

Market Outlook

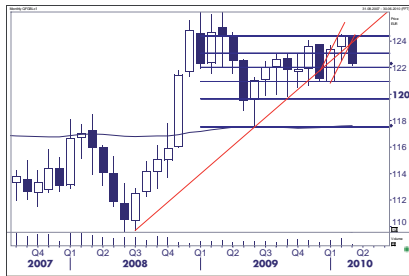
Bond Markets Weekly

weekly

12 March 2010

Technical analysis

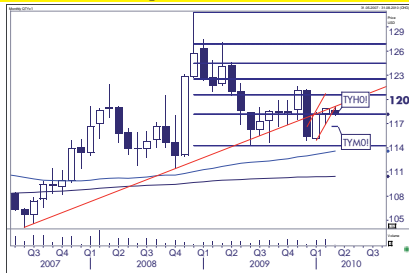
EUR Bund Future



The price has moved again below the long-term rising support line. Sell -> 119.65.

Source: Thomson Reuters

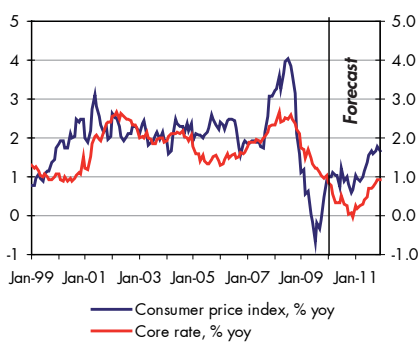
U.S. Treasury Note Future



The price failed to cross the resistance 119-05 (long-term trend line). A test of the retracement 114-08 will be likely within the next few weeks.

Source: Thomson Reuters

EUR: No price pressures



Source: Thomson Reuters

Forecasts*

	cur.	Jun-10	Sep-10	Dec-10
USA				
Key rate	0.10	0.10	0.10	0.50
Labor 3M	0.26	0.30	0.40	0.80
Yield 5Y	2.44	2.20	2.60	3.10
Yield 10Y	3.74	3.50	3.80	4.10
Eurozone				
Key rate	1.00	1.00	1.00	1.50
Labor 3M	0.65	1.20	1.40	1.80
Yield 5Y	2.22	2.50	3.10	3.30
Yield 10Y	3.20	3.30	3.70	3.80
Swaprate 5Y	2.51	2.75	3.35	3.55

* under revision

Source: Thomson Reuters. Raiffeisen RESEARCH

Please find our „recommendations“ on page 5.

USA

Last week, relevant economic data were in short supply. The most important indicator was today's publication of **retail sales figures** for February. Surprisingly, sales went up by 0.3% compared to the previous month. The sharp decline in new car sales, lower petrol prices and the intense snowstorms on the US East Coast were all factors pointing to a negative result. However, this indicator is stated in nominal terms. In real terms we expect stagnation at the best. As a result, February would be the third month in a row with declining respectively non-rising real retail sales. Consequently, private consumption is not showing any strong dynamics in the first quarter. On Wednesday, the **trade balance data** for January were released. According to the publication, there was a pronounced real decline in both imports and exports. In real terms, the trade deficit dropped to USD 41.0 bn, down from USD 43.8 bn in December.

Next week, market participants' attention will be focused on the **rate decision by the FOMC**. Following the surprising move to increase the discount rate on 18 February, the market has grown more uncertain about the outlook for the Fed's interest rate policy. Consequently, representatives of the US central bank have been making efforts to dispel any resulting worries about interest rate hikes. As we do not expect to see any increases in the key rate before the end of 2010, the statement should not contain any signs of a change in the FOMC's policy bias. The key sentence,

Key figures

USA		RZB	cons.	prior
Mon, 15. 13:30	Empire State Manufacturing Index	Mar.	n.v.	20.00 24.91
Mon, 15. 14:15	Industrial production, mom	Feb.	0.4%	0.1% 0.9%
Mon, 15. 14:15	Capacity utilization	Feb.	73.0%	72.6% 72.6%
Mon, 15. 18:00	NAHB housing market index	Mar.	17.0	17.0 17.0
Tue, 16. 13:30	Housing starts, ann., thsd	Feb.	n.v.	570 591
Tue, 16. 13:30	Building permits, ann., thsd	Feb.	n.v.	610 621
Wed, 17. 13:30	Producer prices, mom	Feb.	0.2%	-0.2% 1.4%
Wed, 17. 13:30	- core rate, mom	Feb.	0.0%	0.1% 0.3%
Thu, 18. 13:30	Consumer prices, mom	Feb.	0.1%	0.1% 0.2%
Thu, 18. 13:30	- core rate, mom	Feb.	0.1%	0.1% -0.1%
Thu, 18. 15:00	Philadelphia Fed Index	Mar.	n.v.	17.0 17.6
Europe				
Tue, 16. 11:00	GE: ZEW economic sentiment	Mar.	40.0	43.0 45.1
Tue, 16. 11:00	GE: ZEW current situation	Mar.	-50.0	-51.4 -54.8
Tue, 16. 11:00	EUR: Consumer prices, yoy	Feb.	1.0%	1.0% 1.0%
Tue, 16. 11:00	EUR: - core rate, yoy	Feb.	0.8%	0.8% 0.9%
Fri, 19. 08:00	GE: Producer prices, mom	Feb.	-0.1%	0.1% 0.8%
Events				
Tue, 16. 19:15	FOMC rate decision	Mar.	0.25%	0.25% 0.25%
Tue, 16.	ECOFIN meeting			

Source: Bloomberg; indicated time: GMT +1

Technical analysis

EUR/CHF



The price could form a rounding bottom being supported at 1.4575. Thus a rally towards 1.5000 could be possible.

Source: Thomson Reuters

EUR/JPY



The Euro could have found support at 119.45. Therefore a rebound towards 127.00 and 130.00 will be likely.

Source: Thomson Reuters

EUR/USD



Buy after crossing of resistance 1.3740 (> 1.3890 - 1.4070).

Source: Thomson Reuters

Forecasts*

CHF	cur.	Jun-10	Sep-10	Dec-10
Libor 3M	0.25	0.30	0.50	0.75
Yield 10Y	1.95	2.20	2.60	2.50
YEN				
Key rate	0.10	0.10	0.10	0.10
Libor 3M	0.44	0.25	0.30	0.30
Yield 10Y	1.35	1.30	1.40	1.40
FX				
EUR/USD	1.38	1.42	1.39	1.35
EUR/JPY	125	124	118	122
USD/JPY	90	87	85	90
EUR/CHF	1.46	1.45	1.43	1.45
Crude				
Brent	80.1	78	81	87

* under revision

Source: Thomson Reuters. Raiffeisen RESEARCH

"... likely to warrant exceptionally low levels of the federal funds rate for an extended period." will remain unchanged. Along with this event, there are numerous economic indicators on the agenda next week. The February data on **industrial production** (Monday) should not be quite as strong as in January (+0.9% mom), but at +0.5% mom the release will be the 8th month in a row with positive results. We see the impact of the snowstorms as being limited, as the negative impact on the construction industry should be compensated for by the positive impact felt by utility companies. Another increase in production is supported by the latest data on new orders and the ISM index. With regard to development of the ISM in March, some initial information can be gathered from the **Empire State Manufacturing Index** and the **Philadelphia Fed Index** in the week ahead (Monday and Thursday). Some real estate market data is also due for publication. On Monday, there is the **NAHB housing market index**, followed by the figures for **housing starts and building permits** on Tuesday. And last but not least, next week will also feature the entire set of data on price developments in February. The ball gets rolling with **import prices** (Tuesday), followed by **producer prices** (Wednesday). With regard to both of these, we expect only minimal increases in mom terms, in large part due to the declines in oil prices in February. The same is true for **consumer prices** (Thursday), with the result that the annual rate will continue to fall. Price pressure reflected in the core rate also remains moderate. The anticipated increase of 0.1% on the previous month should push the annual rate down by 0.2 percentage points to 1.4%.

Since the beginning of March, yields on US 10-year government bonds have risen about 15bp to 3.74%. In our estimation, this means that a downward trend has taken shape for government bonds. In the weeks to come, yields should continue to rise. Specifically, we see the US labour market as the factor behind this, along with the unbroken, strong economic dynamics. The labour market should reflect strong increase in job numbers until publication in early June. In part, this increase will stem from the effects of the census being held this year, but the market will take a positive view of the developments all the same. With regard to real GDP, we forecast an annualised growth rate of 4% to 5% for the first quarter. Furthermore, the ISM index is also expected to remain at clearly expansionary levels until the early summer. Amidst these conditions, yields on 10-year bonds may edge slightly higher to 4%. We thus recommend **selling 10-year US government bonds** and **selling T-Note Futures**.

Euro area

There is hardly anything interesting in the way of **data publications** in days ahead: in our view, the German **ZEW indicator** will continue on its downward trend. The preliminary data on the **inflation rate** for February will likely be adjusted higher by one-tenth for the final calculation (leaving it at 1.0% yoy). We see the core rate continuing to fall, and possibly even approaching the 0% mark in year-on-year terms. Price pressure will remain exceptionally low this year, and the only inflation drivers that we see are higher commodity prices, along with rising fees and indirect taxes.

The meagre supply of data will allow the market to focus on the **ECOFIN meeting** on 16 March. After all, the agenda includes an **evaluation of the Greek austerity package**. PM Papandreou recently presented some improvements to the austerity measures planned for this year. With regard to spending, cuts of EUR 2.4 bn are planned by implementing a 30% cut in supplementary salary allowances in the public sector. An increase in revenues of the same amount is planned by raising VAT from the current 19% to 21% and by increasing taxes on alcohol and tobacco again. All in all, the measures amount to EUR 4.8 bn, which is equivalent to around 2% of Greek GDP and thus represents about one-half of the entire reduction in the budget deficit which is planned for 2010. By expanding the consolidation measures on the expenditures and revenues sides, the Greek government's efforts to salvage its budget have gained a great deal of credibility. In particular, the recently weaker economic forecasts for 2010, which included a stronger contraction in GDP than the original assumption of -0.3%, had undermined confidence in the country's ability to live up to its ambitious consolidation goals. Thanks to the additional measures which were announced, achieving the budget target for 2010 – which means reducing the deficit from 12.7% of GDP to 8.7% – looks far more realistic now. After ECB chief Trichet himself lauded the efforts of Greece, it is to be expected that the finance ministers of the other EU countries will follow suit and praise the plans. Over the medium term, we expect to see default premiums (CDS spreads) drop and more tightening in yield premiums compared to German benchmarks. In particular, the premium of around 400bp on short maturities appears overly high and interesting from an investor point of view.

Activity on the **primary market** continues to be brisk. Germany (10y), France (medium maturity and inflation-linked bonds), Spain (money market instruments, 10y and 21y bonds) and Ireland (6y and 10y) have all announced issues. If the market situation remains friendly, Greece is also likely to try to refinance some more of the EUR 8 bn in liabilities coming due in early May. **Secondary market yields** on German government bonds will probably lack any clear trend in the days ahead, in the absence of any relevant data. Our short-term positioning remains Neutral on long-dated instruments (Bunds) and medium-dated bonds (Bobl), and Sell on the short maturities (Schatz).

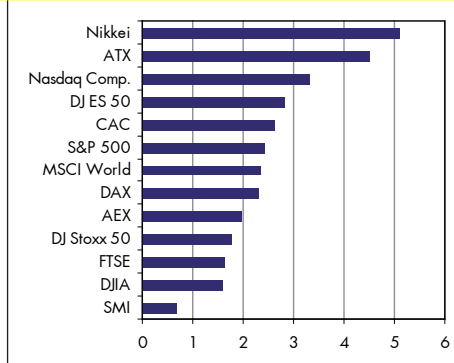
Market Outlook

Equity Markets Weekly

weekly

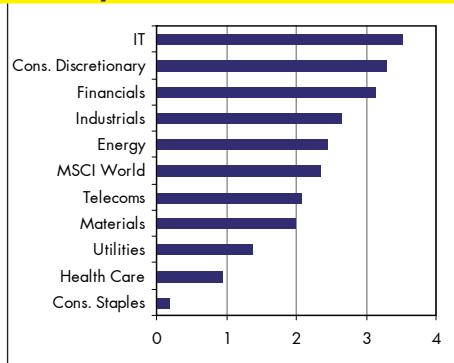
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Market performance (% , 1 week)



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: Health Care, Industrials, Cons. Staples, Energy

USA

Last month's severe worries over the solvency of troubled southern European countries are pushed more and more into the background. As a consequence US stock markets can resume their recovery. The technology laden Nasdaq Stock Exchange has reached new 18 months highs in the most recent week and the main indices of the New York Stock Exchange seem to follow as far as there. Corporate earnings releases for the fourth quarter 2009 which were in aggregate quite convincing support expectations of clearly double-digit earnings growth figures in 2010 and therefore the broad stock market gets also more and more attractive in terms of valuations. Although these corporate fundamentals speak for stocks to resume their upward trend in the medium term, we think that interim news-flow such as exit-scenarios of central banks and/or eroding economic leading indicators will once more bring back US stock indices to lower levels in the weeks to come.

Europe

Investors on European stock markets remained quite cautious during the last days, which was also reflected in a low degree of volatility. Especially worries about the Greek financial problems have currently waned somewhat. Nevertheless, due to the quite restrained news-flow from the economic as well as from the corporate front markets were not able to benefit from the slight improvement in sentiment. All in all we expect that the sovereign debt problems should remain on the agenda and cause further uncertainty. Additionally an expected retreat of the most important leading indicators will be another burden in the upcoming months. However, our long-term scenario is still unchanged. Especially a clear return to earnings growth, moderate valuations and a quite attractive dividend yield make us optimistic.

Forecasts

	current*	Jun-10	Sep-10
DJ ES50	2,917	2,800	3,100
DAX	5,976	5,600	6,300
FTSE	5,633	5,100	5,600
SMI	6,860	6,300	6,800
DJIA	10,612	10,300	11,200
S&P 500	1,150	1,090	1,200
Nasdaq Comp,	2,368	2,140	2,400
Nikkei	10,751	9,600	10,000
ATX	2,552	2,450	2,650

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

Expected corporate releases

USA

Wed, 17 Nike
Thu, 18 Cintas, Fedex

Europe

Tue, 16 Lindt & Spruengli, Unicredit
Wed, 17 Enel, Inditex, Lanxess
Thu, 18 Baloise, Danisco, HeidelbergCement, SGL Carbon

Market Outlook

Recommendations

weekly

12 March 2010

Short-term trading ideas: fixed income*

Recommendation	Entry date	Entry level	Current level	Target	Stop	Comment
Sell T-Note Future (June)	12/03/2010	116.7	116.7	114.0	118.0	Strong employment reports; strong gdp growth in Q1
Sell Schatz Future (June)	26/02/2010	108.7	108.5	107.20	108.70	Stop adjusted
Sell Conf Future (June)	09/03/2010	137.5	136.80	135.6	138.7	Fading intervention threat

* 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/CHF	09/03/2010	1.463	1.459	1.45	1.47	-56bp	Fading intervention threat

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	377.2bp	2012	Convergence of German and peripheral government bond yields
Spreadtrade Portugal: Buy PTOTEKOE0003 & Sell DE0001137297	03/03/2010	76,5bp	75.2bp	2012	Convergence of German and peripheral government bond yields
Spreadtrade Italy: Buy IT0004467483 & Sell DE0001137297	03/03/2010	41bp	42.5bp	2012	Convergence of German and peripheral government bond yields
Spreadtrade Austria: Buy AT0000385356 & Sell DE0001137297	03/03/2010	25bp	25.5bp	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 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
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
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

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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