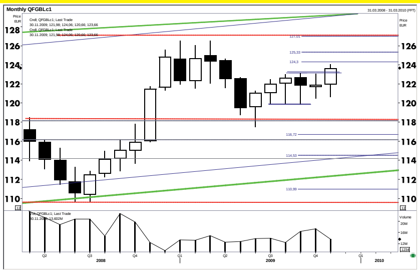
Market Outlook
Bond Markets Weekly

weekly — ***27 November 2009***

Technical analysis
EUR Bund Future



last: 123.66
Rectangle and thus rally 125.30 - 127 likely, stop 122.80.

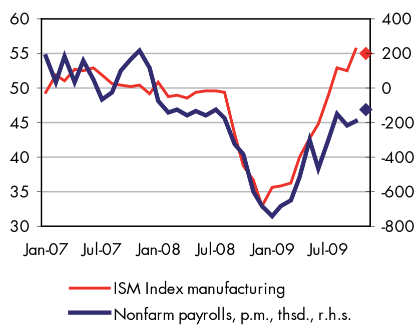
Source: Thomson Reuters

U.S. Treasury Note Future

last: 121-11
Rally 120 done, now bullish confirmation 122 -> 123-19 - 126 (and this would mean bears for the stock-markets), stop 120-25.

Source: Thomson Reuters

US: Employment catching up



Source: Thomson Reuters, Raiffeisen RESEARCH

Forecasts

USA	*current*	*Mar-10*	*Jun-10*	*Sep-10*
Key rate	0.10	0.10	0.10	0.10
3M	0.25	0.30	0.30	0.40
5Y	2.00	2.10	2.10	2.40
10Y	3.21	3.20	3.20	3.50
Eurozone				
Key rate	1.00	1.00	1.00	1.00
3M	0.72	1.00	1.30	1.40
5Y	2.24	2.40	2.50	3.10
10Y	3.16	3.30	3.30	3.70
Spread	4	-10	-10	-20

Source: Thomson Reuters. Raiffeisen RESEARCH

Please find our „trading ideas" on page 5.

USA

In terms of the data, ***last week*** featured more positive surprises than negative ones. First and foremost, there was the strong gain in ***sales of existing*** homes and in ***sales of new homes.*** The government support for real estate purchases is having a very tangible effect in this regard. Additionally, the data on private consumption were quite good. For example, ***personal spending*** in October was stronger than expected and ***consumer confidence*** also improved slightly. On the other hand, ***orders for durable goods*** were slightly worse than anticipated, showing a change of -0.6% compared to the previous month. The significant upward revision of the September results, however, does tend to take some of the sting out of this decline. The second publication on GDP for the third quarter also fell somewhat short of expectations. The gain for the quarter was lowered to 2.8% in annualised terms, instead of the forecast 3.0%.

Looking ahead to the ***coming week,*** two heavyweights are slated for release, with the manufacturing sector ***ISM index*** on Tuesday and the ***labour market report*** on Friday. In light of the rather lacklustre performance of the ***regional purchasing managers' surveys*** the ISM for November is likely to drop back by almost one point to 55.0. Monday features publication of the ***Chicago PMI,*** the last

Key figures

USA				*RZB*	*cons.*	*prior*
Mon,	30.	Chicago Purchasing Manager Index	Nov.	***n.a.***	53.0	54.2
Tue,	1.	ISM Manufacturing Index	Nov.	***55.0***	54.8	55.7
Tue,	1.	Pending Home Sales, mom	Oct.	***3.0%***	-0.8%	6.1%
Wed,	2.	ADP Employment Change, thsd	Nov.	***n.a.***	-155.0	-203.0
Thu,	3.	ISM Non-Manufacturing Index	Nov.	***n.a.***	51.5	50.6
Fri,	4.	Change in Nonfarm Payrolls, thsd	Nov.	***-120.0***	-118.0	-190.0
Fri,	4.	Unemployment Rate	Nov.	***10.3%***	10.2%	10.2%
Fri,	4.	Average Hourly Earnings, mom	Nov.	***0.1%***	0.2%	0.3%
Fri,	4.	Average Weekly Hours	Nov.	***33.0***	33.1	33.0
Fri,	4.	Factory Orders, mom	Oct.	***-0.8%***	0.1%	0.9%
Europe						
Mon,	30.	EUR: HICP, yoy	Nov.	***0.4%***	0.5%	-0.1%
Tue,	1.	GE: Unemployment Change, thsd	Nov.	***20.0***	0.0	-26.0
Tue,	1.	EUR: PMI Manufacturing	Nov.	***51.0***	51.0	51.0
Wed,	2.	EUR: PPI, mom	Oct.	***n.a.***	0.0%	-0.4%
Thu,	3.	EUR: PMI Services	Nov.	***53.2***	53.2	53.2
Thu,	3.	EUR: Retail Sales, mom	Oct.	***0.3%***	0.1%	-0.7%
Thu,	3.	EUR: GDP, qoq	Q3	***0.4%***	0.4%	0.4%
Events						
Wed,	2.	Fed's Beige Book	Dec.	***-***	-	-
Thu,	3.	EUR: ECB Announces Interest Rates	Dec.	***1.0%***	1.0%	1.0%

Source: Bloomberg

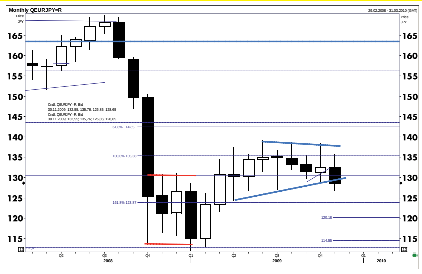
Technical analysis

EUR/CHF

last: 1.5075
Still the Triangle and sell 1.4965 -> 1.4740 - 1.4575 likely, stop 1.5155 -> 1.5250

Source: Thomson Reuters

EUR/JPY



last: 128.60
Symmetrical Triangle and bear confirmation 124.30 -> 120.10 - 114.55 likely, stop 130.65.

Source: Thomson Reuters

EUR/USD

last: 1.4907
Whipsaw, resistance at 1.5310 -> 1.57, sell 1.4780 -> 1.4615 -> 1.4350.

Source: Thomson Reuters

Forecasts

CHF	**current**	**Mar-10**	**Jun-10**	**Sep-10**
3M	0.25	0.30	0.40	0.40
10Y	1.89	1.90	2.00	2.80
YEN				
Key rate	0.10	0.10	0.10	0.10
3M	0.52	0.35	0.35	0.35
10Y	1.25	1.30	1.30	1.40
FX				
EUR/USD	1.49	1.55	1.55	1.45
EUR/JPY	129	130	135	145
USD/JPY	86	84	87	100
EUR/CHF	1.51	1.52	1.55	1.58
Crude				
Brent	74.44	72	78	81

Source: Thomson Reuters. Raiffeisen RESEARCH

hint on the ISM index which comes out one day later. The relative improvement on the labour market should continue. We expect to see a ***slowdown in job losses*** to 120K, after a net job loss of 190K in October. This is indicated by initial jobless claims, which recently dropped to the lowest level since September 2008. The ***rate of unemployment***, however, most likely kept rising in November: following the jump of 0.4 percentage points to 10.2% last month, the pace of the increase has probably slowed down again. We expect the rate at 10.3%.

Along with this, next week's data also includes the figures for ***pending home sales*** (Tuesday), the Fed's six-weekly economic report (the ***Beige Book***) and the ***ADP employment report*** (both on Wednesday) and the ***service-sector ISM*** (Thursday).

The performance of the ***bond market*** was very solid last week. From Monday to Wednesday, the T-Note Future gained 100bp to 120.5 and rose further to 121.2 in the wake of the turbulence about Dubai. As a result, yields on 10-year government bonds have dropped 70bp since August, to 3.2%. We were not expecting this development, due to the forecast for economic recovery, which did indeed materialise. As the macro-conditions are not going to get very much better in the months ahead, and economic activity is likely to taper off until the middle of next year, the main driving force for higher yields is gone. Moreover, after a brief rise to over 2% in Q1 2010, inflation will quickly subside again, falling towards 1%. Hence, as there are no arguments for rising yields until mid-2010, we adjust our yield forecasts for the long end of the curve. We no longer expect to see a decline in yields in Q1, and believe that the current level of 3.2% will remain in place until mid-2010. As our forecasts also envisage Fed rate hikes somewhat later, in December 2010 and early 2011, the increase in yields through to the end of 2010 should be less marked than previously predicted. For September 2010, we now forecast yields of 3.5% (down from 4.1% previously). Accordingly, we change our mid-range ***recommendation for long-dated government bonds from sell to neutral.***

Eurozone

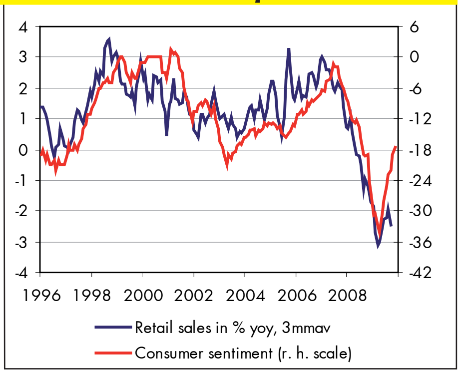
We had been expecting some tangible rises from the many leading indicators which were released last week, including two heavyweights for Europe with the Ifo index and the purchasing managers' indices. The results were mostly even better than our optimistic expectations. But as two major government-controlled companies in Dubai may not be able to honour their payment obligations the improving economic outlook took the back seat. Worries about the levels of debt in the entire Gulf region and the related stability of the financial system (Western banks are involved as lenders there) resulted in a ***rapid rise in risk aversion.*** Safe havens, such as German government bonds, were the main beneficiaries of this development, as their prices rose. Falling yields on German government paper caused spreads to other EUR government bonds to rise. As soon as the market wobbles about the results in Dubai have passed, these risk spreads will shrink again rapidly.

Data in the coming days: consumer price figures for the euro area in November should reflect a modest increase compared to one year ago. That means that the ***rate of inflation will edge over the 0% mark again*** for the first time in several months and will then quickly advance to more than 1% by early 2010. The ***detailed GDP data*** for the euro area for the third quarter are also slated for publication, with expectations calling for weaker consumption and a rebound in investment and exports. With regard to the data on ***retail sales,*** we anticipate an increase compared to the previous month, as the previous weaker sales data are in contradiction to the recovery in consumer confidence indicators. On the other hand, we are less optimistic about the ***labour market data: a rising rate of unemployment*** and ***higher numbers of unemployed*** are guaranteed during this early phase of the economic recovery.

In the next few days, however, it will be less the data and more the European Central Bank which is at the centre of attention again. A change in interest rates can be ruled out. But following the rate-setting meeting on Thursday, ECB president Trichet may announce whether a premium will be charged on the refinancing rate of 1% at the ***last repo operation with a maturity of 12 months in mid December.*** Market observers are divided in their opinions on this, with the last survey coming in at 50/50. In our view, the central bank signalled that it would be concentrating on siphoning off some of the high (surplus) central bank liquidity on the markets in the months ahead. But according to the explanations, the gradual reduction in the "enhanced measures" should not be seen as a signal for rate increases. Nonetheless, as a premium on the last 12-month repo deal can be seen as a signal on rates (rising key rates at a one-year horizon), we tend to believe that no premium will be charged.

Adjustments were necessary to our ***outlook on interest rates and yields.*** Contrary to our expectations, the recovery of the economy from the recession and the rising budget deficits did not generate a rise in yields. Still, in the months to come the recovery will reach its first plateau and then activity will taper off again. Furthermore, there is still ample liquidity available for government bonds and the gradual reduction in central bank money will probably be offset by the reduced volume of lending to the private sector. Additionally, in line with our expectations for the USA, we now forecast that the first hikes will come slightly later (last quarter of 2010), which on the whole suggests that the ***level of yields will be lower*** than previously forecast ***during the first half of 2010.*** Consequently, our medium-range bond recommendation has changed from sell to Neutral.

EUR: Sentiment improves



Source: Thomson Reuters

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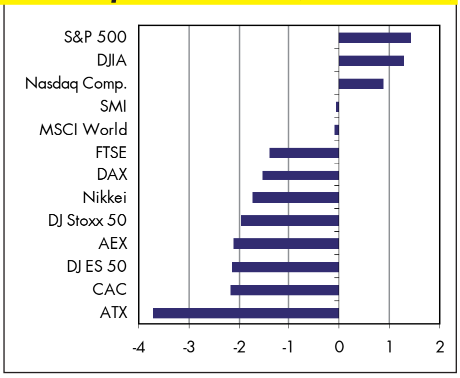
Market performance (%, 1 week)



Source: Thomson Reuters

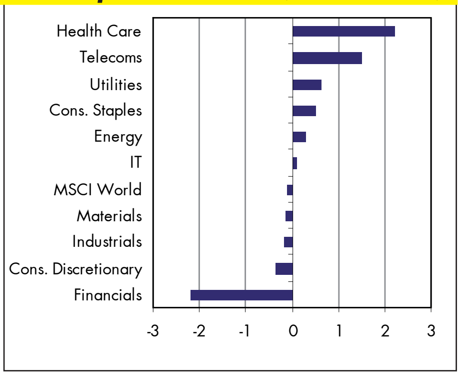
Recommendations

Markets:	***Buy:*** Europe, Japan ***Neutral:*** USA
Favoured sectors:	Energy, Health Care, Telecoms, Utilities

USA

The thanksgiving holiday was a welcome break for Wall Street and hence the first part of the week was a rather calm one. However, the "Dubai" incident quickly turned around the sentiment and culminated in a sell-off on Friday. It also showed that one must expect further hindrances on the way to a lasting and sustainable recovery. Therefore the forthcoming releases of the ISM indices and the employment report will give more details of the current state of the US economy. For the leading indicators we expect a topping out towards the end of the year, which will bring stocks under pressure in Q1. As we have reached our index targets we consequently change our recommendation to "hold", although there is still some room to the upside.

Sector performance (%, 1 week)*



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

Europe

After worries about the financial strength of European financials spurred some nervousness, the concerns about debt problems in Dubai finally triggered more or less heavy losses. Therefore it was no wonder that European financial stocks clearly lost ground, as they have a remarkable exposure to that region. Although this topic can last on the markets for a while, we think that after the wave calms down higher index levels can be reached until the end of the year. Nevertheless someone should expect a considerably higher volatility, especially as with the beginning of next year setbacks should be on the agenda. However, for the time being we keep up our "buy" recommendation.

Japan

The USD/JPY at a 14 year-high naturally means a threat to export oriented Japanese companies. Hence the Nikkei 225 once again came under pressure in the recent week. Although Japanese stocks are cheap compared to their international peers, the absence of a major driver justifies only limited upside potential.

Forecasts

	current*	Mar-10	Jun-10
DJ ES50	2,790	2,800	3,020
DAX	5,604	5,500	6,000
FTSE	5,186	5,000	5,400
SMI	6,276	6,100	6,600
DJIA	10,464	9,500	10,000
S&P 500	1,111	1,050	1,100
Nasdaq Comp.	2,176	2,150	2,300
Nikkei	9,082	10,000	10,900
ATX	2,504	2,550	2,750

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

Expected corporate releases

USA		
Tue	01	Staples
Thu	03.	Marvell Technology, Novell
Europe		
Mon	30.	Thomas Cook, Ubisoft
Tue	01.	Bouygues
Thu	03.	Kingfisher, Siemens

Recently closed trades

Recommendation	Entry date	Entry level	Close date	Close level	Total return	Comment
Sell German Bund Future	29/10/2009	121.8	03/11/2009	122.4	-0.49%	Stopped Out
Sell Germann Bund Future	12/10/2009	122.20	27/10/2009	121.5	0.57%	Trailing stop hit
Sell Germann Bund Future	21/08/2009	120.78	01/10/2009	122.0	-1.01%	Stopped Out
Sell US T-Note Future	29/09/2009	118 119/256	01/10/2009	119 1/4	-0.66%	Stopped Out
Sell US T-Note Future	04/09/2009	117 131/256	25/09/2009	117 192/256	-0.25%	Closed early
10/2 flattener; Sell 2Y - Buy 10Y Germany	05/06/2009	206 bp	09/09/2009	225 bp	-19 bp	Stopped Out
Sell GBP/USD	23/10/2009	1,643	09/11/2009	1,675	-1.91%	Stopped Out
Buy EUR/CHF	21/10/2009	1.5097	27/10/2009	1.515	0.35%	Closed early
Buy EUR/JPY	29/09/2009	131.1	13/10/2009	133.1	1.53%	Closed early
Buy EUR/CHF	25/08/2009	1.516	09/10/2009	1.5186	0.17%	Closed early
Buy EUR/USD	04/08/2009	1.4364	07/08/2009	1.425	-0.80%	Stopped Out
Sell EUR/JPY	20/10/2009	135	03/11/2009	131.9	2.35%	Closed early
Buy EUR/USD	05/11/2009	1.483	20/11/2009	1.4826	-0.03%	Closed early

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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Editor

Raiffeisen RESEARCH GmbH
A-1030 Vienna, Am Stadtpark 9
Tel: +43 1 717 07-1521

Head:
Peter Brezinschek (1517)

Economics, Fixed Income, FX:
Valentin Hofstätter (Head, 1685), Jörg Angelé (1687), Walter Demel (1526), Wolfgang Ernst (1500), Ingo Jungwirth (2139), Marcin Kopaczynski (1423), Julia Neudorfer (5842), Andreas Schwabe (1389), Gintaras Shlizhyus (1343), Gottfried Steindl (1523), Martin Stelzeneder (1614)

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Technical analysis:
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