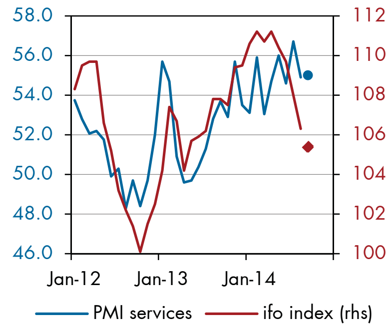
Market Outlook Bond markets

weekly

19 September 2014

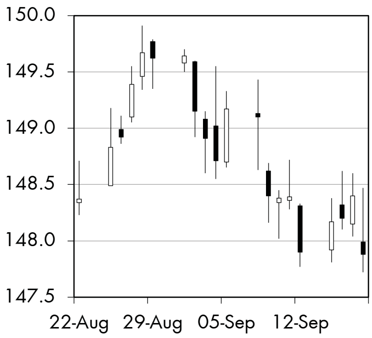
Raiffeisen RESEARCH

DE: ifo shows too pessimistic picture



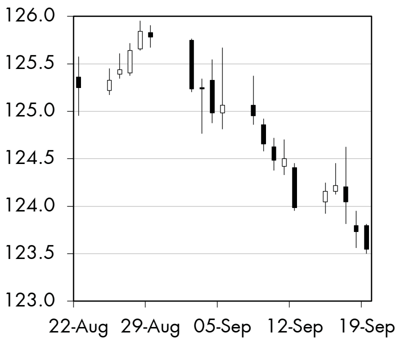
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Bund Future



5y high: 151.58; 5y low 119.90
Source: Bloomberg

T-Note Future



5y high: 135.66; 5y low: 115.00
Source: Bloomberg

Forecasts

USA	curr.[1]	Dec-14	Jun-15	Rec.*
Key rate	0.25	0.25	1.00	n.a.
Libor 3M	0.23	0.45	1.20	n.a.
Yield 2Y	0.59	0.70	1.70	Sell
Yield 10Y	2.64	2.60	3.50	Sell
Eurozone				
Key rate	0.05	0.05	0.05	n.a.
Euribor 3M	0.08	0.10	0.10	n.a.
Yield 2Y	-0.05	-0.10	0.00	Hold
Yield 10Y	1.10	1.00	1.40	Hold
Swaprate 5Y	0.54	0.45	0.90	n.a.

*1 as of 19 September 2014, 09:01 a.m. CET; *Recommendation for an investment horizon of 1 to 4 months*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

USA

The coming weeks' data calendar is offering two releases worth mentioning. The first is **durable goods orders** in August. After the explosion in new orders in July (+22.6% mom) due to orders from Boeing, August should see a significant correction. We expect August to be 18.3% mom lower. Durable goods orders excl. the volatile orders from the transport sector, which is a more meaningful metric, are likely to have stagnated in August. After the drop in July by 0.7% mom the development in new orders looks much more negative than it actually is. Thanks to the strong rise in June the level of orders in the current quarter is still 1% higher than in Q2. Also noteworthy is the preliminary September estimate for the **Markit Manufacturing Purchasing Managers' Index**. This indicator is gaining more and more recognition on the market as of late. Although it does not match the ISM Index perfectly, both indicators correlate quite well with each other. If the Markit PMI can maintain the high recorded in August, this would be a positive omen for the ISM Index, which will be published the week after next.

The other releases on the agenda are primarily from the real estate market: **existing home sales** (Mon), **FHFA House Price Index** (Tues) **and new home sales** (Wed). Another upward revision is also expected for the **third estimate for real GDP** in Q2 (Fri).

The **US Federal Reserve** left forward guidance unchanged at the end of the Federal Open Market Committee meeting this past Wednesday. The currency watchdogs continue to expect that a key interest rate of 0-0.25% will be appropriate for a considerable period of time following the end of the bond purchase pro-

Key figures

USA					RBI	Kons.	zuletzt
Mon,	22.	16:00	Existing home sales (mln, ann.)	Aug.	**5.2**	5.2	5.15
Tue,	23.	15:00	FHFA house price index (% mom)	Jul.	**n.a.**	0.5	0.4
Tue,	23.	15:45	PMI Manufacturing, prel.	Sep.	**n.a.**	58.0	57.9
Wed,	24.	16:00	New home sales (thsd, ann.)	Aug.	**n.a.**	430.0	412.0
Thu,	25.	14:30	Durable goods orders (% mom)	Aug.	**-18.3**	-17.0	22.6
Thu,	25.	14:30	- ex. transportation (% mom)	Aug.	**0.0**	0.5	-0.7
Fri,	26.	14:30	GDP (% qoq, ann.), third estimate	Q2	**4.5**	4.6	4.2
Europe							
Mon,	22.	16:00	EA: Consumer confidence, prel.	Sep.	**-10.5**	-9.8	-10.0
Tue,	23.	08:45	FR: Manufacturing Confidence	Sep.	**95**	96	96
Tue,	23.	09:00	FR: PMI Manufacturing, prel.	Sep.	**47.5**	47.0	46.9
Tue,	23.	09:00	FR: PMI Services, prel.	Sep.	**50.0**	50.4	50.3
Tue,	23.	09:30	DE: PMI Manufacturing, prel.	Sep.	**51.4**	51.4	51.4
Tue,	23.	09:30	DE: PMI Services, prel.	Sep.	**55.0**	54.8	54.9
Tue,	23.	10:00	EA: PMI Manufacturing, prel.	Sep.	**50.8**	50.6	50.7
Tue,	23.	10:00	EA: PMI Services, prel.	Sep.	**53.0**	53.1	53.1
Wed,	24.	10:00	DE: ifo business climate	Sep.	**105.4**	105.7	106.3
Wed,	24.	10:00	DE: ifo current assessment	Sep.	**110.5**	110.5	111.1
Wed,	24.	10:00	DE: ifo business expectations	Sep.	**100.5**	101.3	101.7
Wed,	24.	15:00	BE: Business confidence	Sep.	**-7.5**	-7.0	-7.3
Thu,	25.	10:00	EA: Money supply M3 (% yoy)	Aug.	**1.8**	1.8	1.8
Fri,	26.	10:00	IT: Business confidence	Sep.	**96.0**	95.7	95.7

Source: Bloomberg, RBI/Raiffeisen RESEARCH

Please note the risk notifications and explanations at the end of this document

GDP (real %yoy)

	2013	2014e	2015f
Austria	0.3	0.9	1.2
Germany	0.2	1.5	2.0
France	0.4	0.4	0.9
Belgium	0.2	1.0	1.8
Netherlands	-0.7	0.7	1.8
Finland	-1.2	-0.2	1.3
Ireland	0.2	4.8	4.3
Italy	-1.8	-0.2	0.7
Spain	-1.2	1.3	2.0
Portugal	-1.4	0.9	2.0
Greece	-3.9	0.0	2.0
Euro area	-0.4	0.8	1.6
United Kingdom	1.8	3.1	3.0
Switzerland	2.0	1.3	1.8
USA	2.2	2.2	3.2
Japan	1.5	0.8	1.1

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Consumer price index (% yoy)

	2013	2014e	2015f
Austria	2.1	1.5	1.7
Germany	1.6	1.0	2.0
France	1.0	0.7	1.3
Belgium	1.2	0.8	1.5
Netherlands	2.6	0.3	0.5
Finland	2.2	1.0	0.5
Ireland	0.5	0.6	1.3
Italy	1.3	0.0	0.3
Spain	1.5	0.0	0.7
Portugal	0.4	-0.2	0.5
Greece	-0.9	-1.0	-0.5
Euro area	1.4	0.5	1.1
United Kingdom	2.6	1.7	2.8
Switzerland	-0.2	0.1	0.6
USA	1.5	1.9	2.2
Japan	0.4	2.7	1.8

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Forecasts

	current[1]	Dec-14	Mar-15	Jun-15
CHF				
Libor 3M	0.01	0.0	0.0	0.0
Yield 10Y	0.53	0.5	0.5	0.7
JPY				
Key rate	0.10	0.1	0.1	0.1
Libor 3M	0.12	0.1	0.1	0.2
Yield 10Y	0.56	0.6	0.6	0.7
FX				
EUR/USD	1.29	1.26	1.23	1.20
EUR/JPY	140.7	136	135	134
USD/JPY	109.2	108	110	112
EUR/CHF	1.21	1.21	1.21	1.22
Crude				
Brent (USD)	96.4	105	106	108

1 as of 19 September 2014, 09:02 a.m. CET
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

gram in October. Nevertheless, several statements made by Fed Chair Yellen imply that the first interest rate hike could come in the next six to nine months. Worth mentioning in this context is the expected path of key rate development from FOMC members. The median of all forecasts for the Fed Funds Target Rate is at 1.375% by end-2015 versus the 1.125% assumed in June. If one assumes rate hikes in steps of 25 basis points, the first hike would have to take place by June 2015 at the latest in order to reach this value by year's end. This is much earlier than the market currently expects. Following the meeting **10y US treasuries** prices came slightly under pressure and yields climbed to 2.63%. A sustainable rise in yields is currently, however, still opposite the as yet unsolved Ukrainian conflict. Until there is a permanent diplomatic solution, the resulting uncertainty is likely to continue to support prices of US treasuries. We further expect that this state will be maintained for several weeks or months. As soon as there is a peaceful solution or the Fed begins increasing interest rates, we expect yields on 10y US treasuries to climb significantly above 3%. In our opinion this will be the case by spring 2015 at the latest.

Financial analyst: Jörg Angelé, CIIA

Euro area

It will be interesting to see whether or not the conflict between Russia and the EU continues to weigh on the sentiment measured by the upcoming economic surveys. Although the weak phase in the indicators should only be temporary so long as there is no escalation in diplomatic tensions (or the situation in Ukraine), we do not yet expect an upward turnaround in the trend in August. Accordingly, we expect **purchasing managers' indices** for Germany and the euro area to remain unchanged. A counter movement in the manufacturing survey seems to be long overdue in France after the recently disappointing data. In contrast, the initial estimate for consumer confidence in the euro area is likely to fall again. The **German ifo Index** also seems to be clearly past its best. We expect another dip in the broad index, which should be carried not only by the assessment of the current situation but also future expectations. In addition, national economic surveys in France, Italy and Belgium are on the agenda. Moreover, we expect the rate of change in the M3 money supply and loans to the private economy to remain largely unchanged. Several countries have the second release of Q2 GDP data to look forward to, as well. As of now all countries have converted to ESA 2010, which in some cases could result in significant revisions of GDP time series.

Banks drew EUR 82.6 bn in fresh central bank liquidity from the ECB in the first round of targeted long-term **refinancing operations**, which was well below expectations. Consequently the net effect from the first TLTRO rounds and LTROs maturing in 2015 will hardly contribute to the balance sheet expansion as the ECB intended. We see our assessment confirmed that the goal of EUR 700 bn in additional market liquidity will have to take place via direct bond purchases. Should the ECB stick to the asset classes of ECB-eligible ABSs and covered bonds, then the central bank could purchase around 20-25% of the currently outstanding volume. Another alternative could see the ECB becoming active in lower rating classes or in other securities segments, such as government bonds. The latter conclusion certainly contributed greatly to the tighter spreads seen among many EA government bonds versus German benchmark bonds at the end of last week. Moreover, this trend is like to continue. Due to moderate economic data and speculations over broad bond purchases by the ECB the prices of German bonds remain well supported.

The **primary market** will see bond placements over the coming days from Belgium, the Netherlands and Italy. France, Spain, Italy and Malta will also be auctioning money market paper.

According to the **rating calendar**, coming Friday rating agencies are having the opportunity to issue new assessments for the following borrowers: S&P for Austria and Luxembourg, Moody's for the EFSF and ERS and Fitch for Finland.

Financial analyst: Gottfried Steindl, CIIA

Debt issuance calendar

Issuer	Date		Maturity	Coupon (%)	Vol*
			Bonds		
BE	Mon,	22.	2024	2.6	1.5 - 2.0
BE	Mon,	22.	2034	3	
NL	Wed,	24.	2019	n.a.	n.a.
NL	Wed,	24.	2020	n.a.	4
IT	Thu,	25.	n.a.	I/L	n.a.
IT	Thu,	25.	n.a.	0	n.a.
			Bills		
FR	Mon,	22.	3M, 6M, 12M	-	n.a.
ES	Tue,	23.	3M, 9M	-	n.a.
MT	Wed,	24.	n.a.	-	n.a.
IT	Fri,	26.	n.a.	-	n.a.

** EUR bn*
Source: Bloomberg

Overview government bonds

Yields 10Y	curr.[1] (%)	1W Δ (BP)	5Y H (%)	5Y L (%)	Ytd Δ (BP)
AT	1.31	2.3	3.88	1.12	-96.5
DE	1.11	2.3	3.49	0.88	-82.4
FR	1.46	2.6	3.78	1.24	-110.2
BE	1.41	3.0	5.86	1.21	-114.4
NL	1.26	1.5	3.75	1.04	-97.9
FN	1.22	1.5	3.71	1.03	-90.9
IE	1.84	4.6	14.08	1.62	-167.2
IT	2.40	-5.8	7.26	2.25	-172.5
ES	2.23	-11.6	7.62	2.04	-192.1
PT	3.21	-2.8	17.39	3.02	-292.3
GR	5.85	13.6	37.10	4.42	-257.4
GB	2.58	7.8	4.23	1.44	-44.7
CH	0.53	-1.0	2.16	0.39	-54.4
US	2.65	3.9	3.99	1.39	-37.9
JP	0.56	-1.4	1.48	0.45	-17.7

1 as of 19 September 2014, 08:11 a.m. CET
Source: Bloomberg

Forecast spreads[1] government bonds

	curr.[2]	Dec-14	Jun-15	Rec.[3]
FR10y/DE10y	35	30	20	Buy
AT10y/DE10y	21	15	10	Buy
IE10y/DE10y	77	60	40	Buy
IT10y/DE10y	129	120	90	Buy
ES10y/DE10y	111	100	60	Buy
PT10y/DE10y	208	190	160	Buy
GR10y/DE10y	471	n.a.	n.a.	n.a.
DE10y/DE2y	115	110	140	Hold

1 Spread first bond segment versus second, in bp
2 As of 19 September 2014, 08:55 a.m. CET
3 Recommendation for an investment horizon of 1 to 4 months
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

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 (s)
Finland	Aaa (s)	AAA (n)	AAA (s)
Ireland	Baa1 (s)	A- (p)	A- (s)
Italy	Baa2 (s)	BBB (n)	BBB+ (s)
Spain	Baa2 (p)	BBB (s)	BBB+ (s)
Portugal	Ba1 (s)	BB (s)	BB+ (p)
Greece	Caa1 (s)	B (s)	B (s)
UK	Aa1 (s)	AAA (s)	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

Raiffeisen RESEARCH

Performance indices

	-5D in %*	-5Y in %**
DJIA	1.3	11.9
STOXX Europe 50	1.1	4.6
DAX	1.1	11.4
Euro STOXX 50	1.0	2.5
Nikkei	1.0	9.2
S&P 500	0.7	13.5
MSCI World	0.4	9.3
FTSE	0.3	5.7
Nasdaq Comp.	0.0	16.6
SMI	0.0	6.9
CECE Comp. (CE)	-0.1	0.1
ATX	-0.6	-2.3
Hang Seng CE	-2.1	-3.1

** performance from 11 Sep 2014 - 18 Sep 2014 (closing prices in each case), ** per year*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Performance sectors

	-5D in %*	-5Y in % **
Health Care	1.3	15.5
Telecoms	0.8	6.8
Financials	0.6	5.1
Industrials	0.6	10.8
MSCI World	0.4	9.3
IT	0.4	12.9
Cons. Staples	0.3	11.2
Materials	0.2	3.0
Cons. Discretionary	0.2	15.6
Energy	-0.6	6.3
Utilities	-0.9	1.6

** weekly performance of global MSCI sector indices from 11 Sep 2014 - 18 Sep 2014 (closing prices in each case), ** per year*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Forecasts

	current[1]	Dec-14	Mar-15
Euro STOXX 50	3,295	3,370	3,250
DAX	9,869	10,050	9,700
ATX	2,312	2,380	2,320
SMI	8,859	9,000	8,750
FTSE	6,856	7,000	6,750
DJIA	17,266	17,300	16,600
S&P 500	2,011	2,040	2,070
Nasdaq Comp.	4,593	4,770	4,500
Nikkei	16,321	16,500	15,500
Hang Seng CE	10,783	11,000	10,600

1 as of 19 September 2014, 12:00 p.m. CET
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Recommendations (horizon: end of December)

Stock markets:	**Buy:** ATX, Euro STOXX 50, DAX, Nasdaq Comp., Nikkei 225 **Hold:** SMI, FTSE 100, Dow Jones Industrials, S&P 500

Established equity markets

Following Scotland's "No" for its referendum on independence there should be no further uncertainties from this topic for financial markets but the various geopolitical crises will certainly be accompanying us for some time to come. We do not expect any further escalation in the most politically charged case (Ukraine vs. Russia), which means the habituation effect should expand further. The improvement in market mood can also be read out of the sentiment surveys, which have recently reached the highest since January. Across the board "market overheating" indicators currently draw a quite differentiated picture, though. Alarmingly, on the NYSE, measured by nominal GDP, investors have already participated in the stock market rally via borrowed money at a similar scale as in 1999 and 2007. On mitigating fact in this context, though, is the much lower growth in speculative positions relative to the comparable periods. Too much cheap liquidity often triggers waves on the IPO and M&A markets, where the mega IPO from Chinese Internet giant Alibaba is certainly a shot across the bow. Furthermore, this is projected to be the strongest IPO year since 2011 but we are still far off from the true record years. Global M&A volumes have also recently risen as a result of cheap financing conditions and tax loopholes but are also far off those seen in the boom years. In addition, a look at the positions of institutional investors shows very high cash quotas held by portfolio managers and stock weights do not indicate that the upward trend is coming to an end any time soon. Valuations are also still lower than in previous cyclical highs although Japanese and European shares certainly look more attractive than their US counterparts as a result of this factor. In an environment where the ECB and the Bank of Japan are more expansive than the Federal Reserve, we could see a slight outperformance in shares from these regions. A weaker euro should also be positive for profit dynamics among domestic companies. Nonetheless, we expect positive impulses from the US earnings season that is kicking off in October against the backdrop of a booming US economy. In closing, we expect the seasonally strong Q4 to close out the year on a very positive note given the respectable economic momentum (for which indications will be provided by next week's flash PMIs) and good profit outlooks. Since there is the odd tendency towards overheating here and there, the debate over interest rate hikes in the US could create noticeable selling pressure in the near future.

Financial analyst: Christian Hinterwallner

Expected corporate releases

USA		
Thu,	25	Micron Technology, Nike
Fri,	26	Blackberry
Europe		
Tue,	23	Immofinanz
Thu,	25	H&M

Source: Bloomberg, RBI/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.

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

The distribution of all recommendations relating to the calendar quarter prior to the publications date, and distribution of recommendations, in the context of which investmentbanking services within the meaning of § 48f (6) Z 6 Stock Exchange Act (BörseG) have been provided in the last 12 months, is available under: www.raiffeisenresearch.at/distributionofrecommendations

Government bonds

Issuer	Date of first publication of recommendations
Euro area countries	January 1989
USA	January 1989

Outright: Recommendation history (1-4 months horizon)

Issuer	DE		US	
Maturity segment	2y	10y	2y	10y
18/07/2014	Hold	Sell	Hold	Sell
14/08/2014	I	I	Sell	I
05/09/2014	I	Hold	I	I

Spread: Recommendation history (1-4 months horizon)

Issuer	AT-DE	FR-DE	IT-DE	ES-DE	IE-DE	PT-DE	DE-DE
Maturity segment	10y-10y	10y-10y	10y-10y	10y-10y	10y-10y	10y-10y	10y-2y
18/07/2014	Hold	Hold	Buy	Buy	Buy	Buy	Sell
12/09/014	I	I	I	I	I	I	Hold
16/09/014	Buy	Buy	I	I	I	I	I

Equity market indices

Financial instruments	Date of the first publication
Euro STOXX 50	26/02/1998
DAX 30	01/04/1993
FTSE 100	01/04/1993
SMI	01/04/1993
S&P 500	01/04/1993
Nasdaq Comp.	01/07/1998
DJIA	01/04/1993
Nikkei 225	01/04/1993
HSCEI	01/01/2007

Recommendation history (1-4 months horizon)

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	I
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
19/03/2014	I	I	I	Hold	I	Hold	I	Hold	I	I
18/04/2014	I	I	I	I	I	Buy	I	I	I	I
02/05/2014	Hold	Hold	Hold	I	Hold	Hold	I	I	I	I
16/05/2014	Buy	I	I	I	I	I	I	I	I	I
20/06/2014	I	Buy	Buy	I	I	I	Hold	I	I	I
15/09/2014	I	I	I	I	I	I	Buy	I	I	Hold

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