

Market Outlook Bond markets

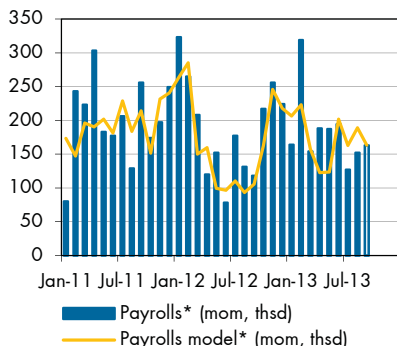
weekly

18 October 2013



**Raiffeisen
RESEARCH**

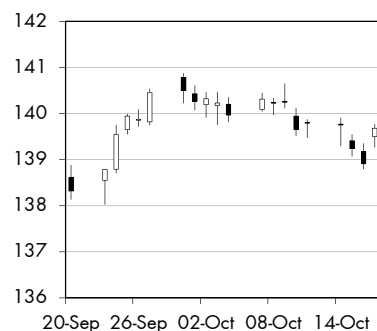
USA: Recovery goes on



*non farm private sector

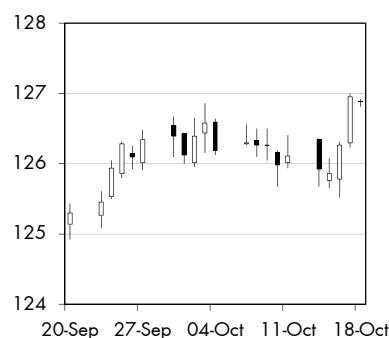
Source: Thomson Reuters, Raiffeisen RESEARCH

Bund Future



Source: Bloomberg

T-Note Future



Source: Bloomberg

Forecasts

USA	curr. ¹	Dec-13	Mar-14	Sep-14
Key rate	0.25	0.25	0.25	0.25
Libor 3M	0.24	0.30	0.30	0.30
Yield 5Y	1.34	1.80*	1.90	2.30
Yield 10Y	2.60	3.00*	3.10	3.30
Euro area				
Key rate	0.50	0.50	0.50	0.50
Euribor 3M	0.22	0.25	0.30	0.50
Yield 5Y	0.85	1.10*	1.30	1.90
Yield 10Y	1.87	2.10*	2.30	2.80
Swaprate 5Y	1.27	1.60*	1.85	2.50

¹ as of 18 October 2013, 08:11 p.m. CET

* under revision

Source: Thomson Reuters, Raiffeisen RESEARCH

Recommendation (Horizon: December 2013):

Neutral: USD bonds, DE bonds

USA

As part of the agreement in the battle over the US budget, all federal agencies have been reopened since yesterday. As a result, data releases have made a comeback, as well. Yet, most agencies issuing statistical data are still examining when the suspended publication of the last two weeks' economic indicators will be made up for. To date, the only clear comments come from the Bureau of Labor Statistics, which stated that the announcement of the labour market report for September was to take place next Tuesday and that of the import price index on Wednesday. Whether or not the publication of durable goods orders set for Friday will actually come off, still remains to be seen.

We are relatively optimistic when it comes to the **labour market report**. Given the sharply declining initial jobless claims as well as the strong increase in the ISM indices' employment component, there is no evidence to suggest that the employment development turned out particularly weak in the previous month. Just as the consensus, we therefore expect non-agricultural employment to increase by almost 180K. We also forecast that both prior month figures will see an upward revision in the aggregate while the unemployment rate might remain unchanged at 7.3%.

Key figures

USA			RBI	Cons.	prior
Mon, 21.	16:00	Existing home sales (mn, ann.)	Sep.	5.20	5.30 5.48
Tue, 22.	14:30	Unemployment rate (%)	Sep.	7.3	7.3 7.3
Tue, 22.	14:30	Nonfarm payrolls (thsd, mom)	Sep.	175	180 169
Wed, 23.	14:30	Import price index (% mom)	Sep.	0.1	0.2 0.0
Wed, 23.	14:30	Import price index (% yoy)	Sep.	-1.3	-1.0 -0.4
Wed, 23.	15:00	FHFA house price index (% mom)	Aug.	n.a.	0.8 1.0
Thu, 24.	14:30	Initial jobless claims (thsd, ann.)	CW43	n.a.	n.a. 358
Thu, 24.	16:00	New home sales (thsd, ann.)	Sep.	n.a.	425 421
Fri, 25.	14:30	Durable goods orders (% mom)	Sep.	3.5	1.7 0.1
Fri, 25.	14:30	- ex transportation (% mom)	Sep.	0.5	0.4 -0.1
Europe					
Mon, 21.	10:00	IT: Industrial orders (% mom)	Aug.	n.a.	n.a. -0.7
Wed, 23.	08:45	FR: Business confidence	Oct.	98	98 97
Wed, 23.	15:00	BE: Business confidence	Oct.	-5.0	n.a. -6.7
Wed, 23.	16:00	EUR: Consumer confidence, prel.	Oct.	-14.3	-14.5 -14.9
Thu, 24.	09:00	FR: PMI Manufacturing, prel.	Oct.	50.5	50.1 49.8
Thu, 24.	09:00	FR: PMI Services, prel.	Oct.	51.0	51.3 51.0
Thu, 24.	09:30	DE: PMI Manufacturing, prel.	Oct.	51.8	51.3 51.1
Thu, 24.	09:30	DE: PMI Services, prel.	Oct.	55.0	53.6 53.7
Thu, 24.	10:00	EUR: PMI Manufacturing, prel.	Oct.	51.8	51.5 51.1
Thu, 24.	10:00	EUR: PMI Services, prel.	Oct.	52.6	52.2 52.2
Fri, 25.	10:00	DE: ifo business climate	Oct.	108.3	108.0 107.7
Fri, 25.	10:00	DE: ifo current assessment	Oct.	112.0	111.6 111.4
Fri, 25.	10:00	DE: ifo business expectations	Oct.	104.8	104.6 104.2
Fri, 25.	10:00	EUR: Money supply M3 (% yoy)	Sep.	2.2	2.4 2.3
Fri, 25.	10:00	EUR: Private loans M3 (% yoy)	Sep.	-1.9	-2.0 -2.0

Source: Bloomberg, Raiffeisen RESEARCH



GDP (real %yoy)

	2013e	2014f	2015f
Austria	0.5	1.5	2.3
Germany	0.5	1.8	2.5
France	0.1	1.0	1.8
Belgium	0.1	1.7	2.3
Netherlands	-1.1	1.3	1.6
Finland	-0.4	1.5	2.7
Ireland	0.1	2.5	3.0
Italy	-1.7	0.7	1.5
Spain	-1.5	1.5	2.0
Portugal	-1.6	1.5	2.2
Greece	-4.0	-0.5	1.5
Euro area	-0.3	1.5	2.0
UK	1.4	1.9	2.1
Switzerland	1.8	2.0	2.0
USA	1.5	2.5	3.2
Japan	2.2	2.3	1.1

Source: Thomson Reuters, Raiffeisen RESEARCH

Consumer price index (% yoy)

	2013e	2014f	2015f
Austria	1.9	2.1	2.3
Germany	1.5	1.5	2.0
France	1.1	1.7	1.7
Belgium	1.3	1.4	2.1
Netherlands	2.7	1.3	1.7
Finland	2.2	1.7	2.2
Ireland	0.7	1.4	1.7
Italy	1.4	1.7	1.6
Spain	1.5	1.1	1.5
Portugal	0.6	1.3	1.5
Greece	-0.7	-0.3	0.6
Euro area	1.5	1.6	1.8
UK	2.5	2.8	3.1
Switzerland	-0.1	0.4	1.1
USA	1.5	2.0	2.5
Japan	0.1	1.5	0.9

Source: Thomson Reuters, Raiffeisen RESEARCH

Forecasts

	current ¹	Dec-13	Mar-14	Sep-14
CHF				
Libor 3M	0.02	0.0	0.0	0.0
Yield 10Y	1.07	1.2	1.4	1.7
YEN				
Key rate	0.10	0.1	0.1	0.1
Libor 3M	0.14	0.1	0.2	0.2
Yield 10Y	0.62	0.8	0.9	1.0
FX				
EUR/USD	1.37	1.30*	1.31	1.28
EUR/JPY	133.9	130*	135	138
USD/JPY	98.0	100*	103	108
EUR/CHF	1.23	1.25	1.28	1.29
Crude				
Brent (USD)	109.6	110	112	118

¹ as of 18 October 2013, 08:11 a.m. CET

* under revision

Source: Thomson Reuters, Raiffeisen RESEARCH

As for **durable goods orders**, we hold out the prospect of a perceptible increase in monthly terms. Once again, the crucial factor is Boeing. The aircraft manufacturer reported September incoming orders amounted to a good USD 20 bn and thus nearly USD 17 bn more than one month earlier. This leads us to expect the civil aviation section to show a seasonally adjusted plus of close to 80% from August. Without, the volatile transport sector, September incoming orders might have experience a slight month-on-month increase of 0.5%. Especially the lately observed sharp increase in the ISM manufacturing index' new orders component gives cause for optimism here. In light of Tuesday's labour market report, all the remaining outstanding pieces of data are relegated to the background: **Existing home sales** (Mon), **new home sales** and **initial jobless claims** (both Thurs).

Until Wednesday and thus before the agreement in the US budget dispute, the **ten-year US government bond** yield slightly increased, standing slightly above 2.7%. When the agreement on a debt ceiling hike through 7 February 2014 and the approval of a temporary budget through 15 January 2014 was then reached on Thursday, the yield slumped markedly. Its current level is 2.55%. It could be argued that this reaction on bond markets was implausible, for the last-minute agreement prevented the US economy from suffering substantially greater damage and considerably reduced the previously existing uncertainties. Most market participants, however, seem to take a significantly more critical view of the negotiated "solution"; justifiably so, as we believe. In fact, it does not solve the underlying conflict, but once again merely shifts the problem. Yet, unlike in the case of earlier last-minute compromises, Republican and Democratic adversaries, this time gave themselves extremely little time to find a sustainable solution to the dispute. Unless an agreement is reached by 13 December, the next government shutdown will be looming on 16 January. Republicans still insist on massive expenditure reductions in order to consolidate the federal budget. Though Democrats have the same objective, they primarily want to achieve it through further tax increases for the rich and super rich.

This, in turn, is vehemently rejected by Republicans. As the latter have clearly emerged as the losers from the most recent confrontation, they might appear particularly uncompromising at the upcoming negotiations. It is therefore more than questionable if an agreement on the big hit will actually fall in place in the next two months after this had failed in the last three years. At best, another emergency solution like the sequestration of 2011 with automatic spending cuts across the board will eventually come about.

In the worst case scenario, we will see the same as in the previous week and an escalation of the situation including a government shutdown and the threat of insolvency. This uncertainty will have no positive influence on company and consumer sentiment as expenditures and investments might be held back further. The US economy, which is basically in the offing for sustainable economic recovery, will continue to drive with the handbrake applied at least until the end of the year. Whether or not the Fed will start cutting back on its bond purchases in such an environment appears more than questionable, especially in light of the fact that the Fed did not perform a bond purchase reduction in September explicitly referring to uncertainties resulting from fiscal policy. Just as the majority of market participants obviously do, we therefore no longer expect the tapering to start this year. Yet, without the tapering also our yield forecasts and EUR/USD prognosis for December appear too aggressive. That's why we are currently revising them and will communicate any adjustments as soon as possible.

Euro area

With the ZEW and the Sentix indices, October economic surveys conducted in the financial industry are already available. Given the political uncertainties in Europe and lately especially in the US, both indices displayed astonishing robustness. The coming days will see the release of leading indicators, which are directly stemming from companies. The continuation of the upward trend in the European economies should be underscored by **flash manufacturing and services PMIs** in Germany, France and the Euro area. We are also optimistic with regard to the **German ifo index** and expect the two subcomponents – expectations and the assessment of the current situation – to have improved. The ongoing weak performance of the **money and credit aggregates** (September figures are upcoming) will reaffirm the lack of any inflationary pressure. Along with these monetary indicators, the much regarded figures of aggregated bank balance sheets (deposits, loans, government bonds) and lending rates in the single euro countries will be released.

On the **government bond market**, the US budget dispute farce has lately determined the direction. Especially German government bonds as safe havens but also bonds of other EUR countries recorded yield decreases. The achieved compromise has only resulted in a postponement until the turn of the year. As a consequence, relief among investors was not all that huge. In addition, the **government peace in Italy** seems to be just of **short time nature**. Mario Monti announced his exit from the party that he founded and that is part of the government coalition. Yet, unlike his party colleagues he does not want to support the 2014 budget plan. Most recently, statements from central bankers on both sides of the Atlantic caused expectations of a reduction of the super expansionary monetary policy to be postponed. Political uncertainties and continuously expansionary central banks are therefore preserved as key elements underpinning especially German government bonds. The pieces of data released in the coming days will, however, emphasize the rebound in the economy. That's why yields of German government bonds are likely to experience some upward pressure. Among the EUR government bonds, Italy should be the worst-performing country.

On the primary market, Slovakia and Germany will auction bonds in the following days. Moreover, the Netherlands, France, Spain and Malta will issue money market papers.

Overview government bonds

Yields 10Y					
	curr. ¹ (%)	1W Δ (BP)	52W H (%)	52W L (%)	Ytd Δ (BP)
AT	2.26	0.8	2.47	1.48	50.9
DE	1.87	-0.2	2.05	1.17	55.1
FR	2.38	-0.7	2.63	1.66	38.5
BE	2.62	-0.6	2.91	1.92	55.8
NL	2.24	-0.1	2.47	1.49	73.9
FN	2.11	2.0	2.32	1.33	58.5
IE	3.63	-10.3	4.29	3.43	n.v.
IT	4.20	-14.4	5.03	3.76	-29.9
ES	4.30	-4.6	5.94	4.04	-97.0
PT	6.23	-16.3	8.90	5.23	-78.0
GR	8.39	-68.5	18.19	8.13	-350.7
UK	2.75	-0.3	3.02	1.62	91.8
CH	1.06	3.3	1.19	0.39	53.4
US	2.59	-9.2	2.99	1.58	83.8
JP	0.62	-3.5	0.93	0.45	-16.9

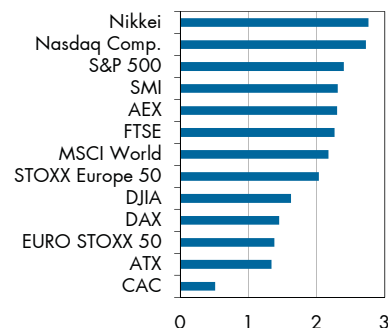
¹ as of 18 October 2013, 07:19 a.m. CET
Source: Bloomberg

Debt issuance calendar

Issuer	Date	Maturity	Coupon (%)	Vol* (%)
Bonds				
SK	Mon, 21.	2023	1.5	n.a.
		2024	n.a.	n.a.
DE	Wed, 23.	2044	2.5	2
Bills				
NL	Mon, 21.	3M,6M	-	4
FR	Mon, 21.	n.a.	-	n.a.
ES	Tue, 22.	3M,9M	-	n.a.
MT	Tue, 22.	n.a.	-	n.a.

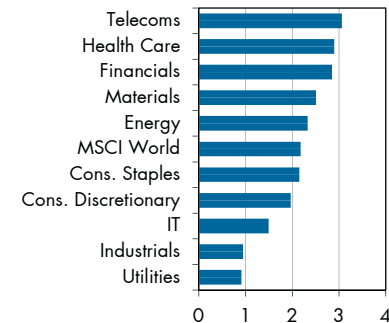
* EUR bn
Source: Bloomberg

Market performance (% , 1 week)*



* performance from 10 – 17 Oct 2013
Source: Thomson Reuters

Sector performance (% , 1 week)*



* weekly performance of global MSCI sector indices from 10 – 17 Oct 2013; Source: Thomson Reuters

Forecasts

	current ¹	Dec-13	Mar-14
Euro STOXX 50	3,017	3,050	3,150
DAX	8,832	9,000	9,300
FTSE	6,592	6,850	7,100
SMI	8,049	8,400	8,700
DJIA	15,372	16,000	16,500
S&P 500	1,733	1,770	1,830
Nasdaq Comp.	3,863	3,950	4,100
Nikkei 225	14,562	15,300	16,200
ATX	2,545	2,630	2,750

¹ as of 18 October 2013, 12:00 noon CET
Source: Bloomberg, Raiffeisen RESEARCH

Recommendations

Markets: Buy: Europe, USA, Japan

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

Established equity markets

The parties to the conflict over the US budget have finally reached an agreement. Yet, this has once again been nothing more than a purchase of time, which might provide again the potential for a political dispute in spring. Since a solution has obviously been factored into prices in advance on stock markets, the most important indices showed a firm upward trend in recent days, with the DAX and the S&P 500 even marking new all-time highs. Now, however, it seems to be time to turn back to fundamental data again. The current earnings season provides sufficient opportunity to this effect, but is not yet running quite so smoothly. Up until now, only few companies excelled with impeccable figures. In addition, some outlooks (e.g. Intel and Philip Morris International, respectively) have not quite been to investors' liking. Yet, all in all it must be noted that reporting season has just got off the ground and we continue to assume that the lowered expectations will largely be outreached again. To date, a mixed trend has been observed in Europe, even though the majority of results will not come in before the following weeks. In fact, Danone reported the weakest organic revenue growth since 2009. Moreover, also the revenue and operating margin outlook was lowered, while French luxury goods manufacturer LVMH's sales trend fell short of expectations, too. Compared to that, Nestlé figures were well received with investors.

As for the development until the end of the year, we hold on to our fundamentally positive attitude although some indices are no longer all that far from our price targets. We continue to consider global economic recovery, the overall better than expected company results as well as moderate valuations (especially in Europe) to be the crucial drivers.

Next week's results might turn out to be quite interesting. On the one hand, reporting season will generate an abundance of data; on the other, important economic barometers are due to be released in the euro area with leading economic indicators (PMIs and ifo index). It remains to be seen whether or not and to what extent accumulated US economic data will be reported. However, it has become clear, that at least the important labour market report will be published next Tuesday.

Expected corporate releases

USA

Mon, 21	Halliburton, Hasbro, McDonald's, Netflix, Texas Instruments
Tue, 22	Amgen, DuPont, Harley Davidson, Kimberly Clark, Lockheed Martin, United Technologies
Wed, 23	Airgas, Boeing, Bristol-Myers Squibb, Caterpillar, General Dynamics, Eli Lilly, AT&T
Thu, 24	Amazon.com, Colgate Palmolive, Dow Chemical, Ford, 3M, Altria Group, Microsoft
Fri, 25	Legg Mason, Procter & Gamble, UPS

Europe

Mon, 21	Akzo Nobel, Philips, SAP
Tue, 22	KPN, Kemira, Novartis, Stora Enso, STMicroelectronics
Wed, 23	GlaxoSmithKline, Heineken, Iberdrola, Norsk Hydro
Thu, 24	ABB, Credit Suisse, Daimler, Ericsson, Holmen, Banco Santander, UPM Kymmene
Fri, 25	BASF, BBVA, Belgacom, Electrolux, Novozymes

Source: Bloomberg, Raiffeisen RESEARCH

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