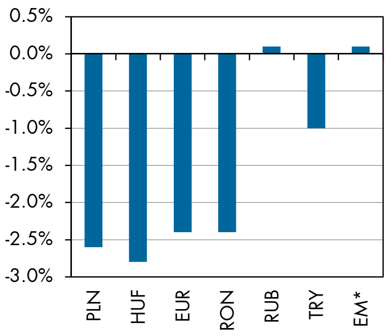
CEE Weekly

Issue 26/2016

1 July 2016

Raiffeisen RESEARCH

Brexit effect on FX vs. USD



** EM is INR, BRL, ZAR and CNY*
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Highlights

Although Poland was kicked out from the European Championship – like England - we do not expect that any CE/SEE country will follow the UK holding an EU exit referendum in near- to mid-term future. Nevertheless, broader Brexit spillovers will be with us for longer. This despite recent gains both on the LCY bond market as well as on the FX side. Although we are less concerned about the near-term outlook and do not buy into the hype that the CE/SEE region is substantially exposed to Brexit-related near-term downsides there are quite a lot of Brexit-related medium-term spillovers to CEE, not all on the downside. For more details see our extensive Focus on section on page 2-5 ("Post-Brexit Blues"). As expected, Russia has proven as fairly resilient to the Brexit-fallout, a situation that could be continued for some time. The economy is bottoming out, while disinflation prospects are improving (also supported by a fairly stable RUB). Moreover, Russia has extended the ban on Western food imports until year-end 2017, while sanctions against Turkey are likely to be phased out. The latter could be slightly positive for disinflation in Turkey. PMI data for June released today supports the view of a more resilient Russia with a reading of 51.5, up from 49.6 in May. Then again Poland disappointed with a June PMI reading of only 51.8, down from 52.1 in May. The more volatile Hungarian PMI reading was likewise down with 50.9 points compared to 52.2 in May. Our focus next week will be on Russian June CPI where we expect a slight 0.2pp increase from last month's 7.3% yoy number. This would mean a temporary interruption of the disinflation trend. Still existing inflation risks – also highlighted by the CBR – make us expect a gradual continuation of rate cuts. Wednesday's rate setting meeting in Poland, finally, is expected to bring no changes. Although the market implied policy rate is some 15bp lower since the Brexit vote, we remain comfortable with our flat base rate call over the MP horizon.

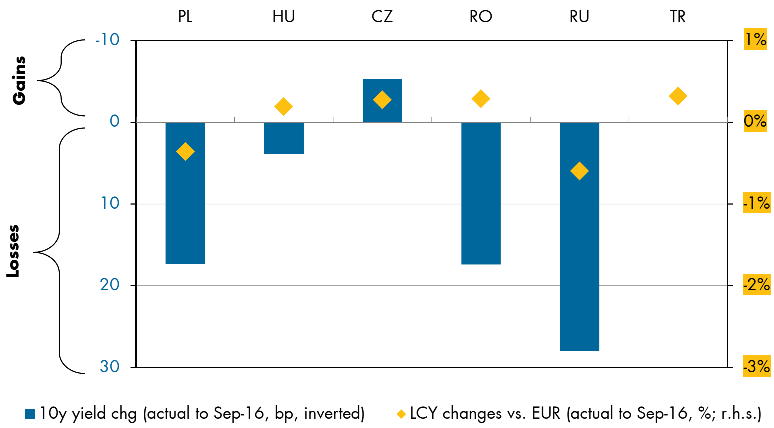
Financial analyst: Gunter Deuber, RBI Vienna

Market snapshot

	curr.*	Sep-16	Dec-16	Mar-17
Poland				
EUR/PLN	4.38	4.40	4.35	4.30
Key rate	1.50	1.50	1.50	1.50
10y bond	2.8	3.0	3.2	3.3
Hungary				
EUR/HUF	315.6	315	315	310
Key rate	0.90	0.90	0.90	0.90
10y bond	3.1	3.0	3.1	3.3
Czech Rep.				
EUR/CZK	27.1	27.0	27.0	27.0
Key rate	0.05	0.05	0.05	0.05
10y bond	0.5	0.4	0.5	0.6
Romania				
EUR/RON	4.51	4.50	4.50	4.45
Key rate	1.75	1.75	1.75	1.75
10y bond	3.4	3.6	3.8	3.9
Croatia				
EUR/HRK	7.53	7.55	7.60	7.60
10y bond	3.9	3.9	3.9	3.9
Russia				
USD/RUB	64.1	65.0	67.0	67.0
Key rate	10.50	10.00	9.50	9.00
10y bond	8.3	8.6	8.8	8.5
Turkey				
USD/TRY	2.89	2.90	2.95	3.00
Key rate	7.50	7.50	7.50	7.00
10y bond	9.0	9.0	8.9	8.6
EUR/USD	1.11	1.10	1.05	1.03

** prices as of 1 July 2016, 09:43 a.m. CEST;*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Expected changes until September 2016



Source: Bloomberg, RBI/Raiffeisen RESEARCH

Content

Data highlights upcoming week

Date	Indicator	Period	est.	High	Mean	Low	Prev.
05-Jul	HU: Retail sales, % yoy	May	n.a.	n.a.	n.a.	n.a.	6.7
06-Jul	PL: Key rate, %	Jul	1.50	1.50	1.50	1.50	1.50
06-Jul	RU: CPI, % yoy	Jun	7.5	7.5	7.4	7.1	7.3
07-Jul	RS: Key rate, %	Jul	4.25	n.a.	n.a.	n.a.	4.25
08-Jul	HU: CPI, % yoy	May	-0.1	0.0	-0.1	-0.2	-0.2

Source: Bloomberg, RBI/Raiffeisen RESEARCH

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

Focus on: Post-Brexit Blues

Real GDP forecasts (% yoy)

	Pre-Brexit*		Post-Brexit**	
	2016e	2017f	2016e	2017f
Poland	3.6	4.0	3.5	3.8
Hungary	2.2	2.9	2.2	2.7
Czech Rep.	2.3	2.9	2.3	2.7
Slovakia	3.5	3.5	3.5	3.3
CE	**3.1**	**3.5**	**3.0**	**3.3**
Romania	4.0	3.6	4.0	3.6
Bulgaria	2.5	3.0	2.5	3.0
Croatia	1.5	1.5	1.5	1.5
Serbia	2.5	3.0	2.5	3.0
SEE	**3.2**	**3.2**	**3.2**	**3.2**
CEE	**1.0**	**2.0**	**0.9**	**1.9**
Austria	1.4	1.4	1.4	1.3
Germany	1.8	1.8	1.8	1.7
Euro area	**1.4**	**1.7**	**1.6**	**1.5**
USA	2.5	2.5	2.5	2.4

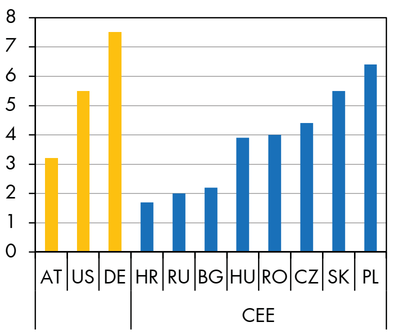
** Raiffeisen RESEARCH forecasts as of beginning of June 2016*
*** Raiffeisen RESEARCH forecasts as of 1 July 2016*
Source: RBI/Raiffeisen RESEARCH

Change real GDP forecasts (% yoy)*

	2016e	2017f
Poland	-0.1	-0.2
Hungary	0.0	-0.2
Czech Rep.	0.0	-0.2
Slovakia	0.0	-0.2
CE	-0.1	-0.2
CEE	0.0	-0.1
Austria	0.0	-0.1
Germany	0.0	-0.1
Euro area	0.1	-0.2
USA	0.0	-0.1

** Change forecasts as of 1 July 2016 compared to forecasts beginning of June*
Source: RBI/Raiffeisen RESEARCH

Exports to UK (% of total)*



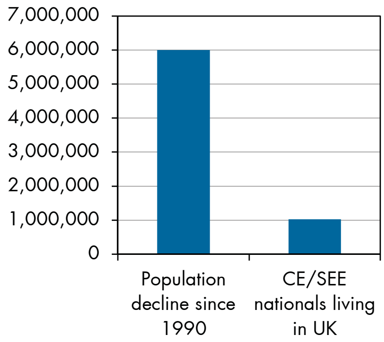
** latest available data 2014/2015*
Source: Eurostat, national sources, RBI/Raiffeisen RESEARCH

Returning stability vs. mid-term downsides

Following sharp initial reaction to the unexpected Brexit vote, especially on selected CE markets, financial markets have stabilized in the course of this week. By and large we see certain rationality behind the current market take. We see near-term Brexit-related downsides as limited for the broader European economy and the CE/SEE countries. Up to a certain extent this holds even true for UK (where we still expect some modest GDP growth in 2016 and 2017, but definitely no outright recession). As expected Russia has proved as fairly immune to Brexit-related setbacks given limited trade linkages as well as the decisive external deleveraging (with a particular focus on cross-border bank funding, incl. UK banks) seen in recent years. However, it has to be stressed that the returning stability on European currency and fixed income markets can be partially attributed to a return of complacency and implicit or explicit central bank support (e.g. concentrated ECB bond buying at certain days, coupled with drying up market liquidity, SNB interventions). That said, there could be still additional market volatility and downside in the weeks (and quarters) ahead, mainly driven by political/EU news (with a lot of key elections looming, e.g. France, Germany), EU fragmentation fears and political risk perception in Western Europe and CE/SEE. Markets could be afraid of potential other EU referendums in Western Europe. We would not expect that such motions will gain traction in any EU member country from CE/SEE although several member countries are also not satisfied with EU in its current structure and some of the current EU priorities. That said the EU/Europe has to work on a new post-referendum consensus going forward. This process may go hand in hand with a lot of "new coalition" building among Western European and CE/SEE EU countries. Not all of those potential "coalitions", with a risk of higher "Southern orientations" in EU policymaking, could be welcomed by markets.

Nevertheless, overall hitches are likely to be moderate. More accommodative monetary policy for longer globally (ECB, FED) as well as modest economic shortcomings should not be too negative for sentiment either. That said spillovers from ECB QE could regain importance for CEE assets. However, there are also medium-term economic effects, mostly with negative implications, that should not be talked down. For CE countries UK is a key trading partner (in most cases accumulating trade surpluses). Secondly, UK remains a noticeable FDI partner of some CE/SEE economies, where some activities could be also affected. Moreover, CE countries are most exposed to the broader European economic and investment cycle, where some moderate Brexit-related losses could be in the cards. Therefore, in CE economies we also expect GDP downsides of some 0.1-0.2%, i.e. at least of a similar magnitude like in the German or overall European economy. Moreover, there is a perceived risk that future (joint) EU funding for CE/SEE, a key target area of EU funds, may suffer going forward. Therefore, we may see some EU-funding driven increase in investment volatility in CE/SEE EU member countries (e.g. frontloaded drawing in 2017/2018, some setback afterwards). However, further UK access to the EU Common Market is likely to require sizeable contributions to the EU budget beyond the 2014-2020 budgeting period (e.g. at least 50% of current UK EU funding, possibly even some 80%), limiting downsides for the EU budget. All in all, we are seeing a stronger Brexit-fallout to the CE region. In this region low hanging fruits of EU integration, which could be still well in play in SEE, have been largely exhausted. Moreover, from a medium to long-term perspective a potential cut in overall EU funding is likely to be more pronounced in more advanced member countries, compared to less advanced ones (or candidate countries). A Brexit may also change CEE-UK (outward) migration and remittances flows. However, based on past crisis experience we do not expect huge backward migration to CEE. It seems more likely that we will see more intra-EU migration in Western Europe (i.e. out from UK into other Western EU countries). Moreover, UK will have to accept some "grandfathering" for EU residents that flowed into UK pre-Brexit. With regards to lower remittances (due to weak UK economy and weaker GBP) CE countries and selected SEE countries (e.g. Poland, Hungary, Slovakia, Bulgaria) do look most exposed.

CE/SEE population (thousands)

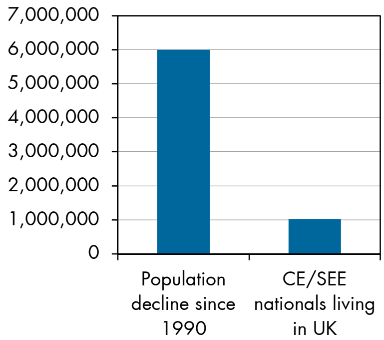


** BG, CZ, HU, PL, RO, SK, AL, RS, SI*
Source: United Nations, national sources, RBI/Raiffeisen RESEARCH

Brexit and CEE politics

With regards to politics we see four Brexit-related trends. Firstly, EU enlargement is unlikely to be a fast selling item. Therefore, EU accession talks with EU candidates from SEE (e.g. Serbia, Albania) are unlikely to be closed until 2020 (not to speak about unpopular talks with Turkey). Secondly, the EU focus on neighbouring countries (like Ukraine) and the overall Eastern policymaking may suffer going forward. This trend is likely to be driven by time and resource consuming Brexit negotiations as well as a decreasing weight of Poland in EU policymaking (mostly due to controversial domestic policy moves). Thirdly, the Brexit-process may also impact the EU stance towards Russia. From a medium-term perspective it seems more likely that EU sanctions could be relaxed more easily without UK. Moreover, EU countries could be inclined to get rid of this topic, while being burdened with Brexit negotiations. Fourthly, markets are likely to focus on (potential) anti-EU rhetoric in the political sphere – be it in member or candidate countries. In this context limited progress in EU talks may also support anti-EU rhetoric (possibly coupled with pro-Russian rhetoric like in case of Serbia). With regards to broader European and country specific transmission channels we see CE countries most exposed to Brexit-related uncertainties. Nevertheless, overall effects should be moderate due to solid fundamentals and limited macro-financial imbalances in CE. Brexit-related political implications definitely reach out well beyond CE as outlined previously.

CE/SEE population dynamics

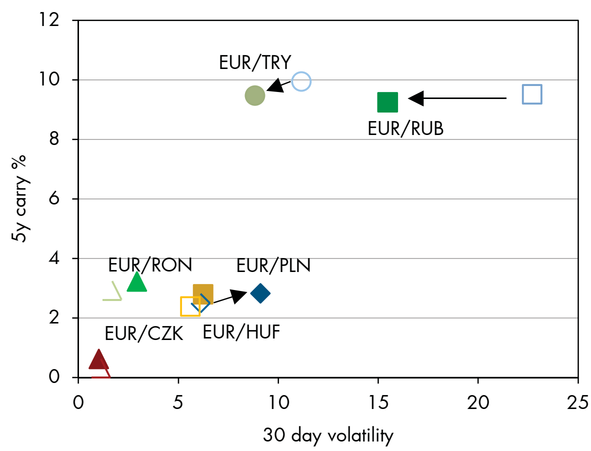


Source: United Nations, national sources, RBI/Raiffeisen RESEARCH

FX markets

As could be expected negative effects of the Brexit vote were especially visible in CE currencies recently with the Polish zloty once again sticking out as it can still be regarded a risk proxy for the region. EUR/PLN after the vote peaked above 4.50, Hungarian forint and also Czech crown likewise witnessed depreciation, albeit less severe. That said, tightly managed currencies (like the RON or CZK) once again offered some protection against volatility risks compared to PLN. Given the changed situation after the Brexit decision we have decided to alter our PLN outlook towards a moderately weaker zloty while leaving all other forecasts unchanged for the time being. Then again the changed situation after the Brexit vote bears certain possibility of prolongation of the accommodative monetary policy stance by central banks, thus increasing the risk of postponing the end to the Czech FX regime from currently projected H1 2017 into H2. For the third quarter of 2016, we maintain a cautious view for most regional FX markets and project only moderate stabilisation potential for CE/SEE currencies versus the euro. We refrain from any buy recommendation given the associated political and economic uncertainties from Brexit for all CE/SEE currencies against the euro for Q3. For the Russian rouble – that has proved as fairly resilient during the post-Brexit sell-off - we expect a

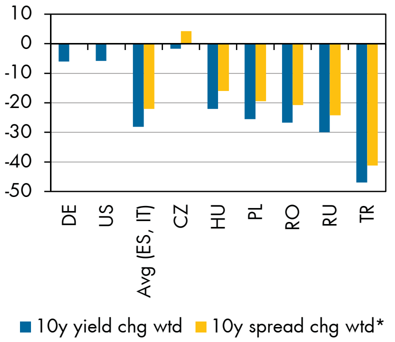
PLN with higher vola after Brexit, RON & CZK safe havens



Volatility and carry movement from 31 March to 29 June 2016; coloured symbols as of 29 June, empty symbols as of 31 March
Source: Bloomberg, RBI/Raiffeisen RESEARCH

sideways movement against the euro. Support for the RUB should stem from stable oil price, only moderate interest rate cuts as well as slightly improving macro newsflow. Given our expectation of only sideways movement in the USD against the euro for the third quarter of 2016, the CEE exchange rates are projected to only tread water against the USD as well. That said we are neutral for all CEE currencies against the USD for the third quarter. In any case, given the political uncertainty elevated volatility especially in the CE currencies, but also RUB and TRY should be expected over the coming months.

Post-Brexit relief rally (bp)

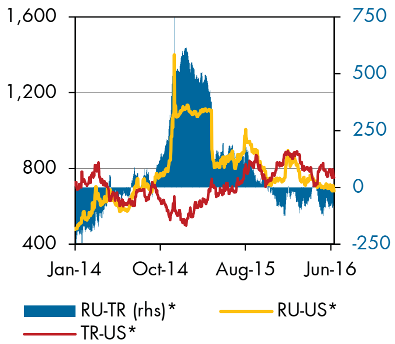


* 10y-10y local currency yield spread changes week-to-date (25-30 June); DE, RU, TR vs. US, others vs. DE
Source: Bloomberg, RBI/Raiffeisen RESEARCH

LCY bonds

The stunning result of last week's Brexit vote has triggered a rush into safe-haven assets like Developed Market government bonds. Asset prices in the CEE region, at the same time, went for a dive in an initial reaction. In the meantime CEE local debt markets recouped their Brexit-fuelled losses (Czech Republic marks the exception as the regional save haven remaining more or less flat in pre- and post-Brexit trading). Most market participants hold the view that G4 central banks are forced to provide additional stimulus and that the US Fed will not be able to continue with rate hikes in the foreseeable future or at least not at the pace earlier anticipated. Accordingly, we also lowered our Fed Funds target and expect only one hike this year. Moreover, a combination of a more accommodative ECB going forward (e.g. no changes to the key rate until sometime in 2018) and slight downward risks to economic growth and inflation can add to speculation on more easing in CE/SEE – or at least accommodative monetary conditions to stay for longer. Therefore, we may once again see increasing market bets on additional rate cuts (e.g. Poland, Hungary), while termination of ultra-expansionary monetary conditions in markets like Czech Republic or Romania may also come later than expected.That being said, Emerging Market debt markets and CEE face a supportive global central bank outlook, which supports our recommendations being long the two high-yielding markets in our research universe Russia and Turkey. While the room for a further fall in OFZ market yields seems limited due to the considerable year-to-date performance, ongoing monetary policy easing and our FX colleagues' constructive EUR/RUB exchange rate outlook on the end-September horizon justify maintaining our Buy recommendation. We argue similarly for Turkey where we see some room for yield compression, though. Our positive take on LCY bonds in Russia and Turkey may also get some support from the recent rapprochement between Russia and Turkey in the political sphere. Decreasing economic frictions between both countries are supportive for monetary policymaking in Russia and Turkey. The abolishment of sanctions against Turkey may support disinflation in Russia, while support for economic growth in Turkey from returning Russian tourists could take pressure from the central bank to actively support growth via aggressively cutting rates. In CE/SEE, the flight-to-quality spread widening led to higher risk premiums providing cushion in upcoming volatility periods (we expect core market yields to remain at depressed levels during this year). Whilst room for further gains is limited, we remain mildly bullish on Hungary, especially versus Poland and Romania given the politics-related worsening of the credit profiles of the latter two compared with Hungary. Barring any political risks related to the Brexit saga, the major fundamental risk to our broadly constructive view on CE/SEE debt markets at the end-September horizon would be another sell-off in core euro area (EA) yields. This could be triggered by a possible overreaction to reaccelerating EA inflation growth in early H2 2016 (still our baseline scenario). However, post-Brexit uncertainty – that is likely to stay with us for longer – has decreased the likelihood of such a scenario noticeably.

Brexit favorable for EM debt



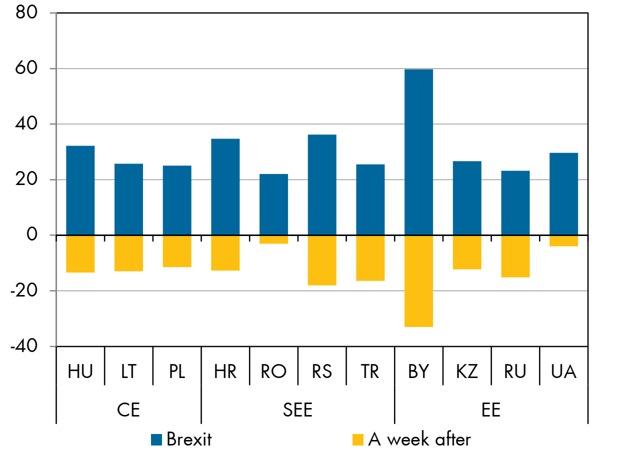
* RU, TR: 10y local currency (LCY) yield spreads vs. UST (lhs) and vs. each other (rhs)
RU-TR 5y high: 748, 5y low: -256
RU-US 5y high: 1400, 5y low: 439
TR-US 5y high: 890, 5y low: 405
Soucre: Bloomberg, RBI/Raiffeisen RESEARCH

Eurobond sovereigns

A knee-jerk reaction seen in CEE Eurobond market on Brexit day did not last long and the market recovered nicely the following week. The larger amount of spread widening on CEE Eurobonds occurred mainly due to deeper yield reduction in developed markets as opposed to CEE. On Brexit announcement day the CEE yield as measured by EMBIG USD jumped by 10bp, whereas by 28 June the yield returned back to pre-Brexit levels. Inside CEE marketplace the higher beta names like Croatia, Serbia or Kazakhstan sustained larger spread widening while in EUR segment the biggest spread increase of about 18bp occurred on Croatia with the rest of CEE seeing just 0-10bp widening. Contrary to our initial beliefs this time the market did not dampen Poland on higher domestic risk but instead took a "classical" risk aversion strategy by dampening higher beta names. Furthermore, the anticipation of support from leading global central banks helped to reverse negative trend in CEE Eurobond markets already on 27 June with spreads going down on the back of higher likelihood of prolonged low interest environment. So far both EUR and USD segments behaved rather similar in this Brexit "saga" for now whereas higher absolute spreads in USD segment could make CEE more attractive if US Fed would hold a longer pause to its tightening bias. Although we would not bet entirely on Fed tightening delay going forward there will be short-term positive impact for CEE from more pronounced yield drop affecting the entire UST and Bund curves. At the same time stronger debt rally in EA peripheral markets (EA) – including Italy, Portugal and Spain – added to the attractiveness of CEE spreads as measured vs. EA peripherals. On average CEE (BG, CZ, HU, LV, LT, PL, RO) EUR Eurobond spread vs. EA peripheral 5y notes jumped some 20bp since 24 June till 28 June. Taking into account a closer proximity of EA peripherals to euro area we believe that possible negative setbacks could become more harmful for them than for CEE countries. In this regard a 20bp spread pick up on CEE should not be overlooked despite historically tight yields in our region. Ironically, Brexit helped to create some positive feedback for CEE Eurobonds as long as lower yields on developed core markets would allow them to sustain positive valuations in near-term. Still, we would caution against overly optimistic take on this as lower liquidity in Eurobond markets could signal about possible reversal in market trends going forward since there is still no clarity as regards Brexit implementation with negotiations only beginning right now. Therefore market risk aversion may suddenly resurge should Brexit negotiations become not so smooth in future.

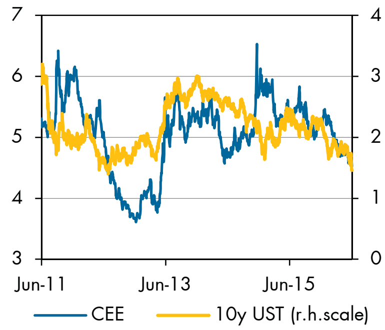
Financial analysts: Gunter Deuber, Wolfgang Ernst, CEFA, Stephan Imre, Gintaras Shlizhyus, RBI Vienna

EMBIG USD spread changes (bp)*



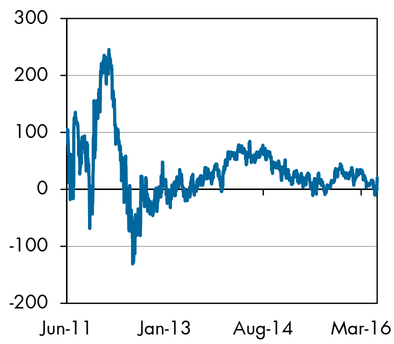
5y min/max spread (bp): HU 162/726, LT 81/493, PL 71/361, HR 224/657, RO 141/528, RS 217/724, TR 170/411, BY 466/1747, KZ 195/617, RU 155/702, UA 4657/4281
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

CEE EMBIG vs. UST yields (% p.a.)



Soucre: Bloomberg, RBI/Raiffeisen RESEARCH

CE/SEE vs. EA periphery spread*



** spread in basis points between CESEE and EU Peripheral average 5y (duration adjusted) yields, CE/SEE - Czech, Hungary, Latvia, Lithuania, Poland, Romania EUR Eurobonds, EUP - Italy + Spain average 5y yields*
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Data releases and country coverage

This week, previous week: key data releases

Indicator	Period	Actual	Forecast	Prev.
Thursday, 30 June				
CZ: Key rate, %	Jun	0.05	0.05	0.05
HR: Industrial output, %	May	1.6	1.5	4.9
HR: C/A balance, EUR bn	Q1	-1.6	n.a.	-0.4
HU: Trade balance, EUR mn final	Apr	989.0	952.0	952.0
RO: Key rate, %	Jun	1.75	n.a.	1.75
RS: Industrial output, %	May	0.9	n.a.	8.4
RS: Retail sales, % yoy	May	4.0	n.a.	9.6
PL: CPI, % yoy	Jun	-0.8	n.a.	-0.9
SI: Retail sales, % yoy	May	0.4	n.a.	1.9
SI: CPI, % yoy	Jun	0.3	n.a.	-0.4
Friday, 1 July				
HU: PMI, points	Jun	50.9	n.a.	52.2
PL: PMI, points	Jun	51.8	n.a.	52.1
CZ: PMI, points	Jun	51.8	n.a.	53.3
CZ: GDP, % yoy final	Q1	3.0	n.a.	4.0
RU: PMI, points	Jun	51.5	n.a.	49.6
TR: PMI, points	Jun	47.4	n.a.	49.4

Indicator	Period	Forecast	High	Mean	Low	Prev.
Friday, 1 July						
RU: C/A balance, USD bn final	Q1	n.a.	n.a.	n.a.	n.a.	15.0
RU: GDP, % yoy	Q1	n.a.	n.a.	n.a.	n.a.	-1.2
Monday, 4 July						
SK: Retail sales, % yoy	May	n.a.	n.a.	n.a.	n.a.	3.7
TR: CPI, % yoy	Jun	n.a.	7.5	6.9	6.6	6.6
Tuesday, 5 July						
HR: Retail sale, % yoy real	May	3.0	n.a.	n.a.	n.a.	3.2
HU: Retail sales, % yoy	May	n.a.	n.a.	n.a.	n.a.	6.7
RO: Retail sales, % yoy	May	n.a.	n.a.	n.a.	n.a.	19.0
Wednesday, 6 July						
PL: Key rate, %	Jul	1.50	1.50	1.50	1.50	1.50
RU: CPI, % yoy	Jun	7.5	7.5	7.4	7.1	7.3
Thursday, 7 July						
CZ: Trade balance, CZK bn	May	20.0	22.0	15.3	8.3	23.6
HU: Industrial output, % yoy wda	May	n.a.	11.6	5.2	4.0	5.3
RS: Key rate, %	Jul	4.25	n.a.	n.a.	n.a.	4.25
RU: FX reserves, USD bn	Jun	n.a.	395.5	395.0	389.0	387.7
UA: FX reserves, USD bn	Jun	13.7	n.a.	n.a.	n.a.	13.5
Friday, 8 July						
CZ: Industrail output, % yoy	May	7.5	13.5	8.2	7.5	4.2
CZ: Retail sales, % yoy	May	9.0	14.5	10.7	8.0	8.5
HU: CPI, % yoy	May	-0.1	0.0	-0.1	-0.2	-0.2
HU: Trade balance, EUR mn	MAy	n.a.	912.0	702.0	604.0	989.0
RO: GDP, % yoy final	Q1	n.a.	n.a.	n.a.	n.a.	1.1
UA: CPI, % yoy	Jun	7.8	n.a.	n.a.	n.a.	7.5
BG: Retail sales, % yoy	May	n.a.	n.a.	n.a.	n.a.	0.3
BG: Industrial output, % yoy	May	n.a.	n.a.	n.a.	n.a.	2.5
SI: Industrial output, % yoy	May	n.a.	n.a.	n.a.	n.a.	5.3

Source: Bloomberg, RBI/Raiffeisen RESEARCH

Albania (AL) – The trade deficit was EUR 0.95 bn at the end of May 2016, expanding by 27% compared to same period last year due to the drop in exports and increase in imports. Exports declined by 8.0% because of the decrease of exports in the "Minerals, fuels, and electricity" category, which fell by 47.9% year-on-year due to the drop in the prices of oil and minerals in international markets. Imports of goods reached EUR 1.6 bn, which is 9.5% higher than in Jan–May 2015. This development was expected because of the construction of large-scale energy projects. Italy remains the main trade partner of Albania with about 38% of the total, followed by Germany with 8.0%, and then Greece and China with 6.8% each.
Meanwhile, in the eighth review of the loan agreement with the IMF, the country's economic programme was assessed as being on track for the most part. The IMF expects economic growth of about 3.4% in 2016 because of increased FDIs and the pick-up in domestic demand supported by the accommodative monetary policy. Tax revenues in the first five months of the year were found to be in line with the target, but the IMF suggests that the country should develop a valuation-based property tax in order to bolster the underperforming local taxes. In addition, the efforts to broaden the tax base and strengthen the tax administration must continue in order to ensure progress in the fiscal consolidation. For the current year, the budget aims to reach a primary surplus of 0.3% of GDP, while public debt is expected to start being reduced from the high of 72.2% of GDP in 2015. Public debt is estimated at around 69.3% of GDP for the first quarter of 2016, and in order to reduce the refinancing risk, the new borrowing is oriented towards the longer term in line with the strategy.

Financial analyst: Valbona Gjeka (+355 42 381 000 2714), Raiffeisen Bank Sh.a., Tirana

Croatia (HR) – With a growth rate of 1.6% yoy, the industrial production data for May confirmed positive movements for the 16th month in a row. As we expected, the C/A balance remains at a relatively large surplus of 4.4% of GDP on a rolling basis.
Next week, the retail trade data for May and PPI figures for June are scheduled to be released. Together with a slight increase in employment and expectations of a solid tourism season, the consumer confidence indicators point to a continuation of the favourable trends. Additionally, a continuation of the double-digit increase (21.8% yoy in May) in newly regis-

tered cars suggests a solid performance in retail trade in May. As a result, we expect annual growth of 3.0%. The PPI data are expected to confirm the continued absence of inflationary pressures.

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

Czech Republic (CZ) – As was widely expected, the CNB left the key interest rates and FX floor unchanged at the last monetary policy meeting. The CNB continued to see the probable end of the current FX commitment by mid-2017. The central bank projected faster-than-expected GDP growth at the beginning of 2017 and solidifying wage growth. In addition, the CNB mentioned the uncertainty implied by the result of the UK referendum. The level of interest rates was not discussed. We continue to expect the end of the current CNB FX floor at EUR/CZK 27.0 to come in the first half of 2017. Brexit increases the likelihood of a postponement of the end of the floor, but the key variable is inflation. Next week, the two-day public holiday will decrease market and economic activity. Economic data releases such as industrial output growth, retail sales, and the trade balance will only confirm that the solid growth of the Czech economy continued in May.

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

Hungary (HU) – Hungary's statistical office will release retail sales and industrial output data for May and the CPI flash estimate for June next week. The sales volume is expected to retain its growth rate from the previous month (6.4% yoy), while industrial production may also show the same pattern in terms of the change in the growth rate (5.4% yoy in April). The CPI for June will be the most important release, and we expect it to show a deceleration of the decline in consumer prices from 0.2% yoy to 0.1% yoy. Overall, the CPI flash estimate may reinforce our forecast of around 0.5% yoy on average for 2016 as a whole, which supposes that the figure will already be above 2% yoy at the end of the year. On the financial market front, market participants will be waiting for the review of the long-term credit rating by Moody's, due after the closing bell on Friday. Hungary's long-term rating according to Moody's is still in the junk category, like its rating from S&P, but Fitch already revised the country's rating to one notch above junk in its May review. We now see less of a chance for another upgrade, as the government took steps to loosen its fiscal policy with next year's budget. However, taking into consideration the fact that Moody's just took a surprisingly positive stance on domestic banks (even state-owned financial institutions) a couple of days ago, we wonder if the agency will deliver a decision similar to that taken by Fitch. While this remains to be seen, HUF assets are already profiting from the recent global market environment, as Western yield curves continue to flatten. The LCY yield curve flattened, while longer-term maturities fell to pre-Brexit levels (10-year at 3.13, which is a two-month low). The EUR/HUF range moved up and volatility shot up after the UK vote, but both in a much more moderate way than in the case of Hungary's peers. At the moment, we see very little chance of a prolonged devaluation or similar developments on the HUF market during the next couple of months.

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

Poland (PL) – The rumour mill was set buzzing this week with regards to the FX loan conversion bill, an issue that we regard as one of the most prominent drivers of local financial market stability in Poland and the related rating implications going forward. One thing seems almost certain, that – contrary to earlier announcements – the draft bill issued by the president's office most likely will not be presented to the public at this time. The reason behind this might be a positive one, however, as the bill will reportedly be submitted to the central bank and the supervisory authority for inspection first. Drawing on the expertise of these institutions in a concerted manner is definitely a move that we welcome, as this should dampen adverse market reactions and rating implications (recall the Hungarian government's solo anno). Overall, this is in line with our expectations that the government will act more prudently than initially feared (which is also reflected in our constructive financial market forecasts). Although Poland continues to make assurances that it will keep its deficit below the EU threshold of 3% of GDP despite new spending initiatives and unproven revenue streams, ratings agencies have proven sceptical. Nevertheless, we do not expect another rating downgrade by S&P after today's closing bells on 1 July, since the agency will most likely wait for the detailed 2017 budget plans of the PiS government. In addition, with Poland being among the most exposed countries in Emerging Europe via the trade and remittances channel, the uncertainty with regards to the Brexit implications need to be better assessed before any such move.

Financial analyst: Stephan Imre (+43 1 71707 8300), RBI Vienna

Romania (RO) – In line with expectations, the National Bank of Romania (NBR) remained on hold at the monetary policy meeting on 30 June, keeping all the monetary policy instruments unchanged. The rhetoric was rather dovish, in line with the tone of the monetary policy on 5 May, as the central bank stressed the uncertainties, especially those generated by the external environment that were exacerbated by the result of the British EU referendum. Moreover, the NBR reiterated that it is carefully monitoring the developments on the financial markets and also that it would be ready to use its available tools if necessary in case of increased uncertainty.

According to its public debt plan, the Ministry of Finance plans to borrow RON 3.2 bn from the domestic market in July – RON 1.5 bn in T-bills and RON 1.7 bn in T-bonds. While the amount set to be raised in July is close to the amount borrowed in June (RON 3.5bn), the average residual maturities of the issuances planned for July (2.7 years) is significantly below that seen in June (4.1 years). Given the moderate amount and the shorter duration, we think that July's public debt auction calendar is feasible, and at the same time it should not put additional pressure on the secondary market, even in the event of adverse developments on the external markets.
Among the main macroeconomic releases due next week are the dynamics of retail sales (5 July) and of wage earnings (7 July) in May, which should continue to point to a solid advance in private consumption in Q2. Also, on 7 July the NBR is scheduled to present the statistics regarding the liquidity surplus of banks in June, which should confirm the preservation of excess liquidity in the money market.

Financial analyst: Silvia Rosca (+40 799 718 083), Raiffeisen BANK S.A., Bucharest

Russia (RU) – This week, the Ministry of Finance made some comments on the fiscal situation. In 2016, the Ministry of Finance plans to spend up to RUB 2.2 trillion from the Reserve Fund to cover the budget deficit. Such estimates assume the implementation of certain initiatives on the revenues side. While the current budget plan implies an average oil price of USD 50 per barrel, the ministry now expects it to be around USD 40 per barrel, which will result in a higher-than-planned deficit (by RUB 420 bn). According to the ministry's estimates, the federal budget deficit will reach 4.3% of GDP at H1 2016 (versus the expected 3% of GDP planned for 2016 as a whole). By the end of this year, the Reserve Fund is expected to decline to RUB 900 bn, while it amounts to RUB 2.55 trillion, or 3.2% of GDP, as of June 2016. We think that OFZ placement should be used more actively by the Ministry of Finance to cover the deficit in order to limit the Reserve Fund spending. In addition, this spending leads to excessive liquidity on the market, and the CBR's sterilisation capacities are rather limited (the Ministry of Finance is rather reluctant to do so).

Financial analyst: Stanislav Murashov (+7 495 221 9845), AO Raiffeisenbank, Moscow

Serbia (RS) – The dramatic slowdown in May's industrial production to 0.9% yoy, after an 8.4% yoy increase in the month before, was largely supported by the plunge in the electricity, gas, steam, and air-conditioning supply (-7.4% yoy). At the same time, the pace of growth for mining and quarrying and manufacturing also significantly decelerated to 2.4% yoy and 2.9% yoy, respectively, compared with the double-digit growth rates previously seen during 2016. We have pointed out several times that the growth slowdown will materialise from May due to the elimination of the base effect. The largest adjustments will occur in the energy sector, due to its dramatic growth during 2015, and less pronounced corrections will be observed in the manufacturing segment. In addition, weaker export demand supported the frail industrial sentiment. In the coming weeks, it remains to be seen to what extent the slowdown in the new cabinet formation will impact the economic sentiment, and whether the data for May only indicate a break in the robust growth and shift to a more sustainable growth mode. The National Bank of Serbia has intervened only once since last Friday in connection with the Brexit announcement, selling EUR 40 mn to stabilise the EUR/RSD exchange rate. Nonetheless, it has increased the volumes of the one-week repo auctions (avg. supply of EUR 299 mn in June vs avg. supply of EUR 100–150 mn in Jan–May), as the repo rate kept inching up to 3.01% at the last auction from 2.55% in early 2016. Since last Friday, the currency has even gained in value and we believe that EUR/RSD will maintain its stable drift supported by the sound economic sentiment and nice remittance flows usually seen during the summer months.
No important events are expected next week. However, news about the new cabinet formation may finally be released. The Public Debt Management Agency has sent the Ministry of Finance the T-bill auction calendar for Q3 2016, and as rumoured, no auctions will be organised until mid-July.

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

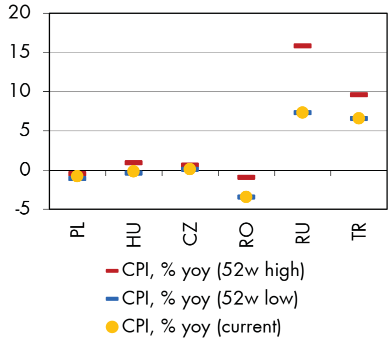
Monetary policy and money markets overview

CEE key interest and money markets outlook

Poland	curr.*	Sep-16	Dec-16	Mar-17	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)	1.61	1.65	1.65	1.65	5.04	1.55
6m money market rate (%, eop)	1.79	1.75	1.75	1.75	5.07	1.56
Hungary						
Key interest rate (%, eop)	0.90	0.90	0.90	0.90	7.00	0.90
3m money market rate (%, eop)	1.01	1.05	1.05	1.10	7.65	0.99
6m money market rate (%, eop)	0.96	1.10	1.10	1.10	7.93	0.96
Czech Rep.						
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	0.45	1.54	0.36
Romania						
Key interest rate (%, eop)	1.75	1.75	1.75	1.75	6.25	1.75
3m money market rate (%, eop)	0.81	1.20	1.30	1.60	6.20	0.54
6m money market rate (%, eop)	1.06	1.30	1.40	1.70	6.40	0.73
Russia						
Key interest rate (%, eop)	10.50	10.00	9.50	9.00	17.00	5.50
3m money market rate (%, eop)	10.99	10.80	10.30	9.80	29.93	4.24
6m money market rate (%, eop)	11.08	11.40	10.90	10.40	30.31	4.38
Turkey						
Key interest rate (%, eop)	7.50	7.50	7.50	7.00	10.00	4.50
3m money market rate (%, eop)	9.73	10.50	10.00	9.50	12.15	4.74
6m money market rate (%, eop)	9.84	10.60	10.10	9.60	12.48	5.12
Benchmark key rates (% eop)	**curr.***	**Sep-16**	**Dec-16**	**Mar-17**	**5y high**	**5y low**
ECB key interest rate (% eop)	0.00	0.00	0.00	0.00	1.50	0.00
Fed key interest rate (% eop)	0.32	0.50	0.75	0.75	0.69	0.01

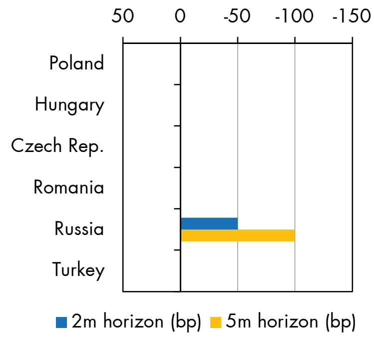
** Bid rates (for Hungary ask rates) as of 1 July 2016, 09:09 a.m. CEST*
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Inflation snapshot



Source: Bloomberg, RBI/Raiffeisen RESEARCH

Key rate forecast (chg., bp)



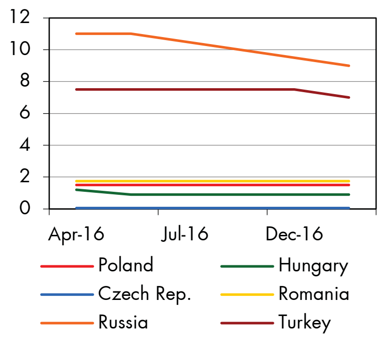
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Central bank watch

Poland (NBP)	NBP disappointed by Q1 activity data, but regards it as temporary due material fiscal stimulus underway. This in conjunction with rising wage pressure should help reflating the economy. Financial stability concerns related to post-Brexit period, FX loan conversion and rating risks should weaken any dovish voices if not for material worsening of economic outlook.
Hungary (MNB)	MNB ended mini rate cutting cycle, but increased amounts of cheap loan program most recently. Ultra-low rates to stay well into 2018. Any potential future MP easing measures should be of unconventional nature.
Czech Rep. (CNB)	Exit from FX intervention regime - keeping koruna above EUR/CZK 27.00 floor - will likely get delayed towards mid-2017 (or later due to Brexit). Negative base/deposit rate or lifting FX cap are on the CB's agenda. NIRP could be introduced in case of excessive capital flows as ultima ratio, whilst lifting the FX floor could make sense in case of worsening inflation expectations.
Romania (BNR)	Brexit shock and fiscal/political risks warrant monetary policy cautiousness in the run-up to parliamentary election in late-2016. Exit from ultra-loose liquidity conditions could already come in Q3 due to increasing macro imbalances or in case of sustained pressure on RON.
Serbia (NBS)	Central bank remained on hold for the 4th consecutive month following February's rate cut. Possibility of last rate decreased on Brexit jitters. Also, NBS is confident that inflation will enter target range as early as end of this year, so monetary transmission window narrows.
Russia (CBR)	CBR restarted rate cuts in June on stronger than expected disinflation. Private sector inflation expectations – a tier-1variable in CBR's reaction function – started to decline as well. However, CBR already hinted at remaining inflation risks and should therefore only gradually cut the base rate and go not as deep as some market participants expect.
Turkey (TCMB)	New governor Cetinkaya slashed o/n lending rate by another 50bp to 9.00% last week which drove down average funding costs further to around 8.30% currently. Further symmetrizing 7.25%-9.00% o/n corridor around 7.50% key rate at a gradual pace remins likely, especially if post-Brexit market sentiment stays favorable.

Source: RBI/Raiffeisen RESEARCH

Key rate trends



Source: Bloomberg, RBI/Raiffeisen RESEARCH

Rate setting meetings

	Jul	Aug
Poland (NBP)	6	
Hungary (MNB)	26	23
Czech Rep. (CNB)		4
Romania (NBR)		4
Serbia (NBS)	7	11
Russia (CBR)	29	
Turkey (TCMB)	19	23

Source: National Central Banks, RBI/Raiffeisen RESEARCH

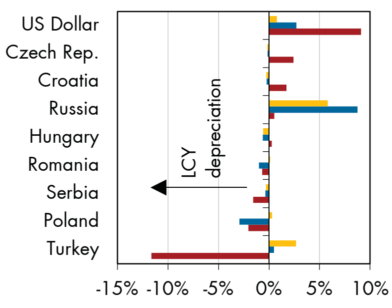
Foreign exchange market overview

FX forecasts

EUR vs	current[1]	Sep-16	Dec-16	Mar-17	5y high	5y low	Comment
PLN	4.38	4.40	4.35	4.30	4.57	3.93	Brexit decision increasing PLN volatility as zloty is still regarded a risk proxy for CEE
HUF	315.6	315.0	315.0	310.0	322.6	262.3	Brexit reaction moderate with EUR/HUF shortly peaking around 320 before returning just above the initial 310-315 trading range
CZK	27.07	27.00	27.00	27.00	28.37	24.06	Brexit effect on EUR/CZK very moderate so far, but speculative strategic positions on CZK appreciation could be closed in a context of overall market uncertainty
RON	4.51	4.50	4.50	4.45	4.64	4.19	Loosening fiscal policy ahead of parliamentary elections as weakening factors for RON
HRK	7.53	7.55	7.60	7.60	7.72	7.39	Approaching main tourist season is expected to bring a stronger HRK against the euro
RSD	123.4	123.0	124.0	123.0	123.9	99.6	Central bank intervenes to support RSD; government formation should also support RSD
RUB	70.89	71.50	70.35	69.01	90.88	38.43	see USD/RUB below
UAH	27.60	29.70	30.45	29.87	37.78	9.74	see USD/UAH below
BYR	2	23,100	23,625	23,381	25,167	2	see USD/BYR below
TRY	3.20	3.19	3.10	3.09	3.46	2.19	see USD/TRY below
USD	1.11	1.10	1.05	1.03	1.45	1.05	Expectation on further US Fed rate hikes to support USD against euro
USD vs	**current[1]**	**Sep-16**	**Dec-16**	**Mar-17**	**5y high**	**5y low**	
RUB	63.93	65.00	67.00	67.00	82.28	27.51	Aassumption of moderate speed of interest rate cuts for the coming months and stabilising oil price to support sideways movement in RUB
UAH	24.94	27.00	29.00	29.00	33.75	7.96	Ukrainian government amended the constitution with regard to the justice system; USA signed a third USD 1 bn loan guarantee agreement with Ukraine; but IMF support remains key for FX stabilisation
BYR	20,053	21,000	22,500	22,700	22,150	4,939	BYR depreciation trend to remain throughout 2016 with correlation to RUB movements, we currently have our BYR forecast under revision
TRY	2.89	2.90	2.95	3.00	3.06	1.61	Security concerns and declining number of visitors might lead to lower capital inflows and renewed pressure on TRY

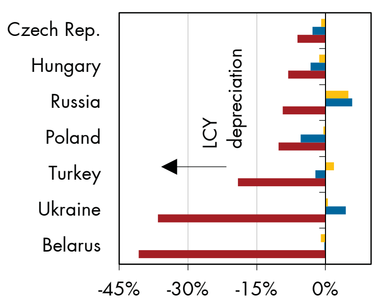
1 as of 1 July 2016, 09:06 a.m. CEST
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Change of LCY value to EUR (%)



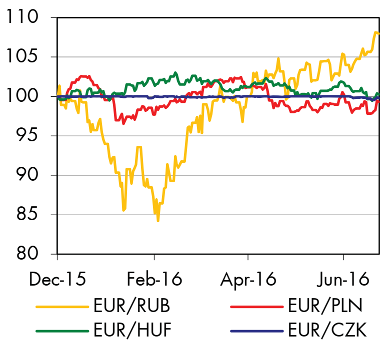
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Change of LCY value to USD (%)



Source: Bloomberg, RBI/Raiffeisen RESEARCH

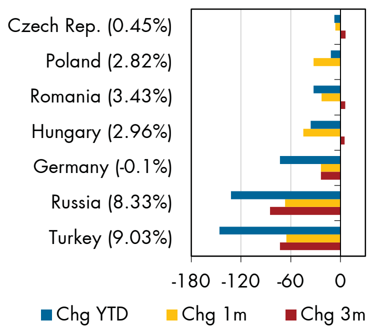
Exchange rate comparison



Indexed Dec 2015 = 100
Source: Bloomberg

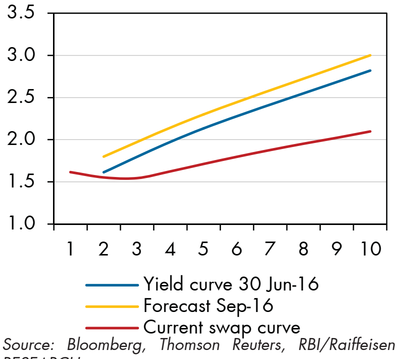
Local currency bond market overview

Change of LCY 10y bond yields (bp)



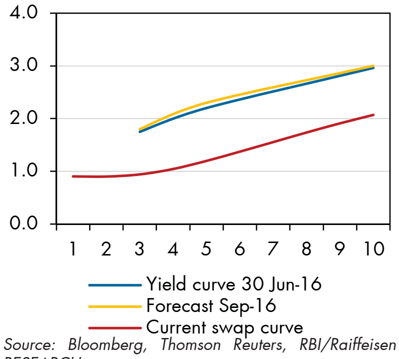
Source: Bloomberg, RBI/Raiffeisen RESEARCH

PLN yield curve



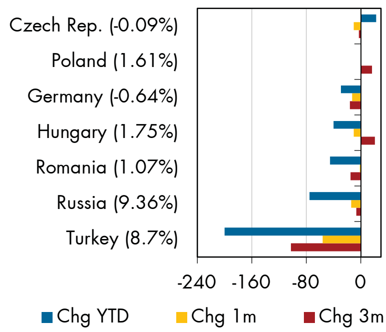
Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

HUF yield curve



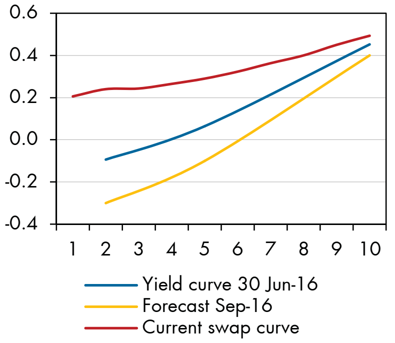
Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

Change of LCY 2y bond yields (bp)



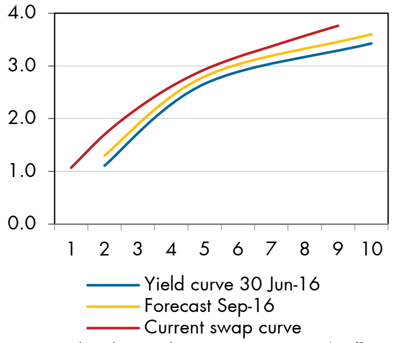
Source: Bloomberg, RBI/Raiffeisen RESEARCH

CZK yield curve



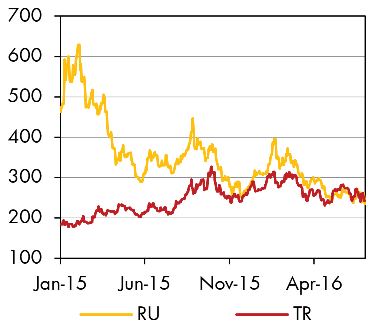
Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

RON yield curve



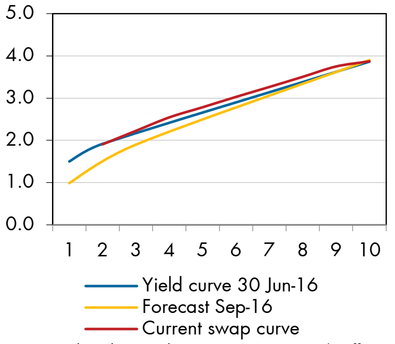
Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

5y USD CDS spreads



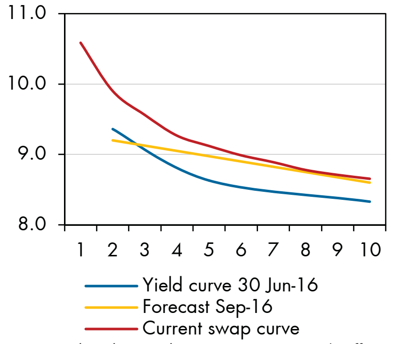
Turkey 5y high 343.7, 5y low 111.7
Russia 5y high 628.7, 5y low 119.4
Source: Bloomberg, RBI/Raiffeisen RESEARCH

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*	Sep-16	Dec-16	Mar-17	5y high	5y low		current*	Sep-16	Dec-16	Mar-17	5y high	5y low
Poland	1.61	1.8	1.9	2.0	5.0	1.3	Poland	2.82	3.0	3.2	3.3	6.1	2.0
Hungary**	1.75	1.8	1.9	1.9	10.2	1.4	Hungary	2.96	3.0	3.1	3.3	10.7	2.7
Czech Rep.	-0.09	-0.3	-0.4	-0.4	2.0	-0.4	Czech Rep.	0.45	0.4	0.5	0.6	4.3	0.3
Romania	1.11	1.3	1.6	1.9	7.3	0.9	Romania	3.43	3.6	3.8	3.9	7.6	2.6
Croatia	1.92	1.9	1.9	2.0	6.3	1.5	Croatia	3.86	3.9	3.9	3.9	4.3	3.7
Russia	9.36	9.2	8.8	8.5	17.5	5.7	Russia	8.33	8.6	8.8	8.5	16.1	6.5
Turkey	8.58	8.9	8.8	8.3	11.3	4.9	Turkey	9.01	9.0	8.9	8.6	11.0	6.0
Eurozone	-0.64	-0.6	-0.5	-0.5	1.7	-0.7	Eurozone	-0.10	0.0	0.3	0.5	3.0	-0.1
USA	0.58	0.8	1.1	1.1	1.1	0.2	USA	1.42	1.8	2.1	2.3	3.2	1.4

** Bid yields as of 1 July 2016, 09:23 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
Poland							
PLN 2y Gov. Bond	25/07/2018	2.50	101.87	1.61	225	2.0	POLGB market more than recouped initial Brexit losses. Whilst some political risks (EU dispute, FX loan conversion) remain embedded in Polish risk premia, restored spread versus Bunds increases risk buffer for upcoming volatility period.
PLN 5y Gov. Bond	25/07/2021	1.75	98.22	2.13	267	4.8	
PLN 10y Gov. Bond	25/07/2026	2.50	97.50	2.79	288	8.8	
Hungary							
HUF 3y Gov. Bond	30/10/2019	2.00	100.86	1.73	238	3.2	In line with regional peers, HGBs also witnessed surprising relief rally post-Brexit more than compensating yield increases after the Brexit vote. Therefore, room for material gains should be limited going forward since local reflation should show its face soon due to base effects combined with increasing wage pressure in the economy.
HUF 5y Gov. Bond	27/10/2021	2.50	101.84	2.13	268	5.0	
HUF 10y Gov. Bond	27/10/2027	3.00	100.28	2.97	306	9.6	
Czech Republic							
CZK 2y Gov. Bond	17/03/2018	0.85	101.69	-0.16	48	n.a.	Yield spreads couldn't follow Bunds following the flight-to-quality mode due to Brexit, but CZGBs maintain their safe-haven status in the region. Long-term CZK appreciation potential due to exit from FX regime, targeted for mid-2017 by officials, remains a pull factor for non-resident positioning.
CZK 5y Gov. Bond	29/09/2021	3.85	120.01	0.02	56	4.8	
CZK 10y Gov. Bond	26/06/2026	1.00	105.83	0.40	49	9.6	
Croatia							
HRK 2y Gov. Bond	10/07/2018	5.25	107.21	1.60	214	1.9	In expectations of the new local bond issuance we might see somewhat stronger trading volumes on the domestic bond market.
HRK 10y Gov. Bond	14/12/2026	4.25	104.43	3.73	383	8.5	
Romania							
RON 3y Gov. Bond	29/04/2019	2.50	101.99	1.77	242	2.8	Since liquidity tightening could start already in Q3, especially if Brexit woes would challenge the RON exchange rate, short-end yields should face elevated pressure in the months to come. With possible election spending further weighing on fiscal outlook, long-end ROMGBs should get under renewed pressure following post-Brexit relief rally.
RON 5y Gov. Bond	22/03/2021	3.25	103.11	2.54	309	4.4	
Russia							
RUB 2y Gov. Bond	15/03/2018	7.50	97.54	9.29	993	1.6	We recommended to adding OFZ exposure for medium-term investment horizon since rouble should remain fairly stable (even after Brexit, but highly depending on oil price). Further rate cuts already priced, but high carry maintains attractiveness.
RUB 5y Gov. Bond	18/08/2021	7.50	96.24	8.59	914	4.1	
RUB 10y Gov. Bond	3/02/2027	8.15	100.30	8.27	836	7.2	
Turkey							
TRY 2y Gov. Bond	14/06/2017	9.60	n.a.	10.49	1113	1.0	We added speculative exposure in TURKGBs in end-May following the correction before. We would maintain our constructive view on TURKGBs with likely postponement of US rate hikes being the favourable flipside of Brexit for risky assets.
TRY 5y Gov. Bond	17/02/2021	10.70	107.25	8.83	938	3.8	
TRY 10y Gov. Bond	11/02/2026	10.60	110.40	9.00	909	6.4	

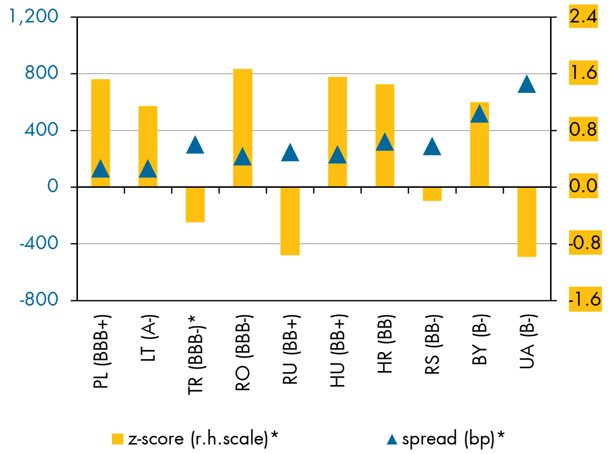
Data as of 1 July 2016, 09:23 a.m. CEST;
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Bond auctions

		ISIN	Coupon	Maturity	Volume
7 July 2016					
RO	9y T-bonds	n.a.	4.75%	2025	n.a.
PL	2y T-bonds	n.a.	0.00%	2018	n.a.
PL	10y T-bonds	n.a.	2.50%	2026	n.a.
PL	12y T-bonds	n.a.	2.75%	2028	n.a.

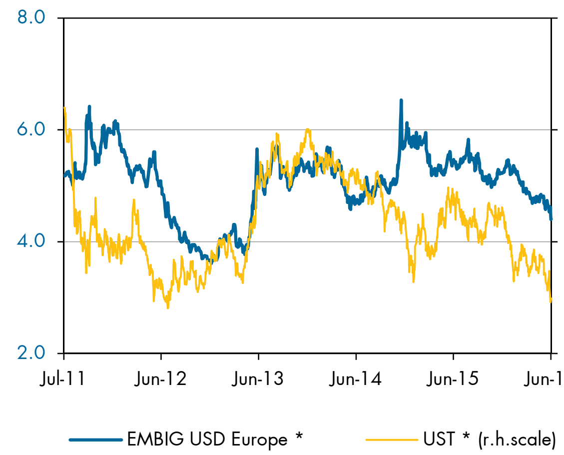
Eurobond market overview

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

	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	104.0	104.3	-0.19	111.8	100.3	0.14	70	1.0	XS0802005289
CROATI 5 7/8 07/09/18	109.0	109.2	0.04	112.1	88.8	1.25	192	1.8	XS0645940288
REPHUN 3 7/8 02/24/20	111.9	112.2	n.a.	113.1	69.3	0.52	116	3.4	XS0212993678
REPHUN 4 3/8 07/04/17	104.4	104.5	n.a.	108.0	77.3	-0.04	53	1.0	XS0284810719
REPHUN 5 3/4 06/11/18	110.4	110.6	-0.09	115.1	79.7	0.30	96	1.9	XS0369470397
REPHUN 6 01/11/19	113.4	113.5	-0.15	118.4	86.4	0.60	127	2.4	XS0625388136
LITHUN 4.85 02/07/18	107.9	108.1	-0.05	114.3	94.5	-0.15	48	1.6	XS0327304001
POLAND 5 5/8 06/20/18	110.9	111.5	0.11	122.6	102.1	-0.08	58	1.9	XS0371500611
POLAND 1 5/8 01/15/19	103.8	104.3	0.48	105.5	98.0	0.04	71	2.5	XS0874841066
POLAND 3 3/4 01/19/23	118.9	119.5	0.32	125.5	99.9	0.73	120	5.9	XS0794399674
POLAND 3 3/8 07/09/24	116.5	119.0	0.61	125.6	99.6	1.06	139	7.0	XS0841073793
ROMANI 4 7/8 11/07/19	114.5	114.8	0.04	117.8	99.3	0.46	111	3.1	XS0852474336
TURKEY 5 7/8 04/02/19	112.1	112.6	0.18	118.9	100.9	1.26	192	2.6	XS0285127329
TURKEY 5 1/8 05/18/20	111.8	112.4	0.25	115.9	95.2	1.85	248	3.5	XS0503454166
USD									
BELRUS 8.95 01/26/18	104.1	104.9	0.15	111.2	70.0	5.86	534	1.4	XS0583616239
CROATI 6 3/8 03/24/21	109.2	109.9	0.76	117.8	86.7	4.12	316	4.0	XS0607904264
CROATI 5 1/2 04/04/23	106.2	106.9	1.47	108.6	94.4	4.37	312	5.6	XS0908769887
REPHUN 5 3/8 02/21/23	111.3	111.7	1.64	113.9	93.1	3.42	226	5.5	US445545AH91
REPHUN 7 5/8 03/29/41	146.6	147.5	3.68	150.3	79.5	4.46	246	13.2	US445545AF36
LITHUN 7 3/8 02/11/20	118.1	118.4	0.33	130.7	104.8	2.09	124	3.2	XS0485991417
LITHUN 6 5/8 02/01/22	121.1	121.6	0.74	128.6	101.0	2.50	141	4.7	XS0739988086
LATVIA 2 3/4 01/12/20	102.9	103.5	0.27	103.2	91.4	1.80	102	3.3	XS0863522149
LATVIA 5 1/4 06/16/21	114.3	114.8	0.44	117.2	90.9	2.13	114	4.4	XS0638326263
POLAND 6 3/8 07/15/19	113.6	113.9	0.34	125.9	107.4	1.69	102	2.7	US731011AR30
POLAND 3 03/17/23	101.9	102.3	1.30	103.6	87.6	2.65	148	6.0	US731011AT95
ROMANI 6 3/4 02/07/22	118.7	119.0	0.65	124.4	99.2	3.05	203	4.6	US77586TAA43
ROMANI 4 3/8 08/22/23	107.3	107.7	1.07	109.5	90.8	3.18	197	6.0	US77586TAC09
RUSSIA 4 1/2 04/04/22	106.9	107.6	1.97	114.7	82.0	3.11	200	5.0	XS0767472458
RUSSIA 7 1/2 03/31/30	122.2	122.5	0.11	128.6	99.6	2.28	65	4.1	XS0114288789
RUSSIA 5 5/8 04/04/42	113.7	114.7	5.24	124.9	76.0	4.67	255	14.2	XS0767473852
SERBIA 5 1/4 11/21/17	103.1	103.7	0.11	107.1	96.8	2.71	222	1.3	XS0856951263
SERBIA 4 7/8 02/25/20	103.2	103.8	0.74	104.6	89.6	3.83	303	3.3	XS0893103852
TURKEY 6 1/4 09/26/22	113.4	113.9	1.42	127.0	101.0	3.76	266	5.1	US900123BZ27
TURKEY 6 7/8 03/17/36	122.9	123.6	4.25	139.6	99.2	5.01	321	11.5	US900123AY60
TURKEY 6 3/4 05/30/40	122.7	123.5	4.41	139.4	97.3	5.07	310	12.9	US900123BG46
UKRAIN 7 3/4 09/01/19	98.8	99.5	1.10	99.1	88.0	8.06	733	2.7	XS1303918269
UKRAIN 7 3/4 09/01/23	96.5	97.0	1.69	97.8	84.6	8.36	707	5.2	XS1303921487
UKRAIN 7 3/4 09/01/27	94.4	95.4	1.24	97.0	81.2	8.46	694	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 1 July 2016, 09:59 a.m. CEST*
Source: Bloomberg, RBI/Raiffeisen RESEARCH

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
CEE									
Poland	A-	BBB+	negative	A2	A2	negative	A	A-	stable
Hungary	BB+	BB+	stable	Ba1	Ba1	positive	BBB-	BBB-	stable
Czech Republic	AA	AA-	stable	A1	A1	stable	AA-	A+	stable
Slovakia *	A+	A+	stable	A2	A2	stable	A+	A+	stable
Slovenia *	A	A	stable	Baa3	Baa3	stable	BBB+	BBB+	positive
SEE									
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	BB-	BB-	stable
EE									
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[1]

Country	Year	GDP, % avg. yoy	CPI, % avg. yoy	Unem-ployment, %	Nominal wages, EUR	Fiscal balance, % GDP	Public debt, % GDP	Export[2], % GDP	C/A, % GDP	Ext. debt, % GDP	FXR[3] % ext. debt	Import cover, months
Croatia	**2015**	1.6	-0.5	16.3	1000	-3.2	86.7	24.7	5.2	103.7	30.3	9.5
	2016e	1.5	-1.0	15.9	1031	-3.0	87.2	25.6	2.0	99.1	30.3	9.0
	2017f	1.5	1.5	15.5	1040	-2.9	87.6	26.2	2.2	98.5	28.6	8.4
Czech Rep.	**2015**	4.3	0.3	6.5	970	-0.4	41.1	74.6	0.9	70.7	51.2	6.1
	2016e	2.3	0.7	5.6	1020	-0.3	40.3	76.4	1.4	74.6	65.6	8.1
	2017f	2.7	1.7	5.4	1089	-0.2	39.1	77.4	1.0	78.1	73.0	9.3
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	838	-2.2	74.9	84.8	4.5	98.5	23.6	3.6
	2017f	2.7	2.2	5.7	915	-2.7	74.5	82.1	4.1	87.2	22.9	3.2
Poland	**2015**	3.6	-0.9	10.5	932	-2.6	51.3	40.1	-0.2	70.1	29.1	6.2
	2016e	3.5	-0.4	9.1	929	-2.9	52.1	42.8	-0.9	74.2	29.1	6.0
	2017f	3.8	1.7	8.6	996	-3.4	52.6	42.2	-1.2	73.9	25.0	5.2
Romania	**2015**	3.8	-0.6	6.8	568	-0.7	38.4	30.6	-1.1	56.7	39.2	7.5
	2016e	4.0	-1.2	6.5	614	-3.0	39.2	30.8	-2.8	53.3	40.4	6.9
	2017f	3.6	2.3	6.5	656	-3.2	39.9	31.4	-3.3	52.7	39.2	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	-0.5	7.5	6.0	473	-4.4	13.5	23.3	4.0	38.0	82.4	26.6
	2017f	1.0	7.2	6.0	561	-3.3	14.0	25.6	4.5	31.9	87.4	22.5
Ukraine	**2015**	-9.9	48.7	9.5	172	-2.3	72.6	39.2	-0.1	131.5	11.4	4.2
	2016e	1.5	15.5	9.0	n.a.	-3.5	79.3	37.8	-3.3	140.0	14.5	5.4
	2017f	2.0	12.0	9.0	n.a.	-3.0	78.9	39.3	-3.4	140.4	15.5	5.5
Turkey	**2015**	4.0	7.7	10.3	n.a.	-1.2	34.0	21.2	-4.5	55.4	28.4	6.8
	2016e	3.5	7.3	10.0	n.a.	-2.0	32.0	20.8	-5.0	55.1	28.1	6.7
	2017f	3.5	7.6	10.0	n.a.	-1.5	33.0	20.6	-5.0	52.3	28.3	6.6

1) only for countries regularly included in CEE Weekly; 2) Export of goods only; 3) FXR - Foreign exchange reserves
Source: Thomon 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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Detailed information on sensitivity analyses (procedure for checking the stability of potential assumptions made in the context of financial analyses) can be found at: www.raiffeisenresearch.com/sensitivity_analysis

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

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)*

	CZ				HU				PL				RO				RU				TR			
Date of change	2y	5y	10y	CZK	2y	5y	10y	HUF	2y	5y	10y	PLN	2y	5y	10y	RON	2y	5y	10y	RUB	2y	5y	10y	TRY
15/05/2015	Hold	Buy	Buy	Hold	Buy	Hold	Hold	Sell	Hold	Hold	Hold	Hold	Hold	Hold	Hold	Hold	Buy	Hold	Hold	Sell	Buy	Hold	Hold	Hold
02/06/2015	I	Hold	Hold	I	Hold	I	I	Hold	I	I	I	I	I	I	I	I	I	I	I	Hold	I	Buy	Buy	Buy
24/06/2015	I	I	Buy	I	I	I	Sell	I	I	I	Sell	I	I	I	Sell	I	I	Buy	Buy	I	Sell	Sell	Sell	Sell
06/08/2015	I	I	Hold	I	I	Sell	I	I	I	Sell	I	I	I	Sell	I	I	Hold	Hold	Hold	I	Hold	I	I	Hold
03/09/2015	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	Buy	I	I	I	Buy
22/09/2015	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	Sell	I	I	I
04/11/2015	I	I	I	I	Buy	Buy	Buy	I	I	Hold	Hold	I	I	Hold	Hold	I	I	I	I	Hold	Hold	Hold	Hold	Hold
17/12/2015	I	I	I	I	I	I	I	Buy	Buy	Buy	I	I	Buy	Buy	Buy	Buy	Buy	Buy	I	Buy	I	I	I	I
25/01/2016	I	–	Buy	I	Hold	–	I	Hold	I	–	I	I	Hold	–	Hold	I	–	–	–	–	I	–	I	I
11/02/2016	I	–	I	I	I	–	I	I	I	–	I	I	I	–	I	I	Hold	–	Hold	I	I	–	I	I
23/02/2016	I	–	I	I	I	–	I	I	Hold	–	I	I	I	–	I	Hold	I	–	I	I	I	–	I	Buy
24/03/2016	I	–	Hold	I	I	–	I	I	I	–	I	Sell	I	–	I	I	I	–	I	Sell	Sell	–	Sell	Sell
26/04/2016	I	–	I	I	I	–	I	I	I	–	I	Hold	I	–	I	I	I	–	I	I	Hold	–	Hold	I
31/05/2016	I	–	I	I	I	–	I	I	I	–	I	I	I	–	I	I	Buy	–	Buy	Hold	Buy	–	Buy	Hold
20/06/2016	I	–	I	I	I	–	I	I	I	–	I	I	I	–	I	I	I	–	I	I	I	–	I	Buy

** 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)*

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

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

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

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

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

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