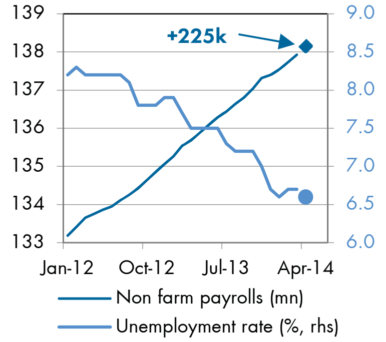
Market Outlook Bond markets

weekly

25 April 2014

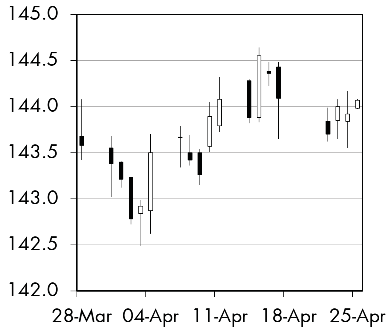
Raiffeisen RESEARCH

USA: Stable upward path



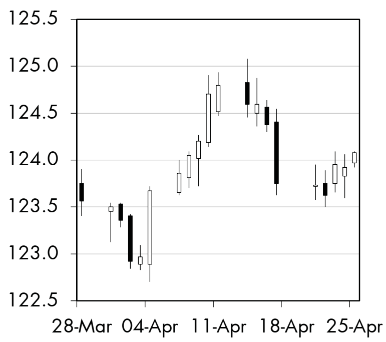
Source: Thomson Reuters, Raiffeisen RESEARCH

Bund Future



5Y-High: 147.16, 5Y-Low 117.93
Source: Bloomberg

T-Note Future



5Y-High: 135.66, 5Y-Low: 114.94
Source: Bloomberg

Forecasts

USA	curr.[1]	Jun-14	Sep-14	Mar-15
Key rate	0.25	0.25	0.25	0.50
Libor 3M	0.23	0.30	0.30	0.70
Yield 5Y	1.72	1.90	2.10	2.50
Yield 10Y	2.67	3.00	3.30	3.60
Euro area				
Key rate	0.25	0.25	0.25	0.25
Euribor 3M	0.34	0.30	0.30	0.40
Yield 5Y	0.61	0.80	1.10	1.90
Yield 10Y	1.51	1.80	2.00	2.70
Swaprate 5Y	0.96	1.15	1.45	2.30

1 as of 25 April 2014, 08:55 a.m. CET
Source: Thomson Reuters, Raiffeisen RESEARCH

USA

Next week, everything that has a big name will be featured on the data calendar: the **advance estimate of Q1 gross domestic product**, the **FOMC interest rate decision**, the **ISM manufacturing index** and the **labour market report**. Since the respective results are already very easy to asses, figures on gross domestic product and the US Fed's interest decision (both Wed) will be the two less exciting events. As for gross domestic product, there are signs pointing to nothing but a meagre plus of around 1% qoq annualized. This is attributable to weak private consumption expenditure, a strongly negative growth contribution of net exports as well as a weaker inventory build-up compared to Q4 2013. If government consumption and investments did not develop well as assumed, the result expected would be even weaker. The Fed will most probably reduce its bond purchase programme by another USD 10 bn to USD 45 bn. The most recently available data clearly suggest that the economic weakness seen at the start of the year was only temporary and the economy is already picking up again. Moreover, the latest labour market data were very solid. Indications are less clear for the ISM index (Thu). Although two of the three so-far available regional sentiment surveys gained surprisingly markedly, the Empire State Index from New York as well as the Markit manufacturing purchasing managers' index, however, disappointed. Below the line, we believe a small increase to 54.5 points to be likely in the case of the ISM index. Market participants might pay most attention to Friday's labour

Key figures

USA					RBI	Kons.	zuletzt
Mon,	28.	16:00	Pending home sales (% mom)	Mar.	**n.a.**	0.9	-0.8
Tue,	29.	15:00	S&P C/S home prices, 20 cities (% mom)	Feb.	**n.a.**	0.6	0.85
Tue,	29.	16:00	Consumer confidence Conf. Board	Apr.	**83.5**	82.8	82.3
Wed,	30.	14:15	ADP Employment (thsd, mom)	Apr.	**210**	210	191
Wed,	30.	14:30	GDP (% qoq, ann., advance estimate)	Q1	**1.1**	1.1	2.6
Wed,	30.	15:45	Chicago PMI	Apr.	**n.a.**	56.5	55.9
Thu,	1.	14:30	Personal spending (% mom)	Mar.	**0.8**	0.6	0.3
Thu,	1.	14:30	PCE deflator (% yoy)	Mar.	**1.2**	1.2	0.9
Thu,	1.	16:00	ISM Manufacturing Index	Apr.	**54.5**	54.2	53.7
Fri,	2.	14:30	Nonfarm payrolls (thsd, mom)	Apr.	**225**	210	192
Fri,	2.	14:30	Unemployment rate (%)	Apr.	**6.6**	6.6	6.7
Europe							
Tue,	29.	10:00	EA: Money supply M3 (% yoy)	Mar.	**1.4**	1.4	1.3
Tue,	29.	11:00	IT: Business confidence	Apr.	**n.a.**	99.4	99.2
Tue,	29.	11:00	EA: Economic confidence	Apr.	**103.0**	102.9	102.4
Tue,	29.	11:00	EA: Industrial confidence	Apr.	**-2.9**	-3.1	-3.3
Tue,	29.	14:00	DE: Consumer price index (% yoy), prel.	Apr.	**1.4**	1.3	0.9
Wed,	30.	09:00	ES: GDP (% qoq), prel.	Q1	**0.4**	0.4	0.2
Wed,	30.	09:55	DE: Unemployment (thsd, mom)	Apr.	**10**	-10	-12
Wed,	30.	11:00	EA: Consumer price index (% yoy), prel.	Apr.	**0.9**	0.8	0.5
Wed,	30.	15:00	BE: GDP (% qoq), prel.	Q1	**0.4**	0.5	0.5
Fri,	2.	09:15	ES: PMI Manufacturing	Apr.	**53.5**	53.2	52.8
Fri,	2.	09:45	IT: PMI Manufacturing	Apr.	**53.0**	52.8	52.4
Fri,	2.	11:00	EA: Unemployment rate (%)	Mar.	**11.9**	11.9	11.9
Events							
28.4.-5.5.			European Commission Economic Forecasts		**-**	-	-
Wed,	30.	20:00	FOMC rate decision (%)	Apr.	**0.25**	0.25	0.25

Source: Bloomberg, Raiffeisen RESEARCH

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

Raiffeisen RESEARCH

GDP (real %yoy)

	2013	2014f	2015f
Austria	0.4	1.5	2.3
Germany	0.5	1.8	2.5
France	0.3	1.0	1.8
Belgium	0.2	1.7	2.3
Netherlands	-0.8	1.7	2.1
Finland	-1.4	0.8	2.2
Ireland	-0.3	2.0	3.0
Italy	-1.8	0.7	1.5
Spain	-1.2	1.5	2.0
Portugal	-1.4	2.0	2.2
Greece	-3.9	0.0	2.0
Euro area	-0.4	1.5	2.0
United Kingdom	1.8	2.8	2.4
Switzerland	2.0	2.0	2.0
USA	1.9	2.5	3.2
Japan	1.5	1.4	1.1

Source: Thomson Reuters, Raiffeisen RESEARCH

Consumer price index (% yoy)

	2013	2014f	2015f
Austria	2.1	1.8	1.8
Germany	1.6	1.5	2.0
France	1.0	1.4	1.6
Belgium	1.2	1.3	1.9
Netherlands	2.6	0.6	1.4
Finland	2.2	1.3	1.8
Ireland	0.5	0.8	1.5
Italy	1.3	0.8	1.2
Spain	1.5	0.5	1.1
Portugal	0.4	0.7	1.2
Greece	-0.9	-0.8	0.3
Euro area	1.4	1.1	1.5
United Kingdom	2.6	2.4	2.8
Switzerland	-0.2	0.4	1.1
USA	1.5	1.5	2.2
Japan	0.4	1.5	0.9

Source: Thomson Reuters, Raiffeisen RESEARCH

Forecasts

	current[1]	Jun-14	Sep-14	Mar-15
CHF				
Libor 3M	0.02	0.0	0.0	0.0
Yield 10Y	0.86	1.0	1.2	1.5
YEN				
Key rate	0.10	0.1	0.1	0.1
Libor 3M	0.14	0.1	0.1	0.2
Yield 10Y	0.63	0.7	0.7	1.0
FX				
EUR/USD	1.38	1.35	1.30	1.35
EUR/JPY	141.5	142	140	149
USD/JPY	102.3	105	108	110
EUR/CHF	1.22	1.22	1.25	1.28
Crude				
Brent (USD)	109.8	110	115	115

1 as of 25 April 2014, 08:55 a.m. CET
Source: Thomson Reuters, Raiffeisen RESEARCH

market report. In February and March, almost 200 k new jobs each were created. As for April, we anticipate a plus of clearly more than 200 k. Moreover, the March result might see an upward revision. After the increase in February, the unemployment rate again finds itself on its multiannual downward trend. In April it might have fallen from 6.7% to 6.6%.
The following week's remaining data will be pushed into the background by the above-mentioned highflyers: **pending home sales** (Mon), **Conference Board consumer confidence** (Tue) as well as the **Chicago PMI** and the **ADP employment report** (both Wed).

Yields on ten-year US government bonds do not seem to be able to lift their feet as they have been oscillating in a range between 2.6% and 2.8% since the beginning of February. After weak economic data had depressed yields at first, this has been done by the escalating conflict between Russia and the Ukraine since the end of February. The latter might also be responsible for the decline in yields to below 2.7% over the last few days. The dampening effect of the Russia-Ukraine conflict may very well be recognised also in the comparison of yields on short-term and long-term government bonds. Yields on two-year, three-year, five-year and seven-year government bonds, in fact, came hardly under pressure and stood markedly above the level observed in early February in each case. This might reflect the lately largely good economic data and the resulting speculations about further monetary policy normalization. The long end of the yield curve, instead, appears to be impressed by the intensifying tensions between Russia and the West. Yields on 30-year papers even find themselves clearly lower than six weeks ago. It continues to be our main scenario that the situation in Ukraine won't escalate further, which means no military intervention of Russia and thus harsh sanctions by the West. If this was still the consequence, long-term US government bond yields would be increasingly sought after in their function as safe haven and yields would fall accordingly. If the situation, instead, calmed down, good economic data would make themselves fully felt and drive yields on ten-year papers quickly towards 3%.

Financial analyst: Jörg Angelé

Euro area

In the previous week, ECB President Draghi gave an **in-depth explanation of the ECB's set of measures**. The current forward-looking communication (Forward Guidance) is supposed to dampen interest rate expectations, thus influencing the whole interest curve and is directed against an excessively strong euro respectively. An undue tightening of monetary policy conditions (rising real interest rates, appreciation of the euro) would be counteracted using conventional methods like key rate cuts. In particular, a negative deposit rate would thereby be directed against an appreciation of the euro. In addition, an upward drift of money market rates could be repelled by renewed liquidity-providing measures such as long-term refinancing operations. A deterioration of the monetary policy transmission would be tackled with conditional long-term refinancing operations, an ABS purchase programme or also regulatory changes. In the event of a deflation threat for the euro area, broadly-based asset purchases (quantitative easing) would be carried out. **Our conclusion**: The somewhat lower inflation rate – that drives real interest rates up – might result in a renewed small lowering of the main refinancing rate. Since the dwindling excess liquidity on the money market exerts some upward pressure on Euribor rates, renewed very long-term refinancing operations are not to be excluded but in our view not necessary at the moment. We also do not want to rule out a negative deposit rate. The comparatively

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

tighter monetary policy of the US Fed is however expected to sufficiently oppose an excessively strong euro appreciation. In the previous quarters, lending terms for countries and also the private sector have seen gradual improvement. Hence, we do not see the ECB pressured for action. Only adjustments on the regulatory front of ABS products may make sense. We can hardly see any indications of deflation risks resulting from a weakening of final demand or a positive supply shock (increased productivity, extension of commodities supply and decrease in commodities prices), which additionally lowers inflation expectations. From our view, there is no case for quantitative easing.
In the coming week, the data calendar will be filled up well: The still outstanding results of the manufacturing **purchasing managers' indices** (PMI) of individual euro countries will be due. Available flash estimates indicate an increase in Spain and Italy. As for the **EU Commission sentiment survey** for the euro area, we hold out the prospect of an improvement in the industrial sector as well as economic confidence. The first Q1 2014 **GDP data** come from Belgium and Spain – economic recovery has likely continued in both countries. With regard to the **German labour market data**, seasonal and weather-related factors might play a role. Given the already above-average employment situation in the construction sector, labour growth, which is especially common in this industry in spring, might turn out to be lower. After statistical adjustment an increase in the number of unemployed might therefore be recorded. The euro area's **unemployment rate** might remain unchanged (while individual countries continue to show different trends). Dynamics in the **money and credit aggregates** remain weak.

Inflation figures might receive most attention in the coming days. Especially the yield on German bonds might show a sensitive reaction to inflation data. For Germany and the euro area we assume a marked rebound of the year-on-year rate. This should put a harsh damper on hopes for far-reaching central bank measures for the defense of deflation threats for the euro area and might lead to **a rise in the yield on German bonds with mid-term and long-term maturities on the secondary market**. We thereby anticipate a spread tightening for Italian, Spanish, Portuguese and Irish bonds. Only a negative development in the Ukraine conflict would continue to provide support to the current low market interest rates for German benchmark bonds.

On the **primary market**, the three big ones have announced themselves for the following days: Germany, France and Italy will issue bonds and money market papers. Besides, also Malta and Belgium will issue bills. The **rating calendar** for this coming Friday is largely deserted. The only rating news that might be released is that of Slovenia by Fitch.

Financial analyst: Gottfried Steindl

Overview government bonds

Yields 10Y	curr.[1] (%)	1W Δ (BP)	5Y H (%)	5Y L (%)	Ytd Δ (BP)
AT	1.74	0.1	4.49	1.48	-53.4
DE	1.54	-0.5	3.72	1.17	-41.9
FR	2.00	0.8	4.05	1.66	-56.3
BE	2.12	0.9	5.86	1.92	-43.6
NL	1.84	-0.3	4.12	1.49	-39.2
FN	1.81	0.1	4.15	1.33	-32.4
IE	2.84	1.2	14.08	2.83	-66.9
IT	3.12	-0.1	7.26	3.09	-100.5
ES	3.08	-0.1	7.62	3.05	-106.7
PT	3.66	-7.4	17.39	3.65	-246.8
GR	6.20	14.1	37.10	4.42	-221.8
GB	2.69	2.3	4.23	1.44	-33.1
CH	0.86	-1.3	2.51	0.39	-21.2
US	2.71	-5.4	3.99	1.39	-36.1
JP	0.63	2.9	1.56	0.45	-11.1

1 as of 25 April 2014, 8:51 a.m. CET
Source: Bloomberg

Debt issuance calendar

Issuer	Date		Maturity	Coupon (%)	Vol*
		Bonds			
IT	Tue,	29.	2019	2.5	3.5
	Tue,	29.	2019	n.a.	2.5
	Tue,	29.	2024	3.75	3
FR	Wed,	30.	n.a.	n.a.	n.a.
		Bills			
IT	Mon,	28.	6M	-	7
DE	Mon,	28.	12M	-	2
FR	Mon,	28.	n.a.	-	n.a.
MT	Tue,	29.	n.a.	-	n.a.
BE	Tue,	29.	3M, 6M	-	n.a.

** EUR bn*
Source: Bloomberg

Ratings

	Moody's	S&P	Fitch
Austria	Aaa (s)	AA+ (s)	AAA (s)
Germany	Aaa (s)	AAA (s)	AAA (s)
France	Aa1 (n)	AA (s)	AA+ (s)
Belgium	Aa3 (s)	AA (s)	AA (s)
Netherlands	Aaa (s)	AA+ (s)	AAA (n)
Finland	Aaa (s)	AAA (n)	AAA (s)
Ireland	Baa3 (p)	BBB+ (p)	BBB+ (s)
Italy	Baa2 (s)	BBB (n)	BBB+ (s)
Spain	Baa2 (p)	BBB- (s)	BBB (s)
Portugal	Ba3 (s)	BB (n)	BB+ (p)
Greece	Caa3 (s)	B- (s)	B- (s)
GB	Aa1 (s)	AAA (n)	AA+ (s)
Switzerland	Aaa (s)	AAA (s)	AAA (s)
USA	Aaa (s)	AA+ (s)	AAA (s)
Japan	Aa3 (s)	AA- (n)	A+ (n)

Outlook: p = positive, n = negative, s = stable
Source: Bloomberg

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

Market Outlook Equity Markets

Raiffeisen RESEARCH

Recommendations (horizon: end of June)

Stock markets:	**Buy:** ATX, DAX, Euro STOXX 50, SMI, Nasdaq C., Nikkei 225, S&P 500 **Hold:** FTSE, Dow Jones Industrials

Established equity markets

Although no easing can yet be seen in the situation in Eastern Ukraine, most global stock indices and sectors were able to rise in the previous week. At any rate, support came from largely encouraging economic indicators on the one hand, and on the other from the successful launch of the reporting season, particularly in the US. After the financials, General Electric and Johnson & Johnson also Apple, Boeing, Caterpillar, Amazon.com and finally Microsoft were able to present very solid figures. Yet, as we already pointed out in the run-up to the started reporting season, expectations of companies are overall not very high. As a result, the previously positive course should again allow for a very satisfactory result at the end. At the level of the market as a whole, also estimates that were lowered in the past weeks now gradually climb up again. With a more than one third of S&P 500 companies counted, about 75% have so far exceeded the analyst consensus on profits recorded by Bloomberg while 54% managed to beat turnover expectations. In Europe, these values were again undershot, which is perhaps also due to the more realistic ex-ante estimates of local analysts. With a view to valuations, profit development will, at any rate, play a crucial role in the current year. Especially against the backdrop of an increasing pick-up in the global economy we expect that the Euro area's profit growth anticipated by the market for 2014 (around +6.5% for the Euro STOXX 50), for instance, is definitely in reach. Accordingly, we believe that also worries about a possible further valuation build-up will lessen sooner or later. All in all, we therefore stick to our generally positive attitude regarding the stock market development in the coming months.

Financial analyst: Helge Rechberger

Performance indices

	-5D*	-5Y in %**
ATX	1.7	6.2
DAX	1.5	15.4
Nasdaq Comp.	1.3	19.6
FTSE	1.2	10.0
STOXX Europe 50	1.1	8.3
Euro STOXX 50	1.1	6.6
MSCI World	0.7	12.6
S&P 500	0.7	16.7
DJIA	0.6	15.4
SMI	0.4	10.5
CECE Comp. (CE)	0.3	7.3
Nikkei	-0.1	10.6
Hang Seng CE	-1.4	2.1

*** performance from 17 April 2014 - 24 April 2014 (closing prices in each case), ** per year; Source: Thomson Reuters, Raiffeisen RESEARCH*

Performance sectors

	-5D*	-5Y in % **
Health Care	2.0	17.1
Cons. Discretionary	0.9	18.1
MSCI World	0.7	12.6
IT	0.7	14.8
Energy	0.7	9.5
Financials	0.7	10.4
Materials	0.7	7.3
Industrials	0.5	15.1
Cons. Staples	0.3	14.3
Utilities	0.3	4.0
Telecoms	-0.5	8.3

** weekly performance of global MSCI sector indices from 17 April 2014 - 24 April 2014 (closing prices in each case), ** per year, Source: Thomson Reuters, Raiffeisen RESEARCH*

Forecasts

	current[1]	Jun-14	Dec-14
Euro STOXX 50	3,171	3,200	3,300
DAX	9,466	9,700	10,000
ATX	2,501	2,600	2,700
SMI	8,396	8,550	8,900
FTSE	6,684	6,750	7,000
DJIA	16,502	16,500	17,000
S&P 500	1,879	1,910	1,970
Nasdaq Comp.	4,148	4,510	4,650
Nikkei	14,429	15,200	16,300
Hang Seng CE	9,799	9,650	10,500

1 as of 25 April 2014, 12:00 noon CET
Source: Bloomberg, Raiffeisen RESEARCH

Expected corporate releases

USA		
Tue,	29	eBay, Goodyear Tire & Rubber, Merck & Co.
Wed,	30	Time Warner
Thu,	01	Avon Products, Clorox, Expedia, Fluor, Kellogg, Kraft Foods, Viacom, Exxon Mobil, Teva Pharma., Vertex Pharma
Fri,	02	Chevron, Estee Lauder
Europe		
Mon,	28	Bayer, Deutsche Börse, GDF Suez, Holcim
Tue,	29	BP, Deutsche Bank, ENI, Geberit, Infineon, Jeronimo Martins, Luxottica, Nokia, Sanofi, Banco Santander, Svenska Cellulosa, Statoil, Volkswagen Vzge.
Wed,	30	ABB, BBVA, BNP Paribas, Clariant, Daimler, Erste Group Bank, Total, GlaxoSmithKline, Iberdrola, Norsk Hydro, Banco Popular, Randstad, Royal Dutch Shell
Thu,	01	British Sky Broadcasting, Lloyds Banking, Novo Nordisk, Shire, Smith & Nephew
Fri,	02	Royal Bank of Scotland, Software AG
Japan		
Mon,	28	Mitsubishi Electric, NEC, Panasonic, Kyocera
Wed,	30	Kirin Hldgs, Fujitsu, Yamaha, Daiwa Securities, Nomura Hldgs, Tokyo Electric Power
Fri,	02	Asahi Group

Source: Bloomberg, Raiffeisen RESEARCH

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

Risk notifications and explanations

Warnings

- Figures on performance refer to the past. Past performance is not a reliable indicator of the future results and development of a financial instrument, a financial index or a securities service. This is particularly true in cases when the financial instrument, financial index or securities service has been offered for less than 12 months. In particular, this very short comparison period is not a reliable indicator for future results.
- Performance is reduced by commissions, fees and other charges, which depend on the individual circumstances of the investor.
- The return on an investment can rise or fall due to exchange rate fluctuations.
- Forecasts of future performance are based purely on estimates and assumptions. Actual future performance may deviate from the forecast. Consequently, forecasts are not a reliable indicator for the future results and development of a financial instrument, a financial index or a securities service.

A description of the concepts and methods which are used in the preparation of financial analyses can be found at: www.raiffeisenresearch.at/conceptsandmethods

Detailed information on sensitivity analyses (procedure for checking the stability of the assumptions made in this document) can be found at: www.raiffeisenresearch.at/sensitivityanalysis

Equity 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
HSCEI	01/01/2007

Distribution of current recommendations	
Recommendation	Base: all analysed equity market indices
Buy	74%
Hold	21%
Sell	5%

Recommendation history (12m)

Date	ATX	Euro STOXX 50	DAX 30	FTSE 100	SMI	S&P 500	Nasdaq Comp.	DJIA	Nikkei 225	HSCEI
22/03/2013	Buy	Buy	Buy	Buy	Buy	Buy	Buy	Buy	Sell	Buy
10/05/2013	Hold	Hold	Hold	Hold	Hold	Hold	Hold	Hold	Hold	I
07/06/2013	I	I	I	I	I	I	I	I	Buy	I
20/06/2013	I	I	I	I	I	I	I	I	Buy	Buy
08/08/2013	I	I	I	I	I	I	I	I	I	I
13/08/2013	Sell	I	I	I	I	I	I	I	I	I
13/09/2013	Buy	Buy	Buy	Buy	Buy	Buy	Buy	Buy	I	I
07/11/2013	I	I	I	I	I	I	I	I	I	I
08/11/2013	Hold	Hold	Hold	Hold	Hold	Hold	Hold	Hold	I	I
15/11/2013	I	I	I	I	I	I	I	I	Hold	I
13/12/2013	Buy	Buy	Buy	Buy	Buy	Buy	Buy	Buy	Buy	I
20/12/2013	I	I	I	I	Hold	I	I	Hold	Hold	I
17/01/2014	Hold	Hold	Hold	Hold	I	Hold	Hold	I	I	I
14/02/2014	Buy	Buy	Buy	Buy	Buy	Buy	Buy	Buy	Buy	I
19/03/2014	I	I	I	Hold	I	Hold	I	Hold	I	I

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Acknowledgements

Global Head of Research:
Peter Brezinschek (1517)

Top-Down CEE Banking Sector:
Gunter Deuber (5707), Elena Romanova (1378)

Research Sales:
Werner Weingraber (5975)

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Technical Analysis:
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Layout:
Birgit Bachhofner (3518), Kathrin Rauchlatner (1518)

Translation:
David Wietstruk (6781), William Burton, Ventsislav Mishev, Sarah Fleissner, Benjamin-Zsolt Zombori

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