

Market Outlook

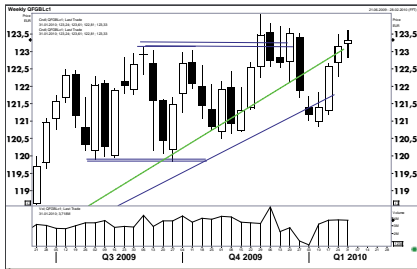
Bond Markets Weekly

weekly

29 January 2010

Technical analysis

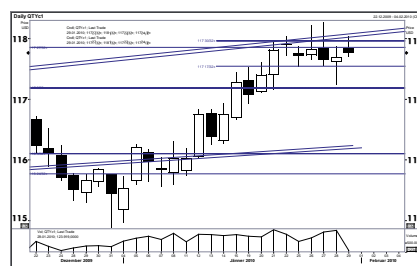
EUR Bund Future



last: 123.33
Bullish and 126's confirmation as target, both could be given at 124.10, stop 122.75 -> 122.

Source: Thomson Reuters

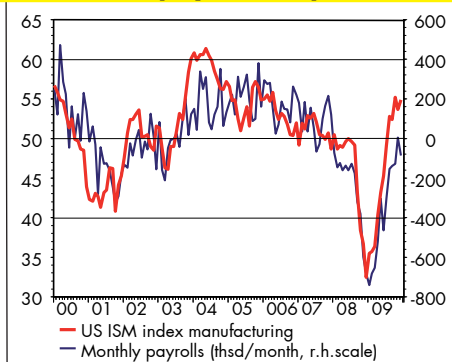
U.S. Treasury Note Future



last: 117.24
Target 118 is being tested and thus the major resistance, bullish confirmation would be 118-10 -> 118-20, sell 117-14 -> 117-08 - 117-05.

Source: Thomson Reuters

Further US payrolls improvement



Source: Thomson Reuters

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 | 2.41 | 2.20 | 2.20 | 3.10 |
| Yield 10Y | 3.66 | 3.50 | 3.50 | 4.10 |
| Eurozone | | | | |
| Key rate | 1.00 | 1.00 | 1.00 | 1.50 |
| Euribor 3M | 0.67 | 0.80 | 1.20 | 1.80 |
| Yield 5Y | 2.29 | 2.40 | 2.50 | 3.30 |
| Yield 10Y | 3.21 | 3.30 | 3.30 | 3.80 |
| Swapsrate 5Y | 2.60 | 2.65 | 2.70 | 3.50 |

Source: Thomson Reuters. Raiffeisen RESEARCH

Please find our „trading ideas“ on page 5.

USA

In terms of the data, this **last week's main attraction** was the preliminary estimate for real **gross domestic product** in the fourth quarter. The published annual gain of 5.7% was significantly better than the consensus estimate and close to our prognosis of 6.0%. As expected, the main driver for this robust rise in economic output was the massive growth contribution from inventory investment. In our opinion, the strongest single quarter of this recovery is now behind us, but GDP growth should still remain very brisk in the first half of this year as well. As anticipated, the **FOMC rate-setting meeting** did not feature any major surprises, as the wording remained essentially unchanged compared to mid-December: accordingly, the key rate should remain near the historically low level of just over 0% for a longer period of time. One interesting note, however, was the different opinion of Fed member Thomas Hoenig (head of the Kansas Fed). But one must take into account that he is known for being a hawk when it comes to monetary policy matters, and thus we do not ascribe a great deal of significance to this. In a surprising development, **orders for durables** fell below consensus in December. Despite the massive rise in new orders at Boeing, the indicator only edged up by 0.3% compared to the previous month. Of course, this should not blind one to the fact that new orders are looking quite robust on the whole, as the less volatile "Core Orders" rose by 1.3% mom (down from 3.1% in the previous month), which is a good sign for investments.

Looking ahead to the **coming week**, two key releases are on the agenda, with the manufacturing sector **ISM index** on Monday and the **labour market report** on Friday. In light of the mixed results

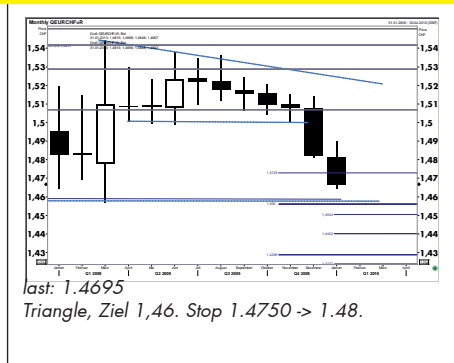
Key figures

| USA | | | RZB | cons. | prior |
|---------|----------------------------------|--------|--------------|-------|--------|
| Mon, 1. | ISM Manufacturing Index | Jan. | 54.5 | - | 54.9 |
| Tue, 2. | Pending Home Sales, mom | Dec. | 1.0% | 0.6% | -16.0% |
| Wed, 3. | ADP Employment Change, thsd | Jan. | n.a. | -40.0 | -84.0 |
| Wed, 3. | ISM Non-Manufacturing Index | Jan. | n.a. | 51.0 | 50.1 |
| Fri, 5. | Change in Nonfarm Payrolls, thsd | Jan. | 10.0 | 20.0 | -85.0 |
| Fri, 5. | Unemployment Rate | Jan. | 10.1% | 10.0% | 10.0% |
| Europe | | | | | |
| Mon, 1. | GE: Retail Sales, mom | Dec. | n.a. | 1.0% | -1.1% |
| Mon, 1. | EUR: PMI Manufacturing | Jan. | 53.4 | 52.0 | 52.0 |
| Wed, 3. | EUR: PMI Services | Jan. | 51.2 | 52.3 | 52.3 |
| Wed, 3. | EUR: Retail Sales, mom | Dec. | 1.5% | 0.4% | -1.2% |
| Thu, 4. | GE: Factory Orders, mom | Dec. | 1.5% | 0.0% | 2.8% |
| Fri, 5. | GE: Industrial Production, mom | Dec. | 1.5% | 0.4% | 0.7% |
| Events | | | | | |
| Thu, 4. | ECB Announces Interest Rates | Feb, 4 | 1.0% | 1.0% | 1.0% |
| Thu, 4. | BoE Announces Bank Rate | Feb, 4 | 0.5% | 0.5% | 0.5% |

Source: Bloomberg

Technical analysis

EUR/CHF



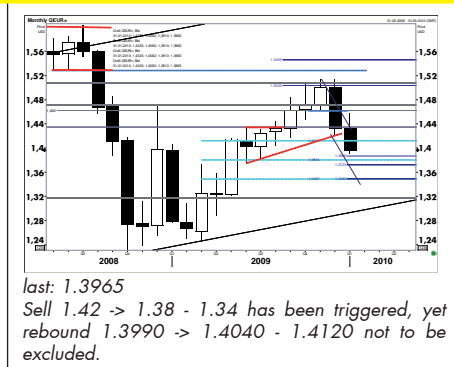
Source: Thomson Reuters

EUR/JPY



Source: Thomson Reuters

EUR/USD



Source: Thomson Reuters

Forecasts

| | cur. | Mar-10 | Jun-10 | Dec-10 |
|--------------|------|--------|--------|--------|
| CHF | | | | |
| Libor 3M | 0.25 | 0.30 | 0.40 | 0.60 |
| Yield 10Y | 2.00 | 1.90 | 2.00 | 2.80 |
| YEN | | | | |
| Key rate | 0.10 | 0.10 | 0.10 | 0.10 |
| Libor 3M | 0.33 | 0.25 | 0.25 | 0.30 |
| Yield 10Y | 1.33 | 1.30 | 1.30 | 1.40 |
| FX | | | | |
| EUR/USD | 1.40 | 1.45 | 1.50 | 1.45 |
| EUR/JPY | 126 | 132 | 140 | 142 |
| USD/JPY | 90 | 91 | 93 | 98 |
| EUR/CHF | 1.47 | 1.51 | 1.50 | 1.50 |
| Crude | | | | |
| Brent | 71.1 | 72 | 78 | 87 |

Source: Thomson Reuters. Raiffeisen RESEARCH

seen in the regional purchasing managers' surveys – gains for the Empire State Index and Richmond Fed and a decline in the Philadelphia Fed, and taking into account what we believe was an overly strong increase in December – we project that the ISM index will slip by a half a point to 54.5 points. Last month's labour market report disappointed the market's fervent hopes of a turnaround in the employment trend, but for January we expect to see a minor increase of around +10K on the job market, which will still fall short of the consensus estimate of a gain of 27K. On the other hand, the rate of **unemployment** probably rose again in January: we forecast a rise of 0.1 percentage point to 10.1%.

Other data next week include **personal spending**, **consumption expenditures** and **construction spending** (all on Monday), **pending home sales** (Tuesday), the **service sector ISM index** and the **ADP employment report** (both Wednesday), as well as data on **productivity** and **unit labour costs** for Q4 (Thursday).

Last week, **US government bonds** were unable to continue profiting from the weak equity markets and, as anticipated, came under some pressure on Friday due to the stronger GDP figures. As announced last Friday, we had already closed our long position earlier during the week. At the current levels, we see a lack of adequate catalysts for taking up new positions and are thus duration-neutral: 1) because the level of yields is currently near the average for recent months (and the middle of the range we expect to see in H1 2010), and we thus do not see any overshooting in prices, neither on the upside nor on the downside, against which it would be reasonable to take up positions (in contrast with the situation at the beginning of the year); and 2) because we are more cautious than consensus with regard to the ISM and payrolls data next week, but – in light of the volatility typical for these indicators – the deviations are not big enough to warrant taking a position merely on this basis. The market's expectations of US interest rates also reflect that the pricing of US bonds is roughly "fair" right now: in parallel with the increase in bond prices in recent weeks, the **futures market has now postponed the first US rate hike of 0.5% to November**. This is broadly in line with our view. As soon as rate expectations begin to move aggressively forward to an earlier date, new opportunities for bond purchases may open up.

Eurozone

Once again, the **EUR bond market** has been through a turbulent week. While yields on German government bonds were able to stabilise at low levels, developments in bond prices for other countries were less favourable. The entire southern region of the currency union is currently under pressure, with **Greece experiencing the biggest crisis**. The week had gotten off to a relatively positive start in Athens: the issue of a 5-year bond managed to fill an order book of around EUR 25 bn, and as a result the volume was increased from 3 to 5 to EUR 8 bn. This success came at a price, though: with a coupon of 6.1% and a premium of 350bp over mid-swap, tapping the markets was anything but cheap for Greece. And soon thereafter, market sentiment on Greece soured. Worries about the country's ability to meet its obligations were fanned by rumours about attempts to place government bonds privately in the future (according to some reports, China was to be

brought on board as an investor) and denials of planned aid from EUR member states. As a result, yields and **risk premia shot to a new high**.

The market's reaction is understandable to a certain extent: without reforms neither the economic performance (lack of competitiveness) nor the development of public finances (debt, deficit) are sustainable. This seems to be realised more and more even in Athens, and hence new PM Papandreou was out drumming up support for his package of measures both at home and abroad. After many empty promises from Greece's politicians in recent years, the only thing missing from the recipe is the necessary credibility. In our view, **cooperation is necessary in order to avoid financing difficulties over the short run**. First, the government's plans for **reforms** need to be as **specific and understandable** as possible – an immediate measure would help as a signal to private creditors. Second, solidarity of other euro-area countries is necessary, because a financial disaster for Greece would not be beneficial for the currency union due to panicky markets over short term. After all, numerous other countries would pay the price as well, in the form of persistently higher interest rates. Whilst a bail-out is not possible within the framework of the EU or by the ECB due to the EU-contracts, **coordinated bi-lateral assistance** (with the euro-area countries acting individually and not as a legal body) or aid via state institutions in the individual countries is quite possible in our opinion. This aid may involve guarantees or even short-term loans. We believe that work on finding a solution is already underway. But as long as Greece's reform efforts lack credibility, developments in spreads will remain volatile and thus we only recommend short durations on a "hold to maturity" basis.

This week will see bond issues by **Germany, France, Netherlands and Spain**: the issue by Spain is probably a test to see if the Greece crisis will morph into a Mediterranean crisis. The tense financing situation in some EMU members will also be a topic of discussion at the **ECB's meeting** on Thursday, and as usual the central bank will lay the responsibility at the feet of the governments in these countries. In respect of interest rates and the enhanced credit measures, **nothing new** is anticipated. The ECB will communicate its further strategy starting from March. Data this week include a fresh-up of the **PMI, retail sales** (Germany, EUR) and figures on **German industry**. We expect that the figures will be positive and underline the ongoing economic recovery. The **bond market**, however, will have its eyes on the US-heavyweights (labour market, ISM). Our recommendation on Bunds remains **Neutral**.

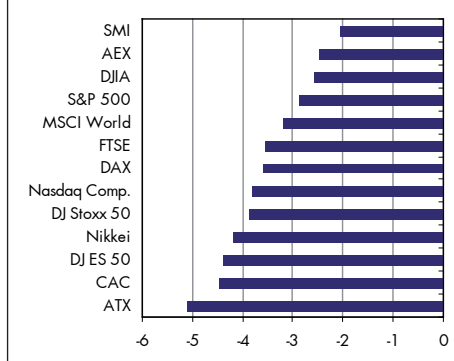
Market Outlook

Equity Markets Weekly

weekly

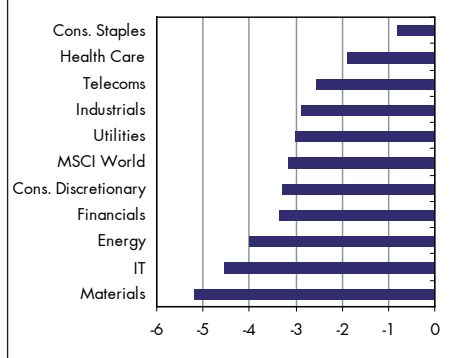
29 January 2010

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

Once the mood has turned sour there is just negative news that can move the market while any positive surprises cannot bring about a turnaround. Therefore stock prices were going lower for more than a week although neither economic indicators nor corporate data of the current earnings season all in all did create big disappointments. 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/correction. Despite good chances for a short-term bounce we stick to our "sell" recommendation in view of our index targets for March. However, medium to long term investors might find great opportunities by buying into any further dips.

Europe

At the moment it seems that the bears haven't taken over the reigns of European stock markets. Also the lately published and mainly better than expected earnings figures for the fourth quarter were not able to give the market a boost. Especially the uncertainty concerning the US banking regulation plans, the Chinese move to restrict lending as well as the fragile situation of Greece continue to be a burden for European stock markets. Although we don't rule out smaller rebounds we think that the recently started consolidation phase should hold on for a while and lead us to even lower index levels.

Expected corporate releases

USA

| | |
|---------|---|
| Mon, 01 | Exxon Mobil |
| Tue, 02 | Avon Products, Dow Chemical, JDS Uniphase, UPS, Verisign |
| Wed, 03 | Cisco Systems, Intern. Paper, ITT, Pfizer, Time Warner, Western Union |
| Thu, 04 | Allergan, Cigna, Clorox, Kellogg, Kraft Foods, Reynolds, Sara Lee, Sunoco |
| Fri, 05 | Aetna, AON, Tyson Foods, Weyerhaeuser |

Europe

| | |
|---------|---|
| Tue, 02 | BP, Novo Nordisk, Roche, Scania, Telenor |
| Wed, 03 | Deutsche Bank, Enel, GlaxoSmithKline |
| Thu, 04 | LVMH, Münchener Rückver., Royal Dutch, Banco Santander, Software, Unilever, Vodafone, Zurich Financial Services |
| Fri, 05 | J. Baer, British Airways, Syngenta |

Japan

| | |
|---------|---|
| Tue, 02 | Nomura Hldgs, Mitsubishi Electric, Softbank, Mitsui |
| Wed, 03 | Kobe Steel, Sharp, Mitsubishi Motors, Honda Motor, Yamaha |
| Thu, 04 | Hitachi, Sony, Toyota Motor, Nikon |
| Fri, 05 | Mazda Motor, Suzuki Motor, Nippon Telegraph & Telephone (NTT) |

Forecasts

| | current* | Mar-10 | Jun-10 |
|--------------|----------|--------|--------|
| DJ ES50 | 2,761 | 2,650 | 2,800 |
| DAX | 5,590 | 5,300 | 5,600 |
| FTSE | 5,178 | 4,900 | 5,100 |
| SMI | 6,435 | 6,000 | 6,300 |
| DJIA | 10,120 | 9,700 | 10,300 |
| S&P 500 | 1,085 | 1,030 | 1,090 |
| Nasdaq Comp. | 2,179 | 2,000 | 2,140 |
| Nikkei | 10,198 | 9,200 | 9,600 |
| ATX | 2,497 | 2,300 | 2,450 |

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

Market Outlook

Trading ideas

weekly

29 January 2010

Fixed income*

| Recommendation | Entry date | Entry level | Current level | Target | Stop | Carry (ann. %) | Comment |
|-----------------------------------|------------|-------------|---------------|--------|-------|----------------|--------------------------|
| Sell 10Y Germany, Buy 10Y Austria | 07/01/2010 | 50 bp | 49 bp | 38 bp | 56 bp | 50 bp | Decreasing risk aversion |

* 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 |
|--------------|------------|-------------|---------------|--------|------|----------------|---|
| Sell EUR/USD | 21/01/2010 | 1.4118 | 1.3968 | 1.37 | 1.43 | - | negative sentiment for EUR; strong momentum of depreciation |

Source: Thomson Reuters, Bloomberg

Recently closed trades

| Recommendation | Entry date | Entry level | Close date | Close level | Total return | Comment |
|-----------------------------------|------------|-------------|------------|-------------|--------------|-------------------|
| 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 | 47bp | 26/01/2010 | 42bp | 5bp | Closed early |
| Buy US T-Note Future | 23/12/2010 | 116.14 | 26/01/2010 | 117.79 | 1.42% | Closed early |
| Buy Bund Future | 29/12/2009 | 121.50 | 25/01/2010 | 123.00 | 1.23% | Trailing stop hit |
| Sell 10Y Germany, Buy 10Y Austria | 03/12/2009 | 45bp | 21/12/2009 | 52bp | -7bp | Stopped out |
| Sell 5Y Germany, Buy 5Y Greece | 11/12/2009 | 245bp | 18/12/2009 | 280bp | -35bp | Stopped Out |
| BUY EUR/JPY | 28/01/2010 | 126.8 | 29/01/2010 | 125 | -1.42% | Stopped Out |
| BUY EUR/JPY | 25/01/2010 | 127.44 | 26/01/2010 | 126.5 | -0.74% | Stopped Out |
| Buy USD/JPY | 21/01/2010 | 91.640 | 21/01/2010 | 90.500 | -1.24% | Stopped Out |
| Buy EUR/CHF | 07/01/2010 | 1.476 | 19/01/2010 | 1.475 | -0.07% | Closed early |
| Buy EUR/CHF | 04/01/2010 | 1.486 | 06/01/2010 | 1.480 | -0.40% | 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

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