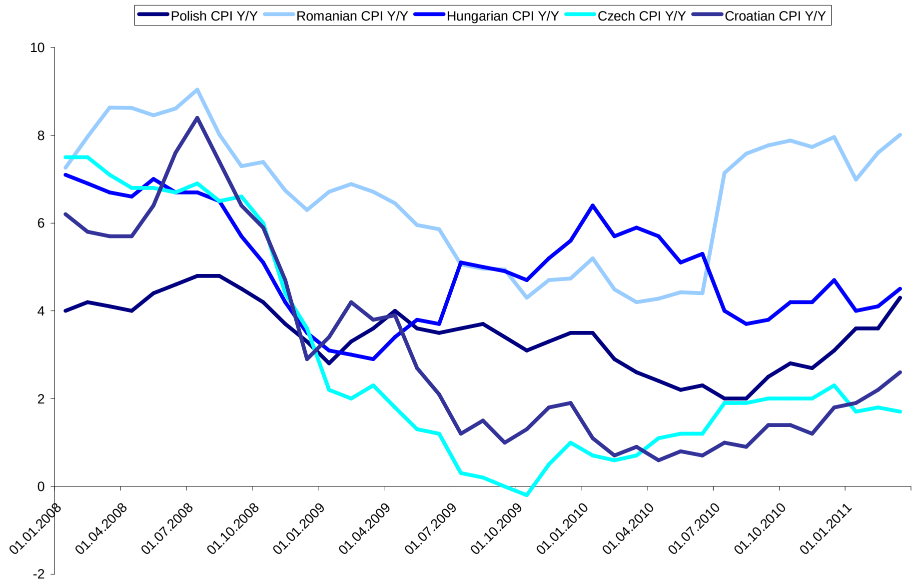
CEE Macro/Fixed Income Daily - 18-Apr-11

ERSTE GROUP

Chart of the day:



Inflation Rates: Consumer prices are on the rise in Croatia, Poland, Hungary and Romania while Czech inflation remains subdued.

Analysts' views:

RO Rates: We revised our estimation for 5Y government bonds to 7.2% in December (up 40 bp) due to higher inflationary pressures. Our new forecast shows that the NBR will likely miss the inflation target for several years due to gradual hikes in the administered price of natural gas, electricity and public transport in coming years. These will likely be necessary as the new precautionary stand-by arrangement with the IMF and EU contains performance indicators in terms of restructuring the loss-making state-owned enterprises. We also foresee two hikes in the key rate of 25bp each in 1H12 to 6.75%. In 2012, Romania will have parliamentary elections and also elections for local municipalities. The NBR could decide to counterbalance the effects of potential populist fiscal measures.

HU- Rate decision: The Central Bank is unlikely to touch the base rate at today's meeting, holding it at 6%. While the March CPI data is a warning that spillover effects from cost shocks should not be neglected even in an environment of sluggish domestic demand, we think it is too early to cry wolf. As for the full year, we still think that risks of a lower base rate are slightly higher than for a monetary tightening. Our baseline forecast is of an unchanged 6% policy rate for 2011.

Traders' comments:

CEE Bonds & CDS: Bonds were stable on Friday and CDS continue to consolidate along with CEE FX. Flows in CEE cash credit are starting to tail off as we head into the Easter holidays. With China tightening monetary policy further, the ECB indicating more hikes to come and inflation generally picking up in CEE, local bond market investor are beginning to focus on the level of real rates in CEE. At current inflation and yield levels, Polish, Hungarian & Czech long term bond yields are close to 1.5 – 2% in real terms but Romanian real yields are negative. The long end of the local Croatian bond market has the highest relative value with a real yield of over 4%. The result of the 5y bond auction in Romania is a reflection of the waning appetite for bonds that yield less than inflation. The finance ministry decided to sell only 58% of the planned amount as the yield demanded by investors rose to 7.38% from 7.35% at the previous auction in March.

FX and MM rates

Exchange rates	spot	% change (close) d/d	w/w
EUR/CZK	24,24	0,3	-0,7
EUR/HUF	267,1	0,0	0,7
EUR/PLN	3,951	0,1	-0,5
EUR/RON	4,090	-0,2	-0,5
EUR/HRK	7,355	-0,1	-0,2
EUR/RSD	101,41	0,1	0,1
USD/UAH	7,969	-0,3	0,0
USD/TRY	1,519	-0,4	0,3
EUR/USD	1,436	-0,3	-0,5

Note: negative changes mean appreciation of LCY

3M offer rate (fixing)	last	change (bps) d-d	w-w
CZK	1,21	0	0
HUF	6,10	0	0
PLN	4,19	0	3
RON	5,46	3	4
HRK	1,79	0	-20
UAH	5,00	-13	0
TRY	7,94	0	0
EUR	1,33	0	4

Source: Bloomberg

Bond Yields and CDS spreads

YTM (mid)	current	d-d	w-w
CZ3YGB	2,27	0	0
CZ5YGB	3,03	1	-6
SK3YGB	2,53	0	-6
SK7YGB	4,04	-2	-2
HU5YGB	6,66	1	13
HU9YGB	7,04	0	12
PL2YGB	5,07	-4	4
PL5YGB	5,79	-2	5
RO5YGB	7,25	-1	-2
HR5YGB	5,79	10	-1
HR10YGB	6,05	0	-3

Source: Erste Group, *for detailed list of bonds and actual yields see the next page or ERST on Bloomberg

CDS (bid, bps)	current	d-d	w-w
Czech Republic	75	0	1
Hungary	250	5	12
Poland	140	-5	9
Romania	220	0	7
Croatia	245	0	16
Slovakia	80	0	3
Ukraine	425	0	7
Turkey	150	0	9

Source: Bloomberg (Intra LN)

Selected government bonds

Benchmark bonds	Domestic					Eurobond					
	Rating	Description	Current (mid)	change (bps) d-d	change (bps) w-w	Rating	Description		Current (mid)	change (bps) d-d	change (bps) w-w
Czech Republic	A1	CZGB 2.8 16/08/13	2,27	0	0	A1	CZECH 4 1/2 11/14	EUR	3,07	0	-11
	A1	CZGB 3,40 01/09/15	3,03	1	-6	A1	CZECH 5 06/11/18	EUR	3,93	1	-9
	A1	CZGB 5,00 11/04/19	3,82	0	-8						
	A1	CZGB 4.7 12/09/22	4,12	-2	-8						
	A1	CZGB 5.7 05/25/24	4,17	2	-6						
Slovakia	A1	SLOVGB 3 1/2 04/03/13	2,53	0	-6	A1	SLOVAK 4,50 14	EUR	3,08	0	-5
	A1	SLOVGB4.90 02/11/14	3,05	0	-3	A1	SLOVAK 4,375 17	EUR	3,911	0	-8
	A1	SLOVGB4.2 04/04/17	4,04	-2	-2						
	A1	SLOVGB5.3 05/12/19	4,31	0	-4						
	A1	SLOVGB 4 1/2 10/05/26	5,30	-2	-7						
Hungary	Baa1	HGB 7 1/2 10/24/13	6,29	0	9	Baa1	REPHUN 4 1/2 02/13	EUR	3,95	-1	-11
	Baa1	HGB 8 02/12/15	6,66	1	13	Baa1	REPHUN 4 1/2 01/14	EUR	4,65	-8	-4
	Baa1	HGB 6 3/4 02/24/17	6,86	1	13	Baa1	REPHUN 4 3/8 07/17	EUR	5,70	1	-5
	Baa1	HGB 6 1/2 06/24/19	7,04	0	12	Baa1	REPHUN 5 3/4 06/18	EUR	5,83	-3	-5
	Baa1	HGB 6 11/24/23	7,01	-1	6	Baa1	REPHUN 3 7/8 02/20	EUR	5,89	1	-4
Poland	A	POLGB 0 25/01/13	5,07	-4	4	A2	POLAND 4 1/2 02/13	EUR	2,66	2	4
	A	POLGB 5 25/04/16	5,79	-2	5	A2	POLAND 3 3/4 03/17	EUR	4,15	0	0
	A	POLGB 5,25 25/10/20	6,14	-2	-1	A2	POLAND 4.2 04/15/20	EUR	4,78	2	-4
						A2	POLAND 5 1/4 01/25	EUR	5,51	2	-5
Romania		ROMGB 6 1/4 07/13	7,24	1	8	Baa3					
		ROMGB 6 04/30/15	7,25	-1	-2	Baa3	ROMANI 8 1/2 05/12	EUR	3,00	-4	5
		ROMGB 6 3/4 06/17	7,33	0	-1	Baa3	ROMANI 5 03/18/15	EUR	4,90	-2	3
						Baa3	ROMANI 6 1/2 06/18	EUR	5,68	-1	3
Croatia		CROATE 4 1/2 07/13	3,73	0	-1	Baa3	CROATI 5 04/15/14	EUR	4,00	0	-4
	BBB	CROATE 4 3/4 02/17	5,79	10	-1	Baa3	CROATI 6 1/2 01/15	EUR	5,00	4	11
		CROATE 6.25 11/17	5,81	8	-5	Baa3					
		CROATE 6 3/4 03/20	6,05	0	-3						
Ukraine											
		UKRGB 20% 23/11/2011	6,75	-50	-50						
		UKRGB 15.7% 11/04/2012	8,10	-40	-40						
		UKRGB 20% 31/10/2012	9,20	-30	-30						
		UKRGB 20% 20/02/2013	9,50	-50	-50						
		UKRGB 15% 28/01/2015	11,50	0	0						

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