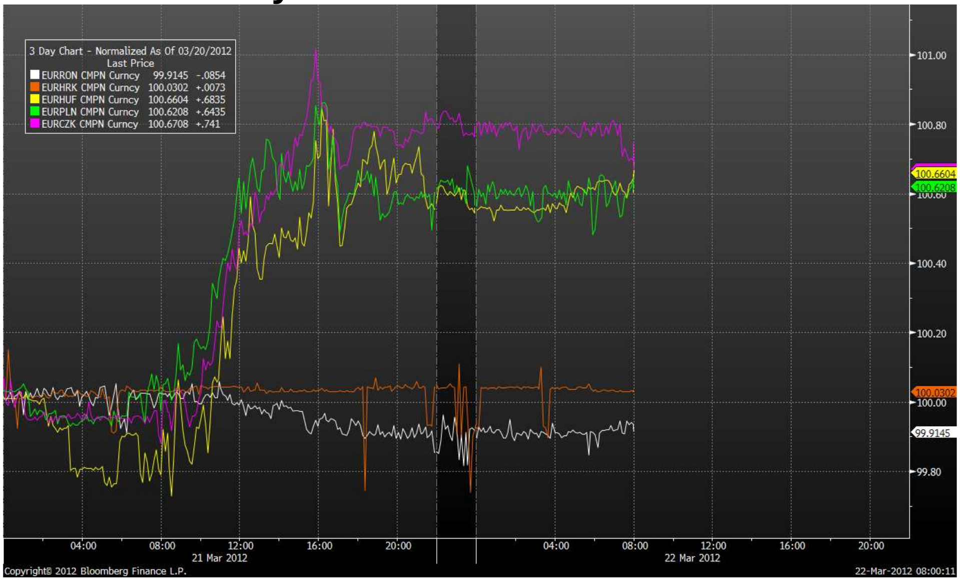
CEE Macro/Fixed Income Daily - 22-Mar-12

ERSTE GROUP

Chart of the Day:



CEE3: CZK underperformed vs EUR yesterday compared to CEE peer currencies. The catalyst, however, is being attributed to Hungary and the disappointing realisation that political brinkmanship between Orbans government, the EU and the IMF is mainly to the detriment of Hungary and, unfortunately, by extension, the other liquid CEE currencies as well. RON & HRK were largely unmoved but one would be well advised to look behind the apparent calm in EURRON (see Analysts' Views below).
Data Source: Bloomberg

Analysts' Views:

RO FX: We revised our EURRON December forecast upwards to 4.35, from the previous 4.32 due to weakening exports to the Eurozone and lower FDI inflows. We think that the NBR will continue to intervene in the FX market and we attach a low probability to a sharp depreciation of the RON towards 4.5. A high share of FX loans (64% of non-government loans, most of them EUR-denominated) and a strong pass-through from the FX rate to inflation are the main reasons behind our view of a stable RON orchestrated by NBR intervention. Another 25 bp cut in the key rate to 5.25% in March is already priced in but could still make the RON less attractive to foreign investors. However, a very comfortable level of FX reserves (EUR 33bn, covering more than eight months of imports of goods and services) provides enough ammunition to the NBR to defend the RON.

HU Discussions with the IMF: Iryna Ivaschenko, IMF's representative in Budapest, yesterday denied a report in a local newspaper that claimed the Fund has plans to start formal talks with Hungary on financial aid in May. Ms. Ivaschenko said that there had been no developments since January and the Fund needs to see tangible steps from the Hungarian government that show strong commitment to macroeconomic stability. The EUR/HUF reacted immediately to the news, jumping from close to 290 to around 292. At the moment, there is still no official starting date for formal talks with international institutions. It appears obvious to us, however, that current yield levels are not sustainable in the long run with the current growth and deficit outlook; CDS spreads have also got stuck above 500bp in the last few weeks. For the time being, we stick to our forecast that a deal will be struck with the IMF before the end of the second quarter and forecast EUR/HUF at 282.5 at the end of 2012; our 10Y yield forecast stands at 7.9% for year-end.

FX and MM rates

Exchange rates	spot	% change (close)	
		d/d	w/w
EUR/CZK	24,64	0,9	0,5
EUR/HUF	291,9	0,6	0,3
EUR/PLN	4,149	0,6	0,6
EUR/RON	4,373	-0,2	-0,3
EUR/HRK	7,534	0,0	0,3
EUR/RSD	111,07	0,1	0,3
USD/UAH	8,027	0,0	0,1
USD/TRY	1,814	-0,6	0,9
EUR/USD	1,325	-0,1	1,3

Note: negative changes mean appreciation of LCY

3M offer rate (fixing)	last	change (bps)	
		d-d	w-w
CZK	1,23	0	0
HUF	7,26	-2	-3
PLN	4,85	0	0
RON	4,24	8	20
HRK	3,79	-110	-127
UAH	15,00	0	-25
TRY	9,94	0	0
EUR	0,82	-1	-5

Bond Yields and CDS spreads

YTM (mid)	current	d-d	w-w
CZ3YGB	1,58	-7	-5
CZ5YGB	2,53	-8	3
SK3YGB	1,89	-3	-18
SK5YGB	2,69	-9	-20
HU3YGB	7,90	0	0
HU5YGB	8,54	3	4
PL2YGB	4,56	3	1
PL5YGB	4,83	5	10
RO5YGB	6,50	0	0
HR2YGB	5,40	-5	-5
HR5YGB	6,10	0	-10

Source: Bloomberg

CDS (bid, bps)	current	d-d	w-w
Czech Republic	115	0	3
Hungary	520	0	5
Poland	175	0	6
Romania	300	0	3
Croatia	395	5	8
Slovakia	220	0	1
Ukraine	770	0	3
Turkey	216	-1	0

Source: Bloomberg (Intra LN)

Selected government bonds

Benchmark bonds	Domestic					Eurobond					
	Rating	Description	Current (mid)	change (bps)		Rating	Description		Current (mid)	change (bps)	
				d-d	w-w					d-d	w-w
Czech Republic	A1	CZGB 2 3/4 03/31/14	1,58	-7	-5	A1	CZECH 4 1/2 11/05/14	EUR	1,60	-1	2
	A1	CZGB 4 04/11/17	2,53	-8	3	A1	CZECH 5 06/11/18	EUR	2,82	-10	-12
	A1	CZGB 3.85 09/29/21	3,47	-10	3						
Slovakia	A2	SLOVGB 4.9 02/11/14	1,89	-3	-18	A2	SLOVAK 4 1/2 05/20/14	EUR	1,97	-10	-19
	A2	SLOVGB 3 1/2 02/24/16	2,69	-9	-20	A2	SLOVAK 4 3/8 05/15/17	EUR	3,11	-5	2
	A2	SLOVGB 4 04/27/20	3,95	-10	-25						
Hungary	Ba1	HGB 6 3/4 08/22/14	7,90	0	0	Ba1	REPHUN 4 1/2 02/06/13	EUR	5,70	-4	0
	Ba1	HGB 6 3/4 11/24/17	8,54	3	4	Ba1	REPHUN 4 1/2 01/29/14	EUR	6,99	0	8
	Ba1	HGB 7 06/24/22	8,72	3	10	Ba1	REPHUN 4 3/8 07/04/17	EUR	8,05	4	-3
						Ba1	REPHUN 5 3/4 06/11/18	EUR	8,17	-1	0
						Ba1	REPHUN 3 7/8 02/24/20	EUR	7,89	-2	-4
Poland	A	POLGB 0 01/25/14	4,56	3	1	A2	POLAND 4 1/2 02/05/13	EUR	1,22	-3	15
	A	POLGB 5 04/25/16	4,83	5	10	A2	POLAND 3 3/4 03/29/17	EUR	2,82	-4	-3
	A	POLGB 5 3/4 10/25/21	5,54	7	20	A2	POLAND 4.2 04/15/20	EUR	3,75	0	-4
						A2	POLAND 5 1/4 01/20/25	EUR	4,65	-3	-2
Romania		ROMGB 6 10/19/13	5,70	10	10						
		ROMGB 6 04/30/15	6,10	0	0	Baa3	ROMANI 5 03/18/15	EUR	3,97	0	-1
		ROMGB 6 3/4 06/11/17	6,50	0	0	Baa3	ROMANI 6 1/2 06/18/18	EUR	5,24	0	-1
Croatia		CROATE 4 1/2 07/11/13	5,40	-5	-5	Baa3	CROATI 5 04/15/14	EUR	3,40	0	-5
	BBB	CROATE 5 3/4 07/22/16	6,10	0	-10	Baa3	CROATI 6 1/2 01/05/15	EUR	4,95	0	-15
		CROATE 6 1/4 11/25/17	6,30	-10	-20	Baa3	CROATI 5 7/8 07/09/18	EUR	6,19	-6	-1
		CROATE 6 3/4 03/05/20	6,75	0	0						
Ukraine											
		UKRGB 20.00 20/02/13	14,25	0	0		UKRAIN 6.58 11/21/16	USD	8,99	15	58
		UKRGB 10.75 26/03/14	16,75	0	0		UKRAIN 7.95 02/23/21	USD	9,60	5	35

Please refer to www.erstegroup.com for the current list of specific disclosures and the breakdown of Erste Group's investment recommendations. Read the disclaimer on page 3 of this document.

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