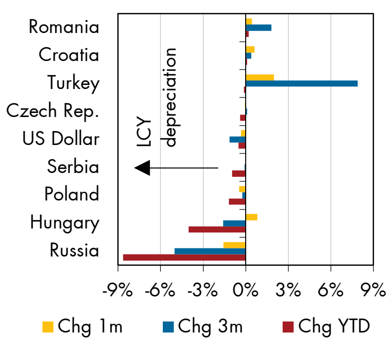
Foreign exchange market overview

FX forecasts

EUR vs	current[1]	Jun-14	Sep-14	Dec-14	5y high	5y low	Comment
PLN	4.21	4.18	4.15	4.10	4.57	3.83	The zloty should remain near 4,20 against the euro as Ukraine tensions remain in place.
HUF	309.6	315.0	315.0	320.0	320.4	261.3	Changes in MNB policy may condense in weaker HUF
CZK	27.45	27.20	27.00	26.40	27.69	23.99	EUR/CZK to remain in current trading range
RON	4.45	4.50	4.55	4.50	4.64	4.06	Appreciation potential limited due to weak FX flow dynamics
HRK	7.62	7.58	7.64	7.68	7.67	7.18	EUR/HRK stable, trading in range between 7.61 – 7.63.
RSD	115.7	116.0	115.0	117.0	119.1	92.4	Central bank wants to keep the RSD stable in a range of 115-116 against EUR
RUB	49.76	50.15	48.68	48.98	50.96	37.45	see rouble basket below
UAH*	15.88	14.85	14.63	15.53	17.65	9.47	see USD/UAH below
BYR	13,819	14,580	14,820	16,335	13,819	3,607	see USD/BYR below
TRY	2.96	3.00	2.80	2.84	3.19	1.91	see USD/TRY below
USD	1.38	1.35	1.30	1.35	1.51	1.20	A number of factors indicate a somewhat stronger dollar in the coming months
USD vs	**current[1]**	**Jun-14**	**Sep-14**	**Dec-14**	**5y high**	**5y low**	
RUB	35.96	37.15	37.44	36.29	36.63	27.28	see rouble basket below
UAH*	11.48	11.00	11.25	11.50	12.71	7.60	Rate increase, administrative measures and IMF package to give support to UAH in the short-term
BYR	9,995	10,800	11,400	12,100	9,995	2,711	Steady BYR depreciation to conitnue throughout 2014
TRY	2.14	2.22	2.15	2.10	2.34	1.40	No change in interest rates as expected, moderate TRY weakening as economy slows
RUB basket	42.17	43.00	42.50	42.00	43.07	32.94	Additional pressure on RUB due to rating downgrade and looming sanctions

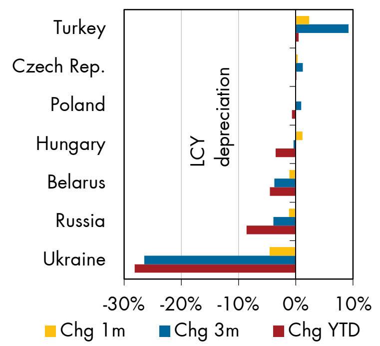
1 as of 25 April 2014, 10:19 a.m. CET
** under revision*
Source: Bloomberg, Raiffeisen RESEARCH

Change of LCY value to EUR (%)



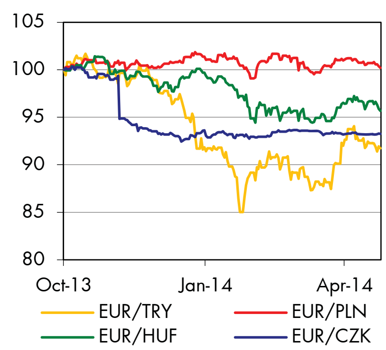
Source: Bloomberg

Change of LCY value to USD (%)



Source: Bloomberg

Exchange rate comparison

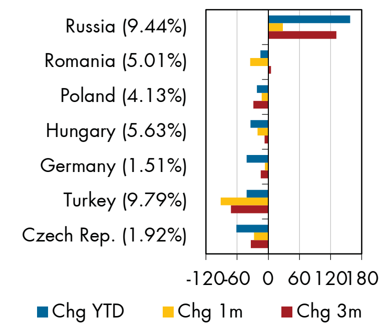


Indexed September 2013 = 100
Source: Bloomberg

Raiffeisen RESEARCH

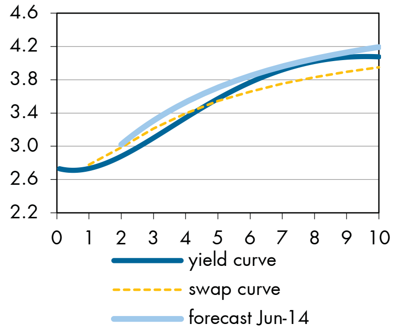
Local currency bond market overview

Change of LCY 10y bond yields (bp)



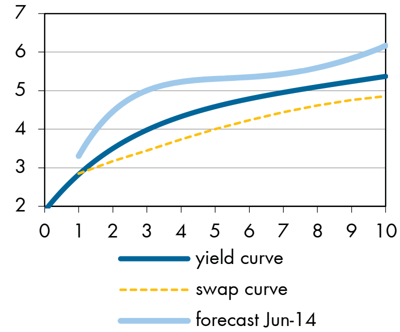
Source: Bloomberg

PLN yield curve



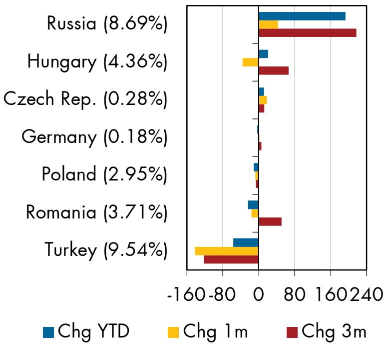
Source: Bloomberg

HUF yield curve



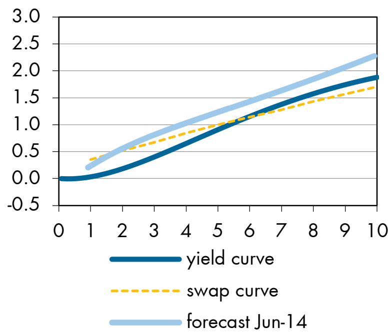
Source: Bloomberg

Change of LCY 2y bond yields (bp)



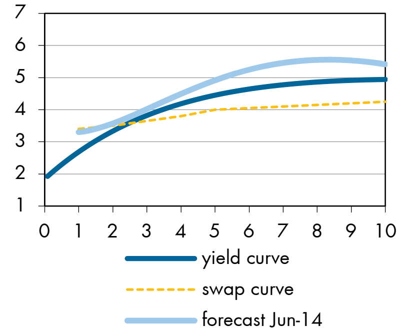
Source: Bloomberg

CZK yield curve



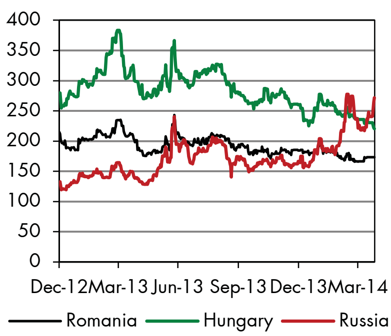
Source: Bloomberg

RON yield curve



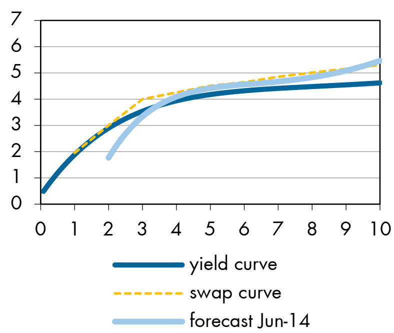
Source: Bloomberg

5y USD CDS spreads



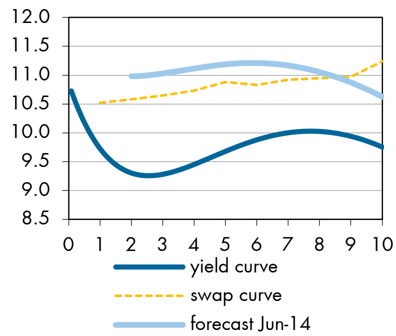
** CE-3: CZ, PL, SK*
Source: Bloomberg, Raiffeisen RESEARCH

HRK yield curve



Source: Bloomberg

TRY yield curve



Source: Bloomberg

Yield forecasts

2y T-bond yields (%)							10y T-bond yields (%)						
	current*	Jun-14	Sep-14	Dec-14	5y high	5y low		current*	Jun-14	Sep-14	Dec-14	5y high	5y low
Poland	2.93	3.1	3.3	3.5	5.7	2.5	Poland	4.12	4.2	4.4	4.5	6.5	3.1
Hungary	4.26	4.2	4.2	4.4	11.1	3.5	Hungary	5.53	6.2	6.3	6.6	10.7	4.9
Czech Rep.	0.24	0.6	0.8	1.0	3.3	0.0	Czech Rep.	1.89	2.3	2.5	3.0	5.2	1.4
Romania	3.44	3.8	4.0	4.2	7.3	2.9	Romania	5.02	5.4	5.6	5.7	7.6	4.7
Croatia	2.56	2.9	3.2	3.5	9.7	2.5	Croatia	4.40	5.5	5.5	5.5	8.4	4.4
Russia	8.19	8.0	7.3	7.6	8.7	5.5	Russia	9.36	9.5	8.7	8.8	9.7	6.5
Turkey	9.51	11.0	10.9	10.5	13.7	4.9	Turkey	9.71	10.6	10.7	10.9	11.0	6.0
Eurozone	0.18	0.2	0.2	0.5	1.9	-0.1	Eurozone	1.51	1.8	2.0	2.4	3.7	1.2
USA	0.43	0.5	0.6	0.8	1.4	0.2	USA	2.67	3.0	3.3	3.5	4.0	1.4

** Ask yields as of 25 April 2014, 09:36 a.m. CET*
Source: Bloomberg, Raiffeisen RESEARCH

Please note the risk notifications and explanations at the end of this document

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	25/04/2016	5.00	103.98	2.91	273	2.0	HCPI inflation reading for the euro area and the upcoming ECB decision, i.e. more easing or not, may increase the volatility of Polish yields in the short term.
PLN 5y Gov. Bond	25/10/2019	5.50	109.13	3.63	302	4.8	
PLN 10y Gov. Bond	25/10/2023	4.00	99.18	4.10	259	7.9	
Hungary							
HUF 3y Gov. Bond	25/04/2018	4.00	99.28	4.20	396	3.8	MNB redesigned MP framework also aimed at strengthening resident demand for HUF bonds. We expect the favorable effect on HGBs to last, if not for a further escalation of the Ukraine conflict
HUF 5y Gov. Bond	24/06/2019	6.50	109.24	4.45	384	4.4	
HUF 10y Gov. Bond	24/06/2025	5.50	100.33	5.46	395	8.3	
Czech Republic							
CZK 2y Gov. Bond	11/04/2015	3.80	103.60	0.05	-13	1.0	Czech government bond yields to remain stable in the short run given the decreasing likelihood of earlier than expected inflationary pressures, i.e. rate hikes as well as speculation on more ECB easing
CZK 5y Gov. Bond	11/04/2019	5.00	119.96	0.86	26	4.6	
CZK 10y Gov. Bond	25/05/2024	5.70	134.73	1.88	37	8.0	
Croatia							
HRK 5y Gov. Bond	10/07/2018	5.25	104.74	4.01	340	3.7	Next week we see yield hovering around 4.2% for Croatian Eurobond 2019, as well as dropping below 5% on the longest maturity paper 2024.
HRK 8y Gov. Bond	05/03/2020	6.75	112.00	4.40	289	5.0	
Romania							
RON 3y Gov. Bond	26/07/2017	5.90	105.80	3.95	371	2.9	ROMGB market remains only under moderate pressure; moderate increase in longer tenors to continue in the medium term due to core market pressures, whilst extent should be more limited compared to CEE peers
RON 5y Gov. Bond	26/07/2017	5.90	105.80	3.95	334	2.9	
Russia							
RUB 2y Gov. Bond	20/01/2016	7.35	98.90	8.19	801	1.7	Pressure on OFZ revived recently following an impressive relief rally before. After the Ukrainian crisis calms down sustainably, consolidation of OFZ market expected under the assumption that depreciation pressure on RUB recedes
RUB 5y Gov. Bond	03/08/2016	6.90	97.85	8.10	749	2.1	
RUB 10y Gov. Bond	24/11/2021	7.00	89.00	8.82	731	5.9	
Turkey							
TRY 2y Gov. Bond	24/02/2016	10.70	101.95	9.50	932	1.7	In line with our expectations, TRY debt market, especially front end of the curve, continued to outperform thanks to pricing-out of political risks and increasing likelihood of looser monetary conditions. Given upcoming presidential elections political risks overly priced-out we believe
TRY 5y Gov. Bond	14/02/2018	6.30	90.00	9.47	886	3.4	
TRY 10y Gov. Bond	20/03/2024	10.40	104.03	9.76	825	6.6	

Prices as of 25 April 2014, 09:58 a.m. CET
Source: Bloomberg, Raiffeisen RESEARCH

Bond auctions

		ISIN	Coupon	Maturity	Volume
28 April 2014					
BG	7y EUR-denominated T-bonds	n.a.	n.a.	2021	EUR 25 mn
30 April 2014					
HU	T-bonds	n.a.	floating	n.a.	n.a.

Summary: Ratings & macro data

Country ratings: CE, SEE, CIS

	S&P			Moody's			Fitch		
	LCY	FCY	Outlook	LCY	FCY	Outlook	LCY	FCY	Outlook
CEE									
Poland	A	A-	stable	A2	A2	stable	A	A-	positive
Hungary	BB	BB	stable	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	stable	Ba1	Ba1	stable	BBB-	BB+	negative
Serbia	BB-	BB-	negative	B1	B1	stable	B+	B+	stable
CIS									
Russia	**BBB**	**BBB-**	**negative**	Baa1	Baa1	stable	BBB	BBB	negative
Ukraine	B-	CCC	negative	Caa1	Caa3	negative	B-	CCC	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+	negative	Baa3	Baa3	negative	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	1048	-5.0	55.5	22.4	0.1	102.3	25.0	8.5
	2013	-1.0	2.2	20.3	1044	-5.8	66.5	20.7	0.5	104.5	28.0	10.0
	2014e	0.0	0.6	21.0	1030	-4.9	69.2	19.8	0.0	103.6	27.2	10.0
Czech Rep.	**2012**	-0.9	3.3	6.8	999	-4.4	46.2	70.9	-2.4	50.5	44.0	3.9
	2013	-0.9	1.4	7.6	967	-2.5	46.3	72.7	-1.0	51.1	53.4	4.7
	2014e	2.3	1.3	7.3	949	-2.7	47.3	76.0	-0.5	49.8	55.6	4.5
Hungary	**2012**	-1.7	5.7	10.9	775	-1.9	80.2	83.2	1.8	131.1	26.9	5.5
	2013	1.1	1.7	10.4	790	-2.9	79.2	83.6	2.8	123.6	27.3	5.3
	2014e	2.0	1.1	8.0	777	-2.9	81.6	87.8	3.4	121.3	28.2	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
	2013	1.6	0.9	13.6	860	-4.1	57.1	39.5	-1.3	71.0	29.3	6.4
	2014e	3.1	1.2	13.1	899	-3.2	49.9	41.1	-2.8	68.7	29.6	6.2
Romania	**2012**	0.6	3.3	7.0	463	-3.0	38.0	34.2	-4.4	75.7	31.3	7.1
	2013	3.5	4.0	7.3	490	-2.5	37.9	34.7	-1.1	67.5	33.7	7.4
	2014e	2.3	2.1	7.2	501	-2.5	38.4	36.5	-2.0	65.5	32.5	6.4
Russia	**2012**	3.4	5.1	5.7	667	0.4	10.5	26.7	3.6	31.4	76.3	17.0
	2013	1.3	6.8	5.8	692	-1.0	12.0	24.9	1.6	34.1	63.7	15.9
	2014e	1.0	6.1	6.0	637	-0.5	13.0	28.7	2.3	42.3	54.5	15.2
Ukraine	**2012**	0.2	0.6	7.7	291	-5.5	36.8	40.0	-8.5	74.4	17.0	2.9
	2013	0.0	-0.2	7.5	313	-7.0	40.3	36.1	-9.1	78.9	11.9	2.4
	2014e	-5.0	6.0	8.5	264	-4.0	52.0	49.0	-5.9	107.1	11.7	2.4
Turkey	**2012**	2.2	8.9	9.0	362	-2.1	39.8	20.8	-6.2	42.0	29.5	5.1
	2013	3.9	7.5	9.4	351	-1.2	38.5	19.7	-7.8	44.1	29.2	5.3
	2014e	2.0	7.4	9.8	320	-2.5	38.2	21.5	-6.7	51.9	24.3	5.0

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

Please note the risk notifications and explanations at the end of this document

Risk notifications and explanations

Warnings

- Figures on performance refer to the past. Past performance is not a reliable indicator of the future results and development of a financial instrument, a financial index or a securities service. This is particularly true in cases when the financial instrument, financial index or securities service has been offered for less than 12 months. In particular, this very short comparison period is not a reliable indicator for future results.
- Performance is reduced by commissions, fees and other charges, which depend on the individual circumstances of the investor.
- The return on an investment can rise or fall due to exchange rate fluctuations.
- Forecasts of future performance are based purely on estimates and assumptions. Actual future performance may deviate from the forecast. Consequently, forecasts are not a reliable indicator for the future results and development of a financial instrument, a financial index or a securities service.

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Detailed information on sensitivity analyses (procedure for checking the stability of the assumptions made in this document) can be found at: www.raiffeisenresearch.at/sensitivityanalysis

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