

Market Outlook Bond markets

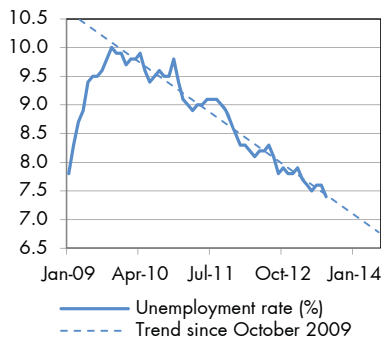
weekly

30 August 2013



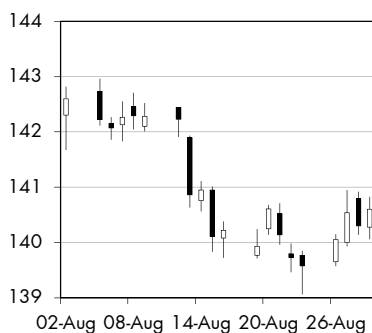
**Raiffeisen
RESEARCH**

USA: Irresistible downward path



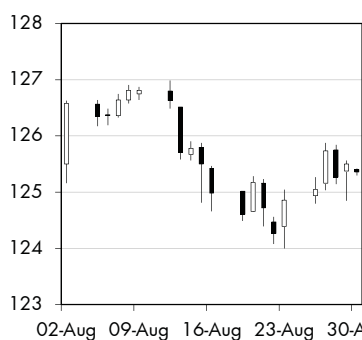
Source: Thomson Reuters, Raiffeisen RESEARCH

Bund Future



Source: Bloomberg

T-Note Future



Source: Bloomberg

Forecasts

USA	curr. ¹	Dec-13	Mar-14	Jun-14
Key rate	0.25	0.25	0.25	0.25
Libor 3M	0.26	0.30	0.30	0.30
Yield 5Y	1.60	1.70	1.90	2.10
Yield 10Y	2.77	2.90	3.00	3.20
Euro area				
Key rate	0.50	0.50	0.50	0.50
Euribor 3M	0.23	0.30	0.30	0.35
Yield 5Y	0.80	0.90	1.00	1.20
Yield 10Y	1.84	1.80	1.90	2.10
Swaprate 5Y	1.32	1.45	1.55	1.80

¹ as of 2 September 2013, 10:26 a.m. CET
Source: Thomson Reuters, Raiffeisen RESEARCH

Recommendation (Horizon: September 2013):

Neutral: USD bonds, DE bonds

USA

The two most important data publications of the month will again be forthcoming next week. Releases will be ushered with the **ISM manufacturing index** set for Tuesday. In July, the latter registered the sharpest month-on-month increase in 17 years and came in at 55.4 points, thereby signaling a strong expansion of the economy, which we believe to be too strong. We therefore expect to see a countermovement and a decrease by around 2 points in August. The second data highlight of the week is due on Friday with the **labour market report**. We forecast an employment growth of net 180 k. There are no indications that the solid employment development over the previous months might have ended in August. As for the unemployment rate, we again hold out the prospect of improvement after the surprisingly strong minus in July. We expect to see a decrease to 7.3% from 7.4%. The demographic change as well as the robust employment growth presented by the household survey – an average plus of 256 k new jobs per month since April – uphold the downward pressure on the unemployment rate, which will drop to a level of 7% by the end of the year.

The remaining data of interest on the coming week's agenda are **trade balance figures** for July (Wed) as well as the **ADP employment report**, the **ISM index for the non-manufacturing sector** and **factory orders** (all Thurs).

After still climbing to an interim level of more than 2.9% last week, the **yield for 10y US government bonds** went into reverse in the past week. At currently 2.75%, it has virtually reached our September target we recently revised up-

Key figures

USA			RBI	Cons.	prior
Tue, 3.	16:00	ISM Manufacturing Index	Aug.	53.5	54.0 55.4
Wed, 4.	14:30	Trade balance (USD, bn)	Jul.	-40.0	-38.7 -34.2
Thu, 5.	14:15	ADP Employment (thsd, mom)	Aug.	185	180 200
Thu, 5.	16:00	Factory orders (% mom)	Jul.	-3.2	-3.5 1.5
Thu, 5.	16:00	ISM Non-Manufacturing Index	Aug.	n.a.	55 56
Fri, 6.	14:30	Nonfarm payrolls (thsd, mom)	Aug.	180	180 162
Fri, 6.	14:30	Unemployment rate (%)	Aug.	7.3	7.4 7.4

Europe

Mon, 2.	08:45	IT: PMI Manufacturing	Aug.	51.2	51.0 50.4
Mon, 2.	09:15	ES: PMI Manufacturing	Aug.	51.3	51.0 49.8
Wed, 4.	09:15	ES: PMI Services	Aug.	50.0	50.0 48.5
Wed, 4.	09:45	IT: PMI Services	Aug.	50.0	49.8 48.7
Thu, 5.	12:00	DE: Factory orders (% mom)	Jul.	-1.8	-1.0 3.6
Fri, 6.	09:00	ES: Industrial output (% yoy)	Jul.	-1.1	n.a. -1.9
Fri, 6.	12:00	DE: Industrial production (% mom)	Jul.	-1.0	-0.5 2.4

Events

Wed, 4.	20:00	Fed releases Beige Book	Jul./Aug.	-	-	-
Thu, 5.	13:45	ECB Interest rate decision (%)	Sep.	0.5	0.5	0.5

Source: Bloomberg, Raiffeisen RESEARCH



GDP (real %yoy)

	2012	2013e	2014f
Austria	0.9	0.5	1.5
Germany	0.9	0.5	1.8
France	0.0	-0.4	0.6
Belgium	-0.3	-0.1	1.4
Netherlands	-1.0	-0.8	1.1
Finland	-0.2	-0.7	1.5
Ireland	0.2	0.1	1.5
Italy	-2.4	-1.7	0.7
Spain	-1.6	-1.5	1.0
Portugal	-3.2	-2.3	0.9
Greece	-6.4	-4.5	-1.0
Euro area	-0.5	-0.7	1.2
UK	0.2	0.8	1.7
Switzerland	1.0	1.3	1.6
USA	2.8	1.5	2.5
Japan	1.9	2.2	2.3

Source: Thomson Reuters, Raiffeisen RESEARCH

ward. Reserved statements by various Fed members as well as the slump in new orders for durable goods by more than 7% on a monthly basis certainly played their part in calming over-heated bond markets. Yet, we also believe the biggest tapering hype to be behind us now. This is evidenced, above all, by the fact that good economic data, which were numerous in the current week (Richmond Fed Index, Conference Board consumer confidence, house prices, initial jobless claims, upward revision to Q2 GDP), were completely ignored. One can arguably assume that the Fed will cut back on bond purchases with virtual certainty before the end of the year. If the labour market report on Friday proves to be in line with expectations, this might even occur as early as in September or October. The exact date of the entry into the exit from QE3 is, in fact, irrelevant. What matters is that it will actually happen. Meanwhile, there no longer seems to be any doubt about it on the market. For this reason, we consider further upward potential for US yields to be limited in the short term, whereas in the medium term the yield increase will continue – albeit at a somewhat slower pace.

Consumer price index (% yoy)

	2012	2013e	2014f
Austria	2.6	1.9	1.8
Germany	2.1	1.5	1.5
France	2.2	1.3	1.5
Belgium	2.6	1.2	1.8
Netherlands	2.8	2.7	1.6
Finland	3.2	2.3	1.9
Ireland	1.9	1.0	1.4
Italy	3.3	1.7	1.5
Spain	2.4	1.5	1.1
Portugal	2.8	0.6	1.3
Greece	1.0	-0.3	-0.3
Euro area	2.5	1.5	1.6
UK	2.8	2.8	2.5
Switzerland	-0.7	0.1	0.7
USA	2.1	1.5	2.0
Japan	0.0	0.1	1.5

Source: Thomson Reuters, Raiffeisen RESEARCH

Forecasts

	current ¹	Dec-13	Mar-14	Jun-14
CHF	0.02	0.0	0.0	0.0
Libor 3M	0.02	0.0	0.0	0.0
Yield 10Y	1.09	0.9	1.0	1.1
YEN				
Key rate	0.10	0.1	0.1	0.1
Libor 3M	0.15	0.1	0.1	0.1
Yield 10Y	0.73	0.8	0.9	1.0
FX				
EUR/USD	1.32	1.30	1.31	1.35
EUR/JPY	129.76	140	147	151
USD/JPY	97.98	108	112	112
EUR/CHF	1.23	1.25	1.28	1.28
Crude				
Brent (USD)	116.25	115	118	116

¹ as of 2 September 2013, 10:26 a.m. CET

Source: Thomson Reuters, Raiffeisen RESEARCH

Euro area

In the coming days, the still missing results from **purchasing managers' indices** (PMI) for the manufacturing and services sectors in individual EUR countries will be released. The available estimates for Germany, France and the overall euro area suggest clear improvements in other countries within the currency union such as Spain or Italy. Forthcoming **Germany and Spain industry data** will be comparatively disappointing. This, however, is not inconsistent with the friendly trend revealed by economic surveys. In Germany, June incoming orders and production, respectively, posted a marked plus. A counter-movement in the following month is a common pattern. Though Spain's industrial output still falls short of the previous year's level, the downward dynamics has lost momentum and we forecast an increase in production in monthly terms.

Yet, market participants might watch the **ECB interest rate meeting** and the subsequent press conference, respectively, more closely than data. The ECB communicated an easing bias. Due to improvements in economic surveys, however, this is likely to be abandoned. After all, also the upward drift at Euribor rates has come to a standstill and across the Euro area difference of lending rates either for states (government bond yields) or for the private sector (lending rates) has diminished. According to most recent verbal statements, single council members (e.g. Nowotny), no longer see any reason for a renewed interest rate cut. Given the still low monetary growth and especially the reduction of credit volume in the private sector, the central bank will, however, keep the door for other monetary policy measures open. We don't expect many changes from the newly presented ECB forecasts. Only the GDP estimates for the current year are likely to be raised somewhat (=recession will be less pronounced).

On the **bond market**, the forthcoming improved leading economic indicators may already have been factored in. Also a modification in the ECB's wording might trigger little movement. In the light of the data situation, the majority of market participants might already have distanced themselves from the fantasy of a renewed interest rate cut. As a result, market events might be dominated by the news flow about a possible military intervention in Syria involving some Western countries. Excluding out the last-mentioned unpredictable influencing factor, the most recent and overdue counter-movement (=decreases in government bond yields, extension of country spreads) after the strong increases in German yields and the, in part, marked spread decreases since July might continue.

On the **primary market**, Austria, Germany, Spain and France will issue bonds in the following days. Moreover, the Netherlands, Belgium, France and Malta will auction money market papers.

Overview government bonds

Yields 10Y					
	curr. ¹ (%)	1W Δ (BP)	52W H (%)	52W L (%)	Ytd Δ (BP)
AT	2.29	-4.7	2.34	1.48	53.9
DE	1.86	-6.5	1.94	1.17	53.9
FR	2.45	-2.6	2.48	1.66	45.0
BE	2.73	-6.5	2.85	1.92	67.5
NL	2.28	-3.9	2.33	1.49	78.1
FN	2.14	-5.5	2.21	1.33	61.1
IE	4.11	12.6	4.29	3.43	n.a.
IT	4.37	5.9	5.85	3.76	-12.5
ES	4.53	5.2	6.86	4.04	-73.1
PT	6.57	0.9	9.33	5.23	-43.7
GR	10.29	26.2	23.41	8.13	-160.6
UK	2.77	6.0	2.80	1.46	94.5
CH	1.09	-0.1	1.15	0.39	56.0
US	2.77	-4.2	2.89	1.55	101.6
JP	0.72	-5.7	0.93	0.45	-7.4

¹ as of 2 September 2013, 07:15 a.m. CET

Source: Bloomberg

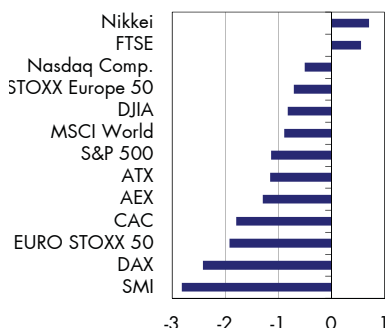
Debt issuance calendar

Issuer	Date	Maturity	Coupon (%)	Vol* (%)
Bonds				
AT	Tue, 3.	2023	1.75	n.a.
	Tue, 3.	2044	3.15	n.a.
DE	Wed, 4.	2018	n.a.	5
ES	Thu, 5.	n.a.	n.a.	n.a.
FR	Thu, 5.	n.a.	n.a.	n.a.
Bills				
NL	Mon, 2.	3M, 7M	-	4
FR	Mon, 2.	n.a.	-	n.a.
MT	Tue, 3.	n.a.	-	n.a.
BE	Tue, 3.	n.a.	-	n.a.

* EUR bn

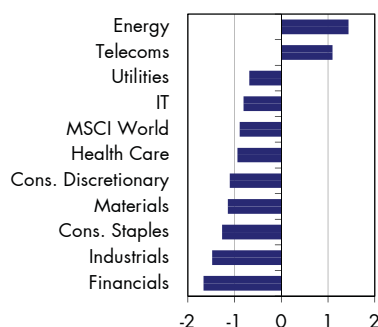
Source: Bloomberg

Market performance (% , 1 week)*



* performance from 22 – 29 August 2013
Source: Thomson Reuters

Sector performance (% , 1 week)*



* weekly performance of global MSCI sector indices from 22 – 29 August 2013
Source: Thomson Reuters

Forecasts

	current ¹	Dec-13	Mar-14
Euro STOXX 50	2,741	2,850	2,900
DAX	8,140	8,500	8,700
FTSE	6,454	6,700	6,700
SMI	7,760	8,100	8,150
DJIA	14,841	15,500	15,800
S&P 500	1,638	1,700	1,710
Nasdaq Comp.	3,620	3,750	3,700
Nikkei 225	13,389	16,300	16,700
ATX	2,447	2,550	2,620

¹ as of 2 September 2013, 12:00 noon CET
Source: Bloomberg, Raiffeisen RESEARCH

Recommendations

Markets: Hold: Europe, USA Buy: Japan

Favoured sectors: Energy, Industrials, Technology, Consumer discretionary, Utilities

Established equity markets

Developments on international stock markets prove to be fairly tenacious currently, with most investors holding their horses. This is mainly due to developments surrounding Syria. Although most recent events (e.g. the failed vote in British parliament) make it more difficult to assess the situation, the peril of a military intervention in Syria remains the elephant in the room. This, of course, raises the question of the impact this might have on future developments on stock markets. It is all but easy to give an exact answer to this question. Yet, a look back on the history and careful examination of stock market developments in periods of larger military operations (Kosovo, Iraq, Afghanistan, Libya) reveal that especially in the run-up to controversies stocks tended to post a weaker development. The start of military escalation, however, used to be followed by a relaxation on stock markets and brought about a better development. Yet, as long as there is no clarity when it comes to this subject, uncertainty in this regard will arguably persist.

Despite the currently somewhat dampened mood, bustling merger and takeover activity is still observed on the market. In the pharmaceuticals industry, a large takeover has most recently attracted attention. Amgen took over Onyx Pharmaceutical for around USD 10.4 bn. Speculations about entirely different dimensions are currently alive in the US telecom sector. Vodafone has obviously entered negotiations with Verizon Communications about the sale of its share in Verizon Wireless. The transaction is likely to have a volume of USD 130 bn. Although such deals are certainly to be interpreted as positive, they do not change the fact that with regard to short-term developments on stock markets we hold on to our somewhat conservative attitude. On the one hand, we assume that the US central bank will not be long in tapering the bond-buying program and thus in providing markets with less liquidity. On the other, we already mentioned that meanwhile also sentiment towards global economic dynamism is again very good. Moreover, economic surprise indices signalize that macroeconomic sentiment cannot become much better for the time being.

In the coming week, the forthcoming US economic data will be in the spotlight on stock markets along with the conflict in Syria. Especially ISM indices and the labour market report should trigger movement. No relevant publications are to be expected on the part of companies.

Expected corporate releases

USA

no relevant data available

Europe

no relevant data available

Source: Bloomberg, Raiffeisen RESEARCH

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