

Market Outlook

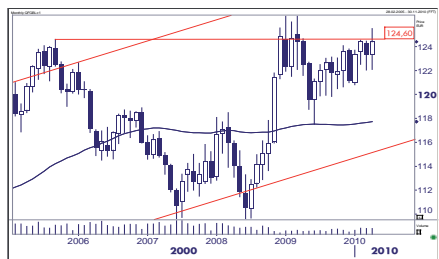
Bond Markets Weekly

weekly

30 April 2010

Technical analysis

EUR Bund Future



Neutral; Buy after close above 124.60 128.00 – 130.00 or Sell 124.20 -> 122.00.

Source: Thomson Reuters

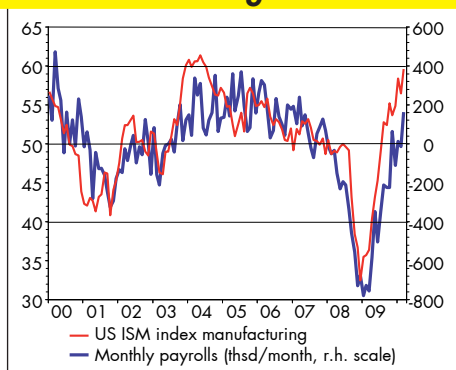
U.S. Treasury Note Future



A crossing of the resistance 118-00 could indicate a further rise towards 120-00 and 121-21.

Source: Thomson Reuters

US data still strong



Source: Thomson Reuters, Bloomberg

Forecasts

USA	cur.	Jun-10	Sep-10	Mar-11
Key rate	0.10	0.10	0.25	0.75
Libor 3M	0.34	0.30	0.40	1.10
Yield 5Y	2.50	2.80	2.50	3.10
Yield 10Y	3.74	4.00	3.80	4.30
Eurozone				
Key rate	1.00	1.00	1.00	1.50
Libor 3M	0.66	0.70	1.00	1.80
Yield 5Y	2.04	2.40	2.50	3.40
Yield 10Y	3.01	3.40	3.30	4.00
Swaprate 5Y	2.32	2.75	2.81	3.72

Source: Thomson Reuters. Raiffeisen RESEARCH

Please find our „recommendations“ on page 5.

USA

The two data highlights of the **past week** were today's flash estimate on **gross domestic product** in the first quarter as well as the **FOMC interest rate decision** on Wednesday. As expected, the latter produced no surprises. The Federal Reserve re-affirmed its intention to keep the fed funds rate at its exceptionally low level of just over 0% for some time to come. The GDP figures came in as expected as well. With an annualised rate of 3.2% compared to the previous quarter the US economy grew as strong at the start of the year as most market participants had anticipated. The driving forces included private consumption spending (annualised rate of +3.6% p.q) and inventory investments, which contributed 1.6 percentage points to the increase in economic output. The other economic data released in the past week managed to beat expectations. The **purchasing managers' index for Richmond** for example climbed to its highest level ever. The **Conference Board consumer confidence** survey improved by an unexpectedly solid margin to 57.9 points. **Next week** has another two key pieces of data slated for release in the form of the manufacturing **ISM** (Monday) and the **labour market report** (Friday). After the extremely robust figures posted by the all four regional purchasing managers' surveys – Empire State Index, Richmond Fed Index, Chicago PMI and Philadelphia Fed Index – we expect the ISM index will register

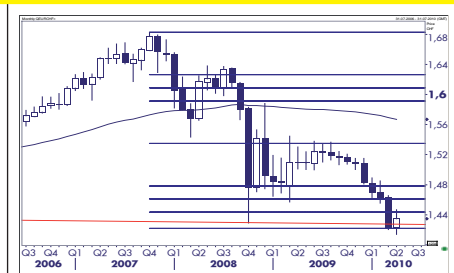
Key figures

USA			RZB	cons.	prior	
Mon, 3.	14:30	Personal income, mom	Mar.	0.2%	0.3%	0.0%
Mon, 3.	14:30	Personal spending, mom	Mar.	0.5%	0.7%	0.3%
Mon, 3.	14:30	PCE core inflation, yoy	Mar.	1.3%	1.3%	1.3%
Mon, 3.	16:00	ISM Manufacturing Index	Apr.	5.0%	59.8	59.6
Tue, 4.	16:00	Pending home sales, mom, ann.	Mar.	5.0%	3.1%	8.2%
Wed, 5.	14:15	ADP Employment, mom, thsd	Apr.	n.a.	30	-23
Wed, 5.	16:00	ISM Non-Manufacturing Index	Apr.	n.a.	56.0	55.4
Thu, 6.	14:30	Nonfarm productivity, qoq, ann.	Q1	3.5%	2.3%	6.9%
Thu, 6.	14:30	Unit labor costs, qoq, ann.	Q1	-1.0%	-0.5%	-0.6%
Fri, 7.	14:30	Unemployment rate	Apr.	9.7%	9.7%	9.7%
Fri, 7.	14:30	Nonfarm payrolls, mom, thsd	Apr.	190	176	162
Europe						
Mon, 3.	~	GE: Retail sales, mom, mom	Mar.	n.a.	-0.1%	-0.4%
Mon, 3.	10:00	EUR: PMI Manufacturing	Apr.	57.5	57.5	57.5
Tue, 4.	11:00	EUR: Producer prices, mom, mom	Mar.	n.a.	0.8%	0.1%
Wed, 5.	09:00	SP: Industrial output, yoy	Mar.	1.5%	n.a.	-1.9%
Wed, 5.	10:00	EUR: PMI Services	Apr.	55.5	55.5	55.5
Wed, 5.	11:00	EUR: Retail sales, mom	Mar.	n.a.	0.0%	-0.6%
Thu, 6.	12:00	GE: Factory orders, mom	Mar.	2.5%	1.4%	0.0%
Fri, 7.	12:00	GE: Industrial production, mom	Mar.	4.0%	1.5%	0.0%
Events						
Tue, 4.	~	EU Commission publishes economic forecasts				
Thu, 6.	13:45	ECB Announce Interest Rates		1%	1%	1%

Source: Bloomberg; indicated time: GMT +1

Technical analysis

EUR/CHF



Sideways ranging from 1.4200 to 1.4500; Sell after close below the support line 1.4270 1.4000.

Source: Thomson Reuters

EUR/JPY



„Bullish engulfing“ pattern -> advance towards the 200-days-average (129.94) possible.

Source: Thomson Reuters

EUR/USD



The long-term support lines 1.3100 and 1.2900 could support the price. Buy 1.3300->1.3525 or Sell after close below 1.2900->1.2330.

Source: Thomson Reuters

Forecasts

CHF	cur.	Jun-10	Sep-10	Mar-11
Libor 3M	0.25	0.30	0.50	1.00
Yield 10Y	1.85	2.20	2.60	3.00
YEN				
Key rate	0.10	0.10	0.10	0.10
Libor 3M	0.43	0.25	0.30	0.30
Yield 10Y	1.29	1.30	1.40	1.40
FX				
EUR/USD	1.33	1.35	1.42	1.30
EUR/JPY	125	124	118	135
USD/JPY	94	92	83	104
EUR/CHF	1.43	1.41	1.43	1.42
Crude				
Brent	86.5	78	81	88

Source: Thomson Reuters. Raiffeisen RESEARCH

another modest rise. The massive jump in the Richmond Fed Index in particular is a positive sign. We are also optimistic regarding the labour market report. After a notable number of new jobs were created in March for the first time since the end of 2007, we reckon there will be tangible growth in employment in April too. Sitting at 190,000 jobs our projection is higher than the rise registered in March (162,000). In addition to manufacturing, we expect the main driver of employment to be the census. In March this contributed almost 50,000 part-time jobs to the employment growth, and for April we predict a figure of around 100,000. The jobless rate should remain around 9.7%.

Data also due out next week includes **personal income and personal consumption expenditure** as well as **construction spending** (Monday), the development in **pending home sales** (Tuesday), and **ISM non-manufacturing** and the **ADP employment report** (Wednesday). On Thursday the first estimates of **non-farm productivity** and **unit labour costs** for the first quarter are due to be announced. These figures are important from the perspective of the inflation outlook.

All told, the **US government bond market** still remains relatively indifferent to the troubles in Greece. 10y US Treasuries for example with a yield of 3.76% are still close to our short-term Sell recommendation from last week. Even the panic surrounding Greece peaking in the middle of the week was only temporarily able to lift bond prices somewhat. We uphold our Sell recommendation for US T-notes since we are rather optimistic about the key figures due for release next week (ISM and labour market report). Consensus concurs, but the data should at least not push bond prices up, this would most likely require a correction on the stock market. The US bond market would really face some problems if market participants reflected on the fact that the US budget deficit is comparable and public debt in the USA is even higher than in the “problematic states” of Spain and Portugal – a moratorium on buying US bonds would not only damage the US market but would also have massive repercussions for most financial markets. Thankfully, there are no signs of this happening as yet.

Eurozone

When the **ECB Governing Council** meets on Thursday to make a **decision on interest rates**, no hints on changes are expected. Nonetheless, money market rates have been climbing for some days now – the return to ordinary tenders for longer-term refinancing transactions (repos) will push the longer maturities on the money market up slightly in the coming months. The topic of **Greece** will again take pride of place at the ECB press conference. The procedure at the central bank for loan collateral is becoming interesting. S&P’s credit rating for Greece now languishes at BB+, which is below the minimum eligibility requirement for ECB repos. If the other two rating agencies follow suit, Greek bonds may no longer be accepted according to the rules. Since the repos constitute a significant refinancing channel for Greek banks which are already struggling with outflows of primary funds, we think that sooner or later the ECB will adjust its **collateral rules** to ensure that Greek government bonds can continue to be used.

Furthermore, ECB President Trichet will have to take a stance on the **aid** package for Greece. The aid should be **raised** to EUR 130 bn, and therefore Greece will not need any financing through the capital markets until 2010. By this time a **3-year restructuring programme** will have taken effect, restoring the confidence of investors. Some possible restructuring measures have already been disclosed: following a 4% cut in public sector salaries, an additional cut of 10%; freezing of public sector wages for three years; no renewal of short-term contracts expiring in the public sector; not all vacant civil servant posts to be filled; increase of 2-4 percentage points in 21% VAT rate; 10% increase in tax on alcohol, tobacco and fuel; increase in average retirement age from 53 to 67; privatization of public companies; labour market deregulation. Trichet will praise the efforts of all those involved (EUR countries, EU Commission, IMF, Greek government, etc.), call for the full implementation of the plans, and continue to categorically rule out a default or debt relief for Greece.

Besides the ongoing crisis in Greece, some key indicators have improved substantially; economic surveys such as the **purchasing managers' surveys** are even sitting at levels reminiscent of booms in some countries. After the flash estimates for Germany and France, the results for Italy and Spain as well as some smaller countries are due later. We expect to see some improvements. Accordingly, the upcoming data for **new orders** and output in industry (Germany, Spain) should surge, especially since weather-related delays in **production** need to be made up.

The Greek dilemma is gradually unfolding into a general discussion about the debt situations in many western countries. Positive and negative reports are likely to continue alternating over the coming weeks. The Greek trade unions are expected to continue with their firm resistance, and the rescue package has still not been resolved. As long as the newsflow remains so difficult to predict, we want to avoid any short-term positions. We switch our recommendation from Sell to Neutral

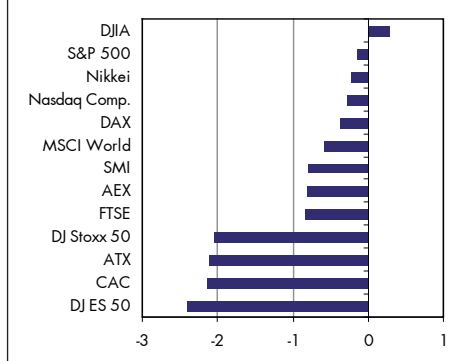
Market Outlook

Equity Markets Weekly

weekly

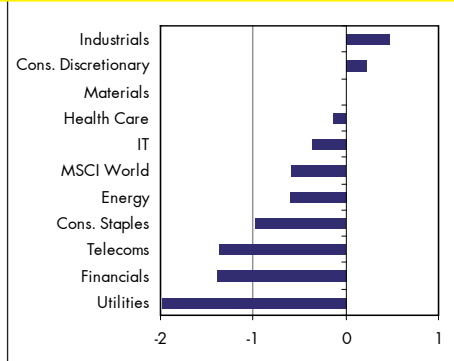
30 April 2010

Market performance (% , 1 week)



Source: Thomson Reuters

Sector performance (% , 1 week)*



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

Forecasts

	current*	Jun-10	Sep-10
DJ ES50	2,828	3,080	3,050
DAX	6,155	6,450	6,350
FTSE	5,588	5,950	5,850
SMI	6,650	7,350	7,200
DJIA	11,167	11,500	11,300
S&P 500	1,207	1,250	1,230
Nasdaq Comp.	2,512	2,600	2,550
Nikkei	11,057	11,600	11,300
ATX	2,670	2,800	2,750

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

Recommendations

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

USA

The US stock markets keep on staying very robust given some of the external circumstances. Solid economic fundamentals, a favourable interest rate and liquidity environment as well as another 'stronger-than-optimistically-expected' earnings season outweigh the current discussion about a sovereign debt crisis. Even though the news flow regarding the latter might change from day to day and cause surprises we consider US stocks worth buying at least on a mid- to long-term horizon.

Europe

In the last days the situation in the European stock market has sharpened. While Greece continues being one of the main topics, it is the additional downgrade of Portugal which increased the fear of the domino effect in Europe. However, the enlargement of the rescue package was able to prevent stronger losses. Furthermore the market gained certain stability through the positive earnings season, in which most of the reporting companies managed to exceed expectations and to increase profits as well as revenues.

Japan

Corporate releases and economic data were in the background recently regarding the developments around a possible bankruptcy of the Eurozone country Greece. Especially as a default could end in another systemic shock for the global economy! However, we think that emergency measures will be successful in the end. Therefore after a very volatile phase of uncertainty sentiment should then brighten up towards June.

Expected corporate releases

USA

Mon, 03 Clorox, Loews
Tue, 04 Merck & Co, Pfizer
Wed, 05 JDS Uniphase, Time Warner
Thu, 06 Kraft Foods, Sara Lee
Fri, 07 AIG

Europe

Tue, 04 adidas, Alstom, Continental, Fresenius Medical Care, Holcim, Linde, Pirelli, UBS, BMW
Wed, 05 Société Générale, Henkel, Lafarge, Deutsche Lufthansa, Swisscom
Thu, 06 Adecco, Beiersdorf, BNP Paribas, Commerzbank, AXA, Swiss Reinsurance, Telecom Italia, Zurich Financial Services
Fri, 07 Muenchener Rückvers., Royal Bank of Scotland

Market Outlook Recommendations

weekly

30 April 2010

Short-term trading ideas: fixed income*

Recommendation	Entry date	Entry level	Current level	Target	Stop	Carry (ann. %)	Comments
Sell T-Note Future	19/04/2010	117.05	117.47	115	118.05		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	431 bp	1141 bp	2012	Convergence of German and peripheral government bond yields
Spreadtrade Portugal: Buy PTOTEKOE0003 & Sell DE0001137297	03/03/2010	76,5 bp	300 bp	2012	Convergence of German and peripheral government bond yields
Spreadtrade Italy: Buy IT0004467483 & Sell DE0001137297	03/03/2010	41 bp	84 bp	2012	Convergence of German and peripheral government bond yields
Spreadtrade Austria: Buy AT0000385356 & Sell DE0001137297	03/03/2010	25 bp	24 bp	2012	Convergence of German and peripheral government bond yields

Source: Thomson Reuters, Bloomberg

Recently closed trades

Recommendation	Entry date	Entry level	Close date	Close level	Total return	Comment
Sell Bund Future	25/04/2010	123.96	27/04/2010	124.7	-0.60%	Stopped out
Sell T-Note Future (June)	12/03/2010	116.70	07/04/2010	115.70	0.86%	Trailing stop hit
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	0.00%	Trailing stop hit
Sell Bund Future	24/03/2010	123.54	23/04/2010	124.20	-0.53%	Stopped out
SELL EUR/USD	24/03/2010	1.336	29/03/2010	1.35	-1.04%	Stopped Out
SELL EUR/CHF	09/03/2010	1.463	19/03/2010	1.44	1.57%	Target Reached

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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