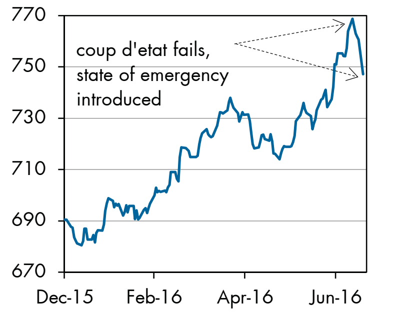
CEE Weekly

Issue 29/2016

22 July 2016

Raiffeisen RESEARCH

Turkey political crisis impact*



** EMBIG USD price index (points); TR - Turkey; 5y low 520 points high 769 points*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Highlights

The biggest news on the markets this week was military coup attempt in Turkey which failed due to popular uprising. Sadly, the developments which followed the failed coup brought more volatility than the coup itself. President Erdogan upon the national security committee meeting introduced a state of emergency while tens of thousands of military and state servicemen were arrested and/or suspended from their duties, i.e. all military prosecutors were fired. Although Turkish market lost already with yields increasing both on local currency debt and Eurobonds, we believe that headline risks in Turkey continue to point to more downside in short- and medium-term. On the other hand we project a slow stabilization in Turkey would be possible only by the end of 2016. For more information please turn to a "Focus on" section (on page 2 of this report). On the contrary the price stagnation apparently came to an end on OFZ market thanks to stronger RUB FX by the end of the week and PLN market saw new demand increasing also purchases on POLGB market due to the situation in Turkey as investors started to look for possible investment relocation opportunities with less tight valuations. Next week a series of central bank meetings is unlikely to bring any surprises. In Russia we expect the central bank to leave key interest rate unchanged while the regulator is likely to use a cautiously dovish wording implicitly assuming the possibility of rate cut in September. In Ukraine the progress on lowering inflation should encourage the national bank to slash rates by 50bp while Hungarian national bank is expected to keep policy rates and its wording unchanged from the last time. On the rating front this week we expect no rating change for Czech Republic (S&P) and Romania (Fitch). Next week the rating review of Slovakia by Moody's and S&P and of Croatia by Fitch also should not bring any rating change.

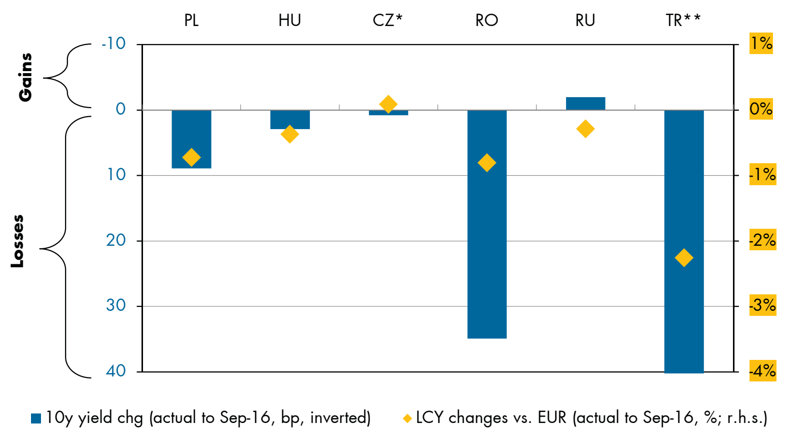
Financial analysts: Gintaras Shlizhyus, RBI Vienna

Market snapshot

	curr.*	Sep-16	Dec-16	Mar-17
Poland				
EUR/PLN	4.37	4.40	4.35	4.30
Key rate	1.50	1.50	1.50	1.50
10y bond	2.9	3.0	3.2	3.3
Hungary				
EUR/HUF	313.8	315	315	310
Key rate	0.90	0.90	0.90	0.90
10y bond	3.0	3.0	3.1	3.3
Czech Rep.				
EUR/CZK**	27.0	27.0	27.0	27.0
Key rate	0.05	0.05	0.05	0.05
10y bond	0.4	0.4	0.5	0.6
Romania				
EUR/RON	4.46	4.50	4.50	4.45
Key rate	1.75	1.75	1.75	1.75
10y bond	3.3	3.6	3.8	3.9
Croatia				
EUR/HRK	7.49	7.55	7.60	7.60
10y bond	3.9	3.9	3.9	3.9
Russia				
USD/RUB	64.7	65.0	67.0	67.0
Key rate	10.50	10.00	9.50	9.00
10y bond	8.6	8.6	8.8	8.5
Turkey				
USD/TRY	3.07	3.15	3.10	3.10
Key rate	7.50	7.50	7.50	7.00
10y bond	10.1	11.0	10.5	10.1
EUR/USD	1.10	1.10	1.05	1.03

** prices as of 22 July 2016, 09:46 a.m. CEST*
*** forecast under revision*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Expected changes until September 2016



** FX forecasts under revision; ** TR actual value 103*
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Content

Data highlights upcoming week

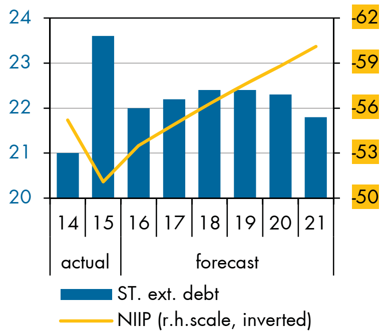
Date	Indicator	Period	est.	High	Mean	Low	Prev.
26-Jul	HU: Key rate, %	Jul	0.90	0.90	0.90	0.90	0.90
28-Jul	UA: Key rate, %	Jul	16.00	17.00	16.00	15.50	16.50
29-Jul	PL: CPI, % yoy	Jul	n.a.	-0.4	-0.5	-0.9	-0.8
29-Jul	RU: Key rate, %	Jul	10.50	10.50	10.50	10.00	10.50

Source: Bloomberg, RBI/Raiffeisen RESEARCH

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

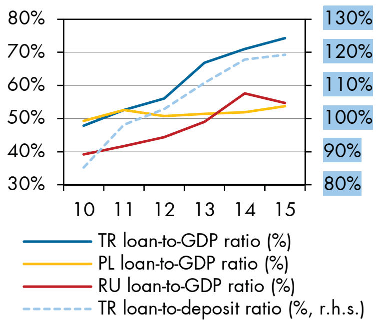
Turkey: Surging political risks impair financial market outlook

Turkey debt outlook (% of GDP)*



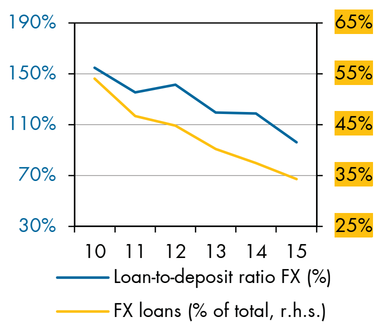
** ST - short-term, NIIP - net international investment position*
Source: IMF, RBI/Raiffeisen RESEARCH

TR: Loan-to-GDP ratios & L/D ratio



Source: national sources, IMF, RBI/Raiffeisen RESEARCH

TR: L/D ratio* & share FX loans



** L/D ratio - loan to deposit ratio for FX balance sheet*
Source: national sources, IMF, RBI/Raiffeisen RESEARCH

Although last week's military coup failed, the events that followed it stirred an increasing concern about the political agenda of President Erdogan, also including the largely disproportionate punishments reaching out far beyond the circle of coup organisers and extending to nearly 60,000 military and civil and media servants altogether. On 20 July President Erdogan announced a state of emergency that will last for three months, following a meeting of Turkey's National Security Council, which already gave food for speculation about a hidden policy agenda. Although explained by national security matters and the need to counter treason in state circles, the state of emergency could also highlight a large divide in Turkish society between military, social and business circles. In our opinion, this time the situation differs from past political crises of Turkish history as it brings into question state secularism itself as an illegitimate way of changing political leadership in the country. On the other hand, the almost random punishment of the Turkish military, the opposition and academics who were critical of the current leadership brings more concerns about the civil society divide and a possible hidden agenda of President Erdogan. Despite being too early to draw conclusions we believe the situation is unfolding in the wrong direction, with a large-scale prosecution push in Turkey drawing international criticism, whilst highlighting possible discontent of some key NATO members from the West too.

Economically speaking there are no immediate challenges except for the balance of payments deficit, which needs to be funded with foreign capital inflows. Still, a combined current account and budget gap of 7% of GDP does not look overly large, while economic growth remains fairly solid, albeit a touch slower than in the previous year. On the financial front, Turkey's gross financing needs appear very moderate, as measured by conventional yardsticks. Turkish public debt amounts to only 33% of GDP as of 2015 and gross external debt to around 55% of GDP, which looks relatively good on its own. Sovereign-only refinancing needs for Turkey also look very manageable at 5% of GDP for 2016 and 6% for 2017 using IMF data. Therefore on paper we find no material problem for TR sovereigns. However, as often is the case with many emerging markets, Turkey's problem may lie with the short-term debt of private sector needs and in the liquidity and funding area. Indeed, the gross financing requirement of the Turkish economy including all sectors would be roughly 27% and 25% of GDP for 2016 and 2017 respectively, while TR international reserves would be able to cover only 60% of the amounts in question. Although the state is not obligated to cover private sector needs we see the risk of capital outflows potentially adding devaluation pressure to the TRY and forcing the central bank to provide additional FX liquidity, which would be a drain on FX reserves. Taking into account Turkey's large reliance on short-term market funding we see a risk of capital outflows being more pronounced in the event of prolonged political uncertainty and/or negative political and institutional changes.

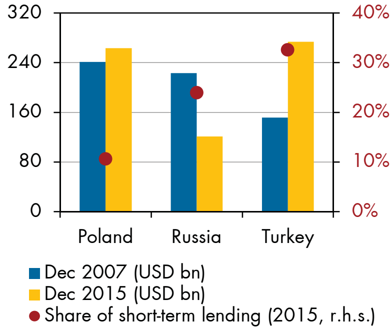
The banking sector is usually considered a prominent risk factor in times when uncertainty with regards to capital inflows and financial market stability are on the rise in Turkey. This holds especially true given the potentially damaging effects within the sovereign-banking nexus in Western Europe in recent years. Based on several indicators of macro-prudential analysis the Turkish banking sector looks hot, pointing to potential needs for the sovereign/central bank to step in within an adverse scenario. There has been a substantial financial deepening in recent years, driving up the loan-to-GDP ratio from below 50% in 2010 to around 74%

in 2015. On the back of scarce domestic refinancing resources the market loan-to-GDP ratio has increased from below 100% (85%) to around 120% in recent years. Moreover, the Turkish banking and corporate sector is substantially reliant on short-term external financing (30% of consolidated cross-border banking claims are short term, up until 1y maturity). Neither must we forget that the banking sector is running a large Net Open FX Position (unhedged at around TRY 80-90 bn), which requires constant (off-balance sheet) hedging transactions. Despite all these vulnerabilities, some cautionary remarks are needed as well. In the FX business segment the loan-to-GDP ratio remains below 100% (on the back of regulatory measures seen in recent years), while FX loans are "just" at around 30% of total loans overall (a ratio that does not look excessive within the EM context). Moreover, the overall sector capitalistion remains decent at 15.5% (some 85% in Tier 1 Capital), deteriorating somewhat in recent years. Not to forget that the authorities managed to contain excesses via several macro-prudential measures in recent years (e.g. ban on FX household lending, discouraging of short-term wholesale financing, slowdown of consumer lending due to risk weighting increases). Nevertheless, if there are problems with rolling over external (short-term) bank debt, some supportive measures from the central bank will most likely be needed.

That said, we see a higher probability of a single-notch downgrade for Turkey from Moody's and Fitch. Recently Moody's put Turkey's Baa3 rating on negative watch for a possible downgrade, while S&P has already cut its unsolicited rating for Turkey from BB+ to BB with a negative outlook. Meanwhile, Fitch voiced similar concerns about the situation in Turkey, also citing possible difficulties in the domestic banking sector. Although S&P's unsolicited rating is less important, being "unofficial" as the agency is not mandated by Turkish government, a swift negative reaction from Moody's and Fitch implies a high risk of a downgrade. Moody's is scheduled to review its rating on Turkey on 5 August and Fitch on 19 August. Importantly, the negative rating watch from Moody's implies the possibility of spot action downgrade by the agency ahead of its regular review date, which amplifies the uncertainty for the market. While we believe that Moody's will most likely cut Turkey's Baa3 rating by one notch to Ba1 with a negative outlook, there is also a 30% chance that the agency may reduce TR's rating by two notches in one step. Similarly, Fitch will be very likely to cut the Turkish credit rating from BBB- to BB+. Altogether we see a nearly 70% chance that both Moody's and Fitch are likely to cut Turkey's rating into junk territory in August. The major triggers for a downgrade will still be the unstable domestic politics, democratic and civil institution weakness as well as the high risk of capital outflows and reliance on short-term market funding.

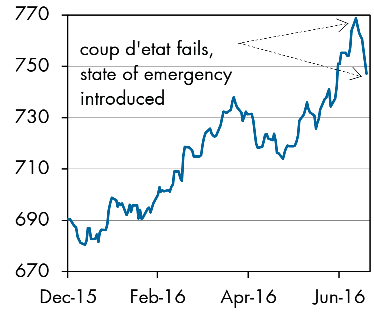
Still we see financial markets as fairly resilient in terms of price and yield changes, as many market watchers still believe in the political pragmatism of Turkey. Although the political reactions of the pro-Erdogan camp after the coup have been very harsh and able to destroy shaky market confidence, perhaps investors still see anchors, i.e. closer trade ties to EU, NATO membership and strategic relations with the USA, which Turkey would be unable to ignore without serious consequences for itself. Moreover, the financial flows into the country were done on the assumption of a close partnership with the West, including cooperation processes such as EU accession. EU membership may be an overly distant possibility for Turkey, but the country already enjoys many benefits including the EU free trade regime, ample direct investment and easier migration. Taking into account Turkey's geographical proximity to the Middle East conflict zone, its NATO membership also adds weight to the country's influence in the region. Thus we tend to believe that despite the tough measures to thwart the coup consequences, Pres-

TR: Cross-border claims & s-t lending



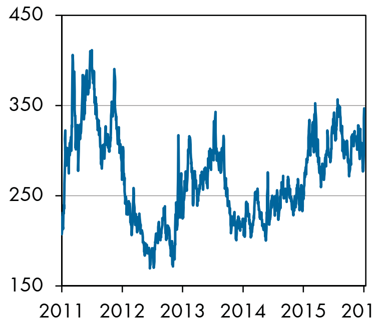
Source: BIS, RBI/Raiffeisen RESEARCH

TR: EMBIG price*



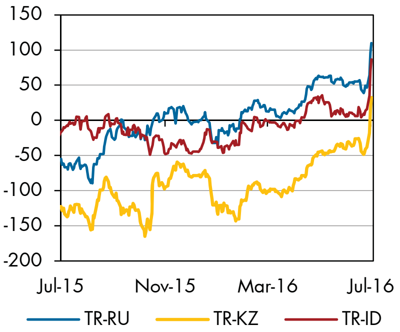
** EMBIG USD price index (points); TR - Turkey; 5y low 520 points high 769 points*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

TR: EMBIG USD spread (bp)



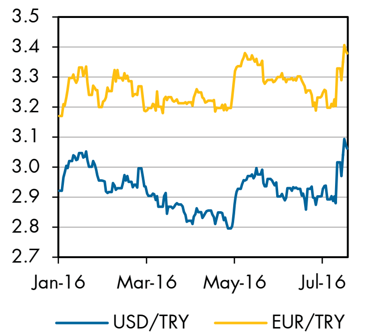
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Turkey relative to peers*



** EMBIG USD spread differential in basis points; TR - Turkey, RU - Russia, ID - Indonesia, KZ - Kazakhstan; 5y min/max: TR-RU -441/110; TR-KZ -273/45; TR-ID -72/145*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Aftermath of coup with TRY weakening



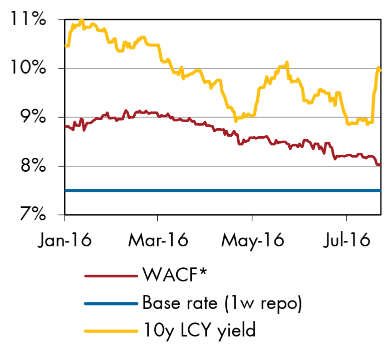
USD/TRY: 5y high 3.0936; low 1.6771
EUR/TRY: 5y high 3.462; low 2.19
Source: Bloomberg, RBI/Raiffeisen RESEARCH

TR: FX market forecast

	current*	Sep-16	Dec-16	Jun-17
EUR/TRY	3.37	3.47	3.26	3.07
USD/TRY	3.06	3.15	3.10	3.10
	2014	**2015**	**2016**	**2017**
EUR/TRY, avg.	2.90	3.02	3.29	3.11
USD/TRY, avg.	2.19	2.73	2.99	3.08

** current as of 22.078.2016; 8:26 CET*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

TRY yield could rise further



** weighted average costs of funding, better reflection of monetary conditions than 7.50% key rate*
WACF: 5y high 11.9; 5y low 4.5
Base rate: 5y high 10.00; 5y low 4.50
10y: 5y high 11.1; 5y low 6.0

ident Erdogan is unlikely to opt for breaking ties to the West. Rather, we expect both sides will turn a half-blind eye to the temporary political aspects, unless the situation triggers fundamental concerns.

On the Eurobond market Turkey's portion of the EMBIG USD spread swelled nearly 70bp from last Friday preceding the coup, with the price index losing 5.5% across the entire TR curve. On the other hand, Turkey's Eurobond market had been among the market darlings this year until recent political events "broke the camel's back" by sending Turkish Eurobond prices plummeting. In performance terms, since the start of 2016 the Turkish EMBIG USD price index has delivered a cumulative +11% gain, excluding the latest sell-off impact but including the sell-off impact that would make +4%. Unfortunately, the recent political crisis eliminated about 60% of the gains made on TR sovereign Eurobonds, for which we maintained a "buy" recommendation this year. Regrettably, the high volatility amidst the very uncertain political situation and the prospects of an almost imminent rating downgrade in August have forced us to change our recommendation from buy to a tactical sell. Such a radical decision is dictated by the unusual degree of political risks, which Turkey has not experienced, in our opinion, since perhaps the times of the 1980s coup. Risk re-pricing is also likely to hit Turkey as the country will probably lose its investment rating, which can trigger "substitution" trades in which Turkey may be traded for Russia or similar. Even though the Turkish market may regain a shaky floor in the coming days we project higher volatility over a two-month perspective to put this onto a stagnation path. Therefore we prefer to underweight Turkey vs. Russia and Kazakhstan while selling Turkish Eurobonds outright, hoping to pick them up later at more affordable (cheaper) levels.

Given the ongoing political turmoil and uncertainties over future development in Turkey we have also adjusted our outlook for the Turkish lira accordingly. Assuming the possibility of additional negative news-flow on politics during the third quarter of 2016 we have revised our USD/TRY forecast towards 3.15, up from 2.90, while the possibility of a moderate calming of politics in the fourth quarter may then contribute to lessening the pressure on the lira towards 3.10 vs. the USD. At the same time we highlight the risks attached to this revision as it entails a certain improvement of the political situation but not any significant additional monetary loosening risk due to political pressure that would disregard FX effects. That said we see the risks currently leaning more towards an even weaker lira based on negative political surprises. For 2017 we have also adjusted our lira assumptions towards a weaker lira compared to our previous call. The possibility of some relief during 2017 in the event of political compromises could support the lira, while overall the risk for continued unsupportive politics is likely to remain a burden on the TRY at least until the end of 2016.

In a similar move we have revised the Turkish LCY bond market forecast for the worse given the high post-coup political risks. Our recommendation to buy TURKGBs played out well until the failed coup attempt. Since last week, however, Turkish yields have skyrocketed in line with the ailing currency. Following S&P's most recent downgrade, unfavourable rating action by the other two major agencies is in the cards, which is likely to add impetus to the risk-off mode that is currently battering the local Turkish markets. Only later on, i.e. not likely before 2017, we could imagine a certain recovery of TRY assets according to our guesstimates. With this latter word speaking volumes, we consider the risk mix to be highly precarious and sold TURKGBs. 10y local currency yields, trading around 10% yesterday, could therefore jump another 100bp on our end-Sep horizon in line with a further depreciating lira.

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

Data releases and country coverage

This week, previous week: key data releases

Indicator	Period	Actual	Forecast	Prev.
Friday, 15 July				
RU: Industrial output, % yoy	Jun	1.7	n.a.	0.7
Monday, 18 July				
SI: Unemployment rate, %	May	11.1	n.a.	11.5
Tuesday, 19 July				
PL: Retail sales, % yoy real	Jun	6.5	5.9	4.3
RU: Unemployment rate, %	Jun	5.4	5.5	5.6
RU: Real wages, % yoy	Jun	1.4	-1.2	1.0
RU: Retail sales, % yoy real	Jun	-5.9	-5.8	-6.1
TR: Key rate, %	Jul	7.50	7.50	7.50
Wednesday, 20 July				
CZ: PPI, % yoy	Jul	-4.4	-4.3	-4.8
Thursday, 21 July				
UA: Industrial output, % yoy	Jun	-3.4	1.0	0.2

Indicator	Period	Forecast	High	Mean	Low	Prev.
Friday, 22 July						
HR: Unemployment rate, %	Jun	13.6	n.a.	n.a.	n.a.	14.4
Monday, 25 July						
PL: Unemployment rate, %	Jun	8.7	8.8	8.8	8.6	9.1
Tuesday, 26 July						
HU: Key rate, %	Jul	0.90	0.90	0.90	0.90	0.90
Thursday, 28 July						
UA: Key rate, %	Jul	16.0	17.0	16.0	15.5	16.5
HU: Unemployment rate, %	Jun	n.a.	5.8	5.4	5.3	5.5
Friday, 29 July						
HR: Industrial output, % yoy	Jun	3.9	n.a.	n.a.	n.a.	1.6
HR: Real wages, % yoy	May	n.a.	n.a.	n.a.	n.a.	2.6
RS: Retail sales, % yoy	Jun	n.a.	n.a.	n.a.	n.a.	4.0
RS: Industrial output, % yoy	Jun	n.a.	n.a.	n.a.	n.a.	0.9
PL: CPI, % yoy	Jul	n.a.	-0.4	-0.5	-0.9	-0.8
SI: Retail sales, % yoy	Jun	n.a.	n.a.	n.a.	n.a.	0.4
SI: CPI, % yoy	Jul	n.a.	n.a.	n.a.	n.a.	0.3
RU: Key rate, %	Jul	10.50	10.50	10.50	10.00	10.50
RO: Unemployment rate, %	Jun	n.a.	n.a.	n.a.	n.a.	6.6

Source: Bloomberg, RBI/Raiffeisen RESEARCH

Bulgaria (BG) – The external risks surrounding Bulgaria have been increasing lately. On top of the strained relations between Russia and the EU regarding the invasion in Crimea and the military conflict in the Middle East, neighbouring Turkey was shaken by internal military sedition, which does not seem to have cooled down in the medium term. Moreover, the domestic political situation is becoming increasingly challenging as well with presidential elections due in autumn 2016. Especially in the current external context, a strong consensus candidate for a president is needed, capable of balancing political interests for the benefit of the country. However, the political parties have yet to nominate their candidates. This political behaviour is obviously missing the momentum of the day and putting the country at risk, as it relies on voters' emotions created by the "free" media immediately before the vote, rather than on the genuine virtues of the candidates. In fact, the constitutional direct presidential vote will be glossed over in favour of a party vote, since people will not have enough time to decide for new independent candidates. Although the political will of the current GERB-dominated government to conduct the needed structural reforms (in judiciary, healthcare, energy, transport, education, etc.) turned out to be weak, this political setting has no real alternative in the medium term. It is therefore most likely that the GERB-supported independent candidate will win. However, there were already statements made from within the GERB camp that snap parliamentary elections could be on the cards if their candidate does not succeed in the upcoming presidential elections. Although the outcome of the vote is difficult to predict, considering the tense international situation, Bulgaria is better to remain a true partner of NATO and the EU as there is clearly no alternative to this foreign-policy orientation. In this regard, the challenges are to diversify the near total dependency on Russia in the energy sector and to balance foreign political relations with neighbouring countries. On the whole, this was the position of the current president Mr. Plevneliev, who decided not to stand again.

Financial analyst: Emil S. Kalchev, Raiffeisenbank (Bulgaria) EAD, Sofia

Croatia (HR) – As labour market conditions are becoming more influenced by what will probably be a record high tourist season, we expect that today's registered unemployment rate for June could decline to 13.6% (from 14.4% in May). After the calm week behind us, important economic data will be in short supply in the week ahead, only industrial production for June is set to be released on Friday. The positive trends are set to continue due to the expected recovery of foreign demand. Further industrial growth should also bring about a positive contribution to the GDP outcome in Q2.

According to the rating calendar, Croatia's rating assessment by Fitch is scheduled to be released at the very end of the week. After the recently affirmed credit rating by S&P we expect Fitch will also leave it unchanged at two notches below investment grade. Namely, despite the continued positive macroeconomic trends, the negative risks stemming from political uncertainties will remain one of the main factors for a sustainable economic recovery and growth, thus ultimately determining the cost of financing for all segments of the economy.

Financial analyst: Tomislava Ujevic (+385 1 6174 606), Raiffeisenbank Austria d.d., Zagreb

Czech Republic (CZ) – The Czech financial market has fallen into summer lethargic mode and as the calendar for next week is empty, this will probably prevail for some time. We have changed our macroeconomic forecast only marginally after the British referendum, with no change to the inflation projection. However, we must admit that uncertainty about the future is even higher if we take into account the turbulent development in Turkey. Chances for longer monetary policy easing measures by the ECB have increased. Within such an environment we see greater risks of the CNB postponing the time of the exit into the second half of 2017.

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

Hungary (HU) – The yield curve saw some rebound from the strong declines it had made over the last trading week, especially on longer maturities, but overall, every maturity remained close to its historical lows. On Thursday, the Government Debt Management Agency (ÁKK) sold a combined HUF 58.5 bn in 3, 5 and 10-year HGBs, HUF 13.5 bn more than originally planned in the light of strong demand (HUF 107 bn). The average yields fell again from the previous auction, but came in 3 bps above the auction two weeks earlier for the longest-dated bonds (2.94%). It seems like profit-taking on longer maturities also hit demand a bit: primary dealers bid just HUF 11.8 bn for ten-year HGBs, so the ÁKK cut its offer by HUF 2.5 bn to HUF 7.5 bn. The EUR/HUF traded in a tight range around 314.5 during the week, while the 5-year CDS spread also remained stable at about 140 bps. Next week, the central bank is to hold a rate-setting meeting but we do not expect further announcements after what they revealed just a week ago.

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

Poland (PL) – Last week's data releases revealed that employment in the enterprise sector gathered strength and rose by 3.1% yoy compared to 2.8% yoy in the previous month and market consensus on at 2.9%. Also wage growth significantly accelerated in June to 5.3% yoy compared to 4.1% yoy in May (vs. our expectations of 5.8% and 4.9% of the market). The nominal corporate wage bill increased in June by 8.6% yoy. The faster growth is mainly generated by calendar effects (more working days) and by one-offs in the mining sector (delayed payment of fourteenth salary). In line with the favorable developments in employment, in line with market consensus we expect the unemployment rate to drop further to 8.7% (data due next Monday). We continue to expect strong wage growth dynamics to translate to increasing reflationary pressure in the months to come. Next week Friday's CPI inflation data for the month of July could therefore already surprise slightly to the upside.

Financial analyst: Marta Petka-Zagajewska (+48 22 585 24 61), Raiffeisen Polbank, Warsaw

Romania (RO) – On Friday after the markets close, Fitch has scheduled to release its rating review on Romania. Currently, Romania has a BBB- rating with a stable outlook. We do not expect any change to either with the rating or the outlook. However, the assessments made by the agency will provide useful information, assuming a communiqué is released. On Monday, the Central Bank is set to publish statistics on lending activity in June. Judging by the dynamics of total outstanding gross loans in April and May (the total stock of loans was flat in April and increased by 0.3% mom in May, when adjusted for the EUR/RON exchange rate), the stock of outstanding loans should have remained on an upward trend in Q2 (this implies positive dynamics in June), but gains remained limited. Also after 25 July, the Ministry of Finance is set to release public budget execution for the first semester. We recall that during January-May the public budget deficit stood at 0.1% of GDP, but we expect this to have risen in June.

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

Russia (RU) – This week's OFZ auctions were successful. The MinFin placed the whole offered amount (RUB 25 bn) without any significant price discounts to the secondary market. The demand for 5Y traditional OFZ 26217 exceeded the offer by 3.3x and the cut-off price was set at 95.47% of par value (in line with secondary market pricing). The high demand at the auctions translated into price growth of the issue on the secondary market after the auction to 95.7% of par value (YTM 8.74%). We think that OFZ 26205 and OFZ 26214, which have similar durations with YTM 8.8% and YTM 8.92% respectively, are the better option in the mid-term segment. In our view, mid-term papers are most attractive on the OFZ market at the moment due to the inverted shape of the OFZ yield curve and a certain premium (297-309 bp) to CPI expected by market participants. The floater OFZ 29006 was also placed for the whole offered amount (RUB 10 bn) and the cut-off price was only 46 bp lower than the secondary market price. The acquisition of this bond now implies receiving a floating coupon set at 6M RUONIA+54bp and an additional premium which arises from the declining key rate (as the rate of the next coupon is determined as the average RUONIA rate for the previous coupon period). However, we do not see any speculative interest in this paper and think that traditional mid-term bonds are the better choice.

Financial analyst: Denis Poryvay (+7 495 221 9843), AO Raiffeisenbank, Moscow

Serbia (RS) – Notwithstanding the fact that the new cabinet has not been formed yet, the exchange rate continued to enjoy the strengthening sentiment that was additionally bolstered after chapters 23 and 24 under the EU accession negotiations were opened this week. The opening of the chapters followed rather soon after Great Britain voted to leave the EU, and contrary to the expectation that this event would hamper the EU integration process. The strong local currency was also bolstered by the sound economy, outstanding budget performance and re-launch of Ministry of Finance T-bill auctions. The National Bank of Serbia (NBS) is using this opportunity to boost FX reserves, after they were cut by EUR 1.1 bn in the Jan-June period. During July, the NBS bought EUR 325 mn (21 July) that will boost FX reserves to EUR 9.59 bn. Despite robust FX interventions, the FX reserves cover 6 months of imports, whereas net FX reserves amount to EUR 7.66 bn.

Next week the Statistical Office will publish key indicators for June: industrial production, foreign trade and retail trade. Furthermore, it will publish the flash estimate for Q2 GDP. Following the outstanding 3.5% yoy growth in Q1, partly boosted by the base effect, we expect the reading will slow down a bit in Q2 for the same reason. Furthermore, Public Debt Management (PDA) will organise two Ministry of Finance T-bill auctions. On 27 July it will auction 53W (RSD 10 bn) and on 28 July 2Y (EUR 50 mn).

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

Monetary policy and money markets overview

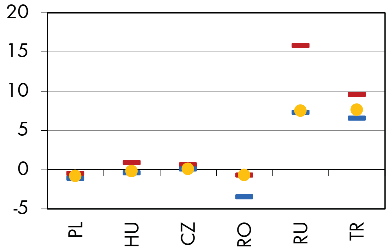
CEE key interest and money markets outlook

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)**	0.94	1.05	1.05	1.10	7.65	0.94
6m money market rate (%, eop)**	0.91	1.10	1.10	1.10	7.93	0.90
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)	0.80	1.20	1.30	1.60	6.20	0.54
6m money market rate (%, eop)	1.05	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)	10.96	10.80	10.30	9.80	29.93	4.26
6m money market rate (%, eop)	11.00	11.40	10.90	10.40	30.31	4.41
Turkey						
Key interest rate (%, eop)	7.50	7.50	7.50	7.00	10.00	4.50
3m money market rate (%, eop)	10.08	9.80	9.80	9.20	12.15	4.74
6m money market rate (%, eop)	10.18	9.90	9.90	9.40	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)	0.41	0.50	0.75	0.75	0.69	0.01

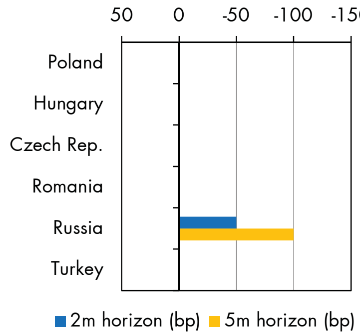
** Bid rates (for Hungary ask rates) as of 22 July 2016, 09:12 a.m. CEST; ** forecasts under revision*
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Inflation snapshot



Source: Bloomberg, RBI/Raiffeisen RESEARCH

Key rate forecast (chg., bp)



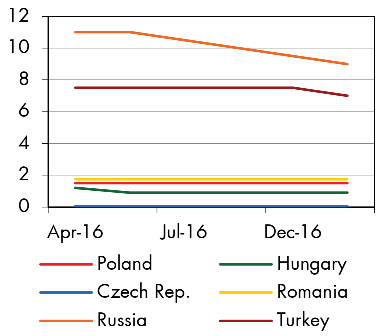
Source: Bloomberg, RBI/Raiffeisen RESEARCH

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 considerable 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 and announced to cap the 3m facility starting in autumn in order to channel funds to longer maturities. Ultra-low rates to stay well into 2018. Any potential future MP fine tuning 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 beyond mid-2017 mainly due to stuttering reflation. 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)	Fiscal/political risks warrant monetary policy cautiousness in the run-up to parliamentary elections 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, whilst renewed round of global CB dovishness post-Brexit could delay liquidity tightening.
Serbia (NBS)	Central bank surprisingly cut base rate in July after a four month pause. Speculations of further cuts should remain alive, especially once the new cabinet is presented. However, monetary transmission window narrows as we expect headline CPI to entering target range as soon as early 2017.
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 going forward and go not as deep as some market participants expect.
Turkey (TCMB)	TCMB cut o/n lending rate by another 25bp to 8.75% last week which drove down weighted average costs of funding (WACF) further (close to 8%). Slowing pace compared to previous cuts is related to post-coup risks, but expresses at the same time the bank's optimistic take in terms of financial stability risks amidst an ongoing market correction. Further symmetrizing 7.25%-8.75% o/n corridor around 7.50% key rate at a gradual pace remains likely, albeit possibly more cautiously.

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

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

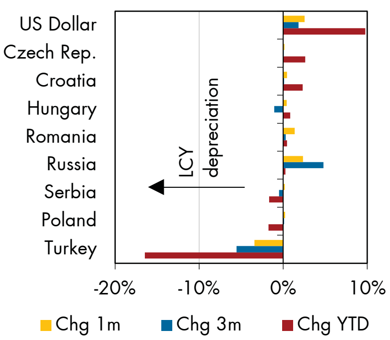
Foreign exchange market overview

FX forecasts

EUR vs	current[1]	Sep-16	Dec-16	Mar-17	5y high	5y low	Comment
PLN	4.36	4.40	4.35	4.30	4.57	3.99	PLN seeing some support after Fitch chose to leave Polands credit rating on stable; we continue to expect EUR/PLN fluctuating in a range around 4.40 before possibly seeing some support from calming politics in Q4 2016 and thereafter
HUF	313.8	315.0	315.0	310.0	322.6	268.0	EUR/HUF remains in the old 310-315 trading range; overall volatility in HUF remains moderate despite the negative external news-flow
CZK*	27.02	27.00	27.00	27.00	28.37	24.06	After the moderate weakening due to Brexit-vote EUR/CZK returned towards intervention level of 27.0; intervention for May was moderate at EUR 575 mn; we have EUR/CZK under revision given the rising likelihood of a further postponement of FX regime abandoning
RON	4.46	4.50	4.50	4.45	4.64	4.22	Loosening fiscal policy ahead of parliamentary elections as weakening factors for RON, but no near-term risks due to Brexit
HRK	7.49	7.55	7.60	7.60	7.72	7.39	Due to higher FCY inflow supported by increased tourist arrivals we expect EUR/HRK trading range within 7.47-7.50 kuna per euro.
RSD	123.5	123.0	124.0	123.0	123.9	99.6	Surprising rate cut by 25bp to 4.00% led to some RSD weakening but central bank might intervene to stabilise EUR/RSD at the level of 123
RUB	71.06	71.50	70.35	69.01	90.88	38.43	see USD/RUB below
UAH	27.34	29.70	30.45	29.87	37.78	9.74	see USD/UAH below
BYR**	2.18	2.31	2.36	2.34	2.52	0.70	see USD/BYR below
TRY	3.39	3.47	3.26	3.19	3.46	2.19	see USD/TRY below
USD	1.10	1.10	1.05	1.03	1.45	1.05	Expectation on further US Fed rate hikes to support USD against euro
USD vs		**Sep-15**	**Dec-15**	**Mar-16**			**Comment**
RUB	64.48	65.00	67.00	67.00	82.28	27.51	Aassumption of moderate speed of interest rate cuts for the coming months and sideways movement in oil price to keep USD/RUB stable
UAH	24.77	27.00	29.00	29.00	33.75	7.98	Ukraine central bank is loosening monetary policy while gradually removing FX restrictions; speed and magnitude of UAH depreciation will continue to depend on central bank
BYR**	1.98	2.10	2.25	2.27	2.22	0.49	BYR depreciation trend to remain throughout 2016 with correlation to RUB movements; Belarus rouble denominated (10000 old rouble are 1 new Belarusian rouble from 1 July 2016)
TRY	3.07	3.15	3.10	3.10	3.09	1.68	Political uncertainty after the failed coup is spreading fears among investors, possible rating downgrades as a consequence could push TRY weaker throughout the third quarter 2016; we have therefore revised our TRY outlook

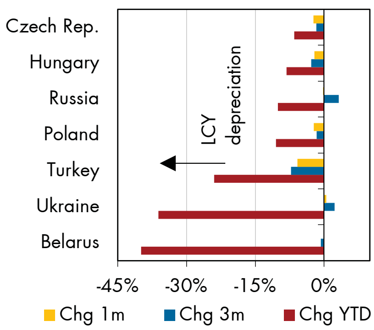
1 as of 22 July 2016, 09:22 a.m. CEST
** forecasts under revision, ** BY new rouble after devaluation (10 000 old BYR are 1 new BYR from July 2016)*
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Change of LCY value to EUR (%)



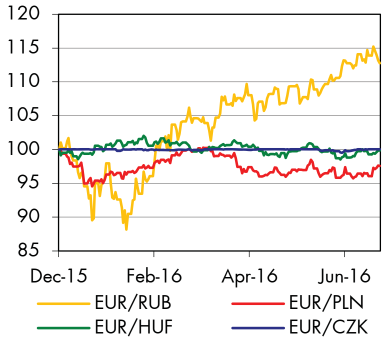
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Change of LCY value to USD (%)



Source: Bloomberg, RBI/Raiffeisen RESEARCH

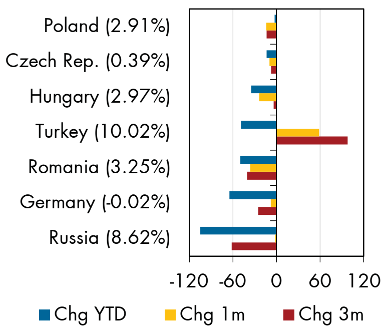
Exchange rate comparison



Indexed Dec 2015 = 100
Source: Bloomberg

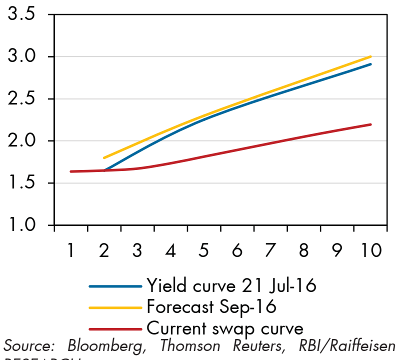
Local currency bond market overview

Change of LCY 10y bond yields (bp)



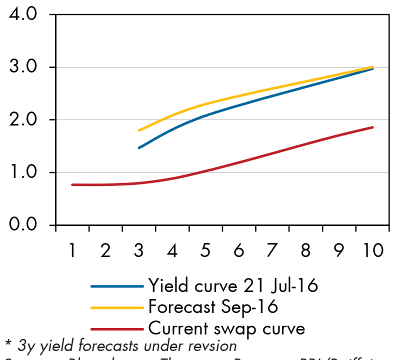
Source: Bloomberg, RBI/Raiffeisen RESEARCH

PLN yield curve



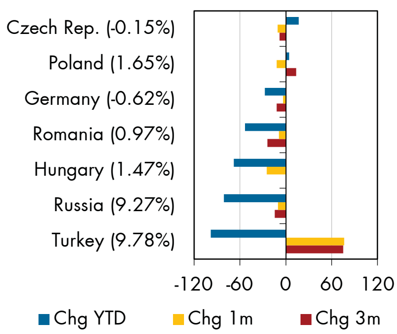
Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

HUF yield curve*



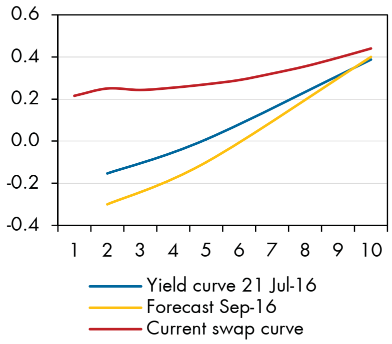
** 3y yield forecasts under revsion*
Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

Change of LCY 2y bond yields (bp)



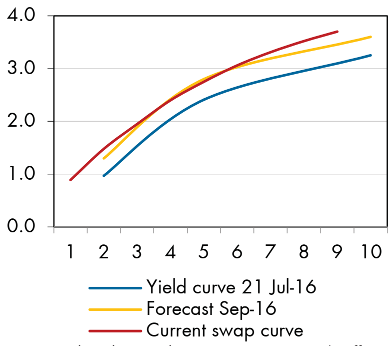
Source: Bloomberg, RBI/Raiffeisen RESEARCH

CZK yield curve



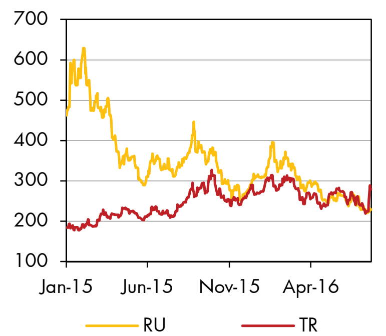
Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

RON yield curve



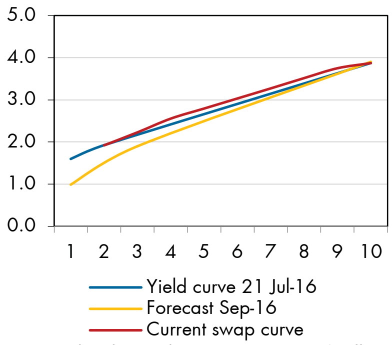
Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

5y USD CDS spreads



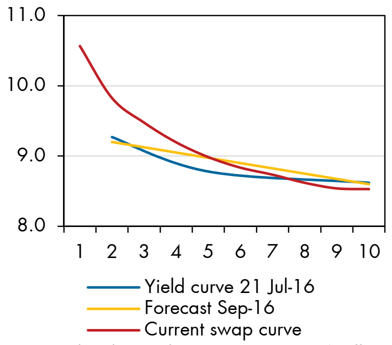
Hungary 5y high 735, 5y low 114.9; Russia 5y high 628.7, 5y low 119.4
Source: Bloomberg, RBI/Raiffeisen RESEARCH

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	1.65	1.8	1.9	2.0	5.0	1.3	Poland	2.91	3.0	3.2	3.3	6.1	2.0
Hungary**	1.47	1.8	1.9	1.9	10.2	1.4	Hungary	2.97	3.0	3.1	3.3	10.7	2.7
Czech Rep.	-0.15	-0.3	-0.4	-0.4	2.0	-0.4	Czech Rep.	0.39	0.4	0.5	0.6	4.3	0.3
Romania	0.97	1.3	1.6	1.9	7.3	0.9	Romania	3.25	3.6	3.8	3.9	7.6	2.6
Croatia	1.93	1.9	1.9	2.0	6.3	1.5	Croatia	3.87	3.9	3.9	3.9	4.3	3.7
Russia	9.27	9.2	8.8	8.5	17.5	5.7	Russia	8.62	8.6	8.8	8.5	16.1	6.5
Turkey	9.38	10.0	10.0	9.5	11.3	4.9	Turkey	9.96	11.0	10.5	10.1	11.0	6.0
Eurozone	-0.62	-0.6	-0.5	-0.5	1.4	-0.7	Eurozone	-0.02	0.0	0.3	0.5	2.8	-0.2
USA	0.69	0.8	1.1	1.1	1.1	0.2	USA	1.55	1.8	2.1	2.3	3.0	1.4

** Bid yields as of 22 July 2016, 09:19 a.m. CEST; ** 3y, forecast for HU under revision*
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	101.74	1.61	224	1.9	POLGB market more than recouped initial Brexit losses on hopes of more global CB easing. Whilst some political risks (EU dispute, FX loan conversion) remain embedded in Polish risk premia, restored spread versus Bunds increases risk buffer for possible volatility periods.
PLN 5y Gov. Bond	25/07/2021	1.75	97.69	2.24	274	4.8	
PLN 10y Gov. Bond	25/07/2026	2.50	96.56	2.90	293	8.7	
				Hungary			
HUF 3y Gov. Bond	30/10/2019	2.00	101.93	1.39	203	3.2	In line with regional peers, HGBs also continued relief rally post-Brexit more than compensating for the initial losses. Room for further gains gets increasingly limited with HGB yield curve trading near its historical lows currently. In the longer run, room for additional gains should remain limited due to tight valuations and local drivers like domestic reflation showing its face soon.
HUF 5y Gov. Bond	27/10/2021	2.50	102.32	2.03	253	4.9	
HUF 10y Gov. Bond	27/10/2027	3.00	100.94	2.90	292	9.5	
				Czech Republic			
CZK 2y Gov. Bond	17/03/2018	0.85	101.73	-0.20	43	n.a.	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, but we see increased risk of a later exit.
CZK 5y Gov. Bond	29/09/2021	3.85	120.14	-0.04	46	n.a.	
CZK 10y Gov. Bond	26/06/2026	1.00	106.45	0.34	36	9.5	
				Croatia			
HRK 2y Gov. Bond	10/07/2018	5.25	106.97	1.62	212	1.9	Subdued summer trading is expected with retained investor's focus on a new HRK government bond.
HRK 10y Gov. Bond	14/12/2026	4.25	104.39	3.74	376	8.5	
				Romania			
RON 3y Gov. Bond	29/04/2019	2.50	102.49	1.57	221	2.7	Although we expect liquidity tightening to start already in Q3, especially if political noise intensifies and starts to challenge RON stability, recent global post-Brexit dovishness could delay a further rise in short-end yields. With possible election spending continuing to weigh on fiscal outlook, long-end ROMGBs should get under renewed pressure in the run-up to autumn's elections.
RON 5y Gov. Bond	22/03/2021	3.25	104.10	2.31	281	4.4	
				Russia			
RUB 2y Gov. Bond	15/03/2018	7.50	97.66	9.26	989	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	95.63	8.76	926	4.1	
RUB 10y Gov. Bond	03/02/2027	8.15	98.60	8.53	855	7.2	
				Turkey			
TRY 2y Gov. Bond	11/07/2018	8.70	99.00	10.49	1112	1.9	We added speculative exposure in TURKGBs in end-May following the correction before. However, post-coup risks appear highly uncalculable and we therefore exited our positions in TURKGBs which should remain under pressure in line with a further weakening of the lira.
TRY 5y Gov. Bond	17/02/2021	10.70	103.00	9.87	1037	3.7	
TRY 10y Gov. Bond	11/02/2026	10.60	104.00	9.94	996	6.3	

Data as of 22 July 2016, 09:28 a.m. CEST;
Source: Bloomberg, RBI/Raiffeisen RESEARCH

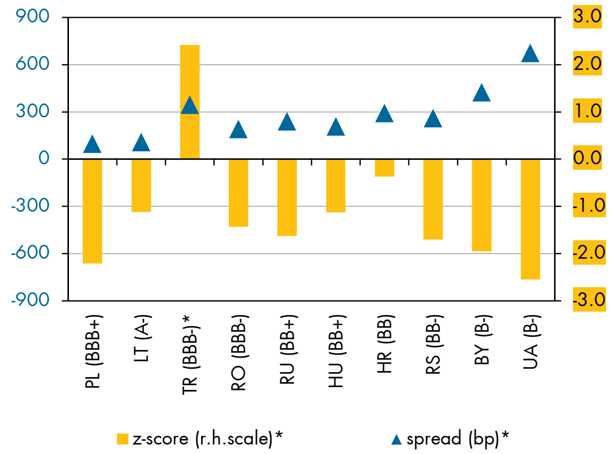
Bond auctions

25 July 2016					
RO	4y T-bonds	RO1620DBN017	2.25%	26 Feb-20	RON 500 mn
28 July 2016					
RS	2y T-bonds	n.a.	1.00%	n.a.	RSD 1 mn
PL	T-bonds	n.a.	n.a.	n.a.	n.a.

CEE Weekly

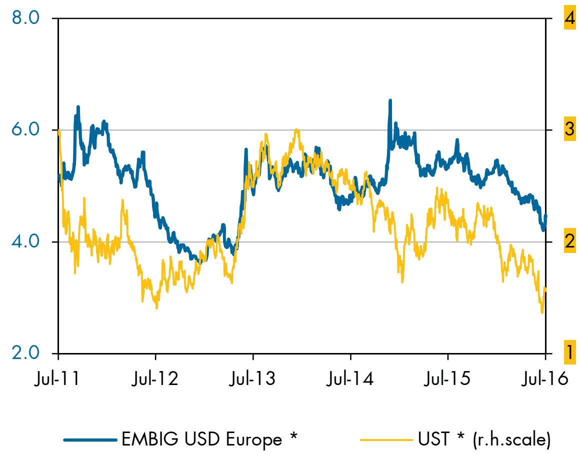
Eurobond market overview

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	Bid	Ask	Market Price w/w %	5y max	5y min	YTM mid. % p. a.	Spread vs. Bmk, bp	Mdur. years	ISIN —
EUR									
BGARIA 4 1/4 07/09/17	104.0	104.2	0.00	111.8	100.3	-0.05	52	1.0	XS0802005289
CROATI 5 7/8 07/09/18	109.3	109.7	0.01	112.1	88.8	0.94	157	1.9	XS0645940288
REPHUN 3 7/8 02/24/20	111.5	112.1	-0.34	113.1	69.3	0.54	116	3.4	XS0212993678
REPHUN 4 3/8 07/04/17	104.2	104.6	n.a.	108.0	77.3	-0.27	29	0.9	XS0284810719
REPHUN 5 3/4 06/11/18	110.4	110.7	-0.09	115.1	79.7	0.12	74	1.8	XS0369470397
REPHUN 6 01/11/19	113.4	113.7	-0.33	118.4	86.4	0.46	109	2.3	XS0625388136
LITHUN 4.85 02/07/18	107.6	107.9	-0.04	114.3	94.5	-0.18	42	1.5	XS0327304001
POLAND 5 5/8 06/20/18	110.8	111.3	-0.17	122.6	102.1	-0.15	48	1.9	XS0371500611
POLAND 1 5/8 01/15/19	103.9	104.4	0.00	105.5	98.0	-0.04	59	2.4	XS0874841066
POLAND 3 3/4 01/19/23	120.6	121.5	-0.15	125.5	99.9	0.45	88	5.8	XS0794399674
POLAND 3 3/8 07/09/24	119.5	120.3	-0.77	125.6	99.6	0.79	107	7.1	XS0841073793
ROMANI 4 7/8 11/07/19	114.6	115.1	0.04	117.8	99.3	0.32	96	3.0	XS0852474336
TURKEY 5 7/8 04/02/19	108.8	109.4	-2.95	118.9	100.9	2.32	296	2.5	XS0285127329
TURKEY 5 1/8 05/18/20	107.0	107.8	-4.54	115.9	95.2	3.04	365	3.4	XS0503454166
USD									
BELRUS 8.95 01/26/18	104.4	106.0	-0.02	111.2	70.0	5.32	471	1.4	XS0583616239
CROATI 6 3/8 03/24/21	109.9	110.4	-0.10	117.8	86.7	3.97	292	4.0	XS0607904264
CROATI 5 1/2 04/04/23	107.1	107.7	0.10	108.6	94.4	4.22	288	5.5	XS0908769887
REPHUN 5 3/8 02/21/23	112.0	112.5	-0.22	113.9	93.1	3.28	195	5.5	US445545AH91
REPHUN 7 5/8 03/29/41	148.4	149.4	-0.76	151.9	79.5	4.37	226	13.2	US445545AF36
LITHUN 7 3/8 02/11/20	117.9	118.4	-0.10	130.7	104.8	2.04	115	3.1	XS0485991417
LITHUN 6 5/8 02/01/22	121.8	122.3	-0.01	128.6	101.0	2.34	116	4.6	XS0739988086
LATVIA 2 3/4 01/12/20	103.8	104.5	0.11	104.4	91.4	1.51	62	3.3	XS0863522149
LATVIA 5 1/4 06/16/21	115.2	115.8	-0.14	117.2	90.9	1.91	82	4.4	XS0638326263
POLAND 6 3/8 07/15/19	113.9	114.3	0.00	125.9	107.4	1.51	68	2.7	US731011AR30
POLAND 3 03/17/23	103.4	104.0	0.07	103.9	87.6	2.39	104	5.9	US731011AT95
ROMANI 6 3/4 02/07/22	119.4	119.8	-0.10	124.4	99.2	2.89	170	4.6	US77586TAA43
ROMANI 4 3/8 08/22/23	108.5	108.9	-0.13	109.5	90.8	3.00	161	6.0	US77586TAC09
RUSSIA 4 1/2 04/04/22	106.4	106.9	-0.59	114.7	82.0	3.22	202	5.0	XS0767472458
RUSSIA 7 1/2 03/31/30	122.2	122.5	0.09	128.6	99.6	2.22	52	4.0	XS0114288789
RUSSIA 5 5/8 04/04/42	112.2	112.9	-0.93	124.9	76.0	4.77	263	14.0	XS0767473852
SERBIA 5 1/4 11/21/17	103.3	103.9	0.01	107.1	96.8	2.46	188	1.3	XS0856951263
SERBIA 4 7/8 02/25/20	103.8	104.5	-0.09	104.6	89.6	3.63	273	3.2	XS0893103852
TURKEY 6 1/4 09/26/22	110.0	110.5	-3.22	127.0	101.0	4.34	306	5.1	US900123BZ27
TURKEY 6 7/8 03/17/36	117.8	118.4	-5.73	139.6	99.2	5.37	345	11.2	US900123AY60
TURKEY 6 3/4 05/30/40	116.9	118.0	-6.12	139.4	97.3	5.43	336	12.6	US900123BG46
UKRAIN 7 3/4 09/01/19	99.9	100.6	-0.70	101.0	88.0	7.65	682	2.6	XS1303918269
UKRAIN 7 3/4 09/01/23	98.5	99.0	-0.60	99.4	84.6	7.98	659	5.2	XS1303921487
UKRAIN 7 3/4 09/01/27	97.3	97.7	0.12	97.7	81.2	8.10	649	7.1	XS1303927179

** w/w - week on week, 5y - 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 22 July 2016, 10:24 a.m. CEST*
Source: Bloomberg, RBI/Raiffeisen RESEARCH

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

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	**BB+**	**BB**	**negative**	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**	4.6	0.3	6.5	970	-0.4	41.1	73.2	0.9	69.4	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	21.4	-5.1	56.6	28.1	6.7
	2017f	3.5	7.6	10.0	n.a.	-1.5	33.0	21.2	-5.1	53.9	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

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- 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.
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Investment recommendation	Basis: All recommendations for all financial instruments	Basis: Recommendations for financial instruments of all issuers, for which investment banking services were rendered in the last 12 months
Buy recommendations	42.4	59.4
Hold recommendations	29.6	3.1
Sell recommendations	28.0	37.5

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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
02/06/2015	Hold	Hold	Hold	Hold	Hold	Hold	Hold	Hold	Hold	Hold	Hold	Hold	Hold	Hold	Hold	Hold	Buy	Hold	Hold	Hold	Buy	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
21/07/2016	I	–	I	I	I	–	I	I	I	–	I	I	I	–	I	I	I	–	I	I	Sell	–	Sell	Sell

** 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
21/07/2016	I	–	I	I	I	–	I	I	–	I	I	I	I	I	I	I

** 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	–
21/07/2016	I	I	–	I	I	–	I	I	Sell	Sell	–	I	-	I	I	–

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

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