

Market Outlook

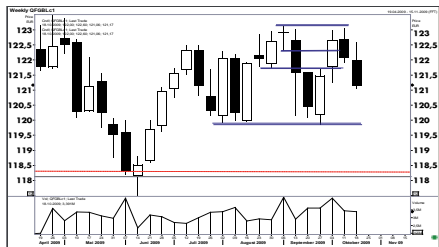
Bond Markets Weekly

weekly

16 October 2009

Technical analysis

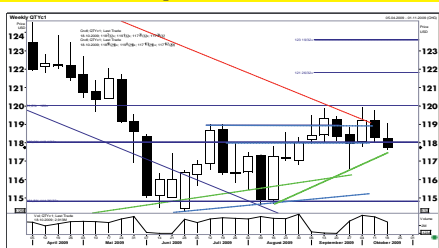
EUR Bund Future



last: 121.68
Drop 119.90 has been indicated, thus 121.70 -> 122.30 again serves as stop-limit.

Source: Thomson Reuters

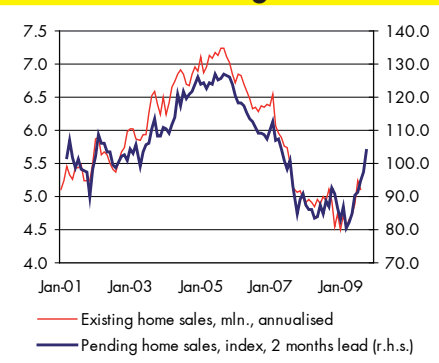
U.S. Treasury Note Future



last: 117.24
Failure at the FRL, thus now testing RSL at 117.15 -> 116.25, bullish again once beyond 118.20.

Source: Thomson Reuters

Rebound in existing home sales



Source: Thomson Reuters, Raiffeisen RESEARCH

Forecasts

	current	Dec-09	Mar-10	Sep-10
USA				
Key rate	0.10	0.10	0.10	0.10
3M	0.28	0.40	0.40	0.50
5Y	2.38	2.70	2.50	2.60
10Y	3.47	3.90	3.50	3.70
Eurozone				
Key rate	1.00	1.00	1.00	1.00
3M	0.74	1.10	1.30	1.40
5Y	2.49	2.80	2.80	3.10
10Y	3.31	3.70	3.50	3.70
Spread	15	20	0	0

Source: Thomson Reuters, Raiffeisen RESEARCH

Please find our „trading ideas“ on page 5.

USA

In terms of the data, **last week** was positive on the whole. For instance, **retail sales figures** in September dropped considerably less than expected. In the wake of the gains for this indicator in August due to the 'cash for clunkers' programme, a negative result in September was unavoidable. **Initial claims for jobless benefits** dropped to 514K, reaching the lowest level since the start of this year. The dynamics of the deterioration on the labour will probably thus slow down even more. Sentiment in manufacturing should improve again in October, following the mild setback in September. This is also suggested by the first two regional sentiment indicators. The **Empire State Index** for the greater New York area jumped strongly higher. Its counterpart for the **Philadelphia** area, however, registered a small decline. But on the whole, these two indicators point to a significant gain in the national purchasing managers' index, the ISM, which will be released on 2 November. Data on **imports and consumer prices** were within the range of expectations in September and continue to indicate very subdued pressure on prices.

Next week, the main focus will be on real estate market data. The data get started with the **NAHB housing market index** for October, slated for release on Monday. The existing upward trend in place since the beginning of the year is expected to continue. Tuesday sees publication of the September data on **building permits** and

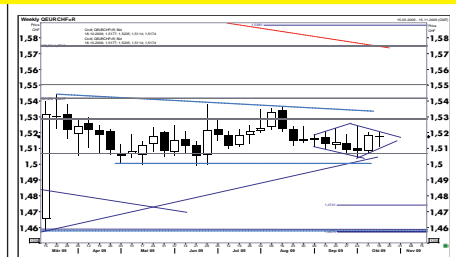
Key figures

			RZB	cons.	prior
USA					
Mon, 19.	NAHB Housing Market Index	Oct.	20.0	20.0	19.0
Tue, 20.	Producer prices, mom	Sep.	-0.1%	0.1%	1.7%
Tue, 20.	Producer prices ex food & energy, mom	Sep.	0.1%	0.1%	0.2%
Tue, 20.	Housing starts, thsd, ann.	Sep.	640	610.0	598.0
Tue, 20.	Building permits, thsd, ann.	Sep.	620	590.0	579.0
Wed, 21.	Fed's Beige Book	Oct, 15	n.a.	n.a.	n.a.
Thu, 22.	Leading Indicators Conf. Board, mom	Sep.	0,8%	0,8%	0,6%
Thu, 22.	FHFA House Price Index, mom	Aug.	n.a.	0,3%	0,3%
Fri, 23.	Existing home sales, mln, ann.	Sep.	5.5	5.4	5.1
Europe					
Tue, 20.	GE: Producer prices, mom	Sep.	-0.2%	-0.2%	0.5%
Thu, 22.	FR: INSEE Business confidence	Oct.	86.0	87.0	85.0
Thu, 22.	BE: BNB Business confidence	Oct.	-15.0	n.a.	-17.8
Fri, 23.	GE: PMI Manufacturing	Oct.	50.5	50.1	49.6
Fri, 23.	GE: PMI Services	Oct.	52.5	52.2	52.1
Fri, 23.	GE: ifo Index	Oct.	92.5	92.0	91.3
Fri, 23.	GE: ifo current assessment	Oct.	88.5	87.6	87.0
Fri, 23.	GE: ifo bus. expectations	Oct.	96.5	96.2	95.7
Fri, 23.	EUR: PMI Manufacturing	Oct.	50.1	50.0	49.3
Fri, 23.	EUR: PMI Services	Oct.	51.5	51.5	50.9
Fri, 23.	EUR: Industrial orders, mom	Aug.	n.a.	n.a.	2.6%

Source: Bloomberg

Technical analysis

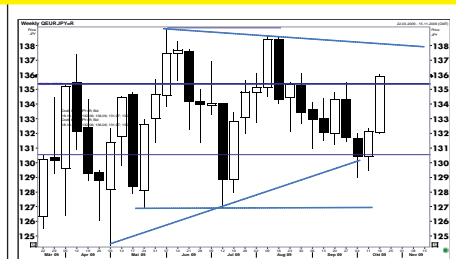
EUR/CHF



last: 1.5174
Triangle and now Diamond of maybe bullish nature, thus 1.5250 -> 1.5330 - 1.55 - 1.57 likely.

Source: Thomson Reuters

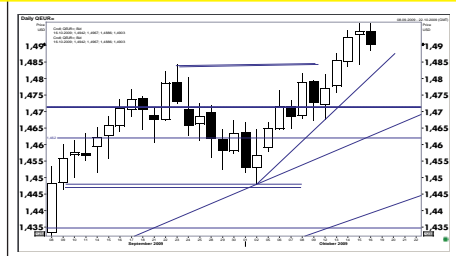
EUR/JPY



last: 135.97
Triangle and test 138 - 139.20, stop 135 -> 132.20.

Source: Thomson Reuters

EUR/USD



last: 1.4907
Target = 1.52 and bullish confirmation at 1.50 likely, but with regard to Tweezers' + Dragonfly: stop 1.4830 -> 1.47.

Source: Thomson Reuters

Forecasts

	current	Dec-09	Mar-10	Sep-10
CHF				
3M	0.27	0.30	0.30	0.40
10Y	2.12	2.50	2.40	2.60
YEN				
Key rate	0.10	0.10	0.10	0.10
3M	0.58	0.30	0.35	0.35
10Y	1.33	1.40	1.30	1.30
FX				
EUR/USD	1.49	1.50	1.55	1.55
EUR/JPY	136	135	130	135
USD/JPY	91	90	84	87
EUR/CHF	1.52	1.53	1.55	1.58
Crude				
Brent	74.88	70	70	77

Source: Thomson Reuters. Raiffeisen RESEARCH

housing starts. Following the rather unsatisfactory August figures, we project strong gains in September, which should come in well higher than consensus. On Thursday, the government housing market agency FHFA releases its **housing price index** for August. After the gains in May, June and July, higher prices are expected to be seen in August as well. The stream of real estate market data comes to a close on Friday with **sales of existing homes**. Here again, we are more optimistic than the majority of the surveyed analysts. The tangible increase in pending home sales in recent months suggests a strong gain. The rest of the data scheduled for publication will probably be less interesting. These include **producer prices** for September (Tues), **initial jobless claims** and the **Conference Board's Leading Indicators** (both on Thur), as well as the Fed's economic report, the **Beige Book** (Wedn), which is published every 6 weeks.

On Thursday last week, **yields on government bonds** (10Y) were at a low of 3.16%, but they have now shot upwards to almost 3.5% and are thus close to the highs from September again (and in the middle of the 3-4% range which we still see as being applicable for the coming quarters). Looking ahead to the end of the quarter, there is hence still plenty of room for more increases in yields, as the leading economic indicators have still not peaked out yet (for example, the next manufacturing ISM index in early November should feature a significant rise to a new high for the year). And even the coming week should be marked by better-than-consensus figures on the real estate market, generating more downward pressure on bond prices. Consequently, our recommendation is still **Sell**.

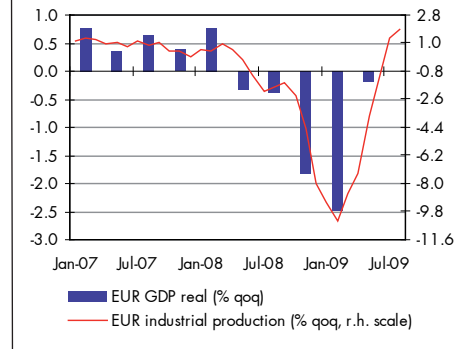
Eurozone

Even though the increase in **EUR industrial production** in August fell short of our expectations, if one takes the upward revisions for June and July into account, then our core projections are **confirmed. Economic activity in Q3 has increased significantly compared to Q2**, and a strong rebound in GDP growth is looking more and more likely. What's even better is that leading indicators suggest that this pick-up in growth will continue in the final quarter of the year as well. In our view, many market pundits are still underestimating the extent of this recovery, whereas we share the general opinion that a sustained upturn is by no means certain yet (i.e. one that would feature steady economic growth over several quarters). In the week ahead, market observers will have to bide their time until any relevant data is published. But patience is golden, because Friday features the **German ifo index** and the **purchasing managers' indices**, two of the most scrutinised leading indicators for the Eurozone. The decline in the ZEW index which was recently released should not be seen as a negative precursor for these economic surveys. First, the ZEW indicator is already at a considerably higher level. Second, the ZEW reflects sentiment amongst analysts, whereas the ifo and the PMI show the actual developments in manufacturing and services. Nevertheless, an **indication** should be possible. The **Belgian early indicator** – which is highly correlated with the ifo survey – is due out one day earlier.

Our expectations for the upcoming economic surveys are clear: in sum we project **further improvements**; in particular the PMI for manufacturing in Germany and in the Eurozone looks poised to break through the 50 mark.

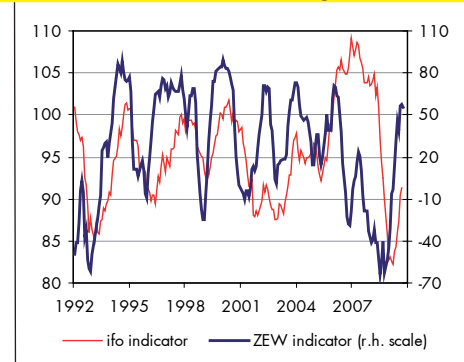
On the bond market, the dynamics in prices finally ran out of steam in the last few days. We have been saying for some time now that we see the level of yields as being too low, in light of the upcoming development of economic activity and inflation. But it was probably neither the economic data nor the sustained increases seen on the equity markets or the swelling budget deficit that triggered the reversal in the trend on the bond market. The straw that broke the camel's back was most likely the comments of central bankers. Statements about the strategy for withdrawing from the super expansive monetary policies seem to have reminded the bond market that the market will not be awash in abundant liquidity forever, even though no reversal of the monetary policy measures is planned for the foreseeable future. Our recommendation for German government bonds (and Bund Futures) remains sell.

Industrial data signal rebound



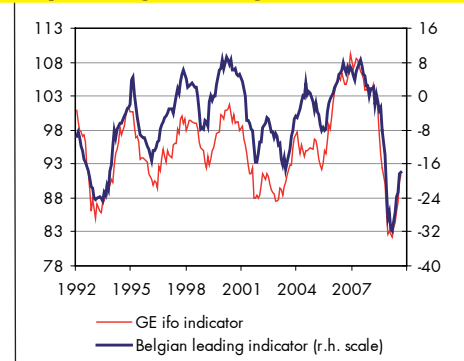
Source: Thomson Reuters

ZEW indicator on a high level



Source: Thomson Reuters

Improving leading indicators



Source: Thomson Reuters

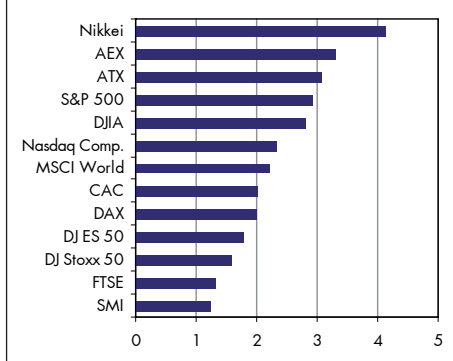
Market Outlook

Equity Markets Weekly

weekly

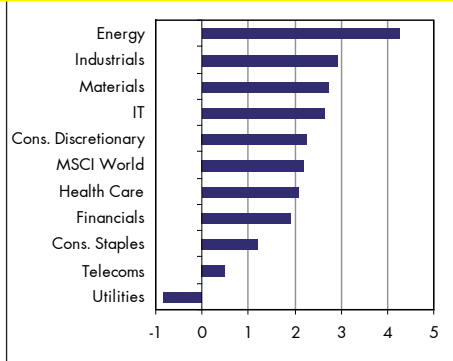
16 October 2009

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

All in all convincing economic indicators as well as positive surprising earnings releases for Q3 were the ingredients for respectable gains in the past trading week for US stocks. Most indices even managed to reach the highest level in a year. However, in the mentioned earnings season the majority of US companies were able to beat market expectations. And while leading indicators and real economic data already hint at a strong recovery also corporate releases now acknowledge that tendency. Hence a strong rebound in corporate earnings is foreseeable for the coming quarters. A high level of liquidity, further expanding leading indicators and a sustainable turnaround in the profit cycle of corporate America will lift US stock indices to even higher levels towards the end of the year.

Europe

Due to the so far positive course of the earnings season nearly all European stock markets indices were able to reach new year-highs. Although mainly the US earnings releases are in focus of interest, the majority of European earnings was up to now also able to deliver quite convincing numbers. Only Nokia disappointed and was therefore punished by investors. Earnings releases should remain the main driver in the upcoming weeks. Nevertheless, in contrast to the US the peak of the European earnings season cannot be expected until the end of October and beginning of November, respectively. We still stick to our opinion that similar to the last earnings season the majority of companies should beat the restrained expectations. Together with an improving economic sentiment we therefore see European stock markets well supported and expect higher index levels until year-end.

Expected corporate releases

USA

Mon, 19 Apple, Texas Instruments
Tue, 20 Caterpillar, Coca-Cola, Pfizer, United Technologies, Yahoo!
Wed, 21 Boeing, Ebay, Eli Lilly, Altria Group, Schering-Plough, Wells Fargo
Thu, 22 Amgen, Amazon.Com, American Express, Bristol-Myers Squibb, Dow Chemical, Kimberly-Clark, McDonald's, 3M, Merck & Co, Philip Morris Intern., AT&T, Wyeth, Xerox, Zimmer Hldgs
Fri, 23 Honeywell, ITT, Microsoft, Schlumberger

Europa

Tue, 20 STMicroelectronics
Wed, 21 Actelion, Elan, Fiat, Valeo, Iberdrola
Thu, 22 Credit Suisse, Ericsson, Logitech, Novartis, Software AG

Forecasts

	current*	Dec-09	Mar-10
DJ ES50	2,923	3,050	2,800
DAX	5,811	6,050	5,500
FTSE	5,211	5,450	5,000
SMI	6,357	6,600	6,100
DJIA	10,063	10,300	9,500
S&P 500	1,097	1,130	1,050
Nasdaq Comp.	2,173	2,280	2,150
Nikkei	10,258	10,850	10,000
ATX	2,733	2,800	2,550

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

Market Outlook

Trading ideas

weekly

16 October 2009

FX

Recommendation	Entry date	Entry level	Current level	Target	Stop	Carry (ann. %)	Comment
Sell German Bund Future	12/10/2009	122.2	121.1	120.0	123.2	-	better economic data

Source: Thomson Reuters, Bloomberg

Recently closed trades

Recommendation	Entry date	Entry level	Close date	Close level	Total return	Comment
Buy EUR/JPY	29/09/2009	131.1	13/10/2009	133.1	1.5%	Closed early
Buy EUR/USD	04/08/2009	1.436	07/08/2009	1.43	-0.8%	Stopped Out
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
Sell German Bund Future	15/07/2009	121.73	29/07/2009	120.8	0.76%	Closed early
Sell US T-Note Future	15/07/2009	117.7	29/07/2009	116.4	1.14%	Closed early
Sell US T-Note Future	30/06/2009	116 3/8	02/07/2009	116 5/7	-0.28%	Closed early
Sell German Bund Future	30/06/2009	121.2	02/07/2009	121.3	-0.07%	Closed early
Sell 10Y Germany, Buy 10Y Austria	16/06/2009	80 bp	23/07/2009	60 bp	20 bp	Target reached
Sell 10Y Germany, Buy 10Y Spain	05/06/2009	78 bp	23/07/2009	58 bp	20 bp	Target reached

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 16 October 2009

Editor

Raiffeisen RESEARCH GmbH
A-1030 Vienna, Am Stadtpark 9
Tel: +43 1 717 07-1521

Head:

Peter Brezinschek (1517)

Economics, Fixed Income, FX:

Valentin Hofstätter (Head, 1685), Jörg Angelé (1687), Walter Demel (1526), Wolfgang Ernst (1500), Ingo Jungwirth (2139), Marcin Kopaczynski (1423), Andreas Schwabe (1389), Gintaras Shlizhyus (1343), Gottfried Steindl (1523), Martin Stelzeneder (1614)

Credit/Corporate Bonds:

Christoph Klaper (Head, 1652), Martin Kutny (2013), Manuel Schreiber (3533), Gleb Shpilevoy (1461), Alexander Sklemin (1212), Birgit Sigl (5892), Beatrix Thaler (5924)

Stocks:

Helge Rechberger (Head, 1533), Aaron Alber (1513), Christian Hinterwallner (1633), Jörn Lange (2169), Hannes Loacker (1885), Richard Malzer (5935), Johannes Mattner (1463), Christine Nowak (1625), Leopold Salcher (2176), Andreas Schiller (1358), Connie Schümann (2178), Magdalena Wasowicz (2169)

Quant Research/Emerging Markets:

Veronika Lammer (Head, 3741), Lydia Kranner (1609), Nina Kucic (1635), Christian Link (1355), Andreas Reschreiter (1683), Josef Wolfesberger (1529)

Technical analysis:

Klemens Hrovath (1421), Robert Schittler (1537)

This document does not constitute an offer or invitation to subscribe for or purchase any securities and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. This document is being furnished to you solely for your information and may not be reproduced or redistributed to any other person. Any investment decision with respect to any securities of the respective company must be made on the basis of an offering circular or prospectus approved by such company and not on the basis of this document. RZB may have effected an own account transaction in any investment mentioned herein or related investments and or may have a position or holding in such investments as a result. RZB may have been, or might be, acting as a manager or co-manager of a public offering of any securities mentioned in this report or in any related security. Information contained herein is based on sources, including annual reports and other material which might have been made available by the entity which is the subject of this document. RZB believes all the information to be reliable, but no representations are made as to their accuracy and completeness. Unless otherwise stated, all views (including statements and forecasts) are solely those of RZB and are subject to change without notice. Investors in emerging markets need to be aware that settlement and custodial risk may be higher than in markets where there is a long established infrastructure and that stock liquidity may be impacted by the numbers of market makers which may therefore impact upon the reliability of any investments made as a result of acting upon information contained in this document. Special regulations for the Republic of Austria: This document does not constitute either a public offer in the meaning of the Kapitalmarktgesetz („KMG“) nor a prospectus in the meaning of the KMG or of the Börsegesetz. Furthermore this document does not intend to recommend the purchase or the sale of securities or investments in the meaning of the Wertpapieraufsichtsgesetz. This document shall not replace the necessary advice concerning the purchase or the sale of securities or investments. For any advice concerning the purchase or the sale of securities or investments kindly contact your RAIFFEISENBANK. Special regulations for the United Kingdom of Great Britain, Northern Ireland (UK) and Jersey (Channel Islands): Raiffeisen Zentralbank. This publication has been either approved or issued by Raiffeisen Zentralbank Österreich AG (RZB) in order to promote its investment business. RZB London Branch is authorised by the Austrian Financial Market Authority (FMA) and subject to limited regulation by the Financial Services Authority (FSA). Details on the extent of the London branch's regulation by the Financial Services Authority are available on request. This publication is not intended for investors who are Retail Customers within the meaning of the FSA rules and should therefore not be distributed to them. Neither the information nor the opinions expressed herein constitute or are to be construed as an offer or solicitation of an offer to buy (or sell) investments. RZB may have effected an Own Account Transaction within the meaning of FSA rules in any investment mentioned herein or related investments and or may have a position or holding in such investments as a result. RZB may have been, or might be, acting as a manager or co-manager of a public offering of any securities mentioned in this report or in any related security. The RZB Jersey marketing representative office is not regulated by the Jersey Financial Services Commission as it does not perform any financial services activity in Jersey as defined by the Financial Services (Jersey) Law 1998 (FSJL). Special regulations for the United States of America (USA) and Canada: This document or any copy hereof may not be taken or transmitted or distributed, in the USA or Canada or their respective territories or possessions nor may it be distributed to any USA-person or person resident in Canada by any means other than via a US Broker Dealer. Any failure to comply with these restrictions may constitute a violation of USA or Canadian securities laws. Detailed disclaimer and disclosure as per Sect. 48f of the Stock Exchange Act: <http://www.raiffeisenresearch.at> -> "Disclaimer"