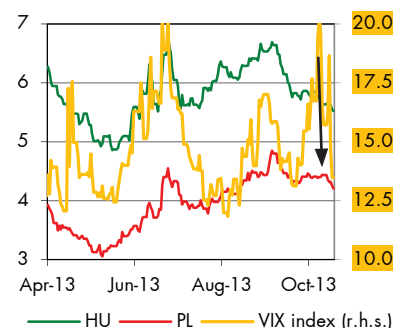


## Risk sentiment boosted recently\*



\*10y yields HU & PL vs. risk aversion (VIX index)  
Source: Bloomberg

## Market snapshot

	curr.*	Dec-13	Mar-14	Jun-14
<b>Poland</b>				
EUR/PLN	4.17	4.15	4.10	4.00
Key rate	2.50	2.50	2.50	2.50
10y bond	4.2	4.6	4.6	4.7
<b>Hungary</b>				
EUR/HUF	294.5	300	305	300
Key rate**	3.60	3.50	3.20	3.20
10y bond	5.4	6.5	6.8	6.5
<b>Czech Rep.</b>				
EUR/CZK	25.7	25.5	25.4	25.1
Key rate	0.05	0.05	0.05	0.05
10y bond	2.4	2.6	2.8	3.1
<b>Romania</b>				
EUR/RON	4.45	4.50	4.45	4.50
Key rate	4.25	3.75	3.50	3.50
10y bond	5.0	5.0	5.0	5.1
<b>Croatia</b>				
EUR/HRK	7.62	7.60	7.57	7.48
Key rate	6.25	6.00	6.00	6.00
10y bond	4.8	5.5	5.6	5.6
<b>Russia</b>				
USD/RUB	31.9	33.0	32.5	33.2
Key rate	8.25	5.25	5.25	5.25
10y bond	7.3	7.2	7.0	7.3
<b>Turkey</b>				
USD/TRY	1.97	1.95	2.00	2.10
Key rate	4.50	4.50	5.00	5.50
10y bond	8.6	9.2	9.7	10.0
<b>EUR/USD</b>				
	1.37	1.30	1.31	1.29

\* prices as of 18 October 2013, 10:56 a.m. CET

\*\* under revision

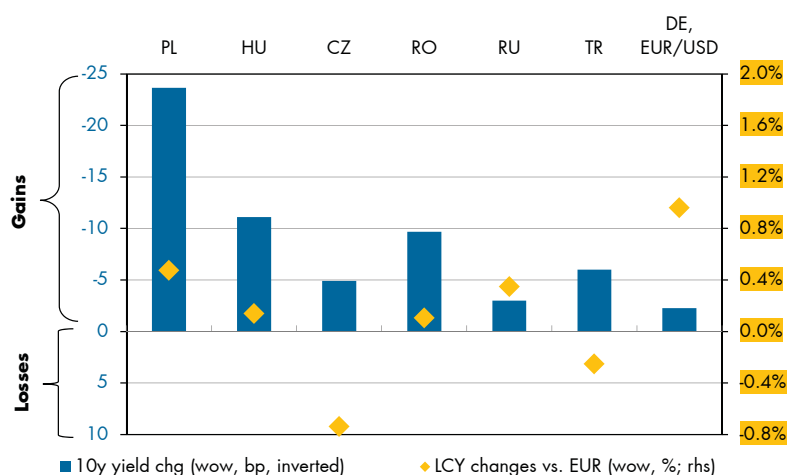
Source: Thomson Reuters, Raiffeisen RESEARCH

## CEE: Local market moves in line with global sentiment

Given this week's thin data calendar with mainly second tier data in the pipeline, CEE assets followed the ups and downs of global markets. Net-net, CEE local currency bond and FX markets saw some strengthening, with Romanian and Hungarian debt managers successfully tapping local markets. CEE Eurobonds also experienced a certain rally in recent weeks, mostly driven by global market moves. Although this recovery seems to be a bit exhausted, we still see some attractive relative plays on the CEE Eurobond market (see the Focus on section on page 2). One exception from the overall favourable moves for CEE assets was the Czech koruna, which lost further ground versus EUR on renewed comments from central bankers pointing to alternative monetary easing measures, i.e. FX interventions. In addition, increasing political uncertainty added to a weakening bias for Czech assets with parliamentary elections being the main domestic event next week (25-26 October).

In other CEE countries some news from the political front are also worth mentioning, including the EC's annual EU candidate country reports, the rejection of a second no-confidence vote by the Bulgarian parliament and the commitment by the Serbian Finance Minister to sign a precautionary deal with the IMF next year (see country sections). Given the still spicy interlude between fiscal risks and easing inflationary pressures in the Serbian economy, the market is divided about the outcome of today's rate setting meeting (we expect a 25bp rate cut). In contrast the outcome in Turkey seems to be easier to anticipate, since the recent strengthening of Turkish lira markets and the central bank's preference to keep rates on hold let us expect stable rates at next week's MPC meeting.

## Last week's changes



Source: Bloomberg, Raiffeisen RESEARCH

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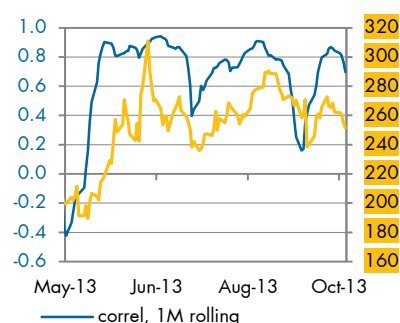
## Data highlights upcoming week

Date		Indicator	Period	est.	High	Mean	Low	Prev.
18-Oct	RS	Key rate, %	Oct	10.75	11.00	10.75	10.50	11.00
20-Oct	HU	Economic Sentiment	Oct	n.a.	n.a.	n.a.	n.a.	-11.6
22-Oct	PL	Retail sales, % yoy	Sep	3.3	5.8	4.7	3.3	3.4
23-Oct	TR	Benchmark repurchase rate, %	Oct	4.5	4.5	4.5	4.5	4.5
24-Oct	CZ	Business Confidence	Oct	n.a.	n.a.	n.a.	n.a.	5.1

Source: Bloomberg, Raiffeisen RESEARCH

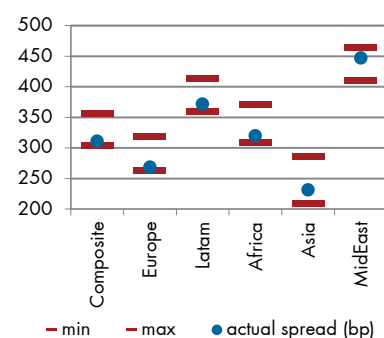
## Focus on: CEE Eurobond market – calm after the storm?

### Perfect correlation returned\*



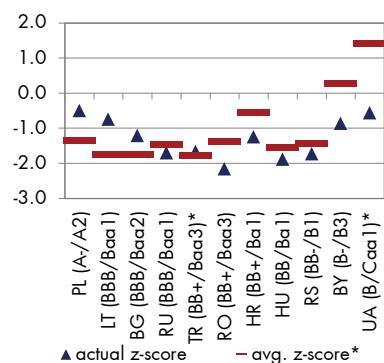
\* 1M - 1 month rolling, EMBIG Europe yield minus 10Y UST yield  
Source: Thomson Reuters, Raiffeisen RESEARCH

### Aggregated EM spread by region\*



\* EMBIG USD sovereign spread in basis points, min/max for July-to-date  
Source: Thomson Reuters, Raiffeisen RESEARCH

### Volatility depletes valuations\*



\* EMBIG USD aggregate spreads, z-scores (points) normalised by 1 standard deviation, avg - average z-score 1m rolling month-on-month  
Source: Thomson Reuters, Raiffeisen RESEARCH

After the period of market overreaction to the risk of QE tapering by the Fed, the situation changed in September. The Fed's decision to postpone policy tightening measures shifted QE tapering risks towards the end of 2013. **The emerging debt markets reaped the benefits of the resulting drop in UST yields, leading to declines in risk premia on the Eurobond markets.** The earlier spread widening observed in August was fully reversed in September and early October in all of the EM regions, except the Middle East where spreads remained 13bp above their July peak as measured by the EMBIG spread for regional constituencies.

The Eastern European (CEE) portion of EMBIG index rallied 43bp in September-October, largely mirroring the performance of other EM peers during the same period. **Shrinking risk aversion and increasing fund inflows to Emerging Markets ignited more optimism in primary Eurobond markets.** In September, the primary market received the long-awaited USD 7 bn issue from Russia and a EUR 1.5 bn issue from Romania. Both placements were heavily oversubscribed. **However, EM fund flows were not fully restored and remained pretty volatile this fall.** Fund flow surveys conducted by global banks and EPFR show the return of EM funds. However, one observation reveals the continued outflow of retail funds from the EM marketplace whereas net inflows in September came mainly from institutional buyers. The same surveys reveal that investors favoured local currency debt over hard currency debt. Furthermore, the start of October saw a reversal of fund inflows putting a question mark on the market recovery. **The resolution of the budget impasse in the USA will apparently help bring back a positive trend.** Still, a few questions will need to be answered with regards to the outlook for the CEE Eurobond market.

**First of all, the 2014 economic outlook features more divergence between developed and EM economies,** with the latter expected to see smaller growth differential as measured versus developed markets while more EM will be marred by the problems of renewed growth in imbalances and smaller capital inflows from abroad. Secondly, it is no secret that many EM economies including CEE rely on a capital-intensive growth model, while higher market risk and slower recovery across EM are likely to push investors to seek more stable returns in developed markets. Meanwhile, the growth pass-through impact from developed markets via the export trade channel for EM will be delayed too, due to lagging effect. **Thirdly, the difficult economic and financial environment prompted a number of CEE governments to accumulate new imbalances and subsequently affected their financial position.** The resulting deterioration has led to sovereign rating downgrades for Croatia and Ukraine triggering negative re-pricing of their risk. The average CEE rating remains under negative pressure, with just three countries receiving positive outlooks while eight countries have been put on negative watch. **Moreover, the recent downgrades drag down the rating path, leading us to believe that the average CEE rating stands closer to BB at the moment and is unlikely to improve in the near future.**

Last but not least, during the market sell-off a number of CEE sovereigns postponed their issuance plans due to poor market conditions. **Consequently, we will see a larger number of sovereign placements if market conditions remain conducive in Q4.** Hungary and Poland have already preannounced issuance plans for October, while we expect Croatia, Slovenia and perhaps even Ukraine to fol-

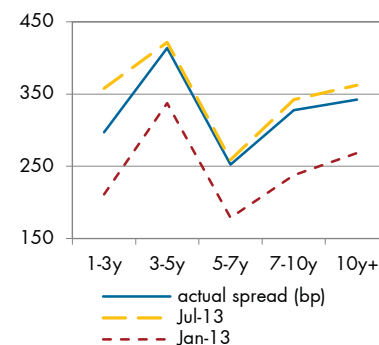
low. The resulting supply can bring a "crowding-in" impact, weakening the overall technical picture for CEE.

In this context, CEE will suffer from a combination of slower growth and higher funding needs and costs putting pressure on CEE governments, consequently affecting their Eurobond spreads. Additionally, commodity-exporting countries might face the risk of lower prices on international markets reducing export inflows. Still, a few factors might work to the advantage of EM and CEE. **One important observation we make is that the Eurobond market technical picture was strengthened by the last sell-off, since few sovereigns came to the market.** During that time, EM funds remained net sellers of risk leading to lighter EM exposure. The situation might also be aided by about USD 8 bn of cash payments in coupons and redemptions from EM scheduled for Q4, which can create additional demand for new instruments. **Still, the EM fund inflows remain relatively limited and cannot compensate for the shortfall experienced during the market sell-off phase.**

In our outlook for the CEE Eurobond market, we take into account the positive technical picture and the expected market rebound during the traditional "pre-Christmas" rally which is likely to be seen in November. Nevertheless, we see such a possibility as short-lived while medium-term outlook might remain bearish, due to mounting rating pressures, weaker FX liquidity in a number of countries, most of all Ukraine and Belarus, and the likely smaller economic growth differential to developed markets in 2014 cancelling some of the CEE appeal for investors. **At the same time, both the IMF and IIF published a bleak outlook for capital flows to Emerging Markets, alleging cyclical and structural problems persisting in EM.** In particular, the IIF foresees smaller capital inflows to CEE in comparison to other EM. Furthermore, the Eurobond market might nosedive again in December when the talk about the likelihood of QE tapering in the USA and the associated risks may resurface. **Despite QE tapering is likely to happen only later in 2014 the approaching risk might impact markets in negative way.** As regards duration preferences influencing the spread curve, we have seen some bullish tightening in the 1-3 year and 7-10+ year segments, whereas the curve belly remained largely unaffected, which we attribute to average portfolio duration strategies. Consequently, assuming portfolio duration strategies remain unchanged, we would expect parallel curve shifts from now on. **Overall, we do not feel overly enthusiastic about a possible rally in CEE Eurobond market, while we find a few good relative value ideas.** We recommend selling Ukraine and long Belarus Eurobonds for a 40bp gain, assuming that Belarus enjoys better financing support from Russia, while Ukraine has fewer financing resources and pretty thin liquidity. In another example, we recommend selling Lithuania and long Polish Eurobonds for an 11bp gain, as the Lithuania spread tightened to the maximum level since May 2013 while we find fundamentals and economic situations favouring Poland.

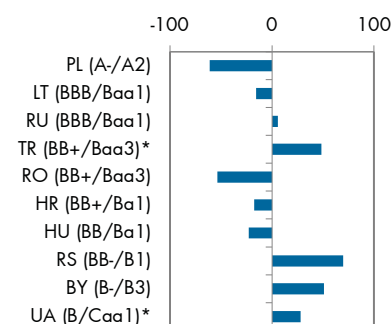
Gintaras Shlizhyus (+43 1 71707 1343)

#### EMBIG duration spread \*



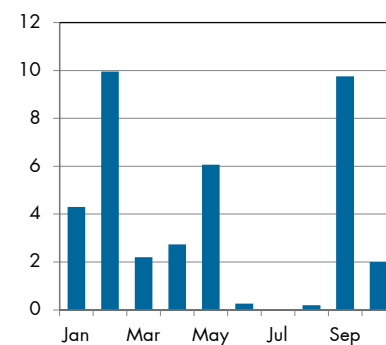
\* EMBIG USD spread in basis points, horizontal scale - maturity brackets in years  
Source: Thomson Reuters, Raiffeisen RESEARCH

#### Rating spread\*



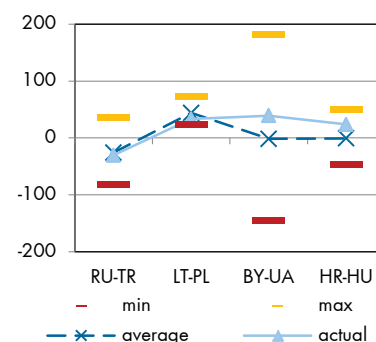
\* rating spread, EMBIG USD spread - sovereign minus rating peer group spread, negative spread i.e. tight pricing inside rating peer group  
Source: Thomson Reuters, Raiffeisen RESEARCH

#### CEE primary market timeline, USD bn\*



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

#### Relative value spreads



\* EMBIG spread differential illustrative for a pair-trade (country aggregates) in basis points  
Source: BondRadar, Bloomberg, Raiffeisen RESEARCH

## Data calendar and country section

This week, previous week: key data releases					Upcoming week: key data releases							
Date	Indicator	Period	Actual	Prev.	Date	Indicator	Period	est.	High	Mean	Low	Prev.
11-Oct	HU CPI, % yoy	Sep	1.4	1.3	18-Oct	RS Key rate, %	Oct	10.75	11.00	10.75	10.50	11.00
11-Oct	TR Unemployment rate, %	Jul	9.3	8.8	20-Oct	HU Economic Sentiment	Oct	n.a.	n.a.	n.a.	n.a.	-11.6
11-Oct	TR Current account, TRY bn	Aug	-2.0	-5.8	20-Oct	HU Business Confidence	Oct	n.a.	n.a.	n.a.	n.a.	-4.8
14-Oct	RU One-week auction rate, %	Oct	5.50	5.50	20-Oct	HU Consumer Confidence Index	Oct	n.a.	n.a.	n.a.	n.a.	-31.0
15-Oct	PL CPI, % yoy	Sep	1.0	1.1	22-Oct	PL Retail sales, % yoy	Sep	3.3	5.8	4.7	3.3	3.4
15-Oct	CZ PPI, % yoy	Sep	0.6	0.5	22-Oct	PL Unemployment rate, %	Sep	13.0	13.1	13.0	12.9	13.0
15-16 Oct	RU Industrial output, % yoy	Sep	0.3	0.1	22-Oct	HR Unemployment rate, %	Sep	19.0	n.a.	n.a.	n.a.	18.4
16-Oct	PL Employment, % yoy	Sep	-0.3	-0.5	23-Oct	BG Gross external debt, EUR bn	Aug	n.a.	n.a.	n.a.	n.a.	37.3
16-Oct	PL Average gross wages, % yoy	Sep	3.6	2.0	23-Oct	TR Benchmark repurchase rate, %	Oct	4.5	4.5	4.5	4.5	4.5
16-Oct	PL Core inflation, % yoy	Sep	1.3	1.4	23-Oct	TR O/N lending rate, %	Oct	7.75	7.75	7.75	7.75	7.75
16-Oct	HR CPI, % yoy	Sep	1.1	1.9	23-Oct	TR O/N borrowing rate, %	Oct	3.5	3.5	3.5	3.5	3.5
17-Oct	PL Industrial output, % yoy	Sep	6.2	2.2	24-Oct	CZ Business Confidence	Oct	n.a.	n.a.	n.a.	n.a.	5.1
17-Oct	PL PPI, % yoy	Sep	-1.4	-1.1	24-Oct	CZ Consumer Confidence Index	Oct	n.a.	n.a.	n.a.	n.a.	-14.3
17-Oct	UA Industrial output, % yoy	Sep	-5.6	-5.4	25-Oct	RS Real wages, % yoy	Sep	n.a.	n.a.	n.a.	n.a.	-1.6
18-21 Oct	RU Real wages, % yoy	Sep	8.2	6.8	25-Oct	TR Capacity utilization, %	Oct	n.a.	n.a.	n.a.	n.a.	75.4
18-21 Oct	RU Retail sales real, % yoy	Sep	3.0	4.0								
18-21 Oct	RU Unemployment rate, %	Sep	5.3	5.2								
18-21 Oct	RU Investment, % yoy	Sep	-1.6	-3.9								

Source: Bloomberg, Raiffeisen RESEARCH

**Poland** – The bond market strengthened last week, amidst political tensions in the USA which weakened the US dollar and cut market expectations for a quick tapering of the QE3 programme. Additionally, domestic macroeconomic data on inflation and industrial output also came out bond positive with CPI at just 1.0% yoy and output up by 6.2% yoy against expectations of 1.2% yoy and 7.1% yoy, respectively. In the coming days the Polish market may continue to be positively influenced by US developments, which should generally support non-dollar assets. Still, for the medium and long term, Polish bonds look bearish and we expect yields to rise.

*Paweł Radwański (+48 22 585 20 00)*

**Hungary** – Hungarian newsflow is extremely quiet these days, with no major macro data publications expected next week either. The bond market is following the ups and downs in global sentiment, although changes in the yield curve stayed in a fairly narrow range. We expect the same phenomenon next week again, unless there is news about the government's plans in relation to the FX-debt scheme. The government gave the banks a deadline of 1 November, but some news leaks might occur.

*Adam Keszeg (+36 1 484 4313)*

**Czech Republic** – CNB board member Lubomir Lizal reiterated that the CNB's forecast implies monetary policy easing using instruments other than interest rates, which are at the zero bound. Although we found nothing new or surprising in the comments, CZK depreciated slightly. The parliamentary elections 25-26 October will be the key domestic event next week. Opinion polls show that Social Democrats together with the Communists might win control of parliament. The result will be important for the Czech Republic convergence story, but as usual the market does not react to Czech politics. At this point, we might repeat that the result is highly uncertain and there might be major difficulties in forming a stable government.

*Michal Brožka (+420 234 40 1489)*

**Slovenia** – As announced in recent days Slovenia wants to shore up its fiscal position with a EUR 395 mn property tax that should be raised already in 2014. Such hectic short-term measures might be related to the IMF Art. IV consultations, which should be finished by the end of October (and definitely the fiscal situation will be discussed there). Although additional budget revenues are one way to shore up the fiscal position we would consider such measures as insufficient so put the fiscal and macroeconomic situation on a sustainable path. The country is still suffering from a downward spiral due to a weak growth outlook (no tangible reforms have taken place up to now compared to other hard hit Euro area Peripherals) and unaddressed banking sector weaknesses. Therefore, we would consider the announced revenue boosting fiscal measures as insufficient to restore investor confidence.

*Gunter Deuber (+431 71707 5707)*

**Romania** – This week, yields for RON government securities decreased by about 16bp on average for short maturities (up to 1y) and between 4bp and 8bp for longer maturities, leading to a somewhat steeper curve. Also, on Thursday the Ministry of Finance (MoF) sold the planned RON 1 bn in a reopened T-bond with a residual maturity of 1.5 years. Due to the



favourable context (abundant liquidity on the money market; strong interest from local players, mainly banks for this segment of the curve; temporary resolution of US fiscal deadlock), demand for the tender was strong, with a bid-to-cover ratio of about 1.8. The MoF accepted to pay 3.48% on average and 3.56% maximum, in line with our expectations for a 3.50-3.55 range. Looking ahead, we expect the current status quo to persist, with a steep yield curve and possible additional decreases for short maturities, at least over the short term.

*Gabriel Bobeica (+40 21 306 1369)*

**Bulgaria** – Bulgaria's Parliament rejected a second no-confidence vote against the Socialist-led coalition government on 17 October. The no-confidence motion was initiated by the former ruling party GERB, over the infrastructure and regional development policies of the government, but it was rejected as 118 MPs voted against, 93 for and 20 abstained. Earlier this month another no-confidence motion was voted on, over the government's investment policies. It was rejected, although no discussion was held at the Parliament, due to lack of quorum. More no-confidence votes are expected in the future, as well. GERB leader Boyko Borisov, announced yesterday that another motion will be submitted – this time for the failure of the government in the field of culture policy. Meanwhile, street protests have been subsiding and the government hopes that the envisaged budget deficit, social benefits, reimbursement of arrears until the end of the year, and an increase in the minimum wage in the beginning of 2014 will further ameliorate public dissatisfaction.

*Hristina Vidinova (+359 2 91985-101)*

**Croatia** – On the domestic bond market, kuna-denominated papers are in focus again since a few T-bill auctions have been skipped. However, the positive mood should stay next week. All information on the government's plan to finance public debt is interesting for domestic investors. As regards economic data, consumer price indices were in focus this week. Our estimates were confirmed when the data for September showed a continued slowdown in annual price increase to 1.1% yoy (compared to 1.9% yoy in August), thanks to weakening inflationary pressures from food prices as the effect of last year's rising food prices due to drought vanished almost completely from the CPI. With sluggish domestic demand and the absence of foreign prices pressures (energy prices), inflation should remain low and stable. Next week features labour market data, i.e. unemployment rate (Sep) and wages (Aug). Current figures show an increase in number of unemployed persons in September, so we will see an increase in the unemployment rate as well, which is expected considering the return of seasonal workers to unemployment in autumn.

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

**Serbia** – According to the EC's annual progress report on Serbia's efforts to join the EU, Serbia "sufficiently fulfils the political criteria", whereas 2013 was touted as a historic year in terms of relations between the EU and Serbia, with the decision on 28 June to open accession negotiations and the entry into force of the Stabilisation and Association Agreement (SAA) on 1 September. The report positively highlighted improvement in relations with Kosovo, though further improvement will remain critical and improvement of contacts with neighbouring countries in terms of regional cooperation and other areas. After the annual World Bank meeting in Washington, the Finance Minister repeated that cooperation with the IMF will continue and that he hopes that a precautionary deal (not a financial deal) will be signed next year, while budget deficit funding will be looked at using concessional (bilateral) loans in 2014, in an attempt to cut the interest rate burden. According to the Bloomberg survey, the market is divided regarding the outcome of the National Bank of Serbia Executive Board's rate-setting meeting (18 October). Only 9 of 24 analysts think that the NBS will leave the key rate unchanged at 11%, given the existing fiscal risks, whereas the rest are in favour of key rate cut of 25-50bp over falling inflation sentiment (Sep-2013: 4.9% yoy). Whatever the case, we reckon that despite the unusually high key rate – CPI spread NBS will remain cautious on monetary policy easing in an expectation of new consolidation package results.

*Ljiljana Grubic (+381 11 2207178)*

**Albania** – The European Commission yesterday recommended granting EU candidate status to Albania. The European Commission concluded that Albania has made good progress on its path toward EU integration, adopting measures that were identified as essential for granting this status and by continuing to deliver reforms against the key priorities of the Commission Opinion in 2010. The overall smooth and orderly conduct of the parliamentary elections on June 2013 and initial steps to improve the efficiency of the investigations and prosecutions in the fight against crime and corruption were determinant for the recommendation to grant EU candidate status for Albania. The final decision is expected in December in the European Council. Even though some European diplomats are sceptical, is unlikely that the positive recommendation of the European Commission will be outvoted. In order to move to the next stage and open accession negotiations, Albania needs to meet further key priorities, with particular focus on administration reform, the rule of law and fundamental rights. Constructive and sustainable political dialogue will remain essential for a successful reform process.

*Joan Canaj (+355 4 2381000 1122)*

# Monetary policy and money markets overview

## CEE key interest and money markets outlook

Poland	current*	Dec-13	Mar-14	Jun-14	Sep-14
Key interest rate (% eop)	2.50	2.50	2.50	2.50	2.75
1m money market rate (% eop)	2.40	2.63	2.63	2.64	2.88
3m money market rate (% eop)	2.47	2.73	2.75	2.80	3.10
6m money market rate (% eop)	2.51	2.75	2.90	3.00	3.35
<b>Hungary**</b>					
Key interest rate (% eop)	3.60	3.50	3.20	3.20	3.20
1m money market rate (% eop)	3.60	3.60	3.30	3.30	3.30
3m money market rate (% eop)	3.55	3.80	3.50	3.60	3.70
6m money market rate (% eop)	3.55	3.90	3.83	3.83	4.03
<b>Czech Republic</b>					
Key interest rate (% eop)	0.05	0.05	0.05	0.05	0.05
1m money market rate (% eop)	0.05	0.05	0.05	0.05	0.05
3m money market rate (% eop)	0.12	0.20	0.20	0.20	0.20
6m money market rate (% eop)	0.56	0.30	0.33	0.33	0.33
<b>Romania</b>					
Key interest rate (% eop)	4.25	3.75	3.50	3.50	3.50
1m money market rate (% eop)	2.49	2.85	2.70	2.80	2.85
3m money market rate (% eop)	2.64	3.00	2.90	2.90	2.95
6m money market rate (% eop)	2.88	2.80	2.75	2.75	2.95
<b>Russia</b>					
Key interest rate (% eop)	5.50	5.25	5.25	5.25	5.25
1m money market rate (% eop)	6.55	6.70	6.50	6.65	6.75
3m money market rate (% eop)	6.79	7.10	6.95	7.10	7.20
6m money market rate (% eop)	7.02	7.40	7.15	7.35	7.45
<b>Turkey</b>					
Key interest rate (% eop)	4.50	4.50	5.00	5.50	5.50
1m money market rate (% eop)	6.85	7.20	7.50	7.60	7.60
3m money market rate (% eop)	6.95	7.40	7.70	7.80	7.70
6m money market rate (% eop)	7.42	7.50	7.80	7.90	7.80
<b>Benchmark key rates (% eop)</b>					
ECB key interest rate (% eop)	0.50	0.50	0.50	0.50	0.50
Fed key interest rate (% eop)	0.10	0.25	0.25	0.25	0.25

\* Bid rates (for Hungary ask rates) as of 18 October 2013, 10:46 a.m. CET

\*\* under revision

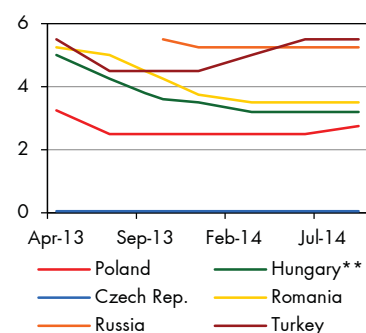
Source: Bloomberg, Raiffeisen RESEARCH

## Central bank watch

<b>Poland (NBP)</b>	MPC still very dovish (indicating flat key rate well into 2014), markets become more optimistic on pace of economic recovery (i.e. betting on earlier rate hikes)
<b>Hungary (MNB)</b>	Interest rate cutting cycle to continue, surprises in terms of scope possible (i.e. cutting well below 3%)
<b>Czech Republic (CNB)</b>	No change in interest rates expected in 2013, threat of FX intervention by central bank prevails and increased recently
<b>Romania (BNR)</b>	Interest rate cutting cycle to continue, some surprises in terms of scope might be down the road
<b>Serbia (NBS)</b>	NBS to cut key rate by 25bp
<b>Russia (CBR)</b>	Rate cuts became more likely due to recent change in wording
<b>Turkey (TCMB)</b>	No rate hike stance of TCMB receives currently support from unexpected Fed tapering postponement

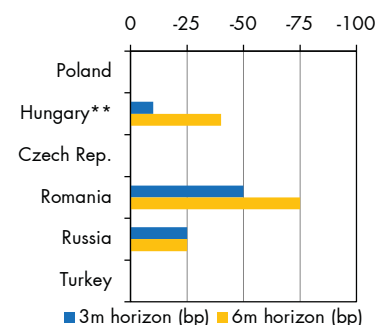
Source: Bloomberg, Reuters, Raiffeisen RESEARCH

## Key rate trends (%)



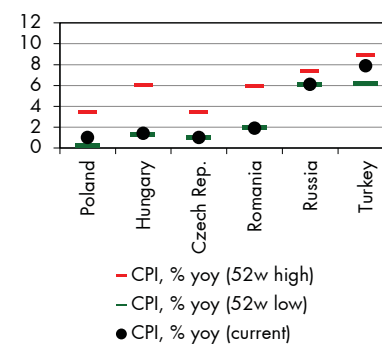
\*\* under revision  
Source: Bloomberg

## Key rate forecast (chg., bp)



\*\* under revision  
Source: Bloomberg

## Inflation snapshot



Source: Bloomberg, Raiffeisen RESEARCH

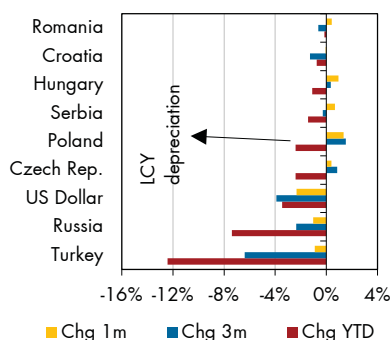
## Rate setting meetings

	Oct	Nov
<b>Poland (NBP)</b>	2	6
<b>Hungary (MNB)</b>	29	26
<b>Czech Rep. (CNB)</b>		7
<b>Romania (BNR)</b>		5
<b>Serbia (NBS)</b>	18	7
<b>Russia (CBR)</b>	14	1st half
<b>Turkey (TCMB)</b>	23	19

Source: National Central Banks, Raiffeisen RESEARCH

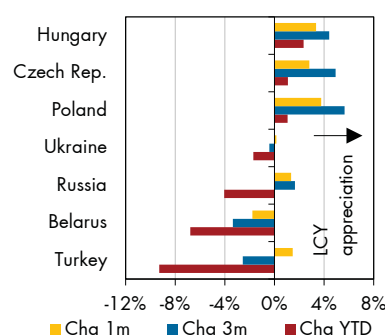
# Foreign exchange market overview

## Change of LCY value to EUR (%)



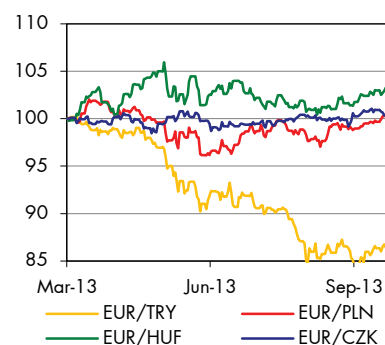
Source: Bloomberg

## Change of LCY value to USD (%)



Source: Bloomberg

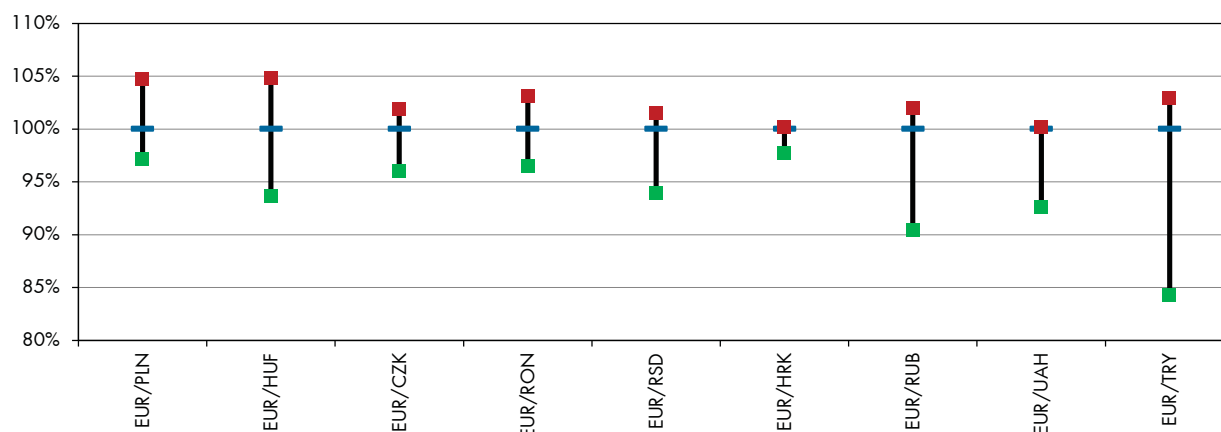
## Exchange rate comparison



Indexed March 2013 = 100

Source: Bloomberg

## CEE FX trading range\*



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

Source: Bloomberg

## FX forecasts

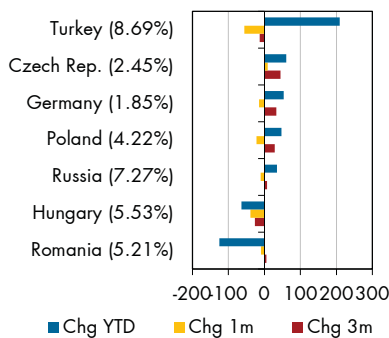
EUR vs	current <sup>1</sup>	Dec-13	Mar-14	Jun-14	Sep-14	Comment
PLN	4.17	4.15	4.10	4.00	4.05	Strong PLN once again driven by good bond market sentiment
HUF	294.5	300.0	305.0	300.0	305.0	Weaker EUR/HUF expected in the coming months
CZK	25.72	25.50	25.40	25.10	24.90	EUR/CZK not likely to react to the election
RON	4.45	4.50	4.45	4.50	4.50	Limited appreciation potential, even in the favourable external context
HRK	7.62	7.60	7.57	7.48	7.52	EUR/HRK stabilisation around 7.62
RSD	114.0	115.0	113.0	112.0	114.0	EUR/RSD slightly stronger on economic recovery measures
RUB	43.57	42.95	42.54	42.79	42.63	see rouble basket below
UAH	11.19	10.66	10.74	10.71	10.75	see USD/UAH below
BYR	12,595	12,700	13,500	13,900	14,600	see USD/BYR below
TRY	2.69	2.54	2.62	2.71	2.62	see USD/TRY below
USD	1.37	1.30	1.31	1.29	1.28	Current strong EUR supports a lot of CEE currencies
USD vs	current <sup>1</sup>	Dec-13	Mar-14	Jun-14	Sep-14	Comment
RUB	31.86	33.04	32.47	33.17	n.a.	see rouble basket below
UAH	8.19	8.20	8.20	8.30	8.40	Pressure on the peg likely to rise in 2014. We do not rule out some weakening, after administrative measures prove insufficient
BYR	9,205	9,800	10,300	10,800	n.a.	We further increased our depreciation expectation on weakening fundamentals TRY is currently benefiting from USD weakness, but pressure should be revived temporarily once tapering fears revive
TRY	1.97	1.95	2.00	2.10	2.05	
RUB basket*	37.13	37.50	37.00	37.50	37.50	Rouble calmer around 37.40-.50 for the time being

<sup>1</sup> as of 18 October 2013, 11:08 a.m. CET

Source: Bloomberg, Raiffeisen RESEARCH

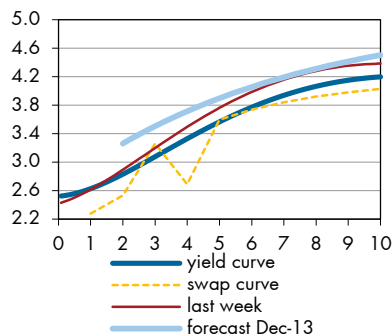
## Local currency bond market overview

Change of LCY 10y bond yields (bp)



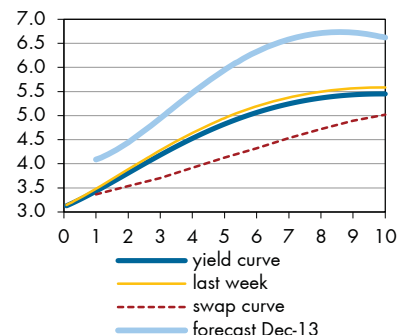
Source: Bloomberg

PLN yield curve



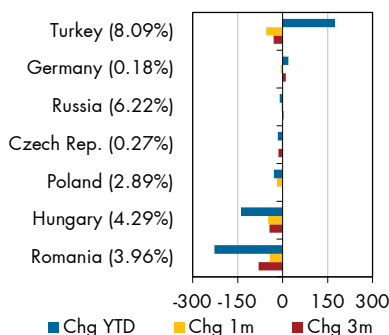
Source: Bloomberg

HUF yield curve



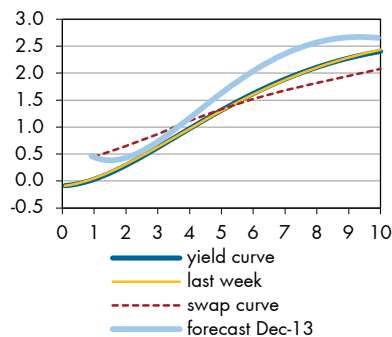
Source: Bloomberg

Change of LCY 2y bond yields (bp)



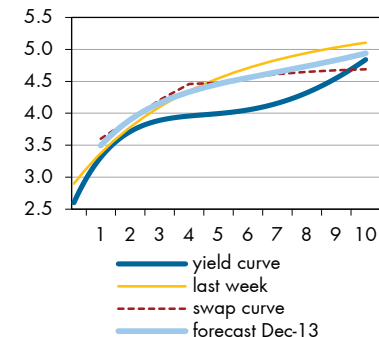
Source: Bloomberg

CZK yield curve



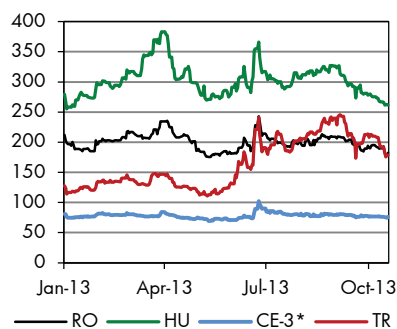
Source: Bloomberg

RON yield curve



Source: Bloomberg

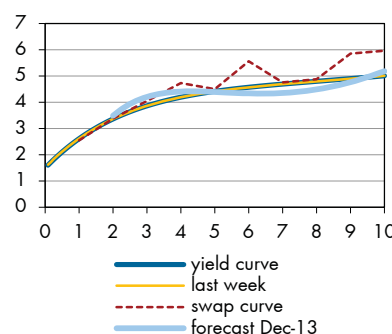
5y USD CDS spreads



\* CE-3: CZ, PL, SK

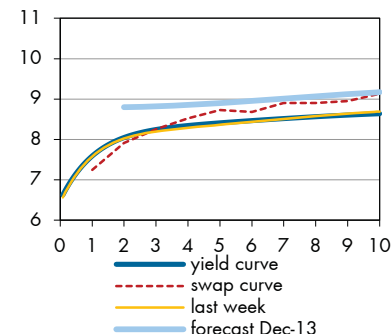
Source: Bloomberg, Raiffeisen RESEARCH

HRK yield curve



Source: Bloomberg

TRY yield curve



Source: Bloomberg

### Yield forecasts

2y T-bond yields (%)						10y T-bond yields (%)					
	current*	Dec-13	Mar-14	Jun-14	Sep-14		current*	Dec-13	Mar-14	Jun-14	Sep-14
Poland	2.79	3.2	3.4	3.5	3.6	Poland	4.19	4.6	4.6	4.7	4.8
Hungary	4.22	4.5	4.9	4.7	5.0	Hungary	5.45	6.5	6.8	6.5	6.8
Czech Rep.	0.10	0.3	0.4	0.6	0.8	Czech Rep.	2.32	2.6	2.8	3.1	3.2
Romania	3.75	4.0	3.9	3.9	3.9	Romania	4.97	5.0	5.0	5.1	5.2
Croatia	4.18	3.5	3.5	3.6	3.7	Croatia	4.81	5.5	5.6	5.6	5.6
Russia	6.19	6.2	6.0	6.3	6.0	Russia	7.24	7.2	7.0	7.3	7.2
Turkey	7.91	8.8	9.3	9.2	9.0	Turkey	8.63	9.2	9.7	10.0	9.9
Eurozone	0.18	0.3	0.4	0.6	0.8	Eurozone	1.84	2.1	2.3	2.7	2.8
USA	0.31	0.5	0.5	0.8	1.0	USA	2.56	3.0	3.1	3.2	3.3

\* Ask yields as of 18 October 2013, 10:16 a.m. CET

Source: Bloomberg, Raiffeisen RESEARCH



# Local currency bond market overview

## CEE local currency bond market snapshot

	Maturity	Coupon, %	Ask Price	YTM, %	Spread to Bunds, bp	MDur.	Comment
Poland							
PLN 2y Gov. Bond	25/07/2015	0.00	95.30	2.78	261	1.8	Bond market well supported by this week's macrodata, weaker-than-expected retail sales next week may keep bond market well supported despite general bearish tendency
PLN 5y Gov. Bond	25/07/2018	2.50	95.58	3.52	271	4.5	
PLN 10y Gov. Bond	25/10/2023	4.00	98.57	4.18	234	8.1	
Hungary							
HUF 3y Gov. Bond	22/12/2016	5.50	103.89	4.16	386	2.9	Money market papers still performing well as the rate cut cycle is going ahead
HUF 5y Gov. Bond	20/12/2018	5.50	103.99	4.61	380	4.5	
HUF 10y Gov. Bond	24/11/2023	6.00	104.70	5.38	354	7.5	
Czech Republic							
CZK 2y Gov. Bond	11/04/2015	3.80	105.66	-0.06	-23	n.a.	Czech government bond yields will probably not react on the election result
CZK 5y Gov. Bond	18/08/2018	4.60	116.21	1.12	31	4.4	
CZK 10y Gov. Bond	25/05/2024	5.70	130.67	2.39	55	8.4	
Croatia							
HRK 5y Gov. Bond	10/07/2018	5.25	103.09	4.51	370	4.3	Domestic bond market to follow recent trend
HRK 8y Gov. Bond	05/03/2020	6.75	110.50	4.81	298	5.3	
Romania							
RON 3y Gov. Bond	29/08/2016	4.75	102.19	3.92	362	2.7	Faster and ampler easing cycle to support RON government securities
RON 5y Gov. Bond	26/07/2017	5.90	105.96	4.15	334	3.5	
Russia							
RUB 2y Gov. Bond	15/07/2015	6.88	101.30	6.17	600	1.7	OFZ market going sideways
RUB 5y Gov. Bond	03/08/2016	6.90	101.50	6.40	559	2.6	
RUB 10y Gov. Bond	24/11/2021	7.00	97.60	7.16	532	6.1	
Turkey							
TRY 2y Gov. Bond	13/05/2015	5.00	95.80	7.87	770	1.5	Local debt market to continue to receive some support from Fed tapering postponement until related pressure revives again
TRY 5y Gov. Bond	08/03/2017	9.00	102.28	8.22	741	2.9	
TRY 10y Gov. Bond	08/03/2023	7.10	90.20	8.64	680	6.7	

Prices as of 18 October 2013, 10:56 a.m. CET  
Source: Bloomberg, Raiffeisen RESEARCH

## Bond auctions

	ISIN	Coupon	Maturity	Volume
<b>21 October 2013</b>				
RO	6m T-bill	RO1314CTN0E7	-	RON 500 mn
<b>22 October 2013</b>				
UA	T-bond	n.a.	n.a.	n.a.
TR	T-bond	TRT191114T18	0%	19 Nov-14
<b>23 October 2013</b>				
RU	OFZ bond	n.a.	n.a.	n.a.
<b>28 October 2013</b>				
RO	5y T-bond	RO1318DBN034	5.60%	28 Nov-18

## Summary: Ratings & macro data

### Country ratings: CE, SEE, CIS

	S&P			Moody's			Fitch		
	LCY	FCY	Outlook	LCY	FCY	Outlook	LCY	FCY	Outlook
<b>CE</b>									
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
<b>SEE</b>									
Romania	BB+	BB+	stable	Baa3	Baa3	negative	BBB	BBB-	stable
Bulgaria	BBB	BBB	stable	Baa2	Baa2	stable	BBB	BBB-	stable
Croatia	BB+	BB+	negative	Ba1	Ba1	stable	BBB-	BB+	stable
Serbia	BB-	BB-	negative	B1	B1	stable	BB-	BB-	negative
<b>CIS</b>									
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

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

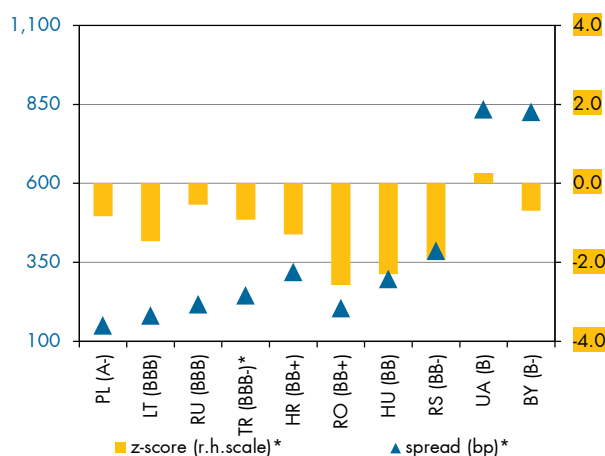
### Main macro data & forecasts \*

Country	Year	GDP, % avg. yoy	CPI, % avg. yoy	Unemployment, %	Nominal wages, EUR	Fiscal balance, % GDP	Public debt, % GDP	Export**, % GDP	C/A, % GDP	Ext. debt, % GDP	FXR*** % ext. debt	Import cover, months
Croatia	2012	-2.0	3.4	19.1	1047	-4.1	53.7	22.3	0.0	102.3	25.0	8.5
	2013e	-0.5	2.5	19.8	1027	-4.5	61.8	20.6	-0.7	103.1	24.5	8.7
	2014f	1.0	2.7	19.5	1024	-3.6	65.4	19.5	-0.9	99.8	24.7	8.8
Czech Rep.	2012	-1.2	3.3	6.8	1000	-4.4	45.9	67.2	-2.5	50.7	44.0	4.2
	2013e	-1.0	1.5	7.6	985	-2.9	48.4	69.1	-1.0	51.5	45.5	4.4
	2014f	1.9	1.2	7.4	1041	-2.9	49.6	71.6	-0.8	50.5	45.2	4.1
Hungary	2012	-1.7	5.7	10.9	771	-1.9	79.2	82.6	1.9	126.8	27.6	5.5
	2013e	0.5	1.8	10.6	783	-2.9	78.7	84.0	2.6	119.2	25.9	4.8
	2014f	1.5	2.0	9.9	802	-2.9	77.2	84.1	2.8	110.3	25.5	4.4
Poland	2012	1.9	3.7	12.8	842	-3.9	55.6	38.4	-3.5	72.4	29.9	6.5
	2013e	1.2	1.2	14.0	860	-4.1	57.1	39.5	-2.6	73.1	30.5	6.7
	2014f	2.5	2.0	13.1	926	-3.8	57.6	39.1	-4.0	70.9	30.3	6.3
Romania	2012	0.7	3.3	7.0	467	-2.9	37.8	34.2	-3.8	75.2	31.5	7.2
	2013e	2.5	4.2	7.3	493	-2.8	38.5	34.5	-1.0	70.9	31.5	7.0
	2014f	2.0	2.2	7.2	512	-2.5	38.9	36.2	-2.0	69.6	29.1	5.9
Russia	2012	3.4	5.1	5.7	671	0.4	10.5	26.3	3.7	30.9	76.3	17.0
	2013e	2.0	6.7	6.0	690	-0.5	11.0	24.2	2.8	33.5	67.2	16.9
	2014f	2.0	5.5	6.0	728	-0.2	11.5	23.4	2.0	33.8	61.6	15.6
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	320	-4.0	37.5	37.4	-6.6	77.3	11.9	2.4
	2014f	1.5	5.0	7.0	350	-5.0	39.0	38.4	-6.5	76.5	11.7	2.2
Turkey	2012	2.2	9.0	9.2	749	-2.4	36.8	19.4	-6.1	45.2	27.7	5.0
	2013e	3.5	6.0	9.5	711	-2.2	35.0	19.0	-6.7	46.3	19.7	3.6
	2014f	3.5	6.7	9.3	706	-2.5	33.0	18.8	-6.6	49.5	17.4	3.6

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

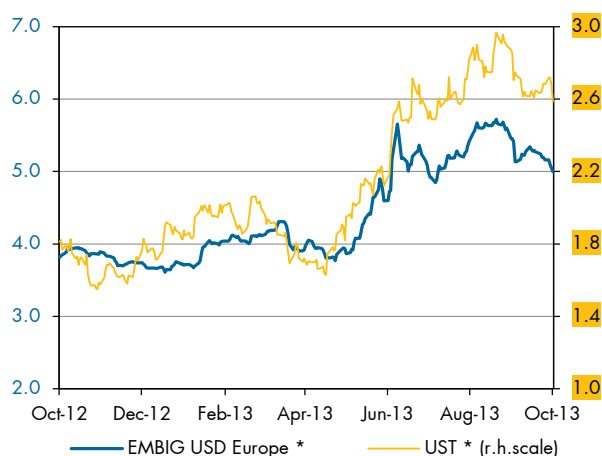
## Eurobond market overview

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/due			Market Price			YTM mid.	Spread vs.	Mdur.	ISIN
	Bid	Ask	w/w %	52w max	52w min	% p. a.	Bmk, bp	years	—
EUR									
BGARIA 4 1/4 07/09/17	107.6	107.8	0.24	110.5	106.7	2.07	161	3.4	XS0802005289
CROATI 6 1/2 01/05/15	104.9	105.1	-0.07	112.7	104.9	2.23	207	1.1	XS0431967230
CROATI 5 7/8 07/09/18	107.2	107.9	0.20	111.3	103.6	4.07	334	4.0	XS0645940288
REPHUN 3 1/2 07/18/16	101.3	102.0	-0.01	101.7	95.2	2.86	259	2.6	XS0240732114
REPHUN 5 3/4 06/11/18	106.6	107.4	1.69	108.1	99.9	4.05	334	4.0	XS0369470397
REPHUN 6 01/11/19	107.4	108.4	1.61	109.3	100.8	4.28	344	4.3	XS0625388136
LITHUN 4.85 02/07/18	110.3	110.5	-0.22	113.0	107.5	2.29	167	3.8	XS0327304001
POLAND 3 5/8 02/01/16	106.5	106.9	0.27	108.7	106.0	0.66	44	2.2	XS0242491230
POLAND 1 5/8 01/15/19	99.3	99.8	-0.82	102.3	98.0	1.72	87	4.9	XS0874841066
POLAND 3 3/4 01/19/23	107.0	107.8	0.33	113.1	104.5	2.83	112	7.6	XS0794399674
POLAND 3 3/8 07/09/24	102.4	103.2	0.39	107.4	99.3	3.06	113	8.8	XS0841073793
ROMANI 5 1/4 06/17/16	107.3	107.8	-0.08	109.2	104.6	2.26	200	2.5	XS0638742485
ROMANI 4 7/8 11/07/19	105.7	106.2	0.83	109.4	99.0	3.75	276	5.0	XS0852474336
TURKEY 5 7/8 04/02/19	111.0	112.0	0.76	119.4	107.5	3.51	264	4.6	XS0285127329
TURKEY 5 1/8 05/18/20	106.6	107.4	1.16	115.9	102.4	3.89	278	5.4	XS0503454166
USD									
BGARIA 8 1/4 01/15/15	108.7	109.0	-0.04	116.4	108.9	0.97	80	1.2	XS0145623624
BELRUS 8 3/4 08/03/15	99.1	100.2	2.94	106.1	94.3	8.93	866	1.6	XS0529394701
BELRUS 8.95 01/26/18	98.3	99.6	4.40	111.2	90.0	9.26	820	3.4	XS0583616239
CROATI 6 3/8 03/24/21	107.1	107.8	1.45	117.0	101.4	5.15	312	5.9	XS0607904264
CROATI 5 1/2 04/04/23	100.1	100.7	1.72	109.0	93.9	5.45	298	7.3	XS0908769887
REPHUN 5 3/8 02/21/23	99.7	100.3	1.04	106.0	93.0	5.38	293	7.2	US445545AH91
REPHUN 7 5/8 03/29/41	112.6	113.6	2.74	124.6	97.0	6.59	308	12.2	US445545AF36
LITHUN 7 3/8 02/11/20	121.6	122.0	-0.10	131.0	118.0	3.48	176	5.1	XS0485991417
LITHUN 6 5/8 02/01/22	118.6	119.1	-0.07	128.9	113.7	3.94	172	6.5	XS0739988086
LATVIA 2 3/4 01/12/20	95.3	95.9	-0.33	101.2	91.3	3.54	184	5.6	XS0863522149
LATVIA 5 1/4 06/16/21	108.9	109.3	-0.13	117.4	105.2	3.86	178	6.2	XS0638326263
POLAND 3 7/8 07/16/15	104.9	105.2	-0.05	107.8	104.2	0.90	64	1.7	US731011AS13
POLAND 6 3/8 07/15/19	118.0	118.3	0.50	125.9	114.3	2.91	136	4.8	US731011AR30
POLAND 3 03/17/23	93.0	93.6	0.93	101.3	87.4	3.86	139	8.0	US731011AT95
ROMANI 6 3/4 02/07/22	116.4	116.8	0.99	124.4	108.4	4.34	212	6.4	US77586TAA43
ROMANI 4 3/8 08/22/23	98.4	98.9	1.19	105.5	90.4	4.55	199	7.8	US77586TAC09
RUSSIA 4 1/2 04/04/22	104.3	104.5	1.08	116.2	97.7	3.89	163	7.0	XS0767472458
RUSSIA 7 1/2 03/31/30	119.2	119.4	0.60	128.7	114.6	3.79	87	5.0	XS0114288789
RUSSIA 5 5/8 04/04/42	104.5	105.1	1.45	125.0	95.6	5.30	174	14.4	XS0767473852
SERBIA 5 1/4 11/21/17	101.3	102.2	1.16	107.1	95.9	4.77	378	3.6	XS0856951263
SERBIA 4 7/8 02/25/20	95.7	96.5	1.55	99.0	89.3	5.61	388	5.3	XS0893103852
TURKEY 6 1/4 09/26/22	111.3	112.1	1.82	127.3	102.4	4.64	227	6.9	US900123BZ27
TURKEY 6 7/8 03/17/36	111.7	112.7	3.43	139.9	98.4	5.89	265	11.9	US900123AY60
TURKEY 6 3/4 05/30/40	110.7	111.8	3.71	139.7	97.2	5.90	244	12.7	US900123BG46
UKRAIN 7 3/4 09/23/20	92.5	93.5	2.86	108.1	85.5	9.13	721	5.1	XS0543783194
UKRAIN 7.8 11/28/22	90.3	91.1	3.32	107.0	83.4	9.33	693	6.0	XS0858358236
UKRAIN 7 1/2 04/17/23	89.5	90.1	2.48	101.8	82.5	9.13	665	6.5	XS0917605841

\* w/w - week on week, 52w - 52 week, YTM mid - yield to maturity based on mid market price, Bmk - benchmark, Mdur - modified duration, ISIN - international security identification number; prices as of 18 October 2013, 11:20 a.m. CET  
Source: Bloomberg, Raiffeisen RESEARCH

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