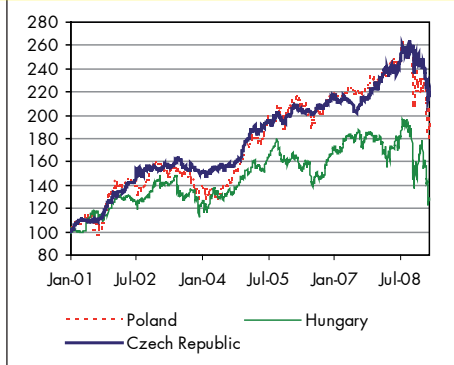


# CEE Weekly Bond Markets Outlook

Issue 8/2009

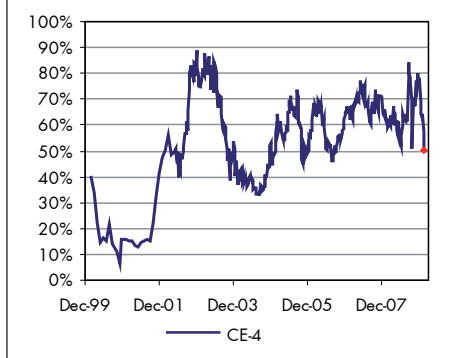
27 February 2009

## Performance of 7-10y bond indices



Source: EFFAS, Bloomberg, Raiffeisen RESEARCH

## RZB Convergence Index



Composite (GDP-weighted) index for PL, HU, CZ & SK  
Source: Thomson Financial Datastream, Raiffeisen RESEARCH

## Forecast

	current	Mar-09	Jun-09	Sep-09
<b>Poland</b>				
PLN	4.71	4.55	4.70	4.80
1m-rate	4.0	3.8	3.2	3.2
5y bond	5.9	5.0	4.8	4.6
10y bond	6.2	5.4	5.5	5.0
<b>Hungary</b>				
HUF	300.2	300.0	300.0	280.0
1m-rate	9.5	9.8	9.7	8.6
5y bond	12.2	10.7	10.1	8.9
10y bond	11.2	10.3	9.7	8.5
<b>Czech Rep.</b>				
CZK	28.3	28.8	28.2	27.0
1m-rate	1.9	1.9	1.6	1.5
5y bond	4.2	3.3	3.1	3.2
10y bond	4.7	3.8	3.6	3.9
<b>USD</b>	<b>1.27</b>	<b>1.30</b>	<b>1.35</b>	<b>1.45</b>

Currencies per 1 EUR

Source: Reuters, Raiffeisen RESEARCH

## Recommendations (1-month horizon)

Neutral PLN bonds; Neutral HUF bonds; Buy CZK bonds.

## Highlights

- **Poland** – The main factor influencing the bond market in Poland is still the situation with the zloty. There was some stabilisation on the local currency market, which was slightly comforting for market participants. Along with the stronger zloty, bond prices rose too, especially on instruments with shorter maturities. 10-year bonds remained at least stable during the week.
- **Hungary** – The HGB market is extremely hectic amidst another big jump of risk aversion. Everything depends mostly on the external factors – however before the mood improves, it could certainly further deteriorate. HGB yields are stationing at record high levels – with potential to further rise.
- **Czech Republic** – Last week misleading and in part false information about foreign bank lending to the Czech Republic was published by some foreign media, which was rectified by the Czech National Bank. In fact the amount of foreign borrowing of Czech households is close to zero. We still stick to our short-term buy recommendation for Czech government bonds.

## Key upcoming events and data releases

Country	Indicator	Period	Forecast	Range	Last
27-Feb					
HU	Unemployment rate	Jan	8.4 %	n.a.	8.0
HR	Import of goods	Jan	1335.0 EUR mn	n.a.	1473.0
HR	Export of goods	Jan	625.0 EUR mn	n.a.	704.0
02-Mar					
HU	PPI, yoy	Jan	4.6 %	n.a.	5.8
RO	FX reserves	Feb	n.a. EUR bn	n.a.	26.0
04-Mar					
RO	GDP, real, yoy	Q4	3.5 %	n.a.	9.1
RU	CPI, mom	Feb	1.2 %	n.a.	2.4
RU	CPI, yoy	Feb	13.4 %	n.a.	13.4
06-Mar					
HU	Industrial output, yoy	Jan	-18.0 %	n.a.	-19.6

## Bond auctions

	ISIN	Coupon	Maturity	Volume
04-Mar				
CZ	8y Floater CZ0001002331	n.a.	27 Oct 16	CZK 8 bn

# Local currency bonds

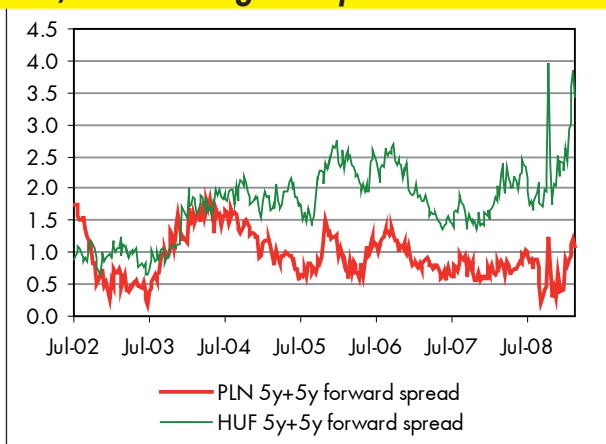
## Market overview

### CEE local currency bond market snapshot

27/2/2009	Maturity	Coupon %	Ask price	YTM %	Spread to bunds (bp)	MDuration
<b>Poland</b>						
PLN 2y Gov. Bond	25/ Jul 11	0.00	87.51	5.73	442	2.4
PLN 5y Gov. Bond	25/ Apr 14	5.75	99.57	5.85	359	4.4
PLN 10y Gov. Bond	25/ Oct 19	5.50	94.95	6.16	305	8.1
PLN 20y Gov. Bond	25/ Apr 29	5.75	96.33	6.07	206	11.7
<b>Hungary</b>						
HUF 3y Gov. Bond	12/ Jun 12	7.25	85.10	13.09	1139	2.9
HUF 5y Gov. Bond	12/ Feb 15	8.00	82.98	12.18	992	4.8
HUF 10y Gov. Bond	24/ Jun 19	6.50	71.86	11.23	813	6.9
HUF 15y Gov. Bond	24/ Nov 23	6.00	68.90	10.15	607	9.0
<b>Czech Republic</b>						
CZK 2y Gov. Bond	18/ Oct 10	2.55	99.21	3.05	175	1.6
CZK 5y Gov. Bond	16/ Jun 13	3.70	98.25	4.15	192	4.0
CZK 10y Gov. Bond	18/ Aug 18	4.60	99.40	4.68	157	7.7
CZK 15y Gov. Bond	12/ Sep 22	4.70	96.19	5.09	102	10.0
<b>Slovakia</b>						
SKK 2y Gov. Bond	1/ Apr 11	0.00	94.92	2.54	124	2.1
SKK 5y Gov. Bond	11/ Feb 14	4.90	105.61	3.64	141	4.5
SKK 10y Gov. Bond	12/ May 19	5.30	105.76	4.58	148	7.9
<b>Croatia</b>						
HRK 5y Gov. Bond	11/ Jul 13	4.50	94.93	5.83	332	3.9
HRK 10y Gov. Bond	8/ Feb 17	4.75	91.93	6.04	294	6.7
<b>Romania</b>						
RON 3y Gov. Bond	25/ Oct 10	6.00	91.41	12.00	1030	1.6
RON 5y Gov. Bond	5/ Mar 12	6.50	88.42	11.25	902	2.6

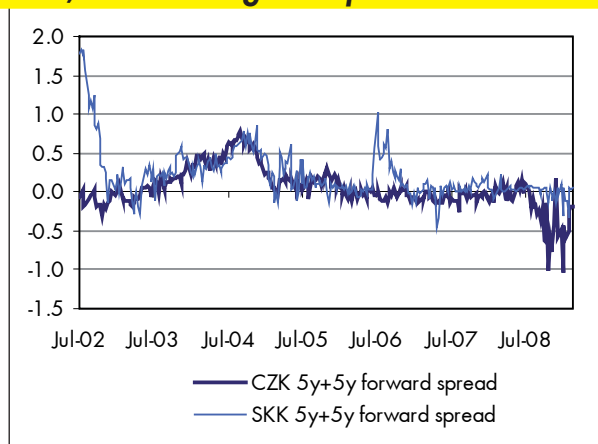
Source: Reuters, Raiffeisen RESEARCH

### PLN, HUF convergence spread



Source: Reuters, Raiffeisen RESEARCH

### CZK, SKK convergence spread



Source: Reuters, Raiffeisen RESEARCH

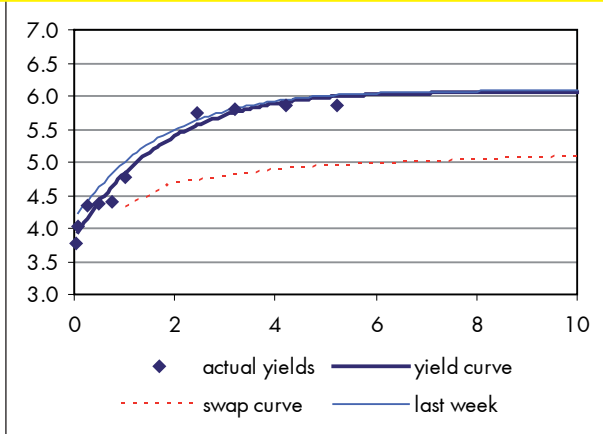
# Poland

## Zloty stabilisation helps bond prices

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

24 Feb 09	Retail sales, % yoy	Jan 1.3 (Dec 6.6)
24 Feb 09	Unemployment rate, %	Jan 10.5 (9.5 Dec)
25 Feb 09	NBP reference rate, %	Feb 4 (Jan 4.25)

### PLN yield curve



Source: Reuters, Raiffeisen RESEARCH

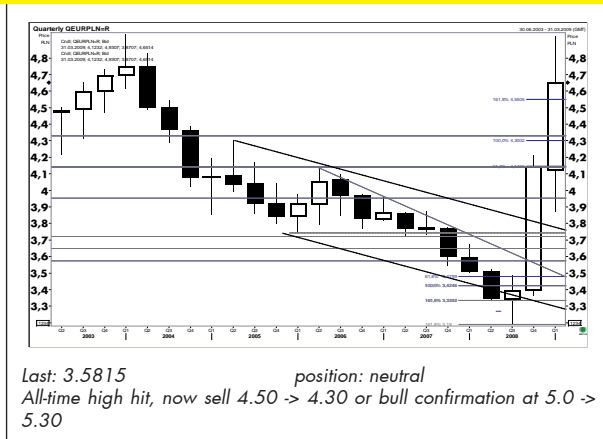
### Money market focus

MM rates	1m	3m	6m	12m
<b>Actual</b>	<b>4.00</b>	<b>4.31</b>	<b>4.36</b>	<b>4.37</b>
Change from last week	-0.25	-0.19	-0.21	-0.22
Forecast Mar-09	3.77	3.95	3.98	4.40
<b>Forward rates</b>	<b>3x6</b>	<b>6x9</b>	<b>9x12</b>	
	4.43	4.37	4.30	
Change from last week	-0.23	-0.24	-0.21	

### Bond market focus

	2y	5y	10y	20y
<b>Actual</b>	<b>5.67</b>	<b>5.84</b>	<b>6.16</b>	<b>6.10</b>
Change from last week	-0.33	-0.09	0.05	-0.05
Forecast Mar-09	4.60	5.00	5.40	5.60
<b>Spread to bunds</b>	<b>437.0</b>	<b>360.7</b>	<b>307.3</b>	<b>209.1</b>
Change from last week	-10.6	-14.8	5.3	-9.9
<b>Spread to swaps</b>	<b>-104.6</b>	<b>-89.3</b>	<b>-101.7</b>	

### EUR/PLN



Source: Reuters, Raiffeisen RESEARCH

### Market strategy

Neutral PLN T-bonds

### Market comment

The main factor influencing the bond market in Poland is still the situation with the zloty. There was some stabilisation on the local currency market, which was slightly comforting for market participants. Along with the stronger zloty, bond prices rose too, especially on instruments with shorter maturities. 10-year bonds remained at least stable during the week. After strong verbal intervention by the NBP, the market was curiously waiting for the rate decision. The MPC's decision was torn between the rapid deterioration of economic data and the weak zloty. The outcome was a 25-bp cut, and strongly underlined the issue of the weaker-than-equilibrium Polish currency rate. Bonds were little affected by this decision.

### Market outlook

The weak zloty is clearly a very important matter for the Polish MPC, but in the present economic environment we see holding the rates at the current levels just to support the currency as a low probability event. Accordingly, we reckon that Polish interest rates will be gradually lowered to 3%. Nevertheless, central bank will be closely watching what is happening with the zloty and rate cuts won't be as large as expected previously. Probably we will witness series of 25-bp cuts, with possible pauses in the case of noticeable zloty depreciation. In our opinion, further rate cuts should be supportive for bond prices, even with the high risk aversion taken into account. We assume that the short end of the yield curve will mostly be affected by the loosening in monetary policy. Prices of bonds with longer maturities might be stubbornly glued to the current levels or even decline a bit.

Analysts: Marcin Grotek (+48 22 585 29 44)  
Marcin Kopaczynski (+43 1 71707 1423)

### Exchange rate focus

	actual	Mar-09	Jun-09	Sep-09
<b>EUR/PLN</b>	<b>4.71</b>	<b>4.55</b>	<b>4.70</b>	<b>4.80</b>
Change from last week	-0.6%			
<b>USD/PLN</b>	<b>3.69</b>	<b>3.50</b>	<b>3.48</b>	<b>3.31</b>
Change from last week	0.2%			

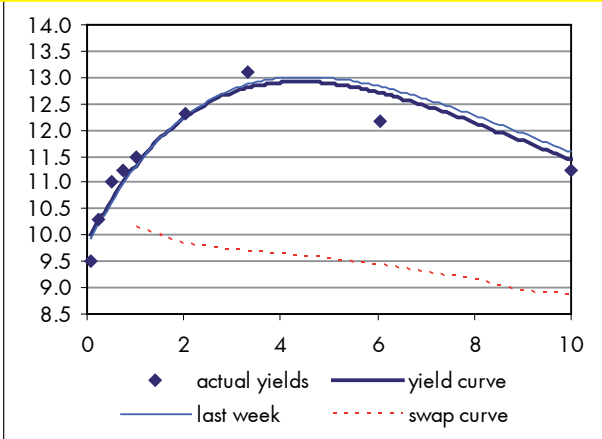
# Hungary

## Waiting for improvement

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

<b>23 Feb 09</b>	Monetary Council meeting, %	Feb 9.5 (Jan 9.5)	No change as expected
<b>02 Mar 09</b>	PPI, % yoy	Jan 4.6 (Dec 5.8)	
<b>06 Mar 09</b>	Industrial output, % yoy	Jan -18.0 (Dec -19.6)	

### HUF yield curve



Source: Reuters, Raiffeisen RESEARCH

### Market strategy

Neutral HUF T-bonds

### Market comment

The HGB market is extremely hectic amidst another big jump of risk aversion. Liquidity is pretty poor, therefore 50-70bp jump of the yields up and down can happen (and does happen indeed) in any day. The HUF market is similarly nervous with plenty of sudden big moves – EUR/HUF keeps oscillating around the 300 level. The NBH decided to keep rates on hold (9.5% p.a.). CDS on Hungary (5-year EUR) revisited the 600 level once again (close to the 2008 late October record). To sum up: market mood is extremely depressed and the outlook is gloomy.

### Money market focus

MM rates	1m	3m	6m	12m
Actual	9.50	9.50	9.51	9.51
Change from last week	0.00	0.00	0.01	0.11
Forecast Mar-09	9.8	9.9	10.3	11.2

### Bond market focus

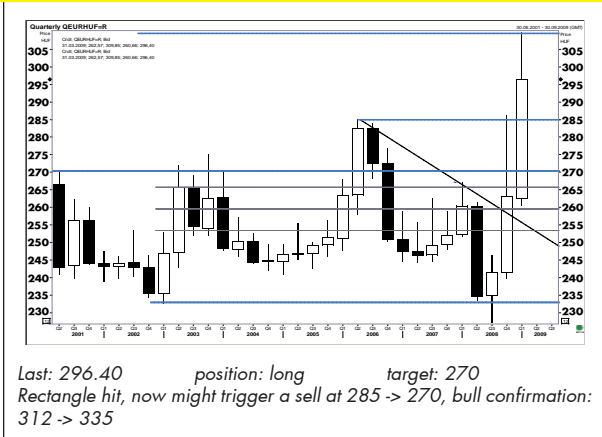
	3y	5y	10y	15y
Actual	13.09	12.18	11.23	10.15
Change from last week	0.00	-0.07	-0.26	-0.04
Forecast Mar-09	10.9	10.7	10.3	10.2
Spread to bunds	1138.8	994.7	814.1	609.5
Change from last week	-2.5	-12.9	-31.9	-8.5

### Market outlook

The government's efforts to stabilize the budget and the economy appear to be ridiculously poor, pressure is rising to develop some proper medication. Everything depends mostly on the external factors – however before the mood improves, it could certainly further deteriorate. HGB yields are stationing at record high levels (3Y 13.5%; 5Y 12.5%; 10Y 11.5%) – with potential to further rise. In case of another big T-bond sell-off (and a parallel shift of EUR/HUF towards 320), there comes the possibility of an extraordinary and massive rate hike (400-600bps). Market mood is extremely unpredictable though, and such a doomsday story is certainly not our base-case scenario – we only wanted to demonstrate how fragile the situation is (i.e. contrary market move is also a possibility). Given the unstable market we suggest not to enter the Hungarian currency market and stay away from the HGB market.

Analysts: Zoltán Török (+36 148 44 843)  
Wolfgang Ernst (+43 1 71707 1500)

### EUR/HUF



Source: Reuters, Raiffeisen RESEARCH

### Exchange rate focus

	actual	Mar-09	Jun-09	Sep-09
EUR/HUF	296.54	300.0	300.0	280.0
Change from last week	1.2%			
USD/HUF	234.09	230.8	222.2	193.1
Change from last week	1.2%			

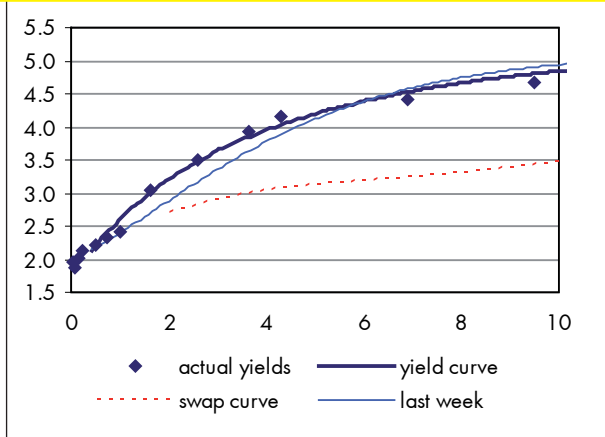
# Czech Republic

## Smear campaign with false numbers

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

17 Feb 09	Retail sales, % yoy	Dec -2.9 (Nov -6.3)	Another sign for the weakening of the economy
20 Feb 09	PPI, % yoy	Jan -0.8 (Dec -0.1)	

### CZK yield curve



Source: Reuters, Raiffeisen RESEARCH

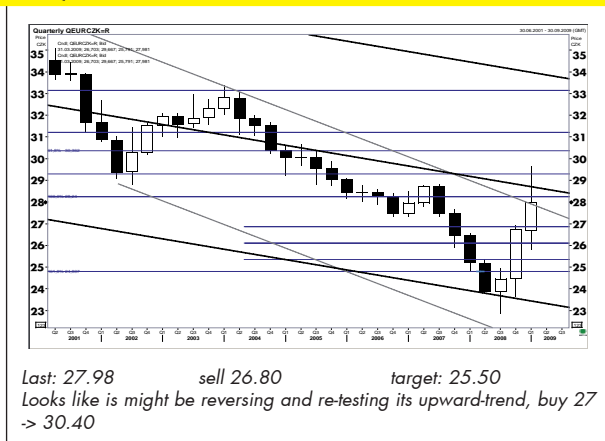
### Money market focus

MM rates	1m	3m	6m	12m
<b>Actual</b>	<b>1.88</b>	<b>2.14</b>	<b>2.24</b>	<b>2.44</b>
Change from last week	-0.01	0.06	0.08	0.03
Forecast Mar-09	1.9	2.0	2.1	2.3
<b>Forward rates</b>	<b>1x2</b>	<b>3x6</b>	<b>6x9</b>	<b>9x12</b>
	2.22	2.35	2.54	2.72
Change from last week	0.11	0.10	-0.01	-0.03

### Bond market focus

	2y	5y	10y	15y
<b>Actual</b>	<b>3.05</b>	<b>4.15</b>	<b>4.68</b>	<b>5.09</b>
Change from last week	0.38	0.00	-0.20	-0.15
Forecast Mar-09	2.3	3.3	3.8	4.2
<b>Spread to bunds</b>	<b>175.2</b>	<b>192.6</b>	<b>158.7</b>	<b>103.9</b>
Change from last week	36.8	-7.8	-25.5	-19.4
<b>Spread to swaps</b>	<b>-21.7</b>	<b>-93.2</b>	<b>-105.4</b>	<b>n.a.</b>

### EUR/CZK



Source: Reuters, Raiffeisen RESEARCH

### Market strategy

Buy CZK T-bonds

### Market comment

Over the past days we had to witness the extent to which some foreign media is willing to publish misleading or even false information about Central and Eastern Europe. In case of the Czech Republic it was found that the cited data for foreign bank lending to the Czech Republic was mixed with domestic bank lending in domestic currency. Thus, the presented figure was supposed to amount to CZK 192 bn, which roughly equals total banking assets of all foreign-owned Czech banks. According to statistics of the Czech National Bank (CNB) the foreign debt of the Czech Republic vis-à-vis foreign banks is approximately USD 38 bn. A further case of false information published by the media concerns the share of foreign currency denominated mortgage loans in the Czech Republic. Infact the amount of foreign borrowing of Czech households is close to zero.

### Market outlook

Despite the financial stability of the Czech financial sector, asset prices could well continue to move in line with their regional peers. Given the Czech Republic's small external debt, a further depreciation would make assets denominated in Czech crown more and more attractive. Currencies like the Czech crown or the Polish zloty can be regarded already as fundamentally undervalued and, thus, a further possible decline should be limited and of temporary nature. On the other hand, given the development on the global financial market, it does not appear likely that the current period of high risk aversion will end anytime soon and high volatility is likely to prevail. We still stick to our short-term buy recommendation for Czech government bonds.

Analysts: Michal Brozka (+420 221 141 498)  
Walter Demel (+43 1 71707 1526)

### Exchange rate focus

	actual	Mar-09	Jun-09	Sep-09
<b>EUR/CZK</b>	<b>28.29</b>	<b>28.8</b>	<b>28.2</b>	<b>27.0</b>
Change from last week	1.1%			
<b>USD/CZK</b>	<b>22.12</b>	<b>22.2</b>	<b>20.9</b>	<b>18.6</b>
Change from last week	1.7%			

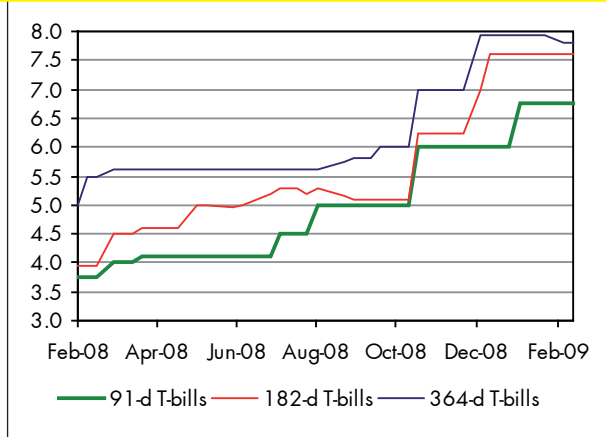
# Croatia

## Pressures on public debt increase

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

18 Feb 09	CPI, % yoy	Jan 3.4 (Dec 2.9)
27 Feb 09	Import of goods, EUR mn	Jan 1335 (Dec 1473)
27 Feb 09	Export of goods, EUR mn	Jan 625 (Dec 704)

### Interest rates on T-bills



Source: Reuters, Raiffeisen RESEARCH

### Market strategy

Neutral EUR/HRK

### Market comment

At the end of October 2008, total public debt, including CBRD debt, amounted to HRK 135.6 bn. At a monthly level, public debt increased by HRK 2.17 bn, mostly as a result of rising central government debt. At the annual level, public debt was up 6.1%. In terms of the overall structure of public debt, which amounts to HRK 85.6 bn, central government debt still represents the most important part. In October, the central government increased debt by HRK 1.22 bn. Late last year and early this year, faltering economic activity had a negative impact on budget revenues, consequently resulting in stronger need for government borrowing on the domestic financial market. In the period ahead, we expect to record further increases in government debt via T-bill auctions and credit arrangements with domestic banks. In January, producer prices decreased by 0.1% on a monthly basis. At the same time, the annual rate of change in producer prices was +1.8%. One important factor that stopped further disinflation in producer prices was the significant increase in gas prices early this year. In the period ahead, we may see producer prices continue to slow down at the annual level, due to the higher base from last year.

### Money market focus

	1m	3m	6m	12m
ZIBOR actual	18.20	11.33	9.42	8.70
Change from last week	1.87	0.25	0.27	0.03
T-bills actual	n.a.	6.75	7.60	7.80

### Exchange rate focus

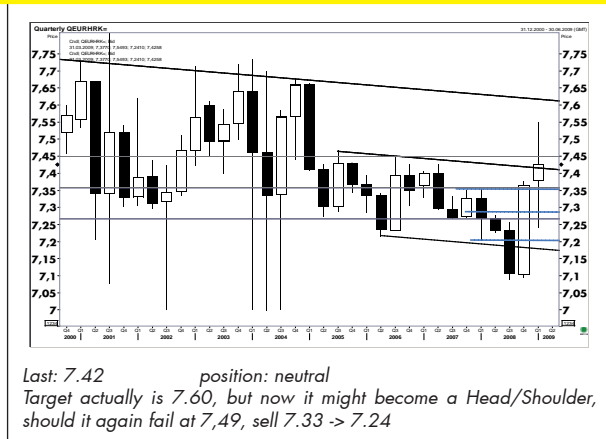
	actual	Mar-09	Jun-09	Sep-09
EUR/HRK	7.440	7.50	7.45	7.55
Change from last week	-0.2%			
USD/HRK	5.80	5.77	5.52	5.21
Change from last week	-1.4%			

### Exchange rate comment

At the end of last week, a good balance of supply and demand for foreign currency resulted in EUR/HRK remaining stable around 7.50. At the beginning of this week, however, the supply of foreign currency increased again after longer time, resulting in stronger appreciation pressures on the kuna, and pushing the FX rate down to 7.38. By mid-week depreciation pressures on the domestic currency came to the fore again, driving the rate back above EUR/HRK 7.50. The CNB reacted by not accepting the total amount of bids submitted at this week's reverse repo auction and by lowering the liquidity level at the weekly level. This move by the CNB returned the rate to lower levels of around 7.40.

Analysts: Zdeslav Santic (+385 1 61 74 337)  
Davor Vljajcic (+385 1 61 74 175)

### EUR/HRK



Source: Reuters, Raiffeisen RESEARCH

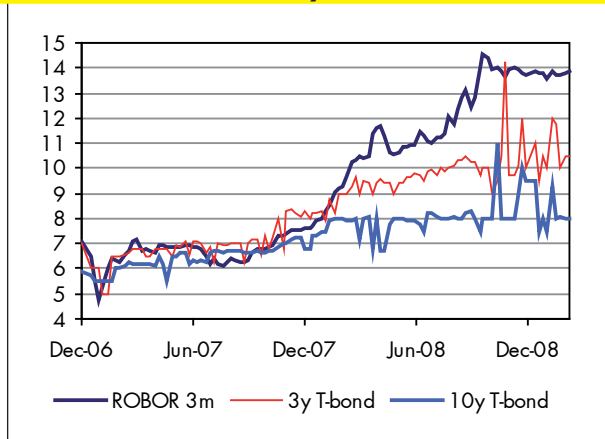
# Romania

## Low GDP growth rate expected for Q4 2008

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

26 Feb 09	Economic confidence indicator	Feb 69.1 (Jan 79.5)
02 Mar 09	FX reserves, EUR bn	Feb n.a. (Jan 26.0)
04 Mar 09	GDP, real, % yoy	Q4 3.5 (Q3 9.1)

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



Source: Reuters, Raiffeisen RESEARCH

### Market strategy

Neutral RON T-bonds

### Market comment

The statistical office will release the GDP figures for Q4 2008 on 4 March. The GDP growth rate in Q4 2008 should be substantially below the levels in the previous quarters. Although GDP expanded by 9.1% yoy in Q3 2008, it may expand by just 3.5% yoy in Q4 2008 (in spite of the still large positive contribution from the agriculture). This is because the final months of 2008 were marked by a rapid deceleration of activity in all sectors of the economy (industry, construction, retail sales). In Q4 2008, industry plunged by 10.4% yoy, while the growth rate in the construction industry stood at 16.8% yoy, down from 28.5% yoy in Q3 2008. Also, the growth rate of retail sales decelerated only to 4.3% yoy in Q4 2008, from 17.4% yoy in Q3 2008. According to our estimations, the rapid deceleration in the annual GDP growth rate reflects a contraction in real GDP in Q4 2008 by 2-3% from Q3 2008 (based on seasonally adjusted data).

### Money market focus

MM rates	1m	3m	6m	12m
<b>Actual</b>	<b>14.00</b>	<b>13.86</b>	<b>13.56</b>	<b>13.52</b>
Change from last week	0.07	0.07	-0.11	-0.09
Forecast Mar-09	12.0	12.0	11.9	12.0
<b>Implicit forward rates</b>	<b>3x6</b>	<b>6x9</b>	<b>9x12</b>	
	13.45	13.32	12.73	
Change from last week	-0.31	-0.01	-0.11	

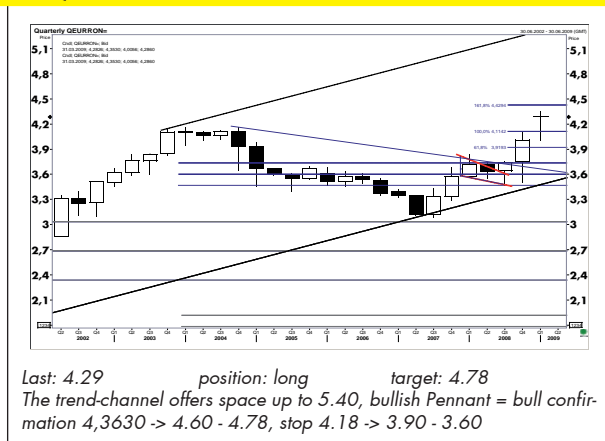
### Bond market focus

	2y	3y	5y	10y
<b>Actual</b>	<b>12.00</b>	<b>11.75</b>	<b>11.20</b>	<b>9.00</b>
Change from last week	1.00	1.25	0.48	1.00
Forecast Mar-09	11.00	10.90	10.50	8.00
<b>Spread to bunds</b>	<b>1071.2</b>	<b>1006.1</b>	<b>898.3</b>	<b>592.3</b>
Change from last week	99.9	44.1	100.0	95.3

### Market outlook

Government officials confirmed that is only a matter of weeks until Romania asks for a financing package from the international institutions (European Commission, IMF, and other international creditors). Currently, the central bank and the government are evaluating the situation in order to decide on the amount to be borrowed. Up to now, the central bank has succeeded in limiting leu depreciation thanks to strong control of liquidity in the money market. Concluding a financing agreement with the international institutions might boost the confidence of foreign investors and should also support the leu over the medium. Over the short term, we expect the EUR/RON exchange rate to remain close to the current level.  
Analyst: Ionut Dumitru (+40 37 221 1269)

### EUR/RON



Source: Reuters, Raiffeisen RESEARCH

### Exchange rate focus

	actual	Mar-09	Jun-09	Sep-09
<b>EUR/RON</b>	<b>4.29</b>	<b>4.30</b>	<b>4.25</b>	<b>4.20</b>
Change from last week	-0.6%			
<b>USD/RON</b>	<b>3.36</b>	<b>3.31</b>	<b>3.15</b>	<b>2.90</b>
Change from last week	0.1%			

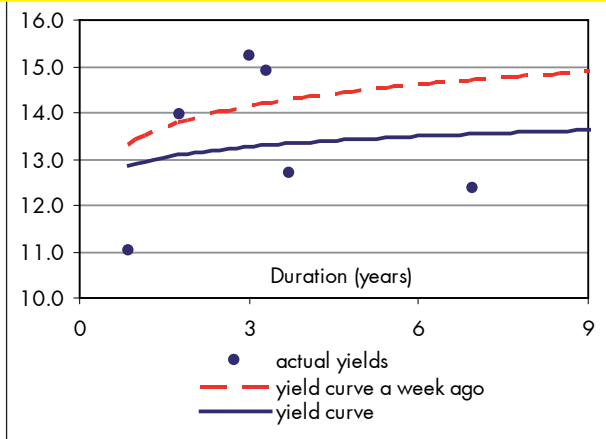
# Russia

## Combating rouble devaluation

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

04 Mar 09	CPI, % mom	Feb 1.2 (Jan 2.4)
04 Mar 09	CPI, % yoy	Feb 13.4 (Jan 13.4)

### RUB yield curve



Source: Reuters, Raiffeisen RESEARCH

### Money market focus\*

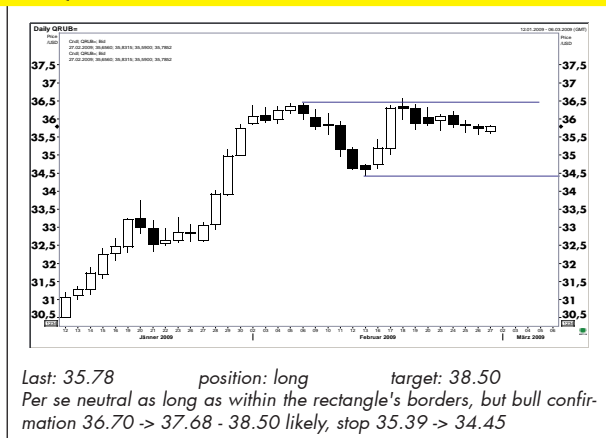
MM rates	1m	3m	6m	12m
Actual	18.75	20.92	22.12	22.71
Change from last week	-0.50	-1.19	-1.88	-1.68
Forecast Mar-09*	18.00	19.50	20.00	n.a.
Forward rates	1x2	3x6	6x9	9x12
	22.66	24.07	n.a.	n.a.
Change from last week	-2.24	-1.54	n.a.	n.a.

### Bond market focus\*

	1y	2y	5y	15y
Actual	11.01	13.96	14.89	12.36
Change from last week	11.01	13.96	14.89	12.36
Forecast Mar-09*	15.00	16.30	16.94	n.a.

\* new revisions

### USD/RUB



Source: Reuters, Raiffeisen RESEARCH

### Market strategy

The rouble stabilization around 40.11 vs. the dual currency basket including marginal gains that followed after the central bank tightened a grip over repo market, is a positive step. We expect the rouble to hold within the central bank's limits during next couple of weeks.

### Market outlook

On February 24 Russia's central bank said it will from today daily set the minimum interest rate for one-day repo auctions. The decision will enable the central bank to set the daily minimum rate at a higher level than the minimum rate set by the board thus giving the regulator more control over the money market. The change in the rate setting mechanism for one-day repo per se does not amount to monetary tightening. One-day repo is the most important liquidity window local banks use to bridge their rouble gap. Clearly the central bank is willing to use the repo rate to defuse attacks on the rouble in FX market. One way to reduce pressure on the rouble in FX market would be to reduce rouble liquidity in the system and force market players to bear higher rouble costs. In another statement the central bank said the rouble devaluation expectations are easing as evidenced by stabilization of foreign currency deposits at 32% of total deposits. In January capital outflow reached a whopping USD 40bn but the bank said the outflows should stop from February.

### Market outlook

Russia's international reserves lost USD 4.7bn falling to an overall USD 381.9bn in the period of February 13 till February 20. In comparison to January February was a relatively calm month in FX market. The rouble is holding steady between 40 and 41 to the dual currency basket. However sizable payments on foreign debt falling due in Q1 and Q2 of 2009, about USD 35bn and USD 36bn respectively, can exert more pressure on the rouble.  
 Analyst: Gintaras Shlizhyus (+43 1 71707 1343)

### Exchange rate focus\*

	actual	Mar-09	Jun-09	Sep-09
EUR/RUB	45.48	50.40	52.48	53.06
Change from last week	1.3%			
USD/RUB	35.63	38.77	38.88	36.59
Change from last week	0.7%			

\* new revisions

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