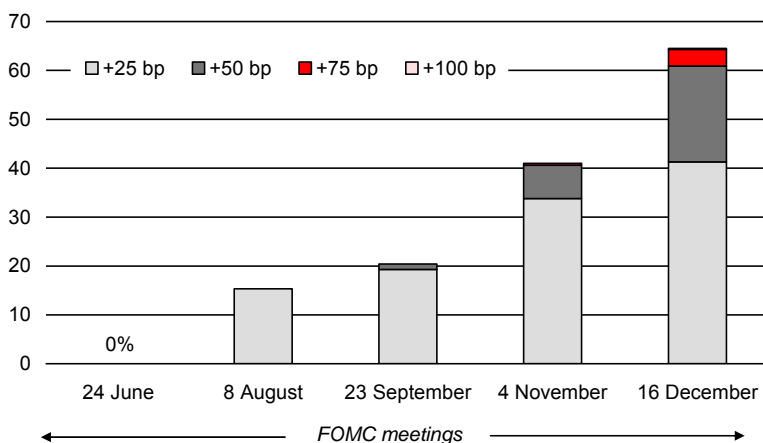


No rash rate hikes

- **Stress.** In the last two weeks, 30Y US mortgage rates have jumped about 75 basis points. The primary catalyst was a renewed upturn in inflation expectations. A continuation of this development would jeopardize the signs of gradual stabilization in the US housing market (pages 3-7).
- **Speculation.** In conjunction with the better-than-expected non-farm payroll figure last week, investors are already pricing in rate hikes by the Federal Reserve. The probability of tightening by the end of 2009 is currently more than 60% as indicated by Fed funds futures (see chart).
- **Exaggeration.** We think this is excessive, and we do not expect rate hikes until next year. The Federal Reserve will certainly want to play it safe. A premature reversal in monetary policy would jeopardize the recovery on financial markets and in the economy.
- **Timetable.** Instead, the US central bank will eventually have to dial up its rhetoric. There will probably be a stronger emphasis on timely action against inflation dangers. Furthermore, the Federal Reserve will soon make a transition to the verbal steering of investors' interest rate expectations ("expectation management").
- **Further topics:**
 - **Weekly Comment:** Throwing precaution to the wind (page 2).
 - **Switzerland:** SNB will renew its commitment to unconventional measures at its meeting next week (pages 7-8).
 - **Data outlook:** ZEW still in the updraft. Pessimism in the US housing market to abate (from page 9 on).
 - **Market outlook:** No trend reversal in Bunds. The positive mood should still affect G-10 currencies (from page 16 on).

MARKETS RACING AHEAD

Probabilities for a hike in the Federal funds rate, in %



Source: Bloomberg, UniCredit Research

Contents

Weekly Comment	2
Research Notes	3
Data Monitor	9
FI Outlook	16
FX Outlook	17
MIB View	18
MIB Forecasts	19
Calendar	22

MIB MACRO FORECASTS

in % y-o-y	2008	2009	2010
GDP EMU	0.6	-4.5	0.1
CPI EMU	3.3	0.3	1.3
GDP Germany	1.0	-6.2	0.4
CPI Germany	2.6	0.3	1.1
GDP Italy	-1.0	-5.2	-0.3
CPI Italy	3.3	0.8	1.5
GDP US	1.1	-2.6	1.3
CPI US	3.8	-0.6	2.2

MIB FI/FX FORECASTS

2009/10	30-Sept	31-Dec	31-Mar	30-Jun
EMU 3M (%)	1.25	1.25	1.25	1.35
EMU 10Y (%)	3.40	3.50	3.75	4.00
US 3M (%)	0.60	0.60	0.60	0.65
US 10Y (%)	3.60	3.75	4.00	4.30
EUR-USD	1.35	1.45	1.50	1.52
USD-JPY	98	102	105	110
Oil Price	70	65	70	-

Global Head of Research & Chief Strategist

Thorsten Weinelt, CFA (HVB)
 +49 89 378-15110
 thorsten.weinelt@unicreditgroup.de

Head of Economics & FI/FX Research

Marco Annunziata, Ph.D. (HVB)
 Chief Economist
 +44 20 7826-1770
 marco.annunziata@unicreditgroup.co.uk

Editor

Andreas Rees (HVB)
 +49 89 378-12576
 andreas.rees@unicreditgroup.de

Editorial deadline

Friday, 12. Jun., 12:00H

Bloomberg

UCGR

Internet

www.globalresearch.unicreditmib.eu

Throwing precaution to the wind

ECB Governing Council member Axel Weber may have been floating a trial balloon on Wednesday as he argued that precautionary rate hikes may be appropriate to prevent bubbles even when they are not justified by the inflation outlook. He acknowledged such a move would pose a “communication challenge”, but one that could be overcome—and the ECB has certainly not shied away from communication challenges in the past. My view is that this is a valuable lesson to draw from the crisis, but one that is likely to remain irrelevant over the policy relevant horizon. With deleveraging still in full swing, we are far from the point where we can again worry about asset bubbles. And meanwhile, although we do believe that the economy has turned the corner, our analysis finds precious little evidence of upside risks to either growth or inflation. The need to devise an exit strategy is much more pressing on fiscal policy, as the rise in long-term bond yields attests, and the ECB should be wary of the risk that a premature tightening of monetary policy might undermine both the recovery and fiscal consolidation. Mr. Weber’s speech, meanwhile, will likely confirm the impression that the ECB might have more of an itchy trigger finger than the Fed—another upside risk to EUR-USD.

ECB Governing Council member Axel Weber said that precautionary rate hikes can sometimes be appropriate even if they are not justified by medium-term price developments. In a speech in Frankfurt, he argued that when faced with fast money and credit growth and narrowing risk premia, central banks might be well advised to tighten monetary policy in order to prevent the emergence of asset price bubbles. Such leaning against the wind would help guarantee macroeconomic stability in the medium and long term. Taken at face value, this is absolutely correct—indeed one of the main lessons of the crisis is that central banks cannot afford to ignore asset prices and focus exclusively on narrowly defined price stability. The timing of Mr. Weber’s statement, however, seems also highly significant, coming just as signs of economic stabilization have brought to the fore the issue of an exit strategy from policy stimulus. Recently released April industrial production figures, including a healthy rebound in Italy broadly, confirmed that the European economy is turning the corner, with hard data following the stabilization of sentiment indicators. At last week’s press conference, ECB President Trichet attracted some criticism for stating that policy rates were “appropriate” even as the ECB staff’s projections see inflation well below target for the next 18 months. Mr. Weber might have decided to go a step further and float a trial balloon to see how markets would react to the possibility of the ECB hiking rates even before their inflation projections start signaling the need for tightening. The ECB was quick to clarify that the comments did not refer to current

monetary policy, and Mr. Weber himself reiterated that the current level of interest rates remains appropriate. However, his comments do seem to echo recent statements by German Chancellor Angela Merkel, who warned last week that central banks might be sowing the seeds of the next bubble, and criticized the ECB for bowing to international pressure with its decision to launch purchases of covered bonds. In this light, I would raise the following three considerations. First, it seems extremely premature to worry that expansionary monetary policy might trigger another credit bubble. Deleveraging is still in full swing, and will cause a prolonged slowdown in credit growth and consolidation in the financial sector. The expansion of central banks’ balance sheets is still only partially compensating for the collapse in the money multiplier. While risk appetite has been recently resuscitated, and commodity prices have begun to react to a more upbeat growth outlook, I see no evidence that we are close to the point where expansionary monetary policy might cause another asset bubble. Second, devising an exit strategy is more urgent for fiscal policy than for monetary policy. The sustained upward movement we have witnessed in long-term bond yields reflects in my view primarily supply and fiscal sustainability concerns. In fact, loose fiscal policy probably poses a more serious risk to inflation expectations than monetary policy at this stage. The ECB should consider the risk that a premature monetary tightening might jeopardize both the economic recovery and the prospects for fiscal consolidation. Third, it will take time before the macro outlook justifies a tightening of monetary policy. We have taken a very constructive view of the so-called “green shoots”, and argued in recent analysis that the global economy has indeed turned the corner. At the same time, however, our hopeful search for evidence of upside risks has so far been in vain. In two analytical chapters of the Euro Compass published this week, we have addressed the question of whether we are underestimating upside risks on growth or on inflation. For growth, the answer is “most likely not”, even though it is encouraging that asking the question seems now justified. As for inflation, in the words of my colleagues Chiara Corsa and Marco Valli, “a liquidity-driven inflation threat, in the eurozone or any other industrialized country, is not on the radar screen.” We still see policy rates on hold for at least another twelve months, in the eurozone as in the US. However, Mr. Weber’s speech signals that the debate within the ECB’s GC remains lively, with the hawks determined to lean against the wind of the current expansionary stance.

Marco Annunziata, Ph.D. (HVB)
+44 20 7826-1770
marco.annunziata@unicreditgroup.co.uk

The Fed is in no rush to raise interest rates

- Rising inflation expectations and improved economic data are fueling interest rate speculation. The Fed funds futures indicate with a probability of more than 60% that the US central bank will start a tightening cycle before the end of this year.
- We think this expectation is overdone. Factors arguing against such a near-term rate hike are the ongoing rise in the unemployment rate, the vulnerability of financial markets, and the still moderate levels of yields and inflation expectations.
- And even if yields and inflation expectations were to continue to rise strongly, the Fed would initially attempt to counter this trend by other means. At the moment, rate hikes are only the final resort.
- We assume instead that the tightening cycle will begin in summer 2010. Given the uncertain outlook for the economy, market expectations will continue to fluctuate back and forth, and short-term Treasuries will be correspondingly volatile.

Rise in yields is weighing on the housing market

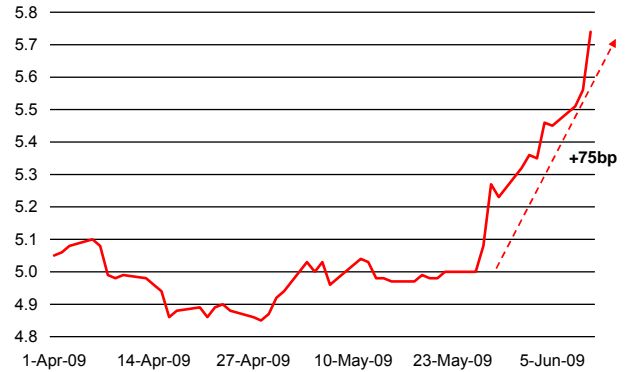
Sentiment in financial markets has turned. Thanks to improved economic data, the much-cited green shoots, risk aversion declined noticeably in recent weeks. While equities and commodities benefited from this trend, the value of the "safe havens" US dollar and Treasuries decreased. Since early May, the yield on 10Y Treasuries has added 90 basis points and on Thursday even exceeded the 4%-mark for the first time since last October. This rise in yields triggered a spike in long-term mortgage rates. In the space of only two weeks, they jumped 75 basis points to 5¼% (cf. chart in the next column). A continuation of this development would threaten the stabilization of the US housing market, which is a necessary precondition for the end of the financial market crisis and the recession.

Rising inflation expectations are fueling interest rate speculation

The increase in long-term interest rates was triggered by a variety of factors. Fed Chairman Ben Bernanke listed some of the most important ones during his recent testimony before Congress on June 3. Bernanke mentioned (i) the concerns about the large fiscal deficit in the US, (ii) greater optimism about the economic outlook, (iii) a reversal of flight-to-quality flows and (iv) technical factors related to the hedging

SPIKE IN MORTGAGE RATES

30Y mortgage rates, in %

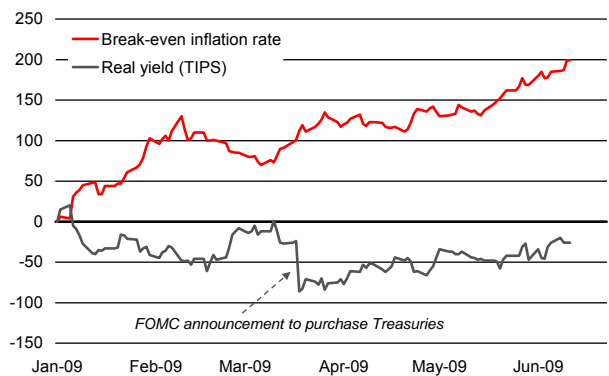


Source: Bankrate.com, Bloomberg, UniCredit Research

of mortgage securities. Bernanke did, however, "forget" one important, if not the most important factor: Rising inflation expectations! As the following chart reveals, the rise in nominal Treasury yields since the beginning of the year is attributable exclusively to higher inflation expectations (break-even inflation rate). Real yields (derived from inflation-indexed bonds, TIPS), in contrast, even fell 25 basis points in the same period.

INFLATION EXPECTATIONS TRENDING HIGHER

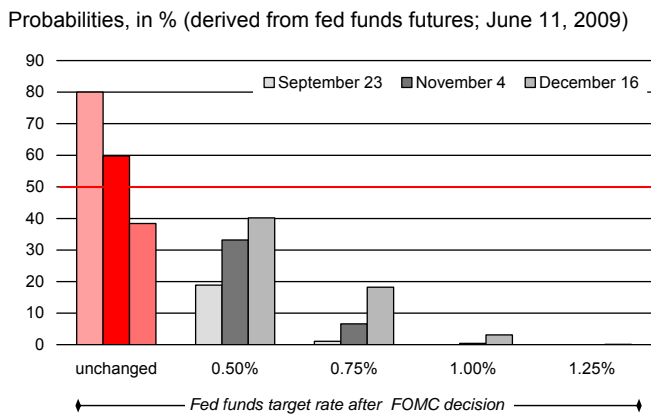
Contribution to the nominal yield change of 10Y US Treasuries since January 1, 2009, in basis points



Source: Bloomberg, UniCredit Research

In conjunction with better-than-expected payroll numbers, these rising inflation expectations have fueled market speculation on higher key rates. According to the federal funds futures, markets assign only a 38% probability to the scenario that the Fed funds target rate still stands at an unchanged 0%-0.25% after the December FOMC meeting (cf. chart). In other words, they have priced in a 62% probability of a rate hike before the end of this year!

MARKETS SEE 62% PROBABILITY FOR A RATE HIKE BEFORE THE END OF THIS YEAR



Source: Bloomberg, UniCredit Research

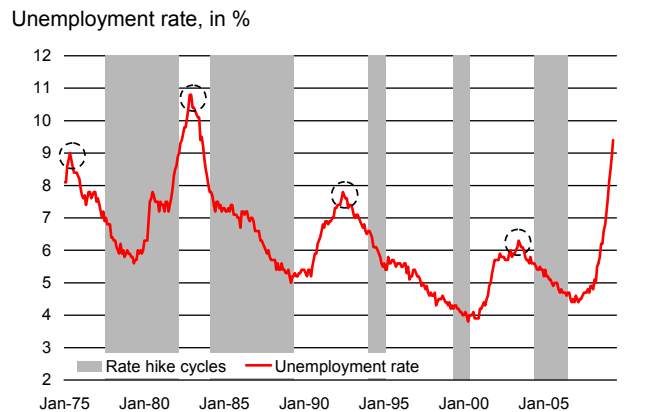
No rate hike in 2009, ...

We think these expectations are overdone and do not expect the first Fed rate move until summer 2010. The most important reason why we do not see a rate hike in the current year is that the recession won't end until the second half of the year, and the lagging unemployment rate will most likely continue to rise even into the fourth quarter. In the past, the Fed has not initiated a tightening cycle as long as the unemployment rate was still rising – quite the contrary. After the unemployment rate had peaked, it took on average 18 months before the first rate hike! The shortest lag was after the last recession, but here too the Fed still needed a full year before raising rates for the first time (cf. chart in the next column).

The second reason is that the Fed does not wish to jeopardize the stabilization of financial markets. Even though conditions have improved in some market segments since the beginning of the year, Fed Chairman Bernanke emphasized once again during his testimony, *"financial markets and financial institutions remain under stress, and low asset prices and tight credit conditions continue to restrain economic activity."* Even though the Fed is still projecting a moderate upswing for the second half of the year, a necessary precondition for this is that financial markets continue to stabilize. Bernanke warned that *"a relapse in the financial sector would be a significant drag on economic activity and could cause the*

incipient recovery to stall." For that reason, the Fed will want to play it safe and not threaten the stabilization of markets with a premature rate hike and thereby nip the tentative economic recovery in the bud.

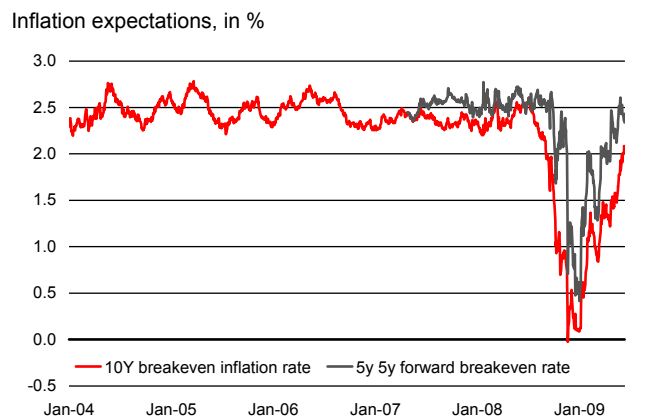
HIGHER INTEREST RATES ONLY WHEN THE UNEMPLOYMENT RATE IS FALLING



Source: BLS, Federal Reserve, Thomson Datastream, UniCredit Research

Third, it should not be overlooked that yields and inflation expectations have merely "normalized" in recent weeks. In their search for safe havens, investors had towards the end of last year – in the aftermath of the Lehman bankruptcy – increased their demand for US Treasuries strongly and, in the process, depressed the yield from 4% to 2%. At the same time, they feared the onset of a deflation spiral. Accordingly, inflation expectations (break even inflation rates) plummeted from 2½% to 0%! Since fortunately the worst fears did not materialize and risk aversion has started to fade, these trends are now reversing. And after their strong rises in recent weeks, yields as well as inflation expectations have now almost returned to their "starting levels" (cf. chart on the next page).

INFLATION EXPECTATIONS NORMALIZED



Source: Bloomberg, UniCredit Research

... but (hopefully) in 2010

Nevertheless, we also think the Fed should not wait too long before it starts again to tighten the monetary policy reins. With the considerable expansion of its balance sheet and the concomitant expansion of the monetary base, the Fed has laid the foundation for strongly rising inflation rates. As soon as there are reliable signs that the recession is over, financial markets have finally stabilized and a sustainable economic recovery is under way, the Fed should, therefore, begin to scale back the degree of its monetary policy stimulus. We think these conditions might be met at the beginning of the second half of 2010. Before then, the upswing will probably still be too tentative. This applies particularly to our risk scenario of a W-shaped recovery (double dip), with stronger growth towards the end of this year (fiscal program and end of the destocking) and the corresponding reaction at the beginning of 2010. If, in contrast, the Fed waits too long before raising rates, the inflation threat might start to materialize. We expect rate hikes totaling 100 bp in the second half of 2010. This corresponds with the pace of interest rate increases during the last tightening cycle (2004 to 2007).

TENTATIVE FOMC MEETING SCHEDULE FOR 2010

FOMC meetings in 2010	
26/27 January	
16 March	
27/28 April	
22/23 June	
10 August	Possible window for first rate hike
21 September	
2/3 November	
14 December	

Source: Federal Reserve, UniCredit Research

Expectation management

Even without (too) early rate hikes, the Fed can and will react to a further rise in yields. If nominal yields and inflation expectations were to continue rising strongly, Fed officials will first step up their rhetoric. In contrast to Bernanke's most recent testimony before Congress, speeches would clearly emphasize the increase in inflation expectations and state it is undesirable. Equally important is a credible commitment to counter inflation dangers in a timely and consistent manner. So far, the Fed is merely stressing the declining deflation threat. But in light of rising commodity prices, the topic of "inflation" could again play a greater role in the coming weeks – even though the core rate will probably continue to moderate for the time being.

An even clearer signal to the market would be the deletion of the section in the FOMC statement that "*the Committee [...] anticipates that economic conditions are likely to warrant exceptionally low levels of the federal funds rate for an extended period*". Fed Chairman Bernanke has repeatedly stressed that such a comment can influence the expectations of market players with respect to interest rates.¹ The last time the Fed had provided a similar commitment to low interest rates before the current crisis was in December 2003:

- In the press release after the December 9 FOMC meeting, the Fed stated: "*the Committee believes that policy accommodation can be maintained for a considerable period.*"
- At the following meeting (on January 28, 2004) this sentence was replaced with: "*the Committee believes that it can be patient in removing its policy accommodation.*"
- Two meetings later (on May 4, 2004): "*the Committee believes that policy accommodation can be removed at a pace that is likely to be measured.*"
- At the next meeting (on June 30, 2004), the tightening cycle finally got under way, during which the Fed raised the federal funds target rate from 1.00% to 5.25%.

¹ See Bernanke, B. and V. Reinhart, *Conducting Monetary Policy at Very Low Short-Term Interest Rates*, paper presented at the Meetings of the American Economics Association, San Diego, CA, January 3, 2004.

In 2003/2004, it took, therefore, just over six months between the deletion of the section and the first rate hike. The reaction of the markets to the change in the statement on January 28 was subdued. But it has to be kept in mind that the economic environment back then was completely different than it is today. The ISM, for example, was already at over 60 points, and employment was increasing by more than 100k per month. The market reaction in the current environment could also be much stronger because of the debate raging over the independence of the Fed. The deletion of the section is, furthermore, a necessary step to prepare the markets for a later rate hike and could be a clear signal that the Fed is taking inflation concerns seriously. The upcoming FOMC meeting on June 24 is undoubtedly still too early for such a move. But if yields and inflation expectations continue to rise strongly and the economy and financial markets continue to stabilize, the commitment to a persistently low federal funds rate could already be missing (or modified) from the press release after the August 12 FOMC meeting.

If in doubt, rather be restrictive!

But what happens if even these efforts are not enough to slow down the rise in yields? Theoretically, the Fed has at its disposal two – completely different – approaches to tackle higher long-term interest rates and thereby to support the tentative upswing:

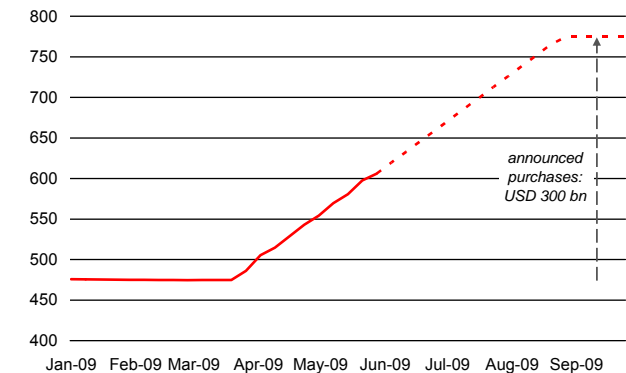
1. It becomes even more accommodative and increases its purchases of US Treasuries, or
2. It becomes more restrictive by halting the purchase of Treasuries or even raising interest rates.

The first alternative would, in our view, be monetary policy suicide. An expansion of the purchase of Treasuries could call the independence of the US central bank even more into question. As a result, inflation expectations would rise strongly, and nominal yields would continue to rise and not fall. But the Fed has probably realized this by now following the questionable success of its Treasury purchases so far.

More probable and more desirable is, therefore, that the Fed reacts to further strong increases in yields with a more restrictive monetary policy. A first step would be not to complete the announced purchase of Treasuries totaling USD 300 bn. So far, the Fed has completed close to half of this program, which is to be finished by the end of the third quarter (cf. chart in the next column). But the important aspect of such a decision is not so much the volume of the cancelled purchases but rather the signal that it sends to the market.

TREASURY PURCHASE PROGRAM IN FULL SWING

Volume of US Treasuries held by the Fed, in USD bn



Source: Federal Reserve, UniCredit Research

The second move could be to raise interest rates on excess reserves. In the short term, the Fed will not succeed in substantially shortening its balance sheet and, therefore, the monetary base. Higher interest rates would lock up the excess reserves and prevent them from flowing into the interbank market. As a result, the effective federal funds rate and interest costs on the interbank market would come under initial upward pressure. An increase in the Fed funds target rate would only be the final move.²

Fed does not have to act yet

We think the market expectations of a possible key rate hike at the end of this year are overdone. First, the level of yields, mortgage rates and inflation expectations is still moderate, despite the rapid rise in recent weeks. Second, the Fed will initially use other means to prevent a further rise in long-term interest rates. It will only raise the federal funds target rate once there are reliable signs that a sustainable economic recovery is under way and that the financial markets have finally stabilized. In our view, this will likely be the case in summer 2010. Short-dated Treasuries could, therefore, recover again slightly following the sell-off at the end of last week. Volatility in the market remains high.

Dr. Harm Bandholz (HVB)
+1 212 672-5957
harm.bandholz@us.unicreditgroup.eu

² For a description of how the Fed can raise the federal funds rate despite an inflation balance sheet, see H. Bandholz, *US central bank: Where's the exit please?*, Friday Notes, dated March 27, 2009.

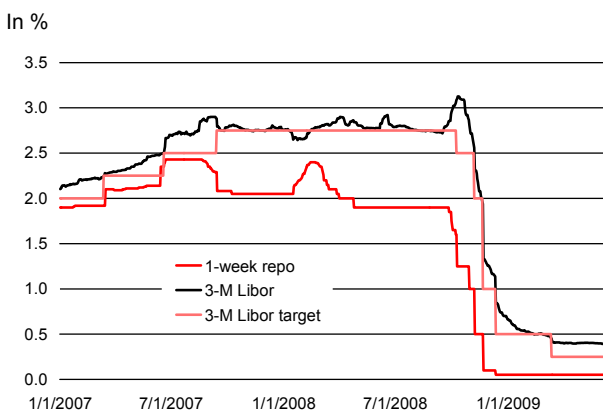
Switzerland: SNB sticking to unconventional measures

- The SNB has effectively already pursued a zero-interest rate policy since the end of 2008 in order to dampen the repercussions of the financial crisis on the important Swiss financial sector and the overall economy.
- The recession deepened at the beginning of the year, and the lagging adverse effects on private households are just about to unfold. However, driven by a turnaround in business conditions, the economy as a whole is likely to stabilize in the second half of this year.
- In order to support the recovery, the SNB will continue with its already announced unconventional measures. The declared strongest instrument is currency interventions, which have helped to prevent a further appreciation of the CHF versus the EUR.

Zero-interest rate policy

The Swiss National Bank (SNB) has cut its target rate for the 3-month Swiss franc Libor by a total of 250 bp to 0.25% since the beginning of October last year. In contrast to other major central banks, which directly set policy rates, the Swiss central bank targets the 3-month-Libor rate. In order to bring the effective 3-month-Libor rate into the target band of the SNB, the central bank lowered the one-week repo rate massively from 1.9% in September to currently very low 0.05% – or practically to zero.

ZERO-INTEREST RATE POLICY

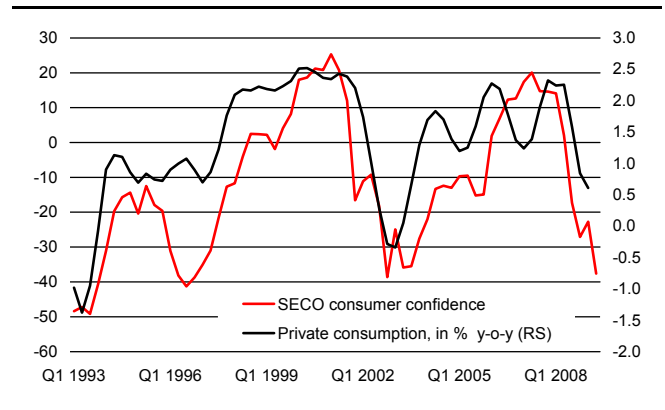


Source: Bloomberg, UniCredit Research

Turnaround in economic sentiment

The rapid relaxation of monetary policy was justified by the sharp deterioration in the global and Swiss economic outlook. The small, open economy contracted strongly during the past three quarters. GDP was down -1.6% y-o-y at the beginning of this year. The driver of the decline was the collapse in foreign demand and the subsequent adjustment in domestic investment. Despite the high importance of the distressed financial sector in Switzerland, which accounts for around 10% of GDP, the Swiss economy is weathering the repercussions of the financial crisis better than most of its neighbors. And although the recent deterioration in consumer sentiment heralds the usual lagged negative impact of adverse export conditions on private household spending (cf. chart) – mainly due to rising unemployment – overall economic sentiment appears to have found its floor.

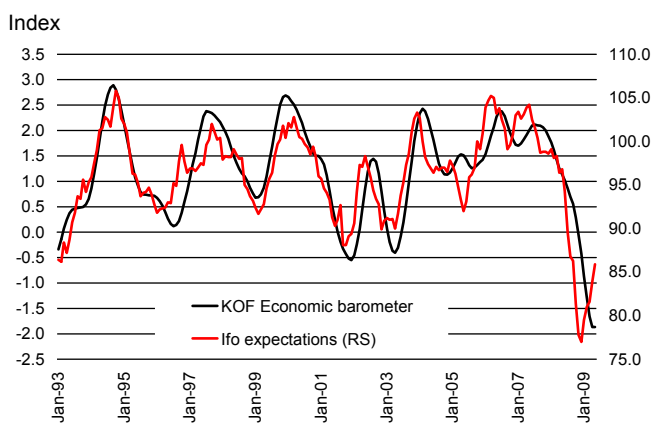
THE WAVE HITS CONSUMERS



Source: Thomson Datastream, UniCredit Research

The historical strong correlation of the KOF economic barometer with the German Ifo business expectations – as the most important Swiss trading partner – signals an imminent rebound in the outlook of Swiss companies.

TURNAROUND IN BUSINESS EXPECTATIONS



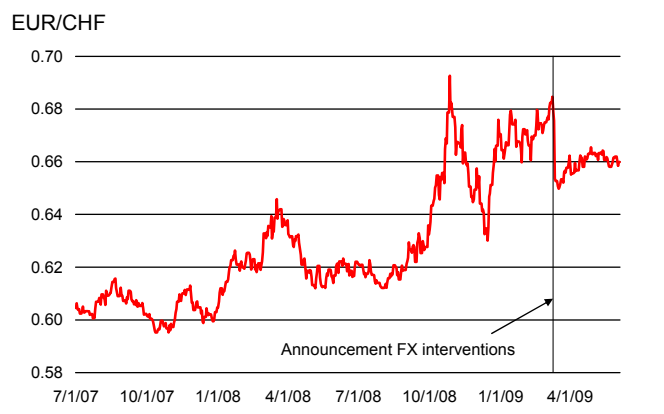
Source: Ifo, KOF, UniCredit Research

The level of business and export expectations still remains at rather low levels, but the rate of decline in GDP can be expected to slow down already in the spring. The increasing glimmers of hope for a stabilization of the Swiss economy in the second half of this year are supported by the strong rebound in exports in April. Overall, after solid +3.3% in 2007 and still respectable +1.6% last year, we expect Swiss GDP to contract by up to 2% in real terms in 2009.

SNB purchases EUR

The SNB presented a substantially gloomier view on the growth outlook of close to -3% for this year at its last regular monetary policy meeting in March. Moreover, the central bank aggressively markets its deflation fears. It not only expects the consumer price index to drop 0.5% on average this year, which is in line with the market consensus. The designated new SNB President Hildebrand has been reiterating that in the SNB's baseline scenario annual inflation is expected to remain close to zero until 2011, which is not compatible with its objectives of maintaining medium-term price stability! The SNB especially sees the stronger CHF as an inappropriate tightening of monetary conditions. The exchange rate level weighs on export competitiveness and increases the risk of unwelcome medium-term deflation. The safe-haven currency CHF appreciated more than 10% versus the EUR since the beginning of the financial crisis. Consequently, the central bank started direct interventions on currency markets in order to prevent a further strengthening of the CHF. In the first quarter, SNB purchases concentrated on the EUR, with euro currency holdings surging almost 30% q-o-q to EUR 20.24 bn. And overall currency reserves increased another CHF 8 bn in April. The policy of direct FX interventions has helped to prevent a further appreciation so far.

EUR/CHF TRENDS SIDWAYS

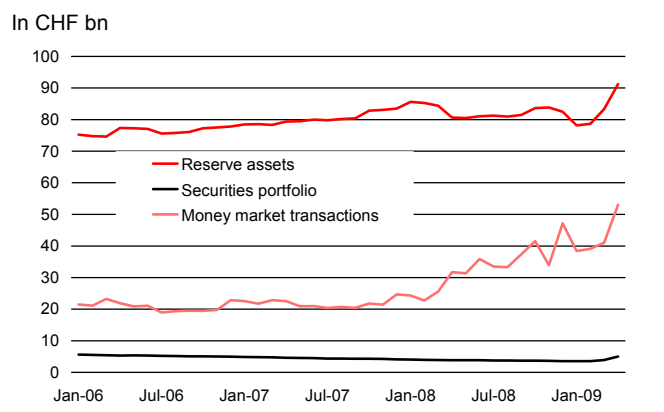


Source: Bloomberg, UniCredit Research

SNB will continue with unconventional measures

The SNB has already reached the floor in direct interest rate setting. Hence, the upcoming quarterly SNB meeting on June 18 won't bring any change in the target rate. The accompanying statement should stress that the central bank will continue its successful strategy of direct currency interventions to prevent a stronger CHF – as the declared strongest instrument in order to achieve its monetary goals. In addition, the monetary policy assessment should also keep the commitment to other unconventional measures. These measures are the provision of substantial liquidity via repo operations and also the purchase of Swiss franc bonds issued by private sector borrowers – to reduce the attractiveness of CHF assets. However, until the end of April, the increase in the SNB's security portfolio has been limited to around CHF 1 bn (cf. chart). An extension of the set of instruments beyond the already announced mix remains, on the other hand, unlikely under current circumstances.

SWISS MONETARY BASE



Source: SNB, UniCredit Research

Alexander Koch (HVB)
+49 89 378-13013
alexander.koch1@unicreditgroup.de

Data Monitor Europe – Preview of the coming week

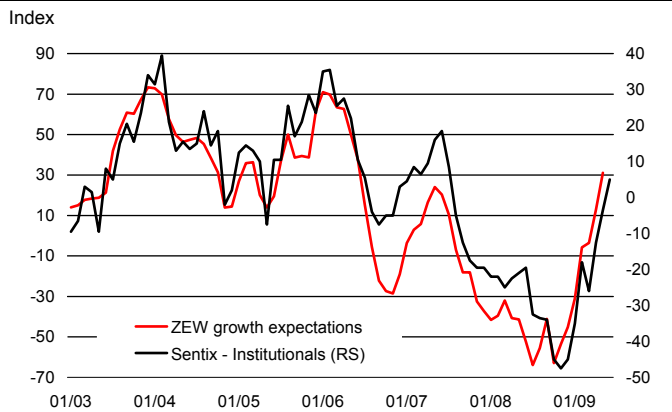
Tuesday, June 16

GERMANY, ZEW GROWTH EXPECTATIONS

June	MIB	Cons.	May	Apr.
Index	35.0	35.0	31.1	13.0

The ZEW has posted strong gains in recent months. The growth expectations of financial market experts now even point to a marked economic recovery in the second half of this year. Business expectations, in contrast, remain much more muted so far. The recent stock market rally probably played a major role in the renewed strong improvement in the previous month and presumably also ensured at least a further slight gain in June. The European sentix also continued to trend higher at the beginning of June (cf. chart).

CLEAR IMPROVEMENT IN SENTIMENT AMONG FINANCIAL MARKET EXPERTS



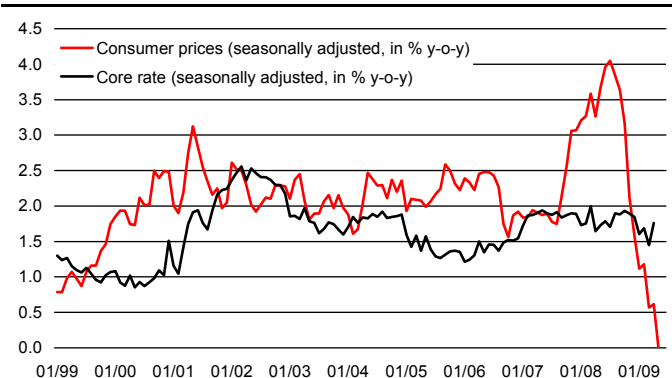
Source: Bloomberg, UniCredit Research

EMU, CONSUMER PRICES (FINAL)

May	MIB	Cons.	Apr	Mar
in % m-o-m	0	0	0.4	0.4
in % y-o-y	0	0	0.6	0.6

The final May inflation reading should confirm the preliminary 0.0% y-o-y, with risks tilted towards an upward revision. Core inflation probably will post a deceleration to 1.5% vs. 1.8% as the Easter-related volatility wanes. Energy inflation should decline further due to a favorable base effect, and also food inflation will persist in the declining trend that has lasted since last summer. Inflation should turn negative in June.

INFLATION FALLS TO ZERO



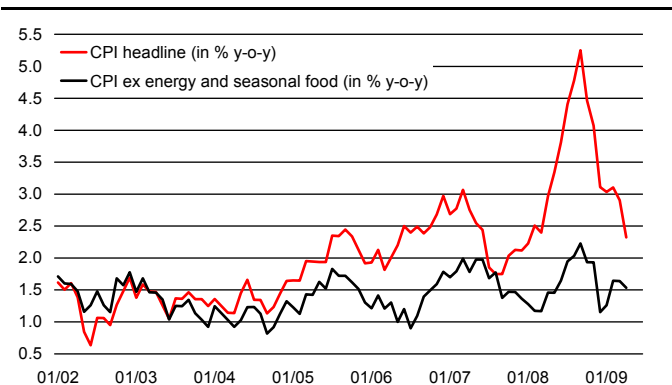
Source: Eurostat, UniCredit Research

UK, CONSUMER PRICES

May	MIB	Cons.	Apr	Mar
in %, y-o-y	2.0	2.0	2.3	2.9

After having eased strongly in April, we expect headline inflation to fall further to 2% in May. The downward contribution should come from the non-core components, while we expect the core to remain stable at 1.5%. Both fuel and food prices, though rising on the month, should benefit from positive annual base effects. Last but not least, we expect further electricity tariff cuts to be implemented in May.

EASING FURTHER



Source: ONS, UniCredit Research

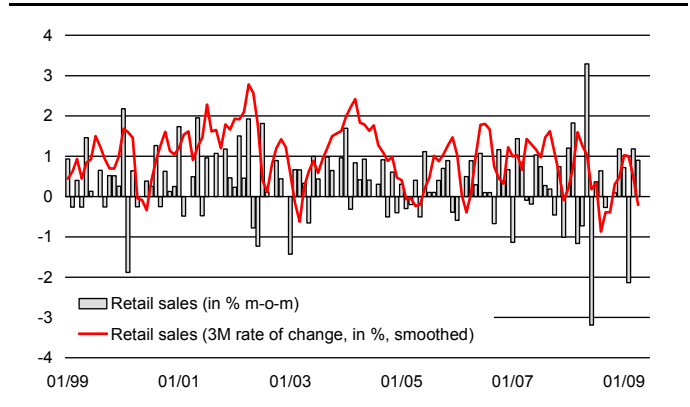
Thursday, June 18

UK, RETAIL SALES

May	MIB	Cons.	Apr	Mar
in %, m-o-m	0.4	0.4	0.9	1.2

Besides the high monthly volatility and notwithstanding the recent downward revision of the whole series, UK retail sales continue to show some resilience. After a relatively strong April, which benefited from a positive Easter effect, retail sales should have risen less strongly in May. Survey indicators have in fact also eased back after the strong surge recorded in April.

UNWINDING OF THE EASTER EFFECT



Source: ONS, UniCredit Research

Chiara Corsa (HVB Milan)
+39 02 8862-2209
chiara.corsa@unicreditgroup.de

Alexander Koch (HVB)
+49 89 378-13013
alexander.koch1@unicreditgroup.de

Chiara Silvestre (HVB Milan)
chiara.silvestre@unicreditgroup.de

Data Monitor US – Preview of the coming week

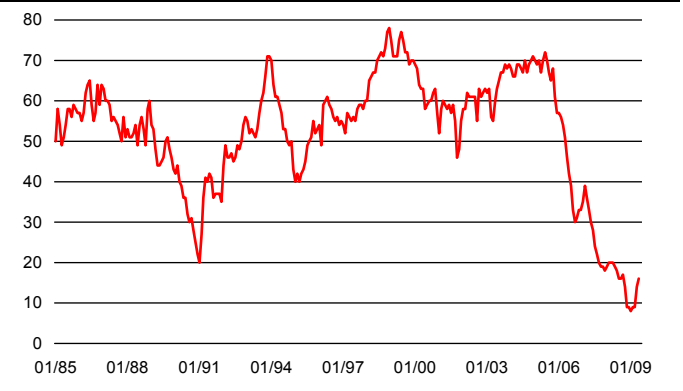
Monday, June 15

NAHB HOUSING MARKET INDEX

June	MIB	Cons.	May	Apr
Index	18	17	16	14

Home builders still see declining demand for new houses, but the degree of pessimism they express is easing somewhat. The implication is the overall business recession, which was presaged by the contraction in residential construction, will come to an end long before the housing market bottoms out.

PESSIMISM STILL RULES AMONG HOUSE BUILDERS



Source: Thomson Datastream, UniCredit Research

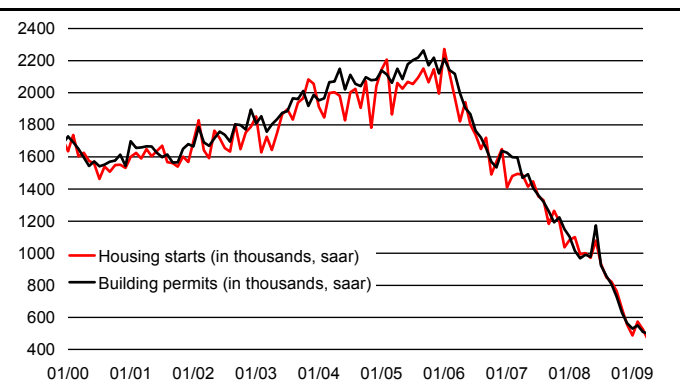
Tuesday, June 16

HOUSING STARTS & BUILDING PERMITS

May	MIB	Cons.	Apr	Mar
Housing starts, in k (annualized)	460	480	458	525
Building permits, in k (annualized)	500	500	498	511

Lately, fluctuations in starts and permits have been dominated by swings in multi-family construction. It is a lengthy process to design, secure zoning approvals, and arrange financing for large apartment buildings. So developers are unable to control the exact timing of project starts. By comparison, single family starts and permits have been steady at a low level for months, and that should continue into next year.

CLOSE TO REACHING A CYCLICAL TROUGH



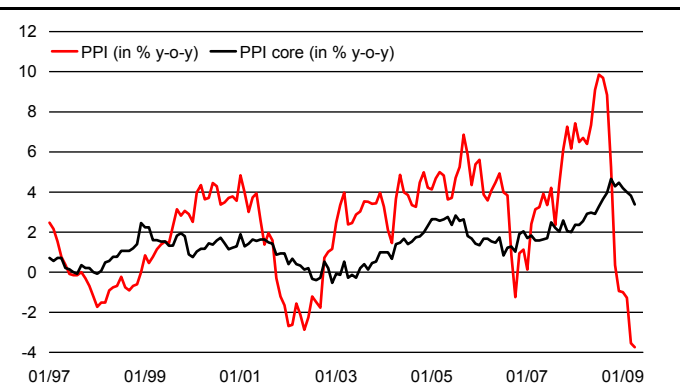
Source: Thomson Datastream, UniCredit Research

PRODUCER PRICES

May	MIB	Cons.	Apr	Mar
Headline, in % m-o-m	0.4	0.6	0.3	-1.2
Core rate, in % m-o-m	0.1	0.1	0.1	0

The main source of upward pressure on the producer price index, PPI, is the oil price, which surged to almost USD 70 a barrel last month. Other commodity prices are also rising, but they have not yet had a material impact on final goods prices. But a steady advance in costs of crude and intermediate materials will feed into higher inflation expectations, already a problem for the long end of the yield curve.

PPI AGAIN LIFTED BY CRUDE OIL PRICE REBOUND



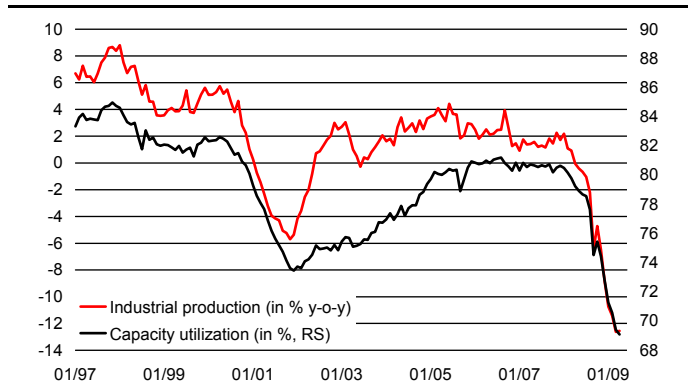
Source: Thomson Datastream, UniCredit Research

INDUSTRIAL PRODUCTION & CAPACITY UTILIZATION

May	MIB	Cons.	Apr	Mar
Industrial production, in % m-o-m	-0.5	-0.9	-0.5	-1.7
Capacity utilization in %	68.7	68.4	69.1	69.4

A sizable increase in automobile production, albeit from greatly depressed levels, helped dampen the decline in manufacturing output in April. Last month, when Chrysler and GM were either entering or preparing to enter the Chapter 11 bankruptcy protection, the confusion probably was enough to disrupt production schedules once again. Other industries also shrank. But aircraft output likely rebounded, and utilities were also expanding.

FEW "GREEN SHOOTS" IN MANUFACTURING



Source: Thomson Datastream, UniCredit Research

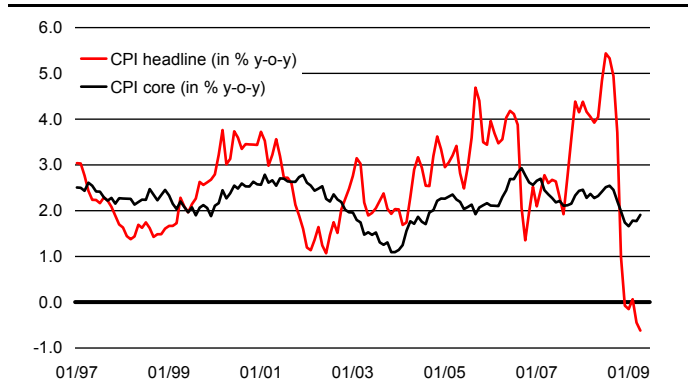
Wednesday, June 17

CONSUMER PRICES

May	MIB	Cons.	Apr	Mar
Headline, in % m-o-m	0.4	0.3	0	-0.1
Core rate, in % m-o-m	0.1	0.1	0.3	0.2

Seasonally unadjusted gasoline prices, a major swing factor for headline CPI, were up more than 9% in May, according to the Department of Energy. The seasonally adjusted increase was about half that figure, but that is sufficient to lift the headline inflation rate. By contrast, core inflation remains pretty stable.

GASOLINE PRICE JUMP PUSHES UP INFLATION IN MAY



Source: Thomson Datastream, UniCredit Research

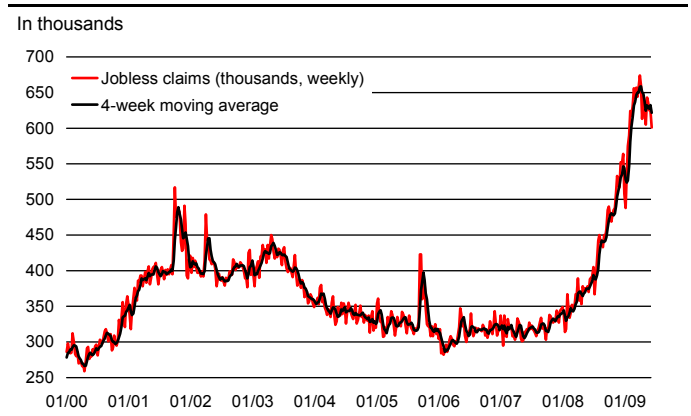
Thursday, June 18

INITIAL JOBLESS CLAIMS

June 13	MIB	Cons.	Jun 06	May 29
in thousands	600		601	625

The latest employment report for May chronicled a lower drop in monthly non-farm payrolls, -345k after -504k. That improvement is inconsistent with the minor declines in layoffs reported in the more reliable weekly data on initial claims for unemployment compensation. The fact is that the job market is still in bad shape and continues to worsen, though perhaps a little less dramatically than in previous months.

LABOR MARKET CONTINUES TO SHED JOBS



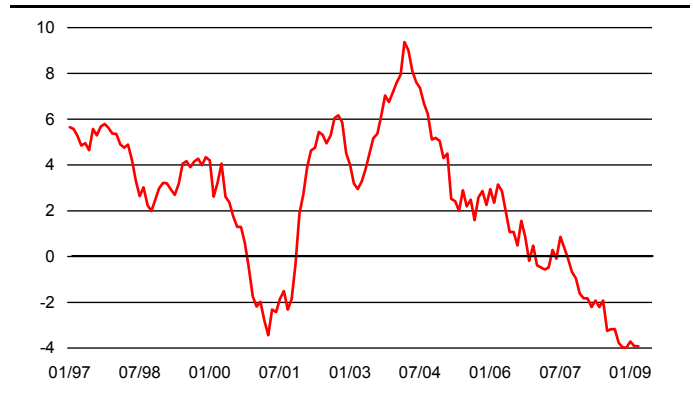
Source: Thomson Datastream, UniCredit Research

LEADING INDICATORS

May	MIB	Cons.	Apr	Mar
in % m-o-m	0.9	0.9	1.0	-0.2

Improvement in the stock market and in consumer confidence – the two often move together – were key positive contributors to an increase in the index of leading economic indicators in May, as they were in April. Other contributors were the steepening yield curve and a reported increase in delivery delays. By contrast, a major drag was a slide in hours worked in manufacturing.

INDICATORS SAY RECESSION COULD END IN A FEW MONTHS



Source: Thomson Datastream, UniCredit Research

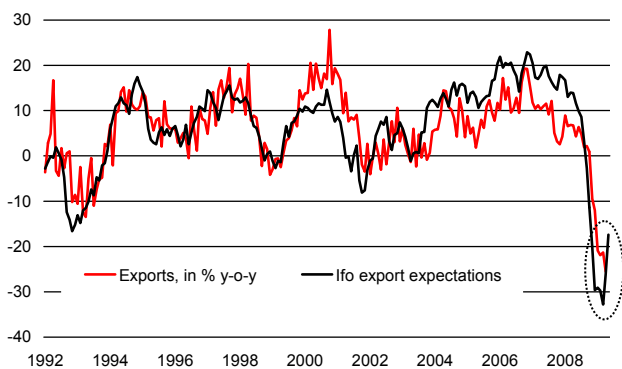
Roger M. Kubarych (HVB)
+1 212 672-5668
roger.kubarych@us.unicreditgroup.eu

Review Europe

German industry down (just) one more time

The latest setback in exports (-4.8% m-o-m) and industrial production (-1.9%) looks like as if the recession in Germany continued unabated at the beginning of the second quarter. However, things are more complicated and one should not simply jump to conclusions. First of all, there is no denying that the recession in Germany is not completely over yet. Full stop! Second, the latest reading looks worse than it actually was. At least we suspect this due to some technicalities. In April 2009, there were two working days less compared to the situation one year ago. The reason is the different timing of the Easter break. More important, we think that short-time work was concentrated around Easter which might have weighed on industrial activity. Standard methods to adjust for working-day effects cannot take these "irregularities" into account. Looking ahead, a turnaround in German industry – in the true "fundamental" sense of the word – is very likely. Companies' export and overall business expectations have really bounced back recently. Last month, export expectations even managed their strongest monthly rise since German reunification (cf. chart). And although new orders were unchanged m-o-m in April, they were up a respectable 1.4% compared to the first quarter, following steep quarterly drops of 17.1% in Q4 and 14.5% in Q1! All in all, despite the setback in April, the rate of decline in industry is moderating quickly. Industrial production is down "only" 2.8% compared to the first quarter, after a collapse of 11.9% q-o-q at the beginning of the year. Furthermore, as companies have cut inventories drastically recently, even a modest pick-up in global demand should be enough to bring the German industrial dynamic back into positive territory rather soon.

SOMETHING POSITIVE IN THE PIPELINE



Source: FSO, Ifo, UniCredit Research

Alexander Koch (HVB)
+49 89 378-13013
alexander.koch1@unicreditgroup.de

US Review

Auto sales and higher gasoline prices lift retail sales index

The US consumer is still cautious. The retail sales data were released by the Census Bureau for May. Higher sales were reported, e.g., by gas stations (+3.6%), building materials' stores (+1.3%) and car dealers (+0.5%). But sales in the core group, which excludes cars, building materials and gas, were flat in May following two consecutive declines. Compared to the first quarter, core retail sales in April and May are down an annualized 1.7%. Adjusted for inflation, the decline is a little worse.

Worries that potential car buyers would shun Chrysler vehicles because of its bankruptcy or GM's because that company was also on the verge of filing for Chapter 11 court protection were largely unfounded. Instead, bargain-hunters found much to like in both showrooms. By comparison, Toyota showed a sizable sales gain over April, but a big year-over-year decline, so that its market share slipped to 16.5% in May from 18.4% a year earlier. The implication is not that the US car manufacturers don't make vehicles that consumer want. It is that they can't sell them at prices that produce a profit. The future of the US car industry, Ford included, depends on a dramatic change in labor relations and negotiated cuts in wages and benefits. Some of that has been achieved in the GM and Chrysler deals and in separate Ford labor agreements. But a lot more is needed.

Trade deficit up slightly for April, as both exports & imports decline again

A trade deficit of USD 29.2 bn, less than USD 1 bn bigger than in March, still represents progress from a year ago, when the monthly deficit was twice as large. But it is hard to visualize a dynamic US recovery without a meaningful contribution from exports. Instead, there were across the board declines in industrial materials, capital goods, and consumer goods. The only industries that seem to be enjoying higher sales are civilian airlines and plastics and those gains were minimal. Demand is simply too weak in this extraordinary global recession to generate much offset to the higher value of the dollar against many currencies as compared to a year ago. For GDP calculations, however, what matters is the data on real exports and imports. They came in at USD 40.5 bn for April, well below the monthly average for the first quarter. So the silver lining is that real net exports start the second quarter with a moderate improvement, enough to contribute a few tenths to real GDP. That is far from sufficient to end the recession, but it certainly prevents any repeat of the colossal plunge in GDP experienced over the prior two quarters. We had a 1.6% per annum improvement in labor productivity in the non-farm business sector, while unit labor costs rose 3%.

Fed Beige Book: weak, but with a few pockets of stability

It is still bizarre how Fed economists, in the Beige Book's 59 pages of commentary on responses of local business contacts on current conditions, almost completely fail to mention that the US economy is still in recession. Notwithstanding the US is suffering the longest and likely deepest recession in seven decades, the word appears exactly three times. Is that supposed to generate confidence on the part of their readers? Not if they count up the number of times weak, weaker, weakened come up, just in the summary section. [Unaudited count: 22 times] So what do they say is weak? First is overall economic conditions (all twelve districts, though five of them report that the speed of contraction is diminishing). Second is lending activity. Third is energy activity. Fourth is labor market activity. Fifth is manufacturing, with notable weakness in autos, petrochemicals, wood products – just about anything to do with motor vehicles or energy. Sixth is export demand. Seventh is capital spending. Eighth is non-financial services. Ninth is various segments of retailing. Tenth and eleventh are residential and commercial real estate. Is anything strong? Answer: not much, only reservations for campgrounds in the Minneapolis district and mortgage refinancing for creditworthy homeowners outside of the epicenter of the subprime crisis. Bottom line: the Fed could have saved time and paper by merely saying that the recession is deep, getting worse in many areas, but tapering off in a few.

Roger Kubarych (HVB)
+212 672 5668
roger.kubarych@us.unicreditgroup.eu

Fixed Income Outlook

- No trend reversal currently in sight for Bunds.
- Key short-term targets for 10Y Bunds around 3.80% and afterwards only 4%

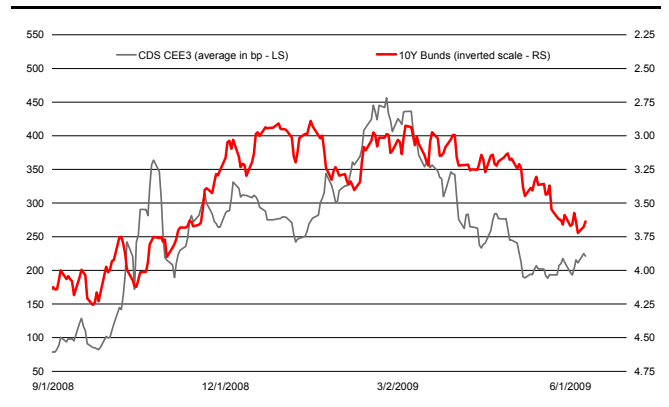
Green shoots "down under" ...

The hope of a global recovery gained further credibility over the last few days. Now that the most important eurozone/US economic data releases are behind us for the time being, the strongest impulses are currently coming from Asia. Among the G-10 exchange rates, the Pacific Basin currencies (AUD and NZD) are traditionally considered leading economic indicators. This is not surprising, since the region registers a turnaround in trade flows very quickly, and both currencies also react to impulses from commodity prices. On top of that, the leading indicator function kicks in because of the region's geographical proximity to the hope-bearer China. The aforementioned positive surprises: Growth in Australia was up 0.4% q-o-q in Q1 2009 and also up 0.4% y-o-y. Can this already be considered sensational news in a global environment characterized by gloom and doom? It gets even better: While the world is currently being dominated by the fear of downgrades of country ratings and credibility, Standard&Poor's recently upgraded its rating for New Zealand from "negative" to "stable". The hope of a return to the old success story in financial markets may be overly ambitious, but the coming weeks will probably see little change in the improved sentiment, and a further increase in the ZEW growth expectations could underpin this topic once again in the coming week.

... and munificent IMF argue for still rising yields

The next positive sign is the IMF aid currently being discussed for Latvia, which is of course not necessarily helpful for German Bunds. Once again, there will probably be a clear commitment here that not only certain banks are systemically relevant but that countries should also be treated with care. While it can be debated whether individual countries (in terms of their share in global GDP) are indeed systemically relevant, at least for the eurozone and in the case of Latvia explicitly for Sweden (because of the credit lines) it is of major importance whether individual European countries are left out in the rain. As a result, Bunds will then also tend to lose some more of their "safe-haven" appeal. The following chart illustrates that the average credit default swaps of Eastern European countries (i.e. implied default probabilities) are one of the key impulses driving the performance of German Bunds.

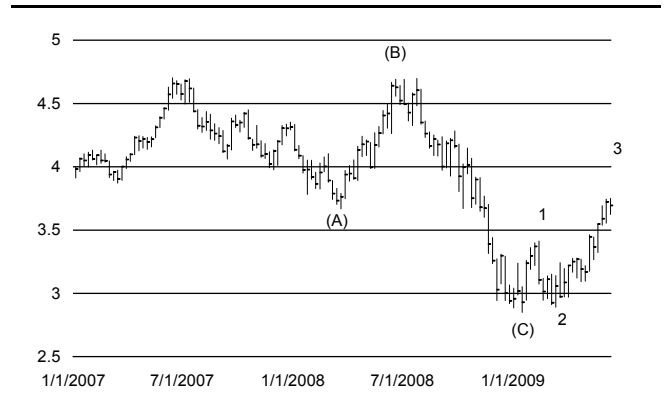
CDS CEE3 AND 10Y BUND YIELD



Source: Bloomberg, UniCredit Research

Where can we go from here in the short term? If we take the last cycle and use Fibonacci extensions and retracements, a level emerges for 10Y Bunds of between 3.76% and 3.81%. Here (see chart), the 50% retracement of the movement from (B) to (C) coincides with various extensions of the 1-2-3 upward move so far in yields. The next level at which several strong projections would cluster is not until the region between 3.98% and 4.02%.

YIELD OF 10Y BUNDS



Source: Bloomberg, UniCredit Research

Michael Rottmann (HVB)
+49 89 378 15121
michael.rottman1@unicreditgroup.de

Forex Outlook

- Despite some movements of correction, the major trends seen in the FX world over the last weeks are still valid, and going forward the positive mood should still be affecting G-10 currencies.
- Next week, the data calendar will be rather neutral on both sides of the Atlantic. Fed officials' speeches could spark some volatility on EUR-USD; however, we expect it to resume its bullish trend and to trade in the 1.38/1.42 band.

Be positive for good or still be doubtful?

Markets were wrong-footed at the end of last week, when the new USD rise threatened the major trends seen in FX markets over the last weeks. This should be no news in an economic environment where investors are still extremely exposed to market swings, however after much better-than-expected US NFP figures, we were expecting investors' to concentrate on further green shoots from the economy. But in the end, the greenback's renewed strength has proved to be short-lived and the market seemed to have taken a pause to reflect: General optimism seems to be still the prevailing trend for the time being and in our view, any new spike in risk aversion should be interpreted more as an opportunity to return to sell the US unit at better levels than as a mere trend reversal. In the coming days, aside from the regional macroeconomic releases, the key events will be the G8 MoF meeting this weekend in Italy, although exchange rates are not likely to be on the agenda, Bernanke's speech on Wednesday, possibly offering some further glimmers of hope on the US economic outlook and the EU summit in Brussels discussing new financial regulation at the end of the next week. All in all, this suggests that the positive mood should still guide markets next week.

EUR-USD: The US data calendar next week should be rather neutral in terms of market impact, with housing data and IP coming in almost unchanged vs. the previous releases, while PPI and CPI should show a more relevant decrease in the price dynamic with respect to the April figures. In Europe, the German ZEW survey should post another increase to 35 vs. the previous 31, while we expect the final release of the EU CPI to confirm the preliminary flat reading. Interestingly, many ECB and Fed speeches are scheduled next week. Remarks by different Fed members including Stern and Lacker sparked some volatility on EUR-USD. Investors should take into account the risk of further remarks by central bankers next week, in particular for day by day trading: as we have seen last Wednesday, (see Fed's Lacker speech), the prospect of a quick economic recovery can act as a supporting factor for the dollar. This is of particular importance as recent speculation about the Fed's exit strategy is intensifying. In any case, we do not think that

a few isolated episodes are enough to prove that the dollar is gradually losing its role as a safe-haven currency and consequently for the time being it should still be hit by rising risk appetite. Thus, we remain generally bearish on the USD for the time being and if anything, we would take advantage of any pullback to go short again. Taking this into consideration, on a weekly perspective, although recent market swings should be consistent with a wider trading range of reference, EUR-USD should resume its bullish trend and we see it trading mostly in the 1.38/1.42 band.

GBP-USD: The key event next week will be the release of the BoE's minutes. Aside from the evaluation on the QE measures (here we expect the BoE to adopt a "wait & see" mode for the time being and leave the door open to further enhancement of the measures in the future), after the series of positive surprise from the economy, we expect the UK central bank to give its view on the current economic scenario. Should we get a bearish message, sterling would clearly suffer. However, as cable's current bullish trend is mainly due to dollar weakness and risk appetite, we remain bullish on cable: indeed, charts still point to 1.68 as a medium-term target and so buy on dips remains our recommendation, in case of any pullback after the BoE's minutes release.

USD-JPY: We expect the BoJ meeting on Tuesday to be dismissed by investors as a non event. In such a scenario, the USD-JPY should again be a matter of risk appetite and USD performance, with more market's propensity to take risk favoring the USD vs. the Japanese unit. In addition, at the moment, the EUR-JPY performance mirrors the EUR-USD performance and this contributes to keep USD-JPY volatility low. All in all, we see the USD-JPY trading in the 97/99 range next week.

Nordics: Worries over the Latvian outlook have eased slightly and Swedish banks have passed their stress test: this has clearly benefited the SEK, both vs. the EUR and the USD. In contrast, the NOK weakened vs. both the USD and the SEK, marking a decoupling of the Nordics. As the outlook for the Baltics remains extremely uncertain, we remain bearish on the SEK, while we regard NOK weakness as a temporary phenomenon.

Chiara Cremonesi (HVB)
+44 207 8261771
chiara.cremonesi@unicreditgroup.co.uk

MIB View – Our Global Picture

Global economy

- The ongoing financial market crisis and the after-effects of soaring commodity prices are taking their toll: The global economy is in the middle of a severe recession. At -1.1%, PPP based real global GDP in 2009 will post its first minus since WWII (2008: +3.1%, 2007:+5%). Based on market exchange rates, global growth will contract substantially this year (by more than 2%)!
- Real GDP in the industrialized countries will most probably shrink this year by 4.0% – more severely than during the recessions in the 70s and 80s. For the US, we expect a minus of 2.6%, while economic activity in the eurozone is expected to even drop by 4.5%. Emerging Asia and China will again lead the growth rankings (2009: +5% and 5.5%, resp.), but will also face a massive economic slowdown.

US

- The US economy, now officially in recession since December 2007, is shrinking dramatically, despite massive unprecedented monetary and fiscal policy impulses. After GDP was down 5.7% in Q1 2009 (annualized), however, the pace of decline can be expected to decline markedly.
- After having lowered its target rate by 425 bp since September 2007 to 1%, the FOMC decided to reduce the key rate to 0%-0.25%, adopting a virtually Zero Interest Rate Policy (ZIRP) in December. The Fed is now pursuing a Quantitative Easing Policy which it already announced in late 2008.

Eurozone

- The eurozone economy is now in its deepest recession since WWII. Tighter credit conditions, poor consumer as well as business sentiment and the after-effects of the EUR appreciation up until last summer accentuate the slowdown.
- Therefore, in a coordinated action, the ECB started an easing cycle in early October. With the presumably last 25 bp cut in early May to 1.0%, the cumulative easing amounts to 325 bp. In addition to the full-allotment of refi-operations up to 12 months, the ECB now also plans to purchase covered bonds.

Government bond markets

- Declining risk aversion combined with glimmers of hope in macroeconomic data and corporate news will see government bond yields trending upward in the further course of this year.
- As financial markets as well as the US economy are expected to start to stabilize in the course of H2 2009 and the supply of government bonds will surge at the same time, US yields shouldn't trend lower again and reach the 4%-mark at the beginning of 2010.
- 10-Year Bund yields should rise to the 4%-mark only in the further course of 2010.

Exchange rates

- EUR-USD is expected to should strengthen further, heading toward 1.45 at the end of 2009.
- JPY should weaken over the course of this year.

OUR MACRO FORECASTS

in % y-o-y	2008	2009	2010
GDP EMU	0.6	-4.5	0.1
CPI EMU	3.3	0.3	1.3
GDP Germany	1.0	-6.2	0.4
CPI Germany	2.6	0.3	1.1
GDP Italy	-1.0	-5.2	-0.3
CPI Italy	3.3	0.8	1.5
GDP US	1.1	-2.6	1.3
CPI US	3.8	-0.6	2.2

OUR FI/FX & OIL PRICE FORECASTS

2009/10	30-Sept	31-Dec	31-Mar	30-Jun
EMU 3M (%)	1.25	1.25	1.25	1.35
EMU 10Y (%)	3.40	3.50	3.75	4.00
US 3M (%)	0.60	0.60	0.60	0.65
US 10Y (%)	3.60	3.75	4.00	4.30
EUR-USD	1.35	1.45	1.50	1.52
USD-JPY	98	102	105	110
Oil Price	70	65	70	–

Macro Forecasts

GDP, real (% , y-o-y)	2003	2004	2005	2006	2007	2008	2009f	2010f
World economy *	3.7	4.9	4.3	4.9	5.0	3.1	-1.1	2.3
Industrialized countries *	1.9	3.1	2.5	3.0	2.7	0.8	-4.0	0.7
US	2.5	3.6	2.9	2.8	2.0	1.1	-2.6	1.3
Euro area	0.8	1.9	1.8	3.0	2.7	0.6	-4.5	0.1
Germany **	-0.2	0.7	1.0	3.2	2.6	1.0	-6.2	0.4
France	1.1	2.2	1.9	2.4	2.3	0.3	-3.1	0.2
Italy	0.1	1.4	0.8	2.1	1.5	-1.0	-5.2	-0.3
Spain	3.1	3.3	3.6	3.9	3.7	1.2	-3.5	-0.8
Austria	0.8	2.5	2.9	3.4	3.1	1.8	-3.0	-0.3
UK	2.8	3.3	2.1	2.8	3.0	0.7	-4.0	0
Switzerland	-0.2	2.5	2.4	3.2	3.3	1.6	-1.7	0.4
Sweden	2.1	3.5	3.3	4.4	2.9	-0.5	-5.2	1.0
Japan	1.4	2.7	1.9	2.0	2.4	-0.7	-7.5	0.5
Developing countries *	6.5	7.7	7.4	8.1	8.6	6.4	2.9	4.8
Asia	8.1	8.6	9.0	9.9	10.6	7.8	5.0	6.4
China	10.0	10.1	10.4	11.1	13.0	9.0	5.5	6.8
India	6.9	7.9	9.1	9.7	9.3	7.3	5.1	6.5
Latin America	2.1	6.2	4.6	5.5	5.7	4.6	1.1	3.0
Brazil	1.1	5.7	3.2	3.8	5.9	5.1	0.6	3.3
Central and Eastern Europe	5.8	6.9	5.5	6.3	6.5	4.1	-3.4	0.8
Russia	7.3	7.2	6.4	6.7	8.1	5.6	-3.9	0.6

Consumer prices, CPI (% , y-o-y)	2003	2004	2005	2006	2007	2008	2009f	2010f
US	2.3	2.7	3.4	3.2	2.9	3.8	-0.6	2.2
core rate (ex food & energy)	1.5	1.8	2.2	2.5	2.3	2.3	1.2	0.9
Euro area, HICP	2.1	2.1	2.2	2.2	2.1	3.3	0.3	1.3
core rate (ex food & energy)	1.8	1.8	1.4	1.4	1.9	1.8	1.4	0.3
Germany	1.0	1.7	1.6	1.6	2.3	2.6	0.3	1.1
France	2.1	2.1	1.7	1.7	1.5	2.8	0.2	1.4
Italy	2.7	2.2	1.9	2.1	1.8	3.3	0.8	1.5
Spain	3.0	3.4	3.6	2.8	2.8	4.1	-0.1	1.8
Austria	1.3	2.1	2.3	1.5	2.2	3.2	0.4	1.1
UK	1.4	1.3	2.0	2.3	2.3	3.6	1.6	1.4
Switzerland	0.6	0.8	1.2	1.1	0.7	2.4	-0.5	1.2
Sweden	1.9	0.4	0.5	1.4	2.2	3.4	-0.3	1.2
Japan	-0.2	0	-0.3	0.2	0.1	1.4	-1.3	-0.5

GDP, real (% , q-o-q)	I/08	II/08	III/08	IV/08	I/09	II/09f	III/09f	IV/09f
US (annualized)	0.9	2.8	-0.5	-6.3	-5.7	-0.7	0.1	1.7
Euro area	0.7	-0.3	-0.3	-1.8	-2.5	-0.6	-0.2	-0.1
Germany	1.5	-0.5	-0.5	-2.2	-3.8	-0.5	-0.2	0.2
France	0.4	-0.4	-0.2	-1.5	-1.2	-0.6	-0.3	-0.1
Italy	0.5	-0.6	-0.8	-2.1	-2.6	-0.5	-0.2	-0.3
Spain	0.4	0.1	-0.3	-1.0	-1.9	-0.7	-0.4	-0.4
Austria	0.6	0.2	0	-0.4	-2.8	-0.5	-0.1	-0.1
UK	0.3	0	-0.7	-1.6	-1.9	-0.5	-0.3	-0.1
Switzerland	0.4	0	-0.2	-0.6	-0.8	-0.4	-0.2	0
Sweden	-0.6	-0.5	-1.0	-5.0	-0.9	-0.5	0	0.3
Japan	0.8	-0.9	-0.6	-3.8	-3.8	-0.5	0.2	0.2

Consumer prices, CPI (% , y-o-y)	I/08	II/08	III/08	IV/08	I/09	II/09f	III/09f	IV/09f
US	4.2	4.3	5.2	1.5	-0.2	-0.9	-1.9	0.7
core rate (ex food & energy)	2.4	2.3	2.5	2.0	1.7	1.4	0.9	0.9
Euro area, HICP	3.4	3.6	3.8	2.3	1.0	0.2	-0.3	0.5
core rate (ex food & energy)	1.8	1.7	1.8	1.9	1.6	1.6	1.3	1.1
Germany	2.3	3.0	2.9	2.9	3.1	1.7	0.8	0.2
France	2.9	3.3	3.3	1.8	0.6	-0.1	-0.2	0.6
Italy	3.1	3.6	4.0	2.8	1.5	0.9	0.2	0.8
Spain	4.5	4.7	5.0	2.5	0.5	-0.7	-0.9	0.9
Austria	3.3	3.6	3.7	2.2	1.1	0.3	-0.2	0.4
UK	2.4	3.4	4.8	3.9	3.0	1.9	0.8	0.8
Switzerland	2.5	2.7	3.0	1.6	0	-0.7	-1.1	-0.3
Sweden	3.2	3.8	4.3	2.4	0.7	-0.5	-1.2	0
Japan	1.0	1.4	2.2	1.0	-0.1	-0.7	-2.0	-1.4

Comments: * The GDP shares used for aggregation are based on the purchasing-power-parity (PPP) valuation of country GDPs

GDP = Gross Domestic Product, HICP = Harmonized Index of Consumer Prices, CPI = Consumer Price Index, f = forecast; ** GDP growth unadjusted 2007: 2.5%; 2008: 1.3%

Interest & Exchange Rate Forecasts (I)

INTEREST RATE FORECASTS (% , END QUARTER)

2009	current	end-Q3	end-Q4	end-Q1	end-Q2
Eurozone bond market					
Refi rate	1.00	1.00	1.00	1.00	1.00
3M Euribor	1.28	1.25	1.25	1.25	1.35
2Y	1.70	1.40	1.40	1.55	1.90
5Y	2.81	2.50	2.50	2.70	2.95
10Y	3.62	3.40	3.50	3.75	4.00
30Y	4.32	4.20	4.20	4.45	4.60
10Y swap spread (in bp)	17	5	5	5	5
US Treasury Market					
Fed funds target rate	0.13	0.25	0.25	0.25	0.25
3M USD Libor	0.63	0.60	0.60	0.60	0.65
2Y	1.30	1.10	1.25	1.50	1.90
5Y	2.79	2.50	2.55	2.80	3.15
10Y	3.80	3.60	3.75	4.00	4.30
30Y	4.64	4.60	4.75	5.10	5.40
10Y swap spread (in bp)	33	20	20	10	10
Japan					
Target rate	0.10	0.10	0.10	0.10	0.10
3M JPY Libor	0.49	0.50	0.50	0.50	0.50
10Y JGB	1.52	1.30	1.45	1.70	1.85
United Kingdom					
Repo rate	0.50	0.50	0.50	0.50	0.50
3M GBP Libor	1.25	1.10	1.00	0.90	0.90
10Y Gilt	3.95	3.70	3.85	4.10	4.30
Switzerland					
3M CHF Libor mid target rate	0.25	0.25	0.25	0.25	0.25
3M CHF Libor	0.40	0.40	0.40	0.45	0.45
10Y Swissie	2.44	2.50	2.60	2.85	2.85

EXCHANGE RATE FORECASTS (END QUARTER)

	current	end-Q3	end-Q4	end-Q1	end-Q2
EUR-USD	1.4067	1.35	1.45	1.50	1.52
EUR-JPY	137.89	132	148	158	167
EUR-GBP	0.8524	0.88	0.87	0.86	0.85
EUR-CHF	1.5104	1.53	1.55	1.58	1.60
USD-JPY	98.02	98	102	105	110
GBP-USD	1.6502	1.53	1.67	1.75	1.79
USD-CHF	1.0736	1.13	1.07	1.05	1.05

COMMODITY PRICE FORECASTS

	current	end-Q3	end-Q4	end-Q1	end-Q2
Oil price (Brent, USD/b)	71.15	70	65	70	–
DJ commodity price index	262.90	265	275	290	–

Interest & Exchange Rate Forecasts (II)

INTEREST RATE FORECASTS (% , END QUARTER)

2008/09	current	end-Q3	end-Q4	end-Q1	end-Q2
Sweden					
Key rate	0.50	0.50	0.50	0.50	0.50
3M rate	0.99	0.70	0.70	0.75	0.75
10Y government bond yield	3.70	3.65	3.75	3.90	4.10
10Y spread to Bunds (in bp)	8	25	25	15	10
Norway					
Key rate	1.50	1.00	1.00	1.00	1.00
3M rate	2.13	1.25	1.25	1.25	1.25
10Y government bond yield	4.33	4.30	4.50	4.90	5.10
10Y spread to Bunds (in bp)	71	90	100	115	110
Canada					
Key rate	0.25	0.25	0.25	0.25	0.25
3M rate	0.65	0.75	0.75	0.75	0.75
10Y government bond yield	3.54	3.40	3.60	4.00	4.30
10Y spread to Bunds (in bp)	-8	0	10	25	30
Australia					
Key rate	3.00	2.00	2.00	2.00	2.00
3M rate	3.50	2.80	2.80	2.90	2.90
10Y government bond yield	5.55	4.90	5.10	5.40	5.60
10Y spread to Bunds (in bp)	193	150	160	165	160
New Zealand					
Key rate	2.50	1.75	1.75	1.75	1.75
3M rate	3.16	2.50	2.50	2.60	2.60
10Y government bond yield	6.01	5.40	5.50	5.80	6.00
10Y spread to Bunds (in bp)	239	200	200	205	200

EXCHANGE RATE FORECASTS (END QUARTER)

	current	end-Q3	end-Q4	end-Q1	end-Q2
EUR-SEK	10.7367	10.70	10.50	10.30	10.10
EUR-NOK	8.8807	8.75	8.55	8.35	8.15
EUR-CAD	1.5600	1.55	1.64	1.68	1.67
EUR-AUD	1.7317	1.73	1.75	1.72	1.67
EUR-NZD	2.1964	2.25	2.23	2.14	2.03
USD-SEK	7.6327	7.93	7.24	6.87	6.64
USD-NOK	6.3134	6.48	5.90	5.57	5.36
USD-CAD	1.1090	1.15	1.13	1.12	1.10
AUD-USD	0.8123	0.78	0.83	0.87	0.91
NZD-USD	0.6405	0.60	0.65	0.70	0.75
EUR-USD	1.4067	1.35	1.45	1.50	1.52

Economic Event & Data Release Calendar

Date	Time (ECB)	Country	Indicator	Period	MIB est.	Consensus (Bloomberg)	Prev. period
12 June to 19 June 2009							
Fri, 12 Jun '09	13:30	EMU	ECB's Trichet Speaks at Event in Sofia				
	14:30	US	Import prices (in % m-o-m)	May	1.0	1.4	1.6
	15:00	UK	Bank of England's Dale to Speak on Conference Panel				
	16:00	US	University of Michigan consumer confidence	Jun		69.5	68.7
	17:30	EMU	ECB's Trichet Speaks at Event in Sofia				
Sat, 13 Jun '09	9:15	EMU	ECB's Orphanides Speaking in Limassol, Cyprus				
	15:30	US	U.S. Treasury's Geithner at G-8 News Conference in Italy				
Sun, 14 Jun '09	9:00	GE	German Social Democrats Hold Convention, Pass Election Pro-gram				
Mon, 15 Jun '09	0:00	IT	Berlusconi Meets U.S. President Obama to Discuss G-8				
	9:15	EMU	ECB's Tumpel-Gugerell Speaks at Conference in Rome				
	13:00	GE	Bundesbank's Weber Attends Hearing on Bad Banks, Berlin				
	14:30	US	NY Fed Empire State Manufacturing Survey	Jun		-6	-4.55
	15:00	US	Net long-term capital inflows (TIC, USD bn)	Apr		60	55.84
	15:30	US	Fed's Evans Speaks on Financial Crisis in Chicago				
	17:00	EMU	ECB's Constancio Speaks in Parliament Hearing on BPN				
	19:00	EMU	ECB's Tumpel-Gugerell, Nowotny Speak at Vienna Event				
	19:00	US	NAHB housing market index	Jun	18	17	16
Tue, 16 Jun '09	0:00	JN	BOJ Target Rate				
	0:00	US	Fed's Duke Speaks in Washington on Financial-Crisis Responses				
	0:00	JN	Bank of Japan key rate (in %)	Jun		0.1	0.1
	8:00	EMU	New passenger car registration (EU 25, in % y-o-y)	May			-11.9
	10:00	IT	Consumer price index (in % y-o-y)	Jun		0.9	0.9
	10:30	UK	CPI core (in % y-o-y)	May	1.5	1.5	1.5
	10:30	UK	Consumer price index (in % y-o-y, harmonized)	May	2.0	1.9	2.3
	11:00	GE	ZEW survey - current situation (index)	Jun		-92.5	-92.8
	11:00	GE	ZEW survey - expectations (index)	Jun		35	31.1
	11:00	EMU	Core CPI (in % y-o-y)	May	1.5	1.6	1.8
	11:00	EMU	Consumer price index, CPI (in % y-o-y)	May	0.0	0	0.6
	14:30	US	Housing starts (in thousands)	May	460	480	458
	14:30	US	Building permits (in thousands)	May	500	500	498
	14:30	US	PPI ex food & energy (core, in % y-o-y)	May		3.2	3.4
	14:30	US	Producer price index, PPI (in % y-o-y)	May		-4.4	-3.7
	14:30	US	PPI ex food & energy (core, in % m-o-m)	May	0.1	0.1	0.1
	14:30	US	Producer price index, PPI (in % m-o-m)	May	0.4	0.6	0.3
	15:15	US	Capacity utilization (in %)	May	68.7	68.4	69.1
	15:15	US	Industrial production (in % m-o-m)	May	-0.5	-0.9	-0.5
	17:30	EMU	ECB's Weber Speaks in Cologne				
	19:15	US	Fed's Warsh Speaks on Economic Policy in New York				
Wed, 17 Jun '09	10:00	EMU	ECB's Constancio Speaks at Conference on Banking, Markets				
	10:30	UK	Bank of England Releases Minutes of Interest Rate Decision				
	10:30	UK	Average earnings (in % y-o-y, 3M moving average)	Apr		0.2	-0.4
	10:30	UK	Jobless claims (change in thousands)	May		63	57.1
	10:30	UK	Unemployment rate (in %)	May		63	57.1
	11:00	EMU	Trade balance (EUR bn)	Apr			-2100
	13:00	US	MBA mortgage applications	Jun 12			-7.2
	14:30	US	Current account (USD bn)	Q1		-85	-132.82
	14:30	US	CPI ex food & energy (core, in % y-o-y)	May		1.8	1.9
	14:30	US	Consumer price index (in % y-o-y)	May		-0.9	-0.7
	14:30	US	CPI ex food & energy (core, in % m-o-m)	May	0.1	0.1	0.3
	14:30	US	Consumer price index (in % m-o-m)	May	0.4	0.3	0
	15:00	US	Fed's Bernanke Speaks at Financial Literacy Summit in D.C.				
Thu, 18 Jun '09	9:30	SZ	SNB Holds Monetary Policy Assessment				
	10:00	IT	Trade balance (EUR bn)	Apr			82
	10:30	UK	Retail sales (in % m-o-m)	May	0.4	0.5	0.9
	14:30	US	Initial jobless claims (in thousands)	Jun 12	600		601
	16:00	US	Leading indicators (Conference Board, in % m-o-m)	May	0.9	0.9	1
	16:00	US	Philadelphia Fed Business Outlook Survey	Jun		-18	-22.6
	19:30	US	U.S. Treasury's Geithner at House Financial Services Panel				

Date	Time (ECB)	Country	Indicator	Period	MIB est.	Consensus (Bloomberg)	Prev. period
Fri, 19 Jun '09	1:50	JN	BOJ to Release Board Meeting Minutes				
	8:00	GE	Producer price index, PPI (in % y-o-y)	May		-3.6	-2.7
	9:00	IT	ECB's Bini Smaghi in Milan's Bocconi University				
	10:00	IT	Unemployment rate (in %)	Q1		7.3	6.9
	11:30	EMU	ECB's Gonzalez-Paramo Speaks in Oviedo, Spain				

* Asterisked releases are scheduled on or after the date shown; sa = seasonal adjusted, nsa = not seasonally adjusted, wda = working day adjusted

Economic Event & Data Release Calendar – The week after

Date	Time (ECB)	Country	Indicator	Period	MIB est.	Consensus (Bloomberg)	Prev. period
22 June to 26 June 2009							
Mon, 22 Jun '09	0:00	UK	House price (Nationwide, in % y-o-y)	Jun			-11.3
	0:00	FR	Business confidence expectations	Jun			-29
	9:00	SZ	SNB Releases Monthly Statistical Bulletin				
	10:00	IT	Industrial orders (in % m-o-m)	Apr			-2.7
	10:00	GE	ifo business climate (index)	Jun			84.2
	11:00	IT	Current account balance (EUR bn)	Apr			-2266
Tue, 23 Jun '09	8:10	GE	GfK consumer confidence	Jul			2.5
	8:45	FR	Household consumption (manufactured goods, in % m-o-m)	May			0.7
	8:50	FR	Business confidence production outlook	Jun			-50
	8:50	FR	Business confidence overall (INSEE)	Jun			72
	9:00	FR	Services PMI (index)	Jun			47.6
	9:00	FR	Manufacturing PMI (index)	Jun			43.3
	9:30	GE	Services PMI (index)	Jun			46
	9:30	GE	Manufacturing PMI (index)	Jun			39.6
	10:00	EMU	Composite PMI (index)	Jun			43.9
	10:00	EMU	Services PMI (index)	Jun			44.7
	10:00	EMU	Manufacturing PMI (index)	Jun			40.7
	16:00	US	Existing home sales (in mn)	May		4.84	4.68
	16:00	US	OFHEO house price index (in % m-o-m)	Apr			-1.1
	Wed, 24 Jun '09	0:00	FR	Building permits (in % y-o-y, smoothed)	May		
3:30		JN	BOJ Board Member Nakamura Speaks in Niigata City				
8:30		JN	BOJ Governor Masasaki Shirakawa to Speak at Credit Union Fo-rum				
9:30		IT	Consumer confidence (ISAE, index)	Jun			104.9
10:00		IT	Retail sales (in % m-o-m)	Apr			0.1
10:00		EMU	Current account balance (EUR bn)	Apr			-6.5
12:00		SZ	SNB's Roth Holds Speech in Geneva, Switzerland				
14:30		US	Durable goods orders ex transportation (in % m-o-m)	May			0.4
14:30		US	Durable goods orders (in % m-o-m)	May		-1.1	1.7
15:00		US	Fed's Open Market Committee Meets on Interest Rates, Econ-omy				
16:00		US	New home sales (in thousands)	May		362.5	352
20:15		US	FOMC Rate Decision				
20:15		US	Federal funds target rate (in %)	Jun			0.25
Thu, 25 Jun '09	8:45	FR	Producer price index, PPI (in % m-o-m)	May			-0.9
	9:30	IT	Business confidence overall (ISAE, index)	Jun			68.7
	11:00	EMU	New orders (in % m-o-m)	Apr			-0.6
	14:30	US	PCE deflator (in % q-o-q annualized)	Q1			1.5
	14:30	US	Real GDP (in % q-o-q annualized)	Q1			1.5
Fri, 26 Jun '09	0:00	GE	Harmonized CPI (in % y-o-y)	Jun			0
	0:00	GE	Consumer price index, CPI (national, in % y-o-y)	Jun			0
	1:30	JN	Core consumer price index (in % y-o-y)	May			-0.4
	1:30	JN	Consumer price index (ex fresh food, in % y-o-y)	May			-0.1
	1:30	JN	Consumer price index (in % y-o-y)	May			-0.1
	8:45	FR	Real GDP (in % y-o-y)	Q1			-3.2
	8:45	FR	Real GDP (in % q-o-q)	Q1			-1.2
	8:50	FR	Consumer confidence (index)	Jun			-40
	10:00	IT	Large industry employment (in % y-o-y)	Apr			-1.2
	11:30	SZ	KOF business climate	Jun			-1.86
	14:30	US	PCE core inflation (in % m-o-m)	May		0.1	0.3
	14:30	US	Personal expenditures (in % m-om)	May		0.3	-0.1
	14:30	US	Personal income (in % m-o-m)	May		0.5	0.5
	19:00	US	Fisher Speaks Before Dallas Friday Group				

* Asterisked releases are scheduled on or after the date shown; sa = seasonal adjusted, nsa = not seasonally adjusted, wda = working day adjusted

Disclaimer

Our recommendations are based on information obtained from, or are based upon public information sources that we consider to be reliable but for the completeness and accuracy of which we assume no liability. All estimates and opinions included in the report represent the independent judgment of the analysts as of the date of the issue. We reserve the right to modify the views expressed herein at any time without notice. Moreover, we reserve the right not to update this information or to discontinue it altogether without notice.

This analysis is for information purposes only and (i) does not constitute or form part of any offer for sale or subscription of or solicitation of any offer to buy or subscribe for any financial, money market or investment instrument or any security, (ii) is neither intended as such an offer for sale or subscription of or solicitation of an offer to buy or subscribe for any financial, money market or investment instrument or any security nor (iii) as an advertisement thereof. The investment possibilities discussed in this report may not be suitable for certain investors depending on their specific investment objectives and time horizon or in the context of their overall financial situation. The investments discussed may fluctuate in price or value. Investors may get back less than they invested. Changes in rates of exchange may have an adverse effect on the value of investments. Furthermore, past performance is not necessarily indicative of future results. In particular, the risks associated with an investment in the financial, money market or investment instrument or security under discussion are not explained in their entirety.

This information is given without any warranty on an "as is" basis and should not be regarded as a substitute for obtaining individual advice. Investors must make their own determination of the appropriateness of an investment in any instruments referred to herein based on the merits and risks involved, their own investment strategy and their legal, fiscal and financial position. As this document does not qualify as an investment recommendation or as a direct investment recommendation, neither this document nor any part of it shall form the basis of, or be relied on in connection with or act as an inducement to enter into, any contract or commitment whatsoever. Investors are urged to contact their bank's investment advisor for individual explanations and advice.

Neither Bayerische Hypo- und Vereinsbank AG, UniCredit CAIB AG, Bayerische Hypo- und Vereinsbank AG Milan Branch, UniCredit CAIB Securities UK Ltd., UniCredit Securities, UniCredit Menkul Değerler A.Ş., UniCredit Bulbank, Zagrebačka banka, UniCredit Bank, Bank Pekao, Yapi Kredi, UniCredit Tiriac Bank, ATFBank nor any of their respective directors, officers or employees nor any other person accepts any liability whatsoever (in negligence or otherwise) for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith.

This analysis is being distributed by electronic and ordinary mail to professional investors, who are expected to make their own investment decisions without undue reliance on this publication, and may not be redistributed, reproduced or published in whole or in part for any purpose.

Responsibility for the content of this publication lies with:

a) Bayerische Hypo- und Vereinsbank AG, Am Tucherpark 16, 80538 Munich, Germany, (also responsible for the distribution pursuant to §34b WpHG). The company belongs to UCI Group.

Regulatory authority: "BaFin" – Bundesanstalt für Finanzdienstleistungsaufsicht, Lurgiallee 12, 60439 Frankfurt, Germany.

b) Bayerische Hypo- und Vereinsbank AG Milan Branch, Via Tommaso Grossi, 10, 20121 Milan, Italy, duly authorized by the Bank of Italy to provide investment services. Regulatory authority: "Bank of Italy", Via Nazionale 91, 00184 Roma, Italy and Bundesanstalt für Finanzdienstleistungsaufsicht, Lurgiallee 12, 60439 Frankfurt, Germany.

The UniCredit CAIB Group, consisting of

c) UniCredit CAIB AG, Julius-Tandler-Platz 3, 1090 Vienna, Austria

Regulatory authority: Finanzmarktaufsichtsbehörde (FMA), Praterstrasse 23, 1020 Vienna, Austria

d) UniCredit CAIB Securities UK Ltd., Moor House, 120 London Wall, London EC2Y 5ET, United Kingdom

Regulatory authority: Financial Services Authority (FSA), 25 The North Colonnade, Canary Wharf, London E14 5HS, United Kingdom

e) UniCredit Securities, Boulevard Ring Office Building, 17/1 Chistoprudni Boulevard, Moscow 101000, Russia

Regulatory authority: Federal Service on Financial Markets, 9 Leninsky prospekt, Moscow 119991, Russia

f) UniCredit Menkul Değerler A.Ş., Büyükdere Cad. No. 195, Büyükdere Plaza Kat. 5, 34394 Levent, Istanbul, Turkey

Regulatory authority: Sermaye Piyasası Kurulu – Capital Markets Board of Turkey, Eskişehir Yolu 8.Km No:156, 06530 Ankara, Turkey

g) UniCredit Bulbank, Sveta Nedelya Sq. 7, BG-1000 Sofia, Bulgaria

Regulatory authority: Financial Supervision Commission, 33 Shar Planina str., 1303 Sofia, Bulgaria

h) Zagrebačka banka, Paromlinska 2, HR-10000 Zagreb, Croatia

Regulatory authority: Croatian Agency for Supervision of Financial Services, Miramarska 24B, 10000 Zagreb, Croatia

i) UniCredit Bank, Na Příkopě 858/20, CZ-1121 Prague, Czech Republic

Regulatory authority: CNB Czech National Bank, Na Příkopě 28, 115 03 Praha 1, Czech Republic

j) Bank Pekao, ul. Grzybowska 53/57, PL-00-950 Warsaw, Poland

Regulatory authority: Polish Financial Supervision Authority, Plac Powstańców Warszawy 1, 00-950 Warsaw, Poland

k) UniCredit Bank, Prechistsenskaya emb. 9, RF-19034 Moscow, Russia

Regulatory authority: Federal Service on Financial Markets, 9 Leninsky prospekt, Moscow 119991, Russia

l) UniCredit Bank, Šancova 1/A, SK-813 33 Bratislava, Slovakia

Regulatory authority: National Bank of Slovakia, Stefanikovo nam. 10/19, 967 01 Kremnica, Slovakia

m) Yapi Kredi, Yapi Kredi Plaza D Blok, Levent, TR-80620 Istanbul, Turkey

Regulatory authority: Sermaye Piyasası Kurulu – Capital Markets Board of Turkey, Eskişehir Yolu 8.Km No:156, 06530 Ankara, Turkey

n) UniCredit Tiriac Bank, Ghetarilor Street 23-25, RO-014106 Bucharest 1, Romania

Regulatory authority: CNVM, Romanian National Securities Commission, Foişorului street, no.2, sector 3, Bucharest, Romania

o) ATFBank, 100 Furmanov Str., KZ-050000 Almaty, Kazakhstan

Agency of the Republic of Kazakhstan on the state regulation and supervision of financial market and financial organisations, 050000, Almaty, 67 Aiteke Bi str., Kazakhstan

POTENTIAL CONFLICTS OF INTEREST

Bayerische Hypo- und Vereinsbank AG acts as a Specialist or Primary Dealer in government bonds issued by the Italian, Portuguese and Greek Treasury. Main tasks of the Specialist are to participate with continuity and efficiency to the governments' securities auctions, to contribute to the efficiency of the secondary market through market making activity and quoting requirements and to contribute to the management of public debt and to the debt issuance policy choices, also through advisory and research activities.

ANALYST DECLARATION

The author's remuneration has not been, and will not be, geared to the recommendations or views expressed in this study, neither directly nor indirectly.

ORGANIZATIONAL AND ADMINISTRATIVE ARRANGEMENTS TO AVOID AND PREVENT CONFLICTS OF INTEREST

To prevent or remedy conflicts of interest, Bayerische Hypo- und Vereinsbank AG, UniCredit CAIB AG, Bayerische Hypo- und Vereinsbank AG Milan Branch, UniCredit CAIB Securities UK Ltd., UniCredit Securities, UniCredit Menkul Değerler A.Ş., UniCredit Bulbank, Zagrebačka banka, UniCredit Bank, Bank Pekao, Yapi Kredi, UniCredit Tiriac Bank, ATFBank have established the organizational arrangements required from a legal and supervisory aspect, adherence to which is monitored by its compliance department. Conflicts of interest arising are managed by legal and physical and non-physical barriers (collectively referred to as "Chinese Walls") designed to restrict the flow of information between one area/department of Bayerische Hypo- und Vereinsbank AG, UniCredit CAIB AG, Bayerische Hypo- und Vereinsbank AG Milan Branch, UniCredit CAIB Securities UK Ltd., UniCredit Securities, UniCredit Menkul Değerler A.Ş., UniCredit Bulbank, Zagrebačka banka, UniCredit Bank, Bank Pekao, Yapi Kredi, UniCredit Tiriac Bank, ATFBank and another. In particular, Investment Banking units, including corporate finance, capital market activities, financial advisory and other capital raising activities, are segregated by physical and non-physical boundaries from Markets Units, as well as the research department. In the case of equities execution by Bayerische Hypo- und Vereinsbank AG Milan Branch, other than as a matter of client facilitation or delta hedging of OTC and listed derivative positions, there is no proprietary trading. Disclosure of publicly available conflicts of interest and other material interests is made in the research. Analysts are supervised and managed on a day-to-day basis by line managers who do not have responsibility for Investment Banking activities, including corporate finance activities, or other activities other than the sale of securities to clients.

ADDITIONAL REQUIRED DISCLOSURES UNDER THE LAWS AND REGULATIONS OF JURISDICTIONS INDICATED**Notice to Austrian investors**

This document does not constitute or form part of any offer for sale or subscription of or solicitation of any offer to buy or subscribe for any securities and neither this document nor any part of it shall form the basis of, or be relied on in connection with or act as an inducement to enter into, any contract or commitment whatsoever.

This document is confidential and is being supplied to you solely for your information and may not be reproduced, redistributed or passed on to any other person or published, in whole or part, for any purpose.

Notice to Czech investors

This report is intended for clients of Bayerische Hypo- und Vereinsbank AG, UniCredit CAIB AG, Bayerische Hypo- und Vereinsbank AG Milan Branch, UniCredit CAIB Securities UK Ltd., UniCredit Securities, UniCredit Menkul Değerler A.Ş., UniCredit Bulbank, Zagrebačka banka, UniCredit Bank, Bank Pekao, Yapi Kredi, UniCredit Tiriak Bank, ATFBank in the Czech Republic and may not be used or relied upon by any other person for any purpose.

Notice to Italian investors

This document is not for distribution to retail clients as defined in article 26, paragraph 1(e) of Regulation n. 16190 approved by CONSOB on October 29, 2007.

In the case of a short note, we invite the investors to read the related company report that can be found on UniCredit Research website www.globalresearch.unicreditmib.eu.

Notice to Russian investors

As far as we are aware, not all of the financial instruments referred to in this analysis have been registered under the federal law of the Russian Federation "On the Securities Market" dated April 22, 1996, as amended, and are not being offered, sold, delivered or advertised in the Russian Federation.

Notice to Turkish investors

Investment information, comments and recommendations stated herein are not within the scope of investment advisory activities. Investment advisory services are provided in accordance with a contract of engagement on investment advisory services concluded with brokerage houses, portfolio management companies, non-deposit banks and the clients. Comments and recommendations stated herein rely on the individual opinions of the ones providing these comments and recommendations. These opinions may not suit your financial status, risk and return preferences. For this reason, to make an investment decision by relying solely on the information stated here may not result in consequences that meet your expectations.

Notice to Investors in Japan

This document does not constitute or form part of any offer for sale or subscription for or solicitation of any offer to buy or subscribe for any securities and neither this document nor any part of it shall form the basis of, or be relied on in connection with or act as an inducement to enter into, any contract or commitment whatsoever.

Notice to UK investors

This communication is directed only at clients of Bayerische Hypo- und Vereinsbank AG, UniCredit CAIB AG, Bayerische Hypo- und Vereinsbank AG Milan Branch, UniCredit CAIB Securities UK Ltd., UniCredit Securities, UniCredit Menkul Değerler A.Ş., UniCredit Bulbank, Zagrebačka banka, UniCredit Bank, Bank Pekao, Yapi Kredi, UniCredit Tiriak Bank, ATFBank who (i) have professional experience in matters relating to investments or (ii) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations, etc.") of the United Kingdom Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 or (iii) to whom it may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This communication must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this communication relates is available only to relevant persons and will be engaged in only with relevant persons.

Notice to U.S. investors

This report is being furnished to U.S. recipients in reliance on Rule 15a-6 ("Rule 15a-6") under the U.S. Securities Exchange Act of 1934, as amended. Each U.S. recipient of this report represents and agrees, by virtue of its acceptance thereof, that it is such a "major U.S. institutional investor" (as such term is defined in Rule 15a-6) and that it understands the risks involved in executing transactions in such securities. Any U.S. recipient of this report that wishes to discuss or receive additional information regarding any security or issuer mentioned herein, or engage in any transaction to purchase or sell or solicit or offer the purchase or sale of such securities, should contact a registered representative of UniCredit Capital Markets, Inc. ("UCI Capital Markets").

Any transaction by U.S. persons (other than a registered U.S. broker-dealer or bank acting in a broker-dealer capacity) must be effected with or through UCI Capital Markets.

The securities referred to in this report may not be registered under the U.S. Securities Act of 1933, as amended, and the issuer of such securities may not be subject to U.S. reporting and/or other requirements. Available information regarding the issuers of such securities may be limited, and such issuers may not be subject to the same auditing and reporting standards as U.S. issuers.

The information contained in this report is intended solely for certain "major U.S. institutional investors" and may not be used or relied upon by any other person for any purpose. Such information is provided for informational purposes only and does not constitute a solicitation to buy or an offer to sell any securities under the Securities Act of 1933, as amended, or under any other U.S. federal or state securities laws, rules or regulations. The investment opportunities discussed in this report may be unsuitable for certain investors depending on their specific investment objectives, risk tolerance and financial position. In jurisdictions where UCI Capital Markets is not registered or licensed to trade in securities, commodities or other financial products, transactions may be executed only in accordance with applicable law and legislation, which may vary from jurisdiction to jurisdiction and which may require that a transaction be made in accordance with applicable exemptions from registration or licensing requirements.

The information in this publication is based on carefully selected sources believed to be reliable, but UCI Capital Markets does not make any representation with respect to its completeness or accuracy. All opinions expressed herein reflect the author's judgment at the original time of publication, without regard to the date on which you may receive such information, and are subject to change without notice.

UCI Capital Markets may have issued other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. These publications reflect the different assumptions, views and analytical methods of the analysts who prepared them. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is provided in relation to future performance.

UCI Capital Markets and any company affiliated with it may, with respect to any securities discussed herein: (a) take a long or short position and buy or sell such securities; (b) act as investment and/or commercial bankers for issuers of such securities; (c) act as market makers for such securities; (d) serve on the board of any issuer of such securities; and (e) act as paid consultant or advisor to any issuer.

The information contained herein may include forward-looking statements within the meaning of U.S. federal securities laws that are subject to risks and uncertainties. Factors that could cause a company's actual results and financial condition to differ from expectations include, without limitation: political uncertainty, changes in general economic conditions that adversely affect the level of demand for the company's products or services, changes in foreign exchange markets, changes in international and domestic financial markets and in the competitive environment, and other factors relating to the foregoing. All forward-looking statements contained in this report are qualified in their entirety by this cautionary statement.

This document may not be distributed in Canada or Australia.

UniCredit Research*

Thorsten Weinelt, CFA
 Global Head of Research & Chief Strategist
 +49 89 378-15110
 thorsten.weinelt@unicreditgroup.de

Dr. Ingo Heimig
 Head of Research Operations
 +49 89 378-13952
 ingo.heimig@unicreditgroup.de

Economics & FI/FX Research

Marco Annunziata, Ph.D., Chief Economist
 +44 20 7826-1770
 marco.annunziata@unicreditgroup.co.uk

Economics & Commodity Research
Global Economics

Dr. Davide Stroppa, Global Economist
 +39 02 8862-2890
 davide.stroppa@unicreditgroup.de

European Economics

Aurelio Maccario, Chief Eurozone Economist
 +39 02 8862-8222
 aurelio.maccario@unicreditgroup.de

Andreas Rees, Chief German Economist
 +49 89 378-12576
 andreas.rees@unicreditgroup.de

Marco Valli, Chief Italian Economist
 +39 02 8862-8688
 marco.valli@unicreditgroup.de

Tullia Bucco
 +39 02 8862-2079
 tullia.bucco@unicreditgroup.de

Chiara Corsa
 +39 02 8862-2209
 chiara.corsa@unicreditgroup.de

Alexander Koch
 +49 89 378-13013
 alexander.koch1@unicreditgroup.de

Chiara Silvestre
 chiara.silvestre@unicreditgroup.de

US Economics

Roger M. Kubarych, Chief US Economist
 +1 212 672-5668
 roger.kubarych@us.unicreditgroup.eu

Dr. Harm Bandholz
 +1 212 672 5957
 harm.bandholz@us.unicreditgroup.eu

Commodity Research

Jochen Hitzfeld
 +49 89 378-18709
 jochen.hitzfeld@unicreditgroup.de

Nikolaus Keis
 +49 89 378-12560
 nikolaus.keis@unicreditgroup.de

EEMEA Economics & FI/FX Strategy

Martin Blum, Head
 +43 50505 823-63, martin.blum@caib.unicreditgroup.eu

Cevdet Akcay, Ph.D., Chief Economist, Turkey
 +90 212 319-8430, cevdet.akcay@yapikredi.com.tr

Dmitry Gourov, Economist, EEMEA
 +43 50505 823-64, dmitry.gourov@caib.unicreditgroup.eu

Hans Holz hacker, Chief Economist, Kazakhstan
 +7 727 244-1463, h.holz hacker@atfbank.kz

Anna Kopetz, Economist, Baltics
 +43 50505 823-64, anna.kopetz@caib.unicreditgroup.eu

Marcin Mrowiec, Chief Economist, Poland
 +48 22 656-0678, marcin.mrowiec@pekao.com.pl

Vladimir Osakovsky, Ph.D., Head of Strategy and Research, Russia
 +7 495 258-7258 ext.7558, vladimir.osakovsky@unicreditgroup.ru

Rozália Pál, Ph.D., Chief Economist, Romania
 +40 21 203-2376, rozalia.pal@unicredit.ro

Kristofor Pavlov, Chief Economist, Bulgaria
 +359 2 9269-390, kristofor.pavlov@unicreditgroup.bg

Goran Šaravanja, Chief Economist, Croatia
 +385 1 6006-678, goran.saravanja@unicreditgroup.zaba.hr

Pavel Sobisek, Chief Economist, Czech Republic
 +420 2 211-12504, pavel.sobisek@unicreditgroup.cz

Gyula Toth, Economist/Strategist, EEMEA
 +43 50505 823-62, gyula.toth@caib.unicreditgroup.eu

Jan Toth, Chief Economist, Slovakia
 +421 2 4950-2267, jan.toth@unicreditgroup.sk

Global FI/FX Strategy

Michael Rottmann, Head
 +49 89 378-15121, michael.rottman1@unicreditgroup.de

Dr. Luca Cazzulani, FI Strategy
 +39 02 8862-0640, luca.cazzulani@unicreditgroup.de

Chiara Cremonesi, FI Strategy
 +44 20 7826-1771, chiara.cremonesi@unicreditgroup.co.uk

Giuseppe Maraffino, FI Strategy
 +39 02 8862-2027, giuseppe.maraffino@unicreditgroup.de

Armin Mekelburg, FX Strategy
 +49 89 378-14307, armin.mekelburg@unicreditgroup.de

Roberto Mialich, FX Strategy
 +39 02 8862-0658, roberto.mialich@unicreditgroup.de

Kornelius Purps, FI Strategy
 +49 89 378-12753, kornelius.purps@unicreditgroup.de

Herbert Stocker, Technical Analysis
 +49 89 378-14305, herbert.stocker@unicreditgroup.de

Publication Address

UniCredit Markets & Investment Banking
 Bayerische Hypo- und Vereinsbank AG
 UniCredit Research
 Arabellastrasse 12, D-81925 Munich
 Tel. +49 89 378-12559
 Fax +49 89 378-13024

Bloomberg
 UCGR

Internet
 www.globalresearch.unicreditmb.eu

* UniCredit Research is the joint research department of Bayerische Hypo- und Vereinsbank AG (HVB), UniCredit CAIB Group (CAIB), UniCredit Securities (UniCredit Securities), UniCredit Menkul Değerler A.Ş. (UniCredit Menkul), UniCredit Bulbank, Zagrebačka banka, UniCredit Bank, Bank Pekao, Yapi Kredi, UniCredit Tiriac Bank and ATFBank.