ERSTE GROUP

CEE Insights

Fixed Income and Foreign Exchange – 30 September 2011

Spot prices as of 30 September 2011

Croatia: August monthly indicators brought negative surprise

Czech Republic: Focus on PMI next week for manufacturing sector indicators

Hungary: Telecom tax against EU rules

Poland: FinMin sees zloty at 4.35 per euro at year-end

Romania: Key rate unchanged

Turkey: September inflation to be announced on Monday

Ukraine: Unemployment decline stalls

Market outlook

The speculation on the potential increase/leverage of the EFSF that was leaked at the beginning of this week brought some hope to the markets, but it was short-lived. The markets are still under stress, focusing on the ongoing Troika visit to Greece and the final report, which is supposed to be released on Monday. CEE currencies came under pressure again today – particularly the RON, which approached its lowest level since the beginning of the crisis (4.357 vs. 4.388). We see the current situation as stretched and we believe that the strong sell-off in recent weeks created some interesting investment opportunities (see the answers to the question of week on page 4).

In terms of the planned data releases, the markets will be focused on Czech PMIs for September and August's Industrial Output published for the Czech Republic, Hungary, Slovakia and Romania, which are going to moderate. We would advise a reserved approach to any upside surprise and would not be too optimistic, as the rapid change in sentiment could have a delayed effect on production. That is why PMIs will be more the important data release.

The Polish central bank is to decide on rates next Wednesday. We do not expect any change.

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	Instrument	Current	w/w	m/m	ytd	Spreads vs. Euroland		
						current	- 1m	02/01/2011
Czech Republic	EUR/CZK	24.73	-0.3%	-2.3%	1.2%			
	3Y (yield/bp)	1.73	5	0	-52	101	103	120
	10Y (yield/bp)	3.23	13	8	-67	135	93	94
	5Y CDS	149	-27	42	60			
Croatia	EUR/HRK	7.501	-0.2%	-0.2%	-1.5%			
	3Y (yield/bp)	4.96	-3	-5	35	424	427	461
	9Y (yield/bp)	6.65	-18	9	15	476	434	363
	5Y CDS	499	-13	93	241			
Hungary	EUR/HUF	292.6	-1.0%	-6.5%	-4.8%			
	3Y (yield/bp)	7.09	25	78	-63	637	556	668
	10Y (yield/bp)	8.14	-18	80	19	625	512	499
	5Y CDS	522	-4	111	139			
Poland	EUR/PLN	4.419	0.0%	-6.1%	-10.3%			
	3Y (yield/bp)	4.74	-4	9	-35	402	391	405
	10Y (yield/bp)	5.92	-11	31	-13	403	340	309
	5Y CDS	292	-18	75	150			
Romania	EUR/RON	4.373	-1.7%	-3.2%	-2.1%			
	5Y (yield/bp)	7.61	3	11	39	643	619	538
	5Y CDS	436	-27	128	144			
Slovakia	3Y (yield/bp)	2.47	3	-10	-14	176	183	158
	9Y (yield/bp)	4.20	-9	-10	2	231	208	121
	5Y CDS	242	10	83	160			
Turkey	EUR/TRY	2.51	-1.2%	-2.2%	-17.7%			
	2Y (yield/bp)	8.37	-39	39	129	662	726	622
	10Y (yield/bp)	9.54	-25	60	n.a.	732	672	n.a.
	5Y CDS	286	-29	59	145			
Ukraine	EUR/UAH	10.80	0.0%	5.6%	-2.9%			
	2Y (yield/bp)	13.0	0	200	100	1242	1028	1114
	5Y CDS	870	28	334	357			

Source: Reuters, Bloomberg (+ means strengthening / - means easing of the exchange rate)

Positions

There is no trading idea open

Rationale at inception

Closed positions

#	Recommendation	opened	closed	P/L inc.carry
1	long: PLGB10y / 4m Euribor	16/09/2005	27/10/2005	-3.0%
2	short: CZGB15y / 6m PRIBID	16/09/2005	21/11/2005	6.0%
5	long: SKK/CZK	09/11/2005	20/01/2006	1.9%
3	short EUR/SKK	29/09/2005	07/02/2006	3.5%
4	EUR/PLN options	21/10/2005	28/07/2006	-2.7%
6	SKK/CZK long	23/03/2006	30/10/2006	2.2%
7	FRA 9*12 short	28/07/2006	08/11/2006	8bp
8	long HUGB 5y	13/10/2006	29/01/2006	5.7%
9	short CZGB/ long GDBR	09/01/2007	27/02/2007	1.8%
10	long CZK/EUR	27/02/2007	19/03/2007	2.3%
11	short CZGB/ long PLGB	07/03/2007	10/05/2007	5.5%
14	long SKKFRA 9x12, short EURFRA 9	16/07/2007	13/08/2007	30 bp
13	short EUR/CZK	07/06/2007	14/09/2007	3.0%
15	short EUR/RON	23/10/2007	21/11/2007	-4.9%
12	short EUR/SKK	04/06/2007	04/12/2007	1.6%
16	long USD/CZK	29/11/2007	14/01/2008	-3.1%
17	long 3y HUGB / 3m Pribor	05/12/2007	08/02/2008	-6.8%
20	short EUR/SKK	22/01/2008	13/02/2008	2.9%
19	long USD/CZK	21/01/2008	18/02/2008	-3.6%
18	short EURRON	31/12/2008	28/02/2008	-0.6%
21	Short USD/RON	02/04/2008	10/04/2008	3.9%
22	Buy EURFRA, sell SKKFRA	04/04/2008	18/04/2008	26bp
23	Long EUR/CZK	29/04/2008	19/06/2008	-3.8%
24	short EUR/RON	05/08/2008	14/10/2008	-4.7%
25	short EUR/PLN	09/09/2008	21/10/2008	-3% (stop-loss)
27	short GEGB/long CZGB	12/08/2009	22/10/2009	4.9%
28	long 4y HUGB / 6m Euribor	08/09/2009	18/11/2009	7.4%
26	short EUR/PLN	12/08/2010	14/01/2010	5.5%
30	Short EURCZK	05/01/2010	17/01/2010	3.2%
33	Short EURPLN	20/05/2010	18/08/2010	6.0%
31	Long 5yr ROGB	08/02/2010	18/08/2010	2.4%
32	Long 2yr CZ Swap	10/03/2010	10/09/2010	-0.5%
29	short 10CZGB/long 10PLGB	19/12/2009	19/10/2010	0.6%
34	short Euribor6M/long 3YROGB	10/02/2011	09/05/2011	5.1%
35	short 6m Euribor/long 6m Robid	22/06/2011	24/08/2011	0.4%

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Question of the week

After a period of strong sell-offs, which part of the yield curve (either EUR or LCY) seems to be increasingly interesting for euro-denominated investors?

In **Poland**, we consider the current levels on the long end of the PLN yield curve attractive. The combination of a possible decline of rates in the mid-term horizon and a calmer market create room for a decline of yields. Obviously, there is also a threat of the culmination of the Eurozone debt crisis and spike in risk aversion, so the timing of entering a position is questionable and depends on one's ability to withstand short-term market swings and time the market correctly.

Lubos Mokras, Ceska sporitelna

The **Romanian** fixed income market is currently driven by investors' uncertainties over the MinFin's strategy on acceptance of higher yields at auctions for RON-denominated paper and, to a lesser extent, by a strong sell-off, due to its shallow depth. All in all, RON-denominated bonds seem to be increasingly interesting for foreign investors.

Florin Eugen Sinca, Banca Comerciala Romana

Even after the current sell-offs of **Hungarian** govies, we would recommend a wait and see mode. For the short end, it cannot be ruled out that the central bank may need to increase the base rate, due to the escalating financial woes. As for bond yields, the uncertainty around the government's announcements and future economic policy is still a risk, while, due to the international woes, a further increase of CDS spreads also cannot be ruled out. So, while we do not anticipate further yield increases or base rate increases in our baseline scenario, these factors do represent significant risks.

Zoltan Arokszallasi, Erste Bank Hungary

Foreign investors are using the swap market in **Turkey** to enter the local bond market and, under the current circumstances, it would be more interesting to take part in the short end of the curve, as the spreads between asset swaps and government bond yields in longer maturities do not provide a carry opportunity. Moreover, the inflation outlook, which is likely to increase further in the coming months, does not favor longer-term maturities either.

Ozlem Derici, Erste Securities Istanbul

In the recent period, **Croatian** Eurobonds were more exposed to the sell-off pressure (both EUR and USD) and yields diverged from the HRK- and EUR-linked curve in the last month. Thus, if we would see some stabilization on the markets, we would see Eurobonds as a more attractive investment option.

Alen Kovac, Erste Bank Croatia

The short-term part of the **Ukrainian** yield curve of hryvnia-denominated bonds seems more attractive for investors, although it carries the most volatility and liquidity risk. Short-term yields have been rising the fastest since the sell-off among non-residents and banking system liquidity crunch in recent months. These short-term yields will be the first to decline, should one bet that the market situation will improve.

Maryan Zablotskyy, Erste Bank Ukraine

Major markets

Eurozone:

We expect ECB to discuss more liquidity
The Troika returned to Greece to finish their assessment of that country's public finances. The Troika is supposed to release a report on Monday, while the government will have to approve labor market reforms, the 2012 budget draft and the new medium-term fiscal plan. The time schedule foresees that the EU finance ministers should then approve the next financing tranche for Greece Monday evening, but a delay in this tight schedule cannot be fully ruled out. The flash estimate of the Eurozone September CPI clearly exceeded forecasts (2.5%) and increased to 3.0%. The ECB assessed inflation risks as balanced at their last meeting, but in contrast shifted the assessment of the economy to the downside. German retail sales declined in August and industrial production will be released next Friday. We expect y/y growth rates to reflect the economic slowdown. We expect the ECB to keep rates unchanged at 1.5% next week (Thursday), but, in the medium term, we see some downside risks. Particularly if economic growth remains very subdued (very close or even below zero), we would anticipate an increasing likelihood of rate cuts next year. In terms of liquidity provision, we expect the ECB to discuss further measures to ease monetary conditions (e.g. a 12M fixed rate/full allotment facility), in light of the increased Libor-OIS spread.

US:
This week brought mixed data out of the US, but none that would point to a recession rather than a soft patch. 2Q GDP data has been revised upwards, with all revisions of components bearing a slightly positive signal; exports, investments and consumption increased slightly faster than previously thought, so that mainly 'growth drivers' were responsible for the revision (and not technical effects, such as inventories). The revision was too minor, however, to have an impact on our GDP growth forecast (still at 1.6% for 2011 and 1.8% for 2012 and 2013). Next week, the bulk of important US data for September will be released, starting with the ISM Index and ending with the labor market report on Friday. After the drastically negative report last month, a stabilization of the number of payrolls seems possible – but we do not currently expect a significant improvement in the medium term. However, a stabilization at low levels of production and the labor market could already be enough to assuage fears of a recession on the markets.

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Forecasts

	Intervention Rate		3m Money Market Rate				10y Govt. Yield		FX	
	EUL	USA	EUL	Fwd	USA	Fwd	EUL	USA	EUR/USD	Fwd
Spot	1.50	0 - 0.25	1.55		0.37		1.89	1.91	1.343	
Dec 11	1.50	0 - 0.25	1.50	1.95	0.40	0.52	2.20	2.20	1.35	1.342
Mar 12	1.50	0 - 0.25	1.50	1.54	0.40	0.59	2.25	2.30	1.30	1.342
Jun 12	1.50	0 - 0.25	1.50	1.32	0.40	0.59	2.30	2.50	1.300	1.342
Sep 12	1.50	0 - 0.25	1.50	1.38	0.10	0.58	2.65	2.80	1.300	1.342

Croatia

August monthly indicators brought negative surprise. Industrial production (working day adjusted) contracted by 4.4% y/y in August. The figure came as a negative surprise, being well below the market consensus and our estimate (ESBe: +0.5% y/y, market consensus +1.4% y/y). With the exception of capital products, other categories were in the negative region, suggesting very shaky industry performance and likely pronounced volatility in monthly figures. The August figures surprised us negatively, as the order book performance in recent months suggested more stable performance. The outlook clearly deteriorated in the recent period, suggesting a risk of an additional slowdown in the coming quarters. The trade balance figures also brought a negative surprise, as exports were down 20% y/y, making it the weakest month since August 2009. Despite the fact that imports also remained subdued (-13% y/y), the export-import coverage ratio slipped below 50%. While the August figures may still just indicate a weak month, similar to industrial production, we are seeing increasing risks ahead of 4Q on the export side. Risks for growth prospects are clearly accumulating, putting our GDP forecast of 1.7% y/y for 2012 under review.

T-bill and bond yields under upward pressure. After turbulence last week, the exchange rate moved into a tight range below the psychological 7.50 level. The main event on the market was the T-bill auction. As no maturities were scheduled for this week and market liquidity conditions are currently tight, the MoF decision came as a surprise. Demand was subdued, but sufficed to meet the HRK 150mn issuance target, although coming short of the EUR 20mn mark on EUR-linked issuance (EUR 6.2mn). The CNB aims to keep liquidity tight to dampen exchange rate volatility and this comes at the cost of higher yields. The 12M HRK rate increased substantially, by 50bp to 4.50%. That said, refinancing needs in October and November are modest and we do not anticipate roll-over problems, but there is an upside risk to our forecast for 10Y government yields of 6.50 by year-end.

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Czech Republic

Focus on PMI next week for manufacturing sector indicators. Domestic confidence decreased by 2 points in September 2011, with industry and consumers posting smaller falls (of around 1 point) and trade and services components falling much more. This does not come as much of a surprise, given the tensions on the markets and renewed fears of recession. PMI, due out next week, will be a more important indicator as to what the manufacturing sector of the economy is in for – there the link to the real economy is much tighter. As for other data next week, retail sales will remain slow, with a y/y growth rate of a mere 1% (and with substantial risks to the downside, given the resurfaced fears and uncertainty in August). Not much else is scheduled.

Crown stronger, but volatile trading ahead. The crown strengthened to 24.40 (from 24.70 at the start of the week), on allayed fears that the economy is about to tank again, due to the inability of the EMU to contain its debt crisis. The markets were calmed by hints from the Germans that Greece may be allowed to default and rumors circulating that the EFSF fund will be increased (leveraged up) to 4-8x (according to estimates) its original volume of EUR 440bn. Also, Governor Singer's CNBC comment this week that rates could go either way, and the smooth vote (thus far) on the new EFSF mandate contributed to the general relief and led investors back to the crown. We think that the EMU will move more forcefully in the fall and that the crown will strengthen back to below 24.50 by December. However, trading in the meantime will be volatile and we are likely to see another attack on 25.00, where the real flow from hedgers is expected.

The CNB sees the risks to its forecast tilted slightly towards slower inflation and significantly lower rates, according to minutes from the last monetary policy meeting. The main threat is slower growth abroad, caused mainly by the debt crisis and fiscal austerity. The CNB board voted 7-0 for stable rates. This means that the hawks (Zamrazilova and Janacek) gave up their efforts to raise rates. The minutes confirm the likely unchanged rates for the time being, with a risk of lower rates in the case of a recession in the EMU.

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Hungary

Telecom tax against EU rules. This week was again all about the budget in Hungary. The decision this week by the European Commission that the Hungarian special tax on the telecommunications sector is against EU rules puts further pressure on the budget. The levy generates around HUF 60bn (or 0.2% of GDP) per annum, and was planned to be levied until the end of 2012. The Hungarian government announced, however, that they do not need to change the tax. Nevertheless, due to the expected long-lasting legal process, we expect that the budget may only need to repay the HUF 180bn sum in 2013-14. Other news this week related to the budget: today, early in the afternoon (at 14.00 CET), the economic minister is expected to disclose further details of the budget, while later, a top official of the governing party may also reveal details of future measures. Overall, however, we do not expect that these announcements will significantly change our general view on the budget. That said, while recent announcements indicate that keeping the deficit in check remained a top priority, the cabinet may need to introduce further measures in future, if needed.

Current account surplus in line with our expectations, but strong revisions made in earlier data. Today's release showed that the current account came in at EUR 738mn, or around 0.7% of GDP, somewhat above our expectations of EUR 650mn. However, these figures indicate that, despite the strong current account and capital balance surpluses, foreign investment activity in Hungary is still very muted (the balance of direct investments decreased by EUR 693mn, after the EUR 258mn drop in 1Q11). Despite strong downward revisions in statistics (the 1Q11 C/A surplus was revised down to EUR 385, from the previous EUR 787mn), our general view remains unchanged, that the surplus in the current account is positive for the exchange rate, and that we expect further increases of net external financing capacity of Hungary in the upcoming quarters. Nevertheless, after today's release, we perceive some downward risks to our forecast of 2.8% of GDP surplus in the C/A balance (but these risks only stem from the abovementioned data revisions and not from a change of fundamentals).

Roller coaster ride on Hungarian markets this week. The Hungarian forint appreciated towards the beginning of this week, but later the local currency started to depreciate against the EUR. The EUR/HUF reached as low as 285 on Tuesday, but today, the exchange rate again reached 292, which means around 0.8% depreciation vs. the end of last week. As for the bond market, yesterday's auctions at the 12M T-bill auction brought an increase of the average accepted yield to above 6% and the poor demand indicate the increased interest rate expectations on the market. However, we currently do not forecast a rate hike due to recent developments. While the forint exchange rate has indeed weakened in the last few weeks, we think that the pass-through effect into inflation may be more muted than usual, due to weak domestic demand. In addition, the majority of MPC members could be considered dovish after the government de-facto nominated four new members to the 7-member Council in spring this year. Nevertheless, if international tensions worsen further and the risk assessment continues to deteriorate, the policy rate may be increased.

Industrial production figures should show very low growth next week. Next week, industrial production figures should show 2.5% unadjusted y/y growth (0.1% wda) for August. German factory orders surprised to the downside in July, according to a data release earlier this month, while, in our opinion, the slight positive surprise in Hungarian industry in July could have been caused by better than expected German orders figures a month earlier. We thus expect a slight decrease of m/m figures. New orders figures in Hungary are still showing a significant y/y decrease (-7.6% in July, after -8.2% in June), and we thus do not expect any major positive surprises in industry.

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Poland

FinMin sees zloty at 4.35 per euro at year-end. State-owned BGK bank again sold euros and dollars on the market, which helped keep the zloty stronger. Finance Minister Rostowski said that the joint support of the zloty by BGK and the central bank is an important signal for investors and that it has stopped speculation against the zloty. He also said that he sees the zloty at 4.35 per euro at the end of the year. Poland's debt strategy sees the zloty at 4.0 per euro in 2012. We agree that the zloty has room for strengthening, albeit with some political risk (elections and possible negligence of higher deficits, as illustrated for example by Rostowski's statement that slower growth will not have a 'huge' impact on public finances). However, we expect some continued pressure on the zloty, as the regional FX market does not seem calm at present.

Stable rates likely for time being. MPC member Wasilewska-Trenkner confirmed the likelihood of stable rates for the time being. There is a risk that the weaker zloty may stoke inflation, which justifies the decision to leave rates unchanged in a situation in which weaker growth in Europe threatens the Polish economy. NBP Governor Belka said that Poland 'hates' inflation fueled by the weaker zloty. All MPC members' recent statements confirm stable rates, with an outlook for lower rates in the case of a recession in the Eurozone and the end of the pressure on the zloty. Such a scenario is also priced in to market rates, albeit with prevailing cautiousness, which means that there is some room for a mild decline of market rates in the case of calmer markets.

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Romania

Key rate unchanged. The NBR decided to keep the key rate at 6.25%, in line with our expectations and the market consensus. Minimum reserve requirements were also left unchanged for both RON and FX. In our view, the risk of the global markets remaining nervous are equal to the possibility of seeing the inflation within the target in the near future, so we do not see reason for any extraordinary change in the monetary policy stance. We foresee a flat key rate in 2011-12, due to a deteriorated global risk assessment and uncertainties surrounding the orientation of fiscal policy in the aftermath of the parliamentary elections scheduled for 2012. At the same time, we do not rule out a cut in RON minimum reserve requirements, which would support RON lending at the expense of FX lending.

Sentiment indicators continue to decline. In September, the Economic Sentiment Indicator released by the EC for the Romanian economy fell for the third month in a row to 91.6 (-0.7 points). Consumer expectations worsened significantly (-3.9 points to -43.9), due to renewed worries about the impact of the Eurozone sovereign debt crisis on the Romanian economy. The labor market is currently recovering after a long and painful recession, but the government is determined to continue its fiscal consolidation efforts in 2012 and this might imply additional layoffs in public administration and state-owned enterprises. Confidence in industry remained roughly the same (-0.1 points). We maintain our economic growth forecast of 1.4% for 2011 and 2.9% for 2012.

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Turkey

Trade balance surprised on downside. The trade balance in August registered a USD 8.2bn deficit, significantly higher than market consensus and our expectation of USD 7.3bn and USD 7.5bn, respectively, while the 12-month rolling deficit rose to USD 100.9bn (13.5% of GDP). Though the culprit behind the deviation was higher than expected imports, it is good to see that the y/y increase in imports at 26.3% was lower than that of exports, with a 32.2% increase. Seasonally-adjusted imports also fell by 5.7% m/m, while exports rose by 6.6% m/m, thanks to the depreciation of TRY and the deceleration in domestic economic activity. It would be misleading to comment based on just one observation, but the slowing imports compared to relatively strong exports is very much in line with our expectation of an improvement in the trade balance and thus the current account deficit by the end of the year.

RRR cuts in pipeline. At a conference today, the CBT governor hinted that it may provide some relief to the banking sector by reducing the RRRs on TRY deposits. Recently, the CBT governor mentioned an RRR cut on long-term bonds, currently at 13%. Note that the CBT has to call for the MPC to revise policy rates but there is no need for an MPC meeting to take those measures. We may therefore see a revision in RRRs on bank bonds before the regular MPC meeting which will be held on October 20.

Price hike for electricity. The Electricity Market Regulatory Agency (EMRA) increased electricity tariffs by 9.57% for household use and 9.26% for industrial use. Given that the weight of electricity is 2.5% in the CPI, the price hike is expected to add around 0.25pp to headline inflation. The price hike will be effective as of October and we will see the impact on November 3, when October inflation is announced. The price hike mainly stemmed from the increased costs of TETAS, the public electricity trade company, due to the depreciation in the currency as well as high oil and natural gas prices. EMRA increased the wholesale prices that TETAS provides to TEDAS and distribution regions by 19.4%.

September inflation to be announced on Monday. Main data release of next week will be September inflation which will be released on Monday by TurkStat. Market consensus for monthly CPI is 0.68% compared to our expectation of 0.5%. This stands for 5.9% y/y inflation, down from 6.7% in August. This is mainly due to the high base of food prices, thus will prove temporary. We expect inflation to end the year at 7.5%, if not higher, as depreciation in the currency and high administrative prices are likely to put upward pressure on inflation. However, the CBT governor reiterated their intention to cut policy rates in the case that European debt problems intensify, as additional price pressures may prevent the CBT from making further rate cuts until the end of the year. The CBT's policy rate (one-week repo rate) currently stays at 5.75%.

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Ukraine

Unemployment decline stalls. During 2Q, unemployment, as measured according to ILO methodology, effectively stopped declining. Using our own seasonally-adjusted figures, we estimate the 2Q unemployment rate to be 8.8% of the working-age population, unchanged compared to 1Q. This is 1.2% below the crisis peak but still 2% above the pre-crisis level. The unemployment decline stalled due to slower economic growth in 2Q, but also due to the rapid rise in wages. Real wage growth far outpaced real GDP growth since 2005, while the same tendency persisted in 2011. Over the last six years, the household consumption share of GDP almost doubled, to 70%, the highest level in CEE. This was a result of large increases in the minimum wage and social transfers. The cost of hiring new employees is at its highest levels in Ukrainian history, so the willingness to create new jobs is at decline. We expect the Ukrainian economy to regain its pre-crisis real GDP level by the end of 2012, and to do so with fewer people employed. This means higher productivity for the workers with jobs but still tough situation for job seekers.

NBU makes tax evasion harder. The government and the NBU hope to increase budget incomes and FX reserves by eliminating shadow transactions settled in cash. Since September 23, the NBU has made personal identification via a passport obligatory for all foreign currency cash operations. The move is aimed at significantly shrinking the operations of shadow imports, which are mainly done via cash settlement. This is one of the most significant of the recent moves from officials aimed at disrupting tax avoidance and boosting incomes to the state budget. Local currency cash in circulation represents 20% of GDP, almost twice the levels of the CEE average. Also, USD 70bn of FX cash is in turnover, twice the level of FX reserves. This services a huge shadow economy sector, which represents around 40% of GDP. For the time being, this move led to a rise in the FX cash ask price and created further hryvnia liquidity outflows from banks. The news is bond price-positive in the long run (much greater fiscal stability), but negative in the short run.

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Capital markets forecasts

	Exchange Rate vs EUR													
	CZK	Fwd	HRK	Fwd	HUF	Fwd	PLN	Fwd	RON	Fwd	TRY	Fwd	UAH	Fwd
Spot	24.7		7.49		292.6		4.42		4.35		2.51		10.83	-
Dec-11	24.30	24.7	7.50	7.5	290.0	295.5	4.10	4.44	4.28	4.40	2.36	2.54	11.20	12.07
Mar-12	23.90	24.7	7.50	7.5	285.0	298.1	3.98	4.47	4.27	4.46	2.33	2.58	10.80	12.69
Jun-12	23.60	24.6	7.35	7.4	280.0	300.5	3.94	4.50	4.25	4.51	2.34	2.61	10.34	12.64
Sep-12	23.50	24.6	7.45	7.5	275.0	302.6	3.92	4.52	4.22	4.56	2.34	2.64	10.34	13.18

	Intervention Rate							3M Money Market Rate										
	CZ	HR	HU	PL	RO	TR	UA	CZ	Fwd	HU	Fwd	PL	Fwd	RO	Fwd	TR	Fwd	UA
Spot	0.75	6.00	6.00	4.50	6.25	5.75	7.75	1.18		6.10		4.76		6.21		8.08		9.38
Dec-11	0.75	6.00	6.00	4.50	6.25	5.75	7.75	1.18	1.20	6.10	6.86	4.70	4.77	6.00	6.11	7.50	8.54	5.50
Mar-12	0.75	6.00	6.00	4.50	6.25	5.75	7.75	1.20	1.11	6.00	6.85	4.70	4.70	6.10	5.92	7.25	8.37	6.00
Jun-12	1.00	6.00	5.50	4.50	6.25	5.25	7.75	1.20	1.05	5.60	6.79	4.70	4.60	6.10	5.83	7.25	8.38	6.00
Sep-12	1.00	6.00	5.50	4.75	6.25	5.00	7.50	1.40	1.37	5.60	6.73	4.70	3.63	6.10	5.51	7.25	7.33	6.00

	10y Govt. Yield					5y Govt. Yield	2y Govt. Yield	2y Govt. Yield
	CZ	HR	HU	PL	SK	RO	TR	UA
Spot	3.23	6.84	8.20	5.93	4.29	7.66	8.37	13.00
Dec-11	3.20	6.50	7.70	6.10	4.50	7.50	7.50	9.00
Mar-12	3.50	6.50	7.50	6.20	4.45	7.40	7.00	8.50
Jun-12	3.80	6.50	7.30	6.20	4.40	7.30	7.00	8.25
Sep-12	3.90	6.50	7.10	6.20	4.40	7.30	7.00	8.25

Long-term forecasts

Real GDP growth (%)	2009	2010	2011f	2012f
Croatia	-6.0	-1.2	0.7	1.7
Czech Republic	-4.0	2.2	1.9	1.6
Hungary	-6.7	1.2	1.7	0.9
Poland	1.7	3.8	3.7	3.1
Romania	-7.1	-1.3	1.4	2.9
Serbia	-3.5	1.0	2.4	3.0
Slovakia	-4.8	4.0	3.2	1.8
Turkey	-4.8	8.9	5.0	3.5
Ukraine	-14.8	4.2	4.5	5.0
CEE8 average	**-3.8**	**2.3**	**2.7**	**2.6**
CEE8+Turkey	**-4.2**	**5.0**	**3.7**	**3.0**

CPI (%), eoy	2009	2010	2011f	2012f
Croatia	1.9	1.8	2.9	3.2
Czech Republic	1.0	2.3	2.0	2.4
Hungary	5.6	4.7	3.7	3.8
Poland	3.5	3.1	3.2	2.9
Romania	4.7	8.0	4.6	3.9
Serbia	6.6	10.3	8.1	6.3
Slovakia	0.5	1.3	4.0	3.0
Turkey	6.5	6.4	7.5	6.0
Ukraine	13.0	9.2	9.2	8.0
CEE8 average	**4.2**	**4.4**	**4.0**	**3.7**
CEE8+Turkey	**5.1**	**5.2**	**5.5**	**4.6**

Unemployment (%)	2009	2010	2011f	2012f
Croatia	9.1	11.8	13.4	13.0
Czech Republic	8.1	9.0	8.9	8.8
Hungary	10.0	11.2	10.9	10.9
Poland	11.0	12.1	12.3	11.6
Romania	6.9	7.3	7.2	7.1
Serbia	16.1	19.2	21.5	20.8
Slovakia	12.1	14.4	13.3	13.8
Turkey	14.0	11.9	10.0	10.0
Ukraine	8.8	8.1	7.8	7.5
CEE8 average	**9.9**	**10.9**	**11.0**	**10.7**
CEE8+Turkey	**11.6**	**11.3**	**10.6**	**10.4**

Public debt (% of GDP)	2009	2010	2011f	2012f
Croatia	50.6	58.8	63.8	66.7
Czech Republic	35.3	38.5	42.7	44.8
Hungary	78.4	80.2	77.0	75.2
Poland	50.9	55.3	55.0	55.6
Romania	23.9	30.8	33.5	34.7
Serbia	34.1	42.0	42.4	45.0
Slovakia	35.4	41.0	44.0	45.4
Turkey	45.5	43.6	42.0	40.0
Ukraine	34.6	42.0	41.0	39.0
CEE8 average	**44.6**	**49.5**	**50.5**	**51.2**
CEE8+Turkey	**45.0**	**47.1**	**47.0**	**46.6**

C/A (%GDP)	2009	2010	2011f	2012f
Croatia	-5.2	-1.1	-1.8	-2.7
Czech Republic	-2.5	-3.2	-2.4	-3.8
Hungary	0.4	2.0	2.8	3.7
Poland	-2.1	-3.4	-4.4	-4.5
Romania	-4.2	-4.1	-4.4	-4.6
Serbia	-7.2	-7.2	-7.0	-7.5
Slovakia	-3.6	-3.3	-3.4	-3.5
Turkey	-2.3	-6.6	-8.5	-7.0
Ukraine	-1.7	-1.9	-2.2	-3.0
CEE8 average	**-2.6**	**-2.8**	**-3.0**	**-3.3**
CEE8+Turkey	**-2.5**	**-4.3**	**-5.3**	**-4.8**

Budget Balance (%GDP)	2009	2010	2011f	2012f
Croatia	-4.5	-5.0	-5.9	-5.0
Czech Republic	-5.9	-4.7	-4.1	-3.8
Hungary	-4.5	-4.2	1.2	-3.2
Poland	-7.1	-7.8	-5.8	-3.7
Romania	-8.5	-6.4	-4.9	-3.8
Serbia	-4.3	-4.5	-4.5	-4.0
Slovakia	-8.0	-7.9	-5.0	-4.0
Turkey	-5.5	-3.6	-1.9	-2.4
Ukraine	-6.3	-5.5	-3.5	-2.5
CEE8 average	**-6.6**	**-6.3**	**-4.4**	**-3.7**
CEE8+Turkey	**-6.2**	**-5.2**	**-3.4**	**-3.1**

Looking ahead

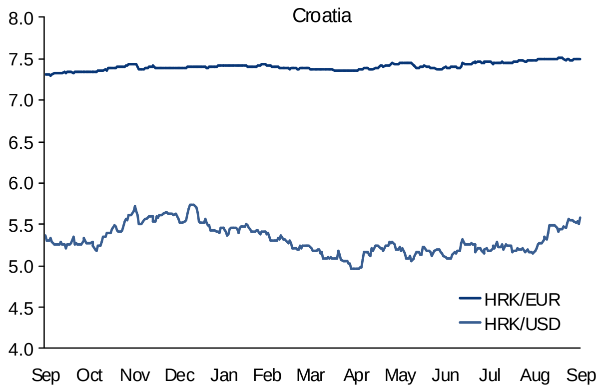
Country	Date	Release/event/figures	Our expectation	Consensus*	Prior
Czech Republic	5-Oct	August Industrial output		-	4.4% y/y
	6-Oct	August Retail Sales		-	-1.7% y/y
	7-Oct	August Trade Balance		-	CZK 14bn
Croatia	4-Oct	August Retail Sales	+1.0% y/y	+1.4% y/y	+0.9% y/y
	7-Oct	September PPI	+7.5% y/y		+7.6% y/y
Hungary	6-Oct	Industrial production (y/y Aug, wda)	0.1%	1.3%	2.7%
Poland	5-Oct	NBP	4.5%	4.5%	
Romania	4-Oct	Retail sales, August (y/y, seasonally-adjusted)	-2.8%	-	0.1%
	5-Oct	Monthly gross salaray gains, August (y/y, %)	-	-	8.5%
	7-Oct	Industrial production, August (y/y, seasonally-adjusted	4.8%	-	5.0%
Slovakia	7-Oct	August Industrial Production	3.5% y/y	-	5.0% y/y
Turkey	3-Oct	Inflation, Sep-11	5.9%	6.1%	6.7%
Ukraine	7-Oct	Consumer prices, September, m/m	0.6%	-	-0.4%

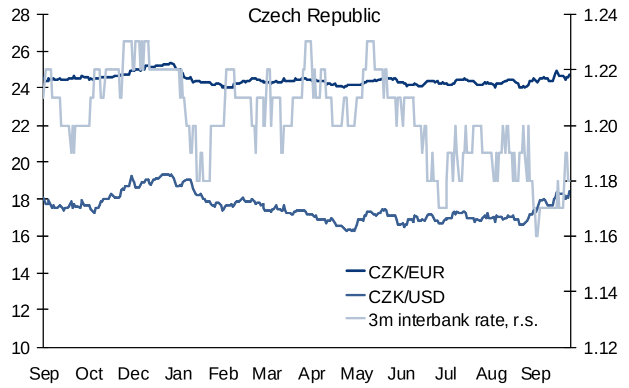
**Sources: Bloomberg, Reuters*

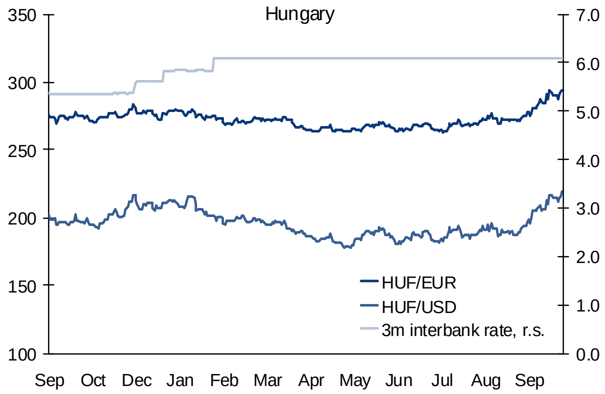
Auction diary

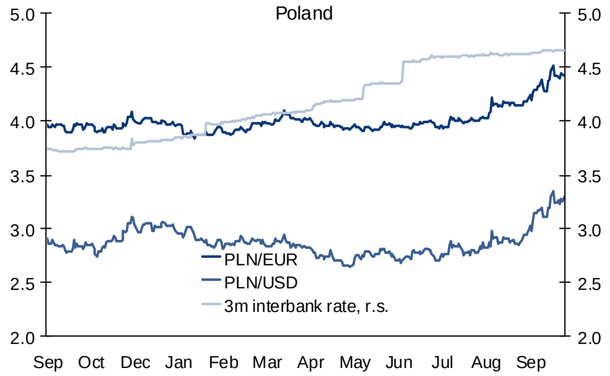
Country	Auction-date	Pay-date	Maturity	Cupon	Offer	Forecast
Czech Republic	1-Sep	2-Sep	Aug-31-2012		CZK 7.0bn	
Hungary	4-Oct	12-Oct	Jan-11-2012		HUF 30bn	
	6-Oct	12-Oct	Aug-22-2014	6.75%	HUF 20bn	
	6-Oct	12-Oct	Nov-24-2017	6.75%	HUF 15bn	
	6-Oct	12-Oct	Jun-24-2022	7.00%	HUF 8bn	
Poland	No auction scheduled					
Romania	No auction scheduled					
Slovakia	3-Oct	5-Oct	10-May-26	4.5%		5.20%
Turkey	No auction scheduled					
Ukraine	4-Oct	5-Oct	2012-Apr-06			Auction will be canceled
	4-Oct	5-Oct	2012-Oct-03			Auction will be canceled
	4-Oct	5-Oct	2014-Oct-03			Auction will be canceled
	4-Oct	5-Oct	2016-Oct-02			Auction will be canceled

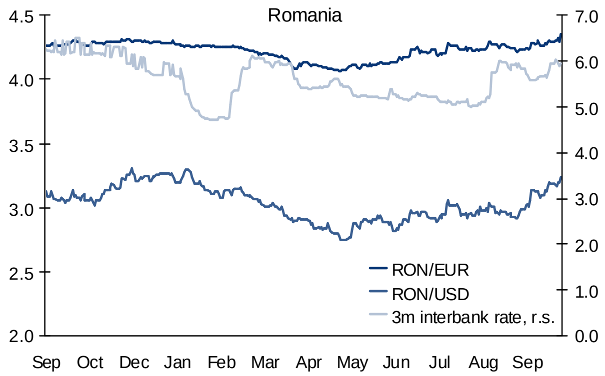
Exchange rates and interest rates (52 weeks)

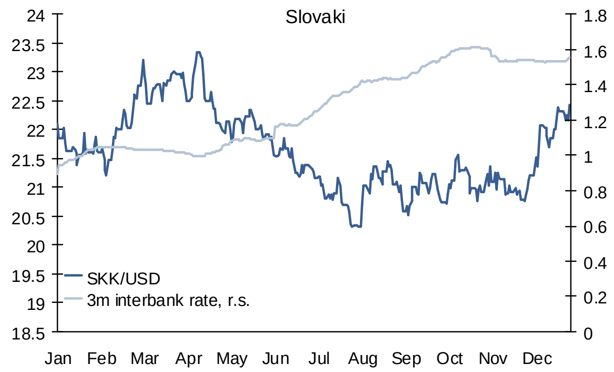


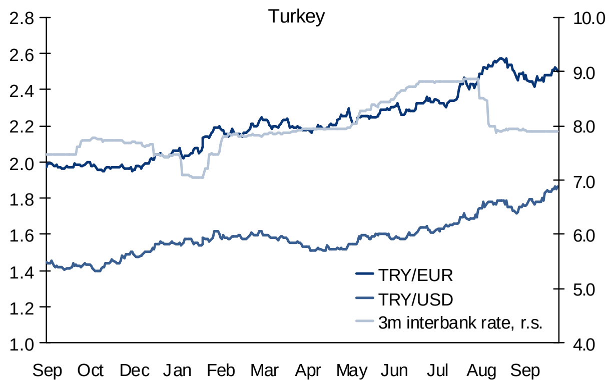


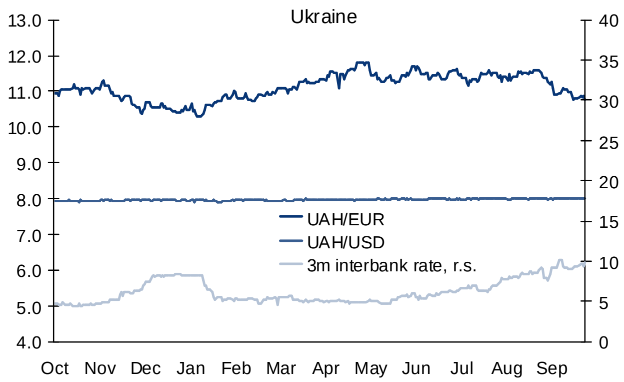






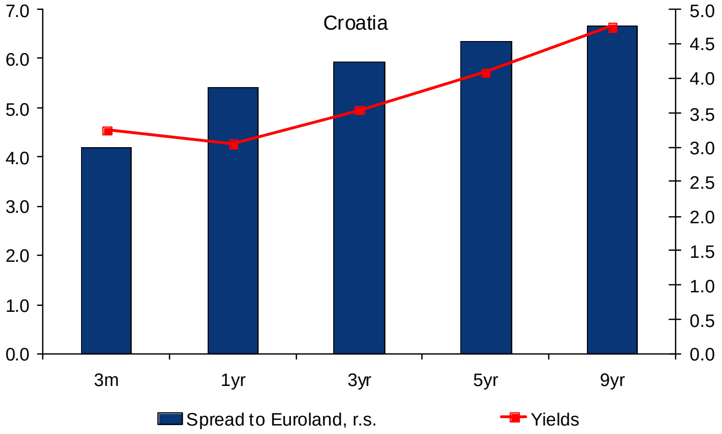






Source: Bloomberg

Benchmarks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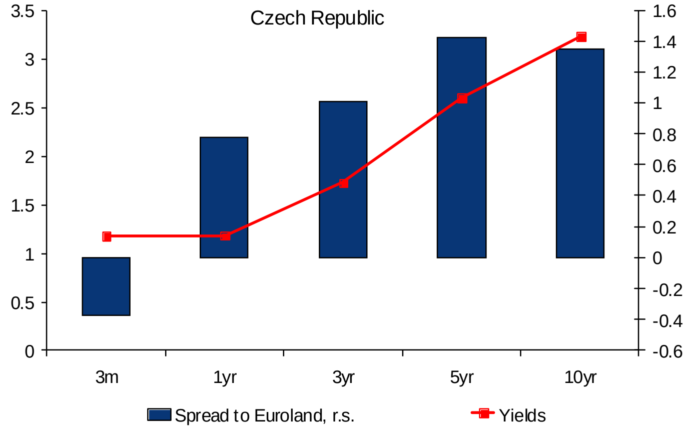
1yr
3yr
5yr
9yr


Czech Republic
Spread to Euroland, r.s.
Yields
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3yr
5yr
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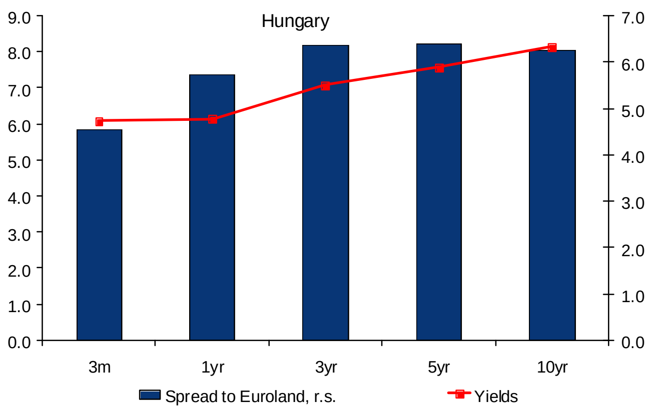
Hungary
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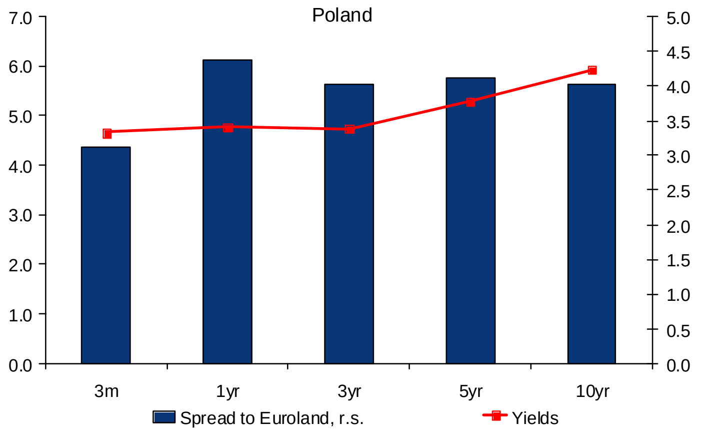
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Yields
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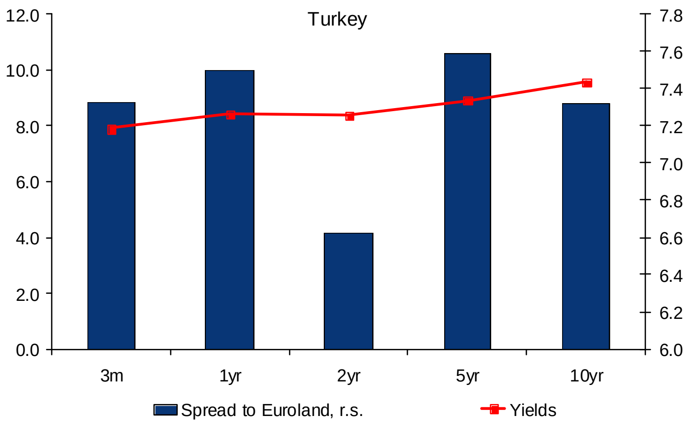
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Yields
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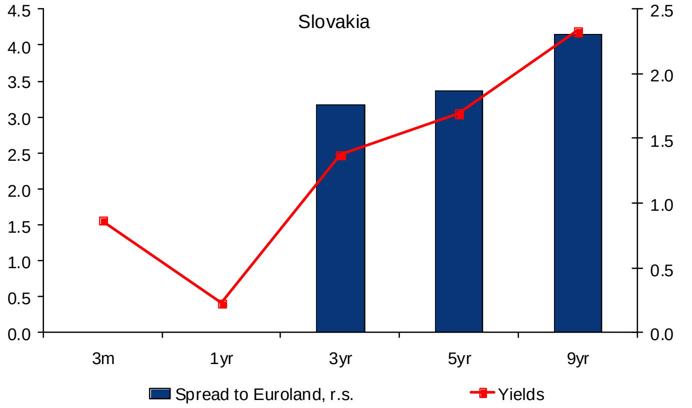
5yr
10yr


Slovakia
Spread to Euroland, r.s.
Yields
3m
1yr
3yr
5yr
9yr

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