Financial Markets Global Strategy

2nd quarter 2016

Is the recovery at risk?

- Fed hesitates, EZB delivers
- Brexit and its ramifications
- Worries about growth overdone
- Equity markets: topping out?

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Financial Markets Global Strategy

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 ... Schwitzerland
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

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

Central banks' worries drive their actions

- **Course of global central bank policy determined by international concerns about the economy**
- **Fed hesitates, ECB delivers**
- **Debate about deflation passé in H2**

Once again, international worries about economic performance are the factor which is driving developments. Scepticism about a "soft landing" in China and the weakness of the commodity-exporting emerging markets have once again led to sharp volatility on the financial markets. As the 2015 GDP figures for the developed economies and the leading indicators have both been somewhat disappointing at times, the European Central Bank (ECB) in particular felt that it had to take action. In light of the negative trend in prices in February (HICP: -0.2%), the ECB moved to strongly reinforce its expansive measures. The ECB continues to pursue its highly controversial policy of flooding the markets with central bank money, which mainly benefits asset prices and not the real economy. The fact that the ECB is citing the inflation rate of well below 2% as an argument is even scarier. Because it is still the oil price which is determining the headline rate of inflation, and the downward pressure it is exerting on the HICP will only turn around after the summer. In its approach, the ECB is failing to take into account that gains in purchasing power stemming from the lower oil prices have turned private consumption into a major growth driver, along with rising incomes and employment. In conjunction with growth in public consumption, solid domestic demand is mitigating the impact of external economic risks. At 1.5%, our GDP estimate for the euro area for 2016 is thus quite far off from any worries about recession.

The situation looks similar in the USA, where the impulse from private consumption appears even stronger than in Europe, thanks to the robust labour market conditions. Despite this, the Fed has reservations about continuing to normalise interest rates. The arguments are the same months: international economic risks and turbulence on the financial markets. In light of the defensive stance being taken by Janet Yellen and the clear bias towards stressing risks over positive trends, we only expect to see a phase of modest interest rate hikes in 2016.

Considering our oil price forecast (end-2016: around USD 50/bbl), however, inflation in the USA should accelerate significantly by early 2017 at the latest (advancing to well over 2%, due to the already high core inflation) and a similar but less intense increase will also occur in the euro area. By then at the latest, the central banks will (have to) abandon their expansive policy line.

Impact on the currency markets

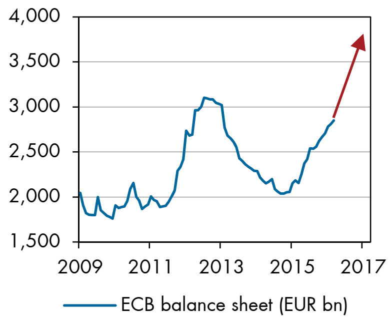
More cautious interest rate policy in the USA has opened up some breathing room for the euro. Nonetheless, in relation to the even more expansive stance of the ECB, the US dollar should still gain somewhat from the second half of the year, and thus we have postponed appreciation versus the euro somewhat. The UK's referendum on EU membership is also drawing some attention. On precautionary considerations, GBP may tend to be weak in Q2. If the UK remains in the EU, however, the pound should have some room to bounce back.

Impact on the capital markets

With the large volume of central bank money and moderate economic performance, the financial markets should continue to recover in Q2. EUR corporate bonds are enjoying support thanks to their inclusion in the ECB's asset purchase programme, equity markets are in a mature phase and will depend on the development of corporate earnings. The EUR yield curve will remain flat.

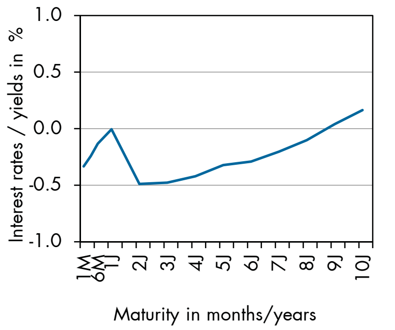
Financial analyst: Peter Brezinschek

ECB balance sheet surges



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Interest rate/yield curve* rather flat



** 1m-1y: EURIBOR; from 2y on: yield of German benchmark bond as of 30/03/2016*
Source: Thomson Reuters, Raiffeisen RESERCH

Recommendations*

Stock markets:	
Buy	DAX 30, Euro STOXX 50, Nikkei 225, SENSEX
Hold	DJIA, FTSE 100, HSCEI, Nasdaq Comp., SMI, S&P 500
Sell	Bovespa
Industries:	
Overweight	Consumer staples, Consumer discretionary, Industrials, IT, Utilities, Health care, Telecommunication
Underweight	Energy, Materials, Financials
Government bond markets:	
Hold	DE10Y
Sell	DE2Y, DE5Y, 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:	
Sell	EUR/USD

** horizon: end of 2nd quarter 2016*
Source: RBI/Raiffeisen RESEARCH

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

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GDP (real % yoy)

Countries	2014	2015	2016e	2017f
Austria	0.4	0.9	1.4	1.4
Germany	1.6	1.4	1.8	1.8
France	0.2	1.2	1.2	1.4
Belgium	1.3	1.4	1.5	1.7
Netherlands	1.0	2.0	1.6	1.8
Finland	-0.7	0.4	0.7	1.9
Ireland	5.2	7.8	5.5	3.8
Italy	-0.4	0.6	1.1	1.2
Spain	1.4	3.2	2.6	2.3
Portugal	0.9	1.5	1.1	1.5
Greece	0.7	-0.3	-0.7	2.7
Euro area	**0.9**	**1.6**	**1.4**	**1.7**
GB	2.9	2.2	2.0	1.8
Switzerland	1.9	0.9	1.5	1.9
USA	**2.4**	**2.4**	**2.5**	**2.2**
Japan	-0.1	0.5	0.5	0.1
China	7.3	6.9	6.5	6.0
India[1]	7.3	7.5	7.4	7.7
Brazil[1]	0.1	-3.7	-3.5	0.9

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH;
[1] Bloomberg Consensus

Consumer price index (% yoy)

Countries	2014	2015	2016e	2017f
Austria	1.5	0.8	1.4	2.0
Germany	0.8	0.1	0.7	2.7
France	0.6	0.1	0.4	1.3
Belgium	0.5	0.6	1.9	1.9
Netherlands	0.3	0.2	1.1	1.9
Finland	1.2	-0.2	0.5	1.3
Ireland	0.3	0.0	0.5	1.5
Italy	0.2	0.1	0.2	1.1
Spain	-0.2	-0.6	-0.2	1.5
Portugal	-0.2	0.5	0.6	1.1
Greece	-1.4	-1.1	0.5	0.8
Euro area	**0.4**	**0.0**	**0.7**	**1.5**
GB	1.5	0.0	0.5	2.1
Switzerland	0.0	-1.1	-0.3	0.5
USA	**1.6**	**0.1**	**1.4**	**2.7**
Japan	2.7	0.8	0.3	1.2
China	2.0	1.4	2.0	2.5
India[1]	6.0	5.3	5.0	5.3
Brazil[1]	6.3	9.0	8.4	6.4

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH;
[1] Bloomberg Consensus

Current account balance (% of GDP)

Countries	2014	2015	2016e	2017f
Austria	2.0	2.8	2.6	2.4
Germany	7.3	8.5	7.5	7.5
France	-0.9	-0.1	0.2	0.3
Belgium	-0.2	-0.2	0.2	0.2
Netherlands	9.5	9.1	9.5	9.5
Finland	-0.9	0.1	0.5	1.0
Ireland	3.6	4.4	4.6	4.4
Italy	1.9	2.1	1.3	1.7
Spain	1.0	1.5	1.4	1.3
Portugal	0.1	0.5	0.7	0.6
Greece	-2.1	0.0	0.5	0.8
Euro area	**2.4**	**3.0**	**3.0**	**2.9**
GB	-5.1	-5.5	-4.9	-4.0
Switzerland	8.8	11.4	7.8	8.9
USA	**-2.2**	**-2.7**	**-3.1**	**-2.7**
Japan	0.5	3.3	1.5	2.7
China	2.1	2.7	2.5	2.0
India[1]	-2.8	-0.6	-1.1	-1.3
Brazil[1]	-4.0	-3.7	-2.1	-1.9

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH;
[1] Bloomberg Consensus

General budget balance (% of GDP)

Countries	2014	2015	2016e	2017f
Austria	-2.7	-1.2	-1.9	-1.8
Germany	0.3	0.5	0.5	0.5
France	-3.9	-3.7	-3.4	-3.2
Belgium	-3.1	-2.7	-2.6	-2.3
Netherlands	-2.4	-2.1	-1.5	-1.2
Finland	-3.3	-3.2	-2.7	-2.3
Ireland	-3.9	-1.5	-0.8	-0.4
Italy	-3.0	-2.6	-2.5	-1.5
Spain	-5.9	-4.5	-3.4	-2.9
Portugal	-7.2	-4.2	-3.1	-2.9
Greece	-3.6	-7.6	-3.4	-2.1
Euro area	**-2.6**	**-2.0**	**-1.8**	**-1.5**
GB	-5.7	-4.5	-4.0	-3.5
Switzerland	0.2	-0.2	-0.3	-0.2
USA	**-2.8**	**-2.4**	**-2.9**	**-2.9**
Japan	-7.7	-6.7	-5.7	-5.5
China	-1.8	-2.3	-3.0	-2.5
India[1]	-5.9	-4.0	-3.9	-3.6
Brazil[1]	-4.0	-10.0	-8.7	-7.5

Source: Thomson Reuters, EU Commission. IMF. national governments. RBI/Raiffeisen RESEARCH;
[1] Bloomberg Consensus

Public debt (% of GDP)

Countries	2014	2015	2016e	2017f
Austria	84.2	86.2	85.7	84.9
Germany	74.9	71.4	68.5	65.6
France	95.6	96.2	96.8	97.1
Belgium	106.7	106.7	107.1	106.1
Netherlands	68.2	68.6	66.2	65.1
Finland	59.3	62.5	65.0	66.2
Ireland	107.5	96.3	91.1	88.1
Italy	132.3	132.8	132.4	130.6
Spain	99.3	100.4	101.3	101.0
Portugal	130.2	128.7	128.7	127.2
Greece	178.6	179.0	185.0	181.8
Euro area	**92.1**	**91.7**	**90.6**	**89.2**
GB	88.2	89.6	90.0	89.5
Switzerland	45.3	46.4	46.6	44.8
USA	**103.2**	**101.9**	**104.5**	**104.1**
Japan	226.0	229.2	232.4	235.0
China	15.0	16.9	17.3	17.5
India	66.1	65.3	63.9	62.8
Brazil	65.2	69.9	74.5	75.8

Source: Thomson Reuters, EU Commission, IMF, national governments, RBI/Raiffeisen RESEARCH

Ratings

	Moody's	S&P	Fitch
Austria	Aaa (n)	AA+ (s)	AA+ (s)
Germany	Aaa (s)	AAA (s)	AAA (s)
France	Aa2 (s)	AA (n)	AA (s)
Belgium	Aa3 (s)	AA (s)	AA (n)
Netherlands	Aaa (s)	AAA (s)	AAA (s)
Finland	Aaa (n)	AA+ (n)	AA+ (s)
Ireland	Baa1 (p)	A+ (s)	A (s)
Italy	Baa2 (s)	BBB- (s)	BBB+ (s)
Spain	Baa2 (s)	BBB+ (s)	BBB+ (s)
Portugal	Ba1 (s)	BB+ (s)	BB+ (s)
Greece	Caa3 (s)	B- (s)	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)	A+ (s)	A (s)
China	Aa3 (n)	AA- (s)	A+ (s)
India	Baa3 (p)	BBB- (s)	BBB- (s)
Brazil	Ba2 (n)	BB (n)	BB+ (n)

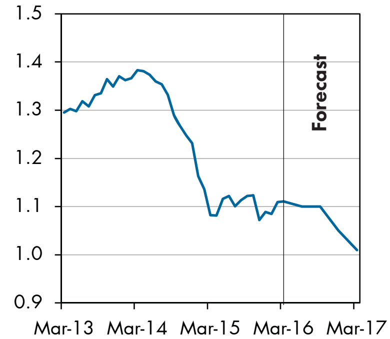
Outlook: p = positive, n = negative, s = stable
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Currencies: FX per Euro

	current	Forecast			
Countries	**29-Mar 15[1]**	**Jun-16**	**Sep-16**	**Dec-16**	**Mar-17**
GB	0.78	0.80	0.78	0.73	0.73
Switzerland	1.09	1.08	1.10	1.10	1.12
Japan	127	123	125	122	117
Sweden[2]	9.26	9.31	9.25	9.19	9.13
Norway[2]	9.48	9.32	9.23	9.13	9.04
USA	1.12	1.10	1.10	1.05	1.01
China	7.29	7.26	7.32	7.04	6.77
India[2]	74.58	74.8	75.1	71.9	69.4
Brazil[2]	4.11	4.40	4.50	4.36	4.24

current [1] 4:00 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

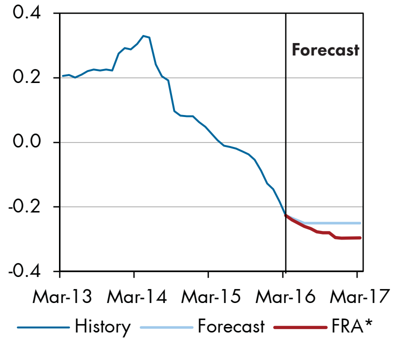
Please note the risk notifications and explanations at the end of this document

Money market rates 3M (%)

Countries	current 29-Mar 2016[1]	Forecast Jun-16	Sep-16	Dec-16	Mar-17
Euro area	-0.24	-0.25	-0.25	-0.25	-0.25
GB	0.59	0.60	0.60	0.60	0.60
Switzerland	-0.73	-0.75	-0.75	-0.75	-0.75
Japan	-0.01	-0.10	-0.20	-0.20	-0.20
USA	0.63	0.75	0.80	1.05	1.35

[1] 4:00 p.m. CET
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Euribor 3m (%)



5y high: 1.615 , 5y low: -0.242
** Forward rate agreement*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Government bond yields 2y (%)

Countries	current 29-Mar[1]	Forecast Jun-16	Sep-16	Dec-16	Mar-17
DE	-0.49	-0.5	-0.5	-0.5	-0.5
CH	-0.88	-0.9	-0.9	-0.9	-0.9
Japan	-0.22	-0.2	-0.3	-0.3	-0.3
USA	0.86	1.0	1.0	1.3	1.5

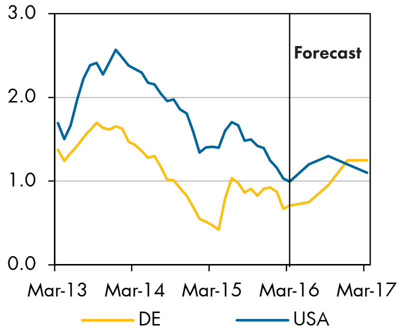
[1] 4:00 p.m. CET
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Government bond yields 5y (%)

Countries	current 29-Mar[1]	Forecast Jun-16	Sep-16	Dec-16	Mar-17
DE	-0.33	-0.3	-0.2	0.0	0.0
CH	-0.79	-0.7	-0.7	-0.7	-0.7
Japan	-0.23	-0.2	-0.3	-0.3	-0.2
USA	1.34	1.6	1.7	1.9	2.0

[1] 4:00 p.m. CET
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Yield spread 10y - 2y (pp)



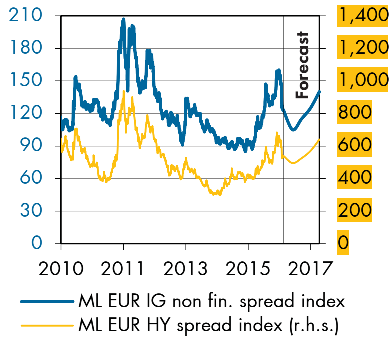
DE 5y high 2.932; 5y low 0.335
USA 5y high 2.760; 5y low 0.934
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Government bond yields 10y (%)

Countries	current 29-Mar 2016[1]	Forecast Jun-16	Sep-16	Dec-16	Mar-17
Austria	0.36	0.5	0.6	0.9	1.0
Germany	0.15	0.3	0.5	0.8	0.8
France	0.42	0.5	0.7	1.0	1.1
Italy	1.25	1.2	1.3	1.5	1.6
Spain	1.45	1.5	1.6	1.6	1.6
GB	1.43	1.6	1.7	2.0	2.0
Switzerland	-0.34	-0.3	-0.2	-0.1	-0.1
Japan	-0.08	-0.1	-0.1	-0.1	0.0
USA	1.86	2.2	2.3	2.5	2.6

[1] 4:00 p.m. CET
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Spread history IG vs HY bonds (bp)



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

Credit markets*

	current 29-Mar 2016[1]	Forecasts Jun-16	Sep-16	Dec-16	Mar-17
IG Non-Fin	123	105	115	125	140
High-Yield	539	495	525	570	640
Financials Senior	104	95	95	105	115
Financials Subord.	265	240	240	260	295

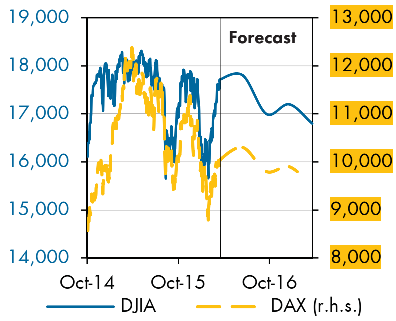
[1] 11:59 p.m. CET closing prices
** Option Adjusted Spread over Bund (in bp)*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Stock markets

	current 29-Mar 2016[1]	Forecasts Jun-16	Sep-16	Dec-16	Mar-17
Euro STOXX 50	3,005	3,110	2,950	3,100	2,900
DAX 30	9,888	10,300	9,800	9,900	9,500
FTSE 100	6,106	6,250	6,050	6,300	5,900
SMI	7,798	7,950	7,750	8,100	7,600
DJIA	17,633	17,800	17,000	17,200	16,800
S&P 500	2,055	2,070	1,980	2,020	1,950
Nasdaq Comp.	4,847	4,900	4,700	4,850	4,600
Nikkei 225	17,104	17,700	16,900	17,600	16,100
Hang Seng CE	8,727	8,900	8,750	9,200	8,900
Bovespa	51,155	46,700	49,500	51,700	50,600
Sensex	24,900	25,700	25,200	26,900	26,700

[1] 11:59 p.m. CET closing prices on the respective main stock exchange
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Dow Jones Industrials and DAX



DJIA: 5y high: 18,312, 5y low: 10,608
DAX: 5y high: 12,375, 5y low: 5,072
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

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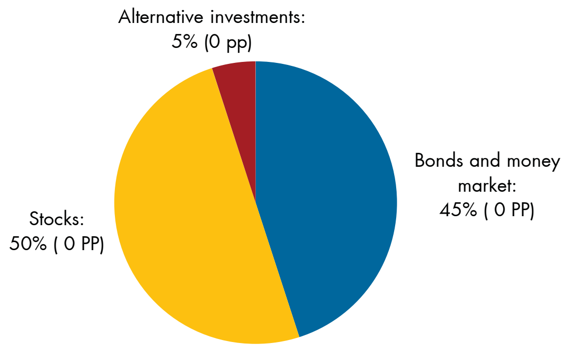
Ample liquidity should push equity markets upwards again

- **Economic conditions in the developed market should improve**
- **Upward trend on the equity markets remains intact over the short run**
- **Bonds able to hold at low yield levels**

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

	2013	2014	2015	2016*
Performance	8.1%	11.0%	7.8%	-1.4%

** from 01/01/2016 to 29/03/2016*
Source: RBI/Raiffeisen RESEARCH

The latest economic data for the developed markets show improvement, the oil price was able to bounce back from its lows, and the Chinese government stressed once again the external value of the yuan would not be strongly devalued and that the impact of dismantling overcapacities would be mitigated by other economic stimulus measures. Consequently, the **most important risk factors** which triggered uncertainty on the markets since the start of the year **have been defused** for the time being at least, and the equity markets have been able to bounce back to varying degrees since then.

Supported by the flood of funds from the central banks, the **recovery on the equity markets should continue for a few weeks still**, and consequently we maintain the weighting of the equity segment at 50%. However, the underlying problems of excessive debt at the global level, sluggish economic growth, and overcapacities will eventually resurface in one form or another, and thus we will probably **reduce the weighting of equities in the portfolio during the second quarter**. Looking ahead to the coming 12 months, compared to the elevated event risks, the muted expectations for additional corporate earnings growth suggest that the performance of equities will fall short of the average.

The low-risk portion of the portfolio with a focus on bonds and the money market is weighted at 45%. **Bonds should continue to profit from the expansive monetary policy**, even though we do expect to see yields rise over the medium term. Despite the price increases that have already been registered, the real estate sector should also be able to continue on its upward trend, thanks to the abundant liquidity. In the portfolio, we still hold a 5% share of securities based on real estate investments.

Financial analyst: Veronika Lammer; RBI Vienna

Portfolio weighting in detail

Bonds and money market 45% (0pp)			Stocks 50% (0pp)			Alternative investments 5% (0pp)	
EMU-bonds	13.3%	↔	Europe	32.0%	↓	Real Estates	100.0%
USA	31.1%	↔	USA	30.0%	↑	Hedge Funds	0.0%
Rest of Europe	0.0%	↔	Asia	16.0%	↔		
Eastern Europe	13.3%	↔	Eastern Europe	8.0%	↑		
Eurobonds	0.0%	↔	Emerging Markets	14.0%	↓		
Euro-corporate bonds	8.9%	↔					
Asia	0.0%	↔					
Money Market	33.3%	↔					
Sum	**100.0%**		**Sum**	**100.0%**			**100.0%**

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

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

Central banks to the rescue again

- **Expansive monetary policy supports all bond segments**
- **Prospects of currency gains for USD bonds**
- **Strong weighting maintained on the money market segment**

While it was mainly "risk-free" government bonds which were able to profit from the elevated risk aversion in January and February, the expansion of the ECB's bond purchase programme and provision of medium-term loans to the banking sector was beneficial for all bonds denominated in EUR. Although the extremely low levels of yields still suggest price losses over the medium term, the **increase in yields should occur more slowly** than we previously assumed.

Heavyweights in the low-risk part of the portfolio are still USD bonds and money market investments, each accounting for around one third. **USD bonds mainly offer chances for currency gains**, which may materialise in the second half of the year. Depending on the Fed's wording, the dollar may be able to go below 1.10 to the euro even earlier. The large share of investment in the EUR money market stabilised the portfolio early in the year and appears to be appropriate in an environment marked by gradual increases in yields.

Bonds denominated in EUR account for around twenty per cent of the portfolio. In the government bond segment, short-dated Italian and Spanish government bonds still look worth buying. They at least still offer positive interest. Corporate bonds in EUR should stand to profit from the ECB's expansion of its purchases in this segment. That said, we recommend only very selective buying in the high yield bonds segment. Although they may have the most price potential over the short run, the risk-return profile does not look attractive for several bonds when viewed against the backdrop of the high debt levels. **Government bonds from the CEE region** sometimes offer significantly higher yields, but also involve currency risk.

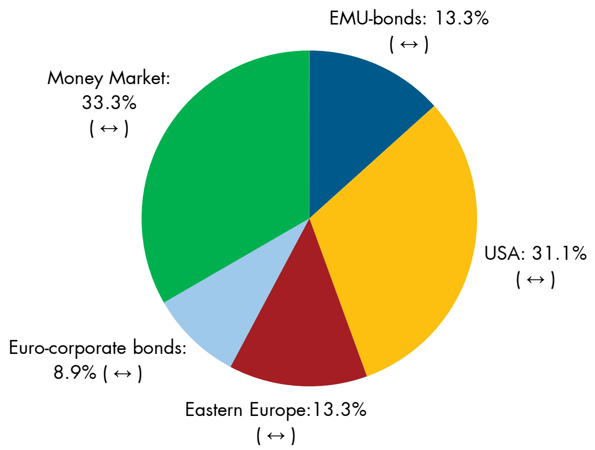
Financial analyst: Veronika Lammer; RBI Vienna

Historical Performance

	16-Dec-15 until 29-Mar-16	5y yoy*
Euro area	5.1%	7.0%
US-Treasuries	4.5%	8.6%
Japan	14.8%	1.7%
CEE-Bonds	6.9%	2.2%
EB-CEE USD	6.0%	11.0%
EB-CEE EUR	3.0%	7.2%
IG Non-Fin	3.9%	5.8%
IG Fin	2.5%	5.4%
HY Non-Fin	0.6%	7.2%

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

Bond portfolio Q2 2016



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

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	0.83	0.71	-0.12	0.66	0.44
Euro corporate bonds IG Non-Fin		1.00	0.92	0.34	0.45	0.50
Euro corporate bonds IG Fin			1.00	0.51	0.35	0.55
Euro corporate bonds HY				1.00	-0.25	0.35
US-Treasuries, 10y					1.00	0.25
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 (%)*

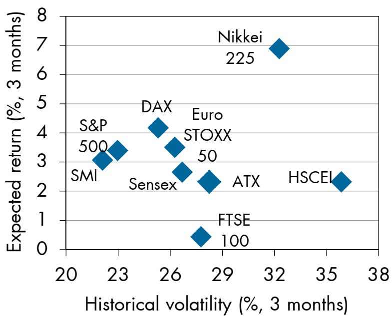
	3M		6M		9M		12M	
	EUR	LCY	EUR	LCY	EUR	LCY	EUR	LCY
GE government bond, 10y	-1.5	-1.5	-3.3	-3.3	-5.8	-5.8	-5.6	-5,6
Euro corporate bonds IG Non-Fin	-1.3	-1.3	-2.1	-2.1	-3.2	-3.2	-4.0	-4,0
Euro corporate bonds IG Fin	-1.1	-1.1	-1.8	-1.8	-2.6	-2.6	-3.7	-3,7
Euro corporate bonds HY	0.4	0.4	0.0	0.0	-2.8	-2.8	-5.1	-5,1
US-Treasuries, 10y	-0.7	-3.3	-1.1	-3.7	2.3	-4.8	6.1	-5,1

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

Catch-up potential for European equity markets

- **Europe and Japan profiting most from low commodity prices**
- **Robust economic performance in the USA**
- **CEE region relatively overweighted in the emerging markets**

Risk-return*



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

Correlations

	S&P 500	Euro STOXX 50	Nikkei 225
ATX	0.70	0.89	0.60
DAX	0.72	0.97	0.54
FTSE 100	0.82	0.90	0.68
Nikkei 225	0.79	0.55	1.00
Euro STOXX 50	0.71	1.00	0.55
S&P 500	1.00	0.71	0.79
SMI	0.78	0.89	0.63
HSCEI	0.64	0.53	0.76
Sensex	0.69	0.56	0.71
Bovespa	0.41	0.43	0.43
Emerging Markets	0.76	0.65	0.81

Correlation (= reciprocal dependance) based on weekly performance figures of the last 12 months, in EUR
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Compared to their market capitalisation in the portfolio, we **remain overweighted on the euro-area equity markets**. While this allocation has not paid off in recent quarters, we still believe that European stocks have a better chance to see increases in earnings in the context of low commodity prices and weak currencies. In contrast to the US stock markets, European indices are still well below their highs from April of last year. Compared to our last Strategy publication, however, we have reduced the level of this overweighting, since we expect that a broadly positive performance in the second quarter will be followed by a negative period for the equity markets. In return, we increase the allocation to **the more stable US equity market, which is better underpinned by the vigorous economic activity**. Looking ahead to the second half of the year, we also anticipate currency gains from this position. Turning to the **Japanese equity market**, our weighting of this market is relatively high, due to the **strong anticipated earnings growth** in 2016 compared to other markets and the extremely expansive monetary policy of the Bank of Japan. In light of our expectations of only mild depreciation of the yen versus the euro, currency hedging for this position is also no longer necessary at the moment.

The **performance of the equity markets in the emerging market (EM) region is strongly varied**. Some steep declines in share prices were registered in the region, depending on the degree of dependence on commodities and the overall debt situation, but for the first quarter overall the EM markets were actually able to outperform the developed markets. With regard to the second quarter, we expect the emerging markets outside of Europe to continue finding a footing, while we project more positive performance for the CEE emerging markets. We forecast robust economic growth in the range of 2% to 4% for the economies in the CE region. The Russian market should be supported in the second half of the year by our expectations of a further rise in the oil price. Accordingly, we have increased the weighting of the CEE markets to the detriment of the emerging markets.

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	3.5	3.5	-1.8	-1.8	3.2	3.2	-3.5	-3.5
DAX	4.2	4.2	-0.9	-0.9	0.1	0.1	-3.9	-3.9
FTSE 100	0.4	2.4	-0.3	-0.9	10.9	3.2	3.9	-3.4
SMI	3.1	2.0	-1.4	-0.6	3.1	3.9	-5.0	-2.5
Nikkei 225	6.9	3.5	0.3	-1.2	7.5	2.9	2.2	-5.9
S&P 500	3.4	0.7	-1.1	-3.7	5.7	-1.7	6.1	-5.1
HSCEI	2.3	2.0	-0.2	0.3	9.1	5.4	9.8	2.0
Sensex	2.7	3.2	0.3	1.2	11.7	8.0	14.9	7.2
Bovespa	-14.9	-8.7	-11.7	-3.2	-4.8	1.1	-4.3	-1.1

LCY...local currency
** not annualised*
Source: RBI/Raiffeisen RESEARCH

More of a defensive stance for the portfolio in Q2 2016

- **Mild increases anticipated for Q2 2016**
- **Consumer discretionary, telecommunications, utilities, industrials, consumer staples, and healthcare overweighted**
- **Energy, materials, and financials underweighted in return**

Since 1 January 2016, the performance of the **RBI sector portfolio** was 48.9 basis points (bp) worse than the benchmark. The main reason for this was the large underweighting of telecommunications and utilities, which generated negative contributions of 22.6bp and 30bp, respectively. The overweighting of financials also had a negative impact, amounting to -12.6bp. By contrast, the overweighting of energy was able to post a gain of 11.4bp.

Overweighting/underweighting

The low price of oil is contributing strongly to an increase in private consumption, which should lead to outperformance for the consumer discretionary sector. We reflect this with a significant overweighting of 200bp. The telecom sector is overweighted by 150bp; in the USA market consolidation is already at an advanced stage, whereas in Europe the regulatory authorities are restraining consolidation somewhat. In the utilities sector (+100bp), we also anticipate performance stronger than the average compared to the benchmark, as low interest rates are beneficial for this capital-intensive sector. Industrials are profiting from low energy prices and the upbeat economic prospects (+75bp). With regard to healthcare, in the second quarter a temporary recovery is expected after the latest correction, and thus this sector is overweighted by 25bp. Consumer staples is also overweighted by 25bp, as this sector should do better than the broader market thanks to cost-reduction programmes and low commodity prices. Energy is expected to see weaker performance in the second quarter on the heels of further declines in the price of oil and accordingly we underweight this sector by 250bp. With the low and even sometimes negative interest rates, margins for financials will continue to suffer and stricter regulation should also lead to weaker performance. Bearing this in mind, the financial sector is underweighted by 200bp. Negative performance is expected for the materials sector in the second quarter, also leading to an underweighting (-200bp).

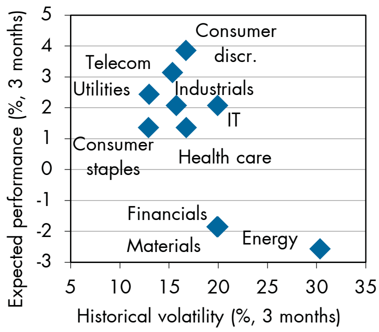
Financial analyst: Nina Neubauer-Kukic, CIIA; RBI Vienna

Top 10 industry performances (in %)

		since last publication	5y yoy*
1	Utilities	8.7%	8.0%
2	Telecommunication	6.0%	11.1%
3	Household products	4.1%	14.0%
4	Commercial services	3.9%	10.2%
5	Food, beverage & tobacco	3.6%	15.4%
6	Real estate	3.3%	10.8%
7	Energy	3.1%	-3.2%
8	Materials	2.7%	-2.1%
9	Food & staples retailing	2.6%	12.5%
10	Consumer services	2.4%	12.9%

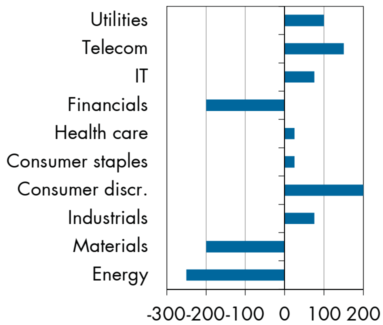
** five-year annual return*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Risk-return



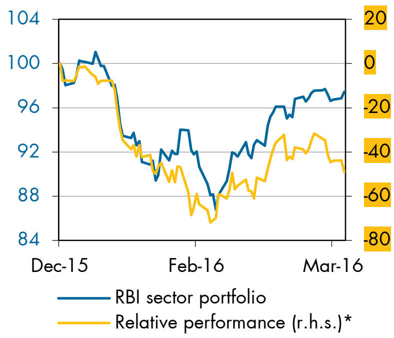
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Over-/underweight sectors (in bp)



Source: RBI/Raiffeisen RESEARCH

RBI sector portfolio



** in basis points*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

RBI sector portfolio

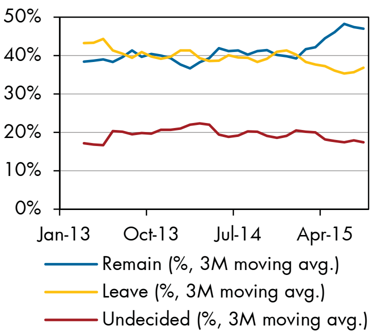
	2013	2014	2015	since 16/12/15
Benchmark	29.6%	10.4%	2.6%	-2.1%
Portfolio	29.9%	9.7%	2.2%	-2.6%
Relative Perf.	27bp	-69bp	-40bp	-49bp

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Brexit: What if…

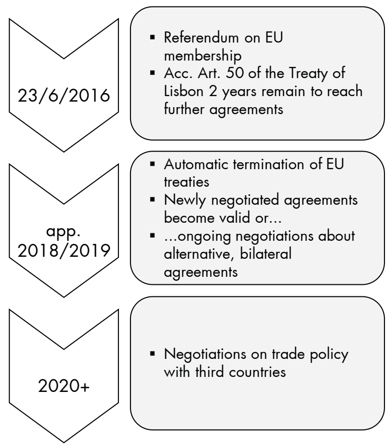
- **Vote on Brexit: a close call**
- **More and more scenario analyses are being published**
- **Consequences of a Brexit would be clearly negative – for the EU and for UK**

Brexit: A close call



** 3month moving average*
Source: Financial Times, RBI/Raiffeisen RESEARCH

Brexit: No single event



Source: RBI/Raiffeisen RESEARCH

On **23 June**, voters in the UK will be deciding on whether the country stays in the European Union or not. According to the latest polls, the outcome may be tight (Yougov: 40% stay, 37% exit, rest undecided; ICM: 41% stay, 43%, exit, rest undecided).

A popular **vote for the UK to stay in the EU** is the more likely result in our opinion, based on a number of factors: With the "success" in negotiations at the last EU summit, PM Cameron probably scored points with the people. Furthermore, roughly 56% of potential voters think that an exit is (very) risky. The UK is currently in a comfortable economic situation with an unemployment rate ranging near the levels from the boom years in 2006-2007. If in doubt, voters will probably decide against the risk and in favour of the secure status quo. Furthermore, a strong lobby is working in favour of keeping the UK in the EU.

Fundamentally speaking, an exit is allowed under Article 50 of the Treaty of Lisbon. However, **an exit is not a one-off event, but rather a complex, difficult process of negotiations** over a period of at least two years. With or without alternative agreements, after this two-year period the existing EU treaties automatically lose validity. Alternative trade agreements might take the form of membership in the European Economic Community (similar to the case with Norway), free trade agreements in general, a bilateral agreement such as with Switzerland, or a customs union, for example as is the case with Turkey. All of these alternatives involve significant disadvantages compared to the current EU membership. Ultimately, the UK's current position combines full market access with a relatively large degree of flexibility: no fiscal pact and independent monetary policy. According to an OECD study, the UK also has a low regulatory burden on the labour and product markets by international comparison.

Brexit: Consequences for the economy

	Short-term impact	Longer-term impact
GDP	Short term drop of the growth rate. Uncertainty dampening sentiment and preventing corporate investments. Real income losses due to higher inflation.	Lower potential growth rate due to lower FDIs and workforce migration.
Inflation	Currency induced rise in inflation (higher import costs), but economic cycle mitigating inflation.	Unclear. Lower growth would dampen, a weaker currency fuel inflation.
Monetary policy	Possible rate hikes might be deferred, BoE will adopt easing bias.	Unclear; a weak currency could foster inflation, Brexit would probably lead to higher interest rates
Yields/ Spreads	Steeper yield curve, rise in creditspreads, sector dependent	Possible shift of the yield curve (higher risk premia)
Currency	Immediate currency devaluation, especially against the USD but also against the EUR.	Weaker currency to balance out increasing current account imbalances. The possible higher inflation also exerts pressure on the currency.

Source: RBI/Raiffeisen RESEARCH

The dependencies between the UK, as one of the founding countries of the EU, and the EU are significant: the UK is the second largest economy after Germany; London's financial market is the largest in the EU (25% of all financial service providers in the EU come from the UK, 40% of all EU exports of financial services come from the UK). More than 50% of all UK exports are destined for the EU; conversely, the British Isles are among the Top 10 export destinations and 14% of all goods exports from the euro area are directed to the UK. 46% of all foreign direct investment (FDI) in the UK comes from the EU, and after the USA, the UK is one of the countries with the highest stock of FDI.

The list goes on and on. The fact is that an **exit would lead to serious economic disadvantages, both for the UK and for the EU.**

It is almost **impossible to precisely evaluate the advantages and disadvantages** of the UK's EU membership. Numerous studies on this subject use a statistical approach for their calculations, and thus focus on market size and export shares and the effect of such on economic growth. More dynamic approaches go beyond this and examine the advantages of the internal market through channels such as technology transfer and innovation, which can improve an economy's long-term growth potential. Above and beyond this, it is also necessary to analyse the possible alternative trade agreements when making an assessment. Studies which simulate direct cost-benefit analyses in the case of an exit arrive at an annual net result of around -9.5% to +1.6% yoy[1] for the UK.

The **EU** would also be **negatively impacted by an exit of the UK**. On the one hand, a "Brexit" would be interpreted as a political setback. The EU would lose political influence at the global level. On the other hand, an exit would strengthen criticism of the EU in other countries (Italy, Austria, etc.). In the event of a positive outcome (successful negotiations by the UK), copying this process would be a logical consequence. Furthermore, Europe would lose a very vocal proponent of liberal market economy practices. At the economic level, an exit by the UK would have severe financial consequences. The UK's net contribution to the EU budget will probably amount to GBP 10.8 bn for fiscal 2015-2016. Moreover, the economic ramifications for some individual EU countries would be massive. Naturally, one of the countries which would be most strongly affected would be Ireland (exports to the UK amount to around 11.8% of GDP; direct investment of 7.5% of GDP; bank liabilities and assets amounting to 174% of GDP). The Netherlands also has intense economic ties to the UK (the relevant figures are 7.6%, 27.6% and 67% of GDP), as well as Cyprus and Malta.

There would naturally be corresponding **negative impacts on the currency, interest rate and equity markets of the individual countries**. The effects on the financial markets would essentially occur via the channels of political and economic uncertainty. If there actually were a negative vote on staying in the EU, the British pound would depreciate massively in a first reaction. Deterioration of the external balances would justify an exchange rate about 20% lower than the current level to restore equilibrium (comparable to the crisis in 2008-2009). If an agreement could not be found, higher risk premia would be necessary for the additional import of capital. Due to the simmering economic uncertainty, the Bank of England would have to keep the interest rate brakes on. Monetary policy measures to stimulate the economy would contradict the devaluation. At the same time, risk premia on bond yields would widen further, which would lead to a steeper yield curve. Risk premiums on corporate bonds and equities in various sectors would also be impacted, with financial sector securities probably hit the hardest. The financial markets of certain countries in the EU would also be impacted to varying degrees. On the whole, the euro would most likely weaken versus USD.

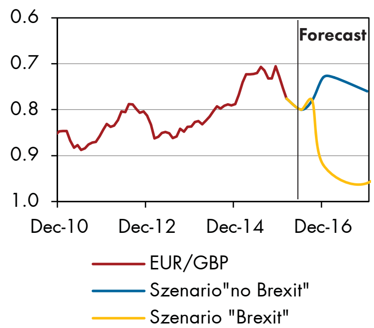
Financial analyst: Lydia Kranner; RBI Wien

Massive dependencies of single EU countries from UK

	Exports to the UK in % of GDP	FDI stock in the UK % GDP	UK bank links % GDP
AT	1.3	0.8	6.0
BE	6.8	4.9	21.0
BG	1.9	0.0	8.0
HR	1.2	0.0	6.0
CY	7.1	23.0	77.0
CZ	3.9	0.0	3.0
DK	3.2	1.9	12.0
EE	1.5	0.0	1.0
FI	1.8	0.8	16.0
FR	2.0	4.3	25.0
DE	2.8	2.4	19.0
GR	1.7	0.3	24.0
HU	3.7	0.4	4.0
IE	11.8	7.5	174.0
IT	1.4	0.6	10.0
LV	3.6	0.0	3.0
LT	3.4	0.0	1.0
LU	4.1	142.1	365.0
MT	7.8	11.8	67.0
NL	7.6	27.7	63.0
PL	2.8	0.1	4.0
PT	2.6	0.3	21.0
RO	1.5	0.0	2.0
SK	3.2	0.0	2.0
SL	1.2	0.0	2.0
ES	2.5	6.0	8.0
SW	2.5	2.2	14.0

** in % of GDP*
Source: Global Counsel, RBI/Raiffeisen RESEARCH

GBP would depreciate even more



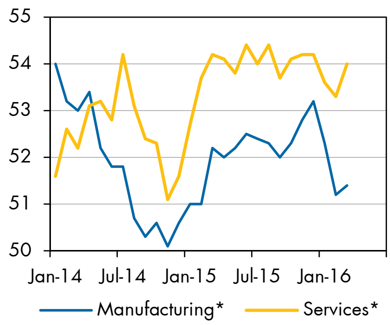
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

1) *See: EU membership and the Bank of England*

Upswing despite downside risks

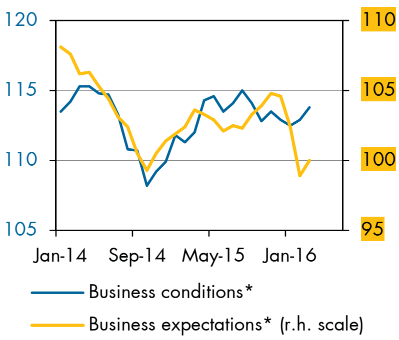
- **Worries about a cyclical downturn are exaggerated**
- **Growth hampered by negative external factors**
- **Domestic economy is looking robust**

Slowdown of industrial sector?



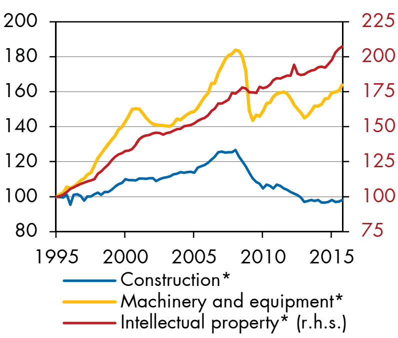
** Purchasing managers' index*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Concerns about future business



** ifo Index*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Construction investment is weak



** Investment real, Index: Q1 1995=100*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Numerous economic surveys deteriorated in the opening months of this year, suggesting that **economic growth** would be subdued at the start of 2016. One striking aspect in this regard is that the survey results for the manufacturing sector were significantly weaker than the results for the services sector. This indicates robust performance on the domestic market, contrasted with fading growth in sectors driven by exports and investment.

Nevertheless, we believe that the **worries about an imminent downturn in economic activity** stemming from export companies and the manufacturing sector are exaggerated. The available data on the real economy for 2016 do not point to deceleration in economic performance, and indeed the January figures actually suggest that GDP growth increased in Q1 2016 compared to Q4 2015. Moreover, according to various surveys many respondents are often more worried about the outlook for business going forward. In contrast, the assessment of the current situation has become less gloomy. Regarding the future, there is firstly uncertainty about the extent to which growth in China will slow down. Secondly, one group of emerging markets (Brazil, Russia, etc.) and the mining and energy sectors in the developed markets are suffering from the slump in commodity prices. That said, the main destinations for exports from the euro area are EU countries and the USA, all of which are profiting on the whole from the low levels of commodity prices. And while commodity-exporting countries are still certainly struggling with economic difficulties, China – which is a major factor for the pace of economic activity in Southeast Asia – has adequate policy options and financial resources to prevent a hard landing for its economy, in our opinion. Furthermore, it should be noted that the **industrials sector** in the euro area is a **net winner from the decline in commodity prices,** due to the lower input costs. Upon closer examination, the restrained activity in investment seen over many years can mainly be traced back to falling/stagnating investment in construction. While this is due to the earlier excesses, investment in machinery, equipment, and know-how is not contributing much less to the recovery than it did in previous phases. Finally, the possible burdens for the financial sector which can possibly be derived from the current low in commodity prices only represent a fraction of the losses which resulted from the real estate market crash eight years ago and cannot really be classified as an existential threat.

In summary, we expect **the economic risks cited above to have a dampening effect**, and this is **reflected in our forecast for a moderate economic recovery**. In particular, the prospects for private consumption remain good, thanks to rising household incomes (borne by gains in employment, low inflation). In the absence of sustained tensions on the financial markets, we see domestic economic conditions in the euro area as being sufficiently robust to digest the negative external impacts. As the European Central Bank has now increased its influence again, the risk of negative developments on the interest rate markets, which are important for the economy, has declined.

Financial analyst: Gottfried Steindl, CIIA; RBI Vienna

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

Labour market humming along smartly

- **Worries of recession from earlier this year have disappeared**
- **Labour market in great shape, rate of unemployment expected at 4.5% by year-end**
- **Underlying price pressure on the rise, but rate of inflation very muted to mid-2016, due to base effect**

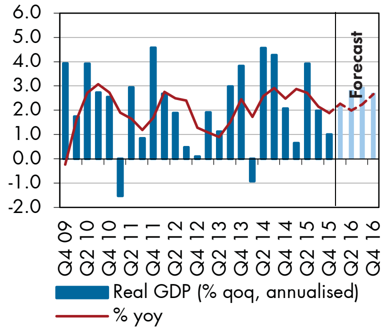
The manufacturing ISM index improved to 49.5 points in February. With this move, we believe that the indicator has now passed its cyclical low. In the months to come, the ISM index should continue to rise modestly. The indicator for sentiment in the non-manufacturing sector fell again slightly in February, but at 53.4 points it remains close to its long-term average of 54.2. **The worries about recession that arose early in the year have decreased significantly as a result of this.** Looking at the "hard" economic data, these concerns about recession had never really found much expression anyway. For example, although annualised real GDP growth amounted to merely 1.4% qoq in Q4 2015, this result is not worrying in light of the estimated potential growth rate of 1.5% yoy. Moreover, the economic data available for the first quarter suggest that growth accelerated to about 2% qoq annualised. In particular, it appears that private consumption expanded strongly between January and March. At the same time, investments apparently developed better than they did at the end of last year. **Between the second and the fourth quarters, we project an increase in economic output of just over 2.5% in annualised terms.** In this period, the negative effects from inventory investment will peter out and investment in oil and gas production will most likely stop falling.

Developments on the labour market have continued to be very impressive up to now. For instance, 242K new jobs were created in February. The rate of unemployment hovered at 4.9%. Since August 2015 the decline in the rate of unemployment has thus slowed down substantially. While this may seem negative at first glance, it is actually a highly positive development. Because since July 2015 some 2.22 million new jobs have been created, according to the household surveys used to calculate the rate of unemployment. At the same time, the number of unemployed only increased by 434K. **Clearly, the situation on the labour market is currently so good that almost 1.8 million people who had exited the labour market have now been able to find work.** This is also reflected in the increase in the rate of participation, which has risen by 0.5 percentage points since September 2015. Nevertheless, the demographic pressure on the participation rate remains intense. Accordingly, we have strong doubts that the increase seen in past months will continue. If we are correct, until the end of the year the rate of unemployment will fall even more quickly than it did in the last half year. For the fourth quarter we still project an unemployment rate of 4.5%.

In February, inflation came in at 1.0% yoy, down from 1.4% yoy in January. Due to the base effect that fuel prices increased by around 30% between February and June of 2015, the rate of inflation will likely fall towards 0.5% again through to mid-year. In the second half of the year it will probably rise to over 2% yoy. **Underlying inflationary pressure, however, is already on the rise.** For example, the so-called core inflation rate, which excludes the prices of energy and food from index, was at 2.33% yoy in February, marking the highest rate registered since September 2008.

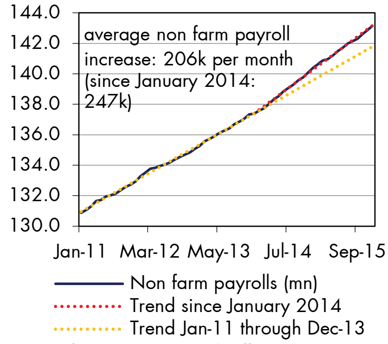
Financial analyst: Jörg Angelé, CIIA; RBI Vienna

Bumpy business cycle to continue



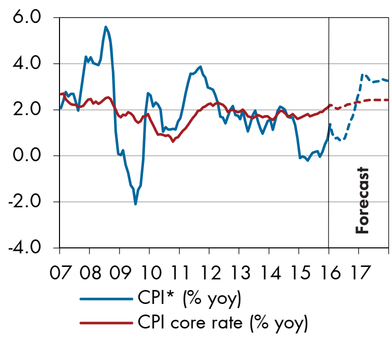
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Extremely stable upward path



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Inflation to step up significantly

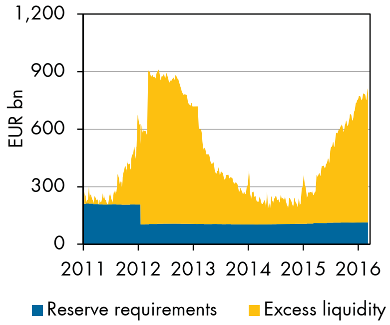


** Consumer price index*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Monetary policy as a negative factor for the banking sector

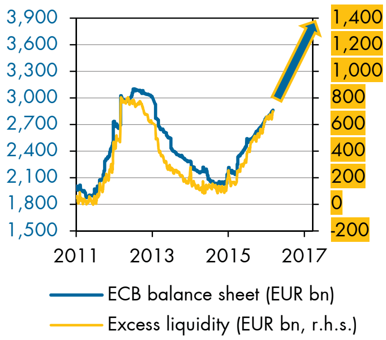
- **Negative deposit rates in conjunction with bond purchase programme leads to a tax on banks**
- **Monetary policy results in a reduction of risk margins**
- **ECB reduces proceeds from maturity transformation**

Excess liquidity rises



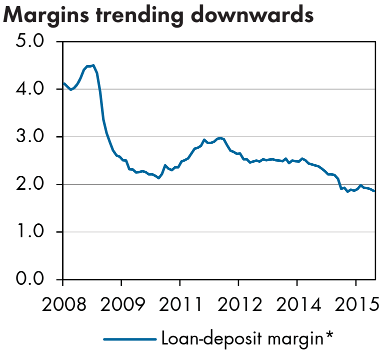
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

ECB causes excess



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Margins trending downwards



** Interest rate for loans to households for house purchase minus overnight deposit rate*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Along with the efforts by the central bank to ease monetary policy even more, its influence on the financial markets has also increased. These noble intentions, however, are accompanied by medium-term risks, such as the incorrect assessment of credit risks (risk of a lending bubble) and the rising dependence of the banking system on central bank refinancing (not a sustainable business model). For the **banking sector**, the combination of negative deposit rates and the bond purchase programme is also a direct **burden**.

Funds held at the ECB above and beyond the minimum reserve requirement are hit with the negative deposit rate. At the same time, the constant rise in the volume of surplus liquidity (amounting to around EUR 700 bn in mid-March) is a result of the ECB's bond purchase programme, because the funds channelled directly into the financial system by the central bank can only be passed on to economic agents, but necessarily remain present in the banking system in the form of central bank liquidity. The claim that banks could avoid the punitive interest rates by boosting their lending is incorrect. Even tripling the existing volume of loans (a boom in lending) would only reduce the surplus liquidity through the related increase in the minimum reserve requirement by just EUR 230 bn. Hence, the **combination of the bond purchase programme and the negative interest rate works like a tax, which the banking system as a whole is unable to avoid.**

Even if the banking system cannot avoid the punitive interest rate on the whole, individual banks do have the opportunity to get rid of the surplus liquidity by using idle funds at relatively unfavourable conditions. Within the banking sector, this leads to **constant downward pressure on margins**. In this regard, it should be noted that the aforementioned negative consequences are a bigger burden for the typical business model in particular (collection of customer deposits, lending to businesses and households, no investment banking). **Margins on existing loans are also under pressure**. The further the Euribor rates fall into negative territory, the closer the interest rate on variable-rate loans moves towards zero. However, a corresponding reduction of the interest rate costs on the financing side is not possible for the banks. Customer deposits cannot be introduced at levels below 0% on a widespread basis, as households in particular would simply shift over to holding cash. Financing using bank bonds has actually even gotten more expensive, due to the changes in the regulatory environment.

Along with the reduction in the risk margin, the **current design of monetary policy also cuts into proceeds from maturity transformation**. The measures of the ECB lead to constant pressure towards a flattening of the German yield curve. The German yield curve is the basis for the calculation of interest rate products in the financial world. All in all, the difference between short-term interest rates (generally deposits at banks) and long-term interest rates (generally loans from banks) is systematically declining and thus the banking system's remuneration from maturity transformation is falling.

Financial analyst: Gottfried Steindl, CIIA; RBI Vienna

Monetary policy remains tather expansive

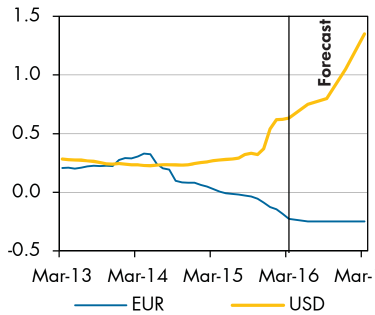
- **Euro area: Monetary policy to keep Euribor rates negative over one-year horizon**
- **USA: Fed only sees tightening of 50 basis points as appropriate through to year-end**
- **USA: We project interest rate hikes of 25 basis points in June and December**

At its March meeting, the **European Central Bank (ECB)** decided to significantly expand its accommodative monetary policy again. Amongst other things, the deposit rate was cut to -0.4% and the bond purchase programme was increased to EUR 80 bn monthly. In a generally unexpected move, corporate bonds were also included in the bond purchase programme. Another surprise by the central bank was the offer of long-term refinancing facilities for commercial banks, which are to bear negative interest rates in the case that the volume of lending expands. We judge the **current mix of measures as comprehensive**. In mid-March, surplus liquidity in the banking system already amounted to EUR 700 bn. With the increased volume of bond purchases, central bank liquidity, which exceeds minimum reserves, will increase by roughly another EUR 900 bn. Consequently, in our view, **money market rates** (Euribor) will continue to drift slightly lower in the coming months and **remain in negative territory over a one-year horizon**, at least. After all, the ECB signalled not to raise key rates for a longer period of time even after the end of the bond purchase programme. As the deposit rate represents a logical lower boundary for the short-term Euribor rates, there may be some modest flattening of the money market curve.

At its **meeting in mid-March**, the **US central bank left its key rate unchanged in a range of 0.25% to 0.5%.** Somewhat surprisingly, a small majority of FOMC members now expect that the key rate will only be increased by 50 basis points this year. In December 2015 there was still talk of monetary tightening on the order of 100 basis points. The reasons for the flatter-than-expected path of interest rates cited by Fed chair Janet Yellen were, amongst other things, the weaker global economic prospects, rising credit premiums for companies with good ratings, and an allegedly very low neutral (real) interest rate. Despite the very positive development of the labour market in recent quarters, Ms Yellen still sees underutilisation of labour market capacities. To back this argument, she pointed to the mildly elevated number of employees involuntarily working in part-time positions as well as the lack of any stronger increases in average hourly wages. It should be noted, however, that these two indicators in particular are currently difficult to interpret. In our view, there are numerous other indicators which refute the idea that there is still underutilisation on the labour market. According to Ms Yellen, the recent increase in underlying inflationary pressure (i.e. the faster rise in core inflation) can be ascribed to special factors and thus has little explanatory power. Here again, we beg to differ. **We have significantly lowered our forecast for the path of key rates**, since the central bank clearly wants to increase interest rates not at all or only very slowly, regardless of the emerging signs of overutilisation of economic capacities and the mounting inflationary risks. For this year, we thus project two interest rate hikes of 25 basis points (June and December). For end-2016, this would indicate a key rate range of 0.75% to 1.0%, instead of the previous call of 1.25% to 1.50%.

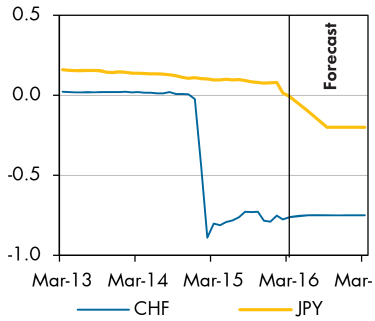
Financial analysts: Jörg Angelé, CIIA, Gottfried Steindl, CIIA; RBI Vienna

Money market rate 3M (%)



EUR 5y high 1.615; 5y low -0.242
USD 5y high 0.642; 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 0.200; 5y low 0.011
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Key interest rate (%)

	cur.	Forecast		
Countries	29-Mar[1]	Jun-16	Sep-16	Mar-17
Euro area	0.00	0.00	0.00	0.00
GB	0.50	0.50	0.50	0.50
Switzerland	-0.73	-0.75	-0.75	-0.75
Japan	0.10	-0.10	-0.20	-0.20
USA	0.50	0.75	0.75	1.25

[1]4:00 p.m. CET
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Money market rate 3M (%)

	curr	Jun-16		Sep-16		Mar-17	
	29-Mar[1]	Forc	Fwd	Forc	Fwd	Forc	Fwd
EUR	-0.24	-0.25	-0.27	-0.25	-0.29	-0.25	-0.30
CHF	-0.73	-0.75	-0.83	-0.75	-0.88	-0.75	-0.91
USD	0.63	0.75	0.73	0.80	0.83	1.35	0.98
GBP	0.59	0.60	0.59	0.60	0.61	0.60	0.67
JPY	-0.01	-0.10	-0.07	-0.20	-0.13	-0.20	-0.19

[1]4:00 p.m. CET
Forc ... Forecast, Fwd ... Forward
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Raiffeisen RESEARCH

Rising rates of inflation should induce higher yields

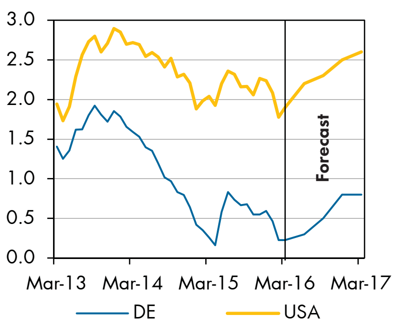
- **Euro area: Monetary policy puts downward pressure on yield level**
- **Euro area: Monetary policy leading to lower risk premiums**
- **USA: Flatter increase in yields in light of the Fed's change in position**

Value matrix bonds

Markets	DE		US		JP	
GDP growth	3	(4)	3	(3)	1	(1)
Inflation	1	(3)	2	(4)	1	(1)
Budget	1	(2)	3	(2)	4	(4)
Currency	3	(3)	1	(1)	2	(3)
Politics	1	(1)	3	(2)	2	(2)
Short rates	1	(1)	3	(4)	1	(1)
Technical	3	(1)	2	(2)	1	(2)
Average	1.9	(2.1)	2.4	(2.6)	1.7	(2)

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 3.573; 5y low 1.404
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Range yields 10y (%)

Countries	Jun-16	Sep-16	Mar-17
DE	0.0 - 0.5	0.2 - 0.8	0.5 - 1.0
USA	1.9 - 2.6	2.0 - 2.8	2.5 - 3.5
GB	1.3 - 2.0	1.4 - 2.2	1.6 -2.5
Japan	-0.3 -0.3	-0.4 -0.4	-0.4 -0.5

Source: RBI/Raiffeisen RESEARCH

The measures decided on by the ECB on 10 March once again increased the influence of monetary policy on the government bond market. Even before this, **yields on short-dated German government bonds were hovering near the deposit rate of -0.4%**. This situation will likely last until at least March 2017. As the surplus liquidity in the banking system will increase even more strongly than previously expected (from recently almost EUR 700 bn to a projected amount of up to EUR 1,600 bn by March 2017), the dampening effect on the maturity premium has risen. As a result, **through to mid-year** we believe that **yields on German five and ten-year government bonds have only have little potential to go higher**. After that, overall economic conditions will still probably only be reflected in government bond yields to a limited degree. According to our estimates, in the second half of the year the rate of inflation will depart more strongly from the recently negative figures and rise to over 1% yoy. This should lead to at least a minimal increase in yields on medium to long-term bonds and some steepening of the German yield curve. The increase in surplus liquidity will also have a **dampening effect on risk premiums** (spreads vs. Germany) on the government bond market. In this regard, we initially expect to see underperformance by Spain vs. Italy, due to the political situation. Furthermore, the spreads in Portugal will probably not manage to move back to the low marked before the new government. In France, Austria and Ireland, the pace of decline in risk premiums will probably slow down, due to the already very low levels.

Yields on 10-year US government bonds reacted to the Fed's mid-March meeting with a sharp decline. **We believe it is highly likely that yields will continue to increase in the coming months.** Economic data should indicate that the Fed's worries about possible economic risks are overdone. Furthermore, the core rate of consumer price inflation should continue to climb and it will become increasingly clear that the rate of inflation will rise strongly towards end-2016/early 2017 as the base effects related to oil prices fade, bringing inflation to levels well higher than anticipated by the Fed. In consideration of our revised forecast for the key rate, **the increase in yields should occur more slowly than previously assumed.**

Financial analysts: Jörg Angelé, CIIA, Gottfried Steindl, CIIA; RBI Vienna

Yields 10y (%)

Countries	29-Mar 2016[1]	Jun-16 Forecast	Jun-16 Cons[2]	Sep-16 Forecast	Sep-16 Cons[2]	Dec-16 Forecast	Dec-16 Cons[2]	Mar-17 Forecast	Mar-17 Cons[2]
Austria	0.36	0.5	n.a.	0.6	n.a.	0.9	n.a.	1.0	n.a.
Germany	0.15	0.3	0.3	0.5	0.4	0.8	0.6	0.8	0.7
France	0.42	0.5	0.8	0.7	0.9	1.0	1.0	1.1	1.1
Italy	1.25	1.2	1.5	1.3	1.5	1.5	1.7	1.6	1.8
Spain	1.45	1.5	1.7	1.6	1.7	1.6	1.8	1.6	2.1
GB	1.43	1.6	1.8	1.7	1.9	2.0	2.0	2.0	2.2
Switzerland	-0.34	-0.3	-0.3	-0.2	-0.3	-0.1	-0.1	-0.1	0.0
Japan	-0.08	-0.1	-0.1	-0.1	0.0	-0.1	0.0	0.0	0.0
USA	1.86	2.2	2.0	2.3	2.1	2.5	2.3	2.6	2.5

1) 6:00 a.m. CET; 2) Cons... Consensus estimates
Source: Thomson Reuters, Bloomberg, RBI/Raiffeisen RESEARCH

EUR/USD: continuing support for the dollar from central bank policy

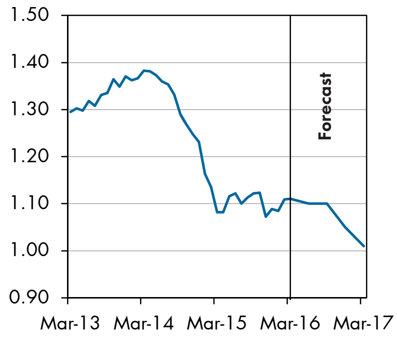
- **Even a modest rise in US rates should favour USD**
- **Parity between the euro and dollar remains a realistic scenario, but is delayed**
- **Interest rate hike in the UK postponed, GBP driven by the Brexit topic**

At its meeting on 10 March, the **ECB** once again eased it monetary policy to a massive degree. Amongst other things, the deposit rate was cut to -0.4%. At the same time ECB President Mario Draghi made it clear that this was probably the end of the road for rate cuts. With an eye to the EUR/USD exchange rate, this is relevant, because yields on two-year German Bunds will probably remain stuck at the current level of -0.45% for the foreseeable future.
At its meeting on 16 March, the Fed surprised the markets with its announcement that interest rates would probably only be increased by just 50 basis points through to the end of the year, instead of by 100 basis points as previously postulated. Consequently, yields on two-year US government bonds will probably rise more slowly in the coming quarters compared to what we had been forecasting. Furthermore, through to the end of the year the yield differential between two-year German and US government bonds will widen significantly less than previously expected. **Thus, we revise our year-end forecast somewhat higher and now expect to see a rate of EUR/USD 1.05 instead of a rate of EUR/USD 1.01.** It still appears possible that parity between the two currencies will be reached, but we now see the timing for this more towards the start of 2017.

For the UK financial market, the topic of a **Brexit** will remain the main focus until the referendum on 23 June. In any case, this will mean a level of **uncertainty**. Even now, the pound has weakened significantly compared to USD and EUR. If there actually were a negative vote on staying in the EU, the British pound would head to nearly record low levels beyond 90 pence versus the euro. An interest rate hike would be put off for longer and risk premiums in bond yields would widen. However, this is not our baseline scenario.
In the **next three months** we project that **GBP will remain weak** versus EUR. Along with the subject of a possible EU exit by the UK, economic worries and the dovish tone of the central bank governor will probably also weaken the currency. Concerns about the first two topics should dissipate **towards the end of the year,** which should then lend some **renewed strength to sterling**.

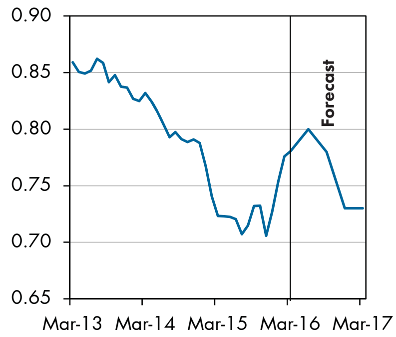
Financial analysts: Jörg Angelé, CIIA, Lydia Kranner; RBI Vienna

EUR/USD



5y high: 1.489, 5y low: 1.052
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

EUR/GBP



5y high: 0.903, 5y low: 0.694
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Currencies: FX per EUR

	29-Mar 2016[1]	Jun-16		Sep-16		Dec-16		Mar-17	
Countries		Forecast	Fwd[2]	Forecast	Fwd[2]	Forecast	Fwd[2]	Forecast	Fwd[2]
USA	1.12	1.10	1.12	1.10	1.13	1.05	1.13	1.01	1.14
Switzerland	1.09	1.08	1.09	1.10	1.09	1.10	1.09	1.12	1.09
Japan	127	123	127	125	127	122	127	117	127
GB	0.78	0.80	0.79	0.78	0.79	0.73	0.79	0.73	0.79
Norway[3]	9.48	9.32	9.51	9.23	9.54	9.13	9.56	9.04	9.58
Sweden[3]	9.26	9.31	9.26	9.25	9.25	9.19	9.25	9.13	9.25

[1] 6:00 p.m. CET [2] Fwd...forward rates [3] Consensus estimates
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

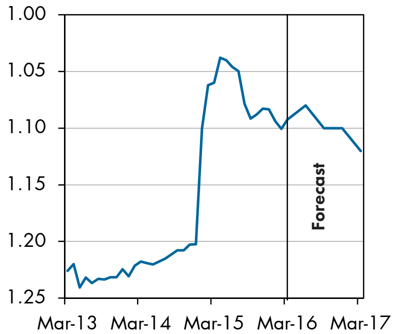
Please note the risk notifications and explanations at the end of this document

Raiffeisen RESEARCH

CHF and JPY: Central banks dominate

- CHF weakening only with SNB's help
- SNB leaves interest rate corridor unchanged despite moves by ECB
- Introduction of negative interest rates in Japan – no reason for JPY depreciation

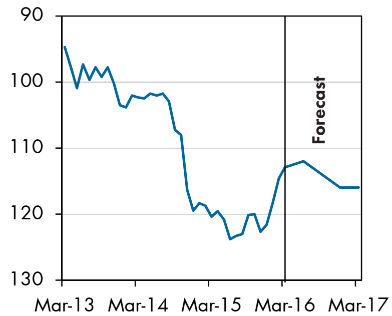
EUR/CHF*



** inverted scale*
5y high: 1.315, 5y low: 0.981
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

At its last meeting in March, the **Swiss National Bank** (SNB) announced that it would leave its negative interest rate corridor unchanged (-1.25% to -0.25%), in spite of the ambitious measures taken by the ECB. Along with the often discussed risks to financial market stability that stem from negative interest rates, another factor that supports this "inaction" by the SNB is that economic conditions in Switzerland have improved again and companies are obviously looking into the future with more optimism. That said, economic growth has not restarted on a broad basis and according to the SNB external risks are mounting again.
This implies no **change to the current strategy of the central bank**. We believe that Switzerland's central bank will continue to use intervention to counter any appreciation pressures which arise. Accordingly, the **EUR/CHF exchange rate should hover around the current levels for the months to come,** and by the end of the year CHF will probably only weaken to around 1.12 to the euro, with the ongoing support of the central bank.

USD/JPY*



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

The **Japanese central bank** (BoJ) surprised the markets in January, by **shifting the key rate into negative territory**. At the BoJ's meeting in March, the central bank went over to differentiate the system of negative interest rates. At the same time, it left its bond purchase programme unchanged at JPY 80 trillion per year. As a consequence of this, yields of the whole curve up to the 10-year segment dipped into negative terrain for the first time. The impact on the currency, which was obviously being hoped for, failed to materialise however. On the contrary, the yen has been steadily appreciating versus the USD since then. One of the reasons for this is also the dovish tone of US Fed chair Yellen.
It now appears that the trend of the JPY depreciation versus the USD has run its course. Even with a further reduction of the key rate further into the negative domain (which we expect to see in Q3), the effects on the exchange rate should remain limited. The increases in US interest rates and the resulting USD strength will have a stronger impact on the USD/JPY exchange rate. In light of our forecasts in this regard, the yen should weaken versus USD until year-end, but to a much lesser extent than originally anticipated. The EUR/JPY exchange rate is determined by the forecast for the EUR/USD exchange rate. Accordingly, the yen should appreciate to 122 yen per euro by year-end.

Financial analyst: Lydia Kranner; RBI Vienna

Historical volatility FX*

Countries	90 days	180 days
USA	11.32%	11.84%
UK	9.67%	10.31%
Switzerland	4.98%	5.90%
Japan	8.26%	9.43%
Norway	11.56%	10.84%
Sweden	6.40%	7.03%

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

Value matrix FX

Markets	USD		CHF		GBP		JPY	
GDP growth	1	(1)	3	(3)	3	(2)	3	(3)
Short rates	1	(1)	4	(4)	3	(3)	4	(4)
Long rates	1	(1)	4	(4)	2	(2)	4	(3)
Credibility	3	(3)	2	(2)	3	(2)	3	(3)
PPP	4	(4)	3	(3)	3	(3)	1	(1)
Current acc.	3	(3)	1	(1)	4	(4)	2	(3)
Technical	3	(2)	2	(2)	3	(2)	4	(3)
Average	2.3	(2.1)	2.7	(2.7)	3.0	(2.6)	3.0	(2.9)

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

Corporate bonds influenced by ECB moves

- **Total return in Q1 for investment grade was higher than last year**
- **Strong technical support prior to the ECB's expanded QE programme**
- **Default rates expected to increase above the long-term average**

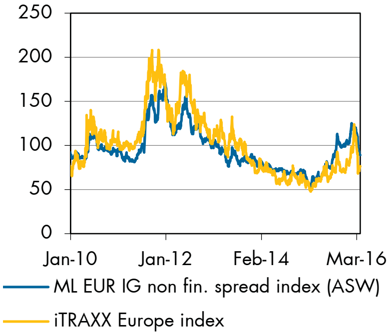
The EUR credit markets got the new year off to an extremely weak start, but then there was a turnaround in the development of total return at the end of January. While the total return on non-financial investment grade (IG) bonds and high yield (HY) bonds was lower during the first two months of 2016 compared to the same period of 2015, the IG segment's **performance**[1] of 2.8% was able to clearly beat the previous year's figure of 1.4%.

The path of performance for this year so far is hardly surprising, in light of the **announcement by the European Central Bank** on 10 March 2016 that the bond purchase programme would be extended to **non-bank EUR IG corporate bonds** starting from June, as **this move was not expected by the markets**. While Mario Draghi did not state any very specific parameters for the bonds which may be considered, we expect that these parameters will be oriented to the criteria in the programme for covered bonds (CBs) and government bonds. In our view, this would mean that, based on the established parameters (non-bank issuers from the euro area, EUR IG bond), no bank bonds would be bought, but that bonds issued by insurers would be eligible. Furthermore, we expect that the best rating will be considered (in the event of a split rating for an issuer or bond). As for maturities, similar to the situation with the government bond purchase programme, we can imagine that bonds with a maturity of 2 to 30 years and a maximum possible purchase of an ISIN in the range of 60% is possible (versus 70% for covered bond issues). As this results in a relatively well-defined **secondary market volume**, which we estimate at **EUR 620 bn and EUR 550 bn** (excluding subordinated bonds, at least EUR 100 mn outstanding per bond), the ECB will likely also be active on the EUR non-bank primary market. We also believe that the latter will occur due to further deterioration in secondary market liquidity.

For instance, the **development of the covered bond market before and after the ECB's purchase programme** could indicate the pattern for non-bank EUR IG corporate bonds. Starting from an outstanding volume of roughly EUR 800 bn upon launch of the first ECB covered bond purchase programme (out of a total of three programmes) in 2009 the monthly purchase programme for this asset class has fallen to about EUR 8 bn. In total, around EUR 310 bn would still be available for the ECB on the CB secondary market (taking into consideration the ISIN restriction). The **effect** of the purchase programme **on the liquidity** for EUR covered bonds is quite tangible. For example, in a publication[2] released on 11 March 2016, J.P. Morgan presumes that the EUR 8 bn in monthly ECB purchases of covered bonds is equivalent to around 80% of the secondary market volume in this asset class. Based on the data used, compared to 2014 the volume of the secondary market for CBs is thought to have halved by H2 2015. After the announcement and **prior to the start of the ECB purchase programme**, the development of risk premiums on covered bonds was very similar compared to that of non-bank corporate bonds. **Spreads rallied and activity on the primary market was brisk. After the actual start of covered bond purchases** by the ECB, the dy-

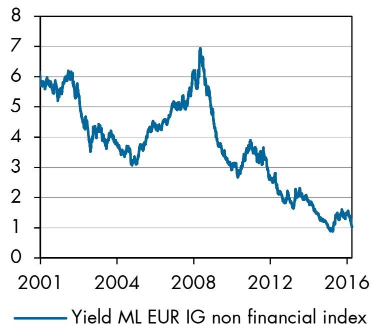
1) Performance calculations for the period 1 January to 22 March 2016 and 1 January to 23 March 2015.
2) J.P. Morgan: Flows & Liquidity, 11 March 2016

IG cash vs iTRAXX Europe (in bp)



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

Yield EUR IG non financial (in %)



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

Credit overview[1]

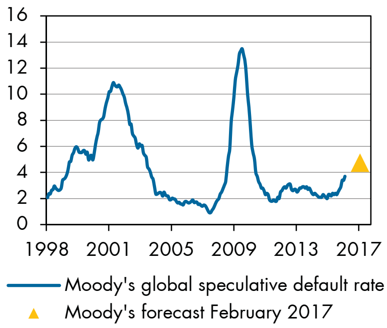
	Spread[2]	Yield	Duration
Corp. Bonds (IG)	123	1.0%	5.4
AAA	74	0.7%	8.0
AA	74	0.6%	6.4
A	98	0.8%	5.7
BBB	152	1.3%	5.0
Corp. Bonds (HY)	539	5.0%	3.3

Swapspreads (10y, in bp)

		Forecasts	
	29-Mar[1]	Jun-16	Sep-16
EUR	39	35	35
US	-13	-10	-5

1) data end of the day as of 29/03/2016
2) Option Adjusted Spread in bp
Source: Bloomberg, BofA Merrill Lynch, RBI/Raiffeisen RESEARCH

Global default rates*

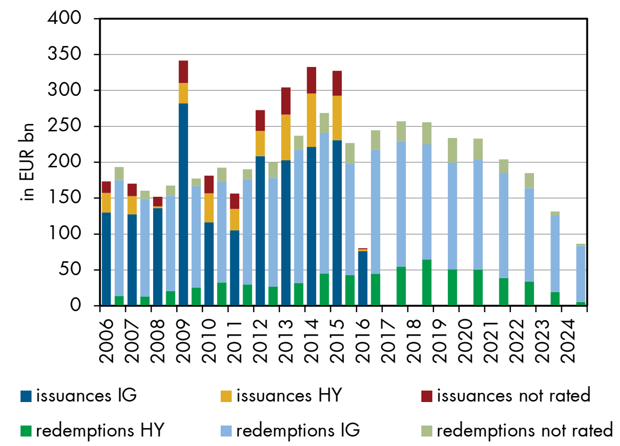


** in % of issuers*
Source: Moody's, RBI/Raiffeisen RESEARCH

namics of risk premiums weakened over the longer term, and furthermore after a while it was seen that more and more investors on the covered bond market were no longer willing to acquire expensive primary market issues at any price, since the ECB was also buying more and more new issues of covered bonds.

According to our expectations, the technical support being provided by the ECB will not last over the long term, assuming that the ECB's monetary policy easing measures (QE) do actually come to an end in March 2017. Furthermore, while primary market activity will likely be invigorated over the coming quarters, we believe that the proceeds from these issues will tend to be used for equity-friendly policies (share buybacks, dividends), traditional refinancing and increased M&A activity, and that consequently there will fail to be any broad-based investment measures to bolster companies' organic growth, as the ECB is hoping for. In view of the **low financing costs on the EUR corporate bond market, large US issuers will probably also continue to exploit this situation**. As we see it, investors' attention should return more strongly to companies' **fundamental data** again until the scheduled end of the QE measures. Although the lower ongoing financing costs will become visible over time, it appears that operating margins have peaked already. Along with the negative rating trend for non-financials, **default rates** in the high yield segment are also **on the rise again**, although the levels (global rate as of February 2016: 3.7%) are still lower than the 15-year average (global: 4.1%). Forecasting a (global) rate of 4.7% by February 2017, Moody's also projects this trend to continue. It hardly comes as a surprise that the sectors metals and mining and oil and gas are bearing the brunt of the pressure. With regard to these sectors, for the USA Moody's expects an increase in the default rate to 14.0% and 9.1%, respectively, by February 2017. For Europe, the rating agency projects a less dramatic increase to over 4.0% for each of these sectors.

Redemptions vs issuances*



** Issues till 29th of March 2016*
as of 30th March 2016
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Credit spreads*

	curr	Forecasts			
	29-Mar[1]	Jun-16	Sep-16	Dec-16	Mar-17
IG Non Fin	123	105	115	125	140
High-Yield	539	495	525	570	640
Financials Senior	104	95	95	105	115
Financials Subord.	265	240	240	260	295

*[1] data end of the day; * Option Adjusted Spread (in bp)*
Source: Bloomberg, BofA Merrill Lynch, RBI/Raiffeisen RESEARCH

All in all, looking ahead to the coming quarter, we anticipate strong technical support for the credit markets and for risk premiums on EUR (non-bank) corporate bonds, mostly thanks to the measures of the ECB. Accordingly, this should cause risk premiums to continue falling until the actual start of purchases. The purchases of IG EUR non-bank corporate bonds should also have positive transfer effects for the high yield segment. In our view, the BB rating segment stands to profit the most from this. Later in the year, we still expect to see rising risk premiums for both investment grade and high yield corporate bonds towards the end of 2016. In our view, this may be triggered by fundamental developments in the corporate sector, including a steady rise in default rates and worries about life after ECB QE. Discussions about a possible Brexit and the related vote on 23 June also harbour the potential for additional negative surprises. Accordingly, **for both IG non-financial and HY corporate bonds**, we have a **Buy recommendation over a 3-month horizon and a Sell recommendation for a 12-month time frame.**

Financial analyst: Jürgen Walter; RBI Vienna

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

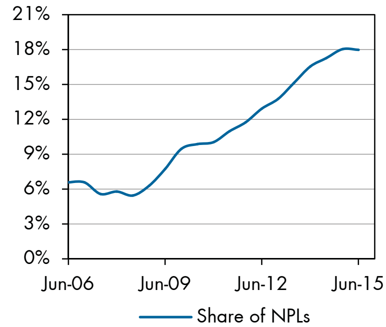
Italian “bad bank solution” more a curse than a blessing?

- **Italian “bad bank solution” envisages transfer of NPLs to SPVs**
- **Actual market value of NPLs sometimes deviates strongly from the book value**
- **Possible loss participation of senior bond creditors – Is this a game changer for Europe?**

The core of the problem is “crediti detoriati”, Italian for non-performing loans (NPLs). NPLs are loans which are 90 days or more overdue. Loans of this kind are a normal part of business, but can become a problem for banks, when the volume of non-performing loans compared to the total loan volume becomes too large. **In Italy, the ratio of NPLs has increased steadily since 2008 and now amounts to almost 18% of total loans.** In order to address this critical situation, the Italian finance minister has devised a “bad bank solution”, which is intended to allow banks to move problem loans off their balance sheets.

NPLs are assigned into three categories: a) bad loans (sofferenze), b) unlikely to pay (inadempienze probabili) and c) past due loans (esposizione scadute/sconfinati deteriorate). The bad loans are the part which should be transferred to the bad bank.

Continuous increase of the NPL share*



*of Italian banks gross debt
Sourcee: Thomson Reuters, RBI/Raiffeisen RESEARCH

How is the bad bank constructed?

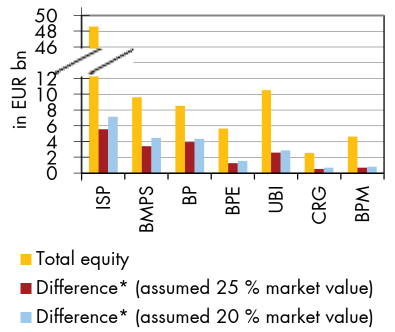
Based on their characteristics, the NPLs are grouped into pools and prepared for sale. In parallel with this, the bad bank is founded in the form of an SPV (special purpose vehicle), which takes over responsibility for the sale of the securities. Financing of the sale of the NPLs occurs using capital market instruments, with senior and junior tranches envisaged. While the junior tranches will not be outfitted with any guarantee, the bank can purchase from the state a guarantee for the senior tranche, insofar as this security is classified in the investment grade segment. To satisfy the rules related to state aid, the allocation to the banks is made on the basis of a comparable CDS.

The objective of this transfer to the SPV is to reduce the risk-weighted assets (RWA) and thus achieve an increase in the risk-weighted capital ratio. If the NPLs can be sold to the SPV at the current book value, the bank does not have to book any losses and thus reduces its risk profile. **While this sounds good in theory, in our opinion reality will not be so easy and the solution will probably not be especially successful.** Most banks measure their NPLs with book values between 37% and 62%. In order for it to be possible for the SPV to issue the bonds (in particular the junior tranche without a state guarantee), the purchase price must correspond to the actual market price. Based on the sales revenues for NPLs of four recently “rescued” Italian small banks (Baca Etruria, Banca Marche, Carife and CarChieti), there are indications that the market value of the loans is more around 20% to 25% of the original book value.

The difference between the book value and the market value of these loans can become an Achilles’ heel for the banks. Because the banks would have to sell the loans to the SPV at well below the book value and thus realise losses, which in turn would pose an additional burden for the already strained capital base. Consequently, a possible bail-in is becoming more likely in Italy, which would entail loss participation by senior bond creditors. **We view this as a possible game changer, which may lead to significantly higher risk premiums on bank bonds, at least throughout Europe (over a 12-month horizon).**

Financial analysts: Eva-Maria Grosse, Jörg Bayer, CFA; RBI Vienna

Further potential losses cons. NPLs



*between the book value on bank's balance sheet and the market value. This would be the immediate lost for bank in case of a assest sell.
Source: company data, Bloomberg, RBI/Raiffeisen RESEARCH

Overview NPLs of Italian banks

Bank	NPLs (bad loans) in EUR bn.	Coverage*
ISP	39.15	61.8%
BMPS	26.60	63.2%
BP	10.47	38.3%
BPE	7.11	58.2%
UBI	6.99	38.6%
CRG	3.51	60.4%
BPM	3.28	54.5%

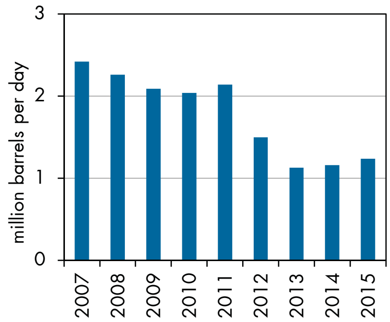
*portion of impaired loans to NPLs
Source: company data, RBI/Raiffeisen RESEARCH

Raiffeisen RESEARCH

Meeting of producers sparks exaggerated hopes

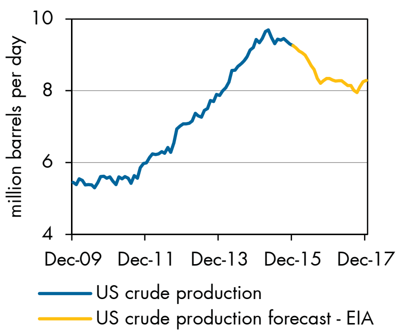
- **Oversupply to continue on the oil market in Q2 of this year**
- **Further decline in US shale oil production anticipated in Q2 2016**
- **We expect the Brent price to increase to USD 49 per barrel by the end of 2016**

Iranian oil exports



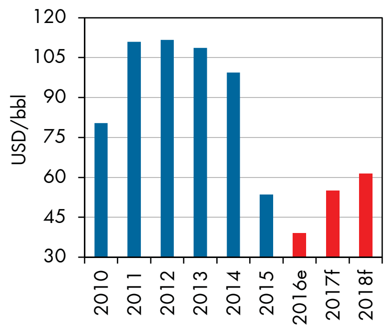
Source: IMF, Bloomberg, RBI/Raiffeisen RESEARCH

US oil production



Source: Energy Information Administration, RBI/ Raiffeisen RESEARCH

Oil price forecast - Brent



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Since mid-February, the **oil price** has rebounded strongly, with a gain of more than 30%. Along with generally improved sentiment on commodities, one major factor behind this development was that some major **producer countries**, including Russia and Saudi Arabia, reached a preliminary agreement on a **production ceiling** (measured against the production level from January 2016). The goal of the meeting on 17 April in Doha is to convince as many producer countries as possible to implement this strategy. However, some countries have already made it clear that implementation would depend on the participation of all OPEC countries. At the same time, Iran clearly rejected this undertaking for understandable reasons, as the country has just recently been allowed to export more oil for the first time in around four years after the removal of sanctions in mid-January. As a result, Iran would be one of the main losers from such a production ceiling. Apart from that, it is clear that **in the past this kind of agreement has not been implemented or not fully implemented** both within OPEC and also between OPEC and non-OPEC countries, such as Russia for example. It is also clear that the effect of such an agreement on the supply side would be relatively limited. Because within OPEC only Saudi Arabia has noteworthy reserve capacities and thus the ability to significantly expand its production level. For Russia, the International Energy Agency was already projecting declining oil production this year, due to waning production at some old oil fields. Accordingly, no major increase in supply was anticipated either during this year or the next. In the event of an agreement on a production ceiling, only Saudi Arabia would probably export less crude during the summer of this year compared to the first half of the year, as domestic consumption increases significantly in these months. Aside from the discussions about a production ceiling, it now appears relatively certain that a **curtailment of production**, which many market participants had been hoping for, **will not occur in the foreseeable future**. In particular, the Saudi oil minister Al-Naimi stressed several times in recent weeks that this would not be a viable option for his country.

We continue to expect an increase in the oil price during the second half of the year. While there will still be oversupply in the oil market in the second quarter, it is becoming more and more clear that **supply and demand will move closer to each other during the second half of the year**. As the number of active oil rigs in the USA fell to the lowest level since December 2009 in mid-March, **the projected decline in US production in 2016 will likely be stronger than anticipated** by many market participants at the start of the year. Nonetheless, caution is called for: although no upturn in the activity of shale oil producers is expected at oil price levels of around USD 40 per barrel, a rapid increase to a level of USD 50-55 per barrel could change the situation considerably. Overly rapid increases in US shale oil production would also counter the decline in the very well-stocked global oil reserves which is expected to start in late 2016/early 2017 and could thus jeopardise a long-term increase in the oil price.

Financial analyst: Hannes Loacker, CFA; RBI Vienna

Gold: Fed & ECB generate price gains

- **Speculation about Fed interest rates continues to be the main factor for the gold price**
- **Increased investment demand since the beginning of the year**
- **Outlook dampened by rising US yields and a stronger USD by year-end**

The price of gold ended 2015 down roughly 11% compared to the start of year. The dominant factor last year was speculation about the Fed's rate hike cycle. This is reflected by the **strong correlation between the gold price and yields on 10-year US government bonds**. The price of gold rose strongly and volatility increased at the start of the year as additional interest rate hikes were almost completely priced out. At the end of March, market expectations had turned around again, and Fed Funds Futures are pricing in a roughly 70% probability of higher interest rates by year-end. Nonetheless, there has not been any significant decline in the gold price, because the abundant monetary easing by the ECB at its March meeting and the related worries about asset price bubbles provided new support for gold. All in all, the price has increased by around 18% since the beginning of the year.

The **price gains early in the year** were probably mainly the result of **rising** (non-physical) **investment demand**. Gold ETFs registered net outflows equivalent to 138.3 tonnes in 2015, whereas only in Q1 2015 net inflows have been recorded (almost 23 tonnes). In contrast to this, in Q1 2016 net inflows amounted to around 300 tonnes, resulting in a massive increase in ETF holdings. A sharp rise was also recorded for net long positions since the historic low of just 13,000 contracts at the end of November 2015. Since then, an increase of around 216,000 contracts has been booked. In terms of physical demand, we do not expect to see any more significant impulses for Q1 and the rest of the year. Global jewellery demand, which accounts for more than one half of global gold demand, dropped by 3% last year. Jewellery demand from India and China was particularly important in this regard. Whereas quite positive growth rates are being registered in India, in China the sluggish economy is likely also reflected in sluggish jewellery demand. **In total, gold demand stagnated in 2015, while supply narrowed**. Recycling activity in particular is less and less profitable when the gold price moves close to the level of USD 1,000 per troy ounce. There may, however, be an increase in this activity, in line with the current rebound in the gold price.

All in all, **negative factors still play the dominant role** in our baseline scenario. Despite the weaker expectations of rate hikes in the USA, we project rising yields through to the end of the year, along with a stronger USD, and sluggish jewellery demand from the emerging markets. The **basic assumption** for our forecast of a falling gold price, however, is **at least one more interest rate hike by the Fed this year**, otherwise there will be higher upside risk for the gold price.

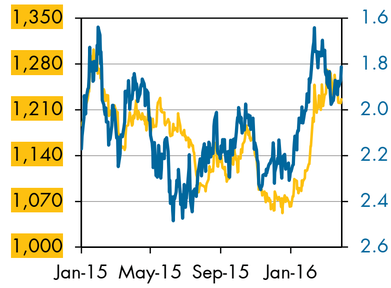
Financial analyst: Judith Galter, CEFA; RBI Vienna

Forecast gold price

	29-Mar[1]	Jun-16	Sep-16	Mar-17
USD[2]	1,242	1,150	1,100	1,050
EUR[2]	1,100	1,045	1,000	1,040
EUR/USD	1.13	1.10	1.10	1.01

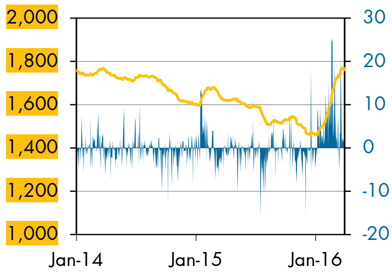
[1] data as of 11:59 p.m. CET
[2] per troy ounce
Source: Bloomberg, RBI/Raiffeisen RESEARCH

US interest rates speculations



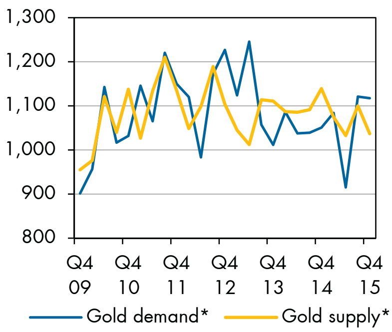
** T-Bonds 10 years, %, inverted*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

ETFs register strong inflows



** tons worldwide*
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Decreasing supply

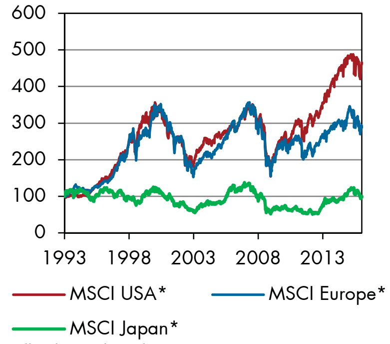


** tons worldwide*
Source: WGC, RBI/Raiffeisen RESEARCH

Fed moves and cautious optimism about the economy to dominate

- **US economy growing faster than potential**
- **Rate hikes by Fed should neither surprise nor cause too much dismay**
- **Expectations for earnings growth heading towards zero**

US stocks well ahead of the pack

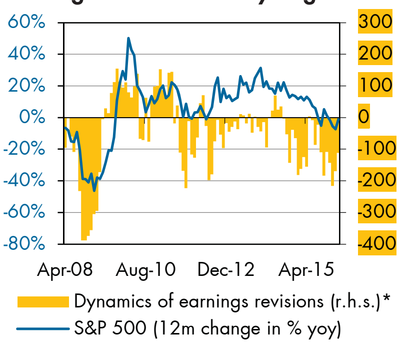


** all indices rebased to 100*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

US stock market investors are in a good mood. The leading US indices are currently back to levels where they were in the autumn of 2015. One supportive factor has been the very upbeat development of economic data and indicators since roughly mid-February, in particular (but not exclusively) in the USA. Moreover, in contrast to the previous quarters these improvements did not immediately trigger worries about interest rates. On the contrary: it was not only the Fed which recently demonstrated once again that central banks are continuing to do everything they can to stimulate economic activity, inflation, and ultimately the financial markets using cheap money. Another supportive factor was the sharp upward rebound in oil prices and prices for some other commodities. This gave a strong push for share prices in the energy sector in particular, but also for the materials, utilities, and industrials sectors. In our view, the generally restored confidence in global economic growth should have a benign effect on into the second quarter at least, which will also be supportive for the equity markets.

In our matrix of influencing factors, we still rate the factor **Politics** at just "3" for 2016. This has less to do with the political tensions with Russia and the geopolitically relevant risks, in particular in the Middle East, as neither of these factors really had a sustained impact on the equity markets in 2015. In November, however, presidential elections will be held in the USA, and election years tend to be relatively modest years for US stocks, looking at the track record. Furthermore, from the current vantage point, a possible strong performance by Donald Trump would tend to cause uncertainty among investors, rather than much joy about any potential economic liberalism he may promote.

Earnings revisions clearly negative



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

We leave the factor **Economy** at "2". Growth already looked quite robust in 2015. As for this year, we project that the US economy will grow well faster than potential, posting real growth of around 2.5%. Our optimism in this regard has been strengthened in recent weeks as some relevant leading indicators have started advancing towards higher levels. Furthermore, the labour market still looks very solid. The risks of a recession which were discussed on the market back in February are no longer a topic.

Value matrix stock markets

	Euro		Non-Euro		USA		Japan	
Policy	2	(2)	4	(3)	3	(3)	2	(2)
Economy	2	(2)	2	(2)	2	(2)	3	(2)
Interest rate trends	1	(1)	2	(2)	3	(3)	1	(1)
Earnings outlook	3	(2)	3	(2)	3	(3)	2	(2)
Key sectors	3	(2)	3	(3)	3	(3)	2	(2)
Valuation/PER	2	(2)	3	(3)	3	(3)	2	(2)
Liquidity	1	(1)	2	(2)	2	(3)	1	(1)
Technicals	3	(3)	3	(3)	3	(2)	3	(3)
Average	**2.1**	**(1.9)**	**2.8**	**(2.5)**	**2.8**	**(2.8)**	**2.0**	**(1.9)**

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

With regard to the **Interest trend** and monetary policy, our assessment of the matrix of factors still only allows for a sub-average rating of "3". Theoretically, there would be good enough reasons for the Fed to increase key rates a bit more strongly, in light of the aforementioned economic developments and the potential for mounting wage pressure, as a result of the robust conditions on the labour market. Nevertheless, despite all of this, the

Fed recently lowered its projections for rate hikes in 2016 from the previous four to two. We concur with this new roadmap for rate hikes, but the financial markets have not yet really fully priced this in yet. As a result, the potential for surprises is clearly in negative territory. In line with the interest rate hikes, government bond prices are very likely to fall, thus supporting the **relative attractiveness of equities** over the short run. Taking a slightly longer-term view, however, government bonds will increasingly generate stronger returns than the pure dividend yields of US shares are able to.

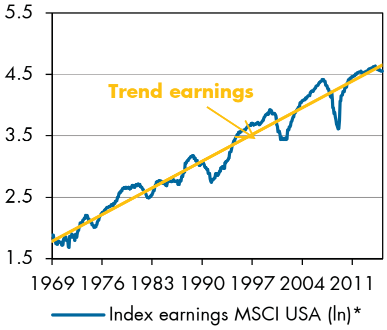
Based on the last quarterly reports, the sales figures posted by listed **US companies** look very robust and the **development of earnings** looked even stronger. Since early 2009, analysts' forecasts (which have often been cut significantly before the reporting season) have more or less been clearly beaten by the corporate results in almost every quarter. That said, the current consensus forecast for earnings growth in 2016 is now just around 2.5%, after the cumulated earnings of the S&P 500 companies broadly stagnated in 2015 compared to 2014. By way of comparison: three months ago, these expectations were still ranging around eight per cent. In light of the already record-high margins and the extremely cautious guidances issued by the companies, we may see these forecasts move further towards the zero mark. We leave the assessment of the factor "**Earnings development**" at the sub-average level of "3".

While the **valuation** of the broader US equity market certainly does not look overly high (especially compared to other asset classes), it remains higher than the valuation of most European equity markets, for example. We still only rate the estimated PER figures for the S&P 500 for 2016 (17.2) and for 2017 (15.2) at "3" in our matrix, in particular taking into account the figures for price/book value ratios and/or cyclically adjusted PERs, which are relevant for the longer term.

Summary: The relatively robust state of the economy in the USA and the related support for the high level of corporate earnings are positive aspects for the US equity market. On the other hand, this is precisely the basis for interest rate hikes and the likely appreciation of the US dollar (as opposed to depreciation). On the whole, we expect that prices of US stocks will initially continue to hold up well, but in particular on a local currency basis, stocks from the euro area or Japan often seem more attractive at this juncture. At the current price levels, our recommendation for US equities is **"Hold"**.

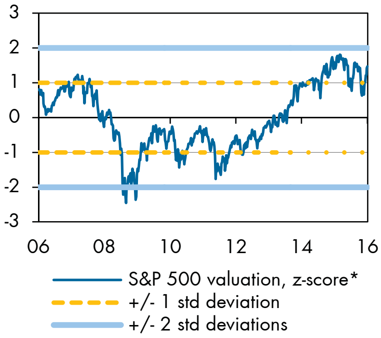
Financial analyst: Helge Rechberger, CEFA; RBI Vienna

Earnings slightly below trend



** for the last twelve months*
Source: Thomson Reuters, IBES, RBI/Raiffeisen RESEARCH

Valuation on the rise



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

Valuations

	PER		Growth	Div.
	16e	17f	16f	Rend.
Euro STOXX 50	13.4	11.9	0.5%	4.4%
DAX	12.5	11.4	-0.9%	3.3%
CAC 40	14.4	12.8	-2.2%	3.8%
AEX	18.8	15.0	-8.8%	4.0%
FTSE 100	16.4	13.8	-4.4%	5.3%
SMI	15.9	14.3	0.1%	3.9%
DJIA	16.6	14.6	0.0%	2.8%
S&P 500	17.2	15.2	2.4%	2.2%
Nasdaq 100	17.4	14.7	7.9%	1.0%
Nikkei 225	12.8	11.7	12.6%	2.4%

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

	29-Mar 2016[1]	Jun-16	Sep-16	Dec-16	Mar-17	Recommendation[2]	Favourite sectors
DJIA	17,633.1	17,800	17,000	17,200	16,800	**Hold**	IT
Performance		0.9%	-3.6%	-2.5%	-4.7%	YTD 2016	Consumer discretionary
Range		16,200-18400	16,000-18500	16,400-18000	16,000-18,200	1.2%	
S&P 500	2,055,0	2,070	1,980	2,020	1,950	**Hold**	Consumer discretionary
Performance		0.7%	-3.7%	-1.7%	-5.1%	YTD 2016	Utilities
Range		1,900-2,120	1,880-2,150	1,880-2,150	1,920-2,130	0.5%	
Nasdaq Comp.	4,846.6	4,900	4,700	4,850	4,600	**Hold**	Software
Performance		1.1%	-3.0%	0.1%	-5.1%	YTD 2016	Consumer discretionary
Range		4,700-5,200	4,200-5,200	4,400-5,200	4,200-5,100	-3.2%	

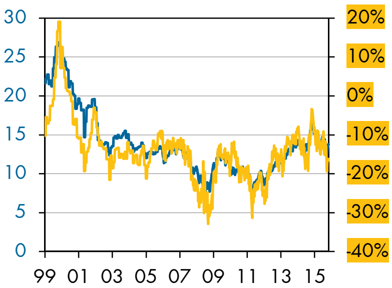
[1] 11:59 p.m. CET closing price on the respective main stock exchange
[2] Horizon: End of 2nd quarter 2016
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

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

More momentum from the ECB

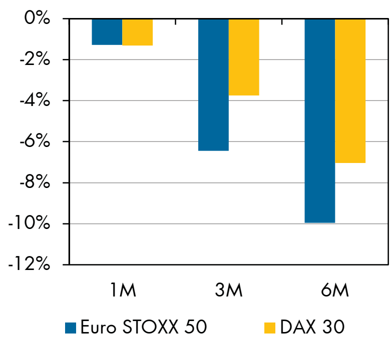
- Even more aggressive easing by the ECB
- Valuations moderate, earnings performance meagre
- "Buy": DAX 30, Euro STOXX 50

Euro area valuation moderate



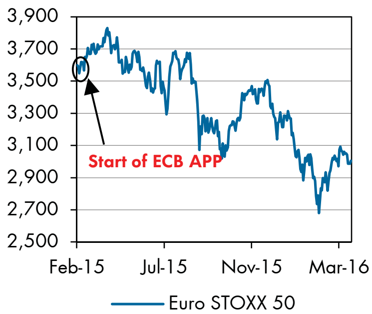
* 12 months forward price to earnings ratio
** valuation discount MSCI EMU vs. S&P 500
Source: Thomson Reuters, Raiffeisen RESEARCH

Restrained view on earnings



*Revision of consensus earnings estimates for 2016
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

No tailwind from ECB's QE so far



APP ... Asset Purchase Programme
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Q1 2016 was a turbulent time for equity markets in the euro area. Following the positive performance in 2015, investors were surprised in particular by the stock market turmoil in China and a string of lacklustre US economic data, leading to significant doubts about the outlook for global economic performance. Although these doubts were disproved to some degree in recent weeks, this was not sufficient to completely offset the losses which had accumulated since the beginning of the year.

Additional support was mainly provided by the central banks in this regard. While the Fed continues to delay tightening its interest rate policy, the **ECB actually opened up the liquidity floodgates even wider.** How will this factor likely play out in the future? On the one hand, there now appears to be no obstacles to an increase in the surplus liquidity in the euro area, and thus pressure on yields in the fixed-income investment segment will remain high. Consequently, it is quite conceivable that, at least over the short term, the hunt for yield will also **support the equity markets** in the euro area. On the other hand, **we do not believe that this will have any lasting impact**, because while the policy pursued by the ECB does mitigate systemic risks, it has failed to generate any tangible positive effects on the economy and inflation. Moreover, it has led to problems for many European financial companies and their business models (including low interest margins).

We only see **minimal support** for the euro-area equity markets coming **from economic performance** in this region. While our forecasts point to solid economic growth we do not believe that this will be sufficient to generate significant increases in sales and accordingly in earnings for the corporate sector. The trend in revisions also remains negative for the time being. For the **DAX 30** and the **Euro STOXX 50**, consensus is essentially looking for **stagnation in earnings**. Early in the year, gains of 6% were still anticipated.

Amidst the current zero-interest rate conditions, one aspect that does deserve attention in the equity segment is **valuation**. In absolute terms, these can certainly be described as **moderate**. Due to the more aggressive policy approach being taken by the ECB, the relative attractiveness compared to the already expensive bond segment will remain in place.

Summary: Equity markets in the euro area will once again be confronted with a number of different factors in the months ahead. News from China will probably neither have the same negative impact as it did back in January nor allow for any significant improvement in sentiment. In our opinion, operative developments in the corporate sector will not improve to any great degree. Valuations should continue to be a supportive factor, although we see the action by the ECB as the most important factor. Although we take a critical view of the long-term effectiveness of the central bank's policies, the equity markets in the euro area will probably still profit slightly, in particular due to the prospects that alternative investments will become even more expensive and surplus liquidity will rise even more. Accordingly, we issue a **"Buy" recommendation for the DAX 30 and the Euro STOXX 50.**

Financial analyst: Johannes Mattner, CFA; RBI Vienna

Main topic on the market: Brexit

- **Interest rates still not a topic**
- **Vote is key for UK: Yes or No to Brexit?**
- **Equity markets will remain volatile**

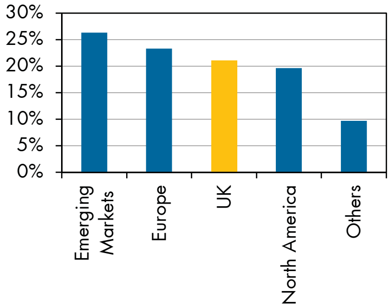
The **turbulence** on the international capital markets **also hit the non-euro countries**, albeit divergent developments were seen. One positive aspect was the UK equity market, which was able to put in much better performance relative to the Swiss equity market. The performance of the FTSE 100 was also bolstered by the large depreciation of the GBP exchange rate and a rebound in commodity prices during the quarter.

In our matrix of influencing factors, we once again downgrade the factor "Politics" by one point, mainly justified by the upcoming **referendum** (23 June) on whether the UK will stay in the EU. We see no need to make changes to the factors "Economic developments" and "Interest rates", even though the prospects for economic activity for this year are somewhat more muted in both of the two countries. Negative interest rates will remain in place in Switzerland, while rate hikes are a taboo subject in the UK now. In respect of the **development of earnings** of the companies in the SMI and FTSE 100, we are hoping for some **modest support**. Even though revisions are still negative, consensus is expecting the Swiss equity market to post mildly positive earnings growth in 2016. Analysts' estimates for the earnings performance of UK firms still feature declines. In our view, the impact of a Brexit on the FTSE 100 should remain limited over the medium term. With regard to major international corporations (80% of sales are generated outside of the UK), factors such as the GBP exchange rate, commodity price developments, and the economic performance of certain important sales markets play a much stronger role compared to locally active companies (which are mainly listed in the FTSE 250), and this latter group of firms would suffer more from any further weakening of economic activity. Some of the fundamental indicators are also supportive for the FTSE 100 (Price/Book ratio of 1.6; 2016 dividend yield of 5.3%) as we see these as being very attractive at the current levels. That said, the P/E ratio can no longer clearly be described as attractive.

Summary: Due to the widely ranging scenario analyses, we project that volatility on the equity markets will remain. Nevertheless, over a one-quarter horizon we expect mild increases in the indices.

Financial analyst: Christine Nowak; RBI Vienna

UK sales exposures less relevant



Sales exposure by region for the FTSE 100
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Sector performance (%)

STOXX Europe	16-12-15 until 29-03-16	5y*
Oil & gas	-1.0	-5.9
Industrials	-1.3	4.9
Basic materials	-1.3	-3.3
Consumer goods	-2.9	12.1
Utilities	-3.4	-1.8
Technology	-3.7	8.0
Consumer services	-4.9	8.5
Telecommunications	-5.2	3.0
STOXX Europe 600	-6.6	4.0
Health care	-10.7	13.2
Financials	-14.8	-0.7

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

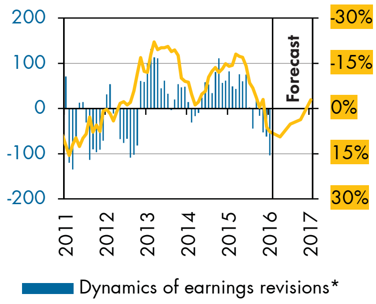
	29-Mar 2016[1]	Jun-16	Sep-16	Dec-16	Mar-17	Recommendation[2]	Favourite sectors
Euro STOXX 50	3,004,9	3,110	2,950	3,100	2,900	**Buy**	IT
Performance		3.5%	-1.8%	3.2%	-3.5%	YTD 2016	Consumer discretionary
Range		2,750-3350	2,700-3,300	2,750-3300	2,700-3,300	-8.0%	
DAX 30	9,887.9	10,300	9,800	9,900	9,500	**Buy**	Consumer discretionary
Performance		4.2%	-0.9%	0.1%	-3.9%	YTD 2016	Industrials
Range		9,000-10,800	8,700-10,500	8,800-10,600	8,700-10,300	-8.0%	
FTSE 100	6,105.9	6,250	6,050	6,300	5,900	**Hold**	Consumer staples
Performance		2.4%	-0.9%	3.2%	-3.4%	YTD 2016	
Range		5,600-6,600	5,500-6,400	5,600-6,500	5,500-6,400	-2.2%	
SMI	7,797.7	7,950	7,750	8,100	7,600	**Hold**	Consumer discretionary
Performance		2.0%	-0.6%	3.9%	-2.5%	YTD 2016	
Range		7,100-8,500	7,000-8,300	7,200-8,400	7,200-8,400	-11.6%	

1) 11:59 p.m. CET closing price on the respective main stock exchange
2) Horizon: End of 2nd quarter 2016
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Still room for the recovery to continue, but...

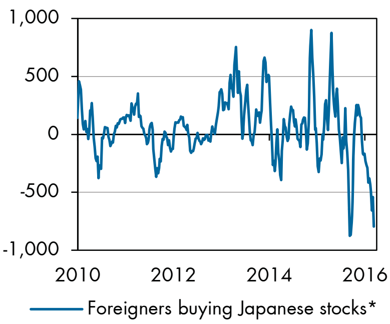
- **Recovery intact for now, but risks on the rise in H2**
- **Liquidity and moderate valuations as supportive factors**
- **Earnings growth decelerating, but remains solid**

JPY could cause headwinds



Source: Bloomberg, RBI/Raiffeisen RESEARCH

Japanese stocks "oversold"



** net, in bn JPY (4-week-average)*
Source: Ministry of Finance, Bloomberg, RBI/Raiffeisen RESEARCH

Nikkei 225

Recommendation:*:	29-Mar[1]	Favourite sectors
Buy	17,104	Consumer discr.
		Telecommunications

Forecasts

Jun-16	Sep-16	Dec-16	Mar-17
17,700	16,900	17,600	16,100
3.5%	-1.2%	2.9%	-5.9%

Range

Jun-16	Sep-16	Dec-16	Mar-17
16,000-18,400	15,700-18,500	16,000-18,600	15,500-18,500

[1] 11:59 p.m. CET closing price on the respective main stock exchange
** Horizon: End of 2nd quarter 2016*
Source: RBI/Raiffeisen RESEARCH

The performance of the **Nikkei 225** was lacklustre early this year, with worries about a global economic recession and mixed Japanese economic data as the main culprits behind this.

Some of the risks have now been priced out, but we continue to take a cautious view of **economic activity** as a factor in 2016. In respect of **liquidity**, however, we feel that conditions for equities will remain benign, as the central bank keeps pumping JPY 80 trillion into the financial system annually (amongst other things, via its purchases of equity ETFs). We also expect technical support from the buying side as a result of intensifying corporate share buyback programmes. By contrast, the Bank of Japan's decision to lower the deposit rate had a short-lived effect. While it is possible that interest rates will be eased further, the efficiency of this measure is increasingly called into question by investors. Compared to the US dollar, the yen should tend to depreciate somewhat, due to our expectations that the interest rate differential will widen (we project two hikes by the Fed this year), but in a year-on-year comparison, the exchange rate of the yen should strengthen, for the first time since 2012 (see chart).

This is also one of the reasons why the latest reporting season was disappointing and analysts' earnings revisions for the broad Japanese equity indices have mostly been downwards. This trend should continue, in our opinion. Nevertheless, at the aggregate level we anticipate significant gains in **corporate earnings**. Other factors supporting rising profits include the cut in corporate taxes and the increased profitability of Japan's corporate sector. In light of the relatively low level of corporate debt (by international standards), Japan's companies also have considerable scope for using external capital to continue improving the return on equity. Based on historically relevant indicators, the valuation of the broader Japanese equity market has become much more attractive again due to the sharp correction, and on the whole it appears to be moderate. The weighting of Japanese equities was recently cut back sharply in the portfolios of international investors. This is also reflected in the massive sales of Japanese stocks by non-residents. Both of these factors suggest that the **Nikkei 225** probably has the worst behind it.

Moderate valuations, abundant liquidity, and – by international standards – solid earnings growth imply that the **rebound** will continue for the "oversold" Japanese leading index as we move towards early summer. Support for this could also materialise in the form of early elections to the lower house (elections to the upper house occur on a regular basis). PM Abe would stand good chances of winning such elections and could thus initiate a delay in the increase in VAT planned for 2017. Despite all of this, however, we see little grounds for too much euphoria about Japan's equity market, as we believe that the lacklustre economic conditions in the country will move more back into focus in the second half of the year.

Financial analyst: Christian Hinterwallner, CEFA; RBI Vienna

Differentiated stance needed for the complex environment

- **Robust development of consumption positive for consumer sector stocks**
- **Anticipated path of commodity prices as a negative factor for energy and materials sector assets**
- **Reserved positioning on financials**

Thanks to the good prospects for earnings growth (2016e: 11%) for **consumer discretionary stocks**, we expect this sector to outperform in the next three months. This is supported by the forecast strength in private consumption, which is being bolstered by the low oil prices. In this regard, we see the automotive industry as particularly attractive, as it is profiting both on the demand side and the input side (commodities), and also appears to have attractive valuations. **Overweight**.

The global **industrials** sector is currently profiting from the improved sentiment among customers in the fields of materials and energy. At the same time, industrials are also benefiting from lower energy input costs in absolute terms. Consequently, since end-2015 the sector was able to perform better than the MSCI World Index. Based on our underlying assumption that the international economy will continue to stabilise in the immediate future, the industrials sector should be able to post above-average performance at least until mid-year. This outlook is also supported by good financing conditions and the various cost-cutting measures implemented by the companies. **Overweight**.

In the past quarter, global **consumer staples** outperformed the overall market, although developments within the sector varied. Companies continue to face significant challenges (such as deflation and weak performance in emerging markets). The strong impact of supportive factors such as commodity prices and price increases is fading, but with the help of additional efficiency-boosting measures the companies should be able to achieve improvements in margins over a one-year horizon. Even though valuations already look quite ambitious, we maintain our recommendation: **Overweight**.

The **technology** sector is currently suffering from the consequences of slow growth in smart phones, tablets and PCs and the resulting decline in demand, as well as from inventory reduction in the semi-conductor industry and in hardware. We expect a rebound and an end to inventory reductions in the coming weeks. At the moment, the software industry is holding up the best, with cyber security and cloud computing doing very well in particular. Following the recently modest performance of the IT sector, we anticipate a tangible recovery, in part due to the valuations which are back to attractive levels again. **Overweight**.

The new year got off to a very subdued start for the **healthcare sector**. This was mainly due to the mixed reporting season results posted by the companies. Investors were hoping for better prospects for 2016. We assume that, as usual, the companies are taking a conservative view of the new year (with moderate expectations). For pharmaceutical companies, the main determinant on the equity market will be the rhetoric in US politics. After the correction for this sector, we view valuations as being attractive again. Consequently, our recommendation remains: **Overweight**.

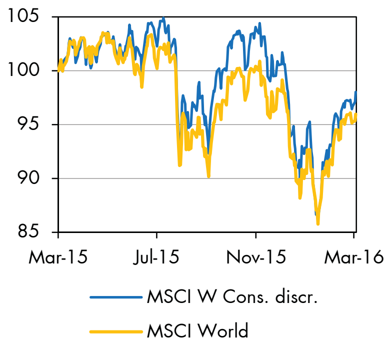
In the **US telecom secto**r, market consolidation is now only being driven by convergence, due to the anti-trust concerns of the US regulatory authorities. In Europe, market consolidation is still a topic, although there have recently been strong signs of stricter approach by the regulatory authorities, in the wake of the early euphoria. Furthermore, a paradigm change is apparently under way: the flagship product of the past, voice telephony, is gradually being superseded by

Sector performance (%)

MSCI Sectors	16-12-15 until 29-03-16	5y*
Utilities	7.8	3.5
Telecoms	5.1	5.8
Cons. staples	2.7	11.3
Energy	1.9	-6.2
Materials	1.9	-4.6
Industrials	0.7	6.4
IT	-2.2	10.8
MSCI World	-2.9	6.2
Cons. discr.	-3.9	12.4
Health care	-8.0	14.0
Financials	-9.2	3.4

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

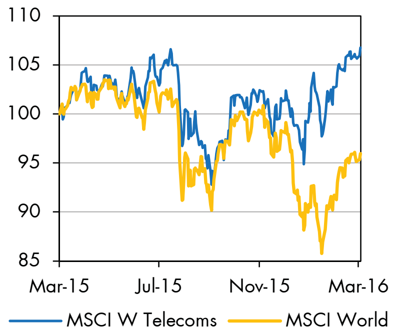
MSCI World Consumer discretionary



MSCI W Cons. discr.	5y high	198.95	5y low	86.66
MSCI World	5y high	1368.40	5y low	754.72

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

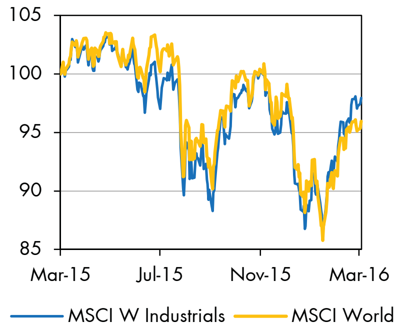
MSCI World Telecoms



MSCI W Telecoms	5y high	75.88	5y low	48.79
MSCI World	5y high	1368.40	5y low	754.72

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

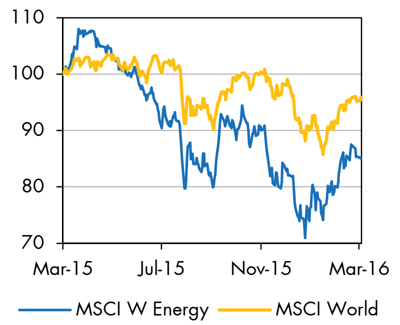
MSCI World Industrials



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

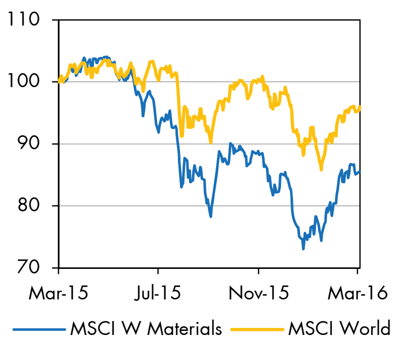
MSCI World Energy



MSCI W Energy	*5y high*	*294.64*	*5y low*	*156.84*
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*	*235.95*	*5y low*	*154.39*
MSCI World	*5y high*	*1368.40*	*5y low*	*754.72*

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

data services, and with the international trend towards tower companies, own infrastructure is becoming somewhat less important. As compensation for the final abolition of roaming fees in mid-June 2017, it is possible that network neutrality will be "softened" up somewhat, according to the latest draft of the EU regulation (cf. special services, etc.). **Overweight**.

The ECB's ongoing expansive monetary policy has a beneficial effect on financing for European **utility** companies in particular. This is true overseas as well, as the very capital-intensive utilities sector is still benefiting from the extremely low interest rate levels. In Europe in particular, however, the development of generation margins and political conditions continue to be less than satisfactory. On the other hand, one positive aspect in our opinion is that the struggling German utilities E.ON and RWE may obtain some relief in relation to legacy burdens from nuclear power operations, as part of the transformation of the energy system in Germany. It is possible that their legal actions before the German constitutional court in relation to the 13th amendment of the atomic energy act (stipulating the early shutdown of reactors and cancellation of residual generation rights) could lead to a broader compromise with the government, in which they would withdraw their suits and be released from further disposal obligations in return. **Overweight**.

For the year to date, the **energy sector** (oil and gas) has been one of the best-performing sectors. This was mainly due to the sharp increase in the oil price in March, which led to a major improvement in investor sentiment. Surveys show that fund managers in particular have now significantly reduced their long-standing underweighting of this sector. However, as we expect to see another temporary setback for the oil price in the second quarter as a result of the ongoing oversupply on the market (see page 22), we also project sub-average performance for the oil and gas sector over the next three months. **Underweight**.

The global **materials sector** performed better than the market as a whole in the past quarter. Amongst other things, this was due to the good performance of mining and steel companies. One factor in this regard was the recovery in iron ore prices. Basically, however, we would be suspicious of this last factor, as we do not see any fundamental justification for this development. With regard to chemical industry companies, business conditions do not seem to be improving yet. Slack demand and excessive production capacities at some companies are negative factors. All in all, we thus do not believe that the latest increases in prices in this sector will prove to be durable. **Underweight**.

We maintain our reserved fundamental stance on **financials**. Regulation of the banking sector will be tightened even further (not only in Europe), and the Solvency 2 regulations for European insurers have been in force since the beginning of the year. Over the medium to long term, the intense competition in some segments of the financial sector (e.g. in the reinsurance business) will increase with the appearance of new competitors, including companies from the technology sector. Additionally, the low level of interest rates and legal resolution of past errors are still negative factors, accompanied by what was probably a lacklustre performance by investment banking in the first quarter. **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

China's balancing act goes on

- **Government committed to stable growth as the top priority**
- **Chinese equities supported by the state, but falling profits hamper the outlook**
- **CNY weaker versus USD during the year, but projected to be stable versus the currency basket**

China ended 2015 with quarterly GDP growth of 6.8% yoy, bringing the rate for the year as a whole to 6.9% yoy. With this result, the growth target of "around 7% yoy" was achieved. As expected, a **target of 6.5% – 7% yoy** was announced **for 2016** at the National People's Congress, which convened in early March. This was the first time that a range had been stated as a goal, underlining the gradual shift away from quantitative growth targets. At the same time, the goal of doubling GDP and per capita income by 2020 compared to 2012 was kept, with this corresponding to an annual growth rate of 6.5% yoy. Along with other market observers, we do not believe that these growth figures are very realistic. Nevertheless, the goal underscores the **government's commitment to stable economic growth**, which is also reflected in the increase in the targeted budget deficit of 2.3% of GDP for 2015 to 3% for this year. At the same time, greater emphasis was also placed on the restructuring of state companies and debt restructuring programmes of local governments. The Chinese economy got the new year off to a somewhat subdued start. After quite weak purchasing managers' indices for both manufacturing and services in February, the other economic indicators for the first two months of the year were also somewhat disappointing. It was probably mainly seasonal effects that played a role in this, but we will be closely monitoring the future performance of the services sector.

Despite the limited possibilities for capital transactions with foreign countries, in the past there has been **a high level of correlation between the yield differentials** of 2-year Chinese and US government bonds **and the USD/CNY exchange rate**. We expect to see rising yields in the USA and falling yields in China, due to further easing of monetary policy, and this would suggest **additional weakening of CNY versus USD**. However, EUR, JPY, and other EM currencies should also weaken against USD. Accordingly, we project a stable trend for CNY versus the trade-weighted CFETS currency basket, as announced by the central bank.

Chinese equities started the new year with more massive sell-offs, which was to a large extent due to the end of the selling ban for large investors, which was later extended. At the National People's Congress, **the Chinese government promised to continue providing support for the equity markets**. An initial step in this direction appears to be the re-introduction of margin trading for equity purchases. Falling profits (2016e: -6.2% yoy) due to lower turnover growth and rising wage costs are a factor hindering any outperformance of Chinese equities against the developed markets in Q2, despite the attractive valuation (PER: 6.7).

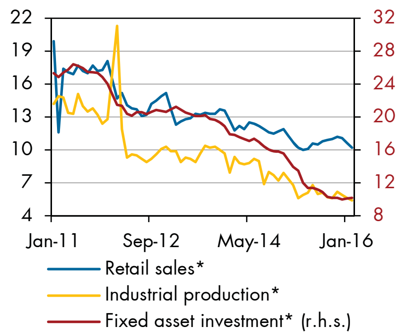
Financial analyst: Judith Galter, CEFA; RBI Vienna

Forecasts

China	2014	2015	2016e	2017
GDP (% yoy)	7.3	6.9	6.5	6.0
CPI (% yoy)	2.0	1.4	2.0	2.5
	29-Mar*	Jun-16	Sep-16	Mar-17
USD/CNY	6.51	6.60	6.65	6.70
Key rate (%)	4.35	4.10	3.85	3.85
HSCE	8,726.9	8,900	8,750	8,900

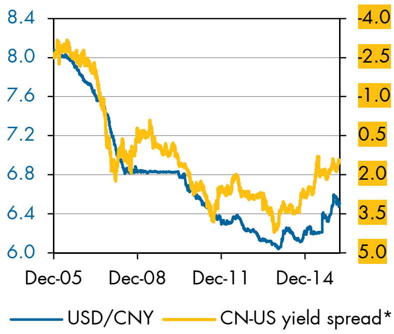
*11:59 p.m. CET closing prices on the respective main stock exchange
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Economic indicators somewhat weaker



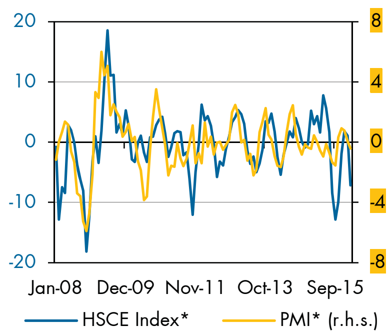
* % yoy
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

High correlation



* 2y government bonds, r.h.s.
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

HSCEI to catch up?



* % mom., 3m avg., Caixin PMI
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Stable economy – Volatile stock markets

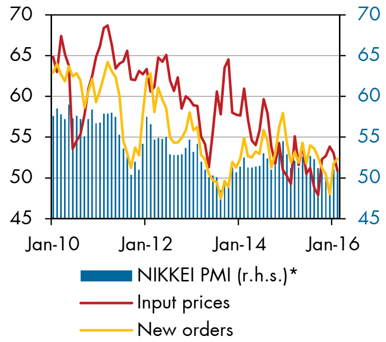
- **Austere budget plans and low inflation open up leeway for the next round of key rate cuts**
- **Industrial production and investment in capital goods at very weak levels**
- **Banking stocks weigh on SENSEX performance**

Forecast

	29-Mar*	Jun-16	Sep-16	Mar-17
SENSEX	24,900	25,700	25,200	26,700

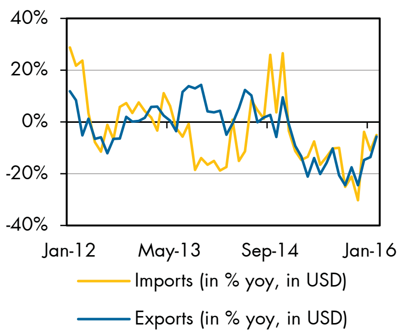
*11:59 p.m. CET closing prices on the main stock exchange
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Manufacturing still on the rise



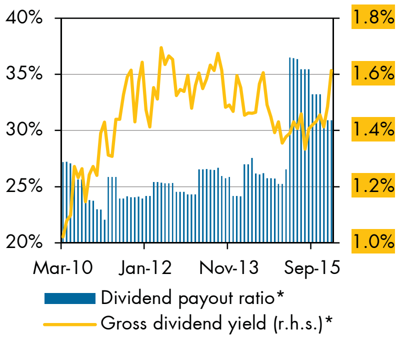
* manufacturing industry
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Foreign trade remains weak



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Attractive dividend yield



* of the stock market index SENSEX
Source: Bloomberg, RBI/Raiffeisen RESEARCH

In recent months, economic growth in India continued at a relatively stable rate, although setbacks were registered in some areas. In **Q4 2015, real GDP** expanded at a **rate of 7.3% yoy**. This was mainly borne by manufacturing, along with some service industries (financial services, transport, properties, etc.). Furthermore, strong growth was seen again in domestic consumption, after weak results last year. Thanks to robust conditions in new orders, the **purchasing managers' index for manufacturing hit 51.1 points** in February. Industrial production fell by 1.5% yoy in January. In this regard, one striking aspect was the declining production volume of capital goods (-20.4% yoy) and fast-moving consumer goods (-3.1% yoy). The former decline highlights the slack investment demand in the country, in an environment characterised by modest overcapacities. **Inflation (CPI)** only rose by **5.18% yoy** in February. The budget proposal of the government for the coming fiscal year is also positive, as it calls for a reduction of the expenditure/revenue ratio from the previous level of 143% (2015) to 137% in 2017. India's foreign trade, however, continues to have a negative impact on economic performance. In February, exports fell by 5.7% yoy while imports dropped by 5% yoy. The latter was driven strongly by declines in gold imports (-30% yoy) and oil imports (-21.9% yoy).

Since the start of the year, the **Indian stock market index SENSEX** has posted modest losses of 4.7% (in local currency). One particular negative factor was the performance of financial institutions, as a result of the poor reporting season and the rising need for provisions for non-performing loans. In contrast to this, materials and technology sector companies, which have a high weighting in the SENSEX, have been able to post some isolated gains since the beginning of the year. In the second half of the past year, **increasing deleveraging activity was seen amongst Indian share companies** and this led to a steep decline in investment spending. This development was necessary in light of the very high level of net debt for many share companies in India, in order to ensure sustainable profitability in the future.

In the current economic environment, we see a rather **limited risk of further price losses** on the SENSEX. However, if the deleveraging process by Indian share companies does not continue at a sustainable level, this could impair the projected corporate earnings growth and thus lead to corrections in share prices.

We believe that the **chances for moderate increases in asset prices** are much higher for the Indian equity market. This is also backed by the modest increase in liquid funds (free cash flow) and an attractive dividend yield (2016: 1.6%). Another positive factor is the historically moderate valuation (PER: 18.6) of the stock market and its low level of beta (0.431) with the rest of the emerging market equity indices.

Financial analyst: Thomas Keil; RBI Vienna

Economy slumps yet again, but notable gains for the equity market

- Weak domestic consumption and rising rate of unemployment still negative factors
- Focus on corruption affairs and mounting political uncertainty
- Rebound on the equity market due to rising oil price and political speculation

Brazil's economy has not been able to recover in recent months. **Economic output** in this crisis-torn country **contracted** by a whopping **5.9% yoy in Q4 2015**. In large part, this was mainly due to weak orders in manufacturing and steep declines in retail sales. The rising political uncertainties are undermining the investment climate, and investments are expected to continue falling this year, due to the high level of real interest rates. **Retail sales contracted by 10.3% yoy** in January 2016, suffering in particular from the falling real incomes of households and the rising rate of unemployment. The outlook for retail sales remains subdued in 2016, as consumers' purchasing power is still undercut by the high inflation (IPCA CPI) and falling growth rates of nominal wages. On the other hand, Brazil's external trade is looking much stronger. In February, exports came in at USD 13.35 bn (+10.4% yoy), while imports amounted to USD 10.31 bn (-5.9% yoy). In the same month, a **current account deficit of 2.9% of GDP** was recorded.

The **performance of the Brazilian equity market index BOVESPA** has been very volatile since the start of the year. Following the global sell-offs on the financial markets early in the year, a strong rally has been seen for Brazilian stocks since the end of January. Share prices were supported in particular by the **increases in the price of oil** (Brent) and industrial metals. At its last meeting, the central bank took a very dovish stance, and as a result the **swap-rate curve** flattened out a great deal. Bank stocks experienced gains thanks to the market pricing in initial rate hikes for 2017. **As political uncertainties in the country came to a head**, the BOVESPA surged higher, after the former president Luiz Inácio Lula da Silva was interrogated following a raid and linked as a suspect in a bribery scandal (Operação Lava Jato). Additionally, the Partido do Movimiento Democratico Brasiliero (PMDB) announced that it will quit the governing coalition, a step which has been perceived by investors as positive in principle.

We see **extremely slim chances for further price gains** after the huge rally since end-January. We view the "political speculation" on the stock market as being too optimistic and do not think there will be a shift in power in Brazil as quickly as the market is assuming. On the other hand, we do expect to see a gradual mild rise in the oil price starting from the third quarter, and this should boost corporate earnings for the materials sector companies in the BOVESPA.

In light of the current equity market valuation (PER: 11.7), along with the ongoing decline in net margins, and the low return on equity, we project a modest correction in asset prices from the current levels over a 3-month horizon.
In our view, an unexpected increase in commodity prices would present **risks to our baseline scenario.** Further gains in stock prices might also be triggered if new elections are called after all of the political strife.

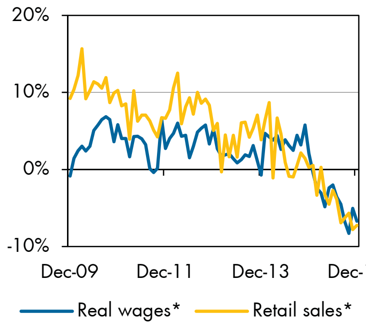
Financial analyst: Thomas Keil; RBI Vienna

Forecast

	29-Mar*	Jun-16	Sep-16	Mar-17
Bovespa	51,155	46,700	49,500	50,600

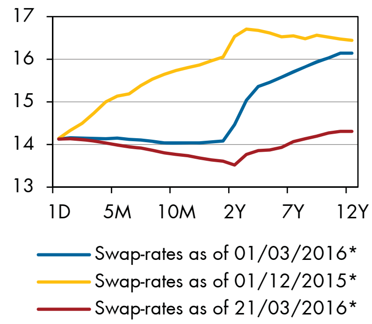
**11:59 p.m. CET closing prices on the main stock exchange*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Real wage decline strains retail sector



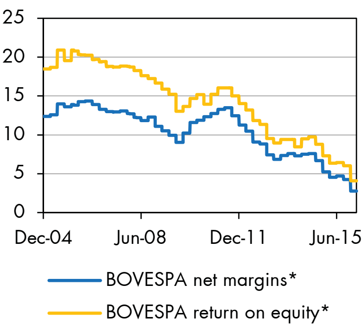
** in % yoy*
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Flattening swap-rate curve



** in % yoy, CETIP DI Interbank deposit rate overnight*
D...day; M...month; Y...year
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Decreasing profitability



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

EUR/USD: Bullish Reversal Possible

EUR/USD

EUR=, 30.03.2016, 12:15 p.m. (CET)
5y high: 1.4830, 5y low: 1.0496
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

EUR/USD

Last: 1.1310 **~BULLISH**

Since 13.03.2015 the sideways trend, in between 1.0456 – 1.1470, is in effect. Leaving it to the downside would trigger a decline to in below of even parity. The first respective signal would be a drop below 1.0880. Now, there are first signals of a bullish breakout arising, a move beyond 1.1470 and a subsequent increase to at least 1.1711. On crossing of the latter 1,2000 – 1,2350 would become the target-area.

Long	1.1470 – 1.1711
Stop	1.1010

US. T-Note Future

TYc1, 30.03.2016, 12:30 p.m. (CET)
5y high: 135.66, 5y low: 118.38
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

US T-Note Future

Last: 130-00 **NEUTRAL**

As the last correction that had begun at 133-01 on 11.02.2016 had not exceeded the major support 128-00. Tthe current congestion could lead to a rebound towards 132-00 – 133-20. As a bullish confirmation crossing of 130-12 would be required.
As long as this is lacking another setback to 128-00 cannot fully be excluded.

Buy	130-12 -> 132-00 – 133-20
Sell	128-00 -> 126-10 – 125-20

EUR Bund Future

FBLc1, 30.03.2016, 01:10 p.m. (CET)
5y high: 166.58, 5y low: 119.90
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

EUR Bund Future

Last: 163.54 **NEUTRAL**

Within the upward trend that is in effect since 09.09.2013 there is more headroom, i.e. towards 166.55, while the primary upward trend (since 21.01.1991) would allow for a further increase towards even 173.10. Crossing of 164.80 would be required as bullish confirmation.
As long as this one is lacking a setback through the upward trends' bandwidth cannot be fully excluded.

Buy	164.80 -> 166.55
Sell	162.10 -> 160.00 – 158.00

Financial analyst: Robert Schittler, CEFA; RBI Vienna

Stock markets: Bullish confirmations are still missing

Dow Jones Industrial Future

DM1 Index, 24.03.2016, 04:54 p.m. CET
5y high 17,931; 5y low: 9,118
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Dow Jones Industrial Future

Last USD 17,341 **NEUTRAL**

The index remains bounded within its long-term sideways pattern that dates back to October 2014, moreover, market breadth, i.e. the percentage of NYSE constituents trading above their respective 200 day Moving Average (lower panel) is still beneath 50 percent. Although chances for a topside breakout are stronger due to the bullish long-term dynamic the major buy-signal has not yet been triggered, and thus, a failure is not off the table.

Buy USD 18,000 –> 19,250
Sell USD 16,500 –> 15,200

DAX Future

GX1 Index, 24.03.2016, 04:34 p.m. CET
5y high: 12,512; 5y low: 5,429
Source: Bloomberg, RBI/Raiffeisen RESEARCH

DAX Future

Last EUR 9,924 **NEUTRAL**

The major supports beneath the level 9,000 have held firm so far and the RSI indicator shows a Double Bottom. Despite of these bullish indications there are still a couple of tough resistances as well, i.e. the medium-term bearish trend channel's upper boundary, the former uptrend-line at 10,000 and the daily Moving Average 200 that could fend off a bullish continuation in the long run. Hence, in order to confirm an advance towards the last high a topside breakout from the bearish trend channel at 11,000 is required. Instead, a resumption of the downtrend would get indicated by a cross through 8,650.

Buy EUR 11,000 –> 12,500
Sell EUR 8,650 –> 7,200

NASDAQ 100 Future

ND1 Index, 24.03.2016, 04:05 p.m CET
5y high: 4,702; 5y low: 1,920
Source: Bloomberg, RBI/Raiffeisen RESEARCH

NASDAQ 100 Future

Last USD 4,387 **NEUTRAL**

The long-term upward supports, i.e. the uptrend-line at 3,780 and the reaction-low of 2015 at 3,900 were able to remain intact; in addition, the on-going rebound was able to come close to the daily Moving Average 200. Nonetheless, regarding the lower panel the RSI indicator is still biased to the bearish side and the price pattern since the beginning of 2015 could easily result in a major reversal (red arrows) if the advance failed to cross 4,660.

Buy USD 4,660 –> 5,100
Sell USD 3,760 –> 3,500

Financial analyst: Stefan Memmer; RBI Vienna

Risk notifications and explanations

Warnings

- Figures on performance refer to the past. Past performance is not a reliable indicator for future results and the 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 of a financial instrument, a financial index or a securities service is reduced by commissions, fees and other charges, which depend on the individual circumstances of the investor.
- The return on an investment in a financial instrument, a financial or securities service 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 future results and the development of a financial instrument, a financial index or a securities service.

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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
09/01/2015	Sell	Hold	Hold	Sell	Sell
03/04/2015	I	I	I	I	I
04/05/2015	I	I	I	I	I
08/05/2015	I	Buy	Buy	I	I
12/06/2015	I	n.a.	n.a.	I	I
23/06/2015	I	Buy	Buy	I	I
10/07/2015	I	I	Hold	I	I
30/07/2015	I	Hold	Sell	I	I
08/10/2015	I	Sell	I	I	I
17/12/2015	I	Hold	I	I	I
21/01/2016	I	Sell	I	I	I
11/03/2016	Sell	n.a.	n.a.	I	I
18/03/2016	I	Sell	Hold	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
26/02/2015	Buy	Buy	Buy	Buy	Buy	Buy
19/06/2015	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
23/06/2015	Buy	Buy	Buy	Buy	Buy	Buy
29/06/2015	Hold	Hold	Hold	Hold	Hold	Hold
16/07/2015	Buy	Buy	Buy	Buy	Buy	Buy
18/09/2015	I	I	I	Hold	I	I
30/10/2015	I	I	I	Kauf	I	Hold
27/11/2015	I	I	I	I	I	Buy

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 - Positioning

Bonds and money market

	Euro area/ Raiffeisen bonds	USA	rest of Europe	Eastern Europe	Eurobonds	Euro Corp. bonds	money market	alternative investments
Mar-15	Buy	Buy	Sell	Buy	Buy	Buy	Buy	Buy
Dec-15	|	|	|	|	Sell	|	|	|

Stocks

	Europe	USA	Asia	Eastern Europe	Emerging Markets
Mar-15	Buy	Buy	Buy	Buy	Buy

Recommendation history (1 –4 months horizon)

Date	Euro STOXX 50	DAX 30	FTSE 100	SMI	S&P 500	Nasdaq Comp.	DJIA	Nikkei 225	HSCE	Sensex 30	Bovespa
20/03/2015	Buy	Buy	Hold	Buy	Hold	Buy	Hold	Buy	Buy	Sell	Sell
15/05/2015	|	|	|	|	|	|	|	|	Sell	|	|
29/05/2015	|	|	|	|	|	|	|	Hold	|	|	|
05/06/2015	|	|	|	|	|	Hold	|	|	|	|	|
22/06/2015	|	|	Buy	Hold	|	Buy	|	Buy	Hold	Hold	|
24/07/2015	|	|	|	|	|	|	|	|	Buy	|	|
21/08/2015	|	|	|	|	Buy	|	Buy	|	|	|	|
28/08/2015	|	|	|	Buy	|	|	|	|	|	|	|
18/09/2015	|	|	Hold	|	|	|	|	|	|	Buy	Buy
23/10/2015	|	|	|	|	Hold	|	Hold	|	Hold	|	|
06/11/2015	Hold	Hold	|	Hold	|	Hold	|	|	|	|	|
13/11/2015	|	|	|	|	|	|	|	Hold	|	|	|
04/12/2015	Buy	Buy	Buy	Buy	|	Buy	|	Buy	|	|	|
17/12/2015	|	|	|	|	|	|	Sell	|	Buy	|	|
08/01/2016	|	|	|	|	|	Buy	|	Buy	Buy	|	|
26/02/2016	|	|	|	|	|	Hold	|	Hold	|	|	|
04/03/2016	|	|	|	|	|	|	Hold	|	|	|	|
11/03/2016	Hold	|	|	Hold	|	|	|	|	|	|	|
30/03/2016	|	|	|	Hold	|	|	|	|	Hold	|	Sell

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

Date	Energy	Materials	MSCI Industrials	Cons. discretionary	Cons. Staples	Health care	Financials	IT	Telecommunication	Utilities
20/03/2015	↑	↑	↑	↑	↓	↓	↑	↑	↓	↓
22/06/2015	↑	↑	↑	↑	↓	↓	↑	↑	↓	↓
18/09/2015	↑	↑	↑	↑	↓	↓	↑	↑	↓	↓
18/12/2015	↑	↑	↑	↑	↑	↓	↑	↓	↓	↓
30/03/2016	↓	↓	↑	↑	↑	↑	↓	↑	↑	↑

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
04/12/2014	BULLISH	NEUTRAL	BULLISH	BULLISH	BULLISH
19/06/2015	BULLISH	NEUTRAL	BULLISH	BULLISH	BULLISH
18/09/2015	NEUTRAL	NEUTRAL	BULLISH	NEUTRAL	NEUTRAL
21/09/2015	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL
28/09/2015	BULLISH	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL
05/10/2015	BULLISH	NEUTRAL	BULLISH	BULLISH	BULLISH
27/10/2015	BULLISH	BULLISH	BULLISH	BULLISH	BULLISH
02/11/2015	NEUTRAL	NEUTRAL	BULLISH	BULLISH	BULLISH
09/11/2015	BEARISH	BEARISH	BULLISH	BULLISH	BULLISH
16/11/2015	NEUTRAL	NEUTRAL	BULLISH	BULLISH	BULLISH
30/11/2015	BULLISH	NEUTRAL	BULLISH	BULLISH	BULLISH
07/12/2015	NEUTRAL	BEARISH	BULLISH	NEUTRAL	NEUTRAL
17/12/2015	BULLISH	NEUTRAL	BULLISH	NEUTRAL	BULLISH
25/03/2016	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL

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Please note that research is done and recommendations are given only in respect of financial instruments which are not affected by the sanctions under EU regulation no 833/2014 concerning restrictive measures in view of Russia's actions destabilising the situation in Ukraine, as amended from time to time, i.e. financial instruments which have been issued before 1 August 2014.

We wish to call to your attention that the acquisition of financial instruments with a term exceeding 30 days issued after 31 July 2014 is prohibited under EU regulation no 833/2014 concerning restrictive measures in view of Russia's actions destabilising the situation in Ukraine, as amended from time to time. No opinion is given with respect to such prohibited financial instruments.

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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

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Basic tendency of the content of this publication

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

Cut-off for data: 29 March 2016 / **This report was completed on 4 April 2016**/ **Coverfoto:** Peter Brezinschek /

Design: Kathrin Kořinek, Birgit Bachhofner

Editor: Peter Brezinschek; RBI Vienna

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