Market Outlook
Bond Markets Weekly

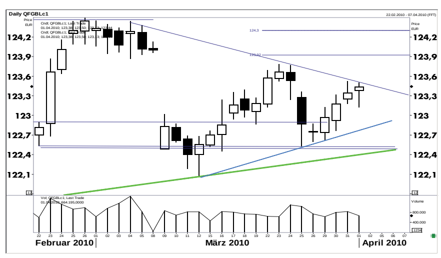
weekly

2 April 2010

Please find our „recommendations" on page 5.

Technical analysis

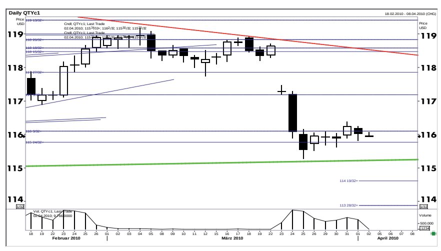
EUR Bund Future



last: 123.47
Testing the FRL and with regard the to Flag pattern it might perform 123.55 -> 123.77 - 124.50, stop 123.40 -> 123.20 - 122.90

Source: Thomson Reuters

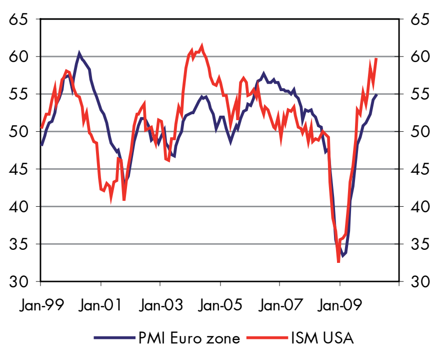
U.S. Treasury Note Future



last: 115-23
Bearish Flag and 115-20 -> 115-07 - 113-28 likely, thus even 111 with reach when the low at 114-08 does not provide strength anymore.

Source: Thomson Reuters

Recovery still on track



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	0.29	0.30	0.40	1.10
Yield 5Y	2.59	2.80	2.50	3.10
Yield 10Y	3.87	4.00	3.80	4.30
Eurozone				
Key rate	1.00	1.00	1.00	1.50
Libor 3M	0.64	0.70	1.00	1.80
Yield 5Y	2.15	2.40	2.50	3.40
Yield 10Y	3.09	3.40	3.30	4.00
Swaprate 5Y	2.37	2.75	2.81	3.72

Source: Thomson Reuters. Raiffeisen RESEARCH

USA

Last week's economic data were very ***strong*** on the whole, fitting in nicely with our expectation of (still) very strong GDP growth during the first half of the year and the start of a slow improvement on the US labour market.

On Tuesday, a reading of 52.5 points was registered for ***consumer confidence***, leaving this indicator well ***higher than consensus***, as we had been projecting. On Thursday, the manufacturing sector ***ISM index***, which is probably the most widely watched leading economic indictor for the US economy, bucked everyone's expectations and even surged to ***another high for this cycle***, hitting 59.6 points (up from 56.5) which is the highest reading since July 2004. The developments in the regional purchasing managers' surveys had only pointed to stagnation: for example, Wednesday's Chicago PMI had slipped by 3.8 points.

Nevertheless, we are certain that the significant decline we expect to see in business sentiment (ISM) will materialise as summer approaches: this indicator has now hit an incredibly strong level, which is not reflected in the economic performance. While we do expect to see another tangible rise in real GDP in the first quarter, with the annualised rate coming in between 4 and 5% compared to the preceding quarter, we do not believe that the economy will reach the 5.6% rate of growth from Q4 2009.

Developments in the ratio of inventories to new orders also point to a sharp decline in the ISM index in the near future. This ratio is a fairly reliable predictor for the ISM index and has slumped in recent months.

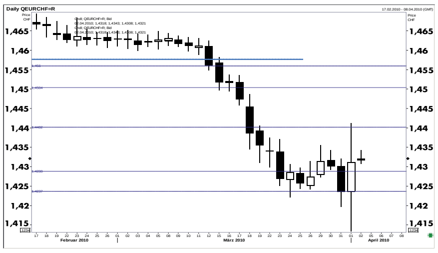
Key figures

USA					**RZB**	**cons.**	**prior**
Mon,	5.	16:00	ISM Non-Manufacturing Index	Mar.	***54.0***	54.0	53.0
Mon,	5.	16:00	Pending home sales, mom, ann.	Feb.	***1.0%***	-1.0%	-7.6%
Thu,	8.	14:30	Initial jobless claims, ann., thsd	Apr.	***n.a.***	433.0	439.0
Fri,	9.	16:00	Wholesale inventories	Feb.	***n.a.***	0.4%	-0.2%
Europa							
Wed,	7.	09:55	GE: PMI Services	Mar.	***54.7***	54.7	54.7
Wed,	7.	10:00	EUR: PMI Services	Mar.	***52.5***	53.7	53.7
Wed,	7.	12:00	GE: Factory orders, mom	Feb.	***1.0%***	-0.9%	4.3%
Thu,	8.	09:00	SP: Industrial output, yoy	Feb.	***n.a.***	n.a.	-2.5%
Thu,	8.	11:00	EUR: Retail sales, mom	Feb.	***-0.1%***	0.0%	-0.3%
Thu,	8.	12:00	GE: Industrial production, mom	Feb.	***1.0%***	0.8%	0.6%
Fri,	9.	08:00	GE: Trade balance, USD, bln	Feb.	***n.a.***	11.0	8.0
Fri,	9.	08:45	FR: Industrial production, mom	Feb.	***-1.0%***	n.a.	1.6%
Events							
Wed,	7.	–	JP: BoJ Interest rate decision	Apr.	***0.1%***	0.1%	0.1%
Thu,	8.	13:00	UK: BoE Interest rate decision	Apr.	***0.5%***	0.5%	0.5%
Thu,	8.	13:45	EUR: EZB Interest rate decision	Apr.	***1.0%***	1.0%	1.0%

Source: Bloomberg; indicated time: GMT +1

Technical analysis

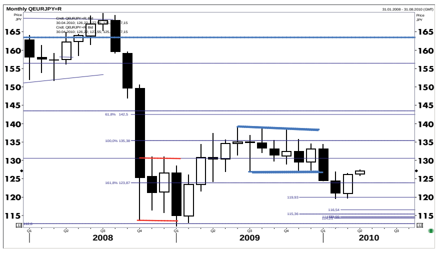
EUR/CHF



last: 1.4319
HighWave and thus neutral inst range 1.4134 (-> 1.45) - 1.4412 (-> 1.4580).

Source: Thomson Reuters

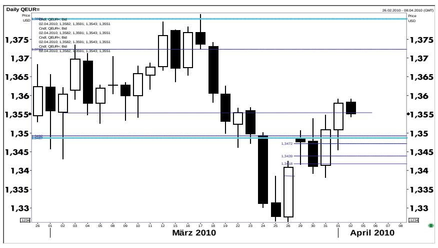
EUR/JPY



last: 127.27
Bullish confirmation at 128 -> 128.80 - 130.30 lacking, with regard to today's Harami: sell 125.90 -> 125.

Source: Thomson Reuters

EUR/USD



last: 1.3550
Could cross 1.36 and make it towards 1.38, but in before again 1.3520 -> 1.3485 likely.

Source: Thomson Reuters

Forecasts

CHF	cur.	Jun-10	Sep-10	Mar-11
Libor 3M	0.25	0.30	0.50	1.00
Yield 10Y	1.92	2.20	2.60	3.00
YEN				
Key rate	0.10	0.10	0.10	0.10
Libor 3M	0.40	0.25	0.30	0.30
Yield 10Y	1.36	1.30	1.40	1.40
FX				
EUR/USD	1.36	1.35	1.42	1.30
EUR/JPY	127	124	118	135
USD/JPY	94	92	83	104
EUR/CHF	1.43	1.41	1.43	1.42
Crude				
Brent	83.2	78	81	88

Source: Thomson Reuters. Raiffeisen RESEARCH

On the other hand, the long awaited, much debated rebound on the ***labour market*** is finally getting underway. Whereas the decline in employment reflected in Wednesday's ADP survey (-23K jobs) triggered some nervousness on the market, Friday's labour report showed a robust increase of 162K in payrolls, the strongest gain since March 2007 (with the rate of unemployment remaining stable at 9.7%). Of this increase, temporary jobs for the census accounted for 48K and another part of this gain was certainly a rebound from February, as the results of the previous month's labour report were distorted downwards due to the snowstorms (corrected by +22 K to –14K jobs, January corrected even by 40K to the upside). But even looking at the average for February and March, employment is now rising significantly again at a monthly average of +74K (excluding the census effect), of which 65 K come from the private sector, which is a very good sign that economic growth is starting to be felt on the labour market as well, almost three quarters after the end of the recession. We expect to see more strong gains in payrolls in the months to come (cf. Special on 4 March).

In the coming week, there is hardly any major news in terms of data releases: the most important indicator will be the ***service sector ISM index*** on Monday (a mild increase is expected), and as a result, the data on pending house sales (Mon) and new jobless claims (Thu) will attract more attention than usual.

Despite the wealth of strong economic data last week (with the exception of the ADP survey), the ***US bond market*** did not seem to take much notice until Friday, with yields on 10-year bond remaining stubbornly entrenched just below the resistance line seen for the last nine months. But yields finally broke out higher after the relatively strong labour market report. Although we do not expect any strong additional pressure from the weak dataflow in the week ahead, we ***leave our short-term Sell recommendation (along with the Trading Idea) in place*** over the short run, in order to take a advantage of any follow-up selling in the wake of the labour market report. If 10year yields manage to close the week at the current level (slightly above 3.90 %) this would be the highest weekly close since November 2008!

Euro area

The already upbeat preliminary estimates for the ***purchasing managers' survey*** (PMI) for the Eurozone manufacturing sector were even revised higher last week's, and thus it will be interesting to see if the ***services sector*** can power ahead too. On the whole, the latest results for the leading indicators suggest that business activity is accelerating. With this in mind, we are expecting the ***industrial production figures*** for February to be quite ***positive*** (with the exception of France, where we expect a temporary breather according to new orders information). In our view, the economic recovery is proceeding at a good pace in the first half of the year. Although construction industry performance was undermined by the weather early in the year, this should be compensated by increased activity in the spring. The only problematic area is private consumption, which is still looking very lacklustre according to ***retail sales data***.

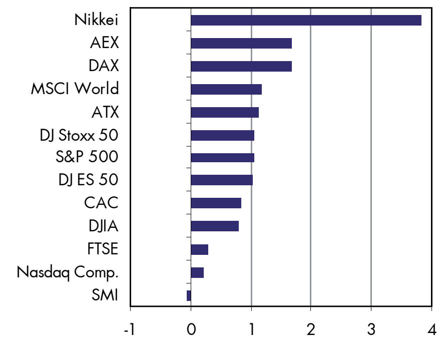
The Council of the European Central Bank is scheduled to meet on the ***Thursday after Easter***, but not much news should be expected from this month's ***rate-setting meeting***. Only the ***details on the new conditions for eligible collaterals for*** the Bank's ***repo operations*** with commercial banks are expected to be announced. The new rules will result in different lending costs for collaterals of varying credit quality. In the past, it did not make a difference if the rating on the collateral was AAA or A-, but now step-by-step discounts will be applied. One important aspect is that it will be possible to use bonds with ratings of down to BBB- as collateral after the end of this year as well. This latter aspect affects Greek government bonds in particular, as Greece is now rated lower than the previous A- limit by two rating agencies.

Despite these moves, the actual ***monetary policy stance of the ECB will not be changed***. It has been clearly indicated that ***key rates will be left at low levels*** and that ***central bank liquidity will continue to be abundant*** for the next couple of months. The ample liquidity means that Euribor rates will remain unusually low, maturities up to six months even lower than the minimum bid rate of 1%. Moreover, the low interest rates in conjunction with the generous central bank liquidity are a strong support for bond prices. Despite the surprisingly good economic data lately, the bond market has hardly felt any pressure at all. On the contrary, German bonds have actually seen yields go even lower, whereas EUR country spreads have not posted any gains. This "flight to safety", however, contrasts strongly with the good performance of equities. Accordingly, for us ***German yields*** still look to be ***about as low as they can go***, and so our short-term recommendation on German bonds remains Sell.

Market Outlook
Equity Markets Weekly

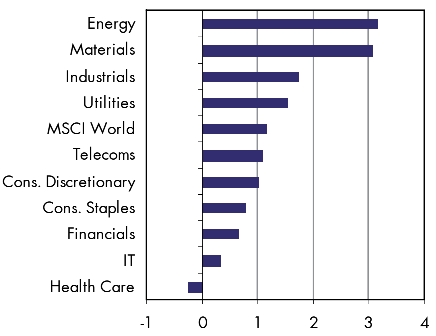
weekly — *2 April 2010*

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:	IT, consumer discretionary, industrials, materials

USA

The spring rally still burbles merrily along. The meanwhile surprisingly sound economic fundamentals, a favourable interest rate and liquidity environment as well as predominantly strong corporate results will keep the sentiment well in the weeks ahead. Although the probable topping out of leading indicators and the latent sovereign debt problems will bring some weak days on the path towards north, we think that the vast majority of factors speak for further rising stocks markets.

Europe

Although the upward-trend on European stock markets has lost some momentum during the last weeks, we do not think that it will end in the near future. Fundamentally speaking, we see good support for the European equity markets in the second quarter. Although some headwind can be expected due mainly to the lack of further rises in leading economic indicators and even some mild declines in these and the persistently difficult sovereign financing situation for some European countries, we feel that factors like abundant supply of liquidity, the return to double-digit earnings growth rates and an attractive valuation will prevail during Q2 2010, paving the way for higher asset prices.

Japan

Japanese stocks once again headed upwards in the past week under review. The Nikkei 225 now looks back on a year-to date performance of more than 7 percent which lifted the index to the highest level since October 2008. However, we think that Japanese stocks will stick to be amongst the outperformers in the months to come as the Japanese economy rebounds stronger than expected and due to attractive valutations. Therefore we confirm our "buy" recommendation.

Forecasts

	current*	Jun-10	Sep-10
DJ ES50	2,978	3,080	3,050
DAX	6,236	6,450	6,350
FTSE	5,745	5,950	5,850
SMI	6,889	7,350	7,200
DJIA	10,927	11,500	11,300
S&P 500	1,178	1,250	1,230
Nasdaq Comp,	2,403	2,600	2,550
Nikkei	11,286	11,600	11,300
ATX	2,658	2,800	2,750

** as per Friday 2:00 p.m.*
Source: Raiffeisen RESEARCH

Expected corporate releases

USA		
Wed,	07	Bed Bath & Beyond, Monsanto
Thu,	08	Chevron
Europe		
Thu,	08	Hennes & Mauritz

weekly *2 April 2010*

Short-term trading ideas: fixed income*

Recommendation	Entry date	Entry level	Current level	Target	Stop	Carry (ann. %)	Comments
Sell T-Note Future (June)	12/03/2010	116.7	115.3	114.0	116.7	-	Strong employment reports; strong gdp growth in Q1; Trailing stop 116,7
Sell Bund Future	24/03/2010	123.54	123.44	122.1	124.2	-	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	414bp	2012	Convergence of German and peripheral government bond yields
Spreadtrade Portugal: Buy PTOTEKOE0003 & Sell DE0001137297	03/03/2010	76,5 bp	62bp	2012	Convergence of German and peripheral government bond yields
Spreadtrade Italy: Buy IT0004467483 & Sell DE0001137297	03/03/2010	41 bp	42bp	2012	Convergence of German and peripheral government bond yields
Spreadtrade Austria: Buy AT0000385356 & Sell DE0001137297	03/03/2010	25 bp	20bp	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 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	0.0%	Trailing stop hit
Sell 5Y Germany, Buy 5Y Greece	09/02/2010	395.00	25/02/2010	395.00	0 BP	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	40 BP	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
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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