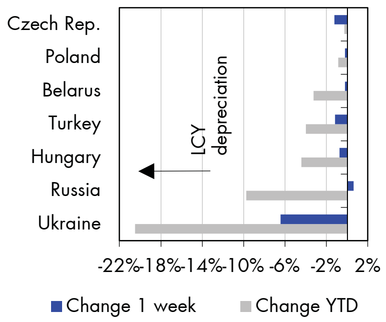
CEE Weekly

Raiffeisen RESEARCH

Issue 12/2014

21 March 2014

Change of LCY value to USD (%)



Source: Bloomberg, Raiffeisen RESEARCH

Market snapshot

	curr.*	Jun-14	Sep-14	Dec-14
Poland				
EUR/PLN	4.20	4.18	4.15	4.10
Key rate	2.50	2.50	2.50	2.75
10y bond	4.3	4.6	4.7	4.8
Hungary				
EUR/HUF	312.4	315	315	320
Key rate	2.70	2.40	2.40	2.40
10y bond	5.7	6.2	6.3	6.6
Czech Rep.				
EUR/CZK	27.5	27.2	27.0	26.4
Key rate	0.05	0.05	0.05	0.05
10y bond	2.2	2.3	2.5	3.0
Romania				
EUR/RON	4.48	4.50	4.55	4.50
Key rate	3.50	3.50	3.50	3.50
10y bond	5.3	5.4	5.6	5.7
Croatia				
EUR/HRK	7.66	7.58	7.64	7.68
Key rate	5.00	6.00	6.00	6.00
10y bond	4.6	5.5	5.5	5.5
Russia				
USD/RUB	36.4	37.1	37.4	36.3
Key rate	7.00	7.00	6.00	6.00
10y bond	9.5	9.5	8.7	8.8
Turkey				
USD/TRY	2.24	2.22	2.15	2.10
Key rate	10.00	10.00	10.00	10.00
10y bond	10.8	10.6	10.7	10.9
EUR/USD	1.38	1.35	1.30	1.35

** prices as of 21 March 2014, 10:43 a.m. CET*
Source: Thomson Reuters, Raiffeisen RESEARCH

Content

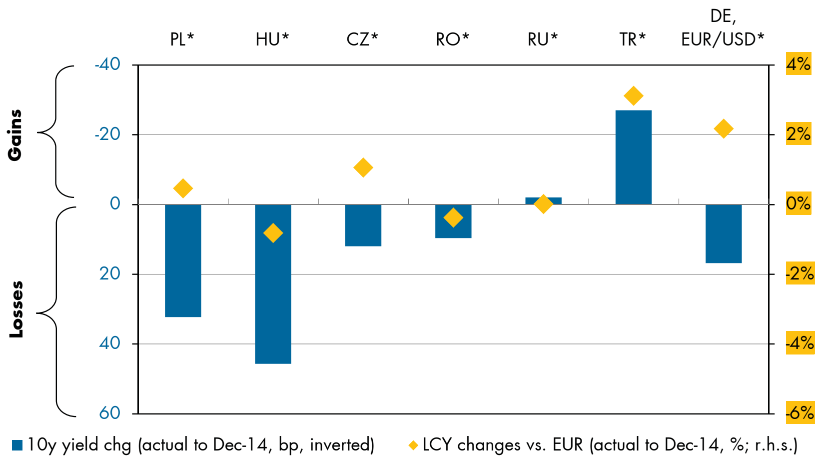
Into the sanction spiral

Financial markets in CEE showed relief over the past week after the sanctions on Monday were not harsher than expected, i.e. the EU only introduced light targeted sanctions (travel bans and asset freezes) on a few officials – coordinated with the US. However, on Thursday the US made additional steps not only adding persons to the sanction list, which are said to be closer to the Russian President Vladimir Putin, but also imposing sanctions on two Russian banks, one of them - Rossiya - in the TOP-20 list of the Russian banking sector. The Europeans continued in small steps, also adding a few names to their list. On the Russian side official measures to reduce offshoring practices took off (see also the Focus on section on page 2-3).

While the direct effect of sanctions on the Russian economy is probably still insignificant the Rating agencies S&P and Fitch both lowered the rating outlook of Russia's BBB rating from "stable" to "negative" reflecting the potential impact of sanctions against Russia. Thus, it currently looks as if the roundabout gains speed – with negative implications for markets.

Next week there will be monetary council meetings in the Czech Republic, Hungary and in Romania. We do not expect changes to the key rates in both countries. A first hike of the Czech key rate is expected only in 2015, but the FX floor may be lifted already a bit earlier towards the end of 2014. In Hungary, we project the rate cuts to continue despite a nearing end of the cycle. For Romania, we believe that the rate cutting cycle may have ended, while the central bank may use a reduction of the minimum reserves requirement ratio as an instrument going forward.

Expected changes until December 2014



**under revision*
Source: Bloomberg, Raiffeisen RESEARCH

Data highlights upcoming week

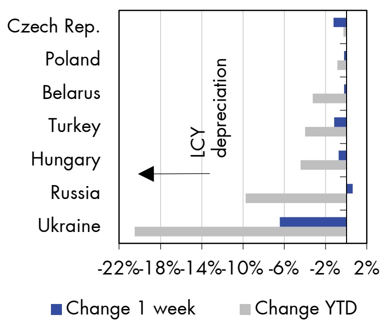
Date	Indicator	Period	est.	High	Mean	Low	Prev.
25-Mar	PL: Retail sales, % yoy	Feb	8.3	8.3	6.0	2.8	4.8
25-Mar	HU: Key rate, %	Mar	2.60	2.70	2.60	2.55	2.70
27-Mar	CZ: Key rate, %	Mar	0.05	0.05	0.05	0.05	0.05
28-Mar	RO: Key rate, %	Mar	3.50	3.50	3.50	3.50	3.50
28-Mar	HR: Industrial output, % yoy	Feb	n.a.	n.a.	n.a.	n.a.	2.2

Source: Bloomberg, Raiffeisen RESEARCH

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

Focus on: Calmer markets - sanctions spiral moves faster

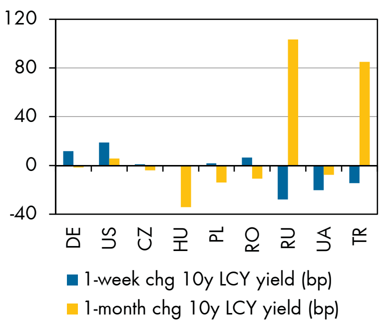
Change of LCY value to USD (%)



Source: Bloomberg, Raiffeisen RESEARCH

FX Markets: There was broad-based relief on the CEE financial markets this week. CEE FX markets reacted positively to the hopes of no further near-term escalation in the current tensions between Russia and Ukraine, with the latter country supported by the West. In particular, **RUB was able to rebound this past week and gained some 1% against the basket**, after having lost almost 10% since the beginning of the year. **PLN – as a proxy for CEE risk assessment – also gained slightly against EUR** during the week, signalling that markets have calmed down somewhat. On the other hand, **UAH was not able to follow this recovery path, and USD/UAH dropped to a level slightly above 10**. This translates into depreciation on a weekly basis of more than 6% against USD and 20% depreciation for the year-to-date. Despite the latest short-term RUB recovery fostered by the market's hopes of no further escalation, **we remain more sceptical for the time being**. In the case of RUB, it must also be stressed that there was some support from a partial rollback of the recently introduced FX flexibility. The Russian Central Bank increased the volume of cumulated interventions from USD 350 mn to USD 1.5 bn per RUB 0.05 shift in the FX corridor – effectively slowing down the pace of RUB deprecation in times of market pressure. We think that the motivation of the central bank has shifted towards rouble stability under financial stress conditions.

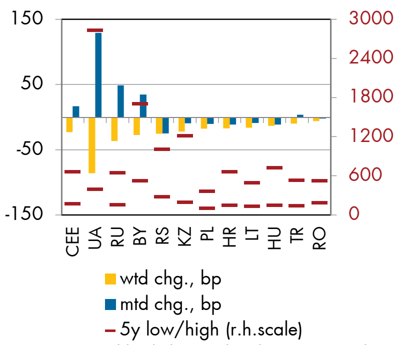
RUB and TRY debt pressured most



Source: Bloomberg

CEE local debt: The biggest underperformers – such as the Russian bond market – managed gains along the entire curve. These gains were, however, clearly not sufficient to reverse losses suffered since the beginning of the year. Russia also cancelled another LCY bond auction – the sixth one this year – due to the still unfavourably high refinancing costs. In tandem with OFZ market moves, the **moderate recovery on most CEE LCY debt markets lost steam** as the week progressed, with the unexpectedly hawkish Fed statement reviving pressure on global rates. In line with intensifying rate hike speculations in the USA, most longer-dated CEE government bond yields followed core market moves and began to inch up moderately again. This is in line with our **expectations of gradually rising yields in the course of this year**, keeping our rather bearish medium-term view on CEE local debt intact. Those markets, where domestic (e.g. political) risks add to external risk factors, remain the most exposed to potential spill-overs from the Ukrainian crisis and the respective potential for sanctions against Russia.

CEE EMBIG USD spread, bp



** EMBIG USD blended spread in basis points, chg. - change in basis points, wtd - week-to-date, mtd - month-to-date*
Source: Thomson Reuters, Raiffeisen RESEARCH

CEE Eurobonds: Obviously, the largest spread tightening occurred on CIS sovereigns with the Ukraine EMBIG USD spread falling by a huge 86bp, followed by a 37bp tightening for Russia and a 27bp drop for Belarus. We note that while the Crimea referendum and the Ukraine-Russia crisis had **deep impact on the CIS region, repercussions for other CEE sovereign Eurobonds were unexpectedly limited till now**. Indeed, measured from the start of March, we find that the EMBIG USD spread increased only for Russia, Ukraine and Belarus while all other CEE saw a marginal tightening of their spreads. In Turkey, a miniscule 4bp spread widening was solely the result of internal political tensions.

In particular, we saw more positive signs including a **resurgence of primary market issuance**. On 18 March Hungary rushed a USD 3 bn Eurobond receiving strong demand from investors, while Slovenia is planning a EUR-denominated issue by the end of March, and Romania asks foreign banks to arrange a Eurobond in H1.

On 20 March S&P and Fitch downgraded Russia's rating outlook from stable to negative citing the increasing risk of economic sanctions creating possible negative implications for Russia. At the same time S&P and Fitch affirmed current Russian rating at BBB. Taking into account tense situation we cannot rule out a single notch downgrade of Russia's credit rating if the situation escalates further to a significant extent.

Update: sanctions on Russia

Last Monday's round of economic sanctions on Russia by the EU and USA has been fairly limited in terms of scope and potential impact, which may in part explain the market relief we have seen this week.

The USA decided on another round of sanctions on Thursday and it is obvious that the **US looks determined to move a bit faster than EU** in terms of escalating economic sanctions against Russia. The US have taken the first steps in terms of targeted sanctions in the **financial sector against Saint-Petersburg based Bank Rossiya, a bank with total assets of around EUR 8.5 bn** (some 0.5% of banking assets in Russia, which puts the bank still among the Top-20 financial institutions), that is connected to Mr. Putin's closest long-standing political and business allies. This sanction against Bank Rossiya has limited, if any, impact on the banking sector fundamentally, although psychological and reputational effect of this sanction cause negative consequences for liquidity in the sector, as it may provoke certain interbank funding interruption to Bank Rossiya from Russia's private financial institutions (as well as for the banks that have close business ties with this bank), and may provoke some deposit flight from this bank.

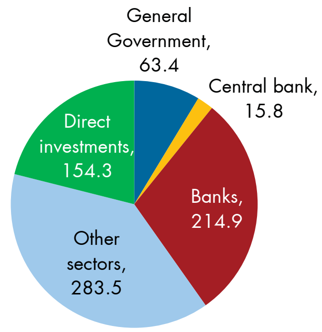
The US push was followed immediately by **fairly moderate EU wording at an EU leaders' summit**. German Chancellor Mrs. Merkel clearly stated that EU has a totally different legal basis compared to the US and will need much more clear proof that individuals had been directly involved in the violation of Ukraine's sovereignty. The more cautious EU stance clearly shows that all major EU countries and economies **– Germany, France, UK and Italy – have large economic interest in Russia**. Nevertheless, the **European Commission has started to officially prepare for the possibility of broad-based economic sanctions** that could affect trade, finance, energy or arms supply if Russia will destabilize the situation in Ukraine further.

The fact that the spiral of economic escalation moves forward is also shown by **several recent Russian actions aiming at a mitigation of a potential fall-out of economic and financial sanctions** (e.g. as shown by the drop in foreign central banks' holdings of U.S. marketable securities timed closely to the Crimea escalation, that could be related to a Russian push to move USD-positions offshore or formal ownership changes at Gunvor, a swiss-based oil trade company that is said to be very close to Mr. Putin). Moreover, the **increasing push of Russian authorities to reign in offshoring** as well as the threat of more sanctions are already partially seen in the Russian banking sector, e.g. via higher corporate deposit placements (which could be a near-term risk mitigation in case of increasing pressure on the liquidity side).

As we highlighted in our report from 12 March "Crimea Stand-off and the threat of sanctions: Impact on Russia" the **country has substantially increased its financial interconnectedness with the outside world over the last decade**. For example, both inward and outward FDI stock (in terms of GDP) has almost doubled. While a share of the FDI stock is Russian money invested via offshore accounts, these practices nevertheless expose Russian businesses to risks under the current circumstances.

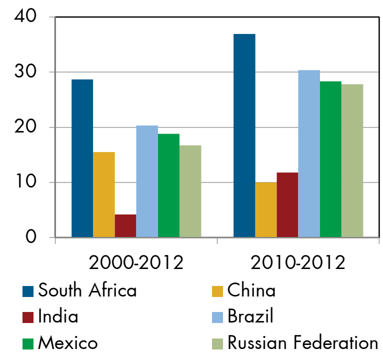
Financial analysts: Gunter Deuber (+431 71707 5707), Wolfgang Ernst (+431 71707 1500), Stephan Imre (+431 71707 6757), Gintaras Shlizhyus (+431 71707 1343)

Gross external debt (USD bn)*



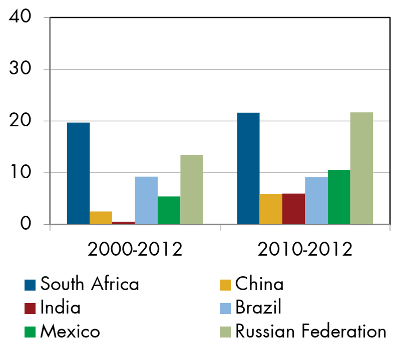
** End 2013, preliminary data; Total of USD 732 bn*
Source: CBR, Raiffeisen RESEARCH

Inward FDI stock (% of GDP)



3 year averages
Source: UNCTAD, Raiffeisen RESEARCH

Outward FDI stock (% of GDP)



3 year averages
Source: UNCTAD, Raiffeisen RESEARCH

Data calendar and country coverage

This week, previous week: key data releases

Indicator	Period	Actual	Forecast	Prev.
Friday, 14 March				
PL: CPI, % yoy	Feb	0.7	0.2	0.7
Monday, 17 March				
PL: CPI core, % yoy	Feb	0.9	1.1	0.4
PL: Trade balance, EUR bn	Jan	0.4	0.3	-0.2
PL: C/A balance, EUR bn	Jan	-1.1	-0.7	-0.8
CZ: C/A balance, CZK bn	Jan	25.9	17.0	-9.3
SK: CPI, % yoy	Feb	-0.1	n.a.	0.0
RO: C/A balance, EUR bn	Jan	0.388	n.a.	-1.5
Tuesday, 18 March				
RU: Industrial output, % yoy	Feb	2.1	0.2	-0.2
UA: Industrial output, % yoy	Feb	-3.7	n.a.	-5.0
TR: Key rate, %	Mar	10.00	10.00	10.00
Wednesday, 19 March				
Thursday, 20 March				
RU: Retail sales real, % yoy	Feb	4.1	2.5	2.4
Friday, 21 March				
HR: Unemployment rate, %	Feb	22.7	22.8	22.4

Indicator	Period	est.	High	Mean	Low	Prev.
Monday, 24 March						
Tuesday, 25 March						
PL: Retail sales, % yoy	Feb	8.3	8.3	6.0	2.8	4.8
PL: Unemployment rate, %	Feb	14.3	14.3	14.1	13.8	14.0
HU: Key rate, %	Mar	2.60	2.70	2.60	2.55	2.70
SI: Industrial output, % yoy	Jan	n.a.	n.a.	n.a.	n.a.	5.3
Wednesday, 26 March						
Thursday, 27 March						
CZ: Key rate, %	Mar	0.05	0.05	0.05	0.05	0.05
Friday, 28 March						
HU: Unemployment rate, %	Feb	9.0	9.3	9.1	8.7	8.9
RO: Key rate, %	Mar	3.50	3.50	3.50	3.50	3.50
HR: Industrial output, % yoy	Feb	n.a.	n.a.	n.a.	n.a.	2.2
RU: C/A balance, USD bn	Q4	n.a.	n.a.	n.a.	n.a.	4.7

Source: Bloomberg, Raiffeisen RESEARCH

Bosnia and Herzegovina (BA) – The first balance of payments data for the whole previous year featured diverse figures. While the current account figures were mostly in line with our estimates, the financial account was disappointing. In 2013, the C/A gap narrowed by 39.8% yoy to EUR 733.9 mn, marking the lowest deficit in more than 10 years. Accordingly, the C/A deficit accounts for nearly 5.4% of GDP, which is historically the lowest reading for B&H (data for C/A have been available since 2000). The smaller C/A gap is primarily the result of the lower trade deficit, which declined by 7.6% yoy to EUR 3.99 bn in the previous year. The services account surplus expanded by 3.1% yoy (to EUR 1.15 bn) and the primary income surplus by 120.6% yoy (to EUR 0.26 bn), while the surplus on the secondary income account declined by 1.2% yoy (to EUR 1.84 bn). On the other side of BoP, the financial account showed discouraging figures. In 2013, B&H manage to attract only EUR 259.3 mn of FDI (-5.1% yoy), amounting to a trivial 1.9% of estimated full-year GDP. Moreover, in second half of 2013 the net inflow of FDI was a miserable EUR 26.9 mn. Portfolio investments registered a net outflow of EUR 67.7 mn, while the net inflow of other investments declined by 14.8% yoy to EUR 596.6 mn. Hence, with the surplus on the capital account (EUR 172.5 mn) and on the net errors and omissions account (EUR 135.6 mn), the overall balance of payments was in positive territory, at EUR 362.4 mn (reserve assets).

Financial analyst: Srebrenko Fatusic (+387(33) 287 916), Raiffeisen BANK d.d., Sarajevo

Croatia (HR) – Trading in the domestic money market was typically quiet, thanks to the continued absence of any demand for local currency in an environment marked by record high levels of excess liquidity in the system (HRK 8.5 bn). Consequently, interest rates on the money market oscillated around record low levels, and we see them staying there throughout next week as well. The Ministry of Finance issued HRK 671 mn of pure kuna T-bills at last week's auction, thus collecting around HRK 133 mn more than was maturing, with the auction's bid-to-cover ratio at 1.1x. The yield on the 1y T-bill remained unchanged at 2.0%.

As regards economic releases, in the week to come the Croatian statistical office will announce the ILO unemployment rate for Q4 2013 and industrial output for February. Given that the fourth quarter of 2013 saw the strongest quarterly decline in the number of employees since the beginning of the crisis (2.9%) and a strong increase in the number of unemployed persons, we expect the ILO unemployment rate at higher levels (19.5%). Although the decline in employment is usual for this time of year, it nevertheless reflects the prolonged recession in the domestic economy. Numerous factors are limiting the recovery in industrial production such as the expected reduction in purchasing power in 2014, the resulting weak domestic demand, restructuring of the largest companies and weaker external demand. However, given the base effect and the significantly reduced (weakened) industrial production in previous years, we expect stabilisation at the current levels.

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

Czech Republic (CZ) – Next week, the CNB board meeting is unlikely to bring any substantial change. CNB governor Miroslav Singer said that the Czech inflation data confirm the timeline for the CZK cap (i.e. the EUR/CZK floor), i.e. until at least early 2015. We still expect that the CNB might abandon the EUR/CZK floor by the end of 2014, but of course forecasting the timing of such a step is tricky and depends strongly on the data. We project that CPI inflation to be close to 1% by mid-2014. If, for example, inflation is still close to 0%, our expectation for abandoning the floor would be implicitly postponed by around 10 months.

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

Hungary (HU) – Monetary Council will cut rates next Tuesday according to our expectations, however, we have to note that we see a fair chance for no change, as well. The inflationary environment remained more benign than anticipated (with February CPI at only 0.1% yoy, whereas market consensus was 0.4%), and the new Central Bank forecasts that are to be published on Tuesday are likely to show risks of undershooting the inflation target. On the other hand the on-going shakiness of emerging markets gives ample reason for the Council to be cautious. Thus, we expect only a token cut of 10 basis points.

Financial analyst: Zoltán Török (+36 1 484 48 43), Raiffeisen Bank Zrt., Budapest

Poland (PL) – Some modest recovery took place on Polish markets in recent days, with EUR/PLN back to levels at 4.20. Bond yields continued their uptrend, mainly driven by core market trends, while the spread to Bunds decreased a tad. This week also featured once again contrasting views on the 2014 key rate path. More and more commentators and MPC members start to reflect about the possibility of keeping key rate stable throughout 2014 (a few non-consensus views, mostly based on more downbeat growth expectations, are even seeing a need for additional rate cuts). Assuming no further tangible escalation of the current geopolitical tension between Russia and the West – which may also hurt global and European growth – we would assume the Polish economy to post a GDP growth slightly above 3% yoy in 2014. Therefore, we also keep our view that there is still a high probability that we may see a first key rate hike later in Q4 2014, which is not the consensus analyst view at present but still partially priced in on markets. In terms of strength of the economic recovery retail sales data next week – which we expect above consensus at some 8% yoy – should clearly confirm that the economic recovery remains on track.

Financial analyst: Gunter Deuber

Romania (RO) – Yields remained close to the levels from last week, with just a slight increase of 2-6bp for short-term maturities (6m, 1y) and an increase of 6-9bp for 3y and 5y maturities. The auction for 5y EUR T-bonds was successful. The Ministry of Finance borrowed all of the intended amount (EUR 200 mn) at an average yield of 3.30%, with the bid level 3bp lower than on the secondary market (which was equalled by the maximum yield accepted). Next week, the monetary policy meeting on Friday (28 March) will be in the foreground. We believe that the rate-cutting cycle might have ended, but the NBR may use a reduction of minimum reserves requirements ratio as an instrument to alter the stance of monetary policy. However, we do not expect such a decision from NBR Board at this meeting.

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

Russia (RU) – At its Board meeting last Friday, the CBR decided to keep the key rate at 7%, as expected. Although the increased rate is considered by the CBR as a temporary and extraordinary measure, the wording of the press release suggests that the current rate will be kept for "several months" which reflects the regulator's concerns about the effect of RUB depreciation on inflation and financial stability. However, while this measure may curb devaluation expectations, we are afraid that it might not be that efficient in fighting inflation now. According to our estimates, the current acceleration of CPI (in the food segment primarily) is less driven by import price growth and more driven by limited domestic supply. The recently published data on weekly CPI (March 12-17) support this view. Since the beginning of March, inflation has advanced by 0.5% (0.3% during the same period of 2013) and CPI reached 1.8% YTD. Price increases are still more pronounced in several fruit and vegetables categories and sugar. Although we expect that a FX shock pass-through effect will significantly affect inflation this year, we believe that tighter monetary policy as well as slower economic growth will partly compensate for these effects. Our revised CPI forecast for 2014 is 5.7%.

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

Serbia (RS) – Undisputed Serbian Progressive Party (SNS) victory on the early Republic and capital Belgrade parliamentary elections (16 March) have been broadly anticipated by the market being reflected in the remarkably stable EUR/RSD and robust appetite even for the longer Min Fin T-bills maturities (7y), while yields coming to peak. From the beginning of the year, NBS spent EUR 820 mn from the FX reserve to safeguard exchange rate steadiness. We reckon that such policy will remain in place, if needed, until the new cabinet comes to power, that is likely to occur at latest by 1 May.

The market positively prized the elections outcome, expecting that clear responsibility on the part of one party will only accelerate the reform process. On the other side, despite winning the parliamentary majority (48.3%), SNS is reluctant to create the majority government but will opt for coalition again given rather challenging reform agenda in front. One of the key new cabinet priorities will be defining the new budget savings, next to adoption of the "National priority plan" covering the incentive schemes for new hiring and stimulating investments into the less developed regions. Finance minister Mr Krstic discovered that the negotiations with the IMF on signing the three year precautionary, non-financial arrangement will continue upon the cabinet establishment. Given a number of difficult circumstances, like tough reform agenda, weak fiscal ratios and expected economy slowdown that will reflect on further public finances dilution, we expect that IMF deal signing is a real option that would anchor market's expectations.

Financial analyst: Ljiljana Grubic (+381 11 2207178), Raiffeisenbank a.d. Serbia, Belgrade

Ukraine (UA) – The Ukrainian authorities continue the negotiations with the IMF on a new loan programme, while other donors are lining up as well to support the battered economy. The EU announced on an EUR 11 bn package for Ukraine, including EUR 1.6 bn of macrofinancial assistance, which could be disbursed within a very narrow time frame (conditional on IMF approval of lending programme with Ukraine). The United States have pledged to provide USD 1 bn, while the World Bank announced on an USD 3 bn support package. IMF is next to follow with a public announcement after its mission finishes discussions with Kyiv next week. The Ukrainian government has already indicated that it is ready for implementing austerity measures and will succumb to key IMF demands. Therefore, we see the very high chance that the agreement on a new programme will be reached. In our view, the total size of external help package to Ukraine will be calibrated with the country's financing needs. Thus, we expect Ukraine to get around USD 5-7 bn (from all sources) in the next three months, while total support might amount to USD 20-30 bn over the next 2-3 years.

Financial analyst: Dmytro Sologub (+380 44 49590-72), Raiffeisen Bank Aval JSC, Kiev

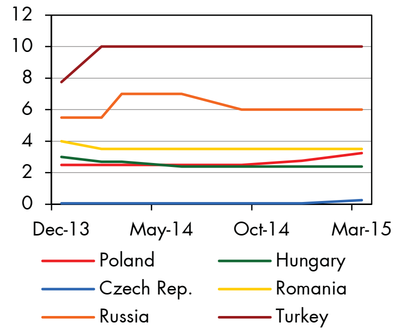
Monetary policy and money markets overview

CEE key interest and money markets outlook

Poland	curr.*	Jun-14	Sep-14	Dec-14	5y high	5y low
Key interest rate (%, eop)	2.50	2.50	2.50	2.75	4.75	2.50
1m money market rate (%, eop)	2.41	2.61	2.61	2.86	4.82	2.40
3m money market rate (%, eop)	2.51	2.71	2.79	3.16	5.04	2.48
6m money market rate (%, eop)	2.54	2.76	2.97	3.35	5.07	2.51
Hungary						
Key interest rate (%, eop)	2.70	2.40	2.40	2.40	9.50	2.70
1m money market rate (%, eop)	2.70	2.50	2.50	2.60	9.66	2.70
3m money market rate (%, eop)	2.75	2.70	2.80	2.90	9.85	2.73
6m money market rate (%, eop)	2.85	2.90	2.97	3.10	9.97	2.80
Czech Republic						
Key interest rate (%, eop)	0.05	0.05	0.05	0.05	1.75	0.05
1m money market rate (%, eop)	0.03	0.05	0.05	0.05	1.87	0.03
3m money market rate (%, eop)	0.04	0.10	0.20	0.20	2.18	0.04
6m money market rate (%, eop)	0.45	0.20	0.20	0.30	2.69	0.45
Romania						
Key interest rate (%, eop)	3.50	3.50	3.50	3.50	10.00	3.50
1m money market rate (%, eop)	2.04	2.80	2.85	3.00	14.84	1.11
3m money market rate (%, eop)	2.57	2.90	2.95	3.05	14.56	1.69
6m money market rate (%, eop)	2.72	2.75	2.95	3.00	14.49	2.20
Russia						
Key interest rate (%, eop)	7.00	7.00	6.00	6.00	7.00	5.50
1m money market rate (%, eop)	9.00	9.20	8.75	8.85	14.58	3.23
3m money market rate (%, eop)	9.25	9.75	9.30	9.40	16.66	3.73
6m money market rate (%, eop)	9.42	9.80	9.30	9.50	20.00	4.12
Turkey						
Key interest rate (%, eop)	10.00	10.00	10.00	10.00	10.00	4.50
1m money market rate (%, eop)	11.70	11.40	11.00	10.50	11.99	4.61
3m money market rate (%, eop)	11.85	11.70	11.30	10.90	12.15	4.74
6m money market rate (%, eop)	12.15	11.80	11.50	11.10	12.45	5.12
Benchmark key rates (% eop)	**curr.***	**Jun-14**	**Sep-14**	**Dec-14**	**5y high**	**5y low**
ECB key interest rate (% eop)	0.25	0.25	0.25	0.25	1.50	0.25
Fed key interest rate (% eop)	0.07	0.25	0.25	0.25	0.31	0.01

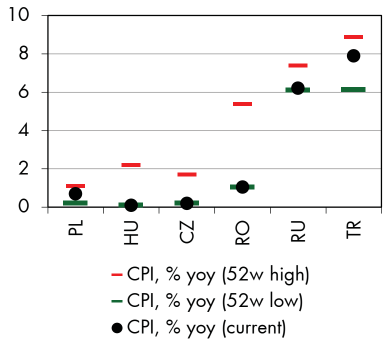
** Bid rates (for Hungary ask rates) as of 21 March 2014, 10:36 a.m. CET*
Source: Bloomberg, Raiffeisen RESEARCH

Key rate trends (%)



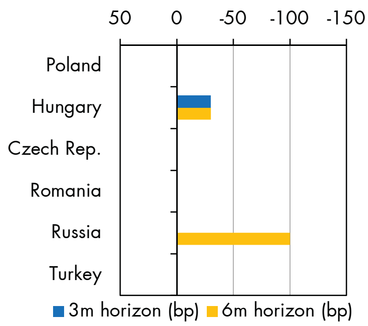
Source: Bloomberg, Raiffeisen RESEARCH

Inflation snapshot



Source: Bloomberg, Raiffeisen RESEARCH

Key rate forecast (chg., bp)



Source: Bloomberg, Raiffeisen RESEARCH

Central bank watch

Poland (NBP)	So far three out of ten MPC members indicated keeping rates on hold by the end of 2014; in time however incoming data should convince the Council to raise rates in November (our baseline)
Hungary (MNB)	Statements of Council members before next Tuesday's rate setting meeting were less dovish than previously
Czech Republic (CNB)	FX intervention used as additional tool for monetary policy, this strategy is likely to continue well into 2014
Romania (BNR)	NBR clearly indicated that it is finished with rate cuts despite low domestic inflationary pressure; however, more easing in the pipeline through the likely cut of MRR
Serbia (NBS)	Rate cuts on hold due to shaky EM sentiment, after government formation on cautious continuation of rate cuts likely
Russia (CBR)	CBR kept the key rate unchanged at its latest recent board meeting following the 150 bp emergency rate hike before. After calming of Ukrainian crisis, moderate relaxation of MP possible
Turkey (TCMB)	Central bank continues to regard "frontloaded" tightening of monetary reigns as sufficient, whilst market prices in further rate hikes with local political uncertainties exacerbating the already fragile sentiment toward TRY markets

Source: Bloomberg, Reuters, Raiffeisen RESEARCH

Rate setting meetings

	Mar	Apr
Poland (NBP)	5	9
Hungary (MNB)	25	29
Czech Rep. (CNB)	27	
Romania (NBR)	28	
Serbia (NBS)	6	17
Russia (CBR)	14	25
Turkey (TCMB)	18	24

Source: National Central Banks, Raiffeisen RESEARCH

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

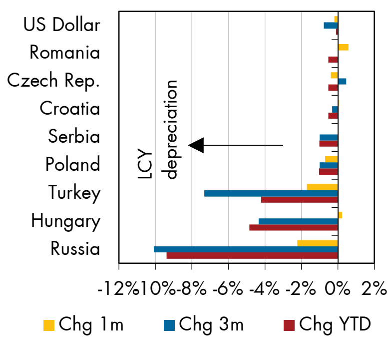
Foreign exchange market overview

FX forecasts

EUR vs	current[1]	Jun-14	Sep-14	Dec-14	5y high	5y low	Comment
PLN	4.20	4.18	4.15	4.10	4.74	3.83	PLN driven by external market jitters as it is a proxy for CEE risk sentiment
HUF	312.3	315.0	315.0	320.0	320.4	261.3	We expect sideways trading at current levels, but note that HUF remains vulnerable to overall emerging market sentiment
CZK	27.48	27.20	27.00	26.40	27.69	23.99	Weakening back towards levels of EUR/CZK 27.5 seen as short-term overshooting, we expect CZK to return towards levels around 27.3 in the coming weeks
RON	4.49	4.50	4.55	4.50	4.64	4.06	Appreciation potential limited due to weak FX flow dynamics
HRK	7.66	7.58	7.64	7.68	7.67	7.18	EUR/HRK FX rate skipped the 7.66 level
RSD	115.8	116.0	115.0	117.0	119.1	92.4	Central bank still intervenes to dampen depreciation pressures
RUB	50.18	50.15	48.68	48.98	50.96	37.45	see rouble basket below
UAH	14.47	n.a	n.a	n.a	14.68	9.47	see USD/UAH below
BYR	13,584	14,580	14,820	16,335	13,723	3,607	see USD/BYR below
TRY	3.09	3.00	2.80	2.84	3.19	1.91	see USD/TRY below
USD	1.38	1.35	1.30	1.35	1.51	1.20	A number of factors indicate a somewhat stronger dollar in the coming months
USD vs	**current[1]**	**Jun-14**	**Sep-14**	**Dec-14**	**5y high**	**5y low**	**Comment**
RUB	36.41	37.15	37.44	36.29	36.63	27.28	see rouble basket below
UAH	10.50	n.a	n.a	n.a	10.70	7.60	IMF loan programme possibly concluded by 25 March would give support to UAH, but additional depreciation likely in the coming months
BYR	9,865	10,800	11,400	12,100	9,865	2,711	Steady BYR depreciation to continue throughout 2014
TRY	2.24	2.22	2.15	2.10	2.34	1.40	Local elections approaching and Ukraine conflict increase risk of further lira depreciation
RUB basket	42.60	43.00	42.50	42.00	43.07	32.94	Additional sanctions by Western governments would put more pressure on RUB in the short-term

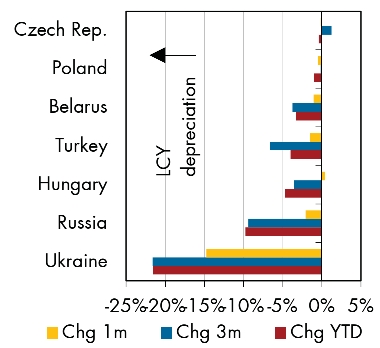
1 as of 21 March 2014, 10:25 a.m. CET
Source: Bloomberg, Raiffeisen RESEARCH

Change of LCY value to EUR (%)



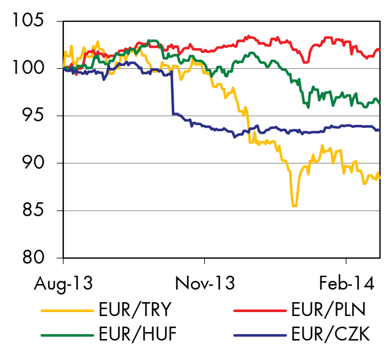
Source: Bloomberg

Change of LCY value to USD (%)



Source: Bloomberg

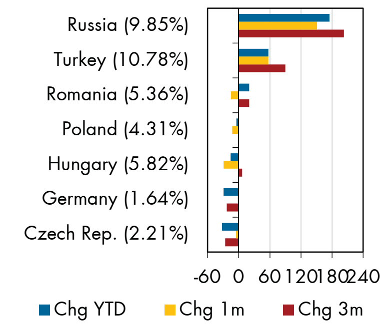
Exchange rate comparison



Indexed August 2013 = 100
Source: Bloomberg

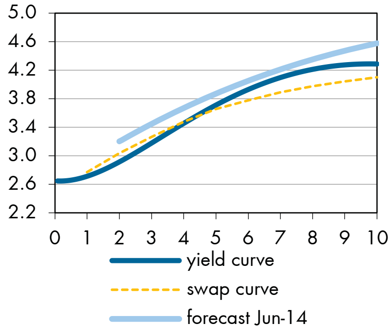
Local currency bond market overview

Change of LCY 10y bond yields (bp)



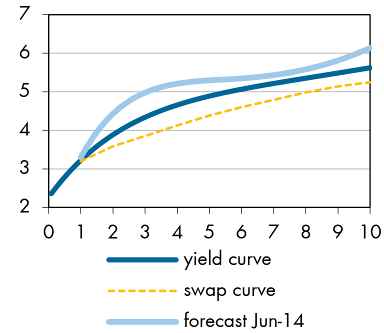
Source: Bloomberg

PLN yield curve



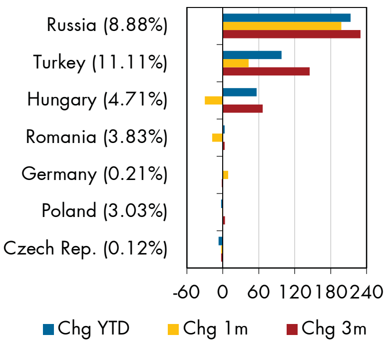
Source: Bloomberg

HUF yield curve



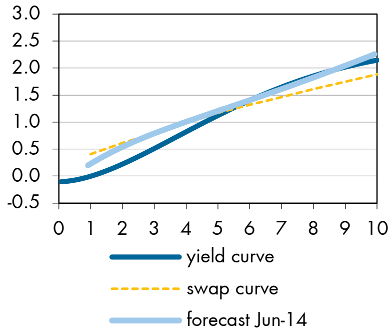
Source: Bloomberg

Change of LCY 2y bond yields (bp)



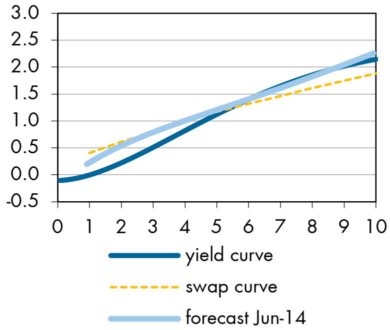
Source: Bloomberg

CZK yield curve



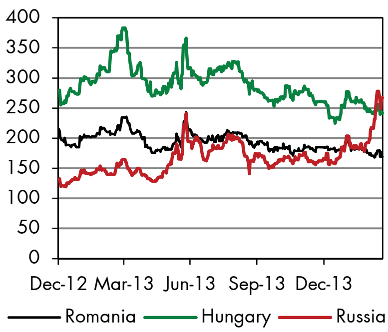
Source: Bloomberg

RON yield curve



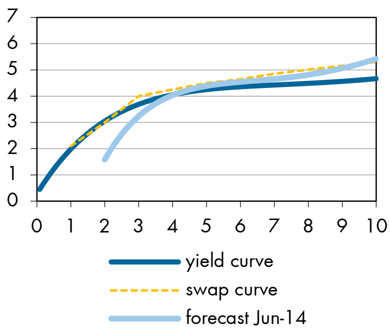
Source: Bloomberg

5y USD CDS spreads



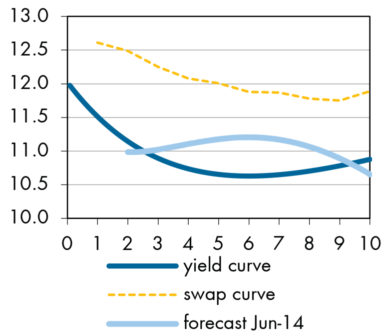
** CE-3: CZ, PL, SK*
Source: Bloomberg, Raiffeisen RESEARCH

HRK yield curve



Source: Bloomberg

TRY yield curve



Source: Bloomberg

Yield forecasts

2y T-bond yields (%)	current*	Jun-14	Sep-14	Dec-14	5y high	5y low
Poland	3.01	3.3	3.4	3.6	5.7	2.5
Hungary	4.60	4.2	4.2	4.4	12.8	3.5
Czech Rep.	0.01	0.6	0.8	1.0	3.4	0.0
Romania	3.40	3.8	4.0	4.2	7.3	2.9
Croatia	2.69	2.9	3.2	3.5	9.7	2.7
Russia	8.41	8.0	7.3	7.6	8.7	5.5
Turkey	11.22	11.0	10.9	10.5	14.9	4.9
Eurozone	0.20	0.2	0.2	0.5	1.9	-0.1
USA	0.42	0.5	0.6	0.8	1.4	0.2

10y T-bond yields (%)	current*	Jun-14	Sep-14	Dec-14	5y high	5y low
Poland	4.30	4.6	4.7	4.8	6.5	3.1
Hungary	5.71	6.2	6.3	6.6	12.3	4.9
Czech Rep.	2.17	2.3	2.5	3.0	5.4	1.4
Romania	5.31	5.4	5.6	5.7	7.6	4.7
Croatia	4.61	5.5	5.5	5.5	8.4	4.4
Russia	9.29	9.5	8.7	8.8	9.7	6.5
Turkey	10.82	10.6	10.7	10.9	11.0	6.0
Eurozone	1.64	1.8	2.0	2.4	3.7	1.2
USA	2.76	3.0	3.3	3.5	4.0	1.4

** Ask yields as of 21 March 2014, 10:22 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	25/04/2016	5.00	104.03	2.98	278	2.0	Yields may grow somewhat in the short term in line with core market moves, but we maintain our neutral stance towards the POLGB market
PLN 5y Gov. Bond	25/10/2019	5.50	108.32	3.81	313	4.9	
PLN 10y Gov. Bond	25/10/2023	4.00	97.85	4.28	265	8.0	
Hungary							
HUF 3y Gov. Bond	25/04/2018	4.00	98.00	4.55	429	3.7	Hungarian bond market seems very calm with yields roughly at the same levels as the week before. The newly placed USD-bonds offer tight spreads.
HUF 5y Gov. Bond	24/06/2019	6.50	107.32	4.88	420	4.5	
HUF 10y Gov. Bond	24/06/2025	5.50	98.63	5.67	404	8.3	
Czech Republic							
CZK 2y Gov. Bond	11/04/2015	3.80	104.05	-0.03	-22	n.a.	Czech 10y government bond yield is set to remain stable in the short run, serving as the CEE region's save haven
CZK 5y Gov. Bond	18/08/2018	4.60	116.00	0.87	19	4.0	
CZK 10y Gov. Bond	25/05/2024	5.70	131.77	2.18	55	8.0	
Croatia							
HRK 5y Gov. Bond	10/07/2018	5.25	104.24	4.16	347	3.8	We expect local market to be well bid and with less and less liquidity going forward on longer maturity papers
HRK 8y Gov. Bond	05/03/2020	6.75	111.00	4.61	298	5.1	
Romania							
RON 3y Gov. Bond	29/08/2016	4.75	102.73	3.55	329	2.3	In the short term, moderate increase in longer tenors expected due to core market pressures
RON 5y Gov. Bond	26/07/2017	5.90	105.01	4.25	356	3.0	
Russia							
RUB 2y Gov. Bond	20/01/2016	7.35	98.40	8.47	827	1.8	After this week's moderate relief rally was ended by the Fed's surprisingly hawkish statements, pressure on OFZ revived recently and is set to prevail until Ukrainian crisis calms down sustainably
RUB 5y Gov. Bond	03/08/2016	6.90	98.00	7.99	731	2.2	
RUB 10y Gov. Bond	24/11/2021	7.00	86.00	9.43	780	5.9	
Turkey							
TRY 2y Gov. Bond	24/02/2016	10.70	99.19	11.17	1097	1.8	Since we factored in a high political risk premium for Turkish debt we foresee a continued rise in local currency yields until uncertainties following local elections decrease
TRY 5y Gov. Bond	14/02/2018	6.30	85.75	10.86	1018	3.5	
TRY 10y Gov. Bond	27/09/2023	8.80	87.90	10.87	924	6.4	

Prices as of 21 March 2014, 10:26 a.m. CET
Source: Bloomberg, Raiffeisen RESEARCH

Bond auctions

		ISIN	Coupon	Maturity	Volume
24 March 2014					
PL	T-bonds	n.a.	n.a.	n.a.	n.a.
RO	T-bonds	n.a.	n.a.	n.a.	RON 300 mn
BG	T-bonds	n.a.	n.a.	n.a.	n.a.
AL	T-bonds	n.a.	n.a.	n.a.	n.a.
25 March 2014					
RS	2y T-bonds	n.a.	floating	2016	RSD 10 bn
26 March 2014					
HU	T-bonds	n.a.	n.a.	n.a.	n.a.
RU	OFZ bonds	n.a.	n.a.	n.a.	n.a.
RS	2y T-bonds	n.a.	n.a.	2016	EUR
27 March 2014					
HU	T-bonds	n.a.	n.a.	n.a.	n.a.
RO	1y T-bonds	RO1415CTN040	n.a.	30 Mar-2015	RON 500 mn
28 March 2014					
RS	3y T-bonds	n.a.	10.00%	2017	RSD 20 bn
KO	2y T-bonds	n.a.	n.a.	2016	n.a.

Summary: Ratings & macro data

Country ratings: CE, SEE, CIS

	S&P			Moody's			Fitch		
	LCY	FCY	Outlook	LCY	FCY	Outlook	LCY	FCY	Outlook
CEE									
Poland	A	A-	stable	A2	A2	stable	A	A-	positive
Hungary	BB	BB	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	negative	Baa2	Baa2	stable	BBB	BBB-	stable
Croatia	BB	BB	stable	Ba1	Ba1	stable	BBB-	BB+	negative
Serbia	BB-	BB-	negative	B1	B1	stable	B+	B+	stable
CIS									
Russia	BBB+	BBB	negative	Baa1	Baa1	stable	BBB	BBB	negative
Ukraine	B-	CCC	negative	Caa1	Caa2	negative	B-	CCC	negative
Belarus	B-	B-	stable	B3	B3	negative	not rated	not rated	not rated
Kazakhstan	BBB+	BBB+	stable	Baa2	Baa2	stable	A-	BBB+	stable
Turkey	BBB	BB+	negative	Baa3	Baa3	stable	BBB	BBB-	stable

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

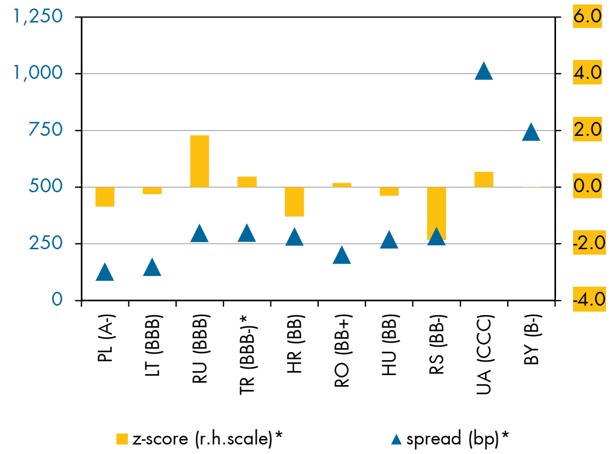
Main macro data & forecasts*

Country	Year	GDP, % avg. yoy	CPI, % avg. yoy	Unem-ployment, %	Nominal wages, EUR	Fiscal balance, % GDP	Public debt, % GDP	Export**, % GDP	C/A, % GDP	Ext. debt, % GDP	FXR*** % ext. debt	Import cover, months
Croatia	**2012**	-2.0	3.4	19.1	1047	-5.0	55.5	22.4	0.1	102.3	25.0	8.5
	2013e	-1.0	2.2	20.3	1045	-5.8	63.0	20.7	0.5	104.5	28.0	10.0
	2014f	0.0	1.6	21.0	1028	-5.8	67.9	19.8	0.0	103.6	27.2	10.0
Czech Rep.	**2012**	-0.9	3.3	6.8	1000	-4.4	46.2	70.9	-2.4	50.5	44.0	3.9
	2013e	-0.9	1.4	7.6	968	-2.5	46.3	72.7	-1.0	51.1	53.4	4.7
	2014f	2.3	1.3	7.3	950	-2.7	47.3	76.0	-0.5	49.8	55.6	4.5
Hungary	**2012**	-1.7	5.7	10.9	773	-1.9	80.2	83.2	1.8	131.1	26.9	5.5
	2013e	1.1	1.7	10.4	789	-2.9	79.2	83.6	2.8	123.6	27.3	5.3
	2014f	2.0	1.1	8.0	771	-2.9	81.6	87.8	3.4	121.3	28.2	5.2
Poland	**2012**	1.9	3.7	12.8	842	-3.9	55.6	38.4	-3.5	72.7	29.8	6.5
	2013e	1.6	0.9	13.6	862	-4.1	57.1	39.5	-1.3	71.0	29.3	6.4
	2014f	3.1	1.2	13.1	899	-3.2	49.9	41.1	-2.8	68.7	29.6	6.2
Romania	**2012**	0.6	3.3	7.0	463	-3.0	38.0	34.2	-4.4	75.7	31.3	7.1
	2013e	3.5	4.0	7.3	490	-2.5	37.9	34.7	-1.1	67.5	33.7	7.4
	2014f	2.3	2.1	7.2	501	-2.5	38.4	36.5	-2.0	65.5	32.5	6.4
Russia	**2012**	3.4	5.1	5.7	671	0.4	10.5	26.7	3.6	31.4	76.3	17.0
	2013e	1.3	6.8	5.8	694	-1.0	12.0	24.9	1.6	34.1	63.7	15.9
	2014f	1.0	6.1	6.0	636	-0.5	13.0	28.7	2.3	42.3	54.5	15.2
Ukraine	**2012**	0.2	0.6	7.7	291	-5.5	36.8	40.0	-8.5	74.4	17.0	2.9
	2013e	0.0	-0.2	7.5	313	-7.0	40.3	36.1	-9.1	78.9	11.9	2.4
	2014f	-5.0	6.0	8.5	263	-4.0	52.0	49.0	-5.9	107.1	11.7	2.4
Turkey	**2012**	2.2	8.9	9.0	362	-2.1	39.8	20.8	-6.2	42.0	29.5	5.1
	2013e	3.9	7.5	9.4	351	-1.2	38.5	19.7	-7.8	44.1	29.2	5.3
	2014f	2.0	7.4	9.8	320	-2.5	38.2	21.5	-6.7	51.9	24.3	5.0

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

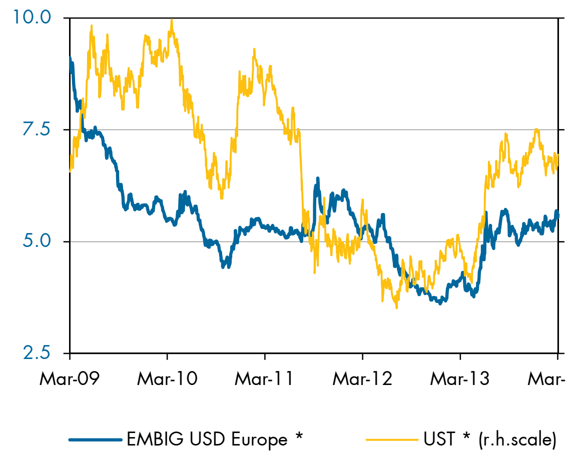
Eurobond market overview

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

	Market Price					YTM mid.	Spread vs.	Mdur.	ISIN
Issuer/rate/due	Bid	Ask	w/w %	5y max	5y min	% p. a.	Bmk, bp	years	–
EUR									
BGARIA 4 1/4 07/09/17	108.8	108.9	0.09	110.5	100.3	1.47	113	3.0	XS0802005289
CROATI 6 1/2 01/05/15	103.9	104.1	-0.19	112.7	97.5	1.28	108	0.8	XS0431967230
CROATI 5 7/8 07/09/18	108.4	108.9	-0.36	111.3	87.7	3.65	311	3.7	XS0645940288
REPHUN 3 1/2 07/18/16	103.2	103.5	-0.15	104.0	77.1	2.00	177	2.2	XS0240732114
REPHUN 5 3/4 06/11/18	109.7	110.4	-0.02	109.9	76.0	3.16	264	3.6	XS0369470397
REPHUN 6 01/11/19	111.1	111.7	0.36	111.5	77.9	3.38	271	4.2	XS0625388136
LITHUN 4.85 02/07/18	111.5	112.0	-0.26	113.0	85.9	1.68	124	3.6	XS0327304001
POLAND 3 5/8 02/01/16	105.8	106.0	-0.07	109.0	84.1	0.42	22	1.8	XS0242491230
POLAND 1 5/8 01/15/19	101.7	102.2	-0.15	102.3	98.0	1.21	54	4.6	XS0874841066
POLAND 3 3/4 01/19/23	110.4	111.0	-0.10	113.1	99.5	2.39	94	7.5	XS0794399674
POLAND 3 3/8 07/09/24	105.3	105.8	-0.25	107.4	99.3	2.75	107	8.5	XS0841073793
ROMANI 5 1/4 06/17/16	107.1	107.7	-0.30	109.2	95.5	1.82	160	2.1	XS0638742485
ROMANI 4 7/8 11/07/19	108.0	108.5	-0.53	109.4	99.0	3.25	246	4.8	XS0852474336
TURKEY 5 7/8 04/02/19	110.5	111.2	-0.18	118.9	89.2	3.48	277	4.2	XS0285127329
TURKEY 5 1/8 05/18/20	106.4	107.0	-0.55	115.9	95.2	3.88	299	5.0	XS0503454166
USD									
BGARIA 8 1/4 01/15/15	105.8	106.1	-0.19	120.5	102.5	0.81	70	0.8	XS0145623624
BELRUS 8 3/4 08/03/15	100.5	101.1	1.32	106.1	70.7	8.09	783	1.2	XS0529394701
BELRUS 8.95 01/26/18	101.2	102.3	1.60	111.2	70.0	8.41	715	3.2	XS0583616239
CROATI 6 3/8 03/24/21	107.1	107.3	-0.06	117.8	86.7	5.14	283	5.7	XS0607904264
CROATI 5 1/2 04/04/23	99.9	100.2	0.35	108.6	94.4	5.49	286	6.9	XS0908769887
REPHUN 5 3/8 02/21/23	100.0	100.5	-0.57	105.5	93.1	5.34	273	7.0	US445545AH91
REPHUN 7 5/8 03/29/41	112.4	113.3	0.62	125.3	79.5	6.60	307	11.8	US445545AF36
LITHUN 7 3/8 02/11/20	120.3	120.8	-0.07	130.7	98.8	3.48	149	4.9	XS0485991417
LITHUN 6 5/8 02/01/22	117.7	118.1	-0.05	128.6	101.0	3.95	151	6.2	XS0739988086
LATVIA 2 3/4 01/12/20	96.2	96.5	-0.47	101.1	91.4	3.45	149	5.3	XS0863522149
LATVIA 5 1/4 06/16/21	109.0	109.5	-0.21	117.2	90.9	3.77	143	6.0	XS0638326263
POLAND 3 7/8 07/16/15	104.1	104.4	-0.15	107.8	100.3	0.60	36	1.3	US731011AS13
POLAND 6 3/8 07/15/19	117.2	117.7	-0.50	125.9	101.4	2.82	100	4.5	US731011AR30
POLAND 3 03/17/23	92.8	93.3	-0.22	101.1	87.6	3.93	130	7.7	US731011AT95
ROMANI 6 3/4 02/07/22	116.0	116.4	-0.29	124.4	99.2	4.30	185	6.2	US77586TAA43
ROMANI 4 3/8 08/22/23	97.6	98.1	-0.56	105.5	90.8	4.66	197	7.6	US77586TAC09
RUSSIA 4 1/2 04/04/22	95.9	96.5	1.50	114.7	94.8	5.08	261	6.5	XS0767472458
RUSSIA 7 1/2 03/31/30	111.0	111.1	-0.01	128.7	94.3	5.11	207	4.4	XS0114288789
RUSSIA 5 5/8 04/04/42	92.2	92.9	2.75	124.9	89.0	6.19	261	13.1	XS0767473852
SERBIA 5 1/4 11/21/17	103.7	104.1	-0.93	107.1	96.8	4.08	290	3.3	XS0856951263
SERBIA 4 7/8 02/25/20	99.5	100.1	0.93	100.2	89.6	4.92	292	5.1	XS0893103852
TURKEY 6 1/4 09/26/22	104.9	105.4	-0.96	127.0	101.0	5.48	293	6.6	US900123BZ27
TURKEY 6 7/8 03/17/36	102.6	103.5	-0.63	139.6	79.6	6.61	330	11.4	US900123AY60
TURKEY 6 3/4 05/30/40	100.7	101.3	-1.27	139.4	95.0	6.67	317	12.0	US900123BG46
UKRAIN 7 3/4 09/23/20	86.0	87.1	4.16	108.0	80.8	10.67	850	4.8	XS0543783194
UKRAIN 7.8 11/28/22	85.8	87.0	4.21	106.6	79.3	10.20	762	5.8	XS0858358236
UKRAIN 7 1/2 04/17/23	85.1	86.2	3.53	101.7	78.8	9.93	730	6.0	XS0917605841

* w/w - week on week, 5y - 5 year, YTM mid - yield to maturity based on mid market price, Bmk - benchmark, Mdur - modified duration, ISIN - international security identification number; prices as of 21 March 2014, 08:45 a.m. CET
Source: Bloomberg, Raiffeisen RESEARCH

Risk notifications and explanations

Warnings

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

A description of the concepts and methods which are used in the preparation of financial analyses can be found at: www.raiffeisenresearch.at/conceptsandmethods

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

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