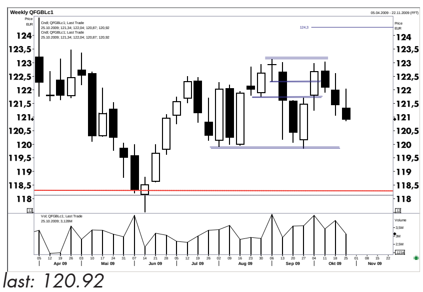
Market Outlook
Bond Markets Weekly

weekly

23 October 2009

Technical analysis

EUR Bund Future



last: 120.92
Drop 119.90 has been indicated, stop 121.20 -> 122.30

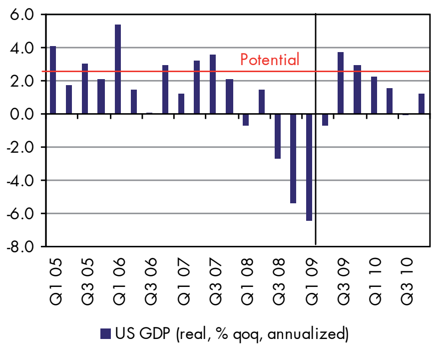
Source: Thomson Reuters

U.S. Treasury Note Future

last: 117-24
Looks like the downward-trend would persist and thus: sell 117-14 -> 116-25.

Source: Thomson Reuters

Strong GDP rebound in H2



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	2.44	2.70	2.50	3.00
10Y	3.47	3.90	3.50	4.10
Eurozone				
Key rate	1.00	1.00	1.00	1.50
3M	0.73	1.10	1.30	1.90
5Y	2.54	2.80	2.80	3.50
10Y	3.35	3.70	3.50	4.00
Spread	13	20	0	10

Source: Thomson Reuters. Raiffeisen RESEARCH

Please find our „trading ideas" on page 5.

USA

In terms of the data, ***last week*** was rather bleak on the whole. For example, almost all of the figures on the real estate market were disappointing: ***Housing starts*** managed only a marginal gain in September, and there was even a decline in ***building permits. Home*** prices according to FHFA also slipped on a monthly basis, for the first time since April. Initial clams for jobless benefits increased to 531K from 520K in the week before.

The week ahead will be dominated by the ***initial estimates for GDP for Q3*** due out on Friday. After contracting considerably during the last four quarters, a tangible increase is expected to be registered for the period from July to September. We project real quarterly growth coming in at an annualised rate of 3.7%, and are thus even more optimistic than consensus, which is looking for a gain of 3.1%. Positive momentum is mainly expected to come from private consumption, public spending and housing investment. Private consumption profited mainly from the "cash for clunkers" programme of the US government, which caused a boom in sales of new cars. On the output side, our prognosis also appears to be on a solid footing. For instance, manufacturing output in Q3 rose by over 5% in annualised terms. Along with the GDP data, ***durable goods orders*** will also be a focal point in the data. Companies had to swallow a 2.6% decline in orders in August and we are now looking for orders to move higher again. For example, the assessment of incoming orders according to the ISM survey

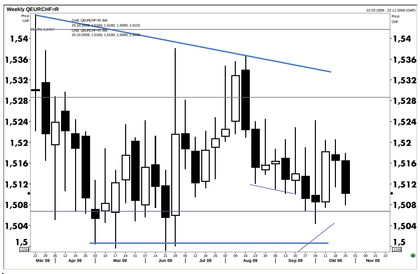
Key figures

USA				RZB	cons.	prior
Tue,	27.	S&P CaseShiller Home Price Index	Aug.	n.a.	n.a.	144.2
Tue,	27.	Consumer Confidence, Conference Board	Oct.	52.5	54.0	53.1
Wed,	28.	Durable Goods Orders, mom	Sep.	1.0%	1.0%	-2.4%
Wed,	28.	New Home Sales, thsd	Sep.	440.0	440.0	429.0
Thu,	29.	GDP (ann.), qoq	Q3	3.7%	3.0%	-0.7%
Fri,	30.	Chicago Purchasing Manager Index	Oct.	n.a.	48.1	46.1
Fri,	30.	U. of Michigan Confidence	Oct.	69.4	70.0	69.4
Europe						
Mon,	26.	GE: Consumer Confidence	Nov.	n.a.	4.1	4.0
Tue,	27.	EUR: M3, yoy	Sep.	2.0%	2.1%	2.5%
Wed,	28.	GE: HICP, mom	Oct.	0.0%	0.0%	-0.5%
Wed,	28.	BE: GDP, qoq	Q3	n.a.	n.a.	-0.3%
Wed,	28.	BE: GDP, yoy	Q3	n.a.	n.a.	-3.7%
Thu,	29.	GE: Unemployment Rate	Oct.	8.3%	8.3%	8.2%
Thu,	29.	EUR: Business Climate	Oct.	n.a.	-2.0	-2.1
Thu,	29.	EUR: Consumer Confidence	Oct.	n.a.	-18.0	-19.0
Thu,	29.	EUR: Industrial Confidence	Oct.	n.a.	-22.0	-24.0
Fri,	30.	GE: Retail Sales, mom	Sep.	0.5%	0.8%	-1.5%
Fri,	30.	EUR: HICP, yoy	Oct.	-0.1%	-0.1%	-0.3%

Source: Bloomberg

Technical analysis

EUR/CHF



last: 1.5103
Testing-out the RSL at 1.4930 -> 1.4715 and thus a bull signal at 1.5145 -> 1.5240 is not off odds at all.

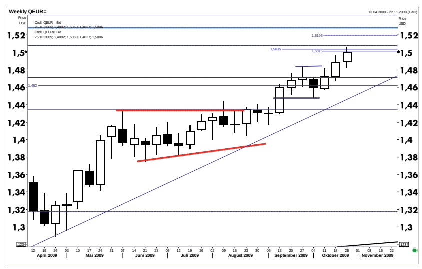
Source: Thomson Reuters

EUR/JPY

last: 137.73
Bull Pennant should get confirmed at 139.20 and thus 143.50 and 147.60 as the next targets.

Source: Thomson Reuters

EUR/USD



last: 1.5005
Target = 1.53 and bullish confirmation at 1.5080 likely, stop 1.4930 -> 1.4830 - 1.45.

Source: Thomson Reuters

Forecasts

CHF	current	Dec-09	Mar-10	Sep-10
3M	0.27	0.30	0.30	0.40
10Y	2.17	2.50	2.40	2.65
YEN				
Key rate	0.10	0.10	0.10	0.10
3M	0.55	0.30	0.35	0.35
10Y	1.37	1.40	1.30	1.40
FX				
EUR/USD	1.50	1.50	1.55	1.45
EUR/JPY	138	135	130	145
USD/JPY	92	90	84	100
EUR/CHF	1.51	1.53	1.55	1.55
Crude				
Brent	78.77	70	70	77

Source: Thomson Reuters. Raiffeisen RESEARCH

improved significantly in September (+9.4 points to 64.9). On the other hand, orders for transportation goods probably had a dampening effect. For example, Boeing registered a decline in orders of almost 40% with orders over 20 aircraft. Due to the end of the US government's "cash for clunkers" programme, automakers will likely also see a decline in orders for new vehicles. Based on these aspects, the increase in new orders for durables should be around 1%, about one half of the figure excluding the transport sector.
Compared to GDP and orders, the rest of next week's data will probably play a rather subordinated role. We are slightly more sceptical than consensus about the performance of the ***Conference Board consumer confidence index*** (Tues). In our view, the negative results for the corresponding indicators by Uni Michigan and the ABC survey suggest a mild deterioration in sentiment. As for ***new home sales*** (Wed), we still expect an increase despite the less-than-pleasing data on housing starts and building permits. The data on the development of ***private income*** and ***private consumption*** (Fri) in August should be weak. The situation on the labour market should tend to inhibit any major increases in income, and consumption will probably slip significantly after the strong gain in July. The data will end up with the ***S&P/CaseShiller house prices*** (Tues), ***initial jobless claims*** (Thu) and the ***Chicago PMI*** (Fri).

There was hardly any change on the government bond market from last week: at around 3.45%, ***yields on 10-year government bonds*** for instance were at the level from last Friday (and hence still near the September peaks and in the middle of the 3-4% range which we see as relevant also for the next few quarters). Looking ahead to the end of the quarter, there is 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, followed by a strong employment report). Accordingly, our recommendation through to the end of the year remains "***Sell***".

Eurozone

With last week's addition of the flash estimates for the ***purchasing managers' indices (PMI)*** for the euro area and the German ***ifo index,*** the picture of the current economic situation became more complete. Our optimistic expectations were fulfilled: the European economy is in the midst of a strong recovery. In France, the manufacturing PMI rose to 55.3, the highest level in nearly three years. Advancing from 53.2 in September, the services sub-index moved strongly higher to 57.8, underlining the outlook for vigorous economic growth in France in Q4. In Germany, gains were registered both in the purchasing managers' index and the ifo. At 51.1, the manufacturing PMI overshot 50 into growth territory, whereas the decline in the PMI for services came as a surprise. Nonetheless, this outturn does not contradict the positive outlook on the economy, as the index is still in growth territory, and only slipped slightly lower than the previous month's result. The fact that the purchasing managers' indices are also being supported by improvement in orders is a sign that the economic ***upswing in the coming months*** will be borne by rising production. On the other hand, due to the still very low levels of production capacity utilisation, the sub-indices for employment continue to point to contraction. Hence, it appears that the turnaround on the labour market will only happen next year. The German ifo business confidence index rose to 91.9, up from 91.3 in September. This mild increase was mainly borne by the expectations component. In the months ahead, both of these leading indicators should keep increasing, especially in Germany.

Next week looks quieter in terms of euro area data. The high points include the ***GfK consumer confidence survey*** and ***retail sales*** indicators on private consumption in Germany. Following the drop in the services component of the PMI, the market will be eagerly waiting to see what happens with these indicators. The end of the "cash for clunkers" programme on 2 September will probably have a dampening effect on retail sales in Germany, and hence we tend to expect a disappointment for the market. The sentiment indicators published by the EU Commission lag behind the other leading indicators and will not likely garner much attention from the market next week. On the other hand, more eyes will be watching the first data on ***Belgian GDP*** for Q3. After the UK GDP data reflected an unexpected decline of -0.4% qoq despite leading indicators pointing to booming business, the result for Belgian GDP is seen as an initial weathervane for which way economic activity will proceed in the euro area. After the strong gains in the Belgian leading indicator in recent months, we expect to see some growth in economic output in Q3 compared to the previous period.

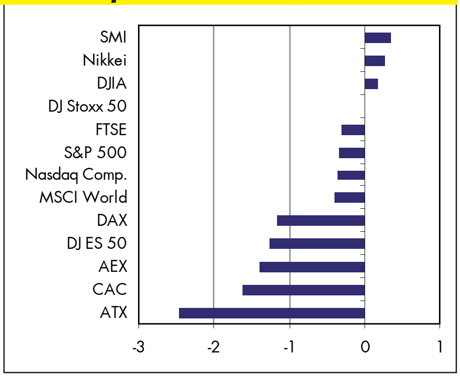
At the latest auction dates for central bank liquidity, some of the arrangements that were winding down in the euro area were not or only partially renewed. Hence, the supply of liquidity by the ECB is already contracting and will likely continue to do so in light of the improving economic situation. Inflation pressure is not likely to arise all that quickly especially since commercial banks have not returned to a relaxed credit standard. As a result, annual growth in the broad measure of money supply (M3) will probably drop again. Consumer prices are expected to remain almost static compared to the previous month in Germany.

For lack of any heavyweight data releases, the outlook for the ***European government bond market*** next week is muddled. The equity markets are volatile due to the reporting season, and this can easily trigger skittish moves in prices on the bond markets. Investors with a short term view should protect any gains from a short position in Bund future in the week to come (therefore we adjust our trailing stop). Over the medium to long term, however, the signs are still pointing to a "***Sell***" recommendation, as a robust economic recovery is gradually taking shape. Moreover, the surplus liquidity parked with the ECB (currently some EUR 100 bn) should ebb slowly over the coming months, which will push rates higher on the money market. Amidst conditions marked by modest increases in inflation and normalisation of economic activity, we believe that the expensive government bond markets are certain to lose ground.

Market Outlook
Equity Markets Weekly

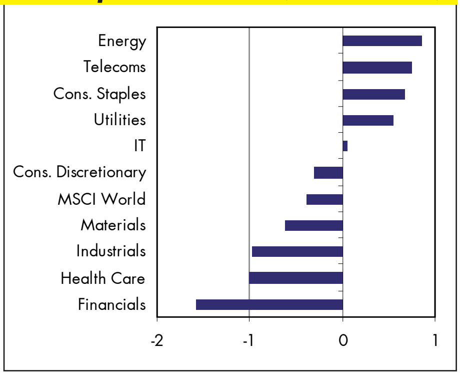
weekly — *23 October 2009*

Market performance (%, 1 week)



Source: Thomson Reuters

Sector performance (%, 1 week)*



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

Forecasts

	current*	Dec-09	Mar-10
DJ ES50	2,931	3,050	2,800
DAX	5,825	6,050	5,500
FTSE	5,282	5,450	5,000
SMI	6,435	6,600	6,100
DJIA	10,081	10,300	9,500
S&P 500	1,093	1,130	1,050
Nasdaq Comp.	2,165	2,280	2,150
Nikkei	10,258	10,850	10,000
ATX	2,692	2,800	2,550

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

Recommendations

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

USA

Both, economic leading indicators and corporate earnings releases turned out more varying in the recent week than before. Consequently the equity markets' upward trend faded away for now. However, in our opinion 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

With the beginning of next week the European earnings season will pick up full speed. After the strongest impulses for stock markets have so far come from US results investors' focus should therefore be more directed towards European figures. All in all we expect some tailwind from this side in the weeks to come. As the latest economic indicators (ifo index, PMIs) further point to an economic recovery, we expect European stock markets to reach higher levels by year-end.

Japan

The Nikkei 225 recently came within striking distance to its highest level in a year. However, further increasing economic indicators will confirm that the economic recovery is on track. Moreover we expect corporate Japan's earnings to turn around in the coming quarters. Therefore we stick to our "buy" recommendation.

Expected corporate releases

USA		
Wed,	28	General Dynamics, Goodyear, Intern. Paper, QWest Comm.
Thu,	29	Aetna, Allergan, Avon Products, Colgate-Palmolive, Eastman Kodak, Kellogg, Kla-Tencor, Metlife, Motorola, Newmont Mining, Procter & Gamble, Waste Management, Exxon Mobil
Fri,	30	AON, Chevron, Estee Lauder, ITT, Sun Microsystems
Europe		
Mon,	26	Merck KGaA
Tue,	27	Akzo, Bayer, Banco Bilbao Vizcaya, BP, Daimler, KPN, Norsk Hydro, Reckitt Benckiser
Wed,	28	BAT, GlaxoSmithKline, ArcelorMittal, Banco Santander, SAP
Thu,	29	ABB, Aixtron, Alstom, AstraZeneca, BASF, AXA, Deutsche Bank, Eni, Lufthansa, Man, Novo Nordisk, Royal Dutch, Volkswagen
Fri,	30	Sanofi-Aventis, Sandvik, Shire
Japan		
Tue,	27	Honda Motor, Canon
Wed,	28	Fujitsu, Nomura Hldgs
Thu,	29	Japan Tobacco, Nippon Steel, Kobe Steel, Hitachi, Mitsubishi Motors, Mazda Motor
Fri,	30	Toshiba, Panasonic, Sony, Daiwa Securities, NTT Docomo

Market Outlook
Trading ideas

weekly — *23 October 2009*

FX

Recommendation	Entry date	Entry level	Current level	Target	Stop	Carry (ann. %)	Comment
Sell German Bund Future*	12/10/2009	122.2	120.9	120.0	121.5	-	better economic data
Sell EUR/JPY	20/10/2009	135	138.0	130	138.6		Fading intervention threat
Buy EUR/CHF	21/10/2009	1.510	1.5113	1.52	1.50		Possible FX intervention

** trailing stop adjusted*
Source: Thomson Reuters, Bloomberg

Recently closed trades

Recommendation	Entry date	Entry level	Close date	Close level	Total return	Comment
Sell Germann 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 Germann Bund Future	14/08/2009	121.04	14/08/2009	121.50	-0.38%	Stopped Out
Sell Germann Bund Future	13/08/2009	120.28	13/08/2009	121.1	-0.68%	Stopped Out
Sell Germann 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 Germann 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 Germann 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
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

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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