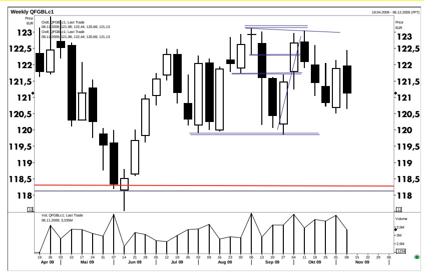
Market Outlook
Bond Markets Weekly

weekly — **6 November 2009**

Technical analysis
EUR Bund Future



last: 121.13
Rebound 122 likely, sell 120.50, bullish once in beyond of 122.50

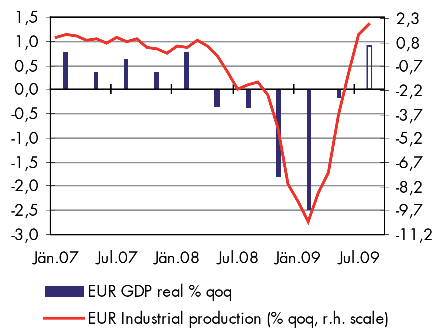
Source: Thomson Reuters

U.S. Treasury Note Future

last: 118-06
Rebound 118-26 likely, 119 -> 120 off odds.

Source: Thomson Reuters

GDP forecast Eurozone



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	0.28	0.40	0.40	0.90
5Y	2.34	2.70	2.50	3.00
10Y	3.51	3.90	3.50	4.10
Eurozone				
Key rate	1.00	1.00	1.00	1.50
3M	0.72	1.10	1.30	1.90
5Y	2.49	2.80	2.80	3.50
10Y	3.35	3.70	3.50	4.00
Spread	17	20	0	10

Source: Thomson Reuters. Raiffeisen RESEARCH

Please find our „trading ideas" on page 5.

USA

All things considered, the data ***last week*** were positive. For example, on Monday the ***manufacturing ISM*** surprised the markets with an increase to 55.7 points in October, easily beating consensus and even exceeding our optimistic forecast. The rise in the subindex for production suggests that industrial output will continue to pick up in the months ahead. The labour market report for October was in line with consensus forecasts. With a job loss figure of 190K, 29K less positions were cut than in September. Consensus was for a loss of 175K. The unemployment rate rose further, moving to 10.2%. Markets took the figures as a disappointment. Obviously some market participants had been looking for better figures after the ISM had surprised on the upside on Monday. The ***services ISM*** was disappointing too, as the index registered a decline of 0.3 to 50.6 points in October, instead the anticipated increase. The ***Fed's comments*** in the wake of the ***rate-setting meeting*** on Wednesday were unspectacular: according to the FOMC, the key rate should remain near the historically low level of just over 0% for a longer period of time. By contrast, ***pending home sales*** in September shattered the expectations, coming in at +6.1% after +6.4% in August. Sales are now almost 40% higher than the low in January and point to a strong increase in sales of existing homes in the months to come.

The stream of relevant data on the economy in the USA will be very thin ***next week***. The markets will likely pay most attention to the preliminary ***consumer confidence results of the University***

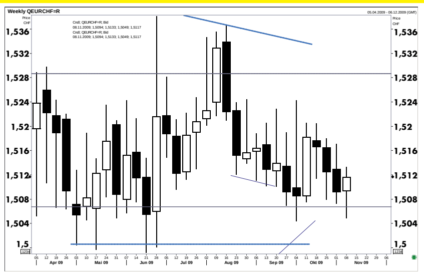
Key figures

USA				**RZB**	**cons.**	**prior**
Thu,	12.	Initial Jobless Claims, thsd	Nov, 07	***n.a.***	n.a.	512.0
Fri,	13.	Trade Balance, bln	Sep.	***-32.5***	-31.9	-30.7
Fri,	13.	Import Price Index , mom	Oct.	***1.3%***	1.0%	0.1%
Fri,	13.	Import Price Index , yoy	Oct.	***-5.3%***	-5.6%	-12.0%
Fri,	13.	U. of Michigan Cons. Confid., prelim.	Nov.	***69.0***	71.0	70.6
Europe						
Mon,	9.	EUR: Sentix Investor Confidence	Nov.	***n.a.***	-11.5	-12.6
Mon,	9.	GE: Industrial Production, mom	Sep.	***2.0%***	1.2%	1.7%
Tue,	10.	GE: ZEW Survey	Nov.	***55.0***	55.0	56.0
Thu,	12.	SP: GDP, qoq	Q3	***-0.4%***	-0.4%	-1.1%
Thu,	12.	EUR: Industrial Production, mom	Sep.	***0.5%***	0.5%	0.9%
Fri,	13.	GE: GDP, qoq	Q3	***1.1%***	0.8%	0.3%
Fri,	13.	FR: GDP, qoq	Q3	***0.8%***	0.6%	0.3%
Fri,	13.	AT: GDP, qoq	Q3	***0.8%***	n.a.	-0.4%
Fri,	13.	NE: GDP, qoq	Q3	***1.0%***	0.3%	-1.1%
Fri,	13.	IT: GDP, qoq	Q3	***0.7%***	0.8%	-0.5%
Fri,	13.	EUR: GDP, qoq	Q3	***0.9%***	0.6%	-0.2%
Fri,	13.	EUR: HICP ex Food & Energy, yoy	Oct.	***1.1%***	1.2%	1.2%

Source: Bloomberg

Technical analysis

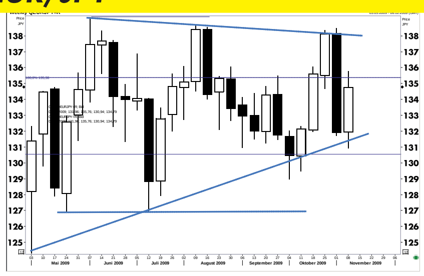
EUR/CHF



last: 1.5116
Again rebound 1.52 -> 1.5280 expectable.

Source: Thomson Reuters

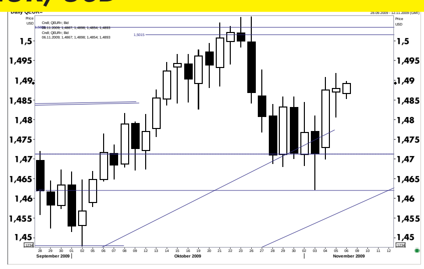
EUR/JPY



last: 134.77
Bull Pennant still valid, but now and in before: buy 136 -> 138, stop 133.20 -> 131.7

Source: Thomson Reuters

EUR/USD



last: 1.4892
Bull Pennant and bull confirmation at 1.4933 likely, as well as a rebound towards 1.5061 - 1.5110.

Source: Thomson Reuters

Forecasts

CHF	current	Dec-09	Mar-10	Sep-10
3M	0.26	0.30	0.30	0.40
10Y	2.01	2.50	2.40	2.65
YEN				
Key rate	0.10	0.10	0.10	0.10
3M	0.56	0.30	0.35	0.35
10Y	1.45	1.40	1.30	1.40
FX				
EUR/USD	1.49	1.50	1.55	1.45
EUR/JPY	135	135	130	145
USD/JPY	90	90	84	100
EUR/CHF	1.51	1.53	1.55	1.55
Crude				
Brent	77.84	70	70	77

Source: Thomson Reuters. Raiffeisen RESEARCH

of Michigan, but these are not due out until Friday. In contrast to consensus, we do not expect sentiment to improve. The strong rise in gasoline prices in October and lacklustre performance on the equity markets has probably weighed on sentiment. The first US data are not even scheduled to come out until Thursday, when the weekly data on ***initial jobless claims*** will be released. The slow dataflow for the week comes to an end with the ***trade balance numbers*** for September and October ***import price figures*** on Friday. The sharp rise in oil prices in August and October suggests that the trade deficit will widen and that import prices will jump tangibly.

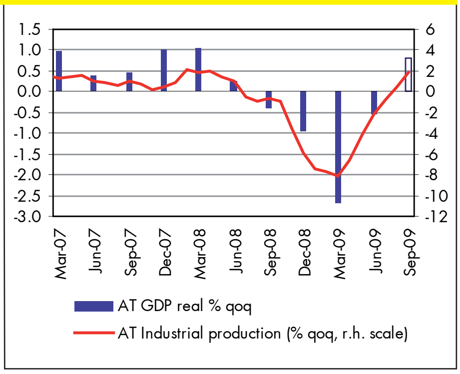
The volatility in the data and on the equity markets triggered some sharp intra-day movements on the ***government bond market,*** but overall 10-year yields remained practically unchanged in weekly terms, at 3.5%. Although we still expect to see a significant rise in yields by the end of the quarter (Sell recommendation for government bonds), nothing will necessarily change very much with regards to this pattern next week. At least today´s unemployment report couldn´t set a lasting impetus.

Eurozone

It is practically official now: the ECB plans to let ***12-month refinancing operations run out*** at the end of this year. Whether or not the ECB will apply a mark-up on the financing rate of 1% at its third and last 12-month repo deal in mid-December will only be found out at the bank's meeting early in the month. Hence, the end of the year may feature the first step on the long path to winding up the extraordinary monetary policy measures. The ECB wants the exit to proceed gradually, over a longer period of time. For example, the main refinancing operations may be fully allocated until the middle of next year (with EUR 442 bn coming due at the beginning of July 2010), whereas longer-term refinancing operations are being increasingly restricted (return to tender procedures, end to the six-month deals). Initially, the ***focus*** will clearly be on measures to ***siphon off liquidity*** and hence we do not expect a rate hike until Q3 2010. Moreover, the ECB is currently not interested in actively pushing money market rates higher. After the rate-setting meeting on Thursday, ECB head Trichet noted his satisfaction that the EONIA rate is trading right close to the deposit rate of 0.25%.

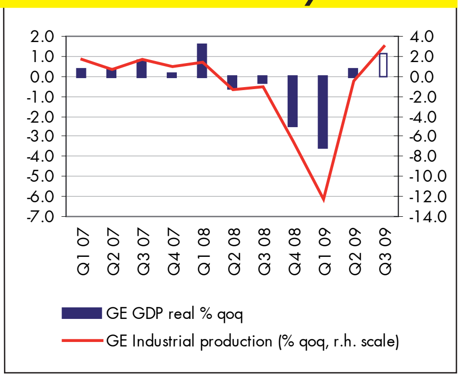
The next few days will be completely dominated by ***GDP figures*** for the third quarter. Some first indication have already come out with the data for Spain (-0.4% qoq, according to the central bank estimate) and Belgium (0.5% qoq), but these results will tend to drag the expectations lower. Looking at the industrial production developments, the results in many other countries should be significantly higher. For ***Germany*** and the ***Netherlands*** we think there may even be a ***one before the decimal point***, and in our estimation GDP growth for France and the entire euro area should thus be just under 1% qoq. ***In Austria, economic activity*** probably also ***gained ground strongly*** in the third quarter. Leading indicators and production data from manufacturing (+1.8% qoq in Q3) would point to positive GDP growth of around 0.8% qoq (-3.4% yoy). The best thing is that the positive economic performance seen in the third quarter is probably not a one-off occurrence as well. The latest leading indicators and data on new orders (+0.9% mom for September in Germany, equivalent to +8.9% in quarter-on-quarter terms!) point to similarly high GDP growth rates for Q4 2009. Sooner or later the ECB's looming exit from the ultra-expansive policies will start pushing money market rates higher. With the drying up of the surplus liquidity, bonds will also lose a key supporting factor. Over the short run, the ***ZEW index*** on Tuesday should provide support for the bond market (we expect a decline), but we foresee prices declining in response to the GDP data. With a horizon of a few months (to year-end and at one year), our recommendation on German government bonds (and Bund Futures) remains Sell.

GDP forecast Austria



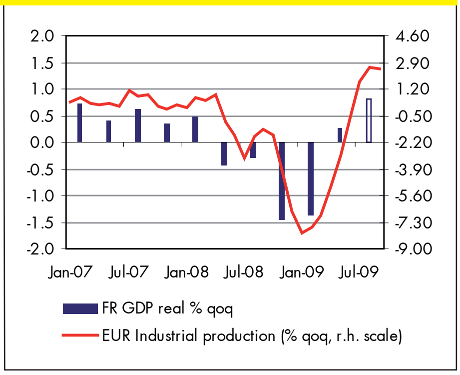
Source: Thomson Reuters

GDP forecast Germany



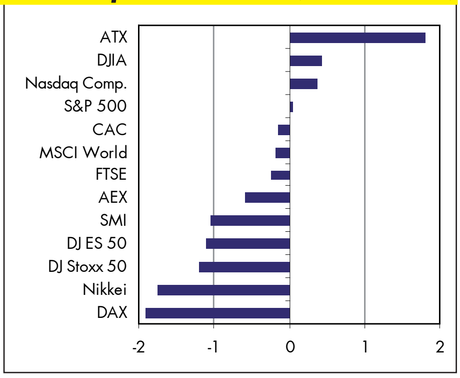
Source: Thomson Reuters

GDP forecast France



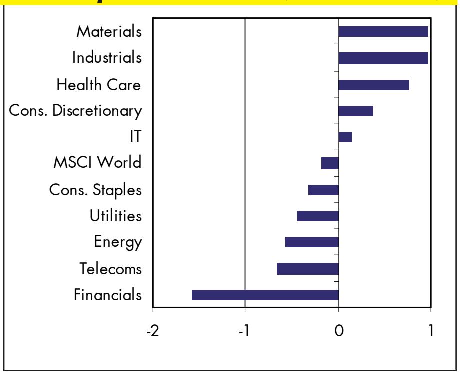
Source: Thomson Reuters

Market performance (%, 1 week)



Source: Thomson Reuters

Sector performance (%, 1 week)*



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

Recommendations

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

USA

The recent week was dominated by the release of macroeconomic data heavyweights. Herein the purchasing manager indices painted a somewhat mixed picture. On the one hand the dynamic of the manufacturing sector underpins the ongoing strong economic rebound, whereas companies in the services sector on the other hand still struggle to gain momentum. However, (by now) nearly all indications support the view that the US economy experiences a sound recovery. Moreover comments of Chairman Bernanke acknowledged that the US Fed is in no rush to tighten policy soon. Also the earnings releases of Q3, with the majority of the companies being able to beat expectations, underscore that optimistic view. Although most of the influencing factors speak for rising US stocks, the current mood seems to be "sell, when it can't get much better". Nevertheless, we think that positive economic news and a high level of liquidity will bring another upswing for US stocks. But at the same time we are getting more cautious for the first quarter of the next year.

Europe

European stock markets can look back on an eventful week. Quarterly results, decisions on the base rate and a favourable statement of the president of the ECB, Mr. Trichet, regarding the actual economic recovery were in the spotlight and dominated the markets. Only US economic data, published on Thursday, managed to brighten sentiment, so that week's losses turned out moderately. Even if economic data fostered stock prices temporarily, the unease concerning the further economic recovery among investors is still present. At the moment markets react sensitively on disappointing news, whereas in the upcoming weeks we expect fewer impulses from companies, as the earnings season fades out. Although the positive signals have clearly lost momentum in the last weeks we remain optimistic that European stock markets will reach higher index levels until the end of the year. We think that especially ample liquidity will be a solid back-up for markets.

Forecasts

	current*	Dec-09	Mar-10
DJ ES50	2,793	3,050	2,800
DAX	5,481	6,050	5,500
FTSE	5,134	5,450	5,000
SMI	6,291	6,600	6,100
DJIA	10,006	10,300	9,500
S&P 500	1,067	1,130	1,050
Nasdaq Comp.	2,105	2,280	2,150
Nikkei	9,717	10,850	10,000
ATX	2,550	2,800	2,550

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

Expected corporate releases

USA		
Wed,	11	Applied Materials, Computer Sciences, Macy's
Thu,	12	Walt Disney, Kohls, Wal-Mart Stores
Fri,	13	J.C.Penny
Europe		
Tue,	10	Imperial Tobacco, Unicredit, Vodafone
Wed,	11	E.ON, Henkel, Holcim, ING, Sainsbury, Swisscom
Thu,	12	Anheuser-Bursch, Aegon, Hochtief, Lanxess, Portugal Telecom, Q-Cells, Repsol, Stada, K+S, Salzgitter, Telefonica, Vivendi
Fri,	13	Richemont, Dexia, RWE

Market Outlook
Trading ideas

weekly — *6 November 2009*

FX

Recommendation	Entry date	Entry level	Current level	Target	Stop	Carry (ann. %)	Comment
Sell GBP/USD	10/23/2009	1.643	1.661	1.58	1.675		disappointing UK GDP data, stronger US data expected

Source: Thomson Reuters, Bloomberg

Recently closed trades

Recommendation	Entry date	Entry level	Close date	Close level	Total return	Comment
Sell German Bund Future	10/29/2009	121.8	11/3/2009	122.4	-0.49%	Stopped Out
Sell Germann Bund Future	10/12/2009	122.20	10/27/2009	121.5	0.57%	Trailing stop hit
Sell Germann Bund Future	8/21/2009	120.78	10/1/2009	122.0	-1.01%	Stopped Out
Sell US T-Note Future	9/29/2009	118 119/256	10/1/2009	119 1/4	-0.66%	Stopped Out
Sell US T-Note Future	9/4/2009	117 131/256	9/25/2009	117 192/256	-0.25%	Closed early
10/2 flattener; Sell 2Y - Buy 10Y Germany	6/5/2009	206 bp	9/9/2009	225 bp	-19 bp	Stopped Out
Sell US T-Note Future	8/21/2009	118.00	9/2/2009	119.25	-1.05%	Stopped Out
Sell US T-Note Future	8/13/2009	115.94	8/14/2009	117.50	-1.33%	Stopped Out
Sell Germann Bund Future	8/14/2009	121.04	8/14/2009	121.50	-0.38%	Stopped Out
Sell Germann Bund Future	8/13/2009	120.28	8/13/2009	121.1	-0.68%	Stopped Out
Sell Germann Bund Future	8/3/2009	122.1	8/7/2009	120	1.75%	Target reached
Sell US T-Note Future	8/3/2009	117 3/256	8/5/2009	116 72/256	0.60%	closed early
Buy EUR/CHF	10/21/2009	1.5097	10/27/2009	1.515	0.35%	Closed early
Buy EUR/JPY	9/29/2009	131.1	10/13/2009	133.1	1.53%	Closed early
Buy EUR/CHF	8/25/2009	1.516	10/9/2009	1.5186	0.17%	Closed early
Buy EUR/USD	8/4/2009	1.4364	8/7/2009	1.425	-0.80%	Stopped Out
Sell EUR/JPY	10/20/2009	135	11/3/2009	131.9	2.35%	Closed early
Buy EUR/CHF	8/25/2009	1.516	10/9/2009	1.52	0.2%	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

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