

Market snapshot

	curr.*	Sep-17	Dec-17	Mar-18
Poland				
EUR/PLN**	4.197	4.30	4.25	4.25
Key rate	1.50	1.50	1.50	1.50
10y bond**	3.2	4.2	4.3	4.4
Hungary				
EUR/HUF**	308.2	310	315	315
Key rate	0.90	0.90	0.90	0.90
10y bond**	3.1	4.1	4.3	4.4
Czech Republic				
EUR/CZK	26.29	26.5	25.9	25.6
Key rate	0.05	0.05	0.05	0.05
10y bond	0.7	1.2	1.3	1.4
Romania				
EUR/RON**	4.568	4.45	4.45	4.50
Key rate	1.75	1.75	1.75	2.00
10y bond**	3.7	4.4	4.7	4.8
Croatia				
EUR/HRK	7.421	7.45	7.50	7.45
Key rate	2.50	2.50	2.50	2.50
10y bond**	3.0	2.7	2.7	2.8
Russia				
USD/RUB**	56.95	60.0	62.0	62.0
Key rate**	9.25	8.50	8.25	8.00
10y bond**	7.6	7.7	7.6	7.5
Turkey				
USD/TRY**	3.535	3.80	4.10	4.10
Key rate**	8.00	8.00	10.00	10.00
10y bond**	10.2	11.7	11.0	10.5
EUR/USD	1.122	1.09	1.07	1.09

* prices as of 08 June 2017, 11:59 p.m. CEST

** under revision

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

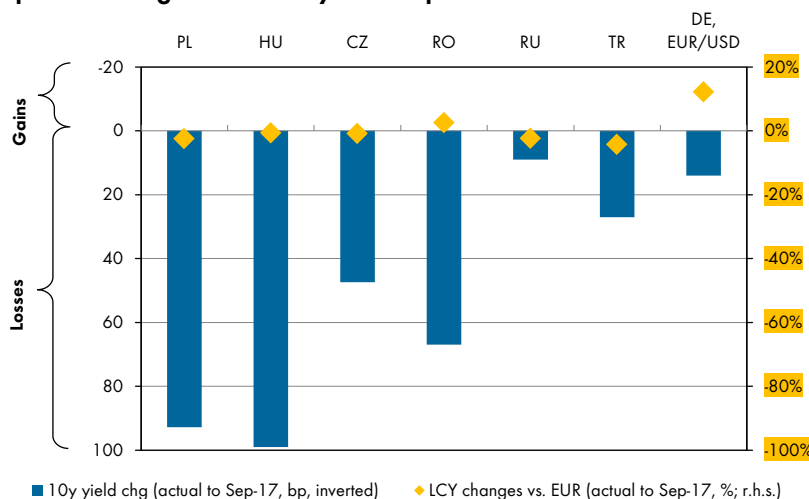
Highlights

As outlined in “CEE Debt Market Strategy” published on 7 June, we maintained our moderately bullish view on Russian OFZs. The likely deeper than initially expected rate cutting cycle in tandem with a more favourable outlook for the rouble amidst an ongoing supportive global backdrop are the major arguments for our call. The rouble was thereby largely unfazed by recent oil price declines, continuing to hover at strong levels against a weaker USD. As classical MP easing trade, we would expect the dis-inversion of the RUB government yield curve to gain traction going, so we would favour the short-end of the OFZ curve on our end-September horizon. Our other high-yielder Turkey could benefit from intensifying monetary policy easing speculations given the turnaround in CPI inflation growth. Additionally, the Turkish lira profited from a decline in oil prices and a softer USD.

In CEE low-yielders, we took profits in CZGBs and invest them in long-end HGBs and POLGBs, where the attractive carry might compensate for possible moderate yield increases on our end-September recommendation horizon. A this-week’s dovish outcome of the Polish MPC underlines our recommendations. In Romania, finally, we maintain our Hold recommendation despite the ongoing pressure on the fiscal position. The government decided on another round of skyrocketing wage increases for public sector employees. Should they not take any counterbalancing measures, ROMGBs could become on significant pressure as H2 2018 progresses. More details you can find in our new CEE Debt Market Strategy.

Financial analysts: Stephan Imre (+43 1 71707 6757), RBI Vienna
Wolfgang Ernst (+43 1 71707 1500), CEFA, RBI Vienna

Expected changes from today until September 2017*



*PL, HU, RO, RU, TR, DE under revision
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

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Data highlights upcoming week

Date	Indicator	Period	Forecast	High	Mean	Low	Previous
12-Jun	RO: CPI, % yoy	May	0.7	n.a.	n.a.	n.a.	0.6
12-Jun	TR: GDP, % yoy	Q1	n.a.	n.a.	n.a.	n.a.	3.5
15-Jun	TR: Key rate, %	Jun	n.a.	n.a.	n.a.	n.a.	8.00
16-Jun	RU: Key rate, %	Jun	n.a.	9.25	9.00	8.75	9.25

Source: Bloomberg, RBI/Raiffeisen RESEARCH

Data calendar and country coverage

This week, previous week: key data releases

Indicator	Period	Actual	Forecast	Previous	Indicator	Period	Forecast	High	Mean	Low	Previous
Monday 05 June					Friday 09 June						
RU: PMI Services, points	May	56.3	n.a.	56.1	RU: Trade balance, USD bn	Apr	n.a.	11.4	8.6	7.3	12.6
RU: PMI Composite, points	May	56.0	n.a.	55.3	BY: CPI, % yoy	May	6.0	n.a.	n.a.	n.a.	6.3
TR: CPI, % yoy	May	11.7	n.a.	11.9	Monday 12 June						
CZ: Avg. real monthly wage, % yoy	Q1	2.8	n.a.	2.8	RO: CPI, % yoy	May	0.7	n.a.	n.a.	n.a.	0.6
Tuesday 06 June					TR: GDP, % yoy	Q1	n.a.	n.a.	n.a.	n.a.	3.5
RO: Retail sales, % yoy	Apr	6.1	n.a.	7.7	TR: GDP, % qoq	Q1	n.a.	n.a.	n.a.	n.a.	3.8
SK: Retail sales, % yoy	Apr	6.5	n.a.	7.5	RS: CPI, % yoy	May	n.a.	n.a.	n.a.	n.a.	4.0
CZ: Retail sales, % yoy	Apr	-0.3	2.0	10.1	Tuesday 13 June						
CZ: Trade balance, CZK bn	Apr	10.6	19.0	22.6	RO: Net wages, % yoy	Apr	n.a.	n.a.	n.a.	n.a.	14.2
HU: Retail sales, % yoy	Apr	2.0	4.5	5.6	CZ: C/A balance, CZK bn	Apr	-5.2	6.0	-4.8	-5.2	31.2
RU: CPI, % yoy	May	4.1	4.0	4.1	PL: Trade balance, EUR mn	Apr	-184	262	-368	-500	-218
Wednesday 07 June					PL: C/A balance, EUR mn	Apr	234	475	-70.0	-453	-738
RO: GDP, % yoy	Q1	5.7	n.a.	5.7	RO: C/A balance, EUR mn	Apr	n.a.	n.a.	n.a.	n.a.	-690
RO: GDP, % qoq	Q1	1.7	n.a.	1.7	RO: Industrial output, % yoy	Apr	n.a.	n.a.	n.a.	n.a.	8.2
CZ: Industrial output, % yoy	Apr	-2.5	-1.0	10.9	SK: CPI, % yoy	May	n.a.	n.a.	n.a.	n.a.	0.8
HU: Industrial output, % yoy	Apr	2.5	0.0	9.4	BG: CPI, % yoy	May	n.a.	n.a.	n.a.	n.a.	2.6
PL: Key rate, %	Jun	1.50	1.50	1.50	Thursday 15 June						
Thursday 08 June					TR: Unemployment rate, % yoy	Mar	n.a.	n.a.	n.a.	n.a.	12.6
HU: Trade balance, EUR mn	Apr	878	935	978	TR: Key rate, %	Jun	n.a.	n.a.	n.a.	n.a.	8.00
HU: CPI, % yoy	May	2.1	2.0	2.2	BG: Unemployment rate, % yoy	May	n.a.	n.a.	n.a.	n.a.	7.6
TR: Industrial output, % yoy	Apr	6.7	n.a.	2.8	Friday 16 June						
BG: Industrial output, % yoy	Apr	4.8	n.a.	5.9	HR: CPI, % yoy	May	1.8	n.a.	n.a.	n.a.	1.4
BG: Retail sales, % yoy	Apr	2.1	n.a.	5.9	RU: Key rate, %	Jun	n.a.	9.25	9.00	8.75	9.25
RS: Key rate, %	Jun	4.00	n.a.	4.00	BY: Industrial output, % yoy	May	n.a.	n.a.	n.a.	n.a.	8.7
UA: CPI, % yoy	May	13.5	12.7	12.2	RU: Industrial output, % yoy	May	n.a.	4.1	2.4	0.8	2.3
Friday 09 June					RU: GDP, % yoy	Q1	n.a.	1.0	0.5	0.4	0.5
RO: Trade balance, EUR mn	Apr	-1,049	n.a.	-1,056							
SK: Industrial output, % yoy	Apr	-3.2	n.a.	13.4							
CZ: CPI, % yoy	May	2.4	2.2	2.0							
SI: Industrial output, % yoy	Apr	7.8	n.a.	9.8							

Source: Bloomberg, RBI/Raiffeisen RESEARCH

Bosnia a. H. (BA) – In terms of heavyweight economic indicators, banking-sector figures took central stage during the week under review. The banking sector of B&H ended the first quarter of 2017 with the net profit of BAM 119.6 mn, which is an increase by 30% compared to same period in 2016. Total revenues of B&H banks amounted BAM 361.2 million – increase of 12.7% compared to Q1 2016 while net interest revenues totaled BAM 204.2 million – up by 3.5% yoy. As expected, the two most profitable banks in Q1 2017 were UniCredit Bank d.d. Mostar (BAM 24.5 million) and Raiffeisen BANK d.d. Sarajevo (BAM 21.8 million). Indicators of financial stability also showed significant improvement during Q1 2017. Total level of non-performing loans declined to 11.5% in Q1 2017, thus marking the lowest level of NPLs since Q4 2010. The capital adequacy ratio came up to 15.7% from 14.9% in first quarter of 2016 while the liquidity ratio reached value of 25.6% (up from 25.0% in Q1 of 2016). Finally, we should point out that key profitability indicators of B&H banking sector reported following prints: 2.0% for ROA and 13.6% for ROE. B&H banking sector is consisted of 23 banks – three less compared to Q1 2016.

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

Croatia (HR) – After EUR/HRK rate broke the psychological 7.40 kuna per euro level at the very beginning of the week, the CNB decided to maintain its FX intervention aiming to reduce appreciation pressure on the domestic currency by buying EUR 188mn at an average rate of 7.416263. This was the first FX intervention this year, by which the CNB signaled where it sees the EUR/HRK exchange. Very soon EUR/HRK market rate moved back below 7.40 levels, which provoked CNB to intervene on the FX market once more this week by buying additional EUR 186mn at an average rate of 7.426582. As we have already pointed out the downward pressures on kuna are expected to continue, given the start of expected excellent tourist season, robust exports and stronger FCY inflows, higher demand for HRK loans, and improved fiscal and external position. At the same time, the uncertain Agrokor situation, and the likelihood of further write-offs by banks of Agrokor debt, will continue to affect the EUR/HRK path. However, if CNB continues with FX interventions in the following period, we see liquidity surplus reaching all-time highs which might push Croatian LCY short term rates even lower. As for the macroeconomic data, in the upcoming week the May CPI figures will confirm the return of (imported) inflation, marking the sixth consecutive month of the positive growth rate.

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

Czech Republic (CZ) – The second reading of the GDP confirmed the acceleration of the Czech economy in Q1 2017. The detailed structure showed that exports and domestic consumption were the main factors driving the Czech economy in this period. The average

monthly nominal wage increased by 5.3% yoy in Q1 2017. In real terms it grew by 2.8 % and thus exceeded market expectations. The tight situation on the labour market is also indicated by a decrease in the unemployment rate to an 8.5-year minimum. Thus we expect further pressure on wages to continue. The CPI inflation data for May will be released on Friday. We expect consumer prices to remain unchanged mom. Thus the CPI inflation will accelerate to 2.2 % yoy from the previous 2.0 %, remaining 0.4pp below the CNB's forecast. During the last week, the Czech koruna appreciated by 0.3 % towards EUR/CZK 26.28, at its strongest since the CNB abandoned the FX commitment in April.

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

Hungary (HU) – CPI inflation continued to moderate posting an 2.1% yoy increase in May, the lowest reading of the year. The index reached 2.9% yoy in February and has been declining ever since, mainly due to the passing baseline effect from last year's fuel price increase. However, the core price index (2.1% yoy) has been steadily increasing since April of last year and now is at three year highs, pushed by the increase in apparel and tobacco prices. We expect the consumer price index to remain subdued, with a slight uptick from the fall. The central bank's inflation target band of 3% ± 1% is not yet in jeopardy, but the May meeting published Wednesday suggest MPC members point to the CPI downside risk. Hence, rate hikes are not on sight yet over our forecast horizon. The 10y HUF government bond yield was trading slightly below the 3% mark in Thursday's trading, only 25 bp above the all-time lows witnessed in early 2015. We added exposure in HGBs this week (see "CEE debt Market Strategy") and expect that the still attractive carry should produce gains on our end-Sep. horizon although room for further falling yields and a further appreciating HUF appears limited. A considerable spread widening and/or huge FX losses are also hard to imagine as things stand. The overall favourable sentiment towards HGBs was demonstrated at last Thursday's auctions which were heftily oversubscribed.

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

Poland (PL) – Last week MPC meeting was in the spotlight. However it did not bring any surprises, with unchanged base rate at 1.5% and rather dovish rhetoric during the press conference. The Council assessed, that the CPI stabilized while the core inflation, though increasing moderately, remains at a low level. The Governor A. Glapinski said that he does not believe in interest rate hikes in 2018 (a hike in 2017 was not even discussed) and pointed that the PLN strengthening causes monetary policy tightening. Earlier this week the government adopted the budget assumptions for 2018, with GDP growth at 3.8% yoy, inflation 2.3% yoy and unemployment rate at 6.4%. We assess, that the GDP forecast may be too optimistic, while effect on the consumption dynamics, due to the 500+ program, should fade out in 2018. Further tax system sealing, along with the currently suspended, but expected to be introduced in 2018 retail tax should guarantee the stable budget situation with deficit below 3% of GDP. The coming week will bring some macroeconomic data, including the final CPI estimation on Monday (flash reading was 1.9% yoy) and core inflation on Tuesday (it should continue its upward trend to 1.0% yoy). Data on the current account should point the double-digit dynamics of both export and import.

Financial analyst: Aleksandra Pikala (+48 22 585 2000), Raiffeisen Polbank, Warsaw

Romania (RO) – Real GDP advanced by 1.7% qoq and 5.7% yoy in Q1 2017, matching the flash estimates released in mid-May. As expected, on the demand side private consumption was the main engine of growth (5.7% qoq and 7.4% yoy). Gross fixed investments increased also in quarterly terms (3.1% qoq), while contracting in annual terms (-0.7% yoy). Exports of goods and services posted a good performance in Q1 (3.9% qoq and 11.7% yoy). Still, imports of goods and services also increased (5.3% qoq and 11.7% yoy) resulting in a negative contribution of net exports to the economic growth in quarterly terms. On the supply side, gross value added improved in almost all sectors of activity. In Q1, industry posted an impressive performance (2.4% qoq and 6.7% yoy), while constructions contracted further (-1.6% qoq and -0.6% yoy). The increase of gross value added in services remained solid (5.9% yoy) and agriculture shared the positive dynamics in Q1 (31.4% qoq and 0.9% yoy). Economic growth in 2017 will most likely outpace our current expectations (4.2%) given the faster than expected GDP advance in Q1.

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

Russia (RU) – The previous week a set of positive data was issued. The report on inflation expectations confirmed the ongoing decline in 1-year ahead inflation, while the recovery of the consumer's sentiment does not allow for a full scale consumption expansion that could have boosted the demand-pull inflation. Along with this, the recently published weekly CPI flash estimates confirmed that inflation remains close to the CBR's target. A dismal acceleration of the flash CPI estimates (to 4.2% yoy) is only subject to temporary factors, while the core inflation continued to decelerate. Overall, such low inflation is actually a consequence of a sluggish economic activity that maintains also due to conservative fiscal policy (the main reason why the real wages grow amid decline in real expenditures). Given these trends, we believe, that the CBR will be more confident in monetary policy easing. Given the favorable dynamics of the factors, listed in the previous press-release (that allowed for a more solid cut of 50 bp) we believe that the regulator will have an opportunity to make a comparable cut (of 50 bp).

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

Slovakia (SK) – Statistical office of the SR has confirmed the GDP growth at 3.1% yoy in Q1 2017. The GDP growth was well balanced with stronger than expected household consumption (+3.4% yoy). It is the strongest increase since the 2009. In Q1 2017, the annual growth rate of employment was 2.1% what is a bit lower than in Q4 2016 (+2.6%). The quarterly employment growth rate of 0.3% is roughly in line with quarterly GDP growth rate. Due to this development, an unemployment rate reached a historical low of 8.7%. We expect this rate to steadily fall down to 7% till the end of 2018. Export of goods grew by 8.6% yoy in Q1

2017 and it benefited from good conditions on international markets. Investments posted a symbolic increase by 1.7% yoy. The main drivers of investment activity were households and non-financial companies.

We expect the Slovak economy to regain some growth dynamic in the next quarters due to the start of construction work related to a Jaguar-Land Rover factory. Our current GDP forecast of 3.3% for 2017 has some positive risk but not high enough to call for our immediate revision.

Financial analyst: Boris Fojtík (+421 259 19 2833), Tatra bank a.s., Bratislava

Monetary policy and money markets overview

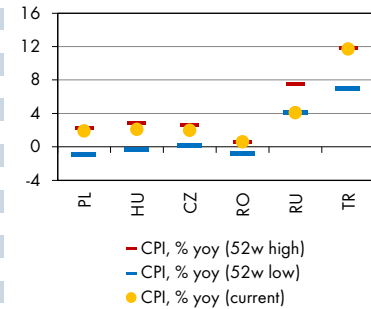
CEE key interest and money markets outlook

Poland	current*	Sep-17	Dec-17	Mar-18	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	1.73	1.73	1.73	5.14	1.65
Hungary						
Key interest rate	0.90	0.90	0.90	0.90	7.00	0.90
3m money market rate	0.15	0.20	0.20	0.25	7.21	0.15
Czech Republic						
Key interest rate	0.05	0.05	0.05	0.05	0.50	0.05
3m money market rate	0.29	0.30	0.35	0.40	1.22	0.00
Romania						
Key interest rate	1.75	1.75	1.75	2.00	5.25	1.75
3m money market rate	0.84	1.15	1.55	1.80	6.30	0.68
Russia						
Key interest rate **	9.25	8.50	8.25	8.00	17.00	5.25
3m money market rate **	9.29	9.00	8.75	8.50	29.93	6.74
Serbia						
Key interest rate	4.00	4.00	4.00	4.00	11.75	4.00
3m money market rate	3.53	3.60	3.60	3.80	13.13	3.26
Turkey						
Key interest rate **	8.00	8.00	10.00	10.00	10.00	4.50
3m money market rate **	12.99	12.70	11.50	10.80	12.99	4.85

Benchmark key rates	current	Sep-17	Dec-17	Mar-18	5y high	5y low
ECB key interest rate	0.00	0.00	0.00	0.00	1.00	0.00
Fed key interest rate	1.00	1.50	1.75	1.75	1.00	0.25

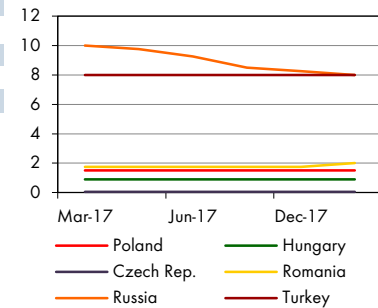
* Bid rates (for Hungary ask rates) as of 08 June 2017, 11:59 p.m. CEST
 ** under revision
 Source: Bloomberg, RBI/Raiffeisen RESEARCH

Inflation snapshot



Source: Bloomberg, RBI/Raiffeisen RESEARCH

Key rate trends (%)



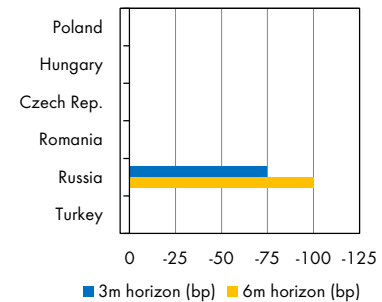
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Central bank watch

Poland (NBP)	Recent rate setting underlined the ongoing dovish stance as MPC members see headline CPI inflation rate at moderate levels in the quarters ahead, in line with our long-held view. However, further development of wage inflation will be key to watch.
Hungary (MNB)	MNB continues to further depress BUBOR rates via further liquidity injections and remains relaxed in terms of reflation dynamics. A renewal of the MP toolkit is on the cards as the reduction of the amounts that are allowed to be placed in the 3m deposit facility will further get cut. Therefore, 3m deposit rate becomes increasingly a "communication tool".
Czech Republic (CNB)	CNB managed smooth CZKexit without FX market interventions so far. The bank's own forecast of a first base rate hike in Q3 2017 is only imaginable for us in case of upside surprises in CPI inflation and/or weaker CZK levels compared to current ones. We assume that rate hikes are only an option possible at levels above CZK 26/EUR.
Romania (BNR)	Elevated fiscal risks should force the BNR to finally end procyclical policies in H2 2017. According to the BNR, narrowing of the interest corridor could be the first step in this direction. Only after liquidity tightening happens, base rate hikes could start as early as 2018.
Serbia (NBS)	Although recent overshooting of CPI inflation is mainly due to one-offs, our stable base rate outlook could be at risks. However, we expect the MPC to remain sanguine and keep the base rate unchanged.
Russia (CBR)	CBR surprised us anew with the 50bp cut in April. As inflation is falling to new record-lows and is approaching the bank's 4% target, we put our presumably too cautious forecasts under revision. We tend to expect another 50bp rate cut in June while the full-year amount of rate cuts is also likely to become higher than initially anticipated.
Turkey (TCMB)	TCMB holds weighted average costs of funding close to 12% since early-April. This is only 25bp below its highest available interest rate tool, the late liquidity window - LLW, which was hiked by 50bp in late-April. Since the inflexion point of inflation has likely materialised in May, we assume that the TCMB will muddle through and keep the rates unchanged (1w repo: 8.00%, o/n lending rate: 9.25%, LLW: 12.25%).

Source: RBI/Raiffeisen RESEARCH

Key rate forecast (chg., bp)



Source: Bloomberg, RBI/Raiffeisen RESEARCH

Rate setting meetings

	Jun	Jul
Poland (NBP)	7	5
Hungary (MNB)	20	18
Czech Republic (CNB)	29	/
Romania (BNR)	/	3
Serbia (NBS)	8	10
Russia (CBR)	16	28
Turkey (TCMB)	15	27

Source: National Central Banks, RBI/Raiffeisen RESEARCH

Foreign exchange market overview

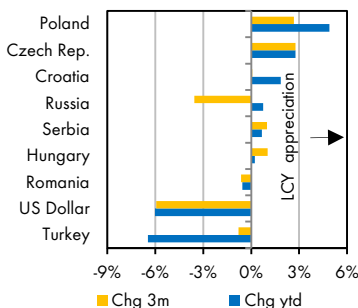
FX forecasts

EUR vs	current*	Sep-17	Dec-17	Mar-18	5y high	5y low	Comment
PLN**	4.197	4.30	4.25	4.25	4.40	4.08	PLN remains at strong levels around 4.20 against the euro; speculation on earlier interest rate hikes to reoccur, despite neutral central bank wording
HUF**	308.2	310	315	315	316	291	MNB remaining very dovish in its monetary policy as inflation declines again, EUR/HUF expected to remain within its 305-315 trading range
CZK	26.29	26.5	25.9	25.6	27.7	25.1	Koruna seeing continued slow appreciation, normalization process (strengthening CZK) after FX regime likely to remain a lengthy process
RON**	4.568	4.45	4.45	4.50	4.55	4.45	EUR/RON hovering near 4.55 as fiscal risks counterbalance a benign growth outlook
HRK	7.421	7.45	7.50	7.45	7.66	7.50	Record high liquidity surplus might push HRK yields toward lower levels
RSD	122.6	124	125	125	125	112	Despite some recent depreciation, RSD witnessed moderate appreciation trend over last months against the euro
RUB**	63.91	65.4	66.3	67.6	79.3	40.3	see USD/RUB below
UAH	29.31	29.4	30.0	29.9	28.6	10.6	see USD/UAH below
BYN**	2.103	2.33	2.40	2.47	2.14	1.13	see USD/BYN below
TRY**	3.967	4.14	4.39	4.47	3.96	2.35	see USD/TRY below
USD**	1.122	1.09	1.07	1.09	1.38	1.05	With continued US Fed rate hike expectations we project USD strengthening that could put some pressure on CEE currencies

USD vs	current*	Sep-17	Dec-17	Mar-18	5y high	5y low	Comment
RUB**	56.95	60.0	62.0	62.0	73.0	30.5	Rouble largely unfazed by oil price declines; CBR likely to increase speed and magnitude of interest rate cuts given falling inflation and strong RUB
UAH	26.12	27.0	28.0	28.5	27.1	8.05	Uncertainties over IMF program and the situation in Donbas to weigh on UAH, but administrative measures keep UAH stable
BYN**	1.874	2.14	2.24	2.35	2.00	0.86	Despite BYN stability over recent months we remain with our cautious outlook given fundamental weaknesses
TRY**	3.535	3.80	4.10	4.10	3.70	1.78	Weak USD and lower oil price support the lira; overall risks for renewed TRY setback however remain elevated

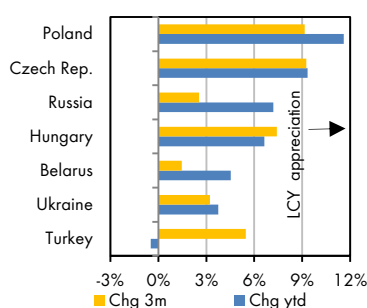
* as of 08 June 2017, 11:59 p.m. CEST; ** under revision
 Source: Bloomberg, RBI/Raiffeisen RESEARCH

Change of LCY value to EUR (%)



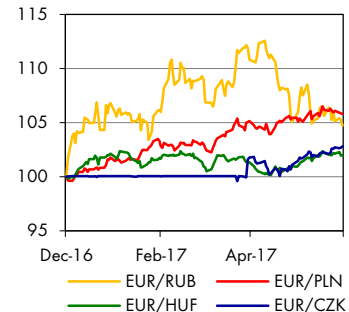
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Change of LCY value to USD (%)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

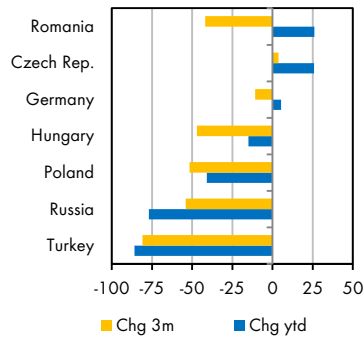
Exchange rate comparison



Indexed 08 Dec-16 = 100
 Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

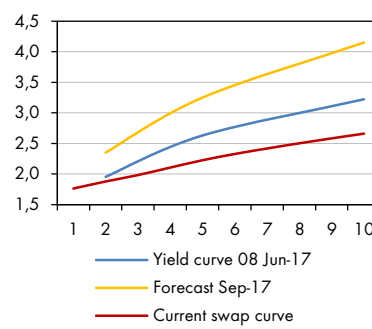
Local currency bond market overview and forecasts

Change of LCY 10y bond yields (bp)



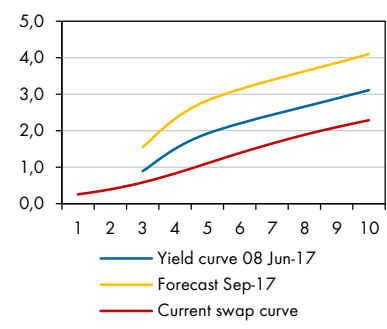
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

PLN yield curve*



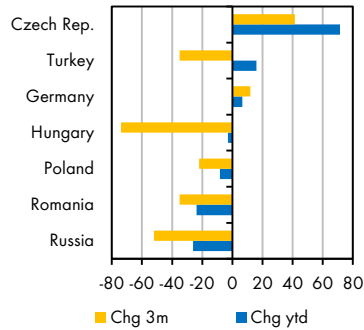
*under revision
Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

HUF yield curve*



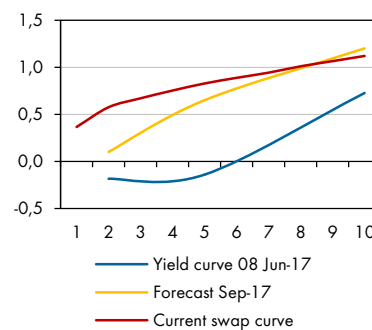
*under revision
Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

Change of LCY 2y bond yields (bp)



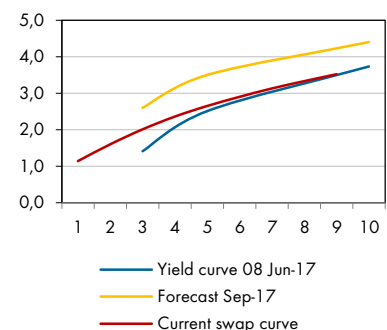
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

CZK yield curve



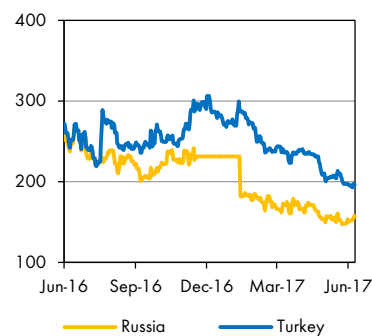
Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

RON yield curve*



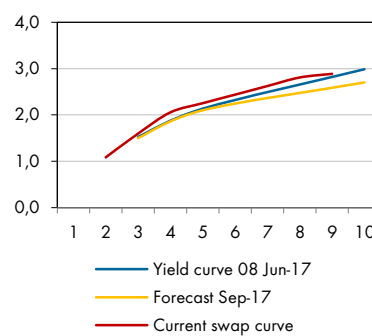
*under revision
Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

5y USD CDS spreads



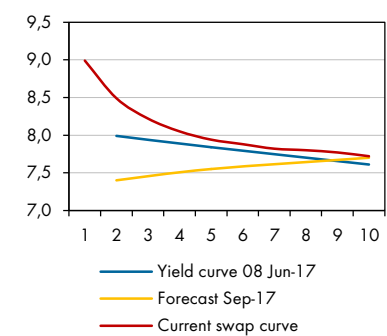
Turkey 5y high 327.1, 5y low 111.7;
Russia 5y high 628.7, 5y low 119.4
Source: Bloomberg, RBI/Raiffeisen RESEARCH

HRK yield curve*



*under revision
Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

RUB yield curve*



*under revision
Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

Yield forecasts

	2y T-bond yields (%)						10y T-bond yields (%)					
	current ¹	Sep-17	Dec-17	Mar-18	5y high	5y low	current*	Sep-17	Dec-17	Mar-18	5y high	5y low
Poland ³	1.95	2.4	2.4	2.5	3.1	1.6	3.22	4.2	4.3	4.4	4.3	2.5
Hungary ^{2,3}	0.89	1.6	1.7	1.8	5.7	0.9	3.11	4.1	4.3	4.4	6.2	3.3
Czech Republic	-0.19	0.1	0.1	0.2	0.5	-0.9	0.73	1.2	1.3	1.4	2.5	0.5
Romania ³	1.41	2.1	2.4	2.7	6.4	1.5	3.73	4.4	4.7	4.8	6.9	3.5
Croatia ³	1.53	1.5	1.6	1.4	4.4	0.9	2.99	2.7	2.7	2.8	5.2	3.1
Russia ³	7.99	7.4	7.3	7.2	15.8	6.2	7.61	7.7	7.6	7.5	14.1	6.9
Turkey ³	10.86	11.7	10.9	10.5	11.0	6.1	10.23	11.7	11.0	10.5	11.1	6.6
Germany	-0.76	-0.7	-0.7	-0.6	0.2	-0.8	0.26	0.6	0.8	0.9	1.9	0.1
USA ³	1.32	1.8	1.9	2.0	1.7	0.2	2.19	2.9	3.0	3.0	3.0	1.8

¹ Bid yields as of 08 June 2017, 11:59 p.m. CEST; ² 3y yield; ³ under revision
Source: Bloomberg, 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	25/04/2019	0.00	96.56	1.89	263	1.9	POLGBs continue to benefit from favorable external backdrop and technical support from the local scene. Although longer-term outlook remains mildly bearish due to reflation, risks of substantially rising LCY bond yields appear contained.
PLN 5y Gov. Bond	25/04/2022	2.25	98.42	2.60	305	4.7	
PLN 10y Gov. Bond	25/07/2027	2.50	94.50	3.14	289	8.8	
Hungary							
HUF 3y Gov. Bond	23/09/2020	1.00	100.58	0.82	153	3.2	Demand for HGBs remained strong last week against the favorable external backdrop and the ongoing bond-market-supportive climate on the local scene. Nevertheless, we project moderately higher HGB yields in the course of this year as current inflation premia are currently too low.
HUF 5y Gov. Bond	26/10/2022	1.75	99.44	1.86	231	5.1	
HUF 10y Gov. Bond	27/10/2027	3.00	99.46	3.06	280	8.9	
Czech Republic							
CZK 2y Gov. Bond	11/04/2019	5.00	109.59	-0.23	50	1.8	We took profits in CZGBs after the recent rally, but maintain a Hold recommendation due to CZK appreciation potential.
CZK 5y Gov. Bond	12/09/2022	4.70	125.31	-0.11	35	4.7	
CZK 10y Gov. Bond	25/08/2028	2.50	117.44	0.86	60	9.9	
Croatia							
HRK 2y Gov. Bond	10/07/2018	5.25	104.84	0.72	118	1.0	After FX interventions next week we expect EUR/HRK to oscillate in a range between 7.38 and 7.42 kuna per euro.
HRK 10y Gov. Bond	14/12/2026	4.25	111.13	2.90	265	8.0	
Romania							
RON 2y Gov. Bond	29/04/2019	2.50	102.02	1.41	212	1.9	LCY debt market continues shrugging-off elevated fiscal risks which were increasing last week anew due to another law on wage hikes. We therefore expect a rise in ROMGB credit risk premium in the medium term, but maintain our Hold recommendation for the short-term.
RON 5y Gov. Bond	08/03/2022	3.40	103.96	2.50	295	4.4	
RON 10y Gov. Bond	26/07/2027	5.80	117.45	3.71	345	7.8	
Russia							
RUB 2y Gov. Bond	27/02/2019	7.50	99.51	7.95	868	1.7	We expect the OFZ yield curve to start dis-inverting on deeper than initially expected rate cuts. We nevertheless expect also favorable performance at the long-end of the curve.
RUB 5y Gov. Bond	18/08/2021	7.50	99.31	7.84	829	3.5	
RUB 10y Gov. Bond	03/02/2027	8.15	104.75	7.59	733	6.9	
Turkey							
TRY 2y Gov. Bond	15/05/2019	11.10	n.a.	n.a.	n.a.	n.a.	With the inflation likely to have peaked in May, related expectations for MP easing could support TURKGB. Major risk is potential overreaction to ongoing US MP tightening with the next litmus test for high-beta names in mid-June when the Fed is expected to hike.
TRY 5y Gov. Bond	02/03/2022	11.00	102.20	10.39	1084	3.8	
TRY 10y Gov. Bond	24/02/2027	11.00	104.60	10.24	998	6.3	

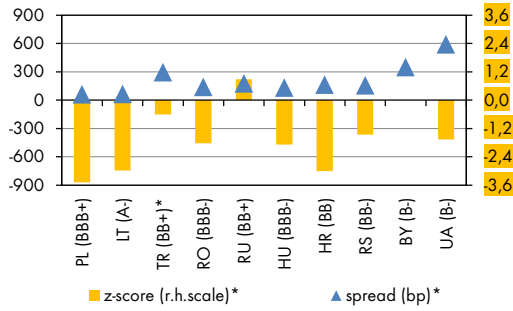
Data as of 09 June 2017, 11:50 a.m. CEST
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Bond auctions

		ISIN	Coupon	Maturity	Volume
12 June					
TR	1.2y T-bond	n.a.	zero	08.08.2018	n.a.
TR	4.7y T-bond	n.a.	fixed	02.03.2022%	n.a.
TR	6.4y T-bond	n.a.	I/L	08.11.2023	n.a.
RO	2.7y T-bond	RO1620DBN017	2.25%	26.02.2022	RON 600 mn
13 June					
RS	2y T-bond	n.a.	3.50%	n.a.	RSD 15 bn
TR	1.9y T-bond	n.a.	fixed	15.05.2019	n.a.
TR	7y T-bond	n.a.	FRN	05.06.2024	n.a.
TR	9.7y T-bond	n.a.	11.00%	24.02.2027	n.a.
14 June					
CZ	T-bond	n.a.	n.a.	n.a.	n.a.
15 June					
HU	T-bond	n.a.	FRN	n.a.	n.a.

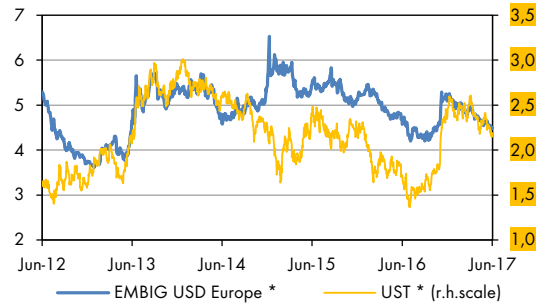
Eurobond market overview

CEE USD EMBIG spread valuation*



* z-score – EMBIG USD country spread deviation from mean normalised by 1 standard deviation, score at or below minus 1 = expensive, at or above 1 = cheap
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

CEE EMBIG USD vs. UST YTM*



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

Issuer/rate/due	Market Price			5y max	5y min	YTM mid. % p. a.	Spread Bmk, bp	Mdur. years	ISIN
	Bid	Ask	w/w %						
EUR									
BGARIA 4 1/4 07/09/17	100.3	100.4	-0.15	111.8	100.3	-0.57	6	0.1	XS0802005289
CROATI 5 7/8 07/09/18	106.1	106.3	-0.07	112.1	98.3	0.08	70	1.0	XS0645940288
REPHUN 3 7/8 02/24/20	110.1	110.5	0.00	113.1	74.9	0.05	77	2.6	XS0212993678
REPHUN 4 3/8 07/04/17	100.4	100.5	0.00	108.0	83.8	-3.25	-266	0.1	XS0284810719
REPHUN 5 3/4 06/11/18	106.1	106.3	-0.12	115.1	86.3	-0.43	18	1.0	XS0369470397
REPHUN 6 01/11/19	109.6	110.0	0.00	118.4	87.5	-0.19	50	1.5	XS0625388136
LITHUN 4.85 02/07/18	103.4	103.5	-0.15	114.3	102.4	-0.39	23	0.7	XS0327304001
POLAND 5 5/8 06/20/18	106.0	106.6	-0.06	122.6	102.1	-0.53	8	1.0	XS0371500611
POLAND 1 5/8 01/15/19	102.5	103.1	-0.06	105.5	98.0	-0.14	55	1.6	XS0874841066
POLAND 3 3/4 01/19/23	118.1	118.6	0.05	125.5	99.9	0.42	76	5.1	XS0794399674
POLAND 3 3/8 07/09/24	117.3	117.3	0.11	125.6	99.6	0.85	100	6.2	XS0841073793
ROMANI 4 7/8 11/07/19	111.5	111.8	0.00	117.8	99.3	0.02	75	2.3	XS0852474336
TURKEY 5 7/8 04/02/19	108.9	109.2	-0.21	118.9	107.5	0.80	152	1.7	XS0285127329
TURKEY 5 1/8 05/18/20	109.6	109.9	-0.35	115.9	102.4	1.68	238	2.7	XS0503454166
USD									
BELRUS 8.95 01/26/18	102.6	103.1	-0.13	111.2	78.0	4.20	308	0.6	XS0583616239
CROATI 6 3/8 03/24/21	111.7	112.1	0.28	117.8	95.2	3.02	144	3.4	XS0607904264
CROATI 5 1/2 04/04/23	110.1	110.5	0.55	111.7	94.4	3.53	167	5.0	XS0908769887
REPHUN 5 3/8 02/21/23	112.1	112.6	1.00	115.6	93.5	2.99	114	4.9	US445545AH91
REPHUN 7 5/8 03/29/41	151.6	152.1	1.8	158.1	92.4	4.17	151	13.2	US445545AF36
LITHUN 7 3/8 02/11/20	113.8	114.1	0.14	130.7	113.4	1.97	55	2.4	XS0485991417
LITHUN 6 5/8 02/01/22	118.2	118.6	0.33	128.6	109.0	2.40	70	4.0	XS0739988086
LATVIA 2 3/4 01/12/20	101.4	101.9	0.10	104.5	91.4	2.11	70	2.5	XS0863522149
LATVIA 5 1/4 06/16/21	111.2	111.7	0.17	117.2	97.3	2.25	64	3.6	XS0638326263
POLAND 6 3/8 07/15/19	109.8	110.0	0.11	125.9	109.7	1.55	21	1.9	US731011AR30
POLAND 3 03/17/23	102.5	103.0	1.0	105.4	87.9	2.48	63	5.2	US731011AT95
ROMANI 6 3/4 02/07/22	116.5	117.0	0.30	123.7	101.4	2.87	116	4.0	US77586TAA43
ROMANI 4 3/8 08/22/23	106.6	107.1	0.16	111.2	90.6	3.14	123	5.4	US77586TAC09
RUSSIA 4 1/2 04/04/22	106.5	107.0	-0.20	114.7	82.0	2.99	126	4.3	XS0767472458
RUSSIA 7 1/2 03/31/30	120.4	120.7	-0.03	128.6	99.6	2.23	-6	3.7	XS0114288789
RUSSIA 5 5/8 04/04/42	112.6	113.3	-0.18	124.9	76.0	4.73	205	13.9	XS0767473852
SERBIA 5 1/4 11/21/17	101.4	101.7	-0.08	107.1	96.8	1.64	55	0.4	XS0856951263
SERBIA 4 7/8 02/25/20	104.5	104.9	0.22	105.4	89.6	3.06	163	2.5	XS0893103852
TURKEY 6 1/4 09/26/22	108.8	109.6	-0.55	127.0	102.5	4.28	249	4.5	US900123BZ27
TURKEY 6 7/8 03/17/36	113.8	114.3	-0.63	139.6	99.2	5.65	316	10.9	US900123AY60
TURKEY 6 3/4 05/30/40	112.6	113.5	-0.71	139.4	97.3	5.72	310	12.2	US900123BG46
UKRAIN 7 3/4 09/01/19	102.7	103.1	N/A	103.8	90.4	6.32	497	2.0	XS1303918269
UKRAIN 7 3/4 09/01/23	99.6	100.0	N/A	100.6	90.9	7.79	588	4.8	XS1303921487
UKRAIN 7 3/4 09/01/27	97.4	97.9	N/A	98.8	88.7	8.09	589	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 09 Jun 2017, 9:16 AM CET
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Summary: Ratings & macro data

Country ratings: CE, SEE, EE

	LCY	S&P FCY	Outlook	LCY	Moody's FCY	Outlook	LCY	Fitch FCY	Outlook
CE									
Poland	A-	BBB+	stable	A2	A2	stable	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	positive	A+	A+	stable
Slovenia *	A	A	positive	Baa3	Baa3	positive	A-	A-	stable
SEE									
Romania	BBB-	BBB-	stable	Baa3	Baa3	stable	BBB	BBB-	stable
Bulgaria	BB+	BB+	positive	Baa2	Baa2	stable	BBB	BBB-	positive
Croatia	BB	BB	stable	Ba2	Ba2	stable	BB+	BB	stable
Serbia	BB-	BB-	positive	Ba3	Ba3	stable	BB-	BB-	stable
EE									
Russia	BBB-	BB+	positive	Ba1	Ba1	stable	BBB-	BBB-	stable
Ukraine	B-	B-	stable	Caa3	Caa3	stable	B-	B-	stable
Belarus	B-	B-	stable	Caa1	Caa1	stable	B-	B-	stable
Kazakhstan	BBB-	BBB-	negative	Baa3	Baa3	negative	BBB	BBB	stable
Turkey	BB+	BB	negative	Ba1	Ba1	negative	BBB-	BB+	stable

* 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	2016	2.9	-1.1	13.1	1029	-1.5	84.2	23.1	2.6	91.5	32.4	9.1
	2017e	2.9	1.5	12.2	1056	-1.9	82.9	23.8	3.7	86.7	33.0	8.7
	2018f	2.3	1.7	11.2	1074	-2.0	81.3	24.5	2.2	85.2	33.0	8.6
Czech Rep.	2016	2.3	0.7	5.5	1020	0.0	37.9	70.3	1.1	73.2	63.8	8.4
	2017e	2.7	2.3	5.3	1088	-0.2	36.8	69.1	1.1	76.2	85.7	12.0
	2018f	2.5	2.2	5.3	1176	0.0	35.8	69.6	1.2	74.0	80.9	10.9
Hungary	2016	2.0	0.2	5.3	847	-2.0	73.9	82.8	3.5	98.3	22.2	3.5
	2017e	3.8	2.6	4.3	937	-2.5	73.2	81.0	3.2	88.7	22.2	3.2
	2018f	3.6	3.3	4.0	1008	-3.0	72.4	79.5	2.9	81.8	20.3	2.8
Poland	2016	2.8	-0.6	9.0	927	-2.6	52.8	41.5	-0.5	74.4	34.3	7.4
	2017e	3.8	2.2	7.3	992	-2.8	54.0	39.5	-0.2	72.8	32.6	7.2
	2018f	3.1	2.4	6.4	1062	-3.0	54.1	37.7	-0.9	71.3	31.1	6.9
Romania	2016	4.8	-1.5	5.9	642	-3.0	37.6	30.7	-2.4	54.6	41.0	7.4
	2017e	4.9	0.9	5.2	721	-3.6	38.4	30.9	-3.6	52.7	40.1	6.8
	2018f	3.8	2.9	5.0	781	-3.8	39.7	31.7	-3.8	52.3	38.5	6.2
Russia	2016	-0.2	7.1	5.5	495	-3.7	13.5	22.1	1.7	39.0	79.1	25.2
	2017e	1.0	4.0	5.3	614	-2.5	14.0	22.4	4.8	29.7	88.5	23.0
	2018f	1.5	4.5	5.3	609	-2.0	14.5	22.6	5.5	25.8	99.8	21.7
Ukraine	2016	2.3	13.9	9.3	n.a.	-2.9	76.1	36.0	-4.1	121.7	14.4	4.8
	2017e	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	2018f	3.0	7.4	8.5	n.a.	-2.7	73.0	37.2	-3.6	108.8	17.7	5.4
Turkey	2016	2.1	7.8	10.0	n.a.	-1.4	32.0	17.7	-3.8	48.3	27.1	7.0
	2017e	2.0	10.0	10.3	n.a.	-1.5	33.0	18.3	-5.6	54.9	26.4	7.2
	2018f	3.0	8.0	10.0	n.a.	-1.8	32.0	18.3	-4.6	55.0	22.5	6.2

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

Risk notifications and explanations

Warnings:

- Figures on performance refer to the past. Past performance is not a reliable indicator for future results and the development of a financial instrument, a financial index or a securities service. This is particularly true in cases when the financial instrument, financial index or securities service has been offered for less than 12 months. In particular, this very short comparison period is not a reliable indicator for future results.
- Performance of a financial instrument, a financial index or a securities service is reduced by commissions, fees and other charges, which depend on the individual circumstances of the investor.
- The return on an investment in a financial instrument, a financial or securities service can rise or fall due to exchange rate fluctuations.
- Forecasts of future performance are based purely on estimates and assumptions. Actual future performance may deviate from the forecast. Consequently, forecasts are not a reliable indicator for future results and the development of a financial instrument, a financial index or a securities service.

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Bonds

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

Recommendation	Basis: all analysed Government bonds
Buy	20%
Hold	63%
Sell	16%
Not rated	0%

History of short term recommendations (preceding 12 months prior to this publication)

Date	10Y Czech Rep.	10Y Hungary	10Y Poland	10Y Romania	10Y Russia	10Y Turkey
06/06/2017	Hold	Buy	Buy			
28/04/2017	Buy	Hold	Hold	Hold	Buy	Hold
27/04/2017						
24/03/2017	Buy	Hold	Hold	Hold	Hold	Sell
15/03/2017						
24/02/2017			Hold		Sell	
25/01/2017	Hold	Buy	Buy	Hold	Hold	Hold
24/01/2017						
15/12/2016	Hold	Buy	Buy	Hold	Hold	Sell
28/11/2016						
24/11/2016					Hold	
21/10/2016						
26/09/2016						
23/09/2016	Hold	Hold	Hold	Hold	Buy	Sell
26/08/2016						
25/08/2016	Hold	Buy	Hold	Hold	Buy	Sell
29/07/2016	Hold	Buy	Hold	Hold	Buy	Sell
27/07/2016						
21/07/2016						Sell
20/06/2016	Hold	Buy	Hold	Hold	Buy	Buy

Date	2Y Czech. Rep.	2Y Poland	2Y Russia	2Y Turkey	BG EUROBOND EUR	BY EUROBOND USD
06/06/2017				Buy	Buy	Hold
28/04/2017	Hold	Hold	Buy	Hold		
27/04/2017						Buy
24/03/2017	Hold	Hold	Hold	Hold		
15/03/2017						
24/02/2017			Sell			
25/01/2017	Hold	Hold	Hold	Hold		
24/01/2017						Hold
15/12/2016	Hold	Hold	Buy	Sell		
28/11/2016					Hold	
24/11/2016			Hold			
21/10/2016						Sell
26/09/2016					Buy	
23/09/2016	Hold	Hold	Buy	Sell		
26/08/2016						
25/08/2016	Hold	Hold	Buy	Sell		
29/07/2016	Hold	Hold	Buy	Sell	Hold	
27/07/2016						
21/07/2016				Sell		
20/06/2016	Hold	Hold	Buy	Buy	Buy	Hold

Date	CZ EUROBOND EUR	HR EUROBOND EUR	HR EUROBOND USD	HU EUROBOND EUR	HU EUROBOND USD	KZ EUROBOND USD
06/06/2017			Buy		Hold	
28/04/2017						
27/04/2017		Hold			Buy	
24/03/2017						
15/03/2017						
24/02/2017		Buy				
25/01/2017						
24/01/2017						Hold
15/12/2016			Hold			
28/11/2016		Hold				Buy
24/11/2016						
21/10/2016						
26/09/2016		Buy	Sell			
23/09/2016						
26/08/2016						Hold
25/08/2016						
29/07/2016				Hold	Hold	Buy
27/07/2016						
21/07/2016						
20/06/2016	Hold	Sell	Sell	Buy	Buy	Hold

Date	LT EUROBOND EUR	LT EUROBOND USD	MK EUROBOND EUR	PL EUROBOND EUR	PL EUROBOND USD	RO EUROBOND EUR
06/06/2017	Hold		Buy	Hold		
28/04/2017						
27/04/2017	Sell		Hold	Buy		Hold
24/03/2017						
15/03/2017	Hold	Hold	Buy			Buy
24/02/2017						
25/01/2017						
24/01/2017	Buy					
15/12/2016		Buy	Hold			Hold
28/11/2016				Hold		Buy
24/11/2016						
21/10/2016						
26/09/2016				Buy		
23/09/2016						
26/08/2016						
25/08/2016				Hold	Hold	
29/07/2016						Hold
27/07/2016			Buy			
21/07/2016						
20/06/2016	Hold	Hold	Hold	Sell	Sell	Sell

Date	RO EUROBOND USD	RS EUROBOND USD	RU EUROBOND EUR	RU EUROBOND USD	SI EUROBOND EUR	SI EUROBOND USD
06/06/2017		Sell				
28/04/2017						
27/04/2017	Hold					
24/03/2017						
15/03/2017	Buy			Hold		
24/02/2017						
25/01/2017						
24/01/2017		Hold				
15/12/2016			Hold			
28/11/2016			Sell	Sell		Hold
24/11/2016						
21/10/2016						
26/09/2016		Buy				
23/09/2016						
26/08/2016		Hold	Hold	Hold	Hold	
25/08/2016						
29/07/2016	Hold		Buy	Buy		
27/07/2016						
21/07/2016						
20/06/2016	Sell	Buy	Hold	Hold	Buy	Buy

Date	SK EUROBOND EUR	TR EUROBOND EUR	TR EUROBOND USD	UA EUROBOND USD
06/06/2017				Hold
28/04/2017				
27/04/2017				
24/03/2017				
15/03/2017				
24/02/2017				
25/01/2017				
24/01/2017				
15/12/2016				Sell
28/11/2016		Hold	Hold	Hold
24/11/2016				
21/10/2016		Buy	Buy	Buy
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

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