

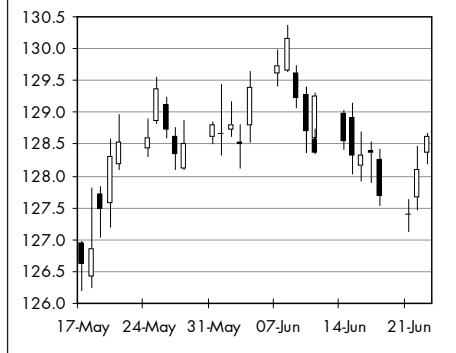
# Market Outlook

## Bond Markets Weekly

weekly

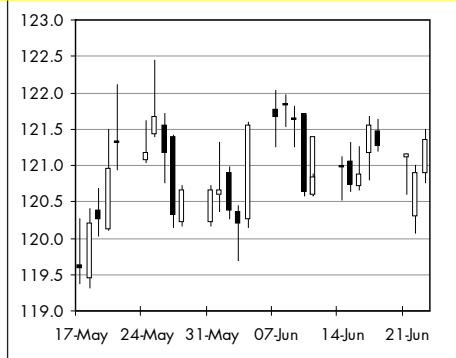
25 June 2010

### EUR Bund Future



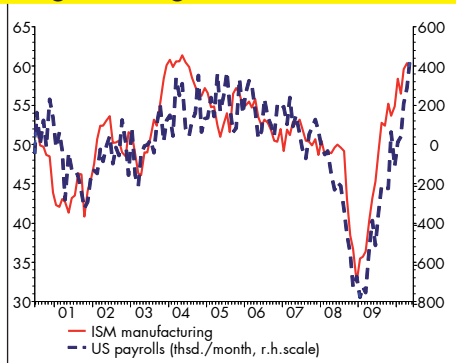
Source: Thomson Reuters

### U.S. Treasury Note Future



Source: Thomson Reuters

### As good as gets



Source: Thomson Reuters, Raiffeisen RESEARCH

### Forecasts

USA	cur.	Sep-10	Dec-10	Mar-11
Key rate	0.10	0.25	0.25	0.75
Labor 3M	0.53	0.50	0.60	1.00
Yield 5Y	1.94	2.00	2.60	3.10
Yield 10Y	3.13	3.30	3.90	4.10
<b>Eurozone</b>				
Key rate	1.00	1.00	1.00	1.00
Euribor 3M	0.75	0.80	0.80	1.00
Yield 5Y	1.50	1.80	2.20	2.30
Yield 10Y	2.62	2.80	3.00	3.00
Swaprate 5Y	2,09	2,40	2,55	2,65

Source: Thomson Reuters, Raiffeisen RESEARCH

Please find our „recommendations“ on page 5.

### USA

The review of **last week's data** can be kept to a minimum: perhaps the most noteworthy aspect was that existing home sales slumped in May already (as opposed to June) as tax credits have run out. This fits in well with the rest of the data on the real estate market (e.g. new home sales down 32.7% on the previous month), and this trend can be expected to continue. With regard to durable goods orders, a negative figure was recorded, but the outcome was still slightly better than consensus. There was no news from the US Fed, as the previous assessments of the US central bank were confirmed yet again: according to the Fed, although the economy shows some initial signs of stabilising, the outlook for the future remains very uncertain, in particular due to the sovereign debt crisis in Europe. The extremely low level of interest rates was still deemed to be appropriate for an extended period (i.e. no rate hike before early 2011).

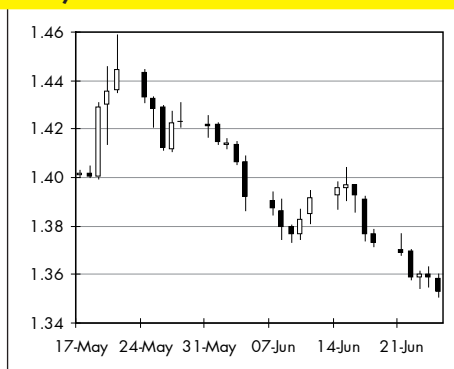
In the **coming week**, things get more interesting, as the month's data heavyweights are on the agenda: Thursday features the manufacturing **ISM index**, which is probably the single most important leading economic indicator; another decline is expected (forecast: 58.5 points). First, on a monthly basis, the regional surveys (Philly Fed, etc.) are pointing in this direction on the whole. Second, over

### Key figures

USA		RZB	cons.	prior	
Mon, 28.	14:30 Personal income, mom	May	0.3%	0.5%	0.4%
Mon, 28.	14:30 Personal spending, mom	May	0.0%	0.1%	0.0%
Tue, 29.	15:00 S&P C/S home prices, 20 cities, mom	Apr.	n.a.	-0.35%	-0.05%
Tue, 29.	16:00 Consumer confidence	Jun.	62.0	62.5	63.3
Wed, 30.	14:15 ADP Employment, mom, thsd	Jun.	90.0	60.0	55.0
Thu, 01.	16:00 ISM Manufacturing Index	Jun.	58.8	59.0	59.7
Thu, 01.	16:00 Pending home sales, mom, ann.	May	-15.0%	-15.2%	6.0%
Fri, 02.	14:30 Private payrolls, mom, thsd	Jun.	200.0	112.0	41.0
Fri, 02.	14:30 Nonfarm payrolls, mom, thsd	Jun.	-60.0	-110.0	431.0
Fri, 02.	14:30 Unemployment rate	Jun.	9.7%	9.8%	9.7%
Europe					
Mon, 28.	10:00 EUR: Money supply M3, yoy	May	0.4%	0.4%	-0.1%
Mon, 28.	n.a. GE: Consumer prices, mom	Jun.	n.a.	0.2%	0.1%
Tue, 29.	11:00 EUR: Industrial confidence	Jun.	-7.0	-6.0	-6.0
Tue, 29.	11:00 EUR: Economic confidence	Jun.	98.0	98.3	98.4
Wed, 30.	09:55 GE: Unemployment, mom, thsd	Jun.	n.a.	-20.0	-45.0
Wed, 30.	11:00 EUR: Consumer prices, yoy	Jun.	1.4%	1.5%	1.6%
Thu, 01.	09:15 SP: PMI Manufacturing	Jun.	52.0	n.a.	51.5
Thu, 01.	09:45 IT: PMI Manufacturing	Jun.	54.5	53.9	54.0
Fri, 02.	09:00 SP: Industrial output, yoy	May	5.0%	n.a.	2.4%
Fri, 02.	11:00 EUR: Producer prices, mom, mom	May	n.a.	0.2%	0.9%
Fri, 02.	11:00 EUR: Unemployment rate	May	10.2%	10.1%	10.1%
Events					
Fri-Sun	25.-27.	G8/G20-Summit in Canada			

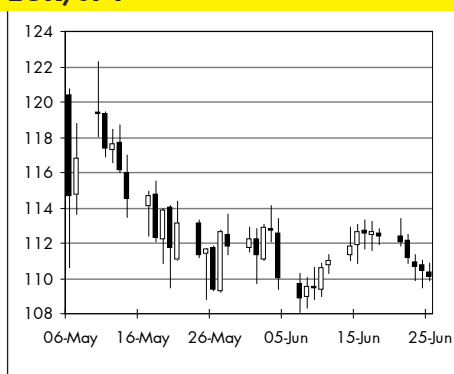
Source: Bloomberg

## EUR/CHF



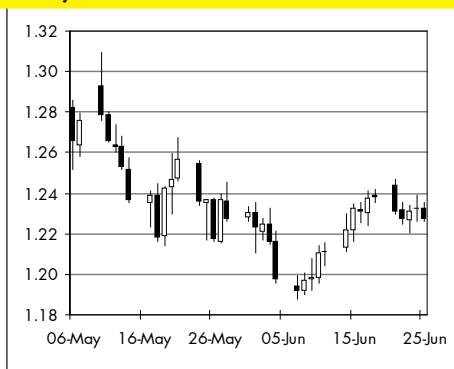
Source: Thomson Reuters

## EUR/JPY



Source: Thomson Reuters

## EUR/USD



Source: Thomson Reuters

## Forecasts

	cur.	Sep-10	Dec-10	Mar-11
<b>CHF</b>				
Libor 3M	0.11	0.30	0.50	0.75
Yield 10Y	1.55	1.90	2.10	2.30
<b>YEN</b>				
Key rate	0.10	0.10	0.10	0.10
Libor 3M	0.46	0.25	0.25	0.25
Yield 10Y	1.15	1.20	1.20	1.30
<b>FX</b>				
EUR/USD	1.23	1.25	1.20	1.15
EUR/JPY	110	106	125	120
USD/JPY	90	85	104	104
EUR/CHF	1.35	1.32	1.30	1.35
<b>Crude</b>				
Brent	75.6	86	89	89

Source: Thomson Reuters. Raiffeisen RESEARCH

the medium term the economic dynamics (significant slowdown in H2 2010 on the heels of the robust rebound since mid-2009) are suggesting that the ISM will fall significantly in the months to come (with the index quite possibly falling to right around 50 by year-end).

The second highlight of the week is the **labour market report** on Friday: Although it is notoriously volatile (and is often revised strongly afterwards), two developments are taking shape: on the one hand, the weak increase in jobs added by the private sector in the previous month (+41K) was probably an outlier. We expect to see the favourable trend from March/April resume again (most labour market indicators are pointing in this direction), which nourishes hopes of a private sector job gain of around 200K. On the other hand, the US census is probably no longer making a positive contribution to job creation, as personnel are likely now being released here again, which will probably result in a major drop in jobs in this report already and may even be strong enough to offset the job gains in the private sector. Nevertheless, this month the market will probably pay less attention to the overall number, which is distorted by the census impact, and more attention to job creation in the private sector, just like last month when the market viewed the labour market report as disappointing (and quite rightly so), because the increase in private sector payrolls was very weak, despite the strong increase in total payrolls due to the census.

If the **ADP report** (due out on Wednesday) does not seriously underestimate the increase in payrolls (as it generally has recently), then the outturn should be actually quite good (better than consensus), because this report only covers the private sector and not census workers.

In other news next week: there will be practically no growth at all in monthly consumption spending figures, as retail data was very weak in May already. Pending home sales should also fit in with the trend seen in the other real estate data following the end of the tax credits and fall sharply (similar to what was seen when the first tax credit programme ended in Nov 2009).

**US government bonds:** Past week's renewed slump on the equity market unfortunately ended up stopping out our short-term Sell recommendation on US Treasuries, and our short-term position has been neutral since then. Nevertheless, as 10-year US Treasury yields are at just over 3%, near their lows for the last 12 months, we wish to re-open this sell recommendation soon again, when yields edge even closer to 3% and/or when a short-term trend reversal begins to take shape on the equity market. Yields of around 3.3% should then quickly come into reach again (but due to the outlook for significant deceleration in economic activity in the months ahead, we don't believe that the market will manage much more than that in terms of yield increases).

We do not expect any impact from the **G-20 meeting** this week-end in Toronto: aside from vague statements of intent, no specific agreements are expected in light of the differing positions on subjects such as a globally coordinated banking tax or a transaction tax (one should note that much more important issues related to banking regulation are already being handled within the framework of Basel 3).

## Eurozone

A good deal of **economic data** is slated for release in the days ahead. Last week was marked by contradicting information on business sentiment in the Eurozone, with the results of the German ifo index on the one hand, and the Belgian early indicator on the other. A mild improvement in the German survey was contrasted with a sharp decline in the neighbouring country. In relation to the strong deterioration in sentiment in Belgium, it is possible that the elections and the divisive election campaign may have played a role (Flemish vs. Walloons), and thus we would rather not transpose the results one to one for the European figure. We project a **modest decline** both for **industrial confidence** and for **business confidence in the euro area**. The Spanish and Italian purchasing managers' indices for manufacturing, however, should post increases in our opinion. This assessment is based on the slight decline in this survey for the Eurozone, simultaneously with stronger declines in Germany and France. With regard to **industrial production in Spain** (excl. construction) it thus looks like an **improvement** of the yoy figure is pre-programmed (and in a month-on-month comparison as well). Naturally, it should not be forgotten however, that – after the collapse in 2009 – the level of production remains very low (down more than 20% on the output level for May 2007). Along with business data, there should also be some interesting data on the **labour market** (EUR rate of unemployment set to rise, number of German unemployed keep on falling) and on inflation and monetary aggregates. Compared to the previous month, prices probably hardly increased, which should result in a **decline in the rate of inflation compared to the previous year**. The development of monetary aggregates is also influenced by base effects. On a monthly level, the downward trend has stopped since February and the minimal increase of 0.1% in **M3** from April to May will lift the annual rate out of negative territory (**increase of 0.4% yoy**). Nonetheless, this reversal in the trend is not going to set off any warning buzzers at the European Central Bank: First, this increase is still well lower than the long-term target rate of 4.5% yoy, and second, the development of credit and monetary aggregates will continue to be tame in light of the persistent strains in the financial sector.

With the summer slowdown just around the corner, activity on the **primary market** remains brisk right now: Slovakia, Belgium, Italy, Germany, Spain and France have all announced bond auctions. While **Germany** can still finance itself at **extremely favourable conditions**, some other **countries** are facing **significant premiums**. So far, it has at least been possible to place the announced volumes without any problems and thus we do not see any signs that a country may have to soon resort to the EU's safety net (there were recently rumours about Spain, in light of the large-scale re-financing needs in July). On the other hand, we see little realism in plans announced by Greece, according to which it wishes to place a bond on the market as early as July. On the **secondary market**, the ECB is still active: through to the end of last week, the volume of government bonds purchased had increased to EUR 51 bn. The trend in **yields** in the days ahead will be dictated by the US figures, as the data heavyweights are slated for publication. Our short-term recommendation for the Bund Future remains Neutral. Over a long-term horizon we see German bonds as overpriced.

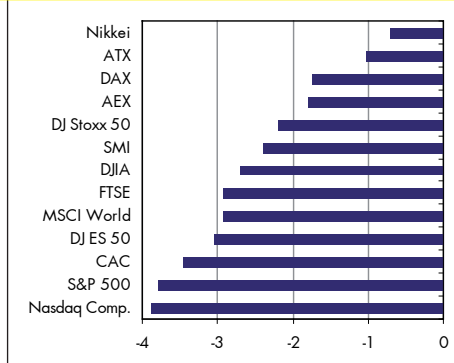
# Market Outlook

## Equity Markets Weekly

weekly

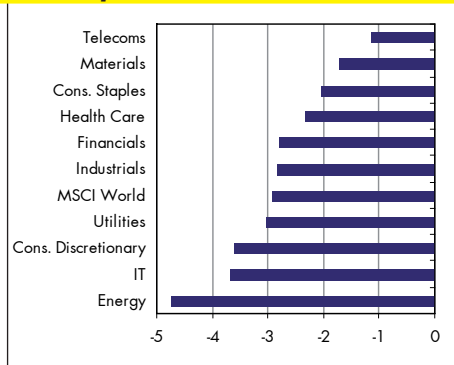
25 June 2010

### Market performance (% , 1 week)



Source: Thomson Reuters

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



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

### Recommendations

**Markets:** Buy: USA, Europe, Japan  
**Favoured sectors:** Industrials, consumer discretionary, financials, consumer staples, materials

#### USA

The US stock markets have come under pressure in the past week. Somewhat weaker economic indicators as well as new debates regarding the regulation of the financial sector didn't go down at all well with investors. In this environment it even did not help that no new (bad) news regarding Europe's debt worries came in and that the Euro kept quite well. The trust in the economic upturn continues to be subdued. However, the Fed more or less confirmed the prolongation of the expansive stimulus measures recently and the upcoming reporting season could help to once more improve the sentiment.

#### Europe

European equity markets drifted lower during the past week under review. Especially the retreat in leading indicators and disappointing US housing data once again raised worries about the sustainability of the economic expansion. As a consequence investors also became nervous with respect to the financial situation of some European countries. This topic will remain on the agenda for the months to come and help to keep up volatility. However, the rescue package of the Eurozone countries should ensure the refinancing of the European countries until next year. In this environment primarily the effect of the still ample supply of liquidity will therefore fully unfold and lead markets to higher levels.

#### Japan

There is still a lot of fear that the sovereign debt crisis could spread and therefore badly hurt the fragile economic recovery. However, we expect that problem to calm down a little bit over the course of the summer months. At the same time we have to say that this debate is far from over! Moreover optimistic corporate releases in the upcoming earnings season should pave the way for rising Japanese stocks towards September.

### Forecasts\*

	current**	Sep-10	Dec-10
DJ ES50	2,637	3,050	3,200
DAX	6,078	6,335	6,650
FTSE	5,080	5,850	6,100
SMI	6,305	7,200	7,400
DJIA	10,153	11,300	11,800
S&P 500	1,074	1,230	1,280
Nasdaq Comp.	2,217	2,550	2,650
Nikkei	9,737	11,300	12,000
ATX	2,370	2,750	2,870

\* under revision  
\*\* as per Friday 1:00 p.m.  
Source: Raiffeisen RESEARCH

### Expected corporate releases

#### USA

Wed, 30 Apollo Group, General Mills, Monsanto  
Thu, 01 Constellation Brands

#### Europe

No company data

# Market Outlook

## Recommendations

weekly

25 June 2010

### Recently closed trades

Recommendation	Entry date	Entry level	Close date	Close level	Total return	Comment
Sell T-Note Future (Sep)	11/06/2010	120.40	23/06/2010	121.40	-0.82%	Stopped out
Sell T-Note Future (June)	27/05/2010	120.76	04/06/2010	121.5	-0.60%	Stopped out
Spreadtrade Portugal: Buy PTOTEKOE0003 & Sell DE0001137296	11/05/2010	147.5	21/05/2010	175	-27.5 bp	Stopped out
Spreadtrade Italy: Buy IT0004508971 & Sell DE0001137297	11/05/2010	93	21/05/2010	120	-27 bp	Stopped out
Sell T-Note Future (June)	10/05/2010	118.5	14/05/2010	119.75	-1.04%	Stopped out
Spreadtrade Spain Buy ES0000012118 & Sell DE0001137297	11/05/2010	112.2	14/05/2010	135	-22.8 bp	Stopped out
Sell Conf-Future (June)	03/05/2010	138.59	05/05/2010	139.2	-0.44%	Stopped out
Sell T-note future	19/04/2010	117.05	05/05/2010	118.05	-0.85%	Stopped out
Buy EUR/USD	14/06/2010	1.218	22/06/2010	1.23	0.98%	Closed Early
Sell EUR/CHF	25/05/2010	1.423	04/06/2010	1.40	1.64%	Target Reached
Sell EUR/CHF	03/05/2010	1.432	06/05/2010	1.415	1.20%	Target Reached
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
BUY EUR/JPY	09/02/2010	123.3	25/02/2010	120.5	-2.27%	Stopped Out
BUY EUR/USD	09/02/2010	1.3784	11/02/2010	1.36	-1.33%	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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