CEE Weekly

Raiffeisen RESEARCH

Issue 46/2016 18 November 2016

Market snapshot

	curr.*	Dec-16	Mar-17	Jun-17
Poland				
EUR/PLN	4.448	4.35	4.30	4.30
Key rate	1.50	1.50	1.50	1.50
10y bond	3.7	3.2	3.3	3.4
Hungary				
EUR/HUF	309.9	315	310	310
Key rate	0.90	0.90	0.90	0.90
10y bond**	3.6	2.7	2.8	2.9
Czech Republic				
EUR/CZK	27.05	27.0	27.0	27.0
Key rate	0.05	0.05	0.05	0.05
10y bond	0.6	0.3	0.5	0.4
Romania				
EUR/RON	4.520	4.50	4.45	4.50
Key rate	1.75	1.75	1.75	1.75
10y bond	3.5	3.1	3.2	3.3
Croatia				
EUR/HRK	7.522	7.60	7.60	7.50
Key rate	2.50	2.50	2.50	2.50
10y bond	3.1	3.4	3.4	3.4
Russia				
USD/RUB	64.47	65.0	63.0	63.0
Key rate	10.00	10.00	9.50	9.00
10y bond	8.8	8.2	7.9	7.7
Turkey				
USD/TRY	3.349	3.40	3.35	3.35
Key rate	7.50	7.50	7.50	7.50
10y bond	10.8	11.2	11.5	11.0
EUR/USD	1.067	1.08	1.07	1.02

** prices as of 17 November 2016, 11:59 p.m. CET*
*** forecasts under revision*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Highlights

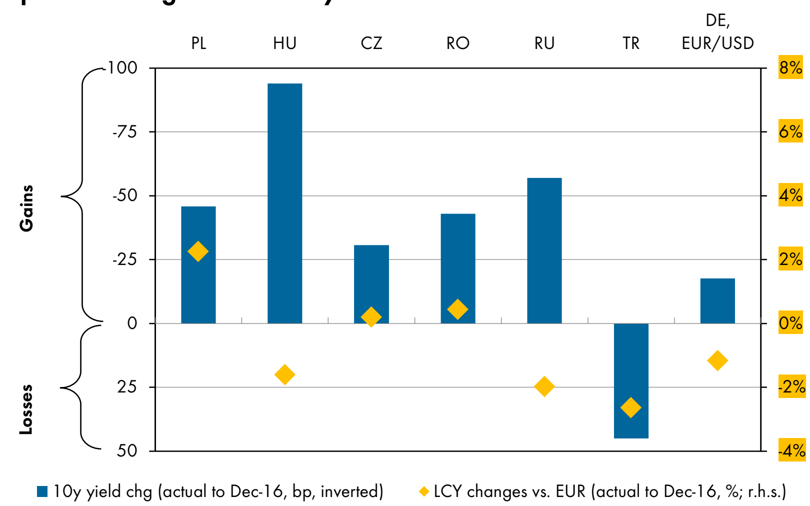
Q3 GDP flash estimates released this week disappointed, despite a "normal" growth rate of the euro area. The weighted real GDP rate for CE decelerated from 3.0% yoy in Q2 to 2.3% yoy in Q3, which is the lowest pace of growth so far this year. We had predicted growth of around 2.7-2.8% for CE. The main culprit has been the Polish economy, slowing down to 2.5% yoy from 3.1% yoy in Q2. Moreover, our strong call of 2.7% yoy on Hungary did not materialise. We expected Q3 GDP growth in Romania at 5.2% yoy after 6.0% yoy in Q2. However, the estimate came in at "only" 4.4%, implying a downside risk for our full year estimate of 5.2% yoy. If the slowdown should prove to be of a less temporary nature, economic growth in CE might as well fall to a lower range between 2% and 3%. Russia came in slightly better than consensus in line with our expectations at -0.4% yoy and Ukraine improving from 1.4% in Q2 to 1.8% yoy in Q3, better than we thought. Here, the recessions of 2015/2016 are petering out, and are likely to be followed by week growth in the range of 1-2% in 2017.

CEE local currency debt market yields tracked US treasury market moves, jumping upwards by around 40bp in post-Trump trading. Zloty markets underperformed with unfavourable local headlines (lowering of retirement age etc.). Turkey, finally appears the most vulnerable name going forward (please see our "Focus on" section on page 2). With LCY bonds going with an ailing lira which is heading from one to another all-time-low currently, our sell recommendation remains intact. Overall we see markets positioning for a stronger USD going forward and upwards pressure on core market yields, although we may see some market stabilisation in the next week. However, such stabilisation could be short-lived with market relevant key events looming beginning of December: Italian referendum, ECB and Fed. EUR/PLN remains at fairly weak levels, potentially also dragged down by market-exit or FX loan conversion positioning.

Today after market close rating opinions for Serbia and Hungary are pending. In both cases a positive rating action is feasible. We have more conviction for a one notch upgrade by Moody's (fully-priced in the Eurobond space) in case of Serbia, while any rating/outlook action by Fitch on Hungary seems less likely.

Financial analyst: Andreas Schwabe (+43 1 71707 1389), CFA, RBI Vienna

Expected changes from today until December 2016*



**HU 10y yield forecast under revision*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Content

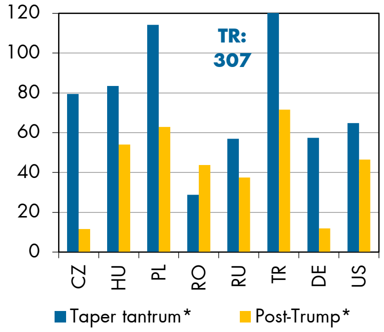
Data highlights upcoming week

Date	Indicator	Period	Forecast	High	Mean	Low	Previous
21-Nov	PL: Industrial output, % yoy	Oct	-0.1	5.0	1.1	-1.6	3.2
22-Nov	HU: Key rate, %	Nov	0.90	0.90	0.90	0.90	0.90
24-Nov	TR: Key rate, %	Nov	7.50	n.a.	n.a.	n.a.	7.50

Source: Bloomberg, RBI/Raiffeisen RESEARCH

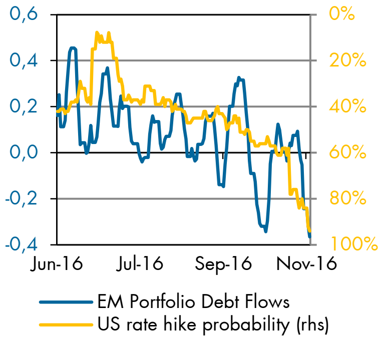
Please note the risk notifications and explanations at the end of this document

USTs set in motion rise*



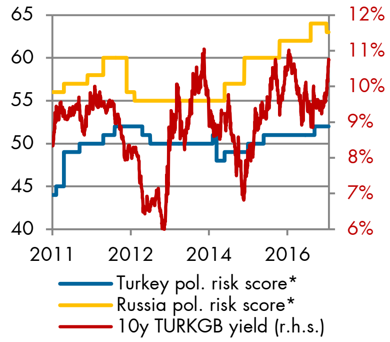
** bp change of 10y LCY yields between taper tantrum (22 May 2013) and announcement of taper delay (18 Sep 2013); post-Trump is period from 8 Nov 2016 (pre-US election levels) to-date (17 Nov 2016)*
Source: Bloomberg, RBI/Raiffeisen RESEARCH

US rate hike outlook hit EMs*



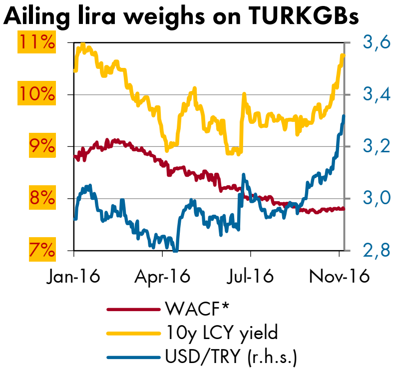
** IIF EM portfolio debt market flows (USD bn, 7d mvg avg of daily data for IN, ID, KO, TH, ZA, BR, HU); US rate hike expectations, i.e. for a 25bp hike on 14 Dec., implied by Fed fund futures (r.h.s, inverted)*
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Politics weigh on TURKGBs



** Economist Intelligence Unit political risk scores*
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Ailing lira weighs on TURKGBs



** weighted average costs of funding*
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Focus on: Turkey under pressure

- **TURKGBs amongst the hardest-hit emerging local debt markets in post-US-election trading**
- **Repricing on USD markets on the back of Trumpflation adds momentum to TRY depreciation pushing the lira to unchartered lows recently**
- **In the absence of central bank response and fading support from fundamentals, the bottom for TURKGBS might not have been reached yet**
- **We therefore maintain our short-term Sell recommendation and narrow the potential for any possible relief rally in the longer term**

The Turkish local currency (LCY) debt market was amongst the hardest hit following Trump's victory. Sky-rocketing US inflation expectations triggered a steep increase in 10y US treasury (UST) yields, bear steepening the UST curve. While most CEE markets in our research universe tracked the moves in USTs more or less 1:1 in absolute terms (some 40bp up) – keeping the respective 10y-10y spreads over USTs constant in comparison to pre-election levels – Turkey's spread has widened more in line with other EM high-beta names (like Indonesia, South Africa or Mexico). With good cause, Trumpflation expectations also drove up the odds for the resumption of US rate hikes next December, to over 90% at present (when measured by Fed funds future implied probabilities).

This ambitious repricing on US bond markets and the related adverse spill-overs come to Turkey at a time when TRY assets are already facing considerable pressure. The unreasonable response to the failed coup attempt was the last straw that broke the camel's back triggering the downgrade by Moody's to sub-investment grade with manifold political risks already taking their toll on local markets. The (index-)related outflows from the debt market could gain momentum in the event of another re-pricing of US MP expectations for 2017. As early as after the Dec. Fed meeting, market pricing could make up leeway and factor in more rate hikes for 2017 (only one is currently priced for 2017 and we expect two). Whilst the share of non-residents remained fairly constant at around 20% this year – a quite moderate number – sell-off periods could also trigger some liquidations from foreigners.

In terms of internal drivers, support from the fundamental front seems also to deteriorate with CPI and C/A dynamics passing their inflexion points. Although weakening economic activity data would call for looser monetary conditions, the current turmoil on Turkish financial markets should hinder the Turkish central bank (TCMB) again from continuing the symmetrisation of the current 7.25%-8.25% o/n interest rate corridor, which surrounds the 7.50% key rate. The weighted average costs of funding (WACF) within the framework of the TCMB's multi-interest rate policy continues to hover around 7.80%, indicating that the bank deems it unnecessary to tighten monetary conditions to bring the suffering of the lira to a halt. What might prevent them from doing so is that they have almost accomplished the symmetrisation of the corridor and brought the WACF down close to the latter. Switching to a single-rate policy could be within spitting distance when the TCMB succeeds in bringing the WACF on par with the 1w repo, we think. Against this backdrop and, importantly, the presumably politically requested easing bias of the TCMB, there should be no monetary policy tightening under current circumstances. However, we assume that the simplification process of the monetary policy toolkit will finally be accomplished next year.

By and large, we find it hard to detect any silver lining that would prompt us to do some bottom-fishing on the Turkish debt markets in the current market phase. In line with our FX strategists' revised currency outlook – calling for more lira weakness vs. the USD (see p.3) – we adjusted our TURKGBs yield forecast upwards (10y TURKGB yield to peak at 11.50% in Q1-17; avg. yield for 2017: 10.8%). Taking history as a guide, LCY bonds will find it hard to stabilise in the absence of FX stabilisation and we even assume that USD/TRY will continue to be challenged by further USD strength. Due to our assumption of greater global MP divergence, our Western colleagues forecast that the USD-strength will peak in Q2 2017 at 1.02/EUR. In line with this, we have also lowered the extent to which a relief rally might be on the cards for TURKGBs in H2 2017, but we guesstimate that a certain moderation of (geo)political risks in conjunction with ongoing MP simplification could be rewarded by international yield hunters (if they are able to withstand high volatility). Summing up, for our short- to medium term investment horizon we maintain our Sell recommendation and we expect attractive opportunities to re-enter only around mid-2017.

Financial analyst: Stephan Imre (+43 1 71707 6757), RBI Vienna

- **TRY under pressure in recent months following failed military coup**
- **USD strengthening weighs on the lira given high US indebtedness**
- **Cocktail of unsupportive environment to persist for lira in near-term**
- **We see risk of more TRY setbacks before stabilisation potential for 2017**

With the failed military coup in mid-2016 and the severe political response that followed leading to the prosecution of political opponents, the Turkish lira has seen a phase of depreciation ever since. The USD/TRY retreated from levels at 2.90 towards its latest peaks of around 3.40. While we had already indicated a TRY weakening for Q4 2016 towards USD/TRY 3.10, the actual extent of the depreciation clearly overshot our pessimistic expectations, thus making a revision inevitable. The correlation between the USD strengthening seen over recent months and the TRY depreciation has become very obvious when comparing EUR/USD to USD/TRY movements (see graph).

The current negative news-flow for the lira remains manifold, from the high USD indebtedness of the Turkish economy to the political cooperation with the EU coming under severe pressure. Looking at the USD indebtedness of Turkish non-financial companies, the Turkish Central Bank data shows that the net foreign exchange position has continued to deteriorate over the past months with foreign currency liabilities of Turkish companies rising to USD 210.5 bn in August (see graph), or roughly 30% of GDP. Apart from the inherent FX risks and the expectations that these companies will try to increase their foreign currency deposits over the coming months to compensate for FX risks, we could be in for ongoing TRY depreciation pressure from this side as well. Additionally, expectations of rising inflation rates following a 14% depreciation of the lira against the USD over the past 12 months, the political concerns driving investors out of Turkey and the accompanying decline in economic activity are weighing on the lira. It should therefore be kept in mind that Turkey's somewhat unpredictable politics detaining opposition party members together with the planned introduction of constitutional changes (one main point being the implementation of a presidential system that would give President Erdogan more power) will likely not contribute to any TRY stabilisation.

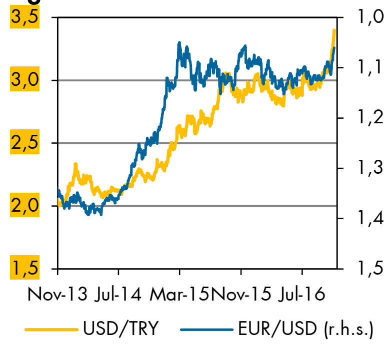
Taking a look at the fundamental position of the lira and comparing it to our relative PPP model implications, it seems as if there is an overshoot in the USD/TRY rate given the recent acceleration in depreciation (see graph). According to our PPP model, a fair value for the USD/TRY would currently be somewhere around 2.70, but taking into consideration the effects of the lira depreciation on inflation for the coming months, this fair value of the lira should rise significantly as well. That said, the technical rebound potential over the coming months could turn out to be less significant than currently indicated by the model. Nevertheless, we could witness some very short-lived rebounds in the lira given the high volatility and the recent aggressive depreciation trend. Additionally there could be a possible response by the Turkish Central Bank (TCMB) that would be capable of bringing some short-term stabilisation to the lira, something that was the case last week when the CBRT raised limits for FX collateral deposits in an attempt to stabilise the lira.

But taking all these issues into consideration - high dollarisation coupled with political issues and weakening economic conditions - overall we expect to see even more TRY depreciation pressure in the near-term. A more aggressive US rate-hike cycle (we expect a US rate hike in December 2016 and two hikes in 2017 that are not fully priced in by markets) would additionally weigh negatively on the lira. That said, we currently do not see any noteworthy and lasting indication for lira recovery for the remainder of 2016 and into 2017. Then again, given the already seen drastic depreciation we would expect to see some stabilisation until the end of 2016 around levels of USD/TRY 3.40. Nevertheless, risk to this projection is currently clearly tilted towards a weaker lira.

For 2017 we should continue to see elevated volatility for the lira, with short-term phases of a (technical) recovery from possibly somewhat oversold levels, which, however, should be overshadowed by a continued unsupportive constellation (strong USD with high FX indebtedness of Turkish companies, political uncertainty, weakening economic conditions etc.). Therefore we have pencilled in a sideways movement in the USD/TRY for the first half of 2017 around levels of 3.35, before predicting minimal appreciation potential from somewhat oversold levels on the hopes of at least some political calming for H2 2017 that could bring us towards 3.25 until year-end 2017. But here again we would see risks tilted towards a weaker TRY development rather than a stronger recovery. In the longer-term our expectation of elevated inflation rates for Turkey in comparison to both the euro area and the US should lead to an overall depreciation trend for the Turkish lira versus the USD and EUR, albeit at considerably more moderate levels than seen throughout 2016 in our view.

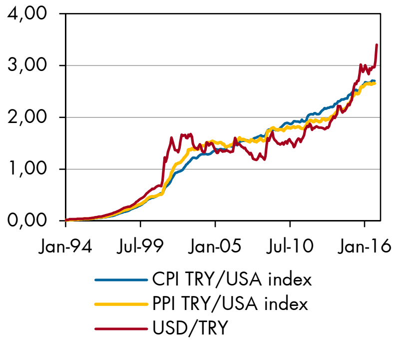
Financial analyst: Wolfgang Ernst (+43 1 71707 1500), CEFA, RBI Vienna

High dollarization



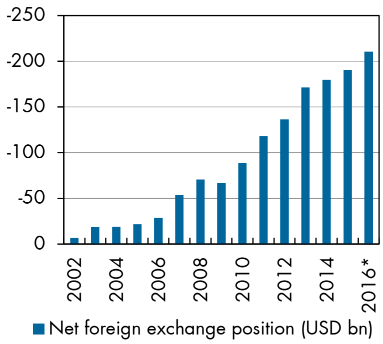
EUR/USD inverted
Source: Bloomberg, RBI/Raiffeisen RESEARCH

TRY undervalued to USD*



** according to PPP model*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

FX liabilities of non-fin. sector



** 2016 data as of August*
Source: Turkish Central Bank, RBI/Raiffeisen RESEARCH

Data calendar and country coverage

This week, previous week: key data releases

Indicator	Period	Actual	Forecast	Previous
Monday 14 November				
CZ: C/A balance, CZK bn	Sep	4.8	n.a.	-0.7
PL: C/A balance, EUR mn	Sep	-999.0	-229.0	-509.0
PL: CPI, % yoy final	Oct	-0.2	-0.3	-0.2
RO: Industrial output, % yoy	Sep	1.4	n.a.	1.2
RO: C/A balance, EUR mn	Sep	-2661.0	n.a.	-2110.0
RU: GDP, % yoy	Q3	-0.4	-0.4	-0.6
RS: CPI, % yoy	Oct	1.5	n.a.	0.6
UA: GDP, % yoy	Q3	1.8	n.a.	0.6
BG: CPI, % yoy	Oct	-0.6	n.a.	-0.6
SK: CPI, % yoy	Oct	-0.3	n.a.	-0.5
Tuesday 15 November				
CZ: GDP, % yoy	Q3	1.9	2.1	2.6
HU: GDP, % yoy	Q3	2.0	2.7	2.6
PL: GDP, % yoy	Q3	2.5	3.0	3.1
RO: GDP. % yoy	Q3	4.4	5.2	6.0
BG: GDP, % yoy	Q3	3.5	n.a.	3.0
SK: GDP, % yoy	Q3	3.0	n.a.	3.7
Wednesday 16 November				
RU: Industrial output % yoy	Oct	-0.2	n.a.	-0.8
BY: Industrial output, % yoy	Oct	0.3	-1.8	-0.9
Thursday 17 November				
HR: CPI, % yoy	Oct	-0.5	-0.8	-0.9

Indicator	Period	Forecast	High	Mean	Low	Previous
Friday 18 November						
RU: Retail sales, % yoy	Oct	-2.5	0.3	-3.0	-4.5	-3.6
BY: Retail sales, % yoy	Oct	-3.5	n.a.	n.a.	n.a.	-3.1
Monday 21 November						
PL: Retail sales, % yoy	Oct	3.9	6.0	4.1	3.4	4.8
PL: Industrial output, % yoy	Oct	-0.1	5.0	1.1	-1.6	3.2
SK: Unemployment rate, %	Oct	n.a.	9.4	9.3	9.2	9.4
Tuesday 22 November						
HU: Key rate, %	Nov	0.90	0.90	0.90	0.90	0.90
UA: Industrial output, % yoy	Oct	n.a.	2.5	1.9	1.0	2.0
Wednesday 23 November						
HR: Unemployment rate, %	Oct	14.0	n.a.	n.a.	n.a.	13.1
Thursday 24 November						
TR: Key rate, %	Nov	7.50	n.a.	n.a.	n.a.	7.50
Friday 25 November						
PL: Unemployment rate, %	Oct	8.2	8.3	8.2	8.2	8.3

Source: Bloomberg, RBI/Raiffeisen RESEARCH

Belarus (BY) – The IMF mission in September is followed by a number of technical missions to fine-tune the reform agenda that may be supported by a USD 3-3.4 bn loan. One of such technical missions started its work in Belarus in early November. The agenda includes evaluation of performance of state-owned enterprises, fiscal risks related to state sector, efficient state property management, as well as resolution of issues of concern - social implications of higher utility tariffs and increased unemployment due to state sector reforms. Also, the drafts of Technical Memorandum and Letter of Intent are to be finalized and coordinated during the technical missions. Reportedly, the IMF Board of Directors, which could consider the new loan-supported program with Belarus, is likely to take place in December 2016 or January 2017.

Financial analyst: Natalya Chernogorova (+375 17 289 92 31), Priorbank JSC, Minsk,

Bosnia a. H. (BA) – This week was poor in terms of new high-calibre macroeconomic releases by the key institutions (Agency for Statistics and the Central Bank of B&H). So the key macro and political event was the visit of the IMF delegation to B&H from 9 November until 17 November 2016. The aim of the visit was to analyse the implementation of the credit arrangement worth EUR 550 mn, which was approved in September 2016. Head of the IMF Mission in B&H, Mr. Nadeem Ilahi, did not want to comment on whether the IMF will stop the next loan tranche because of the failure to adopt the law on excise taxes at state level. Hence according to the unofficial data there is no political census in the country for the new law on excise taxes, and therefore it is very unlikely that B&H will receive the second IMF tranche. Mr. Ilahi believes the B&H economy continues to recover. "Our current projections foresee economic growth of three percent in 2016 and 2017, although we might revise these projections after the mission. Of course, in order for living standards in B&H to reach the level of advanced European economies, it is necessary to accelerate the tempo of economic growth in the future period," Mr. Ilahi said. The Central Bank of B&H has also published external debt data, according to which the total external debt of the country came to BAM 8.8 bn (2.2% yoy), which accounts for 29.6% of estimated GDP for 2016. The highest share in the external debt structure is still held by the World Bank (31.1%), the EIB (19.2%) and the IMF (12%). By the end of the year we expect a continuation of the moderate external debt growth, but overall, the external debt reading should not significantly exceed 30% of GDP in 2016.

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

Bulgaria (BG) – The presidential elections in Bulgaria were held in two rounds, on 6 and 13 November 2016. They were characterised by overly late nominations of candidates and a referendum held together with the first election round. Moreover, Prime Minister Borisov announced before the first round that if the candidate of the GERB (current Speaker of the National Assembly, Mrs. Tsacheva) did not win, he would resign, which contributed to further complications. The first round was narrowly won by the candidate supported by the Bulgarian Socialist Party (BSP), followed by the candidate of the ruling GERB party. Both competed at the run-off and the BSP candidate General Radev won a landslide victory. After the vote, Borisov resigned the government, which clearly means that early parliamentary elections are on the horizon as early as April 2017. In this situation, however, there are too many unknowns.

Firstly, will the old or the new President (who will take office on 22 January 2017) appoint a caretaker government charged with holding the parliamentary elections? Meanwhile, the recent President Plevneliev and elected President Radev have agreed that they will together determine the composition of the caretaker government.

Secondly, in what system will the elections be held, the current or a new one? At the referendum, voters were in favour of a new majority electoral system, besides compulsory voting and decreasing the parties' subsidies. However, the referendum results were insufficient to become law directly, and should go to Parliament for further discussions and voting. Meantime, the BSP and the GERB announced that both will support the referendum results in Parliament to become law, but what law in particular remains unclear.

Thirdly, what will the future National Assembly look like? Although the results of the current elections cannot be transmitted as is to future parliamentary elections, they clearly indicated the following:

- Negative vote for the GERB candidate. Indeed, the main reason could be the personal unpopularity of Mrs. Tsacheva, but otherwise it could also refer to the stalled structural reforms, the lack of real strategies and political will for their implementation, and the doctrinarian rhetoric of Mr. Borisov
- Greater support for protesters and patriotic political formations, which seems to be a global trend
- Weak support for the right candidate of the Reformist Bloc
- Relatively high turnout
- Discontent with the status quo and clear expectations for a change on the voters' part

From the current perspective, the GERB will most likely remain the party with most seats in the future Parliament, which, however, will again need coalition partners to be able to govern. According to the presidential vote, potential partners would be patriots and other new protester parties. Given the many possible subjective solutions within the campaign, such a vision could be only conditional. Nevertheless, great political benefits for the GERB from the early parliamentary elections seem dubious.

Fourthly, a change of the electoral system would have far-reaching consequences for the political landscape in the country. A rapid change before the early elections, however, entails considerable risks. The better option would be to pass a well thought out and consistent electoral law.

All in all, a rather turbulent internal political situation is expected in the next 3-7 months, in which the role of the new President will be essential.

Financial analyst: Emil S. Kalchev (+359 2 91985 426), Raiffeisenbank (Bulgaria) EAD, Sofia

Croatia (HR) – Next week's main highlight will be labour data, which is expected to bring a seasonal deterioration in monthly terms. As the most recent data showed an increased number of people unemployed in October (+6.6% mom) we reckon the upcoming release on registered unemployment could rise to 14.0%. Despite the expected deterioration in monthly terms, it is 2.4pp lower on an annual basis. The latter is strongly influenced by the excellent and prolonged tourist season, which resulted in better-than-expected unemployment even in September, when it stagnated at 13%. However, during the months ahead we expect the usual worsening, i.e. seasonal movements on the labour market, but the whole of 2016 will undoubtedly bring visible improvements in the main labour indicators.

In the meantime, the latest CPI release confirmed the deflationary environment but at a slower pace in October (-0.5% yoy and +0.4 mom) so the upcoming first release on average net and gross wages is expected to report a continuation of positive annual growth rates in wages in real terms. Paired with the comprehensive tax reform package, the synergic effect could result in higher disposable income, thus positively affecting personal consumption as the highest GDP component.

Improved macroeconomic conditions are also supported by a favourable fiscal performance in 2016. The latter is confirmed by the 2016 budget revision too, which was proposed by the Government at yesterday's session (in accordance with national methodology, the consolidated general government deficit was revised down by 1pp of GDP if compared to the previous budget plan for the current fiscal year).

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

Czech Republic (CZ) – Although regional currencies are depreciating, the Czech crown remains at its target level around EUR/CZK 27.0. We believe the pressure on the CZK appreciation is weakening and thus CNB activity on the foreign exchange market might have decreased. We still expect the CNB to end its FX commitment in Q4 2017.

Financial analyst: Monika Junicke (+420 234 40 1070), Raiffeisenbank a.s., Prague

Hungary (HU) – The government's debt-management agency sold a combined HUF 40 bn of securities at its weekly tenders as demand for twelve-month discount T-bills jumped and yields dropped to their lowest ever. The bid-to-cover ratio jumped to 5.19, the highest since February 2014, while the average yield fell to a record low of 0.47%. The yield curve steepened, with the 10-year yielding 21 bps more at 3.54%. Hungary is scheduled to receive its latest rating review this year from Fitch today, but this will be a non-event for HGBs. After half a decade, Hungary has just regained its investment-grade status, but this long-term rating is the lowest of the category at the moment at all three rating agencies. The outlook for all ratings is stable. Now the most likely outcome for the upcoming review is confirmation of the most recent status, but an outlook change (from stable to positive) indicating a further improvement of the rating cannot be ruled out.

Meanwhile, the HUF is heading for levels above 310 against the EUR, while the central bank's new fine-tuning FX swaps keep supporting it. We uphold our year-end target of EUR/HUF 315. The central bank will hold a rate-setting meeting next week - we don't expect further changes to monetary policy at the moment, but we are sure that the fine-tuning operations will maintain their role in the future as well.

Financial analyst: Gergely Pálffy (+36 1 484 43 13), Raiffeisen Bank Zrt., Budapest

Poland (PL) – The CPI index in October confirmed the upwards trend that we have observed since August. Deflation in October amounted to 0.2% yoy. In comparison to the previous month, prices increased by 0.5%. The increase in clothing and footwear prices, driven by seasonal effects, turned out to be the main trigger for inflation growth this month. Additional factors were food and transport prices (the latter mainly influenced by rising fuel prices). We expect that further rises in fuel, (driven by the base effect), and food prices will be the main factors responsible for CPI index growth, which should note its first positive values since July 2014 at the end of this year.
Flash data on GDP indicates a significant slowdown of the Polish economy in Q3. The 2.5% figure compared to 3.1% in the previous quarter clearly fell below both our and the market's expectations. Not knowing the exact structure of the data we cannot identify the main culprit of the slowdown. Most likely, however, besides the poor outcome for investment activity, the negative balance on trade goods since July could significantly influence GDP growth. Poor data for Q3, however, does not affect our expectations for an acceleration in GDP in 2017 (up to 3.5%). We believe that the marked slowdown is not a permanent phenomenon and the coming quarters will bring stronger growth, mainly due to the better absorption of EU funds and the continuation of the strong impact of the "Rodzina 500+" programme on private consumption. In our opinion, disappointing data for Q3 will not prompt the MPC to cut interest rates. Rising since the election of Donald Trump, yields on Polish bonds rose even more as a result of weak data on GDP in Q3. Such a cut in the price of Polish bonds has not been observed since June 2014. Next week will bring the next crucial data on the health of the Polish economy. We expect to learn the outcome for industrial production and retail sales on Monday. We believe that industrial production will record a sharp decline in relation to September, amounting to -0.1% yoy, and retail sales should note a slight decrease to 4.1% in comparison to 4.8% in September.

Financial analyst: Marta Petka-Zagajewska (+48 22 374 75 95), Raiffeisen Polbank, Warsaw

Romania (RO) – The flash estimates released on 15 November by the national statistical office put the GDP advance in the third quarter at 0.6% qoq and 4.4% yoy. These figures were below our expectations (1.0% qoq and 5.2% yoy) as well as the analysts' consensus expressed in a Bloomberg survey (1.0% qoq and 5.0% yoy). While the detailed data on GDP dynamics and its components was released on 6 November, the slower economic growth in the third quarter was probably driven by a deceleration of private consumption and of investments. Given that Q3 GDP growth was below expectations in Q3, our economic growth forecast for 2016 of 5.2% presents some downside risks. In October consumer prices increased by 0.4% mom, in line with expectations. The drivers of these positive dynamics included the increase in fuel prices as well as exchange-rate depreciation. The annual inflation rate increased in October to -0.4% yoy, from -0.6% yoy in September. While the week ahead is scarce in macroeconomic releases, a meeting of the Constitutional Court on the law aiming to convert CHF loans at a historical exchange rate is scheduled for 23 November.

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

Russia (RU) – According to Rosstat, GDP dynamics for Q3 2016 improved to -0.4% yoy (vs. -0.6% yoy in Q2), in line with our expectations. The breakdown of the components will be published later, though we believe that the main positive contribution came from private consumption, which improved to -1% yoy in Q3, by our estimates, and even achieved quarterly growth (+0.3% qoq SA). That said, its recovery is still constrained by sluggish dynamics in real wages and growth in deposits. The dynamics of fixed capital investments (our forecast: -2.9% yoy) improved mostly on the back of the low base effect, though some green shoots in investment demand have started to emerge (such as growth in machinery and equipment imports). Net exports, by our estimates, still contribute positively to growth (+0.4 pp to GDP growth in Q3) as exports achieve near-zero growth (0-0.3% yoy), while imports remain on the weak side (-1.5% yoy). The inventory cycle supported growth with a 1pp contribution to GDP growth in Q3.

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

Serbia (RS) – The successful economic and fiscal performance have led the International Monetary Fund (IMF) to cut budget deficit projections down to 2.1% from 2.5% under the 6th review. Furthermore, the IMF expects a good fiscal performance in 2017, cutting the budget deficit to GDP down to 1.7%, from 2.2%. We still do not have details on the 2017 budget, but preparations are under way in line with the parameters agreed under the IMF's 6th review. The Finance Minister said that despite the targeted increase in public wages and pensions, the government will continue with gradual fiscal consolidation, ensuring longer-term public debt sustainability. For 2017 the key focus will be on the privatisation and restructuring of the largest state-owned enterprises, including natural gas distributor Srbijagas, Electric Plants of Serbia (EPS), copper producer RTB Bor and others, which are the biggest drainers of budget funds.
The almost constant EUR/RSD sentiment was supported by sound economic sentiment and a lavish repo supply, with no FX intervention from the National Bank of Serbia (NBS). The CPI recharged its growth in October (+1.5% yoy) supported by the hike in electricity prices (3.8%) effective from 1 October (targeting only retail customers) and partly by the business cycle renewal in September. However, it is still hovering below the targeted range of 4% +/- 1.5pp. With the new inflation target range (3% +/- 1.5pp) being effective from 2017, inflation will already enter the new range at the beginning of the year (instead of mid-2017 initially planned under the old target range), supporting our view of the NBS taking no action at December's key rate setting meeting.

Financial analyst: Ljiljana Grubic (+381 11 220 71 78), Raiffeisenbank a.d., Belgrade

Monetary policy and money markets overview

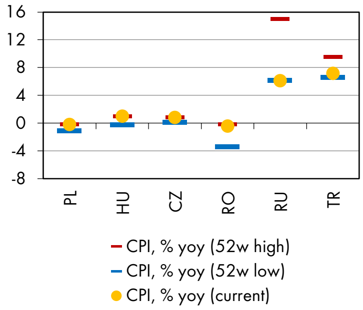
CEE key interest and money markets outlook

Poland	current*	Dec-16	Mar-17	Jun-17	5y high	5y low
Key interest rate	1.50	1.50	1.50	1.50	4.75	1.50
3m money market rate	1.73	1.65	1.65	1.65	5.14	1.65
Hungary						
Key interest rate	0.90	0.90	0.90	0.90	7.00	0.90
3m money market rate	0.69	0.85	0.80	0.80	7.65	0.69
Czech Republic						
Key interest rate	0.05	0.05	0.05	0.05	0.75	0.05
3m money market rate	0.29	0.30	0.30	0.30	1.25	0.00
Romania						
Key interest rate	1.75	1.75	1.75	1.75	6.00	1.75
3m money market rate	0.81	0.70	0.85	1.00	6.44	0.68
Russia						
Key interest rate	10.00	10.00	9.50	9.00	17.00	5.25
3m money market rate	10.61	10.80	10.10	9.60	29.93	6.65
Serbia						
Key interest rate	4.00	3.75	3.75	3.75	11.75	4.00
3m money market rate	3.47	3.55	3.60	3.60	13.13	3.26
Turkey						
Key interest rate	7.50	7.50	7.50	7.50	10.00	4.50
3m money market rate	9.35	9.80	9.20	8.30	12.44	4.85

Benchmark key rates	current	Dec-16	Mar-17	Jun-17	5y high	5y low
ECB key interest rate	0.00	0.00	0.00	0.00	1.25	0.00
Fed key interest rate	0.50	0.75	0.75	1.00	0.50	0.25

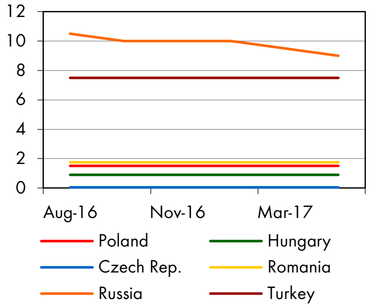
Source: Bloomberg, RBI/Raiffeisen RESEARCH
** Bid rates (for Hungary ask rates) as of 17 November 2016, 11:59 p.m. CET*

Inflation snapshot



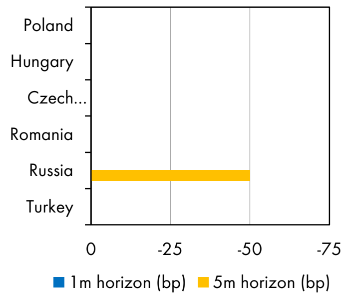
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Key rate trends (%)



Source: Bloomberg, RBI/Raiffeisen RESEARCH

Key rate forecast (chg., bp)



Source: Bloomberg, RBI/Raiffeisen RESEARCH

Central bank watch

Poland (NBP)	Hawkish tone introduced in August softened at the latest MPC meeting on the back of less optimistic macro assumptions which were confirmed by disappointing Q3 GDP data. Governor Glapinski already weakened his stance in terms of the possibility of rate hikes in late 2017, so our conviction for rate hikes starting in Q3-2017 weakened the more. Before any revision, however, we wait for December's ECB meeting.
Hungary (MNB)	MNB cap to the main interest rate tool (3m deposit facility) became effective in October aimed at encouraging banks to offer cheaper loans and to buy HGBs. Moreover, this main sterilization instrument is offered only once a month (earlier weekly tenders). In addition, MP easing is flanked by considerable liquidity injections through FX swap tenders and lower MRRs.
Czech Republic (CNB)	Exit from FX intervention regime - keeping koruna above EUR/CZK 27.00 floor - should be delayed to end-2017, but CNB continues sticking to its mid-2017 target (soft commitment; hard commitment shifted from end-2016 to "not earlier than Q2 2017"). Negative interest rates only an option in case of excessive capital inflows.
Romania (BNR)	Excess liquidity remains high and central bank fails to tighten its grip on liquidity and to set an end to procyclical policies. We expect BNR to remain defensive in the short term, but verbal interventions might point to tightening stance in 2017, especially if FX volatility was to increase.
Serbia (NBS)	NBS lowered inflation target range by 1pp to 3% +/- 1.5 pp and remained on hold in November due the expected acceleration in CPI inflation in the next few months. External risks in terms of Fed and ECB uncertainty were also highlighted, so our call of one last rate cut becomes increasingly unlikely.
Russia (CBR)	Long awaited 50bp rate cut in September, but CBR said no more cuts this year. We expect three key rate cuts of each 50bp in 2017 beginning in Q1, but see upward risks to CBR inflation forecasts for next year.
Turkey (TCMB)	Following another cut to the o/n lending rate in September, CB remained on hold in October and should do so next week due to elevated local financial market stress. However, symmetrisation of o/n corridor - currently at 7.25%-8.25% - almost accomplished. We assume that the TCMB wants to align weighted average costs of funding, hovering around 7.8% currently, with the 1w repo before switching to a single-rate policy which seems realistic only next year..

Source: RBI/Raiffeisen RESEARCH
Financial analyst: Stephan Imre, RBI Vienna

Rate setting meetings

	Nov	Dec
Poland (NBP)	9	7
Hungary (MNB)	22	20
Czech Republic (CNB)	3	22
Romania (BNR)	4	-
Serbia (NBS)	10	8
Russia (CBR)	-	16
Turkey (TCMB)	24	20

Source: National Central Banks, RBI/Raiffeisen RESEARCH

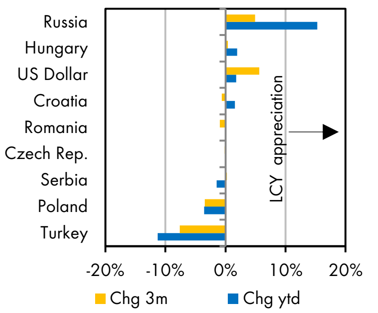
Foreign exchange market overview

FX forecasts

EUR vs	current*	Dec-16	Mar-17	Jun-17	5y high	5y low	Comment
PLN	4.448	4.35	4.30	4.30	4.46	4.08	Phase of PLN weakening with USD strength and global EM FX setback
HUF	309.9	315	310	310	316	291	HUF moving back into its previous trading range of 310-315 to the euro while still showing resilience towards EM FX setback
CZK	27.05	27.0	27.0	27.0	27.7	25.1	CNB intervention saw strong increase in September due to speculation on FX regime abandoning in mid-2017; given inflation outlook and probable extension of ECB bond buying program we expect FX regime abandoning only in H2 2017
RON	4.520	4.50	4.45	4.50	4.52	4.33	Despite parliamentary elections later in 2016 and the CHF loan conversion plan EUR/RON remains stable; we would expect the leu to trade around levels of 4.50 for Q4 2016
HRK	7.522	7.60	7.60	7.50	7.66	7.52	No changes on FX market are expected with trading range 7.50-7.52 kuna per euro
RSD	123.1	124	123	123	124	106	Key rate kept stable and chances for an additional rate cut in 2016 have decreased; EUR/RSD expected to remain stable
RUB	68.81	70.2	67.4	64.3	79.3	40.3	see USD/RUB below
UAH	27.75	31.3	31.0	29.6	31.3	10.4	see USD/UAH below
BYN	2.084	2.43	2.43	2.34	2.43	1.09	see USD/BYN below
TRY	3.575	3.67	3.58	3.42	3.67	2.35	see USD/TRY below
USD	1.067	1.08	1.07	1.02	1.38	1.08	Expectation on further US Fed rate hikes to support USD against euro
USD vs	**current***	**Dec-16**	**Mar-17**	**Jun-17**	**5y high**	**5y low**	
RUB	64.47	65.0	63.0	63.0	73.0	30.5	USD/RUB hovering around 65 at elevated volatility, we continue to expect oil/rouble correlation to remain high
UAH	26.00	29.0	29.0	29.0	29.0	8.01	Political turmoil increases depreciation pressure on UAH with central bank trying to stabilize, we expect depreciation pressure to persist
BYN	1.952	2.25	2.27	2.29	2.25	0.84	From July 2016 the old Belarusian rouble (BYR) was replaced by a new BYN at a ratio of 10,000:1; it is the third denomination of the local currency after 1994 and 2000; overall depreciation trend in BYN expected to continue on weak fundamentals
TRY	3.349	3.40	3.35	3.35	3.40	1.78	Lira remaining under severe pressure given USD strength and political uncertainties, given the recent developments we have revised our TRY projections

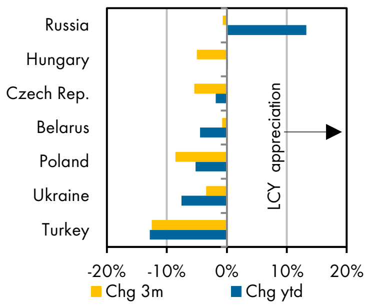
** as of 17 November 2016, 11:59 p.m. CET*
Source: Bloomberg, RBI/Raiffeisen RESEARCH
Financial analyst: Wolfgang Ernst, CEFA, RBI Vienna

Change of LCY value to EUR (%)



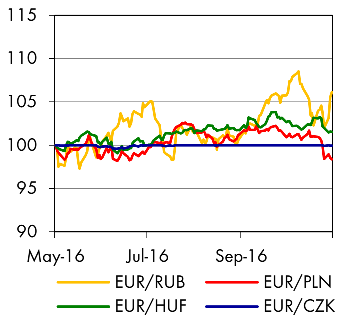
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Change of LCY value to USD (%)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

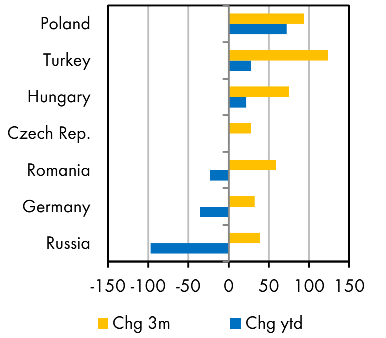
Exchange rate comparison



Indexed 17 May-16 = 100
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

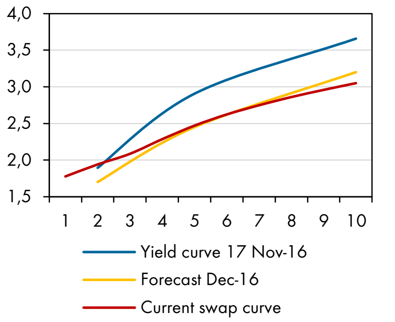
Local currency bond market overview and forecasts

Change of LCY 10y bond yields (bp)



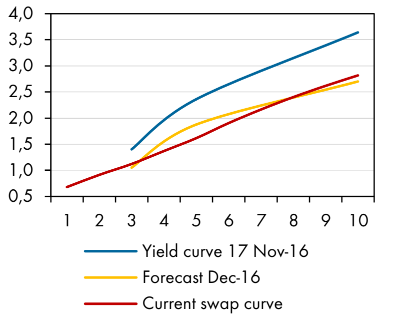
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

PLN yield curve



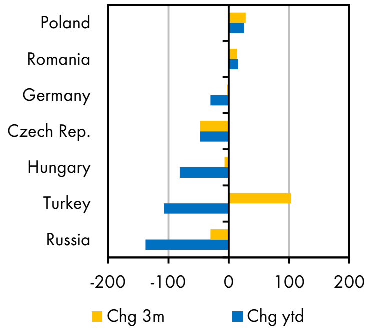
Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

HUF yield curve



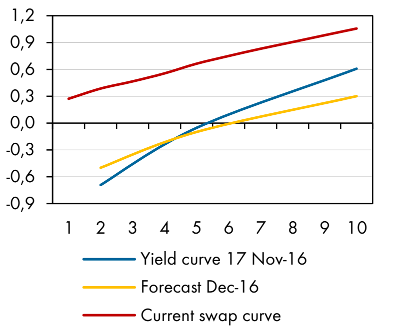
Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

Change of LCY 2y bond yields (bp)



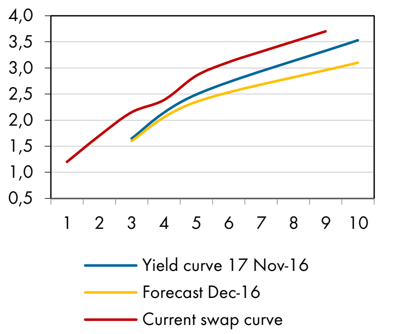
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

CZK yield curve



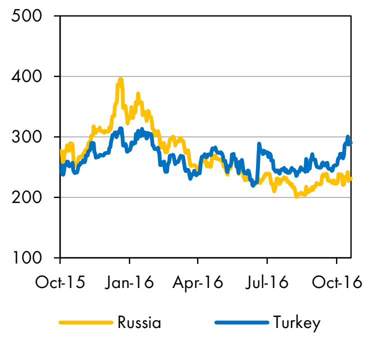
Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

RON yield curve



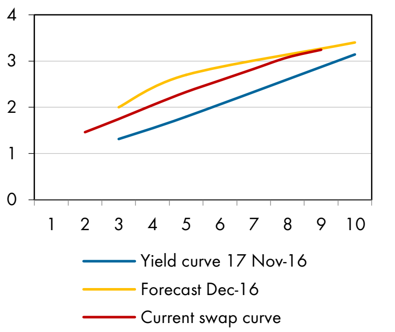
Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

5y USD CDS spreads



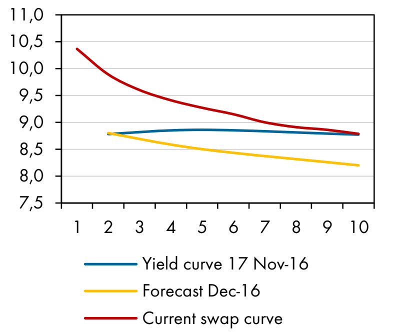
Turkey 5y high 343.7, 5y low 111.7;
Russia 5y high 628.7, 5y low 119.4
Source: Bloomberg, RBI/Raiffeisen RESEARCH

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 (%)	current*	Dec-16	Mar-17	Jun-17	5y high	5y low
Poland	1.89	1.7	1.8	2.0	4.9	1.6
Hungary **	1.40	1.1	1.0	1.2	9.2	1.1
Czech Republic	-0.69	-0.5	-0.3	-0.4	1.8	-0.5
Romania	0.89	1.0	1.1	1.2	7.3	1.0
Croatia	1.31	1.7	1.7	1.7	6.1	1.2
Russia	8.78	8.8	8.4	8.3	15.8	6.2
Turkey	9.90	10.3	10.5	10.3	11.5	6.1
Germany	-0.66	-0.7	-0.7	-0.7	0.2	-0.7
USA	1.03	1.0	1.0	1.2	1.0	0.2

10y T-bond yields (%)	current*	Dec-16	Mar-17	Jun-17	5y high	5y low
Poland	3.66	3.2	3.3	3.4	5.9	2.5
Hungary***	3.64	2.7	2.8	2.9	9.9	2.7
Czech Republic	0.61	0.3	0.5	0.4	3.6	0.3
Romania	3.53	3.1	3.2	3.3	7.5	3.1
Croatia	3.14	3.4	3.4	3.4	7.2	3.4
Russia	8.77	8.2	7.9	7.7	14.1	6.9
Turkey	10.75	11.2	11.5	11.0	11.2	6.6
Germany	0.20	0.1	0.3	0.3	1.9	0.1
USA	2.30	1.9	1.9	2.1	3.0	1.8

** Bid yields as of 17 November 2016, 11:59 p.m. CET; ** 3y yield; *** forecasts under revision*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Local currency bond market overview

CEE local currency bond market snapshot

	Maturity	Coupon (%)	Bid Price	YTM (%)	Spread to Bunds (bp)	MDur.	Comment
Poland							
PLN 2y Gov. Bond	25/10/2018	0.00	96.49	1.88	252	1.9	Rising UST yields in post-Trump trading set in motion an increase in long-term POLGB yields with unfavorable local factors adding momentum last week. Bear steepening pressure should remain as Poland is additionally burdened by (geo)political risks.
PLN 5y Gov. Bond	25/10/2021	5.75	112.61	2.96	330	4.5	
PLN 10y Gov. Bond	25/07/2026	2.50	90.10	3.74	345	8.6	
Hungary							
HUF 3y Gov. Bond	30/10/2019	2.00	101.80	1.37	197	2.9	Once the dust settles, HGBs seem to have the best prospects for a mini-recovery-rally as the year comes to an end due to the unfolding of bond-market-supporting CB measures in combination with the repaired appeal of HUF assets.
HUF 5y Gov. Bond	27/10/2021	2.50	100.50	2.39	273	4.7	
HUF 10y Gov. Bond	27/10/2027	3.00	94.05	3.67	338	9.4	
Czech Republic							
CZK 2y Gov. Bond	11/04/2019	5.00	113.44	-0.57	7	2.3	Long-end CZGB yield spread over Bunds remained cemented despite rising longer-term UST yields in post-Trump trading. However, due to our reflation skepticism, we expect EUR/CZK cap policy exit likely to be delayed till the end of 2017.
CZK 5y Gov. Bond	29/09/2021	3.85	119.24	-0.10	24	4.5	
CZK 10y Gov. Bond	26/06/2026	1.00	103.56	0.62	33	9.2	
Croatia							
HRK 2y Gov. Bond	10/07/2018	5.25	106.25	1.36	170	1.6	We expect a further pressure on purchase on the longer end of the curve with the simultaneous pressure of selling on short kuna curve.
HRK 10y Gov. Bond	14/12/2026	4.25	109.34	3.16	287	8.2	
Romania							
RON 2y Gov. Bond	17/01/2018	3.25	102.54	1.02	162	1.1	After a lag, ROMGBs yield finally joined the broader regional trend and began to trend upwards. Local factors could add momentum, especially in terms of further elevated fiscal risks in view of the December parliamentary elections.
RON 5y Gov. Bond	22/03/2021	3.25	103.03	2.50	284	4.0	
RON 10y Gov. Bond	24/02/2025	4.75	108.30	3.57	328	6.9	
Russia							
RUB 2y Gov. Bond	27/02/2019	7.50	97.70	8.81	945	2.1	Our mildly bullish stance on OFZs regained appeal following the latest market correction. We continue assuming the resumption of rate cuts in 2017 and a stable RUB vs. EUR. As witnessed recently, biggest risks are international politics/revived Ukraine conflict fears, whilst Trump factor seems neutral on balance.
RUB 5y Gov. Bond	18/08/2021	7.50	95.20	8.95	929	4.1	
RUB 10y Gov. Bond	03/02/2027	8.15	96.60	8.84	855	6.8	
Turkey							
TRY 2y Gov. Bond	11/07/2018	8.70	97.97	10.05	1069	1.6	TRY bonds amongst the hardest hit following the bear steepening of the UST curve in post-Trump trading. Given the highly elevated odds for Fed tightening in December, we expect that there is still way to go north for TURKGB yields.
TRY 5y Gov. Bond	22/09/2021	9.20	93.85	10.85	1119	4.0	
TRY 10y Gov. Bond	11/02/2026	10.60	98.25	10.93	1064	5.8	

Data as of 18 November 2016, 11:50 a.m. CET
Source: Bloomberg, RBI/Raiffeisen RESEARCH
Financial analyst: Stephan Imre, RBI Vienna

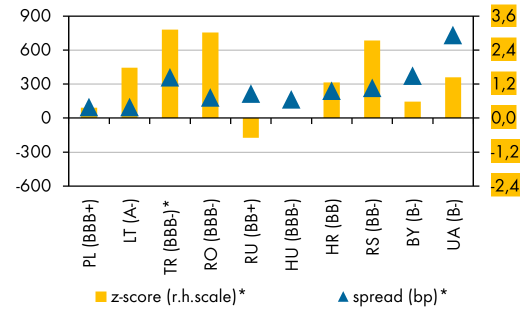
Bond auctions

		ISIN	Coupon	Maturity	Volume
21 November 2016					
SK	T-bonds	n.a.	n.a.	n.a.	n.a.
22 November 2016					
TR	1y T-bonds	n.a.	zero	22.11.2017	n.a.
AL	2y T-bonds	n.a.	n.a.	22.11.2017	n.a.
AL	T-bills	n.a.	n.a.	n.a.	n.a.
UA	T-bills	n.a.	n.a.	n.a.	n.a.
UA	2y T-bonds	n.a.	n.a.	22.11.2018	n.a.
23 November 2016					
RU	T-bonds	n.a.	n.a.	n.a.	n.a.

Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

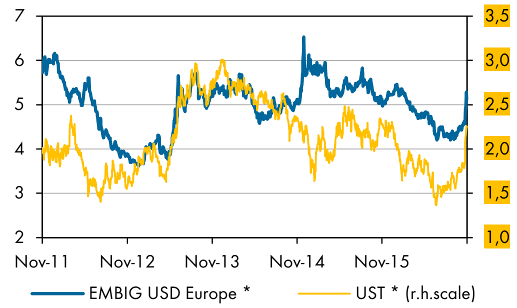
Eurobond market overview

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	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	102.5	102.8	0.00	111.8	100.3	0.03	69	0.6	XS0802005289
CROATI 5 7/8 07/09/18	108.4	108.9	-0.19	112.1	88.8	0.52	117	1.6	XS0645940288
REPHUN 3 7/8 02/24/20	111.8	112.3	-0.17	113.1	69.3	0.18	74	3.0	XS0212993678
REPHUN 4 3/8 07/04/17	102.6	103.0	-0.18	108.0	77.3	-0.20	47	0.6	XS0284810719
REPHUN 5 3/4 06/11/18	108.7	109.1	-0.14	115.1	79.7	0.01	66	1.5	XS0369470397
REPHUN 6 01/11/19	112.3	112.6	0.08	118.4	86.4	0.16	80	2.0	XS0625388136
LITHUN 4.85 02/07/18	105.9	106.2	0.05	114.3	94.5	-0.16	49	1.2	XS0327304001
POLAND 5 5/8 06/20/18	109.1	109.7	-0.19	122.6	102.1	-0.31	34	1.5	XS0371500611
POLAND 1 5/8 01/15/19	103.1	103.8	0.17	105.5	98.0	0.03	67	2.1	XS0874841066
POLAND 3 3/4 01/19/23	118.1	118.8	-2.20	125.5	99.9	0.68	90	5.5	XS0794399674
POLAND 3 3/8 07/09/24	116.3	116.8	-1.17	125.6	99.6	1.11	114	6.8	XS0841073793
ROMANI 4 7/8 11/07/19	113.4	113.9	-0.13	117.8	99.3	0.24	84	2.8	XS0852474336
TURKEY 5 7/8 04/02/19	108.5	109.0	-0.11	118.9	100.9	2.04	267	2.2	XS0285127329
TURKEY 5 1/8 05/18/20	107.1	108.0	-0.53	115.9	95.2	2.81	334	3.1	XS0503454166
USD									
BELRUS 8.95 01/26/18	103.9	104.9	-0.15	111.2	78.0	5.03	421	1.1	XS0583616239
CROATI 6 3/8 03/24/21	108.6	109.2	-0.05	117.8	86.7	4.11	250	3.8	XS0607904264
CROATI 5 1/2 04/04/23	105.3	105.9	-0.06	111.7	94.4	4.48	249	5.3	XS0908769887
REPHUN 5 3/8 02/21/23	108.9	109.4	-0.37	115.4	93.1	3.72	171	5.3	US445545AH91
REPHUN 7 5/8 03/29/41	139.3	140.4	-0.37	157.5	79.5	4.82	198	12.9	US445545AF36
LITHUN 7 3/8 02/11/20	114.5	115.0	0.48	130.7	104.8	2.57	119	2.9	XS0485991417
LITHUN 6 5/8 02/01/22	116.6	117.3	0.40	128.6	101.0	3.07	128	4.4	XS0739988086
LATVIA 2 3/4 01/12/20	101.0	101.6	-0.70	104.5	91.4	2.30	95	3.0	XS0863522149
LATVIA 5 1/4 06/16/21	111.7	112.3	-0.81	117.2	90.9	2.45	79	4.0	XS0638326263
POLAND 6 3/8 07/15/19	110.9	111.4	0.15	125.9	107.4	2.02	77	2.4	US731011AR30
POLAND 3 03/17/23	98.5	99.1	-0.88	105.1	87.6	3.21	119	5.7	US731011AT95
ROMANI 6 3/4 02/07/22	114.7	115.1	0.31	124.4	99.2	3.59	177	4.4	US77586TAA43
ROMANI 4 3/8 08/22/23	103.6	104.1	0.06	111.1	90.8	3.73	163	5.8	US77586TAC09
RUSSIA 4 1/2 04/04/22	103.2	103.7	-0.64	114.7	82.0	3.78	197	4.7	XS0767472458
RUSSIA 7 1/2 03/31/30	120.3	120.8	0.33	128.6	99.6	2.54	11	4.0	XS0114288789
RUSSIA 5 5/8 04/04/42	105.6	106.2	-0.01	124.9	76.0	5.20	235	13.7	XS0767473852
SERBIA 5 1/4 11/21/17	102.3	102.9	-0.06	107.1	96.8	2.60	183	1.0	XS0856951263
SERBIA 4 7/8 02/25/20	101.1	101.9	-0.25	105.4	89.6	4.38	300	3.0	XS0893103852
TURKEY 6 1/4 09/26/22	103.9	104.6	-0.83	127.0	101.0	5.39	346	4.8	US900123BZ27
TURKEY 6 7/8 03/17/36	102.3	102.9	-1.64	139.6	99.2	6.64	397	10.6	US900123AY60
TURKEY 6 3/4 05/30/40	100.0	101.1	-1.75	139.4	97.3	6.70	388	11.4	US900123BG46
UKRAIN 7 3/4 09/01/19	97.3	97.8	1.83	101.3	88.0	8.78	751	2.4	XS1303918269
UKRAIN 7 3/4 09/01/23	92.3	92.7	0.82	99.9	84.6	9.26	720	5.0	XS1303921487
UKRAIN 7 3/4 09/01/27	89.3	89.8	-0.16	98.4	81.2	9.30	697	6.8	XS1303927179

YTM mid - yield to maturity based on mid market price, bmk - benchmark, Mdur - modified duration, ISIN - international security identification number; prices as of 18 Nov 2016, 9:34 AM CET
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Summary: Ratings & macro data

Country ratings: CE, SEE, EE

	S&P			Moody's			Fitch		
	LCY	FCY	Outlook	LCY	FCY	Outlook	LCY	FCY	Outlook
CE									
Poland	A-	BBB+	negative	A2	A2	negative	A	A-	stable
Hungary	BBB-	BBB-	stable	Baa3	Baa3	stable	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	positive	A-	A-	stable
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+	stable	Ba1	Ba1	negative	BBB-	BBB-	stable
Ukraine	B-	B-	stable	Caa3	Caa3	stable	B-	B-	stable
Belarus	B-	B-	stable	Caa1	Caa1	negative	B-	B-	stable
Kazakhstan	BBB-	BBB-	negative	Baa3	Baa3	negative	BBB	BBB	stable
Turkey	BB+	BB	stable	Ba1	Ba1	stable	BBB-	BBB-	negative

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

Main macro data & forecasts*

Country	Year*	GDP, % avg. yoy	CPI, % avg. yoy	Unem-ployment, %	Nominal wages, EUR	Fiscal balance, % GDP	Public debt, % GDP	Export **, % GDP	C/A, % GDP	Ext. Debt, % GDP	FXR***% ext. debt	Import cover, months
Croatia	2015	1.6	-0.5	16.3	1000	-3.2	86.7	24.7	5.2	103.7	30.3	9.5
	2016e	2.3	-1.2	14.9	1032	-2.7	86.5	25.5	2.0	97.8	30.6	9.0
	2017f	2.5	1.3	14.2	1040	-2.9	85.8	25.9	2.1	96.2	28.9	8.4
Czech Rep.	2015	4.6	0.3	6.5	970	-0.4	40.3	71.6	0.9	69.4	51.2	6.2
	2016e	2.5	0.6	5.6	1020	-0.3	39.5	72.0	1.9	73.0	63.2	8.0
	2017f	2.7	1.7	5.4	1073	-0.2	38.4	71.8	1.3	77.1	71.5	9.6
Hungary	2015	2.9	0.0	6.9	800	-2.0	75.5	83.4	4.4	107.1	26.2	4.4
	2016e	2.3	0.3	5.3	845	-2.0	74.6	84.0	4.4	98.1	23.5	3.7
	2017f	2.7	1.8	4.6	915	-2.5	74.1	82.1	4.1	88.4	22.5	3.2
Poland	2015	3.6	-0.9	10.5	932	-2.6	51.3	40.2	-0.3	70.5	29.0	6.2
	2016e	3.3	-0.6	9.1	933	-2.9	52.2	41.2	0.1	73.9	29.1	6.3
	2017f	3.7	1.3	8.5	994	-3.4	52.6	40.0	-0.7	74.2	27.9	6.2
Romania	2015	3.8	-0.6	6.8	568	-0.7	38.4	30.6	-1.1	56.7	39.2	7.5
	2016e	5.2	-1.6	6.2	631	-3.0	39.0	30.6	-2.8	52.8	40.4	7.0
	2017f	3.6	1.2	6.2	688	-3.2	39.9	30.8	-3.3	52.6	39.5	6.6
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	7.2	6.0	472	-4.4	13.5	21.4	2.0	39.7	83.5	26.3
	2017f	1.0	6.1	6.0	571	-3.3	14.0	23.3	3.9	32.2	89.3	23.4
Ukraine	2015	-9.9	48.7	9.5	172	-2.3	72.6	39.2	-0.1	131.5	11.4	4.2
	2016e	1.0	13.3	9.0	n.a.	-3.5	77.5	36.7	-1.7	135.4	13.7	5.3
	2017f	2.0	10.7	9.0	n.a.	-3.0	78.4	39.5	-2.8	137.7	14.8	5.4
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	3.0	8.0	10.0	n.a.	-2.0	32.0	21.5	-5.1	56.9	27.6	6.6
	2017f	2.5	7.6	10.3	n.a.	-2.2	33.0	23.3	-5.7	59.3	26.2	6.1

** only for countries included in CEE Weekly, ** Export of goods only, *** FXR - Foreign exchange reserves*
Source: Thomson Reuters, National Statistics, RBI/Raiffeisen RESEARCH

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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.
- 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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Raiffeisen RESEARCH

Bonds

Distribution of long term recommendations (preceding 12 months prior to this publication)	
Recommendation	Basis: all analysed Government bonds
Buy	0%
Hold	0%
Sell	94%
Not rated	6%

Distribution of short term recommendations (preceding 3 months prior to this publication)	
Recommendation	Basis: all analysed Government bonds
Buy	21%
Hold	50%
Sell	29%
Not rated	0%

History of short term recommendations (preceding 3 months prior to this publication)

Date	10Y Czech Rep.	10Y Hungary	10Y Poland	10Y Romania	10Y Russia	10Y Turkey	2Y Czech. Rep.	2Y Poland	2Y Russia
26/09/2016	|	|	|	|	|	|	|	|	|
23/09/2016	Hold	Hold	Hold	Hold	Buy	Sell	Hold	Hold	Buy
26/08/2016	|	|	|	|	|	|	|	|	|
25/08/2016	Hold	Buy	Hold	Hold	Buy	Sell	Hold	Hold	Buy
29/07/2016	Hold	Buy	Hold	Hold	Buy	Sell	Hold	Hold	Buy
27/07/2016	|	|	|	|	|	|	|	|	|
21/07/2016	|	|	|	|	|	Sell	|	|	|
20/06/2016	Hold	Buy	Hold	Hold	Buy	Buy	Hold	Hold	Buy
31/05/2016	Hold	Buy	Hold	Hold	Buy	Buy	Hold	Hold	Buy
13/05/2016	|	|	|	|	|	|	|	|	|
26/04/2016	Hold	Buy	Hold	Hold	Hold	Hold	Hold	Hold	Hold
20/04/2016	|	|	|	|	|	|	|	|	|
30/03/2016	|	|	|	|	|	|	|	|	|
29/03/2016	|	|	|	|	|	|	|	|	|
24/03/2016	Hold	Buy	Hold	Hold	Hold	Sell	Hold	Hold	Hold
17/03/2016	|	|	|	|	|	|	|	|	|
23/02/2016	Buy	Buy	Hold	Hold	Hold	Hold	Hold	Hold	Hold
11/02/2016	Buy	Buy	Hold	Hold	Hold	Hold	Hold	Buy	Hold
25/01/2016	Buy	Buy	Hold	Hold	Not rated	Hold	Hold	Buy	Not rated
17/12/2015	Hold	Buy	Hold	Buy	Hold	Hold	Hold	Buy	Buy
03/12/2015	|	|	|	|	|	|	|	|	|

Date	2Y Turkey	5Y Czech Rep.	5Y Hungary	5Y Poland	5Y Romania	5Y Russia	5Y Turkey	BG EUROBOND EUR	BY EUROBOND USD
26/09/2016	|	|	|	|	|	|	|	Buy	|
23/09/2016	Sell	|	|	|	|	|	|	|	|
26/08/2016	|	|	|	|	|	|	|	|	|
25/08/2016	Sell	|	|	|	|	|	|	|	|
29/07/2016	Sell	|	|	|	|	|	|	Hold	|
27/07/2016	|	|	|	|	|	|	|	|	|
21/07/2016	Sell	|	|	|	|	|	|	|	|
20/06/2016	Buy	|	|	|	|	|	|	Buy	Hold
31/05/2016	Buy	|	|	|	|	|	|	|	|
13/05/2016	|	|	|	|	|	|	|	Hold	Hold
26/04/2016	Hold	|	|	|	|	|	|	Hold	Hold
20/04/2016	|	|	|	|	|	|	|	Buy	Hold
30/03/2016	|	|	|	|	|	|	|	|	Hold
29/03/2016	|	|	|	|	|	|	|	Buy	Hold
24/03/2016	Sell	|	|	|	|	|	|	Hold	Hold
17/03/2016	|	|	|	|	|	|	|	Hold	|
23/02/2016	Hold	|	|	|	|	|	|	Hold	Hold
11/02/2016	Hold	|	|	|	|	|	|	|	|
25/01/2016	Hold	Not rated	Not rated	Not rated	Not rated	Not rated	Not rated	Hold	Hold
17/12/2015	Hold	Hold	Buy	Buy	Buy	Buy	Hold	Hold	Hold
03/12/2015	|	|	|	|	|	|	|	Hold	Hold

Date	CZ EUROBOND EUR	HR EUROBOND EUR	HR EUROBOND USD	HU EUROBOND EUR	HU EUROBOND USD	KZ EUROBOND USD	LT EUROBOND EUR	LT EUROBOND USD	MK EUROBOND EUR
26/09/2016	|	Buy	Sell	|	|	|	|	|	|
23/09/2016	|	|	|	|	|	|	|	|	|
26/08/2016	|	|	|	|	|	Hold	|	|	|
25/08/2016	|	|	|	|	|	|	|	|	|
29/07/2016	|	|	|	Hold	Hold	Buy	|	|	|
27/07/2016	|	|	|	|	|	|	|	|	Buy
21/07/2016	|	|	|	|	|	|	|	|	|
20/06/2016	Hold	Sell	Sell	Buy	Buy	Hold	Hold	Hold	Hold
31/05/2016	|	|	|	|	|	|	|	|	|
13/05/2016	Hold	Hold	Hold	Hold	Hold	Hold	Hold	Hold	Hold
26/04/2016	Hold	Hold	Hold	Hold	Hold	Hold	Hold	Hold	Hold
20/04/2016	Hold	Hold	Hold	Hold	Hold	Buy	Buy	Hold	Hold
30/03/2016	|	|	|	|	|	|	|	|	|
29/03/2016	Hold	Hold	Hold	Hold	Hold	Buy	Buy	Hold	Buy
24/03/2016	Hold	Hold	Hold	Hold	Hold	Buy	Hold	Hold	Buy
17/03/2016	Hold	Hold	Hold	Buy	Buy	Buy	Hold	Hold	Buy
23/02/2016	Hold	Hold	Hold	Buy	Buy	Buy	Hold	Hold	Buy
11/02/2016	|	|	|	|	|	|	|	|	|
25/01/2016	Hold	Hold	Hold	Hold	Hold	Hold	Hold	Hold	Buy
17/12/2015	Hold	Sell	Sell	Buy	Buy	Buy	Hold	Hold	Hold
03/12/2015	Hold	Sell	Sell	Buy	Buy	Buy	Buy	Hold	Hold

Date	PL EUROBOND EUR	PL EUROBOND USD	RO EUROBOND EUR	RO EUROBOND USD	RS EUROBOND USD	RU EUROBOND EUR	RU EUROBOND USD	SI EUROBOND EUR	SI EUROBOND USD
26/09/2016	Buy	|	|	|	Buy	|	|	|	|
23/09/2016	|	|	|	|	|	|	|	|	|
26/08/2016	|	|	|	|	Hold	Hold	Hold	Hold	|
25/08/2016	Hold	Hold	|	|	|	|	|	|	|
29/07/2016	|	|	Hold	Hold	|	Buy	Buy	|	|
27/07/2016	|	|	|	|	|	|	|	|	|
21/07/2016	|	|	|	|	|	|	|	|	|
20/06/2016	Sell	Sell	Sell	Sell	Buy	Hold	Hold	Buy	Buy
31/05/2016	|	|	|	|	|	|	|	|	|
13/05/2016	Sell	Sell	Hold	Hold	Buy	Hold	Hold	Buy	Buy
26/04/2016	Sell	Sell	Hold	Hold	Buy	Hold	Hold	Buy	|
20/04/2016	Buy	Hold	Hold	Hold	Hold	Hold	Hold	Buy	|
30/03/2016	|	|	|	|	|	|	|	|	|
29/03/2016	Buy	Hold	Hold	Hold	Hold	Hold	Hold	Buy	|
24/03/2016	Buy	Buy	Hold	Hold	Hold	Hold	Hold	Buy	|
17/03/2016	Buy	Buy	Hold	Hold	Hold	Hold	Hold	Buy	|
23/02/2016	Buy	Buy	Hold	Hold	Hold	Buy	Buy	Buy	|
11/02/2016	|	|	|	|	|	|	|	|	|
25/01/2016	Buy	Buy	Hold	Hold	Sell	Buy	Buy	Buy	|
17/12/2015	Buy	Buy	Buy	Buy	Sell	Buy	Hold	Hold	|
03/12/2015	Buy	Buy	Buy	Buy	Sell	Hold	Hold	Hold	|

Date	SK EUROBOND EUR	TR EUROBOND EUR	TR EUROBOND USD	UA EUROBOND USD
26/09/2016	|	Hold	Hold	|
23/09/2016	|	|	|	|
26/08/2016	Hold	|	|	|
25/08/2016	|	|	|	|
29/07/2016	Sell	|	|	|
27/07/2016	|	|	|	|
21/07/2016	|	Sell	Sell	|
20/06/2016	Hold	Buy	Hold	Hold
31/05/2016	|	|	|	|
13/05/2016	Hold	Hold	Hold	Hold
26/04/2016	Hold	Buy	Buy	Hold
20/04/2016	Hold	Buy	Buy	Hold
30/03/2016	|	|	|	|
29/03/2016	Hold	Buy	Buy	Hold
24/03/2016	Hold	Buy	Buy	Sell
17/03/2016	Hold	Buy	Buy	Sell
23/02/2016	Hold	Buy	Buy	Sell
11/02/2016	|	|	|	|
25/01/2016	Hold	Buy	Buy	Sell
17/12/2015	Hold	Buy	Hold	Sell
03/12/2015	Hold	Hold	Hold	Sell

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