

PLN 6x9 Forward Rate Agreement*



* development since July 2013, when Polish rate cutting cycle was finished at 2.5%
 PLN 6x9 FRA 5y high 5.62, 5y low 2.28
 Source: Bloomberg

Market snapshot

	curr.*	Sep-14	Dec-14	Mar-15
Poland				
EUR/PLN	4.15	4.15	4.10	4.05
Key rate	2.50	2.50	2.50	2.50
10y bond	3.4	3.6	3.9	4.3
Hungary				
EUR/HUF	308.5	310	315	315
Key rate	2.30	2.20	2.20	2.20
10y bond	4.2	4.5	4.8	5.0
Czech Rep.				
EUR/CZK	27.5	27.3	27.2	27.2
Key rate	0.05	0.05	0.05	0.05
10y bond	1.4	1.7	2.0	2.2
Romania				
EUR/RON	4.39	4.42	4.45	4.40
Key rate	3.50	3.50	3.50	3.50
10y bond	4.3	4.7	5.0	5.4
Croatia				
EUR/HRK	7.57	7.64	7.68	7.66
Key rate	5.00	0.00	0.00	0.00
10y bond	4.1	4.5	4.5	4.5
Russia				
USD/RUB	33.6	36.3	37.0	37.4
Key rate	7.50	7.50	7.00	7.00
10y bond	8.3	8.9	8.8	9.4
Turkey				
USD/TRY	2.13	2.10	2.10	2.15
Key rate	8.75	8.25	7.75	7.75
10y bond	8.7	9.0	9.5	9.7
EUR/USD	1.36	1.32	1.30	1.30

* prices as of 27 June 2014, 10:48 a.m. CET
 Source: Thomson Reuters, Raiffeisen RESEARCH

Content

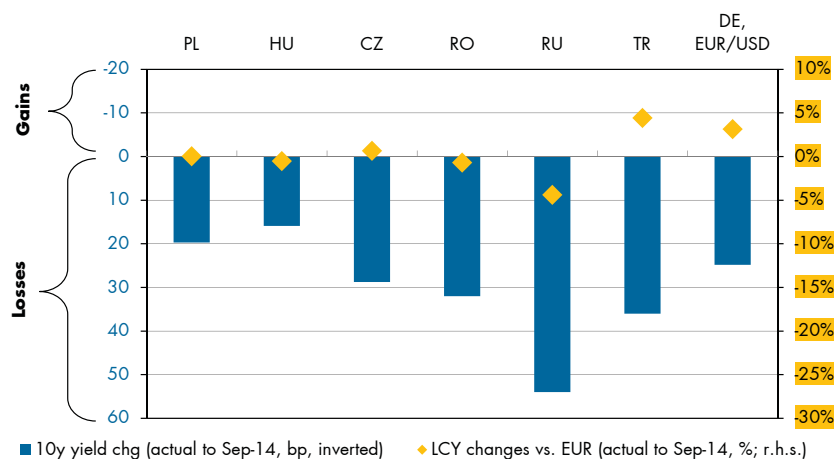
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Highlights

Today, on Friday 27 June, Ukraine, Georgia and Moldova signed free-trade/association agreements with the EU. Possible Russian retaliation against these three countries in form of duties or tariffs due to the agreements is possible as Russia fears damage to its own economy and sphere of interest. Moreover, expected Russian retaliation may also partially explain the most recent round of Western economic sanction rhetoric against Russia. However, both EU and US also threatened with additional sanctions against Russia given the sluggish Russian commitment to de-escalation in Ukraine up to now. The release of the OECD hostages taken by separatists, however, gives some hope of de-escalation on the ground and further calming as the official but unstable cease-fire called by the Ukraine government ends today. Coincidentally, also today, Russian state owned bank VTB announced that it has granted Belarus a USD 2 bn short term loan. Belarus has been dependent on Russian financial support for years and recent drops in official FX reserves of Belarus indicate renewed need of additional external funding.

Next Tuesday, June's manufacturing PMI are released. We are slightly bearish on Poland, which could score even slightly lower than last month's low of 50.8 points. The Czech PMI might somewhat retreat from previous high of 57.3 points. Some weaker than expected leading indicators lately in tandem with record-low inflation are also the main reason why rate cut speculations are still alive in Poland (see chart on the left). The elevated political uncertainty lends, however, additional support to our baseline scenario of stable rates until Q2 2015. Nevertheless, the new inflation report at next week's MP meeting will be crucial to assess the NBP's stance going forward (see Focus on, p.2).

Expected changes until September 2014



Source: Bloomberg, Raiffeisen RESEARCH

Data highlights upcoming week

Date	Indicator	Period	est.	High	Mean	Low	Prev.
01-Jul	RU: PMI, points	Jul	n.a.	n.a.	n.a.	n.a.	48.9
01-Jul	CZ: PMI, points	Jun	56.9	n.a.	n.a.	n.a.	57.3
01-Jul	PL: PMI, points	Jun	50.4	51.7	51.4	50.8	50.8
01-Jul	RO: Key rate, %	Jul	3.50	3.50	3.50	3.25	3.50
02-Jul	PL: Key rate, %	Jul	2.50	2.50	2.50	2.50	2.50

Source: Bloomberg, Raiffeisen RESEARCH

Focus on: Politics in Poland – settled for now, some risk remains

EUR/PLN since 01/01/2014



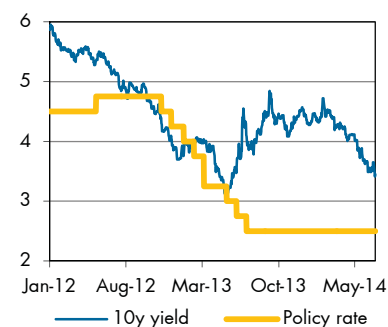
Source: Bloomberg, Raiffeisen RESEARCH

Long-term PLN development



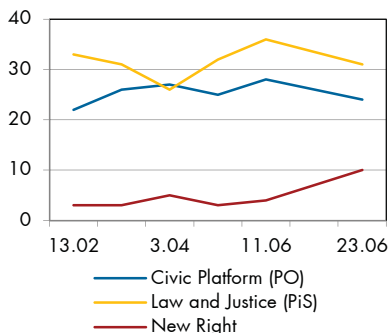
Source: Bloomberg, Raiffeisen RESEARCH

PL: base rate and 10y yield (%)



Base rate 5y high: 4.75; 5y low: 2.5
10y yield 5y high: 6.37; 5y low: 3.06
Source: Bloomberg

Recent popularity polls (%)



Source: Public opinion survey by TNS Polska, Raiffeisen RESEARCH

Recent volatility in the Polish political landscape related to the “taping scandal” (also affecting the National Bank of Poland) had a **short-term market impact**, at least on **EUR/PLN** and **LCY yields**, but the **medium-term risks are still not totally settled** (for more details, see our Poland Special: Political uncertainty settled now – risk of snap elections remains, 26 June). Recently approved **changes to the law governing the NBP** – that are part of the “taping scandal” – include the possibility for **Treasury bond purchases** by the **NBP beyond open market operations**. The change in favour of such QE-like actions has to be seen in the context of recent euro-area crisis events and their interpretation from a Polish perspective. Some economic and monetary policy-makers in CEE (including current NBP governor Mr Belka) were shocked by the narrow and formal interpretation of the ECB mandate at the peak of the euro-area crisis. However, the **amendment also introduces some changes to the construction of the MPC** (rotating terms for its members) and **reduces the MPC’s formal power to control the NBP** in operational terms. MPC members criticized the changes and announced that three of them will start working on an alternative framework.

From a **near-term perspective political risks may decrease**, and we see no risk of a near-term reshuffling at the government or the National Bank of Poland (NBP) level due to recent events (successful confidence vote). Prime Minister Tusk also declared that he would not make any staff changes in the government until all aspects of the scandal are investigated. The junior coalition party of the ruling PO declared its support for the government at least until September, when investigations are expected to be closed.

In terms of **Polish Eurobonds** and the **CDS market**, there was **no significant reaction to the recent political wobbles**. The reaction of both the LCY bond and FX market in Poland was clearly negative. However, the setbacks were still in the trading ranges of past weeks and were quickly reversed. That said, Polish assets also firmed following yesterday’s successful confidence vote. In the short run, the **market will now focus more on the interest rate and inflation outlook**. **Expectations for additional rate cuts** fuelled a decline in 10-year sovereign yields to all-time lows at 3.5%. Whether such levels are sustainable will depend largely on the outcome of the **upcoming MPC meeting** scheduled for July 2. Given the current volatility on the political scene, we tend to think that a **rate cut in July has become more unlikely**, as it might be interpreted in a political way (e.g. supporting the current government, and Mr Belka may want to show no implicit political support at the moment). This lends additional, admittedly unforeseen, support to our baseline scenario of stable rates well into 2015 and likewise supports the Polish currency. Nevertheless, in the case of **political stabilisation, rate cut bets will remain with us** in the coming months. From a short-term perspective, in such a scenario **LCY-yields** would remain well **anchored around the current low levels** (despite elevated PLN volatility), but then there would also be **downside risks in the autumn**, either driven by **gutted interest rate cut bets and/or another round of escalation in terms of political volatility**.

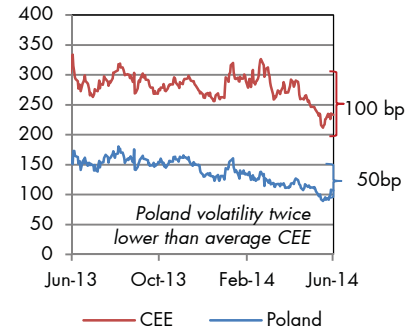
We do **not expect any change in the sovereign credit rating or outlook** for Poland, assuming the political scandal slowly wanes **over the next few months**. Consequently, the risk of negative rating action remains minimal at this stage. The controversial pension system reform already implemented by the government

will help to reduce public debt to 51% of GDP this year already, while fiscal consolidation measures should provide for a 1% of GDP budget deficit reduction. Moreover, judging **Poland** by its **macro fundamentals** we **may even anticipate a positive outlook for its rating in a 3-6 month perspective**. However, there is a catch, as the risk of **domestic political crisis** leading to **early elections could potentially discourage rating agencies** from awarding Poland a **positive outlook** in the immediate future.

Moreover, the **bugging scandal's impact** on the Polish **political scene** might be **still considerable**, as it might result in the current coalition losing power (either in snap or scheduled elections). Therefore, in the medium term investors might be forced to include an **increased political risk assessment** in their investment policies as the latest public opinion polls suggest **potential difficulties in creating a stable majority** in the new parliament. The next regular parliamentary elections are scheduled for autumn 2015, but the risk of snap elections looms. The possibility of early elections has definitely caused some concerns among foreign investors (which invested heavily in Polish government bonds recently) as they have been, by and large, pleased by the business-friendly and more pro-European policy of the current PO-led government (compared to the previous PIS-led government).

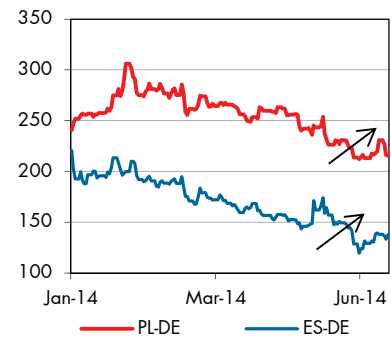
Financial analysts: Marta Petka-Zagajewska, marta.petka-zagajewska@raiffeisen.pl, Gunter Deuber (+431 717 07 5707)

Poland EMBIG USD spread



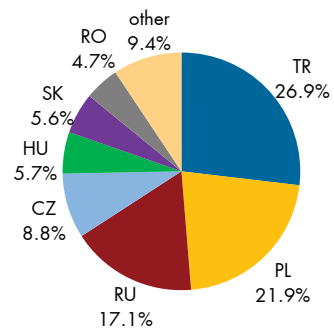
Source: Thomson Reuters, Raiffeisen RESEARCH

10y spreads over Bunds (bp)



PL-DE 5y high:442; 5y low:176
ES-DE 5y high: 633; 5y low:45
Source: Bloomberg, Raiffeisen RESEARCH

Domestic (LCY) bond market*



* Total market capitalization CEE = EUR 505 bn (end-2013)
Source: Bloomberg

Data calendar and country coverage

This week, previous week: key data releases

Indicator	Period	Actual	Forecast	Prev.	Indicator	Period	est.	High	Mean	Low	Prev.
Friday, 20 June					Friday, 27 June						
HU: Economic Sentiment Index	Jun	-1	n.a.	-1.2	RU: C/A balance final, USD bn	Q1	n.a.	n.a.	n.a.	n.a.	27.6
RU: Retail sales, % yoy	May	2.1	2.0	2.7	Monday, 30 June						
RU: Unemployment rate, %	May	4.9	n.a.	5.3	HR: C/A balance, EUR bn	Q1	-1.2	n.a.	n.a.	n.a.	-0.7
Monday, 23 June					PL: C/A balance, EUR bn	Q1	n.a.	-0.3	-0.8	-0.8	-1.1
HR: Unemployment rate, %	May	19.6	n.a.	21.1	RS: Industrial output, % yoy	May	n.a.	n.a.	n.a.	n.a.	1.9
SK: Unemployment rate, %	May	12.80	n.a.	13.0	RS: GDP final, % yoy nsa	Q1	n.a.	n.a.	n.a.	n.a.	0.4
Tuesday, 24 June					RS: Retail sales, % yoy	May	n.a.	n.a.	n.a.	n.a.	0.0
HU: Key rate, %	Jun	2.3	2.3	2.40	BG: Key rate, %	Jul	n.a.	n.a.	n.a.	n.a.	0.05
HU: C/A balance, EUR mn nsa	Q1	984.0	850.0	710.0	SI: CPI, % yoy	Jun	n.a.	n.a.	n.a.	n.a.	0.7
TR: Key rate, %	Jun	8.75	n.a.	9.50	SI: Retail sales, % yoy	May	n.a.	n.a.	n.a.	n.a.	1.5
Thursday, 26 June					Tuesday, 1 July						
CZ: Key rate, %	Jun	0.05	0.05	0.05	CZ: GDP final, % yoy	Q1	n.a.	n.a.	n.a.	n.a.	2.5
PL: Retail sales, % yoy	May	3.8	8.2	8.4	CZ: PMI, points	Jun	56.9	n.a.	n.a.	n.a.	57.3
PL: Unemployment rate, %	May	12.5	12.4	13.0	HU: PMI, points	Jun	n.a.	n.a.	n.a.	n.a.	53.9
Friday, 27 June					PL: PMI, points	Jun	50.4	51.7	51.1	50.5	50.8
HR: Industrial output, % yoy	May	1.2	n.a.	0.6	RO: Key rate, %	Jul	3.50	3.50	3.50	3.25	3.50
HU: Unemployment rate, %	May	8.0	7.7	8.1	RU: PMI, points	Jun	n.a.	n.a.	n.a.	n.a.	48.9
					RU: GDP final, % yoy	Q1	n.a.	n.a.	n.a.	n.a.	0.9
					TR: PMI, points	Jun	n.a.	n.a.	n.a.	n.a.	50.1
					Wednesday, 2 July						
					PL: Key rate, %	Jul	2.50	2.50	2.50	2.50	2.50
					RO: Retail sales, % yoy	May	n.a.	n.a.	n.a.	n.a.	5.1
					RO: GDP final, % yoy	May	n.a.	n.a.	n.a.	n.a.	3.8
					RU: C/A balance final, USD bn	Q2	n.a.	n.a.	n.a.	n.a.	n.a.
					Thursday, 3 July						
					HR: Retail sales, % yoy	May	n.a.	n.a.	n.a.	n.a.	0.3
					HU: Retail sales, % yoy	May	4.0	7.2	6.5	4.0	6.3
					HU: Trade balance final, EUR mn	May	n.a.	n.a.	n.a.	n.a.	625.3
					SK: Retail sales, % yoy	May	n.a.	n.a.	n.a.	n.a.	5.8
					TR: CPI, % yoy	Jun	n.a.	9.5	9.2	9.0	9.7
					Friday, 4 July						
					CZ: Retail sales, % yoy	May	3.2	n.a.	n.a.	n.a.	6.0
					HU: Industrial output, % yoy wda	May	6.0	11.9	11.1	6.0	10.1
					RU: CPI, % yoy	Jun	n.a.	n.a.	n.a.	n.a.	7.6

Source: Bloomberg, Raiffeisen RESEARCH

Croatia (HR) – The week behind us was shorter because of the holiday and reserved for labour market data. In line with our expectations the May unemployment rate recorded a decline for the third month in a row on a monthly basis (19.6%) while average nominal wages stagnated in April. Late on Monday, Q12014, C/A might report deficit of some EUR 1.2 bn, but cumulatively in the last four quarters it will remain positive, at around 1.8% of GDP. Therefore, amid abundant negative circumstances, improvement will be confirmed in lower external vulnerability. However, this rebalancing mostly reflects the deep and prolonged recession (a slump in domestic demand), but cannot be considered as a sustainable structural rebalancing. Still, a return of goods export to the pre-crisis levels points to small but indicative changes in the structure of goods export. Namely, improving trends in goods trade in Q1, which were partially mitigated by lower-performing on services account could contribute to reducing the deficit on the C/A on an annual basis. However, in the situation of weak domestic demand some companies have found the way to be competitive on the international markets, but these are still too few to support domestic economy significantly and increase its potential growth. Therefore, improving competitiveness, reducing administrative hurdles, and creating a friendly business environment remain some of the most important challenges of the economic policy.

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

Czech Republic (CZ) – At the monetary policy meeting the Czech National bank did not change nor the interest rates nor the EUR/CZK floor at 27.0. Furthermore, the CNB said it would not escape the intervention regime earlier than in Q2 2015. That fits well with our expectation of CZK appreciation across EUR/CZK 27.0 in Q4 2015. The guidance of the Czech National Bank was somewhat more explicit than expected and the CZK reacted by slight weakening against eur. Next week

release of the GDP might bring surprise only if there is any big surprise. The market players are more interested in future development. PMI index next week should probably indicate fast expansion although the index itself will likely decrease from the currently very high levels.

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

Hungary (HU) – As expected the Monetary Council of Hungary cut base rate by 10 basis points to 2.3%. However, the Council turned somewhat more dovish – in the communiqué the message reappeared that cautious cuts are possible in the future. Also the Council is trying to shape longer-term expectations when stating that the macroeconomic outlook warrants loose monetary policy in a persistent way. We expect more token rate cuts to come, but on the other hand the focus of monetary easing shifted from the base rate to other key elements: FGS and the change of the main instrument. Central Bank of Hungary also held the first interest rate swap auction this week – one pillar of the complex monetary toolkit change that is administered this summer (see our special from June 14). The auction and at the same time the HGB auction were both met with huge demand, bond yields while the HUF weakened. This reinforces our view that MNB's actions will channel liquidity on the HGB market, but will also drive capital out of the country. That is why we expect low HGB yields, but weaker forint throughout the rest of the year.

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

Poland (PL) – Poor retail sales data added to the scenario of lower economic activity in May which was suggested by PMI and IO readings. In result speculations on interest rate cuts increased further. Political turmoil influenced markets just temporarily and LCY government bonds resumed their strong upward trend. The main focus in the coming week will be on Monetary Council's meeting and its decision. FRAs quotations suggest that the market prices in at least 25bp-cut in July which could be justified by persistently low inflation readings and deteriorating data on PMI and production. On the other hand, if the new Inflation Report assumes economic growth above 3% yoy in the next quarters, it will be unlikely that the Council cuts interest rates as this would be highly pro-cyclical. So the cut could be possible in our opinion only in case GDP projection was revised in July's Inflation report below 3% yoy (which is unlikely).

Financial analyst: Michał Burek (+48 609 921 092), Raiffeisen Polbank, Warsaw

Romania (RO) – We expect retail sales in May, to be published next week, to return to its monthly upward trend showed since the second half of the previous year, after the severe correction of -3.2% mom recorded in April. We recall that this negative evolution was driven by the plunge of fuels sales due to the introduction of the additional excise of 7 eurocents per liter of fuels starting 1 April. Furthermore, we don't expect second estimates for real GDP in Q1 2014 to provide major revisions. First estimates showed a real GDP growth of 3.8% yoy and 0.1% qoq supported by the private consumption on the demand side, while industry and services were the key drivers on the supply side. On another note, on Tuesday (1 July) it's NBR monetary meeting. In our view, the key interest rate would remain at its current level (3.5%), as the NBR should refrain from reducing the monetary policy rate given the uncertainty related to weather conditions and to dynamics of food prices. According to a NBR official (not disclosed) quoted by the media, the key rate cutting cycle might be restarted from autumn if the inflation rate would be projected to end 2014 at below 3%. However, as the NBR does not sterilize the liquidity excess in the money market, current money market interest rates are now consistent with a level of a monetary policy rate of 2.75%-3%.

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

Russia (RU) – Key macro indicators did not show any significant improvement in May. Acceleration of IP (+2.8% yoy) was driven purely by statistical effects. We stick to our forecast of zero IP growth in 2014. Investments continued to decrease (-2.6% yoy in May (RUB neutral)). We expect the downward trend to continue this year although there could be some positive input from the initiation of several infrastructure projects in H2 2014. We forecast that in 2014 investments will decrease by around 6% yoy. Retail sales growth continued to decelerate (+2.1% yoy). We consider the decrease of food-segment sales for the first time in several years (-0.3% yoy) as rather disturbing signal, especially taking into account that the growth of nominal and real wages even accelerated in May (to 13% yoy and 5% yoy accordingly). We do not consider acceleration in non-food as a stable one (+4% yoy). We see fundamental risks for slower consumption growth in the near future and expect retail sales growth at 1.8% in 2014. Given weak data we are not surprised by preliminary official estimates of GDP growth in May at 1.3% yoy (zero seasonally adjusted growth). We stick to our forecast of slightly negative GDP growth in 2014 (-0.3%).

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

Monetary policy and money markets overview

CEE key interest and money markets outlook

Poland	curr.*	Sep-14	Dec-14	Mar-15	5y high	5y low
Key interest rate (% eop)	2.50	2.50	2.50	2.50	4.75	2.50
1 m money market rate (% eop)	2.51	2.62	2.62	2.63	4.82	2.40
3m money market rate (% eop)	2.58	2.72	2.72	2.77	5.04	2.51
6m money market rate (% eop)	2.60	2.74	2.80	2.92	5.07	2.51
Hungary						
Key interest rate (% eop)	2.30	2.20	2.20	2.20	9.50	2.30
1 m money market rate (% eop)	2.30	2.40	2.40	2.40	9.60	2.30
3m money market rate (% eop)	2.34	2.60	2.65	2.70	9.66	2.34
6m money market rate (% eop)	2.35	2.65	2.75	2.85	9.69	2.35
Czech Republic						
Key interest rate (% eop)	0.05	0.05	0.05	0.05	1.50	0.05
1 m money market rate (% eop)	0.03	0.05	0.05	0.20	1.56	0.03
3m money market rate (% eop)	0.04	0.10	0.20	0.35	1.80	0.04
6m money market rate (% eop)	0.42	0.10	0.30	0.50	2.32	0.42
Romania						
Key interest rate (% eop)	3.50	3.50	3.50	3.50	9.50	3.50
1 m money market rate (% eop)	1.83	2.20	2.60	2.80	11.49	1.11
3m money market rate (% eop)	2.18	2.40	2.65	2.85	10.62	1.69
6m money market rate (% eop)	2.39	2.40	2.60	2.70	10.31	2.20
Russia						
Key interest rate (% eop)	7.50	7.50	7.00	7.00	7.50	5.50
1 m money market rate (% eop)	9.17	9.70	8.85	8.60	10.97	3.23
3m money market rate (% eop)	9.47	9.80	9.30	9.10	12.33	3.73
6m money market rate (% eop)	9.71	10.00	9.50	9.30	13.16	4.12
Turkey						
Key interest rate (% eop)	8.75	8.25	7.75	7.75	10.00	4.50
1 m money market rate (% eop)	9.04	9.30	9.00	8.80	11.99	4.61
3m money market rate (% eop)	9.04	9.50	9.20	9.10	12.15	4.74
6m money market rate (% eop)	9.12	9.50	9.30	9.20	12.48	5.12
Benchmark key rates (% eop)						
ECB key interest rate (% eop)	0.15	0.15	0.15	0.15	1.50	0.15
Fed key interest rate (% eop)	0.09	0.25	0.25	0.50	0.31	0.01

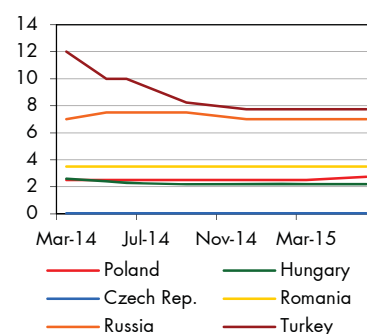
* Bid rates (for Hungary ask rates) as of 27 June 2014, 09:56 a.m. CET ; ** under revision
Source: Bloomberg, Raiffeisen RESEARCH

Central bank watch

Poland (NBP)	In contrast to market pricing, we do not expect resumption of rate cutting cycle at July's MPC meeting, whilst inflation report crucial for the decision.
Hungary (MNB)	Following another rate cut recently, continuation of rate cutting cycle expected, which is also underlined by new CB forward guidance.
Czech Republic (CNB)	CNB should stick to exit its FX intervention regime until late-2015, whilst quasi-zero-rate environment likely to prevail throughout 2015
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 in an attempt to boost lending.
Serbia (NBS)	NBS slashed base rate by another 50 bp recently. Rate cutting cycle should continue in measured steps.
Russia (CBR)	Given the recent deterioration in Russia's risk profile and deterioration in the inflation outlook risks to the partly reversal of crisis-induced rate hikes became tilted to the upside.
Turkey (TCMB)	Another surprise rate cut paves the way for complete reversal of emergency rate hike back in January. In light of still high inflation, however, risky. However, we expect additional cuts amounting to 100bp on a 6m horizon in line with decreasing inflation, but assuming no escalation in Iraq.

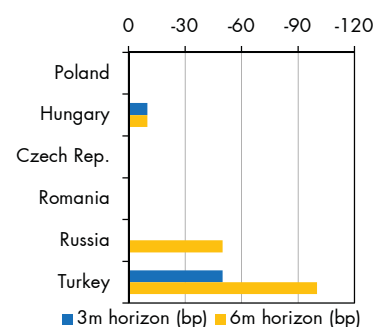
Source: Bloomberg, Reuters, Raiffeisen RESEARCH

Key rate trends (%)



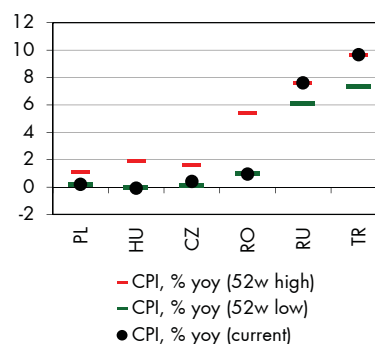
Source: Bloomberg, Raiffeisen RESEARCH

Key rate forecast (chg., bp)



Source: Bloomberg, Raiffeisen RESEARCH

Inflation snapshot



Source: Bloomberg, Raiffeisen RESEARCH

Rate setting meetings

	Jun	Jul
Poland (NBP)	4	2
Hungary (MNB)	24	22
Czech Rep. (CNB)	26	31
Romania (BNR)	-	1
Serbia (NBS)	12	10
Russia (CBR)	16	25
Turkey (TCMB)	24	17

Source: National Central Banks, Raiffeisen RESEARCH

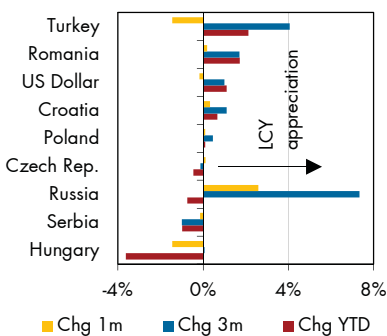
Foreign exchange market overview

FX forecasts

EUR vs	current ¹	Sep-14	Dec-14	Mar-15	5y high	5y low	Comment
PLN	4.15	4.15	4.10	4.05	4.57	3.83	PLN regained strength but may remain relatively volatile due to the approaching MPC meeting
HUF	308.4	310.0	315.0	315.0	320.4	261.3	The underperformance of the HUF is supported by the MNB actions
CZK	27.46	27.30	27.20	27.20	27.69	23.99	Central bank sees intervention regime active at least until Q2 2015
RON	4.39	4.42	4.45	4.40	4.64	4.06	Appreciation potential limited although sentiment of foreign investors improved
HRK	7.57	7.64	7.68	7.66	7.67	7.18	Next week we see EUR/HRK rate in 7.560-7.590 range.
RSD	115.7	115.0	117.0	118.0	119.1	92.4	NBS should prevent major volatility; EUR/RSD to remain in the range of 115-116
RUB	45.80	47.88	48.11	48.68	50.96	37.45	see rouble basket below
UAH	16.14	15.31	14.95	14.69	17.65	9.47	see USD/UAH below
BYR	13,906	14,388	14,950	15,470	13,945	3,607	see USD/BYR below
TRY	2.90	2.77	2.73	2.80	3.19	1.91	see USD/TRY below
USD	1.36	1.32	1.30	1.30	1.51	1.20	
USD vs	current ¹	Sep-14	Dec-14	Mar-15	5y high	5y low	Comment
RUB	33.64	36.28	37.00	37.44	36.63	27.28	see rouble basket below
UAH	11.85	11.60	11.50	11.30	12.71	7.63	UAH stable below 12 against USD
BYR	10,210	10,900	11,500	11,900	10,210	2,711	Steady BYR depreciation to continue throughout 2014
TRY	2.13	2.10	2.10	2.15	2.34	1.40	Stronger than expected rate cut with limited effect on TRY
RUB basket	39.11	41.50	42.00	42.50	43.07	32.94	Expectation for RUB returning to longer-term depreciation trend as uncertainties have been priced out since March

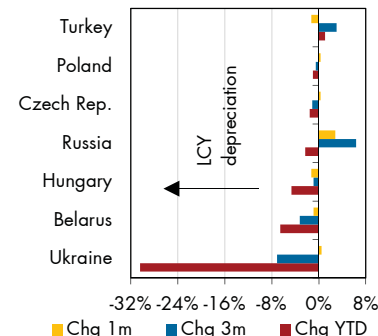
¹ as of 27 June 2014, 09:50 a.m. CET;
Source: Bloomberg, Raiffeisen RESEARCH

Change of LCY value to EUR (%)



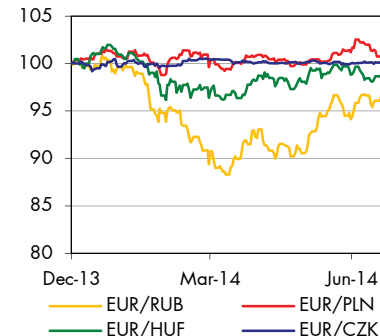
Source: Bloomberg

Change of LCY value to USD (%)



Source: Bloomberg

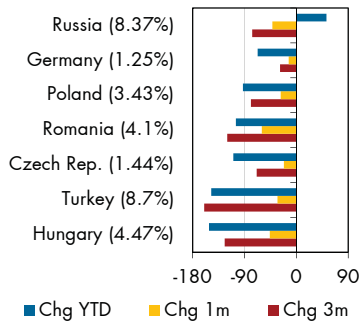
Exchange rate comparison



Indexed December 2013 = 100
Source: Bloomberg

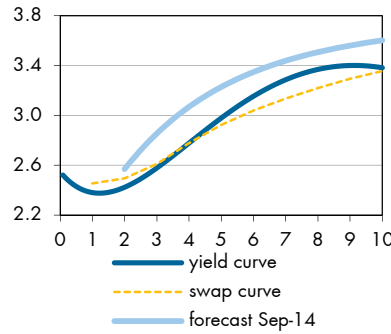
Local currency bond market overview

Change of LCY 10y bond yields (bp)



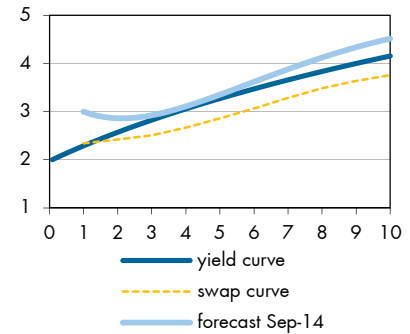
Source: Bloomberg

PLN yield curve



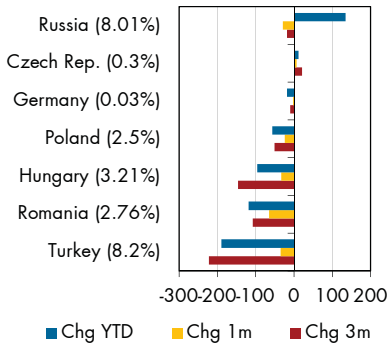
Source: Bloomberg

HUF yield curve



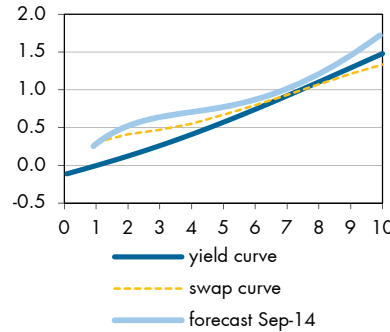
Source: Bloomberg

Change of LCY 2y bond yields (bp)



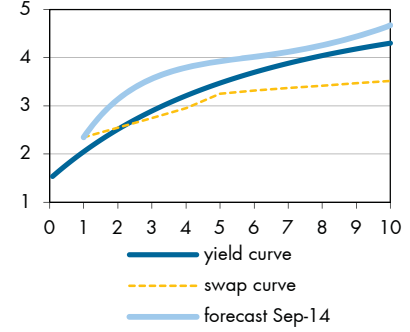
Source: Bloomberg

CZK yield curve



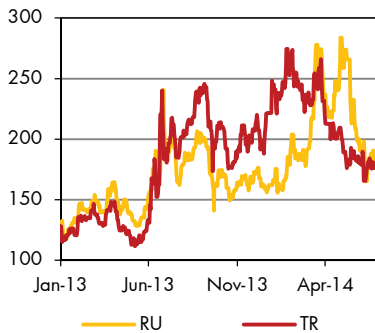
Source: Bloomberg

RON yield curve



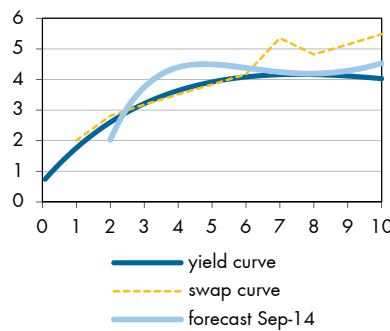
Source: Bloomberg

5y USD CDS spreads



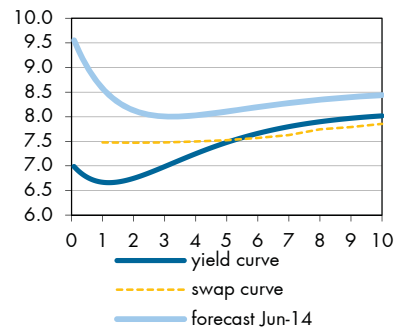
Turkey 5y high 343.7, 5y low 111.7; Hungary 5y high 735, 5y low 167.1; Russia 5y high 375.5, 5y low 118.7
Source: Bloomberg, Raiffeisen RESEARCH

HRK yield curve



Source: Bloomberg

RUB yield curve



Source: Bloomberg

Yield forecasts

	2y T-bond yields (%)						10y T-bond yields (%)						
	current*	Sep-14	Dec-14	Mar-15	5y high	5y low	current*	Sep-14	Dec-14	Mar-15	5y high	5y low	
Poland	2.46	2.6	3.0	3.4	5.4	2.5	Poland	3.41	3.6	3.9	4.3	6.4	3.1
Hungary	3.07	2.9	2.9	3.0	10.2	2.9	Hungary	4.34	4.5	4.8	5.0	10.7	4.3
Czech Rep.	0.24	0.3	0.3	0.5	2.9	0.0	Czech Rep.	1.40	1.7	2.0	2.2	5.2	1.4
Romania	2.55	3.2	3.5	3.9	7.3	2.7	Romania	4.33	4.7	5.0	5.4	7.6	4.4
Croatia	2.47	3.2	3.5	3.5	9.7	2.4	Croatia	4.06	4.5	4.5	4.5	8.4	4.1
Russia	7.71	8.3	8.0	8.0	8.7	5.5	Russia	8.30	8.9	8.8	9.4	9.7	6.5
Turkey	8.08	8.6	8.7	8.6	12.4	4.9	Turkey	8.64	9.0	9.5	9.7	11.0	6.0
Eurozone	0.03	0.1	0.1	0.2	1.9	-0.1	Eurozone	1.25	1.5	1.8	2.0	3.5	1.2
USA	0.46	0.6	0.8	1.2	1.3	0.2	USA	2.52	2.9	3.3	3.5	4.0	1.4

* Ask yields as of 27 June 2014, 09:51 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	25.07.2016	0.00	95.12	2.45	245	2.1	LCY government bond yields will probably keep low until July's MPC's meeting despite latest political volatility. In case of no interest rate cut (not our baseline) slight upward correction may occur.
PLN 5y Gov. Bond	25.07.2019	3.25	101.19	2.99	299	4.6	
PLN 10y Gov. Bond	25.10.2023	4.00	104.69	3.40	340	7.8	
Hungary							
HUF 3y Gov. Bond	25.04.2018	4.00	104.02	2.87	287	3.6	MNB redesigned MP framework also aimed at strengthening resident demand for HUF bonds. This and the increasing likelihood of more MP easing locally, but also by the ECB should lend continued support to HGBs.
HUF 5y Gov. Bond	24.06.2019	6.50	115.17	3.16	316	4.5	
HUF 10y Gov. Bond	24.06.2025	5.50	111.71	4.15	415	8.7	
Czech Republic							
CZK 2y Gov. Bond	11.04.2015	3.80	102.96	0.00	0	0.8	Czech government bond yields to remain stable in the short run given that cyclical rise in BUND yields is very likely to come later than initially anticipated.
CZK 5y Gov. Bond	11.04.2019	5.00	121.23	0.49	49	4.4	
CZK 10y Gov. Bond	25.05.2024	5.70	139.35	1.41	141	8.2	
Croatia							
HRK 5y Gov. Bond	10.07.2018	5.25	105.68	3.72	372	3.6	Next week on the domestic bond market we expect upward pressure on prices/reduction in yields due to record low yields in the international markets
HRK 8y Gov. Bond	05.03.2020	6.75	113.50	4.06	406	4.9	
Romania							
RON 3y Gov. Bond	26.07.2017	5.90	108.71	2.90	290	2.8	ROMGB market remains fairly stable; the bulk of the increase in longer tenors to come with a delay, whilst extent should be relatively moderate.
RON 5y Gov. Bond	26.07.2017	5.90	108.71	2.90	290	2.8	
Russia							
RUB 2y Gov. Bond	11.05.2016	6.00	97.10	7.83	783	1.8	Consolidation of OFZ market is set to hold only in the short run with especially longer tenors to face increasing pressure from US rate hike speculations, but also expected RUB depreciation as the year progresses.
RUB 5y Gov. Bond	03.08.2016	6.90	98.30	7.94	794	1.9	
RUB 10y Gov. Bond	24.11.2021	7.00	91.00	8.42	842	5.7	
Turkey							
TRY 2y Gov. Bond	24.02.2016	10.70	104.00	8.08	808	1.6	TRY debt market, especially front end of the curve, performed much better than we expected on rate cut speculations; given upcoming presidential elections and the building-up Iraq conflict, however, political risks overly priced-out we believe.
TRY 5y Gov. Bond	14.02.2018	6.30	94.20	8.17	817	3.3	
TRY 10y Gov. Bond	20.03.2024	10.40	111.20	8.68	868	6.6	

Prices as of 27 June 2014, 10:13 a.m. CET;
Source: Bloomberg, Raiffeisen RESEARCH

Bond auctions

		ISIN	Coupon	Maturity	Volume
03 July 2014					
PL	T-bonds	n.a.	n.a.	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	BBB-	BBB-	stable	Baa3	Baa3	stable	BBB	BBB-	stable
Bulgaria	BBB-	BBB-	stable	Baa2	Baa2	stable	BBB	BBB-	stable
Croatia	BB	BB	stable	Ba1	Ba1	negative	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+	negative	Baa2	Baa2	positive	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

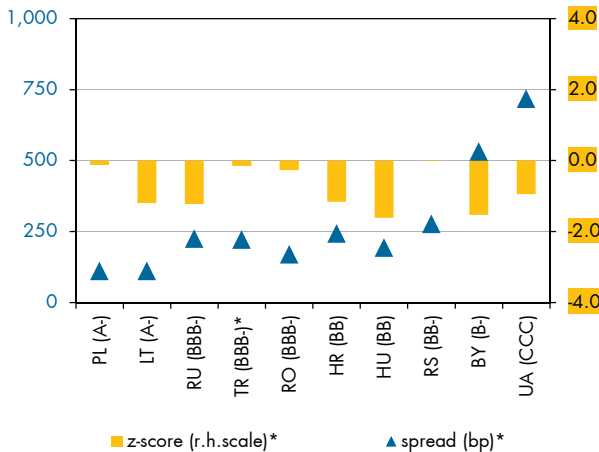
Main macro data & forecasts*

Country	Year	GDP, % avg. yoy	CPI, % avg. yoy	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	2013	-0.9	2.2	17.2	1044	-4.9	67.4	21.1	1.3	105.8	28.3	10.0
	2014e	-0.8	0.6	17.4	1030	-4.8	70.8	22.3	1.2	106.6	27.5	9.6
	2015f	1.0	2.0	17.2	1030	-4.5	73.2	22.2	0.7	104.2	27.6	9.6
Czech Rep.	2013	-0.9	1.4	7.7	967	-1.5	46.0	68.3	-1.4	54.2	50.3	5.2
	2014e	2.6	0.8	7.5	942	-1.5	45.7	75.5	0.4	55.6	51.3	4.9
	2015f	2.4	2.2	7.4	980	-2.5	46.5	79.0	0.3	53.9	52.3	4.7
Hungary	2013	1.1	1.7	10.4	778	-2.3	79.2	83.6	3.0	123.5	27.3	5.3
	2014e	2.7	0.7	7.4	783	-2.8	81.5	85.8	3.4	118.2	28.2	5.1
	2015f	2.5	3.0	6.2	794	-2.9	81.0	87.7	3.5	112.6	27.2	4.6
Poland	2013	1.6	0.9	13.6	870	-4.3	57.0	40.1	-1.3	70.8	28.0	6.0
	2014e	3.3	0.4	13.1	909	-3.3	50.7	42.0	-1.1	69.2	29.6	6.1
	2015f	3.3	2.3	12.7	987	-2.9	50.4	44.0	-2.1	68.0	29.9	5.6
Romania	2013	3.5	4.0	7.3	490	-2.3	38.4	34.8	-1.1	67.5	33.9	7.4
	2014e	3.5	1.9	7.2	510	-2.5	38.5	36.0	-2.0	62.8	33.2	6.4
	2015f	3.5	3.0	7.1	539	-2.3	38.2	36.7	-2.5	61.3	32.5	5.9
Russia	2013	1.3	6.8	5.6	692	-1.0	11.3	24.9	1.6	34.1	63.7	15.9
	2014e	-0.3	6.7	5.8	685	-0.5	11.5	26.3	2.3	39.0	58.6	16.3
	2015f	1.0	5.3	5.8	725	-0.4	12.0	26.0	2.0	39.3	55.8	15.3
Ukraine	2013	0.0	-0.2	7.5	313	-6.5	40.3	36.1	-9.1	78.9	11.9	2.4
	2014e	-7.0	11.3	8.5	260	-7.0	54.0	49.6	-3.0	106.8	11.9	2.4
	2015f	1.5	9.0	8.0	284	-4.5	54.5	50.7	-3.1	98.0	12.8	2.3
Turkey	2013	4.1	7.5	9.5	351	-2.2	39.4	19.6	-7.8	45.0	28.6	5.3
	2014e	3.5	8.5	9.5	330	-2.5	38.5	20.3	-6.3	52.5	24.7	5.4
	2015f	4.0	7.4	9.0	371	-2.5	38.0	18.9	-6.0	48.4	21.5	4.7

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

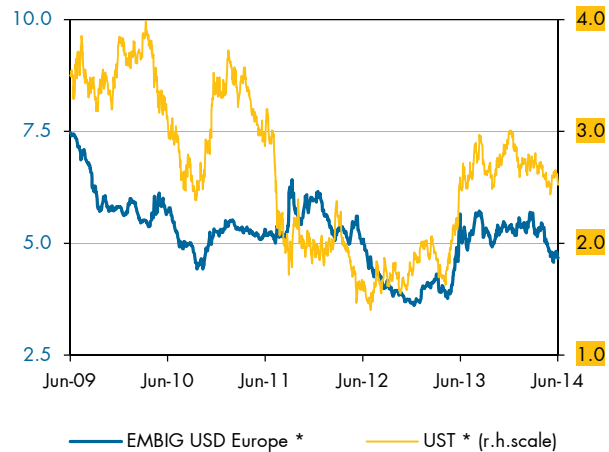
Eurobond market overview

CEE USD EMBIG spread valuation*



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

CEE EMBIG USD vs. UST YTM*



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

Issuer/rate/du	Market Price				YTM mid. % p. a.	Spread vs. Bmk, bp	Mdur. years	ISIN	
	Bid	Ask	w/w %	5y max					
EUR									
BGARIA 4 1/4 07/09/17	108.0	108.3	-0.16	110.5	100.3	1.49	140	2.8	XS0802005289
CROATI 6 1/2 01/05/15	102.8	103.0	-0.08	112.7	97.5	0.76	75	0.5	XS0431967230
CROATI 5 7/8 07/09/18	111.4	111.7	-0.38	112.2	87.7	2.80	258	3.4	XS0645940288
REPHUN 3 1/2 07/18/16	103.5	104.0	-0.22	104.0	77.1	1.61	157	1.9	XS0240732114
REPHUN 5 3/4 06/11/18	113.4	114.1	-0.23	113.8	76.0	2.09	188	3.6	XS0369470397
REPHUN 6 01/11/19	115.7	116.7	-0.29	116.2	77.9	2.20	189	4.0	XS0625388136
LITHUN 4.85 02/07/18	112.6	113.6	-0.27	113.2	85.9	1.11	95	3.3	XS0327304001
POLAND 3 5/8 02/01/16	105.2	105.4	-0.17	109.0	89.2	0.26	23	1.5	XS0242491230
POLAND 1 5/8 01/15/19	102.8	103.2	0.05	103.0	98.0	0.94	63	4.3	XS0874841066
POLAND 3 3/4 01/19/23	114.5	115.2	0.02	114.9	99.5	1.85	84	7.3	XS0794399674
POLAND 3 3/8 07/09/24	110.2	110.9	-0.10	110.7	99.3	2.19	92	8.3	XS0841073793
ROMANI 5 1/4 06/17/16	107.9	108.0	-0.11	109.2	95.5	1.15	112	1.9	XS0638742485
ROMANI 4 7/8 11/07/19	113.3	114.1	-0.02	113.7	99.0	2.13	171	4.6	XS0852474336
TURKEY 5 7/8 04/02/19	114.3	114.7	0.17	118.9	96.2	2.59	223	4.2	XS0285127329
TURKEY 5 1/8 05/18/20	111.4	111.9	0.20	115.9	95.2	2.93	244	5.1	XS0503454166
USD									
BGARIA 8 1/4 01/15/15	103.9	104.1	-0.08	120.5	104.0	0.75	70	0.5	XS0145623624
BELRUS 8 3/4 08/03/15	102.8	103.7	-0.14	106.1	70.7	5.60	547	1.0	XS0529394701
BELRUS 8.95 01/26/18	107.6	108.6	0.13	111.2	70.0	6.37	527	2.9	XS0583616239
CROATI 6 3/8 03/24/21	110.4	111.0	0.24	117.8	86.7	4.51	245	5.4	XS0607904264
CROATI 5 1/2 04/04/23	104.5	105.1	0.35	108.6	94.4	4.83	246	6.9	XS0908769887
REPHUN 5 3/8 02/21/23	108.0	108.5	1.32	108.2	93.1	4.22	187	6.8	US445545AH91
REPHUN 7 5/8 03/29/41	128.0	128.8	1.41	128.6	79.5	5.57	235	12.8	US445545AF36
LITHUN 7 3/8 02/11/20	122.4	123.0	-0.02	130.7	98.8	2.95	115	4.6	XS0485991417
LITHUN 6 5/8 02/01/22	121.1	121.7	0.05	128.6	101.0	3.40	119	6.0	XS0739988086
LATVIA 2 3/4 01/12/20	98.7	99.3	-0.12	101.1	91.4	2.95	118	5.0	XS0863522149
LATVIA 5 1/4 06/16/21	112.2	112.8	-0.28	117.2	90.9	3.23	110	5.9	XS0638326263
POLAND 3 7/8 07/16/15	103.5	103.8	0.06	107.8	100.3	0.37	26	1.0	US731011AS13
POLAND 6 3/8 07/15/19	118.7	119.0	0.46	125.9	101.4	2.38	73	4.3	US731011AR30
POLAND 3 03/17/23	97.0	97.4	1.12	101.1	87.6	3.37	101	7.5	US731011AT95
ROMANI 6 3/4 02/07/22	119.5	120.0	0.14	124.4	99.2	3.73	152	6.0	US77586TAA43
ROMANI 4 3/8 08/22/23	102.6	103.1	0.21	105.5	90.8	4.00	158	7.4	US77586TAC09
RUSSIA 4 1/2 04/04/22	103.4	104.1	1.74	114.7	94.1	3.94	170	6.5	XS0767472458
RUSSIA 7 1/2 03/31/30	116.6	116.7	1.03	128.7	97.6	4.04	128	4.6	XS0114288789
RUSSIA 5 5/8 04/04/42	105.8	106.7	3.38	124.9	89.0	5.20	194	14.2	XS0767473852
SERBIA 5 1/4 11/21/17	103.9	104.7	-0.82	107.1	96.8	3.89	285	3.1	XS0856951263
SERBIA 4 7/8 02/25/20	100.6	101.4	-1.39	103.9	89.6	4.67	287	4.8	XS0893103852
TURKEY 6 1/4 09/26/22	112.7	113.4	0.85	127.0	101.0	4.34	204	6.4	US900123BZ27
TURKEY 6 7/8 03/17/36	117.2	117.9	1.35	139.6	92.9	5.48	247	11.8	US900123AY60
TURKEY 6 3/4 05/30/40	116.2	117.1	1.47	139.4	95.0	5.53	235	13.1	US900123BG46
UKRAIN 7 3/4 09/23/20	95.4	96.7	2.29	108.0	80.8	8.58	664	4.7	XS0543783194
UKRAIN 7.8 11/28/22	94.6	95.5	3.99	106.6	79.3	8.64	632	6.0	XS0858358236
UKRAIN 7 1/2 04/17/23	94.1	95.2	3.85	101.7	78.8	8.37	600	6.2	XS0917605841

* w/w - week on week, 5y - 5 year, YTM mid - yield to maturity based on mid market price, Bmk - benchmark, Mdur - modified duration, ISIN - international security identification number; prices as of 27 June 2014, 08:45 a.m. CET
Source: Bloomberg, Raiffeisen RESEARCH

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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Bonds

Recommendations history: Local currency government bonds (B: buy; H: hold; S: sell; I: no change)*

Date of change	CZ			CZK	HU			HUF	PL			PLN	RO			RON	RU			RUB	TR			TRY
	2y	5y	10y		2y	5y	10y		2y	5y	10y		2y	5y	10y		2y	5y	10y		2y	5y	10y	
19/03/2014	Hold	Hold	Hold	Buy	Hold	Hold	Sell	Sell	Hold	Hold	Sell	Buy	Hold	Hold	Hold	Buy	Buy	Hold	Sell	Buy	Hold	Buy	Hold	
02/05/2014	I	I	I	I	I	I	Hold	Hold	Buy	Buy	Buy	I	I	I	I	I	I	I	I	I	I	I	I	
14/05/2014	Buy	Buy	Buy	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	
20/06/2014	Hold	Hold	Hold	Hold	I	I	I	Sell	Hold	Hold	Hold	I	I	I	I	Sell	Sell	Sell	I	I	I	I	Hold	

* recommendations based on absolute expected performance in LCY; TRY vs. USD; RUB vs. Basket; other FX vs. EUR; Source: Raiffeisen RESEARCH

Recommendations history: Sovereign Eurobonds (B: buy; H: hold; S: sell; I: no change)*

Date of change	BG		HR		CZ		HU		PL		RO		RU	
	EUR	USD	EUR	USD	EUR	USD	EUR	USD	EUR	USD	EUR	USD	EUR	USD
19/03/2014	Hold	-	Sell	Sell	Hold	Hold	Buy	Hold	Hold	Hold	Hold	Hold	Hold	Buy
29/04/2014	I	-	I	I	I	I	I	Buy	I	I	Buy	Buy	Sell	Sell
20/06/2014	I	-	I	I	I	I	I	I	Buy	I	Hold	Hold	Hold	Hold

* recommendations based on absolute expected performance, i.e. expected spread change; Source: Raiffeisen RESEARCH

Recommendations history: Sovereign Eurobonds (B: buy; H: hold; S: sell; I: no change)*

Date of change	RS		SK		SI		TR		UA		BY	
	EUR	USD	EUR	USD	EUR	USD	EUR	USD	EUR	USD	EUR	USD
19/03/2014	-	Hold	-	-	-	-	Buy	Hold	Sell	Sell	-	Hold
29/04/2014	-	I	-	-	-	-	Hold	I	I	I	-	I
20/06/2014	-	Buy	-	-	-	-	Buy	I	Hold	I	-	I

* recommendations based on absolute expected performance, i.e. expected spread change
Source: Raiffeisen RESEARCH

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