

Market Outlook

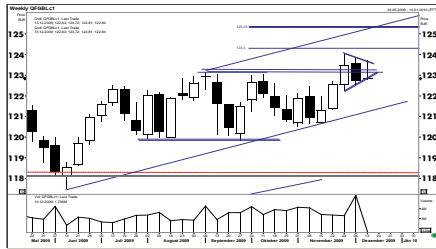
Bond Markets Weekly

weekly

11 December 2009

Technical analysis

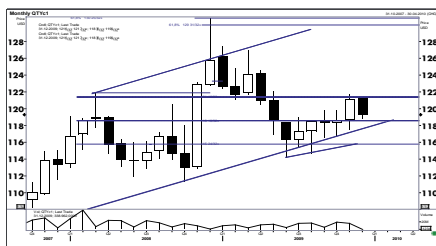
EUR Bund Future



last: 122.85
Might still be a bull Pennant (124.15 -> 125.30) as long as no 122.20 -> 121.40 follows now.

Source: Thomson Reuters

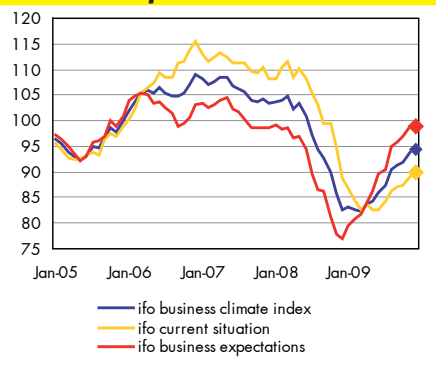
U.S. Treasury Note Future



last: 119.03
Within the Fibos, sell-signal would be 118.28 -> 118.08 - 117.16, but rebound 120 expectable.

Source: Thomson Reuters

GER: ifo improves further



Source: Thomson Reuters

Forecasts

| | cur. | Mar-10 | Jun-10 | Sep-10 |
|-----------------|------|--------|--------|--------|
| USA | | | | |
| Key rate | 0.10 | 0.10 | 0.10 | 0.10 |
| 3M | 0.25 | 0.30 | 0.30 | 0.40 |
| 5Y | 2.22 | 2.10 | 2.10 | 2.40 |
| 10Y | 3.52 | 3.20 | 3.20 | 3.50 |
| Eurozone | | | | |
| Key rate | 1.00 | 1.00 | 1.00 | 1.00 |
| 3M | 0.71 | 1.00 | 1.30 | 1.40 |
| 5Y | 2.27 | 2.40 | 2.50 | 3.10 |
| 10Y | 3.20 | 3.30 | 3.30 | 3.70 |
| Spread | 32 | -10 | -10 | -20 |

Source: Thomson Reuters. Raiffeisen RESEARCH

Please find our „trading ideas“ on page 5.

USA

During this week, relevant economic data were in short supply. The highest profile data release was today's publication of **retail sales figures** for November. As anticipated, sales were up compared to the previous month, after a strong increase was registered in October. Although these figures are nominal and therefore smaller in real terms, private consumption should still be quite robust in the third quarter. Yesterday's trade balance data for October looked positive with an eye to the development of gross domestic product for the current quarter. As we were expecting, the **trade deficit** dropped tangibly to USD 32.9 bn, down from 35.7 bn in September. **New claims for unemployment benefits** did not continue the positive trend seen in recent weeks, and rose by 17K compared to the previous week, to hit 474K.

In the coming week, there are numerous indicators on the agenda. Close attention will be paid to the **Fed's rate decision** on Wednesday. In light of the recent labour market data which were far better than expected, some market participants may be looking for the first hints of possible changes in the Fed's policies. In this

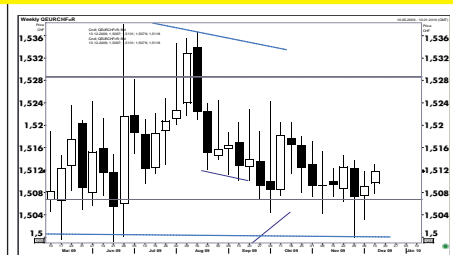
Key figures

| | | | RZB | cons. | prior |
|---------------|----------------------------------|------|-------|-------|-------|
| USA | | | | | |
| Tue, 15. | PPI, mom | Nov. | 0.4% | 0.8% | 0.3% |
| Tue, 15. | PPI Ex Food & Energy, mom | Nov. | 0.2% | 0.2% | -0.6% |
| Tue, 15. | Empire State Manufacturing Index | Dec. | 25.0 | 25.0 | 23.5 |
| Tue, 15. | Industrial Production, mom | Nov. | 0.7% | 0.5% | 0.1% |
| Tue, 15. | Capacity Utilization | Nov. | 71.3% | 71.1% | 70.7% |
| Tue, 15. | NAHB Housing Market Index | Dec. | 18.0 | 18.0 | 17.0 |
| Wed, 16. | CPI, mom | Nov. | 0.2% | 0.4% | 0.3% |
| Wed, 16. | CPI ex Food & Energy, mom | Nov. | 0.1% | 0.1% | 0.2% |
| Wed, 16. | Housing Starts, thsd., ann. | Nov. | n.a. | 575.0 | 529.0 |
| Wed, 16. | Building Permits, thsd., ann. | Nov. | n.a. | 570.0 | 552.0 |
| Thu, 17. | Philadelphia Fed Index | Dec. | 15.0 | 16.0 | 16.1 |
| Europe | | | | | |
| Mon, 14. | EUR: Industrial Production, mom | Oct. | -0.7% | -0.7% | 0.3% |
| Tue, 15. | GE: ZEW Economic Sentiment | Dec. | 40.0 | 50.0 | 51.1 |
| Tue, 15. | GE: ZEW Current Situation | Dec. | -60.0 | -60.0 | -65.6 |
| Wed, 16. | EUR: PMI Manufacturing | Dec. | 51.5 | 51.4 | 51.2 |
| Wed, 16. | EUR: PMI Services | Dec. | 53.3 | 53.1 | 53.0 |
| Wed, 16. | EUR: HICP, mom | Nov. | 0.2% | 0.2% | 0.2% |
| Wed, 16. | EUR: HICP, yoy | Nov. | 0.6% | 0.6% | -0.1% |
| Wed, 16. | EUR: HICP ex Food & Energy, yoy | Nov. | 1.1% | 1.2% | 1.2% |
| Fri, 18. | GE: Producer Prices, mom | Nov. | -0.1% | 0.1% | 0.0% |
| Fri, 18. | GE: ifo Index | Dec. | 94.5 | 94.5 | 93.9 |
| Fri, 18. | GE: ifo Current Assessment | Dec. | 90.0 | 90.0 | 89.1 |
| Fri, 18. | GE: ifo Business Expectations | Dec. | 99.0 | 98.7 | 98.9 |
| Events | | | | | |
| Wed, 16. | FOMC Rate Decision | Dec. | 0.25% | 0.25% | 0.25% |

Source: Bloomberg

Technical analysis

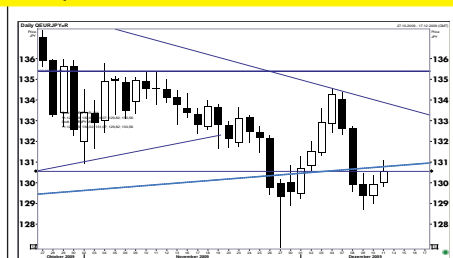
EUR/CHF



last: 1.5118
Triangle and sell 1.4965 -> 1.4740 - 1.4575 lacks dynamics, thus buy 1.5160 -> 1.52 - 1.5280 to be paid attention to.

Source: Thomson Reuters

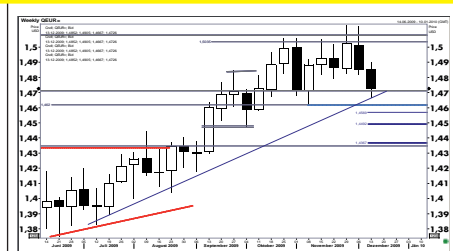
EUR/JPY



last: 130.58
Triangle and most probably of bearish type and rectangular, rebound 131.50 -> 133 should get indicated.

Source: Thomson Reuters

EUR/USD



last: 1.4728
Rectangle with support at 1.46 -> 1.4490 - 1.4350. Buy 1.48 -> 1.5030.

Source: Thomson Reuters

Forecasts

| | cur. | Mar-10 | Jun-10 | Sep-10 |
|--------------|-------|--------|--------|--------|
| CHF | | | | |
| 3M | 0.25 | 0.30 | 0.40 | 0.40 |
| 10Y | 1.90 | 1.90 | 2.00 | 2.80 |
| YEN | | | | |
| Key rate | 0.10 | 0.10 | 0.10 | 0.10 |
| 3M | 0.48 | 0.35 | 0.35 | 0.35 |
| 10Y | 1.29 | 1.30 | 1.30 | 1.40 |
| FX | | | | |
| EUR/USD | 1.47 | 1.50 | 1.52 | 1.45 |
| EUR/JPY | 131 | 130 | 135 | 145 |
| USD/JPY | 89 | 87 | 89 | 100 |
| EUR/CHF | 1.51 | 1.52 | 1.55 | 1.58 |
| Crude | | | | |
| Brent | 71.54 | 78 | 81 | 87 |

Source: Thomson Reuters, Raiffeisen RESEARCH

regard, the following phrase will be scrutinised: "... likely to warrant exceptionally low levels of the federal funds rate for an extended period." If, for example, the Fed changes the expression "extended period" to "some time" or something similar, this would be a clear signal for the market that it should prepare for interest rate increases in the coming year. Nonetheless, we do not believe the Fed will make such a move at this juncture. For example, as recently as Monday Fed Chairman Bernanke was very reserved about the outlook for future developments in the labour market. On Tuesday, financial market agents will be looking at the November data on **industrial production** with some degree of interest. After the disappointing results in October, a significant rise compared to the previous month is expected. This is supported by the latest data on new orders and the ISM index. With regard to development of the latter in December, some information can be gleaned from the **Empire State Manufacturing Index** and the **Philadelphia Fed Index** during the week ahead (Tuesday and Thursday). We do not expect to see strong changes in either of these two indicators. On Tuesday and Wednesday, the market will see the first residential real estate market data for the month, in the form of the **NAHB housing market index** and the figures on **housing starts and permits**. Consensus is looking for an improvement in all three of these indicators. Nonetheless, in both of the last two months the results have been disappointing. The set of data is rounded off next week with **producer and consumer price data** for November (Tuesday and Wednesday). In both cases, we expect to see increasing price pressure (a strong rise in the annual rate due to higher oil prices in yoy terms, with the CPI shooting up from -0.2% yoy to +1.8% yoy). The core rate of inflation, however, will remain moderate and continue to decline in 2010.

At the current mark of 3.5%, yields on **US government bonds** are on par with the level from the previous week (following the labour market report), despite the hefty fluctuations seen in the meantime. Although next week features a good deal of data which on the whole should underline that the economy is continuing to recover robustly, our expectations are too close to consensus for us to derive a sell recommendation. There is also a significant amount of risk related to the rate-setting meeting of the Fed as usual, because any hints about tightening the monetary policy reins would lead to a strong shift in the market, but we are not anticipating statements along these lines as noted above. It will be interesting to see if the market can be rattled by the sharp jump in the annual rate of inflation: if yields rise on this account, then we would see this as a good opportunity for a buy. At the time being, our short- and medium-term recommendations remain **Neutral**.

Eurozone

This week, the economic data from the entire currency area were disappointing. For example, in **Germany, France and Italy**, the data fell short of the estimates for the development of **industrial production** in October. In Germany, a decline of 1.8% was registered, instead of the anticipated increase of 1.0% on the previous month. Nevertheless, we see the results in October as an outlier. The strong outcome for new orders in September and the further

improvement in all of the sentiment indicators in manufacturing suggest robust gains in November and December. The **new factory orders data for German manufacturing** were also less than satisfactory. Instead of a gain of 0.5%, a decline of 2.1% in orders was registered in October. Here again, we expect better numbers through to year-end. The only bright spot this week was the data on the **German trade balance**. Exports in October were up 2.5% versus the previous month, whereas imports dropped by 2.4%. Accordingly, foreign trade in Q4 2009 should make a significantly positive contribution to real GDP growth, in contrast to the period July-September.

Next week features all of the important sentiment indicators: the ball gets rolling with the flash **purchasing managers' index** estimates for France, Germany and the euro area as a whole (Wednesday). The uptrend from recent weeks should continue in December, albeit at a slower pace. On Friday, there is the French **INSEE business confidence indicator, as well as the next heavyweight, the Ifo index**. We also expect the Ifo to have improved more in December. But we anticipate that the positive momentum will come particularly from the assessment of the current situation, whereas the expectations component has little potential left following the major rise seen in November. On the other hand, we expect a decline from the **ZEW survey on business expectations** (Tuesday). In our view, the upward trend already faltered in November, and furthermore the problems emanating from the Emirate of Dubai will probably have weighed on analysts' mood. Data from the euro area on **industrial production** (Monday) and **final consumer price data** (Wednesday) will probably receive little attention, along with the German **producer price data** on Friday.

All in all, it is quite a bit of data. But our view of these data does not diverge enough from the consensus for us to take a short-term position on the **bond market**. On the other hand, we took advantage of the turmoil related to Greece to make a **spread trade, betting on the Greek bond spread to tighten**, as we find the current **spread widening to be exaggerated**. The strong widening in the spread and decline in prices leaves **short- and medium-dated Greek government bonds looking very interesting for investors who are willing to hold the bonds to final maturity** (and wait out any declines in prices which may occur in the meantime). After all, at the current yield premium, five-year Greek government paper is currently offering a yield to maturity of 4.5%, which is approximately **twice as high the yield on German government bonds**. In our view, the risk that these bonds will not be paid back in full and on time in the years ahead appears to be extremely minimal.

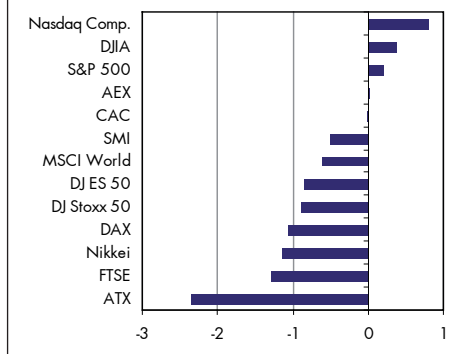
Market Outlook

Equity Markets Weekly

weekly

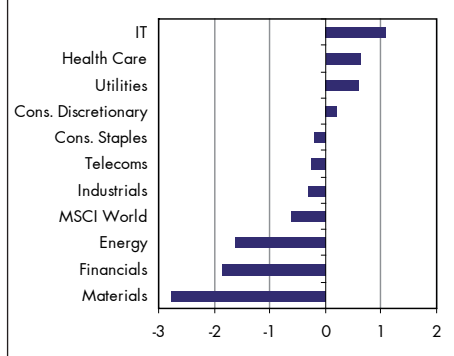
11 December 2009

Market performance (% , 1 week)



Source: Thomson Reuters

Sector performance (% , 1 week)*



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

Recommendations

Markets: Sell: USA, Europe, Japan
Favoured sectors: Energy, Health Care, Telecoms, Utilities

USA

The financial problems of Dubai World caused only temporary irritation to US stocks. All the major US stock market indices are well back at around their year highs. However, with weakening leading indicators (ISM indices) there is growing concern over the sustainability of the US economic recovery. Moreover we expect them to lose even more ground in the coming months. This will sooner or later lead to a weakening of the current economic recovery. As there is still enough liquidity on the sidelines, we expect the year-end yet to be friendly. Nevertheless, renewed fears about the state of the US economy will result in a considerable stock market correction within the first months of the new year. Hence we change our recommendation to "sell" on a three months horizon.

Europe

After the emergence of Dubai's financial problems and the negative rating outlook for Spain, worries over Greece's ballooning budget deficit lately caused further uncertainty on European stock markets. These problems can definitely be seen as a warning sign that the financial crisis is still existent. Concerning the further development of European stock markets we assume that the next months will be more volatile and consider a clear setback as quite realistic. Especially a weaker economic trend in Europe (which should also be reflected in weaker leading indicators) and a less expansive monetary policy will weigh on the sentiment. We have therefore adjusted our index targets and change our recommendation from "hold" to "sell".

Forecasts

| | current* | Mar-10 | Jun-10 |
|--------------|----------|--------|--------|
| DJ ES50 | 2,857 | 2,650 | 2,800 |
| DAX | 5,776 | 5,300 | 5,600 |
| FTSE | 5,296 | 5,000 | 5,200 |
| SMI | 6,444 | 6,000 | 6,300 |
| DJIA | 10,406 | 9,700 | 10,300 |
| S&P 500 | 1,102 | 1,030 | 1,090 |
| Nasdaq Comp. | 2,191 | 2,000 | 2,140 |
| Nikkei | 10,108 | 8,700 | 9,000 |
| ATX | 2,509 | 2,300 | 2,450 |

* as per Friday 1:30 p.m.
Source: Raiffeisen RESEARCH

Expected corporate releases

USA

Di 15. Adobe Systems, Best Buy
Mi 16. Paychex
Do 17. Carnival, Fedex, General Mills, Nike, Oracle

Europe

No important company data to be announced

Market Outlook

Trading ideas

weekly

11 December 2009

Fixed income*

| Recommendation | Entry date | Entry level | Current level | Target | Stop | Carry (ann. %) | Comment |
|-----------------------------------|------------|-------------|---------------|--------|--------|----------------|--------------------------|
| Sell 10Y Germany, Buy 10Y Austria | 03/12/2009 | 45 BP | 47 BP | 30 BP | 52 BP | | Decreasing risk aversion |
| Sell 5Y Germany, Buy 5Y Greece | 11/12/2009 | 250 BP | 219 BP | 160 BP | 280 BP | | Over-reaction of spreads |

* Fixed Income trades assume that currency risk is hedged; hedging costs are accounted for in the cost of carry;

**Levels adjusted for roll-over

Source: Thomson Reuters, Bloomberg

Recently closed trades

| Recommendation | Entry date | Entry level | Close date | Close level | Total return | Comment |
|---|------------|-------------|------------|-------------|--------------|-------------------|
| Sell 10Y Germany, Buy 10Y Belgium | 04/12/2009 | 51 BP | 09/12/2009 | 55 BP | -4 BP | Stopped Out |
| Sell German Bund Future | 29/10/2009 | 121.8 | 03/11/2009 | 122.4 | -0.49% | Stopped Out |
| Sell Germann Bund Future | 12/10/2009 | 122.20 | 27/10/2009 | 121.5 | 0.57% | Trailing stop hit |
| Sell Germann Bund Future | 21/08/2009 | 120.78 | 01/10/2009 | 122.0 | -1.01% | Stopped Out |
| Sell US T-Note Future | 29/09/2009 | 118 119/256 | 01/10/2009 | 119 1/4 | -0.66% | Stopped Out |
| Sell US T-Note Future | 04/09/2009 | 117 131/256 | 25/09/2009 | 117 192/256 | -0.25% | Closed early |
| 10/2 flattener; Sell 2Y - Buy 10Y Germany | 05/06/2009 | 206 bp | 09/09/2009 | 225 bp | -19 bp | Stopped Out |
| Buy EUR/JPY | 01/12/2009 | 131 | 07/12/2009 | 133 | 1.45% | Trailing Stop hit |
| Sell GBP/USD | 23/10/2009 | 1,643 | 09/11/2009 | 1,675 | -1.91% | Stopped Out |
| Buy EUR/CHF | 21/10/2009 | 1.5097 | 27/10/2009 | 1.515 | 0.35% | Closed early |
| Buy EUR/JPY | 29/09/2009 | 131.1 | 13/10/2009 | 133.1 | 1.53% | Closed early |
| Buy EUR/CHF | 25/08/2009 | 1.516 | 09/10/2009 | 1.5186 | 0.17% | Closed early |
| Buy EUR/USD | 04/08/2009 | 1.4364 | 07/08/2009 | 1.425 | -0.80% | Stopped Out |
| Sell EUR/JPY | 20/10/2009 | 135 | 03/11/2009 | 131.9 | 2.35% | Closed early |
| Buy EUR/USD | 05/11/2009 | 1.483 | 20/11/2009 | 1.4826 | -0.03% | Closed early |

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.

Market Outlook

Acknowledgements

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