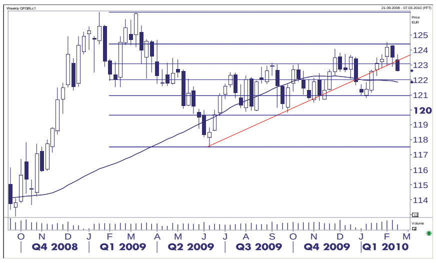
Market Outlook
Bond Markets Weekly

weekly — **19 February 2010**

Technical analysis

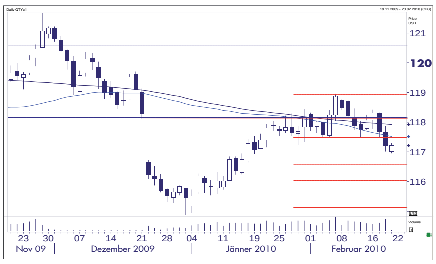
EUR Bund Future



The rising support line was finally crossed at 123.00 -> drop towards the MA200-days.

Source: Thomson Reuters

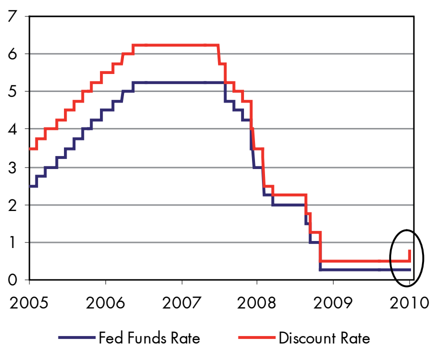
U.S. Treasury Note Future



The price has crossed teh neck-line of a shoulder-head-shoulder pattern -> drop towards 116-00 – 115-16.

Source: Thomson Reuters

Exit ahead?



Source: Thomson Reuters, Raiffeisen RESEARCH

Forecasts

USA	cur.	Mar-10	Jun-10	Dec-10
Key rate	0.10	0.10	0.10	0.50
Libor 3M	0.25	0.30	0.30	0.80
Yield 5Y	2.48	2.20	2.20	3.10
Yield 10Y	3.80	3.50	3.50	4.10
Eurozone				
Key rate	1.00	1.00	1.00	1.50
Libor 3M	0.66	0.80	1.20	1.80
Yield 5Y	2.31	2.40	2.50	3.30
Yield 10Y	3.28	3.30	3.30	3.80
Swaprate 5Y	2.57	2.65	2.70	3.50

Source: Thomson Reuters. Raiffeisen RESEARCH

Please find our „trading ideas" on page 5.

USA

Last Thursday produced a monetary policy sensation. Completely out of the blue the ***Fed raised*** its ***discount rate*** by 25 basis points to 0.75%. Commercial banks can borrow liquidity from the central bank at this rate if they are unable to source refinancing on the money markets (equivalent of the ECB's marginal lending facility). Last Wednesday Federal Reserve chairman Bernanke outlined the first concrete steps of the Fed's exit scenario, but the rapid follow-up still came as a surprise. However, the greenback's guardian stressed that in no way does this discount rate hike indicate the imminent start of a hike in key interest rates, especially since the discount rate only plays a significant role in exceptional cases. This step rather signals that the Fed is leaving one of its many emergency measures behind and is creating more space for free market forces to roam again. First hikes in the key rate are therefore not likely before the end of 2010.
The economic figures released ***last week*** were largely detrimental for the bond market. ***Housing starts*** and ***construction permits*** as well as leading indicators (***Empire State Manufacturing Index, Philadelphia Fed Index***) exceeded market expectations in January. The only disappointment was ***initial claims for unemployment benefit***, which rose 31,000 to 473,000, much more strongly than anticipated.

Key figures

USA				**RZB**	**cons.**	**prior**
Tue,	23.	S&P CaseShiller Home Prices, 20 Cities, yoy	Dec.	**n.a.**	-3.0%	-5.3%
Tue,	23.	Consumer Confidence, Conference Board	Feb.	**53.0**	54.8	55.9
Wed,	24.	New Home Sales, ann., thsd	Jan.	**n.a.**	351.0	342.0
Thu,	25.	Durable Goods Orders, mom	Jan.	**2.0%**	1.4%	0.3%
Thu,	25.	Durables Ex Transportation, mom	Jan.	**1.5%**	1.1%	0.9%
Thu,	25.	FHFA House Price Index, mom	Dec.	**n.a.**	n.a.	0.7%
Fri,	26.	GDP, ann., qoq, 2nd release	Q4	**5.0%**	5.6%	5.7%
Fri,	26.	Chicago PMI	Feb.	**n.a.**	59.0	61.5
Fri,	26.	U. of Michigan Consumer Confidence	Feb.	**73.5**	73.9	73.7
Fri,	26.	Existing Home Sales, ann., mln	Jan.	**5.50**	5.50	5.45
Europe						
Tue,	23.	GE: ifo Business Climate	Feb.	**96.2**	96.2	95.8
Tue,	23.	GE: ifo Business Expectations	Feb.	**100.5**	100.6	100.6
Tue,	23.	BE: Leading Indicator	Feb.	**n.a.**	n.a.	-7.0
Wed,	24.	EUR: Industrial Orders, mom	Dec.	**n.a.**	n.a.	1.6%
Thu,	25.	IT: Business Confidence, ISAE	Feb.	**n.a.**	83.4	83.2
Thu,	25.	GE: Unemployment Change, thsd	Feb.	**20.0**	10.0	6.0
Thu,	25.	GE: Unemployment Rate	Feb.	**8.2%**	8.2%	8.2%
Thu,	25.	EUR: Industrial Confidence	Feb.	**-13.0**	-12.0	-14.0
Thu,	25.	EUR: Consumer Confidence	Feb.	**-16.0**	n.a.	-17.0
Fri,	26.	EUR: HICP, mom	Jan.	**-0.8%**	-0.8%	0.3%

Source: Bloomberg

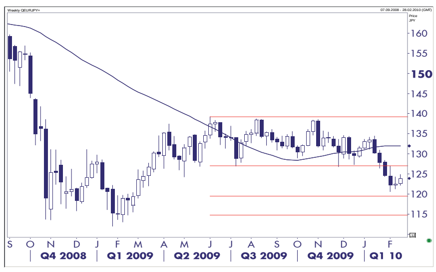
Technical analysis

EUR/CHF

High wave candle at support 1.4575 -> rally towards the MA50-weeks 1.5080.

Source: Thomson Reuters

EUR/JPY



Short-term rebound towards 127.00 possible.

Source: Thomson Reuters

EUR/USD

The retracement 1.3400 could be crossed (-> 1.3000).

Source: Thomson Reuters

Forecasts

CHF	**cur.**	**Mar-10**	**Jun-10**	**Dec-10**
Libor 3M	0.25	0.30	0.40	0.60
Yield 10Y	1.99	1.90	2.00	2.80
YEN				
Key rate	0.10	0.10	0.10	0.10
Libor 3M	0.45	0.25	0.25	0.30
Yield 10Y	1.34	1.30	1.30	1.40
FX				
EUR/USD	1.35	1.35	1.42	1.39
EUR/JPY	124	132	140	142
USD/JPY	92	98	99	102
EUR/CHF	1.47	1.47	1.50	1.50
Crude				
Brent	76.1	72	78	87

Source: Thomson Reuters. Raiffeisen RESEARCH

There is range of interesting data releases due out ***next week***. All eyes will be on the first ***revision of the GDP figures*** for the fourth quarter (Fri.). Given the weak foreign trade trends in December, i.e. the widening of the trade deficit, we reckon the originally reported quarterly growth forecast of an annualised 5.7% will be revised downward to 5.0%. In addition to GDP figures, ***new orders for durable goods*** (Thurs.) should also attract some interest. After businesses recorded a rise in orders in December of 1.0% we believe this trend will continue in January. For example, the ISM survey revealed that the assessment of new orders improved again in January, and currently sits at a very healthy 65.9 points. Orders for transportation are also likely to have been supportive. Although Boeing posted a sharp drop in orders last month, we expect growth compared to the previous month due to seasonal adjustments. Market participants will most likely be interested in the ***Conference Board consumer confidence index*** too (Tues.). In contrast to the consensus, we expect consumer sentiment to deteriorate. The weekly ABC survey in particular, which correlates rather well with the Conference Board index, points to a weaker reading.
The other data slated for release next week (***S&P/Case-Shiller Home Price Index*** (Tues.), ***existing home sales*** (Fri), ***new home sales*** (Wed.), ***Chicago PM***I (Fri.)) will be of minor importance.

The US Treasuries market came under pressure last week after the publication of upbeat economic data. Nonetheless, the reaction to the increase in the discount rate was rather relaxed. In the coming weeks we do not expect liquidity conditions to tighten, nor will the bond markets be gripped by a massive sell-off. Hence, ***government bond yields*** should remain ***low for the time being***. In the long run, however, we assume both interest rates and yields will rise. For lack of short-term catalysts though we refrain from any new short-term Trading Ideas and advise investors to wait for now before opening a short position.

Eurozone

The flow of relevant economic data ***last week*** was rather meagre. The ***ZEW economic expectations*** for Germany and the euro area published on Tuesday continued their downward trend that has persisted since October. The decline for the euro area was much sharper than for Germany. By contrast, the improvement in opinions of the current situation continued. Yet sitting at –54.8 points this still remains extremely weak. The flash estimates published Friday on the purchasing managers' indices for manufacturing and the services sector in the euro area came in quite strong overall. While business sentiment in the services sector dropped marginally from 52.5 to 52 points, manufacturing posted a strong rise of 1.7 to 54.1 points. German industrial companies were particularly optimistic when questioned about their own positions. The PMI for manufacturing climbed to its highest level since June 2007, boosted in particular by new orders and production components.

All eyes ***next week*** will be on the publication of the ***ifo business sentiment*** (Tues.). After the expectations component latterly posted robust growth, we expect to see weaker momentum with regard to expectations. Consequently, we anticipate only modest gains in this respect for February. Regardless, the improvement in expectations of the current situation should continue. The business climate index is therefore likely to have risen again in February. Also from Germany we will receive the first indications about ***consumer price trends*** in February (Fri.). The flash estimate based on data from six federal states should display a marked increase in prices. After strong seasonal declines in clothing as well as accommodation services around the turn of the year there is traditionally a powerful surge in prices in February. We therefore expect growth of 0.6% in monthly terms. However, the year-on-year rate is likely to remain below 1%. Turning to the euro area we will learn among other things about ***money supply trends*** in January (Thurs.). Due to a strong base effect caused by a pronounced decline in the money supply in January 2009 the yoy M3 growth rate should be moderately positive. The growth rate will probably turn negative yet again in February. Data from the EU Commission on the development of consumer and business sentiment (Thurs.) will barely be noticed on the market, if at all. We anticipate a modest improvement in business sentiment. The series of sentiment indicators will be rounded off by the ***Belgian leading indicator*** (Tues.) and the Italian ***ISAE business confidence indicator*** (Thurs.).

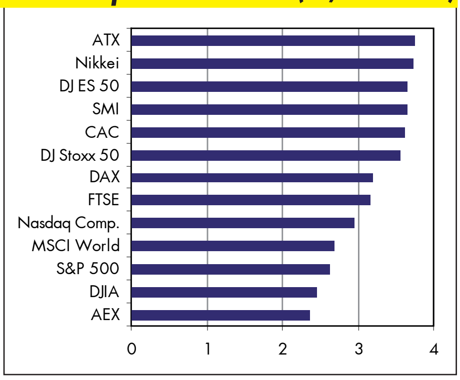
In light of economic data releases that mainly surprised on the upside last week German government bonds came under selling pressure (10 year yields surged up to 3.3% on Friday). Since macro environment should further improve over the months to come, we stick to our ***short-term sell recommendation for German government bonds***.

Yields of ***peripheral Eurozone government bonds*** continued to converge towards German bund yields. Greek papers represented the only exception in this trend. Due to the lack of concrete results from the ECOFIN summit, yield spreads of 5-year Hellenic govies moved sideways at around 370 basis points.
During the past week Spain and Portugal entered the stage of the ***primary government bond market*** with one benchmark bond respectively. Attracted by the high yield levels, the order books have been heavily oversubscribed. The 15-year Spanish bond with a volume of EUR 5 bn came at mid-swap +85 basis points and attracted bids of EUR 14 bn. The EUR 3 bn 10-year emission of Portugal came at mid-swap +140 basis points and was more than fourfold oversubscribed. We think that Greece has gained confidence due to these successful primary market deals of its southern European peers. Given the fact that the Hellenic republic has planned to issue a bond in February anyhow, we think that the country might issue new bonds during the week to come. This issuance activity will very likely be successful and thus allay investor's fear about a short-term liquidity crisis in Greece.

Market Outlook
Equity Markets Weekly

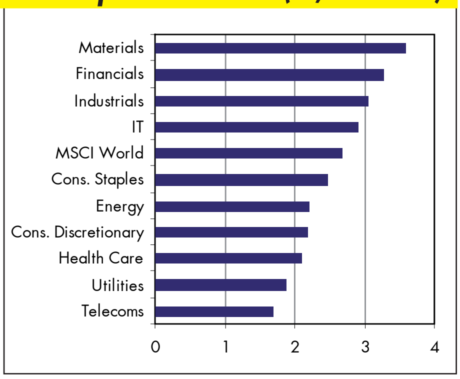
weekly *19 February 2010*

Market performance (%, 1 week)



Source: Thomson Reuters

Sector performance (%, 1 week)*



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

Recommendations

Markets:	***Sell:*** USA, Europe, Japan
Favoured sectors:	Utilities, Telecom, Energy

USA

The US stock markets managed to recover quite substantially over the past two weeks. EUR investors even enter gains since the beginning of the year due to the strengthened dollar. The global worries concerning the debt burdens of some southern Eurozone countries got pushed into the background. On the other hand the US Fed starts – earlier than most had expected – to exit its ultra loose monetary policy. Moreover, we expect economic leading indicators to come in a little weaker in the coming weeks and thus to add to the current market consolidation. Therefore we stick to our "sell" recommendation in view of our index targets for March.

Europe

After it seemed that the declaration of the other eurozone members to help rattled Greece was able to calm down the situation on European stock markets, the increase of the discount rate by the US Federal Reserve once again triggered some nervousness. This is mainly due to the fact, that the stock market rally of the last months was clearly supported by the loose monetary policy of the central banks all around the world. Although European stock markets' first reaction was not too negative we still expect that indices will once again experience a setback.

Japan

Japanese stocks were able to recoup a part of the recently lost terrain in this trading week. Amongst other factors solid fundamentals which still point to a sound recovery were supportive. However, as the economy gains momentum central banks around the globe increase their signs for a reduction in monetary stimulus. This prospect will bring some more weak days for Japanese stocks.

Forecasts

	current*	Mar-10	Jun-10
DJ ES50	2,764	2,650	2,800
DAX	5,673	5,300	5,600
FTSE	5,321	4,900	5,100
SMI	6,696	6,000	6,300
DJIA	10,393	9,700	10,300
S&P 500	1,107	1,030	1,090
Nasdaq Comp,	2,242	2,000	2,140
Nikkei	10,124	9,200	9,600
ATX	2,541	2,300	2,450

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

Expected corporate releases

USA		
Mon,	22	Campbell Soup, Lowe's
Tue,	23	Autodesk, Home Depot, Medtronic, Sears, Target
Thu,	25	Gap, HJ Heinz, Kohls, Safeway
Europe		
Tue,	23	Heineken, Merck KGaA
Wed,	24	Accor, DSM, Fresenius Medical Care, Valeo, Iberdrola, DSM
Thu,	25	Aegon, Allianz, BASF, BAT, Dexia, Deutsche Telekom, France Telecom, Henkel, Parmalat, Royal Bank of Scotland, Repsol, RWE, Sulzer, Telecom Italia
Fri,	26	Bayer, Endesa, Telefonica

Fixed income*

Recommendation	Entry date	Entry level	Current level	Target	Stop	Carry (ann. %)	Comment
Sell Bund Future	09/02/2010	123.54	122.68	121.00	123.30	-	Stop adjusted
Sell 5Y Germany, Buy 5Y Greece	09/02/2010	395	367.00	280	395	395 Bp	Stop adjusted

* *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

FX

Empfehlung	Entry date	Entry level	Current level	Target	Stop	Carry (ann. %)	Comment
BUY EUR/JPY	09/02/2010	123.30	123.90	131.00	120.50	52 Bp	Support for Greece

Source: Thomson Reuters, Bloomberg

Recently closed trades

Recommendation	Entry date	Entry level	Close date	Close level	Total return	Comment
BUY EUR/USD	09/02/2010	1.3784	11/02/2010	1.36	-1.33%	Stopped Out
SELL EUR/USD	21/01/2010	1.412	04/02/2010	1.37	2.96%	Target Reached
BUY EUR/JPY	02/02/2010	126.0	04/02/2010	123	-2.38%	Stopped Out
BUY EUR/JPY	28/01/2010	126.8	29/01/2010	125	-1.42%	Stopped Out
BUY EUR/JPY	25/01/2010	127.4	26/01/2010	127	-0.74%	Stopped Out
BUY USD/JPY	21/01/2010	91.64	21/01/2010	90.5	-1.24%	Stopped Out
Sell 5Y Germany, Buy 5Y Portugal	09/02/2010	150.00	11/02/2010	110.00	40 BP	Target reached
Sell 10Y Germany, Buy 10Y Austria	07/01/2010	50 bp	05/02/2010	56 bp	-6 BP	Stopped out
Sell US T-Note Future	28/01/2010	117.48	28/01/2010	117.80	-0.27%	Stopped out
Buy US T-Note / Sell Bund Future	23/12/2009	47 BP	26/01/2010	42 BP	5 BP	Closed early
Buy US T-Note Future	23/12/2010	116.14	26/01/2010	117.79	1.42%	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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