

# Market Outlook

## Bond Markets Weekly

15th February 2002

weekly

### Technical Analysis

#### EUR Bund Future



Source: Thomson Financial Datastream

#### U.S. Treasury Note Future 10Y



Source: Thomson Financial Datastream

#### USD per EUR



Source: Thomson Financial Datastream

#### Forecasts

	cur.	Mar-02	Jun-02	Dec-02
<b>USA</b>				
3M	1.92	2.00	2.00	3.20
5Y	4.27	4.40	4.70	5.00
10Y	4.94	5.20	5.50	5.60
<b>Euro-12</b>				
3M	3.37	2.80	3.00	3.50
5Y	4.51	4.30	4.40	5.10
10Y	4.95	4.80	5.10	5.40
Spread	-1	40	40	20
EUR/USD	0.87	0.86	0.88	0.91

### Recommendations (Q1)

**Buy:** EUR: mid-term maturities

### USA

It remains true that a lot of the imbalances in the US economy have not been cleared so far (especially concerning the household sector). It appears equally sensible to expect the coming recovery as a whole to be rather subdued, and to be followed by only sub-par growth. Nevertheless we expect the start of the recovery in the coming months to be surprisingly strong: On the one hand private consumption has remained strong (with retail sales for January up 1.2% mom), and so far there is no sign for a coming break-down in this sector (despite drop of Mich. Consumer confidence for February increased further to 90.9). On the other hand the inventory correction continues at a very strong pace, opening a growing gap between demand and supply. The consequence will be - in our view - a strong snap back of production, until this gap has been filled, which should bring along a strong recovery in the production side of the economy in the coming months. Therefore expect relatively strong GDP growth already in Q1 and Q2.

Consequently we **expect** the **whole yield curve to shift upwards**, we therefore recommend to shorten duration.

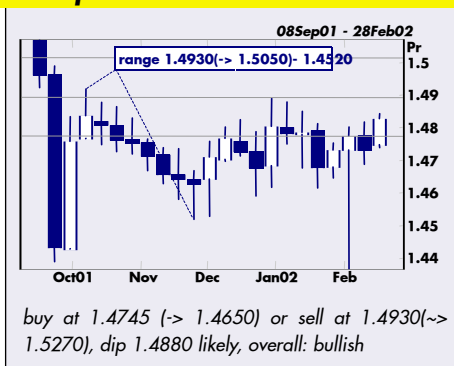
**The coming week:** New housing starts and housing permits are in a similar situation as private consumption: at a high level, but well supported so far; Consequently we would not expect large declines in the near future. After benign PPI data last week the CPI inflation data should not worry the market, either: Barring a major rise

### Key figures

		Consensus	previous
<b>USA</b>			
19. Feb.	Housing Starts saar.	Jan. 1.600 mn	(1.570 mn)
	Housing Permits saar.	Jan. 1.675 mn	(1.653 mn)
20. Feb.	Consumer Prices	Jan. 0.2% mom	(-0.2% mom)
	Consumer Prices Core	Jan. 0.2% mom	(0.1% mom)
21. Feb.	Leading Indicator	Jan. 0.6% mom	(1.2% mom)
	Phil. Fed. Bus. Index	Jan. 10.0	(14.7)
<b>Euro-12</b>			
19. Feb.	EUR: Industrial Prod. sa.	Dec. -	(1.9% mom)
	EUR: Industrial Prod. nsa.	Dec. -	(-6.3% yoy)
20. Feb.	ESP: GDP sa.	Q4 -0.1% qoq	(0.3% qoq)
		Q4 1.8% yoy	(2.8% yoy)
21. Feb.	FRA: Household Consumpt.	Jan. 0.2% mom	(0.4% mom)
		Jan. 2.0% yoy	(3.8% yoy)
	ITA: Industrial Orders sa.	Dec. -	(0.3% mom)
	ITA: Industrial Orders nsa.	Dec. -	(-6.0% yoy)
	ITA: 12-City CPI	Feb. 0.3% mom	(0.5% mom)
		Feb. 2.4% yoy	(2.4% yoy)
22. Feb.	GE: Consumer Prices nsa.	Feb. 0.4% mom	(0.9% mom)
	GE: Consumer Prices	Feb. 1.8% yoy	(2.1% yoy)
	FRA: GDP	Q4 0.3% qoq	(0.5% qoq)
	BE: BNB Leading Ind.	Jan. -12.0	(-12.8)

## Technical Analysis

### CHF per EUR



Source: Thomson Financial Datastream

### JPY per EUR



Source: Thomson Financial Datastream

### JPY per USD



Source: RZB

### Forecasts

	cur.	Mar 02	Jun-02	Dec 02
<b>CHF</b>				
3M	1.68	1.50	1.50	2.00
10Y	3.54	3.40	3.60	4.00
CHF/EUR	1.48	1.47	1.50	1.55
ATS/CHF	9.29	9.36	9.17	8.88
<b>YEN</b>				
3M	0.10	0.10	0.10	0.10
10Y	1.50	1.40	1.60	1.80
JPY/EUR	115.6	120	121	120
ATS/JPY	11.9	11.4	11.3	11.5

of the oil price, the coming months will continue to show declining inflation rates (disinflation). So at least from this side there will be no pressure on bond yields. Also this week: Conference Board Leading Index (LEI) and Philly Fed Index, both should continue their strong advance - providing further evidence for the materialising recovery.

## Euro

While the expected rebound of the Italian industrial production was surprisingly large with +1.6% p.m., industrial production in France with -0,9% p.m. was disappointing. Retail sales in Germany, also a December figure, were down by 3,4% p.m., a further considerable disappointment. According to first estimates the Dutch economic growth was flat in Q4 compared to the previous quarter, which gives a growth rate of 1.1% in 2001. This week some quite interesting data are due: Releases of first estimates of Q4 GDP growth in France and Spain will be a good hint of the scale of the economic downturn in the Euro area. We think that economic growth was flat quarter on quarter in both countries. Consumer spending in France could have slipped slightly in January (-0,1%p.m.). Preliminary inflation data for Germany and Italy should confirm the trend downwards which started in the last months last year, leaving the January figure an outlier.

Lately yields across all maturities increased again. The simultaneous surge of short and long-term yields indicates once more the market's perception of no more interest rate cuts. Nevertheless, the spread between bonds of two-year maturity and ten-year maturity should widen (currently about 1.1 percentage points). At the moment, movements at the European bond market are very much dominated by developments in the US. An example: While surprisingly positive US retail sales figures pushed the yields up, the also unexpectedly negative reading of the German retail sales did not have any impact on the German benchmark. Conclusion: Yields are heading upwards. In the coming weeks a spread in the ten-year maturity segment between American and European bond yields should build up due to a more dynamic economic upturn in the US

## USD/EUR

The risk for a renewed set-back in USD/EUR remains high, especially in the light of the fast improvement of US economic data we count on for the coming months. Nevertheless we do not expect new lows of USD/EUR.

## JPY

Fundamentals still argue clearly for a further weakening of the JPY. Nevertheless two sources of short term appreciation risk for the JPY still exist: Risk 1: Comments from US president Bush on the weak JPY on his visit to Japan (17/18 Feb.) and Korea /China (19-22 Feb.); Risk 2: The possibility of exceptionally large repatriation flows to ailing Japanese banks and enterprises in the coming weeks. But the effect of both factors should only have a short term impact (if at all), any JPY appreciation from these sources would be a good opportunity to go short the JPY again.

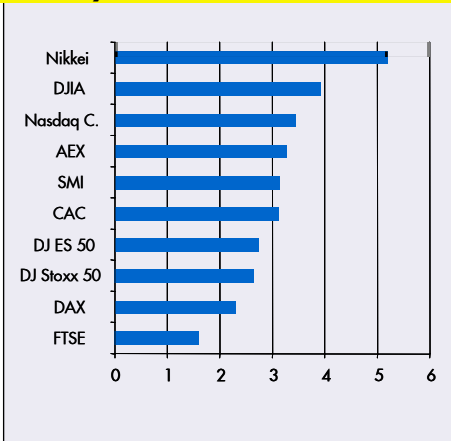
# Market Outlook

## Equity Markets Weekly

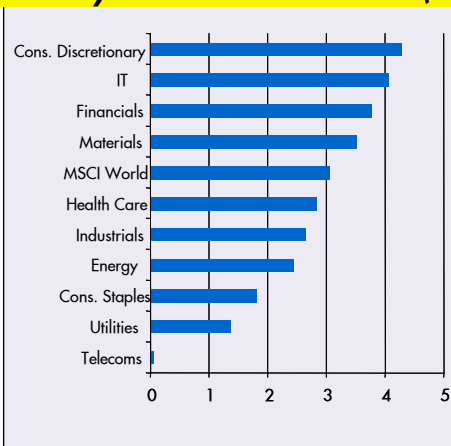
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### Weekly Market Performance (%)



### Weekly Sector Performance\* (%)



\* weekly performance of global MSCI sector indices.  
Source: Thomson Financial Datastream

### Recommendations

**Buy:** US-Materials; Industrials, Software, Media  
**Sell:** Nikkei

### Topics

#### USA:

In the past few trading days the Nasdaq Composite index could regain some lost ground. However, IT and telecom companies are still suffering as general market uncertainty has aggravated due to partly high valuations and opaque business outlooks in these sectors. There are some renewed concerns about phone companies' credit worthiness and battered optical networking company Ciena is to present quarterly earnings (or losses!). On the other hand, many stocks have approached more sustainable levels which is why we believe that this year's down-leg is about to be finished sooner or later. Our best guess at the moment is that the Nasdaq Composite index will bottom out in the lower 1,700s. The Dow Jones Industrials, mostly including giant old-economy stocks, is still very stable. There is somewhat less fuss about corporate accounting practices in the market and the latest economic indicators add to the confidence in a recovery. We are pretty convinced the Dow Jones Industrials is on its way back to the upper 10,000s.

#### Europe:

Earnings are expected in a number of industries. Regarding automobiles the focus will be on Daimlers sub-unit Chrysler. We remain cautious on their figures. The same is true for HypoVereinsbank. Recently CSFB reduced its estimates and other banks will probably follow. Therefore we also remain cautious with regard to the market indexes and recommend buying at lower levels (DAX around 4600 Points).

#### Japan:

Although the Nikkei passed the 10,000-points mark again, we do not think that this will hold on for a sustained period of time and stick to our sell recommendation. We still reckon with a test of the September lows (Nikkei at 9,400).

### Expected Releases

#### USA

19 Feb Wal-Mart Stores  
21 Feb Autodesk, BEA Systems, CIENA Corp., JC Penney, Nextel, PG&E Corp.

#### Europe

18 Feb Danone, Uralita, Dragados  
19 Feb VW, Georg Fischer, Deutsche Börse  
20 Feb Standard Charter, DaimlerChrysler, HypoVereinsbank  
21 Feb Cap Gemini, L'Oreal, Soc. Gen., Elsevier, Abbey National, Colt Telecom  
22 Feb AKZO

### Forecasts

	current	Mar02	Jun02
DJ ES50.	3,616	3,850	3,950
DAX	4,974	4,900	5,300
CAC 40	4,429	4,750	4,700
AEX	501	520	530
FTSE	5,209	5,500	5,600
SMI	6,422	6,250	6,550
DJIA	10,002	10,300	10,800
Nasdaq C.	1,843	1,950	2,150
Nikkei	10,081	9,400	10,000

## Market Outlook Acknowledgements

This report was completed on 15th February 2002.

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Helge Rechberger, Head (1533), Christine Nowak (1625), Helmut Pfeffer (1885), Kurt Schappelwein (1633), Andreas Schiller (1358), Peter Schlagbauer (1529)

### Technical analysis:

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