

Market Outlook Bond markets

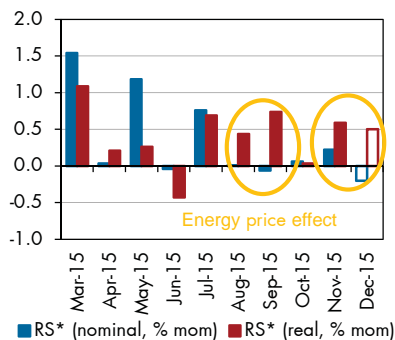
weekly

8 January 2016

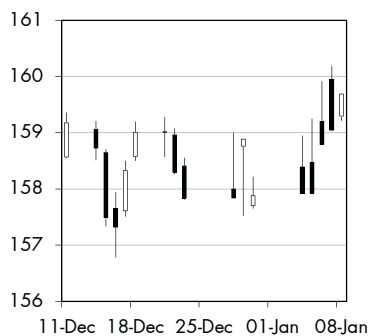


**Raiffeisen
RESEARCH**

USA: Private consumption doing well

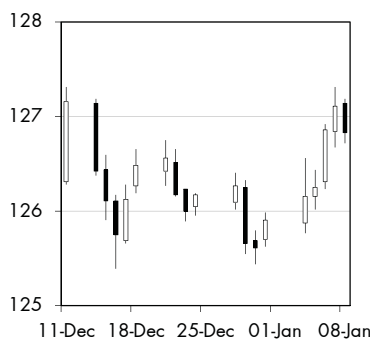


*Retail sales
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH
Bund Future



5y high: 160.36; 5y low 119.90
Source: Bloomberg

T-Note Future



5y high: 135.66; 5y low: 117.98
Source: Bloomberg

Forecasts

USA	curr. ¹	Mar-16	Sep-16	Rec. ²
Key rate	0.50	0.75	1.25	n.a.
Libor 3M	0.62	0.80	1.30	n.a.
Yield 2Y	1.00	1.20	1.60	Sell
Yield 10Y	2.18	2.60	2.90	Sell
Eurozone				
Key rate	0.05	0.05	0.05	n.a.
Euribor 3M	-0.14	-0.15	-0.15	n.a.
Yield 2Y	-0.38	-0.30	-0.30	Sell
Yield 10Y	0.54	0.80	1.10	Sell
Swaprate 5Y	0.25	0.35	0.55	n.a.

¹ as of 8 January 2016, 10:52 a.m. CET; ² Recommendation for an investment horizon of 1 to 4 months; Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

USA

In terms of data releases during the upcoming week, we would like to point out the **retail sales numbers** for December due on Friday. Once again, the difference between the published nominal numbers and the, for private consumption much more important, real numbers is of great importance. Considering the noticeable, especially prompted by the decline of fuel prices, decline in retail prices, nominal sales should have declined by 0.2% mom. The markets would certainly not be particularly happy about such a result. However, this reaction would be unjust as consumers should have used their savings from energy prices, as well as thanks to very favourable weather towards the end of the year, to buy more goods in stores than they did in November. Using real numbers, a strong increase of 0.5% mom should once again be registered.

A first glance at the December momentum of the manufacturing industry will be offered by the regional survey coming out of New York State on Friday. The majority of surveyed analysts expect a continued slight improvement of the **Empire State Index**.

Apart from retail sales, another "hard" economic indicator is scheduled for Friday: **industrial production data** for December. After the significant decline in November, we expect production to stagnate month-over-month.

Key figures

USA			RBI	Cons.	last
Mon, 11. 16:00	Labour Market Conditions Index (% mom)	Dec.	0.0	n.a.	0.5
Tue, 12. 12:00	NFIB Small Business Optimism survey	Dec.	n.a.	95.2	94.8
Tue, 12. 16:00	JOLTS job openings (mln)	Nov.	n.a.	5.40	5.38
Thu, 14. 14:30	Import price index (% mom)	Dec.	-1.7	-1.5	-0.4
Thu, 14. 14:30	Import price index (% yoy)	Dec.	-8.6	-8.6	-9.4
Fri, 15. 14:30	Retail sales (% mom)	Dec.	-0.2	0.1	0.2
Fri, 15. 14:30	- less autos (% mom)	Dec.	0.0	0.2	0.4
Fri, 15. 14:30	Producer price index (% mom)	Dec.	n.a.	-0.2	0.3
Fri, 15. 14:30	Producer price index (% yoy)	Dec.	n.a.	-1.0	-1.1
Fri, 15. 14:30	Empire State Manufacturing Index	Jan.	n.a.	-4.0	-4.6
Fri, 15. 15:15	Industrial production (% mom)	Dec.	0.0	-0.2	-0.6
Fri, 15. 16:00	Business inventories (% mom)	Nov.	0.1	0.0	0.0
Fri, 15. 16:00	Univ. of Michigan Consumer Sentiment, prel.	Jan.	95.0	93.0	92.6
Europe					
Mon, 11. 09:00	ES: Industrial output (% yoy)	Nov.	3.8	n.a.	4.0
Mon, 11. 10:30	EA: Sentix investor confidence	Jan.	12.5	12.2	15.7
Wed, 13. 11:00	EA: Industrial production (% mom)	Nov.	-0.6	0.1	0.6
Thu, 14. 10:00	IT: Industrial production (% mom)	Nov.	0.2	0.5	0.5
Events					
Wed, 13. 20:00	Fed releases Beige Book	-	-	-	-
Thu, 14. 13:30	ECB releases minutes of interest rate meeting	Dec.	-	-	-

Source: Bloomberg, RBI/Raiffeisen RESEARCH

GDP (real, % yoy)

	2015e	2016f	2017f
Austria	0.9	1.8	1.5
Germany	1.5	2.2	1.8
France	1.1	1.5	1.4
Belgium	1.4	2.0	1.7
Netherlands	2.0	2.3	1.8
Finland	0.2	1.2	1.9
Ireland	6.8	4.7	2.6
Italy	0.7	1.7	1.5
Spain	3.2	2.6	2.3
Portugal	1.5	1.4	1.5
Greece	-0.3	-0.5	2.7
Euro area	1.4	1.9	1.7
United Kingdom	2.4	2.2	1.8
Switzerland	0.9	1.5	1.9
USA	2.5	2.5	2.2
Japan	0.7	1.0	0.1

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Consumer price index (% yoy)

	2015e	2016f	2017f
Austria	0.8	1.6	2.0
Germany	0.3	1.9	2.7
France	0.2	1.1	1.5
Belgium	0.6	2.1	2.1
Netherlands	0.2	1.6	1.9
Finland	-0.1	0.8	1.3
Ireland	0.1	1.2	1.6
Italy	0.1	1.1	1.5
Spain	-0.6	1.1	1.5
Portugal	0.5	1.1	1.3
Greece	-1.1	0.5	0.5
Euro area	0.0	1.4	1.6
United Kingdom	0.0	1.5	2.2
Switzerland	-1.2	-0.1	0.5
USA	0.1	2.0	2.7
Japan	0.9	1.0	2.5

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Forecasts

	current ¹	Mar-16	Jun-16	Sep-16
CHF				
Libor 3M	-0.75	-0.8	-0.8	-0.8
Yield 10Y	-0.06	-0.2	-0.2	-0.2
JPY				
Key rate	0.10	0.1	0.1	0.1
Libor 3M	0.08	0.1	0.1	0.1
Yield 10Y	0.23	0.4	0.4	0.4
FX				
EUR/USD	1.09	1.05	1.03	1.01
EUR/JPY	128.6	131	132	131
USD/JPY	118.3	125	128	130
EUR/CHF	1.09	1.08	1.08	1.10
Crude				
Brent (USD)	33.2	45	52	61

¹ as of 8 January 2016, 10:52 a.m. CET

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Import and producer prices (Thurs and Fri) should reflect the renewed decline of commodity prices in December. We expect both to decline significantly when compared to the previous month.

In terms of data, the week on Friday will be closed by the preliminary estimate for January's **University of Michigan Sentiment Index**. Both the unbroken decline of energy prices – the price of gasoline in December was as low as it was back in spring 2009, heating oil was on its summer 2004 price level – as well as the unabated good development of the labour market should have significantly lifted the mood of consumers. But due to the most recent turbulences on the equity markets and the widely-spread China concerns, we are rather cautious about the extent of the increase.

The **minutes** of the latest **FOMC interest rate meeting** from mid-December held no surprises, but were nonetheless considered slightly-dovish by the market. Some market participants were "disturbed" by the fact that some FOMC members characterised the decision to lift the key interest rate as a "close call". The decline of the yield on 10-year US government bond by about 10 basis points to 2.2% during the first couple of days of the new year can, in our opinion, sooner be attributed to the continued decline of the oil price and the turbulences arising from the Chinese stock markets. As we continue to believe that the developments in China have no noticeable effect on the US economy – extensive analysis of this topic can be found in our publication "*Special China: Business cycle Europe & USA*" from 7 September 2015 – and expect the oil price to increase significantly over the course of the year, we so far see no reason to rethink our assumptions regarding the Fed's policy for the current year and continue to expect a key interest rate hike in March. With the by us forecasted very solid labour market development, as well as a, in all likelihood, then significantly higher rate of inflation, the central bank would only waive an interest rate rise if the situation on the financial markets, starting in China, does not calm down or if it intensifies further.

Financial analyst: Jörg Angelé, CIAA, RBI Vienna

Euro area

With the **Sentix Index**, the first leading economic indicator for January will be released next week. The recent decline of prices on the international equity markets should have led to a significant darkening of the sentiment of the surveyed analysts and financial market participants. Especially the future expectations may have declined significantly. Furthermore, industrial data for November is on the agenda. The presetting for **industrial production** is, according to sentiment surveys, quite well and is reflected accordingly in our forecasts for Spanish and Italian production. Those projections, however, entail downward risks. The so far published output data for the individual countries are significantly behind expectations. For example, in some countries industrial activity was curbed by energy output. When looking at the already available results, one can surely expect a significant decline of production month-over-month for the entire euro area.

During the first couple of days of 2016, the **government bond market** was shaped less by the considerable amount of data but rather by the turbulences on the financial markets arising from the **Chinese stock market**. In our opinion, the significant drop of Chinese stock prices can be attributed sooner to the mix of uncertainties about the future exchange rate development and inappropriate regulatory measures for equity markets of Chinese public institutions than to the economic development. The without doubt ongoing slowdown of Chinese economic growth can be explained by the structural change of the economy, which should however not result in an economic collapse (hard landing). The effects of this development on the economy in the euro area are measurable but not trend-setting (see our September 2015 publication). As Chinese authorities have enough funds to manage the turmoil seen on the equity and currency market, we anticipate **no sustainable contagion effects** on the international financial markets and therefore on euro area government bonds.

According to the **rating calendar**, S&P for Belgium as well as Moody's for Lithuania and Portugal have the opportunity to announce a renewed assessment next Friday.

Financial analyst: *Gottfried Steindl, CIIA, RBI Vienna*

Debt issuance calendar

Issuer	Date	Maturity	Coupon (%)	Vol*
Bonds				
LT	Mon,	11.	n.a.	n.a.
NL	Tue,	12.	2033	2.5 1.5
AT	Tue,	12.	2034	2.4
AT	Tue,	12.	2025	1.2 1.21
DE	Tue,	12.	2026	0.1 I/L 1
IT	Wed,	13.	n.a.	n.a. n.a.
DE	Wed,	13.	2026	n.a. 5
ES	Thu,	14.	n.a.	n.a. n.a.
Bills				
DE	Mon,	11.	6M	- 3
FR	Mon,	11.	-	- n.a.
IT	Tue,	12.	12M	- 7
MT	Tue,	12.	3M, 6M	- n.a.
BE	Tue,	12.	3M, 12M	- n.a.
LV	Wed,	13.	6M	- n.a.

* EUR bn
Source: Bloomberg

Overview government bonds

	Yields 10Y				
	curr. ¹ (%)	1W Δ (BP)	5Y H (%)	5Y L (%)	Ytd Δ (BP)
AT	0.84	-6.0	3.86	0.20	-6.0
DE	0.54	-9.4	3.49	0.08	-9.4
FR	0.91	-7.8	3.78	0.35	-7.8
BE	0.89	-7.5	5.86	0.34	-7.5
NL	0.72	-7.6	3.75	0.22	-7.6
FN	0.83	-8.9	3.71	0.14	-8.9
IE	1.02	-13.6	14.08	0.65	-13.6
IT	1.54	-5.2	7.26	1.13	-5.2
ES	1.73	-4.1	7.62	1.15	-4.1
PT	2.59	7.2	17.39	1.56	7.2
GR	8.65	36.2	37.10	5.57	36.2
GB	1.80	-15.7	3.88	1.33	-15.7
CH	-0.07	-0.3	2.16	-0.38	-0.3
US	2.18	-9.4	3.74	1.39	-9.4
JP	0.23	-3.6	1.36	0.20	-3.6

¹ as of 8 January 2016, 08:59 a.m. CET
Source: Bloomberg

Forecast spreads¹ government bonds

	cur. ²	Mar-16	Jun-16	Rec. ³
FR10y/DE10y	38	25	20	Buy
AT10y/DE10y	31	20	15	Buy
IE10y/DE10y	48	50	40	Buy
IT10y/DE10y	100	80	60	Buy
ES10y/DE10y	119	90	70	Buy
PT10y/DE10y	202	170	150	Buy
GR10y/DE10y	817	n.a.	n.a.	n.a.
DE10y/DE2y	92	110	140	Sell

¹ Spread first bond segment versus second, in bp
² As of 8 January 2016, 10:50 a.m. CET
³ Recommendation for an investment horizon of 1 to 4 months
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Ratings

	Moody's	S&P	Fitch
Austria	Aaa (n)	AA+ (s)	AA+ (s)
Germany	Aaa (s)	AAA (s)	AAA (s)
France	Aa2 (s)	AA (n)	AA (s)
Belgium	Aa3 (s)	AA (s)	AA (n)
Netherlands	Aaa (s)	AAA (s)	AAA (s)
Finland	Aaa (n)	AA+ (n)	AAA (n)
Ireland	Baa1 (p)	A+ (s)	A- (p)
Italy	Baa2 (s)	BBB- (s)	BBB+ (s)
Spain	Baa2 (p)	BBB+ (s)	BBB+ (s)
Portugal	Ba1 (s)	BB+ (s)	BB+ (p)
Greece	Caa3 (s)	CCC+ (s)	CCC (n.v.)
UK	Aa1 (s)	AAA (n)	AAA (s)
Switzerland	Aaa (s)	AAA (s)	AAA (s)
USA	Aaa (s)	AA+ (s)	AAA (s)
Japan	A1 (s)	A+ (s)	A (s)

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

Market Outlook Equity Markets



Performance indices

	-5D in %*	-5Y in %**
ATX	-4.1	-4.5
SMI	-4.2	5.4
FTSE 100	-4.6	-0.1
S&P 500	-4.9	8.9
STOXX Europe 50	-5.0	2.2
MSCI World	-5.1	6.0
Dow Jones Ind.	-5.2	7.2
Euro STOXX 50	-5.6	1.9
Nasdaq Comp.	-6.4	11.6
Nikkei 225	-6.7	11.0
CECE Comp. (CE)	-6.9	-9.4
DAX	-7.1	7.5
Hang Seng CE	-9.4	-7.5

** performance from 31 Dec 2015 - 07 Jan 2016 (closing prices in each case); ** per year
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Performance sectors

	-5D in %*	-5Y in %**
Utilities	-1.3	1.6
Telecoms	-2.8	4.9
Cons. Staples	-3.0	9.9
Health Care	-4.0	15.2
MSCI World	-5.1	6.0
Industrials	-5.5	5.6
Energy	-5.7	-5.9
Cons. Discretionary	-5.8	11.4
Financials	-5.8	4.3
IT	-6.3	9.3
Materials	-6.5	-6.1

** weekly performance of global MSCI sector indices from 31 Dec 2015 - 07 Jan 2016 (closing prices in each case); ** per year
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Forecasts

	current ¹	Mar-16	Jun-16
Euro STOXX 50	3,082	3,480	3,470
DAX	10,010	11,200	11,100
ATX	2,276	2,550	2,520
SMI	8,439	9,100	9,050
FTSE 100	5,984	6,350	6,200
Dow Jones Ind.	16,514	17,600	17,200
S&P 500	1,943	2,100	2,040
Nasdaq Comp.	4,689	5,350	5,200
Nikkei 225	17,698	20,200	20,800
Hang Seng CE	8,846	10,100	10,100

¹ as of 8 January 2016, 12:00 noon CET;
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Recommendations (horizon: end of March 2016)

Stock markets: Buy: ATX, DAX, Euro STOXX 50, Nikkei 225, SMI, FTSE 100, Hang Seng CE, S&P 500, Dow Jones Industrial Average, Nasdaq Comp.

Established equity markets

The global equity markets had to take a **hard hit** at the beginning of 2016. The increasing tensions between Iran and Saudi Arabia, surprisingly weak economic indicators coming out of China (and to some extent also out of the US) as well as the consequentially lower commodity and energy prices sent many equity market indices around the world into a tailspin. Additionally, the weakened yuan troubles the financial world. In regards to equity markets, a weak Chinese currency certainly spells trouble for export-orientated companies. In times of lacking corporate data publications as well as vacationing market participants, this can very quickly lead to severe – and in our opinion exaggerated – market moves. These impressive developments can be seen quite remarkably in the five-day performance data in the table on the left-hand side. It is without doubt, that the previously mentioned uncertainty factors will accompany us for the next couple of days or weeks, and will influence markets both negatively and positively.

It should also be noted that already during the next week more corporate-side data can be reported. Monday will kick off the **reporting season** for the last quarter of 2015. When corporations such as Alcoa, Intel, JPMorgan, Citigroup or Wells Fargo report their numbers, the primary focus will most likely be set on the US stock market. The expectations regarding profit growth of the S&P 500 are first of all – as often – muted. According to Bloomberg, the 30 October analysts' consensus expects a decline of profits by 4.2% year-over-year for the fourth quarter 2015. The consensus increased its expected loss to 6.1% at the end of December.

When factoring out the extremely affected profits of energy companies, the expected decline in profits shrinks to a relatively small 0.7%. The consensus is expecting the strongest yoy profit growth rates in the US to occur in the sectors telecommunications, automotive and transport. The most important aspect will however be, in which sectors or to which extent the overall profit growth expectations can be exceeded with the upcoming numbers. We are confident in regards to the cautious expectations for the fourth quarter, but we are however rather skeptical of the relatively high expectations for the entire year 2016 (more than 7% profit growth). We therefore see at the moment no reason to adjust our in December published index targets for March and recommend, on the given levels, **buying all indices** included in our universe.

Financial analyst: Helge Rechberger, CEFA, RBI Vienna

Expected corporate releases

USA

Mon, 11 Alcoa

Thu, 14 Intel, JPMorgan, Infosys

Fri, 15 BlackRock, Citigroup, US Bancorp, Wells Fargo

Source: Bloomberg, RBI/Raiffeisen RESEARCH

Risk notifications and explanations

Kindly note that research is done and recommendations are given only in respect of financial instruments which are not affected by the sanctions under EU regulation no 833/2014 as amended, i.e. financial instruments which have been issued before 1 August 2014.

We may remind you that the acquisition of financial instruments with a term exceeding 30 days issued after 31 July 2014 is prohibited under EU regulation no 833/2014 as amended. No opinion is given with respect to such prohibited financial instruments.

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- Performance of a financial instrument, a financial index or a securities service 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.

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Government bonds

Outright: Recommendation history (1-4 months horizon)

Issuer	DE		US	
	2y	10y	2y	10y
Maturity segment				
05/12/2014	Sell	Buy	Sell	Sell
02/01/2015	Hold	Hold		
09/01/2015	Sell			
08/05/2015		Buy		
12/06/2015		n.a.		
23/06/2015		Buy		
10/07/2015		Hold		
30/07/2015		Sell		
08/10/2015				
17/12/2015				

Issuer	Date of first publication of recommendations
Euro area countries	January 1989
USA	January 1989

Spread: Recommendation history (1-4 months horizon)

Issuer	AT-DE	FR-DE	IT-DE	ES-DE	IE-DE	PT-DE	DE-DE
	10y-10y	10y-10y	10y-10y	10y-10y	10y-10y	10y-10y	10y-2y
18/07/2014	Hold	Hold	Buy	Buy	Buy	Buy	Sell
12/09/014							Hold
16/09/014	Buy	Buy					
05/12/2014							Buy
02/01/2015							Hold
09/01/2015	Hold	Hold	Hold	Hold	Hold	Hold	
26/02/2015	Buy	Buy	Buy	Buy	Buy	Buy	
09/05/2015							Buy
12/06/2015							n.a.
19/06/2015	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
23/06/2015	Buy	Buy	Buy	Buy	Buy	Buy	Buy
29/06/015	Hold	Hold	Hold	Hold	Hold	Hold	
16/07/2015	Buy	Buy	Buy	Buy	Buy	Buy	
07/08/2015							Sell
18/09/2015				Hold			
30/10/2015				Buy		Hold	
27/11/2015						Buy	

Equity market indices

Financial instruments	Date of the first publication
ATX	01/04/1993
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

Equity market indices

Recommendation history (1-4 months horizon)

Date	ATX	Euro STOXX 50	DAX 30	FTSE 100	SMI	S&P 500	Nasdaq Comp.	DJIA	Nikkei 225	HSCEI
09/01/2015	Buy	Buy	Buy	Buy	Buy	Hold	Buy	Hold	Buy	Hold
30/01/2015		Hold	Hold	Hold	Hold	Buy		Buy	Hold	
13/02/2015	Hold					Hold	Hold	Hold		
20/03/2015	Buy	Buy	Buy		Buy		Buy		Buy	
15/05/2015	Hold									Sell
29/05/2015									Hold	
05/06/2015							Hold			
22/06/2015	Buy			Buy	Hold		Buy		Buy	Hold
24/07/2015										Buy
21/08/2015						Buy		Buy		
28/08/2015					Buy					
18/09/2015				Hold						
23/10/2015	Hold					Hold		Hold		Hold
06/11/2015		Hold	Hold		Hold		Hold			
13/11/2015									Hold	
04/12/2015		Buy	Buy	Buy	Buy		Buy		Buy	
17/12/2015	Buy							Sell		Buy
08/01/2016						Buy		Buy		

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