

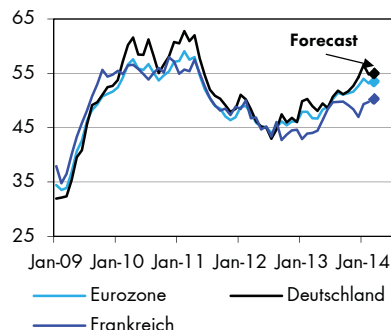
Market Outlook

Bond markets

weekly

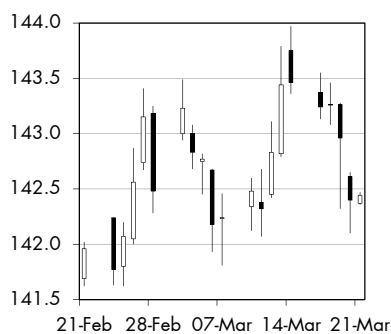
21 March 2014

Euro area: sentiment favourable



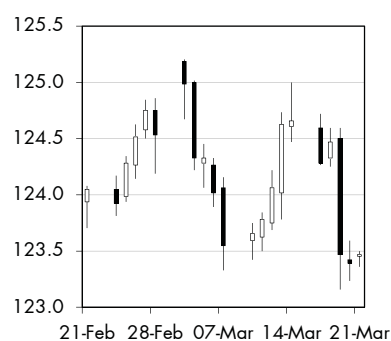
Source: Thomson Reuters, Raiffeisen RESEARCH

Bund Future



5Y-High: 147.16, 5Y-Low: 117.93
Source: Bloomberg

T-Note Future



5Y-High: 135.66, 5Y-Low: 114.94
Source: Bloomberg

Forecasts

USA	curr. ¹	Jun-14	Sep-14	Dec-14
Key rate	0.25	0.25	0.25	0.25
Libor 3M	0.23	0.30	0.30	0.45
Yield 5Y	1.70	1.90	2.10	2.30
Yield 10Y	2.77	3.00	3.30	3.50
Euro area				
Key rate	0.25	0.25	0.25	0.25
Euribor 3M	0.31	0.30	0.30	0.35
Yield 5Y	0.69	0.80	1.10	1.50
Yield 10Y	1.64	1.80	2.00	2.40
Swaprate 5Y	1.03	1.15	1.45	1.90

¹ as of 21 March 2014, 09:11 a.m. CET
Source: Thomson Reuters, Raiffeisen RESEARCH

USA

In the last week, the risk for the West emerging from the **Crimean crisis** has at least not further aggravated. Ukraine's announcement to withdraw its military from the Crimean peninsula even reduces the risk of a bloody escalation, while Western sanctions are - as expected - to date limited to individuals, which does not cause any mutual macroeconomic damage. We assume that this state of affairs will not change until further notice. Accordingly, the US central bank triggered the strongest market movement: As generally anticipated, the reduction of bond purchases (tapering) by another 10 bn (to a mere USD 55 bn) was carried forward at the first **US Fed interest rate meeting** under Janet Yellen's leadership. Also the complete abolition of the 6.5% threshold for the unemployment rate (already completely diluted most recently) had been indicated earlier and does not change the monetary policy (the Fed is now once again officially orientated towards a wider range of economic data). Yet, what then still triggered a strong market reaction was Yellen's clarification that an **initial interest rate hike** might follow around six months after the end of tapering. At the current pace, this would be in **Q2 2015** and thus sooner than previously expected by the market. The release of the new key interest rate forecast took the same line: Fed leaders expect the **key interest rate to already stand at 1%** by end of 2015 (after 0.75% previously). It may well be that Ms Yellen already regrets this unusual frankness

Key figures

USA			RBI	Kons.	zuletzt
Mon, 24.	14:45	PMI Manufacturing, prel.	Mar.	n.a.	56.5 57.1
Tue, 25.	15:00	Consumer confidence Conf. Board	Mar.	79.0	78.6 78.1
Tue, 25.	15:00	New home sales (thsd, ann.)	Feb.	450	445 468
Wed, 26.	13:30	Durable goods orders (% mom)	Feb.	1.1	1.0 -1.0
Wed, 26.	13:30	- ex transportation (% mom)	Feb.	0.2	0.1 1.1
Thu, 27.	13:30	GDP (% qoq, ann., 3rd estimate)	Q4	2.7	2.7 2.4
Thu, 27.	15:00	Pending home sales (% mom)	Feb.	n.a.	0.0 0.1
Fri, 28.	13:30	Personal income (% mom)	Feb.	0.3	0.3 0.3
Fri, 28.	13:30	Personal spending (% mom)	Feb.	0.3	0.3 0.4
Fri, 28.	14:55	U. of Michigan consumer confidence	Mar.	81.0	80.5 79.9
Europe					
Mon, 24.	09:00	FR: PMI Manufacturing, prel.	Mar.	50.3	49.8 49.7
Mon, 24.	09:00	FR: PMI Services, prel.	Mar.	48.5	47.8 47.2
Mon, 24.	09:30	DE: PMI Manufacturing, prel.	Mar.	55.0	54.5 54.8
Mon, 24.	09:30	DE: PMI Services, prel.	Mar.	55.0	55.5 55.9
Mon, 24.	10:00	EUR: PMI Manufacturing, prel.	Mar.	53.5	53.0 54.8
Mon, 24.	10:00	EUR: PMI Services, prel.	Mar.	52.6	52.6 52.6
Tue, 25.	08:45	FR: Business Climate	Mar.	101	100 100
Tue, 25.	10:00	DE: ifo business climate	Mar.	110.7	110.8 111.3
Tue, 25.	10:00	DE: ifo current assessment	Mar.	115.0	114.6 114.4
Tue, 25.	10:00	DE: ifo business expectations	Mar.	106.5	108.0 108.3
Wed, 26.	11:00	IT: Consumer confidence	Mar.	98.0	98.5 97.5
Thu, 27.	08:45	FR: Consumer confidence	Mar.	85	86 85
Thu, 27.	10:00	IT: Business confidence	Mar.	100	99.6 99.1
Thu, 27.	10:00	EUR: Money supply M3 (% yoy)	Feb.	1.2	1.3 1.2
Fri, 28.	11:00	EUR: Economic confidence	Mar.	102.0	101.4 101.2
Fri, 28.	11:00	EUR: Industrial Confidence	Mar.	-3.2	-3.5 -3.4
Fri, 28.	14:00	DE: Consumer price index (% yoy), prel.	Mar.	0.9	1.0 1.0

Source: Bloomberg, Raiffeisen RESEARCH

GDP (real %yoy)

	2013e	2014f	2015f
Austria	0.4	1.5	2.3
Germany	0.5	1.8	2.5
France	0.3	1.0	1.8
Belgium	0.2	1.7	2.3
Netherlands	-0.8	1.7	2.1
Finland	-1.4	0.8	2.2
Ireland	-0.3	2.0	3.0
Italy	-1.8	0.7	1.5
Spain	-1.2	1.5	2.0
Portugal	-1.4	2.0	2.2
Greece	-3.9	0.0	2.0
Euro area	-0.4	1.5	2.0
United Kingdom	1.4	2.8	2.4
Switzerland	2.0	2.0	2.0
USA	1.9	2.5	3.2
Japan	1.5	1.4	1.1

Source: Thomson Reuters, Raiffeisen RESEARCH

Consumer price index (% yoy)

	2013	2014f	2015f
Austria	2.1	1.8	1.8
Germany	1.6	1.5	2.0
France	1.0	1.4	1.6
Belgium	1.2	1.3	1.9
Netherlands	2.6	0.6	1.4
Finland	2.2	1.3	1.8
Ireland	0.5	0.8	1.5
Italy	1.3	0.8	1.2
Spain	1.5	0.5	1.1
Portugal	0.4	0.7	1.2
Greece	-0.9	-0.8	0.6
Euro area	1.4	1.1	1.5
United Kingdom	2.6	2.4	2.8
Switzerland	-0.2	0.4	1.1
USA	1.5	1.5	2.2
Japan	0.4	1.5	0.9

Source: Thomson Reuters, Raiffeisen RESEARCH

Forecasts

	current ¹	Jun-14	Sep-14	Dec-14
CHF				
Libor 3M	0.02	0.0	0.0	0.0
Yield 10Y	1.02	1.0	1.2	1.4
YEN				
Key rate	0.10	0.1	0.1	0.1
Libor 3M	0.14	0.1	0.1	0.2
Yield 10Y	0.60	0.7	0.7	0.8
FX				
EUR/USD	1.38	1.35	1.30	1.35
EUR/JPY	140.6	142	140	149
USD/JPY	102.1	105	108	110
EUR/CHF	1.22	1.22	1.25	1.28
Crude				
Brent (USD)	106.3	114	118	116

¹ as of 21 March 2014, 09:11 a.m. CET

Source: Thomson Reuters, Raiffeisen RESEARCH

and the Fed will next try to again relativize this statement. Given our optimistic expectations as to the US economy and the labour market, the initial interest rate hike should, however, come even earlier (Q1) than the market currently forecasts. In so far, there is still much room for higher bond yields in the coming months and quarters. Also the most recently largely positive US data are consistent with the FOMC's slightly higher interest rate expectations. Especially the **Philly Fed Index** underscored our longer-held view that (partly because of the weather) the economy saw only a temporary period of weakness at the beginning of the year.

The improved picture of US economic data is expected to be largely carried forward into the **coming week**: Despite a decrease, the Markit manufacturing PMI is expected to remain way beyond the ISM Industry (also the latter should recover to this level in the coming months). We expect both consumer confidence surveys to post (small) gains while incoming orders should achieve a rebound following the previous month's weakness and Q4 GDP is expected to see an upward revision. The subsequent week will then bring the really exciting heavyweights (ISM, labour market report; we take an optimistic view on both of them).

In the wake of the Fed's interest rate meeting, ten-year **US bond yields** rose around 10bp to 2.75% and have been able to maintain this level ever since. Without an escalation of the conflicts in Ukraine and the dispute between Russia and the EU/US, respectively, the improved economic data are expected to prevail in the coming weeks and months, with yields climbing back to 3% (and also significantly beyond until year-end). After the Fed meeting, the **USD** gained strongly versus the EUR. The correlation between the market's monetary policy expectation and the exchange rate is therefore still intact. This causes us to be optimistic that rising key interest rate expectations for the US will once again markedly depress the EUR/USD over the course of the year.

Financial analyst: Valentin Hofstätter

Euro area

After a relatively calm week in terms of data, several interesting economic surveys are scheduled for the coming days. Releases will kick off on Monday with the preliminary estimates of March **purchasing managers indices (PMI)**. When it comes to the manufacturing surveys, we expect to see slight increases both in the Euro area and in Germany and France, which makes us slightly more optimistic than the consensus. As for the services sector, we assume stagnation for the Euro area survey. The considerable gap between Germany and France should thereby diminish somewhat. Furthermore, we forecast slight improvements in the various surveys on **economic climate** in the Euro area as well as in France and Italy. The only setback we assume – albeit at a high level – is for the German **ifo index** due to the indications of the Sentix and ZEW indices. Apart from economic surveys, interesting data indications as to the price development as well as **money and credit aggregates** are due with a view to the next ECB meeting (3 April). The Euro area's money supply growth will likely persist unalteredly clearly below the central bank's target value. The reduction in credit volumes to the private economy should instead slow gradually. Energy price effects lead us to once again assume a small decrease in the preliminary estimate of Germany's March **inflation rate**. Yet, the year-on-year rate will then again show an upward tendency starting in April.

On the **secondary market**, the US Fed gave rise to movements in the past week as the announcement of FOMC-members' higher interest rate expectations led to

rising bond yields also in the Euro area. After temporarily yielding just slightly more than 1.50% as a result of the Crimean crises, German government bond yields (10Y) performed a marked upward jump given the outcome of the most recent Fed meeting. Principally owing to the economic outlook, we forecast a continuation of this development in the coming quarters. Due to the possibility of increasingly strict sanctions against Russia, safe havens might however remain in demand for the time being. This could potentially slow down the fundamentally expected increase in German government bond yields for the moment. On a three-month horizon, we believe an increase to around 1.80% to be realistic. At the same time, we consider the threat of noticeable setbacks for Southern European government bonds to be limited.

Italy will dominate **primary market** events in the coming days. For Wednesday, the auction of an inflation-indexed as well as a zero-coupon bond has been scheduled, followed by the issuance of bills on Thursday. An auction of five- and ten-year bonds is then planned for Friday. Moreover, a bond auction is also planned in the Netherlands, while Germany and Malta will issue money market papers.

On the **rating calendar** we have Austria and Luxembourg (S&P), Estonia (Moody's) and Finland (Fitch) on the agenda for next Friday.

Financial analyst: Eva Bauer

Overview government bonds

Yields 10Y					
	curr. ¹ (%)	1W Δ (BP)	5Y H (%)	5Y L (%)	Ytd Δ (BP)
AT	1.91	7.0	4.49	1.48	-36.7
DE	1.64	9.1	3.72	1.17	-29.2
FR	2.17	5.1	4.05	1.66	-38.4
BE	2.28	4.6	5.86	1.92	-27.3
NL	1.86	8.0	4.12	1.49	-37.6
FN	1.95	9.2	4.15	1.33	-18.4
IE	3.07	4.0	14.08	3.01	-43.9
IT	3.41	0.9	7.26	3.37	-71.1
ES	3.35	0.9	7.62	3.30	-80.3
PT	4.38	-22.3	17.39	3.73	-175.4
GR	6.95	-27.6	37.10	4.42	-146.9
GB	2.77	8.0	4.23	1.44	-25.5
CH	1.01	4.9	2.51	0.39	-5.9
US	2.77	11.2	3.99	1.39	-26.2
JP	0.60	-4.3	1.56	0.45	-14.0

¹ as of 21 March 2014, 8:55 a.m. CET
Source: Bloomberg

Debt issuance calendar

Issuer	Date	Maturity	Coupon (%)	Vol* (%)
Bonds				
NL	Tue, 25.	2024	n.a.	5
IT	Wed, 26.	n.a.	n.a.	n.a.
	Thu, 27.	2019, 2024	n.a.	7
Bills				
DE	Mon, 24.	12M	-	n.a.
MT	Tue, 25.	3M, 6M	-	n.a.
IT	Wed, 26.	6M	-	8.5

* EUR bn
Source: Bloomberg

Ratings

	Moody's	S&P	Fitch
Austria	Aaa (s)	AA+ (s)	AAA (s)
Germany	Aaa (s)	AAA (s)	AAA (s)
France	Aa1 (n)	AA (s)	AA+ (s)
Belgium	Aa3 (s)	AA (s)	AA (s)
Netherlands	Aaa (s)	AA+ (s)	AAA (n)
Finland	Aaa (s)	AAA (s)	AAA (s)
Ireland	Baa3 (p)	BBB+ (p)	BBB+ (s)
Italy	Baa2 (s)	BBB (n)	BBB+ (n)
Spain	Baa2 (p)	BBB- (s)	BBB (s)
Portugal	Ba3 (s)	BB (n)	BB+ (n)
Greece	Caa3 (s)	B- (s)	B- (s)
GB	Aa1 (s)	AAA (n)	AA+ (s)
Switzerland	Aaa (s)	AAA (s)	AAA (s)
USA	Aaa (s)	AA+ (s)	AAA (s)
Japan	Aa3 (s)	AA- (n)	A+ (n)

Outlook: p = positive, n = negative, s = stable
Source: Bloomberg

Market Outlook Equity Markets

Performance

	-5D*	-5Y in %**
Nikkei	3.1	18.0
Nasdaq Comp.	2.6	8.7
SMI	2.3	8.5
DJIA	2.1	10.5
S&P 500	1.4	19.5
MSCI World	1.4	24.3
STOXX Europe 50	1.4	17.5
Euro STOXX 50	0.9	10.0
ATX	0.7	11.5
FTSE	0.6	14.9
Hang Seng CE	-0.2	11.2
DAX	-1.3	4.2
CECE Comp. (CE)	-4.0	12.4

* performance from 13 Mar 2014 - 20 Mar 2014
(closing prices in each case)

** per year;

Source: Thomson Reuters

Performance

	-5D*	-5Y in %**
Telecoms	1.6	8.8
IT	1.5	18.6
Energy	1.0	9.2
Health Care	1.0	17.7
Financials	0.6	14.9
MSCI World	0.6	14.9
Industrials	0.3	18.6
Cons. Staples	0.0	14.4
Cons. Discretionary	-0.1	22.8
Utilities	-0.2	3.6
Materials	-0.5	9.2

* weekly performance of global MSCI sector indices
from 13 Mar 2014 - 20 Mar 2014 (closing prices in
each case)

** per year;

Source: Thomson Reuters

Forecasts

	current ¹	Jun-14	Dec-14
Euro STOXX 50	3,102	3,200	3,300
DAX	9,342	9,700	10,000
ATX	2,483	2,600	2,700
SMI	8,326	8,550	8,900
FTSE	6,568	6,750	7,000
DJIA	16,331	16,500	17,000
S&P 500	1,872	1,910	1,970
Nasdaq Comp.	4,319	4,510	4,650
Nikkei	14,224	15,200	16,300
Hang Seng CE	9,427	9,650	10,500

¹ as of 21 March 2014, 12:00 noon CET

Source: Bloomberg, Raiffeisen RESEARCH

Recommendations (3 months horizon)

Stock markets: **Buy:** ATX, DAX, Euro STOXX 50, SMI, Nasdaq Comp., Nikkei 225
Hold: FTSE, Dow Jones Industrials, S&P 500

Established equity markets

After the conflict between Ukraine and Russia had initially impacted stock markets, it seems to have lost a considerable part of its negative radiance ever since the referendum in Crimea. Also the imposition of first mutual sanctions was unable to impair the price recovery on international stock markets which had set in on Monday. Obviously, the absence of further escalation in Eastern Ukraine as well as the preliminary avoidance of economic damage especially for the Euro area still appeased investors.

Accordingly, other topics are now once again granted more space. Though the US interest rate meeting brought some more hints regarding possible interest rate hikes in the future, this unsettled stock markets only for a short time. Also the unchanged course of action as to the reduction of bond purchases by the Fed have meanwhile become a matter of concern for very few, especially since the most recent positive signals have largely come from US leading economic indicators. Though the crisis surrounding Ukraine was somewhat sidelined, it still has enough potential to remain a continuous source of unrest also in the coming months. Since we do not assume a further escalation of the situation in our base scenario, there should be dampening but no sustainable negative effects on stock markets from this point of view. We therefore expect fundamental data to move into focus again sooner or later. An important role in this regard will primarily be played by the profit development. Especially against the backdrop of the observed valuation extension, rising earnings are necessary in the current year. Although in Europe, for instance, the respective revisions were negative until the end, the prospect of growing momentum in the global economy is an essential reason for us to consider the profit growth currently expected by consensus to be definitely within reach. All in all, we anticipate a positive development in the stock markets under our observation in the following months. While we see only slightly higher levels for the US stock markets (with the exception of the Nasdaq Composite), we are more optimistic for Europe. What comes into account in the particular case are the still not expensive valuations and decreasing geopolitical tensions, which lead us to expect that the built-up risk premium will be factored in. In Japan, in turn, the ultra-expansionary monetary policy, the resulting expectation of a yen depreciation and a further increase in corporate profits speak for a return to the previous year's appreciation trend for the Nikkei 225.

Financial analyst: Johannes Mattner

Expected corporate releases

USA

Tue, 25	Carnival, McCormick & Co, Walgreen, Paychex
Thu, 27	Red Hat
Fri, 28	BlackBerry

Europe

Tue, 25	Baloise, Kingfisher, Mediaset, Wolseley
Thu, 27	H&M, Pirelli

Source: Bloomberg, Raiffeisen RESEARCH

Risk notifications and explanations

Warnings

- Figures on performance refer to the past. Past performance is not a reliable indicator of the future results and development of a financial instrument, a financial index or a securities service. This is particularly true in cases when the financial instrument, financial index or securities service has been offered for less than 12 months. In particular, this very short comparison period is not a reliable indicator for future results.
- Performance is reduced by commissions, fees and other charges, which depend on the individual circumstances of the investor.
- The return on an investment can rise or fall due to exchange rate fluctuations.
- Forecasts of future performance are based purely on estimates and assumptions. Actual future performance may deviate from the forecast. Consequently, forecasts are not a reliable indicator for the future results and development of a financial instrument, a financial index or a securities service.

A description of the concepts and methods which are used in the preparation of financial analyses can be found at: www.raiffeisenresearch.at/conceptsandmethods

Detailed information on sensitivity analyses (procedure for checking the stability of the assumptions made in this document) can be found at: www.raiffeisenresearch.at/sensitivityanalysis

Equity market indices

Financial instruments	Date of the first publication	Distribution of recommendations of the past three months	
Euro STOXX 50	26/02/1998	Recommendation	Base: all analysed equity market indices
DAX 30	01/04/1993		
FTSE 100	01/04/1993	Buy	66%
SMI	01/04/1993	Hold	28%
S&P 500	01/04/1993	Sell	6%
Nasdaq Comp.	01/07/1998		
DJIA	01/04/1993		
Nikkei 225	01/04/1993		
HSCEI	01/01/2007		

Recommendation history (12m)

Date	ATX	Euro STOXX 50	DAX 30	FTSE 100	SMI	S&P 500	Nasdaq Comp.	DJIA	Nikkei 225	HSCEI
22/03/2013	Buy	Buy	Buy	Buy	Buy	Buy	Buy	Buy	Sell	Buy
10/05/2013	Hold	Hold	Hold	Hold	Hold	Hold	Hold	Hold	Hold	I
07/06/2013	I	I	I	I	I	I	I	I	Buy	I
20/06/2013	I	I	I	I	I	I	I	I	Buy	Buy
08/08/2013	I	I	I	I	I	I	I	I	I	I
13/08/2013	Sell	I	I	I	I	I	I	I	I	I
13/09/2013	Buy	Buy	Buy	Buy	Buy	Buy	Buy	Buy	I	I
07/11/2013	I	I	I	I	I	I	I	I	I	I
08/11/2013	Hold	Hold	Hold	Hold	Hold	Hold	Hold	Hold	I	I
15/11/2013	I	I	I	I	I	I	I	I	Hold	I
13/12/2013	Buy	Buy	Buy	Buy	Buy	Buy	Buy	Buy	Buy	I
20/12/2013	I	I	I	I	Hold	I	I	Hold	Hold	I
17/01/2014	Hold	Hold	Hold	Hold	I	Hold	Hold	I	I	I
14/02/2014	Buy	Buy	Buy	Buy	Buy	Buy	Buy	Buy	Buy	I

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