

## Market snapshot

	curr.*	Sep-17	Dec-17	Mar-18
<b>Poland</b>				
EUR/PLN**	4.257	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	305.2	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	26.05	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	4.565	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	7.415	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	59.40	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	3.533	3.60	3.70	3.80
Key rate	8.00	8.00	8.00	8.00
10y bond	10.4	10.5	10.0	9.5
EUR/USD**	1.167	1.09	1.07	1.09

\* prices as of 27 July 2017, 11:59 p.m. CEST

\*\* under revision

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

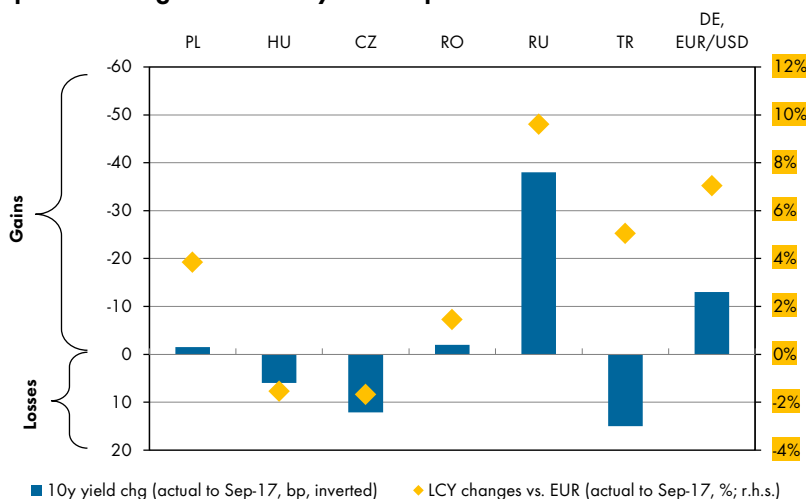
## Highlights

Today Russia's CBR is likely to keep key rates unchanged due to a combination of serious concerns about June inflation uptick and new US sanctions potentially capable of rattling RUB stability. The market expectations are for no rate cut with consensus lining up for a pause in the easing bias. Perhaps, if inflation decelerates in August, and, further, in September this may reassure CBR then in the necessity of rate cuts but not earlier. Next week the CNB board members will meet to decide on the possibility of the first increase of key interest rate since 2012. The market consensus expects a 0.20pb hike; however, in our opinion, this is unlikely to happen before Q4 2017. The Czech koruna has appreciated by 3.75% since CNB abandoned the FX commitment. In the last two weeks, the Czech currency has broken psychologically important level of EUR/CZK 26.00 twice. Thus, the recent appreciation of CZK may lead to the hike postponement.

Meanwhile, the EU Commission starts an infringement procedure vs Poland. The recommendation released on 26 July follows the other two issued already raised in 2016 (connected with the Constitutional Tribunal) which so far haven't been addressed by the Polish authorities. The recommendation concerns legislative acts on justice system adopted by the Polish Parliament last week (the two have been vetoed by the President). EU assessed that this act will have a negative impact on the independency of Polish justice system. In particular the European Commission expects that the new bill does not dismiss judges of the Supreme Court – otherwise the EU is "ready to immediately activate the mechanism set out in Article 7(1) of the Treaty on European Union". The third recommendation gives the government one month to resolve the issue. Whereas the Polish zloty saw a short phase of recovery following the veto decision by President Duda on the judicial reform last Monday, the topic should continue to weigh negatively on PLN. We have therefore put our PLN forecasts under revision.

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

## Expected changes from today until September 2017\*



\* PLN and USD forecasts under revision

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

## Data highlights upcoming week

Date	Indicator	Period	Forecast	High	Mean	Low	Previous
28-Jul	RU: Key rate, %	Jul	9.00	9.00	8.75	8.75	9.00
01-Aug	RU: PMI, points	Jul	n.a.	n.a.	n.a.	n.a.	50.3
01-Aug	PL: PMI, points	Jul	52.9	n.a.	n.a.	n.a.	53.1
03-Aug	CZ: Key rate, %	Aug	0.05	0.25	0.25	0.05	0.05
04-Aug	RO: Key rate, %	Aug	1.75	1.75	1.75	1.75	1.75

Source: Bloomberg, RBI/Raiffeisen RESEARCH

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## 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>Tuesday 25 July</b>					<b>Friday 28 July</b>						
PL: Unemployment rate, % yoy	Jun	7.1	7.0	7.4	HR: Industrial output, % yoy	Jun	n.a.	n.a.	n.a.	n.a.	3.3
<b>Thursday 27 July</b>					<b>Monday 31 July</b>						
HU: Unemployment rate, % yoy	Jun	4.3	n.a.	4.4	HR: Retail sales, % yoy	Jun	n.a.	n.a.	n.a.	n.a.	3.5
TR: Key rate, %	Jul	8.00	8.00	8.00	RU: Key rate, %	Jul	9.00	9.00	8.75	8.75	9.00
					RO: Unemployment rate, % yoy	Jun	n.a.	n.a.	n.a.	n.a.	5.4
					SI: Retail sales, % yoy	Jun	n.a.	n.a.	n.a.	n.a.	7.7
					SI: CPI, % yoy	Jul	n.a.	n.a.	n.a.	n.a.	0.9
					HR: Real wages, % yoy	Mai	2.9	n.a.	n.a.	n.a.	1.9
					RS: Industrial output, % yoy	Jun	n.a.	n.a.	n.a.	n.a.	6.2
					RS: Retail sales, % yoy	Jun	n.a.	n.a.	n.a.	n.a.	6.1
					RS: GDP, % yoy	Q2	n.a.	n.a.	n.a.	n.a.	1.2
					BG: Key rate, %	Aug	n.a.	n.a.	n.a.	n.a.	0.00
					<b>Tuesday 01 August</b>						
					RU: PMI, points	Jul	n.a.	n.a.	n.a.	n.a.	50.3
					HU: PMI, points	Jun	n.a.	n.a.	n.a.	n.a.	57.2
					PL: PMI, points	Jul	52.9	n.a.	n.a.	n.a.	53.1
					CZ: PMI, points	Jul	57.0	n.a.	n.a.	n.a.	56.4
					TR: PMI, points	Jul	n.a.	n.a.	n.a.	n.a.	54.7
					<b>Thursday 03 August</b>						
					RO: Retail sales, % yoy	Jun	n.a.	n.a.	n.a.	n.a.	12.3
					RU: PMI services, points	Jul	n.a.	n.a.	n.a.	n.a.	55.5
					RU: PMI composite, points	Jul	n.a.	n.a.	n.a.	n.a.	54.8
					HU: Retail sales, % yoy	Jun	5.0	n.a.	n.a.	n.a.	5.5
					SK: Retail sales, % yoy	Jun	n.a.	n.a.	n.a.	n.a.	7.8
					TR: CPI, % yoy	Jul	n.a.	n.a.	n.a.	n.a.	10.9
					CZ: Key rate, %	Aug	0.05	0.25	0.25	0.05	0.05
					UA: Key rate, %	Aug	n.a.	12.50	12.50	12.00	12.50
					<b>Friday 04 August</b>						
					CZ: Retail sales, % yoy	Jun	5.5	n.a.	n.a.	n.a.	5.3
					HU: Industrial output, % yoy	Jun	6.0	n.a.	n.a.	n.a.	6.2
					RO: Key rate, %	Aug	1.8	1.75	1.75	1.75	1.75
					RU: CPI, % yoy	Jul	n.a.	n.a.	n.a.	n.a.	4.4
					RU: CPI Core, % yoy	Jul	n.a.	n.a.	n.a.	n.a.	3.5

Source: Bloomberg, RBI/Raiffeisen RESEARCH

**Bosnia a. H. (BA)** – Two macroeconomic data releases came into spotlight during this week: unemployment rate for 2017 and final annual GDP for 2016. According to the Labor Force Survey data (LFS was carried out for the 12th time in B&H in April 2017) the unemployment rate marked decline to 20.5% in 2017 compared to 25.4% in 2016. Nevertheless, it must be pointed out that decline of the unemployment rate is dominantly result of the decline in the work force, instead of more jobs created. Explicitly, according to the LFS data, 15K new jobs were created while number of unemployment persons declined by 63K (therefore, 48K B&H citizens without jobs have given up looking for employment or emigrated from the country). Furthermore, the State Agency for Statistic published a new report on the annual GDP data, which confirmed our estimate that B&H economy expanded at much stronger pace than previously reported. According to the published annual GDP data real growth in 2016 was 3.1% yoy, driven by almost all components by production methodology. However, the strongest boost came from agriculture (7.6% yoy), manufacturing (4.8% yoy) and wholesale/retail trade (4.5% yoy). For this year there has been no change of our target forecasted rate which remains at 2.5% for 2017.

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**Croatia (HR)** – The upcoming week, in the peak of summer vacation season, is reserved for a full range of CNBs' statistical data. We expect that gross external debt data for April will reflect a decline in the external debt due to the maturity of USD 1.5 bn Eurobond issued in 2007. Despite a slight revision of this year's economic growth, the share of gross external debt in GDP could continue to fall again this year, which confirms that Croatia's external vulnerability reduced. Renewed inflation and the strengthening of the kuna against the euro are additional factors expected to contribute to the reduction in the ratio of external debt to GDP, which might drop below 90% this year. Furthermore, despite temporary growth in public debt in Q1, which was a direct consequence of government borrowing in the domestic and foreign capital markets (local issue in February and Eurobond issue in March), public debt as a share of GDP is expected to continue to decline this year.

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

**Czech Republic (CZ)** – Next week the CNB monetary policy meeting will be the domestic event that is most relevant to the market. The board members will decide on the first increase in the interest rate since 2012. The market consensus expects a 0.20pb hike; however, in

our opinion this will not happen before Q4 2017. The Czech koruna has appreciated by 3.75% since the CNB abandoned the FX commitment. In the last two weeks, the Czech currency has broken the psychological level of EUR/CZK 26.00 twice. Thus, the recent appreciation of the Czech koruna may lead to a hike postponement. Next Thursday, the CNB will also introduce its new macroeconomic forecast. Due to the stable expected growth expected in H1 2017, the economic growth forecast will most likely be revised upwards. However, the inflation forecast, which is currently 0.3pb below the final CPI figures, may be revised downwards.

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

**Hungary (HU)** – The Unemployment rate has dropped further in June, from 4.4% to 4.3%. This is a new low since 1990 and is in line with our expectations. In our view, improving labor market conditions and increasing wages will push headline inflation higher close to the medium term target over the next years. During the next week minutes of the last policy meeting will be released, likely without any news. July manufacturing PMI will be released too that is likely to remain close to its latest reading of 57.2. June retail sales and industrial output data will likely show annual growth rates hovering at around 5-6%, far above their multi-year averages. Meanwhile, interbank rates and bond yields show no change compared to last Thursday's values, so everything has remained well anchored, even with the constantly increasing HUF liquidity in the system. Last time the central bank injected more money to the banks through FX swaps than what matured, so now the excess liquidity is already HUF 900 bn. The one instrument that did show some sign of life was the forint. The EUR/HUF fell further, and now is well out of the central bank's comfort zone. If 304 breaks then the next possible support will be at 300.

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

**Poland (PL)** – President A. Duda vetoed two out of three controversial bills reforming the Polish judicial system (including the one on Supreme Court). As a response the European Commission issued a recommendation (that supplements two other recommendations issued already in 2016 in relation to the Constitutional Tribunal crisis) concerning a threat to the rule of law. In particular the regulation, promoted by the governing party, regarding dismissal of judges of the Supreme Courts is a matter of a great concern and if pushed through could be a trigger to activate the mechanism set out in Article 7(1) of the Treaty on European Union. The new presidential draft of the vetoed bills should be prepared within two months. While this week did not bring any significant macroeconomic data, the coming days will be of more importance. The flash estimate on CPI on Monday should indicate increase on yearly basis to 1.6%, whereas PMI published next day may drop slightly to 52.9 pts.

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

**Romania (RO)** – While one week ago, the Prime Minister announced that the introduction of a turnover tax for companies was removed from the Government's agenda, this week he said that the introduction of a solidarity tax is also out of discussions. The solidarity tax was mentioned in the updated version of the governing program as to be applied in case of high earning individuals. The public budget deficit widened further in June (by RON 4.1 bn) coming at 0.8% of GDP (RON 6.3 bn) in H1 2017. This was above the level recorded in the same period from the previous year (0.5% of GDP). Such developments point to the materialization of the fiscal risks that we have included in our baseline scenario for 2017. Also, they show that some actions used by public authorities to limit the deterioration of the public budget balance in the first months of the year – tight control over expenses with goods and services and cut of investments – cannot be permanent solutions.

Next week's macroeconomic calendar is rather light. A monetary policy meeting is scheduled on 4 August. We expect the Central Bank (NBR) to remain on hold, keeping unchanged the key interest rate (at 1.75%) as well as its other monetary policy instruments. As long as the ECB and the other Central Banks in the region do not change their rhetoric, we expect the NBR to show reluctance to alter the monetary policy stance.

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

**Russia (RU)** – The new set of sanctions against Russia approved by the US House of Representatives and the US Senate (still however, to be signed by the US President) will limit the US President's ability to lift sanctions and contains a certain tightening, but also some cosmetic measures (such as a lower term for allowed financing of energy companies and banks).

For example, any entity that provides technology, services, investment or any support valued at USD 1 mn or more to Russian export pipeline projects will be sanctioned. US investments in the Arctic, deep-water and shale oil projects that are partially owned by Russian sanctioned firms (33%) will be banned as well. These steps were already disapproved by the EU as they potentially affect its interests and European companies involved in these projects. Our preliminary estimates suggest that Rosneft's and NOVATEK's projects are unlikely to be affected as, in the first case, the projects are at early feasibility study stages and, in the second case, the financing contracts are already signed (the sanctions ban only new contracts).

Potentially, damage could be done to Gazprom's Nord Stream 2 natural-gas link. However, according to Gazprom, most of the EU partners have already provided financing for the project. In case, these EU partners were to stop financing the project in future Gazprom could finance it by itself or would try to find some financing from Russian banks or Asian partners (the same logic holds true if Blue Stream is affected by new sanctions). In addition, within 180 days the possibility of extending sanctions on Russia's sovereign debt should be investigated. At the moment, we do not treat this risk as our base case but if such a measure is introduced it will be highly negative for the Russian financial market (as more than 30% of OFZs are held by non-residents). We believe that in such a negative environment and among such uncertainty the CBR will choose to be more cautious in its easing cycle.

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

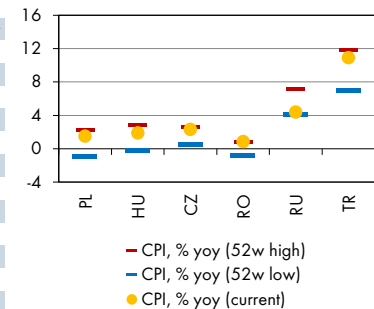
# Monetary policy and money markets overview

## 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	5.12	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	7.18	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	3.56	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
<b>Benchmark key rates</b>						
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

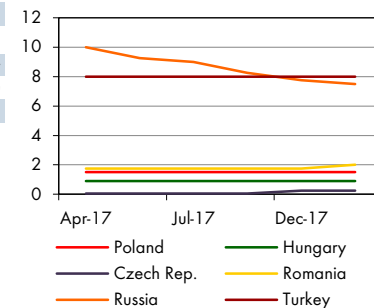
Source: Bloomberg, RBI/Raiffeisen RESEARCH  
 \* Bid rates (for Hungary ask rates) as of 27 July 2017, 11:59 p.m. CEST; \*\* under revision

## Inflation snapshot



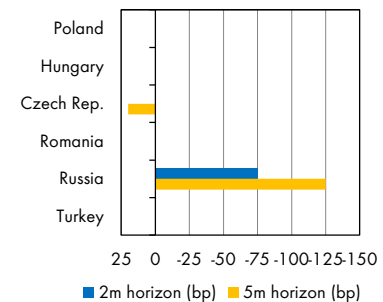
Source: Bloomberg, RBI/Raiffeisen RESEARCH

## Key rate trends (%)



Source: Bloomberg, RBI/Raiffeisen RESEARCH

## Key rate forecast (chg., bp)



Source: Bloomberg, RBI/Raiffeisen RESEARCH

## Central bank watch

<b>Poland (NBP)</b>	Dovish NBP bias is further supported by moderating inflation. We feel 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.
<b>Hungary (MNB)</b>	In light of further moderating headline inflation in June the MNB was willing to continue its unorthodox easing. Next cut to deposit cap – 3m depo – to be announced in Sep., while MNB injects larger HUF liquidity via FX swaps.
<b>Czech Republic (CNB)</b>	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.
<b>Romania (BNR)</b>	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. So base rate hikes could start as early as 2018 in our view.
<b>Serbia (NBS)</b>	Stable inflationary expectations, weaker than initially expected oil-price growth on global markets and a stable country risk premium are together supporting steady inflationary performance, so we're sticking to flat key rate scenario for 2017.
<b>Russia (CBR)</b>	Russia's CBR is likely to keep key rates unchanged for now due to a combination of serious concerns about June inflation uptick and new US sanctions potentially capable of rattling RUB stability. However, with inflation likely going down in August and in September we would expect rate cuts to resume very soon.
<b>Turkey (TCMB)</b>	TCMB has downplayed the food price decline while stepping up its hawkish rhetoric saying that "elevated levels of inflation pose risks on the pricing behaviour". This reduces the easing bias probability in short-term while medium-term policy rate and inflation outlooks remain cloudy.

Source: RBI/Raiffeisen RESEARCH

## Rate setting meetings

	Aug	Sep
<b>Poland (NBP)</b>	/	6
<b>Hungary (MNB)</b>	22	19
<b>Czech Republic (CNB)</b>	3	27
<b>Romania (BNR)</b>	4	/
<b>Serbia (NBS)</b>	10	7
<b>Russia (CBR)</b>	/	15
<b>Turkey (TCMB)</b>	/	14

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
<b>PLN**</b>	4.257	4.10	4.15	4.10	4.40	4.08	Uncertainties around judicial reform weigh on PLN; EUR/PLN projected to remain in a 4.20-4.30 range for the time being as we have our PLN forecast under revision
<b>HUF</b>	305.2	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>	26.05	26.5	25.9	25.6	27.7	25.1	Potential for some CZK setback in case first key rate hike is not coming at the rate setting meeting next week; medium-term CZK appreciation trend intact
<b>RON</b>	4.565	4.50	4.55	4.50	4.55	4.45	EUR/RON hovering near 4.55 as political turmoil is waning; we would expect EUR/RON to re-enter the 4.50-4.55 range over the coming weeks
<b>HRK</b>	7.415	7.45	7.50	7.45	7.66	7.50	Next week we expect EUR/HRK trading between 7.40 and 7.42
<b>RSD</b>	120.3	122	123	124	123	112	RSD appreciation bias not tolerated by NBS which has used EUR-buying to stem dinar gains
<b>RUB</b>	69.29	63.2	64.2	67.6	79.3	40.3	see USD/RUB below
<b>UAH</b>	30.27	29.4	30.0	31.1	30.0	10.6	see USD/UAH below
<b>BYN</b>	2.266	2.13	2.19	2.29	2.19	1.13	see USD/BYN below
<b>TRY</b>	4.122	3.92	3.96	4.14	3.96	2.35	see USD/TRY below
<b>USD**</b>	1.167	1.09	1.07	1.09	1.38	1.05	Market likely underestimating rate hike potential in the US, thus we would still expect a phase of USD recovery; medium-term euro appreciation projected against USD

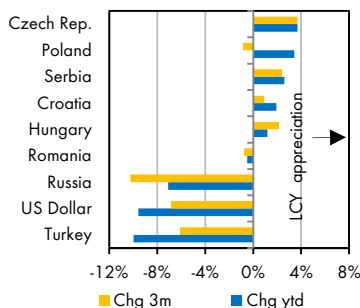
USD vs	current*	Sep-17	Dec-17	Mar-18	5y high	5y low	Comment
<b>RUB</b>	59.40	58.0	60.0	62.0	73.0	30.5	Stronger sanctions by the US did not lead to significant RUB setback for now; we project fairly stable USD/RUB around levels of 60 for remainder of 2017
<b>UAH</b>	25.95	27.0	28.0	28.5	28.0	8.05	Uncertainties over IMF program and the situation in Donbas to weigh on UAH, but administrative measures keep UAH stable
<b>BYN</b>	1.943	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>	3.533	3.60	3.70	3.80	3.70	1.78	TRY recovery supported by a weaker USD; political uncertainties remain main risk as we project ongoing (moderate) depreciation trend for the lira

\* as of 27 July 2017, 11:59 p.m. CEST

\*\* under revision

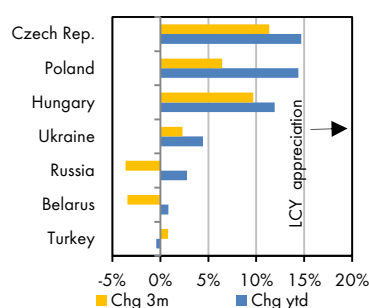
Source: Bloomberg, RBI/Raiffeisen RESEARCH

## Change of LCY value to EUR (%)



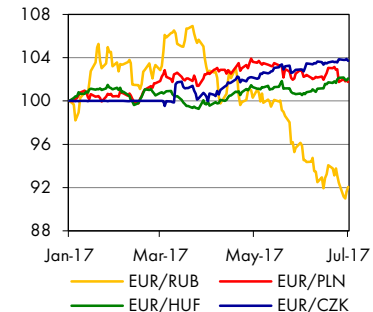
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

## Change of LCY value to USD (%)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

## Exchange rate comparison



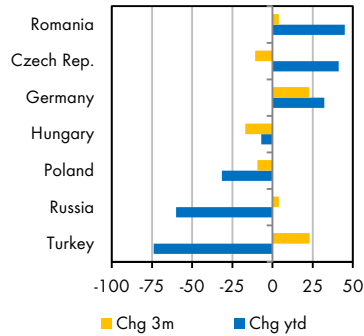
Indexed 27 Jan-17 = 100

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH



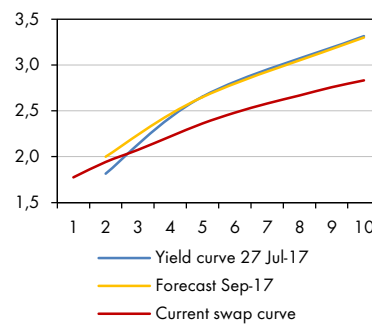
# Local currency bond market overview and forecasts

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



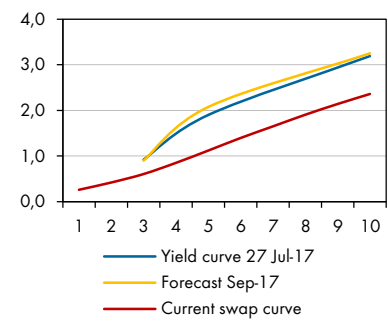
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

## PLN yield curve\*



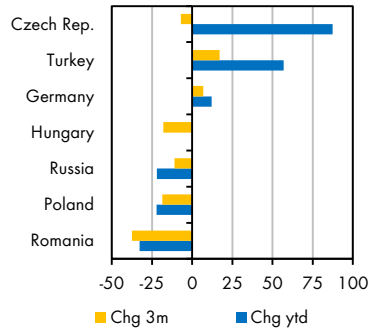
\*under revision  
Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

## HUF yield curve



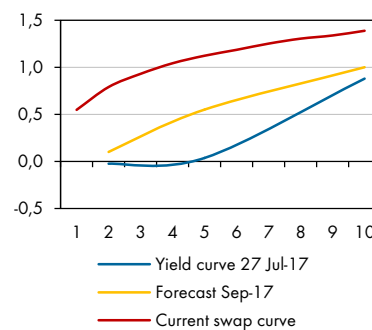
Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

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



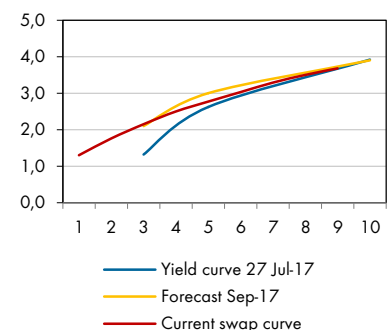
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

## CZK yield curve



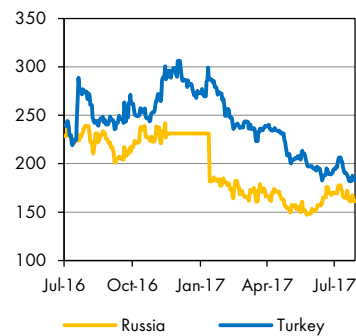
Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

## RON yield curve



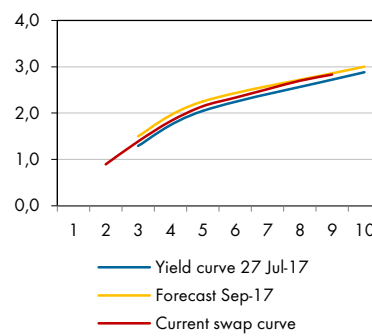
Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

## 5y USD CDS spreads



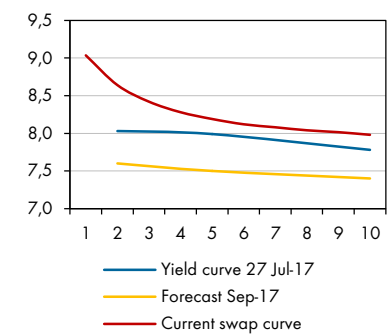
Turkey 5y high 327.1, 5y low 111.7;  
Russia 5y high 628.7, 5y low 119.4  
Source: Bloomberg, RBI/Raiffeisen RESEARCH

## 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	1.82	2.0	2.1	2.3	3.1	1.6	Poland	3.32	3.3	3.5	3.7	4.3	2.5	
Hungary **	0.92	0.9	1.0	1.1	5.7	0.9	Hungary	3.19	3.3	3.4	3.5	6.2	3.3	
Czech Republic	-0.03	0.1	0.1	0.2	0.5	-0.9	Czech Republic	0.88	1.0	1.2	1.4	2.5	0.5	
Romania	1.32	1.6	1.8	2.2	6.4	1.5	Romania	3.92	3.9	4.3	4.4	6.9	3.5	
Croatia	1.29	1.5	1.6	1.7	4.4	0.9	Croatia	2.88	3.0	3.1	3.2	5.2	3.1	
Russia	8.03	7.6	7.3	7.2	15.8	6.2	Russia	7.78	7.4	7.1	7.0	14.1	6.9	
Turkey	11.27	10.5	10.5	10.0	11.0	6.1	Turkey	10.35	10.5	10.0	9.5	11.1	6.6	
Germany	-0.71	-0.7	-0.7	-0.6	0.2	-0.8	Germany	0.47	0.4	0.7	0.9	1.9	0.1	
USA	1.37	1.5	1.7	1.8	1.7	0.2	USA	2.31	2.4	2.8	2.8	3.0	1.8	

\* Bid yields as of 27 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	102.78	1.81	247	1.9	Easing political tensions between Poland and EU would be positive for POLGB market confidence albeit have little influence on day trading. We remain upbeat on 10y POLGB outright and also vs comparable HGB.
PLN 5y Gov. Bond	23/09/2022	5.75	114.76	2.64	281	4.5	
PLN 10y Gov. Bond	25/07/2027	2.50	93.22	3.31	276	8.9	
<b>Hungary</b>							
HUF 3y Gov. Bond	23/09/2020	1.00	100.40	0.87	138	3.1	The continuation of "unorthodox" liquidity easing measures from MNB including latest HUF liquidity injection via FX swap give boost to domestic HGB market. Still, relatively tight yield of 10y HGB calls for only a Hold recommendation.
HUF 5y Gov. Bond	26/10/2022	1.75	99.45	1.86	203	5.0	
HUF 10y Gov. Bond	27/10/2027	3.00	98.78	3.14	259	8.8	
<b>Czech Republic</b>							
CZK 2y Gov. Bond	11/04/2019	5.00	109.15	-0.35	31	1.6	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	123.73	0.05	22	4.6	
CZK 10y Gov. Bond	25/08/2028	2.50	115.50	1.01	47	9.9	
<b>Croatia</b>							
HRK 2y Gov. Bond	10/07/2018	5.25	104.53	0.42	59	0.9	High tourism and holiday seasons help to boost demand for HRK which also positively influences HRK bond market.
HRK 10y Gov. Bond	14/12/2026	4.25	111.53	2.84	229	7.9	
<b>Romania</b>							
RON 2y Gov. Bond	29/04/2020	5.75	110.55	1.77	229	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	103.77	2.52	269	4.3	
RON 10y Gov. Bond	26/07/2027	5.80	115.82	3.86	331	0.0	
<b>Russia</b>							
RUB 2y Gov. Bond	15/05/2019	6.70	98.01	8.06	873	1.7	RUB OFZ remain well bid despite slightly weaker RUB and new US Russia sanctions, while delay to CBR rate cut in July unlikely to alter investment outlook. So far we remain mildly constructive on OFZ bonds.
RUB 5y Gov. Bond	20/07/2022	7.60	99.01	8.00	817	4.2	
RUB 10y Gov. Bond	03/02/2027	8.15	103.46	7.78	723	6.6	
<b>Turkey</b>							
TRY 2y Gov. Bond	15/05/2019	11.10	99.75	11.22	1189	1.6	Surprisingly harsh words on inflation from TCMB signal a delay to the easing bias while TRY volatility takes toll on TURKGB market, which trims positive expectations for TURKGB performance in short-term despite constructive medium-term outlook.
TRY 5y Gov. Bond	02/03/2022	11.00	101.50	10.57	1074	3.6	
TRY 10y Gov. Bond	24/02/2027	11.00	103.85	10.35	980	6.0	

Data as of 28 July 2017, 10:31 a.m. CEST  
Source: Bloomberg, RBI/Raiffeisen RESEARCH

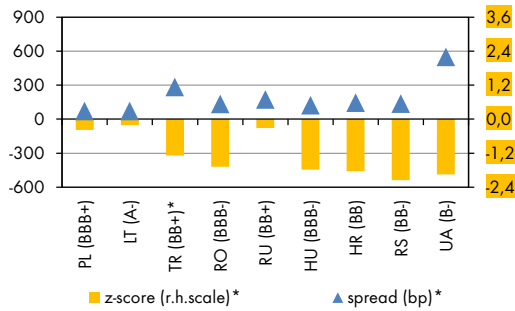
## Bond auctions

	ISIN	Coupon	Maturity	Volume
<b>01 August</b>				
PL	T-bond	n.a.	n.a.	n.a.
<b>02 August</b>				
RS	T-bond	n.a.	n.a.	n.a.
CZ	8.1y T-bond	CZ0001004600	0.45 %	25.10.2023 max. CZK 4.0 bn
CZ	11.0y T-bond	CZ0001004469	1.00 %	26.06.2026 max. CZK 4.0 bn
CZ	15.0y T-bond	CZ0001004477	0.95 %	15.05.2030 max. CZK 4.0 bn
<b>03 August</b>				
HU	T-bond	n.a.	n.a.	n.a.
PL	T-bond	n.a.	n.a.	n.a.
<b>04 August</b>				
AL	5y T-bond	AL0031NF5Y22	n.a.	08.08.2022 ALL 6.5 bn

Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

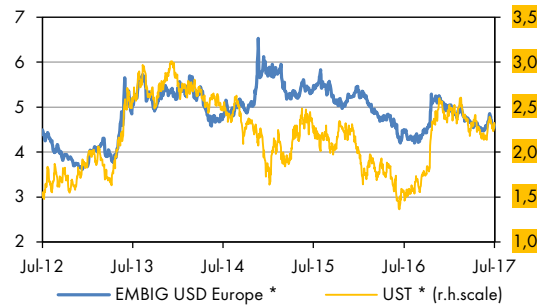
## Eurobond market overview

### 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	105.4	105.6	-0.09	112.1	101.0	0.00	57	0.9	XS0645940288	
REPHUN 3 7/8 02/24/20	109.8	110.0	-0.02	113.1	82.4	0.04	63	2.5	XS0212993678	
REPHUN 5 3/4 06/11/18	105.1	105.4	-0.02	115.1	93.2	-0.32	24	0.9	XS0369470397	
REPHUN 6 01/11/19	108.8	109.1	0.14	118.4	93.5	-0.18	45	1.4	XS0625388136	
LITHUN 4.85 02/07/18	102.8	102.9	0.00	114.3	102.8	-0.55	2	0.5	XS0327304001	
POLAND 5 5/8 06/20/18	105.1	105.8	0.13	122.6	102.1	-0.49	7	0.9	XS0371500611	
POLAND 1 5/8 01/15/19	102.0	102.5	-0.18	105.5	98.0	0.08	71	1.4	XS0874841066	
POLAND 3 3/4 01/19/23	117.5	117.8	-0.28	125.5	104.7	0.48	62	5.0	XS0794399674	
POLAND 3 3/8 07/09/24	117.0	117.5	-0.16	125.6	99.6	0.81	75	6.3	XS0841073793	
ROMANI 4 7/8 11/07/19	111.0	111.4	0.00	117.8	99.3	-0.05	58	2.1	XS0852474336	
TURKEY 5 7/8 04/02/19	108.5	108.8	0.00	118.9	107.5	0.66	131	1.6	XS0285127329	
TURKEY 5 1/8 05/18/20	109.7	109.9	-0.01	115.9	102.5	1.51	208	2.6	XS0503454166	
<b>USD</b>										
BELRUS 8.95 01/26/18	102.5	103.1	0.01	111.2	78.0	3.10	197	0.5	XS0583616239	
CROATI 6 3/8 03/24/21	111.3	111.7	0.03	117.8	101.6	3.01	138	3.2	XS0607904264	
CROATI 5 1/2 04/04/23	110.9	111.4	0.02	111.7	94.4	3.32	138	4.8	XS0908769887	
REPHUN 5 3/8 02/21/23	112.2	112.4	0.19	115.4	93.1	2.96	104	4.7	US445545AH91	
REPHUN 7 5/8 03/29/41	151.3	152.1	0.0	157.5	99.1	4.17	144	13.0	US445545AF36	
LITHUN 7 3/8 02/11/20	112.7	113.0	-0.03	130.7	112.7	2.12	67	2.3	XS0485991417	
LITHUN 6 5/8 02/01/22	117.2	117.6	-0.03	128.6	113.9	2.50	73	4.0	XS0739988086	
LATVIA 2 3/4 01/12/20	101.2	101.6	-0.10	104.5	91.4	2.16	73	2.4	XS0863522149	
LATVIA 5 1/4 06/16/21	110.6	111.1	-0.06	117.2	103.5	2.31	64	3.5	XS0638326263	
POLAND 6 3/8 07/15/19	108.8	108.8	-0.11	125.9	108.6	1.76	41	1.9	US731011AR30	
POLAND 3 03/17/23	101.7	101.8	0.0	105.1	87.6	2.66	73	5.1	US731011AT95	
ROMANI 6 3/4 02/07/22	116.1	116.4	-0.11	124.4	105.5	2.88	112	3.8	US77586TAA43	
ROMANI 4 3/8 08/22/23	107.0	107.3	0.07	111.1	90.8	3.07	109	5.2	US77586TAC09	
RUSSIA 4 1/2 04/04/22	106.1	106.5	0.06	114.7	82.0	3.05	125	4.2	XS0767472458	
RUSSIA 7 1/2 03/31/30	120.0	120.3	-0.10	128.6	99.6	2.17	-22	3.6	XS0114288789	
RUSSIA 5 5/8 04/04/42	109.7	110.4	-0.56	124.9	76.0	4.92	215	13.6	XS0767473852	
SERBIA 5 1/4 11/21/17	101.0	101.3	0.01	107.1	96.8	1.53	43	0.3	XS0856951263	
SERBIA 4 7/8 02/25/20	104.8	105.2	0.04	105.4	89.6	2.84	138	2.4	XS0893103852	
TURKEY 6 1/4 09/26/22	109.6	110.1	-0.11	127.0	102.5	4.10	224	4.3	US900123BZ27	
TURKEY 6 7/8 03/17/36	113.4	113.9	-0.41	139.6	99.2	5.68	311	10.7	US900123AY60	
TURKEY 6 3/4 05/30/40	112.3	113.0	-0.64	139.4	97.3	5.75	304	12.1	US900123BG46	
UKRAIN 7 3/4 09/01/19	103.9	104.2	0.02	104.2	88.0	5.65	427	1.9	XS1303918269	
UKRAIN 7 3/4 09/01/23	101.2	101.7	0.31	101.4	84.6	7.45	545	4.6	XS1303921487	
UKRAIN 7 3/4 09/01/27	98.1	98.6	-0.77	99.1	81.2	7.99	567	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 28 Jul 2017, 10:10 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 Republic	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	n.a.	-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 Rep-	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	31%
Hold	59%
Sell	10%
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
20/06/2017	Hold	Hold	Buy	Sell	Buy	Hold
08/06/2017						
06/06/2017	Hold	Buy	Buy	Hold	Buy	Hold
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

Date	2Y Czech. Rep.	2Y Hungary	2Y Poland	2Y Romania	2Y Russia	2Y Turkey
20/06/2017	Hold	Hold	Hold	Sell	Buy	Buy
08/06/2017	Hold					
06/06/2017	Hold	Hold	Hold	Hold	Buy	Buy
28/04/2017	Hold	Hold	Hold	Hold	Buy	Hold
27/04/2017						
24/03/2017	Hold	Hold	Hold	Hold	Hold	Hold
15/03/2017						
24/02/2017					Sell	
25/01/2017	Hold	Hold	Hold	Hold	Hold	Hold
24/01/2017						
15/12/2016	Hold	Hold	Hold	Hold	Buy	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

Date	BG EUROBOND EUR	BY EUROBOND USD	HR EUROBOND EUR	HR EUROBOND USD	HU EUROBOND EUR	HU EUROBOND USD
20/06/2017				Hold		
08/06/2017						
06/06/2017	Buy	Hold		Buy		Hold
28/04/2017						
27/04/2017		Buy	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		Hold			
24/11/2016						
21/10/2016		Sell				
26/09/2016	Buy		Buy	Sell		
23/09/2016						
26/08/2016						
25/08/2016						
29/07/2016	Hold				Hold	Hold

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

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

Date	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					
24/02/2017					
25/01/2017					
24/01/2017					
15/12/2016					Sell
28/11/2016	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			
25/08/2016					
29/07/2016		Sell			

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