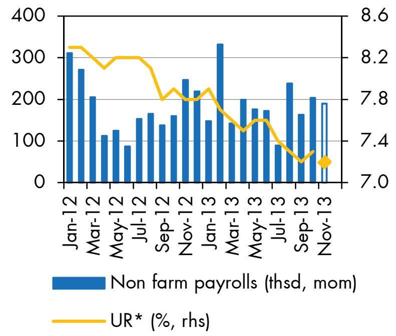
Market Outlook Bond markets

weekly

29 November 2013

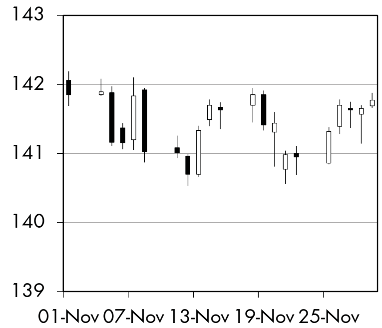
Raiffeisen RESEARCH

USA: Labour market sound as of late



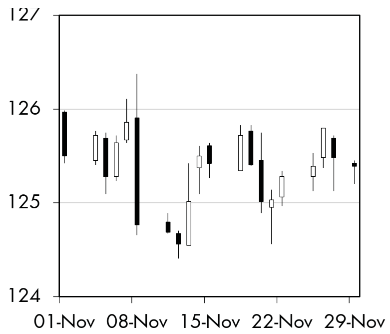
*unemployment rate
Source: Thomson Reuters, Raiffeisen RESEARCH

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	1.38	1.40	1.90	2.30
Yield 10Y	2.75	2.60	3.10	3.30
Euro area				
Key rate	0.25	0.25	0.25	0.25
Euribor 3M	0.23	0.20	0.20	0.25
Yield 5Y	0.66	1.00	1.30	1.90
Yield 10Y	1.69	1.90	2.30	2.80
Swaprate 5Y	1.05	1.50	1.85	2.50

[1] as of 29 November 2013, 09:15 a.m. CET
Source: Thomson Reuters, Raiffeisen RESEARCH

Recommendation (Horizon: December 2013):
Neutral: USD bonds **Sell:** DE bonds

USA

With the **ISM manufacturing index** (Mon) and the **labour market report** (Fri), the month's two highest-calibre pieces of data are scheduled for next week. After five consecutive increases, we expect the ISM index to post a slight decrease by approximately half a point in November. In our view, this conclusion is supported by the drop in important regional sentiment surveys: Apart from the Empire State Index and the Philadelphia Fed Index, also the Chicago PMI has declined. The ISM index would however still find itself at a level perceptibly above the historical average even at a minus to the extent expected. When it comes to the labour market report, we expect to see a solid result. Employment might have risen by nearly 200 k and thus about as strongly as on average during the last three months. At any rate, there are no indications that labour market momentum might have significantly weakened: Both sentiment indicators and initial jobless claims given reason to hope for a renewed noticeable employment plus. The unemploy-

Key figures

USA					**RBI**	**Cons.**	**prior**
Mon,	2.	16:00	ISM Manufacturing Index	Nov.	**55.8**	55.0	56.4
Wed,	4.	14:15	ADP Employment (thsd, mom)	Nov.	**170**	173	130
Wed,	4.	14:30	Trade balance (USD, bn)	Oct.	**-40.0**	-40.2	-41.8
Wed,	4.	16:00	ISM Non-Manufacturing Index	Nov.	**n.a.**	55.1	55.4
Wed,	4.	16:00	New home sales (thsd, ann.)	Oct.	**n.a.**	430	n.a.
Thu,	5.	14:30	GDP (% qoq, ann.), 2nd estimate	Q3	**2.8**	3.1	2.8
Thu,	5.	16:00	Factory orders (% mom)	Oct.	**-0.8**	-1.0	1.7
Fri,	6.	14:30	Nonfarm payrolls (thsd, mom)	Nov.	**190**	183	204
Fri,	6.	14:30	Unemployment rate (%)	Nov.	**7.2**	7.2	7.3
Fri,	6.	14:30	Personal income (% mom)	Oct.	**0.2**	0.3	0.5
Fri,	6.	14:30	Personal spending (% mom)	Oct.	**0.1**	0.2	0.2
Fri,	6.	14:30	PCE deflator (% yoy)	Oct.	**0.7**	0.7	0.9
Fri,	6.	14:30	PCE core inflation (% yoy)	Oct.	**1.1**	1.1	1.2
Fri,	6.	15:55	U. of Michigan consumer confidence, prel.	Dec.	**77.0**	74.0	75.1
Europe							
Mon,	2.	09:15	ES: PMI Manufacturing	Nov.	**51.5**	51.0	50.9
Mon,	2.	09:45	IT: PMI Manufacturing	Nov.	**51.4**	50.8	50.7
Mon,	2.	10:00	EUR: PMI Manufacturing, final	Nov.	**51.5**	51.5	51.5
Wed,	4.	09:15	ES: PMI Services	Nov.	**49.3**	50.1	49.6
Wed,	4.	09:45	IT: PMI Services	Nov.	**50.0**	50.4	50.5
Wed,	4.	10:00	EUR: PMI Services, final	Nov.	**50.9**	50.9	50.9
Wed,	4.	11:00	EUR: GDP (% qoq), details	Q3	**0.1**	0.1	0.1
Wed,	4.	11:00	EUR: Retail sales (% mom)	Oct.	**n.a.**	0.3	-0.6
Thu,	5.	09:00	ES: Industrial output (% yoy)	Oct.	**-0.1**	n.a.	1.4
Fri,	6.	12:00	DE: Factory orders (% mom)	Oct.	**-1.0**	-0.7	3.3
Events							
Wed,	4.	20:00	US: Fed releases Beige Book	Oct/Nov	-	-	-
Thu,	5.	13:45	EUR: ECB Interest rate decision (%)	Dec	**0.25**	0.25	0.25
Thu,	5.	13:45	EUR: ECB Deposit facility rate decision (%)	Dec	**0.00**	0.00	0.00

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	-3.7	-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	1.4	1.3	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	0.87	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	1.36	1.36	1.31	1.28
EUR/JPY	139.1	133	131	134
USD/JPY	102.2	98	100	105
EUR/CHF	1.23	1.25	1.28	1.29
Crude				
Brent (USD)	111.6	110	112	118

1 as of 29 November 2013, 09:15 a.m. CET
Source: Thomson Reuters, Raiffeisen RESEARCH

ment rate, which had increased in October owing to the government shutdown, is highly likely to have come down to 7.2% again in November.
Furthermore, the **ISM non-manufacturing index**, the **ADP employment report, new home sales** and **trade balance figures** for October as well as the **Beige Book** will be published next week (all Wed). The **second estimate of the real** GDP increase in the third quarter is coming up on Thursday. We do not expect a noteworthy revision of the provisionally reported growth of an annualized 2.8% qoq. On Friday, **personal spending** figures for October as well as the first release of the University of Michigan consumer confidence for December will mark the end of the very data-rich week. As for personal spending, available indications such as retail sales, passenger car sales and household energy production point to a small plus over the previous month. The downward slide of consumer sentiment observed in recent months might have come to a halt and turn into a slight increase.

In the previous week, **ten-year US government bond yields** have hardly moved and continue to be just over 2.7%. Speculations regarding an early reduction of bond purchases by the US central bank remain a key influential factor. In the past week, there were remarkably few comments on this topic coming from the ranks of the FOMC and regional Fed presidents, respectively. Of paramount importance with a view to the question of whether the tapering might possibly be announced even as early as at the next FOMC meeting on 18 December is the labour market report for November set for next Friday. As of most recently, President of the St. Louis Federal Reserve Bank James Bullard had stated that a strong labour market report in November might tip the scales for an entry into the exit from QE3 before the end of this year. Should we be right with our forecast for the employment increase and with our expectation of a decline in the unemployment rate, this might push ten-year US government bond yields clearly above 2.8%. This, however, is not yet a guarantee of tapering to take place in December. What's really decisive is the result of budget negotiations between Democrats and Republicans over a budget law. The self-established deadline is on 13 December. It is already clear that no agreement will be reached by then. Due to the Thanksgiving, Christmas and New Year holidays, delegates in real terms only have ten days to find a solution before the next government shutdown will threaten to materialize starting on 16 January. At present, it looks as though the current emergency budget might be prolonged by 90 days until mid-April in order to gain more time. This is problematic for three reasons: Firstly, a new round of automatic spending cuts will enter into force at the start of the year without a timely agreement. Secondly, the debt upper limit will be reached in mid-February and thirdly, the established policy of postponing problems instead of resolving them will continue. In the past few years, this strategy has already been a contributing factor to perceptible uncertainty amongst private households and companies and might be an important reason for consumer spending and, above all, investment restraint. The Fed has put an emphasis on the fiscal risks and warned against the negative impacts on the economy until the end. Since there will be no agreement in the budget dispute until mid-December, we do not believe that a reduction of bond purchases before the end of this year is very likely, even if the labour market is solid.

Eurozone

In terms of data, the coming days will bring only few significant releases in the Euro area. **Final estimates of purchasing managers' indices (PMI)** for the manufacturing sector (Mon) as well as for services (Wed) will mark the end of the series of sentiment indicators for the month of November. Based on the preliminary PMI estimates as well as national surveys, the upward trend in manufacturing observed in Italy and Spain is likely to continue. Meanwhile, we forecast setbacks for the service sector where a sustainable upswing might be subject to some further delay. Moreover, industrial output figures in Germany and Spain provide the first "hard" indication for the start into the fourth quarter.

Over the last few days, **ECB** council members took a public stance in favour or against further monetary easing. Rarely before have the diverging opinions of the decision-making body been as obvious as at the moment. This bodes for a heated meeting in early December (Thurs). The frequently mentioned deposit rate cut to less than 0% might, however, fail to remedy the actual problem – the stringent credit conditions for end consumers in many crisis-ridden countries. This is based on the following considerations: Banks (in the core Euro area) can only reduce their excess liquidity through increased lending or by warding off deposits. While the former cuts down lending interest rates and, arguably, also government bond yields in core Europe, the latter might push money market rates down again. In the end, interest rates/yields in the core Euro area have to fall far enough for excess liquidity to be pressed into crisis-ridden countries – through the acquisition of government bonds or loans to the banks operating in these countries. Subsequently, banks in crisis-ridden countries can, for their part, reduce refinancing operations with the central bank by downsizing the domestic government bond portfolio or through improved access to borrowed funds.
In sum, both excess liquidity in the core Euro area and central bank loans in crisis-ridden countries have decreased. Accordingly, downward pressure originates at deposit and lending interest rates in the core Euro area, government bond yields and possibly also bank bond yields in crisis-ridden countries. Yet there might be no dampening effect on loan interest rates in crisis-ridden countries.

Moreover, the slight increase in the rate of inflation in November (0.9% yoy compared to 0.7% yoy in October), the ongoing upward trend in leading economic indicators as well as the main refinancing rate lowering announced at the most recent rate setting meeting are likely to have sufficiently decreased the ECB's sense of urgency with a view to the next interest rate meeting. As a consequence, **we expect no further monetary policy measure** to be taken in December. In addition, we only forecast marginal changes to the ECB's economic forecasts (unchanged GDP growth forecasts, small downward revisions of the inflation estimate for 2013 and 2014). Yet the wording will continue to underscore the readiness for additional monetary policy easing. Nevertheless, disappointment is more likely to spread on the market – with rates of inflation now slightly rising, further monetary easing is less tangible. We hold out the prospect of German government bond yield increases. We do not see a turn away from the positive mood on the peripheral bond markets.
On the **primary market**, Germany, Spain and France have announced bond auctions while the Netherlands, France, Malta and Belgium will issue money market papers.

Overview government bonds

Yields 10Y	curr.[1] (%)	1W Δ (BP)	52W H (%)	52W L (%)	Ytd Δ (BP)
AT	2.05	-3.7	2.47	1.48	29.8
DE	1.69	-5.7	2.05	1.17	37.3
FR	2.17	-3.9	2.63	1.66	16.9
BE	2.36	-3.6	2.91	1.92	29.8
NL	2.03	-3.5	2.47	1.49	52.7
FI	1.90	-3.4	2.32	1.33	37.4
IE	3.53	-2.0	4.29	3.43	n.a.
IT	4.04	-3.7	4.90	3.76	-45.4
ES	4.14	4.1	5.56	3.97	-112.1
PT	5.85	-10.3	7.64	5.23	-115.9
GR	8.76	-0.6	16.13	7.97	-313.8
UK	2.74	-8.0	3.02	1.62	91.0
CH	0.89	-6.0	1.19	0.39	36.2
US	2.74	-0.2	2.99	1.59	98.4
JP	0.61	-2.3	0.93	0.45	-18.6

1 as of 29 November 2013, 08:49 a.m. CET
Source: Bloomberg

Debt issuance calendar

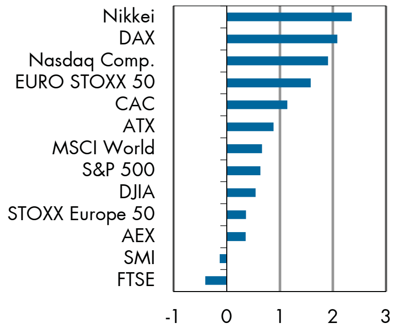
Issuer	Date		Maturity	Coupon (%)	Vol*
			Bonds		
DE	Wed,	4.	2018	1	4
ES	Thu,	5.	n.a.	n.a.	n.a.
FR	Fri,	6.	n.a.	n.a.	n.a.
			Bills		
NL	Mon,	2.	3M,6M	-	4
FR	Mon,	2.	n.a.	-	n.a.
MT	Tue,	3.	3M	-	n.a.
BE	Tue,	3.	3M,6M	-	n.a.

** EUR bn*
Source: Bloomberg

Market Outlook Equity Markets

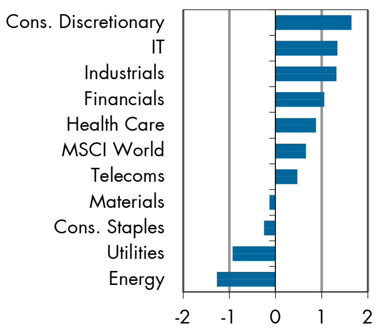
Raiffeisen RESEARCH

Market performance (%, 1 week)*



** performance from 21 – 28 Nov 2013*
Source: Thomson Reuters

Sector performance (%, 1 week)*



** weekly performance of global MSCI sector indices from 21 – 28 Nov 2013; Source: Thomson Reuters*

Forecasts

	current[1]	Mar-14	Jun-14
Euro STOXX 50	3,092	3,150	3,250
DAX	9,389	9,300	9,400
FTSE	6,668	7,100	7,200
SMI	8,260	8,700	8,800
DJIA	16,097	16,500	16,800
S&P 500	1,807	1,830	1,870
Nasdaq Comp.	4,045	4,100	4,200
Nikkei 225	15,662	16,200	16,500
ATX	2,641	2,750	2,800

1 as of 29 November 2013, 12:00 noon CET
Source: Bloomberg, Raiffeisen RESEARCH

Recommendations

Markets:	**Hold:** Europe, USA, Japan
Favoured sectors:	IT, Energy, Financials, Cons. discretionary, Industrials, Healthcare

Established equity markets

Although many stock markets have been struggling a bit most recently, this was not enough to spoil the fundamentally positive momentum. As a result, important indices such as the Dow Jones Industrials or the DAX marked new all-time highs. The Japanese Nikkei 225, in turn, primarily fuelled by the yen depreciation, closed at its highest level in six years. This also means that the main index has gained, believe it or not, more than 50% since the beginning of the year. Arguably, the continuation of stock markets' solid performance is also due to persistent support from key influential factors. On the one hand, the most important economic indicators still point to economic acceleration across the globe. Also from the side of central banks, no immediate interruption to the liquidity flow is to be expected. This is especially true for the Bank of Japan, where the money tap is even more likely to be turned on. Moreover, there is currently less emphasis on the discussions surrounding "tapering" and the related fears although we and the market expect first steps towards a reduction of the US bond purchase programme to be taken in the first quarter 2014. The likelihood of an announcement as early as in December has lately increased, but with the US central bank explicitly regarding fiscal policy as a major element of uncertainty and important budget negotiations coming up in the next few weeks, we still consider it to be relatively small. That's why the mood on the stock market remains good in general. What also continues to play an essential role in this context is the low level of yields, which is the reason why real alternatives to the stock market remain in short supply currently. In addition, those investors who have so far missed out on this year's stock market rally might still try to jump on the bandwagon. Yet all in all, we still want to point out that market participants' optimism has reached levels that actually make it quite hard to justify further price increases in the short term.

Since we are now also in striking distance from index targets, we stick to our "hold" recommendation for the time being.

In the coming week, stock markets will have to digest essential especially from the side of the economy. With the ISM indices as well as the labour market report, significant US data are set to be released in this respect. Though reporting season will yet bring some latecomers, these will not have any real influence on the whole.

Expected corporate releases

USA		
Wed,	04	Brown-Forman
Thu,	05	Kroger
Europe		
Mon,	02	ThyssenKrupp

Source: Bloomberg, Raiffeisen RESEARCH

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