

Market Outlook Bond markets

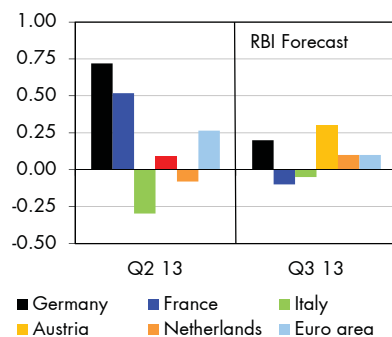
weekly

8 November 2013



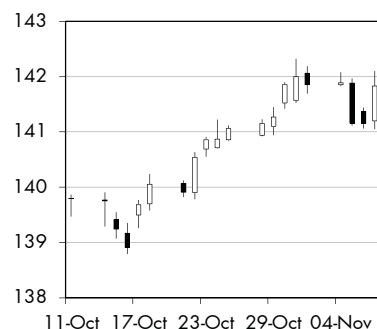
**Raiffeisen
RESEARCH**

Overview: real GDP in % qoq



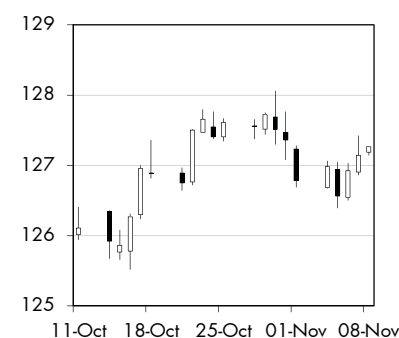
Source: Thomson Reuters, Raiffeisen RESEARCH

Bund Future



Source: Bloomberg

T-Note Future



Source: Bloomberg

Forecasts

USA	curr. ¹	Dec-13	Mar-14	Sep-14
Key rate	0,25	0,25	0,25	0,25
Libor 3M	0,24	0,30	0,30	0,30
Yield 5Y	1,41	1,40	1,90	2,30
Yield 10Y	2,72	2,60	3,10	3,30
Euro area				
Key rate	0,25	0,25	0,25	0,25
Euribor 3M	0,22	0,20	0,20	0,25
Yield 5Y	0,68	1,00	1,30	1,90
Yield 10Y	1,74	1,90	2,30	2,80
Swaprate 5Y	1,10	1,50	1,85	2,50

¹ as of 8 November 2013, 3:03 p.m. CET
Source: Thomson Reuters, Raiffeisen RESEARCH

Recommendation (Horizon: December 2013):

Neutral: USD bonds **Sell:** DE bonds

USA

In the **coming week** (just as every time after the week of the labour market report), there will be only few relevant economic data releases. Items worth mentioning include **industrial production** for October, which we expect to come in above consensus, and the **Empire State Index** as the first leading indicator for November (an increase is realistic).

This provides room to analyze what has changed to the outlook for the US economy and the Fed caused by the data heavyweights of the past week. The economic outlook for the US continues to be positive (no change). Both the manufacturing PMI (56.4) and the **services PMI** released on Monday (55.4) most recently continued to rise and point to a strongly expanding US economy. Also housing is still in recovery mode (Q3: +14.5% annualized). The **Q3 GDP (+2.8%** annualized, greatly exceeding expectations), instead, which the market interpreted as positive, is not a particularly good argument: The stronger gain is largely attributable to stronger net exports thanks to a decrease in import growth (from 6.9 to 1.9%, which added 0.3 percentage points to GDP growth) and strong inventory build-up (brought 0.8 percentage points). Private consumption and company investments as crucial drivers of end demand, instead, even weakened to an annualized 1.5% and 1.6%, respectively. This increases the risk that after two quarters of strong inventory build-up, Q4 GDP growth will be biased downwards owing to corresponding inventory reduction (below 2%). Yet, we continue to forecast a relevant and sustainable acceleration of the US economy in 2014 once the dampening effect of this year's government spending cuts (sequester) and tax increases are worked off. Along with the further recovery on the real estate market this should suffice to speed up the real 2014 GDP growth to 2.5% yoy (after 1.5% in the current year).

Key figures

USA				RBI	Cons.	prior
Thu, 14.	14:30	Nonfarm productivity (% qoq, ann.), prel.	Q3	0.1	1.2	2.3
Thu, 14.	14:30	Trade balance (USD, bn)	Sep.	-37.5	-39.0	-38.8
Fri, 15.	14:30	Import price index (% mom)	Oct.	-0.7	-0.5	0.2
Fri, 15.	14:30	Empire State Manufacturing Index	Nov.	n.a.	5.0	1.0
Fri, 15.	15:15	Industrial production (% mom)	Oct.	0.4	0.1	0.6
Fri, 15.	15:15	Capacity utilization (%)	Oct.	78.5	78.2	78.3
Europe						
Wed, 13.	11:00	EUR: Industrial production (% mom)	Sep.	-0.8	-0.2	1.0
Thu, 14.	07:30	FR: GDP (% qoq), prel.	Q3	-0.1	0.1	0.5
Thu, 14.	08:00	DE: GDP (% qoq), prel.	Q3	0.2	0.3	0.7
Thu, 14.	09:00	AT: GDP (% qoq), prel.	Q3	0.3	n.a.	0.1
Thu, 14.	09:30	NL: GDP (% qoq), prel.	Q3	0.1	0.2	-0.1
Thu, 14.	10:00	IT: GDP (% qoq), prel.	Q3	0.0	-0.2	-0.3
Thu, 14.	11:00	EUR: GDP (% qoq), prel.	Q3	0.1	0.1	0.3
Thu, 14.	12:00	PT: GDP (% qoq), prel.	Q3	0.5	n.a.	1.1

Source: Bloomberg, Raiffeisen RESEARCH



GDP (real %yoy)

	2013e	2014f	2015f
Austria	0.5	1.5	2.3
Germany	0.5	1.8	2.5
France	0.1	1.0	1.8
Belgium	0.1	1.7	2.3
Netherlands	-1.1	1.3	1.6
Finland	-0.4	1.5	2.7
Ireland	0.1	2.5	3.0
Italy	-1.7	0.7	1.5
Spain	-1.5	1.5	2.0
Portugal	-1.6	1.5	2.2
Greece	-4.0	-0.5	1.5
Euro area	-0.3	1.5	2.0
UK	1.4	1.9	2.1
Switzerland	1.8	2.0	2.0
USA	1.5	2.5	3.2
Japan	2.2	2.3	1.1

Source: Thomson Reuters, Raiffeisen RESEARCH

Consumer price index (% yoy)

	2013e	2014f	2015f
Austria	1.9	2.1	2.3
Germany	1.5	1.5	2.0
France	1.1	1.7	1.7
Belgium	1.3	1.4	2.1
Netherlands	2.7	1.3	1.7
Finland	2.2	1.7	2.2
Ireland	0.7	1.4	1.7
Italy	1.4	1.7	1.6
Spain	1.5	1.1	1.5
Portugal	0.6	1.3	1.5
Greece	-0.7	-0.3	0.6
Euro area	1.5	1.6	1.8
UK	2.5	2.8	3.1
Switzerland	-0.1	0.4	1.1
USA	1.5	2.0	2.5
Japan	0.1	1.5	0.9

Source: Thomson Reuters, Raiffeisen RESEARCH

Forecasts

	current ¹	Dec-13	Mar-14	Sep-14
CHF				
Libor 3M	0.02	0.0	0.0	0.0
Yield 10Y	0.96	1.2	1.4	1.7
YEN				
Key rate	0.10	0.1	0.1	0.1
Libor 3M	0.14	0.1	0.2	0.2
Yield 10Y	0.61	0.8	0.9	1.0
FX				
EUR/USD	1.34	1.36	1.31	1.28
EUR/JPY	132.0	133	131	134
USD/JPY	98.7	98	100	105
EUR/CHF	1.23	1.25	1.28	1.29
Crude				
Brent (USD)	102.7	110	112	118

¹ as of 8 November 2013, 3:03 p.m. CET

Source: Thomson Reuters, Raiffeisen RESEARCH

Much more positive than consensus and fitting to this outlook, was the monthly **employment report**: Despite done during the government shut-down, new monthly non-farm payrolls increased by **204 thsd.**, much stronger than the (below-average) month before, with both previous months revised upwards by a cumulative 60 thsd. This contrasts with consensus (and our own) expectations, which were much lower (consensus: 125 thsd.) due to the potential harmful effect of the shut-down on private sector employment (due to missing licenses, government purchases, etc.). It is important to know that the furloughed government employees did not reduce payroll figures at all (not counted as unemployed there), whereas they were classified as unemployed when calculating the unemployment rate (which therefore rose as expected from 7.2 to 7.3 %). As all workers affected have already resumed work by now, this rise in the unemployment rate is meaningless and will be undone in the next employment report early December. What remains is the picture of a strong labour market, which managed to rise back to appr. 200 thsd. again even during the shut-down month, after only one month of lower activity in September, when payrolls rose "only" 163 thsd.

This also does not change our outlook for the **Fed**: Due to the threat of a renewed budget dispute, the Fed will most probably not yet dare to kick off its tapering in December; yet, the reduction in bond purchases will then start in the first quarter (which also corresponds to the unchanged market consensus), and the recent strong employment report clearly increased the pressure on the Fed not to delay it too much. The **bond market** sees it the same way, with ten year yields jumping 10 bps to 2.7 % after the report. With further employment reports at this level and the Fed signaling the reduction in its bond purchases around the turn of the year, the US government bond yield should again climb towards 3% by Q1.

Euro area

The coming days will be all about the **estimates of the Q3 2013 real GDP**. In Germany, France, Finland and the overall Euro area, the available pieces of data on the real economy (industry and construction output, retail sales, new car registrations, goods exports, etc.) suggest weaker dynamics than in the third quarter. Given the high inventory build-up in the second quarter, we expect the quarterly GDP change in France to post even a small minus. After eight consecutive quarters of decreasing activity, Italy might be able to just avoid another drop of GDP from the previous quarter. As for the Netherlands, an increase should have been registered after four quarters of GDP declines. In Austria, we expect growth in the third quarter to turn out somewhat stronger compared to the second. The general assessment of economic recovery in Europe, although it is still quite muted currently, should overall be confirmed. Yet, we assume that the recovery will take up speed in the fourth quarter of 2013 and especially in 2014.

The **ECB's surprising key interest rate reduction** was the main driver on the interest rate markets. The key interest rate cut might exert some downward pressure on money market rates, which requires us to **revise our forecasts**. Yet, the downward potential is modest in our assessment and ranges from few basis points for short-term Euribor rates to a maximum of fifteen basis points for the Euribor 1y. The effect on capital market interest rates should, instead, be only of short-term nature. Although "forward guidance" favours a flattening of the interest rate curve, our expectation of economic improvement leads us to consider such movement to be only temporary. Moreover, we believe that the rate of inflation in the Euro area has reached its low in October. That's why we expect no additional monetary policy measures in the coming months. Our estimates of German government bond yields therefore remain unchanged. The again more expansionary monetary policy is supposed to be primarily a contribution to a further decrease in sovereign spreads (risk premiums of EUR government bonds versus German government bonds).

With Germany, Malta, Italy, Greece, Belgium, Slovenia and France, the **primary market** will see a large number of countries active with money market papers in the coming days. In addition, Germany and Italy will auction bonds.

Overview government bonds

Yields 10Y					
	curr. ¹ (%)	1W Δ (BP)	52W H (%)	52W L (%)	Ytd Δ (BP)
AT	2.03	-0.8	2.47	1.48	28.1
DE	1.68	1.0	2.05	1.17	36.8
FR	2.16	-0.2	2.63	1.66	16.1
BE	2.40	-0.4	2.91	1.92	34.5
NL	2.03	1.3	2.47	1.49	52.7
FN	1.90	1.8	2.32	1.33	37.1
IE	3.52	1.4	4.29	3.43	n.a.
IT	4.10	-3.6	5.03	3.76	-40.2
ES	4.05	2.1	5.94	3.97	-121.2
PT	5.82	-39.6	8.90	5.23	-119.2
GR	7.97	-12.0	17.99	7.97	-393.4
UK	2.67	5.1	3.02	1.62	84.0
CH	0.93	-0.1	1.19	0.39	40.6
US	2.59	-2.9	2.99	1.58	83.5
JP	0.60	-0.3	0.93	0.45	-19.5

¹ as of 8 November 2013, 07:27 a.m. CET

Source: Bloomberg

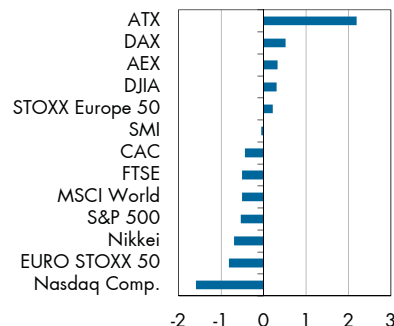
Debt issuance calendar

Issuer	Date	Maturity	Coupon (%)	Vol*
Bonds				
DE	Wed, 13.	2015	n.a.	5
IT	Wed, 13.	n.a.	n.a.	n.a.
Bills				
DE	Mon, 11.	6M	-	3
MT	Tue, 12.	n.a.	-	n.a.
GR	Tue, 12.	3M	-	n.a.
IT	Tue, 12.	12M	-	6.5
BE	Tue, 12.	3M, 12M	-	n.a.
SI	Tue, 12.	6M	-	n.a.
FR	Tue, 12.	n.a.	-	n.a.

* EUR bn

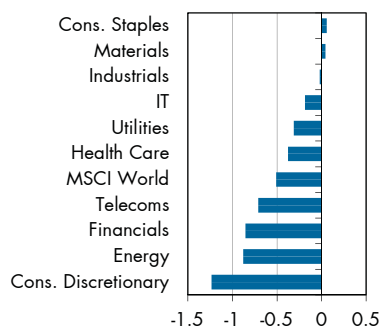
Source: Bloomberg

Market performance (% , 1 week)*



* performance from 30 Oct – 7 Nov 2013
Source: Thomson Reuters

Sector performance (% , 1 week)*



* weekly performance of global MSCI sector indices from 30 Oct – 7 Nov 2013; Source: Thomson Reuters

Recommendations

Markets: Buy: Japan, Hold: Europe, USA

Favoured sectors: Energy, Materials, Industrials, Consumer discretionary, IT

Established equity markets

Also in the past week, nothing was taken away from the good mood on international stock markets. Accordingly, many an index rushed from one all-time and/or multi-year high to the next. The reasons for this remain essentially unchanged. After the Fed had already provided liquidity-craving markets with extra munitions in October, also the ECB surprised with an interest rate cut. All in all, market participants might therefore prepare themselves for a liquidity environment that continues to be advantageous for stock markets. However, central banks are not the only ones to provide impetus. Also the earnings season for the third quarter has contributed its share to the so far positive development in the fourth quarter. This analysis should not ignore regional differences though. While profit expectations were repeatedly clearly outreached in the US, European companies are having a somewhat harder time in this regard. Only just over half the companies were able to beat the estimates. It is also interesting that the sales trend in both regions turned out to be just below-average. Investors, however, do not seem to hold any grudges and obviously continue to bet on an economic recovery.

However, the excellent development observed in many stock indices since the beginning of the year has not only led to outbursts of joy, but is now also raising concerns among some members especially since this, of course, leads to the question of whether the markets still have enough potential to go one better this year. In this regard, particularly sentiment indicators definitely give rise to a certain degree of skepticism as investor optimism has meanwhile reached levels that are no longer easy to reconcile with further short-term price increases by historical standards. What also worries us a little is the effected US valuation expansion. In Europe, we can definitely continue to talk about moderate levels. Even if the favourable liquidity environment lasts longer than originally expected and real investment alternatives remain in short supply, the above-mentioned arguments lead us to think that it is advisable to take a more cautious stance until the end of the year. Accordingly, we change our recommendation for the European and US stock markets from "buy" to "hold" while retaining our "buy" recommendation for Japan in the light of the ultra-expansionary monetary policy and the strong Japanese reporting season.

Forecasts

	current ¹	Dec-13	Mar-14
Euro STOXX 50	3.024	3,050	3,150
DAX	9.030	9,000	9,300
FTSE	6.670	6,850	7,100
SMI	8.201	8,400	8,700
DJIA	15.594	16,000	16,500
S&P 500	1.747	1,770	1,830
Nasdaq Comp.	3.857	3,950	4,100
Nikkei 225	14.087	15,300	16,200
ATX	2.636	2,630	2,750

¹ as of 8 November 2013, 12:00 noon CET
Source: Bloomberg, Raiffeisen RESEARCH

Expected corporate releases

USA

Wed, 13	Cisco Systems, Macy's
Thu, 14	Applied Materials, Kohls, Wal-Mart Stores

Europe

Mon, 11	UniCredit, Wincor Nixdorf
Tue, 12	Deutsche Post, Bilfinger, Henkel & Co., Infineon Techno., Lanxess, Vodafone Group
Wed, 13	British Land, Carlsberg, Bouygues, E.ON, Hochtief, Portugal Telecom, Sainsbury, Tod's
Thu, 14	Ahold, Davide Campari, EADS, Merck KGaA, RWE, K+S, Telekom Austria, Vivendi, Zurich Insurance

Source: Bloomberg, Raiffeisen RESEARCH

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