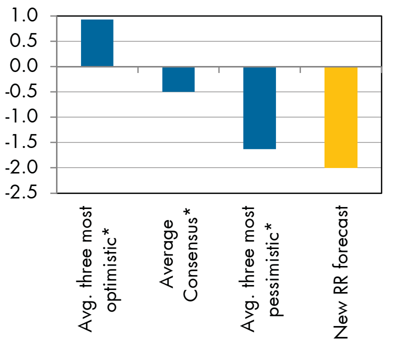
CEE Weekly

Raiffeisen RESEARCH

Issue 05/2016 5 February 2016

Russia: 2016 Real GDP forecasts



** Eastern Europe Consensus Forecasts, Survey date 18 Jan 2016*
Source: Consensus Economics, RBI/Raiffeisen RESEARCH

Market snapshot

	curr.*	Mar-16	Jun-16	Sep-16
Poland				
EUR/PLN	4.42	4.40	4.35	4.30
Key rate	1.50	1.50	1.50	1.50
10y bond	3.1	3.3	3.4	3.4
Hungary				
EUR/HUF	310.2	310	315	315
Key rate	1.35	1.00	1.00	1.00
10y bond	3.5	3.0	3.2	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	0.5	0.7	0.8	0.9
Romania				
EUR/RON	4.50	4.40	4.45	4.40
Key rate	1.75	1.75	1.75	1.75
10y bond	3.3	3.7	3.9	4.0
Croatia				
EUR/HRK	7.66	7.68	7.60	7.65
10y bond	3.9	4.2	4.3	4.3
Russia				
USD/RUB	77.3	82.0	80.0	75.0
Key rate**	11.00	10.00	10.00	10.00
10y bond**	10.2	10.3	10.5	10.4
Turkey				
USD/TRY	2.92	3.05	3.00	2.95
Key rate	7.50	9.50	9.50	9.50
10y bond	10.3	11.0	10.7	10.3
EUR/USD	1.12	1.05	1.03	1.01

Currencies per 1 EUR
** prices as of 5 February 2016, 10:20 a.m. CET;*
*** under revision*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

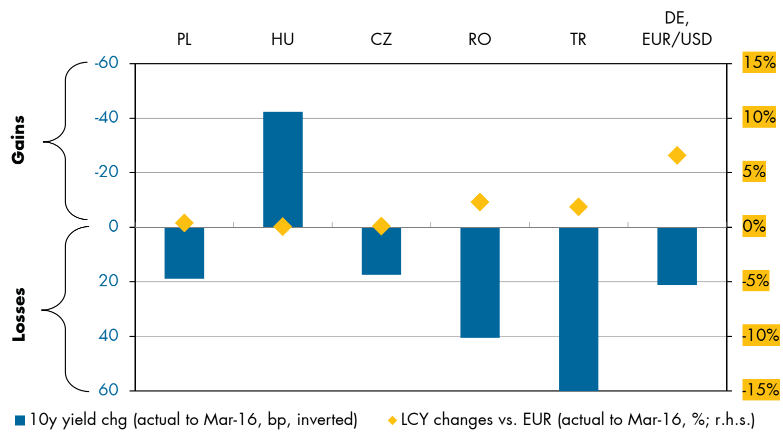
Content

Highlights

The massive rally in core markets due to renewed global central bank dovishness (Bunds at 0.3%, Treasuries once again well below 2%) is only partially reflected in CE/SEE markets. Hence, there could remain some upside here if the current pricing on core markets can be sustained for some time; although we see the risk that too excessive pricing with regards to potential ECB action in March is again building up on European markets. Volatile oil markets were once again reflected in hefty swings for the RUB. As our oil outlook turned more bearish (looking for Brent at 30-34 USD/bbl in Q1 and Q2, with some upside in H2 to 49 USD/bbl, translating into an avg. annual oil price of 39 USD/bbl in 2016, compared to 53 in 2015) we had to revise our Russia scenario. As things stand we would expect a more protracted recession/stagnation with another GDP drop of around 2% in 2016. For the RUB and OFZ market we would remain cautious in H1, while we would see some upside in H2 2016. More balanced oil markets in H2 2016 as well as our key rate outlook (flat at 11% throughout 2016) can provide some support to the RUB, while OFZ markets may start to price in rate cuts (that we expect for 2017) already later in 2016. For a first indication regarding our changed Russia outlook see our Focus on coverage (pp. 2-4); a more granular macro and markets update note will be released next week. Most recent negative newsflow on the political front (departure of reform-oriented "outsider" top politician) in Ukraine was reflected in selling pressure on Ukrainian Eurobonds. This unpleasant political noise added to an already challenging situation (significant delay in IMF funding, pressure on UAH), even fostering speculation that there could be a further delay in the disbursement of the next IMF tranche. As the overall situation remains complicated we stick to our Sell recommendation for Ukraine and would regards current prices/yield levels not as attractive yet.

Financial analyst: Gunter Deuber, RBI Vienna

Expected changes from today until March 2016



Gains/losses on bonds refer to principal; Source: Bloomberg, RBI/Raiffeisen RESEARCH

Data highlights upcoming week

Date	Indicator	Period	est.	High	Mean	Low	Prev.
11-Feb	RS: Key rate, % yoy	Feb	4.50	n.a.	n.a.	n.a.	4.50
12-Feb	HU: GDP, % yoy nsa	Q4	2.70	3.40	2.65	2.20	2.40
12-Feb	RO: GDP, % yoy	Q4	n.a.	n.a.	n.a.	n.a.	3.6
12-Feb	PL: GDP, % yoy	Q4	3.9	3.9	3.8	3.6	3.5
12-Feb	BG: GDP, % yoy wda	Q4	n.a.	n.a.	n.a.	n.a.	2.9

Source: Bloomberg, RBI/Raiffeisen RESEARCH

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

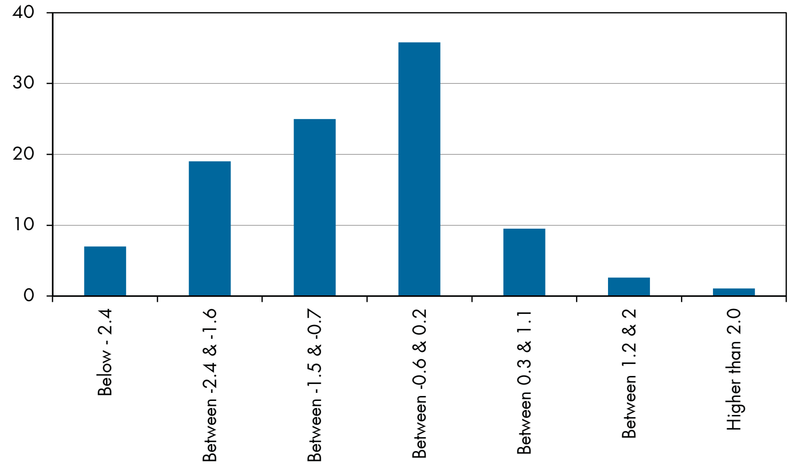
Focus on: Depressed oil, protracted recession in Russia

Oil price* & key RU forecasts

	Q1 16e	Q2 16e	Q3 16f	Q4 16f
Brent	30	34	43	49
WTI	30	34	42	47
	2013	**2014**	**2015**	**2016e**
Brent	108	99	53	39
WTI	98	92	48	38
USD/RUB (avg.)	31.9	38.6	61.3	77.1
Russia, real GDP (% yoy)	1.3	0.6	-3.7	-2.0

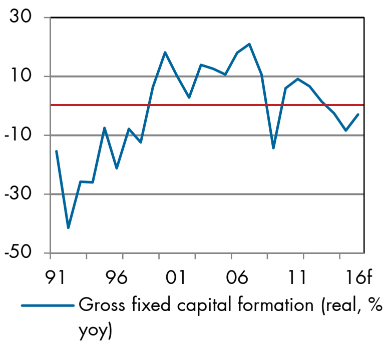
** USD/bbl*
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Russia: Probability snapshot GDP forecasts*



** Eastern Europe Consensus Forecasts, Survey date 18 Jan 2016*
Source: Consensus Economics, RBI/Raiffeisen RESEARCH

Long-term macro trends: GFCF



Source: wiiw, Thomson Reuters, RBI/Raiffeisen RESEARCH

Macro-update: Recession to continue into 2016

In 2015 the Russian economy had to cope with the double shock of Western economic and financial sanctions as well as lower oil prices. In 2015, real GDP shrank by almost 4%, with most of the recession caused by the slump in oil prices. The reduction in petro-dollar revenues and a RUB devaluation of almost 50% severely cut into household consumption, capital investments and imports. However, compared to the recession of 2009 (when GDP fell by almost 8%), the impact of the oil price shock on GDP was still less severe in 2015. This can be largely explained by the cushioning effect of the free-floating RUB (since late 2014).

The hefty setback on the oil markets seen in recent weeks, which is unlikely to reverse completely any time soon, forced us to revise our scenario for the Russian economy. Previously we had stagnation as the key scenario with an annual GDP growth rate of 0% (based on an average oil price of at least 45-50 USD/bbl). As we now expect an **average oil price slightly below 40 USD/bbl for 2016, we expect another year of recession with GDP contracting by some 2% in 2016**. Due to the pass-through of the latest RUB weakening we do not expect much progress on the disinflation front. We have therefore upped our already cautious CPI forecast (9%) to 9.5%, while the downside risks (i.e. higher inflation) dominate in our view; concerns that are also shared by the Russian central bank in the meantime.

With regards to the macro outlook our previous scenario of "zero" GDP growth in 2016 was already based on an anticipated drop in consumption and gross fixed capital formation (both were expected to drop by 3% yoy in real terms, while net exports and inventories were to prop up headline GDP). However, in our new forecast **we now expect more negative trends in private consumption** for 2016 (-4% yoy), **another drop in gross fixed capital formation** (-4%), while the **positive trends from net exports seen in 2015 will not be sustained**. We expect weaker export growth in 2016 compared to 2015, and the pace of falling imports seen in 2015 is unlikely to be repeated again in 2016. Hence, net exports will increasingly be a drag on GDP growth (possibly beyond 2016). Moreover, **we expect both fiscal and monetary policy to remain relatively tight**, i.e. there will be no substantial easing in support of economic growth. With regard to fiscal policy, the impact could be even more pro-cyclical than in 2015. There have not been two consecutive years of recession for Russia since the end of the transition recession in 1996. With our estimate for 2016 we take a more negative stance than the projections of official institutions like the IMF (-1%), the World Bank (-0.7%), and the Russian government (-0.8% to -1.0%) as well as the current analyst consensus of -0.5%.

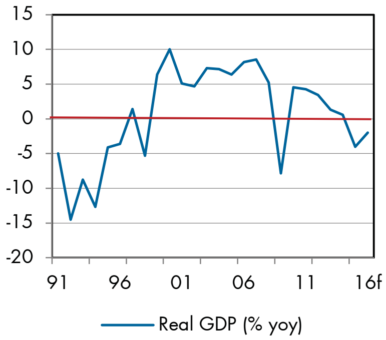
At first glance the outlook for a continuation of outright recession in Russia does not look overly dramatic. This holds especially true since we had already expected a drop in consumption and investments in our previous scenario with "zero" GDP growth. However, the longer the recession/stagnation scenario lasts, the more challenging it could be to sell the situation domestically. In this context it has to be stressed that **through-the-cycle the setback expected from 2014 until year-end 2016 is much worse than the situation back in 2008/2009**, where we observed a hefty setback (from overheated levels), followed by a V-shaped rebound. For some indicators like investments or private consumption, **the three-year performance (2014-2016e) looks just as bad or even worse than the situation back in 1998** (i.e. the three-year performance of relevant indicators from 1997-1999). However, in comparison to the 1998 crisis, this time the setback comes after a decade of more solid economic performances compared to the "lost years" prior to the setback seen in the late 1990s. Moreover, this time around, macro-financial fundamentals are much sounder than during the 1990s, while economic policymaking has improved substantially overall.

Market forecast update

In line with the revised view of the oil market we also **had to revise our RUB, key rate** and **OFZ market forecasts** considerably. We now expect the CBR to remain on hold throughout 2016, while the OFZ market may once again start to price in our projected rate cuts for 2017 later in H2 2016.

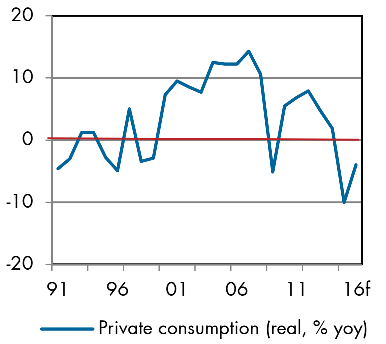
The **RUB will remain** the main policy tool to partially protect the **economy and reserve assets** from more challenging scenarios. Given our revision in the oil price outlook towards a less significant price increase over the coming months, we have adjusted our RUB outlook accordingly towards less appreciation potential. As we expect the **oil price to remain jittery in H1 2016** with a projection of stabilisation, but at low levels, we predict H1 2016 will remain more challenging for the RUB as well – as revealed in our projection of a **sideways movement in USD/RUB around 80**. Only with an **increase in the oil price, especially in H2 2016** and thereafter, do we expect to see sustainable support for the rouble, translating into movement towards USD/RUB 70 by year-end 2016. The still high correlation between the oil price and the rouble is bound to remain for the time being (even increasing recently towards its all-time highs), keeping RUB most likely volatile in the short term. Nevertheless, we expect this extremely high correlation between oil and the rouble to decline as the oil recovery persists, thus restricting the rouble recovery in our view towards levels of USD/RUB 60-65 during 2017, before returning to a long-term depreciation trend given the weaker fundamentals. At the same time recent speculation on CBR intervention has abated given the USD/RUB movement back below 80 (Bloomberg surveys indicated that readings above USD/RUB 85 would be seen as levels where the CBR would possibly have to react). Nevertheless, it has to be stressed that the RUB free float has helped to protect FX reserves, while domestic economic agents are growing more and more used to a flexible RUB. **With the benefit of hindsight, the frontloaded turn to a free float (compared to regional commodity-driven peer economies) has proven to be the right decision.**

Lt. macro trends: Real GDP



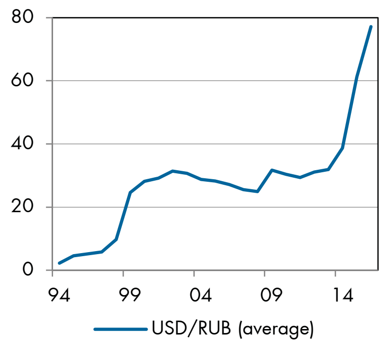
Source: wiiw, Thomson Reuters, RBI/Raiffeisen RESEARCH

Lt. macro trends: Consumption



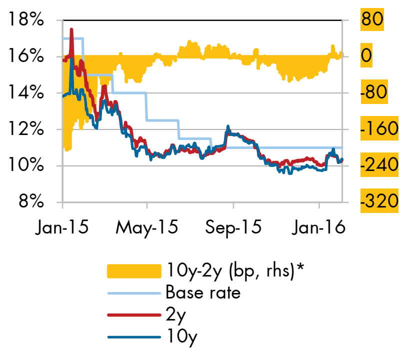
Source: wiiw, Thomson Reuters, RBI/Raiffeisen RESEARCH

Long-term USD/RUB trend



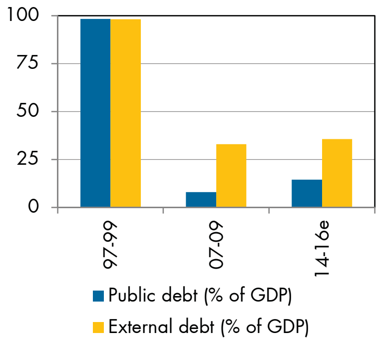
Source: wiiw, Bloomberg, RBI/Raiffeisen RESEARCH

OFZs to price out rate cut bets



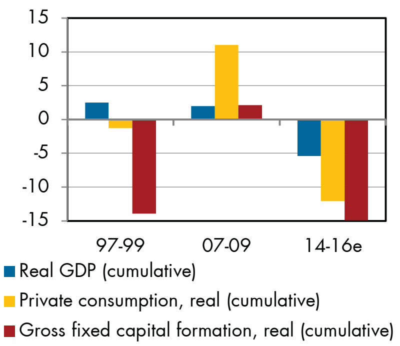
** steepness: 10y-2y spread*
10y-2y spread: 5y high 162; 5y low -238
Base rate: 5y high 17.00; 5y low 5.50
2y: 5y high 17.5; 5y low 5.7
10y: 5y high 17.0; 5y low 6.4
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Public & external debt in crisis times



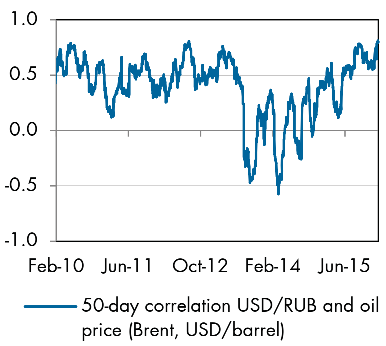
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Cumulative change 3-year periods



Source: wiiw, Thomson Reuters, RBI/Raiffeisen RESEARCH

RUB/oil correlation at its highs



Source: Bloomberg, RBI/Raiffeisen RESEARCH

Local currency bonds more or less shrugged off RUB depreciation in Q4 2015. At that time, OFZ market pricing leaned towards more rate cuts than our very cautious call of 100bp cumulative rate cuts in Q1 2016. January's acute rouble weakness on the re-intensification of triple EM fears (China, oil, Fed), however, prompted the **partial pricing-out of the overly aggressive rate cut bets and led to a correction on the OFZ market**. Seeing this we turned bearish on Russian debt during January since we had to factor in more unfavourable pass-through effects from the weak exchange rate to inflation. Consequently, future disinflationary base effects that eventually materialised last December for the first time could be offset – a view that is also shared by the CBR according to its hawkish comments recently. Against this backdrop, **we have lost conviction that the CBR will have the room to resume rate cuts in 2016 at all,** which also affects our OFZ market outlook. The rising fiscal pressure on lower economic activity is another macro implication negative for the OFZ market in terms of rising supply risks: Russian authorities will likely have to issue more OFZs than under our former, more optimistic macro scenario. Net-net, we expect rather **volatile price movements throughout the year around current levels**, while the normalisation of the currently flat OFZ curve should continue moderately. As long as disinflation is not capable of anchoring inflation expectations, we assume that the CBR will rather choose to fall behind the curve in exchange for its inflation-fighting credibility.

The revision of our Russia scenario is not challenging our **still constructive country risk premia view** per se, as reflected in our current **Buy recommendation for Russian Eurobonds**. We still see Russia as fairly advanced in terms of required adjustments in commodity-driven economies globally, and the Emerging Markets in general. Due to economic deterioration, low investments, etc., Russia did not participate in the private sector debt leveraging cycle (e.g. in corporate debt or with regard to cross-border bank lending) which has characterised the global EM in the last few years. In fact, **Russia was already in external debt deleveraging mode over the last 12-24 months**, while other EM continued increasing their external leverage up until recently. That said, other EM still have to show how they can achieve an orderly deleveraging in times of tighter domestic and external financing conditions. With regards to the broader EM competition, **we also see Russia relatively well positioned for a longer period of low oil prices, compared to some other oil-dependent economies such as Mexico, Nigeria or the major Gulf economies**. With regard to the fiscal position and the C/A balance, we expect Russia's outperformance compared to these economies (as was already visible in 2014 and 2015) to continue well into 2016. On top of that, the frontloaded shift to a free float in 2014 substantially improved the international competitiveness of the Russian economy, allowing for the external adjustment of the C/A and easing the impact of the oil price decline on budget revenues and GDP. Moreover, **we see supply-side risks in terms of new issuances** (that may emerge despite the still fairly tight fiscal stance) **to be concentrated more on local markets for the time being. Furthermore, we expect the policy preferences for prudent macroeconomic policies to prevail.** The focus on preserving solid macroeconomic policies seems to be driven by both deep-rooted ideological thinking as well as the opportunistic desire to protect reserve assets to the extent possible.

A more granular view on our Russia scenario revisions (baseline as well as a downside scenario) will be released in the course of next week.

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

Data releases and country coverage

This week, previous week: key data releases

Indicator	Period	Actual	Forecast	Prev.
Monday, 1 February				
CZ: PMI, points	Jan	56.9	55.0	55.6
HU: PMI, points	Jan	53.0	n.a.	49.1
RS: GDP, % yoy nsa	Q4	1.3	n.a.	2.2
PL: PMI, poins	Jan	50.9	n.a.	52.1
RU: PMI, points	Jan	49.8	n.a.	48.7
TR: PMI, points	Jan	50.9	n.a.	52.2
Tuesday, 2 February				
HU: Trade balance, EUR mn final	Nov	687.0	n.a.	673.0
Wednesday, 3 February				
HR: Retail sales, % yoy real	Dec	4.8	3.5	3.2
HU: Retail sales, % yoy	Dec	4.5	n.a.	4.3
RO: Retail sales, % yoy	Dec	13.0	n.a.	12.8
PL: Key rate, % yoy	Feb	1.50	1.50	1.50
SK: Retail sales, % yoy	Dec	2.7	n.a.	3.2
TR: CPI, % yoy	Jan	9.6	n.a.	8.8
Thursday, 4 February				
CZ: Key rate, %	Feb	0.05	0.05	0.05
CZ: Retail sales, % yoy	Dec	8.7	8.0	8.7
Friday, 5 February				
HU: Industrial output, % yoy wda	Dec	6.9	n.a.	7.1
RO: Key rate, %	Feb	1.75	1.75	1.75
SI: CPI, % yoy	Jan	-0.5	n.a.	-0.5

Indicator	Period	est.	High	Mean	Low	Prev.
Monday, 8 February						
CZ: Industrial output, % yoy	Dec	5.6	7.7	5.8	4.0	5.7
CZ: Trade balance, CZK bn	Dec	-2.0	0.0	-3.8	-6.8	14.3
HU: Trade balance, EUR mn	Dec	n.a.	400.0	332.5	250.0	n.a.
UA: CPI, % yoy	Jan	41.0	41.5	40.7	40.1	43.3
BG: Industrial output, % yoy	Dec	2.0	n.a.	n.a.	n.a.	1.7
BG: Retail sales, % yoy	Dec	3.0	n.a.	n.a.	n.a.	2.0
BY: CPI, % yoy	Jan	12.0	n.a.	n.a.	n.a.	12.0
TR: Industrial output, % yoy	Dec	4.5	5.3	3.9	2.7	3.5
Wednesday, 10 February						
SI: Industrial output, % yoy	Dec	2.0	n.a.	n.a.	n.a.	4.2
Thursday, 11 February						
HR: Retail sales, % yoy real final	Dec	4.8	n.a.	n.a.	n.a.	4.8
HU: CPI, % yoy	Jan	1.0	1.3	1.2	1.0	0.9
RS: Key rate, % yoy	Feb	4.50	n.a.	n.a.	n.a.	4.50
RU: Trade balance, USD bn	Dec	n.a.	10.5	9.6	7.9	9.1
SK: Industrial output, % yoy	Dec	n.a.	n.a.	n.a.	n.a.	11.9
Friday, 12 February						
CZ: CPI, % yoy	Jan	0.6	0.6	0.4	0.2	0.1
HU: GDP, % yoy nsa	Q4	2.7	3.4	2.7	2.2	2.4
RO: Industrial output, % yoy	Dec	n.a.	n.a.	n.a.	n.a.	2.6
RO: GDP, % yoy	Q4	n.a.	n.a.	n.a.	n.a.	3.6
PL: GDP, % yoy	Q4	3.9	3.9	3.8	3.6	3.5
PL: C/A balance, EUR mn	Dec	-105.0	333.0	-256.5	n.a.	620.0
PL: Trade blance, EUR mn	Dec	37.0	800.0	127.0	-401.0	756.0
PL: CPI, % yoy	Jan	-0.5	-0.3	-0.5	-0.6	-0.5
BG: GDP, % yoy wda	Q4	n.a.	n.a.	n.a.	n.a.	2.9

Source: Bloomberg, RBI/Raiffeisen RESEARCH

Bosnia and Herzegovina (BA) – This week saw the publication of numerous macroeconomic figures as of December 2015, which confirmed the country's economic expansion in the previous year. Industrial production in 2015 reported an increase of 2.6% yoy, which is slightly lower than our estimation, but also represents the third consecutive year in which industry has reported growth. The positive contribution to total industrial production came from manufacturing (4.8% yoy) and mining and quarrying (3.5% yoy), while the electricity, gas and water supply declined by 1.2% compared to the year before. As for 2016, we remain positive in terms of industrial production dynamics with a target growth rate of between 5% and 6% yoy. Exports of goods went up by 3.5% yoy while imports of goods declined by 2.1% yoy in 2015 (both in line with expectations). Accordingly, the foreign trade deficit in 2015 declined by 8.7% yoy to EUR 3.5 bn, while the export/import ratio increased to 56.7% compared to 53.6% in 2014. In 2016 we expect these positive dynamics from 2015 to continue in terms of goods exports (driven by positive economic dynamics in our key markets of Germany, Italy, Austria, etc.) while goods imports should also return to positive territory driven by the recovery of private consumption, imports of materials for large investment projects (energy sector) and higher oil prices on the world markets (oil is the largest import category for B&H). The retail trade in 2015 reported expansion of 7.8% yoy, much stronger than in 2014 (1.9% yoy) while a continuation of the positive figures in retail and consequently in private consumption remains our baseline scenario for 2016.

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

Croatia (HR) – The real retail trade in December grew by 4.8% yoy (wda). The strongest reading in over eight years points to an acceleration of retail turnover in the last quarter of 2015 (3.3% yoy vs 2.3% yoy in Q315) and a positive contribution of household consumption to Q4 GDP. The final data (scheduled for Thursday, 11 February) are supposed to confirm that the increase is driven by 21.6% yoy growth in (new) car sales, the lack of any inflationary pressures (drop in fuel prices) and an overall improvement of consumer confidence due to labour market stabilisation and higher disposable income. The moderately positive retail trade growth rates should continue through this year as the slight improvement expected on the labour market might be accompanied by low inflation, while household deleveraging is expected to come to a halt. Next week`s economic calendar brings foreign trade data for December. The improved trading conditions and stronger foreign demand support our expectations of further solid growth in exports.

Financial analyst: Zrinka Živković Matijević (+385 1 6174 338), Raiffeisenbank Austria d.d., Zagreb

Czech Republic (CZ) – Yesterday the Czech National Bank (CNB) left its key interest rates unchanged and confirmed its commitment to intervene on the foreign exchange market if needed to weaken the koruna, so that the exchange rate of the koruna against the euro is kept close to CZK/EUR 27. Importantly and expectedly, the new CNB forecast is significantly lower at the current level of inflation compared to the old forecast. Nevertheless, as the oil price is expected to rise, the inflation rate is forecast to reach 2% at the beginning of 2017. The new CNB forecast assumes the FX intervention regime will draw to a close at the beginning of 2017. The CNB board members now expect H1 2017 to be the most probable time for the end of the FX intervention regime. Until now the CNB expected the current regime to finish around the end of 2016. Furthermore, the CNB issued a "harder" commitment saying it would not exit the FX intervention regime sooner than in 2017. The CNB sees the risks to its inflation forecast as balanced. It will be important to see the inflation development at the beginning of 2016. The CNB is expecting CPI inflation to total 0.8% yoy in Q1. Our estimate is lower at 0.5%, and the market expectation is even lower. For the time being, however, we are sticking to our main scenario of the CNB exiting the intervention regime at the beginning of 2017. If there are strong speculations on CZK appreciation leading to strong FX intervention, we cannot rule out negative interest rates, which are not part of our baseline scenario. More information about the "Timing and possible scenarios for FX regime abandoning" can be found in our recently published CZK report from 3 February 2016.

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

Hungary (HU) – The week ahead brings a series of important macro data releases including January's consumer price inflation and the Q4 2015 GDP estimate, as well as the minutes of the latest rate-setting meeting of the Monetary Council. As for consumer prices (11 February), we expect a 1% yoy increase (vs. 1.2% Bloomberg consensus). While this is likely to be the highest inflation reading over the past 27 months, the outlook is not promising: the 1% level will not be surpassed in the next 6 months according to our forecast; therefore, meeting the 3% inflation target is out of sight in the course of 2016. Most probably the MNB will revise its inflation forecast for 2016 and 2017 in the next inflation report (from 1.7% and 2.6% respectively - to be released in March). This might be a trigger for the rate cut move we expect, therefore it will be highly interesting to read the minutes of the last rate-setting meeting (10 February).

The Q4 GDP flash estimate is also to be released next week (12 February). We expect a rebound of the growth rate (from 2.4% yoy in Q3 we forecast 2.7% yoy for Q4) given the weaker drag from agriculture (for seasonal reasons), the continued upswing in industry output and strong household consumption growth. Full-year GDP growth could then be 2.8% in 2015 (down from 3.7% in 2014) – nevertheless the risk is on the upside both for the Q4 and the full figure (even data revisions may support a positive shift in the data).

Financial analyst: Zoltán Török (+36 1 484 48 43), Raiffeisen Bank Zrt., Budapest

Poland (PL) – The only macro data published this week was PMI for January, which fell well below expectations and dropped to 50.9 points vs. 52.1 in December. The drop was mainly caused by lower current output and a slower inflow of new orders. Another sign of weaker manufacturing activity was the increasing spare capacity of enterprises, shorter delivery times and lower purchases. The low reading supports our forecast for industrial output in January, which we assume will be merely 0.9% yoy vs. 6.7% in December (although calendar effects will also dampen the dynamics).

Meanwhile, the Monetary Policy Council meeting did not produce any surprises despite a change in three of its members. The wait-and-see stance is still intact and should remain so over 2016.

Next week will feature CPI and current account data (Friday). There was no flash CPI reading this month as the data will be revised in March anyway due to the change in the inflation basket. For now we expect the indicator to stabilise at -0.5% yoy. With a renewed drop in commodity prices in January it seems that deflation might be prolonged even until Q3.
Meanwhile, the current account balance for December should show only a minor deficit with persistently solid export dynamics above 10% yoy (supported by weak PLN) and relatively high imports near 6% yoy.

Financial analyst: Dorota Strauch (+48609920663), Raiffeisen Polbank, Warsaw

Romania (RO) – The week ending today was rather light in terms of macroeconomic releases, the most significant including retail sales in December (+0.6% mom, adding gains to the large increases registered previous months). Thus deflated turnover in retail sales posted a solid advance in Q4 (5.2% qoq), further supporting private consumption and GDP. At today's monetary policy meeting the National Bank of Romania (NBR) is expected to keep the key interest rate unchanged at 1.75%, as well as the minimum reserve requirements. At the beginning of next week the NBR will release its revised inflation rate forecast. Also, later today the NBR will publish data on liquidity conditions in the money market during January, which should have been very high.
The week ahead will see the release of other interesting macroeconomic data, i.e. the evolution of net earnings in December as well the foreign trade balance in the same period, providing more information on the evolution of economic activity in Q4. Still, investor sentiment towards RON assets will most likely be driven by developments on the external markets.

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

Russia (RU) – At this week's auction, the Ministry of Finance offered CPI-linkers amounting to RUB 12.1 bn. Although demand reached RUB 18 bn, the final placement (RUB 8.2 bn) was lower than the offered amount. The MinFin probably decided not to offer a premium to the secondary market, and it is likely that the bulk amount was placed among pension management companies. Low oil prices suggest risks for RUB and inflation, which is a point of concern for the Central Bank of Russia (CBR). Under such circumstances, CPI protection papers might be attractive for investors. However, the structure of these papers (OFZ 52001) entails certain weaknesses for the holders, as during the life of the bond they receive only a low coupon (~2.5% p.a.) which translates into a large negative carry for the local banks. Besides, there will be no new pension savings on the market this year, which limits price growth potential. At the same time, investors demonstrated high demand for the new traditional issue (OFZ 26217). The whole offered amount (RUB 15 bn) was placed with a 4x oversubscription. The cut-off yield (YTM 10.54%) did not imply a premium to the secondary market. We note that additional demand has appeared from the local banks due to new liquidity coverage ratio (LCR) requirements for large banks. Besides, there was speculative demand on the auction driven by the recent RUB appreciation.

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

Raiffeisen RESEARCH

Monetary policy and money markets overview

CEE key interest and money markets outlook

Poland	curr.*	Mar-16	Jun-16	Sep-16	5y high	5y low
Key interest rate (%, eop)	1.50	1.50	1.50	1.50	4.75	1.50
1m money market rate (%, eop)	1.49	1.63	1.63	1.63	4.82	1.49
3m money market rate (%, eop)	1.59	1.70	1.70	1.71	5.04	1.55
6m money market rate (%, eop)	1.75	1.75	1.75	1.76	5.07	1.56
Hungary						
Key interest rate (%, eop)	1.35	1.00	1.00	1.00	7.00	1.35
1m money market rate (%, eop)	1.35	1.00	1.05	1.05	7.30	1.34
3m money market rate (%, eop)	1.35	1.00	1.05	1.05	7.65	1.35
6m money market rate (%, eop)	1.35	1.10	1.15	1.15	7.93	1.35
Czech Republic						
Key interest rate (%, eop)	0.05	0.05	0.05	0.05	0.75	0.05
1m money market rate (%, eop)	0.20	0.22	0.22	0.20	1.00	0.19
3m money market rate (%, eop)	0.29	0.30	0.30	0.30	1.25	0.28
6m money market rate (%, eop)	0.37	0.40	0.40	0.45	1.58	0.36
Romania						
Key interest rate (%, eop)	1.75	1.75	1.75	1.75	6.25	1.75
1m money market rate (%, eop)	0.54	1.10	1.55	1.70	6.33	0.31
3m money market rate (%, eop)	0.81	1.30	1.60	1.75	6.20	0.60
6m money market rate (%, eop)	1.04	1.40	1.65	1.80	6.40	0.75
Russia**						
Key interest rate (%, eop)	11.00	10.00	10.00	10.00	17.00	5.50
1m money market rate (%, eop)	11.74	10.65	10.70	10.80	29.16	3.43
3m money market rate (%, eop)	11.97	10.70	10.80	10.90	29.93	3.75
6m money market rate (%, eop)	12.10	10.75	10.90	11.00	30.31	4.12
Turkey						
Key interest rate (%, eop)	7.50	9.50	9.50	9.50	10.00	4.50
1m money market rate (%, eop)	11.94	12.00	11.50	11.00	12.04	4.61
3m money market rate (%, eop)	11.94	12.10	11.60	11.10	12.15	4.74
6m money market rate (%, eop)	12.02	12.10	11.60	11.10	12.48	5.12

Benchmark key rates (% eop)	curr.*	Mar-16	Jun-16	Sep-16	5y high	5y low
ECB key interest rate (% eop)	0.05	0.05	0.05	0.05	1.50	0.05
Fed key interest rate (% eop)	0.38	0.75	0.75	1.00	0.38	0.01

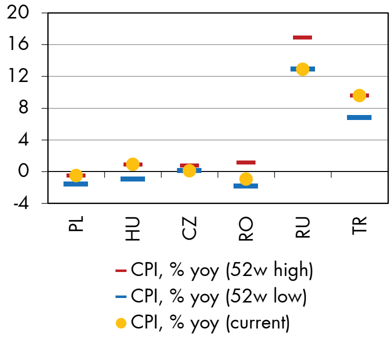
** Bid rates (for Hungary ask rates) as of 5 February 2016, 09:22 a.m. CET; ** under revision*
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Central bank watch

Poland (NBP)	Likely delay in headline reflation should not trigger central bank to resume rate cuts even in light of a more dovish MPC taking office in March. New macro assumption and new MPC member's comments worth monitoring going forward. While more unconventional easing measures cannot be excluded, rate hikes are not likely before H2 2017.
Hungary (MNB)	MNB remains in easing mood in light of relabeled cheap loan program and cancellation of 2w depo facility by Q2. The latter should channel additional liquidity in longer-dated CB facilities and HGBs. In contrast to consensus, finally, we still see significant chances for another downward adjustment to the base rate especially if bearish oil market hinders headline reflation for longer.
Czech Republic (CNB)	Exit from FX intervention regime – introduced to keeping CZK above EUR/CZK 27.00 – could be delayed beyond Q4 2016. We do not expect a negative base/deposit rate, even more excessive CZK appreciation remains the major challenge for CNB in times of exit; rate liftoff not earlier than Q2 2017 expected.
Romania (BNR)	Rate cutting cycle likely over despite dramatic tax-cut-induced fall in CPI. More cuts to MRR expected following the latest cut to FX MRR, although deterioration in fiscal outlook weighs increasingly on MP outlook. Exit from ultra-loose liquidity conditions major monetary policy challenge in 2016.
Serbia (NBS)	Central bank might remain on-hold which eases somewhat our concerns in terms of overdoing rate cuts especially since investors' bullish sentiment would suggest more. Low-rate environment intended to be maintained as long as possible.
Russia (CBR)	CBR is set to remain hands-off due to RUB weakness/volatility and related inflationary risks. Marked drop in CPI most recently, but further disinflationary base effects could be hampered by latest RUB depreciation. Our forecasts are under revision currently with a tendency of a flat base rate throughout 2016.
Turkey (TCMB)	TCMB dropped simplification of MP toolkit out of its latest statement after it held rates stable anew. Central bank seems paralyzed. Currently weighted average costs of funding tighter, but simplification would require upwards adjustment of 1w repo rate amidst prevailing (geo)political and inflationary risks.

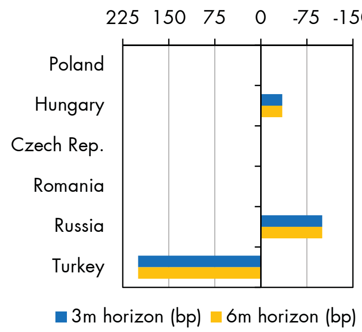
Source: Bloomberg, Reuters, RBI/Raiffeisen RESEARCH

Inflation snapshot



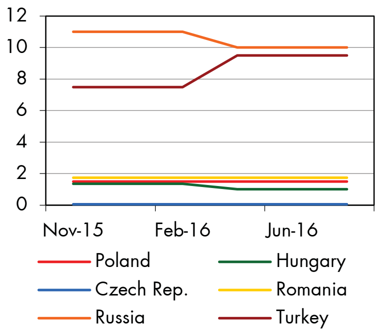
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Key rate forecast (chg., bp)



RU under revision
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Key rate trends



RU under revision
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Rate setting meetings

	Feb	Mar
Poland (NBP)	3	9
Hungary (MNB)	23	22
Czech Rep. (CNB)	4	31
Romania (NBR)	5	
Serbia (NBS)	11	17
Russia (CBR)	18	29
Turkey (TCMB)	23	24

Source: National Central Banks, RBI/Raiffeisen RESEARCH

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

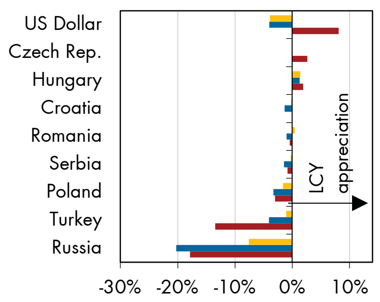
Foreign exchange market overview

FX forecasts

EUR vs	current[1]	Mar-16	Jun-16	Sep-16	5y high	5y low	Comment
PLN	4.42	4.40	4.35	4.30	4.57	3.88	EUR/PLN remains at elevated levels given uncertainty (politics, FX loan conversion etc.); we expect EUR/PLN to remain in a volatile sideways movement of 4.40 in the near-term; benign economics to support the zloty in the course of 2016, but zloty remains susceptible to weakening from negative external news-flow in the short-term
HUF	310.5	310.0	315.0	315.0	322.6	262.3	Despite short-term break-outs EUR/HUF expected to remain in 310-315 range; but 2016 likely to bring moderate depreciation for forint on central bank policy and US rate hikes
CZK	27.02	27.00	27.00	27.00	28.37	24.01	EUR/CZK to remain near intervention level of 27.0; CPI and intervention data to give further indication on the FX regime abandoning; CNB revised inflation trajectory lower, thus also delaying FX cap scrapping into H1 2017
RON	4.51	4.40	4.45	4.40	4.64	4.07	RON has been affected by external topics such as tumbling financial markets, but now it seems that investors gave preferential treatment to Romanian assets in comparison to some other CEE countries
HRK	7.66	7.68	7.60	7.65	7.72	7.36	Calm trading is expected to be continued whereas the trading range might be between 7.64 -7.67 kuna per euro
RSD	122.4	123.0	122.0	124.0	123.7	96.7	Early elections weigh on EUR/RSD, central bank is softening pressure on RSD via FX interventions; no rate cut to be expected
RUB**	86.75	86.10	82.40	75.75	89.47	38.43	see USD/RUB below
UAH	29.05	25.20	25.75	27.27	37.78	9.74	see USD/UAH below
BYR	24,221	24,150	25,235	25,250	24,221	4,071	see USD/BYR below
TRY	3.27	3.20	3.09	2.98	3.46	2.14	see USD/TRY below
USD	1.12	1.05	1.03	1.01	1.49	1.05	Expectation on further US Fed rate hikes to support USD against euro
USD vs	**current[1]**	**Mar-16**	**Jun-16**	**Sep-16**	**5y high**	**5y low**	**Comment**
RUB**	77.51	82.00	80.00	75.00	82.28	27.28	RUB is expected to continue following the oil price movement closely; speculation on Russia-OPEC deal for production cut continues, thus supporting oil price and RUB; while short-term pressure on rouble is likely to persist, we project oil price recovery for the coming quarters to give support to the RUB
UAH	25.95	24.00	25.00	27.00	33.75	7.93	Political jitters weigh on the hryvnia and overall depreciation pressure will continue; but prolongation of most critical administrative FX restrictions until 4 March 2016 will prevent stronger depreciation for UAH; the central bank commitment will determine how fast and when we will see more depreciation
BYR	21,680	23,000	24,500	25,000	21,950	3,002	Central Bank announced that Belarussian rouble will be redenominated from 1 July 2016; depreciation tendency of BYR to remain, while receiving additional pressure from weakening RUB
TRY	2.92	3.05	3.00	2.95	3.06	1.51	Positive outcome at the donor conference (Syria) in London, but also expectations that rate hikes in US will be much slower, might support TRY; however, due to security concerns and political differences the risks for renewed depreciation of TRY remain

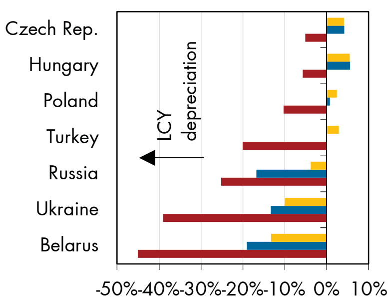
*1 as of 5 February 2016, 09:57 a.m. CET; ** under revision*
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Change of LCY value to EUR (%)



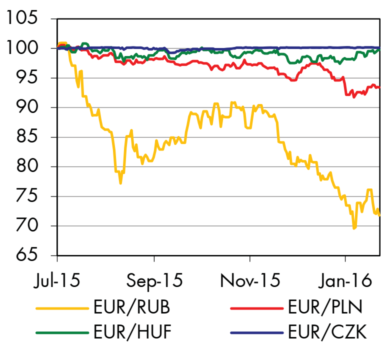
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Change of LCY value to USD (%)



Source: Bloomberg, RBI/Raiffeisen RESEARCH

Exchange rate comparison



Indexed Jul 2015 = 100
Source: Bloomberg

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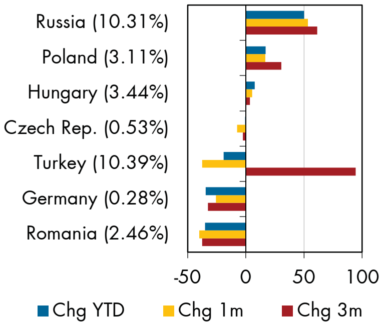
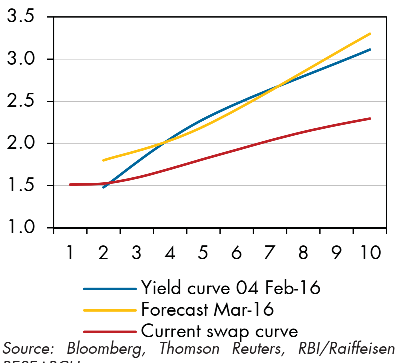
Local currency bond market overview

Change of LCY 10y bond yields (bp)



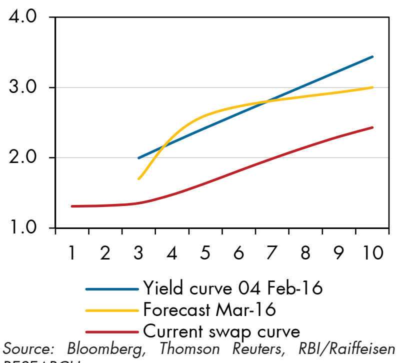
Source: Bloomberg, RBI/Raiffeisen RESEARCH

PLN yield curve



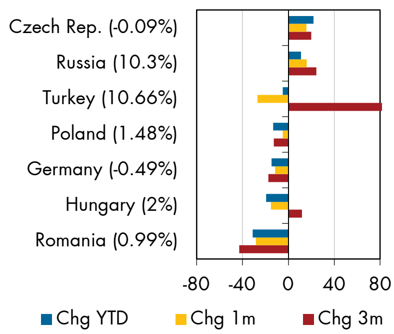
Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

HUF yield curve



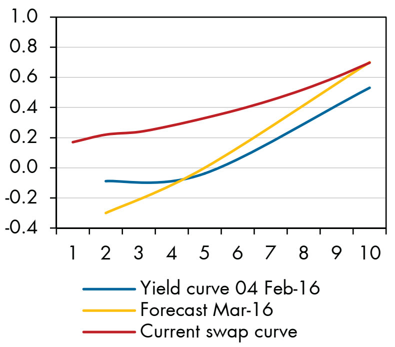
Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

Change of LCY 2y bond yields (bp)



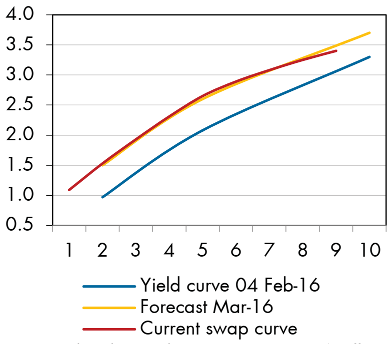
Source: Bloomberg, RBI/Raiffeisen RESEARCH

CZK yield curve



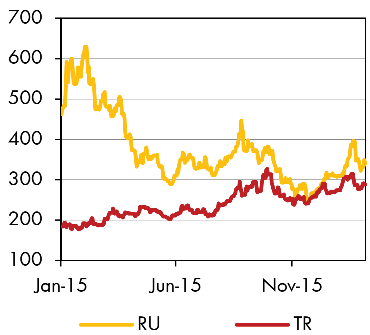
Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

RON yield curve



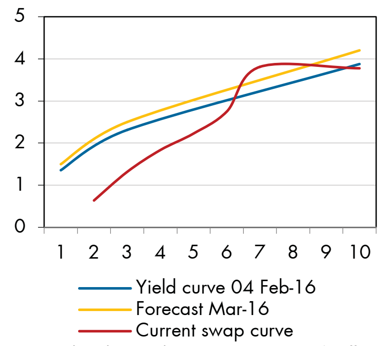
Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

5y USD CDS spreads



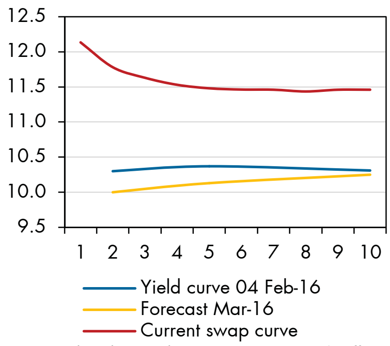
Turkey 5y high 343.7, 5y low 111.7; Hungary 5y high 735, 5y low 114.9; Russia 5y high 628.7, 5y low 118.7
Source: Bloomberg, RBI/Raiffeisen RESEARCH

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*	Mar-16	Jun-16	Sep-16	5y high	5y low		current*	Mar-16	Jun-16	Sep-16	5y high	5y low
Poland	1.48	1.8	1.9	2.0	5.1	1.3	Poland	3.11	3.3	3.4	3.4	6.3	2.0
Hungary**	2.00	1.7	1.7	1.8	10.2	1.5	Hungary	3.44	3.0	3.2	3.3	10.7	2.7
Czech Rep.	-0.09	-0.3	-0.3	-0.2	2.0	-0.4	Czech Rep.	0.53	0.7	0.8	0.9	4.3	0.3
Romania	0.97	1.5	1.6	1.7	7.3	0.9	Romania	3.30	3.7	3.9	4.0	7.6	2.6
Croatia	1.78	2.5	2.5	2.6	6.3	1.6	Croatia	3.88	4.2	4.3	4.3	4.3	3.8
Russia***	10.30	10.0	10.0	10.0	17.5	5.5	Russia***	10.22	10.3	10.5	10.4	16.1	6.5
Turkey	10.79	11.0	10.5	10.0	11.3	4.9	Turkey	10.40	11.0	10.7	10.3	11.0	6.0
Eurozone	-0.49	-0.4	-0.4	-0.4	1.9	-0.5	Eurozone	0.28	0.5	0.5	0.8	3.5	0.1
USA	0.71	1.2	1.2	1.4	1.1	0.2	USA	1.84	2.2	2.4	2.7	3.7	1.4

Bid yields as of 5 February 2016, 09:52 a.m. CET; ** 3y; * 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	25/04/2018	3.75	104.99	1.44	193	2.1	Local bonds weathered rating downgrade quite well, providing a significant risk buffer currently. Rate cut bets remain volatile and we expect rest of rate cut bets to get priced-out in Q2 2016 despite subdued headline inflation. More bond-market-friendly regulatory easing and possibly stepped-up ECB easing should support local debt market.
PLN 5y Gov. Bond	25/04/2021	2.00	98.76	2.25	251	4.9	
PLN 10y Gov. Bond	25/07/2026	2.50	94.76	3.09	281	9.2	
				Hungary			
HUF 3y Gov. Bond	30/10/2019	2.00	100.36	1.90	235	3.6	LCY debt market continues to shrugging-off souring of broader EM sentiment. Going forward HGBs should remain supported by MP easing speculations, i.e. bond-market-friendly MNB measures and, finally, intensifying speculations in terms of more ECB accommodation in March.
HUF 5y Gov. Bond	27/10/2021	2.50	100.80	2.35	261	5.4	
HUF 10y Gov. Bond	27/10/2027	3.00	96.66	3.35	307	9.9	
				Czech Republic			
CZK 2y Gov. Bond	17/03/2018	0.85	102.14	-0.17	33	n.a.	CZGB spread widened on deflationary concerns. Positioning for strong CZK appreciation in conjunction with the scrapping of the FX cap should re-intensify as 2016 progresses, so there should be room left for spread tightening over Bunds.
CZK 5y Gov. Bond	12/09/2020	3.75	117.76	-0.11	15	n.a.	
CZK 10y Gov. Bond	17/09/2025	2.40	118.20	0.46	18	8.7	
				Croatia			
HRK 2y Gov. Bond	25/11/2017	6.25	108.60	1.37	163	1.7	The renewed decrease of 1-year T-bill yields (by 10bp) imply further pressure on the HRK bonds yield curve.
HRK 10y Gov. Bond	09/07/2025	4.50	106.08	3.73	345	7.8	
				Romania			
RON 3y Gov. Bond	17/01/2018	3.25	104.08	1.11	156	1.9	In line with CE peers, Romanian local debt market felt broader EM jitters only moderately and remained on solid footing. Front-end remains hardly cemented on excess liquidity conditions, especially in light of further expected MRR cuts by the BNR. Back-end of RON curve expected to remain quite stable in the short run.
RON 5y Gov. Bond	29/04/2020	5.75	115.19	1.97	223	3.8	
				Russia			
RUB 2y Gov. Bond	15/03/2018	7.50	95.67	10.07	1057	1.9	OFZs increasingly learn that rate cut bets were too aggressive. Since likelihood of resumed rate cuts is diminishing due to inflation risks and growing fiscal pressure in 2016 should weigh technically on the supply-side, room for gains seems limited in the next few months.
RUB 5y Gov. Bond	03/08/2016	6.90	98.97	9.33	959	0.5	
RUB 8y Gov. Bond	24/11/2021	6.50	86.65	9.87	959	4.9	
				Turkey			
TRY 2y Gov. Bond	14/06/2017	9.60	98.56	10.49	1099	1.3	LCY debt market hit harder by New Year's GEM jitters than CE/SEE region, whilst dovish Fed mitigated the overall pressure most recently. Yield levels seem now high enough to consider re-entering, but before we re-enter the market we would like to see MP nomalisation and more political calculability.
TRY 5y Gov. Bond	08/07/2020	9.40	96.25	10.48	1074	3.6	
TRY 10y Gov. Bond	12/03/2025	8.00	86.05	10.40	1012	6.1	

Data as of 5 February 2016, 09:52 a.m. CET
Source: Bloomberg, RBI/Raiffeisen RESEARCH

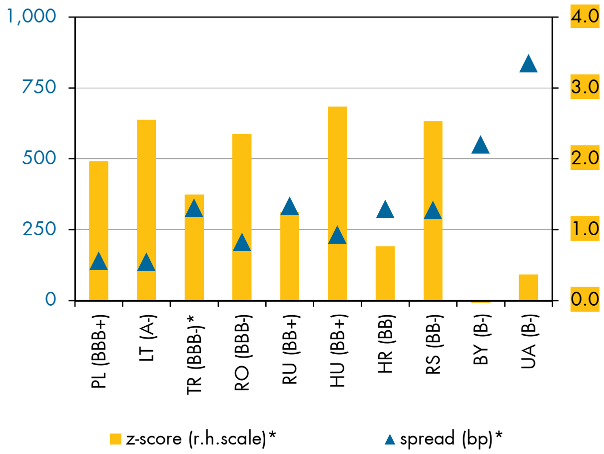
Bond auctions

		ISIN	Coupon	Maturity	Volume
9 February 2016					
UA	T-bonds	n.a.	n.a.	n.a.	n.a.
10 February 2016					
UA	T-bonds	n.a.	n.a.	n.a.	n.a.
RU	T-bonds	n.a.	n.a.	n.a.	n.a.
11 February 2016					
HU	T-bonds	n.a.	floating	n.a.	n.a.

Raiffeisen RESEARCH

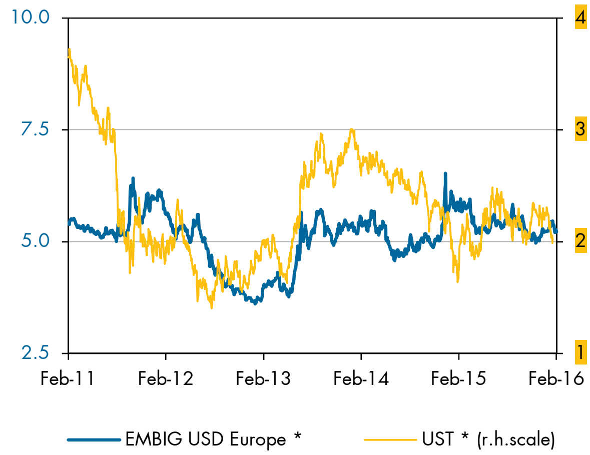
Eurobond market overview

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 vs.	Mdur.	ISIN
Issuer/rate/due	**Bid**	**Ask**	**w/w %**	**5y max**	**5y min**	**% p. a.**	**Bmk, bp**	**years**	**—**
EUR									
BGARIA 4 1/4 07/09/17	105.8	106.1	-0.09	111.8	100.3	0.04	49	1.4	XS0802005289
CROATI 5 7/8 07/09/18	109.3	109.6	-0.15	112.2	87.7	1.82	228	2.2	XS0645940288
REPHUN 3 1/2 07/18/16	101.4	101.5	n.a.	104.6	76.8	0.18	56	0.4	XS0240732114
REPHUN 5 3/4 06/11/18	111.4	111.9	0.00	115.1	79.7	0.70	117	2.2	XS0369470397
REPHUN 6 01/11/19	114.5	114.8	0.26	118.4	86.4	0.91	135	2.7	XS0625388136
LITHUN 4.85 02/07/18	109.9	110.2	-0.06	114.3	94.5	-0.18	31	2.0	XS0327304001
POLAND 3 5/8 02/01/16	100.0	100.1	0.03	109.0	97.8	n.a.	n.a.	n.a.	XS0242491230
POLAND 1 5/8 01/15/19	104.0	104.6	0.08	105.5	98.0	0.15	59	2.9	XS0874841066
POLAND 3 3/4 01/19/23	118.1	118.6	0.54	125.5	99.9	1.00	109	6.2	XS0794399674
POLAND 3 3/8 07/09/24	114.9	115.6	0.44	125.6	99.6	1.44	135	7.3	XS0841073793
ROMANI 5 1/4 06/17/16	101.8	102.0	-0.10	108.7	95.8	-0.13	24	0.4	XS0638742485
ROMANI 4 7/8 11/07/19	115.5	115.9	0.00	117.8	99.3	0.62	101	3.5	XS0852474336
TURKEY 5 7/8 04/02/19	112.3	113.1	-0.47	119.4	101.2	1.70	213	2.8	XS0285127329
TURKEY 5 1/8 05/18/20	110.9	111.7	-0.45	115.9	95.4	2.31	267	3.8	XS0503454166
USD									
BELRUS 8.95 01/26/18	103.2	104.3	0.55	111.2	70.0	6.85	615	1.8	XS0583616239
CROATI 6 3/8 03/24/21	108.3	108.9	0.09	117.8	86.7	4.47	322	4.3	XS0607904264
CROATI 5 1/2 04/04/23	104.3	104.9	0.03	108.6	94.4	4.73	314	5.8	XS0908769887
REPHUN 5 3/8 02/21/23	109.3	109.7	-0.10	113.9	93.1	3.82	225	5.8	US445545AH91
REPHUN 7 5/8 03/29/41	136.3	137.2	-0.06	150.3	79.5	5.03	254	12.8	US445545AF36
LITHUN 7 3/8 02/11/20	118.1	118.5	0.01	130.7	104.8	2.55	149	3.4	XS0485991417
LITHUN 6 5/8 02/01/22	120.5	121.1	-0.15	128.6	101.0	2.82	142	5.1	XS0739988086
LATVIA 2 3/4 01/12/20	101.1	101.5	-0.04	102.7	91.4	2.41	136	3.7	XS0863522149
LATVIA 5 1/4 06/16/21	113.2	113.7	-0.16	117.2	90.9	2.55	125	4.7	XS0638326263
POLAND 6 3/8 07/15/19	113.6	114.0	0.47	125.9	107.4	2.18	122	3.1	US731011AR30
POLAND 3 03/17/23	99.5	100.1	1.08	103.6	87.6	3.04	146	6.3	US731011AT95
ROMANI 6 3/4 02/07/22	118.6	118.9	0.41	124.4	99.2	3.27	187	5.0	US77586TAA43
ROMANI 4 3/8 08/22/23	105.7	106.0	0.60	109.5	90.8	3.48	186	6.3	US77586TAC09
RUSSIA 4 1/2 04/04/22	100.7	101.3	-0.02	114.7	82.0	4.31	288	5.3	XS0767472458
RUSSIA 7 1/2 03/31/30	120.3	120.6	0.31	128.7	99.6	2.78	76	4.1	XS0114288789
RUSSIA 5 5/8 04/04/42	95.0	95.9	0.07	124.9	76.0	5.97	345	13.0	XS0767473852
SERBIA 5 1/4 11/21/17	103.5	104.1	0.10	107.1	96.8	3.05	238	1.7	XS0856951263
SERBIA 4 7/8 02/25/20	101.7	102.4	-0.18	104.6	89.6	4.31	325	3.6	XS0893103852
TURKEY 6 1/4 09/26/22	109.2	109.8	-0.61	127.0	101.0	4.57	306	5.3	US900123BZ27
TURKEY 6 7/8 03/17/36	112.6	113.2	-0.65	139.6	99.2	5.78	350	11.1	US900123AY60
TURKEY 6 3/4 05/30/40	111.7	112.5	-0.68	139.4	97.3	5.81	335	12.4	US900123BG46
UKRAIN 7 3/4 09/01/19	92.7	93.7	-2.38	99.0	93.0	10.07	909	2.9	XS1303918269
UKRAIN 7 3/4 09/01/23	90.1	90.9	-2.29	97.8	89.4	9.55	792	5.3	XS1303921487
UKRAIN 7 3/4 09/01/27	87.8	88.7	-2.65	97.0	86.8	9.44	752	7.0	XS1303927179

** w/w - week on week, 5-y - 5-year low and high, YTM mid - yield to maturity based on mid market price, Bmk - benchmark, Mdur - modified duration, ISIN - international security identification number; prices as of 5 February 2016, 10:26 a.m. 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	stable	A	A-	stable
Hungary	BB+	BB+	stable	Ba1	Ba1	positive	BBB-	BB+	positive
Czech Republic	AA	AA-	stable	A1	A1	stable	AA-	A+	stable
Slovakia *	A+	A+	stable	A2	A2	stable	A+	A+	stable
Slovenia *	A-	A-	stable	Baa3	Baa3	stable	BBB+	BBB+	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	Ba1	Ba1	negative	BB+	BB	negative
Serbia	BB-	BB-	stable	B1	B1	stable	B+	B+	positive
CIS									
Russia	BBB-	BB+	negative	Ba1	Ba1	stable	BBB-	BBB-	negative
Ukraine	B-	B-	stable	Caa3	Caa3	stable	CCC	CCC	stable
Belarus	B-	B-	stable	Caa1	Caa1	negative	NR	NR	n.a.
Kazakhstan	BBB	BBB	negative	Baa2	Baa2	stable	A-	BBB+	stable
Turkey	BBB-	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*

Country	Year	GDP, % avg. yoy	CPI, % avg. yoy	Unemployment, %	Nominal wages, EUR	Fiscal balance, % GDP	Public debt, % GDP	Export**, % GDP	C/A, % GDP	Ext. debt, % GDP	FXR*** % ext. debt	Import cover, months
Croatia	**2015e**	1.5	-0.4	16.2	1,058	-5.0	89.9	24.9	4.7	108.9	29.0	9.6
	2016f	1.0	1.1	16.0	1,061	-4.5	93.1	26.0	1.5	109.5	27.0	8.8
	2017f	1.5	1.5	15.8	1,070	-4.1	94.9	26.6	1.5	109.8	25.8	8.5
Czech Rep.	**2015e**	4.3	0.4	6.5	972	-1.5	40.7	75.0	1.0	65.6	55.4	6.1
	2016f	2.4	1.3	6.1	1,023	-1.5	40.1	77.4	1.1	63.6	82.0	8.5
	2017f	2.4	2.0	5.9	1,104	-1.7	40.2	78.9	-0.4	63.4	79.2	8.0
Hungary	**2015e**	2.8	0.0	7.0	795	-2.3	75.8	80.3	3.7	104.6	26.5	4.5
	2016f	2.2	1.9	6.2	818	-2.2	75.0	81.3	3.7	96.9	26.1	4.0
	2017f	2.9	2.7	5.7	833	-2.4	71.5	82.5	3.6	89.8	24.6	3.4
Poland	**2015e**	3.5	-0.9	10.5	939	-3.1	51.9	39.1	-0.1	70.3	29.1	6.1
	2016f	3.6	1.3	9.4	950	-3.2	52.9	41.3	-1.2	73.2	24.7	5.1
	2017f	3.4	2.0	9.0	1,016	-3.2	52.9	40.4	-1.7	73.1	23.5	4.8
Romania	**2015e**	3.7	-0.6	6.8	566	-1.2	38.9	31.6	-1.0	59.3	37.9	7.4
	2016f	4.0	-0.3	6.5	619	-3.0	39.7	32.2	-2.5	57.8	33.7	6.1
	2017f	3.6	2.7	6.5	668	-3.2	40.4	32.4	-3.3	56.1	33.2	5.7
Russia****	**2015e**	-4.0	15.6	5.5	502	-3.5	12.7	27.1	5.2	41.1	73.5	23.9
	2016f	0.0	8.8	5.5	462	-3.5	13.5	32.4	6.5	43.5	79.6	21.9
	2017f	1.5	8.4	5.5	543	-2.0	14.0	27.8	5.1	32.5	78.7	18.0
Ukraine	**2015e**	-10.0	48.5	11.5	172	-4.0	87.0	37.4	-0.8	128.7	11.3	4.3
	2016f	1.5	16.0	11.0	n.a.	-3.5	94.0	42.7	-1.0	133.3	13.7	4.7
	2017f	3.0	10.0	10.0	n.a.	-2.5	93.0	46.4	-1.2	134.0	14.7	4.6
Turkey	**2015e**	3.5	7.6	10.5	n.a.	-1.5	34.0	21.6	-5.0	59.9	26.6	6.5
	2016f	2.5	8.1	10.0	n.a.	-1.5	32.0	22.9	-5.7	62.6	24.7	5.9
	2017f	3.5	7.0	10.0	n.a.	-1.5	33.0	22.1	-5.6	58.2	25.0	5.7

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

Risk notifications and explanations

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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
09/12/2014	Hold	Hold	Buy	Hold	Hold	Hold	Hold	Sell	Buy	Buy	Buy	Hold	Buy	Hold	Hold	Hold	Sell	Sell	Sell	Sell	Buy	Buy	Buy	Buy
09/02/2015	I	I	Hold	I	Buy	Buy	Buy	I	Hold	Hold	Hold	I	Buy	Buy	Buy	I	I	I	I	I	I	I	I	I
24/03/2015	I	I	I	I	I	Hold	Hold	I	I	I	I	Sell	I	I	I	I	Hold	I	I	I	I	Hold	Hold	Sell
28/04/2015	I	I	I	I	I	I	I	I	I	I	I	Hold	Hold	Hold	Hold	Hold	Buy	Hold	Hold	I	I	I	I	Hold
15/05/2015	I	Buy	Buy	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I
02/06/2015	I	Hold	Hold	I	Hold	I	I	Hold	I	I	I	I	I	I	I	I	I	I	I	Hold	I	Buy	Buy	Buy
24/06/2015	I	I	Buy	I	I	I	Sell	I	I	I	Sell	I	I	I	Sell	I	I	Buy	Buy	I	Sell	Sell	Sell	Sell
06/08/2015	I	I	Hold	I	I	Sell	I	I	I	Sell	I	I	I	Sell	I	I	Hold	Hold	Hold	I	Hold	I	I	Hold
03/09/2015	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	Buy	I	I	I	Buy
22/09/2015	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	Sell	I	I	I
04/11/2015	I	I	I	I	Buy	Buy	Buy	I	I	Hold	Hold	I	I	Hold	Hold	I	I	I	I	Hold	Hold	Hold	Hold	Hold
17/12/2015	I	I	I	I	I	I	I	Buy	Buy	Buy	I	I	Buy	Buy	Buy	Buy	Buy	Buy	I	Buy	I	I	I	I
25/01/2016	I	–	Buy	I	Hold	–	I	Hold	I	–	I	I	Hold	–	Hold	I	–	–	–	–	I	–	I	I

* recommendations based on absolute expected performance in LCY; FX vs EUR; 5y segment not covered anymore; ** RU under revision; 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
09/12/2014	Hold	–	Sell	Sell	Hold	Hold	Buy	Hold	–	–	Hold	Hold	Buy	Buy	Hold	Hold
09/02/2015	I	–	I	I	I	I	I	I	–	–	I	I	Hold	Hold	Buy	I
05/03/2015	I	–	Hold	Hold	I	I	I	I	–	–	I	I	I	I	I	I
24/03/2015	I	–	I	I	I	I	Hold	I	–	–	Buy	Buy	Buy	Hold	I	Buy
17/04/2015	I	–	I	I	I	I	I	I	–	–	I	I	I	I	I	I
28/04/2015	I	–	I	I	I	I	I	I	–	–	I	I	I	I	I	I
02/06/2015	Sell	–	I	I	I	I	I	I	–	–	Hold	Hold	I	Buy	Hold	Hold
24/06/2015	Hold	–	I	I	I	I	I	I	–	–	I	I	I	Hold	I	I
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	I	I	–	I	I	I	Buy	I	Buy	Buy
07/10/2015	I	–	I	I	I	I	Buy	Buy	–	Hold	I	I	I	I	I	I
04/11/2015	I	–	I	I	I	I	I	I	–	I	Buy	I	I	Buy	I	I
03/12/2015	I	-	I	I	I	I	I	I	-	Buy		I	I			
17/12/2015	I	–	I	I	I	I	I	I	–	I	Hold	I	I	I	I	I
18/01/2016	I	–	I	I	I	I	I	I	–	I	I	I	Hold	Hold	I	I
25/01/2016	I	–	Hold	Hold	I	I	Hold	Hold	–	Hold	I	I	I	I	Hold	Hold

* 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	
Date of change	EUR	USD	EUR	USD	EUR	USD	EUR	USD	EUR	USD	EUR	USD	EUR	USD
09/12/2014	Sell	Sell	–	Hold	–	–	–	–	Hold	Hold	Sell	Sell	–	Hold
09/02/2015	I	I	–	Sell	–	–	–	–	I	I	I	I	–	Sell
05/03/2015	Hold	Hold	–	Hold	–	–	–	–	I	I	I	I	–	I
24/03/2015	Buy	Buy	–	Hold	–	–	–	–	I	I	I	I	–	Hold
17/04/2015	Hold	Hold	–	I	–	–	–	–	I	I	I	I	–	I
28/04/2015	I	I	–	I	Hold	–	Buy	–	Buy	Buy	Hold	Hold	–	Buy
02/06/2015	I	I	–	Sell	I	–	I	–	I	I	I	I	–	I
24/06/2015	I	I	–	I	I	–	I	–	I	Hold	I	I	–	I
06/08/2015	I	I	–	I	I	–	Hold	–	Hold	I	Sell	Sell	–	Sell
03/09/2015	I	I	–	I	I	–	I	–	I	I	Hold	Hold	–	I
22/09/2015	I	I	–	I	I	–	I	–	Sell	Sell	I	I	–	I
07/10/2015	I	I	–	I	I	–	I	–	I	I	I	I	–	I
04/11/2015	Buy	Buy	–	I	I	–	I	–	Hold	Hold	–	I	–	Hold
03/12/2015	Hold	Hold	–	I	I	–	I	–	I	I	–	Sell	–	I
17/12/2015	I	I	–	I	I	–	I	–	Buy	Hold	–	I	-	I
18/01/2016	I	I	-	I	I	-	I	-	I	I	-	I	-	I
25/01/2016	Buy	Buy	–	I	I	–	Buy	–	I	Buy	–	I	-	I

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

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