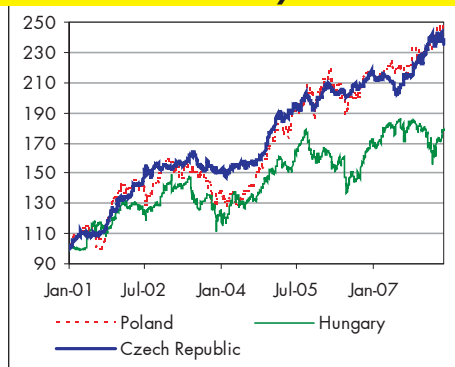


# CEE Weekly Bond Markets Outlook

Issue 20/2008

30 May 2008

## Performance of 7-10y bond indices



Source: EFFAS, Bloomberg, Raiffeisen RESEARCH

## RZB Convergence Index



Composite (GDP-weighted) index for PL, HU, CZ and SK

Source: Thomson Financial Datastream, Raiffeisen RESEARCH

## Forecasts

	current	Jun-08	Sep-08	Dec-08
<b>Poland</b>				
PLN	3.38	3.45	3.40	3.35
1m-rate	6.0	6.2	6.1	6.1
5y bond	6.4	6.4	6.2	6.0
10y bond	6.3	6.3	6.1	5.9
<b>Hungary*</b>				
HUF	241.1	260.0	255.0	255.0
1m-rate	8.5	8.4	8.3	7.9
5y bond	8.7	8.6	8.3	8.0
10y bond	7.9	8.0	7.7	7.5
<b>Czech Republic</b>				
CZK	25.1	26.0	26.8	26.0
1m-rate	3.6	3.8	3.8	3.8
5y bond	4.7	4.2	4.2	4.2
10y bond	5.1	4.4	4.3	4.4
<b>Slovakia</b>				
SKK	30.2	30.1	30.1	30.1
1m-rate	4.0	4.0	3.6	3.6
5y bond	4.6	3.7	3.8	4.2
10y bond	4.7	4.0	4.0	4.4
<b>USD</b>	1.55	1.60	1.50	1.45

\* under revision

Currencies per 1 EUR

Source: Reuters, Raiffeisen RESEARCH

## Recommendations (1-month horizon)

Neutral PLN bonds; Neutral HUF bonds; Buy CZK bonds; Neutral SKK bonds

## Highlights

### (P)review

■ **Poland** - Recent economic data together with the announcement after the MPC decision are little less supportive for the hawks than we previously anticipated.

■ **Hungary** - According to the latest Inflation Report of the MNB, the 2009 target (3%) may easily be missed.

■ **Czech Republic** - This week the Czech Ministry of Finance ran a roadshow across Western European capitals for its planned new Eurobond issue. An eventual strong success of the issue may boost CZK-denominated government bonds. Thus, we still stick to our buy recommendation.

■ **Slovakia** - Early Thursday morning Slovakia revaluated the central parity of the Slovak crown in the Exchange Rate Mechanism II to a surprisingly strong SKK/EUR 30.126. The probability that Slovakia will join the European Monetary Union with its exchange rate fixed to the new central parity after the second revaluation is very very high.

## Key upcoming events and data releases

Country	Indicator	Period	Forecast	Range	Last
2-Jun					
RO	GDP	Q1	7.5	%	n.a.
3-Jun					
SK	GDP, yoy real	Q1	8.7	%	n.a.
TR	CPI, yoy	May	9.5	%	n.a.
TR	CPI, mom	May	1.1	%	n.a.
TR	PPI, yoy	May	13.0	%	n.a.
4-Jun					
SK	Retail sales, yoy	Apr	n.a.	%	n.a.
5-Jun					
HU	Industrial output, yoy	Apr	7.0	%	n.a.
HR	Retail sales, yoy	Apr	0.0	%	n.a.
RU	CPI, mom	May	1.3	%	n.a.
RU	CPI, yoy	May	14.9	%	n.a.
6-Jun					
HU	GDP, yoy real	Q1	1.6	%	n.a.
HU	Trade balance	Apr	-70.0	EUR mn	n.a.
CZ	Trade balance	Apr	9.0	CZK bn	n.a.
HR	PPI, yoy	May	8.2	%	n.a.
HR	PPI, mom	May	0.8	%	n.a.
<b>Bond auctions</b>		<b>ISIN</b>	<b>Coupon</b>	<b>Maturity</b>	<b>Volume</b>
4-Jun					
PL	5y T-bond	n.a.	n.a.	n.a.	n.a.
CZ	15y T-bond reopening	CZ0001001945	4.70	12 Sep 2022	CZK 6 bn
5-Jun					
HU	10y T-bond	HU0000402433	6.50	24 Jun 2019	HUF 40 bn



**Raiffeisen  
RESEARCH**

RZB Group

# Local currency bonds

## Market overview

### CEE local currency bond market snapshot

29/5/2008	Maturity	Coupon %	Ask price Poland	YTM %	Spread to bunds, bp	MDur.
PLN 2y Gov. Bond	25/ Jul 10	0.00	87.49	6.43	216	2.2
PLN 5y Gov. Bond	25/ Apr 13	5.25	95.42	6.36	209	4.4
PLN 10y Gov. Bond	25/ Oct 17	5.25	93.07	6.24	181	7.3
PLN 20y Gov. Bond	23/ Sep 22	5.75	95.82	6.20	138	9.7
<b>Hungary</b>						
HUF 3y Gov. Bond	22/ Apr 11	6.75	94.45	9.00	469	2.7
HUF 5y Gov. Bond	24/ Oct 12	6.00	90.24	8.75	447	3.8
HUF 10y Gov. Bond	24/ Jun 19	6.50	89.45	7.97	354	7.5
HUF 15y Gov. Bond	24/ Nov 23	6.00	84.87	7.70	289	9.7
<b>Czech Republic</b>						
CZK 2y Gov. Bond	27/ Nov 09	3.25	98.48	4.32	4	1.5
CZK 5y Gov. Bond	16/ Jun 13	3.70	95.53	4.72	45	4.5
CZK 10y Gov. Bond	18/ Aug 18	4.60	96.16	5.09	66	8.0
CZK 15y Gov. Bond	12/ Sep 22	4.70	93.88	5.32	51	10.2
<b>Slovakia</b>						
SKK 2y Gov. Bond	5/ Feb 10	4.90	100.47	4.59	31	1.6
SKK 5y Gov. Bond	22/ Jan 13	5.00	101.72	4.57	31	4.2
SKK 10y Gov. Bond	12/ May 19	5.30	104.57	4.75	33	8.6
<b>Croatia</b>						
HRK 5y Gov. Bond	11/ Jul 13	4.50	95.40	5.55	123	4.5
HRK 10y Gov. Bond	8/ Feb 17	4.75	93.30	5.74	131	7.2
<b>Romania</b>						
RON 3y Gov. Bond	25/ Oct 10	6.00	92.34	9.70	549	2.2
RON 5y Gov. Bond	5/ Mar 12	6.50	91.40	9.30	503	3.4
<b>Turkey</b>						
TRY 2y Gov. Bond	13/ Jan 10	0.00	74.28	21.28	1701	1.6
TRY 5y Gov. Bond	26/ Sep 12	14.00	85.65	19.83	1556	3.1

Source: Reuters, Raiffeisen RESEARCH

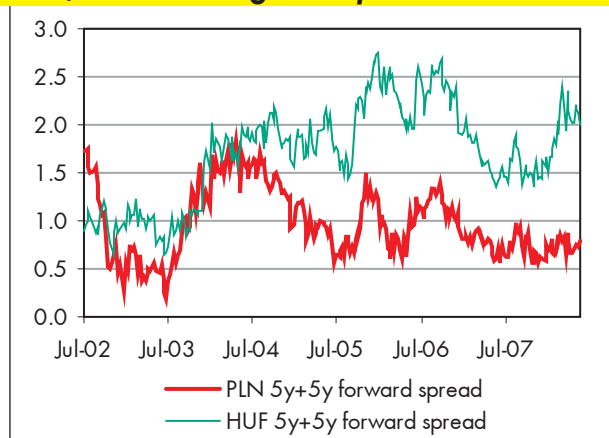
### Trading ideas

Recommendation	Entry date	Entry level	Current level	Target level	Stop	Carry (ann. %)	Comments
Buy RON T-bond 8.25%, 2013	3/28/2008	yield 9.0	9.4	7.5	10.0	4.27	ATTENTION: 12 month time horizon for investment, no currency hedging, performance includes FX development

\* Fixed Income trades assume that currency risk is hedged; hedging costs are accounted for in the cost of carry

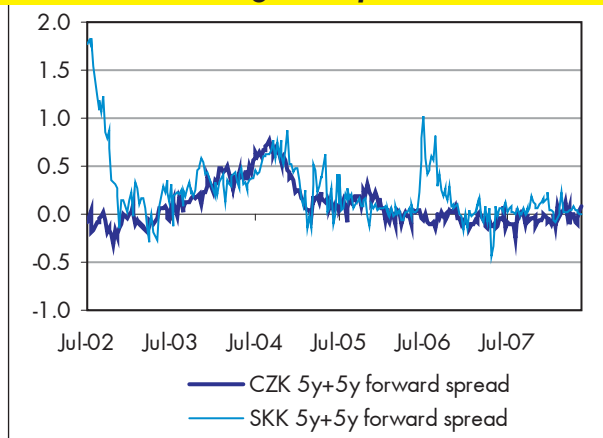
Source: Reuters, Bloomberg

### PLN, HUF convergence spread



Source: Reuters, Raiffeisen RESEARCH

### CZK, SKK convergence spread



Source: Reuters, Raiffeisen RESEARCH



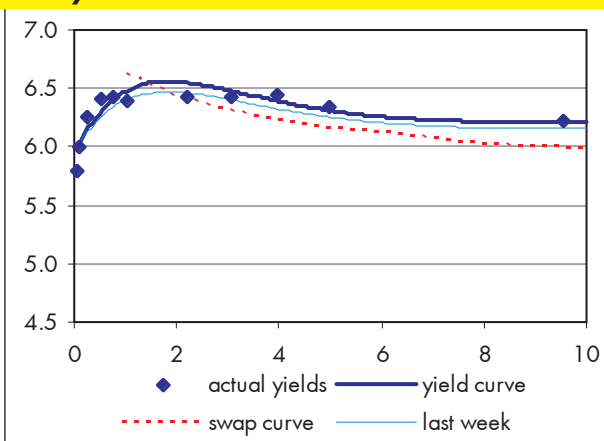
# Poland

## Less support for the hawks

### (P)review of key economic figures/events

28 May 08	Retail sales, % yoy	Apr 17.6 (Mar 15.7)	No hike in interest rates as expected Slight slowdown in growth expected
28 May 08	Monetary council meeting, %	May 5.75 (Apr 5.75)	
30 May 08	GDP, % yoy	Q1 5.75 (Q4 6.1)	

### PLN yield curve



Source: Reuters, Raiffeisen RESEARCH

### Money market focus

MM rates	1m	3m	6m	12m
<b>Actual</b>	<b>6.00</b>	<b>6.27</b>	<b>6.41</b>	<b>6.48</b>
Change from last week	0.01	0.05	0.06	0.02
Forecast Jun-08	6.15	6.17	6.24	6.57
<b>Forward rates</b>	<b>3x6</b>	<b>6x9</b>	<b>9x12</b>	
Change from last week	0.07	0.03	-0.07	

### Bond market focus

	2y	5y	10y	20y
<b>Actual</b>	<b>6.43</b>	<b>6.36</b>	<b>6.24</b>	<b>6.20</b>
Change from last week	0.04	0.11	0.16	0.12
Forecast Jun-08	6.47	6.40	6.25	6.20
<b>Spread to bunds</b>	<b>215.6</b>	<b>208.7</b>	<b>181.3</b>	<b>138.1</b>
Change from last week	-15.5	-10.7	15.8	3.3
<b>Spread to swaps</b>	<b>4.2</b>	<b>-20.2</b>	<b>-26.4</b>	

### EUR/PLN



Source: Reuters, Raiffeisen RESEARCH

### Market strategy

Neutral PLN T-bonds all maturities

### Market comment

At its Wednesday meeting the Polish Monetary Council left rates unchanged. This move was in line with the market and ours expectations and so its impact on the bond market was limited. After the decision, bond yields rose by few basis points. Earlier on Wednesday, we had a chance to look at retail sales data which was weaker than market consensus. The main reason was lower food sales. Data was supportive for Polish bonds, but this wasn't a long-lasting effect and shortly afterwards bond prices fell below levels seen before the publication.

### Market outlook

Recent economic data together with the announcement after the MPC decision are little less supportive for the hawks than we previously anticipated. For the time being, we are not changing our opinion that the Polish central bank will hike rates in June, but resistance to such move may be a little stronger. In the coming days there will be a dry spell in terms of local economic data, so one should expect that investors will focus on international factors. As for monetary policy, a key factor that may influence MPC will be the inflation projection. This will surely shed some light on possible MPC decisions in the longer term.

Analysts: Marcin Grotek (+48 22 585 29 44)  
Wolfgang Ernst (+43 1 71707 1500)

### Exchange rate focus

	actual	Jun-08	Sep-08	Dec-08
<b>EUR/PLN</b>	<b>3.38</b>	<b>3.45</b>	<b>3.40</b>	<b>3.35</b>
Change from last week	0.6%			
<b>USD/PLN</b>	<b>2.17</b>	<b>2.16</b>	<b>2.27</b>	<b>2.31</b>
Change from last week	0.9%			

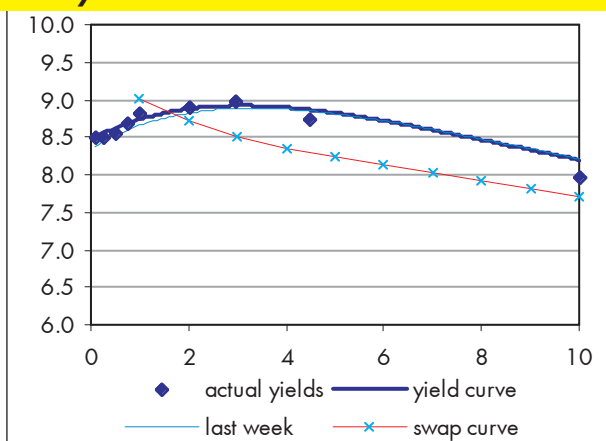
# Hungary

## Another hike

### (P)review of key economic figures/events

26 May 08	Monetary council meeting, %	May 8.5 (Apr 8.25)	Renewed interest rate hike due to inflation worries
05 Jun 08	Industrial output, % yoy	Apr 7.0 (Mar 1.9)	
06 Jun 08	GDP, % yoy	Q1 08 1.6 (Q4 07 0.8)	Still weak growth

### HUF yield curve



Source: Reuters, Raiffeisen RESEARCH

### Money market focus\*

MM rates	1m	3m	6m	12m
Actual	8.50	8.71	8.79	8.99
Change from last week	0.14	0.17	0.04	-0.09
Forecast Jun-08	8.4	8.6	8.7	9.0

### Bond market focus\*

	3y	5y	10y	15y
Actual	9.00	8.75	7.97	7.70
Change from last week	-0.07	0.01	0.08	0.00
Forecast Jun-08	9.1	8.6	8.0	7.9
Spread to bunds	468.8	447.3	354.2	288.7
Change from last week	-29.5	-20.3	-10.9	-11.4

\* under revision

### EUR/HUF



241.12  
short (-> 237.20); lower channel line crossed -> further drop expected

Source: Reuters, Raiffeisen RESEARCH

### Market strategy

Neutral HUF T-bonds all maturities

### Market comment

HUF strengthening had lost some momentum with EUR/HUF stagnating around 243-244 levels. Now it has strengthened to 240. The fixed income market lacks clear dynamics. The central bank hiked the key rate once again by 25bp (key rate is now 8.5%), and the market reaction was subdued. Nevertheless, monetary policy is becoming more comprehensible. It is something of a novelty in Hungary (at least vis-à-vis the track record for the new central bankers in office in the last 10-15 months) that monetary policy is actually taking the inflation targets seriously. According to the latest Inflation Report of the MNB (2009 inflation forecast is 4.2%), the 2009 target (3%) may easily be missed. Still, the Monetary Council is clearly in favour of a strict monetary policy, and is doing everything it can in order to bring inflation down.

### Market outlook

What are the options for monetary policy? Higher interest rate allows HUF to remain strong and relatively stable. According to MNB calculations, the HUF strengthening of almost 10% against the EUR in the past two months (provided it lasts) would cut 2009 inflation by as much as 1 percentage point (ceteris paribus). Probably the MNB does not want further tangible HUF strengthening. But also the MNB would like to utilise the benign impact of the recent HUF appreciation on inflation. Therefore, in our view the Monetary Council might be ready to hike once again if the currency weakens significantly (say, EUR/HUF beyond 250) or upcoming macro data signals further inflationary pressures. In summary, we do not expect much HUF weakening over the medium run. We keep our NEUTRAL recommendation on HGB's.

Analyst: Zoltan Török (+36 148 44 843)

### Exchange rate focus\*

	actual	Jun-08	Sep-08	Dec-08
EUR/HUF	241.05	260.0	255.0	255.0
Change from last week	3.8%			
USD/HUF	154.82	162.5	170.0	175.9
Change from last week	4.1%			

\* under revision

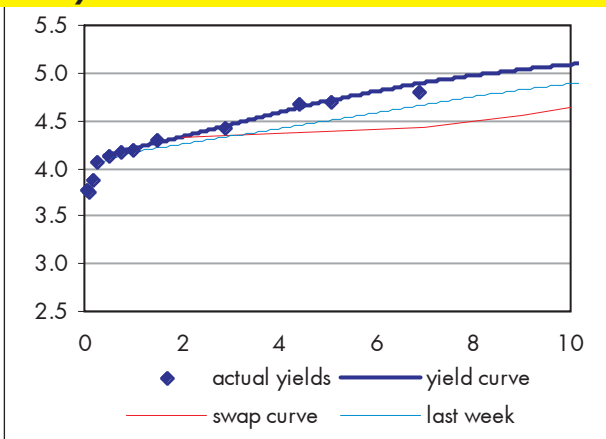
# Czech Republic

## Czech industry in spotlight

### (P)review of key economic figures/events

06 Jun 06	Trade balance, CZK bn	Apr 9.0 (Mar 8.1)	We expect a recovery of industrial output after the March decline
11 Jun 06	Industrial output, % yoy	Apr 12.0 (Mar -2.1)	

### CZK yield curve



Source: Reuters, Raiffeisen RESEARCH

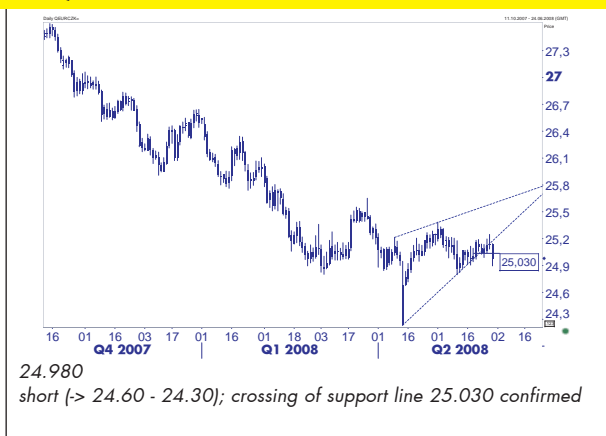
### Money market focus

MM rates	1m	3m	6m	12m
<b>Actual</b>	<b>3.75</b>	<b>4.07</b>	<b>4.14</b>	<b>4.20</b>
Change from last week	-0.01	0.02	0.01	0.01
Forecast Jun-08	3.8	3.9	4.0	4.1
<b>Forward rates</b>	<b>1x2</b>	<b>3x6</b>	<b>6x9</b>	<b>9x12</b>
Change from last week	-0.03	0.00	0.01	0.01

### Bond market focus

	2y	5y	10y	15y
<b>Actual</b>	<b>4.32</b>	<b>4.72</b>	<b>5.09</b>	<b>5.32</b>
Change from last week	0.25	0.27	0.28	0.26
Forecast Jun-08	4.1	4.2	4.4	4.8
<b>Spread to bunds</b>	<b>4.5</b>	<b>45.1</b>	<b>66.1</b>	<b>50.6</b>
Change from last week	-3.8	5.4	8.8	14.7
<b>Spread to swaps</b>	<b>12.0</b>	<b>-23.5</b>	<b>-31.1</b>	<b>n.a.</b>

### EUR/CZK



Source: Reuters, Raiffeisen RESEARCH

### Market strategy

Buy CZK T-bonds 5-15y maturities

### Market comment

The Czech market was mainly driven by the external developments during last week, including the recent appreciation and yesterday's official revaluation of the SKK in the ERM II. However, the CZK appears to be quite resilient in its narrow trading range of EUR/CZK 25.0-25.1, and so far external influences were rather short lived. From Monday to Wednesday the Czech Ministry of Finance ran a roadshow across Western European capitals for its planned new EUR-denominated Eurobond issue (maturity 10-20 years, volume EUR 1 bn or more).

### Market Outlook

In fact the placement of the new Eurobond may happen very soon. An eventual strong success of the issue should boost Czech government bonds, cutting their yields and spreads vs. European benchmarks. Thus, we still stick to our buy recommendation. The next two week are rich in domestic macroeconomic data releases. This time the most important one will be the industrial output for April. While the slow deceleration of inflation should not be a surprise, the estimate for industrial output is analytically challenging. We expect a recovery of industrial output growth after the unexpected decline in the previous month. However, the uncertainty of the forecast is quite high, as a stronger than expected influence of the flagging US and European economies on Czech producers cannot be ruled out.

Analyst: Pavel Mertlik (+420 221 141 800)  
 Walter Demel (+43 1 71707 1526)

### Exchange rate focus

	actual	Jun-08	Sep-08	Dec-08
<b>EUR/CZK</b>	<b>25.23</b>	<b>26.0</b>	<b>26.8</b>	<b>26.0</b>
Change from last week	-0.8%			
<b>USD/CZK</b>	<b>16.12</b>	<b>16.3</b>	<b>17.9</b>	<b>17.9</b>
Change from last week	0.6%			

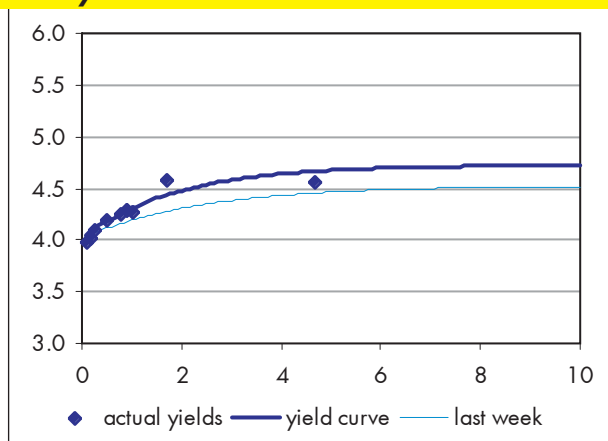
## Slovakia

## Game over for SKK after 2nd revaluation

## (P)review of key economic figures/events

03 Jun 08 GDP, % yoy real Q1 8.7 (Q4 14.3) Strong contribution of domestic demand

## SKK yield curve



Source: Reuters, Raiffeisen RESEARCH

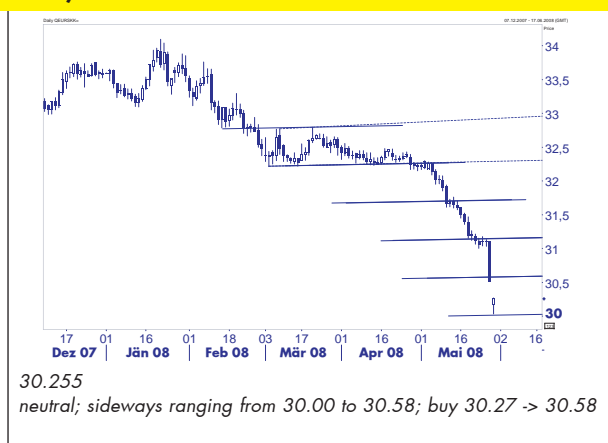
## Money market focus

MM rates	1m	3m	6m	12m
<b>Actual</b>	<b>3.99</b>	<b>4.10</b>	<b>4.20</b>	<b>4.28</b>
Change from last week	-0.02	0.03	0.09	0.06
Forecast Jun-08	4.0	4.0	4.0	4.0
<b>Forward rates</b>	<b>1x2</b>	<b>3x6</b>	<b>6x9</b>	<b>9x12</b>
	4.13	4.32	4.36	4.27
Change from last week	-0.02	0.15	0.06	0.00

## Bond market focus

	2y	3y	5y	10y
<b>Actual</b>	<b>4.29</b>	<b>4.59</b>	<b>4.57</b>	<b>4.75</b>
Change from last week	0.66	0.22	0.21	0.14
Forecast Jun-08	4.0	3.9	3.7	4.0
<b>Spread to bunds</b>	<b>11.2</b>	<b>31.3</b>	<b>30.6</b>	<b>32.6</b>
Change from last week	n.a.	-6.7	0.3	-5.3

## EUR/SKK



Source: Reuters, Raiffeisen RESEARCH

## Market strategy

Neutral SKK T-bonds all maturities

## Market comment

Early Thursday morning Slovakia revaluated the central parity of the Slovak crown in the Exchange Rate Mechanism II (ERM II) to a surprisingly strong SKK/EUR 30.126. The new parity lies exactly at the strong end of the +/-15% bandwidth of the old central parity in the ERM II and, thus, was the maximum appreciation possible for the new central parity in order to remain in compliance with the wider interpretation of the Maastricht criterion on exchange rate stability. European institutions were quite afraid of potential inflationary pressures Slovakia might experience once it enters EMU and, therefore, allowed a very strong setting of the exchange rate. Real GDP growth has been extremely strong over the past quarters and while the additional appreciation of the crown might slow it down somewhat (in addition to other global and domestic factors), keeping potential inflationary pressures in check was the main priority.

## Market outlook

The probability that Slovakia will join the European Monetary Union (EMU) with its exchange rate fixed to the new central parity after the second revaluation is very very high. Thus, we expect the market to stay close to EUR/SKK 30.126 (+ few forward points). There is a chance that conversion rate could be rounded to EUR/SKK 30.000.

Analyst: Juraj Valachy (+421 2 5919 2033)  
Walter Demel (+43 1 71707 1526)

## Exchange rate focus

	actual	Jun-08	Sep-08	Dec-08
EUR/SKK	30,24	30,1	30,1	30,1
Change from last week	3,0%			
USD/SKK	19,44	18,8	20,1	20,8
Change from last week	1,6%			



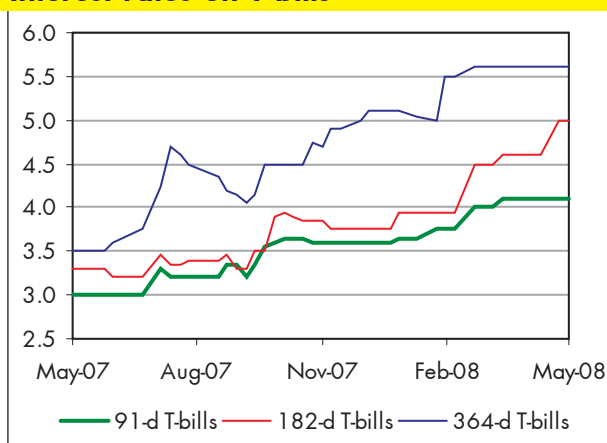
# Croatia

## Slower, but still solid industry growth

### (P)review of key economic figures/events

05 Jun 08	Real retail sales, % yoy	Apr 0.0 (Mar -0.3)	Inflationary pressure to persist
06 Jun 08	PPI, % yoy	May 8.2 (Apr 7.7)	
06 Jun 08	PPI, % mom	May 0.8 (Apr 0.4)	

### Interest rates on T-bills



Source: Ministry of Finance

### Market strategy

EUR/HRK - We expect moderate appreciation pressures to gain momentum.

### Market comment

Latest data show that total industrial production in April 2008 was 6.9% higher yoy. Last year's lower base, due to fewer working days, contributed to this strong annual growth. The most significant segment of industry, manufacturing, was up 7.4% compared to April 2007. From a year-to-date perspective, industrial production increased by 5.3% in the first four months 2008. Looking ahead, we expect slower growth in industrial production than in 2007 (5.6%), i.e. for 2008 we expect that industrial production might increase around 4.5%. Negative effects on industrial production growth may stem from a slowdown in domestic consumption and weaker economic activity in the (core) EU member countries. Furthermore, the real appreciation of the domestic currency (nominal strengthening of kuna plus expected average inflation rate of around 6%) might harm the international competitiveness of Croatian exporters.

### Money market focus

MM rates	1m	3m	6m	12m
ZIBOR actual	5.50	6.28	6.67	7.00
Change from last week	-0.13	-0.20	-0.17	0.00
T-bills actual	n.a.	4.10	5.00	5.60

### Exchange rate focus

	actual	Jun-08	Sep-08	Dec-08
EUR/HRK	7.254	7.20	7.28	7.30
Change from last week	0.1%			
USD/HRK	4.63	4.50	4.85	5.03
Change from last week	-0.2%			

### Exchange rate comment

Since the end of last week mild depreciation pressures on the domestic currency were visible, pushing EUR/HRK slightly above 7.25. Strong demand for foreign currencies from the corporate sector (due to increased import activity this year) accompanied by a larger supply of euros from the banking sector caused mild depreciation pressures. Furthermore, easing tensions on the MM due to improving levels of liquidity there allowed a mild weakening of the kuna. Despite the fact that interest rates on the MM are decreasing, demand at this week reverse repo auction remained high as the overall value of bids surpassed HRK 1.6 bn. In the period ahead, we still expect a strengthening of the kuna, and appreciation pressures might push the FX rate to around EUR/HRK 7.20 by the end of June/start of July.

### EUR/HRK



Source: Reuters, Raiffeisen RESEARCH

Analyst: Zdeslav Santic (+385 1 61 74 337)

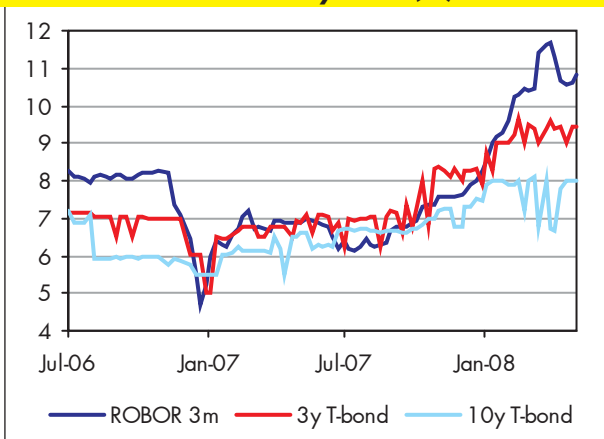
# Romania

## GDP could be above expectations

### (P)review of key economic figures/events

08 May 08	Industrial output, % yoy	Mar 2.9 (Feb 7.6)
12 May 08	CPI, % yoy	Apr 8.6 (Mar 8.6)
02 Jun 08	GPI, % yoy	Q1 7.5 (Q4 6.6)

### ROBOR 3m & T-bond yields (%)



Source: Reuters, National Bank of Romania, Raiffeisen RESEARCH

### Money market focus

MM rates	1m	3m	6m	12m
<b>Actual</b>	<b>10.89</b>	<b>10.84</b>	<b>10.69</b>	<b>10.69</b>
Change from last week	0.23	0.22	0.08	0.08
Forecast Jun-08	9.9	10.0	9.9	10.2
<b>Implicit forward rates</b>	<b>3x6</b>	<b>6x9</b>	<b>9x12</b>	
Change from last week	10.66	10.54	10.27	
	-0.07	0.08	0.07	

### Bond market focus

	2y	3y	5y	10y
<b>Actual</b>	<b>9.70</b>	<b>9.70</b>	<b>9.30</b>	<b>7.90</b>
Change from last week	0.18	0.25	0.05	-0.10
Forecast Jun-08	9.20	9.30	9.20	8.10

### EUR/RON



Source: Reuters, Raiffeisen RESEARCH

### Market strategy

Neutral RON T-bonds (6-12m horizon)

### Market comment

The NBR data show that non-governmental lending decelerated slightly in April. Nevertheless, the rate of annual growth in lending is still very high and is a matter of concern for the NBR, as it is fuelling excess demand from the economy. The main driver of lending is FCY lending, which increased by 85.8% yoy in April compared with a 44.5% yoy increase in LCY lending.

The National Institute of Statistics is to release the GDP figures on 2 June. We expect to see a growth rate of around 7.5% yoy in Q1 2008. Although the growth rate in Q1 2007 may be much higher than ones recorded in the previous quarters, we think that this might not reflect acceleration in economic activity. Rather, activity in Q1 2008 had almost the same intensity as in the previous quarters. In fact, we expect a very large contribution to GDP growth from net taxes on product components, which were at a very low level in Q1 2007. We think that the current strong economic activity reveals also that the Romanian economy was quite resilient to the global financial turmoil in recent quarters. We expect only a slight deceleration in economic activity by the end of the year, following tightening in the monetary policy rate in recent months and also the expected slowdown in the euro-area economy. At the same time, we think that there is still an excess of aggregate demand in the economy and some quarters are still to pass until it disappears.

### Market outlook

We think that the GDP data from Monday could be above expectations and this could generate some appreciation pressure for the leu. The most likely scenario for the next days is EUR/RON to trade in the 3.6-3.65 range.

Analyst: Ionut Dumitru (+40 21 306 1269)

### Exchange rate focus

	actual	Jun-08	Sep-08	Dec-08
<b>EUR/RON</b>	<b>3.65</b>	<b>3.65</b>	<b>3.60</b>	<b>3.50</b>
Change from last week	0.7%			
<b>USD/RON</b>	<b>2.35</b>	<b>2.28</b>	<b>2.40</b>	<b>2.41</b>
Change from last week	-0.6%			



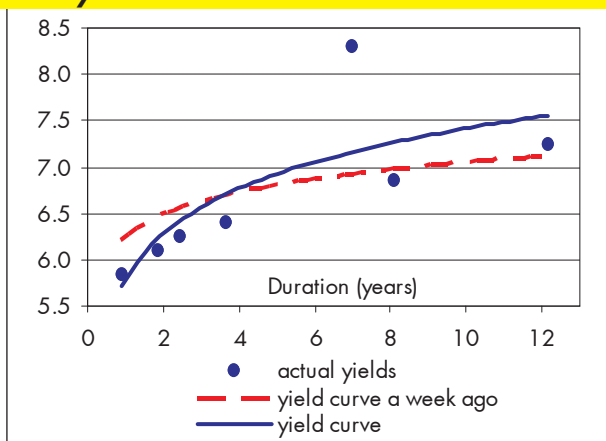
# Russia

## Inflation and monetary policy twists

### (P)review of key economic figures/events

04 May 08	CPI, % mom	May 1.3 (Apr 1.4)
04 May 08	CPI, % yoy	May 14.9 (Apr 14.2)

### RUB yield curve



Source: Reuters, Raiffeisen RESEARCH

### Money market focus

MM rates	1m	3m	6m	12m
Actual	5.87	6.71	7.86	8.32
Change from last week	0.04	0.02	0.08	0.02
Forecast Jun-07	6.20	7.04	8.19	n.a.
Forward rates	1x2	3x6	6x9	9x12
	6.89	9.16	n.a.	n.a.
Change from last week	0.02	0.15	n.a.	n.a.

### Bond market focus

	1y	2y	5y	15y
Actual	5.84	6.11	6.42	6.87
Change from last week	-0.05	-1.16	-0.08	-0.02
Forecast Jun-07	6.17	6.69	7.10	n.a.

### USD/RUB



Source: Reuters, Raiffeisen RESEARCH

### Market strategy

USD/RUB 23.61 - despite the apparent stability of the rouble, the currency might be poised for appreciation against the dual currency basket in coming months following the CBR policy twists

### Market comment

According to the Statistics Office of Russia (Rosstat), consumer price inflation may reach 1.4% mom in May (we expect 1.3%). However, in the opinion of the Central Bank's governor, the slowing growth of monetary aggregates and domestic credit, evidence of declining food prices on international markets and the high base effect should help bring back disinflation. In general, we agree with the CBR conclusions, but we expect a slower pace of inflation decline due to its accrue nature and high prices for energy and petrol taking a toll on end-consumers. We also see the sharp deceleration of money supply growth coming to an end in July, as the high base effect from 2007 will disappear. Finally, fiscal policy will remain lax, focused on social spending. As the government looks forward to extra RUB 1 trillion in revenue for 2008 it already wants to spend additional RUB 120 bn on social services and agriculture. Unlike in previous years, rouble liquidity will be sterilised via the monetary channel while fiscal policy will do no help. So far, inflation pressure will be easing in summer with CPI inflation reaching a peak of 15.6% in August and gradually declining back to 14.5-15.0% by year-end. As concerns monetary policy, the Central Bank pledged to continue tightening. Perhaps surprisingly, the Central Bank also cited possible revaluation of the rouble, signalling a return to its old policy of using rouble appreciation for curbing inflation growth. We believe rouble revaluation may occur as soon as in June or July via changing EUR/USD weights in the dual currency basket or by shifting basket "tolerated fluctuation band" from 29.60-29.90 to 29.40-29.70.

Analyst: Gintaras Shlizhyus (+43 1 71707 1343)

### Exchange rate focus

	actual	Jun-08	Sep-08	Dec-08
EUR/RUB	36.81	37.28	36.00	35.45
Change from last week	0.7%			
USD/RUB	23.71	23.30	24.00	24.45
Change from last week	-0.5%			

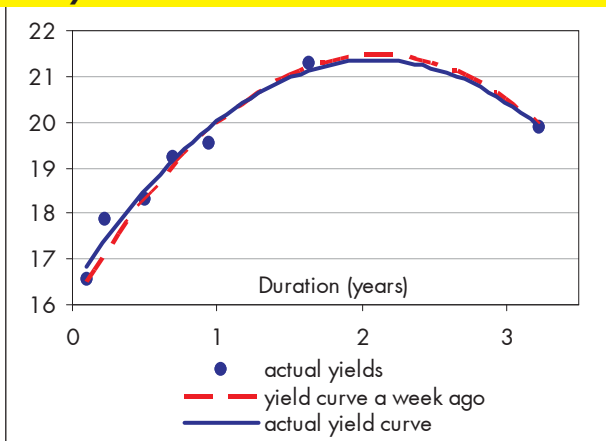
# Turkey

## Interest rates shielding the lira

### (P)review of key economic figures/events

03 Jun 08	CPI, % yoy	May 9.5 (Apr 9.66)	Inflation to remain elevated
03 Jun 08	CPI, % mom	May 1.1 (Apr 1.68)	
03 Jun 08	PPI, % yoy	May 13 (Apr 14.56)	

### TRY yield curve



Source: Reuters, Raiffeisen RESEARCH

### Market strategy

We see some lira stability from a short-term perspective, while a rebound of the USD might weigh on the currency in H2 2008.

### Market comment

Driven by the recent hike as well as the hawkish wording of the Turkish Central Bank (CBRT), the lira traded stronger vs. the USD and the EUR. The central bank clearly indicated that "measured rate hikes are on the agenda" the months ahead. A reopening of a EUR Eurobond did not materialise, although rumours about such a decision were circulating. Manufacturing confidence continued to fall, hinting at slowing business activity.

### Market outlook

We think the lira will trade at its current levels in the weeks ahead, especially before the MPC meeting on 16 June, while we see potential for some profit-taking afterwards. At its current levels and with the prospect of a 50bp hike in June, lira rates are among the highest in established Emerging Markets. Weak macro data to be released (especially inflation data) should not harm market sentiment for the lira from a short-term perspective, as the CBRT has already shifted to a tightening bias, and markets seem convinced that the high rate should stabilise the currency (disregarding the deteriorating economic and political outlook). Our baseline scenario sees another 50bp hike in June as a done deal and then a likely 25bp hike in Q3 (we think that the CBRT will not overdo it due to the likely economic slowdown). For the local bond market, we are less optimistic with an eye to the weeks ahead. Firstly, markets might price in more rate hikes than 50-75bp due to global risks to inflation in Emerging Markets. Secondly, it seems that markets are pricing in a sizeable country risk premium at present due to ongoing political frictions as well as the country's external vulnerability.  
Analyst: Gunter Deuber (+43 1 71707 1423)

### Money market focus

MM rates	1m	3m	6m	12m
<b>Actual</b>	<b>16.52</b>	<b>17.16</b>	<b>17.75</b>	<b>18.88</b>
Change from last week	0.32	0.56	0.55	0.38
Forecast Jun-08	17.08	17.68	18.33	19.61
<b>Forward rates</b>	<b>1x2</b>	<b>3x6</b>	<b>6x9</b>	<b>9x12</b>
Change from last week	0.09	0.59	0.60	0.70

### Bond market focus

	1m	1y	2y	5y
<b>Actual</b>	<b>16.58</b>	<b>19.53</b>	<b>21.30</b>	<b>19.89</b>
Change from last week	0.08	-0.02	-0.09	-0.02
Forecast Jun-08		19.61	21.77	20.41

### EUR/TRY



Source: Reuters, Raiffeisen RESEARCH

### Exchange rate focus

	actual	Jun-08	Sep-08	Dec-08
<b>EUR/TRY</b>	<b>1.90</b>	<b>1.95</b>	<b>1.91</b>	<b>1.81</b>
Change from last week	-3.6%			
<b>USD/TRY</b>	<b>1.22</b>	<b>1.22</b>	<b>1.27</b>	<b>1.25</b>
Change from last week	-2.2%			

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