

## Market snapshot

	curr.*	Sep-17	Dec-17	Mar-18
<b>Poland</b>				
EUR/PLN	4.208	4.10	4.15	4.10
Key rate	1.50	1.50	1.50	1.50
10y bond	3.3	3.3	3.5	3.7
<b>Hungary</b>				
EUR/HUF	305.5	310	310	310
Key rate	0.90	0.90	0.90	0.90
10y bond	3.2	3.3	3.4	3.5
<b>Czech Republic</b>				
EUR/CZK	26.09	26.5	25.9	25.6
Key rate	0.05	0.05	0.25	0.25
10y bond	0.9	1.0	1.2	1.4
<b>Romania</b>				
EUR/RON	4.567	4.50	4.55	4.50
Key rate	1.75	1.75	1.75	2.00
10y bond	3.9	3.9	4.3	4.4
<b>Croatia</b>				
EUR/HRK	7.409	7.45	7.50	7.45
Key rate	2.50	2.50	2.50	n.a.
10y bond	2.9	3.0	3.1	3.2
<b>Russia</b>				
USD/RUB	58.89	58.0	60.0	62.0
Key rate	9.00	8.25	7.75	7.50
10y bond	7.8	7.4	7.1	7.0
<b>Turkey</b>				
USD/TRY	3.522	3.60	3.70	3.80
Key rate	8.00	8.00	8.00	8.00
10y bond	10.2	10.5	10.0	9.5
<b>EUR/USD</b>	1.163	1.09	1.07	1.09

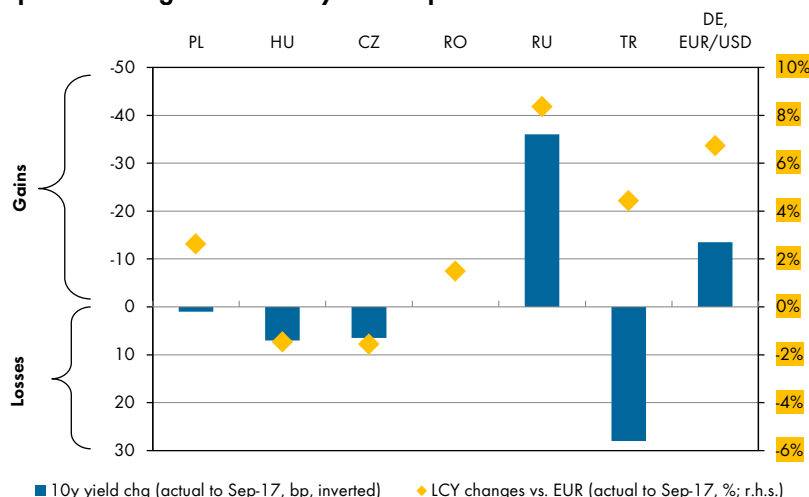
\* prices as of 20 July 2017, 11:59 p.m. CEST  
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

## Highlights

This week's major driving force for CEE debt markets was ECB statement reaffirming taper plans for autumn, which may actually start as soon as in September. Despite initially negative reaction on CE/SEE debt markets we would not expect this sentiment to last throughout next week. A positive tone on UST market ahead of the Fed meeting next week, which is expected to bring a relatively dovish outcome, would be likely to bring in more support for EM debt in general and CEE bonds in particular. In Romania the government's decision to remove plan for corporate turnover tax from the agenda should be positive while ROMGB market may still remain under pressure from worsening fiscal outlook despite state's verbal commitment to a 3% of GDP deficit target. Political tensions in Poland about the Supreme Court law potentially violating Polish Constitution may stir some volatility but it would be unlikely to rattle POLGB or PLN markets in any serious way. Possible EU sanctions against Poland are likely to be just political while passing of them would require anonymity vote which could be difficult to get as countries like Hungary may oppose the sanctions. Meanwhile we foresee TURKGB market regaining investor attention in light of receding inflation paving the way for more rate arbitrage. Our Buy recommendation for 2y TURKGB remains intact, while we may slightly cut our OFZ RUB longs from strong overweight to overweight as short-term RUB weakness may create a better (cheaper) market re-enter possibilities. Next week's CEE market calendar will be dominated by rate setting meetings in Turkey (27 July) and Russia (28 July). In Turkey TCMB is likely to signal a start of the easing cycle although the move is likely to be executed via variable liquidity instruments to bring down the weighted average cost of funding (WACF) currently near 12% while a 1-week repo rate to stay flat at 8%. Meanwhile in Russia June's inflation uptick was a one-off event while latest weekly inflation down-trend may encourage CBR policy makers to continue rate cuts, so we would expect a 25bp rate reduction. In financial markets US Fed rate setting meeting will be a decisive factor for CEE FX and bonds markets. On economic data front the next week's industrial output and retail sales reports from Croatia may reconfirm strong growth trend.

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## Expected changes from today until September 2017



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

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## Data highlights upcoming week

Date	Indicator	Period	Forecast	High	Mean	Low	Previous
25-Jul	PL: Unemployment rate, % yoy	Jun	7.0	7.2	7.1	7.0	7.4
27-Jul	HU: Unemployment rate, % yoy	Jun	n.a.	4.3	4.2	4.1	4.4
27-Jul	TR: Key rate, %	Jul	8.00	n.a.	n.a.	n.a.	8.00
28-Jul	RU: Key rate, %	Jul	8.75	9.00	8.75	8.75	9.00

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
<b>Friday 14 July</b>					<b>Friday 21 July</b>						
PL: C/A balance, EUR mn	May	-179	155	-275	HR: Unemployment rate, % yoy	Jun	10.9	n.a.	n.a.	n.a.	11.7
PL: Trade balance, EUR mn	May	-200	-45.0	86.0	UA: Industrial output, % yoy	Jun	n.a.	n.a.	n.a.	n.a.	1.2
RO: C/A balance, EUR mn	May	-1,969	n.a.	-1,416	<b>Tuesday 25 July</b>						
RU: Budget balance, USD bn	Jun	-489	n.a.	-564	PL: Unemployment rate, % yoy	Jun	7.0	7.2	7.1	7.0	7.4
<b>Monday 17 July</b>					<b>Thursday 27 July</b>						
TR: Unemployment rate, % yoy	Apr	10.5	n.a.	11.7	HU: Unemployment rate, % yoy	Jun	n.a.	4.3	4.2	4.1	4.4
SK: HICP % yoy	Jun	1.0	n.a.	1.1	TR: Key rate, %	Jul	8.00	n.a.	n.a.	n.a.	8.00
HR: CPI, % yoy	Jun	0.7	1.0	1.1	<b>Friday 28 July</b>						
RU: Industrial output, % yoy	Jun	3.5	n.a.	5.6	RU: Key rate, %	Jul	8.75	9.00	8.75	8.75	9.00
BG: Unemployment rate, % yoy	May	6.8	n.a.	7.1	HR: Industrial output, % yoy	Jun	n.a.	n.a.	n.a.	n.a.	3.3
BY: Industrial output, % yoy	Jun	6.6	6.0	8.4	HR: Retail sales, % yoy	Jun	n.a.	n.a.	n.a.	n.a.	3.5
PL: Budget balance, PLN mn ytd	Jun	n.a.	n.a.	-203							
<b>Tuesday 18 July</b>											
HU: Key rate, %	May	0.90	0.90	0.90							
PL: Average gross wages, % yoy	Jun	6.0	6.2	5.4							
PL: Employment, % yoy	Jun	4.3	4.2	4.5							
<b>Wednesday 19 July</b>											
PL: Industrial output, % yoy	Jun	4.5	3.8	9.1							
PL: Retail sales, % yoy	Jun	6.0	5.9	8.4							
PL: Retail sales real, % yoy	Jun	5.8	5.0	7.4							
RU: Unemployment rate, % yoy	Jun	5.1	n.a.	5.2							
RU: Retail sales, % yoy	Jun	1.2	n.a.	0.7							
RU: Retail wages % yoy	Jun	2.9	n.a.	3.7							
<b>Thursday 20 July</b>											
HU: Average gross wages, % yoy	May	12.9	12.0	14.6							
SK: Unemployment rate, % yoy	Jun	6.9	n.a.	7.4							

Source: Bloomberg, RBI/Raiffeisen RESEARCH

**Albania (AL)** – The outgoing government in Kosovo approved the second fiscal package with 22 measures including legal and procedures which also received support from the business community. The fiscal measures introduced by the fiscal package aim to endorse the role of private sector, support domestic production, improve domestic competition and business climate. In the short term some negative effects may still be seen as the government revenue may decline as part of the package targets the removal for raw material tax for production sector, the excise tax removal or reduction on some products and expansion of the list of companies who can benefit from VAT reduction from 18% to 8.

*Financial analyst: Dritan Baholli (+355 42 275 504 2504), Raiffeisen Bank Sh.a., Tirana*

**Bosnia a. H. (BA)** – The C/A deficit of B&H totaled BAM 328.1 mn in Q1 2017 (-6.3% yoy) which accounts to around 1.1% of estimated GDP for this year. Trade deficit increased by 5.9% yoy up to BAM 1.6 bn while secondary income as the largest surplus category within C/A structure, totaled BAM 853.6 mn (12.3% yoy). On the financial side of the Balance of Payment account figures have been largely negative. Net value of portfolio investments remained in negative territory with net outflow of BAM 54.23 mn. Category of “other investments” turned negative for the first time since Q1 2011 reporting net outflow of BAM 46.07 mn. On the positive note, the net inflow of the FDI totaled BAM 203.3 mn (0.7% of GDP), thus marking the strongest quarterly reading since Q2 2014. Consequently, the overall balance of payments came in negative at BAM 257.3 mn (reserve assets) – for the first time since Q1 2016. For 2017 we expect C/A deficit to reach 6.0% of GDP (up from 4.4% in 2016) while we also expect much higher net inflow of FDIs in 2017 with overall target rate of 2.5% of GDP (1.6% in 2016).

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**Croatia (HR)** – Amid a quieter business time during high tourism season the upcoming economic calendar to contain important information on consumer price data. Although still a slow paced, the 0.7% yoy CPI growth rate in June confirmed that inflation rates are returning back to a positive territory. Besides the last year’s low base effect also contributed to rising inflation thanks to higher food prices. In addition, prices of alcoholic beverages and tobacco, clothing and footwear and transport also delivered positive growth rate in June, as compared to June 2016. Consequently, the average inflation rate stood at 1.1% in H1 2017.

However, things are expected to be a little livelier in the coming week. Retail trade and industrial production data for June are scheduled to be released at the very end of the coming week. The rise in employment and salaries paired with the excellent tourist pre-season data support our expectations that retail trade figures could record annual growth rates of around 3% for the 34th consecutive month. On the other hand, June data are expected to show the stagnation or a slight decline in industrial output on an annual level. The decline could be

probably related to the situation in Agrokor and its affiliate companies, while the recovery of domestic demand and the continued growth of foreign demand will certainly mitigate the negative impact.

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**Czech Republic (CZ)** – According to the Czech statistical office, the producer prices declined dropped in July by 0.7% mom. This is the strongest mom drop since January 2016, and was mainly caused by a decline of oil prices on the international market. The PPI inflation decelerated to 1.3% yoy from its previous value of 2.3% in May. It is possible that the decline in producer prices will be reflected in the consumer prices in the next few months. CPI inflation in June was already 0.3p.p. below the Czech National Bank forecast. Further inflation deceleration may delay the first interest rate hike that the CNB is anticipated to introduce for Q3 in its current forecast. Additionally, positive sentiment in the region is driving the Czech currency further: the Czech koruna has appreciated towards EUR/CZK 26.00 during this week. Faster appreciation also decreases the chances of an earlier rate hike. We expect the first rate increase to occur in Q4 2017, assuming a steady appreciation of the Czech koruna close or even slightly beyond EUR/CZK 25.90 by the end of the year.

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**Poland (PL)** – The data for Polish economy over the last days was pretty interesting. Strong import dynamics in May and construction output growth in June both suggested the acceleration of investment while industrial output, including the manufacturing sector, confirmed a strong increase in foreign demand. Meanwhile the labour market figures lay strong foundations for higher consumption. Altogether, recent figures reaffirmed strong economic growth trend, the contribution to which may gradually shift from private consumption towards capital investment. Next week domestic policy issues will be closely eyed by market watchers. The new law regulating Polish Supreme court raised doubts about violation of the Constitution and could trigger investigation by the European Commission. For markets, it is however will be more important how the recent developments may be reflected in relevant comments of the rating agencies. Meanwhile, the incoming on 25 July macroeconomic data on registered unemployment is unlikely to have any impact on Polish financial markets.

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**Romania (RO)** – The execution of the public sector budget in H1 2017 will be in the spotlight of market attention during the next week (data will be published on 25 July onwards). According to recent comments of the presidential economic adviser, the budget deficit has widened significantly in June (by around RON 4.4 bn). As a result, the H1 deficit this year should be closer to RON 6.6 bn. The presidential adviser also said that the budget execution points to weaker public revenue collection at around RON 6 bn compared to the program target. On the other hand, the Prime Minister reiterated the government's commitment to keep public budget deficit at 3.0% of GDP in the upcoming fiscal plan revision, which is likely to take place during August. Prime Minister Tudose also outlined that investment spending will not be reduced in the budgetary amendment. We recall that public budget execution in the first five months revealed a large reduction of investment expense at -54.4% yoy (when including also the EU funded projects). Positively, following a weekly meeting of the ruling alliance, the prime minister said that plans to introduce a new tax on corporate turnover replacing a 16% flat corporate profit tax has been removed from the government agenda for the time being. On the other hand, the government is still analyzing the possibility of introducing a solidarity tax, i.e. an income tax for high earning individuals.

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**Russia (RU)** – According to Rosstat, retail sales' growth was at 0.7% yoy in June only due to a positive contribution from non-food segment (2.9% yoy vs 1.8% yoy in May) while food segment (-0.6% yoy vs -0.4% yoy in May) and services (-1% yoy vs 0% yoy in May) remained weak. As a result, in June total consumption improved by 0.7% yoy vs 0.6% yoy in May. The demand for durables was supported by an improvement in real disposable income, which stopped falling for the first time since the end of 2014 (not taking into account spikes in December 2015 and January 2017 on the back of one-off social budget spending). Moreover, consumer confidence is also improving, although at a slower pace. In 2017 we expect real consumption growth at 1.5% yoy on the back of further recovery in incomes and deferred (previously postponed) demand of households. At the same time, this growth is likely to be limited by relative increase of poverty rates in Russia.

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**Slovakia (SK)** – The readings from the Central Office of Labour, Family and Social Affairs came as a big surprise as the unemployment rate has dropped to 6.9% in June down from 7.4 % in May. It is historically the lowest unemployment rate in Slovakia. The most important driver for this trend has been very solid economic growth which also helped to add new jobs. The indicator of job vacancies is reaching new highs as well. However, some methodological changes also have played a role in favour of lower unemployment rate. According to the announcement of the ministry of labour, social affairs and family the unemployment rate should fall down to 5 %. We suppose that in two year horizon this target may be achievable. For some time employers are already complaining about the lack of available work force. This is the reason why the number of employees from other countries like Serbia or Romania steadily grows from month to month by 1.2 thousands on average.

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# Monetary policy and money markets overview

## CEE key interest and money markets outlook

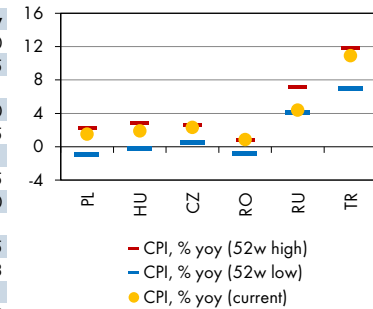
	current*	Sep-17	Dec-17	Mar-18	5y high	5y low
<b>Poland</b>						
Key interest rate	1.50	1.50	1.50	1.50	4.75	1.50
3m money market rate	1.73	1.73	1.73	1.73	5.13	1.65
<b>Hungary</b>						
Key interest rate	0.90	0.90	0.90	0.90	7.00	0.90
3m money market rate	0.15	0.15	0.15	0.15	7.20	0.15
<b>Czech Republic</b>						
Key interest rate	0.05	0.05	0.25	0.25	0.50	0.05
3m money market rate	0.30	0.40	0.50	0.60	1.05	0.00
<b>Romania</b>						
Key interest rate	1.75	1.75	1.75	2.00	5.25	1.75
3m money market rate	0.87	1.05	1.45	1.71	6.30	0.68
<b>Russia</b>						
Key interest rate	9.00	8.25	7.75	7.50	17.00	5.25
3m money market rate	9.21	8.85	8.35	8.10	29.93	6.74
<b>Serbia</b>						
Key interest rate	4.00	4.00	4.00	4.00	11.75	4.00
3m money market rate	3.57	3.60	3.60	3.75	13.13	3.26
<b>Turkey</b>						
Key interest rate	8.00	8.00	8.00	8.00	10.00	4.50
3m money market rate	13.06	12.30	11.50	10.80	13.06	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	0.75	0.00
Fed key interest rate	1.25	1.25	1.50	1.75	1.25	0.25

Source: Bloomberg, RBI/Raiffeisen RESEARCH

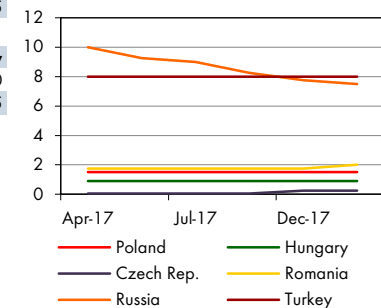
\* Bid rates (for Hungary ask rates) as of 20 July 2017, 11:59 p.m. CEST

## Inflation snapshot



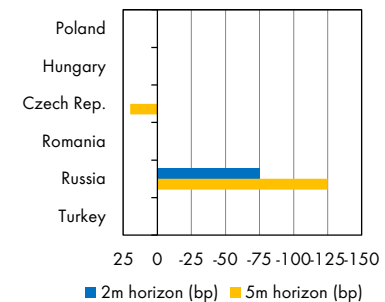
Source: Bloomberg, RBI/Raiffeisen RESEARCH

## Key rate trends (%)



Source: Bloomberg, RBI/Raiffeisen RESEARCH

## Key rate forecast (chg., bp)



Source: Bloomberg, RBI/Raiffeisen RESEARCH

## Rate setting meetings

	Jul	Aug
<b>Poland (NBP)</b>	5	/
<b>Hungary (MNB)</b>	18	22
<b>Czech Republic (CNB)</b>	/	3
<b>Romania (BNR)</b>	3	4
<b>Serbia (NBS)</b>	10	10
<b>Russia (CBR)</b>	28	/
<b>Turkey (TCMB)</b>	27	/

Source: National Central Banks, RBI/Raiffeisen RESEARCH

## Central bank watch

**Poland (NBP)** Dovish NBP bias is further supported by moderating inflation. We are comfortable with our forecast assuming a start of rate hiking cycle only in H2 2018 in order to bring real rates into positive territory. The latter issue was stressed by MPC members highlighting the related risks to household savings in light of recently declining household deposits.

**Hungary (MNB)** In light of further moderating headline inflation in June the MNB can continue with its MP accommodation. Next cut to deposit cap - 3m depo is in the meantime rather a "communication tool" - to be announced in Sep., whilst so far no hints how future base rate will look like.

**Czech Republic (CNB)** As FX rate is most crucial deciding variable for CNB, recent koruna strength can easily lead to the postponement of first rate hike, we therefore remain comfortable with our Q4 call contrary to CNB forward guidance for Q3. CPI alone unlikely to be a deciding factor as non-resident CZK holdings remain fairly large.

**Romania (BNR)** Rising inflation rate and macro imbalances should offer incentives for BNR to recalibrate (tighten) monetary policy in H2 2017. According to BNR, narrowing of interest corridor could be the first step in this direction. Base rate hikes could start as early as 2018 in our view, once inflation rate would have increased substantially and fiscal risks would have materialized.

**Serbia (NBS)** April's overshooting of CPI inflation was only temporary in light of June's inflation data and we are therefore comfortable with our stable base rate outlook for 2017. Current RSD strength which the NBS tries to curb via repeated EUR buying strengthens the case for a flat base rate trajectory.

**Russia (CBR)** Following June's 25bp cut, we expect cumulative cuts amounting to 175bp by mid-2018 which is more than earlier expected. However, our expectation for July's rate setting meeting is rather cautious after June's CPI reflat somewhat and private sector inflation expectations remain far from aligned to current inflation dynamics.

**Turkey (TCMB)** Weighted average costs of funding (WACF) still near 12% (since early-April), but could decline somewhat going forward as CPI inflation might have reached its highest point in May and continued to fall more than expected of recent. We assume that TCMB will muddle through with its multi-interest rate strategy (1w repo: 8.00%, o/n lending rate: 9.25%, late liquidity window: 12.25%), but will lower WACF via an easier funding mix.

Source: RBI/Raiffeisen RESEARCH

# Foreign exchange market overview

## FX forecasts

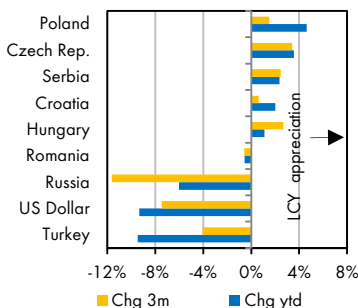
EUR vs	current*	Sep-17	Dec-17	Mar-18	5y high	5y low	Comment
<b>PLN</b>	4.208	4.10	4.15	4.10	4.40	4.08	Political uncertainties weigh on PLN, additional escalation in conflict with EU would cause zloty depreciation; benign economic conditions and reoccurring rate hike speculation to support PLN
<b>HUF</b>	305.5	310	310	310	316	291	EUR/HUF expected to continue trading within the 305-315 range; very dovish MNB counterbalances fundamentally driven appreciation pressure
<b>CZK</b>	26.09	26.5	25.9	25.6	27.7	25.1	Potential for some CZK setback following the strong appreciation trend since April; overall medium-term appreciation for CZK intact
<b>RON</b>	4.567	4.50	4.55	4.50	4.55	4.45	RON remaining at elevated levels in a 4.55-4.60 range against the euro; fiscal risks as main source of concern
<b>HRK</b>	7.409	7.45	7.50	7.45	7.66	7.50	EUR/HRK might face slight but persistent appreciation pressures as the main season is in full swing
<b>RSD</b>	120.5	124	125	125	125	112	RSD appreciation bias not tolerated by NBS which uses EUR-buying to stem dinar gains
<b>RUB</b>	68.51	63.2	64.2	67.6	79.3	40.3	see USD/RUB below
<b>UAH</b>	30.13	29.4	30.0	31.1	30.0	10.6	see USD/UAH below
<b>BYN</b>	2.255	2.13	2.19	2.29	2.19	1.13	see USD/BYN below
<b>TRY</b>	4.098	3.92	3.96	4.14	3.96	2.35	see USD/TRY below
<b>USD</b>	1.163	1.09	1.07	1.09	1.38	1.05	Expected re-intensification of US Fed rate hike bets and related USD strengthening could put some pressure on CEE FX

USD vs	current*	Sep-17	Dec-17	Mar-18	5y high	5y low	Comment
<b>RUB</b>	58.89	58.0	60.0	62.0	73.0	30.5	Volatile oil price movements and key rate cuts in Russia weigh on RUB; we project fairly stable USD/RUB around levels of 60 for remainder of 2017
<b>UAH</b>	25.90	27.0	28.0	28.5	28.0	8.05	Uncertainties over IMF program and the situation in Donbas to weigh on UAH, but administrative measures keep UAH stable
<b>BYN</b>	1.938	1.95	2.05	2.10	2.05	0.86	BYN setback over the past month after phase of stability; we project additional BYN weakening over the course of the coming quarters on low external liquidity
<b>TRY</b>	3.522	3.60	3.70	3.80	3.70	1.78	TRY recovery supported by a weaker USD; political uncertainties remain main risk while expectation of stronger USD, rising oil prices and elevated C/A deficit should contribute to lira weakening

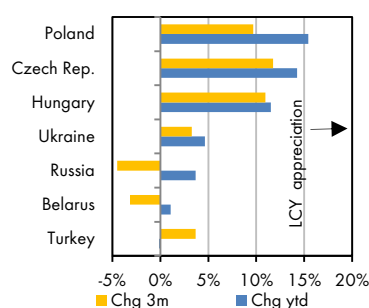
\* as of 20 July 2017, 11:59 p.m. CEST  
 Source: Bloomberg, RBI/Raiffeisen RESEARCH

### Change of LCY value to EUR (%)



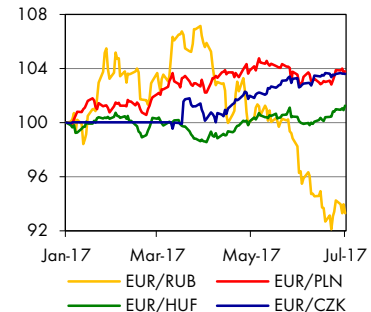
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

### Change of LCY value to USD (%)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

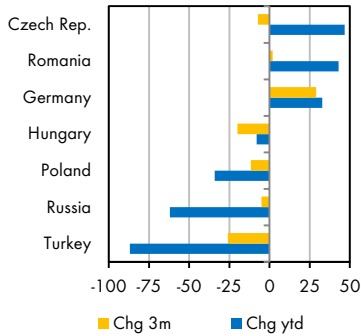
### Exchange rate comparison



Indexed 20 Jan-17 = 100  
 Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

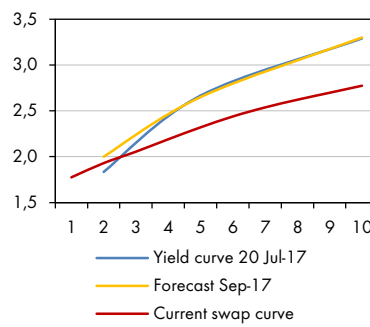
# Local currency bond market overview and forecasts

## Change of LCY 10y bond yields (bp)



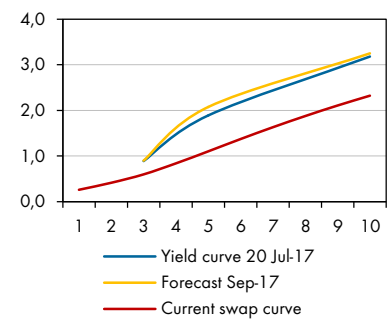
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

## PLN yield curve



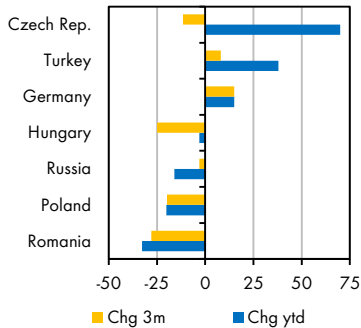
Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

## HUF yield curve



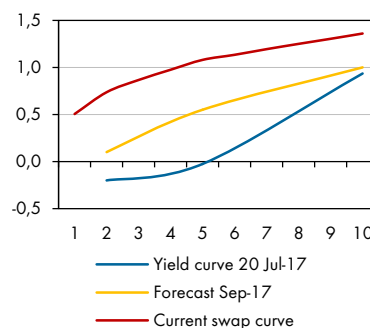
Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

## Change of LCY 2y bond yields (bp)



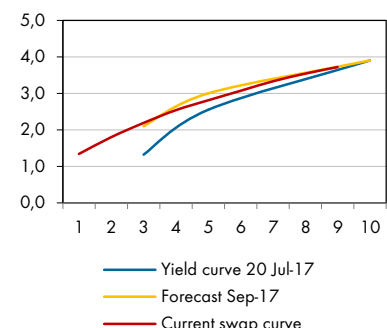
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

## CZK yield curve



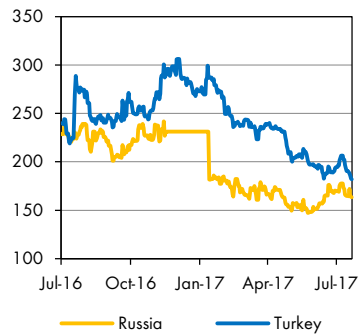
Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

## RON yield curve



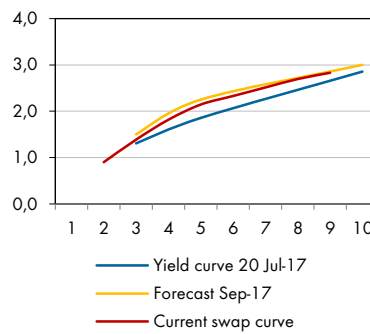
Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

## 5y USD CDS spreads



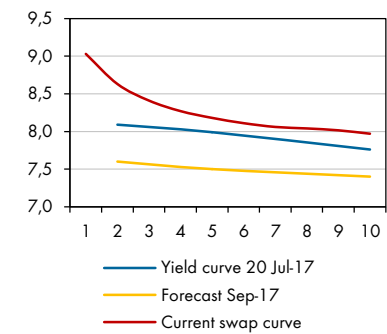
Turkey 5y high 327.1, 5y low 111.7;  
Russia 5y high 628.7, 5y low 119.4  
Source: Bloomberg, RBI/Raiffeisen RESEARCH

## HRK yield curve



Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

## RUB yield curve



Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

## Yield forecasts

2y T-bond yields (%)							10y T-bond yields (%)						
	current*	Sep-17	Dec-17	Mar-18	5y high	5y low		current*	Sep-17	Dec-17	Mar-18	5y high	5y low
Poland	1.83	2.0	2.1	2.3	3.1	1.6	Poland	3.29	3.3	3.5	3.7	4.3	2.5
Hungary **	0.89	0.9	1.0	1.1	5.7	0.9	Hungary	3.18	3.3	3.4	3.5	6.2	3.3
Czech Republic	-0.20	0.1	0.1	0.2	0.5	-0.9	Czech Republic	0.94	1.0	1.2	1.4	2.5	0.5
Romania	1.32	1.6	1.8	2.2	6.4	1.5	Romania	3.90	3.9	4.3	4.4	6.9	3.5
Croatia	1.31	1.5	1.6	1.7	4.4	0.9	Croatia	2.86	3.0	3.1	3.2	5.2	3.1
Russia	8.09	7.6	7.3	7.2	15.8	6.2	Russia	7.76	7.4	7.1	7.0	14.1	6.9
Turkey	11.08	10.5	10.5	10.0	11.0	6.1	Turkey	10.22	10.5	10.0	9.5	11.1	6.6
Germany	-0.69	-0.7	-0.7	-0.6	0.2	-0.8	Germany	0.47	0.4	0.7	0.9	1.9	0.1
USA	1.35	1.5	1.7	1.8	1.7	0.2	USA	2.26	2.4	2.8	2.8	3.0	1.8

\* Bid yields as of 20 July 2017, 11:59 p.m. CEST; \*\* 3y yield  
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
<b>Poland</b>							
PLN 2y Gov. Bond	25/07/2019	3.25	102.75	1.84	249	2.0	We see POLGB market broadly ignoring current EU related political tensions, while the expected zloty gains add to overall favorable performance expectations.
PLN 5y Gov. Bond	23/09/2022	5.75	114.81	2.64	282	4.5	
PLN 10y Gov. Bond	25/07/2027	2.50	93.53	3.27	276	8.9	
<b>Hungary</b>							
HUF 3y Gov. Bond	23/09/2020	1.00	100.50	0.84	135	3.1	Although strong local demand for HGBs may continue in the short run, we project moderately higher HGB yields in the course of 2017 as expected future inflation needs to be better reflected in HGB yields while too low yields may also hamper money inflows.
HUF 5y Gov. Bond	26/10/2022	1.75	99.50	1.85	203	5.0	
HUF 10y Gov. Bond	27/10/2027	3.00	98.78	3.14	263	8.8	
<b>Czech Republic</b>							
CZK 2y Gov. Bond	11/04/2019	5.00	109.16	-0.33	33	1.7	The impressive curve steepening implies that CZGB long-end yields may have found an effective new floor limiting their price downside. Due to longer-term CZK appreciation potential we have still a constructive long-term view on CZGB too.
CZK 5y Gov. Bond	12/09/2022	4.70	124.13	0.00	17	4.6	
CZK 10y Gov. Bond	25/08/2028	2.50	115.37	1.03	51	9.7	
<b>Croatia</b>							
HRK 2y Gov. Bond	10/07/2018	5.25	104.56	0.48	66	0.9	Positive CPI reflationary trend emerging in Croatia still may be too shallow to trigger a change in bond market sentiment, so HRK yields likely to remain low.
HRK 10y Gov. Bond	14/12/2026	4.25	111.47	2.85	234	7.9	
<b>Romania</b>							
RON 2y Gov. Bond	29/04/2020	5.75	110.51	1.80	231	2.6	Despite ROMGB market calming after a temporary withdrawal of government proposed fiscal changes, the uptick in short-end part of ROMGB curve reveals possible risk of "bear flattening", which justifies our Sell recommendation.
RON 5y Gov. Bond	08/03/2022	3.40	103.74	2.53	271	4.3	
RON 10y Gov. Bond	26/07/2027	5.80	115.85	3.85	334	0.0	
<b>Russia</b>							
RUB 2y Gov. Bond	15/05/2019	6.70	97.83	8.17	883	1.7	Although the pace might remain slow, we expect deeper than earlier expected rate cutting cycle. Due to ongoing hunt for yield, we expect also favorable performance at the long-end of the curve as our top carry trade.
RUB 5y Gov. Bond	20/07/2022	7.60	99.11	7.97	815	4.1	
RUB 10y Gov. Bond	03/02/2027	8.15	103.52	7.77	726	6.6	
<b>Turkey</b>							
TRY 2y Gov. Bond	15/05/2019	11.10	99.95	11.11	1177	1.7	Fast declining CPI inflation likely to trigger higher expectations for monetary easing. We find a better value in the TURKGB short-end as a classical "easing" trade thanks to slight inversion of TURKGB curve which would be likely to disappear in a six month perspective.
TRY 5y Gov. Bond	02/03/2022	11.00	102.15	10.41	1059	3.6	
TRY 10y Gov. Bond	24/02/2027	11.00	104.58	10.25	974	6.0	

Data as of 21 July 2017, 10:59 a.m. CEST  
Source: Bloomberg, RBI/Raiffeisen RESEARCH

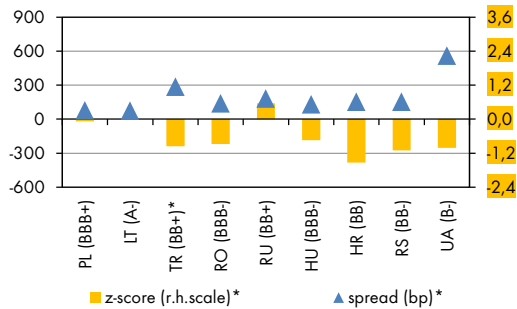
## Bond auctions

	ISIN	Coupon	Maturity	Volume
<b>24 July</b>				
RO		5.8y T-bond	RO1323DBN018	5.85% 26 Apr-2023 RON 700 mn
<b>25 July</b>				
RS		6y T-bond	RSMFRSD85962	5.75% 21 Jul-2023 n.a.
<b>26 July</b>				
RU		T-bond	n.a.	n.a. n.a.
RU		T-bond	n.a.	n.a. n.a.
<b>27 July</b>				
RO		5y T-bond	RO1722DBN045	3.4% 08 Mar-2022 RON 300 mn
HU		T-bond	n.a.	FRN n.a. n.a.

Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

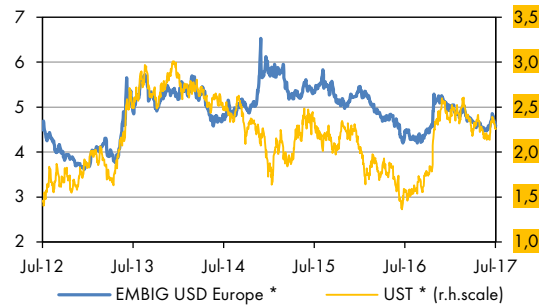
## Eurobond market overview

### CEE USD EMBIG spread valuation\*



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

### CEE EMBIG USD vs. UST YTM\*



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

Issuer/rate/due	Market Price			5y max	5y min	YTM mid. % p. a.	Spread Bmk, bp	Mdur. years	ISIN	
	Bid	Ask	w/w %							
<b>EUR</b>										
CROATI 5 7/8 07/09/18	105.5	105.7	-0.04	112.1	100.6	0.05	60	1.0	XS0645940288	
REPHUN 3 7/8 02/24/20	109.8	110.0	0.00	113.1	81.7	0.05	62	2.5	XS0212993678	
REPHUN 5 3/4 06/11/18	105.2	105.4	-0.02	115.1	92.7	-0.22	32	0.9	XS0369470397	
REPHUN 6 01/11/19	108.6	109.0	0.00	118.4	93.5	-0.01	59	1.4	XS0625388136	
LITHUN 4.85 02/07/18	102.7	103.1	0.07	114.3	102.8	-0.52	3	0.5	XS0327304001	
POLAND 5 5/8 06/20/18	105.2	105.4	-0.05	122.6	102.1	-0.22	32	0.9	XS0371500611	
POLAND 1 5/8 01/15/19	102.3	102.6	0.18	105.5	98.0	-0.03	58	1.5	XS0874841066	
POLAND 3 3/4 01/19/23	117.6	118.3	0.17	125.5	104.5	0.43	56	5.0	XS0794399674	
POLAND 3 3/8 07/09/24	117.1	117.8	0.11	125.6	99.6	0.79	72	6.3	XS0841073793	
ROMANI 4 7/8 11/07/19	111.0	111.4	0.00	117.8	99.3	-0.01	59	2.2	XS0852474336	
TURKEY 5 7/8 04/02/19	108.4	108.7	0.04	118.9	107.5	0.76	138	1.6	XS0285127329	
TURKEY 5 1/8 05/18/20	109.6	109.9	0.15	115.9	102.5	1.56	210	2.6	XS0503454166	
<b>USD</b>										
BELRUS 8.95 01/26/18	102.5	103.1	0.09	111.2	78.0	3.30	219	0.5	XS0583616239	
CROATI 6 3/8 03/24/21	111.3	111.7	0.38	117.8	99.1	3.04	142	3.2	XS0607904264	
CROATI 5 1/2 04/04/23	110.6	111.2	0.88	111.7	94.4	3.38	146	4.9	XS0908769887	
REPHUN 5 3/8 02/21/23	111.6	112.1	0.39	115.4	93.1	3.04	115	4.8	US445545AH91	
REPHUN 7 5/8 03/29/41	150.9	151.7	0.7	157.5	99.1	4.19	154	13.0	US445545AF36	
LITHUN 7 3/8 02/11/20	112.8	113.1	0.03	130.7	112.7	2.13	68	2.3	XS0485991417	
LITHUN 6 5/8 02/01/22	117.2	117.6	0.10	128.6	113.9	2.52	76	3.9	XS0739988086	
LATVIA 2 3/4 01/12/20	101.2	101.7	0.08	104.5	91.4	2.15	72	2.4	XS0863522149	
LATVIA 5 1/4 06/16/21	110.7	111.1	-0.01	117.2	103.3	2.30	65	3.5	XS0638326263	
POLAND 6 3/8 07/15/19	108.7	108.9	-0.02	125.9	108.6	1.80	44	1.9	US731011AR30	
POLAND 3 03/17/23	101.5	101.8	0.2	105.1	87.6	2.68	78	5.1	US731011AT95	
ROMANI 6 3/4 02/07/22	116.2	116.4	0.33	124.4	102.6	2.89	114	3.9	US77586TAA43	
ROMANI 4 3/8 08/22/23	106.8	107.0	0.63	111.1	90.8	3.12	116	5.3	US77586TAC09	
RUSSIA 4 1/2 04/04/22	105.9	106.3	0.31	114.7	82.0	3.09	130	4.2	XS0767472458	
RUSSIA 7 1/2 03/31/30	120.0	120.4	-0.07	128.6	99.6	2.18	-16	3.6	XS0114288789	
RUSSIA 5 5/8 04/04/42	110.2	110.8	1.39	124.9	76.0	4.89	221	13.6	XS0767473852	
SERBIA 5 1/4 11/21/17	101.0	101.3	0.02	107.1	96.8	1.64	52	0.3	XS0856951263	
SERBIA 4 7/8 02/25/20	104.5	104.9	0.37	105.4	89.6	2.95	150	2.4	XS0893103852	
TURKEY 6 1/4 09/26/22	109.6	110.1	0.81	127.0	102.5	4.12	228	4.4	US900123BZ27	
TURKEY 6 7/8 03/17/36	113.9	114.3	1.58	139.6	99.2	5.64	314	10.8	US900123AY60	
TURKEY 6 3/4 05/30/40	112.8	113.4	1.65	139.4	97.3	5.71	309	12.1	US900123BG46	
UKRAIN 7 3/4 09/01/19	103.5	103.9	-0.18	103.9	88.0	5.85	447	1.9	XS1303918269	
UKRAIN 7 3/4 09/01/23	100.5	100.9	0.69	100.7	84.6	7.60	564	4.7	XS1303921487	
UKRAIN 7 3/4 09/01/27	98.3	98.7	0.48	98.5	81.2	7.97	570	6.7	XS1303927179	

YTM mid - yield to maturity based on mid market price, bmk - benchmark, Mdur - modified duration, ISIN - international security identification number; prices as of 21 Jul 2017, 9:59 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
<b>CE</b>									
Poland	A-	BBB+	stable	A2	A2	stable	A	A-	stable
Hungary	BBB-	BBB-	stable	Baa3	Baa3	stable	BBB-	BBB-	stable
Czech Rep.	AA	AA-	stable	A1	A1	stable	AA-	A+	stable
Slovakia *	A+	A+	stable	A2	A2	positive	A+	A+	stable
Slovenia *	A+	A+	stable	Baa3	Baa3	positive	A-	A-	stable
<b>SEE</b>									
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
<b>EE</b>									
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	-0.8	83.7	23.0	2.6	90.9	32.4	9.1
	2017e	2.9	1.5	12.2	1056	-1.9	82.9	23.8	3.7	86.7	n.a.	8.7
	2018f	2.3	1.7	11.2	1074	-2.0	81.3	24.5	2.2	85.2	n.a.	8.6
Czech Republic	2016	2.3	0.7	5.5	1020	0.6	37.9	70.3	1.1	73.2	63.8	8.4
	2017e	2.7	2.3	4.4	1086	-0.2	36.8	69.2	1.1	76.3	85.7	12.0
	2018f	2.5	2.1	4.5	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	5.4	98.3	22.2	3.5
	2017e	3.8	2.6	4.3	937	-2.5	73.2	80.5	3.2	88.3	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	2.7	-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	997	-2.8	54.0	39.4	-0.2	72.4	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	718	-3.6	38.4	31.9	-3.6	53.0	39.9	6.6
	2018f	3.8	2.9	5.0	781	-3.8	39.7	32.6	-3.8	52.3	38.3	6.1
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	619	-2.5	14.0	22.2	4.7	29.5	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	1.5	12.0	9.0	n.a.	-3.2	78.4	35.9	-4.1	114.5	16.9	5.3
	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	2.9	7.8	10.0	n.a.	-1.4	32.0	17.5	-3.8	47.8	27.1	7.0
	2017e	4.0	10.0	10.3	n.a.	-2.5	33.0	18.9	-4.6	50.1	25.8	6.5
	2018f	3.0	8.0	10.0	n.a.	-2.0	32.0	18.6	-4.8	48.8	23.0	5.7

\* 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	32%
Hold	58%
Sell	11%
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	2Y Czech. Rep.	2Y Hungary	2Y Poland
20/06/2017	Hold	Hold	Buy	Sell	Buy	Hold	Hold	Hold	Hold
08/06/2017							Hold		
06/06/2017	Hold	Buy	Buy	Hold	Buy	Hold	Hold	Hold	Hold
28/04/2017	Buy	Hold	Hold	Hold	Buy	Hold	Hold	Hold	Hold
27/04/2017									
24/03/2017	Buy	Hold	Hold	Hold	Hold	Sell	Hold	Hold	Hold
15/03/2017									
24/02/2017			Hold		Sell				
25/01/2017	Hold	Buy	Buy	Hold	Hold	Hold	Hold	Hold	Hold
24/01/2017									
15/12/2016	Hold	Buy	Buy	Hold	Hold	Sell	Hold	Hold	Hold
28/11/2016									
24/11/2016					Hold				
21/10/2016									
26/09/2016									
23/09/2016	Hold	Hold	Hold	Hold	Buy	Sell	Hold	Hold	Hold
26/08/2016									
25/08/2016	Hold	Buy	Hold	Hold	Buy	Sell	Hold	Buy	Hold
29/07/2016	Hold	Buy	Hold	Hold	Buy	Sell	Hold	Buy	Hold
27/07/2016									
21/07/2016						Sell			

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

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

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

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