

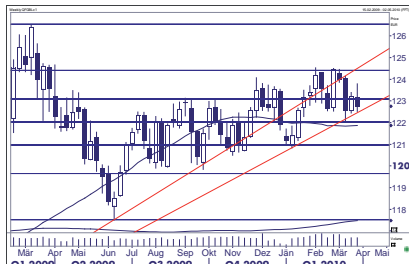
# Market Outlook

## Bond Markets Weekly

weekly

26 March 2010

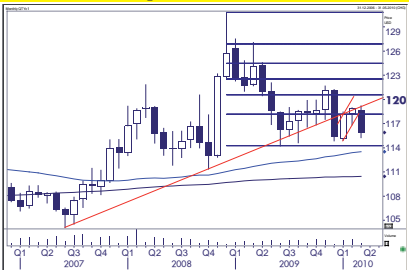
### Technical analysis EUR Bund Future



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

Source: Thomson Reuters

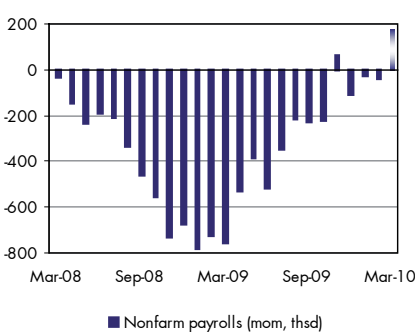
### U.S. Treasury Note Future



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

Source: Bloomberg; indicated time: GMT +1

## Technical analysis

### EUR/CHF



Source: Thomson Reuters

### EUR/JPY



Source: Thomson Reuters

### EUR/USD



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
<b>YEN</b>				
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
<b>FX</b>				
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
<b>Crude</b>				
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 cur-

rent 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.

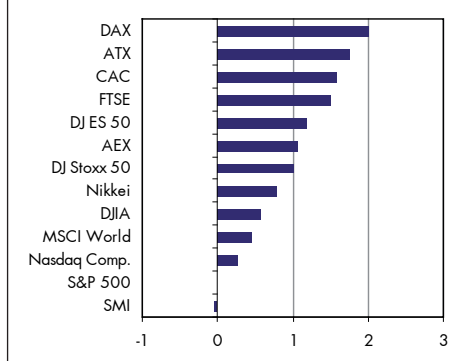
# Market Outlook

## Equity Markets Weekly

weekly

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### Market performance (% , 1 week)



Source: Thomson Reuters

### Recommendations

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

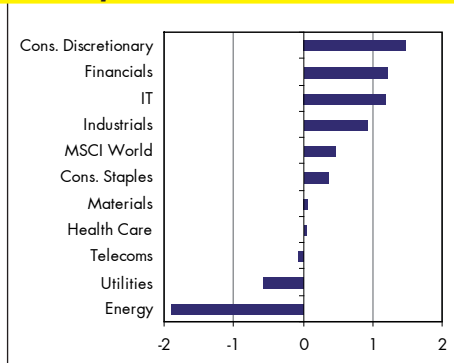
#### USA

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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