# Market Outlook
## Bond Markets Weekly

*weekly* **26 March 2010**

## Technical analysis
### EUR Bund Future


*The price could move below the next support line. Sell 122.10 -> 119.65.*

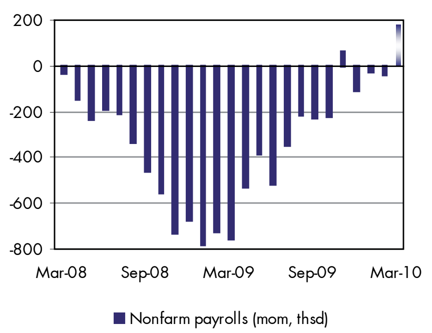
*Source: Thomson Reuters*

### U.S. Treasury Note Future


*The price has left the flag-pattern. Now it could drop even below the 200-weeks-average 114-00.*

*Source: Thomson Reuters*

### Recovery reaches labour market




*Source: Thomson Reuters, Raiffeisen RESEARCH*

### Forecasts

| ***USA*** | ***cur.*** | ***Jun-10*** | ***Sep-10*** | ***Mar-11*** |
|---|---|---|---|---|
| Key rate | 0.10 | 0.10 | 0.25 | 0.75 |
| Libor 3M | 0.29 | 0.30 | 0.40 | 1.00 |
| Yield 5Y | 2.65 | 2.80 | 2.50 | 3.10 |
| Yield 10Y | 3.89 | 4.00 | 3.80 | 4.30 |
| ***Eurozone*** | | | | |
| Key rate | 1.00 | 1.00 | 1.00 | 1.50 |
| Libor 3M | 0.64 | 0.70 | 1.00 | 1.80 |
| Yield 5Y | 2.23 | 2.40 | 2.50 | 3.40 |
| Yield 10Y | 3.17 | 3.40 | 3.30 | 4.00 |
| Swaprate 5Y | 2.46 | 2.75 | 2.81 | 3.72 |

*Source: Thomson Reuters. Raiffeisen RESEARCH*

Please find our „recommendations“ on page 5.

## USA

In terms of the data, there was little relevant news ***last week.*** The decline in ***sales of existing homes*** and ***new homes*** in February came as no surprise and did not impress market participants, even though sales of new homes slipped to the lowest level in the last 30 years. The crisis on the real estate market is far from over yet. The increase in ***orders for durables*** in February was also within expectations at +0.5% mom.

Looking ahead to the ***coming week,*** two more key releases are on the agenda, with the manufacturing ***ISM index*** on Thursday and the ***labour market report*** on Friday. With regard to the ISM – based on three of the four major regional purchasing managers' indices, the Empire State Index, the Richmond Fed Index and the Philadelphia Fed Index – we expect a mild rise to 57.0 points. However, if the ***Chicago PMI*** due out on Wednesday surprises the market and drops significantly, then we will adjust our estimates downwards. With regard to the labour market report on Friday, a strong gain in payrolls is expected. First, the robust improvement in capacity utilisation points to a substantial increase in manufacturing jobs. Second, in March there should be some compensation effects following the severe snowstorms that hit the North-Eastern US in February. Third, we project the creation of around 100,000 new temporary jobs in relation to the census. Consensus reflects these positive effects with a forecast of +187K, and in our opinion this is quite adequate. Accordingly, we do not see much chance of a positive surprise. Here again, if there are any surprises in the ***ADP employment report*** on Wednesday we will process the new

### Key figures

| ***USA*** | | | | ***RZB*** | ***cons.*** | ***prior*** |
|---|---|---|---|---|---|---|
| Mon, 29. | 14:30 | Personal spending, mom | Feb. | ***0.3%*** | 0.3% | 0.5% |
| Mon, 29. | 14:30 | PCE core inflation, yoy | Feb. | ***1.2%*** | 1.3% | 1.4% |
| Tue, 30. | 15:00 | S&P C/S home prices, 20 cities, yoy | Jan. | ***n.a.*** | -0.6% | -3.1% |
| Tue, 30. | 16:00 | Consumer confidence Conference Board | Mar. | ***52.0*** | 50.0 | 46.0 |
| Wed, 31. | 14:15 | ADP Employment, mom, thsd | Mar. | ***n.a.*** | 40 | -20 |
| Wed, 31. | 15:45 | Chicago PMI | Mar. | ***n.a.*** | 61.7 | 62.6 |
| Thu, 1. | 16:00 | ISM Manufacturing Index | Mar. | ***57.0*** | 57.0 | 56.5 |
| Fri, 2. | 14:30 | Nonfarm payrolls, mom, thsd | Mar. | ***175*** | 187 | -36.0 |
| Fri, 2. | 14:30 | Average hourly earnings, mom | Mar. | ***0.1%*** | 0.2% | 0.1% |
| Fri, 2. | 14:30 | Unemployment rate | Mar. | ***9.7%*** | 9.7% | 9.7% |
| ***Europe*** | | | | | | |
| Mon, 29. | 11:00 | EUR: Industrial confidence | Mar. | ***-10*** | -11 | -13 |
| Mon, 29. | 11:00 | EUR: Economic confidence | Mar. | ***99.5*** | 97.4 | 95.9 |
| Mon, 29. | 16:00 | GE: Consumer prices, mom | Mar. | ***0.3%*** | 0.3% | 0.4% |
| Wed, 31. | 09:55 | GE: Unemployment, mom, thsd | Mar. | ***15*** | 8 | 7 |
| Wed, 31. | 11:00 | EUR: Consumer prices, yoy | Mar. | ***1.0%*** | 1.1% | 0.9% |
| Thu, 1. | 10:00 | EUR: PMI Manufacturing | Mar. | ***56.3*** | 56.3 | 56.3 |

*Source: Bloomberg; indicated time: GMT +1*

## Technical analysis

### EUR/CHF

*Support by the long-term support line at 1.4270 -> rebound towards 1.4440 likely.*

*Source: Thomson Reuters*

### EUR/JPY

*Buy after crossing of resistance 124.00 -> 127.00.*

*Source: Thomson Reuters*

### EUR/USD

*The breakout at 1.3740 has failed. A weekly close price below 1.3400 could indicate now a further move towards 1.3000.*

*Source: Thomson Reuters*

### Forecasts

| ***CHF*** | ***cur.*** | ***Jun-10*** | ***Sep-10*** | ***Mar-11*** |
|---|---|---|---|---|
| Libor 3M | 0.25 | 0.30 | 0.50 | 1.00 |
| Yield 10Y | 1.94 | 2.20 | 2.60 | 3.00 |
| ***YEN*** | | | | |
| Key rate | 0.10 | 0.10 | 0.10 | 0.10 |
| Libor 3M | 0.38 | 0.25 | 0.30 | 0.30 |
| Yield 10Y | 1.39 | 1.30 | 1.40 | 1.40 |
| ***FX*** | | | | |
| EUR/USD | 1.34 | 1.35 | 1.42 | 1.30 |
| EUR/JPY | 124 | 124 | 118 | 135 |
| USD/JPY | 93 | 92 | 83 | 104 |
| EUR/CHF | 1.43 | 1.41 | 1.43 | 1.42 |
| ***Crude*** | | | | |
| Brent | 78.4 | 78 | 81 | 88 |

*Source: Thomson Reuters. Raiffeisen RESEARCH*

information quickly. Despite the strong gain in payrolls, the ***rate of unemployment*** should stagnate at last month's level of 9.7%. Tuesday's ***Conference Board consumer sentiment indicator*** should also trigger some movements on the market, after plunging to 46 points in a surprising move in February. The weekly ABC survey points to a strong rebound. We believe that the consensus estimate of 50 points is not optimistic enough. Hence, next week's data feature ***personal income*** and ***personal spending*** (Monday), and the ***service sector ISM index*** and ***construction spending*** (Thursday).

Last week, ***yields on 10y US government bonds increased strongly*** from 3.67% to almost 3.9% within the span of one week, clearly triggered by the combination of better US economic data, such as claims for unemployment and disappointing results at the auction for US government bonds. As a result, the situation is starting to look tense from a technical perspective: since June 2009, this upper limit to yields has been tested on several occasions, but has not been exceeded at weekly closing once so far yet. Will the bond market turn around again this time? In our opinion, this will only happen if the equity markets correct and thus alleviate some of the pressure on the government bond market over the short term. Otherwise, the US economic data should continue to be good enough to maintain ***upward pressure on yields***, especially in the week to come when the previously absent and much doubted recovery on the US labour market should finally take shape in the form of a strong gain in job numbers. Consequently, we still expect more increases in yields and stick with our recommendation ***"Sell US Treasury Notes"*** (representative for US government bonds in general).

## Euro area

When the cacophony finally became unbearable, the heads of state and government of the EU countries were surprisingly able to hammer out an ***emergency plan for helping Greece.*** If Athens (or any other country) runs into financing difficulties, the ***members of the euro area*** will help out by providing loans, ***together with the International Monetary Fund (IMF).*** The euro-region countries would provide two-thirds of the necessary financing, with the IMF adding the rest. Within the Eurozone countries, the aid would be provided on the basis of each country's stake in the ECB. The maximum amount of credit from the EUR countries is not official, but figures of EUR 20-23 bn were generally talked about. No subsidies are to be provided on interest rates, meaning that high risk premiums would be charged compared to the Euribor or German benchmarks. But these funds are only to be provided if Greece (or any other country) is unable to obtain adequate financing on the markets. All of the countries in the euro area must agree to extending the credit, with the decision to be made based on the assessment of the EU Commission and the ECB. These entities assess the risks of instability in the country requesting the credit and in the euro area as a whole and base their recommendations on this.

ECB head Jean Claude Trichet also announced an about-face on the credit rating requirements for ECB repo-eligible collateral yesterday. Originally, the ECB had planned to revert from the current BBB-/Baa3 requirement back to A-/A3 in January 2011 and ruled out any special exception for Greece. Yesterday, however, Trichet then announced changes in the minimum requirements. Although details will only be released in April, the following details have already leaked out (except for regulations on ABS): for repo operations, ***haircuts*** will be applied ***on eligible collateral*** in the future, ***depending on*** the ***credit rating.*** Whereas in the past it did not matter whether the rating was AAA or A-, in the future a step-by-step discount will be applied, with collaterals rated down to BBB- still being accepted. This latter aspect is important for Greece in particular, as Greece's government bonds have slipped below the A- limit.

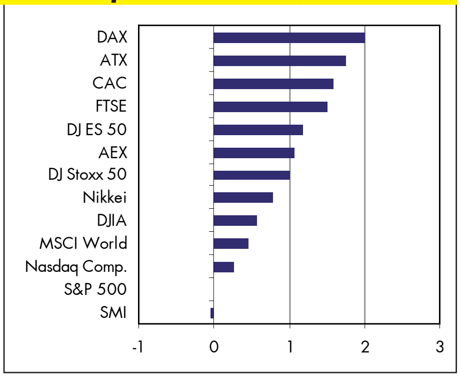
Along with these institutional and political novelties, the bond market has also had to price in the result of some important economic data in recent days. Both the widely-watched ifo index and the purchasing managers' indices (PMI) turned out to be surprisingly strong, and in line with this we shifted our recommendation on German bonds to Sell during the week. The leading indicators are fuelling hopes of strong performance in the second quarter, and we also expect the results of the ***economic surveys*** (EU sentiment surveys, PMIs for various countries) to be ***strong*** in the days ahead. ***Inflation rates*** should ***drift higher,*** with the first indications coming as usual from the data on Germany's Federal States. In monthly terms, we see two-tenths of a percentage point in inflation coming from the increase in energy prices alone.

The ***change in the ECB's stance*** and the ***EU agreement on a specific safety net*** will help to ***dispel the negative sentiment*** about Greece and the other countries facing acute budget problems (Portugal, Spain, Ireland). After all, the probability of a default in the immediate future is now next to nothing. Additionally, the upcoming data should sustain the ***selling pressure on German government bonds.*** Accordingly, our short-term recommendation for German government bonds remains Sell.

# Market Outlook
## Equity Markets Weekly

*weekly* — *26 March 2010*

### Market performance (%, 1 week)




*Source: Thomson Reuters*

### Recommendations

| | |
|---|---|
| ***Markets:*** | ***Buy:*** USA, Europe, Japan |
| ***Favoured sectors:*** | IT, consumer discretionary, industrials, materials |

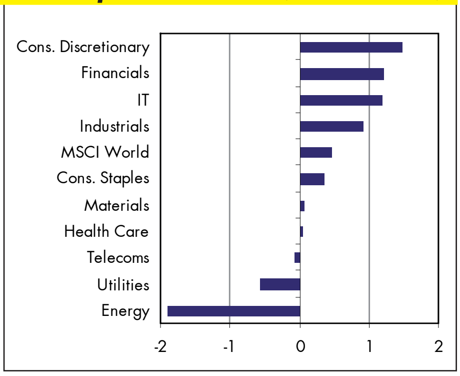
### USA

The spring rally burbles merrily along although US stock markets can no longer gain as much as their European or Japanese counterparts. The strengthened US-Dollar and its negative impact on multinational US companies may be blamed for this. However, sound economic fundamentals, a favourable interest rate and liquidity environment as well as predominantly strong corporate results will keep the sentiment well in the weeks ahead. Although the topping out of leading indicators and the latent sovereign debt problems will bring some weak days on the path towards north, we think that the vast majority of factors speak for further rising stocks markets.

### Europe

While the rating downgrade of Portugal caused some uncertainty during the past week under review, the EU rescue proposal for Greece was finally able to brighten up the sentiment. As a consequence we think that the worries about the financial situation of some European countries should further diminish although this topic will return on the agenda from time to time during the upcoming months. All in all we see European stock markets well supported for the second quarter. Even though we expect some headwind from a topping out of leading indicators, factors like relatively cheap valuations, rising profits and sufficient liquidity will lift European indices to higher levels.

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




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

### Forecasts

| | current* | Jun-10 | Sep-10 |
|---|---|---|---|
| DJ ES50 | 2,943 | 3,080 | 3,050 |
| DAX | 6,120 | 6,450 | 6,350 |
| FTSE | 5,712 | 5,950 | 5,850 |
| SMI | 6,859 | 7,350 | 7,200 |
| DJIA | 10,841 | 11,500 | 11,300 |
| S&P 500 | 1,166 | 1,250 | 1,230 |
| Nasdaq Comp, | 2,397 | 2,600 | 2,550 |
| Nikkei | 10,996 | 11,600 | 11,300 |
| ATX | 2,623 | 2,800 | 2,750 |

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

### Expected corporate releases

| | | |
|---|---|---|
| ***USA*** | | |
| Mi | 31. | Research in Motion, Micron Technology |
| ***Europe*** | | |
| Di | 30. | Stada Arzneimittel |

# Market Outlook
## Recommendations

weekly — 26 March 2010

## Short-term trading ideas: fixed income*

| Recommendation | Entry date | Entry level | Current level | Target | Stop | Carry (ann. %) | Comments |
|---|---|---|---|---|---|---|---|
| Sell T-Note Future (June) | 12/03/2010 | 116.7 | 115.9 | 114.0 | 118.0 | - | Strong employment reports; strong gdp growth in Q1 |
| Sell Bund Future | 24/03/2010 | 123.54 | 122.73 | 122.1 | 124.2 | - | Improving economic data |

* Fixed Income trades assume that currency risk is hedged; hedging costs are accounted for in the cost of carry;
** Levels adjusted for roll-over
Source: Thomson Reuters, Bloomberg

## Long-term recommendations

| | Entry date | Entry level | Current level | Investment horizon | Comment |
|---|---|---|---|---|---|
| Spreadtrade Greece: Buy GR0110021236 & Sell DE0001137297 | 03/03/2010 | 431bp | 332bp | 2012 | Convergence of German and peripheral government bond yields |
| Spreadtrade Portugal: Buy PTOTEKOE0003 & Sell DE0001137297 | 03/03/2010 | 76,5bp | 77bp | 2012 | Convergence of German and peripheral government bond yields |
| Spreadtrade Italy: Buy IT0004467483 & Sell DE0001137297 | 03/03/2010 | 41bp | 36bp | 2012 | Convergence of German and peripheral government bond yields |
| Spreadtrade Austria: Buy AT0000385356 & Sell DE0001137297 | 03/03/2010 | 25bp | 19bp | 2012 | Convergence of German and peripheral government bond yields |

Source: Thomson Reuters, Bloomberg

## FX

| Empfehlung | Entry date | Entry level | Current level | Target | Stop | Carry (ann. %) | Comment |
|---|---|---|---|---|---|---|---|
| SELL EUR/USD | 24/03/2010 | 1.336 | 1.336 | 1.310 | 1.350 | -0.30 | Negative market sentiment; strong momentum |

Source: Thomson Reuters, Bloomberg

## Recently closed trades

| Recommendation | Entry date | Entry level | Close date | Close level | Total return | Comment |
|---|---|---|---|---|---|---|
| Sell Conf Future (June) | 09/03/2010 | 137.50 | 22/03/2010 | 137.10 | 0.29% | Trailing stop hit |
| Sell Schatz Future (June) | 26/02/2010 | 108.7 | 17/03/2010 | 108.70 | 0.0% | Trailing stop hit |
| Sell 5Y Germany, Buy 5Y Greece | 09/02/2010 | 395.00 | 25/02/2010 | 395.00 | 0bp | Trailing stop hit |
| Sell Bund Future | 09/02/2010 | 123.54 | 23/02/2010 | 123.30 | 0.19% | Trailing stop hit |
| Sell 5Y Germany, Buy 5Y Portugal | 09/02/2010 | 150.00 | 11/02/2010 | 110.00 | 40bp | Target reached |
| Sell EUR/CHF | 09/03/2010 | 1.463 | 19/03/2010 | 1.44 | 1.57% | Target Reached |
| BUY EUR/JPY | 09/02/2010 | 123.3 | 25/02/2010 | 120.5 | -2.27% | 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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