Market Outlook Bond markets

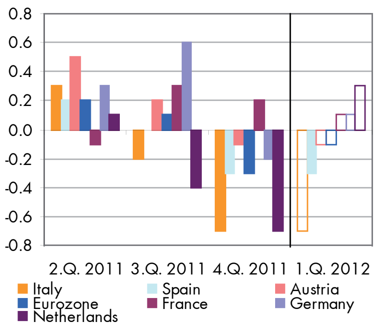
weekly

11 May 2012

Raiffeisen RESEARCH

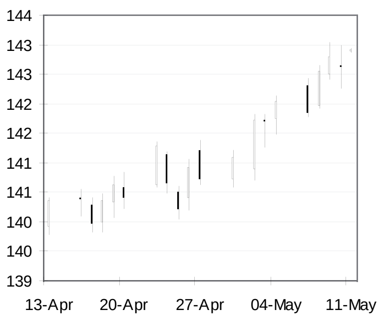
Please find our „Recommendations" on page 5.

Recession not over yet



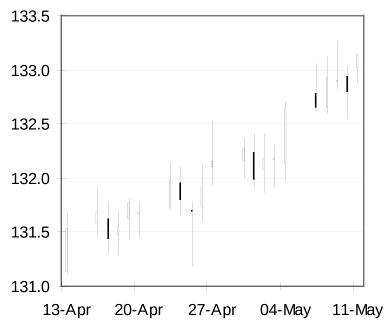
Source: Thomson Reuters, Raiffeisen RESEARCH

Bund Future



Source: Bloomberg

T-Note Future



Source: Bloomberg

Forecasts*

USA	current[1]	Jun-12	Sep-12	Mar-13
Key rate	0.25	0.25	0.25	0.25
Libor 3M	0.47	0.40	0.30	0.30
Yield 5Y	0.74	0.90	1.20	1.30
Yield 10Y	1.84	2.10	2.50	2.60
Eurozone				
Key rate	1.00	1.00	1.00	1.00
Euribor 3M	0.69	0.70	0.70	0.80
Yield 5Y	0.53	1.10	1.10	1.60
Yield 10Y	1.51	2.10	2.10	2.50
Swaprate 5Y	1.35	1.80	1.70	2.05

1 as of 11 May 2012. 08:19 a.m. CET
**under revision*
Source: Thomson Reuters. Raiffeisen RESEARCH

USA

This past week, relevant economic data was in short supply. One noteworthy development was the stabilisation in **initial jobless claims** at below 370K, following an increase to 390K in April. With this, the outlook for the development of employment in May has improved tangibly. The **trade balance figures** for March confirmed the expectations of a significant widening in the trade deficit, which rose from USD 44.1 bn to USD 48.9 bn in real terms. In terms of the data, the week ended with **producer prices** for April and the first results of the **University of Michigan consumer confidence** survey for May.

Next week, there are numerous indicators on the agenda again. The main attraction will probably be **retail sales data** for April (Tue): As consumers increased their spending strongly in the period Jan-Mar, we expect to see a considerably more moderate development in April. In month-on-month terms, retail sales probably only managed an increase of 0.2%, after average growth of 0.8% mom in the first three months of the year. Another bit of Tuesday data is the **Empire State Manufacturing Index**, the first important regional sentiment indicator for this month: similar to the expectations for the **Philadelphia Fed Index** (Thu), consensus anticipates a mild improvement in sentiment. Nevertheless, the trend would still be pointing downwards. Turning to **consumer prices** (Tues), due to the easing pressure from food and oil prices we project a decline in inflation from 2.7% yoy to 2.3% yoy. Wednesday then features the April figures on **industrial produc-**

Key figures

USA					RBI-	Cons.	prior
Tue,	15.	14:30	Consumer prices (% yoy)	Apr.	**2.3**	2.4	2.7
Tue,	15.	14:30	- core rate (% yoy)	Apr.	**2.2**	2.3	2.3
Tue,	15.	14:30	Empire State Manufacturing Index	May	**n.a.**	8.9	6.56
Tue,	15.	14:30	Retail sales (% mom)	Apr.	**0.2**	0.2	0.8
Tue,	15.	14:30	- less autos (% mom)	Apr.	**0.3**	0.2	0.8
Tue,	15.	16:00	Business inventories (% mom)	Mar.	**n.a.**	0.5	0.6
Tue,	15.	16:00	NAHB housing market index	May	**n.a.**	26	25
Wed,	16.	14:30	Housing starts (thsd, ann.)	Apr.	**730**	678	654
Wed,	16.	14:30	Building permits (thsd, ann.)	Apr.	**760**	735	764
Wed,	16.	15:15	Industrial production (% mom)	Apr.	**0.6**	0.5	0.0
Thu,	17.	16:00	Philadelphia Fed Index	May	**n.a.**	11.0	8.5
Europe							
Mon,	14.	11:00	EUR: Industrial production (% mom)	Mar.	**0.4**	0.5	0.8
Tue,	15.	07:30	FR: GDP (% qoq), prel.	Q1	**0.1**	0.0	0.2
Tue,	15.	08:00	DE: GDP (% qoq), flash	Q1	**0.1**	0.1	-0.2
Tue,	15.	09:00	AT: GDP (% qoq), prel.	Q1	**-0.1**	n.a.	-0.1
Tue,	15.	09:30	NE: GDP (% qoq), prel.	Q1	**0.3**	-0.2	-0.6
Tue,	15.	11:00	EUR: GDP (% qoq), flash	Q1	**-0.1**	-0.2	-0.3
Tue,	15.	11:00	DE: ZEW economic sentiment	May	**10.0**	20.1	23.4
Wed,	16.	10:00	IT: GDP (% qoq), prel.	Q1	**-0.7**	-0.7	-0.7
Wed,	16.	11:00	EUR: CPI - core rate (% yoy)	Apr.	**1.9**	1.9	1.9
Events							
Thu,	16.	20:00	US: Minutes of FOMC Meeting	25 Apr.	**n.a.**	n.a.	n.a.

Source: Bloomberg, Raiffeisen RESEARCH

GDP (real %yoy)

	2011	2012e	2013f
Austria	3.1	0.3	1.3
Germany	3.1	0.0	1.1
France	1.7	0.1	1.2
Belgium	1.9	-0.2	1.4
Netherlands	1.3	-0.6	1.7
Finland	2.9	0.3	1.7
Ireland	0.8	-0.7	1.2
Italy	0.4	-1.8	0.3
Spain	0.7	-1.2	0.2
Portugal	-1.5	-3.8	-1.2
Greece	-6.8	-5.8	-1.6
Eurozone	1.5	-0.5	1.1
UK	0.9	0.8	1.9
Switzerland	1.9	0.7	1.6
USA	1.7	2.0	1.0
Japan	-0.7	1.7	1.1

Source: Thomson Reuters, Raiffeisen RESEARCH

Consumer price index (% yoy)

	2011	2012e	2013f
Austria	3.6	2.3	2.0
Germany	2.5	2.0	1.5
France	2.3	2.2	2.1
Belgium	3.5	2.8	2.0
Netherlands	2.5	2.3	2.0
Finland	3.3	2.6	2.3
Ireland	1.2	1.6	1.8
Italy	2.9	2.9	2.3
Spain	3.1	1.7	1.9
Portugal	3.7	3.0	1.8
Greece	3.3	1.0	0.7
Eurozone	2.7	2.2	1.8
UK	4.5	2.8	2.3
Switzerland	0.2	-0.5	0.6
USA	3.2	2.1	1.5
Japan	-0.3	-0.2	0.0

Source: Thomson Reuters, Raiffeisen RESEARCH

Forecasts

CHF	**current[1]**	**Jun-12**	**Sep-12**	**Mar-13**
Libor 3M	0.11	0.1	0.1	0.1
Yield 10Y	0.64	0.9	1.0	1.1
YEN				
Key rate	0.10	0.1	0.1	0.1
Libor 3M	0.20	0.2	0.2	0.2
Yield 10Y	0.85	1.0	1.1	1.2
FX				
EUR/USD	1.29	1.32*	1.35	1.35
EUR/JPY	103.0	104	108	113
USD/JPY	79.8	79	80	84
EUR/CHF	1.20	1.21	1.21	1.21
Crude				
Brent	111.1	115	111	114

1 as of 11 May 2012, 08:19 a.m. CET
**under revision*
Source: Thomson Reuters. Raiffeisen RESEARCH

tion: the extension of weekly working time and the renewed increase in the production sub-index of the manufacturing ISM point to an increase of around 0.5% mom in production. On Wednesday, markets will also be watching the monthly data on **housing starts and building permits**. We are optimistic with regard to both of these indicators.

Last week, **yields on 10-year US government bonds** kept falling, declining by 7bp to 1.85% on average compared to the previous week. This renewed decline in yields was triggered by the aftershocks from the poor labour market report from last Friday and the escalation of the debt crisis in the Eurozone. While we are quite optimistic about the development of the labour market in May and expect to see a pick-up in job growth, there are still two major risk factors in the Eurozone that could cause yields to drop even lower: the possible failure of talks on forming a government in Greece and the related possibility that the country will end up exiting the Eurozone, and the problems in the Spanish banking sector, which could ultimately force the country to activate the Eurozone's safety net. As it is unlikely that all of the negative factors will turn into positive ones over the short term there should continue to be good support for US government bonds. We do not believe that it is very likely that yields on 10-year bonds will rise to over 2% in the weeks ahead.

Eurozone

In terms of the data, the main focus in the next few days will be the release of the **GDP estimates** for Q1. Based on the available monthly data, it is clear that the economy is performing better in some countries than was feared at the end of last year. At the same time, however, this does not change the fact that many countries and the Eurozone as a whole is still in a recession. Moreover, economic prospects have deteriorated again in recent months. Surveys on economic development have slipped significantly lower and the prevailing atmosphere (intensive efforts to combat the debt crisis in the public and/or private sector, political unrest) has become gloomier. This last aspect is particularly highlighted by the sharp differences in the upcoming GDP publications. While some of the countries in Southern Europe will probably post large declines in overall economic output, we anticipate mild increases for most countries in Western and Northern Europe. The financial markets continue to monitor the events in **Southern Europe** with bated breath. In **Spain**, a drastic measure had to be taken with the nationalisation of the banking group Bankia. And this certainly will not be the last step on the long road towards stabilising the **banking sector**. High levels of private debt coupled with high unemployment and falling collateral values (house prices) translate into high financing requirements, in order to be able to form provisions for loans and to offset losses with capital. It will be difficult to raise the upcoming amounts from the private or public sector. Consequently, a loan deal for Spain with the EFSF or ESM for recapitalisation of domestic banks is looking likely. In **Greece**, the politicians are struggling to form a **government**. In the event of new elections it is questionable whether the ECB, EC and IMF will reach a positive conclusion in their assessment of the austerity programme. There is the possibility of a reduction or suspension of the next loan tranche, as well as sovereign default. At that point by the latest, Greece's continued membership of EMU would hang in the balance.

In light of the sustained uncertainties, there is still demand for **German government bonds**, despite the very low yields. For example, in spite of the record low coupon of 0.5% on 5-year bonds, with a bid-cover ratio of 1.4 demand was slightly higher than at the auctions in previous weeks. As a result, it appears unrealistic that our **forecasts** will be reached by June, and in the days ahead we will be presenting a **new assessment**. Turning to the **primary market**, Slovakia, Italy, Germany, Spain and France are planning on issuing bonds next week. Spain, Germany, France, Greece and Belgium will also be issuing money market instruments.

Overview government bonds

Yields 10Y	curr.[1] (%)	1W Δ (BP)	52W H (%)	52W L (%)	Ytd Δ (BP)
AT	2.58	-4.1	3.85	2.53	-32.8
DE	1.52	-6.9	3.12	1.52	-31.4
FR	2.83	0.6	3.72	2.48	-31.6
BE	3.21	1.1	5.86	3.14	-88.4
NL	2.06	-8.4	3.40	2.03	-12.9
FN	1.86	-8.9	3.41	1.86	-45.3
IE	8.21	51.4	14.08	7.58	-85.1
IT	5.56	12.4	7.26	4.59	-155.0
ES	6.02	28.5	6.70	4.85	93.1
PT	11.63	53.2	17.39	8.97	-173.0
GR	24.49	392.3	37.10	14.69	-1047.0
UK	1.99	-5.2	3.39	1.90	1.0
CH	0.64	-2.1	1.92	0.63	-2.0
US	1.84	-3.6	3.18	1.72	-3.3
JP	0.85	-3.9	1.18	0.85	-13.5

1 as of 11 May 2012, 08:21 a.m. CET
Source: Bloomberg

Debt issuance calendar

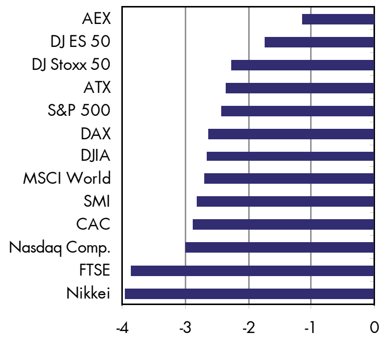
Issuer	Date	Maturity	Coupon (%)	Vol. (EUR bn)
		Bonds		
SK	Mon, 14.	n.a.	n.a.	n.a.
IT	Mon, 14.	2015	2.5	3.5
		2020	4.25	n.a.
		2022	5	n.a.
		2025	5	n.a.
DE	Wed, 16.	2022	n.a.	5
ES	Thu, 17.	n.a.	n.a.	n.a.
FR	Thu, 17.	n.a.	n.a.	n.a.
		Bills		
ES	Mon, 14.	12M, 18M	n.a.	n.a.
DE	Mon, 14.	6M	n.a.	4
FR	Mon, 14.	n.a.	n.a.	n.a.
GR	Tue, 15.	n.a.	n.a.	n.a.
BE	Tue, 15.	n.a.	n.a.	n.a.

Source: Bloomberg

Market Outlook Equity Markets

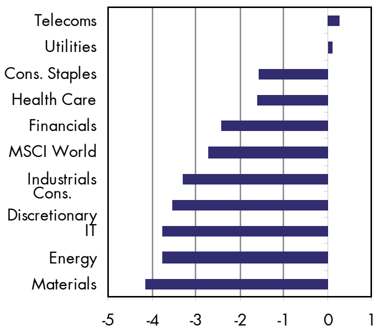
Raiffeisen RESEARCH

Market performance (%, 1 week)



Source: Thomson Reuters

Sector performance (%, 1 week)*



** weekly performance of global MSCI sector indices*
Source: Thomson Reuters

Recommendations	
Markets:	**Buy**:** Europe, USA, Japan
Favoured sectors:**	Energy, Financials, Materials, Industrials

USA

Despite most recent declines, the upward trend in US equity indices still continues. The rather controversial US economic indicators as well as the renewed uncertainty concerning the debt crisis in the Eurozone in particular are likely to stay in the way of further increases. Nevertheless, the overall upbeat earnings season and the continuing excess liquidity will also have a say in future developments. We expect stock prices to rise, yet we have to reconsider our current index targets in the next few days.

Europe

Uncertainty on the European equity markets rocketed once again after the elections in France and Greece. In particular, it remains unknown whether the crisis management in the Eurozone will suffer due to the new situation in France, on the one hand, and whether Greece will terminate the austerity programme, on the other. Last but not least, the negative news flow from Spain (partial nationalisation of Bankia/BFA) also contributed to the current outlook. Even the overall positive company results cannot really turn the tables at the moment. Regardless of the satisfactory reporting season, political uncertainty will likely further set the tone in the short term. Accordingly, we will have to reconsider our June index targets and thus put them under revision for now.

Japan

Japanese stocks sharply declined in the wake of the overall increasing risk aversion. At the same time, the Yen strengthened. Nevertheless, important economic data suggest a return to low economic growth, resulting amongst other things from the reconstruction process. Furthermore, the current reporting season turned out to be far better than the last one. Most companies managed to exceed expectations. Overall there were positive earnings revisions despite the weakening of electronics companies in particular. We are cautiously optimistic regarding Japanese stocks, even though our index targets might be too high, taking the unsettled market environment into account.

Forecasts**

	current[1]	Jun-12**	Dec-12**
Euro Stoxx 50	2,233	2,650	2,700
DAX	6,493	7,450	7,600
FTSE	5,516	6,050	6,300
SMI	5,903	6,500	6,650
DJIA	12,855	13,700	13,800
S&P 500	1,358	1,480	1,500
Nasdaq Comp.	2,934	3,300	3,400
Nikkei 225	8,953	10,700	10,900
ATX	2,030	2,350	2,450

1 as of 11 May 2012, 1:30 p.m. CET
*** under revision*
Source: Bloomberg, Raiffeisen RESEARCH

Expected corporate releases

USA		
Tue,	15	J.C.Penney, Home Depot
Wed,	16	Abercrombie & Fitch, Limited Brands, Staples, Target
Thu,	17	Autodesk, Applied Materials, Gap, Intuit, Sears, Wal-Mart
Europe		
Mon,	14	Vivendi
Tue,	15	Allianz, Davide Campai-Milano, Bouygues, Merck KGaA, Salzgitter, ThyssenKrupp,
Wed,	16	EADS
Japan		
Fri,	18	Tokyo Electric Power

Source: Bloomberg

Raiffeisen RESEARCH

Short-term trading ideas

Recommendation	Entry date	Entry level	Current level[1]	Target	Stop	Comment
Sell BOBL Future	11/04/2012	124.79	125.89	122.4	126.0	

1 as of 11 May 2012, 10:38 a.m. CET
Source: Thomson Reuters, Bloomberg

Recently closed trades

Recommendation	Entry date	Entry level	Close date	Close level	Total return	Comment
Sell Bund Future	13/04/2012	140,12	23/04/2012	141.10	-0.70%	Stopped out
Sell T-Note Future	16/03/2012	129.1	06/04/2012	130.50	-1.01%	Stopped out
Sell US T-Note Future	17/02/2012	130.9	27/02/2012	131.80	-1.01%	Stopped out
Sell Bund Future	17/02/2012	138.67	27/02/2012	139,60	-1,01%	Stopped out
Buy GE Bund Future**	02/12/2011	135.19	21/12/2011	137.40	1.62%	Trading stop triggered
Sell US T-Note Future/Buy GE Bund Future	24/11/2011	27 BP	16/12/2011	0 BP	27 BP	Target reached
Sell US T-Note Future/Buy GE Bund Future	07/10/2011	-6 BP	10/11/2011	-30 BP	24 BP	Target reached

Source: Thomson Reuters, Bloomberg

Note: This list contains only the strongest trading ideas for the markets that we cover. Therefore not every market forecast that implies a buy recommendation is also listed as a trading idea! Trading ideas may also differ from our quarterly forecasts, as the time horizon can be different. The time horizon of the trade is at least two weeks, but not more than 3 months.

Acknowledgements

Global Head of Research:
Peter Brezinschek (1517)

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), Julia Neudorfer (5842), Matthias Reith (6741); Andreas Schwabe (1389), Gintaras Shlizhyus (1343), Gottfried Steindl (1523), Martin Stelzeneder (1614)

Credit/Corporate Bonds:
Christoph Klaper (Head, 1652), Igor Kovacic (6732), Martin Kutny (2013), Peter Onofrej (2049), Manuel Schreiber (3533), Gleb Shpilevoy (1461), Alexander Sklemin (1212), Jürgen Walter (5932)

This report was completed on 11 May 2012

Stocks:
Helge Rechberger (Head, 1533), Aaron Alber (1513), Christian Hinterwallner (1633), Jörn Lange (5934), Hannes Loacker (1885), Richard Malzer (5935), Johannes Mattner (1463), Christine Nowak (1625), Leopold Salcher (2176), Andreas Schiller (1358), Connie Schümann (2178), Magdalena Szczepanski (2169)

Quant Research/Emerging Markets:
Veronika Lammer (Head, 3741), Mario Annau (1355), Björn Chyba (8161), Nina Kukic (1635), Andreas Mannsparth (8133), Albert Moik (1593), Manuel Schuster (1529)

Technical Analysis:
Robert Schittler (1537), Stefan Memmer (1421)

Translation:
David Wietstruk (Head, 6781), Ventsislav Mishev, Peter Gortvai

Editor

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