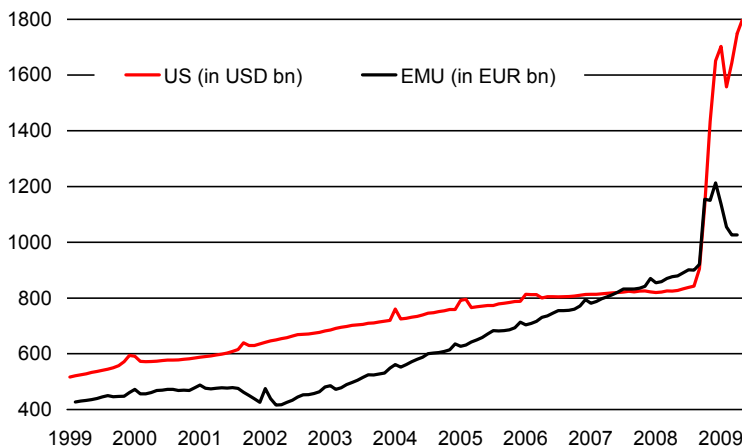


ECB in comfortable position

- **Floor.** The ECB held its key interest rate unchanged at a record-low 1.0% at the June meeting. This underscores that the floor – as already previously at other large central banks – has, therefore, probably been reached. In the current (economic) environment, the short-term interest rate level is considered appropriate (page 2).
- **Purchase.** The direct purchase of EUR 60 bn in covered bonds, already announced in the previous month, will get under way in July. The central bank is hoping for automatic sterilization of the additional liquidity via lower use of refi transactions – as has already been observed since February.
- **Exit.** The ECB balance sheet has, therefore, been "shortened" again considerably, in contrast to the Fed, where extended bond purchases continue to inflate the monetary base (cf. chart). At this point in time, the ECB has no plans for further purchases – full stop. If this were to remain the case, it is, relatively speaking, in a comfortable situation with respect to a timely exit strategy.
- **Anchored.** Accordingly, President Trichet sees inflation expectations still firmly anchored. Even though the traded break-even inflation rate has risen significantly since the end of last year, the increase so far corresponds primarily to the pricing out of a deflation scenario. Although the inflationary pressure will likely continue to moderate appreciably in the foreseeable future, a longer-term, broad-based pullback in consumer prices remains improbable (page 4).
- **Further topics:**
 - **US:** Decline in the trade balance coming to an end (page 7).
 - **Data outlook:** EMU: Industrial recession slows down; US: Retail sales to improve modestly (page 9).
 - **Market outlook:** Room for further steepening; EUR-USD in calmer waters (page 17).

MONETARY BASES GO DIFFERENT WAYS



Source: Bloomberg, UniCredit Research

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MIB MACRO FORECASTS

in % y-o-y	2008	2009	2010
GDP EMU	0.7	-4.4	0.1
CPI EMU	3.3	0.4	1.3
GDP Germany	1.0	-6.2	0.4
CPI Germany	2.6	0.6	2.0
GDP Italy	-1.0	-4.6	-0.3
CPI Italy	3.3	0.8	1.5
GDP US	1.1	-2.6	1.4
CPI US	3.8	-0.6	2.2

MIB FI/FX FORECASTS

2009/10	30-June	30-Sept	31-Dec	31-Mar
EMU 3M (%)	1.15	1.15	1.20	1.20
EMU 10Y (%)	3.40	3.40	3.50	3.75
US 3M (%)	0.60	0.60	0.60	0.60
US 10Y (%)	3.40	3.50	3.60	4.00
EUR-USD	1.32	1.35	1.40	1.45
USD-JPY	98	100	103	106
Oil Price	60	65	70	70

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Appropriate, but...

The ECB kept the refi rate on hold at 1.0% and confirmed that it regards this level as appropriate given the policy decisions adopted so far (including the covered bonds purchase program) and the macroeconomic outlook. At the same time, the door is left open to possible further monetary or credit easing if and when warranted – in particular, the 1.0% refi rate level should not be seen as a pre-decided floor. ECB President Trichet was equally clear in stressing that there is at this stage no decision or bias on whether the asset purchase program could be expanded in size or scope.

The ECB also maintained its cautious assessment of the signs of stabilization and recovery: according to the revised staff projections, the recession will continue for the remainder of 2009, albeit at a significantly slower pace than in the last two quarters; positive growth will only return in Q2 next year, and average growth for 2010 is now expected to be negative (compared to flat in the March projections—this was the only surprise of the meeting). Inflation forecasts are for a mid-point of 0.3% this year (down from 0.4%) and 1.0% next year (in a 0.6-1.4% range, unchanged).

The main message therefore is that the ECB is willing to accept a slow and moderate recovery with inflation below target rather than running the risk of delivering excessive additional stimulus. The ECB staff forecast of inflation at 1.0% in 2010 would seem to contradict the bank's assertion that the current policy stance is consistent with price stability over the policy-relevant horizon, if we take this to be 18-24 months. Moreover, while the ECB's statement repeated that inflation expectations remain well anchored, in recent months consumer inflation expectations have dropped to historical lows, and are likely to decline further as inflation turns negative during the summer. Both points were raised in the Q&A session, and Mr. Trichet deflected the implicit criticism by noting that the ECB's preferred gauges of inflation expectations, including the survey of professional forecasters and 5Y5Y forwards, are still in line with the ECB's definition of price stability.

While the staff's latest inflation forecasts would seem to call for further easing, the ECB's cautious stance is understandable: the economy appears to be bottoming out and equity markets have been signaling rising optimism; inflation will return on an upward trend after the summer; there is still an unusually high degree of uncertainty on the outlook, and a large amount of policy stimulus is in the pipeline. The ECB therefore prefers to keep its powder dry and deliver more easing only if growth weakens again. In other words, the ECB is willing to accept a slow recovery rather than running the risk of an overshooting of inflation in case of a stronger-than-expected growth rebound or of a supply shock to

energy prices. The recent signs of economic stabilization support the ECB's stance, but given the persistent fragility of the growth outlook I would favor additional stimulus now, particularly as with a prolonged recession putting sustained downward pressure on core inflation, downside risks to inflation still predominate.

Those who hoped or asked for an explicit stance on whether bond purchases would be sterilized were once again disappointed. Under pressure, Mr. Trichet said he expected that the purchases would be automatically sterilized – presumably meaning that banks selling the assets would reduce their demand for liquidity at other ECB facilities. He added that if such automatic sterilization did not materialize, the ECB would act to ensure its monetary strategy remains on track. This rather vague formulation suggests that the ECB would prefer the purchases to be sterilized, and currently believes the system does not need additional liquidity. This is in line with last month's assertion that the objective is to improve conditions in a specific market rather than loosen overall monetary conditions. However, the statement falls short of committing to full sterilization. This suggests that the Governing Council has not yet agreed on what to do if the liquidity injected through asset purchases is not offset by reduced demand at the refinancing operations – which in principle leaves open the possibility that the ECB will only partially sterilize the purchases if it comes to the conclusion that the financial system does in fact need additional liquidity.

The key implementation details of the covered bonds purchase program are: **1)** Purchases will be carried out in both primary and secondary markets with banks participating in the ECB refinancing scheme; **2)** The ECB will regard as eligible instruments already accepted as collateral. Bonds must have as a rule a volume of about EUR 500 mn or more and in any case not lower than EUR 100 mn. Moreover, they must have as a rule a minimum rating of AA by at least one of the major rating agencies, and in any case not lower than BBB/Baa3; **3)** The purchase program will start in July 2009 and will be fully implemented by June 2010. As we have already flagged recently, the ECB will concentrate on 3-10Y maturities, given that this is the most relevant bucket of the lending curve.

Asked to comment on the euro's recent strengthening, Mr. Trichet noted "with solemnity" the recent statement by the US Treasury and Fed that a strong USD is in the US's interest. My reading remains that the ECB on balance does not mind a moderate strengthening of the euro at a time when energy price pressures are re-emerging, but is of course wary of the risk that the appreciation might accelerate in an uncontrolled fashion. Together with the ECB's reluctance to ease policy further at this stage, this remains consistent with my expectation of further EUR-USD upside.

The ECB called on eurozone banks to strengthen their capital positions, taking advantage of government-sponsored facilities when appropriate. This shows the ECB is still well aware that the financial system is not out of the woods yet. The fact that stress tests are still carried out on a country by country basis, neither comparable nor publicly disclosed, is very sub-optimal in this respect, hindering a more rapid return of confidence. The ECB, however, was obviously not in a position to criticize the existing institutional set-up of supervisory responsibility, and therefore simply urged national authorities to proceed with the tests.

The ECB's statement argued that the crisis should be used as an opportunity to accelerate structural reforms, including on labor and product markets. The ECB's strong position on this is commendable, particularly as other European policy-makers have gone as far as praising some structural rigidities as providing a cushion against the recession. In fact, to the extent that rigid labor markets slow down the increase in unemployment, they are simply shifting the cost of unemployment insurance from the government to private firms, which will make companies even more reluctant to hire again in a recovery. Europe desperately needs to boost its longer term growth rate, including to facilitate the process of fiscal consolidation, and structural reforms should therefore indeed be accelerated.

Mr. Trichet was of course asked to comment on Mrs. Merkel's surprising criticism. He said he had had a conference call with Mrs. Merkel, where she assured him that she is defending the bank's independence. This can be seen either as Orwellian diplomacy, or as an assurance that she needed to make those statements for the benefit of her political campaign, but that she did not really mean them. Either way, as Mr. Trichet said, the ECB has repeatedly demonstrated its ability to ignore political pressure.

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German consumer prices: Disinflation, but no Deflation

- Inflation slowed to zero in May and could slide into negative territory in the short term because of the dampening base effects of commodity prices. By the end of the year, however, above all the recent recovery in the price of oil should pull the annual rate up again.
- The underlying price trend will, in contrast, likely continue to point south in the foreseeable future. There are massive excess production capacities around the globe, and the exchange rate is making imports cheaper.
- Price expectations in the retail and wholesale trade do not, however, point to classical deflation. On the contrary, the growing signs that the economy is stabilizing as well as the extremely expansionary monetary and fiscal policy are stoking medium-term inflation concerns.

Inflation grinds to a halt

German inflation ground to a halt in May. Consumer prices were flat y-o-y. This is the lowest inflation reading since April 1987. Then as now, energy prices were the decisive factor behind the steep downward trend in inflation. In the space of only ten months, the annual rate has fallen from an elevated 3.3% to zero. While in July of last year energy prices still contributed a very high 1.5 percentage points to the annual rate, at the moment they are having a dampening effect of roughly $\frac{3}{4}$ of a percentage point.

ZERO LINE REACHED AGAIN AFTER A LONG GAP

Consumer prices, in % y-o-y



Source: Federal Statistical Office, UniCredit Research

Alongside the particularly strong correction in the oil price since the middle of last year, the general price correction in the commodity sector has had a positive impact on inflation, not least also on agricultural commodities. Following the strong increases in the preceding years, food prices have been pointing south recently. But the tangible recovery in commodity prices of recent weeks suggests that the dampening base effect on the annual rate for consumer prices has now more or less peaked. The oil price peaked at close to USD 160 per/barrel in July 2008. Accordingly, the annual rate of decline in energy prices is set to reverse in the second half of 2009, and energy prices will add to inflation again by the end of this year. Since its low at below USD 35, the oil price has now already almost doubled. At the moment, the strong volatility of commodity prices is making it difficult to filter out the underlying inflation trend and further prospects concerning the development of inflation.

Core rate still clearly positive

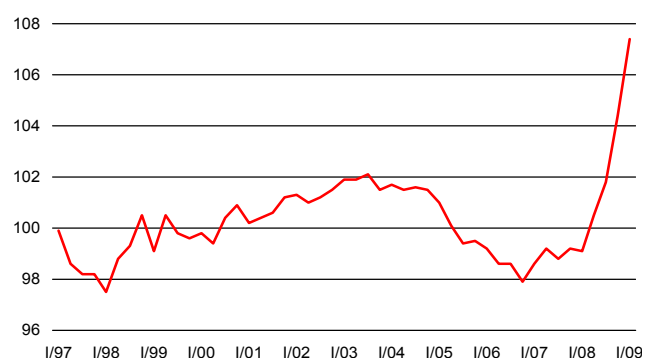
The core rate (headline rate ex energy and seasonal food) has, compared to the headline rate, also fallen strongly in the same period from roughly 2% to 1%, but still remains clearly in positive territory. Above all, prices for services continued to post above-average y-o-y gains. Inflation is, however, traditionally a lagging economic indicator. And the latest abysmal growth numbers for the global economy and specifically for Germany appear to point to a persistent downward trend in underlying inflation. The most important inflation factors do in fact point to a further significant decline in the core rate, at least for the remainder of this year.

Low pricing power

It is no major surprise that one of the most important input factors for inflation, unit labor costs in the economy as a whole, skyrocketed (temporarily) at the turn of the year (cf. chart).

UNIT LABOR COSTS SKYROCKET

Unit labor costs (in the economy as a whole), index (2005=100)

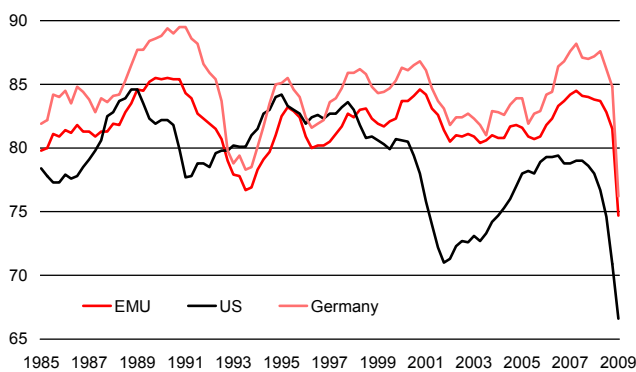


Source: Federal Statistical Office, UniCredit Research

The strongest and third-strongest quarterly declines in GDP since the time series began at the beginning of the 70s, in the first and fourth quarter, have seen productivity plummet, and in conjunction with the – until recently – solid wagegrowth have overall exerted strong upside pressure on unit labor costs. Nevertheless, this will probably not result in any upward pressure on consumer prices since corporate pricing power is very limited in the current environment. The slump in demand has produced massive excess capacities in the manufacturing sector around the globe (cf. chart). For that reason, companies have to compete for customers with price discounts, and reduce costs by suspending wage increases, introducing short-time work and executing layoffs.

MASSIVE EXCESS CAPACITIES

Capacity utilization, manufacturing sector, in %, seasonally adjusted

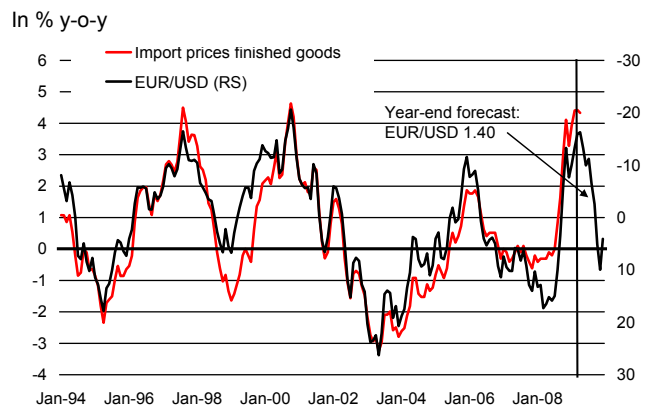


Source: Feri, UniCredit Research

Imported disinflation

A further key factor, import prices of finished goods (includes consumer goods as well as intermediates), also points to easing inflationary pressure in the coming months. In the past, the EUR/USD exchange rate was an excellent leading indicator for the development of import prices of finished goods (cf. chart).

IMPORTED DISINFLATION AHEAD



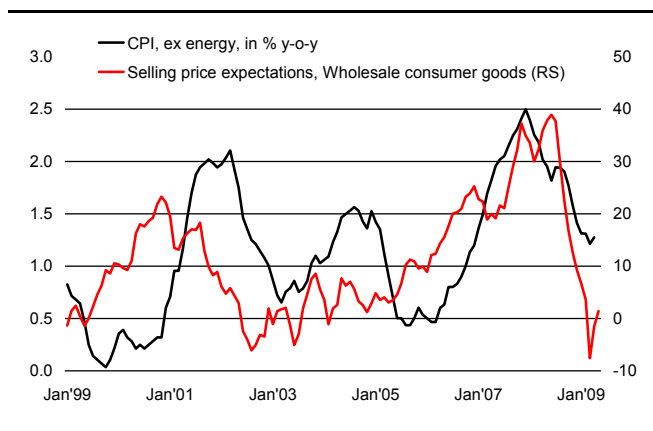
Source: Federal Statistical Office, Bundesbank, UniCredit Research

An appreciation of the EUR has regularly damped imported inflation. After the strength of the USD in the aftermath of the Lehman bankruptcy triggered a more rapid y-o-y rise in import prices, the most recent development on the FX market points to an again tangible decline in inflationary pressure from this side in the coming months.

Price expectations stabilize

The latest retail surveys on selling price expectations for the coming months point in the same direction. Since last summer, these have fallen strongly in both the wholesale and the retail trade sector. The latest data do, however, show signs of stabilization at a level comparable with earlier phases of low inflation (cf. chart) – when consumer prices rose only marginally for an extended time period, but no classical deflation, i.e. sustained broad-based price declines, was observable.

PRICE EXPECTATIONS HAVE FOUND A FLOOR



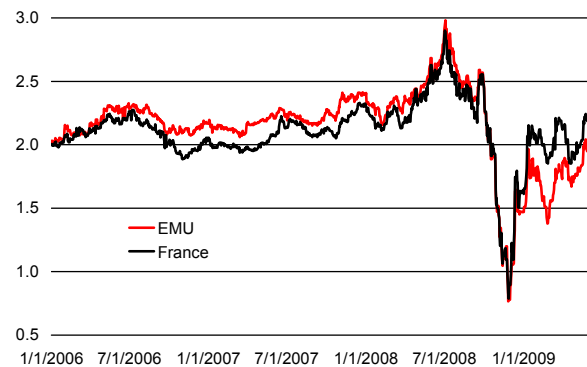
Source: Federal Statistical Office, Ifo, UniCredit Research

The general price trend will, therefore, probably continue to point south in the foreseeable future, despite an energy price related trend reversal in the headline rate. But in light of the mounting evidence that the global economy and the German economy are showing signs of at least impending stabilization, we expect overall that – following the drastic slump in GDP – the current cycle will not see a longer-term general decline in consumer prices. Furthermore, the improving dynamic in important emerging markets suggests that the secular upward trend in commodities will continue because of the inelasticity of supply in some cases. For German inflation as a whole, we forecast an average reading for this year of close to ½% after 2.6% in 2008. In the coming year, the average rate for the year, driven once again by commodity prices, is expected to rise above 1% – based on the assumption that the oil price will increase to USD 80 per/barrel by the end of 2010.

The markets have, in the interim, also fully priced out the deflation risks. The available medium-term inflation swap rates have clearly recovered since the low at the end of last year. Inflation expectations for the eurozone and France – as a proxy for the inflation dynamic in Germany – have recently clawed their way back to pre-crisis levels. And even though consumer prices are unlikely to spike in the foreseeable future, the mix of very expansionary central bank policy, massive budget deficits and more positive economic indicators tends to argue for growing inflation concerns and still rising inflation expectations.

DEFLATION SCENARIO PRICED OUT

5-Year inflation swaps in %



Source: Bloomberg, UniCredit Research

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US: Improvement in trade deficit to end as the economy recovers

- US exports and imports of goods and services both plunged in real terms in Q1 2009, but imports dropped more. The resulting improvement in real net exports actually made a big positive contribution to real GDP.
- However, forces are at work that will tend to end the improvement in real net exports. They include the moderate recovery in US domestic demand, relatively weaker economic growth for major trading partners and the appreciation in the weighted average value of the USD.
- Moreover, the visit this week of Treasury Secretary Tim Geithner to China drew renewed attention to the gaping bilateral deficit. The key issue of the long-term relationship between the USD and the Chinese renminbi was touched upon only in the gentlest diplomatic language.
- This will eventually reinforce political discussions to promote US exports, even if it means pushing for a depreciation of the dollar in foreign exchange markets – a policy course fraught with danger for the financing of the existing deficit and thus for US interest rates.

Recessions usually lower the US trade deficit

The US runs trade deficits almost every year these days but that has not always been true. Whether or not the US has a trade deficit or surplus at a business cycle peak, the trade position normally improves during recessions. Since the collapse of the Bretton Woods fixed-exchange rate system in the early 1970s, the US trade position worsened in only one recession, the deep global economic downturn of 1981-82. That was a case in which US exports fell more sharply than imports. Otherwise, imports decline to a greater extent than exports, as domestic spending contracts.

TRADE POSITION CHANGES DURING MAJOR RECESSIONS

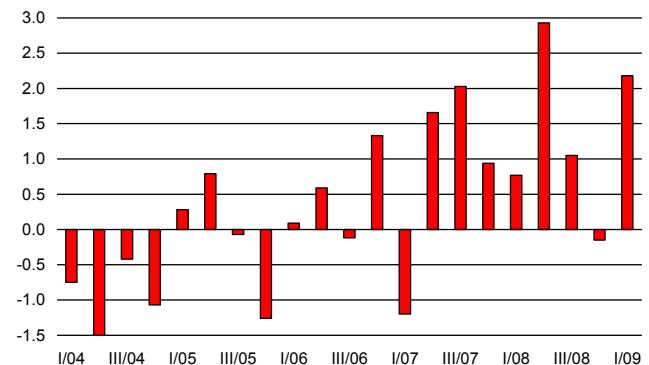
<i>Trade balance in USD bn, annual rates</i>	cyclical peak	recession trough
Nov 1973-Mar 1975	6.5	13.5
Jul 1981-Nov 1982	-11.1	-34.2
Jul 1990-Mar 1991	-77.7	-25.4
Mar 2001-Nov 2001	-391.1	-352.1
Dec 2007-present	-695.1	-359.6

Source: US Census Bureau, UniCredit Research

The improvement in the nominal trade deficit since the beginning of the current recession in December 2007 is the largest in dollar magnitude. It is also the biggest as a proportion of peak GDP. The improvement comes to 2.4% of GDP over the five quarters Q4 2007 through Q1 2009. When exports and imports of goods and services are adjusted for price changes, the improvement in real net exports has contributed an average of 1.3 percentage points to GDP growth over the period - an annualized 2.2 percentage points in just the first quarter of 2009 alone. In other words, without the positive contribution from the reduction in the real trade deficit, the recession would have been significantly worse. The chart below shows the contributions of changes in real net exports for this decade:

NET EXPORTS SUPPORT GROWTH DURING RECESSION

Contribution of net exports to annualized GDP in pp



Source: BEA, UniCredit Research

Unfortunately, it is highly unlikely the positive contribution can continue. Even though we foresee only a moderate (or “U-shaped”) recovery, domestic demand will revive enough to boost imports again. The following table shows our current forecasts of the contribution of real net exports to real GDP growth over the coming year and a half. Real net exports will probably produce a negative contribution throughout the rest of this year and next.

CONTRIBUTION OF NET EXPORTS TO REAL GDP

<i>In percentage points, seas. adjusted, annual rates</i>	I/09	II-IV/09 f	2010 f
Real exports	-3.86	-0.16	-0.30
Real imports	6.05	-0.27	0.10
Real net exports	2.18	-0.43	-0.40

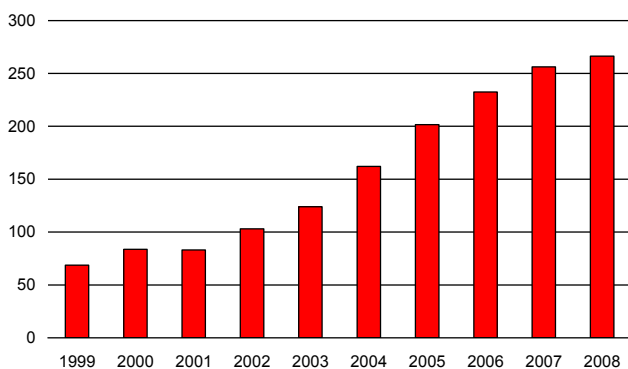
Source: US Commerce Dept., Census Bureau, UniCredit Research

The US-China trade connection: record imbalance with no adjustment in sight

The facts are not pretty. China ran a trade surplus with the rest of the world of USD 295.5 bn in 2008, according to Chinese government figures. According to US government figures, the US bilateral deficit with China came to USD 266 bn last year, almost all of the Chinese global trade surplus. That means that the US bilateral deficit represents the largest trade imbalance in the world at the present time. The chart below shows how that deficit has climbed in recent years from modest to extraordinary magnitudes.

RECORD IMBALANCE

US trade deficit with China in USD bn



Source: BEA, UniCredit Research

What is perhaps equally worrisome is the extreme skewness of the US-Chinese trade imbalance. The ratio of US imports of Chinese goods to US exports to China is greater than any single bilateral imbalance with a major trading partner. In 2008, that ratio was 4.72. In other words, Chinese exports to the US (USD 337.8 bn) were almost five times Chinese imports from the US (USD 71.5 bn). By comparison, the table below shows the export to import ratio for the five largest bilateral deficits. Even oil exporter Saudi Arabia, the next most unbalanced trade relationship with the US, had a lower export-import ratio.

US TRADE IMBALANCES WITH COUNTRIES WITH LARGEST BILATERAL DEFICITS

USD bn	2008 deficit, USD bn	Export-import ratio
China	266.3	4.72
Canada	74.6	1.28
Japan	72.7	2.09
Mexico	64.4	1.42
Germany	42.8	1.78
Saudi Arabia	42.3	4.38

Source: US Commerce Dept., Census Bureau, UniCredit Research

Congressional pressure for Chinese action is low key now, but percolating

The political problem posed by huge, persisting bilateral US trade deficits with China is straightforward. When the US economy is growing rapidly, enormous US imports from China provide an important function. They improve US living standards and serve as a buffer against inflation. By contrast, in a prolonged recession, the disinflationary benefits are valued less highly, while the fact that China may be taking market share away from other emerging market suppliers, especially Mexico, is seen by many members of US Congress as unfair. What they would like to see is an explicit Chinese government commitment to adjust the country's overall trade surplus, which would almost certainly involve a meaningful reduction in the size of the Chinese trade surplus with the US. The Chinese economic stimulus program was well-received because it is viewed as likely to produce a visible increase in imports. But members of Congress believe that a sizable appreciation of the Chinese currency should also be undertaken as a further tool for adjusting the trade surplus. This policy position has considerable bipartisan support and legislation to introduce a substantial tax on Chinese imports would clearly pass if it were submitted. The Bush administration threatened to veto such a bill, but in return promised to successfully negotiate a trade and exchange rate agreement with China. That never happened. Treasury Secretary Geithner's visit to China this week did not produce such an agreement either. To the contrary, there are no public reports that even informal negotiations were held.

If the US recession ends soon and a recovery begins later this year, some of the Congressional pressure may wane – but not if the recovery generates a renewed upsurge in imports from China and a larger bilateral US deficit. The US Treasury itself is caught in a dilemma: it needs Chinese financing of a large and growing US budget deficit and thus has to maintain cordial relations, even if that means accepting an even bigger trade deficit. But unless US economic conditions improve sufficiently fast, Congressional efforts to pass a veto-proof bill may become unstoppable. Bond market participants will follow this ongoing debate with great intensity, since it may be one of the most important determinants of movements in yields on US government securities in the year ahead.

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Data Monitor Europe – Preview of the coming week

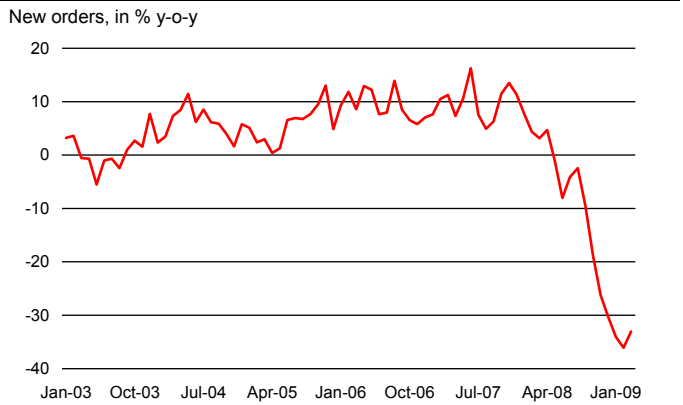
Monday, June 8

GERMANY, NEW ORDERS

April	MIB	Cons.	Mar	Feb
in % m-o-m	-1.0	-0.4	3.3	-3.1
in % y-o-y	-34.1	-	-33.1	-36.1

Following six consecutive months of dramatic declines in new orders, March brought a strong rise m-o-m. The reading was, however, influenced positively by a disproportionately large number of big ticket orders. Even though business surveys point to a substantial improvement in the prospects for orders, they have, nevertheless, not yet reached the expansion threshold. Hence, we expect April to bring another downward correction. All in all, however, an imminent stabilization in the order situation has become increasingly likely.

SLUMP IN DEMAND HALTED



Source: Federal Statistical Office, UniCredit Research

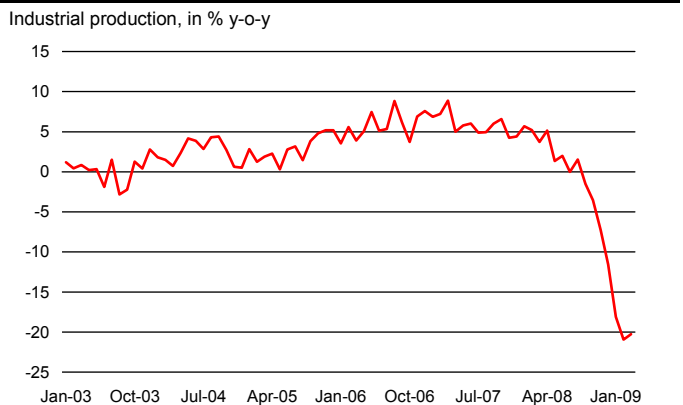
Tuesday, June 9

GERMANY, INDUSTRIAL PRODUCTION

April	MIB	Cons.	Mar	Feb
in % m-o-m	-0.8	-0.5	0.0	-3.4
in % y-o-y	-21.0	-	-20.3	-21.0

The gratifying stabilization of production activity in March was facilitated by a temporary spike in the automotive sector, triggered by the auto scrapping premium, as well as by the spring recovery in construction following the severe winter. Even though the environment for industry has improved considerably of late, we expect still further production declines in the short term on the heels of the collapse of demand in the preceding months.

MASSIVE CORRECTION EXTENSIVELY COMPLETED



Source: Federal Statistical Office, UniCredit Research

Wednesday, June 10

UK, INDUSTRIAL PRODUCTION

April	MIB	Cons.	Mar	Feb
Total, m-o-m %	0.6	-0.2	-0.6	-0.8
Manufacturing, m-o-m %	0.5	0.0	-0.1	-0.3

Even though all surveys of manufacturing activity had underestimated the descent in production in Q1 2009, signals that they have bottomed out at the end of Q1 are quite clear. Both the manufacturing PMI and the CBI (expected output) point to a remarkable increase in manufacturing output in April.

FRANCE, INDUSTRIAL PRODUCTION

April	MIB	Cons.	Mar	Feb
In % m-o-m	0.4	-0.2	-1.1	-0.8

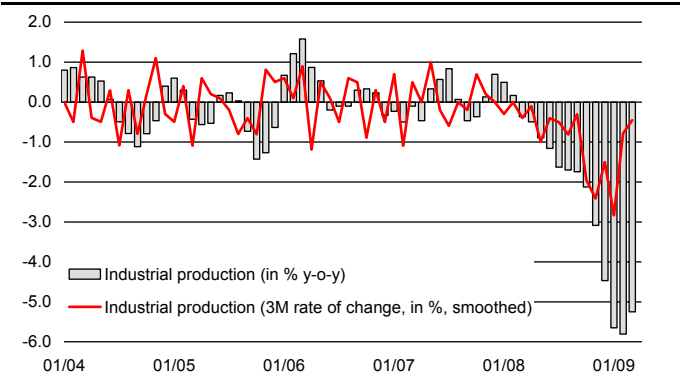
In line with business survey evidence, namely the manufacturing PMI, we expect that companies will resume production in April, with the aim of replenishing inventories and thus meeting a (tentative) strengthening in demand. However, the pick-up in industrial production is likely to be relatively contained as the outlook remains surrounded by uncertainty.

ITALY, INDUSTRIAL PRODUCTION

April	MIB	Cons.	Mar	Feb
In % m-o-m	0.0	0.2	-4.6	-4.6

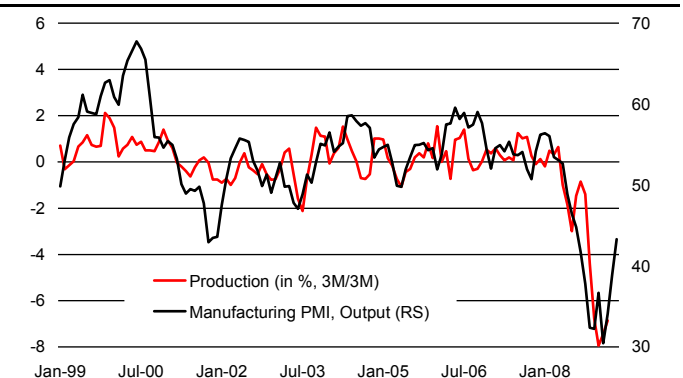
Mirroring the encouraging indications seen in business surveys worldwide, the strong pace of contraction in Italy's industrial output should start easing in April. We expect a flat monthly reading, consistent with the view that the manufacturing cycle is beginning to turn now with evidence of a less steep decline in new orders and continuing stock depletion.

Q2 TO START ON A LESS WEAKER NOTE



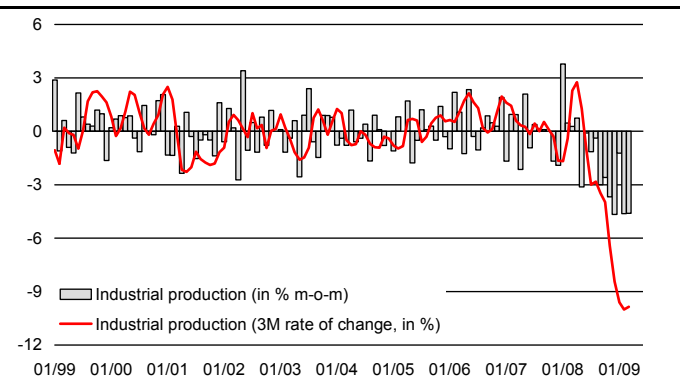
Source: ONS, UniCredit Research

TURNING AROUND



Source: INSEE, UniCredit Research

FACTORY CYCLE IS STARTING TO TURN



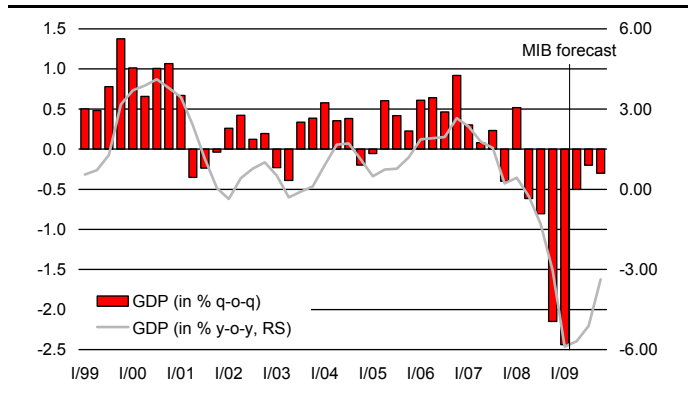
Source: Istat, UniCredit Research

ITALY, GDP (COMPONENTS)

I/09	MIB	Cons.	IV/08	III/08
In % q-o-q	-2.4	-2.4	-1.9	-0.7

The second release of Q1 GDP should confirm the unprecedented quarterly contraction. Like at the end of last year, falling fixed investment and exports should be the main culprit of the decline, while the drop in consumption should have moderated a bit with respect to the end of 2008. Most likely, inventories subtracted from growth.

GDP IN UNCHARTED WATERS



Source: Istat, UniCredit Research

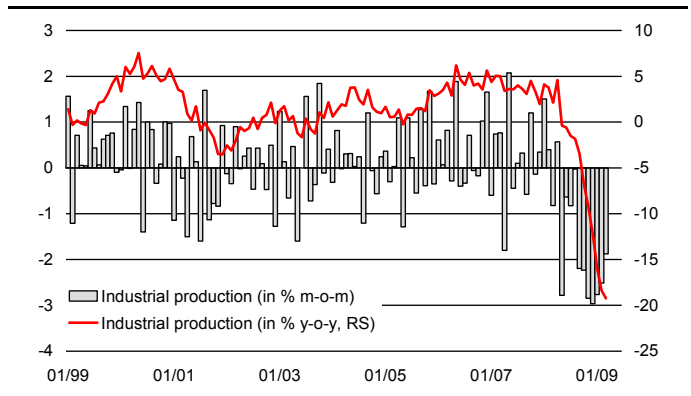
Friday, June 12

EMU, INDUSTRIAL PRODUCTION

April	MIB	Cons.	Mar	Feb
In % m-o-m	-0.5	-0.6	-2.0	-2.3

After the previous bad production figures across the area, eurozone industrial activity should post a more moderate 0.5% m-o-m contraction in April, consistent with manufacturing surveys rising from their lows. Evidence that stock depletion proceeds unabated while new orders are falling less rapidly suggests that the industrial recession will soften in Q2, possibly significantly.

THE WORST OF OUTPUT CONTRACTION IS BEHIND US



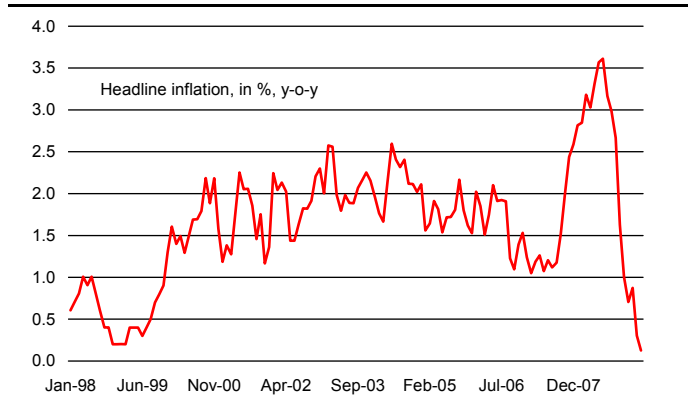
Source: Eurostat, UniCredit Research

FRANCE, CONSUMER PRICES

May	MIB	Cons.	Apr	Mar
in % y-o-y	-0.2	-0.2	0.1	0.3

French inflation should eventually enter into negative territory in May, mostly due to downward pressures associated with a favorable base effect on transport and housing costs. Food inflation should also play in favor of a further easing in the headline reading.

BREACHING THE ZERO THRESHOLD



Source: INSEE, UniCredit Research

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Data Monitor US - Preview of the coming week

Wednesday, June 10

TRADE BALANCE

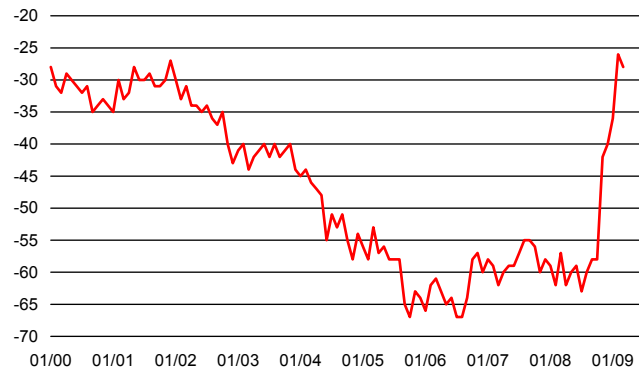
April	MIB	Cons.	Mar	Feb
in USD bn	-29.5	-28.7	-27.6	-26.1

Oil prices started going up in April, adding to import costs. Outside the energy sector, import volumes and prices are somewhat lower. The problem is that both export volumes and values are also sinking. The net result is likely to be another modest increase in the deficit on trade in goods and services. That should be the trend for the time being.

BEIGE BOOK

The theme that the worst of the recession is over will come through clearly in the next summary of local business comments compiled by the twelve Federal Reserve district banks. What will be most revealing is whether respondents see any concrete signs of economic recovery and if so in what parts of the country and in what industries. Equally interesting is what the report has to say about whether labor market conditions are improving.

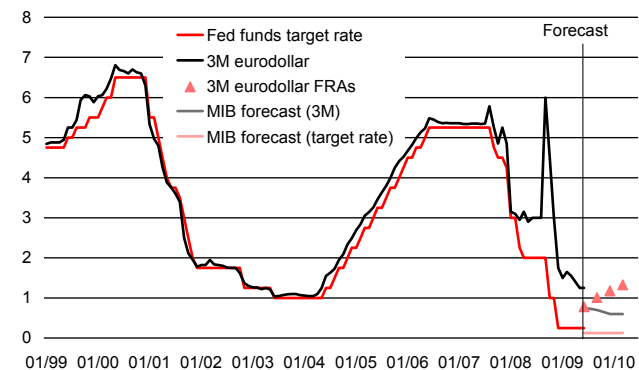
RECESSION BENEFITS FOR DEFICIT BEGIN TO FADE



Source: Thomson Datastream, UniCredit Research

ANOTHER LESS PESSIMISTIC BUSINESS SURVEY

Key interest rates in %



Source: Thomson Datastream, UniCredit Global Research

Thursday, June 11

INITIAL JOBLESS CLAIMS

June 6	MIB	Cons.	May 29	May 22
in thousands	600	620	621	625

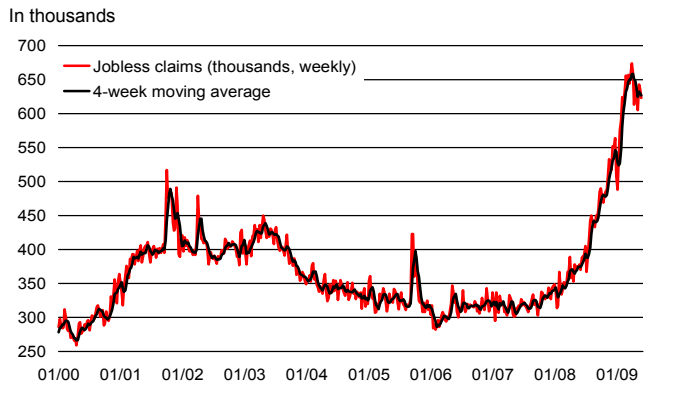
Outside the car industry, new layoffs have started to edge down, but losses of 600,000 a week must be viewed as unequivocally weak. Net hiring is still negative, as evidenced by the persisting increases in continued claims. And the ISM purchasing managers' report indicated that in the manufacturing sector, only a handful of companies are actively seeking new employees. Strict limits on hiring are still in place.

RETAIL SALES

May	MIB	Cons.	Apr	Mar
in % m-o-m	0.2	0.1	-0.4	-1.3
ex autos, in % m-o-m	0.2	0.2	-0.5	-1.2

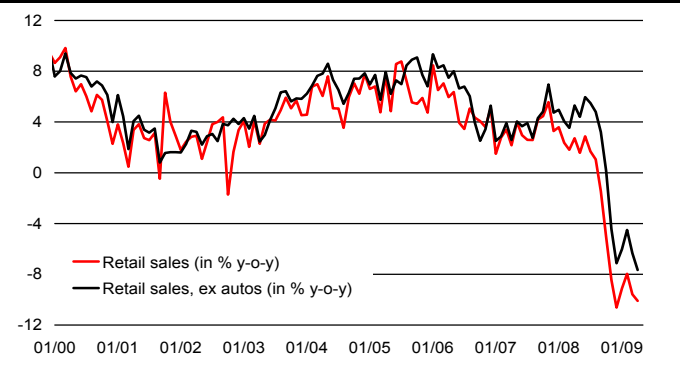
The auto sector is confronted by historic challenges, most immediately the question of whether potential buyers will be attracted to models that bankrupt GM and Chrysler will be terminating. So far, so good, however, as discounts stimulated higher sales of these brands in May. Elsewhere, normal shopping is gradually resuming, although consumers are hardly exuberant.

LABOR MARKET NOT YET CLOSE TO THE CYCLICAL TROUGH



Source: Thomson Datastream, UniCredit Research

CAUTIOUS SHOPPERS WAIT FOR PRICE DISCOUNTS



Source: Thomson Datastream, UniCredit Research

Friday, June 12

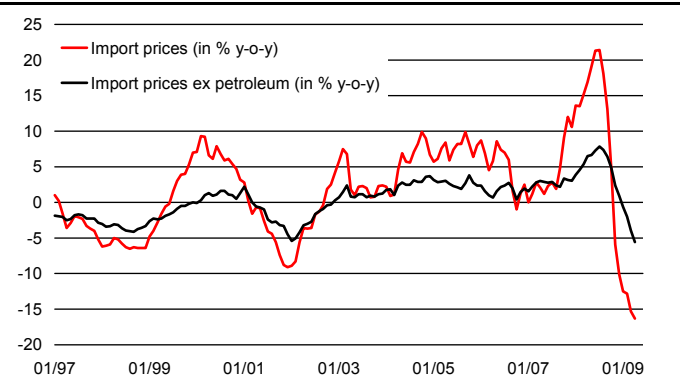
IMPORT PRICES

May	MIB	Cons.	Apr	Mar
in % m-o-m	1.0	1.2	1.6	0.2
in % y-o-y	-14.0	-	-16.3	-15.3

The rebound in energy prices continued last month and that assures another big increase in the overall import price index. Non-energy prices, however, are still declining: they have gone down every month since last August, as producers worldwide (but especially in Asia) cut prices to retain market share. US non-agricultural export prices have slid almost as much, proving once again that globalization spares few sectors.

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HIGHER ENERGY COSTS REVERSE PAST INDEX DECLINE



Source: Thomson Datastream, UniCredit Global Research

US Review

ISM purchasing managers reports confirm the recession is winding down

The recession is not over, certainly not for housing, autos, and labor markets. But according to purchasing managers surveyed by the Institute for Supply Management, orders are rising in manufacturing for the first time in a year. Manufacturing production is close to stabilizing. And delivery delays are starting to creep up. These are all positive signs (and the delivery responses are flattered by inclusion in the index of leading economic indicators). Non-manufacturing results were a little less uplifting. The overall business activity index barely increased from April and only a couple of the main components improved noticeably. One was real estate, probably echoing the findings of the National Association of Realtor's Pending Home Sales index. It jumped 6.7% in April, largely because of a burst of transactions associated with acquisitions of foreclosed properties. Banks lost money on those deals, but real estate agents earned higher commissions, a sunny spot in an otherwise gloomy sky.

Auto sales better in May as bigger discounts attract consumers

Auto makers reported better sales for May, an annual rate of 9.9 mn units, compared to about 9 mn in recent months. Worries were largely unfounded that 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. Instead, bargain-hunters found much to like in both showrooms. Toyota showed a sizable sales gain over April, but a big y-o-y 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 consumers 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.

Layoffs plateau but at high levels, as hiring intentions stay depressed

Initial claims for unemployment compensation were roughly unchanged at 621k in the end-May reporting week. They have fluctuated narrowly around that level for more than a month, down from the cyclical peak in April. But it is one thing to have layoffs plateau. It is a much harder to get the process of rehiring started. The number of people receiving unemployment benefits remains just under 7 mn, a record high. And both purchasing managers' indices show that few businesses are adding jobs. Only 8% of manufacturers and 13% of service industries report increased hiring. By contrast, 36% of manufacturers and 29% of non-manufacturing companies are still cutting back employees. The labor market is still contracting at a very substantial pace, and this will keep the economic recovery, when it starts, more sluggish than in the past, when firms rehired workers they had laid off. They don't do that anymore. The proof is that labor productivity has risen despite the severe recession, as firms react more aggressively to pare costs. The first revision of Q1 2009 GDP figures produced a 1.6% per annum improvement in labor productivity in the non-farm business sector, while unit labor costs rose 3%. But in the battered manufacturing sector, productivity fell by 2.7% per annum (a whopping 10.4% in durable goods manufacturing, especially the auto industry), lifting unit labor costs by 16.6% per annum (29.3% in durable goods industries). With these kinds of pressures, the enthusiasm for companies to add to their workforces is pretty slim.

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Fixed Income Outlook

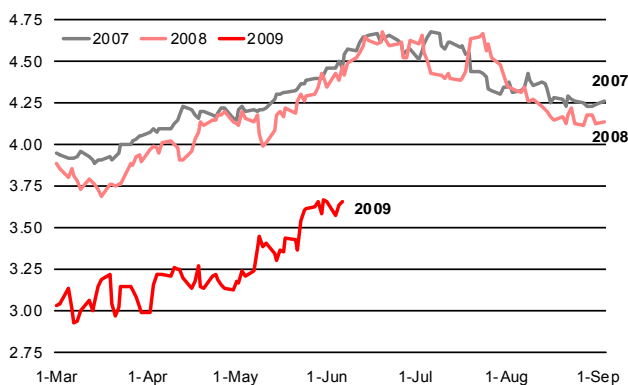
- A yield spike in the spring is now "normal": The situation was no different in the years 2007 and 2008.
- The steepness of the Bund curve appears to be record-breaking, but it is not. There is still room to the upside. The 10Y Bund yield could still rise another 20-50 bp.

Spring strain on the bond market

Bond markets can look back on an eventful week, characterized by intraday yield moves in the double-digit bp range. Below the line, the upward trend in yields appears to be ongoing. We see few factors that argue for a pullback in yields. Quite the contrary, growth hopes, inflation fears, an excess supply of government bonds, and outflows from safe-haven investments all point to higher yields. Central banks are standing idly by, perhaps even powerless to do anything. We would have expected statements by now from above all the Fed or the Bank of England to the effect that the upturn in yields of the last few weeks does not gel with the targets of the respective central bank. To date, however, nothing of the sort has been heard. The upturn in yields is, however, nothing unusual at this time of year. In the last two years, the 10Y Bund yield already added 70-80 bp between the beginning of March and mid-June. This year, yields have risen so far by a total of 60 basis points.

IN SPRING, BUNDS ARE WEAK

10Y Bund yields between March and September

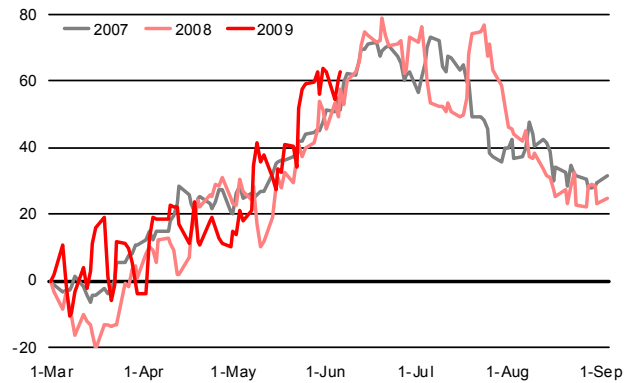


Source: Bloomberg, UniCredit Research

How far can the 10Y Bund yield still rise? An initial indication is provided by the analysis above, which shows yield moves in the spring of 2007 and 2008. The charts suggests further upside potential of 20 basis points (bp) to then 3.85%.

YIELD INCREASES OF UP TO 80 BP ARE NORMAL

Cumulative yield change since the beginning of March, 2007-2009

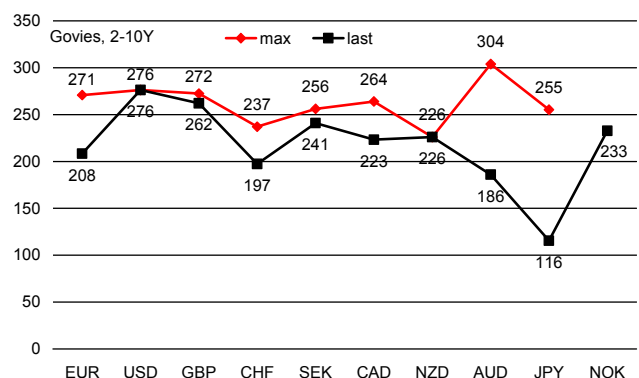


Source: Bloomberg, UniCredit Research

A further limit could be set by the steepness of the curve. The 2Y-10Y spread currently stands at 208 bp. We take another look at history and note: Steepening trends of yield curves (government bonds) run out of steam in the area between 225 bp and 275 bp. This level was exceeded only once in the G-10 universe (Australia, July 1992). For Germany, the record stands at 271 bp (August 1996). There is, therefore, still ample room for further steepening of the Bund curve. Based on the assumption of a constant 2Y yield level (stable key rate expectations), this can be translated 1-to-1 into possible yield increases in the 10Y maturity segment: of up to 50 basis points!

THE BUND CURVE CAN STILL STEEPEN APPRECIABLY

Maximum and current levels in the 2-10Y spread, since 1990



Source: Bloomberg, UniCredit Research

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Forex Outlook

- While optimism was the main driver of the FX world at the start of the week, volatility was the main feature characterizing the last few days.
- Next week, the light data calendar in the eurozone and further green shoots from the US should keep the EUR-USD in a trading range mostly between 1.40 and 1.435.

Enjoy low volatility on EUR-USD next week

If one had to sum up this week in the FX market with just a single word, volatility would be that word. At the start of the week, the recent optimism in the market was the main driver, with GBP, Pacific Rim currencies and CAD rising sky high and the greenback losing ground as a result. In the second part of the week, regional factors seemed to prevail in setting the market tone. At that point, volatility increased sharply, while central banks (BoE, ECB and BoC) did not add much to the picture. Next week, the data calendar does not offer much inspiration: we expect to get further green shoots from both the Fed's Beige Book and US retail sales. In turn, this should keep investors in a positive mood. As the global picture looks complex, we recap the main movements of the week currency by currency and try to give hints of what we should expect next week.

EUR-USD: aside from the dovish surprise in the staff forecasts (the euro area is seen resuming positive growth only after mid-2010), the ECB meeting did not bring any relevant news and sounded vague on the sterilization issue. Next week, the calendar is pretty light. Hence, if history repeats itself, we should see little volatility in the EUR-USD next week. Indeed, starting from January 2009, the historical volatility of the EUR-USD (calculated as the standard deviation of the EUR-USD spot rate) in the week after the ECB meeting has greatly decreased compared to the one observed during the week of the ECB meeting (cf. chart). March 2009 represents an exception, as during that week the SNB intervened on EUR-CHF and high EUR-CHF volatility was reflected also on the EUR-USD. Taking this into consideration, next week should be no exception to this apparent "stylized fact" and thus we expect EUR-USD historical volatility to ease again. Furthermore, new green shoots in the US may well contribute to keep the EUR well bid. All in all, we see the EUR-USD trading in the 1.40-1.435 range.

GBP-USD: After a further decisive rally at the start of this week, cable gave up all of its gains on Gordon Brown's rumored resignation and in the wake of this week's USD recovery across the board. On the other hand, the BoE

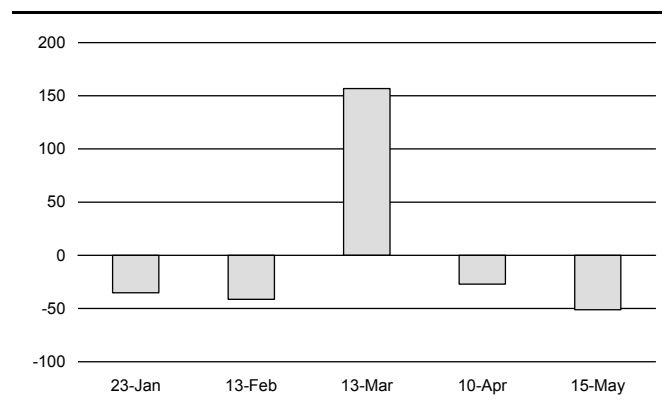
meeting, which simply reiterated that the asset purchase program remains under review and will need two months to be completed, was interpreted as a non-event.

As we argued in last week's Friday Notes, cable's recent strength is due mainly to a resurfacing of risk appetite. Indeed, domestic issues tend to weigh negatively on its performance. Next week, GBP-USD should be mainly driven by the dollar's performance and by global market sentiment. In such a context, GBP-USD should regain some ground and we regard a rebound towards the 1.64-1.66 area as quite likely.

Nordics: The gloomy Latvian economic outlook, speculation about the devaluation of the currency and a failed T-bill auction last Wednesday hit the Swedish stock market and hurt the SEK badly, with the EUR-SEK rallying and the EUR-NOK mirroring that move. In the short term, investors will remain extremely vulnerable to any news or rumors coming from the Baltic region, thus volatility on the two Nordics is bound to stay very high while SEK and NOK are still exposed to further weakness until Baltic fears are completely dismissed.

USD-CAD: As expected, the BoC left the key rate unchanged at 0.25% and did not announce any QE measures, but, as we warned, BoC's Governor Carney said that the bank is cautious on the unprecedented rapid CAD rise (CAD has appreciated by more than 10% since March). The market shrugged off the BoC announcement and continued to sell USD-CAD after the meeting. As long as optimism prevails in markets and commodity prices rise, we remain short on this exchange rate, although the 1.05 area may represent a floor.

PERCENTAGE CHANGE IN HISTORICAL VOLATILITY IN THE WEEK OF THE ECB MEETING AND THE WEEK AFTER



Source: Bloomberg, UniCredit Research

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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 3.9% – 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 4.4%. Emerging Asia and China will again lead the growth rankings (2009: +5% and 5.5%, respectively), 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 6.1% 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 also remain broadly unchanged until the end of this year and rise to the 4%-mark only in the course of 2010.

Exchange rates

- EUR-USD is expected to fluctuate lower in the short term. However, later this year it should strengthen again, heading toward 1.40 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	0.7	-4.4	0.1
CPI EMU	3.3	0.4	1.3
GDP Germany	1.0	-6.2	0.4
CPI Germany	2.6	0.6	2.0
GDP Italy	-1.0	-4.6	-0.3
CPI Italy	3.3	0.8	1.5
GDP US	1.1	-2.6	1.4
CPI US	3.8	-0.6	2.2

OUR FI/FX & OIL PRICE FORECASTS

2009/10	30-June	30-Sept	31-Dec	31-Mar
EMU 3M (%)	1.15	1.15	1.20	1.20
EMU 10Y (%)	3.40	3.40	3.50	3.75
US 3M (%)	0.60	0.60	0.60	0.60
US 10Y (%)	3.40	3.50	3.60	4.00
EUR-USD	1.32	1.35	1.40	1.45
USD-JPY	98	100	103	106
Oil Price	60	65	70	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	0.9	-4.0	0.8
US	2.5	3.6	2.9	2.8	2.0	1.1	-2.6	1.4
Euro area	0.8	1.9	1.8	3.0	2.7	0.7	-4.4	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	-5.1	-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	-4.5	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	-3.7	1.2
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	0.4	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	0.4	1.4
France	2.1	2.1	1.7	1.7	1.5	2.8	0.1	1.3
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	-0.2	1.7
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	1.4	1.5
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	-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/09p	III/09p	IV/09p
US (annualized)	0.9	2.8	-0.5	-6.3	-6.1	-0.3	0.1	1.7
Euro area	0.6	-0.2	-0.2	-1.6	-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	-2.4	-0.5	-0.2	-0.3
Spain	0.3	0.1	-0.2	-1.0	-1.9	-0.7	-0.4	-0.4
Austria	0.6	0.2	0.0	-0.4	-2.8	-0.3	0.4	-0.1
UK	0.4	0.0	-0.6	-1.6	-1.9	-1.1	-0.5	-0.2
Switzerland	0.4	0.0	-0.2	-0.6	-0.8	-0.4	-0.2	0.0
Sweden	0.0	-0.1	-1.0	-2.4	-1.1	-0.5	0.1	0.3
Japan	0.8	-0.9	-0.6	-3.8	-4.0	-0.5	0.2	0.2

Consumer prices, CPI (% , y-o-y)	I/08	II/08	III/08	IV/08	I/09	II/09p	III/09p	IV/09p
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	0.6
core rate (ex food & energy)	1.8	1.7	1.8	1.9	1.6	1.5	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	-0.2	-0.4	0.4
Italy	3.1	3.6	4.0	2.8	1.5	0.8	0.1	0.8
Spain	4.5	4.7	5.0	2.5	0.5	-0.8	-1.2	0.6
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	1.8	0.6	0.3
Switzerland	2.5	2.7	3.0	1.6	0.0	-0.7	-1.1	-0.3
Sweden	3.2	3.9	4.3	2.4	0.7	-0.5	-1.2	0.0
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

Interest & Exchange Rate Forecasts (I)

INTEREST RATE FORECASTS (% , END QUARTER)

2009	current	end-Q2	end-Q3	end-Q4	end-Q1
Eurozone bond market					
Refi rate	1.00	1.00	1.00	1.00	1.00
3M Euribor	1.26	1.15	1.15	1.20	1.20
2Y	1.57	1.20	1.20	1.30	1.50
5Y	2.74	2.40	2.40	2.45	2.68
10Y	3.65	3.40	3.40	3.50	3.75
30Y	4.36	4.10	4.20	4.20	4.45
10Y swap spread (in bp)	12	10	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	0.60
2Y	0.97	0.90	1.00	1.10	1.40
5Y	2.60	2.22	2.30	2.40	2.75
10Y	3.72	3.40	3.50	3.60	4.00
30Y	4.58	4.30	4.60	4.80	5.20
10Y swap spread (in bp)	34	10	5	0	0
Japan					
Target rate	0.10	0.10	0.10	0.10	0.10
3M JPY Libor	0.51	0.50	0.50	0.50	0.50
10Y JGB	1.50	1.30	1.30	1.45	1.70
United Kingdom					
Repo rate	0.50	0.50	0.50	0.50	0.50
3M GBP Libor	1.27	1.20	1.10	1.00	0.90
10Y Gilt	3.87	3.65	3.70	3.85	4.10
Switzerland					
3M CHF Libor mid target rate	0.25	0.25	0.25	0.25	0.25
3M CHF Libor	0.39	0.30	0.30	0.30	0.30
10Y Swissie	2.447	2.40	2.50	2.60	2.85

EXCHANGE RATE FORECASTS (END QUARTER)

	current	end-Q2	end-Q3	end-Q4	end-Q1
EUR-USD	1.4193	1.32	1.35	1.40	1.45
EUR-JPY	137.37	129	135	144	154
EUR-GBP	0.8851	0.90	0.89	0.87	0.85
EUR-CHF	1.5188	1.52	1.53	1.57	1.60
USD-JPY	96.78	98	100	103	106
GBP-USD	1.6035	1.47	1.52	1.61	1.71
USD-CHF	1.0701	1.15	1.13	1.12	1.10

COMMODITY PRICE FORECASTS

	current	end-Q2	end-Q3	end-Q4	end-Q1
Oil price (Brent, USD/b)	69.09	60	65	70	70
DJ commodity price index	256.65	240	265	275	290

Interest & Exchange Rate Forecasts (II)

INTEREST RATE FORECASTS (% , END QUARTER)

2008/09	current	end-Q2	end-Q3	end-Q4	end-Q1
Sweden					
Key rate	0.50	0.50	0.50	0.50	0.50
3M rate	0.97	0.90	0.70	0.70	0.75
10Y government bond yield	3.74	3.45	3.55	3.65	3.90
10Y spread to Bunds (in bp)	9	5	15	15	15
Norway					
Key rate	1.50	1.50	1.50	1.50	1.50
3M rate	2.31	2.00	1.75	1.75	1.80
10Y government bond yield	4.31	4.10	4.30	4.50	4.90
10Y spread to Bunds (in bp)	66	70	90	100	115
Canada					
Key rate	0.25	0.25	0.25	0.25	0.25
3M rate	0.67	0.80	0.75	0.75	0.75
10Y government bond yield	3.40	3.20	3.40	3.60	4.00
10Y spread to Bunds (in bp)	-25	-20	0	10	25
Australia					
Key rate	3.00	2.50	2.00	2.00	2.00
3M rate	3.50	3.30	2.80	2.80	2.90
10Y government bond yield	5.59	4.80	4.90	5.10	5.40
10Y spread to Bunds (in bp)	194	140	150	160	165
New Zealand					
Key rate	2.50	2.00	1.75	1.75	1.75
3M rate	3.14	2.60	2.50	2.50	2.60
10Y government bond yield	5.94	5.30	5.40	5.50	5.80
10Y spread to Bunds (in bp)	229	190	200	200	205

EXCHANGE RATE FORECASTS (END QUARTER)

	current	end-Q2	end-Q3	end-Q4	end-Q1
EUR-SEK	10.9278	10.60	10.40	10.20	10.00
EUR-NOK	8.9711	8.70	8.50	8.30	8.10
EUR-CAD	1.5658	1.61	1.58	1.61	1.62
EUR-AUD	1.7624	1.78	1.71	1.69	1.67
EUR-NZD	2.2235	2.28	2.08	2.00	1.96
USD-SEK	7.6992	8.03	7.70	7.29	6.90
USD-NOK	6.3209	6.59	6.30	5.93	5.59
USD-CAD	1.1033	1.22	1.17	1.15	1.12
AUD-USD	0.8053	0.74	0.79	0.83	0.87
NZD-USD	0.6383	0.58	0.65	0.70	0.74
EUR-USD	1.4193	1.32	1.35	1.40	1.45

Economic Event & Data Release Calendar

Date	Time (ECB)	Country	Indicator	Period	MIB est.	Consensus (Bloomberg)	Prev. period
05 June to 12 June 2009							
Fri, 05 Jun '09	14:30	US	Average weekly hours	May		33.2	33.2
	14:30	US	Average hourly earnings (in % m-o-m)	May		0.1	0.1
	14:30	US	Unemployment rate (in %)	May	9.1	9.2	8.9
	14:30	US	Non-farm payrolls (change in thousands m-o-m)	May	-575	-520	-539
	21:00	US	Consumer credit (USD bn)	Apr		-6.0	-11.1
Mon, 08 Jun '09	7:45	SZ	Unemployment rate (in %)	May		3.6	3.4
	10:30	GE	Sentix growth expectations	Jun			-34.3
	12:00	GE	Industrial orders (in % m-o-m)	Apr	-1.0	-0.4	3.3
	17:00	EMU	ECB's Constancio Speaks in Parliament Hearing on BPN				
	19:35	EMU	ECB's Stark Speaks at Conference in Linz, Austria				
Tue, 09 Jun '09	1:01	UK	House price (RICS, balance)	May		-52.0	-59.9
	8:00	GE	Exports (in % m-o-m)	Apr			0.7
	8:00	GE	Imports (in % m-o-m)	Apr			0.8
	8:45	FR	Trade balance (EUR bn)	Apr		-4.35	-4.88
	10:00	FI	ECB Council Member Liikanen Speaks in Helsinki				
	12:00	GE	Industrial production (in % m-o-m)	Apr	-0.8	-0.5	0.0
Wed, 10 Jun '09	8:00	GE	Consumer price index, CPI (national, in % y-o-y)	Jun		0.0	0.0
	8:45	FR	Industrial production (in % m-o-m)	Apr	0.4	-0.3	-1.4
	10:00	IT	Industrial production (in % m-o-m)	Apr	0.0	0.2	-4.6
	10:30	UK	Trade balance (EUR bn)	Apr		-2.4	-2.5
	10:30	UK	Industrial production (in % m-o-m)	Apr	0.6	-0.2	-0.6
	11:00	IT	Gross fixed capital formation (in % q-o-q)	Q1		-6.5	-6.9
	11:00	IT	Public consumption (in % q-o-q)	Q1			0.0
	11:00	IT	Private consumption (in % q-o-q)	Q1		-0.8	-0.8
	11:00	IT	Real GDP (in % q-o-q)	Q1	-2.4	-2.4	-2.4
	13:00	EMU	ECB's Gonzalez-Paramo Speaking in Madrid				
	13:00	US	MBA mortgage applications	Jun 5			-16.2
	14:30	US	Trade balance (USD bn)	Apr	-29.5	-28.7	-27.6
	16:00	US	Fed's Lacker Speaks to North Carolina Senate Committee				
	18:30	EMU	ECB's Stark Speaks at Event in Dusseldorf, Germany				
	20:00	US	Fed Releases Beige Book Economic Report				
20:00	US	Federal budget (USD bn)	May		-175.0	-20.9	
Thu, 11 Jun '09	1:50	JN	Real GDP (in % q-o-q)	Q1		-4.0	-4.0
	8:45	FR	Non-farm payrolls (in % q-o-q)	Q1			-0.9
	10:00	EMU	ECB Publishes June Monthly Report (Text)				
	10:30	UK	Bank of England Releases Quarterly Inflation Attitudes Survey				
	14:30	US	Initial jobless claims (in thousands)	Jun 5	600		621
	14:30	US	Retail sales ex autos (in % m-o-m)	May	0.2	0.2	-0.5
	14:30	US	Retail sales (in % m-o-m)	May	0.2	0.4	-0.4
	16:00	US	Business inventories (in % m-o-m)	Apr		-1.0	-1.0
	19:05	US	Lockhart Speaks on U.S. Economic Outlook at Atlanta Conference				
	Fri, 12 Jun '09	6:00	US	U.S. Treasury's Geithner at G-8 Meeting in Italy			
6:30		JN	Industrial production (in % y-o-y)	May			-31.2
7:00		JN	Consumer confidence (Nationwide, index)	May		34.0	33.2
8:45		FR	Budget balance (EUR bn)	Apr			-43.7
8:45		FR	Consumer price index (in % y-o-y)	May	-0.2	-0.2	0.1
8:45		FR	Current account balance (EUR bn)	Apr			-2.2
11:00		EMU	Industrial production (in % m-o-m)	Apr	-0.5		-19.3
13:30		EMU	ECB's Trichet Speaks at Event in Sofia				
14:30		US	Import prices (in % m-o-m)	May	1.0	1.1	1.6
16:00		US	University of Michigan consumer confidence	Jun		69.2	68.7
17:30		EMU	ECB's Trichet Speaks at Event in Sofia				

*: 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
15 June to 19 June 2009							
Mon, 15 Jun '09	0:00	IT	Berlusconi Meets U.S. President Obama to Discuss G-8				
	14:30	US	NY Fed Empire State Manufacturing Survey	Jun			-4.6
	15:00	US	Net long-term capital inflows (TIC, USD bn)	Apr			55.84
	19:00	US	NAHB housing market index	Jun			16.0
Tue, 16 Jun '09	0:00	JN	BOJ Target Rate				
	0:00	JN	Bank of Japan key rate (in %)				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)	May			0.9
	10:30	UK	CPI core (in % y-o-y)	May	1.5		1.5
	10:30	UK	Consumer price index (in % y-o-y)	May	1.9		2.3
	11:00	GE	ZEW survey - current situation (index)	Jun			-92.8
	11:00	GE	ZEW survey - expectations (index)	Jun			31.1
	11:00	EMU	Core CPI (in % y-o-y)	May			1.8
	11:00	EMU	Consumer price index, CPI (in % y-o-y)	May			0.6
	14:30	US	Housing starts (in thousands)	May	460		458
	14:30	US	Building permits (in thousands)	May	500		498
	14:30	US	PPI ex food & energy (core, in % y-o-y)	May			3.4
	14:30	US	Producer price index, PPI (in % y-o-y)	May			-3.7
	14:30	US	PPI ex food & energy (core, in % m-o-m)	May	0.1		0.1
	14:30	US	Producer price index, PPI (in % m-o-m)	May	0.4		0.3
	15:15	US	Capacity utilization (in %)	May	69.0		69.1
	15:15	US	Industrial production (in % m-o-m)	May	0.3		-0.5
	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			-0.4
10:30		UK	Jobless claims (change in thousands)	May	50		57.1
10:30		UK	Unemployment rate (in %)	May			57.1
11:00		EMU	Trade balance (EUR bn)	Apr			-2.1
14:30		US	Current account (USD bn)	Q1			-132.82
14:30		US	CPI ex food & energy (core, in % y-o-y)	May			1.9
14:30		US	Consumer price index (in % y-o-y)	May			-0.7
14:30		US	CPI ex food & energy (core, in % m-o-m)	May	0.2		0.3
14:30		US	Consumer price index (in % m-o-m)	May	0.2		0.0
18:00		US	Fed's Bernanke Speaks at Financial Literacy Summit in D.C.				
Thu, 18 Jun '09		9:30	SZ	SNB Holds Monetary Policy Assessment		0.25	0.25
	10:00	IT	Trade balance (EUR bn)	Apr			82
	10:30	UK	Retail sales (in % m-o-m)	May	0.4		0.9
	14:30	US	Initial jobless claims (in thousands)	Jun 12			
	16:00	US	Leading indicators (Conference Board, in % m-o-m)	May	0.6		1.0
	16:00	US	Philadelphia Fed Business Outlook Survey	Jun			-22.6
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			-2.7
	10:00	IT	Unemployment rate (in %)	Q1			6.9

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

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