

Market Outlook

Bond markets

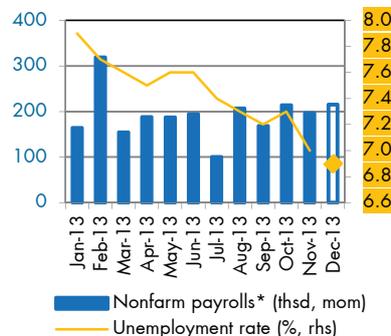
weekly

3 January 2014



Raiffeisen
RESEARCH

US: Recovery on a stable path



*Private sector

Source: Thomson Reuters, Raiffeisen RESEARCH

Bund Future



Source: Bloomberg

T-Note Future



Source: Bloomberg

Forecasts

USA	curr. ¹	Mar-14	Jun-14	Dec-14
Key rate	0.25	0.25	0.25	0.25
Libor 3M	0.24	0.30	0.30	0.45
Yield 5Y	1.72	1.90	2.10	2.60
Yield 10Y	2.99	3.10	3.20	3.50
Euro area				
Key rate	0.25	0.25	0.25	0.25
Euribor 3M	0.28	0.30	0.30	0.40
Yield 5Y	0.94	1.20	1.50	2.00
Yield 10Y	1.94	2.20	2.40	2.70
Swaprate 5Y	1.26	1.75	2.10	2.60

¹ as of 3 January 2014, 12:46 a.m. CET

Source: Thomson Reuters, Raiffeisen RESEARCH

Recommendation (Horizon: March 2014):

Sell: USD bonds, DE bonds

USA

With the **labour market report** for December, this month's data highlight is due to be released next week. Economic momentum has perceptibly increased since autumn, and employment growth in the private sector has brightened up, as well. Over the last three months, an average of 193k new jobs has been created. We assume that this figure was again up in December and forecast a 215k net gain. Taking into account public sector jobs, we expect a 220k employment growth. With regard to the unemployment rate, we assume a renewed decrease by 0.1 percentage points to 6.9% after the surprisingly strong minus in November. Such a development is indicated by the Conference Board consumer confidence survey. In December, the improvement in the sub indicator of employment prospects was even more pronounced than back in November.

The remaining interesting pieces of data scheduled for next week are the **ISM non-manufacturing index** and **factory orders** (both Mon), **trade balance figures** for November (Tue) as well as the **ADP employment report** (Wed).

Minutes of the FOMC's most recent interest rate decision from 19 December provide moderate excitement. At the press conference, Fed president Bernanke had already explained in detail why monetary authorities have chosen to reduce

Key figures

USA			RBI	Cons.	prior
Mon, 6.	16:00	ISM Non-Manufacturing Index	Dec.	n.a.	54,5 53,9
Mon, 6.	16:00	Factory orders (% mom)	Nov.	1.8	1.7 -0.9
Tue, 7.	14:30	Trade balance (USD, bn)	Nov.	-41.0	-40.0 -40.6
Wed, 8.	14:15	ADP Employment (thsd, mom)	Dec.	215	198 215
Fri, 10.	14:30	Nonfarm payrolls (thsd, mom)	Dec.	220	193 203
Fri, 10.	14:30	Unemployment rate (%)	Dec.	6.9	7.0 7.0
Europe					
Mon, 6.	09:15	ES: PMI Services	Dec.	52.0	51.5 51.5
Mon, 6.	09:45	IT: PMI Services	Dec.	48.5	48.8 47.2
Mon, 6.	10:30	EUR: Sentix investor confidence	Jan.	9.5	9.5 8.0
Mon, 6.	14:00	DE: Consumer price index (% yoy)	Dec.	1.4	1.5 1.6
Tue, 7.	09:55	DE: Unemployment (thsd, mom)	Dec.	-2	-1 10
Tue, 7.	11:00	EUR: Consumer price index (% yoy)	Dec.	0.9	0.9 0.9
Tue, 7.	11:00	EUR: - core rate (% yoy)	Dec.	1.0	n.a. 1.1
Wed, 8.	11:00	EUR: Unemployment rate (%)	Nov.	12.1	12.1 12.1
Wed, 8.	12:00	DE: Factory orders (% mom)	Nov.	0.9	1.1 -2.2
Thu, 9.	11:00	EUR: Economic confidence	Dec.	99.5	99.0 98.5
Thu, 9.	11:00	EUR: Industrial confidence	Dec.	-3.3	-3.0 -3.9
Thu, 9.	12:00	DE: Industrial production (% mom)	Nov.	2.2	1.5 -1.2
Fri, 10.	08:45	FR: Industrial production (% mom)	Nov.	0.2	0.5 -0.3
Fri, 10.	09:00	ES: Industrial output (% yoy)	Nov.	1.6	n.a. -0.7
Events					
Wed, 8.	20:00	US: FOMC minutes interest rate decision	19 Dec.	-	- -
Thu, 9.	13:45	EUR: ECB Interest rate decision (%)	Jan.	0.25	0.25 0.25

Source: Bloomberg, Raiffeisen RESEARCH

GDP (real %yoy)

	2013e	2014f	2015f
Austria	0.3	1.5	2.3
Germany	0.5	1.8	2.5
France	0.1	1.0	1.8
Belgium	0.2	1.7	2.3
Netherlands	-1.0	1.3	1.8
Finland	-1.2	1.5	2.7
Ireland	0.1	2.5	3.0
Italy	-1.8	0.7	1.5
Spain	-1.2	1.5	2.0
Portugal	-1.6	1.5	2.2
Greece	-3.7	-0.5	1.5
Euro area	-0.4	1.5	2.0
UK	1.4	2.8	2.4
Switzerland	1.8	2.0	2.0
USA	1.8	2.5	3.2
Japan	1.6	1.4	1.1

Source: Thomson Reuters, Raiffeisen RESEARCH

Consumer price index (% yoy)

	2013e	2014f	2015f
Austria	2.1	1.8	1.8
Germany	1.5	1.7	2.3
France	1.1	1.4	1.6
Belgium	1.2	1.2	2.1
Netherlands	2.6	1.0	1.8
Finland	2.2	1.3	2.2
Ireland	0.5	1.0	1.5
Italy	1.3	1.2	1.5
Spain	1.5	1.1	1.5
Portugal	0.4	1.1	1.5
Greece	-0.9	-0.8	0.6
Euro area	1.4	1.3	1.8
UK	2.5	2.4	3.1
Switzerland	-0.1	0.4	1.1
USA	1.5	1.5	2.2
Japan	0.3	1.5	0.9

Source: Thomson Reuters, Raiffeisen RESEARCH

Forecasts

	current ¹	Mar-14	Jun-14	Dec-14
CHF				
Libor 3M	0.02	0.0	0.0	0.0
Yield 10Y	1.08	1.2	1.3	1.4
YEN				
Key rate	0.10	0.1	0.1	0.1
Libor 3M	0.15	0.1	0.2	0.2
Yield 10Y	0.74	0.7	0.8	1.0
FX				
EUR/USD	1.36	1.35	1.30	1.35
EUR/JPY	142.44	140	137	149
USD/JPY	104.41	104	105	110
EUR/CHF	1.23	1.23	1.25	1.29
Crude				
Brent (USD)	107.59	112	114	116

¹ as of 3 January 2014, 12:46 a.m. CET

Source: Thomson Reuters, Raiffeisen RESEARCH

bond purchases, and set out the following months' course of action in terms of tapering.

Yields on ten-year US government bonds merely showed a cautious response to the US central bank's surprising announcement from 19 December to scale back monthly bond purchases by USD 10 bn to USD 75 bn already starting in January 2014. An increase by nearly 10 basis points to the present level of around 3% was all that could be gotten out. After central bank president Bernanke had also already outlined further procedures concerning tapering – a further reduction of purchases by around USD 10 bn at each of the following FOMC meetings – we see low acute upward pressures on the yield also in the weeks ahead. In the context of persistently positive economic data, the yield is likely to work its way slowly further up in the following months. In the second half of the year, we then consider a slightly stronger yield increase to be possible. Given the expected progress on the labour market, the FOMC might, on the one hand, move on to a quicker reduction of bond purchases while on the other, the zero interest rate promise given by monetary authorities who still do not want to implement a key interest rate hike until Q3 or Q4 2015 might be increasingly questioned over the course of the year

Euro area

With the Euro area's **Sentix index**, the first economic survey for January is scheduled in the coming days. We hold out the prospect of further improvement, whereby we anticipate a **brightening in the current situation**. Expectations have already risen very substantially and there is hardly any upward potential left. The remaining economic surveys still refer to December. With regard to the yet-to-be released **services purchasing managers' indices** for Spain and Italy as well as **EU Commission sentiment indicators** for the Euro area, we anticipate improvements. Yet, the generally signalized economic upswing is still at a too early stage to result in a downward trend in the Euro area **unemployment rate** already. While October industrial data were to some extent disappointing, available indications shows that in November, the **industry** has regained ground in Germany and Spain. Unlike in Germany and France, the Euro area's December **inflation rate** might have remained unchanged on an annual basis. We only expect the core rate to come in one tenth percentage point lower.

Apart from the data, the **European Central Bank's interest rate meeting** is paramount. ECB President Draghi most recently underscored that in view of the improved economic outlook and low deflation risks, there was no urgency for a further interest rate cut. Moreover, the upward drift in Euribor rates came to an end after the turn of the year. That's why the latter may be checked off as a seasonal movement and is not the result of a change in interest rate expectations. Accordingly, an **interest rate move** is arguably to be **excluded**. Also other monetary easing measures are unlikely to be on the agenda. The wording is expected to remain unchanged, which leaves the door for additional expansionary steps in the near future open. The decline in loans to the private sector, low monetary supply growth and, most notably, the still restrictive financing environment in Southern Europe might prompt the ECB to carry out further monetary policy easing in the coming months.

Given the expansionary monetary policy, money market rates and yields on short-term **government bonds** are expected to persist at low levels for many weeks to come. Furthermore, we anticipate further declines in risk premiums (spread narrowings) for crisis countries like Italy, Spain, Portugal and Ireland, whereas the upward trend in German yields on mid- to long-term bonds is likely to continue. Due to improved economic prospects and the more stable environment on financial markets, this is a natural development also in the context of lower inflation. Surprisingly, even ECB President Draghi noted that the central bank has hardly control over long-term interest rates. In our opinion, this is also a matter of will. In so far, we classify this statement as an indication that the ECB no longer plans to oppose increases of medium-to-long-term benchmark interest rates (German bond yields).

At the beginning of the year, **primary market** activities are still concentrated on money market papers, with the Netherlands, France, Malta, Greece, Belgium and Italy auctioning bills. Bond auctions take place in Austria, Spain and France.

Overview government bonds

Yields 10Y					
	curr. ¹ (%)	1W Δ (BP)	52W H (%)	52W L (%)	Ytd Δ (BP)
AT	2.26	-1.6	4.49	1.48	-1.0
DE	1.95	-1.0	3.72	1.17	1.7
FR	2.56	-2.1	4.05	1.66	-0.3
BE	2.55	-1.1	5.86	1.92	-0.7
NL	2.23	-1.9	4.13	1.49	-0.4
FI	2.12	-1.7	4.21	1.33	-0.8
IE	3.38	-7.6	14.08	3.42	-13.2
IT	3.95	-26.0	7.26	3.73	-17.1
ES	3.89	-33.2	7.62	3.73	-25.7
PT	5.64	-38.3	17.39	3.73	-49.0
GR	8.19	-26.7	37.10	4.42	-22.5
UK	3.03	-4.5	4.23	1.44	0.7
CH	1.27	17.5	2.51	0.39	19.7
US	2.99	-1.1	3.99	1.39	-3.9
JP	0.74	3.5	1.56	0.45	0.0

¹ as of 3 January 2014, 01:36 p.m. CET
Source: Bloomberg

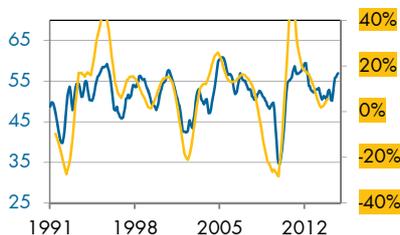
Debt issuance calendar

Issuer	Date	Maturity	Coupon (%)	Vol* (%)
Bonds				
AT	Tue, 7.	2023 2044	1.75 3.15	1.1
ES	Thu, 9.	2019 2028	2.75; 5.15	n.a.
FR	Thu, 9.	2020 2024 2060	2.5 2.25 4	7.5 - 8.5
Bills				
NL	Mon, 6.	3m 12m	-	2 2
FR	Mon, 6.	3m 5m 12m	-	4.5 2 2
MT	Tue, 7.	n.v.	-	n.a.
GR	Tue, 7.	6m	-	n.a.
BE	Tue, 7.	3m, 6m	-	n.a.
ESM	Tue, 7.	3m	-	3
IT	Fri, 10.	12m	-	n.a.

* EUR bn
Source: Bloomberg

Market Outlook Equity Markets

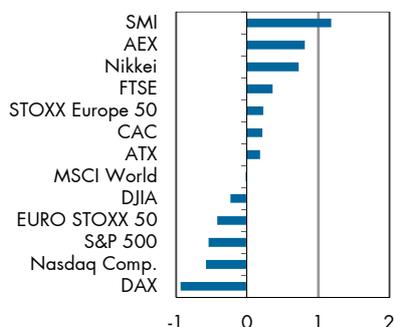
Profit growth accelerating?



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

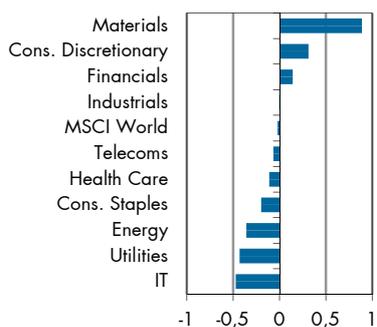
Source: Bloomberg, Raiffeisen RESEARCH

Market performance (% , 1 week)*



* performance from 26 Dec 2013 – 2 Jan 2014
Source: Thomson Reuters

Sector performance (% , 1 week)*



* weekly performance of global MSCI sector indices from 26 Dec 2013 – 2 Jan 2014
Source: Thomson Reuters

Forecasts

	current ¹	Mar-14	Dec-14
Euro STOXX 50	3,074	3,200	3,300
DAX	9,419	9,700	10,000
FTSE	6,724	6,800	7,000
SMI	8,193	8,150	8,450
DJIA	16,441	16,500	16,800
S&P 500	1,832	1,870	1,910
Nasdaq Comp.	4,143	4,300	4,420
Nikkei 225	16,291	16,200	17,400
ATX	2,547	2,630	2,800

¹ as of 3 January 2014, 12:00 noon CET
Source: Bloomberg, Raiffeisen RESEARCH

Recommendations

Markets: **BUY:** ATX, DAX, Euro STOXX 50, FTSE 100, Nasdaq Composite, S&P 500 **HOLD:** Dow Jones Industrials, Nikkei 225, SMI

Favoured sectors: Financials, Materials, Consumer discretionary, Energy, Industrials, IT

Established equity markets

Having left behind 2013, a very strong year on the established stock exchanges, investors are wondering whether or not the upward tendency will endure also this year. Interestingly, an annual increase of > 25% in the S&P 500 has been followed by another positive year for equities with average price increases of 12% in 23 out of 30 cases since 1870. In our view, this has been pitched somewhat too high for the broad US stock market, but is definitely an appropriate guideline for some European stock indices or for the Japanese market. Our optimism is based on the assumption of a further global economic acceleration. This influential factor, in turn, is expected to ensure that in line with corporate profits, things will look up in 2014. A first indication of profit dynamics will be provided by the US reporting season on the fourth quarter starting as early as next week. At aggregate level, the companies in the S&P 500 are currently expected to achieve a 5.2% profit growth compared to the corresponding period of the previous year according to consensus expectations. Over the last few months, this level has experienced a constant downward revision and still found itself at 9.1% in late September. Against the backdrop of the noticeably lowered threshold, we once again hold out the prospect of positive surprises. Incidentally, the US stock benchmark is estimated to have recorded an increase in gains by 5.0% for the just ended entire year. This is expected to be followed by acceleration to nearly 10% in 2014. Given the already very high US margins, the latter appears ambitious to us, especially since the already observed wage increases and higher interest charges will gradually have a negative impact. However, an end to the US earnings cycle, which has already gone a long way, is not yet in sight, either. That's because the currently high values of the economic barometer ISM manufacturing suggest an acceleration in profit dynamics for the immediate future (see chart). With regard to broad European indices, we consider double-digit profit growth rates to be plausible for the entire year due to backlog effects, while the depreciating yen over the medium term should also result in further strong profit gains in Japan. In conjunction with the lower valuation compared to the US stock market, this leads us to see more upward potential for the two last-mentioned markets in 2014. We however would also like to point out that the already very distinct optimism among investors, which is reflected in the highest value in sentiment surveys since early 2011, currently indicates a warning signal for the imminent market phase. In this line of thought, we can say that the first months of the new trading year will offer only moderate or no longer any upward potential. Yet due to the positive influential factors, we do not forecast a major correction, especially since the first quarter is seasonally a strong one most of the time.

Expected corporate releases

USA

Wed, 08 Bed, Bath & Beyond, Family Dollar Stores, Monsanto, Constellation Brands

Thu, 09 Alcoa

Fri, 10 American Express, Infosys

Source: Bloomberg, Raiffeisen RESEARCH

Acknowledgements

Global Head of Research:

Peter Brezinschek (1517)

Top-Down CEE Banking Sector:

Gunter Deuber (5707), Elena Romanova (1378)

Research Sales:

Werner Weingraber (5975)

Economics, Fixed Income, FX:

Valentin Hofstätter (Head, 1685), Jörg Angelé (1687), Eva Bauer (5644), Gunter Deuber (5707), Wolfgang Ernst (1500), Stephan Imre (6757), Lydia Kranner (1609), Matthias Reith (6741); Andreas Schwabe (1389), Gintaras Shlizhyus (1343), Gottfried Steindl (1523), Martin Stelzeneder (1614)

Credit/Corporate Bonds:

Christoph Klaper (Head, 1652), Jörg Bayer (1909), Igor Kovacic (6732), Martin Kutny (2013), Peter Onofrej (2049), Manuel Schreiber (3533), Lubica Sikova (2139), Jürgen Walter (5932)

Publisher: Raiffeisen RESEARCH GmbH, A-1030 Vienna, Am Stadtpark 9, Phone: +43 1 717 07-1521

Editorial Department: Raiffeisen RESEARCH / RBI A-1030 Vienna, Am Stadtpark 9, Phone: +43 1 717 07 - 1521

DISCLAIMER

This document does not constitute an offer or invitation to subscribe for or purchase any securities and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. This document is being furnished to you solely for your information and may not be reproduced or redistributed to any other person. Any investment decision with respect to any securities of the respective company must be made on the basis of an offering circular or prospectus approved by such company and not on the basis of this document. Raiffeisen Bank International AG ('RBI') may have effected an own account transaction in any investment mentioned herein or related investments and may have a position or holding in such investments as a result. RBI may have been, or might be, acting as a manager or co-manager of a public offering of any securities mentioned in this report or in any related security. Information contained herein is based on sources, including annual reports and other material which might have been made available by the entity which is the subject of this document. RBI believes all the information to be reliable, but no representations are made as to their accuracy and completeness. Unless otherwise stated, all views (including statements and forecasts) are solely those of RBI and are subject to change without notice.

Investors in emerging markets need to be aware that settlement and custodial risk may be higher than in markets where there is a long established infrastructure and that stock liquidity may be impacted by the numbers of market makers which may therefore impact upon the reliability of any investments made as a result of acting upon information contained in this document.

SPECIAL REGULATIONS FOR THE REPUBLIC OF AUSTRIA:

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

SPECIFIC RESTRICTIONS FOR THE UNITED STATES OF AMERICA AND CANADA:

This research report may not be transmitted to, or distributed within, the United States of America or Canada or their respective territories or possessions, nor may it be distributed to any United States person or any person resident in Canada, unless it is provided directly through RB International Markets (USA) LLC, a U.S. registered broker-dealer ('RBIM'), and subject to the terms set forth below.

SPECIFIC INFORMATION FOR THE UNITED STATES OF AMERICA AND CANADA:

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

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

RESEARCH ANALYST COMPENSATION:

Research analysts employed by RBI are not compensated for specific investment banking transactions. The author(s) of this report receive(s) compensation that is based on (among other factors) the overall profitability of RBI, which includes earnings from RBI's investment banking and other businesses. RBI generally prohibits its analysts, persons reporting to analysts from maintaining a financial interest in the securities or futures of any companies that the analysts cover, unless the purchase is not pre-cleared by the Compliance department of RBI.

RBI is not obligated to update this research report. Investors must keep themselves informed on the current course of business of the issuer, any changes in the current course of business of the issuer and other relevant factors. By using this report or by relying on it in any manner whatsoever you agree to be bound by the foregoing limitations. Additional information on the contents of this report is available on request.

If any term of this Disclaimer is found to be illegal, invalid or unenforceable under any applicable law, such term shall, insofar as it is severable from the remaining terms, be deemed omitted from this Disclaimer and shall in no way affect the legality, validity or enforceability of the remaining terms. Detailed disclaimer and disclosure as per § 48f Austrian Stock Exchange Act: <http://www.raiffeisenresearch.at> -> "Disclaimer".