

# Market Outlook

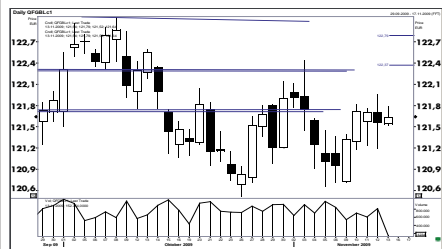
## Bond Markets Weekly

weekly

13 November 2009

### Technical analysis

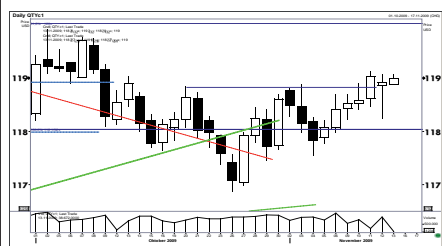
#### EUR Bund Future



last: 121.64  
Rally 122.37 - 122.79 likely, stop 121.45.

Source: Thomson Reuters

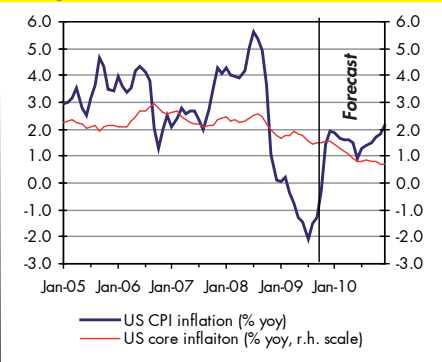
#### U.S. Treasury Note Future



last: 118.00  
Rally 119.13 - 119.20 - 120 likely, crossing the latter means triggering 6 points upwards.

Source: Thomson Reuters

#### Steep rise ahead (base effect oil!)



Source: Thomson Reuters, Raiffeisen RESEARCH

#### Forecasts

USA	current	Dec-09	Mar-10	Sep-10
Key rate	0.10	0.10	0.10	0.10
3M	0.27	0.40	0.40	0.90
5Y	2.25	2.70	2.50	3.00
10Y	3.43	3.90	3.50	4.10
<b>Eurozone</b>				
Key rate	1.00	1.00	1.00	1.50
3M	0.71	1.10	1.30	1.90
5Y	2.42	2.80	2.80	3.50
10Y	3.34	3.70	3.50	4.00
Spread	9	20	0	10

Source: Thomson Reuters, Raiffeisen RESEARCH

Please find our „trading ideas“ on page 5.

### USA

For lack of important economic data, there was not a great deal of information on the economy **last week**, but the coming week promises to be all the more interesting: on Monday, **retail sales** should reflect a strong monthly gain, both with and without automobiles, after the decline owing to automobile-induced developments last month (due to the end of the cash for clunkers programme). Because contrary to the popular belief, the cash for clunkers scheme was not the only reason for the rebound in US consumption, as other components of consumption have also stabilised. Even though we do not expect major gains in consumption in the quarters ahead, at least no new major declines are expected either. The usual pattern should be repeated in **inflation data** (PPI on Tuesday, CPI on Wednesday): due to the increasingly unfavourable base effect from oil prices, mild price increases in monthly terms should result in a sharp rise in the annual rate of headline inflation (incl. energy), which is projected to advance from the last CPI reading of -1.3% yoy to just under zero percent, after which headline inflation will move towards +2% yoy again in the months ahead. On the other hand, the core measure of inflation will remain low in year-on-year terms, and will fall to below 1% yoy next year, from the latest core CPI result of 1.5% yoy. Additionally, more data on the housing market is scheduled for release: the NAHB index (residential construction leading indicator) should manage a modest

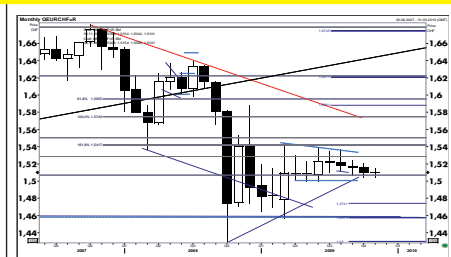
### Key figures

USA			RZB	cons.	prior
Mon, 16.	Retail Sales	Oct.	<b>0.9%</b>	0.9%	-1.5%
Mon, 16.	Retail Sales Less Autos, mom	Oct.	<b>0.4%</b>	0.4%	0.5%
Mon, 16.	Empire Manuf. Index	Nov.	<b>30.0</b>	29.0	34.6
Tue, 17.	PPI, mom	Oct.	<b>n.a.</b>	0.5%	-0.6%
Tue, 17.	PPI Ex Food & Energy, mom	Oct.	<b>n.a.</b>	0.1%	-0.1%
Tue, 17.	Industrial Production, mom	Oct.	<b>0.4%</b>	0.4%	0.7%
Tue, 17.	Capacity Utilization	Oct.	<b>70.9%</b>	70.8%	70.5%
Tue, 17.	NAHB Housing Market Index	Nov.	<b>19.0</b>	19.0	18.0
Wed, 18.	CPI, mom	Oct.	<b>0.2%</b>	0.2%	0.2%
Wed, 18.	CPI ex Food & Energy, mom	Oct.	<b>0.1%</b>	0.1%	0.2%
Wed, 18.	Housing Starts, thsd., ann.	Oct.	<b>598.0</b>	598.0	590.0
Wed, 18.	Building Permits, thsd., ann.	Oct.	<b>580.0</b>	580.0	573.0
Thu, 19.	Philadelphia Fed.	Nov.	<b>11.1</b>	11.1	11.1
<b>Europe</b>					
Mon, 16.	EUR: HICP ex Food & Energy, yoy	Oct.	<b>1.1%</b>	1.1%	1.2%
Wed, 18.	EUR: Construction Output, mom	Sep.	<b>n.a.</b>	n.a.	-0.4%
Fri, 20.	GE: Producer Prices, mom	Oct.	<b>n.a.</b>	0.1%	-0.5%
Fri, 20.	IT: Industrial Orders, mom	Sep.	<b>n.a.</b>	n.a.	-8.6%
<b>Japan</b>					
Sun, 15.	GDP % qoq, annualised	Q3	<b>4.0%</b>	2.9%	2.3%

Source: Bloomberg

## Technical analysis

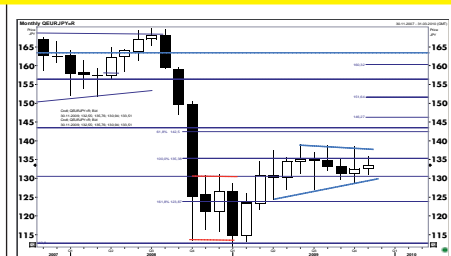
### EUR/CHF



last: 1.51  
Now momentum at all, thus: buy 1,5174 -> 1.5240 - 1.56 or sell 1.4980 -> 1.46.

Source: Thomson Reuters

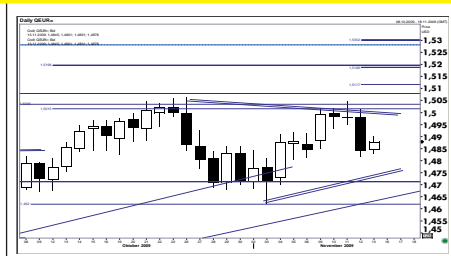
### EUR/JPY



last: 133.51  
Still a bullish Pennant, thus: buy 138 -> 143 - 146, stop 128.70

Source: Thomson Reuters

### EUR/USD



last: 1.4879  
Bull Triangle, buy-signal 1.5060 -> 1.5190 - 1.53 likely, sell 1.48 -> 1.4750 - 1.47

Source: Thomson Reuters

## Forecasts

	current	Dec-09	Mar-10	Sep-10
<b>CHF</b>				
3M	0.26	0.30	0.30	0.40
10Y	1.99	2.50	2.40	2.65
<b>YEN</b>				
Key rate	0.10	0.10	0.10	0.10
3M	0.36	0.30	0.35	0.35
10Y	1.35	1.40	1.30	1.40
<b>FX</b>				
EUR/USD	1.49	1.50	1.55	1.45
EUR/JPY	134	135	130	145
USD/JPY	90	90	84	100
EUR/CHF	1.51	1.53	1.55	1.55
<b>Crude</b>				
Brent	75.74	70	70	77

Source: Thomson Reuters. Raiffeisen RESEARCH

increase, along with **housing starts** and **building permits** (data for October, the latest extension of tax breaks for real estate buyers until 2010 does not play a role in these data yet, but should offer more support for the housing market in the months ahead). To round off the data, there are figures on manufacturing as well: on the one hand, industrial production for October (strong monthly gain), and on the other hand the first regional business surveys for November, the **Empire State Index** and **Phil. Fed Index**. Following the sharp increase last month, it would be normal to see a decline in the Empire index, but this does not have to be as severe as currently anticipated by consensus.

There was little activity on the **bond market** last week due to the lack of surprises in economic developments and despite the robust performance of the equity markets, with yields on 10-year bonds at 3.45%, only a little bit lower than at the end of the previous week. Although the coming week features a great deal of data releases, due to the lack of sharply differing opinions on the key data, we see no trigger for us to leverage our quarterly forecast (sell) with a short-term sell recommendation. Especially since the level of yields is at around 3.5%, which is right in the middle of the 3-4% range where bond yields should remain stuck for the coming 2-3 quarters in our opinion, due to lack of increases in key interest rates.

## Eurozone

At the end of the week, the preliminary figures for **third-quarter GDP** were published for the euro area. An improvement in production was registered in most countries compared to the previous quarter. In respect of the major countries, Germany led the way with GDP growth of 0.7% qoq, with Spain, unsurprisingly, bringing up the rear at -0.3% qoq. A good result was also published for Austria: GDP expanded by 0.9% qoq, leaving the country near the front of the pack and well ahead of the average for the euro area (0.4% qoq). In line with the usual definition on the financial markets, which compares economic growth to the previous quarter, the **recession in the euro area has come to an end**. According to the German data, construction, inventory and plant&equipment investment, along with exports, were the driving factors behind growth, whereas private consumption dropped, reducing economic growth. The acceleration in economic activity in Q3 was forecast to occur on the basis of the available data on industrial production and the results of business sentiment surveys. Nevertheless, consensus and we ourselves were expecting even stronger gains in GDP, and hence while the data are cause for some pleasure on the one hand, they are also slightly disappointing on the other. The latest notable improvement in economic activity has been borne in part by temporary effects (inventory cycle, economic stimulus programmes). Although the strong rebound in economic growth will continue on into the fourth quarter at least, economic growth will then probably taper off again in 2010, but not slip back into recessionary territory again. Accordingly, we view today's GDP data as a first step on a long, and probably bumpy path to economic recovery.

All of the ***data in the coming days*** are of lesser importance: for ***new orders in Italian manufacturing a strong rebound*** should be on the cards, following the sharp decline last months (along with an upward revision of last month's result). Inflation ex. energy and unprocessed foods (***core rate***) should remain ***just above 1%*** (falling to below 1% yoy in the months ahead). For October, ***German producer prices should advance tangibly in month-on-month terms***, after the surprisingly strong decline in September. Over the near term, we do not see these data as having any major impact on the bond market. Prices should continue to enjoy support from the lower-than-expected GDP data. Taking a perspective of the next few months, however, we expect yields to increase on EUR government bonds and our recommendation remains unchanged: Sell.

### ***Japan***

The Japanese economy was hit particularly early and very hard by the economic crisis. Despite this, it now appears that the country may find a ***place at the forefront of the current economic recovery***. In Q2 2009, GDP growth amounted to 2.3% annualised compared to the previous period, and with regard to the Q3 data published on Sunday, we expect to see more strong growth at around 4.0%. In recent months, a consolidation trend and even some setbacks have been registered in the leading indicators. In the fourth quarter, however, growth is expected at an annualised rate of 3%.

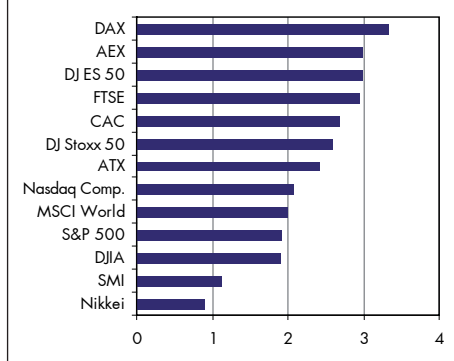
# Market Outlook

## Equity Markets Weekly

weekly

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### Market performance (% , 1 week)



Source: Thomson Reuters

### Recommendations

**Markets:** Buy: USA, Europe, Japan  
**Favoured sectors:** Consumer discretionary, IT, Industrials, Materials

#### USA

The recent week brought neither great news from the economic front nor a vast number of corporate releases. However, almost all indications support the view that the US economy experiences a sound recovery. Accordingly both NYSE and Nasdaq could clock up nice gains – partly leading to fresh 13-months-highs. We think that positive economic news and a high level of liquidity will push US stocks to even higher levels by year-end. From that point of view we (still) stand by our “buy”-recommendation – even at the currently high US index levels.

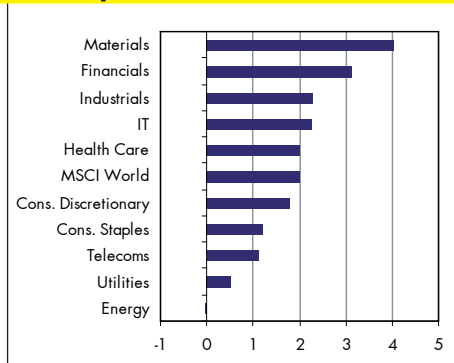
#### Europe

European stock markets were able to claw back some of their losses we had seen during the weeks before. Nevertheless in contrast to the US new year-highs have not been reached in Europe by now. Especially positive Chinese economic data and lately published earnings figures were able to brighten up the sentiment. This primarily applies to European financials which delivered quite pleasant results. Concerning the development of European stock markets until year-end further rising economic leading indicators and ample liquidity should clear the way for higher index levels. Nevertheless with the beginning of next year an expected gradual withdrawal of global stimulus measures should bring some temporary setbacks.

#### Japan

Although the sentiment for riskier assets recently cleared up markedly Japanese stocks still stand in the shadow. The forces behind that are some question marks over the further development of the economy and the state of corporate Japan. Furthermore a high level of risk appetite supports the strength of the JPY versus the greenback. Hence we think that there is only limited upside for the Nikkei 225 and therefore we revise our December index target to the downside.

### Sector performance (% , 1 week)\*



\* weekly performance of global MSCI sector indices  
 Source: Thomson Reuters

### Forecasts

	current*	Dec-09	Mar-10
DJ ES50	2,874	3,050	2,800
DAX	5,667	6,050	5,500
FTSE	5,281	5,450	5,000
SMI	6,324	6,600	6,100
DJIA	10,197	10,300	9,500
S&P 500	1,087	1,130	1,050
Nasdaq Comp.	2,149	2,280	2,150
Nikkei	9,770	10,100	10,000
ATX	2,623	2,800	2,550

\* as per Friday 1:30 p.m.  
 Source: Raiffeisen RESEARCH

### Expected corporate releases

USA		
Mon,	16	Lowe's
Tue,	17	Autodesk, Home Depot, Target
Thu,	19	Dell, GAP, Intuit, Sears Holdings
Europe		
Tue,	17	Fortis, Portugal Telecom
Wed,	18	Air France, Ahold, Infineon
Fri,	19	SabMiller

# Market Outlook

## Trading ideas

weekly

13 November 2009

### FX

Recommendation	Entry date	Entry level	Current level	Target	Stop	Carry (ann. %)	Comment
Buy EUR/USD	05/11/2009	1.483	1.489	1.52	1.46		Decreasing risk aversion

Source: Thomson Reuters, Bloomberg

### Recently closed trades

Recommendation	Entry date	Entry level	Close date	Close level	Total return	Comment
Sell GBP/USD	23/10/2009	1,643	09/11/2009	1,675	-1.91%	Stopped Out
Buy EUR/CHF	21/10/2009	1.5097	27/10/2009	1.515	0.35%	Closed early
Buy EUR/JPY	29/09/2009	131.1	13/10/2009	133.1	1.53%	Closed early
Buy EUR/CHF	25/08/2009	1.516	09/10/2009	1.5186	0.17%	Closed early
Buy EUR/USD	04/08/2009	1.4364	07/08/2009	1.425	-0.80%	Stopped Out
Sell EUR/JPY	20/10/2009	135	03/11/2009	131.9	2.35%	Closed early
Sell German Bund Future	29/10/2009	121.8	03/11/2009	122.4	-0.49%	Stopped Out
Sell German Bund Future	12/10/2009	122.20	27/10/2009	121.5	0.57%	Trailing stop hit
Sell German Bund Future	21/08/2009	120.78	01/10/2009	122.0	-1.01%	Stopped Out
Sell US T-Note Future	29/09/2009	118 119/256	01/10/2009	119 1/4	-0.66%	Stopped Out
Sell US T-Note Future	04/09/2009	117 131/256	25/09/2009	117 192/256	-0.25%	Closed early
10/2 flattener; Sell 2Y - Buy 10Y Germany	05/06/2009	206 bp	09/09/2009	225 bp	-19 bp	Stopped Out
Sell US T-Note Future	21/08/2009	118.00	02/09/2009	119.25	-1.05%	Stopped Out
Sell US T-Note Future	13/08/2009	115.94	14/08/2009	117.50	-1.33%	Stopped Out
Sell German Bund Future	14/08/2009	121.04	14/08/2009	121.50	-0.38%	Stopped Out
Sell German Bund Future	13/08/2009	120.28	13/08/2009	121.1	-0.68%	Stopped Out
Sell German Bund Future	03/08/2009	122.1	07/08/2009	120	1.75%	Target reached
Sell US T-Note Future	03/08/2009	117 3/256	05/08/2009	116 72/256	0.60%	closed early

Source: Thomson Reuters, Bloomberg

**Note:** This list contains only the strongest trading ideas for the markets that we cover. Therefore not every market forecast that implies a buy recommendation is also listed as a trading idea! Trading ideas may also differ from our quarterly forecasts, as the time horizon can be different. The time horizon of the trade is at least two weeks, but not more than 3 months.

# Market Outlook

## Acknowledgements

This report was completed on 13 November 2009

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