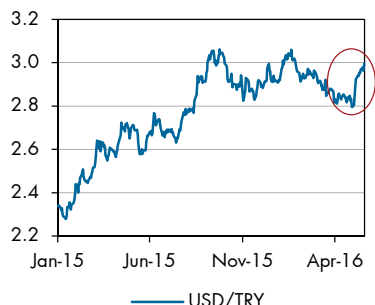


## TRY with renewed setback



USD/TRY 5y high: 3.06, 5y low: 1.57  
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

## Market snapshot

	curr.*	Jun-16	Sep-16	Dec-16
<b>Poland</b>				
EUR/PLN	4.41	4.35	4.30	4.30
Key rate	1.50	1.50	1.50	1.50
10y bond	3.0	2.9	3.0	3.2
<b>Hungary</b>				
EUR/HUF	316.3	315	315	315
Key rate	1.05	0.90	0.90	0.90
10y bond	3.5	3.1	3.2	3.3
<b>Czech Rep.</b>				
EUR/CZK	27.0	27.0	27.0	27.0
Key rate	0.05	0.05	0.05	0.05
10y bond	0.5	0.3	0.6	0.7
<b>Romania</b>				
EUR/RON	4.50	4.45	4.40	4.40
Key rate	1.75	1.75	1.75	1.75
10y bond	3.7	3.5	3.6	3.8
<b>Croatia</b>				
EUR/HRK	7.49	7.55	7.60	7.65
10y bond	3.8	3.9	3.9	3.9
<b>Russia</b>				
USD/RUB	66.4	70.0	65.0	67.0
Key rate	11.00	11.00	10.50	10.00
10y bond	8.9	9.2	9.0	8.8
<b>Turkey</b>				
USD/TRY	2.97	2.95	2.90	2.95
Key rate	7.50	7.50	7.50	7.50
10y bond	10.1	9.3	9.0	8.9
EUR/USD	1.12	1.10	1.10	1.05

\* prices as of 20 May 2016, 09:26 a.m. CEST;  
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

## Content

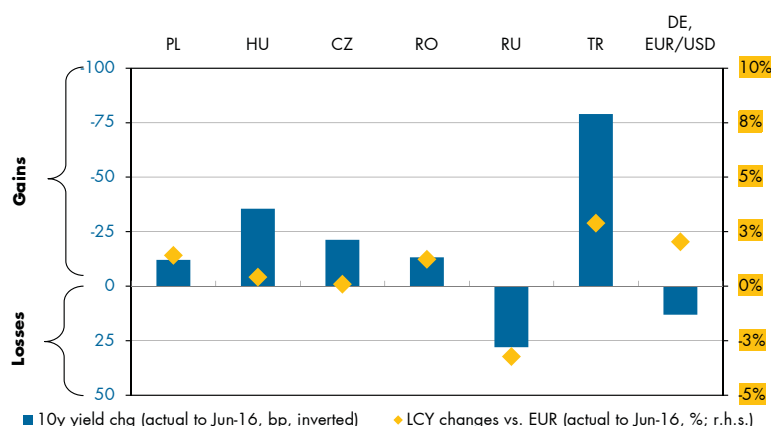
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## Highlights

Whereas Poland end of last week managed to avoid a rating downgrade by Moody's, only receiving a degradation in the outlook to negative, Hungary is waiting to get back into investment grade territory after losing it more than four years ago. Yet, we do not expect such a rating upgrade today, not only due to a latest seen slowdown in the economy, but especially due to the probability of looser fiscal policy going forward. Further, Hungary will remain among the CEE spotlights next week with the rate setting meeting scheduled for Tuesday, 24 May. Here we expect the Hungarian Central Bank (MNB) to end its rate cutting cycle with a last 15bp cut to 0.90%. In a calm week regarding data releases Poland should likewise remain in the focus as the next FX loan conversion proposal should be presented in the near-term. Volatility on Polish assets could therefore remain elevated. With the oil price seemingly having bounced off the USD 50/barrel (Brent) level the Russian rouble retreated from its recent resistance level of USD/RUB 65. Any additional setback in oil price could drive the rouble weaker in the short term, making a re-start of the rate cutting cycle in Russia unlikely for June. Instead we project a first rate cut only in Q3 with cuts of approximately 50bp each quarter in H2 2016. Ukraine, after witnessing political turmoil, was able to reach a staff level agreement with the IMF on policies needed to complete the second review under the EFF. The IMF mentioned the progress Ukraine made with regards to economic stability while at the same time urging for additional reforms. The next IMF review will be done in July. No surprise is to be expected at the special congress of the Turkish AKP on Sunday, 22 May. Following the resignation of Ahmet Davutoglu Transport Minister Binali Yildirim, a close confidant of President Recep Tayyip Erdogan, is to become the new leader of the AKP. As the market might fear an extension of the power of Erdogan and a reshuffle of the cabinet, TRY should remain under pressure.

Financial analyst: Martin Stelzeneder, CEFA, RBI Vienna

## Expected changes until June 2016



Source: Bloomberg, RBI/Raiffeisen RESEARCH

## Data highlights upcoming week

Date	Indicator	Period	est.	High	Mean	Low	Prev.
23-May	RU: Retail sales, % yoy real	Apr	n.a.	-3.2	-5.0	-7.7	-5.8
23-May	UA: Industrial output, % yoy	Apr	n.a.	5.0	4.0	1.0	4.8
24-May	HU: Key rate, %	May	0.90	0.90	0.90	0.90	1.05
26-May	UA: Key rate, %	May	n.a.	19.00	19.00	18.00	19.00

Source: Bloomberg, RBI/Raiffeisen RESEARCH

## Data releases and country coverage

### This week, previous week: key data releases

Indicator	Period	Actual	Forecast	Prev.	Indicator	Period	Forecast	High	Mean	Low	Previous
<b>Friday, 13 May</b>					<b>Monday, 23 May</b>						
PL: C/A balance, EUR bn	Mar	-1.0	0.3	-0.6	RU: Real wages, % yoy	Apr	n.a.	1.1	-0.7	-4.0	1.6
PL: Trade balance, EUR mn	Mar	204.0	564.0	216.0	RU: Retail sales, % yoy real	Apr	n.a.	-3.2	-5.0	-7.7	-5.8
PL: CPI, % yoy core	Apr	-0.4	-0.3	-0.2	UA: Industrial output, % yoy	Apr	n.a.	5.0	4.0	1.0	4.8
<b>Monday, 16 May</b>					<b>Tuesday, 24 May</b>						
HR: CPI, % yoy	Apr	-1.7	-1.7	-1.7	RU: Unemployment rate, %	Apr	n.a.	6.2	6.0	5.8	6.0
RU: GDP, % yoy	Q1	-1.2	n.a.	-3.8	HU: Key rate, %	May	0.90	0.90	0.90	0.90	1.05
UA: GDP, % yoy	Q1	0.1	n.a.	-1.4	HR: Unemployment rate, %	Apr	15.8	n.a.	n.a.	n.a.	17.2
<b>Tuesday, 17 May</b>					<b>Thursday, 26 May</b>						
CZ: GDP, % yoy	Q1	3.1	1.9	4.0	TR: Key rate, %	May	7.50	7.50	7.50	7.50	7.50
RS: Key rate, %	May	4.25	4.25	4.25	UA: Key rate, %	May	n.a.	19.00	19.00	18.00	19.00
<b>Wednesday, 18 May</b>					<b>Friday, 28 May</b>						
RU: Industrial output, % yoy	Apr	0.5	n.a.	-0.5	HU: Unemployment rate, %	Apr	5.9	5.9	5.9	5.9	6.0
<b>Thursday, 19 May</b>					<b>Saturday, 30 May</b>						
PL: Industrial output, % yoy sold	Apr	6.0	3.6	0.5							
PL: Retail sales, % yoy	Apr	3.2	2.4	0.8							

Source: Bloomberg, RBI/Raiffeisen RESEARCH

**Croatia (HR)** – In line with our expectations, the latest CPI data confirmed deflationary pressures which, with a few interruptions, date back to February 2014. CPI in April fell by 1.7% yoy (+0.1% mom), mainly due to the 6.4% yoy decline in transport prices. The absence of inflationary pressures this year should be additionally supported by the administrative reduction of gas prices from April this year. The focus of the week was clearly on the EC's recommendations on the National Reform Programme and the 2016 Convergence Programme. The EC assessed the Government's programme package as a fairly ambitious reform agenda which, if fully implemented within the indicated timelines, would help address the country's macroeconomic imbalances, and it is clearly stressed there is no need at this stage to step up the MIP. However, the EC recommended taking actions in five crucial areas. In order to ensure a durable correction of the excessive deficit by 2016 and subsequently achieve an annual fiscal adjustment of at least 0.6% of GDP in 2017, several measures have been recommended (improving the overall budgetary process, starting with reform of recurrent taxation of immovable property, reinforcing the framework for public debt management). By the end of 2016, Croatia should take measures to discourage early retirement, accelerate the transition to the higher statutory retirement age and provide appropriate measures to enhance the employability of the working-age population, and consolidate social protection benefits. Also, in order to improve sufficiency and reduce territorial disparities in the delivery of public services, the EC recommended reducing fragmentation and harmonising the wage-setting frameworks across the public administration. Further recommendations included reinforcing the monitoring of SOEs and significantly reducing para-fiscal charges, along with improvements in the quality and efficiency of the judicial system. In the week to come, as regards economic releases, the focus should be on labour market data. In line with usual seasonal employment developments, we expect registered unemployment rate to fall below 16%, thanks to the monthly decline in the number of unemployed in April (7.9% mom). Initial data on real average gross and net wages in March might show more growth at the annual level, driven by the lack of inflationary pressures; at the same time this may also result in higher disposable income.

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

**Czech Republic (CZ)** – Two weeks ago, the Czech National Bank published a new forecast, in which the expected end of the EUR/CZK 27.0 FX commitment was postponed by two quarters to mid-2017. Only one week later, the inflation figure for April at 0.6% was 30bp above the CNB forecast. Another week later, the flash GDP figure for Q1 2016 at 3.1% yoy was 50bp above the CNB forecast. With regard to the Czech National Bank, we would therefore expect a backward shift of the expected end of the FX floor to Q1 2017. We thus think that the most probable time for the exit from the current CNB FX regime is H1 2017. Nevertheless, flash GDP in Q1 was higher than expected. Moreover, in light of the revision of the historical GDP time series, our current 2016 GDP forecast of 2.0% might be slightly too pessimistic. It will be important to see the final data and structure, but the risk for our 2016 2.0% GDP forecast is currently skewed to the upside.

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

**Hungary (HU)** – Fitch Ratings will publish an update on Hungary's credit rating, which is currently in junk territory and has been one step below investment grade for more than four years. The update is slated to come later today after the closing bell. Our opinion is that Fitch is now far less likely to upgrade than otherwise, even though we have been expecting a move for a

while. The reasons behind this are simple: Hungary's growth momentum has stalled, so much so that Q1 GDP was even lower than 1%, while not so long ago it was close to pre-crisis levels. Furthermore, now that the government is trying to offset the slowdown by fiscal loosening (draft budget for 2017 was published), it also runs the risk of not seeming committed enough to budget discipline, which also clearly endangers any positive rating action even for the next two years (2018 election year). Nonetheless, this all will not deter the central bank from cutting interest rates at its next monetary policy committee meeting on Tuesday. We think the central bank has one more 15bp cut to go and the key policy rate will bottom out at 0.90%.

*Financial analyst: Gergely Pálffy (+36 1 484 4313), Raiffeisen Bank Zrt., Budapest*

**Poland (PL)** – Support for Polish assets was generated by the surprisingly mild Moody's decision not to cut the rating but only to weaken its perspective to negative, albeit this ultimately proved to be short lived. The downward revision of GDP forecasts announced by Fitch and rising expectations of hikes in the USA put Polish GBs under pressure and consequently their yields are even higher than before the Moody's decision. Positive data on retail sales and industrial output, which confirmed that its weakness in March was due to one-off factors, had no effect whatsoever on the markets. Next week will be rather calm, with no significant data releases and slack trading due to the long weekend (national holiday on Thursday). The focus will turn to the details of the surprisingly low GDP result for Q1, which will be published on May 31 and which in our opinion will mainly reflect the weakness of the construction sector, due to the standstill in infrastructure spending.

*Financial analyst: Marta Petka-Zagajewska, (+485852461), Raiffeisen Polbank, Warsaw*

**Romania (RO)** – Yesterday, Romania tapped the external markets for the second time this year, borrowing EUR 1 bn in a Eurobond with a residual maturity of 12 years at a spread of 225bp over the mid-swap rate. During the week, the Minister of Labour presented the draft of the Emergency Ordinance on the remuneration of public servants, which is aimed to reduce differences in wages of public employees and to introduce a system of performance bonuses for employees from the healthcare and education sectors as of January 2017. The draft is scheduled to be passed by the Government on 1 June and to be enforced on 1 August. The Government foresees that these measures will generate a net budgetary impact of roughly RON 0.5 bn in 2016 (equivalent to around 0.1% of GDP) and RON 1.4 bn in 2017 (equivalent to around 0.2% of GDP). Aside from statistics on lending dynamics in April (Thursday), no other important statistical indicators will be made public in the coming period.

*Financial analyst: Nicolae Covrig (+40 799 718 476), Raiffeisen BANK S.A., Bucharest*

**Russia (RU)** – According to media reports the State Duma may approve amendments which will allow the Ministry of Finance to increase borrowings on the local market (RUB 300 bn net currently) by the amount equal to the planned borrowings on the global markets (USD 3 bn or RUB 192 bn at the current FX rate). To recap, media suggested that Eurobond placement was cancelled due to informal restrictions of US and EU regulators. Besides, the CBR has been selling OFZs from its own portfolio (in April, RUB 60 bn out of RUB 207 bn) to sterilise excessive RUB liquidity from the market and limit the pace of interest rate decrease in the longer-end of the curve. Thus, in H2 2016 potentially OFZ offering could significantly increase - by RUB 340 bn (if CBR also sells its whole OFZ holding). Even if this happens (which we believe is rather unlikely given MinFin's strategy on the local market) we do not expect huge effect on the rates (according to our estimates the increase could be max. 50bp) as the excess of RUB liquidity in the banking segment is growing while the credit risk appetite remains low. We note that the CBR expects that the liquidity surplus in the banking sector will become visible only in November-December, thus we do not think that active liquidity absorption will be launched soon. As a result the longer end of the yield curve is likely to continue its decline irrespective of the key rate dynamics.

*Financial analyst: Anton Pletenev (+7 495 221 9801), AO Raiffeisenbank, Moscow*

**Serbia (RS)** – The President of the Republic, Tomislav Nikolic, launched consultations on the new government and apparently, as the Serbia Progressive Party (SNS) won 131 seats in the early parliamentary elections, its leader Mr Vucic is expected to be named as the new Prime Minister. We assume that the SNS might once again be considering forming a coalition with the second largest parliament party, the Socialist Party of Serbia (SPS). The new cabinet is expected to be formed by June 8, just ahead of the fifth International Monetary Fund (IMF) review in mid-June. Preparations in this respect are underway, as the IMF chief from Washington is visiting the Belgrade this week in order to review the public administration and state-owned enterprises reform agenda, due to the stalled implementation during the pre-election period. Despite the stable exchange rate, low inflation (April 2016: 0.4% yoy) and nice economic growth, the National Bank of Serbia (NBS) decided to leave the key rate flat (4.25%) amidst the high external risks. We think that the cautious attitude was also influenced by the pending coalition formation and the slower execution of public sector reforms. Still, we could assume that the NBS might be prone to cut the rate one more time (25bp) before inflation starts rising from September and enters the targeted range at the end of 2016 (4% +/- 1.5pp). Data wise, next week is empty. The Public Debt Management scheduled the Ministry of Finance T-bills auction (EUR 125 mn, 10y).

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

# Monetary policy and money markets overview

## CEE key interest and money markets outlook

Poland	curr.*	Jun-16	Sep-16	Dec-16	5y high	5y low
Key interest rate (% eop)	1.50	1.50	1.50	1.50	4.75	1.50
3m money market rate (% eop)	1.57	1.65	1.65	1.65	5.04	1.55
6m money market rate (% eop)	1.74	1.75	1.75	1.75	5.07	1.56
<b>Hungary</b>						
Key interest rate (% eop)	1.05	0.90	0.90	0.90	7.00	1.05
3m money market rate (% eop)	1.08	1.05	1.05	1.05	7.65	1.05
6m money market rate (% eop)	1.01	1.10	1.10	1.10	7.93	1.01
<b>Czech Rep.</b>						
Key interest rate (% eop)	0.05	0.05	0.05	0.05	0.75	0.05
3m money market rate (% eop)	0.29	0.30	0.30	0.30	1.25	0.28
6m money market rate (% eop)	0.36	0.40	0.40	0.40	1.57	0.36
<b>Romania</b>						
Key interest rate (% eop)	1.75	1.75	1.75	1.75	6.25	1.75
3m money market rate (% eop)	0.75	1.10	1.40	1.60	6.20	0.54
6m money market rate (% eop)	1.01	1.30	1.50	1.65	6.40	0.73
<b>Russia</b>						
Key interest rate (% eop)	11.00	11.00	10.50	10.00	17.00	5.50
3m money market rate (% eop)	11.40	11.70	11.30	10.80	29.93	4.17
6m money market rate (% eop)	11.50	11.90	11.80	11.40	30.31	4.31
<b>Turkey</b>						
Key interest rate (% eop)	7.50	7.50	7.50	7.50	10.00	4.50
3m money market rate (% eop)	10.68	11.00	10.50	10.00	12.15	4.74
6m money market rate (% eop)	10.71	11.10	10.60	10.10	12.48	5.12
<b>Benchmark key rates (% eop)</b>						
ECB key interest rate (% eop)	0.00	0.00	0.00	0.00	1.50	0.00
Fed key interest rate (% eop)	0.37	0.75	0.75	1.00	0.64	0.01

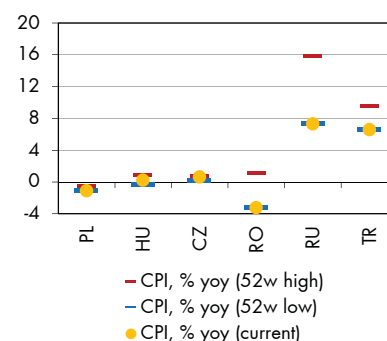
\* Bid rates (for Hungary ask rates) as of 20 May 2016, 09:19 a.m. CEST  
Source: Bloomberg, RBI/Raiffeisen RESEARCH

## Central bank watch

<b>Poland (NBP)</b>	NBP to remain neutral balancing between solid economic activity and deflation. Reshuffled MPC not as dovish as feared. Financial stability concerns related to FX loan conversion and rating risks should weaken any dovish voices if not for material worsening of economic outlook. We expect no material changes to MP after Mr. Glapinski will take governor Belka's chair in June.
<b>Hungary (MNB)</b>	Apart from QE measures (cheap loan programs and unconventional tools incl. a negative -0.05 deposit rate as the lower boundary of a tighter IR corridor), MNB will likely deliver one last 15bp cut next week after cumulative 30bp since March. Although "self-financing program" is regarded as accomplished we await further unconventional measures.
<b>Czech Rep. (CNB)</b>	Exit from FX intervention regime - keeping koruna above EUR/CZK 27.00 floor - will likely get delayed towards mid-2017. Negative base/deposit rate are on the CB's agenda. Whilst neither NIRP, nor lifting FX floor is our baseline, major risk is further delay of CZK refloating.
<b>Romania (BNR)</b>	Revived fiscal and political risks warrant monetary policy cautiousness in an election year. Exit from ultra-loose liquidity conditions major challenge with rate hikes only expected afterwards, i.e. as soon as mid-2017 should reflation dynamics prove sufficient.
<b>Serbia (NBS)</b>	Central bank remained on hold for the 3rd consecutive month following the rate cut in February. With risk perception still favorable following the elections, one last cut to the base rate possible, but most likely only after a government is formed. The benign global CB backdrop and stuttering local reflation dynamics underscore this scenario.
<b>Russia (CBR)</b>	CBR continues pausing its rate cuts in an attempt to win inflation targeting credibility. However, CBR already hinted at re-starting rate cutting cycle if CPI inflation decline would keep pace and, equally important, anchor private sector inflation expectations. We are still comfortable with our call of resumed rate cuts only in Q3-2016, but chances for an earlier start increased somewhat.
<b>Turkey (TCMB)</b>	New governor Cetinkaya slashed o/n lending rate by 50bp to 10% at his first meeting as governor in April which was de facto MP easing in view of falling average funding costs. Further symmetrizing 7.25%-10.0% o/n corridor around 7.50% key rate at a gradual pace intended.

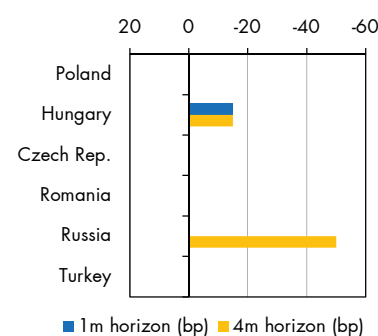
Source: RBI/Raiffeisen RESEARCH

## Inflation snapshot



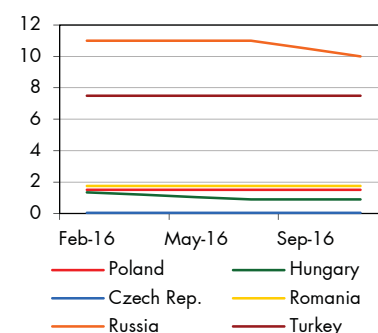
Source: Bloomberg, RBI/Raiffeisen RESEARCH

## Key rate forecast (chg., bp)



Source: Bloomberg, RBI/Raiffeisen RESEARCH

## Key rate trends



Source: Bloomberg, RBI/Raiffeisen RESEARCH

## Rate setting meetings

	May	Jun
<b>Poland (NBP)</b>	6	8
<b>Hungary (MNB)</b>	24	21
<b>Czech Rep. (CNB)</b>	5	30
<b>Romania (BNR)</b>	5	30
<b>Serbia (NBS)</b>	17	9
<b>Russia (CBR)</b>	-	10
<b>Turkey (TCMB)</b>	24	21

Source: National Central Banks, RBI/Raiffeisen RESEARCH

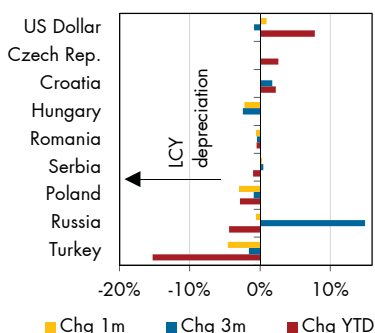
# Foreign exchange market overview

## FX forecasts

EUR vs	current <sup>1</sup>	Jun-16	Sep-16	Dec-16	5y high	5y low	Comment
PLN	4.41	4.35	4.30	4.30	4.57	3.92	After a short phase of recovery due to no rating downgrade by Moody's the zloty has weakened back towards EUR/PLN 4.40; upcoming next FX loan conversion proposal and political conflicts with the EU remain as source of volatility for the zloty in the near-term
HUF	316.2	315.0	315.0	315.0	322.6	262.3	Rate cutting cycle to end (one last 15bp rate cut expected on 24 May), EUR/HUF expected to return to the 310-315 range in the near-term
CZK	27.02	27.00	27.00	27.00	28.37	24.06	EUR/CZK to remain near intervention level of 27.0; FX intervention data currently does not indicate the need of the central bank to react, but speculation on negative deposit rates re-emerges from time to time; end to FX regime currently expected for H1 2017
RON	4.50	4.45	4.40	4.40	4.64	4.11	Investors highly interested in Romanian assets; positive economic development might also have a positive impact on RON
HRK	7.49	7.55	7.60	7.65	7.72	7.37	EUR/HRK trading range is expected within the range 7.48-7.51
RSD	122.6	122.0	124.0	125.0	123.7	96.7	Key rate has been kept at the level of 4.25%; EUR/RSD might move sideways until the new cabinet comes to power
RUB	74.54	77.00	71.50	70.35	90.88	38.43	see USD/RUB below
UAH	28.29	29.70	29.70	30.45	37.78	9.74	see USD/UAH below
BYR <sup>2</sup>	22,026	26,950	27,500	26,775	25,167	4,423	see USD/BYR below
TRY	3.34	3.25	3.19	3.10	3.46	2.19	see USD/TRY below
USD	1.12	1.10	1.10	1.05	1.47	1.05	Expectation on further US Fed rate hikes to support USD against euro
USD vs	current <sup>1</sup>	Jun-16	Sep-16	Dec-16	5y high	5y low	Comment
RUB	66.42	70.00	65.00	67.00	82.28	27.51	RUB following oil price movements; CBR getting ready to restart rate cutting cycle on RUB stability (reluctance rather from inflation side); close correlation between oil price and RUB to remain for the time being
UAH	25.20	27.00	27.00	29.00	33.75	7.96	Some UAH recovery on the hope of political calming; prolongation of most critical administrative FX restrictions to prevent stronger depreciation for UAH; the central bank commitment will determine how fast and when we will see more depreciation; IMF support key for FX stabilisation
BYR <sup>2</sup>	19,595	24,500	25,000	25,500	22,150	3,146	BYR depreciation trend to remain throughout 2016 with correlation to RUB movements, we currently have our BYR forecast under revision
TRY	2.97	2.95	2.90	2.95	3.06	1.57	Transport Minister Binali Yildirim might become the new AKP leader (and finally Prime Minister) at a special congress of the AKP on Sunday, 22 May; a possible reshuffle of the cabinet should follow; TRY might continue its weakness

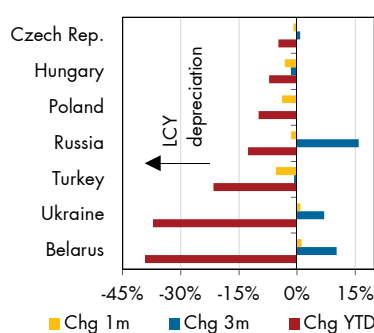
<sup>1</sup> as of 20 May 2016, 09:17 a.m. CEST, <sup>2</sup> forecast under revision  
Source: Bloomberg, RBI/Raiffeisen RESEARCH

### Change of LCY value to EUR (%)



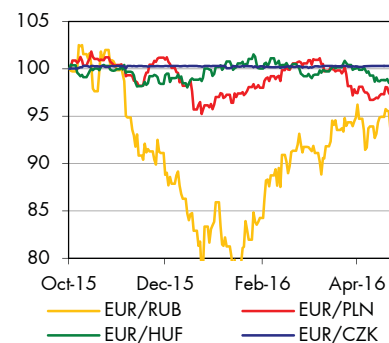
Source: Bloomberg, RBI/Raiffeisen RESEARCH

### Change of LCY value to USD (%)



Source: Bloomberg, RBI/Raiffeisen RESEARCH

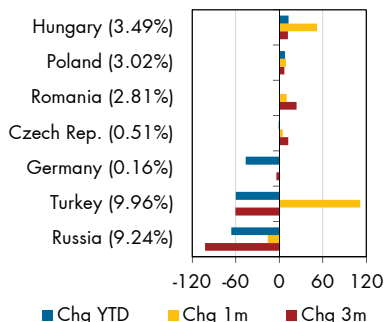
### Exchange rate comparison



Indexed Oct 2015 = 100  
Source: Bloomberg

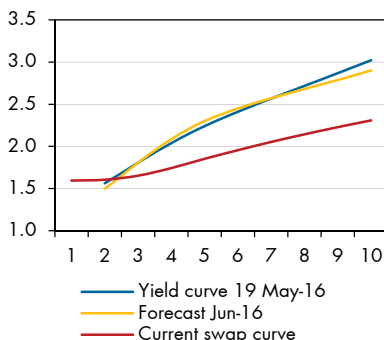
# Local currency bond market overview

Change of LCY 10y bond yields (bp)



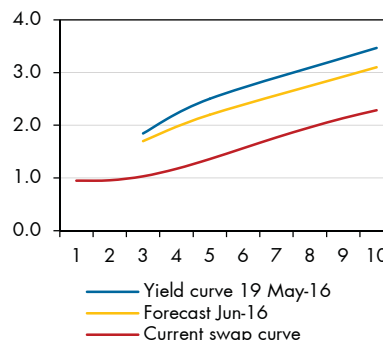
Source: Bloomberg, RBI/Raiffeisen RESEARCH

PLN yield curve



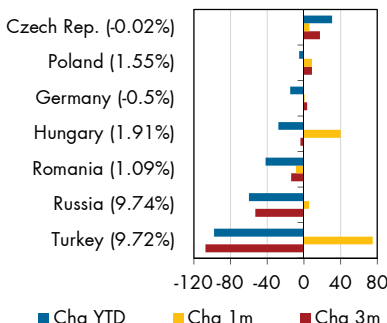
Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

HUF yield curve



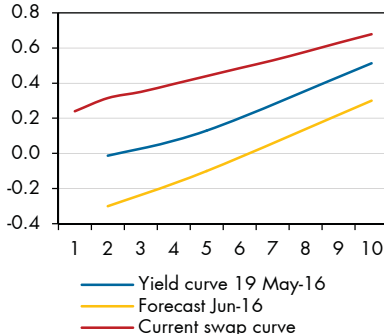
Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

Change of LCY 2y bond yields (bp)



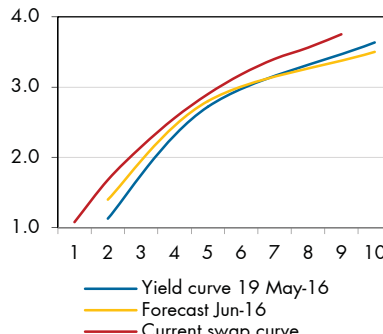
Source: Bloomberg, RBI/Raiffeisen RESEARCH

CZK yield curve



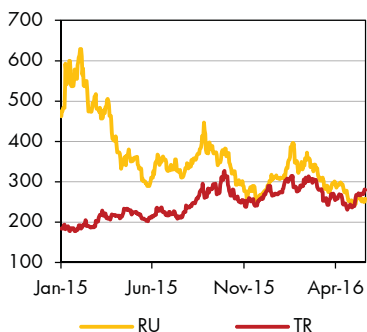
Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

RON yield curve



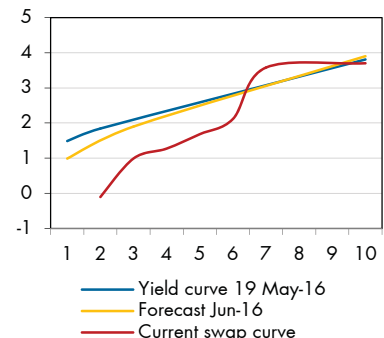
Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

5y USD CDS spreads



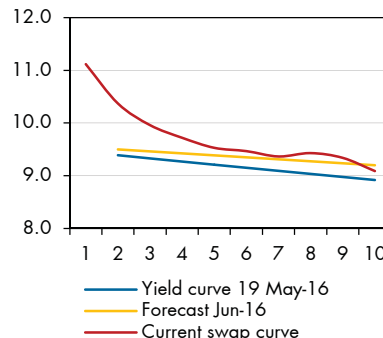
Turkey 5y high 343.7, 5y low 111.7  
Russia 5y high 628.7, 5y low 119.4  
Source: Bloomberg, RBI/Raiffeisen RESEARCH

HRK yield curve



Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

RUB yield curve



Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

## Yield forecasts

2y T-bond yields (%)							10y T-bond yields (%)						
	current*	Jun-16	Sep-16	Dec-16	5y high	5y low		current*	Jun-16	Sep-16	Dec-16	5y high	5y low
Poland	1.56	1.5	1.6	1.7	5.0	1.3	Poland	3.02	2.9	3.0	3.2	6.1	2.0
Hungary**	1.85	1.7	1.8	1.9	10.2	1.4	Hungary	3.47	3.1	3.2	3.3	10.7	2.7
Czech Rep.	-0.01	-0.3	-0.3	-0.4	2.0	-0.4	Czech Rep.	0.51	0.3	0.6	0.7	4.3	0.3
Romania	1.13	1.4	1.6	1.8	7.3	0.9	Romania	3.63	3.5	3.6	3.8	7.6	2.6
Croatia	1.84	1.9	1.9	1.9	6.3	1.5	Croatia	3.81	3.9	3.9	3.9	4.3	3.7
Russia	9.39	9.5	9.3	9.0	17.5	5.5	Russia	8.92	9.2	9.0	8.8	16.1	6.5
Turkey	9.81	9.2	8.9	8.8	11.3	4.9	Turkey	10.09	9.3	9.0	8.9	11.0	6.0
Eurozone	-0.50	-0.5	-0.5	-0.5	1.8	-0.6	Eurozone	0.17	0.3	0.5	0.8	3.1	0.1
USA	0.88	1.0	1.0	1.3	1.1	0.2	USA	1.85	2.2	2.3	2.5	3.2	1.4

\* Bid yields as of 20 May 2016, 09:18 a.m. CEST; \*\* 3y  
Source: Bloomberg, RBI/Raiffeisen RESEARCH

# Local currency bond market overview

## CEE local currency bond market snapshot

	Maturity	Coupon, %	Ask Price	YTM, %	Spread to Bunds, bp	MDur.	Comment
<b>Poland</b>							
PLN 2y Gov. Bond	25/04/2018	3.75	104.18	1.52	203	1.9	Political and rating risks pushed risk premia at elevated levels after the favorable effects from Moody's moderate rating decision unwinded. Upcoming FX loan conversion and dispute with th EU should keep pressure on POLGBs alive. Nevertheless, we maintain our Hold recommendation given solid fundamental bond market backdrop.
PLN 5y Gov. Bond	25/04/2021	2.00	99.01	2.21	257	4.7	
PLN 10y Gov. Bond	25/07/2026	2.50	95.66	3.00	284	8.9	
<b>Hungary</b>							
HUF 3y Gov. Bond	30/10/2019	2.00	100.73	1.78	230	3.3	Long-end HGBs do not trade on par with higher-rated Polish government bonds anymore following the recent sell-off. The correction - triggered by a less dovish central bank, considerably looser fiscal plans and the likely delay of the rating upgrade - should end soon and offer attractive opportunities to re-enter the market.
HUF 5y Gov. Bond	27/10/2021	2.50	100.50	2.40	276	5.1	
HUF 10y Gov. Bond	27/10/2027	3.00	96.44	3.38	322	9.6	
<b>Czech Republic</b>							
CZK 2y Gov. Bond	17/03/2018	0.85	101.66	-0.06	44	n.a.	Since loose MP conditions set to stay longer with us, renewed spread tightening could be in the cards. Long-term CZK appreciation potential due to exit from FX regime announced for mid-2017 is a major pull factor for non-residents positioning.
CZK 5y Gov. Bond	29/09/2021	3.85	120.07	0.09	44	4.9	
CZK 10y Gov. Bond	26/06/2026	1.00	105.19	0.47	31	9.6	
<b>Croatia</b>							
HRK 2y Gov. Bond	10/07/2018	5.25	107.76	1.53	189	2.0	Next week we expect a continuation of weak trading volumes duo to unofficial information related to new Eurobond and kuna issuances in following months as well as the expected CNB's structural repo auctions.
HRK 10y Gov. Bond	14/12/2026	4.25	104.91	3.68	352	8.6	
<b>Romania</b>							
RON 3y Gov. Bond	29/04/2019	2.50	102.10	1.77	229	2.9	LCY debt market should remain fairly stable in the s/t following the correction triggered by unfavorable political headlines. We would not re-enter yet since June's local elections bear some election uncertainty.
RON 5y Gov. Bond	22/03/2021	3.25	102.91	2.61	297	4.5	
<b>Russia</b>							
RUB 2y Gov. Bond	15/03/2018	7.50	97.35	9.32	983	1.7	We would recommend re-entering OFZs only after CPI inflation would peak later in Q2 while CBR likely to resume rate cuts only in Q3. We are inclined to see OFZ market attractiveness getting more attention in H2 in reflection of policy rate cuts sustainability.
RUB 5y Gov. Bond	03/08/2016	6.90	99.50	9.64	1000	0.2	
RUB 10y Gov. Bond	24/11/2021	8.15	96.15	8.90	874	4.5	
<b>Turkey</b>							
TRY 2y Gov. Bond	14/06/2017	9.60	100.03	10.49	1100	1.0	We would prefer to add exposure in TURKGBs only after another round of yield increases likely to be triggered by another Fed hike in June. Ongoing political instability adds considerable uncertainty, so we recommend staying on the sidelines.
TRY 5y Gov. Bond	17/02/2021	10.70	103.00	9.89	1025	3.9	
TRY 10y Gov. Bond	11/02/2026	10.60	103.50	10.02	986	6.4	

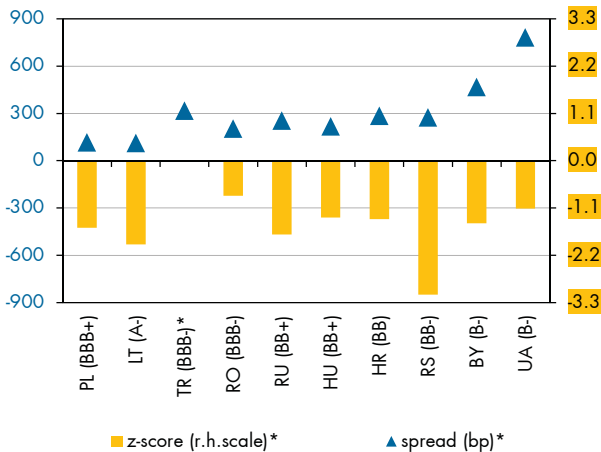
Data as of 20 May 2016, 09:28 a.m. CEST; Source: Bloomberg, RBI/Raiffeisen RESEARCH

## Bond auctions

		ISIN	Coupon	Maturity	Volume
<b>23 May 2016</b>					
RO	5y T-bonds	RO1521DBN041	3.25%	22 Mar-21	RON 400 mn
<b>25 May 2016</b>					
PL	T-bonds	n.a.	n.a.	n.a.	n.a.
RU	T-bonds	n.a.	n.a.	n.a.	n.a.
<b>26 May 2016</b>					
HU	T-bonds	n.a.	n.a.	n.a.	n.a.
RO	3y T-bonds	RO1519DBN037	2.50%	29 Apr-19	RON 500 mn

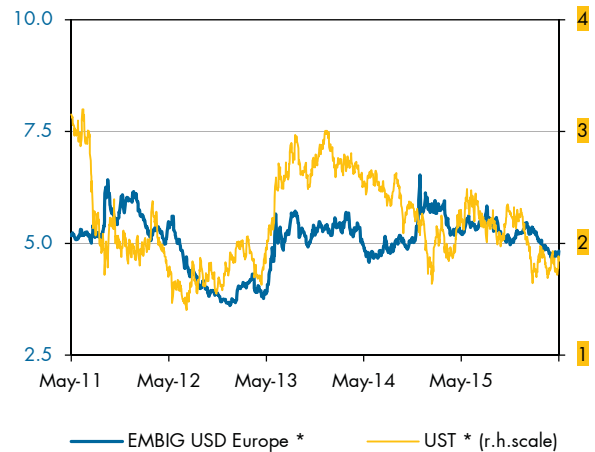
## Eurobond market overview

### 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, RBI/Raiffeisen RESEARCH

### CEE EMBIG USD vs. UST YTM\*



\* YTM - yield to maturity EMBI Global USD, UST - 10-year US Treasury note  
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Issuer/rate/due	Market Price					YTM mid. % p. a.	Spread vs. Bmk, bp	Mdur. years	ISIN
	Bid	Ask	w/w %	5y max	5y min				
<b>EUR</b>									
BGARIA 4 1/4 07/09/17	104.6	104.8	-0.33	111.8	100.3	0.07	57	1.1	XS0802005289
CROATI 5 7/8 07/09/18	109.5	109.7	-0.10	112.1	88.8	1.28	178	1.9	XS0645940288
REPHUN 5 3/4 06/11/18	110.7	111.3	-0.09	115.1	79.7	0.35	86	1.9	XS0369470397
REPHUN 6 01/11/19	114.0	114.8	0.13	118.4	86.4	0.48	100	2.5	XS0625388136
LITHUN 4.85 02/07/18	108.5	108.6	-0.05	114.3	94.5	-0.17	33	1.7	XS0327304001
POLAND 5 5/8 06/20/18	111.6	112.1	-0.07	122.6	102.1	-0.09	41	1.9	XS0371500611
POLAND 1 5/8 01/15/19	104.1	104.3	0.00	105.5	98.0	0.05	56	2.6	XS0874841066
POLAND 3 3/4 01/19/23	119.3	119.9	-0.05	125.5	99.9	0.73	94	6.0	XS0794399674
POLAND 3 3/8 07/09/24	116.5	117.1	-0.70	125.6	99.6	1.19	125	7.1	XS0841073793
ROMANI 5 1/4 06/17/16	100.3	100.5	-0.10	108.7	95.8	-0.80	-27	0.1	XS0638742485
ROMANI 4 7/8 11/07/19	115.1	115.5	-0.17	117.8	99.3	0.41	88	3.2	XS0852474336
TURKEY 5 7/8 04/02/19	111.8	112.6	-0.41	119.4	101.2	1.49	200	2.7	XS0285127329
TURKEY 5 1/8 05/18/20	110.6	111.4	-0.69	115.9	95.4	2.20	265	3.6	XS0503454166
<b>USD</b>									
BELRUS 8.95 01/26/18	104.5	105.3	0.11	111.2	70.0	5.83	502	1.5	XS0583616239
CROATI 6 3/8 03/24/21	109.3	109.8	-0.46	117.8	86.7	4.17	281	4.1	XS0607904264
CROATI 5 1/2 04/04/23	105.5	106.0	-0.75	108.6	94.4	4.52	286	5.7	XS0908769887
REPHUN 5 3/8 02/21/23	109.6	110.0	-0.92	113.9	93.1	3.72	209	5.6	US445545AH91
REPHUN 7 5/8 03/29/41	139.1	140.0	-1.49	150.3	79.5	4.87	243	13.0	US445545AF36
LITHUN 7 3/8 02/11/20	118.2	118.5	-0.13	130.7	104.8	2.20	102	3.3	XS0485991417
LITHUN 6 5/8 02/01/22	120.7	121.1	-0.32	128.6	101.0	2.64	115	4.8	XS0739988086
LATVIA 2 3/4 01/12/20	102.2	102.6	-0.03	102.7	91.4	2.06	90	3.4	XS0863522149
LATVIA 5 1/4 06/16/21	113.7	114.2	-0.16	117.2	90.9	2.31	92	4.4	XS0638326263
POLAND 6 3/8 07/15/19	113.8	113.9	-0.12	125.9	107.4	1.82	75	2.8	US731011AR30
POLAND 3 03/17/23	101.1	101.3	-0.09	103.6	87.6	2.81	116	6.1	US731011AT95
ROMANI 6 3/4 02/07/22	118.0	118.2	-0.56	124.4	99.2	3.24	176	4.7	US77586TAA43
ROMANI 4 3/8 08/22/23	105.7	106.0	-0.71	109.5	90.8	3.46	178	6.1	US77586TAC09
RUSSIA 4 1/2 04/04/22	103.7	104.3	-1.02	114.7	82.0	3.73	222	5.1	XS0767472458
RUSSIA 7 1/2 03/31/30	121.9	122.1	-0.14	128.6	99.6	2.44	44	4.2	XS0114288789
RUSSIA 5 5/8 04/04/42	104.5	105.2	-1.75	124.9	76.0	5.28	280	13.7	XS0767473852
SERBIA 5 1/4 11/21/17	103.5	103.8	0.01	107.1	96.8	2.73	196	1.4	XS0856951263
SERBIA 4 7/8 02/25/20	102.7	103.1	-0.37	104.6	89.6	4.03	285	3.4	XS0893103852
TURKEY 6 1/4 09/26/22	110.2	110.7	-0.67	127.0	101.0	4.35	277	5.2	US900123BZ27
TURKEY 6 7/8 03/17/36	115.4	115.9	-1.01	139.6	99.2	5.56	332	11.3	US900123AY60
TURKEY 6 3/4 05/30/40	114.4	115.1	-1.48	139.4	97.3	5.62	322	12.3	US900123BG46
UKRAIN 7 3/4 09/01/19	94.9	95.4	-0.94	99.0	88.0	9.51	841	2.8	XS1303918269
UKRAIN 7 3/4 09/01/23	92.5	92.9	-2.06	97.8	84.6	9.15	746	5.3	XS1303921487
UKRAIN 7 3/4 09/01/27	91.0	91.4	-2.00	97.0	81.2	9.01	711	7.1	XS1303927179

\* w/w - week on week, 5-y - 5-year low and high, YTM mid - yield to maturity based on mid market price, Bmk - benchmark, Mdur - modified duration, ISIN - international security identification number; prices as of 20 May 2016, 10:07 a.m. CEST  
Source: Bloomberg, RBI/Raiffeisen RESEARCH



## Summary: Ratings & macro data

### Country ratings: CE, SEE, EE

	S&P			Moody's			Fitch		
	LCY	FCY	Outlook	LCY	FCY	Outlook	LCY	FCY	Outlook
<b>CEE</b>									
Poland	A-	BBB+	negative	A2	A2	negative	A	A-	stable
Hungary	BB+	BB+	stable	Ba1	Ba1	positive	BBB-	BB+	positive
Czech Republic	AA	AA-	stable	A1	A1	stable	AA-	A+	stable
Slovakia *	A+	A+	stable	A2	A2	stable	A+	A+	stable
Slovenia *	A-	A-	positive	Baa3	Baa3	stable	BBB+	BBB+	positive
<b>SEE</b>									
Romania	BBB-	BBB-	stable	Baa3	Baa3	positive	BBB	BBB-	stable
Bulgaria	BB+	BB+	stable	Baa2	Baa2	stable	BBB	BBB-	stable
Croatia	BB	BB	negative	Ba2	Ba2	negative	BB+	BB	negative
Serbia	BB-	BB-	stable	B1	B1	positive	B+	B+	positive
<b>EE</b>									
Russia	BBB-	BB+	negative	Ba1	Ba1	negative	BBB-	BBB-	negative
Ukraine	B-	B-	stable	Caa3	Caa3	stable	CCC	CCC	stable
Belarus	B-	B-	stable	Caa1	Caa1	negative	B-	B-	stable
Kazakhstan	BBB-	BBB-	negative	Baa3	Baa3	negative	BBB	BBB	stable
Turkey	BBB-	BB+	stable	Baa3	Baa3	negative	BBB	BBB-	stable

\* Euro area (Euro currency) members; positive rating/outlook changes (in previous week) in green, negative changes in red; NA - not applicable; NR - not rated  
Source: rating agencies websites

### Main macro data & forecasts<sup>1</sup>

Country	Year	GDP, % avg. yoy	CPI, % avg. yoy	Unemployment, %	Nominal wages, EUR	Fiscal balance, % GDP	Public debt, % GDP	Export <sup>2</sup> , % GDP	C/A, % GDP	Ext. debt, % GDP	FXR <sup>3</sup> % ext. debt	Import cover, months
Croatia	2015	1.6	-0.5	16.6	1000	-3.2	86.7	24.7	5.2	103.8	30.3	9.5
	2016e	1.5	-0.6	16.2	1027	-3.0	87.2	25.6	2.0	102.7	29.3	9.0
	2017f	1.5	1.5	15.8	1033	-2.9	87.6	26.3	2.2	102.5	27.5	8.4
Czech Rep.	2015	4.3	0.3	6.5	970	-1.3	40.9	75.0	1.4	70.6	51.2	6.1
	2016e	2.0	0.7	5.9	1021	-0.9	39.9	77.7	1.5	74.3	69.5	8.4
	2017f	2.9	1.7	5.7	1089	-0.8	39.3	79.8	0.8	76.4	71.1	8.6
Hungary*	2015	2.9	0.0	7.0	800	-2.0	75.5	83.4	4.4	105.7	26.5	4.4
	2016e	2.2	0.4	6.2	840	-1.5	74.3	85.1	4.5	98.3	23.6	3.6
	2017f	2.9	2.2	5.7	915	-1.0	71.5	82.4	4.1	87.0	22.9	3.2
Poland	2015	3.6	-0.9	10.5	932	-3.1	51.9	40.1	-0.2	70.1	29.1	6.2
	2016e	3.8	0.0	9.4	948	-3.2	52.9	42.0	-0.9	72.9	24.7	5.1
	2017f	3.4	1.7	9.0	1009	-3.4	53.6	41.3	-1.2	73.1	23.5	4.9
Romania	2015	3.7	-0.6	6.8	568	-1.2	38.5	30.7	-1.1	56.9	39.2	7.5
	2016e	4.0	-0.5	6.5	618	-3.0	39.3	31.5	-2.5	55.2	38.7	6.9
	2017f	3.6	2.7	6.5	671	-3.2	40.0	31.5	-3.3	53.6	37.6	6.3
Russia	2015	-3.7	15.6	5.6	499	-3.6	12.7	25.9	5.0	39.3	73.0	23.3
	2016e	-2.0	8.4	6.5	462	-4.4	13.5	24.3	4.1	39.5	82.4	26.6
	2017f	1.5	7.9	6.0	535	-3.3	14.0	25.9	4.6	32.2	83.6	21.5
Ukraine	2015	-9.9	48.7	11.5	172	-2.3	72.6	39.2	-0.2	131.5	11.4	4.2
	2016e	1.5	14.1	11.0	n.a.	-3.5	81.3	38.3	-3.4	142.9	14.7	5.4
	2017f	2.0	12.9	10.0	n.a.	-3.0	84.9	39.0	-4.7	142.5	15.4	5.2
Turkey	2015	3.5	7.7	10.3	n.a.	-1.2	34.0	21.2	-4.5	59.9	26.6	6.9
	2016e	3.0	8.3	10.0	n.a.	-1.5	32.0	21.5	-5.0	60.6	25.6	6.7
	2017f	3.5	7.9	10.0	n.a.	-1.5	33.0	20.3	-4.9	56.6	24.7	6.3

<sup>1</sup>) only for countries regularly included in CEE Weekly; <sup>2</sup>) Export of goods only; <sup>3</sup>) FXR - Foreign exchange reserves; \* under revision  
Source: Thomson Reuters, National Statistics, RBI/Raiffeisen RESEARCH

## Risk notifications and explanations

### Warnings

- Figures on performance refer to the past. Past performance is not a reliable indicator for future results and the 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 of a financial instrument, a financial index or a securities service is reduced by commissions, fees and other charges, which depend on the individual circumstances of the investor.
- The return on an investment in a financial instrument, a financial or securities service 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 future results and the development of a financial instrument, a financial index or a securities service.

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The distribution of all recommendations relating to the calendar quarter prior to the publications date, as well as the distribution of recommendations in the context of which investment banking services within the meaning of § 48f (6) Z 6 Stock Exchange Act (BörseG) have been provided in the past 12 months, are available under: [www.raiffeisenresearch.com/distribution\\_of\\_recommendation](http://www.raiffeisenresearch.com/distribution_of_recommendation)

**Bonds**

Financial instruments/Company	Date of the first publication
Eurobonds	01/01/2001
LCY bonds	01/01/1997

**Recommendations history: Local currency government bonds (I: no change)\***

Date of change	CZ				HU				PL				RO				RU				TR			
	2y	5y	10y	CZK	2y	5y	10y	HUF	2y	5y	10y	PLN	2y	5y	10y	RON	2y	5y	10y	RUB	2y	5y	10y	TRY
28/04/2015	Hold	Hold	Hold	Hold	Buy	Hold	Hold	Sell	Hold	Hold	Hold	Hold	Hold	Hold	Hold	Hold	Buy	Hold	Hold	Sell	Buy	Hold	Hold	Hold
15/05/2015		Buy	Buy																					
02/06/2015		Hold	Hold		Hold			Hold												Hold		Buy	Buy	Buy
24/06/2015			Buy				Sell				Sell				Sell			Buy	Buy		Sell	Sell	Sell	Sell
06/08/2015			Hold			Sell				Sell				Sell			Hold	Hold	Hold		Hold			Hold
03/09/2015																				Buy				Buy
22/09/2015																								Sell
04/11/2015					Buy	Buy	Buy			Hold	Hold			Hold	Hold					Hold	Hold	Hold	Hold	Hold
17/12/2015								Buy	Buy				Buy	Buy	Buy	Buy	Buy	Buy		Buy				
25/01/2016		-	Buy		Hold	-		Hold		-			Hold	-	Hold		-	-	-	-		-		
11/02/2016		-				-				-				-			Hold	-	Hold			-		
23/02/2016		-				-			Hold	-				-		Hold		-				-		Buy
24/03/2016		-	Hold			-				-		Sell		-				-		Sell	Sell	-	Sell	Sell
26/04/2016		-				-				-		Hold		-				-			Hold	-	Hold	

\* recommendations based on absolute expected performance in LCY; FX vs EUR; 5y segment not covered anymore; Source: RBI/Raiffeisen RESEARCH

**Recommendations history: Sovereign Eurobonds (I: no change)\***

Date of change	BG		HR		CZ		HU		KZ		LT		PL		RO	
	EUR	USD	EUR	USD	EUR	USD	EUR	USD	EUR	USD	EUR	USD	EUR	USD	EUR	USD
28/04/2015	Hold	-	Hold	Hold	Hold	Hold	Hold	Hold	-	-	Buy	Buy	Buy	Hold	Buy	Buy
02/06/2015	Sell	-							-	-	Hold	Hold		Buy	Hold	Hold
24/06/2015	Hold	-							-	-				Hold		
06/08/2015		-	Sell	Sell					-	Buy	Buy		Hold			
03/09/2015		-							-		Hold					
22/09/2015		-					Buy	Buy	-				Buy		Buy	Buy
04/11/2015		-							-	Hold	Buy			Buy		
03/12/2015		-							-	Buy						
17/12/2015		-							-		Hold					
25/01/2016		-	Hold	Hold			Hold	Hold	-	Hold					Hold	Hold
23/02/2016		-					Buy	Buy	-	Buy						
17/03/2016		-							-							
24/03/2016		-					Hold	Hold	-							
29/03/2016	Buy	-							-		Buy			Hold		
20/04/2016		-							-							
26/04/2016	Hold	-							-	Hold	Hold		Sell	Sell		
13/05/2016		-							-							

\* recommendations based on absolute expected performance, i.e. expected spread change; Source: RBI/Raiffeisen RESEARCH

**Recommendations history: Sovereign Eurobonds (I: no change)\***

Date of change	RU		RS		SK		SI		TR		UA		BY		MK	
	EUR	USD	EUR	USD	EUR	USD	EUR	USD	EUR	USD	EUR	USD	EUR	USD	EUR	USD
28/04/2015	Hold	Hold	-	Hold	Hold	-	Buy	-	Buy	Buy	Hold	Hold	-	Buy	Buy	-
02/06/2015			-	Sell		-		-					-			-
24/06/2015			-			-		-		Hold			-			-
06/08/2015			-			-	Hold	-	Hold		Sell	Sell	-	Sell	Hold	-
03/09/2015			-			-		-			Hold	Hold	-			-
22/09/2015			-			-		-	Sell	Sell			-			-
04/11/2015	Buy	Buy	-			-		-	Hold	Hold	-		-	Hold		-
03/12/2015	Hold	Hold	-			-		-			-	Sell	-			-
17/12/2015			-			-		-	Buy	Hold	-		-			-
25/01/2016	Buy	Buy	-			-	Buy	-		Buy	-		-		Buy	-
23/02/2016			-	Hold		-		-			-		-			-
17/03/2016	Hold	Hold	-			-		-			-		-			-
24/03/2016			-			-		-			-		-			-
29/03/2016			-			-		-			-	Hold	-			-
20/04/2016			-			-		-			-		-		Hold	-
26/04/2016			-	Buy		-		-			-		-			-
13/05/2016			-			-		Buy	Hold	Hold	-		-			-

\* recommendations based on absolute expected performance, i.e. expected spread change, under revision; Source: RBI/Raiffeisen RESEARCH

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