

Financial Markets Global Strategy

3rd quarter 2015

Reversal in yields is underway

- US economy gaining traction
- Fed to start tightening cycle
- Equity markets broadly prepared for this
- Portfolio: overweight on developed market equities



**Raiffeisen
RESEARCH**

Financial Markets Global Strategy

Topic: Turnaround in yields despite QE	3
Forecasts	4
Asset Allocation	6
Economy euro area	10
Economy USA	11
Interest rates	12
Government bonds	13
Currency trends	14
Credit/Corporate Bonds: Non financials	16
Corporate Bonds: Financials	18
Oil market	19
Gold market	20
Stock markets – USA	21
Stock markets – euro area	23
Stock markets – Non-euro	24
Stock markets – Japan	25
Global industry groups	26
Special: EM assets: jitters before the Fed rate hike?	29
China	31
India	32
Brazil	33
Technical analysis	34
Risk notifications and explanations	36
Disclosure	36
Disclaimer	38
Acknowledgements	39

Explanation:

e ... estimate
 f ... forecast
 r.h.s. ... right hand scale
 n.v. ... no value
 ABS ... Asset backed securities
 BM ... Benchmark
 CB ... Covered Bonds
 ETF ... Exchange Traded Funds
 BM ... Benchmark
 AI ... Alternative Investments (Hedge funds & real estate)
 IL ... Inflation Linked bonds
 IG ... Investmentgrade
 HY ... High-Yield
 bp ... basis points
 pp ... percentage points
 ASW ... Asset Swap Spread

CPI ... Consumer Price Index
 MSCI ... Morgan Stanley Composite Index
 OAS ... Option Adjusted Spread
 QE ... Quantitative Easing
 WTI ... West Texas Intermediate
 CEE ... Central and Eastern Europe
 EM ... Emerging Markets
 AT ... Austria
 BE ... Belgium
 BG ... Bulgaria
 CH ... Switzerland
 CY ... Cyprus
 CZ ... Czech Republic
 DE ... Germany
 EA ... Euro area
 EE ... Estonia

ES ... Spain
 FI ... Finland
 FR ... France
 GB ... Great Britain
 GR ... Greece
 HU ... Hungary
 IE ... Ireland
 IT ... Italy
 LV ... Latvia
 PL ... Poland
 PT ... Portugal
 RO ... Romania
 SI ... Slovenia
 SK ... Slovakia
 US ... United States of America

Turnaround in yields despite QE

- **Murky messages from the US Fed**
- **ECB as a calming factor in the case of Greece**
- **Moderate recovery in the economy and prices in the euro area**

It was the biggest surprise of the spring: despite the massive start to the quantitative easing programme of the European Central Bank (ECB), a sharp turnaround in European government bond yields started in April. Within just six weeks, prices of 10-year German Bunds lost up to 12 percentage points. With an annual coupon of 0.5%, this is equivalent to 24 times the annual return, making this the sharpest slump on the bond market in the last 40 years! The reasons for this development are disputed, but it was likely triggered by a combination of technical factors and expectations. Similar to the situation with the US QE programme, the ECB's massive presence is leading to a rapid flight of investors on the capital market. Liquidity is drying up, as an effect of regulations which are leading to the withdrawal of many market-makers. Strong price volatility is the result. Moreover, the improved growth prospects and significantly higher inflation figures for the euro area also provided fundamental support. Although the oil price, which has settled in at around USD 60/bbl, is still moderating the annual rate of inflation in consumer prices, this effect will fade in the second half of the year, and consequently average inflation in the euro area may reach 1.5% in the fourth quarter. A rate of almost 2% is even possible for early 2016. In conjunction with a recovery in economic growth towards 1.5% to 2% over the same time frame, this leaves little justification for long-term bond yields of just over 0%. Thus, in six months, the ECB will be able to announce that both targets have been met, even though QE was not really the underlying reason for this. That said, QE is a key contribution to calming the risks of contagion from the Greek drama. The Greek government's inability to face reality means that any outcome is possible. Furthermore, there are also signs of acceleration in economic growth in the USA. Therefore, while Fed chair Yellen may still play for time verbally, we expect to see interest rate increases commence in the autumn, provided that the US labour market continues to improve. Prior to this, US government bond yields also rose.

Impact on the currency markets

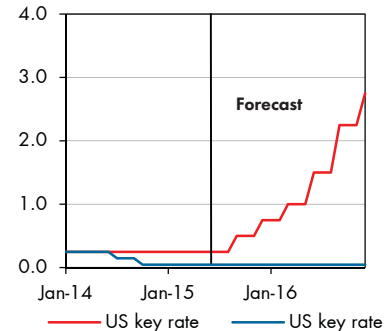
The increase in yields in Europe was more pronounced than in the USA. As a result, the euro saw a mild comeback in Q2. In the months ahead, this trend will probably reverse again. The Greek drama may bolster the role of the German bond market as a safe haven, and US yields should trend higher in the expectations of a move by the Fed. Consequently, we project a stronger USD by the start of 2016, possibly even reaching parity.

Impact on the capital markets

In light of the escalation in the Greece drama, equity markets in Europe initially came under some pressure. However, improved economic data, a weakening euro, and rising corporate earnings tend to suggest rising prices on the stock markets during the second half of the year. As long as there is no discussion about the ECB's QE programme, we do not see any threats to the uptrend on the equity markets. High valuations and a stronger move towards rising yields in 2016 will be danger signs which require more careful attention however. For government bonds and corporate bonds in the euro area, spread widening is only an issue in relation to Greece. Over a 6-month horizon, it is possible that yields will narrow again, but they will not be able to move back to the lows from Q1.

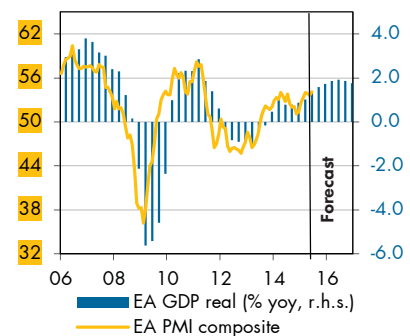
Financial analyst: Peter Brezinschek

Divergent monetary policy



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Moderate economic recovery



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Recommendations*

Stock markets:	
Buy	Euro STOXX 50, DAX, FTSE 100, Nasdaq Comp., Nikkei 225
Hold	Dow Jones Industrials, S&P 500, SMI, HSCEI, SENSEX
Sell	Bovespa
Industries:	
Over-weight	Energy, Industrials, Consumer discretionary, Financials, IT, Materials
Under-weight	Utilities, Consumer staples, Telecommunication, Healthcare
Government bond markets:	
Hold	DE10y, DE5y
Sell	DE2y, US2y, US10y
Spread:	
Buy	AT-DE10y, FR-DE10y, IT-DE10y, ES-DE10y, PT-DE10y, IE-DE10y
Corporate bond markets:	
Buy	Non-Financials, Financials
FX markets:	
Buy	USD/JPY
Sell	EUR/USD

* horizon: end of 3rd quarter 2015
Source: RBI/Raiffeisen RESEARCH

GDP (real % yoy)

Countries	2013	2014	2015e	2016f
Austria	0.2	0.3	0.7	1.8
Germany	0.2	1.6	1.6	2.2
France	0.7	0.2	0.7	1.5
Belgium	0.3	1.1	1.4	2.1
Netherlands	-0.7	1.0	2.1	2.3
Finland	-1.3	0.0	0.3	1.8
Ireland	0.2	4.8	3.9	3.5
Italy	-1.7	-0.4	0.8	1.5
Spain	-1.2	1.4	3.1	2.6
Portugal	-1.6	0.9	1.7	2.0
Greece	-4.0	0.7	-0.3	1.2
Euro area	-0.3	0.9	1.4	1.9
GB	1.7	2.8	2.4	2.4
Switzerland	1.9	2.0	0.9	1.7
USA	2.2	2.4	2.7	3.0
Japan	1.6	-0.1	0.7	1.3
China	7.7	7.4	7.0	6.8
India ¹	4.9	7.4	7.8	8.1
Brazil ¹	2.7	0.1	-1.1	1.2

Source: Thomson Reuters, ¹⁾ IMF, ²⁾ EU Commission, RBI/Raiffeisen RESEARCH

Consumer price index (% yoy)

Countries	2013	2014	2015e	2016f
Austria	2.1	1.5	1.2	1.9
Germany	1.6	0.8	0.4	2.6
France	1.0	0.6	0.4	1.3
Belgium	1.2	0.5	0.8	1.8
Netherlands	2.6	0.3	0.6	1.6
Finland	2.2	1.2	0.2	1.1
Ireland	0.5	0.3	0.3	1.5
Italy	1.3	0.2	0.2	1.1
Spain	1.5	-0.2	-0.3	1.4
Portugal	0.4	-0.2	0.9	1.3
Greece	-0.9	-1.4	-1.4	0.8
Euro area	1.4	0.4	0.4	1.4
GB	2.6	1.5	0.3	1.8
Switzerland	-0.2	0.0	-1.2	-0.1
USA	1.5	1.6	0.0	2.7
Japan	0.4	2.7	0.3	1.5
China	2.6	2.0	1.9	3.0
India ¹	9.5	6.3	5.4	5.6
Brazil ¹	6.2	6.3	7.7	5.5

Source: Thomson Reuters, ¹⁾ IMF, ²⁾ EU Commission, RBI/Raiffeisen RESEARCH

Current account balance (% of GDP)

Countries	2013	2014	2015e	2016f
Austria	0.9	0.8	0.8	0.7
Germany	6.5	7.6	7.0	6.5
France	-1.4	-1.0	-0.7	-0.8
Belgium	-0.2	1.6	1.5	1.2
Netherlands	11.0	10.9	10.0	10.0
Finland	-1.8	-1.9	-1.2	-1.0
Ireland	4.4	6.2	7.0	6.8
Italy	0.9	1.9	2.2	2.1
Spain	1.4	0.8	0.9	0.5
Portugal	1.4	0.6	0.8	0.5
Greece ²	0.6	0.9	1.0	1.2
Euro area	1.9	2.1	2.4	2.2
GB	-4.5	-5.5	-5.4	-4.9
Switzerland	10.7	7.0	6.5	7.0
USA	-2.2	-2.2	-2.9	-3.4
Japan	0.8	0.5	1.2	1.5
China	1.5	2.1	2.4	1.9
India ¹	-4.2	-2.6	-2.5	-1.1
Brazil ¹	-3.4	-4.0	-4.1	-3.8

Source: Thomson Reuters, ¹⁾ IMF, ²⁾ EU Commission, RBI/Raiffeisen RESEARCH

General budget balance (% of GDP)

Countries	2013	2014	2015e	2016f
Austria	-1.3	-2.4	-1.9	-1.8
Germany	0.1	0.7	0.0	0.2
France	-4.1	-4.0	-3.8	-3.5
Belgium	-2.9	-3.2	-2.6	-2.4
Netherlands	-2.3	-2.3	-1.7	-1.2
Finland	-2.5	-3.2	-3.3	-3.2
Ireland	-5.8	-4.1	-2.0	-2.0
Italy	-2.9	-3.0	-2.6	-2.0
Spain	-6.8	-5.8	-4.3	-3.4
Portugal	-4.8	-4.5	-2.9	-2.4
Greece	-12.3	-3.5	-2.1	-2.2
Euro area	-2.9	-2.4	-2.0	-1.7
GB	-5.7	-5.7	-4.5	-4.0
Switzerland	0.1	0.2	0.2	0.3
USA	-4.1	-2.8	-2.7	-2.4
Japan	-8.5	-7.7	-6.8	-6.0
China	-1.8	-1.8	-2.2	-2.3
India ¹	-7.2	-7.2	-7.2	-3.9
Brazil ¹	-2.8	-4.0	-5.7	-4.5

Source: Thomson Reuters, EU-Commission, Nationale governments, ¹⁾ IMF, RBI/Raiffeisen RESEARCH

Public debt (% of GDP)

Countries	2013	2014	2015e	2016f
Austria	80.9	84.5	87.0	85.3
Germany	77.1	74.7	72.4	69.6
France	92.3	95.0	96.4	97.0
Belgium	104.4	106.5	106.5	106.4
Netherlands	68.6	68.8	69.9	68.9
Finland	55.8	59.3	62.6	64.8
Ireland	123.2	109.7	107.3	102.8
Italy	128.5	132.1	133.1	130.6
Spain	92.1	97.7	99.9	101.2
Portugal	129.7	130.2	124.5	122.6
Greece	175.0	177.1	180.2	173.5
Euro area	90.9	91.9	91.7	90.3
GB	87.3	89.4	89.6	90.0
Switzerland	45.6	45.3	45.1	45.0
USA	100.8	103.2	102.6	101.6
Japan	220.3	226.0	229.2	234.0
China	14.8	15.6	16.0	16.2
India ¹	65.5	65.0	64.4	58.5
Brazil ¹	66.2	65.8	65.6	65.6

Source: Thomson Reuters, EU-Commission, Nationale governments, ¹⁾ IMF, RBI/Raiffeisen RESEARCH

Ratings

	Moody's	S&P	Fitch
Austria	Aaa (s)	AA+ (s)	AA+ (s)
Germany	Aaa (s)	AAA (s)	AAA (s)
France	Aa1 (n)	AA (n)	AA (s)
Belgium	Aa3 (s)	AA (s)	AA (n)
Netherlands	Aaa (s)	AA+ (p)	AAA (s)
Finland	Aaa (n)	AA+ (s)	AAA (n)
Ireland	Baa1 (s)	A+ (s)	A- (s)
Italy	Baa2 (s)	BBB- (s)	BBB+ (s)
Spain	Baa2 (p)	BBB (s)	BBB+ (s)
Portugal	Ba1 (s)	BB (p)	BB+ (p)
Greece	Caa2 (n)	CCC (n)	CCC (n.v.)
GB	Aa1 (s)	AAA (n)	AA+ (s)
Switzerland	Aaa (s)	AAA (s)	AAA (s)
USA	Aaa (s)	AA+ (s)	AAA (s)
Japan	A1 (s)	AA- (n)	A (s)
China	Aa3 (s)	AA- (s)	A+ (s)
India	Baa3 (p)	BBB- (s)	BBB- (s)
Brazil	Baa2 (n)	BBB- (s)	BBB (n)

Outlook: p = positive, n = negative, s = stable
Source: Bloomberg, RBI/Raiffeisen RESEARCH

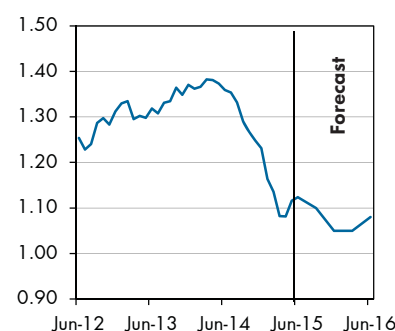
Currencies: FX per Euro

Countries	current	Forecast				
	22-Jun 15 ¹	Sep-15	Dec-15	Mar-16	Jun-16	
GB	0.72	0.71	0.70	0.70	0.68	
Switzerland	1.05	1.05	1.05	1.08	1.10	
Japan	140	138	137	137	143	
Sweden ²	9.24	9.26	9.21	9.16	9.11	
Norway ²	8.78	8.47	8.43	8.39	8.35	
USA	1.14	1.10	1.05	1.05	1.08	
China	7.07	6.88	6.51	6.51	6.64	
India ²	72.2	69.9	66.8	67.0	69.1	
Brazil ²	3.49	3.61	3.47	3.49	3.61	

current ¹⁾ 5:30 p.m. CET

²⁾ Consensus estimates

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

EUR/USD

5y high: 1.489, 5y low: 1.052

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Money market rates 3M (%)

Countries	current	Forecast			
	22-Jun 2015 ¹	Sep-15	Dec-15	Mar-16	Jun-16
Euro area	-0.01	0.00	0.00	0.00	0.00
GB	0.57	0.60	0.60	0.80	0.80
Switzerland	-0.79	-0.75	-0.75	-0.75	-0.75
Japan	0.10	0.10	0.10	0.10	0.10
USA	0.28	0.70	0.95	1.20	1.70

¹ 5:30 p.m. CET

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Government bond yields 2y (%)

Countries	current	Forecast			
	22-Jun ¹	Sep-15	Dec-15	Mar-16	Jun-16
DE	-0.18	-0.3	-0.3	-0.3	-0.2
CH	-0.87	-0.7	-0.7	-0.6	-0.5
Japan	0.02	0.0	0.0	0.1	0.1
USA	0.66	1.0	1.1	1.3	1.8

¹ 5:30 p.m. CET

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Government bond yields 5y (%)

Countries	current	Forecast			
	22-Jun ¹	Sep-15	Dec-15	Mar-16	Jun-16
DE	0.17	0.1	0.2	0.2	0.5
CH	-0.45	-0.4	-0.4	-0.3	-0.2
Japan	0.12	0.1	0.1	0.2	0.2
USA	1.66	1.9	2.0	2.1	2.4

¹ 5:30 p.m. CET

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Government bond yields 10y (%)

Countries	current	Forecast			
	22-Jun 2015 ¹	Sep-15	Dec-15	Mar-16	Jun-16
Austria	1.22	1.1	1.2	1.2	1.6
Germany	0.89	0.8	0.9	0.9	1.3
France	1.25	1.1	1.2	1.2	1.6
Italy	2.16	1.8	1.8	1.8	2.3
Spain	2.12	1.8	1.8	1.7	2.2
GB	2.10	2.0	2.2	2.4	2.6
Switzerland	0.18	0.1	0.2	0.3	0.4
Japan	0.43	0.4	0.4	0.5	0.6
USA	2.35	2.5	2.6	2.8	3.0

¹ 5:30 p.m. CET

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Credit markets*

	current	Forecasts			
	22-Jun ¹	Sep-15	Dec-15	Mar-16	Jun-16
IG Non-Fin	105	115	100	100	120
High-Yield	440	480	450	450	500
Financials Senior	93	110	95	95	115
Financials Subord.	203	240	210	210	250

¹ 11:59 p.m. CET closing prices

* Option Adjusted Spread over Bund (in bp)

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

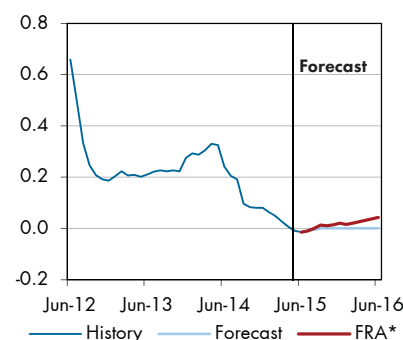
Stock markets

	current	Forecasts			
	22-Jun 2015 ¹	Sep-15	Dec-15	Mar-16	Jun-16
Euro STOXX 50	3,596	3,820	3,950	3,950	3,750
DAX 30	11,461	12,100	12,500	12,400	11,900
FTSE 100	6,826	7,100	7,300	7,200	7,000
SMI	9,021	9,250	9,500	9,400	9,200
DJIA	18,120	18,200	18,400	18,600	18,400
S&P 500	2,123	2,150	2,190	2,200	2,150
Nasdaq Comp.	5,154	5,350	5,500	5,500	5,220
Nikkei 225	20,428	21,100	21,700	22,000	21,500
Hang Seng CE	13,384	13,600	14,050	13,850	13,900
Bovespa	53,864	52,100	54,000	55,000	56,000
Sensex	27,730	28,200	28,900	29,200	28,700

¹ 11:59 p.m. CET closing prices on the respective main stock exchange

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Euribor 3m (%)

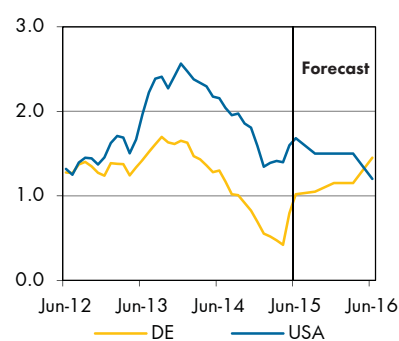


5y high: 1.615, 5y low: -0.014

* Forward rate agreement

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Yield spread 10y - 2y (pp)

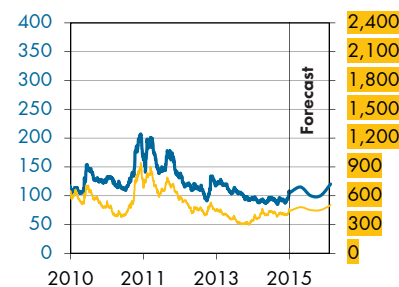


DE 5y high: 2.273; 5y low: 0.335

USA 5y high: 2.889; 5y low: 1.180

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Spread history IG vs HY bonds (bp)

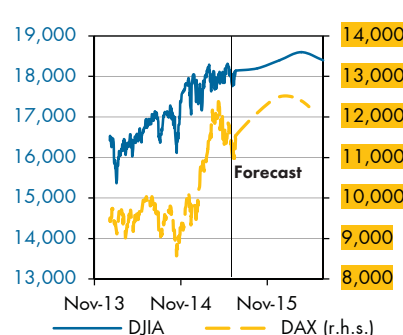


ML EUR IG non fin. spread index

ML EUR HY non fin. spread index (r.h.s.)

Source: Bloomberg, BofA Merrill Lynch, RBI/Raiffeisen RESEARCH

Dow Jones Industrials and DAX



DJIA: 5y high: 18,289, 5y low: 9,686

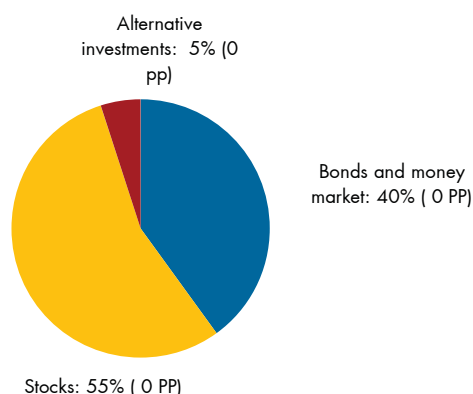
DAX: 5y high: 12,168, 5y low: 5,072

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Turnaround in yields supports overweighting equities

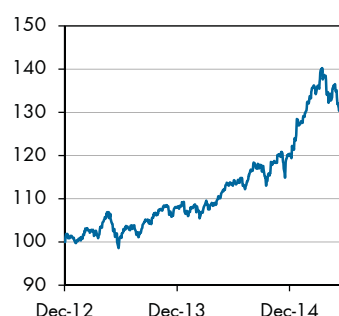
- Equity market performance to be borne by improving economic momentum
- Bond markets face rising yields over the long run
- Possible extension of Greek crises and Ukraine conflict as risk factors

Portfolio weighting overview



(+/-) change to last publication
Source: RBI/Raiffeisen RESEARCH

Performance asset allocation*



* since inception on 1 January 2013
Source: RBI/Raiffeisen RESEARCH

RBI asset allocation portfolio

	2012	2013	2014	2015*
Performance	10.5%	8.1%	11.0%	9.7%

* from 01/01/2015 to 22/06/2015
Source: RBI/Raiffeisen RESEARCH

Portfolio weighting in detail

Bonds and money market 40% (0 pp)*			Stocks 55% (0 pp)*			Alternative investments 5% (0 pp)*		
EMU-bonds	15.0%	↓	Europe	33.6%	↔	Real Estates	100.0%	
USA	25.0%	↓	USA	25.5%	↔	Hedge Funds	0.0%	
Rest of Europe	0.0%	↔	Asia	15.5%	↔			
Eastern Europe	15.0%	↔	Eastern Europe	7.3%	↔			
Eurobonds	5.0%	↔	Emerging Markets	18.2%	↔			
Euro-corporate bonds	10.0%	↔						
Asia	0.0%	↔						
Money Market	30.0%	↑						
Sum	100.0%		Sum	100.0%			100%	

* compared to last publication, ↑: higher weight, ↓: lower weight, ↔: unchanged weight
Source: RBI/Raiffeisen RESEARCH

The financial markets ended the second quarter with significantly higher volatility and losses on both the equity and bond markets. Despite this, we maintain our **5-pp overweighting on equities in the model portfolio**: on the one hand, we project acceleration in global economic growth, and on the other hand, the anticipated medium-term increase in yields should impact bond investments.

The **US economy bounced back in the second quarter**, supporting the hypothesis that the disappointing economic data in the first quarter could be ascribed to one-off factors such as the adverse weather, strikes or inappropriate calculation methodologies. At the same time, there was an increasingly firm opinion among market participants that the moderate economic upturn in Europe would continue and that economic growth in China would stabilize.

With regard to Japan, growth forecasts were raised recently, on the heels of surprisingly good performance in Q1. By contrast, the situation looks gloomy in several of the major emerging markets: Russia, Brazil, and South Africa are all big EM players which are expected to feel economic contraction this year. Only a few of the emerging markets, such as India, have been able to post better economic dynamics. At the same time, the improvement in economic data also means that the long-delayed return to interest rate hikes in the USA is moving ever closer and that worries about deflation in Europe are dissipating. The immediate result of this has been and continues to be seen in the form of falling bond prices. Even though this sharp correction will not occur as a single, uninterrupted episode and will be punctuated by periods of falling yields (in Europe in particular), the performance outlook for bonds look limited to negative amidst an upward trend in yields over the medium term.

A possible extension of the Greek government debt crises and the threat of further escalation of the Ukraine conflict are **risks to our scenario**. In both cases, risk aversion might spike, triggering a flight to "safe haven" assets such as high quality government bonds.

Financial analyst: Veronika Lammer, RBI Vienna

Use bond market rebounds for additional duration shortening

- Yields projected to rise over medium term
- Currency gains versus the euro only in isolated cases
- Yield premiums will decrease in Q3

While the strength of the improvement in economic data is a positive factor for the equity markets, the intense volatility that erupted at the same time on the bond markets surprised and shocked investors. The rapid increase in yields on 10-year German government bonds from 0.05% to 1.05% quickly shot gaping holes in the performance of bond investors, who had become accustomed to success.

As we had already been successively shortening the duration in our model portfolio in recent months and recently increased the money market ratio yet again, a **further modest re-allocation from bonds into the money market** appears to be sufficient for the next few months.

We continue to hold the largest bond ratio in the **USA, as the higher yields and our expectations of USD appreciation** towards 1.05 versus EUR still point to earnings potential there. The weighting on euro-area government bonds is also relatively high, and along with Austria, we also like Italy, whose bonds currently offer a slightly higher yield premium. An equally high weighting is maintained on Eastern European government bonds, which still exhibit higher yields especially in the short to medium-term segments, along with exchange rates to the euro which are expected to remain broadly stable. The slightly higher interest remuneration is also the reason for the unchanged holdings of EUR-denominated corporate bonds and Eurobonds. Due to the anticipated yield increase over the medium-term, **shorter maturities should be preferred**, and a recovery on the bond markets should be used to shorten the duration. Eastern European government bonds are an exception, where medium-dated bonds can also be included along with short-dated bonds.

Financial analyst: Veronika Lammer, RBI Vienna

Correlations*

	GE government bond, 10Y	Euro corporate bonds IG Non-Fin	Euro corporate bonds IG Fin	Euro corporate bonds HY	US-Treasuries, 10Y	CEE-government bonds
GE government bond, 10Y	1.00	0.90	0.79	0.02	0.57	0.28
Euro corporate bonds IG Non-Fin		1.00	0.95	0.27	0.46	0.35
Euro corporate bonds IG Fin			1.00	0.48	0.38	0.39
Euro corporate bonds HY				1.00	-0.09	0.34
US-Treasuries, 10Y					1.00	0.26
CEE-government bonds						1.00

* historical, last 12 months; IG ... Investmentgrade, HY ... High-yield, total return, all maturities
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Expected bond market performance (%)*

	3M		6M		9M		12M	
	EUR	LCY	EUR	LCY	EUR	LCY	EUR	LCY
GE government bond, 10Y	1.0	1.0	0.3	0.3	0.5	0.5	-2.8	-2.8
Euro corporate bonds IG Non-Fin	1.2	1.2	1.4	1.4	1.4	1.4	-1.3	-1.3
Euro corporate bonds IG Fin	0.7	0.7	0.9	0.9	0.9	0.9	-1.3	-1.3
Euro corporate bonds HY	0.5	0.5	1.3	1.3	1.3	1.3	-1.9	-1.9
US-Treasuries, 10Y	2.5	-0.6	7.0	-0.9	5.8	-2.1	1.7	-3.1

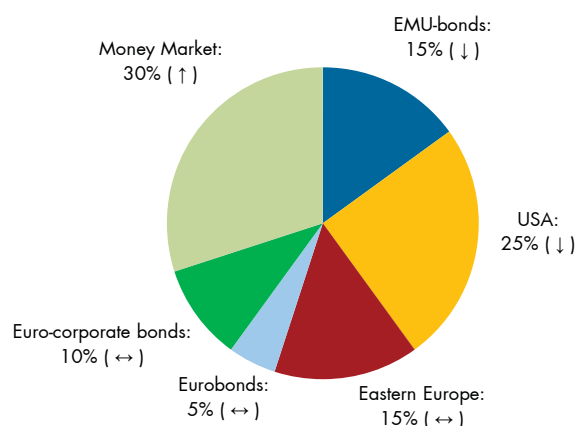
* not annualised; IG ... Investmentgrade, HY ... High-yield, LCY...local currency
Source: RBI/Raiffeisen RESEARCH

Historical Performance

	19-Mar until 22-Jun 15	5y yoy*
Euro area	-5.1%	5.2%
US-Treasuries	-6.2%	4.6%
Japan	-7.3%	-2.4%
CEE-Bonds	-3.7%	2.5%
EB-CEE USD	-2.0%	7.8%
EB-CEE EUR	-2.9%	6.9%
IG Non-Fin	-3.0%	5.0%
IG Fin	-2.2%	5.1%
HY Non-Fin	-0.5%	9.6%

* five-year annual return in EUR
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Bond portfolio Q3 2015

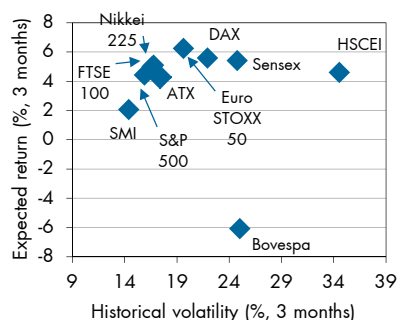


* compared to last publication, ↑: higher weight, ↓: lower weight, ↔ : unchanged weight
Source: RBI/Raiffeisen RESEARCH

Strongest weighting on European equities

- European stock markets have catch-up potential
- Corporate earnings as a key point in asset allocation
- Emerging markets still expected to lag behind

Risk-return*



* in EUR

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Correlations

	S&P 500	Euro STOXX 50	Nikkei 225
ATX	0.69	0.83	0.54
DAX	0.77	0.96	0.70
FTSE 100	0.82	0.83	0.74
Nikkei 225	0.78	0.71	1.00
Euro STOXX 50	0.79	1.00	0.71
S&P 500	1.00	0.79	0.78
SMI	0.81	0.82	0.75
HSCEI	0.66	0.51	0.69
Sensex	0.68	0.60	0.61
Bovespa	0.34	0.50	0.25
Emerging Markets	0.81	0.76	0.73

Correlation (= reciprocal dependence) based on weekly performance figures last 12 months, in EUR

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

In the equity portfolio, our orientation is determined by the expectations of **corporate earnings performance**. In this regard, the **euro area stands out with its double-digit growth rates** for the first quarter, which were fuelled by the very low oil price, falling unit labour costs, the weak euro exchange rate, and the economic recovery in Europe and the USA. Furthermore, the euro-area stock markets impressed with their mostly attractive dividend yields, such as 3.5% for the Euro STOXX 50 for example. Consequently, the largest weighting continues to be in this region. Earnings growth for the Nikkei 225 was already in the double-digit range in the 2014 business year. Further robust increases in corporate earnings are anticipated by the market both in 2015 and in 2016. Accordingly, **Japan has a relatively high weighting** in our model portfolio.

By contrast, we weight the **US equity market** at 14%, which is relatively low compared to its significance. Valuations are now looking high and earnings growth potential in the broader market appears limited, which suggests that this market will lag behind other regions. One positive exception in this regard is the growth sectors in the Nasdaq.

Right now, it is still **not possible to foresee when the underperformance of the emerging markets versus the developed markets will come to an end**. While the structural problems have been recognised and are being actively addressed to some extent, the initial impact of these efforts is burdensome for the economy and this is being reflected in corporate earnings. Furthermore, private and public sector debt has increased significantly in many countries since 2008, which will likely weigh on economic growth over the medium run.

Financial analyst: Veronika Lammer, RBI Vienna

Expected stock market performance (%)*

	3M		6M		9M		12M	
	EUR	LCY	EUR	LCY	EUR	LCY	EUR	LCY
Euro STOXX 50	6.2	6.2	9.8	9.8	9.8	9.8	4.3	4.3
DAX	5.6	5.6	9.1	9.1	8.2	8.2	3.8	3.8
FTSE 100	5.0	4.0	9.5	6.9	8.0	5.5	8.1	2.6
SMI	2.0	2.5	4.8	5.3	0.8	4.2	-3.1	2.0
Nikkei 225	5.1	3.3	8.9	6.2	10.4	7.7	3.3	5.2
S&P 500	4.4	1.3	11.4	3.2	11.9	3.6	6.4	1.3
HSCEI	4.6	1.6	14.1	5.0	12.5	3.5	10.7	3.9
Sensex	5.4	1.7	12.9	4.2	13.8	5.3	8.4	3.5
BOVESPA	-6.1	-3.3	1.3	0.3	2.5	2.1	1.1	4.0

LCY...local currency

* not annualised

Source: RBI/Raiffeisen RESEARCH

Cyclical sectors overweighted again

- **Cyclical stance maintained for Q3 2015**
- **Sectors energy, industrials, consumer discretionary, financials, IT, and materials are overweighted**
- **In return, utilities, consumer staples, telecommunications, and healthcare are underweighted**

In the period since 20 March 2015, the **RBI sector portfolio** registered outperformance of 4.6bp versus the benchmark. The underweighting of names from the utilities sector (+5.9bp) and consumer staples (+2.6bp) generated the best positive performances. Furthermore, the overweighting of financials (+1.5bp), IT (+0.2bp), and consumer discretionary (+0.4bp) also generated positive contributions. On the other hand, the overweighting of industrials, materials, and energy made negative contributions of 2.2bp, 0.7bp, and 0.5bp, along with the underweighting of the telecom sector (-2.8bp). The mild underweighting of the healthcare sector was neutral in terms of the performance contribution.

Overweighting/underweighting

We maintain the portfolio's **cyclical stance**, and enter into positions totalling 1,240bp. The largest overweight positions are in the sectors energy and industrials, at 170bp each. Along with consumer discretionary (+100bp), both of these sectors should profit from the ongoing economic recovery in the USA and in the euro area. Most of the names in the consumer discretionary sector, however, show high valuations. We overweight the sectors IT and financials by 70bp each. The former put in a solid reporting season in Q1, although the macro-economic weakness in the emerging markets was a negative factor. In the financials sector, regulatory conditions remain tense, but finance should be able to profit from the positive development on the market over the short run. The same holds true for the materials sector (+40bp), which has made significant progress in recent quarters in the field of restructuring. The utilities sector, which the largest underweighting at 320bp, is suffering in Europe, due to the expansion of renewable energy sources and the low wholesale prices and margins for electricity. Consumer staples (-230bp), which already exhibits high valuations, continues to be confronted with weak turnover development in the emerging markets and stiff competitive pressures. In the telecommunications sector (-60bp), tough negotiations on abolishing roaming fees throughout the EU are on the agenda. In light of the prevailing price pressure in the pharmaceuticals business and our cyclical positioning, we once again opt for a mild underweighting (-10bp) of the healthcare sector.

Financial analyst: Judith Galter, RBI Vienna

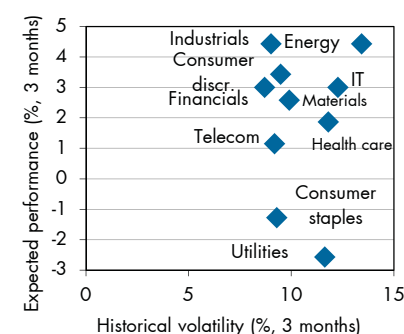
Top 10 industry performances (in %)

		since last publication	5y yoy*
1	Banks	5.3%	10.0%
2	Financials	4.7%	11.4%
3	Retailing	4.1%	22.1%
4	Health care equipment	3.5%	20.6%
5	Telecommunication	3.3%	14.4%
6	Software	2.6%	17.2%
7	Media	2.3%	22.9%
8	Capital goods	2.0%	13.7%
9	Semiconductors	2.0%	15.2%
10	Food, beverage & tobacco	1.9%	15.5%

* five-year annual return

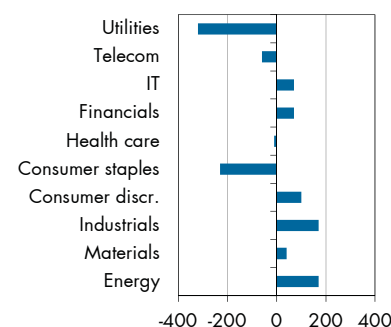
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Risk-return



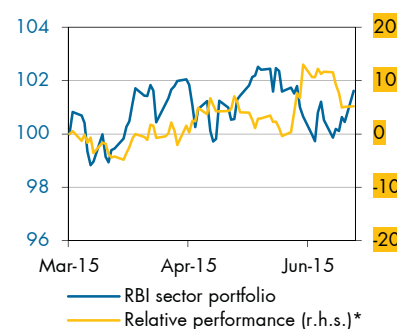
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Over-/underweight sectors (in bp)



Source: RBI/Raiffeisen RESEARCH

RBI sector portfolio



* in basis points

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

RBI sector portfolio

	2012	2013	2014	since*
Benchmark	16.3%	29.6%	10.4%	1.57%
Portfolio	15.6%	29.9%	9.7%	1.62%
Relative Performance	-79 BP	27 BP	-69 BP	5 BP

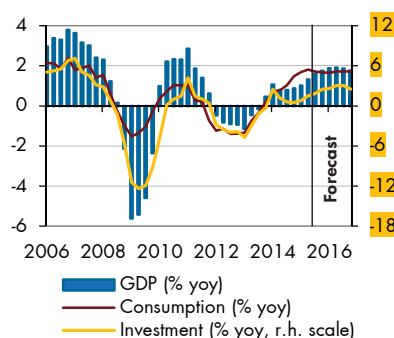
* since 19 March 2015 to 22 June 2015

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Modest upturn continues

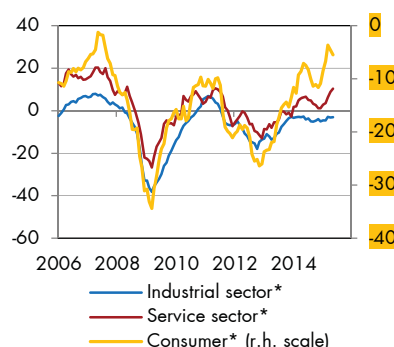
- Recovery on an increasingly broad basis
- Political uncertainties still a risk factor
- Upward surge in inflation rates starting from autumn

Recovery sustainable



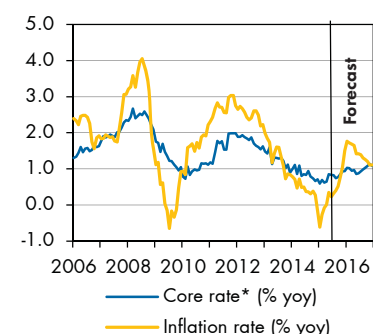
In the **euro area**, real GDP growth in the first quarter of 2015 amounted to 0.4% compared to the previous quarter and 1% in year-on-year terms. Economic growth should pick up pace slightly in the course of this year still. For example, sentiment amongst consumers and companies has improved significantly since the start of the year. Some surveys in recent months have reached the highest levels in many years. All in all, we project a moderate upturn in economic activity in 2015. Another positive aspect is that the improvement in economic performance is founded on a broad base in our opinion. In addition to a positive contribution from net exports, private consumption and investment demand should also back up the recovery. In the area of private investment in particular, there is probably demand that has pent up over several years, but this may only have an impact slowly due to the prevailing political uncertainties.

Sentiment has got brighter



At the level of the **individual countries**, the economic prospects look very different in our assessment: previous crisis countries such as Ireland and Spain can expect to reap the fruits of their reforms in the form of strong economic growth. The same is true to a lesser extent in Portugal as well. GDP growth rates above the euro-area average will probably also be seen in the Netherlands, Slovakia, and in the Baltic states. In Germany and Belgium, the expansion of economic output should range in the middle of the European field. France and Italy as well will probably be able to keep up somehow, despite their structural deficits. In Austria and Finland, however, we only expect to see a small increase in GDP. While Italy, Cyprus and Finland will at least be able to emerge from recession this year, Greece has slipped back into one. The longer the political crisis there lasts, the deeper and longer this recession will be.

Inflation starts to rise in fall



During the first few months of the year, the **rate of inflation** was in negative territory, due to falling energy prices. Only in May was the consumer price index able to rise compared to the previous year's level again. Looking ahead, the development of energy prices, which are closely related to the oil price in EUR, will play a dominant role. Taking our exchange rate and oil price forecasts as a basis, inflation should only rise slightly over the summer months. Starting from the autumn however, the price-reducing effect from energy prices will disappear and as a result the rate of inflation will climb close to 2% yoy by the spring of 2016. The low underlying inflationary pressure outside of energy prices will remain in place over our forecast horizon though. In our view, wage pressure from employees and the price-setting power of companies (cost push and demand pull) will still be weak until well into 2016. If one excludes the energy components, the rate of price increases for this year and next year will settle in at a level of around 1% yoy.

Financial analyst: *Gottfried Steindl, RBI Vienna*

Strong rebound after a weak start to the year likely

- Economy bounces back strongly in Q2, following a miserable start to the year
- Prospects for H2 look very good, thanks to very favourable overall conditions
- Strong rise in employment; rate of unemployment to sink below 5% by year-end

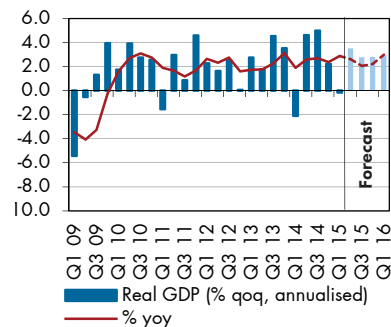
Between January and March, **real GDP** essentially stagnated in the USA. The available hard data for the period April to June, however, point to the robust economic recovery which we were projecting. For example, there has been a strong rise in public sector consumption, along with a vigorous increase in housing investment. Furthermore, the trade balance data for April support our expectation that net exports is making a tangible, positive contribution to growth. It also appears that private consumption is doing at least somewhat better than in the first quarter. Nevertheless, we have slightly lowered our forecast for annualised economic growth of around 4% in the second quarter and we now expect annualised growth for the period to come in at between 3% and 4% qoq. Due to the lower forecast for the second quarter and the downward revision of the data for Q1 compared to the first estimate, our projection for real GDP growth of 2.7% for 2015 looks ambitious, even if the economy develops as positively as we expect it to in the second half of the year. Before lowering our forecasts, however, we will wait until the end of July, when the flash estimate for the second quarter is published. Because it is quite possible that the quarterly profile for real GDP will look very different compared to the previous one, after the annual revision of the data for recent years has been carried out.

The **labour market report for May** finally corrected the weak gain in employment of "just" 119K which was registered for the month of March, as 280K new jobs were created in May. While the rate of unemployment rose to 5.5%, some 272K people found new jobs according to the household survey. At the same time though, the number of unemployed rose, as almost 400K more people entered the labour market. We expect that the extremely stable upward trend in employment which has remained intact since early 2011 will continue in the quarters to come. Individual months with weaker performance such as March should be disregarded. Despite the increase in May, we project that the rate of unemployment will drop to below 5% by the end of the year. Wage growth, which had remained static for a long time, now appears to be gaining pace. In the period March-May, hourly wages increased at an annualised rate of 2.9%.

In May, the **inflation rate** was 0.1% yoy. The rate of inflation will likely fluctuate around 0% on into the third quarter. Starting from the autumn, however, we then anticipate a sharp rise in inflation, due to the intense base effect, as the oil price fell by one half between June and December of 2014. By the first quarter of 2016, the rate of inflation should be considerably higher than 2% yoy. The rate of core inflation, which excludes the impact of energy and food prices, has accelerated tangibly in recent months. In the period January-May, the core rate increased to 2.4% in annualised terms. In light of the mounting wage pressure, underlying price pressure should remain high in H2 and in 2016.

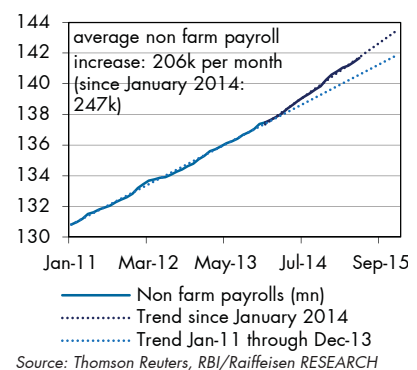
Financial analyst: Jörg Angelé, RBI Vienna

Real gross domestic product (GDP)



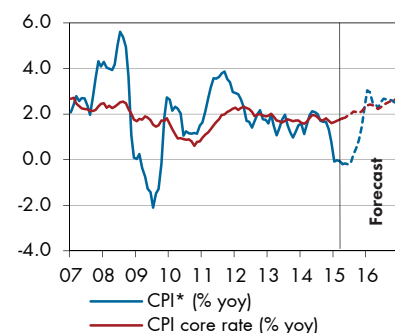
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Strong employment trend



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Inflation higher in the medium-term

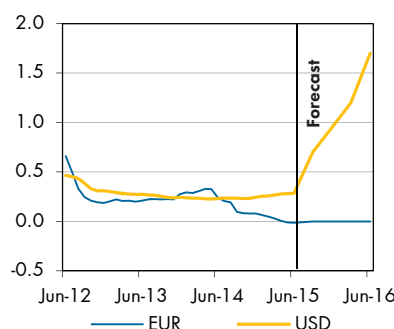


* Consumer price index
Source: Thomson Reuters, Raiffeisen RESEARCH

Fed ready to raise interest rates

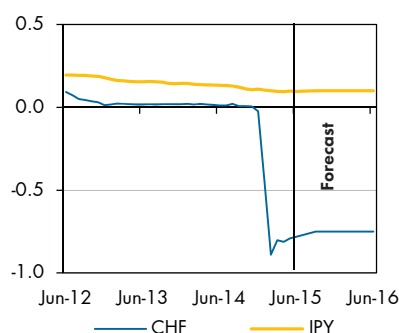
- Euro area: ECB stays the course
- USA: Fed still in no hurry to normalise interest rates
- USA: two rate hikes expected this year, in September and December

Money market rate 3M (%)



EUR 5y high 1.615; 5y low -0.014
USD 5y high 0.583; 5y low 0.223
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Money market rate 3M (%)



CHF 5y high 0.185; 5y low -0.964
JPY 5y high 0.248; 5y low 0.094
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Key interest rate (%)

	cur.	Forecast			
Countries	22-Jun ¹	Sep-15	Dec-15	Jun-16	
Euro area	0.05	0.05	0.05	0.05	
GB	0.50	0.50	0.50	0.75	
Switzerland	-0.79	-0.75	-0.75	-0.75	
Japan	0.10	0.10	0.10	0.10	
USA	0.25	0.50	0.75	1.50	

¹5:30 p.m. CET
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Money market rate 3M (%)

	curr	Sep-15	Dec-15	Jun-16	
	22-Jun ¹	Forc	Fwd	Forc	Fwd
EUR	-0.01	0.00	0.00	0.01	0.00
CHF	-0.79	-0.75	-0.89	-0.75	-0.92
USD	0.28	0.70	0.39	0.95	0.56
GBP	0.57	0.60	0.62	0.60	0.73
JPY	0.10	0.10	0.09	0.10	0.09

¹5:30 p.m. CET
Forc ... Forecast, Fwd ... Forward
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

In recent weeks, the **European Central Bank** repeatedly underlined that it would maintain its course of low interest rates and enhanced **monetary policy measures as planned**. In particular, it rejects any doubts about its bond purchases of EUR 60 bn until at least September 2016. In the environment which we expect to see, this stance is credible up until the end of the year. The economic recovery is continuing at a modest pace. Starting from the autumn, the rate of inflation should move significantly up, but does not look likely to advance past the level of 2%. Credit conditions should gradually improve in most countries, but there will be no reason for the ECB to step on the brakes. Sooner or later, the market will start to ponder whether the central bank is willing to go ahead with the planned expansion of its balance sheet to around EUR 3,000 bn by mid-2016. In the spring of 2016, monetary and real economic conditions should have recovered enough, so that an extension of the monetary policy measures beyond the targeted goals looks increasingly unlikely. The scheduled bond purchases and targeted longer-term refinancing operations will cause a steady increase in the **surplus liquidity of the banking system**, which should maintain **downward pressure on money market rates**. Recently, it was mainly short-term rates which slipped even deeper into negative territory. In the months ahead, we expect that market participants will move further out along the maturity curve, in order to at least preserve capital and earn a small return. Accordingly, we expect to see **flattening of the money market curve** resulting from a further decrease of longer maturities.

The statement after the US Fed's rate-setting meeting on 17 June was unexpectedly dovish. This was matched by the comments of Fed chair Yellen at the press conference. Before taking the first step with interest rates, the monetary authorities want definitive evidence that the economic weakness during the first quarter was really just a temporary phenomenon. Furthermore, they want proof that the situation on the labour market is improving and better confidence that the rate of inflation will approach the 2% target over the medium term. As a result, there is no chance of a rate hike in July, as the time frame for determining the above is too short. **Our baseline scenario continues to call for an interest rate hike in September and another one in December.** This scenario is supported by the FOMC's projections, which point to a range of 0.5% to 0.75% for the key rate at the end of 2015, which is 50bp higher than the current interest rate level. We continue to see the path for the interest rate, which is outlined by the FOMC and has been lowered yet again, as being far too low. During the first half of 2016, the rate of unemployment and inflation will both surpass their respective targets, and in our view **the Fed will have no alternative but to raise interest rates more strongly as a result**. Ultimately, the pace of interest rate normalisation should be similar to what was seen in 2004 and 2006, and it should be noted that Fed chair Yellen once again described that in retrospect as being too slow.

Financial analysts: Jörg Angelé, Gottfried Steindl, RBI Vienna

Turnaround in yields completed

- **Euro area: Monetary policy is (still) an important source of support for government bonds**
- **Euro area: Persistent political uncertainties**
- **USA: US government bonds vulnerable to rate hikes; yields with room on the upside**

The rally on the government bond market which had pushed **euro-area yields** on government bonds into negative territory all the way up to medium maturities came to an abrupt end in mid-April. As an example, the yield of the 10year German benchmark bond increased by 100bp within only two months. But just as the rally itself was exaggerated, we also see the subsequent correction as being overdone. The rapid ascent in German yields is justified neither by the economic prospects, nor by the political situation, nor ultimately by the monetary policy impacts. Given, according to the standard analysis approach, the current fair level of yields on a 10-year German bond is above 1%. But the ECB's large-scale **bond purchase programme should once again push German yields downwards over the summer**. Simultaneously, risk premiums for Austria, France, Italy, Spain, Portugal, and Ireland should narrow, albeit prior to the elections in Spain and Portugal bonds of these countries may feel some temporary pressure. As soon as market participants start wondering about a possible end to the ECB's bond purchase programme, the bond market will lose a key source of support. It is not possible to foresee when the market will finally abandon its hopes for an increase/extension of the ECB's government bond purchases, but as soon as speculation begins about when and how the ECB will make its exit (spring 2016), one should expect to see significant yield increases, including widening spreads for the aforementioned countries.

The statements following the **FOMC policy meeting** on 17 June were unsurprisingly interpreted by the market as being dovish, and yields on US government bonds dropped by around 10bp. Furthermore, as measured by the Fed Funds Futures, market expectations for the first Fed rate hike shifted to Q1 2016. Thus, it appears that most market participants would be caught on the wrong foot if the Fed actually does decide to start **normalising its interest rate policy this year still** and indeed raises the key interest rate on two occasions, as both we and the majority of central bank officials themselves are expecting. Since such a scenario is apparently not discounted in the prices of US government bonds, we see leeway for rising yields in the months ahead. Looking ahead to the **end of the year, we project the yield on US government bonds with 10-year remaining maturity at 2.6%**, and for the end of Q1 2016 we forecast a level of 3%.

Financial analysts: Jörg Angelé, Gottfried Steindl, RBI Vienna

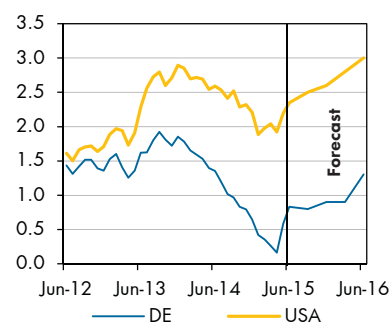
Value matrix bonds

Markets	DE		US		JP	
GDP growth	3	(3)	3	(3)	1	(1)
Inflation	1	(1)	1	(1)	1	(1)
Budget	1	(1)	2	(3)	4	(4)
Currency	3	(4)	1	(1)	3	(3)
Politics	1	(1)	2	(2)	2	(2)
Short rates	1	(1)	4	(4)	1	(1)
Technical	3	(3)	3	(3)	2	(2)
Average	1.9	(2.0)	2.3	(2.4)	2.0	(2.0)

Explanation: 1 (4) denotes highly positive (negative) influence on the market. All factors are weighted equally. Assessments refer to a 3-month period. Values in brackets refer to the previous quarter.

Source: RBI/Raiffeisen RESEARCH

Yields 10y (%)



DE 5y high 3.492; 5y low 0.077

USA 5y high 3.724; 5y low 1.404

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Range yields 10y (%)

Countries	Sep-15	Dec-15	Jun-16
DE	0.3 - 1.1	0.3 - 1.1	0.7 - 1.5
USA	2.0 - 2.8	2.0 - 3.2	2.4 - 3.8
GB	1.6 - 2.3	1.8 - 2.6	2.0 - 3.0
Japan	0.2 - 0.7	0.2 - 0.8	0.3 - 1.1

Source: RBI/Raiffeisen RESEARCH

Yields 10y (%)

Countries	19 Mar 2015 ¹	Sep-15		Dec-15		Mar-16		Jun-16	
		Forecast	Cons ²	Forecast	Cons ²	Forecast	Cons ²	Forecast	Cons ²
Austria	1.09	1.1	n.v.	1.2	n.v.	1.2	n.v.	1.6	n.v.
Germany	0.89	0.8	0.7	0.9	0.8	0.9	0.9	1.3	1.1
France	1.25	1.1	1.0	1.2	1.1	1.2	1.2	1.6	1.3
Italy	2.16	1.8	2.0	1.8	1.9	1.8	2.0	2.3	2.0
Spain	2.12	1.8	1.9	1.8	1.9	1.7	1.9	2.2	2.0
GB	2.10	2.0	2.0	2.2	2.1	2.4	2.3	2.6	2.5
Switzerland	0.18	0.1	0.1	0.2	0.2	0.3	0.3	0.4	0.5
Japan	0.43	0.4	0.5	0.4	0.5	0.5	0.5	0.6	0.6
USA	2.35	2.5	2.4	2.6	2.6	2.8	2.7	3.0	2.9

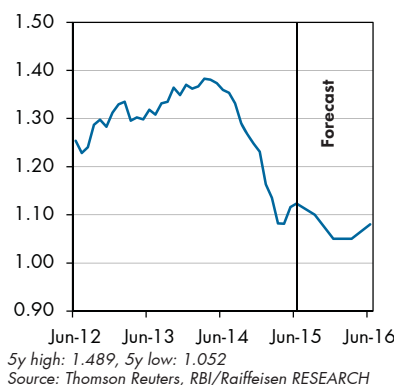
¹⁾ 5:30 a.m. CET; ²⁾ Cons... Consensus estimates

Source: Thomson Reuters, Bloomberg, RBI/Raiffeisen RESEARCH

EUR/USD: Fed policy to support USD, Grexit problem for the euro

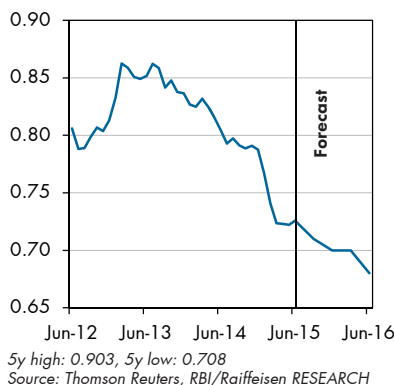
- EUR rebound probably just a passing phase, Fed rate hike will strengthen USD again
- Grexit would probably leave a significant mark on the euro for some time
- GBP profiting from these issues and continuing to appreciate

EUR/USD



Between early January and mid-March, the euro depreciated by around 15 cents versus the US dollar, hitting a low of **USD/EUR 1.05**. With this, the weakening of the euro accelerated even more. But this development was not or was only partially backed up by fundamental conditions. In retrospect, it can be seen that market participants let the worries about deflation and the related speculation about the ECB's QE measures go to their heads a bit. This period of exaggeration ended between March and April. After that, the single currency appreciated again and has since settled in at levels around USD/EUR 1.13. In our opinion though, this appreciation of the euro will just be a temporary phase. If, as we expect, the US central bank actually starts to normalise its interest rate policy again in September with an initial rate hike, yields on 2-year US government bonds will probably rise tangibly. The yield differential to corresponding German government bonds, which has influenced the exchange rate very strongly in recent years, would widen for a longer period of time in that case. **Accordingly, in the period around the turn of 2015/16 the USD/EUR exchange rate should trade near the lows from March and April at 1.05.** If Greece does actually exit the euro area in the coming months, the euro would at least temporarily face much more pressure.

EUR/GBP



Following a weak phase triggered by the elections, the **British pound** started appreciating again last month and moved to below the rate of 0.72 GBP per EUR. The range of factors affecting GDP runs from worries about Greece to prospective interest rate developments. The latter topic has become hot once again in the UK. This was triggered by average income, which increased by 2.7% yoy in April, moving to the highest level since 2011. In our opinion, despite the more intense rhetoric, the BoE is further away from an interest rate hike than it was one year ago. The rate of inflation is very close to 0% and economic growth dynamics are tapering off. Consequently, we now expect to see an initial rate hike in spring of 2016 at the earliest. But since this topic remains stubbornly entrenched on the market and is leading to higher yield differentials compared to the euro area, and since the euro will remain weak against the US dollar, we stick to our forecast that the British pound will appreciate vis-à-vis the euro. Over the span of the next year, it is possible that the exchange rate will even temporarily dip **below the rate of 70 pence to the euro.**

Financial analysts: Jörg Angelé, Lydia Kranner, RBI Vienna

Currencies: FX per EUR

	22 Jun 2015 ¹⁾	Sep-15		Dec-15		Mar-16		Jun-16	
Countries		Forecast	Fwd ²⁾	Forecast	Fwd ²⁾	Forecast	Fwd ²⁾	Forecast	Fwd ²⁾
USA	1.14	1.10	1.14	1.05	1.14	1.05	1.14	1.08	1.15
Switzerland	1.05	1.05	1.04	1.05	1.04	1.08	1.04	1.10	1.04
Japan	140	138	140	137	140	137	140	143	140
GB	0.72	0.71	0.72	0.70	0.72	0.70	0.72	0.68	0.73
Norway ³⁾	8.78	8.47	8.81	8.43	8.84	8.39	8.86	8.35	8.89
Sweden ³⁾	9.24	9.26	9.24	9.21	9.23	9.16	9.22	9.11	9.22

¹⁾ 5:30 p.m. CET ²⁾ Fwd...forward rates ³⁾ Consensus estimates
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

CHF and JPY: Central banks dominate

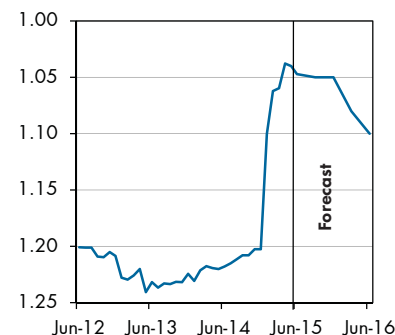
- CHF weakening only with help by the SNB
- SNB leaves interest rate corridor unchanged
- JPY depreciation versus USD still not over yet

The **Swiss franc remains vulnerable to external risks**. Despite the negative interest rates, escalation of the Greek debt drama causes more capital to flow into Switzerland again. The interventions by the SNB were the primary reason that the franc was able to remain near the rate of 1.05 to the euro. Consequently, the rhetoric about the central bank remaining active on the currency market was maintained. The corridor for the 3-month LIBOR was left unchanged at -0.25% and -1.25%. We continue to expect that the SNB is targeting a weaker CHF and will take action to steer the exchange rate in that direction. In particular, the central bank will probably not allow the EUR/CHF rate to fall below 1.0 (i.e. CHF appreciation) for a longer period of time. **Up until autumn**, the EUR/CHF rate should hover **between 1.0 and 1.05** in our view. Taking a one-year perspective, we project a wider range to the euro of up to 1.10 francs. The more the European economy recovers and the more EUR yields rise, the easier it will be for the franc to depreciate on its own.

The **Japanese yen has continued to weaken** versus the US dollar. At a rate of USD/JPY 125, the pair temporarily moved to the lowest levels seen since 2002. At the latest central bank meeting, Governor Kuroda warned that the weak yen could also turn out to be a double-edged sword: what may be good for exporting companies could turn out to be a disadvantage for import-dependent, middle-sized firms and the consumer sector. Ultimately, the weaker yen is also serving as an argument for a reserved approach in terms of expanding the bond purchase programme. At the last policy meeting, the Bank's monetary stance was left unchanged. In the event that the inflation target cannot be reached (which is what we assume will come to pass), the central bank reserved the right to use additional monetary policy measures. Over the course of the year, the yen should continue to weaken against USD, mainly as a result of the USD strength we expect and the US rate hike. **Versus the euro, the yen should be able to appreciate again in the coming months**, in line with our EUR/USD forecasts, but at a one-year horizon we would expect lower values again.

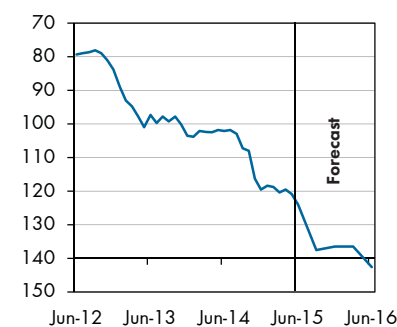
Financial analyst: Lydia Kranner, RBI Vienna

EUR/CHF*



* inverted scale
5y high: 1.385, 5y low: 0.981
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

USD/JPY*



* inverted scale
5y high: 125.6; 5y low: 75.76
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Value matrix FX

Markets	USD		CHF		GBP		JPY	
GDP growth	1	(1)	4	(4)	2	(1)	3	(4)
Short rates	1	(1)	4	(4)	2	(2)	4	(4)
Long rates	1	(1)	4	(4)	1	(1)	3	(3)
Credibility	3	(3)	2	(2)	3	(2)	3	(3)
PPP	4	(4)	3	(3)	2	(3)	1	(1)
Current acc.	2	(2)	1	(1)	4	(4)	3	(3)
Technical	3	(2)	3	(1)	3	(4)	3	(3)
Average	2.1	(2.0)	3.0	(2.7)	2.4	(1.9)	2.9	(3.0)

Explanation: 1(4) denotes appreciation (depreciation) pressure on the currency. All factors are weighted equally. Assessments refer to a 3-month period. Values in brackets refer to the previous quarter.
Source: RBI/Raiffeisen RESEARCH

Historical volatility FX*

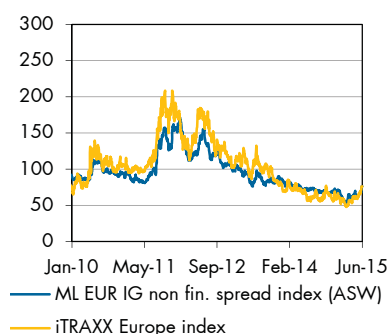
Countries	90 days	180 days
USA	12.70%	11.02%
UK	9.98%	8.82%
Switzerland	7.09%	18.56%
Japan	10.09%	10.19%
Norway	11.52%	11.70%
Sweden	7.88%	7.74%
Czech Republic	3.49%	3.69%

* annualised standard deviation
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Yields also on the rise for corporate bonds recently

- Uncertainty about Greece weighs on credit markets as well
- Positive impact of ECB bond purchases is fading
- Spread correction not finished yet

IG cash vs iTRAXX Europe (in bp)



Source: Bloomberg, BofA Merrill Lynch, Raiffeisen RESEARCH

EUR IG non financial (in %)



Source: Bloomberg, BofA Merrill Lynch, Raiffeisen RESEARCH

The second quarter was marked by a significant **increase in yields** on 10-year German government bonds. This also had a negative impact on corporate bonds and their indices. After having already dropped below the 1.00% mark this year, the investment grade corporate bond index has now reached a yield of 1.41% (duration: 5.55 years). By contrast, **risk premiums** on corporate bonds have hardly changed since the end of May and have fluctuated in a relatively narrow range. Credit spreads, however, also came under pressure recently and rose, mainly in response to the renewed uncertainty about Greece (current credit spread for the investment grade is 105bp, with a low for the year of 85bp on 3 March). This development was also observed on the more liquid derivatives market. On 21 May, the risk premium for the iTRAXX Main (investment grade) broke out of its sideways trend and has since risen from 59bp to 67bp.

On a **total return** basis, the investment grade index has lost 2.23% since 31 May of this year. The total return since the beginning of the year is currently -1.78%. During the same period, the high yield index was less strongly impacted, with a loss of 149bp due to the short duration (3.73 years). The total return since the beginning of the year is currently +2.21%. We are of the opinion that in the current environment it makes more sense to achieve higher returns by accepting a weaker credit profile than it does with a longer maturity. In this phase, the **volatility** on the corporate bond market is not coming from the fluctuation in the risk premium, but rather from the benchmark yields.

The bond markets (both for government bonds and corporate bonds) have obviously partially decoupled from the path set by the ECB and its monetary policy easing. The purchase programme of around EUR 60 bn per month is probably only having a secondary impact on the development of yields. We presume that, generally speaking, the development of economic growth and inflation, together with fundamental corporate data will come more into focus for corporate bonds again.

Credit spreads

	22-Jun ¹	Yield	Duration
Corp. Bonds (IG)	105	1.4 %	5.5
AAA	68	1.4 %	8.5
AA	67	1.1 %	6.3
A	82	1.2 %	5.8
BBB	130	1.6 %	5.2
Corp. Bonds (HY)	440	4.6 %	3.7

Swapsreads (10y, in bp)

	22-Jun ²	Sep-15	Dec-15
EUR	35	35	30
US	8	10	10

¹⁾ 11:59 p.m. CET closing prices, Option Adjusted Spread (OAS) in basis points

²⁾ Closing prices in basis points

Source: Bloomberg, BofA Merrill Lynch, RBI/Raiffeisen RESEARCH

Greece has been the big topic of discussion for some time now again and this is having a detrimental impact on the credit market. We do not believe that a final solution will be found this summer and expect that the Greece problem will continue to be a topic for the corporate bond markets, owing to the lack of clarity. On the other hand, the positive impact of the **ECB's purchases of government bonds** is tapering off in our opinion. In September, we expect to see **the US Fed make its first move to raise interest rates**. All of these factors suggest that the low point in credit spreads is now behind us in this credit cycle. We do not expect to see another significant decrease in the risk premiums this year.

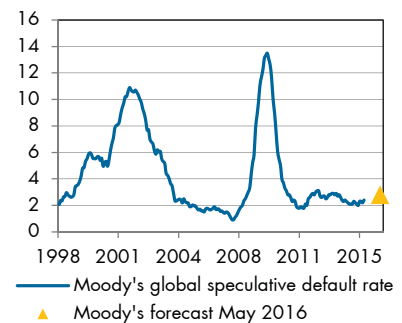
On the **primary market** for corporate bonds, there has been a flood of EUR-denominated issues by US companies so far this year. We expect to see many more such issues, as US companies will take advantage of the still low yield

levels in Europe. While we can imagine that the trans-Atlantic spread will widen with the first interest rate hikes in the USA, the increases in yields in the USA will also be transmitted to Europe. As of end-May 2015, Moody's was projecting global **default rates** at 2.4%, which is significantly lower than the long-term average of 4.5%. For May 2016, the rating agency is forecasting a global default rate of 2.8%. The default rate for Europe is currently at 2.4%, and is expected to actually fall slightly to 2.2% in the next 12 months. **Activity in mergers and acquisitions** picked up strongly in the second quarter. From a credit perspective and in conjunction with the strong issuing activity, this is not a good sign. The only factor supporting high yield corporate bonds is that default rates remaining at low levels.

Taking a one-quarter horizon, we are sceptical about **corporate bonds** (investment grade and high yield non-financials) and on a spread basis **our recommendation is Sell**, amongst other things due to Greece's delays in finding an ultimate solution. We believe that the first speculation about an end to the ECB's asset purchase programme will start to emerge in the market as early as the first half of 2016. This could lead to a trend reversal in the credit cycle. Accordingly, the turn of the year should be a good time for risk-averse investors to exit the credit market. Due to the **decline in liquidity** which has been observed on the bond markets, it makes sense to reduce positions in high yield corporate bonds in particular even earlier than this. It may be better to miss out on a couple of basis points rather than exit this segment too late, since in the event of a more severe setback it would be hit strongly, due to the lack of breadth. **Taking a one-year horizon**, we thus also have a **Sell recommendation for corporate bonds** (investment grade and high yield non-financials) on a spread basis.

Financial analyst: Manuel Schreiber, RBI Vienna

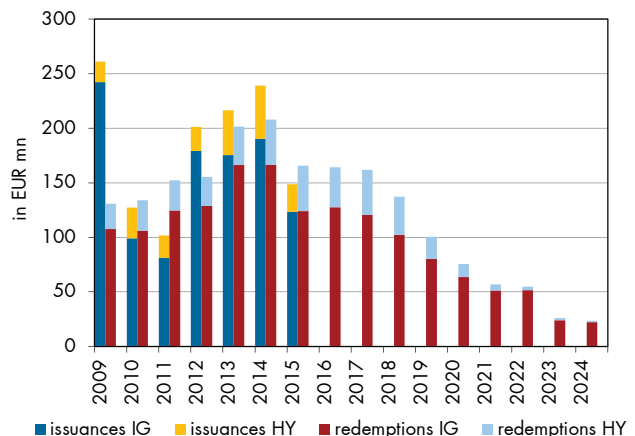
Global default rates*



* in % of issuers

Source: Moody's, RBI/Raiffeisen RESEARCH

Redemptions vs issuances*



* Issues till 23 June 2015

Source: Dealogic, RBI/Raiffeisen RESEARCH

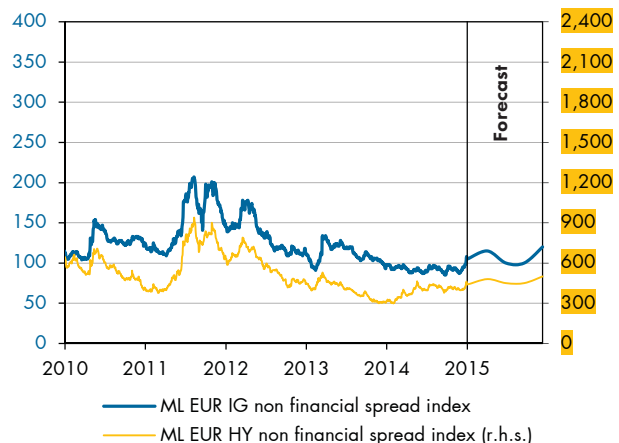
Credit forecasts*

	curr 22-Jun ¹	Forecast			
		Sep-15	Dec-15	Mar-15	Jun-15
IG Non Fin	105	115	100	100	120
High-Yield	440	480	450	450	500
Financials Senior	93	110	95	95	115
Financials Subord.	203	240	210	210	250

¹⁾ 11:59 p.m. CET closing prices ; * Option Adjusted Spread over Bund (in bp)

Source: Bloomberg, BofA Merrill Lynch, RBI/Raiffeisen RESEARCH

Spread history IG vs HY*



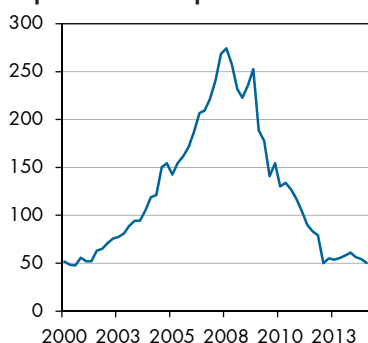
* Option adjusted spread (OAS) in basispoints

Source: Bloomberg, BofA Merrill Lynch, RBI/Raiffeisen RESEARCH

Financials: New developments expected to trigger repricing

- Decisive action by the ECB can defuse the Greece crisis
- Implementation of the bail-in regulations is progressing
- New requirements on loss-absorbing capacities loom ahead

Exposures of Europ. banks in Greece*

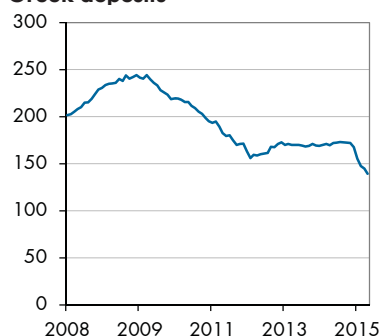


* in USD bn
Source: BIS, RBI/Raiffeisen RESEARCH

The main risks for bank bonds are related to the uncertainty about Greece over the short run. We see the risk of direct contagion for other peripheral countries as very limited, since exposures in Greece have already been scaled back to a large degree. We believe that it is very important for the ECB to continue to take action with various liquidity measures, and to expand such in the event that the situation escalates. For example, in a worst-case scenario the ECB could further ease the quality criteria for collateral eligibility.

Another focus of attention is the review of bank ratings. With the introduction of the bank recovery and resolution directive and the ensuing decline in the likelihood of support by public authorities, the rating agencies Fitch, S&P and Moody's made a number of rating downgrades in Q2 2015. The main objective of the bank resolution rules (bail-in regulations) is to prevent banks from being wound up at the cost of the taxpayer.

Greek deposits

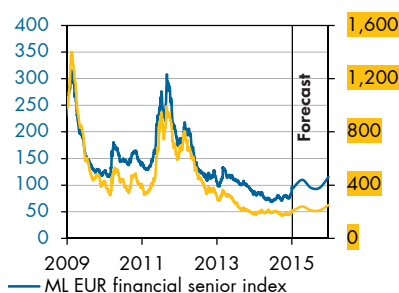


* in EUR bn
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

In our opinion, the gap between spreads on bank bonds with lower ratings and ones with better ratings should begin to widen as a result of the legislation, even though we believe that resolution of the larger, more complex banks is very hard to imagine. We think it is very important to keep an eye on the amount of deposits and the amount of secured refinancing. These types of refinancing form the basis for the calculation of the prospective recovery rate of unsecured bonds.

Furthermore, the final implementation of the proposals for the total loss absorbency capacity (TLAC) of systemic banks (G-SIB) and the minimum requirements for own funds and eligible liabilities (MREL) also plays a role in the future valuations of bank bonds. With regard to the senior unsecured asset class, the way in which loss absorbency is determined is critical. This can either occur contractually (bond prospectus contains relevant clauses), by "locating the instruments in the resolution unit", or by law. For instance, in Germany in the current legislative proposal "SRM-Anpassungsgesetz", senior unsecured bonds were subordinated to other senior unsecured liabilities of German banks in the case of insolvency. One interesting aspect: depending on how one achieves loss absorbency in the individual countries, there will probably be corresponding differences in risk premiums among bank bonds.

Pricing (in bp)



— ML EUR financial senior index
— ML EUR financial subordinated index (r.h.s.)
Source: BofA Merrill Lynch, Bloomberg, RBI/Raiffeisen RESEARCH

With a horizon of the next three months and next twelve months, our general recommendation for both segments (subordinated and senior bank bonds) is: Sell. In the current environment, we do not believe that one can completely rule out an increase in risk premiums, due to the developments in Greece.

Financial analyst: Peter Onofrej, RBI Vienna

Recovery in the oil price despite abundant supply

- Global oil supply has risen significantly in the past year
- Global demand growth for oil will probably be twice as strong as in 2014
- Projected average price of oil for Q3 2015: USD 66 per barrel of Brent

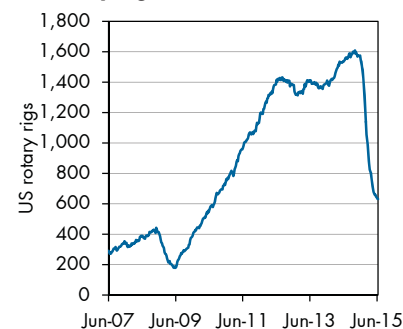
While the OPEC meeting back at the end of November 2014 was one of the most spectacular ones in the history of OPEC, there were no surprises at all from the latest meeting held in early June in Vienna. This should really not amaze anyone though. Because **the strategy primarily being pushed by Saudi Arabia**, namely to gain market share at the cost of a temporarily lower price level, **is apparently starting to pay off**. Since hitting an annual low of just over USD 45 in January, the price of a barrel of Brent has now bounced back significantly to more than USD 60. Nevertheless, it is still too early to talk about a sustained turnaround on the oil market. Because on the one hand by sticking with their decision from November OPEC members are ensuring a very abundant supply of oil, and on the other hand, the anticipated slowdown in production growth for US shale oil has not materialised so far.

Indeed, a closer look at **global oil supply** reveals the enormous additional volumes of oil that have entered the market in the last twelve months. **In May 2015, global oil production amounted to around 96 million barrels of crude per day**. Compared to one year ago (May 2014), this represents an increase in production on the order of 3 million barrels per day. The current fragile condition of the oil market is well illustrated by the fact that Libya's production is currently minuscule as a result of the near-civil war conditions in the country, and that Iran's oil exports are still being held at an artificially low level via sanctions. Nevertheless, in terms of supply, we expect **slightly lower production volumes in the second half of the year**. First and foremost, this will be due to the rigorous investment cuts at US shale oil producers. These cuts have resulted in the number of active oil rigs declining by 60% since October 2014. **In the months ahead**, this should lead to **moderately lower US oil production**. The US energy agency EIA is forecasting a renewed expansion in shale oil production to occur sometime next year at the earliest. On the whole, US oil production will likely be lower in 2016 than in 2015.

On the other hand, **global oil demand** is looking relatively robust, in light of the low level of oil prices. According to the forecast from the International Energy Agency IEA, oil demand **this year should amount to 1.4 million bpd**, growing by twice the rate registered in 2014. Thus, it appears quite true that the significantly lower oil price compared to the previous year is stimulating demand, in particular in the USA and in Asia. This is also being communicated by Saudi Arabia both directly and indirectly: directly, via the comments of the Saudi oil minister, and indirectly via the reduction in rebates that the Kingdom grants to its Asian customers (see chart).

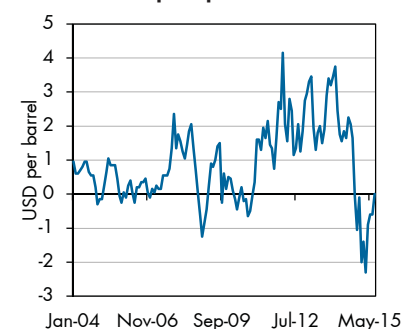
On the whole, for the third quarter we expect that the **oil price will average USD 66 per barrel of Brent**, and **by the end of the year we project an oil price of USD 70** (per barrel of Brent).

US rotary rig count



Source: Baker Hughes

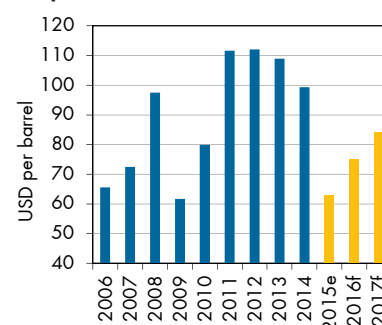
S. Arabia - export price differential*



* price differential vs Platts Oman/Dubai crude oil price average

Source: Saudi Arabian Oil Company, Bloomberg

Oil price forecast - Brent



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Financial analyst: Hannes Loacker, RBI Vienna

Gloomy outlook for gold due to macro-economic conditions

- Gold price driven by talk of Fed tightening
- Turnaround in yields and stronger USD are negative factors
- Short-term price increases are possible, but the outlook is subdued over the medium term

Forecast gold price

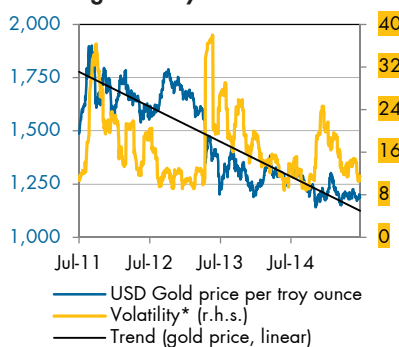
	22-Jun ¹	Sep-15	Dec-15	Jun-16
USD ²	1,185	1,100	1,050	1,000
EUR ²	1,052	1,000	1,000	926
EUR/USD	1.14	1.10	1.05	1.08

¹ data as of 11:59 p.m. CET

² per troy ounce

Source: Bloomberg, RBI/Raiffeisen RESEARCH

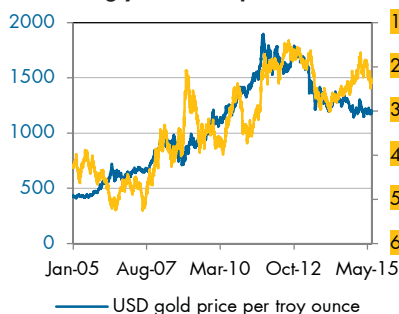
Declining volatility



* %, 30 days

Source: Bloomberg, RBI/Raiffeisen RESEARCH

Increasing yields dampen outlook



* 10 years, %, r.h.s., inverted

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

ETF gold stocks further receding



Source: Bloomberg, RBI/Raiffeisen RESEARCH

Gold started 2015 with an impressive performance. On 22 January, gold was quoted at over USD 1,300 per troy ounce, marking a gain of over 10% from the beginning of the year. This performance then quickly shrivelled, however, and by mid-March the price of gold was back down to USD 1,150 per troy ounce. After that, the **price settled in at around USD 1,200**, with the long-term support line of USD 1,180 per troy ounce being tested on several occasions. Volatility fell off sharply, and it was only the **discussions about an interest rate hike by the US Fed** and the related strength or weakness of the USD exchange rate that triggered repeated, brief price swings in both directions. Geopolitical factors, by contrast, played a back-seat role. Investors' focus was and continues to be on news such as US economic performance, inflation, and the labour market, and these factors have developed into **almost the only ones driving the gold price**. We expect to see the first interest rate hike in September, which runs counter to any sustained recovery in the price of gold.

As a non-interest-bearing investment, gold will suffer from the **stronger USD** and from the – even though not continuously – **rising yields** in both the USA and Europe which should be seen during this year and next. The fact that the market is pricing in a lower gold price over a longer period is also reflected by the more expensive put options for all maturities as compared to call options.

Macro-economic conditions are negative for gold and this is also mirrored by investment demand for the asset. Although the net long positions of speculative financial investors increased briefly to around 130,000 contracts in May, a decline to 81,600 contracts had been registered by mid-June. This would be equivalent to physical gold demand in the amount of 254 tonnes, marking a decline of 150 tonnes compared to the last high in May. At the same time, **gold ETFs have been seeing stronger outflows of capital** since mid-May. Although net ETF inflows were already in negative territory starting from early Q2, up until mid-May a mild increase amounting to 14.8 tonnes had still been registered since the beginning of the year. In contrast to this, outflows amounting to 11.6 tonnes had been recorded by mid-June. **Physical demand for gold** for jewellery and technological applications was marginally weaker in Q1, with the stock market rally in China also siphoning off potential investment capital from Chinese gold demand. Central bank demand remained stable; once again, the largest purchaser was the Russian central bank with a total of around 30 tonnes. The gold price appears adequately supported from this side, but we still do not expect any major price drivers to emerge.

Consequently, we project a **decline in the price of gold** in relation to the start of the US rate hike cycle. The discussions about this topic and escalating worries about a possible Grexit scenario may be able to trigger brief increases in prices however. By the end of the third quarter though, these issues should be broadly resolved and priced into the markets.

Financial analyst: Judith Galter, RBI Vienna

Imminent turnaround in interest rates gains attention

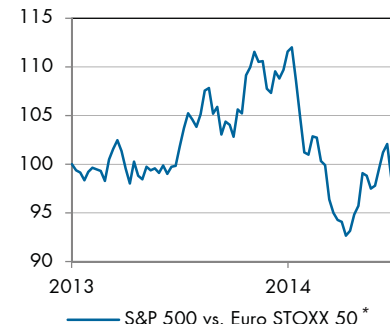
- **US economy gaining traction again**
- **Low energy prices driving growth**
- **Potential difficulties include high valuation figures, rate hike(s) by the Fed and a rising USD**

So far in 2015, **US stock indices** have not really been able to sustain the dynamic performance seen in previous years. The main reason for this appears to be the setback in US growth in the first quarter, along with the emerging worries about Greece's ability to stay in the euro area which are also increasing in the USA, and the appreciation of the US dollar versus the euro, the yen, and other leading currencies. This last factor results in a relative competitive disadvantage, especially for multinational companies which are headquartered in the USA. Furthermore, USD appreciation tends to put pressure on earnings expectations, and the broad indices are no longer able to race higher as was the case back in 2014. On the other side of the coin, investors based in the euro area must keep in mind that, due to the currency developments, they have booked a gain of almost ten per cent on the S&P 500 which has only risen marginally since the beginning of the year. By way of comparison: at just over 14%, not much more was earned with the Euro STOXX 50, which shows a sharp upward trend at first glance. In any case, the most important factors on the equity markets in recent months were the central banks, which opened up the floodgates and inundated the capital markets with liquidity. Global economic activity was a moderately positive factor. To a great degree, the steep decline in energy costs in year-on-year terms has also played a role, as this has a much more direct impact on consumption propensity in the USA than in Europe, due to the strong US dollar and the lower levels of taxes on energy. At the moment, there is really no way around equities as an asset class, in light of the steadily good earnings performance of major US companies and the scant supply of alternative investments offering real returns (in the USA as well), which is shown by the recent all-time high reached by the Nasdaq Composite Index.

In our matrix of influencing factors, we continue to rate the factor **Politics** at "2" for the USA. Naturally, the political tensions with Russia and the geopolitically relevant risks, in particular in the Middle East, must be closely monitored. In our baseline scenario, however, we assume that these conflicts will continue to be restricted to the regional level and will also not have a significant negative impact on the global supply of oil and gas. Furthermore, in economic terms the USA and its corporate sector continue to be less strongly impacted by the sanctions on Russia as compared to Europe for example.

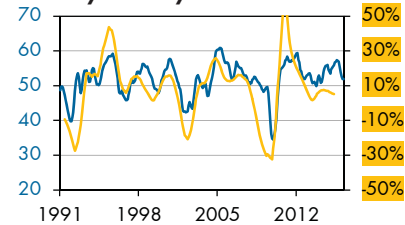
We also leave the factor **Economy** at "2". The long, hard winter in the north-eastern USA and the strong USD put a major dent in economic sentiment in the USA. Many of the closely watched US economic indicators are currently bouncing back, however, and show levels which clearly indicate growth. The labour market continues to look very robust, but it is more of a trailing indicator.

US stocks gaining traction



* relative development, rebased to 100
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Profit cycle not yet ended...



— ISM manufacturing, 3m average (advanced by 10 m)
— S&P 500 trailing eps (6m average, change in % yoy, r.h.s.)

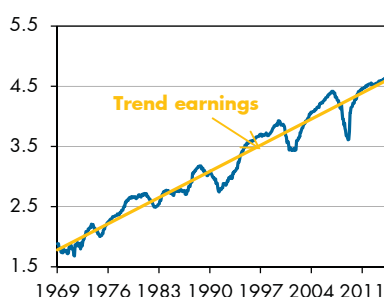
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Value matrix stock markets

	Euro		Non-Euro		USA		Japan	
Policy	2	(2)	2	(3)	2	(2)	2	(2)
Economy	2	(2)	2	(2)	2	(2)	2	(2)
Interest rate trends	1	(1)	2	(2)	3	(3)	1	(1)
Earnings outlook	2	(2)	3	(3)	3	(3)	2	(2)
Key sectors	2	(2)	3	(3)	2	(2)	2	(2)
Valuation/PER	2	(2)	3	(3)	3	(3)	2	(2)
Liquidity	1	(1)	2	(2)	2	(2)	1	(1)
Technicals	2	(2)	3	(3)	2	(3)	1	(1)
Average	1.8	(1.8)	2.5	(2.6)	2.4	(2.5)	1.6	(1.6)

Explanation: 1 (4) denotes a highly positive (negative) influence on the market. Assessment refers to a 3 to 6-month period. Previous assessment in parentheses
Source: RBI/Raiffeisen RESEARCH

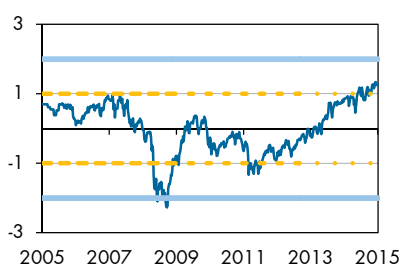
...but slightly above trend growth



— Index earnings MSCI USA (ln)*

* Earnings of the past twelve months (logarithmical)
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Valuations elevated already



— S&P 500 valuation, z-score*
--- +/- 1 std deviation
--- +/- 2 std deviations

* Valuation model (equal weighted) consisting of: PCR, PBR, PSR, Forward PER, EV/EBITDA
Source: Thomson Reuters, IBES, RBI/Raiffeisen RESEARCH

Valuations

	PER		Growth	Div.
	15e	16f	15e	Yield
Euro STOXX 50	15.3	13.8	7.0%	3.4%
DAX	14.2	12.9	13.5%	2.9%
CAC 40	15.5	13.8	3.9%	3.4%
AEX	17.3	14.5	-6.4%	3.5%
FTSE 100	16.4	14.6	-10.1%	3.8%
SMI	17.6	16.3	-3.4%	3.1%
DJIA	16.5	14.9	-2.9%	2.6%
S&P 500	18.1	16.1	1.5%	2.0%
Nasdaq 100	18.6	16.3	14.2%	0.9%
Nikkei 225	15.6	14.0	15.4%	1.9%

PER ... Price to earnings ratio; Growth ... Earnings growth; Div. yield ... Dividend yield
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

With regard to **Interest trend** and monetary policy, our assessment of the matrix of factors only allows for a sub-average rating of "3". The longer the Fed waits before raising interest, the more pressure is building up for it to do just that. Looking at the development of the US economy and the labour market in particular, interest rates could have been hiked for the first time a long time ago. It appears, however, that the representatives of the world's most important central bank will continue to contradict each other and will under no circumstances divulge whether or when they are considering moving rates higher. In any case, however, this process should begin in 2015. As a result, government bond prices are very likely to keep falling, thus supporting the relative attractiveness of equities over the short run. Over the longer run, however, government bonds will increasingly generate stronger returns than the pure dividend yields of US shares. The sales and **earnings performance of listed US companies** continues to be very robust. Since early 2009, analysts' forecasts (which have often been cut significantly before the reporting season) have more or less been clearly beaten by the corporate results in almost every quarter. In this regard, however, the fourth quarter of 2014 and the first quarter of 2015 were slightly less convincing than the previous quarters. According to latest estimates for 2015, companies in the S&P 500 are only projected to earn almost two per cent more than in 2014. But this growth looks shaky in light of the USD appreciation which is expected. On the whole, however, US companies are fulfilling their earnings potential quite well. Nonetheless, we leave the assessment of the factor **Earnings development** at "3", despite the still high level of earnings in absolute terms.

While the **valuation** of the broader US equity market certainly does not look exaggerated (especially compared to other asset classes), it continues to be higher than the valuation of the European equity markets, for example. In combination with the figures for price/book value ratios and/or cyclically adjusted PERs (which are relevant for the longer term), we still only rate the estimated PER figures for the S&P 500 of 17.8 for 2015 and 15.9 for 2016 at "3".

Summary: The robust state of the economy in the USA and the related support for the high level of corporate earnings are fundamentally positive aspects for the US equity market. Problems may emerge in relation to the highly likely turnaround in the interest rate path by the central bank and possible further appreciation of the US dollar. Furthermore, the valuations of US stocks can no longer be deemed cheap. Consequently, at the currently high price levels, our recommendation for US equities is "Hold".

Financial analyst: Helge Rechberger, RBI Vienna

	22-Jun 2015 ¹	Sep-15	Dec-15	Mar-16	Jun-16	Recommendation ²	Favourite sectors
DJIA	18,120	18,200	18,400	18,600	18,400	Hold	Industrials
Performance		0.4%	1.5%	2.7%	1.5%	YTD 2015	Energy
Range		17,100-18,800	17,300-19,000	17,600-19,200	17,600-19,200	1.7%	
S&P 500	2,123	2,150	2,190	2,200	2,150	Hold	Industrials
Performance		1.3%	3.2%	3.6%	1.3%	YTD 2015	Energy
Range		2,000-2,200	2,020-2,250	2,040-2,300	2,000-2,300	3.1%	
Nasdaq Comp.	5,154	5,350	5,500	5,500	5,220	Buy	Hardware
Performance		3.8%	6.7%	6.7%	1.3%	YTD 2015	
Range		4,950-5,400	5,100-5,600	5,300-5,650	5,100-5,600	8.8%	

¹⁾ 11:59 p.m. CET closing price on the respective main stock exchange

²⁾ Horizon: End of 3rd quarter 2015

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Greece continues to be the main topic

- All eyes focused on Greece
- Companies profiting from the weak EUR
- “Buy” recommendation for the DAX and Euro STOXX 50

After an impressive start in the first quarter, the equity markets in the euro area became increasingly bogged down before the beginning of summer. This was mainly due to two factors. First, the rapid, steep increase in EUR government bond yields, which clearly surprised investors. Second, the Greece drama, which came roaring back into focus after several years on the sidelines.

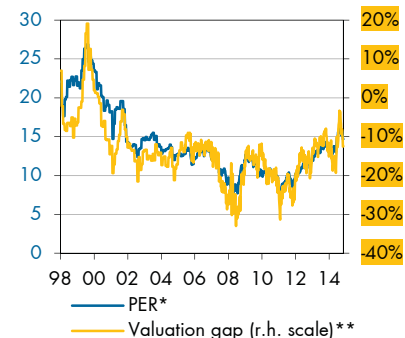
Aside from the latter issue, it appears that the moderate upswing in economic activity in the euro area is still intact. As for the ECB, we also believe that the **generous supply of liquidity for the capital markets** is also intact, thanks to the bond purchase programme. We do not believe that the frequent speculation about an early end to the programme is currently relevant. On the other hand, the US central bank is seriously considering the idea of slowly but surely increasing the ultra-low level of interest rates. In our view, this divergence in policy directions will keep the euro weak versus the US dollar. As a result, we expect that the impact on earnings from this factor will remain positive. Currency effects in the data for the second quarter should be clearly positive, as was the case for the data released for the first quarter. Lower refinancing costs and lower energy prices are also positive factors that deserve mention. The recent development of earnings revisions also indicates that we are not alone when it comes to our positive opinion about the earnings outlook: in recent weeks more analysts’ **earnings revisions** for the companies in the MSCI EMU were **positive** than were negative, for the first time in the last four years.

As a result of the recent setbacks in share prices, valuations have also come back down again. At the moment, the **valuations look moderate in absolute terms**. As for relative valuations, the price losses on the bond markets mean that the relative attractiveness of equities over bonds is no longer so pronounced, but still remains intact. In particular, this is because the current levels of yields on German government bonds for instance are still very low, and in our opinion they will not rise anymore for the time being.

In the coming weeks and probably also in the coming month, the topic of **Greece** will continue to be one of the **main issues for the euro-area equity markets**. In our baseline scenario, we believe that a temporary agreement between Greece and its creditors is a realistic outcome. Accordingly, there should not be any looming risk of contagion, and thus we now view the threat of an escalation in the situation – which we had originally discussed, and the related possibility of short-term setbacks – as being limited. Fundamentally speaking, market participants are quite aware that, if necessary, there are instruments available to prevent anything catastrophic from happening, in the form of the ESM and the ECB’s purchases of government bonds. Furthermore, private enterprises’ exposure to Greece is now very limited. Hence, as soon as there is at least a temporary agreement on the table, we expect to see positive effects for the euro-area stock markets. In this scenario, market participants would turn their focus back to the presently solid European environment (good economic and earnings growth, high investment needs). Against this backdrop, we project that the levels of the **DAX and Euro STOXX 50** will be **higher at end-September** than they are now.

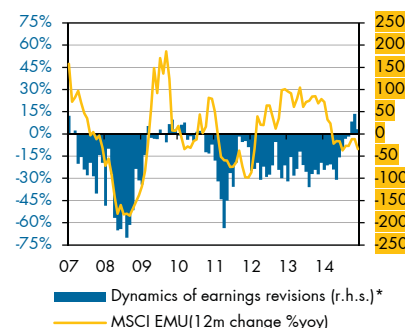
Financial analyst: Johannes Mattner, RBI Vienna

Valuation euro area



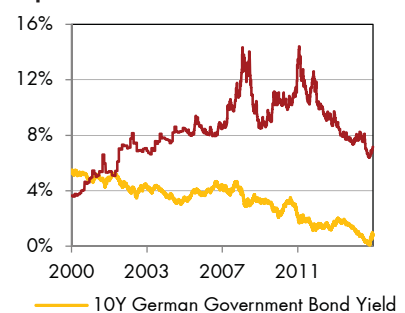
* 12 months forward price to earnings ratio
** valuation discount MSCI EMU vs. S&P 500
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Revisions less negative*



* Balance of the number of positive and negative earnings revisions for the upcoming 12 months
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Equities show relative attractiveness

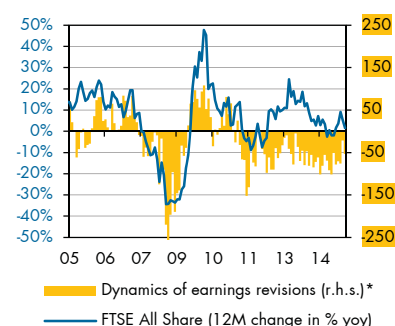


*based on consensus 12 months forward eps forecasts
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Supported by solid economic data

- Differentiated view of earnings expectations for 2015
- High dividend yields make a tangible contribution
- “Buy” recommendation for the FTSE 100; “Hold” for the Swiss SMI index

Pressure keeps on



* balance of the number of positive and negative earnings revisions for the upcoming 12 months
Source: IBES, Thomson Reuters, Raiffeisen RESEARCH

Sector performance (%)

	19-Mar until 22-Jun 15	5y*
STOXX Europe		
Telecommunications	3.0	8.7
Oil & gas	2.5	1.5
Financials	-0.1	5.6
Utilities	-0.9	1.0
STOXX Europe 600	-1.6	8.9
Consumer services	-1.9	11.0
Technology	-2.7	12.0
Consumer goods	-2.8	14.5
Basic materials	-2.9	5.2
Industrials	-2.9	9.7
Health care	-3.6	16.3

* five-year annual return of STOXX Europe 600 sectors
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Hampered by the debt dilemma with Greece, equity markets in the non-euro-area countries gradually lost ground as well, after having advanced to annual highs in April.

We do not see any **significant negative impact** from the **economic data**. While dynamics in the UK are decelerating, the GDP growth rate of around 2.4% for 2015 and 2016 means that the UK will once again rank among the fastest-growing countries in Europe. As for the interest rate trend, we do not yet expect to see any pressures on these countries. In Switzerland, negative interest rates remain in place, and in the UK the first hike is only anticipated to come in the spring of 2016.

In terms of **corporate earnings growth**, however, the outlook over a one-year horizon for the FTSE 100 has deteriorated. This index has a high weighting of the sectors energy and materials, which are expected to suffer significant declines in earnings in 2015, and consequently the consensus expectations for the aggregate earnings of the FTSE 100 have dropped by more than 10%. The earnings outlook for 2016 gives grounds for more optimism, as growth is forecast to be in the low double-digit range. By contrast, there has been some good news recently for earnings expectations in relation to Swiss companies. Progress was made in the second quarter, as the aggregate earnings estimates for the SMI were revised higher for 2015. This notwithstanding, earnings are still expected to contract by 3%.

Turning to **valuations**, these naturally no longer look very cheap anymore. Nevertheless, the relative attractiveness of equities compared to other asset classes remains intact, with the high dividend yields also making a tangible contribution. Furthermore, M&A activity remains brisk in both countries, and this should also have a (temporary) positive effect. Even though the markets will still be worried about Greece from time to time, we project higher stock prices at a three-month horizon.

Financial analyst: Christine Nowak, RBI Vienna

	22-Jun 2015 ¹	Sep-15	Dec-15	Mar-16	Jun-16	Recommendation ²	Favourite sectors
Euro STOXX 50	3,596	3820	3950	3950	3750	Buy	Financials
Performance		6.2%	9.8%	9.8%	4.3%	YTD 2015	Consumer discretionary
Range		3.000-3.400	3.000-3.400	3.000-3.400	3.000-3.400	14.3%	
DAX 30	11,461	12,100	12,500	12,400	11,900	Buy	Consumer discretionary
Performance		5.6%	9.1%	8.2%	3.8%	YTD 2015	Industrials
Range		9.400-10.200	9.400-10.200	9.400-10.200	9.400-10.200	16.9%	
FTSE 100	6,826	7,100	7,300	7,200	7,000	Buy	Energy
Performance		4.0%	6.9%	5.5%	2.6%	YTD 2015	Consumer discretionary
Range		6.500-7.500	6.700-7.700	6.500-7.400	6.400-7.300	4.0%	
SMI	9,021	9,250	9,500	9,400	9,200	Hold	Financials
Performance		2.5%	5.3%	4.2%	2.0%	YTD 2015	Materials
Range		8.700-9.500	8.900-9.700	8.800-9.600	8.700-9.500	0.4%	

¹ 11:59 p.m. CET closing price on the respective main stock exchange

² Horizon: End of 3rd quarter 2015

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Benign conditions remain in place

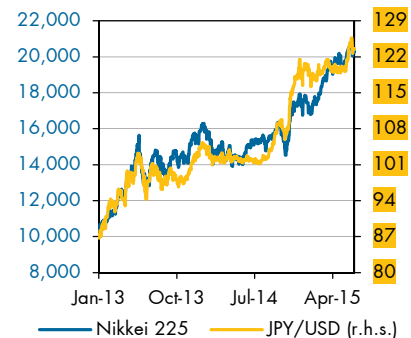
- **Liquidity and weak yen as supportive factors**
- **More double-digit earnings growth is realistic**
- **Economy poised to improve**

The **Nikkei 225** has been one of the strongest equity indices in the developed markets since the beginning of the year. The excellent liquidity situation, solid fundamental data for the companies, and the weak yen were all positive factors. In respect of **liquidity**, we believe that conditions for equities will remain good, as the Japanese central bank is still pumping JPY 80 trillion into the financial system annually, via its securities purchase programme. From time to time, market participants are even speculating that this programme may be increased. Structural demand pressure is being generated by the state pension fund GPIF, which still has plenty of leeway before it reaches the new target allocation for domestic stocks which was raised significantly last year. Furthermore, a sharp rise in share buy-backs has recently been observed. The Japanese central bank's ultra-expansive stance also provides indirect support for the stock market. Because due to the widening of the interest rate differential to the USA, at the beginning of June the yen weakened to the lowest level against the US dollar since 2002. In recent years, interest rate differentials have been one of the key explanatory variables for the relative development of currency pairs. As the US Fed should announce its first rate hike in September, we expect to see this interest rate differential widen again and consequently, we foresee a **continuation of the depreciation trend for the Japanese yen**. This artificially supports the competitiveness of Japan's export companies and thus bolsters the development of their earnings. A bit of tailwind was also recently felt from the **economy**. This came in the form of noteworthy GDP growth figures for Q1 and the purchasing managers' index for manufacturing, which climbed back to the 50-point mark again in June, following a brief soft patch. For 2015 as a whole, we continue to project real GDP growth of 0.7%. In the following year, we believe that growth of 1.3% is realistic, which is quite robust by Japanese standards.

We also maintain our positive view on **corporate earnings**, which should grow at a **double-digit rate** on aggregate during the 2015/16 business year. This is well supported by the positive revision trend for earnings estimates by analysts of individual stocks, which has been seen for almost a year now. Rising profitability and higher capital efficiency are also making contributions in this regard. All of this is also a product of the incentives for more shareholder-friendly corporate policies which have been launched. Looking at the data sets for relevant multiples, the **valuation** of the Japanese equity market (measured using the MSCI Japan) increased again in the past period, but on the whole it still does not look problematic. In light of the favourable overall conditions, it is understandable that international institutional investors already have a strong weighting on Japan's stock market in their portfolios, but we still do not see any acute signs of overheating. All in all, conditions are expected to remain good, thanks to double-digit earnings growth, supportive liquidity conditions, and reasonable valuations. Accordingly, we expect to see the **strong stock market year** continue for the Nikkei 225. If a Grexit does occur, a temporary sell-off would be likely around the time of that event.

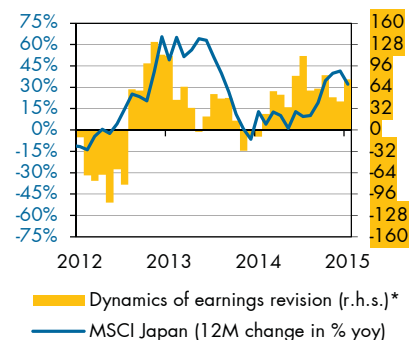
Financial analyst: Christian Hinterwallner, RBI Vienna

Weakening Yen supportive



Source: Bloomberg, RBI/Raiffeisen RESEARCH

Earnings revisions still positive



* Balance of the number of positive and negative earnings revisions for the upcoming 12 months
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Nikkei 225

Recommendation*: 22-Jun ¹	Favourite sectors
Buy	Consumer discretionary Industrials

Forecasts

Sep-15	Dec-15	Mar-16	Jun-16
21,100	21,700	22,000	21,500
3.3%	6.2%	7.7%	5.2%

Range

Sep-15	Dec-15	Mar-16	Jun-16
19,800-21,500	20,500-22,200	21,000-22,400	20,900-22,300

¹ 11:59 p.m. CET closing price on the respective main stock exchange

* Horizon: End of 3rd quarter 2015

Source: RBI/Raiffeisen RESEARCH

Basic stance remains cyclical

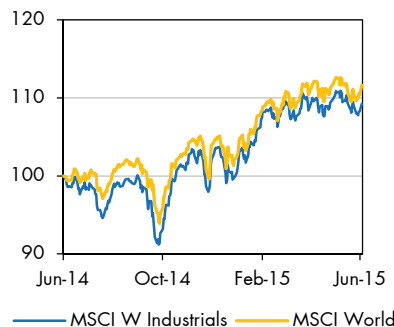
- Cyclical sectors preferred due to solid global economic performance
- M&A as a price driver for financials, IT, and industrials
- Pressure on margins for telecoms and utilities

Sector performance

MSCI Sectors	19-Mar until 22-Jun 15	5y*
Financials	1.8	8.3
Telecoms	1.6	8.9
Cons. discr.	1.3	17.3
IT	1.1	13.8
MSCI World	0.7	10.8
Health care	0.7	18.7
Energy	0.6	3.4
Materials	0.0	2.6
Cons. Staples	-0.7	11.5
Industrials	-0.7	11.1
Utilities	-1.9	2.9

* five-year annual return of MSCI World sectors
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

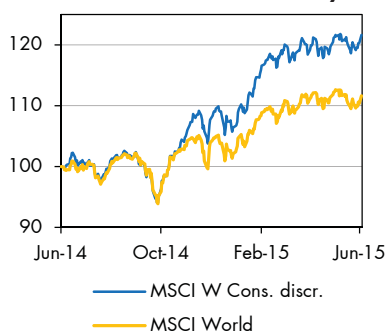
MSCI World Industrials



MSCI W Industrials 5y high 208.95 5y low 107.93
MSCI World 5y high 1368.40 5y low 754.72

Indices rebased to 100
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

MSCI World Cons. discretionary



MSCI W Cons. discr. 5y high 197.06 5y low 81.61
MSCI World 5y high 1368.40 5y low 754.72

Indices rebased to 100
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

The **energy sector** (oil and gas) recorded significant gains as the oil price started to rebound in March, but then conceded almost all of these gains again starting from early May. This was clearly also due to the data released for Q1, which revealed that earnings declines of up to 50% yoy had been suffered, in particular by companies which did not have their own refinery business. In contrast to this, the quarterly data for the integrated oil and gas groups demonstrated the value of having refinery operations during phases of falling oil prices, despite this segment having been frowned upon not all too long ago. Otherwise, companies continued to cut costs and almost all projects are being re-evaluated in terms of profitability. Against this backdrop, many companies are staying away from takeovers or purchases of assets, despite the relatively attractive prices. Accordingly, anyone who was expecting stronger M&A activity in the wake of the announced takeover of the UK BG Group by Royal Dutch/Shell is being disappointed now. On the whole, against the backdrop of our forecast for a modest increase in the oil price in the months to come, we expect positive performance by the sector. **Overweight.**

The global **industrials sector** performed slightly weaker than the global market as a whole in the last three months, but posted very positive results all in all. Only the transport industry lagged far behind its previously strong performance and actually recorded a negative contribution. Leading economic indicators for the key industrialised countries have been quite robust recently. This should help to improve the performance outlook for the sector as a whole over the summer and beyond. The sector's performance is often more due to the favourable financing situation and various cost-cutting measures at the companies, rather than the terrific sales figures. Nevertheless, US industrials seem to be feeling less (negative) impacts from the stronger US dollar, compared to their multinational European and Japanese peers which are indeed experiencing (positive) effects from weakening currencies. Developments in M&A also indicate the optimism in this sector.

Overweight.

For the **consumer discretionary** sector, one positive factor continues to be the global consumption growth which we project, as this will be bolstered by lower year-on-year oil prices and improvements on the labour market. Accordingly, we expect to see further increases in earnings at the aggregate level. Looking at the consensus estimates, analysts of individual stocks are assuming vigorous earnings growth of approximately 14%. Very high valuations (exception: automotive industry) and signs of overheating in this sector may cause some mild headwinds though. Once again, it is the automotive branch that is in the limelight right now, as the US automobile market is doing very well. Sales in May increased by 7.6% compared to the previous month, rising to an annual rate of 17.71 million vehicles, the highest level recorded since July of 2005. While this brisk growth will probably not continue, the automotive industry should still enjoy good momentum in the quarter ahead as well, thanks to the low oil prices in historical terms and the relatively strong USD. Neither China nor Europe can currently match these growth rates, but thanks to the steady trend towards SUVs it should also be possible to book increasing earnings in those markets as well. **Overweight.**

Due to the challenges we have discussed on many occasions, we maintain our reserved fundamental stance on **financials** over the long run. For instance, regulatory conditions continue to be a source of tensions. In the years ahead, regulation of the banking sector will be tightened even further, and the Solvency-II regulations are about to be introduced for European insurers. Intense competition in some segments of the financial sector (e.g. in the reinsurance business) and the low interest rate environment also continue to be problems. Furthermore, some banks will continue to suffer from the legal ramifications of past errors in 2015. Over the short term, however, it is quite possible that the financial sector will also benefit from the positive market development which we anticipate. In the banking sector in particular, this might be triggered by hopes for an economic recovery and higher interest rates, the welcome efforts to clean up balance sheets, and by a pick-up in capital market activity. Additionally, further increases in M&A activity may also foster positive sentiment in the sector. **Overweight.**

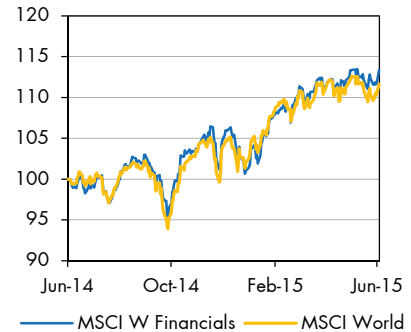
The performance of the global **materials** sector was marginally weaker than that of the market as a whole in the latest period. Within the sector, the chemicals industry did the best. In this industry, tensions in sales prices have still not eased off yet. Nevertheless, this impact has been offset by higher sales volumes. As for the mining companies, corporate restructuring has now progressed quite a ways, even though some work remains to be done. Furthermore, the low prices for iron ore, copper, and the like are resulting in higher rationalisation pressure. In the steel industry, the focus continues to be on the development of prices. In the USA and Europe, prices have fallen significantly, with the regional overcapacities playing a major role in this regard. All in all, the materials sector has made good progress in recent quarters, especially in the field of restructuring. This should also pay off, in light of the current solid economic conditions at the global level.

Overweight.

In Q1, the **IT** sector produced a broadly robust reporting season and also enjoyed a stronger trend in M&A. In this regard, the semi-conductor industry deserves special mention, as the third major takeover was announced just the week before last (Intel's purchase of Altera). Cash holdings in the sector are high, and many companies are attempting to broaden their base via tactical takeovers and to generate more turnover growth. We expect to see a higher-than-average number of transactions in this sector during the second half of 2015 as well. In particular, the topic "the Internet of Things" is fuelling interest in some niche players. At the moment, the bright overall picture of the IT sector is not even suffering from some negative developments in the data (slack PC market, waning demand for smartphones, sluggish growth in tablets). One factor that probably will have a negative impact over the medium term, however, is the quite obvious macro-economic weakness in the emerging markets, albeit thanks to its net liquidity the sector is relatively impervious to interest rate hikes. **Overweight.**

In recent months, the dominant topics in the **healthcare** sector were biosimilars, immuno-oncology and price pressure in the USA. The effects on the sector's performance varied. Naturally, the topic of price pressure had a negative impact, but there were no further significant measures for price cuts in the USA at least. It will be important to monitor how pricing develops for new products being introduced. At the moment, this phenomenon is not expected to spill over to oncology or other product classes. In the field of immuno-oncology, the FDA recently moved with record-setting speed (6 days!) to approve a first product of this class against a form of lung cancer. This reflected both the efficiency of the FDA and the producer (Bristol-Myers), as well as the excellent data for the medication (Op-

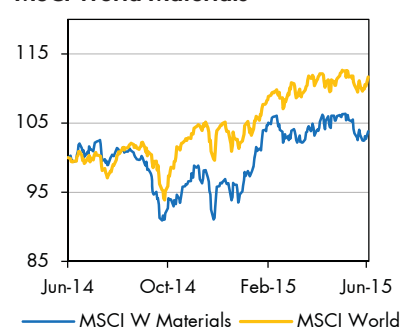
MSCI World Financials



MSCI W Financials 5y high 105.93 5y low 53.84
MSCI World 5y high 1368.40 5y low 754.72

Indices rebased to 100
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

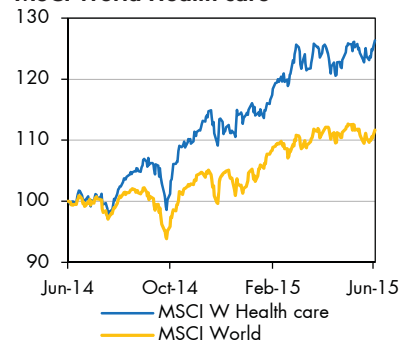
MSCI World Materials



MSCI W Materials 5y high 237.45 5y low 168.32
MSCI World 5y high 1368.40 5y low 754.72

Indices rebased to 100
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

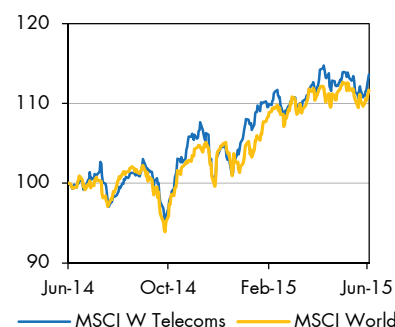
MSCI World Health care



MSCI W Health care 5y high 218.83 5y low 88.56
MSCI World 5y high 1368.40 5y low 754.72

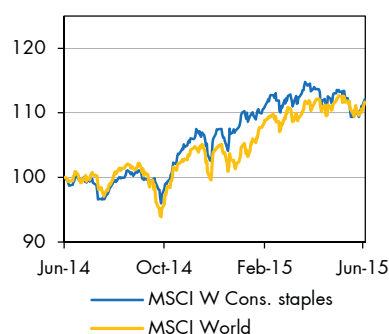
Indices rebased to 100
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

MSCI World Telecoms



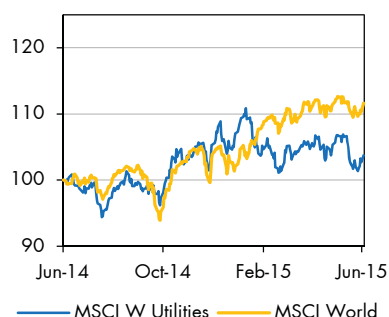
MSCI W
Telecoms 5y high 75.56 5y low 46.51
MSCI World 5y high 1368.40 5y low 754.72
Indices rebased to 100
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

MSCI World Consumer staples



MSCI W Cons.
staples 5y high 208.04 5y low 112.06
MSCI World 5y high 1368.40 5y low 754.72
Indices rebased to 100
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

MSCI World Utilities



MSCI W
Utilities 5y high 127.63 5y low 88.46
MSCI World 5y high 1368.40 5y low 754.72
Indices rebased to 100
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

divo). The first approval of a biosimilar (biotechnologically produced generic) may have a long-term negative impact on pharmaceutical manufacturers. Many of these companies (Novartis, Pfizer, Merck & Co, etc.), however, are already active in this field. We do not see the valuations in the sector as exaggerated, but we also have a difficult time imagining that there will be more significant gains in share prices. Consequently, our recommendation remains: **Underweight**.

While market consolidation in the **telecom sector** in the USA has been going on for some time already, it is now making more and more progress in Europe as well. Thanks to the transformation of European regulations, a wave of M&A has swept through Europe, which has not only involved consolidation in terms of the number of local service providers, but has also focused on convergence between telecommunications, cable and content providers (e.g. TV, etc.). The abolition of roaming fees originally planned by the EU Commission for the end of 2015 was suspended for the time being at least, as a result of being vetoed by the Member States. The Member States and the European Parliament and the EU Commission will now have to agree on a joint position, which will likely lead to tough negotiations. **Underweight**.

In light of the challenges facing the **consumer staples sector** which we have discussed often before, we maintain our reserved stance on this sector. Health, convenience, and sustainability are important trends which must be incorporated by the companies in a number of ways in their products in order to remain competitive. In this regard, brisk acquisition activity was seen in the past period. Further cost-cutting measures and more easing in prices of raw materials should make it possible for margins to improve modestly over a one-year horizon however. Nevertheless, due to the prevailing pressures (e.g. weak turnover contribution from the emerging markets, intense competition in the saturated markets) and the still high valuation of the sector, we cannot imagine that there will be any major increases in prices and accordingly we stick to our recommendation: **Underweight**.

Conditions in the **utilities sector** are anything but overwhelming. In Europe, it is mainly the low wholesale prices for electricity and margins which are putting pressure on companies' earnings ability. For instance, German prices are at the lowest levels since 2003. The reason for this is the massive expansion of renewable energies, which are increasingly pushing conventional power plants out of the market. Another problem is country-specific levies, for example on power plants with high emissions. Although the current low interest rate environment is a positive factor for this capital-intensive sector, there are no signs of the strains easing over the long term due to the persistent pressure on margins, and consequently the debt burden continues to be an issue, against the backdrop of stagnating revenues. Utilities overseas are faring better, where M&A activity has picked up due to the low interest rates. All in all, US utilities are profiting from the improving economic conditions, and thus we prefer these issuers over their European counterparts. **Underweight**.

Financial analysts: Helge Rechberger, Jörn Lange, Hannes Loacker, Johannes Mattner, Christian Hinterwallner, Christoph Vahs, Leopold Salcher, Connie Gaisbauer, Andreas Schiller, Christine Nowak, Aaron Alber, RBI/Vienna

EM assets: jitters before the Fed rate hike?

- US rate hike not the only factor behind EM equity performance
- Certain EM currencies feeling increasing pressure
- Upcoming start to the tightening cycle already priced in to a large degree

The **EM financial markets** are more and more one of the main topics in discussions about the possible negative consequences of the **start to the US rate hike cycle**. There are worries about a possible withdrawal of the liquidity from the large-scale monetary easing measures undertaken in the developed markets, some of which – attracted by the higher returns and economic growth – has flowed into EM.

EM equities

Historically speaking, however, **no clear-cut relationship can be established between growth in money supply** in the developed markets **and outperformance by EM equities** in USD. These two time series only show correlation since early 2012. If one compares growth in money supply in the established markets with the outperformance of EM stocks in local currency terms, there is an even smaller correlation, which seems to initially suggest that it is more the EM bond markets and currencies which were able to profit from the abundant global liquidity.

If one looks at the **performance of the MSCI EM before and after the past starting points of US rate hikes**, no clear picture becomes visible. Three months after the first rate hike in February 1994 EM equities showed a loss of 4.6%, whereas three months after June 2004 they were up 8.5%. In terms of regions, it can be seen that Asian EM equity markets generally showed negative performance in the three and twelve months subsequent to the first US rate hikes (with the exception of 2004). By contrast, Latin American equities often exhibited strong gains during the same periods.

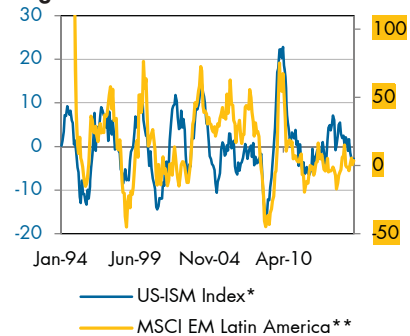
Consequently, it appears that **other factors have a stronger effect** on the development of EM equities. For instance, Latin America may profit strongly from the robust performance of the US economy that is typical for periods when rate hikes occur, as the MSCI Latin America exhibits a high level of correlation with the US ISM index. Moreover, the Chinese economy has become an increasingly significant factor for the performance of EM equities. The chart illustrates the relative performance (since 2004) of the EM compared to the developed markets in the next three, six, nine, and twelve months, when the Chinese PMI is between the respective values. The strongest outperformance in EM is generally achieved when the Chinese PMI ranges between 50 and 55, whereas with readings between 45 and 50 the developed markets generate stronger returns. Accordingly, right now the current slack phase for the Chinese economy appears to be a bigger negative factor for EM equity markets than the start of US monetary policy normalisation. Additional factors which also played a role during the past US interest rate hikes were the **high valuations** of EM equities compared to the developed markets in 1994, whereas valuations looked relatively favourable in 2004. Furthermore, the US rate hike in 1994 took the markets by surprise and had a steep path, whereas markets were **verbally warned** ahead of time in 2004. This is also the case this time, and thus a great deal has probably already been priced in on the EM equity markets. Consequently, we do not expect to see any sustained correction in EM in relation to the first US rate hike. On the other hand, the persistently weak performance of the Chinese economy may well put pressure on these markets in the quarter ahead.

EM equity performance

MSCI EM	-12m	-3m	+3m	+12m
Feb-94	194.1	49.3	-4.6	2.7
Mär-97	13.2	10.6	8.1	0.4
Jun-99	26.5	21.8	-1.5	14.1
Jun-04	26.3	-7.1	8.5	24.3
MSCI EM Asia	-12m	-3m	+3m	+12m
Feb-94	77.2	17.1	-11.5	-13.3
Mär-97	-2.7	3.5	-0.3	-21.0
Jun-99	61.3	33.8	-3.3	-2.1
Jun-04	22.9	-8.5	6.1	18.9
MSCI EM Latam	-12m	-3m	+3m	+12m
Feb-94	382.9	95.2	4.1	24.6
Mär-97	38.5	18.6	20.5	17.1
Jun-99	12.8	16.1	-4.4	21.9
Jun-04	39.8	-4.1	13.9	30.5

* in local currency, around first US interest rate hike
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

High correlation

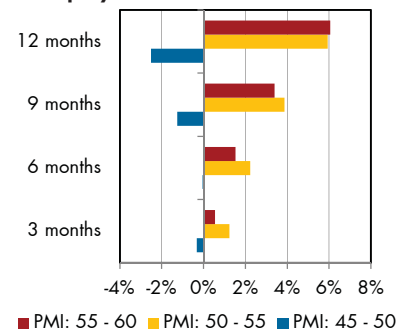


* yearly absolute change

** % yoy, r.h.s.

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

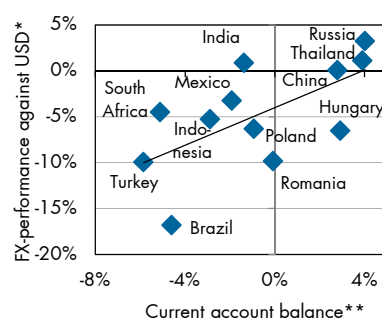
EM equity & China PMI*



* Outperformance MSCI EM vs. MSCI World in local currency depending on the Chinese HSBC PMI

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

FX-performance & C/A balance



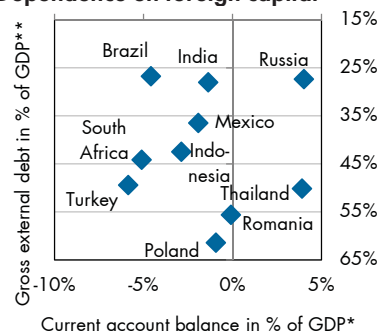
% of GDP

*FX-performance in the first quarter 2015

**As of first quarter 2015

Source: Bloomberg, RBI/Raiffeisen RESEARCH

Dependence on foreign capital



* As of first quarter 2015

** As of first quarter 2014

Source: Bloomberg, World Bank, RBI/Raiffeisen RESEARCH

EM currencies

The effects of a possible rate hike by the Fed will also vary for the different EM currencies. For example, based on the case of the "taper tantrum" in 2013, it was seen that the **exchange rates in the emerging markets** generally exhibited higher volatility and depreciated to varying degrees against USD during this period, and that to a great degree these effects depended on the economic and political situation in the respective emerging markets. During the second quarter, speculation about a possible initial rate hike by the Fed has increasingly come into focus, and as a result investors have already reacted and **many EM currencies have already experienced significant weakening versus USD**. Nevertheless, we still foresee elevated depreciation risks for certain EM currencies as a result of a US rate hike.

We believe that the **Brazilian real (BRL)** and the **South African rand (ZAR)** are both highly vulnerable to depreciation versus USD as a result of a possible rate increase by the US Fed. Both Brazil and South Africa stand out for having high current account deficits relative to GDP. The high negative external contribution reflects the dependence of these countries on foreign capital to finance the financial imbalance. Furthermore, both countries have high budget deficits, with Brazil's at 6.9% of GDP and South Africa's at 4.1% of GDP. Accordingly, the high **twin deficits** thus represent a risk for additional currency depreciation. That said, it must be noted that the high **foreign currency reserves** held by Brazil's central bank do represent a certain cover against possible BRL depreciation against USD, although since the end of March it has reduced the level of intervention on the FX market. By contrast, South Africa has relatively low foreign currency reserves. Furthermore, the **rising inflation expectations** in Brazil lower the real yield on government bonds, and this could lead to capital outflows in the event of rising US yields and also impact BRL. The political situation in Brazil is also marked by a high level of uncertainty.

We see the **Indian rupee (INR)** as being far less vulnerable versus the USD in the event of a possible Fed rate hike. In recent years, India was able to lower its current account deficit to 0.2% of GDP and also has high currency reserves and a moderate level of inflation. Rising foreign direct investment as a result of the welcome structural reforms are a sign of increasing investor confidence, which helps buttress the stability of the INR/USD exchange rate.

Financial analysts: Judith Galter, Thomas Keil, RBI Vienna

Emerging Markets FX Heat Map*

	Political Instability	Current account deficit	Budget deficit	Inflation rate	Currency reserves	GDP-growth	Commodity-dependence**	5-year CDS	Currency risk
Brazil	Medium	High	High	High	High	Negative	Medium	High	High
Russia	Medium	Positive	Low	Very high	Medium	Negative	High	Very high	High
South Africa	Medium	High	High	Medium	Low	Low	High	High	High
Turkey	Medium	High	Low	High	Medium	Medium	Low	High	High
Indonesia	Medium-Low	Medium	Low	High	Medium	High	Medium	Medium	Medium-High
Hungary	Medium	Positive	Low	Low	Medium	Medium	Low	Medium	Medium
India	Low	Medium-Low	Medium	Medium	High	High	Low	Medium	Medium
Mexico	Medium	Medium	Medium	Medium	High	Medium	Medium	Medium	Medium
Poland	Medium-Low	Low	Medium	Negative	Medium	Medium-High	Low	Low	Medium
Thailand	Medium	Positive	Medium-Low	Negative	Medium-High	Medium	Low	Low	Medium
China	Low	Positive	Low	Low	Very high	High	Low	Low	Low
Romania	Low	Low	Low	Low	Medium	Medium-High	Low	Medium	Low

*Qualitative analyst-assessment

**Encumbering effects from falling commodity prices

Source: RBI/Raiffeisen RESEARCH

China: Rays of hope on the economic horizon

- Economic stabilisation may ensue over the summer
- CNY expected to move sideways versus USD
- Stock market correction on the mainland markets as a possible risk factor

Chinese economic performance probably continued to cool down in Q2, on the heels of Q1 GDP growth of 7.0% yoy and 1.3% qoq. For example, industrial production for April and May together only showed a gain of 6.0% yoy, down from 6.6% yoy in Q1. Investment in plant and equipment in May posted a gain of merely 11.7% since the beginning of the year, compared to 13.5% in the period January-March. That said, the May purchasing managers' indices for manufacturing and the economic indicators began to show some signs of stabilising at low levels. By contrast, trade and inflation data were once again disappointing. Thus, all in all, it seems premature to forecast a lasting stabilisation in the situation right now, but by the autumn the monetary and fiscal policy stimulus measures should start to have an effect (we expect another rate cut of 25bp and another cut in the minimum reserve requirements in Q3). Furthermore, the base effect from the summer months of 2014 will also be lower, which will be conducive for economic stabilisation. Export growth continues to be a major worry. In May, a decline of 2.5% yoy was registered, marking the third month in a row with a negative growth rate. For the first five months of the year, export growth adds up to a slim figure of 0.7% yoy, falling far short of the comparable reading of 6% yoy for 2014.

Compared to USD, the **Chinese currency** has exhibited little volatility, moving at around 6.20 since the end of March. Up to now, it has probably been more important for the central bank to keep the currency stable to avoid outflows of capital and not make direct investment abroad more expensive, rather than supporting the economy. We expect this **sideways move to continue** in Q3.

Despite the broadly slack economic conditions, the **Chinese equity markets booked strong gains in Q2**. Since the end of June last year, the mainland stock exchanges in Shanghai (SHCOMP Index) and Shenzhen (SZCOMP Index) have posted gains of around 120% and 160%. One of the reasons for this performance is that these markets are dominated by private investors and since the summer of 2014 these investors have been following the state media reports, according to which the levels for stocks were very favourable. Additionally, returns on the real estate market have slipped increasingly lower. International institutional investors, which mainly invest in Hong Kong (HSCE Index), have remained sceptical, due to the lacklustre fundamental data (sluggish economy and negative earnings growth). As a result, a considerable difference in valuations developed. With the expansion of the "Shanghai-Hong Kong Stock Connect Scheme", it **became easier for Chinese retail investors to invest in Hong Kong** and to take advantage of the valuation differences. In response, the HSCE Index skyrocketed, gaining more than 24% between 27 March and 17 April. The market was not, however, able to maintain this momentum and was back to weaker levels by the end of June again, whereas the mainland markets kept rising. With an eye to the poor fundamental data, we remain cautious. A possible sharp correction by the SHCOMP and SZCOMP indices, whose joint market capitalisation amounts to 100% of Chinese GDP, could also represent a risk to the economic recovery in China.

Financial analyst: Judith Galter, RBI Vienna

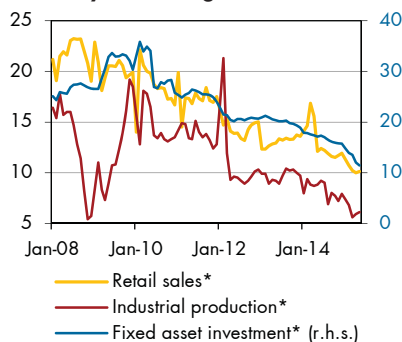
Forecasts

China	2013	2014	2015e	2016f
GDP (% yoy)	7.7	7.4	7.0	6.8
CPI (% yoy)	2.6	2.0	1.9	3.0
	22-Jun*	Sep-15	Dec-15	Jun-16
USD/CNY	6.21	6.25	6.20	6.15
Key rate (%)	5.10	4.85	4.85	4.85
HSCE	13,384	13,600	14,050	13,900

* 11:59 p.m. CET closing prices on the respective main stock exchange

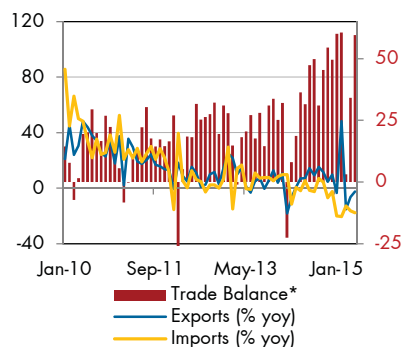
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Economy stabilising?



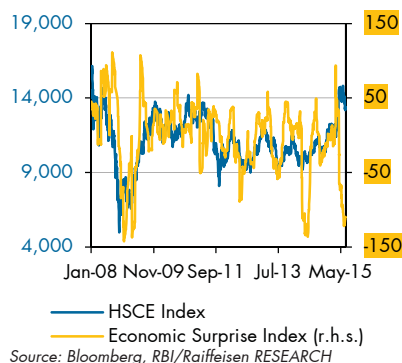
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Weak trade data



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Divergent development



India: Burgeoning economy – stock markets disappointing

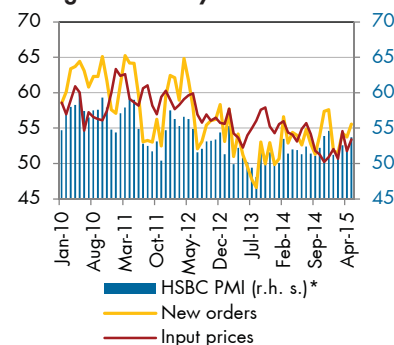
- Economic indicators remain positive
- Low inflation, but upside risks remain
- Rising outflows of capital from the stock market in Q2

Forecast

	22-Jun*	Sep-15	Dec-15	Jun-16
SENSEX	27,730.21	28,200	28,900	28,700

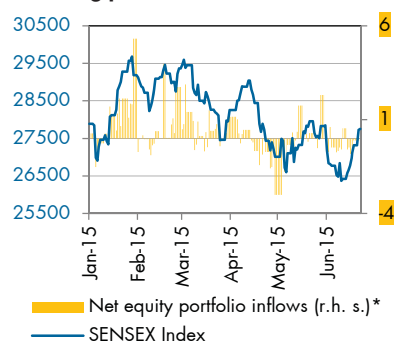
* 11:59 p.m. CET closing prices on the main stock exchange
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Strong economic cycle



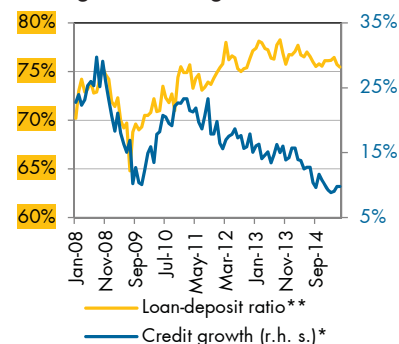
* manufacturing sector
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Declining portfolio inflows



* in INR bn
SENSEX 5y high: 29,682; 5y low: 15,175
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Credit growth easing



* Commercial banks, in % yoy
** Commercial banks
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

While the individual EM economies continue to move on different trends, India stands out positively on several accounts, such as rising economic growth and the steadily falling inflation, which is facilitated by the low oil price. The related increase in Indian households' purchasing power is having a benign effect on domestic consumption as a result.

The manufacturing sector is becoming an increasingly important factor for India's economy, and according to the HSBC purchasing managers' index this sector continued to expand, with a reading of 52.6 points for May. Thanks to strong orders and low factor prices, **industrial production** posted a gain of 4.1% yoy in April. Nevertheless, capacity utilisation declined in several industries. Measured by the consumer price index, the **rate of inflation** was 5.01% yoy in May and thus falls within the medium-term inflation band of 2% to 6% yoy which is targeted by the Reserve Bank of India (RBI). Despite falling exports in Q1, the current account deficit contracted to 0.2% of GDP, as a positive result of the low oil price. In total, real **GDP growth** in the first quarter amounted to 7.5% yoy, but the growth in the gross value added, which is adjusted for the net contribution of indirect taxes, of just 6.1% yoy for the same period was disappointing as compared with the level of 7.5% yoy registered for the previous quarter.

The low rates of inflation are resulting in relatively high real interest rates, which is exerting negative pressure on investment and lending growth. This prompted the RBI to **lower the key rate to 7.25%** on 2 June 2015. The minutes of the RBI meeting indicate that no further rate cuts are planned for this year, due to the elevated inflationary risks.

The **stock market index SENSEX** has steadily gained momentum since the start of the year and increased thanks to the welcome structural reforms in India. Nevertheless, significant losses were registered on the Indian equity market, due to the rise in valuations, the disappointing reporting season in early April, and the surprisingly slack gross value added growth for Q1. Mounting worries about a retroactive tax on capital gains (MAT) for non-resident investors also boosted capital outflows from India. **Risks remain for India's equity market**, in part due to speculation about a possible rate hike by the Fed, which could result in higher volatility and more bouts of selling. The outlook for this year's GDP growth and for the equity market could be negatively impacted, if the positive effects of low interest rates on investment and lending growth fail to be transmitted. Nonetheless, taking a long-term view, there are still **chances for prices to go higher**, if progress is made in structural reforms and if corporate profits rise in the third quarter. **Corporate earnings growth** for 2015 and 2016 is estimated at 21.3% and 17.7%, according to Bloomberg projections. The **PER** of the Indian market consolidated to 20.2 and is now in the upper end of the medium range from a long-term perspective.

Financial analyst: Thomas Keil, RBI Vienna

Brazil: Poor economic performance and elevated stock market risks

- Economic outlook remains gloomy
- High inflation undermining domestic consumption
- High volatility on the equity market

In contrast to India, Brazil's economic performance has remained disappointing. At the epicentre of this economic misery is the high rate of inflation and slack domestic consumption, which is visible in particular in the falling retail sales figures. The monetary and fiscal policy measures have still not been able to generate any improvement in the prospects for economic recovery.

The Markit purchasing managers' index for the manufacturing sector registered a level of 45.9 for the month of May, which falls well short of the expansion threshold of 50 points. This was also reflected in **industrial production**, which saw a contraction of 7.6% yoy in April. **Inflation is steadily rising**, with a consumer price index (IPCA) reading of 8.47% yoy in May. Brazil's current account deficit continued to expand in April, swelling to 4.53% of GDP. Real economic output contracted by 1.6% yoy in the first quarter. Consequently, Brazil still finds itself mired in stagflation.

The rapid development of inflation, which remains well higher than the targeted medium-range band of 2.5% yoy to 6.5% yoy, prompted the Brazilian central bank to raise the **key rate (SELIC)** at its latest meeting on 4 June, with a move of **50bp to 13.75%**. Furthermore, the Brazilian central bank announced that it would end its swap programme for FX intervention at the end of March. As a result of this, the implicit volatility of BRL versus USD shot higher and thus foreign currency hedging costs became more expensive for investors on the derivatives market.

The **Brazilian equity market BOVESPA** went through some turbulent times early in the year. Since mid-March, however, rapid gains in prices have been seen, thanks to the rebound in commodity prices and the at-times low stock market valuations. If the recovery on the commodities market continues, there could be further opportunities for gains in stock prices. Nevertheless, in its latest report on Brazil's public debts, the rating agency Moody's announced that it was issuing a negative outlook on these liabilities, based on the high real yields and the poor economic growth. This triggered further outflows of capital and will represent an additional risk for economic growth in the months ahead. There are also other **risks for corporate earnings** and the Brazilian stock market due to the modest rise in inflation expectations for this year and the contraction in domestic consumption. As a result of the poor economic performance and falling corporate earnings in Brazil, mounting speculation about the US monetary policy outlook could lead to further losses for non-currency-hedged foreign investors and also lead to elevated volatility. **Corporate earning growth** for 2015 and 2016 is estimated at 23.7% and 10.8%, according to Bloomberg projections. The market's **PER** is 13.2 and is thus in the long-run midfield.

Financial analyst: Thomas Keil, RBI Vienna

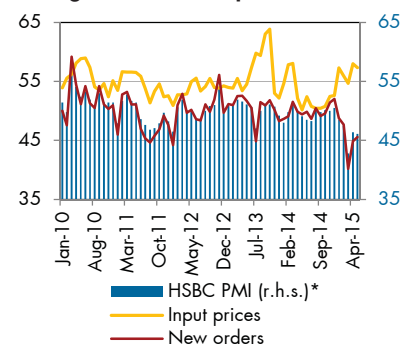
Forecast

	22-Jun*	Sep-15	Dec-15	Jun-16
BOVESPA	53863.67	52100	54000	56000

*11:59 p.m. CET closing prices on the main stock exchange

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

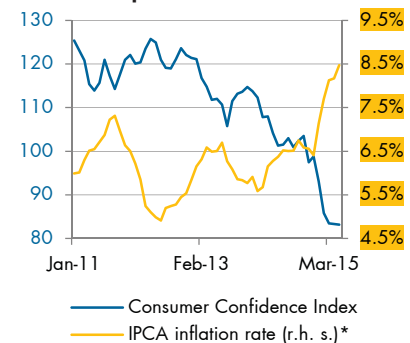
Strong economic slump



* manufacturing sector

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

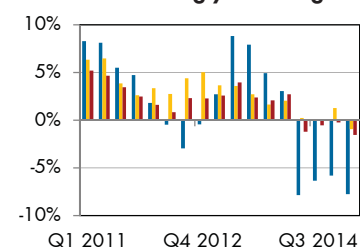
Inflation saps consumer confidence



* in % yoy

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

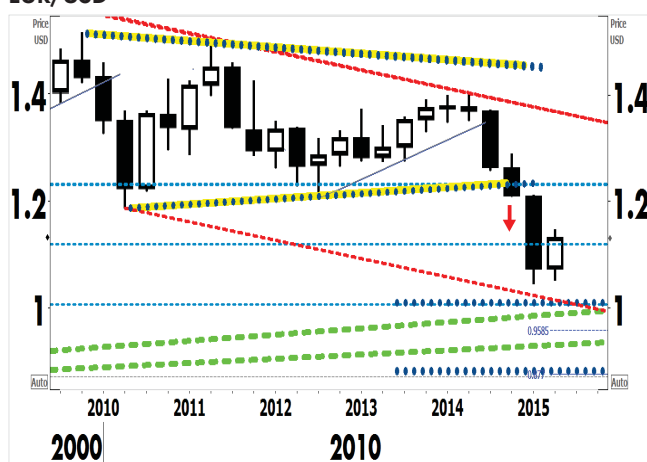
Investments strongly declining



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Bond markets: Congestion prolonged

EUR/USD



EUR=, 19.06.2015, 11:00 a.m. (CET), 5y high: 1.4874, 5y low: 1.0496
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

EUR/USD

Last: 1.1370

BEARISH

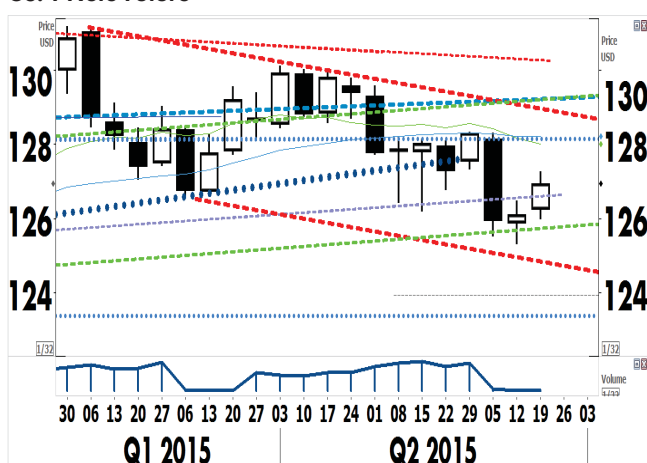
The upward-trend (since 1985) is intact as long as the price stays in above of 0.8940. The downward-trend (since 16 March 2008) provides headroom towards even 1.3530. For a bullish prognosis a first signal at 1.1555 would be a must. In case this first buy-signal should fail to get triggered another sharp drop towards 0.8770 (-> 0.8000) would most probably follow suit.

Position:

Short -> 1,0000 – 0,8770

Stopp 1,1555

US T-Note Future



TYc1, 19.06.2015, 11:25 a.m. (CET), 5y high: 135.66, 5y low: 117.98
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

US T-Note Future

Last: 126-30

BULLISH

The stop 127-30, named in the recent issue, has paid off well. The current recovery could even stretch towards 128-25 within the barriers of the upward-trend (since 30.01.2015), but the resistance-area 128-00 – 128-10 should withstand the first raid. Another bearish signal at 124-30 cannot be ruled out a triggering of which would put the major support 122-25 (-> 118-13 – 116-03) into question.

Position:

Long -> 128-00 – 128-10

Stop 125-09

EUR Bund Future



FBLC1, 19.06.2015, 11:55 a.m. (CET), 5y high: 160.36, 5y low: 119.90
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

EUR Bund Future

Last: 151.93

BULLISH

Our sell-signal 157.10 -> 151.60 had been triggered, the bullish reversal at 148.23 has been marked by a Dragonfly-Doji, but not yet been confirmed at the downward-trend (since 17 April 2015). As long as the latter is lacking it 153.20 a re-testing of lows at 148.23 cannot be ruled out and neither a subsequent decline to about 145.23 – 143.20.

Position:

Buy 153.20 -> 155.65 – 156.10

Sell 150.35 -> 148.23 – 145.32

Financial analyst: Robert Schittler, RBI Vienna

DAX: opportunity to buy on the cheap

Dow Jones Industrial Future



DM1 Index, 19.06.2015, 11:32 a.m. (CET)
5Y-high 18,284; 5Y-low 9,596
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Dow Jones Industrial Future

Last USD 18,074

BULLISH

In spite of the rather weak upward momentum since the beginning of the year all major supports are still intact and thus this sideways movement might be regarded as a bullish congestion area. Therefore, the oscillation within the range of 17,380 and 18,150 is being required to compensate the increase of volatility during the last quarter of 2014 (lower panel). Based on the absence of valid reversal patterns and on the well-established long-term uptrend expectations of another increase towards 19,100 are enhanced.

Position:

long → USD 19,100

Stop USD 17,380

DAX 30 Future



GX1 Index, 19.06.2015, 10:29 p.m. (CET)
5Y-high 12,406; 5Y-low 5,080
Source: Bloomberg, RBI/Raiffeisen RESEARCH

DAX 30 Future

Last EUR 11,184

BULLISH

Since April the setback has led to the establishment of a downtrend channel, moreover, one third of the upward-leg dating back to the low in 2014 has been retraced. In addition, above the level 10,900 two lower shadows have been established which indicate a recovery. However, even if the decline got extended the long-term supports at 10,570 (Moving Average 200) and at 10,300 (the high in the year 2000) could still hold firm. According to this, the weaknesses of the past weeks would resemble rather a correction of the long-term uptrend and a rebound towards 13,000 would be likely to follow.

Position:

Position: long → EUR 13,000

Stop EUR 10,300

NASDAQ 100 Future



ND1 Index, 19.06.2015, 11:07 a.m. (CET)
5Y-high 4,542; 5Y-low 1,721
Source: Bloomberg, RBI/Raiffeisen RESEARCH

NASDAQ 100 Future

Last USD 4,538

BULLISH

The uptrend channel's resistance (red line) has led to the development of a congestion area over several months. Hence, this pattern represents a bullish consolidation; moreover, a breakout would result in a "Measured-Move" to the upside towards 5,000. Though, the divergence to the RSI indicator (lower panel) hints at a test of the support area between 4,250 (Moving Average 200) and 4,170, but this is not expected to result in a long-term uptrend's reversal.

Position:

Position: long → USD 5,000

Stop USD 4,170

Financial analyst: Stefan Memmer, RBI Vienna

Risk notifications and explanationsen

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 (<http://www.raiffeisenresearch.at/conceptsandmethods>)

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

Disclosure of circumstances and interests which may jeopardise the objectivity of RBI (as per Sec 48f [5] and [6] of the Stock Exchange Act): www.raiffeisenresearch.at/disclosuresobjectivity

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	5y	10y	2y	10y
18/07/2014	I	I	Sell	Hold	Sell
14/08/2014	I	I	I	Sell	I
05/09/2014	I	I	Hold	I	I
30/09/2014	Sell	I	I	I	I
05/12/2014	I	I	Buy	I	I
02/01/2015	Hold	I	Hold	I	I
09/01/2015	Sell	I	I	I	I
20/03/2015	I	I	I	I	I

Spread: Recommendation history (1-4 months horizon)

Issuer	AT-DE	FR-DE	IT-DE	ES-DE	IE-DE	PT-DE
Maturity segment	10y-10y	10y-10y	10y-10y	10y-10y	10y-10y	10y-10y
18/07/2014	Hold	Hold	Buy	Buy	Buy	Buy
12/09/014	I	I	I	I	I	I
16/09/014	Buy	Buy	I	I	I	I
05/12/2014	I	I	I	I	I	I
02/01/2015	I	I	I	I	I	I
09/01/2015	Hold	Hold	Hold	Hold	Hold	Hold
26/02/2015	Buy	Buy	Buy	Buy	Buy	Buy
20/03/2015	I	I	I	I	I	I

Credit markets

"We expressly point out that circumstances and activities of and related to Hypo Alpe Adria Bank International AG ("HAA"), as well as the legal situation in relation to the financial instruments issued by HAA and the liability assumed in this regard by third parties (e.g. Federal State of Carinthia), the effects of legislative acts (e.g. Austrian Federal Law on the Recovery and Resolution of Banks (BaSAG); Austrian Federal Law on the Reorganisation of HYPO ALPE ADRIA BANK INTERNATIONAL AG (Haa-SanG)) and any decisions of the supervisory authorities issued in this regard (e.g. Special Notice of the Financial Market Authority (FMA) dated 1 March 2015 in respect of Heta Asset Resolution AG as per BaSAG - "Moratorium") are extremely complex and that the detailed ramifications of such on third parties are currently difficult to assess and cannot be judged definitively. It is expected that these issues can only be finally clarified in court proceedings."

Financial instruments/ Issuers	Initiation of coverage
EN00 (Eur Corp. Bonds IG)	2003
HEAF (Eur Corp. Bonds HY)	2003
EBXS (Eur Fin. Senior)	2003
EBSU (Eur Fin. Sub.)	2003

Recommendation history (1 –4 months horizon)

Date	EN00	HEAF	EBXS	EBSU
19/12/2013				
20/03/2014	Neutral	Neutral	Neutral	Neutral
15/05/2014				
23/06/2014				
18/09/2014	Buy	Buy	Buy	Buy
09/12/2014				
20/03/2015				

Stock 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
HSCE	01/01/2007
Sensex 30	30/06/2008
BOVESPA	30/06/2008
MSCI World sectors	01/01/2004

Asset Allocation

	Date of the first publication
RBI Portfolio	01.01.2003
Sector weighing	14.11.2004

RBI Portfolio - Weighings

Bonds and money market								
	Euro area/ Raiffeisen bonds	USA	rest of Europe	Eastern Europe	Eurobonds	Euro Corp. bonds	money market	alternative investments
June 2014	Buy	Buy	Sell	Buy	Buy	Buy	Buy	Buy

Stocks						
	Europe	USA	Asia	Eastern Europe	Emerging Markets	Sum
June 2014	Buy	Buy	Buy	Buy	Buy	Buy

Recommendation history (1 –4 months horizon)

Date	Euro STO- XX 50	DAX 30	FTSE 100	SMI	S&P 500	Nasdaq Comp.	DJIA	Nikkei 225	HSCE	Sensex 30	BOVESPA
20/06/2014	Buy	Buy	Hold	Hold	Hold	Hold	Hold			Buy	Buy
15/09/2014					Buy			Hold	Hold		
03/10/2014				Buy	Buy	Buy		Buy			
14/11/2014				Hold	Hold	Hold	Hold	Hold			
09/12/2014				Buy		Buy					Sell
12/12/2014					Buy						
09/01/2015				Buy					Buy		
30/01/2015		Hold	Hold	Hold	Hold	Buy		Buy	Hold		
13/02/2015	Hold					Hold	Hold	Hold			
20/03/2015	Buy	Buy		Buy		Buy		Buy		Sell	Sell
15/05/2015									Verkauf		
29/05/2015								Hold			
05/06/2015						Hold					
22/06/2015			Buy	Hold		Buy		Buy	Hold	Hold	

MSCI World sectors: Recommendation history (1 –4 months horizon)

Date	Energy	Materials	MSCI Indus- trial	Cons. discre- tionary	Cons. Staples	Health care	Financials	IT	Telecommu- nication	Utilities
20/03/2014	↑	↑	↑	↑	↓	↓	↑	↑	↓	↓
20/06/2014	↑	↑	↑	↑	↑	↓	↓	↓	↓	↓
15/09/2014	↓	↑	↑	↑	↓	↓	↑	↑	↓	↓
09/12/2014	↓	↑	↑	↑	↓	↓	↑	↑	↓	↓
20/03/2015	↑	↑	↑	↑	↓	↓	↑	↑	↓	↓
23/06/2015	↑	↑	↑	↑	↓	↓	↑	↑	↓	↓

Overweight ↑ Underweight ↓

Technical analysis

Financial instruments	Date of the first publication
EUR Bund Future	01/05/1995
U.S. T-Note Future	01/05/1995
Nasdaq 100 Future	07/04/2000
DAX 30 Future	07/04/2000
DJIA Future	07/04/2000
Euro STOXX 50 Future	07/04/2000

Recommendation history (1 –4 months horizon)

Date	EUR Bund Future	U.S.T-Note Future	Nasdaq 100 Future	DAX 30 Future	DJIA Future
20/06/2014	BEARISH	NEUTRAL	BULLISCH	BULLISH	BULLISH
16/09/2014		BEARISH			
04/12/2014	BULLISH	NEUTRAL			
15/01/2015		BULLISH			
09/02/2015		NEUTRAL			
16/03/2015	NEUTRAL				
23/03/2015		BULLISH			
19/06/2015	NEUTRAL				

Disclaimer Financial Analysis

Publisher: Raiffeisen Bank International AG (hereinafter "RBI")

RBI is a credit institution according to §1 Banking Act (Bankwesengesetz) with the registered office Am Stadtpark 9, 1030 Vienna, Austria.

Raiffeisen RESEARCH is an organisational unit of RBI.

Supervisory authority: Austrian Financial Market Authority FMA, Otto-Wagner-Platz 5, A-1090 Vienna and National Bank of Austria, Josefsplatz 1, 1015 Vienna. Additionally, Raiffeisen Bank International AG is subject to supervision by the European Central Bank (ECB), which ECB undertakes within the Single Supervisory Mechanism (SSM), which consists of the ECB on national responsible authorities (Council Regulation (EU) No 1024/2013). Unless set out herein explicitly otherwise, references to legal norms refer to norms enacted by the Republic of Austria.

This document is for information purposes and may not be reproduced or distributed to other persons without RBI's permission. This document constitutes neither a solicitation of an offer nor a prospectus in the sense of the Austrian Capital Market Act (in German: Kapitalmarktgesetz) or the Austrian Stock Exchange Act (in German: Börsegesetz) or any other comparable foreign law. An investment decision in respect of a security, financial product or investment must be made on the basis of an approved, published prospectus or the complete documentation for the security, financial product or investment in question, and not on the basis of this document.

This document does not constitute a personal recommendation to buy or sell financial instruments in the sense of the Austrian Securities Supervision Act (in German: Wertpapieraufsichtsgesetz). Neither this document nor any of its components shall form the basis for any kind of contract or commitment whatsoever. This document is not a substitute for the necessary advice on the purchase or sale of a security, investment or other financial product. In respect of the sale or purchase of securities, investments or financial products, your banking advisor can provide individualised advice which is suitable for investments and financial products.

This analysis is fundamentally based on generally available information and not on confidential information which the party preparing the analysis has obtained exclusively on the basis of his/her client relationship with a person.

Unless otherwise expressly stated in this publication, RBI deems all of the information to be reliable, but does not make any assurances regarding its accuracy and completeness.

In emerging markets, there may be higher settlement and custody risk as compared to markets with established infrastructure. The liquidity of stocks/financial instruments can be influenced by the number of market makers. Both of these circumstances can result in elevated risk in relation to the safety of investments made on the basis of the information contained in this document.

The information in this publication is current, up to the creation date of the document. It may be outdated by future developments, without the publication being changed.

Unless otherwise expressly stated (www.raiffeisenresearch.at/specialcompensation), the analysts employed by Raiffeisen Bank International AG are not compensated for specific investment banking transactions. Compensation of the author or authors of this report is based (amongst other things) on the overall profitability of RBI, which includes, inter alia, earnings from investment banking and other transactions of RBI. In general, RBI forbids its analysts and persons reporting to the analysts from acquiring securities or other financial instruments of any enterprise which is covered by the analysts, unless such acquisition is authorised in advance by RBI's Compliance Department.

RBI has put in place the following organisational and administrative agreements, including information barriers, to impede or prevent conflicts of interest in relation to recommendations: RBI has designated fundamentally binding confidentiality zones. Confidentiality zones are typically units within credit institutions, which are isolated from other units by organisational measures governing the exchange of information, because compliance-relevant information is continuously or temporarily handled in these zones. Compliance-relevant information may fundamentally not leave a confidentiality zone and is to be treated as strictly confidential in internal business operations, including interaction with other units. This does not apply to the transfer of information necessary for usual business operations. Such transfer of information is limited, however, to what is absolutely necessary (need-to-know principle). The exchange of compliance-relevant information between two confidentiality zones may only occur with the involvement of the Compliance Officer.

SPECIAL REGULATIONS FOR THE UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND (UK):

This document does not constitute either a public offer in the meaning of the Austrian Capital Market Act (in German: Kapitalmarktgesetz; hereinafter „KMG“) nor a prospectus in the meaning of the KMG or of the Austrian Stock Exchange Act (in German: Börsegesetz). Furthermore this document does not intend to recommend the purchase or the sale of securities or investments in the meaning of the Austrian Supervision of Securities Act (in German: Wertpapieraufsichtsgesetz). This document shall not replace the necessary advice concerning the purchase or the sale of securities or investments. For any advice concerning the purchase or the sale of securities of investments kindly contact your RAIFFEISENBANK. Special regulations for the United Kingdom of Great Britain and Northern Ireland (UK): this publication has been either approved or issued by Raiffeisen Bank International AG (RBI) in order to promote its investment business. Raiffeisen Bank International AG, London Branch is authorised by the Austrian Financial Market Authority and subject to limited regulation by the Financial Conduct Authority ("FCA"). Details about the extent of our regulation by the Financial Conduct Authority are available from us on request. This publication is not intended for investors who are Retail Customers within the meaning of the FCA rules and should therefore not be distributed to them. Neither the information nor the opinions expressed herein constitute or are to be construed as an offer or solicitation of an offer to buy (or sell) investments. RBI may have affected an Own Account Transaction within the meaning of FCA rules in any investment mentioned herein or related investments and or may have a position or holding in such investments as a result. RBI may have been, or might be, acting as a manager or co-manager of a public offering of any securities mentioned in this report or in any related security.

SPECIFIC RESTRICTIONS FOR THE UNITED STATES OF AMERICA AND CANADA: This document may not be transmitted to, or distributed within, the United States of America or Canada or their respective territories or possessions, nor may it be distributed to any U.S. person or any person resident in Canada, unless it is provided directly through RB International Markets (USA) LLC, a U.S. registered broker-dealer ('RBIM'), and subject to the terms set forth below.

SPECIFIC INFORMATION FOR THE UNITED STATES OF AMERICA AND CANADA: This research document is intended only for institutional investors and is not subject to all of the independence and disclosure standards that may be applicable to research documents prepared for retail investors. This report was provided to you by RB International Markets (USA) LLC, a U.S. registered broker-dealer ('RBIM'), but was prepared by our non-U.S. affiliate, Raiffeisen Bank International AG (RBI). Any order for the purchase or sale of securities covered by this report must be placed with RBIM. You can reach RBIM at 1133 Avenue of the Americas, 16th Floor, New York, NY 10036, 212-600-2588. This document was prepared outside the United States by one or more analysts who may not have been subject to rules regarding the preparation of reports and the independence of research analysts comparable to those in effect in the United States. The analyst or analysts who prepared this research (i) are not registered or qualified as research analysts with the Financial Industry Regulatory Authority ("FINRA") in the United States, and (ii) are not allowed to be associated persons of RBIM and are therefore not subject to FINRA regulations, including regulations related to the conduct or independence of research analysts.

The opinions, estimates and projections contained in this report are those of RBI only as of the date of this report and are subject to change without notice. The information contained in this report has been compiled from sources believed to be reliable by RBI, but no representation or warranty, express or implied, is made by RBI or its affiliated companies or any other person as to the report's accuracy, completeness or correctness. Securities which are not registered in the United States may not be offered or sold, directly or indirectly, within the United States or to U.S. persons (within the meaning of Regulation S under the Securities Act of 1933 [the 'Securities Act']), except pursuant to an exemption under the Securities Act. This report does not constitute an offer with respect to the purchase or sale of any security within the meaning of Section 5 of the Securities Act and neither shall this report nor anything contained herein form the basis of, or be relied upon in connection with, any contract or commitment whatsoever. This report provides general information only. In Canada it may only be distributed to persons who are resident in Canada and who, by virtue of their exemption from the prospectus requirements of the applicable provincial or territorial securities laws, are entitled to conduct trades in the securities described herein.

INFORMATION REGARDING THE PRINCIPALITY OF LIECHTENSTEIN: COMMISSION DIRECTIVE 2003/125/EC of 22 December 2003 implementing Directive 2003/6/EC of the European Parliament and of the Council as regards the fair presentation of investment recommendations and the disclosure of conflicts of interest has been incorporated into national law in the Principality of Liechtenstein by the Finanzanalyse-Marktmisbrauchs-Verordnung.

If any term of this Disclaimer is found to be illegal, invalid or unenforceable under any applicable law, such term shall, insofar as it is severable from the remaining terms, be deemed omitted from this Disclaimer; it shall in no way affect the legality, validity or enforceability of the remaining terms.

Imprint

Information requirements pursuant to the Austrian E-Commerce Act

Raiffeisen Bank International AG

Registered Office: Am Stadtpark 9, 1030 Vienna

Postal address: 1010 Vienna, POB 50

Phone: +43-1-71707-0 **Fax:** + 43-1-71707-1848

Company Register Number: FN 122119m at the Commercial Court of Vienna

VAT Identification Number: UID ATU 57531200

Austrian Data Processing Register: Data processing register number (DVR): 4002771

S.W.I.F.T.-Code: RZBA AT WW

Supervisory Authorities: As a credit institution pursuant to § 1 of the Austrian Banking Act, Raiffeisen Bank International AG is subject to supervision by the Financial Market Authority and the Austrian Central Bank. Further, Raiffeisen Bank International AG is subject to legal regulations (as amended from time to time), in particular the Austrian Banking Act (Bankwesengesetz) and the Securities Supervision Act (Wertpapieraufsichtsgesetz).

Additionally, Raiffeisen Bank International AG is subject to supervision by the European Central Bank (ECB), which ECB undertakes within the Single Supervisory Mechanism (SSM), which consists of the ECB on national responsible authorities (Council Regulation (EU) No 1024/2013).

Membership: Austrian Federal Economic Chamber, Federal Bank and Insurance Sector, Raiffeisen Association

Statement pursuant to the Austrian Media Act

Publisher and editorial office of this publication: Raiffeisen Bank International AG, Am Stadtpark 9, A-1030 Vienna

Media Owner of this publication: Raiffeisen RESEARCH – Verein zur Verbreitung von volkswirtschaftlichen Analysen und Finanzmarktanalysen, Am Stadtpark 9, A-1030 Vienna

Executive Committee of Raiffeisen RESEARCH – Verein zur Verbreitung von volkswirtschaftlichen Analysen und Finanzmarktanalysen:

Mag. Peter Brezinschek (Chairman), Mag. Helge Rechberger (Vice-Chairman)

Raiffeisen RESEARCH – Verein zur Verbreitung von volkswirtschaftlichen Analysen und Finanzmarktanalysen is constituted as state-registered society. Purpose and activity are (inter alia), the distribution of analysis, data, forecasts and reports and similar publications related to the Austrian and international economy as well as financial markets.

Basic tendency of the content of this publication

- Presentation of activities of Raiffeisen Bank International AG and its subsidiaries in the area of conducting analysis related to the Austrian and international economy as well as the financial markets.
- Publishing of analysis according to various methods of analyses covering economics, interest rates and currencies, government and corporate bonds, equities as well as commodities with a regional focus on the euro area

Producer of this publication: Holzer Druck, 1100 Vienna, Buchengasse 79

Cut-off for data: 22 June 2015 / **This report was completed on 2 July 2015/ Coverfoto:** fotolia / **Design:** Kathrin Korinek, Birgit Bachhofner

Editor: Peter Brezinschek



**Raiffeisen
RESEARCH**



Kommen Sie den
Finanzmärkten
ein gutes Stück näher.

www.raiffeisenresearch.at

Raiffeisen RESEARCH Team

Global Head of Research: Peter Brezinschek

**Austria: Raiffeisen Bank International AG
(RBI AG)**

Research Sales
Werner Weingraber

Top-Down CEE Banking Sector:

Gunter Deuber, Elena Romanova

Quant Research / Emerging Markets

Veronika Lammer (Head)
Florian Acker
Björn Chyba
Judith Galter
Thomas Keil
Andreas Mannsparth
Stefan Theußl

Technical analysis

Stefan Memmer
Robert Schittler

Publications, Layout

Birgit Bachhofner
Kathrin Korinek
Aleksandra Srejic

Economics, interest rates, currencies

Valentin Hofstätter (Head)
Jörg Angelé
Gunter Deuber
Wolfgang Ernst
Stephan Imre
Lydia Kranner
Patrick Krizan
Matthias Reith
Andreas Schwabe
Gintaras Shlizhyus
Gottfried Steindl
Martin Stelzeneder

Credit/Corporate Bonds

Christoph Klaper (Head)
Michael Ballauf
Jörg Bayer
Martin Kutny
Peter Onofrej
Lubica Sikova
Manuel Schreiber
Jürgen Walter

Stock market research

Helge Rechberger (Head)
Connie Gaisbauer
Aaron Alber
Christian Hinterwallner
Jörn Lange
Hannes Loacker
Johannes Mattner
Christine Nowak
Magdalena Quell
Leopold Salcher
Andreas Schiller
Christoph Vahs

Company Research:

Raiffeisen Centrobank AG

Stefan Maxian (Head)

Christian Bader
Daniel Damaska
Oleg Galbur
Natalia Frey
Jakub Krawczyk
Bernd Maurer
Juliusz Mozdziejcz
Dominik Niszc
Markus Remis
Teresa Schinwald
Jovan Sikimic
Arno Supper

Albania: Raiffeisen Bank Sh.A.

Joan Canaj
Valbona Gjeka

**Belarus: Priorbank Open Joint-Stock
Company**

Oleg Leontev
Vasily Pirogovsky
Olga Laschevskaya
Mariya Keda

**Bosnia & Herzegovina: Raiffeisen Bank
dd Bosna i Hercegovina**

Ivona Zametica
Srebrenko Fatusic

**Bulgaria: Raiffeisenbank (Bulgaria)
Sole-owned Joint Stock Company**

Emil S. Kalchev

Croatia: Raiffeisenbank Austria d.d.

Zrinka Zivkovic Matijevic
Nada Harambasic-Nereau
Tomislava Ujevic

Czech Republic: Raiffeisenbank a.s.

Helena Horska
Michal Brozka
Daniela Milucka
Lenka Kalivodova

Hungary: Raiffeisen Bank Zrt.

Zoltán Török
Levente Blahó
Gergely Pálffy

Kosovo: Raiffeisen Bank Kosovo J.S.C.

Arta Kastrati
Antigona Limani

Poland: Raiffeisen POLBANK

Marta Petka-Zagajewska
Dorota Strauch
Tomasz Regulski
Piotr Jelonek
Michał Burek

Russia: AO Raiffeisenbank Austria

Anastasia Baykova
Denis Poryvay
Anton Pletenev
Maria Pomelnikova
Konstantin Yuminov
Sergey Libin
Andrey Polischuk
Fedor Kornachev
Natalia Kolupaeva

Romania: RAFFEISEN BANK S.A.

Ionut Dumitru
Nicolae Covrig
Alexandru Combei
Anca Jelea
Iuliana Mocanu
Catalin Diaconu

Serbia: Raiffeisen banka a.d. Beograd

Ljiljana Grubic

Slovakia: Tatra banka, a.s.

Robert Prega
Juraj Valachy
Boris Fajtik

Slovenia: Raiffeisen Bank d.d.

Primož Kovacic

**Ukraine: Raiffeisen Bank Aval Public
Joint Stock Company**

Sergii Drobot
Olga Nikolaieva
Ludmila Zagoruyko