

Market Outlook Bond markets

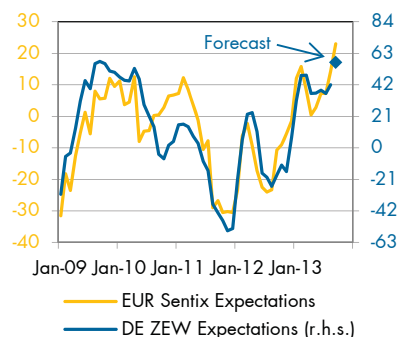
weekly

13 September 2013



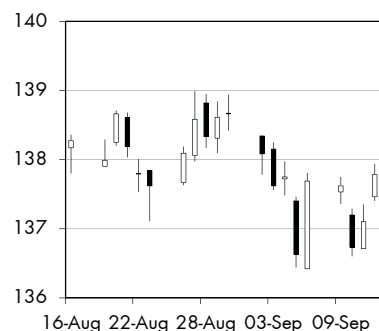
**Raiffeisen
RESEARCH**

Sentiment takes off



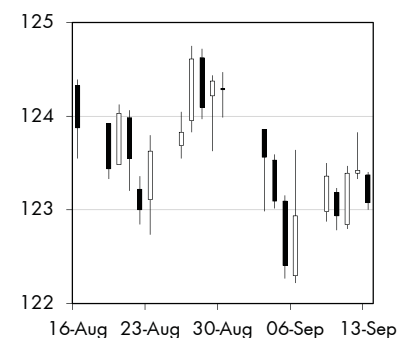
Source: Thomson Reuters, Raiffeisen RESEARCH

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	0.25	0.30	0.30	0.30
Yield 5Y	1.76	1.80	1.90	2.10
Yield 10Y	2.95	3.00	3.10	3.20
Euro area				
Key rate	0.50	0.50	0.50	0.50
Euribor 3M	0.22	0.25	0.30	0.35
Yield 5Y	1.02	1.10	1.30	1.70
Yield 10Y	2.00	2.10	2.30	2.70
Swaprate 5Y	1.42	1.65	1.85	2.30

¹ as of 13 September 2013, 09:19 a.m. CET
Source: Thomson Reuters, Raiffeisen RESEARCH

Recommendation (Horizon: December 2013):

Neutral: USD bonds, DE bonds

USA

The following week's data calendar is relatively well equipped, the most noteworthy releases being the two first regional manufacturing sentiment surveys for September, namely the **Empire State Manufacturing Index** (Mon) and the **Philadelphia Fed Index** (Thurs). In both cases, consensus holds out the prospect of stagnation at the previous month's value. We consider this forecast to be somewhat too cautious and accord both mood barometers increases. In our view, the August **industrial output** figures, which are also due on Monday, are particularly exciting as they represent an important test case for the strong brightening of sentiment in manufacturing observed in recent months – ISM Index at a two-year high. After industrial output has merely stagnated since March, we anticipate a sharp plus in August compared to the previous month. As for **consumer prices** (Tue) we expect to see a similarly strong month-on-month increase as in July (0.2%). Nevertheless, the rate of inflation will drop from 2.0% yoy to 1.6% yoy. Responsible for this is a favourable base effect: The 7.2% mom increase in fuel prices in August 2012 was followed by a slight drop last month. This alone caused a 0.4 percentage point drop in the rate of inflation.

Apart from that, the following week will see the publication of numerous pieces of real estate market data. Releases will be ushered in with the **NAHB housing market index** on Tuesday, which in August climbed to its highest level since No-

Key figures

USA				RBI	Cons.	prior
Mon, 16.	14:30	Empire State Manufacturing Index	Sep.	n.a.	9.0	8.24
Mon, 16.	15:15	Industrial production (% mom)	Aug.	0.7	0.4	0.0
Tue, 17.	14:30	Consumer price index (% mom)	Aug.	0.2	0.2	0.2
Tue, 17.	14:30	- core rate (% mom)	Aug.	0.1	0.1	0.2
Tue, 17.	14:30	Consumer price index (% yoy)	Aug.	1.6	1.6	2.0
Tue, 17.	14:30	- core rate (% yoy)	Aug.	1.7	1.8	1.7
Tue, 17.	16:00	NAHB housing market index	Sep.	n.a.	59	59
Wed, 18.	14:30	Housing starts (thsd, ann.)	Aug.	950	923	896
Wed, 18.	14:30	Building permits (thsd, ann.)	Aug.	1,000	950	943
Thu, 19.	16:00	Philadelphia Fed Index	Sep.	n.a.	10.0	9.3
Thu, 19.	16:00	Existing home sales (mln, ann.)	Aug.	5.25	5.25	5.39
Europe						
Mon, 16.	11:00	EUR: Consumer price index (% yoy)	Aug.	1.3	1.3	1.6
Mon, 16.	11:00	EUR: - core rate (% yoy)	Aug.	1.2	1.3	1.3
Tue, 17.	11:00	EUR: ZEW Survey Expectations	Sep.	60.0	n.a.	44.0
Tue, 17.	11:00	DE: ZEW Survey Expectations	Sep.	57.0	45.5	42.0
Wed, 18.	11:00	EUR: Construction output (% mom)	Jul.	0.8	n.a.	0.7
Fri, 20.	10:00	IT: Industrial orders (% mom)	Jul.	n.a.	n.a.	3.2
Fri, 20.	16:00	EUR: Consumer confidence	Sep.	-14.0	-14.3	-15.6
Events						
Wed, 18.	20:00	FOMC rate decision	Sep.	0.25	0.25	0.25

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	0.1	1.0
Belgium	-0.3	0.1	1.7
Netherlands	-1.3	-1.1	1.3
Finland	-0.8	-0.4	1.5
Ireland	0.2	0.1	2.5
Italy	-2.4	-1.7	0.7
Spain	-1.6	-1.5	1.5
Portugal	-3.2	-1.6	1.5
Greece	-6.4	-4.0	-0.5
Euro area	-0.6	-0.3	1.5
UK	0.2	1.4	1.9
Switzerland	1.0	1.8	2.0
USA	2.8	1.5	2.5
Japan	1.9	2.2	2.3

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	2.5	2.8
Switzerland	-0.7	-0.1	0.4
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	1.15	1.2	1.4	1.6
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	1.33	1.30	1.31	1.29
EUR/JPY	132.6	130	135	135
USD/JPY	99.9	100	103	105
EUR/CHF	1.24	1.25	1.28	1.28
Crude				
Brent (USD)	113.3	115	118	116

¹ as of 13 September 2013, 08:01 a.m. CET

Source: Thomson Reuters, Raiffeisen RESEARCH

vember 2005. On Wednesday, **building permits** and **housing starts** will follow. The strong rise in the NAHB index since spring indicates both permits and starts around one million. Finally, **existing homes sales** data will be out Thursday.

Next week, all data publications are eclipsed by the **FOMC interest rate meeting**. The key question is whether monetary authorities will announce a reduction in their bond-buying programme or not. According to Bloomberg, around two thirds of the questioned analysts hold out the prospect of a cut in government bond purchases; around fifty percent anticipate a cutback on mortgage-backed bond purchases. Below the line, a slow-down of the purchase volume by USD 10 bn to a monthly USD 75 bn is expected. We also expect a measure of this extent to be taken. Such approach may, to a large extent, already have been factored into **ten-year US government bond yields**. These have ranged between 2.9% and 3.0% since early September. We therefore do not see much upward potential if the Fed's decision turns out to be in line with these expectations. At the press conference following the interest rate decision, Fed chairman Bernanke will, at any rate, make it clear that nothing has changed with regard to the Fed's determination to maintain the key interest rate at the current level of just above 0% for a very long time to come. Against this backdrop and without emerging inflation risks we continue to believe that a further increase in yields is becoming increasingly difficult to imagine – with or without tapering.

Euro area

As we expected, the second half of the year began on a sobering note for the EUR industry. In line with our estimate of a just small GDP increase in the third quarter, the July production output was clearly down from the previous month. The **construction sector** might see no such damper in July – we again forecast a marked increase in production. The upcoming **ZEW** institute economic **surveys** will present even more upbeat results. Both for Germany and for the overall euro area, we anticipate large improvements in future expectations. Our clearly more optimistic estimate compared to that of consensus is based on the strong increases in the comparable Sentix survey from last week. Also with respect to the preliminary **EUR consumer confidence** we anticipate a continuation of the steep upward trend. After all – as the final figures will show - inflation rates in virtually all countries are tending lower.

On the **bond market**, German bonds might again come under pressure in the following days owing to the markedly better economic data. Support, instead, comes from the ongoing **political uncertainties in Italy**. The immunity committee has once again postponed the vote on Berlusconi's exclusion from the Senate. This topic should be the subject of negotiations at the beginning of next week and decided upon on Wednesday – it remains to be seen. It appears as though the decision is being deferred until a face-saving solution for all parties has been found. If this proves impossible, the threat of a government collapse will be looming. Yet, the **main impetus** will likely come from the **US Fed** – everybody is waiting in suspense: Will the announcement of a cutback on the monthly bond purchases take place or not. Either way, we do not recommend any active bets.

On the **primary market**, Germany, Spain and France will issue bonds in the coming days. Furthermore, the Netherlands, France, Spain, Malta, Belgium and Portugal will auction money market papers.

Overview government bonds

Yields 10Y					
	curr. ¹ (%)	1W Δ (BP)	52W H (%)	52W L (%)	Ytd Δ (BP)
AT	2,39	-6,9	2,47	1,48	64,6
DE	2,00	-4,2	2,05	1,17	68,4
FR	2,56	-7,1	2,63	1,66	55,9
BE	2,84	-5,6	2,91	1,92	78,1
NL	2,37	-9,3	2,47	1,49	87,3
FN	2,23	-8,3	2,32	1,33	70,7
IE	4,02	0,2	4,29	3,43	n.v.
IT	4,53	-2,1	5,21	3,76	3,2
ES	4,46	-15,3	6,06	4,04	-80,1
PT	7,23	23,9	9,00	5,23	22,1
GR	10,30	-18,0	20,86	8,13	-160,2
UK	2,94	-6,6	3,02	1,62	111,4
CH	1,17	-2,4	1,19	0,39	64,0
US	2,95	1,5	2,99	1,58	119,2
JP	0,73	-5,6	0,93	0,45	-6,3

¹ as of 13 September 2013, 07:52 a.m. CET
Source: Bloomberg

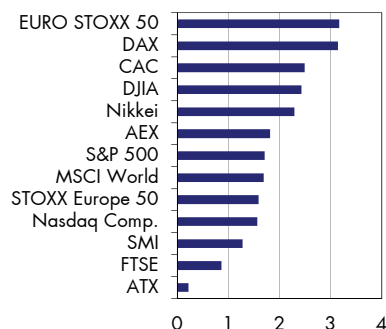
Debt issuance calendar

Issuer	Date	Maturity	Coupon (%)	Vol*
Bonds				
DE	Wed, 18.	2015	0.25	5
ES	Thu, 19.	n.a.	n.a.	n.a.
FR	Thu, 19.	n.a.	I/L	n.a.
Bills				
NL	Mon, 16.	3M, 6M	-	2
FR	Mon, 16.	n.a.	-	n.a.
ES	Tue, 17.	6M, 12M	-	n.a.
MT	Tue, 17.	n.a.	-	n.a.
BE	Tue, 17.	n.a.	-	n.a.
PT	Wed, 18.	3M, 18M	-	n.a.

* EUR bn
Source: Bloomberg

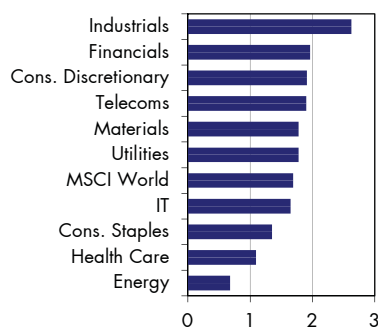
Market Outlook Equity Markets

Market performance (% , 1 week)*



* performance from 5 September – 12 September 2013
Source: Thomson Reuters

Sector performance (% , 1 week)*



* weekly performance of global MSCI sector indices from 5 September – 12 September 2013
Source: Thomson Reuters

Forecasts**

	current ¹	Dec-13	Mar-14
Euro STOXX 50	2,856	3,030	3,120
DAX	8,484	8,900	9,100
FTSE	6,570	6,950	7,100
SMI	8,014	8,400	8,700
DJIA	15,301	16,000	16,500
S&P 500	1,683	1,770	1,830
Nasdaq Comp.	3,716	3,950	4,100
Nikkei 225	14,405	15,400	16,200
ATX	2,473	2,650	2,750

¹ as of 13 September 2013, 12:00 noon CET

**under revision

Source: Bloomberg, Raiffeisen RESEARCH

Recommendations

Markets: Buy: Europe, USA, Japan

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

Established equity markets

International stock markets saw preponderantly clear price gains in the past week. Especially the relaxation in the crisis in Syria might have made a substantial contribution to this end, as an immediate military strike has meanwhile become more unlikely. Accordingly, this topic should no longer have any substantial impact on stock markets for the time being. In our view, the possible reduction in US central bank liquidity and the increasingly emerging global economic recovery should remain the crucial factors of influence over the following months. As for the first aspect, the US Fed will give more information about its future actions right next week. Yet, the question of when the reduction of the bond purchase programme will be announced will no longer be the central issue for stock market participants. They rather appear to already have prepared themselves over the previous week to be confronted with a pronouncedly expansionary US monetary policy before the end of this year. We therefore expect that especially a further improvement in economic data, just as most recently, will play an extremely important role. Particularly in the euro area, a further rise in economic leading indicators, which should ultimately result in lower risk aversion with regard to periphery states, may definitely be expected. Evidence that also companies believe in an improvement in the economic situation is provided by strengthening M&A activity. These factors reaffirm our confidence as to a continuation of the upward trend on international stock markets in the coming months. That's why in an environment characterized by lower risk aversion also valuations will definitely receive attention. Both in absolute terms and relative to the bond market, these are still to be regarded as being moderate and continue to have potential for an expansion. On this basis we've also carried out a revision of our index targets and changed our recommendation for US and European stock markets from "hold" to "buy". As for Japan, we anyhow remain confident due to the country's very expansionary monetary policy. Companies can be expected to provide only little excitement in the coming week, yet the focus of equity investors' attention will be the above-mentioned US Fed meeting. Some movement might also come from the regional US purchasing managers indices.

Expected corporate releases

USA

Tue, 17	Adobe Systems
Wed, 18	FedEx, General Mills, Oracle
Fri, 20	Conagra Foods

Europe

Mon, 16	Kaba Hldg
Tue, 17	Mediobanca
Wed, 18	Inditex

Source: Bloomberg, Raiffeisen RESEARCH

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