

Trading idea: buy EUR sell CZK



Source: Bloomberg

Market snapshot

	curr.*	Dec-13	Mar-14	Jun-14
Poland				
EUR/PLN	4.20	4.15	4.10	4.00
Key rate	2.50	2.50	2.50	2.50
10y bond	4.4	4.6	4.6	4.7
Hungary				
EUR/HUF	296.4	300	305	300
Key rate	3.60	3.50	3.20	3.20
10y bond	5.7	6.5	6.8	6.5
Czech Rep.				
EUR/CZK	25.6	25.5	25.4	25.1
Key rate	0.05	0.05	0.05	0.05
10y bond	2.2	2.6	2.8	3.1
Romania				
EUR/RON	4.43	4.50	4.45	4.50
Key rate	4.25	3.75	3.50	3.50
10y bond	5.2	5.0	5.0	5.1
Croatia				
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
Russia				
USD/RUB	32.1	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
Turkey				
USD/TRY	2.00	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
EUR/USD	1.36	1.30	1.31	1.29

* prices as of 4 October 2013, 09:33 a.m. CET
Source: Thomson Reuters, Raiffeisen RESEARCH

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Open positions

CEE LCY bonds: long SI 5y; short CZK >5y

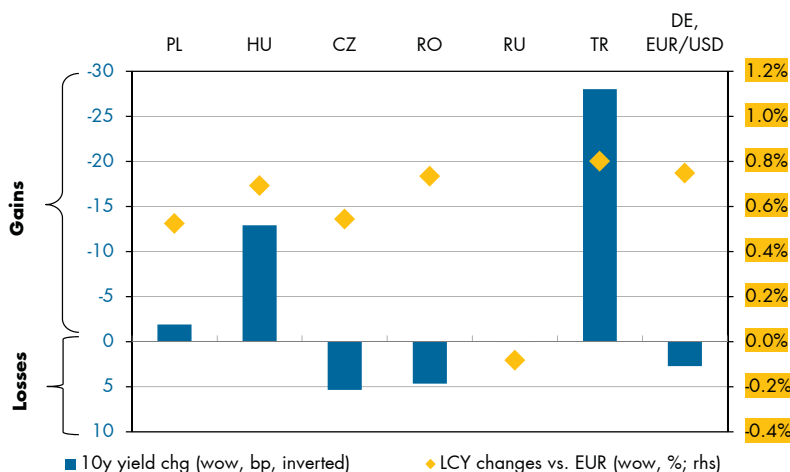
CEE FX: buy EUR sell CZK

Recent currency strengthening offers trading opportunities

For the biggest economy in our research universe, Russia, we have already cut the GDP forecast for this year from 3% to 2% in May and more recently to 2% for 2014 as well. The consensus followed suit coming down during the last three months from 2.6% to 2.0% for 2013 and from 3.3% to 2.6% for 2014. No surprise, official and IFI forecasts have down-trended as well: The official Russian growth forecast is now at 1.8% for 2013 (further details in "Focus on" on page 2). For next week, we will predominantly monitor industrial output data in a series of CEE economies. While we expect Hungary's and Romania's automotive sector driven performance to remain solid – supporting our view of a gradually improving economic environment – the Czech economy should disappoint.

Against this backdrop the current strength of the Czech koruna, which appreciated in tandem with other CEE currencies mainly due to the current USD weakness in the last couple of days, we expect the Czech currency to temporarily weaken beyond our year-end EUR/CZK 25.5 forecast and would recommend to enter an outright short position (see trading ideas). Our trading idea is also motivated by the fact that deflation fears still keep Czech central bankers active in verbally talking down the koruna. In the same timeframe, the expected strengthening of USD vs. EUR on materialising Fed tapering, finally, would also support our trade.

Last week's changes



Source: Bloomberg, Raiffeisen RESEARCH

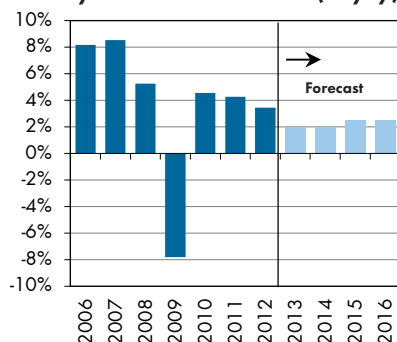
Data highlights upcoming week

Date	Indicator	Period	est.	High	Mean	Low	Prev.
07-Oct	CZ Industrial output, % yoy	Aug	-1.3	-0.5	-1.3	-3.8	2.1
08-Oct	HU Industrial output, % yoy	Aug	2.3	2.3	1.7	0.9	2.5
09-Oct	CZ CPI, % yoy	Sep	1.2	1.4	1.2	1.1	1.3
11-Oct	HU CPI, % yoy	Sep	1.1	1.4	1.3	1.1	1.3
11-Oct	TR Current account, TRY bn	Aug	n.a.	n.a.	n.a.	n.a.	-5.8

Source: Bloomberg, Raiffeisen RESEARCH

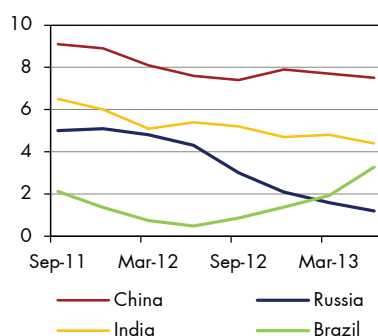
Focus on Russia: Economic countdown – 4%, 3%, 2%, ...

GDP dynamics and forecasts (% yoy)



Source: Rosstat, Raiffeisen RESEARCH

GDP growth lowest in BRIC (% yoy)



Source: Bloomberg

Strategy (Horizon March 2014)

Sovereign EB: marketweight*

Rouble: neutral

OFZ: buy 10y (RFLB 23 7.00) and sell 2y (RFLB 15 6.88), when spread exceeds 135bp

Corporate EB:

Buy GAZPRU 4.95% due 2022

Buy VEBBANK 6.025% due 2022

MICEX: neutral**

Equity market picks (buy):

Dixy Group, E.On Russia, LUKoil, Novatek, Phosagro, VimpelCom Ltd.

* JPM EMBIG (USD)

** RBI CEE equity portfolio (EUR based investor)

One major theme of our latest Country Report on Russia (published this week) is the tangible growth slowdown. We already cut the GDP forecast for this year from 3% to 2% in May and more recently to 2% for 2014 as well. The consensus followed suit coming down during the last three months from 2.6% to 2.0% for 2013 and from 3.3% to 2.6% for 2014. No surprise, official and IFI forecasts have down-trended as well: The official Russian growth forecast is now at 1.8% for 2013 and 3% for 2014, the IMF's at 1.5% and 3.0%, the World Bank at 1.8% and 3.1% and the IIF at 1.3% and 2.0%.

The current situation is still, that manufacturing and investments are stagnating. Only household consumption is holding up, fuelled by wage increases and still strong, but slowing, consumer lending. In H1 2013, GDP growth amounted to only 1.4% yoy, a far cry from the pre-crisis rates of around 7% and the post-crisis recovery rates of around 4%. Some of this deceleration appears justified: output has completed its recovery to pre-crisis levels and oil export revenues have plateaued at a high level. Also, Russia's main trading partner – the EU – is only slowly emerging from recession. Moreover, Russia is hardly the only major Emerging Market experiencing a "soft patch": GDP growth in Brazil dropped from almost double-digit levels to around zero in 2012 and is only now recovering, India is struggling with growth falling below 5% and even China has left its above 8% flight zone. Nevertheless, the sharp deceleration in Russia is cause for concern. It seems that the country has hit a glass ceiling which it cannot pierce. There is no lack of recipes: increasing labour productivity, fighting corruption, improving the investment climate, economic diversification and modernisation are all on the table. However, with a weak track record in terms of implementing structural reforms, hopes for substantial near-term progress (above and beyond macroeconomic stabilisation) are limited. Nevertheless and in contrast to the financial crisis 2008/2009, authorities are abstaining from hectic and strong expansionary policies (at that time Russia implemented one of the largest stimulus packages among major EM). Some resources will be deployed to infrastructure, but fiscal expenditure plans are being revised downwards, not upwards. The new Central Bank leadership has improved the monetary toolkit, but refuses to deeply cut short-term rates. Taken together, the above assessment is reflected in our fairly downbeat GDP growth forecasts of 2% for this year and next year, and 2-3% for 2015. With regards to Russian assets it has to be added that they had been negatively impacted by expectations of reduced "quantities easing" by the Fed (but less than in other EM). With a first wave of adjustment behind us, there may still be some time until the Fed takes action towards mid-2014, which will again put pressure on markets. Volatile phases are not to be excluded, but we currently have a rather neutral outlook on RUB and OFZ for the next 3-6 months. Sovereign Eurobonds and equities are not expected to outperform or underperform in a portfolio context. However, the downgrade of our medium-term RUB outlook, including slight nominal depreciation over the next years, is a clear reflection of the sobering economic outlook.

One of the remaining assets of the Russian economy remains its low degree of public and private sector leverage – at least compared to most other major EMs. Hence there remains some room to finance future-oriented projects by a higher degree of leverage. In contrast financing prevailing economic structures or just consumption with a higher degree of leverage would not help to boost the investor confidence towards Russia.

Gunter Deuber; Andreas Schwabe, CFA

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.
30-Sep	HU	PPI, % yoy	Aug	2.4	1.3	04-Oct	RU	CPI, % mom	Sep	n.a.	0.3	0.2	0.1	0.1
30-Sep	RO	Key rate, %	Sep	4.25	4.50	04-Oct	RU	CPI, % yoy	Sep	n.a.	6.4	6.2	5.9	6.5
30-Sep	HR	Industrial output, % yoy	Aug	-3.5	-4.1	07-Oct	CZ	Industrial output, % yoy	Aug	-1.3	-0.5	-1.3	-3.8	2.1
30-Sep	HR	Real wages, % yoy	Jul	-0.6	-2.1	07-Oct	CZ	Trade balance, CZK bn	Aug	22.0	27.6	21.1	18.0	28.2
30-Sep	BG	PPI, % yoy	Aug	-2.9	-1.8	07-Oct	RO	Industrial sales, % yoy	Aug	n.a.	n.a.	n.a.	n.a.	8.9
30-Sep	RS	Industrial output, % yoy	Aug	5.7	12.5	07-Oct	RO	GDP, % yoy, final	Q2	1.5	n.a.	n.a.	n.a.	2.2
30-Sep	RS	Retail sales, % yoy	Aug	-4.6	-4.0	07-Oct	RS	PPI, % yoy	Sep	n.a.	n.a.	n.a.	n.a.	1.4
30-Sep	RS	GDP, % yoy	Q2	0.2	2.7	07-Oct	UA	Official reserve assets, UAH bn	Sep	n.a.	n.a.	n.a.	n.a.	21.7
01-Oct	PL	PMI, points	Sep	53.1	52.6	07-Oct	UA	CPI, % mom	Sep	n.a.	n.a.	n.a.	n.a.	-0.7
01-Oct	HU	PMI, points	Sep	54.5	51.8	07-Oct	UA	CPI, % yoy	Sep	n.a.	n.a.	n.a.	n.a.	-0.4
01-Oct	CZ	PMI, points	Sep	53.4	53.9	08-Oct	HU	Industrial output, % yoy	Aug	2.3	2.3	1.7	0.9	2.5
01-Oct	CZ	Budget balance, CZK bn	Sep	-38.2	-36.2	08-Oct	CZ	Unemployment rate, %	Sep	7.5	7.6	7.5	7.4	7.5
01-Oct	RU	PMI, points	Sep	49.4	49.4	08-Oct	BG	Industrial output, % yoy	Aug	n.a.	n.a.	n.a.	n.a.	-2.6
01-Oct	RU	GDP, % yoy	Q2	1.2	1.2	08-Oct	BG	Retail sales, % yoy	Aug	n.a.	n.a.	n.a.	n.a.	4.3
01-Oct	TR	PMI, points	Sep	54	50.9	08-Oct	TR	Industrial output, % yoy	Aug	n.a.	n.a.	n.a.	n.a.	4.6
02-Oct	PL	Key rate, %	Oct	2.5	2.5	09-Oct	HU	Trade balance, EUR mn	Aug	678	678	643	600	448
02-Oct	RO	Retail sales, % yoy	Aug	0.4	-0.7	09-Oct	CZ	CPI, % yoy	Sep	1.2	1.4	1.2	1.1	1.3
02-Oct	RO	PPI, % yoy	Aug	0.6	1.7	09-Oct	RU	Trade balance, RUB bn	Aug	n.a.	16.5	13.5	9.8	13.3
03-Oct	TR	CPI, % yoy	Sep	7.88	8.17	10-Oct	RO	CPI, % yoy	Sep	n.a.	n.a.	n.a.	n.a.	3.7
03-Oct	TR	PPI, % yoy	Sep	6.23	6.38	10-Oct	RO	Industrial output, % yoy	Aug	n.a.	n.a.	n.a.	n.a.	6.3
04-Oct	HU	Retail sales, % yoy	Aug	1.5	1.2	10-Oct	RO	Trade balance, EUR mn	Aug	n.a.	n.a.	n.a.	n.a.	-574
04-Oct	CZ	Retail sales, % yoy	Aug	-0.3	4.0	11-Oct	PL	Current account, EUR mn	Sep	n.a.	n.a.	n.a.	n.a.	-178
						11-Oct	HU	CPI, % yoy	Sep	1.1	1.4	1.3	1.1	1.3
						11-Oct	CZ	Current account, CZK bn	Aug	-13.0	-9.8	-12.5	-22.0	4.1
						11-Oct	HR	PPI, % yoy	Sep	-1.7	n.a.	n.a.	n.a.	-0.7
						11-Oct	RS	CPI, % yoy	Sep	n.a.	n.a.	n.a.	n.a.	7.3
						11-Oct	TR	Unemployment rate, %	Jul	n.a.	n.a.	n.a.	n.a.	8.8
						11-Oct	TR	Current account, TRY bn	Aug	n.a.	n.a.	n.a.	n.a.	-5.8

Source: Bloomberg, Raiffeisen RESEARCH

Poland – This week was characterised by a few surprises and non-events on the Polish market. The PMI clearly surprised on the upside with another tangible increase (from 52.6 points to 53.1 points). By contrast, the monetary policy meeting did not bring any news, i.e. supporting our view of flat interest rates well into 2014. Nevertheless, the MPC comments on inflationary pressure (still subdued) and the structure of GDP growth (still unsatisfactory with regards to domestic demand) did not indicate any near- to medium-term change in the monetary policy stance, i.e. they sounded fairly dovish (some MPC members even talked about a flat key rate throughout 2014). Moreover, similarly to the ECB, the Polish MPC remains cautious about economic growth (and the sustainability of growth) in core markets. By contrast, the markets seem to be growing more and more optimistic – and more optimistic than the National Bank of Poland – about the pace of economic recovery in Poland. Some market participants have already started to price in key rate hikes in Q1 or early Q2 2014. Therefore, discussions and speculation about the future interest rate path will be of importance for the Polish markets in the coming days (no important market-moving macroeconomic data are scheduled). In this context, we would recall that markets were also right (compared to a lot of analysts) during the monetary loosening cycle (i.e. markets expected the current new record-low base rate much earlier than most analysts). Hence, the current fairly subdued market reaction to the still very dovish MPC wording should not be downplayed.

Analyst: Gunter Deuber (+431 71707 5707)

Hungary – The Hungarian government has presented its budget plans for 2014, targeting a 2.9% deficit target. Whilst acknowledging that this government has a track record of meeting its targets, we would also note that considerable pressures can be seen for next year. Compared to our views, the budget is calculated with overly optimistic economic figures: 2% growth and 2.4% inflation vs. our forecast of 1.5% growth and 2.0% CPI. There are numerous tax breaks and tax cuts for next year, while the cover for this is from vague measures. Taken together, this means there is a risk of lower-than-planned revenues. On the other hand, fiscal reserves have been halved from this year, and the 2.9% deficit target also means there is noticeably smaller room for manoeuvre without hurting the spending side. Nevertheless, with elections coming in the first half of 2014 the chance for an early intervention is rather slim.

Next week will feature industrial and trade figures for August. We expect these to support our view of a gradually improving economic environment and business sentiment in the second half of 2013.

Analyst: Adam Keszeg (+36 1 484 4313)

Czech Republic – As regional currencies appreciated and the threat of imminent CNB FX intervention declined, the Czech koruna appreciated towards EUR/CZK 25.50. The market might test how far it can push CZK, but given the current circumstances i.e. still very fragile recovery and slowing inflation, significant CZK appreciation would be exactly the case when most of the central bankers would decide to sell CZK on the market, despite the uncertainties about the effect and future operations. Therefore, we stick to our forecast of EUR/CZK 25.50 for the end of 2013.

Analyst: Michal Brožka (+420 234 40 1489)

Romania – At the monetary policy meeting held on Monday, the central bank decided to cut the key rate by 25bp, less than our expectation of 50bp, but in line with market consensus. Market reaction was mute, as the cut was already priced in, probably to a larger extent. The continuation of disinflationary process in the coming months, with annual inflation reaching values below 2% at the beginning of the next year, allows for further cuts in the key rate. The yield curve remained virtually unchanged last week, with the maximum amplitude in yield variations at about 6bp. The auction plan announced by debt managers for October looks more feasible than the previous one, totalling RON 4.7 bn, an amount equal to that targeted in September and with an average residual maturity of about 3.1 years, below the 4.2 years of the previous plan. The Ministry of Finance (MoF) already sold RON 1.5 bn in two auctions held yesterday: RON 1 bn in a 4y bond and RON 500 mn in a 10y bond. Not surprisingly, demand was stronger for the 4y bond, with a bid-to-cover ratio of about 3.3. MoF sold twice the planned amount, accepting to pay on average 4.37%, in line with secondary market. For the 10y bond, MoF paid on average 5.29%, 4bp higher than at the previous auction last week.

Analyst: Gabriel Bobeica (+40 21 306 1369)

Croatia – After the announcement of the Government's guidelines for economic and fiscal policy from 2014 to 2016, the local market's attention turned to the new bond issue. In an interview, the Finance Minister stated that the Government will tap the international market (US) by the end of the year (most likely in November) with the aim of collecting 'significantly higher amount' than USD 1.5 bn, which is the amount that the local public speculated about in the last few weeks. Furthermore, he also suggested that the Government might decide in favour of a local issue as well. In light of this information, expected central government deficit of HRK 10.2 bn for FY 2013 (not including HRK 3 bn of cost for rehabilitation of debts in the health care system) seems even less realistic than before. At any rate, we expect to see a budget revision and the bond issue afterwards. Taking the weak fundamentals into account, and along with the fact that the markets expect QE3 tightening by the end of the year and that many EM countries are planning issuances for the last quarter, we expect that the cost of the issue will be higher than in April when yield to maturity amounted to 5.625% and the spread to 10y US Treasury was 371bp. However, we expect that the budget for the next year might look different than suggested by the fiscal guidelines (pointing to an expenditure increase of HRK 8 bn) once Croatia enters the excessive deficit procedure.

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

Russia – According to Rosstat's weekly estimates, mom CPI appeared to be close to 0.3% in September (data are expected next week), which would mean a deceleration in yoy CPI to only 6.2% from 6.5% in August. In October, we anticipate a slight acceleration of inflation (to 0.4%) due to weakening disinflation in fruits and vegetables prices and price increases in some particular food products as well as the ongoing rise in fuel prices, which however are the most volatile seasonal component. Nevertheless, the key components of the CPI demonstrate quite stable dynamics which leaves room for lower medium-term inflationary expectations. On the upside, we see signs of a downward trend in core inflation, and core inflation is the major indicator for the CBR in its decision on rates (the next CBR Board Meeting is expected on 14 October). However, the rhetoric of the CBR has become more hawkish, reflecting the regulator's concerns about inflation: despite the deceleration in yoy CPI the rate is still above the regulator's target. In addition, according to recent statements by CBR representatives, the decision on a possible freeze of regulated tariffs (household utility prices) would play a major role in the 2014 CPI projections, but a final decision on that issue has not been made yet. Altogether, it decreases the probability of key interest rate cuts in October.

Analyst: Maria Pomelnikova (+7 495 221-9845)

Ukraine – In August, the current account deficit remained at the level of the previous month, coming in at USD -232 mn. Thus, the current account balance remained in negative territory for the third month in a row, against the backdrop of accelerating import growth. The fall in exports was 10.2% compared to August of last year. In particular, exports of engineering products has fallen by 33% in annual terms. Exports of steel products decreased by 14.8% after the abolition of duty-free quotas for Ukrainian pipes to Russia, as well as due to the worsening of the conflict in Syria. The surplus on the capital account was also not significantly changed compared to the previous month, at USD -1.3 bn. Foreign direct investment fell to USD 320 mn. The positive trend of the Balance of Payments from H1 was slowing, as the reduction in the deficit on the

current account (annualised) slowed to just 2.6% due to accelerating natural gas imports and weak export growth. However, deteriorating conditions in foreign financial markets, as well as the recent decline in Ukraine's sovereign rating, which caused a significant drop in prices of Ukrainian assets, will increase the pressure on the capital account surplus.

Analyst: Olga Nikolaieva (+380 44 59056-21)

Turkey – After Turkey's LCY debt market showed a hefty reaction to the Fed tapering postponement news in mid-September, yields over all maturities began a gradual upward movement, landing close to levels seen just before the historical Fed announcement. During the past few days, however, a countermove set in, with Turkey being among the regional outperformers. Our strategy remains to see how vulnerable Turkish assets will react to the Fed tapering announcement – likely to come in October – and we will then look for favourable short-term opportunities to enter the market. After Turkish debt managers successfully placed a 5y sukuk worth USD 1.25 bn this week, a series of bond auction are planned for next week according to the debt management schedule of the Turkish Treasury (see table bond auctions). Overall, core market developments will continue to be the key driver for Turkish assets.

Analyst: Stephan Imre (+43 1 71707 6757)

Trading ideas

Short-term trading ideas

Recommendation	Entry date	Entry level	Target	Stop	Comments
Buy EUR Sell CZK	04/10/2013	25.521	25.9	25.3	CNB to weaken CZK and EUR to weaken on Fed tapering
Buy SI T-Bond 5y (ISIN: XS0292653994)	28/06/2013	95.26	100	90	Back to start because of global sell-off, good risk/reward for recovery once global panic calms over summer

Source: Thomson Reuters, Bloomberg

Recently closed trading ideas

Recommendation	Entry date	Entry level	Closing date	Close	Total return	Comments
Buy TRY Sell EUR	19/08/2013	2.61	22/08/2013	2.66	-1.9%	Stopped out
Buy TRY Sell EUR	25/06/2013	2.54	31/07/2013	2.58	-1.5%	Stopped out
Buy CZK Sell HUF	28/06/2013	8.85	31/07/2013	8.60	2.9%	Target reached
Buy PLN Sell EUR	21/06/2013	4.29	21/07/2013	4.35	2.2%	Closed early
Buy RUB Sell EUR	21/06/2013	43.46	09/07/2013	42.49	2.2%	Closed early
Buy RON T-bond 2y (ISIN: RO1214DBN068)	21/06/2013	100.6	02/10/2013	101.609		Closed early
Buy RON T-bond 3y (ISIN: RO1215DBN073)	21/06/2013	101.3	06/08/2013	102.5	1.2%	Target reached
Buy 10y TRY T-bond (TRT080323T10)	23/07/2013	90.60	25/07/2013	87.40	-3.5%	Stopped out

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

Monetary policy and money markets overview

CEE key interest and money markets outlook

Poland	current*	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)	2.48	2.73	2.75	2.80	3.10
6m money market rate (% eop)	2.51	2.75	2.90	3.00	3.35
Hungary					
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
Czech Republic					
Key interest rate (% eop)	0.05	0.05	0.05	0.05	0.05
1m money market rate (% eop)	0.05	0.05	0.05	0.05	0.05
3m money market rate (% eop)	0.12	0.20	0.20	0.20	0.20
6m money market rate (% eop)	0.57	0.30	0.33	0.33	0.33
Romania					
Key interest rate (% eop)	4.25	3.75	3.50	3.50	3.50
1m money market rate (% eop)	2.57	2.85	2.70	2.80	2.85
3m money market rate (% eop)	2.73	3.00	2.90	2.90	2.95
6m money market rate (% eop)	2.99	2.80	2.75	2.75	2.95
Russia					
Key interest rate (% eop)	5.50	5.25	5.25	5.25	5.25
1m money market rate (% eop)	6.47	6.70	6.50	6.65	6.75
3m money market rate (% eop)	6.77	7.10	6.95	7.10	7.20
6m money market rate (% eop)	7.04	7.40	7.15	7.35	7.45
Turkey					
Key interest rate (% eop)	4.50	4.50	5.00	5.50	5.50
1m money market rate (% eop)	6.90	7.20	7.50	7.60	7.60
3m money market rate (% eop)	7.00	7.40	7.70	7.80	7.70
6m money market rate (% eop)	7.70	7.50	7.80	7.90	7.80
Benchmark key rates (% eop)					
ECB key interest rate (% eop)	0.50	0.50	0.50	0.50	0.50
Fed key interest rate (% eop)	0.05	0.25	0.25	0.25	0.25

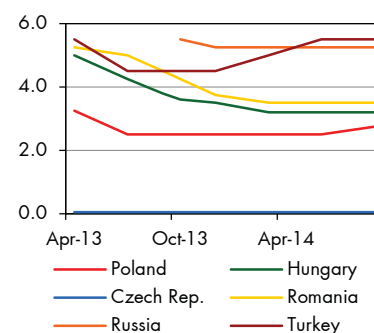
* Bid rates (for Hungary ask rates) as of 4 October 2013, 10:46 a.m. CET
Source: Bloomberg, Raiffeisen RESEARCH

Central bank watch

Poland (NBP)	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)
Hungary (MNB)	Interest rate cutting cycle to continue, but at lower speed
Czech Republic (CNB)	No change in interest rates expected in 2013, threat of FX intervention by central bank prevails
Romania (BNR)	Only 25bp rate cut at the September meeting
Serbia (NBS)	NBS will wait for fiscal consolidation to cut key rate
Russia (CBR)	Rate cuts in October became very unlikely
Turkey (TCMB)	No rate hike stance of TCMB receives currently support from unexpected Fed tapering postponement

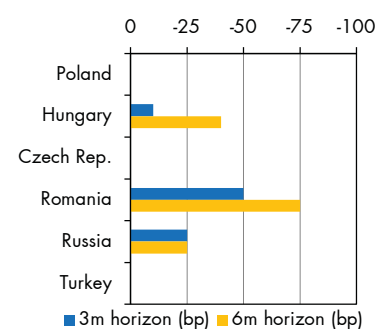
Source: Bloomberg, Reuters, Raiffeisen RESEARCH

Key rate trends (%)



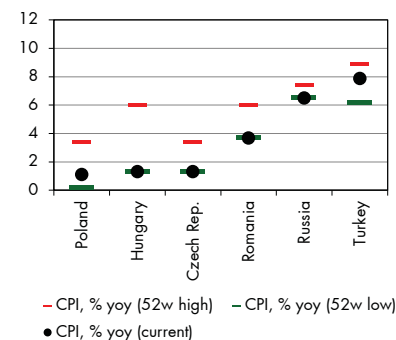
Source: Bloomberg

Key rate forecast (chg., bp)



Source: Bloomberg

Inflation snapshot



Source: Bloomberg, Raiffeisen RESEARCH

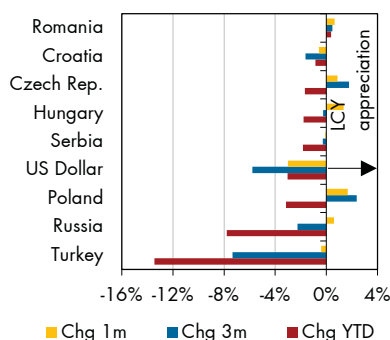
Rate setting meetings

	Oct	Nov
Poland (NBP)	2	6
Hungary (MNB)	29	26
Czech Rep. (CNB)		7
Romania (BNR)		5
Serbia (NBS)	17	7
Russia (CBR)	1st half	1st half
Turkey (TCMB)	23	19

Source: National Central Banks, Raiffeisen RESEARCH

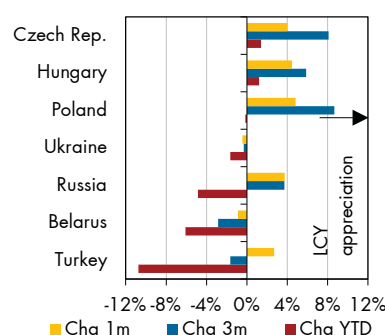
Foreign exchange market overview

Change of LCY value to EUR (%)



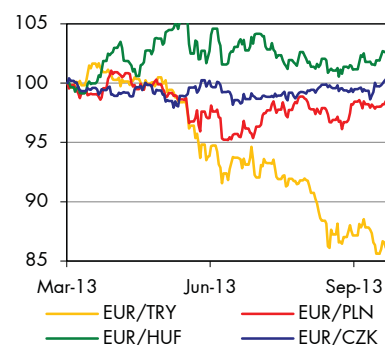
Source: Bloomberg

Change of LCY value to USD (%)



Source: Bloomberg

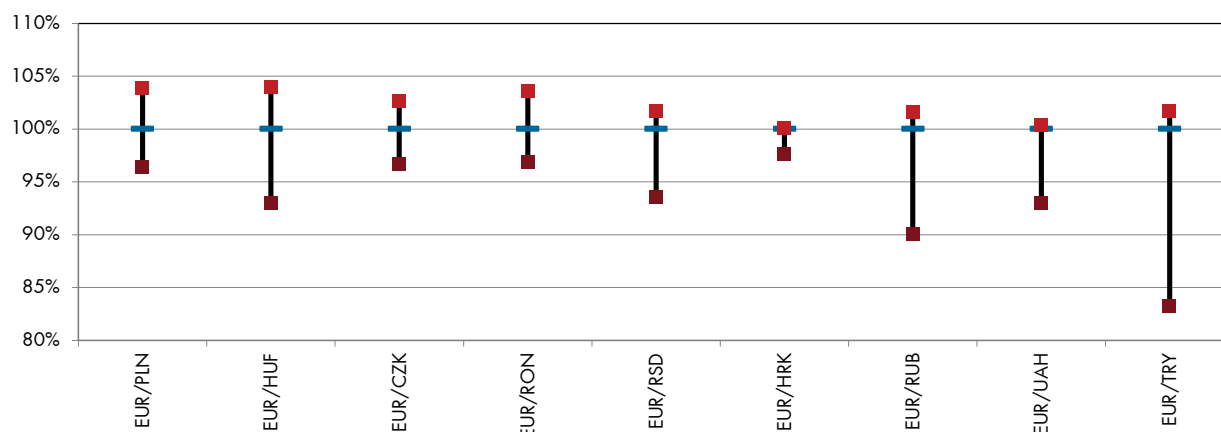
Exchange rate comparison



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

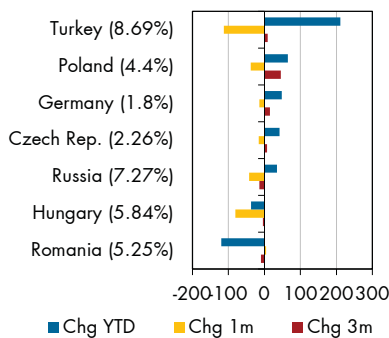
EUR vs	current ¹	Dec-13	Mar-14	Jun-14	Sep-14	Comment
PLN	4.21	4.15	4.10	4.00	4.05	Support area at EUR/PLN 4.18-4.20 still unlikely to be broken
HUF	296.8	300.0	305.0	300.0	305.0	HUF has shown some strength and sank below the 200 day moving average; we don't expect further strengthening
CZK	25.55	25.50	25.40	25.10	24.90	EUR/CZK getting close to "psychological" 25.5 level
RON	4.43	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	Depreciation pressures on HRK strengthened at the end of the week, EUR/HRK above 7.62
RSD	114.5	115.0	113.0	112.0	114.0	EUR/RSD weakening to continue as new government has to prove
RUB	43.76	42.95	42.54	42.79	42.63	see rouble basket below
UAH	11.14	10.66	10.74	10.71	10.75	see USD/UAH below
BYR	12,428	12,700	13,500	13,900	14,600	see USD/BYR below
TRY	2.72	2.54	2.62	2.71	2.62	see USD/TRY below
USD	1.36	1.30	1.31	1.29	1.28	Current strong EUR (despite clouded outlook as Fed is likely to exit expansionary policy earlier than ECB) supports a lot of CEE currencies
USD vs	current ¹	Dec-13	Mar-14	Jun-14	Sep-14	Comment
RUB	32.14	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	9,130	9,800	10,300	10,800	n.a.	We further increased our depreciation expectation on weakening fundamentals
TRY	2.00	1.95	2.00	2.10	2.05	TRY is currently benefiting from USD weakness, but pressure should be revived temporarily once tapering materialises
RUB basket	37.37	37.50	37.00	37.50	37.50	Central bank intervention volume, halved in September to USD 3.5 bn; RUB steady on hopes that QE tapering further delayed

¹ as of 4 October 2013, 10:46 a.m. CET

Source: Bloomberg, Raiffeisen RESEARCH

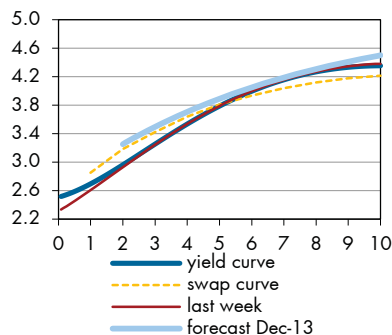
Local currency bond market overview

Change of LCY 10y bond yields (bp)



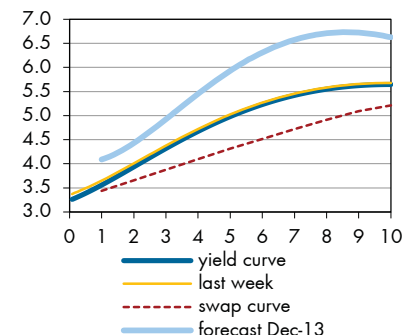
Source: Bloomberg

PLN yield curve



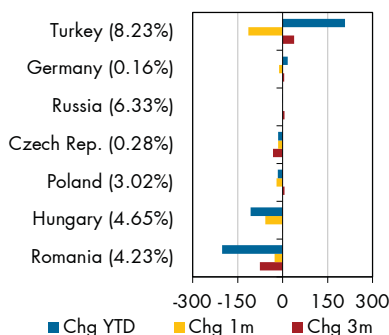
Source: Bloomberg

HUF yield curve



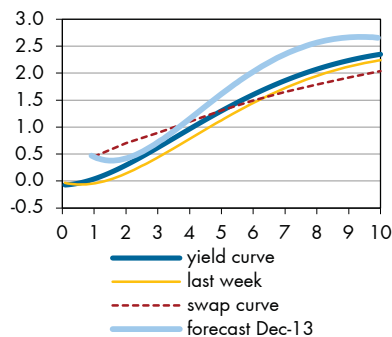
Source: Bloomberg

Change of LCY 2y bond yields (bp)



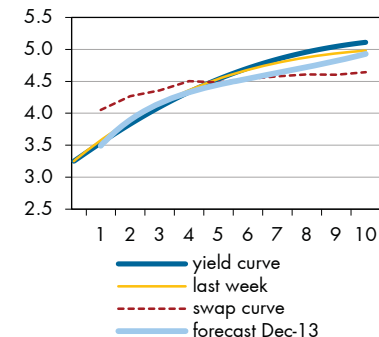
Source: Bloomberg

CZK yield curve



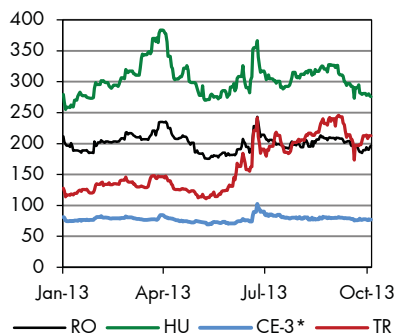
Source: Bloomberg

RON yield curve



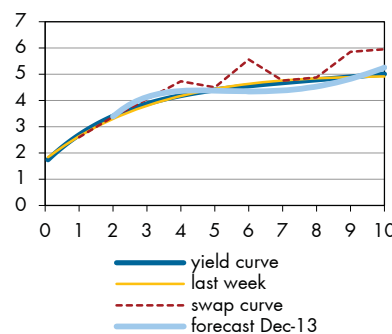
Source: Bloomberg

5y USD CDS



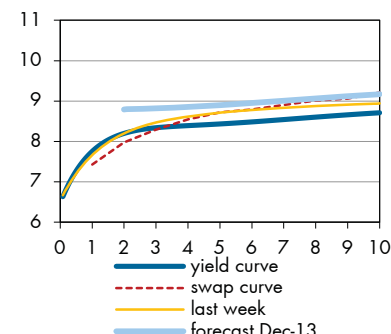
* CE-3: CZ, PL, SK
Source: Bloomberg, Raiffeisen RESEARCH

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	2.95	3.2	3.4	3.5	3.6	Poland	4.38	4.6	4.6	4.7	4.8
Hungary	4.55	4.5	4.9	4.7	5.0	Hungary	5.74	6.5	6.8	6.5	6.8
Czech Rep.	0.18	0.3	0.4	0.6	0.8	Czech Rep.	2.24	2.6	2.8	3.1	3.2
Romania	4.05	4.0	3.9	3.9	3.9	Romania	5.17	5.0	5.0	5.1	5.2
Croatia	4.12	3.5	3.5	3.6	3.7	Croatia	4.82	5.5	5.6	5.6	5.6
Russia	6.26	6.2	6.0	6.3	6.0	Russia	7.24	7.2	7.0	7.3	7.2
Turkey	8.10	8.8	9.3	9.2	9.0	Turkey	8.69	9.2	9.7	10.0	9.9
Eurozone	0.16	0.3	0.4	0.6	0.8	Eurozone	1.80	2.1	2.3	2.7	2.8
USA	0.31	0.5	0.5	0.8	1.0	USA	2.61	3.0	3.1	3.2	3.3

* Ask yields as of 4 October 2013, 09:24 a.m. CET
Source: Bloomberg, Raiffeisen RESEARCH

Local currency bond market overview

CEE local currency bond market snapshot

		Maturity	Coupon, %	Ask Price	YTM, %	Spread to Bunds, bp	MDur.	Comment
Poland								
PLN	2y Gov. Bond	25/07/2015	0.00	94.89	2.97	281	1.8	Domestic bond market are turning more cautious with regards to the rates outlook and NBP forward guidance (i.e. betting on interest rate hikes already in Q1 or early Q2 2014)
PLN	5y Gov. Bond	25/07/2018	2.50	94.36	3.81	297	4.6	
PLN	10y Gov. Bond	25/10/2023	4.00	97.02	4.37	256	8.1	
Hungary								
HUF	3y Gov. Bond	22/12/2016	5.50	103.02	4.46	417	2.9	The yield curve moved in a fairly narrow range this past week, even as the HUF appreciated slowly
HUF	5y Gov. Bond	20/12/2018	5.50	102.33	4.98	414	4.5	
HUF	10y Gov. Bond	24/11/2023	6.00	101.97	5.74	392	7.5	
Czech Republic								
CZK	2y Gov. Bond	11/04/2015	3.80	105.73	-0.01	-17	n.a.	Czech government bond yields continue moving sideways
CZK	5y Gov. Bond	18/08/2018	4.60	116.20	1.15	32	4.5	
CZK	10y Gov. Bond	12/09/2022	4.70	120.00	2.21	39	7.6	
Croatia								
HRK	5y Gov. Bond	10/07/2018	5.25	103.19	4.49	366	4.3	Eurobond prices decline, demand pronounced on the domestic market
HRK	8y Gov. Bond	05/03/2020	6.75	110.50	4.82	301	5.3	
Romania								
RON	3y Gov. Bond	29/08/2016	4.75	101.59	4.15	386	2.8	Faster and ampler easing cycle to support RON government securities, while the bulk of it already factored in, limiting potential for further gains
RON	5y Gov. Bond	26/07/2017	5.90	105.66	4.25	341	3.5	
Russia								
RUB	2y Gov. Bond	15/07/2015	6.88	101.17	6.26	610	1.7	OFZ market remained volatile, reflecting external market sentiment
RUB	5y Gov. Bond	03/08/2016	6.90	101.50	6.41	558	2.6	
RUB	10y Gov. Bond	24/11/2021	7.00	97.61	7.16	534	6.1	
Turkey								
TRY	2y Gov. Bond	13/05/2015	5.00	95.30	8.17	801	1.6	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	102.00	8.32	749	3.0	
TRY	10y Gov. Bond	08/03/2023	7.10	89.39	8.77	695	6.7	

Prices as of 4 October 2013, 10:08 a.m. CET
Source: Bloomberg, Raiffeisen RESEARCH

Bond auctions

	ISIN	Coupon	Maturity	Volume
07 October 2013				
RO	1y T-bill	RO1314CTN0D9	-	RON 700 mn
TR	T-bond	n.a.	fixed	20 Jun-18
TR	T-bond	n.a.	I/L	02 Aug-23
08 October 2013				
TR	T-bond	n.a.	fixed	07 Oct-15
TR	T-bond	n.a.	floating	11 Mar-20
TR	T-bond	n.a.	fixed	27 Sep-13
UA	T-bond	n.a.	n.a.	n.a.
09 October 2013				
CZ	5y T-bond	CZ0001003834	1.50%	29 Oct-19
CZ	15y T-bond	CZ0001003859	2.50%	25 Aug-28
RU	OFZ bond	n.a.	n.a.	n.a.
10 October 2013				
RO	3y T-bond	RO1316DBE011	3.25%	26 Feb-16
RO	3y T-bond	RO1316DBN053	4.75%	29 Aug-16

Summary: Ratings & macro data

Country ratings: CE, SEE, CIS

	S&P			Moody's			Fitch		
	LCY	FCY	Outlook	LCY	FCY	Outlook	LCY	FCY	Outlook
CE									
Poland	A	A-	stable	A2	A2	stable	A	A-	positive
Hungary	BB	BB	negative	Ba1	Ba1	negative	BBB-	BB+	stable
Czech Republic	AA	AA-	stable	A1	A1	stable	AA-	A+	stable
Slovakia *	A	A	stable	A2	A2	negative	A+	A+	stable
Slovenia *	A-	A-	stable	Ba1	Ba1	negative	BBB+	BBB+	negative
SEE									
Romania	BB+	BB+	stable	Baa3	Baa3	negative	BBB	BBB-	stable
Bulgaria	BBB	BBB	stable	Baa2	Baa2	stable	BBB	BBB-	stable
Croatia	BB+	BB+	negative	Ba1	Ba1	stable	BBB-	BB+	stable
Serbia	BB-	BB-	negative	B1	B1	stable	BB-	BB-	negative
CIS									
Russia	BBB+	BBB	stable	Baa1	Baa1	stable	BBB	BBB	stable
Ukraine	B	B	negative	Caa1	Caa1	negative	B	B	negative
Belarus	B-	B-	positive	B3	B3	negative	not rated	not rated	not rated
Kazakhstan	BBB+	BBB+	stable	Baa2	Baa2	stable	A-	BBB+	stable
Turkey	BBB	BB+	stable	Baa3	Baa3	stable	BBB	BBB-	stable

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

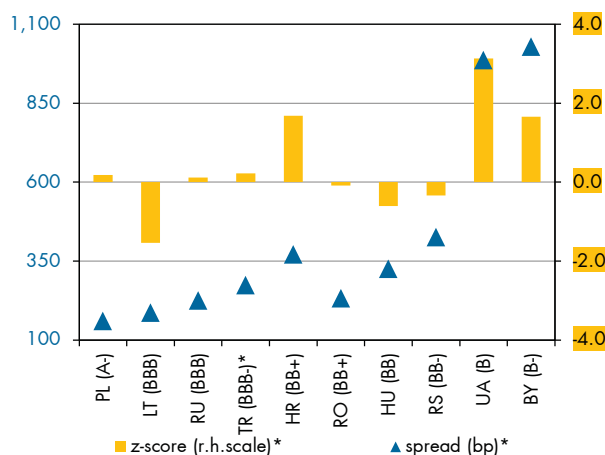
Main macro data & forecasts*

Country	Year	GDP, % avg. yoy	CPI, % avg. yoy	Unemployment, %	Nominal wages, EUR	Fiscal balance, % GDP	Public debt, % GDP	Export**, % GDP	C/A, % GDP	Ext. debt, % GDP	FXR*** % ext. debt	Import cover, months
Croatia	2012	-2.0	3.4	19.1	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	2.0	10.6	783	-2.9	78.7	84.0	2.6	119.2	25.9	4.8
	2014f	1.5	2.5	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	866	-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	24.3	2.8	33.7	67.2	16.9
	2014f	2.0	5.5	6.0	728	-0.2	11.5	23.5	2.0	34.0	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

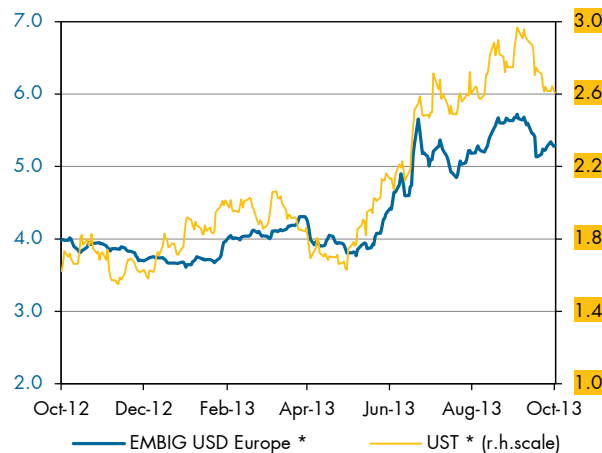
Eurobond market overview

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	107.1	107.3	-0.17	110.5	106.7	2.23	176	3.4	XS0802005289
CROATI 6 1/2 01/05/15	105.1	105.3	-0.08	112.7	104.9	2.22	206	1.2	XS0431967230
CROATI 5 7/8 07/09/18	105.7	106.4	-0.37	111.3	103.6	4.42	367	4.1	XS0645940288
REPHUN 3 1/2 07/18/16	100.5	101.1	-0.29	100.8	93.4	3.19	292	2.6	XS0240732114
REPHUN 5 3/4 06/11/18	104.3	105.1	0.07	108.1	99.1	4.60	388	4.0	XS0369470397
REPHUN 6 01/11/19	105.2	106.2	0.52	109.3	99.9	4.74	389	4.3	XS0625388136
LITHUN 4.85 02/07/18	109.8	110.3	-0.05	113.0	107.5	2.38	176	3.8	XS0327304001
POLAND 3 5/8 02/01/16	106.1	106.3	0.06	108.7	106.0	0.91	70	2.2	XS0242491230
POLAND 1 5/8 01/15/19	99.1	99.8	-0.16	102.3	98.0	1.74	88	4.9	XS0874841066
POLAND 3 3/4 01/19/23	106.3	107.0	0.11	113.1	104.5	2.92	123	7.6	XS0794399674
POLAND 3 3/8 07/09/24	101.0	101.8	0.31	107.4	99.3	3.22	131	8.8	XS0841073793
ROMANI 5 1/4 06/17/16	107.1	107.6	0.00	109.2	104.6	2.38	213	2.5	XS0638742485
ROMANI 4 7/8 11/07/19	104.6	104.9	0.49	109.4	99.0	3.97	299	5.0	XS0852474336
TURKEY 5 7/8 04/02/19	109.2	110.2	-0.61	119.4	107.5	3.86	299	4.6	XS0285127329
TURKEY 5 1/8 05/18/20	104.8	105.6	-0.77	115.9	102.4	4.20	311	5.5	XS0503454166
USD									
BGARIA 8 1/4 01/15/15	108.9	109.1	-0.06	116.4	109.1	1.06	90	1.2	XS0145623624
BELRUS 8 3/4 08/03/15	94.8	95.7	-2.24	106.1	94.3	11.71	1143	1.6	XS0529394701
BELRUS 8.95 01/26/18	93.3	94.3	-2.34	111.2	90.0	10.78	966	3.4	XS0583616239
CROATI 6 3/8 03/24/21	102.9	103.3	-1.45	118.5	101.4	5.86	375	5.9	XS0607904264
CROATI 5 1/2 04/04/23	95.8	96.2	-1.09	109.0	93.9	6.06	352	7.2	XS0908769887
REPHUN 5 3/8 02/21/23	97.3	97.8	-0.32	106.0	93.0	5.71	320	7.2	US445545AH91
REPHUN 7 5/8 03/29/41	107.6	107.8	-0.21	125.3	97.0	6.99	340	11.9	US445545AF36
LITHUN 7 3/8 02/11/20	121.7	121.9	0.33	131.0	118.0	3.51	170	5.2	XS0485991417
LITHUN 6 5/8 02/01/22	118.3	118.8	0.73	128.9	113.7	3.98	169	6.5	XS0739988086
LATVIA 2 3/4 01/12/20	95.0	95.5	0.06	101.2	91.3	3.60	182	5.6	XS0863522149
LATVIA 5 1/4 06/16/21	108.5	108.8	0.14	117.4	105.2	3.93	177	6.3	XS0638326263
POLAND 3 7/8 07/16/15	105.0	105.2	0.05	107.8	104.2	0.95	68	1.7	US731011AS13
POLAND 6 3/8 07/15/19	116.9	117.4	0.23	125.9	114.3	3.10	148	4.9	US731011AR30
POLAND 3 03/17/23	91.8	92.2	-0.08	101.3	87.4	4.03	150	8.1	US731011AT95
ROMANI 6 3/4 02/07/22	113.9	114.3	0.18	124.4	108.4	4.69	239	6.4	US77586TAA43
ROMANI 4 3/8 08/22/23	95.9	96.4	0.14	105.5	90.4	4.87	225	7.8	US77586TAC09
RUSSIA 4 1/2 04/04/22	102.8	103.1	0.10	116.2	97.7	4.09	176	7.0	XS0767472458
RUSSIA 7 1/2 03/31/30	118.6	118.8	0.23	128.7	114.6	3.91	93	5.0	XS0114288789
RUSSIA 5 5/8 04/04/42	102.7	103.2	-0.25	125.0	95.6	5.42	178	14.3	XS0767473852
SERBIA 5 1/4 11/21/17	99.4	100.3	-0.66	107.1	95.9	5.28	423	3.6	XS0856951263
SERBIA 4 7/8 02/25/20	93.3	93.9	-0.52	99.0	89.3	6.10	428	5.3	XS0893103852
TURKEY 6 1/4 09/26/22	108.4	108.8	0.35	127.3	102.4	5.04	261	6.9	US900123BZ27
TURKEY 6 7/8 03/17/36	106.9	108.1	-0.08	139.9	98.4	6.25	294	11.7	US900123AY60
TURKEY 6 3/4 05/30/40	105.9	106.6	-0.26	139.7	97.2	6.27	272	12.4	US900123BG46
UKRAIN 7 3/4 09/23/20	86.1	86.8	-0.78	108.1	85.5	10.55	855	5.1	XS0543783194
UKRAIN 7.8 11/28/22	83.7	84.5	-0.41	107.0	83.4	10.55	808	5.9	XS0858358236
UKRAIN 7 1/2 04/17/23	83.6	84.1	0.11	101.8	82.5	10.19	764	6.1	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 4 October 2013, 07:48 a.m. CET
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