

# Market Outlook Bond markets

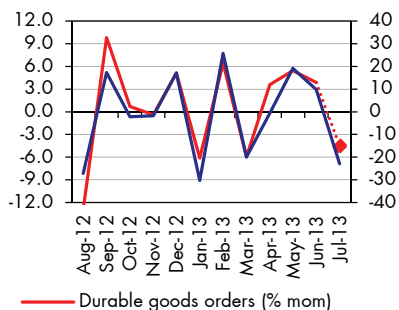
weekly

23 August 2013



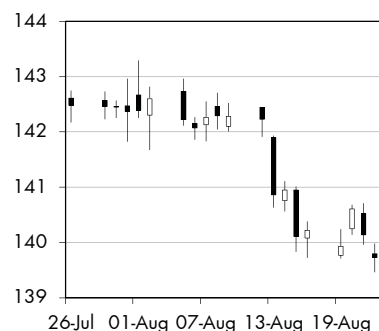
**Raiffeisen  
RESEARCH**

## Boeing gives the beat



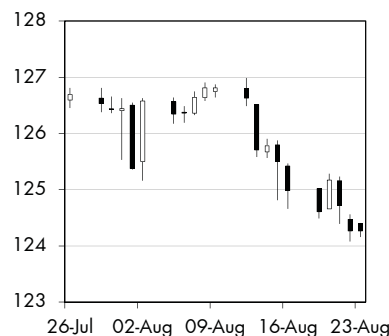
Source: Boeing, Thomson Reuters, Raiffeisen RESEARCH

## Bund Future



Source: Bloomberg

## T-Note Future



Source: Bloomberg

## Forecasts

USA	curr. <sup>1</sup>	Sep-13	Dec-13	Jun-14
Key rate	0.25	0.25	0.25	0.25
Libor 3M	0.26	0.25	0.30	0.30
Yield 5Y	1.69	1.60	1.70	2.10
Yield 10Y	2.89	2.80	2.90	3.20
<b>Euro area</b>				
Key rate	0.50	0.50	0.50	0.50
Euribor 3M	0.22	0.25	0.30	0.35
Yield 5Y	0.87	0.70	0.90	1.20
Yield 10Y	1.92	1.60	1.80	2.10
Swaprate 5Y	1.37	1.20	1.45	1.80

<sup>1</sup> as of 23 August 2013, 07:47 a.m. CET

Source: Thomson Reuters, Raiffeisen RESEARCH

## Recommendation (Horizon: September 2013):

**Neutral:** USD bonds, DE bonds

## USA

The coming week's agenda includes numerous economic indicators. With regards to **new orders for durable goods** (Mon) we expect to see a sharp minus of 4.5% mom in July, which is, however, exclusively attributable to Boeing. In the previous month, the aircraft manufacturer received orders of around USD 11 bn. This represents only a third of the order intake in June. After seasonal adjustment, the civil aviation sector will therefore post a minus of around 50% mom. Without the volatile transportation sector, the situation is, instead, substantially more relaxed. We anticipate a small plus over the previous month.

With a view to the development of real gross domestic product in the current quarter, the July **personal income and consumer spending data** (Fri) are of particular interest. Against the backdrop of stagnating real retail sales in the previous month, we do not accord real consumer spending more than a mini plus. Due to the increase in consumer prices, there might be a gain of 0.2% mom in nominal terms.

## Key figures

USA				RBI	Cons.	prior
Mon, 26.	14:30	Durable goods orders (% mom)	Jul.	-4.5	-3.6	3.9
Mon, 26.	14:30	- ex transportation (% mom)	Jul.	0.2	0.5	-0.1
Tue, 27.	15:00	S&P C/S home prices, 20 cities (% mom)	Jun.	n.a.	1.0	1.1
Tue, 27.	16:00	Consumer confidence Conf. Board	Aug.	77.0	79.3	80.3
Wed, 28.	16:00	Pending home sales (% mom)	Jul.	n.a.	0.1	-0.4
Thu, 29.	14:30	GDP (% qoq, ann., 2nd estimate)	Q2	1.7	2.3	1.7
Fri, 30.	14:30	Personal income (% mom)	Jul.	0.3	0.2	0.3
Fri, 30.	14:30	Personal spending (% mom)	Jul.	0.2	0.3	0.5
Fri, 30.	14:30	PCE deflator (% yoy)	Jul.	1.4	1.5	1.3
Fri, 30.	14:30	PCE core inflation (% yoy)	Jul.	1.2	1.3	1.2
Fri, 30.	15:45	Chicago PMI	Aug.	n.a.	53.0	52.3
Europe						
Tue, 27.	10:00	DE: ifo business climate	Aug.	107.2	106.9	106.2
Tue, 27.	10:00	DE: ifo current assessment	Aug.	111.5	111.0	110.1
Tue, 27.	10:00	DE: ifo business expectations	Aug.	103.0	103.0	102.4
Wed, 28.	10:00	EUR: Money supply M3 (% yoy)	Jul.	1.9	2.1	2.3
Wed, 28.	10:00	EUR: Private loans (% yoy)	Jul.	-1.6	-1.6	-1.6
Thu, 29.	08:45	FR: Business confidence	Aug.	95	96	95
Thu, 29.	09:55	DE: Unemployment (thsd, mom)	Aug.	-5	0	-7
Thu, 29.	11:00	IT: Business confidence	Aug.	92.5	92.5	91.7
Thu, 29.	14:00	DE: Consumer price index (% yoy), prel.	Aug.	1.6	1.7	1.9
Fri, 30.	11:00	EUR: Economic confidence	Aug.	94.0	93.5	92.5
Fri, 30.	11:00	EUR: Industrial confidence	Aug.	-9.5	-9.6	-10.6
Fri, 30.	11:00	IT: Consumer price index (% yoy), prel.	Aug.	1.1	1.1	1.2
Fri, 30.	11:00	EUR: Unemployment rate (%)	Jul.	12.2	12.1	12.1
Fri, 30.	11:00	EUR: Consumer price index (% yoy)	Aug.	1.5	1.4	1.6

Source: Bloomberg, Raiffeisen RESEARCH



## GDP (real %yoy)

	2012	2013e	2014f
Austria	0.9	0.5	1.5
Germany	0.9	0.5	1.8
France	0.0	-0.4	0.6
Belgium	-0.3	-0.1	1.4
Netherlands	-1.0	-0.8	1.1
Finland	-0.2	-0.7	1.5
Ireland	0.2	0.1	1.5
Italy	-2.4	-1.7	0.7
Spain	-1.4	-1.5	1.0
Portugal	-3.2	-2.3	0.9
Greece	-6.4	-4.5	-1.0
Euro area	-0.5	-0.7	1.2
UK	0.2	0.8	1.7
Switzerland	1.0	1.3	1.6
USA	2.8	1.5	2.5
Japan	1.9	2.2	2.3

Source: Thomson Reuters, Raiffeisen RESEARCH

## Consumer price index (% yoy)

	2012	2013e	2014f
Austria	2.6	1.9	1.8
Germany	2.1	1.5	1.5
France	2.2	1.3	1.5
Belgium	2.6	1.2	1.8
Netherlands	2.8	2.7	1.6
Finland	3.2	2.3	1.9
Ireland	1.9	1.0	1.4
Italy	3.3	1.7	1.5
Spain	2.4	1.5	1.1
Portugal	2.8	0.6	1.3
Greece	1.0	-0.3	-0.3
Euro area	2.5	1.5	1.6
UK	2.8	2.8	2.5
Switzerland	-0.7	0.1	0.7
USA	2.1	1.5	2.0
Japan	0.0	0.1	1.5

Source: Thomson Reuters, Raiffeisen RESEARCH

## Forecasts

	current <sup>1</sup>	Sep-13	Dec-13	Jun-14
<b>CHF</b>				
Libor 3M	0.02	0.0	0.0	0.0
Yield 10Y	1.08	0.7	0.9	1.1
<b>YEN</b>				
Key rate	0.10	0.1	0.1	0.1
Libor 3M	0.15	0.1	0.1	0.1
Yield 10Y	0.77	0.8	0.8	1.0
<b>FX</b>				
EUR/USD	1.33	1.31	1.30	1.35
EUR/JPY	131.9	135	140	151
USD/JPY	98.8	103	108	112
EUR/CHF	1.23	1.25	1.25	1.28
<b>Crude</b>				
Brent (USD)	110.6	110	115	116

<sup>1</sup> as of 23 August 2013, 07:47 a.m. CET

Source: Thomson Reuters, Raiffeisen RESEARCH

Also the **first revision of preliminary Q2 gross domestic product** figures due to be released on Thursday is a potential market mover. Given the surprisingly strong reduction in the trade deficit in June, most analysts assume that the Bureau of Economic Analysis will carry out an upward revision to the originally reported growth in economic output of an annualized 1.7% qoq. Though we also expect the contribution of external trade to real GDP growth in the second quarter to be raised from -0.7 pp to -0.2 pp, the very weak monthly business inventories data for May and June, however, indicate that the contribution of inventory investments made to real gross domestic product growth in the past quarter fell clearly short of the 0.4 pp identified by the first estimate. Both effects might more or less be neutralized so that we do not expect any upward revision of gross domestic product.

Moreover, with the **Richmond Fed Index** (Tue) and the **Chicago PMI** (Fri), two further regional sentiment indicators for the manufacturing industry will be published. With regards to the **Conference Board consumer confidence** (Tue), we expect to see a decrease owing to the deterioration of sentiment when weighed against the University of Michigan consumer confidence.

Apart from that, the **S&P Case/Shiller house price data** for June (Tue) as well as **pending home sales** for July (Wed) will be published next week.

**Ten-year US government bond yields** are currently trading at 2.9% and thus around 10bp higher than a week earlier. The minutes of the FOMC interest rate meeting held late in July, which were released Wednesday night, were largely responsible for the renewed surge. Though it did not really deliver any new insights as regards tapering, it included, however, a few passages in support of our expectation that a first cutback on bond purchases might be announced as early as at the September meeting – but no later than in October. On the one hand, some council members reiterated the view that soon it was time for scaling back bond purchases according to the roadmap presented in June. Moreover, a series of monetary authorities referred to the current market expectations regarding a reduction of bond purchases as being in line with their own expectations. The drop in the unemployment rate since the beginning of bond purchases in the fall of 2012 was again characterized as noticeable while most recent employment growth was described as solid. Also the most recent yield increase seems to be met with composure: In the eyes of several council members, the latter might have only a limited influence on the economy. Some even consider it to be positive in that it puts the financial system on a more sustainable footing. The mentioned parts of the text seem to have convinced some market participants who previously did not believe in a reduction of bond purchases as early as in September that we are coming close to an entry into the exit from QE3.

In the medium term – with a view to mid-2014 – we expect US government bonds to suffer further price losses. Yet, on the short term we believe it is reasonable to assume that after the sharp yield increase by around 130 basis points, ten-year papers will go through a kind of consolidation period within just a few weeks. One could think, for example, of a similar pattern to that for the various QE measures, where yields, due to speculations about a possible measure in the run-up, yields experienced a marked drop, only to rise again as soon as the central bank then had actually announced a concrete measure. It is therefore not unlikely that yields on US government bonds will initially decrease following the announcement of the bond-buying cut.

## Euro area

Initial estimates of **purchasing managers' indices** (PMI) for the euro area and Germany were impressively able to confirm their upward trend last week. Only surveys for France fell slightly short of expectations. The available results are indicative of improvements in other countries in the monetary union, such as Spain and Italy (publication in early September). The early indicators due to be released in the coming days (**EU Commission sentiment indicators**, national business climate indices) should comply with the guidelines of the PMI and, in part, see strong improvements. We expect only the **business climate in France** – also consistent with the PMI results – to remain unchanged. With regards to the **German ifo index**, we rely on a markedly stronger upturn in the current situation for subcomponents compared with future expectations. Moreover, it will be interesting to see in how far the most recent improvement in the economic situation is already reflected in **labour market** data. While in Germany, economic dynamism should already be strong enough to result in a drop in the unemployment figure, the entire euro area might, instead, have again seen a slight increase in the unemployment rate. Finally, **monetary data** are of interest: In Germany, Italy and the overall monetary union, the **price increase** might have dwindled compared to the previous year. This is primarily attributable to developments in oil and fuel prices. As for the **M3 monetary supply**, a strong basis effect comes into play, which will arguably cause the growth of monetary aggregate to fall below 2% yoy. **Loans to the private sector** will certainly continue to fall; we expect the rate of change compared to the previous year to remain unchanged.

Monetary developments are crucial decision criteria for the European Central Bank. Though decreasing rates of inflation, small growth of monetary aggregates and the shrinking credit volume are arguments in favour of a further key interest rate cut. After all, the ECB has articulated a clear easing bias. In the light of improving economic data, however, market participants increasingly have to abandon the hope for an additional interest rate measure. The ECB might rather look for ways to make the access to credit as expansionary as possible by means of different measures. While on the **secondary market** yields on **bonds** from save havens are therefore pushed upwards by the improvement in the economy, "crisis countries" benefit from the ECB's expansionary attitude and the stabilization of the economic situation, which causes risk premiums for bonds from these countries to fall. We expect rising Bund yields and falling spreads to represent longer trends. Since these movements have, however, been very pronounced most recently, short-term counter movements may set in any time (profit-taking).

On the **primary market**, especially Italy will become active in the coming days. Rome will issue zero-coupon, inflation-linked and plain vanilla bonds as well as money market papers. Besides, bonds with medium-term to ultra-long-term maturities will be issued in Belgium. In addition, Germany, France, Spain and Malta will auction money market papers.

## Overview government bonds

Yields 10Y					
	curr. <sup>1</sup> (%)	1W Δ (BP)	52W H (%)	52W L (%)	Ytd Δ (BP)
AT	2.33	7.4	2.33	1.48	58.6
DE	1.92	3.7	1.92	1.17	60.4
FR	2.47	5.9	2.47	1.66	47.6
BE	2.80	9.8	2.85	1.92	74.0
NL	2.32	7.0	2.32	1.49	82.0
FN	2.19	7.1	2.19	1.33	66.6
IE	3.99	5.3	4.29	3.43	n.v.
IT	4.31	6.5	5.85	3.76	-18.4
ES	4.48	3.2	6.86	4.04	-78.3
PT	6.57	14.5	9.56	5.23	-44.6
GR	10.03	34.1	23.97	8.13	-186.8
UK	2.71	2.7	2.75	1.45	88.5
CH	1.09	2.5	1.12	0.39	56.1
US	2.89	6.6	2.89	1.55	113.4
JP	0.77	1.6	0.93	0.45	-1.8

<sup>1</sup> as of 23 August 2013, 07:41 a.m. CET

Source: Bloomberg

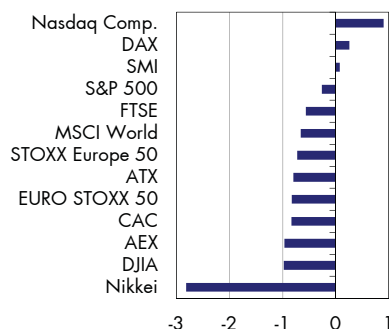
## Debt issuance calendar

Issuer	Date	Maturity	Coupon (%)	Vol* (%)
<b>Bonds</b>				
IT	Tue, 27.	2018	1.7	n.v.
		2026	3.1	n.v.
		2015	n.v.	3
BE	Tue, 27.	2018	1.25	n.v.
		2023	2.25	n.v.
		2032	4	n.v.
IT	Thu, 29.	n.v.	n.v.	n.v.
<b>Bills</b>				
DE	Mon, 26.	12M	-	3
FR	Mon, 26.	n.v.	-	n.v.
ES	Tue, 27.	3M,9M	-	n.v.
IT	Wed, 28.	n.v.	-	n.v.

\* EUR bn

Source: Bloomberg

## Market performance (% , 1 week)\*



\* performance from 15 – 22 August 2013  
Source: Thomson Reuters

## Recommendations

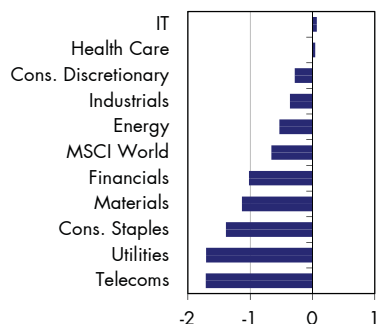
**Markets:** Hold: Europe, USA Buy: Japan

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

## Established equity markets

As a result of the recent strength in (US) economic data, the entry into the exit from the Federal Reserve's „quantitative easing“ scheme grew increasingly inevitable. We still consider the central bank meeting in September to be the most probable date for the announcement to that effect. From that point onward, the market – used to being pampered with liquidity worth USD 85 bn every month – will have to get used to a gradual waning of the central bank liquidity flow. Accordingly, this completely repressed burdening factor in the summer months became once again acute. In our view, this topic will remain on the table for the time being, as investors can completely focus their attention on the monetary policy guidelines as the reporting season is drawing to a close.

## Sector performance (% , 1 week)\*



\* weekly performance of global MSCI sector indices from 15 – 22 August 2013  
Source: Thomson Reuters

Also on the part of economic data, less support can be expected in the weeks ahead. That's because demands among market participants soared noticeably against the backdrop of the most recently very good figures. According to a broad survey issued by a big broker, the optimism regarding global economic dynamics is indeed as sharply pronounced as it last was at the end of 2009! Also global economic surprise indices signal that the macroeconomic mood cannot become much better, which, however, is not incompatible with an improvement in absolute terms. Despite the possible absence of positive economic surprises, we seem to have missed the boat towards not cutting back QE 3 soon.

The mentioned inquiry among investors also revealed that stocks (most notably US stock) in the portfolios of institutional investors now again receive a high weighting. This calls for prudence on short notice, as the mood on the "stock market party" is often dampened in this case. This is also evidenced by the fact that due to the noticeable yield increases especially US stocks have most recently lost some of their relative attractiveness from a valuation point of view. What speaks against a huge correction, though, are portfolio managers' still high cash levels. Overall, we therefore foresee a mixed late summer for the majority of established stock markets. Yet, possible setbacks should then again result in interesting entry opportunities for a friendly end of the year.

## Forecasts

	current <sup>1</sup>	Sep-13	Dec-13
Euro STOXX 50	2,802	2,800	2,850
DAX	8,386	8,200	8,500
FTSE	6,447	6,550	6,700
SMI	7,983	8,000	8,100
DJIA	14,964	15,400	15,500
S&P 500	1,657	1,680	1,700
Nasdaq Comp.	3,639	3,650	3,750
Nikkei 225	13,661	15,500	16,300
ATX	2,495	2,450	2,550

<sup>1</sup> as of 23 August 2013, 11:15 a.m. CET  
Source: Bloomberg, Raiffeisen RESEARCH

## Expected corporate releases

### USA

Tue, 27	Tiffany & Co
Wed, 28	Joy Global
Thu, 29	Campbell Soup, Salesforce.com

### Europe

Thu, 29	Carrefour, L'Oreal, Vienna Insurance Group, Vivendi
Fri, 30	Bwin.Party Digital Entertainment, Iliad, Hermes International

Source: Bloomberg, Raiffeisen RESEARCH



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