

Market snapshot

	curr.*	Sep-17	Dec-17	Mar-18
Poland				
EUR/PLN	4.271	4.30	4.20	4.15
Key rate	1.50	1.50	1.50	1.50
10y bond	3.4	3.3	3.5	3.7
Hungary				
EUR/HUF	303.7	310	310	310
Key rate	0.90	0.90	0.90	0.90
10y bond	3.2	3.3	3.4	3.5
Czech Republic				
EUR/CZK	26.05	26.5	25.9	25.6
Key rate**	0.25	0.25	0.25	0.25
10y bond	0.9	1.0	1.2	1.4
Romania				
EUR/RON	4.589	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
Croatia				
EUR/HRK	7.409	7.45	7.50	7.45
Key rate	2.50	2.50	2.50	n.a.
10y bond	2.8	3.0	3.1	3.2
Russia				
USD/RUB	59.21	58.0	60.0	62.0
Key rate	9.00	8.75	8.25	8.00
10y bond	7.8	8.1	7.9	7.8
Turkey				
USD/TRY	3.517	3.60	3.70	3.80
Key rate	8.00	8.00	8.00	8.00
10y bond	10.5	10.5	10.0	9.5
EUR/USD	1.174	1.20	1.18	1.15

* prices as of 17 August 2017, 11:59 p.m. CEST

** under revision

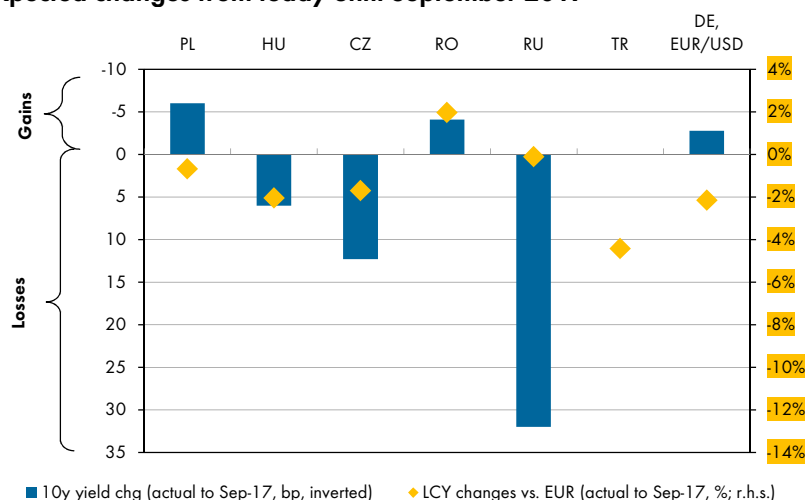
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Highlights

The outgoing week had busy macro calendar with Q2 GDP releases in a number of countries confirming the existence of strong growth momentum. The biggest positive surprise occurred in Czech Republic and Romania where Q2 GDP growth reached 4.5% (+1.4% above consensus) and 5.9% (0.7% above consensus) respectively compared to the same quarter of a year ago. The outstanding result also sparked cautious talk about the need of monetary fine-tuning as both countries also saw CPI inflation accelerating in July. In Poland the market watchers downplayed an otherwise good result with Q2 GDP adding 3.9% yoy (+0.2% above consensus) but staying a bit below the 4% growth in Q1 2017. Still, lower core inflation in Poland with price growth largely in check is helping to tame down any speculation about monetary policy onset, enabling MPC to stick to neutral policy bias. In Slovakia and Bulgaria we spot no surprise with Q2 GDP falling largely in line with market consensus. In Ukraine a 2.4% yoy growth in Q2 could be regarded as weak as even low statistical base is not helping much to bring up the growth rate. Meanwhile in Russia Q2 GDP growth quickening to 2.5% yoy up from 0.5% in Q1 is signalling about the end of the stagnation phase though the uncertainty about medium-term outlook remains. Overall stronger growth momentum across CEE would be likely to affect monetary policy considerations in a number of countries, especially in case of rapid inflation growth. In this regard Czech Republic and Romania might remain in spotlight as faster inflation growth is likely to reignite monetary tightening debate going forward. On the contrary, we expect MNB to keep rates and policy stance unchanged at next week's meeting as Q2 GDP came in slightly lower than expected perhaps underlining a weaker investment growth. In Russia CBR would be likely to cut interest rates in September due record low inflation while GDP trend remains below the long-term output potential. Next week's economic data calendar will be light. Sovereign rating reviews of Hungary (S&P), Slovenia (Fitch) and Romania (Fitch) are unlikely to bring any change to ratings or outlooks.

Financial analyst: Gintaras Shlizhyus (+43 1 71707 1343), RBI Vienna

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
22-Aug	HU: Key rate, %	Aug	0.90	0.90	0.90	0.90	0.90
22-Aug	UA: Industrial output, % yoy	Jul	n.a.	4.0	1.8	-1.0	3.8
24-Aug	PL: Unemployment rate, %	Jul	7.0	7.1	7.0	6.9	7.1

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
Friday 11 August					Friday 18 August						
RS: CPI, % yoy	Jul	3.2	n.a.	3.6	PL: Industrial Output, % yoy	Jul	8.6	9.7	8.4	5.0	4.5
PL: C/A balance, EUR mn	Jun	-932	-1,428	-179	PL: Retail sales, % yoy	Jul	7.9	9.3	7.9	6.0	6.0
PL: Trade balance, EUR mn	Jun	-227	-84.0	-200	SK: Unemployment rate, %	Jul	n.a.	6.8	6.8	6.7	6.9
RU: GDP, % yoy	Q2	2.5	n.a.	0.5	Tuesday 22 August						
RU: Trade balance, USD bn	Jun	8.7	n.a.	8.5	HU: Key rate, %	Aug	0.90	0.90	0.90	0.90	0.90
Monday 14 August					HR: Unemployment rate, %	Jul	10.9	n.a.	n.a.	n.a.	10.8
SK: CPI, % yoy	Jul	1.4	n.a.	1.0	UA: Industrial output, % yoy	Jul	n.a.	4.0	1.8	-1.0	3.8
CZ: C/A balance, CZK bn	Jun	-14.5	2.0	-2.9	Thursday 24 August						
BG: CPI, % yoy	Jul	1.3	n.a.	1.9	PL: Unemployment rate, %	Jul	7.0	7.1	7.0	6.9	7.1
PL: CPI Core, % yoy	Jul	0.8	0.9	0.8							
RO: C/A balance, EUR mn	Jun	-2,745	n.a.	-1,969							
UA: GDP, % yoy	Q2	2.4	n.a.	2.5							
Tuesday 15 August											
TR: Unemployment rate, %	May	10.2	n.a.	10.5							
RU: Industrial output, % yoy	Jul	1.1	n.a.	3.5							
BG: Unemployment rate, %	Jul	6.7	n.a.	6.8							
Wednesday 16 August											
RO: GDP, % yoy	Q2	5.9	5.2	5.7							
RO: GDP, % qoq	Q2	1.6	1.2	1.7							
CZ: GDP, % yoy	Q2	4.5	3.1	3.0							
CZ: GDP, % qoq	Q2	2.3	0.9	1.5							
CZ: PPI industrial, % yoy	Jul	1.1	1.0	1.3							
HU: GDP, % yoy	Q2	3.2	3.8	4.2							
HU: GDP, % qoq	Q2	0.9	n.a.	1.3							
SK: GDP, % yoy	Q2	3.3	n.a.	3.1							
PL: GDP, % yoy	Q2	3.9	3.7	4.0							
PL: GDP, % qoq	Q2	1.1	n.a.	1.1							
BG: GDP, % yoy	Q2	3.6	3.3	3.5							
BG: GDP, % qoq	Q2	0.9	n.a.	0.9							
Thursday 17 August											
SK: HICP, % yoy	Jul	1.5	n.a.	1.0							
HR: CPI, % yoy	Jul	0.8	0.7	0.7							
PL: Employment, % yoy	Jul	4.5	4.2	4.3							
PL: Average gross wages, % yoy	Jul	4.9	5.7	6.0							
RU: Unemployment rate, %	Jul	5.1	n.a.	5.1							
RU: Retail sales, % yoy	Jul	1.0	n.a.	1.2							
RU: Real wages, % yoy	Jul	4.6	n.a.	2.9							

Source: Bloomberg, RBI/Raiffeisen RESEARCH

Bosnia a. H. (BA) – Domestic banking sector credit growth peaked at 5.8% yoy which was the highest rate in more than five years. This clearly showed the result of the underlying gradual recovery in real economy and private consumption. In particular the growth of credit extended to retail clients strongly correlated with private consumption dynamics advancing by 6% yoy in June, which was the strongest result not seen since May 2012. Therefore, we expect solid growth of private consumption at +3.6% yoy which should remain a major driver of the estimated 2.5% yoy GDP growth in 2017. At the same time a strong revival of demand for financing from corporates also showed in corporate credit growth reaching 6.4% yoy by the end of Q2. Hence, we expect a higher contribution of private sector investment to GDP growth in 2017 compared to a year ago. On the liability side total deposits in the banking system peaked at a double-digit 10.6% growth rate (yoy) which has not been observed since 2008. Corporate sector became the main engine behind the solid growth trend with a +12% yoy increase followed by a 8.1% yoy growth on retail deposits. Faster growth of deposits compared to loans also helped to keep the loan-to-deposit ratio in domestic banking system under 100% for the eleventh month in a row at 97.1% as of June 2017.

Financial analyst: Ivona Zametica (+387 33 287 784), Raiffeisen BANK d.d., Sarajevo

Croatia (HR) – As expected the July CPI reading brought the inflation rate below 1% yoy, thus confirming the slowdown of the inflationary pressure. Still, the biggest positive contribution continues to come from food prices, while energy has been moving in the downward direction (VAT on electricity has been decreased to 13% from 25% since the beginning of this year). In H2 2017 we expect the inflation to remain in positive territory albeit below the relatively modest 1% yoy. It seems that even relatively high wage increase had a limited impact on the inflation dynamics. Since February nominal net wages have increased more than 5% yoy and a similar trend may be expected in the coming months. The upcoming week would offer the reports for the May wage statistics and July unemployment. Besides a solid growth in wages (widely supported by tax relief), we expect to see a slightly higher unemployment rate in comparison to June but the

expected rate of 10.9% would still represent a significant annual improvement (-2.3bp). On local financial market HRK appreciation pressure motivated the central bank to intervene on FX market by purchasing EUR FX. This was the fourth FX intervention in 2017 by which the regulator showed its commitment to the stability of HRK.

Financial analyst: Zrinka Zivkovic-Matijevic (+385 1 6174 338), Raiffeisenbank Austria d.d., Zagreb

Czech Republic (CZ) – Several important macro statistics have been released this week. The producer price index decreased by 0.2% mom and increased by 1.1% yoy, which was 0.1pp above the market consensus. Current accounts have fallen deeper into a deficit of CZK 14.5 bn due to the seasonal outflow of dividends. Nevertheless, the cumulative surplus for the first half of this year amounts to CZK 91.5 bn and is on its way to setting a new record. The most exciting event this week was the release of the flash estimate of the GDP for the second quarter, when the growth accelerated to a whopping 2.3% qoq and 4.5% yoy, exceeding the market's expectations by a wide margin. This certainly created an amount of surprise and confusion as to what is exactly going on, because the detailed structure of the GDP growth will be released on 1 September. So far, we only know that the growth has been driven by domestic demand and private investment. This puts the Czech Republic on the throne as the fastest-growing economy in qoq terms in the European Union. In response, the Czech koruna appreciated by 9 halers, reaching EUR/CZK 26.04. There was a limited effect on the money market and yield curve. However, rapid GDP growth might finally support inflation acceleration and as a consequence speed up the normalisation of monetary policy rates in the Czech Republic.

Financial analyst: Milan Frydrych (+420 234 40 1421), Raiffeisenbank a.s., Prague

Hungary (HU) – Q2 GDP flash estimate came in at 3.2%, just below the expectations of 3.8% yoy, increasing the possibility for the National Bank of Hungary (MNB) to reiterate its very dovish stance at the upcoming rate setting meeting on 22 August. The services sector was the main contributor to growth, while industry and agriculture performed worse than expected, the statistical office said. For now, we keep our call for an average annual growth rate of 3.8% for 2017. Meanwhile, the market remained quiet: EUR/HUF keeps trading around the 304 level while interbank rates and bond yields remained flat. All in all, we think that with the inflation around the lower limit of the tolerance band, the central bank's easing bias will remain in place this year and next year. First rate hikes may come only in early 2019, while the liquidity boosting measures are likely to be slowly phased out when MNB will begin to shift from passive to active-side operations sometime during next year.

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

Poland (PL) – The data on Q2 GDP surprised on the upside but also confirmed that the economy may slow down unless there is a significant investment acceleration. In our baseline scenario, however, we still assume the investment pick up, which may be confirmed as soon as Friday by the data on construction output, which may show a continuation of a 2-digit growth observed in June in this category. Other data scheduled for the end of the week is industrial output and retail sales. The latter seems particularly important as it may show if private consumption is already facing negative effects of high statistical base from the previous year. Looking into the next week the unemployment rate is scheduled for Thursday. The reading may draw more attention than usually as the early estimates of the Ministry of Labour already showed a surprisingly high rate of 7.1%, unchanged from June. This would mean that the pace of annual decline of unemployment rate fell to 1.4 pp from 1.8 pp in March and 1.6 pp in June, being another sign of shrinking labour supply.

Financial analyst: Pawel Radwanski (+48 22 347 7000), Raiffeisen Polbank, Warsaw

Romania (RO) – Economic activity posted an impressive performance in Q2 as real GDP advanced by 1.6% qoq and 5.9% yoy, beating expectations. The detailed data on the dynamics of GDP and of its components will be published on 5 September. We expect private consumption to have remained the main engine of GDP growth on the demand side. On the supply side, the economic growth should have been broad based, as gross value added should have increased in all sectors of activity with the exception of constructions. In H1, real GDP increased by 5.8% yoy, and in this context our full year forecast that puts the economic advance at 4.9% looks pessimistic and we are planning to revise it upwards in the following period.

The annual inflation rate accelerated in July to 1.4%, from 0.9% in June, exceeding slightly expectations (1.3%). The monthly advance of consumer prices (0.3% mom) was driven by the increase of energy tariffs as of 1 July. Also, annual dynamics of CORE 3 inflation rate (CPI excluding administered prices, volatile prices of foods and vegetables, and prices of tobacco and alcohol) accelerated further to 1.5% yoy in July from 1.4% yoy in June. If enforced in September, as intended, the hike of excise duties for fuels would generate additional upside pressure on the inflation rate, resulting also in a faster increase of consumer prices than we currently expect (1.7% yoy at end-2017).

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

Russia (RU) – According to Minfin's estimates, the federal budget deficit for 7M 2017 declined to RUB 423.7 bn (0.8% of GDP) from RUB 489 bn for 6M 2017. The surplus seen in July was the result of an oil&gas revenues hike (+7.8% mom, or RUB 32.6 bn) on the back of a higher RUB-denominated oil price (Urals: +6% mom) and larger volumes sold (for example, Gazprom's exports to non-FSU countries increased by 4.9% mom). At the same time, budget expenses even decreased (by RUB 7.4 bn) and are now lagging behind the plan (the execution as of 7M is at 53.2% of the annual plan). Among underperformers are the national economy (40.8% of the plan executed), general state issues (46%), healthcare (47.5%). But on the whole, the execution is similar yoy (for 7M 2016 it stood at 51%). Close to YE an acceleration of spending will increase the budget deficit, but we expect that Minfin will be able to manage it within the planned level (RUB 1.9 tn). An improvement of revenues administration and an increase of the RUB-denominated oil price will be positive for the budget as well. A higher inflow of budget funds to the banking system will lead to a larger liquidity surplus but at the same time it is unlikely to

decrease the banks' debt to the CBR (currently RUB 1 tn) due to the fewer number of banks eligible to attract budget funds directly and due to the lower confidence of corporate clients in some large banks.

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

Serbia (RS) – National Bank of Serbia (NBS) have surprised us by validating a 3% yoy economy growth for 2017 despite very weak start of the year, with GDP achieving average growth of just 1.3% yoy in H1, significantly underperforming the regional peers. As we have our doubts that Serbia's economy can achieve a 4.5% average growth in H2 in order to reach our current GDP forecast of 3%, we would be considering revising down the growth target, despite the prime minister announcement pledging to intensify capital investments in H2. Detailed GDP structure that will be published on 31 August will help the understanding what were the major underperformance triggers, given an +11.2% healthy FDIs inflow in the first five months and exports growth of +13.6% yoy. Stronger RSD against EUR and weaker oil prices pushed NBS to lower its mid-term inflation projections compared with the May's Inflation report. This, coupled with subdued economy growth in H, will certainly ensure the inflation staying in the range of 3% +/- 1.5pp, whereas NBS would be likely to keep the existing level of the monetary policy expansiveness. In particular, the regulator likely to keep key rate flat at 4% while continuing the EUR FX purchases (FX interventions already topped EUR 815 mn year-to-date) to prevent further RSD strengthening.

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

Slovakia (SK) – Slovakia (SK): According to flash estimate Slovak GDP grew only 3.3% yoy in Q2 2017 which was behind many of its CEE regional peers. The quarterly (seasonally adjusted) growth remains stable for the last 1.5 years (+0.8% qoq). The detailed GDP structure will be released on September, 5th.

Based on monthly statistics we expect household consumption to be up 3.5% yoy. The employment reached 2.1% yoy growth that was clearly above our expectations. Also we expect acceleration of wage dynamics in Q2 2017. The pace of investment activity should gradually go up what should lift the headline GDP growth toward 3.5% mark at the end of 2017.

The government coalition crisis seems to have come to the end. The Slovak national party (SNS) surprisingly recalled the coalition agreement on August 7th 2017 and asked for the revisions of the agreement and the government goals for the next years. The other two coalition partners (SMER with Mr.Fico and Most-Hid with Mr.Bugar) were very surprised and reluctant to make any changes. The minister of education (a member of SNS) had to step down, what political observers perceived as a defeat for SNS demands. However, we do not rule out that in the next couple of days some tensions may re-emerge but without any material impact on financial markets.

Financial analyst: Robert Prega (+421-2-5919 1111), Tatra banka 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	5.12	1.65
Hungary						
Key interest rate	0.90	0.90	0.90	0.90	6.75	0.90
3m money market rate	0.15	0.15	0.15	0.15	7.15	0.15
Czech Republic						
Key interest rate**	0.25	0.25	0.25	0.25	0.50	0.05
3m money market rate**	0.46	0.40	0.50	0.60	1.00	0.00
Romania						
Key interest rate	1.75	1.75	1.75	2.00	5.25	1.75
3m money market rate	0.89	1.05	1.45	1.71	6.30	0.68
Russia						
Key interest rate	9.00	8.75	8.25	8.00	17.00	5.25
3m money market rate	9.15	9.35	8.85	8.60	29.93	6.74
Serbia						
Key interest rate	4.00	4.00	4.00	4.00	11.75	4.00
3m money market rate	3.51	3.60	3.60	3.75	13.13	3.26
Turkey						
Key interest rate	8.00	8.00	8.00	8.00	10.00	4.50
3m money market rate	13.11	12.30	11.50	10.80	13.11	4.85

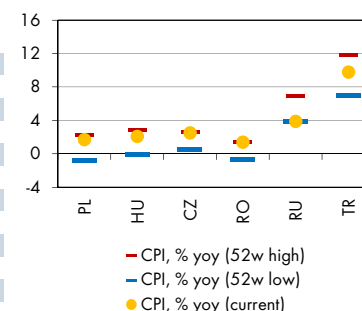
Benchmark key rates	current	Sep-17	Dec-17	Mar-18	5y high	5y low
ECB key interest rate	0.00	0.00	0.00	0.00	0.75	0.00
Fed key interest rate	1.25	1.25	1.50	1.75	1.25	0.25

Source: Bloomberg, RBI/Raiffeisen RESEARCH

* Bid rates (for Hungary ask rates) as of 17 August 2017, 11:59 p.m. CEST

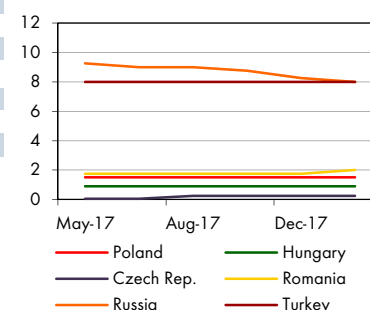
** under revision

Inflation snapshot



Source: Bloomberg, RBI/Raiffeisen RESEARCH

Key rate trends (%)



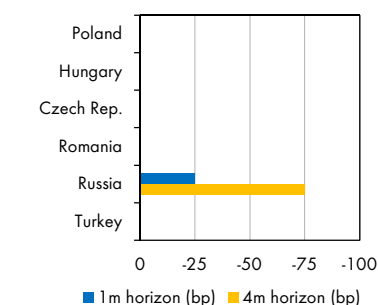
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Central bank watch

Poland (NBP)	With no new comments from MPC members we may only suppose that the recent data on core CPI and wage dynamics has strengthened the MPC wait and see mode. Wage pressure or significant acceleration of GDP could turn the Council more hawkish, which is however unlikely earlier than at the end of 2017.
Hungary (MNB)	July inflation surprise unlikely to alter MNB monetary vision, so unorthodox easing bias policy will continue. The medium-term outlook remains also dovish as inflation is expected going near the edge of lower CPI target boundary.
Czech Republic (CNB)	CNB finally hiked key rate from record low 0.05% to 0.25% ending the era of one of the lowest in EU rates. Recent inflation surprise benefits CZK bulls while global policy backdrop predicts a very slow tightening path for CNB. We are currently revisiting the exact timing of the expected mini rate hiking cycle.
Romania (BNR)	Risks of rising inflation and fiscal slackening offer incentives to BNR for tightening monetary reign already in H2 2017. According to BNR, narrowing of interest corridor may be the first step in this direction while first rate hike possible in H1 2018.
Serbia (NBS)	Stronger LCY currency against euro, weaker oil prices growth and subdued economy growth in H1 will certainly ensure inflation staying in the targeted range (3% +/- 1.5pp). Therefore, NBS is likely to sustaining existing level of MP expansiveness, i.e. combination of flat key rate and ongoing EUR purchases.
Russia (CBR)	Russia's CBR kept key rates unchanged due to elevated medium-term inflation expectations and geo-politics. However, with CPI disinflation quickening now we can expect 25bp or even 50bp in rate cuts in September.
Turkey (TCMB)	Bad inflation surprise in July pushed back any policy easing hope with TCMB hawkish stance meaning no compromises this time. Still, we expect lower average funding costs as the year progresses.

Source: RBI/Raiffeisen RESEARCH

Key rate forecast (chg., bp)



Source: Bloomberg, RBI/Raiffeisen RESEARCH

Rate setting meetings

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

Source: National Central Banks, RBI/Raiffeisen RESEARCH

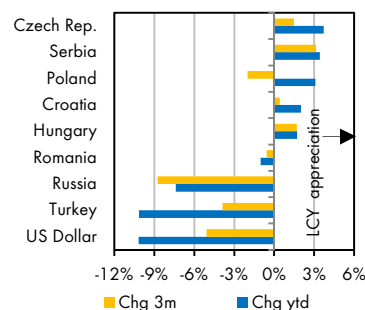
Foreign exchange market overview

FX forecasts

EUR vs	current*	Sep-17	Dec-17	Mar-18	5y high	5y low	Comment
PLN	4.271	4.30	4.20	4.15	4.40	4.08	Continued solid macro backdrop should anchor PLN around current levels.
HUF	303.7	310	310	310	316	291	Ongoing HUF liquidity injections should bring back HUF closer to the mid of the 300-310 range.
CZK	26.05	26.5	25.9	25.6	27.7	25.1	Intensifying MP tightening expectations against the backdrop of strong economic activity data bode well for CZK.
RON	4.589	4.50	4.55	4.50	4.55	4.45	Weaker C/A performance and lax fiscal policy may keep RON rather weak vs EUR.
HRK	7.409	7.45	7.50	7.45	7.66	7.50	EUR/HRK to remain around 7.40 while CNB has continued to keep its eyes on FX stability.
RSD	119.3	122	123	124	123	112	NBS EUR-buying efforts to counter appreciation of RSD find little success, but price uptick may help to thwart this trend.
RUB	69.53	69.6	70.8	71.3	79.3	40.3	see USD/RUB below
UAH	29.98	32.4	33.0	32.8	33.0	10.6	see USD/UAH below
BYN	2.273	2.34	2.42	2.42	2.42	1.13	see USD/BYN below
TRY	4.130	4.32	4.37	4.37	4.37	2.35	see USD/TRY below
USD	1.174	1.20	1.18	1.15	1.38	1.05	Market underestimating rate hike potential in the US, so short-term weakening of EUR vs USD likely; but medium-term EUR outlook remains bullish.
USD vs	current*	Sep-17	Dec-17	Mar-18	5y high	5y low	
RUB	59.21	58.0	60.0	62.0	73.0	30.5	RUB hit a floor at 60 vs USD while cheapened on REER and oil price deflator basis which holds good medium-term appeal.
UAH	25.53	27.0	28.0	28.5	28.0	8.05	Inflation surge in June unlikely to impact UAH thanks to administrative controls / interventions.
BYN	1.936	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
TRY	3.517	3.60	3.70	3.80	3.70	1.78	TRY short-term depreciation continues after breaking 50SMAVG to the upside on inflation disappointment.

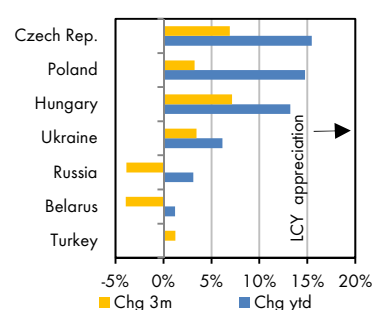
* as of 17 August 2017, 11:59 p.m. CEST
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Change of LCY value to EUR (%)



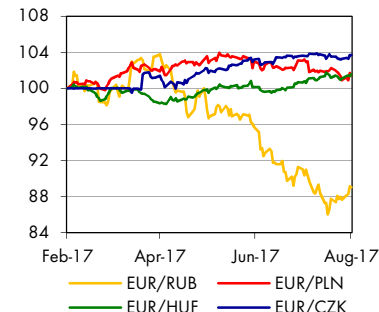
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Change of LCY value to USD (%)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

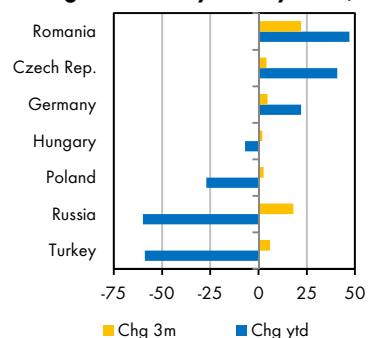
Exchange rate comparison



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

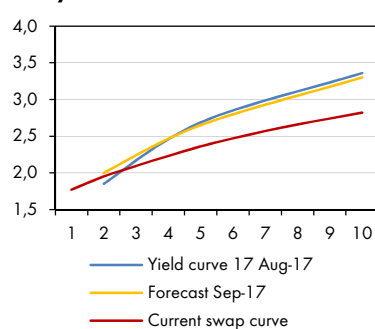
Local currency bond market overview and forecasts

Change of LCY 10y bond yields (bp)



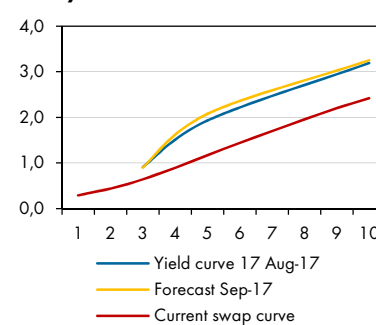
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

PLN yield curve



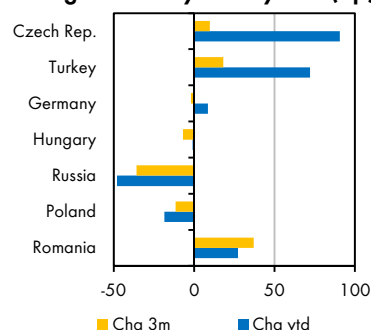
Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

HUF yield curve



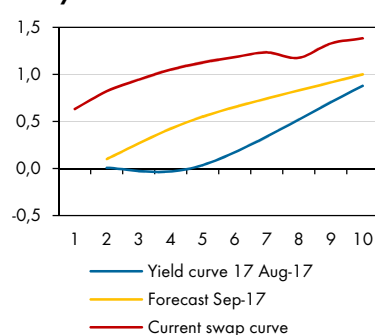
Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

Change of LCY 2y bond yields (bp)



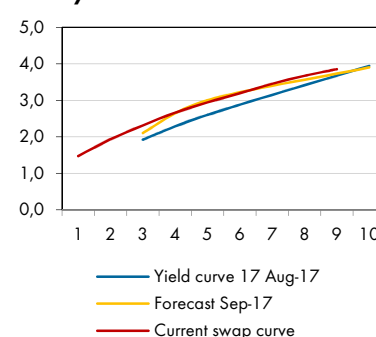
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

CZK yield curve



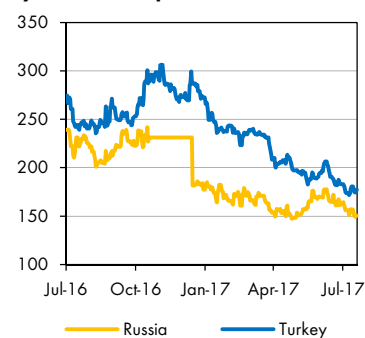
Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

RON yield curve



Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

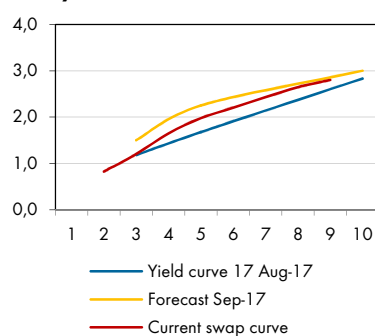
5y USD CDS spreads



Turkey 5y high 327.1, 5y low 111.7;
Russia 5y high 628.7, 5y low 119.4

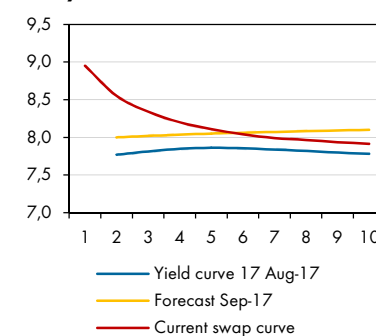
Source: Bloomberg, RBI/Raiffeisen RESEARCH

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	1.85	2.0	2.1	2.3	3.1	1.6	Poland	3.36	3.3	3.5	3.7	4.3	2.5
Hungary **	0.91	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	0.01	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	1.92	1.6	1.8	2.2	6.4	1.5	Romania	3.94	3.9	4.3	4.4	6.9	3.5
Croatia	1.18	1.5	1.6	1.7	4.4	0.9	Croatia	2.83	3.0	3.1	3.2	5.2	3.1
Russia	7.77	8.0	7.8	7.6	15.8	6.2	Russia	7.78	8.1	7.9	7.8	14.1	6.9
Turkey	11.42	10.5	10.5	10.0	11.0	6.1	Turkey	10.50	10.5	10.0	9.5	11.1	6.6
Germany	-0.72	-0.7	-0.7	-0.6	0.2	-0.8	Germany	0.36	0.4	0.7	0.9	1.9	0.1
USA	1.31	1.5	1.7	1.8	1.7	0.2	USA	2.20	2.4	2.8	2.8	3.0	1.8

* Bid yields as of 17 August 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
Poland							
PLN 2y Gov. Bond	25/07/2019	3.25	102.66	1.83	254	1.9	Due to solid macro backdrop/stable base rate outlook we see more value in 10y POLGB vs comparable HGBs, especially if easing tensions with EC unlocked the value.
PLN 5y Gov. Bond	23/09/2022	5.75	114.41	2.68	296	4.4	
PLN 10y Gov. Bond	25/07/2027	2.50	93.02	3.34	293	8.8	
Hungary							
HUF 3y Gov. Bond	23/09/2020	1.00	100.40	0.87	146	3.0	Ongoing unorthodox policy mix makes HGB curve possibly the most insulated from ECB spillover risks in the CEE universe.
HUF 5y Gov. Bond	26/10/2022	1.75	99.56	1.84	212	4.9	
HUF 10y Gov. Bond	27/10/2027	3.00	98.96	3.12	271	8.7	
Czech Republic							
CZK 2y Gov. Bond	11/04/2019	5.00	108.88	-0.40	32	1.6	10y CZGB sees a return of stability amid lesser risks of surging Bund yields and benefits from bullish CZK outlook.
CZK 5y Gov. Bond	12/09/2022	4.70	123.41	0.06	34	4.7	
CZK 10y Gov. Bond	25/08/2028	2.50	115.54	1.00	60	9.9	
Croatia							
HRK 2y Gov. Bond	10/07/2018	5.25	104.27	0.40	68	0.9	Strong support for HRK FX from booming economy and tourism adds good stability to HRK bond market too.
HRK 10y Gov. Bond	14/12/2026	4.25	111.84	2.80	239	7.8	
Romania							
RON 2y Gov. Bond	29/04/2020	5.75	110.09	1.85	245	2.5	ROMGB may fall a victim of subdued foreign bid and fiscal headlines affecting market confidence. Still, a 10y ROMGB pays a considerable premium over HGB on the same BBB- rating.
RON 5y Gov. Bond	08/03/2022	3.40	103.40	2.60	287	4.2	
RON 10y Gov. Bond	26/07/2027	5.80	114.86	3.95	354	0.0	
Russia							
RUB 2y Gov. Bond	15/05/2019	6.70	98.46	7.80	851	1.6	RUB FX weakness partly compromises our bullish OFZ outlook, so we opt for 2y OFZ short-term while still believing in RUB carry trade. CBR likely to restart rate cuts so dampening OFZ may be still not advisable.
RUB 5y Gov. Bond	20/07/2022	7.60	99.68	7.83	811	4.2	
RUB 10y Gov. Bond	03/02/2027	8.15	103.33	7.80	739	6.8	
Turkey							
TRY 1y Gov. Bond	11/07/2018	8.70	97.59	11.63	1234	0.9	Bearish sentiment on TURKGB market pushes us to a "tactical Hold" while medium-term we anticipate yield contraction on TURKGB to support our buying call.
TRY 5y Gov. Bond	02/03/2022	11.00	100.85	10.76	1104	3.5	
TRY 10y Gov. Bond	24/02/2027	11.00	102.90	10.51	1010	5.9	

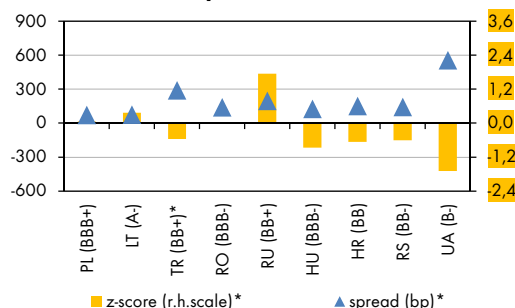
Data as of 18 August 2017, 10:28 a.m. CEST
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Bond auctions

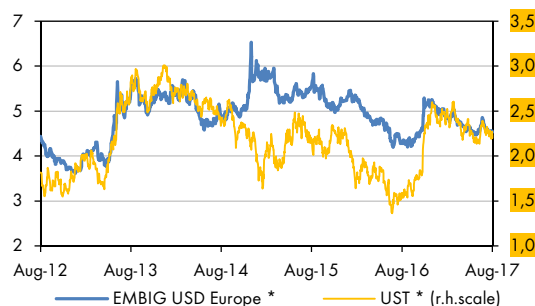
		ISIN	Coupon	Maturity	Volume
21 August					
RO	7.5y T-bond	RO1425DBN029	4.75%	24.02.2025	RON 300 mn
22 August					
TR	5y T-bond	n.a.	n.a.	17.08.2022	n.a.
TR	9.6y T-bond	TRT240227T17	11.00%	24.02.2027	n.a.
24 August					
RO	4.5y T-bond	RO1722DBN045	3.4%	08.03.2022	RON 500 mn

Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

Eurobond market overview

CEE USD EMBIG spread valuation*


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

CEE EMBIG USD vs. UST YTM*


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

	Market Price					YTM mid.	Spread	Mdur.	ISIN
Issuer/rate/due	Bid	Ask	w/w %	5y max	5y min	% p. a.	Bmk, bp	years	—
EUR									
CROATI 5 7/8 07/09/18	105.2	105.4	0.04	112.1	102.8	-0.16	41	0.9	XS0645940288
REPHUN 3 7/8 02/24/20	109.7	110.0	0.00	113.1	84.8	-0.04	61	2.4	XS0212993678
REPHUN 5 3/4 06/11/18	105.0	105.2	0.00	115.1	97.3	-0.57	2	0.8	XS0369470397
REPHUN 6 01/11/19	108.8	109.0	0.00	118.4	96.7	-0.36	29	1.3	XS0625388136
LITHUN 4.85 02/07/18	102.6	102.7	-0.06	114.3	102.7	-0.89	-25	0.5	XS0327304001
POLAND 5 5/8 06/20/18	105.0	105.3	0.01	122.6	102.1	-0.54	5	0.8	XS0371500611
POLAND 1 5/8 01/15/19	102.1	102.6	-0.18	105.5	98.0	-0.07	58	1.4	XS0874841066
POLAND 3 3/4 01/19/23	117.8	118.3	0.11	125.5	105.3	0.38	61	4.9	XS0794399674
POLAND 3 3/8 07/09/24	117.6	118.1	-0.08	125.6	99.6	0.71	75	6.2	XS0841073793
ROMANI 4 7/8 11/07/19	110.8	111.3	0.00	117.8	99.3	-0.10	57	2.1	XS0852474336
TURKEY 5 7/8 04/02/19	108.3	108.6	-0.07	118.9	107.5	0.60	128	1.5	XS0285127329
TURKEY 5 1/8 05/18/20	109.9	110.2	0.03	115.9	102.5	1.36	198	2.6	XS0503454166
USD									
BELRUS 8.95 01/26/18	102.5	102.9	-0.08	111.2	78.0	2.84	172	0.4	XS0583616239
CROATI 6 3/8 03/24/21	111.5	111.9	0.02	117.8	101.6	2.93	135	3.2	XS0607904264
CROATI 5 1/2 04/04/23	111.1	111.6	-0.03	111.7	94.4	3.28	142	4.8	XS0908769887
REPHUN 5 3/8 02/21/23	112.9	113.1	0.16	115.4	93.1	2.81	97	4.7	US445545AH91
REPHUN 7 5/8 03/29/41	152.4	153.2	-0.1	157.5	99.1	4.11	151	13.0	US445545AF36
LITHUN 7 3/8 02/11/20	112.6	112.9	-0.04	130.7	112.7	2.09	68	2.3	XS0485991417
LITHUN 6 5/8 02/01/22	117.4	117.8	-0.01	128.6	113.9	2.44	74	3.9	XS0739988086
LATVIA 2 3/4 01/12/20	101.2	101.6	0.01	104.5	91.4	2.14	75	2.3	XS0863522149
LATVIA 5 1/4 06/16/21	110.6	111.1	0.02	117.2	105.3	2.28	67	3.5	XS0638326263
POLAND 6 3/8 07/15/19	108.9	109.0	0.00	125.9	108.6	1.61	28	1.8	US731011AR30
POLAND 3 03/17/23	102.4	102.4	0.2	105.1	87.6	2.53	68	5.1	US731011AT95
ROMANI 6 3/4 02/07/22	116.5	116.7	0.15	124.4	106.0	2.78	108	3.9	US77586TAA43
ROMANI 4 3/8 08/22/23	107.5	107.8	0.11	111.1	90.8	2.97	107	5.2	US77586TAC09
RUSSIA 4 1/2 04/04/22	106.2	106.6	-0.15	114.7	82.0	3.02	129	4.1	XS0767472458
RUSSIA 7 1/2 03/31/30	120.0	120.2	0.02	128.6	99.6	2.13	-14	3.6	XS0114288789
RUSSIA 5 5/8 04/04/42	109.3	109.8	-0.14	124.9	76.0	4.95	232	13.5	XS0767473852
SERBIA 5 1/4 11/21/17	100.8	101.1	-0.08	107.1	96.8	1.54	49	0.3	XS0856951263
SERBIA 4 7/8 02/25/20	105.1	105.5	0.06	105.4	89.6	2.70	129	2.3	XS0893103852
TURKEY 6 1/4 09/26/22	109.9	110.4	-0.22	127.0	102.5	4.03	224	4.3	US900123BZ27
TURKEY 6 7/8 03/17/36	114.4	114.9	-0.36	139.6	99.2	5.60	315	10.7	US900123AY60
TURKEY 6 3/4 05/30/40	112.9	113.5	-0.65	139.4	97.3	5.71	313	12.1	US900123BG46
UKRAIN 7 3/4 09/01/19	103.7	103.9	-0.18	104.2	88.0	5.74	440	1.8	XS1303918269
UKRAIN 7 3/4 09/01/23	101.3	101.7	-0.11	101.9	84.6	7.44	553	4.6	XS1303921487
UKRAIN 7 3/4 09/01/27	97.8	98.3	-0.26	99.1	81.2	8.03	583	6.6	XS1303927179

YTM mid - yield to maturity based on mid market price, bmk - benchmark, Mdur - modified duration, ISIN - international security identification number; prices as of 18 Aug 2017, 10:26 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+	stable	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-	positive
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	3.0	-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	981	-2.8	54.0	40.0	-0.2	73.6	32.6	7.2
	2018f	3.1	2.4	6.4	1047	-3.0	54.1	38.2	-0.9	72.4	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	587	-2.5	14.0	22.2	4.7	29.5	84.7	22.0
	2018f	1.5	4.5	5.3	563	-2.0	14.5	22.6	5.5	25.8	100.0	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	16.2	5.1
	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	24.7	6.2
	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

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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	35%
Hold	51%
Sell	14%
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

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

Date	BG EUROBOND EUR	BY EUROBOND USD	HR EUROBOND EUR	HR EUROBOND USD	HU EUROBOND USD	KZ 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				Hold
15/12/2016				Hold		
28/11/2016	Hold		Hold			Buy
24/11/2016						
21/10/2016		Sell				
26/09/2016	Buy		Buy	Sell		
23/09/2016						
26/08/2016						Hold
25/08/2016						

Date	LT EUROBOND EUR	LT EUROBOND USD	MK EUROBOND EUR	PL EUROBOND EUR	PL EUROBOND USD	RO EUROBOND EUR
20/06/2017				Buy		
08/06/2017						
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	

Date	RO EUROBOND USD	RS EUROBOND USD	RU EUROBOND EUR	RU EUROBOND USD	SI EUROBOND EUR	SI EUROBOND USD
20/06/2017						
08/06/2017						
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						

Date	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
24/11/2016				
21/10/2016		Buy	Buy	Buy
26/09/2016		Hold	Hold	
23/09/2016				
26/08/2016	Hold			
25/08/2016				

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