

Financial Markets Global Strategy

3rd quarter 2017

Summer squalls on the markets?

- Robust economic recovery
- Rising rates in the USA
- ECB in wait-and-see mode
- Equity markets: soft patch in Q3



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Financial Markets Global Strategy

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Explanation:

e	estimate	CEE	Central and Eastern Europe	SK	Slovakia
f	forecast	EM	Emerging Markets	US	United States of America
r.h.s.	right hand scale	AT	Austria		
n.v.	no value	BE	Belgium		
ABS	Asset backed securities	BG	Bulgaria	EBSU:	BofA Merrill Lynch Euro Subordinated Financial Index
BM	Benchmark	CH	Schweizerland		
CB	Covered Bonds	CY	Cyprus		
ETF	Exchange Traded Funds	DE	Germany		
BM	Benchmark	EA	Euro area		
AI	Alternative Investments (Hedge funds & real estate)	EE	Estonia		
IL	Inflation Linked bonds	ES	Spain		
IG	Investmentgrade	FI	Finland		
HY	High-Yield	FR	France		
bp	basis points	GB	Great Britain		
pp	percentage points	GR	Greece		
ASW	Asset Swap Spread	IE	Ireland		
CPI	Consumer Price Index	IT	Italy		
MSCI	Morgan Stanley Composite Index	LT	Lithuania		
OAS	Option Adjusted Spread	LV	Latvia		
QE	Quantitative Easing	PT	Portugal		
WTI	West Texas Intermediate	SI	Slovenia		

Strong growth, modest inflation

- Above-average economic outlook at the global level
- Price trends remain subdued
- Widening gap between US Federal Reserve and ECB

The robust start to 2017 (with the exception of the USA) was only the beginning of a period of **strong economic performance** at the global level. Economic conditions have continued to improve since the second half of 2016, both in the developed economies and in the emerging markets. Sentiment indicators are ranging at very high levels, supporting the outlook for a period of growth which – based on the composition of its components – should extend well into 2018.

Since the rates of employment on the labour market in the USA and in the euro area now too are rising strongly and inflation rates are considerably lower than the central banks' targets, private consumption has established itself as a solid pillar of economic growth. As a result, we have raised our estimate for the euro area to 2.1%. Our projections for 2018 have remained broadly the same, and thus the high point in economic growth is behind us.

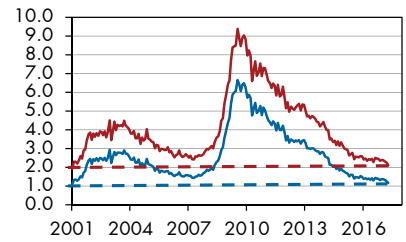
Following a spectacular start to the year, with soaring rates of inflation in both the USA and the euro area, inflationary pressure has subsided again. The reason for this was the renewed decline in commodity prices, in particular the price of oil. Consequently, we have revised our forecasts for consumer prices moderately lower, both in the USA and in the euro area, as "core inflation" (calculated as the headline rate minus energy and food prices) will probably only rise very slowly, and oil prices will slowly have less and less impact on inflation towards the end of the year.

Accordingly, there are also no major changes on the horizon when it comes to monetary policy. As consumer prices in the USA will tend to feel upward pressure from the labour market, the US Federal Reserve will continue to normalise its monetary policy. That said, we have shifted the next 4 interest rate hikes until end-2018 somewhat further into the future, because from autumn onwards the focus will shift to shrinking the Fed's balance sheet. By contrast, the ECB is still in no hurry to start tightening its monetary policy. Nevertheless, as the deflationary and recession risks fade towards the autumn, we expect that the ECB will clarify its plans for exiting its QE programme in 2018.

Impact on the currency markets: As the widening of the yield differential between the USA and the euro area did not occur as expected, the US dollar has not strengthened like we thought it would. In the quarters ahead, however, the gap may open up again. Accordingly, we have incorporated a slightly stronger USD in our forecasts through to the end of 2017. In 2018 and beyond, however, the euro should appreciate substantially. We see little change in EUR/CHF for the time being. Starting from 2018, the changes to the ECB's policies may trigger some mild weakening. GBP continues to be exposed to depreciation risks.

Impact on the capital markets: For the summer months, we see an elevated possibility of a correction on the equity markets, due to the very high valuation levels. In the emerging markets, this correction may be stronger than in the established markets. Subsequently, however, we expect the upward trend on the stock markets to continue until the spring of 2018. Accordingly, changes in yields on the bond markets in East and West are hardly realistic until the autumn. As inflation rates stabilise, increases in yields on 10-year maturities may begin again.

Employment growth

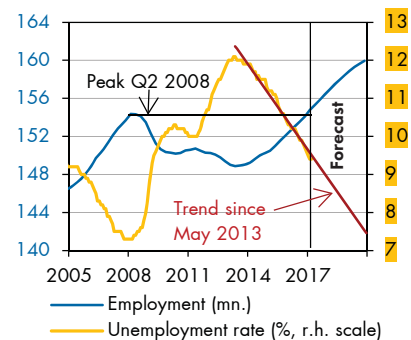


— Unemployed persons per job opening

— Unemployed persons + not in labour force but want a job now per job opening

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Labour market improves



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Recommendations*

Stock markets:	
Sell	Dow Jones Industrials, Nasdaq 100, S&P 500, DAX, Euro STOXX 50, SMI, Nikkei 225, HSCEI
Industries:	
Over-weight	Utilities, Materials, Industrials, Consumer staples, Energy
Under-weight	IT, Healthcare, Financials, Consumer discretionary, Telecommunication, Real Estate
Government bond markets:	
Sell	DE2Jy, DE5y, DE10y, US2y, US10y
Spread:	
Buy	FR-DE10y, IT-DE10y, ES-DE10y, PT-DE10y, IE-DE10y
Hold	AT-DE10y
Corporate bond markets:	
Hold	Non-Financials, Financials
FX markets:	
Sell	EUR/USD, EUR/CHF, EUR/CNY

* horizon: end of 3rd quarter 2017
Source: RBI/Raiffeisen RESEARCH

Financial analyst: Peter Brezinschek, RBI Vienna

GDP (real % yoy)

Countries	2015	2016	2017e	2018f
Austria	1.0	1.5	2.2	1.7
Germany	1.5	1.8	1.7	1.5
France	1.2	1.1	1.6	1.5
Belgium ¹	1.5	1.2	1.5	1.5
Netherlands ¹	2.0	2.1	2.1	1.7
Finland ¹	0.3	1.5	1.4	1.5
Ireland ¹	26.3	5.2	4.1	3.1
Italy	0.8	0.9	1.1	0.8
Spain	3.2	3.2	3.0	2.5
Portugal ¹	1.6	1.4	1.9	1.5
Greece ¹	-0.3	0.0	1.0	1.9
Euro area	2.0	1.8	2.1	1.7
UK ¹	2.2	1.8	1.6	1.3
Switzerland	0.8	1.3	1.5	1.7
USA	2.6	1.6	2.4	2.2
China	6.9	6.7	6.5	6.0

¹⁾ Consensus
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Consumer price index (% yoy)

Countries	2015	2016	2017e	2018f
Austria	0.8	1.0	2.0	2.1
Germany	0.1	0.4	1.9	2.2
France	0.1	0.3	1.3	1.5
Belgium ¹	0.6	1.8	2.3	1.9
Netherlands ¹	0.2	0.1	1.4	1.4
Finland ¹	-0.2	0.4	1.2	1.4
Ireland ¹	0.0	-0.2	0.7	1.2
Italy	0.1	-0.1	1.6	1.5
Spain	-0.6	-0.3	2.2	1.9
Portugal ¹	0.5	0.6	1.4	1.4
Greece ¹	-1.1	0.0	1.2	1.0
Euro area	0.0	0.2	1.6	1.5
UK ¹	0.0	0.6	2.7	2.6
Switzerland	-1.1	-0.4	0.4	0.7
USA	0.1	1.2	2.2	2.5
China	1.4	2.0	2.0	2.3

¹⁾ Consensus
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH;

Current account balance (% of GDP)

Countries	2015	2016	2017e	2018f
Austria	1.9	1.7	2.1	2.3
Germany	8.3	8.3	8.0	8.0
France	-0.2	-0.9	-1.2	-1.5
Belgium ¹	0.4	-0.4	0.7	0.8
Netherlands ¹	8.8	8.4	8.6	8.4
Finland ¹	-0.4	-1.1	-0.8	-0.5
Ireland ¹	10.2	4.7	6.1	5.6
Italy	1.6	2.6	2.5	2.5
Spain	1.4	2.0	2.1	2.2
Portugal ¹	0.1	0.8	0.4	0.4
Greece ¹	0.1	-0.6	-0.2	-0.2
Euro area	3.0	3.3	3.0	3.1
UK ¹	-4.3	-4.4	-3.9	-3.2
Switzerland	11.5	10.7	10.1	10.2
USA	-2.6	-2.6	-3.5	-3.5
China	3.1	1.9	2.0	1.9

¹⁾ Consensus
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH;

General budget balance (% of GDP)

Countries	2015	2016	2017e	2018f
Austria	-1.1	-1.6	-1.0	-1.1
Germany	0.7	0.8	0.5	0.3
France	-3.6	-3.4	-3.0	-3.2
Belgium	-2.5	-2.6	-1.9	-2.0
Netherlands	-2.1	0.4	0.5	0.8
Finland	-2.7	-1.9	-2.2	-1.8
Ireland	-2.0	-0.6	-0.5	-0.3
Italy	-2.7	-2.4	-2.6	-2.5
Spain	-5.1	-4.5	-3.2	-2.9
Portugal	-4.4	-2.0	-1.8	-1.9
Greece	-5.9	0.7	-1.2	0.6
Euro area	-2.1	-1.5	-1.4	-1.4
UK	-4.3	-3.0	-3.0	-2.3
Switzerland	1.1	0.2	0.5	0.2
USA	-2.4	-3.2	-3.5	-2.6
China	-3.4	-3.0	-3.8	-3.7

Source: Thomson Reuters, EU Commission, IMF, national governments, RBI/Raiffeisen RESEARCH

Public debt (% of GDP)

Countries	2015	2016	2017e	2018f
Austria	85.5	84.6	80.7	79.2
Germany	71.2	68.3	65.8	63.3
France	95.6	96.0	96.4	96.7
Belgium	106.0	105.9	105.6	105.1
Netherlands	65.2	62.3	59.8	57.2
Finland	63.7	63.6	65.5	66.2
Ireland	78.7	75.4	73.5	72.7
Italy	132.1	132.6	133.2	133.3
Spain	99.8	99.4	98.9	98.4
Portugal	129.0	130.4	128.5	126.2
Greece	177.4	179.0	178.8	174.6
Euro area	90.3	89.2	88.2	87.0
UK	89.0	89.3	88.6	87.9
Switzerland	46.4	43.1	44.1	41.0
USA	101.9	105.5	105.6	104.9
China	62.0	61.7	62.0	60.5

Source: Thomson Reuters, EU Commission, IMF, national governments, RBI/Raiffeisen RESEARCH

Ratings

	Moody's	S&P	Fitch
Austria	Aa1 (s)	AA+ (s)	AA+ (s)
Germany	Aaa (s)	AAA (s)	AAA (s)
France	Aa2 (s)	AA (s)	AA (s)
Belgium	Aa3 (s)	AA (s)	AA- (s)
Netherlands	Aaa (s)	AAA (s)	AAA (s)
Finland	Aa1 (s)	AA+ (s)	AA+ (s)
Ireland	A3 (p)	A+ (s)	A (s)
Italy	Baa2 (n)	BBB- (s)	BBB (s)
Spain	Baa2 (s)	BBB+ (p)	BBB+ (s)
Portugal	Ba1 (s)	BB+ (s)	BB+ (p)
Greece	Caa3 (s)	B- (s)	CCC (n.a.)
UK	Aa1 (n)	AA (n)	AA (n)
Switzerland	Aaa (s)	AAA (s)	AAA (s)
USA	Aaa (s)	AA+ (s)	AAA (s)
Japan	A1 (s)	A+ (s)	A (s)
China	A1 (s)	AA- (n)	A+ (s)

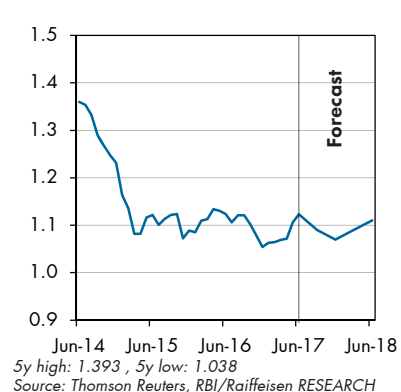
Outlook: p = positive, n = negative, s = stable
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Currencies: FX per Euro

Countries	current		Forecast		
	16-Jun 17 ¹	Sep-17	Dec-17	Mar-18	Jun-18
USA	1,12	1,09	1,07	1,09	1,11
Switzerland	1,09	1,08	1,07	1,07	1,09
China	7,61	7,49	7,38	7,58	7,71
UK	0,88	0,87	0,88	0,88	0,89
Sweden ²	9,73	9,57	9,46	9,36	9,26
Norway ²	9,46	9,21	9,12	9,04	8,95

¹⁾ 6:00 p.m. CEST
²⁾ Consensus estimates
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

EUR/USD



Money market rates 3M (%)

Countries	current	Forecast			
	16-Jun 2017 ¹	Sep-17	Dec-17	Mar-18	Jun-18
Euro area	-0.33	-0.35	-0.35	-0.30	-0.25
GB ²	0.29	0.31	0.33	0.37	0.40
Switzerland	-0.73	-0.75	-0.75	-0.75	-0.75
USA	1.27	1.40	1.70	1.90	2.20

¹ 6:00 p.m. CEST; ² Consensus
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Government bond yields 2y (%)

Countries	current		Forecast		
	16-Jun ¹	Sep-17	Dec-17	Mar-18	Jun-18
DE	-0.65	-0.7	-0.7	-0.6	-0.4
CH	-0.88	-0.8	-0.8	-0.7	-0.7
USA	1.33	1.5	1.7	1.8	1.9

¹ 6:00 p.m. CEST
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Government bond yields 5y (%)

Countries	current		Forecast		
	Sep-17	Dec-17	Mar-18	Jun-18	Mar-18
DE	-0.40	-0.3	0.0	0.2	0.4
CH	-0.64	-0.5	-0.3	-0.2	-0.1
USA	1.75	2.0	2.2	2.2	2.4

¹ 6:00 p.m. CEST
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Government bond yields 10y (%)

Countries	current	Forecast			
	16-Jun 2017 ¹	Sep-17	Dec-17	Mar-18	Jun-18
Austria	0.53	0.7	1.0	1.2	1.4
Germany	0.28	0.4	0.7	0.9	1.1
France	0.63	0.9	1.2	1.4	1.6
Italy	1.96	2.5	2.9	3.3	3.7
Spain	1.44	1.9	2.3	2.6	2.9
GB ²	1.01	1.4	1.5	1.6	1.7
Switzerland	-0.15	0.0	0.2	0.3	0.5
USA	2.16	2.4	2.8	2.8	2.9

¹ 6:00 p.m. CEST; ² Consensus
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Credit markets*

	current	Forecasts			
	16-Jun 2017 ¹	Sep-17	Dec-17	Mar-18	Jun-18
IG Non-Fin	103	105	110	125	125
High-Yield	278	285	300	320	330
Financials Senior	93	95	100	110	110
Financials Subord.	189	195	200	200	200

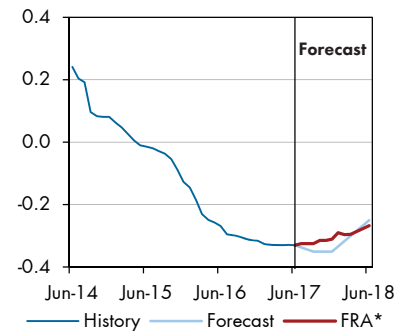
¹ 11:59 p.m. CEST closing prices
* Option Adjusted Spread over Bund (in bp)
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Stock markets

	current	Forecasts			
	16-Jun 2017 ¹	Sep-17	Dec-17	Mar-18	Jun-18
Euro STOXX 50	3,544	3,400	3,700	3,850	3,800
DAX 30	12,753	12,250	13,200	13,750	13,650
SMI	8,963	8,650	9,250	9,500	9,400
DJIA	21,384	20,700	22,200	22,700	22,600
S&P 500	2,433	2,350	2,520	2,600	2,570
Nasdaq Comp.	5,681	5,400	5,950	6,100	6,050
Nikkei 225	19,943	19,100	20,400	20,800	20,700
Hang Seng CE	10,385	9,950	10,700	10,800	10,700

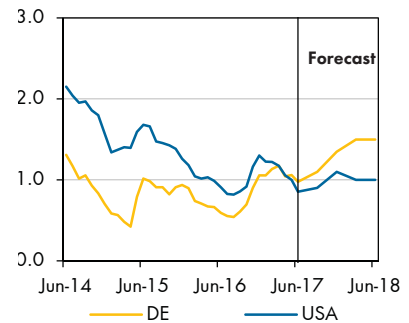
¹ 11:59 p.m. CEST closing prices on the respective main stock exchange
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Euribor 3m (%)



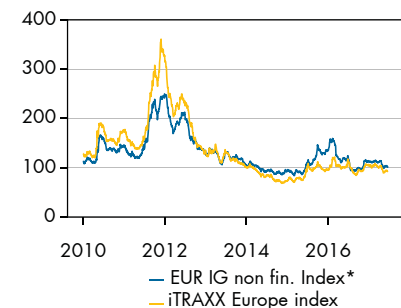
5y high: 0.662, 5y low: -0.332
* Forward rate agreement
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Yield spread 10y - 2y (pp)



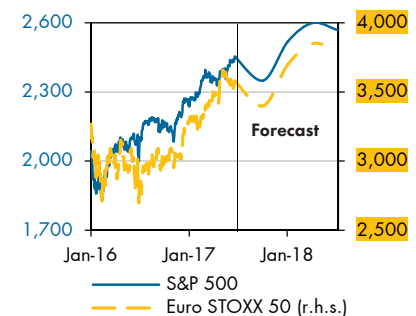
DE 5y high: 1.773; 5y low: 0.336
USA 5y high: 2.622; 5y low: 0.752
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Spread history IG vs HY (bp)



*BofA Merrill Lynch Euro Non-Financial Index
Source: Bloomberg, BofA Merrill Lynch, RBI/Raiffeisen RESEARCH

S&P 500 and Euro STOXX 50



S&P 500: 5y high: 2,128, 5y low: 1,314
Euro STOXX 50: 5y high: 3,829, 5y low: 2,453
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Risk notifications and explanations

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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.
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Investment recommendation	Column A Basis: All recommendations for all financial instruments (last 12 months)	Column B Basis: Recommendations for financial instruments of all issuers, for which special services were rendered in the last 12 months
Buy recommendations	41.9%	50.0%
Hold recommendations	48.7%	25.0%
Sell recommendations	9.3%	25.0%

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Disclosure singles

Bonds

Banco Santander

ISIN	Date of past recommendation	Company	Recommendation
XS0877984459	SANTAN 4 % 2020	27/01/2017	Buy

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Disclosure aspects

Company	Disclosure
Banco Santander	-
Banco Popular	-

Government bonds

Outright: Recommendations concerning financial instruments or issuers (disseminated during a period of 12 month prior to this publication), which differ from recommendations made in this publication with a recommendation horizon of 1-4 months

Issuer	DE			US	
	2Y	5Y	10Y	2Y	10Y
Maturity segment					
09/06/2016	Sell	Sell	Sell	Sell	Sell
01/07/2016	Sell	I	Sell	Sell	Sell
08/07/2016	I	Sell	I	I	I
22/07/2016	I	I	Hold	I	I
28/07/2016	I	I	Sell	I	I
05/09/2016	Sell	Sell	Sell	Sell	Sell
16/09/2016	Sell	Sell	Sell	I	I
23/09/2016	I	I	I	Sell	Sell
28/10/2016	I	Hold	Hold	I	I
11/11/2016	I	I	Buy	I	Hold
18/11/2016	I	I	I	Hold	I
25/11/2016	Sell	Sell	Sell	Hold	Hold
16/12/2016	Sell	Sell	Sell	Hold	Hold
13/01/2017	I	I	I	I	Sell
03/02/2017	I	Hold	Hold	I	I
24/02/2017	I	Sell	Sell	I	I
03/03/2017	Sell	Sell	Sell	Sell	Hold
10/03/2017	Sell	Hold	Hold	Sell	Hold
07/04/2017	I	Sell	Sell	I	Sell
05/05/2017	I	Hold	Hold	I	I
26/05/2017	Sell	Hold	Hold	Hold	Sell
02/06/2017	Sell	Sell	Sell	Sell	Sell

I ... no change

Spread: Recommendations concerning financial instruments or issuers (disseminated during a period of 12 month prior to this publication), which differ from recommendations made in this publication with a recommendation horizon of 1-4 months

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
06/06/2016	Buy	Buy	Buy	Buy	Buy	Buy	Sell
29/06/2016	Hold	Hold	Hold	Hold	Hold	Hold	I
01/07/2016	I	I	I	I	I	I	Sell
15/07/2016	I	I	I	I	I	I	Hold
03/08/2016	Hold	Hold	Hold	Hold	Hold	Hold	I
05/09/2016	Hold	Hold	Hold	Hold	Hold	Hold	Hold
16/09/2016	I	I	I	I	I	I	Sell
23/09/2016	Hold	Hold	Hold	Hold	Hold	Hold	I
10/10/2016	I	I	I	I	I	I	I
28/10/2016	Hold	Hold	Hold	Hold	Hold	Hold	Hold
04/11/2016	I	I	I	I	I	I	I
18/11/2016	Buy	Buy	I	I	Buy	I	I
25/11/2016	Buy	Buy	Hold	Hold	Buy	Hold	Hold
16/12/2016	Buy	Buy	Hold	Hold	Buy	Hold	Sell
25/01/2017	Hold	I	I	I	I	I	I
27/01/2017	I	I	Buy	I	I	I	I
03/02/2017	I	I	I	I	I	I	Hold
03/03/2017	Hold	Buy	Buy	Hold	Buy	Hold	Hold
17/03/2017	Hold	Buy	Hold	Hold	Buy	Hold	I
03/04/2017	I	I	I	I	Hold	I	I
07/04/2017	I	I	I	I	I	I	Sell
14/04/2017	I	Hold	I	I	I	I	I
05/05/2017	I	Sell	Sell	Sell	Sell	Sell	I
26/05/2017	Hold	Sell	Sell	Sell	Sell	Sell	Sell

I ... no change

Technical analysis

Recommendations concerning financial instruments or issuers (disseminated during a period of 12 month prior to this publication), which differ from recommendations made in this publication with a recommendation horizon of 1-4 months

Datum	EUR Bund Future	U.S. T.-Note Future
30/03/2016	NEUTRAL	NEUTRAL
29/06/2016	BULLISH	BULLISH
22/09/2016	BULLISH	BEARISH
14/12/2016	BEARISH	BEARISH
16/03/2016	NEUTRAL	BEARISH
21/06/2016	BEARISH	NEUTRAL

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