

Market Outlook

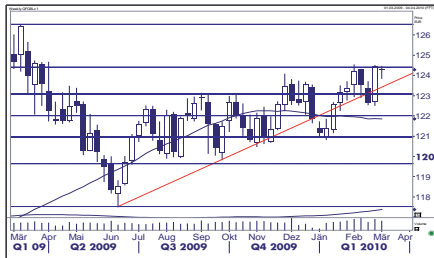
Bond Markets Weekly

weekly

5 March 2010

Technical analysis

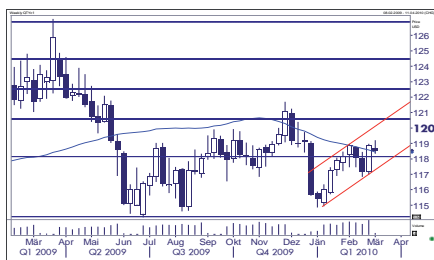
EUR Bund Future



A weekly close above the resistance 124.40 will be able to indicate a further advance towards 126.50.

Source: Thomson Reuters

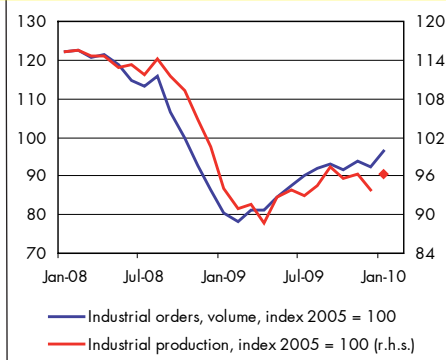
U.S. Treasury Note Future



The resistance 118.30 could be crossed again, which would indicate a further rise towards 120.00 - 120.16, too.

Source: Thomson Reuters

GE: Output recovery



Source: Thomson Reuters

Forecasts

USA	cur.	Jun-10	Sep-10	Dec-10
Key rate	0.10	0.10	0.10	0.50
Labor 3M	0.25	0.30	0.40	0.80
Yield 5Y	2.27	2.20	2.60	3.10
Yield 10Y	3.60	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	2.14	2.50	3.10	3.30
Yield 10Y	3.13	3.30	3.70	3.80
Swaprate 5Y	2.45	2.50	3.10	3.30

Source: Thomson Reuters. Raiffeisen RESEARCH

Please find our „recommendations“ on page 5.

USA

In terms of the data, **last week** was a mixed bag. The **decline in the ISM manufacturing index** was quite strong, but still within the framework of market expectations. The index slipped 1.9 points to 56.5, whereas the production and new orders components fell the most. Accordingly, it appears likely that the ISM index has now already passed its peak level for this year. On the other hand, the **service sector ISM index** surprised on the upside. It climbed to 53.0 points and thus marked its highest level since October 2007. This supports our expectations of another surge in economic performance during this quarter.

The **labour market report** showed a surprisingly modest decline of 36K in payrolls (unemployment rate was unchanged at 9.7 percent). Most analysts – including ourselves – had expected a considerably worse number due to heavy snow storms during the first weeks of February. In view of this strong negative weather bias the limited job loss is a sign of a rather robust labour market. Consequently we expect to see a surge in payrolls in March. In contrast to the positive labour market data, the persistent shakiness of the real estate market was underlined once again by data on **pending house sales**. Following the path of sales of new houses and sales of existing houses, pending sales also slumped compared to December (-7.6% mom).

The stream of relevant data on the US economy will be very thin **in the coming week**. Preliminary **retail sales data** for February (due on Friday) will probably attract the most attention. The slump in sales of new vehicles, the 2% mom decline in fuel prices and, last but not least, the severe snowstorms point to a decline in retail sales. As the retail sales figures are stated in nominal terms, the results will be even weaker in real terms. As a result, it is possible that

Key figures

USA			RZB	cons.	prior
Thu, 11. 14:30	Trade Balance, USD bn	Jan.	-39.0	-41.0	-40.2
Fri, 12. 14:30	Retail Sales, mom	Feb.	-0.2%	-0.2%	0.5%
Fri, 12. 14:30	Retail Sales less Autos, mom	Feb.	-0.1%	0.1%	0.6%
Fri, 12. 15:55	Consumer Conf. Michigan, prelim.	Mar.	72.0	73.9	73.6
Fri, 12. 16:00	Business Inventories, mom	Jan.	n.a.	0.1%	-0.2%
Europe					
Mon, 8. 12:00	GE: Industrial Production, mom	Jan.	2.5%	1.2%	-2.6%
Wed, 10. 08:00	GE: Imports, mom	Jan.	n.a.	n.a.	4.5%
Wed, 10. 08:00	GE: Exports, mom	Jan.	n.a.	-0.5%	3.0%
Wed, 10. 08:45	FR: Industrial Production, mom	Jan.	0.7%	0.2%	-0.1%
Wed, 10. 10:00	IT: Industrial Production, mom	Jan.	0.5%	0.8%	-0.7%
Fri, 12. 12:00	EUR: Industrial Production, mom	Jan.	2.0%	0.7%	-1.7%
Events					
Thu, 11 14:00	Switzerland: Interest rate decision SNB	Mar.	0.25%	0.25%	0.25%

Source: Bloomberg; indicated time: GMT +1

Technical analysis

EUR/CHF



The price has found support at 1.4575 -> rally towards 1.5000 possible.

Source: Thomson Reuters

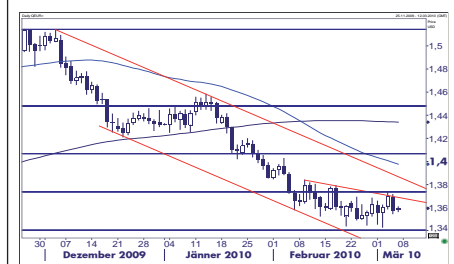
EUR/JPY



A crossing of the support 119.45 could indicate a further drop towards 115.00.

Source: Thomson Reuters

EUR/USD



The Euro could have found a bottom within the area 1.3400 - 1.3740. Therefore a buy at 1.3740 (-> 1.3890 - 1.4070) will be expected.

Source: Thomson Reuters

Forecasts

CHF	cur.	Jun-10	Sep-10	Dec-10
Libor 3M	0.25	0.30	0.50	0.75
Yield 10Y	1.87	2.20	2.60	2.50
YEN				
Key rate	0.10	0.10	0.10	0.10
Libor 3M	0.45	0.25	0.30	0.30
Yield 10Y	1.32	1.30	1.40	1.40
FX				
EUR/USD	1.36	1.42	1.39	1.35
EUR/JPY	121.3	140	142	147
USD/JPY	89.3	99	102	109
EUR/CHF	1.46	1.47	1.43	1.45
Crude				
Brent	78.1	78	81	87

Source: Thomson Reuters. Raiffeisen RESEARCH

retail sales in February will mark the third straight month of real declines. Considerable attention will probably also be paid on the **University of Michigan consumer sentiment survey** on Friday. In contrast to consensus, we expect sentiment to deteriorate. The first interesting US data during this week are only scheduled to come out on Thursday, when the **data on the trade balance** for January is released. As opposed to consensus, we expect to see a decrease in the trade deficit.

US government bond yields of medium to long maturity hardly moved during the last week, but increased markedly from 3,6 to 3,7 % (10y) on Friday due to positive news flow from the employment report. In the short term we stick with our **neutral positioning**. In the weeks ahead, developments on the labour market may lead to some volatile movements on the bond markets. If we see any misinterpretation of the data, we will take this as an opportunity for short-term Trading Ideas.

Euro area

The main focus **last week was the rate-setting meeting of the ECB**. Although the key rate remained unchanged at 1% as expected, there were some new developments on the subject of scaling back the ample supply of liquidity. In this regard ECB President Trichet announced that **all of the main refinancing operations and all special-term refinancing operations with a maturity of one maintenance period will continue as fixed rate tenders with full allotment for as long as necessary, but at least until 12 October of this year**. Starting from 28 April, though, a variable **interest rate tender procedure will be re-introduced for the regular 3-month operation** and there will be no more full allotment. According to Trichet, the central bank will implement the reduction of liquidity in such a manner that there will not be tensions on the money market. The central bank left its economic and inflation projections broadly unchanged. Accordingly, the ECB does not see any inflationary pressure arising before the end of 2011. The announcement of **detailed components of gross domestic product** for Q4 2009 did not contain any surprises. Hence, it was only net exports that made a positive contribution to economic performance, which came in at 0.1%. For this quarter, we expect to see a much more tangible increase in GDP. Upward price pressure remains extremely restrained. The flash estimate for the increase in the **HICP** in February was 0.9% yoy, slightly lower than expectations.

There is hardly any relevant data on the schedule of the **week ahead**. The most interesting release, however, should be the **industrial production** data for January. Germany opens the data on Monday: we expect a strong increase in the wake of the disappointing figure for December. This is also indicated by Friday's announcement of a strong increase in new factory orders in January (+4.3% mom). We also anticipate a significant increase in industrial production for the entire euro area, with these data due out on Friday.

On Wednesday, the **Greek government** presented a **new set of measures** to consolidate the budget with a volume of EUR 4.8 bn (2% of GDP). The markets took a positive view of the consolidation

plans. Consequently, Athens sized the opportunity of improved market sentiment on Thursday and **issued a 10-year government bond** with a volume of EUR 5 bn at 6.47%. The bond was over-subscribed three-fold.

We do not expect delinquency or default by Greece. As a result, yield premiums versus German benchmarks should continue to narrow on the short end of the yield curve in particular. We see **Greek government bonds** with a maturity of 1-2 years as a clear **Buy** for risk-tolerant hold-to-maturity investors. Short-term government bonds issued by peripheral Eurozone members have also come under pressure as a result of the worries about public finances and now offer attractive yield premiums. With this in mind, we have opened up corresponding Long-term recommendations (see page 5).

As we do not see any triggers in the coming week in terms of the economic data or in the realm of political developments (with an eye to Greece), we anticipate relatively little movement on the bond markets. Yields on the long end of the curve should remain very low. We maintain our **neutral positioning on 10-year German government bonds**. By contrast, we also maintain our **Sell recommendation for 2-year German government bonds**.

At its quarterly meeting on Thursday, the **Swiss National Bank** (SNB) is expected to continue winding up its expansive monetary policy measures. For example, it is possible that intervention on the FX market may be scrapped altogether. Hence, the franc should remain strong.

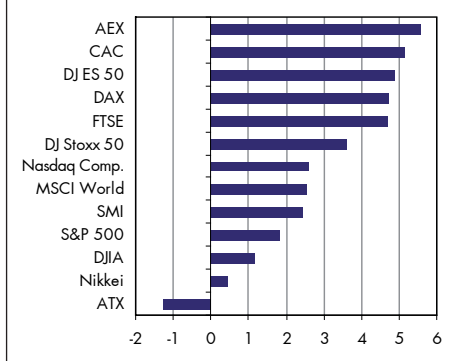
Market Outlook

Equity Markets Weekly

weekly

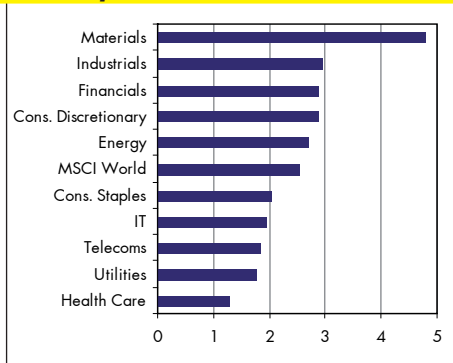
5 March 2010

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

The debates over the solvency of troubled southern European countries are pushed more and more into the background. Thus, US stock markets can resume their recovery. However, all in all convincing corporate numbers 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 the short-term news-flow (solvency matters, exit-scenarios of central banks, eroding economic leading indicators) will once more bring back US stock indices to lower levels in the weeks to come.

Europe

The successful placing of a bond by the Greek government and the proposals to reign its budget deficit were able to offer European stock markets some kind of support during the past week under review. The ECB's interest rate decision had no namable impact on European stock markets, although the extended liquidity measures should be gently reduce by the second half of the year. Despite this slight recovery we still think that the current uncertainty about the solvency of some European countries will once more lead to lower index levels. Nevertheless 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.

Japan

Media reports suggested that the Bank of Japan was about to once more ease its already expansive policy. This news most recently led to a slightly weakening yen and especially helped push exporters' stock prices upwards.

Forecasts

	current*	Jun-10	Sep-10
DJ ES50	2,837	2,800	3,100
DAX	5,825	5,600	6,300
FTSE	5,559	5,100	5,600
SMI	6,811	6,300	6,800
DJIA	10,444	10,300	11,200
S&P 500	1,123	1,090	1,200
Nasdaq Comp.	2,292	2,140	2,400
Nikkei	10,369	9,600	10,000
ATX	2,434	2,450	2,650

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

Expected corporate releases

USA			
Tue,	09	Kroger	
Thu,	11	National Semiconductor, Pall Corp	
Europe			
Tue,	09	Antofagasta, Deutsche Post, EADS, International Power, Liberty International	
Wed,	10	E.ON, Fortis, Lagardere, Pirelli, Standard Life	
Thu,	11	Aixtron, Delhaize Group, GEA Group, Bilfinger Berger, Geberit, Hannover Re, Old Mutual, K+S, Bank of Greece, Tognum	
Japan			
Fri,	12	Sumco	

Market Outlook Recommendations

weekly

5 March 2010

Short-term trading ideas: fixed income*

Recommendation	Entry date	Entry level	Current level	Target	Stop	Carry (ann. %)	Comment
Sell Schatz Future (June)	26/02/2010	108.7	109.19	107.20	109.40	-	

* 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	419,6 bp	2012	Convergence of German and peripheral government bond yields
Spreadtrade Portugal: Buy PTOTEKOE0003 & Sell DE0001137297	03/03/2010	76,5 bp	86,7 bp	2012	Convergence of German and peripheral government bond yields
Spreadtrade Italy: Buy IT0004467483 & Sell DE0001137297	03/03/2010	41 bp	42,9 bp	2012	Convergence of German and peripheral government bond yields
Spreadtrade Austria: Buy AT0000385356 & Sell DE0001137297	03/03/2010	25 bp	26,7 bp	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	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 10Y Germany, Buy 10Y Austria	07/01/2010	50 bp	05/02/2010	56 bp	-6 bp	Stopped out
Sell US T-Note Future	28/01/2010	117.48	28/01/2010	117.80	-0.27%	Stopped out
Buy US T-Note / Sell Bund Future	23/12/2009	47 bp	26/01/2010	42 bp	5 bp	Closed early
Buy US T-Note Future	23/12/2010	116.14	26/01/2010	117.79	1.42%	Closed early
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
BUY EUR/JPY	28/01/2010	126.8	29/01/2010	125	-1.42%	Stopped Out
BUY EUR/JPY	25/01/2010	127.4	26/01/2010	127	-0.74%	Stopped Out
BUY USD/JPY	21/01/2010	91.64	21/01/2010	90.5	-1.24%	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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