Central & Eastern European Strategy

3rd quarter 2015

Only minor effects from Greek drama

- Accelerating GDP growth in CE/SEE in H2
- Steeper yield curve to prove growth
- Weaker outlook for Eurobonds
- Stocks supported by monetary supply

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Central & Eastern European Strategy

Explanation:
e … estimate (current year)
f … forecast
p … preliminary figures
n.v. … no value

Abbreviations

Currencies and Countries

ALL	Albanian lek
BAM	Bosnian marka
BGN	Bulgarian lev
BYR	Belarusian roubel
CZK	Czech koruna
EKK	Estonian kroon
HUF	Hungarian forint
HRK	Croatian kuna
LTL	Lithuanian litas
LVL	Latvian lats
PLN	Polish zloty
RON	Romanian leu
RSD	Serbian dinar
RUB	Russian rouble
TRY	Turkish lira
UAH	Ukrainian hryvnia

Economic abbreviations

%-chg	Percentage change (not in percentage points)
avg	average
bp	basis points
C/A	Current Account
CPI	Consumer Price Index
ECB	European Central Bank
FCY	Foreign Currency
FDI	Foreign Direct Investments
FX	Foreign Exchange
FY	Full year
GB	Government bond
GDP	Gross Domestic Product
HCPI	Harmonized Consumer Price Index
LCY	Local Currency
mmav	month moving average
mom	month on month
MP	Monetary policy
MPC	Monetary policy council
O/N	overnight rate
pp	percentage points
PMI	Purchasing Manager Index
PPI	Producer Price Index
QE	Quantitativ easing
qoq	quarter on quarter
qtd	quarter to date
REPO	Repurchase agreement
T/B	Trade Balance
ULC	Unit Labour Costs
UST	US Treasury bond
YC	yield curve
yoy	year on year
ytd	year-to-date

Sovereign Bond markets

CZGB	Czech local currency government bonds
HGB	Hungarian local currency government bonds
POLGB	Polish local currency government bonds
ROMGB	Romanian local currency government bonds
TURKGB	Turkish local currency government bonds

Stock Exchange Indices

ATX	Austrian stock index
BET	Romanian stock index
BIST National 100	Turkish stock index
BUX	Hungarian stock index
CROBEX10	Croatian stock index
PX	Czech stock index
MICEX	Russian stock index
WIG 20	Polish stock index

Fixed income indices

EMBIG	JP Morgan Emerging Markets Bond Index Global
CEMBI	JP Morgan Corporate Emerging Markets Bond Index

Equity related

DY	Dividend yield
EBIT	Earnings before interest and taxes
EBITDA	earnings before interest, taxes, depreciation, and amortization
EBT	earnings before taxes
EPS	earnings per share
EG	Earnings growth
LTG	Long term (earnings) growth
NIBD	Net interest bearing debt
P/B	Price book ratio
P/E ratio	Price earnings ratio
RoE	Return on equity
ROCE	Return on capital employed
RS	Recommendation suspended
UR	Under Revision

Euro area (EA)	*Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Slovenia, Slovakia, Spain*
CE	*Central European countries – Poland, Hungary, Czech Republic, Slovakia, Slovenia*
SEE	*South East European countries – Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Kosovo, Romania, Serbia*
EE	*Eastern Europe (Russia, Ukraine, Belarus*
CEE	*Central and Eastern Europe (CE + SEE + EE)*

Please note the risk notifications and explanations at the end of this document

Will the turnaround in yields be a negative factor for CEE economies?

- **Capital market yields higher in CEE as well, despite ongoing expansive monetary policy**
- **GDP growth estimates raised in some countries on the back of robust Q1 performance**
- **Russian economic crisis still not over yet**

The European Central Bank (ECB) will continue its quantitative easing programme at full strength in the months ahead. Despite this, yields in the euro area increased sharply, and this was also felt on the Central and Eastern European capital markets. Compared to three months ago, yields on long-dated bonds are now 80bp to 100bp higher. And US interest rates have not even risen yet.

We do not see the steepening of the yield curve as a threat to the economic recovery. On the contrary, it is more of a sign that GDP growth is continuing to accelerate in the euro area and Central Europe. For instance, due to the robust start to the year, we have boosted our GDP forecasts for 2015 for CE countries, as well as for the main Balkan countries of Romania, Bulgaria, and Croatia. We believe that the high point in the growth cycle will occur in the second half of the year until early 2016. The situation remains difficult in Russia and Ukraine, with both countries suffering significant declines in GDP. Austria will probably be towards of the back of the pack in terms of growth in 2015. Mild improvement in the second half of the year and massive tax cuts should help to bring GDP growth to 1.8% in 2016, which is closer to the euro area average. Nonetheless, the structural weakness in several parts of the economy hinders economic growth over the long term. In most Eastern European countries, inflation has already bottomed out and will have moved well away from the negative territory in 2016.

Impact on monetary policy and exchange rates

The central banks in CE/SEE have essentially used up their room to lower interest rates. We do not foresee any turnaround in monetary policy in these countries until mid-2016. Russia will attempt to use the stronger rouble for additional cuts in interest rates. Consequently, the start of the tightening cycle by the US Fed should not cause too many problems. Nevertheless, temporary bouts of depreciation should be expected in relation to the latent problems with Greece. By end-2015, however, we project that some CE exchange rates will tend to strengthen versus the euro. Towards the end of the year, the rouble will probably show some weakness, as interest rate cuts increase.

Impact on the bond and equity markets

The trough in yields has also been passed through in the CE/SEE countries. Tensions related to Greece and the renewed escalation of the Ukraine/Russia conflict are occasionally having a negative impact on the bond and equity markets. This notwithstanding, we believe that stronger economic conditions will increasingly be priced in on the market as the second half of the year continues, and this will leave very little room for a rebound on the bond markets. Over a 6 to 12-month horizon, the yield curves should grow steeper. In Russia, however, there is still some potential for yields to fall on the long end of the curve.

With regard to the second half of the year, we expect equity prices to trend somewhat higher. The upcoming elections in Poland and the lack of liquidity in Croatia prompt us to take a somewhat more cautious stance there. As for the ATX, we expect an upward trend to start again following the setbacks seen in June. It should be possible to reach or slightly exceed the highs registered in May.

Financial analyst: Peter Brezinschek, RBI Vienna

CEE: Market strategy*

	Eurobonds		LCY Bonds		FX
	EUR	USD	2y	10y	–
BG	H (H)	–	–	–	–
HR	H (H)	H (H)	–	–	H (H)
CZ	H (H)	H (H)	H (H)	B (H)	H (H)
HU	H (H)	H (H)	H (B)	S (H)	H (S)
PL	H (B)	H (H)	H (H)	S (H)	H (S)
RO	H (B)	H (B)	H (B)	S (B)	H (H)
RU	H (H)	H (B)	B (H)	B (S)	H (S)
RS	–	S (H)	–	–	S (S)
SK	–	–	–	–	–
SI	–	–	–	–	–
TR	B (H)	H (H)	S (B)	S (H)	S (S)
UA	H (S)	H (S)	–	–	S (H)
BY	–	B (H)	–	–	S (S)

** based on absolute expected performance:*
LCY bond: absolute performance in LCY
Eurobonds: based on expected spread change
RU, TR, UA, BY FX recomm. against USD, others against EUR
Previous recomm. (as of March 2015) in brackets
Recomm. horizon: **end 3rd quarter 2015**
B: buy; H: hold; S: sell
Source: RBI/Raiffeisen RESEARCH

Recommendations[1] – stock markets

Indices	
Buy	ATX, BUX, PX, MICEX, BET
Hold	WIG30, CROBEX10, BIST National 100
Sell	-

Equities

Vienna Insurance Group
Current share price: EUR 32.06
Target price: EUR 39.00
Mayr-Melnhof
Current share price: EUR 103.4
Target price: EUR 108.0
MOL
Current share price: HUF 14,450
Target price: HUF 17,500
Gedeon Richter
Current share price: HUF 4,230
Target price: HUF 5,100
Ciech
Current share price: PLN 58.39
Target price: PLN 65.00

Recommendations[1] – debt markets

Corporate bonds		curr.[2]
Buy	Lukoil 7.25% due 2019	407
	Phosagro 4.204% due 2018	436

[1] horizon: **end 3rd quarter 2015**
[2] asset swap spreads (bp)
Source: RBI/Raiffeisen RESEARCH

Real GDP (% yoy)

Countries	2013	2014	2015e	Consensus	2016f	Consensus
Poland	1.7	3.4	3.9	3.6	3.6	3.6
Hungary	1.5	3.6	3.0	2.9	2.5	2.4
Czech Rep.	-0.7	2.0	3.2	3.0	2.4	2.7
Slovakia	1.4	2.4	3.1	2.9	3.5	3.3
Slovenia	-1.0	2.6	2.4	2.1	2.3	2.0
CE	**1.0**	**3.0**	**3.5**	3.3	**3.1**	3.2
Croatia	-1.1	-0.4	0.5	0.4	1.0	1.2
Bulgaria	1.1	1.7	2.0	1.8	2.1	2.2
Romania	3.4	2.8	4.0	3.4	3.5	3.4
Serbia	2.6	-1.8	0.0	-0.2	2.5	1.7
Bosnia a. H.	2.5	0.5	2.5	2.2	3.0	2.9
Albania	1.1	2.0	3.0	2.5	4.0	3.2
Kosovo	3.4	0.5	2.0	n.a.	3.0	n.a.
SEE	**2.2**	**1.5**	**2.6**	2.2	**2.8**	2.7
Russia	1.3	0.6	-4.0	-3.5	0.5	0.5
Ukraine	0.2	-6.8	-10.0	-9.4	1.5	1.4
Belarus	1.0	1.6	-3.5	-1.6	0.5	1.0
EE	**1.2**	**0.2**	**-4.4**	-3.8	**0.6**	0.6
Turkey	4.2	2.9	3.0	3.1	3.5	3.6
Austria	**0.2**	**0.3**	**0.7**	0.8	**1.8**	1.5
Germany	0.2	1.6	1.6	1.9	2.2	2.0
Euro area	**-0.3**	**0.9**	**1.4**	1.5	**1.9**	1.8
USA	**2.2**	**2.4**	**2.7**	2.2	**3.0**	2.8

Source: Thomson Reuters, Bloomberg, Consensus Economics, Bloomberg, RBI/Raiffeisen RESEARCH

Consumer prices (avg, % yoy)

Countries	2013	2014	2015e	2016f
Poland	0.9	0.0	-0.4	1.5
Hungary	1.7	-0.2	0.5	2.9
Czech Rep.	1.4	0.4	0.5	1.7
Slovakia	1.4	-0.1	0.0	1.3
Slovenia	1.8	0.2	0.3	1.5
CE	**1.2**	**0.1**	**0.0**	**1.7**
Croatia	2.2	-0.2	0.0	1.4
Bulgaria	0.9	-1.4	0.1	2.2
Romania	4.0	1.1	0.0	1.4
Serbia	7.8	2.9	2.0	4.0
Bosnia a. H.	-0.1	-0.9	1.0	2.0
Albania	1.9	1.6	1.8	2.8
Kosovo	1.8	0.4	0.2	1.5
SEE	**3.4**	**0.7**	**0.3**	**1.9**
Russia	6.8	7.8	15.2	7.5
Ukraine	-0.2	12.1	53.7	14.0
Belarus	18.3	18.1	17.0	16.0
EE	**6.8**	**8.5**	**17.7**	**8.2**
Turkey	7.5	8.9	7.7	7.5
Austria	**2.1**	**1.5**	**1.2**	**1.9**
Germany	1.6	0.8	0.4	2.6
Euro area	**1.4**	**0.4**	**0.4**	**1.4**
USA	**1.5**	**1.7**	**0.0**	**2.7**

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Current account balance (% of GDP)

Countries	2013	2014	2015e	2016f
Poland	-1.3	-0.5	-1.1	-1.7
Hungary	4.1	3.9	3.8	3.7
Czech Rep.	-0.5	0.6	0.6	0.6
Slovakia	1.5	0.1	-0.1	-0.1
Slovenia	5.6	5.8	4.8	4.6
CE	**-0.1**	**0.4**	**0.2**	**-0.1**
Croatia	0.8	0.7	0.9	0.7
Bulgaria	1.8	0.0	2.4	-0.8
Romania	-0.8	-0.5	-1.5	-2.0
Serbia	-6.1	-6.0	-5.9	-5.6
Bosnia a. H.	-6.0	-7.8	-8.0	-7.7
Albania	-10.4	-10.2	-10.5	-10.0
Kosovo	-7.0	-7.6	-7.5	-6.5
SEE	**-1.5**	**-1.6**	**-1.8**	**-2.5**
Russia	1.6	3.5	3.7	2.7
Ukraine	-9.0	-4.0	-1.9	-0.7
Belarus	-10.0	-6.6	-5.1	-5.7
EE	**0.4**	**2.6**	**3.0**	**2.2**
Turkey	-7.9	-5.7	-5.1	-6.0
Austria	**1.0**	**0.6**	**0.8**	**0.7**
Germany	6.7	6.9	7.0	6.5
Euro area	**1.9**	**2.1**	**2.4**	**2.2**
USA	**-2.3**	**-2.4**	**-2.9**	**-3.4**

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

General budget balance (% of GDP)

Countries	2013	2014	2015e	2016f
Poland	-4.0	-3.2	-2.7	-2.3
Hungary	-2.3	-2.6	-2.6	-2.5
Czech Rep.	-1.3	-2.0	-2.5	-1.8
Slovakia	-2.6	-2.9	-2.5	-1.9
Slovenia	-14.9	-4.6	-3.5	-3.1
CE	**-3.6**	**-2.9**	**-2.7**	**-2.2**
Croatia	-5.4	-5.7	-5.4	-5.0
Bulgaria	-1.9	-3.8	-2.8	-2.5
Romania	-2.2	-1.5	-2.3	-2.3
Serbia	-5.5	-6.6	-6.0	-4.8
Bosnia a. H.	-2.2	-3.8	-2.5	-2.0
Albania	-6.0	-6.6	-4.5	-3.5
Kosovo	-2.7	-2.0	-2.0	-2.0
SEE	**-3.1**	**-3.3**	**-3.3**	**-3.0**
Russia	-1.0	-1.0	-4.2	-3.0
Ukraine	-6.7	-11.0	-7.0	-5.5
Belarus	0.2	1.0	-1.0	0.0
EE	**-1.3**	**-1.6**	**-4.3**	**-3.0**
Turkey	-1.6	-1.5	-1.5	-1.5
Austria	**-1.3**	**-2.4**	**-1.9**	**-1.8**
Germany	0.1	0.2	0.0	0.2
Euro area	**-2.9**	**-2.4**	**-2.0**	**-1.7**
USA	**-4.1**	**-2.8**	**-2.7**	**-2.4**

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Public debt (% of GDP)

Countries	2013	2014	2015e	2016f
Poland	55.7	50.1	50.1	49.9
Hungary	77.2	76.9	75.0	73.8
Czech Rep.	45.7	42.6	41.1	40.4
Slovakia	54.6	53.6	53.3	53.0
Slovenia	73.0	80.0	82.0	81.2
CE	**57.3**	**53.9**	**53.4**	**52.9**
Croatia	80.8	85.1	90.5	93.7
Bulgaria	19.0	27.1	28.5	29.5
Romania	38.0	39.8	39.8	39.8
Serbia	58.8	68.8	75.3	78.5
Bosnia a. H.	41.5	45.0	44.6	42.5
Albania	68.0	72.0	70.0	69.0
Kosovo	20.0	22.0	22.0	22.0
SEE	**44.7**	**48.9**	**50.5**	**51.3**
Russia	11.3	11.5	12.5	13.5
Ukraine	40.7	53.6	81.4	72.0
Belarus	32.5	34.1	36.0	37.0
EE	**13.9**	**15.0**	**17.7**	**18.1**
Turkey	36.2	35.0	34.0	32.0
Austria	**80.9**	**84.5**	**87.0**	**85.3**
Germany	76.9	74.5	72.4	69.6
Euro area	**90.9**	**91.9**	**91.7**	**90.3**
USA	**100.8**	**103.2**	**102.6**	**101.6**

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Gross foreign debt (% of GDP)

Countries	2013	2014	2015e	2016f
Poland	70.1	70.9	68.8	67.6
Hungary	118.5	108.6	92.4	84.6
Czech Rep.	66.9	67.0	65.4	63.3
Slovakia	81.1	88.1	94.4	88.4
Slovenia	110.7	110.1	108.5	105.4
CE	**78.8**	**78.6**	**75.5**	**72.7**
Croatia	105.7	108.5	111.3	111.1
Bulgaria	90.0	94.7	97.4	96.9
Romania	68.0	62.8	59.6	57.9
Serbia	75.3	78.3	78.3	75.6
Bosnia a. H.	62.5	66.4	63.6	58.3
Albania	28.2	28.5	29.3	30.9
Kosovo	14.4	13.7	12.9	12.1
SEE	**59.3**	**58.1**	**56.7**	**55.4**
Russia	33.8	35.4	37.7	31.6
Ukraine	79.3	96.4	131.8	143.4
Belarus	51.8	57.8	59.6	56.9
EE	**37.9**	**40.1**	**44.2**	**38.5**
Turkey	45.5	55.9	59.8	52.4
Austria	**n.v.**	**n.v.**	**n.v.**	**n.v.**
Germany	n.v.	n.v.	n.v.	n.v.
Euro area	**114.0**	**119.7**	**n.v.**	**n.v.**
USA	**n.v.**	**n.v.**	**n.v.**	**n.v.**

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Exchange rate EUR/LCY (avg)

Countries	2013	2014	2015e	2016f
Poland	4.20	4.19	4.16	4.05
Hungary	297	309	310	320
Czech Rep.	26.0	27.5	27.4	27.3
Slovakia	euro	euro	euro	euro
Slovenia	euro	euro	euro	euro
Croatia	7.58	7.63	7.65	7.66
Bulgaria	1.96	1.96	1.96	1.96
Romania	4.42	4.44	4.45	4.42
Serbia	113	117	122	126
Bosnia a. H.	1.96	1.96	1.96	1.96
Albania	140	140	140	140
Kosovo	euro	euro	euro	euro
Russia	42.3	51.0	64.4	64.6
Ukraine	10.8	15.9	24.9	29.8
Belarus	11834	13597	17247	20042
Turkey	2.53	2.90	2.93	2.94
Austria	**euro**	**euro**	**euro**	**euro**
Germany	euro	euro	euro	euro
Euro area	**euro**	**euro**	**euro**	**euro**
USA	**1.33**	**1.33**	**1.11**	**1.09**

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Ratings[1]

Countries	S&P	Moody's	Fitch
Poland	A-	A2	A-
Hungary	BB+	Ba1	BB+
Czech Rep.	AA-	A1	A+
Slovakia	A	A2	A+
Slovenia	A-	Baa3	BBB+
Croatia	BB	Ba1	BB
Bulgaria	BB+	Baa2	BBB-
Romania	BBB-	Baa3	BBB-
Serbia	BB-	B1	B+
Bosnia a. H.	B	B3	NR
Albania	B	B1	NR
Kosovo	NR	NR	NR
Russia	BB+	Ba1	BBB-
Ukraine	CC	Ca	CC
Belarus	B-	Caa1	NR
Turkey	BB+	Baa3	BBB-
Austria	**AA+**	**Aaa**	**AA+**
Germany	AAA	Aaa	AAA
USA	AA+	Aaa	AAA

[1] *for FCY, long-term debt*
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Please note the risk notifications and explanations at the end of this document

Exchange rate forecast

Countries vs EUR	24-Jun[1]	Sep-15	Dec-15	Jun-16
Poland	4.17	4.15	4.10	4.05
Hungary	311.13	310.0	315.0	320.0
Czech Rep.	27.23	27.5	27.4	27.4
Croatia	7.59	7.65	7.70	7.60
Romania	4.47	4.45	4.45	4.45
Serbia	120.44	124.0	126.0	125.0
Albania	140.43	140.5	140.0	140.0
vs USD				
Russia	54.4	55.0	60.0	60.0
Ukraine	21.17	23.00	25.00	27.00
Belarus	15400	16100	16850	18400
Turkey	2.68	2.75	2.70	2.65
EUR/USD	1.12	1.10	1.05	1.08

[1] 5:00 p.m. (CET)
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Key interest rate forecast

Countries	24-Jun[1]	Sep-15	Dec-15	Jun-16
Poland	1.50	1.50	1.50	1.50
Hungary	1.50	1.30	1.30	1.30
Czech R.	0.05	0.05	0.05	0.05
Romania	1.75	1.75	1.75	1.75
Russia	11.50	10.50	10.00	8.00
Turkey	7.50	7.50	7.50	8.00
Euro area	0.05	0.05	0.05	0.05
USA	0.25	0.50	0.75	1.50

[1] 5:00 p.m. (CET)
Source: Bloomberg, RBI/Raiffeisen RESEARCH

3m money market rate forecast

Countries	24-Jun[1]	Sep-15	Dec-15	Jun-16
Poland	1.72	1.80	1.80	1.80
Hungary	1.42	1.30	1.30	1.30
Czech R.	0.31	0.28	0.29	0.35
Croatia	0.94	1.09	1.10	1.25
Romania	1.29	1.55	1.65	1.75
Russia	12.55	11.90	11.40	9.40
Turkey	11.34	10.80	11.10	11.60
Euro area	-0.01	0.00	0.00	0.00
USA	0.28	0.70	0.95	1.70

[1] 5:00 p.m. (CET)
Source: Bloomberg, RBI/Raiffeisen RESEARCH

2y LCY yield forecast

Countries	24-Jun[1]	Sep-15	Dec-15	Jun-16
Poland	1.98	2.1	2.4	2.9
Hungary*	2.16	2.1	2.2	2.5
Czech R.	0.02	0.0	0.0	0.1
Croatia	2.33	2.8	2.8	3.3
Romania*	2.02	2.4	2.5	2.9
Russia	10.95	10.4	10.3	8.4
Turkey	9.68	10.0	10.0	10.5
Austria	-0.15	-0.2	-0.2	-0.1
Germany	-0.22	-0.3	-0.3	-0.2
USA	0.64	1.0	1.1	1.8

[1] 5:00 p.m. (CET); * 3y LCY yields
Source: Bloomberg, RBI/Raiffeisen RESEARCH

5y LCY yield forecast

Countries	24-Jun[1]	Sep-15	Dec-15	Jun-16
Poland	2.69	2.9	3.1	3.6
Hungary	3.01	3.3	3.4	3.7
Czech R.	0.41	0.3	0.4	0.7
Croatia	3.27	3.5	3.5	3.6
Romania	2.94	3.2	3.3	3.7
Russia	11.10	10.5	10.1	9.0
Turkey	9.36	9.8	10.5	11.5
Austria	0.30	0.3	0.3	0.7
Germany	0.09	0.1	0.2	0.5
USA	1.66	1.9	2.0	2.4

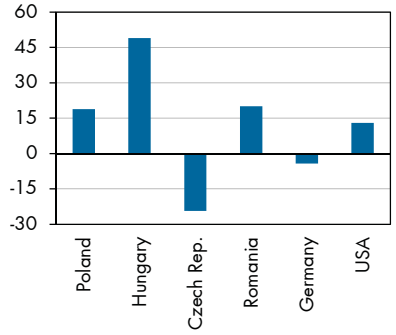
[1] 5:00 p.m. (CET)
Source: Bloomberg, RBI/Raiffeisen RESEARCH

10y LCY yield forecast

Countries	24-Jun[1]	Sep-15	Dec-15	Jun-16
Poland	3.21	3.4	3.6	4.0
Hungary	3.91	4.4	4.5	4.8
Czech R.	1.24	1.0	1.2	1.3
Romania	4.00	4.2	4.4	4.9
Russia	11.01	10.3	9.8	9.5
Turkey	9.20	10.0	11.0	12.0
Austria	**1.19**	**1.1**	**1.2**	**1.6**
Germany	0.84	0.8	0.9	1.3
USA	2.37	2.5	2.6	3.0

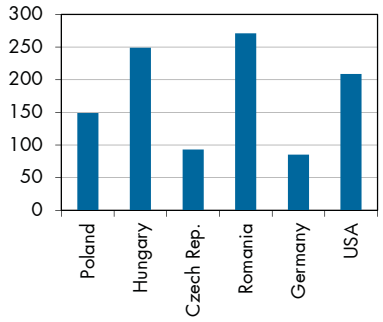
[1] 5:00 p.m. (CET)
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Expected yield change



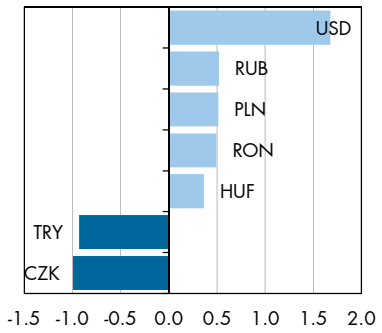
bp-change of 10y gov. bond yield in next 3 months
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Yield structure



bp-spread between 10y and 3m maturity
Source: Bloomberg, RBI/Raiffeisen RESEARCH

LCY changes vs EUR (% qoq)[1]



[1] forecasts for 30 Sep-2015 in comparison to 24 Jun-2015
Source: Bloomberg

Stock market indicators

	Earnings growth		Price/earnings ratio	
	15e	16f	15e	16f
ATX	78.5%	24.7%	14.4	11.5
WIG 30	85.2%	3.9%	13.9	13.4
BUX	n.a.	21.4%	13.2	10.9
PX*	14.1%	-3.0%	12.1	12.4
MICEX	27.3%	21.5%	6.4	5.3
BET**	-5.1%	21.2%	12.1	10.0
CROBEX10	12.4%	20.2%	12.3	10.9
BIST Nat. 100	10.4%	15.0%	10.8	9.4

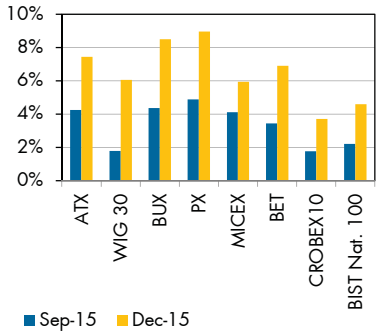
* Czech Rep. (PX): excl. Central European Media Enterprises, New World Resources and Erste Group
** Romania (BET) excl. Fondul Proprietatea
Source: Thomson Reuters, IBES, Bloomberg, RBI/Raiffeisen RESEARCH

Stock market forecasts

	Index estimates			
	24-Jun[1]	Sep-15	Dec-15	Jun-16
ATX	2,513	2,620	2,700	2,620
WIG 30	2,574	2,620	2,730	2,690
BUX	21,845	22,800	23,700	23,000
PX	982	1,030	1,070	1,055
MICEX	1,652	1,720	1,750	1,820
BET	7,250	7,500	7,750	7,680
CROBEX10	1,022	1,040	1,060	1,055
BIST Nat. 100	84,141	86,000	88,000	90,000

[1] 11:59 p.m. (CET)
in local currency
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Expected index performance



Source: RBI/Raiffeisen RESEARCH

CEE portfolio moved sideways in Q2

- **Higher share of equities delivers positive performance effect of 11bp**
- **Hungarian stocks relatively strong during the first period**
- **RUB weakness fosters outperformance in the bond portfolio**

Sum of last quarter[1]

RBI portfolio (in EUR)	-0.87%
Benchmark (in EUR)	-0.84%
RBI outperformance (in EUR)	-0.03 pp
by weighting of equities vs bonds	0.11 pp
regional equity weightings	-0.16 pp
weighting of EB vs LCY bonds	0.00 pp
country weightings of LCY bonds	0.02 pp
country weightings of EB EUR	0.00 pp
country weightings of EB USD	0.00 pp
joint effects / duration	0.00 pp

1 24 March 2015 - 24 June 2015
EB...Eurobonds
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Period 1: 24 Mar 2015 - 1 May 2015

RBI portfolio (in EUR)	2.70%
Benchmark (in EUR)	2.63%
RBI outperformance (in EUR)	0.06 pp
by weighting of equities vs bonds	0.19 pp
regional equity weightings	-0.12 pp
weighting of EB vs LCY bonds	0.00 pp
country weightings of LCY bonds	0.00 pp
country weightings of EB EUR	0.00 pp
country weightings of EB USD	0.00 pp
joint effects / duration	-0.01 pp

EB...Eurobonds
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Period 2: 1 May 2015 - 1 Jun 2015

RBI portfolio (in EUR)	-1.74%
Benchmark (in EUR)	-1.62%
RBI outperformance (in EUR)	-0.12 pp
by weighting of equities vs bonds	-0.06 pp
regional equity weightings	-0.05 pp
weighting of EB vs LCY bonds	0.00 pp
country weightings of LCY bonds	-0.01 pp
country weightings of EB EUR	0.00 pp
country weightings of EB USD	0.00 pp
joint effects / duration	0.00 pp

EB...Eurobonds
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Period 3: 1 Jun 2015 - 24 Jun 2015

RBI portfolio (in EUR)	-1.76%
Benchmark (in EUR)	-1.79%
RBI outperformance (in EUR)	0.03 pp
by weighting of equities vs bonds	-0.01 pp
regional equity weightings	0.01 pp
weighting of EB vs LCY bonds	0.00 pp
country weightings of LCY bonds	0.03 pp
country weightings of EB EUR	0.00 pp
country weightings of EB USD	0.00 pp
joint effects / duration	0.00 pp

EB...Eurobonds
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

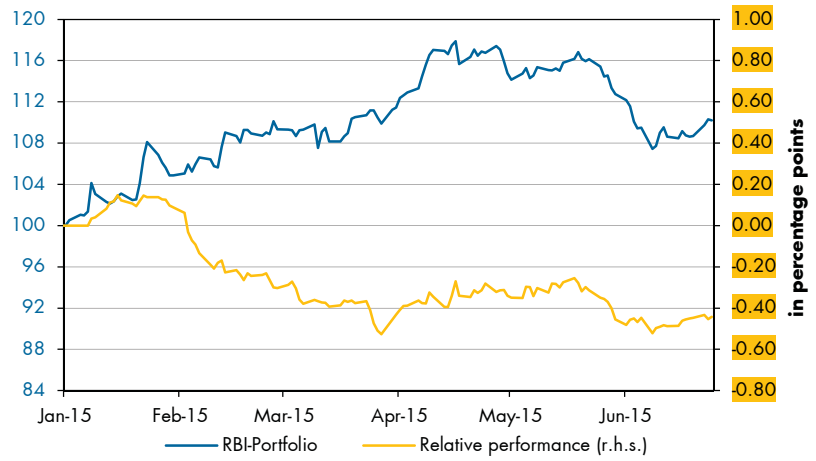
The prospect of modest gains on the equity market and expectations of minimal changes in bond yields prompted us to increase the share of equities in the portfolio at the start of the quarter. The **overweighting of risky assets** was maintained throughout the entire period, and the **initially strong performance of the equity market resulted in outperformance of 7 basis points (bp)** versus the benchmark, despite the subsequent setback. All in all, however, the portfolio registered underperformance of 3bp, due to negative contributions from positions in the **equity segment**.

In the first period, the economically stable countries Czech Republic and Romania were financed via Hungary in the equity segment. This latter market did significantly better than expected however, resulting in underperformance of 12bp. Starting from period 2, the Czech Republic was underweighted in favour of Poland, Russia, and Romania. The relatively robust performance of the Czech equity market during this phase resulted in underperformance of 5bp however. During period 3, it was mainly the overweighting of Romania and Russia that made a modest positive contribution, and as a result it was possible to hold a cumulative underperformance of 16bp.

In the **bond segment**, Romania was overweighted the whole time. During period 1 this resulted in performance on par with the benchmark, due to the very small movements in yields. During periods 2 and 3, Russia was underweighted, based on our expectations of rate cuts. The corresponding depreciation of the rouble during period 3 helped the bond segment to close on a positive note, as a result of which the cumulative outperformance of 2bp was maintained.

Financial analyst: Stefan Theußl, RBI Vienna

Performance 2015



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

CEE portfolio

	2012	2013	2014	ytd
Benchmark	21.90%	-2.54%	-8.11%	10.64%
Portfolio	21.07%	-2.41%	-8.23%	10.19%
Relative Performance	-0,83 pp	0,12 pp	-0,12 pp	-0,44 pp

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Balanced weighting of bonds vs. equities recommended

- **Expansive monetary policy should continue to support asset prices**
- **CEE equity markets may profit from the euro-area recovery**
- **Greece and geopolitical crisis as the main risk factors**

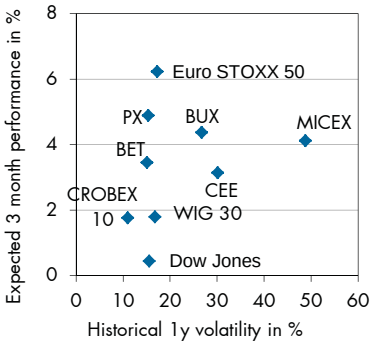
As we expect inflation in the CE region to stabilise over a one-year horizon, the leeway for further interest rate cuts should narrow and thus the **lows in yields on 10-year government bonds should be reached, aside from a few exceptions.** In historical terms, yields have fallen to a low level, which will probably hamper the attractiveness of bond investments, due to the low risk premiums. For CEE fixed income investors, while local currency bonds still offer interesting yields in absolute terms compared to their peers from core European countries, the remaining potential for prices may be limited. Provided that the oil price slowly moves higher and there is no further escalation of geopolitical tensions, exchange rate volatility should continue to decline.

Although we expect equities to outperform bonds for the quarter ahead **we do not overweight risky assets** due to the **uncertainty** weighing on markets induced by the ineffective **negotiations between Greece and its creditors**. This could lead to downward movements in the short term. Nevertheless, the risk-return profile has improved and thus, investors with a CEE link might feel a stronger motivation to reallocate into riskier assets given a resolution for the Greek situation is found. Then, some of the Eastern European indices will be pulled along in the wake of a rebound in the developed markets, thanks to their tight economic ties, and will thus trend higher.

Another supportive factor is the accommodative monetary policy in place around the world and in particular by the ECB. However, **from a risk perspective, besides Greece the main focus in the coming quarter will be the Russia/Ukraine crisis**. While a rate hike by the US Fed may trigger some higher volatility on the markets, this is only expected to occur towards the end of Q3 at the earliest. Other risk factors include weaker economic performance than we project and another major decline in the oil price**. All in all, we thus recommend a neutral weighting between equities and bonds.**

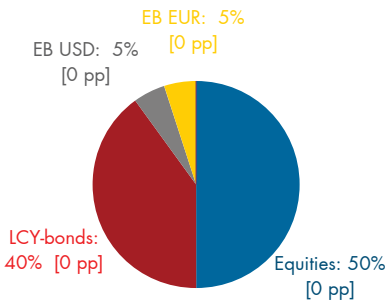
Financial analyst: Stefan Theußl, RBI Vienna

Risk-return (%)



In local currency
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

CEE portfolio weightings Q3 2015



LCY…local currency, EB … Eurobonds
[-] , [+] = Over-/underweight versus benchmark
[0] = No over-/underweight versus benchmark
Source: RBI/Raiffeisen RESEARCH

Historical volatility & performance (%)

	Equities[1]						Bonds					
	Volatility[2]		Performance ytd		Performance 5y[3]		Volatility[2]		Performance ytd		Performance 5y[3]	
Countries	EUR	LCY	EUR	LCY	EUR	LCY	EUR	LCY	EUR	LCY	EUR	LCY
Czech Republic	15.1	15.0	0.7	-1.1	-5.5	-4.5	3.0	2.1	0.4	-1.3	4.7	5.8
Hungary	24.8	22.4	35.1	33.1	-5.3	-3.6	9.5	3.8	3.1	1.6	7.6	9.6
Poland	16.9	13.2	5.0	1.9	1.0	1.3	8.4	3.2	1.9	-1.2	6.6	6.9
Romania	13.2	12.6	10.9	10.6	8.3	9.5	3.7	0.1	0.7	0.4	2.2	3.3
Russia	28.2	15.8	39.3	19.1	-5.0	2.1	30.6	7.6	43.2	20.0	-4.2	5.1
Turkey	30.6	21.8	-8.4	-3.0	-1.2	7.7	19.8	7.0	-7.1	-1.6	-0.8	8.1
Croatia	10.3	9.8	5.4	4.5	-4.5	-3.5	4.8	4.8	-0.3	-0.3	6.4	6.4
CEE	16.6	-	10.6	-			6.0	-	3.3	-		

[1] MSCI indices
[2] Three months volatility annualised
[3] Five-year annual return
LCY…local currency
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Rate-cutting cycle completed for the most part

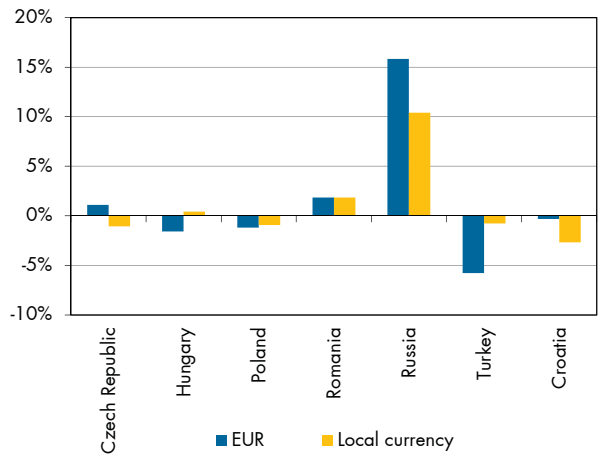
- **Reversal in yields is underway**
- **Upside potential in Russia**
- **Hungary: interest rate changes in the USA as a risk factor**

Portfolio weightings: bonds

	Portfolio	Benchmark	Difference
EB USD	10.0%	10.0%	0.0%
EB EUR	10.0%	10.0%	0.0%
LCY	80.0%	80.0%	0.0%
Czech Republic	20.0%	20.0%	0.0%
Hungary	18.0%	20.0%	-2.0%
Poland	45.0%	45.0%	0.0%
Romania	5.0%	5.0%	0.0%
Russia	7.0%	5.0%	2.0%
Turkey	5.0%	5.0%	0.0%
Croatia	0.0%	0.0%	0.0%

Source: RBI/Raiffeisen RESEARCH

Historical relative performance*



** since 3 months, local currency bonds versus portfolio bond benchmark*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

During the second quarter, rising yields were registered for most bond markets in the CEE region. On the one hand, this was due to the correction in the prices of German and US government bonds, and on the other hand, selling pressure on CEE bonds rose as a result of negotiations on Greece's debt problems and speculation that these talks might fail. Furthermore, in most of the countries in the region the **low point in interest rates has probably** already **been reached**, and thus over the medium term one important source of support will disappear. By contrast, we see the turnaround in interest rates in the USA as an additional risk factor for the performance of Eastern European government bonds. This has prompted us to close the carry bet between Romania and the Czech Republic. This risk factor mainly affects Romanian bonds of longer maturity, whereas Czech bonds should tend to stabilise, based on their high degree of correlation with Germany. In this regard, we see additional downside potential for Hungarian bonds due to the high share of USD-based investors in this asset class, and this may overshadow the positive effects of interest rate cuts by the central bank. In Russia, we expect to see a decline in inflation, and additional rate cuts by the Russian central bank should help this bond market to book increases in prices. Furthermore, at the current level of EUR/RUB 60, we believe the exchange rate has good support. Accordingly, **in the bond segment, we position ourselves with an overweight of 2pp on Russia and finance this by underweighting Hungarian bonds by 2pp**. The parliamentary elections in Poland and the currently uncertain outcome in relation to the formation of a government in Turkey are political risk factors which have prompted us to forego any weighting in these two countries.

Financial analyst: Stefan Memmer, RBI Vienna

Expected bond market performance (%)

	3m		6m		9m		12m	
Countries	**EUR**	**LCY**	**EUR**	**LCY**	**EUR**	**LCY**	**EUR**	**LCY**
Czech Republic	1.7	2.6	0.8	1.3	2.2	2.8	1.0	1.5
Hungary	-2.6	-3.3	-3.7	-2.9	-3.3	-2.4	-5.2	-2.8
Poland	-0.4	-0.9	-0.1	-1.8	-1.0	-2.6	-0.7	-3.5
Romania	-0.6	-0.6	-1.0	-1.0	-0.3	-1.4	-2.5	-2.6
Russia	5.9	4.9	6.2	9.6	15.6	13.3	8.4	15.4
Turkey	-4.8	-3.3	-3.1	-7.5	-4.2	-8.6	0.6	-3.2

Not annualised; 10y treasury bond, LCY...local currency
Source: RBI/Raiffeisen RESEARCH

Economy and politics remain the dominant factors

- **Economic dynamics to have a positive effect on the Czech and Hungarian stock markets**
- **Poland and Turkey suffering from political uncertainty**
- **Russia profiting from rising oil prices, but Ukraine remains the key risk factor**

Although all of the CEE indices in our portfolio except for Turkey were able to post gains in early Q2, the achieved levels were only significant for Hungary, where the index heavyweights profited from the government's promise to reduce the banking levy. Otherwise, sentiment among European investors was muted, due to the increasingly tense discussions about Greece's future which escalated during the quarter. **With a political agreement** between both parties, however, this risk factor may be contained in the next future, and the **CEE markets may then return to a calmer period again**, as these markets show positive correlation with the core European markets. But it should be kept in mind that the volatility observed in CEE yields is generally higher. Nonetheless, **along with the Hungarian market, we also expect performance between 4.1% and 4.9% (in LCY terms) over the quarter for both the Czech and the Russian equity market**. In terms of our expectations for exchange rate developments and as a EUR-based investor, these three markets should also perform better in relative terms in the CEE region, and consequently we **overweight each of these markets by 1 percentage points (pp).** In the Czech Republic, we identify a relatively good risk-return profile, solid economic performance and favourable interest rate conditions. The Russian equity market seems interesting in the light of our oil price and RUB exchange rate expectations. The recovery looks promising in favour of positive signs from the Russian economy, but the conflict with Ukraine remains the biggest risk factor.

We **underweight Poland by 2pp**, as we judge the **political risk** as high, due to the upcoming elections in the autumn. In particular the banking sector may suffer from a further shift to the right. **Turkey (-1pp)** is also dealing with **political burdens**. Both countries show a sub-average risk-return profile.

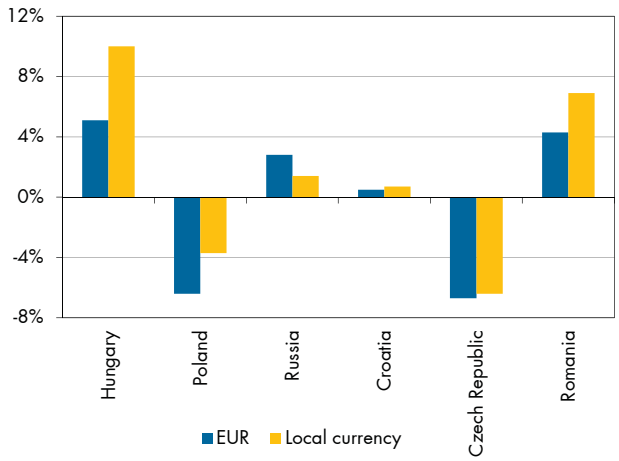
Financial analyst: Stefan Theußl, RBI Vienna

Portfolio weightings: stocks

	Portfolio	Benchmark	Difference
Czech Republic	9.0%	8.0%	1.0%
Hungary	8.0%	7.0%	1.0%
Poland	23.0%	25.0%	-2.0%
Russia	36.0%	35.0%	1.0%
Turkey	24.0%	25.0%	-1.0%
Croatia	0.0%	0.0%	0.0%
Romania	0.0%	0.0%	0.0%

Source: RBI/Raiffeisen RESEARCH

Historical relative performance*



** to MSCI CEE, since 3 months*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Expected stock market performance (%)

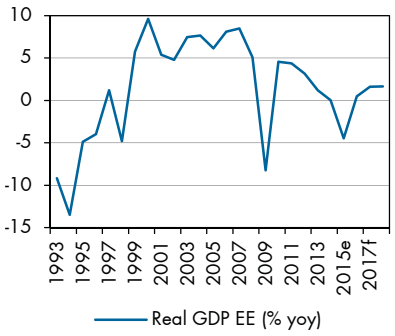
	3m		6m		9m		12m	
Countries	**EUR**	**LCY**	**EUR**	**LCY**	**EUR**	**LCY**	**EUR**	**LCY**
Czech Republic	3.8	4.9	8.3	9.0	8.3	9.0	6.8	7.4
Hungary	4.8	4.4	7.2	8.5	6.3	7.6	2.4	5.3
Poland	2.3	1.8	7.9	6.1	7.5	5.7	7.6	4.5
Romania	4.0	3.4	7.4	6.9	8.5	6.8	6.5	5.9
Russia	4.7	4.1	2.3	5.9	10.6	9.0	3.4	10.2
Croatia	0.6	1.8	1.9	3.7	2.2	3.7	2.8	3.2
Turkey	1.3	2.2	10.6	4.6	10.6	4.6	12.3	7.0

Not annualised, LCY…local currency
Source: RBI/Raiffeisen RESEARCH

GDP as bad as during the Russia crisis in 1998/1999

- **No geopolitical de-escalation in sight, Minsk-II lagging behind schedule, Western sanctions prolonged**
- **After deep recession in 2015, Russia is threatened by "secular stagnation"**
- **Still no indications of economic and political stabilisation in Ukraine, limited reform progress up to now**
- **Belarus with first recession since 1995**

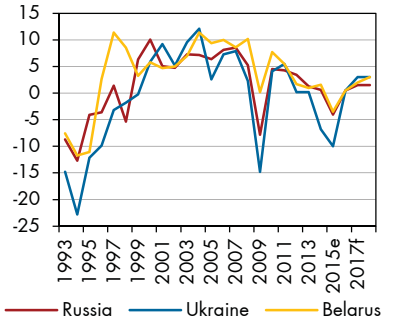
Real GDP overall EE region



Source: IMF, national sources, RBI/Raiffeisen RESEARCH

The economic ramifications of the Ukraine conflict are becoming much more tangible for Russia, Ukraine and Belarus this year. In an optimistic scenario which assumes stabilisation in H2 2015, Ukraine's GDP will contract by around 10%, with the first quarter alone marked by a decline of some 17% compared to the previous year. According to official announcements, GDP in Russia declined by 3.2% in the first five months of the year. In particular, Russia struggled with the slump in industry, construction, and investments during the second quarter, while retail sales and real wage growth remain weak. Consequently, we maintain our forecast for a 4% decline in Russian GDP in 2015. Belarus may also post negative GDP growth rates in 2015, for the first time since 1995. On the whole, despite the solid performance of the global economy, **this year the EE region will probably experience a contraction in GDP similar to what was seen in the 1998 Russia crisis**, which also had major ramifications for the region. Furthermore, in our view, there are currently no clear signs of any de-escalation in the overall geopolitical situation. Consequently, 2016 will also be challenging for the political and economic development of the region. In a best-case scenario, 2016 will bring stagnation. This outlook is supported by the fact that the Minsk-II process is off-track and far behind schedule. No quick agreement can be expected. Consequently, **the West's sanctions on Russia will likely remain in place until 2016**. This is particularly the case, as there was a push for trans-Atlantic unity in the stance vis-à-vis Russia at the latest G7 summit, and the EU has recognised the confrontation with Russia as a longer-term challenge. Accordingly, in the current situation, we see any hopes for quick, unilateral easing of the EU sanctions on Russia as wishful thinking, and sanctions could actually remain in place after January 2016 as well.

Real GDP EE countries (% yoy)



Source: IMF, national sources, RBI/Raiffeisen RESEARCH

In light of the generally confrontational environment, it should be possible for the Russian President and government to maintain their high popularity ratings for the first time. At the same time, the **medium-term economic outlook is worrying**, and in the coming years it appears more likely that Russia will experience a period of "secular stagnation" (i.e. minimal economic growth with a lack of clear-cut growth drivers), rather than a rapid rebound. In such a scenario, which is mainly plausible in closed economies with relatively high per capita income, Russia would face considerable challenges. So far, there are still strong hopes for an upswing, based on the idea that the country was always a "boom-bust" economy. As a result, "secular stagnation" could put the previous plans of economic actors and fiscal policy to the test after 2015 and beyond, with medium-political implications which should not be underestimated. Most of the adjustment was borne by the private sector in 2014 and 2015. The economically justified depreciation of the rouble and the resulting high inflation have resulted in a **massive drop in consumption and investment**, and consequently also in imports and financing requirements. As a result, worries about Russia's macro-financial stability have abated. With consumption contracting by around 6% this year and a roughly 10% decline in investments (and stagnation expected for both of these indicators next year), Rus-

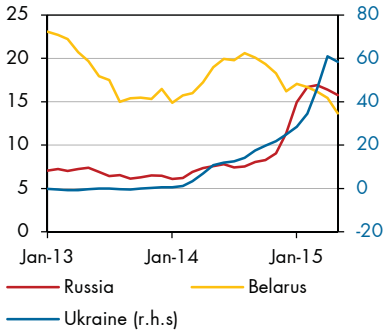
sia's imports in 2015 and 2016 (in USD terms) should be around 200-230 bn, compared to an average of around USD 330 billion in 2011-2013. Imports have thus dropped by around 35-40%, whereas exports have "only" fallen by roughly 25-30%, resulting in a stable trade surplus. At a lower level of imports and investments, Russia can live much longer than before on its reserves. However, if the government wants to keep pursuing the goal of a balanced budget, this will lead to **significant adjustments in expenditures in 2016 and 2017**, which will be politically challenging in light of the upcoming elections in Russia. Consequently, despite the current lower macro-financial risks, investors are indeed concerned about the sustainability of Russian fiscal and economic policy.

In contrast to Russia and Belarus, the political situation in **Ukraine** is already more difficult. In view of the economic misery and hardly any progress with reforms – after the euphoria of the Euromaidan success – there is a danger of rising political apathy and radicalisation. This may already become very visible in the **local government elections scheduled for end-October**. The situation may become even more volatile if there were early elections in 2015 or 2016. On the whole, Ukraine is hoping that the West will take action and provide the country with more financial and political support, while the West is pinning its hopes on the IMF programme and expects Ukraine to reform itself and overhaul its economy, like Poland did in the 1990s. We are rather sceptical about taking a stance based purely on hoping for further domestic political stability and self-reform in Ukraine. Most of the stability anchors which were in place during Poland's transformation are not currently present in Ukraine. The influence of the oligarchs is much greater than it ever was in Poland, also because of the lack of a strong, economically independent opposition. Poland had a broad-based opposition interested in political reform, which was able to limit the influence of powerful private interests to the state. Furthermore, in Poland in the 1990s there was a certain degree of consensus about the necessity of structural reforms and the possibility of implementing deep-reaching institutional and constitutional reforms. Ukraine is far away from such conditions. It should also be noted that Poland did not only profit from "shock therapy": it benefited from a process of steady, gradual reforms and liberalisation over many years. In the 1990s and in particular after the outlook for EU accession, this process was also supported by a wave of internationalisation and investment by major (Western European) companies, along with domestic factors. This **trend towards internationalisation has now slowed down**, and a large-scale market entry in Ukraine does not look all that attractive to Western European companies which are producing for example in low-cost countries such as Poland, Romania or Bulgaria.

In light of the overall situation as discussed in the foregoing, we see our forecasts for the EE region, which are situated towards the bottom end of the expectations compared to other analysts, as being realistic. **Further escalation** of the geopolitical situation or macro-financial conditions **in Ukraine would exacerbate the downside risks**.

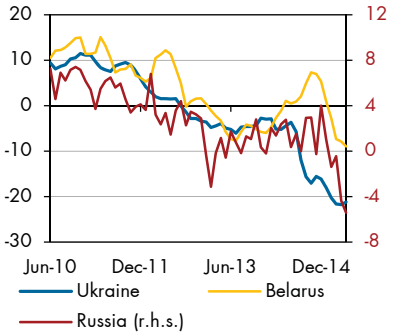
Financial analysts: Gunter Deuber, Andreas Schwabe, RBI Vienna

CPI (% yoy)



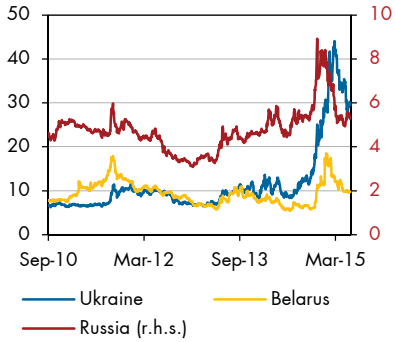
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Industrial production (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

EMBIG yield-to-maturity (%)

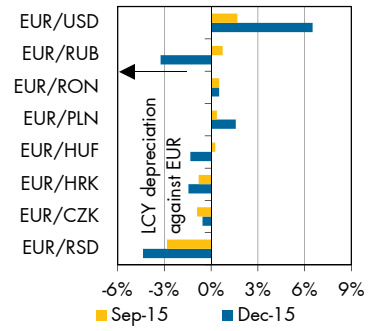


Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

CEE exchange rates adjusted to ECB QE and US Fed speculation

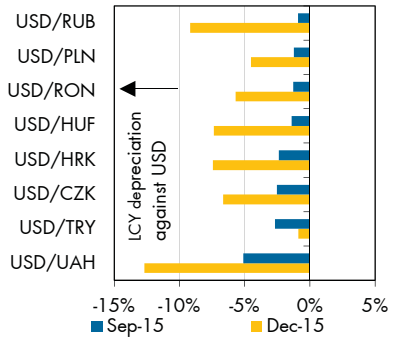
- **For CE currencies we forecast a sideways movement against EUR as adjustment to ECB and US Fed have been made**
- **For the SEE region we project depreciation of the Serbian dinar against the EUR**
- **We continue to see biggest risk for EE currencies in Q3, but also on a 12 month horizon**
- **Given our expectation of USD strengthening all CEE currencies are projected to show depreciation against USD in Q3 2015**

Projections LCY vs EUR



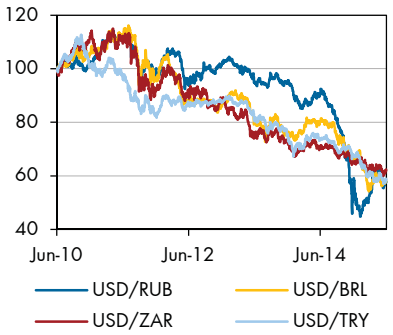
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Projections LCY vs USD



Source: Bloomberg, RBI/Raiffeisen RESEARCH

Similar depreciation for EM FX



Indexed graph, 23 June 2010 = 100
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Our call for weaker CEE currencies in the Q2 Central & Eastern European Strategy only partially worked out. Whereas HUF weakening against EUR proved correct, the expectation for RUB weakening against USD did not materialise. Even though the rouble weakened by about 10% against the USD in the second half of Q2, the previous strengthening trend counterbalanced this move and caused overall appreciation for RUB in Q2 2015.

Given the depreciation of numerous CEE currencies that has been seen in recent weeks, we would not expect significant additional weakening against the euro during the third quarter. The impact of ECB QE on the currencies has declined over previous months as markets have adjusted, and the same holds true for the US Fed rate hikes about which the markets are speculating.

Turning to a more precise view, we would expect sideways movement by the **CE currencies** against the euro for the third quarter (slightly weaker CZK, slightly stronger HUF and PLN). In the region **South Eastern Europe (SEE)** there should be more deviation, as we forecast weakening of the Serbian dinar against the euro. Other SEE currencies should remain in a sideways movement (HRK with moderate depreciation, RON a bit stronger), and thus we see limited trading opportunities against EUR. One aspect which is worthy of note is that all CE/SEE currencies should witness depreciation versus USD, given our EUR/USD projection of a stronger US dollar.

Turning to the EE region, our forecasts point to weakening by all exchange rates against USD. In our view, the **Russian rouble** has already shown the bulk of its short-term depreciation move back towards USD/RUB 55, and therefore only moderate depreciation is anticipated. Given the improved FX steering by the Russian Central Bank, we would not expect stronger movements by the rouble during the third quarter. Nevertheless, as mentioned before, any timing of additional RUB depreciation is difficult as there are still numerous factors which could drive RUB weaker. In particular, a renewed rise in geopolitical tensions with the US could contribute to short-term RUB depreciation via more sanctions, even though an escalation is currently not part of our baseline scenario.

There is considerable risk in relation to the **Ukrainian hryvnia** in the coming months as Ukraine's central bank is using strict administrative measures to prevent UAH depreciation. As soon as these administrative measures are eased, we would expect the hryvnia to start depreciating. Nevertheless, it is extremely difficult to predict the timing of such steps, and a prolongation of the administrative measures would push the assumptions of UAH weakening further backwards.

For the **Turkish lira** we see the possibility of short-term overshooting towards USD/TRY 2.80 due to political uncertainty, but would regard this as a buying opportunity as we expect political uncertainty to fade over a 6 month horizon.

Over a time horizon of 12 months, we expect **significant divergence between PLN and HUF** as we project EUR/PLN appreciation compared to further HUF depreciation against EUR. Additionally, in our view it is worth underlining our expectation that EE exchange rates are likely to show more depreciation both against EUR as well as USD over a 12-month horizon.

Financial analyst: Wolfgang Ernst, RBI Vienna

Getting closer to a bear market in light of Fed liftoff

- **Whilst all of the CE/SEE local debt markets posted losses since end-March mainly due to the bond tantrum starting in late April...**
- **...the Russian OFZ market saw a stellar performance due to rouble recovery, which allowed for deep rate cuts**
- **With Russia as the only economy in our CEE universe to continue monetary policy easing, outperformance to continue**
- **As September's expected Fed liftoff comes closer, all CE/SEE yield curves should witness bear steepening**

Since our last CEE Strategy publication in March, only the Russian OFZ market could gain in CEE. The stellar performance of RUB debt was due to the substantial USD/RUB recovery, which allowed the CBR to reverse parts of 2014's emergency rate hikes which amounted to 1150bp in total. Until end-September (and beyond), **OFZs should continue their rally**, although at a more moderate pace compared to Q2 2015. The latter is mainly due to the slowing pace of monetary easing, and, at the same time, the expected adverse spillover from the Fed liftoff expected for September. Valuations at the long-end of the RUB yield curve (YC) currently seem the most attractive to us, although the expected performance at the front end should be more limited due to the aforementioned slower rate-cutting cycle. However, further cuts amounting to 150bp in H2 2015 should gradually bring the base rate down to 10.00% by end-2015. Of course, one crucial **precondition for our call is that there is no further escalation on the geopolitical front** and, hence, a fairly stable rouble exchange.

By contrast, CE/SEE local debt markets posted losses across the board. Following mixed performance in April, LCY bond markets were hit hard by the bond market tantrum that started at the end of April. Longer maturities underperformed shorter ones, leading to a rapid bear steepening across most CEE YCs. In line with core market moves (i.e. Bund sell-off), the front end of LCY YCs remained well anchored, especially in countries such as Hungary and Romania where rate-cutting cycles were still underway. Nevertheless, FX losses across the region weighed on the performance. On a separate note, we would have expected the Polish debt market to weather any core market pressure better than regional peers. This time, however, **Poland's performance was undermined by the aggressive repricing of political risks** following the market-unfriendly outcome of the 24 May presidential elections.

Apart from Russia, Hungary should remain the one and only economy in our CEE research universe where we could see further rate cuts during the summer. Effects on HGBs should be very limited, though, since we believe that more monetary policy easing is already reflected in the current tight valuations. Bond-market-friendly easing could come, however, in September, when the Monetary Council will switch to its new base rate that could be set lower than our end-September, 1.30% target for the 2w deposit rate (current base rate). The overhaul of the monetary toolkit should motivate banks to buy more T-bills and T-bonds instead of holding excess funds (HUF 5.5 tn at the end of May in the 2w facility). According to our estimates, the front-end of the LCY yield curve should therefore see HUF 750 bn in additional flows by the end of 2016, given the diminishing attractiveness of parking funds at the MNB. Therefore, for **shorter tenors in Hungary we remain on hold only**. Nevertheless, we highlight that the short end of the HUF rate and yield curve remains attractive on a relative basis versus regional peers such as Poland and Romania. With the exception of Russia, all **CE/SEE yield curves should witness a bear steepening in line with core market moves** triggered by US monetary policy spillover.

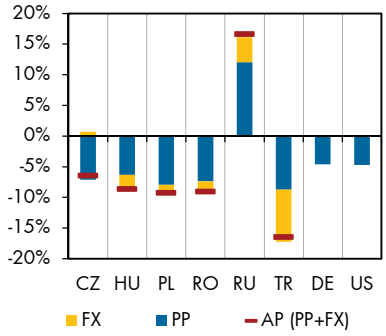
Financial analyst: Stephan Imre, RBI Vienna

Market strategy (until Sep-15)*

	LCY Bonds		FX
	2y	10y	–
CZ	H (H)	B (H)	H (H)
HU**	H (B)	S (H)	H (S)
PL	H (H)	S (H)	H (S)
RO	H (B)	S (B)	H (H)
RU	B (H)	B (S)	H (S)
TR	S (B)	S (H)	S (S)

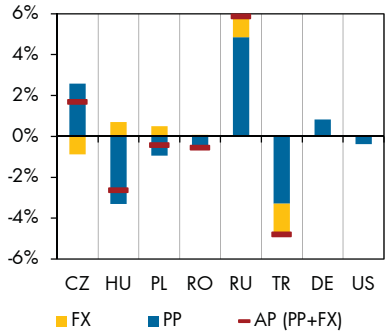
**based on absolute expected performance in LCY between 24 Jun 2015 and 30 Sep 2015; former recomm. (as of end-March 2015) in brackets; B: Buy; H: Hold; S: Sell; ** HU: 3y instead of 2y tenor*
Source: RBI/Raiffeisen RESEARCH

Historical performance 10y LCY bond*



** between 23 March 2015 and 22 June 2015*
FX: currency performance (chg LCY/EUR)
PP: bond performance (price chg + carry)
AP: absolute performance (PP + FX)
DE and US: Only price performance (PP)
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Expected perf. 10y LCY bond -> Sep-15

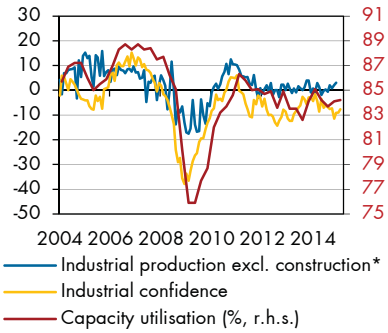


** between 24 June 2015 and 30 Sep 2015*
FX: currency performance (chg LCY/EUR)
PP: bond performance (price chg + carry)
AP: absolute performance (PP + FX)
DE and US: Only price performance (PP)
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Rays of hope on the economic horizon

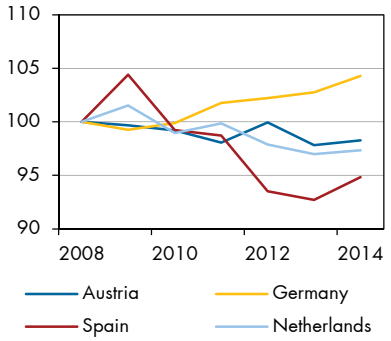
- **Subdued economic performance in the first half year**
- **Signs for a moderate revival of business cycle dynamics have improved recently**
- **Low inflation and tax reform should support private consumption**
- **Rising employment, but rising labour supply with increasing unemployment rate**

Industry still lacking momentum



** (% yoy)*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Income*: Stagnation in Austria



** disposable household income, real, indexed, 2008=100*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

The performance of the Austrian economy was subdued again in the first quarter. Although it was possible to overcome the previous phase of stagnation, **business cycle dynamics still lack momentum**, as real GDP growth only amounted to 0.1% compared to the previous quarter. Private consumption was stable, but remains disappointing. During the first three months of the year, the downward trend continued in gross fixed capital formation, which was a key characteristic of business cycle developments in the second half of 2014. On the other hand, one positive aspect was that the extent of the decline eased off yet again. Another positive point is real exports, which rose for the third quarter in a row.

The **short-term economic outlook has improved slightly** in the recent past, even though there are still no signs of a tangible pick-up in activity right now. For instance, the purchasing managers' index for manufacturing came in at 50.3 points in May and thus edged over the 50 points line. Despite the increase of 2.6 points since March, it is once again the case that Austria is still lagging behind the other core euro area countries. Furthermore, a turnaround of the economic sentiment indicator (EU Commission) has still not yet occurred. Nevertheless, all in all, prospects for business cycle dynamics have brightened up a bit recently, and more support can be expected from the low oil price and expected continued weakening of the euro versus the US dollar, along with solid business cycle dynamics abroad. In 2016, the tax reform should generate some momentum. As the anticipated growth in exports will probably be matched by a dynamic increase in imports, no major contribution to quarterly GDP growth is expected to come from net exports. Instead, the projected moderate revival in activity should be supported more by domestic demand (consumption, investment). This scenario implies real GDP growth of 0.7% for this year (2015), and 1.8% for next year (2014: 0.3%). Consequently, the forecasts for GDP growth in Austria in both 2015 and 2016 are lower than the projections for the euro area as a whole.

Key economic figures and forecasts

	2013	2014	2015e	2016f
Real GDP (% yoy)	0.2	0.3	0.7	1.8
Private consumption (% yoy)	-0.1	0.2	0.7	1.7
Gross fixed capital formation (% yoy)	-1.5	0.4	-1.0	3.9
Nominal exports (% yoy)	3.6	3.3	3.9	5.8
Nominal imports (% yoy)	1.8	4.0	5.4	6.1
Trade balance (goods and services, EUR bn)	11.5	12.2	10.2	10.3
Current account balance (EUR bn)	3.1	2.6	2.7	2.4
General budget balance (EUR bn)*	-4.2	-7.9	-6.3	-6.2
General budget balance (% of GDP)*	-1.3	-2.4	-1.9	-1.8
Unemployment rate (avg, %, EU definition)	5.4	5.6	5.7	5.6
Consumer prices (avg, % yoy)	2.1	1.5	1.2	1.9
Real wages (% yoy)	0.4	0.9	0.9	0.2
Unit labour costs (% yoy)	2.6	2.4	2.1	1.5

** state, provinces, municipalities and social security authorities*
Source: Statistics Austria, Thomson Reuters, RBI/Raiffeisen RESEARCH

In the coming quarters, the strongest contributions to quarterly GDP growth are expected to come from private consumption and investments. Looking at **gross fixed capital formation**, during the last quarters the development of equipment investment has been particularly weak. Capacity utilisation in manufacturing is stagnating slightly below the long-term average for quite some time now and consequently does not signal any immediate need for (expansion) investments. Nevertheless, investment activity should also pick-up, borne by a continued, but below average acceleration in exports. Financing conditions remain favourable, and this should also have a supportive effect.
The weakness that has been seen in **private consumption** since early 2012 (average growth in private consumption for Q1 2012 to Q1 2015: 0.0% qoq) results from the modest average decline in real disposable household income since 2009 (due to high inflation, not nominal wage developments). Initially, households maintained their consumption habits by significantly reducing the savings ratio (2008: 11.9%; 2011: 7.8%). In recent years, however, the further decline in the savings ratio has been negligible (savings ratio in 2014: 7.5%), which, in conjunction with the weak development of real disposable household income, has resulted in the weakness in private consumption. In 2015, lower inflation and nominal wage increases should support real disposable household income, while in 2016 there should be an increase in nominal and real household income as a result of the tax reform. This, in turn, should lend support to private consumption, even though part of the additional disposable income may be used to boost the savings ratio and on imports.

The situation on the **labour market** will likely remain tense. Despite rising employment, due to the larger increase in labour supply there will probably be another increase in the unemployment rate at least in 2015 (international definition).

Inflation (HICP) reached its cyclical low point at the start of the year at 0.5% yoy and is now at 1.0% yoy (May). Based on the assumption of a moderate increase in the oil price later in the forecast horizon and the significant decline in the oil price in H2 2014, a tangible increase in year-on-year inflation can be expected in the months ahead. With a projected rate of 1.2% for this year (2015) and 1.9% for next year (2014: 1.5%), inflation will remain much higher than in the currency union as a whole.

Financial analyst: Matthias Reith, RBI Vienna

GDP: Value added by sector

Change (% yoy, in real terms)	2013	2014	2015e	2016f
Agriculture & forestry	-3.5	10.9	0.0	0.0
Prod. of goods/mining	0.6	0.1	0.9	3.0
Energy/water supply	6.8	1.5	0.5	1.5
Construction	0.4	0.4	0.2	1.9
Wholesale and retail trade	-1.6	-0.7	0.6	2.0
Transportation	-0.7	-1.8	0.7	1.5
Accom. & restaurant trade	0.7	0.8	0.9	1.6
Information and communication	-1.6	-7.9	1.0	2.5
Credit and insurance	-0.4	0.0	-0.5	1.1
Property & business services	3.0	0.4	1.5	2.0
Other economic services	0.7	1.5	1.0	3.3
Public sector	0.0	0.2	0.2	0.5
Healthcare, social services	0.5	2.2	1.0	1.5
Other services	-0.2	1.4	1.4	2.0
Gross domestic product	0.2	0.3	0.7	1.8

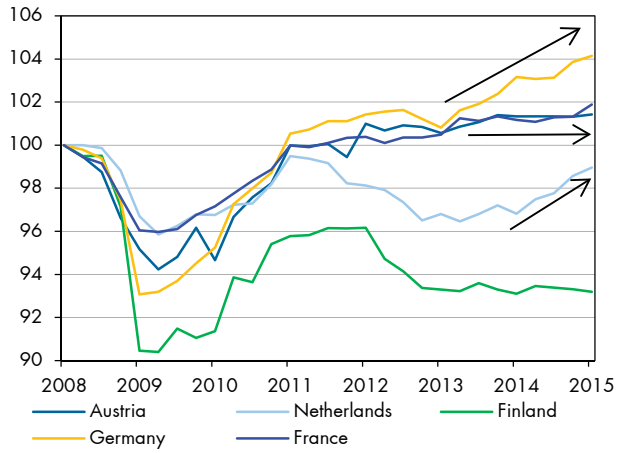
Source: Statistics Austria, RBI/Raiffeisen RESEARCH

GDP: Expenditure composition

Change (% yoy, in real terms)	2013	2014	2015e	2016f
Private consumption	-0.1	0.2	0.7	1.7
Public consumption	0.7	0.9	1.2	0.8
Gross fixed capital formation	-1.5	0.4	-1.0	3.9
Equipment	-1.5	1.7	-2.8	4.4
Construction	-2.2	0.1	0.5	3.5
Exports	1.4	1.8	2.7	3.8
Imports	-0.3	2.5	4.2	4.1
Gross domestic product	0.2	0.3	0.7	1.8

Source: Statistics Austria, Thomson Reuters, RBI/Raiffeisen RESEARCH

Real GDP (seasonally adjusted, Q1 2008 = 100)

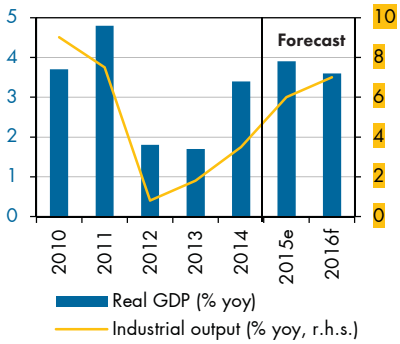


Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Political turbulence in the strongly growing economy

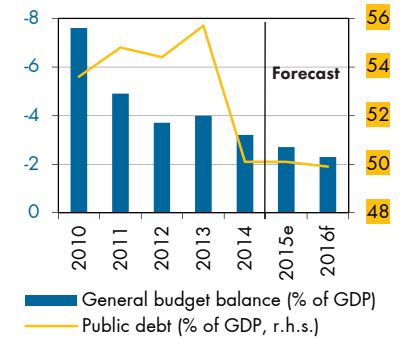
- **GDP growth surprises on the upside, investments supported by new EU funds**
- **New government remains a big question mark, political storm results in more expansive fiscal policy**
- **EUR/PLN to remain at elevated levels in the near term amidst rising volatility**
- **Bear steepening of the LCY yield curve, before rate hike bets shift front-end upwards in 2016**

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Economic outlook

In Q1, GDP growth accelerated to 3.6% yoy, marking the best result since early 2012. The structure of growth is as positive as the growth rate itself. **Internal demand is the key engine**, thanks to modestly improving private consumption and surprisingly strong (double-digit!) investments. Improvement in the terms of trade resulted in a significant change in foreign trade which added 1.1pp to final GDP growth in Q1, posting the first positive contribution in a year.

Falling unemployment and still low inflation (negative until Q3) should continue to support private consumption. **Economic surveys and results for Q1 suggest a revival in private investment**, which should feel additional support from new EU funds in H2 and in 2016 especially. While rising investment activity (also infrastructure) and private consumption should lead to increasing import demand, both FX performance and the external economic environment should tend to keep export growth strong enough to prevent a significantly negative contribution from net exports. Thus, we expect GDP growth to accelerate even slightly above 4% yoy in H2 2015.

While the economy is doing surprisingly well, politics have surprised on the negative side. The unexpected defeat of the incumbent President in the presidential election and the **upcoming parliamentary vote** (in Q3 2015) **may result in a significant restructuring of the political scene**. Support for the current leading government party Civic Platform is rapidly eroding. The latest polls suggest two new parties might successfully join the political scene, while some old players will most probably not manage to re-enter the Parliament. A tight campaign creates the temptation for irresponsible changes/promises regarding fiscal policy. Meanwhile, an exit from the excessive debt procedure opens the door for a more expansive fiscal policy. High political uncertainty regarding the future government and the risk of departure from the recently rational fiscal policy might be a burden for the Polish rating and increase the country's risk premium in the near future.

Key economic figures and forecasts

	2010	2011	2012	2013	2014	2015e	2016f
Nominal GDP (EUR bn)	359.8	377.0	386.1	396.0	413.0	436.0	467.3
Real GDP (% yoy)	3.7	4.8	1.8	1.7	3.4	3.9	3.6
Industrial output (% yoy)	9.0	7.5	0.8	1.8	3.5	6.0	7.0
Unemployment rate (avg, %)	12.1	12.4	12.8	13.5	12.3	10.7	9.7
Nominal industrial wages (% yoy)	3.3	5.0	3.4	2.9	3.7	4.2	4.8
Producer prices (avg, % yoy)	2.1	7.6	3.3	-1.3	-1.5	-1.7	1.5
Consumer prices (avg, % yoy)	2.6	4.3	3.7	0.9	0.0	-0.4	1.5
Consumer prices (eop, % yoy)	3.1	4.6	2.4	0.7	-1.0	-0.4	1.9
General budget balance (% of GDP)	-7.6	-4.9	-3.7	-4.0	-3.2	-2.7	-2.3
Public debt (% of GDP)	53.6	54.8	54.4	55.7	50.1	50.1	49.9
Current account balance (% of GDP)	-5.6	-5.1	-3.5	-1.3	-0.5	-1.1	-1.7
Official FX reserves (EUR bn)	70.0	75.7	82.6	77.1	82.6	85.0	78.0
Gross foreign debt (% of GDP)	66.3	66.4	72.0	70.1	70.9	68.8	67.6
EUR/PLN (avg)	4.0	4.1	4.2	4.2	4.2	4.2	4.1
USD/PLN (avg)	3.0	3.0	3.3	3.2	3.2	3.7	3.7

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

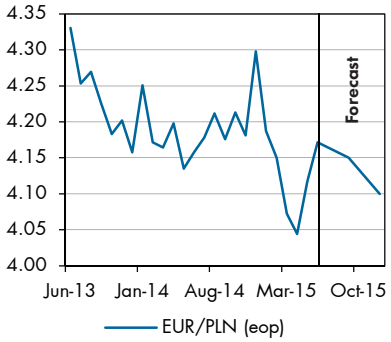
Financial market outlook

The sharp drop in EUR/PLN since the beginning of 2015 ended in April at the level of 3.9650, the lowest in almost 4 years. The main driver for this move was the commencement of the ECB's bond purchases, which fuelled demand for Polish assets as well. However in the following months the move was largely reversed as the pair returned to around 4.15. This was caused by both local and external factors. Although the **surprisingly strong GDP growth in Poland supports PLN, new risk factors** emerged after the unexpected results of the presidential elections in Poland in May, which suggest possible major changes on the political scene after the parliamentary elections in October. This factor may hamper appetite for PLN in the months to come. Meanwhile among the external factors, **QE in the euro area still supports PLN**, albeit not as strongly as in Q1. It should however limit the negative effect of the beginning of the tightening cycle by the Fed. The latter may however prevail and along with tensions in Europe (situation in Greece and conflict in Ukraine) the coming months may keep EUR/PLN at elevated levels and more importantly – volatile. Only towards the end of 2015 do we see chances for a renewal of downward trend in EUR/PLN as an even stronger economic recovery and a rebound of inflation to above 0% yoy may fuel talks about the timing of the first rate hikes in Poland.

The PLN government bond market reached its peak in Q1 and experienced a sharp trend reversal thereafter following the sell-off on core markets starting end-April. Long-term papers were hit the most, with 10-year yields surging from 2.3% in mid-April to 3.3% in mid-June. At the same time, short-term yields remained relatively stable as interest rates are supposed to be kept unchanged at least over a one-year horizon. Additional support for shorter POLGBs came from the fact that many investors shortened duration, shifting from longer maturities to shorter ones. As a result, the POLGB yield curve steepened and the 10y-2y spread widened from about 70bp to 130bp. **We expect the downward trend in bond prices to continue** in Poland amidst accelerating GDP growth, diminishing deflation fears, and higher risk premiums due to political uncertainty which will weigh mainly on the longer end of the curve. The trend should be also fuelled by external conditions, i.e. by monetary policy tightening in the US in Q3 2015 at the earliest. In the short term, volatility on the bond market may be additionally fuelled by the Greek issue which could lead to temporary flight-to-quality periods, i.e. Bund market recovery. Looking further ahead, as the first interest rate hike in Poland approaches in late-2016 we may observe a bear steepening of the LCY yield curve. The **first interest rate hike could come already in Q3 2016** according to our baseline scenario, well ahead of regional peer countries and the ECB.

Financial analysts: Michal Burek, Raiffeisen Polbank, Warsaw
Stephan Imre, RBI Vienna

Exchange rate development



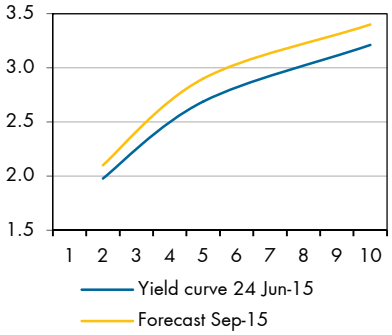
EUR/PLN: 5y high 4.56, 5y low 3.84
Source: Bloomberg, Raiffeisen RESEARCH

Exchange rate forecasts

	24-Jun[1]	Sep-15	Dec-15	Mar-16	Jun-16
EUR/PLN	4.17	4.15	4.10	4.10	4.05
Cons.		*4.10*	*4.12*	*4.10*	*4.09*
USD/PLN	3.73	3.77	3.90	3.90	3.75
Cons.		*3.85*	*3.92*	*3.93*	*3.95*

[1] 5:00 p.m. (CET)
Source: Bloomberg, RBI/Raiffeisen RESEARCH

PLN yield curve (%)*



** 2y – 10y LCY government bond yields*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Interest rate forecasts

	24-Jun[1]	Sep-15	Dec-15	Mar-16	Jun-16
Key rate	1.50	1.50	1.50	1.50	1.50
Consensus		*1.50*	*1.50*	*1.50*	*1.55*
1 month[2]	1.66	1.70	1.70	1.70	1.70
3 month[2]	1.72	1.80	1.80	1.80	1.80
Consensus		*1.67*	*1.70*	*1.73*	*1.79*
6 month[2]	1.79	1.80	1.80	1.80	1.90
12 month[2]	1.82	1.90	1.90	1.90	2.00

[1] 5:00 p.m. (CET) [2] Offered rate
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Yield forecasts

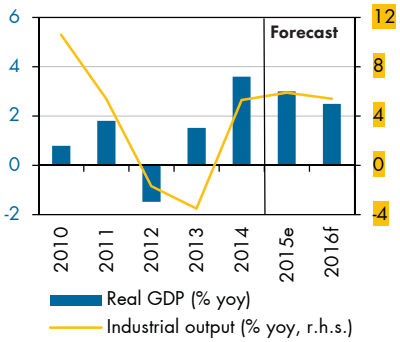
	24-Jun[1]	Sep-15	Dec-15	Mar-16	Jun-16
2y T-bond[2]	1.98	2.1	2.4	2.6	2.9
Consensus		*1.8*	*1.9*	*2.0*	*2.2*
5y T-bond[2]	2.69	2.9	3.1	3.3	3.6
10y T-bond[2]	3.21	3.4	3.6	3.8	4.0
Consensus		*3.0*	*3.0*	*3.1*	*3.3*

[1] 5:00 p.m. (CET) [2] Bid yield
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Moving towards investment grade

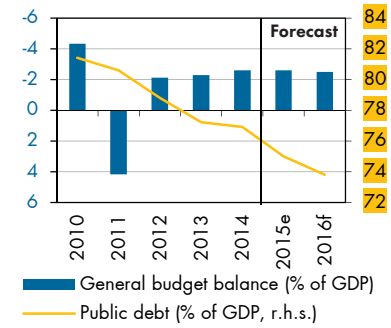
- **Economy set to slowly decelerate**
- **Country risk profile improved substantially**
- **Interest rate cut cycle to bottom out, withdrawing the local stimulus for HGBs**
- **EUR/HUF to stabilise in the 310-315 range**

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Economic outlook

Strong growth was registered for Q1 2015 (3.5% yoy) which is a continuation of the positive economic development in 2014 (GDP +3.6%). However, this year the composition of growth shows quite a different picture than previously: the strong drive in investments and public demand which were characteristic for 2014 are over and have been substituted by massively positive net exports and a pick-up in household consumption demand. It is unlikely though that such high growth rates can be maintained throughout the coming quarters. The high base data was a result of various one-off factors such as a large-scale capacity enlargement in the automobile industry, election year-induced public demand, and peaking EU funds disbursement. Therefore, we **expect deceleration to begin in H2 2015** already. Our 2015 GDP forecast is lifted from 2.5% to 3%, and for 2016 we continue to expect 2.5%.

Strong household demand is a key pillar of economic growth. This is aided by growing employment (more than 8% improvement in the past two years – with the bulk coming from public work schemes) and rising real household income. These factors are expected to remain in place in 2015-2016 as well. The public budget is a main beneficiary of households' increasing spending as reflected by the decent rise in consumption-related tax revenues. This cosy fiscal position allows for the deficit targets to be met without undertaking further reforms on the expenditure side and even allows for small-scale tax cuts (banking levy cut and personal income tax cut is planned for 2016).

Hungary's risk profile has improved substantially, thanks to the conversion of FX household mortgages (approximately EUR 10 bn), the decreasing reliance on foreign financing, stable public finances and the massive surplus of the external balances, and relatively high – though decelerating – economic growth. Therefore, we see a very good chance of the country receiving an investment grade by rating agencies over a 6 to 12-month horizon.

Key economic figures and forecasts

	2010	2011	2012	2013	2014	2015e	2016f
Nominal GDP (EUR bn)	97.8	100.3	98.7	100.5	103.3	109.2	112.4
Real GDP (% yoy)	0.8	1.8	-1.5	1.5	3.6	3.0	2.5
Industrial output (% yoy)	10.6	5.4	-1.7	-3.5	5.3	5.9	5.4
Unemployment rate (avg, %)	11.1	11.0	10.9	10.3	7.9	7.4	6.9
Nominal industrial wages (% yoy)	5.5	6.2	-0.7	4.6	4.3	4.0	5.5
Producer prices (avg, % yoy)	4.5	4.3	4.3	0.7	-0.4	-1.3	2.8
Consumer prices (avg, % yoy)	4.9	3.9	5.7	1.7	-0.2	0.5	2.9
Consumer prices (eop, % yoy)	4.7	4.1	5.0	0.4	-0.9	2.5	3.0
General budget balance (% of GDP)	-4.3	4.2	-2.1	-2.3	-2.6	-2.6	-2.5
Public debt (% of GDP)	81.4	80.6	78.8	77.2	76.9	75.0	73.8
Current account balance (% of GDP)	1.1	0.8	1.9	4.1	3.9	3.8	3.7
Official FX reserves (EUR bn)	33.7	37.8	33.9	33.0	34.4	32.5	34.0
Gross foreign debt (% of GDP)	143.7	134.9	128.9	118.5	108.6	92.4	84.6
EUR/HUF (avg)	275.4	279.4	289.2	296.8	308.7	309.8	320.0
USD/HUF (avg)	208.2	201.2	225.1	223.6	232.8	279.1	293.6

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

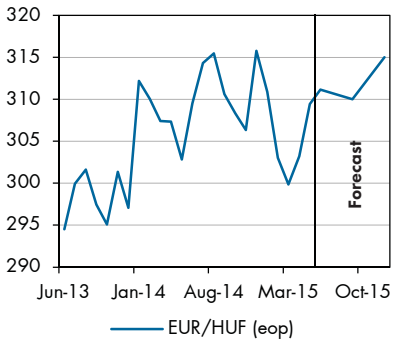
Financial market outlook

In March, the Monetary Council (MC) of the Hungarian central bank (MNB) restarted its rate-cutting cycle, following the launch of the ECB's QE programme. Since then, the **benchmark rate was reduced from 2.10% to 1.50% by June** in four equal 15bp steps. Our base-case scenario is that the Fed will hike its benchmark funding rate in September at the earliest. Therefore, the MNB is unlikely to overcut the base rate and we would expect another 20bp of cuts. Through the transformation of its MP toolkit, the MC increased the duration of its key rate to 3m starting from September to motivate banks to buy more HGBs instead of holding excess funds in deposits (HUF 5.5 trillion at the end of May). As a result, we expect that shorter-maturity LCY bonds will witness approximately HUF 750 bn in additional inflows by the end of 2016. Along with this, the MC also modified the inflation target regime: previously the target was 3% which is understood now as 3% +/-1%. This creates more MP flexibility in the future: i.e. even if the CPI headline inflation rate exceeds the 3% threshold (while not breaking the 4% level), the MNB could refrain from MP tightening. In the meantime, **inflation returned to positive territory** (0.5% yoy) in May and we see a high likelihood of it coming close to 3% in the course of 2016. However, given the new MP flexibility the record-low interest rate levels could be maintained for a longer period of time than under the old regime (if not for significantly changing external conditions in terms of Fed & ECB policies).

The forint was one of Q1's best-performing EM currencies, but it has suffered several sharp drops since the central bank returned to monetary easing in March after a seven-month break. From mid-April the forint appreciated steadily against the euro (EUR/HUF from 328 to a 15-month low of 295), but since then it has lost ground and by June, in line with our forecast, EUR/HUF had gone back above 310. **We think that the weakening of the forint is overdone and the EUR/HUF rate will stabilise at around 310 in Q3.** But even with the likely return to investment grade category over a one-year horizon, we believe that HUF will remain on a weakening path until the end of 2015 due to low premiums. HGBs also continued normalisation in Q2 with any major upward corrections in yields, and will likely stay weak in Q3. We **expect the HGB yield curve to steepen further**: whilst the short end of the LCY yield curve should remain fairly well anchored due to the rearrangement of the MP toolkit by the MC, rising long-term core euro-area yields will continue to push the back end of the local curve upwards as the year progresses. Whilst shorter-dated tennors remain relatively attractive versus regional peers, longer-dated HGBs should witness a sell-off following the current recovery rally on pricing-out of Grexit fears.

Financial analysts: Zoltán Török, Gergely Palffy, Raiffeisen Bank Zrt., Budapest
Stephan Imre, RBI Vienna

Exchange rate development



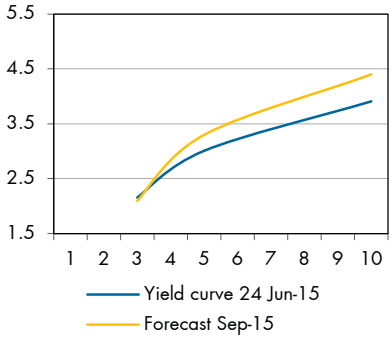
EUR/HUF: 5y high 321.02, 5y low 262.04
Source: Bloomberg, Raiffeisen RESEARCH

Exchange rate forecasts

	24-Jun[1]	Sep-15	Dec-15	Mar-16	Jun-16
EUR/HUF	311.13	310.0	315.0	315.0	320.0
Cons.		*310.0*	*310.0*	*310.0*	*312.5*
USD/HUF	278.18	281.8	300.0	300.0	296.3
Cons.		*288.5*	*295.0*	*300.5*	*301.0*

[1] 5:00 p.m. (CET)
Source: Bloomberg, RBI/Raiffeisen RESEARCH

HUF yield curve (%)*



** 2y – 10y LCY government bond yields*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Interest rate forecasts

	24-Jun[1]	Sep-15	Dec-15	Mar-16	Jun-16
Key rate	1.50	1.30	1.30	1.30	1.30
Consensus		*1.50*	*1.50*	*1.60*	*1.70*
1 month[2]	1.50	1.40	1.40	1.40	1.40
3 month[2]	1.42	1.30	1.30	1.30	1.30
Consensus		*1.61*	*1.58*	*1.72*	*1.89*
6 month[2]	1.43	1.30	1.30	1.30	1.30
12 month[2]	1.45	1.40	1.40	1.40	1.40

[1] 5:00 p.m. (CET) [2] Offered rate
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Yield forecasts

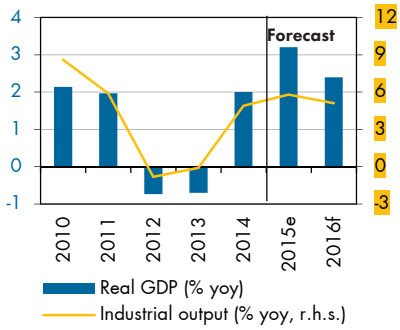
	24-Jun[1]	Sep-15	Dec-15	Mar-16	Jun-16
3y T-bond[2]	2.16	2.1	2.2	2.3	2.5
Consensus		*n.v.*	*n.v.*	*n.v.*	*n.v.*
5y T-bond[2]	3.01	3.3	3.4	3.5	3.7
10y T-bond[2]	3.91	4.4	4.5	4.6	4.8
Consensus		*3.32*	*3.45*	*3.61*	*3.89*

[1] 5:00 p.m. (CET) [2] Bid yield
Source: Bloomberg, RBI/Raiffeisen RESEARCH

New tiger in the CEE region

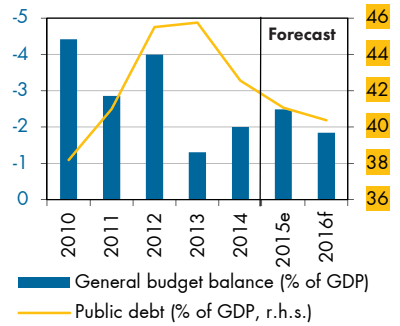
- **Faster and stronger economic recovery**
- **Labour market is in the best condition in more than 6 years; wage inflation is a question of time**
- **EUR/CZK to stay above 27.0 as long as the FX intervention regime remains in place until H2 2016 at least**
- **After the expected CZK market rally in the aftermath, the interest rate hike cycle will only start in Q1 2017**

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Economic outlook

GDP growth (3.1% qoq and 4.2% yoy) in **the first quarter beat all expectations** and was influenced by disproportionately strong excise tax collection. Gross value added (without taxes and subsidies) advanced by a fair 1.6% qoq in Q1.

Obviously, the Czech economy is now experiencing a phase of robust growth spread through all sectors. **Manufacturing appears to be the main driving force** behind this growth. However, other sectors are noticeably catching up. The construction sector is reviving after 3 consecutive years of deep recession supported by the drawdown of EU funds, amongst other things. Retail sales are continuously rising. Consumer confidence is still around its historical peak. The **labour market is strengthening with unemployment markedly decreasing**. The external balance is also continuing to improve. All of these factors contribute piece by piece to the strong economic growth and make the Czech economy healthy and prosperous. Therefore, we **expect the Czech economy to grow by 3.2% yoy in 2015**. Nevertheless, it is possible that we could see some downside correction in the upcoming quarters. The reason for this is the high base effect and work-in-progress production which is accumulating in storage. Hence, we forecast a slight deceleration in real GDP growth to 2.4% yoy in 2016. If new orders keep coming in, work-in-progress production will continue to pile up and then economic growth might beat our expectations.

The strong economic recovery is also leaving a mark on the labour market. The number of jobless is at the lowest level in the last 6 years. The strongest demand for labour is coming from manufacturing and non-market services. Although the improving labour market has not yet translated into visible wage inflation (average nominal wages gained 2.2% yoy), we expect that it is just a matter of time. Wages in manufacturing are already accelerating and a further decline in the jobless rate will intensify the pressure on wage growth. Higher wages would produce sustainable consumer inflation that the central bank is patiently waiting for.

Key economic figures and forecasts

	2010	2011	2012	2013	2014	2015e	2016f
Nominal GDP (EUR bn)	156.4	163.7	161.2	157.4	154.9	162.1	169.6
Real GDP (% yoy)	2.1	2.0	-0.7	-0.7	2.0	3.2	2.4
Industrial output (% yoy)	8.6	5.9	-0.8	-0.1	4.9	5.8	5.1
Unemployment rate (avg, %)	7.0	6.7	6.8	7.7	7.7	6.6	6.3
Nominal industrial wages (% yoy)	3.8	3.5	3.2	1.0	2.9	3.4	4.9
Producer prices (avg, % yoy)	1.2	5.6	2.1	0.8	-0.8	-2.0	2.2
Consumer prices (avg, % yoy)	1.5	1.9	3.3	1.4	0.4	0.5	1.7
Consumer prices (eop, % yoy)	2.3	2.4	2.4	1.4	0.1	1.1	1.8
General budget balance (% of GDP)	-4.4	-2.9	-4.0	-1.3	-2.0	-2.5	-1.8
Public debt (% of GDP)	38.2	41.0	45.5	45.7	42.6	41.1	40.4
Current account balance (% of GDP)	-3.6	-2.1	-1.6	-0.5	0.6	0.6	0.6
Official FX reserves (EUR bn)	31.8	31.1	34.0	40.8	44.9	47.8	51.0
Gross foreign debt (% of GDP)	54.8	57.5	60.1	66.9	67.0	65.4	63.3
EUR/CZK (avg)	25.3	24.6	25.1	26.0	27.5	27.4	27.3
USD/CZK (avg)	19.1	17.7	19.6	19.6	20.8	24.7	25.0

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

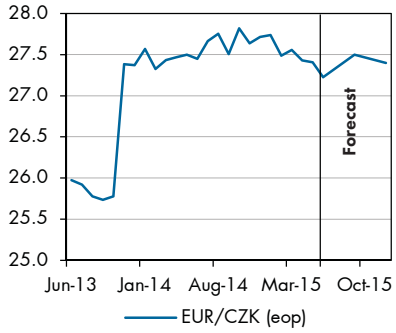
Financial market outlook

The **FX intervention** regime of the Czech National Bank (CNB) that keeps EUR/CZK above the level of 27.0 **remains in place.** Inflation in H1 2015 surprised slightly to the upside, and both domestic data and economic data from the euro area came in rather on the stronger side. This was supportive for the koruna, despite the higher-than-expected, but still depressed CPI inflation levels. However, we **still expect rather slow price increases in the coming quarters**. Only by the end of 2015 should inflation rise relatively quickly to above 1% yoy. However, this will be a result of the low comparative base due to oil price developments. We expect that the CNB's 2% mid-term inflation target will be reached in Q3 2016. If CZK is then free to appreciate, the CNB should not have problems keeping inflation close to 2% going forward. Nevertheless, it would be quite unusual for the sailing to be completely smooth until the CNB decides to exit the intervention regime. There are always some squalls ahead, either of domestic or foreign origin. Therefore, we think that during the next 12 months we will see some short-term weakness for CZK. Such episodes could provide favourable levels for hedging against future CZK appreciation. In line with market expectations, **we guess that the CNB will let CZK appreciate below EUR/CZK 27.0 in H2 2016**, but will try to not allow strong jumps. Nevertheless, we do not believe that the process will be smooth and therefore there is a tangible possibility that the exit will be announced a bit earlier than expected. Furthermore, although the CNB might verbally or directly hinder any appreciation stronger than about 5%, we cannot rule out some short-term spikes of around 10% or even higher. Moreover, if the CNB actively intervenes before the exit, the shortage of EUR liquidity on the market might cause depreciation when the band is abandoned. With these uncertainties, we would recommend considering some kind of hedging. After a few months of free-floating, CZK is supposed to find its new equilibrium, **we expect the start of the rate hiking cycle at the beginning of 2017** in our baseline scenario.

While the short-end of the Czech government bond yield curve has been held down by the accommodative monetary policy stance of both the CNB and the ECB, the back end of the LCY yield curve shifted considerably higher. The further development of German benchmarks will be crucial for CZGBs. With solid local economic data including normalising inflation, the spread over Bunds might widen somewhat in the short term. Nevertheless, when we are getting closer to the exit from the FX intervention regime, expectations of considerable FX gains would increase the attractiveness of Czech govies and we would not rule out the yield spreads over the German benchmarks becoming very small or even temporarily negative. For Q3, however, we stick to our hold recommendation for short to medium CZGB maturities, and see the most value in the 10y segment.

Financial analysts: Daniela Milučká, Helena Horská, Raiffeisenbank a.s., Prague
Stephan Imre, RBI Vienna

Exchange rate development



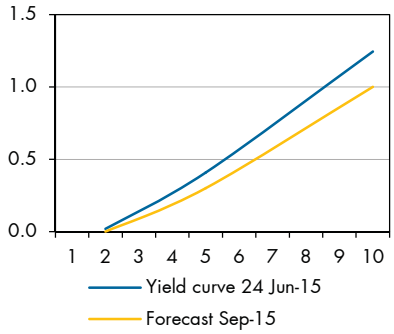
EUR/CZK: 5y high 28.35, 5y low 23.99
Source: Bloomberg, Raiffeisen RESEARCH

Exchange rate forecasts

	24-Jun[1]	Sep-15	Dec-15	Mar-16	Jun-16
EUR/CZK	27.23	27.50	27.40	27.40	27.40
Cons.		*27.40*	*27.30*	*27.35*	*27.30*
USD/CZK	24.34	25.00	26.10	26.10	25.37
Cons.		*25.60*	*25.94*	*26.19*	*26.30*

[1] 5:00 p.m. (CET)
Source: Bloomberg, RBI/Raiffeisen RESEARCH

CZK yield curve (%)*



** 2y – 10y LCY government bond yields*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Interest rate forecasts

	24-Jun[1]	Sep-15	Dec-15	Mar-16	Jun-16
Key rate	0.05	0.05	0.05	0.05	0.05
Consensus		*0.05*	*0.05*	*0.05*	*0.05*
1 month[2]	0.22	0.23	0.23	0.23	0.25
3 month[2]	0.31	0.28	0.29	0.35	0.35
Consensus		*0.30*	*0.31*	*0.32*	*0.32*
6 month[2]	0.39	0.35	0.35	0.40	0.50
12 month[2]	0.48	0.40	0.48	0.45	0.60

[1] 5:00 p.m. (CET) [2] Offered rate
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Yield forecasts

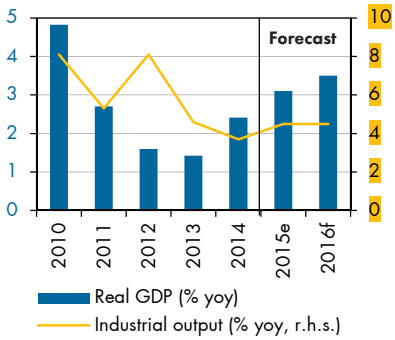
	24-Jun[1]	Sep-15	Dec-15	Mar-16	Jun-16
2y T-bond	0.02	0.0	0.0	0.0	0.1
Consensus		*0.1*	*0.1*	*0.2*	*0.2*
5y T-bond	0.41	0.3	0.4	0.4	0.7
10y T-bond	1.24	1.0	1.2	1.1	1.3
Consensus		*0.7*	*0.8*	*0.9*	*0.9*

[1] 5:00 p.m. (CET) [2] Bid yield
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Accelerating GDP dynamic backed by investments

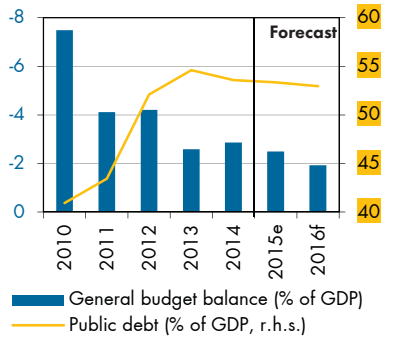
- **Strong EU fund inflows boost the economy**
- **Growth mainly driven by domestic demand**
- **Inflation on the way up**
- **Bond yields follow German yields higher**

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Slovak GDP growth reached 3.1 % yoy in Q1 2015, which was a better result than expected. The economy showed slightly accelerating quarterly growth of 0.8% qoq in Q1 2015, up from 0.7% in Q4 2014. Growth was **driven mainly by domestic demand** while the increasing dynamics of exports point to a revival in foreign trade. Domestic demand was fuelled mainly by investment growth (6.4% yoy) especially in the public sector (+71% yoy). This unprecedented increase in public investment can be attributed to the rush to utilise EU funds from the programme period 2007-2013 which is coming to an end. Private consumption rose by just 1.5% yoy, which is clearly below the wage base (+3.9%). Households are continuously increasing the saving ratio, which has limited consumption growth in the last few years. In the coming quarters, we expect annual GDP growth to remain around 3% yoy. Accordingly, we increase our GDP forecast from 2.5% to 3.1% yoy for 2015. With growth robust, 2016 might even see a higher GDP figure. **Consumer inflation bottomed out in February and is gradually rising.** It should reach 0.5% only in winter months of 2015.

According to Eurostat, the Slovak public finance deficit remained below 3% of GDP in 2014 (2.9% of GDP), which was a worse result than in 2013. The government plans to decrease the deficit to 2.5% of GDP in 2015. **Government debt remained at 53.6% of GDP** at the end of 2014. The ECB has successfully continued with its Expanded Asset Purchase Programme. As of 31 May, the amount of Slovak government bonds on the ECB balance sheet reached a value of more than EUR 1,557 million which is a bit more than we had expected based on the ECB key. Despite this buying programme, yields on 10-year Slovak government bonds went up by as much as 1pp to 1.4% in the last few weeks. The main cause is the unprecedented yield increase in German bonds.

Financial analyst: Juraj Valachy, Tatra banka, a. s., Bratislava

Key economic figures and forecasts*

	2010	2011	2012	2013	2014	2015e	2016f
Nominal GDP (EUR bn)	67.2	70.2	72.2	73.6	75.2	77.4	81.1
Real GDP (% yoy)	4.8	2.7	1.6	1.4	2.4	3.1	3.5
Industrial output (% yoy)	8.1	5.3	8.1	4.6	3.7	4.5	4.5
Unemployment rate (avg, %)	14.4	13.4	13.9	14.2	13.2	12.1	11.5
Nominal industrial wages (% yoy)	5.4	3.6	4.0	3.6	5.1	2.6	3.5
Producer prices (avg, % yoy)	-2.8	2.6	3.9	-0.1	-3.5	-2.5	2.0
Consumer prices (avg, % yoy)	1.0	3.9	3.6	1.4	-0.1	0.0	1.3
Consumer prices (eop, % yoy)	1.3	4.4	3.2	0.4	-0.1	0.6	1.5
General budget balance (% of GDP)	-7.5	-4.1	-4.2	-2.6	-2.9	-2.5	-1.9
Public debt (% of GDP)	40.9	43.4	52.1	54.6	53.6	53.3	53.0
Current account balance (% of GDP)	-4.7	-5.0	0.9	1.5	0.1	-0.1	-0.1
Gross foreign debt (% of GDP)	73.1	75.2	70.5	81.1	88.1	94.4	88.4

** euro area entry on 1 January 2009*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Recovery continues, peak might be reached in 2015

- **GDP growth at 2.4% seems feasible in 2015, following a strong 2.6% growth in 2014**
- **Public debt may stabilise, which is reflected in positive assessments by rating agencies**
- **Progress in privatisation will be key to anchor investor confidence and positive sentiment**
- **Restructuring in banking sector offers economic upside**

Most of the recent economic data out of Slovenia were in line with positive assumptions or even slightly overshooting positive projections. For instance the **Q1 GDP** came in at 2.9% yoy (0.8% qoq) which lays a **strong foundation for solid growth in 2015**. For 2015 a GDP growth of 2.4% yoy seems feasible, following a decent expansion at 2.6% yoy in 2014.

Moreover, there are indications of improvement in major performance parameters of the domestic banking sector. Thus, although with caution, one can state that the **Slovenian banking sector has potential for an upside development in 2015** and beyond. Restructuring needs in the banking sector had been a drag on growth in recent years.

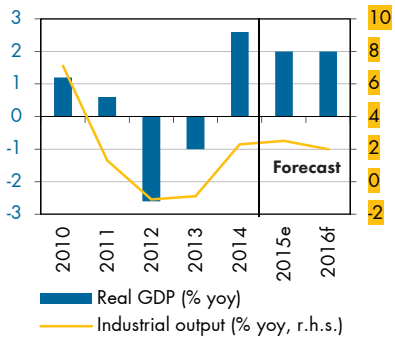
Current growth figures are fairly close to the potential growth feasible given current economic structures (e.g. still existing deleveraging and restructuring needs in the corporate sector, fairly regulated labour market). Hence, we **expect a moderation of growth dynamics into 2016**. Budget consolidation remains on track and hence we see a realistic chance of stabilisation of public debt levels (above 80% of GDP) in the years ahead.

The materializing economic upside is also contributing to **more positive investor sentiment for Slovenia**. In June S&P raised the outlook on Slovenia's A- sovereign rating from stable to positive. That said S&P sees some risk of political volatility down the road. Nevertheless, the S&P action once again shows that Slovenia also belongs to the more successful restructuring stories in the euro area, while "only" the Baltics (mostly also without EU/IMF support) or Spain, Ireland, Portugal and Cyprus (with IMF/EU support) are currently widely cited in the context of current "Grexit" debates.

As attracting FDI will be key for Slovenia given the limited potential of the domestic market (in the real economy and for financing), ongoing success in the privatisation process is important for growth prospects and investor sentiment. As there had been some negative newsflow recently regarding certain privatisation deals it will be therefore crucial that the overall process will continue.

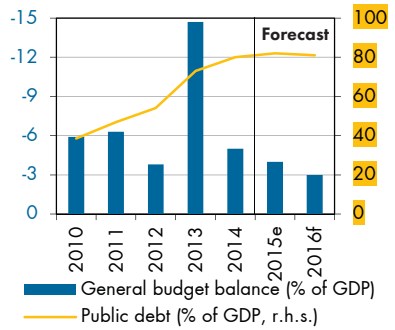
Financial analyst: Gunter Deuber, RBI Vienna

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Key economic figures and forecasts*

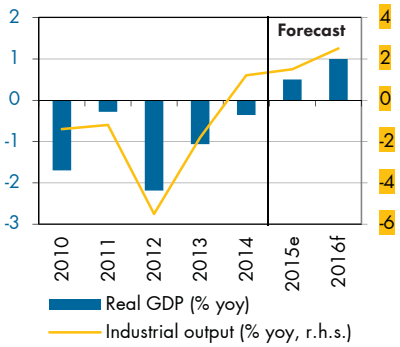
	2010	2011	2012	2013	2014	2015e	2016f
Nominal GDP (EUR bn)	36.2	36.9	36.0	36.1	37.2	38.7	40.3
Real GDP (% yoy)	1.2	0.6	-2.6	-1.0	2.6	2.4	2.3
Industrial output (% yoy)	7.1	2.1	-0.7	-1.1	1.4	2.3	2.0
Unemployment rate (avg, %)	7.3	8.2	8.9	10.1	9.8	9.6	9.3
Producer prices (avg, % yoy)	2.0	3.8	1.0	0.3	-1.1	0.5	1.7
Consumer prices (avg, % yoy)	1.8	1.8	2.6	1.8	0.2	0.3	1.5
Consumer prices (eop, % yoy)	1.9	2.0	2.7	1.5	0.3	0.5	1.2
General budget balance (% of GDP)	-5.9	-6.6	-4.0	-14.9	-4.6	-3.5	-3.1
Public debt (% of GDP)	38.6	46.9	54.0	73.0	80.0	82.0	81.2
Current account balance (% of GDP)	-0.1	0.2	2.7	5.6	5.8	4.8	4.6
Gross foreign debt (% of GDP)	112.4	108.8	113.5	110.7	110.1	108.5	105.4

** euro area entry on 1 January 2007*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

What about growth!?

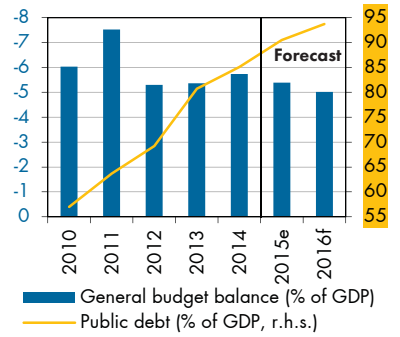
- **End of recession confirmed**
- **Weak fiscal metrics as biggest challenge ahead / steady medium-term fiscal risks**
- **Finally new long-term HRK bond issuance**
- **Yields under control as long as the ECB keeps current policy, but what will happen after that?**

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Economic outlook

Although quarterly real GDP continued to stagnate in Q1, the annual real growth of 0.5% confirmed that **Croatia is finally out of the recession**. Still, deeply rooted internal weaknesses have not been solved, which reduces the possibility of sustainable, stable growth. The return to an above-zero growth rate is mainly the result of foreign demand and the market restructuring of a small segment of the economy, which has turned to the foreign market, primarily the EU. As the share of exports in GDP is still low (23% of GDP or, with the services included, 46%) this fails to produce any significant effects at the macro level. Moreover, the share of imported components in exports is quite high and any rise in domestic demand results in rising imports. **Household consumption will continue to exhibit sluggish growth**, spurred by the higher real net wages due to the changes in the income tax regime, the lack of any inflationary pressures, and finally by the expected good tourist season. However, the labour market together with the ongoing deleveraging process of households, represents a real risk to domestic demand.

Investments are still **limited by insufficient administrative capacity to absorb EU funds**, relatively high pessimism, and also the poor transparency and inefficiency of the public system. Nevertheless, possible stagnation or mild growth for this GDP component should not come as a surprise, given the postponement of investment projects in the previous period and the fact that 2015 is an election year. Finally, the top issue remains the fiscal metrics: the high budget deficit and unsustainable level and dynamics of public debt. Since future guarantees are strictly limited and restrained by law, and the restructuring of most enterprises is almost completed, our forecast for public debt growth is based on the accumulation of future general government deficits. With such a "policy of small steps", the most likely scenario, i.e. stabilisation in public debt, can be only expected in 2018 at the level of 95.9% of GDP, after which we may see a small, gradual decline.

Key economic figures and forecasts

	2010	2011	2012	2013	2014	2015e	2016f
Nominal GDP (EUR bn)	45.0	44.7	44.0	43.5	43.0	43.1	44.0
Real GDP (% yoy)	-1.7	-0.3	-2.2	-1.1	-0.4	0.5	1.0
Industrial output (% yoy)	-1.4	-1.2	-5.5	-1.8	1.2	1.5	2.5
Unemployment rate (avg, %)	11.6	13.7	15.9	17.3	17.3	16.9	16.7
Nominal industrial wages (% yoy)	0.0	1.3	1.9	1.7	1.5	1.5	1.8
Producer prices (avg, % yoy)	4.3	6.4	7.0	0.5	-2.7	-2.5	2.2
Consumer prices (avg, % yoy)	1.1	2.3	3.4	2.2	-0.2	0.0	1.4
Consumer prices (eop, % yoy)	1.8	2.1	4.7	0.3	-0.5	0.5	1.8
General budget balance (% of GDP)	-6.0	-7.5	-5.3	-5.4	-5.7	-5.4	-5.0
Public debt (% of GDP)	57.0	63.7	69.2	80.8	85.1	90.5	93.7
Current account balance (% of GDP)	-1.1	-0.8	-0.1	0.8	0.7	0.9	0.7
Official FX reserves (EUR bn)	10.7	11.2	11.2	12.9	12.7	12.6	12.7
Gross foreign debt (% of GDP)	104.2	103.7	103.0	105.7	108.5	111.3	111.1
EUR/HRK (avg)	7.29	7.43	7.52	7.58	7.63	7.65	7.66
USD/HRK (avg)	5.50	5.35	5.85	5.71	5.76	6.89	7.03

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

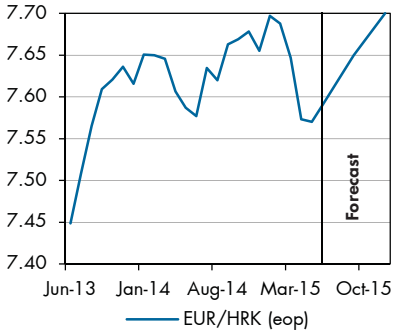
Financial market outlook

Whereas the debt and money market did not feature much excitement in Q2, FX movements were somewhat unusual. **Money market rates**, as well as **T-bill yields, remained stuck at the lowest levels** supported by ample HRK liquidity. Even long-term securities (both Eurobonds and local instruments) did not react significantly to the recent turmoil in the European debt market ("Grexit" topic). On the other hand, Q2 and especially May saw unusual HRK appreciation pressures due to increased corporate sector foreign borrowing and, consequently, FCY inflows. Although still relatively small, **FX volatility returned to 2010 levels**, but there was no need for central bank intervention. As usual, Q3 should bring about the seasonal strengthening of HRK, whereas we might see more prominent appreciation pressures on the domestic currency during the peak tourist season, in comparison to last year's movements. In addition to tourism-related FCY inflows (which are supposed to be slightly higher), EUR/HRK may be additionally affected by the pure HRK bond issuance. The local (HRK) bond issuance causes the withdrawal of HRK liquidity, (temporary) upward pressure on the money market rates, and eventually strengthening of HRK. As the summer draws to a close and the above factors disappear, the kuna should begin depreciating but we are actually accustomed to this. Finally, the expected upward EUR/HRK movement towards 7.70 at the end of 2015 might be interrupted only in case of stronger FCY inflows from the borrowing of corporates and/or the announced recapitalisation of public enterprises.

In the absence of a transparent government borrowing plan, **speculation about a new 10-year HRK bond issuance** brought some liveliness to the local market. It has been a year and a half since the last domestic issue (in the summer of 2013), which, in addition to the spill-over of external influences, largely affects the price formation and the overall liquidity of the domestic market. The activity of non-residents is still modest and not expected to change much, so the crucial players are still pension funds, insurance companies, and banks. In the case of generous bond issuance, we would not rule out the possibility that the refinancing plan for this year will be closed (in December, a pure HRK bond matures in the amount of HRK 3.5 bn) since short-term T-bills and loans are regularly rolled over. Just as a reminder, the Ministry of Finance already satisfied more than 50% of the refinancing needs in Q1 2015. Nevertheless, the risk **sensitiveness of Croatia's sovereign remains high,** due to the weak fiscal metrics. In the meantime, the free lunch, i.e. the time and favourable market conditions, has been provided by the ECB.

Financial analyst: Zrinka Živković Matijević, Raiffeisenbank Austria d.d., Zagreb

Exchange rate development



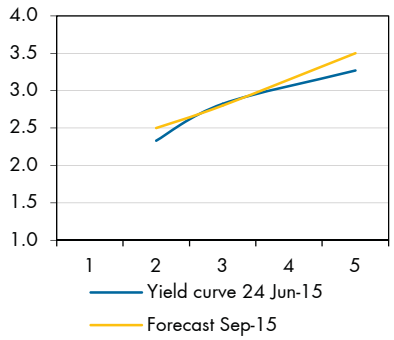
EUR/HRK: 5y high 7.72, 5y low 7.18
Source: Bloomberg, Raiffeisen RESEARCH

Exchange rate forecasts

	24-Jun[1]	Sep-15	Dec-15	Mar-16	Jun-16
EUR/HRK	7.59	7.65	7.70	7.68	7.60
Cons.		*7.67*	*7.68*	*7.69*	*7.70*
USD/HRK	6.79	6.95	7.33	7.31	7.04
Cons.		*7.20*	*7.25*	*7.29*	*7.34*

[1] 5:00 p.m. (CET)
Source: Bloomberg, RBI/Raiffeisen RESEARCH

HRK yield curve (%)*



** 2y – 5y LCY government bond yields*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Interest rate forecasts

	24-Jun[1]	Sep-15	Dec-15	Mar-16	Jun-16
1 month[2]	0.71	0.80	0.75	0.80	0.90
3 month[2]	0.94	1.09	1.10	1.15	1.25
Consensus		*0.93*	*1.05*	*1.07*	*1.03*
6 month[2]	1.17	1.25	1.25	1.25	1.35
12 month[2]	1.69	1.80	1.80	1.85	1.95

[1] 5:00 p.m. (CET) [2] Offered rate
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Yield forecasts

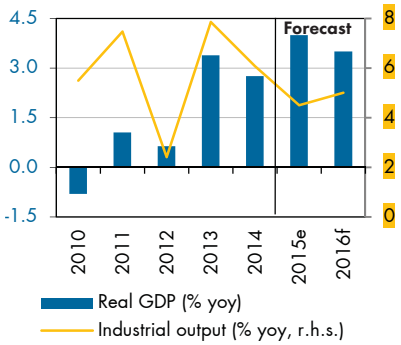
	24-Jun[1]	Sep-15	Dec-15	Mar-16	Jun-16
2y T-bond[2]	2.33	2.5	2.5	2.6	2.7
Consensus		*n.v.*	*n.v.*	*n.v.*	*n.v.*
3y T-bond[2]	2.82	2.8	2.8	3.2	3.3
5y T-bond[2]	3.27	3.5	3.5	3.5	3.6
Consensus		*n.v.*	*n.v.*	*n.v.*	*n.v.*

[1] 5:00 p.m. (CET) [2] Bid yield
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Domestic demand as main engine of fast GDP growth

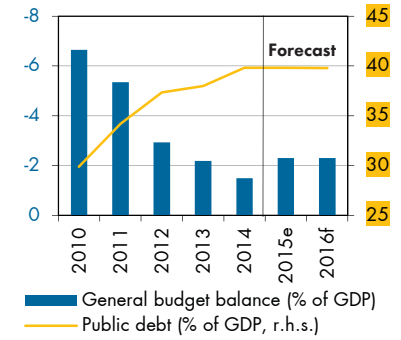
- **Sustained upward trend in economic activity, driven both by domestic demand and exports**
- **VAT rate for food products lowered in June, with additional tax cuts planned for 2016-2019**
- **Low inflation outlook due to the VAT rate cut, but central bank not to lower the key rate**
- **With Fed liftoff coming closer, bear steepening of the LCY yield curve expected in line with core market moves**

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Economic outlook

The **positive real GDP growth in Q1** (1.6% qoq, 4.3% yoy) **outpaced our expectations** and analysts' consensus. Growth in Q1 was driven by all major demand components (private consumption, investments, exports) and benefited all sectors of activity (industry, construction, services). During recent quarters, the **favourable labour market conditions** (rapid increase of wages, low unemployment rate) bode well for households' morale and spending appetite, supporting the strengthening of private consumption. Besides these factors, the reduction of VAT rate for food products from 24% to 9% on 1 June should provide additional stimulus to the expansion of private consumption in H2 2015. We **expect the rebound in private investments to go forward** in the coming quarters due to the strengthening economic recovery, low borrowing costs, increasing external demand, and no taxation of profits that are re-invested in equipment. With better-than-expected dynamics in Q1 and with the cut in the VAT rate this June, real GDP growth in 2015 might be close to 4.0% instead of 3.0% which we expected previously.

The VAT rate cut for food products from 24% to 9% as of 1 June was enforced by an Emergency Ordinance of the Government. The draft of a new Fiscal Code was elaborated by the Government and is under debate in Parliament. It aims for a broad-based reduction of taxes in 2016-2019. For 2016, the draft mentions cutting the standard **VAT rate to 20% from 24% on 1 January**, the removal of tax on special construction, and the reduction of excises and taxes on dividends. After enforcing the cut in taxes, the Government still expects to meet the public budget deficit targets set for the next years. On the other hand, the Fiscal Council, the IMF, and the European Commission feel that the measures may substantially increase the public budget deficit starting in 2016, to above 3% of GDP. We expect that the final bill will not include all of the measures, which would limit the increase in the deficit.

Key economic figures and forecasts

	2010	2011	2012	2013	2014	2015e	2016f
Nominal GDP (EUR bn)	126.8	133.3	133.8	144.3	150.0	159.4	171.1
Real GDP (% yoy)	-0.8	1.1	0.6	3.4	2.8	4.0	3.5
Industrial output (% yoy)	5.5	7.5	2.4	7.9	6.1	4.5	5.0
Unemployment rate (avg, %)	7.0	7.2	6.8	7.1	6.8	6.7	6.5
Nominal industrial wages (% yoy)	8.3	6.7	4.6	4.2	6.5	7.0	6.0
Producer prices (avg, % yoy)	4.4	7.1	5.4	2.1	-0.1	-1.2	2.3
Consumer prices (avg, % yoy)	6.1	5.8	3.3	4.0	1.1	0.0	1.4
Consumer prices (eop, % yoy)	8.0	3.1	5.0	1.6	0.8	0.0	2.8
General budget balance (% of GDP)	-6.6	-5.3	-2.9	-2.2	-1.5	-2.3	-2.3
Public debt (% of GDP)	29.9	34.2	37.3	38.0	39.8	39.8	39.8
Current account balance (% of GDP)	-4.6	-4.6	-4.5	-0.8	-0.5	-1.5	-2.0
Official FX reserves (EUR bn)	32.4	33.2	31.2	32.5	32.2	32.5	33.5
Gross foreign debt (% of GDP)	73.9	75.0	75.4	68.0	62.8	59.6	57.9
EUR/RON (avg)	4.21	4.24	4.46	4.42	4.44	4.45	4.42
USD/RON (avg)	3.18	3.05	3.47	3.33	3.35	4.01	4.06

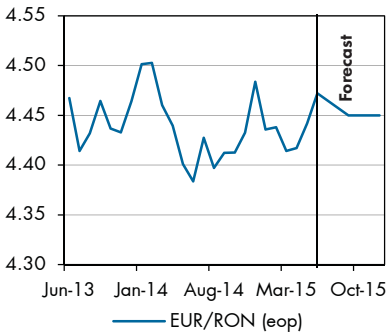
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Financial market outlook

The annual inflation rate in Q2 (1.2% yoy in May) remained low compared to historical levels, but was still one of the highest in the EU. It will remain at a low level until May 2016, due to the cut in the VAT rate on food products from 24% to 9% on 1 June. If enforced on 1 January 2016, the cut in the standard VAT rate would extend the timeframe for low annual inflation rates until December 2016. Our baseline scenario puts the annual inflation rate at 0% yoy in December 2015, 2.4% yoy in June 2016, and 2.8% yoy in December 2016, but does not take into account the cut in the standard VAT rate in January 2016. When setting the level of the monetary policy rate, the central bank should not attach too much weight to a decline in the annual inflation rate which is fuelled by cut(s) in VAT rates, as this is a transitory development. The favourable inflation outlook was a key factor behind the **unexpected decision of the central bank** on 6 May **to reduce the key rate to 1.75% from 2.00%**. According to its forecast in May, the central bank expected the VAT rate cut to have second-round effects on inflation dynamics, while the NBR Governor had dovish comments. In that context, we saw good chances for one last 25bp key rate cut to 1.5% in July. However, recent deterioration in the external environment (sell-off of government securities, increase in risk aversion) and the good performance of domestic economy have substantially lowered the chances for such a move. So, the **key rate has most likely bottomed out at 1.75%**. We do not expect the VAT rate cut(s) to persistently lower inflationary pressures and this is why we foresee the annual inflation rate jumping to high levels once the favourable base effect stemming from the VAT rate cut(s) vanishes. In this context, the first key rate hike might come at the end of 2016. A liquidity surplus might persist in the money market by the end of the year, but only if investors' sentiment on the leu and RON T-securities remains positive. ROBOR rates might continue trading below the key rate in the near term, but a closing of the gap appears likely as time passes. A flat key rate and adequate liquidity conditions in the money market should offer support to the short-end of the yield curve. **Developments on the external markets are expected to remain the key driver of yields at the medium and long-end of the yield curve** (5y to 10y tenors). Increases during the recent sell-off are likely of a permanent nature, while additional upward moves should emerge as the year progresses due to rising yields on developed markets, particularly triggered by the Fed liftoff. The central bank will probably continue to counteract large moves in the EUR/RON rate as it did in the past.

Financial analysts: Nicolae Covrig, Raiffeisen BANK S.A., Bucharest
Stephan Imre, RBI Vienna

Exchange rate development



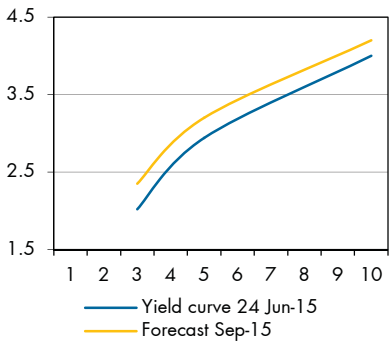
EUR/RON: 5y high 4.64, 5y low 4.07
Source: Bloomberg, Raiffeisen RESEARCH

Exchange rate forecasts

	24-Jun[1]	Sep-15	Dec-15	Mar-16	Jun-16
EUR/RON	4.47	4.45	4.45	4.40	4.45
Cons.		*4.43*	*4.40*	*4.39*	*4.38*
USD/RON	4.00	4.05	4.24	4.19	4.12
Cons.		*4.13*	*4.20*	*4.27*	*4.24*

[1] 5:00 p.m. (CET)
Source: Bloomberg, RBI/Raiffeisen RESEARCH

RON yield curve (%)*



** 2y – 10y LCY government bond yields*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Interest rate forecasts

	24-Jun[1]	Sep-15	Dec-15	Mar-16	Jun-16
Key rate	1.75	1.75	1.75	1.75	1.75
Consensus		*1.70*	*1.75*	*1.70*	*1.70*
1 month[2]	1.17	1.25	1.35	1.55	1.70
3 month[2]	1.29	1.55	1.65	1.70	1.75
Consensus		*1.35*	*1.42*	*1.43*	*1.42*
6 month[2]	1.54	1.65	1.75	1.80	1.80
12 month[2]	1.62	1.75	1.75	1.85	1.85

[1] 5:00 p.m. (CET) [2] Offered rate
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Yield forecasts

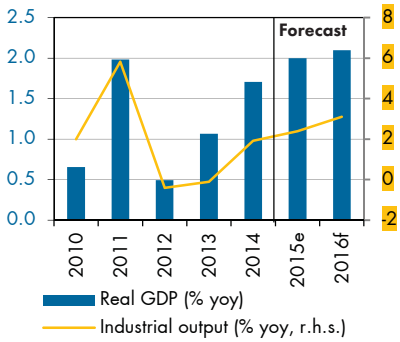
	24-Jun[1]	Sep-15	Dec-15	Mar-16	Jun-16
3y T-bond[2]	2.02	2.4	2.5	2.6	2.9
Consensus		*n.v.*	*n.v.*	*n.v.*	*n.v.*
5y T-bond[2]	2.94	3.2	3.3	3.4	3.7
10y T-bond[2]	4.00	4.2	4.4	4.6	4.9
Consensus		*n.v.*	*n.v.*	*n.v.*	*n.v.*

[1] 5:00 p.m. (CET) [2] Bid yield
Source: Bloomberg, RBI/Raiffeisen RESEARCH

GDP growth amidst a turbulent external environment

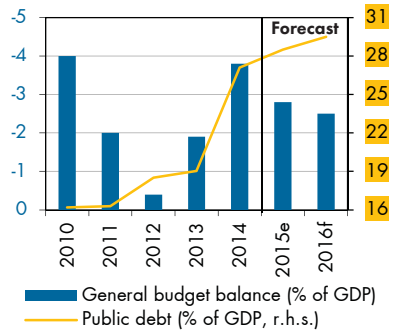
- **Benefits from the weaker euro**
- **Lower interest rates encourage consumption and investment**
- **More efficient absorption of EU funds needed**
- **Financial sector growth undeterred by the turmoil in 2014**

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Military conflicts in Ukraine and the Middle East, ethnic tensions in Macedonia, financial crisis in Greece, and the political and economic transitions in Turkey and Serbia respectively, place Bulgaria in a **rather precarious external environment.** Nevertheless, the country remains stable, also having support from NATO and the European Union. As a six-party coalition, the Bulgarian government is working in a relatively calm internal political setting. Thus, it is expected to remain stable in the mid-term, governing the country in a persistently turbulent external environment. **Real GDP grew at the surprisingly fast rate of 3.1% yoy in Q1 2015**, driven mainly by net exports, which contributed 2.3pp, and by household consumption, which added 1.0pp, while gross fixed capital formation remained flat. On the production side, as expected, services boosted growth most strongly, followed by industry and agriculture. Despite the collapse of the fourth largest institution, Corporate Commercial Bank, at the end of 2014, the financial sector grew by 0.5% yoy in Q1.

On the back of the weaker euro, exports are expected to grow further in Q3 and Q4, assuming similar FX conditions until the end of the year. In turn, household consumption is projected to continue increasing moderately in Q3 and Q4, due to declining interest rates on deposits. One surprise could come from investments, which are dependent on the administrative absorption capacity of EU funds, that has proven to be rather difficult to predict. However, the expected lower interest rates on corporate loans will encourage investment. The long lasting **deflationary trend has been reversed by the ECB's QE policy,** driving consumer prices into positive territory at the end of Q4 (+1.0% eop). Taking into account the positive economic developments and despite the tense external environment, **GDP is expected to show higher real growth of 2.0% yoy in 2015** compared to the year before (1.7% yoy).

Financial analyst: Emil S. Kalchev, Raiffeisenbank (Bulgaria) EAD, Sofia

Key economic figures and forecasts

	2010	2011	2012	2013	2014	2015e	2016f
Nominal GDP (EUR bn)	36.8	40.1	40.9	41.0	42.0	41.6	42.9
Real GDP (% yoy)	0.7	2.0	0.5	1.1	1.7	2.0	2.1
Industrial output (% yoy)	2.0	5.8	-0.4	-0.1	1.9	2.4	3.1
Unemployment rate (avg, %)	10.2	11.3	12.3	12.9	11.4	11.0	10.7
Nominal industrial wages (% yoy)	8.6	10.1	11.5	0.9	0.9	2.0	2.1
Producer prices (avg, % yoy)	8.7	9.4	4.2	-1.4	-1.2	0.5	2.4
Consumer prices (avg, % yoy)	2.4	4.2	3.0	0.9	-1.4	0.1	2.2
Consumer prices (eop, % yoy)	4.5	2.8	4.2	-1.6	-0.9	1.0	2.0
General budget balance (% of GDP)	-4.0	-2.0	-0.4	-1.9	-3.8	-2.8	-2.5
Public debt (% of GDP)	16.2	16.3	18.5	19.0	27.1	28.5	29.5
Current account balance (% of GDP)	-1.4	0.1	-0.8	1.8	0.0	2.4	-0.8
Official FX reserves (EUR bn)	13.0	13.3	15.6	14.4	16.5	18.2	20.2
Gross foreign debt (% of GDP)	100.7	90.5	92.2	90.0	94.7	97.4	96.9
EUR/BGN (avg)	1.96	1.96	1.96	1.96	1.96	1.96	1.96
USD/BGN (avg)	1.48	1.41	1.52	1.47	1.47	1.76	1.79

Source: Thomson Reuters, wiiw, Raiffeisen RESEARCH

Preparing for the second IMF review

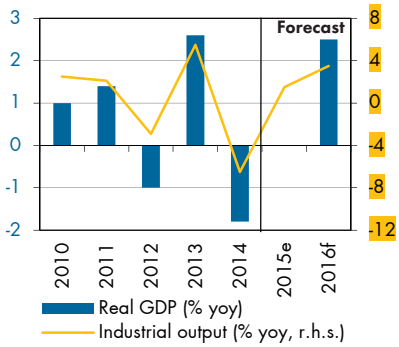
- **First IMF review demanded stricter reform agenda implementation**
- **Low inflation and strong EUR/RSD supported aggressive monetary policy easing in H1**
- **Investments reviving and Belgrade Waterfront Project to back GDP recovery**
- **Yields on the downside supported by the IMF deal**

The recovery in investment stemming from the modernisation of railways and coal mine plants, together with the start of the United Arab Emirates and government joint investments in the EUR 3.5 bn **Belgrade Waterfront project construction, will be supportive for the economic recovery from H2 2015**. FIAT vehicle exports might also positively contribute to GDP once the EUR/RSD starts to weaken. The latter we expect to see from late summer after the US Fed shifts its monetary policy and the NBS allows the dinar to weaken, amidst significant widening of the foreign trade deficit. Following the aggressive rate cut in H1 the **NBS will take a more cautious stance after inflation resumes following the 12% electricity price** hike on 1 August and the EUR/RSD exchange rate starts to depreciate.

Given that the primary non-consolidated budget surplus in Jan-Apr/2015 is a function of the implementation of measures which are limited in terms of their duration, we view the plans of the Prime Minister to raise public sector wages in 2015 as being premature. The tough measures are yet to come i.e. a redundancy programme in public administration and creating the working group for the three largest state-owned chemical firms, which are the major debtors to the state-held natural gas company Srbijagas. The IMF was strict in the first review, as the cabinet missed out on complying with two requirements that will be met during summer ahead of the second review. The **Public Debt Management is well prepared for the shift in the US Fed's monetary policy** and succeeded in refinancing 73.1% of the outstanding portfolio (EUR 2.8 bn) by mid-June. However, the incredible downward move in yields supported by non-residents' comfort zone after the IMF deal was struck, and the RSD liquidity of huge local players makes the **yield curve overvalued, given the still high fiscal risks**. We believe that the room for further yield declines has narrowed, although the bonds still offer a nice risk-reward profile in a zero interest rate environment.

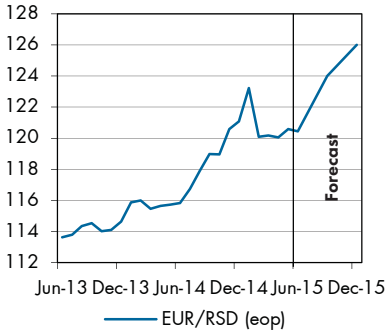
Financial analyst: Ljiljana Grubic, Raiffeisenbank a.d., Belgrade

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Exchange rate development



EUR/RSD: 5y high 123.67, 5y low 96.6
Source: Bloomberg, Raiffeisen RESEARCH

Key economic figures and forecasts

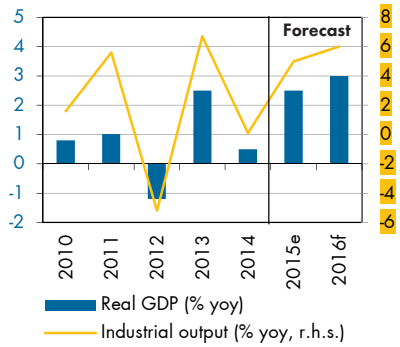
	2010	2011	2012	2013	2014	2015e	2016f
Nominal GDP (EUR bn)	29.8	33.4	31.7	34.3	33.2	33.7	35.6
Real GDP (% yoy)	1.0	1.4	-1.0	2.6	-1.8	0.0	2.5
Industrial output (% yoy)	2.5	2.1	-2.9	5.5	-6.5	1.5	3.5
Unemployment rate (avg, %)	19.2	23.0	23.9	22.1	22.0	23.0	22.0
Nominal industrial wages (% yoy)	10.0	5.0	1.5	1.5	4.0	5.0	4.0
Producer prices (avg, % yoy)	12.7	14.2	5.6	3.6	1.3	2.0	3.0
Consumer prices (avg, % yoy)	6.3	11.3	7.8	7.8	2.9	2.0	4.0
Consumer prices (eop, % yoy)	10.3	7.0	12.2	2.2	1.7	3.5	4.5
General budget balance (% of GDP)	-4.9	-4.8	-6.8	-5.5	-6.6	-6.0	-4.8
Public debt (% of GDP)	43.5	44.2	55.9	58.8	68.8	75.3	78.5
Current account balance (% of GDP)	-6.3	-8.6	-11.5	-6.1	-6.0	-5.9	-5.6
Official FX reserves (EUR bn)	10.0	12.1	10.9	11.2	9.9	11.4	12.0
Gross foreign debt (% of GDP)	79.8	72.2	81.1	75.3	78.3	78.3	75.6
EUR/RSD (avg)	103.0	102.0	113.0	113.1	117.3	122.2	125.8
USD/RSD (avg)	77.8	73.3	88.0	85.2	88.5	110.1	115.4

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

B&H economic recovery gathers momentum

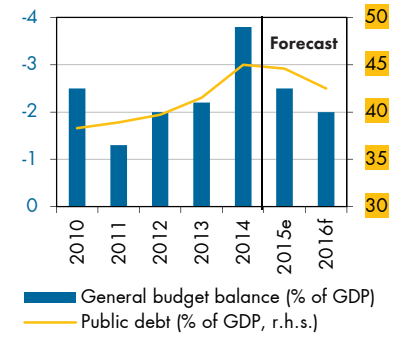
- **Nice start to Q2 2015 with key economic drivers on the rise**
- **We still expect GDP growth of 2.5% yoy in 2015, driven by export and investments**
- **Political developments bring higher potential...**
- **... but also risk for our baseline scenario**

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

After a weak start to the year, the **B&H economy started to recover in line with our expectations.** The available high-profile figures for April 2015 (exports, industry, retail sales) which give a first indication of economic momentum in Q2 2015 clearly reflect the expansion in the B&H economy. The mild performance at the beginning of the year may be explained by the base affect, as Q1 2014 was the strongest quarter since the State Agency for Statistics started producing quarterly GDP statistics (2009). Therefore, our anticipation of a strong countermove in the course of the year started to materialise, and our **overall GDP target rate of 2.5% yoy seems to be very well supported**. Even though we expect that all GDP categories will contribute positively to economic expansion this year, the strongest boost is expected from exports of goods and services (7.5% yoy) and gross fixed capital formation (6.0% yoy). Expansion in gross fixed capital formation is expected to be driven by the continuation of infrastructure projects and start of the electro-cycle investments. Exports of goods and services will mostly benefit from the improved external environment, particularly in the European Union. We also expect moderate growth in private and public consumption this year. The decline in the unemployment rate to 26.5% and growth in salaries (3.0% yoy) might lead to a notable expansion of household consumption by 2.0% yoy. In 2015, we expect a cut in the general budget deficit to 2.5% of GDP with the **main assumption that B&H will again enter the Stand-by arrangement with the IMF.**
It should be noted that political developments in the country could bring additional potential for economic growth if we see a continuation of the positive momentum from the beginning of the year (EU reforms and SAA agreement). On the other hand, if we see another long-term political crisis (not our baseline scenario) which could slow down the announced investments and jeopardise the SBA with the IMF, we would have to cut our target for GDP growth by 50bp.

Financial analyst: Srebrenko Fatusic, Raiffeisen BANK d.d., Sarajevo

Key economic figures and forecasts

	2010	2011	2012	2013	2014	2015e	2016f
Nominal GDP (EUR bn)	12.7	13.2	13.2	13.4	13.6	14.2	14.9
Real GDP (% yoy)	0.8	1.0	-1.2	2.5	0.5	2.5	3.0
Industrial output (% yoy)	1.6	5.6	-5.2	6.7	0.1	5.0	6.0
Unemployment rate (avg, %)	27.2	27.6	28.0	27.5	27.5	26.5	24.0
Nominal industrial wages (% yoy)	2.4	6.8	2.2	-0.5	0.3	3.0	5.0
Producer prices (avg, % yoy)	0.9	3.7	1.9	-1.8	0.0	1.0	2.0
Consumer prices (avg, % yoy)	2.1	3.7	2.1	-0.1	-0.9	1.0	2.0
Consumer prices (eop, % yoy)	3.1	3.1	1.8	-1.2	0.0	1.5	2.1
General budget balance (% of GDP)	-2.5	-1.3	-2.0	-2.2	-3.8	-2.5	-2.0
Public debt (% of GDP)	38.3	38.9	39.7	41.5	45.0	44.6	42.5
Current account balance (% of GDP)	-6.1	-9.7	-9.3	-6.0	-7.8	-8.0	-7.7
Official FX reserves (EUR bn)	3.3	3.3	3.3	3.6	4.0	4.1	4.3
Gross foreign debt (% of GDP)	57.3	66.8	63.1	62.5	66.4	63.6	58.3
EUR/BAM (avg)	1.96	1.96	1.96	1.96	1.96	1.96	1.96
USD/BAM (avg)	1.48	1.41	1.52	1.47	1.47	1.76	1.79

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Limited effects from the troubles in Greece

- **Risks from Grexit are limited**
- **Monetary policy to remain expansionary**
- **Government to enter international markets**
- **Current governing coalition won a majority of the municipalities**

So far, the Greek crisis has had a negative impact on trade, but since the start of the crisis **Albania has managed to reduce its trade dependence on Greece**, and therefore a possible Grexit would have a limited effect. The increased inflow of remittances (+24% yoy in Q1 2015) should continue as Albanian emigrants living in Greece are likely to bring their savings back home.

The Bank of Albania already took measures to protect the banking system from the Greek crisis back in 2012 by cutting the funding dependence of Greek-owned banks operating in Albania from their parent banks and licensing them as separate entities. Furthermore, it has stopped allowing Greek-owned banks' transactions with their parent banks, and thus the risks arising from bankruptcy in Greece remain limited. So far the **banking sector is well protected and quite liquid** and Greek-owned banks have good liquidity ratios. Greek-owned banks account for only 15.8% of total deposits.

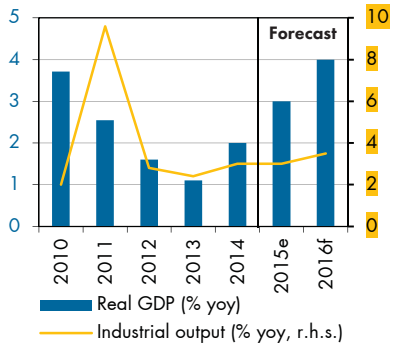
In 2015, GDP growth is expected to speed up to around 3% based on a pick-up in domestic demand, higher FDI, accommodative monetary policy, and a recovery in public investment. Inflationary pressures remained limited, as economic growth was below potential and import prices fell, especially fuel prices. Therefore, it is expected that the Bank of Albania will maintain its expansionary monetary policy for the rest of 2015. The base interest rate is actually at an historical low of 2.0%, and we expect it to remain at the same level throughout 2015.

The **government is preparing to enter the international markets** to roll over the Albanian Eurobond of EUR 300 mn that matures in late November 2015 and if the rates offered are favourable it will most likely raise the amount by another EUR 200 mn, in line with its borrowing policy to shift towards long-term debt.

On 21 June, municipal elections were held in Albania with the new territory administrative division. The left wing governing party has broadly won.

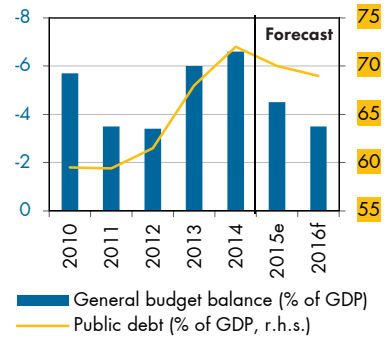
Financial analyst: Valbona Gjeka, Raiffeisen Bank Sh.a., Tirana

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Key economic figures and forecasts

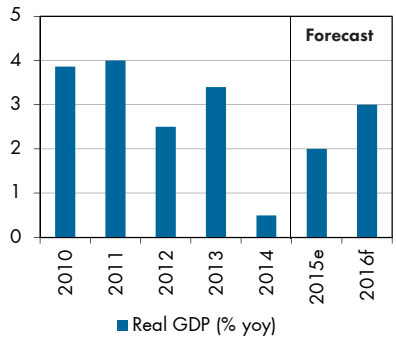
	2010	2011	2012	2013	2014	2015e	2016f
Nominal GDP (EUR bn)	8.9	9.4	9.7	9.8	10.4	11.0	11.8
Real GDP (% yoy)	3.7	2.6	1.6	1.1	2.0	3.0	4.0
Industrial output (% yoy)	2.0	9.6	2.8	2.4	3.0	3.0	3.5
Unemployment rate (avg, %)	13.5	14.0	13.3	17.0	18.0	17.0	15.0
Nominal industrial wages (% yoy)	8.0	8.0	8.0	8.0	8.0	8.0	3.0
Producer prices (avg, % yoy)	0.2	2.6	1.1	-0.4	-0.5	1.0	2.0
Consumer prices (avg, % yoy)	4.0	3.5	2.0	1.9	1.6	1.8	2.8
Consumer prices (eop, % yoy)	3.5	1.7	2.4	1.9	0.7	1.9	3.0
General budget balance (% of GDP)	-5.7	-3.5	-3.4	-6.0	-6.6	-4.5	-3.5
Public debt (% of GDP)	59.5	59.4	61.5	68.0	72.0	70.0	69.0
Current account balance (% of GDP)	-10.8	-11.8	-9.3	-10.4	-10.2	-10.5	-10.0
Official FX reserves (EUR bn)	1.9	1.9	1.9	1.9	1.9	1.9	2.0
Gross foreign debt (% of GDP)	24.7	24.5	25.8	28.2	28.5	29.3	30.9
EUR/ALL (avg)	137.8	140.4	139.0	140.3	140.0	140.4	139.9
USD/ALL (avg)	104.1	100.9	108.2	105.7	105.5	126.4	128.3

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Return to normality

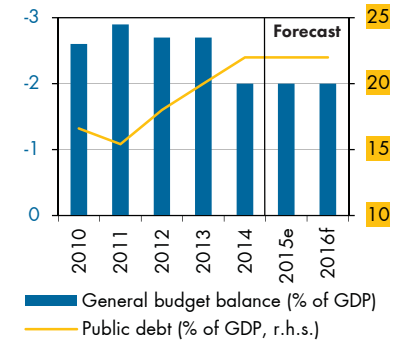
- **Economic growth returns to previous pace**
- **Consumption and investments gain momentum**
- **Inflation rate still below zero**
- **Known unknowns in the political landscape**

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Economic growth is expected to accelerate during the third quarter, thanks to internal demand and investments. Consumption confidence is reflected by the growth in consumer loans and even larger remittances, and this trend is expected to gain even more momentum in Q3, due to seasonality effects. The third quarter is traditionally the powerhouse period for the economy, since construction, as large contributor, peaks, and also because it is the vacation season and many compatriots from the diaspora visit and spend.

Public investments are set to reverse the declining trend and contribute further to the gross domestic product through capital investments; the biggest of these is the highway construction towards Macedonia, with the largest segment set to be completed at the end of Q3. These expenditures are financed through continuously improving collection of taxes, through a reset of the value added tax, and through increased public debt, issued in the domestic market. Total revenues are to grow by 4% and with a debt-to-GDP ratio of 11% there is plenty space for further expansion up to the legal cap of 30%.

While foreign direct investments are expected to rise further during the summer months after very disappointing performance last year, they are mainly focused on real estate purchases by compatriots living abroad, and not in investment in other relevant sectors.

The **current government stands on a stable foundation and is expected to continue governing** until the end of the legislative period. However, there are two unknowns with the potential to break-up the coalition. One is the establishment of a Special Court to handle criminal cases potentially committed by sitting officials. This court will be created within the next three months and has a high potential to disrupt the current political landscape. The other unknown is the election of the Head of State, which has been defined in the coalition agreement to be the leader of the larger coalition partners and current Foreign Minister Hashim Thaci. However, it is uncertain that the election to be held next year by the parliament will be able to reach two-thirds of the votes.

Financial analyst: Fisnik Latifi, Raiffeisen Bank Kosovo J.S.C., Pristina

Key economic figures and forecasts*

	2010	2011	2012	2013	2014	2015e	2016f
Nominal GDP (EUR bn)	4.1	4.6	4.7	4.9	5.1	5.4	5.8
Real GDP (% yoy)	3.9	4.0	2.5	3.4	0.5	2.0	3.0
Unemployment rate (avg, %)	45.1	44.8	30.9	30.0	30.0	31.0	30.5
Producer prices (avg, % yoy)	4.1	4.5	1.9	2.5	1.7	1.0	2.5
Consumer prices (avg, % yoy)	3.5	7.3	2.5	1.8	0.4	0.2	1.5
Consumer prices (eop, % yoy)	6.6	3.6	3.7	0.5	-0.4	1.0	2.5
General budget balance (% of GDP)	-2.6	-2.9	-2.7	-2.7	-2.0	-2.0	-2.0
Public debt (% of GDP)	16.6	15.4	18.0	20.0	22.0	22.0	22.0
Current account balance (% of GDP)	-12.6	-14.4	-8.0	-7.0	-7.6	-7.5	-6.5
Official FX reserves (EUR bn)	0.7	0.6	1.2	1.4	1.4	1.5	1.5
Gross foreign debt (% of GDP)	17.1	15.8	14.8	14.4	13.7	12.9	12.1

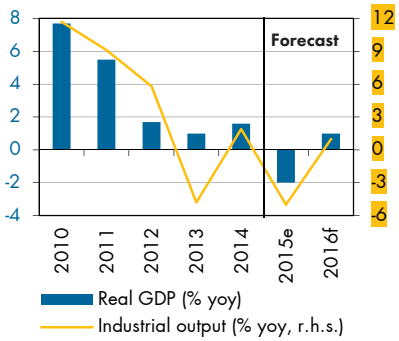
** EUR official currency in Kosovo*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Depth and duration of the recession still unknown

- **Recession in Russia and structural weaknesses cause broad contraction in GDP**
- **CPI decrease and less pressure on the exchange rate are likely secured**
- **Financial subsidies from Russia to avoid FX liquidity crisis**
- **New key risks emerge – deterioration in banks' loans quality and unemployment**

Since the second half of 2014, external shocks – such as cheaper oil and the slump in the Russian economy – have turned the cyclical dynamics around to recession in 2015. The official response to such challenges included inflation targeting accompanied by a managed float of the exchange rate, and a more conservative fiscal policy in terms of restricting expenditures and less directed lending to the economy. The **slump in Russia's economy**, which accounts for 90% of Belarusian export of capital goods, i.e. machines and equipment, as well as consumer goods, **strongly affected the country.** However, exports of potash fertilizers to non-EE countries and lower imports caused by a reduction of the supply of capital, intermediate, and consumer goods compensated for these losses to some extent. We expect that the balance of trade in goods and services will be positive in 2015.

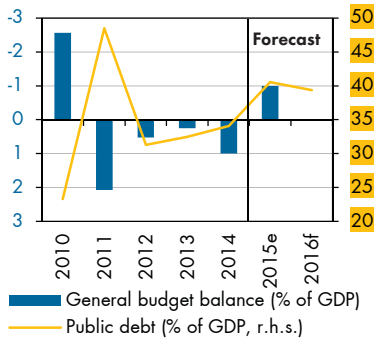
Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Despite low FX reserves and commitments to repay USD 4 bn in public debt this year, **Belarus is unlikely to face an FX liquidity crisis** due to financial subsidies from Russia. Belarus does not need to transfer the export duties on oil products manufactured from Russian oil in the amount of around USD 2 bn and Russia prolonged its state loan worth almost USD 2 bn. **Financial markets will remain fragile in the near future**. However, the 'traditional' risk for Belarus – one-off, huge exchange rate depreciation – has decreased significantly. We expect that the exchange rate will fluctuate in order to secure an almost balanced external position. A new key risk is emerging: a deterioration of banks' loan portfolio quality. Furthermore, a new economic and social problem will arise in the form of unemployment. The authorities state their readiness to undertake structural reforms, but later, presumably in 2016 after the presidential elections in October 2015.

Budget balance and public debt



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Financial analyst: Oleg Leontev, Priorbank Open Joint-Stock Company, Minsk

Key economic figures and forecasts

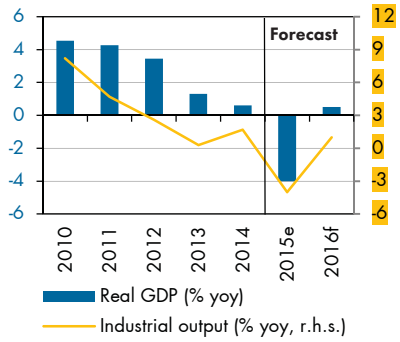
	2010	2011	2012	2013	2014	2015e	2016f
Nominal GDP (EUR bn)	41.6	41.2	49.4	54.9	57.3	51.4	51.6
Real GDP (% yoy)	7.7	5.5	1.7	1.0	1.6	-3.5	0.5
Industrial output (% yoy)	11.7	9.1	5.8	-4.8	1.9	-5.0	1.0
Unemployment rate (avg, %)	0.7	0.6	0.5	0.5	0.5	1.0	1.5
Nominal industrial wages (% yoy)	25.3	59.2	93.8	35.2	20.1	15.0	15.0
Producer prices (avg, % yoy)	13.6	71.4	76.0	13.6	12.8	12.8	10.0
Consumer prices (avg, % yoy)	7.7	53.2	59.2	18.3	18.1	17.0	16.0
Consumer prices (eop, % yoy)	9.9	108.7	21.8	16.5	16.2	17.0	15.0
General budget balance (% of GDP)	-2.6	2.1	0.5	0.2	1.0	-1.0	0.0
Public debt (% of GDP)	23.3	48.5	31.3	32.5	34.1	36.0	37.0
Current account balance (% of GDP)	-15.0	-8.9	-2.9	-10.0	-6.6	-5.1	-5.7
Official FX reserves (EUR bn)	2.6	4.6	4.4	3.6	2.8	2.5	2.6
Gross foreign debt (% of GDP)	50.9	63.7	51.9	51.8	57.8	59.6	56.9
EUR/BYR (avg)	3953	7220	10747	11834	13597	17247	20042
USD/BYR (avg)	2981	5218	8360	8906	10250	15538	18388

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

The bottom has still to be reached

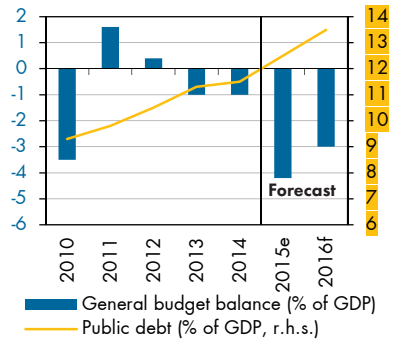
- **GDP dynamics in Q2-Q3 2015 will be much worse than in Q1 2015**
- **CBR will continue the easing cycle, although at a slower pace**
- **Even with oil price recovery risks skewed towards RUB depreciation**
- **We maintain our call of further OFZ curve bull steepening, despite slower-than-expected rate cuts**

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Economic outlook

In Q2, economic performance continued to deteriorate as the contraction in industrial output accelerated from -0.4% yoy in Q1 to -5.0% yoy in April-May. Moreover, the production of construction materials and works decreased significantly (-10% yoy in May). Production of metals declined by 11% yoy in May, due to negative price trends and weak internal demand. Deteriorating purchasing power caused by RUB devaluation led to aggravation of the situation in the automotive sector (production fell by 35% yoy versus a drop of 20% yoy in Q1). Recent RUB appreciation should bring some relief for consumers, but on the other hand it could be negative for export industries and import substitution. We expect that **negative trends in industrial production will continue through Q3** and see a decrease of 4% for the whole year. As funding conditions remain challenging and economic uncertainty persists, capital investments continue to fall. In May, they contracted by 7.6% yoy (versus -3.6% yoy in Q1 2015). By contrast, the situation in the consumer sector at least stabilised in April-May. After a huge spike in the winter, the year-on-year rate of CPI began to fall. This – along with acceleration in nominal wages – has allowed for some recovery in real incomes and retail sales. Nevertheless, **consumption stabilised at very low levels**, and in yoy terms the drop in real wages and retail sales in May remained huge, at 7% and 9% respectively. In Q3 2015, we expect that annual CPI will continue to decline and consumption will show some improvement. But the positive changes will be very gradual and will not outweigh the negative developments in the real sector. GDP dynamics in Q2-Q3 2015 will be much worse than in Q1 2015 (-2.2% yoy). We keep our forecast of **GDP contracting by 4% in 2015**. With falling inflation and deteriorating economic performance, the CBR will continue the easing cycle. However, the regulator gave a strong signal that the pace will slow down. In our view, the CBR will cut the key rate by 50bp at each of its meetings in July and September (versus 150bp and 100bp in April and June).

Key economic figures and forecasts

	2010	2011	2012	2013	2014	2015e	2016f
Nominal GDP (EUR bn)	1149.8	1369.1	1558.0	1563.9	1399.0	1229.2	1361.5
Real GDP (% yoy)	4.5	4.3	3.4	1.3	0.6	-4.0	0.5
Industrial output (% yoy)	8.2	4.7	2.6	0.3	1.7	-4.0	1.0
Unemployment rate (avg, %)	7.5	6.6	5.7	5.6	5.3	6.5	6.5
Average gross wages (% yoy)	12.4	11.5	13.9	12.5	9.0	7.0	7.0
Producer prices (avg, % yoy)	16.7	12.0	5.1	3.7	6.5	5.5	4.5
Consumer prices (avg, % yoy)	6.9	8.5	5.1	6.8	7.8	15.2	7.5
Consumer prices (eop, % yoy)	8.8	6.1	6.6	6.5	11.4	11.5	8.0
General budget balance (% of GDP)	-3.5	1.6	0.4	-1.0	-1.0	-4.2	-3.0
Public debt (% of GDP)	9.3	9.8	10.5	11.3	11.5	12.5	13.5
Current account balance (% of GDP)	4.4	5.1	3.6	1.6	3.5	3.7	2.7
Official FX reserves (EUR bn)	331.0	349.7	369.1	342.9	278.9	328.8	353.2
Gross foreign debt (% of GDP)	31.7	30.5	31.1	33.8	35.4	37.7	31.6
EUR/RUB (avg)	40.3	40.9	39.9	42.3	51.0	64.4	64.6
USD/RUB (avg)	30.4	29.4	31.1	31.9	38.6	58.0	59.3

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

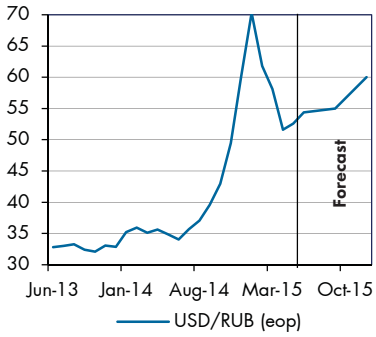
Financial market outlook

After a period of appreciation in the spring, RUB dynamics reversed in June following the negative price trends on commodities markets. However, this alone could hardly explain the RUB depreciation: while the oil price dropped by 7% (to ~USD64/bbl), **RUB depreciated by 14% since mid-May** (having touched RUB 57 against USD). We tend to explain such pronounced RUB weakening with the deterioration in the geopolitical situation. Also, since mid-May the CBR has launched FX purchases on the open market to replenish FX reserves. Although their daily amount (USD 150-200 mn) cannot put any serious pressure on RUB, the CBR's return to the FX market and the uncertainty about the potential amount of its further FX operations were treated negatively by market participants. We expect that even with the oil price recovery the balance of risks in H2 2015 will be skewed towards RUB depreciation. In September and December, there will be peaks in external debt repayments. Demand for FX from banks and corporates should increase then, even taking into account that exporters have accumulated FX and refinance a significant part of the debt on external markets. Banks tend to cover external debt redemptions mainly by FX refinancing from the CBR (although they have FX assets which exceed their FX liabilities). **The major part of the CBR's FX refinancing tools is utilised** and the regulator also increased the cost of these tools by 150-200bp in recent months. Therefore, the scope of expected RUB depreciation will also depend on the CBR's policy with regard to these instruments.

Monetary easing and RUB appreciation in March-May allowed for the continuation of the OFZ market rally. However, in June this move ran out of steam as yields already reached levels as if the base rate would be at 8.5-9.0%. Despite the fact that inflation continues to fall (pass-through effect of RUB devaluation at the end of 2014 is fading out) the CBR stressed that **potential inflationary risks will limit the easing pace in the coming months**. We note that inversion of OFZ yield curve has decreased, which reflects lower expectations of further monetary easing or slower pace. Given our expectation that the CBR will continue with rate cuts against the backdrop of easing inflation and assuming a fairly stable rouble exchange rate on a 3m horizon, we remain constructive on all OFZ maturities. Although longer-dated floating OFZ papers seem to have some room for further gains, our highest conviction is currently for the shorter part of the curve. Therefore we would continue to expect a further bull steepening of the rouble yield curve. Still, the major risk to our recommendations is exchange rate risks given the high sensitivity of OFZs to swings in USD/RUB. In the longer run, however, our bearish view on USD/RUB exchange rate dynamics should weigh on the OFZ market performance.

Financial analysts: Maria Pomelnikova, AO Raiffeisenbank, Moscow
Denis Poryvay, AO Raiffeisenbank, Moscow

Exchange rate development



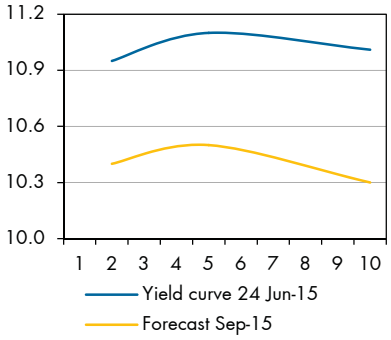
USD/RUB: 5y high 72.45, 5y low 27.29
Source: Bloomberg, Raiffeisen RESEARCH

Exchange rate forecasts

	24-Jun[1]	Sep-15	Dec-15	Mar-16	Jun-16
EUR/RUB	60.81	60.5	63.0	59.9	64.8
Cons.		*61.0*	*60.2*	*59.8*	*58.8*
USD/RUB	54.37	55.0	60.0	57.0	60.0
Cons.		*56.5*	*56.5*	*57.3*	*55.9*

[1] 5:00 p.m. (CET)
Source: Bloomberg, RBI/Raiffeisen RESEARCH

RUB yield curve (%)*



** 2y – 10y LCY government bond yields*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Interest rate forecasts

	24-Jun[1]	Sep-15	Dec-15	Mar-16	Jun-16
Key rate	11.50	10.50	10.00	9.00	8.00
Consensus		*10.3*	*9.5*	*8.7*	*8.3*
1 month[2]	12.63	11.60	11.10	10.10	9.10
3 month[2]	12.55	11.90	11.40	10.40	9.40
		n.v.	n.v.	n.v.	n.v.
6 month[2]					
12 month[2]	12.54	12.00	11.50	10.50	9.50

[1] 5:00 p.m. (CET) [2] Offered rate
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Yield forecasts

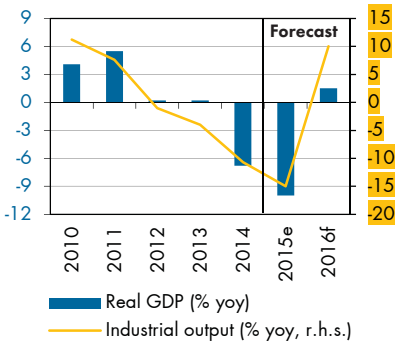
	24-Jun[1]	Sep-15	Dec-15	Mar-16	Jun-16
2y T-bond[2]	10.95	10.40	10.30	9.40	8.40
Consensus		*n.v.*	*n.v.*	*n.v.*	*n.v.*
5y T-bond[2]	11.10	10.50	10.10	9.50	9.00
10y T-bond[2]	11.01	10.30	9.80	9.50	9.50
Consensus		*n.v.*	*n.v.*	*n.v.*	*n.v.*

[1] 5:00 p.m. (CET) [2] Bid yield
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Struggling with a deep recession

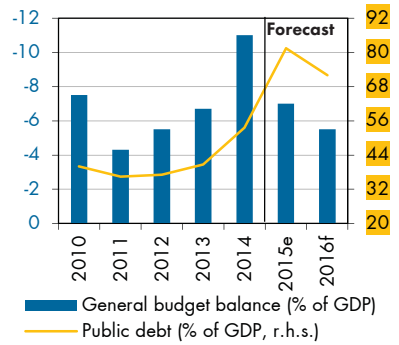
- **Political solution for Donbass yet not visible; IMF pushes for structural reforms**
- **Economic situation very severe, but there are some stabilisation signs**
- **UAH stabilised by strict administrative measures of the central bank**
- **Given the numerous economic and geopolitical risks, we project more depreciation pressure for UAH**

Real GDP (% yoy)



Source: Thomson Reuters, Raiffeisen RESEARCH

Budget balance and public debt



Source: Thomson Reuters, Raiffeisen RESEARCH

Economic outlook

There is still **no solution to the military conflict in Donbass region**. Parts of the Minsk-II agreement have been delayed or not fulfilled, as negotiations between the parties bogged down. The implementation of constitutional changes and agreement on local elections in Donbass look quite challenging. The best near-term outcome would still be a freezing of the conflict, which, however, cannot be taken for granted. There was some kind of a lull for a several months after Minsk-II in early February, but recently there has been some escalation in the fighting (from time to time there are serious clashes). Thus, the **situation in general remains highly unstable**. As for the internal political situation, the reform process pushed forward by the IMF gained some pace (after 2014 was essentially lost). Progress is visible so far in the battered banking sector: the National Bank of Ukraine has internally reorganised and hired new highly skilled professionals, the **first stage of banking sector consolidation is almost over** (about 50 banks were classified as insolvent), and the NBU became more independent. Also, there is some progress in reforming the energy sector, the legal system, and the tax system, but much remains to be done.

The economic situation is still quite severe as the **country faces a deep recession** without a clear end, (almost) hyperinflation, a banking crisis, a tough external liquidity situation, and ongoing external debt restructuring, which could turn into an unorderly default at any moment. However, at least the contraction in GDP did not accelerate further. GDP declined by 17.2% yoy in Q1 2015, after falling by 15.2% yoy in Q4 2015. Sharp depreciation and a hike in gas prices for households boosted inflation to 60.9% yoy in April, but in May it slowed down to 58.4% yoy. On the other hand, sharp devaluation and high inflation resulted in a surplus in April. Also, the fall in domestic demand facilitated further external

Key economic figures and forecasts

	2010	2011	2012	2013	2014	2015e	2016f
Nominal GDP (EUR bn)	102.4	116.9	135.2	135.3	98.6	82.0	80.0
Real GDP (% yoy)	4.1	5.5	0.2	0.2	-6.8	-10.0	1.5
Industrial output (% yoy)	11.2	7.6	-1.0	-4.0	-10.7	-15.0	10.0
Unemployment rate (avg, %)	8.2	8.0	7.6	7.3	9.3	11.5	11.0
Nominal industrial wages (% yoy)	21.9	20.9	15.0	8.0	2.0	0.0	7.0
Producer prices (avg, % yoy)	20.9	19.0	3.6	-0.1	17.7	39.6	14.0
Consumer prices (avg, % yoy)	9.4	8.0	0.6	-0.2	12.1	53.7	14.0
Consumer prices (eop, % yoy)	9.1	4.6	-0.2	0.5	24.9	50.6	11.5
General budget balance (% of GDP)	-7.5	-4.3	-5.5	-6.7	-11.0	-7.0	-5.5
Public debt (% of GDP)	40.0	36.4	37.1	40.7	53.6	81.4	72.0
Current account balance (% of GDP)	-2.2	-6.3	-8.5	-9.0	-4.0	-1.9	-0.7
Official FX reserves (EUR bn)	26.1	22.8	19.1	15.4	5.6	10.8	13.8
Gross foreign debt (% of GDP)	86.4	77.6	76.5	79.3	96.4	131.8	143.4
EUR/UAH (avg)	10.5	11.1	10.4	10.8	15.9	24.9	29.8
USD/UAH (avg)	7.9	8.0	8.1	8.2	12.0	22.5	27.4

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

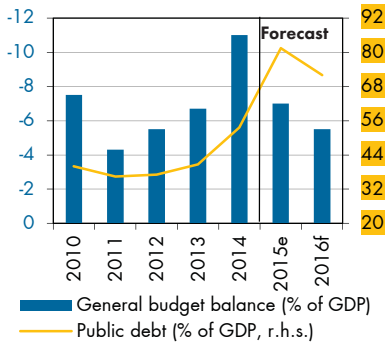
adjustment as the pace of decline in imports is much faster than in exports. Considering the significant decline in economic performance in Q1, we expect that Ukraine's **economy will shrink by 10% in 2015**. However, risks are still rather on the downside, as this forecast assumes a recovery starting from second half of this year. As for inflation, we expect that it will be in the range of 50-55% this year. However, the main risks to our scenario are an escalation of the military conflict in the east and a new round of hryvnia devaluation.

Financial Market Outlook

The February panic in the FX market resulted in a dramatic depreciation of the hryvnia by almost 50%, but after a series of hectic measures, the National Bank of Ukraine introduced new administrative controls in early March elaborated with the technical assistance of the IMF. With this move, they managed to bring the situation on the FX market under control, and as a consequence the hryvnia strengthened and the interbank market stabilised. Since then, the FX market has remained relatively calm and by mid-June the hryvnia was trading in the range of UAH/USD 20.5-21.5. The National Bank takes part in trading less frequently, which indicates a more balanced FX market. However, it is still **premature to conclude that market stability has been established**, as it has been achieved to a great extent by means of administrative FX restrictions. The big question will now be what will happen with the exchange rate after the restrictions are removed. In our view, a more or less controlled depreciation is a likely scenario as soon as the administrative measures are loosened. This assumption hinges on weak economic development and the geopolitical risks that are prevailing. Meanwhile, the **central bank keeps the key rate at the level of 30%** and will probably leave it unchanged for a while, taking into account the high inflation rate. According to the IMF's 4-year financing programme (amounting to USD 17.5 bn), Ukraine has to save USD 15.3 bn of external debt payments (USD 5.2 bn this year), but there is not much progress in negotiations with creditors. Nevertheless, the IMF notes significant progress in reforms, so Ukraine is likely to receive the second tranche (USD 1.7 bn) in July.

Financial analyst: Sergii Drobot, Raiffeisen Bank Aval Public Joint Stock Company, Kiev

Budget and current account balance



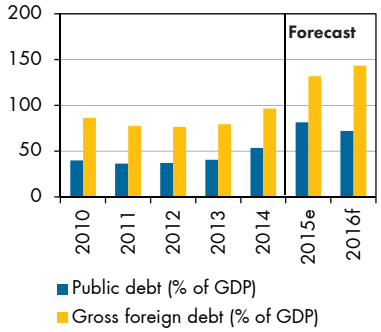
Source: State Statistics Committee of Ukraine, RBI/Raiffeisen RESEARCH

Exchange rate forecasts

	24-Jun[1]	Sep-15	Dec-15	Mar-16	Jun-16
EUR/UAH	23.68	25.30	26.25	28.35	29.16
Cons.		*24.96*	*25.50*	*26.00*	*n.v.*
USD/UAH	21.17	23.00	25.00	27.00	27.00
Cons.		*24.00*	*25.00*	*26.00*	*n.v.*

[1] *5:00 p.m. (CET)*
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Public and external debt

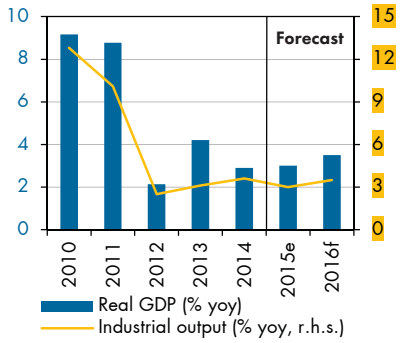


Source: State Statistics Committee of Ukraine, RBI/Raiffeisen RESEARCH

Election result: good for democracy, bad for markets

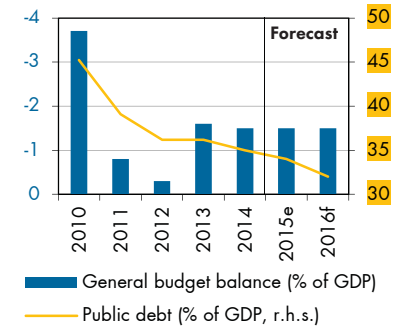
- **After 13 years of single-party AKP rule, can Turkey manage a coalition government?**
- **Economy slightly disappointing, despite strong domestic demand**
- **Political uncertainty and US Fed policy jitter the lira**
- **Following possible recovery rally in the short run, bear steepening of TURKGBs likely in light of US MP tightening**

Real GDP (% yoy)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Budget balance and public debt



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Economic outlook

The ruling Justice and Development Party (AKP) failed to reach the targeted two-thirds majority in the June elections, which would have been needed for a change of the constitution to pave the way for the presidential system sought by President Erdogan. Although the AK party is still the strongest political force, it now has to rely on a coalition partner or rule as a minority government. Stunningly, the pro-Kurdish Peoples' Democratic Party (HDP) succeeded in passing the 10% threshold, along with the two opposition parties Republican People's Party (CHP) and Nationalist Movement Party (MHP). If neither the AKP nor an opposition party are able to form a government or a minority government fails to win a confidence vote within the constitutional limit of 45 days, the President can call new elections. The right-wing Nationalist Movement Party (MHP) is seen as the most likely coalition partner. So, while the election result is a positive step for Turkish democracy, **political uncertainty has risen** and Turkey has yet to prove it can succeed with coalition rule (given the bad track record ahead of the AKP rise).

Economically, Turkey has disappointed slightly in recent quarters. On the one hand, growth rates have remained below 3% yoy for the fourth quarter in a row. However, in the first quarter GDP surprised to the upside (2.5% yoy). Especially private household demand was strong at 4.5%, while exports and investment stalled. The main problem is probably the increased political uncertainty, which will likely hurt investment and possibly even consumption. Thus, we downgraded our 2015 outlook slightly from 3.5% yoy to 3.0%, while still keeping the forecast for 2016 at 3.5%. The second hot issue in Turkey is the currently **high inflation rate which reached 8%** again, after dropping slightly in recent months. As inflation has been overshooting for some time, the problem seems to be a more structural one and not a temporary one as previously thought. Consequently, we also increased our inflation outlook for this and next year.

Key economic figures and forecasts

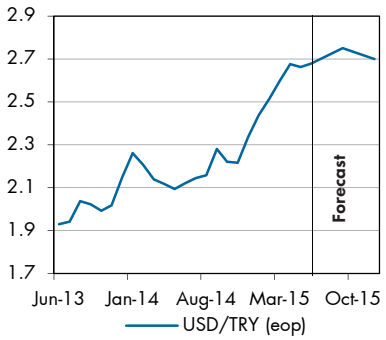
	2010	2011	2012	2013	2014	2015e	2016f
Nominal GDP (EUR bn)	550.0	555.2	612.2	618.8	602.5	661.2	729.1
Real GDP (% yoy)	9.2	8.8	2.1	4.2	2.9	3.0	3.5
Industrial output (% yoy)	12.8	10.1	2.5	3.1	3.6	3.0	3.5
Unemployment rate (avg, %)	11.1	9.1	8.4	9.0	9.8	10.5	10.0
Nominal industrial wages (% yoy)	8.0	8.0	6.0	6.0	n.v.	n.v.	n.v.
Producer prices (avg, % yoy)	8.5	11.1	6.1	4.5	10.2	n.v.	n.v.
Consumer prices (avg, % yoy)	8.6	6.5	8.9	7.5	8.9	7.7	7.5
Consumer prices (eop, % yoy)	6.4	10.5	6.1	7.4	8.2	8.1	7.0
General budget balance (% of GDP)	-3.7	-0.8	-0.3	-1.6	-1.5	-1.5	-1.5
Public debt (% of GDP)	45.2	39.1	36.2	36.2	35.0	34.0	32.0
Current account balance (% of GDP)	-6.2	-9.7	-6.2	-7.9	-5.7	-5.1	-6.0
Official FX reserves (EUR bn)	60.9	56.4	77.7	83.5	80.5	90.1	100.9
Gross foreign debt (% of GDP)	39.6	42.5	41.8	45.5	55.9	59.8	52.4
EUR/TRY (avg)	2.00	2.34	2.31	2.53	2.90	2.93	2.94
USD/TRY (avg)	1.51	1.68	1.80	1.91	2.19	2.64	2.70

Source: Thomson Reuters, wiiw, Raiffeisen RESEARCH

Financial market outlook

The ruling Justice and Development Party (AKP) was not able to secure an absolute majority (for a single-party government) at the parliamentary elections on 7 June and has to rely on a coalition partner or rule as a minority government. The Turkish lira is in a weakening phase as the election result means some weeks of uncertainty. However, even if a coalition government can be formed in time the political situation might be fragile and early elections would be very likely. The increased volatility of the lira was expected before and after the elections, but now there are risks that it might last. Unfortunately, the overall picture for the economy remains gloomy as well. For the **year-to-date TRY has depreciated by about 15% against USD.** Turkish assets are sensitive to changing expectations about global liquidity tightening. Any concerns that capital flows to Turkey might slow down tend to hit the Turkish lira (as the current account deficit is financed by capital inflows), and a **change in the monetary policy stance of the US Fed might dampen demand for Turkish assets**. Although the current account deficit has narrowed so far this year compared to last year, it remains the key weakness in the economy. In addition, due to the strong US dollar there is the risk that exports will be lower than last year even if the volume increases. Turkey should be hit when US monetary authorities start to become more hawkish and the Federal Reserve begins hiking interest rates, with September seen as the earliest starting date. Although a lot of negative sentiment (with regard to the political situation and capital flows) is already priced in, the TRY exchange rate could move further north versus USD. Nevertheless, overshooting and levels above USD/TRY 2.80 could be good for market entry. In line with local FX market developments, Turkey's LCY debt market did not recover, which was our most speculative recommendation. We assumed a majority government to stabilise TRY and therefore pave the way for a temporary rally on the TURKGB market. Under these circumstances, the expected recovery for government debt paper should have been supported by a moderate downward adjustment of the base rate as well, which we do not believe will occur anymore. Therefore, we **expect the central bank to remain on hold this year**, whilst temporary fine-tuning of MP conditions should continue to be delivered by macroprudential measures, and, more importantly, by liquidity management tools. With US MP tightening coming closer and limiting the breathing space for Turkish assets (a Fed hike in September at the earliest according to our Western colleagues' forecasts), a bear steepening of the lira yield curve is the most likely scenario in our view. In the event of a longer of period of lira stabilisation, the TURKGB market could see a recovery rally starting from double-digit levels at the long-end of the curve.

Exchange rate development



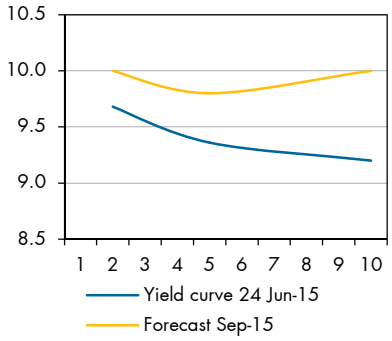
USD/TRY: 5y high 2.77, 5y low 1.39
Source: Bloomberg, Raiffeisen RESEARCH

Exchange rate forecasts

	24-Jun[1]	Sep-15	Dec-15	Mar-16	Jun-16
EUR/TRY	3.00	3.03	2.84	2.84	2.86
Cons.		*3.04*	*2.90*	*2.93*	*3.02*
USD/TRY	2.68	2.75	2.70	2.70	2.65
Cons.		*2.76*	*2.76*	*2.79*	*2.80*

[1] 5:00 p.m. (CET)
Source: Bloomberg, RBI/Raiffeisen RESEARCH

TRY yield curve (%)*



** 2y – 10y LCY government bond yields*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Financial analysts: Martin Stelzeneder, Andreas Schwabe, RBI Vienna

Interest rate forecasts

	24-Jun[1]	Sep-15	Dec-15	Mar-16	Jun-16
Key rate	7.50	7.50	7.50	7.75	8.00
Consensus		*7.55*	*7.60*	*7.75*	*7.85*
1 month[2]	11.28	10.70	11.00	11.50	11.50
3 month[2]	11.34	10.80	11.10	11.60	11.60
Consensus		*9.90*	*9.46*	*9.27*	*9.72*
6 month[2]	11.35	10.80	11.10	11.60	11.60
12 month[2]	11.38	10.90	11.20	11.70	11.70

[1] 5:00 p.m. (CET) [2] Offered rate
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Yield forecasts

	24-Jun[1]	Sep-15	Dec-15	Mar-16	Jun-16
2y T-bond[2]	9.68	10.0	10.0	10.3	10.5
Consensus		*8.8*	*8.3*	*8.7*	*8.7*
5y T-bond[2]	9.36	9.8	10.5	11.0	11.5
10y T-bond[2]	9.20	10.0	11.0	11.5	12.0
Consensus		*9.2*	*8.9*	*8.8*	*8.7*

[1] 5:00 p.m. (CET) [2] Bid yield
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Dances with bears

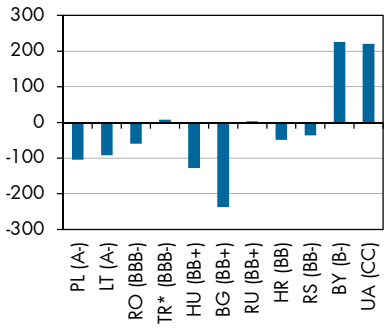
- **We expect market volatility to increase in Q3 ahead of rising headline risks from Fed policy outlook**
- **Primary markets expected to remain relatively inactive in July-August**
- **Weaker rating outlook for EE and SEE does not warrant much optimism**
- **We would overweight EE for technical reasons, market weight CE and underweight SEE**

EMBIG USD index & spreads*

	24-Jun		Spread value, bp		
	Index	Spread, bp	Q/Q*	5y min	5y max
PL (A-)	581	101	20	71	361
LT (A-)	167	114	27	81	493
BG (BB+)	1018	68	0	31	378
RO (BBB-)	142	174	0	141	528
TR* (BBB-)	692	241	-15	137	411
HU (BB+)	289	177	-14	159	726
RU (BB+)	948	309	-101	151	702
HR (BB)	146	257	-13	172	657
RS (BB-)	217	269	-10	217	724
BY (B-)	142	855	-279	476	1747
UA (CCC-)	399	2684	-1412	393	4281
Europe*	1018	311	-61	173	485
Africa	890	342	-25	183	462
Asia	586	202	-11	133	335
Mid East	478	406	-45	280	514
Latam	595	485	-21	285	587
Global	**678**	**369**	**-33**	**227**	**476**
Inv.grade	**527**	**217**	**-12**	**136**	**324**
BB	**651**	**305**	**-47**	**188**	**500**
B	**1088**	**443**	**-24**	**377**	**1099**

** TR – Turkey Fitch rating, Europe – CEE, Q/Q – quarter-on-quarter (latest = cut-off date), 5y – 5-year minimum and maximum*
Source: Thomson-Reuters, RBI/Raiffeisen RESEARCH

CEE EMBIG rating spread (bp)*



** JPM USD EMBI Global index family, TR - Turkey Fitch rating, rating spread is sovereign spread minus respective rating aggregated spread (EMBIG)*
Source: Thomson Reuters

Market trends

The fading optimism about the Fed policy outlook coupled with the escalation of the Greece debt crisis partly trimmed the performance of CEE Eurobonds at the end of Q2. Still, **CEE managed to outperform the broader market in Q2, delivering a 2.2% price upside** compared to just 0.3% for Global EMBIG USD. This surprisingly strong outcome was possible due to spread contraction from extraordinary high levels for distressed Ukraine and Belarusian Eurobonds. In Ukraine in particular, abnormal volatility contributed to a staggering 38.6% index gain in part thanks to outperformance of some quasi-sovereign bonds included in the index and investors taking a more positive outlook on the upcoming debt restructuring. By contrast, our buy recommendations for Poland and Romania ended Q2 in the red resulting in a 2.4% loss. In particular, the political volatility in Poland played against us while in Romania the risk of fiscal slackening pushed up spreads.

Primary markets

There was not much to report on primary markets for Q2 as issuing activity in CEE hit nearly zero during the period. In fact, in Q2 only Turkey and Poland issued sovereign Eurobonds while Ukraine placed another USD 1 bn under USAID guarantees. **Compared to Q1, sovereign issuance plummeted by nearly 81%,** excluding the Ukraine USAID issue. As the delays in primary markets were triggered by a sudden rise in Bund yields as well as UST yields, many CEE sovereigns postponed their plans. Since the outlook for Q3 should be similarly bearish, we project little activity in primary markets in July-August. Currently, the most likely issuers in the pipeline would be Kazakhstan in USD and Albania, Romania, Serbia, and Latvia in EUR. Still, **we would expect issuance to gain speed only by September.**

Outlook & Strategy

The market outlook for Q3 remains complex, due to a combination of different factors which do not necessarily correlate with each other. First of all, **market volatility is likely to go up as relatively tight CEE risk pricing and rising headline risks from Fed policy outlook** in Q4 may start impacting market confidence already in Q3. We project the correlations between CEE Eurobonds and UST yields to strengthen going forward, which will most likely bring more risk selling and higher spreads for CEE.

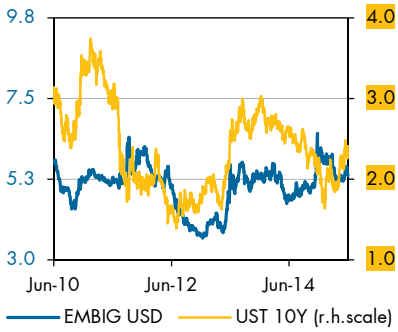
In particular, we calculated historical volatilities using 1m, 3m and 6m rolling correlations and compared them against CEE spread volatility. In our sample, a 6m correlation showed better predictive power, whereas the currently simultaneous rise in 3m and 6m correlations could point to a higher risk of a bear market for CEE. Meanwhile, the 1m correlation jumped to 0.8 from the start of June to the present. We also find that lower beta, higher-rated sovereigns such as Poland or Romania may be more susceptible to UST tail risks due to their tight pricing as

opposed to higher-yielding EE or Serbia. Still, we would be inclined to hold CE risk which might be smaller compared to highly volatile, high risk EE. Secondly, **CE could become the only sub-region to retain a positive rating outlook, while SEE could face structural weaknesses** in the form of possible fiscal slackening in Romania and the risk of contagion from Greece for Macedonia and a few other SEE from financial markets. At the same time, the EE rating outlook will remain under strong negative pressure mainly due to the Russia-Ukraine conflict. Last but not least, we fear additional risk in the form of lower market liquidity which could impact smaller CEE Eurobond markets. As international banks exit from proprietary trading and market-making activity is also slowing down, we might expect to see some liquidity setbacks in the case of increasing risk selling.

Talking about recommendations, **we would be inclined to remain market weight in CEE, while inside CEE we would give our preference to CE and EE**. In CE, we see the EU convergence story continuing as nearly all countries did fairly well in reducing past macroeconomic imbalances. Within CE, we would pick Poland as the market unjustly beat down its Eurobond prices on political risk. In EE, we would be targeting higher volatility and very high spreads to limit possible setbacks in case of risk selling while the potential for more spread tightening remains in the case of further de-escalation of the Russia-Ukraine conflict. In particular, we continue to favour Belarus which could count on direct Russian financial help in the present political situation. In SEE, we would recommend a slight underweight. We are particularly bearish on Serbia due to the very tight valuations and remain concerned about Croatia's debt overhang risk. Meanwhile, we would risk overweighting Turkey on an expected slow normalisation of domestic politics and no new political elections, despite government formation risks.

Financial analyst: Gintaras Shlizhyus, RBI Vienna

CEE EMBIG vs. UST 10y yields, %*



** JPM EMBI Global index family; Source: Thomson Reuters, Bloomberg, RBI/Raiffeisen RESEARCH*

CEE ratings direction

	rating *	RBI view **
CE:		
CZ	AA-/A1/A+	⇔
SK	A/A2/A+	⇧
PL	A-/A2/A-	⇔
LT	A-/A3/A-	⇔
SI	A-/Baa3/BBB+	⇧⇔
HU	BB+/Ba1/BB+	⇧
SEE:		
RO	BBB-/Baa3/BBB-	⇔
BG	BB+/Baa2/BBB-	⇔
TR*	BB+u/Baa3/BBB-	⇩⇔
HR	BB/Ba1/BB	⇩
RS	BB-/B1/B+	⇔
AL	B/B1/n.r.	⇔
BH	B/B3/n.r.	⇔
CIS:		
RU	BB+/Ba1/BBB-	⇩⇔
BY	B-/Caa1/n.r.	⇩⇔
UA	CC/Ca/CC	⇩

*⇔ no change, ⇧ upgrade possible, ⇩ downgrade possible; * rating – S&P/Moody's/Fitch*
*** RBI/Raiffeisen RESEARCH view – the likelihood of rating change in 3 to 12 months*
Source: Rating agencies, RBI/Raiffeisen RESEARCH

Benchmark Eurobond forecast and performance

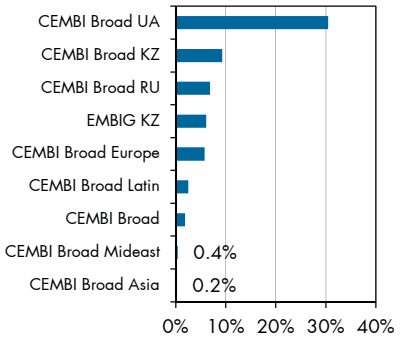
				Spread		Range			Spread	Range			Spread	Range		
Issue		**Rating**	**Dur.**	**24-Jun**	**Sep-15**	**min.**	**max.**	**Perf. (%)**	**Dec-15**	**min.**	**max.**	**Perf. (%)**	**Mar-16**	**min.**	**max.**	**Perf. (%)**
PL 3% due 23	USD	A-	6.9	**83**	**90**	88	100	-1.2	**100**	97	110	-2.5	**102**	100	112	-4.1
PL 4.5% due 22	EUR	A-	5.8	**75**	**55**	48	72	1.6	**67**	60	84	0.3	**70**	63	87	0.1
LT 6.625% due 22	USD	A-	5.4	**83**	**95**	91	102	-1.2	**108**	104	115	-2.5	**109**	105	116	-3.6
LT 4.85% due 18	EUR	A-	2.5	**41**	**45**	44	51	0.0	**57**	56	63	-0.3	**59**	57	64	-0.3
TR 3.25% due 23	USD*	BBB-	6.8	**181**	**185**	184	199	-0.9	**201**	200	215	-2.7	**205**	204	219	-4.4
TR 5.125% due 20	EUR*	BBB-	4.4	**243**	**225**	219	244	1.0	**235**	228	254	0.1	**239**	232	258	-0.1
RO 4.375% due 23	USD	BBB-	6.9	**138**	**150**	146	158	-1.5	**169**	165	178	-3.5	**171**	167	179	-5.0
RO 4.875% due 19	EUR	BBB-	3.9	**124**	**130**	128	133	-0.1	**137**	135	141	-0.8	**137**	135	141	-0.8
BG 4.25% due 17	EUR	BB+	1.9	**96**	**100**	97	106	0.0	**101**	98	106	0.0	**102**	99	107	0.0
RU 4.5% due 22	USD	BB+	5.8	**230**	**250**	243	264	-1.7	**270**	263	284	-3.5	**272**	265	286	-4.7
HU 5.375% due 23	USD	BB+	6.3	**155**	**150**	147	152	-0.4	**151**	148	152	-1.0	**150**	147	152	-2.3
HU 3.875% due 20	EUR	BB+	4.3	**140**	**160**	146	167	-0.7	**155**	141	162	-0.9	**153**	139	160	-0.8
HR 5.5% due 23	USD	BB	6.3	**240**	**260**	253	274	-1.9	**294**	287	308	-4.7	**296**	289	310	-6.1
HR 3.875% due 22	EUR	BB	6.1	**315**	**320**	316	338	0.1	**346**	342	364	-2.1	**351**	347	369	-2.4
RS 7.25% due 21	USD	BB-	5.1	**296**	**285**	281	293	-0.4	**295**	291	303	-1.4	**296**	292	304	-2.0
BY 8.95% due 18	USD	B-	2.2	**902**	**720**	591	784	3.3	**752**	623	817	2.4	**700**	571	764	3.1
UA 7.5% due 23	USD	CC	4.7	**1692**	**1450**	1279	1536	10.9	**950**	779	1036	34.0	**850**	679	936	37.8

** USD bond spreads to UST notes, EUR bond spreads to German Bunds, Perf. as cumulative return of gross prices up to forecast horizon, countries sorted by S&P rating, Turkey – Fitch rating; Source: Bloomberg, S&P, Fitch, RBI/Raiffeisen RESEARCH*

Take profits, the rally was good enough

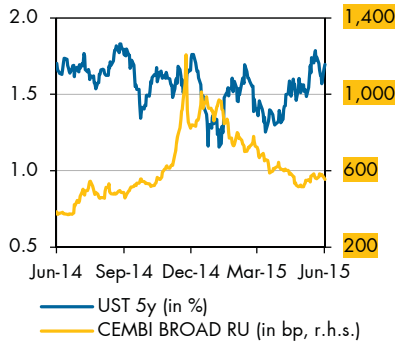
- **Fed's hike not a surprise but provides for no support**
- **Peacekeeping process in Ukraine still fragile**
- **Refinancing window remains closed**
- **Political headwinds in Poland on the rise**

Q2 2015 qtd returns



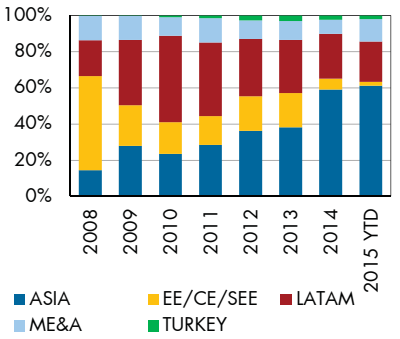
**data are for Broad Series*
5y average annual return in %: CEMBI Broad: 6.1, EMBIG KZ: 6.0, CEMBI Broad Asia: 6.5, CEMBI Broad Europe: 6.2,CEMBI Broad KZ: 0.2, CEMBI Broad Latin: 5.5, CEMBI Broad Mideast: 6.9, CEMBI Broad RU: 6.7, CEMBI Broad UA: 2.3
Source: JP Morgan, RBI/Raiffeisen RESEARCH

UST vs. CEMBI RU Index



UST: 5y high: 2.4 %, 5y low: 0.54 %
CEMBI BROAD RU: 5y high: 1207bp; 5y low: 254bp
Source: Bloomberg, JP Morgan, RBI/Raiffeisen RESEARCH

EM corporate issuance (%)



Source: Bond Radar, RBI/Raiffeisen RESEARCH

All in all, **we suggest profit-taking on EE corporate credits and a more defensive positioning** to be the best strategy following the solid market rally and mounting risks on the downside. We think that **the impact of the start of the monetary tightening cycle by the Fed**, which is expected as soon as September, **will be muted** as the market has been prepared for the Fed's move for too long a time to consider it a surprise. However, **monetary tightening is clearly not supportive of spread tightening in the EM credit space** as the credit cycle is likely turning to wider spreads towards the end-2015. **The binomial nature of the EE credit story** and its susceptibility to the resurgence of fighting in eastern Ukraine remain amongst the risks to be watched.

We suggest that further short-term gains will be rather limited given the usually lower trading volumes in the summer season while the shaky peacekeeping process in Ukraine may keep the market busy with negative news flow. On a similar note, the news about the possible positioning of US troops in the Baltics and Poland may provide for more negative sentiment towards EE credits in the next quarter.

From where we stand now, we do not see reasons for a softening of the sanction rhetoric. In addition, the EU's sanctions were extended, as expected, by six months on 22 June. The extension of sanctions, although widely expected, remains negative for Russian credits, while liquidity remains of paramount importance as, in our opinion, the refinancing window will remain closed well into 2016. However, in our covered corporate space we see several factors mitigating the imminent liquidity bottlenecks. To name just a few: increased cash balances, reduced capex spending plans, and active debt management. We would also highlight companies' efforts aimed at balance sheet repair which have been observed at a number of issuers.

Looking at sectors, **deleveraging remains the main focus in metals and mining**. Both Evraz and Severstal are involved in debt reduction and cost optimisation strategies. The general negative trend in steel pricing is somewhat mitigated by higher operating cash flows from international sales due to a weaker rouble and a measured pick-up in RUB-denominated domestic prices in some segments. Looking at credit metrics, Severstal remains better off with robust cash buffers and very low leverage, while Evraz's liquidity position is only adequate. We are maintaining our buy call on Severstal 5.9% due 2022.

Turning to Russian mobile operators, we think that the effects of rouble depreciation that started in Q3 2014 will be carried forward also into 2015. To recap, VimpelCom and MTS have 70% and 30% of their outstanding debt and a large amount of their capex denominated in USD and the US dollar is also their reporting currency. By contrast, their revenues are largely rouble-denominated which makes their EBITDA particularly vulnerable to a weaker rouble. That said, we expect there to be negative pressure on EBITDA related to FX losses in 2015 as the average conversion rate applied to 2014 RUB revenues was positively impacted by the higher RUB exchange rate in the first 9-10 months of 2014, which will

likely not be the case in 2015. We maintain our sell call on VimpelCom 9.125% due 2018.

In the oil and gas segment, the companies' performance continues to be impacted by the low oil price environment. However, in the environment of weak RUB (against USD), the export nature of the revenues and mainly RUB-denominated costs provide for solid performance. We see the risks of liquidity problems in our covered universe as limited with companies making use of their domestic banking relationships, reducing capex, and preserving cash on the balance sheets. Under the current market conditions, we prefer the state-owned Gazprom and on the private side the non-sanctioned Lukoil.

In the fertilizer sector, companies continued to benefit from weak RUB with export revenues recording new record heights. Phosagro additionally benefited from improved supply and demand dynamics mainly on the back of reviving demand from India. On the other hand, Uralkali is suffering from issuer-specific risks which include the incident in its Solikamsk-2 mine as well as USD 1.1 bn share buyback which reduced its liquidity cushion. As such we prefer the fundamentally solid Phosagro against Uralkali where several challenges are on the horizon.

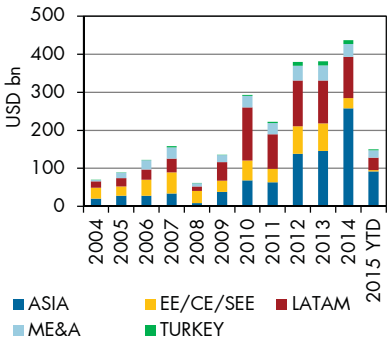
Looking at performance of EE credits, the CEMBI Broad Europe Index (CEMBI Europe), mostly comprising Russian credits, reached this year's z-spread minimum on 22 May at 474bp. Accordingly, the rally on Russian credits translated into 259bp in spread tightening YTD. In the quarter to date, the performance of EE credits was dominated by the rally in EE credits. Ukraine returned 30.4% ahead of Kazakhstan (9.3%), Russia (6.9%), LatAm (5.5%), MidEast (0.4%), and Asia (0.2%).

Turning to CE, political headwinds are on the rise in Poland after the political case of Law and Justice Party (PiS) was bolstered in the May presidential elections. The party's radical stance towards banks will likely bring about more volatility and negative newsflow in the run-up to the general elections in October. Similarly, rating reviews related to insolvency laws brought lower support assumptions and resulted in rating downgrades of PKO BP by S&P and BOS Bank by Fitch. We maintain our sell recommendation on BREPW 2.375% due 2019, as mBank remains largely exposed to the CHF mortgage story due to its 47% share of FX loans and 27% share of CHF credits in its loan-book in Q1 2015.

Overall EM primary market activity amounted to almost USD 100 bn for the quarter to date (qtd). This compares well to Q1 2015 although it is 50% lower yoy. Issuance was once again driven by Asia, which accounted for 57% of the total. The EE/CE/SEE market activity remained subdued with sovereign issues (Ukraine, Poland) driving the overall activity. Sovereign issues accounted for 72% of the total USD 2.2 bn issued. With the still uncertain situation in eastern Ukraine as fighting continues, we have seen no corporate deals from EE. In CE, financial institutions dominated activity with most deals priced in April. In June, we have seen small issue coming from Latvian state-owned electric utility provider Latvenergo (EUR 75 mn, 7y). In the pipeline we currently have a possible deal from Russian producer of merchant coke, IMH (Koks Group), which mandated banks to organise a series of meetings with fixed income investors in Europe. If successfully issued, this will be the first Eurobond issue by a Russian company since November 2014. With the summer months ahead, we expect primary market activity to remain subdued in the coming quarter.

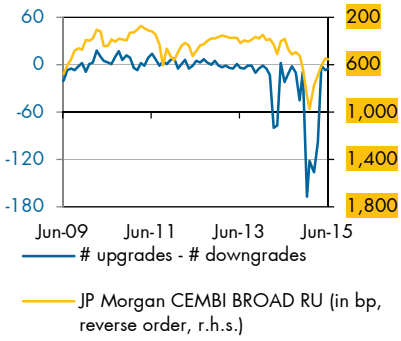
Financial analysts: Martin Kutny, Lubica Sikova, CFA, RBI Vienna

EM corporate issuance



Source: Bond Radar, RBI/Raiffeisen RESEARCH

Rating drift in Russia



CEMBI BROAD: 5y high: 571bp; 5y low: 265bp
Source: Bloomberg, JP Morgan, RBI/Raiffeisen RESEARCH

Selected EE Eurobonds

Issuer	ISIN	Maturity	Yield in %
Alfa Bank	XS0544362972	25/09/17	6.5
Evraz	XS0618905219	27/04/18	9.0
Gazprom	XS0708813810	23/01/21	7.3
Sberbank	XS0799357354	28/06/19	7.2
Vimpel-Com	XS0587031096	02/02/21	8.4

Source: Bloomberg, RBI/Raiffeisen RESEARCH

Fundamental data take the upper hand

- **Greece remains on of the main issues**
- **Ultimately, solid fundamental conditions should come into focus again**
- **ATX expected to be higher by the end of September**

Value matrix*

Domestic business activity		2	(3)
Exports	OECD – excl. Eastern Europe	2	(2)
	Eastern Europe	2	(2)
	Asia	2	(2)
Company earnings		2	(2)
Key sectors		2	(3)
Valuation – P/E-ratio		3	(3)
Interest rates / yields		1	(1)
Exchange rates		1	(1)
Foreign equity markets		1	(1)
European liquidity		1	(1)
Technical outlook		2	(1)

1 (4) denotes highly positive (negative) influence on the market. All factors are weighted equally.
** expected trend for the next 3 to 6 months*
Source: RBI/Raiffeisen RESEARCH, Raiffeisen Centrobank

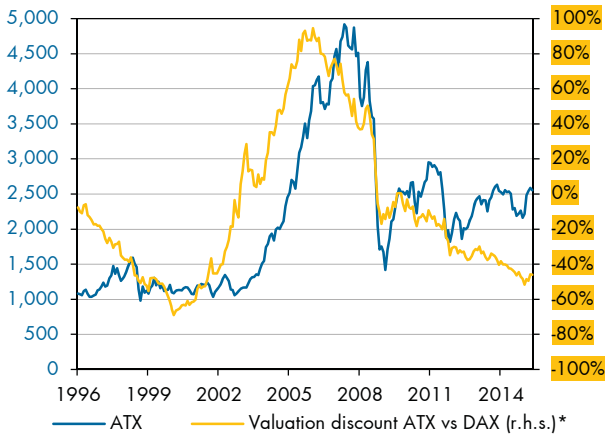
After putting in a rousing performance at times this year and even ranking as one of the strongest stock indices in Europe, the ATX was then hit by a steep decline from its annual high, due to rising risk aversion on the international equity markets. The intense, very rapid increase in yields on EUR government bonds also added to the uncertainty. Naturally, the escalation of the situation with Greece also played an important role.

On the whole, **economic conditions in Austria** can be described as being **mixed**. Although the leading indicators for Austria are pointing to a mild improvement, we only project that this will be enough to boost GDP growth to 0.7% this year. In 2016, growth should then advance to 1.8%, but both the 2015 and the 2016 figures will come in lower than the average for the euro area as a whole. In Eastern Europe, developments in the CE region and the EE region are moving in different directions. While economic activity in the CE region still looks strong, the weak performance of the Russian economy will continue to cause problems for the EE region.

On the corporate front, the data presented in the last reporting season were relatively robust looking. Most of the companies in the ATX were able to present figures which were better than the consensus expectations. In terms of heavyweights, Erste Group or Andritz were able to beat market expectations, whereas the performance of OMV was disappointing. By contrast, there were **only a few surprises in the guidances.** The targets were generally confirmed for the aforementioned companies.

Naturally, **Greece** continues to be a **major topic** on the Austrian equity market. We believe that a temporary agreement between Greece and its creditors is still a realistic outcome. Accordingly, there should not be any looming risk of contagion, and thus we now view the threat of an escalation – which we had originally discussed, and the related possibility of short-term setbacks – as being

ATX shows valuation discount



** Cyclically adjusted price/earnings ratio based on rolling 10 year trailing index earnings*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Sector structure of the ATX

Sector	Company	Weight
Financials	BUWOG, CA Immobilien, conwert, Erste Group, Immofinanz, Raiffeisen Bank International, Uniqa, Vienna Insurance Group	21.7%
Industrials	Andritz, Flughafen Wien, Oesterreichische Post, Wienerberger, Zumtobel	41.6%
Energy	OMV, SBO	13.2%
Basic materials	Lenzing, RHI, voestalpine	19.0%
Telecom	Telekom Austria	2.1%
Utilities	Verbund	2.4%

Source: RBI/Raiffeisen RESEARCH, Raiffeisen Centrobank, Vienna Stock Exchange

limited. Fundamentally speaking, market participants are quite aware that, if necessary, there are instruments available to prevent anything catastrophic from happening, in the form of the ESM and the ECB's purchases of government bonds. Hence, as soon as there is at least a temporary agreement on the table, we expect to see positive effects for the Austrian stock market.

In the case that Greece does indeed exit the euro area (which still cannot be ruled out as a possible outcome), we believe that the equity markets would be able to handle the turbulence over the medium, but of course the situation would certainly be somewhat different, as the problems involved would be significantly more severe. In addition to an intense rise in risk aversion, one would also have to expect a weaker EUR versus USD in such a case. Fundamentally, such a development would certainly be beneficial for some of the companies in the ATX at the operative level, as they generate a considerable portion of their revenues in USD. These include firms such as SBO and RHI. On the other hand, a stronger USD would not be palatable for the real estate company Immofinanz. Possible spread widening on EUR government bonds would also have an impact on Austrian banks and insurers.

As for the development of **earnings**, we stand by our expectation that there will be a clear-cut rebound this year. Although our forecast for earnings growth may look very high at first glance (**+78.5 % for the ATX companies**), this mainly results from the low base from 2014.

Due to the setbacks in prices, **valuations** have dropped back to more **moderate** levels again. Based on aggregate earnings for 2015, the ATX shows a P/E ratio of 14.4, which is lower compared to other Western European stock indices. In our view, the equity market continues to look attractive compared to the bond market. Even though the increase in yields on EUR government bonds frightened many people, at the current levels we do not see any reason to change our view of things.

Summary: In the weeks to come, a great deal will depend on how the situation with Greece develops. As described above, we expect that the crisis will be defused. Accordingly, sooner or later we expect a shift in focus back to the solid fundamental data being produced by the companies in the ATX. Furthermore, the supply of liquidity will continue to be abundant, due to the ECB's bond purchase programme. All in all, we thus expect to see **higher index levels for the ATX by the end of September**.

Financial analyst: Johannes Mattner, RBI Vienna

Fair value of ATX[1] – June 2015

	Bond yields (10y)		
EY-BY[2]	1.25%	1.50%	1.75%
7.50%	2,490	2,420	2,355
7.25%	2,563	2,490	2,420
7.00%	2,641	2,563	2,490
6.75%	2,723	2,641	2,563
6.50%	2,811	2,723	2,641
6.25%	2,905	2,811	2,723
6.00%	3,005	2,905	2,811
5.75%	3,112	3,005	2,905
5.50%	3,227	3,112	3,005
5.25%	3,351	3,227	3,112
5.00%	3,486	3,351	3,227
4.75%	3,631	3,486	3,351
4.50%	3,789	3,631	3,486
4.25%	3,961	3,789	3,631

[1] based on the expected earnings for 2015/2016 (i.e. 217.8 index points)
[2] earnings yield less bond yield
Source: RBI/Raiffeisen RESEARCH, Raiffeisen Centrobank

Earnings yield* less bond yield

** earnings yield = E/P; based on 12-month forward earnings*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH, Raiffeisen Centrobank

Valuation and forecasts

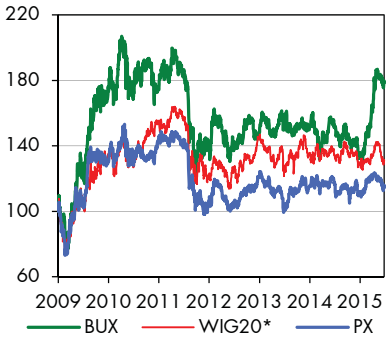
	24-Jun[1]	Sep-15	Dec-15	Mar-16	Jun-16
12-months forward earnings	218.0	185.4	196.3	207.1	217.8
Bond yield forecast	0.38	1.10	1.15	1.15	1.60
Earnings yield less bond yield (EY-BY)	**8.29**	**6.00**	**6.00**	**6.50**	**6.75**
ATX-forecast based on EY-BY		2,612	2,746	2,707	2,609
ATX-forecast	**2,513.8**	**2,620**	**2,700**	**2,690**	**2,620**
Expected price change		4.2%	7.4%	7.0%	4.2%
Range		2,200-2,700	2,400-2,900	2,400-2,900	2,300-2,800
P/E based on 12-month forward earnings	11.5	14.1	13.8	13.0	12.0

[1] 11:59 p.m. (CET); Source: RBI/Raiffeisen RESEARCH, Raiffeisen Centrobank

CEE stock markets still supported by monetary supply

- **Geopolitical conflict in Ukraine continues to be an issue; no further major escalation anticipated**
- **Moderate valuations for most CEE indices**
- **No major problems expected for CEE equity markets due to US interest rate hikes**

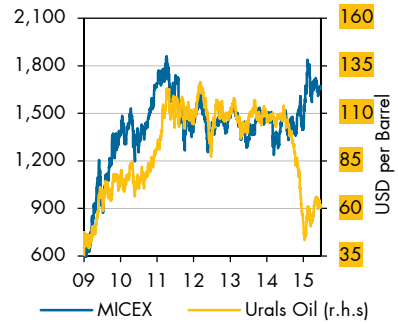
CE core indices



In local currency
** Due to the short data history of the WIG 30 index we still use the WIG 20*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

CEE stock markets also continued their heterogeneous performance in Q2 2015. Although the rouble-denominated MICEX once again made gains, this should be merely interpreted as a temporary suppression of the Ukraine/Russia conflict and the media interest has slipped into the background due to the omnipresent Greek crisis. The current escalation could be negatively felt on CEE stock markets for a time. Nonetheless, we do not expect any overly great strains on the international equity markets, and instead we would anticipate just a temporary phase of weakness, thanks to the preparations which have been taken everywhere so far. Turning to monetary policy, we project that the first interest rate hike in the USA will come in September. As this topic has already been discussed extensively on the international financial markets, we presume that the negative effects for the equity markets should be limited. Due to the still high level of monetary supply (QE in Europe) and our expectations of solid economic performance, we remain bullish on European equities, and this also includes the CEE region due to the economic ties.

MICEX vs Oil



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Looking forward, the development of the **Russian MICEX** will mainly depend on two key factors: the oil price and the political relationship with the West. In respect of the oil price, we expect a tangible increase by year-end. First and foremost, energy sector names should profit from this development, with these companies accounting for 51% of the index. This outlook is supported in particular by the decline in supply due to lower shale oil production in the USA. With the sanctions extended until 2016 there has been no easing in Russia's relations with Europe and the USA so far. Even though there are more and more calls in Europe for the sanctions to be eased, we do not expect a solution to be found in 2015. We only expect to see progress in the negotiations in 2016, if there is any at all. Both risk factors – the oil price and politics – have a key impact on the exchange rate of the rouble. In this regard, we do not project any further appreciation, especially since the Russian central bank is quite satisfied with the current exchange rate and is putting USD 100 mn to USD 200 mn worth of roubles on the market everyday to boost its currency reserves from the current level of USD 360 bn to the targeted amount of USD 500 bn. Valuations on the stock market continue to look attractive, and thus we see room for an increase in valuations in the event

Value matrix stock markets

	PL		HU		CZ		RU		RO		HR		TR	
Politics	4	(3)	2	(3)	2	(2)	4	(4)	2	(2)	3	(3)	4	(3)
Interest rate trends	2	(2)	1	(2)	1	(1)	3	(3)	2	(2)	2	(2)	3	(2)
Earnings outlook	2	(2)	2	(2)	3	(2)	2	(3)	3	(2)	2	(3)	2	(1)
Key sectors	3	(2)	2	(2)	3	(2)	2	(4)	2	(3)	2	(3)	2	(2)
Valuation (P/E)	3	(3)	2	(3)	3	(3)	1	(1)	2	(2)	2	(3)	2	(2)
Liquidity	1	(1)	3	(3)	3	(3)	1	(1)	3	(3)	4	(4)	1	(1)
Technicals	3	(2)	1	(2)	3	(2)	3	(4)	3	(3)	2	(4)	3	(1)

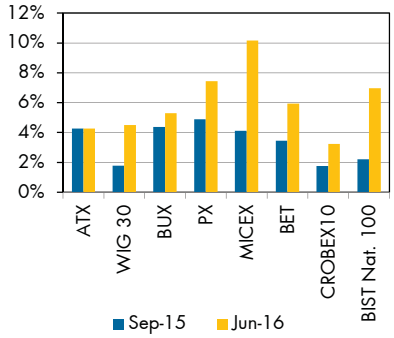
1 (4) denotes highly positive (negative) influence on the market. All factors are weighted equally. Assessment refers to a 3-month period.
Source: RBI/Raiffeisen RESEARCH

of earnings revisions. All in all, we forecast volatile, but ultimately positive performance for the MICEX until year-end. **Buy**.

With modest performance of 3.5% since the start of the year the **Polish WIG 30** lagged behind its local peers in Hungary and the Czech Republic. This is hardly due to the economic conditions, however, since Poland's projected 2015 GDP growth rate of 3.9% looks extremely robust (based on rising local demand and investment activity). The negative impact still seems to be coming from the effects of the pension reform and additionally from the mounting political uncertainty. As the nationalist-conservative opposition party Law and Justice (PiS) won the presidential election with its candidate Andrzej Duda in May, many surveys are now indicating that PiS may also emerge as the strongest party from the parliamentary elections in autumn (most likely in October). The related changes in the political landscape are causing some uncertainty among investors, who are worried about a "Hungary-light" scenario. This will probably have a negative impact on the performance of the Polish stock market in the run-up to the elections, due to the likely rise in populist rhetoric. **Hold**.

With a loss of around 5.0% in Q2 2015, the **Czech PX** index brought up the rear for the Eastern European indices. The main reason for this was the index heavyweight VIG, which saw its stock price fall by almost 23%. Along with the poor conditions for insurance companies, the firm's removal from the MCSI Austria at

Expected index performance



Source: RBI/Raiffeisen RESEARCH

Indices in performance comparison

	2006	2007	2008	2009	2010	2011	2012	2013	2014	24-Jun-15[1]
ATX	21.7%	1.1%	-61.2%	42.5%	16.4%	-34.9%	26.9%	6.1%	-15.2%	16.3%
BUX	19.5%	5.6%	-53.3%	73.4%	0.5%	-20.4%	7.1%	2.2%	-10.4%	31.3%
WIG 20[2]	23.7%	5.2%	-48.2%	33.5%	14.9%	-21.9%	20.4%	-7.0%	-3.5%	1.4%
PX	7.9%	14.2%	-52.7%	30.2%	9.6%	-25.6%	14.0%	-4.8%	-4.3%	3.8%
MICEX	67.5%	11.5%	-67.2%	121.1%	23.2%	-16.9%	5.2%	2.0%	-7.1%	18.3%
BET	22.2%	22.1%	-70.5%	61.7%	12.3%	-17.7%	18.7%	26.1%	9.1%	2.4%
CROBEX	62.2%	63.2%	-67.1%	16.4%	5.3%	-17.6%	0.0%	3.1%	-3.1%	1.1%
BIST Nat. 100	-1.7%	42.0%	-51.6%	96.6%	24.9%	-22.3%	52.6%	-13.3%	26.4%	-1.8%
CECE Composite Index	14.7%	10.5%	-53.7%	40.5%	15.7%	-29.1%	25.7%	-9.6%	-6.0%	5.5%
DAX	22.0%	22.3%	-40.4%	23.8%	16.1%	-14.7%	29.1%	25.5%	2.7%	17.0%
Euro Stoxx 50	15.1%	6.8%	-44.4%	21.1%	-5.8%	-17.1%	13.8%	17.9%	1.2%	14.8%
S&P 500	13.6%	3.5%	-38.5%	23.5%	12.8%	0.0%	13.4%	29.6%	11.4%	2.4%
MSCI World	13.5%	2.8%	-40.1%	22.8%	7.8%	-7.6%	13.1%	26.3%	7.7%	6.1%

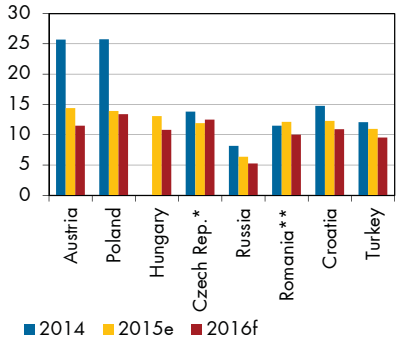
In local currency
[1] 11:59 p.m. (CET)
[2] Due to the short data history of the WIG 30 index we still use the WIG 20
Source: Bloomberg, Thomson Reuters, RBI/Raiffeisen RESEARCH

Stock market indicators

	Long-term earnings growth	Earnings growth			Price/earnings ratio			Dividend yield
		14	15e	16f	14	15e	16f	15e
ATX	4.2%	-40.7%	78.5%	24.7%	25.7	14.4	11.5	2.7%
WIG 30	2.9%	-43.8%	85.2%	3.9%	25.8	13.9	13.4	3.9%
BUX	3.5%	n.a.	n.a.	21.2%	n.a.	13.1	10.8	3.7%
PX*	3.9%	-0.1%	16.0%	-4.4%	13.8	11.9	12.5	5.5%
MICEX	3.2%	-45.0%	27.9%	21.5%	8.2	6.4	5.3	5.3%
BET**	5.6%	-12.3%	-5.1%	21.2%	11.5	12.1	10.0	5.3%
CROBEX10	1.5%	-14.6%	12.4%	20.2%	14.8	12.3	10.9	2.5%
BIST Nat. 100	4.9%	-0.7%	10.3%	15.1%	12.1	11.0	9.5	2.9%

** Czech Rep. (PX): excl. Central European Media Enterprises, New World Resources and Erste Group*
*** Romania (BET) excl. Fondul Proprietatea*
Source: Thomson Reuters, IBES, Bloomberg, RBI/Raiffeisen RESEARCH

P/E ratios in comparison



** Czech Rep. (PX): excl. Central European Media Enterprises, New World Resources and Erste Group*
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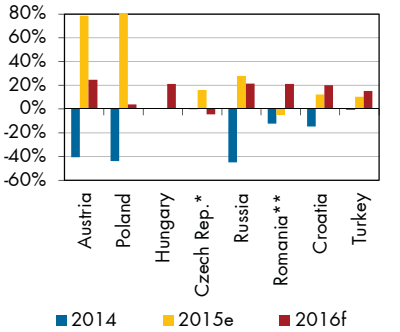
Source: Thomson Reuters, IBES, Bloomberg, RBI/Raiffeisen RESEARCH

Earnings growth



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*** Romania (BET) excl. Fondul Proprietatea*
Source: Thomson Reuters, IBES, Bloomberg, RBI/Raiffeisen RESEARCH

the end of May also triggered this steep price decline. However, viewed from a fundamental perspective, current conditions in Europe and in the Czech Republic itself (key rate: 0.05%; GDP growth 2015e: 3.2%) present quite a good setting for domestic firms. At the end of April, the European Commission approved an initial operational programme of EUR 8 bn for the Czech Republic, and this should have a positive impact on the Czech economy and thus also on the firms operating there. On an index basis, we project aggregate earnings growth of 16.0% for 2015, which should also contribute to a good performance for the Czech PX index. **Buy**.

The **Hungarian** stock market index **BUX** was much stronger than its local peers in Q2 2015 as well, and is now clearly the front-runner in CEE, with a gain of 31% since the beginning of the year. Generally speaking, economic conditions look quite robust (anticipated 2015 GDP growth of 3.0%), although we do expect some mild weakening in the quarters to come. Furthermore, despite its last rate cut of 15bp the rate-cutting cycle of the Hungarian central bank doesn't have to come to an end at 1.5%. Investor sentiment has been positively influenced by the political decision to eschew unorthodox measures going forward (e.g. announced reduction of the banking levy from 2016). The aggregate anticipated P/E ratio for the index for 2015 is currently 13.1, which is modest in our opinion. **Buy**.

The performance of the **Turkish BIST National 100** was overshadowed by the recent rise in political risk. If no government is formed within 45 days after the elections, the President can call new elections. The uncertain domestic political situation has weighed heavily on the Turkish stock market and on the currency as well. The relative weakness of the lira will probably also continue, in part due to interest rate hikes by the US Fed, and thus currency risk must be taken into account in any investment in Turkish stocks. In light of the rising oil price and weaker currency, it will probably also prove difficult to contain the country's chronically high current account deficit. Fundamentally, we still see Turkey's long-term growth perspectives as being intact. In particular, there is support from the modest valuations, with a P/E ratio of 11.0. Nevertheless, we only see limited potential in the quarters ahead, especially since the temporary jitters from politics and the currency could keep uncertainty high. **Hold**.

Index estimates

	24-Jun[1]	Sep-15	Dec-15	Mar-16	Jun-16	Recommendation
ATX	2,513	2,620	2,700	2,90	2,620	**BUY**
Performance		4.3%	7.4%	7.0%	4.3%	
Range		2,200-2,700	2,400-2,900	2,400-2,900	2,300-2,800	
WIG 30	2,574	2,620	2,730	2,720	2,690	**HOLD**
Performance		1.8%	6.1%	5.7%	4.5%	
Range		2,200-2,700	2,360-2,880	2,460-3,000	2,430-2,780	
BUX	21,845	22,800	23,700	23,500	23,000	**BUY**
Performance		4.4%	8.5%	7.6%	5.3%	
Range		18,600-23,000	20,600-25,200	21,300-26000	20,800-25,500	
PX	982	1,030	1,070	1,070	1,055	**BUY**
Performance		4.9%	9.0%	9.0%	7.4%	
Range		850-1,050	980-1,170	980-1,170	970-1,150	

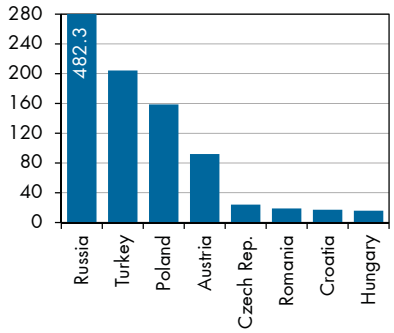
In local currency
[1] 11:59 p.m. (CET)
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

While the performance of the **Romanian** leading index **BET** was on the weak side at the start of year, it was able to post a gain of around 2.5% in Q2. The liberalisation of some state sectors called for by the IMF and the European Commission now seems to be gaining momentum: 51% stakes in the state-owned companies CFR Marfa and Posta Romana (in the event that no bid is received from the Belgian Post Group) may be sold via IPOs. This is expected to have a benign impact on the stock exchange in Bucharest. The Romanian central bank is also ensuring that investment conditions remain favourable, as the 25bp reduction seen in early May led to an historic low interest rate of 1.75%. Accordingly, we still foresee positive performance by the BET index, also in light of our increased forecast for economic growth (GDP 2015e: 4.0%; 2016f: 3.5%) and the projection for an aggregated 2015e P/E ratio of 12.1 for the BET. **Buy.**

Since the beginning of the year, **Croatia's** leading index **CROBEX10** has managed a gain of almost 1.5% and thus ranges in the back of the field among its Eastern European peers. On 1 June, the tobacco and tourism company Adris Grupa sold its tobacco division (TDR) to British Tobacco, in one of the biggest acquisitions ever seen in Croatia (transaction value after deduction of liabilities: EUR 505 mn). Although we forecast GDP to expand in 2015 for the first time in the last six years, the projected growth rate of 0.5% does not look adequate to actually generate any sustained positive momentum in the Croatia's economy. Considering the forecast for an aggregate 2015e P/E ratio of 12.3 on an index basis, we currently see little upside potential for prices in the CROBEX10. **Hold**.

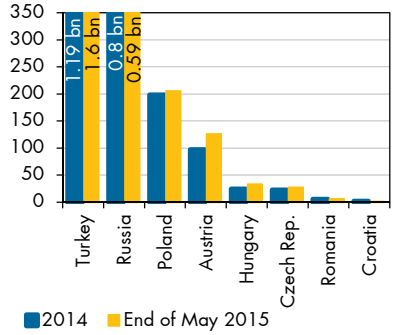
Financial analysts: Aaron Alber, Andreas Schiller, Christoph Vahs; RBI Vienna

Market capitalisation overview



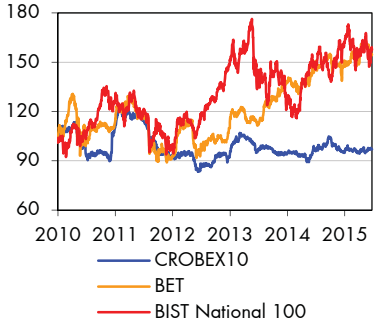
In EUR bn; end of May 2015
Source: FESE, WFE, ZSE, RBI/Raiffeisen RESEARCH

Avg. daily turnover (EUR mn)



Source: FESE, WFE, ZSE, RBI/Raiffeisen RESEARCH

SEE indices in comparison



Source: Bloomberg, RBI/Raiffeisen RESEARCH

Index estimates

	24-Jun[1]	Sep-15	Dec-15	Mar-16	Jun-16	Recommendation
MICEX	1,652	1,720	1,750	1,800	1,820	**BUY**
Performance		4.1%	5.9%	9.0%	10.2%	
Range		1,400-1,800	1,500-1,900	1600-1,950	1,700-2,000	
BET	7,250	7,500	7,750	7,740	7,680	**BUY**
Performance		3.4%	6.9%	6.8%	5.9%	
Range		6,400-7,700	7,130-8,460	7,120-8,450	7,060-8,390	
CROBEX10	1,022	1,040	1,060	1,060	1,055	**HOLD**
Performance		1.8%	3.7%	3.7%	3.2%	
Range		880-1,080	970-1,160	970-1,160	970-1,150	
BIST Nat. 100	84,141	86,000	88,000	88,000	90,000	**HOLD**
Performance		2.2%	4.6%	4.6%	7.0%	
Range		70,000-90,000	78,000-95,000	80,000-95,000	83,000-95,000	

In local currency
[1] 11:59 p.m. (CET)
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Stock Markets: Chance on advances

ATX

ATX Index, 24.06.2015 09:40 CET, 5y high: 3,000, 5y low: 1,652
Source: Bloomberg, RBI/Raiffeisen RESEARCH.

ATX

Last: 2,528 BULLISH

This recent bullish reversal at the upward-trendline (since 16.10.2014) hints on a possible rebound towards 2,680. As long as bullish confirmation is lacking at 2,560 another bearish signal at 2,400 (-> 2,240 – 2,180) cannot fully be ruled out. In case it made it past 2,680 the target again would be 3,030.

Position:
Buy -> 2,680 – 3,030
Stop 2,400

BIST National 100

XU100 Index, 24.06.2015 09:47 a.m. CET, 5y high: 93,178, 5y low: 49,621
Source: Bloomberg, RBI/Raiffeisen RESEARCH

BIST National 100

Last: 84,493 NEUTRAL

Since March 2014 the resistance 84,200 is of importance: once it holds firm, a correction reaching down to even 74,000 could be due, should instead it get crossed, another advance towards 92,000 is possible. As currently the index holds a little in below of this resistance line a major move is expectable, yet its direction has not been indicated as up to now.

Position:
Buy 84,200 -> 92,000
Sell 82,000 -> 76,000 – 74,000

BUX

BUX Index, 24.06.2015, 09:53 a.m. (CET), 5y high 24,451, 5y low 14,929
Source: Bloomberg, RBI/Raiffeisen RESEARCH

BUX

Last: 22,024 BULLISH

With regard to the recent bullish breakout (begin of April 2015) at 19,500 and the subsequent steep increase the current congestion (since begin of Mai 2015) could still be the central part of a bullish Pennant. Thus another rally towards 25,000 – 27,500 could be due. The first bullish signal would be a move beyond 22,250.

Position:
Buy -> 25,000 – 27,500
Stop 21,000

CROBEX 10

Last: 1,764 BULLISH

Since begin of 2012 the index except for three break-outs, two of them upwards and one downwards, is moving sideways in between 1,650 – 1,900. Regarding the pattern another upswing towards 1,900 should be expectable. A first bullish signal would be an advance to in beyond of 1,770, while a drop to in below of 1,660 would indicate a decline to about 1,500.

Position:
Buy 1,770 -> 1,900
Sell 1,670 -> 1,500

CROBEX

CRO Index, 24.06.2015, 10:00 p.m. CET, 5y high: 2,333, 5y low: 1,619
Source: Bloomberg, RBI/Raiffeisen RESEARCH

MICEX

Last: 1,658 BULLISH

The advance starting from second quarter 2009 that brought the Micex from about 500 to about 1,800 has been succeeded by a congestion, a so-called "Rounding Bottom", that is evolving to this day. A pattern like this should be followed by an advance like had been its predecessor. Bullish confirmation would be a move beyond 2,000.

Position:
Buy -> 1,838 – 2,000
Stop 1,500

MICEX

INDEXCF Index, 24.06.2015 10:04 p.m. CET, 5y high: 1,859, 5y low: 1,237
Source: Bloomberg, RBI/Raiffeisen RESEARCH

WIG 30

Last: 2,569 NEUTRAL

Since 19 April 2015 the WIG 30 has been climbing steadily. The current setback should thus be followed by a bullish reversal allowing for a subsequent rise towards about 2,800. A drop to in below of 2,510 would be contraindication and bearish confirmation indicating a decline towards the supporting area 2,430 – 2,340.

Position:
Buy 2,580 -> 2,770 – 2,800
Sell 2,510 -> 2,430 – 2,340

Financial analyst: Robert Schittler, RBI Vienna

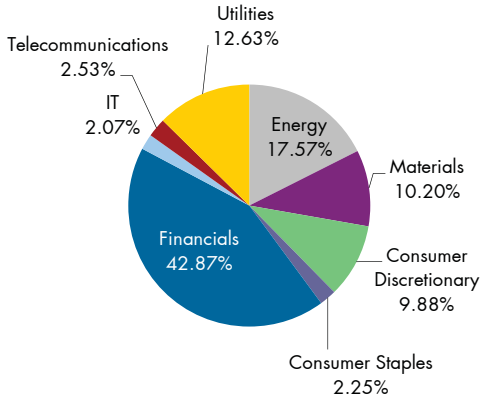
WIG 30

WIG30 Index, 24.06.2015 10:00 a.m. CET, 5y high: 2,960, 5y low: 2,062
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Sector weightings in comparison

Sector weightings Poland, WIG 30

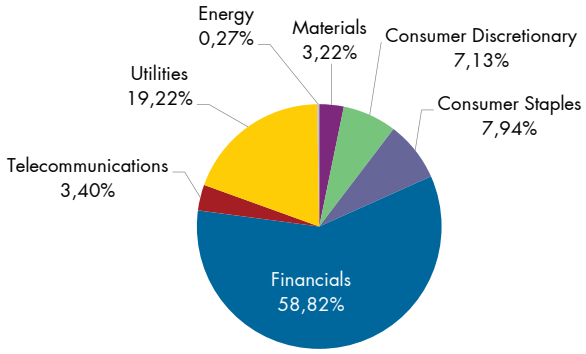
Dom. market cap.: EUR 158.8 bn (Source: FESE; 29-May15)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Sector weightings Czech Republic, PX

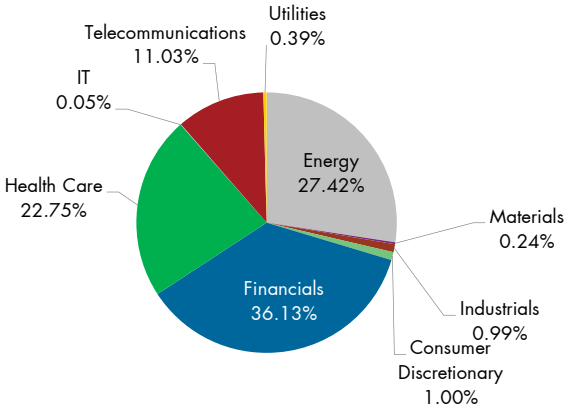
Dom. market cap.: EUR 24 bn (Source: FESE; 29-May15)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Sector weightings Hungary, BUX

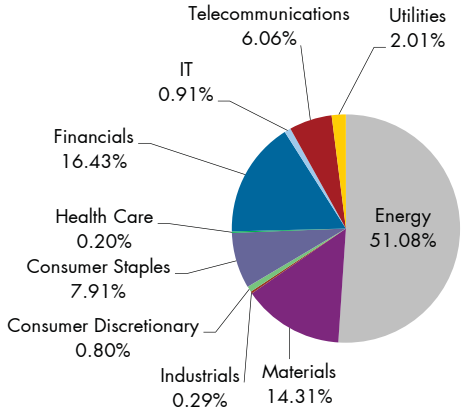
Dom. market cap.: EUR 15.8 bn (Source: FESE; 29-May15)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Sector weightings Russia, MICEX

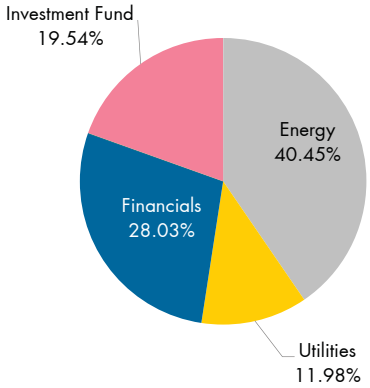
Dom. market cap.: EUR 482.3 bn (Source: WFE; 29-May15)



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Sector weightings Romania, BET

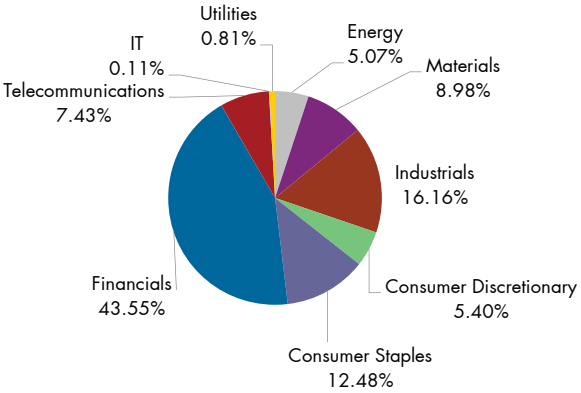
Dom. market cap.: EUR 19.1 bn (Source: FESE; 29-May15)



Source: Bloomberg, RBI/Raiffeisen RESEARCH

Sector weightings Turkey, BIST National 100

Dom. market cap.: EUR 204.4 bn (Source: FESE; 29-May15)



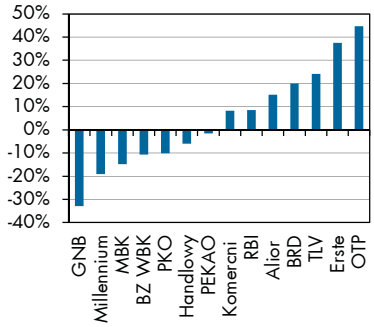
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Financials: Macro tailwinds vs. political headwinds

- **Good macro picture and likely end of easing cycle in CE, SEE to provide tailwind**
- **A Grexit scenario still appears as main risk for bank stocks**
- **Upcoming election campaign in Poland might trigger bank-unfriendly comments and high volatility of local banks' shares**

While regulatory issues around CHF mortgages triggered a sharp correction of the WIGBank Index in the first months of 2015 that was drawing to an end with the advent of an acceptable solution for all parties in May, **politics has recently become the main topic in Poland**. Instead of benefitting from the sound top-down story on healthy macro momentum and the end of the rate-cutting cycle, we are back to re-opening the **CHF topic** and thinking about the impact of the **potential bank tax.** Following the underperformance vs. main benchmarks, Polish banks trade at 1.5x P/B 2015e vs. 1.8x P/B 2015e a year ago. We continue to adjust the banks' fair values for an assumed base case from the banks' CHF proposal shaving off around 4% of the sector MCap. On top, we factor-in a ca. 20bp bank tax from 2017e, with an aggregate 7% impact on banks' MCap. In our view, BZ WBK, Bank Millennium (discount, high risk absorbing capacity) and Handlowy (dividend yield) offer the best risk/reward profiles. In the short term we would be cautious on PKO as apart from sector-wide risk it is directly exposed to political risks.

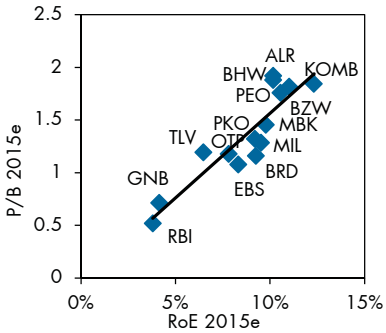
YTD performance



Source: Bloomberg, Raiffeisen Centrobank

Backed by the high capitalisation of **Komercni Banka** we believe the bank should be in a position to benefit from more dynamic lending growth in the Czech Republic and still keep dividend payments at last year's level, yielding ca. 6% at the current share price. We therefore recommend overweighting the stock versus peers until there is more certainty about a potential Grexit scenario. With regard to OTP we would expect a further rerating on a better outlook for Hungary and Bulgaria but only if Ukraine and Russian operations enter calmer waters. For Erste Group we remain neutral given the higher capital buffers likely required by the Austrian regulator and the already demanding consensus forecasts for 2016e and 2017e.

P/B - RoE 2015e regression



Source: Bloomberg, Raiffeisen Centrobank

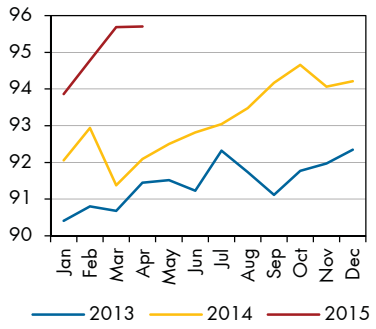
Given the expected higher volatility driven by the external factors (e.g. Greece) as well as local election campaigns, in our view the upcoming reporting season at Polish banks should not be a major event. Nevertheless, sector-wide we would still not expect any major recovery of earnings quality yet mainly due to weak top line performance as the combination of full loan re-pricing effect on the last key/Lombard rate cut in March, no revival on F&CI front and in addition by less favourable environment compared to Q1 for realizing bond gains via P&L. Also, the absence of the aggregated one-offs like in Q1 would have a negative effect on the reported net profit development qoq. On the other hand, we assume good momentum on the cost of risk front and flattish operating costs development.

Financial analysts: Jovan Sikimic, Stefan Maxian

Oil & Gas: US oils are not giving up yet

- **Oil price is still missing strong fundamental support**
- **Downstream players to further benefit from weak oil price**
- **We favour MOL and PKN and remain bearish on SBO**

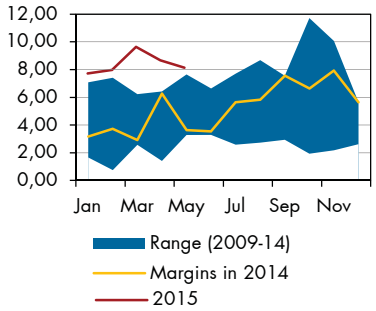
Global oil production (mn bbl/day)



Source: International Energy Agency

We reckon that the >20% recovery of the price of Brent from the lows recorded in January could have been driven by (i) speculative trading with oil traders taking advantage of the existing spread between the futures price and the spot price of oil (also known as "contango"), (ii) the end of the refinery maintenance season in the USA and Europe, (iii) upward revisions of global demand, (iv) slowing growth of crude production in the USA and (v) geopolitical instability in the Middle East (i.e. military actions in Yemen). We remain sceptical that the price of Brent has been anchored at above USD 60/bbl and that it can indeed go only north from here. Speculations about **possible production cuts by OPEC** look premature to us (the June meeting brought no policy change) considering that (i) oil is trading at less "harmful" levels, (ii) US production keeps growing and (iii) because global demand is forecast to strengthen this year. Moreover, a potential increase of Iranian output (provided that Iran reaches an agreement for a gradual lifting of Western sanctions) could send the price of Brent below the USD 60 level.

Northwest European refining margins*



** USD/bbl*
Source: Thomson Reuters

The low oil price environment has been extremely supportive for the downstream sector. The start of the driving season and the expected strengthening of motor fuel consumption should provide additional support to refining margins in Q2-3. In light of our view on the oil price and refining/petchem margins, we reckon that upstream companies could underperform the downstream players in the very short term. We are neutral on **OMV** and bullish on **MOL**, which is expected to clearly benefit in the current environment due to its significantly higher exposure to downstream. The oilfield service and equipment company, **SBO**, is expected to face a weaker environment. Lower E&P spending on the development of new oilfields by oil companies and possible postponement of non-critical maintenance of oilfields should keep the group's operating margins at modest levels. The winners should be the downstream players (i.e. **PKN**, **Lotos**), which benefit from cheaper feedstock. PKN is in a better position than Lotos due to an insignificant exposure to upstream as well as strong petchem and retail operations.

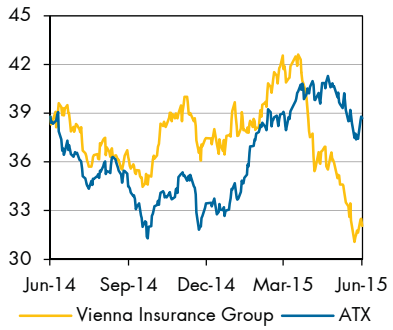
Financial analyst: Oleg Galbur

Vienna Insurance Group: The reward/risk profile has improved

- **Current share price: EUR 32.06**
- **Target price: EUR 39.00**
- **Market capitalisation: EUR 4,104 mn**

The share of Vienna Insurance Group has declined considerably in the past months. In mid-April, the share was still trading above EUR 42, but recently it hit a low of roughly EUR 31. This **severe drop** is attributable to a multitude of reasons: firstly, the company provided a negative surprise in April by stating that this year's earnings can be expected to be around last year's level. In response, consensus earnings estimates were scaled back by more than 10%. Shares of insurance companies have been generally weak in recent weeks because the low interest rate environment will most likely have a clearly negative impact on the investment income of this industry, and the intensification of the Greek crisis has dealt a blow particularly to the financial sector. Moreover, the results reported for Q1 15 can be considered a mixed bag. Additional selling pressure came from the elimination of the Vienna Insurance Group share from the **MSCI Austria Index** and from the **Stoxx 600**. Also the ex-dividend markdown (DPS 14: EUR 1.40) took place in June.

Vienna Insurance Group



Vienna Insurance Group: 5y high: EUR 43,65; 5y low: EUR 24,63
ATX: 5y high: 3,000.7, 5y low: 1,652.8
Source: Bloomberg

Nevertheless, we believe that the reward/risk profile is a lot better at the current price level, and we therefore upgraded the share to **BUY**. Historically, the share was trading at a premium compared to its peer companies most of the time, but the current valuation (P/E ratio some 10x) is roughly in line with the average of other European insurance companies' shares. When the result is adjusted for one-off charges expected for this year, the valuation even exhibits a slight discount, according to our calculations. Also the Price/Book Value multiple of 0.8x appears attractive. Furthermore, we anticipate better premium dynamics above all in the non-life business fuelled by the **strong economic performance** of such core CEE countries as the Czech Republic, Slovakia, Hungary and Poland. Also the Romanian insurance market – which registered high losses in the past years due to fierce competition – has shown signs of stabilisation of late thanks to regulatory interventions. The dividend of EUR 1.45 anticipated for this year translates into a current dividend yield of about 4.5%.

Financial analyst: Bernd Maurer

Income statement & balance sheet (IFRS)

in EUR mn	2014	2015e	2016f	2017f
Income Statement				
Gross written premiums	9,146	9,205	9,405	9,637
Net earned premiums	8,354	8,439	8,612	8,810
Net investment income	1,052	977	927	936
Insurence benefits net	-6,920	-6,826	-7,027	-7,182
Profit before tax	518	531	554	575
Net profit a.m.	352	391	411	426
Balance sheet				
Total assets	44,425	45,898	47,431	48,992
Shareholders' equity	5,283	5,437	5,598	5,668
Intangible assets	2,370	2,391	2,413	2,434
Investments	30,360	31,332	32,338	33,378

Source: Vienna Insurance Group, Raiffeisen estimates

Key ratios

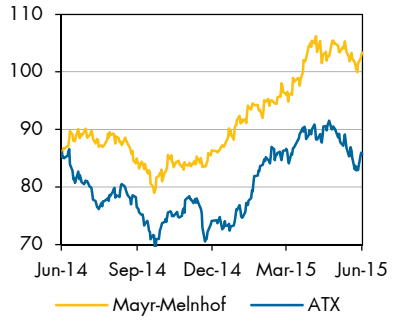
	2014	2015e	2016f	2017f
Cost ratio net group				
Benefit ratio net group	-82.8%	-80.9%	-81.6%	-81.5%
Combined Ratio	-96.7%	-96.6%	-96.2%	-95.9%
DPS	1.40	1.45	1.50	1.55
Dividend yield	3.8%	4.5%	4.7%	4.8%
EPS adj.	3.84	3.21	3.21	3.33
PER adj.	9.7	10.0	10.0	9.6
Book value per share	38.0	39.5	40.6	41.0
Price book value	1.0	0.8	0.8	0.8
ROE	10.4%	8.3%	8.0%	8.2%

Source: Vienna Insurance Group, Raiffeisen estimates

Mayr-Melnhof: Good Q1, M&A deal and plant closure

- **Current share price: EUR 103.4**
- **Target price: EUR 108.0**
- **Market capitalisation: EUR 2,067 mn**

Mayr-Melnhof



Mayr-Melnhof: 5y high: EUR 106,2; 5y low: EUR 61,35
ATX: 5y high: 3,000.7, 5y low: 1,652.8
Source: Bloomberg

As a vertically integrated producer of cartonboard (the world's largest producer of recycled-fibre-based cartonboard) and folding cartons (European leader) Mayr-Melnhof offers a compelling combination of defensiveness and cyclical leverage. We appreciate the company's **reliable return profile** and the defensive growth track record, with the latter being driven both organically and via very disciplined M&A.

After having published strong 2014 results Mayr-Melnhof also delivered **better than assumed Q1 results**. Both divisions generated solid volume growth of 2-3%. EBIT rose 10% to EUR 51 mn, implying a strong margin of 9.5%. The main driver was MM Packaging that – thanks to full utilisation and a very profitable product mix – reported a stunning margin of 10.7%. The results fostered our view that against the backdrop of higher volumes and major cost items being under control there is scope for a further profit increase in the current year (before non-recurring items).

In its constant efforts to improve efficiency Mayr-Melnhof announced the shutdown of its folding carton site in Gunskirchen/Austria until year-end. Production will be transferred to the plant in Vienna. We think that due to the lack of scale effects the plant was operationally just hovering around the break-even level. While closure costs most likely will be digested in Q2, gains from property disposal rather should be booked towards year-end or in early 2016.

Mayr-Melnhof announced an offer to **acquire Ileos SA's subsidiaries** Alliora and Packetis. The targets operate seven folding carton plants in France and generated sales of roughly EUR 115 mn in 2014. The operating margin is in line with that of MM Packaging, i.e. roughly 9-9.5%. Thus, the acquisition adds about 5% to MMK's top line and some 6% to group EBIT. The purchase price amounts to some EUR 80 mn. The closing of the deal is envisaged for Q4 and the company will have to digest integration costs to the tune of several million euro. We are of the opinion that the transaction multiples are attractive with implied EV/Sales of 0.7x and EV/EBIT of less than 8x, which compares very favourably with the peer group and MMK's valuation.

Financial analyst: Markus Remis

Income statement & balance sheet (IFRS)

in EUR mn	2014	2015e	2016f	2017f
Income Statement				
Consolidated sales	2,087	2,167	2,249	2,315
EBITDA	272	280	289	293
EBIT	180	187	196	198
EBT	162	176	186	190
Net profit b.m.	132	132	139	143
Net profit a.m.	131	131	139	142
Balance sheet				
Total assets	1,817	1,842	1,869	1,881
Shareholders' equity	1,136	1,216	1,300	1,386
Goodwill	77	77	77	77
NIBD	-72	-134	-200	-279

Source: Mayr-Melnhof, Raiffeisen estimates

Key ratios

	2014	2015e	2016f	2017f
EPS	6.54	6.57	6.93	7.10
PER	13.2	15.7	14.9	14.6
Operating CF per share	8.66	10.70	11.07	12.04
Price cash flow	9.9	9.7	9.3	8.6
Book value per share	56.82	60.79	65.02	69.32
Price book value	1.5	1.7	1.6	1.5
Dividend yield	3.0%	2.6%	2.7%	2.8%
ROE	11.7%	11.2%	11.0%	10.6%
ROCE	10.2%	9.8%	10.1%	10.2%
EV/EBITDA	6.1	6.9	6.5	6.1

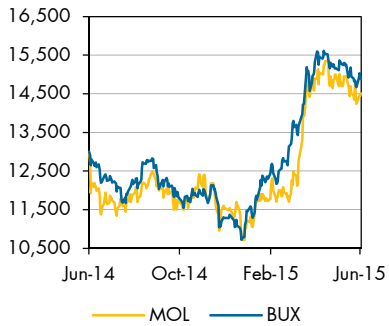
Source: Mayr-Melnhof, Raiffeisen estimates

MOL: Taking full advantage of strong refining environment

- **Current share price: HUF 14,450**
- **Target price: HUF 17,500**
- **Market capitalisation: EUR 4,754 mn**

MOL has disappointed the market with its upstream segment development over the last years, failing to ramp up its production in Russia and Kurdistan, but also facing sharp declines domestically and in Croatia. The market has reacted accordingly, sending MOL's share price to levels not seen since 2009. At the same time, back in 2012, the management was brave enough to embark on an ambitious program and achieved remarkable results in the downstream program. Moreover, a new three-year program was launched in 2015, aiming at **strengthening the downstream EBITDA by USD 500 mn.** MOL's upbeat Q1 clean operating results proved that its increased focus on the downstream segment could be a good hedge against challenges faced by the upstream segment. MOL was able to significantly improve its downstream earnings by taking advantage of very strong refining and petchem margins.

MOL



MOL: 5y high: HUF 25,550; 5y low: HUF 10,710
BUX: 5y high: 24,451, 5y low: 14,930
Source: Bloomberg

The management has **reiterated its 2015 clean EBITDA target** of USD 2.0 bn, despite getting somewhat more cautious with respect to total hydrocarbon production in 2015, which is seen at 105 kboep vs. a range of 105-110 kboepd guided earlier. On the other hand, the management seems confident that its downstream segment should remain a strong contributor to the overall results, in spite of planned maintenance shutdowns in Q2.

The weakness of the oil price is seen as the key factor behind the impressive **improvement of refiners' profitability.** With both refining and petchem margins expected to remain at healthy levels, we believe that MOL is on the right track towards meeting its target of achieving a USD 500 mn increase in downstream EBITDA through the implementation of its Next Downstream Program. The upstream segment's results have also shown some tangible improvements. We are finally witnessing the initial benefits of the oilfield redevelopments in Hungary and Croatia. Future acquisitions of upstream assets could also strengthen the prospects of MOL's upstream segment.

Financial analyst: Oleg Galbur

Income statement & balance sheet (IFRS)

in HUF mn	2014	2015e	2016f	2017f
Income Statement				
Consolidated sales	4,869,394	4,474,468	4,803,623	5,781,886
EBITDA	409,046	551,420	622,871	769,932
EBIT	40,862	214,515	297,382	427,012
EBT	-43,932	167,224	228,819	359,881
Net profit b.m.	-49,741	127,090	173,903	273,510
Net profit a.m.	4,835	128,090	174,903	274,410
Balance sheet				
Total assets	4,655,458	4,698,125	4,855,618	5,231,079
Shareholders' equity	1,748,760	1,415,553	1,540,913	1,759,197
Goodwill	0	0	0	0
NIBD	536,511	1,121,463	1,202,588	1,093,160

Source: MOL, Raiffeisen Centrobank estimates

Key ratios

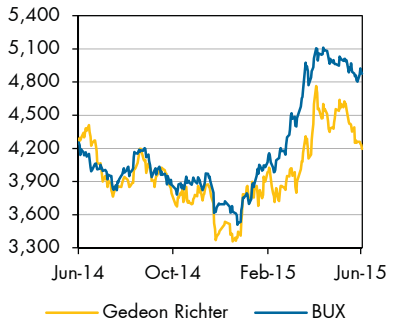
	2014	2015e	2016f	2017f
EPS	61	1,603	2,189	3,435
PER	190.8	9.0	6.6	4.2
Operating CF per share	5,367	4,102	5,526	7,624
Price cash flow	2.2	3.5	2.6	1.9
Book value per share	17,137	13,872	15,100	17,239
Price book value	0.7	1.0	1.0	0.8
Dividend yield	4.2%	3.4%	3.8%	4.5%
ROE	0.3%	8.1%	11.8%	16.6%
ROCE	-0.1%	5.2%	6.6%	9.1%
EV/EBITDA	4.9	5.3	4.8	3.7

Source: MOL, Raiffeisen Centrobank estimates

Gedeon Richter: Upside from new products and RUB rebound

- **Current share price: HUF 4,230**
- **Target price: HUF 5,100**
- **Market capitalisation: EUR 2,522 mn**

Gedeon Richter



Gedeon Richter: 5y high: HUF 4,885; 5y low: HUF 2,920
BUX: 5y high: 24,451, 5y low: 14,930
Source: Bloomberg

In our opinion, Gedeon Richter is a top-pick in the health-care segment currently for 3 reasons: firstly, the group's EBIT margin is likely to continue to recover qoq also in Q2 15, fuelled above all by the **strengthening of the RUB** vs. the EUR to some 58 in Q2 15 vs. 71 in Q1 15. For comparison, the EUR has remained relatively stable vs. the HUF in a range of 305-310. Apart from that, Gedeon Richter has hiked the prices of roughly half of its products in Russia by roughly 25% (**Russian sales account for some 27% of overall group sales**). We therefore anticipate a further improvement of the group EBIT margin in Q2 15 from about 16% in Q1 2015. In the same vein, we believe that the management might raise its EBIT margin guidance for the year 2015 as a whole of 11%, which appears too conservative, in our view. Secondly, the recent share price correction triggered by the announced delay of the market launch in the USA of **Cariprazine** – which was self-developed by the group for the treatment of schizophrenia as well as severe and mild forms of depression – suggests upside potential for the share, because the U.S. Food and Drug Administration (FDA) has not raised any content-related complaints against the test results until now and the delay is solely due to administrative issues. Thirdly, we also expect positive newsflow from the group's **two biosimilar developments** (Teriparatide and PEG-GCSF) in H2 15, since Gedeon Richter plans to file for market approval by the end of 2015. Market approval is expected to be granted in 2016. If all of the group's own developments (Cariprazine and the 2 biosimilars) receive regulatory approval, this would translate into additional upside potential for the Gedeon Richter share. To date, we remain very cautious in our model assumptions regarding the sales potential from Cariprazine for the US and the European market and anticipate some EUR 200 mn, compared to an overall market volume for psychotherapeutic drugs for the treatment of schizophrenia in the USA and Europe of roughly USD 6 bn. Additionally, we have not pencilled in any contribution from the biosimilar products so far.

Income statement & balance sheet (IFRS)

in HUF mn	2014	2015e	2016f	2017f
Income Statement				
Consolidated sales	353,709	360,564	370,266	387,053
EBITDA	68,640	82,737	81,954	86,297
EBIT	39,174	52,084	50,224	54,398
EBT	24,636	55,066	52,740	57,925
Net profit b.m.	24,705	48,073	46,042	50,569
Net profit a.m.	24,636	48,025	45,994	50,521
Balance sheet				
Total assets	718,277	766,102	779,504	819,788
Shareholders' equity	558,054	598,685	632,773	671,890
Goodwill	61,153	61,153	61,153	61,153
NIBD	-65,542	-94,913	-140,706	-176,725

Source: Gedeon Richter, Raiffeisen Centrobank estimates

Key ratios

	2014	2015e	2016f	2017f
EPS	132.7	259.7	248.7	273.2
PER	26.6	16.3	17.0	15.5
Operating CF per share	327.0	400.8	405.7	434.3
Price cash flow	10.8	10.6	10.4	9.7
Book value per share	3,017	3,237	3,421	3,633
Price book value	1.2	1.3	1.2	1.2
Dividend yield	0.9%	1.5%	1.5%	1.6%
ROE	4.4%	8.3%	7.5%	7.7%
ROCE	9.0%	7.6%	6.9%	7.3%
EV/EBITDA	8.5	8.3	7.8	7.0

Source: Gedeon Richter, Raiffeisen Centrobank estimates

Financial analyst: Daniel Damaska

Ciech: High profits in Q1 15 indicate a good year in the core segment

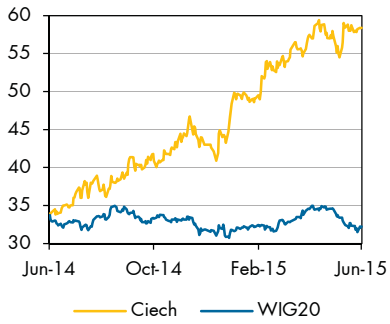
- **Current share price: PLN 58.39**
- **Target price: PLN 65.00**
- **Market capitalisation: EUR 739 mn**

The year 2015 is the first full year in which Ciech is controlled by a private investor ready to implement further cost cuts and expand the neglected business lines including the organic chemicals business. We **stick to our bullish view** on Ciech following superb Q1 15 results that reflected price increases in soda ash and savings in raw materials. Ciech significantly improved its results in Romania after new capacities were launched last year. Starting from mid-Q2 15, new capacities in Poland should also improve margins. Clean EBITDA for the past 12 months grew considerably to PLN 577 mn (excluding the other operating result) and we assume that it may reach PLN 627 mn this year. Clean EBITDA improved by PLN 56 mn yoy in Q1 15. The pricing of soda ash contracts for 2016e may stay under pressure considering lower raw material prices globally, but the supply-demand balance is not likely to be negatively affected by any meaningful capacities in the markets where Ciech operates. We therefore do not expect that Ciech's margin on soda ash production will drop in 2016-2017e. We assume **flat soda ash prices in Europe** in 2016e and believe that Ciech may increase volumes thanks to the Polish expansion project. Owing to the weak euro and the absence of new capacities in Europe we do not expect that foreign soda will significantly harm European producers next year (the risk stems from cheaper coal that supports Asian producers and the lower natural gas price in the US that improves the competitiveness of local players).

We assume an increase of soda ash output next year on completion of the flagship investment in Poland. We also believe that restructuring measures undertaken in the organic segment will gradually improve the group's margin, while a new polyester resins installation should support the top line. Also the new contract with Solvay in the silicates and glass segment and global expansion in plant protection chemicals should start to contribute positively to 2016e results. Peer group comparison indicates a **double-digit discount** both on adj. P/E (slightly exceeding 11x in 2016e) and EV/EBITDA (about 6.5x based on our 2016e forecast).

Financial analyst: Dominik Niszcz

Ciech



Ciech: 5y high: PLN 59,40; 5y low: PLN 10,83
WIG20: 5y high: 2,932.6, 5y low: 2,035.8
Source: Bloomberg

Income statement & balance sheet (IFRS)

in PLN mn	2014	2015e	2016f	2017f
Income Statement				
Consolidated sales	3,244	3,252	3,451	3,571
EBITDA	525	608	687	714
EBIT	320	373	428	445
EBT	153	183	344	366
Net profit b.m.	166	147	275	297
Net profit a.m.	167	147	275	297
Balance sheet				
Total assets	3,206	3,511	3,724	3,873
Shareholders' equity	995	1,089	1,320	1,548
Goodwill	62	62	62	62
NIBD	1,175	1,462	1,432	1,259

Source: Chiech, Raiffeisen estimates

Key ratios

	2014	2015e	2016f	2017f
EPS	3.17	2.78	5.23	5.63
PER	13.4	21.0	11.2	10.4
Operating CF per share	8.40	5.70	10.03	10.64
Price cash flow	5.1	10.2	5.8	5.5
Book value per share	18.88	20.66	25.05	29.37
Price book value	2.3	2.8	2.3	2.0
Dividend yield	2.3%	1.4%	2.2%	2.4%
ROE	17.5%	14.1%	22.9%	20.7%
ROCE	13.7%	10.2%	12.9%	12.8%
EV/EBITDA	6.4	7.3	6.5	6.1

Source: Chiech, Raiffeisen estimates

Risk notifications and explanations

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- Figures on performance refer to the past. Past performance is not a reliable indicator of the future results and 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 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 the future results and development of a financial instrument, a financial index or a securities service.

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Corporate Credits

Recommendations history for 12 months

Evraz Group	**Start of coverage**	**06/05/2009**
	Date of recommendation	**Recommendation**
EVRAZ 7.4% due 2017	28/08/2014	Buy
EVRAZ 9.5% due 2018	11/07/2014	Buy
EVRAZ 9.5% due 2018	13/10/2014	Sell
EVRAZ 9.5% due 2018	06/05/2015	Sell
GAZPROM	**Start of coverage**	**17/04/2008**
	Date of recommendation	**Recommendation**
GAZPRU 3.85% due 2020	11/07/2014	Sell
GAZPRU 5.999% due 2021	15/09/2014	Buy
GAZPRU 5.999% due 2021	07/05/2015	Buy
LUKOIL	**Start of coverage**	**17/04/2008**
	Date of recommendation	**Recommendation**
LUKOIL 6.125% due 2020	11/07/2014	Buy
LUKOIL 6.356% due 2017	02/09/2014	Sell
LUKOIL 6.356% due 2017	05/03/2015	Sell
LUKOIL 7.25% due 2019	07/05/2015	Buy

Recommendations history for 12 months

Phosagro	Start of coverage	11/07/2014
	Date of recommendation	Recommendation
PHORRU 4.204% due 2018	11/07/2014	Sell
PHORRU 4.204% due 2018	23/01/2015	Buy

Severstal	Start of coverage	14/05/2008
	Date of recommendation	Recommendation
CHMFRU 4.45% due 2018	11/07/2014	Sell
CHMFRU 4.45% due 2018	13/10/2014	Sell
CHMFRU 5.9% due 2022	10/11/2014	Buy

Uralkali	Start of coverage	17/10/2014
	Date of recommendation	Recommendation
URKARM 3.723% due 2018	13/10/2014	Sell
URKARM 3.723% due 2018	23/01/2015	Sell

VimpelCom	Start of coverage	28/01/2009
	Date of recommendation	Recommendation
VIP 9.125% due 2018	11/07/2014	Buy
VIP 9.125% due 2018	08/08/2014	Sell
VIP 9.125% due 2018	30/01/2015	Sell

mBank	Start of coverage	18/10/2012
	Date of recommendation	Recommendation
BREP 2.375% due 2019	12/02/2015	Sell
BREP 2.375% due 2019	23/02/2015	Sell

Bonds

Bonds

Financial instruments/Company	Date of the first publication
Eurobonds	01/01/2001
LCY bonds	01/01/1997

Recommendations history: Local currency government bonds (B: buy; H: hold; S: sell; I: no change)*

	CZ				HU				PL				RO				RU**				TR**			
Date of change	2y	5y	10y	CZK	2y	5y	10y	HUF	2y	5y	10y	PLN	2y	5y	10y	RON	2y	5y	10y	RUB	2y	5y	10y	TRY
20/06/2014	Hold	Hold	Hold	Hold	I	I	I	Sell	Hold	Hold	Hold	Hold	I	I	I	I	Sell	Sell	Sell	I	I	I	Hold	Buy
06/08/2014	I	I	I	I	I	I	I	Hold	I	I	I	I	I	I	I	I	Hold	Hold	Hold	Hold	I	I	I	I
16/09/2014	I	I	I	I	I	I	I	I	Buy	Buy	Buy	I	Buy	Buy	Buy	I	Buy	I	I	I	Buy	I	I	Hold
07/11/2014	I	I	I	I	I	I	I	I	I	I	I	I	I	Hold	Hold	I	Hold	I	I	I	Hold	I	I	I
09/12/2014	I	I	Buy	I	I	I	I	Sell	I	I	I	I	I	I	I	I	Sell	Sell	Sell	Sell	Buy	Buy	Buy	Buy
09/02/2015	I	I	Hold	I	Buy	Buy	Buy	I	Hold	Hold	Hold	I	Buy	Buy	Buy	I	I	I	I	I	I	I	I	I
24/03/2015	I	I	I	I	I	Hold	Hold	I	I	I	I	Sell	I	I	I	I	Hold	I	I	I	I	Hold	Hold	Sell
28/04/2015	I	I	I	I	I	I	I	I	I	I	I	Hold	Hold	Hold	Hold	Hold	Buy	Hold	Hold	I	I	I	I	Hold
15/05/2015	I	Buy	Buy	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I
02/06/2015	I	Hold	Hold	I	Hold	I	I	Hold	I	I	I	I	I	I	I	I	I	I	I	Hold	I	Buy	Buy	Buy
24/06/2015	I	I	Buy	I	I	I	Sell	I	I	I	Sell	I	I	I	Sell	I	I	Buy	Buy	I	Sell	Sell	Sell	Sell

** recommendations based on absolute expected performance in LCY*
*** TRY and RUB vs USD; other FX vs EUR*
Source: RBI/Raiffeisen RESEARCH

Recommendations history: Sovereign Eurobonds (B: buy; H: hold; S: sell; I: no change)*

	BG		HR		CZ		HU		PL		RO		RU	
Date of change	EUR	USD	EUR	USD	EUR	USD	EUR	USD	EUR	USD	EUR	USD	EUR	USD
20/06/2014	I	–	I	I	I	I	I	I	Buy	I	Hold	Hold	Hold	Hold
06/08/2014	I	–	I	I	I	I	I	I	Hold	I	Buy	I	I	I
16/09/2014	I	–	I	I	I	I	I	I	Buy	Buy	I	I	I	I
09/12/2014	I	–	I	I	I	I	I	Hold	I	I	Hold	Hold	Sell	Sell
09/02/2015	I	–	I	I	I	I	I	I	Hold	Hold	Buy	I	I	I
05/03/2015	I	–	Hold	Hold	I	I	I	I	I	I	I	I	Hold	Hold
24/03/2015	I	–	I	I	I	I	Hold	I	Buy	Hold	I	Buy	Buy	Buy
17/04/2015	I	–	I	I	I	I	I	I	I	I	I	I	Hold	Hold
28/04/2015	I	–	I	I	I	I	I	I	I	I	I	I	I	I
02/06/2015	Sell	–	I	I	I	I	I	I	I	Buy	Hold	Hold	I	I
24/06/2015	Hold	–	I	I	I	I	I	I	I	Hold	I	I	I	I

** recommendations based on absolute expected performance, i.e. expected spread change; Source: RBI/Raiffeisen RESEARCH*

Bonds

Recommendations history: Sovereign Eurobonds (B: buy; H: hold; S: sell; I: no change)*

	RS		SK		SI		TR		UA		BY	
Date of change	EUR	USD	EUR	USD	EUR	USD	EUR	USD	EUR	USD	EUR	USD
20/06/2014	–	Buy	–	–	–	–	Buy	I	Hold	I	–	I
06/08/2014	–	Hold	–	–	–	–	Hold	I	I	I	–	I
16/09/2014	–	I	–	–	–	–	Buy	Buy	Sell	I	–	I
09/12/2014	–	I	–	–	–	–	Hold	Hold	I	I	–	I
09/02/2015	–	Sell	–	–	–	–	I	I	I	I	–	Sell
05/03/2015	–	Hold	–	–	–	–	I	I	I	I	–	I
24/03/2015	–	I	–	–	–	–	I	I	I	I	–	Hold
17/04/2015	–	I	–	–	–	–	I	I	I	I	–	I
28/04/2015	–	I	Hold	–	Buy	–	Buy	Buy	Hold	Hold	–	Buy
02/06/2015	–	Sell	–	–	I	–	I	I	I	I	-	I
24/06/2015	–	I	I	–	I	–	I	Hold	I	I	-	I

** recommendations based on absolute expected performance, i.e. expected spread change; Source: RBI/Raiffeisen RESEARCH*

Equities

Recommendations history

Date	MICEX	WIG 30	PX	BUX	BET	CROBEX 10	BIST 100	ATX
20/06/2013	Sell		Sell	Sell	Sell	Sell	Buy	Hold
13/08/2013	I		I	I	I	I	I	Sell
17/09/2013	Buy		Buy	Buy	Buy	Buy	Buy	Buy
19/12/2013	Hold		I	I	I	Sell	Hold	I
19/03/2014	I		I	Hold	I	I	Buy	I
20/06/2014	I		Hold	I	I	I	Hold	I
15/09/2014	I		Buy	Buy	Buy	Hold	Buy	Buy
14/11/2014	I		Hold	Hold	Hold	I	I	I
08/12/2014	I	Buy	Buy	Buy	Buy	I	I	I
24/03/2015	Buy	I	I	I	I	I	I	I
24/06/2015	I	Hold	I	I	I	I	Hold	I

Equities

Financial instruments/ Company	Date of the first publication
MICEX	21/12/2009
WIG 30	08/12/2014
PX	01/06/1994
BUX	01/06/1994
BET	19/12/2006
CROBEX 10	31/07/2009
BIST 100	25/06/2012
ATX	01/04/1993

Gedeon Richter

5y high: HUF 4885 (07/10/2010),
5y low: HUF 2920 (26/09/2011)
Start of Coverage: 01/02/2002

Recommendation history

Date	Rating	Target Price	Prev. day's close	Upside
13/04/2015	Buy	5,100.00	4,160.00	22.6%
25/09/2014	Reduce	3,870.00	4,026.00	-3.9%
06/03/2014	Hold	4,200.00	3,710.00	13.2%
20/12/2013	Buy	5,200.00	4,437.00	17.2%
01/10/2013	Buy	4,590.00	3,825.00	20.0%
16/07/2013	Hold	3,890.00	3,714.00	4.7%

Source: Raiffeisen Centrobank

Lotos

5y high: PLN 44.36 (21/04/2011),
5y low: PLN 19.15 (11/01/2012)
Start of Coverage: 10/01/2011

Recommendation history

Date	Rating	Target Price	Prev. day's close	Upside
06/05/2015	Reduce	30.00	30.90	-2.9%
31/03/2015	Hold	28.00	27.10	3.3%
18/02/2015	Hold	25.40	24.75	2.6%
17/11/2014	Buy	31.50	27.60	14.1%
09/09/2014	Hold	31.00	29.40	5.4%
06/05/2014	Hold	41.50	37.35	11.1%
04/12/2013	Hold	40.50	39.00	3.8%
03/09/2013	Sell	34.00	37.88	-10.2%

Source: Raiffeisen Centrobank

MOL

5y high: HUF 25550 (07/04/2011),
5y low: HUF 10710 (19/01/2015)
Start of Coverage: 01/02/2002

Recommendation history

Date	Rating	Target Price	Prev. day's close	Upside
19/05/2015	Buy	17,500	14,650	19.5%
10/03/2015	Hold	12,500	12,000	4.2%
11/02/2015	Hold	12,000	11,895	0.9%
06/08/2014	Buy	13,800	11,785	17.1%
01/07/2014	Buy	14,500	12,100	19.8%
10/06/2014	Hold	13,600	12,955	5.0%
07/03/2014	Hold	14,000	13,420	4.3%
17/12/2013	Buy	17,800	14,495	22.8%
17/12/2013	Buy	17,800	14,495	22.8%
10/12/2013	Buy	16,800	13,700	22.6%
27/08/2013	Hold	17,400	16,120	7.9%

Source: Raiffeisen Centrobank

OMV

5y high: EUR 39.69 (21/05/2013), 5y low: EUR 20.07 (15/12/2014)
Start of Coverage: 01/02/2002

Recommendation history

Date	Rating	Target Price	Prev. day's close	Upside
29/05/2015	Hold	27.00	25.77	4.8%
12/03/2015	Buy	28.75	24.68	16.5%
21/01/2015	Buy	27.00	22.19	21.7%
14/11/2014	Buy	31.50	24.04	31.0%
06/10/2014	Buy	34.50	25.36	36.0%
27/08/2014	Buy	35.50	29.28	21.3%
16/05/2014	Buy	37.00	31.09	19.0%
12/02/2014	Buy	39.50	33.06	19.5%
26/11/2013	Hold	40.00	36.10	10.8%
13/11/2013	Buy	42.80	36.00	18.9%
22/08/2013	Buy	42.40	33.45	26.8%

Source: Raiffeisen Centrobank

Equities

PKN

5y high: PLN 73.5 (20/05/2015),
5y low: PLN 32.02 (05/06/2012)
Start of Coverage: 01/02/2002

Recommendation history

Date	Rating	Target Price	Prev. day's close	Upside
07/05/2015	Reduce	61.00	66.00	-7.6%
04/02/2015	Hold	56.50	54.50	3.7%
05/11/2014	Hold	44.00	41.99	4.8%
29/07/2014	Hold	40.00	38.58	3.7%
08/05/2014	Reduce	42.50	43.50	-2.3%
04/02/2014	Hold	41.50	38.80	7.0%
28/10/2013	Reduce	42.50	44.87	-5.3%
29/07/2013	Hold	45.40	43.00	5.6%

Source: Raiffeisen Centrobank

SBO

5y high: EUR 95.98 (04/07/2014),
5y low: EUR 36.885 (20/07/2010)
Start of Coverage: 01/02/2002

Start of Coverage: 02/07/2012

Date	Rating	Target Price	Prev. day's close	Upside
03/06/2015	Reduce	56.00	61.89	-9.5%
25/03/2015	Reduce	55.00	58.88	-6.6%
16/01/2015	Hold	57.00	55.73	2.3%
17/09/2014	Buy	89.00	74.24	19.9%
25/08/2014	Hold	89.00	80.00	11.3%
28/05/2014	Hold	95.00	90.51	5.0%
14/03/2014	Hold	88.00	80.50	9.3%
17/01/2014	Hold	85.50	81.60	4.8%

Source: Raiffeisen Centrobank

Vienna Insurance Group

5y high: EUR 43.65 (18/02/2011),
5y low: EUR 24.625 (24/11/2011)
Start of Coverage: 06/12/2007

Recommendation history

Date	Rating	Target Price	Prev. day's close	Upside
27/05/2015	Buy	39.00	34.99	11.5%
23/04/2015	Hold	40.00	38.65	3.5%
02/02/2015	Hold	40.00	37.62	6.3%
21/11/2014	Hold	40.00	38.69	3.4%
13/08/2014	Hold	39.00	35.99	8.4%
28/05/2014	Hold	41.00	38.91	5.4%
28/03/2014	Buy	40.00	34.73	15.2%
18/12/2013	Hold	37.00	34.96	5.8%
26/08/2013	Hold	43.00	40.56	6.0%

Source: Raiffeisen Centrobank

Mayr-Melnhof

5y high: EUR 106.2 (29/04/2015),
5y low: EUR 61.35 (25/11/2011)
Start of Coverage: 01/02/2002

Recommendation history

Date	Rating	Target Price	Prev. day's close	Upside
25/03/2015	Buy	108.00	95.99	12.5%
13/11/2014	Hold	97.00	84.50	14.8%
27/08/2014	Hold	97.00	89.25	8.7%
19/03/2014	Hold	95.00	90.50	5.0%
19/11/2013	Buy	100.00	86.51	15.6%
06/08/2013	Hold	90.00	82.69	8.8%

Source: Raiffeisen Centrobank

Ciech

5y high: PLN 59.4 (05/05/2015),
5y low: PLN 10.83 (14/09/2011)
Start of Coverage: 13/11/2007

Recommendation history

Date	Rating	Target Price	Prev. day's close	Upside
28/05/2015	Buy	65.00	55.98	16.1%
18/03/2015	Buy	62.50	53.95	15.8%
05/11/2014	Buy	49.00	40.99	19.5%
08/09/2014	Hold	42.00	38.10	10.2%
01/07/2014	Hold	37.60	34.50	9.0%
05/12/2013	Buy	36.00	29.90	20.4%
23/10/2013	Hold	33.00	30.05	9.8%

Source: Raiffeisen Centrobank

OTP

5y high: HUF 6450 (28/04/2011),
5y low: HUF 2798 (23/09/2011)
Start of Coverage: 01/02/2002

Recommendation history

Date	Rating	Target Price	Prev. day's close	Upside
17/06/2015	Hold	5,900.00	5,421.00	8.8%
24/02/2015	Buy	5,000.00	4,330.00	15.5%
04/12/2014	Buy	4,550.00	3,970.00	14.6%
10/06/2014	Hold	4,900.00	4,693.00	4.4%
09/12/2013	Hold	4,900.00	4,255.00	15.2%

Source: Raiffeisen Centrobank

RHI

5y high: EUR 29.915 (12/01/2011),
5y low: EUR 13.575 (23/11/2011)
Start of Coverage: 01/02/2002

Recommendation history

Date	Rating	Target Price	Prev. day's close	Upside
03/02/2015	Buy	27.00	23.45	15.1%
06/11/2014	Hold	21.50	18.87	13.9%
22/08/2014	Hold	25.00	22.90	9.2%
14/05/2014	Hold	26.00	25.00	4.0%
18/12/2013	Buy	26.00	21.19	22.7%
07/08/2013	Buy	31.00	24.69	25.6%

Source: Raiffeisen Centrobank

Andritz

5y high: EUR 57.49 (13/04/2015),
5y low: EUR 22.3 (02/07/2010)
Start of Coverage: 01/02/2002

Recommendation history

Date	Rating	Target Price	Prev. day's close	Upside
05/03/2015	Buy	60.00	51.74	16.0%
26/01/2015	Buy	55.00	47.50	15.8%
09/12/2014	Buy	52.00	45.26	14.9%
06/11/2014	Buy	47.00	38.74	21.3%
08/08/2014	Buy	47.00	40.84	15.1%
27/05/2014	Hold	47.00	43.23	8.7%
26/03/2014	Hold	47.00	42.91	9.5%
20/02/2014	Hold	45.00	43.60	3.2%
01/08/2013	Hold	45.00	40.55	11.0%

Source: Raiffeisen Centrobank

Adris GRUPA

5y high: HRK 400.28 (01/06/2015),
5y low: HRK 200 (24/10/2011)
Start of Coverage: 21/01/2005

Recommendation history

Date	Rating	Target Price	Prev. day's close	Upside
23/07/2014	Hold	337.00	283.44	18.9%
26/09/2013	Hold	306.00	267.00	14.6%

Source: Raiffeisen Centrobank

Equities

Banca Transilvania

5y high: RON 2.155172 (17/04/2015),
5y low: RON 0.496492 (20/12/2011)
Start of Coverage: 06/11/2003

Recommendation history

Date	Rating	Target Price	Prev. day's close	Upside
17/06/2015	Hold	2.16	2.09	3.5%
26/05/2015	Hold	2.16	2.11	2.4%
13/10/2014	Reduce	1.42	1.49	-4.8%
10/06/2014	Sell	1.28	1.47	-13.2%
16/05/2014	Reduce	1.27	1.37	-7.2%
09/12/2013	Reduce	1.08	1.13	-4.6%
30/10/2013	Hold	1.06	1.05	1.2%

Source: Raiffeisen Centrobank

IMMOFINANZ

5y high: EUR 2.989 (26/02/2014),
5y low: EUR 1.621 (24/11/2011)
Start of Coverage: 16/01/2004

Recommendation history

Date	Rating	Target Price	Prev. day's close	Upside
26/02/2015	Hold	2.75	2.74	0.4%
15/01/2015	Hold	2.10	2.06	1.8%
07/07/2014	Buy	3.15	2.65	18.9%
11/11/2013	Buy	3.09	2.67	16.0%

Source: Raiffeisen Centrobank

Bank Millennium

5y high: PLN 9.59 (12/02/2014),
5y low: PLN 3.16 (08/06/2012)
Start of Coverage: 22/06/2010

Recommendation history

Date	Rating	Target Price	Prev. day's close	Upside
17/06/2015	Buy	7.88	6.58	19.8%
27/04/2015	Buy	8.54	7.45	14.6%
08/01/2015	Buy	9.30	7.95	17.0%
22/10/2014	Hold	9.20	8.74	5.3%
23/07/2014	Buy	9.41	8.10	16.2%
10/06/2014	Hold	9.27	8.66	7.0%
21/03/2014	Hold	9.27	8.83	5.0%
09/12/2013	Hold	7.45	7.35	1.4%
23/10/2013	Sell	6.41	7.90	-18.9%
31/07/2013	Reduce	5.74	6.14	-6.5%

Source: Raiffeisen Centrobank

Alior Bank

5y high: PLN 99.8 (16/10/2013),
5y low: PLN 57.0 (13/12/2012)
Start of Coverage: 23/10/2013

Recommendation history

Date	Rating	Target Price	Prev. day's close	Upside
17/06/2015	Hold	92.80	87.20	6.4%
27/04/2015	Buy	103.00	89.00	15.7%
31/03/2015	Buy	99.00	84.95	16.5%
08/01/2015	Buy	95.00	76.30	24.5%
22/10/2014	Buy	95.00	76.00	25.0%
02/09/2014	Buy	103.00	76.13	35.3%
10/06/2014	Buy	111.00	84.45	31.4%
09/12/2013	Buy	91.00	76.85	18.4%
23/10/2013	Buy	91.00	81.51	11.6%

Source: Raiffeisen Centrobank

Bank Handlowy

5y high: PLN 128.95 (21/10/2013),
5y low: PLN 58.55 (13/09/2011)
Start of Coverage: 27/02/2014

Recommendation history

Date	Rating	Target Price	Prev. day's close	Upside
17/06/2015	Buy	117.00	102.05	14.6%
27/04/2015	Hold	127.00	113.25	12.1%
08/01/2015	Hold	121.00	105.60	14.6%
22/10/2014	Hold	120.00	112.80	6.4%
10/06/2014	Hold	128.00	123.50	3.6%
24/03/2014	Buy	123.00	105.50	16.6%
27/02/2014	Hold	120.00	109.55	9.5%

Source: Raiffeisen Centrobank

BRD-GSG

5y high: RON 15.8 (25/03/2011),
5y low: RON 7.125 (07/12/2012)
Start of Coverage: 06/11/2003

Recommendation history

Date	Rating	Target Price	Prev. day's close	Upside
17/06/2015	Buy	11.90	10.13	17.5%
14/01/2015	Buy	11.10	9.06	22.5%
21/08/2014	Hold	10.10	8.80	14.8%
10/06/2014	Buy	10.40	9.03	15.2%
20/02/2014	Buy	10.80	8.80	22.7%
09/12/2013	Hold	10.10	8.98	12.5%
30/10/2013	Buy	10.35	9.00	15.0%

Source: Raiffeisen Centrobank

BZ WBK

5y high: PLN 422 (05/03/2014),
5y low: PLN 179 (11/08/2010)
Start of Coverage: 07/03/2005

Recommendation history

Date	Rating	Target Price	Prev. day's close	Upside
17/06/2015	Buy	392.00	332.00	18.1%
27/04/2015	Buy	433.00	378.00	14.6%
08/01/2015	Hold	380.00	359.00	5.8%
22/10/2014	Hold	408.00	370.45	10.1%
02/10/2014	Hold	441.00	391.00	12.8%
10/06/2014	Buy	464.00	389.90	19.0%
24/03/2014	Hold	428.00	403.30	6.1%
22/01/2014	Hold	398.00	384.00	3.6%
09/12/2013	Hold	397.00	391.00	1.5%
23/10/2013	Hold	383.00	374.20	2.4%
21/08/2013	Hold	340.00	337.00	0.9%

Source: Raiffeisen Centrobank

Erste Group

5y high: EUR 39.247 (16/02/2011),
5y low: EUR 10.59 (23/11/2011)
Start of Coverage: 01/02/2002

Recommendation history

Date	Rating	Target Price	Prev. day's close	Upside
17/06/2015	Hold	27.00	25.20	7.1%
17/02/2015	Hold	24.00	23.09	3.9%
12/08/2014	Hold	21.50	19.29	11.5%
10/06/2014	Hold	28.00	26.14	7.1%
25/03/2014	Buy	27.50	23.64	16.4%
14/01/2014	Hold	31.00	29.00	6.9%
09/12/2013	Buy	28.50	24.70	15.4%
27/06/2013	Buy	24.50	20.75	18.1%

Source: Raiffeisen Centrobank

Equities

Komercni Banka

5y high: CZK 5667 (19/03/2015),
5y low: CZK 2900 (10/08/2011)
Start of Coverage: 01/02/2002

Recommendation history

Date	Rating	Target Price	Prev. day's close	Upside
17/06/2015	Buy	5,850.00	5,162.00	13.3%
07/05/2015	Buy	5,850.00	5,220.00	12.1%
06/11/2014	Buy	5,400.00	4,690.00	15.1%
04/08/2014	Buy	5,250.00	4,499.00	16.7%
10/06/2014	Buy	5,250.00	4,616.00	13.7%
09/12/2013	Hold	4,800.00	4,340.00	10.6%
13/08/2013	Hold	4,400.00	4,300.00	2.3%

Source: Raiffeisen Centrobank

PKO BP

5y high: PLN 46.81 (04/11/2010),
5y low: PLN 29.22 (12/09/2011)
Start of Coverage: 10/01/2005

Recommendation history

Date	Rating	Target Price	Prev. day's close	Upside
17/06/2015	Hold	33.60	31.90	5.3%
27/04/2015	Hold	39.10	35.93	8.8%
08/01/2015	Buy	41.70	35.20	18.5%
22/10/2014	Buy	42.60	37.00	15.1%
11/09/2014	Buy	47.00	39.90	17.8%
10/06/2014	Buy	47.10	40.29	16.9%
06/03/2014	Buy	49.60	42.75	16.0%
09/12/2013	Buy	46.00	39.70	15.9%
23/10/2013	Buy	45.00	39.15	14.9%
24/09/2013	Buy	42.20	35.95	17.4%

Source: Raiffeisen Centrobank

Coverage universe recommendation overview

Empty	buy	hold	reduce	sell	suspended	UR
Universe	47	53	9	5	21	7
Universe %	33%	37%	6%	4%	15%	5%
Investment banking services	10	17	4	1	5	0
Investment banking services %	27%	46%	11%	3%	14%	0%

Source: Raiffeisen Centrobank, rounding differences may occur

Technical analysis, and asset allocation

Financial instruments/Company	Date of the first publication
ATX	15/04/1995
BELEX 15	01/10/1996
BUX	01/10/1996
CROBEX	18/11/2009
MICEX	02/09/2013
PX	15/03/2002
WIG 30	01/10/1996

Technical analysis: Historical recommendations

Date	ATX	BUX	BIST 100	CROBEX 10	MICEX	WIG 30
23/06/2014	BULLISH	|	NEUTRAL	BULLISH	BULLISH	BULLISH
16/09/2014	NEUTRAL	BULLISH	BULLISH	|	|	|
18/09/2014	BULLISH	|	BEARISH	|	|	|
25/09/2014	NEUTRAL	BEARISH	|	|	|	|
02/10/2014	BEARISH	NEUTRAL	|	|	|	BEARISH
09/10/2014	|	|	|	NEUTRAL	BEARISH	|
16/10/2014	|	BEARISH	|	BEARISH	NEUTRAL	|
23/10/2014	BULLISH	NEUTRAL	|	NEUTRAL	BEARISH	NEUTRAL
27/10/2014	|	|	BULLISH	|	|	|
30/10/2014	|	BEARISH	|	BEARISH	BULLISH	|
06/11/2014	NEUTRAL	BULLISH	|	|	|	BULLISH
10/11/2014	|	|	NEUTRAL	|	|	|
13/11/2015	BULLISH	|		|	|	NEUTRAL
17/11/2014			BULLISH	|	|	|
20/11/2014	|	|	|	NEUTRAL	|	|

Technical analysis: Historical recommendations

Date	ATX	BUX	BIST 100	CROBEX 10	MICEX	WIG 30
27/11/2014	|	NEUTRAL	|	|	|	|
04/12/2014	|	|	|	BEARISH	|	BULLISH
11/12/2014	NEUTRAL	|	|	|	BEARISH	NEUTRAL
18/12/2014	|	|	|	|	BULLISH	BULLISH
08/01/2015	|	|	|	BULLISH	|	|
22/01/2015	|	|	|	|	|	NEUTRAL
29/01/2015	|	|	|	BEARISH	|	BULLISH
05/02/2015	|	BULLISH	|	|	|	|
12/02/2015	|	|	|	BULLISH	|	NEUTRAL
19/02/2015	BULLISH	|	|	BEARISH	|	BULLISH
05/03/2015	|	|	BEARISH	NEUTRAL	|	|
11/03/2015	NEUTRAL	NEUTRAL	|	BEARISH	|	NEUTRAL
19/03/2015	|	BULLISH	|	BULLISH	BULLISH	BULLISH
23/03/2015	BULLISH	|	NEUTRAL	BEARISH	BEARISH	|
25/06/2015	|	|	|	BULLISH	BULLISH	NEUTRAL

Bullish: Buy, Bearish = Sell, I = no change

Date of the first publication 01/01/2006

CEE portfolio weightings

	Sep-2014	Oct-2014	Nov-2014	Dec-2014	Jan-2015	Feb-2015	Mar-2015	Apr-2015	May-2015	Jun-2015
Stocks	↔	↑	↔	↓	↔	↔	↔	↑	↑	↑
Czech Rep	↔	↑	↔	↑	↓	↓	↓	↑	↓	↓
Hungary	↓	↔	↔	↔	↓	↓	↓	↓	↔	↔
Poland	↑	↑	↑	↔	↓	↓	↓	↔	↑	↓
Russia	↔	↔	↔	↓	↑	↔	↔	↔	↑	↑
Turkey	-	-	-	-	↑	↑	↑	↔	↔	↔
Croatia	↔	↓	↓	↔	↔	↔	↔	↔	↔	↔
Romania	↑	↑	↑	↔	↔	↑	↑	↑	↑	↑
Bonds	↔	↓	↔	↑	↔	↔	↔	↓	↓	↓
EB USD	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔
EB EUR	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔
LCY	↔	↔	↔	↔	↔	↔	↔	↔	↔	↔
Czech Rep	↔	↓	↓	↓	↔	↔	↔	↓	↔	↔
Hungary	↓	↔	↔	↔	↔	↔	↔	↔	↔	↔
Poland	↑	↑	↑	↑	↔	↔	↔	↔	↔	↔
Romania	↑	↑	↑	↔	↔	↔	↔	↑	↑	↑
Russia	↓	↔	↓	↓	↓	↓	↔	↔	↓	↓
Turkey	↔	↔	↔	↑	↑	↑	↔	↔	↔	↔

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Mayr-Melnhof	4	Chiech	-
MOL	6, 22		

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