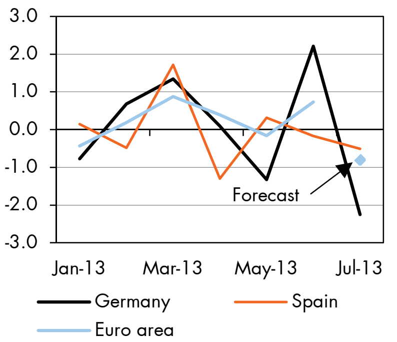
Market Outlook
Bond markets
weekly

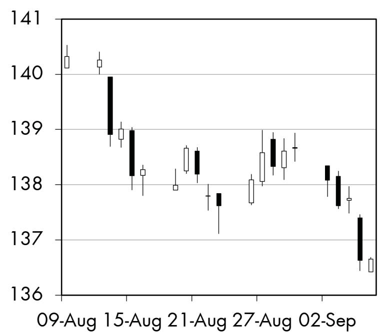
6 September 2013

Weak start of industrial sector* in Q3



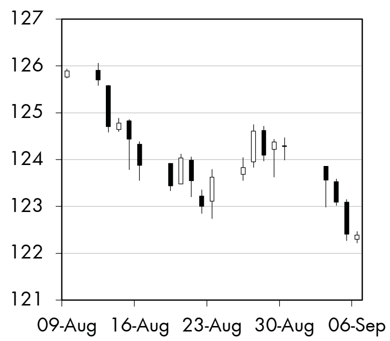
*Industrial production % mom
Source: Thomson Reuters, Raiffeisen RESEARCH

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	1.84	1.70	1.90	2.10
Yield 10Y	2.98	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	1.10	0.90	1.00	1.20
Yield 10Y	2.02	1.80	1.90	2.10
Swaprate 5Y	1.50	1.45	1.55	1.80

1 as of 6 September 2013, 09:19 a.m. CET
Source: Thomson Reuters, Raiffeisen RESEARCH

Recommendation (Horizon: September 2013):
Neutral: USD bonds, DE bonds

USA

After the data highlights of the past week, there will be only few releases on the coming week's agenda, whereby August **retail sales** numbers are likely to attract most of the attention (Fri). We expect a similarly strong increase as in July. Support should have come from automobile sales, which experienced a perceptible increase in the previous month. Yet, below the line consumers remain hesitant. Also on Friday, the preliminary **University of Michigan consumer confidence** will be announced. We do not expect consumer sentiment to have changed significantly in September and forecast a value close to the previous month's result. Finally, the first price development data in August are also on next week's schedule. Releases will kick off with **import prices** (Thurs), followed by **producer prices** (Fri). Although we anticipate a month-on-month increase in both cases, a favourable base effect – strong increase in the oil price in August 2012 – will send the prior year rate noticeably down.

Some market actors might not be exactly unhappy with the lack of relevant economic data until the end of the week, as it gives them time to digest in peace the **labour market data** for August published today. Since both the ADP employment report and the ISM index employment component had surprised to the upside this week, most market participants likely assumed an employment plus at least as high as the analyst consensus of 180 k net. In so far, the finally published job growth of 169 k is a clear disappointment. Moreover, the previous month's figures experienced a downward revision by a total of 74 k. It was especially the service sector that showed some weakness in August whereas in the public sector and in manufacturing surprisingly many jobs were created. Despite the weak employment figures the unemployment rate dropped to 7.3% as expected by us.

Driven by the strong economic data, the **ten-year US government bond yield** already climbed to an intermin level of 3% over the last few days. Yet, it lost some ground to 2.9% on the heels of the labour market data. With regard to the ques-

Key figures

USA					RBI	Cons.	prior
Thu,	12.	14:30	Import price index (% yoy)	Aug.	**0.3**	0.3	1.0
Fri,	13.	14:30	Producer price index (% yoy)	Aug.	**1.3**	1.3	2.1
Fri,	13.	14:30	- core rate (% yoy)	Aug.	**1.3**	1.3	1.2
Fri,	13.	14:30	Retail sales (% mom)	Aug.	**0.3**	0.4	0.2
Fri,	13.	14:30	- less autos (% mom)	Aug.	**0.2**	0.3	0.5
Fri,	13.	15:55	U. of Michigan consumer confidence, prel.	Sep.	**80.0**	82.0	82.1
Fri,	13.	16:00	Business inventories (% mom)	Jul.	**n.a.**	0.3	0.0
Europe							
Mon,	9.	10:30	EUR: Sentix investor confidence	Sep.	**0.8**	-4.0	-4.9
Tue,	10.	08:45	FR: Industrial production (% mom)	Jul.	**0.4**	0.8	-1.4
Thu,	12.	10:00	IT: Industrial production (% mom)	Jul.	**0.0**	0.2	0.3
Thu,	12.	11:00	EUR: Industrial production (% mom)	Jul.	**-0.8**	0.3	0.7

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

** under revision*
Source: Thomson Reuters, Raiffeisen RESEARCH

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				
Libor 3M	0.02	0.0	0.0	0.0
Yield 10Y	1.16	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	0.80	0.8	0.9	1.0
FX				
EUR/USD	1.31	1.30	1.31	1.35
EUR/JPY	130.8	140	147	151
USD/JPY	99.7	108	112	112
EUR/CHF	1.24	1.25	1.28	1.28
Crude				
Brent (USD)	115.6	115	118	116

1 as of 6 September 2013, 09:19 a.m. CET
Source: Thomson Reuters, Raiffeisen RESEARCH

tion of a possible start of the Fed's tapering, the result of the labour market report is most unfortunate. On the one hand, the July/August employment growth based on today's figures averaged no more than 136 k and thus falls short of the first half-year's average (195 k). Taken in isolation, this rather speaks against an announcement of a bond purchase tapering as early as in September. On the other, the unemployment rate has dropped again and at 7.3% only just holds above the 7% level, which is where the Fed would actually have wanted to stop bond purchases altogether. If the rate continues to decrease at the speed of the previous months – which is our assumption – it will already stand at 7% by the turn of the year. The longer the Fed will hold off before exiting QE3, the less plausible its schedule will become, namely a complete termination of purchases only in mid-2014. For this reason, we continue to see a high likelihood for an announcement of the bond purchase tapering in the week after next. The strong increase in ISM indices might be the trigger. If we prove to be wrong, it might, however, happen no later than in October. Yet, since these expectations are already completely factored into the prices of US government bonds, we hardly see any upward potential for yields in the short term. The Fed has made it clear and will do so again also after the next interest rate meeting that the entry into the exit from QE3 does not represent an indication of any early interest hikes whatsoever. The guardians of the currency will emphasize more than ever before that the current interest rate level of just above 0% ought to remain in place at least by mid-2015. Yet, a yield increase without interest rate hike phantasies and without inflation risks becomes more and more difficult to imagine.

Euro area

After data-rich weeks, calm will be restored in the coming days. With the **Sentix index**, the first leading economic indicator of the current month will be released. We hold out the prospect of a further increase, which should be supported by the improvement both in the current situation and in expectations. The forthcoming **industrial output data** provide first insights into Q3 real economic activity. In **France**, the most recently published leading indicators turned out rather moderate, which is why we do not forecast any strong countermovement despite the notable output decline in the two previous months. In **Italy**, instead, a continued strong increase in orders is to be observed. For this reason, we do not expect the slight output expansions over the last two months to be followed by a decline in July. Industrial production in Germany and Spain decreased substantially in July compared to the month before (results have already been released), which means all in all, the start of the EUR industry into the second half-year is likely to have been subdued.

On the **bond market,** market participants more and more prepare themselves for a sustainable economic recovery. As usual, a correction of capital market rates in conjunction with a change in economic assessment is vehement. Although a longer countermovement is overdue, re-pricing, however, mostly goes along with overshooting, and this makes it more difficult to assess the end of the current interest rate move. In the light of the above, only the large framework for the bond market is well defined. In the case of ongoing economic improvement – which we assume will apply – long-term interest rates will further drift upwards on an annual horizon. The ECB's clear statement to anchor short-term interest rates on a low level (if necessary, through a further interest rate cut) should, instead, leave the short end of the yield curve little room for further increases. The yield curve therefore should remain relatively steep for a long time to come. In order to escape the upward pressure on long-term bond yields we advise government bond investors to rely on Spanish and Italian bonds. The crisis-ridden countries are the main winners of economic improvement, with the expansionary monetary policy simultaneously left unchanged. Falling spreads should largely counteract the upward tendency of German bond yields. We consider the spread buffer of other countries (Austria, France, etc., but also Ireland) to be insufficient.

On the **primary market,** the Netherlands, Germany, Italy and Belgium issue bonds in the coming days. In addition, money market papers will be auctioned in Germany, France, Malta, Slovenia and Italy.

Overview government bonds

Yields 10Y	curr.[1] (%)	1W Δ (BP)	52W H (%)	52W L (%)	Ytd Δ (BP)
AT	2.45	14.6	2.46	1.48	69.7
DE	2.03	17.3	2.04	1.17	71.3
FR	2.61	14.0	2.63	1.66	61.6
BE	2.88	13.7	2.90	1.92	82.3
NL	2.46	16.5	2.47	1.49	95.6
FN	2.30	16.6	2.32	1.33	77.7
IE	4.03	-15.5	4.29	3.43	#WERT!
IT	4.56	16.1	5.21	3.76	6.5
ES	4.63	8.9	6.06	4.04	-63.9
PT	6.97	24.0	9.00	5.23	-3.9
GR	10.47	16.9	21.82	8.13	-143.2
UK	3.00	22.6	3.01	1.62	117.0
CH	1.16	8.8	1.19	0.39	63.1
US	2.98	19.7	2.99	1.58	122.4
JP	0.78	6.3	0.93	0.45	-0.8

1 as of 6 September 2013, 09:13 a.m. CET
Source: Bloomberg

Debt issuance calendar

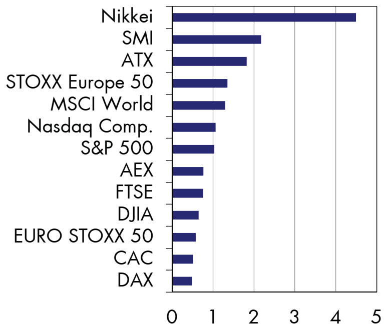
Issuer	Date		Maturity	Coupon (%)	Vol*
			Bonds		
NL	Tue,	10.	2023	1.75	3
DE	Tue,	10.	2023	I/L	1
	Wed,	11.	2023	n.a.	5
IT	Thu,	12.	n.a.	n.a.	n.a.
BE	Fri,	13.	n.a.	n.a.	n.a.
			Bills		
DE	Mon,	9.	6M	-	3
FR	Mon,	9.	n.a.	-	n.a.
MT	Tue,	10.	n.a.	-	n.a.
SI	Tue,	10.	n.a.	-	n.a.
IT	Wed,	11.	n.a.	-	n.a.

** EUR bn*
Source: Bloomberg

Market Outlook Equity Markets

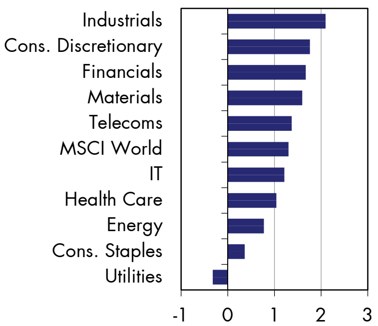
Raiffeisen RESEARCH

Market performance (%, 1 week)*



** performance from 29 August – 5 September 2013*
Source: Thomson Reuters

Sector performance (%, 1 week)*



** weekly performance of global MSCI sector indices from 29 August – 5 September 2013*
Source: Thomson Reuters

Recommendations

Markets:	**Hold:** Europe, USA **Buy:** Japan
Favoured sectors:	Energy, Industrials, Technology, Consumer discretionary, Utilities

Established equity markets

Global stock markets have been in consolidation mode for some weeks. Mood-downers include the discussion regarding the reduction of the Federal Reserve's bond purchase programme, which appears increasingly unavoidable against the backdrop of the large number of very good US economic data. The prospect of the central bank's flow of liquidity gradually running dry (currently USD 85 bn of such are being pumped into the financial system every month) is also the main trigger of the, in part, massive capital outflows from emerging countries and exacerbates the here and there (China, India, Brazil) already existing growth concerns. This combination gives rise to considerable upheavals in emerging market shares and currencies. Yet, also the possible armed conflict in Syria – even against the will of Russia and China and thus without a UN mandate most recently caused brows to furrow. Although most recent events (US hesitation, unsuccessful vote in British parliament) took some steam out here, the threat of military intervention continues to be an urgent issue. This is evidenced by the fact that the highest-ranking Republican in Congress Boehner is in favour of Obama's course. Whether or not Congress will end up being in line with US President in this matter or not will become clear at the vote set for the beginning of the week. This, of course, gives rise to 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.

In this climate, we hold on to our cautious attitude towards stock markets in Europe and in the US. On the other hand, the globally further rising economic indicators nevertheless reaffirm our confidence regarding a continuation of upward trends on stock markets in late fall. In the coming week, only few interesting releases are to be expected from companies, and also in terms of economic figures, things won't get as heated as in the past week.

Forecasts

	current[1]	Dec-13	Mar-14
Euro STOXX 50	2,774	2,850	2,900
DAX	8,221	8,500	8,700
FTSE	6,523	6,700	6,700
SMI	7,922	8,100	8,150
DJIA	14,937	15,500	15,800
S&P 500	1,655	1,700	1,710
Nasdaq Comp.	3,659	3,750	3,700
Nikkei 225	13,861	16,300	16,700
ATX	2,478	2,550	2,620

1 as of 6 September 2013, 1:00 p.m. CET
Source: Bloomberg, Raiffeisen RESEARCH

Expected corporate releases

USA		
Thu,	12	Kroger
Europe		
Wed,	11	Kingfisher, WM Morrison Supermarkets
Thu,	12	Next Plc

Source: Bloomberg, Raiffeisen RESEARCH

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