

Market Outlook

Bond Markets Weekly

weekly

15 January 2010

Technical analysis

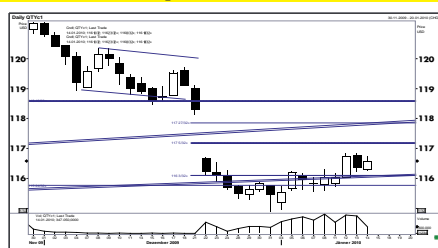
EUR Bund Future



last: 122.11
Rebound 123.20 -> 124 might be possible with the T-Note rising, but attention to: 120.70 -> 119.90.

Source: Thomson Reuters

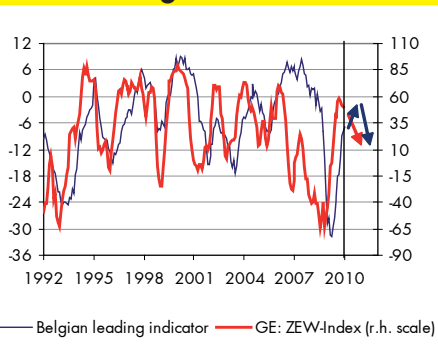
U.S. Treasury Note Future



last: 116-18
Rallying back into the gap and with regard to the bull Pennant we can expect 116-27 -> 117-20 - 118 to follow. Sell 115-20 -> 112-26.

Source: Thomson Reuters

EUR: Leading indicators



Source: Thomson Reuters

Forecasts

	cur.	Mar-10	Jun-10	Sep-10
USA				
Key rate	0.10	0.10	0.10	0.10
3M	0.25	0.30	0.30	0.40
5Y	2.47	2.20	2.20	2.60
10Y	3.71	3.50	3.50	3.80
Eurozone				
Key rate	1.00	1.00	1.00	1.00
3M	0.68	0.80	1.20	1.40
5Y	2.39	2.40	2.50	3.10
10Y	3.29	3.30	3.30	3.70
Spread	42	20	20	10

Source: Thomson Reuters. Raiffeisen RESEARCH

Please find our „trading ideas“ on page 5.

USA

Last week featured numerous economic data. The most important release was retail sales for December. While analysts had been predicting a significantly weaker outturn than in November, the decline of 0.3% mom was substantially worse than even the low expectations. One ray of hope: the figures released were in nominal terms. In real terms, a mild increase may be seen. Calculated for the fourth quarter, this results in a 1.5% annualised increase in private consumption compared to the previous quarter, down from 2.8% in Q3 (the flash estimate for Q4 GDP is scheduled for publication on 29 January). The development of the **trade balance** in November was similar: in nominal terms, the trade deficit increased by USD 3 bn to USD 36.4 bn, increasing more strongly than anticipated by most market observers. Due to the sharp rise in import prices in November (+1.7% vs. October), however, the real figures should be far less negative, with the result that foreign trade probably also made a positive contribution to GDP in Q4. **Initial claims for jobless benefits** rose mildly again last week. At 444K, however, they point to an improvement in employment in January vs. December, when 85K jobs were lost. Consumer prices increased slightly in December compared to the previous month (below consensus). Due to the base effect, the annual rate jumped yet again, rising to 2.7% (November: 1.8%). Development of the core measure of inflation, however, continued to be restrained. In December, the annual rate of core inflation was 1.8%. The **Empire State Manufacturing Index** was able to exceed analysts' expectations today. After strong declines in November and December, the index edged higher from 4.5 to 15.9 points in January. There

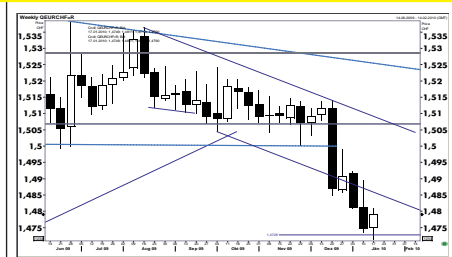
Key figures

			RZB	cons.	prior
USA					
Tue, 19.	NAHB Housing Market Index	Jan.	17.0	17.0	16.0
Wed, 20.	PPI, mom	Dec.	-0.5%	0.0%	1.8%
Wed, 20.	PPI Ex Food & Energy, mom	Dec.	0.0%	0.1%	0.5%
Wed, 20.	Housing Starts, thsd., ann.	Dec.	n.a.	575.0	574.0
Wed, 20.	Building Permits, thsd., ann.	Dec.	n.a.	580.0	584.0
Thu, 21.	Philadelphia Fed.	Jan.	n.a.	18.0	20.0
Europe					
Tue, 19.	GE: ZEW Economic Sentiment	Jan.	45.0	50.0	50.4
Wed, 20.	GE: Producer Prices, mom	Dec.	0.2%	0.2%	0.1%
Wed, 20.	IT: Industrial Orders, mom	Nov.	n.a.	0.2%	0.3%
Fri, 22.	FR: Business Confidence	Jan.	n.a.	90.0	89.0
Fri, 22.	GE: PMI Manufacturing	Jan.	52.7	52.9	52.7
Fri, 22.	GE: PMI Services	Jan.	53.0	53.0	52.7
Fri, 22.	EUR: PMI Services	Jan.	n.a.	53.9	53.7
Fri, 22.	EUR: PMI Manufacturing	Jan.	n.a.	51.8	51.6
Fri, 22.	EUR: Industrial Orders, mom	Nov.	n.a.	0.5%	-2.2%
Fri, 22.	BE: Business Confidence	Jan.	-7.0	n.a.	-7.9

Source: Bloomberg

Technical analysis

EUR/CHF

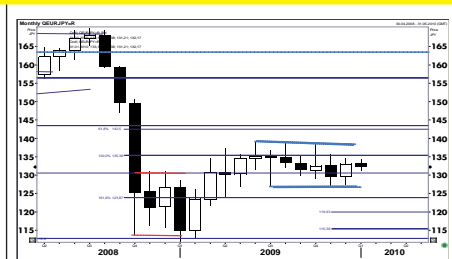


last: 1.4777

Triangle, target is 1.46, currently testing 1.4730 and rebound 1.4850 - 1.49 possible that can result in a rebound towards 1.50.

Source: Thomson Reuters

EUR/JPY

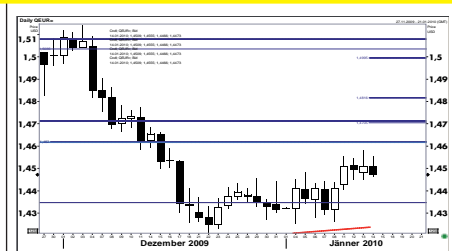


last: 132.17

Triangle most probably sell 126.70 -> 120 - 115, should now 134.50 show strength. Buy 135.50 -> 137.80.

Source: Thomson Reuters

EUR/USD



last: 1.4477

Either buy at 1.4620 -> 1.47..or sell at 1.41 -> 1.38 - 1.3490.

Source: Thomson Reuters

Forecasts

	cur.	Mar-10	Jun-10	Sep-10
CHF				
3M	0.25	0.30	0.40	0.60
10Y	2.05	1.90	2.00	2.80
YEN				
Key rate	0.10	0.10	0.10	0.10
3M	0.41	0.25	0.25	0.30
10Y	1.33	1.30	1.30	1.40
FX				
EUR/USD	1.44	1.45	1.50	1.45
EUR/JPY	131	132	140	142
USD/JPY	91	91	93	98
EUR/CHF	1.48	1.51	1.50	1.50
Crude				
Brent	77.28	72	78	81

Source: Thomson Reuters. Raiffeisen RESEARCH

were no surprises in the Fed's six-weekly economic report, the Beige Book. As expected, further improvement in the economy was confirmed, but there were no signs of brimming confidence. In the **week ahead**, economic data will be a very scarce commodity compared to the last five days. Worthy of note are some of the data on the real estate market. Tuesday and Wednesday feature release of the **NAHB housing market index** and **housing starts and permits**, respectively. With regard to the NAHB index, consensus is still looking for an increase, even though these expectations have been disappointed since October. With regard to housing starts and permits, most analysts are predicting stagnation, on the heels of a strong improvement in November. Some attention will likely be paid to the **Philadelphia Fed Index** on Thursday, as this should provide some insight on the results for the ISM index in January. The scant data next week end with **producer prices** for December and the **Conference Board leading indicator** (Wednesday and Thursday). Both of these, however, have little relevance for the market.

Yields on **US government bonds** fell slightly during the week, as we had been hoping for, due to both the reverberations from last Friday's weak labour market report and more disappointing economic data (particularly the retail figures on Thursday). 10-year yields are now at 3.7%, and thus our Trading Idea "Long Treasury" is now in positive territory. As next week's trickling data flow does not feature any heavyweights with positive economic surprises for the market, we leave our Buy recommendation in place over the short run.

Eurozone

The last **ECB meeting** did not contain any news on the prospective path of interest rates or enhanced credit measures. The only extra information was ECB President Trichet's stress on the fact that the ECB may actively withdraw surplus liquidity using suitable operations (reverse repos). Trichet also explicitly referred to the relation between the high level of central bank liquidity and the low money market rates (specifically, the EONIA rate is near the deposit rate). The EONIA rate will probably orient itself to the main refinancing rate again when the supply of liquidity is changed. As we believe that a substantial, sustained reduction in central bank liquidity will only start from mid-year and only expect a rate increase of 50bp in Q4 2010, money market rates may not rise any time soon. Once again, one of the topics at the press conference was Greece, and in general countries experiencing critical economic developments and stress in their public finances. A possible exit from the euro area (whether desired or forced) was deemed to be absurd by President Trichet. The existing differences between the countries in the euro area were, moreover, quite comparable with the kind of differences seen in other large currency areas (e.g. in the USA). We share the opinion of the ECB.

Following the production data from last week (industrial production data signalled continuation of the economic recovery in Q4 2009), the **focus for this week** is on **leading indicators**: preliminary estimates for the purchasing managers' indices for the euro area, Germany and France; Belgian early indicator; the ZEW index; new orders for Italy and the euro area;

New orders for euro area should reflect gains compared to the previous month. The latest data in Germany were slightly disappointing, but we see this as the usual fluctuation in these volatile surveys, and not as a warning sign that the recovery is going to run out of steam in the final quarter of 2009 and first quarter of 2010. On the contrary, the results of existing **business surveys** point to stronger gains in the months ahead. On the other hand, the business surveys in the first quarter should begin to peak out. With regard to the upcoming round of indicators (PMI, Belgian early indicator), we expect broadly unchanged or mildly better results. The **ZEW index**, however, which is a survey of analysts, has probably moved into the next phase, as this indicator has the longest lead compared to real activity. In our view, the ZEW index already has reached its first peak of the current economic cycle and will now trend lower, interrupted by temporary periods of improvement. But beware: this survey only provides information on the direction of economic dynamics and not on the strength. Consequently, formation of a downward trend would fit in with our forecast that the first round of economic recovery will taper off during the course of 2010.

The upcoming data are not expected to generate any selling pressure on government bonds. As there are no risks of a significant tightening in the abundant supply of liquidity for quite some time, we continue to see good support for money market rates (see ECB commentary) and government bonds, even at the decidedly low interest rate levels. Our **short-term position on bonds** remains unchanged: Buy Bunds / narrowing of EUR country spreads and the trans-Atlantic spread.

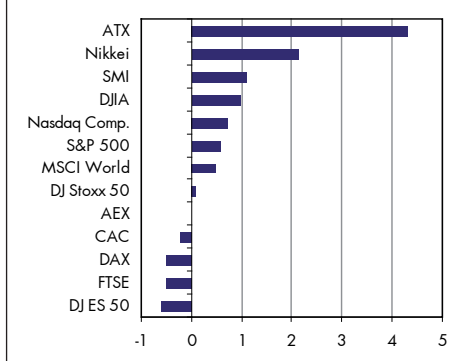
Market Outlook

Equity Markets Weekly

weekly

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Market performance (% , 1 week)



Source: Thomson Reuters

Recommendations

Markets: Sell: USA, Europe, Japan
Favoured sectors: Utilities, Telecom, Energy

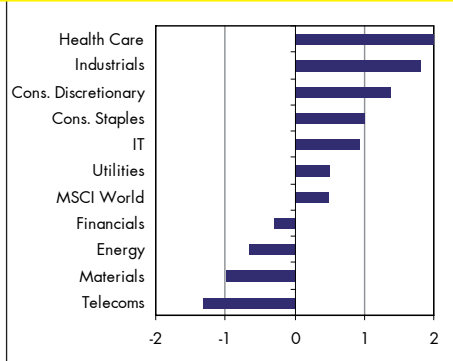
USA

US stock markets go on climbing consistently for new 15-month highs. For the time being leading indicators remain surprisingly strong and the first results of the current earnings season came in mixed but mainly with positive surprises. Nonetheless we expect the current turn-of-the-year-rally to end in the upcoming weeks - caused by erosive economic indicators - and to result in a distinctive period of consolidation. However, such setbacks are in our opinion a good opportunity for mid- and long term oriented investors to jump into the market. In respect of the end of 2010 we anticipate perceptibly stronger US stock indices.

Europe

Despite the slightly disappointing opening of the Q4 earnings season by Alcoa also took its toll on European stock markets, the positive sentiment basically still prevails. Also the results of the meeting of the European Central Bank didn't change the situation as there are no risks of a significant tightening in the abundant supply of liquidity for the time being. However, in contrast to the US the European earnings season will only slowly gain momentum in the upcoming days. Therefore US earnings results will further set the trend. In our view, due to faltering leading indicators, less expansive central bank policies and inevitable speculation about rate hikes, the mood on stock markets will deteriorate and cause a correction in the first quarter.

Sector performance (% , 1 week)*



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

Forecasts

	current*	Mar-10	Jun-10
DJ ES50	2,976	2,650	2,800
DAX	5,939	5,300	5,600
FTSE	5,493	4,900	5,100
SMI	6,615	6,000	6,300
DJIA	10,711	9,700	10,300
S&P 500	1,149	1,030	1,090
Nasdaq Comp.	2,317	2,000	2,140
Nikkei	10,982	9,200	9,600
ATX	2,683	2,300	2,450

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

Expected corporate releases

USA		
Tue,	19	Citigroup, IBM
Wed,	20	Bank of America, Ebay, Morgan Stanley, Starbucks, US Bancorp, Wells Fargo
Thu,	21	Advanced Micro Devices, American Express, Google, Goldman Sachs, Xerox
Fri,	22	General Electric, Harley Davidson, McDonald's, Kimberley-Clark, Schlumberger
Europe		
Wed,	20	ASML Holding
Thu,	21	Logitech, Novozymes

Market Outlook

Trading ideas

weekly

15 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	50bp	47bp	38bp	56 bp	50 bp	Decreasing risk aversion
Buy Bund Future	29/12/2009	121.50	122.47	123.50	120.4		
Buy US T-Note Future	23/12/2009	116 35/256	116 248/256	119	114 1/2		
Buy US T-Note / Sell Bund Future	23/12/2009	47bp	43bp	20bp	60bp	47bp	

* 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
Buy EUR/CHF	07/01/2010	1.481	1.476	1.50	1.47	58bp	return after overshooting

Source: Thomson Reuters, Bloomberg

Recently closed trades

Recommendation	Entry date	Entry level	Close date	Close level	Total return	Comment
Sell 5Y Germany, Buy 5Y Belgium	18/12/2009	43bp	07/01/2009	23bp	+20bp	Target reached
Sell 2Y Germany, Buy 2Y Greece	18/12/2009	254bp	14/01/2009	300bp	-46bp	Stopped out
Sell 10Y Germany, Buy 10Y Austria	03/12/2009	45 bp	21/12/2009	52 bp	-7 bp	Stopped out
Sell 5Y Germany, Buy 5Y Greece	11/12/2009	245bp	18/12/2009	280bp	-35bp	Stopped Out
Sell 10Y Germany, Buy 10Y Belgium	04/12/2009	51bp	09/12/2009	55bp	-4bp	Stopped Out
Sell German Bund Future	29/10/2009	121.8	03/11/2009	122.4	-0.49%	Stopped Out
Sell German Bund Future	12/10/2009	122.20	27/10/2009	121.5	0.57%	Trailing stop hit
Buy EUR/CHF	04/01/2010	1.486	06/01/2010	1.480	-0.40%	Stopped Out
Buy EUR/JPY	22/12/2009	131	08/01/2010	134	2.52%	Target reached
Buy EUR/JPY	01/12/2009	131	07/12/2009	133	1.45%	Trailing Stop hit
Buy EUR/USD	05/11/2009	1.483	20/11/2009	1.4826	-0.03%	Closed early
Sell GBP/USD	23/10/2009	1,643	09/11/2009	1,675	-1.91%	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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