

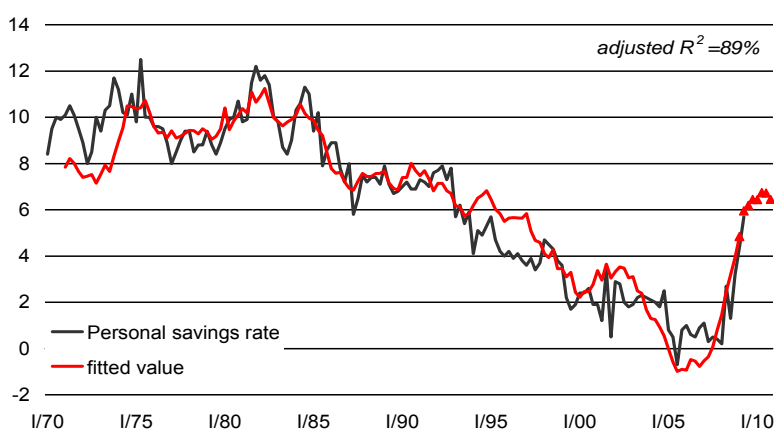
Private sector deleveraging to slow down economic recovery

- **Hope.** The global economy is still contracting. There are, however, growing signs that global GDP will stabilize in the second half of this year and can return to a growth path in 2010. Hopes of a pronounced, V-shaped recovery are, however, still misplaced.
- **Adjustment.** The restructuring in the private sector has, namely, not yet been completed. Debt levels have to be reduced further, even though substantial progress has already been made in, for example, the US. For that reason, households and businesses will continue to curb their expenditures in the coming quarters.
- **Drag.** In light of the difficulties in obtaining credit and the severe erosion of net wealth, US consumers are simply compelled to save even more. The personal savings rate will increase by just over another one percentage point (cf. chart). That hampers growth! Our calculations suggest that private consumption will not increase by more than 1½%-2% in the first year of the upswing. That is substantially below the level of previous economic upswings (pages 4-6).
- **U, not V.** The same holds true for US investment. For that reason, we expect that the current recession will merely transition into a moderate, U-shaped recovery. The US economy will probably expand by only 1¼% in 2010 (consensus: roughly 2%). For the eurozone, we even expect little more than stagnation (consensus: +0.5%; ECB however: -0.3%).

Further topics:

- **Weekly Comment:** Time to reflect (page 2).
- **US:** Non-Financial sector becomes more conservative (page 7)
- **Eurozone:** Taking a walk on the bright side (page 9).
- **Data outlook:** EMU purchasing managers more confident again; no new impulses from next week's FOMC meeting (page 13).
- **Market outlook:** A breather for EUR & government bonds (page 22).

US CONSUMERS HAVE TO TIGHTEN THEIR BELTS EVEN MORE



Source: Thomson Datastream, UniCredit Research

Contents

Weekly Comment	2
Research Notes	4
Data Monitor	13
FI Outlook	22
FX Outlook	24
MIB View	25
MIB Forecasts	26
Calendar	29

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	-0.8	2.1

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	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

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

Editorial deadline

Friday, 19. Jun., 12:00H

Bloomberg

UCGR

Internet

www.globalresearch.unicreditmib.eu

Time to reflect

We have cautioned that enthusiasm about the signs of recovery was probably excessive, and the fact that markets have been taking a breather in the last few days is, in our view, a positive development. We do not mean to downplay the importance of the positive signs that have emerged in the global economy in recent months. Indeed, in our analysis, we have shown how these signs are extremely widespread, and this bolsters our confidence that the economy has indeed turned the corner. The risk of a global depression has, in our view, been averted, thanks largely to the timely and decisive policy response, and that is no small feat. A huge and loud sigh of relief is more than justified.

However, we do need to keep in mind that the economic data for Q2 looked especially good because they were being compared to a disastrous couple of preceding quarters: the globally synchronized slowdown had created a positive statistical effect across the world economy. As we start comparing Q3 data to Q2 data, we are extremely unlikely to observe the same pace of improvement. We will more likely see mixed data with more evidence of stabilization; but, as ECB President Trichet has cautioned, this is stabilization at an extremely low level. It seems very unlikely that the data will give unequivocal support to the idea of a strong V-shaped recovery.

The data in the coming months will also likely show more differentiation across countries. This will happen between developed and emerging economies, and also across developed economies and across emerging economies. This is also a sign of normalization: over the past several years, the global economy has experienced first a global credit bubble, and then a global financial shock, both of unprecedented proportions. Unsurprisingly, these shocks have overwhelmed all differences across countries, causing first a global boom in growth and then a global downturn. But as the situation normalizes and the global economy returns to a more sustainable growth path, differences across countries will come to play a more important role.

This week's data have already given us a taste of these trends. Data have been mixed, and they have differed significantly across countries. In the UK, retail sales brought a major disappointment, and will give some perspective to the view that the UK might already be exiting from the crisis, a view that was starting to gain wider acceptance. At the same time, some of the US data were considerably more encouraging: initial jobless claims were well below their March peak, and the Philadelphia Fed index was significantly

better than expected. Even the US numbers, however, can be seen from two different perspectives: on the one hand, they beat expectations and confirmed an improvement in the situation, but on the other hand, initial jobless claims were still above 600K, and even the Philadelphia Fed index remained in contractionary territory.

The difficulty of interpreting mixed data was evident also at the recent G-8 meeting, where policymakers had somewhat different views on how quickly an "exit strategy" should be developed and implemented. Our overall view here remains the same: the recovery is beginning, but it will be gradual, and for the time being both the global economy and the financial system remain fragile. As a consequence, we believe it would be way too early to start withdrawing monetary and fiscal stimulus right now. At the same time, however, we think that it is not too early to start preparing an exit strategy. This is more important for fiscal policy than for monetary policy. The latter can be tightened more quickly, by hiking rates and withdrawing liquidity – the main challenge is to get the timing right. Fiscal policy tightening might take a bit longer, but, more importantly, the quality of fiscal adjustment will be even more important than its timing. The main challenge as we exit the crisis will be to help the private sector to grow and gradually replace the push provided by the public sector. This will not be easy, and policy makers should take great care to avoid that the fiscal consolidation that they will need to implement does not simply consist of a sharp increase in taxes that could strangle an already struggling private sector. Governments will need to reduce public expenditures and make them more efficient, and this will require a number of very difficult political choices. Preparations should therefore start now.

The related, underlying question is what kind of rate growth the global economy can sustain after the crisis. In the years leading up to the crisis, US household consumption acted as the engine of global growth. Now, however, US households need to repair their balance sheets, and as Harm Bandholz shows in his Research Note, this implies that the US household savings rate will continue to increase further, to at least 7%, which will cause a drag on consumption throughout 2010. And while US firms are in better shape, Roger Kubarych shows that they also need to undergo some additional restructuring, which will likely limit the strength of investment expenditure. The bottom line is that the US will not grow as fast as it used to – households and firms will live more within their means, and the country will reduce its current account deficit. This is what many observers had been wishing for a long time. The less palatable implication, however, is that unless somebody else picks up the slack, global growth will be significantly lower than it used to be.

Eventually, a major push to global growth will come from private consumption in emerging markets, but this is a long-term project, which will play out over the next few decades rather than the next few years. The OECD has recently upped its forecasts for China's 2009 growth, but also noted that most of it will be government-generated. Europe and Japan seem unlikely to be able to generate robust private growth soon. If that is the case, we might need to adjust to the idea of a much lower growth path – at least unless the Lisbon agenda works a miracle...

The next few months, therefore, will bring some disappointment, which should help keep some pressure off government bond yields. It will also be a time for some sober reflection on the future, and more than fretting about the timing of the exit strategy, policymakers should give some thought to what can be done to boost potential growth.

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

Rising US savings rate to weigh on impending recovery

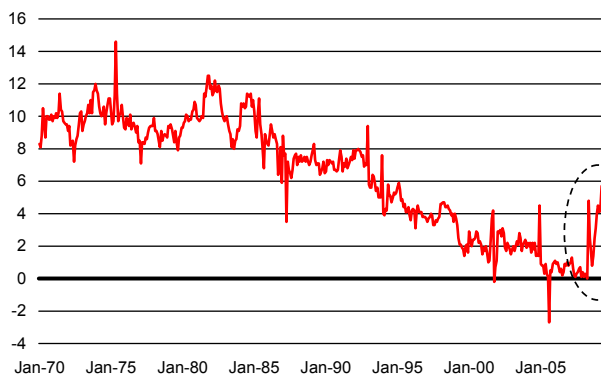
- The personal savings rate in the US has risen to its highest level since 1995. Triggers for this are households' difficulties in obtaining credit and their enormous wealth losses.
- According to our calculations, the personal savings rate will continue to rise in the coming months. This increase will weigh on private consumption and, therefore, growth in the economy as a whole.
- For that reason, we expect that the current recession will merely transition into a moderate, U-shaped recovery in the course of the second half of the year. In our view, the primary risk scenario remains a W-shaped upswing (double dip).

US consumer capitulates

In April, the personal savings rate in the US rose to its highest level since 1995 (cf. chart). In fundamental terms, this development is a reaction to tighter lending standards and the considerable erosion of households' net wealth. The main reasons why the personal savings rate was able to rise so rapidly amid the difficult economic environment were the pullback in gasoline prices as well as the federal transfer payments and tax cuts.

SAVINGS RATE AT 13-YEAR HIGH

Personal savings, as % of disposable income



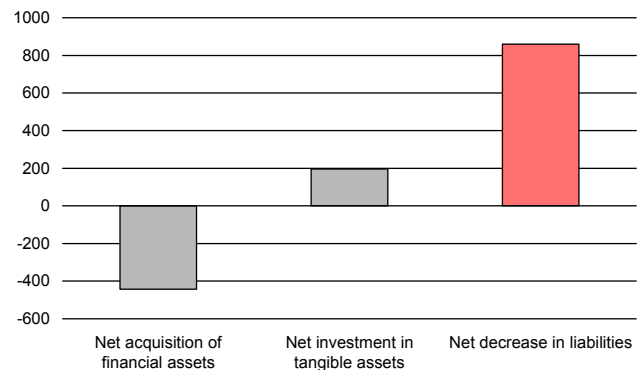
Source: BEA, Thomson Datastream, UniCredit Research

Higher savings because of (involuntary) deleveraging

Personal savings are by definition that portion of disposable income not spent for consumption purposes. It can be used to acquire financial assets (e.g. stocks, bonds, life insurance), to acquire tangible assets (above all real estate), or to reduce liabilities. As the following chart illustrates, the primary derivation of savings in the past two quarters was debt reduction. Since bank lending standards have become much more restrictive, for many households this decision was most likely involuntary rather than intentional. The decrease in liabilities related to virtually all credit groups and ranged from mortgages through consumer loans to other liabilities such as security credit. With regard to financial assets, it is worth noting that in the past six months households have sold agency debt (e.g. debt securities of Fannie Mae and Freddie Mac) on a large scale and purchased Treasuries instead.

HOUSEHOLDS PAYING DOWN LIABILITIES

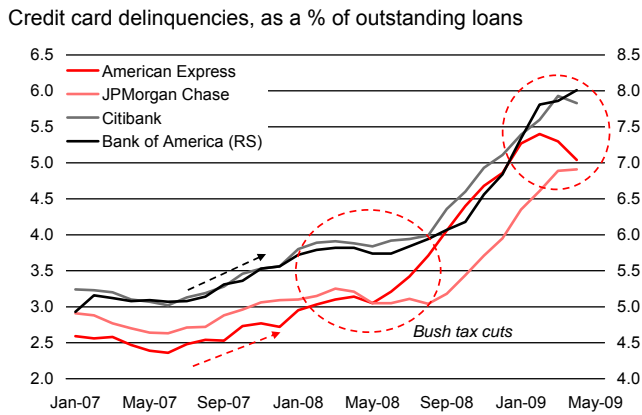
Derivation of personal savings, in USD bn (IV/08 and I/09 at annual rates)



Source: Federal Reserve, UniCredit Research

The macroeconomic assessment of a higher propensity to save is ambivalent. On the one hand, it is at the expense of consumption and, therefore, growth. On the other hand, the net decrease in liabilities helps to reduce the volume of bad loans. As was already the case after the tax rebate checks were mailed out in spring 2008 (Bush tax cuts), credit card delinquencies have now also declined again, or their increase has at least slowed substantially (cf. chart next page).

FEDERAL TRANSFERS REDUCE INCREASE IN BAD LOANS

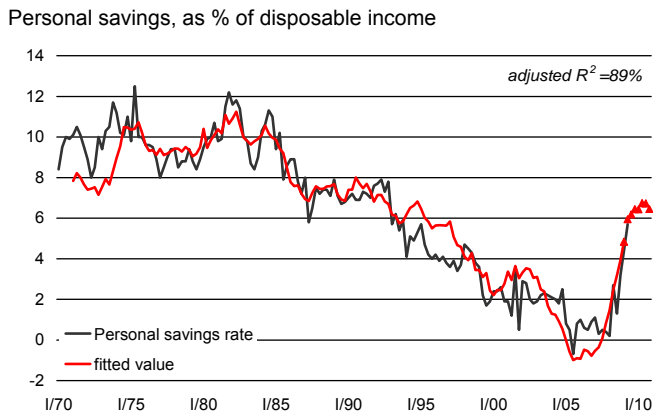


Source: Bloomberg, UniCredit Research

Personal savings rate to rise further

We expect that the personal savings rate will continue to trend higher in coming months. The main reason for this is the ongoing adjustment to the decline in household wealth. Our econometric model, which explains the personal savings rate using net wealth (real estate and financial wealth) as well as long-term interest rates and the unemployment rate, signals a rise in the savings rate to about 7% in the coming year.¹

FURTHER RISE IN THE SAVINGS RATE



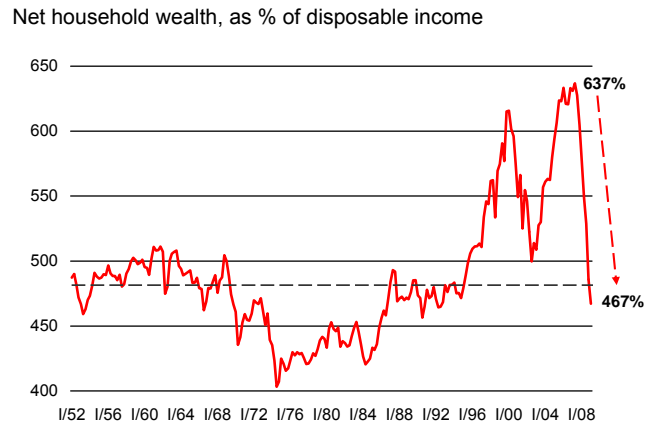
Source: BEA, Federal Reserve, Thomson Datastream, UniCredit Research

With a savings rate of currently 5¼%, that means, however, that the bulk of the adjustment has already been made. Undoubtedly, the increase in the coming months will by no means be linear. In the short term, we even expect the savings rate to decline again due to the recent increase in

¹ Wealth numbers are stated as a % of disposable income. The basic idea of the model stems from K.J. Lansing, *Spendthrift Nation*, FRBSF Economic Letter, No.2005-30, November 10, 2005.

gasoline prices. The end of the federal transfer payments and tax refunds will also reduce the ability of many households to maintain their current saving patterns. Over the medium term, the considerable erosion of personal wealth (cf. chart) combined with the tighter lending standards should, however, ensure that households will (have to) save more again.

SUBSTANTIAL EROSION OF WEALTH



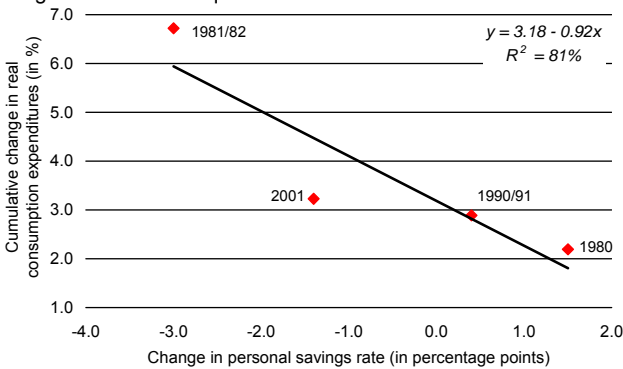
Source: Federal Reserve, Thomson Datastream, UniCredit Research

Weighing on the recovery

The loss of wealth and the related increase in the personal savings rate are an important drag for the impending economic upswing. Every one percentage point increase in the savings rate reduces the growth of private consumption expenditures by one percentage point. Accordingly, the increase in consumption expenditures in the first year after the end of the last four recessions was all the stronger the more the savings rate had fallen/the less it had risen (cf. chart next page). After the 1981/82 recession, the personal savings rate fell three percentage points, while real consumption expenditures increased overall by close to 7%. In contrast, the personal savings rate increased by 1¼ percentage points after the 1980 recession, and consumption expenditures managed to increase by only 2%. A simple regression over the last four recessions – which can of course be only a roughly guide given the small number of observations – shows: If the personal savings rate is unchanged in the four quarters after the end of a recession, real consumption expenditures increase by roughly 3%-3¼%. Every one percentage point increase in the personal savings rate reduces the growth of consumption expenditures by close to one percentage point (the empirical result therefore gels with the theory). If we assume that the personal savings rate at the end of the current recession, which will be presumably in August or September, is between 5½% and 6%, the expected rise to 7% implies that personal consumption expenditures will increase by only 1½%-2% in the first year of the upswing.

AN INCREASE IN THE PERSONAL SAVINGS RATE SLOWS THE RISE OF CONSUMPTION EXPENDITURES

Cumulative change in consumption expenditures and the personal savings rate in the four quarters after the end of the recession

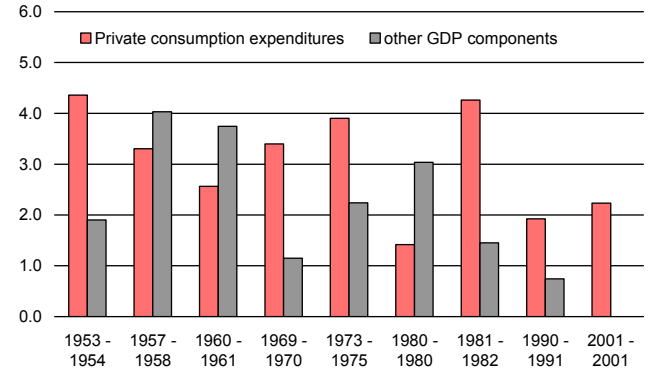


Source: UniCredit Research

Given this only moderate growth of consumption expenditures, a V-shaped recovery in the US is highly improbable. Since consumption expenditures account for a disproportionately high 70% of GDP, personal consumption has played the decisive role in most upswing phases of past decades. In the first four quarters after the last three recessions (1981/82, 1990/91 and 2001), for example, the growth contribution of private consumption averaged 2¾ percentage points, which was roughly four times as high as the contribution of all other components together (cf. chart in the next column). For that reason, we expect that the current recession will merely transition to a moderate, U-shaped recovery in the course of the second half of this year. The primary risk scenario is, in our view, a W-shaped recovery (double-dip). That means the growth could overshoot temporarily, e.g. in the second half of this year, but then be all the weaker in the half-year thereafter. The catalyst for the brief growth spurt would be the impulses of the federal fiscal program coinciding with the end of destocking. In light of disappointed expectations and high volatility, such a W-shaped recovery would undoubtedly be the most unpleasant alternative for financial markets.

PRIVATE CONSUMPTION EXPENDITURES ARE THE ENGINE FOR AN UPSWING

Contribution to GDP growth in the four quarters after the trough, in percentage points



Source: BEA, NBER, Thomson Datastream, UniCredit Research

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

US non-financial firms turn conservative, while banks struggle

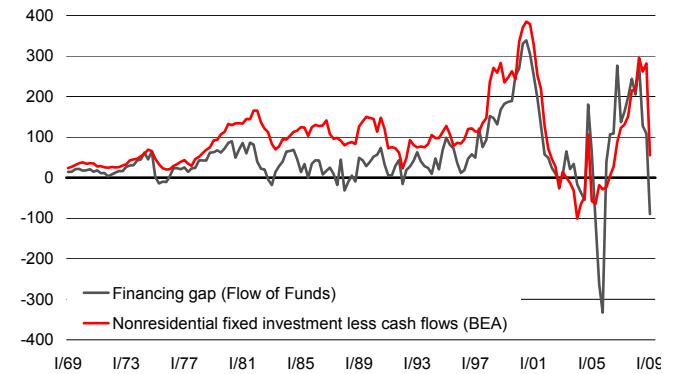
- US non-farm, non-financial corporations raised a staggering USD 570.3 bn per annum in the bond market during Q1 2009, one of the biggest one-quarter financing booms in memory. In sharp contrast, US commercial banks, with meager market access, repaid a net USD 56.2 bn.
- Non-financial companies used part of the money to pay back bank loans and increase financial assets. They also continued to repurchase outstanding shares but at a much more modest pace than in the recent past. Overall, the corporate sector generated a substantial USD 340.8 bn in net financial investment.
- Because business fixed-investment in plant, equipment, and software fell sharply, internally-generated cash flow exceeded capital expenditures in Q1 for the first time since 2005. The so-called “financing gap” came to nearly USD 90 bn per annum.

US corporations turn cautious in their financial management in Q1 2009

Throughout the first three months of 2009, the headlines were “credit crunch” and maybe that was accurate for GM, Chrysler, and other troubled companies. But that depiction was not at all indicative of what was happening with respect to the financial position of the majority of US non-financial corporations. As in Q4 2008, profits before tax were certainly down because of the recession. The average of about USD 675 bn per quarter at an annual rate was about a third lower than in the prior 2½ years. But internally-generated cash flow, which takes into account depreciation adjustments, tax payments, retained earnings in foreign affiliates, and dividend payments to shareholders, was almost unchanged from average levels for the period 2005-2008. Internally-generated funds reflect the ability of companies to finance themselves, rather than to tap the credit markets to support their capital expenditures on plant, equipment, and software. The Fed’s Flow of Funds accounts calls the difference the “financing gap” and it turned negative in Q1 for the first time since 2005 when a tax-holiday for past foreign retained earnings prompted a surge of repatriations under the Homeland Investment Act. Alternative measures of corporate cash flow calculated by the Bureau of Economic Analysis that is based solely on domestic operating earnings strip out that effect, showing that achieving a negative financing gap was remarkable. The following chart provides a historical perspective on this development.

FINANCING GAP TURNS NEGATIVE

Financing gap, in USD bn (at annual rates)



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

Cautious financial management was especially evident on the liability side of the aggregate balance sheet of the non-farm, non-financial corporate sector. Most striking was the alacrity that relatively healthy companies showed in taking advantage of a sudden opening-up of the corporate bond market. On balance, non-financial corporations raised a staggering USD 570.3 bn annualized in the bond market during Q1 2009, as compared with just USD 204.6 bn for the whole of 2008 and a yearly average of less than USD 150 bn for the entire 2003-2007 period.

How did non-financial corporations use the proceeds of this large-scale issuance of new securities? As noted, they didn’t need the money to finance capital expenditures because internal cash flow was sufficient. Instead, they were able to do three things. First, firms were able to build up financial assets, especially bank deposits and money market fund shares, along with a variety of other instruments. Second, they were able to repay other types of liabilities, including especially USD 151.9 bn per annum of bank loans, as well as USD 131.1 bn in loans and advances from foreign financial institutions and domestic finance companies. Third, a number of major corporations (such as Microsoft, Exxon-Mobil, and several pharmaceutical companies) continued to buy back outstanding shares of common stock in the marketplace, albeit on a more modest scale than in previous years. In Q1 2009, net equity issuance of non-financial corporations came to USD 297. By comparison, in 2008 stock buy-backs came to USD 380.8 bn after huge equity withdrawals of USD 831.2 bn in 2007 and USD 602.7 bn in 2006. In hindsight, these share repurchases were ill-timed, since they were made at stock prices well above current levels. But they have long been popular with company executives, whose bonuses are usually paid in stock options or equity distributions.

The result of these asset-liability management decisions was a build-up of net financial assets of USD 340.8 bn annualized by the non-financial corporate sector in Q1 2009. It tops the USD 201.2 bn in net financial assets added in the prior quarter. The two quarters together easily swamped net financial investment for any comparable period since the early 1990s.

The implication of such conservative financial management by non-financial companies is not entirely positive, however. It suggests that US senior management looked carefully at their businesses and decided that they have plenty of physical capital for the time being and too much short-term debt. If this conservatism lasts, and we believe that all indications are that it will for the next couple of years anyway, it definitely points to a weaker than normal recovery from the recession.

US banks shut out of the bond market as investors fear insolvencies

In the middle of the biggest meltdown of the financial sector since the 1930s, US-chartered commercial banks as a group lost almost complete access to the long-term bond market. Maturing issues exceeded new issuance, leaving a substantial reduction of outstanding bonds totaling USD 56.2 bn per annum in Q1 2009. By comparison, banks issued a net USD 8 bn last year and between USD 5 and USD 27 bn over the preceding five year period. Essentially, banks drastically scaled back their liabilities alongside a pruning of assets in the first quarter of 2009, reversing the gigantic increase in the size of the collective balance sheet of the banking system in Q4 2008 as the Fed began its policy of quantitative easing.

What is most interesting is that the bulk of the reversal on the liabilities side of the collective balance sheet of US-chartered banks reflected two factors. First, the banks stopped borrowing massive amounts from the Federal Reserve. In Q3-Q4 2008 combined, the banks borrowed an average of USD 750 bn per annum from the Fed, whereas in Q1 2009 they made net repayments of USD 56.8 bn. Second, liabilities to foreign banks swung from an increase of USD 543 bn in Q4 2008 to a drop of USD 455 bn in Q1 2009. On the asset side of the balance sheet, US-chartered banks reduced bank loans by a substantial USD 342.4 bn, the biggest identifiable change in their position.

US banks remain heavily reliant on public funds

What we have witnessed is a set of decisions by healthy US non-financial corporations to take advantage of a window of opportunity in the bond market to place huge quantities of new issues, while repaying large amounts of short-term bank debt. That left banks' collective balance sheet in less good shape, while improving their own. The financial crisis prompted a bout of conservatism that ended up leaving several of the biggest banks in a weakened position that required ongoing support by the Federal Reserve and the Treasury. These pressures have started to taper off since the end of March, however, and the public sector's support for the banking system most likely will be wound down relatively quickly, once the recession bottoms out during H2 2009.

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

EMU: Taking a walk on the bright side

- While we welcome the first “green shoots” also in the eurozone, we keep a cautious stance, and avoid reading too much into the first signs of a cyclical improvement.
- However, as it is relatively easy to be on the pessimistic side, we investigated what are the upside risks to our central GDP scenario.
- A more optimistic outlook would rely on the fulfillment of a series of sequential steps: the quick rebalancing of supply and demand at the industrial level, a recovery of global trade and a firm improvement in banks’ ability to lend.
- Given the massive frontloaded job shedding after the Lehman collapse, a genuine recovery in demand could lead firms to resume hiring sooner than expected.
- Overall, it is likely that we are not underestimating upside risks to growth, even though it is encouraging that asking the question now seems justified.

Still mired in recession

Eurostat recently confirmed that eurozone GDP contracted at an unprecedented 2.5% q-o-q pace in Q1 2009, with Q4 2008 GDP revised down by 0.2 pp to -1.8%. Quite in line with expectations, the expenditure breakdown displayed record drops in all components: in particular, fixed investment and exports collapsed (-4.2% and -8.1% q-o-q, respectively), and the contraction in private consumption deepened further (-0.5% vs. -0.4% q-o-q in Q4). With 2009 bound to mark the largest yearly GDP contraction on record (we expect -4.5% y-o-y), all eyes are now squarely focused on 2010, which will set the tone of the recovery. To this extent, we are slightly more optimistic than the ECB, as we see nearly flat growth next year (0.1%), while the ECB staff forecasts a 0.3% y-o-y contraction, with a return to positive quarterly growth only in Q2 2010.

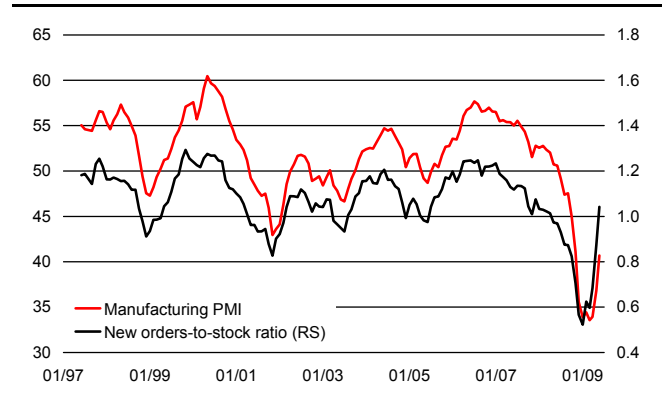
Such a gloomy outlook for next year seems quite at odds with recent evidence about an improvement in some economic activity indicators. However, while we clearly welcome these first “green shoots”, we keep a rather cautious stance, and avoid reading too much into the first signs of stabilization: after all, the most acute phase of activity contraction is usually followed by a decline in the rate of deterioration. Still, we also acknowledge that at this juncture it is relatively easy to be on the pessimistic side, so we decided to raise the stakes and take a more challenging view, investigating what could go “right” for the eurozone economy, i.e. what are the upside risks to our central scenario. Our framework is very

simple and is based on the standard path for a cyclical recovery, with inventory depletion as the first necessary step to realign demand and supply conditions, followed by an improvement in global trade, investment and eventually employment and consumption.

Firms are ready to step up production

Let’s start with the inventories’ realignment in the industrial sector. The plunge in manufacturing activity over the last six months has been largely the result of a huge inventory adjustment process. Destocking subtracted 1.0 pp from quarterly Q1-2009 GDP growth, marking the largest negative inventory contribution since the GDP series inception. Clearly, with unsold goods piling up and financing hard to come by, firms have slashed production even faster than the sudden and unexpected fall in global demand. The result has been the most classic version of a textbook “inventory-led” recession. Given the key role of the imbalance between supply and demand in the industrial sector, it is crucial to rely on a timely indicator: our preferred gauge is the New Orders to Inventories ratio, constructed using the new orders and the stocks of finished goods components from the manufacturing PMI. The New Orders to Inventories ratio, which leads quite well the headline PMI, fell to an all-time low of 0.522 in December 2008 (cf. chart), but has rebounded since then and in May stood at 1.041, the highest since end-2007, when the PMI was above 50 and industrial output was still expanding.

ENCOURAGING SIGNS



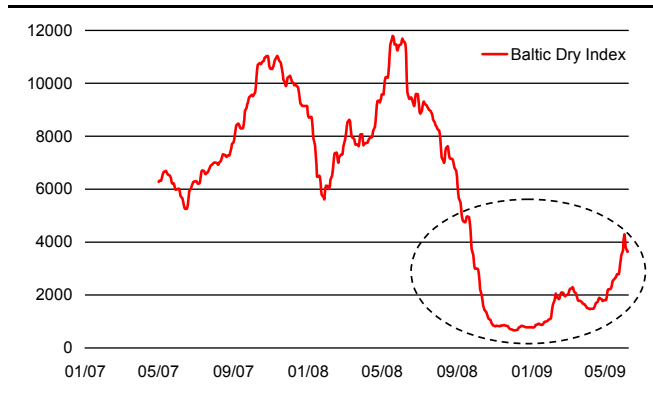
Source: Markit, UniCredit Research

This is encouraging for the growth outlook because it would imply that the industrial recession may be over much sooner than generally expected. Should firms decide to realign production to demand conditions, inventory rebuilding could lead to some upside risks in the near term. However, only a genuine pick up in demand strong enough to generate a recovery in business confidence and therefore investment plans could induce a sustainable swing back in the industrial production cycle.

...if only global demand records a firm pick-up

In this respect, signals coming from business surveys are surely encouraging, as they go in the right direction: in May, the manufacturing PMI rose to 40.7 from 36.8, marking the largest one-month gain on record, while the increase in the services sector was more moderate (44.8 vs. 43.8). Consequently, our Composite PMI moved up further to 43.9: taken at face value, this would imply a 0.6% q-o-q contraction in Q2, a substantial improvement from the -2.5% recorded in Q1. We stress that while in the last few quarters the Composite PMI has substantially underestimated the pace of recession, we are relatively confident that as the cycle normalizes, this bias will tend to disappear. In this environment, a more solid recovery in business confidence needs to be accompanied by a prompt recovery in external trade. This is in line with what we concluded three months ago², when we extensively argued that the recovery path for the eurozone depended in large part on the materialization of signs of a recovery in global trade. Indeed, over recent months, the most convincing signs of stabilization came from Asian countries, many of which are large exporters: in China, the PMI index remained above the 50-threshold for the second consecutive month, while Fixed Assets Investments resumed healthy growth. Moreover, other important exporters like Taiwan, Singapore and Korea showed signs of improvement in output-related data for April. A third welcome sign came from the Baltic Dry freight index, which measures freight and shipment costs for commodities, and is usually a rough proxy for global trade. Since the beginning of the year, the BDI has risen four-fold, although it remains some 60% lower than the highest level reached last July, at the top of the commodity bubble (cf. chart).

A POSITIVE SIGN



Source: Bloomberg, UniCredit Research

² See *Desperately seeking a turning point, Euro Compass Q2 2009*, UniCredit Research

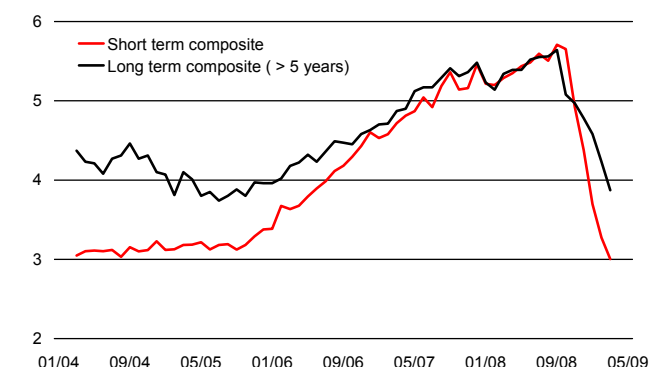
Given that in 2007 and 2008 the BDI was probably inflated by speculative traffic rather than by real trade, the smaller role played by financial speculation in the current juncture makes the recent increase all the more impressive and bodes well for a genuine recovery in world trade in coming quarters. Assuming that all these conditions materialize, so that a genuine pick up in global demand spurs expectations of a swift recovery in economic activity and thereby generates positive spillover to industrial production, it would then be realistic to expect that firms will revise up their investment plans. The upshot would be that investment could resume growing before end-2010, as we currently foresee in our baseline scenario.

Upside risks on the capex outlook rely on banks' ability to lend...

Still, for upside risks to materialize on our capex outlook, substantial improvements must be fully observed in banks' ability to lend. The most recent ECB data show that the credit slowdown continues unabated: in April, lending to non-financial corporations (NFCs) eased further to 5.2% y-o-y versus 6.3%, well off the peak (14.9%) reached in April 2008. Looking ahead, the outlook remains rather mixed, both on the price and the quantity side. As for the former, encouraging signs come from money markets, which have experienced significant improvement, as risk appetite and confidence in the financial sector have increased, also thanks to public support measures. Thus, short-term rates have kept declining: the 3M Euribor rate has fallen some 400 bp since its peak in October 2008. Evidence that such a decline is translating into lower lending rates has finally begun to appear: a weighted measure of short-term rates for NFCs now stands at 3.0%, down 266 bp from the October peak, while longer-term rates stand at 3.87%, 180 bp down from the peak.

CHEAPER BORROWING COSTS

Lending interest rates on new business for NFCs



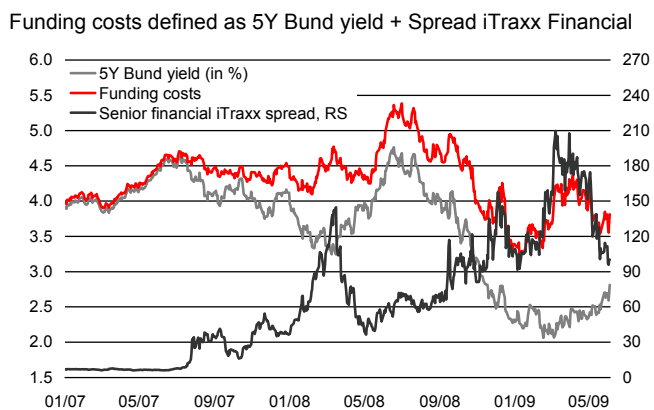
Source: ECB, UniCredit Research

While such declines have not yet matched the size of the drop in interbank rates, this is surely encouraging. As regards the outlook for the quantity of credit, indications are less upbeat. The latest ECB Lending Survey shows that credit standards are stabilizing somewhat but around very tight levels: in Q1 2009, the net percentage of banks reporting a tightening of credit standards for loans to enterprises declined to 43% vs. 64% in Q4 2008.

...but in an optimistic scenario banks' funding costs may decline significantly

Though off the peak, this level signals a significant degree of additional net tightening of already tight credit standards. Looking ahead, banks' funding costs will play a crucial role in the ability of banks to pass on lower interbank rates to final customers. Indeed, the BLS showed that while banks' cost of funding and balance sheet constraints exerted a smaller influence on their decisions about credit standards, they still play an important role. In order to assess the extent to which refinancing costs could ease, we have proxied a measure of banks' funding costs via the sum of the iTraxx 5Y spread on Senior Financials and the 5Y yield on the German Bund. The chart below shows that this measure declined steadily from mid-2008 until January this year, but this was driven only by the sharp decline in bond yields, while the spread on Financials kept increasing.

EUROZONE BANKS' COST OF FUNDING



Source: Bloomberg, UniCredit Research

After a temporary surge in January-March, funding costs resumed declining over the past two months; this time, however, the decline occurred despite a steady increase in bond yields, as the spread on Financials more than halved. This is reassuring and supports the view that in the relatively optimistic scenario we have in mind, banks' ability to lend should not pose any major hurdle to a recovery in capex growth.

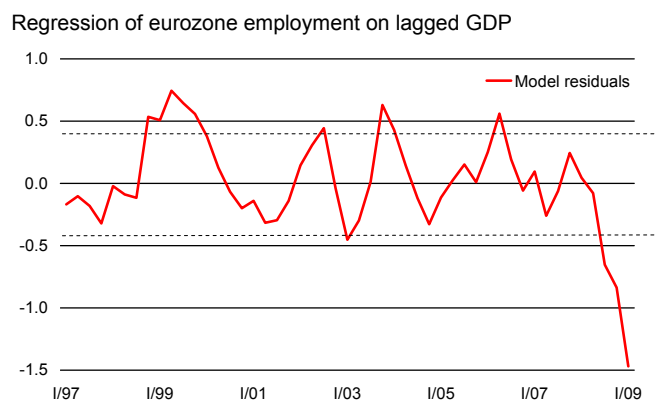
...and government aid generate stronger effects

Moreover, we see an additional supportive element for an easing in bank funding costs: government measures of financial support to the banking system could become more and more effective in reviving interbank lending and eventually trigger an improvement in credit standards. In this respect, we find indicative the experience of the French financial sector, which benefited from timelier and more decisive government support. According to the latest BoF's quarterly lending survey for Q1-2009, the net percentage of banks reporting a tightening of credit standards halved (to 23% from 41%) in the case of loans to enterprises, and approached zero for loans to households. It may not be a fluky coincidence that more than half of the participating banks reported that government support measures helped (albeit moderately) to improve their access to market refinancing and an even (slightly) larger percentage expect that this will also be the case in Q2.

Eventually, firms could resume hiring sooner than expected

Assuming all things "go right" up to this point, employment behavior could also represent a source of potential upside. The quicker response of employment to the decline in GDP since the beginning of the recession, and particularly after the Lehman collapse, suggests that hiring during the early stage of the recovery could possibly pick up more quickly than could be envisaged on the basis of the usual relationship GDP/employment. Simple econometric analysis suggests that, on average, it takes two-to-three quarters for employment to adjust to developments in economic activity. However, as can be seen in the residuals of the regression in the chart below, this relationship has displayed something that looks like a structural break since Q3 2008.

FIRMS FRONTLOADED JOB CUTS



Source: Eurostat, UniCredit Research

A more prompt response of employment to activity possibly reflects the fact that by mid-2008 there was little doubt left about the nature of the slowdown and this strengthened firms' resolution about shedding excess labor. It is also probably related to the high degree of utilization of temporary workers which is typical of the economic sectors most heavily hit during the downturn, namely construction, where employment fell by 2.4% in 2008 from +3.9% in 2007. Overall, evidence of frontloaded job shedding during the recession bears one important implication: in a scenario that assumes a sizeable recovery in industrial production amidst increasing confidence about a genuine recovery in demand, firms could resume hiring well before late 2010-early-2011, as we have penciled in our baseline. In turn, this could have a meaningful spillover effect on consumption and could eventually fuel a virtuous cycle of self-sustaining demand.

Bottom line: Tentative signs of a pick-up in global demand along with evidence that the inventory cycle has turned have spurred an improvement in business confidence of late. This bodes well for a near-term pick up in economic activity as long as firms step up production to meet increasing demand. But the real issue at stake is whether the increase in demand is sustainable and could make the green shoots grow and flourish. Hopes for the recovery to become entrenched sooner than expected rely on the materialization of upside risks that can be easily identified with respect to each growth component, with exports likely to be the main trigger. Our baseline scenario remains cautious, but we acknowledge that talking about upside risks on the growth outlook makes sense for the first time in many months.

Tullia Bucco (HVB Milan)
+39 02 8862 2079
tullia.bucco@unicreditgroup.de

Davide Stroppa (HVB Milan)
+39 02 8862 2890
davide.stroppa@unicreditgroup.de

Data Monitor Europe - Preview of the coming week

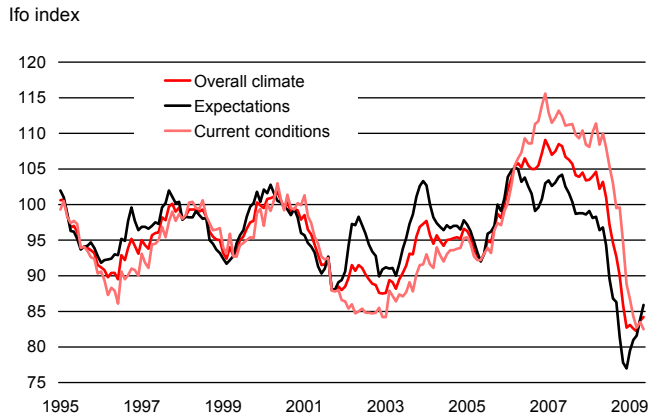
Monday, June 22

GERMANY, IFO BUSINESS CLIMATE

June	MIB	Cons.	May	Apr
Index	85.5		84.2	83.7

The ongoing recovery in the global business climate as well as the massive economic stimulus programs getting under way in important export partner countries point to a further recovery in business expectations and above all export expectations, which already registered a strong improvement in May. Following the recent rapid inventory correction, upside potential is also increasingly emerging for the situation component. All in all, we expect June to bring a noticeable gain in the business climate.

EXPECTATIONS HAVE REBOUNDED STRONGLY



Source: Ifo, UniCredit Research

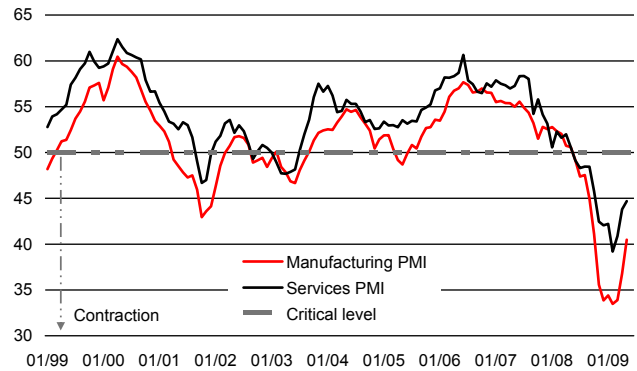
Tuesday, June 23

EMU, PURCHASING MANAGERS INDIZES (PMIs)

June	MIB	Cons.	May	Apr
Manufacturing PMI	43.5		40.7	36.8
Services PMI	46.0		44.8	43.8

Business surveys have resumed an upward trend in the last two-three months, and we expect the improvement to continue in June. In manufacturing, the new-orders-to-stock ratio has reached a level last seen at end-2007 (when production was still growing), and this suggests that the PMI will mark a further increase this month, though remaining at a recessionary level. The improvement of the services PMI should be more contained. All in all, the pace of GDP decline continues to moderate.

ON THE RISE AGAIN



Source: Markit, UniCredit Research

GERMANY, GFK CONSUMER CLIMATE

June	MIB	Cons.	May	Apr
Index	2.3		2.5	2.5

The moderate upward trend in the consumer climate since last autumn, driven by strong disinflation, ground to a halt in the second quarter. Above all, the rising number of layoffs and the record-high job insecurity are overshadowing the fiscal support for households from the economic stimulus program. All in all, we expect mounting pressure on the consumer climate.

FRANCE, CONSUMER SPENDING

May	MIB	Cons.	Apr	Mar
in % m-o-m	2.3		0.7	0.6

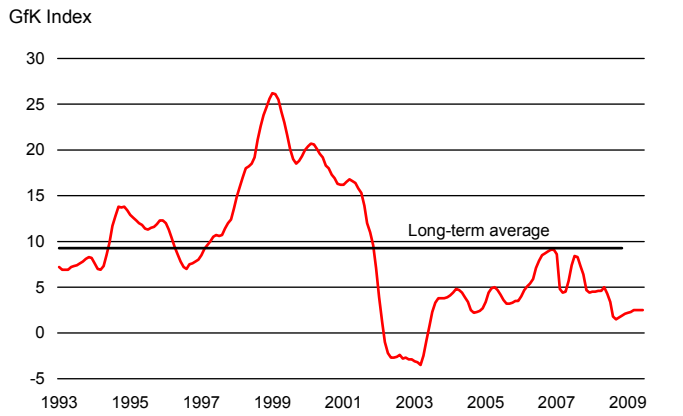
Consumer spending should mark a sizable increase in May (+2.3% m-o-m), mostly due to a strong increase in auto purchases in the wake of government incentives for buying cars. On the basis of the latest car registration numbers, we think that an increase in auto spending by about 10% is entirely realistic. Expenditures on clothing should also record a firm increase. An outcome in line with our forecast would point to a marked strengthening in private consumption in Q2.

FRANCE, BUSINESS CONFIDENCE

June	MIB	Cons.	May	Apr
	74		72	71

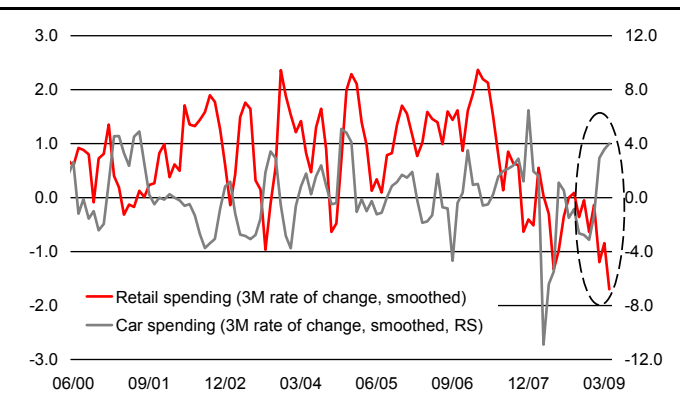
We expect business confidence to keep improving (to 74) in June, although at a very moderate pace. A diffuse sentiment that the worst of the recession is behind us should sustain a recovery in expectations and eventually reverse the negative trend in the appraisal of demand conditions (down to a record low in May).

STABLE AT SUBDUED LEVEL



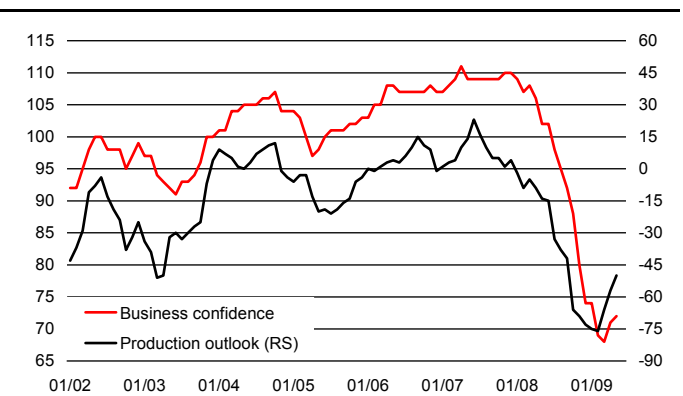
Source: GfK, UniCredit Research

GOVERNMENT POLICY BOOSTS CAR SALES



Source: INSEE, UniCredit Research

INCHING UP



Source: INSEE, UniCredit Research

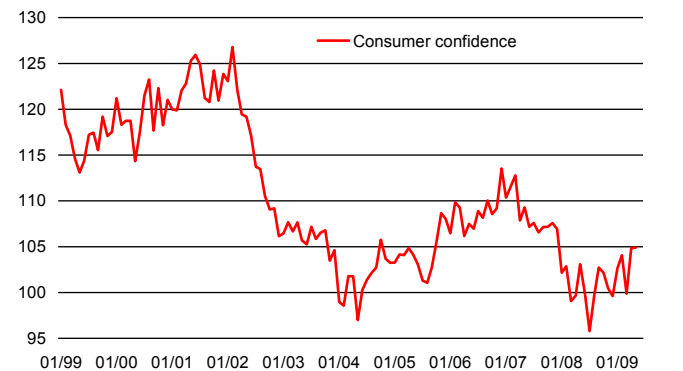
Wednesday, June 24

ITALY, CONSUMER CONFIDENCE

June	MIB	Cons.	May	Apr
	105.4			104.9

Italian consumer confidence should mark a modest improvement in June. The pace of recession is easing and signs that the worst in terms of output drop is behind us could bring about a tentative improvement in the perception of the general economic situation. The ongoing disinflation process will probably help too, but with gasoline prices back on the rise the perceived relief will be smaller than in the most recent months.

CONSUMER CONFIDENCE HOLDS UP



Source: ISAE, UniCredit Research

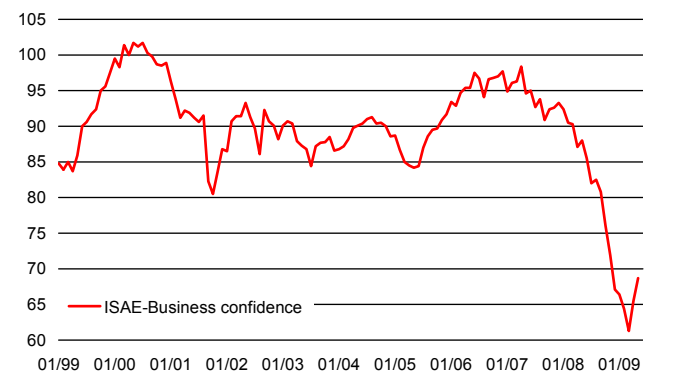
Thursday, June 25

ITALY, BUSINESS CONFIDENCE

June	MIB	Cons.	May	Apr
	71.0		68.7	65.5

Italian manufacturing confidence is rising amid a generalized improvement in factory surveys across the whole euro area. Falling inventories coupled with a less negative order assessment suggest that there is room for further gains in confidence and less aggressive production cuts in June and, probably, also in the next few months.

BACK ON A RISING TREND



Source: ISAE, UniCredit Research

Friday, June 26

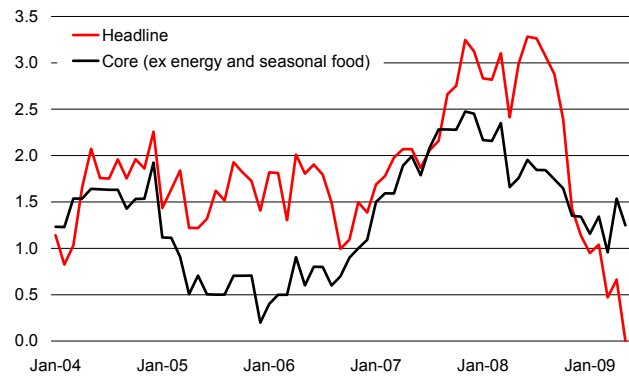
GERMANY, CONSUMER PRICES

June	MIB	Cons.	May	Apr
in % m-o-m	0.3		-0.1	0.0
in % y-o-y	0.0		0.0	0.7

The oil price continued to rebound strongly recently on growing glimmers of hope for the global economy and probably triggered a sizeable increase in energy prices for consumers in June. As a result, the dampening basis effect of energy prices on the y-o-y rate probably disappeared in June. With no signs of clear price movements in other areas, we therefore expect no perceptible change overall in the y-o-y headline inflation rate.

STRONG DISINFLATION

Consumer prices, in % y-o-y



Source: Federal Statistical Office, UniCredit Research

Tullia Bucco (HVB Milan)
+39 02 8862-2079
tullia.bucco@unicreditgroup.de

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

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

Marco Valli (HVB Milan)
+39 02 8862-8688
marco.valli@unicreditgroup.de

Data Monitor US - Preview of the coming week

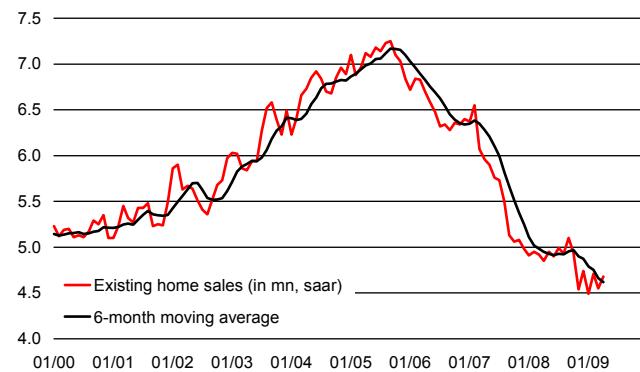
Tuesday, June 23

EXISTING HOME SALES

May	MIB	Cons.	Apr	Mar
in mn annualized	4.75	4.82	4.68	4.57

Pending home sales point to a modest improvement in the pace of existing home sales, boosted by transactions involving foreclosed properties. May is usually a big month for housing transactions, however, so the seasonal adjustments (which subtracted almost a million units from the raw data a year ago) argue against a dramatic increase in activity.

SALE OF DISTRESSED PROPERTIES OFFSETS WEAKNESS



Source: Thomson Datastream, UniCredit Global Research

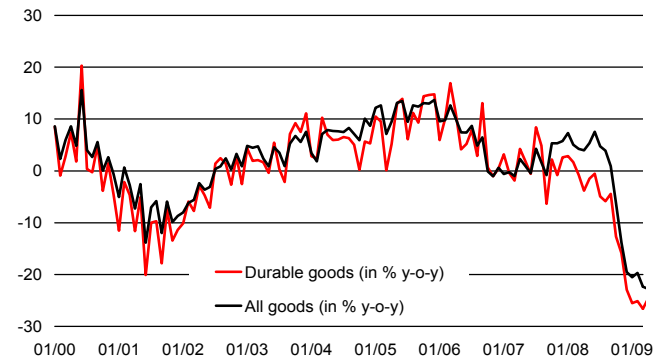
Wednesday, June 24

DURABLE GOODS ORDERS

May	MIB	Cons.	Apr	Mar
In % m-o-m	0.0	-0.9	1.7	-2.2

Erratic month-to-month swings in durable goods orders mostly reflect fluctuations in orders for civilian aircraft, but lately the automobile sector has also registered wide movements. The pattern is likely to continue for the next several months until a more lasting improvement is discernible later this year.

NO ACROSS-THE-BOARD IMPROVEMENT YET



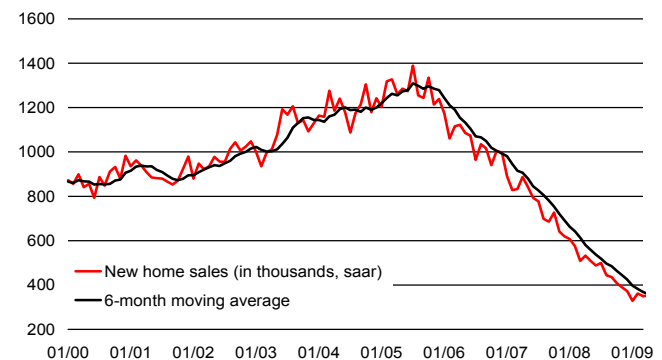
Source: Thomson Datastream, UniCredit Global Research

NEW HOME SALES

May	MIB	Cons.	Apr	Mar
In thousands, annualized	350	360	352	351

The sour mood of home builders, as demonstrated by the renewed decline in the latest Housing Market Index of the National Association of Home Builders, probably was cemented by lackluster new home sales for May. There are few "green shoots" in this sector, beyond the moderate improvement in housing starts and new building permits for May released earlier this week.

BOTTOMING OUT, BUT STILL AT A PITIFULLY LOW LEVEL

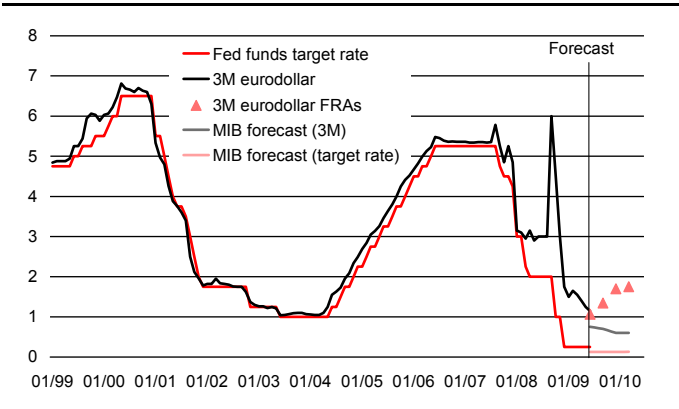


Source: Thomson Datastream, UniCredit Global Research

FOMC MEETING (JUNE 24-25)

The Fed's Beige Book plus recent speeches by Fed officials accentuated the scattered positive news that appeared recently. That theme is likely to come through in the policy statement of the upcoming FOMC meeting. Of greatest interest to financial markets will be the depiction of quantitative easing goals and methods. We expect unchanged language that emphasizes cautious use of all available tools but sets no new targets.

NO CHANGE IN NEAR-ZERO INTEREST RATE POLICY



Source: Thomson Datastream, UniCredit Research

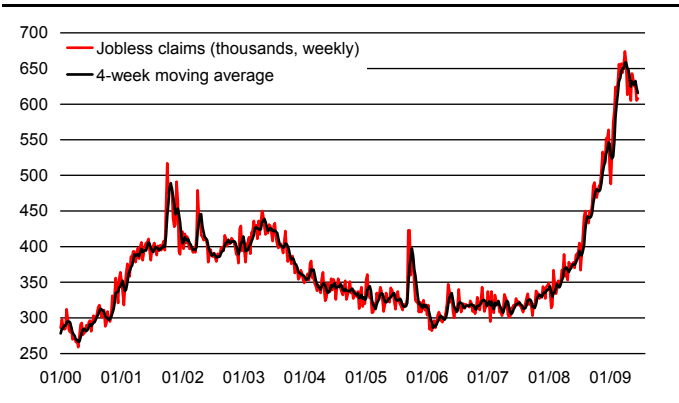
Thursday, June 25

INITIAL JOBLESS CLAIMS

June 20	MIB	Cons.	Jun 13	Jun 6
in thousands	600		608	605

Layoffs are at a high level, as are the continuing claims although the worst is definitely behind us. But both measures of labor market weakness are still higher than would be associated with an imminent end to the recession. Among the (further) good news in this weekly report is the insured unemployment rate, which fell to 5%.

LABOR MARKET STABILIZING



Source: Thomson Datastream, UniCredit Research

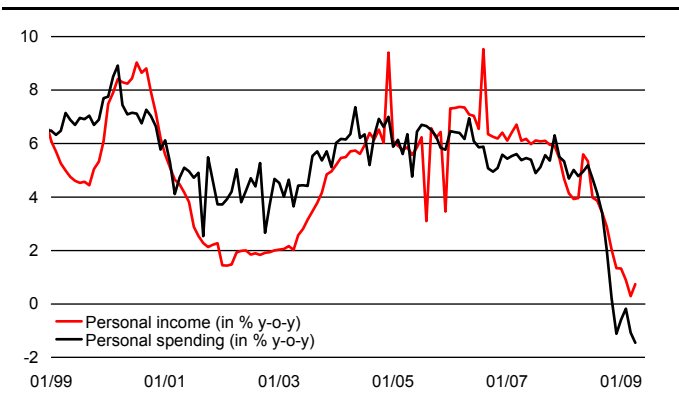
Friday, June 26

PERSONAL INCOME & OUTLAYS

May	MIB	Cons.	Apr	Mar
Income, in % m-o-m	0.1	0.3	0.5	-0.3
Spending, in % m-o-m	0.2	0.3	-0.1	-0.2

Income was pulled down by further layoffs and puny increases in average earnings. About the only boost came from the phasing-in of Obama tax cuts. Retail sales were up a stronger 0.5%, but some of that reflected higher spending on building materials, which don't count as personal consumption (they go into the calculation of residential construction). Plus the cool weather meant air conditioner use was more subdued than usual.

ONLY TAX CUTS LIFT PERSONAL INCOME & OUTLAYS



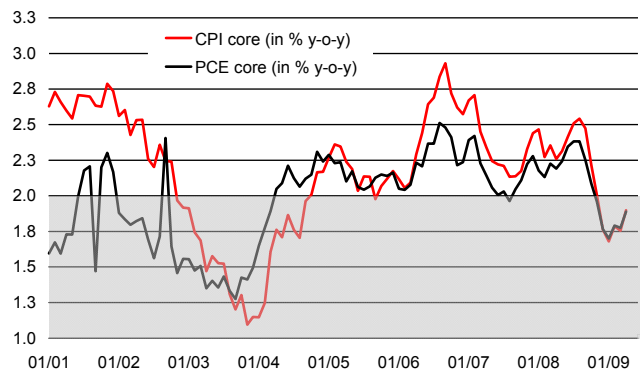
Source: Thomson Datastream, UniCredit Research

CORE PERSONAL EXPENDITURE PRICE INDEX

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

It should be a source of some concern to central bankers that inflation measured by the core personal consumption price index has not receded despite the extraordinary depth of the recession. May's figures are not likely to be much better. The year-on-year rate is running just under 2% and has gone up almost every month in 2009.

LOW INFLATION BUT NO EASING DESPITE RECESSION



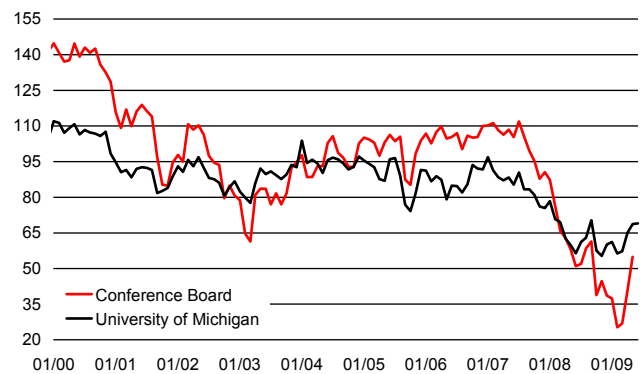
Source: Thomson Datastream, UniCredit Research

CONSUMER CONFIDENCE (UNIVERSITY OF MICHIGAN)

June	MIB	Cons.	May	April
Index	70.0	69.0	68.7	65.1

The preliminary figure for June was 69.0 and sentiment probably improved a little further in the final survey. Headlines reminded consumers that the stock market had retraced the sharp declines of the first few weeks of the year and the main market averages were back to end-2008 levels. Stock market movements are often the main factor driving changes in this survey.

CONSUMERS OPTIMISTIC CONDITIONS WILL GET BETTER



Source: Thomson Datastream, UniCredit Research

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

Review Europe

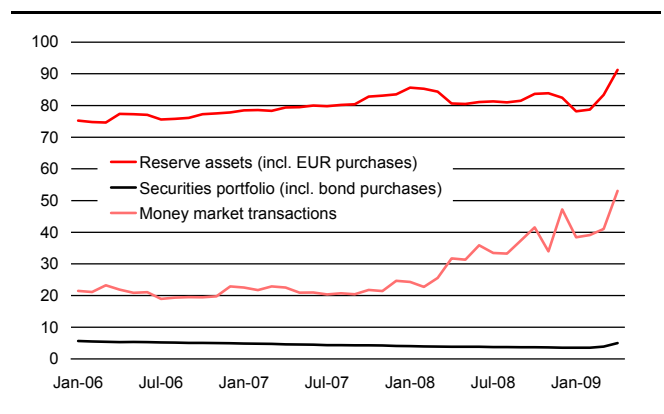
SNB maintains firmly expansionary stance

The Swiss National Bank (SNB) kept its target band for the 3-month Swiss franc Libor unchanged at 0.0-0.75% at its regular quarterly meeting in June. It is still aiming to bring the actual Libor rate down close to the level of 25 bp. Recently, the Libor rate stabilized at a level of 0.4%. The central bank confirmed that it will continue the firm relaxation of monetary conditions introduced at the previous quarterly meeting. A further relaxation is, however, not needed in the current environment.

The SNB's assessment of the monetary environment remained broadly unchanged compared to March. Although there are some encouraging signs of stabilization for the global economy, the SNB doesn't expect a return to a positive growth dynamic in Switzerland before next year. Concerning inflation, which is the main guide of Swiss monetary policy, the central bankers sounded somewhat less dovish. The risk of outright deflation has abated. The inflation forecast of 0.1% for 2010 and also 2011 has been lifted modestly to 0.4% and 0.3%, respectively. But in any case, "a not inconsiderable risk of deflation remains".

SNB President Roth said that the time for a correction in monetary conditions has not yet come. The recent EUR purchases, which led to a rise in euro currency reserves of more than 30%, are viewed to have been successful in stabilizing the EUR/CHF exchange rate and will be continued as needed. In addition, the SNB will continue to provide a generous supply of liquidity and purchase CHF private sector bonds. Although the SNB didn't specify a time horizon for its policy of relaxation, the emphasis that its inflation forecast will remain its major guide doesn't indicate a reversal any time soon. This mirrors the latest comments from officials of other major central banks, dampening the outlook for early rate hikes. Moreover, President Roth stressed that the SNB is able to absorb the excess liquidity rapidly – as only a tiny share of the heavy rise in the monetary base stems from the direct purchase of assets (cf. chart next column). By mid-June, the SNB has purchased CHF 2.5 bn of mortgage bonds and CHF 300 mn of corporate bonds.

MONETARY BASE COMPONENTS IN CHF BN



Source: SNB, UniCredit Research

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

US Review

Largest decline in consumer prices since 1950

US consumer prices rose 0.1% in May. As a result, the y-o-y rate fell to -1.3%, which is the largest decline since April 1950. The CPI ex food & energy, i.e. the core CPI, also rose 0.1%, lowering the y-o-y rate to 1.8% from 1.9%. Hence, apart from energy goods, prices have continued to rise at a moderate pace. The core CPI is well within the Fed's informal comfort zone and consistent with its longer run inflation objective. It cannot be overlooked, however, that the core rate has been lifted in recent months by special factors, such as the rise in tobacco prices due to a tax hike, and not sustainable developments, such as the ongoing rise in car prices. Without these influences, the y-o-y change in the core CPI would be about a quarter of a percentage point lower than it is today.

Industrial production shrank further

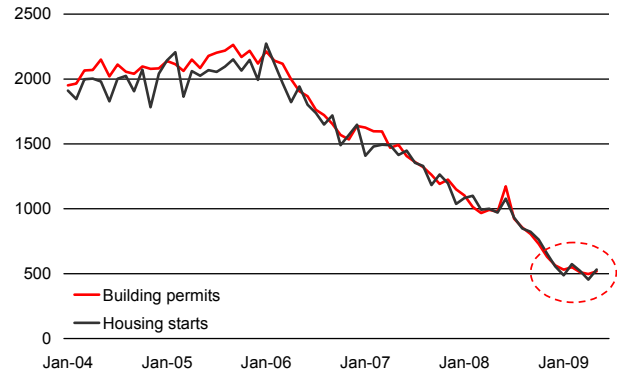
Industrial production in the US fell another 1.1% in May. It was the seventh consecutive decline, and the y-o-y rate fell to -13.4%. Manufacturing output decreased 1.0% as production in all industry groups shrank. The largest declines occurred in the production of motor vehicles & parts and machinery. The number of motor vehicle assemblies fell another 13¾% m-o-m and is down by more than 50% during the last year. At the same time, the industry's capacity utilization rate fell to a new all-time low of 68.3%.

Housing activity bottoming

Housing starts surged in May. The 17¼% jump last month more than offset the 13% decline experienced in April. Most of the intra-monthly volatility is stemming from the multi-family segment, while starts of single family homes are gradually crawling upwards. Looking through the month-to-month swings, it appears as if residential construction activity has finally found a bottom. Since December, housing starts are virtually flat (cf. chart next column). This is confirmed by building permits, which are the leading indicator for building activity. They rose 4% in May and are apparently close to a bottom as well. The road to stabilization in the housing market will, however, remain bumpy. A reminder of that was the unexpected decline in the NAHB housing market index. The moderate decrease in June to 15 points from 16 was caused by worse expectations for home sales six months hence. But even after the setback, the NAHB index remains clearly above the all-time low of 8 points, reached in January.

BOTTOMING OUT

Permits and starts in '000 units (at annual rates)



Source: Census Bureau, Thomson Datastream, UniCredit Research

Claims have reached turning point

Initial jobless claims in the week ending June 13, the survey week for the June employment report, edged up slightly to 608k from an upward revised 605k. The 4-week moving average improved to 615k, which is the lowest since February. In addition, continuing claims fell for the first time since early January. They shrank by 150k to 6.7 mn. At the same time, the insured unemployment rate eased to 5.0% from 5.1%.

Index of Leading Indicators jumped again

The Conference Board's Index of Leading Indicators (LEI) rose another strong 1.2% in May following the 1.1% increase in April. The rise in the composite index was caused among others by a steeper yield curve, higher stock prices, faster money supply growth and improved consumer expectations. As a result of the strong back-to-back increases, the annualized 6-month change turned positive for the first time since mid-2007 and has reached the highest level since April 2006.

Dr. Harm Bandholz (HVB)

+1 212 672 5957

harm.bandholz@us.unicreditgroup.eu

Fixed Income Outlook

- Recently, rate hike expectations returned with a vengeance and led to flatter curves.
- But the experience of the previous low-rate episode from 2003 suggests that they are premature.

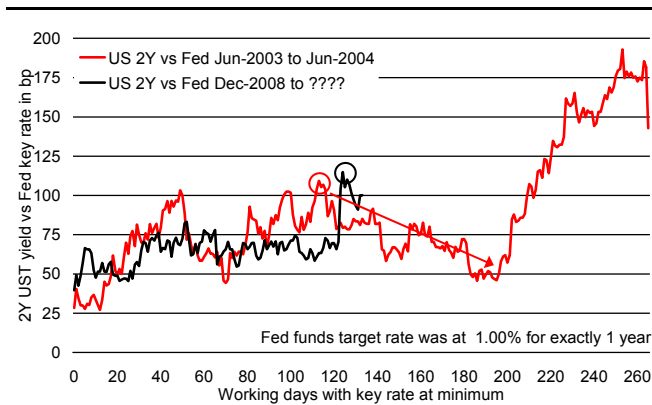
Rate hike expectations return with a vengeance and lead to flatter curves

Due to the ongoing surprise in economic data releases (US labor market report and global sentiment indicators), market participants priced in an earlier start of the tightening cycles in the US and eurozone. Are rate hike expectations opportune at this point in time? Economists forcefully disagree and point to widening output gaps and, therefore, ongoing deflation risks. Only the future will tell who was right. However, in the not-too-distant past, market participants faced quite a similar situation: central banks had slashed key rates to historic lows, but investors did not really buy the story that rates would be kept low "for a considerable period". As a result, the low-rate period from June 2003 until June 2004 (Fed @ 1.00%) and until December 2005 (ECB @ 2.00%) was characterized by large swings in rate hike expectations. Spikes and troughs were particularly pronounced in the euro area.

The experience of the previous low-rate episode from 2003

In the US, rate hike expectations peaked about 120 business days after the final rate cut both in 2003 and 2009 (cf. chart).

US RATE HIKE EXPECTATIONS AT THE LOW-RATE PERIOD



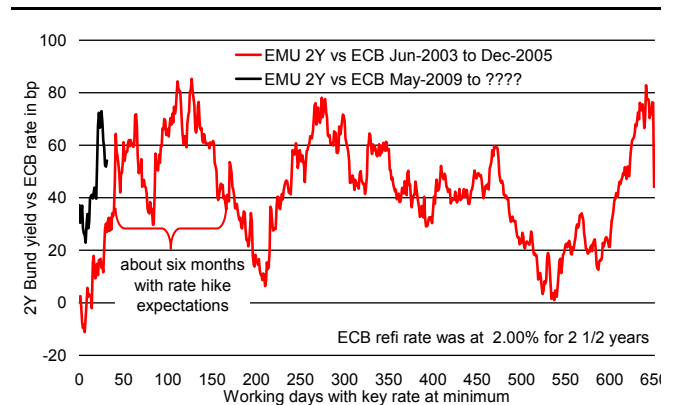
Source: Bloomberg, UniCredit Research

In 2003/04, this episode was followed by a period of more than three months during which rate hike expectations had been trimmed. The market started to price in rate hikes correctly about three months before the Fed became active.

Translated to the present, this would mean: Fed rate hike expectations are being trimmed starting now until mid-September. From mid-October, rate hike expectations could re-emerge. The Fed would announce the first rate hike at its January or March 2010 meeting.

The story is more thrilling in the euro area. Rate hike expectations have been vivid and, at times, sticky during the period the ECB kept its refi rate unchanged at 2.00% (June 2003-December 2005). Aggressive rate hike speculation shortly after the final rate cut occurred in 2003 as well as in the current year. In 2003, it took about six months before those rate hike expectations were fully priced out.

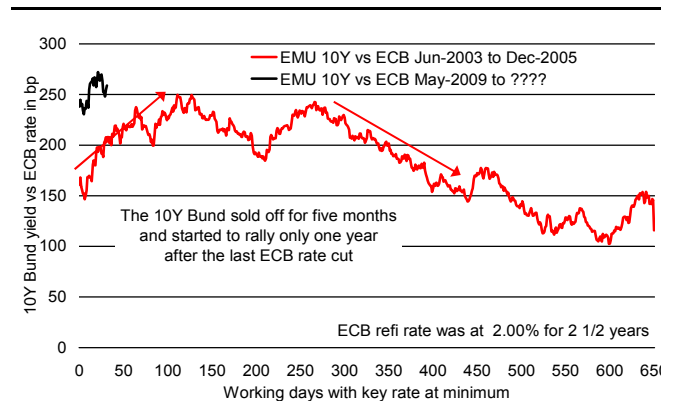
EMU RATE HIKE EXPECTATIONS IN A LOW-RATE PERIOD



Source: Bloomberg, UniCredit Research

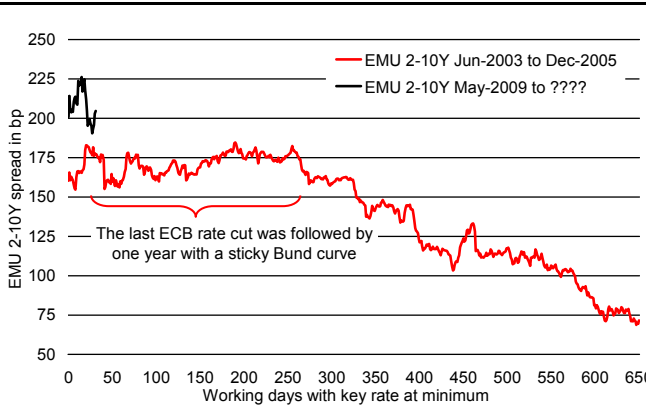
Since the EUR Bund curve (2-10Y) remained relatively stable during the first year of constant ECB rates, the implication for the coming months would be that 2-10Y Bunds move sideways with a steepness of close to 200 bp.

10Y BUNDS SOLD OFF AFTER THE FINAL ECB CUT IN 2003



Quelle: Bloomberg, UniCredit Research

2-10Y BUNDS REMAINED RELATIVELY STABLE DURING 2003/2004



Source: Bloomberg, UniCredit Research

Bottom line: The experience from 2003 onwards suggests that in the coming weeks: **1.** rate hike expectations can be expected to be extremely volatile, leading to sharp moves in 2Y Bund yields; **2.** the yield curve need not mirror swings in rate hike expectations and might be relatively sticky; and **3.** the 10Y yield might rise "for an extended period" (3-5 months) following the final rate cut by the ECB.

Kornelius Purps (HVB),
+49 89 378 12753
kornelius.purps@unicreditgroup.de

Forex Outlook

- This week, investors have embarked on a reality check after reacting over-enthusiastically to green shoots last week. Currencies have traded in narrow ranges.
- A simple econometric model shows that the positive correlation between risk aversion and the USD is gradually weakening. However, it is too early to speak about a trend reversal. As investors will remain cautious, range trading will be the main scenario in the near term.

The wind of change is not yet blowing in the FX world...

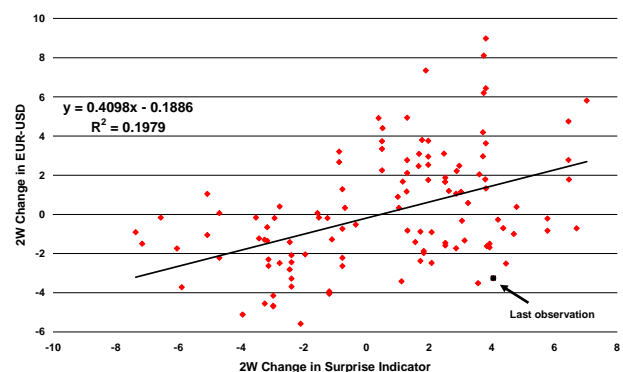
This week, markets have taken a pause to reflect. After last week's bullish trend in stocks and selloff in bond markets, a sharp revival of carry trades and a bearish USD trend, investors seemed to have come back to reality. Green shoots from the economy, to which initially investors reacted over-enthusiastically, are now being more carefully analyzed and the enthusiasm has given place to a reality check. If it is true that the worst is behind us, the outlook is still uncertain and it could take a while to exit from recession. In FX markets, after a new wave in risk aversion at the beginning of the week, G-10 currencies continued to struggle within narrow ranges, reflecting the doubtful mood. We think that this attitude will remain in place at least in the near term. Developments in the market over this week clearly indicate that investors are not yet ready to believe in a complete recovery in the near term and to take risks accordingly. Range trading should thus remain the case in the FX market for the time being.

Calendar-wise, the FOMC meeting on Thursday will be the main event next week. While we expect the Fed to remain on hold on QE measures, we are likely to get further insight into the green shoots. Speculation also suggests that the Fed could signal that recent rumors of a possible hike in interest rates as soon as this year are not likely. In terms of the FX impact, this last item represents the most interesting case. Recent evidence suggests that the strong positive correlation which we have observed between risk aversion and the USD is gradually losing stem. The chart below shows the result of a simple regression relating the two-week changes in EUR-USD to the correspondent change in our US surprise indicator. A "surprise" is defined here as the difference between the actual release of macroeconomic data and consensus expectations. The surprise indicator is constructed as the weighted cumulative sum of standardized surprises in a group of selected macroeconomic US data. The regression is run on a sample of daily data going from the beginning of 2009 until present. The black dot denotes the last observation (i.e. the change occurred over the last two weeks in the

surprise indicator with respect to the last two weeks' change in the EUR-USD). Our simple model supports what we have been arguing over the last few months, i.e. that good news from the US economy perversely worked in favor of the EUR and hurt the dollar. However, the last observation shows that this relationship has not held up over the last two weeks, when positive surprises from the economy lifted the dollar vs. the EUR. These findings suggest that there is a reasonable chance that the greenback will be hit in case next week the Fed hints that a rate hike is not in the cards for this year. However, as the market is currently in a transition phase and this is likely to remain the case in the near term, it is too early to speak about a trend reversal. Aside from the FOMC meeting, a few more housing data (existing and new home sales) and the durable goods orders will be released, with a relatively limited market impact, given current investors' stance. On this side of the Atlantic, the Ifo and the advance release of the PMIs will likely support the "green shoots" scenario, but the market impact on the EUR-USD should be temporary.

Finally, note that from a pure technical point of view, EUR-USD is currently trading within a head & shoulder pattern, clearly visible on daily charts. To fully negate this configuration, EUR-USD has to climb above 1.4340, as a definitive break of the 1.38 support level may pave the way to a test of 1.33. The lack of a clear signal in the two directions should reinforce range trading. Taking into consideration the current investors' mood, next week's calendar as well as the technical analysis, we see the EUR-USD remaining in the 1.38-1.41 range also next week.

EUR-USD GRADUALLY LOSING POSITIVE CORRELATION TO GOOD NEWS FROM THE ECONOMY



Source: Bloomberg, UniCredit Research

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

MIB View – Our Global Picture

Global economy

- The global economy is still in recession. But there are growing signs of stabilization during the second half of this year followed by a mild recovery in 2010. Nevertheless, PPP based real global GDP will post its first minus in 2009 since WW II (-1¼%; 2008: +3%). Based on market exchange rates, it will even shrink massively (by roughly 2½%)! For next year, we expect the global economy to grow at around 2½% (PPP-based), which is well below trend.
- Real GDP in the industrialized countries will most probably shrink by 4.0% this year – more severely than during all the recessions in the 70s and 80s. Japan is hit most (-7.5%), followed by the eurozone (-4.5%) and the US, where we expect a minus of 2.6%. Next year, the industrialized world will show only meager growth (+¾%; US: +1.3%, EMU: +0.1%). Emerging Asia and especially China will continue to lead the growth rankings.

US

- After shrinking dramatically at the turn of 2008/09, the US economy is currently stabilizing and should grow out of recession late this year helped by the massive unprecedented monetary and fiscal policy impulses. But the ongoing, inevitable deleveraging process of the private sector will prevent a V-shaped recovery that normally follows severe recessions.
- 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 2008. The Fed is now pursuing a Quantitative Easing Policy.
- Rising inflation expectations and improved economic data fuelled rate hike speculation recently, which is exaggerated in our view. The US tightening cycle should not start before summer 2010.

Eurozone

- The eurozone economy is still mired in recession. But the worst is now definitely behind us, although real GDP should continue to shrink until the end of this year. And for 2010, we expect EMU-wide economic activity to just stagnate (+0.1%).
- The ECB started its easing cycle in October last year. With the presumably last 25 bp cut in May 2009 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 is starting to purchase covered bonds.
- Given this fragile economic outlook, the ECB should not start to hike its refi rate next year.

Government bond markets

- After consolidating over the next few weeks (too much too soon, profit taking), declining risk aversion combined with improving macroeconomic data and corporate news will see government bond yields trending upward again for the rest of this and also next year.
- Since the supply of government bonds will surge, US 10Y yields reach the 4%-mark as soon as at the beginning of 2010 and are expected to near the 4½% threshold by summer of next year.
- 10Y Bund yields should roughly mimic the pattern of their US counterparts, reaching 4% by the middle of next year.

Exchange rates

- Beyond a temporary pause, EUR-USD is expected to strengthen further, heading toward 1.45 at the end of 2009 and jumping above the 1.50 threshold by the middle of next year.
- JPY should weaken over the course of this as well as next 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	-0.8	2.1

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	70

Macro Forecasts

GDP, real (% , y-o-y)	2003	2004	2005	2006	2007	2008	2009f	2010f
World economy *	3.7	4.9	4.4	4.9	4.9	3.0	-1.2	2.5
Industrialized countries *	1.9	3.1	2.5	2.9	2.6	0.7	-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	-3.5	-0.3
UK	2.8	3.3	2.1	2.8	3.0	0.7	-4.0	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 *	6.6	7.6	7.4	8.1	8.6	6.3	2.9	5.3
Asia	8.2	8.6	9.0	9.8	10.6	7.7	5.7	7.5
China	10.0	10.1	10.4	11.1	13.0	9.0	7.0	8.5
India	6.9	7.9	9.1	9.7	9.3	7.3	4.5	6.5
Latin America	2.2	6.0	4.7	5.7	5.7	4.2	-1.5	2.5
Brazil	1.1	5.7	3.2	3.8	5.9	5.1	-1.5	3.5
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	-0.8	2.1
core rate (ex food & energy)	1.5	1.8	2.2	2.5	2.3	2.3	1.4	1.0
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	-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	-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	-0.4	-2.6	-0.5	-0.2	-0.1
UK	0.3	0.0	-0.7	-1.6	-1.9	-0.5	-0.3	-0.1
Switzerland	0.4	0.0	-0.2	-0.6	-0.8	-0.4	-0.2	0.0
Sweden	-0.6	-0.5	-1.0	-5.0	-0.9	-0.5	0.0	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	-1.1	-2.1	0.4
core rate (ex food & energy)	2.4	2.3	2.5	2.0	1.7	1.8	1.1	1.1
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	-0.2	-0.2	0.7
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	-0.8	-1.1	0.8
Austria	3.3	3.6	3.7	2.2	1.1	0.3	-0.2	0.3
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	-0.7	-1.1	-0.3
Sweden	3.2	3.8	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; ** GDP growth unadjusted, 2008: 2.5%

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	1.24	1.25	1.25	1.25	1.35
2Y	1.51	1.40	1.40	1.55	1.90
5Y	2.70	2.50	2.50	2.70	2.95
10Y	3.58	3.40	3.50	3.75	4.00
30Y	4.39	4.20	4.20	4.45	4.60
10Y swap spread (in bp)	22	5	5	5	5
US Treasury Market					
Fed funds target rate	0.13	0.25	0.25	0.25	0.25
3M USD Libor	0.61	0.60	0.60	0.60	0.65
2Y	1.25	1.10	1.25	1.50	1.90
5Y	2.83	2.50	2.55	2.80	3.15
10Y	3.81	3.60	3.75	4.00	4.30
30Y	4.58	4.60	4.75	5.10	5.40
10Y swap spread (in bp)	27	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	1.46	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	3.86	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	2.373	2.50	2.60	2.85	2.85

EXCHANGE RATE FORECASTS (END QUARTER)

	current	end-Q3	end-Q4	end-Q1	end-Q2
EUR-USD	1.3893	1.35	1.45	1.50	1.52
EUR-JPY	134.89	132	148	158	167
EUR-GBP	0.8489	0.88	0.87	0.86	0.85
EUR-CHF	1.5122	1.53	1.55	1.58	1.60
USD-JPY	97.11	98	102	105	110
GBP-USD	1.6363	1.53	1.67	1.75	1.79
USD-CHF	1.0886	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)	71.45	70	65	70	70
DJ commodity price index	253.17	265	275	290	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	0.98	0.70	0.70	0.75	0.75
10Y government bond yield	3.55	3.65	3.75	3.90	4.10
10Y spread to Bunds (in bp)	-3	25	25	15	10
Norway					
Key rate	1.25	1.00	1.00	1.00	1.00
3M rate	1.96	1.25	1.25	1.25	1.25
10Y government bond yield	4.28	4.30	4.50	4.90	5.10
10Y spread to Bunds (in bp)	70	90	100	115	110
Canada					
Key rate	0.25	0.25	0.25	0.25	0.25
3M rate	0.62	0.75	0.75	0.75	0.75
10Y government bond yield	3.51	3.40	3.60	4.00	4.30
10Y spread to Bunds (in bp)	-7	0	10	25	30
Australia					
Key rate	3.00	2.00	2.00	2.00	2.00
3M rate	3.51	2.80	2.80	2.90	2.90
10Y government bond yield	5.86	4.90	5.10	5.40	5.60
10Y spread to Bunds (in bp)	228	150	160	165	160
New Zealand					
Key rate	2.50	1.75	1.75	1.75	1.75
3M rate	3.20	2.50	2.50	2.60	2.60
10Y government bond yield	6.06	5.40	5.50	5.80	6.00
10Y spread to Bunds (in bp)	248	200	200	205	200

EXCHANGE RATE FORECASTS (END QUARTER)

	current	end-Q3	end-Q4	end-Q1	end-Q2
EUR-SEK	11.0291	10.70	10.50	10.30	10.10
EUR-NOK	8.8942	8.75	8.55	8.35	8.15
EUR-CAD	1.5704	1.55	1.64	1.68	1.67
EUR-AUD	1.7278	1.73	1.75	1.72	1.67
USD-SEK	7.9417	7.93	7.24	6.87	6.64
USD-NOK	6.4025	6.48	5.90	5.57	5.36
USD-CAD	1.1305	1.15	1.13	1.12	1.10
AUD-USD	0.8040	0.78	0.83	0.87	0.91
EUR-USD	1.3893	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
19 June to 26 June 2009							
Fri, 19 Jun '09	17:30	IT	Bank of Italy's Draghi Speaks at Conference on Economy in Rome				
Mon, 22 Jun '09		UK	House price (Nationwide, in % y-o-y)	Jun		-10.7	-11.3
		GE	Import price index (in % y-o-y)	May		-10.2	-8.6
	10:00	IT	Industrial orders (in % m-o-m)	Apr			-2.7
	10:00	GE	ifo business climate (index)	Jun		85.0	84.2
	11:00	IT	Current account balance (EUR bn)	Apr			-2266
	14:00	EC	ECB President Jean-Claude Trichet Speaks in Madrid				
Tue, 23 Jun '09	8:10	GE	GfK consumer confidence	Jul		2.5	2.5
	8:45	FR	Household consumption (manufactured goods, in % m-o-m)	May		-0.3	0.7
	8:50	FR	Business confidence overall (INSEE)	Jun		74.0	72.0
	9:00	FR	Services PMI (index)	Jun		48.5	47.6
	9:00	FR	Manufacturing PMI (index)	Jun		45.0	43.3
	9:30	GE	Services PMI (index)	Jun		46.0	46.0
	9:30	GE	Manufacturing PMI (index)	Jun		41.0	39.6
	10:00	EMU	Composite PMI (index)	Jun		45.3	43.9
	10:00	EMU	Services PMI (index)	Jun		45.8	44.7
	10:00	EMU	Manufacturing PMI (index)	Jun		42.4	40.7
	15:00	GE	ECB's Weber Speaks on Lessons From the Crisis in Munich				
	16:00	US	Existing home sales (in mn)	May	4.75	4.8	4.68
	16:00	US	OFHEO house price index (in % m-o-m)	Apr		-0.3	-1.1
	Wed, 24 Jun '09	9:30	IT	Consumer confidence (ISAE, index)	Jun		104.7
10:00		IT	Retail sales (in % m-o-m)	Apr		-0.3	0.1
10:00		EMU	Current account balance (EUR bn)	Apr			-6.5
13:00		US	MBA mortgage applications	Jun 19			-15.8
14:30		US	Durable goods orders ex transportation (in % m-o-m)	May		-0.5	0.4
14:30		US	Durable goods orders (in % m-o-m)	May	0.0	-0.9	1.7
15:30		UK	Bank of England's King, Bean, Fisher, Sentance, Barker Testify				
16:00		US	New home sales (in thousands)	May	350	360	352
20:15		US	Federal funds target rate (in %)	Jun 19	0.25	0.25	0.25
Thu, 25 Jun '09		8:45	FR	Producer price index, PPI (in % m-o-m)	May		
	9:30	IT	Business confidence overall (ISAE, index)	Jun		69.5	68.7
	11:00	EMU	New orders (in % m-o-m)	Apr		0.0	-0.6
	14:30	US	PCE deflator (in % q-o-q annualized)	Q2			1.5
	14:30	US	Real GDP (in % q-o-q annualized)	Q2		1.5	1.5
	14:30	US	Initial jobless claims (in thousands)	Jun 19	600		608
	20:30	UK	ECB's Bini Stark Speaks at Event in London				
Fri, 26 Jun '09		GE	Harmonized CPI (in % y-o-y)	Jun		-0.1	0.0
		GE	Consumer price index, CPI (national, in % y-o-y)	Jun		-0.1	0.0
	1:30	JN	Core consumer price index (in % y-o-y)	May		-0.5	-0.4
	8:45	FR	Real GDP (in % q-o-q)	Q2		-1.2	-1.2
	8:50	FR	Consumer confidence (index)	Jun		-39.0	-40.0
	11:00	IT	Large industry employment (in % y-o-y)	Apr			-1.2
	11:30	SZ	KOF business climate	Jun		-1.77	-1.86
	14:30	US	PCE core inflation (in % m-o-m)	May		0.1	0.3
	14:30	US	Personal expenditures (in % m-o-m)	May	0.2	0.3	-0.1
	14:30	US	Personal income (in % m-o-m)	May	0.1	0.3	0.5
16:00	US	University of Michigan consumer confidence	Jul	70.0	69.0	69.0	

*: 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
29 June to 03 July 2009							
Mon, 29 Jun '09	1:50	JN	Industrial production (in % y-o-y)	May			-30.7
	10:00	GE	Retail PMI (index)	Jun			46.3
	10:00	EMU	Retail PMI	Jun			47.1
	10:30	UK	Mortgage approvals (in thousands)	Jun			0.0
	11:00	EMU	European Commission services sentiment (index)	Jun			-23.0
	11:00	EMU	European Commission manufacturing sentiment (index)	Jun			-34.0
	11:00	EMU	European Commission economic sentiment (index)	Jun	72.0		69.3
	11:00	EMU	European Commission consumer confidence climate (index)	Jun			-31.0
	11:00	EMU	European Commission business climate (index)	Jun			-3.2
Tue, 30 Jun '09		GE	Retail sales (real, in % m-o-m)	May			0.5
	1:01	UK	Consumer confidence (GFK, index)	Jun			-27.0
	1:15	JN	PMI (Nomura)	Jun			46.6
	1:30	JN	Unemployment rate (in %)	May			5.0
	7:00	JN	Tankan survey small business	Jun			34.1
	9:55	GE	Unemployment rate (in %)	Jun			8.2
	9:55	GE	Unemployment change (in thousands)	Jun			1.0
	10:00	EMU	M3 money supply (in % y-o-y)	May	4.6		4.9
	10:30	UK	Real GDP (in % q-o-q)	Q2			-1.9
	11:00	IT	Producer price index, PPI (in % y-o-y)	May			-5.3
	11:00	IT	Consumer price index (in % y-o-y)	Jun			0.9
	11:00	EMU	Consumer price index, CPI (in % y-o-y, flash estimate)	Jun	-0.1		0.0
	15:00	US	S&P/Case-Shiller home priceindex (in % y-o-y)	Apr	-18.5		-18.7
	15:45	US	Chicago Purchasing Managers Index	Jun		38.5	34.9
	16:00	US	Conference Board consumer confidence	Jun	56.0	56.4	54.9
	Wed, 01 Jul '09		UK	House price (HBOS, in % 3M y-o-y)	Jun		
		US	Auto sales (in mn)	Jun			9.9
1:50		JN	Tankan survey large enterprises non-manuf. (forecast)	Q2		-23.0	-30.0
1:50		JN	Tankan survey large enterprises manuf. (forecast)	Q2		-34.0	-51.0
9:30		SZ	Manufacturing PMI (index)	Jun			39.8
9:45		IT	Manufacturing PMI (index)	Jun			41.1
10:30		UK	Manufacturing PMI (index)	Jun			45.4
14:15		US	ADP employment index (change in thousands m-o-m)	Jun			-532
16:00		US	Pending home sales (in % m-o-m)	May			6.7
16:00		US	Construction spending (in % m-o-m)	May		-0.8	0.8
16:00		US	ISM manufacturing (index)	Jun	44.0	44.0	42.8
18:00		IT	New car registration (in % y-o-y)	Jun			-8.6
19:00		IT	Budget balance (EUR bn)	Jun			-7.6
Thu, 02 Jul '09	10:30	UK	Bank of England Releases Quarterly Credit Conditions Survey				
	11:00	EMU	Producer price index, PPI (in % y-o-y)	May			-4.6
	11:00	EMU	Unemployment rate (in %)	May			9.2
	13:45	EMU	ECB refi rate (in %)	Jun 19	1.0	1.0	1.0
	14:30	US	Average hourly earnings (in % m-o-m)	Jun			0.1
	14:30	US	Unemployment rate (in %)	Jun	9.5	9.6	9.4
	14:30	US	Non-farm payrolls (change in thousands m-o-m)	Jun	-450	-400	-345
	16:00	US	New orders (in % m-o-m)	May	0.0	-0.7	0.7
Fri, 03 Jul '09	9:15	SZ	Consumer price index (in % y-o-y)	Jun			-1.0
	9:45	IT	Services PMI (index)	May			42.0
	10:30	UK	Services PMI (index)	Jun			51.7
	11:00	EMU	Retail sales (volume, in % m-o-m)	May			0.2

*: 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.