

Market Outlook

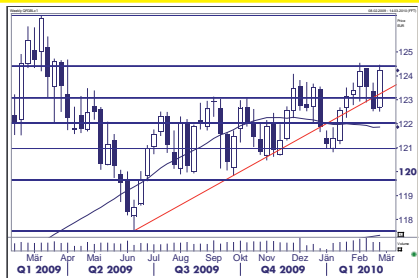
Bond Markets Weekly

weekly

26 February 2010

Technical analysis

EUR Bund Future



The slump below the support 123.0 has been pointed out as a false sell-signal. Now a rise towards 126.5 can be indicated by crossing retracement 124.4.

Source: Thomson Reuters

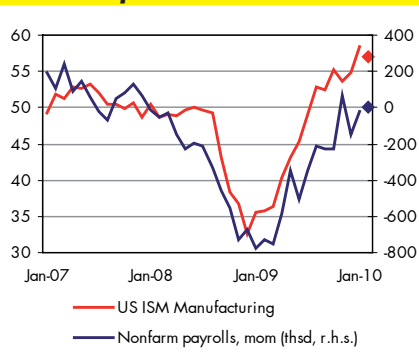
U.S. Treasury Note Future



A further advance towards the upper channel line at 120.00 has been confirmed by several closing prices above 117.28.

Source: Thomson Reuters

ISM to adjust downwards



Source: Thomson Reuters, Raiffeisen RESEARCH

Forecasts

	cur.	Jun-10	Sep-10	Dec-10
USA				
Key rate	0.10	0.10	0.10	0.50
Libor 3M	0.25	0.30	0.40	0.80
Yield 5Y	2.34	2.20	2.60	3.10
Yield 10Y	3.65	3.50	3.80	4.10
Eurozone				
Key rate	1.00	1.00	1.00	1.50
Libor 3M	0.66	1.20	1.40	1.80
Yield 5Y	2.13	2.50	3.10	3.30
Yield 10Y	3.12	3.30	3.70	3.80
Swaprate 5Y	2.45	2.50	3.10	3.30

Source: Thomson Reuters, Raiffeisen RESEARCH

Please find our „trading ideas“ on page 5.

USA

In terms of data, **last week** had some **unpleasant surprises** for market participants. For instance, the **consumer sentiment index** compiled by the **Conference Board** slumped on Tuesday, triggering strong gains on the bond markets. The large decline in **new home sales** in January (-11.2% compared to the previous month) also clearly underlined just how shaky the current economic recovery still is. While **orders for durables** increased by 3.0% mom in January, closer inspection of the figures leads to a less positive assessment here too: without the volatile transport sector, a decline of 0.6% was registered.

Looking ahead to the **coming week**, two more key releases are on the agenda, with the manufacturing **ISM index** on Monday and the **labour market report** on Friday. With regard to the ISM, we anticipate a decline, despite the positive performance seen in the three regional purchasing managers' indices, namely the Empire State Index, the Richmond Fed Index and the Philadelphia Fed Index. The reason for this can be found in the strong rise which was registered for the ISM index in January: the increase of 3.5 points to 58.4 points outstripped all expectations and anything that one could have postulated based on the regional indicators. This massive discrepancy should now decline somewhat. The la-

Key figures

				RZB	cons.	prior
USA						
Mon,	1.	Personal Income, mom	Jan.	0.3%	0.4%	0.4%
Mon,	1.	Personal Spending, mom	Jan.	0.3%	0.4%	0.2%
Mon,	1.	PCE Core Inflation, yoy	Jan.	1.3%	1.4%	1.5%
Mon,	1.	ISM Manufacturing Index	Feb.	57.0	57.9	58.4
Wed,	3.	ADP Employment Change, thsd	Feb.	n.a.	-10.0	-22.0
Wed,	3.	ISM Non-Manufacturing Index	Feb.	n.a.	51.0	50.5
Thu,	4.	Pending Home Sales, mom	Jan.	1.0%	1.5%	1.0%
Fri,	5.	Change in Nonfarm Payrolls, thsd	Feb.	0.0	-40.0	-20.0
Fri,	5.	Unemployment Rate	Feb.	9.8%	9.8%	9.7%
Europe						
Mon,	1.-8.	GE: Retail Sales, mom	Jan.	n.a.	-0.7%	0.8%
Mon,	1.	GE: PMI Manufacturing	Feb.	57.1	57.1	57.1
Mon,	1.	EUR: PMI Manufacturing	Feb.	54.1	54.1	54.1
Tue,	2.	EUR: HICP, yoy	Feb.	1.0%	1.0%	1.0%
Wed,	3.	GE: PMI Services	Feb.	51.7	51.7	51.7
Wed,	3.	EUR: PMI Services	Feb.	52.0	52.0	52.0
Wed,	3.	EUR: Retail Sales, mom	Jan.	n.a.	-0.5%	0.0%
Thu,	4.	EUR: GDP, qoq, details	Q4	0.1%	0.1%	0.1%
Fri,	5.	GE: Factory Orders, mom	Jan.	3.0%	1.3%	-2.3%
Events						
Wed,	3.	US: Fed's Beige Book	Mar.	-	-	-
Thu,	4.	EUR: ECB Announces Interest Rates	Mar.	1.0%	1.0%	1.0%

Source: Bloomberg

Technical analysis

EUR/CHF



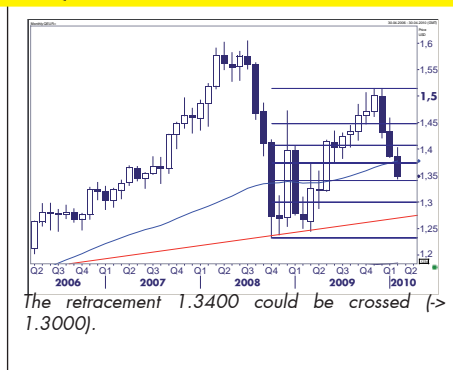
Source: Thomson Reuters

EUR/JPY



Source: Thomson Reuters

EUR/USD



Source: Thomson Reuters

Forecasts

	cur.	Jun-10	Sep-10	Dec-10
CHF				
Libor 3M	0.25	0.30	0.50	0.75
Yield 10Y	1.93	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	1.31	1.30	1.40	1.40
FX				
EUR/USD	1.36	1.42	1.39	1.35
EUR/JPY*	121	140	142	147
USD/JPY*	89	99	102	109
EUR/CHF	1.46	1.47	1.43	1.45
Crude				
Brent	75.3	78	81	87

* under revision

Source: Thomson Reuters. Raiffeisen RESEARCH

bour market report dashed the market's hopes of rising employment numbers in January as payrolls fell by 20K, and now we expect a positive surprise in February. Although the latest data on initial claims for jobless benefits are not pointing to improvement on the labour market, we still think it is possible that the number of jobs will just remain stable (consensus: -40K). One supporting factor should be the impact of the upcoming census, as we expect this to generate some 20K jobs. On the other hand, the rate of unemployment should have increased again in February, after having fallen to 9.7% in January in a surprising development. We forecast a rise of 0.1 percentage point to 9.8%.

Looking ahead to next week, there is also data on **personal income and consumption expenditures**, and **construction spending** (Mon), the **non-manufacturing sector ISM index** and the **ADP employment report** (Wed) and the development of **pending home sales** (Thu). Another interesting point during the week will be Thursday's publication of the **Beige Book**, the Fed's six-weekly economic analysis.

US government bonds profited from the weak economic data last week. Yields on 10-year notes declined by almost 20bp to 3.63%. The comments by Fed chief Ben Bernanke also supported the performance of the bond markets. During his testimony before the US Congress, he once again underlined that the level of interest rates would remain at the currently extremely low levels for an extended period of time. This allayed fears of rate hikes which had flared up in the wake of the surprising hike in the discount rate at the end of last week. Consequently, **yields on government bonds should remain very low** for the time being. Over the long term, however, we do indeed expect to see interest rates and yields on the rise. But for lack of any triggers over the short term, we do open any new short-term Trading Ideas and recommend waiting for now before selling.

Eurozone

Following the disappointing GDP figures at the end of 2009, there are mounting worries of a "double-dip" recession, and moreover some commentators are concerned that the euro area may decouple from the global upswing. Even though we cannot rule out slipping back into a recession during this year - rising **unemployment** could undermine private consumption and thus strangle the entire upturn - the latest set of economic indicators have still been pointing to improvement. During the days ahead, this should also be reinforced again by the **purchasing managers' indices** and data on **new factory orders** in Germany. Publication of the GDP components will likely show weak private domestic demand (consumption, investments), which will be offset by a positive growth contribution from net exports. **Retail sales data** for January should provide some insight as to whether private consumption continued to fall at the beginning of the year. One **highlight** this week will be the **ECB meeting** on Thursday: the central bank will present its approach to exiting the enhanced credit measures for the entire second quarter. Any hints at increases in interest rates can be ruled out. In our view, the full allocation of the main refinancing operation (with a term of one week) at 1% will also remain unchanged. Nevertheless, we think that at least a premium will be

announced on the longer-term refinancing operation (with a term of three months). But the ECB may even announce to return to a normal interest rate tender procedure (an end to full allotment – banks bid on the amount defined by the ECB). Either way, the liquidity provided by the central bank will continue to be ample and the meeting should not represent a major threat to the bond markets. Nonetheless, in our view longer dated funds will become more expensive and thus we see mild upward pressure on Euribor rates with a maturity of three months or more.

Greece remains the hot topic of discussion *on the bond market*: rating agencies are toying with the idea of further downgrades, and S&P announced an assessment of possible aid measures by other countries. S&P made it clear that only adequate, timely and well-defined reform plans could guarantee the creditworthiness of countries with financing problems. Financial support from the other countries could only provide some breathing room for the necessary reforms to be formulated and carried out. We share this view and expect that the pressure by the EU on the Greek government will remain strong so that public finances will be consolidated even in the face of the anticipated vigorous resistance in parts of the Greek public. An issue of a 10-year bond is due to happen soon. According to rumours on the market, the issue will occur simultaneously with the announcement of a package of austerity measure with a volume of EUR 2-3 bn in the days ahead. Along with another rise in yield premiums, especially for the southern EMU countries, the **strong rally in short-dated German bonds** is quite impressive. The yield on the two-year benchmark bonds is below 0.9%. As we do not see this level as being attractive or sustainable, and rather consider this to be an exaggeration, our recommendation on the Schatz Future is Sell (June contract in order to avoid any short-term technical distortions).

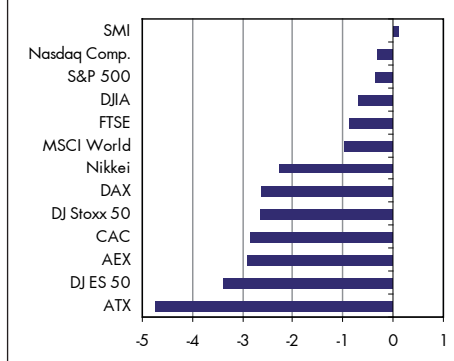
Market Outlook

Equity Markets Weekly

weekly

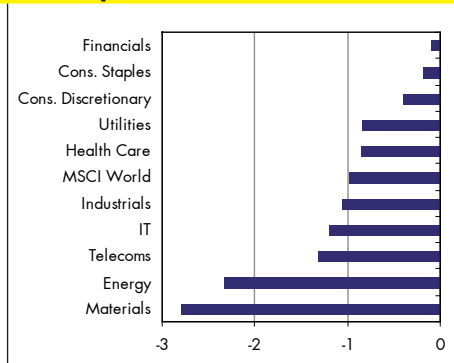
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Market performance (% , 1 week)



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

US stocks once again look back on turbulent and volatile trading days. On balance ongoing discussions over the solvency of troubled south-European countries as well as another week of rising initial jobless claims resulted in falling stocks. However, some relief came from Fed chairman Bernanke's speech wherein he reassured that federal funds rate is likely to remain exceptionally low for an extended period of time. However, all in all convincing corporate numbers play only a minor role at the moment. Nevertheless, as a turnaround in the earnings cycle becomes visible and we expect profits to rise significantly in 2010 the broad stock market gets also more and more attractive in terms of valuations. Although corporate fundamentals should help stocks to resume their long-term upward trend, we think that the current news-flow (solvency matters, exit-scenario of central banks) will bring some more weak days towards March.

Europe

The financial problems of Greece are still the dominant factor on European stock markets. Especially the possibility of a further rating downgrade of Greek debt didn't really ease the situation. Also a slightly falling ifo index and rather disappointing US economic data were not able to strengthen investors' confidence. In light of the current situation the European earnings season just plays a minor role. All in all the published figures haven't yet emerged as a market driver, as in contrast to the US only a slight majority of company delivered results above expectations. Although our index targets are again within reach, we think that the consolidation phase will once more bring lower levels on European stock markets.

Forecasts

	current*	Mar-10	Jun-10
DJ ES50	2,709	2,650	2,800
DAX	5,573	5,300	5,600
FTSE	5,315	4,900	5,100
SMI	6,676	6,000	6,300
DJIA	10,321	9,700	10,300
S&P 500	1,103	1,030	1,090
Nasdaq Comp.	2,234	2,000	2,140
Nikkei	10,126	9,200	9,600
ATX	2,413	2,300	2,450

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

Expected corporate releases

USA		
Tue,	02	Staples, Autozone
Thu,	04	Costco Wholesale
Europe		
Mon,	01	Vivendi, Kuehne & Nagel, Luxottica
Tue,	02	Allied Irish Bank, Bouygues
Wed,	03	Adecco, adidas, Vinci, Fraport, Holcim, Scor, Standard Chartered
Thu,	04	Anheuser-Busch, Ahold, Beiersdorf, Linde

Market Outlook

Trading ideas

weekly

26 February 2010

Fixed income*

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

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
Sell 10Y Germany, Buy 10Y Austria	07/01/2010	50bp	05/02/2010	56bp	-6bp	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	47bp	26/01/2010	42bp	5bp	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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