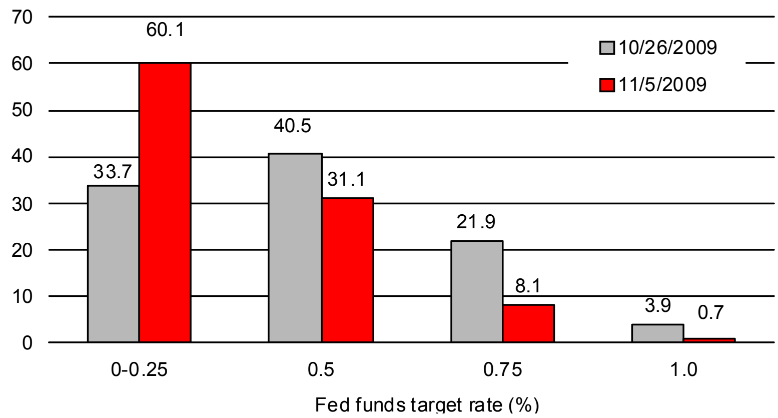
The week of the central banks

- **Exit.** A rapid removal of ZIRP by major central banks is not imminent. Factors arguing against this are doubts about the sustainability of the economic recovery, low (core) inflation and stable inflation expectations, as well as the strong headwinds impeding consumption and investment. There are, however, growing signs of a (verbally prepared) gradual scaling back of the more-than-generous liquidity supply measures.
- **Fed.** The Federal Open Market Committee probably had an intense discussion of the exit and communication strategy. The press release was, however, more dovish than expected. Markets then priced out an initial rate hike in April 2010 again (cf. chart) and are steadily falling into line with the key rate expectations for Europe. We keep our forecast of no initial Fed rate hike until autumn 2010.
- **ECB.** The ECB, in contrast, showed more of its hawkish side, arguing that the economic and financial environment had improved enough to start gradually phasing out the exceptional liquidity support. Otherwise, according to Trichet, there would be the threat of renewed asset bubbles. He did, however, say that the normalization must be slow and gradual. Market rates will, therefore, stay low in the coming months and the refi rate will be unchanged at 1% over the next twelve months (pages 2-3).
- **BoE.** The Bank of England even topped up its Asset Purchase Facility (by GBP 25bn versus the consensus expectation of GBP 50bn), following the economy's disappointing performance in 3Q. The normalization of UK monetary policy is, therefore, likely to start even later.
- **Further topics:**
  - **US:** The near-term outlook remains positive, but ... (page 4).
  - **Swiss National Bank** is in no rush to tighten policy (page 7).
  - **OPEC:** Higher production quotas before the end of the year (p. 10)?
  - **Commodity investments:** Golden October (page 13).
  - **Data outlook:** Solid GDP growth in the euro zone (page 16).
  - **Market outlook:** EUR below 1.50; bonds well maintained (page 24).

MARKETS PRICE OUT FIRST FED MOVE IN APRIL 2010 AGAIN

Expected key rate move at the FOMC meeting on 28 April 2010, probability in %



Source: Bloomberg, UniCredit Research

Contents

MIB MACRO FORECASTS

in % yoy	2008	2009	2010
GDP EMU	0.6	-4.0	0.8
CPI EMU	3.3	0.3	1.3
GDP Germany	1.0	-4.7	2.0
CPI Germany	2.6	0.4	1.0
GDP Italy	-1.0	-4.9	0.4
CPI Italy	3.3	0.8	1.5
GDP US	0.4	-2.4	1.9
CPI US	3.8	-0.4	2.3

MIB FI/FX FORECASTS

2009/10	31-Dec	31-Mar	30-Jun	30-Sept
EMU 3M (%)	0.80	0.90	1.05	1.20
EMU 10Y (%)	3.45	3.60	3.85	4.10
US 3M (%)	0.30	0.50	0.85	1.25
US 10Y (%)	3.70	3.85	4.10	4.40
EUR-USD	1.50	1.52	1.55	1.50
USD-JPY	95	98	100	103
Oil Price	65	70	70	75

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Slow down! Exit ahead …

- Yesterday, Trichet signaled that the improvement in economic activity and in financial markets is sufficient to start phasing out the exceptional liquidity support.
- But he was at pains to reassure that liquidity will be drained slowly and gradually, as economic as well as market conditions allow.
- Monetary conditions will, therefore remain supportive, with market rates still low in the coming months and the refi rate probably on hold over the next year.

Phasing out liquidity support, but exit will be slow & gradual

Yesterday's ECB press conference confirmed that central bankers are beginning to see the exit ahead, but are determined to approach it extremely slowly, to avoid the risk of derailing the recovery. It also confirmed that major central banks are ready to sign a truce with markets to avoid a head-on confrontation on the issue of asset bubbles – although Trichet was slightly more aggressive than Bernanke, and explicitly acknowledged that maintaining the current scope of liquidity support would pose a risk of bubbles and of excessive trading profits in the banking sector. The recent moderate correction in risky assets has helped defuse the situation, but the truce remains fragile. Trichet implicitly confirmed that the December 1-year Long Term Refinancing Operation (LTRO) will be the last of its kind, as the improvement in activity and financial markets is sufficient to start gradually phasing out the exceptional liquidity support. However, he was at pains to reassure that the exit will be slow and gradual, timed to economic and market conditions. Moreover, he stated that the ECB has no intention to move short-term rates away from the deposit rate (0.25%) and towards the refi (1.0%). The message, in my view, is that monetary conditions will remain supportive, with market rates still low in the coming months and the refi rate on hold throughout next year. Liquidity will be drained slowly, as market conditions allow. The fact that Trichet explicitly mentioned a scaling back of liquidity support will keep some upward pressure on EUR-USD, but not enough to break 1.50. The next test will be today, with the risk that strong US non-farm payrolls data might tempt markets to break the truce.

Trichet sounded somewhat more confident on the growth outlook, and indicated that if recent indications from hard and soft data are confirmed, the ECB's forecasts will likely be revised upwards in December. To put this in perspective, however, consider that the ECB's current projection of 0.2% growth in 2010 is clearly unreasonably low, and that Trichet yesterday was at pains to repeat that data are still mixed, the road as bumpy as expected, and that prudence and caution are therefore of the essence.

More significant, in my view, is that the risk of a credit crunch seems to be receding, in the ECB's view. Trichet was very explicit in saying that the slowdown in credit growth is still mostly demand-driven, and emphasized that the most recent Bank Lending Survey points to an alleviation of supply constraints: both the decline in net tightening intentions and the resumption of positive flows in household lending are seen as meaningful encouraging signs. Trichet said it is too soon to be sure that the credit cycle has turned, but he clearly sees the picture as improving. He repeated the now long-standing call on banks to strengthen their balance sheets, but this time accompanied by the acknowledgment that markets are now more receptive to banks' recapitalization efforts. He also reiterated that banks need to retain profits, including via more conservative compensation policies, and do their job by lending to the real economy – but yesterday's comments if anything suggest that this already looks more rather than less likely.

Against this background, Trichet implicitly confirmed that the December 1-year Long Term Refinancing Operation will be the last of its kind – he said the market already expects as much, and he would not modify the impression. Beyond this, his comments on the next steps of the exit strategy were very prudent and pragmatic. He emphasized that the exceptional liquidity measures by definition were not meant to stay forever, but was at pains to reassure that the unwinding would be gradual and timed to reflect economic and market conditions.

Importantly, he stated that the ECB has no intention to modify the current situation that sees short-term rates like the EONIA anchored to the deposit rate rather than to the main policy rate. This suggests that the ECB is unlikely to add a spread over refi at the December 1 year LTRO, and is likely to maintain full allotment at the weekly refinancing operations.

During the Q&A, Trichet explicitly acknowledged that maintaining the current pace of extraordinary liquidity provisions (notably with the 1-year LTRO) could pose a risk of bubbles and excessive trading profits in the banking sector. This reinforces the idea that economic and financial conditions are beginning to normalize to a sufficient degree that the gradual unwinding of liquidity support needs to begin, albeit gradually. It is a meaningful admission that the risk of early bubbles features in a very concrete way in the ECB's discussions. One issue that was left unaddressed, however, is the dichotomy that we have been highlighting within the eurozone's banking system, with some banks still heavily dependent on the ECB and therefore more exposed to risks as liquidity support is scaled back. But here I believe the scaling back will be gradual enough to prevent serious tensions.

The December ECB meeting will be extremely important: the bank will release updated economic forecasts and probably cast more light on the rest of the exit strategy, especially as regards shorter-term refinancing operations. The outcome of the December LTRO will also give a very important signal. Trichet was hard on governments, stressing that a fiscal exit strategy is urgently needed to support confidence, and that lack of such a strategy would complicate the task of monetary policy and eventually lead to higher market rates and therefore higher refinancing costs for public and private sector alike – including because of possible rating downgrades.

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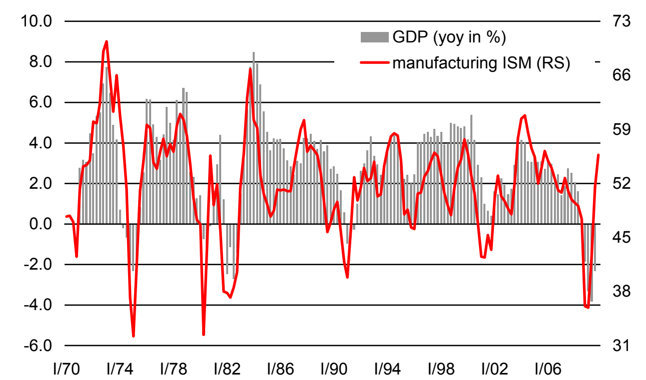
US: Near-term outlook remains positive, but ...

- Last month, the manufacturing ISM rose to its highest level in 3½ years. This gain was made possible by solid increases in the production, inventory and employment indices.
- These indicate that the US economy was able to carry the momentum over into the current quarter. One key reason for the ongoing production growth is the perceptibly reduced level of private inventories.
- But once the positive effects of the fiscal stimulus programs and the support from the inventory cycle have run their course, the economy will probably slow down considerably. Several leading indicators, such as new orders and building permits, have already lost momentum again.
- Despite the solid gain in the ISM employment index, we still expect merely a deceleration in the pace of job losses – sustained employment increases are currently not in the cards. But exactly that would be needed for the technical rebound to become a sustainable economic recovery.

Purchasing managers' index posts new records

In October, the ISM purchasing managers' index for manufacturing climbed to its highest level in 3½ years. Based on our calculations, the current reading of 55.7 points to real GDP growth of 3½% to 4% (cf. chart). The Institute for Supply Management (ISM) itself even states that the current index level corresponds to real GDP growth of 4½%.

ISM INDEX POINTS TO STRONG GROWTH



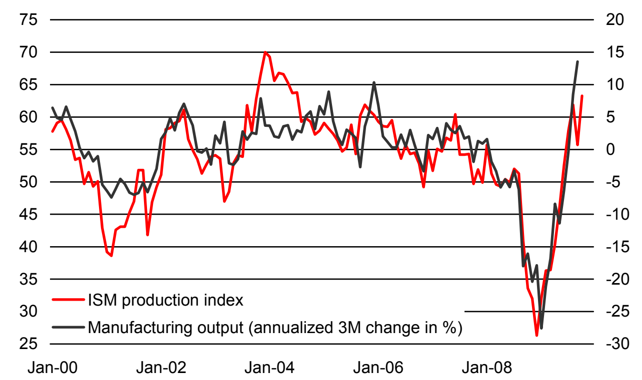
Source: BEA, ISM, Thomson Datastream, UniCredit Research

The rise in the composite ISM index in October was triggered by solid gains in three sub-indicators:[1] **1.** The production index rose to its highest level since mid-2004 (63.3); **2.** the inventory component increased to 46.3, which is the highest reading since August 2008; **3.** the employment index surpassed the critical threshold of 50 points for the first time since mid-2008, and at 53.1 recorded its highest reading since April 2006. The assessment of new orders, in contrast, fell for the second consecutive month. At 58.5 it, however, still remains at a relatively high level.

Production continues to rise strongly

The strong increase in the production index in October is an unequivocal signal that the US economy was able to carry the growth momentum over into the fourth quarter. After manufacturing output already increased at an annual rate of more than 7% in 3Q, we expect a similar increase for 4Q (cf. chart). One key reason for the solid production gains is the significantly reduced level of private inventories.

DYNAMIC REMAINS HIGH FOR THE TIME BEING



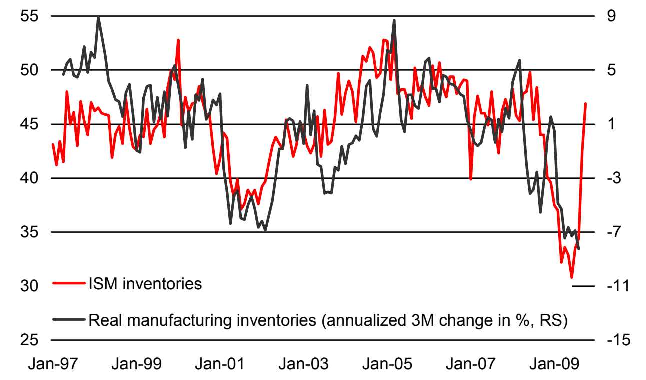
Source: Federal Reserve, ISM, Thomson Datastream, UniCredit Research

Inventory cycle at turning point

In October, the inventory component of the ISM climbed to its highest level since August 2008. Moreover, the current reading of 46.9 is clearly above the threshold of 42.6 that, according to the ISM, is generally consistent with an expansion in real manufacturing inventories. The chart on the following page corroborates this assessment. The recent improvement in the ISM's inventory index therefore indicates that the drastic destocking of recent quarters has probably come to an end.

[1] The composite ISM index is the arithmetical mean of five sub-indicators: new orders, production, employment, inventories and supplier deliveries.

ISM SIGNALS AN END OF THE DESTOCKING

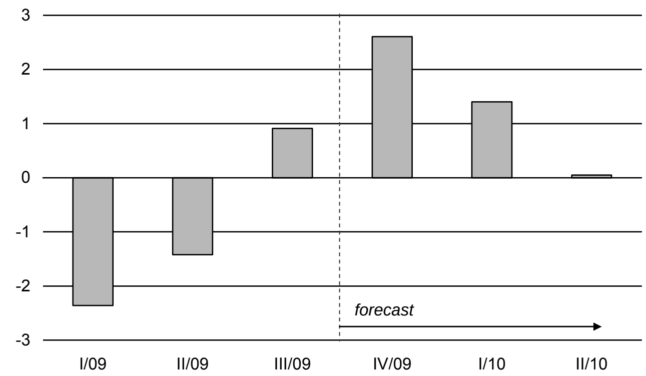


Source: Census Bureau, ISM, Thomson Datastream, UniCredit Research

As a result, private inventories will continue to support GDP growth in the current quarter. After adding close to one percentage point in the previous quarter, we expect a contribution of more than 2½ pp for 4Q, followed by another 1½ pp in 1Q 2010 (cf. chart). Solely because of the inventory cycle, real GDP growth has, therefore, accelerated by close to five percentage points since the beginning of the year (the growth contribution swung from -2¼ to +2½ pp).

INVENTORY CYCLE IS THE SWING FACTOR

Growth contribution of private inventories, in percentage points



Source: BEA, Thomson Datastream, UniCredit Research

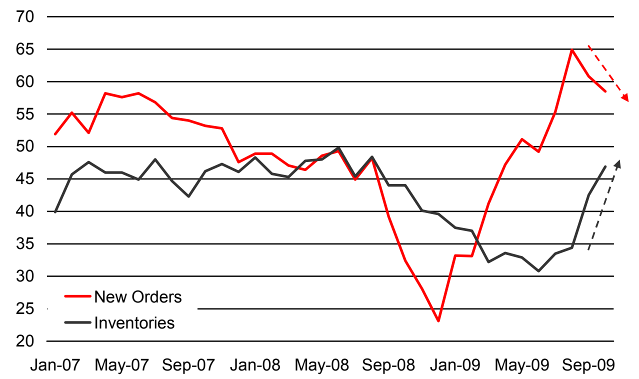
Given the aggressive destocking of the previous months, the current rebound in industrial production was relatively easy to foresee. But what happens once private inventories have been replenished? Final demand would have to kick in for the technical rebound to become a sustainable upswing. But exactly that appears to be lacking at the moment. A variety of leading indicators already lost momentum again recently.

Leading indicators losing momentum

The fly in the ointment in the otherwise strong ISM report was the second consecutive decline in new orders to 58.5. Even though they remained clearly above the expansion threshold of 50, their current level is already 6.4 points, or 10%, below the cyclical high recorded only two months ago. Furthermore, the Institute for Supply Management cited businesses saying that "*after several rather busy months, we are seeing the order intake for early next year soften*" and that "*the improvement seen earlier is not holding*". The following chart reveals that the gap between new orders and inventories has narrowed perceptibly in recent months. The upward potential for industrial production has, therefore, already slowed considerably.

THE GAP IS CLOSING

ISM for manufacturing – sub-components

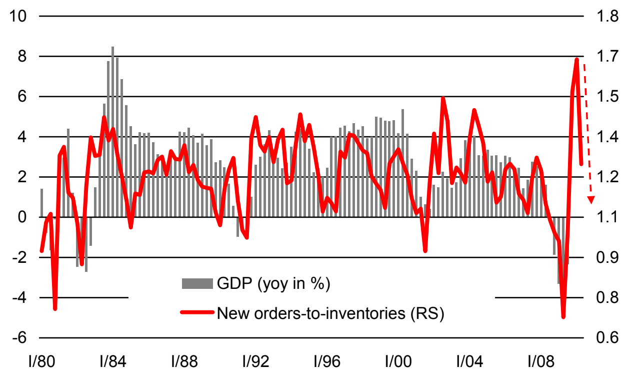


Source: ISM, Thomson Datastream, UniCredit Research

Another way to look at the relationship between these two indicators is the ratio of new orders to inventories, which accordingly has fallen significantly, too. After posting a 34-year high of 1.9 in August, it is now only just above its long-term average of 1.2. According to our calculations, this level is consistent with real GDP growth of 2% – but already a reading of 1.1 would be consistent with zero GDP growth, i.e. stagnation (cf. chart on the next page).

GROWTH DYNAMIC SLOWING AGAIN

Quarterly averages

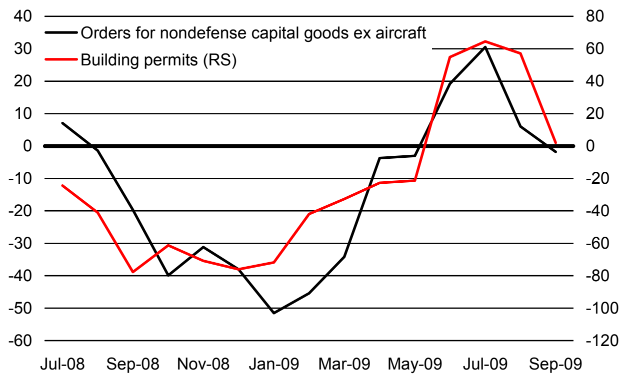


Source: BEA, ISM, Thomson Datastream, UniCredit Research

Alongside the survey-based ISM measures, some "hard" leading indicators have lost momentum in recent months as well, thus pointing to a slowdown of the growth dynamic. As the following chart illustrates, both building permits and orders for nondefense capital goods ex aircraft have merely stagnated in the last three months. At mid-year, the annual growth rates had still been +60% and +30%, respectively.

HARD LEADING INDICATORS ARE ONLY STAGNATING

Annualized 3M rate of change in %



Source: Census Bureau, Thomson Datastream, UniCredit Research

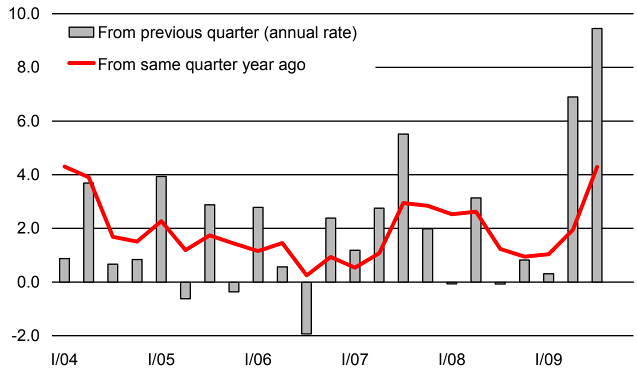
This indicates that, first, the rebound in residential construction activity was probably merely a flash in the pan – and, second, that the recovery of business fixed investment is probably over even before it began. Even though business fixed investment had been slashed more strongly in the past recession than in any period after World War II, it increased only at an annual rate of 1.1% in 3Q. (The increase in capital goods orders was instead mostly triggered by higher foreign demand). Amid a record-high underutilization of resources and an uncertain economic outlook, businesses currently do not see any need to expand again. Unfortunately, this attitude is also visible on the labor market.

The Achilles heel

Companies' reluctance to hire is the main impediment to a self-sustained recovery because without higher real incomes, households won't be able to increase their expenditures enough to ensure such an upswing. It appears that many firms have realized that they can meet demand with a much smaller headcount. Instead of hiring again, they prefer to use the resulting productivity gains to bolster their balance sheets (cf. chart). And surveys among small businesses suggest that they are not inclined to sacrifice this "new efficiency" again any time soon.

NEW EFFICIENCY AT THE EXPENSE OF THE LABOR MARKET

Output per hour, non-farm, in %



Source: BLS, Thomson Datastream, UniCredit Research

Given the plethora of very weak labor market numbers, the strong increase in the ISM employment index is certainly a welcome change. The index did after all climb to its highest level since April 2006! It should, however, not be forgotten that manufacturing now provides only 9% of all jobs – and the employment index of the non-manufacturing ISM has even deteriorated again in October. For that reason, we still expect merely a slowdown in the pace of job losses – sustained employment increases are for the time being not in the cards. And if that does not change by mid-2010, even our picture of a W-shaped economic recovery will turn out to be overly optimistic.

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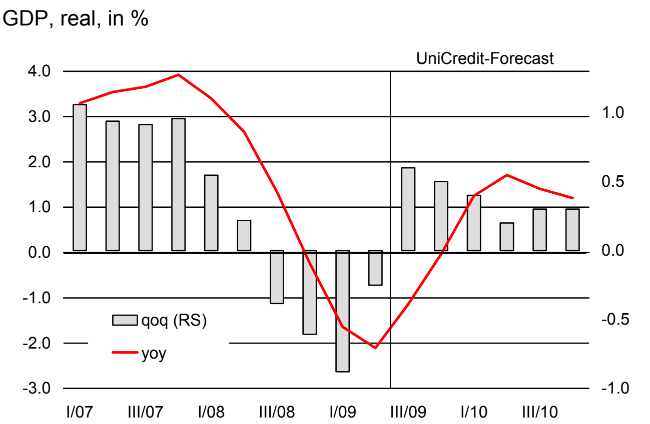
Switzerland: SNB still has time

- The rebound in foreign demand should have seen the Swiss economy emerge from the recession in the third quarter. And the short-term growth prospects are solid.
- Despite the improved economic situation, the Swiss National Bank (SNB) still sees no need for a rapid monetary policy reversal, since the sustainability of the recovery remains uncertain.
- With an unchanged accommodative interest rate policy, the SNB now expects its most important target – inflation – to rise to over 2% again, but not until the beginning of 2012. At the moment, however, deflation risks still exist.
- The SNB has recently given itself more scope for action. The inflation picture does, however, still leave sufficient time. And since the SNB is, at the same time, vehemently countering a further appreciation of the CHF, we do not expect Switzerland to be at the forefront in the interest rate normalization cycle.

Economy moving north again

Since the middle of last year, the Swiss economy has contracted by a total of 2.1% within the space of four quarters. Even though the GDP numbers for the third quarter of 2009 will not be released until 1 December, based on the available hard data it is, however, feasible to assume that the recession ended in the summer.

END OF THE RECESSION

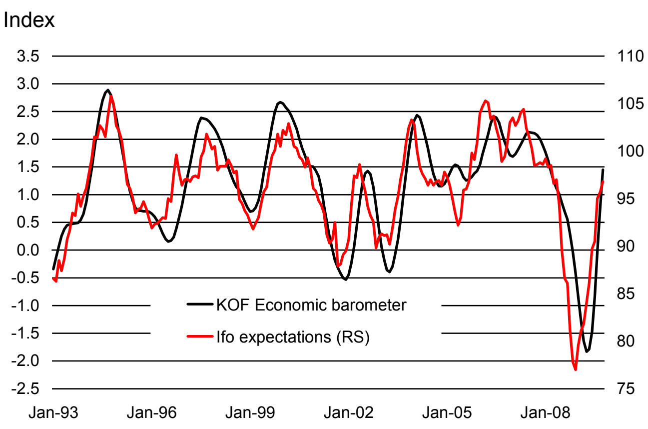


Source: SECO, UniCredit Research

Compared to other countries, the Swiss government has initiated an only moderate economic stimulus program. The fiscal measures total roughly 0.8% of GDP, with around three-quarters earmarked for infrastructure investments. The economic recovery is, therefore, being driven by the recovery of the global economy. Accordingly, all the signs also point to a strong, positive growth contribution from net exports for the third quarter. After plummeting by a total of close to 20% within one year, exports have – based on our calculations – increased more than 3% qoq adjusted for inflation, while imports have risen much more slowly (1%). The massive destocking that had still been a massive drag on GDP in the spring should not have continued after mid-year. Retail sales, in contrast, stagnated in the third quarter and will, therefore, no longer support the economy to the same extent as in the previous period. All told, after a decline of 0.3% in the spring, we expect a solid increase of just over ½% for the third quarter.

The strong recovery of global industrial demand will, in all probability, provide the Swiss economy with tangible support beyond the end of the year. Above all the strong improvement in business sentiment in neighboring European countries, first and foremost Germany, is having an impact here. More than 60% of Swiss exports go to other European countries. Accordingly, the KOF economic barometer has tracked the strong upward trend in the German Ifo expectations component with a slight time lag (cf. chart).

BUSINESS SENTIMENT HAS RECOVERED STRONGLY



Source: Ifo, KOF, UniCredit Research

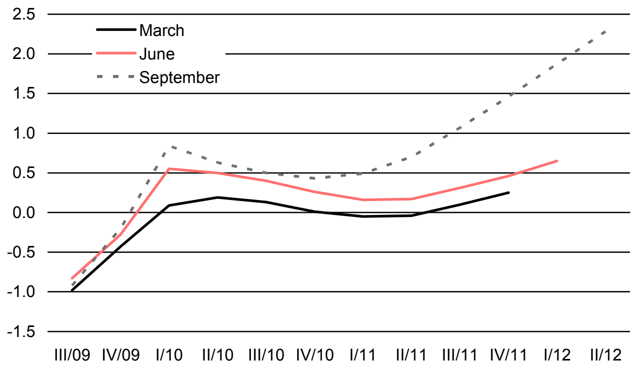
In contrast, the appreciable rise in unemployment is having a negative impact on private consumption. Since the middle of last year, the unemployment rate has risen from 2.5% to 4.1%. Consumer confidence is currently at a very low level and does not point to any growth impulses from consumption in the near future. Corporate hiring plans in the manufacturing sector remain clearly negative, even with the recent recovery in industrial demand, and suggest that the labor market downswing will not end any time soon.

Uncertainty remains high

As a result, the further course of the economic recovery in Switzerland will for the time being continue to depend on the development of foreign demand, which at the moment is being driven very strongly by the temporary boost from global fiscal packages and the inventory cycle. It remains questionable and highly uncertain to what extent this can ignite a sustainable upswing. Accordingly, despite the clear improvement in the economic environment, the SNB currently still sees no reason to terminate its very accommodative monetary policy. Uncertainty remains high. The solid growth dynamic expected in the second half of 2009 will probably not be sufficient to trigger a rapid removal of the zero rate policy. The SNB dialed up the rhetoric slightly at its last scheduled monetary policy meeting in mid-September with respect to its primary mandate of price stability. In March of this year, the SNB claimed the deflation dangers still required decisive action. In June, a firmly expansionary monetary policy was still required in light of the outlook for inflation. And in September, it was announced that the inflation prospects required no immediate tightening of monetary conditions. The SNB did, however, go on to say that the expansionary monetary policy cannot be continued indefinitely. On a continuation of the current policy for the next three years, the SNB expects inflation to return to above the 2% mark by the beginning of 2012 (cf. chart).

SNB INFLATION FORECASTS

In % yoy



Source: SNB, UniCredit Research

The timeframe stipulated by the SNB does, however, remain fairly long term. And the SNB stressed at the same time that deflation risk continues to exist. Capacity utilization in industry is very low, and unemployment continues to rise strongly. For that reason, we do not interpret the adjustment to the assessment of the inflation prospects as direct preparation for a monetary policy reversal any time soon. The SNB is, in fact, providing its inflation forecasts with a relatively balanced risk profile and is, therefore, creating scope for itself going forward.

Financial sector holding up relatively well

The financial sector is of major importance for Switzerland. For that reason, there were major fears on the escalation of the financial market crisis that the Swiss economy could also suffer above-average damage. These concerns have, however, eased strongly in the interim. So far, "only" UBS had to be supported at major expense. The SNB stepped in early and purchased illiquid securities from UBS totaling over CHF 40bn. Moreover, the government took a temporary stake in the big bank. Even though there is still major uncertainty whether and to what extent the SNB will ultimately suffer as a result of the unwinding of the securities portfolio, the stake in UBS has already resulted in a profit. Larger support measures for other institutions were not necessary. And the SNB still sees no signs of a credit crunch of any kind for Switzerland.

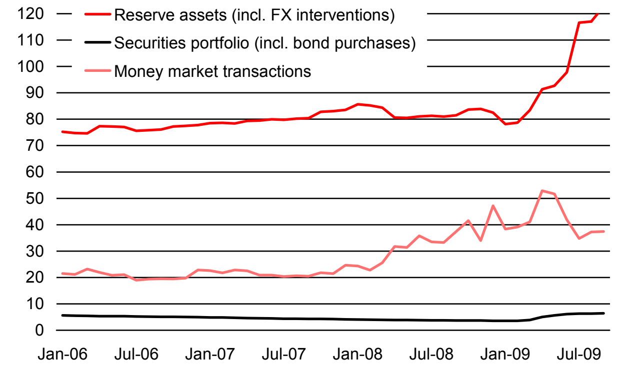
Strength of the currency argues against rapid action

But the relatively solid situation of the financial sector will probably also not prompt the SNB to assume a leading role on the removal of the very accommodative monetary policy. The central bank has stressed repeatedly that it considers a further appreciation of the Swiss franc as a threat to the economic recovery. Its most important unconventional monetary policy instrument therefore remains direct intervention on forex markets. SNB council member Jordan stressed recently that the measure has been successful to prevent an appreciation of the CHF against the EUR. Since the beginning of this year, the currency reserves have increased by close to CHF 45bn or more than half. A rapid start of the normalization of the interest rate level before other major central banks could amplify the upward pressure on the Swiss currency. This is undoubtedly not what the central bank has in mind.

Overall, the SNB is, however, in a comfortable position when it comes to the execution of an exit strategy. The volume of short-term money market transactions remained at a strongly elevated level recently, but already clearly shy of the highs posted in the spring. And the direct purchase of securities has been very limited so far (cf. chart on the next page).

STRONG INCREASE IN CURRENCY RESERVES

Monetary base components in CHF bn

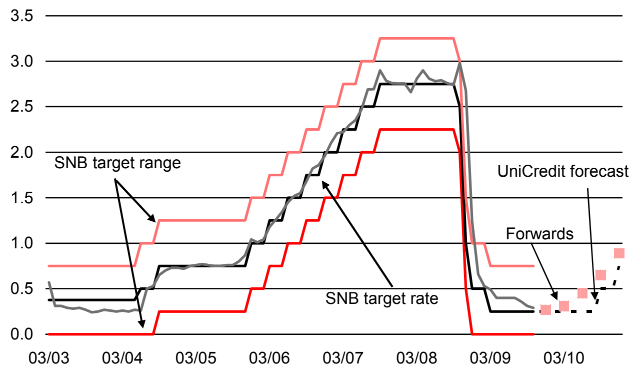


Source: SNB, UniCredit Research

In contrast to other central banks, first and foremost the Federal Reserve and the Bank of England, the hurdles for "smooth" preparation of an interest rate reversal are very manageable. Based on our view that the initially strong economic recovery will, however, be followed from spring on by an again tangibly lower growth dynamic but that a renewed slide into recession or a renewed downward spiral on the financial markets will not materialize, we still see the best odds for a controlled start of an interest rate policy normalization process in the second half of 2010.

INTEREST RATE NORMALIZATION IS STILL A LONG WAY OFF

In %



Source: Bloomberg, UniCredit Research

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Will OPEC raise its production quota?

- Following the strong rise in the price of oil (Brent) from USD 47 to USD 77 per barrel this year, we expect a growing debate in the coming weeks about an increase of OPEC production quotas. The next meeting is scheduled for 22 December in Luanda/Angola.

- The main argument supporting higher production quotas is the substantially better outlook for the global economy. For that reason, the IEA has raised its estimate for global oil consumption by 1.4 million barrels per day (mb/d) since May 2009.

- In December 2008, i.e. virtually at the low point of the financial crisis, OPEC had resolved to cut oil production by 4.2 mb/d below the level of production in September. The free oil production capacity is, therefore, a very high 6.34 mb/d.

- One factor arguing against increasing the production quotas is, however, very high stockpiles of crude oil and crude oil products in OECD countries. Above and beyond that, the consumption data from the US and Europe as well as Japan are still pretty bad.

- All told, we can imagine the production quota being raised by 500,000 to 1 mb/d. This will not, however, trigger an actual increase in oil production, since OPEC members have already been producing more than 1 mb/d above the quota for four months now. For that reason, the oil price will consolidate between USD 70 and USD 85 per barrel up to the end of the year.

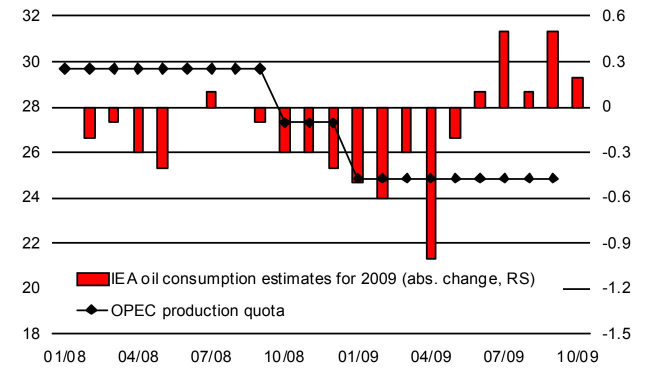
Higher production quotas at the turn of the year?

Rising demand, falling stockpiles, and the ongoing weakness of the USD have seen the price of oil (Brent) rise to roughly USD 80 per barrel. Many are already asking themselves whether the high oil price could threaten the nascent economic recovery. For that reason, the debate over a possible increase of the production quotas of OPEC countries will increase in intensity in the coming weeks. The next OPEC meeting is scheduled for 22 December in Luanda/Angola.

The backdrop to the debate is OPEC's relatively high free production capacity of 6.34 mb/d or 7.7% of global oil production. This came about primarily because of the OPEC decision at its 151st meeting in December 2008 to cut effective oil production because of the financial crisis by 4.2 mb/d compared to the level of 29.045 mb/d in September 2008. Above and beyond that, some new oil production projects were initiated.

OPEC PRODUCTION QUOTA NOT YET ALIGNED TO HIGHER CONSUMPTION

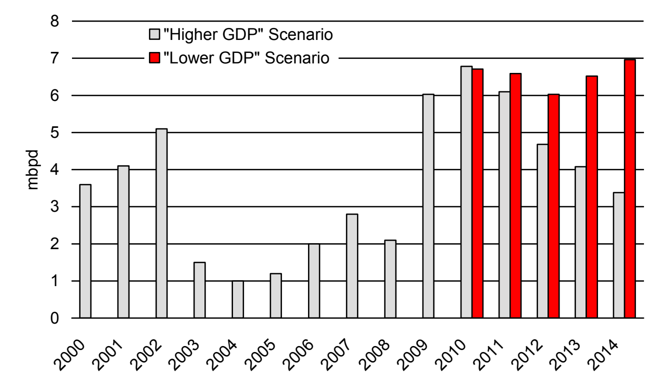
In million barrels per day



Source: IEA, UniCredit Research

OPEC's roughly 6 mb/d free production capacity is an important safety valve for the oil market that will only disappear in the event of stronger global GDP growth. The International IEA projects that the free production capacity will remain at a high level over the next five years if global GDP growth in the next five years continues to average only 3% per year. Oil would only be in short supply again in the next five years if global GDP growth were to return to the level observed prior to the financial crisis (ca. 4.5% yoy).

OPEC'S HIGH FREE PRODUCTION CAPACITY CAN STABILIZE THE OIL MARKET



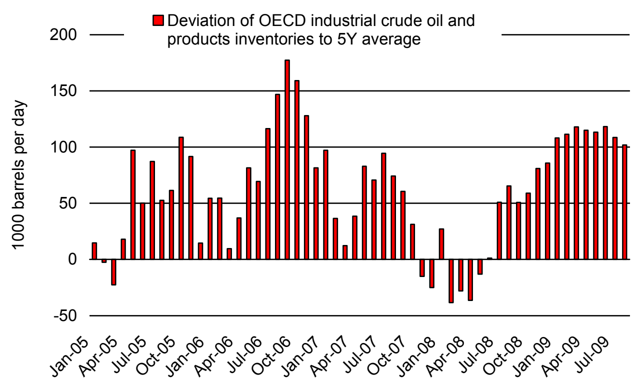
Source: UniCredit Research

OECD stockpiles are still too high

In the press release after the last OPEC meeting, the conference participants concluded in September that while there are clear signs pointing to an economic recovery, its extent and speed are, however, unclear, primarily in the industrialized countries. Some fundamentals are even still pretty bad, such as the low utilization of refineries and high stockpiles in OECD countries. For that reason, no change was made to the production quotas in September.

According to the IEA, the stockpiles of crude oil and the products derived from it total roughly 2.75bn barrels. This is equivalent to 62 days of consumption. In the past, the oil stockpiles already had to fall below the level of ca. 53 days of consumption to trigger a production quota increase. Another yardstick frequently used is the comparison with the 5-year average. In the last five months, a gradual weakening of the stockpiles has been recognizable. Overall, however, we are still far too far away from the 5-year average.

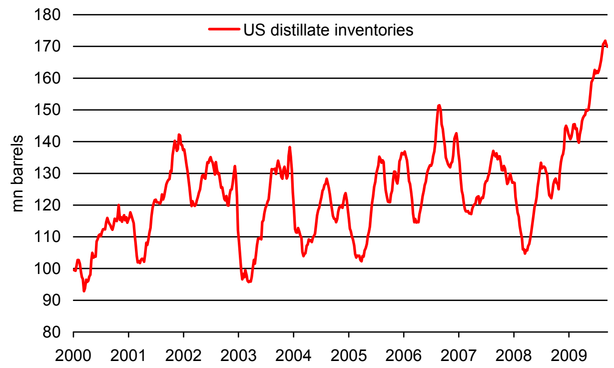
OECD STOCKPILES STILL FAR ABOVE THE 5-YEAR AVERAGE



Source: International Energy Agency, UniCredit Research

The OECD stockpile numbers are, however, relatively old and are only up to August of this year. The current trend can, in contrast, be seen from the US inventory numbers. The stockpiles of crude oil, gasoline and heating oil are all at a 5-year high. The stockpiles of heating oil are especially high. They are 32% above the 5-year average. On the other hand, the stockpiles of heating oil have declined by 7 mb/d in the last two weeks, which was entirely contrary to the general expectation. The stockpiles of heating oil in the US now finally appear to have found their upper turning point. This suggests that the OECD stockpiles as of October will probably be substantially lower than has so far been apparent in the IEA database.

UPPER TURNING POINT REACHED FOR STOCKPILES OF HEATING OIL IN THE US

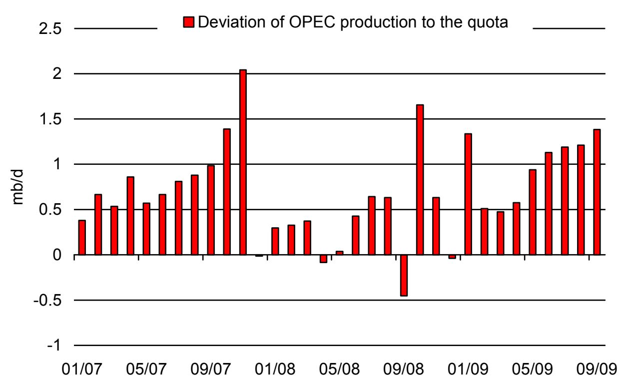


Source: UniCredit Research

OPEC produces more than agreed upon

On the other hand, it is already possible to state that the improvement in the global economic situation has triggered an increase in actual production. Generally speaking, an oil price of USD 65-75 per barrel is considered the best compromise. OPEC hopes the economic recovery can contribute to a reduction of high stockpiles. Even though current production is ca. 1.2mn barrels above the quota, there has been no official call on members to adhere to the agreed upon quotas. This tacit toleration of the deviation from the quotas already constitutes some relief for the oil market.

OPEC PRODUCING CONSIDERABLY MORE THAN AGREED



Source: Bloomberg, UniCredit Research

Compensation for a weaker USD

Since the beginning of the year, the price of Brent has risen roughly 70%. From the consumer's point of view, an increase of the production quotas is, therefore, more than overdue. At currently USD 77 per barrel, the oil price is, on the other hand, almost exactly at the average of the last four years. After the breakout from the consolidation phase that lasted from May to September and the run from USD 60 to USD 75.5 per barrel, there has been much speculation on the further price potential. There is talk of USD 80 or even USD 100 per barrel – a rise that could only be halted by OPEC. It is only at second glance that it becomes clear that this breakout can be attributed solely to the recent USD weakness. In euro terms, the oil price is roughly at the upper end of the consolidation range at EUR 52 per barrel.

Bottom line: After the strong increase in the oil price this year and the correction of the growth and oil consumption growth rates by the IMF and IEA, an increase of the oil production quotas by OPEC is really overdue. For that reason, we can easily imagine that OPEC will increase the production quotas at its meeting on 22 December. We expect a move of 500,000 to 1 million b/d. This will not, however, trigger an actual increase in oil production, since OPEC members have already been producing more than 1 mb/d above the quota for four months. The oil price will, therefore, consolidate between USD 70 and USD 85 per barrel up to the end of the year.

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Commodity Index Monitor

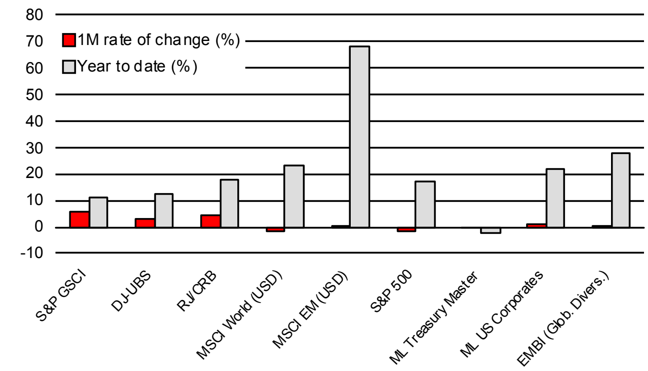
- October was a good month for commodity investments. On balance, investors were able to post respectable gains for the month of up to 6% (total return) and thereby further improve their positive track record for 2009.
- All other asset classes were much less profitable in the past month. Year to date, however, commodity investments have turned in a below-average performance.
- The primary reason for this is the considerable roll-over losses because investors are compelled to exchange maturing futures contracts for the new, more expensive ones.
- Within the commodity universe, there has so far been particularly strong demand for industrial metals. When the global economic recovery loses traction again (W shape), we expect prices to consolidate – before the structural commodity upward trend takes hold again.

Golden October

After four rather mixed summer months, commodity investors had reason to celebrate again in October. Depending on the index, total returns were between 3½% and 6% on a m-o-m basis. This was the second-strongest gain this year – after the boom in May, which boosted the positive track record YTD. Since the beginning of the year, investors have generated respectable gains. The S&P GSCI-total return index is up no less than 11%, while the DJ UBS-Index added almost 13%. And the plus for the RJ CRB-Index even totaled a healthy 18% (cf. chart)! And for the first time since autumn 2008, commodity returns reached positive territory on a y-o-y basis last month – at least the last two indices. Only the energy-biased S&P GSCI is still deep in the red.

COMMODITIES: THE OUTPERFORMERS THIS YEAR

Total returns, in %, October 2009



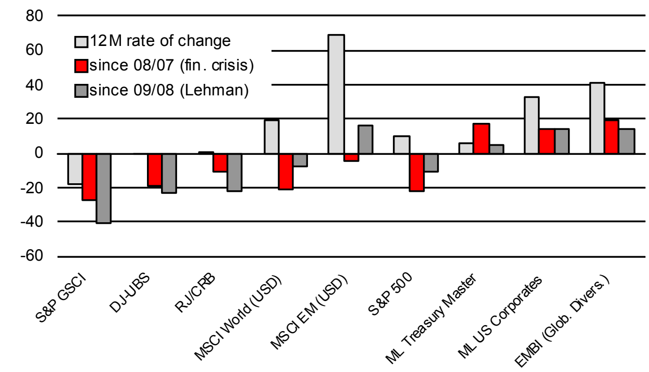
Source: Thomson Datastream, UniCredit Research

But compared to its cyclical high in early July 2008, commodity indices still are way down; losses total up to 60% on average. And the picture does not brighten much if the beginning of the financial crisis (July 2007) or the Lehmann collapse (September 2008) are taken as the yardstick (cf. table in the appendix).

Other asset classes are already well ahead. Compared to October 2008, equities, corporate and emerging markets bond are clearly in positive territory. And even in regard to sovereign bonds, which took a severe beating in the first half of this year, investors still fared on average much better in the past 12 months (cf. chart).

WEATHERING THE CRISIS WITH BONDS

Total returns, in %, October 2009



Source: Thomson Datastream, UniCredit Research

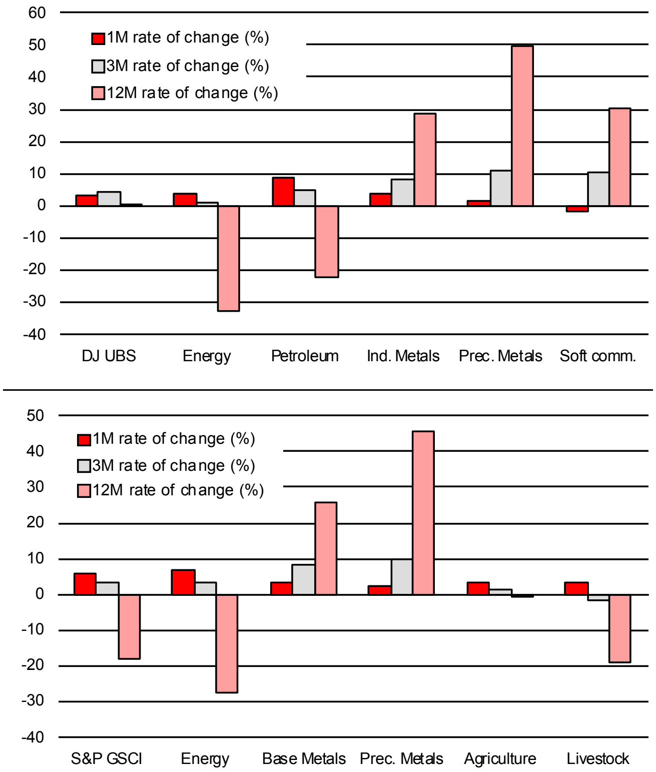
In October, however, commodity investments outperformed all other asset classes – by a respectable margin. Even the biggest winners so far, Emerging Market equities, tread water in USD terms. The same was true for US Treasuries and Emerging Market bonds, while the MSCI World and the S&P 500 even took a severe beating.

Energy as winner of the month

Within the commodity universe, investments in the energy sector were the most profitable over the past month, above all in the petroleum segment (+9%, DJ UBS definition), following three consecutive months of losses. While energy and crude oil investments clearly outperformed industrial and precious metals in October, this was not enough to change the sector ranking so far this year. The lead of the industrial metals was too great. With +60% (DJ UBS) or +62% (S&P GSCI), they can almost keep up with the leader of all asset classes, i.e. Emerging Market equities. And with a gain of 26% (S&P GSCI) or 29% (DJ-UBS), they also stand out on a y-o-y basis – the first 12M gain in one and a half years! Certainly, compared to the Lehmann collapse or the outbreak of the financial crisis in summer 2007, industrial metals are still trading in negative territory. But with 15%-25%, the losses are relatively small. The parallel move of equity performance in Emerging Markets and the industrial metals this year is no coincidence. Ultimately, it was Emerging Markets, first and foremost Emerging Asia, that were the first to exit the global recession and in line with their all-important industry sectors strongly fueled demand for metals. Furthermore, supply had been scaled back very rapidly in reaction to the preceding price erosion. On top of that, there was the politically motivated, massive increase of strategic stockpiles in China, especially for copper.

STRONG DEMAND FOR INDUSTRIAL METALS

Total returns of DJ UBS & S&P GSCI, in %, October 2009



Source: Thomson Datastream, UniCredit Research

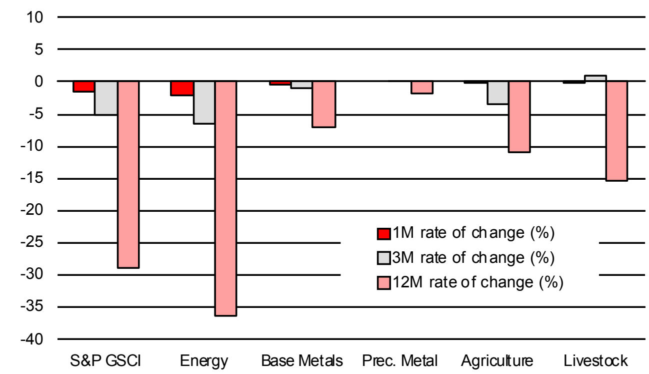
But the soft commodities (DJ-UBS definition), i.e. sugar, cotton, coffee, etc., are also clearly on the winning side this year with a total return of 32%. They are, moreover, one of the few sectors that have in the interim recouped their losses in the wake of the financial market crisis (cf. table in the appendix). But the clear winners of the crisis are the precious metals, primarily gold. The flight to safety and the fear of a resurgence of inflation later have seen the precious metals indices advance by just over 45% since the outbreak of the financial market crisis. Since the collapse of Lehmann, the gains are still just over one third, and in the current year alone already roughly 20%. In October, however, the gains were relatively meager at roughly 2%. The losers so far in the commodity universe this year are still livestock (-14%) and the agricultural sector (grain plus soft commodities) at -4%. But this is attributable primarily to the price erosion for wheat and corn (supply overhang).

Roll-over losses weigh on energy and agro commodities

If, in contrast, we look only at the price not at the return developments of the commodity sectors, a slightly different picture emerges. There – at least in the track record for this year – the petroleum/ energy sector and industrial metals are virtually neck and neck (+60% versus 67%). But if the petroleum/ energy sector brings up the rear in the commodity universe in terms of returns (with the exception of agro products), the sole culprit here is the roll-over losses. They result from the fact that investors who wish to remain invested normally have to roll their investments over on a monthly basis, i.e. they have to exchange the expiring futures contract for the next contract. If the next contracts are in each case more expensive (contango curve), the rollover alone produces losses that have to be made up by an increase in the price index before the total return can reach positive territory again. This contango effect was particularly pronounced in the energy sector over the last ten months. The rollover losses there total a whopping 46% (GSCI) and 43% (DJ UBS). In October, the situation eased only slightly. Investors again had to contend with tangible rollover losses after the situation had still eased slightly in the previous month.

MASSIVE ROLL-OVER LOSSES

Roll-over returns, in %



Source: Thomson Datastream, UniCredit Research

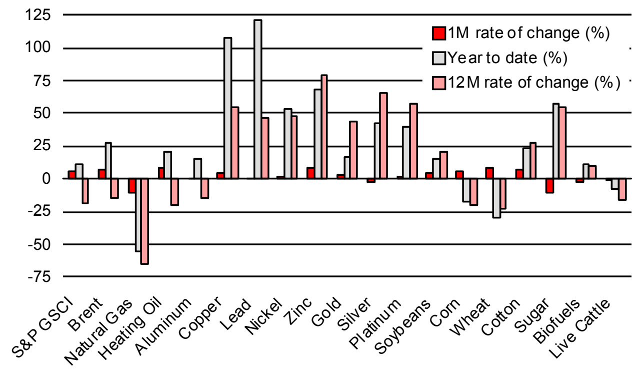
Particularly strong demand for lead, zinc and copper

That gold generates handsome profits at times of financial market crises and potential inflation danger is anything but surprising. And last year gold (and precious metals in general) was indeed one of the few assets that generated strong returns: 50% since the outbreak of the crisis, 31% since the Lehman collapse and 43% over the last 12 months. And the gain YTD is also very respectable at 17% (October, however, only +3%). Compared to other commodities and other assets, the result in 10-12 months is, however, anything but intoxicating. And that is not because of the rollover losses; they are limited. Platinum and silver were star performers with a 12M gain of 65% and 57%, respectively. This was, in part, due to the fact that they are also used for industrial purposes (industrial metal character), in part due to the tighter supply. Most recently, however, they also had to face losses.

Lead, zinc and copper experienced the strongest demand over recent months. Despite some rollover losses, they lead the performance table: Lead has generated a return of 120% in the last 10 months, copper 108% and zinc, the outperformer in October, almost 70%. Demand came primarily from China. Nickel added no less than 50% in the same timeframe. Only aluminum is far down the field with 16%. The big winners so far this year in the commodity universe include sugar (+58%) –even though the rollover losses total 36%! In October, however, sugar along with natural gas led the loser list. Cotton (+23%), biofuels (+15%) and soy (+11%) are also still on the plus side in the agro sector YTD, but the sectoral performance was pulled down by the massive losses for wheat (-30%) and corn (-18%). The reason for this is the clear supply overhang (record harvests).

LEAD, COPPER & ZINC ARE THE CLEAR LEADERS SO FAR THIS YEAR

Total return, in %, October 2009

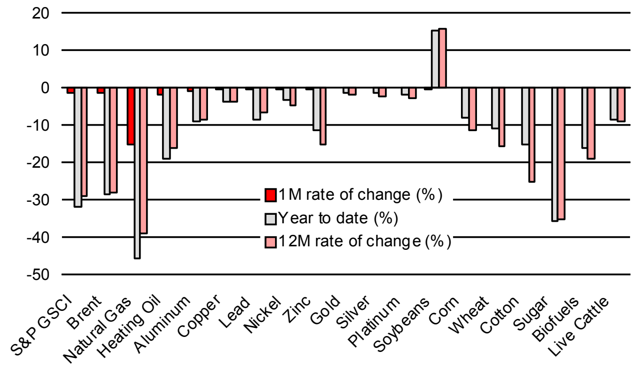


Source: Thomson Datastream, UniCredit Research

Investments in natural gas took an even more severe beating this year. In 14 of the last 16 months, investors had to contend with downward corrections, in most cases even in double digits. The total return so far: -56%, although it was primarily the rollover losses that pulled down natural gas contracts (45%). There have been very high rollover losses, namely 29% in the first 10 months, also for crude oil (Brent). The price performance was, however so strong (+56%) that the total return is clearly in positive territory (+27% YTD). This is, however, attributable in large measure to the price rally in May, when in anticipation of the signs of the global economy recovering from the most severe crisis of the post-WW II era the price index saw the price of oil (nearest future) alone add 28%.

ROLLOVER LOSSES – A DEAD WEIGHT FOR COMMODITIES

Roll-over returns, in %, October 2009



Source: Thomson Datastream, UniCredit Research

Consolidation short term, but primary trend points north

But what will happen from here on out? Despite the strong gains in October, we still see further room for consolidation. That also has to do with cyclical developments. We assume, namely, that the current strong recovery by the global economy will soon face the threat of a setback, once the inevitable restocking and the growth effects of the varied government economic stimulus programs have ended. The initial V will then likely be followed by a W, even though we do not fear a renewed slide into recession. A durable, self-sustaining upswing needs the support of private consumption. The primary trend for commodities, i.e. the development beyond cyclical fluctuations, is upward.

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Data Monitor – Preview Europe

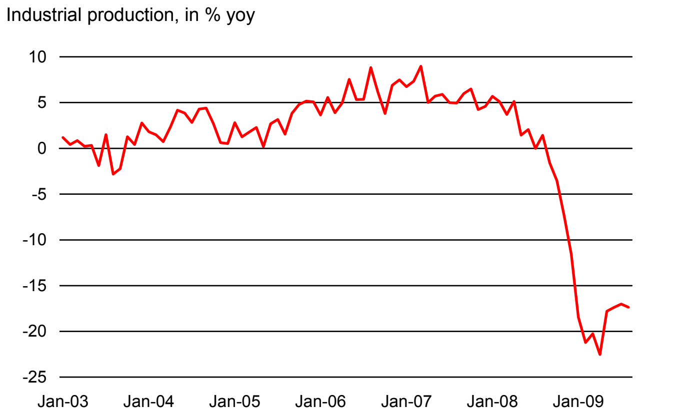
Monday, 9 November

GERMANY, INDUSTRIAL PRODUCTION

September	MIB	Cons.	Aug	July
In % mom	1.0		1.7	-1.1
In % yoy	-14.6		-17.4	-17.0

The order situation in manufacturing has recovered strongly in recent months. And the assessment of production activity by purchasing managers also remained clearly expansionary in September, albeit less strongly than in the previous month. Overall, we expect a further solid monthly increase at the end of the third quarter.

PRODUCTION WILL CONTINUE TO RECOVER



Source: Federal Statistical Office, UniCredit Research

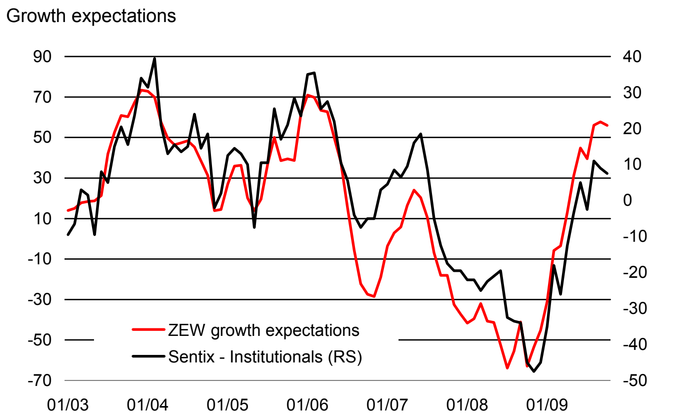
Tuesday, November 10

GERMANY, ZEW GROWTH EXPECTATIONS

November	MIB	Cons.	Oct	Sept
Diffusion index	54.0		56.0	57.7

ZEW growth expectations have staged a very strong recovery since the end of last year –clearly above the long-term average. This confirms the solid growth prospects in the short term. The recovery should, however, slow appreciably from spring after the end of important, temporary support measures. Accordingly, the ZEW, which looks six months into the future, should now have peaked. A further moderate setback in November looks, therefore, quite probable.

SETBACK POTENTIAL



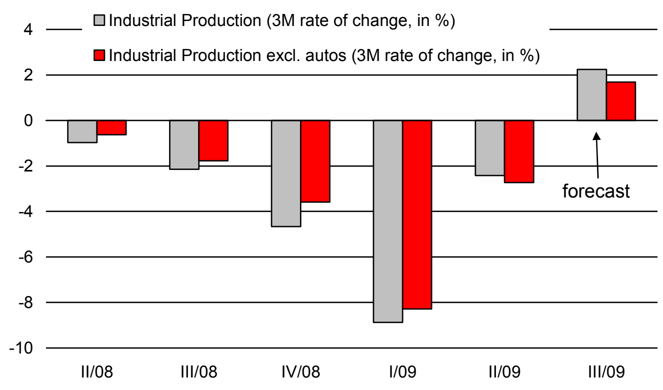
Source: Bloomberg, UniCredit Research

FRANCE, INDUSTRIAL PRODUCTION

September	MIB	Cons.	Aug	July
in % mom	-0,3		1.8	0.3

We expect industrial production to record just a moderate decline in September (-0.3% mom), following the 2.1% cumulative rise over July-August. This resilience would be consistent with indications from the output sub-component of the manufacturing PMI, which rose from 54.7 to 57.6 in September. Momentum continues to reflect a sustained pace of inventory accumulation in order to meet strengthening demand.

NOT JUST AUTOS



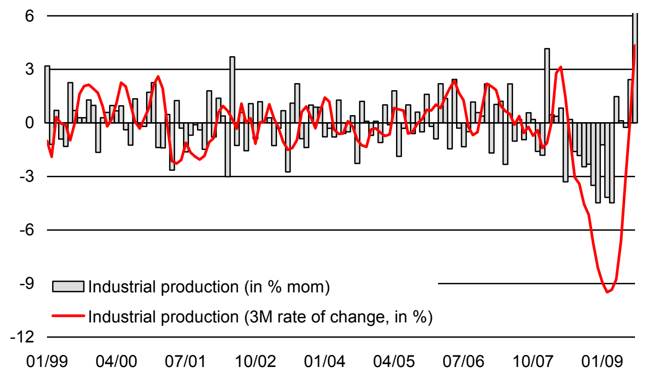
Source: INSEE, UniCredit Research

ITALY, INDUSTRIAL PRODUCTION

September	MIB	Cons.	Aug	July
in % mom	-4.0		7.0	2.4

In August, industrial production surged by an unprecedented 7% mom. However, this increase grossly exaggerates the strength of the recovery, possibly because the crisis led to a change in factories' shut-down times and production plans during the summer. Thus, we expect a sharp setback in September: -4.0% mom. This would take industrial production back to levels more consistent with most business surveys – which are still at low levels – and would be consistent with the surprisingly steep drop in August industrial new orders.

EXCESSIVE IP RISE



Source: Thomson Datastream, UniCredit Research

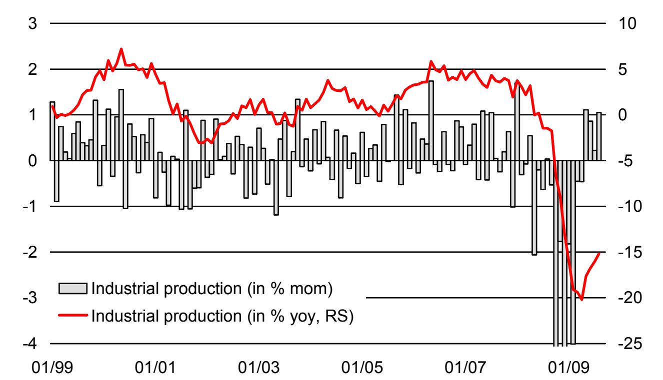
Thursday, November 12

EMU, INDUSTRIAL PRODUCTION

September	MIB	Cons.	Aug	July
in % mom	-0.5		0.9	0.2

Strong gains in August industrial production across the area's major economies paint a favorable picture for Q3 GDP. However, in September we expect a technical correction because the August increase probably overstates the extent of the recovery, while the output index of the manufacturing PMI was only little changed vs. August. In other words, the recovery is there, but is slower than envisaged by production data so far.

TECHNICAL CORRECTION



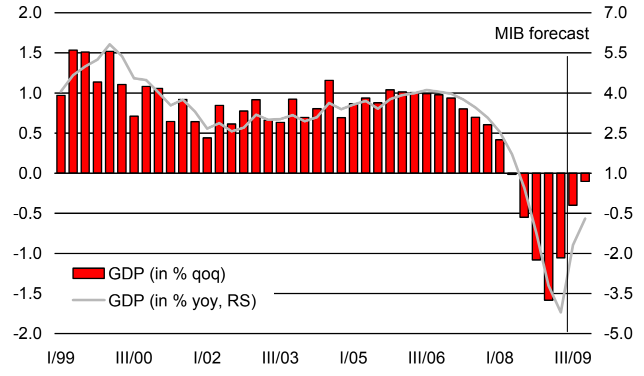
Source: Thomson Datastream, UniCredit Research

SPAIN, REAL GDP

3Q 2009	MIB	Cons.	2Q09	1Q09
in % qoq	-0.4		-1.1	-1.6

The Bank of Spain published a -0.4% qoq estimate for 3Q GDP, and received the full endorsement of the government. Therefore, it is reasonable to think that the GDP outcome will be very close to this number. The acceleration in government spending over the summer should have largely contributed to the deceleration in the pace of the recession. Surveys of the Spanish economy continue to lag significantly the recovery which is underway in the country's peers.

STUCK IN RECESSION



Source: INE, UniCredit Research

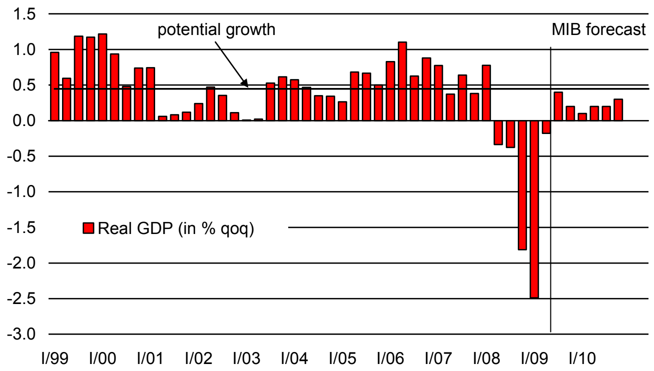
Friday, November 13

EMU, REAL GDP

Q3 2009	MIB	Cons.	2Q09	1Q09
in % qoq	0.4		-0.2	-2.5

After five quarters of contraction, euro-zone 3Q GDP will resume growing – we expect +0.4% qoq. Risks to this outcome are tilted to the upside. We see export revival and inventory rebuilding as the main drivers of the upturn. However, we think that the 3Q GDP reading exaggerates the strength of the recovery: growth should decelerate already in 4Q.

RECESSION CAME TO AN END



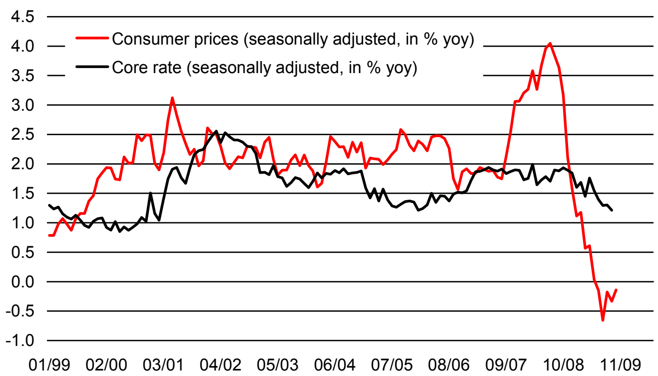
Source: Thomson Datastream, UniCredit Research

EMU, CONSUMER PRICES

October	MIB	Cons.	Sept	Aug
in % mom	0.2		0.0	0.3
in % yoy	-0.1		-0.3	-0.2

We expect the final release to confirm the preliminary -0.1% yoy. We suspect that in October the increase in the yearly inflation rate vs. September was especially driven by an unfavorable base effect on energy. In contrast, food inflation likely declined a bit further in yoy terms. Core inflation should have remained stable, though the trend keeps pointing downwards

ENERGY PUSHES INFLATION HIGHER



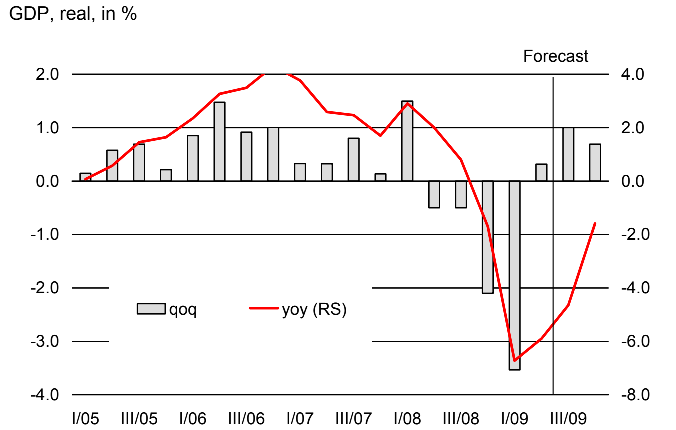
Source: Thomson Datastream, UniCredit Research

GERMANY, GDP (FLASH)

3Q 2009	MIB	Cons.	2Q09	1Q09
in % qoq	1.0		0.3	-3.5
in % yoy	-4.7		-5.9	-6.7

The German economy already emerged from the deep recession in the second quarter. The recent rebound in global industrial demand and in German exports points to a strong contribution from net exports in the third quarter. The inventory changes probably no longer weakened growth. In contrast, private consumption should have been a drag, also because of the setback in auto sales. GDP details will not be released until 24 November.

THE RECESSION IS OVER



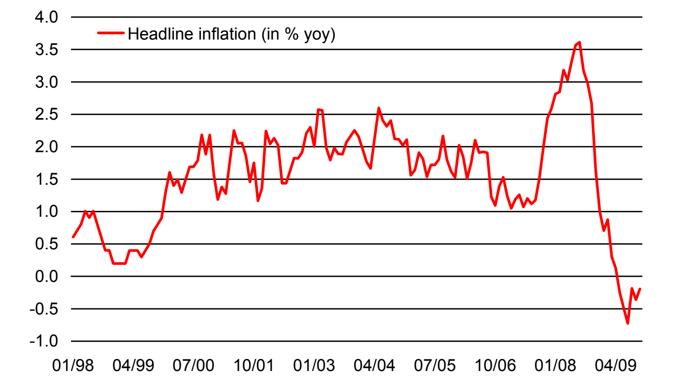
Source: Federal Statistical Office, UniCredit Research

FRANCE, CONSUMER PRICES

October	MIB	Cons.	Sept	Aug
in % yoy	-0.2		-0.4	-0.2

We expect that consumer inflation will resume accelerating in October, following a temporary dip in September on a mom basis. October is likely to record the last negative outcome for this cycle. The bulk of the acceleration should be associated with an unfavorable base effect along with oil-driven monthly price increases in the energy sector. Moreover, core inflation should have also inched down. The CPI ex-tobacco index is likely to print at 118.21, consistent with a -0.2% yearly rate.

EXIT FROM NEGATIVE TERRITORY COMES IN SIGHT



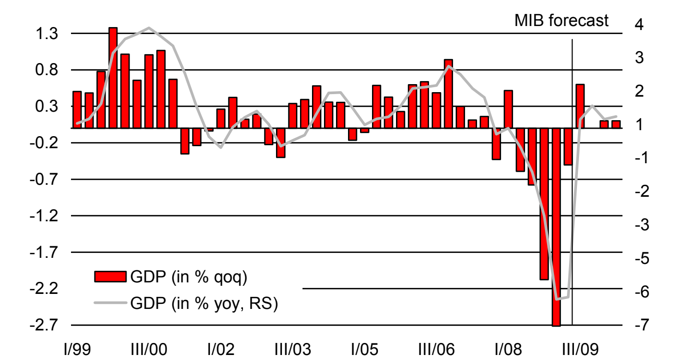
Source: INSEE, UniCredit Research

ITALY, GDP

Q3 2009	MIB	Cons.	2Q	1Q
in % qoq	0.6		-0.5	-2.7

The strong July-Aug industrial production figures led us to revise our 3Q GDP forecast up to 0.6% qoq from flat. We see net exports and inventories as the key drivers of the expansion, while the decline in capex should be more contained after four quarters of sharp drops. Evidence suggests that the pace of improvement in 3Q growth should slow in 4Q, as the industrial production correction expected in the coming months will weigh on the 4Q GDP figure.

ITALIAN ECONOMY IS NOT YET OUT OF THE WOODS



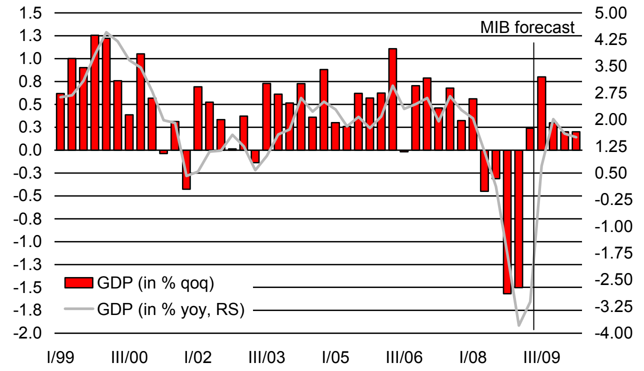
Source: Thomson Datastream, UniCredit Research

FRANCE, REAL GDP

3Q 2009	MIB	Cons.	2Q09	1Q09
in % qoq	0.8		0.3	

GDP growth is likely to rise strongly in the third quarter, thanks to a rebound in industrial production as well as services activity. Growth performance in private consumption should be broadly in line with that recorded in the previous quarter, while the contraction in gross fixed investment should have eased significantly. Net exports should have continued to add strongly to GDP, though a tad less than in 2Q.

STRONG REBOUND



Source: INSEE, UniCredit Research

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Data Monitor US – Preview of the coming week

Thursday, November 12

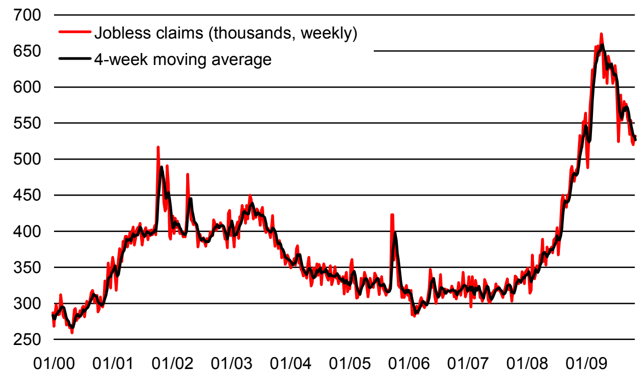
INITIAL JOBLESS CLAIMS

November 7	MIB	Cons.	Oct 31	Oct 24
in thousands				530k

Initial jobless claims are more 24% below their cyclical peak of 674k reached in late March, indicating that the pace of layoffs has slowed perceptibly. However, in order to indicate stable payrolls, initial claims would have to fall further to about 400k. In addition, hiring activity has to pick up in order to support the labor market and to stop the upward trend in the unemployment rate. The significant decline in continuing claims is largely attributable to the fact that many unemployed are running out of eligibility to submit regular state claims as they exceed the time limit of 26 weeks.

JOBLESS CLAIMS CONTINUE TO DECLINE ONLY GRADUALLY

In thousands



Source: Thomson Datastream, UniCredit Research

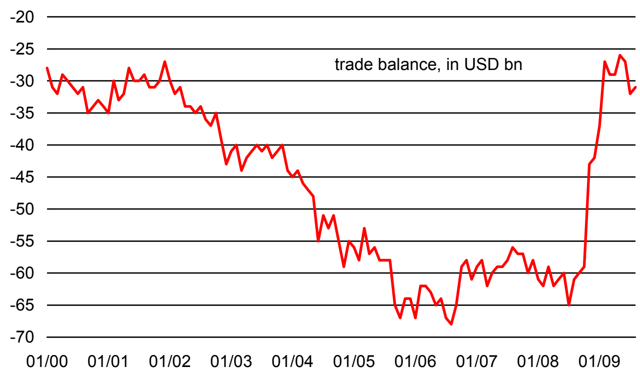
Friday, November 13

TRADE BALANCE

September	MIB	Cons.	Aug	July
in USD bn	-31.5	-31.8	-30.7	-31.9

Crude oil prices fell by about 4% between August and September. But this should have been more than offset by a rebound in the quantity of imported oil, which dropped by more than 10% in August. Excluding petroleum products, the trade balance was probably little changed as exports and imports were both lifted by the solid recovery of the US and global economy in autumn. According to the advance GDP estimate, net exports subtracted one half of a percentage point from growth in 3Q as imports (+16½%) rebounded stronger than exports (+14¾%).

TRADE DEFICIT TO WIDEN AGAIN SLIGHTLY



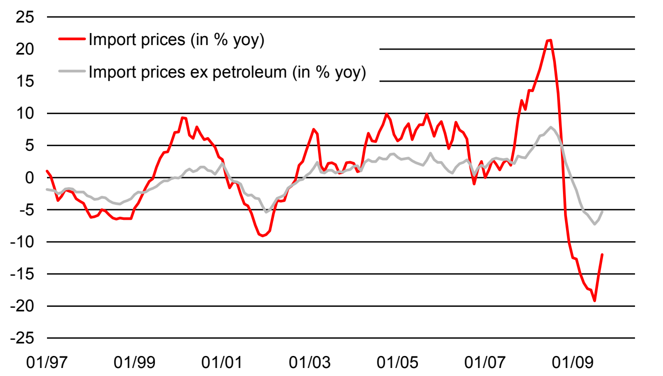
Source: Thomson Datastream, UniCredit Research

IMPORT PRICES

October	MIB	Cons.	Sep	Aug
in % mom	0.5	1.1	0.1	1.6
in % yoy	-6.0	-	-12.0	-15.3

Energy prices (on a seasonally adjusted basis) rose slightly in October. In addition, the weaker USD might have finally put a floor under import prices for consumer goods, which had still been easing in September. As a result, the yoy decline in overall import prices would have moderated to -6%, which is the lowest in almost one year. In July, it had marked an all-time low of -19.2%.

IMPORT PRICES EDGE UP ON HIGHER ENERGY PRICES



Source: Thomson Datastream, UniCredit Research

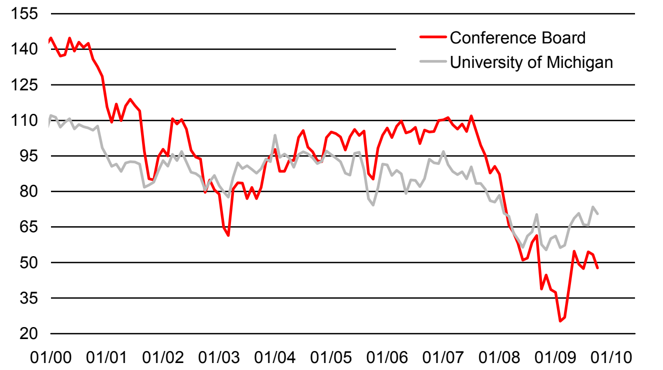
CONSUMER CONFIDENCE – UNIVERSITY OF MICHIGAN (PRELIMINARY)

November	MIB	Cons.	Oct	Sep
	71.0	71.8	70.6	73.5

There has been an ongoing tug of war between the stock market rally and the weak labor market in recent months. As the U of Michigan survey puts somewhat less emphasis on the labor market, it outperformed the Conference Board's index during that time. This notwithstanding, the index fell in October as consumer expectations decreased. The daily Rasmussen survey indicates that the mood among households has barely improved in early November. Responsible for that were – in addition to the weak labor market – higher gasoline prices and the loss of dynamic in the stock market rally.

CONSUMER CONFIDENCE REMAINS DOWNBEAT

Consumer confidence index



Source: Thomson Datastream, UniCredit Research

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US Review

The doves prevail

As expected, the FOMC decided this week to keep its target range for the federal funds rate at 0% to 0.25%. While the hawkish FOMC members have been more visible in recent weeks, arguing that the Fed should remove the very accommodative monetary policy sooner rather than later, they clearly represented the minority view within the Committee. The accompanying statement unequivocally reveals that the FOMC as a whole remains very cautious about the economic outlook. The only adjustment that was made with regard to the economic situation is: "*household spending appears to be expanding*", while the September statement still said that "*household spending seems to be stabilizing.*" The Fed, however, still emphasizes that consumer spending, "*remains constrained by ongoing job losses, sluggish income growth, lower housing wealth, and tight credit.*" The inflation paragraph has not been changed at all, which means that the recent spike in energy prices was not mentioned. Finally, the statement reiterated: "*economic conditions […] are likely to warrant exceptionally low levels of the federal funds rate for an extended period*." The fact that these "*economic conditions*" were now specified is most likely a dovish signal as well. As "*low rates of resource utilization, subdued inflation trends, and stable inflation expectations*" are here to stay for the time being, it allows the Fed to keep rates low even as the economy expands solidly during a few quarters.

The FOMC continues to expect that the purchases of USD 1.25 trillion of mortgage-backed securities and of USD 175 bn of agency debt will be executed by the end of 1Q. The slightly reduced amount of agency debt purchased (was USD 200bn) "*reflects the limited availability"* of those securities.

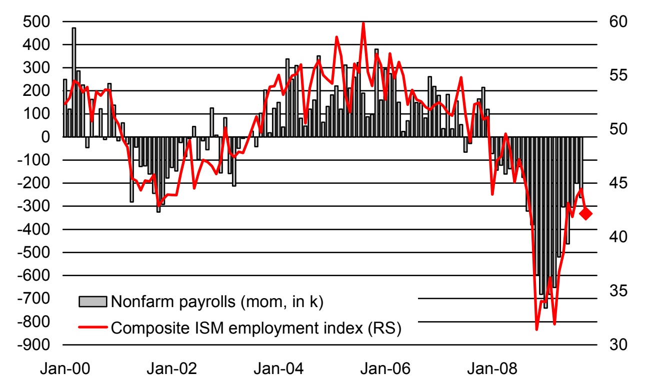
Manufacturing ISM up …

The ISM purchasing managers' index for manufacturing climbed to 55.7, which is the highest level in 3½ years. The rise in the composite ISM index was triggered by solid gains in three sub-indicators: **1.** The production index rose to its highest level since mid-2004 (63.3); **2.** the inventory component increased to 46.3, which is the highest reading since August 2008; **3.** the employment index surpassed the critical threshold of 50 points for the first time since mid-2008, and at 53.1 recorded its highest reading since April 2006. This in particular was a welcome change amid the flurry of weak labor market data in recent months. The fly in the ointment, however, was the second consecutive decline in new orders to 58.5. Even though they remained clearly above the expansion threshold of 50, their current level is already 6.4 points, or 10%, below the cyclical high recorded only two months ago. Furthermore, the Institute for Supply Management cited businesses saying that "*after several rather busy months, we are seeing the order intake for early next year soften*" and that "*the improvement seen earlier is not holding*". As a result, the gap between new orders and inventories has narrowed perceptibly in recent months, indicating that the upward potential for industrial production has already slowed considerably.

… but non-manufacturing ISM down

In contrast to its manufacturing counterpart, the purchasing managers' index for the non-manufacturing sector eased to 50.6 in October from 50.9. Moderate increases in business activity (to 55.2 from 55.1) and new orders (55.6 after 54.2) were more than offset by a decline in the employment index to 41.1 from 44.3. Prices paid, which do not enter the composite index, rose to 53.0 from 48.8. They, however, remain clearly below the August level of 63.1. While the non-manufacturing survey corroborates that the US economy was able to carry the momentum over into the current quarter, it dashed hopes for a more significant labor market improvement, which were raised by the employment index in manufacturing. The composite ISM employment index (the weighted average of manufacturing and non-manufacturing employment indexes) actually decreased again in October to 42.2 from 44.5 (cf. chart).

ISM EMPLOYMENT INDEX DECLINED AGAIN



Source: BLS, ISM, Thomson Datastream, UniCredit Research

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Fixed Income Outlook

- The decisions by the Fed, the ECB and the BoE had a very positive impact on short maturities.
- Longer maturities should, over time, benefit from an extended period with very favorable financing conditions.

Collective promise to keep rates low

A very interesting central bank week lies behind us. All in all, the market reaction to the statements by the Fed, the ECB and the BoE has been mixed at best. In this note, we look at the announcements in detail and derive implications thereof for fixed income markets.

The **Fed** stuck to its promise to keep key interest rates low "for an extended period". The key interest rates are the Fed funds target rate (current target range: 0.00% to 0.25%; current level: around 0.12%) and the so-called IOER (Interest On Excess Reserves). The IOER, which stands at 0.25% currently, is the interest the Fed pays on excess reserves parked with the central bank. When it comes to removing excess liquidity from the US banking system next year, the IOER will play a crucial role. Based on historical experience (low rate period 2003-2004), the promise by the Fed to keep rates low can be seen as an intention not to raise the target rate over the next six months at least. In the US Treasury market, the FOMC statement caused a drop in 2Y yields by 6 basis points (bp). Longer maturities traded range-bound. Parallel to the FOMC meeting, investors had to digest the announcement of a hefty USD 81bn funding announcement for next week: USD 40bn in 3Y Notes, USD 25bn in 10Y Notes and USD 16bn in 30Y Bonds will be sold over the next few days. In the medium term, the US Treasury intends to lengthen the average maturity of outstanding debt from less than 5 years to approximately 7 years. We should therefore be prepared to see a relatively larger share of 10Y Note and 30Y Bond issuance over the coming months.

While prospects of larger long-term issuance is a negative for US Treasuries, the FOMC statement should have a positive impact even on longer maturities. The "central bank carry trade" remains a very attractive investment strategy for the foreseeable future. Many investors will continue to "fund short" and "invest long".

The **European Central Bank** also does not intend to lift its traditional key interest rate, the refi rate, any time soon. However, before we discuss an increase in the refi rate, we have to deal with a technical rate increase by 75bp: Presently, the deposit rate at 0.25% is the "true" key interest rate in the euro area. EONIA, the overnight rate, is linked to the deposit rate and has been fixed at around 0.33% recently. Only once the ECB ends its full-allotment policy at its tender operations will the refi rate regain its status as "the" key interest rate in the euro area and EONIA will rise accordingly. Trichet announced the intention to gradually withdraw excess liquidity through changed tender operations in the coming year. The only detail we can take for granted, however, is that there won't be any further 1-year tender operations in 2010. Further elements of the ECB's exit strategy will probably be announced after the December Council meeting. For investors, one statement by Trichet was of particular interest: Trichet stated that the ECB has no intention to move EONIA away from the deposit rate. Hence, the ECB will try to prevent the technical 75bp rate hike to occur uncontrolled by the central bank. This intention is comparable to the Fed's "extended period" phrase. Consequently, the impact on fixed income markets should be similar: short-term yields and money market rates will remain low (if not fall further), while longer maturities should benefit from the "central bank carry trade".

The **Bank of England**, finally, announced an expansion of its Asset Purchase Facility (APF) by another GBP 25bn and three months. Per se, this is a very positive signal for the Gilt market. However, investors were prepared for a GBP 50bn expansion. Disappointment caused Gilt yields to surge by about 10bp. Recent experience, however, shows us that market reactions to quant easing-related announcements by the BoE are usually short-lived. We do not expect the rout in the Gilt market to continue in the coming days. Main factor which argues against a further increase in yields is the steepness of the Gilt curve itself: The 2-year/10-year yield difference stands at almost 300bp. The absolute "world record" was set in the Australian government bond market at 304bp in the year 1992. Such a steep shape of the yield curve makes curve trades very attractive. A half-way rationale bond trader will exploit the steepness of the curve in that he or she purchases long maturities and shortens short maturities. Short Gilt yields appear to be quasi-fixed close to the 0.90% level. Consequently, the prospects for lower 10Y Gilt yields are quite good.

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Forex Outlook

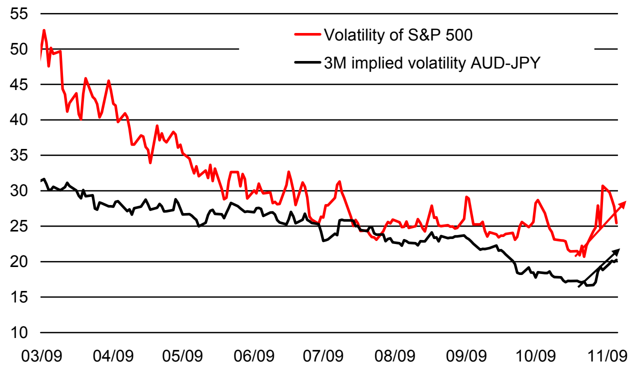
- This week, FX markets have been characterized by nervous trading. The Fed, BoE and ECB meetings spurred some further volatility, but did not alter the current picture.
- Next week, the calendar will be pretty light. With also the US market closed on Wednesday due to the Veterans Day holiday, we should thus get ready for another week of big intraday swings, with EUR-USD moving in the 1.4765/1.4950 range.
- At this stage, with the BoE still carrying on with the APF program for the next three months and uncertainty still prevailing in markets, we would be cautious about going further long sterling. We would instead take advantage of any jump above 1.67 to return short on cable and of any slide of EUR-GBP below the 0.88 support to return long here.

A quiet week ahead…but not on FX

Uncertainty and nervous trading characterized FX market activity this week. Looking at both the stock market and the G-10 currency performance, risk aversion eased mildly with respect to last week's spike and this resulted in the US dollar and the Japanese yen ending the period weaker, while EUR and commodity currencies remained well supported (with the partial exception of the Kiwi dollar). The FOMC meeting did not add much to the picture: if anything, the reiteration of the "low rates for an extended period" argument and the overall dovish statement clarified that, for the time being, we should not expect any support to the US dollar to come from a shift in the Fed's rhetoric. On the other hand, ECB Trichet's remarks that not all liquidity will be needed in the future offered further support to the EUR bulls, despite the ECB being just slightly more upbeat on growth. Other than this, the rhetoric on FX imbalances did not bring any relevant news. All in all, EUR-USD has been on a strong foot during this week, managing to climb towards the 1.49 area. At this stage, the picture remains extremely blurred, and investors' mood extremely volatile. With US stock market volatility still trading near the 30% area and implied volas on all the G-10 currencies increasing (cf. chart next column), investors will require signals of strong improvement from the economy to lean definitely towards more risk appetite.

In this respect, the data calendar does not offer much inspiration. US labor market data today are expected to show just a mild improvement (-175K vs. -263 in the previous release); but here, less than 100K new job cuts would be needed before we see investors betting on a definitive return in risk appetite. Nor should we expect any surprise from next week's data: in the US, the key data will be the trade balance and the preliminary release of the University of Michigan confi-

US STOCK VOLATILITY & 3M IMPLIED VOLATILITY OF AUD-JPY ON THE RISE



Source: Bloomberg, UniCredit Research

dence reading, while on this side of the Atlantic the German ZEW, eurozone industrial production and the final release of CPI are scheduled. If anything, a positive surprise in the ZEW survey could temporarily support the EUR-USD. With the US market closed on Wednesday due to the Veterans Day holiday, we should thus get ready for another week of nervous trading and big intraday swings. In such a scenario, EUR-USD should move in the 1.47650/1.4950 range. Indeed, at this stage, EUR-USD has to break definitely through the 1.4959 resistance level to climb above 1.50, and unless Wall Street breaks much higher above 10,000, we do not expect any event that could potentially provide such a boost next week. On the other hand, the full break of the 1.4765 support level would send the EUR-USD below 1.4640 and then towards the 1.45 area. But even here, an abrupt return of risk aversion would be needed to spur such a reaction, which again is not our central scenario.

The BoE increasing the APF by only GBP 25bn instead of by GBP 50bn (as expected by the market) supported sterling both vs. EUR and vs. USD. However, both EUR-GBP and cable started correcting soon thereafter: EUR-GBP did not manage to break definitely the 0.8950 support level, while cable was left playing with the 1.66 resistance mark. Next week, the focus will be on the BoE inflation report, which however should not have a relevant impact after the BoE's decision this week. At this stage, with the BoE still carrying on the APF program for the next three months and uncertainty still prevailing in markets, we would be cautious about further going long sterling. On the other hand, we would take advantage of any jump above 1.67 to return short on cable and of any slide of EUR-GBP below 0.88 to return long here.

Finally, it is worth giving a brief overview of the commodity currency world: indeed, this week we have observed a mixed performance in AUD, CAD and NZD. Last Tuesday, the RBA hiked the key rate by a further 25bp to 3.50%, but hinted at a pause in December. On the news, the Aussie dollar was temporarily hurt, but regained ground over the next few days on a slight resumption of risk appetite. This episode confirms once again that the Aussie dollar performance is mainly sensitive to swings in risk aversion/risk appetite. The slight resumption of risk appetite also badly impacted USD-CAD. Here, in addition, the CAD was further boosted by rising oil prices (and to a lesser extent by rising gold prices). Indeed, the 10D rolling correlation between oil prices and USD-CAD currently trades in the 99% area, at its historical high, and the loonie dollar is at the moment the commodity currency whose performance is more related to commodity prices. Interestingly, slightly stronger risk appetite did not favor (with the same intensity) the Kiwi dollar: indeed, the NZD was hurt by lower-than-expected jobless data at home and Bollard's remarks stressing the still high vulnerability of the New Zealand economy and the slower pace of domestic recovery with respect to Australia. Although on a medium term perspective we expect all three commodity currencies to remain supported due to an easing of risk aversion, we see room for a further NZD underperformance in the very near term. Bollard's remarks do not point to a firmer Kiwi dollar and uncertainty remains high for the time being, making a definite resumption of risk appetite not immediate. Hence, we would take advantage of this apparent misalignment among the three commodity currencies, recommending long positions either on AUD-NZD or CAD-NZD.

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MIB View – Our Global Picture

Global economy

– The global recession has run its course. Real global GDP expanded again in the third quarter. It is, however, mostly a technical rebound that is already facing the threat of another setback in the first half of 2010 (though not a renewed recession), then followed by a slight upward trend (W shape). For the first time since World War II, global economic activity will, however, fall 1.2% on average for 2009, weighted for purchasing power parities. At market exchange rates, the decline is even twice as strong. For 2010, we expect real GDP to rise 2.9% on a PPP basis. That is, however, clearly below trend.

– GDP in industrialized countries will contract by 3.6% this year. All recessions of the 70s and 80s pale in comparison. The regions most strongly affected are Japan (-5.5%), followed by the euro zone (-4%) and the US (-2.4%). Next year, the industrialized countries will post only modest growth. China and Emerging Asia were the first to achieve the trend reversal. They will remain clearly at the top of the growth league also in 2010.

US

– The US economy exited the worst recession since WWII in 3Q 2009. Real GDP showed pretty robust growth in the summer months of 3½% (annual rate). But that is merely "borrowed" growth. We expect an expansion of "only" 1% for the first half of 2010. Support of private consumption is still missing for a self-sustaining upswing. The recovery will, therefore, be W-shaped.

– After slashing the federal funds target rate by a total of a whopping 425 basis points (bp) to 1% in the wake of the housing recession and the deep financial market crisis, the Fed switched to a zero-rate interest policy in mid-December of last year. The Fed is now pursuing a Quantitative Easing Policy. Since the economic upswing should not be sustainable, the US central bank will likely adhere to its current ultra-expansionary monetary policy well into next year. But it could start to tighten verbally at the turn of the year.

Euro zone

– The euro zone left the recession sooner than expected previously. Real GDP should have grown again in 3Q. There is, however, a dichotomy within the EMU. Germany and France already turned the corner, the rest is lagging behind. Similar to the US, the upswing is not likely to be sustainable. The initial V should soon become a W. On average for 2009, real GDP will nevertheless contract by a whopping 4%. And growth of 0.8% in 2010 is attributable partly to a statistical overhang.

– Since the beginning of October 2008, the ECB has lowered its key interest rate by a total of 325bp. At the same time, it extended the maturity of the refi transactions to up to 12 months. It is also buying covered bonds. Since the economic upswing shouldn't be sustainable, the ECB won't raise its key interest rate from currently 1% in 2010.

Government bond markets

– Beyond short-term consolidation periods (profit taking), declining risk aversion combined with improving macroeconomic data and corporate news will see government bond yields trending upward again.

– Since, in addition, the supply of government bonds will surge, US 10Y yields should reach the 4% level in spring 2010, and are expected to trend higher thereafter. 10Y Bund yields should roughly mimic the pattern of their US counterparts, reaching 4% by summer next year.

Exchange rates

– After a temporary consolidation phase, EUR-USD should strengthen again and, over the medium term, advance to 1.55. The upward primary trend is – analogous to the W-shaped recovery of the global economy – subject to considerable fluctuations. We expect JPY to weaken steadily for the remainder of this year and in 2010.

OUR MACRO FORECASTS

in % yoy	2008	2009	2010
GDP EMU	0.6	-4.0	0.8
CPI EMU	3.3	0.3	1.3
GDP Germany	1.0	-4.7	2.0
CPI Germany	2.6	0.4	1.0
GDP Italy	-1.0	-4.9	0.4
CPI Italy	3.3	0.8	1.5
GDP US	0.4	-2.4	1.9
CPI US	3.8	-0.4	2.3

OUR FI/FX & OIL PRICE FORECASTS

2009/10	31-Dec	31-Mar	30-Jun	30-Sept
EMU 3M (%)	0.80	0.90	1.05	1.20
EMU 10Y (%)	3.45	3.60	3.85	4.10
US 3M (%)	0.30	0.50	0.85	1.25
US 10Y (%)	3.70	3.85	4.10	4.40
EUR-USD	1.50	1.52	1.55	1.50
USD-JPY	95	98	100	103
Oil Price	65	70	70	75

Macro Forecasts

GDP, real (%, yoy)	2003	2004	2005	2006	2007	2008	2009f	2010f
World economy *	3.7	4.8	4.4	4.9	4.9	2.8	-1.2	2.9
Industrialized countries *	1.9	3.0	2.5	2.9	2.6	0.5	-3.6	1.4
US	2.5	3.6	3.1	2.7	2.1	0.4	-2.4	1.9
Euro area	0.8	1.9	1.8	3.0	2.7	0.6	-4.0	0.8
Germany **	-0.2	0.7	0.9	3.4	2.6	1.0	-4.7	2.0
France	1.1	2.2	1.9	2.4	2.3	0.3	-1.9	1.4
Italy	0.1	1.4	0.8	2.1	1.5	-1.0	-4.9	0.4
Spain	3.1	3.3	3.6	3.9	3.7	1.2	-3.6	-0.7
Austria	0.8	2.5	2.5	3.5	3.5	2.0	-3.8	1.1
UK	2.8	3.3	2.1	2.8	3.0	0.7	-4.6	1.3
Switzerland	-0.2	2.5	2.6	3.6	3.6	1.8	-1.2	1.4
Sweden	2.1	3.5	3.3	4.5	2.7	-0.4	-4.7	1.0
Japan	1.4	2.7	1.9	2.0	2.4	-0.7	-5.5	2.0
Developing countries *	6.6	7.6	7.4	8.2	8.6	6.2	2.7	5.4
Asia	8.2	8.6	9.0	9.8	10.6	7.6	6.2	7.3
China	10.0	10.1	10.4	11.6	13.0	9.0	8.5	9.0
India	6.9	7.9	9.1	9.7	9.3	7.3	5.4	6.4
Latin America	2.2	6.0	4.7	5.7	5.7	4.2	-2.5	2.9
Brazil	1.1	5.7	3.2	3.8	5.7	5.1	-1.5	3.5
Central and Eastern Europe	5.7	6.9	5.5	6.7	6.5	4.0	-5.7	1.3
Russia	7.3	7.2	6.4	7.7	8.1	5.6	-7.4	1.3

Consumer prices, CPI (%, yoy)	2003	2004	2005	2006	2007	2008	2009f	2010f
US	2.3	2.7	3.4	3.2	2.9	3.8	-0.4	2.3
core rate (ex food & energy)	1.5	1.8	2.2	2.5	2.3	2.3	1.7	0.8
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	0.5
Germany	1.0	1.7	1.6	1.6	2.3	2.6	0.4	1.0
France	2.1	2.1	1.7	1.7	1.5	2.8	0.1	1.1
Italy	2.7	2.2	1.9	2.1	1.8	3.3	0.8	1.5
Spain	3.0	3.4	3.6	2.8	2.8	4.1	-0.2	1.6
Austria	1.3	2.1	2.3	1.5	2.2	3.2	0.4	1.2
UK	1.4	1.3	2.0	2.3	2.3	3.6	2.0	1.9
Switzerland	0.6	0.8	1.2	1.1	0.7	2.4	-0.5	1.1
Sweden	1.9	0.4	0.5	1.4	2.2	3.5	-0.2	0.6
Japan	-0.2	0.0	-0.3	0.2	0.1	1.4	-1.0	0.0

GDP, real (%, qoq)	III/08	IV/08	I/09	II/09	III/09p	IV/09p	I/10p	II/10p
US (annualized)	-2.7	-5.4	-6.4	-0.7	3.5	3.5	2.0	0.5
Euro area	-0.4	-1.8	-2.5	-0.2	0.4	0.2	0.1	0.2
Germany	-0.3	-2.4	-3.5	0.3	1.0	0.7	0.5	0.2
France	-0.3	-1.4	-1.4	0.3	0.8	0.3	0.2	0.2
Italy	-0.8	-2.1	-2.7	-0.5	0.6	0.0	0.1	0.1
Spain	-0.6	-1.1	-1.6	-1.1	-0.4	-0.1	-0.2	-0.2
Austria	-0.4	-1.0	-2.7	-0.5	0.3	0.5	0.2	0.3
UK	-0.7	-1.8	-2.5	-0.6	-0.4	0.6	0.4	0.5
Switzerland	-0.4	-0.6	-0.9	-0.3	0.6	0.5	0.4	0.2
Sweden	-1.0	-5.0	-0.9	0.2	0.0	0.3	0.3	0.3
Japan	-1.0	-3.5	-3.1	0.9	1.5	0.8	0.5	0.1

Consumer prices, CPI (%, yoy)	III/08	IV/08	I/09	II/09	III/09p	IV/09p	I/10p	II/10p
US	5.2	1.5	-0.2	-0.9	-1.6	1.1	2.1	2.5
core rate (ex food & energy)	2.5	2.0	1.7	1.8	1.5	1.6	1.3	0.8
Euro area, HICP	3.8	2.3	1.0	0.2	-0.4	0.4	1.1	1.2
core rate (ex food & energy)	1.8	1.9	1.6	1.6	1.3	1.1	0.9	0.6
Germany	2.9	2.9	3.1	1.7	0.8	0.2	-0.1	0.6
France	3.3	1.8	0.6	-0.2	-0.4	0.3	0.9	1.0
Italy	4.0	2.8	1.5	0.9	0.1	0.7	1.3	1.3
Spain	5.0	2.5	0.5	-0.7	-1.0	0.5	1.0	1.2
Austria	3.7	2.2	1.1	0.3	0.0	0.7	1.3	1.3
UK	4.8	3.9	3.0	2.1	1.5	1.6	2.3	1.9
Switzerland	3.0	1.6	0.0	-0.7	-0.9	-0.2	0.9	1.2
Sweden	4.3	2.4	0.7	-0.5	-1.2	0.0	0.0	0.3
Japan	2.2	1.1	-0.1	-1.1	-2.1	-1.5	-1.0	-0.7

Comments: * The GDP shares used for aggregation are based on the purchasing-power-parity (PPP) valuation of country GDPs
GDP = Gross Domestic Product, HICP = Harmonized Index of Consumer Prices, CPI = Consumer Price Index, f = forecast

Interest & Exchange Rate Forecasts (I)

INTEREST RATE FORECASTS (%, END QUARTER)

2009/10	current	end-Q4	end-Q1	end-Q2	end-Q3
Eurozone bond market					
Refi rate	1.00	1.00	1.00	1.00	1.00
3M Euribor	0.72	0.80	0.90	1.05	1.20
2Y	1.30	1.30	1.45	1.90	2.40
5Y	2.50	2.43	2.58	2.93	3.25
10Y	3.35	3.45	3.60	3.85	4.10
30Y	4.10	4.15	4.30	4.45	4.60
10Y swap spread (in bp)	25	20	15	15	10
US Treasury Market					
Fed funds target rate	0.13	0.25	0.25	0.25	0.75
3M USD Libor	0.28	0.30	0.50	0.85	1.15
2Y	0.88	1.15	1.40	1.80	2.40
5Y	2.32	2.58	2.78	3.10	3.50
10Y	3.51	3.70	3.85	4.10	4.40
30Y	4.38	4.45	4.60	4.80	5.10
10Y swap spread (in bp)	17	20	10	10	10
Japan					
Target rate	0.10	0.10	0.10	0.10	0.10
3M JPY Libor	0.32	0.40	0.45	0.50	0.55
10Y JGB	1.45	1.40	1.50	1.60	1.80
United Kingdom					
Repo rate	0.50	0.50	0.50	0.50	0.50
3M GBP Libor	0.60	0.60	0.80	0.90	0.95
10Y Gilt	3.86	3.75	3.90	4.15	4.50
Switzerland					
3M CHF Libor mid target rate	0.25	0.25	0.25	0.25	0.50
3M CHF Libor	0.26	0.35	0.40	0.50	0.70
10Y Swissie	1.984	2.25	2.40	2.75	3.15

EXCHANGE RATE FORECASTS (END QUARTER)

	current	end-Q4	end-Q1	end-Q2	end-Q3
EUR-USD	1.4895	1.50	1.52	1.55	1.50
EUR-JPY	134.83	143	149	155	155
EUR-GBP	0.8977	0.89	0.85	0.85	0.83
EUR-CHF	1.5120	1.56	1.57	1.58	1.59
USD-JPY	90.52	95	98	100	103
GBP-USD	1.6593	1.68	1.79	1.83	1.81
USD-CHF	1.0151	1.04	1.03	1.02	1.06

COMMODITY PRICE FORECASTS

	current	end-Q4	end-Q1	end-Q2	end-Q3
Oil price (Brent, USD/b)	78.20	65	70	70	75
DJ commodity price index	268.27	275	290	290	310

Interest & Exchange Rate Forecasts (II)

INTEREST RATE FORECASTS (%, END QUARTER)

2009/10	current	end-Q4	end-Q1	end-Q2	end-Q3
Sweden					
Key rate	0.25	0.25	0.25	0.50	0.50
3M rate	0.48	0.60	0.75	0.95	1.00
10Y government bond yield	3.29	3.55	3.75	4.10	4.40
10Y spread to Bunds (in bp)	-6	10	15	25	30
Norway					
Key rate	1.50	1.50	1.75	2.00	2.25
3M rate	2.06	2.25	2.40	2.55	2.70
10Y government bond yield	4.10	4.30	4.55	4.85	5.15
10Y spread to Bunds (in bp)	76	85	95	100	105
Canada					
Key rate	0.25	0.25	0.25	0.25	0.25
3M rate	0.50	0.60	0.65	0.70	0.80
10Y government bond yield	3.54	3.40	3.60	4.00	4.30
10Y spread to Bunds (in bp)	19	-5	0	15	20
Australia					
Key rate	3.25	3.75	4.00	4.25	4.50
3M rate	3.91	4.15	4.40	4.80	5.00
10Y government bond yield	5.62	5.50	5.75	6.05	6.30
10Y spread to Bunds (in bp)	227	205	215	220	220
New Zealand					
Key rate	2.50	2.50	2.50	2.75	3.00
3M rate	3.03	2.80	2.95	3.25	3.50
10Y government bond yield	5.74	5.80	6.05	6.40	6.65
10Y spread to Bunds (in bp)	239	235	245	255	255

EXCHANGE RATE FORECASTS (END QUARTER)

	current	end-Q4	end-Q1	end-Q2	end-Q3
EUR-SEK	10.3655	9.95	9.80	9.60	9.50
EUR-NOK	8.4197	8.25	8.20	8.15	8.10
EUR-CAD	1.5835	1.58	1.55	1.53	1.52
EUR-AUD	1.6245	1.74	1.71	1.68	1.61
EUR-NZD	2.0527	2.11	2.05	2.01	1.88
USD-SEK	6.9587	6.63	6.45	6.19	6.33
USD-NOK	5.6527	5.50	5.39	5.26	5.40
USD-CAD	1.0632	1.05	1.02	0.99	1.01
AUD-USD	0.9170	0.86	0.89	0.92	0.93
NZD-USD	0.7255	0.71	0.74	0.77	0.80
EUR-USD	1.4895	1.50	1.52	1.55	1.50

Economic Event & Data Release Calendar

Date	Time (ECB)	Country	Indicator	Period	MIB est.	Consensus (Bloomberg)	Prev. period
6 November to 13 November 2009							
Fri, 06 Nov '09	14:30	US	Unemployment rate (in %)	Oct		9.9	9.8
	14:30	US	Non-farm payrolls (change in thousands mom)	Oct		-175	-263
	17:30	EC	ECB's Paramo Speaks in London				
	21:00	US	Consumer credit (USD bn)	Sep		-10	-12
Mon, 09 Nov '09	8:00	EC	Bimonthly Meeting of Bank for International Settlements				
	8:00	GE	Exports (in % mom)	Sep		2.5	-2.8
	8:00	GE	Imports (in % mom)	Sep		1.3	0.5
	10:30	GE	Sentix growth expectations	Nov		-11.5	-12.6
	12:00	GE	Industrial production (in % yoy)	Sep	-14.6	-13.8	-17.4
	20:15	EC	ECB's Stark Speaks in Tuebingen, Germany				
Tue, 10 Nov '09	1:01	UK	House price (RICS, balance)	Oct			22
	8:00	GE	Harmonized CPI (in % yoy)	Nov		0.0	0.0
	8:00	GE	Consumer price index, CPI (national, in % yoy)	Nov		0.0	0.0
	8:45	FR	Industrial production (in % mom)	Sep	-0.3	1.0	1.8
	10:00	IT	Industrial production (in % mom)	Sep	-4.0	-4.5	7.0
	10:30	UK	Trade balance (EUR bn)	Sep			-2318
	11:00	GE	ZEW survey - current situation (index)	Nov		-69.5	-72.2
	11:00	GE	ZEW survey - expectations (index)	Nov	54	55	56
	16:05	US	Fed's Yellen Speaks in Phoenix on U.S. Economic Outlook				
Wed, 11 Nov '09	10:30	UK	Average earnings (in % yoy, 3M moving average)	Sep		1.5	1.6
	10:30	UK	Unemployment rate (in %)	Oct		20.0	20.8
	11:30	UK	Bank of England Releases Quarterly Inflation Report				
Thu, 12 Nov '09	8:45	FR	Current account balance (EUR bn)	Sep			-3.7
	9:00	IT	ECB's Tumpel-Gugerell, Draghi Speak at Conference in Rome				
	10:00	EC	ECB Publishes Nov. Monthly Report (Text)				
	11:00	EMU	Industrial production (in % yoy)	Sep		-14.1	-15.2
	13:00	US	MBA mortgage applications	Nov 6			8.2
	14:30	US	Initial jobless claims (in thousands)	Nov 7	510		512
	20:00	EC	ECB's Trichet Speaking in Frankfurt				
	20:00	US	Federal budget (USD bn)	Oct		-150	-46.6
Fri, 13 Nov '09	5:30	JP	Industrial production (in % yoy)	Oct			-18.9
	6:00	JP	Consumer confidence (Nationwide, index)	Oct		40.5	40.7
	8:00	GE	Real GDP (in % yoy)	Q3	-4.7	-4.8	-5.9
	8:00	GE	Real GDP (in % qoq)	Q3	1.0	0.8	0.3
	8:45	FR	Non-farm payrolls (in % qoq)	Q3			-0.7
	8:45	FR	Consumer price index (in % yoy)	Oct	-0.2	-0.2	-0.4
	8:50	FR	Real GDP (in % yoy)	Q3		-1.9	-2.8
	8:50	FR	Real GDP (in % qoq)	Q3	0.8	0.6	0.3
	10:00	IT	Real GDP (in % yoy)	Q3		-4.4	-6.0
	10:00	IT	Real GDP (in % qoq)	Q3	0.6	0.8	-0.5
	10:30	GE	German ``Wiseman'' Panel Presents Review of Economy: Berlin				
	11:00	EMU	Core CPI (in % yoy)	Oct		1.2	1.2
	11:00	EMU	Consumer price index, CPI (in % yoy)	Oct	-0.1	-0.1	-0.3
	11:00	EMU	Real GDP (in % yoy)	Q3		-3.9	-4.8
	11:00	EMU	Real GDP (in %qoq)	Q3	0.4	0.6	-0.2
	14:15	GE	ECB's Axel Weber Speaks in Berlin				
	14:30	US	Import prices (in % mom)	Oct	0.5	1.0	0.1
	14:30	US	Trade balance (USD bn)	Sep	-31.5	-32.0	-30.71
	16:00	US	University of Michigan consumer confidence	Nov	71.0	71.0	70.6

*: 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
16 November to 20 November 2009							
Mon, 16 Nov '09	0:50	JP	Real GDP (in % qoq)	Q3		0.7	0.6
	8:00	EMU	New passenger car registration (EU 25, in % yoy)	Oct			6.3
	10:00	IT	Consumer price index (in % yoy)	Nov			0.3
	11:05	IT	Current account balance (EUR bn)	Sep			-3168
	14:30	US	NY Fed Empire State Manufacturing Survey	Nov			34.57
	14:30	US	Retail sales ex autos (in % mom)	Oct		0.4	0.5
	14:30	US	Retail sales (in % mom)	Oct		0.7	-1.5
	16:00	US	Business inventories (in % mom)	Sep		-0.5	-1.5
	18:15	US	Bernanke Speaks to Economic Club of New York Lunch				
Tue, 17 Nov '09	0:15	US	Fed's Kohn Speaks on Policy Challenges at Northwestern U.				
	10:30	UK	CPI core (in % yoy)	Oct			1.7
	10:30	UK	Consumer price index (in % yoy, harmonized)	Oct			1.1
	11:00	EMU	Trade balance (EUR bn)	Sep			994.9
	14:30	US	PPI ex food & energy (core, in % yoy)	Oct			1.8
	14:30	US	Producer price index, PPI (in % yoy)	Oct			-4.8
	14:30	US	PPI ex food & energy (core, in % mom)	Oct			-0.1
	14:30	US	Producer price index, PPI (in % mom)	Oct			-0.6
	15:00	US	Net long-term capital inflows (TIC, USD bn)	Sep			28.624
	15:15	US	Capacity utilization (in %)	Oct		71	70.5
	15:15	US	Industrial production (in % mom)	Oct		0.4	0.7
	18:00	GE	ECB President Trichet, Euro Group's Juncker Speak in Frankfurt				
	19:00	US	NAHB housing market index	Nov			18
Wed, 18 Nov '09	9:40	GE	ECB President Trichet Speaks in Frankfurt				
	10:00	EMU	Current account balance (EUR bn)	Sep			-1.3
	10:30	UK	Bank of England Releases Minutes of Interest Rate Decision				
	14:30	US	Housing starts (in thousands)	Oct			590
	14:30	US	Building permits (in thousands)	Oct			575
	14:30	US	CPI ex food & energy (core, in % yoy)	Oct			1.5
	14:30	US	Consumer price index (in % yoy)	Oct			-1.3
	14:30	US	CPI ex food & energy (core, in % mom)	Oct		0.1	0.2
	14:30	US	Consumer price index (in % mom)	Oct		0.2	0.2
Thu, 19 Nov '09	10:00	IT	Trade balance (EUR bn)	Sep			-1348
	10:30	UK	Bank of England Releases Trends in Lending Report				
	10:30	UK	Retail sales (in % mom)	Oct			0
	16:00	US	Leading indicators (Conference Board, in % mom)	Oct			1
	16:00	US	Philadelphia Fed Business Outlook Survey	Nov			11.5
Fri, 20 Nov '09	0:00	JP	Bank of Japan key rate (in %)	Jan 1			0.1
	0:00	FR	Services PMI (index)	Nov			57.7
	0:00	FR	Manufacturing PMI (index)	Nov			55.6
	8:00	GE	Producer price index, PPI (in % yoy)	Oct			-7.6
	10:00	IT	Industrial orders (in % mom)	Sep			-8.6

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

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